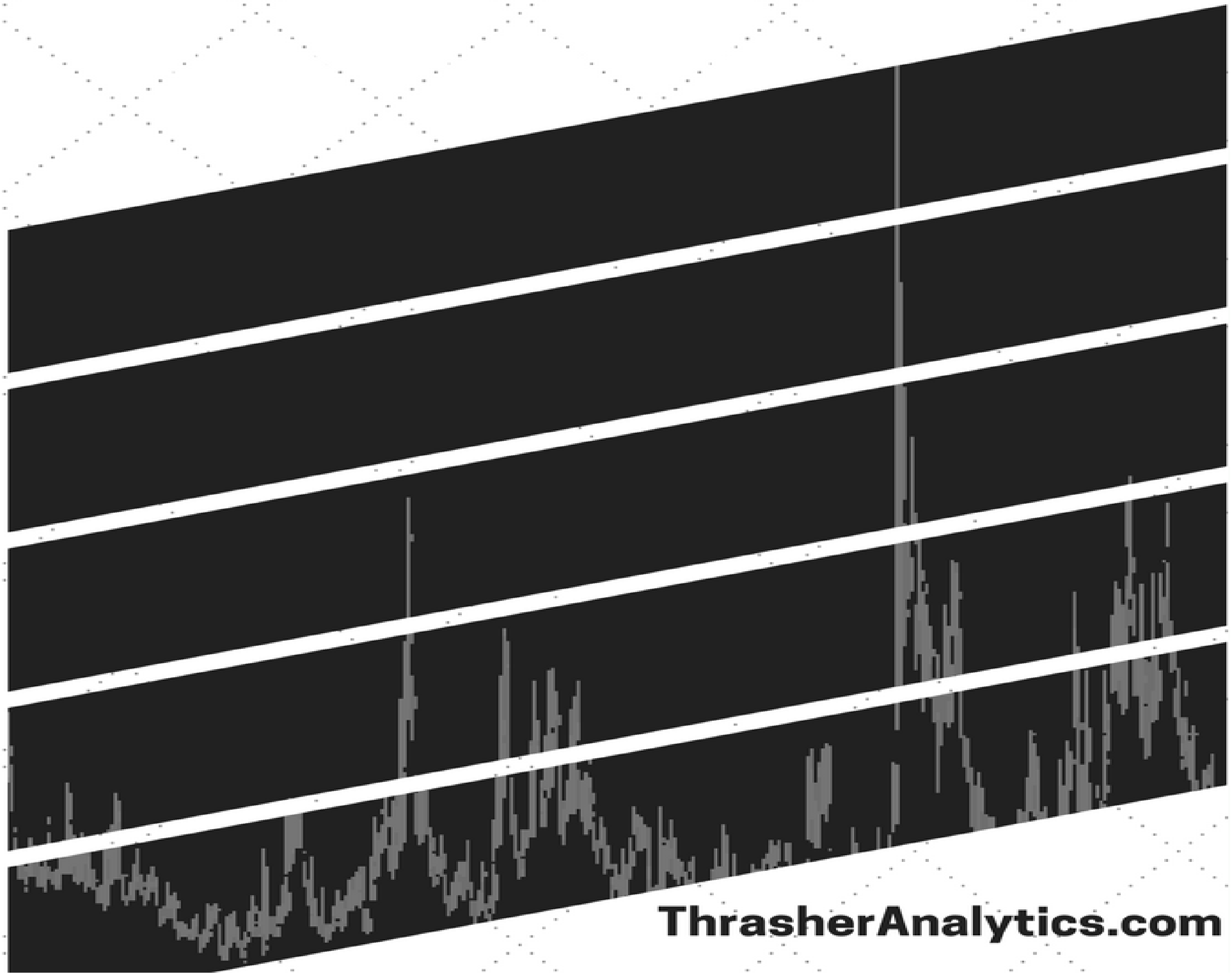
THRASHER ANALYTICS

BI-WEEKLY RESEARCH & ANALYSIS



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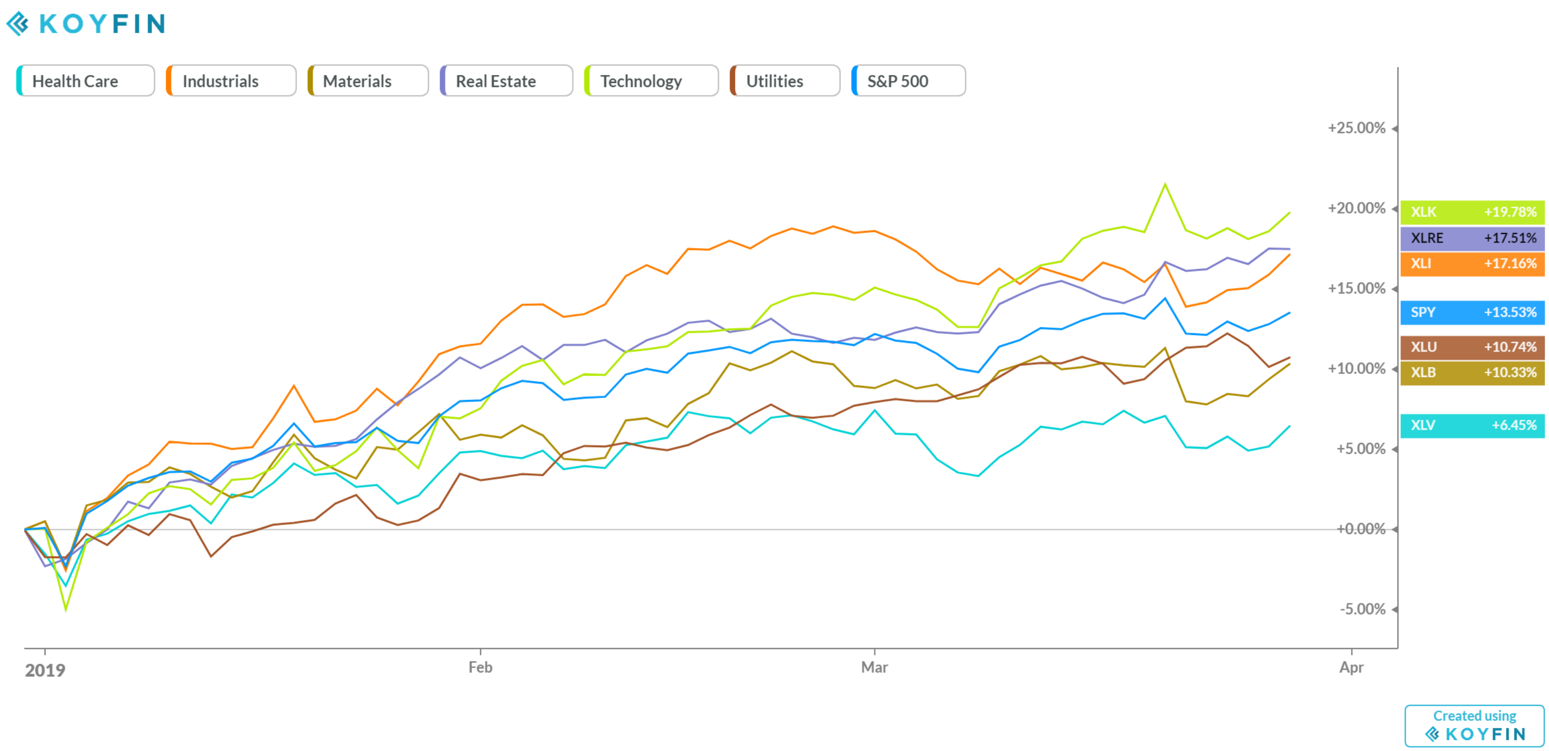
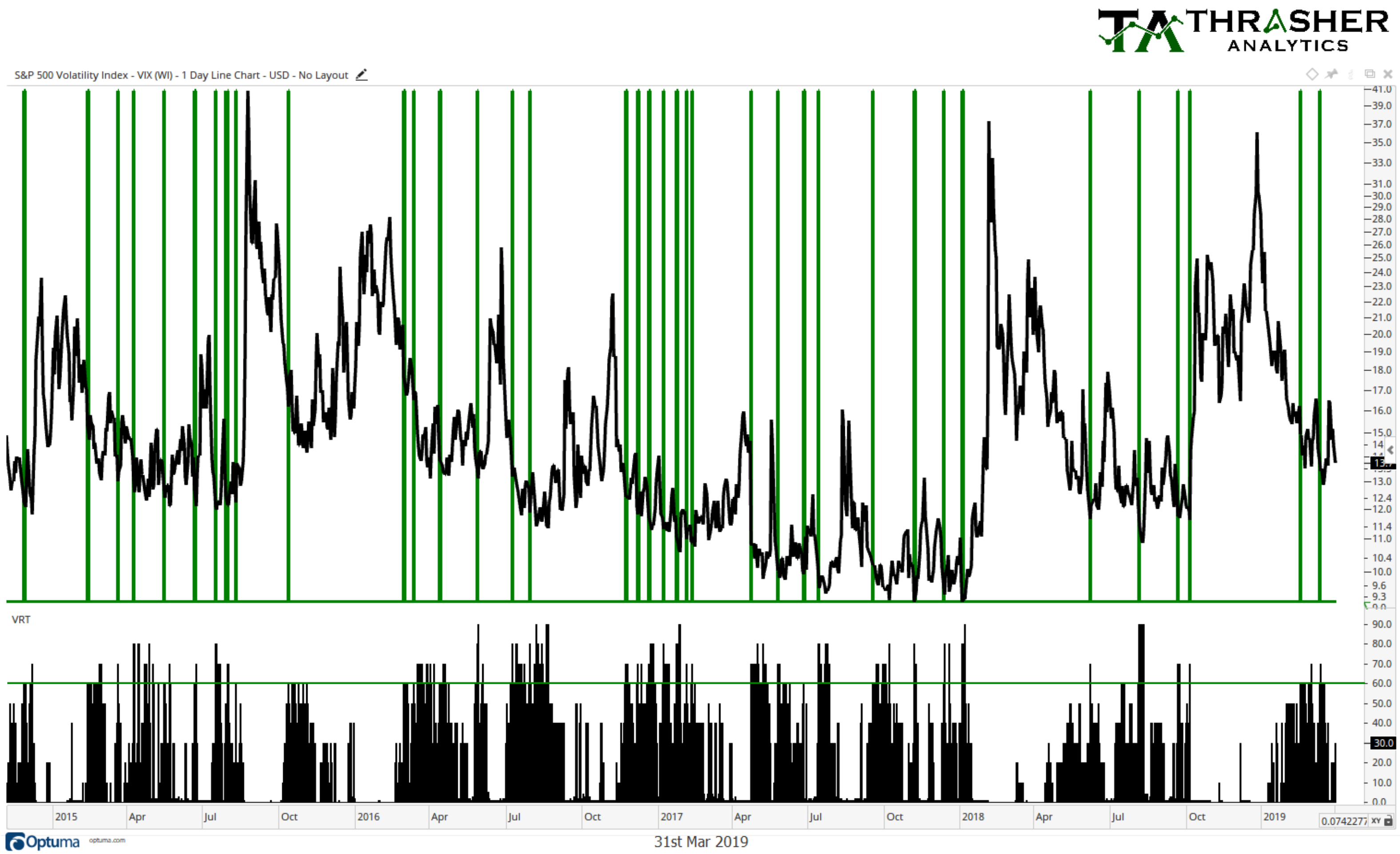


