THRASHER ANALYTICS

Market Update

Sector Rotation: March	
Technology	XLK
Utilities	XLU
Communications	XLC

Notable Breadth Data:	
SPX >50MA	13.27%
SPX >200MA	32.60%
Nasdaq >50MA	17.48%
Nasdaq >200MA	51.46%

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	8%	18%
Nasdaq 100	8%	19%
Nikkei	14%	24%
VIX	78%	68%
10yr Treasury	98%	90%
5yr Treasury	91%	86%
CRB Index	18%	27%
Gold	85%	78%
U.S. Dollar	33%	45%

*Green<25% Red>80%

- *Coming off the February low, equities bounced and retraced 50% of the decline, a normal degree of retracement for a counter-trend rally, before dropping back lower over the final two days of last week. The rally also took the Dow and the S&P 500 back to/above their respective 200-day Moving Averages, neither of which were able to show any persistence in holding above, falling back under to end the week.*

- *The Fed conducted an emergency rate cut of 50 bps, the first of its kind since the Great Financial Crisis in 2007/8. When the Fed did emergency cuts after the dot-com bubble and during the GFC, equities didn't really see much strength. Of the six cuts, stocks rallied – briefly – three times.*

Arabia announced they'd increase production, slashing prices as it begins to create an oil price war with Russia, who was holding firm on its own production in order to push prices lower. Friday saw one of the largest declines in oil prices in a decade, which will likely not mark the period on the down trend with this week's response in price from the weekend's Saudi announcement.

- The energy sector has continued to get destroyed, the SPDR Energy ETF (XLE) is back near the July 2010 low. Relative to the S&P 500, the sector is at its lowest point since January 2004! Energy bonds are getting blown out, which is being reflected in the credit spreads. The investment grade CDX Index rose to 2011 levels, going from under 45 in early February to nearly 90 on Friday. As to be expected, corporate bond funds are seeing massive outflows,

- What's happening in bonds, many would argue, is what's impost important. The 30yr Treasury hasn't seen a move like this since the depths of 2008, a time when the economic mayhem was much much worse. The repo market is also back into focus with overnight repos being once again oversubscribed like they were back in September. This was a much-discussed risk going into year-end that did materialize, now that it's back it seems its being ignored since Dec. didn't produce any proverbial fireworks. Overnight rate spreads are widening, a sign of stress in the 'plumbing' of the financial market and are now higher than the prior September peak. The Fed has been vocal in their willingness to support the overnight rates market, but the initial intention was for them to be lender-of-last-resort, not the first place borrows go, which appears to be the case over the last six+ months.

- Momentum is hitting historic levels for bond yields, with the 14-day RSI for the 10yr Yield at the lowest level since 1971!

- Spot VIX along with VVIX and Treasury VIX all finished at new trend highs on Friday. Intraday, Friday saw the VIX reach its highest level since January 2009, eclipsing the 2011 peak and which also is higher than anytime during the 2000 bear market.

- 3-Month Average Declining S&P 500 Volume Ratio made a higher-high, a sign that selling volume hasn't diminished. Even though Friday closed above it's open, which some note as a sign buyers were stepping in following the opening gap lower, 83% of S&P 500 stocks finished the day lower (and 80% of Nasdaq and 72% of NYSE stocks). We saw something similar happen the day after the first low in 2011, a close > open but heavy % of stocks declining, this was followed by higher prices but did not mark the final low in the sell-off. This also happened more recently on Feb. 27^{th}, the day after the current selloffs first low that was then followed by a few positive days.

- The Composite of Risk On/Off Assets has now fallen to its lowest level since the first low of August 2011, no other times in the indicator's history (which goes back to May 2001) has been lower. 2011 saw this level reached three times, each marking brief lows before SPX rallied 10% and then falling to make a new and final low in October.

- The Bottom Fisher Indicator, which I showed in last week's letter, having reached 5, the highest since Dec. '18 low, has fallen back to 2. This was expected as some of the data 'relaxes' following the current trend low. I'll be watching what level we get to if/when we get a new closing low in price and see if the data continues to be extreme and showing capitulation.

- From a breadth perspective, many gauges remain above their prior lows. A few exceptions include the % of Nasdaq Composite stocks above their 50-day and 200-day MA, which made a new low. XLY, XLI, XLF, XLE, XLC all made new lows on Friday, accounting for 45.3% of the S&P 500 based on sector weighting.

- Sentiment: Looking at the Daily Sentiment Index (DSI) data, we're seeing some new lows for SPX, and Nasdaq here as well, both finished Friday at 8% bullish. This is the lowest level since mid-Dec. '18 before finding a final low at 4% for both indices.

years, when DSI was below 20% and at a 3-week low but the S&P 500 was not, price fell further each time – sentiment led price. There's only DSI data for the VIX back to 2013, but during previously major spikes ('14, '15, '16, late '18) bullishness for volatility broke above 90%. Today it's less than 80%. While the VIX is higher than all these instances, sentiment remains the lowest of the bunch. I believe a partial reason for this is the persistent mentality to sell vol, especially with Treasury rates dropping to record lows, keeping a lid on excessive bullish volatility sentiment. Meanwhile, 10yr Treasury's are at 98% bullish, likely not a huge surprise after the strength they've seen in the last two weeks. The spread between equities and bonds is now at a historic extreme of 90 points (98% for Treasury minus 8% for SPX), exceeding even the 2018 low. Relaxing the parameters to look for 88 pt spread or more, we often see this level hit BEFORE the final low, as in 2016, 2014, 2012, 2011, and 2009. I'll have more about the spread in a blog post on Monday, but here's the chart ahead of it going live: here.

I'll be back next Sunday with a full letter.

Best Regards,
Andrew Thrasher, CMT

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