

TA THRASHER ANALYTICS

NOVEMBER 15, 2020



WEEKLY RESEARCH & ANALYSIS

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S&P 500 broke out to a new high on the back of massive inflows into equity funds following the election and covid news. Stocks are now over-extended with nearly all equities above the 200-day MA, something we haven't seen since January 2018. Energy's rally may be over but Communication looks positive.

While the internals and trend of the equity market remains bullish, short-term the risk/reward setup right now is less attractive.

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Volatility

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Sector Rotation: Nov.

Consumer Disc.	XLY
Materials	XLB
Industrials	XLI

Fixed Income Rotation: Q4

20+ Yr Treasury	TLT
Core U.S. Agg	AGG

Index & Sector

	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

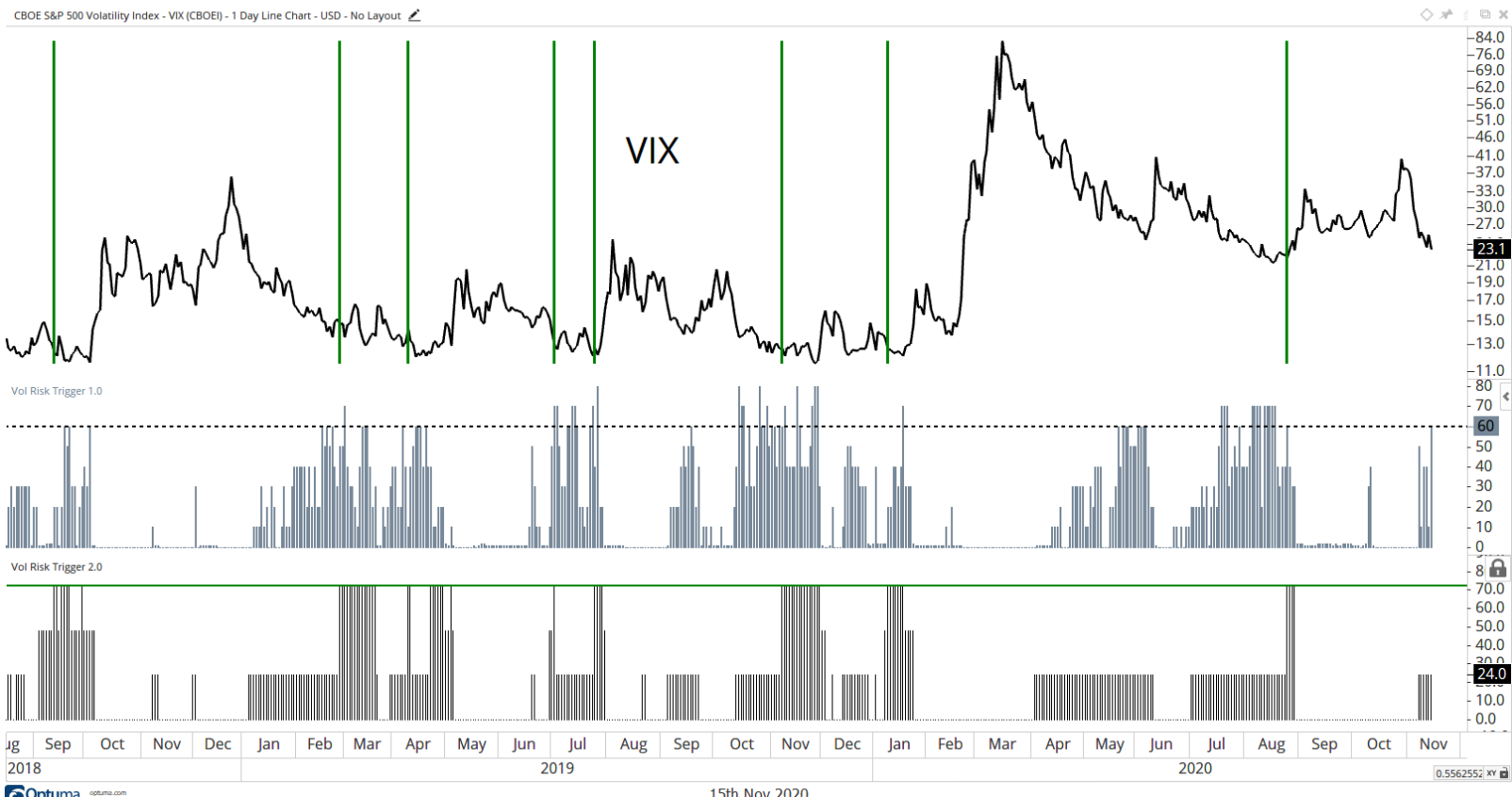
	% Bullish	5-day MA
S&P 500	75%	72%
Nasdaq 100	63%	61%
Nikkei	88%	87%
VIX	12%	12%
10yr Treasury	55%	51%
5yr Treasury	55%	53%
CRB Index	45%	46%
Gold	40%	34%
U.S. Dollar	40%	38%

*Green<25% Red>80%

source: trade-futures.com

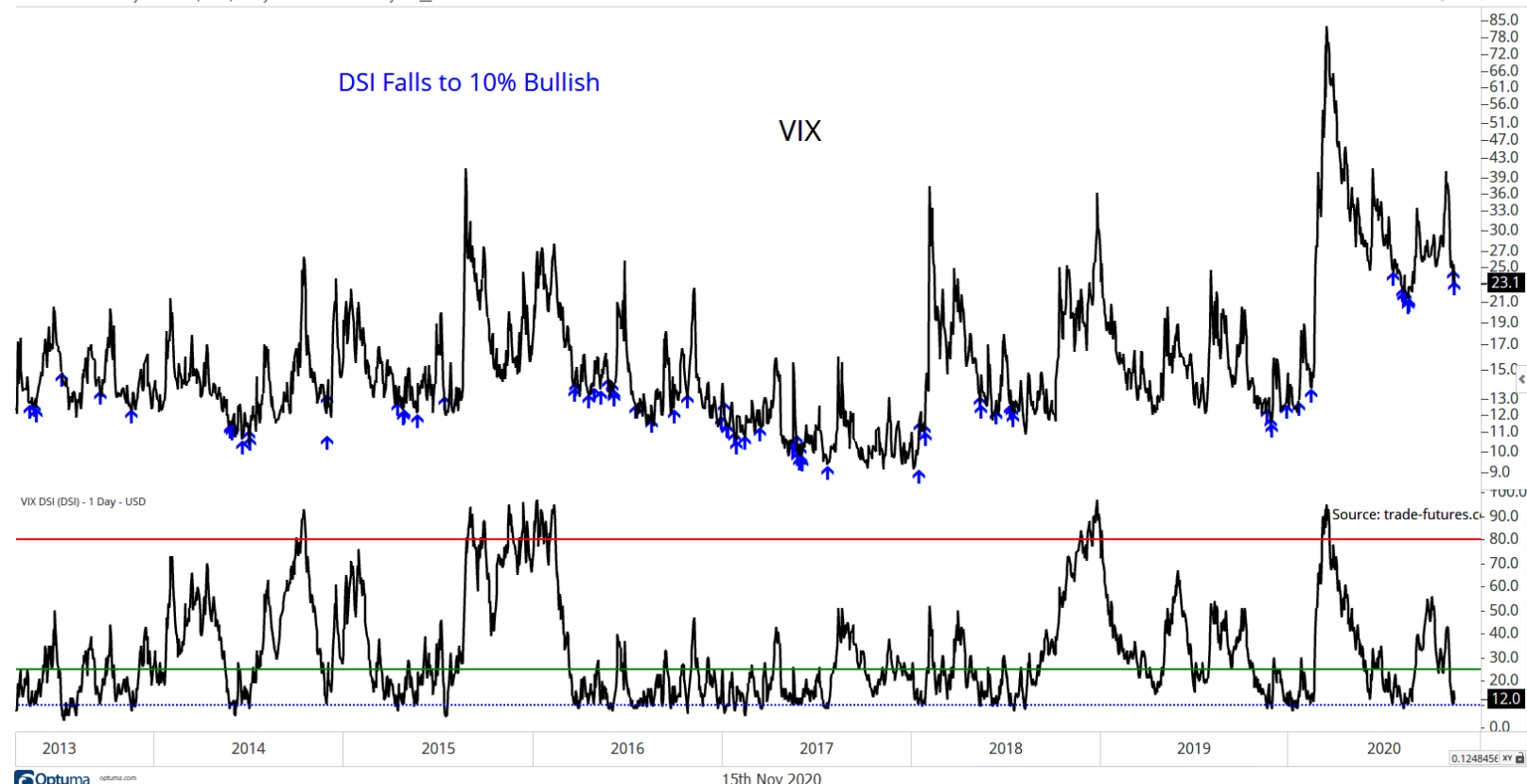
As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

VRT 1.0 on Friday triggered, but VRT 2.0 has not done so. My priority focus is on 2.0, and the reason for it not producing a signal yet is due to the high level of dispersion within the VIX. While volatility has fallen quite a bit since it's recent spike last month, its new down trend has prevented dispersion from contracted, a characteristic that precedes most spikes in volatility. While the proverbial rubber band is now stretched to the downside for the VIX, something that could entice option traders to move in thinking SPX options are cheap (remember SPX options are the input for VIX). The ideal setup for a material move higher in vol isn't present just yet.



The Daily Sentiment Index (DSI) for the VIX fell last week to 10% bullish, an extremely low level. It inched higher into Friday, closing at 12%. Sentiment this low towards the Volatility Index is not something we see all too often, I've marked blue arrows in the chart below to note when the % Bullish has fallen to 10% in the past. While it's not always a predictor of future rising vol, it does show just how disinterested futures traders seem to be right now to own volatility.

CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout

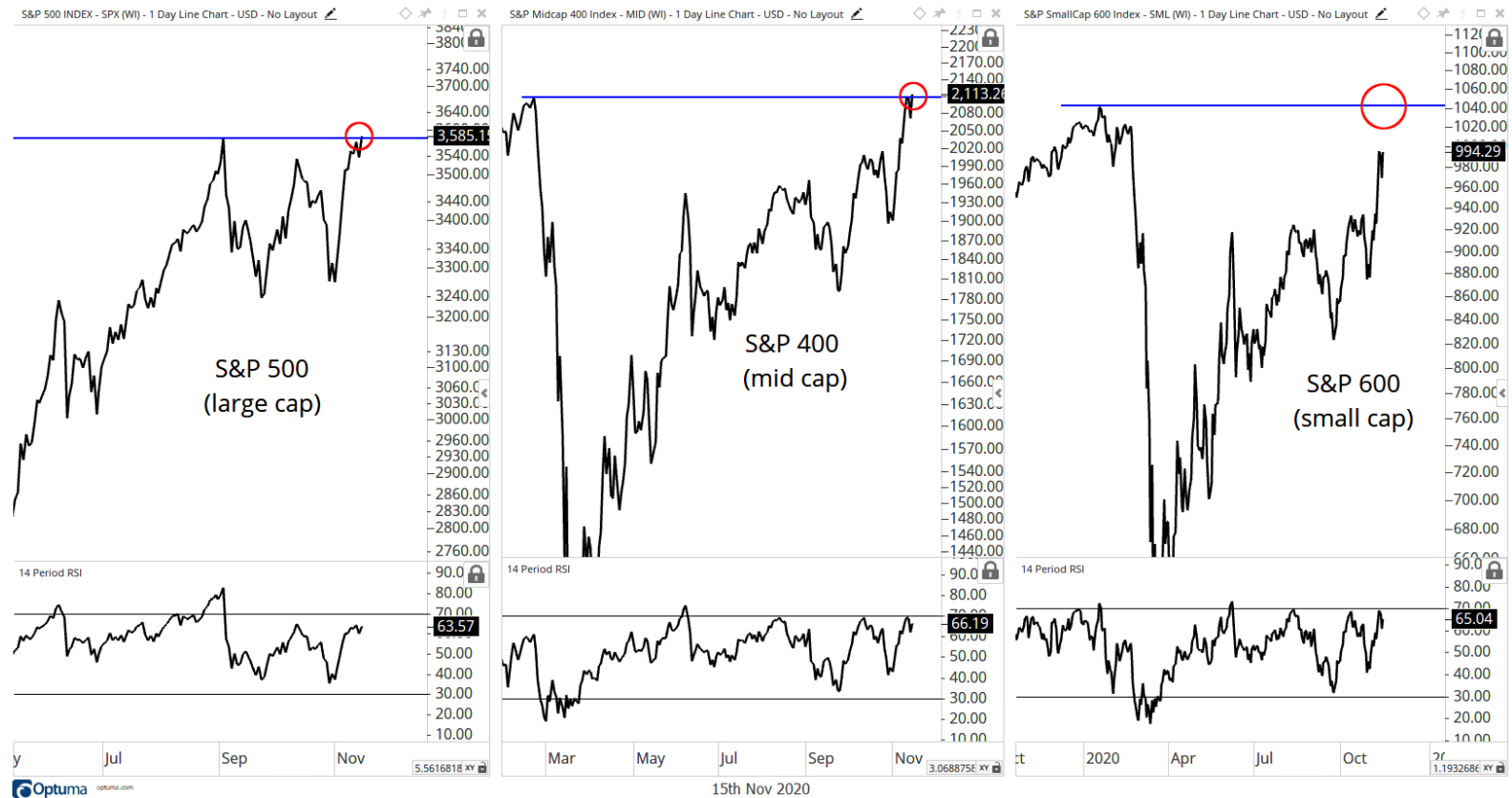


Last week's letter looked at the failed breakout to a new high last Monday on the S&P 500. The rest of the week saw price whipsaw and then finally make another move to a new high on Friday, eclipsing the prior high by just a few points but enough to set a new record. On the upside, there's not much to watch for since we hit a closing high but the intraday high from Monday at 3650 will be one price level I'll keep an eye on. If we see weakness then the October high around 3530 could come back into play, as it held as support last Tuesday and Thursday intraday. Seasonally going into year-end is bullish, and could provide a tailwind for buyers into the final month of 2020.

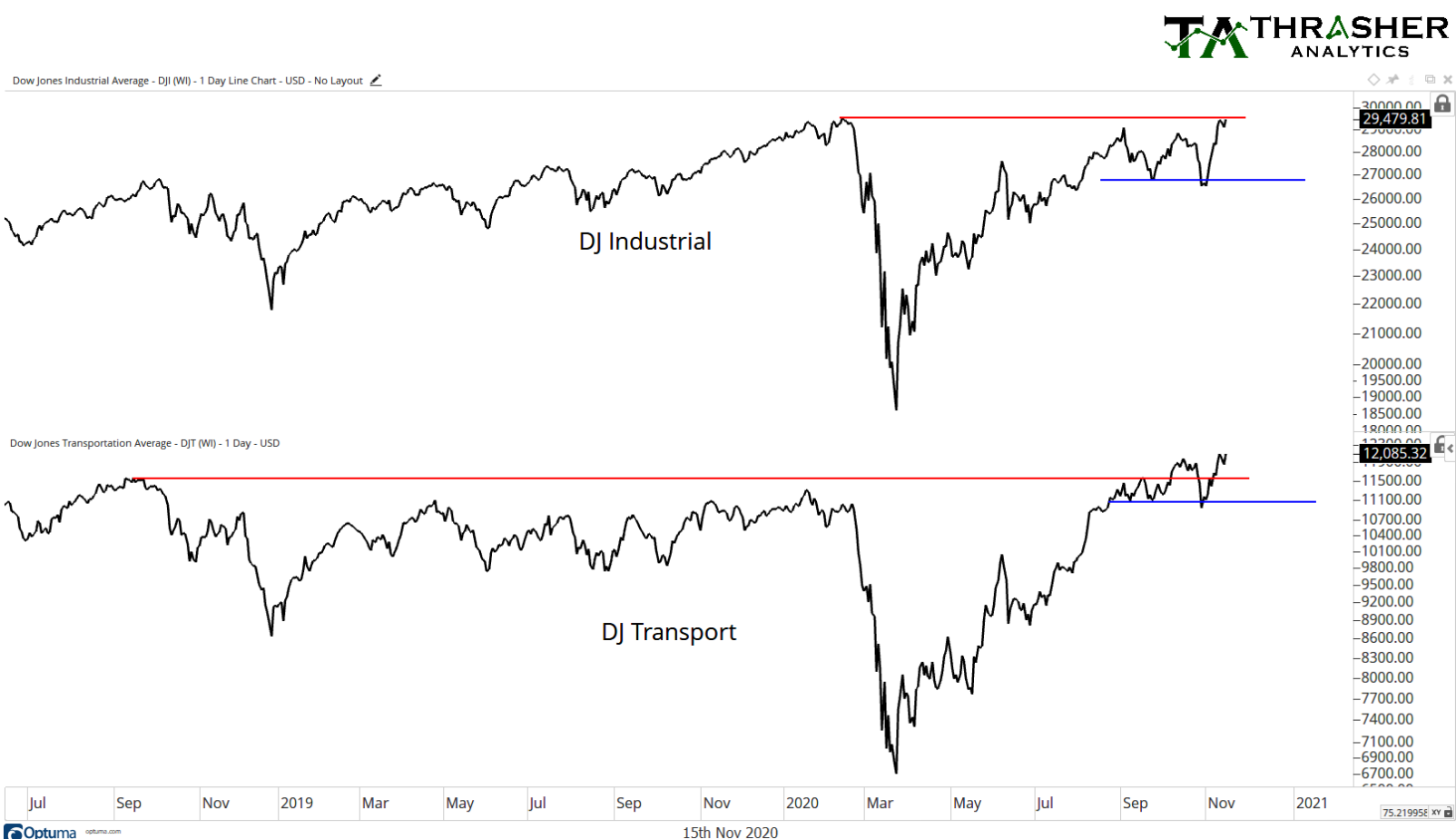
As the infection rates across the country and the globe rise, the next major focus of markets is the vaccine and economic stimulus. We've now heard from Pfizer and are expected to hear from other pharma companies between now and year-end but stimulus may be off the table until 2021. Based on Goldman Sach's latest note, they believe if Democrats win the Georgia Senatorial runoff, the package could be \$2.5T compared to if Republicans retain the majority of a \$1T stimulus bill. Dems likely will want to wait for the Georgia results before pushing harder on their crafted plan, knowing the figure could more than double if they take control. With that, we may not see a vote until after the New Year's Eve ball drops.



With the breakout in the S&P 500 large cap index, I want to keep an eye on the mid and small caps and see how they are performing as well. The leadership last week seemed to be shifting away from the FAAMG names, which have struggled as of late, and moved to mid cap stocks. The S&P 400 mid cap index broke out along with the SPX, leaving just the S&P 600 small caps left to reach their prior high.



The Dow Jones Industrial Average (DJIA) closed on Friday just a few points shy of breaking to a new all-time high. However, the Dow Jones Transports Average (DJTA) were able to hold on to its own breakout, potentially foreshadowing what we'll soon see in DJIA. Dow Theorists like to see these two work together so all eyes will be watching if DJIA follows the DJTA higher in the coming weeks.



Before the breakout in the SPX, we saw several breadth thrusts take place by the individual stocks within the indices (more on this on the next page), one of which can be seen below by the % stocks at a 52-week high (green line) rising over 20%. In a healthy market we see the trend of 52wk highs expand over the number of stocks making 52-week lows. This wasn't the case back in March, as less stocks hit new highs along with the index. Right now, the breadth picture looks bullish. We have an expanding list of new highs, giving good internal support of the up trend for the index.

