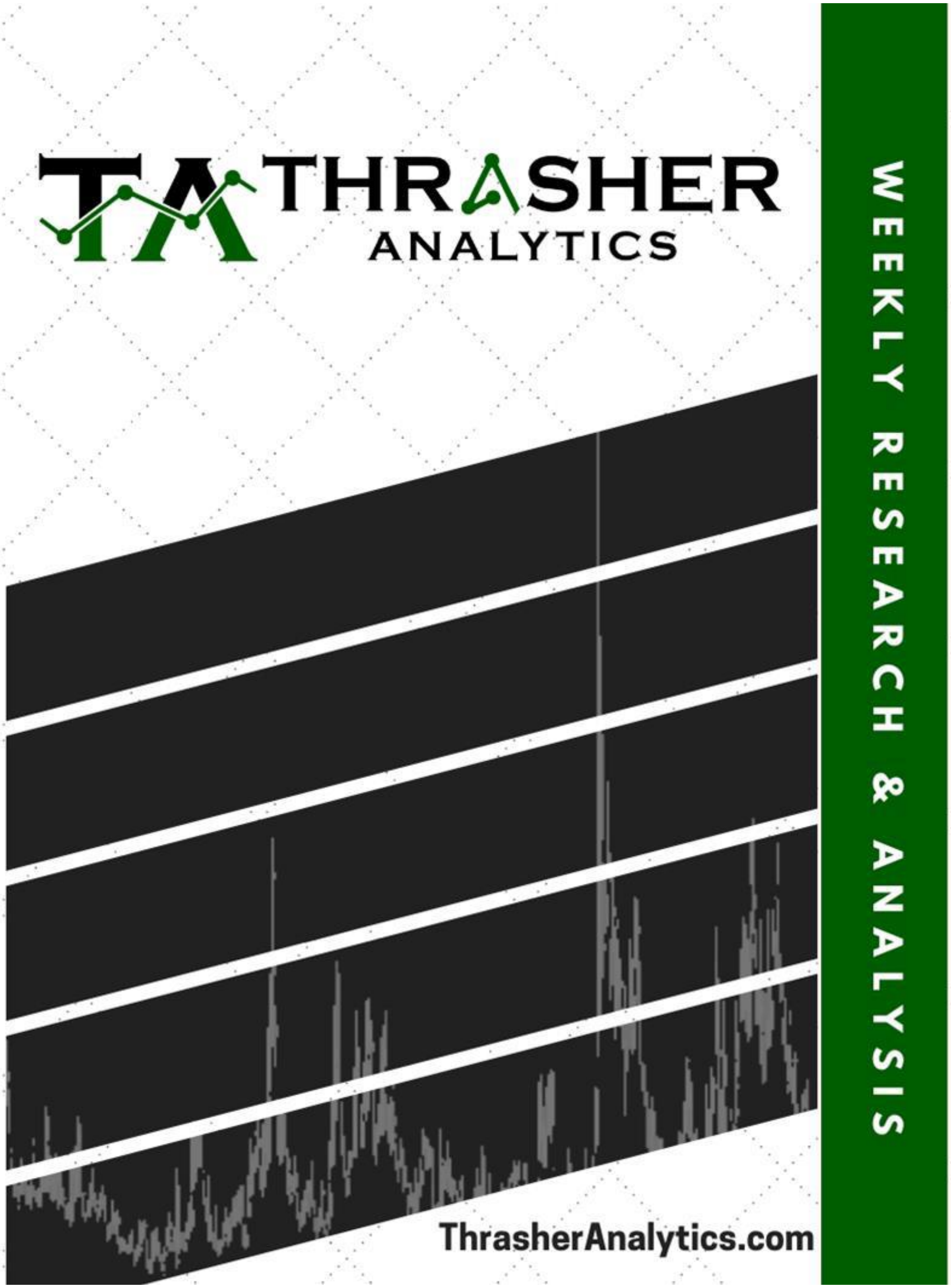
October 25, 2020



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

Notable Breadth Data:	
SPX >50MA	65.94%
SPX >200MA	70.10%
Nasdaq >50MA	66.02%
Nasdaq >200MA	78.64%

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	55%	54%
Nasdaq 100	55%	56%
Nikkei	71%	77%
VIX	23%	28%
10yr Treasury	50%	53%
5yr Treasury	58%	60%
CRB Index	40%	44%
Gold	30%	32%
U.S. Dollar	30%	33%

**Green<25%* *Red>80%*

source: trade-futures.com

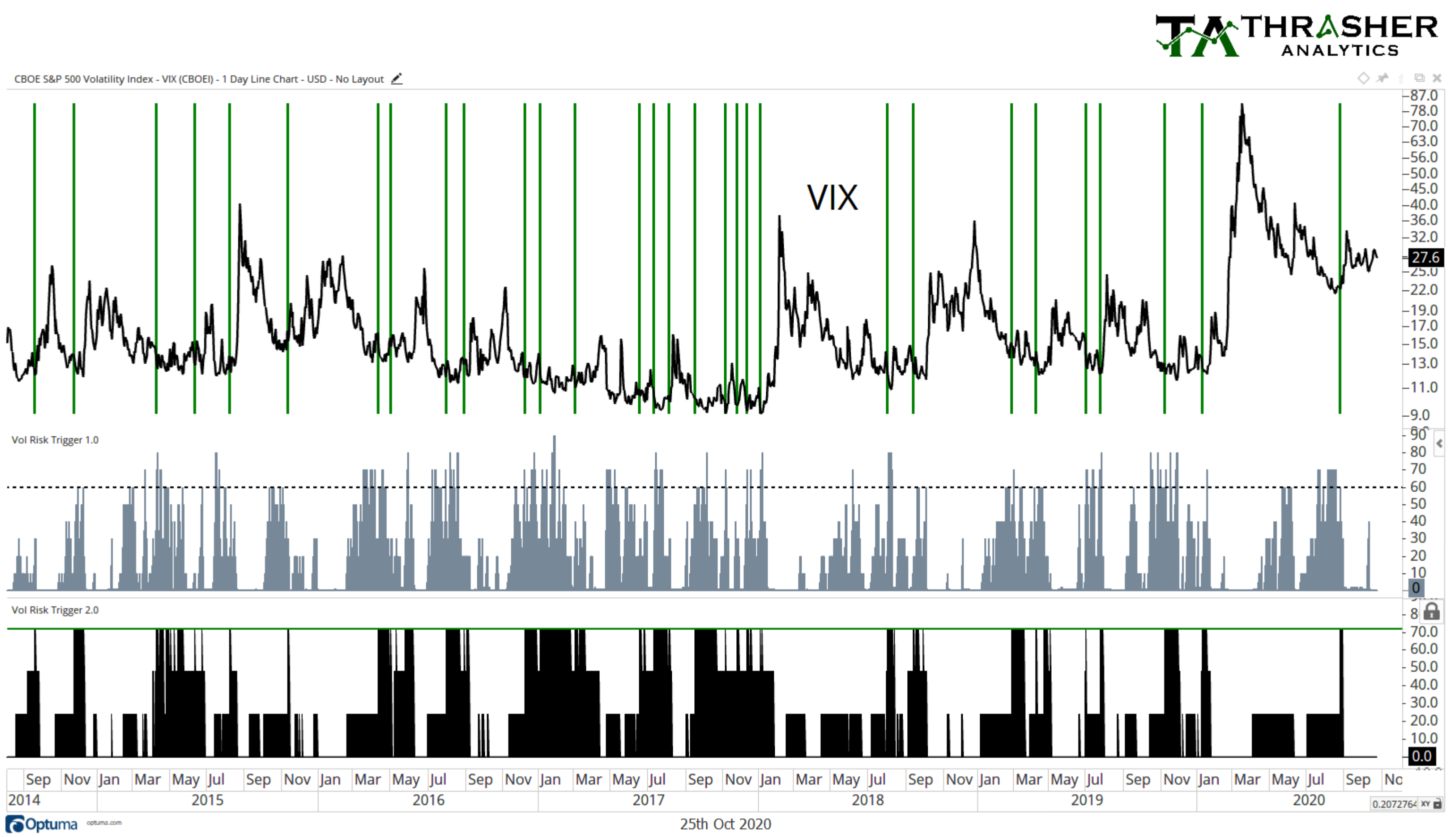
I really appreciate those of you that completed the very brief multiple-choice survey I sent out last week. If you haven't had a chance to have your opinion heard, Click Here To Complete The Short Survey. I'll be announcing the winner of the free extra month of membership next week from those who completed the survey.

