THRASHER ANALYTICS

WEEKLY RESEARCH & ANALYSIS

ThrasherAnalytics.com

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

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

Notable Breadth Data:	
SPX >50MA	53.07%
SPX >200MA	55.64%
Nasdaq >50MA	38.83%
Nasdaq >200MA	70.87%

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	59%	63%
Nasdaq 100	56%	60%
Nikkei	71%	68%
VIX	33%	36%
10yr Treasury	80%	75%
5yr Treasury	75%	71%
CRB Index	47%	50%
Gold	61%	66%
U.S. Dollar	37%	36%

Green<25% Red>80%

source: trade-futures.com

Market Update

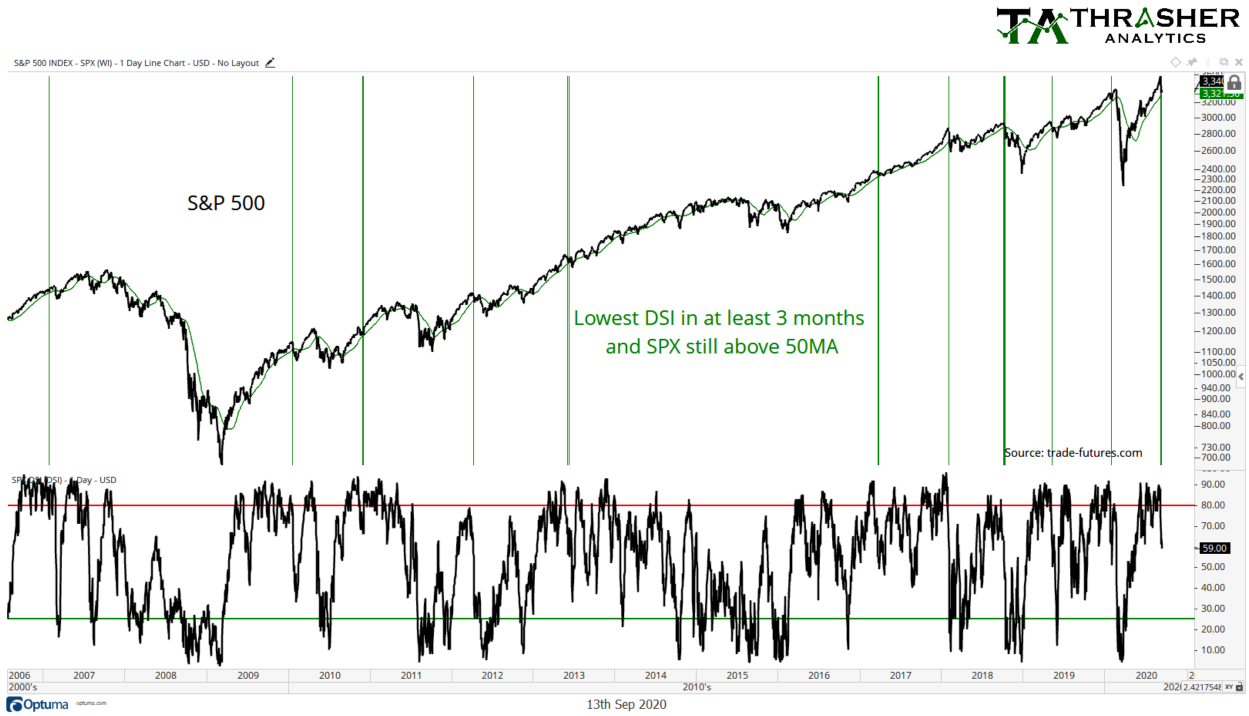
The equity market just experienced one of its fastest drops from a fresh high in recent history. The Nasdaq has lost 10% in just three days as the tech-heavy index began seeing some of the much-needed mean-reversion snap the proverbial rubber band from being extremely stretched.

This week we get a Fed meeting and a few economic reports, but the calendar is mostly quiet as we finish the week with triple witching option expiration. While the S&P 500 is just 6.7% from its high, the average SPX stock is now 20.1% below its own respective 52-week high. The caveat here is the average stock was already 16% below its 52-week high at the SPX peak so it’s not that the average stock just fell 20% while the index is off only 6.7%, but goes to show some of the internal weakness that’s developed during the recovery off the March low. A heavy piece of the selling was focused on the FAAMG stocks, with an equal weighting index of the names down 12.4% over the last two weeks, nearly double the broad index.

Mid & Small Caps: I’ve discussed several times the breakdown below the June highs in Small and Mid caps that preceded the eventual failure in large caps to hold above their own February highs. Last week we saw both mid and small cap indices make lower lows on a closing basis while large caps made a slightly higher low. The weakness in price action for the smaller capitalized companies continues to be a concern, even though the bulk of the recent selling has been squarely in the mega cap names with small caps actually outperforming on a relative basis.

Sentiment: While the S&P 500 finished above its 50-day moving average, the DSI % Bullish finished at a 3-month low, falling to 59%. Looking back at when price was still above its intermediate moving average, but sentiment had declined to at least a 3-month low the selling typically was not complete. This doesn’t mean equities collapse, but the ‘leading’ of sentiments weakness has often dragged price lower. We saw in late-January of this year before SPX put in its final higher-high in February before the March decline. During the short-term decline in May ’19, at the start of the Q4 correction in ’18 and Jan ’18 drop. Some of the preceding declines were brief, like in 2013, SPX only fell another

2.25% and in March ’17 it dropped less than 1% further. The chart below shows the additional examples. What I find interesting is the leading nature of sentiment which can also be seen in the Nasdaq 100 and Crude Oil which saw lower-lows in % Bullish as well.



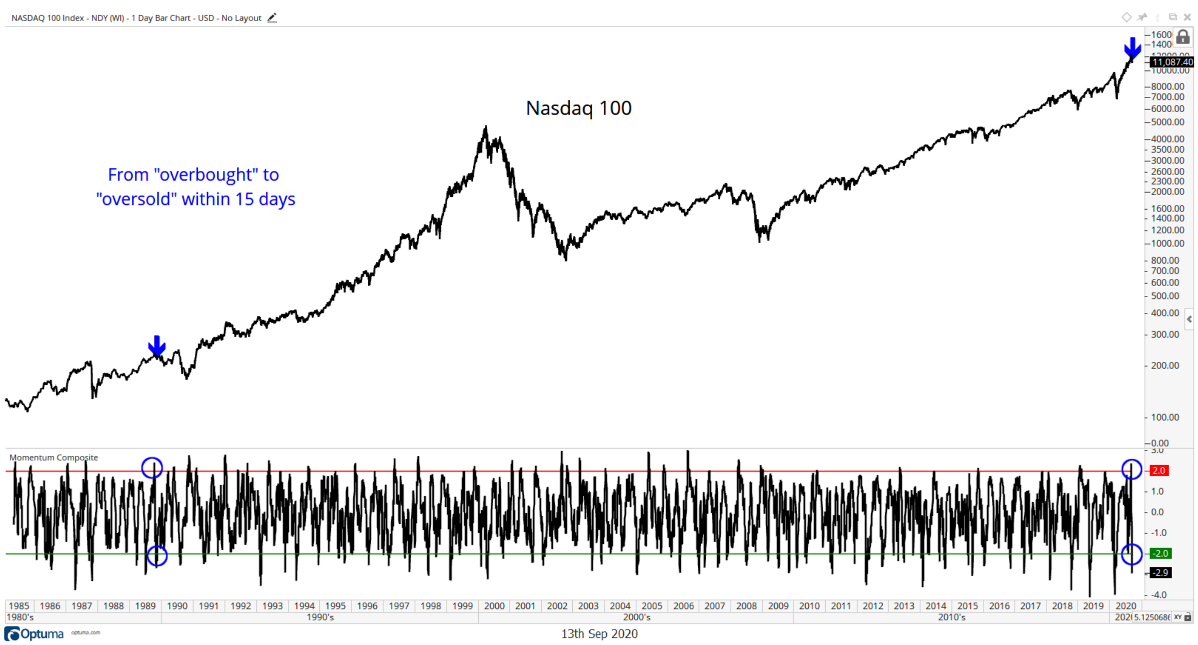
Volatility: The VIX pulled back last week after rising 10 points from the point of extreme dispersion contraction I’ve written about in the past in this letter and publicly on my personal blog.

While the correlation between equities and volatility rose going into the recent drop in stock prices, correlation popped up again last week with both VIX and SPX in the red. It’s actually been rare to see the size moves in both volatility and equities to the downside. Since 1990, when the S&P 500 has fallen between 3-5% in a week, the VIX is higher an average of 16.7% (forgive the usage of percentages of the VIX, I know it’s a faux pas). Outside of last month, the only other time we’ve seen VIX and SPX ‘behave’ like this was in Dec. 2008 (equities bounced a few more days before resuming their down trend into March ‘09

Volatility remains well bid in option premium as Aleksandar Kocic of Deutsche Bank wrote in a recent note, “As the elections enter the horizon, event premium in 2M options is exceeding anything we have seen in the last decade and beyond.” This is likely due in part to the election but also to period to follow the election and the potential civil unrest the results could bring. Trump has been vocal about his willingness to use force against any rioting that stems from election night. Kocic addressed this as well, writing, “in our view, the main problem that could arise during the elections is that the actual results will be unknown the day after and that there will be multiple rounds of back and forth with heavy contestation of their legitimacy and therefore escalation of tensions and protracted risk-off trade."

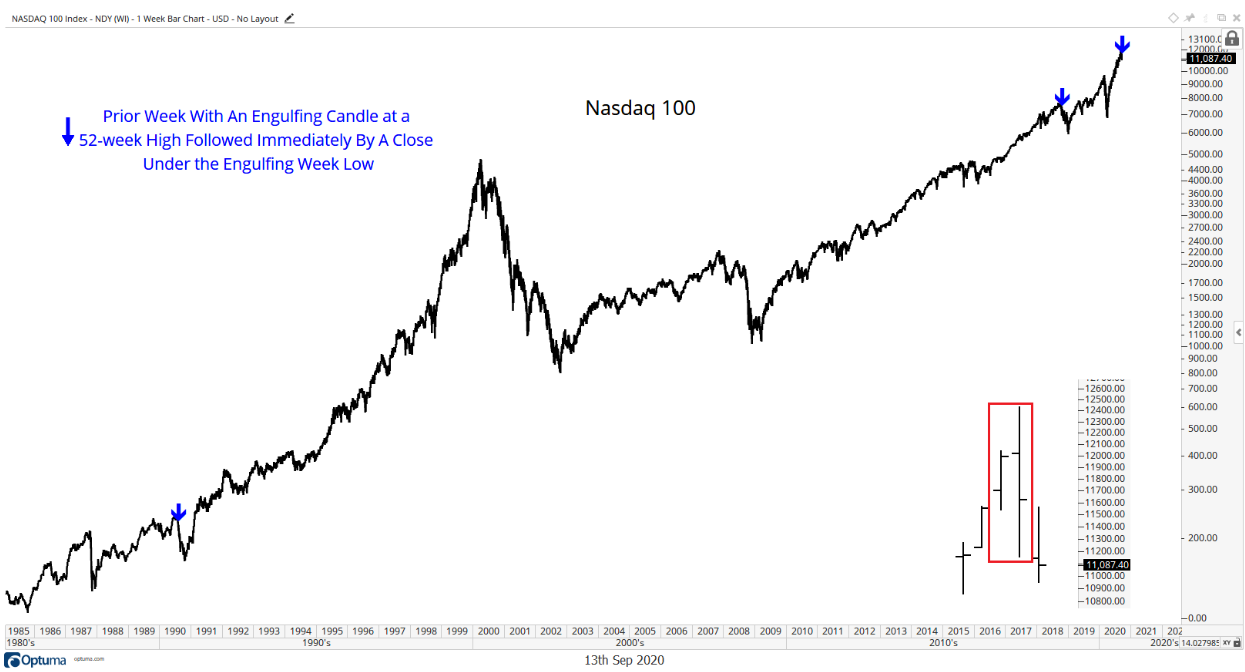
CTA Trend: The downward pressure on price over the last two weeks has sent two of the five lookback periods for the Weighted CTA Trend Composite negative (10-day & 210-day) causing the model to move slightly lower but remain positive after flipping up in May.

Nasdaq Drop: The over 10% drop in the Nasdaq 100 joining the history books for one of the fastest 10% decline for the index from an all-time high. Jonathan Krinsky, CMT noted this week that the Index has fallen by 8+% from within one percent of a 52-week high in just three days only five times prior, three during the peak in 2000 and November '07. Not the most ideal company you want to keep! So did this shake out traders from being bullish on Nasdaq stocks? Sarah Ponczek of Bloomberg also wrote last week how Nasdaq 100 option activity also still remains positive with bullish options on the [QQQ] is hovering at the highest since March after the fastest 10-day increase since late 2018, before the Nasdaq 100 plunged more than 20%." Sarah also noted on twitter that fund flows for the 3x leveraged Nasdaq 100 ETF, nope saw one of the largest inflow in a single week last week since February 2018.



S&P 500 Daily: SPX finished the week holding under the February low but just above the 50-day moving average. I still think we're seeing a correction caused by frothy sentiment than one by serious internal weakness. Ironically, one of the more bullish price developments from here would be continued weakness, keep working off the high sentiment levels and then bounce from there. What I think would be concerning is a snapback to 3550 creating large divergences in breadth and momentum that sets up for something more protracted on the downside. As always, I keep an open mind and not set any expectations but sometimes the best thing that can happen is further damage in the market (think of it like a forest fire clearing out the old to make room for the new). If we do see a bounce in the next few days, then the February high comes back ‘into play’ as does the 20-day MA which was resistance on two tests and fails last week. If we can clear the 20-day MA with some good participation in risk appetite, then there’s a good chance the prior high could be re-tested Of course I’ll be sharing my analysis with you each week as this develops.

Engulfing Candle: I mentioned last week the unusual candle pattern on the weekly chart of the Nasdaq, highlighting the importance of a close below the engulfing week low. Well, we did get a close last week below the prior week low, putting us in a very unique situation. Since 1985, the week immediately following the engulfing candle that developed at 52-week high was lower….twice: 1990 and 2018; both leading to further downside in price. An updated chart is shown below with arrows on the two prior occurrences. It’s important to note that a sample size this small is extremely tough to put much weight on but the uniqueness of the occurrence is still noteworthy.



Momentum: Momentum moves fast! My proprietary Momentum Composite for the Nasdaq 100 has gone from being ‘overbought’ (OB) to ‘oversold’ (OS) within just five days. That’s never happened in the index’s history. Expanding the parameters and allowing 15 days, it’s happened once, in 1989, when NDY dropped 6% and saw momentum go from OB to OS in less than a month which was followed by a further slide of 11%.

Typically, we see large declines occur AFTER momentum has already begun to weaken. This is why I (and many technicians) look for bearish momentum divergences since they often precede large price moves. This shows how unique it is for price to correct by 10% from such a high momentum reading.

Breadth: The SPX closed Friday just above its 50-day moving average and there are 53% of stocks within the index also holding above their 50-MA and 57% above the 200-day MA. The Nasdaq intermediate data is less positive with only 38% of stocks above the 50-MA but still a strong 74% above the 200-MA.

DISCLAIMER: