Wellington Shields

EQUITIES PERSPECTIVE

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DJIA: 41,859

Just when you thought things couldn't get much better… they didn't. And Wednesday's 800-point Dow loss and a close to 10-to-1 down day wasn't exactly a subtle change. Rising bond yields have been a potential problem for equities, but like most potential problems, they don't matter until they matter. Why it should have been Wednesday's auction is something of a timing mystery. We've likened the bond problem to the tariff problem back in February. Granted, the tariff news worsened, but tariffs didn't matter until the technical background had shown obvious deterioration. That's hardly the case now, with the A/D index having just made a new high and outperforming the market averages – not just a positive, a rare one. The market's problem is a good one – it has been too good. Many stock patterns are stretched. The weakness strikes us as a swipe at complacency and a chance for the winners to reset.

The deficit has never been this deep outside of a recession. Now we sit on the brink of more tax cuts with minimal attempts at cost cuts, meaning still deeper deficits. Moody's only finally got to what the other two had gotten. What matters, of course, is that the most important rating agency seems to have gotten it, the one called the bond market. Meanwhile, it has been a while, but bad days happen. Bad down days don't kill uptrends it's the bad up days - those when the stock averages mask weakness in the average stock. We have seen a couple such days, but a couple of days don't kill an uptrend. We had a V-bottom – down to up in a flash. Market tops are about distribution and that takes time.

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