Long vs Short Sector Matrix

1D 5D MTD 1M QTD 3M YTD 1Y 3Y 5Y 10Y

	+ XLY	+ XLP	+ XLE	+ XLF	+ XLV	+ XLI	+ XLB	+ XLRE	+ XLK	+ XLC	+ XLU
– XLY	-	-4.3%	0.8%	-6.9%	-8.9%	1.8%	-5.0%	2.1%	4.4%	-1.9%	-4.6%
– XLP	4.3%	-	5.1%	-2.6%	-4.6%	6.1%	-0.8%	6.4%	8.7%	2.4%	-0.4%
– XLE	-0.8%	-5.1%	-	-7.7%	-9.7%	1.0%	-5.9%	1.3%	3.6%	-2.7%	-5.5%
– XLF	6.9%	2.6%	7.7%	-	-2.0%	8.7%	1.8%	9.0%	11.3%	5.0%	2.2%
– XLV	8.9%	4.6%	9.7%	2.0%	-	10.7%	3.9%	11.0%	13.3%	7.0%	4.3%
– XLI	-1.8%	-6.0%	-1.0%	-8.7%	-10.7%	-	-6.8%	0.3%	2.6%	-3.7%	-6.4%
– XLB	5.0%	0.8%	5.9%	-1.8%	-3.9%	6.8%	-	7.2%	9.4%	3.2%	0.4%
– XLRE	-2.1%	-6.4%	-1.3%	-9.0%	-11.0%	-0.3%	-7.2%	-	2.3%	-4.0%	-6.8%
– XLK	-4.4%	-8.7%	-3.6%	-11.3%	-13.3%	-2.6%	-9.4%	-2.3%	-	-6.3%	-9.0%
– XLC	1.9%	-2.4%	2.7%	-5.0%	-7.0%	3.7%	-3.2%	4.0%	6.3%	-	-2.8%
– XLU	4.6%	0.4%	5.5%	-2.2%	-4.3%	6.4%	-0.4%	6.8%	9.0%	2.8%	-



Volatility saw a quick pick up since my last letter, with the Volatility Index (VIX) rising from under 13 to nearly 18, a roughly 40% change over five days before turning lower and finishing last week under 14. We can't know what degree the VIX will move following a VRT signal, this time it was a quick pop that was retraced. As I mentioned in the prior two letters, I felt any reaction in volatility may be muted compared to what we saw in January and October of last year since the weekly data has yet to move to a point of signaling, which typically is what's needed (but not required) for some of the largest shifts in volatility we've seen in history.

From an equity stand point we saw two large swings of 100 and 80 points in the S&P 500 as the equity index reacted to the brief pop in volatility. Supply-demand dynamics eventually balanced back out and volatility has calmed back down.

