WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 15, 2017
DJIA: 24,509

The stockings were hung from the chimney with care … but nothing was there. After all, you don't stuff Bitcoin into a stocking. Those stockings won't even be stuffed with video games now that most are downloaded, at least by the look of that GameStop (18) chart. Municipal bonds might be a possibility—certainly there are plenty around with states and localities rushing to issue bonds that would be curbed under the proposed legislation. Not to worry about a glut—cheaper prices and higher yields usually work their magic. Not all yields are rising as evidenced in a flattening yield curve, as the difference between short- and long-term rates narrows. Typically this has negative implications for the economy and stocks. You will be relieved to know it's argued "this time is different" because of "special factors." You will be less relieved to know the same was argued about the flat yield curve in 2007, ahead of the great financial crisis. Meanwhile, the late, great Edson Gould coined his "three steps and stumble" rule about the Fed—three tightenings and the market is toast.

Despite the less than propitious history, the market has come to almost embrace the idea of rising rates. Part of this obviously is the Fed can't keep a secret, but part is the belief nothing can stop the bull market—well, nothing but beliefs like those that leave everyone fully invested. For now, however, market breadth still suggests otherwise—it takes a lot of buyers to push most stocks higher most days. Among those stocks have been the Banks and Brokers, seen as beneficiaries of the higher rates—you know, the yield spread. A funny thing happened Wednesday, however, when just as rates were rising, financial stocks were falling. The Financial ETF (XLF-28) lost more than 1% on Wednesday, while the S&P itself closed just off its all-time high—an unusual pattern. For now, we can write it off as just a "sell on the news," event. In the past, however, this divergence has led to poor returns in the S&P itself. Just so you know.

There is a little quirk to Wednesday's FOMC meeting that has nothing to do with the rate hike. Rather it's about the seemingly positive idea that the Dow managed to close at a multi-year high that day. According to SentimenTrader.com, the most consistent subsequent pattern was the next 7 days when gains were seen only 25% of the time. A mitigating factor in this surprisingly negative backdrop is that we're running into two of the most positive weeks of the year. Seasonality hasn't worked all that well this year, but in this case we'll go with this bit of seasonality, particularly given the relatively pristine technical background. Keep in mind this time of year has more than its fair share of quirks in any case. Even Gold shares rallied sharply Wednesday, as laggards tend to do. That said, there isn't much there. Biotech is better, though about as mixed as we can remember. Celgene (108) may have bottomed, while Biogen (324) looks positive.

Retail has been particularly strong of late. Just as too much bullishness could mean all the money is in, too much bearishness could mean sold-out. Many times new ETFs come on the scene just at the wrong time, that is, just as the trend is about to change. This could be true of Pro Shares Decline of the Retail Store ETF (35), which began trading in mid-November. The catchy symbol, by the way, is "EMTY." Meanwhile, the SPDR Retail ETF (XRT-44) looks just the opposite during the same period. Unlike many ETFs, or indexes for that matter, XRT is not market-cap weighted, that is, each position counts the same. What is interesting is that despite the dreaded "Amazon effect," XRT has outperformed Amazon and Amazon itself is part of the XRT. The last shall be first, and all that good stuff. Certainly one of the best, rather than just brick and mortar, has been Wal-Mart (97), which is close to breaking out.

Ruby, Ruby, Rubio. The latter's possible nay to the tax legislation could have been behind Thursday's selloff. Surprisingly, in the long run markets do about the same whether taxes go up or go down. The short run, however, could be different. There's a lot of room for disappointment, though it likely would prove an opportunity. Small caps have borne the brunt of any selling, with the Russell 2000 sliding to a multi-week low. When this happens in bull markets in December, there's a subsequent recovery in a few weeks virtually every time. Another of December's quirks. Of more concern is the lackluster action in Tech, Semis especially, but even the FANG. We will write this off to December and some carryover into January is possible as investors look for something new, as they often do in a new year. Gundlach thinks it could be commodities, and to look at Freeport (17), he could be onto something. We're also thinking out-of-favor, but more mundane out-of-favor like Nike (65) and Starbucks (59).

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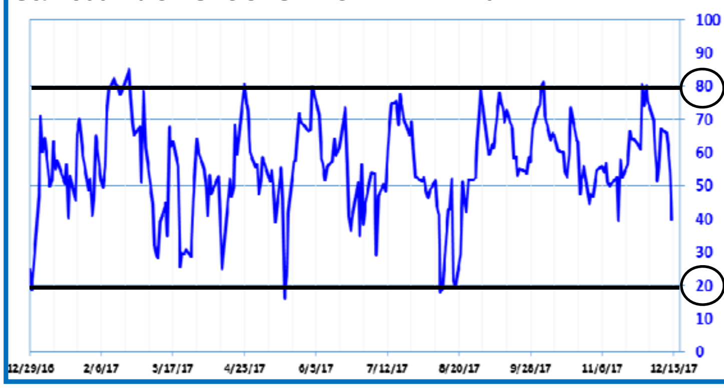
S&P 500 (SPX – 2652) – DAILY

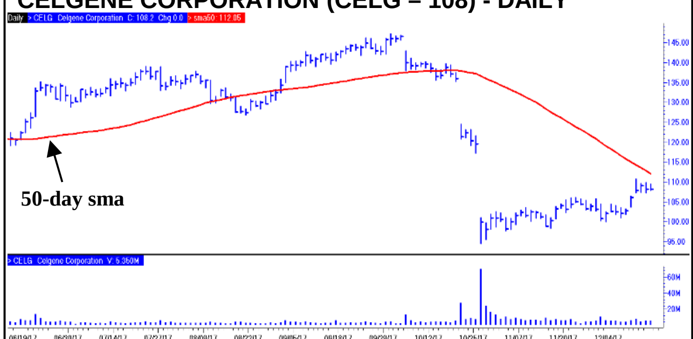
NASDAQ 100 (NDX – 6390) – DAILY

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



RUSSELL 2000 INDEX (RUT – 1527) - DAILY

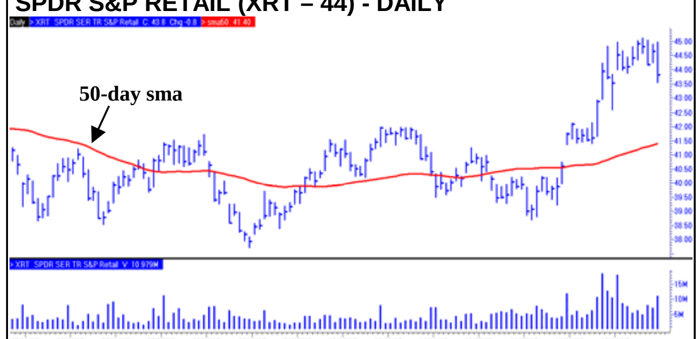
CELGENE CORPORATION (CELG – 108) - DAILY



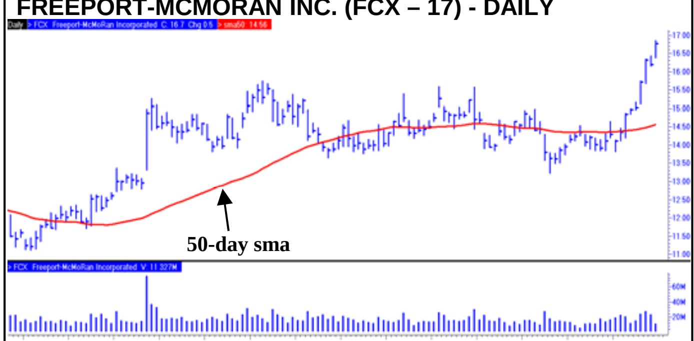
BIOGEN INC. (BIIB – 324) - DAILY

WAL-MART STORES INC. (WMT – 97) - DAILY

SPDR S&P RETAIL (XRT – 44) - DAILY



FREEPORT-MCMORAN INC. (FCX – 17) - DAILY



STARBUCKS CORPORATION (SBUX – 59) - DAILY