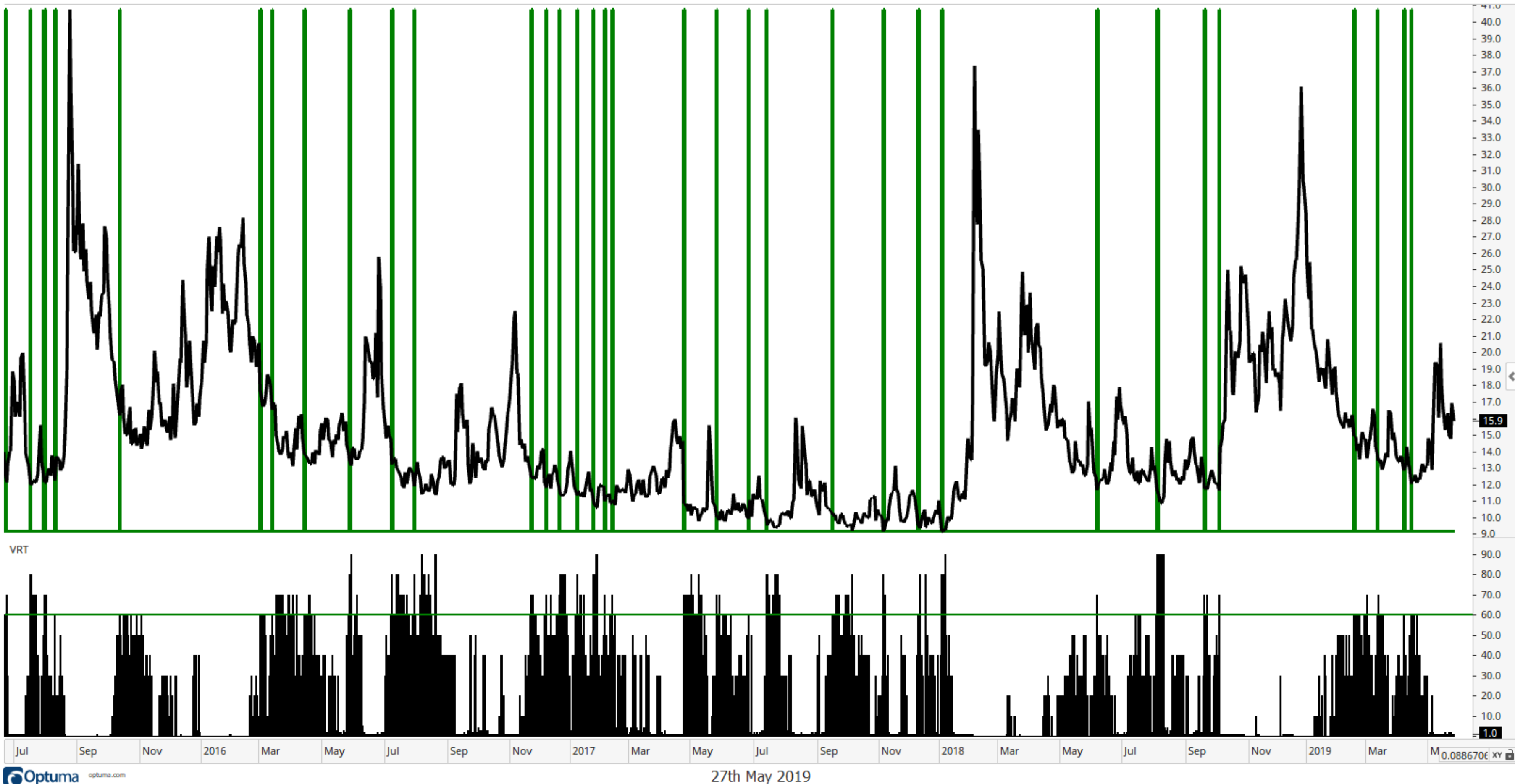
BI-WEEKLY RESEARCH & ANALYSIS

ThrasherAnalytics.com

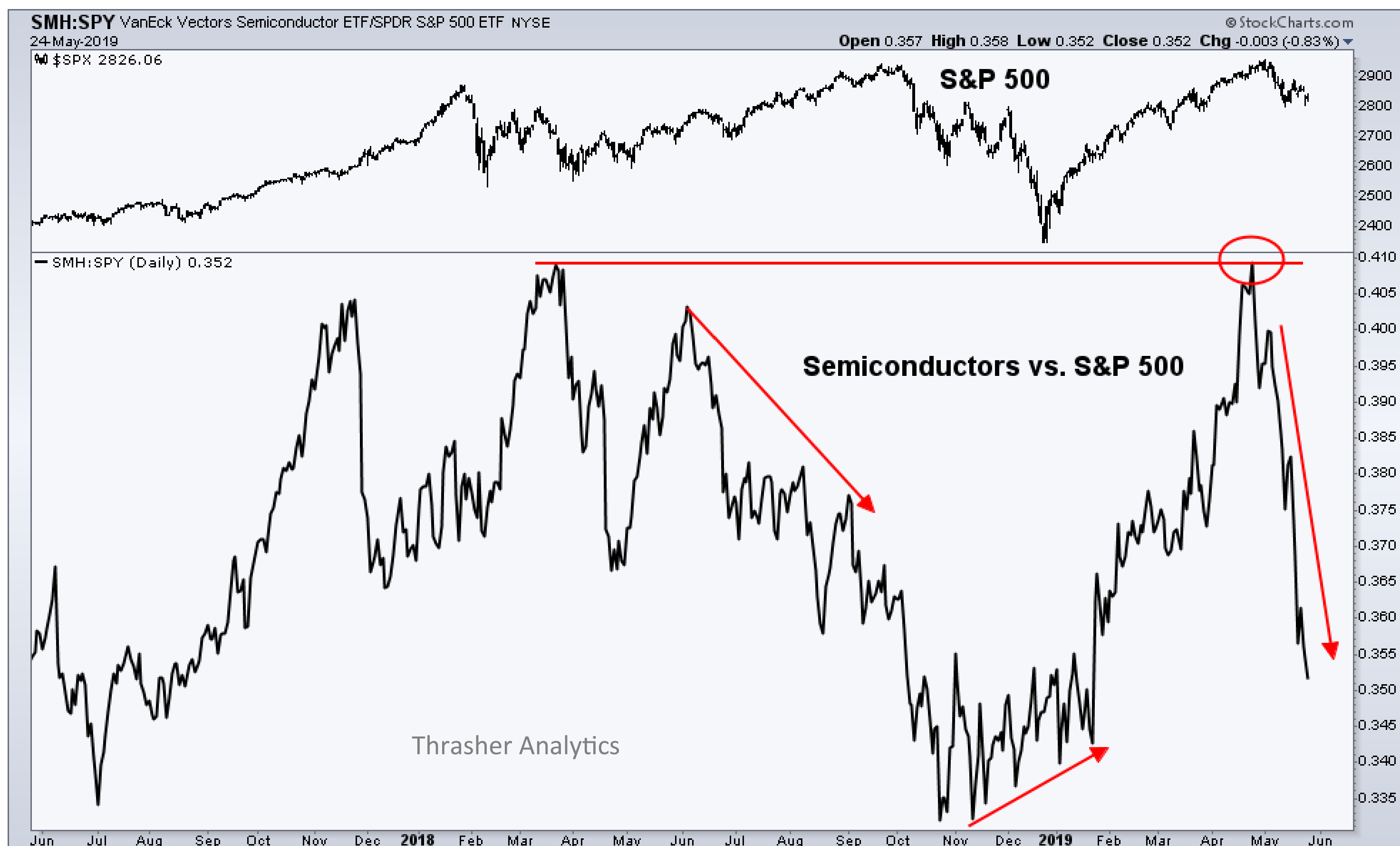
Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Utilities Select Sector Fund ETF	True	True	1.79%	3.57%	4.87%	18.99%
SPDR Health Care Select Sector Fund ETF	False	False	1.27%	2.67%	-3.23%	7.83%
SPDR Real Estate Select Sector Fund ETF	True	True	0.3%	2.68%	4.76%	18.4%
SPDR Financial Select Sector Fund ETF	True	True	-0.07%	-1.97%	1.51%	-3.87%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.4%	1.21%	5.68%	15.5%
SPDR Industrial Select Sector Fund ETF	False	False	-1.39%	-6.04%	-3.19%	-2.7%
SPDR Materials Select Sector Fund ETF	False	False	-1.57%	-6.17%	-3.57%	-9.34%
SPDR Communication Services Select Sector ETF	False	True	-2.08%	-3.65%	4.15%	0.00
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	-2.14%	-5.75%	2.09%	7.04%
SPDR Technology Select Sector Fund ETF	False	True	-2.76%	-7.07%	3.77%	5.01%
SPDR Energy Select Sector Fund ETF	False	False	-3.34%	-8.44%	-6.3%	-19.52%

Three sectors finished positive last week, with the focus of the gains being in the defensive sectors of Utilities, Health Care, and Real Estate while Energy, Tech, and Consumer Disc. Finished at the bottom. Four sectors have already given up their 200-day Moving Average: Health Care, Industrial, Materials, and Energy.

