Wellington Shields

EQUITIES PERSPECTIVE

May 26, 2023
DJIA: 32,764

A Yogi Berra market… not over until it's over. Without question this is the most divergent market we've seen in some time. That everyone seems to get it doesn't make it less so. And seeing it also doesn't make its negative implication less so. Narrow markets are a reflection of the liquidity and its decline. There isn't enough to push up as many stocks as there once was. This shows up in the A/D Index, the Equal Weight S&P, and perhaps most clearly in stocks above the 200-day, a decent proxy for stocks in uptrends. Currently around 40%, it's down from 74% in February but it's relative. The S&P now is higher than it was in February, meaning the performance gap between big cap stocks and the average stock has significantly widened. This kind of divergence doesn't end well. Still, there's no magic timing or levels here, it can go on until it doesn't.

History has its examples of markets like this outlasting the naysayers, 1972 and 1999–2000 being prime examples. Both had their themes, 1972 the Nifty 50, and 2000 of course the Dot-com's. What is often forgotten about both, and especially the Dot-com period, was how poorly everything else performed. During this market phase it wasn't just that only the Dot-coms were going up, the rest of the market was not only not going up, it was going down. This past Monday we thought we were back there again – Pepsi (184), down five points and Tech up, the Dow down more than 150 points. and the NAZ up 50 points. Back in 2000 everyone saw the divergence to the point they named it "old economy" versus "new economy," which is beginning to look familiar. Still, the divergence went on, the NAZ continued higher though the Dow did not.

In these diverging markets, at least one of the major Averages moves higher – the Dow in 1972, the NAZ in 2000. The leaders, the few, drive the Averages, in this case the NAZ. The insidious part of this is that it offers hope for the rest, the poor, the downtrodden, the huddled masses – the Equal Weight S&P. The history isn't promising here, likely because the liquidity just isn't there to pull up the rest. It's not just that the leaders lead, in this case Tech, it's pretty much them and little else. AI no doubt will change the world just as Cisco (49) did back in 1999–2000, when it sold for 80 and change, roughly double where it has sold since then. On the plus side, just like the Nifty 50 and the Dot-com's in their day, there's money to be made in this market, provided of course you're pretty much focused on Tech.

After that diatribe on Tech, we should point out a couple of other areas acting better. The Saudi's have said don't short oil, which would be interesting if you thought you could believe anything the Saudi's say. We do believe price action, however, and USO (64) seems about to cross above its 50-day, which should drag equities higher as well. The other area to come alive recently is Biotech, though not the Amgen's (217) and other household names. If you look at the iShares ETF (IBB-127), it's market cap-weighted whereas the Equal Weight SPDR (XBI-84) shows a much different and better picture. Unlike the overall market, here small seems better, perhaps anticipating more consolidation. You might also look to the Ark ETF (ARKG-31) which has a number of positive charts.

The Kabuki dance that is the debt ceiling negotiations has put a damper on the market, and rightly so. The odds of an unfavorable outcome are low, but so too are the odds of an unfavorable outcome in Russian roulette. In both cases, the consequences of a losing outcome are severe. The good news is that good news should be met with a make-up rally, and then we can get back to normal worries like the Fed's next move, employment numbers, and the mess in banking. Although we've been doing this for a while now, we really don't recall a stock more loved than Nvidia (380), and apparently rightly so. Not to rain on a parade that should continue, we're always reminded that stocks are pieces of paper, not companies. Overloved stocks become over owned stocks, and eventually who's left to buy? But there's that word again, eventually. The A/Ds, you might have noticed, were almost 2-to-1 down and the Equal Weight S&P unchanged amidst Thursday's euphoria.

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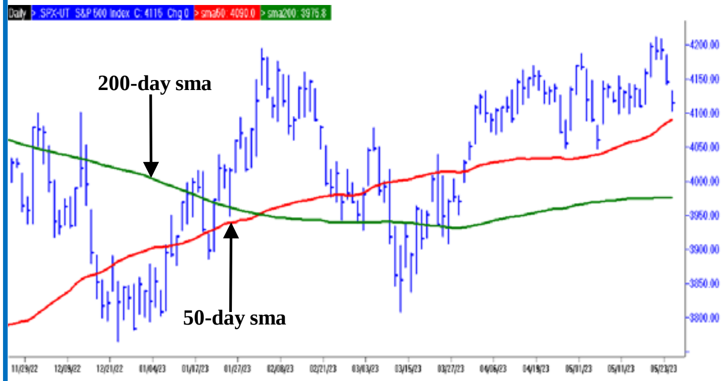
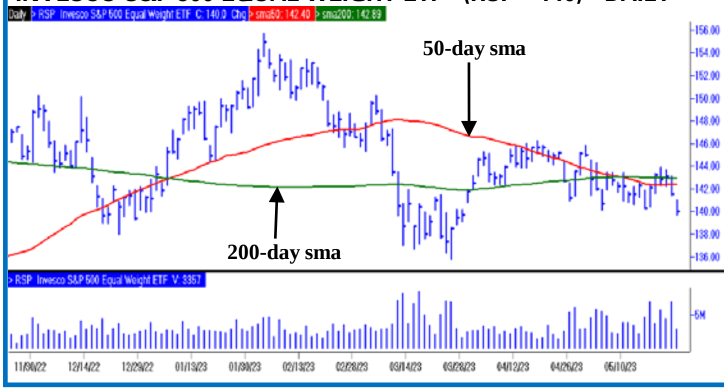
S&P 500 (SPX – 4150) – DAILY

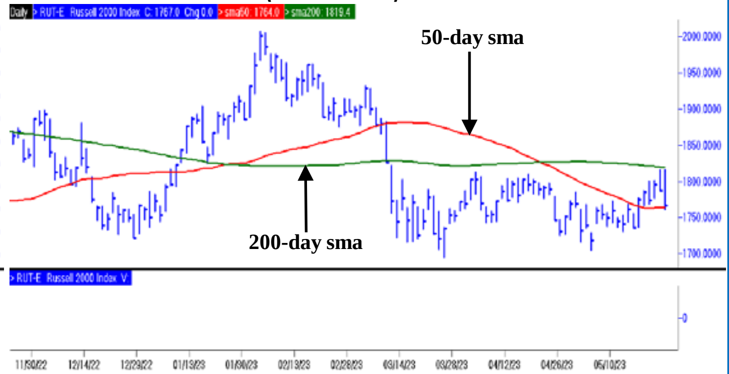


NASDAQ 100 (NDX – 13938) – DAILY

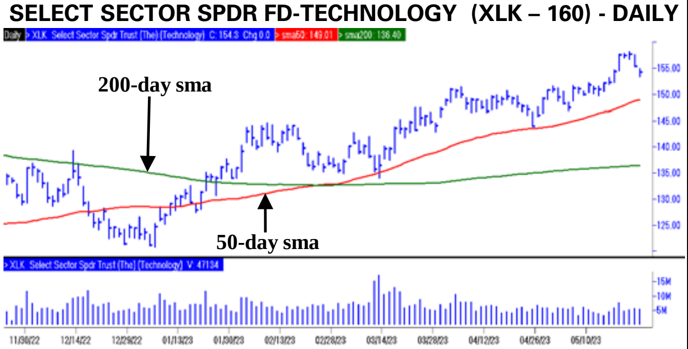
INVESCO S&P 500 EQUAL WEIGHT ETF (RSP – 140) - DAILY



RUSSELL 2000 INDEX (RUT – 1755) - DAILY

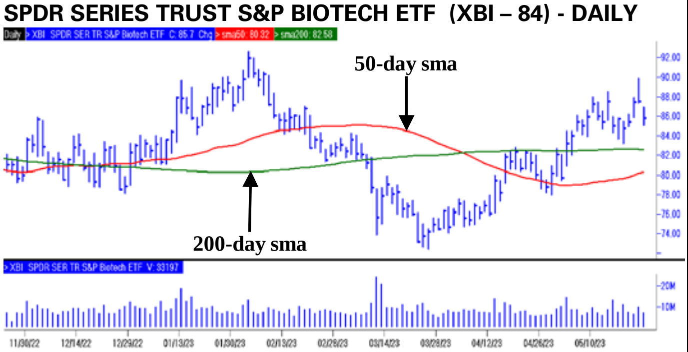


SELECT SECTOR SPDR FD-TECHNOLOGY (XLK – 160) - DAILY



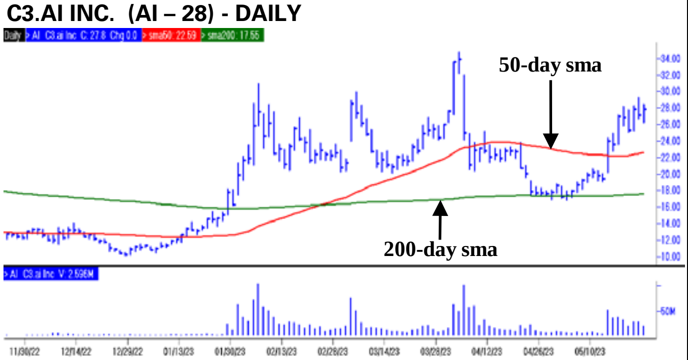
CONSUMER STAPLES SEL SECTOR SPDR (XLP – 73) - DAILY

SPDR SERIES TRUST S&P BIOTECH ETF (XBI – 84) - DAILY



SPDR S&P OIL & GAS EXPL & PROD (XOP – 123) - DAILY

C3.AI INC. (AI – 28) - DAILY



KRANESHARES CSI CHINA INTERNET (KWEB – 25) - DAILY