THRASHER ANALYTICS

Special Update

As a follow up to my letter from this past Sunday, in which I laid out several concerning developments in the equity and volatility markets, I wanted to provide a quick update.

In Sunday's note I highlighted several examples of the deteriorating market breadth as fewer stocks appeared to be participating in the up trending strength seen in the major indices. I also noted the cheapness being seen in the VIX paired with the extremely narrow dispersion that was developing on the weekly Volatility Index chart. That type of market action had historically led to large moves higher in volatility, which we saw play out today with spot VIX advancing over 4 points (35%). At this point volatility does look stretched on a short-term basis but volatility can beget more volatility. Remember, Chinese providing a possible catalyst for more volatility in global markets.

The S&P 500 has given a clean break of the 20-day Moving Average, which had been more or less support since the June low. As I wrote on Sunday, momentum was negatively diverging with the recent run over 2935, a bearish sign that price could reverse - as they now have. The January high appears to be moving back into focus and bulls will likely work on defending this level. We already tested the January high once as support in September so if we do see the S&P 500 moves lower, there will be less demand to soak up the supply with a second test.

Friday we get non-farm payroll data, which will capture much of the attention of morning trading as well as the all important bond reaction with the 10-year Yield movement around 3.2%.

As always, if there are any questions please feel to email me at andrew@thrasheranalytics.com

Best Regards,
Andrew Thrasher, CMT

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