Check Up With Cloud and Software Charts

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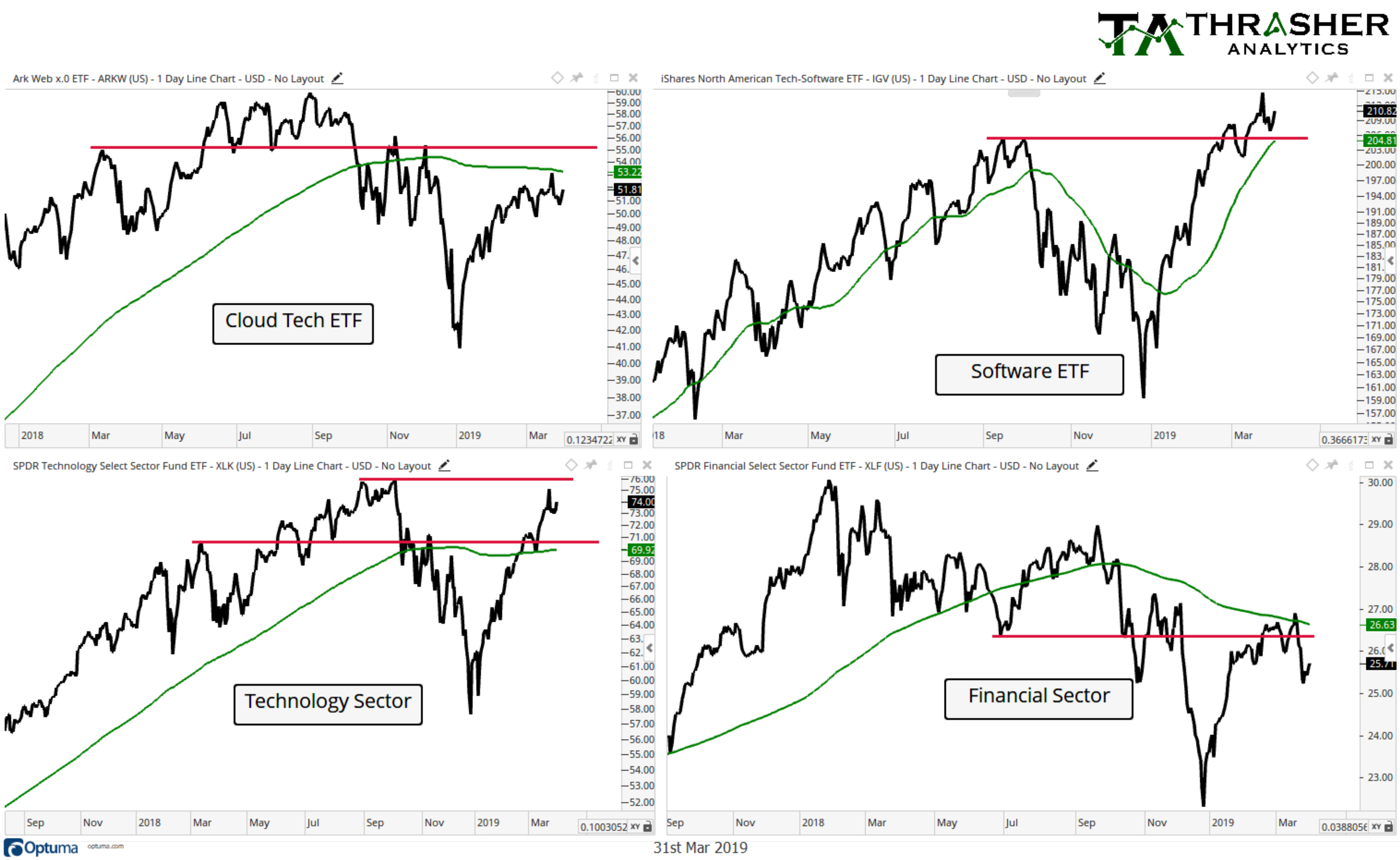
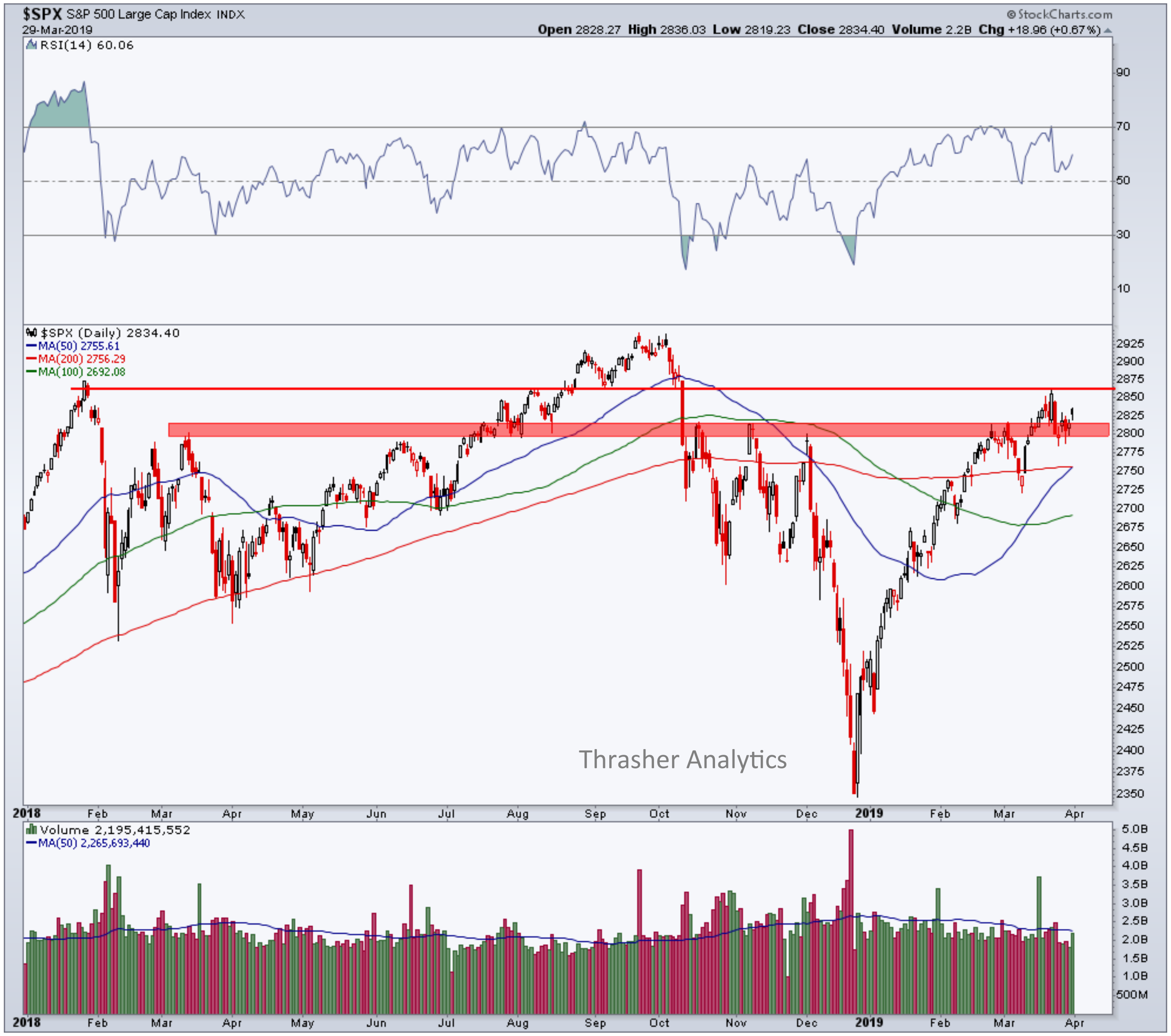
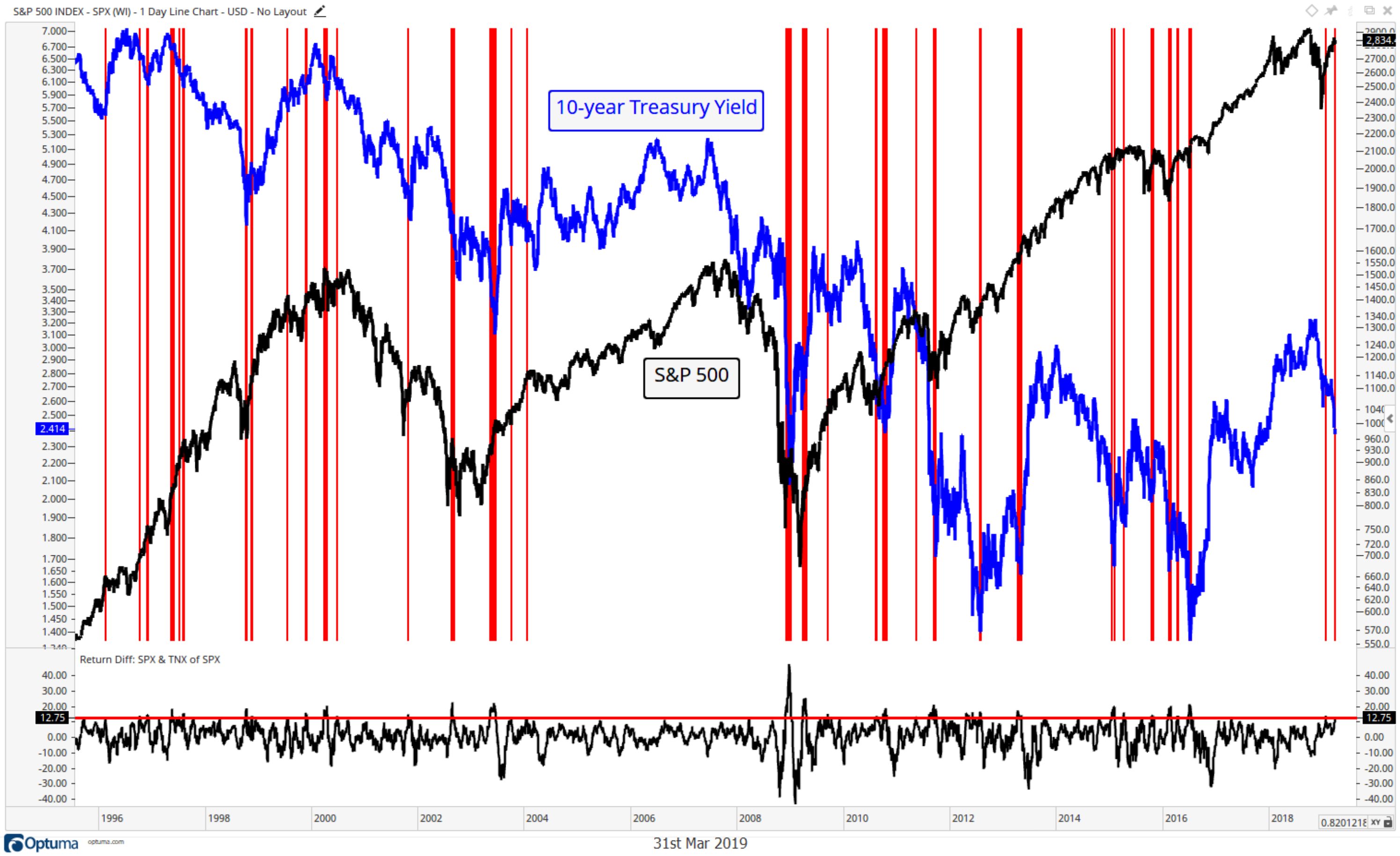


