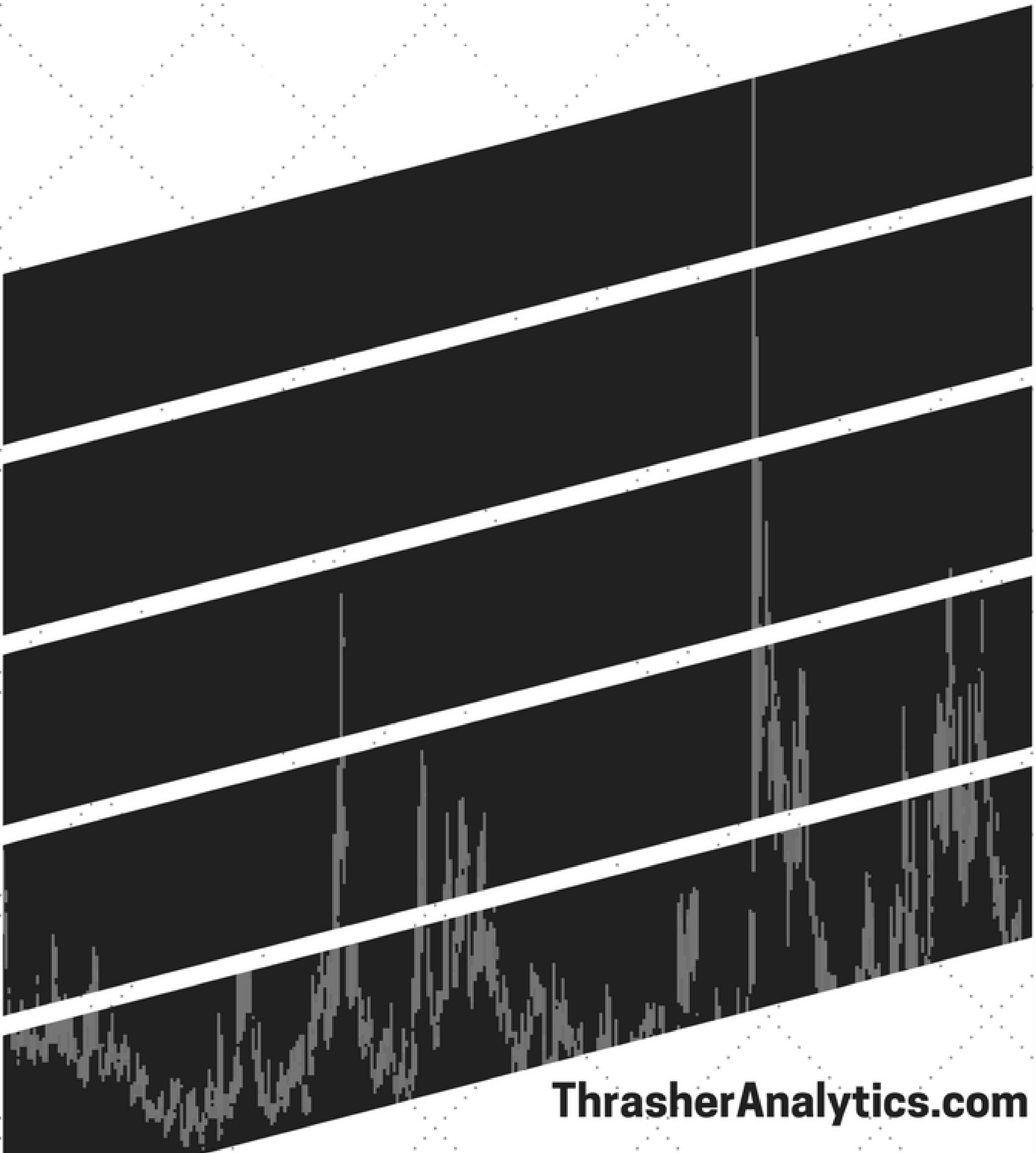
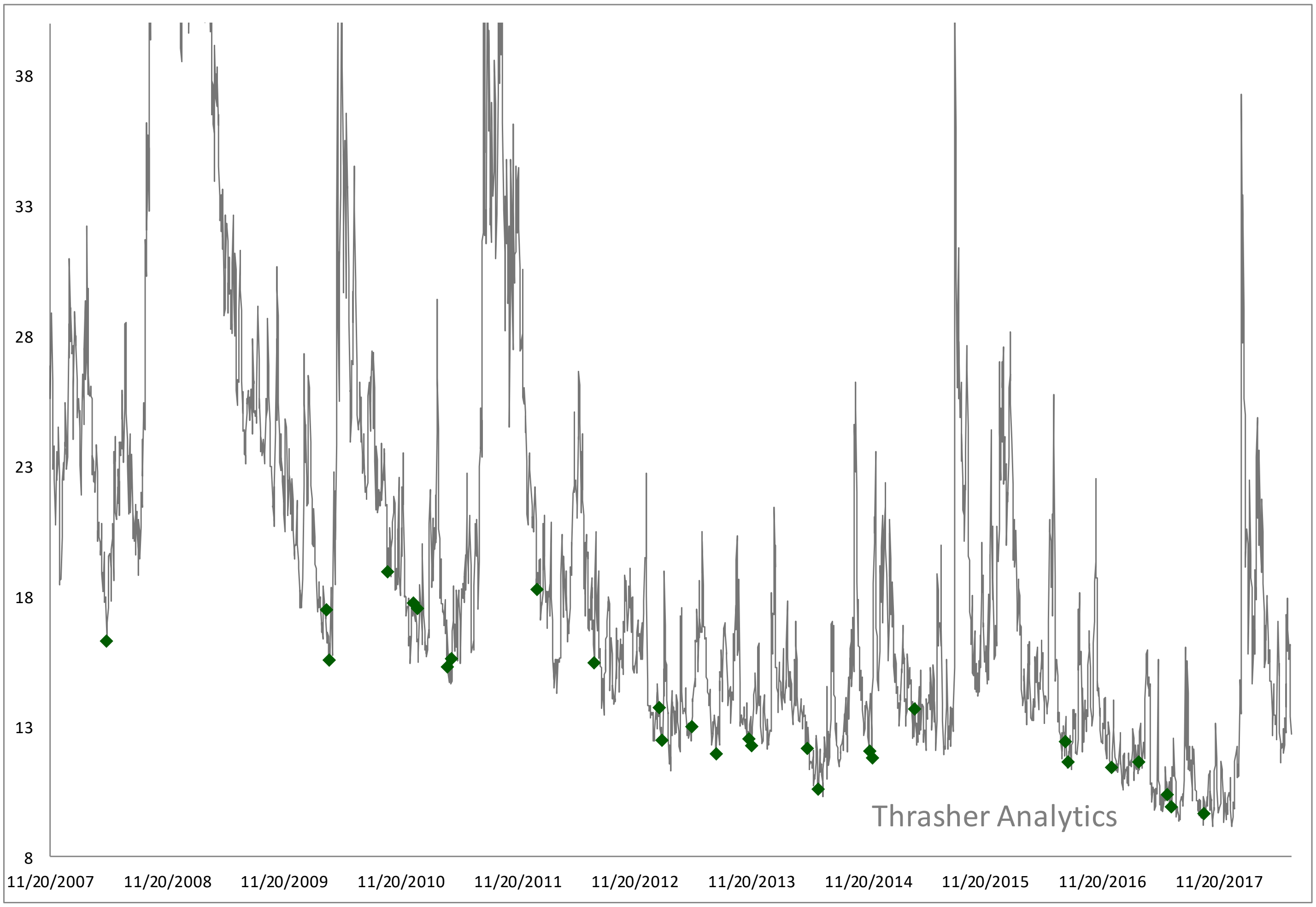
THRASHER ANALYTICS



