Wellington Shields

EQUITIES PERSPECTIVE

March 22, 2024
DJIA: 39,781

Just buy the S&P… sage advice in recent years. The 500 stocks there sounds like the diversification everyone preaches, and its performance has been hard to beat. So-called passive ETFs have made it easy, though these ETFs have created some distortions. Of every dollar that goes into the SPYs, the SPDR ETF for the S&P, 24% goes to the top five stocks in the S&P index. That doesn't exactly sound like diversification and, no surprise, they're all Tech. All is well that ends well – it's working for now and will for the foreseeable future, at least based on a still healthy technical backdrop. And tech has gotten where it is for good reason. Its profit margin of some 23% is pretty much double the rest of the S&P. Then, too, Tech is no fun in a downturn – Tech led the fall when rates rose in 2022. And this time there will be those passive ETFs that will work the other way.

While Wednesday's rally may have resolved things, stalled seems a reasonable description of the market recently. A look at the Averages bears that out, a look at something like the FANG+ ETF suggests even the Tech leaders fall under this description. However, it's not a euphemism for weakness, most days most stocks go up – ten of the last 12 days. And despite complaints of narrowness, the Equal Weight S&P (168) is bumping along its highs. There's also some indication of expansion in participation, certainly in terms of Oil, Gold, and Copper. General Mills (69) and Colgate (89) also seem examples of good charts outside of Tech. That also remains true of most of the Econ- sensitive stocks we have alluded to from time to time, Eaton (316), Ingersoll Rand (95), Trane (304) so on.

Many years ago we saw a study showing the best and worst performers each year were a function of earnings. However, it was not about earnings per se, but the surprise in earnings. The best performers each year were the companies whose earnings were well above analysts 'estimates and vice versa. While nothing to do with earnings, this comes to mind when we think of the announcement of Nvidia's newest, bestest GPU. Where's the surprise? Perhaps more to the point, while the S&P is up 8% this year Nvidia is up 80%. Short of that GPU curing cancer, how does it surprise? And, of course, the announcement itself wasn't exactly a surprise, leaving a real sell on the news opportunity. It's hard to be negative on dramatic uptrends like Nvidia's and we're not – they don't turn on a dime. Stall on a dime, that's possible.

While the Nvidia show wasn't about earnings, eventually it will become so. In a recent piece for CNBC, Karen Firestone looked at a company's subsequent performance following a good year. The work looked at performance January to December only, but still offers a good guide. It looked at stocks up 200% and 400% and found not a great deal of difference. Perhaps more surprisingly, results were pretty much 50–50 in terms of up or down in the subsequent year. It seems the determining factor here was earnings, more specifically earnings that beat. Again, it's about the surprise rather than earnings per se. Performance was about the ability to out-earn or out-surprise estimates. So while estimates for Nvidia's earnings are to double this year, earnings need to be surprising next year as well.

After spending most of the year trying to talk the market down, Powell finally talked the market up – no doubt inadvertently. If we're finally out of what we've called the market's stall, give credit where credit is due – to the market. As always the market makes the news, and now we know what the average stock, the A/Ds, have been saying all along. Most days most stocks have gone up regardless of Nvidia's volatility or Apple's (171) weakness. This will change when the market finally narrows as it tires of going up. Meanwhile, ever notice stocks rarely split anymore. In the old days stock splits were used as an indicator of sorts, peaking as they did along with the market. Of course it was no more than a gravity call – when stocks are up a lot they split, and when up a lot they're likely near a peak. Chipotle (2905) announced a 50-for-1 split recently. We have often thought what it would do for volume if every $200 stock split even 2 for 1.

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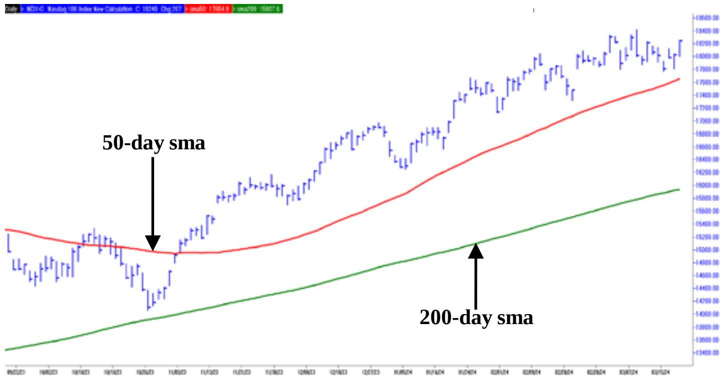
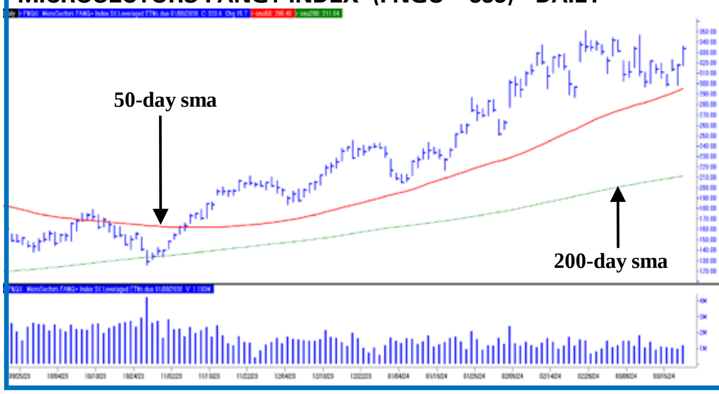
S&P 500 (SPX – 5244) – DAILY

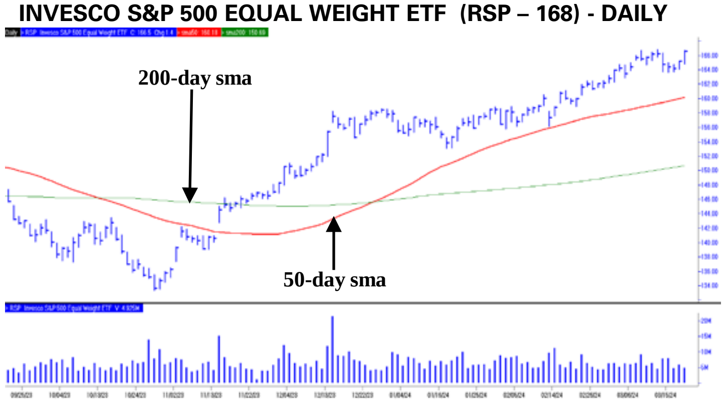
NASDAQ 100 (NDX – 18320) – DAILY



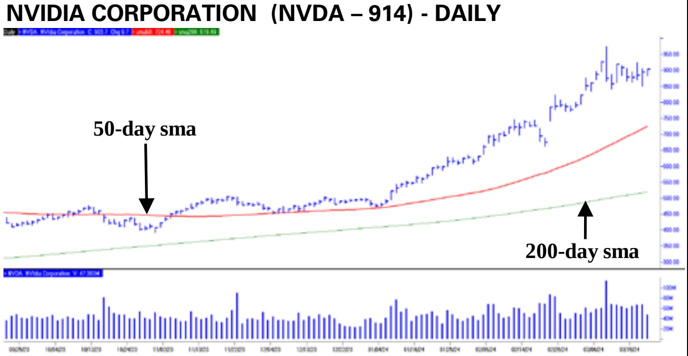
MICROSECTORS FANG+ INDEX (FNGU – 333) - DAILY



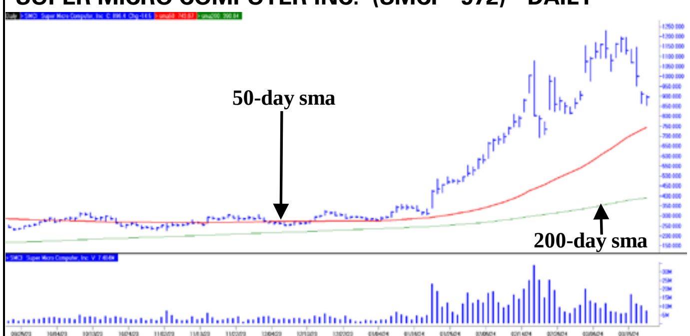
INVESCO S&P 500 EQUAL WEIGHT ETF (RSP – 168) - DAILY



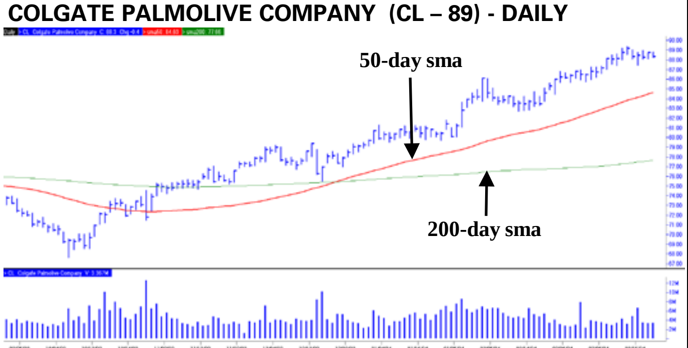
NVIDIA CORPORATION (NVDA – 914) - DAILY



SUPER MICRO COMPUTER INC. (SMCI – 972) - DAILY

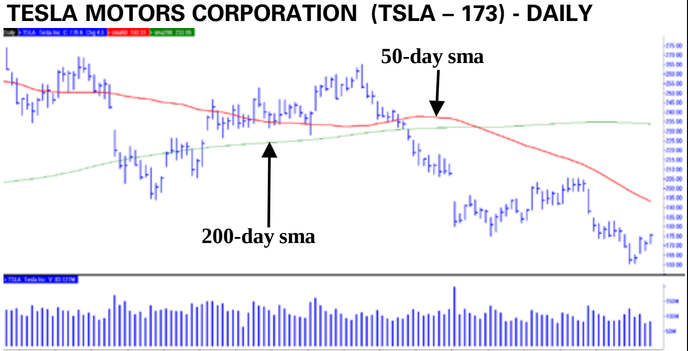


COLGATE PALMOLIVE COMPANY (CL – 89) - DAILY



EMERSON ELECTRIC CO. (EMR – 113) - DAILY

TESLA MOTORS CORPORATION (TSLA – 173) - DAILY



GENERAL MOTORS COMPANY (GM – 43) - DAILY