Wellington Shields
EQUITIES PERSPECTIVE

March 3, 2023
DJIA: 33003

One thing leads to another… or does it? Inflation leads to Fed tightening, Fed tightening leads to an economic slowdown, and slowdowns lead to declining earnings – or do they? Our take is that when it comes to the stock market, what we all know isn't worth knowing – it's already discounted. Tom Lee of Fundstrat has done some work here and what he found is interesting. The key is what the market did in the previous year, down in the case of 2022. When earnings were up the following year, the market's median gain was some 18%. When earnings were down in the following year, the market's median gain was 15%. So earnings didn't prove an issue even when poor – seems they were discounted by the previous year's weakness.

We can make the case for a new bull market, though not exactly your father's bull market. To buy into this case you have to realize the bear market ended last June, not last October. Sure the low in the averages was last October, but most stocks made their lows in May-June. So the October low is what technical analysts call a secondary low, a lower low in the averages but one with less selling pressure – clearly the case when looking at 12-month new lows. Since then we've been in some form of base building, punctuated by the selloff in October and the buying spurt in January. While we can't always remember what we had for lunch, we recall pretty well the pattern of most bear markets. Last year pretty much duplicated 1962, while this year is off to a good start, much like 1963.

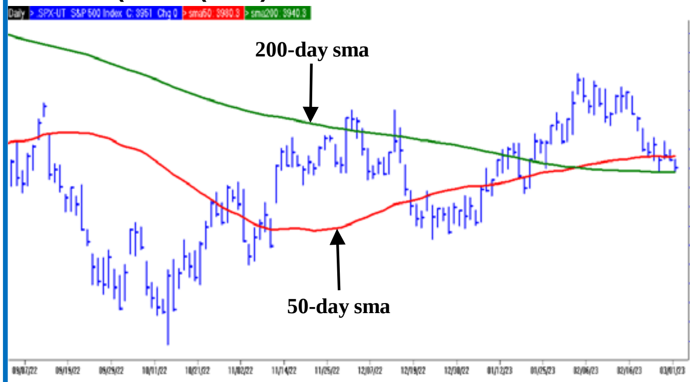
January's momentum surge was impressive, with a variety of positive implications for future returns. It did, however, serve to get things a bit overcooked – the near 50% surge in Cathie Wood's ARK Innovation ETF (ARKK-39) being a prime example of speculative fervor. After all, the fundamentals of these stocks didn't change that much in a month. Rather, after a bad year short covering and the end of tax loss selling seen the likely impetus, as well as down the most turning to up the most in rallies. Most of those names, whatever their financial credentials might be, are tied to their stay-at-home world. You may want to write this down – things change. Meanwhile, most of Oil was up big last year, in large part because it was under-owned. To that point, how much Parker Hannifin (355) or Grainger (684) do you own?

Grainger is a chart we particularly like, and that for two reasons. Back on February 2 the stock had a price gap – a low that was higher than the previous day's high. It takes a lot of buying to cause a price gap, making it our favorite chart pattern. Gaps of course usually leave patterns somewhat extended, so some consolidation was to be expected. In Grainger's case it has been a very high-level consolidation, with the stock giving up very little. Yet to happen is the breakout from this pattern. And that would take place with a move above roughly 680, preferably with a pickup in volume. Another gap just a few days ago was in Nvidia (233). While a strong pattern, keep in mind a sideways consolidation is preferable to any real pullback, awaiting the eventual follow-through.

The idea of a trading range it's not so much of a prediction as it is an observation. The S&P is around 4000, a level where it traded in May, September, and December. A difference now is the S&P has traded in an uptrend since October, and broke its overall downtrend in December. The pattern in 1963 was similar, a trading range but with enough of an upper bias to end the year 18 percent higher. While just about everything is stalled for now, the question as always is what comes out of this as leadership. We still like the economically sensitive names we've mentioned recently, Aerospace and Defense ETFs, XAR (120) and ITA (171), and the Global Infrastructure ETF (PAVE-30) – though components like United Rentals (471) and H&E Equipment Services (55) actually look a bit better. We would still avoid most of FANG, though META (175) looks betta.

