THRASHER ANALYTICS

Market Update

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

Notable Breadth Data:	
SPX >50MA	4.75%
SPX >200MA	7.92%
Nasdaq >50MA	8.74%
Nasdaq >200MA	17.48%

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	21%	26%
Nasdaq 100	24%	27%
Nikkei	18%	24%
VIX	66%	69%
10yr Treasury	73%	70%
5yr Treasury	74%	74%
CRB Index	38%	22%
Gold	75%	63%
U.S. Dollar	79%	68%

Green<25% Red>80%

- *We still haven't seen enough of an improvement in breadth to get long-term bullish on equities but one glimmer of hope over the last week has been the % of S&P and Nasdaq stocks above their 20-day MA, which did not make a short-term lower-low like the indices did. About a one-third of the S&P 500 is above its respective short-term moving average, while the index never was able to get a close above its own. I'll be watching if this trend of strength continues this week and if we can start getting some more stocks back above. My thesis remains that we'll see further downside in equities, but I keep an open mind to changing that if the internal data continues to improve.*

- Offensive sector leadership peaked on March 24 even though the broad indices continued higher. The rotation back to defensive sectors was sharp, dragging the equity market down with it last week. The only sectors to show relative strength have been health care and consumer staples, hardly a bullish sign for risk appetite.

- *Last week I wrote that I expected volatility to continue to come down, regardless of what equities did and that's exactly what we saw play out. The VIX dropped 18.7 points even with the SPX losing 2% over the week. The spread between 30 day and 3-month volatility peaked at 18 and as of Friday has spot VIX at just a 2-point premium to 3-month as the futures curve continues to flatten out.*

- *If you remember my note about two things, I'd like to see develop in equities to get bullish again, they were average volatility to decline and breadth to improve. We've now seen step one, with the Average True Range of the S&P 500 and the average ATR for S&P 100 stocks has declined. However, breadth is not close to a bullish level with just 3% of stocks above their 4.7% of the S&P 500 stocks are trading above their 50-day MA and only 3% of the NYSE.*

- *One area of the market that has caught my attention is the agricultural commodities. They've gotten destroyed along with everything else, but I think it's become a "baby and bathwater" situation. Corn is back to its 2017 and 2018 lows of $330 with a slight bullish divergence from sentiment making a higher low. Sugar is at the 2015 and 2018 low, also with a recent improvement in sentiment. Cattle and Lean Hogs have been beaten bad, making multi-year lows. I believe they've been sold due to demand issues, but the coronavirus is going to have an impact on supply as well, I've seen several reports of lack of workers on farms due to the quarantine and the shutdown of the southern border. I believe commodities will look attractive as inflation re-enters the picture and demand picks back up in the next few months, leaving an interest opportunity in many corners of the ag market. Taking a look at the COT data, Commercial traders (who typically hold net-short commodity positions as hedges for their primary business costs) have recently moved to being net-long in corn, cotton, and lumber, while being close to moving net-long in cocoa and sugar. When Commercial traders get long, it's historically been a bullish sign for prices bottoming and beginning new up trends.*

- *Looking internationally, several country ETF charts are starting to setup nicely. Turkey (TUR) has a bullish momentum divergence with a potential double bottom just under the 2018 low and is just above its 2008 low. The Mexican Peso has been taken out back and shot, sitting at all time lows since the 1990s. There's potential for a bullish momentum daily divergence but I'd like to see improvement on the weekly chart. With the Peso, The Mexican equity market has also declined, sitting just above its March low. EWW is down nearly 50% from February, making it severely 'oversold' but still has another 25% decline to get to its next price support at the '08 low. Latin America (ILF) has moved down to its 2008 low and bounced, if it can get back above the 2016 level and hold, it may be a better way to participate in the Mexico recovery as Mexico accounts for 24% of the ETF (Brazil the largest at 56%). There's a strong correlation between emerging markets and commodities (current 3-month correlation is 0.98 between the CRB Index and EEM). Meaning, the ag products I mentioned earlier and the setups in some of these country charts could work together and help push each other higher if we start seeing some strength. It hasn't developed yet, but these are the charts that have my attention right now.*

- *Turning to fixed income, the 30-year Treasury Bond is now trading more than 3 standard deviations above its 4-year average, something it hasn't done since 2012. The 10yr Yield fell to a new weekly low on Friday of 0.59%. I'm eager to turn bearish on bonds but just not seeing enough to make that turn just yet. I think we've squeezed a lot of juice out of the fixed income market, seeing the short-term U.S. government debt yield turn negative already. I think when the bullish Treasury trade does turn, it'll have quite an unwinding and provide a great opportunity, so I'll continue to watch this corner of the market closely and share what I see in coming weeks.*

- *When discussing fixed income, we can't forget the Fed has stepped back into the market, expanding its balance sheet to $5.8 trillion (that's with a T!) this week. The pace at which the Fed is buying bonds right now makes the prior instances of QE look like child's play. As we saw in 2018, when the Fed's balance sheet begins to contract and the spigot begins to close, the market doesn't get too happy and responses violently.*

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

Best Regards,
Andrew Thrasher, CMT

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