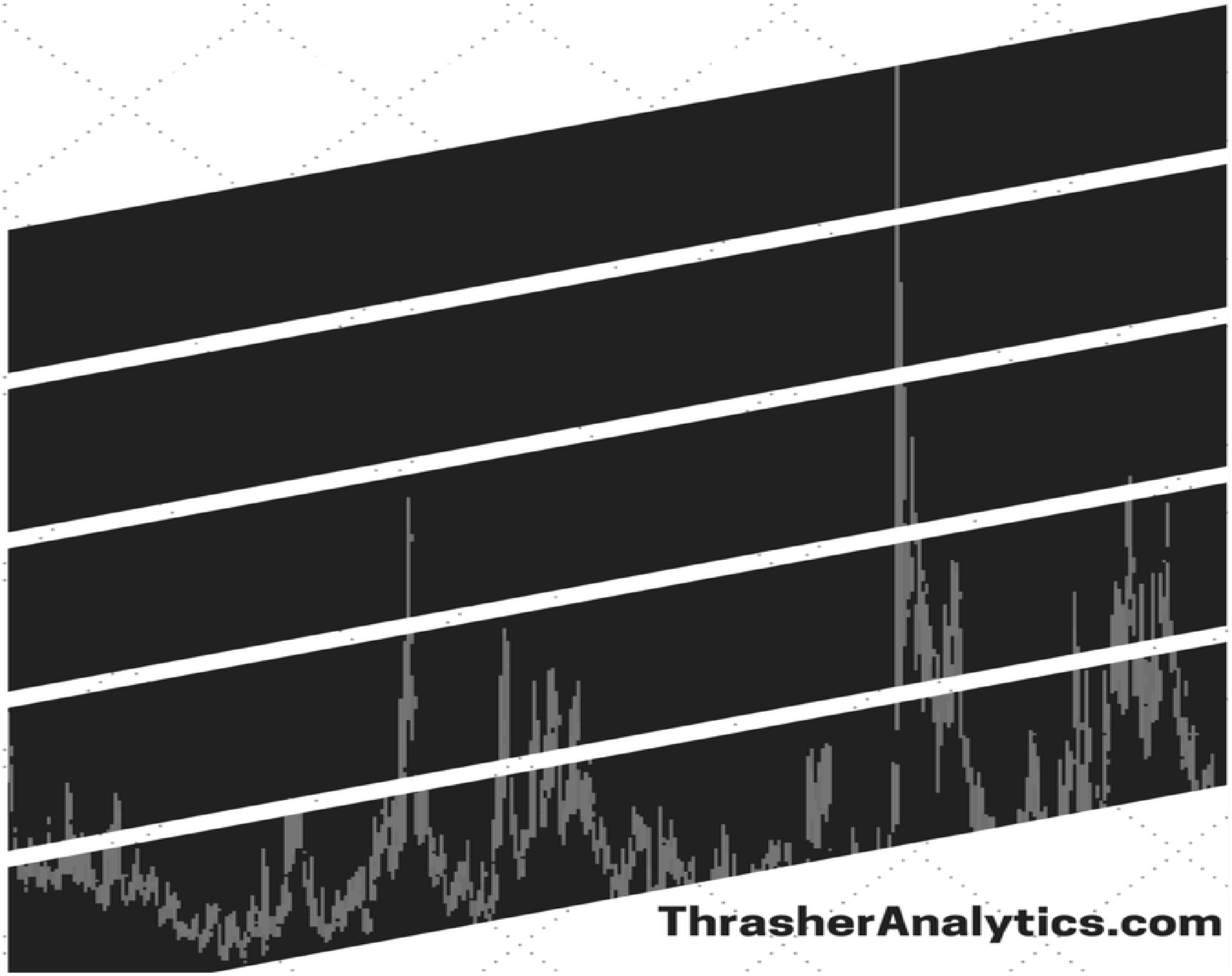
THRASHER ANALYTICS

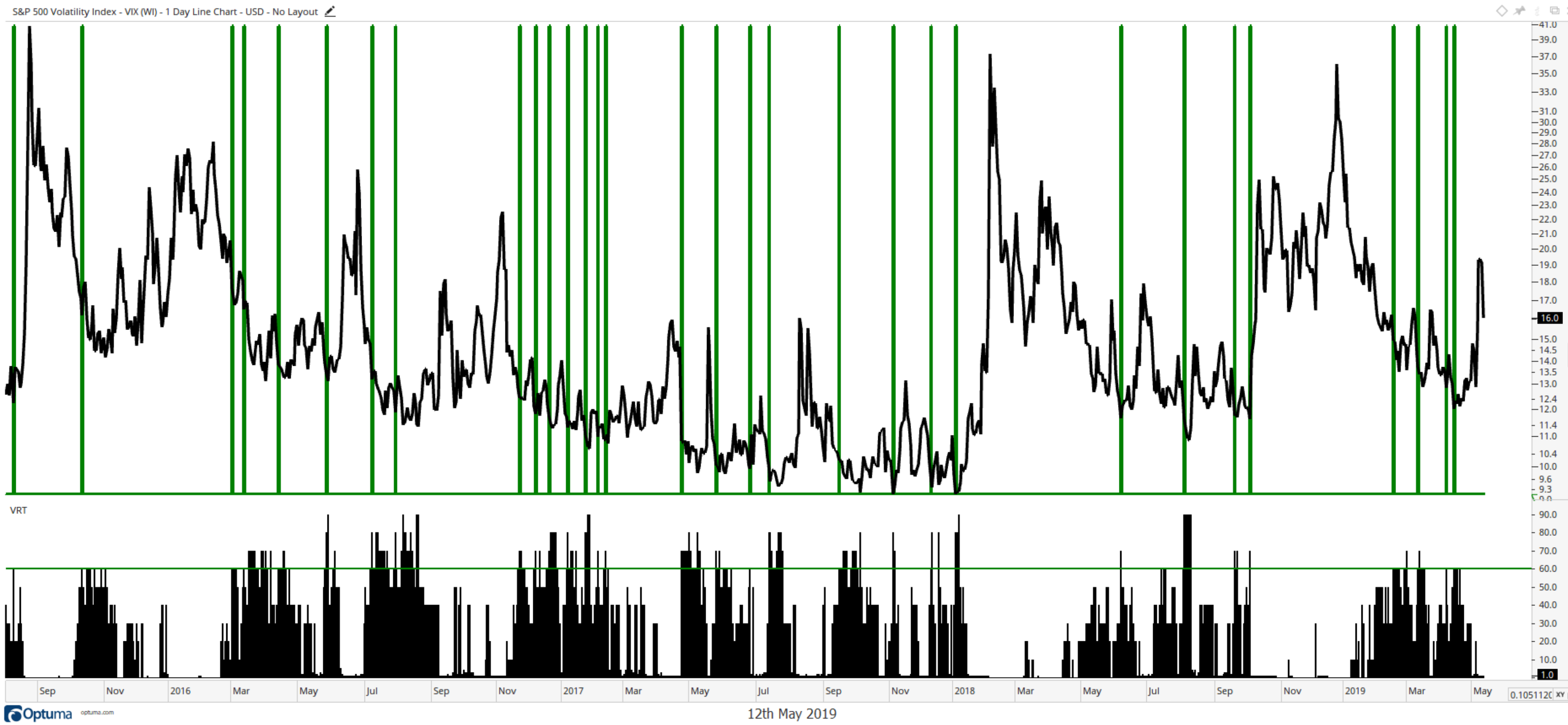


ThrasherAnalytics.com

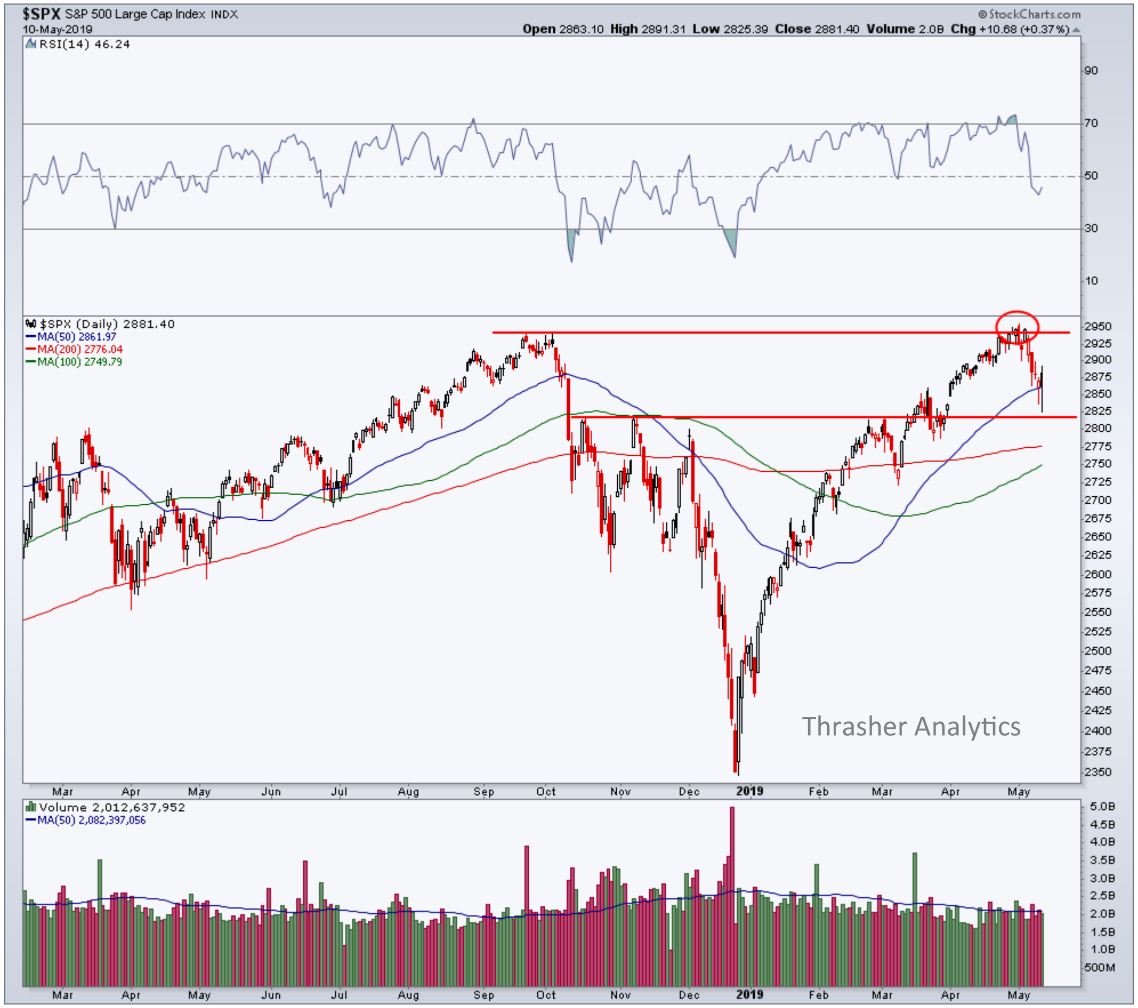
BI-WEEKLY RESEARCH & ANALYSIS

Name	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.17%	2.50%	6.54%	15.68%
SPDR Energy Select Sector Fund ETF	False	False	-0.31%	-4.87%	1.76%	-16.41%
SPDR Utilities Select Sector Fund ETF	True	True	-0.58%	0.54%	4.09%	15.21%
SPDR Real Estate Select Sector Fund ETF	True	True	-0.66%	-1.20%	4.45%	13.98%
SPDR Health Care Select Sector Fund ETF	False	False	-1.39%	-3.12%	-1.15%	8.68%
SPDR Communication Services Select Sector ETF	True	True	-1.96%	1.11%	7.39%	0.00
SPDR Financial Select Sector Fund ETF	True	True	-2.1%	3.74%	7.05%	-2.83%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-2.34%	-0.13%	9.48%	12.06%
SPDR Materials Select Sector Fund ETF	False	False	-2.7%	-3.92%	4.63%	-6.4%
SPDR Industrial Select Sector Fund ETF	True	True	-2.72%	0.86%	4.38%	2.31%
SPDR Technology Select Sector Fund ETF	True	True	-3.37%	-0.26%	12.05%	8.86%

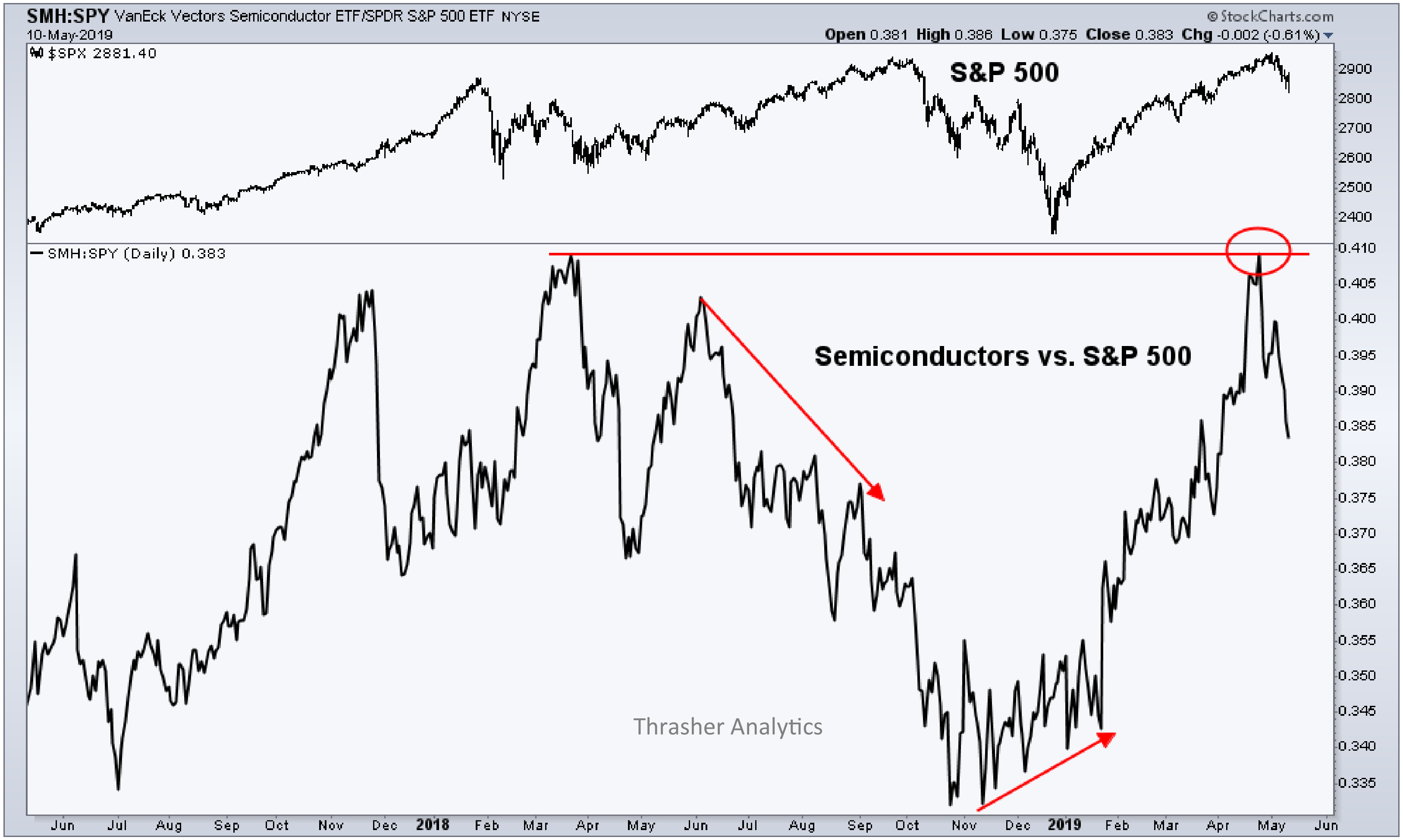
All eleven sectors finished in the red after the S&P 500 closed down by the largest weekly total for 2019. Energy, Health Care, and Materials are now below their respective 50-day and 200-day Moving Averages, although Health Care and Energy finished the week in the top half of sector performance.



From the April low to last weeks high the Volatility Index rose nearly 7.5 points (55+) which was one of the largest 2-day and 5-day increases in volatility that the market's experienced in over a decade. I appreciate the kind words I've received from you this week after the VRT and my other warnings of a rise in volatility gave ample notice to what flooded the market following Trumps tariff tweet. As I said during an interview on TD Ameritrade Network on Tuesday and I wrote in my special update—the VIX appeared like it had a little more room to run but wasn't stretched just yet, that was fixed by the additional move higher before it did in fact reach levels that appears quite lofty. I said on TDA Network that I felt we'd finish he week w/ an elevated VIX but did not see a threat of a move materially higher. Friday saw volatility begin to move lower, even with the bearish news of no trade agreement with China. This week brings additional headline risk from all directions: Iraq, North Korea, China, ECB, and/or Turkey. There's quite a bit going on across the globe, adding fuel to the fire at an inopportune time.



The S&P 500 moved lower by nearly 2.5%, assisted with Friday's bounce off the 50-day Moving Average. The biggest concern for the SPX chart is the potential for the firming up of a false breakout above the prior September high. The initial breakout did not bring with it a momentum divergence from the 14-period RSI, but there was a plethora of breadth data and risk appetite ratios that have been diverging (more on this later). On an intraday basis the SPX was able to fill the gap from April first. If we do see more weakness the first potential level of support I'll be watching is around 2800-2820, the pivot highs from October and November and the short March low.



