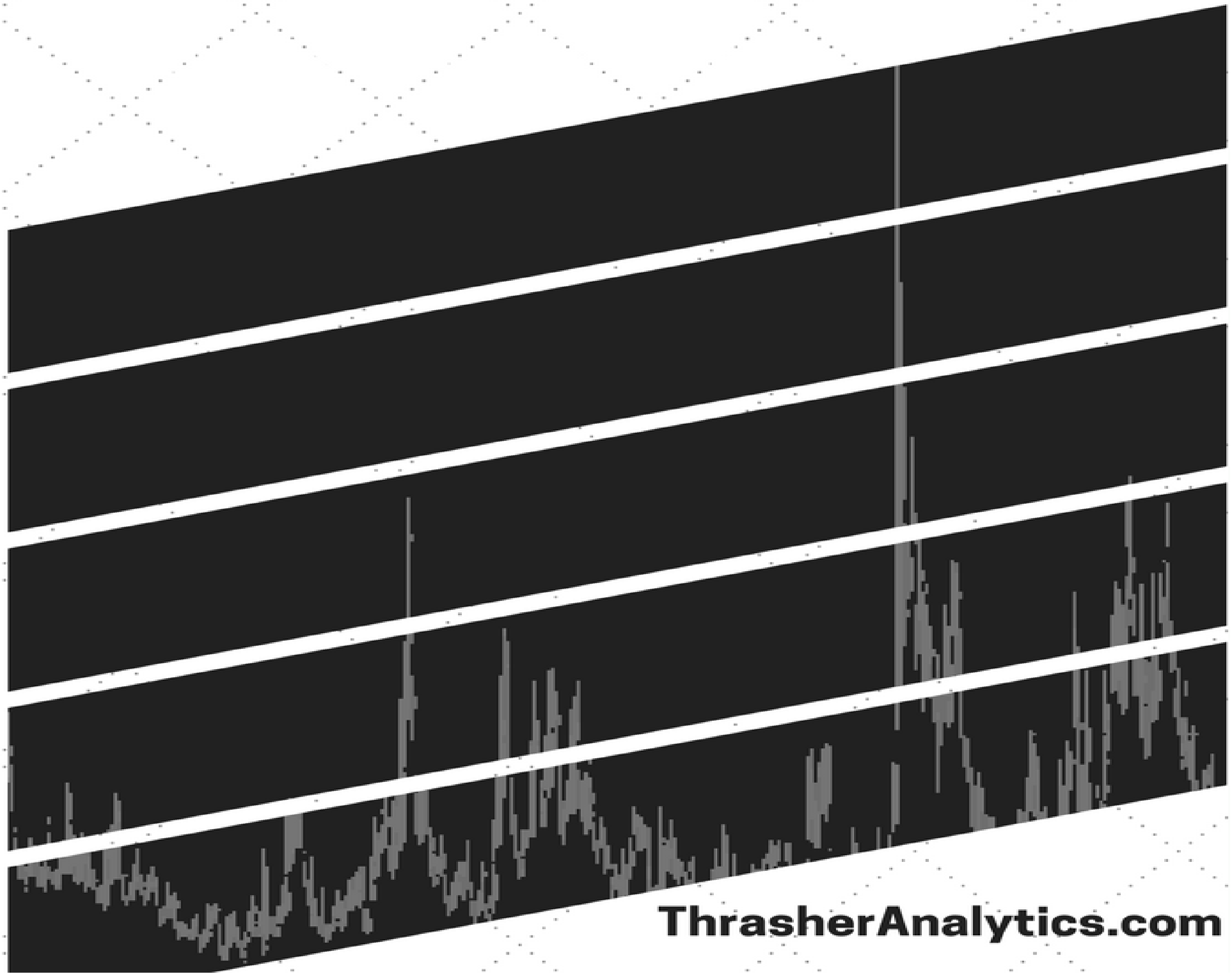
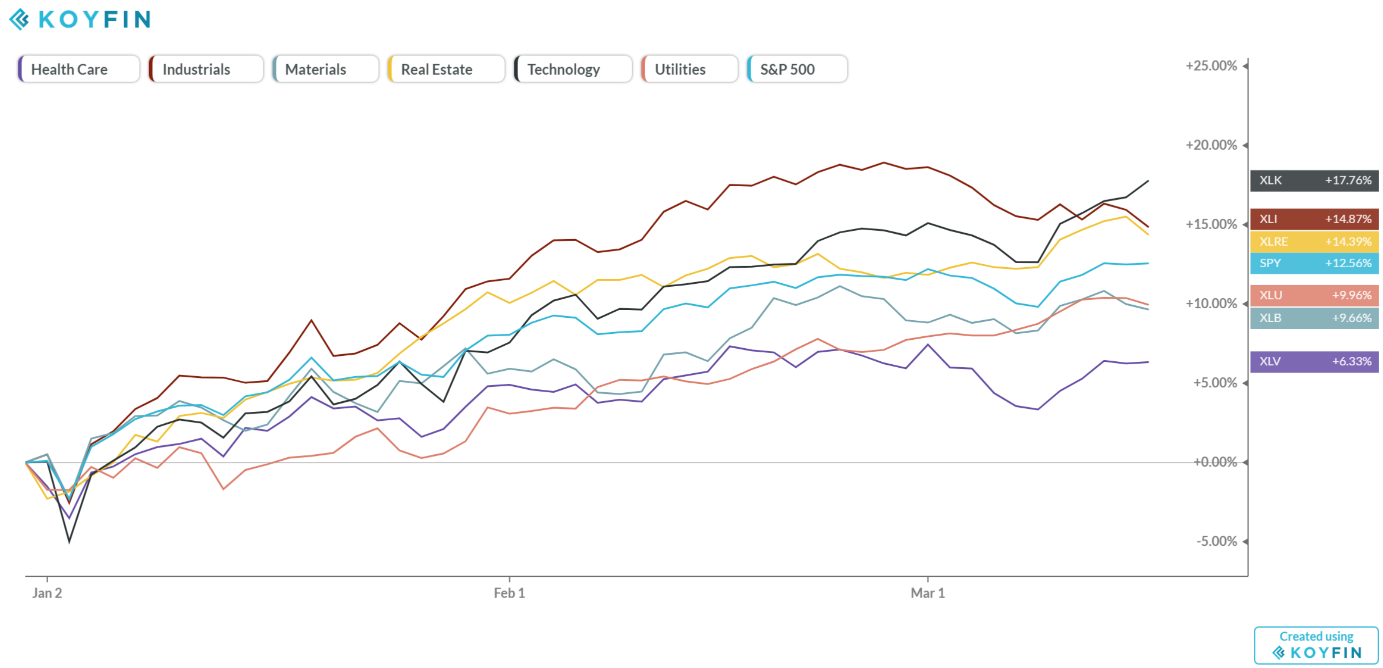
THRASHER ANALYTICS