Frank D. Gretz

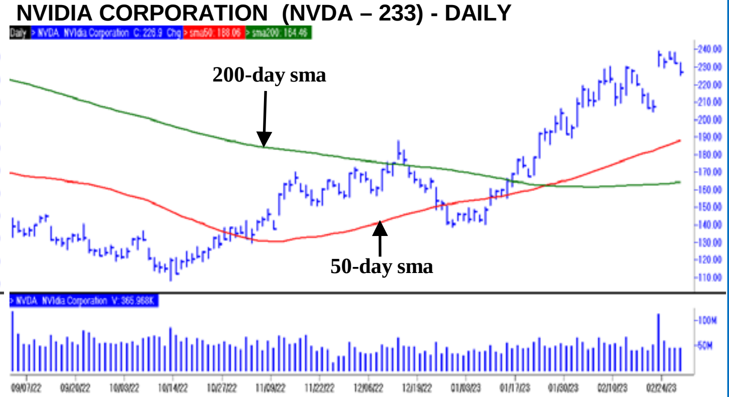
S&P 500 (SPX – (3981) – DAILY



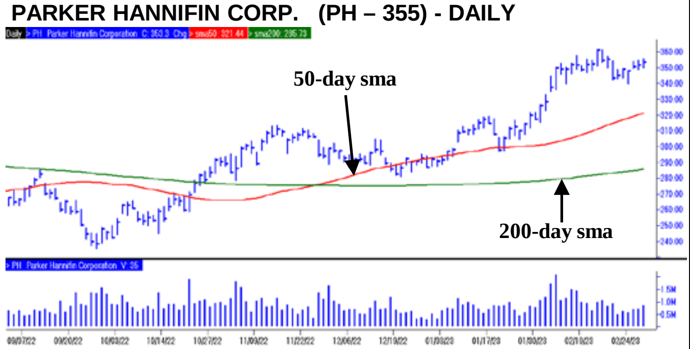
NASDAQ 100 (NDX – 12044) – DAILY

GRAINGER WW INC. (GWW – 684) - DAILY

NVIDIA CORPORATION (NVDA – 233) - DAILY

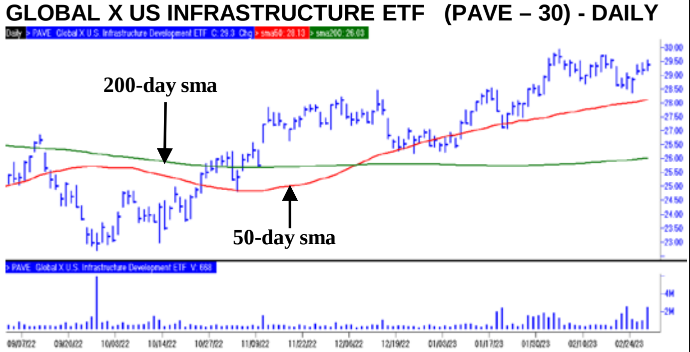


PARKER HANNIFIN CORP. (PH – 355) - DAILY



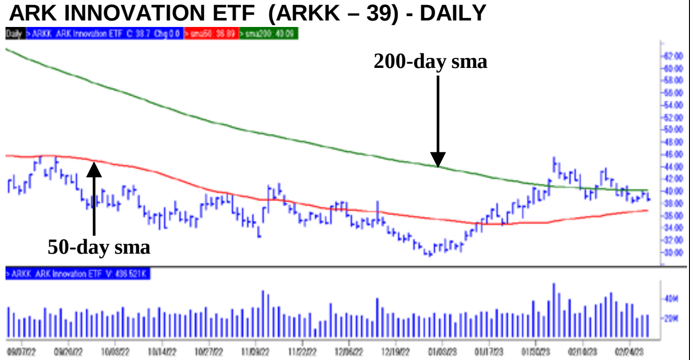
VANECK SEMICONDUCTOR ETF (SMH – 242) - DAILY

GLOBAL X US INFRASTRUCTURE ETF (PAVE – 30) - DAILY



UNITED RENTALS INC. (URI – 471) - DAILY

ARK INNOVATION ETF (ARKK – 39) - DAILY



META PLATFORMS INC. (META –175) - DAILY