WELLINGTON SHIELDS & CO.
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 23, 2018
DJIA: 23,958

When things get tough … the tough rotate. Things got tough in Tech this week. Facebook (165) stole the show, but Apple's "do-it-yourself" attitude wasn't well received, shall we say. This, just as Tech seemed the logical, dare we say safe, place to be, what with trade wars breaking out all over the place. So which came first, an "overdue" rally in Energy stocks, or a "rotation" into Energy stocks—out of tainted Tech and trade-worn Industrials? Naturally we could be premature here, that is, wrong. Indisputable is the idea that Energy shares have been shaping up for a while, though we're well aware that shaping up isn't going up. The stocks have been trying for a while, as the commodity all the while has outperformed. They're worth a hard look. Meanwhile, we don't mean to suggest Tech is done—even Facebook—and the same for Boeing (320) and other Industrials. That said, they've had a good run—there's nothing wrong with a little rest and rotation.

We tend to not place much emphasis on macro sort of numbers like sideline cash levels and the like. No matter what the level, when the market wants to go up, the money to do so always seems to be there. One such number we do like is a group's market cap as a percentage of the S&P. Stocks and groups do become over-loved and, therefore, over-owned. In such a case, when everyone is in, when there is no one left to buy, it's over even if the story is not. Tech is about 25% of the S&P, which is high but not extreme. We know of one analyst who predicted it will reach 50%, a prediction which itself seems indicative of a peak. Perhaps more insightful is the idea that just five NASDAQ stocks accounted for over 50% of the NDX rally since February 9th. At the other end of the popularity contest is Energy, coming in at a lowly 5.5% of the S&P's market cap. There was time when Energy was 20%+ of the S&P. The real point is Energy is under-owned to the point that strength likely would beget more strength.

Rates go up and stocks go down—how retro. This time higher rates are thought not to matter because they're a function of a strong economy. So if higher rates temper the growth, that's a good thing? It all sounds a bit like "this time is different," and we know how that usually works out. Meanwhile, there's the matter of all these rate-sensitive stocks—sensitive good and sensitive bad. The latter includes Utilities, Real Estate and Homebuilding, all of which might be described as stable in their downtrends. The real question is about the Banks, a group that seems not just liked, but embraced. The logic isn't rocket science, rather it's just the opposite. There is, however, also a downside to rising rates, like slowing loan demand. We are not going to argue fundamentals, instead we will simply observe, Banks want higher rates, they're getting them—let's see what they do. Wednesday is just one day, but not a good one.

The February washout low and subsequent test seemed to establish a good turning point. The lack of follow-through was disappointing and worrisome, though explainable given the news backdrop. And, as we suggested last time, this isn't the market we knew last year, and this certainly isn't the market we knew in January. It may be premature with the selling yet to let up, but we see this as a possible trading range, blowing in the wind of the news, tariffs and counter-tariffs. If so, the short-term should start to abide by some precedents. The percent of stocks above their 10-day average, for example, has done a reasonable job of giving some perspective to the ultra-volatility. Currently around 9%, we should be due for some upside relief, if only in the short term. Also, there was a diminished number of New Lows Thursday, despite the weakness, and the Transports positively diverged. So despite the ugly action, there are some short-term positives.

Last week trade worries took down the Industrial stocks, leaving Tech pretty much unscathed. This week Facebook and Tech worries generally, took down the NAZ as trade worries continued to weigh on the likes of Boeing and Caterpillar (147). This week, too, it became clear that rising rates will be part of the foreseeable landscape. Meanwhile, the merry-go-round that has become the White House took another hawkish turn. Despite our belief that good markets can ignore bad news, we will concede the news has been a little overwhelmingly negative. On that point, keep in mind bear markets don't begin on bad news, rather they begin on good news, even euphoric news. They say bull markets don't die of old age, but age does take its toll—we've read about it. This action seems that of an old bull market, one which made a solid low in February and doesn't quite know what to do with it. The S&P still is above its 200 day average—it's still a bull market.