BI-WEEKLY RESEARCH & ANALYSIS



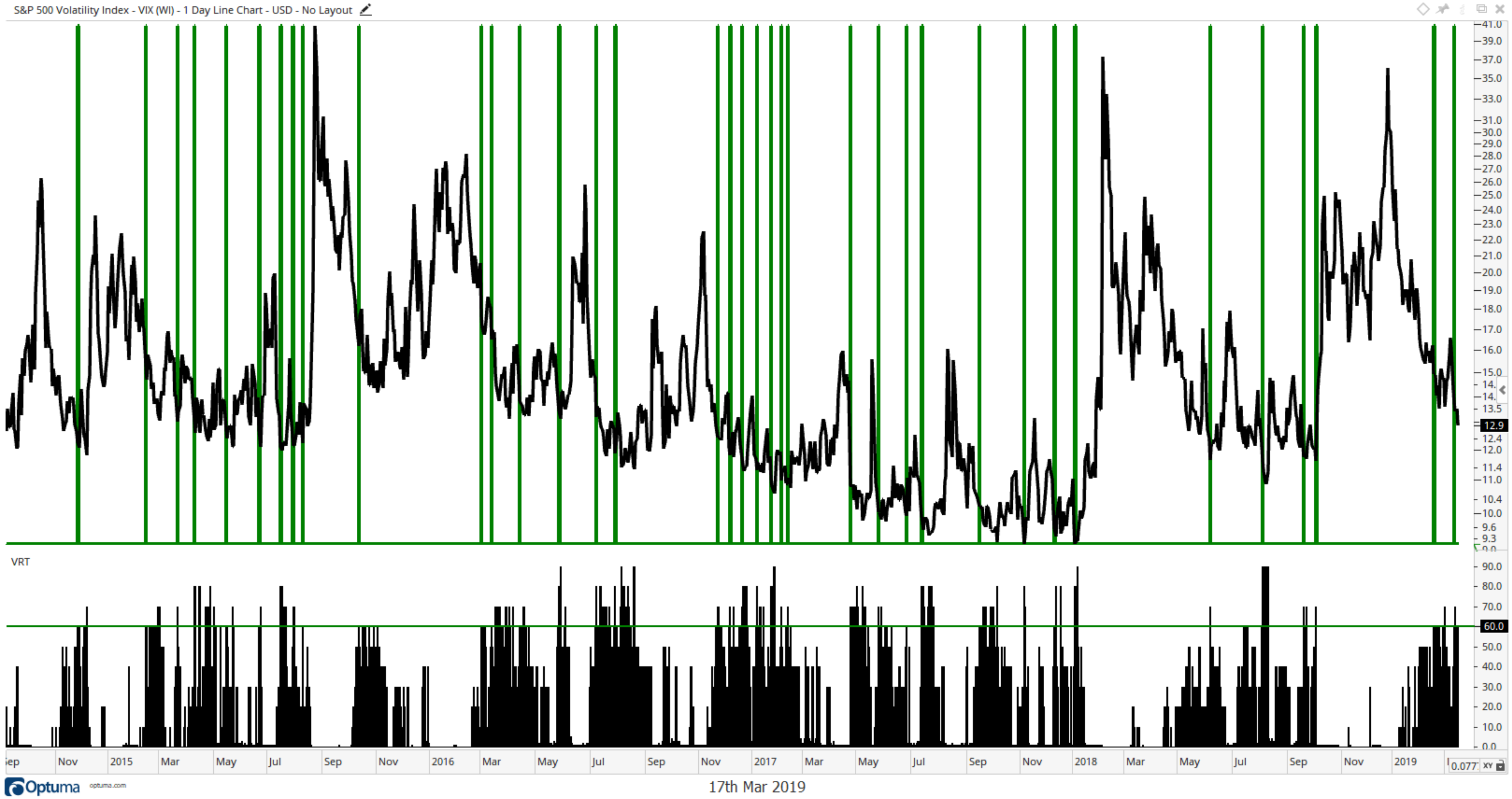
Sector Dashboard



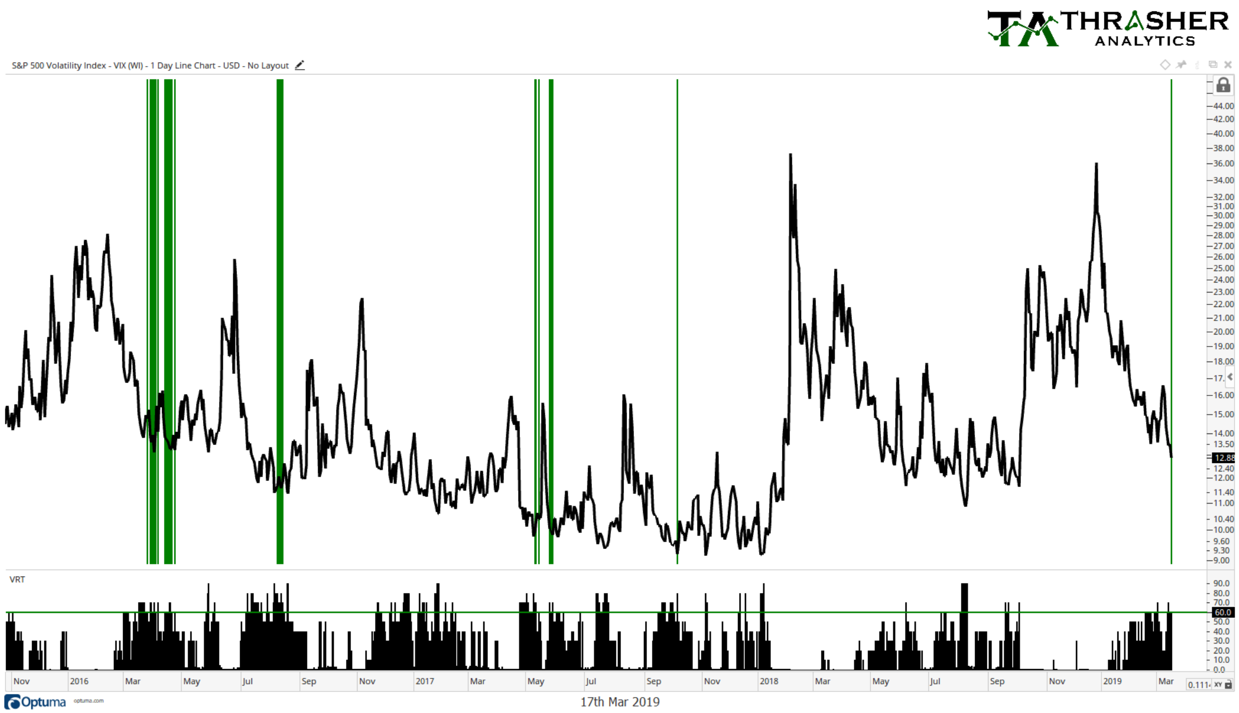
Long vs Short Sector Matrix

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

	+ XLY	+ XLP	+ XLE	+ XLF	+ XLV	+ XLI	+ XLB	+ XLRE	+ XLK	+ XLC	+ XLU
– XLY	-	-4.0%	2.5%	0.1%	-5.4%	3.2%	-2.0%	2.7%	6.1%	2.2%	-1.7%
– XLP	4.0%	-	6.5%	4.1%	-1.4%	7.1%	1.9%	6.7%	10.0%	6.2%	2.2%
– XLE	-2.5%	-6.5%	-	-2.4%	-7.9%	0.6%	-4.6%	0.2%	3.5%	-0.3%	-4.3%
– XLF	-0.1%	-4.1%	2.4%	-	-5.5%	3.1%	-2.1%	2.6%	6.0%	2.1%	-1.8%
– XLV	5.4%	1.4%	7.9%	5.5%	-	8.5%	3.3%	8.0%	11.4%	7.6%	3.6%
– XLI	-3.2%	-7.1%	-0.6%	-3.1%	-8.5%	-	-5.2%	-0.5%	2.9%	-1.0%	-4.9%
– XLB	2.0%	-1.9%	4.6%	2.1%	-3.3%	5.2%	-	4.7%	8.1%	4.2%	0.3%
– XLRE	-2.7%	-6.7%	-0.2%	-2.6%	-8.0%	0.5%	-4.7%	-	3.4%	-0.5%	-4.4%
– XLK	-6.0%	-10.0%	-3.5%	-6.0%	-11.4%	-2.9%	-8.1%	-3.4%	-	-3.9%	-7.8%
– XLC	-2.2%	-6.2%	0.3%	-2.1%	-7.6%	1.0%	-4.2%	0.5%	3.9%	-	-3.9%
– XLU	1.7%	-2.2%	4.3%	1.8%	-3.6%	4.9%	-0.3%	4.4%	7.8%	3.9%	-