BI-WEEKLY RESEARCH & ANALYSIS

ThrasherAnalytics.com

volatility Risk Trigger (VRT)



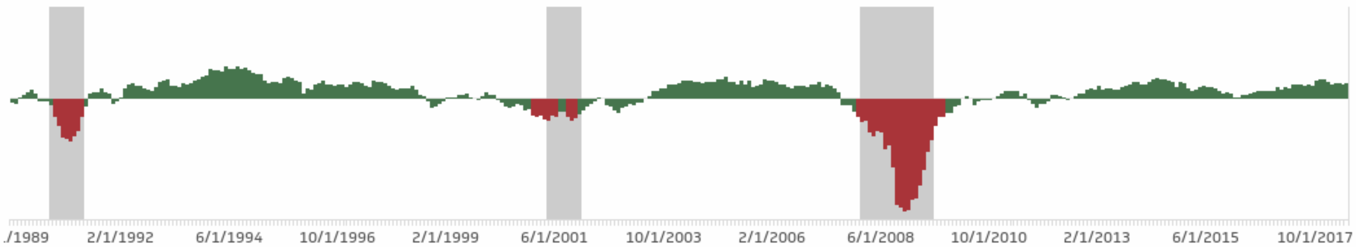
Well we got our VIX spike last week.

It didn't last long but the Volatility Index rose from 11 on last Thursday, when I sent out the special Volatility update letter to an intraday high of 16.86 on Wednesday. I define a spike of a volatility move greater than 20% over a three day period (accepting that changes in vol should not be done in % terms, it just makes it easier to compare to historical changes. This rise was north of 55% by the time it was all said and done, with spot VIX pulling back on Thursday and Friday and dip buyers returned to U.S. equities. While a move from sub-10 to near 17 doesn't seem like much, it's only the third time in the history of the VIX for it to go from 10.5 to 16.50 in just four days.

The VRT model now resets and prepares for the next eventual spike. I'll of course keep you abreast of any changes.

Economic Dashboard

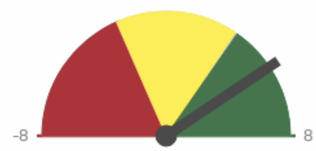
Leading Economic Indicator



Corporate Composite

2

Industrial Composite



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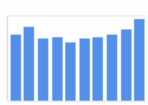
Corporate Indicators

Indicator	Value	Threshold	Trend
Corp. Operating Surplus	1,667,011	1,674,509 Less Than	
Corp. Disposal Income	592,366	527,122 Less Than	
Corp. Cash Flow	14.9	0 Less Than	

Industrial Indicators

Indicator	Value	Threshold	Trend
YoY Change in Manufacturing Sales	3.2	0 Less Than	
YoY Change in Industrial Production	3.8	0 Less Than	
YoY change in Non-Defense New Orders	8	0 Less Than	
YoY Change in Durable Goods New Orders	3.1	0 Less Than	

THRASHER ANALYTICS

Economic Dashboard

Banking Composite

2

Consumer Composite

3

Banking Indicators

Indicator	Value	Threshold	Trend
% of Banks Tightening Standards	-11	0 Greater Than	
% of Banks Tightening Standards for Comercial & Industrial Loans	-3	0 Greater Than	
% of Banks Tightening Standards on Credit Cards	9.4	0 Greater Than	
Deliquency Rate on Credit Cards	2.5	2.5 Greater Than	
Deliquency Rate on Commerical & Industrial Loans	1.2	1.3 Greater Than	
Non-Financial Liabilities	459.8	433 Less Than	
Ratio of Non-Performing Loans	1.2	1.2 Greater Than	
% of Banks Increasing Willingness to Make Consumer Loans	9.2	0 Less Than	

Consumer Indicators

Indicator	Value	Threshold	Trend
YoY Change in Non-Farm Payroll	1.6	0 Less Than	
Avg. Weekly Hours Worked in Manufacturing	42.1	42 Less Than	
3Yr Change in Real Income	13.0	8 Less Than	
YoY Change in Retail Sales	6.5	5 Less Than	
Housing Building Permits	1,292	1,311 Less Than	
YoY Change in Consumer Sentiment	3.4	0 Less Than	
Barrel of Crude Oil	71.2	20% 6-month Change	
Shiller Home Price Index	203.0	197 Less Than	
Labor Slack	-0.8	0 Less Than	

Financial Stress Composite

-2.9

Financial Stress Indicators

Indicator	Value	Threshold	Trend
St. Louis Stress Index	-1.1	-1.1 Greater Than	
Kansas City Stress Index	-0.6	-0.5 Greater Than	
Chicago Stress Index	-0.8	-0.8 Greater Than	

Headline Economic Indicators

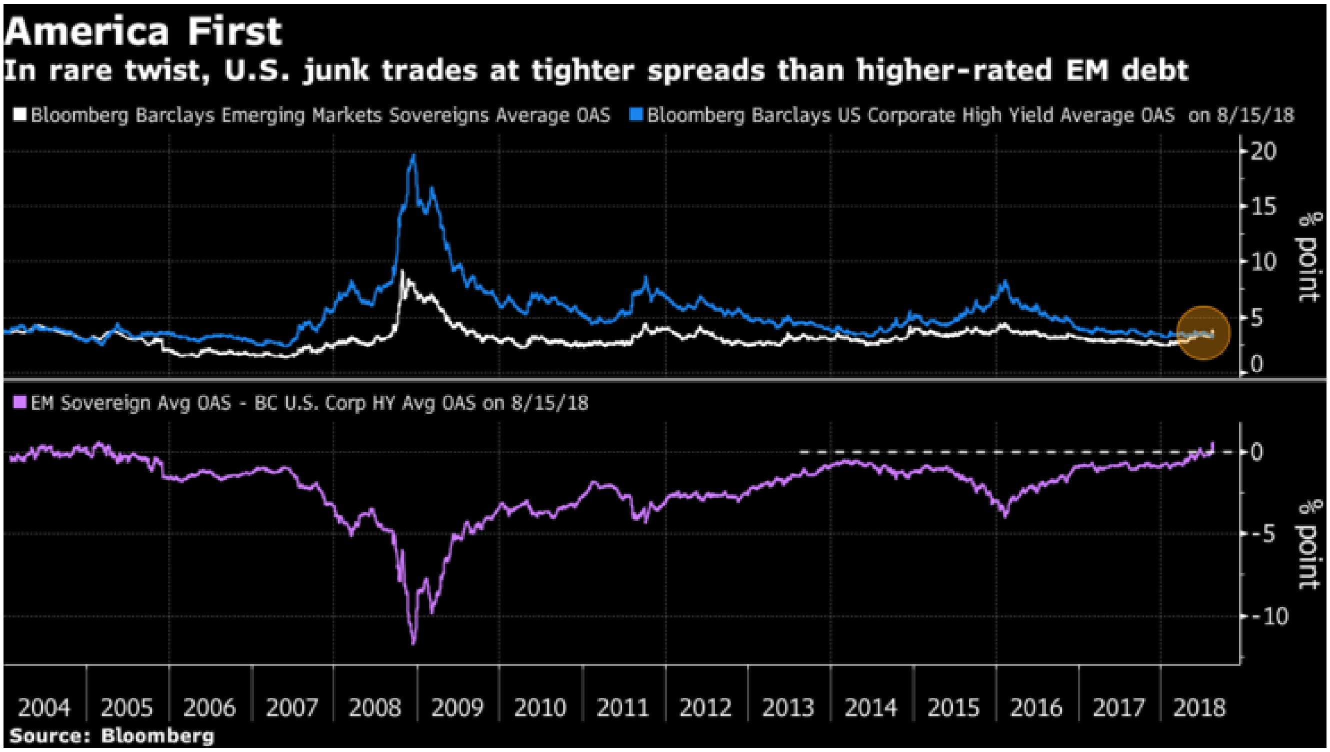
Real GDP Growth	**2.8%**
Nominal GDP Growth	**5.4%**
YoY Change in Federal Debt-to-GDP	**1.6%**
Unemployment Rate	**3.9%**
Inflation (CPI)	**2.8%**
Core Inflation (CPI)	**2.2%**
Inflation (PCE)	**5.1%**
Core Inflation (PCE)	**1.9%**

