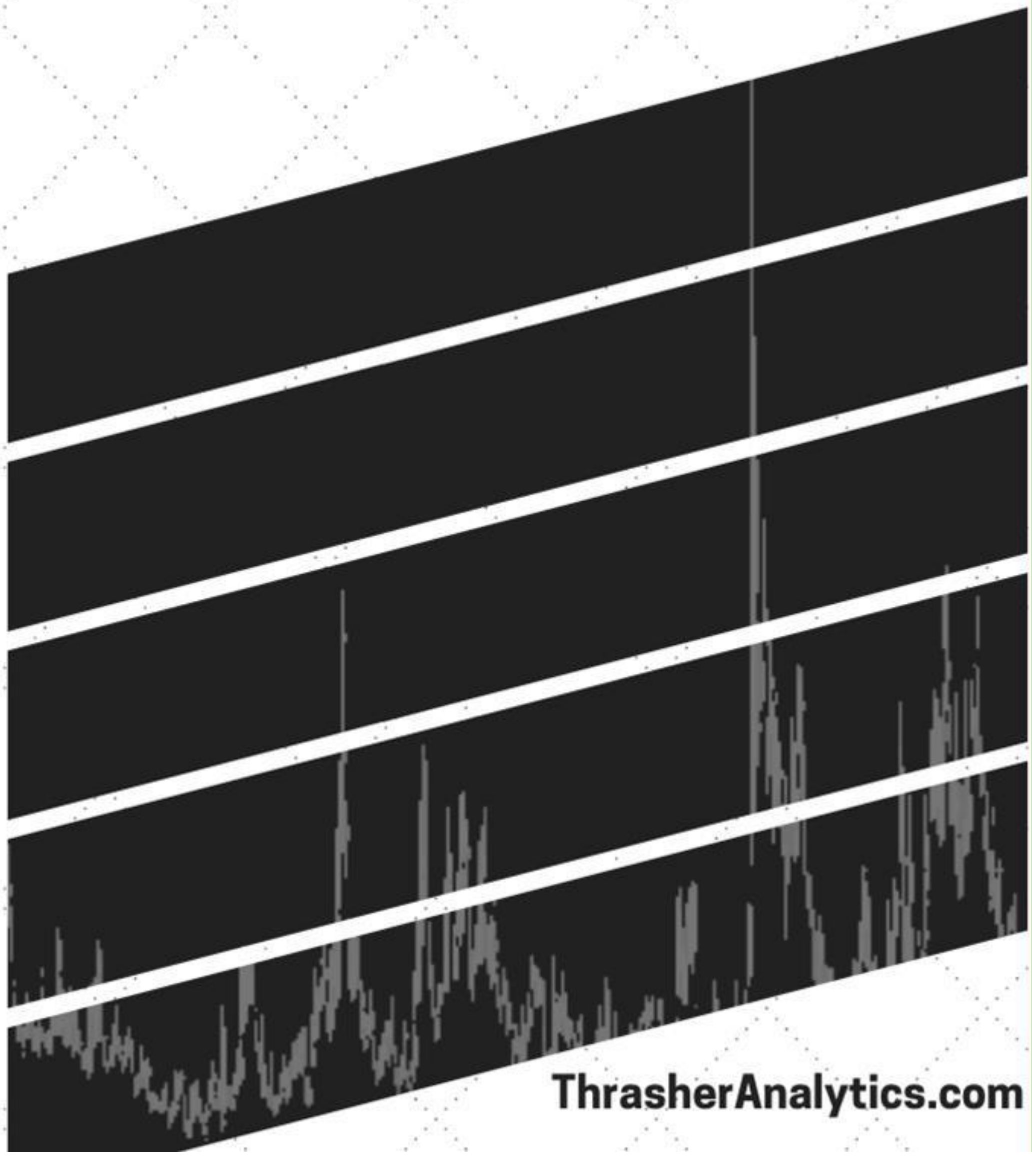
THRASHER ANALYTICS

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	59%	64%
Nasdaq 100	65%	71%
Nikkei	82%	80%
VIX	28%	27%
10yr Treasury	64%	67%
5yr Treasury	64%	67%
CRB Index	45%	48%
Gold	31%	33%
U.S. Dollar	44%	42%

**Green<25%   Red>80%*

source: trade-futures.com

Notable Breadth Data:	
SPX >50MA	70.28%
SPX >200MA	68.32%
Nasdaq >50MA	73.79%
Nasdaq >200MA	80.58%

I was away on much needed time off this weekend, so this week's letter will be more focused on a few key charts and topics.

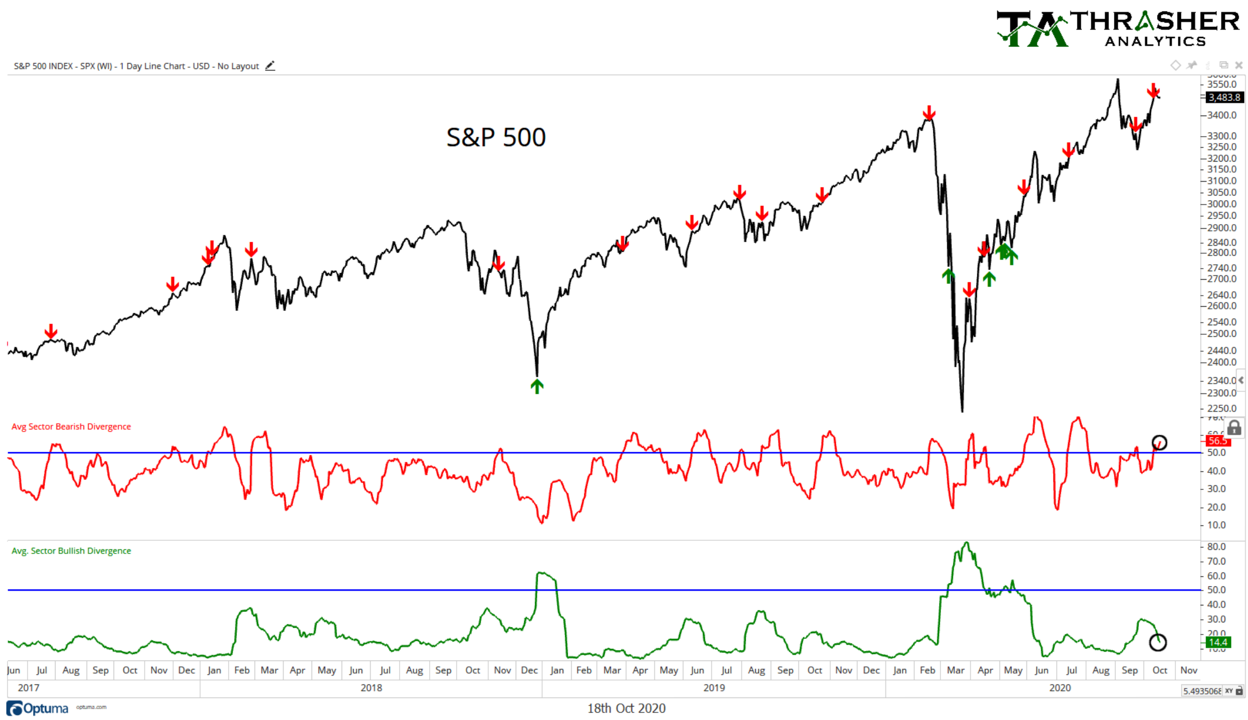
I'd also ask that you take a second to answer this extremely brief survey (just 5 questions) about the letter and which sections and topics you most prefer to be covered. I want to make sure the letter stays relevant to the topics you're most interested in. I will randomly choose one completed survey and that person will receive a free extra month added to their subscription! Click Here To Complete The Short Survey.

Economy: Retail sales were one of the bright spots last week, rising in September 1.9%, double expectations and after strengthening 0.6% in August. This sends the seasonally-adjusted retail and food service total above the pre-pandemic high, something we haven't seen many economic data figures accomplish just yet. This came at the same time that we learned industrial production struggled in September with a drop in output by 0.6% when economists were actually looking for a gain. If the consumer is showing its still willing to spend, that's good news as we move closer to the holiday shopping season.

The one caveat here is of course the rising covid trend, which is closer to surprising the highs seen in July. If states begin to impose more restrictions then consumers may tighten the proverbial purse strings, a bad sign for local businesses. Several European cities have begun raising restrictions, including London and Paris with Italy reportedly not far from banning sporting events and imposing its own curfew similar to London's.

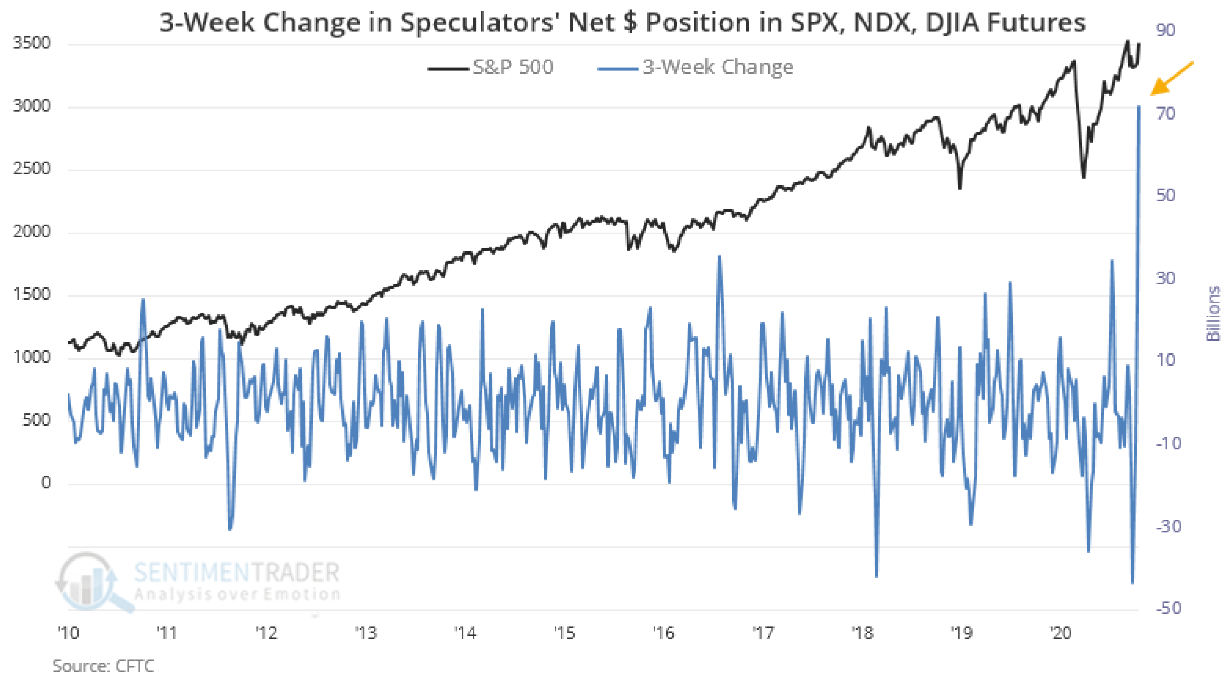
Breadth: while stocks were showing some signs of weakness after Monday's pop, Friday actually saw a tick up in new 52-week highs on the S&P 500, to 10.5%. Stocks are still broadly in up trends, with 73% of the Nasdaq 100 and 70% of the S&P 500, respectively, still above the 50-day moving average – a healthy level of broad up trend participation; along with 68% of SPX above the 200-day MA.

Divergences: Thanks to the great team at Optuma, I've been able to improve the coding behind the Thrasher Analytics divergence tools, something you will not find anywhere else outside of Thrasher Analytics. The coding that creates these charts is fairly massive and Optuma has been great at tweaking a few of the lines to improve the display of the data. Many sectors have seen rising percentages of bearish divergences along with the major indices. 64% of the S&P 500 has a bearish divergence which is the highest figure since July and only 10% have a bullish momentum divergence. Currently, as the chart below shows, the average sector has 56% of its stocks with a bearish momentum divergence vs. an average of 14.4% with a bullish divergence.



Disappearing Risks: at the end of September I wrote a public blog post at athrasher.com titled, [“Will The Election Turn Out to Be Y2K 2.0?”]() after reading about he loosening of the circuit breakers and tightening of margin requirements. It seemed the controllers of the pipes that make up the market were showing some concern. This was happening all while a large ‘kink’ continued to develop in the VIX futures curve as traders pushed originally October and then November to a wide premium out of anxiety towards the election. The VIX curve has sense flattened out almost to resemble a pancake instead of a sloping curve.

At the start of October, November held a 1.8 pt premium to October, which has fallen to 1.12 pts. November also held a 2 point premium to February which has now dropped to 1.08. The Volatility market no longer appears overly concerned with the election. Maybe rightfully so. Several massive VIX trades went off last week, betting that VIX futures will be trading back in the teens by next February, another assumption that volatility will have continue to salomon down the slope, skirting past the election, Congressional infighting, rising covid cases, Brexit drama, and Q3 earnings. Jason at SentimenTrader [shared on Twitter]() the below chart which shows the massive change in direction in speculator positioning in equity futures. Having gone from net short $47 billion to net-long $25 billion, a $72 billion swing, the largest of its kind in the last decade. The one place some degree of hedging seems to be taking place is shown in the index put/call ratio jumping to 2:1 several times in October, even without major equity weakness. Before this month, we didn’t see a reading over 2 since March.



The bigger issue here I think is the flattening of the VIX curve. The reason being funky stuff can happen when the curve inverts (front months trading above further-dated contracts). If not just a momentum inversion, VIX in backwardation can have rippling effects to vol-targeted trading systems more importantly set the kindling for a spark by a flagrant ember caused by anything from a random Trump tweet to a missed earnings announcement. I'm not going to pretend to know how things play out, that would be naïve, but the volatility landscape has shifted from nervous to confident. I mentioned early the index put/call ratio, well the vix put/call ratio was 3.48 on Friday, which was also option expiration day which can toy with the data, but 3.48 is the highest by far in the last 10 years, only exceeded in April '09. Dispersion of the Volatility Index remains low, but the Volatility Risk Trigger has not produced a signal just yet.

Sentiment: While 10yr bonds are still above their October low, the DSI % Bullish for bond made a lower-low on Friday to 64% - the lowest level since early September. Gold sentiment remains low at 31% bullish as the commodity struggles to regain its 50-day MA. Bullishness for the Aussie Dollar fell to 41% matching the September low. The Australian Dollar relative to the USD and Yen has curiously been weak, suggesting the sentiment for the carry trade is turned lower despite strength in equities. Sentiment for the ag commodity space continues to be frothy, with most grains % bullish between 80% and 90%.

DISCLAIMER: