THRASHER ANALYTICS

Market Update

Sector Rotation: July	
Technology	XLK
Consumer Disc.	XLY
Communication	XLC

Fixed Income Rotation: Q3	
Muni Bond	MUB
High Yield Corp.	HYG

Notable Breadth Data:	
SPX >50MA	76.24%
SPX >200MA	49.90%
Nasdaq >50MA	87.38%
Nasdaq >200MA	79.61%

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	82%	83%
Nasdaq 100	84%	85%
Nikkei	71%	73%
VIX	12%	18%
10yr Treasury	61%	63%
5yr Treasury	55%	56%
CRB Index	66%	66%
Gold	75%	74%
U.S. Dollar	24%	29%

**Green<25% Red>80%*

source; trade-futures.com

Focus this week: *The focus will shift between vaccine headlines, with several drug makers testifying before Congress on Tuesday and earnings, as several large tech companies (MSFT, IBM, INTC, TWTR) report. After Netflix's disappointing report – producing one of its largest weekly draw downs in the last three years investors will be looking for some positive reports from the other mega cap tech companies. Tech funds have enjoyed the largest two week cumulative flows, exceeding $4 billion last week, according to BofA data. Over the weekend Florida reported that many hospitals have run out of ICU beds with many states reporting at or near new highs in infection rates but thankfully most states have seen their death rates continue to decline. From an economic standpoint, several states – specifically Texas – have mentioned the consideration of returning to a locked-own. California has also said they are "on the brink" of adding to their* *home order.*

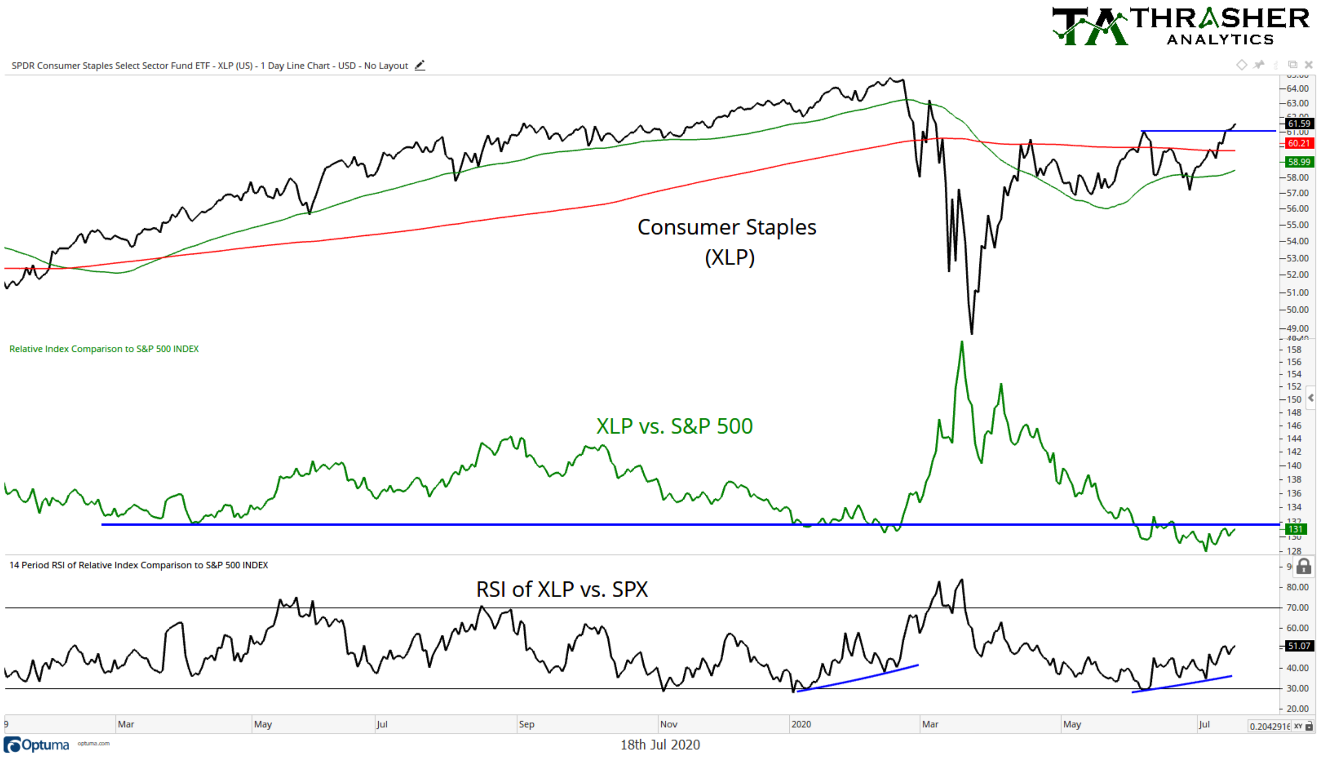
***Nasdaq**: While both the Nasdaq 100 and Composite are well above the prior 2020 high, under the hood there's a growing spread in strength. The Nasdaq 100 has held up well with 81% of stocks holding above the 50-day MA, a health figure; however, there's been a steady decline in this measure for the Nasdaq Composite which as of Friday was at 56% after being at 90% in early June. Its interesting to see this happening as its what took place at the start of the year as well, almost to the exact levels with Nas100 at 80% and the Composite near 50% by the time both indices peaked in February. This is not to say we're about to repeat the extreme move that resulted in March, but the bulls focus is squarely on the mega cap Nasdaq names, several of which report earnings this week. If they can maintain to hold strong and the Nas100 keeps above the 20-day MA, which has been support for several months, then this song can continue to play but it's slowly losing musicians to keep to keep the beat.*

***Volatility**: We move this week into Vol expiration with spot VIX sitting just under 26 as of Friday. The elevated Vol curve is one of the reasons inst'l investors have been kept out of this market due to risk management protocols. The Volatility of VIX (VVIX) began to move higher late-last week and several of the inputs of the Volatility Risk Trigger (VRT) are just a few points from signalling. While this razor edge level in the VRT can persist for a while or diminish all together, it's not reason to expect an immediate spike in volatility until we have a complete trigger from the proprietary tool.*

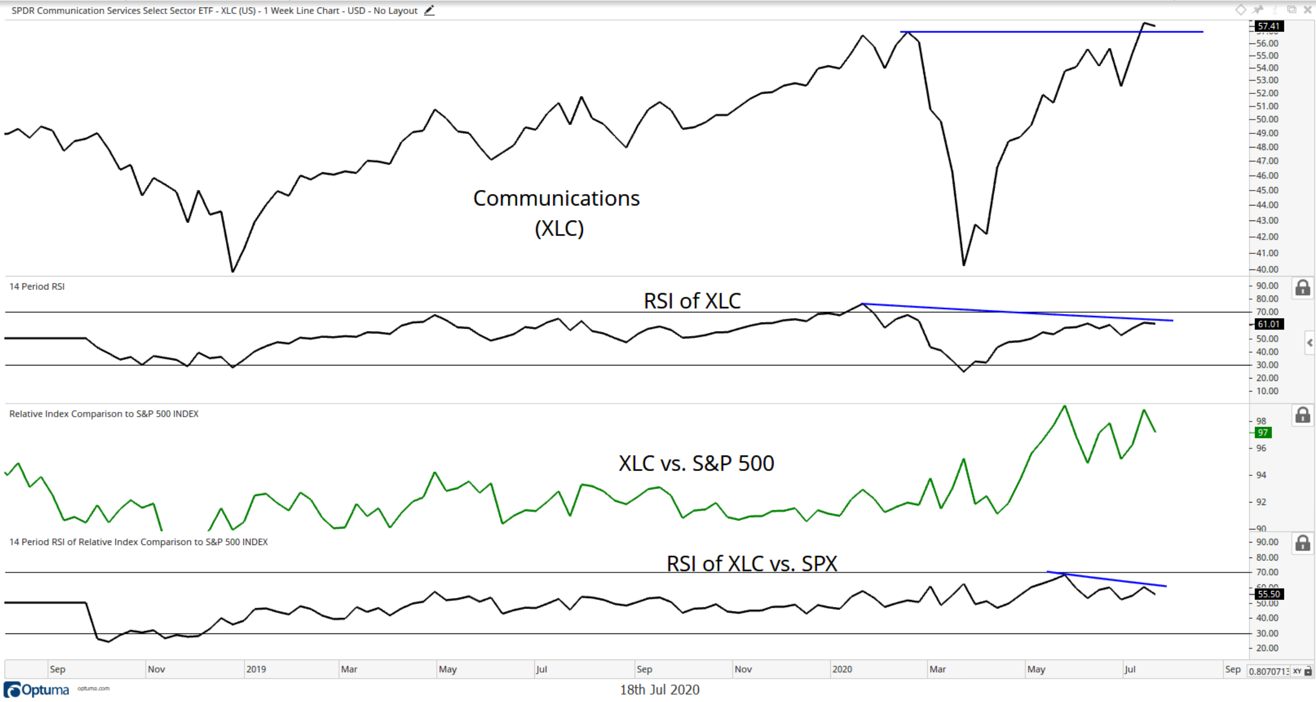
***Momentum Divergences**: I note two specific sectors below that have a concerning number of bearish divergences within their individual stocks. More broadly, 9 of the 11 sectors now have at least 50% of their stocks showing a bearish divergence and none showing at least 50% with bullish divergences. This is the most sectors with high bearish readings since February 24th, 2020. Looking at the indices, 71% of the Nasdaq 100 has a bearish divergence while only 8.6% have a bullish divergence. 57% of the S&P 500 has a bearish momentum divergence with 24% showing a bullish divergence. This suggests the concern is more on the Nasdaq than the SPX. I continue to watch the 20-day Exp. MA for the QQQ, a moving average the ETF has not closed below since March.*

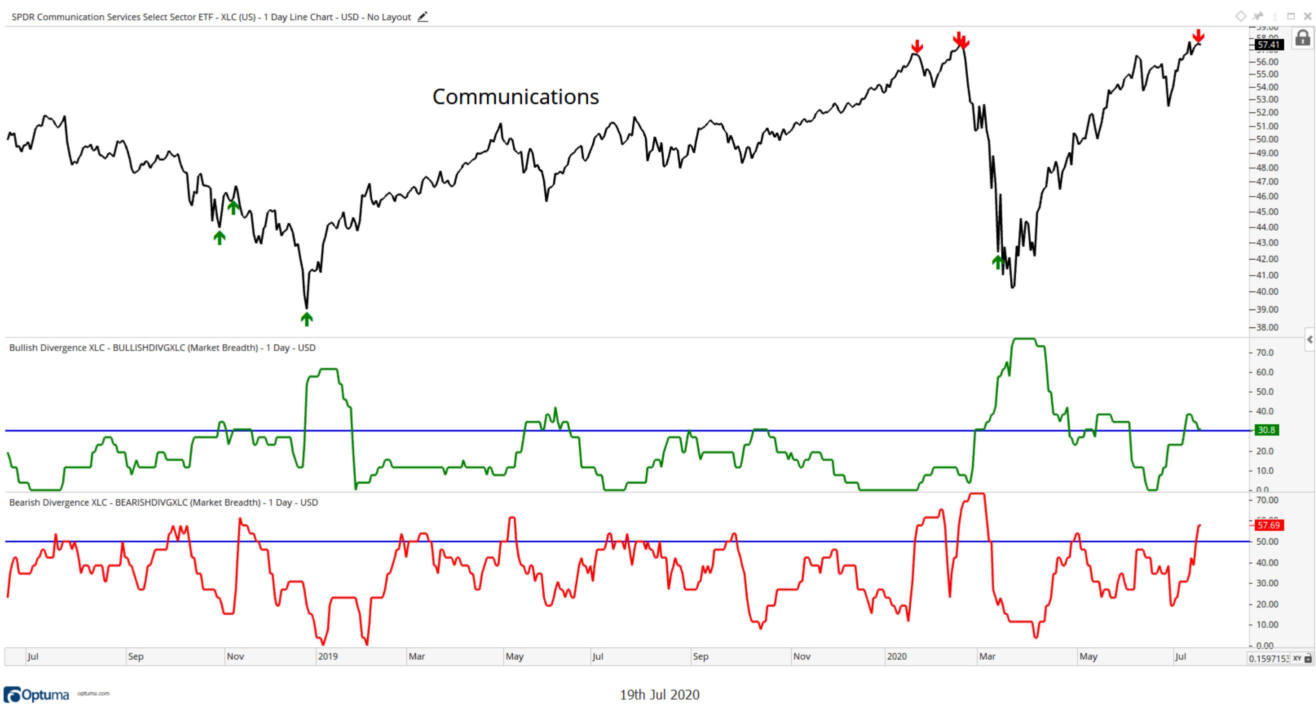
***Sector Breadth**: 42% of Health Care stocks broke to a new 3-month high on Friday as the sector broke to a new 2020 high; Technology's % above 200-day MA has flattened out but remains above 70%; Financials remain below the 200-day MA but breadth has improved with nearly 30% of stocks now above their own 200-day MA; Consumer Disc. has seen a slight drop in breadth support with less stocks above their 200-day MA compared to the prior June high, which price has exceeded, there's also less stocks making 3-month highs compared to June; Consumer Staples has seen a broadening out of breadth support with over 65% of stocks above the 200-day MA and 97% above the 20-day MA; Industrials remain below the 200-day MA with breadth broadly tracking price and remains mostly positive; all Utility stocks are now above the 20-day MA but just 29% are above the 200-day MA as price still remains below the 200-MA and in a multi-month consolidation; Energy has no stocks at a 3-month high with less than 5% above the 200-day MA; Materials have 96% above the 20-day MA but only 21% at a 3-month high as price approaches the 2020 peak; breadth has dipped for Communication stocks considering prie is right at the 2020 peak and only 53% of stocks are above the 200-day MA and just 4% are at a 3-month high; finally Real Estate has only 3% at a 3-month high and less than 30% above the 200-day MA with price also under the 200-day MA.*

The chart below shows the bullish divergence in RSI for the XLP vs. S&P 500 ratio with the ratio near lying 132, which has been a key level for the last year. XLP itself has broken above its prior June high – doing so ahead of the broader SPX which I believe is significant. If the breakout in XLP holds early this week and we see some more relative strength, I think Staples could be a sector leader.

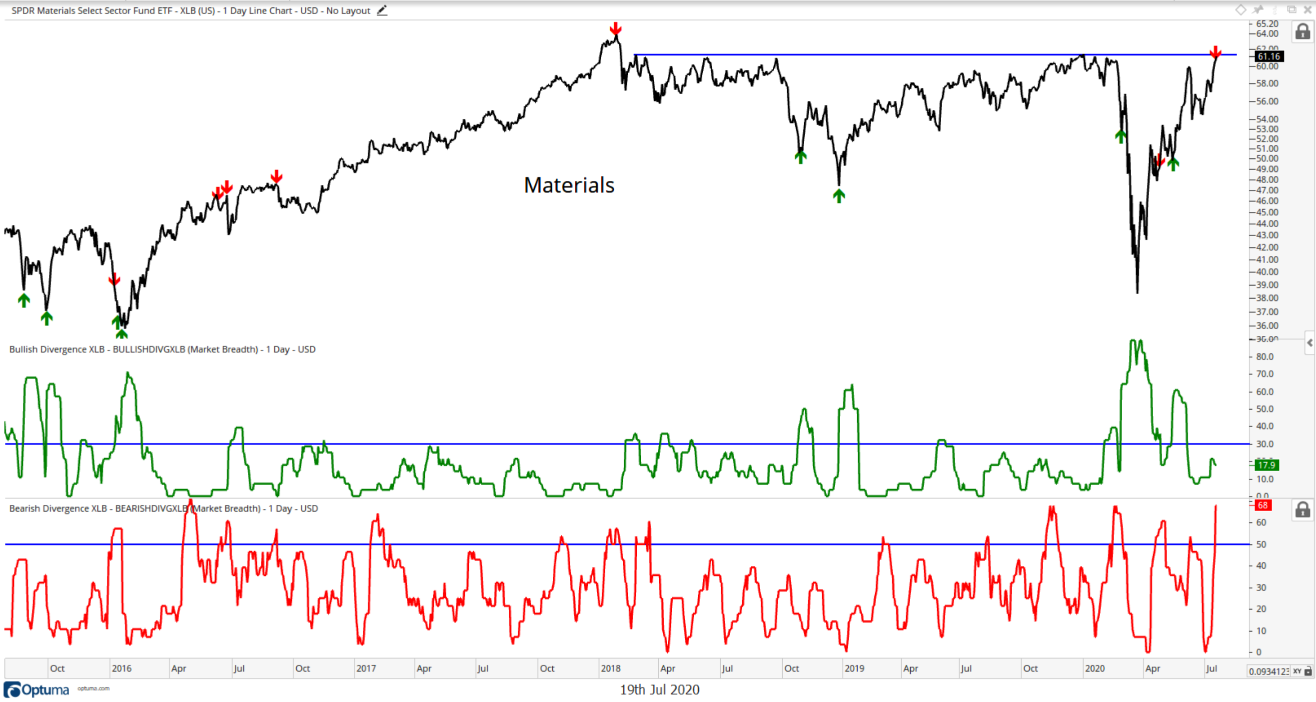


***Communications**: The Comm. sector has broken above the 2020 high but has a bearish divergence for price as well as for the relative performance ratio with S&P 500. I think this sector is vulnerable if it falls back below $57 and under the early 2020 high. Under the hood, the divergence breadth data also has picked up quite a bit, with over 57% of Communication stocks showing a bearish momentum divergence, the most since the prior 2020 high.*





***Materials**: The Materials sector has gotten a lot of attention lately due to its strong move in July, rising back near the prior major highs. Many traders are looking for a breakout here with a continued pushed and expectation of Materials to be a sector leader. However, the internal data is less supportive with 68% of Materials stocks showing a bearish momentum divergence, the most in over three years. I think this presented a major headwind for the sector, turning the $61 area into resistance instead of a clean breakout point. This could catch a lot of traders off guard if we see an about face in this chart.*



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

Best Regards,
Andrew Thrasher, CMT

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