Broad Market Commentary

The S&P 500 has seem some whipsawing over the last two weeks, with the large cap index testing the higher end of its prior range. This comes after a bearish divergence in daily momentum, with a lower high in the RSI index. I continue to see a lack of strong volume by buyers, with the largest volume day in August being one in which the S&P finished lower, as traders seem to continue to push the theme of institutional distribution.

On a positive note, the S&P did hold above its July low and march high which has created a well-defined level of support for equities. If we do see more selling in equities, 2800 is the obvious place to turn for potential dip buyers and the January high is where a great deal of focus will be in coming weeks as bulls push to set a new all-time high. Until we see a new high or a breakdown below 2800, I remain neutral in my bias towards U.S. large caps. I'd rather not get whipped around as the market attempts to figure out what direction it wants to go in, which has been the theme for 2018, with a lack of new high since January and no new low since March.

Junk Bonds vs. Emerging Market Debt



Bloomberg recently ran an interesting story that took a look at the yield of U.S. junk bonds vs. the yield of emerging market debt. Typically domestic junk has a higher yield (viewed as a greater risk) than that of the debt of emerging markets. However, that's recently changed with the market now demanding a greater yield on EM debt compared to U.S. junk bonds. I believe this has two important meanings..

1. While commentators and many traders believe the issues impacting emerging country's economics and markets is contained, the fixed income market seems to be taking the risks a little more seriously. There's still some degree of unknown risk within the developments of Turkey and the alike that bond traders remain cautious about.
2. An increase in bullishness on U.S. companies, extending the theme of strengthened balance sheets and more attractive tax rates are easing the demands placed on junk bonds, allowing their yields to decline.

Domestic debt has become the pretty pig in the pen and fixed income yields now reflects this.

