Wellington Shields

EQUITIES PERSPECTIVE

September 22, 2023
DJIA: 34,070

Higher for longer … probably not a reference to stock prices. Did we miss something Wednesday, did the Fed actually raise rates? Were Powell's comments really new or that much of a surprise? It's tempting to say the market overreacted, but so it goes in weak markets. If not bad the news is taken as such. While it has been a bit higher and a bit lower, the S&P is where it was in June, what we call a trading range. And the Index has held 5% or more above its 200-day for several months. S&P components, however, have been telling a different story with fewer than 60% above their own 200-day. By way of perspective, when the S&P is 5% above its 200-day a median of 80% of components are above their own 200-day, according to SentimenTrader.com. For all NYSE stocks, fewer than 50% are above their 200-day. These are not bell-ringing negatives, and typically drag on for a time. All of these divergences, however, leave the market vulnerable.

Meanwhile, the NASDAQ has had its own technical issues. Over the last few weeks, the NAZ 100 had moved higher, while the percentage of stocks within that index at a 12-month low more than doubled. Of late the large caps have masked much of the weakness, and this seems particularly true of the Semis. While the focus has been on Nvidia (410) and a few others, and while the Semiconductor Index has held together, much like the NDX weakness among the rank and file has been rather pervasive. Look at Taiwan Semi (85), which started the recent weakness. The much-vaunted Arm (52) IPO struck us as a real bell ringing event. Already down more than 20% from its high a few days ago, the company does more business in China than Apple (174).

We know Tech stocks don't like rising rates, but it looks like the regional banks may be getting jammed again as well. Regionals are 20% or so of the Russell 2000, and that's now below its 200-day. Hardly the same picture but the Econ-sensitive stocks like Parker Hanafin (382) have begun to roll over. Then there's the weakness in retail and the credit card lenders. It's enough to make you think what soft landing? The FANG and FANG+ stocks haven't exactly been immune to the weakness but have held together reasonably well – sort of in their own world when the world isn't such a happy place. Impressive amidst Wednesday's mess was the breakout in IBM (147). Oil and oil stocks have gotten out of sync recently, with the latter the weaker – not usually a good sign. That said, something seems good for refiners like Valero (146).

Are the Utilities so bad they're good? The XLU (63) is down about 12% over the last year, out of favor along with other safe stocks like food and beverage shares. Higher rates also have made utility dividends less relatively attractive. A recent Barron's article also pointed out the companies are adding clean energy plants faster than they're retiring the old ones, allowing them to grow their rate base and, hence, their profits. Unimpressed by the positives, 90% of the components of the XLU reached a 12-month low recently. This backdrop has led to higher prices for XLU over the next 6 to 12 months, according to SentimenTrader.com. It also seems interesting and surprising that there has been a spike in Put buying here.

The Fed's "hawkish pause" no doubt was intended to curb the market's enthusiasm. Something was different this time, however, at least for now it seems to have worked. Powell often talks hawkish, but the market typically sees through him, betting he will buckle at the first sign of trouble. Looking at the Fed funds futures, the Fed market as it were, the possibility of another hike this year isn't taken seriously. The reason stocks may have taken Powell more seriously this time is that the market is in a relatively weaker technical position. Remember, too, at play here are the debt ceiling and the auto strike. Selling on the Fed news may be an excuse to get out ahead of these other problems. In any event, what's needed is better numbers from the average stock, those A/Ds and those stocks above their 200-day.

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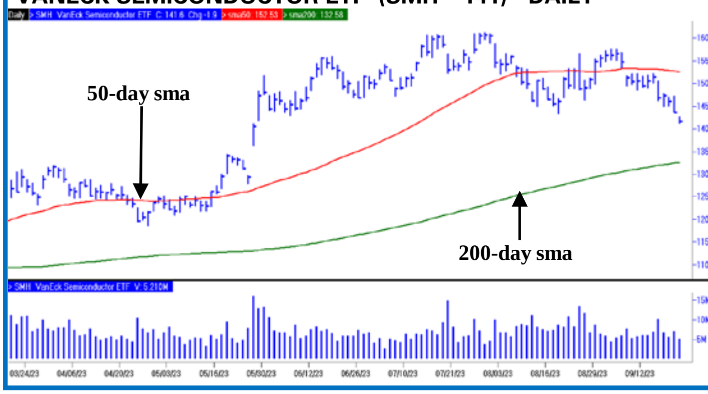
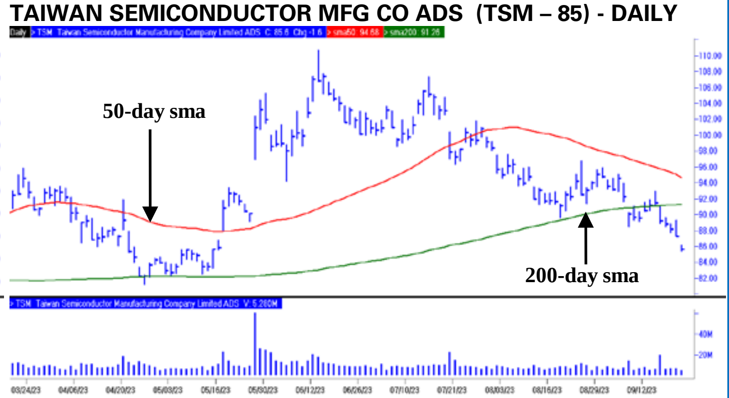
S&P 500 (SPX – 4330) – DAILY

NASDAQ 100 (NDX – 14694) – DAILY

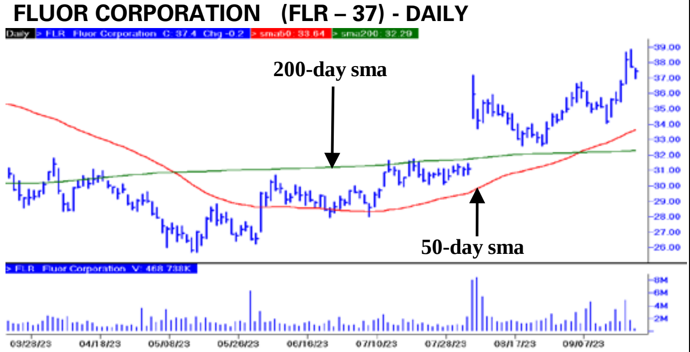
VANECK SEMICONDUCTOR ETF (SMH – 141) - DAILY



TAIWAN SEMICONDUCTOR MFG CO ADS (TSM – 85) - DAILY

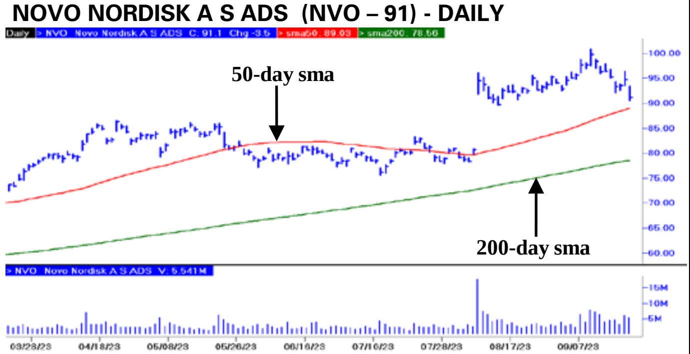


FLUOR CORPORATION (FLR – 37) - DAILY



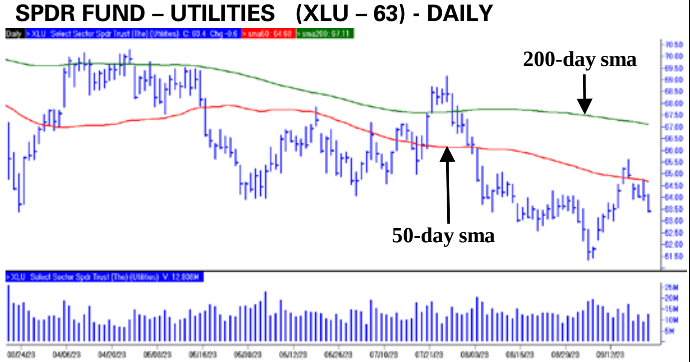
VALERO ENERGY CORPORATION (VLO – 146) - DAILY

NOVO NORDISK A S ADS (NVO – 91) - DAILY



AMGEN INCORPORATED (AMGN – 269) - DAILY

SPDR FUND – UTILITIES (XLU – 63) - DAILY



INTERNATIONAL BUSINESS MACHINES (IBM – 147) - DAILY