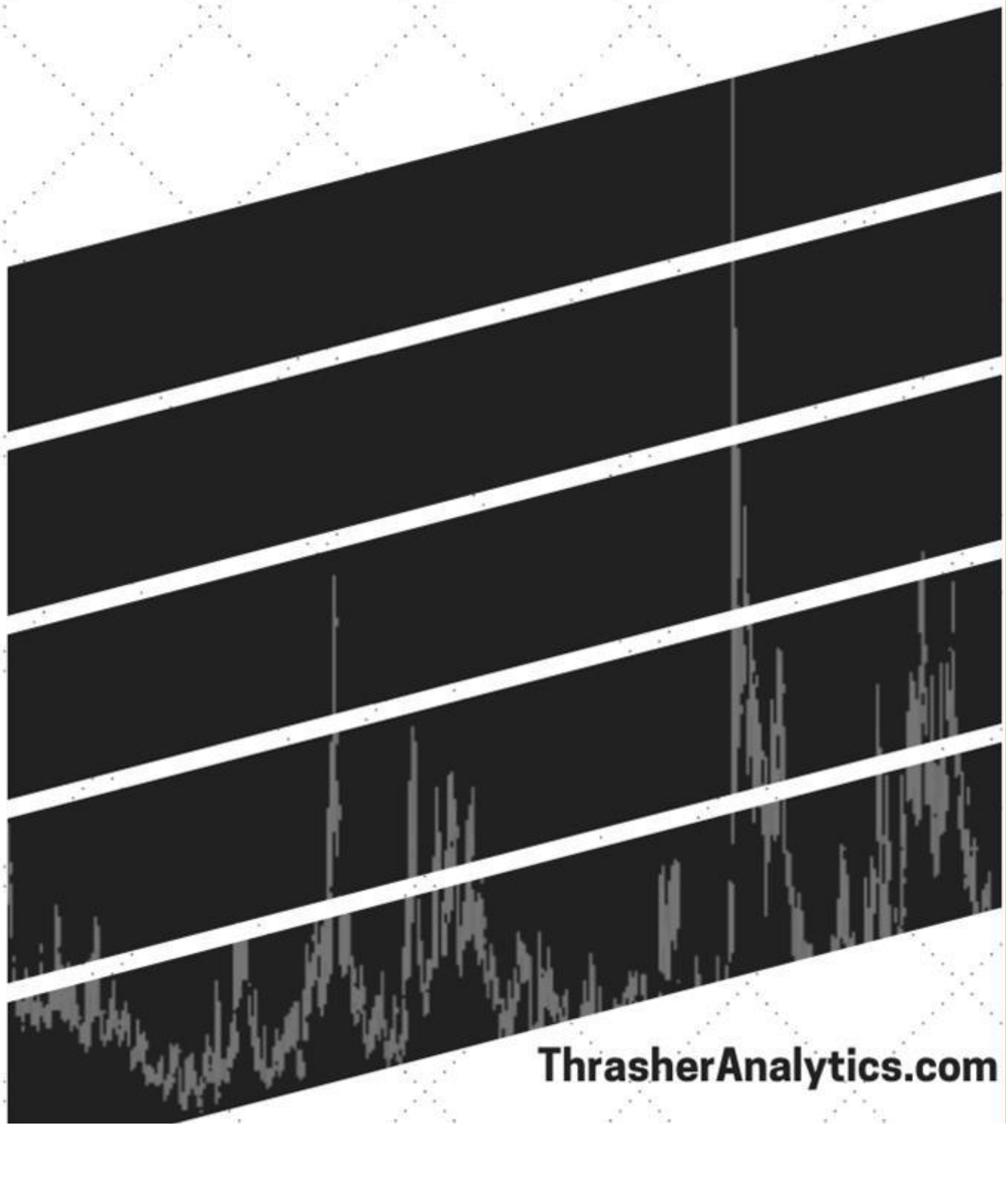
THRASHER ANALYTICS

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

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	52%	47%
Nasdaq 100	55%	51%
Nikkei	62%	60%
VIX	51%	51%
10yr Treasury	82%	78%
5yr Treasury	75%	73%
CRB Index	43%	43%
Gold	23%	32%
U.S. Dollar	54%	49%

**Green<25% Red>80%*

source: trade-futures.com

Notable Breadth Data:	
SPX >50MA	32.87%
SPX >200MA	52.67%
Nasdaq >50MA	31.07%
Nasdaq >200MA	70.87%

Can I Ask A Favor? Some of you are long-time subscribers and others are new but I'd like to ask each of you to respond to the email with a few thoughts on the letter with what you've enjoyed, wish there was less of, more of, etc. I want to be writing and focusing on types of analysis you care about most and rather than a formal survey I want to keep it casual to get your thoughts. What part of the letter do you skip (if any)? What is are your favorite section? Do you prefer the paragraph format like this week or the longer chart-focused like last week? Let me know your thoughts and help me make this letter be a more valuable resource for you!

Seasonality: Last week was seasonally one of the most bearish weeks for equities and 2020 didn't disappoint with stocks sliding lower most of the week until a quick reversal on Friday. As we get ready to close out September, I turn to seasonality for October. The Stock Trader's Almanac (STA) calls October a "bear killer" having ended 12 bear markets since 1946. While the best month for the major indices from '93 to '07, it's the worst month in election years according to the STA, setting up for a stronger year-end.

Tom Bowley, in an article written at stockcharts.com, noted that "pre-earnings" periods at the start of a quarter often show strong stock performance. Tom highlights the October 1-18th period over the last 70 years has produced an annualized 14.48% return vs. the SPX's avg. annualized return of 9% (this is the third strongest of the four quarters, exceeded by April and July).

Below is a chart with vertical lines at the start of each October since 2009. Several bottoms have occurred here like in '11, '15, and '19 following weakness in equities in the month(s) prior. This is not to say we will surely follow this historical pattern but it's important to recognize the seasonal precedent set. I'd also add, that the SPX was down four weeks and a row and rarely do we see a fifth consecutive week of selling, suggesting this week could potentially be a counter-trend bounce or begin the longer process of recovering the prior decline.

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FAAMG: As I've written about in past letters, the selling was expected to be (and has been) heavily focused on the FAAMG stocks. The SPX dropped 9.5% (10% intraday), equally weighted SPX fell 7.6% while an equally weighted FAAMG index dropped 14%. The tech mega caps were extremely extended to the upside and seeing them take the brunt of the selling is not a huge surprise.

Sentiment: S&P 500 DSI % Bullish reached a low this week of 44% and closed Friday at 52%, which is extremely high considering price fell 10% (intraday). Typically declines of this size see sentiment get much more washed out – at least to 20-30%. For instance, in the early '18 decline DSI for the S&P 500 got to 9% by the time the index reached a drawdown of 10%. It was off roughly only 3% by the time DSI got to the level it reached this week. The bullishness that stayed in the market remained firm this week. We can read this as two ways, that not enough selling pressure was experienced to 'reset' sentiment or the underlying bullishness is so strong, not even a 10% decline can shake the buyers. There's not been much historical data to match up to this pattern, so I can't give any further insight to which way the market typically leans going forward.

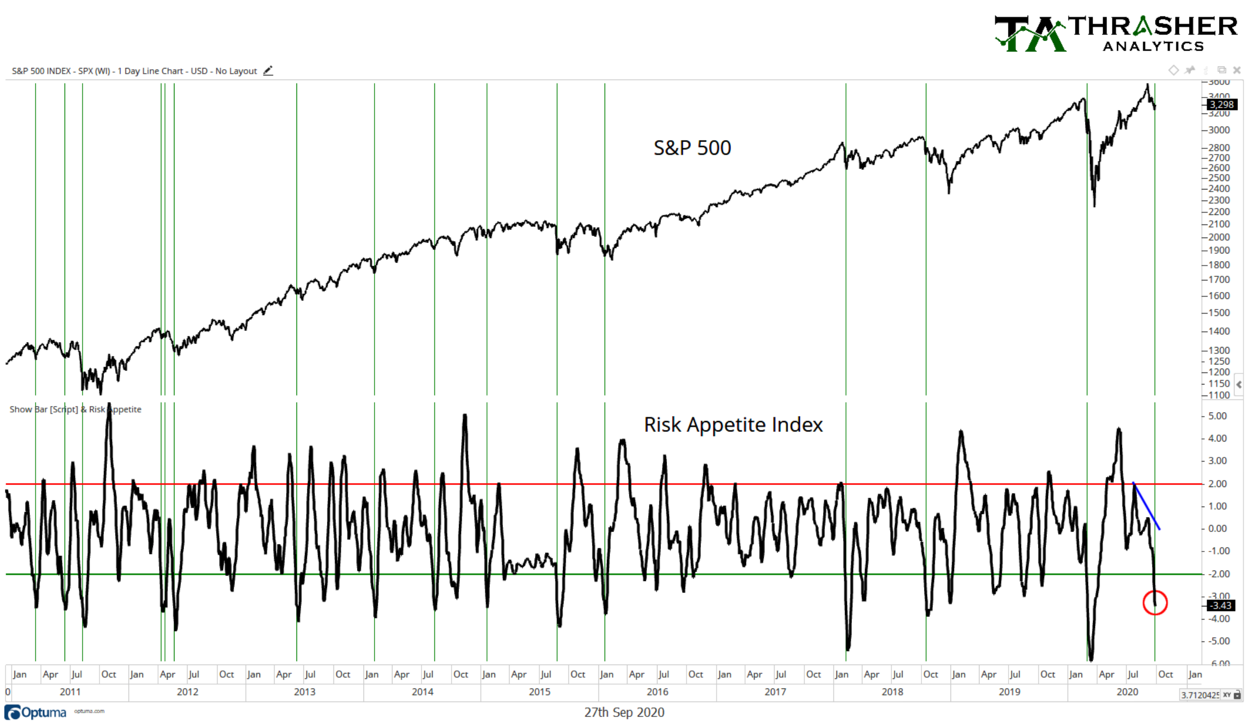
10yr Treasury DSI broke above 80% bullish this week, signaling high sentiment in fixed income. DSI last reached this level in early August as 10yr yield bottomed at 0.52% and rose to 0.74%, a minor shakeout. Bonds have been in a multi-month consolidation, so rather than a break to the upside, we may see a move back to the lower end of the rang and yield back near .80%.

The shakeout in gold as it broke back below the important $1900 level and 2011 high sent DSI to 23% on Friday, the lowest level of bullishness for gold since December 2019. Sentiment has now been 'reset' for gold as buyers have been shaken out, I'm watching $1900-$1915 once again if bulls can regain that level after price has put in a series of short-term lower highs and lower lows, threatening the beginning of a new down trend. A move over $1915 would clear the prior lower-low and give confidence the latest selling may be drying up.

Fund Flows: Two weeks ago we had the largest inflow into equities since March ’18 which got followed up last week by the largest outflow from U.S. equities of $25.8 billion, the third largest on record according to BofA. High Yield bond funds also saw big outflows, $2.22 billion through Weds. and the largest outflow since July which was a major record of outflows on its own.

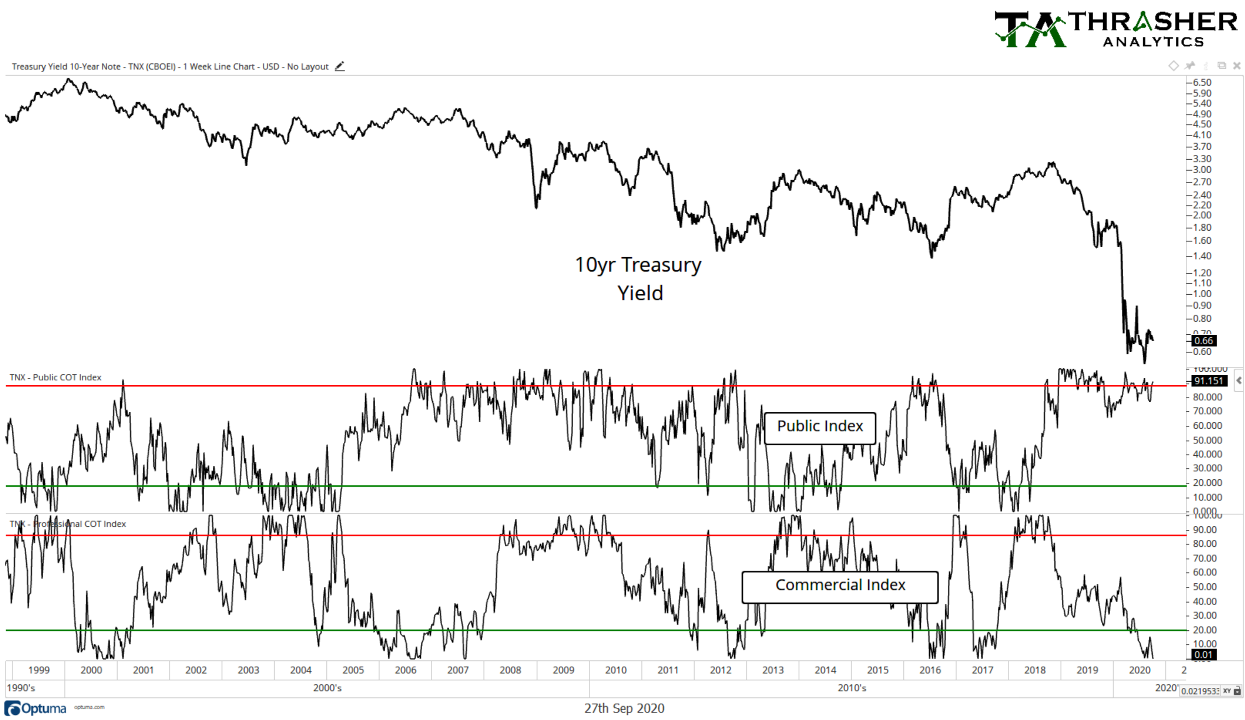
Risk Appetite: There are various ratios and assets I watch to gauge perceived risk appetite, two of those are the ratio between consumer staples and consumer discretionary which never made a lower-low or broke below the June highs during the four weeks of selling in broad equities. Nor did semiconductors index (or ETF) make a lower low while the SPX did. These are two bullish developments and show the market was not in a ‘sell everything mode’ during this period of weakness, continuing to give preference to Discretionary over Staples and not bailing on the market barometer, semiconductors. The S&P 600 Small Cap and S&P 400 Mid Cap indices broke below their 200-day Moving Averages but the SP400 regained this level on Friday, a positive shift in price. At one point last week more than 50% of stocks saw their 50-day moving averages turn lower but Friday saw enough strength that this figure flipped back to 52.8% with rising intermediate moving averages, another positive sign.

Below is my **Risk Appetite Index** (RAI), which has fallen along with equities as traders sold off risky assets. It’s now at an ‘oversold’ level, which has matched prior ‘buyable dip’ type scenarios or at least initial lows like in 2011 or 2015. Do note that equities continued to sell off even though the RAI hit this level in Q4 ’18 and in March ’20. Most often we saw equities rally from this point forward, but if they did reverse like in ’18 then it was a sign of more severe selling and price continued materially lower. So this becomes our proverbial fork in the road. Above the 20-day exponential moving average from here and equities may be on a bullish footing, we didn’t see price recover the 20-EMA when the RAI got this low in ’18 or in March, so that’s one level I’ll be keeping an eye on. If price is unable to hold above the 20-EMA then that’s a sign sellers are still holding the reigns.



Breadth: The Nasdaq held above the 20% of stocks above their 50-day MA, the level I noted last week as one to watch from a level of stock participation. The level of stocks above their 200-day MA has also held up very well, with 75% of Nasdaq and 55% of S&P stocks still above their long-term average. Typical pullbacks normally see at least 10% of S&P 500 stocks with RSI Indicators below 30 (indicating 'oversold' momentum) but this go around we barely broke above 6%. At fist you think it'd be because stocks had such high RSIs coming into this down turn, but less than 20% had an RSI greater than 70, compared to January '18 when over 38% of stocks were 'overbought' and the 10% decline in price sent 30% to 'oversold'. I think this lends to idea that the selling was extremely focused on the mega caps, as I mentioned earlier, the FAAMG stocks saw some of the largest declines and because of their outsized weighting in the index, had a big impact to SPX.

COT Positioning: Commercial/Professional traders are holding a less than 1%tile net-long position in Treasury futures, while small and large traders are sitting at a 91st and 84th %tile net-long position. This theme has bene playing out for a while now, with Commercials holding a very low bullish position since April when Yield was bottoming out but this latest move is another step towards being bearish on bonds. Below is a chart showing the Public Index (small trader) and the Commercial Index positioning.



Commercial/Professional traders are moving away from being bullish on oil. They are now at a 5th %tile net-long position while not even the small or large traders are overly excited about owning oil, both have moved their exposure down as well but still hold a 61st and 46th %tile net-long after being at the 90th %tile when oil went negative earlier this year.

Dollar bulls continue to be found in just the commercial/professional trading group which are at a 98th %tile. But small traders have started warming up to the dollar, going form 0%tile to 25% over the last couple of weeks while Large traders continue to bet against the greenback, sitting at a 2%tile.

Price Levels: Since breaking below earlier this month, the Nasdaq 100 has tested the 20-day EMA on rallies three times, finishing again below it this week. Since this is a level sellers seem interested I'll be watching for a possible breakout on any further strength. The S&P 500 closed 1 point under the June Low VWAP I highlighted last week. Buyers stepped into SPX when price got back to the June high at 3230 so I'll be watching that level on weakness and the June VWAP and 50-day MA on strength. Equal Weight S&P 500 (RSP) and Russell 2000 (IWM) tested and held the 200-day MA, which was encouraging, so that's another place I'll keep an eye on if we see further selling and if RSP and IWM breaks and holds under the 200-MA.