EQUITIES PERSPECTIVE

January 17, 2025
DJIA: 43,153

The problem for stocks of late … bonds. Graphically, TLT (87) and IEF (92), the 10-year and 30-year pretty much tell the story. Long rates are moving higher, and they have been doing so for a while. Long rates of course affect borrowing costs at many levels, including mortgages. From a stock market perspective, they affect REITs, Regional Banks, Home Builders and the related stocks, basically a bunch of stocks, and therefore numbers like the A/Ds and stocks above the various moving averages. Technically, the yield on the 10-year is at a one-year high, and is also at the top of its three-year range. Against that background the S&P has moved lower for the most part over the next several months, according to SentimenTrader.com.

Long rates impact a multitude of stocks which in turn affect many aspects of the technical background. The Advance Decline Index, for example, peaked at the end of November. Meanwhile, the big cap averages have been hovering around their highs, leaving the kind of mechanical divergence that typically leads to weakness. This is all about a gradual loss of momentum. Where it shows most clearly is an indicator like the number of stocks above their 200-day average. This measure has a typical range between 20% and 80%. Above 70% indicates enough strength that it tends to persist – momentum takes time to unwind. Once it does begin to unwind, however, it typically continues to the other extreme. The number currently is in the low 40s. The rule, so to speak, is a drop below 60 brings a level of 20 before a new uptrend begins.

A long, long time ago, maybe six months, concerns arose over the strength of the economy. At the time and pretty much since, we have been on the side that these are pretty much unfounded. This has been based not so much on our profound knowledge of economics, rather our observation of the many stocks we find sensitive to economic activity. Parker Hannifin (659) would be one of these, a stock Greenspan used as an economic indicator. Then there's Grainger (1110), with a division named "endless assortment," and, of course Cintas (198), where would we be without clean uniforms. The list goes on to include names like Fastenal (75), whose business is fasteners, more commonly known as nuts and bolts. The charts here all are long-term uptrends and certainly not terrible. They have, however, begun to teeter a bit – something to keep in mind.

The idea "show me the money" recently came up in regard to AI, can you imagine? It also seems to be rearing its ugly head when it comes to weight loss. For the second quarter in a row, Eli Lilly (758) has been the latest to disappoint investors, as revenues fell short of estimates. Its 7% drop was the worst since 2023 and brought the Healthcare Index with it. The market's response seems a growing frustration with the company's inability to turn promise into cash. Bloomberg's John Authers also points out the sector accounts for 20% of GDP and is experiencing double-digit inflation, making it difficult for the Fed to achieve its targets. Meanwhile, have you noticed how poorly many beverage and package food stocks behave, a possible side effect of these drugs.

The market has had a spate of good news recently. Bank earnings were positive and treated as though they were for this quarter rather than the last quarter. Inflation numbers were subdued but is that really a surprise or the market's real worry these days. We could argue the news is dubious good news, but the market reaction so far is anything but dubious. And that's what counts. When we say the market makes the news, it works both ways – it's the market reaction to the news is what counts. If the stock market's problem has been bonds, Wednesday's spike was encouraging and perhaps overdue, but it's about follow-through. The mistake made last time is that when the Fed lowers interest rates, bond prices improve. As we've come to learn, long-term rates are almost entirely determined by the market itself. Meanwhile, history suggests a propensity for bond weakness early in the year, especially when the trend already is down.

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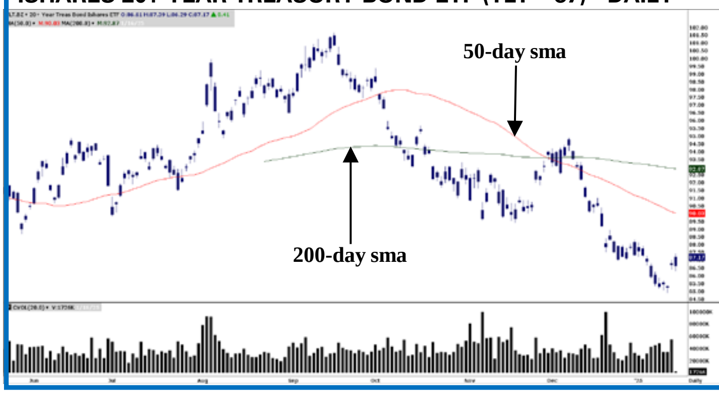
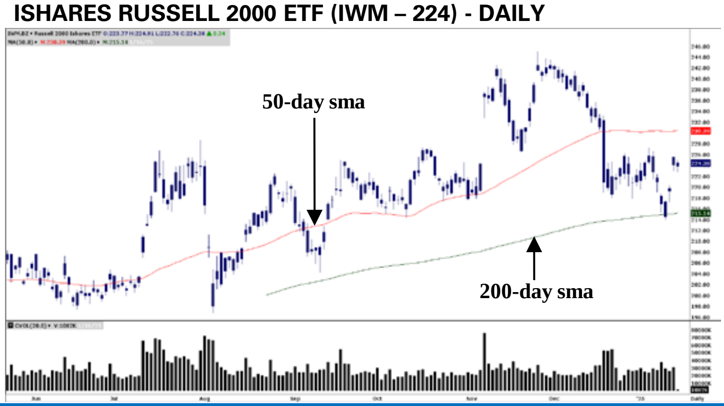
S&P 500 (SPX – 5937) – DAILY

NASDAQ 100 (NDX – 19338) – DAILY

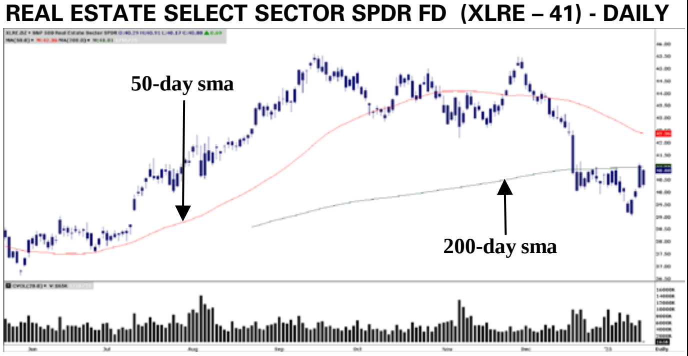
ISHARES 20+ YEAR TREASURY BOND ETF (TLT – 87) - DAILY



ISHARES RUSSELL 2000 ETF (IWM – 224) - DAILY

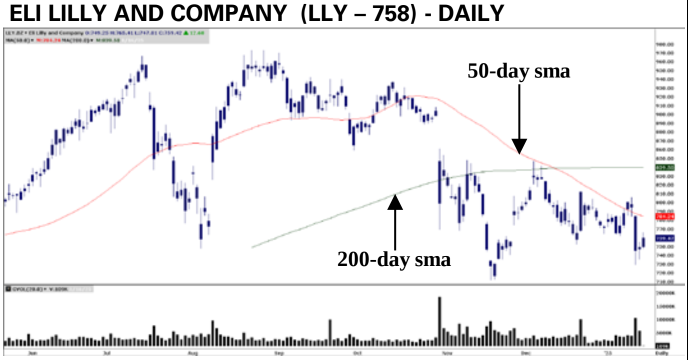


REAL ESTATE SELECT SECTOR SPDR FD (XLRE – 41) - DAILY



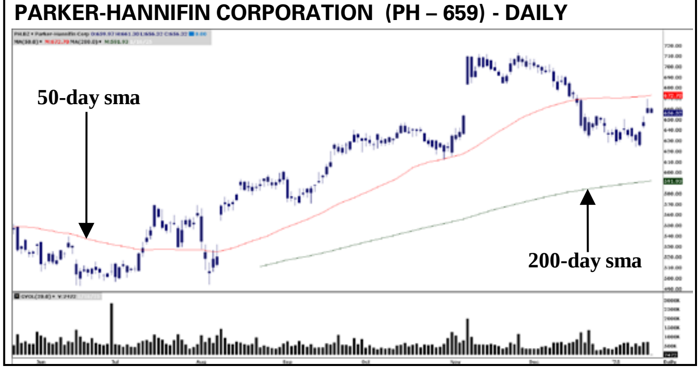
ISHARES US HOME CONSTRUCTION ETF (ITB – 109) - DAILY

ELI LILLY AND COMPANY (LLY – 758) - DAILY



CONSUMER STAPLES SEL SECTOR SPDR (XLP – 77) - DAILY

PARKER-HANNIFIN CORPORATION (PH – 659) - DAILY



ROUNDHILL MAGNIFICENT SEVEN ETF (MAGS – 54) - DAILY