THRASHER ANALYTICS

Market Update

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

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

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	77%	83%
Nasdaq 100	76%	76%
Nikkei	84%	85%
VIX	13%	12%
10yr Treasury	55%	60%
5yr Treasury	62%	65%
CRB Index	71%	71%
Gold	66%	69%
U.S. Dollar	15%	19%

*Green<25% Red>80%

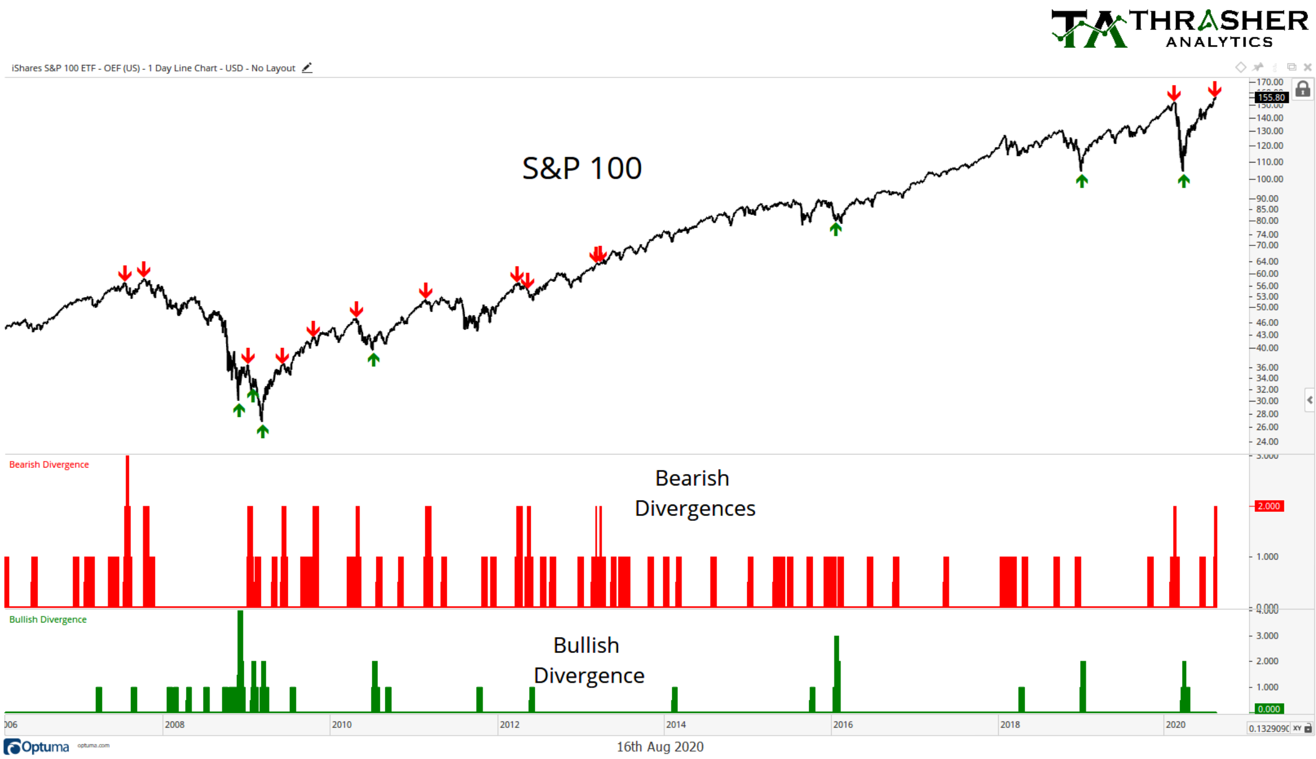
source: trade-futures.com

Notable Breadth Data:	
SPX >50MA	78.42%
SPX >200MA	57.62%
Nasdaq >50MA	69.90%
Nasdaq >200MA	74.76%

Last week: *We saw the S&P appear ready to breakout before sliding 1.4% on Tuesday which quickly was recovered on Wednesday. This price action fits the 'theme' of the last few months, any attempt to sell-off gets bought with short-term levels of support holding firm. Thursday and Friday were fairly boring days, with the major indices closing basically flat, dipping a few points below their opens. Industrials, energy, and consumer discretion led among the sectors last week with utilities and real estate the worst performers.*

