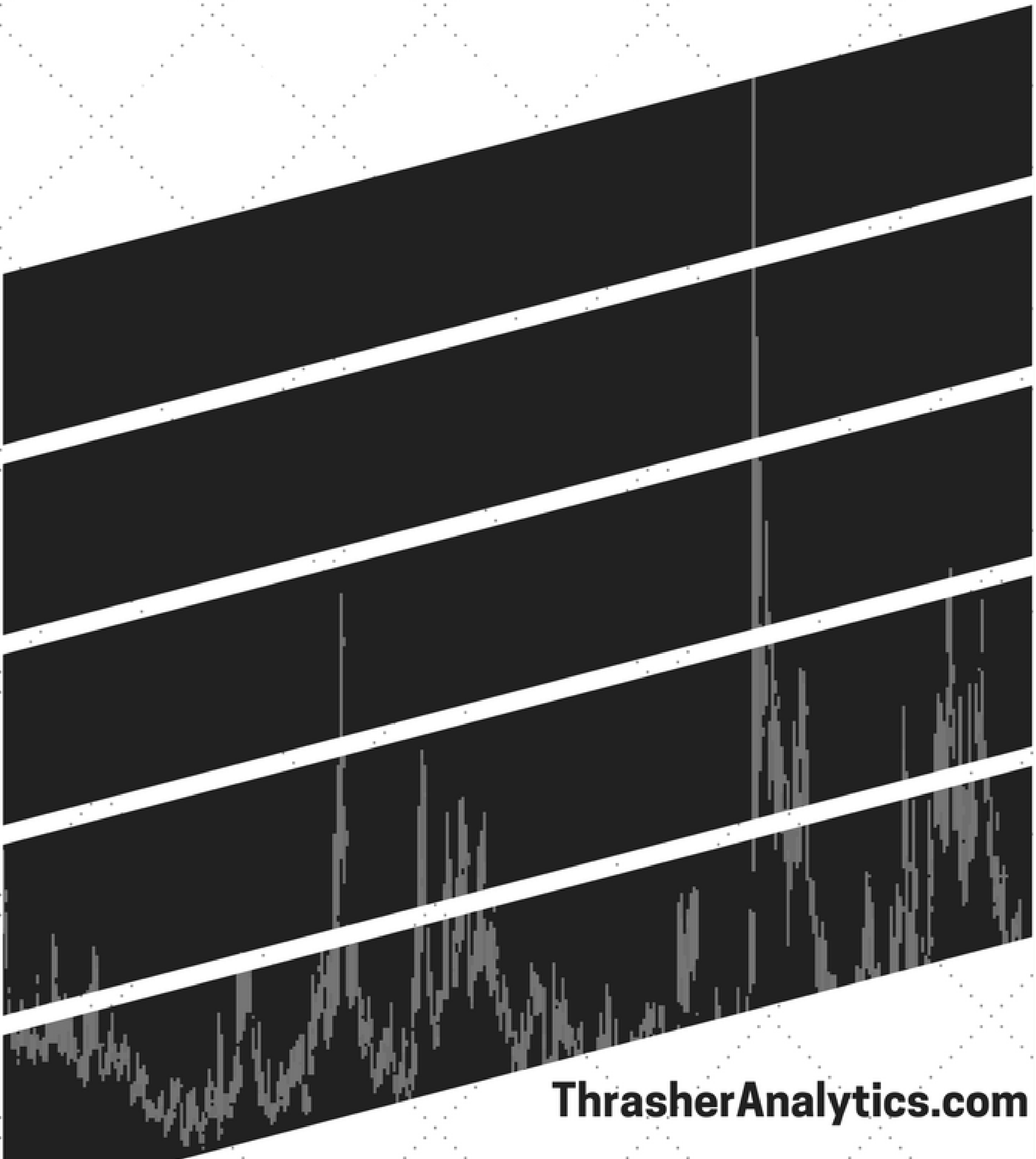
THRASHER ANALYTICS

BI-WEEKLY RESEARCH & ANALYSIS



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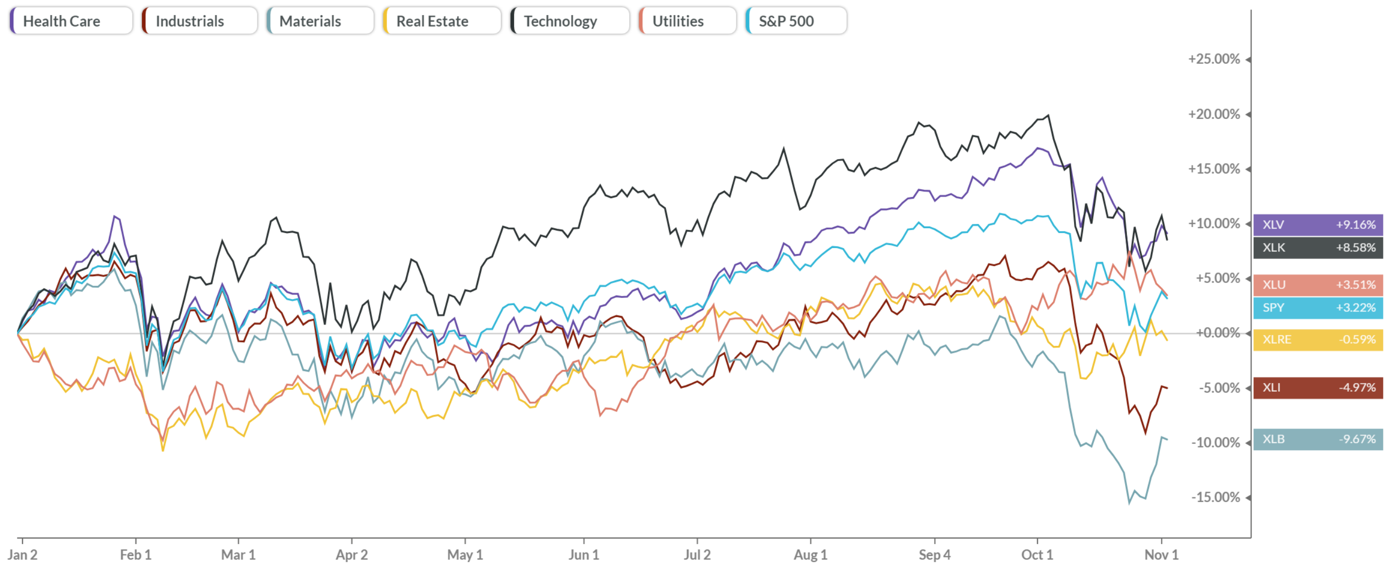
Sector Dashboard

