Wellington Shields

EQUITIES PERSPECTIVE

August 25, 2023
DJIA: 34,099

If it's a low … is it an uptrend? They may seem the same, but they are not always so. By historical standards a low should be close – bull market corrections typically fall in the 6% range. The S&P has taken out its 50-day, as have most of the Averages, but this says little more than we are in a correction phase. What does seem consequential is that the S&P had remained above its 50-day for close to 100 days. This sort of trend doesn't happen in bear markets. When the trend does end, on average the correction again tends to be about 6%. We don't really like data like this because often there's "always something." Suffice it to say for now the weakness seems normal, if there is such a thing. The rub comes in the new uptrend. After breaking the 50-day sorting things out typically takes a month or so, new highs usually come a couple months later. Even market lows can be a process.

Banking may be a fine profession, it's the bankers that give us trouble. If not lending to Third World countries, or to see-through office buildings, they're trying to rig LIBOR. For now it's the Regionals that are between a rock and a hard place. They're caught in the equivalent strategy of buying High, selling Low, and making it up on volume – a strategy we've tried with stocks from time to time. Of course it's not like rising rates were a big secret, and isn't rate stuff what banks do? What is done is done but not without some implications for the overall market. There are a lot of banks and that has implications for market breadth, that is, the A/D Index. It also helps explain why the Russell 2000, what we call love among the rejects, acts as badly as it does. It's 20% Regionals.

One non-reject in the Russell happens to be its largest holding, Super Micro Computer (263). By our calculation, back in early August SMCI had outperformed Nvidia (472) year-to-date, then came the collapse – a 50-point downside gap, followed by an additional 50-point decline. In Tech land, things sometimes change fast. And things seem to be changing yet again. You can argue the overall uptrend was never threatened, and it was a much-needed correction, as they like to say. What seems important in the here and now is the stock has re-taken the 50-day. Buying stocks in overall or long-term uptrends is best. When they correct, however, you never know. Best to buy some if you must, and the rest when they retake the 50-day.

Tech gets all the attention, rightly so since they are what got us here, bull market-wise. It is a bit ironic, however, that with the exception of Nvidia few Techs have been above their 50-day recently. Meanwhile, the seemingly forgotten Oil shares have cycled from fewer than 15% above their 200-day to more than 90%. This kind of momentum change has resulted in higher prices more than 80% of the time. Then there are the unscathed, the stocks which have come through the correction with little or no damage. Everyone likes to buy bargains, but often the stocks that give up little are those that lead in the next phase of rally. We're thinking here of stocks like Quanta (201), Eaton (221), Ingersoll (68) and Roper (489). In Tech, Arista (179) has a pattern we particularly like – gap up and a high-level consolidation.

That Thursday was a "sell on the news day" was not completely surprising. If more than just that it would be surprising, and not good. We've been waiting for the market to ignore bad news, and there have been hopeful signs. For sure, good markets don't ignore good news. Wednesday's 3-to-1 up day, the first in more than a month, also was encouraging. However, one day is just that, what is needed is a pattern of better A/Ds, especially on those days when the Averages are up. Stocks aren't cheap, rates are rising and Powell's speech at this time last year took the market down some 19%. A recovery is not guaranteed, but despite Thursday seems likely. The S&P's duration above the 50-day suggests this remains a bull market correction.

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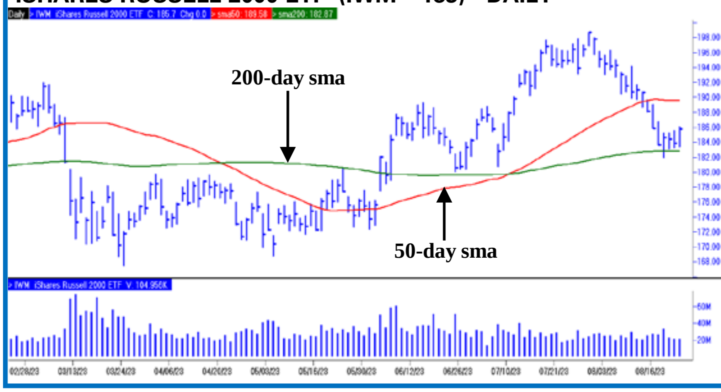
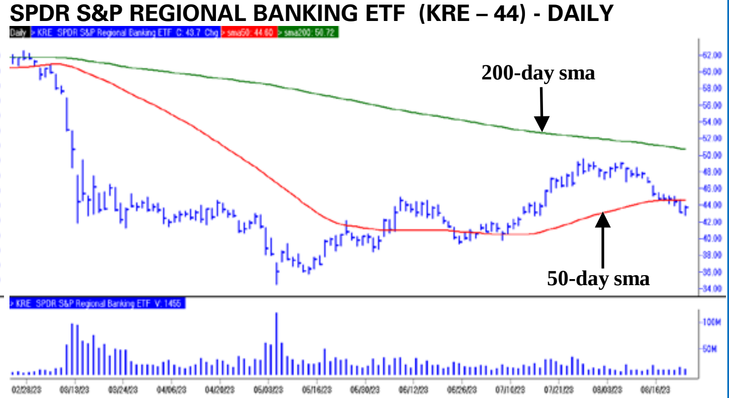
S&P 500 (SPX – 4376) – DAILY