Key Levels: *Many indices are at important junctures in their price trend. The S&P 500 sits less than twenty points below the February high, so of course that is on every trader's radar right now. S&P 600 (small cap) and S&P 400 (mid cap) have broken above their prior June highs but saw slight pull backs last week to test those breakout levels, I'm watching if the breaks hold or fail this week. The Dow Jones Transport Average is near its prior 2020 high as well, with DJ Industrials still having some work to do to get closer to new YTD high. Internationally, EFA has broken its June high but saw a slight pull back (like small and mid caps), so that breakout is still 'on watch' to make sure it doesn't fail.*

***Divergences**: The S&P 100 has two confirmed bearish momentum divergences (of the four I monitor) with the S&P 500 seeing just one divergence. Since the March low, the SPX has seen one divergence just one prior time, which was in late-May before the 7% drop in early June (to be bearish I'd prefer to see two, like in the S&P 100). The Nasdaq 100 has 56% of stocks showing a bearish momentum divergence with only 44% for the S&P 500. Consumer discretionary, tech, and industrials still have elevated divergence percentages (57%, 53%, 58% respectively). The average bearish divergence percentage for the sectors has come down, finishing the week at 43% and 12% average bullish divergence.*



***Fixed Income**: Treasury yields have firmed up, most technicians are focused in on the possible 'double bottom' in the 10yr Yield at 0.54% from earlier this month and in March. Inflation data came in hotter than expected last week, which makes gold and fixed income investors nervous. The recent drop in Treasury bond prices has sent sentiment from 80% bullish to finish the week at just 55%, the lowest level since June. Looking at the Commitment of Traders (COT) data, large and public traders still hold an elevated (90%th and 73rd percentile) net-position in Treasury futures with professional/commercial traders at just an 8th percentile, lowest since 2017, 2016, and 2012 lows in yield. Meanwhile, Commercial traders are at a 100th percentile net-long position in U.S dollars. Of course, the Fed is a major driver of what has been happening in fixed income and are ultimately the last arbiter of what's to happen with interest rates. Some Fed officials last week suggested they would be fine with inflation rising above the 2% target. So, maybe the uptick in inflation data isn't a concern for Powell and his crew. We get FOMC minutes this week, they may give some insight into the Fed's thinking regarding inflation targets.*

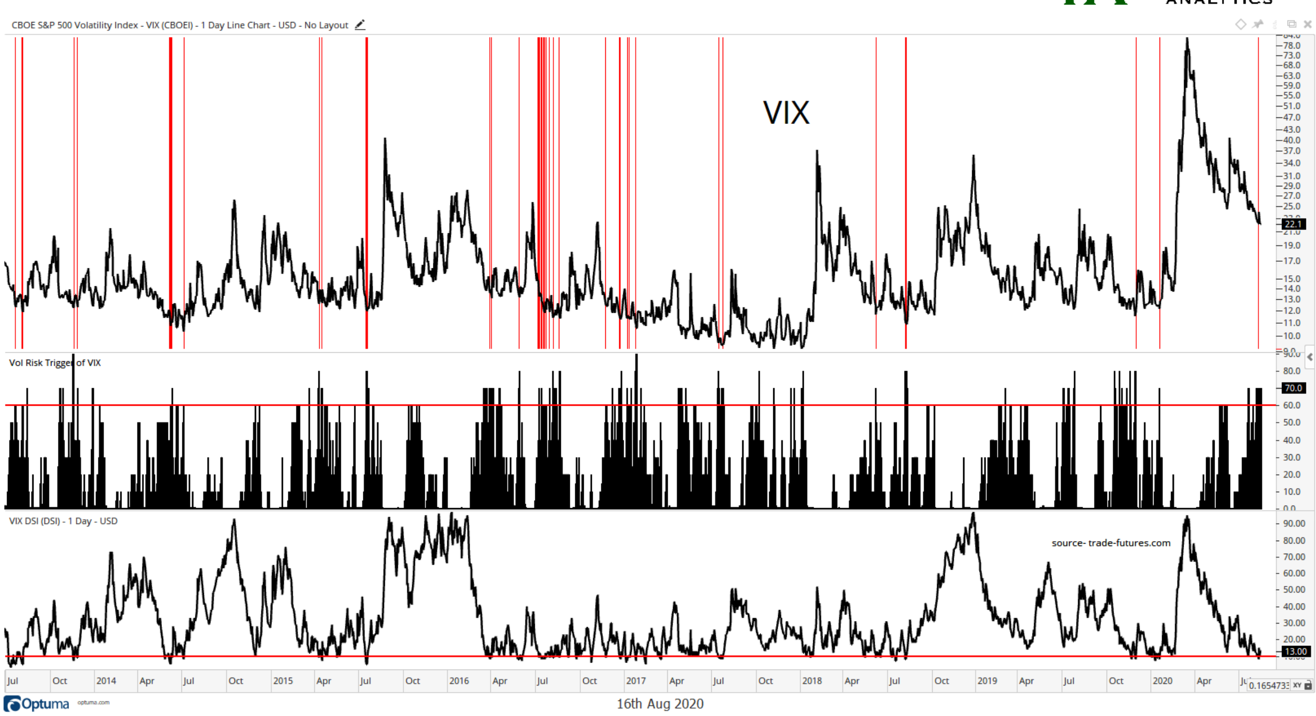
***Breadth**: As I mentioned last Sunday, breadth has been improving, with a rising percentage of stocks crossing above their 200-day moving average, a long-term positive sign. The main concern I see with breadth is for the S&P 500 and Nasdaq 100, each still have less stocks above the 50-day compared to earlier in July. I'd like to see those numbers set new highs, meaning more than 80% of stocks above their 50-day MA for the SPX.*

For the Nasdaq, there's been a steady decline in % above 50MA since mid-July, at less than 70% (after being at 90% just a few weeks ago) while the index itself continues to trend higher. I don't expect or need to see us eclipse 90%, but the trend is what matters the most, and it's recently not been going higher. This breadth indicator is now near its lowest level since April, when stocks were on the rebound from the March bottom. There's clearly some concern in Nasdaq arena of equities that's not showing in in the S&P 500 basket. Nearly all the S&P industries are above their 20-day MA, so we have good support from an industry perspective. Most stocks also have positive *had been steadily trending higher since March. This isn't a major concern, but noteworthy as price was strong for the indices that's not reflectively in % of new highs.*

***VIX**: Volatility is holding bid for October as investors price in a greater sense of uncertainty for the November election (October contracts express market's volatility for follow 30 days which 'covers' the election date which is why October is bid up rather than November, even though October will expire ahead of the actual election). The focus seems to have shifted more from who will win to the likelihood of even knowing the winner. Trump has been very vocal on potential fraud and it seems there's an active attempt to limit mail-in/absentee voting through the USPS. During the 2000 Gore-Bush contested election, the S&P 500 was already in the middle of a downturn but fell roughly 10% from the election until Gore ended his challenge. The WSJ recently noted the VIX has historically risen 3.7 points during the month ahead of the election until election (sample size of just 7).*

Volatility dispersion for the S&P 500, Nasdaq 100, Dow 30, and Russell 2000 are all now contracting to noteworthy levels, the tightest being the SPX and Nas100. We haven't seen this develop since January. While vol for the major indices is compressing, it's also compressing for 6-month VIX and the VIX of the VIX (VVIX).The average S&P 100 stock's ATR is at its lowest level since January as well, suggesting individual stock volatility has dropped quite a bit. Typically, we see individual stock vol begin to move higher ahead of the indices, which hasn't happened yet. For readers since March, you'll remember average stock volatility was one of my main criteria to see come down after the March bottom to confirm we weren't going to see a move back in price to the prior low (which it did and SPX didn't test the March bottom).

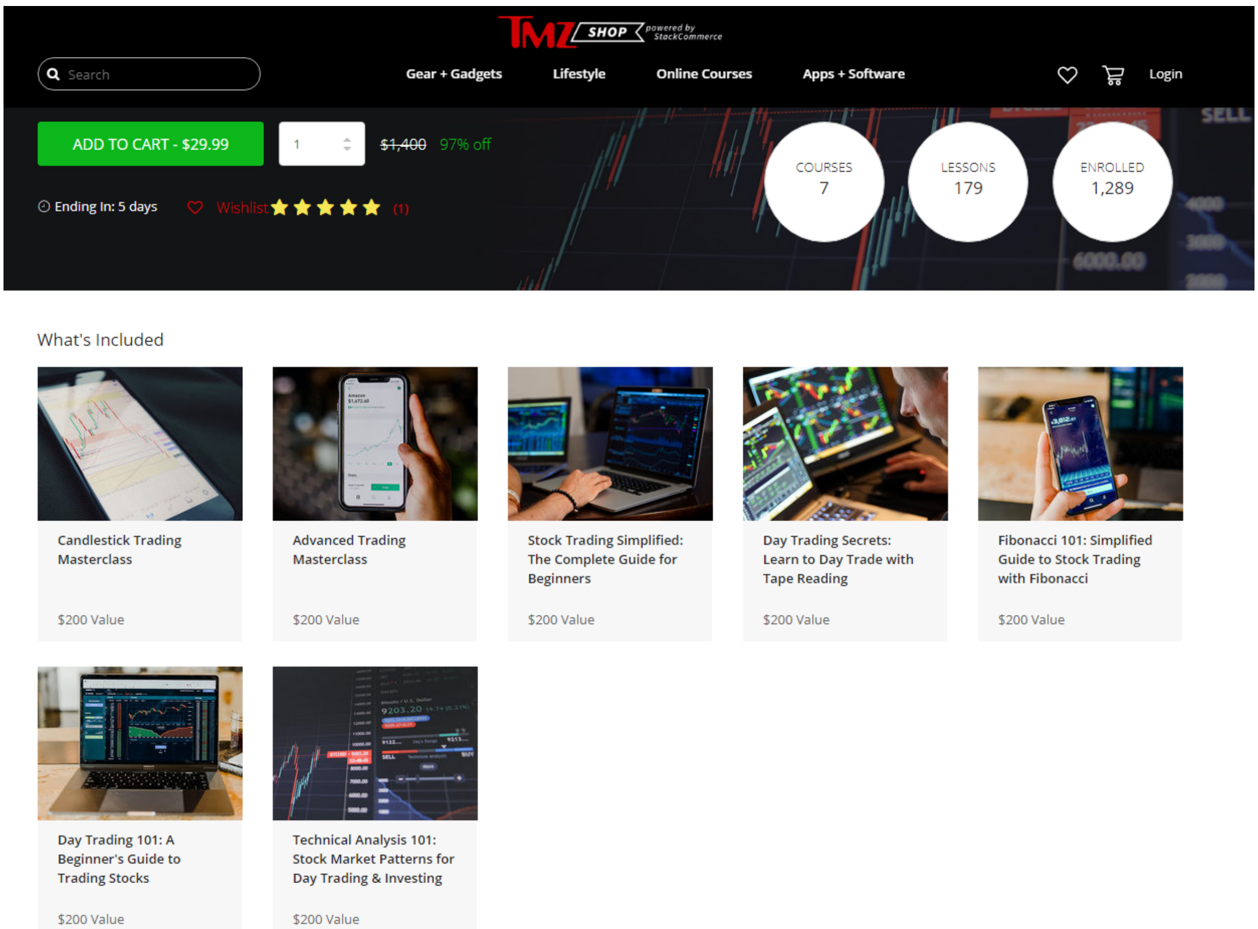
Below is a chart of the Volatility Risk Trigger (VRT) which has continued to throw up warnings of elevated risk for volatility to rise. But the red vertical lines show when there's been a VRT signal while the Daily Sentiment Index (DSI) for the VIX is under 10% bullish – showing a warning from the VRT during extremely low sentiment readings for volatility. As you can see, this has happened at several key periods for the VIX in recent years. Mid-2016 and ear-2017 are the standpoints where vol did not increase even though sentiment was low and VRT was signaling, the rest saw a low in spot VIX that either slowly moved higher or saw an immediate advance.



***Sentiment**: SPX and Nasdaq 100 sentiment continues to oscillate around 80% bullish. I mentioned earlier the drop in bullishness for 10yr Treasuries. VIX sentiment hit a major low of 8% bulls on Monday and ticked up to 13% (still very low) while VIX didn't really move, holding right above 22. This strengthening in bullishness could be*

Natural gas has seen a strong move higher in price, from $1.5 to $2.35 but sentiment is only at 41% bullish, suggesting there's not an excess in just yet for nat gas – giving room for price to continue moving higher from a sentiment perspective.

Finally, this one just is too good to not show. I'm sure most of you are familiar with TMZ, the digital celebrity tabloid media company. They are well known for being among the group of cameras that chase after celebrities and post 'candid' pictures online and on their TV show. Their focus is entirely on entertainment, you won't see them breaking a story on Fed Chair Powell or breakdown the latest Lululemon earnings. However, they -for some reason – are getting into the trader education game. TMZ launched a seven course "masterclass" on trading, covering topics like candlestick trading, Fibonacci 101, and day trading guide. All for the low cost of $29.99. We've all joked or read about the Robinhood/Reddit traders with their unofficial leader in Dave Portnoy of Barstool Sports. TMZ entering the space is taking this retail trading bonanza to a whole other level. This isn't something you typically see at market bottoms. I'm not saying this alone is marking the top in the market, but acts as a great barometer (mascot may be better word) for the froth that's entered the market since the March bottom and 50% run in equities over the last few months.



At the end of the day, price is what matters and price confirmation for any bearish argument is a necessary requirement in my eyes. Currently we have the major indices in up trends and the 20-day MA acting as great support on any dips. But with NAAIM near the very high-end of its range for advisor/professional trader sentiment and now TMZ selling trading courses…

Have a great rest of the week.

Best Regards,
Andrew Thrasher, CMT

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