Wellington Shields

EQUITIES PERSPECTIVE

June 23, 2023
DJIA: 33,946

Follow the trend … but that's following the herd. The trend is pretty clear. The problem is it's so clear most are on to it. They say the crowd is wrong at extremes but right in between. This may be one of those extremes, if only temporarily. When it comes to gauging settlement, we typically prefer to look at investor action rather than investor talk. Put-Call Ratios relate to the former, and they're back to levels of last March. When it comes to indicators that use investor surveys, Investors Intelligence has been around forever, and measures the opinion of market letter writers – a drop dead smart group. Here the spread between bulls and bears has moved from 0% to 30%, a change which typically results in a couple weeks of stall or pullback. Subsequently, however, the outcome is surprisingly positive, with the market almost always higher a year later.

Meanwhile, while pretty clearly up, the S&P has achieved a milestone of sorts. It has moved from a one-year low to a one-year high. This has happened some 25 times since 1948, according to SentimenTrader.com, with only one loss in the six and 12-month period. Of course, up doesn't mean straight up, but there were only two drawdowns of 10%. You might argue this time is different given what most consider a narrow market. Indeed, fewer than 5% of the S&P stocks are at one-year highs. Historically this did not significantly change the outcome. So we can add this to other aspects of the background that have similarly suggested favorable outcomes. The first quarter, for example, held the December lows, leading to a higher prices April – December some 90% of the time. And we have seen back-to-back up quarters which, according to Tom Lee of Fundstrat, never happens in bear markets.

Despite what many consider the market's limited participation, the A/D index for the S&P has reached an all-time high. Note this is for the S&P components, not all NYSE stocks, which is what we typically reference. It's not unusual to see a discrepancy in these numbers, it's again about progress not perfection. The NYSE numbers show no important divergence, at least with the DJ, against which we typically measure. The S&P A/D Index itself has a credible record, leading to an annualized return in the S&P of almost 19% since 1928, according to SentimenTrader.com. Interestingly, too, of the 23 occurrences there were only three drawdowns of 10% at any point in the next six months. Contrary to what might seem logical, the average stock tends to drag along the stock averages, both up and down.

Watching the after-hours trades Tuesday night, we couldn't help but be struck by the juxtaposition of Tesla (265) going by up some 17 points as Cramer stood on the floor of a Ford assembly plant. To be fair, while no Tesla, both Ford (14) and GM (37) have more than respectable charts, and Tesla has come in a bit since then. These almost sacred stocks like Tesla, the "Magnificent Seven" or whatever, have been pretty much impervious to market weakness, at least so far. We hesitate to say corrections here might be healthy, since we never understood why losing money is healthy. But we know what they mean, and a respite of sorts would do some good. And a little weakness in the sacred would put a little fear in things, fear creates selling and selling creates a low. While we consider this a minor selloff, it could take another week or so to be resolved.

The Energy sector is what you might call lurking. They're probably not quite ready for prime time, but they're getting there. A stock like Vista Energy (24) did break out the other day, but failed to follow through and is, in any case, not exactly an Energy bellwether. Stocks like Baker Hughes (30) and Halliburton (31) are promising, but still not there. Meanwhile, NatGas seems particularly interesting, but here the seasonal pattern is unfavorable until almost the end of July. During this time NatGas is up only some 15% of the time. Still, seasonals are one thing but not the only thing. We would pay attention to a breakout in something like UNG (7). After a little respite, we fully expect Tech to continue as leadership, though we certainly wouldn't forget those economically sensitive names we went through last time. We would also note the better action in drug wholesalers like McKesson (417), AmerisourceBergen (188), and Cardinal Health (93).

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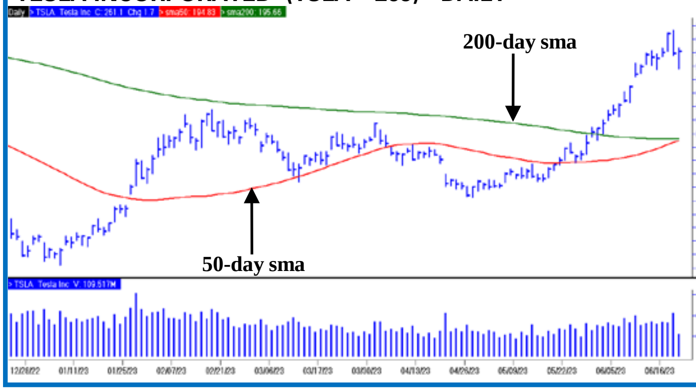
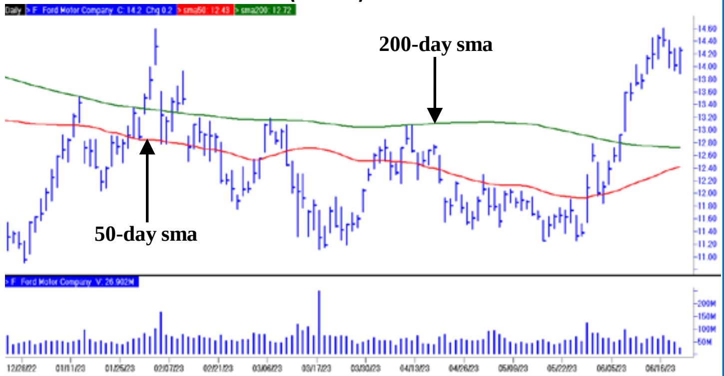
S&P 500 (SPX – 4381) – DAILY

NASDAQ 100 (NDX – 15042) – DAILY

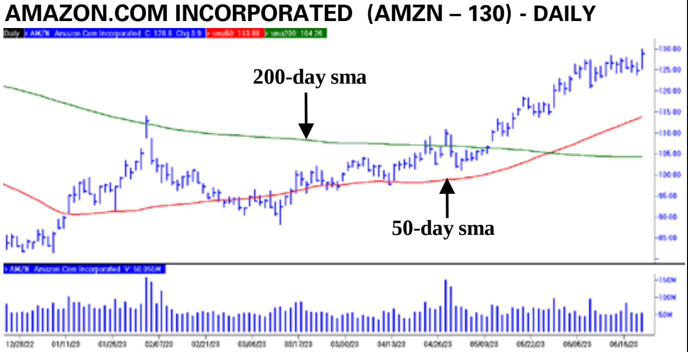
TESLA INCORPORATED (TSLA – 265) - DAILY



FORD MOTOR COMPANY (F – 14) - DAILY

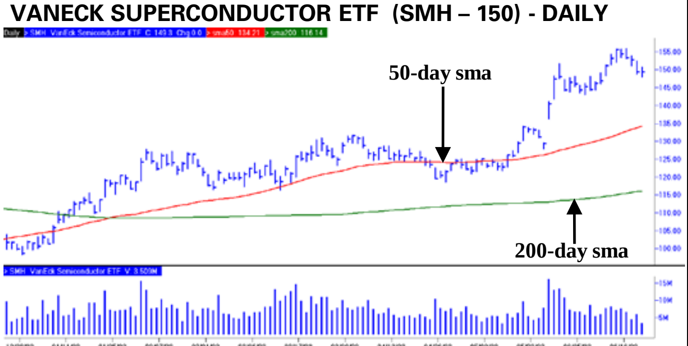


AMAZON.COM INCORPORATED (AMZN – 130) - DAILY

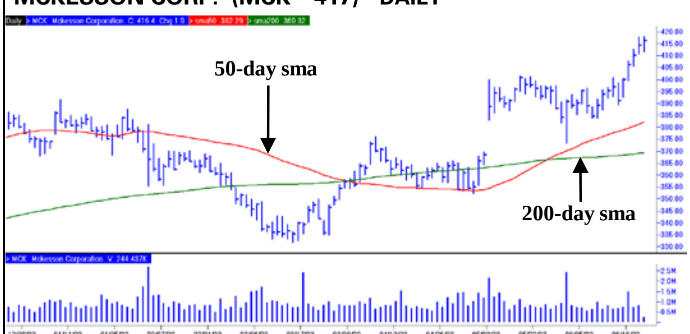


ISHARES US TECHNOLOGY ETF (IYW – 107) - DAILY

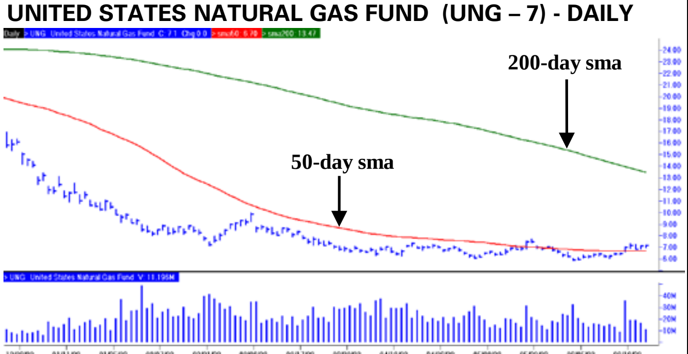
VANECK SUPERCONDUCTOR ETF (SMH – 150) - DAILY



MCKESSON CORP. (MCK – 417) - DAILY



UNITED STATES NATURAL GAS FUND (UNG – 7) - DAILY



VISTA ENERGY SAB DE CV ADS (VIST – 24) - DAILY