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THRASHER ANALYTICS

Market Update

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

Notable Breadth Data:	
SPX >50MA	52.48%
SPX >200MA	19.41%
Nasdaq >50MA	70.78%
Nasdaq >200MA	45.63%

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	43%	50%
Nasdaq 100	49%	55%
Nikkei	60%	70%
VIX	51%	46%
10yr Treasury	61%	65%
5yr Treasury	63%	64%
CRB Index	40%	30%
Gold	**75%**	**73%**
U.S. Dollar	55%	60%

**Green<25% Red>80%*

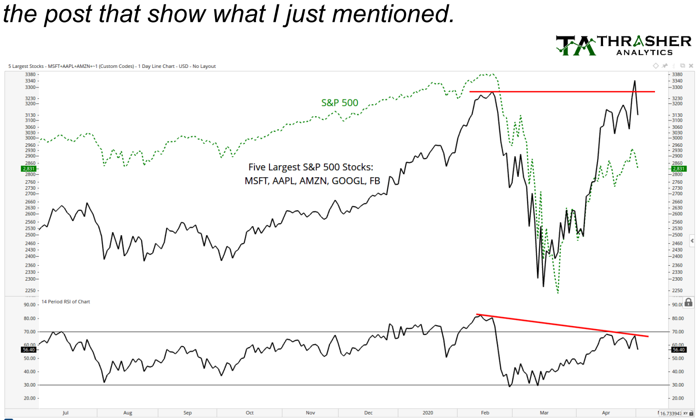
Commodities: *Agricultural products continue to have my attention, as I've written about in prior letters. Fortunately, I highlighted the attractive setup in hog prices went sentiment was bottoming, hog prices have sense risen 68% as the plant shutdowns get more media attention. Corn moved slightly lower last week, tagging its 2016 low just above $300 but momentum and sentiment both made higher-lows, suggesting the selling pressure may be drying up (chart here). Looking at the Commitment of Traders (COT) data for corn, commercial traders (the 'smart money') is a very bullish position corn futures while large traders (hedge funds, institutions, banks, etc.) are holding a historically bearish position in corn. We last saw this development in May of last year before price rose nearly 30% in a month.*

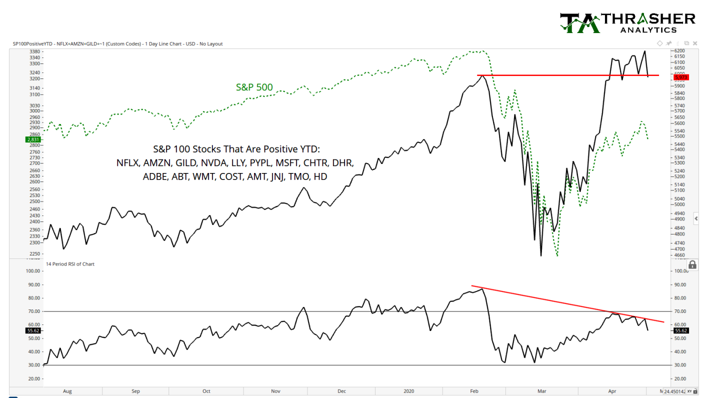
Fixed Income: *10yr DSI sits at 61%, well off the 90+% high it set in March as 10-year bonds have consolidated just under the multi-year high. 60% bullishness has been a good level of historical support, so it's a place we'll want to watch if sentiment breaks down and falls into the 50% or 40% bullish area. 10yr Bond COT data also catches my eye, with professional traders sitting at the 18th%tile (lowest level since 2017) and the Public/Small trader is at the 90th%tile, a level its oscillated around for the* position has fallen below 20%tile we saw a move lower in bond prices (May '17, July '18, April '19, and August '1)

Equity Sentiment & Breadth*: S&P 500 DSI finished the week at 43% as price broke below the prior April 17th high. SPX is still about 3.4% above the April 21st low but sentiment is just a few basis points from reaching 40%, the level it was on the 21st. This suggests to me that bullishness has been weakly held, with traders not willing to bear much downside before flipping their view. VIX sentiment bounce at 40% last week, which is interesting because that's right where it saw a sentiment low in October 2015, before it rose from 14.4 back to 30, rising with equities for a brief period before stocks eventually rolled over and made a new low in 2016. The S&P 500 went from having 98% of its stocks above their respective 20-day moving average to just 61% as of Friday, with the same breakdown in % above the 50-day going from a peak of 75.9% to 52.8% and now we also have less than 20% above their 200-day moving average – while the index is not too far off its 1-month high, many stocks have already begun to turn lower.*

Equity Price Levels: *As I've mentioned several times in prior levels, the 200-day moving average is critically important for the bullish thesis to continuing playing out, with many prior bear market rallies failing at his key level. Well last week we saw the 200-day exponential moving average get tagged by the S&P 500, along with momentum reaching the upper-end of its bearish range (60) before turning lower. Both of these developments fit perfectly within the bear market rally camp of data points. From here I'm watching the prior 50% retracement level, which was at 2800 and the 50-day MA which is at 2759. If we don't see buying interest at these levels then I think an argument can be made for the end of this counter-trend and a new move lower to have begun.*

Leadership*: Market leadership can be viewed in one of two ways: The largest stocks or the best performing stocks. The five largest stocks currently represented over 21% of the S&P 500, the largest share since the late 1970s. Currently there is less than 20 S&P 100 stocks that are positive YTD. Both groups of equities (with a bit of crossover between the two) broke above their February highs but over the last week have fallen back below, confirming the bearish momentum divergence that was present during their initial break-through. If we are losing our market leaders, our "generals" as Ralph Acampora famously called them back in 1998, then we either need to see some major rotation in leadership or these wounded soldiers could bring down the index with them. I will have a blog post on this topic at athrasher.com tomorrow, but here's an early look at the two charts from the post that show what I just mentioned.*





Technology*: Last week I showed the bullish and bearish momentum breadth studies that I had developed. These can also be used for individual sectors and looking at tech we have a growing number of bearish divergences developing in the sectors individual holdings. As of Friday there were 40.8% of the sector's stocks with a bearish divergence, crossing above the 36.6% that had a bullish divergence. In Early March we saw 70% of the sector with a bearish divergence at the peak, well above the amount we have today but it's still a bit concerning that we already have momentum breaking down for so many individual securities in a sector that's shown such strong leadership. This lends to the above-mentioned point about the largest S&P 500 stocks, nearly all of which are in tech (to some degree) and how their composite momentum has also broken down as the above chart showed.*

Seasonality*: As the clock struck May 1st, we entered the seasonality bearish period of the year often dubbed "Sell in May and Go Away." While not perfect, historically the returns achieved from May until November have been tougher to come by than the other six months, things look even worse when you screen for years that stocks came into May down by at least 5%. Since 1950 there's been nine prior years that the S&P 500 was down at least 5% through April and the following 126 days (6-months) the* *positive portion of the seasonal pattern, things appear to turn bullish when the seasonal headwind takes over. The last occurrence of this happening was in May 2002, when equities still had another 30% move lower before the final mid-2002 bottom. Before that was 1990, which actually saw stocks move higher by 11% from May to July and then sank 20% into October. After that, we have 197 when stocks peaked in September '76, fell 8% through April '77 and then dropped another 12% until the March '78 bottom. The counterargument here could be that April of this year was so strong, so that should negate the YTD weakness, right? Not so fast. In fact, April '01 saw bullish advance of 10.5% which still was just a bear market bounce within he larger move lower during the tech-wreck as SPX peaked less than 4% higher before falling 27.5% from late-May until September.*

Have a great week!

Best Regards,
Andrew Thrasher, CMT

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