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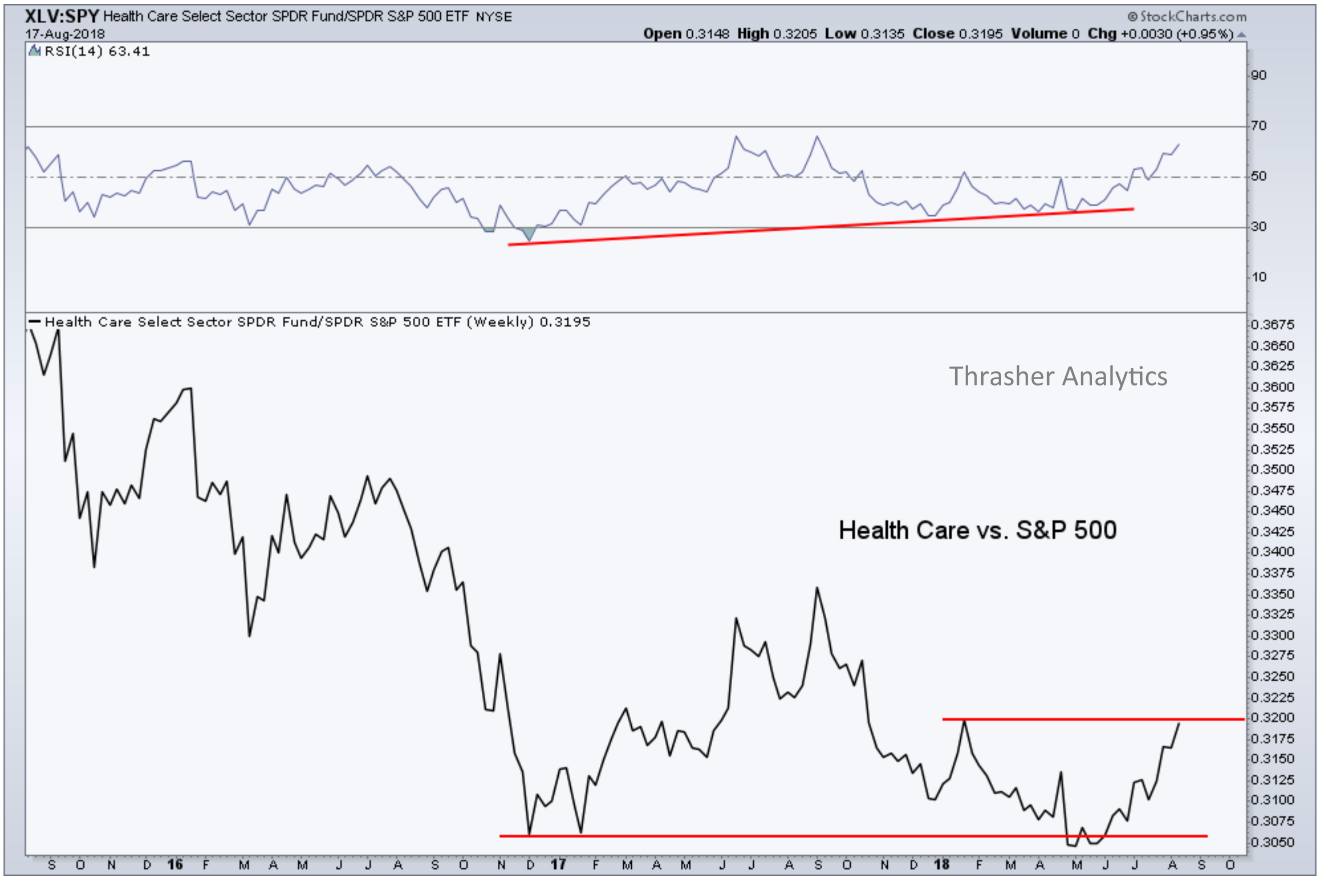
Historical Patterns for U.S. Equities

#	Week Beginning	SPX Close	SPX 7 Week Pattern Match	% Weekly Close Below ATH Weekly Close	SPX FWD 1 Week Return	SPX FWD 2 Week Return	SPX FWD 3 Week Return	SPX FWD 4 Week Return	SPX Max FWD 4 Week Drawdown	SPX Max FWD 4 Week Drawdown *Close	SPX Max FWD 4 Week Drawup	SPX Max FWD 4 Week Drawup *Close
1	8/13/2018	?	?	?	?	?	?	?	?	?	?	?
2	3/13/2017	2378.25	Yes	-0.20%	-1.44%	-0.65%	-0.95%	-2.07%	-2.35%	-2.07%	0.15%	-0.65%
3	3/28/2016	2072.78	Yes	-2.53%	-1.21%	0.38%	0.91%	-0.36%	-1.88%	-1.21%	1.85%	0.91%
4	11/16/2015	2089.17	Yes	-1.76%	0.05%	0.12%	-3.68%	-4.00%	-4.59%	-4.00%	0.72%	0.12%
5	12/15/2014	2070.65	Yes	-0.23%	0.88%	-0.60%	-1.25%	-2.47%	-3.99%	-2.47%	1.11%	0.88%
6	2/25/2013	1518.2	Yes	-2.79%	2.17%	2.80%	2.55%	3.36%	-0.39%	2.17%	3.43%	3.36%
7	10/22/2007	1535.28	Yes	-1.70%	-1.67%	-5.31%	-4.99%	-6.16%	-7.79%	-6.16%	1.14%	-1.67%
8	1/13/1992	418.86	Yes	-0.11%	-0.81%	-2.41%	-1.86%	-1.52%	-2.72%	-2.41%	0.22%	-0.81%
9	12/11/1989	350.14	Yes	-2.41%	-0.78%	0.93%	0.59%	-2.92%	-3.04%	-2.92%	2.98%	0.93%
10	6/19/1989	328	Yes	-2.35%	-3.05%	-0.94%	1.17%	2.41%	-4.15%	-3.05%	2.87%	2.41%
11	10/27/1986	243.98	Yes	-3.54%	0.73%	0.21%	0.77%	2.15%	-3.47%	0.21%	2.15%	2.15%
12	12/30/1985	210.88	Yes	-0.03%	-2.33%	-1.16%	-2.11%	0.43%	-3.93%	-2.33%	1.75%	0.43%
13	6/17/1985	189.61	Yes	-0.04%	1.18%	1.53%	1.94%	2.91%	-0.93%	1.18%	3.41%	2.91%
14	6/23/1980	116	Yes	-3.23%	1.26%	1.59%	5.21%	4.12%	-2.12%	1.26%	6.81%	5.21%
15	1/17/1972	103.65	Yes	-4.36%	0.49%	1.17%	1.38%	1.57%	-1.95%	0.49%	2.93%	1.57%
				Average:	-0.32%	-0.17%	-0.02%	-0.18%	-3.09%	-1.52%	2.25%	1.27%
				Median:	-0.37%	0.17%	0.68%	0.03%	-2.88%	-2.20%	2.00%	0.92%
				Min:	-3.05%	-5.31%	-4.99%	-6.16%	-7.79%	-6.16%	0.15%	-1.67%
				Max:	2.17%	2.80%	5.21%	4.12%	-0.39%	2.17%	6.81%	5.21%
				% Higher:	50.00%	57.14%	57.14%	50.00%	0.00%	35.71%	100.00%	78.57%

