Wellington Shields 100 YEARS

BUY ON WEAKNESS

Stocks reacted positively in the second quarter, more than making up for the first quarter's loss, as some progress was made with the Iran peace process and the price of oil stabilized. A healthy rebound in the major Artificial Intelligence (AI) companies was a welcome contributor.

There is a lot of negative publicity about the outlook for stocks today, and some with justification. Valuations are not cheap and it would appear that real interest rates are on the rise, as higher oil prices work their way through the economy. Higher rates continue to negatively affect the U.S. housing market and consumer confidence. Consumer spending which, so far, has been bolstered by a decline in savings, has probably reached its high-water mark. There is also a more hawkish tone to what we are hearing from the Federal Reserve and, in spite of some second quarter progress, the war in Iran continues.

Offsetting the negatives are several positive factors, both fundamental and technical. First and foremost is the acceleration in corporate profits, which has not only been fueled by the spending on AI but also by favorable tax legislation and the reshoring of industry. We expect this trend to continue, which makes us think that the equity markets may not be as expensive as some people think. We are also impressed by the internals of the market's advance. Rather than fleeing the high-flyers, it has been rotational, with healthcare and real economic stocks picking up the slack. An expanding new high list from the financial sector, a benign credit backdrop, and leadership from the transportation stocks isn't the typical set up from which big problems develop.

July is usually a pretty good month for equity prices, while August and September can be problematic, and stocks bottom in October. We expect this pattern to again be repeated this year. The Middle East situation remains a wild card, but as long as interest rates behave reasonably well and corporate profits continue to advance as expected we would be buyers on weakness.

July 2026