



Market Update

Major Bounce In Equities

I'm going to keep this brief, but I had a few thoughts and charts to share after today's huge move in U.S. equities.

I've spent some time tonight running studies to look at past times we've seen a major advance in the S&P 500 after a period of weakness or reaching a multi-month low. I wanted to see if these types of 'events' are markers of a significant low or just counter-trends within larger down trends. Last Thursday and Sunday I wrote to you that I thought the risk/reward had greatly shifted and we were seeing major signs of capitulation in the markets. I shared several charts that supported this and felt it was a good opportunity to dip a toe back into risky assets. Boy was that the case! Stocks rocketed up 4-5% today (Monday). Volatility works both ways!

Okay, here are the studies and the results I found..

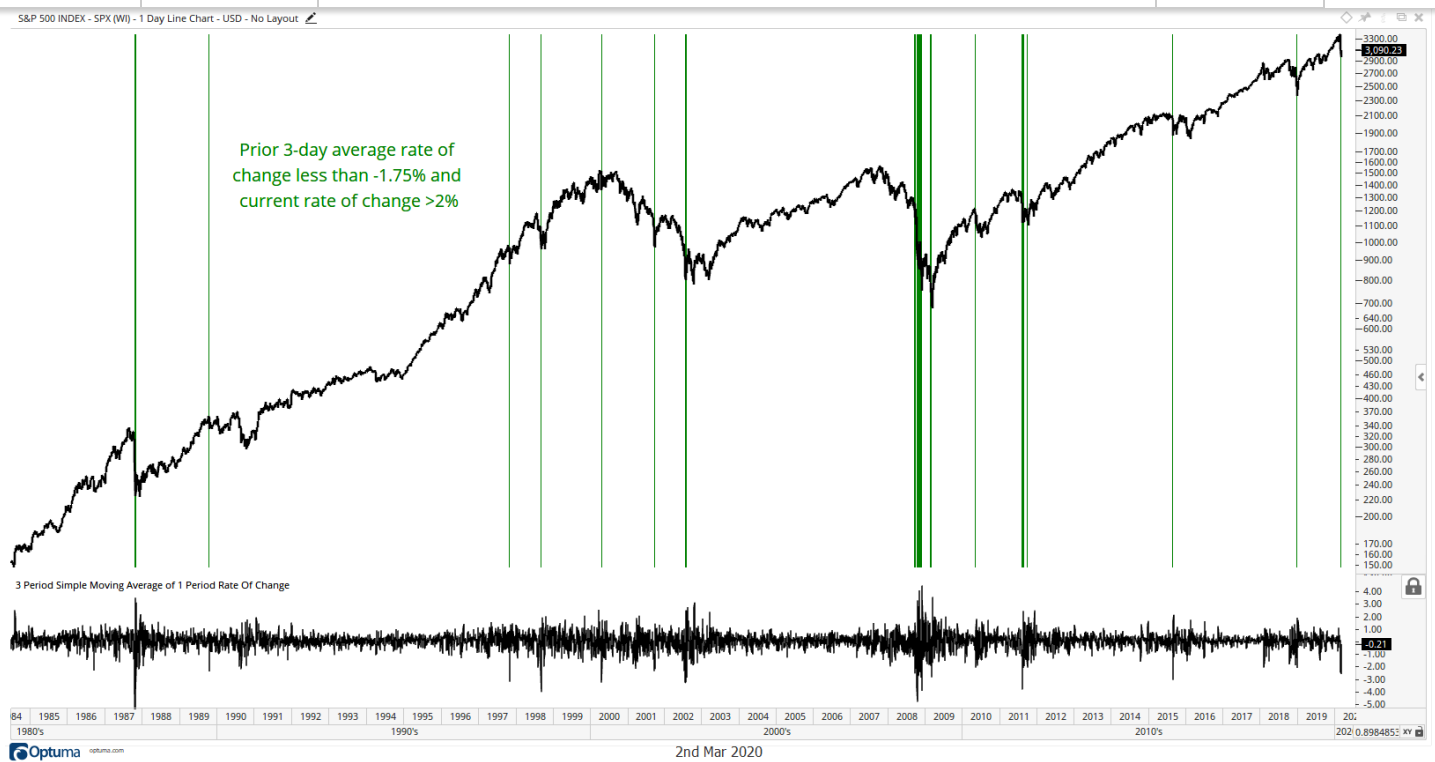
The first one looks at when the average daily change over the last three days was at least -1.75, i.e. heavy selling and the current day rose by at least 2%. (I kept the threshold for the advance for all three charts at 2+% to keep a larger sample size). We last saw this in Dec. '18, 2015 initial low, and at the initial low in 2011 and before the low in 2010, several times in the back-half of 2008 and before counter-trend rallies in the early 2000s.

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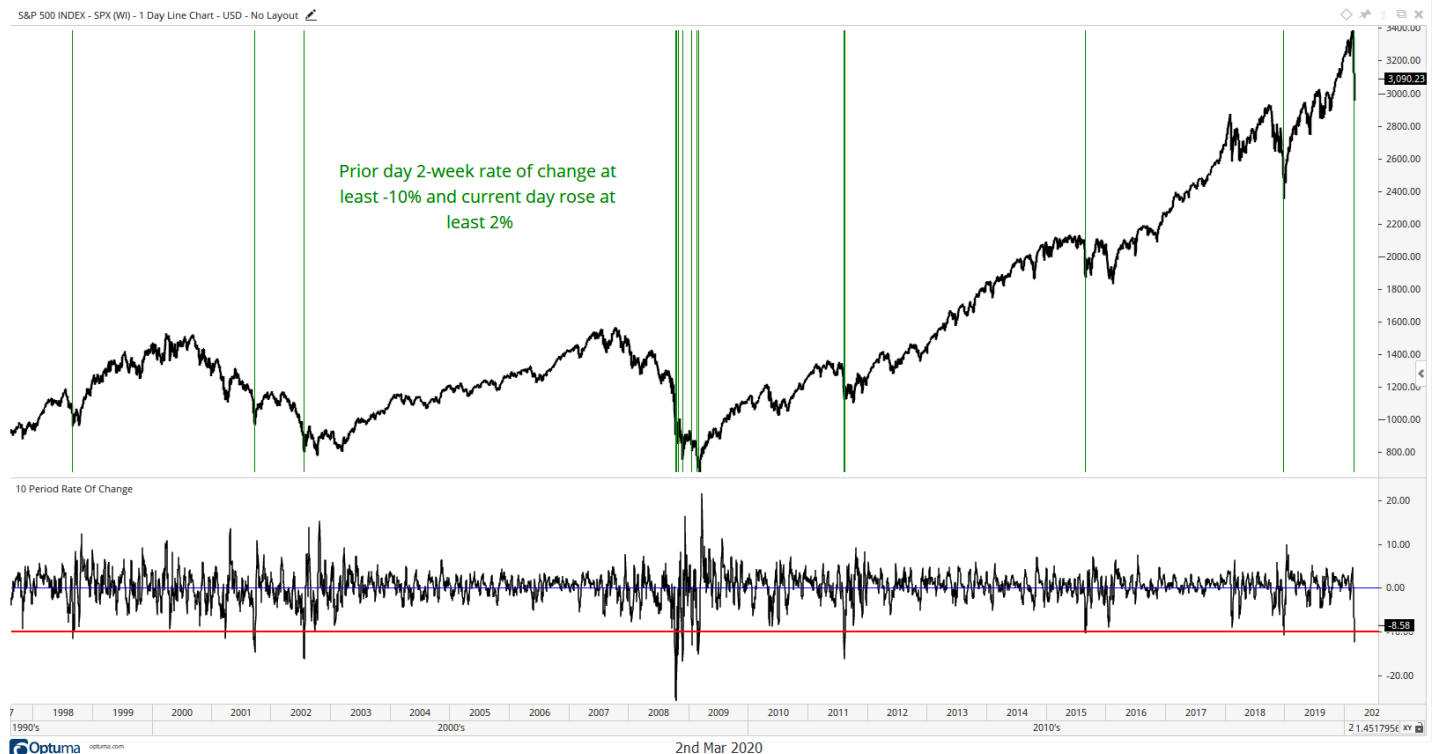
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Next I looked at when the S&P 500 had declined by at least 10% over the last two weeks and then rose 2%. Again we have Dec. '18, 2015 first low, 2011 first low, and then 2008 and 2002, 2001. I find it interesting that these major bounces off a 10% low were the initial low in 2011 and 2015 that were then tested, I believe this is a normal market dynamic and still a possibility with today's market. I'll explain a little more later.



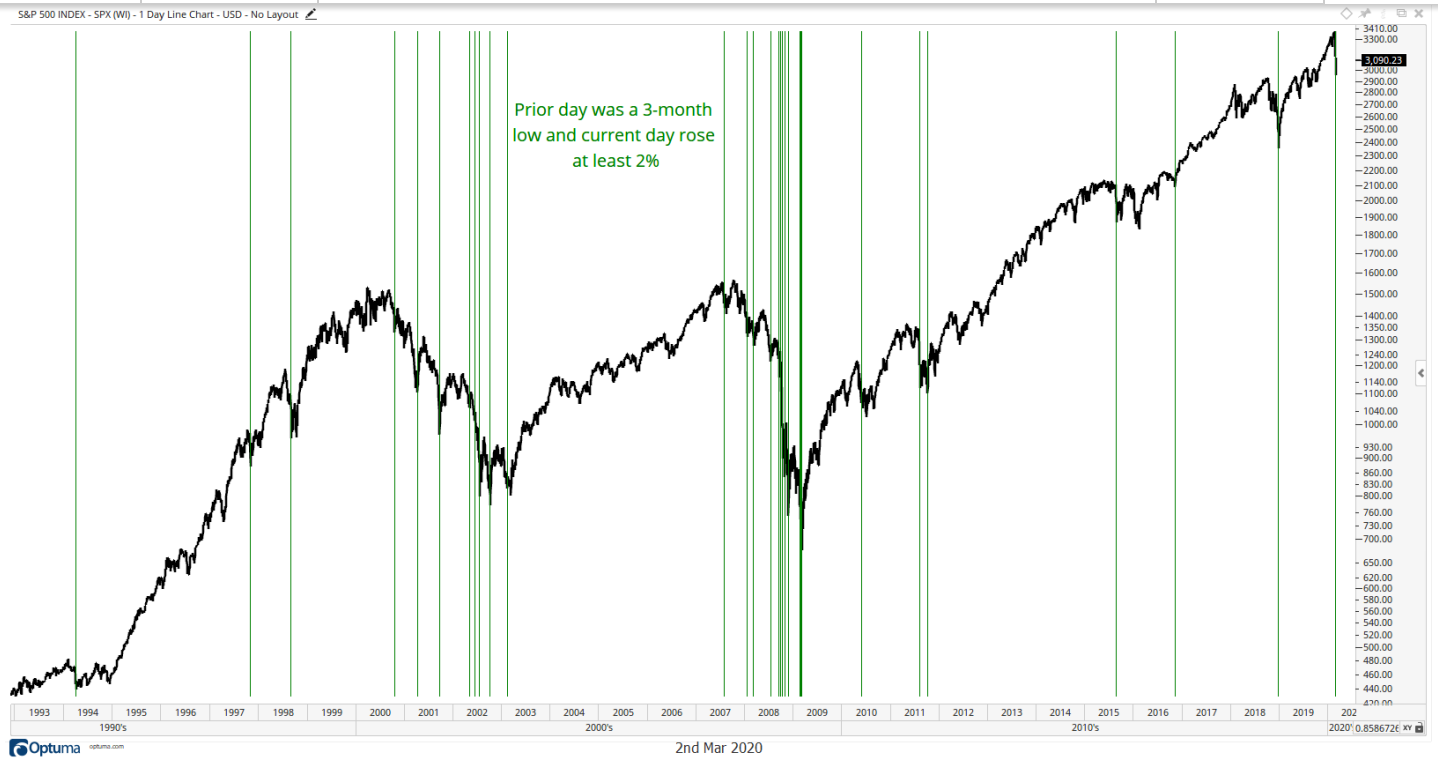
The final chart is when stocks were at a 3-month low and then moved higher by 2%, this of course is pretty broad and so brought in a larger sampling than the first two, but still matches a lot of what the others showed.

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Looking at some of the other data from today, specifically what did the best, it wasn't a rush into the offensive U.S. sectors. In fact, two of top three sectors today were Utilities and Consumer Staples (Tech was the other of the three) while Consumer Disc. and Communications were still positive on the day but were the worst performing sectors. I believe today's move was a mix of coming off extremely oversold conditions, which I won't rehash from my prior two letters.

There also a large hope that the Fed will step in and save the day with an emergency cut or at least a 50 bps cut at their meeting later this month. Other central banks have already signaled intent to step in due to the impact of the Coronavirus and I think Powell is getting heavy pressure to do the same. However, it sticks in my mind what he did in 2018, holding firm against cutting. I'm not calling for him to do that again but he's done it once and shown he's committed to following the data. Now that the market has recovered a chunk of its losses I believe he'll be a little less trigger happy to give an emergency cut or may just do 25 bps instead of 50 at the FOMC meeting.

I'd also point out tomorrow is Super Tuesday. Biden has risen in the polls today, another reason I think stocks advanced, but Bernie still has the lead. Now that Amy and Pete have ended their campaigns, they've backed Biden as an effort to prevent Bernie from getting the nomination. If that doesn't work and Sanders still beats expectations tomorrow, we could see a "response" in risk assets.

I'm encouraged by today's move in equities, it fits what I was seeing in the data that I've shared with you, but will it be that easy? Are we now on track to move back to new highs? I'm not 100% convinced. We must take it day-by-day. I hope you found this note helpful, I know it's not my normal style but I felt it was important to share.

Have a great week.

Best Regards,

Andrew Thrasher, CMT

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