EQUITIES PERSPECTIVE

August 2, 2024
DJIA: 40,347

It's likely a long and winding road … the next six months. A couple of weeks ago there was a dramatic change in market momentum. Consecutive days of 3-to-1 advancing issues, coming near a peak in the Averages, has led to higher prices virtually every time six months out. It's not the 3-to-1 numbers per se, it's the idea these sort of numbers are more typical of lows rather than markets near peaks. Last week we saw a nasty selloff that took the S&P from 5% above its 50-day to below that average. Outcomes from this pattern are similar to the one described above, that is, higher prices six months out. While this may seem surprising, there is a logic here in that sharp declines are not how bear markets begin. Those are a process. Declines like last week's might better be described as profit-taking panic.

The Russell 2000 is all the rage. If the truth be known, we've often and unkindly referred to it as love among the rejects. Of the component issues an amazing 40% lost money in the last 12 months. As for what you might call the up-and-coming, they are rare. The up-and-coming no longer go public, they are funded by venture capital. The good guys, the growers, they graduate to the grown-up indexes. So how is it the Russell is up more than 10% since mid-July? It's what technical analysis is all about – supply and demand, more buyers than sellers. The Russell is 17% Regional Banks – how many do you own? Chances are few do, and hence the lack of supply. Will it last, of course not. The problem, however, is it could outlast you. This so-called move to secondary stocks seems more simply a move to Financials, big and small.

When at Merrill Lynch a long, long time ago, we would have a 9 o'clock meeting every morning. At the meeting we would all express our thoughts on the market. Then Bob Farrell would offer his, which pretty much then became ours. After all, he was the smartest guy in the room, and in most rooms. What prompts this bit of nostalgia is an indicator we used to follow back then. We kept track of the number of stock splits and found they rose with the market and coincided with peaks. There is, of course, no magic here, rather stocks peak when they're up a lot and when they're up a lot they split a lot. Still, we can't help but wonder why stocks like Nvidia (109) and Amazon (184) after all this time suddenly decide to split. Perhaps it's not the mechanics that's important here, rather the sentiment – a bit euphoric?

In market declines it's typically only near the end of the weakness that you find the reason for the weakness. What makes this time a bit different is already there's talk of, can you imagine, double ordering in Semiconductors. If you've been at this for a while, you know double ordering has been going on since Lawrence Welk was a Semiconductor. Next they may figure out there could be competition. It's way too soon for bad news to kill Tech, that will take time. Meanwhile, Nvidia seems to be tracing out its pattern of last March. To look at Aerospace and Defense Stocks, there seems little threat of an outbreak of peace. Then, too, business might just be that good.

This market makes it difficult to talk about THE market. On the NYSE stocks above their 200-day at the end of last week were above 70% and had never dropped below 60%. For the NAZ the number was below 50%. Much of this is about the Financials, which is not to say that's a bad thing. And by Financials we're really speaking of rate sensitive shares like the REITs, homebuilders, insurance brokers, banks and so. There are many. And whether you think the Fed will or will not cut in September it doesn't really matter. The market thinks they will. The Financials seem here to stay, though come September you may want to sell on the news. Wednesday's rally was led by Tech, but that's more about down the most turning to up the most in a lift. Recovering won't be easy, the winding part of the road.

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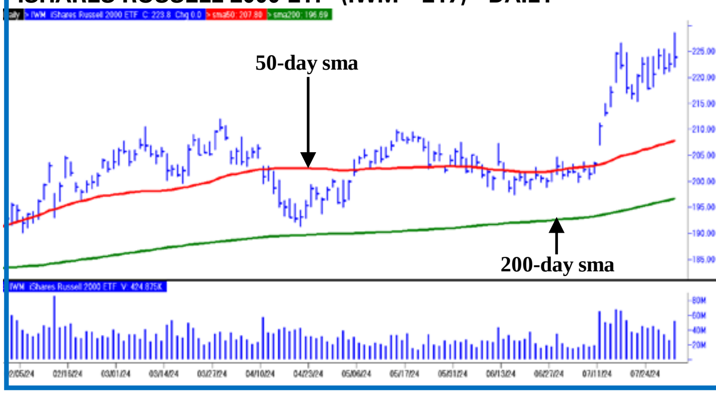
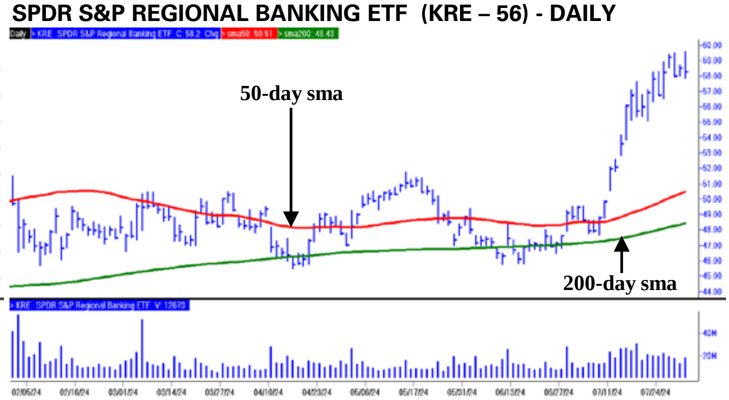
S&P 500 (SPX – 5448) – DAILY

NASDAQ 100 (NDX – 18890) – DAILY

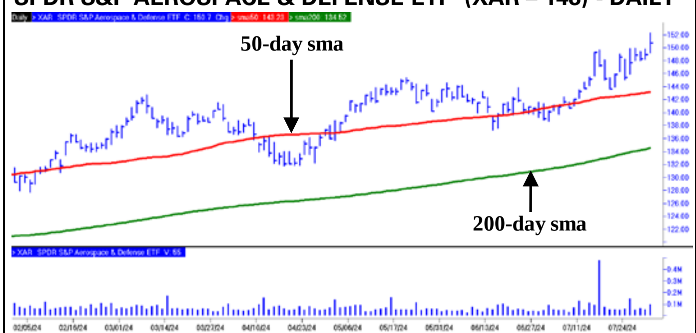
ISHARES RUSSELL 2000 ETF (IWM – 217) - DAILY



SPDR S&P REGIONAL BANKING ETF (KRE – 56) - DAILY



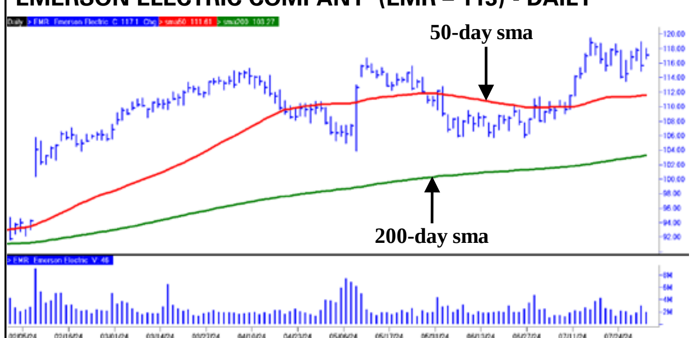
SPDR S&P AEROSPACE & DEFENSE ETF (XAR – 148) - DAILY



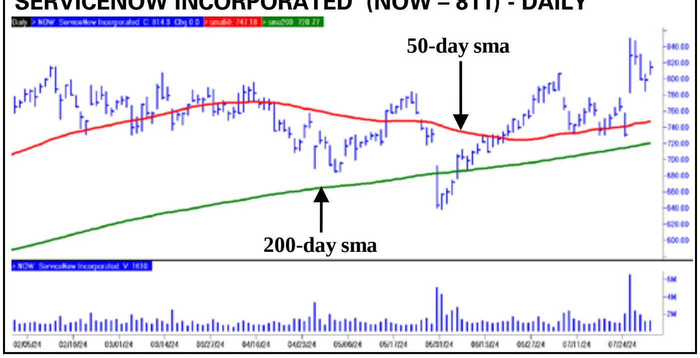
CURTISS WRIGHT CORPORATION (CW – 291) - DAILY

GE AEROSPACE TRADING (GE – 170) - DAILY

EMERSON ELECTRIC COMPANY (EMR – 113) - DAILY



SERVICENOW INCORPORATED (NOW – 811) - DAILY



NVIDIA CORPORATION (NVDA – 109) - DAILY