NASDAQ 100 (NDX – 14816) – DAILY

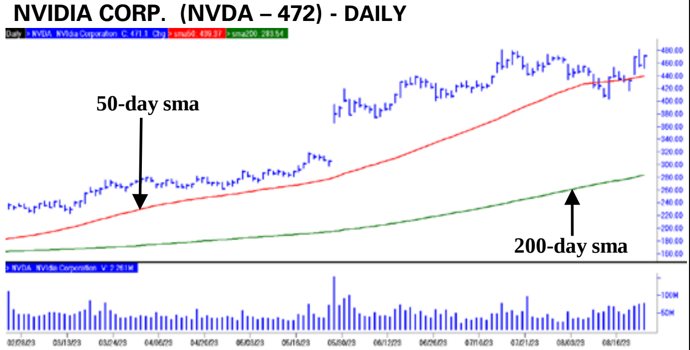
ISHARES RUSSELL 2000 ETF (IWM – 183) - DAILY



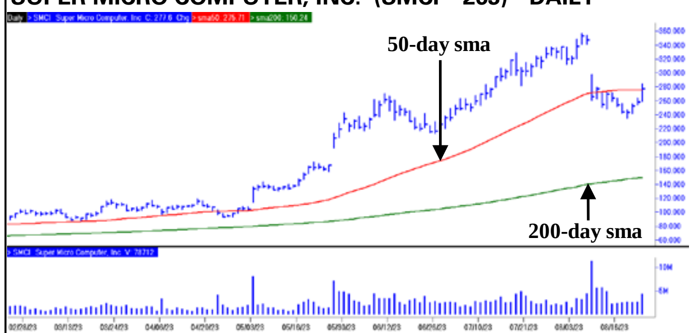
SPDR S&P REGIONAL BANKING ETF (KRE – 44) - DAILY



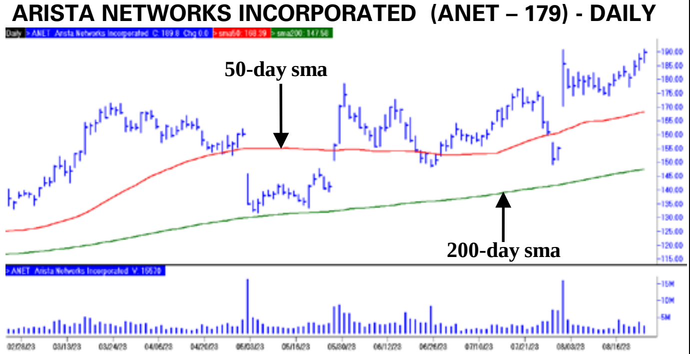
NVIDIA CORP. (NVDA – 472) - DAILY



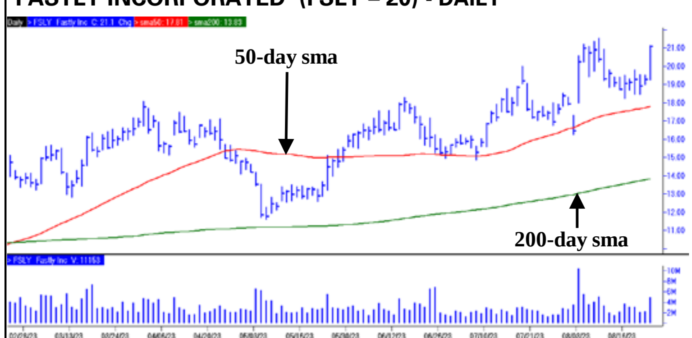
SUPER MICRO COMPUTER, INC. (SMCI – 263) - DAILY



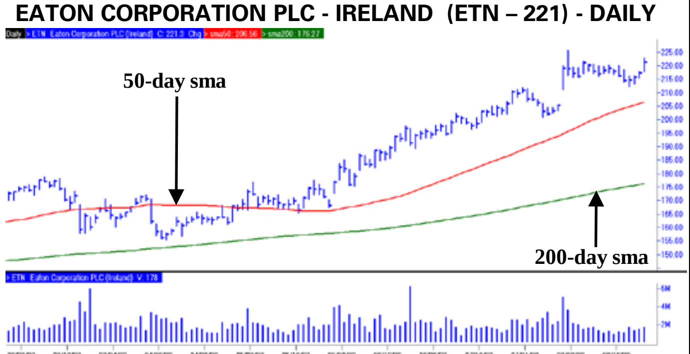
ARISTA NETWORKS INCORPORATED (ANET – 179) - DAILY



FASTLY INCORPORATED (FSLY – 20) - DAILY



EATON CORPORATION PLC - IRELAND (ETN – 221) - DAILY



EMERSON ELECTRIC CO. (EMR – 96) - DAILY