My friend Steve Deppe recently shared this table which looks at the historical market performance following the current market's latest performance pattern. What's interesting about this pattern is that on its face it seems quite positive: a five week streak of positive performance in the S&P 500, followed by a one week decline and then an additional week of increasing prices. By it self, that seems very encouraging. But what Steve found was that since 1970, this five week up, one week down, one week up pattern has occurred 15 times and the following four week return for the S&P 500 has been negative seven of the last eight occurrences. The most recent two examples were in March 2017 and March 2016 in which SPX declined 0.36% and 4% over the next four weeks, respectively.

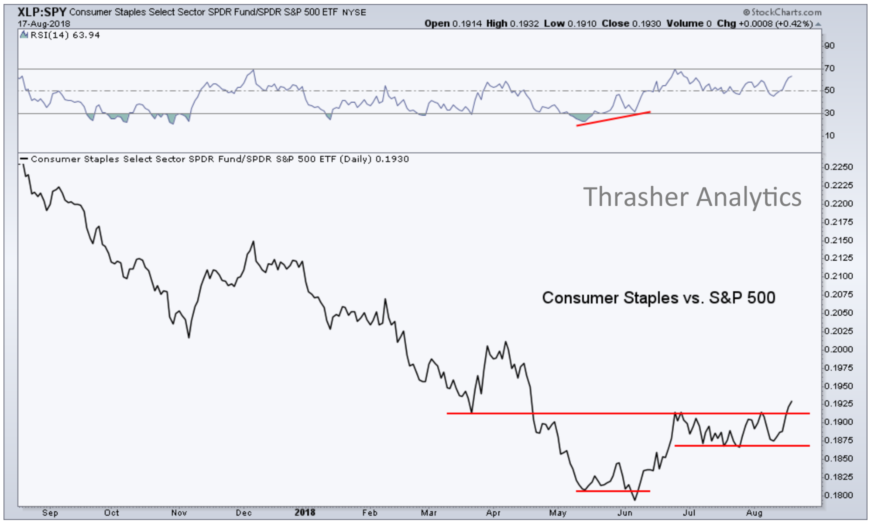
I share this as a reminder that while the short-term trend for stocks may seem like it's been improving, this isn't a new development for the market and that it's led to some headwinds in the interim before price eventually dusted itself off and then marched higher.

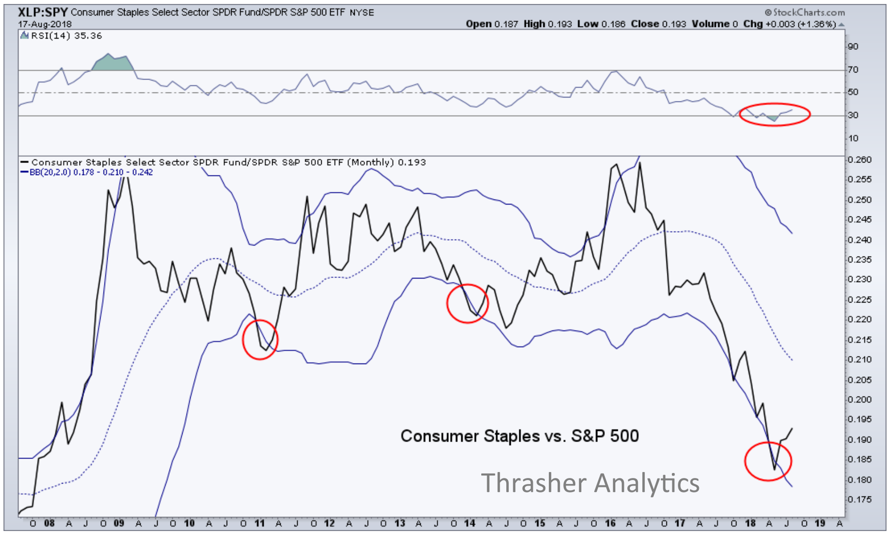
Health Care Continues to Improve



The relative performance of the health care sector vs. the S&P 500 has continued to improve, as shown by the weekly chart above. The ratio for health care (XLV) has set up a beautiful false breakdown back in April and March, putting in a bullish divergence in the Relative Strength Index (RSI). Over the last weeks, XLV has continued to outpace the S&P 500 and now has risen back to its January prior high. I'm watching this level going forward, looking to see if the ratio of health care and the S&P can breakout by XLV rising more or falling less than the overall equity market. I continue to think health care is an attractive sector, and I'll hold onto that thesis if we see a breakout here.