Let's kick things off with an update on my four charts I dubbed the 'most important.' Cloud Tech remains below its 200-day MA and prior January '18 high. Software has had a solid move higher, breaking back above the September high. Like Software, the Tech sector has moved higher and sips a few points below its September high. Meanwhile, Financials have continued to struggled as the yield curve has provided a headwind for the banks. XLF remains below its 200-day MA and prior May low.



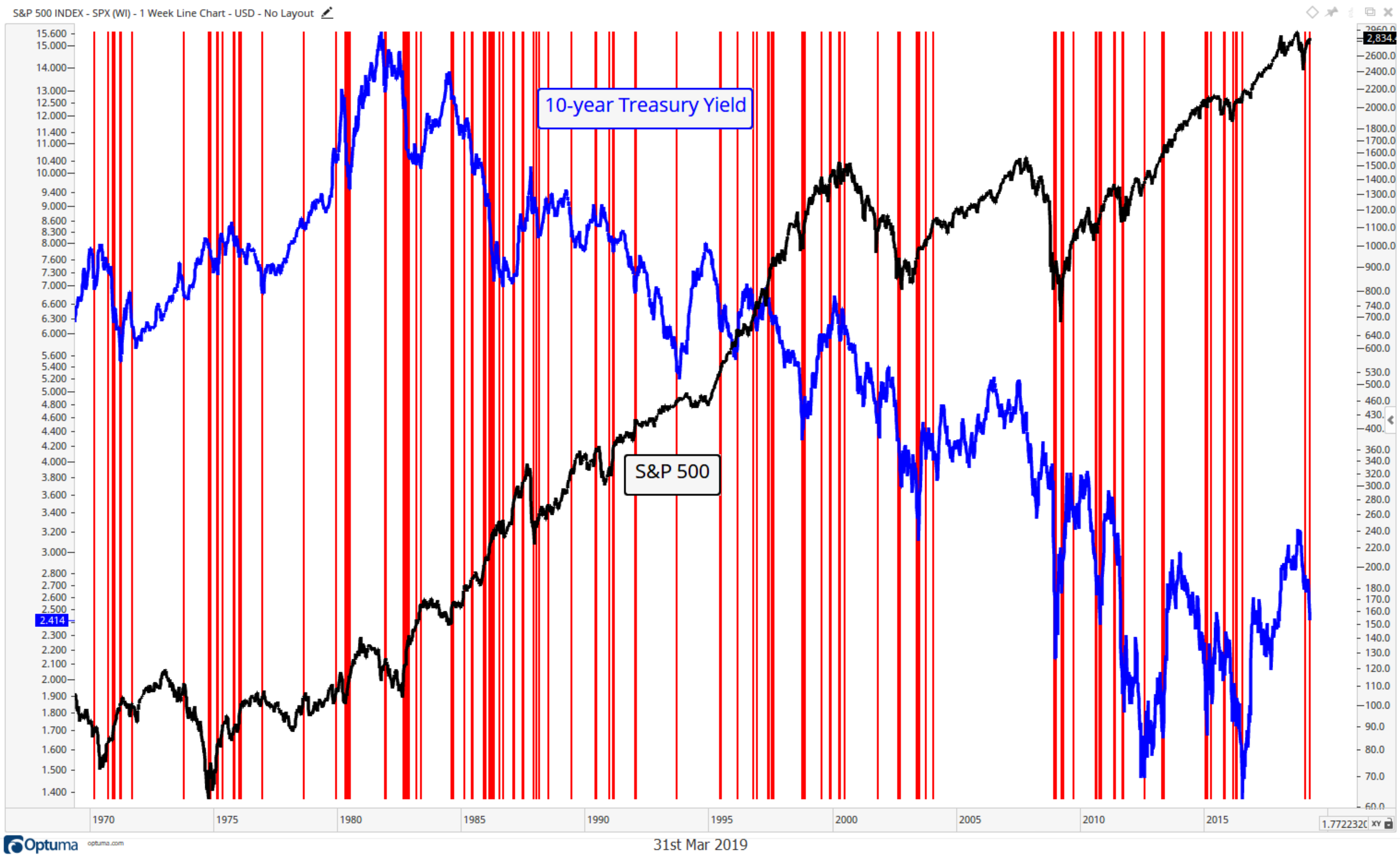
The S&P 500 close on Friday with some strength, holding above the "demarcation' line for stocks between 2825 and 2795. Volume has remained uninspired with Friday being one the strongest buying volume day we've seen in several weeks (excluding the triple witching Friday two weeks ago). 2860 marked the high on March 21st and also was the low September before the final high going into the Q4 down trend and also is roughly the January '18 high. 2860 also was the broken in October when the selling intensified and was the first large down day that kicked off the selling to finish out last year - so on the upside this level is significant for bulls to reclaim.

Next week brings a bunch of economic data, including retail sales, ISM, payroll, and data from China and Germany. Macro-focused traders will be looking to use this data to resolve the short-term consolidation in either direction for equities.

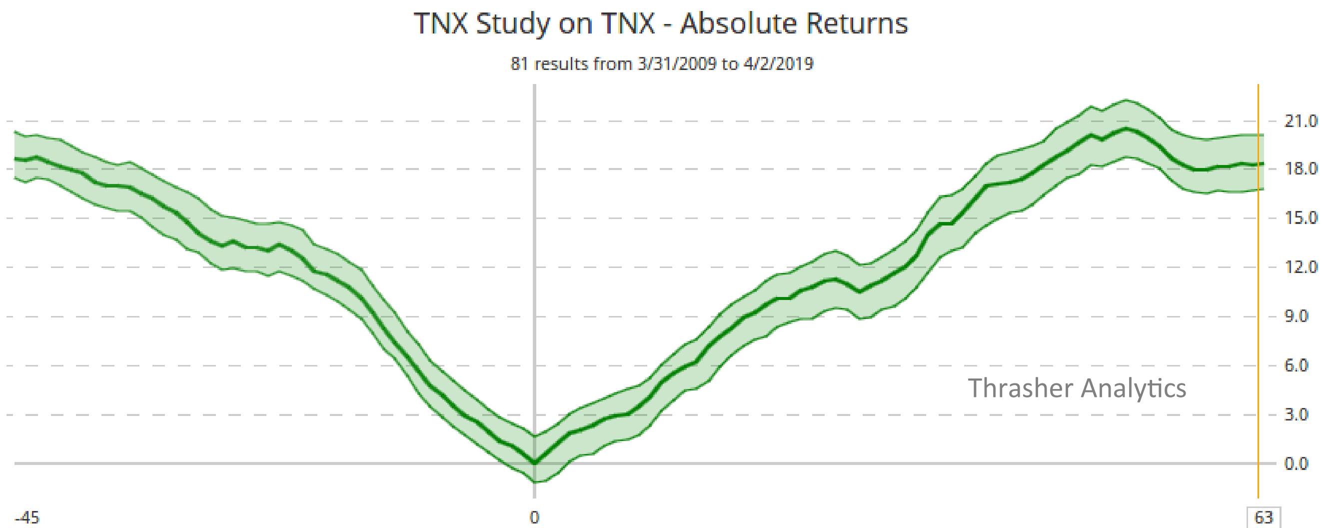


A great deal of attention has been given to the latest inversion of the 3m-10yr Treasury curve. I wrote you last week discussing the prior individual inversions and the reaction in equities. Today I want to focus on the relationship between bond yield and stocks, which have diverged as bond prices have moved higher with equities, sending yields lower. The 1-month performance deferential has risen to the highest level in several years, and when this historically occurs by yield being down and equities up, it's marked several important turning points for the 10-year Treasury Yield, as marked by the red lines n the chart above. The break in correlation between Treasury yields and equities appears to be more significant for bonds than for stocks, with the reaction in the S&P 500 being mixed.

For those looking for a bearish argument on stocks, there are two dates that matched the signal thresholds that stand out—May 20111 and March 2000, obviously two important months for stocks. Beyond that, the data suggests a bearish shift in risk/reward for Treasury bonds (bullish for yield) going forward as historically yield has played "catch up."

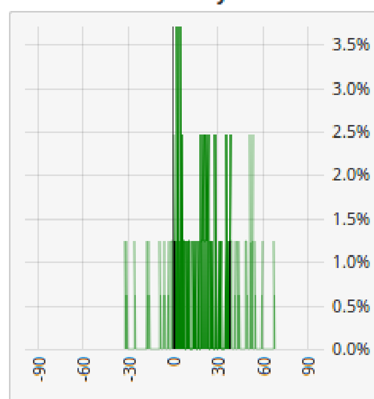


Since I have the data, I thought I'd also show the chart from the prior page stretched out to 1970 to give a longer-term picture of when stocks have out-performed the change in Treasury yield to the degree that it has over the last month. Again, notice that many times the divergence resulted in Treasury yield moving higher.

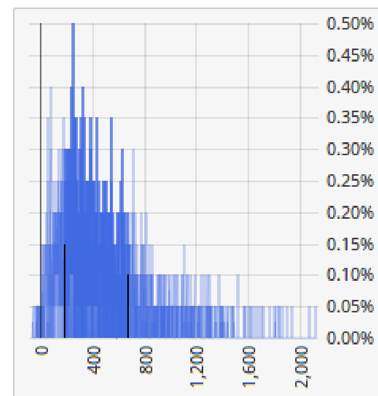


Statistics	Abs Signal	Index	MC Sim
Probability of Gain	81.82%		99.35%
Probability of Loss	18.18%		0.65%
Mean Return	18.33%		448.43%
Median Return	19.64%		370.43%
80th Percentile	38.02%		670.19%
20th Percentile	0.59%		179.60%
Skewness	-0.07		1.57
Kurtosis	2.62		6.85
Standard Deviation	21.73%		335.01%

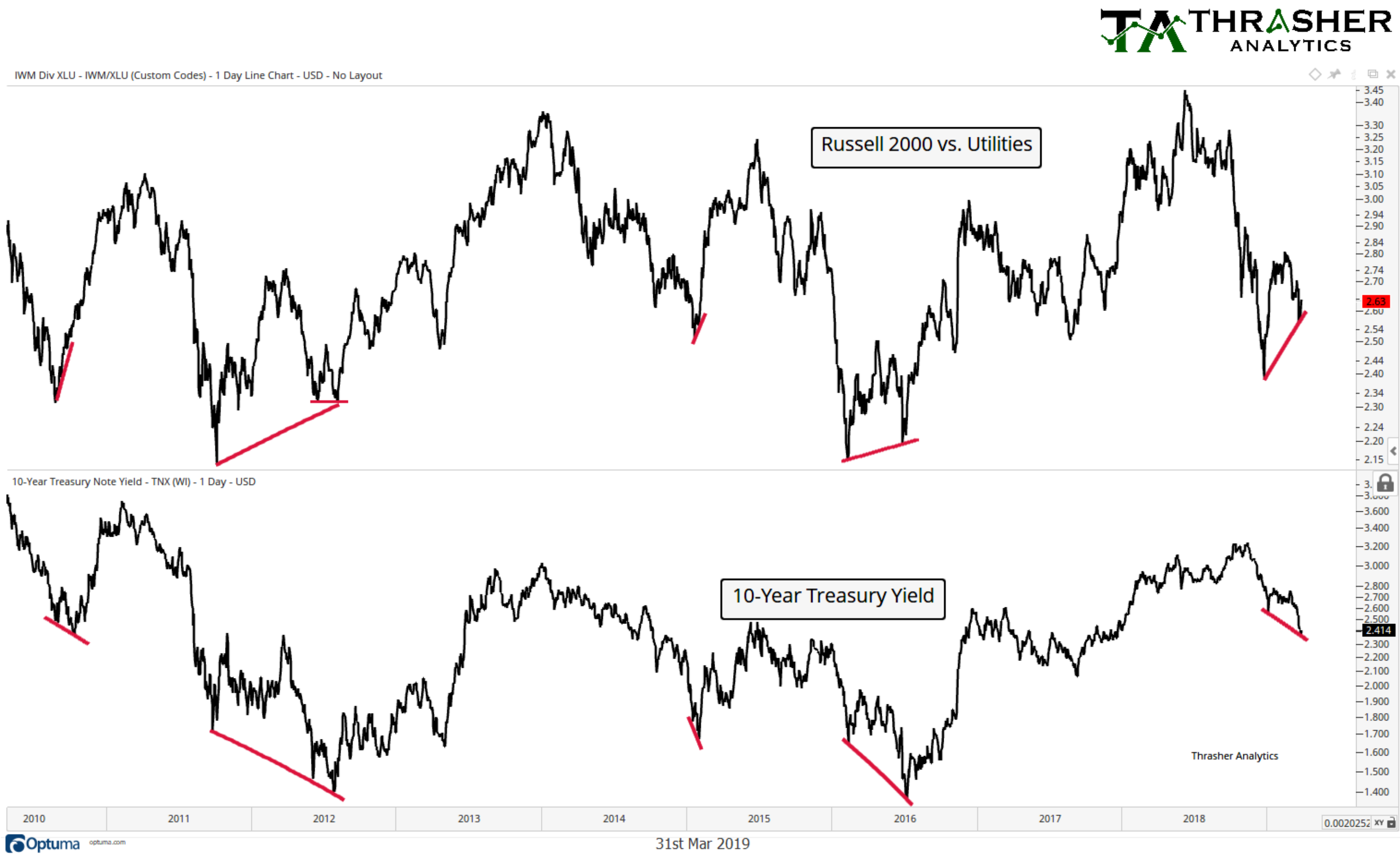
Absolute Profit Analysis



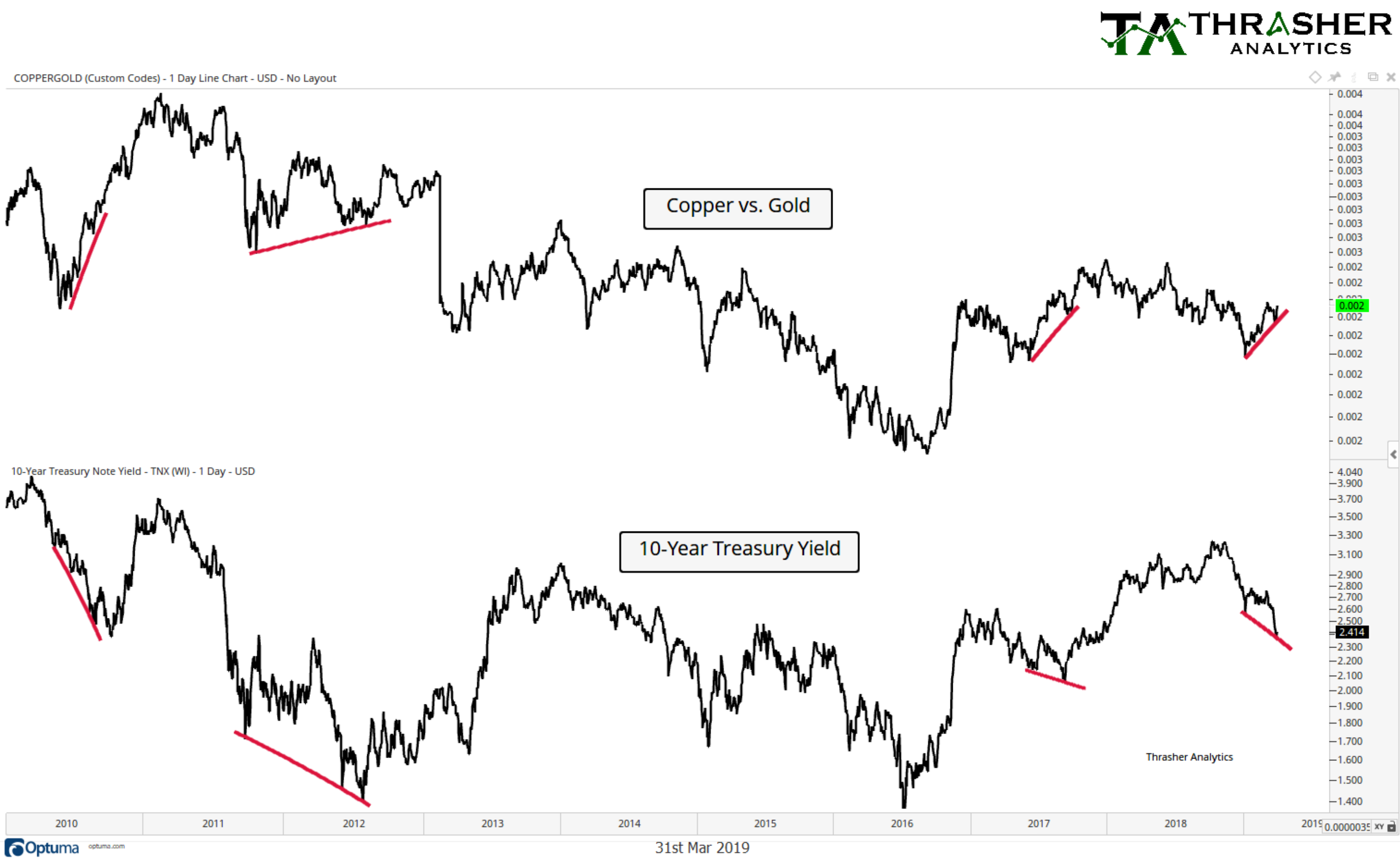
Monte Carlo Simulation



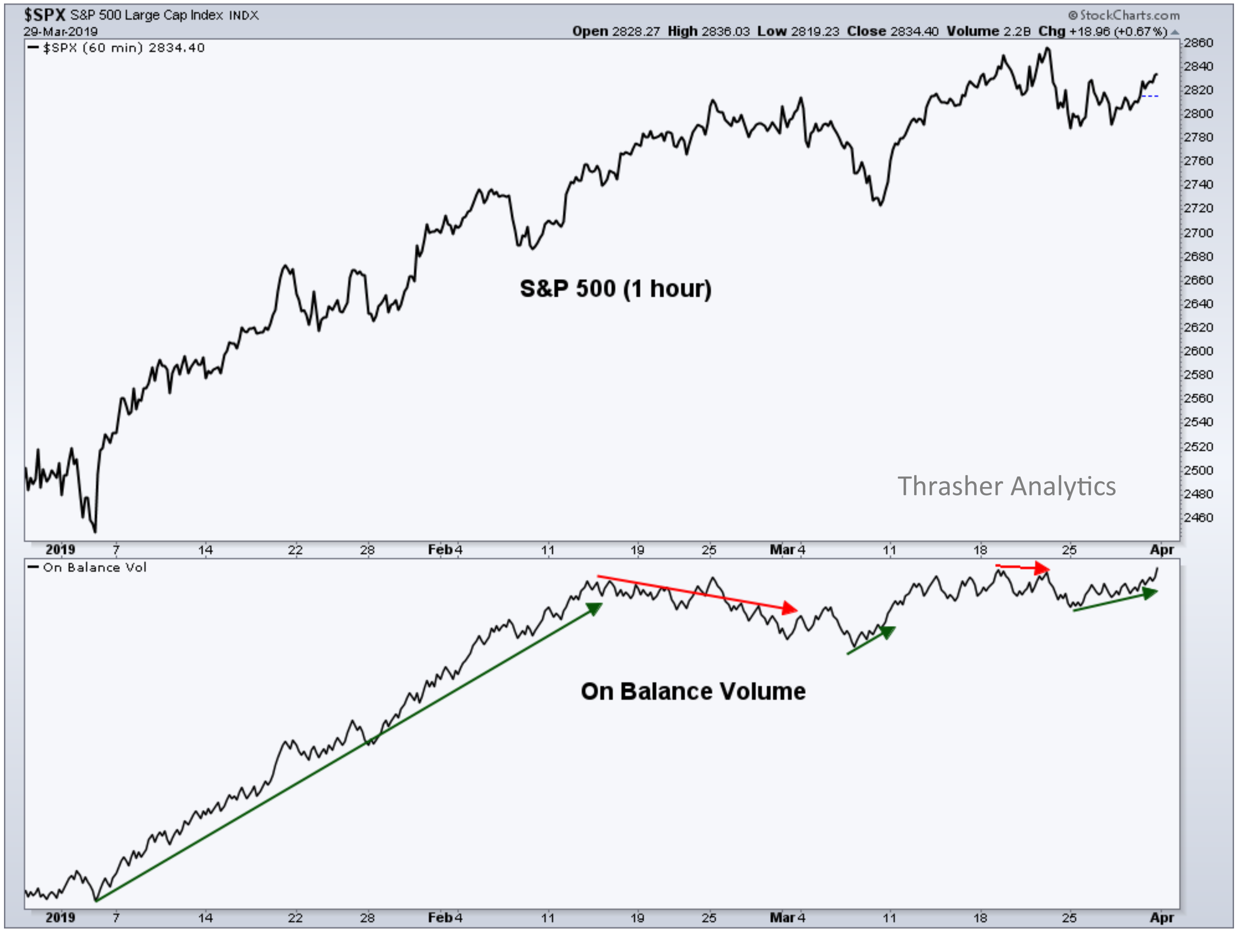
To continue to show data on the divergence in yield and stocks, above is the results of a study I ran showing the reaction the 10-year Treasury Yield (TNX) following the prior mentioned signal (reminder: performance difference of 12+% when SPX is positive of prior month). The green line in the top of the chart shows the TNX 45 days before and 63 days (3 months) after the signal. 3 months later the Treasury Yield was higher 81% of the time, the probably rises when looking 1 month later, which sees the yield higher 88.6% of the instances. The sample size over the 10-year lookback period is 81 results, which isn't huge but still provides useful insight.



I last showed this chart when I got bullish on bonds in mid-2018 as a result of the divergence that was taking place in the ratio of small caps and utilities. Back then, the 10-year Treasury yield was moving higher but the ratio of Russell 2000 and Utilities was making lower highs. Bonds responded by rising (yield falling) and sends us to where yields are today, with another divergence. This time we have the equity ratio making a higher low, not confirming the lower low in TNX. This last happened in early 2016, mid-2014, and early 2012, each sending TNX higher.



Another ratio is also diverging from bond yields. This time the ratio comes from the metals space: copper and gold. Historically copper outperforms gold as TNX declines and gold outperforms copper when yields are rising. However, that hasn't been the case as of late with Copper outpacing gold for most of the year as TNX makes a lower low.



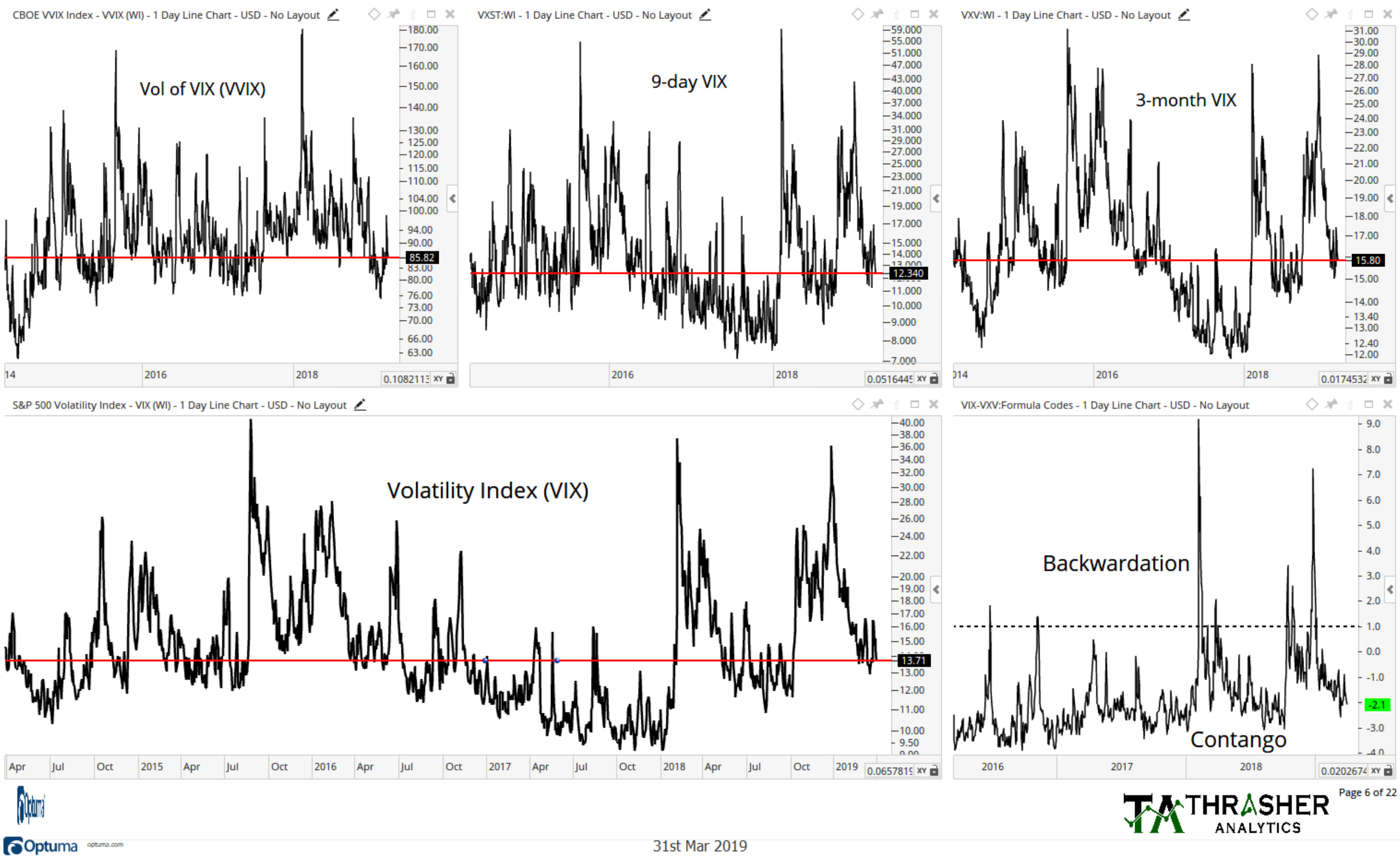
I showed this chart previously, highlighting the bearish divergence in net volume going into the minor dip at the end of February/start of March. Since then volume has improved with more activity occurring on up bars, pushing the cumulative line higher ahead of price.

As the S&P 500 recoups most of its slight March pullback, the risk appetite ratios aren't as excited to move back higher. In my last letter O showed the Risk Appetite Composite which was showing a bearish view on risk appetite, that's echoed when we break things out individually with small caps under-performing, HY under-performing and High Beta under-performing.

A welcomed sign of corporate bonds declining has been taking place since equities bottomed in December of last year. The spread I use when looking at corporate bonds looks specifically at the AAA and BBB investment grade bonds rather than using HY debt. The reason being HY debt is strongly correlated with equities, making the spread more about equities vs. bonds than by the actual risk profile being displayed in the corporate fixed income market. While it's encouraging to see the spread decline, which wasn't the case going into the past three major market down turns ('07, '15, and '18); the speed at which the spread is declining has been relatively slow. Equities are within spitting distance of the prior high but the corp. spread is still well off its October '18 level, much less its 201 low.

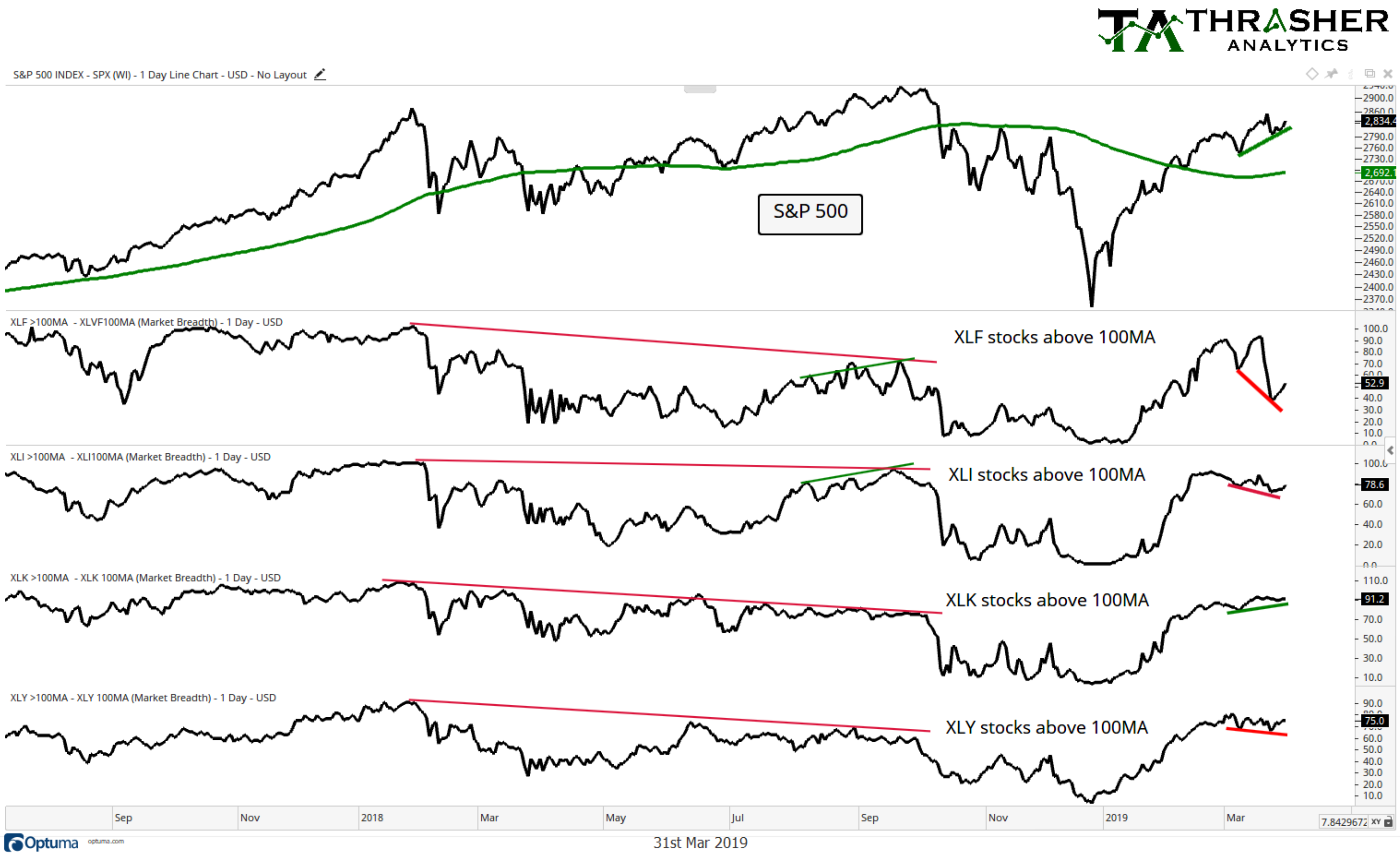
I believe there's still some risk-off posturing in corporate fixed income, which makes sense as earnings forecasts for Q1 have come down and are now negative with Q2 estimates barely positive at this point. There's some concern that global slowing of growth is going to have a large impact on earnings and that appears to be getting priced into the bonds of U.S. companies.

Volatility Dashboard



Volatility saw a brief move higher but moved back lower by the end of last week with the volatility curve still firming in contango.

Above are the relative performance charts for the nine main S&P sectors. Sectors rotate in and out of favor of the market as sectors "take turns" holding the baton of an up trending broad market. Currently there are just two sectors showing relative strength compared to the S&P 500: Consumer Discretionary and Technology. The rest are all in some degree of a down trend in relative performance and under important price levels. While we can't expect all the sectors to be seeing rising trends, an ideal market would have more than two.



The sectors that make up the bulk of the "offense" group are financials, industrials, tech, and consumer discretionary. As I showed on the prior chart, just tech and consumer disc. Are rising in relative performance. Looking under the hood of these four sectors, three are seeing lower short-term lows in the % of their stocks trading above their respective 100-day Moving Average. Just technology has made a recent higher low in its breadth trend along with the broad market.

#	Month End	SPX Close	SPX Perfect Q1	SPX Q1 Return	SPX % Close Above/Below 12 Month SMA	SPX FWD 1 Month Return	SPX FWD 2 Month Return	SPX FWD 3 Month Return	SPX FWD 4 Month Return	SPX FWD 6 Month Return	SPX FWD 12 Month Return	SPX Max FWD 12 Month Drawdown	SPX Max FWD 12 Month Drawdown *Close	SPX Max FWD 12 Month Drawup	SPX Max FWD 12 Month Drawup *Close
1	Mar-19	?	?	?	?	?	?	?	?	?	?	?	?	?	?
2	Mar-13	1569.19	Yes	10.03%	9.90%	1.81%	3.92%	2.36%	7.43%	7.16%	19.32%	-2.11%	1.81%	20.06%	19.32%
3	Mar-12	1408.47	Yes	12.00%	8.93%	-0.75%	-6.97%	-3.29%	-2.07%	2.29%	11.41%	-10.06%	-6.97%	11.49%	11.41%
4	Mar-06	1294.87	Yes	3.73%	5.11%	1.22%	-1.91%	-1.91%	-1.41%	3.16%	9.73%	-5.84%	-1.91%	12.87%	11.07%
5	Mar-98	1101.75	Yes	13.53%	16.92%	0.91%	-0.99%	2.91%	1.72%	-7.69%	16.76%	-16.20%	-13.11%	20.16%	16.76%
6	Mar-96	645.5	Yes	4.80%	10.25%	1.34%	3.66%	3.89%	-0.86%	6.48%	17.29%	-6.14%	-0.86%	26.67%	22.51%
7	Mar-95	500.71	Yes	9.02%	7.45%	2.80%	6.53%	8.80%	12.25%	16.72%	28.92%	-0.10%	2.80%	32.66%	28.92%
8	Mar-93	451.67	Yes	3.66%	5.98%	-2.54%	-0.33%	-0.25%	-0.78%	1.61%	-1.31%	-4.29%	-2.54%	6.90%	6.63%
9	Mar-91	375.22	Yes	13.63%	10.43%	0.03%	3.89%	-1.08%	3.36%	3.37%	7.59%	-2.50%	-1.08%	12.25%	11.16%
10	Mar-87	291.7	Yes	20.45%	15.17%	-1.15%	-0.55%	4.22%	9.24%	10.33%	-11.25%	-25.79%	-21.05%	15.83%	13.06%
11	Mar-86	238.9	Yes	13.07%	19.26%	-1.41%	3.54%	5.00%	-1.16%	-3.17%	22.10%	-5.27%	-3.17%	26.71%	22.10%
12	Mar-83	152.96	Yes	8.76%	18.87%	7.50%	6.17%	9.60%	6.28%	8.57%	4.07%	-1.82%	2.68%	12.87%	9.60%
13	Mar-75	83.36	Yes	21.59%	7.22%	4.73%	9.35%	14.19%	6.47%	0.61%	23.28%	-4.44%	0.61%	25.23%	23.28%
14	Mar-72	107.2	Yes	5.01%	6.91%	0.44%	2.17%	-0.06%	0.18%	3.13%	4.03%	-3.14%	-0.06%	13.56%	10.12%
15	Mar-71	100.31	Yes	8.86%	16.84%	3.63%	-0.68%	-1.61%	-4.72%	-1.96%	6.87%	-10.94%	-6.30%	9.41%	6.87%
16	Mar-67	90.2	Yes	12.29%	7.83%	4.22%	-1.24%	0.49%	5.04%	7.22%	0.00%	-3.85%	-1.24%	8.99%	7.22%
17	Mar-64	78.98	Yes	5.28%	7.78%	0.61%	1.76%	3.43%	5.32%	6.58%	9.09%	-1.05%	0.61%	11.66%	10.86%
18	Mar-61	65.06	Yes	11.96%	13.08%	0.38%	2.31%	-0.65%	2.61%	2.57%	6.90%	-1.01%	-0.65%	11.65%	9.98%
19	Mar-54	26.94	Yes	8.59%	8.48%	4.90%	8.35%	8.43%	14.63%	19.93%	35.78%	0.26%	4.90%	39.27%	36.45%
					Average:	**1.59%**	**2.17%**	**3.03%**	**3.53%**	**4.83%**	**11.70%**	**-5.79%**	**-2.53%**	**17.68%**	**15.41%**
					Median:	**1.06%**	**2.24%**	**2.64%**	**2.98%**	**3.27%**	**9.41%**	**-4.07%**	**-0.97%**	**13.22%**	**11.28%**
					Min:	**-2.54%**	**-6.97%**	**-3.29%**	**-4.72%**	**-7.69%**	**-11.25%**	**-25.79%**	**-21.05%**	**6.90%**	**6.63%**
					Max:	**7.50%**	**9.35%**	**14.19%**	**14.63%**	**19.93%**	**35.78%**	**0.26%**	**4.90%**	**39.27%**	**36.45%**
					% Higher:	**77.78%**	**61.11%**	**61.11%**	**66.67%**	**83.33%**	**88.89%**	**5.56%**	**33.33%**	**100.00%**	**100.00%**

The above chart comes from Steve Deppe, CMT and shows the prior instances when the S&P 500 was positive all three months of the first quarter. The table shows this has historically been positive for equities going forward, with the S&P higher 83% of the time six-months later and 88.9% over the following twelve months. Only two years saw a negative return over the following twelve months.

DISCLAIMER: