

EQUITIES PERSPECTIVE

August 25, 2017

DJIA: 21,783

BABA ... not the Ganoush kind. Rather, the Alibaba kind. BABA (175) and its Chinese social media brethren have been all the rage of late, this on the back of some rather startling growth numbers. Rotation is a wonderful thing, especially when they rotate to your stocks, but still, this seems a bit strange. We had envisioned these stocks moving up together with the FANG stocks, but the FANG stocks haven't been moving up! In that light, we find it a little hard to trust what you might call the China FANG. And, if the best-acting stocks in our market are Chinese, what does this say about the U.S. economy? No doubt, we're going out of our way to look for trouble here, so let's just say that the FANG stocks, with the possible exception of Facebook (168), just are not acting all that well of late. Indeed, they seem to have some risk. Perhaps more important, if those have been the leaders, what does it say about a market when it loses its leadership?

Leadership doesn't usually give it up until the end, so weakness in FANG is surprising. This isn't the end, but to look at the way the market has narrowed, it could be at least the beginning of the end. At major lows, stocks bottom together—it's fear-/emotion-based selling. Tops are a process, stocks peak a few at a time, usually the big caps peak last and, hence, the averages last. Already there is some compelling evidence of this in the Russell 2000, a posterchild for secondary stocks. Most define uptrend and downtrend by the 200-day moving average. Above is a bull market and—you get the picture. The Russell, again this measure of secondary stocks, crossed below its 200-day a week ago. What makes this interesting too is that the S&P 500 is around 4% above its 200-day. So it's not as though the entire market is in some state of decline, let alone free fall. The spread here is unusual and reeks of the kind of divergence seen at market tops—the big versus the rest.

Russell weakness is one reflection of the market's narrowing, another is the number of stocks above their own 200-day moving averages. This number will vary a bit depending on the groups being measured—the broader the group, the lower the number. If the 200-day moving average is a working definition of uptrend versus downtrend, and 50-60% of stocks are above the 200-day, this also tells the story of a narrowing market. You could argue your odds of making money are just about the same on the short side as on the long side. To be fair, if we must, the world isn't quite as dire as these numbers make it look. Much of the weakness is compartmentalized in Energy, Retail and Foods. We learned a long time ago, however, it's never a good idea to make excuses for the numbers. If it's not Energy, it's Financials—it's something. The market has narrowed, it's more difficult to find uptrends, and it's a pattern that leads to problems.

One of the more enduring trends, not just of the year but of a lifetime, has been the downtrend in Energy stocks. Even Retail has had a few respites. Coming into the year, neither the charts nor the outlook seemed all that bad—the Trump agenda, you know. Since then, however, it pretty much has been straight down. OPEC cutbacks went unnoticed and we often quipped the industry was being run by Silicon Valley, as the technology behind fracking has done nothing but improve. Many times the stocks have looked “washed-out,” only to keep moving lower. There is something, however, which in the past has proven a useful guide. In a sign of what you might call “give-up” selling, more than half of the S&P Energy sector hit a 52-week low last week. Since 1990, this has led to a multi-week bounce in the sector 9 of 10 times, according to SentimenTrader.com. At the least, this might not be the best time to sell. The one exception, by the way, was 2008 when they pretty much collapsed.

It's possible all of the market's problems could be explained in just one word—August. And while everyone thinks September is a difficult month, when the market is up, September isn't so bad. It's also possible we can just muddle through like this. To turn things around in a positive way seems unlikely. At the same time, however, you can't be surprised if we do finally see a 5-10% correction—blame it on Trump, the budget—there's always some excuse when the market wants to go down. Meanwhile, the market keeps taking these one-day hits, conditioning everyone to believe every hit is another chance to buy. The week's rally in Retail also strikes us as suspicious. When the worst turns to first, it gives everyone hope. Hope is a wonderful thing everywhere but the stock market. BABA, by the way, doesn't seem the only China story. Industrial Metals have rallied pretty much across the board.

Frank D. Gretz

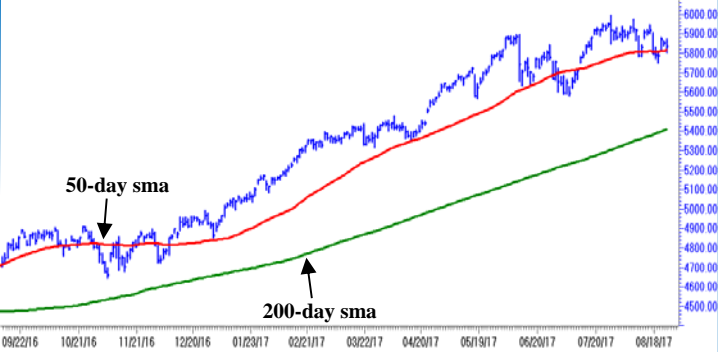
S&P 500 (SPX – 2439) – DAILY

Daily > SPX:01 S&P 500 Index C: 2439 Chg: 5 > sma50: 2452.4 > sma200: 2353.8

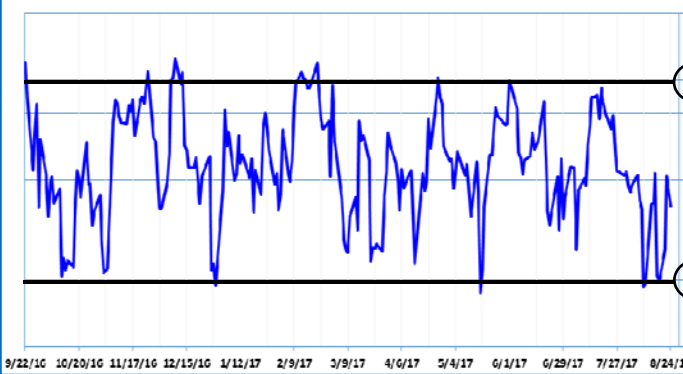


NASDAQ 100 (NDX – 5834) – DAILY

Daily > NDX:01 Nasdaq 100 Index New Calculation C: 5834 Chg: 17 > sma50: 5814.8 > sma200: 5410.5



