THRASHER ANALYTICS

Market Update

Sector Rotation: June	
Technology	XLK
Health Care	XLV
Communications	XLC

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

Notable Breadth Data:	
SPX >50MA	80.20%
SPX >200MA	35.05%
Nasdaq >50MA	84.47%
Nasdaq >200MA	66.02%

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	66%	77%
Nasdaq 100	79%	87%
Nikkei	71%	78%
VIX	29%	25%
10yr Treasury	47%	41%
5yr Treasury	52%	48%
CRB Index	63%	69%
Gold	79%	75%
U.S. Dollar	31%	24%

*Green<25% Red>80%

Last Week's Selloff: *Coming into last week there were several warnings signs the risk/reward for equities wasn't as attractive as they once had been. I laid out several of these last Sunday... The Volatility Risk Trigger (VRT) had been producing several warnings, a large build up of bearish momentum divergences in many of the sectors, the S&P 500, and Nasdaq 100, the Volatility curve had begun to flatten out between spot and 3-month volatility, the put/call ratio had sunk like a rock as no one had an interest in owning puts, finally the Daily Sentiment Index for SPX and Nasdaq were pushing historically high levels of bullishness. This all lead to an extremely strong drop in stocks on Thursday with 98.6% of the S&P 15000 finishing lower and 97% of volume negative for the day. Thursday was one of the largest single-day percent increases in volatility in twenty years. But then again, it's 2020 why wouldn't we continue to add to the growing list of records being set?*

Failed Breakouts: *The major theme of last week was the failed breakouts. One chart I was watching for a breakout was the consumer dictionary vs. staples ratio. This is a great relationship to show risk* *selling. Semiconductors and software both failed to hold on their new 2020 highs, falling back below their earlier peaks. As I mentioned during a TD Ameritrade Network interview on Friday, all these failed breakouts are important to watch from a recovery standpoint.*

***Lost Moving Average**: Once again the 200-day Moving Average becomes a focus point for many markets with the S&P 500, S&P 4, S&P 600, DJ Industrial, Emerging Markets, and EAFE all testing or falling below their respective long-term moving average. These major markets also tested their mid-point momentum levels on the RSI, a common area of proverbial support in the indicator. A hold at this level of momentum and a recoup of the 200-day MA would be very constructive and help restore confidence that last week's selling was more a 'rest' rather than something more substantial.*

***Key Price Levels:** An important point I'll be watching on many charts if we do see strength come back to equities this week, is how much participation do we get in individual stocks, risk appetite, volume, etc. Ideally, we see good volume return and the strength be broad-based not just the FAANG stocks. For the S&P 500, we could see 2900 on further downside, which is just a few points below the 50-day Moving Average. The VWAP off the March low finished last week at 2,832, which also is near the low-end of the late-April early-May consolidation and also lines up with the VWAP from the February high. Those are my two primary levels of interest as of Friday. On the upside, I'd like to see price clear 3150 to get confidence in the potential for a run back to 3240.*

***The Fed & Congress**: Many analysts argue that the stronger the market the less chance we'll see another round of Congressional stimulus. We may get some insight here as Powell will be testifying before the Senate on Tuesday. I'll be watching if the questions are heavily focused on what the Fed will/can do to put a floor under the economy, a possible sign that Congress doesn't feel they have the ability to get the next trillion dollar stimulus passed. If that's the primary focus of the Senate's Q&A then that will be worrisome, however if they take Powell down other topical road then maybe that will suggest they are less concerned with their own stimulus efforts and won't have to pry more money from the Federal Reserve.*

***Divergences Update**: The lofty list of bearish divergences I've mentioned in recent letters has not really changed by the end of trading on Friday. There also was not rise in buy composite readings* *and potential opportunities develop by the end of the week. Fingers crossed.*

***Online Retailers**: Since May 13th, the online retailers had begun to move lower relative to the entire retail industry after their extremely strong period outperformance since last November which intensified from March through April. I believe online retailers' relative performance can give us insight into the market's belief of covid-19 fears and the potential for another lockdown.*

***Coronavirus:** As states opened up their economies, they began to weaken but here recently have taken over strength once again, is the market starting to get concerned with a second (or continuation of the first) wave? There's been several reports of new record setting infection rates. The WHO said over the weekend a new record was set in Latin America with U.S. infection rates also starting to increase again in many states. Beijing closed its largest food and vegetable center after a spike in daily covid cases. Recent surveys have shown many Americans will not respect another lockdown order if one in their state is put in place. The Trump admin. has been vocal that they do not want to see another state-issued lockdown take hold of the country as the White House is focused solely on the November elections and knows what impact another wave of infections would do to re-election chances.*

***Retail Traders**: A great deal of focus has been given to the Robinhood/E*Trade retail traders. You can't turn on financial news or click to a financial news website without a mention of the retail trading bonanza. It's extremely entertaining, and echoes the late 90s in some ways. While I find entertainment value here, at the end of the day the institutional trader rules the market. Those with the largest cash coffers can put their weight behind a trend they want to see develop and the performance gap between the retail favorite stocks and heavily owned hedge fund stocks has created a nice looking alligator jaw, with retail running well above hedge fund positions. These jaws will shut and if history and trillions of assets have any say in the matter, it will (unfortunately?) be the retail trader that gets their hand or head bitten off. The over-confidence from the melt up from the March low has been wild. I get replies to my tweets almost daily, regardless of the original topic, by accounts that had just been created in the last month and their sentiment is all the same: "stocks never go down." Chanting the mantra of Dave Portnoy who has surely brought a large swath of them to open investment accounts while temporarily abandoning their daily sports betting websites for the glitz and glamour of a market that's rewarded the early-mover.*

I'll be back next Sunday with a chart-focused letter.

Best Regards,
Andrew Thrasher, CMT

Important Reminder