THRASHER ANALYTICS

Market Update

Sector Rotation: February	
Technology	XLK
Financial	XLF
Communications	XLC

Notable Breadth Data:	
SPX >50MA	61.98%
SPX >200MA	72.56%
Nasdaq >50MA	74.76%
Nasdaq >200MA	80.58%

Fixed Income Rotation: Q1	
20+ Treasury	TLT
Aggr Bond	AGG

Index & Sector Adaptive Trend Models	Up Trend	Down Trend
SPX	X	
QQQ	X	
IWM	X	
XLF	X	
XLY	X	
XLK	X	
XLV	X	
XLU	X	
XLP	X	
XLI	X	
XLRE	X	
XLE		X
XLB	X	

Daily Sentiment Index	% Bullish	5-day MA
S&P 500	72%	69%
Nasdaq 100	74%	70%
Nikkei	72%	69%
VIX	16%	15%
10yr Treasury	63%	61%
5yr Treasury	53%	52%
CRB Index	25%	24%
Gold	82%	79%
U.S. Dollar	85%	78%

Green<25% Red>80%

Divergences Galore & Why SPX Should Be The Next Avenger

- The U.S. equity market could be in the next Avenger movie. Its superpower would be resiliency and ability to ignore macro headlines. Personally, it'd be my favorite of the Avenger superheroes! Not too long ago we had a skirmish with Iran, our President was impeached, and recently acquitted, corporate America has yet to complete a quarter of earnings growth, and now half of China is quarantined – shutting down major factories and producers of products U.S. companies heavily rely on. What does the market

- Hopefully you've had a chance to read my last note from Tuesday night looking at the parabolic move in Tesla. I don't normally address the price action of specific stocks but this one has stood out well above most with its incredible strength and near-straight line move higher. That type of move is unsustainable, as I wrote on Tuesday, showing many similar moves in prior stock charts that ended with the stock coming back down to earth. Well since then Tesla has begun its return flight as well, dropping 20% since Tuesday as its price was unable to hold above $900. From here I'm watching if it can get back to its 20-day MA which currently sits just below $650, below that I think it could get to $500 if sellers' step back in to flip its short-term momentum. Of course, we need to respect supply and demand dynamics and see where price takes us but With Tesla announcing shutting its China plant, all the expected demand for their cars in China will likely be wiped out of 2020 growth forecasts and that will make a dent in the stock.

- The 5-day Put/Call ratio, which had fallen to near-record levels at the start of the year once again has moved lower after its rise accompanying the drop in equity prices. However, like many things this last week, it's diverging from matching the move in the equity index.

- The premium of 30-day volatility over 9-day volatility rose to 200 basis points which is near the higher-end of the range for this relationship but still not to the 300 bps level we saw in late-December/early-January. This shows a slight flattening of the volatility curve on the front-end – meaning traders are skittish of the latest rise in stocks over the last week. Spot VIX has remained relatively strong even as stocks rose last week, closing the week above 15 – well above the 12 it registered at the last January high.

- Less than 65% of S&P 500, Dow stocks are above their respective 50-day MA and barely 50% of Nasdaq stocks are trading above the 50-MA. Just back a few weeks we had north of 75-90% of stocks above the 50-MA. This is a sign of narrowing breadth with this run to the prior high – less stocks are confirming the bullish bounce. Looking at new 52-week highs was also materially lower, January hit 25% and last week just 14% of S&P 500 stocks were at a 52-week high with the index.

- The impact of the Coronavirus is still a huge unknown. China has continued to request/demand companies to suspend operations and the country's economy has basically been put on ice. U.S. companies are lowering expectations for 2020 based on the epidemic and economists are doing their best game of Pictionary with one another sketching out impaction projections for the U.S. economy. JP Morgan cut its global GDP growth forecast for Q1 in half…IN HALF… to 1.3% annualized, would they cite would "be the weakest outcome since the global financial crisis." Some analysts are trying to find a bright side, calling for further central bank stimulus to make up any stutter step economic growth takes. This is surely something we'll see China do. China's Communist Party's 100th anniv. Is in 2021 and the country's next Congress takes place in 2022, which will surely bring up questions about the next leadership for the Communist country. With these important dates on the horizon, President Xi Jinping will want to stoke the economic fires, just like our U.S. President often does ahead of elections.

- As far as an implications for specific industries with exposure to China, semiconductor companies in the S&P 500 get 30% of their revenue from China, followed by Tech hardware and equipment at 14%. This means we want to keep a close eye on tech stocks and specific semiconductors as likely bellwethers for how the market begins pricing in the impact form the Coronavirus. Semis have already begun to weaken; will that trend intensify?

- The U.S. dollar spot (and the USD/Euro pair) is approaching the September high, the Dollar ETF (UUP) is already there. I think currencies will be a major focus in the next couple of weeks if not months. Sentiment for non-U.S. currencies are near bottom of the barrel levels. DSI for the Euro, 10% bullish, Canadian Dollar, 12% bullish, Australian Dollar, 12% bullish, Swiss Franc, 15% bullish. Meanwhile, the US Dollar is at 85% bullish which is the 86th %tile over the last 10 years. Sentiment is heavily favored to the Dollar, and with the Coronavirus still unresolved, for good reason. Europe is expected to take a hit as will Australia from the outbreak, negatively impacting their currency – sending more investors to the dollar 'safe haven.'

- Risk Appetite is another category to not show confirmation of this last week's rise in equity prices. High Beta, small caps, and equal weight all under-performed the SPX, hardly the type of price action you'd expect form a 'risk on' rally. In fixed income, high yield also did not break to a new high with the equity market, yet another indication of lack of trust in this new high. What about leadership? Semiconductors have been a leader for equities for several months, but last week they under-performed, with their ratio to SPX falling below the prior November highs.

Have a great week and I'll be back next Sunday with a full letter.

Best Regards,
Andrew Thrasher, CMT

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