Wellington Shields

EQUITIES PERSPECTIVE

February 11, 2022
DJIA: 35,241

Meta drops by $250 billion, Amazon adds back $280 billion… pretty soon you're talking real money. They do say it's a market of stocks. Still, given they are both part of FANG, the dichotomy here seems a bit bizarre. Even a bit more bizarre is that Amazon (3180) arguably had the worst chart of the group, though Netflix (406) and FB (228) certainly were no prize. After its gap higher at the start of the month, Google (2772) landed in resistance and has sold off almost every day since then. These stocks, of course, have not suffered alone. High real yields have meant an exit from growth stocks toward value. While there's always more to the value/growth story than just rates, over the last few months there has been a close link. What we find a little disconcerting here is what this means in the overall scheme of things. Sure these stocks over the years have had their corrections, but more or less they have led the bull market. If that has changed, it probably isn't the best sign for the bull market itself.

When the market turns up out of a relatively violent decline like January's, down the most often turns to up the most – compression rules. And so it seems so far when it comes to Tech. Fewer than 25% of Tech shares were above their 200 day a few weeks ago, and after Thursday's rally the number had recovered to close to 50%. So, oversold snapback, or sign of an important turn? As is true of many market indicators, momentum is everything. Outcomes are better when the numbers are better. When this number reaches 60% or more, stocks saw their best returns. No surprise that strength begets strength. So far it's still more relief rally than major turn, but the worst should be over for now. Meanwhile, the better parts of the market, those not compressed, so far have held their own. This suggests strength in Staples/Value is more than just defensive.

When it comes to leadership, the dichotomy between the Invesco Pure Growth ETF (RPG-185) and the Invesco Pure Value ETF (RPV-85) makes clear what we still believe is an important change. The charts of stocks like Hershey (203) and McCormick (100) look more "growthy" than your favorite growth stock. Even in Tuesday's Tech rally, it was a stock like Coke (61) that made a 12 month new high. Not be forgotten in this discussion, of course, are the commodity stocks, where strength is pretty much universal. Oil is obvious, but aluminum, copper and steel have rallied. Commodities conglomerates like BHP Group (70) also have acted better as has even Ag Commodities. Meanwhile we're still waiting on Gold, which could be confused with Waiting for Godot. Inflation is all the rage yet Gold barely has a pulse. Those bonds seem to get it, and we wonder when some of that money will be leaking into precious metals.

Thankfully we're not economists, and we hesitate to walk on that dark side. That said, there are a few problems out there beyond the technicals. Pretty basic is the idea recessions have followed 11 of the last 12 Fed tightenings. And to go by the consumer sentiment numbers, one likely already has begun. When the pandemic hit, the Fed embarked on massive QE, resulting in 25% money growth. As Milton Friedman predicted, prices react with a lag. Like Arthur Burns before them, the current Fed is ignoring a sharp increase in money supply and has tried to blame external factors. As 2022 begins, inflation is blowing out. Yet the Fed continues its policy of buying billions of treasuries and mortgage backed securities every month. Perhaps they remain the "Fed put" realizing if they go to zero asset purchases it's all but certain to impact multiples. The technicals offer some reason for optimism now, but it's important to watch for signs the rally is failing. As usual, advancing versus declining issues will be important.

We don't see this turn as the start of a major new uptrend. Despite the selling, this market never quite made it to extremes typical of a major low. What we see is what can happen when prices become stretched to the downside, and investor psychology almost historically negative. And the rally has been good but not great. Even Wednesday's 3–to-1 up-day in advancing issues fell short of what you might expect out of a major turn. And, of course, that was followed by Thursday's better than 3-to-1 downside. Then, too, strength in the averages against flat A/Ds would have been, and still could be, a real warning. In an unusual pattern, The VIX has dropped 25% from its high, while bond market fear is near 52-week highs. Usually a non-event, this pattern has preceded some significant declines in stocks.

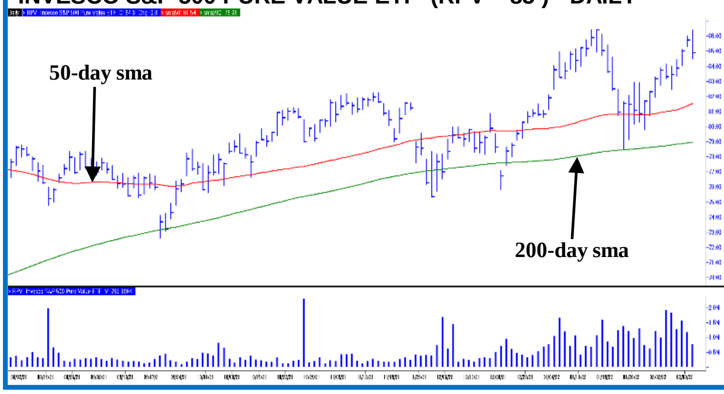
Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

