

# EQUITIES PERSPECTIVE

November 18, 2022  
DJIA: 33,546

Don't fight the Fed ... but don't tell the market. Despite the Fed's hammering it's not done, for the most part it seems to be falling on a market without ears. Or, is it a market that sees more than the Fed? Ironically, most are seeing it the Fed's way, when the Fed doesn't exactly have the best record here. Then, too, history is replete with rallies in bear markets. And the idea that most of the best one day rallies happen in bear markets has to make you wonder about last week's 1200 point CPI gain. We get all of that, but this time there's a bit of a difference. This is not about one day, this time stocks above their 200-day moving average have cycled from 12% to above 50%, a dramatic improvement. Historically, readings above 60% have been followed by above average forward returns, and spikes above 70% have marked new bull markets.

When it comes to stocks in general, it pretty much comes down to the haves and the have nots. More recently, it might better be said of the former, the have hads. These are the stocks that have held well through the weakness but recently have corrected. These would be names like McDonald's (273) and PepsiCo (180), and certainly the healthcare names which have turned surprisingly weak. Meanwhile if we go through our list of potential short sales, there are virtually none left. We are told Goldman has a basket of most heavily shorted stocks which was up 10% one day last week. Another proxy for this kind of stock is Cathie Wood's ARKK ETF (37), which recently was up more than 20% from its low a week ago. As we pointed out, often down the most turns to up the most. Meanwhile, what likely still are the leaders take a breather.

It might be time to get back to basics. You probably don't spend too much time pondering Sherwin Williams (237), let alone Ecolab (148) and Linde (330). They are a part of the SPDR Materials ETF (XLB - 79), which has gone from no components above their 50-day, to all components above their 50-day. Over the past 70 years this shift has happened only a few times and, in this case, in less than six months. Like virtually all of these momentum shifts, positive returns were seen over the next year, according to SentimenTrader.com. Moreover, at no point was there a drawdown greater than 5%, while all showed gains of 15% or more. LIN is the largest position of XLB, and probably the best chart. Among the top 10 holdings are Freeport McMoran (36) and Nucor (142), both beneficiaries of a better China. In regard to the steel stocks, you might also look to the ETF there (SLX - 59).

We know the stock market can be more than a little perverse. When everyone is bearish that's a good thing, but at least we know why. When everyone is bearish the selling gets done and it's that selling that makes a low. We're not quite sure why but consumer sentiment seems to work much the same way. The latest University of Michigan Survey showed depressed readings on present and future intentions. A six month average has now dropped to the lowest on record, exceeding the worst pessimism during the financial crisis and the S&L mess years ago. Other than being early in the financial crisis, all coincided with the end of bear markets, or were close.

They don't let up - they being the Fed. If they're not raising rates they're talking about raising rates. Both have their impact on markets but so far at least, only temporarily. The Fed doesn't want to see the market up, the wealth effect we suppose. As it happens, it's the home builders that have been most affected by higher rates, and those stocks are all up from late October. Of course, everything is up from June when nearly 50% of all stocks made a 52-week low. We doubt we're going back there, so you might argue the bear market is over. There's a difference, however, between putting in a low and starting a new uptrend, a new bull market. Let's talk about that when we get to 70% of stocks above the 200-day. In the meantime, suffice it to say they look higher and will continue to look higher until something changes, likely the A/Ds. Strength in the averages needs corresponding strength in the average stock.

Frank D. Gretz

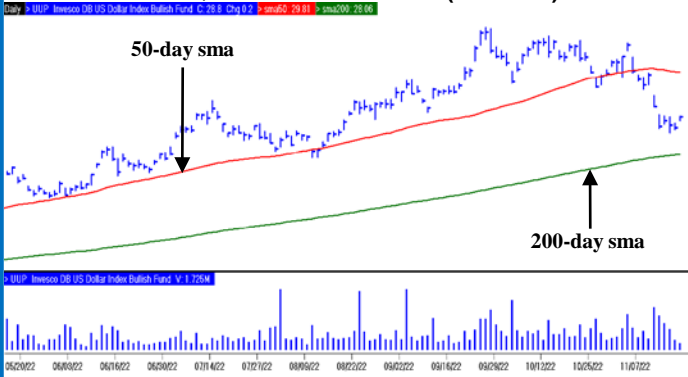
### S&P 500 (SPX - 3940) - DAILY



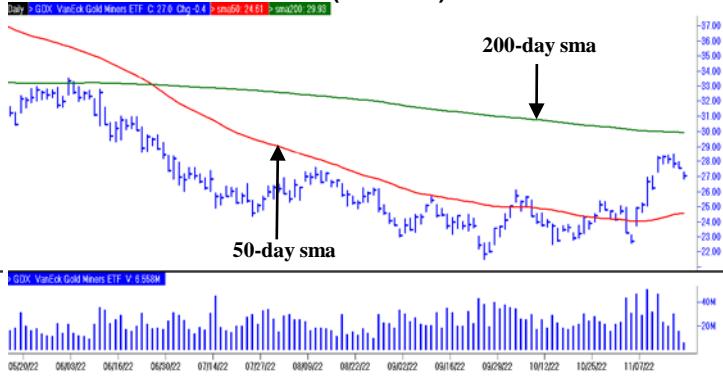
### NASDAQ 100 (NDX - 11676) - DAILY



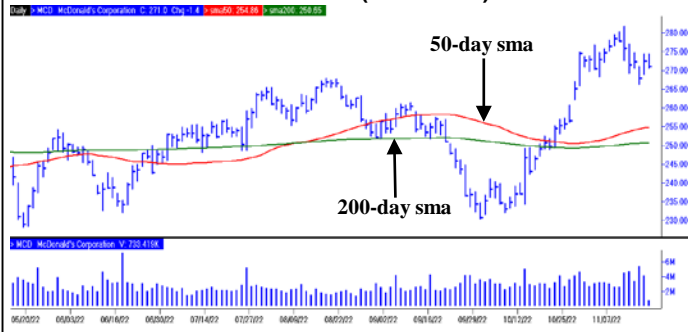
### INVESCO DB US \$ INDEX BULLISH FD (UUP - 29) - DAILY



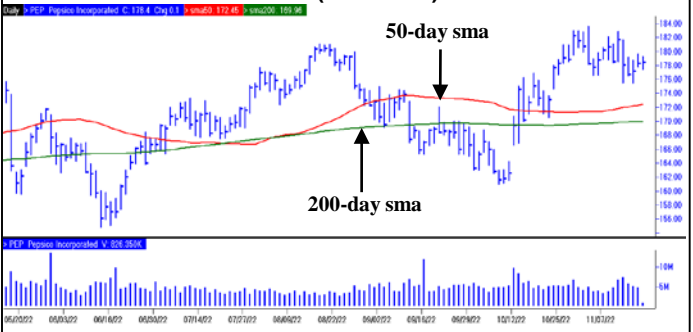
### VANECK GOLD MINERS ETF (GDX - 27) - DAILY



### MCDONALD'S CORPORATION (MCD - 273) - DAILY



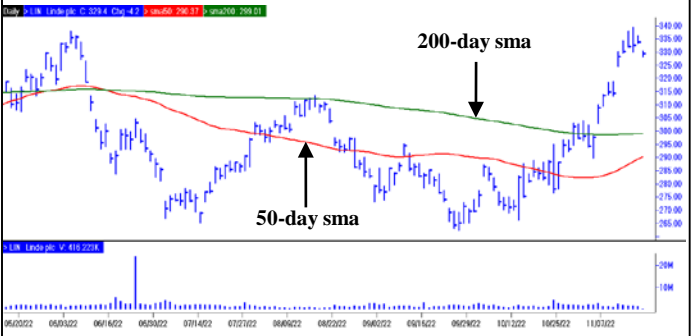
### PEPSICO INCORPORATED (PEP - 180) - DAILY



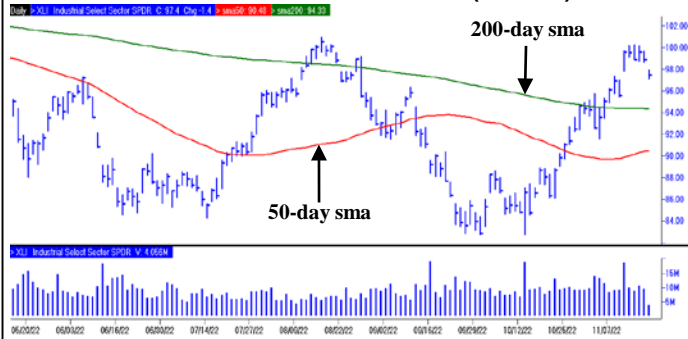
### MATERIALS SELECT SECTOR SPDR FD (XLB - 79) - DAILY



### LINDE PLC (LIN - 330) - DAILY



### INDUSTRIAL SELECT SECTOR SPDR FD (XLI - 98) - DAILY



### CATERPILLAR INCORPORATED (CAT - 230) - DAILY