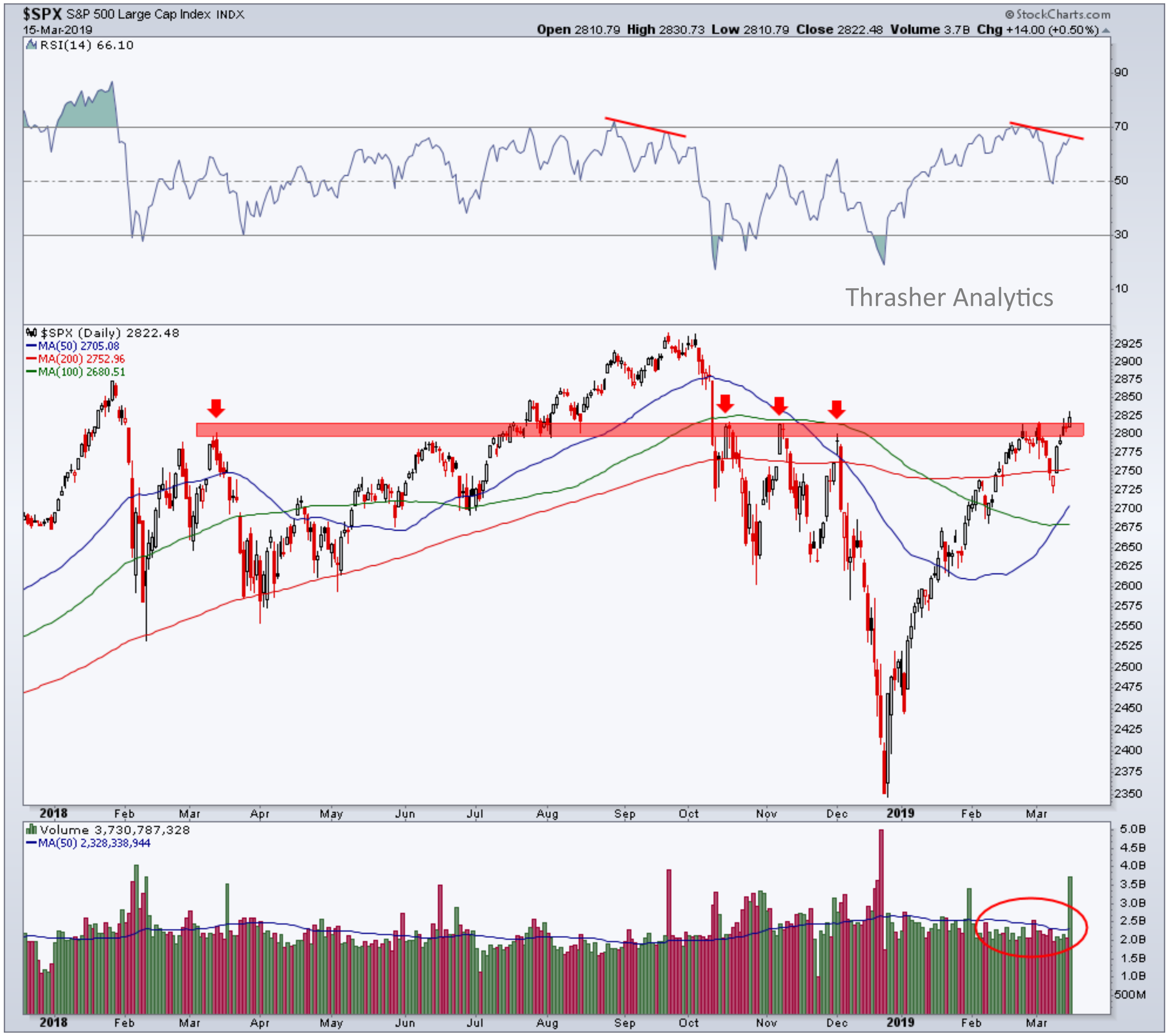


The VRT has remained at an elevated reading for the last month, finishing last week with another trigger following the trigger from two weeks ago. The last trigger saw a move of 5 points higher in spot volatility, a 30+% rise within the week before equities firmed back and volatility moved lower last week. I believe the first initial 5 point move in the VIX was the dress rehearsal for a larger move to come



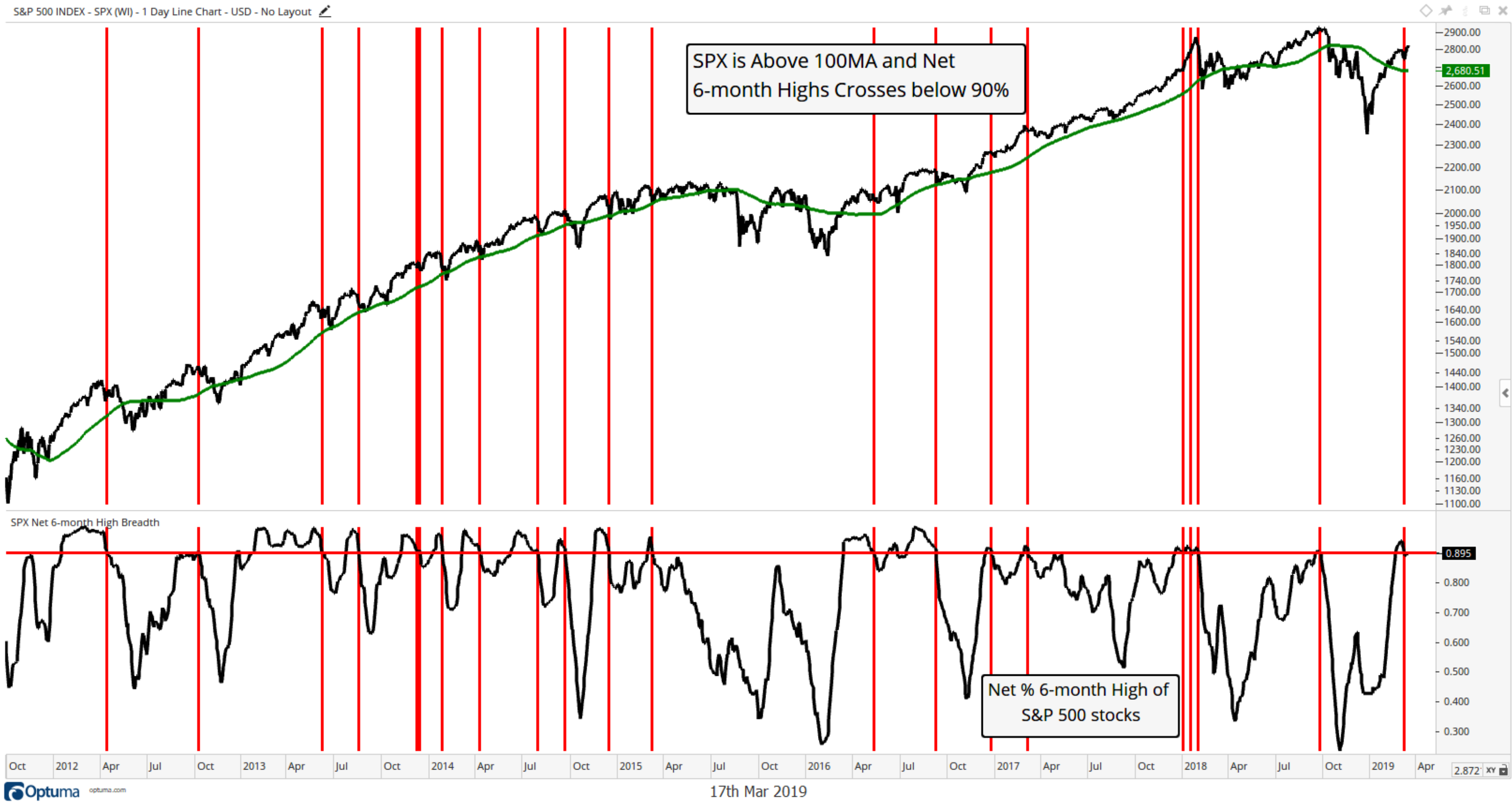
With the VRT remaining at an elevated reading for such a long period of time, I ran a study to show past occurrences of this taking place. The charts to the left show (top) 2010 through 2014 and (bottom) 2015 to current. The green bars indicate when the VRT has been elevated for the same number of days over the same lookback period as we are currenting seeing today.

Several of these instances marked important lows in volatility but the results are fairly mixed. I view these results as not providing an additional 'edge' in volatility timing.



The S&P 500 close on Friday above the resistance band highlighted in red on the chart above. Since my last letter the equity index dipped a few percentage points to test its 200-day Moving Average before buyers stepped back in to take the index on a low-volume move higher. We now have a bearish divergence in momentum. After the RSI broke above 70 two weeks ago and now is putting in a lower high with last week's advance in price.

Volume remains anemic, with the only above-average days being when price is moving lower. Friday's volume is due to the triple witching expiration of options and so is 'artificially' inflated. The bounce last week was on some of the lowest volume we've seen this year.



The above charts shows the S&P 500 and its 100-day Moving Average (green) with the bottom panel displaying the net percentage of new 6-month high made by the S&P 500 stocks, a custom breadth study. The red lines show when the net 6-month breadth study falls below 90% when the S&P 500 is above its 100-day Moving Average.

What I found is that when this occurs, the S&P has often declined to test or broken through its 100-day MA. This gives a nice potential price target if we do see weakness in equities in the coming weeks. Historically when bread rolls over before price, the index declines to test its intermediate moving average support, which would be approximately 5% lower than where we closed on Friday.

Note we saw this pattern take place several times without the market ‘responding’ such as during January 2018’s run up and late 2016 when price continued moving higher for several months.

The Advance-Decline breadth indicator provides a daily figure of the net number of stocks rising or falling, it's then commonly viewed as a cumulative reading when shown as the Advance-Decline Line. However we can still get a lot of good insight on the market from viewing the 'raw' data and simply applying a short-term moving average to the figure. This is what the chart to the left shows in the top panel. The bottom panel shows a 5-day average of the net new highs on all the major U.S. exchanges.

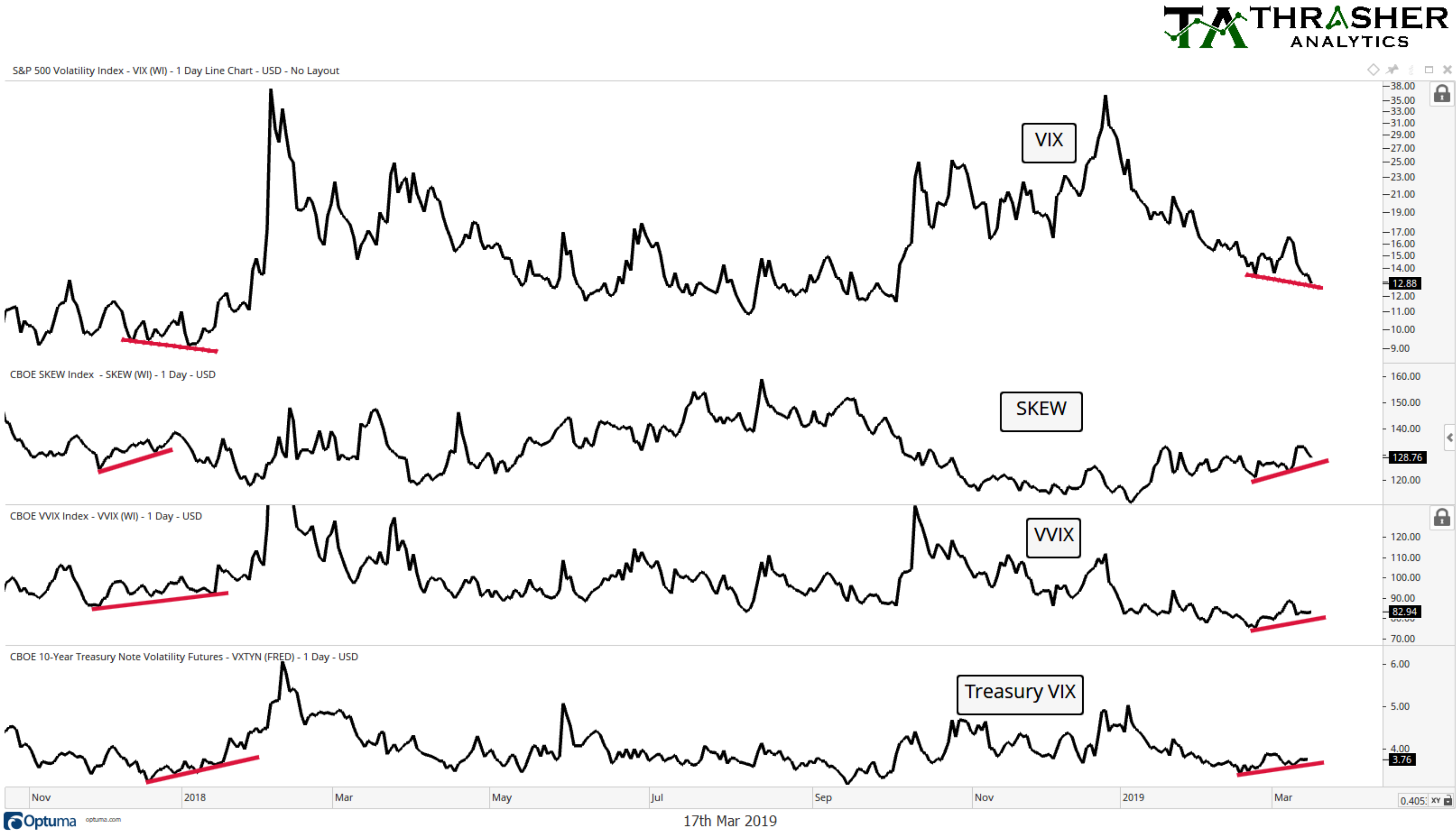
The 10-day MA of the A-D Line peaked in January and has been slowly making lower highs and lows as the S&P moves higher off the December low. Friday's push higher was accompanied by a reading in breadth that's almost negative (10-day MA finished at just 32).

Meanwhile, the 5-day net new highs has remained elevated but has yet to confirm the latest move higher in equities, still holding below its prior February high.

Breadth has begun to stall as fewer stocks appear to be participating in the latest move higher in the major indices.

I showed this chart in February when the Treasury yields began to diverge from the S&P 500. That pattern has persisted as equities have continued to rally but aren't being joined by Treasury yields moving higher as well (as thus bond prices declining). Coming out of the dip in equities two weeks ago as the SPX broke its prior pivot high we once again have the 5-,10-,20-, and 30-year Treasury bond yields moving lower, nearing their 52-week lows.

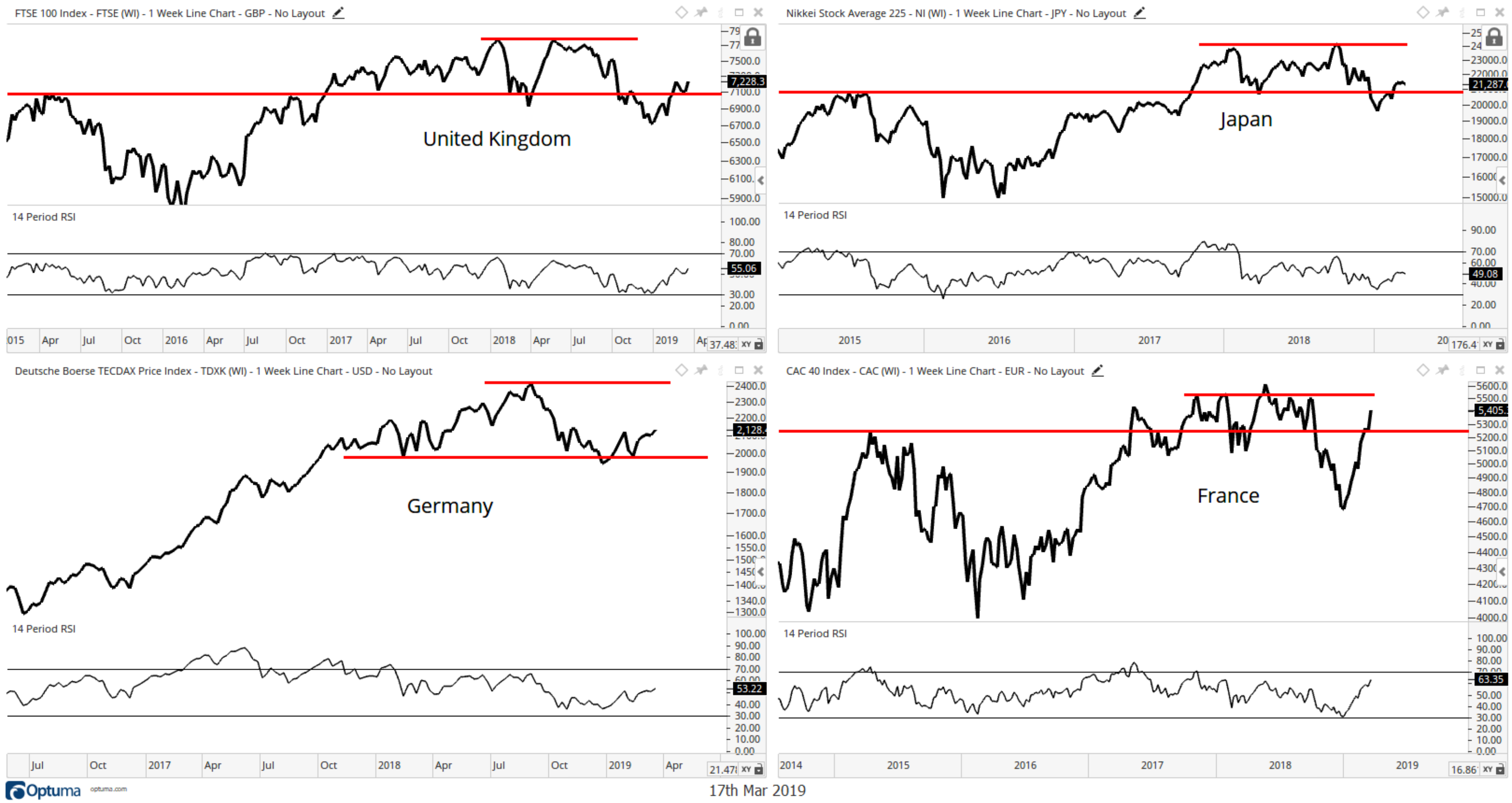
The bond market often are more sensitive to economic data with the equity market focused more on corporate activity - and rightfully so. It seems bonds are continuing to be concerned with the slowing of growth that many economic data releases are portraying.



In my last letter I noted the divergence in Treasury volatility as it began to rise while equity volatility declined. That pattern has continued and is being joined by SKEW and Volatility of the VIX (VVIX) As a reminder, the SKEW Index measures out-of-the-money (OTM) S&P 500 options in an attempt to gauge tail risk within the market.

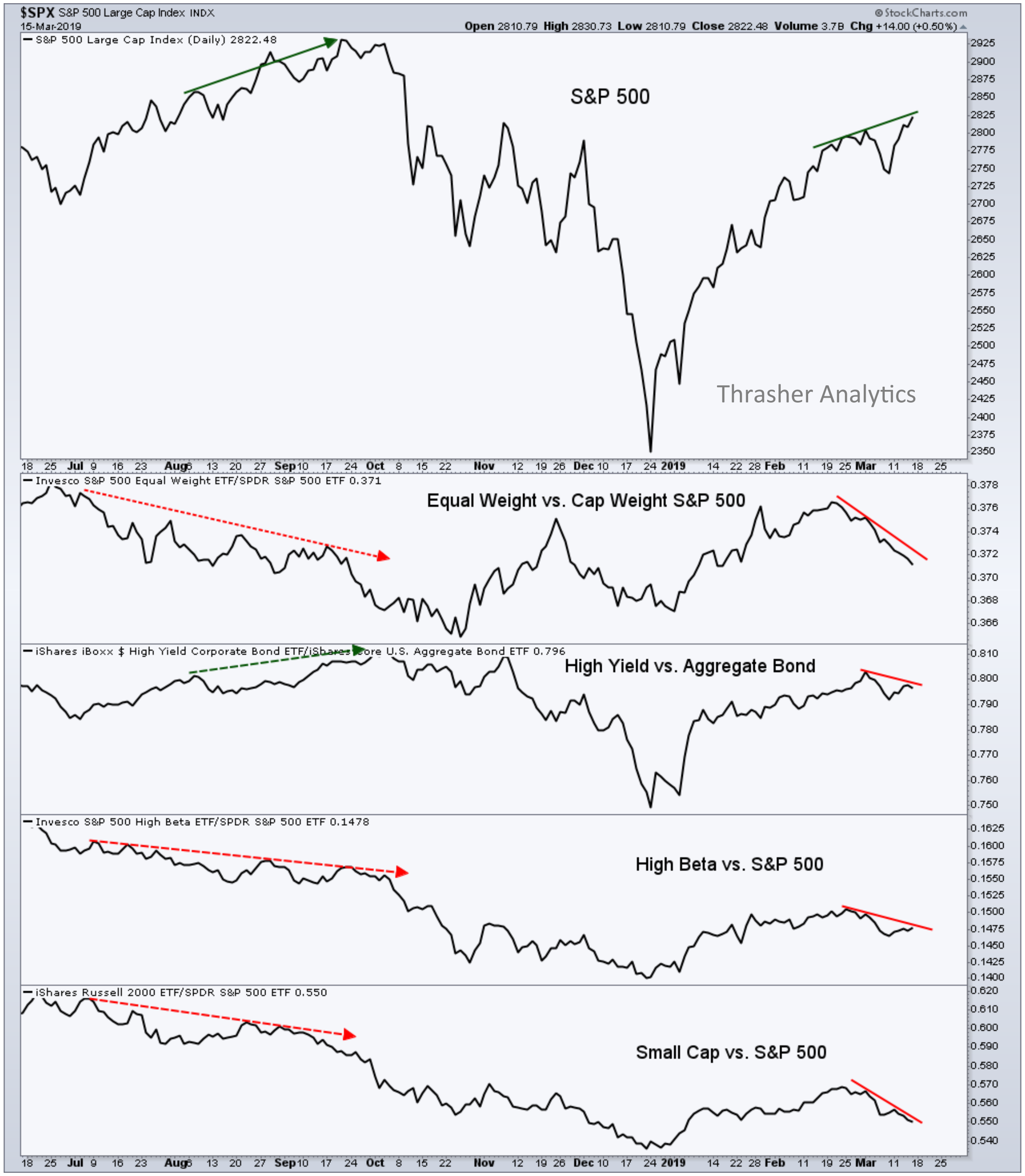
We last saw Treasury volatility, SKEW, and VVIX, make higher lows while the VIX was making a lower low back in January 2018. VVIX and Treasury vol also diverged ahead of the October advance in the VIX as well.

I think this is extremely important. Option traders are showing concern for risk and are displaying it by buying protection in OTM contracts, Treasury options, and direct buying in VIX options (shown by the VVIX). It's leaving equity traders as the stand alone in recognizing what everyone else appears to be. This didn't end well in January 2018, will we see a similar re-pricing of risk this year as well? We'll see.



Above are the major countries that make up 60% of the MSCI EAFE index. These are the countries that we want to keep a close eye on when evaluating the broad developed international market. Each country's chart is encouraging as major support levels are currently holding up.

The UK, France and Japan have recovered their prior 2015 highs and Germany is back above its 2018 low. Momentum has been confirming the latest moves in price, with no divergences developing at this time.



As the S&P 500 moved above its prior February high I was eager to see what portions of risk appetite were confirming the advance in price.

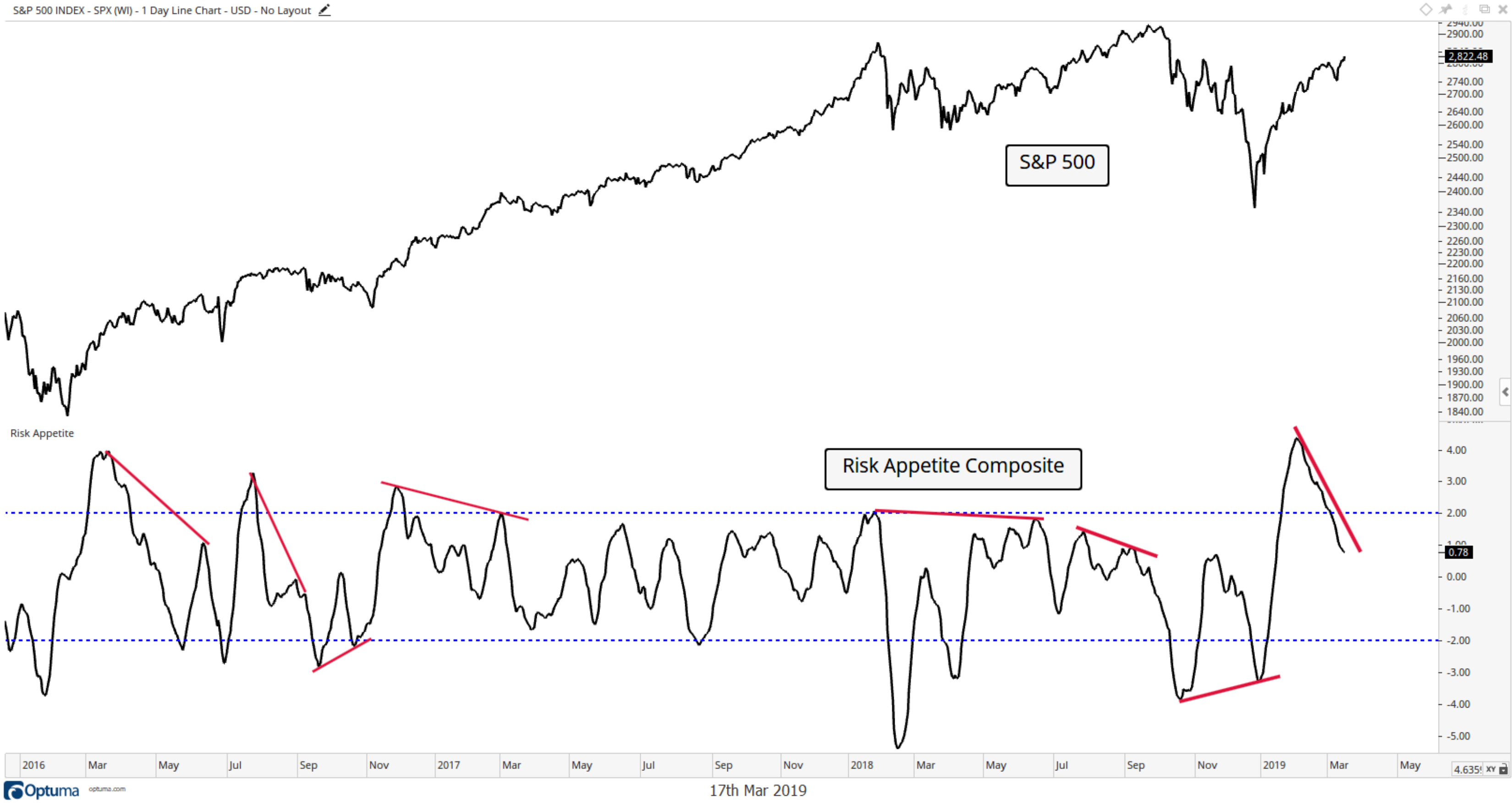
Unfortunately the answer was, none.

Equal weight vs. cap weight? Lower lows and lower highs as equal weight underperforms.

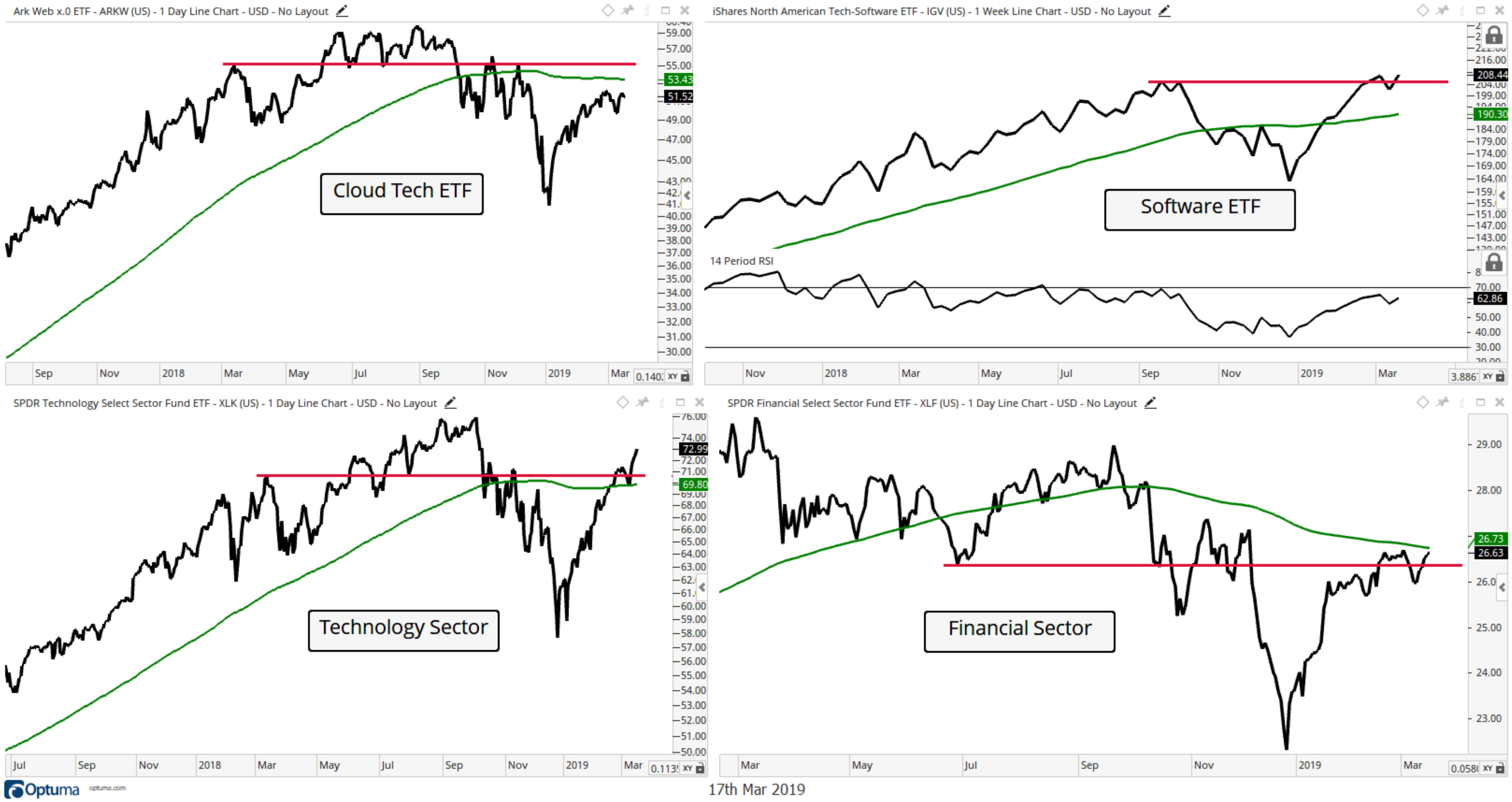
High yield vs. Aggregate bonds? No new high for junk bonds just yet.

How about high beta vs the market? High beta stocks have been lagging since the dip in U.S. equities two weeks ago. As traders pushed the broad index up, it doesn't appear to have been done by buying high beta stocks.

Small cap vs. large cap? Small cap stocks have continued to underperform, giving back a large chunk of their relative 2019 gains.



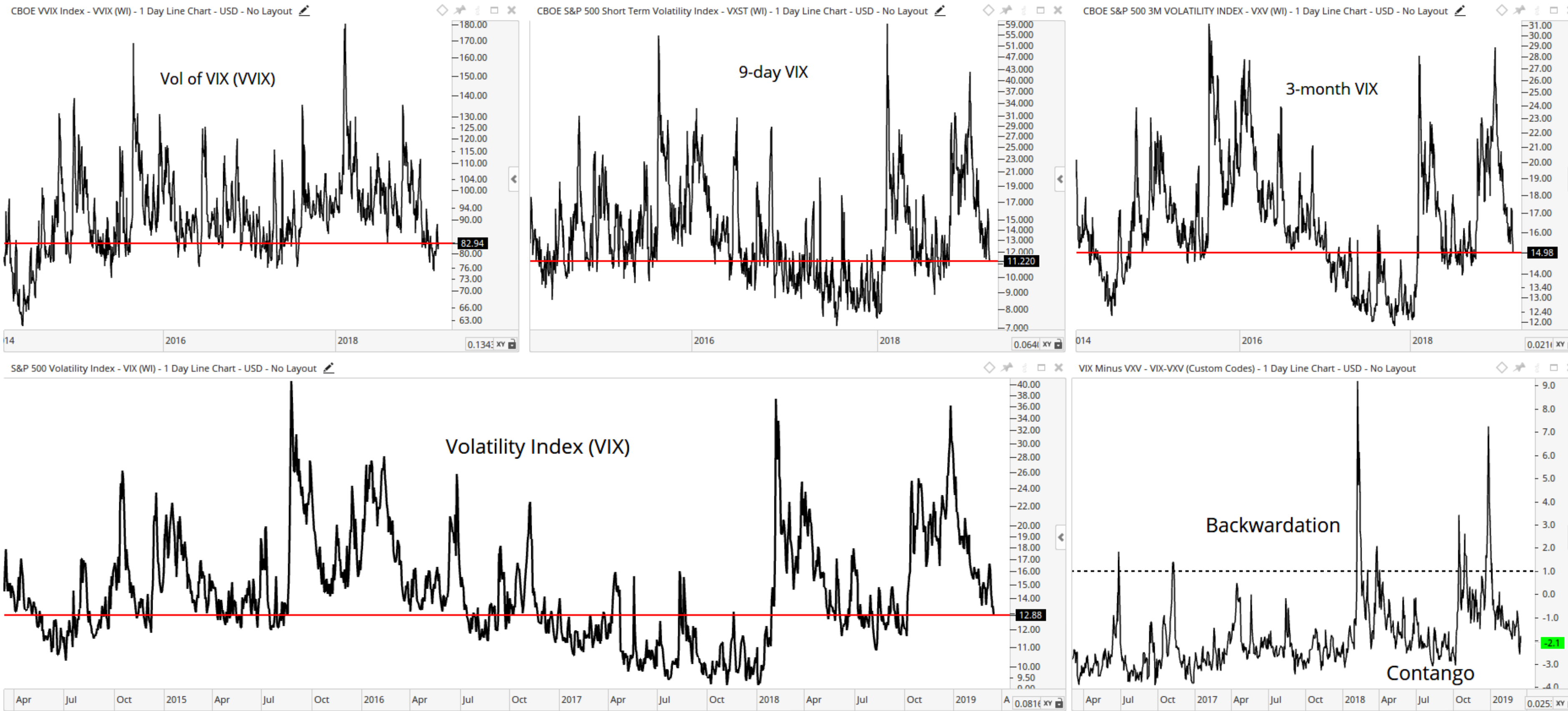
Above is the composite of several risk appetite markets and ratios, similar to the chart on the prior page. By combining the risk appetite gauges we can see a cleaner picture of how the market's risk appetite is trending. Little surprise after seeing the prior chart, the composite of risk appetite has been declining for several weeks.



Above are the four charts I highlighted in a blog post I wrote last week. These were the key charts I believed the market needed to see improvement in for another leg higher to be in the equity market's future.

Cloud Tech remains below its February high, having not seen the same level of buying as the broad market. Software did see a nice move back above its September high and February high. The RSI has yet to confirm the latest short-term move but the price action is encouraging.

Looking at the tech and financial sectors, tech held its 200-day MA well and was able to show a solid move up last week. Financials still remain below its February high and continues to trade below its 200-day Moving Average.

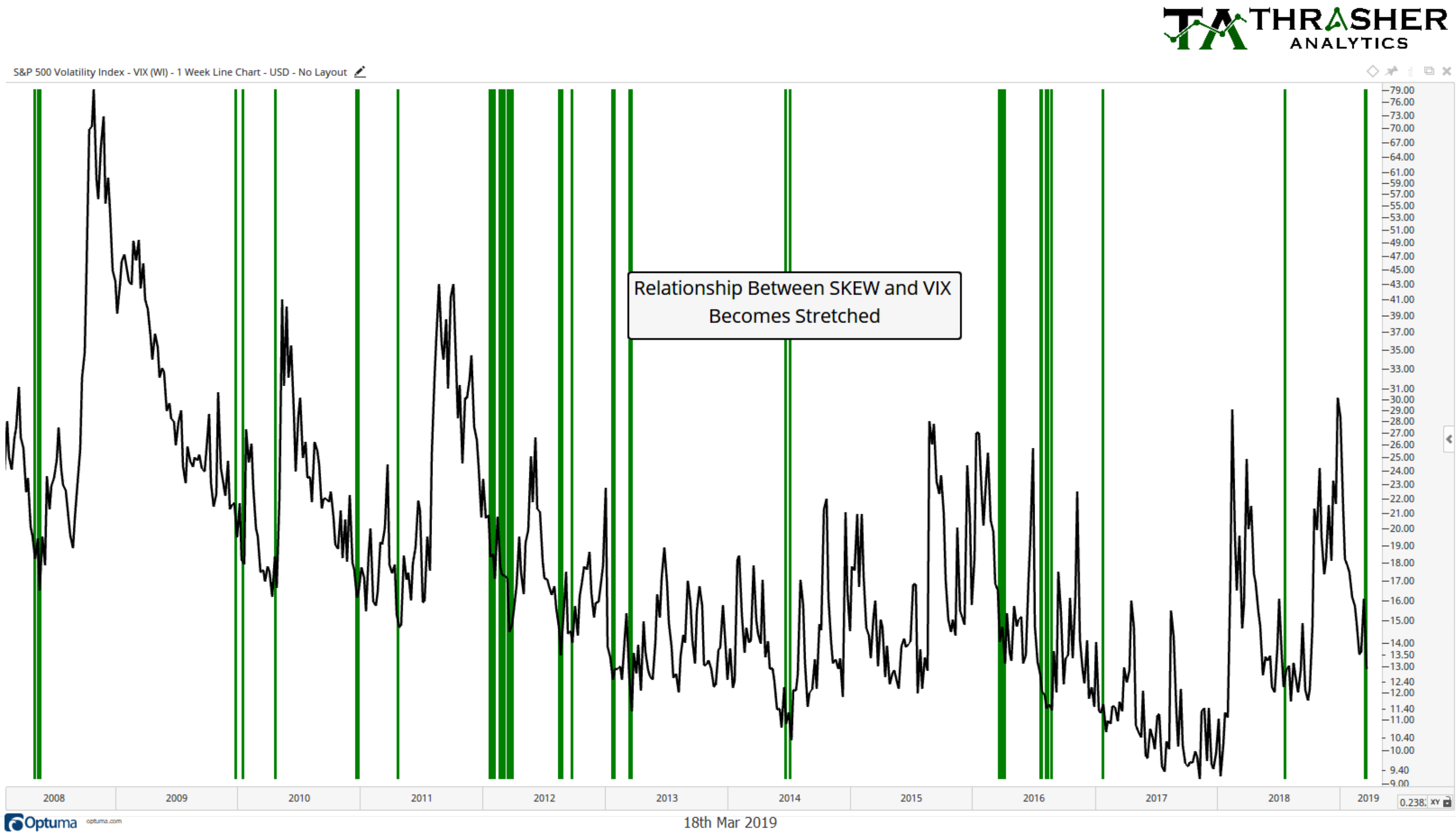


17th Mar 2019

Volatility across the board has fallen near multi-year lows with the VIX curve still firming in contango.

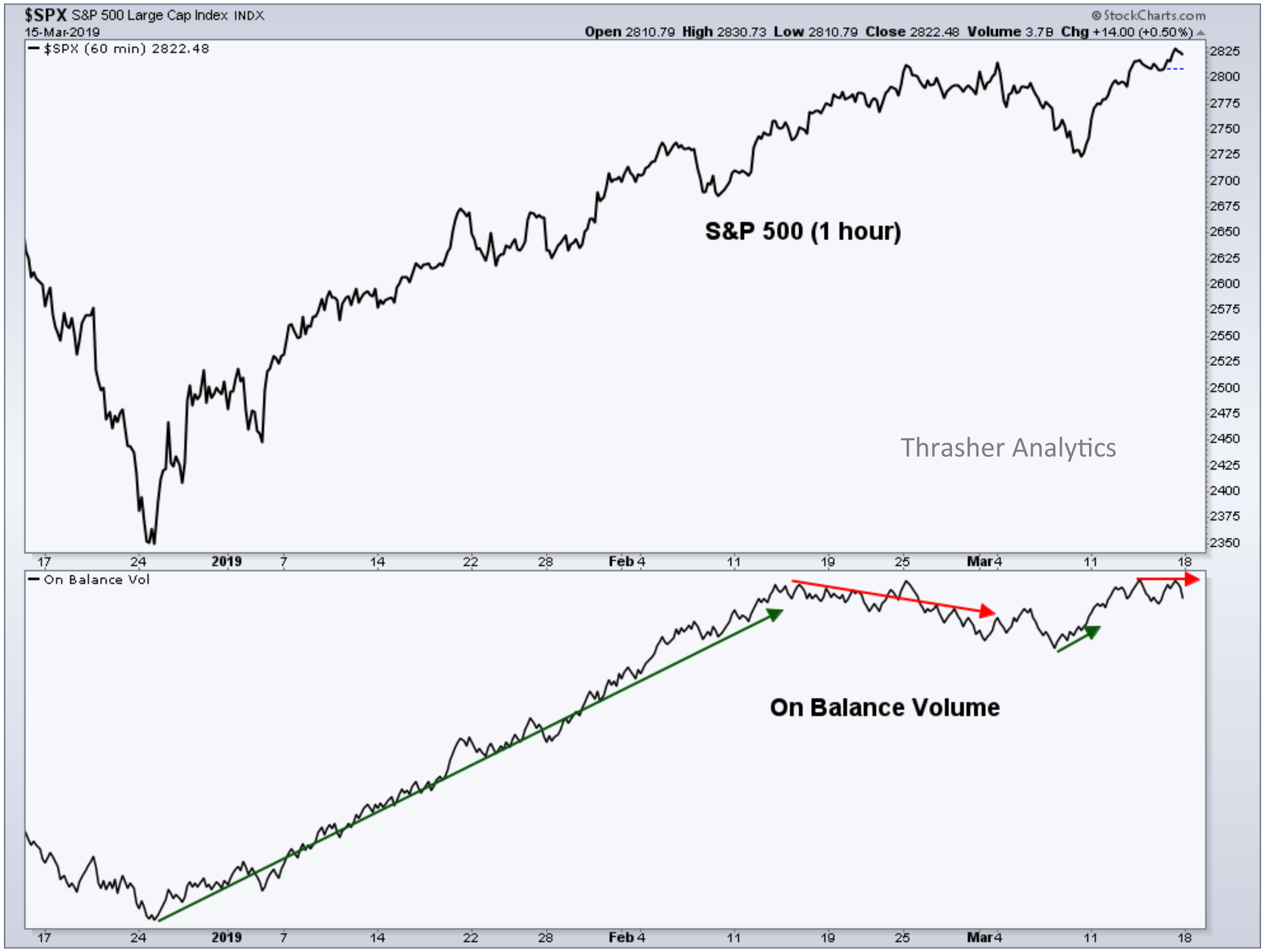
Above are the relative performance charts for the nine main S&P sectors. Technology (2nd row to the left), and Utilities (top row to the right) are the only sectors that are showing rising trends in relative performance in recent weeks. Health Care, Consumer Discretionary, Industrials, Energy, and Financials all have been trending lower. While Staples and Materials have relatively flat relative performance to the S&P 500.

It's unrealistic to expect all the sectors to be leading the market in performance. Up trends typically see a rotation in leadership. However, it's odd to see tech and utilities to be the sole leaders.



This chart looks at the stretched relationship between the SKEW Index and the Volatility Index. I discussed earlier how SKEW was rising (along with Treasury Vol and VVIX) while the VIX was making lower lows. The separation in the relationship between SKEW and VIX is hitting important levels right now, being stretched to a degree we haven't experienced very often. The green bars on the chart below show when the relationship between SKEW and VIX has been at the same level as it is today, which has marked some major turning points in the volatility market.

Over the last ten years (65 occurrences) the VIX has been higher 79% of the time 60 days later with a mean return of 30.5% once SKEW has risen like it has and VIX has stayed subdued, stretching the relationship between to the two. Again, as I mentioned prior other corners of the volatility market are showing a much greater concern with risk in equities right now compared to the VIX. This has historically resulted a rising in volatility as the VIX begins to 'chase' after the Treasury vol, SKEW, and VVIX. We'll see if today's market is any different.



On Balance Volume (OBV) creatives a cumulative total of shares traded on up and down bars, showing where strength is coming into the market - on up bars or down bars. The above chart shows the OBV on a 1-hr chart for the S&P 500. The volume profile confirmed the price action in the S&P from the December low up until mid-February before more shares began trading on down bars, a sign of distribution. This acted as a warning sign that a short-term decline in price could occur. That's what happened as the market dipped a few points two weeks ago before net-volume began to rise ahead of price, signaling accumulation has once again begun to take hold.

Now we have a lack of confirmation in volume of the latest advance in the S&P with OBV not making a higher high, signaling more volume has entered the market on down bars. It's important to note that Friday was an OpEx day, so volume can be a little distorted. I'll want to see if this early sign of distribution continues this week or of buyers step back up in size.

The above chart comes from Nomura and shows the market's historical price action coming into and out of March option expiration. As I mentioned in my emailed blog post last week, March opex is historically bullish and that's exactly how we saw traders react this year. Now we enter the downstream of the seasonal pattern with history showing a move lower of approximately 1% on average.

Wayne Whaley also produced an interesting study of opex week. Whaley found that when the market saw a gain of 1.4% from Tues through Friday the week of opex, the following week declined 23 of the 30 times with 21 of the 23 finishing the week in the red and 2 recovering the losses before Friday's close.

DISCLAIMER: