UBS

August 21, 2023

Market Commentary

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CASHIN'S COMMENTS
MONDAY, AUGUST 21, 2023
[AN ENCORE PRESENTATION]

On this day (+1) in 1905, a 25-year-old kid from Factoryville, PA. caught the thumb of his right hand in a bureau drawer. Now, since at this time, lots of kids in Factoryville were getting thumbs, fingers and other appendages caught in things like stamping machines, you may wonder why this particular thumb and this particular drawer were of note.

Perhaps the reason was that this kid was no longer working in the Factoryville area but rather in an area of NYC called Coogan's Bluff. His employer (the N.Y. Giants) hoped the thumb incident would not impact his work (which had been good to date). His name was Christy Mathewson, and he was on his way to a 31 and 8 season (with a rather amazing ERA of 1.27).

Giant Manager John McGraw need not have worried, however. That year they probably could have hit "Matty" with a truck and he'd have won anyway. He proved that point in the World Series against the Philadelphia Athletics when he virtually won the Series singlehandedly. He had to pitch 3 games in six days. Not only did he win them all by shutouts - - he never even let an "A's" player reach 3rd base. His ERA for the World Series of 1905 - - just 0.00. And folklore has it, when it was all over he raised his right hand and gave the "thumbs up" sign.

(Friday's Comments and updates appear at the end.)

With apologies to Christy Mathewson and other greats of the era, let us digress from the usual format since we may be in a rather critical juncture for both the stock market and the bond market and that bears some direct conversation.

You will recall that six weeks to a few months ago in the month of March, we were coming out of the surprise and unprecedented bank runs on Silicon Valley Bank, Signature Bank and the like and the Fed was scrambling to get the banking system back in what seemed to be some form of working order.

Over the period that followed, the yields on the ten-year went up and pushed pretty hard against the same recent highs between 4.25% and 4.35%. There was some initial concern that they might somehow spike higher and some felt that Powell and the Fed would cap things and in the immediate weeks that followed, many of us, including yours truly and, some absolute professionals like my friend, Rick Santelli, thought that we might be looking at a series of possible seasonal highs in yields at those levels that would signal the Fed was putting a cap on things. That perception and that the bond yields had reached a kind of seasonal pop allowed equity traders a decent amount of latitude.

All that has come back into question in the past week or so with some beginning to feel that bond yields were going to break out on the upside and move up above the 4.35/4.40 percent level, which would change certainly the near and possibly intermediate term outlook for both yields and for stocks.

We are now possibly at the fulcrum point of where that is and the fact that bond yields seemed once again to top out in that region Thursday and Friday, allowed stocks some renewed latitude. So, that is why I say we may be at a rather critical juncture. What happens over the next few weeks with yields? Do they push up above that 4.40% level on the ten-year or are they contained again? Whatever the answer to those questions are may, in fact, tell us how we can and should play equities and bonds.

Okay, if you are still awake, let's get back to the stock market.

As we just said, we believe that the direction of the stock market will depend greatly on what happens to the yield on the ten-year over the next several weeks, particularly if that yield were to pop above the highs around 4.30% / 4.45%. That having been said, we note some input from some exceptional sources. The incredibly insightful and yet simultaneously charming, Katie Stockton reports that the MACD, particularly the Nasdaq level, could be on the verge of giving a negative signal after actually, a couple of years pointing to the positive side.

On a separate, but similar note, the equally insightful yet somehow equally charming, Louise Yamada issued a similar potential signal about intermediate yields and rates (where do these exceptional women come from anyway). Now add in, the negative backdrop condition on the NDX that was apparently cited by Wall Street legend, Peter Eliades and we have some intermediate background that could cause meaningful moves in stocks, but as we say, in the meantime, we are hanging in the short run with it's the relationship between stock prices and bond yields absolutely critical.

Okay, as we prepare for today's trading, it is time to look and see what our cousins offshore thought of the action here in New York and the developments in their own local markets.

Overnight, global equity markets are in a bit of anxiety as continuing concerns about the Chinese property market grow and some of the overnight moves by China are seen as less than totally effective. Tokyo managed to shrug off a bit of the anxiety, closing up the equivalent of about 330 points in the Dow. Hong Kong, on the other hand, was disappointed at the Peoples Bank of China cut the very short-term rate, but not the intermediate rate, saw Hong Kong stocks close down the equivalent of about 680 points in the Dow. Mainland China was off about 500 points in the Dow. India, on the other hand, closed with a rise of about 170 points in the Dow.

