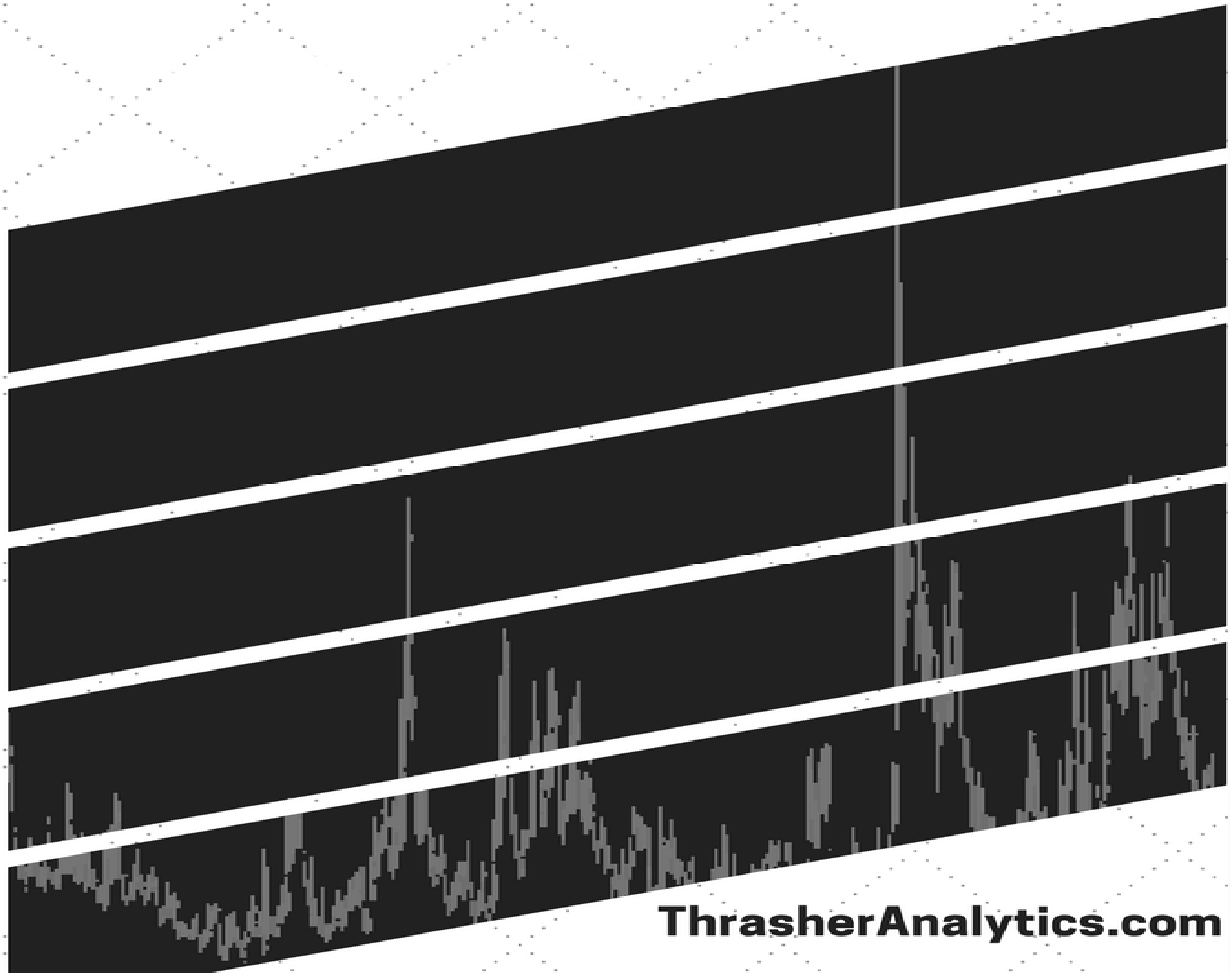
THRASHER ANALYTICS

BI-WEEKLY RESEARCH & ANALYSIS



ThrasherAnalytics.com

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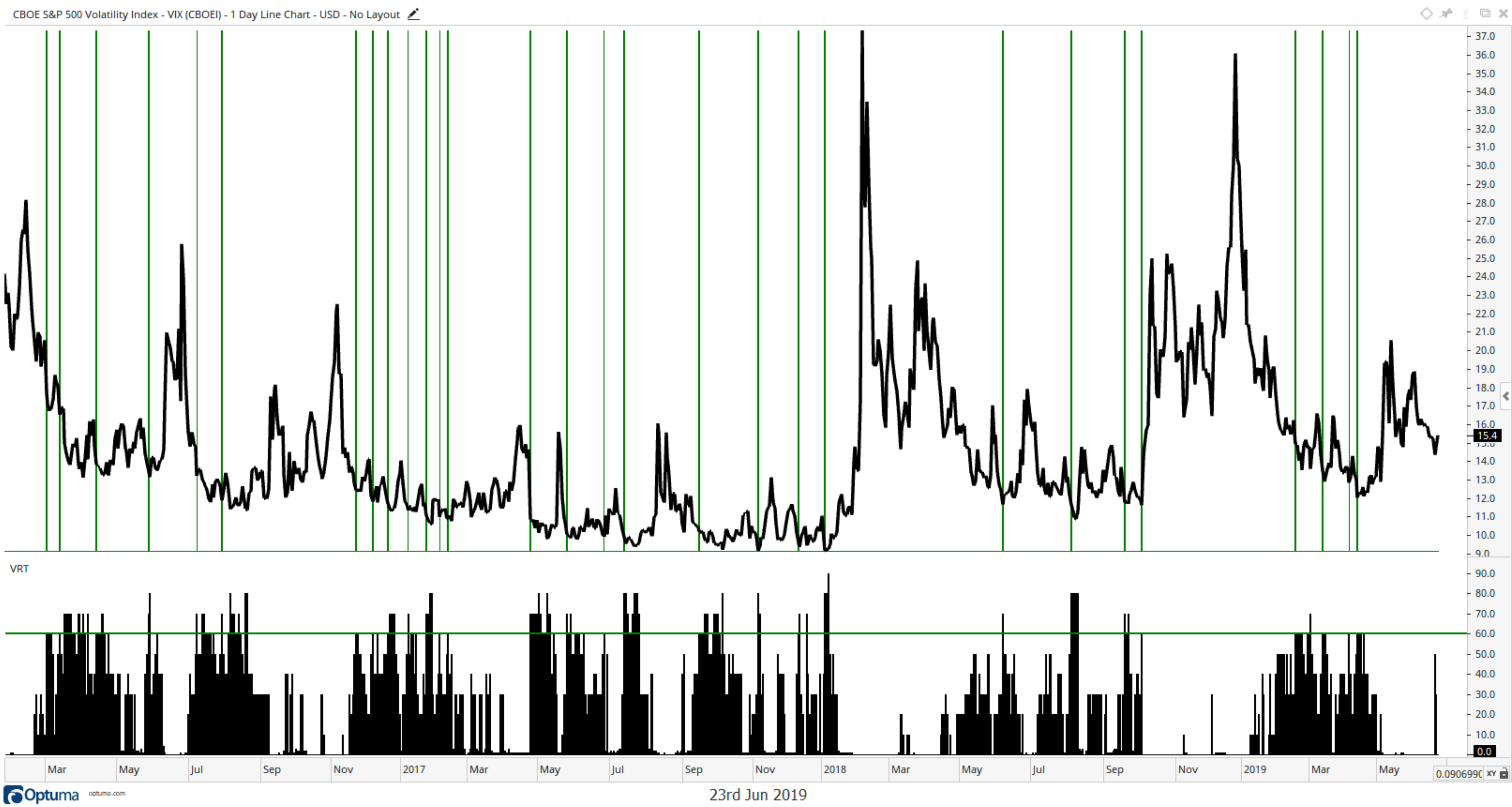
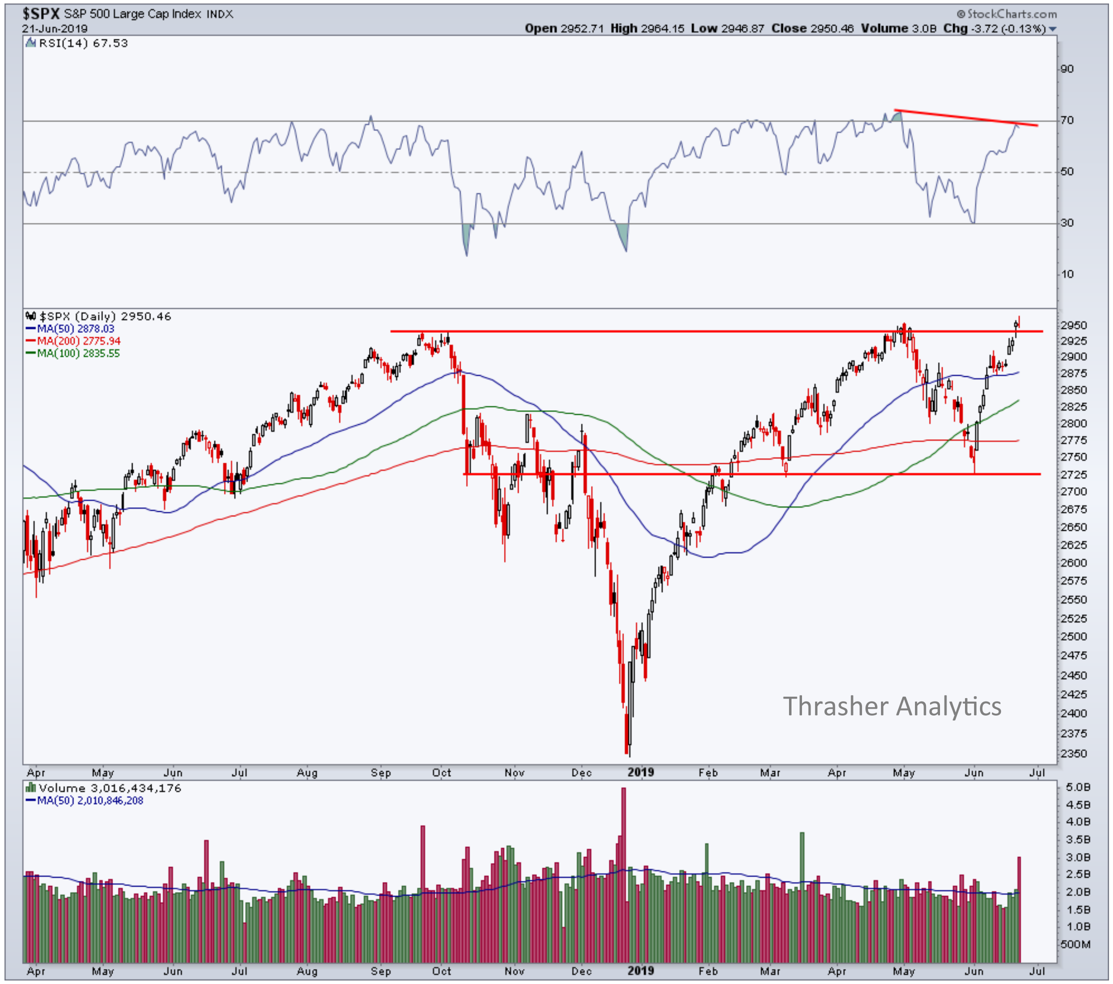
1 Day - Watch List - No Layout

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	False	False	4.18%	-0.30%	-5.54%	-13.74%
SPDR Technology Select Sector Fund ETF	True	True	2.9%	3.89%	4.29%	10.25%
SPDR Health Care Select Sector Fund ETF	True	True	2.72%	5.98%	1.55%	10.86%
SPDR Communication Services Select Sector ETF	True	True	2.66%	0.82%	3.48%	-1.73%
SPDR Industrial Select Sector Fund ETF	True	True	2.21%	3.02%	3.27%	6.52%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	0.87%	3.11%	4.91%	7.18%
SPDR Utilities Select Sector Fund ETF	True	True	0.3%	3.76%	5.03%	21.01%
SPDR Real Estate Select Sector Fund ETF	True	True	0.13%	3.08%	5%	17.92%
SPDR Financial Select Sector Fund ETF	True	True	-0.07%	1.26%	4.45%	0.07%
SPDR Materials Select Sector Fund ETF	True	True	-0.35%	5.53%	2.98%	-0.02%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.63%	1.68%	6.47%	14.67%

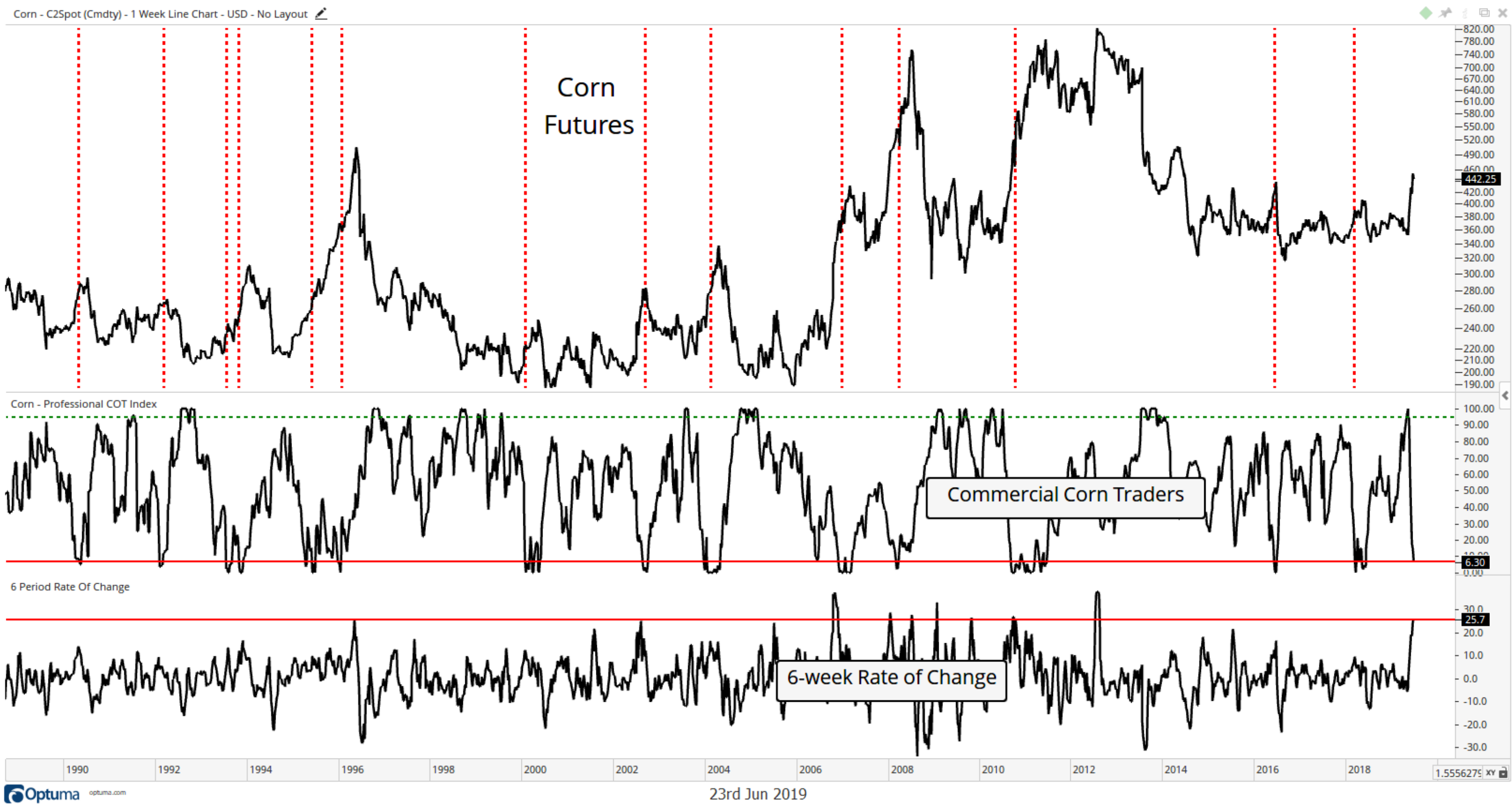
Three sectors finished in the red last week, Financials, Materials, and Consumer Staples. The best performing sector was Energy, which still remains below its 50-day and 200-day Moving Averages and has been the worst performing sector over the last twelve months.



The VRT has begun inching higher, getting close to signaling at the brief low last week following the FOMC announcement that sent stocks higher and volatility lower. Volatility on the daily and weekly timeframes has compressed and opened the door for a move higher. The one caveat I am seeing in the volatility market is the lack of activity in deep out of the money option hedging. Normally we'll see traders begin to price up volatility further out-of-the-money ahead of a material higher move in vol, but that hasn't materialized just yet. With that said, the risk of higher vol does remain as the aforementioned compression has begun taking place. We've come within spitting distance of a VRT signal, so my risk 'antenna' is heightened at the moment.

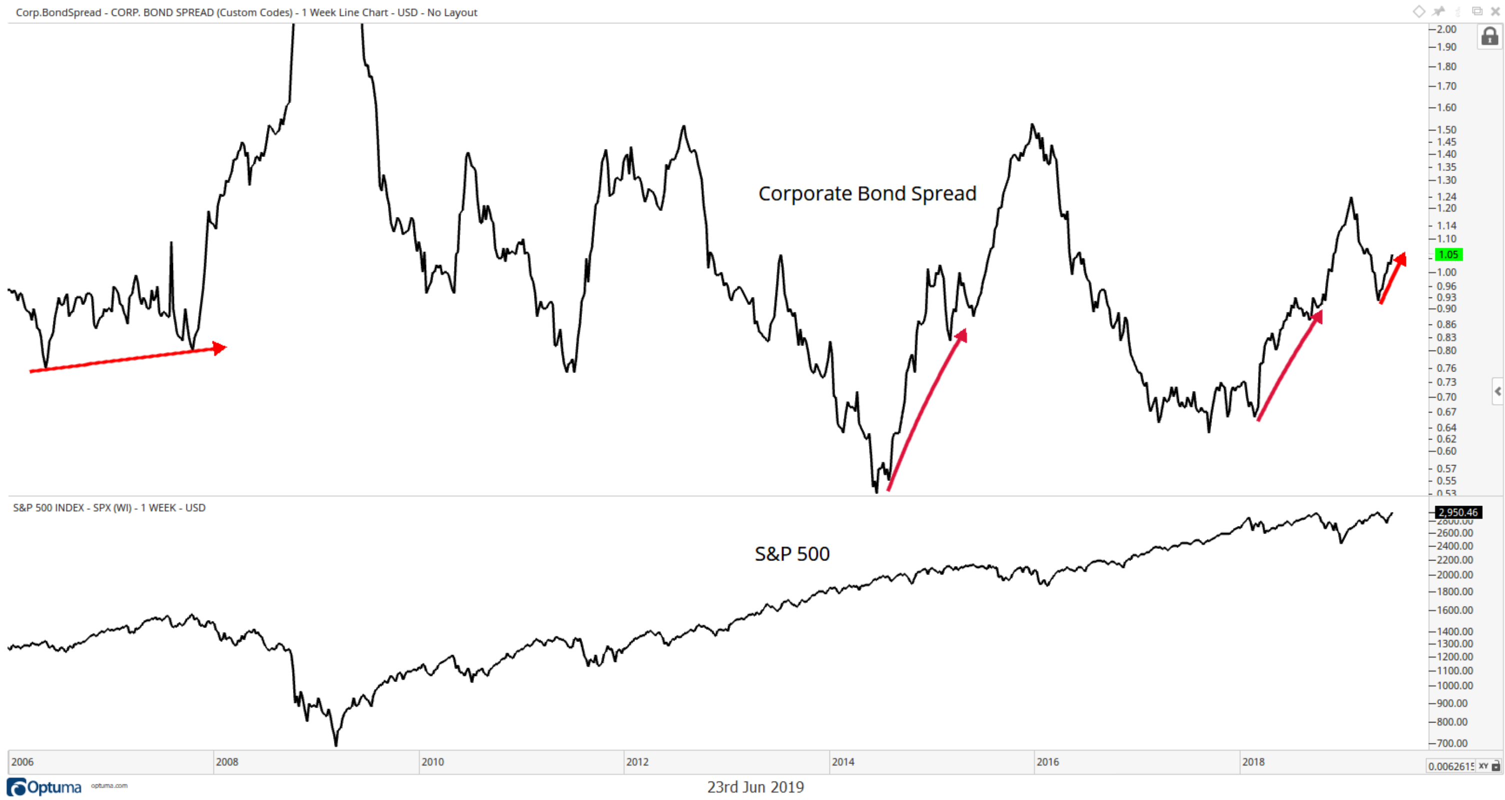


The S&P 500 set a new all-time high last week with a slight break of the prior 2018 and 2019 highs. Unfortunately we didn't see a confirmation in the daily RSI along with it—setting up a bearish momentum divergence. The divergence on the daily chart is small, but on the weekly chart it's much more pronounced as you'll remember from a prior letter in which I showed the weekly divergence. This is just the start of the many lack of confirmation I'm seeing in the equity market. More on this later in the letter.



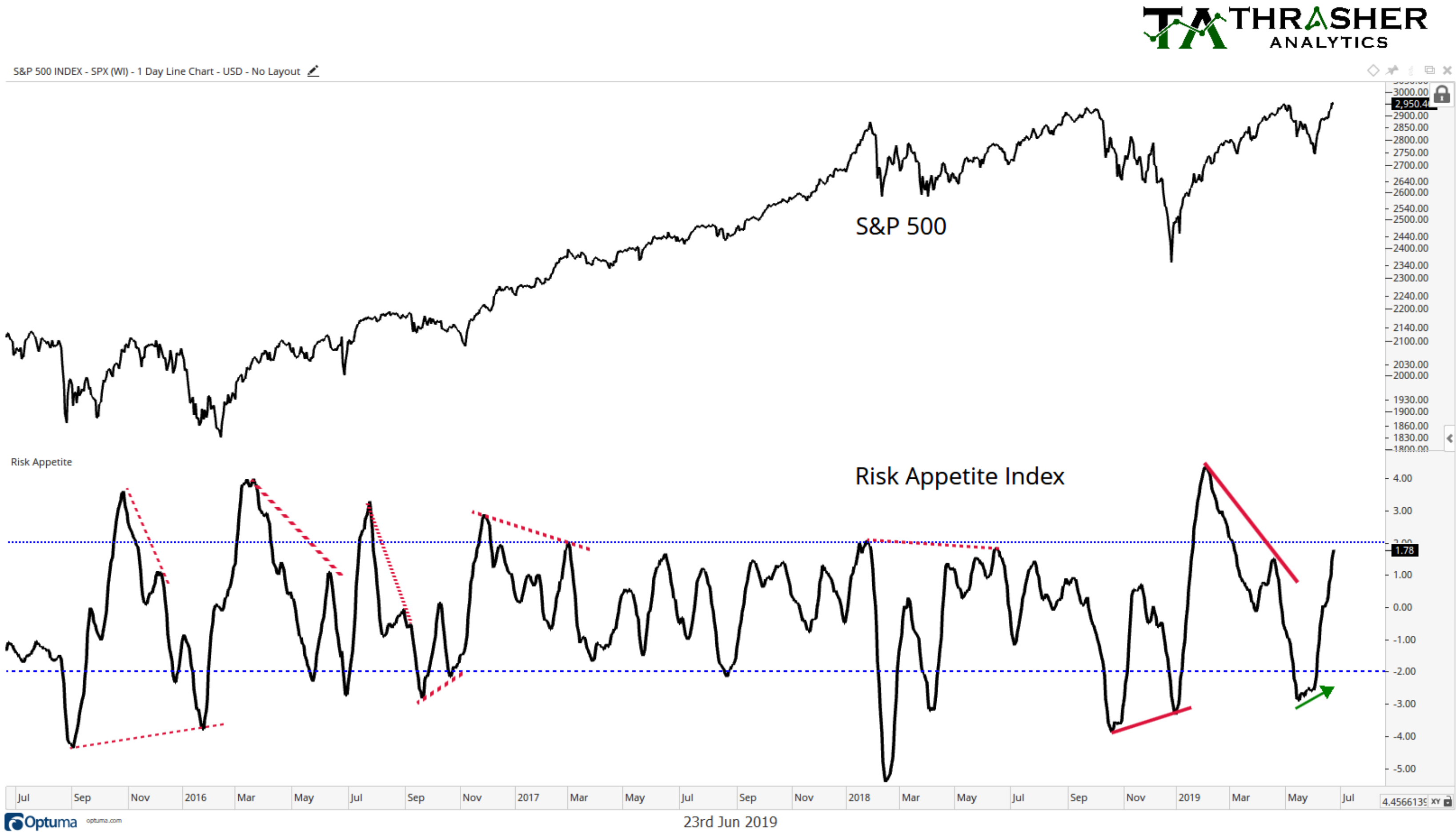
On May 21st I wrote a blog post titled, "A Breakout In Crop Commodities" in which I shared the COT data for corn and the dire development with this year's corn crop in the Midwest. Since then corn prices have shot up near record levels, hitting $450 a bushel in the futures market. With the move higher in corn prices the Commercial Traders have backed down their bullish position in the crop, falling back near prior low levels. On the chart above I've marked dotted lines when the Commercial Traders have had positions at the current level. The chart also shows the 6-week rate-of-change which is at/near multi-year highs. Corn has given a mixed response to this data. When price has risen by this degree as it did in 2012 and 2008 it marked a high and began to move lower. In 2010 and 1996 we saw the smart money back off after a strong run but price continued higher for several more weeks. At this point I think the 'meat' of the trend has been put in, leaving some potential price appreciation still left on the table but I think with it comes the risk of a reversal. I'm less bullish on corn now but will be looking for a short-term price confirmation (weakness) to solidify that view.

Corporate Bond Spreads Continue to Rise

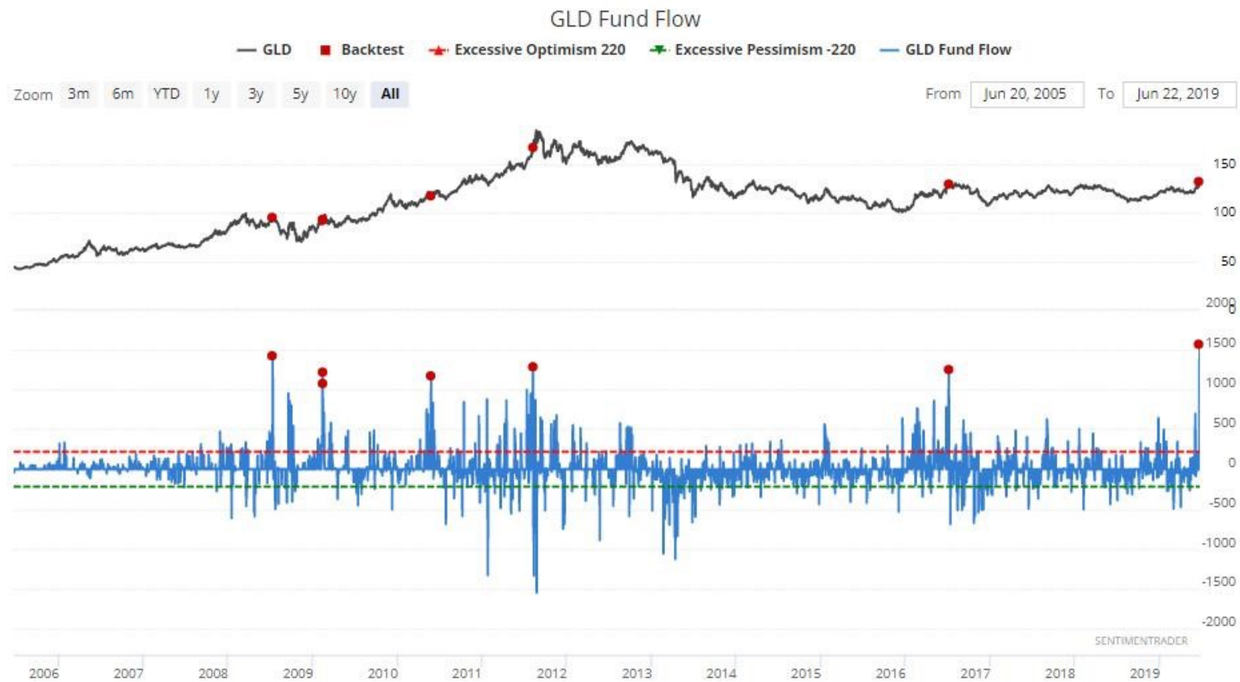


While government interest rates have been on the decline, corporate spreads - a sign of risk within corporate fixed income - have begun to rise once again. We don't see this type of divergence (typically spreads fall when equities are rising). It happened in 2007, 2015, and before the Q4 mini-bear last year. Since the December low in equities spreads began to decline but that trend has reversed in recent weeks as traders have begun pushing the spread higher, well before it even had a chance to test the 2017/2018 lows. This is a sign of nervousness in corporate bonds and not a bullish development for financial markets/equities.

Unfortunately, while the S&P 500 was making a new high, few risk appetite ratios were rising as well. High yield began to trend up but small caps and equal weight both trended lower and high beta remained relatively flat. Not the picture of excessive risk taking.

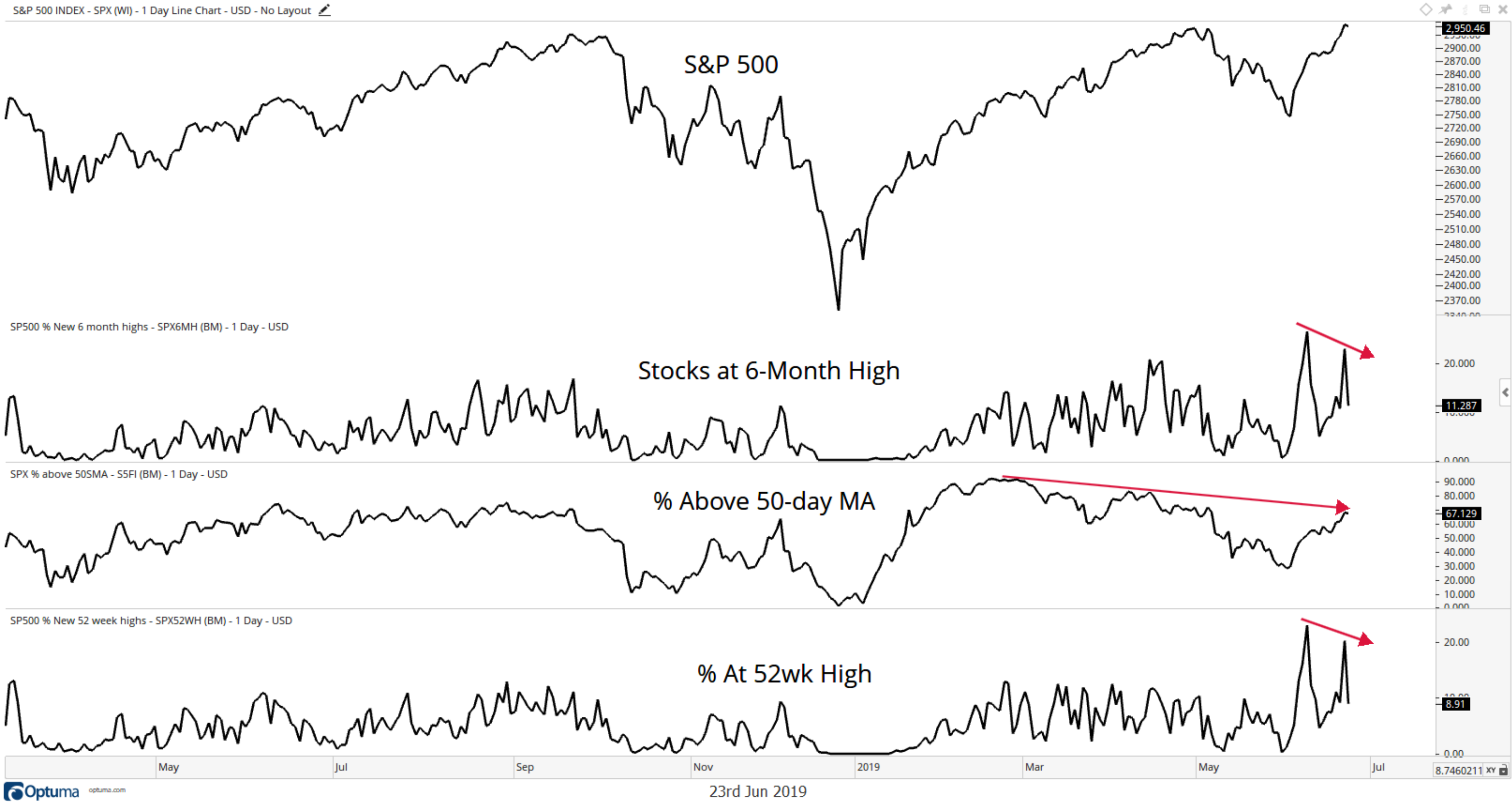


While the individual components of risk appetite do not look great, my index of risk appetite has continued to move higher after giving an early sign of the market bottoming back in May.



	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	1 Year Later (%)
Average Returns	1.80%	1.34%	-1.48%	-7.03%	-1.26%	-1.65%	5.98%
Win Rate	67%	50%	50%	0%	33%	67%	50%

Back at the short-term low in gold prices (when it was still at $1,283/oz.)I shared the chart of the bullish divergence gold was experiencing with the Japanese yen. At the time it seemed like no one was talking about gold, since then it's hitting everyone's radar. With the pop in gold prices traders have been throwing more money into the GLD gold ETF as shown in this chart from SentimenTrader. In fact GLD fund flows have rising to a record high which has historically often led to a pull back in gold prices with GLD being down on average 7% two months later.

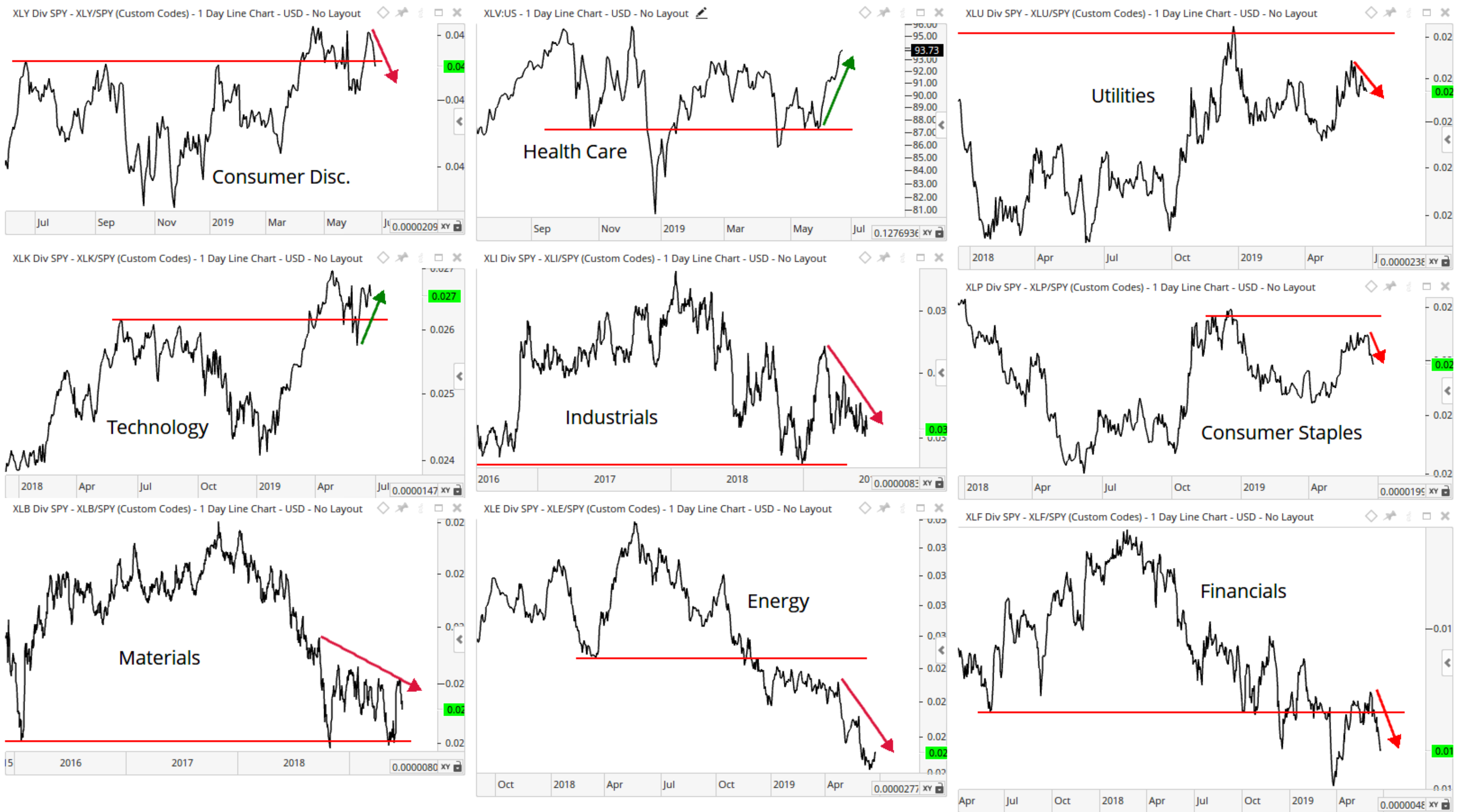


It's tough trying to find a piece of equity data that shows a confirmation of the recent new high in the U.S. large cap index. The above chart shows three examples of the bearish divergences in market breadth for the S&P 500.

- Percentage of stocks hitting at least a 6-month high? Lower high.
- Percent of stocks trading above their 50-day MA? Lower high.
- Percent of stocks trading at a 52-week high? Lower high.

This resembles the 2018 high, which also saw divergences develop in breadth. Back then this data was ignored as traders an many journalist wrote blog posts and articles saying "this time is different". It's never different. When few stocks are showing the same level of strength as the index, without some external catalyst, the index often struggles to continue its up trend.

Sector Relative Performance Dashboard



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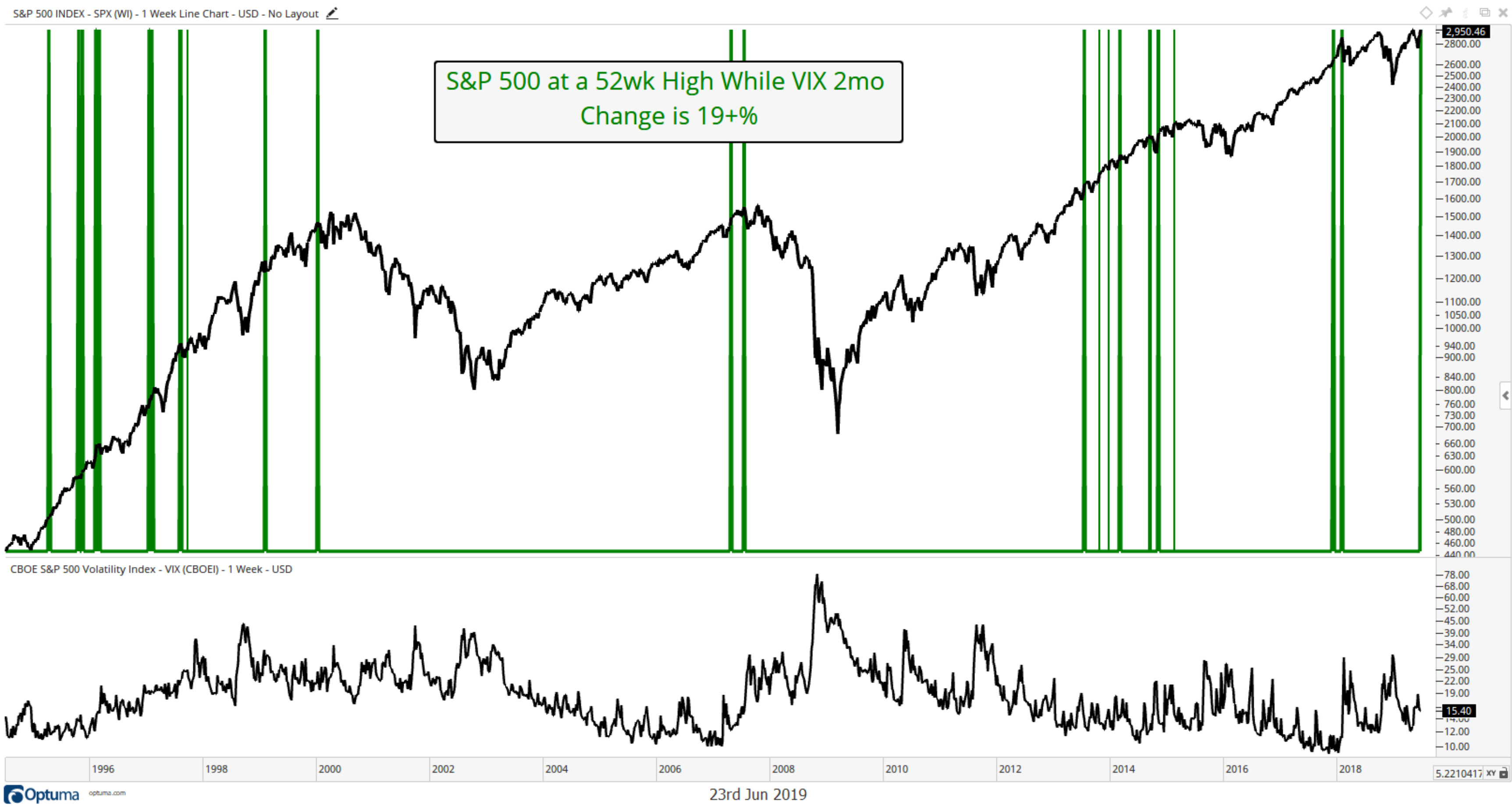
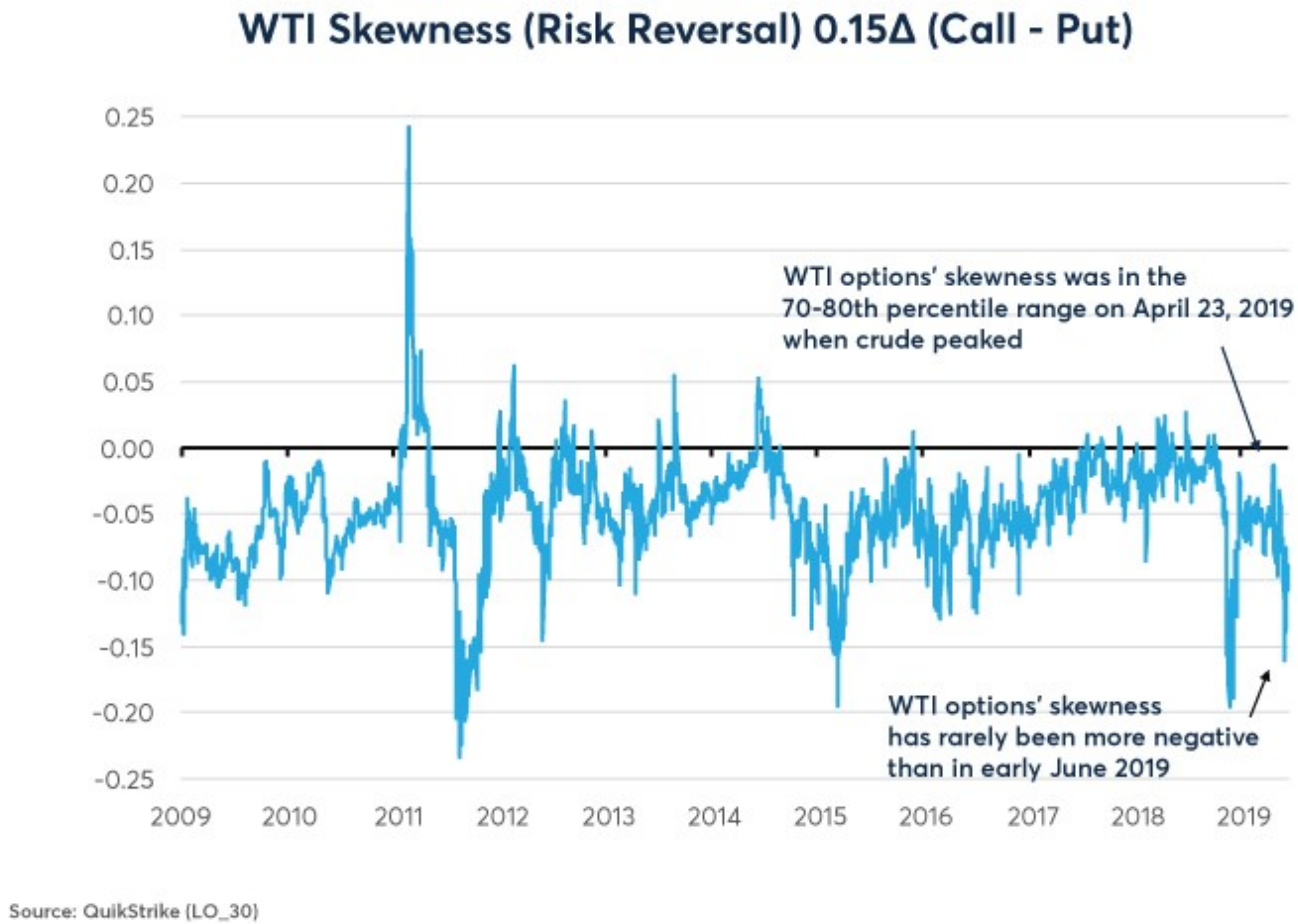
What about from a sector standpoint, do we at least have many of the sectors showing strength? Nope.

Just two sectors showed short-term up trends in recent weeks - Tech and Health Care. The rest are all showing relative performance down trends.

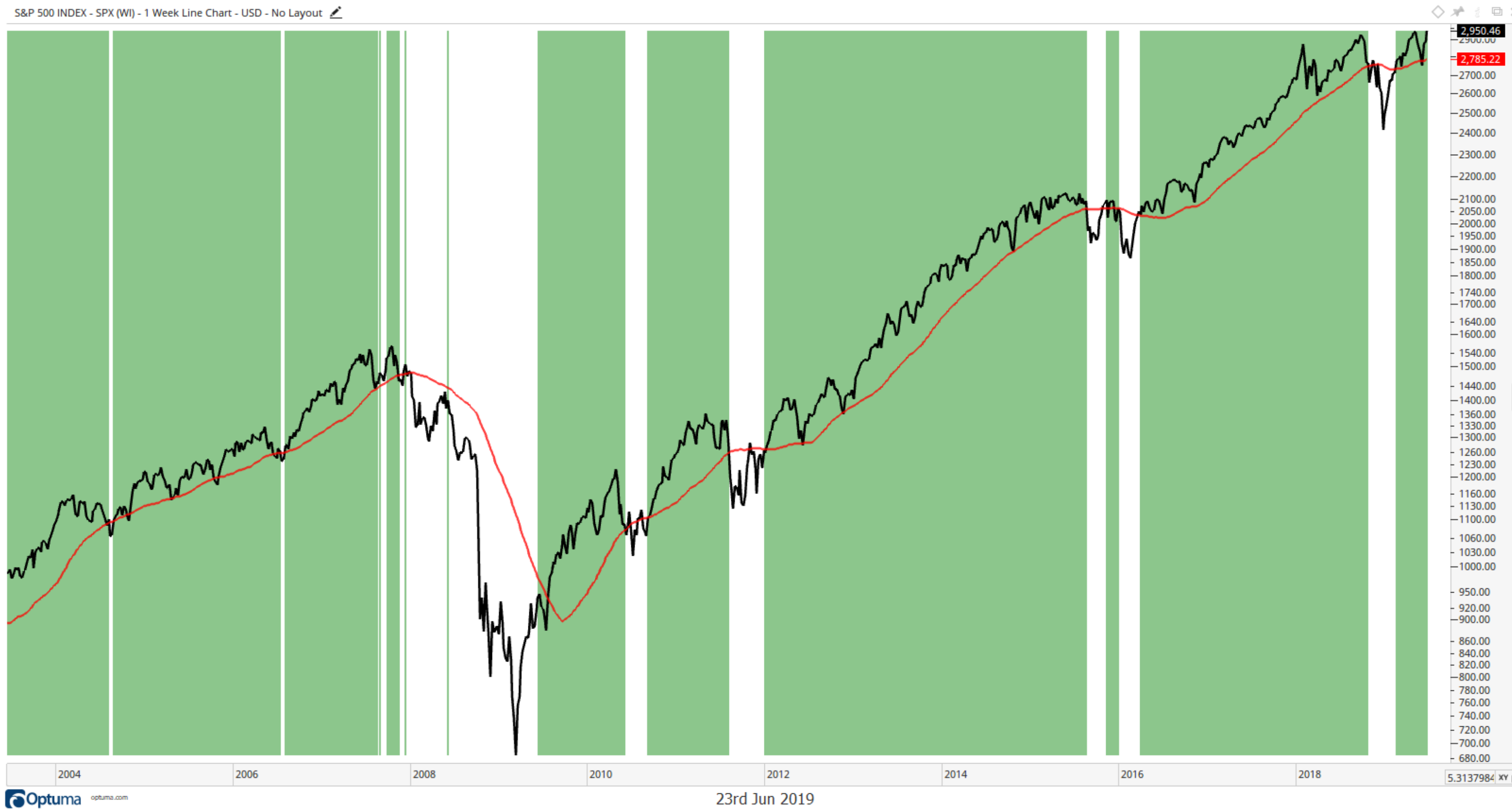


While the S&P 500 was rising to a fresh high, the Volatility Index was also well off its low. Typically we want to see volatility moving lower and trading at least near a recent low when the equity market is showing strength, a sign that the market is confident in the prospects of future expected vol remaining contained. However, that's not the case today. The green bars on the chart show when the SPX was at a 52-week high and the VIX was trading at 19+% (like it is now) over the last two months, i.e. a short-term up trend. We saw this happened in January of 2018 and multiple times in 2014-2015. Before that we'd have to go out to 2007 and several times during the 1990s. While the equity market was able to continuing rising in 2014 and in the 90s, the January and the '07 instances are what stand out the most for many traders.

The volume profile for the S&P 500 saw a nice move higher off the early June low in price as traders returned to buying intraday with more shares being traded on up ticks vs. down. That trend began to flatten out mid-month with net-volume unable to make a higher high along with price. This tells us that not as many shares were traded with price setting a record high.



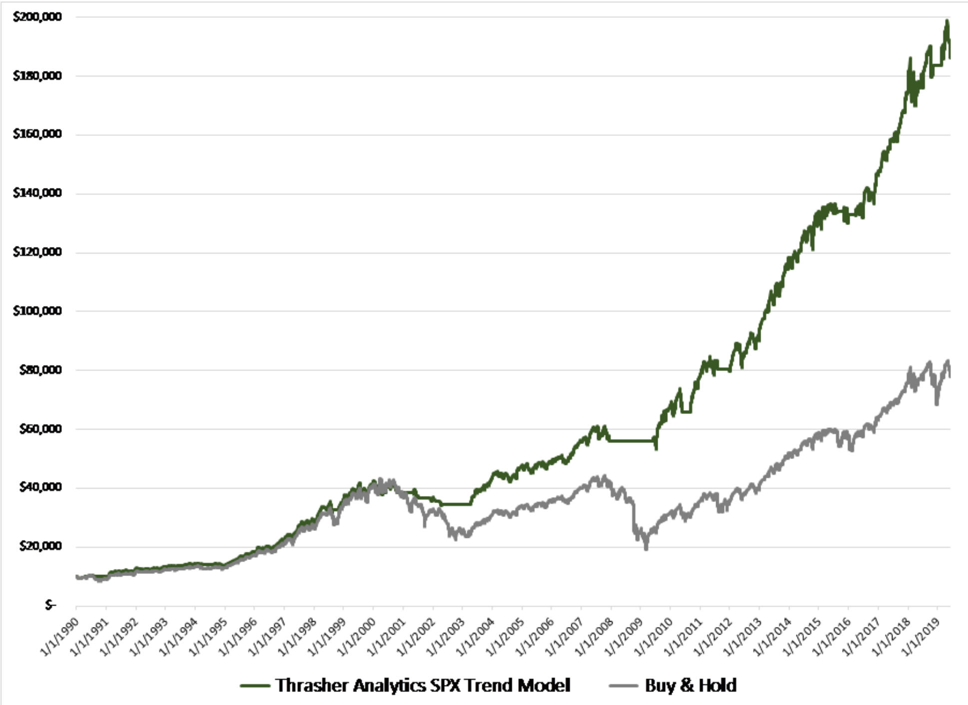
The Above chart is from the CME Group and shows the percentile of the skew between out-of-the money calls vs. puts. Erik Norland of the CME shared, "Since June 5 the options on crude oil and refined products have been the most negatively skewed that we have seen during the past two years, except for the bottom in December. It's a similar story in the refined product markets. If history is any guide (and be warned: it's not always a reliable one), that would indicate a significant likelihood of somewhat above-average returns for the crude oil and refined products markets over the next three months or so."

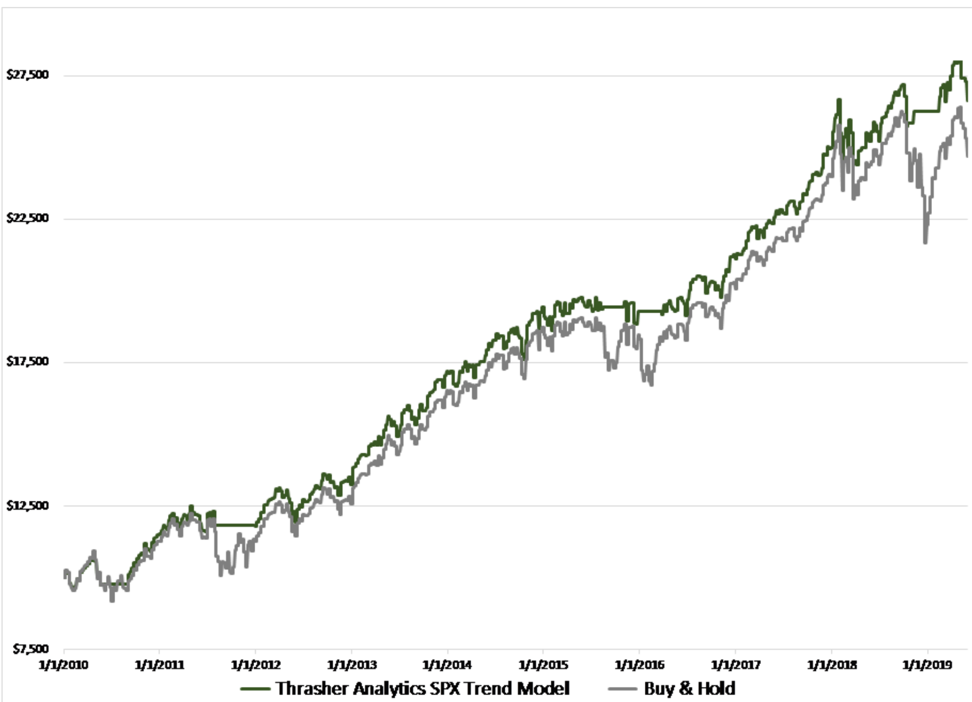


I'd like to introduce the Thrasher Analytics adaptative trend model for the S&P 500 and major equity sectors.

The above chart shows the model going back to 2004, which was built using data from multiple timeframes and incorporates various forms of trend, breadth, and volatility analysis to adapt to the shifting market environment.

With a goal of providing insight into the trend of the broad market while minimizing whipsaws experience by many traditional Moving Average crossover-type methods, the Thrasher Analytics model provides a intermediate-term look at the trend of the S&P 500, while still quickly responding to changes in price in both up and down trending markets. This is not a model intended to call tops and bottoms, instead it's more passive, reacting to price changes rather than trying to predict them.





Here are two back tests on the Thrasher Analytics Adaptive Trend Model. Transaction costs and taxes are not taken into account, but with minimal trading activity, they would be at a minimal drag (There were only 48 total trades since 1990). As you can see, the model does an excellent job at participating in the bulk of long-term up trends and avoiding the protracted down trends.

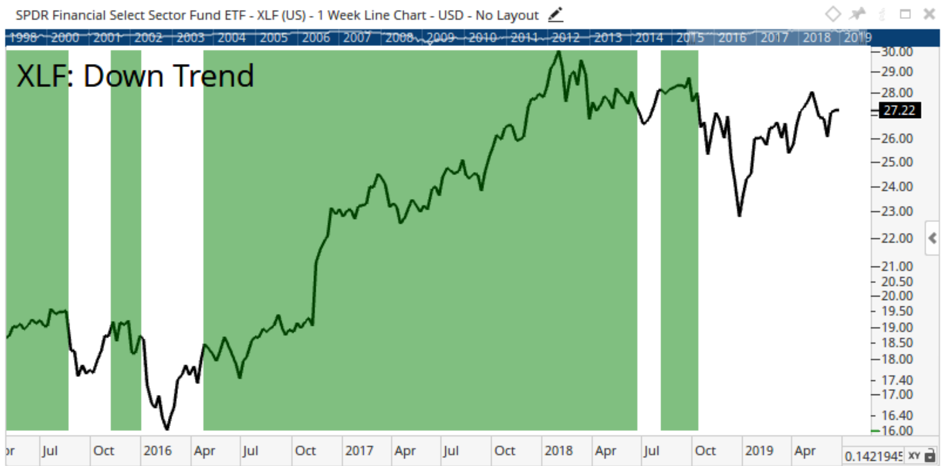
While many models can show they ‘got out’ in early 2000s and 2008 bear markets, many trend following models have whipsawed and experienced a drag on performance over the last decade.

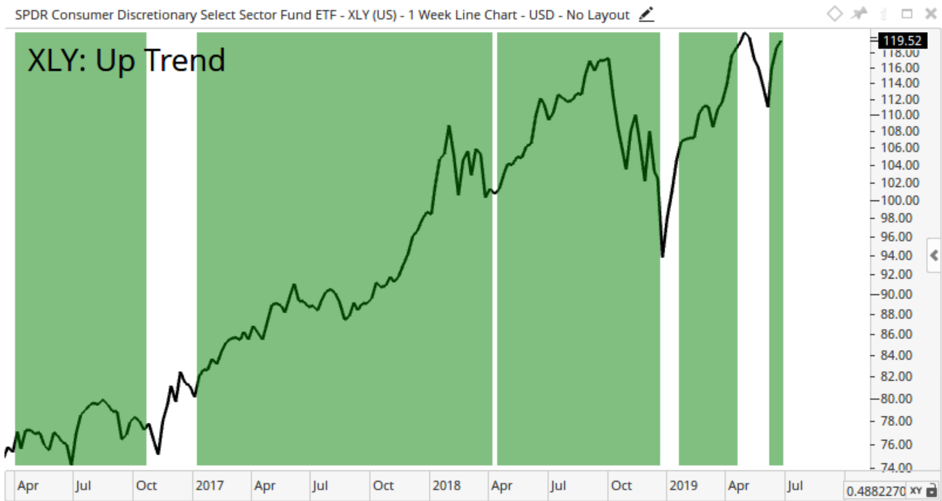
The second chart to the left shows the model’s performance since 2010, showing its strength even when the primary trend is mostly positive. As expected the model shows a slight out-performance, obtained from avoiding large chunks of the down trends in 2011, 2015 and 2018 while moving back into equities in a timely fashion when those trends reversed.

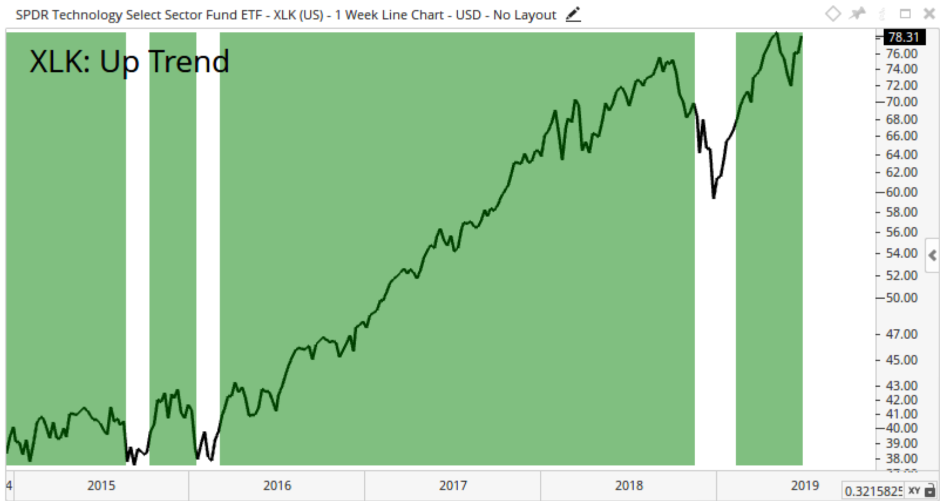
Since 1990, the back test produced a CAGR of 10.5% vs. 7.2% for the index while at a beta of just 0.5. Meaning, the model showed a higher return at half the risk of the overall market.

The goal of this model is not to produce earth-shattering returns but to provide insight into the intermediate trend in U.S. equities that can be incorporated into other short– and long-term forms of market analysis.

On the following pages are the main S&P sectors, along with the S&P 500 and Nasdaq 100 with their own respective trend models.







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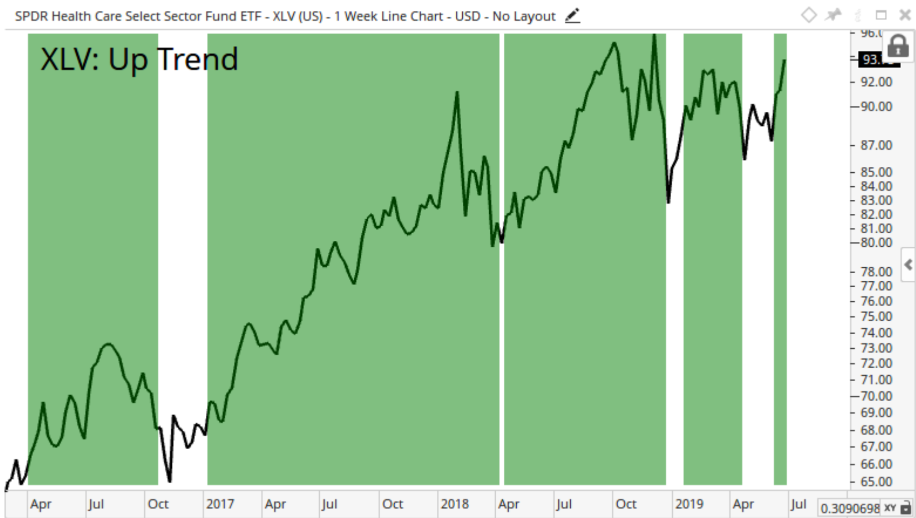

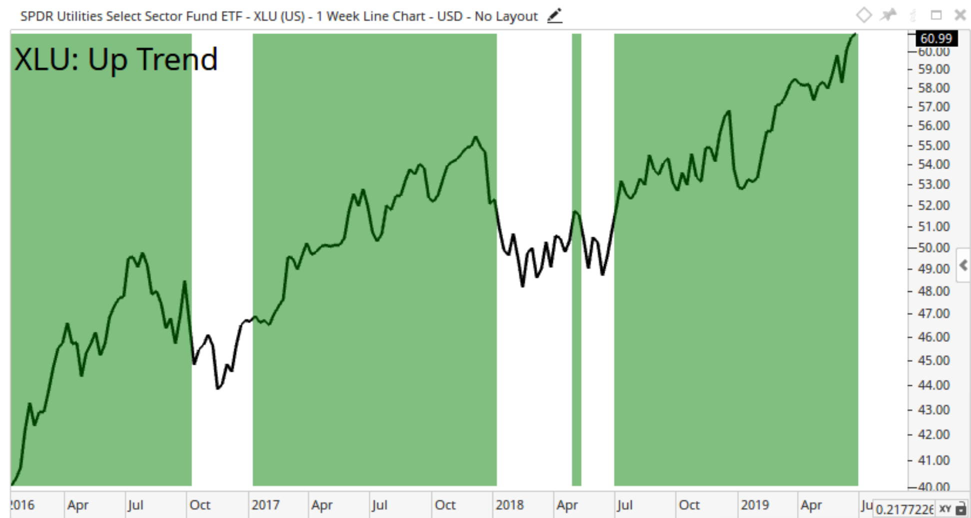

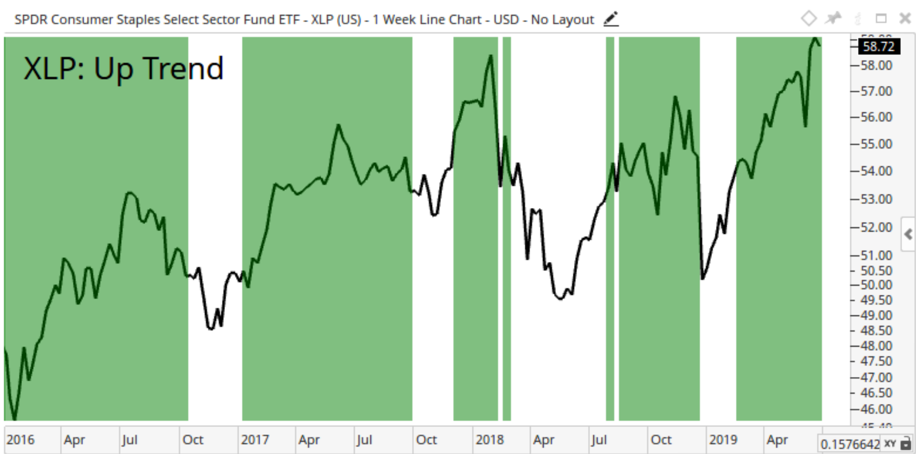

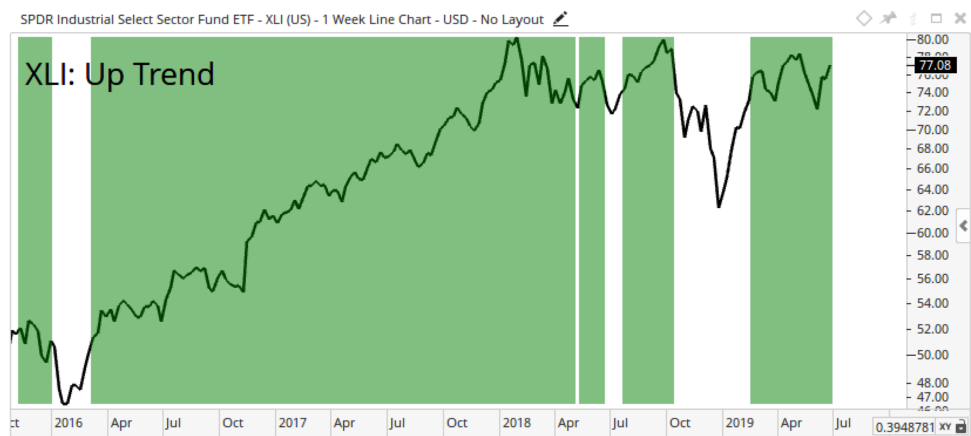

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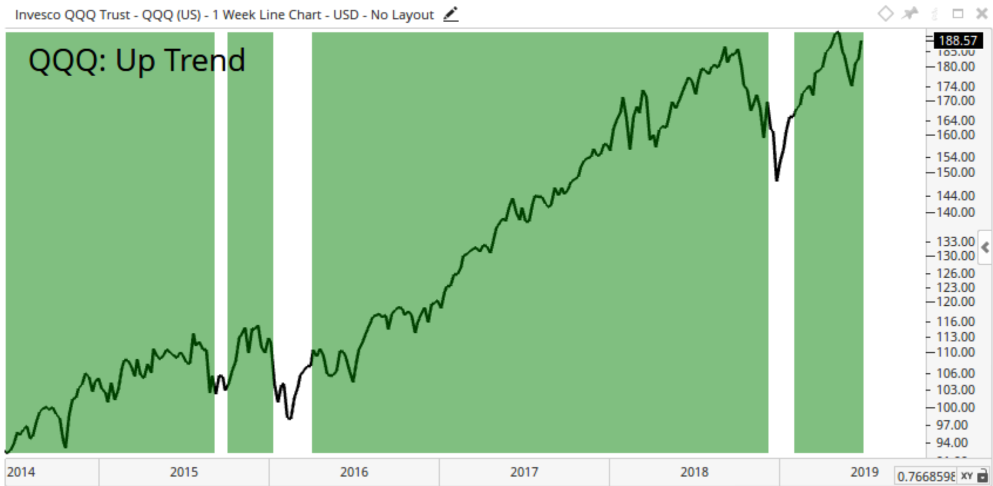

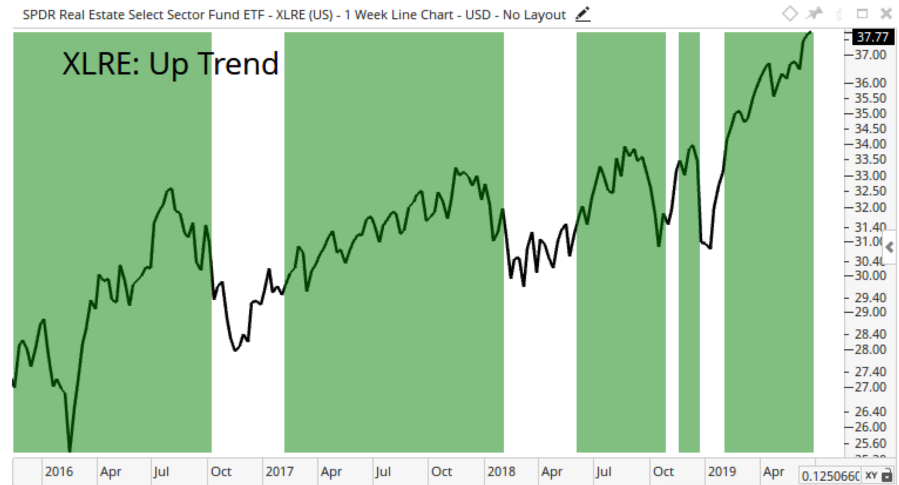

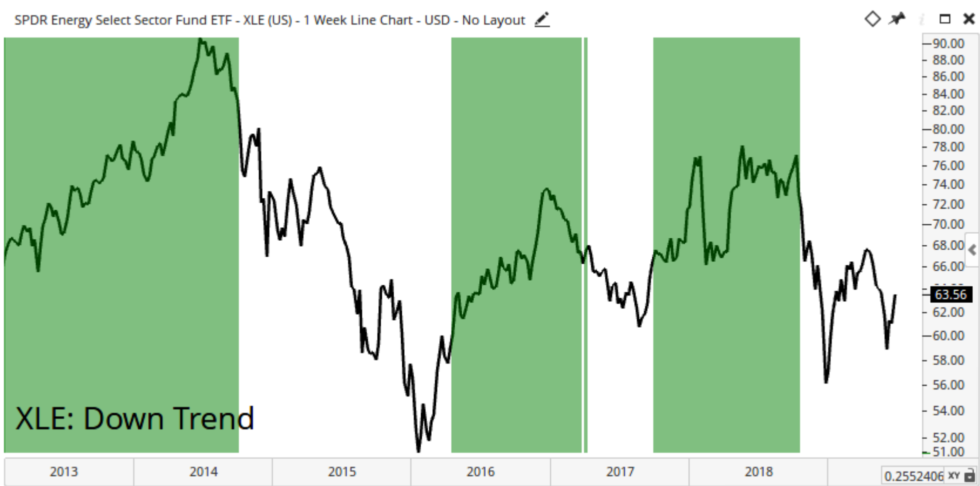

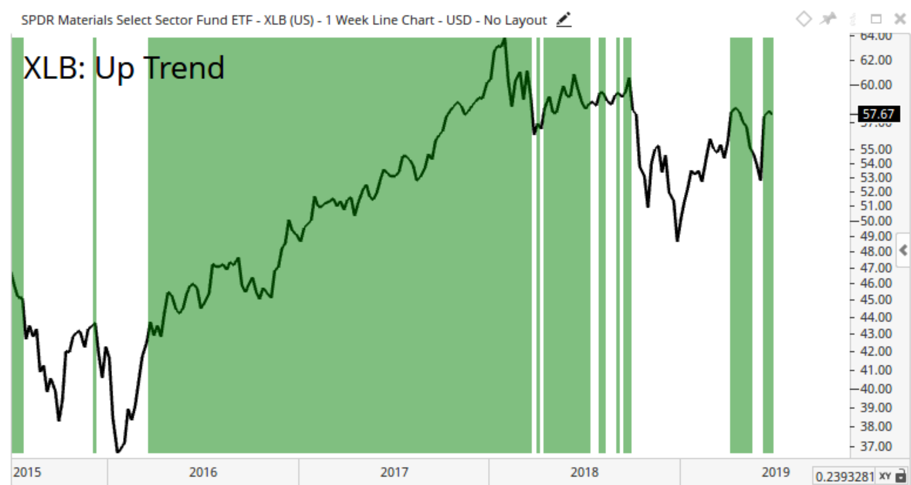

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Coming Soon! Compete system-based ETF model portfolios based on trend, volatility, and sector rotation.

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