Wellington Shields

EQUITIES PERSPECTIVE

October 4, 2024
DJIA: 42,011

Dock strike, floods, more war … October has begun like a Country and Western song. And we thought September was supposed to be the bad month. If you define a bad day as a 1% decline in the S&P, bad days happen about 10% of the time. For reasons unknown to mere mortals, or even technical analysts, they happen 16% of the time on October's first trading day, according to SentimenTrader.com. Monday saw a 0.9% S&P decline, let your conscience be your guide here, but a 1% decline that day comes with favorable implications for the remainder of the year. When down 1% or more on October's first trading day, from the second day to year-end the market is up every time. Whether that includes times of war and pestilence we can't say, we can say the technical background is supportive here. Even Tuesday with all its bad news saw almost 1800 stocks advance, hardly a down day.

The fact that we got through September, the worst month of the year, and the third week of September, the worst week of the year, should not be completely ignored. Seasonality is never to be taken as an investment plan, and in markets anything over-hyped rarely works. Then, too, these concepts can take on a life of their own. So ignoring any chance to go down is always a good thing. At a more tangible level, last week saw 70% of NYSE stocks above their 200-day. A level of 60% has produced above average returns, 70% is associated with bull markets. As for the economy as it relates to the market, some 35% of cyclical stocks recently made 12-month new highs, a number associated with better than 85% win rate for the S&P over the next six months.

When they started calling China "uninvestable," guess we should have known. China stocks now look uninvestable because they've run so much. We can't in any way say we saw the rally coming, but we had noticed a dichotomy between the terrible news out of China and their not so terrible stock patterns. To the extent technical analysis applies, and markets are markets, more than 90% of the stocks are above their 10-day average, stocks above their 50-day have cycled from 15% more than 90%. That's momentum that should not turn on a dime, and almost remarkably it has not. Even if you think you don't care about China, if you care about commodities, copper, iron ore, casinos, and so on, you care about China. Importantly as well, China is another tailwind for stocks here.

We always find suspect anything too obvious – it's already discounted. This would seem true of Defense stocks, but what can we say, the charts are good. If anything, we're a bit surprised they're not more stretched. Of course it's not just about these never-ending conflicts, it's about Defense as a business. The relevant ETFs here are XAR (158) and ITA (150). A volatile but interesting chart is AeroVironment (AVAV-201), and then the usual suspects, Raytheon (124) and the like. Our two cents is the conflict has turned more serious if now they can rally even the Oils. Tech took the brunt of Tuesday's weakness, but Tech/NAZ has been the weak link for some time now. We're putting this in the category of a rest, and certainly they deserve one. Something like 10 stocks account for 30% of the S&P, Nvidia (123) alone some 6%. A thought is to go with the Equal Weight S&P until the Tech rest is over.

They say the market climbs a wall of worry. Then, too, they also say the market doesn't like uncertainty. And here we are with plenty of uncertainty about which to worry. There is the election and its outcome/aftermath and there's the little matter of World War III. Seems best to go with the technical backdrop which for now seems favorable. We say for now not because we anticipate problems, but we've noticed things do change. One day they hate China, the next day they can't get enough of it. Stick with the basics, technically speaking. Down days happen, but up days should see the average stock keep pace with the stock Averages.

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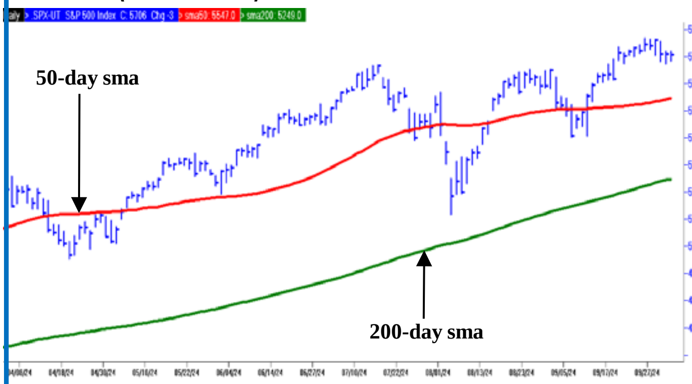
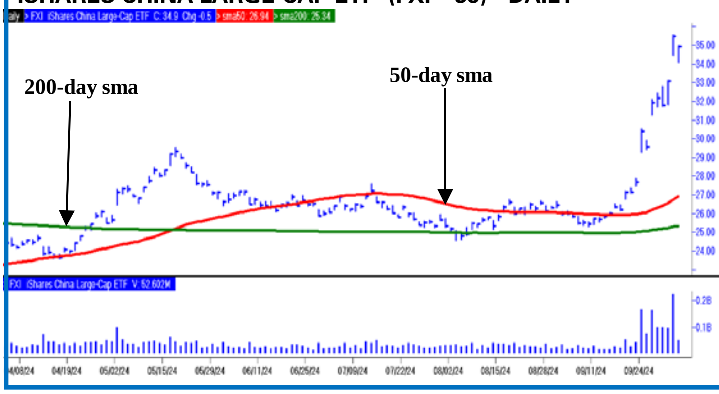
S&P 500 (SPX – 5692) – DAILY

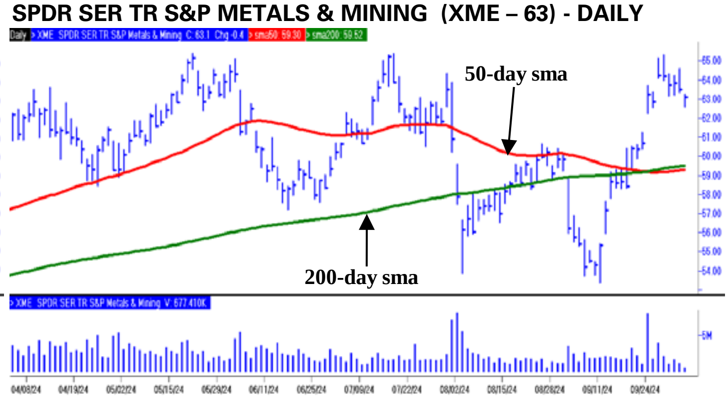


NASDAQ 100 (NDX – 19793) – DAILY

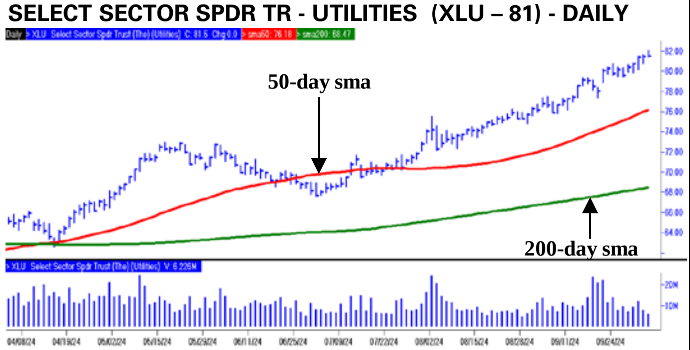
ISHARES CHINA LARGE-CAP ETF (FXI – 35) - DAILY



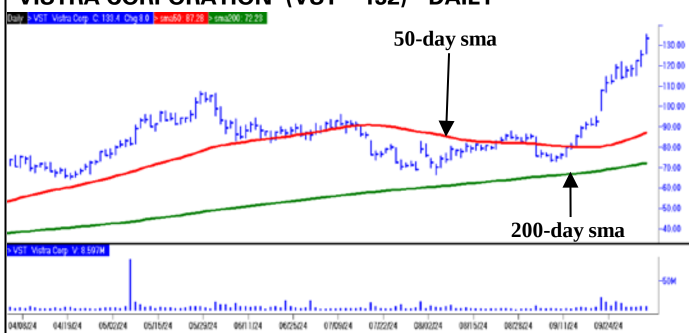
SPDR SER TR S&P METALS & MINING (XME – 63) - DAILY



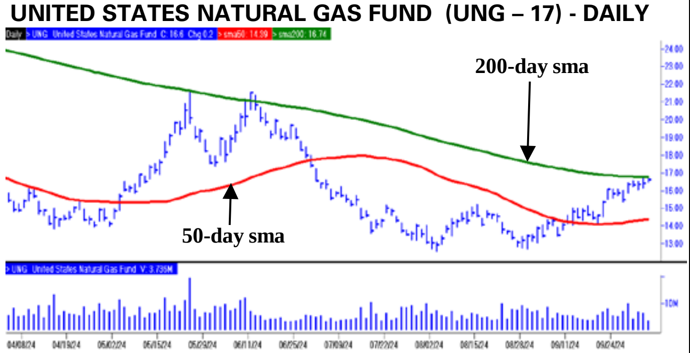
SELECT SECTOR SPDR TR - UTILITIES (XLU – 81) - DAILY



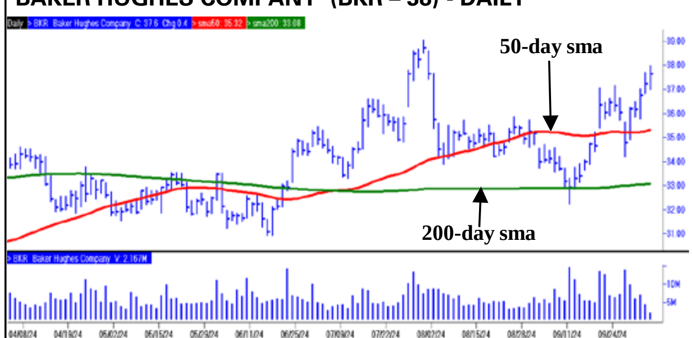
VISTRA CORPORATION (VST – 132) - DAILY



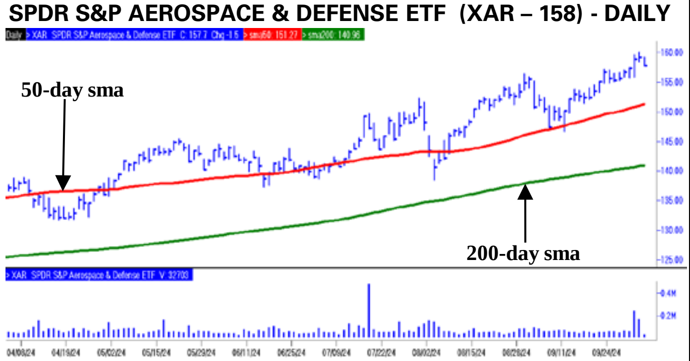
UNITED STATES NATURAL GAS FUND (UNG – 17) - DAILY



BAKER HUGHES COMPANY (BKR – 38) - DAILY



SPDR S&P AEROSPACE & DEFENSE ETF (XAR – 158) - DAILY



HOWMET AEROSPACE INC. (HWM – 101) - DAILY