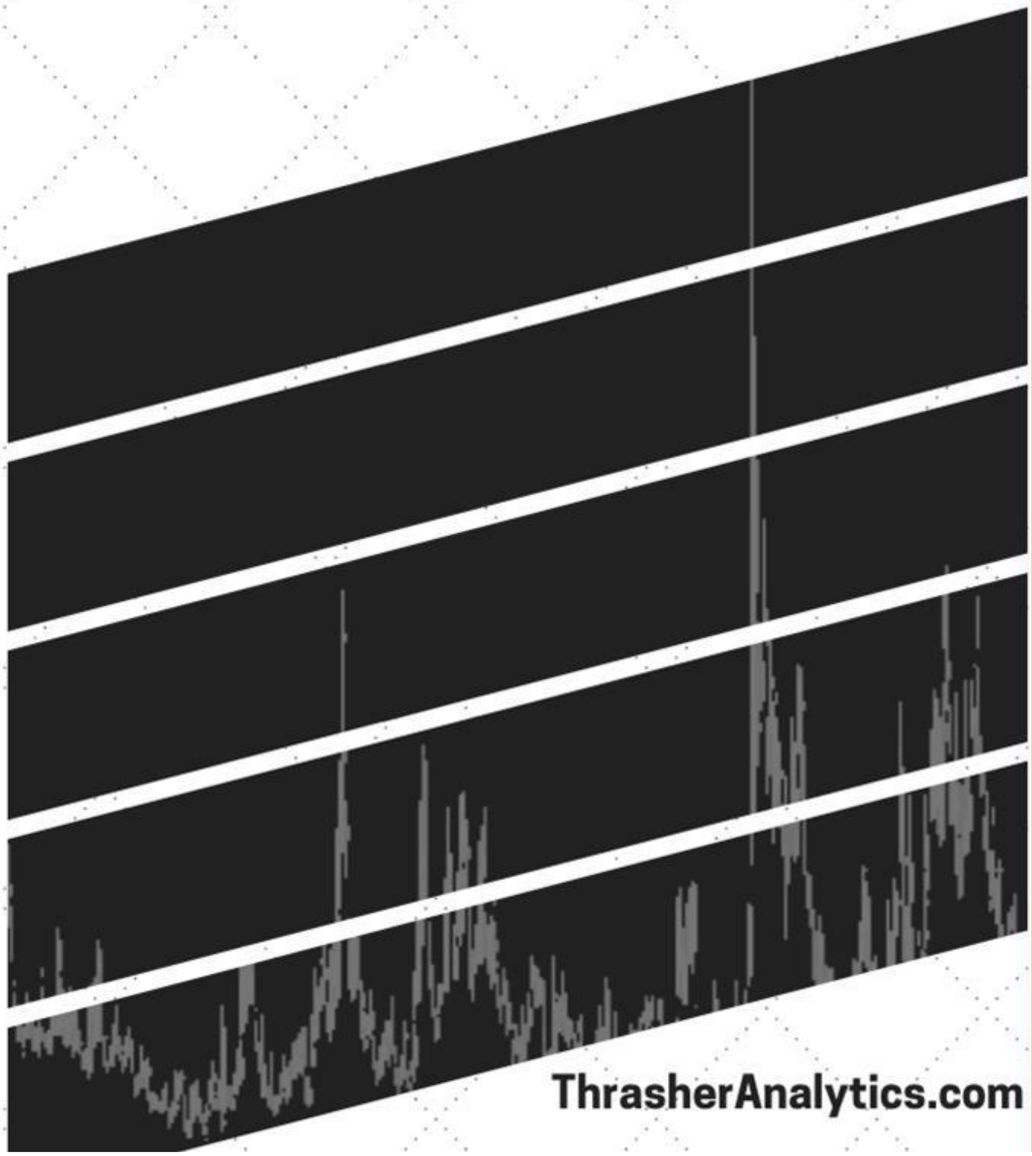
THRASHER ANALYTICS

WEEKLY RESEARCH & ANALYSIS



Sector Rotation: Oct.	
Consumer Disc.	XLY
Materials	XLB
Technology	XLK

Fixed Income Rotation: Q4	
20+ Yr Treasury	TLT
Core U.S. Agg	AGG

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	63%	56%
Nasdaq 100	69%	61%
Nikkei	77%	70%
VIX	33%	44%
10yr Treasury	66%	67%
5yr Treasury	66%	67%
CRB Index	56%	48%
Gold	36%	31%
U.S. Dollar	36%	40%

**Green<25%   Red>80%*

source: trade-futures.com

Notable Breadth Data:	
SPX >50MA	73.60%
SPX >200MA	71.60%
Nasdaq >50MA	83.50%
Nasdaq >200MA	90.30%

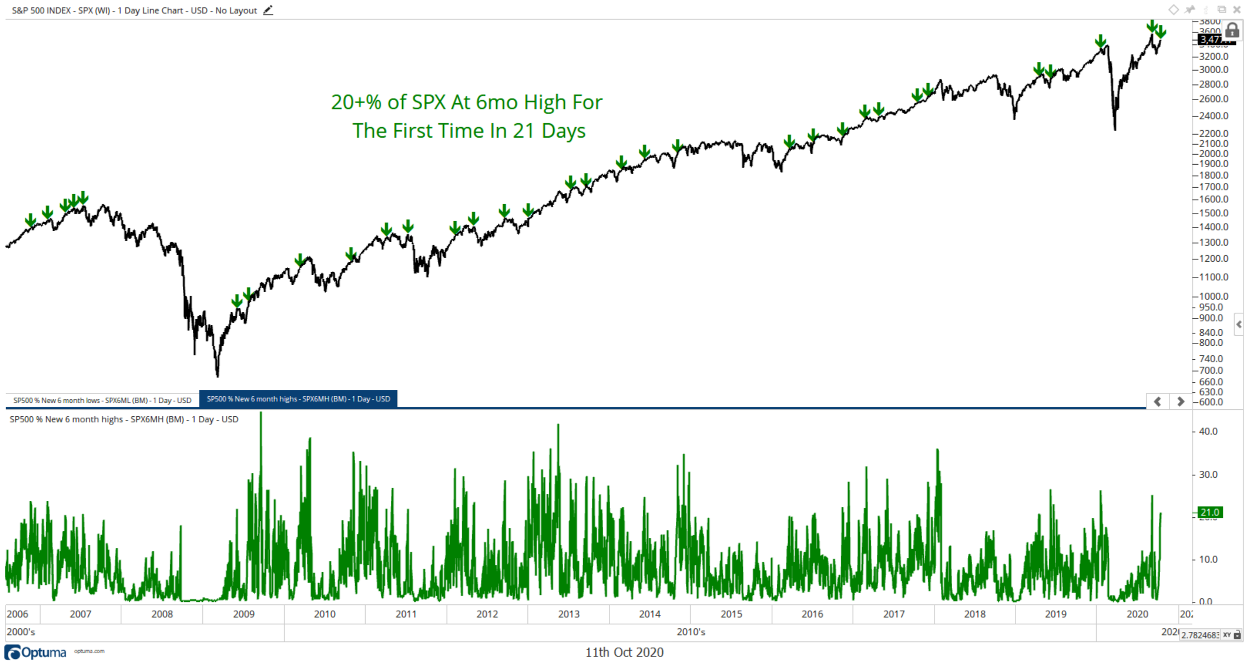
Earnings: Earnings season gets started this week with 80% of the S&P 500 reporting Q3 results over the next three weeks. This week we'll see several banks report, last quarter they big news was their trading profits so we'll see what The Street deems important this go around. There will also be (I assume) focus on the loan loss provisions the banks are taking on and any adjustments made during the quarter.

Goldman Sachs notes consensus expectations for EPS to be -21% YoY after dropping a little over 30% in the second quarter for large cap stocks and a 40% drop for Russell 2000 constituents. Goldman's earnings note highlights a drop in margins by 220 basis points with the tightest margin figure since 2010. Finally, their note highlights the FAAMG stocks to see sales growth of 13% vs. the -5% for the rest of the large cap index. You may remember little corporate guidance was given during Q2 announcements, so it's likely we see analysts estimates less on-target this go around causing a wider disparity of beats and misses.

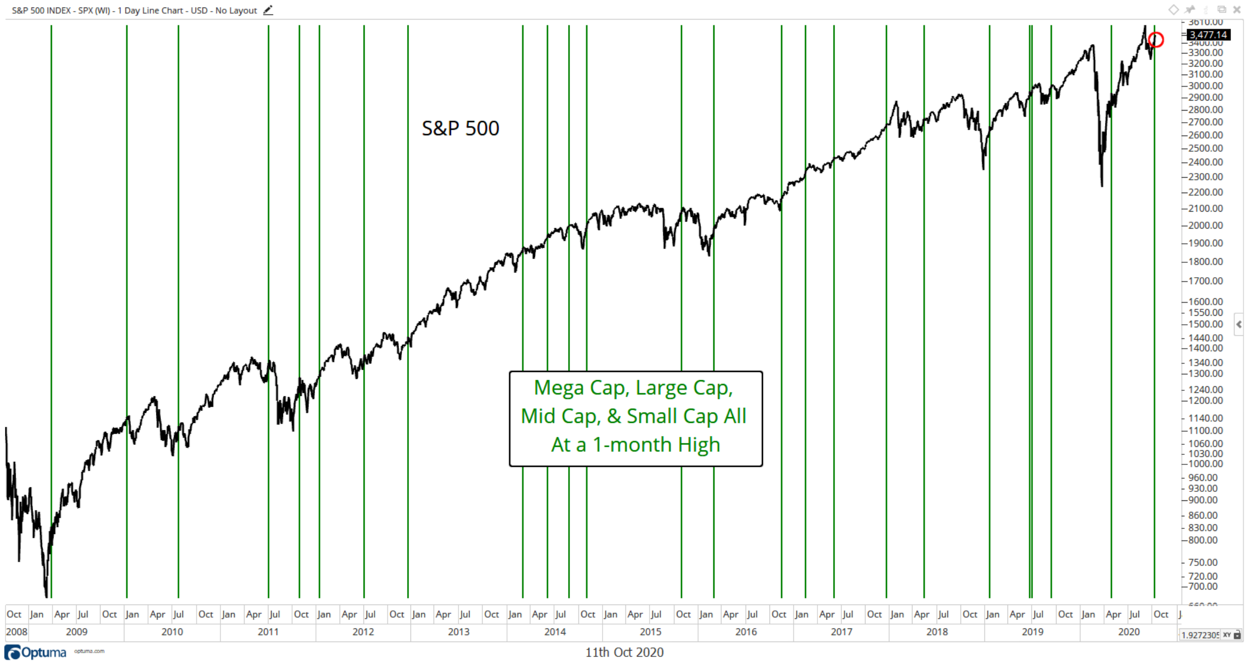
Commodities: Sentiment towards many of the individual agriculture commodities appears stretched to the upside. Corn 83% bullish; wheat 80% (was 93% on Weds.); soybeans 86%; sugar 79%; cotton 85%; cattle 79%; hogs 83%. Meanwhile, the CRB Index is at 56% even though the commodity index is at one of its highest levels in 2020. You can see similar contrarian bearish figures in some of the COT data, specifically in corn. I don't know if it's a matter of traders trying to front run inflation data via the ag commodities or what, but sentiment is hot and may price charts are over-extended.

Breadth: There's been some great improvements in breadth data with 73.6% of stocks in the SPX now back above their 50-day MA and the most above their 200-day (71.6%) since February. In fact, over 90% of Nasdaq 100 stocks are now above their 200-day MA, the most since May 2017.

The chart below shows on Friday 21% of S&P 500 stocks hit a 6-month high. When this has been the first time in a month of more than 20% of stocks reaching a 6-month high, several occurrences were followed by brief pullbacks of varying degrees. Some of the pullbacks were minor like during 2012-2014, others were more pronounced like in 2011. The takeaway being that some kind of 'cooling off' in equities would be normal and not unexpected after stocks have had a strong bounce following the 10% slide in September. A bigger concern would be a declining number of stocks rising and hitting these key figures, which is not the case today, so a more protracted decline is not being forecasted based on the current breadth data.



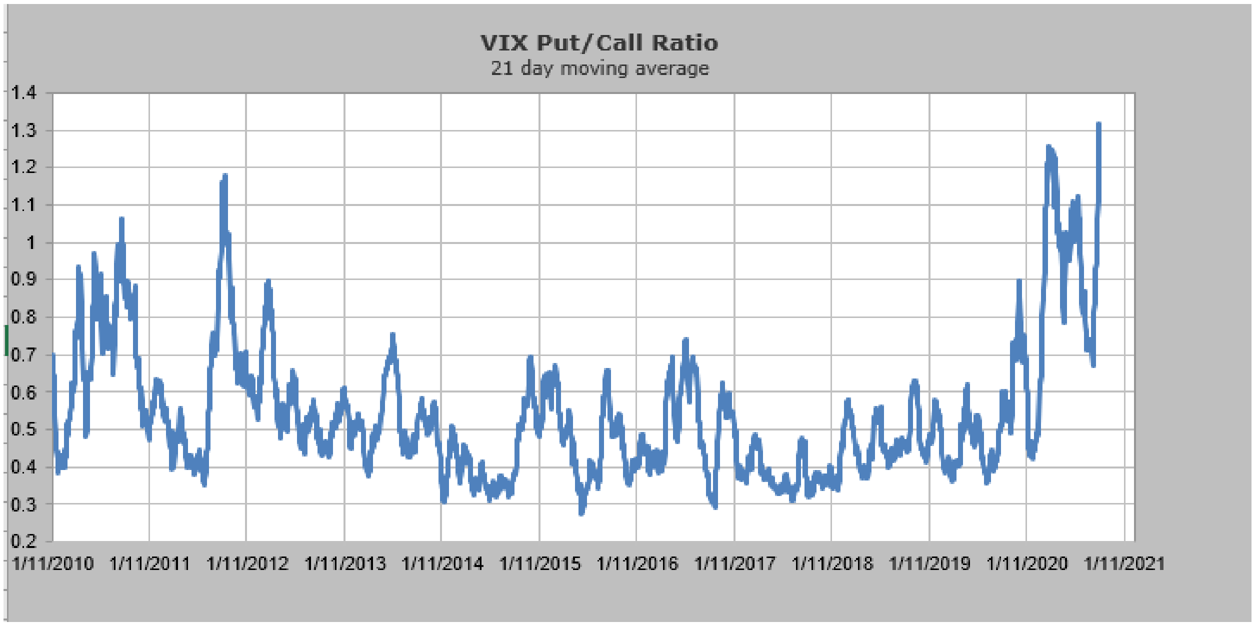
Small & Mid Caps: Along with many measures of risk appetite, small and mid had a strong week with the Russell 2000 preaching its prior multi-month high. In fact, all four major indices, S&P 100, S&P 500, S&P 400, and S&P 600 (mega, large, mid & small cap) closed Friday at least a 1-month high. The chart below shows a green vertical line each time all four achieved this 1-month high at the same time. As you can see, this is more a characteristic of a strong market than a weak one. While some of the occurrences were followed by brief pullbacks (similar to the breadth chart above), many occurred during or just before defined up trends.



Treasury Yield: I've discussed this a few times in past letters, noting the potential for a breakout in yields. Well we got that last week and oddly it seems like no one really is paying attention. The 10yr Yield still remains below 0.8% but it finished the week above the range established since April and the 5yr Yield hit its highest level since July.

Traditionally the dollar and Treasury yield have a positive correlation but last week we saw the dollar sell-off and yields rise. The drop in the dollar may be a response to the expectation of another Congressional stimulus that will be somewhere in the trillions or a Democrat election win that will also likely draw more Congressional spending, but fixed income markets didn't respond in-kind. Michael Hartnett of Bank of America wrote about this last week, "The floor emerging in spreads, volatility, and yields indicates peak 'easy financial conditions'" giving the potential outcome of "higher stocks at some point engender higher bond yields, thus short-circuiting the rally."

Volatility: While VIX moved lower at the end of last week, VVIX held firm and moved up. One good reason for this was given by Cem Karsan, that the various election dates (election day and electoral college vote) carry premium with them so with vol being elevated in November, VVIX reflects that heightened implied volatility. While I agree this helps explain some of why VVIX is holding strong, the VIX-VVIX spread widening is still something I pay a lot of attention to. There's also been a heavy pickup in put activity on VIX options. The chart below was shared by Helene Meisler, noting the 21-day average put/call ratio for VIX options. The consensus seems to be that volatility will come down significantly, likely after the election – shaking out the November premium lower rather than spot VIX rising to meet it. Meanwhile, dispersion in the daily change of spot VIX has collapsed once again. The Volatility Risk Trigger has not triggered but has risen about halfway to a full signal. I'll keep you abreast if anything changes.


VIX Put/Call Ratio
21 day moving average
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
1/11/2010
1/11/2011
1/11/2012
1/11/2013
1/11/2014
1/11/2015
1/11/2016
1/11/2017
1/11/2018
1/11/2019
1/11/2020
1/11/2021

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