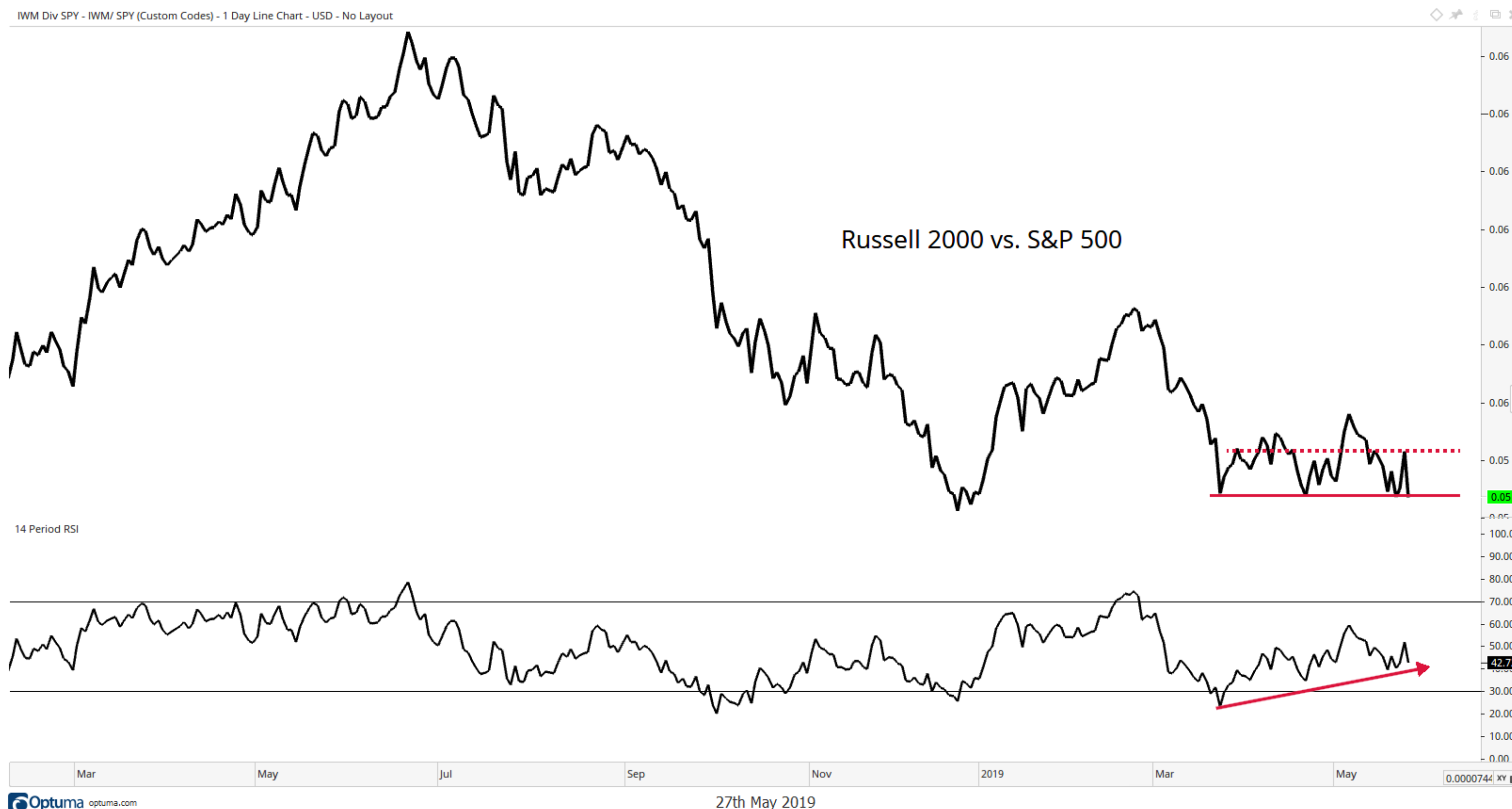


Volatility continued to moderate last week as it moved lower from its mid-May peak just above 23 for spot VIX. The current intraday low following the spike higher was met at the 50-day Moving Average right around 14.50. While it'll take a bit of time for the Volatility Risk Trigger to 'reset' and prepare for the next spike in volatility, I will note that the weekly sets of data have begun to already begun to move closer to their respective thresholds for a signal. It's been since August and September of last that we saw weekly volatility consolidate in a similar fashion as it's doing now. We'll see in the coming weeks if other inputs to the VRT move to their thresholds and setup for the next spike.

The S&P 500 finished last week down 1.17% as we headed into the long holiday weekend. In my last letter I noted potential support of 2800-2820, which is exactly where the S&P began to bounce, setting up a quick possible double bottom just above 2800. While the equity index has not made a lower low, several measures of breadth have—which we'll be looking at later.