Consumer Staples Breaks Outs of Consolidation

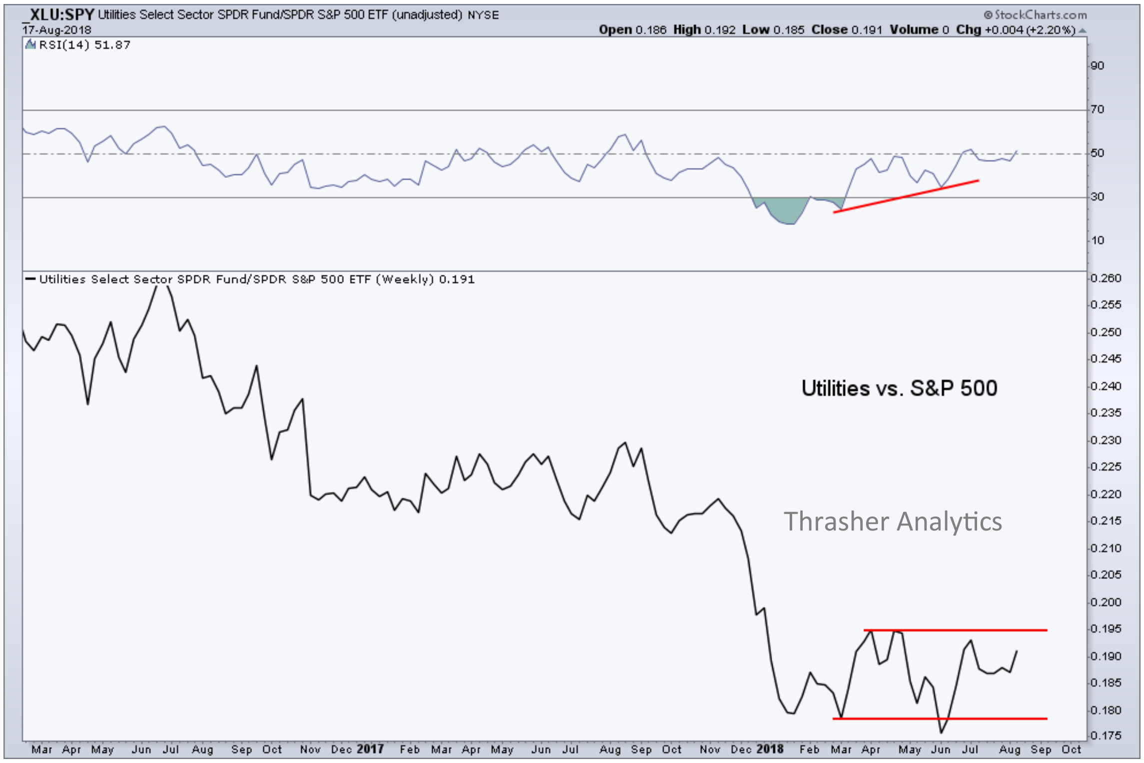




Another good looking relative performance chart comes from another ‘safe haven’ sector, Consumer Staples (XLP). Coming off a false breakdown in early June, XLP rose for a couple of weeks as shown in the top daily chart, before consolidating in June and the first half of August. Last week, on the back of several positive earning announcements, XLP was able to breakout of its consolidation and set a new multi-month high in relative performance vs. the S&P 500.

On the month chart above, we can see that the ratio of XLP and SPY became ‘oversold’ as it got below its lower monthly Bollinger Band, something it had done in 2010 and 2013 before seeing multi-month rallies in performance. The ratio also has begun working off ‘oversold’ momentum with the RSI coming back above a 30 level. This tells me that the longer-term picture looks positive for Staples, and this sector may have more room to move and is an area I want to keep an eye on.