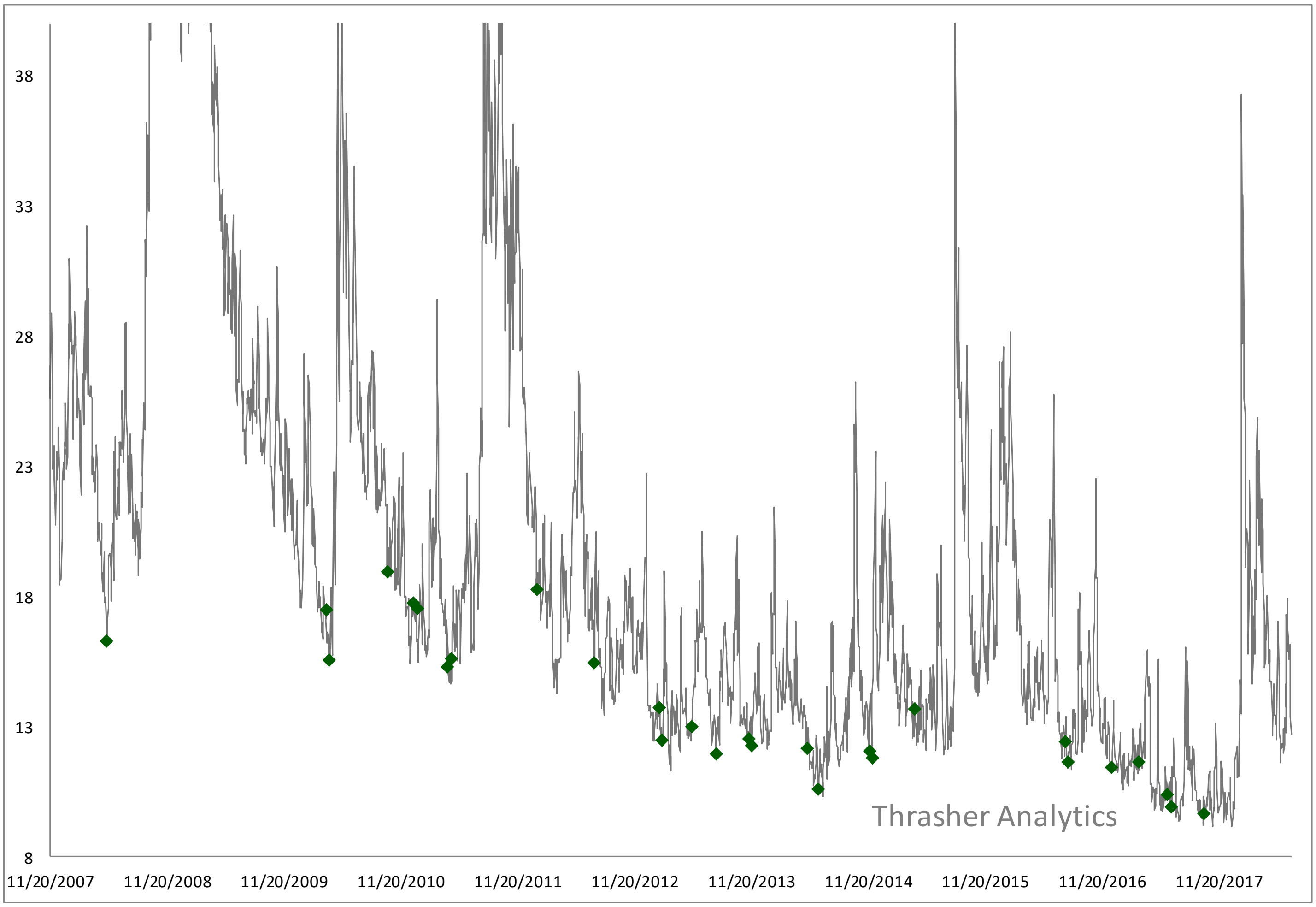


Long vs Short Sector Matrix

1D 5D MTD 1M QTD 3M 6M **YTD** 1Y 3Y 5Y

	+ XLY	+ XLP	+ XLE	+ XLF	+ XLV	+ XLI	+ XLB	+ XLRE	+ XLK	+ XLC	+ XLU
– XLY	-	-10.4%	-13.5%	-13.3%	-1.1%	-13.9%	-18.1%	-9.9%	-1.6%	-9.4%	-6.2%
– XLP	11.6%	-	-3.5%	-3.2%	10.4%	-3.9%	-8.6%	0.5%	9.8%	1.2%	4.7%
– XLE	15.6%	3.6%	-	0.3%	14.4%	-0.4%	-5.4%	4.1%	13.8%	4.8%	8.4%
– XLF	15.3%	3.3%	-0.3%	-	14.1%	-0.7%	-5.6%	3.9%	13.5%	4.5%	8.2%
– XLV	1.1%	-9.4%	-12.6%	-12.3%	-	-12.9%	-17.3%	-8.9%	-0.5%	-8.4%	-5.2%
– XLI	16.1%	4.0%	0.4%	0.7%	14.9%	-	-4.9%	4.6%	14.3%	5.2%	8.9%
– XLB	22.2%	9.4%	5.7%	5.9%	20.8%	5.2%	-	10.0%	20.2%	10.7%	14.6%
– XLRE	11.0%	-0.5%	-4.0%	-3.7%	9.8%	-4.4%	-9.1%	-	9.2%	0.6%	4.1%
– XLK	1.6%	-8.9%	-12.1%	-11.9%	0.5%	-12.5%	-16.8%	-8.4%	-	-7.9%	-4.7%
– XLC	10.3%	-1.1%	-4.6%	-4.3%	9.2%	-5.0%	-9.7%	-0.6%	8.6%	-	3.5%