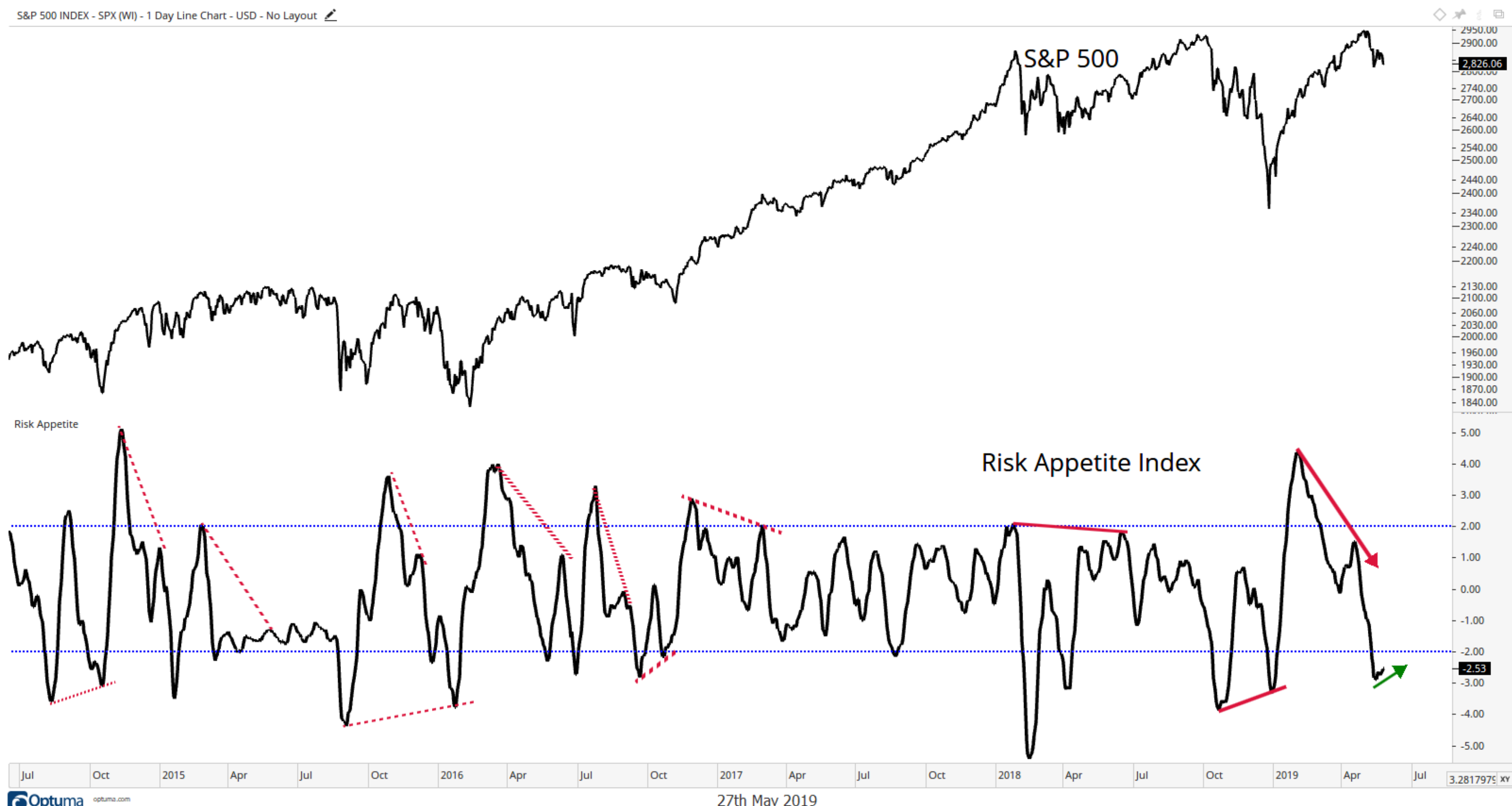


I shared this chart (above is updated) in my last letter with the note, “This is a development we’ll want to see corrected to get confidence the latest dip in U.S. equities will be short-lived.” Since then, equities did decline further and semiconductors led the decline, falling from 0.383 in relative performance to 0.352, near its 2019 low. I’ve pounded the table for several years of the importance of semiconductors as a barometer, many traders and journalist have begun to pay more attention to this key market and the significance it has for the technology sector. I continue to watch semis for signs of firming up relative to the S&P 500, we don’t have any of that quiet yet however.