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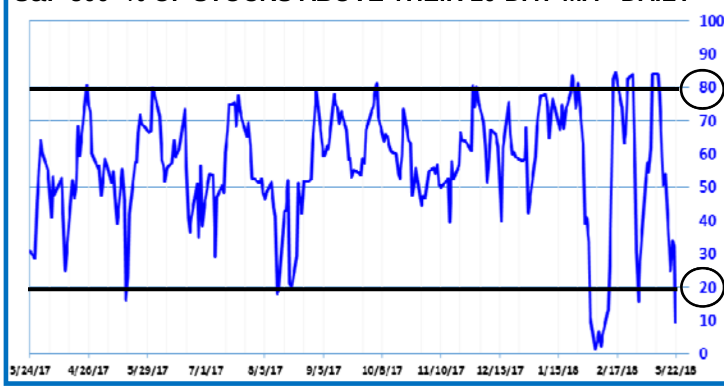
S&P 500 (SPX – 2644) – DAILY

NASDAQ 100 (NDX – 6682) – DAILY

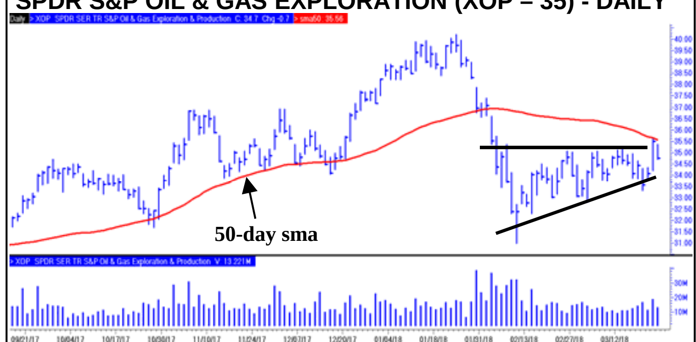
S&P 500 -% OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



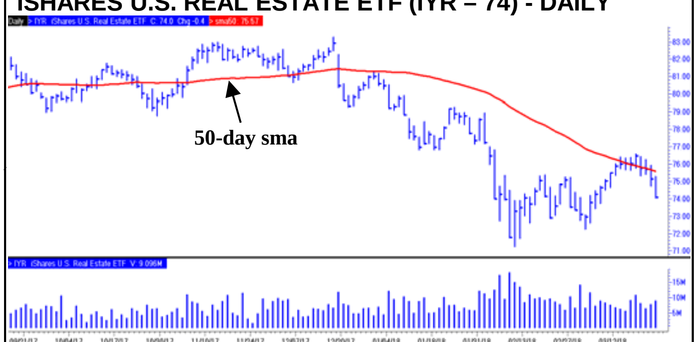
ADVANCE/DECLINE INDEX - DAILY

UNITED STATES OIL FUND LP (USO – 13) - DAILY

SPDR S&P OIL & GAS EXPLORATION (XOP – 35) - DAILY

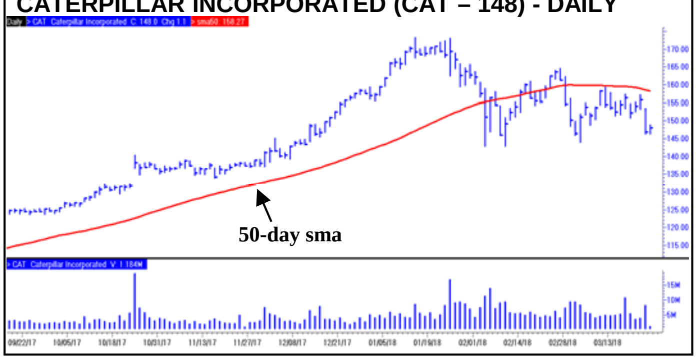


ISHARES U.S. REAL ESTATE ETF (IYR – 74) - DAILY



SPDR FUND FINANCIAL (XLF – 28) - DAILY

CATERPILLAR INCORPORATED (CAT – 148) - DAILY



SPDR FUND TECHNOLOGY (XLK – 66) - DAILY