Utilities Remains in Consolidation With Bullish Momentum

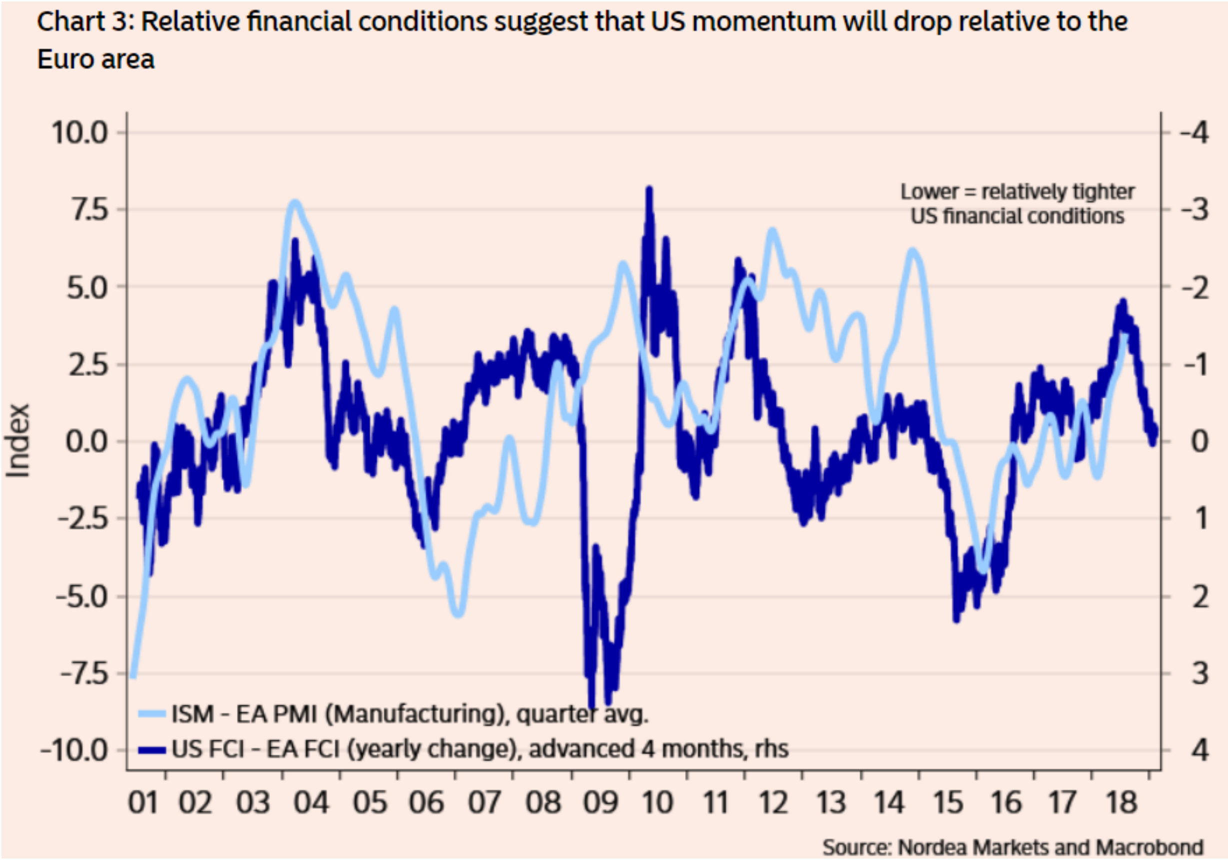


To round out the three ‘safe haven’ sectors, we have Utilities and its relative performance weekly chart. The June false break down was accompanied by a higher high in momentum. Since then, Utilities have begun to consolidation between the March/April highs and the February/June lows. What I want to see is a breakout from here above that March/April level, which would be a positive sign that utilities could continue their relative performance trend higher as suggested by the bullish action in the Relative Strength Index (RSI) indicator.

Technology Nears Support

Above we have the technology sector relative performance daily chart. The trend has clearly been positive for the last year but recently has begun creating some bearish setups. First we have the double top for the ratio between the May and June highs, which was accompanied by a bearish divergence in the Relative Strength Index (RSI) momentum indicator. The ratio between the tech sector and the S&P 500 has shown rough support at the 100-day Moving Average, holding above last September, December, January, April, and June. If we continue to see tech struggle relative to the S&P 500, the 100-day MA is what I'll be watching for possible support or break. Based on the poor earnings calls in several semiconductor names, I think the market may be turning its back to some degree on the wonderchild of 2018 which is going to require a sector rotation for the current broad up trend in stocks to remain intact. We'll see what tech does in the coming weeks.

Potential Slowing in Manufacturing



I've discussed in the past a few of the data points that suggested we could see a slowing in U.S. economic data sets, specifically manufacturing and the ISM index. The above chart comes from Nordea, and in blue shows the spread in U.S. vs. European financial conditions advanced by four months and in the light blue the spread in U.S. vs. European manufacturing. As you can see, Financial Conditions have roughly led manufacturing, and currently suggest that U.S. manufacturing will be out-paced by Europe.

Here's the problem, manufacturing in Europe is expected to slow, so if European manufacturing contracts and is expected to still be stronger than U.S. manufacturing—that doesn't paint a sunny picture for U.S. ISM. Data. Nordea writes, "While we have also advocated that European growth momentum is losing steam, there are early and tentative signs that the US momentum will abate faster than the European ditto (here we talk about PMIs dropping from high levels). Even though financial conditions have not tightened particularly much in the US, despite Fed's QT and rate hikes, the slight tightening that we have seen since February should be enough to dampen the US momentum more than the European financial conditions suggest that the European will."

Growth vs. Value Remains Range Bound

A continued move off the prior high in the ratio of Growth vs. Value has continued over the last two weeks. While Growth stocks have seen a strong first half of 2018, the bearish divergence in momentum for the ratio seems to be weighing on their relative performance as of late. While I continue to believe there are many strong growth-oriented stocks in the market right now, the broad category seems to be under pressure as they remain unable to break out of this multi-year range in relative performance vs. value stocks.

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