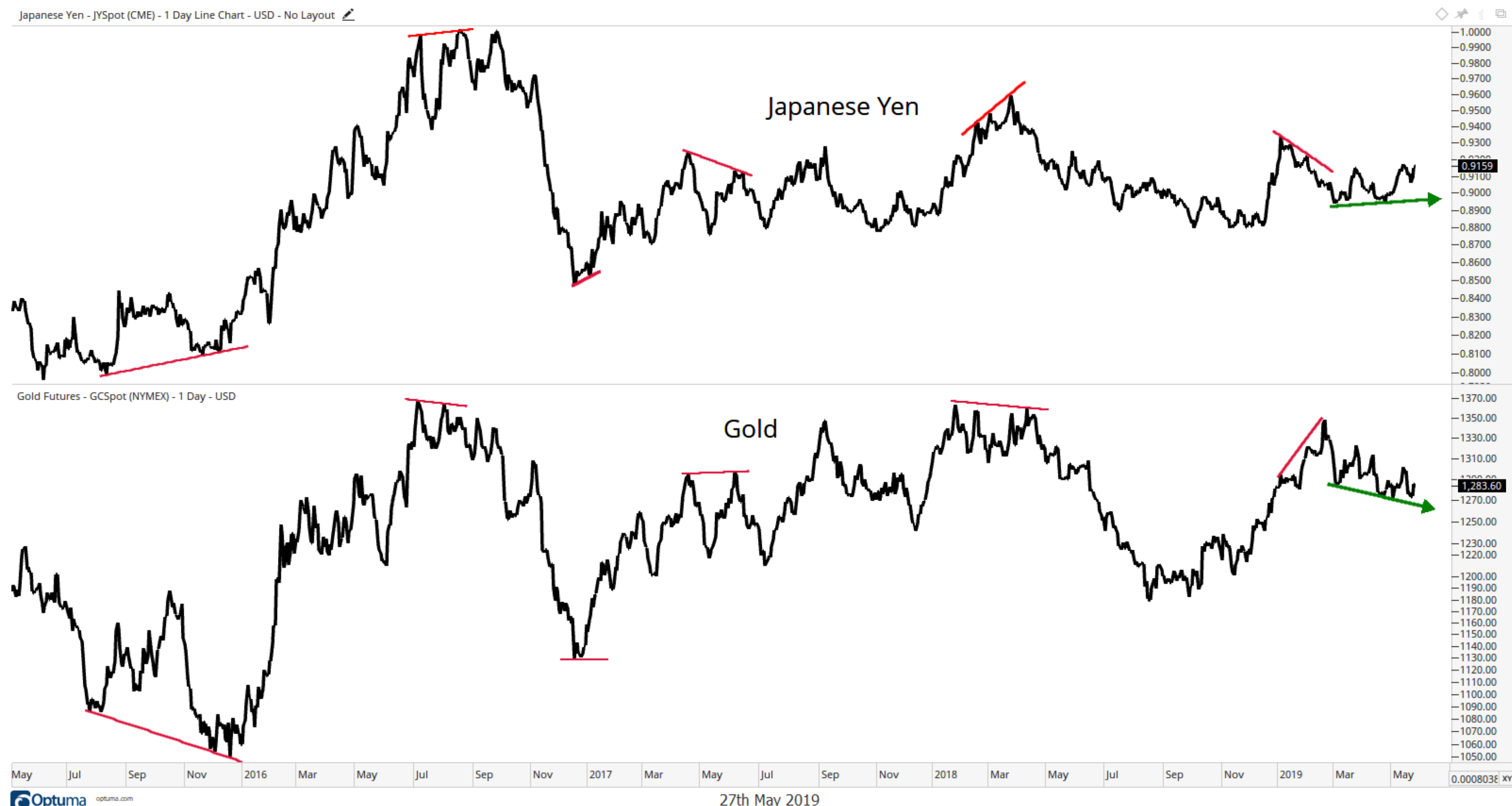
I turned bearish on small caps earlier this year with the expectation they'd decline relative to large caps after the initial boost we saw in January. Since then the Russell 2000 has moved lower and finds itself near the 2019 low in relative performance. With the recent consolidation and tests of the March low for the IWM and SPY ratio, momentum has begun to move higher. We closed out last week on weakness but the 14-period Relative Strength Index (RSI) has been making consecutive higher lows since March. This is a bullish development for small caps, suggesting the tide may be turning in relative performance for the R2k. First we'll want to see confirmation with the ratio breaking above the dotted red line on the chart above, which is near the high-end of the consolidation. Until then, we can't assume the down trend favoring large caps has ended.

Unfortunately, we didn't see any improvement in our key risk appetite ratios last week as the broad equity market declined. Equal weight, High Yield, High Beta, and Small Caps all saw moves lower in relative performance. This suggests that traders were confirming the bearish bias shown in the major indices but de-risking as gauged by the relative performance of these four asset groups.

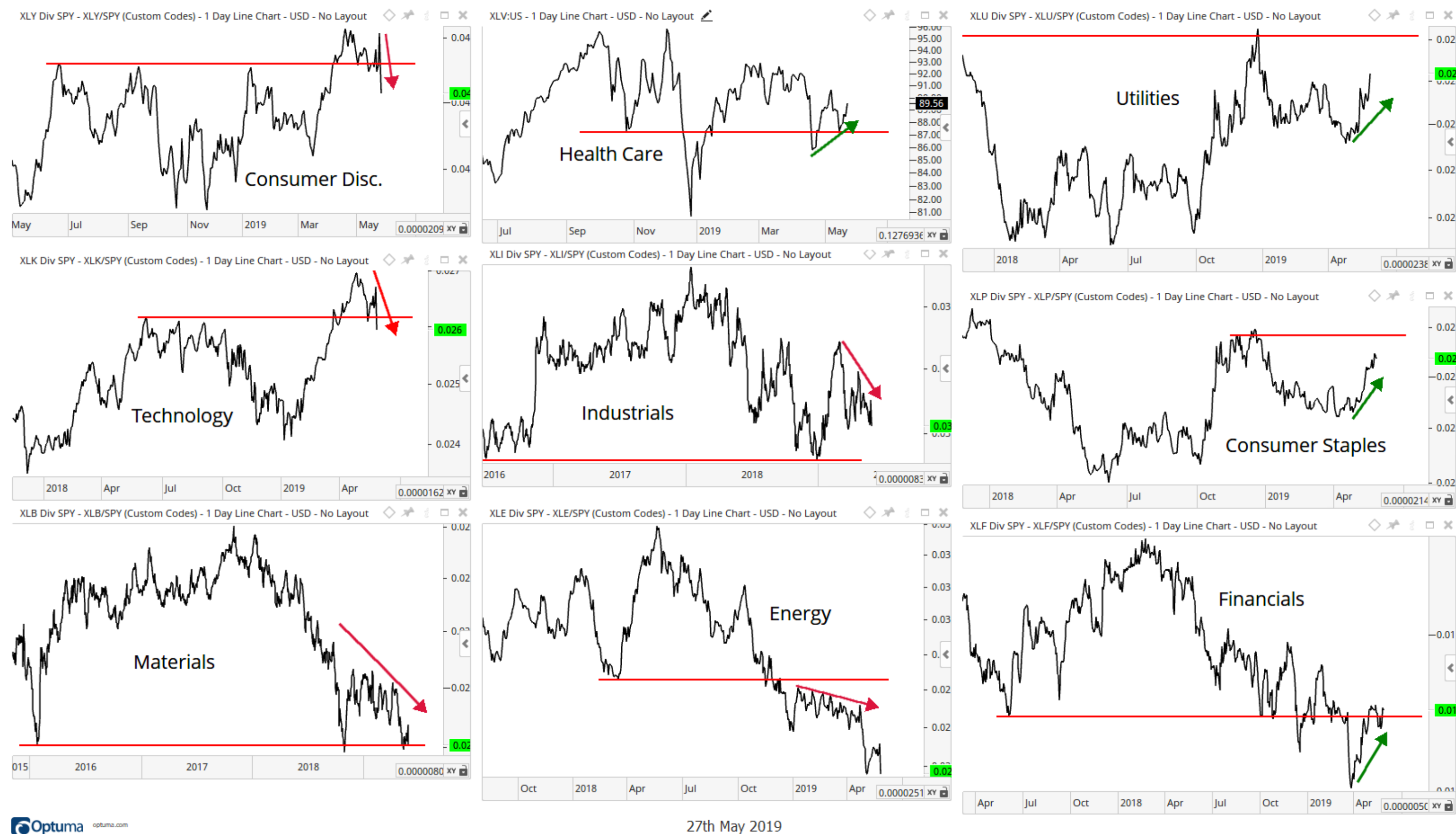


Looking at risk appetite through a difference lens, we have the Thrasher Analytics proprietary Risk Appetite Index. While the prior chart is very useful in seeking divergences in risk appetite from an individual level, when we group several key risk appetite markets to create a composite. Through this lens we can view the data more as an oscillator (although the equation isn't built like a true oscillator). Following the lower high after the January peak, the Risk Appetite Index fell below –2 and has begun to slightly turn up. This small move higher is due to just how much damage as been experienced in the components of the index, which can partially be seen on the previous page with the established down trends in ratios like high beta and small caps. Typically we see a divergence within the Risk Appetite Index, similar to the Dec. low and the recent peak, so I'll be watching if something similar develops this time as well.

With the recent higher high in the S&P 500 on the weekly chart, the 14-period RSI has made another lower high, a sign momentum has begun to wane. Going back to the early 2000s I've looked at prior instances when the RSI moved from being north of 70 to creating a divergence with a lower high at or near 60, similar to the current setup. As you can see by the red dotted lines and red arrows, this has occurred a handful of times: 2005, 2007, 2011, 2015, and today. The '05 occurrence did not result in a change in trend for equities. However, the trend did move significantly lower in '07, '11, and '15. It's tough for equities to maintain a trend when weekly momentum is not confirming to the degree we are experiencing right now. This divergence needs to be 'corrected' soon, by the RSI getting back above 65 (the most recent weekly high) or we could see a protracted move lower in stocks like we did in the other handful of occurrences.

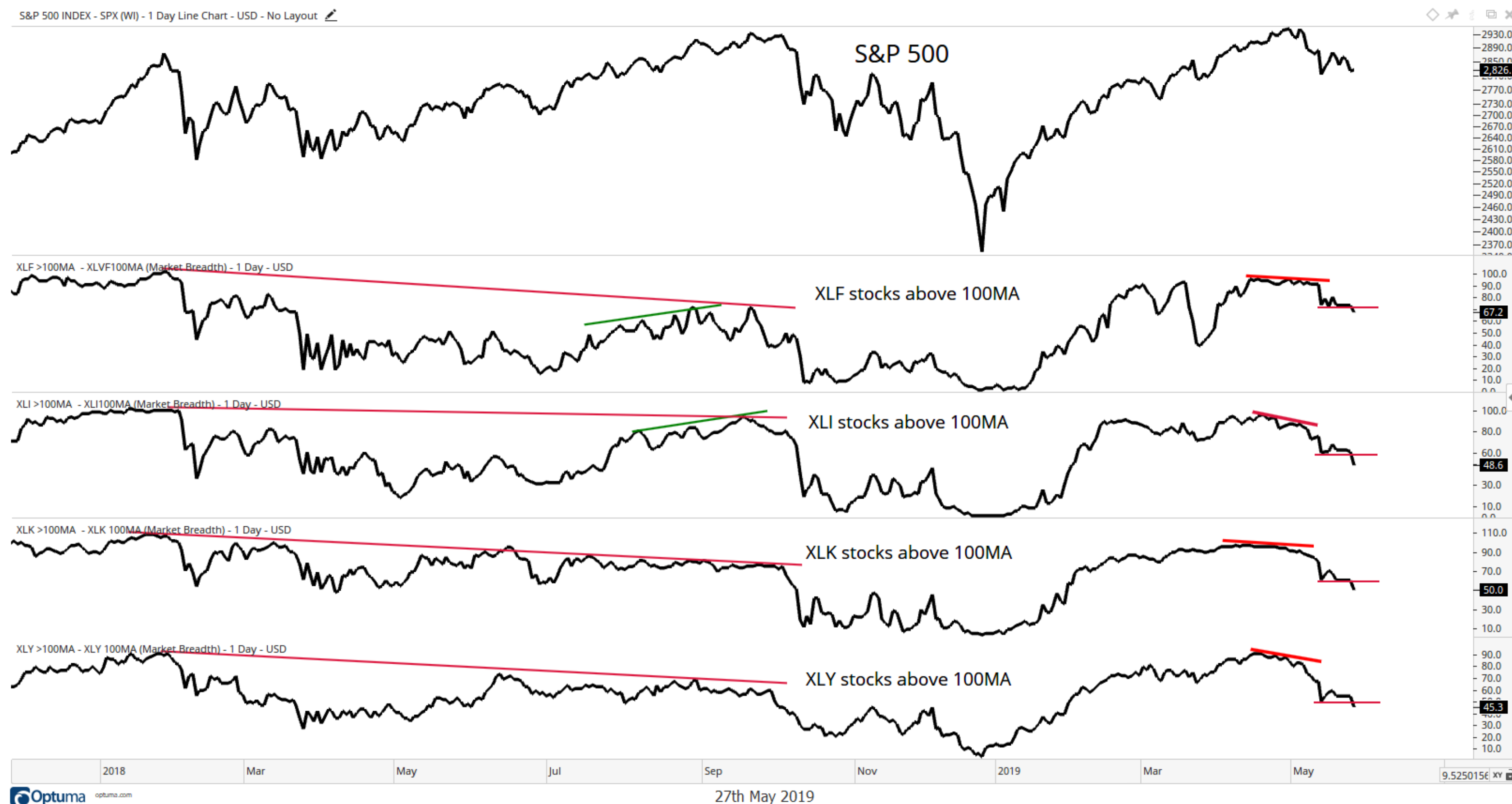


One of the least discussed but best techniques, which I've shown several times in this letter, for evaluating gold is comparing it to the Japanese Yen. When these two markets diverge, more often than not gold plays 'catch up' to the Yen. We most recently saw this play out earlier this year when the Yen was making lower highs and gold was doing the opposite - making higher highs. The Yen once again had the correct trend and gold prices moved lower. Now we have the opposite occurring as gold has moved lower, the Yen has firmed up with a series of higher lows. If the Yen can put in a firm new higher high, that would be a good sign that gold too will need to reverse course and begin moving back higher as well.

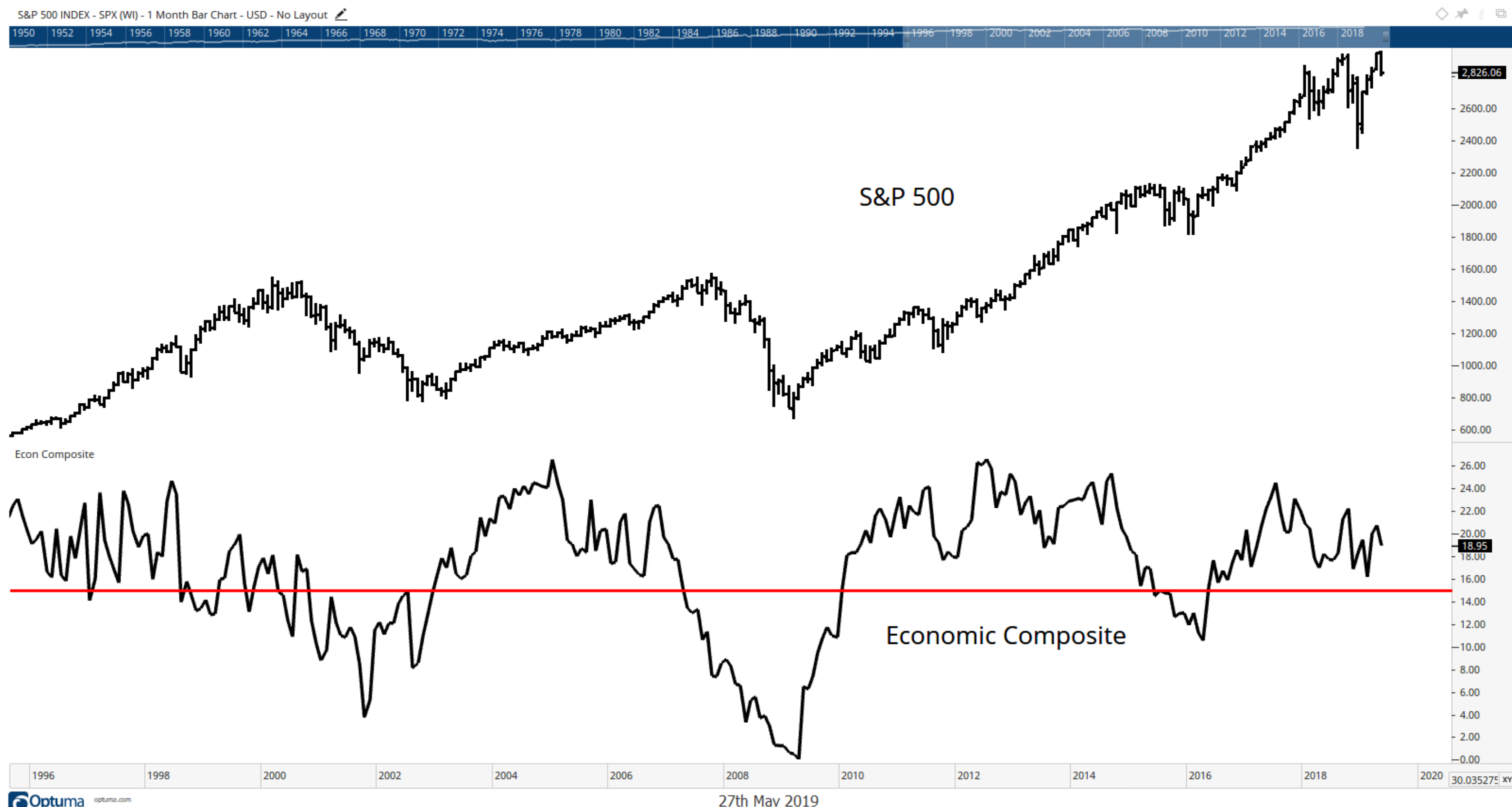


Many of the major S&P sectors are in established down trends in relative performance to the S&P 500. Consumer Discretionary had been bucking that trend until the recent turn lower, losing its prior summer of 2018 highs. Health Care, Consumer Staples and Utilities remain strong relative to the SPX, all three in short-term up trends. Financials have also made some improvement, recapturing their 2018 April low. It's a bit concerning that three of the four sectors that are in short-term up trends against the S&P are clear defensive sectors. The market right now is not showing a preference for cyclical sectors, a rather bearish development if this continues.

The volume profile for the S&P 500 continues to show signs of intraday distribution. While in April the net-volume consolidated as the market made its most recent high, the move lower in price has been confirmed by a move lower in net volume as well. Also note the lower lows in On Balance Volume even though price has yet to break below its own respective May low. This is a sign that there's been an increase in selling volume, that's not yet shown up in price. Since this is an intraday (1 hour) chart, the trend can reverse quickly, so we must keep the timeframe in perspective.



Above I've shown a chart of the S&P 500 along with the percentage of Financial, Industrial, Technology, and Consumer Discretionary stocks that are trading above their respective 100-day Moving Average. These sectors are more sensitive to the risk appetite and cyclicality of the market, offering a good insight into the breadth of the market from their point-of-view. While each of the four began to diverge ahead of the most recent May peak, what's concerning to me right now is the lower lows that's being taking place ahead of the major index. More stocks are falling below their intermediate-term Moving Average. This is a sign of internal weakness for the market as traders push cyclical stocks lower.



Soon I'll make live the Thrasher Analytics Trend Model, my plan is to have it ready by the next letter. In the meantime, one component of the Trend Model is the Thrasher Analytics Economic Composite (TAEC). The TAEC is made up of numerous series of economic data, sampling for banking, consumer, labor, industrial, and inflation data. Each component is then weighted and the final TAEC is calculated and displayed as such in the in chart above. As you can see, when the composite is above the red line, then economic growth is positive for the equity market, when it falls below indicates an economic headwind. This creates a long-term foothold for the main Trend Model, taking into consideration the degree of economic strength being experienced at any given time. Currently, the TAEC is well above the line of demarcation, indicating a economic tailwind for equities.

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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