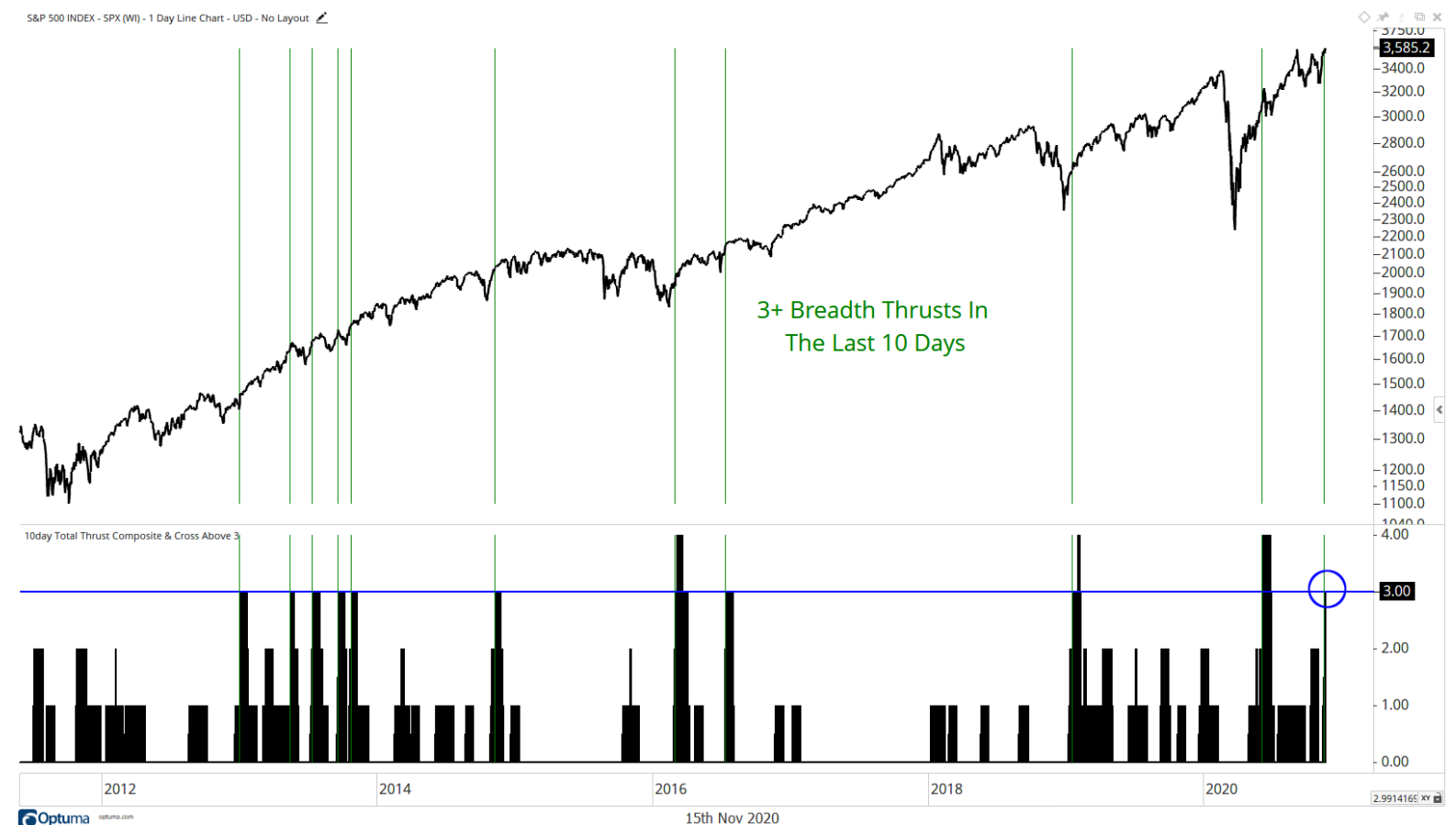


EQUITIES - BREADTH THRUST



I keep track of several different version of breadth thrusts, they include things like the % of stocks hitting new highs, % above a moving average, % of volume rising, etc. To look at that collectively I use the below 10-day total Thrust Composite, which looks at the number of defined thrusts that occur over a running 10-day period. Breadth thrusts are long-term bullish, showing strong interest from buyers and often develop after a major decline. For instance we saw 4 thrusts back a few weeks after the March bottom. Once again, last week we had 3 breadth thrusts trigger, showing a strong buying pressure.

Many times thrusts are followed by short-term pullback in stocks like in June of this year, but from a long-term perspective they are a positive development.



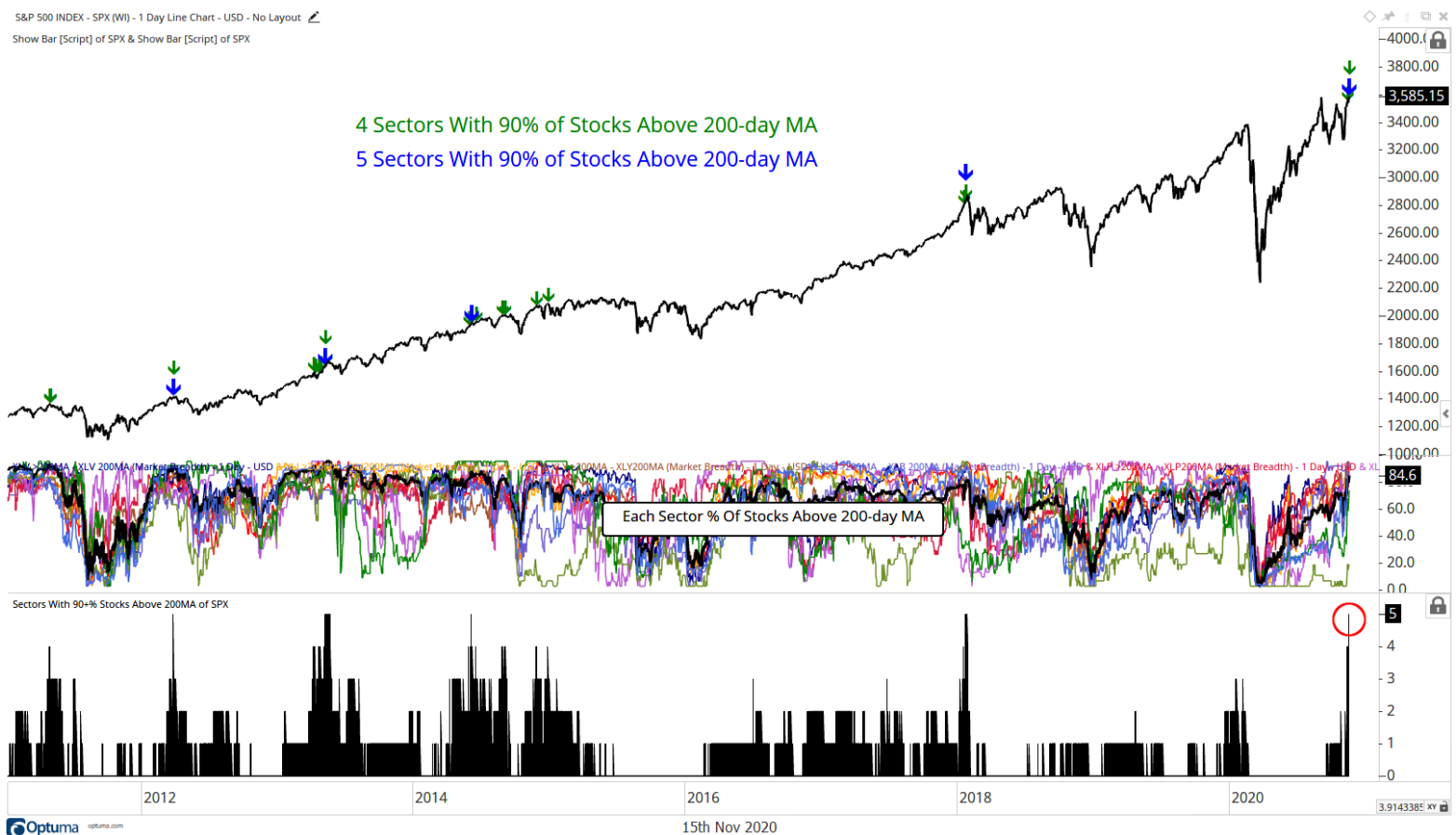
EQUITIES - SECTOR BREADTH



Stocks have been moving higher, so much so that nearly all of them have regained their 200-day MA. When I saw nearly all, I mean it. We have five sectors that have over 90% of their stocks above the 200-day moving average. This is something that's happened just four prior times since 2011. The last time this happened was after the strong run in stocks at the start of 2018. This type of environment makes it tough for equities to find their next catalysts to shoot higher, often experiencing short-term weakness to shake out some of the excessive bullish sentiment. This is a chart I'm fairly confident you won't see anyone else watching or discussing.

In January 2018 when we hit 5 sectors with over 90% of stocks above the 200-day MA, stocks advanced for a few more days before the final peak. In 2014, equities saw a very brief dip but continued higher for a couple more months. In 2012, hitting 5 sectors marked the trend high before stocks cycled lower.

While the sample size is obviously quite small, short-term this creates a fairly bearish headwind for the next leg up in the current trend. It would not be surprising to see stocks consolidate or backfill from here, the bigger surprise would be a straight 5+% move higher without looking back. I'll be looking for cheaper prices in major indices, possibly 5-10% lower from here similar to the '18 pullback... but one step at a time.



EQUITIES - OVER-EXTENDED



While discussing stocks being short-term over-extended to the upside, the S&P 500 is now more than 14% above its own 200-day moving average. We last saw a similar development (14% above MA and at a new high) in September that was followed by a 10% pullback before stocks continued their trend higher. Before that we'd have to go to May '11 before equities pulled back over 15% (also note we had 4 sectors with 90% above 200MA as noted on the prior page in May '11 as well).

Stocks have had a strong run and are now seeing a big gap between price and the long-term moving average, something that even in the late stages of the tech bubble saw at least a brief pullback in price. The risk/reward here has gotten tough.



EQUITIES - RISING 50-DAY MAS



Evaluating the percentage of stocks with a rising intermediate moving average, like the 50-day, is an interested way of evaluating market breadth and the trend of individual stocks. If a stock has a declining 50-day MA then price action likely has turned negative and the trend threatening or has turned lower.

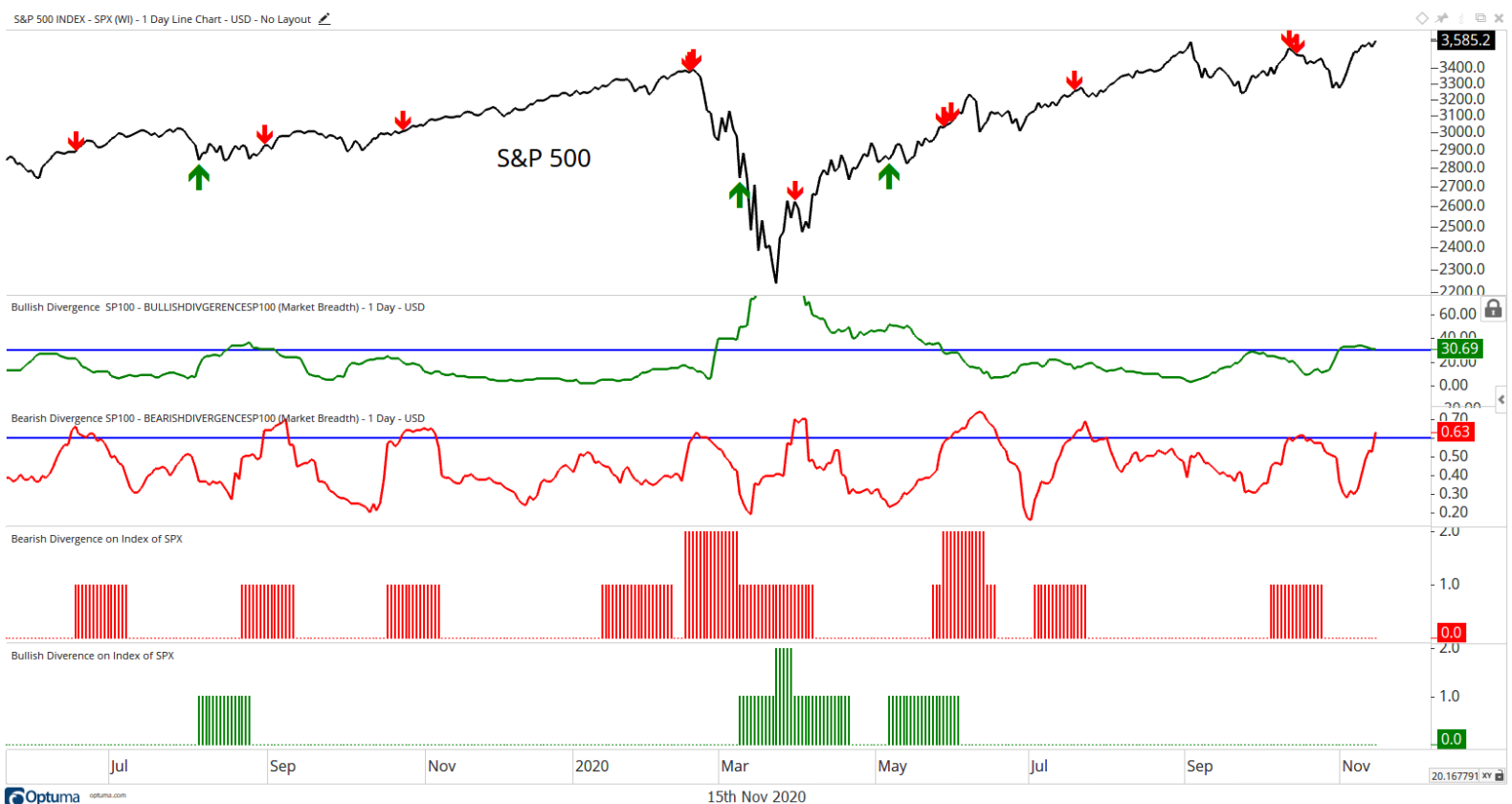
Ideally, we see an expanding or high number of stocks with a rising 50-MA and since the recovery off the March bottom we have, hitting over 90% at one point. But that figure has begun to declining, albeit still high not as high as it's been in recent weeks. Since 2012, looking at past 52wk highs and when the figure has been between 70% and 75% of stocks with a rising 50-MA, many occurrences saw short-term pullbacks soon follow. While we have a lot of stocks above the 200-day MA, the shorter MA for a growing number of equities isn't trending higher like it had once been.



EQUITIES - DIVERGENCES



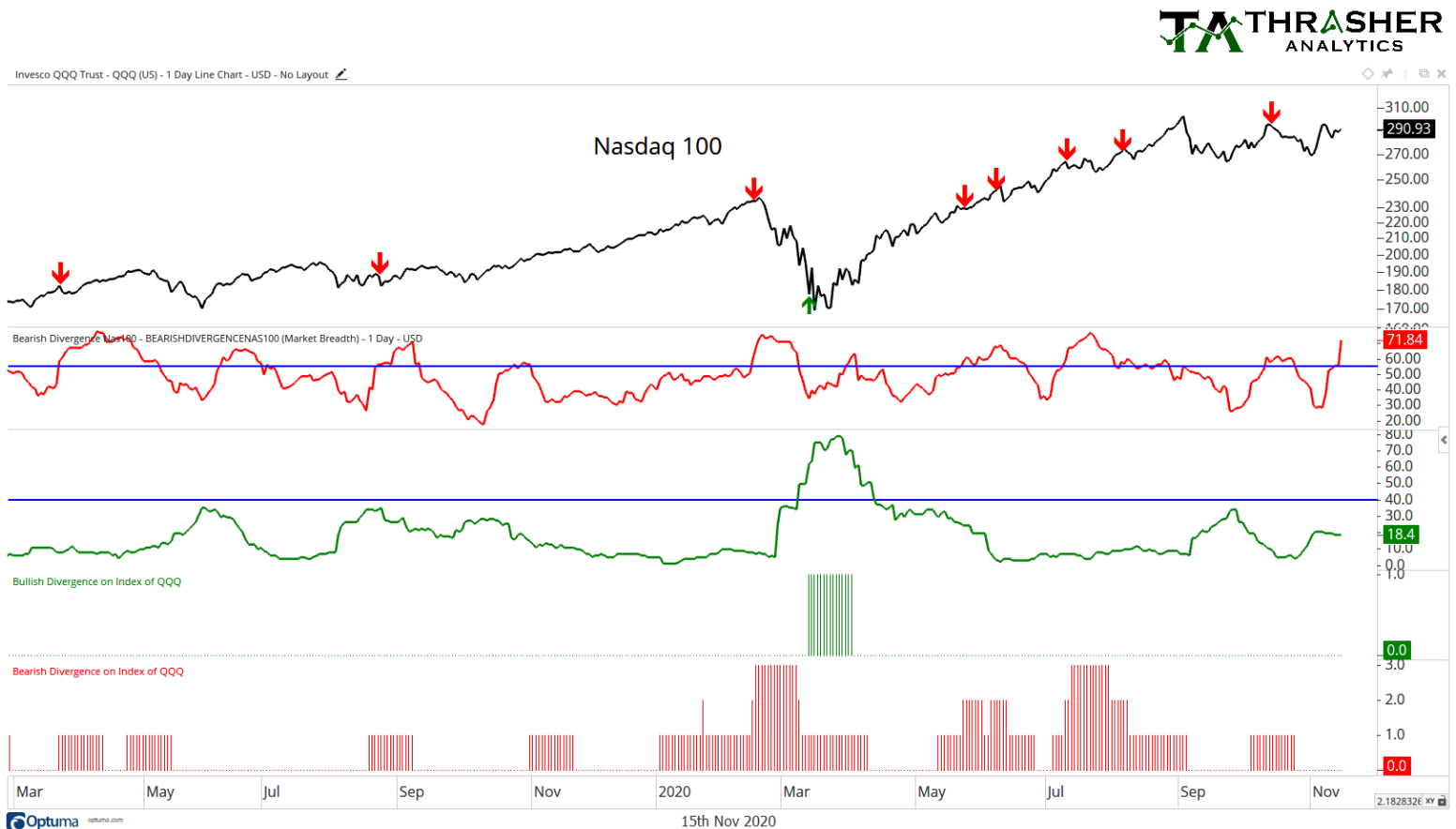
With the move higher in equities, a growing number of S&P 100 stocks are showing a bearish divergence, but the quantitative measurement has not identified one for the index just yet. Sectors are showing an average of 64% of stocks with a bearish divergence and 28.8% with a bullish divergence. The high % of bullish divergences could help lead a rotation internally and help propel markets higher, but tech stocks have been strong market leaders and are now struggling quite a bit. In fact, 93% of semiconductor stocks have a bearish divergence right now, the highest since April '19.



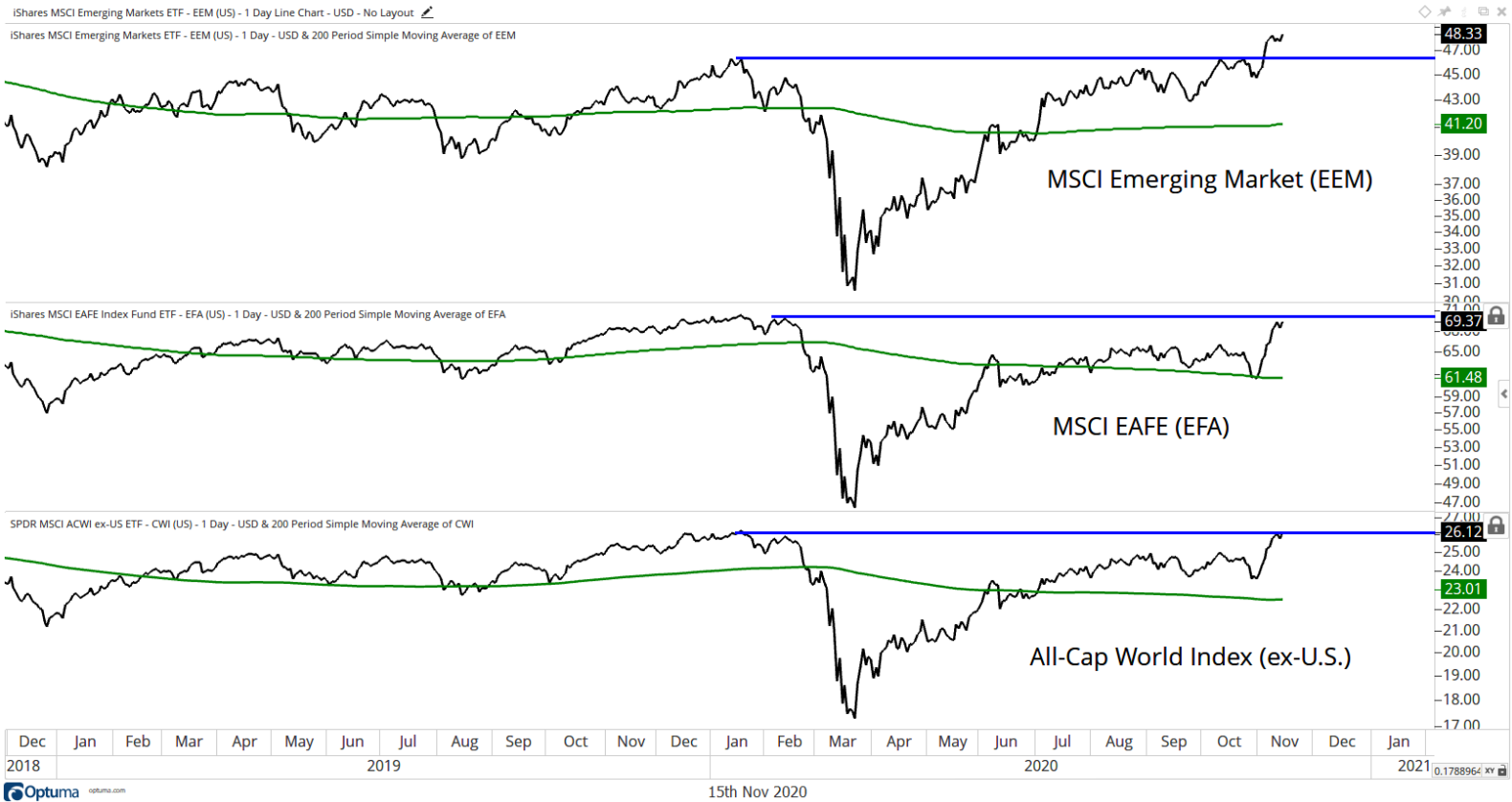
EQUITIES - DIVERGENCES



Like the S&P chart, the Nasdaq 100 also saw a large build up in divergences for the Nasdaq 100, hitting 71% on Friday.



Internationally, markets have been improving. Japan saw a breakout which was very encouraging but many of the other EAFE markets remain well below their prior highs. Emerging Markets notably have broken out to new highs and may soon be followed by ACWI.



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	False	17.11%	11.48%	-10.44%	-43.33%
SPDR Financial Select Sector Fund ETF	True	True	8.29%	8.03%	7.78%	-8.71%
SPDR Industrial Select Sector Fund ETF	True	True	5.43%	6.84%	11.04%	5.29%
SPDR Real Estate Select Sector Fund ETF	True	True	5.28%	2.80%	4.86%	-1.24%
SPDR Consumer Staples Select Sector Fund ETF	True	True	3.75%	1.63%	5.24%	10.11%
SPDR Utilities Select Sector Fund ETF	True	True	3.06%	4.18%	8.5%	5.86%
SPDR Health Care Select Sector Fund ETF	True	True	2%	3.56%	4.78%	17.5%
SPDR Materials Select Sector Fund ETF	True	True	1.49%	4.86%	10.31%	14.94%
SPDR Communication Services Select Sector ETF	True	True	0.64%	3.44%	7.14%	24.9%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	0.45%	-1.25%	6.86%	27.21%
SPDR Technology Select Sector Fund ETF	True	True	-0.31%	-1.20%	6.35%	39.89%

Energy was the best performing sector last week, with XLE rising back above its 50-day MA, an area of resistance earlier this year. There are now 20% of the stocks above the 200-day MA (a notable difference than the other sectors!) This level stands out as the place XLE last struggled on a counter-trend rally. XLE also has a Momentum Composite score showing it being well over-bought. Looking at energy from a sentiment perspective, what was at one point the most hated sector, saw its largest inflows into its energy funds since April 2015. Energy has caught the attn. of traders but has yet to prove the latest up move is anything but another count-trend move.

I'd be surprised if XLE continues to rally and can break its 200-day MA (currently at \$36.52).



SECTORS - COMMUNICATIONS

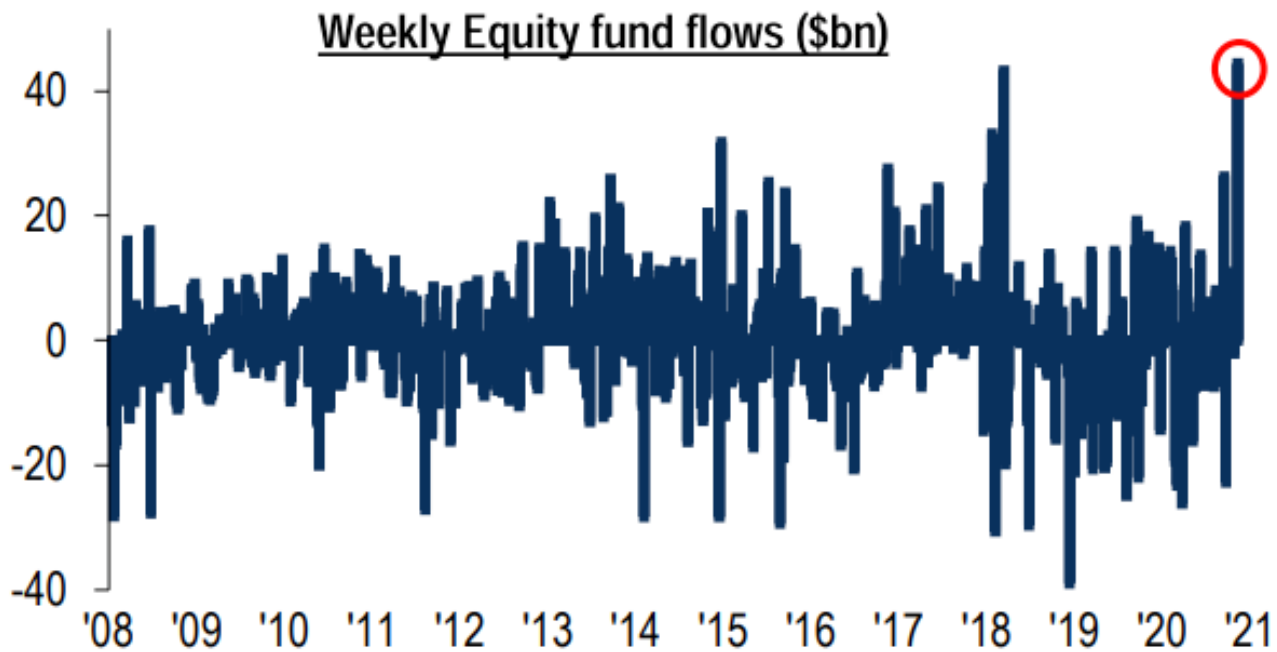


SPDR Communication Services Select Sector ETF - XLC (US) - 1 Day Line Chart - USD - No Layout
200 Period Simple Moving Average of XLC & 50 Period Simple Moving Average of XLC



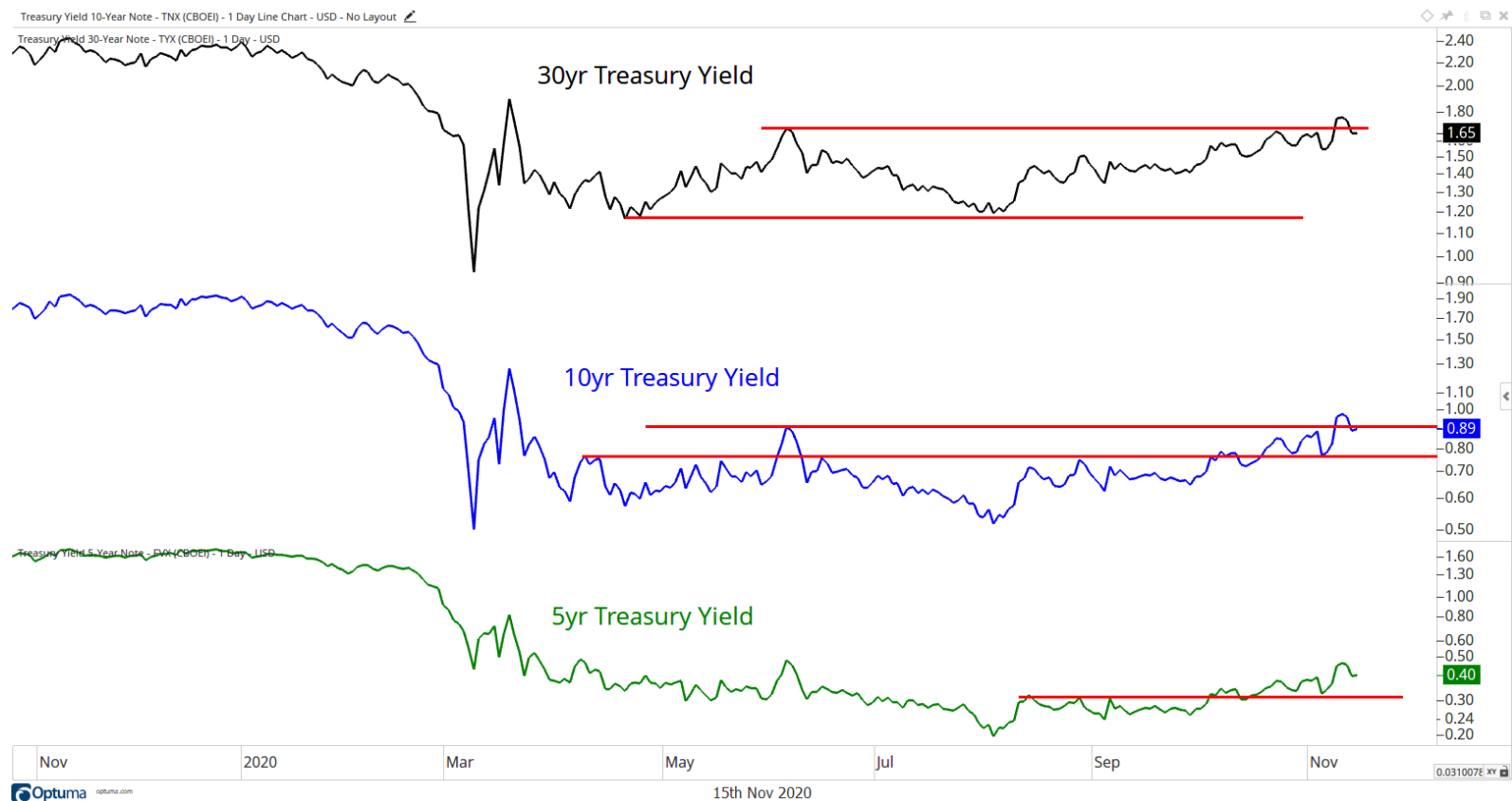
Following the Presidential Election and positive Pfizer covid vaccine news, a tremendous amount of assets flowed back to equities. According to EPFR data and BofA, last week saw an all-time record of money move back to equity funds, globally hitting \$44.5B. U.S. equity funds took in \$32.5B, which is the second most on record. I mentioned earlier how emerging markets had broken out, which hasn't gone unnoticed apparently as EM fund took in its fifth best week of inflows. This level of heavy inflows resembles what we saw back in early 2018 during the blow off top in January, will we repeat the swift 10% pullback like that time as well?

Chart 4: Largest week ever of global equity inflows



Source: BofA Global Investment Strategy, EPFR

Treasury yields gave back their breakout last week, as the 30yr and 10yr yield's moved under their prior breakout highs. I'll continue to be watching fixed income this week and if bonds hold their bid higher and keep a cap on yields.



Bitcoin has continued to rally and is now just spitting distance from the prior major high. Momentum is looking very stretched on both the daily and weekly chart. I've circled prior times we've seen the Momentum Composite get to this level in the past for BTC, which has led to varying degrees of pullbacks. I remain long-term bullish on the prospects of bitcoin, but the risk/reward for the current trend looks less attractive right now. On the downside I'm watching the \$13k area as potential support.



DAILY SENTIMENT INDEX

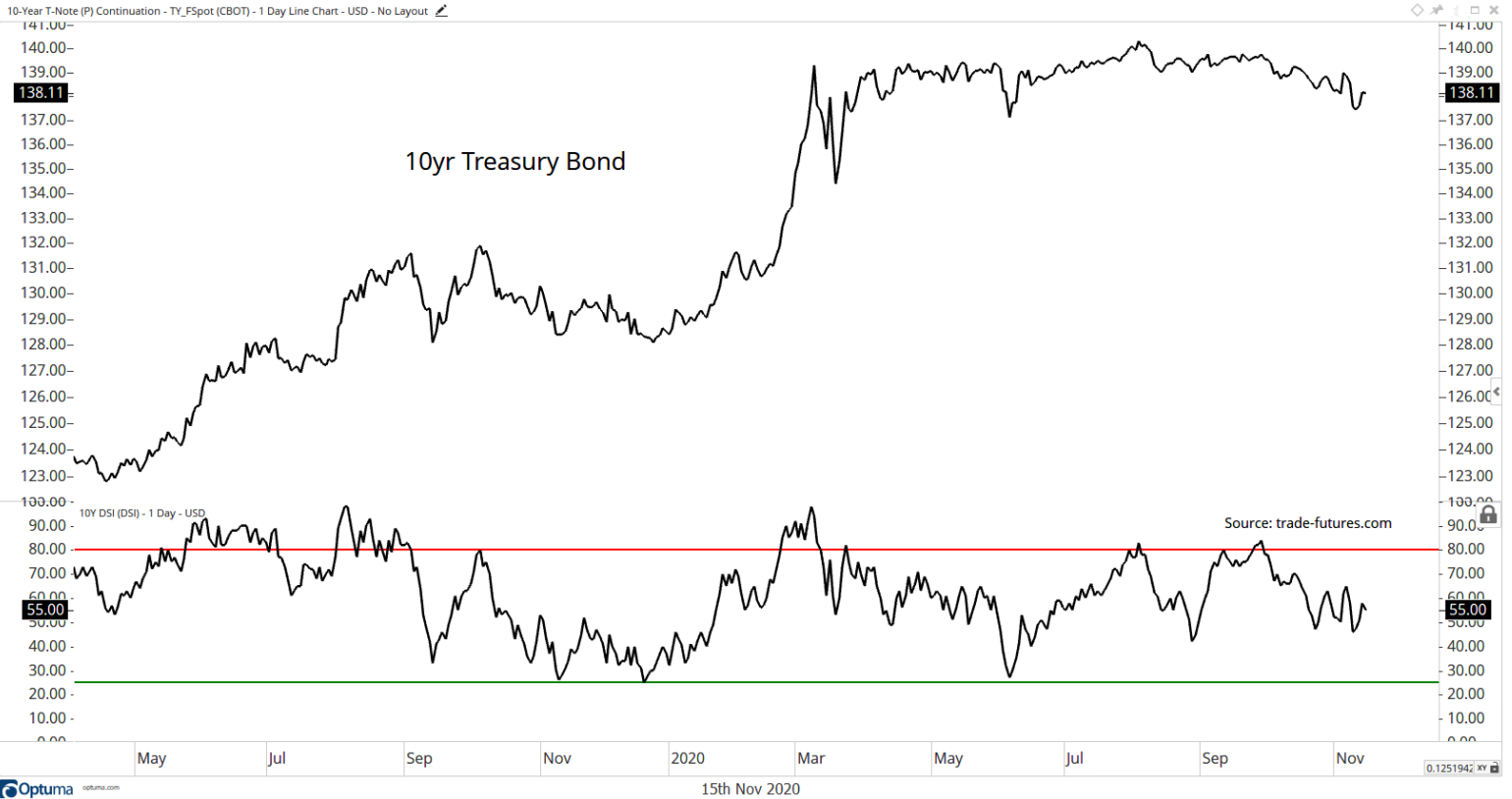


Market	% Bullish ▲	5MA	History
<input type="checkbox"/> VIX DSI	12	12.2	
<input type="checkbox"/> Coffee DSI	31.00	30.40	
<input type="checkbox"/> Crude Oil DSI	33.00	37.80	
<input type="checkbox"/> US Dollar DSI	40.00	38.20	
<input type="checkbox"/> Platinum DSI	40.00	37.40	
<input type="checkbox"/> Gold DSI	40.00	34.00	
<input type="checkbox"/> Natural Gas DSI	41.00	37.60	
<input type="checkbox"/> Swiss Franc DSI	44.00	45.20	
<input type="checkbox"/> Cocoa DSI	44.00	43.80	
<input type="checkbox"/> Silver DSI	45.00	42.80	
<input type="checkbox"/> Palladium DSI	45.00	53.80	
<input type="checkbox"/> CRB Index DSI	45.00	45.60	
<input type="checkbox"/> Heating Oil DSI	50.00	52.40	
<input type="checkbox"/> Lumber DSI	55.00	55.80	
<input type="checkbox"/> Cotton DSI	55.00	59.80	
<input type="checkbox"/> Australian Dollar DSI	55.00	54.00	
<input type="checkbox"/> 10Y DSI	55.00	51.40	

Code	% Bullish ▲	5MA	History
<input type="checkbox"/> 5YR DSI	55.00	52.60	
<input type="checkbox"/> British Pound DSI	58.00	57.20	
<input type="checkbox"/> Gasoline DSI	59.00	63.00	
<input type="checkbox"/> Wheat DSI	60.00	61.40	
<input type="checkbox"/> Nasdaq DSI	63.00	60.80	
<input type="checkbox"/> Euro DSI	65.00	66.20	
<input type="checkbox"/> Corn DSI	69.00	74.20	
<input type="checkbox"/> Cattle DSI	69.00	76.20	
<input type="checkbox"/> Lean Hog DSI	70.00	71.60	
<input type="checkbox"/> Sugar DSI	72.00	68.40	
<input type="checkbox"/> Copper DSI	73.00	72.40	
<input type="checkbox"/> EuroDollar DSI	74.00	75.20	
<input type="checkbox"/> SPX DSI	75.00	72.00	
<input type="checkbox"/> Mexican Peso DSI	79.00	81.8	
<input type="checkbox"/> New Zealand Dollar DSI	80	81.2	
<input type="checkbox"/> Orange Juice DSI	84	77.60	
<input type="checkbox"/> Nikkei DSI	88	87.2	

Source: trade-futures.com

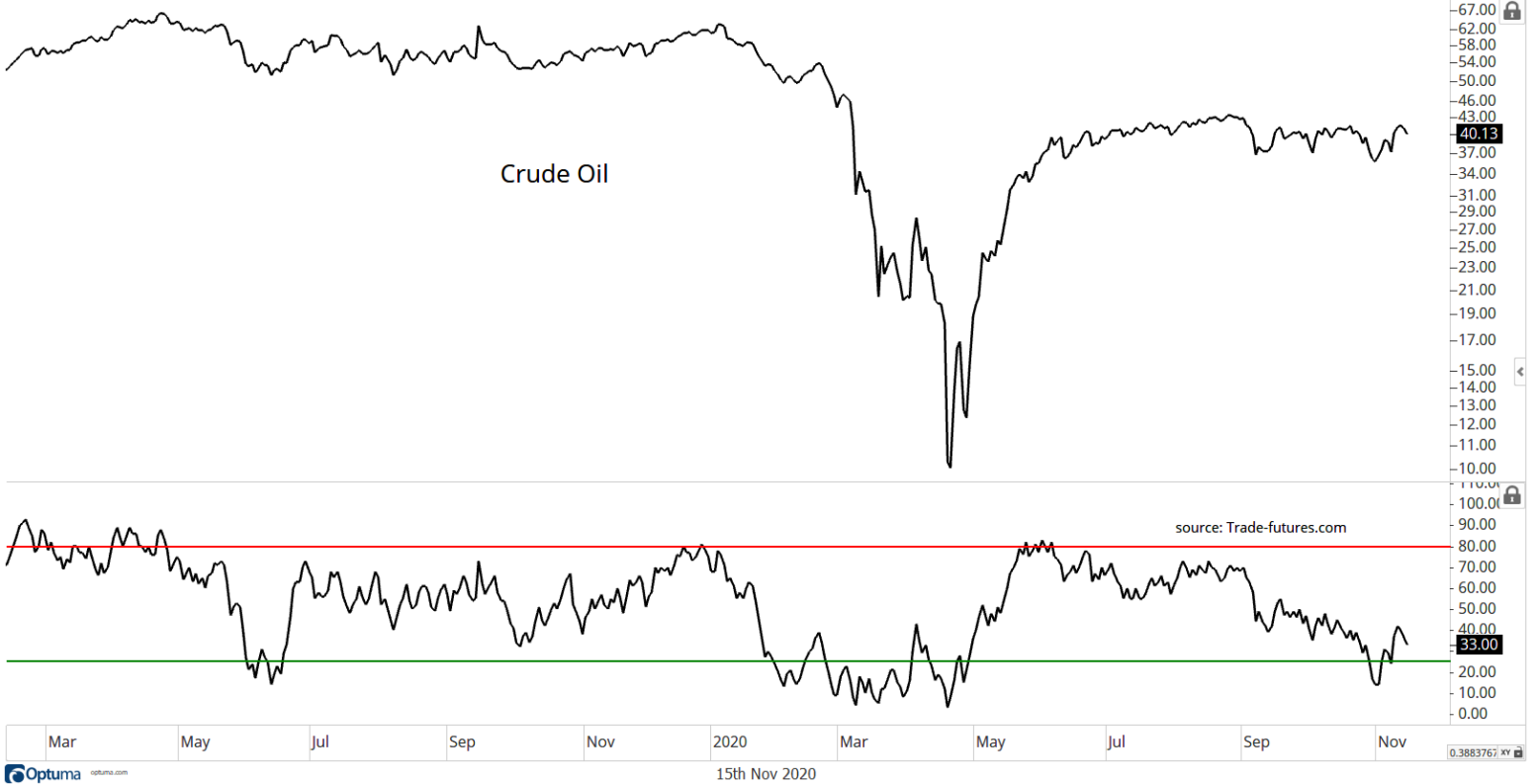
DAILY SENTIMENT INDEX



DAILY SENTIMENT INDEX



Crude Oil Light Sweet NYMEX - OILSW (W) - 1 Day Line Chart - USD - No Layout



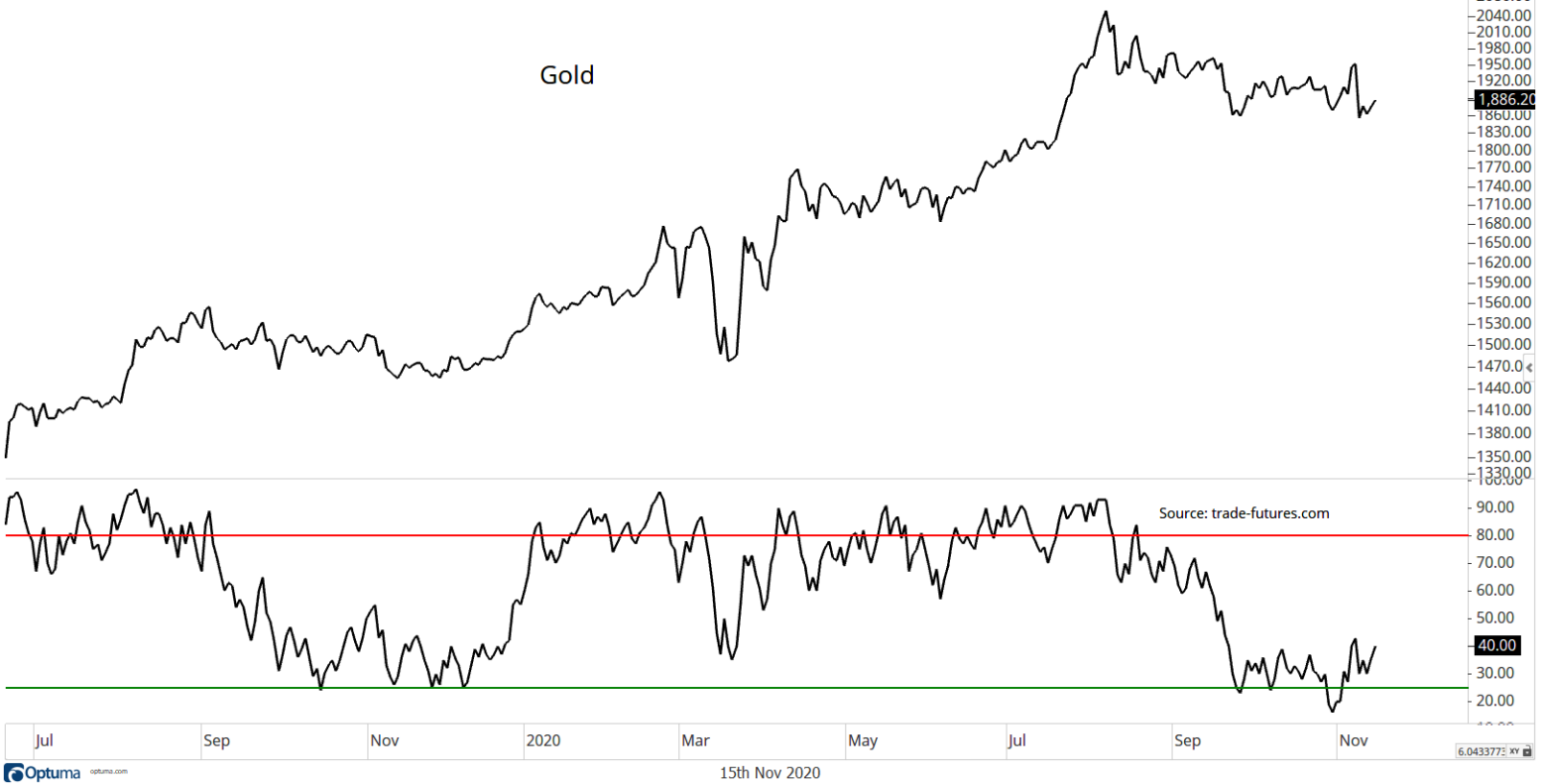
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Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



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U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout

Chart controls: zoom, pan, reset



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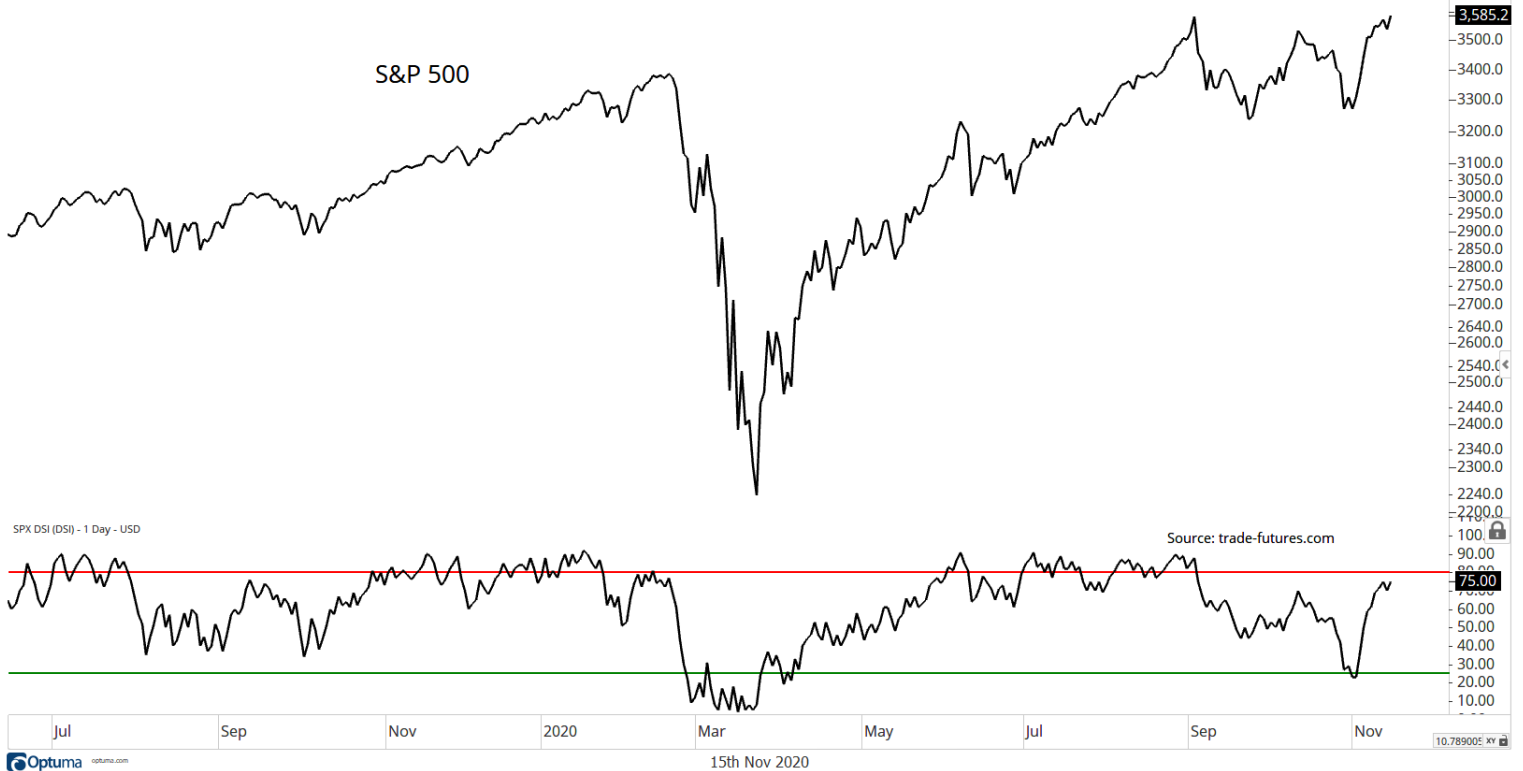
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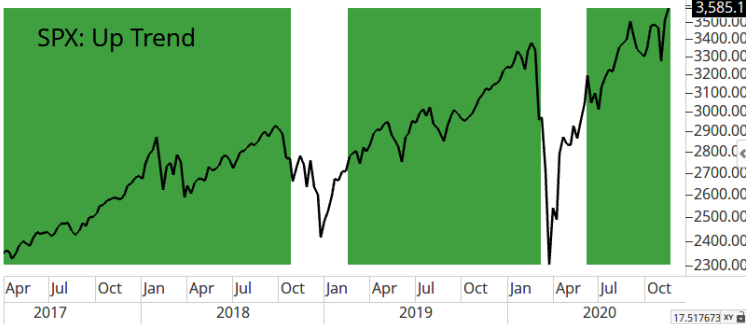
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



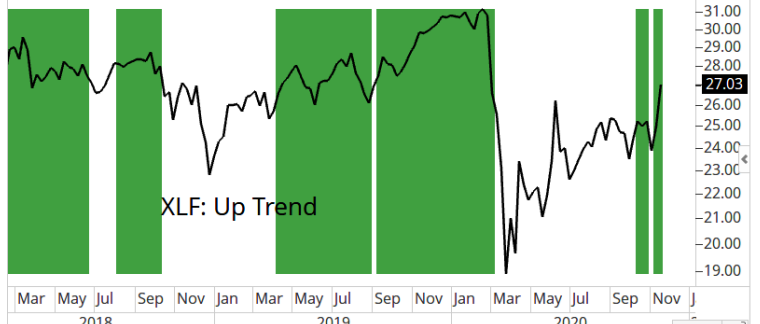
TREND MODELS



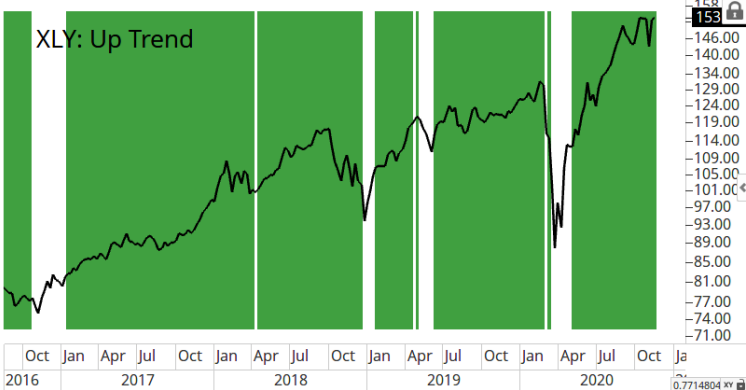
S&P 500 INDEX - SPX (W) - 1 Week Line Chart - USD - No Layout



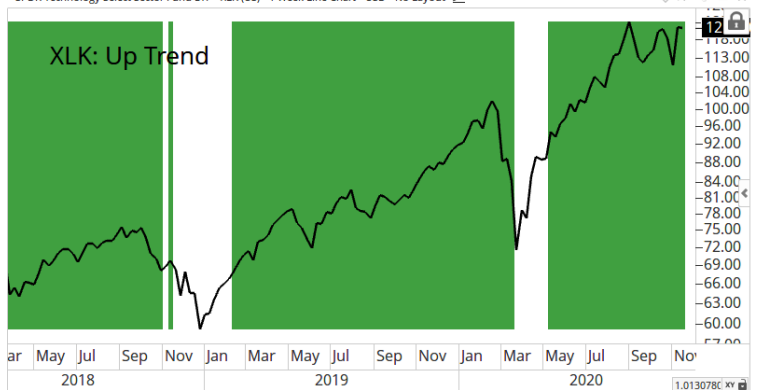
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout



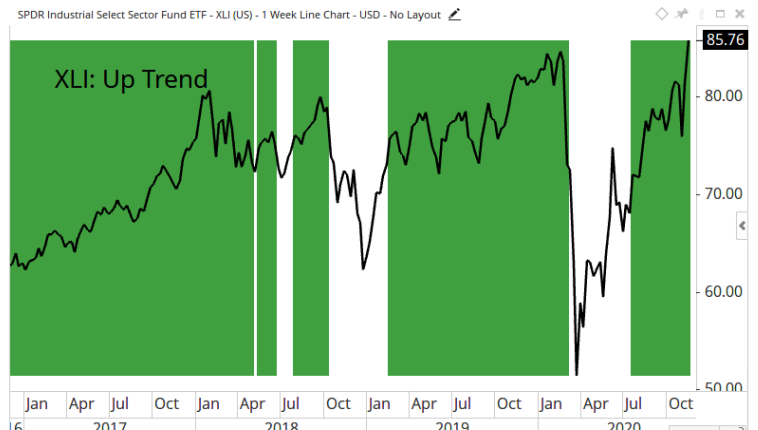
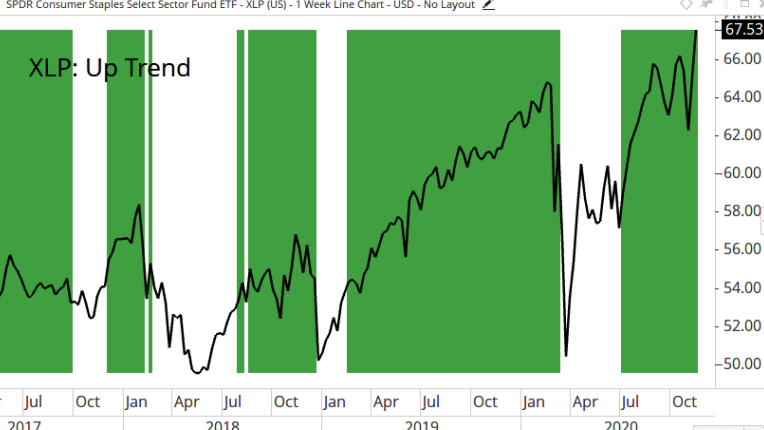
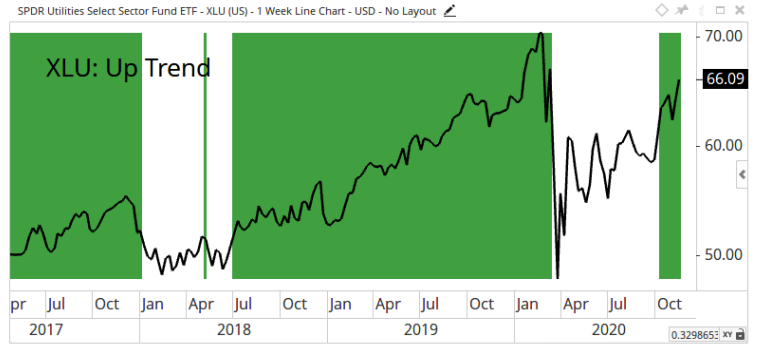
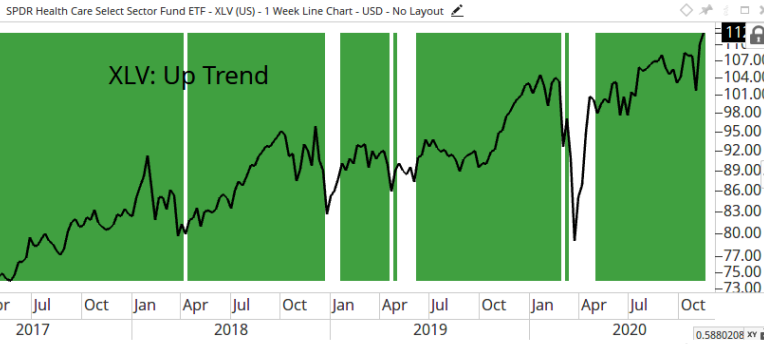
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



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TREND MODELS

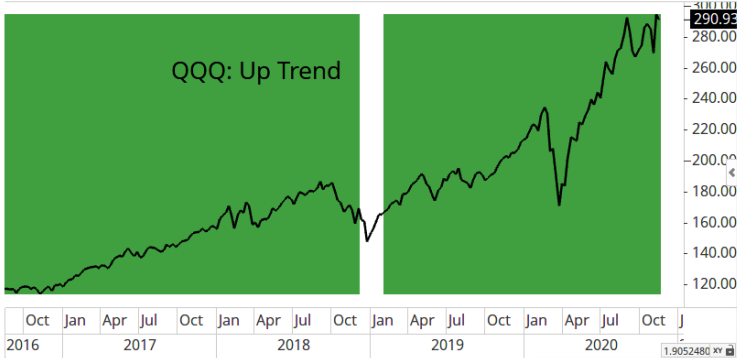


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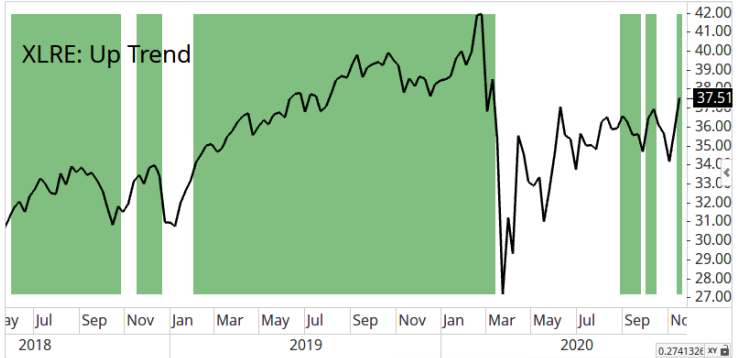
TREND MODELS



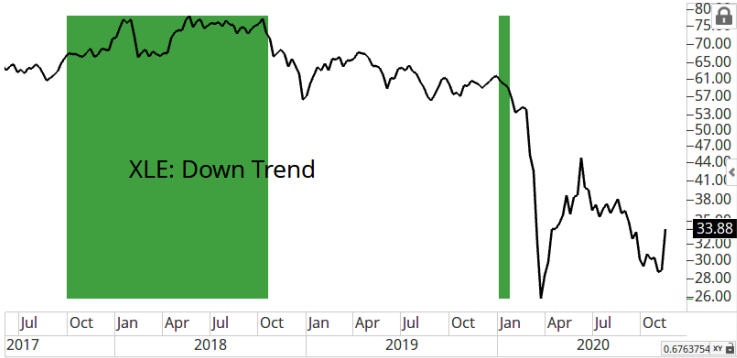
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



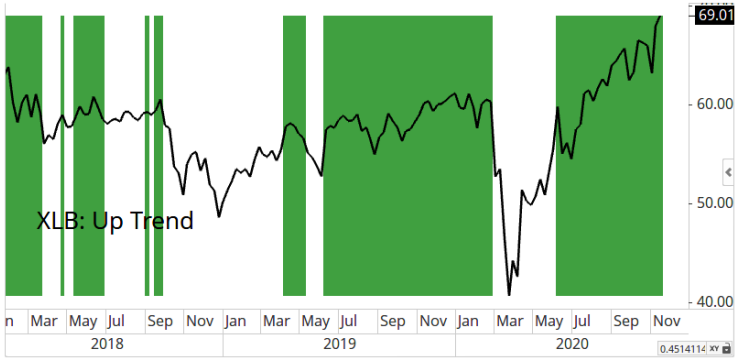
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout



SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout



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