THRASHER ANALYTICS

Market Update

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

Notable Breadth Data:	
SPX >50MA	63.37%
SPX >200MA	50.10%
Nasdaq >50MA	73.79%
Nasdaq >200MA	75.73%

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	73%	72%
Nasdaq 100	84%	76%
Nikkei	63%	69%
VIX	18%	17%
10yr Treasury	77%	75%
5yr Treasury	70%	66%
CRB Index	81%	79%
Gold	92%	90%
U.S. Dollar	15%	12%

**Green<25% Red>80%*

source: trade-futures.com

Broad commentary*: Equity Bears have had nearly every opportunity to take control of this market over the last month. From Presidential Cabinet members dying or being infected by covid-19, earnings season, the worst GDP growth figure in history, weakness in labor market data, declines in breadth data, and 41% of the 140,000 businesses that have closed according to Yelp are permanently gone. Instead, the market has gone nowhere – digesting the news and spitting it out like a dried-out piece of gum.*

The S&P 500 is barely a few points above its June high, trading sideways for nearly two months. Tech, and specifically the FAAMG stocks, have carried the ball and no bad news out of any other stock or sector has been able to shake reigns from the bulls. The earnings from last Thursday of four of the five FAAMG Gang were truly amazing, you don't see a company (ala Amazon) beat estimates by BILLIONS of dollars very often! However, the internals of the equity market have continued to slide lower with fewer stocks moving higher beyond the mega cap select names but until price action gives this any notion of importance, the up trend remains intact – perceived risk appetite be damned.

***Price Levels:** The S&P 500 has not made a pivot lower-low in the last two months, with daily price holding above 3200 on recent weakness and 3230 on a more intraday basis. The S&P 600 and S&P 400 (small and mid-cap indices) still remain below their June highs, as does the Dow Industrial Average. In fact, the S&P 600 (small cap) Index still has yet to get back above its respective 200-day moving average. The S&P 100 is in a holding pattern below its prior February peak, if the mega caps continue to lead then a breakout could come soon for this index momentum has waned recently, as the 14-day RSI is at 60 after making two lower-highs in recent weeks. EAFE last week broke back below its June high and its 200-day moving average with emerging markets still holding strong above its own prior June high and long-term MA.*

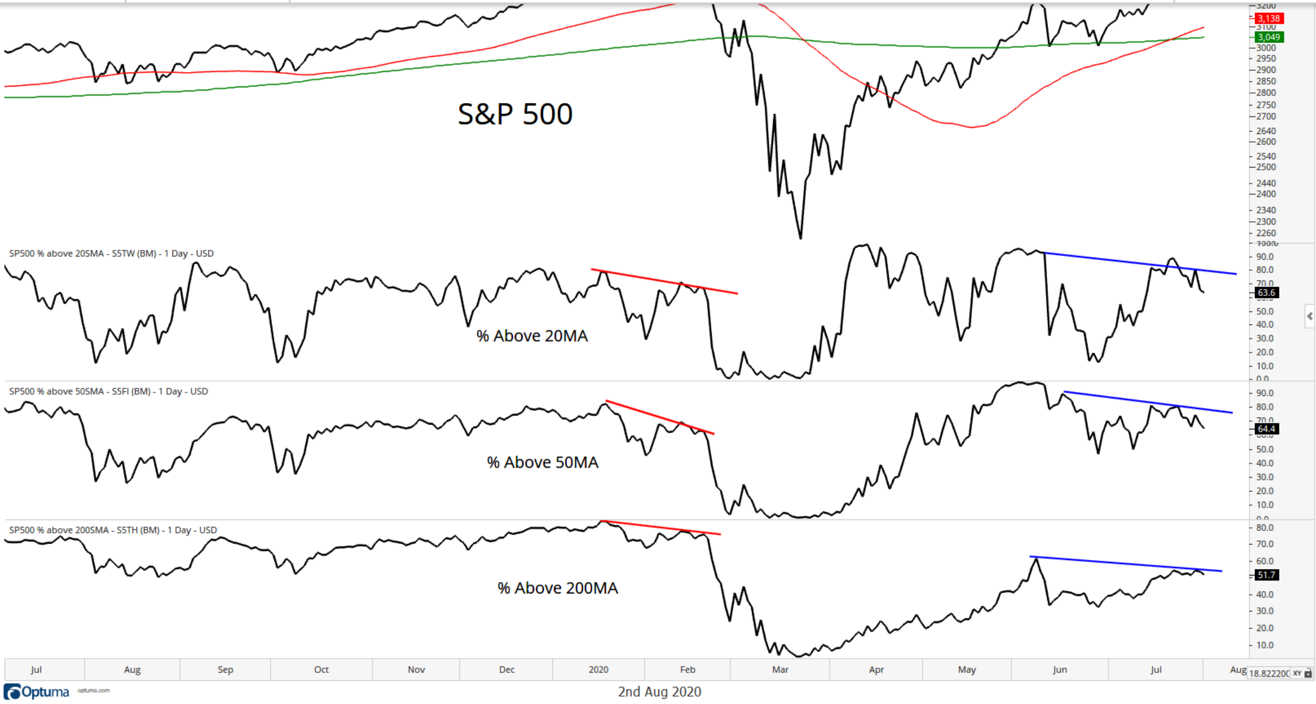
***Sentiment**: Lower highs in sentiment even as price strengthens for the S&P 500 with higher lows in sentiment for the VIX. Crude oil % bullish continues to drift lower as price moves away from $42, closing the week at $40.27/barrel.*

***Divergences**: the average sector still has over 50% of stocks with a bearish divergence compared to the extremely low 13% average for bullish divergences. The average bearish divergence figured peaked at 55% last week. It's only been above 55% four times in the last ten years: Feb. '11, Jan. '16, Jan. '18, and Feb. '20. In Jan. '18 and Feb. '20 the data got up to 60%, so it's possible to see a little more juice squeezed but we are very much in 'thin air' so to speak from a bearish momentum divergence perspective. How unattractive does risk/reward get for equities before traders began to curtail their exposure?*

***Breadth**: There's a slow bleed in internal support for the Nasdaq 100 up trend. While the index has done an excellent job holding above its 20-day moving average, a level I've repeatedly noted needs to break for a sign of confirmation to any bearish data point. The Nas100 is less than half a percent from a new 52-week high but the average stock within the index is still 11% below its own 1-year high-water mark and the percentage of stocks above their 50-day has drifted to 74.3%. Above 70% and this figure remains constructive of the uptrend, we haven't seen a material drop below that since we cleared above it back in late April. A move below 70% isn't binary in its conclusion, as price action at the end of the day is what's most important and I continue to watch that 20-day MA on the defining characteristic of the current trend. If we take a step back and a look at the broader Nasdaq Composite, just 59% of these stocks remain above their 50-day MA, off the June high of 90% as the list of stocks succumbing to the inter-mediate average builds.*

Friday's trade activity saw a large gain in S&P 500 but it was accompanied by more than half of the index moving lower. Michael McKerr of TD Ameritrade noted that the index has only climbed 0.77% and seen 55% of the stocks decline just three prior times, twice in 2008 and July 20th of this year. McKerr also highlighted the same bearish internals for the Nasdaq Composite, which rose nearly 1.5% on Friday but had 64% of its stocks move lower during the day, which has never happened in over thirty years.

The chart below shows the breakdown of % above 20-day, 50-day, and 200-day MAs for the S&P 500. As you can see, each is breaking down in some degree, most notably the 20- & 50-day percentages.



***Volatility**: The Volatility Risk Trigger (VR)T, as noted last week, has signaled a heightened risk of a rise in the Volatility Index. This comes as we enter one of the most volatile months of the year. Katherine Greifeld at Bloomberg highlighted that since 2005, August has seen a positive change in the VIX all but five years, averaging an 11.7% increase during the month.*

***Sector notes**: momentum still making lower highs in tech; health care holding above '19 high of $105 watching that level if price reverses; financials back near the 50-day MA; consumer disc. holding above Feb. '20 high but still has momentum divergence and % of stocks above 20-day MA dropped off to 50% from 80% last week; consumer staples slightly overbought but no bearish divergence in momentum with breadth still confirming up trend; industrials still under 200-day MA; utilities still under 200-day MA but % above 200day MA broke out ahead of price which is bullish; energy continues to roll over unable to break above 50-day MA; materials failed breakout at Nov. '19 high with bearish momentum divergence; communications attempting to break out above prior '20 high but momentum not confirming and breadth has deteriorated; real estate testing the 200-day MA but unable to finish Friday above it;*

***Potential catalysts:** This week we'll get ISM data, vehicles sales, and of course labor market data for July at the end of the week. While last Thursday was the 'mega' earnings day for the largest mega caps in the U.S., this week the earnings announcements I think that will be of interest are DIS, YELP, BNKG, ATVI, WYNN, and SQ. Several of these names are on the 'front lines' from an economic sensitivity perspective to the coronavirus repercussions so getting a glimpse at their results may provide good insight into the health of the recovery. And we cannot forget about the battle on Capital Hill as Congress and the White House attempt to make a deal on the next round of stimulus. A deal is expected it's just a matter of what's included that still holds a question mark.*

Have a great rest of the week.

Best Regards,
Andrew Thrasher, CMT

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