– XLU	6.6%	-4.5%	-7.8%	-7.6%	5.5%	-8.2%	-12.7%	-4.0%	4.9%	-3.4%	-

VOLATILITY RISK TRIGGER (VRT)

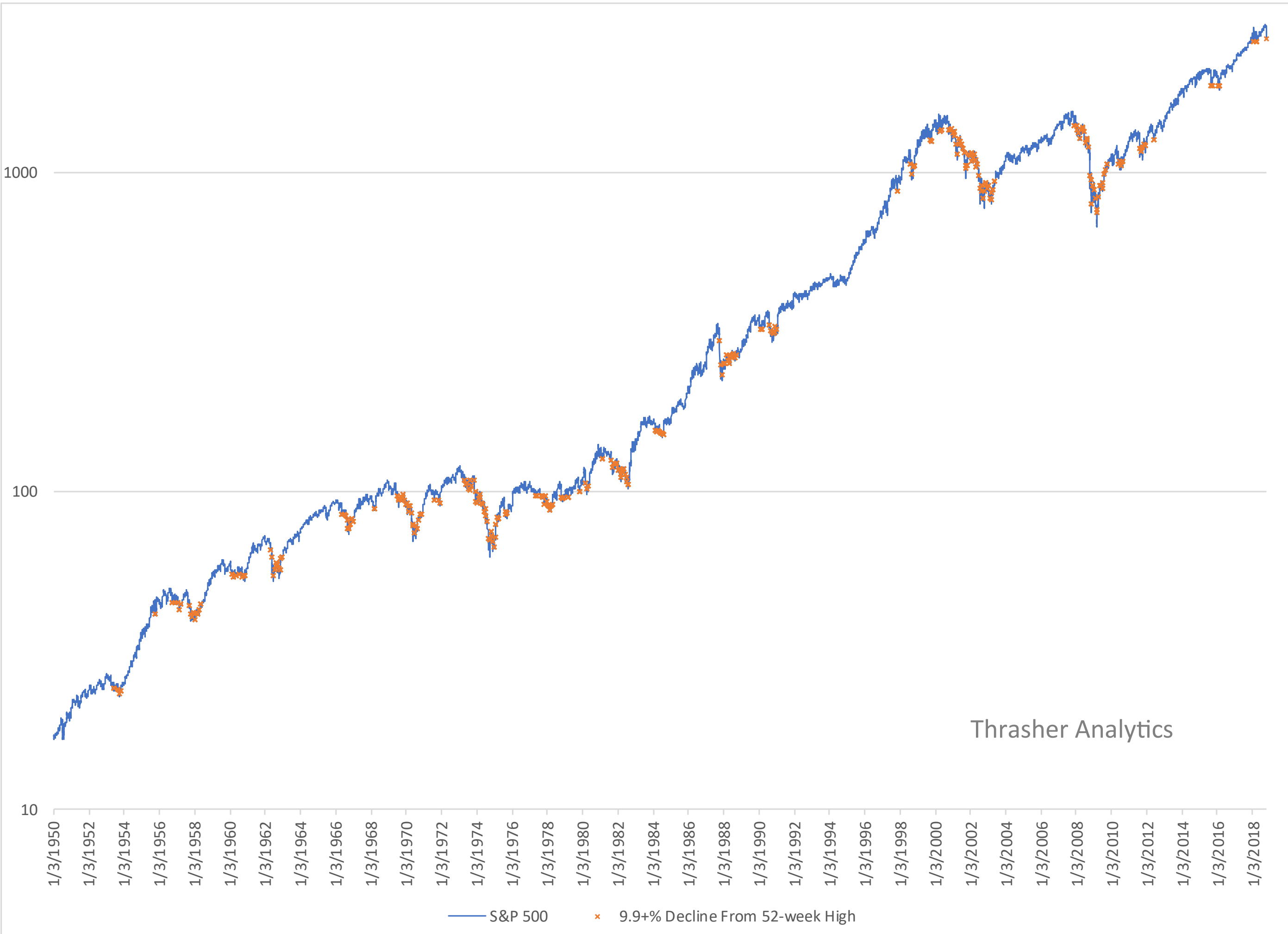


After it's multi-day run at the start of October up to an intraday high of 28, the Volatility Index dropped to its 20-day Moving Average before bouncing back up to test its high and then closing out last week under 20. The VIX futures curve is still pricing in a fairly large premium in November contracts with the midterm elections this week, which will likely be priced out once the election results are behind us. While my believe still remains that we see equities at least retest the lows, volatility will likely stay somewhat elevated as that occurs. Further out on the curve is working its way back to contango as the market's fear seems to be focused on the last few months of 2018.

Broad Market Commentary

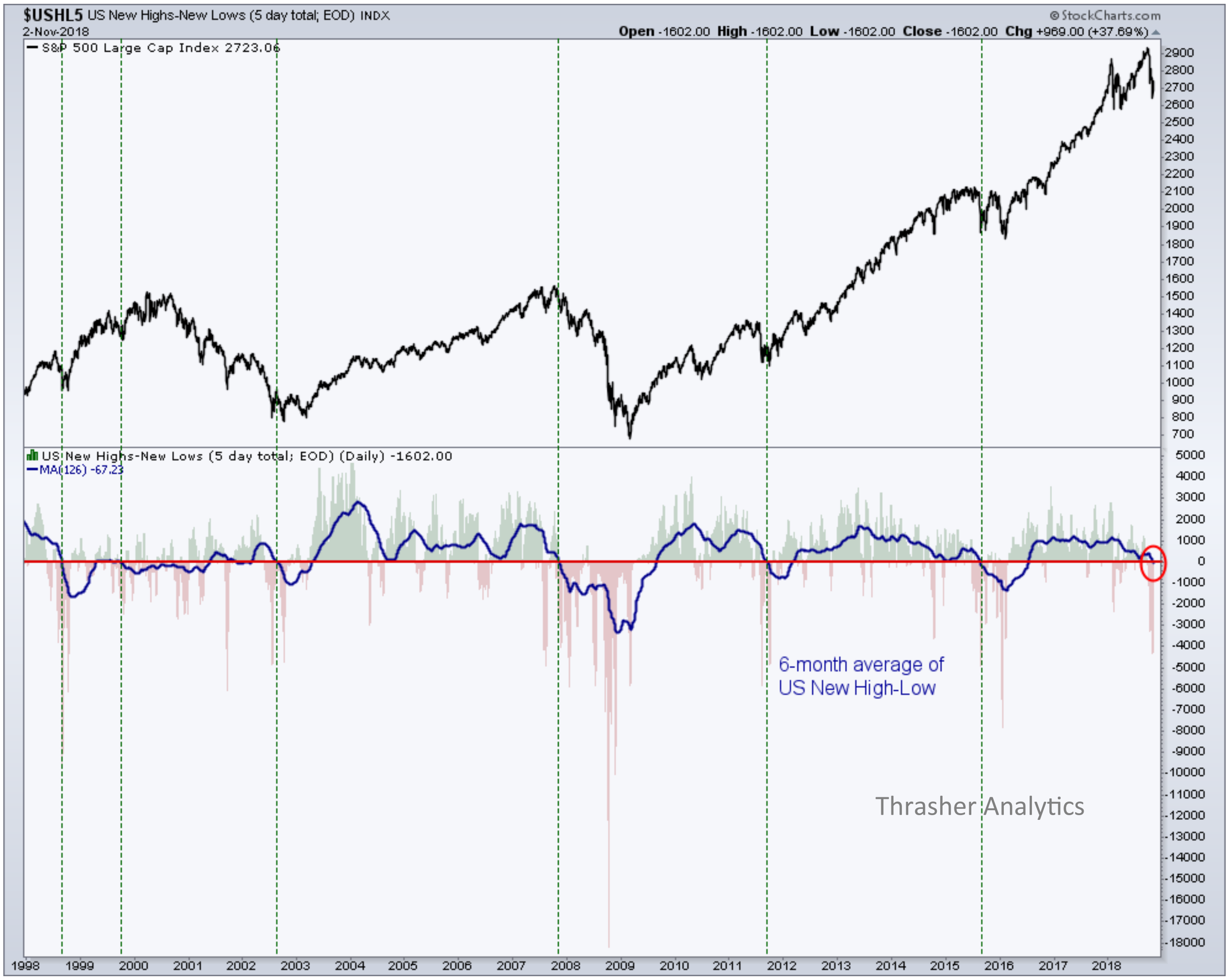
We finished up last week with the S&P 500 still under its 200-day Moving Average. While it's encouraging that Friday's selling volume was less than the prior two days of positive volume, we aren't out of the woods just yet. The hurdles I want to see cleared going forward is first a move back above the 200-day and to have the index trading back above the prior January high, the trend remains in question until these have occurred. On the downside, the first obvious level is the closing lows from the early 2018 correction at 2580, a level I think very possible we see get tested.

Will We See A Retest of the Low?



Going back to 1950 we've experienced numerous 9.9+% declines from a 52-week high on the S&P 500. The above chart shows a orange marker for each of these occurrences. While it's tough to tell in the image, nearly every decline that extended by at least 9.9%, like the current selloff we're experiencing today, saw the first low get retested before the market rebounded. There are just a handful of examples of the market rallying right off the first low and not seeing a retest. Since 2009, the recent examples we can look at are earlier this year and in 2015, in 2013 we saw a v-shaped bounce, 2011 saw a retest, 2010 saw a retest. Looking at the period before the dot-com top, May 2000 saw a retest, October 1999 saw a retest, September 1998 saw a retest, October 1997 saw a v-shaped bounce, and October 1990 saw a retest.

Long-Term Breadth Becomes Negative



The above chart shows the S&P 500 and the 5-day total new high minus new low on each of the major U.S. stock exchanges along with a 6-month average. What this shows is the long-term trend in market participation of U.S. stocks, which as we'd expect, remains positive during large chunks of up trends. We last saw it move negative on the first low during the 2015 bear market and before that at the low in 2011. The 6-month average has now once again moved negative for only the third time since the financial crisis.

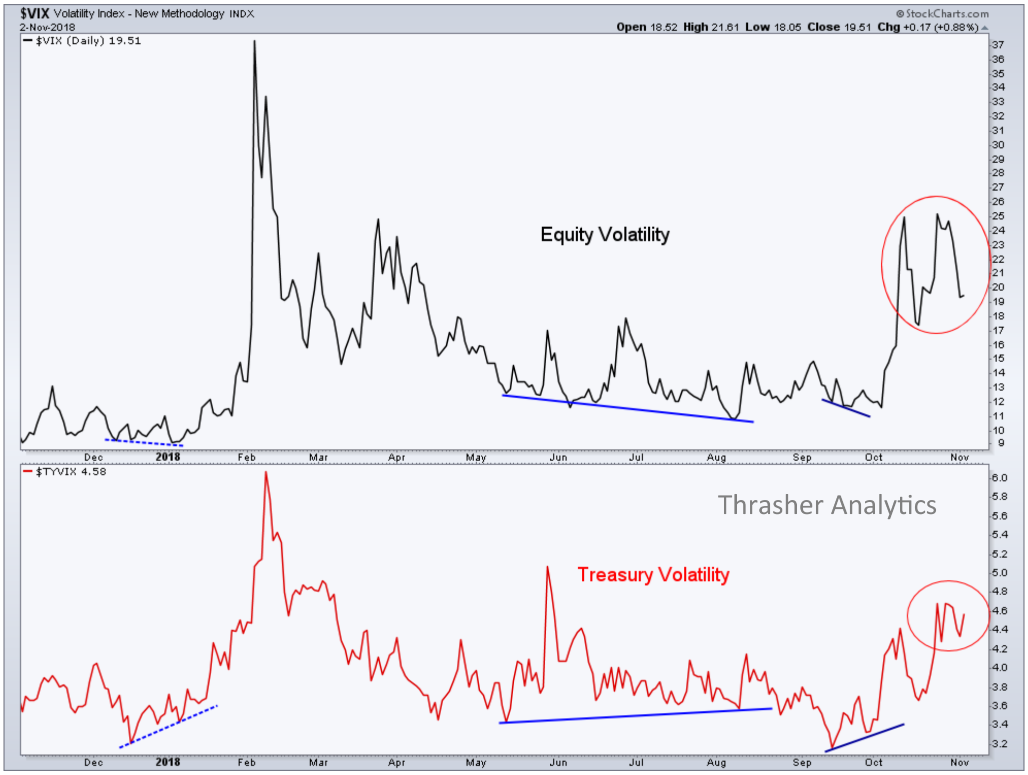
The decline in the total net new highs was one of the data points I pointed to as a sign of caution in August and September as fewer and fewer stocks participated in the up trend. The determination in net new highs has continued to shed rising participants, a sign the current selloff is being felt across all corners of U.S. equities.

When The Market Rally's After A Significant Decline

#	Date	SPX Close	SPX ROC(3)	SPX ROC(20)	SPX % Close Above/Below 200 Day SMA?	SPX FWD 1 Day Return	SPX FWD 2 Day Return	SPX FWD 3 Day Return	SPX FWD 4 Day Return	SPX FWD 5 Day Return	SPX FWD 10 Day Return	SPX FWD 20 Day Return	SPX Max FWD 20 Day Drawdown	SPX Max FWD 20 Day Drawdown *Close	SPX Max FWD 20 Day Drawup	SPX Max FWD 20 Day Drawup *Close
1	11/1/2018	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
2	8/27/2015	1987.66	4.99%	-5.74%	-4.24%	0.06%	-0.78%	-3.71%	-1.95%	-1.84%	-1.34%	-2.83%	-4.26%	-3.71%	1.67%	0.38%
3	8/24/2011	1177.6	4.81%	-9.75%	-8.30%	-1.56%	-0.07%	2.76%	3.00%	3.51%	0.70%	-4.08%	-5.38%	-4.08%	4.51%	3.51%
4	8/15/2011	1204.49	7.47%	-7.73%	-6.32%	-0.97%	-0.88%	-5.30%	-6.72%	-6.70%	0.46%	-2.63%	-6.92%	-6.72%	2.18%	1.20%
5	8/11/2011	1172.64	4.75%	-10.41%	-8.79%	0.53%	2.72%	1.72%	1.81%	-2.73%	-1.14%	-1.57%	-4.40%	-4.19%	4.95%	3.94%
6	6/10/2010	1086.84	3.46%	-7.24%	-1.88%	0.44%	0.26%	2.61%	2.56%	2.69%	-1.21%	-0.82%	-6.99%	-5.91%	4.08%	2.82%
7	7/18/2008	1260.68	3.77%	-6.12%	-9.66%	-0.05%	1.29%	1.71%	-0.65%	-0.23%	-0.03%	2.98%	-2.09%	-2.09%	4.16%	3.54%
8	11/29/2007	1469.72	4.44%	-5.14%	-0.95%	0.78%	0.18%	-0.47%	1.04%	2.56%	1.27%	0.60%	-2.32%	-1.62%	3.66%	3.15%
9	2/18/2003	851.17	3.97%	-5.61%	-7.44%	-0.71%	-1.65%	-0.35%	-2.18%	-1.48%	-3.43%	1.80%	-7.32%	-5.93%	1.85%	1.80%
10	9/16/1998	1045.48	3.61%	-5.06%	-1.64%	-2.55%	-2.43%	-2.07%	-1.52%	1.97%	-2.72%	-3.82%	-11.68%	-8.23%	1.97%	1.97%
11	9/8/1998	1023.46	3.33%	-5.51%	-3.53%	-1.69%	-4.23%	-1.41%	0.61%	1.39%	0.60%	-3.80%	-5.74%	-4.23%	4.17%	4.17%
12	8/28/1990	321.34	4.65%	-9.77%	-6.67%	0.89%	-0.82%	0.38%	0.54%	0.95%	0.37%	-5.07%	-5.69%	-5.21%	1.62%	0.95%
13	9/11/1981	121.61	3.08%	-8.91%	-7.44%	-0.78%	-1.51%	-2.25%	-3.67%	-4.40%	-7.27%	-0.13%	-9.39%	-7.27%	1.37%	0.58%
14	3/31/1980	102.09	3.46%	-9.25%	-4.55%	0.09%	0.58%	0.06%	-1.86%	-0.87%	0.53%	3.69%	-3.08%	-2.24%	4.60%	3.69%
15	11/3/1978	96.18	3.25%	-7.09%	-0.47%	-1.03%	-2.42%	-1.80%	-1.83%	-1.47%	-1.83%	-0.03%	-4.59%	-3.84%	0.81%	0.10%
16	12/7/1973	96.51	3.12%	-9.82%	-9.50%	1.49%	-0.49%	-3.05%	-4.28%	-3.34%	-3.08%	-0.40%	-5.66%	-4.28%	4.59%	3.41%
					Average:	-0.34%	-0.68%	-0.75%	-1.01%	-0.67%	-1.21%	-1.07%	-5.70%	-4.64%	3.08%	2.35%
					Median:	-0.05%	-0.78%	-0.47%	-1.52%	-0.87%	-1.14%	-0.82%	-5.66%	-4.23%	3.66%	2.82%
					Min:	-2.55%	-4.23%	-5.30%	-6.72%	-6.70%	-7.27%	-5.07%	-11.68%	-8.23%	0.81%	0.10%
					Max:	1.49%	2.72%	2.76%	3.00%	3.51%	1.27%	3.69%	-2.09%	-1.62%	4.95%	4.17%
					% Higher:	46.67%	33.33%	40.00%	40.00%	40.00%	40.00%	26.67%	0.00%	0.00%	100.00%	100.00%

The above table comes from my friend Steve Deppe, CMT. Steve recently noted that the market experienced a 3-day rally in the middle of a 20-day larger decline and found past examples of this occurring since 1970. While initially you'd think that would be a positive development, but the data says different. Historically equities see a continuation of selling with the S&P 500 being higher just 40% of the time 10-day later and just 26% higher 20-day later. 12 of the 15 occurrences saw a move lower by at least 4%, which would take the S&P down to 2630, which would be near the intraday low on October 26th.

Treasury Volatility Remains Elevated



The of the earning warning signs that trouble was brewing was the divergence between bond and equity volatility. As the Volatility Index made a lower low in September, the Treasury VIX made a higher low, just like it did earlier this year before the massive VIX spike in February. With the 10-year Treasury Yield still above 3.2%, bond volatility has remained elevated while spot VIX has been moving off its high. The 'all clear' signal has not been given in the fixed income market as traders remain cautious towards bond prices continued to weaken. As the correlation between stocks and bonds has risen, this caution likely will seep into equity markets as well, keeping stock prices from bouncing right back to new highs.

2018 Sees the 4th Worst October

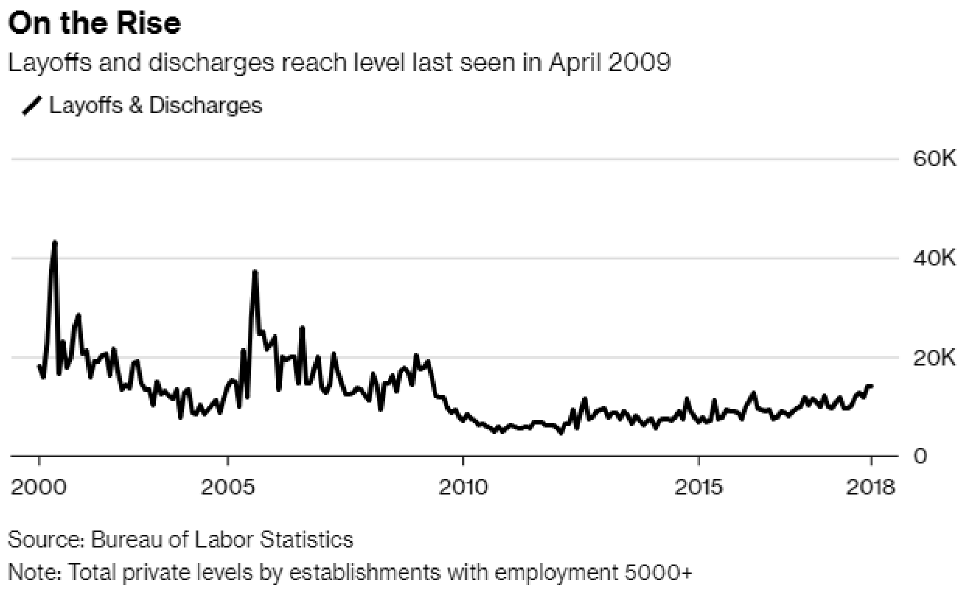
S&P Worst Octobers Since 1950

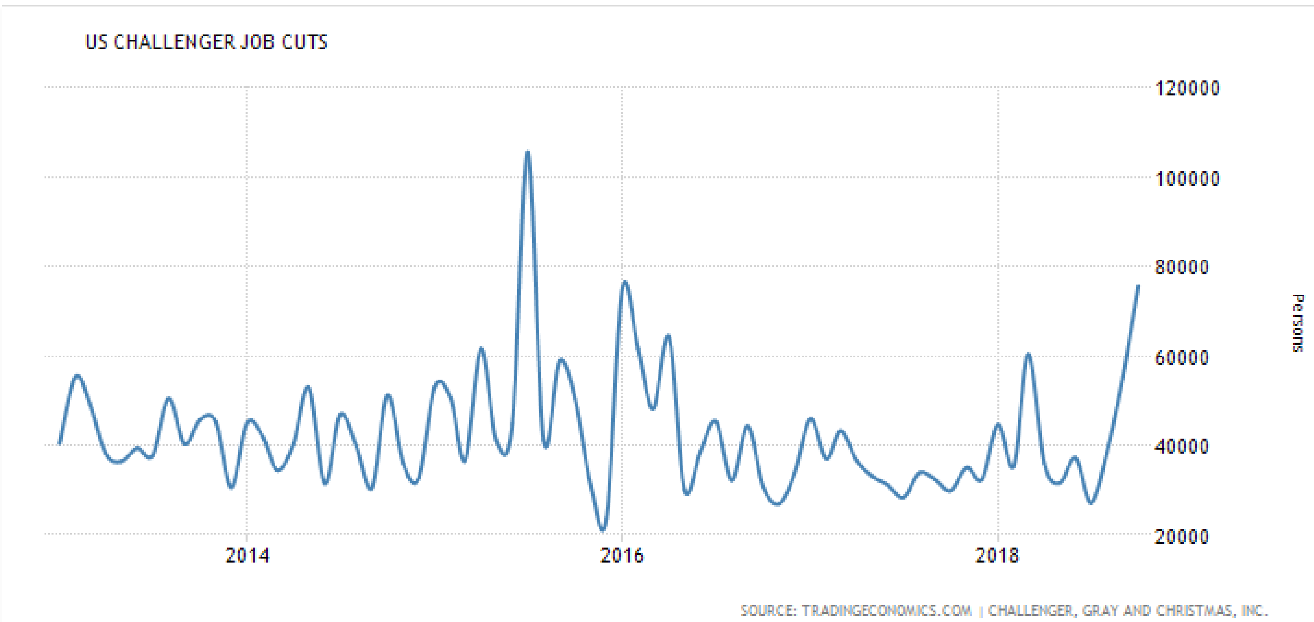
Rank	Year	Return
1	Oct-87	-21.76%
2	Oct-08	-16.94%
3	Oct-78	-9.16%
4	Oct-18	-6.94%
5	Oct-79	-6.86%
6	Oct-77	-4.34%
7	Oct-71	-4.18%
8	Oct-67	-3.53%
9	Oct-97	-3.45%
10	Oct-57	-3.21%

Source: Yahoo **Global Macro Monitor**

October 2018 finished as the fourth worst October since 1950. Jason Goepfert of SentimenTrader.com, recently mentioned that October had 16 negative market days, which is the most of any month since 1970 and tied for 3rd worst since 1928.

Has Unemployment Bottomed?

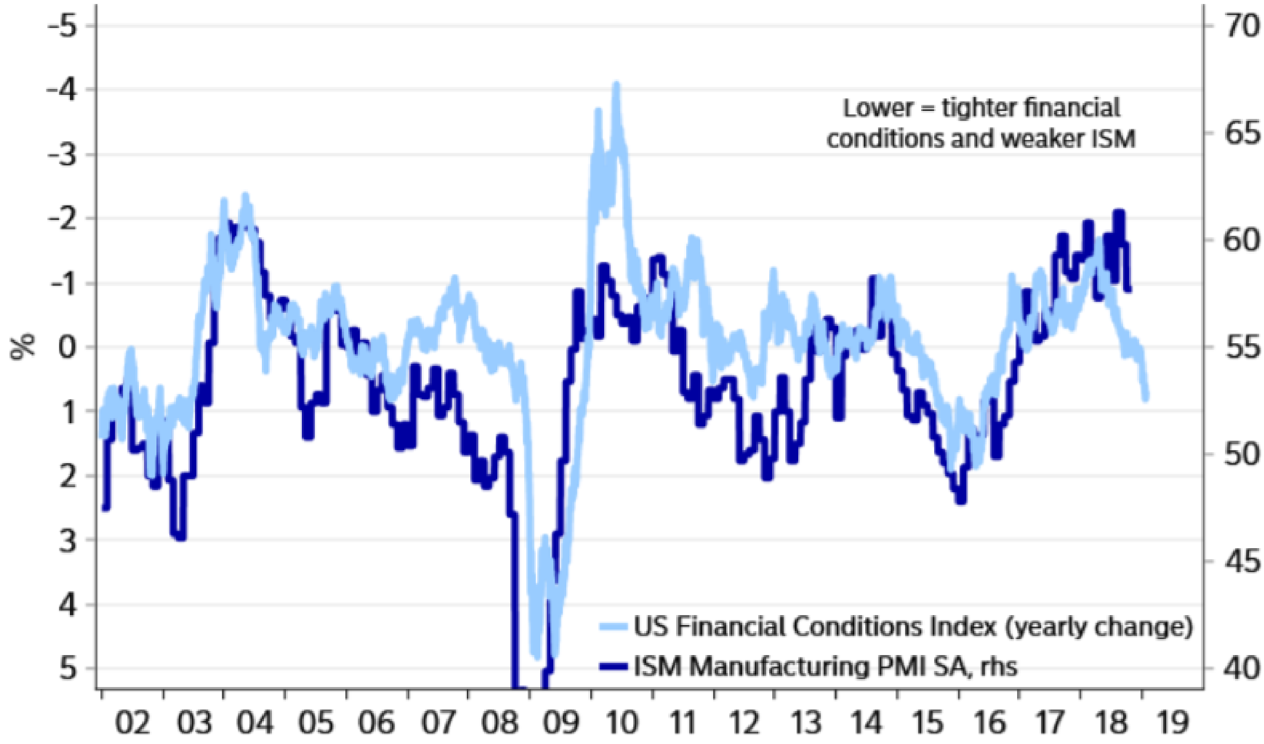




A recent [Bloomberg] piece noted the slow rise in layoffs, which have risen back to early 2009 levels. While October's jobs numbers were encouraging and the unemployment remains at near-record low levels, we must begin to ask the question: has unemployment bottomed? Early signs of headwinds in the labor market can be see in temporary hires, layoffs, and wage growth. We can see this trend confirmed in the private data collected by Challenger, which recently saw a 36.8% MoM increase, half of which were due to Verizon's announcement of voluntary severance package's according to Challenger. If we smooth out the data, the trend has still been positive, with the 6-month average (not shown) back near the 2015 high

Manufacturing Data Likely to Continue Lower

Chart 4: Broad financial conditions send a clear signal. ISM should drop fast.

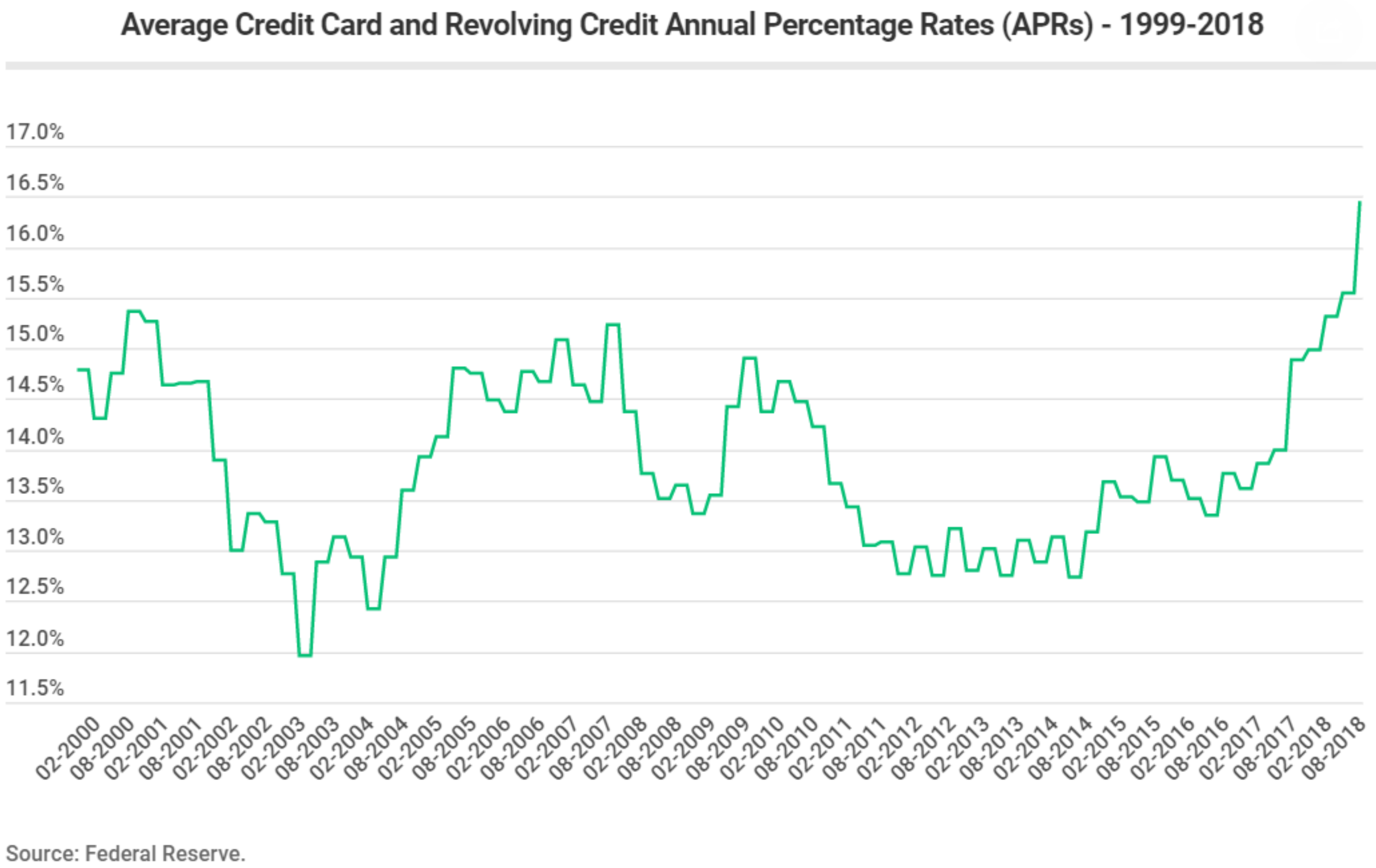


Source: Macrobond and Nordea

I've been discussing my belief that ISM's recent abnormal strength was likely to move lower, confirming all the other data that's suggested a weakening manufacturing industry. The above chart from Nordea, which shows the YoY change in the U.S. Financial Conditions Index with a high correlation to the ISM Manufacturing Index. As conditions tighten, ISM data is expected to fall back near 50 by early 2019.

Breaking down the ISM data, New Orders, which historically lead the overall headline number, declined to 2016 levels having peaked last year. China's data also suggests ISM needs to move lower, China's own PMI data is already below 50.

Credit Card APRs on the Rise



Data from Lendingtree suggests consumer credit cards are seeing a rise in interest rates as the Fed continues hiking rates. The average annual percentage rate (APR) has risen to 16.46%, the highest rate in over twenty years. While consumers have done a fairly good job at managing their debt, with deposits rising almost $4 trillion and debt up just $1.5 trillion since 2010, if the economic growth does begin to slow, housing continues to move lower since this summer, and unemployment has in fact bottomed, then it’s possible we see consumers begin to carry balances again on their credit cards which will have more pain than what they were used to over the last two decades.

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