Based on the current results of the survey, there is a strong preference for a more concise letter that focuses on the topics and chart I find most important to share. I will be adjusting the format for most week's letters to fit this requested style of while still providing the same level of quality and depth of content as the Thrasher Analytics has been known to produce.

Volatility Risk Trigger

I'm happy to be able to finally share the updated Volatility Risk Trigger (VRT). I'm always seeking ways to improve my research and tools used, and I believe the tweaks made to the inputs of the VRT greatly improve the timing of the tool. On the below chart you'll see the original VRT as well as the new VRT 2.0. I'll continue to show the original version for historical context, but the green lines on the VIX top panel will now be based on the VRT 2.0.

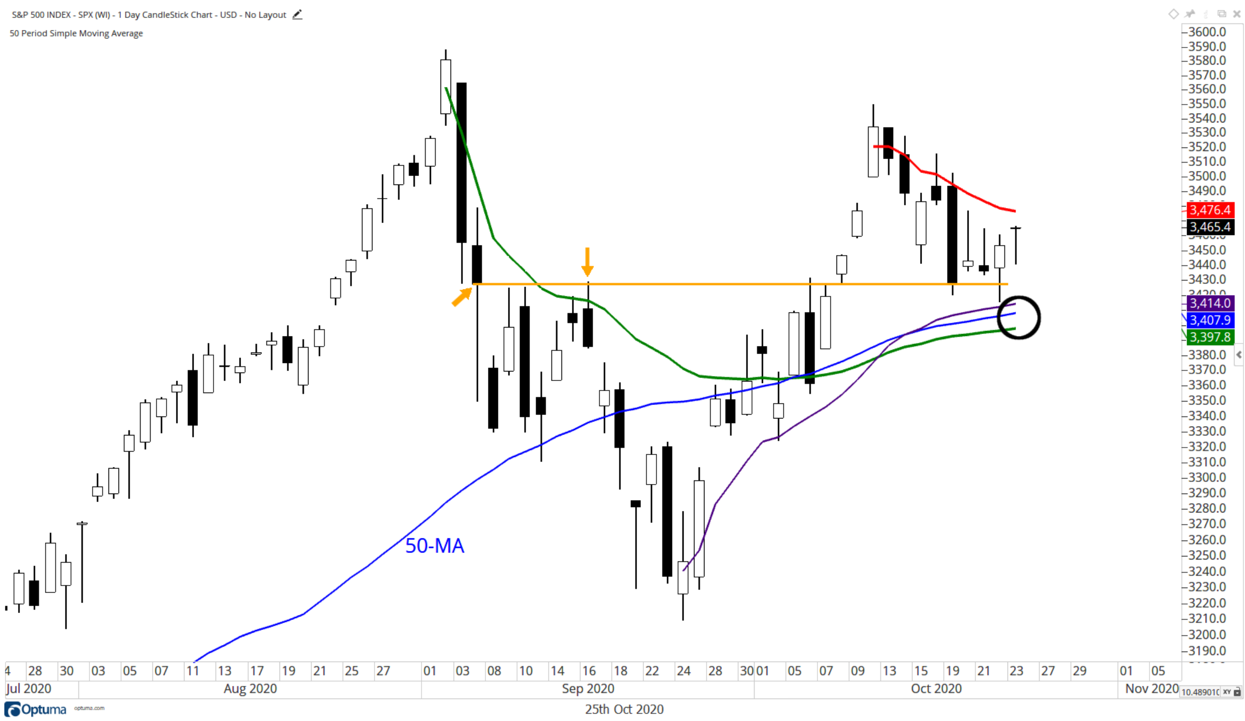
The VIX futures curve moved lower across expirations last week as we shifted from an October to a November front month contract. While November continues to hold a premium the curve is quite flat with just a 2.15 point spread between November '20 and June '21. As I mentioned last week, many traders expect the VIX to move back below 20 at the start of the new year, suggesting a nearly 8-point drop in January VIX futures. There's still plenty of catalysts to keep vol elevated, so while the 'obvious' trade seems to be a volatility collapse post-election, while I think that's possible, there's several hills we must climb from earnings season, GDP, election, and of course covid, that all need to turn out to be 'non-events' to get the VIX back to being a teenager. SKEW and VVIX (vol of the VIX) both are holding at a higher historical level than spot VIX right now. The VIX is at a 19th %tile while SKEW is at 37th %tile, there's still some fear showing up in the tails. SKEW closed Friday at its highest level of October but still well off the levels seen in August and September when it was just under 150 (its at 126 right now, which roughly suggests the market believes there's about an 8% chance of a 2-standard deviation move in the S&P 500 compared to 150 which implies about a 15% chance of a 2 std dev move in the index).



S&P 500 Daily

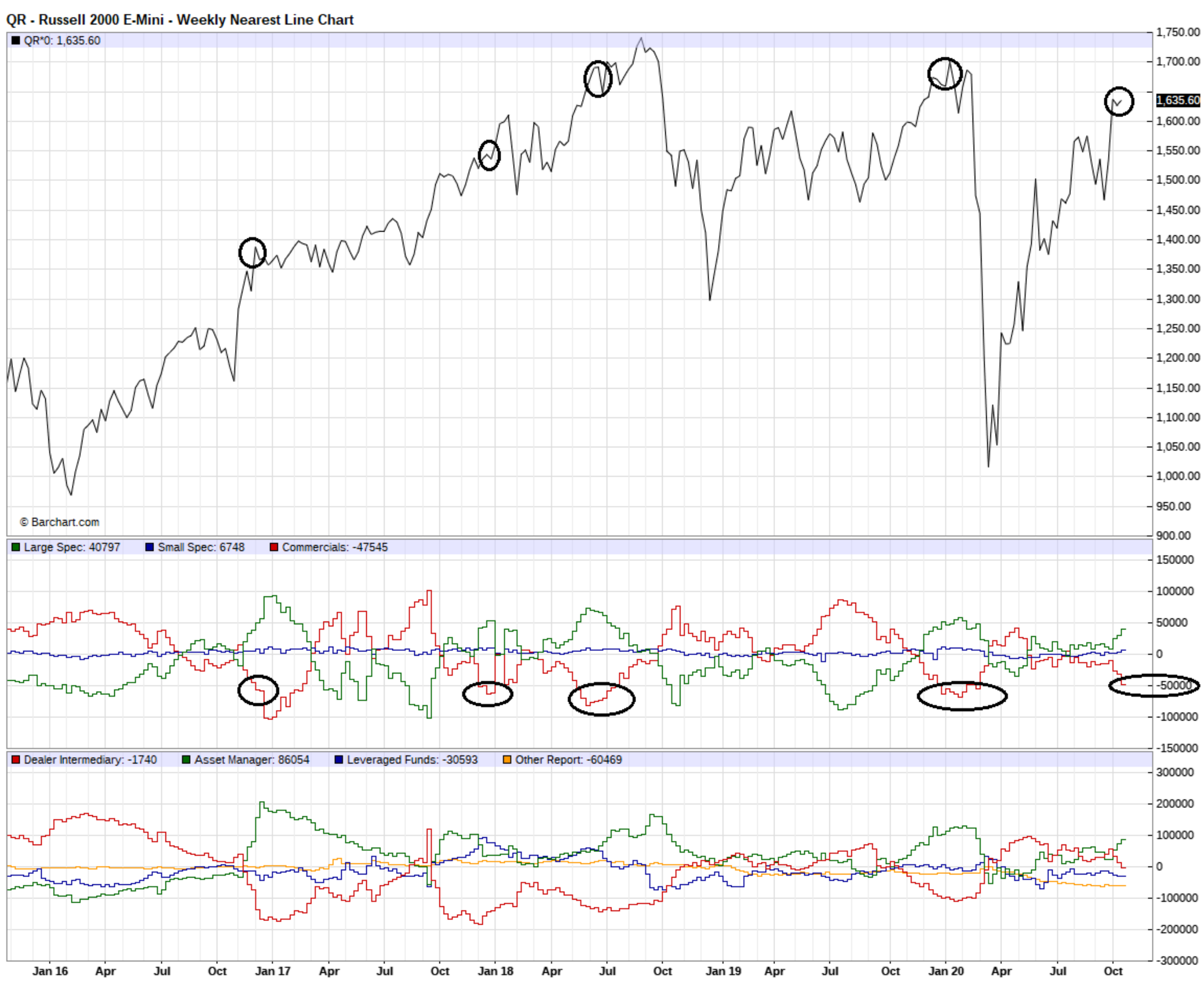
The S&P 500 currently sits above a bevy of potential support levels made up by the 50-day MA, VWAP off the September low, VWAP off the August high, and the horizontal support level at 3430. When we have a confluence of levels bunched together like this, it makes it harder for price to break below on its first time, suggesting future weakness may need to take a few 'swings' at the 3400-ish level before a major move lower occurs. On the upside, I'm watching the VWAP off the October high which closed Friday at 3476, this VWAP has helped 'define' the short-term down trend for the month, so a break above there would be a positive bullish catalyst.

This week we get all the FAAMG stocks reporting Q2 earnings, GDP for Q3, consumer spending, jobless claims, and some housing figures – and of course the continued back and forward of a potential stimulus bill. Plenty for buyers and sellers to latch on to if they so choose. Up until this point, earnings haven't "mattered" all that much as the market seems more focused on election polling, fiscal stimulus, and vaccine headlines.



Russell 2000 Commitment of Traders (COT)

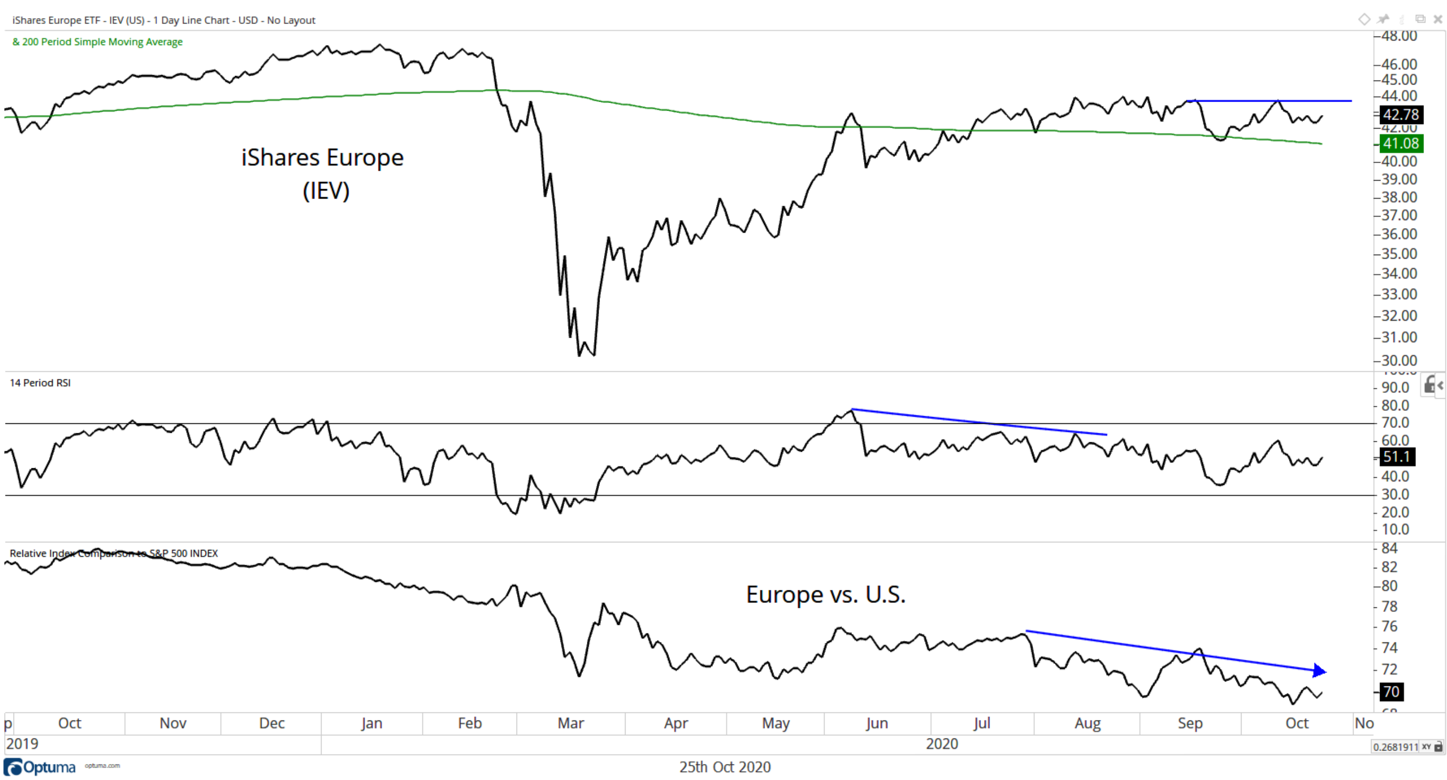
The COT report for financial futures is rarely interesting but every once in a while traders create a net-position that stands out in the historical context. Commercial Traders in Russell 2000 have moved their net-position to a rather large net-short, the largest since before the March 2020 decline. In fact, over the last five years Commercial Traders have only had such a large net-short position just four prior times. This could be easily written off as simple hedging ahead of the election. But if you look at the bottom panel of the chart below, it shows the asset managers (think hedge funds, family offices, etc.) have a rather large net-long position in R2k futures. Of the four categories, they are the only ones holding a net-long position, the other three are all some degree short. Prior times asset managers were this bullish Russell 2000 futures was at the start of this year, October 2018, December 2017, and January 2017, three of which were not great times to be long small cap stocks. I'll continue to monitor this chart and see if these positions change materially before and after the election but right now, asset managers are big fans of equities and Commercial Traders are not.



Europe

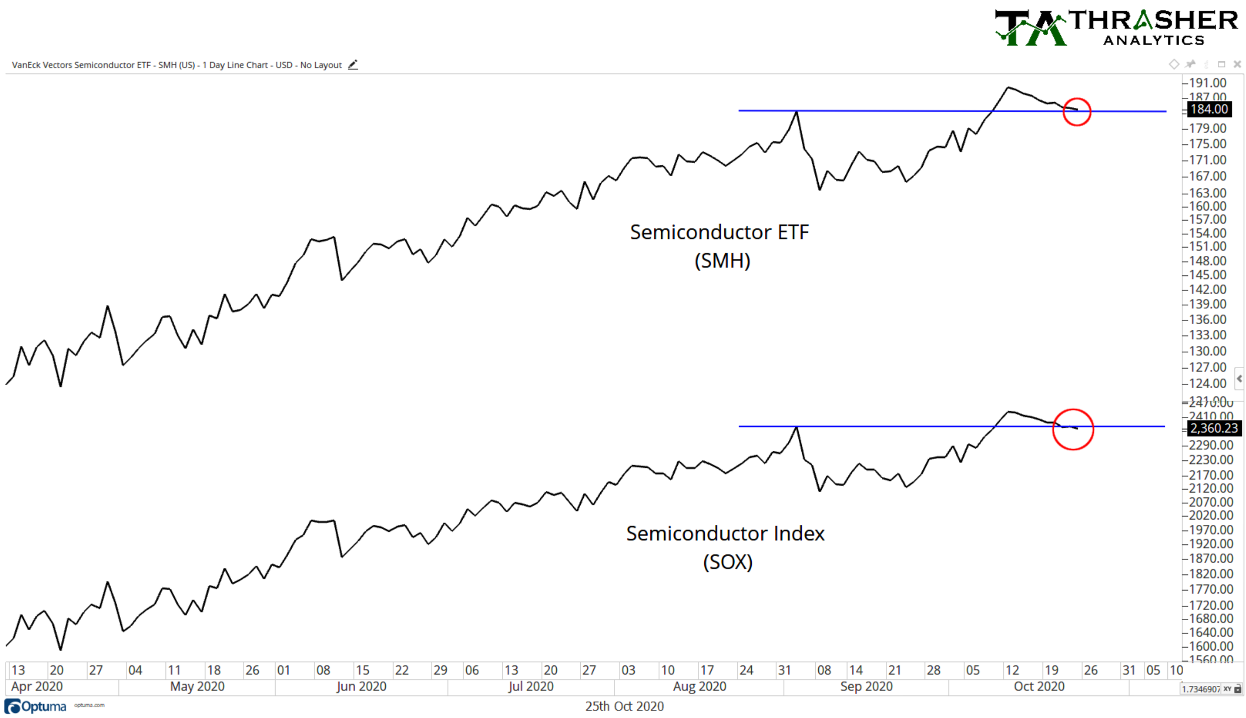
Europe is struggling, their covid data is trending higher at a much steeper slope than what we have (so far) in the U.S. with many countries at new highs in infections. Italy and Spain announced they are introducing new lockdown measures which follow the increase in restrictions placed in London and Paris already. Meanwhile, economically there's now discussion of a double dip recession after the latest PMI data shows a return to contraction in the Services Index. An analyst for IHS Markit stated, "The eurozone is at increased risk of falling into a double-dip downturn as a second wave of virus infections led to a renewed fall in business activity in October. […] The survey revealed a tale of two economies, with manufacturers enjoying the fastest growth since early-2018 as orders surged higher amid rising global demand, but intensifying COVID-19 restrictions took an increasing toll on the services sector, led by weakening demand in the hard-hit hospitality industry."

Focusing in on the European equity market, it continues to underperform domestic U.S. equity with relative performance hitting a new low earlier this month. A bearish momentum divergence developed on the RSI with IEV moving above the prior June high, as the momentum indicator was unable to get back above 70. Price has continued to struggle as it consolidates over the last couple of months but still holds above its 200-day MA. A drop back under the long-term moving average and September low could begin a new down trend for European stocks.



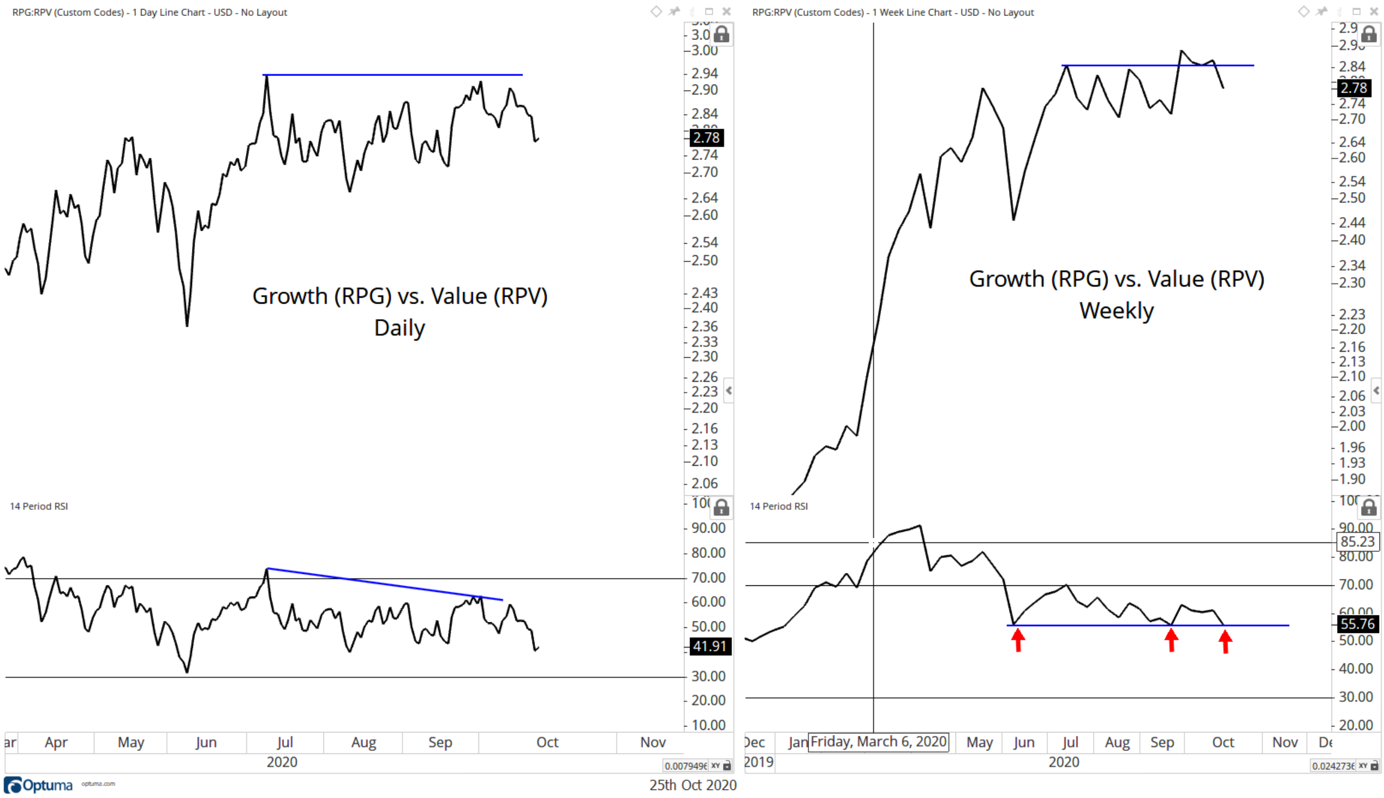
Semiconductors

For long time readers, you know I closely watch the price action of semiconductors. I’ve been writing about them as a barometer since 2013 and believe they provide important insight into both the tech sector and broad market. Both the ETF and the Index (I watch both because they hold different weightings of the underlying stocks) are nearing or below their prior highs. The Index closed back below the September high last week and SMH is just above its own Sept. high. With the weakness in growth stocks, semis are also under pressure right now. Bulls don’t want to see a failed breakout here, which would be a bad omen for risk appetite for the broad market and specifically technology.



Growth vs. Value

This is an update to my last discussion of the proverbial fork in the road situation for the ratio between growth and value. With the continued weakness in growth stocks, the ratio has fallen back below the prior high on the weekly chart and sent momentum back to the prior lows which have held so far. The failure to hold the breakout on the weekly time frame is concerning but could reverse sharpy with many mega cap growth names reporting earnings this week. In fact, all of the FAAMG stocks report this week giving ample firepower for either bulls or bears based on how these heavily watched companies report.



Financial Sector

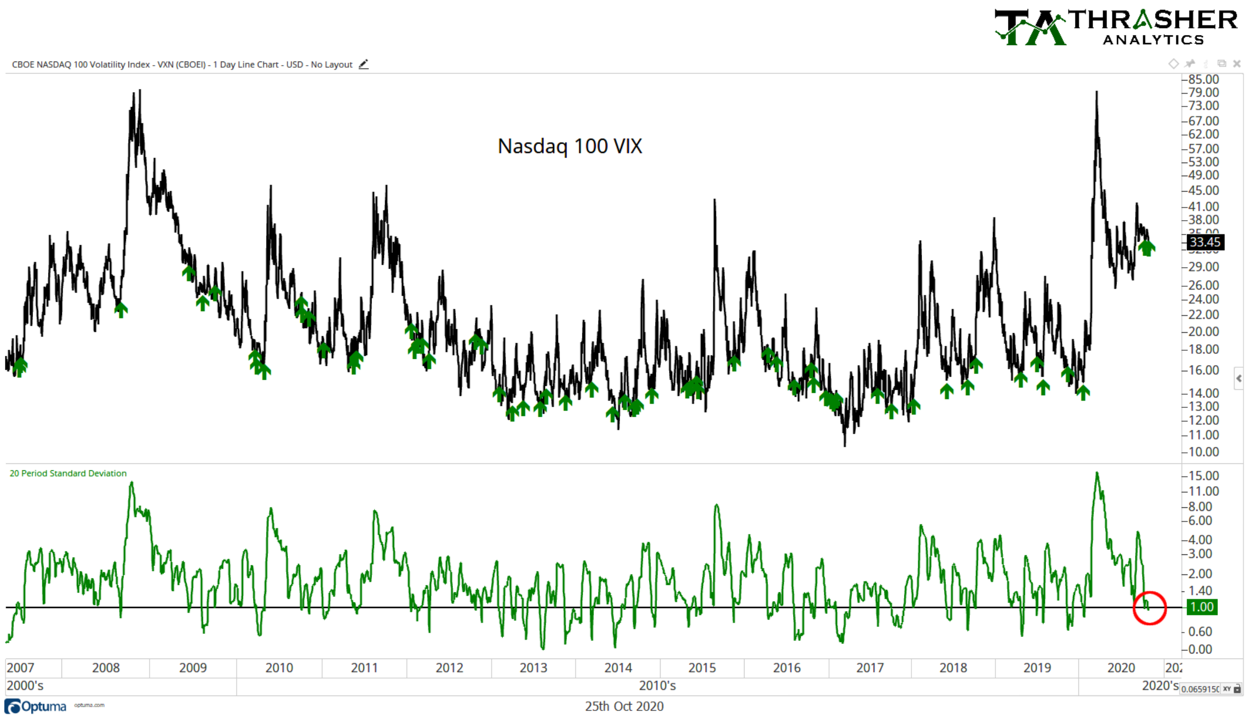
Financial stocks have greatly improved recently, largely driven by the rise in Treasury yields, making banks look more attractive to investors. Below is a chart of XLF and two breadth figures, the % above 200-day MA and % at a 3-month high. We now have the most stocks back above their respective 20-day moving average for the financial sector since the March crash. If we see the 10yr Yield continue to rise and hold above 80bps, making a possible run back to 1% then that should bode well for this sector.

Consumer Discretionary

Consumer Discretionary sector is another one that's showing strong internal participation. There's now 90% of XLY stocks back above the 200-day moving average and 80% above the 20-day average. XLY has done well to hold above the 20-day moving average itself on the most recent dip in price. While Amazon holds the lion share of the weighting of the sector, it's encouraging to see nearly all other stocks also doing well to hold above the long-term and short-term moving averages.

Nasdaq 100 Volatility

Speaking of mega cap growth stocks, which make up the majority of the Nasdaq 100, the Volatility Index for the Nas100 has see a significant drop in its dispersion, as measured by standard deviation. This is the simplistic measure I discussed in my 2017 paper, Forecasting a Volatility Tsunami which looking at the S&P 500 Volatility Index, but it can also be applied to the other equity indices as well, as the chart below shows. Interestingly, volatility remains at an elevated level but consolidated – a sign option traders have gotten overly confident in the perceived 'right' level of Volatility for Nasdaq 100 options. There's really only one other time in VXN's history that volatility dispersion as narrowed to like it is today, and that was in 2008. A sample size of 1 is not something we can rest on but I think it's important to recognize the narrow dispersion for the VXN, especially as growth stocks (as mentioned above) have struggled and we enter a weak heavily focused on FAAMG earnings.



Offense vs. Defense Sectors

Largely due to the under-performance of growth stocks, offensive sectors have struggled relative to defensive sectors. This is also due to the pickup in Treasury yields, which has pushed utilities higher. While it's possible for the broad market to rally higher without the help of offense sectors, it'd be a positive sign to see them regain strength in the week or two.

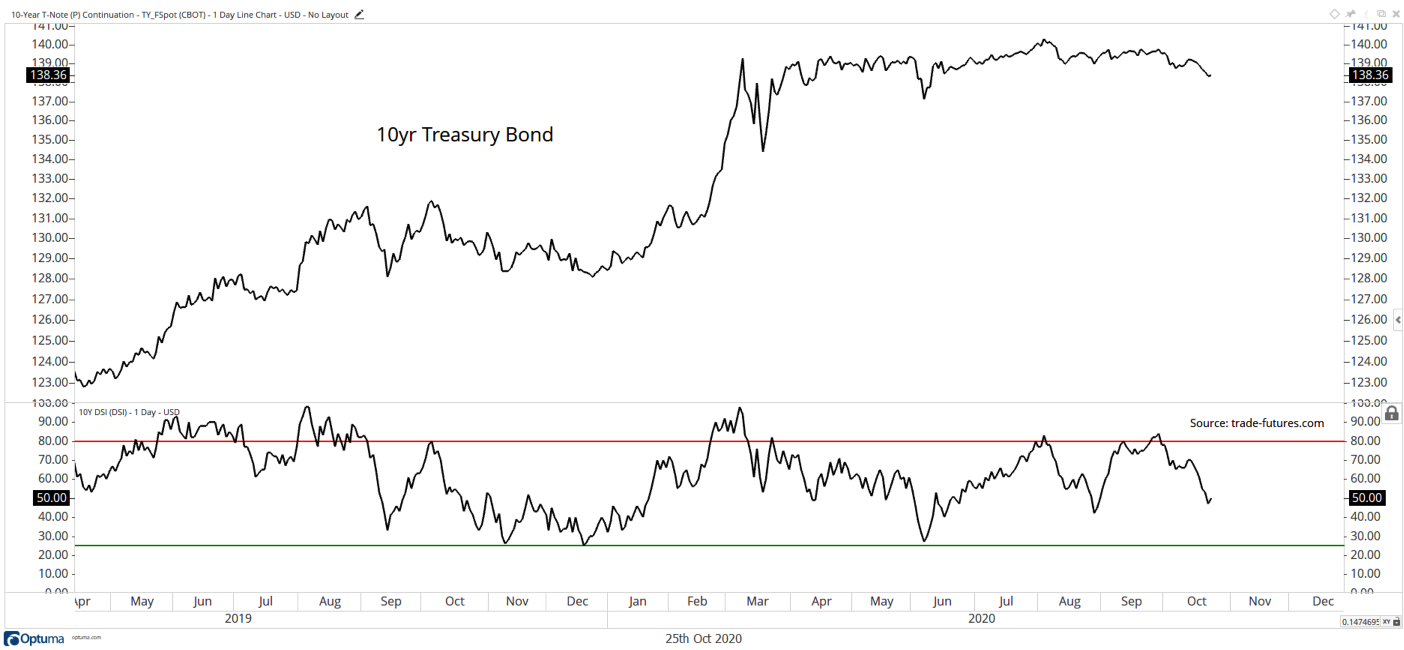
Daily Sentiment Index

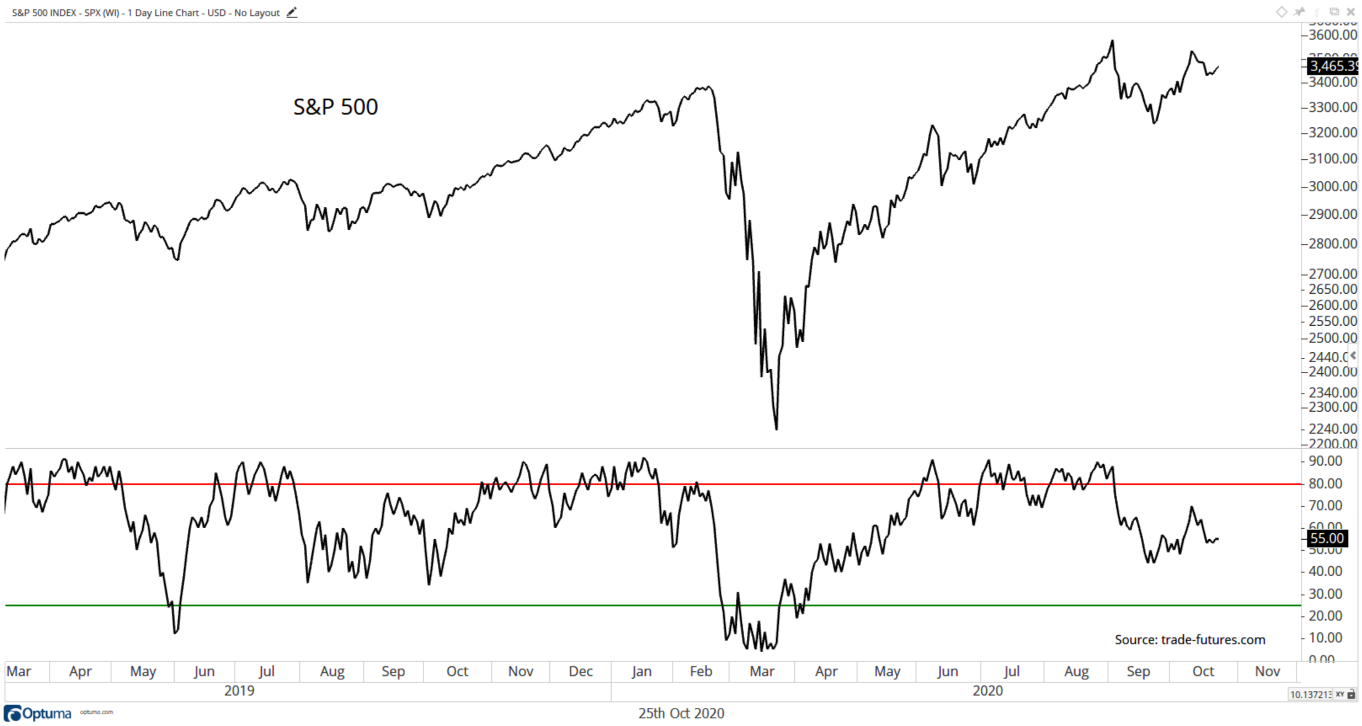
1 Day - Watch List - No Layout

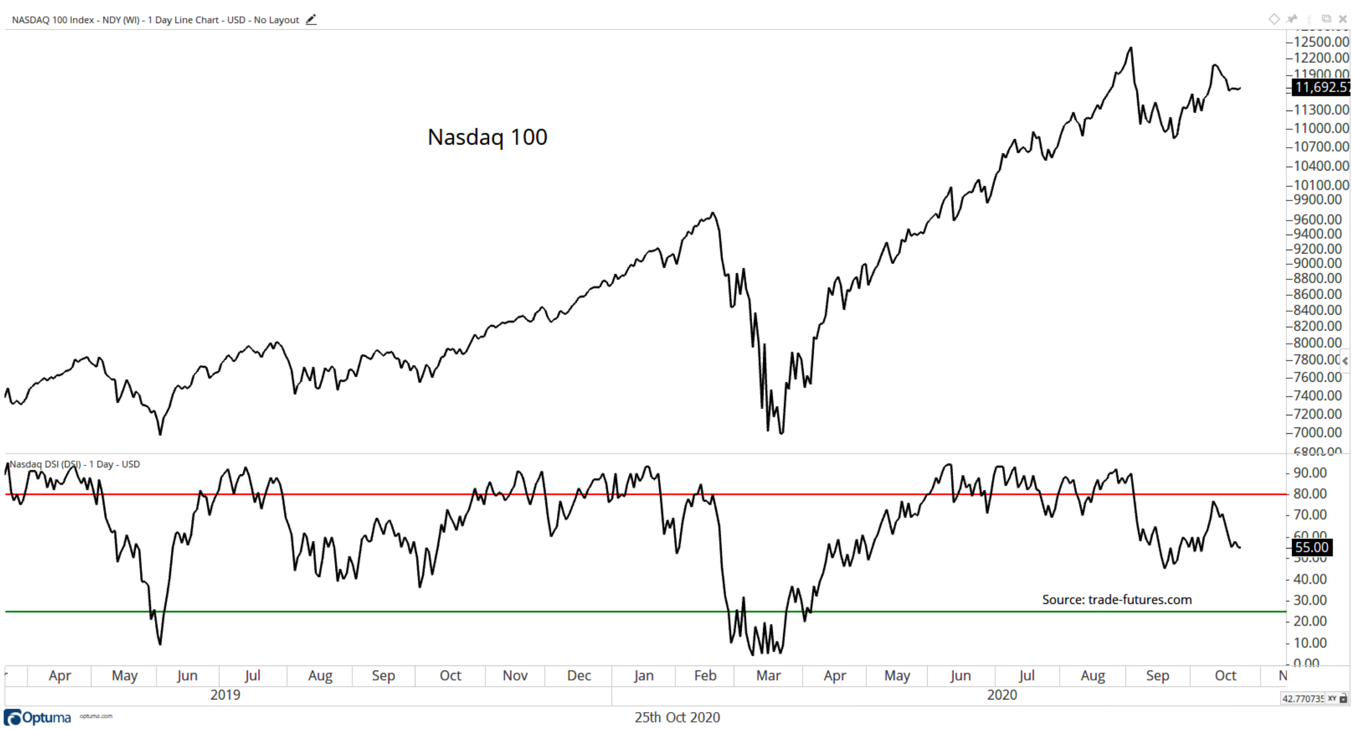
Market	% Bullish	5MA	History
Lumber DSI	13	15.4	
Coffee DSI	17	20.6	
VIX DSI	23	28.00	
US Dollar DSI	30.00	33.20	
Silver DSI	30.00	33.00	
Gold DSI	30.00	31.60	
Crude Oil DSI	34.00	36.80	
Australian Dollar DSI	38.00	36.00	
Cattle DSI	39.00	44.00	
CRB Index DSI	40.00	44.20	
Heating Oil DSI	43.00	45.20	
Natural Gas DSI	45.00	50.40	
British Pound DSI	49.00	52.60	
10Y DSI	50.00	53.20	
Platinum DSI	53.00	47.20	
SPX DSI	55.00	54.20	
Nasdaq DSI	55.00	56.40	

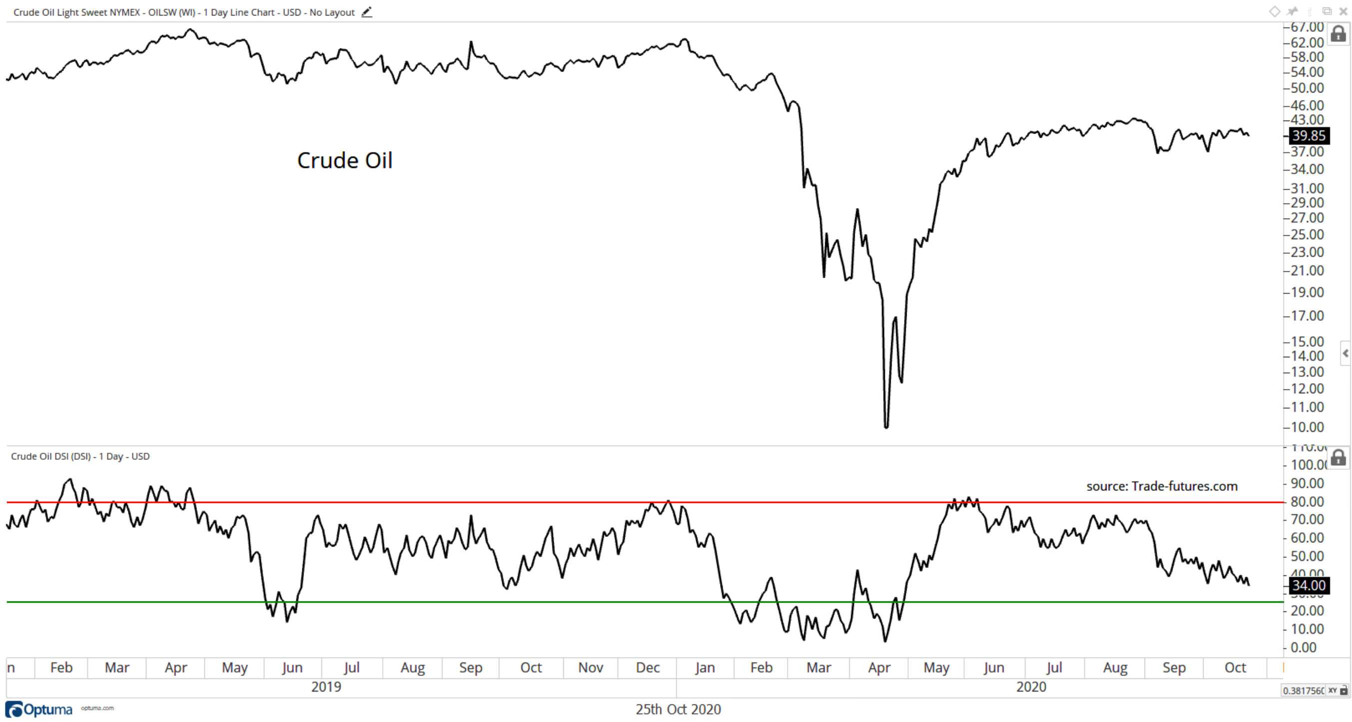
1 Day - Watch List - No Layout

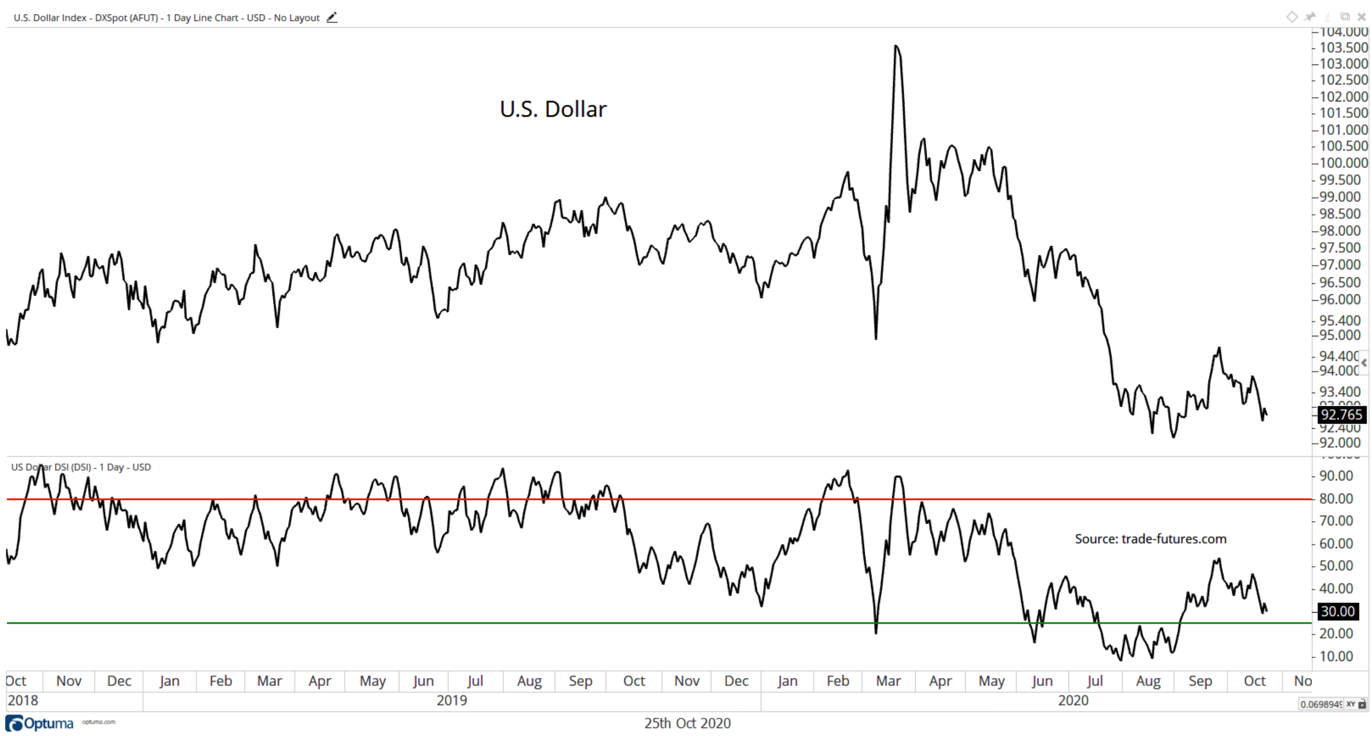
Code	% Bullish	5MA	History
Orange Juice DSI	56.00	50.00	
Gasoline DSI	58.00	61.00	
Cocoa DSI	58.00	50.80	
5YR DSI	58.00	60.20	
Swiss Franc DSI	60.00	57.00	
New Zealand Dollar DSI	60.00	58.00	
Palladium DSI	69.00	68.40	
Nikkei DSI	71.00	76.60	
EuroDollar DSI	74.00	74.00	
Lean Hog DSI	75.00	79.60	
Euro DSI	75.00	70.20	
Sugar DSI	77.00	79.80	
Copper DSI	77.00	79.80	
Cotton DSI	80	85	
Wheat DSI	85	86.4	
Mexican Peso DSI	85	81	
Corn DSI	89	86.8	




S&P 500 INDEX - SPX (WI) - 1 Day Line Chart - USD - No Layout
S&P 500
3,465.3
55.00
Source: trade-futures.com
Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
2019
2020
Optuma
25th Oct 2020


NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
11,692.5
Nasdaq DSI (DSI) - 1 Day - USD
55.00
Source: trade-futures.com
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct N
2019
2020
Optuma
25th Oct 2020

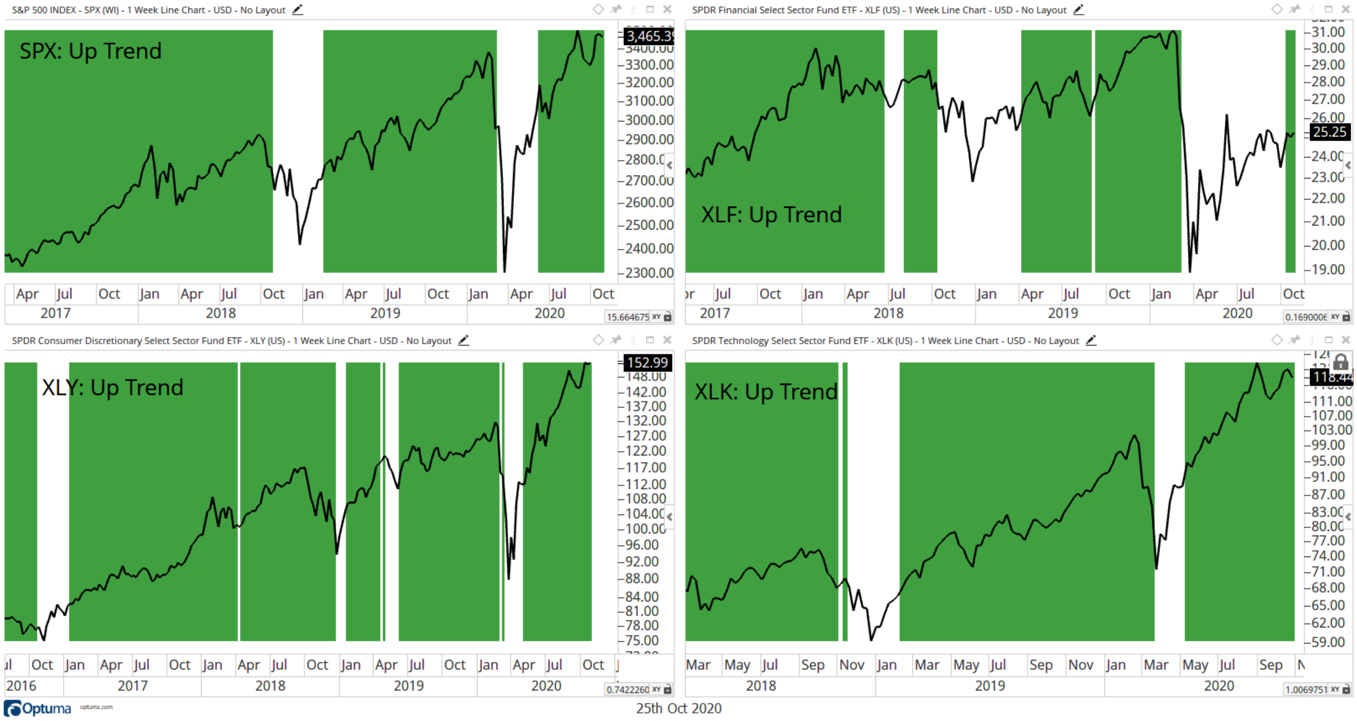

Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
39.85
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
34.00
Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct
2019
2020
Optuma
25th Oct 2020

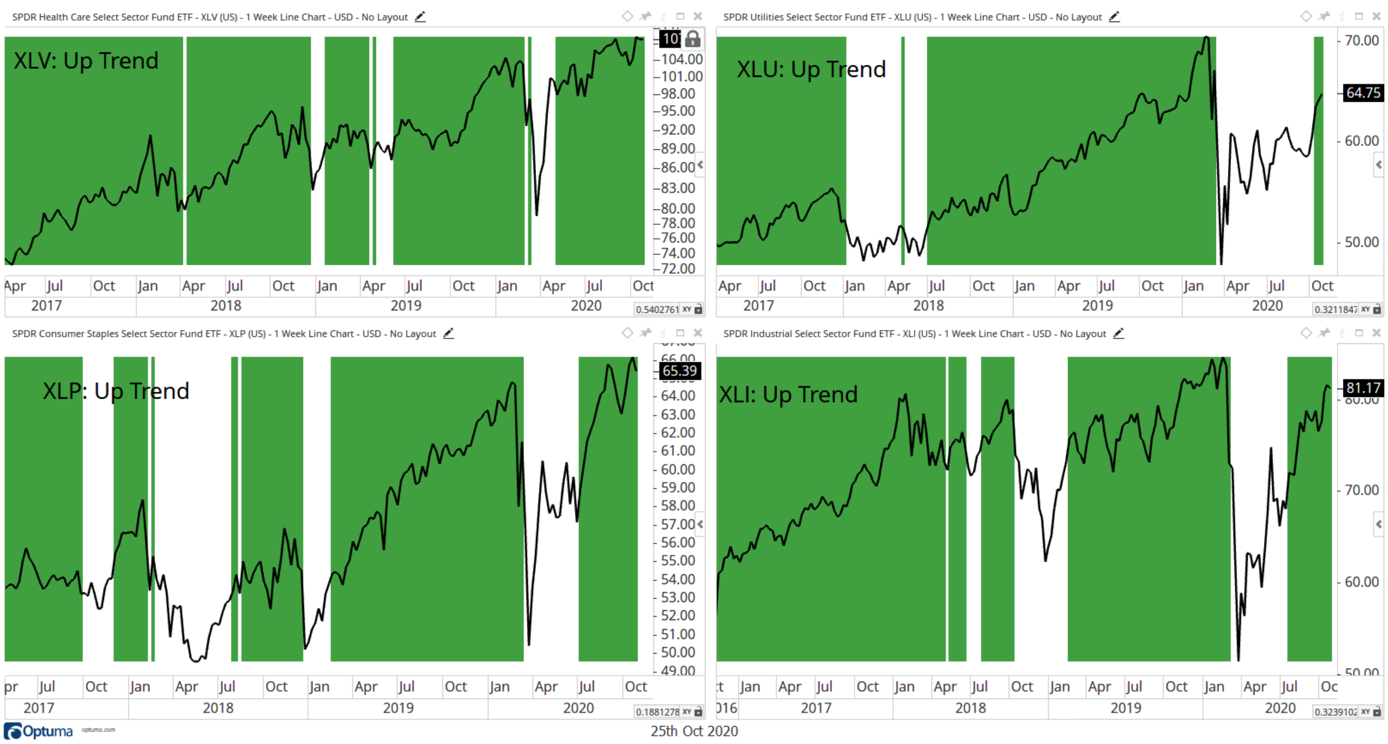

U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
92.765
US Dollar DSI (DSI) - 1 Day - USD
Source: trade-futures.com
30.00
Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct
2018
2019
2020
Optuma
25th Oct 2020

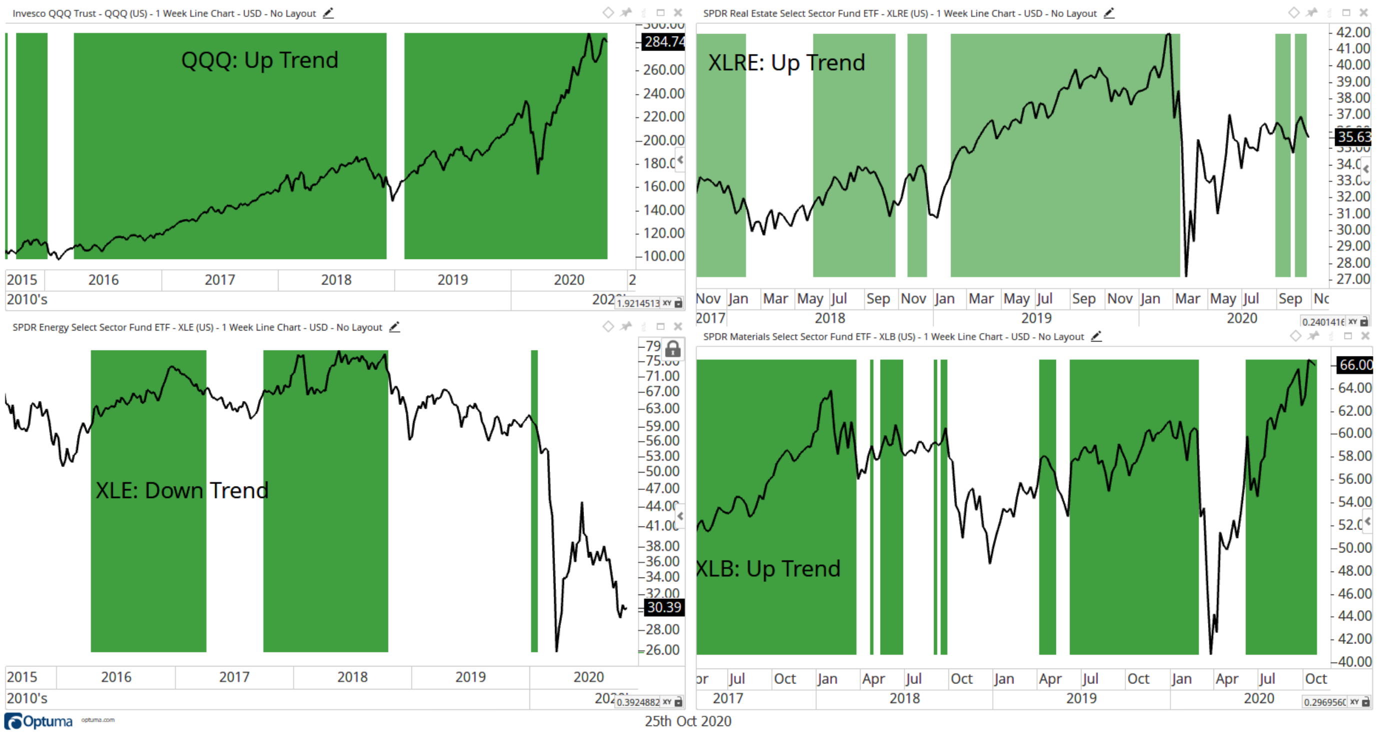

CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
VIX
27.6
VIX DSI (DSI) - 1 Day - USD
Source: trade-futures.com
23.0
2018
2019
2020
25th Oct 2020


Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
1,905.20
Gold DSI (DSI) - 1 Day - USD
Source: trade-futures.com
30.00
2019
2020
25th Oct 2020

Trend Models







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