S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY

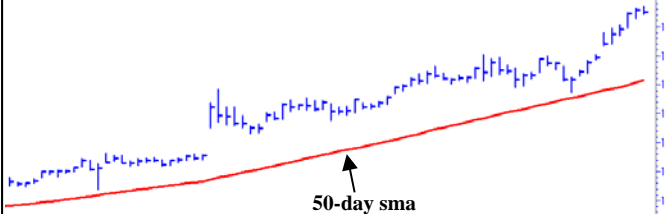


S&P 500 -% OF STOCKS ABOVE THEIR 50-DAY MA - DAILY

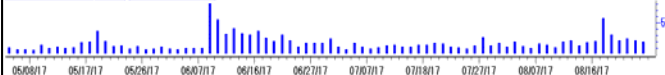


ALIBABA GROUP HOLDING LTD. (BABA – 175) - DAILY

Daily > BABA:01 Alibaba Group Holding Limited C: 175.0 Chg: 0.8 > sma50: 151.49

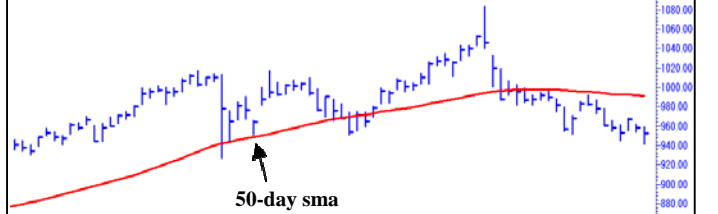


BABA:01 Alibaba Group Holding Limited V: 20.352M

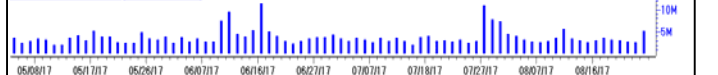


AMAZON.COM INC. (AMZN – 952) - DAILY

Daily > AMZN:01 Amazon Com Incorporated C: 952.4 Chg: 5.5 > sma50: 951.42



AMZN:01 Amazon Com Incorporated V: 5.1711M

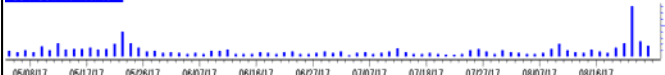


DSW INC. (DSW – 19) - DAILY

Daily > DSW:01 DSW Inc. C: 19.1 Chg: 0.1 > sma50: 17.44

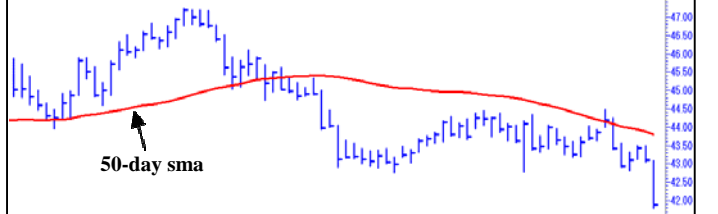


DSW:01 DSW Inc. V: 3.485M

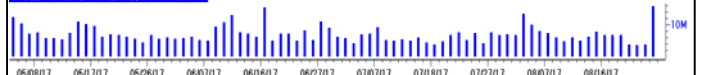


MONDELEZ INTERNATIONAL INC. (MDLZ – 42) - DAILY

Daily > MDLZ:01 Mondelez International Inc. C: 41.8 Chg: 1.9 > sma50: 43.81



MDLZ:01 Mondelez International Inc. V: 15.909M

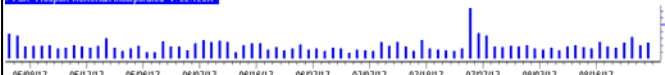


FREPORT-MCMORAN INC. (FCX – 15) - DAILY

Daily > FCX:01 Freeport McMoran Incorporated C: 15.4 Chg: 0.2 > sma50: 13.27

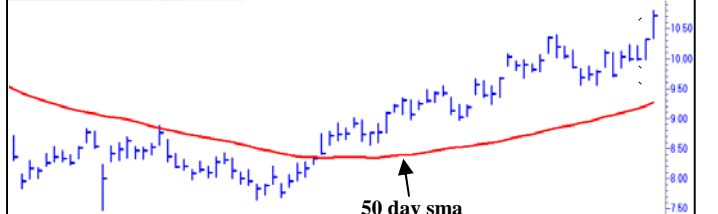


FCX:01 Freeport McMoran Incorporated V: 22.770M



VALE S.A. (VALE – 11) - DAILY

Daily > VALE:01 Vale S.A. C: 10.7 Chg: 0.3 > sma50: 9.27



VALE:01 Vale S.A. V: 35.037M