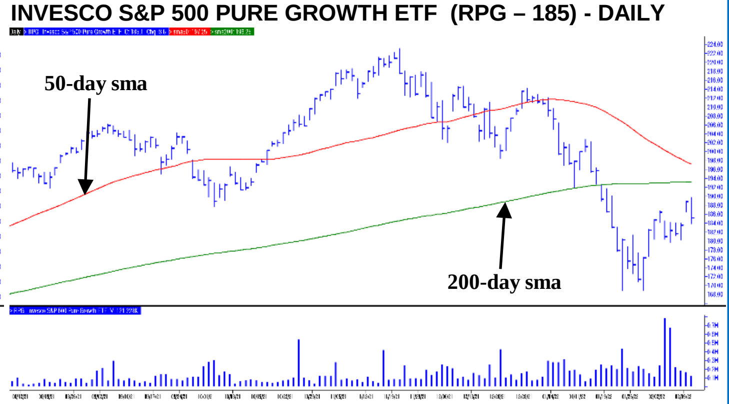
S&P 500 (SPX – 4504) – DAILY

NASDAQ 100 (NDX – 14705) – DAILY

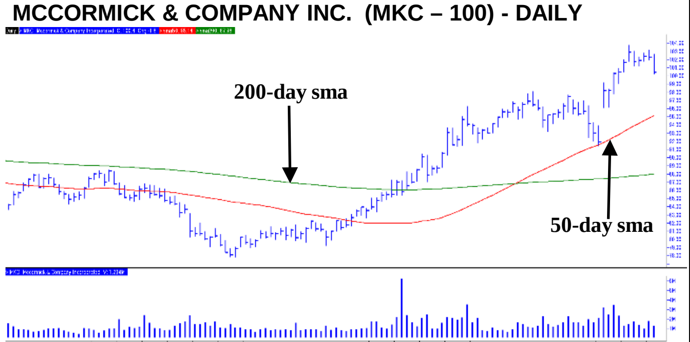
INVESCO S&P 500 PURE VALUE ETF (RPV – 85) - DAILY



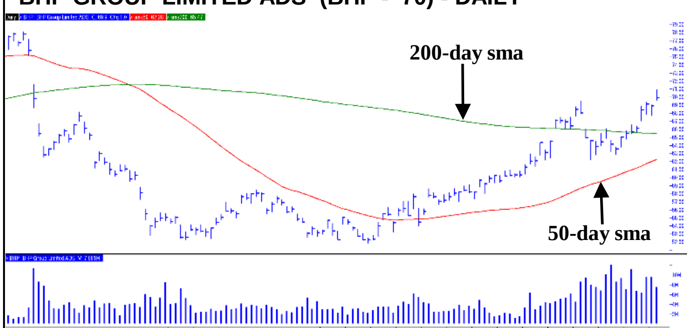
INVESCO S&P 500 PURE GROWTH ETF (RPG – 185) - DAILY



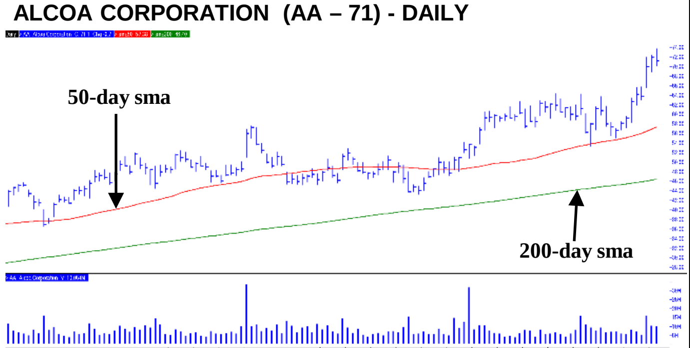
MCCORMICK & COMPANY INC. (MKC – 100) - DAILY



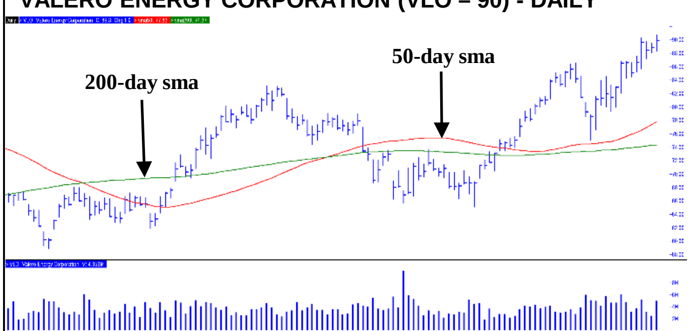
BHP GROUP LIMITED ADS (BHP - 70) - DAILY



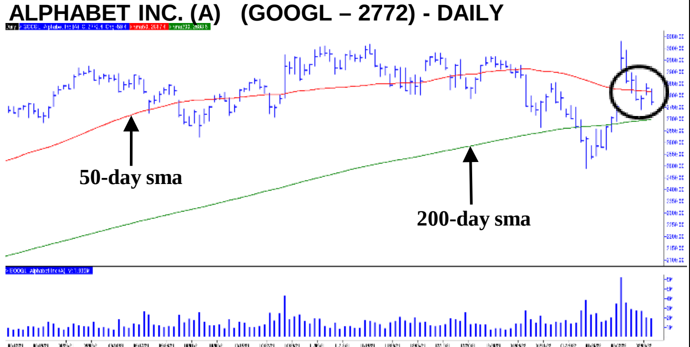
ALCOA CORPORATION (AA – 71) - DAILY



VALERO ENERGY CORPORATION (VLO – 90) - DAILY



ALPHABET INC. (A) (GOOGL – 2772) - DAILY



AMAZON INCORPORATED (AMZN – 3180) - DAILY