European markets are somewhat hopeful that this may mean that rates ease back a little bit. So, as we go to press, Paris is up about 340 points in the Dow. Frankfurt is up a similar amount. London, however, only managed an approximated 250-point gain. There is more to come, and as I say, there is some general disappointment that the Peoples Bank of China only cut the very short-term rates and seemed to leave the intermediate rates alone. That seemed to add further stress to the property markets where some major players are said to be in jeopardy of default. So, that will play out further.

As we head to Jackson Hole, there will also be a meeting of some of the other global economic players with some expressing a desire to replace the U.S. dollar as the world reserve currency. That may present a very interesting counterpoint to this week's Jackson Hole meeting and that could lead to further volatility in the market.

That having been said, the U.S. economic calendar is basically non-existent. So, we will be watching for comments from central bankers and further movement in things like the Chinese property market.

So, you know the drill. Stay close to the newsticker. Keep your seatbelt fastened. Stay nimble and alert, but most of all try to stay safe.

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On this day in 1848, the New York Herald carried a front-page story that would change the face and folklore of America forever. The story trumpeted the fact that a New Jersey man had stuck his hand in a creek in California and plucked out some nuggets of gold. That was enough! What an image! East Coast man goes west and strikes gold. Soon one fourth of America was on clipper ships or forming wagon trains to head west.

The discovery had actually occurred back on January 24th. The New Jersey transplant was James Marshall, and he found the gold while working at the sawmill named for his partner, John Sutter.

Originally, they hoped to keep the news a secret, but American Enterprise got in the way. It appeared in the form of the local storekeeper, a guy named Sam Brannan. He figured there was money to be made in gold - gold fever that is.

So, Brannan bought up all the pans and overalls and pickaxes he could find. Then he showed up in San Francisco with bottles filled with gold dust and raved of the fabulous find at Sutter's Mill. Then he raced back to Fort Sutter and began becoming a millionaire by selling supplies at 5000% markups.

Marshall never became a millionaire. In fact, he died broke. The prospectors swarmed over his land, ruined his mill and his business. Finally, he tried prospecting himself, but he was thought to be so lucky at finding gold that scores of prospectors followed him everywhere. And, if he did find a flake or two, suddenly there were hundreds of people panning and digging next to him. He took to drink as my mom would say and died sullen and penniless.

To celebrate have some hooch with a sourdough in Levis, and remember being first is not always best. Often it is the second mouse that gets the cheese.

Editor's Note: Unfortunately, we are again experiencing some equipment malfunctions. So once again we beg your indulgence on any errors in spelling, punctuation, grammar and even logic.

During Thursday's trading session, Wall Street traders could readily empathize with the frustrations of Mr. Marshall and Mr. Sutter as the Wall Streeters were hoping to strike gold or at least some gold dust and all they apparently wound up with was a set of wet hands and some mud on their boots.

It all began calmly enough, the markets opened without a good deal of economic data coming out and they began by trading reasonably close to the unchanged level or the level that we started out overnight, and they proceeded to move around about that. They checked the newsticker, but seemed to not able to find anything to inspire any major movement and we noted that droning in this late morning update:

> **Late Morning Update 08.17.23**
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> Equities continue to move like sumo wrestlers, circling and circling with the S&P trying to hold onto the 4400 level, which has become a bit of a focus of attention.
>
> The weak link obviously is Nasdaq as you would expect with higher yields being center stage and their potential impact on the headwinds for the international high caps.
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> The Dow is being held together by a handful of stocks and the yield on the ten-year is carefully being watched around that 4.25/4.30% level. Should they push above 4.30%, traders expect they may see equities come under further pressure.
>
> So, focus remains on the yields. The newsticker is not expected to be an event and a close below 4400 could do some overnight damage, but for now it is yields, yields, yields.
>
> Stay Safe.

Things continued pretty much on that manner to late morning and into mid-day, and the frustration began to grow. The financial media had the self-styled pundits talking about how this or that might begin to move the market, but the game all day long was about yields, particularly the yields on ten-year and the fear that it would move higher and further caused anxiety among the high cap tech stocks and what their offshore earnings might be and, therefore, we wound up pretty much stuck in a rut. We alluded to that in this mid-afternoon recap:

> **<u>08.17.23 Mid-Afternoon Recap</u>**
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> Stocks continue to drone through the afternoon, with all the volatility of the EKG on a Maine potato. Traders were beginning to focus even more on that 4400 level and began to wonder whether they closed above or below it can be a key factor for the week's end.
>
> The capability to put together a couple of solid plus ticks is important, but let's follow the tape and see if the Bulls can regroup and take the initiative.
> Stay safe.

Shortly after the recap went out, the yields on the ten-year were a basis point or two higher, not normally enough to frighten equities but seemed to prompt some of the equities buyers to pull back and, we began to see equities prices start to erode as we moved lower towards the close. They continue moving lower until about 3:25pm, when they started to circle the wagons. There appeared to be no headline to motivate them, and, I think, it was nothing more than they stopped ticking lower tick after tick and looked like they might in fact be circling the wagons. That prompted either some short covering or at least the idea to limit some exposure on the sell side. The averages started to level off and ticked very mildly higher for a period of 15 minutes as we rounded the turn to the close.

They did manage to close them marginally off the lows, but it could scarcely be called a rescue rally or a rally of any type.

Before we get to the overnight markets, let's take a quick look at some of the technicals. You will recall that yesterday, we traded below and closed marginally below the 50-day moving average in the S&P. We are currently within hailing distance of both the 100 and 200-day moving averages for the S&P, which if we violate them, might bring in some additional selling. Perhaps most important we continue to remain at a critical area in the yield on the 10-year treasury note. You will recall over the last several weeks, we had said several traders, including yours truly, had assumed we were seeing testing of multiple tops in that yield on the 10-year, somewhere in the area of 4.25% to 4.40%. This is critical, if we punch above the 4.40%, it may change the outlook for equities vs those yields, and it may do so over the intermediate term (3 weeks to 5 months).

So, what happens with the yield on the10-year over the next serval trading days could be very important to what we will be facing in the equity market itself.

Ok, now let's go back to what happened in the foreign markets overnight.

Overnight, global equity markets remain under a bit of a cloud concerns about the Chinese property sector continue to fester. Unfortunately, we don't have fresh batteries for our short-wave crystal set, so we are lacking exact numbers on the foreign markets, needless to say they remain somewhat apprehensive. The US markets will be all about that yield on the 10-year. If they punch up above

4.40%, it's a risk of cascade selling developing. If they stay below 4.30%, there is some potential that will inspire the bulls and promote a little short covering. So, the coin is clearly in the air.

You know the current drill. Stay close to the newsticker. Keep your seatbelt fastened. Stay nimble and alert. Try to have a fabulous Friday and a wonderful weekend and keep watching those yields. Stay safe.

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<u>08.18.23 LATE MORNING UPDATE</u>

Stocks get a mild sigh of relief as the yield on the 10-year backs slightly away from a further test at 4.30% and above that allows for some mild bidding in the equity market. We will continue to check on the yield as the key story of the day and the week.

The key here is if they can continue to pull back below that 4.30%, it may begin to reinforce the idea that level in fact represents the multiple highs that we have seen over the last two months and provides resistance. So, this morning's action may be critical.

For now, the equity bulls have regained the equity ball and let's see if they can move it and see if there is any particular resistance in the S&P up around the 4363/4370 area. But above all it is the yields that will call the shots.

Stay safe.

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<u>08.18.23 Mid-Afternoon Recap</u>

It would appear once again a blind squirrel has stumbled across a rather plump acorn. We had projected today's equity action would be all about the yield on the10-year and, once that yield showed respect for the 4.30% level that prompted some buying from both bargain hunters and other equity traders.

We will take it one day at a time, but if it looks like the yield will respect that 4.30% level for a few days, it could inspire a good deal more equity buying and that might suggest that the multiple high resistance that had been projected over many weeks might hold and that hold could bring in short covering, but let's take it one day at a time.

The yields will remain dominate into the closing bell and, if they stay respectful of the 4.30% area and that probably will keep at least a mild bid under equities. We will look at next week as to whether we challenge those high yields levels once again. So, for now the equity bulls have the ball and momentum, and unless yields surprise by moving back up to the 4.30% level, we will wait and see.

In the meantime, stay safe and start making plans for a great weekend.