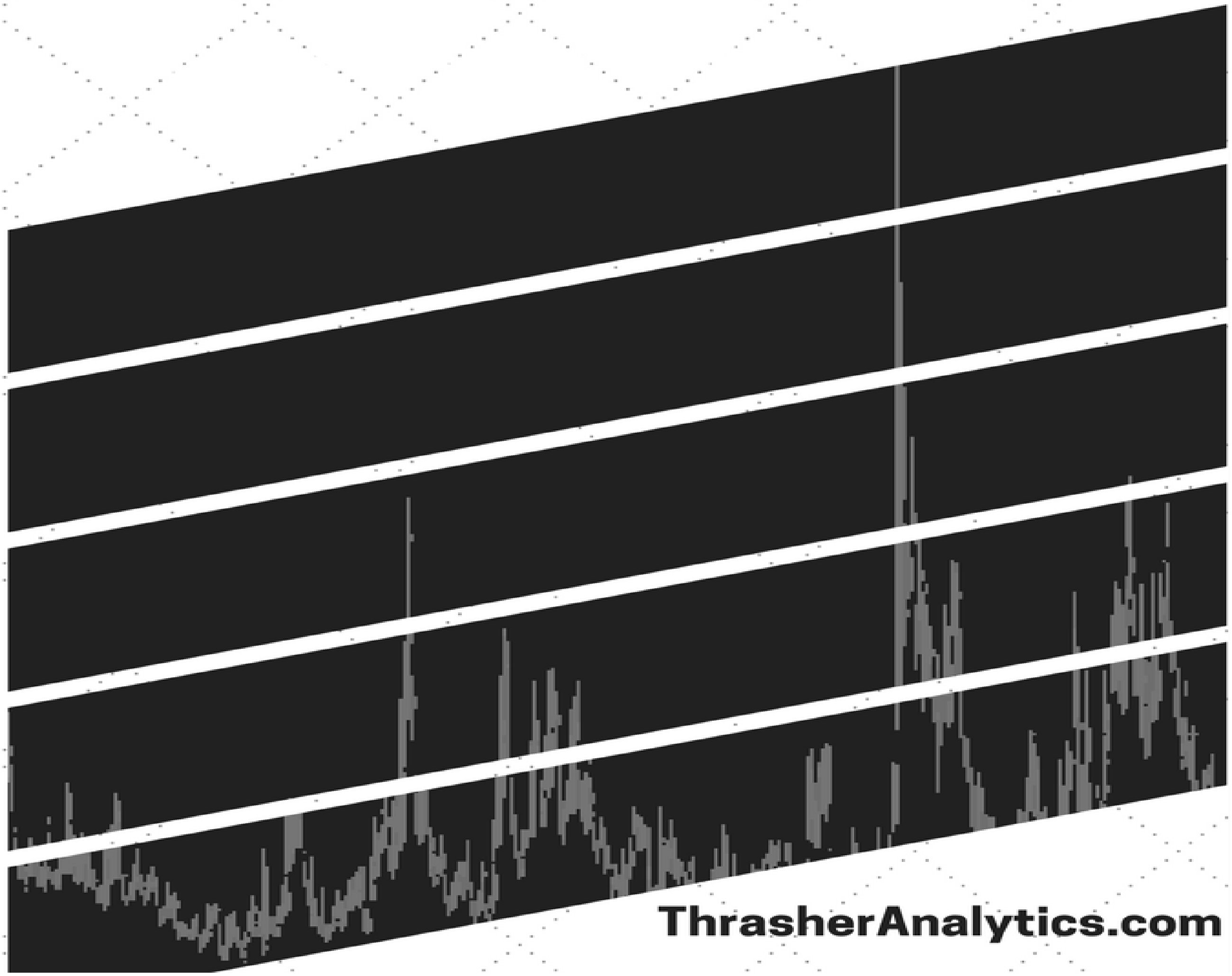
THRASHER ANALYTICS

BI-WEEKLY RESEARCH & ANALYSIS

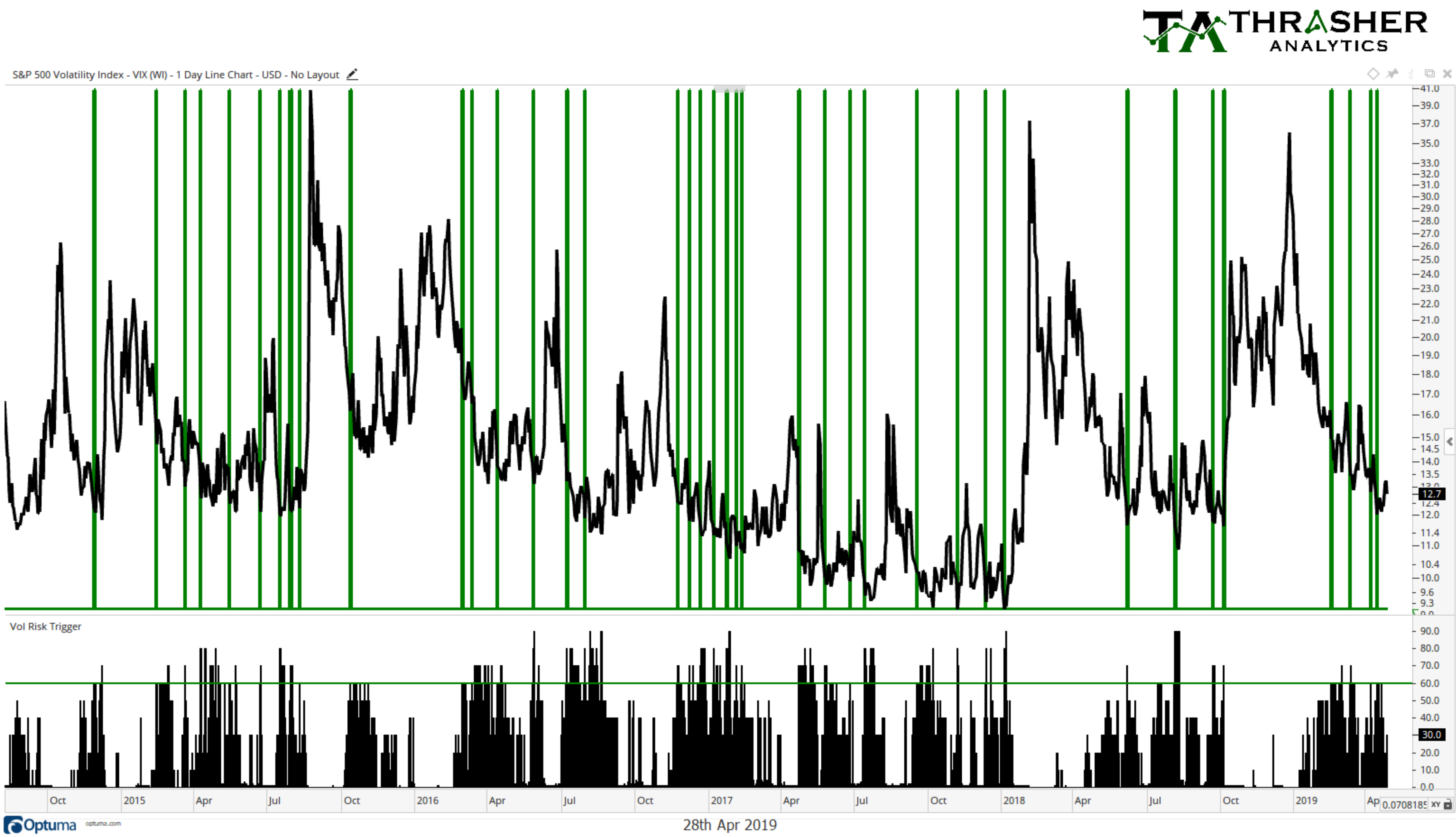


ThrasherAnalytics.com

1 Day - Watch List - No Layout

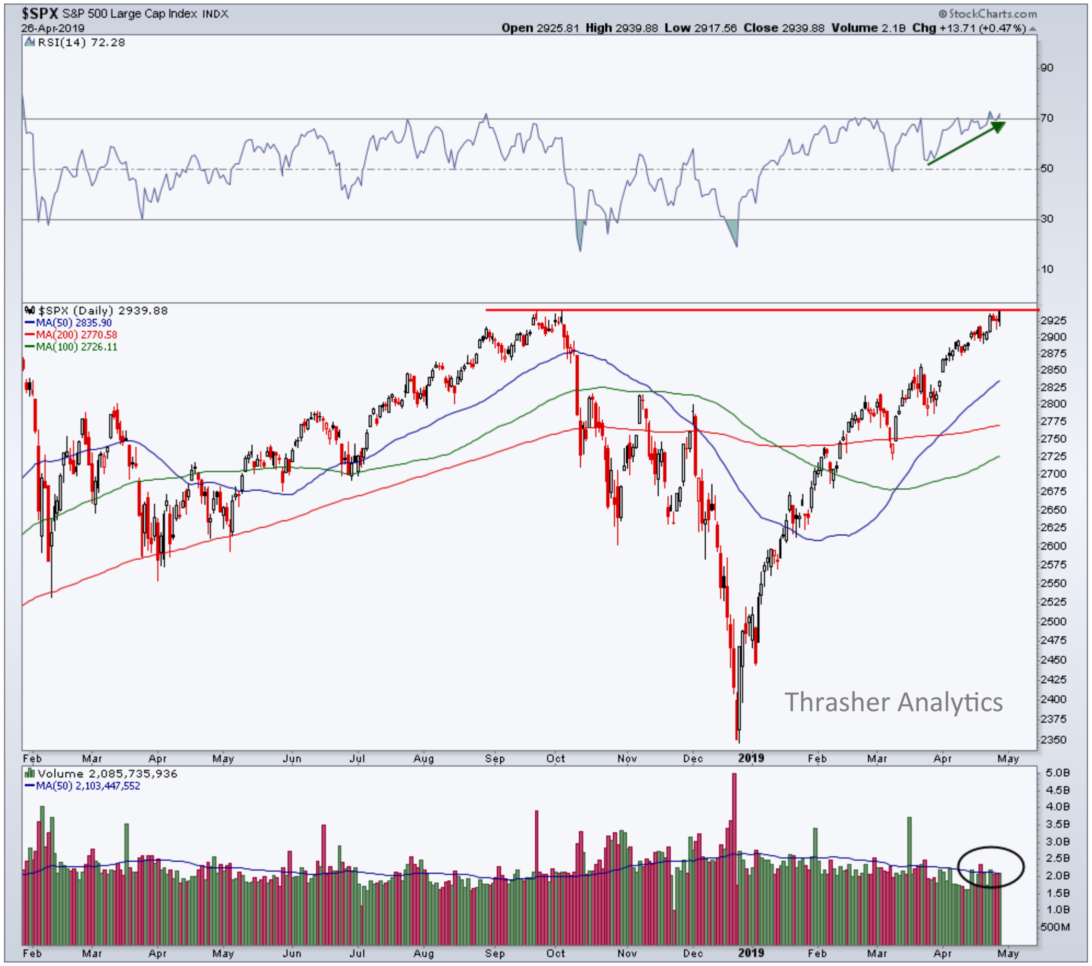
Name	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Health Care Select Sector Fund ETF	False	False	3.6%	-2.39%	0.1%	6.98%
SPDR Communication Services Select Sector ETF	True	True	3.28%	7.72%	13.81%	0.00
SPDR Utilities Select Sector Fund ETF	True	True	1.41%	-1.46%	8.96%	13.5%
SPDR Financial Select Sector Fund ETF	True	True	1.32%	8.50%	6.54%	0.14%
SPDR Real Estate Select Sector Fund ETF	True	True	1.29%	-0.17%	8.63%	17.61%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	1.17%	6.97%	12.74%	16.43%
SPDR Technology Select Sector Fund ETF	True	True	0.95%	7.03%	19.16%	19.01%
SPDR Consumer Staples Select Sector Fund ETF	True	True	0.19%	2.37%	10.15%	12.83%
SPDR Industrial Select Sector Fund ETF	True	True	-1.01%	5.31%	10.63%	5.7%
SPDR Materials Select Sector Fund ETF	True	True	-1.3%	4.60%	7.44%	-1.45%
SPDR Energy Select Sector Fund ETF	False	False	-1.44%	-0.33%	5.23%	-11.25%

Health Care was the best performing stock last week however it still remains below its 50-day and 200-day Mas, as does the worst performing sector from last week—Energy. Over the last three moths communication names, which is made up of Facebook, Google, Disney, Netflix, Activision, and Comcast.

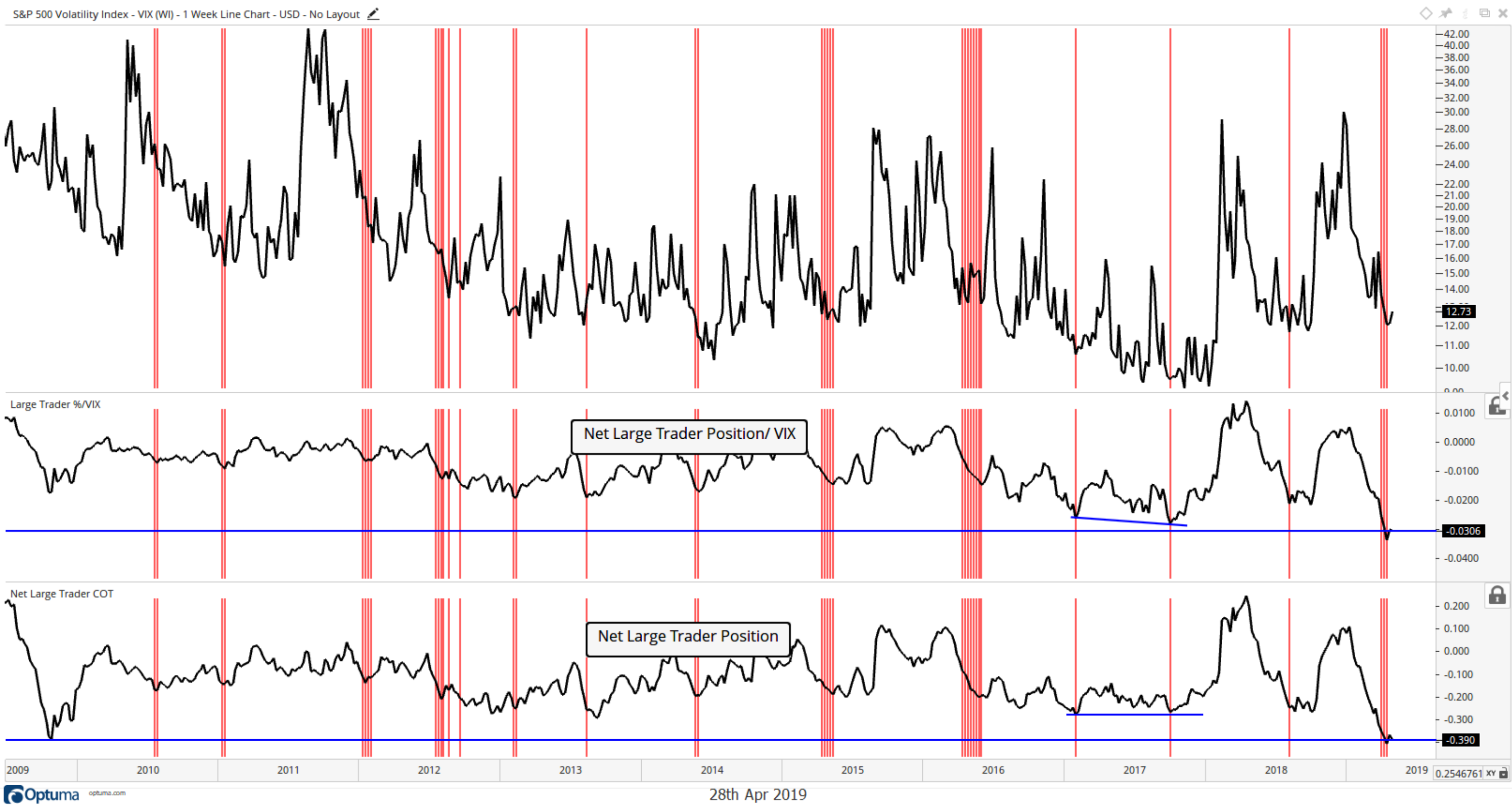


I'll be writing quite a bit in this letter about volatility, so I won't put all my thoughts on the subject on this page. The VRT remains on a recent signal as its components continue to be warning of a move higher in the VIX. In my letter two weeks ago I ended this page with the following ine and I think it continues to hold true so I'll repeat it here….

The longer we go without a move in vol, the more exacerbated it'll likely be.

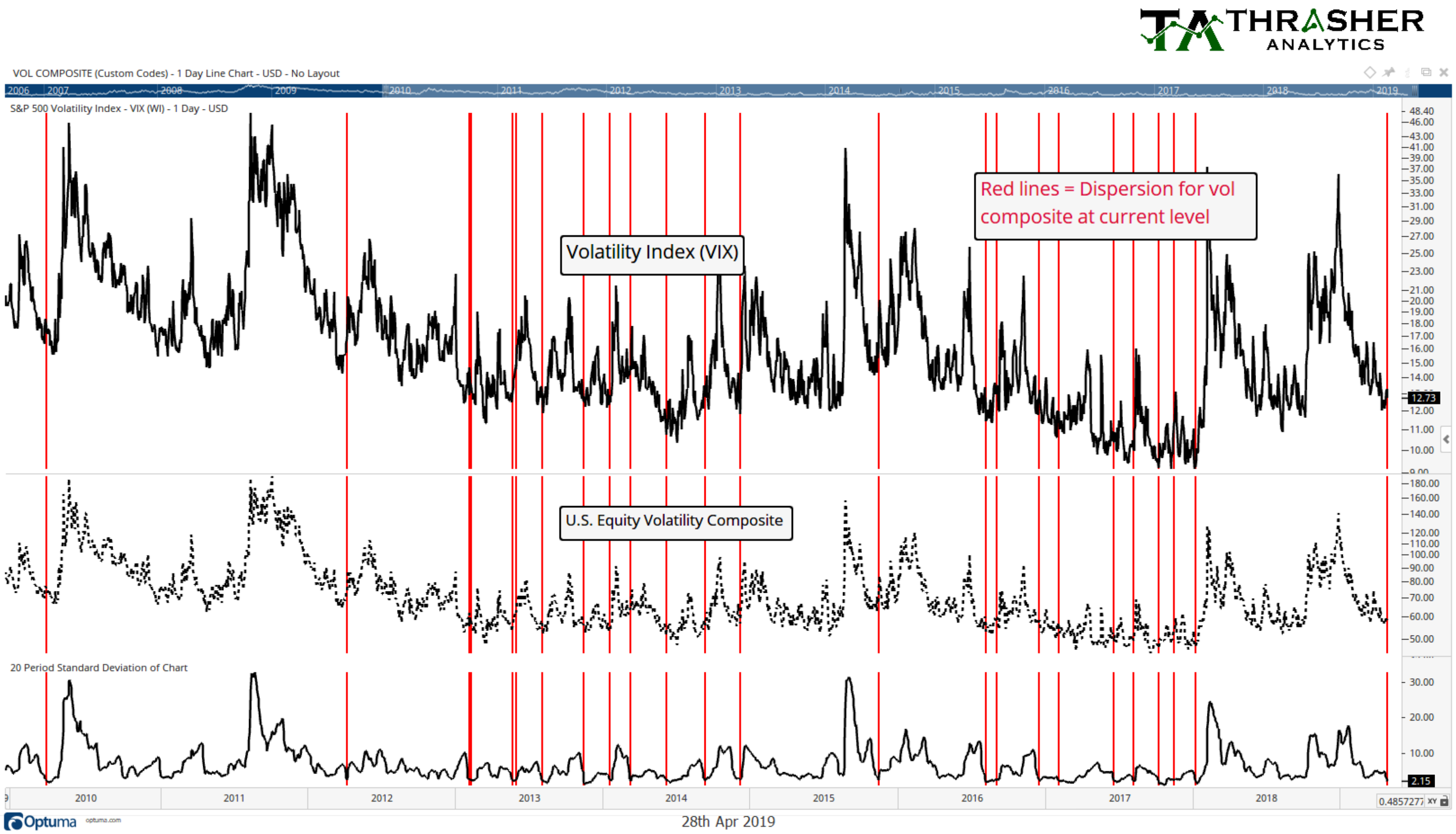


The S&P 500 finished the week back at its September high. Volume has begun to rise, with several days - both positive and negative - has entered the market (more on this later). One of the most encouraging signs for the market right now is the lack of diverging breadth. In the top panel of the chart is the RSI, which has continued to move with the market in making higher highs. While it's "overbought" right now, I believe that's more short-term bearish and longer-term bullish. An overbought momentum signal is telling us that the trend is strong. It's when it begins to diverge, making lower highs while price makes higher highs, is when I get concerned about momentum and right now we aren't seeing that.



Holy cow, I don't think I've ever seen COT data get so much attention as it is for the VIX right now. Twitter and multiple major news outlets were pushing out VIX COT charts all weekend long. There's been a very healthy "yeah its high but…" attached to this topic, which I suppose is a good contrarian sign. This is a topic I've addressed in past letters but there's one way to view COT data that I think no one else has hit on yet, so that's what I'll address here. Yes, the Large Traders are holding a massively large net-short position. I show this in the bottom panel as a percentage of Open Interest, which has fallen back to the 2009 low. However, I think it's useful to take into account the level of volatility at which these traders are taking on such a bias. Historically, were they very short VIX when it was at 20 or 12? That's important! So In the middle panel I've taken divided the net-long position by the VIX. This version of the data is well below the '09 low. I also want to highlight the January 2018 levels. The bottom panel sees large traders meet the prior 2017 level, but the strength of the size when taking into account the level of vol we see it was much larger, and we know what vol did in early '18.

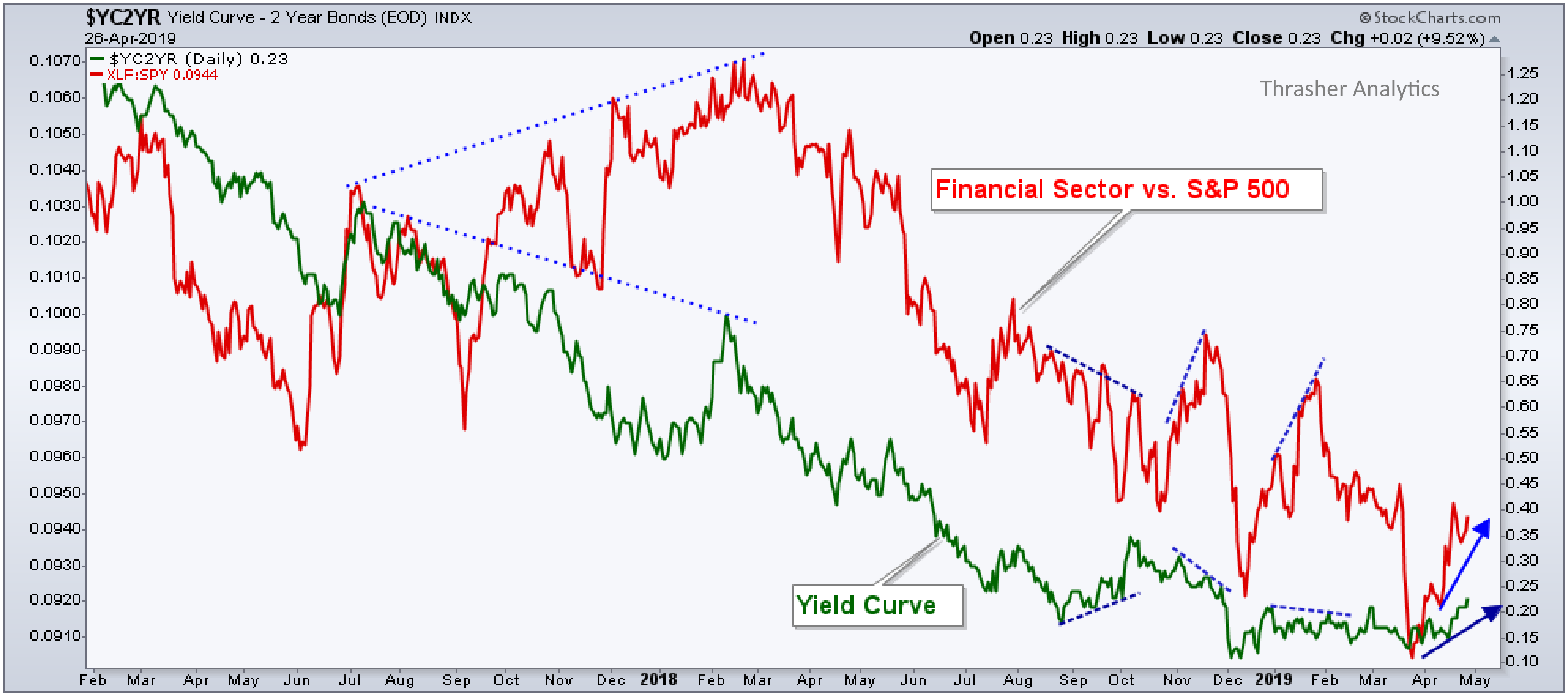
I think this is significant and the level of excessive bullishness is palatable.



Last week I wrote a guest post for Josh Brown at The Reformed Broker. The topic of the post is the compression volatility that's taking place in multiple U.S. equity indices, not just the VIX (i.e. SP500 vol). My post on Josh's site looks at the dispersion of volatility for the S&P, Dow, Nasdaq, and Russell 2000 and compares the current levels to prior occurrences in history. The chart above I've made a composite of these indices volatility (dotted line in middle panel), which gives a little different look at volatility. The red lines show when we've been at the current level of 20 -day Standard Deviation, which is the perimeter I used in my Forecasting a Volatility Tsunami paper. As you can see, the last time this happened was… January 2018 (you'll notice this date comes up a lot in this week's letter).

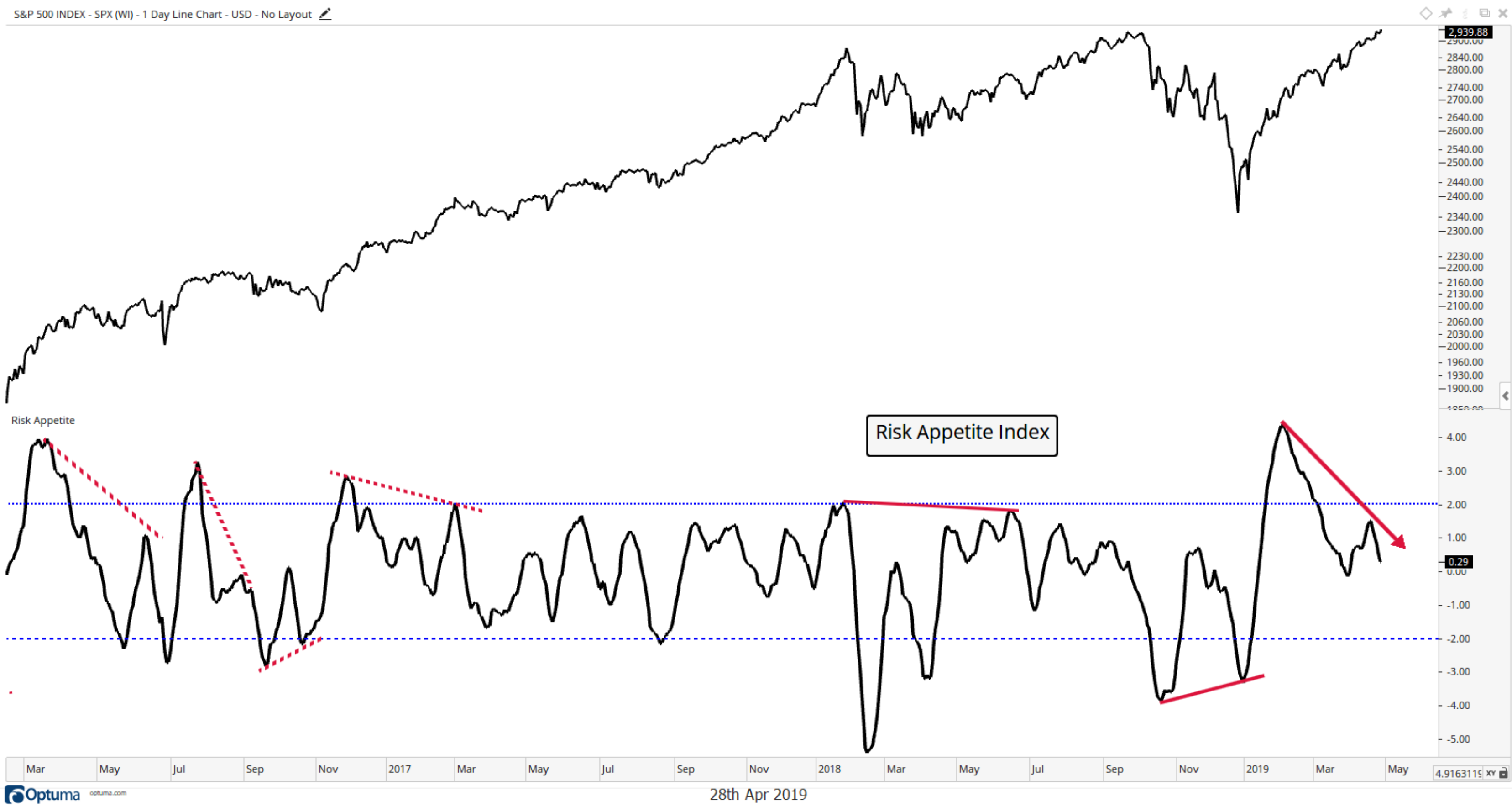
So not only is S&P 500 volatility (e.g.: VIX) being compressed, but volatility for Dow stocks, Nasdaq stocks, and small cap stocks as well. Over-confidence has seeped across the board in U.S. equities.

The Russell 2000 (IWM) has continued to struggle to break out above its prior 2019 high. The $159 level has been a major battleground for IWM and one that the bulls just don't seem to be able to win. In the bottom panel we have the relative performance of small cap stocks and large cap (SP500). IWM relative performance is beginning to near the prior December low as large caps work on holding their breakout level. It's unusual to see such weakness in small caps as large caps dominate. The last time this breakdown occurred (as you can see on the bottom panel fo the chart) was during a few months prior to the peak in SPX.



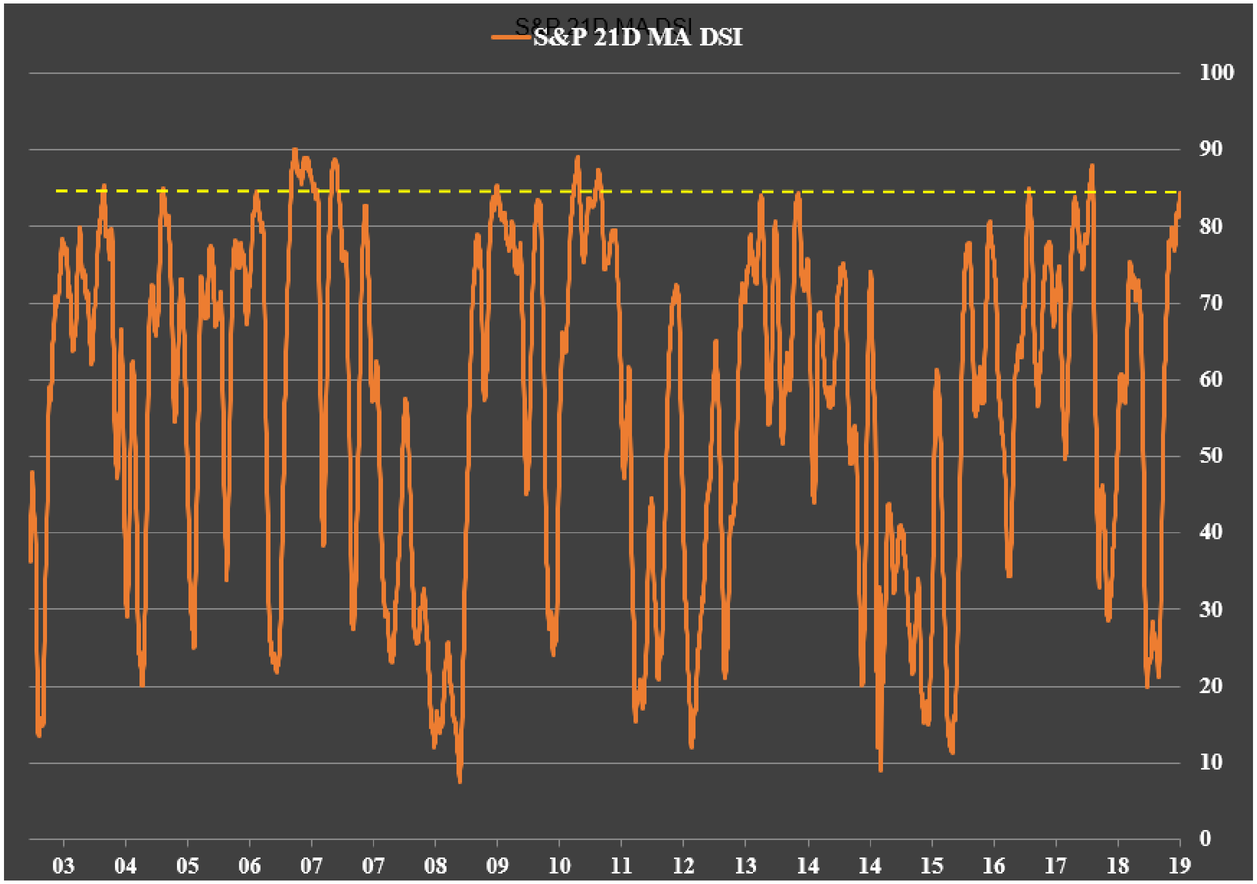
When talking about the financial sector, all that matters is the yield curve, or at least that's been the case for the last few years. Financial stocks show relative strength when the yield curve is steeping, which unfortunately wasn't the case for the bulk of 2018. Each time XLF showed some strength relative to the S&P 500, if the yield curve diverged then that strength was quickly given back. Now that the inversion of the curve is behind us, the 2yr-10yr has begun to steepen again, making higher lows. This has allowed financial stocks to attempt to gain some ground, as the ratio between XLF and SPX moves higher off the April low. If the curve can continue to rise (steepen) then this short-term trend in XLF should continue, however if the curve begins to flatten again then XLF will have a headwind squarely against it.

Risk Appetite Continues to Stink

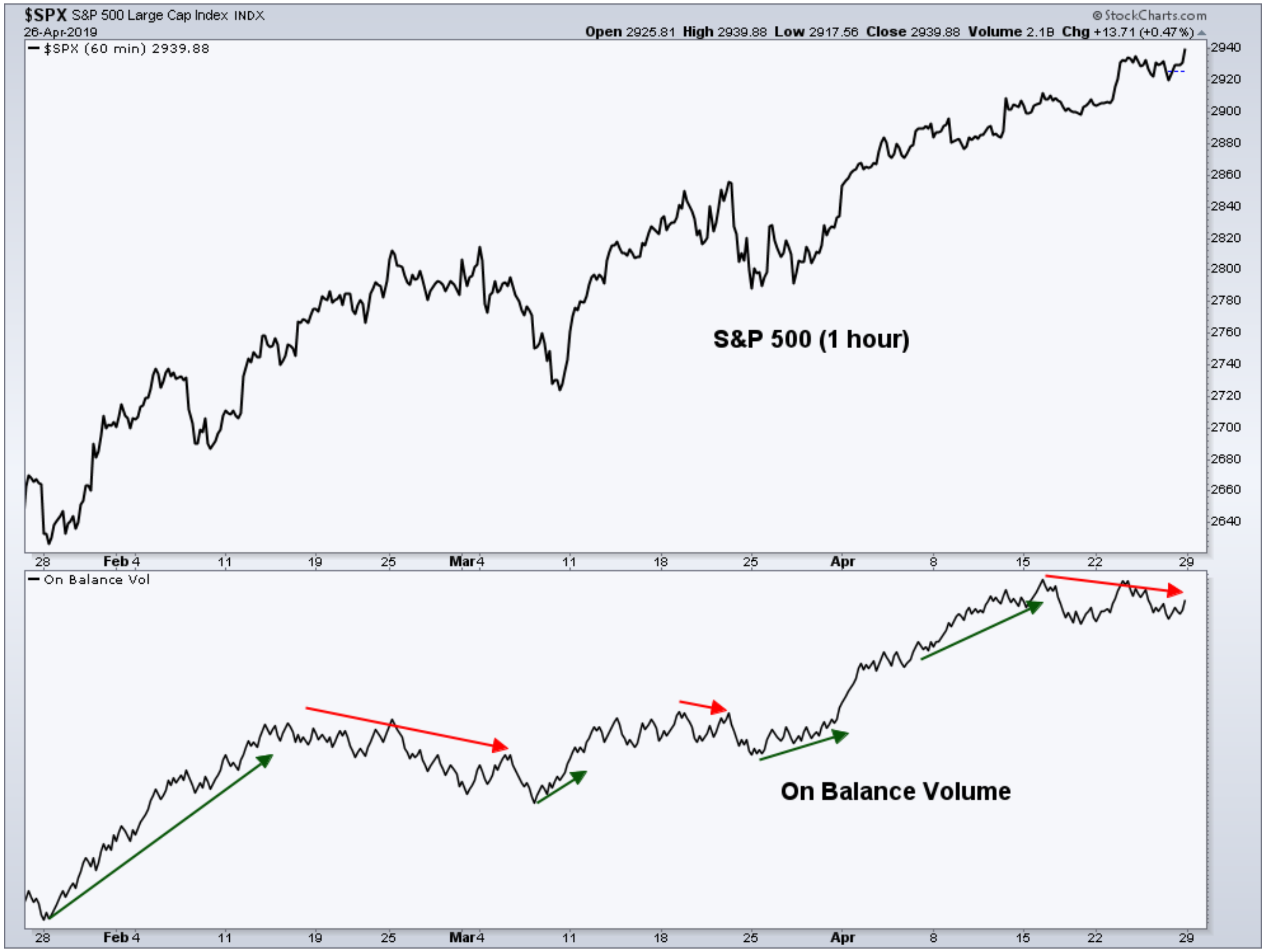


We now have a clearly defined divergence in the Risk Appetite Index (RAI). After turning lower below 2, the RAI has made a lower high relative to the index, a pattern that doesn't bode well for equities. However, I'll point out that we've seen several divergences in the last few years that were ignored by the equity index, such as in 2016 and the RAI never really confirmed the strength off the March low in '18 as it remained relative flat as the SPX made a slight new high before giving it all back in the fourth quarter. Will SPX continue to rise without support? We'll see.

Here's another view of risk appetite, with the broken out components. As you can see, equal weight, high yield and small caps all are weakening relative to the S&P 500. High Beta has begun to flatten out and didn't make a higher high with the index but hasn't begun to make a new down trend quite yet. But from a risk perspective, there doesn't seem to be a matching of risk appetite with what sentiment data shows which I'll highlight on the next page.



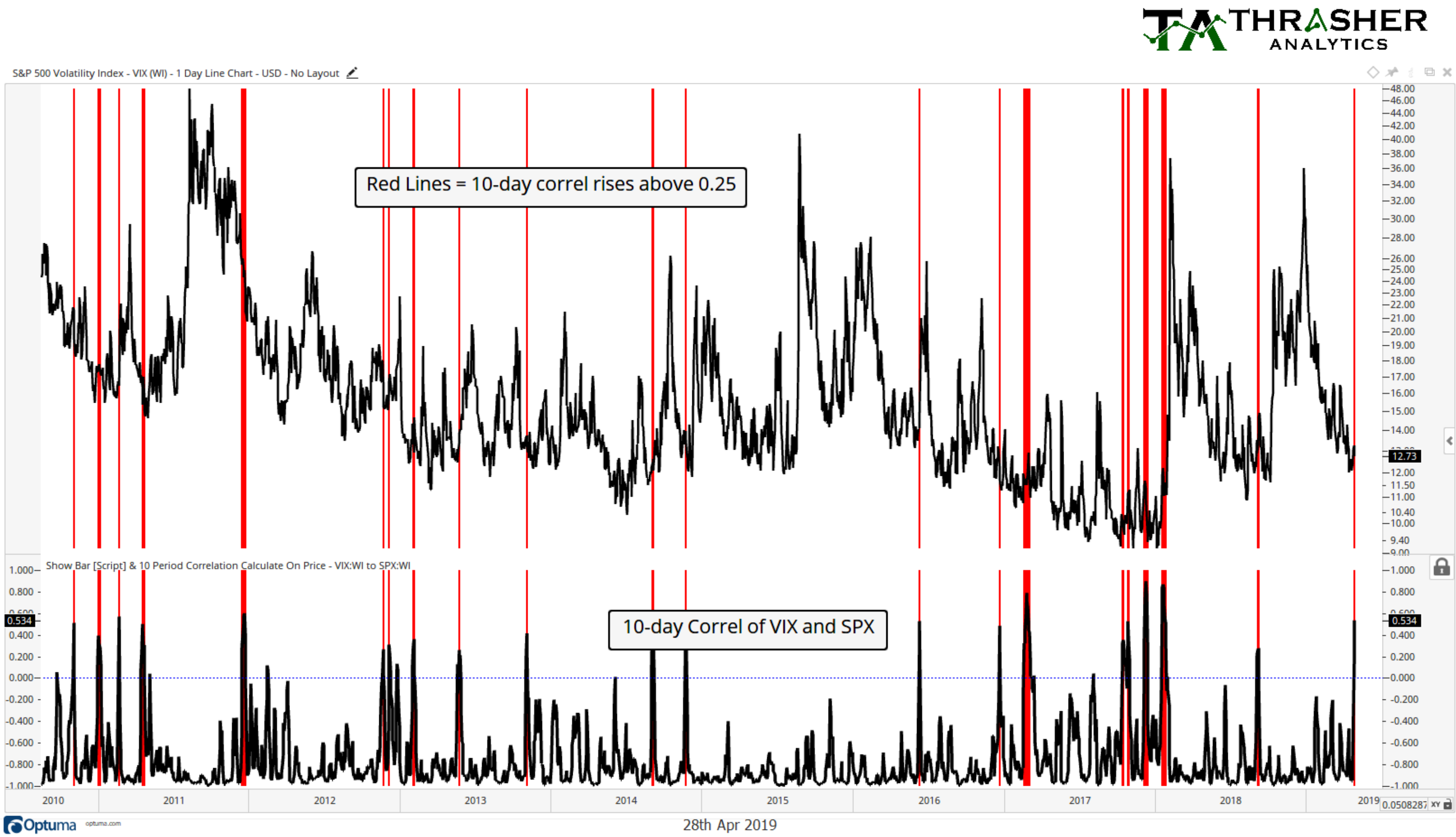
In my last letter I mentioned that the Daily Sentiment Index (DSI) for the Nasdaq and S&P 500 had risen substantially, both breaking 90% bullish at one point. The above chart from David Brady, shows a 21-day (1 month) average of the S&P 500 Bullish%. As you can see, it's hit a level we don't see very often. In fact, the only times the 1-month average has been this high: December '17 (before the Q1 '18 correction), mid-2016 before a 5% dip, 2010 before the 'flash crash', after the bottom in '09, and 2007.



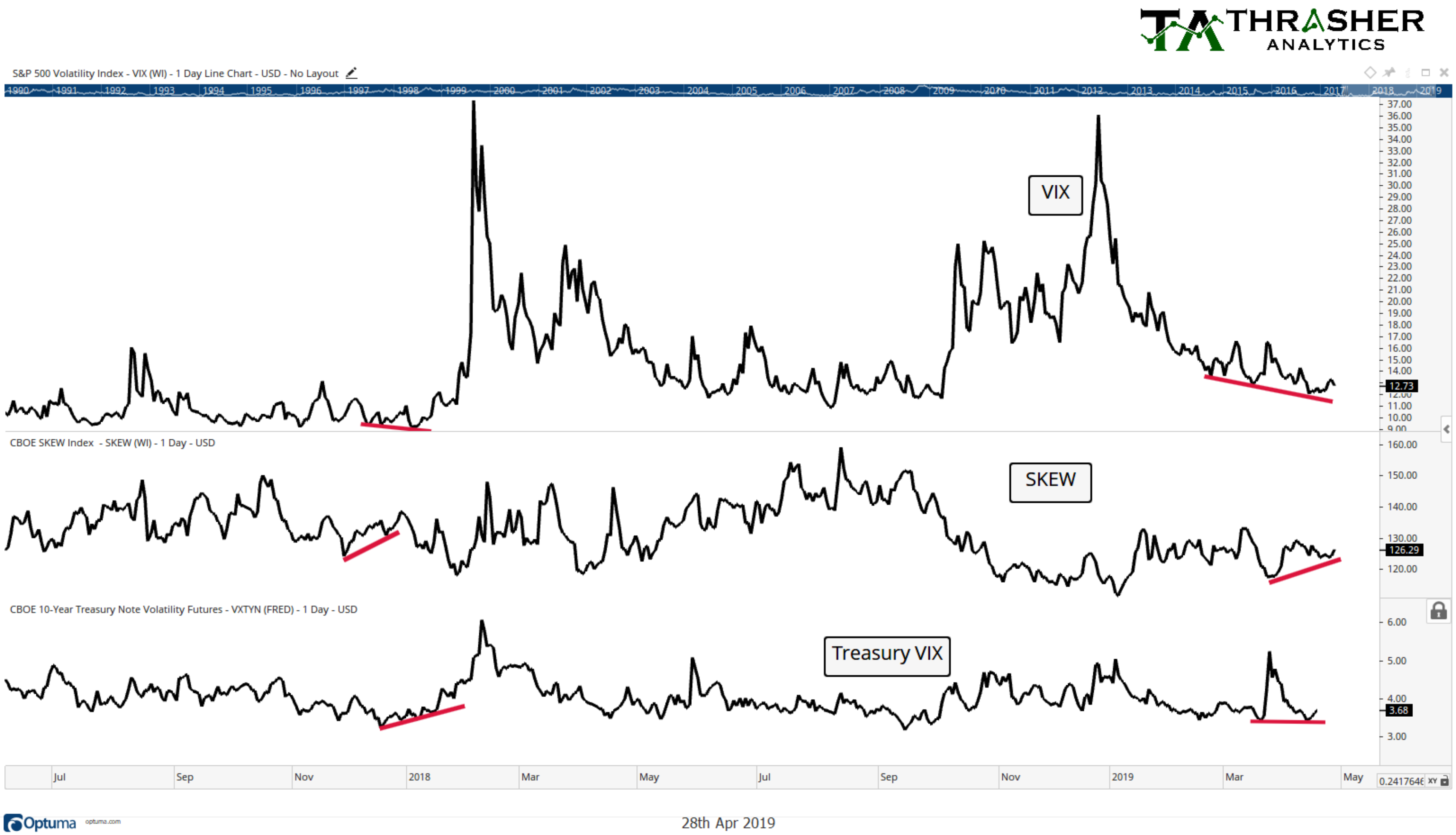
The volume profile for the S&P 500 has confirmed the trend in equities for most of April, making higher highs right along with price. However, recently there's been a bit of a divergence as On Balance Volume hasn't confirmed the latest rise in price due to more volume coming into the market on down ticks, a sign of potential distribution. I'll be watching this week to see if volume continues to have a negative bias or this corrects itself and buyers step back in.

U.S. Sector Relative Performance Dashboard

Above are the relative performance charts for the nine main S&P sectors. Health Care, as mentioned earlier, has begun to improve its relative performance trend, as has the Financial sector. These two join the two up trends enjoyed by Technology and Consumer Discretionary. The other six are all in defined down trends in relative performance.



The Volatility Index and the S&P 500 typically are negative correlated. However, when that correlation shifts and they become positively correlated this has had a large impact on the VIX (and lesser extend equities). Above I've plotted the 10-day correlation between the VIX and S&P 500, which sits at 0.53 as of Friday. I've drawn red lines when 10-day correl breaks above 0.25, as it did in September of last year and… January of last year (there it is again!). In fact, we've seen some sizable reactions in volatility when correl becomes positive to the degree it is now. Note, correlation got above .5 on January 16th. So it took a few weeks before volatility began to materially move higher into the eventual sizable spike in early February.



I've shown this chart a few times but I wanted to provide another update because I think it's telling. SKEW and Treasury VIX continue to make higher highs (SKEW) or hold above their prior low (Treasury) as the VIX has made consecutive lower lows since February. When did we see this happen before… January 2018!

Very soon I'll be rolling out my adaptive trend model. This has been a project of mine for quite a while and it's nearing a point where I'll be ready to make its debut. I'll have more details on it when I release it but I'll say that it adapts to changes within price action, volume, momentum, and breadth to determine the trend bias.

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