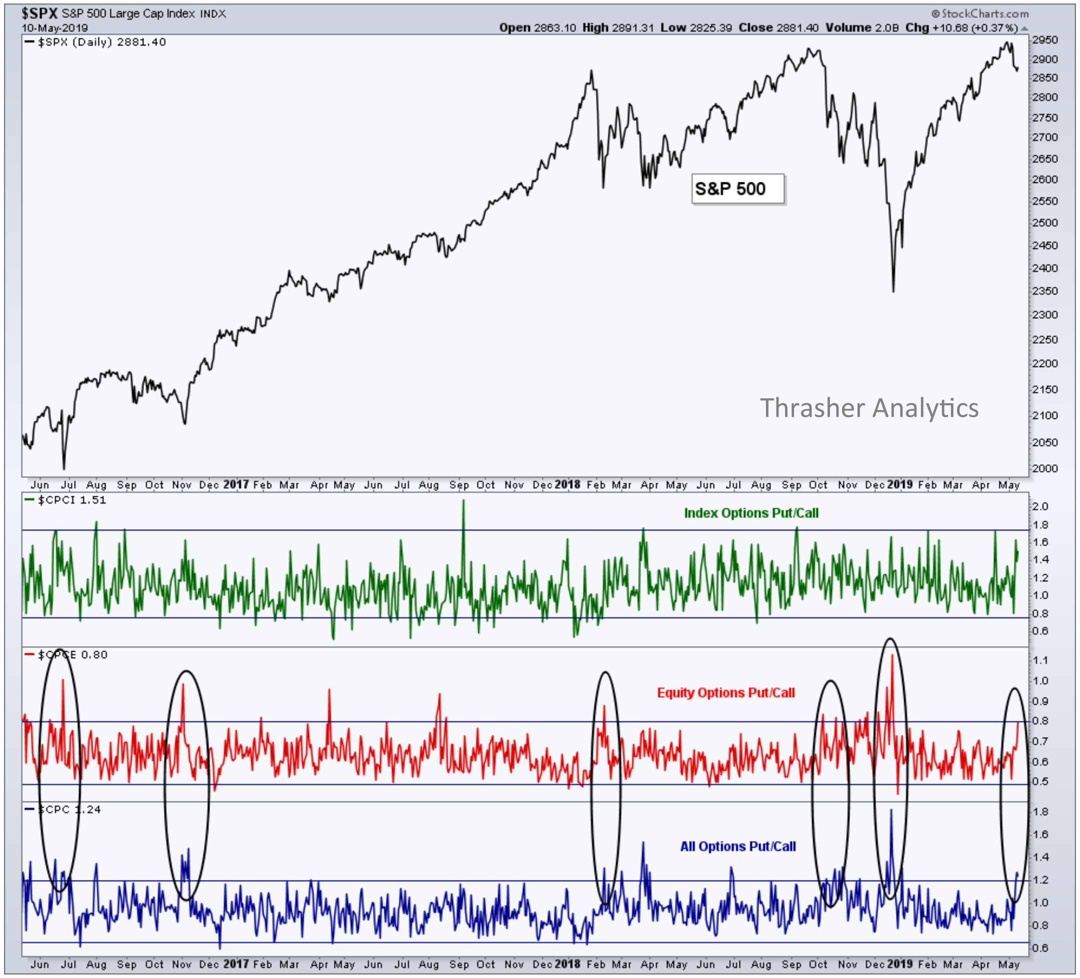
The ratio between the semiconductor ETF (SMH) and the S&P 500 (SPY) has created a double top with the prior March high . This occurred just before the drop in the major large cap index. Semiconductors, as I wrote back in 2013, have become the new "dr. copper' as a barometer for the market now that we've moved from being an industrial-focused nation to one built on its technology. Semis have been leaders and created divergences that have given good notice of a possible trend change for the market as a whole. We saw them turn lower in the summer of last year and begin rising a few weeks before the December bottom in the S&P 500. Now once again we have semis declining in relative performance, failing to hold their March high. This is a development we'll want to see corrected to get confidence the latest dip in U.S. equities will be short-lived.

Another market leader is the software space, which has lead the market higher for the last couple of years. Unlike Semiconductors, software stocks still remain above their prior highs, holding firm in their 2019 breakout in both relative and absolute terms. However, weekly momentum has yet to break back above 70 and confirmed the move higher in price. There's a slight divergence that's built up that I'll be watching closely. Software stocks could see a headwind from semiconductors if investors believe there's trouble brewing in tech, the 2018 high needs to hold firm if we do see a move lower in IGV, but so far the move higher looks good and hopefully stays that way.

While the NYSE Advance-Decline Line has not diverged from price, momentum has begun to diverge from the breadth gauge. The chart to the left shows the RSI momentum indicator for the A-D Line with the S&P 500 in the bottom panel.

Just like ahead of the September and January peaks of 2018, momentum for breadth began to wane. Going back further we saw it weaken in Dec. '17, which stocks ignored for a little while longer before declining. Then we have the 2016 divergence which saw a brief response in price moving lower. Finally, the 2015 divergence that resulted in a multi-month correction/mini bear market.

Once again momentum has declined and price has slightly begun to respond with last weeks 2.5% dip.

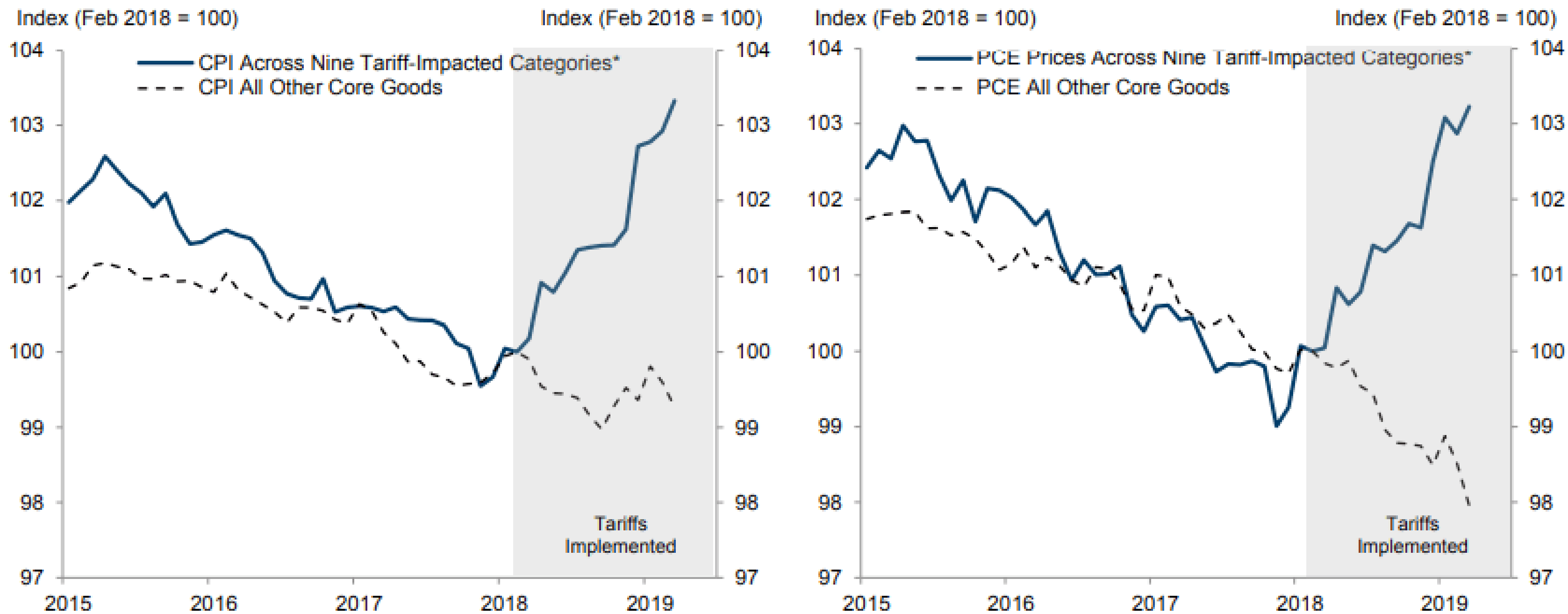


It didn't take long for the put/call ratios to move higher last week. Even though stocks rallied slightly on Friday, the equity P/C and all option P/C ratios moved to historical extreme levels. I've added black circles when these two ratios move higher together. We saw this happen several times as a bottom was found last December but also in early October as well when stocks had barely declined. The three prior occurrences all marked capitulation with stocks bouncing there after. The episode in October is what's most concerning. The Equity Put/Call Ratio hadn't seen much activity all summer and then stocks dipped a few points and investors flocked to add put protection, a sign that weak hands had surfaced as traders got nervous about their equity exposures. Once again we have a slight dip in stock prices and already put protection is the thème du jour.

What I've been writing about for the last couple of letters regarding risk appetite not confirming the latest advance in stock prices began to get confirmed by the S&P 500 last week.

It's interesting to note that equal weight actually improved during last week's selling while high yield, high beta, and small caps moved lower in relative performance. Small caps did put in a higher low after getting a small bounce off the April low, but the ratio still remains near 2019 lows.

Exhibit 5: The Impact of the Tariffs on Consumer Prices Is Clearly Visible



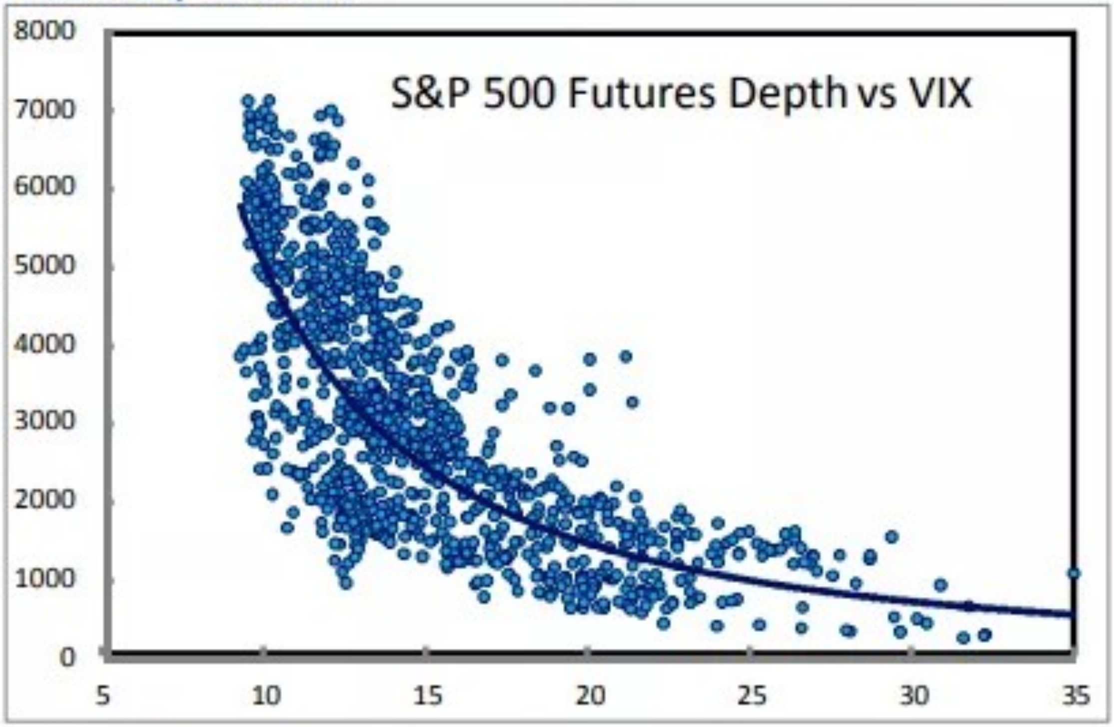
*Includes laundry equipment and other appliances, furniture, bedding, and floor coverings, auto parts, motorcycles, and sport vehicles, housekeeping supplies, and sewing equipment and materials. Weighted by relative importance to headline index.

Source: Department of Labor, Department of Commerce, Goldman Sachs Global Investment Research

This chart comes from Goldman Sachs, who wrote a recent note highlighting the rises in tariff-impacted CPI and PCE categories that's not showing up in other CPI and PCE data. Goldman wrote, "The costs of US tariffs have fallen entirely on US businesses and households, with no clear reduction in the prices charged by Chinese exporters […] the effects of the tariffs have spilled over noticeably to the prices charged by US producers competing with tariff-affected goods."

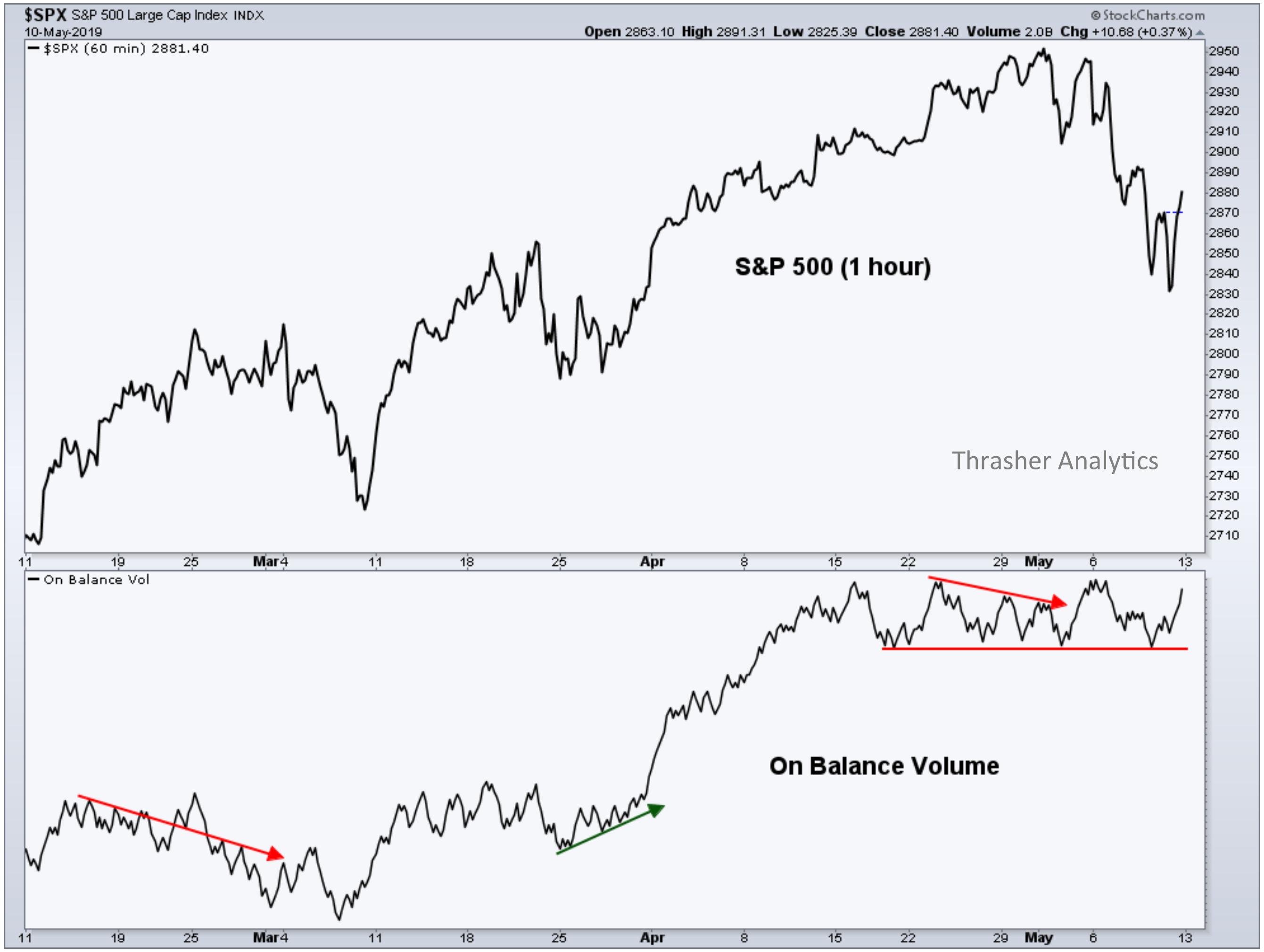
Here's the black swan risk that I don't think the market has full grasped just yet… The Fed has stated repeatedly that they are on hold with their rate policy due to inflation remaining subdued. While 'natural' forces would have a slow impact in raising the inflation rate, the man-handling of the cost of goods by the White House could throttle inflation and catch the Fed flatfooted, bringing up rate hikes once again while the market remains doe-eyed about the likelihood of a cut.

Figure 1: S&P 500 E-mini futures depth shows a strong (exponential) relationship to the VIX



Source: J.P. Morgan QDS.

I've shared this chart from JPMorgan before but with the recent rise in the VIX I wanted to share it again as a reminder. JPM analysts found that with the rise in volatility, liquidity in e-minute futures exponentially dries up. When we were back near a 12 VIX that was less of a concern but with the latest move a few notches north of 20, liquidity becomes a much bigger topic that can have rippling effects if volatility remains elevated and additional market fears enter center stage. Liquidity isn't a concern until it's in hot demand, which occurs when traders are forced to liquidate positions or chose to from a discretionary strategy. With the rise in short-volatility and volatility targeted strategies, force selling occurs as strategies must adjust to a higher reading in the VIX. This becomes a moot point if volatility does in fact not stay elevated and retreats back to becoming a teenager, we'll know more this week based on if the VIX moves back north of 20 or continues to decline as it did on Friday.



The volume profile for the S&P 500 began to confirm the dip in on balance volume last week but remained broadly bullish as buying volume held the cumulative indicator above its prior April lows even though price showed a greater decline. Overall, volume last week did not show signs of extreme fear or panic, actually just the opposite in fact.

U.S. Sector Relative Performance Dashboard

12th May 2019

The Financial Sector has continued to strength, reclaiming the April low. Materials have retreated back to the 2015/2018 lows. Consumer Staples have firmed up a bit as well.

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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