Wellington Shields

EQUITIES PERSPECTIVE

January 12, 2024
DJIA: 37,771

What a difference a day makes … it doesn't. We're thinking here of Monday, a more than good day. After a tough start to the year, we feared what we've called a bad up day – higher in the Averages but flat or modestly positive A/Ds. Monday was not that day. The A/Ds were a more than respectable 3-to-1 up. Still, and you might want to write this down, one day is just one day. And one day is never analytically meaningful. Some of the best one-day rallies have happened in bear markets, not that that's relevant here. The A/Ds need not be positive every day, but needed is a pattern of positive numbers. Strong stocks like the Techs bore the brunt of the recent weakness. The template here might be XLK (192) – down to the 50-day, and now bouncing. It likely will take time to get back or through the highs for the stocks, but more important those lows around the 50-day now need to hold.

A selloff in the year's first week is always a bit surprising. It has been said for tax considerations investors waited until the new year to take profits. Logical enough, but the logic that escapes us is why profit-taking at all, particularly in stocks that have acted so well. The only logical explanation we can see is to move on to other areas, which seems to have been the case if we look to almost anything in Healthcare. Rather than try to explain why the market does what it does, best just to recognize it and take it for what it is. Techs were sold hard enough to take them down to the 50-day. Still, Healthcare was bought hard enough to leave them now in impressive uptrends. The Averages suffered simply as a function of the differing market caps. If not exactly a zero-sum game, it could've been worse – selling in one area without commensurate buying in the other.

While the jockeying around we're seeing could go on for a while, it's important to remember the market has the momentum of the last two months at its back. S&P stocks above the 50-day and the reversal in the Russell both say higher prices over the next six months. To that you can add a positive change in junk bonds. Here the 50-day moving average of its A/D Index rose above the 200-day, a so-called "golden cross." This seems important for a couple reasons. Junk or high-yield bonds can be thought of as the most sensitive of corporate credit. So in terms of the economy's financial health, all seems well. In terms of the stock market, these crossings have seen the S&P rise at a near 15% annualized rate, according to SentimenTrader.com.

While you have been sleeping, so to speak, China has been quietly drifting lower. Clearly there are some real problems in the form of real estate and debt there. They claim to be growing at 5% yet intend to stimulate. If they're really growing at 5%, they shouldn't need to stimulate. Meanwhile, the charts there are across the board poor. With all the focus on the Fed, rates, and the Middle East, we are not sure how, but China could be a problem that sneaks up on markets. It's often where you're not looking that causes the problems. Meanwhile, despite the prospect of an expanded war in the Middle East, defense stocks seem unfazed. Of course, the ETFs here have been hurt by Boeing (223). What have acted well are the cyber security stocks like Palo Alto (323) and CrowdStrike (285).

Wednesday seemed like old times – at least for Nvidia (548), Meta (370) and Microsoft (385). As for Apple (186), it may be time to think Magnificent 6. On behalf of Tech and other strong stocks, let's hear it for the 50-day. Meanwhile, it's a brave New World for most of Healthcare. So far so good it would seem overall, but that's a bit superficial. A breadth momentum measure we follow closely has turned negative for the first time in two months. After the strength in the fourth quarter some setback had seemed likely – February is typical, but you never know. Meanwhile, it's time to waste time on the January effect. January is thought to be predictive of the year, the first five days predictive of the month. This year the S&P was basically unchanged the first five days, not a great sign – outcomes proved poor over the next couple months historically. Looking at the entire month of January, when up the next 11 months were positive 78% of the time, when negative only 59%. By the way, the month of April is more predictive.

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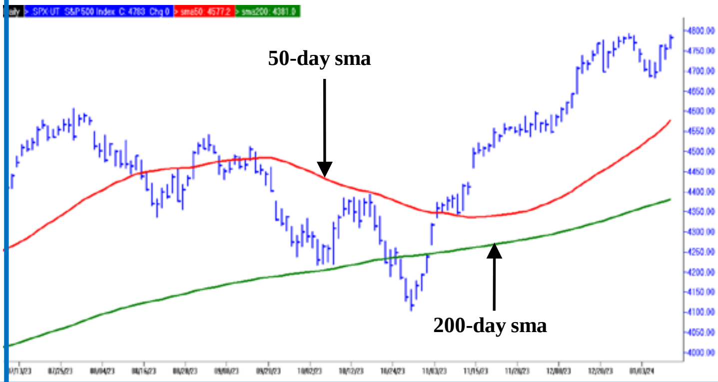
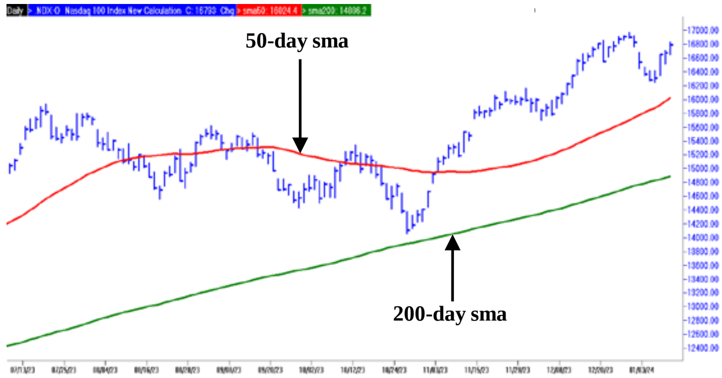
S&P 500 (SPX – 4778) – DAILY

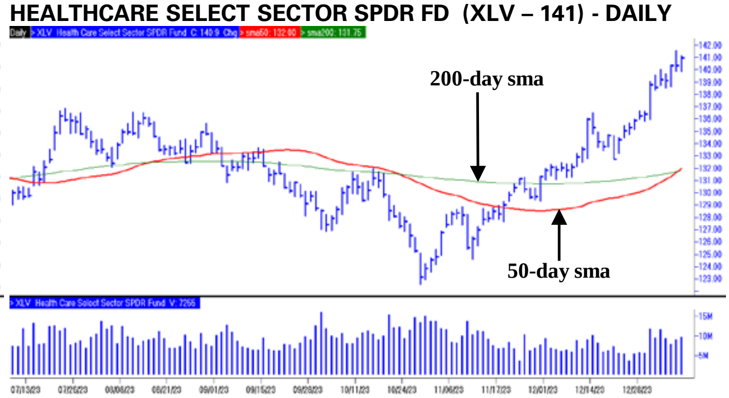


NASDAQ 100 (NDX – 16820) – DAILY

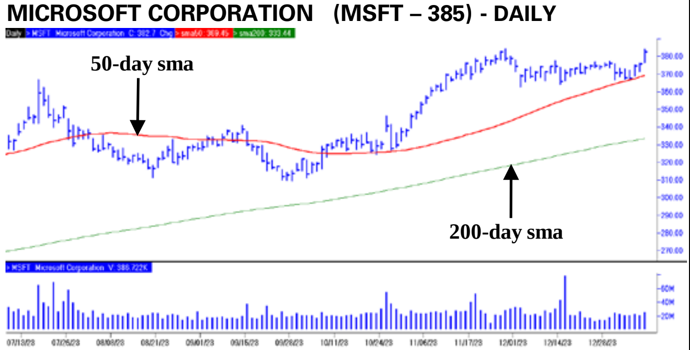


SELECT SECTOR SPDR TR - TECHNOLOGY (XLK – 192) - DAILY

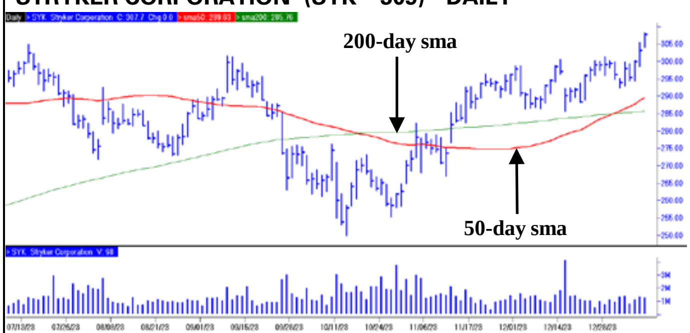
HEALTHCARE SELECT SECTOR SPDR FD (XLV – 141) - DAILY



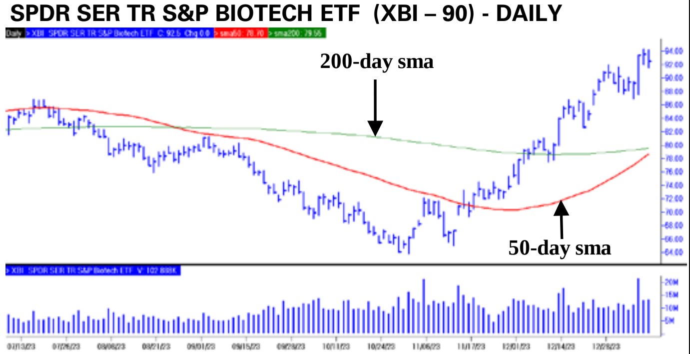
MICROSOFT CORPORATION (MSFT – 385) - DAILY



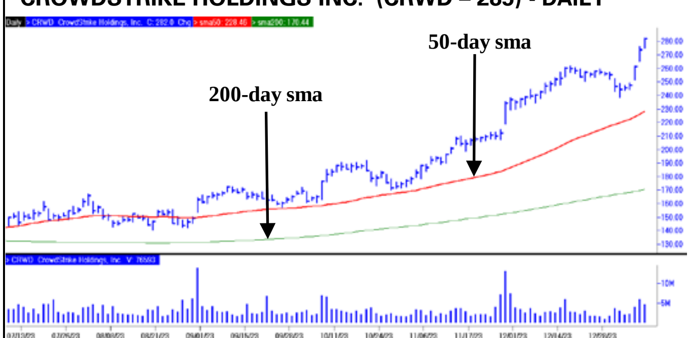
STRYKER CORPORATION (SYK – 309) - DAILY



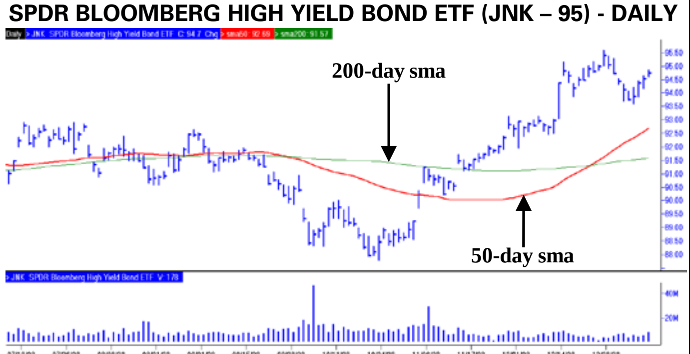
SPDR SER TR S&P BIOTECH ETF (XBI – 90) - DAILY



CROWDSTRIKE HOLDINGS INC. (CRWD – 285) - DAILY



SPDR BLOOMBERG HIGH YIELD BOND ETF (JNK – 95) - DAILY



KRANESHARES CSI CHINA INTERNET ETF (KWEB – 26) - DAILY