Market Update

Sector Rotation: April	
Technology	XLK
Health Care	XLV
Consumer Staples	XLP

Notable Breadth Data:	
SPX >50MA	38.61%
SPX >200MA	23.96%
Nasdaq >50MA	63.11%
Nasdaq >200MA	49.51%

Fixed Income Rotation: Q2	
Emerging Mkt Sovereign	PCY
Convertible Bond	CWB

Index & Sector Adaptive Trend	Up Trend	Down Trend
SPX		X
QQQ		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	53%	48%
Nasdaq 100	59%	53%
Nikkei	59%	50%
VIX	50%	52%
10yr Treasury	56%	55%
5yr Treasury	65%	64%
CRB Index	12%	19%
Gold	**60%**	**75%**
U.S. Dollar	61%	61%

**Green<25% Red>80%*

- ***Credit Markets:*** *The TED spread has continued to move lower since on March 27th, a positive development and bullish sign that the fixed income market has begun to relax. However, the spread still elevated at 0.97 (it was under 0.15 at the end of February and didn't break above 0.50 during the Q4' 18 correction). Corporate bond spreads have also begun to come back down, falling 22.4% since the March peak.*

- ***Bullish Signs:*** *52.3% of S&P 100 and 59.4% of Nasdaq 100 stocks have now retraced 50% of their prior down trend, leaving just the S&P 500 the last of the three indices to be sub-50%, finishing Friday with 47.6% of its constituents retracing at least 50% of their down moves. Referring back to the three signs the market has moved more bullish (volatility, retracement, and breadth), we have now seen two of the three moved through their required threshold. We just have breadth left to improve, signaling individual stocks have begun making new short-term up trends.*

- ***Equity Resistance Leve**l: You'll remember when I last discussed the historical retracements, that in 2002 we saw bullish improvement in individual stock retracement but the S&P 500 struggled each time at the 200-day Moving Average. The same struggled with moving average resistance at the 200-day occurred after the first bounce in 1998 and in May '08 (early on in that bear market). 2010 counter-trend bounce peaked at the 200-day MA and never reached that level in 2011. Again in 2018 the brief bounces struggled at the 200-day. Going further back to the bear market in 1981-82, the two major counter-trend bounces both ended exactly at the 200-EMA – finally breaking above after the final low in August '82. Currently, the S&P 500 sits about 3% below the Exponential and 4.8% below the Simple 200-day MA, so there's still potential for price to advance before hitting this key level that's come into play during most bear market rallies.*

- ***Bearish Volume:** The NYSE TRIN Index has nee rising again recently. For those less familiar, the TRIN Index compares the daily advance-decline data with the volume advance-decline data. If the second figure (volume A-D) is higher than the price A-D then TRIN stays low, meaning less volume is being traded on declining stocks, a bullish sign. But when the volume A-D is less than the price A-D, that's a potential sign more volume is being focused on stocks moving lower, a bearish sign. I look at the TRIN through a smoothed 1-month moving average to get a feel for the trend of volume breadth, when its moving higher, which it began doing last January before the February peak, it's a sign that while stocks are going up, more volume is traded on those that are going down. The 1-month TRIN peaked in early-March but then bottomed on April 6th and has slowly been climbing during the second half of the current short-term up trend in price. This tells us that there is been some distribution taking place during the back-half of the trend.*

- ***Bullish Volume:** Speaking of volume, the volume profile for the Nasdaq 100 has been very encouraging with advancing volume being very strong over the last week. So far in April, the Nasdaq 100 has had three days with 80% advancing volume. This isn't too much of a surprise as the tech sector (which makes up a large chunk of the Nas100 Index) has been a market leader for the bulk of 2020.*

- ***Growth/Value:** Looking at the relationship between Growth and Value, growth held strong most of last week until Friday when value outperformed. The momentum of the ratio between growth and value has continued to make lower highs, a sign that the strength of growth stocks is slowly beginning to degrade, a bullish sign that I've discussed in the past – that value stocks historically show strength coming out of major market lows.*

- ***Volatility Index**: There's been a lot of discussion it seems on the VIX declining from its high, so I think I should address this as several of you have inquired about it privately. The VIX last week fell below its rolling one year percentile, fortunately not too unsurprising as the daily swings in the market have also calmed down – giving the circuit breakers a rest. Like most things, I look to market history for guidance in looking for significance in such a move.*
    - ***1998**: VIX never cleared its 40%tile until after the retest and price had begun its new trend higher in October.*
    - ***2002**: VIX crossed its 40%tile in August on the counter-trend up from the first July low before SPX made a slightly lower low in October and VIX made a lower high.*
    - ***2008**: This happened several times during the '08 bear market. A brief move below 40%tile occurred in early January after the last bear market rally before the final leg lower into March '09.*
    - ***2011**: Right at the SPX counter-trend high in September, VIX broke its 50%tile (but didn't make it to 40%tile) just before SPX made its last move lower.*
    - ***2015**: At the end of the first move off the initial drop in stocks, VIX cleared its 40%tile before stocks weakened into the final low.*
    - ***2018**: VIX hit its 40%tile twice during the Q4 '18 down trend, at both dead cat bounces in November and early December and then once again after in January '19 after the final December '18 low.*
    - ***What's this mean?** It means that a move in volatility that sees its fall like it has is extremely normal within the classification of a bear market rally. What I've been looking for recently is market developments that don't typically occur if the rally is just a counter-trend bounce. This move in volatility doesn't fit that criteria.*

30%tile is the area we want to watch. We finished Friday with VIX at 37.4%tile, it could still move lower and fit within the typical classification of a counter-trend bounce.

- ***International**: The major four countries of the EAFE Index have bounced off their lows similar to the U.S., but at a lesser extent. The U.K is up just 12%, Japan 19%, France, 11% and Germany has been the strongest at 22%.*

- ***Sentiment**: There's a growing bearish divergence in 10yr Treasury bond sentiment. While the 10yr is back to its March high, when sentiment was north of 90% bullish, it finished last week at just 56% after making a series of lower highs and lower lows. The same development is taking place in 5-year Treasury's as well. Copper sentiment has been very strong lately, while copper futures have only risen roughly 11% from their March low, sentiment has gone from 3% to 59% during that same period. Turning to the US Consumer Confidence Index (from Conference Board) has fallen but still remains at an elevated level. Nordea recently penned a great observation that since 1970, no major bear market has ended with consumer confidence not taking a major drop down to at least 80, currently we find the index at 120 as of March, barely off its prior year high.*

- ***Fed**: The Federal Reserve announced it will be cutting its purchases of Treasury's this week in half, from $30B to $15B each day. The Fed has obviously been a large driver for the move back to equities, acting as the financial market back-step, a role it's grown accustom to playing. Powell has exploded his balance sheet by $2 trillion since the bear market, including high yield ETFs which is a new asset for the Fed to begin toying with.*

- ***Opening The Economy**: The chants to re-open the U.S. economy are growing; protesters are taking to the streets (albeit wearing masks while holding their signs – the irony couldn't be thicker!). Equities have rallied on hopes of the infection rate declining and looking out to an open society come May or June. Here is the problem with that… We can't flip a switch and pretend everything will be back to normal. For example, restaurants may open but will run at half capacity due to social distancing guidelines.*
  - *While there are many differences between the coronavirus and the [Spanish Flu of 1918](), one story from that period stands out right now… In both Philadelphia and San Francisco, they tried to open up the economy and it was met with massive spikes in infections and deaths. In Philly, they hosted a massive parade to buoy consumer sentiment and raise war bonds. 72 hours later the city's hospitals were full and another 2,600 people died within a week. In SF, they believed wearing masks were good enough to prevent the spread, allowing people to return to their daily routines. The result was the city seeing some of the highest death rates in the U.S., later studies found that if they had remained quarantined deaths could have been reduced by 90%.*
  - *The current plan is to open the U.S. economy in stages. There's a great deal of hope and finger-crossing that American will follow the three phases of the plan, if history is any guide (or spring breakers in Florida), I think the likelihood of another wave of infections is extremely high due to social distance protocols being tossed aside, and I say that with absolutely no medical background so take it with a minuscule grain of sand – I simply believe American will be like a bull in the streets when the quarantine is released and those with symptoms or are a-symptomatic will still leave their homes and we'll be back to step one in a few months. I pray I am wrong, I really do. The investing implications of all this? The current sentiment and mood of the market is hopefully of a V-shaped recovery in the economy, unfortunately few economists seem to agree with forecasts ranging from -22.3% at Wells Fargo to -50% from Evercore ISI for Q2 GDP. The IMF estimates a recession across 100% of advanced economics, the first time ever.*

Have a great week!

Best Regards,

Andrew Thrasher, CMT

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