THRASHER ANALYTICS

NOVEMBER 29, 2020

WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish

- Seasonality
- Trend Model remains positive for almost all sectors and indices.
- The VRT 2.0 has not signaled.
- Software and Semiconductors continue to lead tech higher.
- Offensive sectors lead Defensive sectors.
- Small Caps near a breakout.
- Breadth remains strong

Bearish

- Equities are stretched relative to the 200-day MA.
- The most sectors in 20 years have stocks above the 200-day MA.
- Sentiment for volatility is very low.
- Growing number of bearish divergences.

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Bitcoin

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Market Dashboard

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	80%	79%
Nasdaq 100	82%	74%
Nikkei	88%	84%
VIX	14%	12%
10yr Treasury	68%	63%
5yr Treasury	64%	61%
CRB Index	69%	68%
Gold	17%	23%
U.S. Dollar	31%	35%

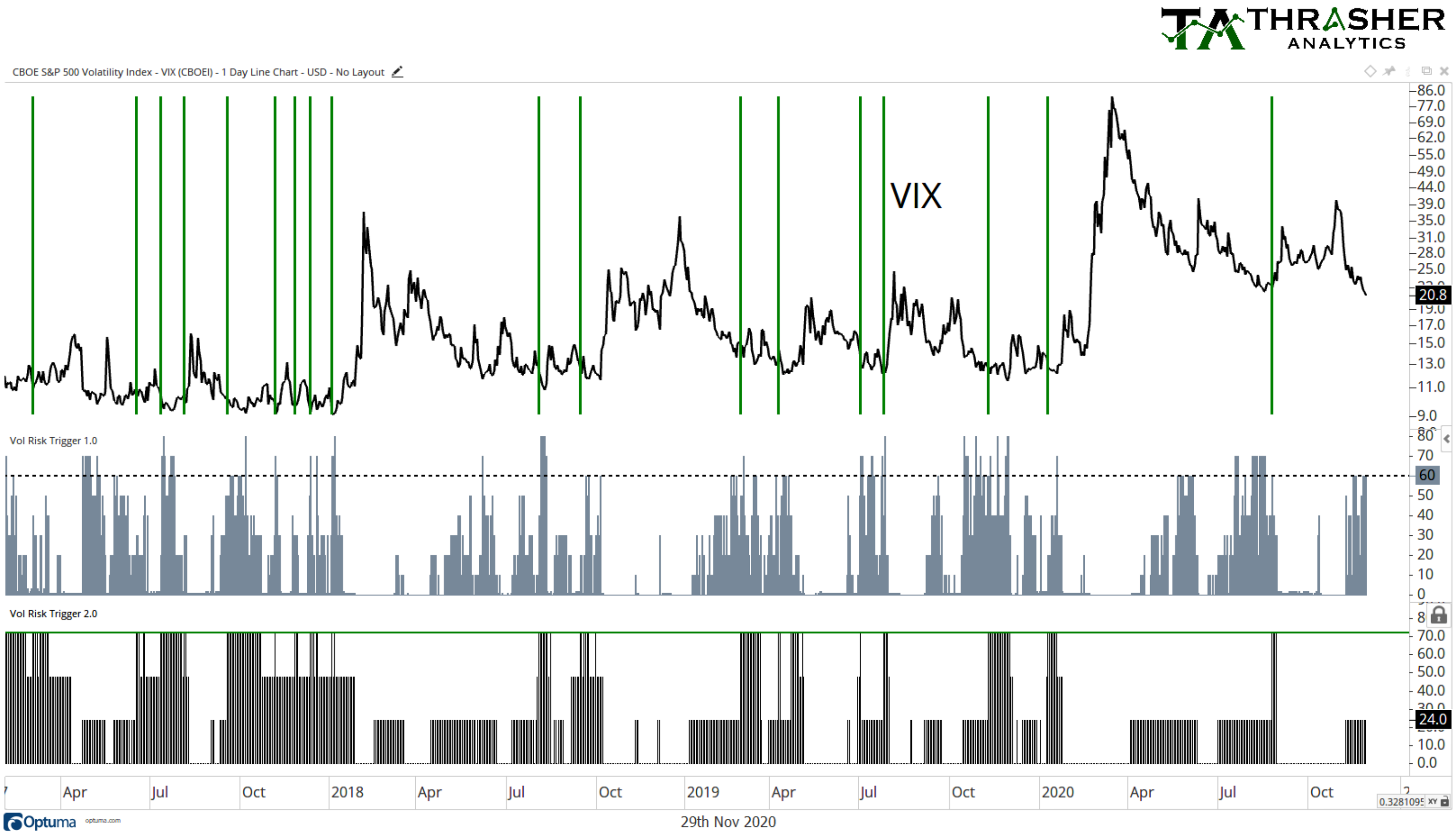
**Green<25%   Red>80%*

source: trade-futures.com

Volatility

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).

The Volatility Risk Trigger 2.0 has not confirmed the signals produced by the VRT 1.0 in the last two weeks. This has been fortunate, has volatility has continued to slide lower, highlighting the improvement of VRT 2.0 has over VRT 1.0 in timing. Sentiment for the VIX (via DSI) remains low, hitting 9% bullish at one point last week before ticking higher on Friday to 14%. There's still a growing expectation that spot VIX will fall further and finish out the year as a teenager. Sitting at just 20.8, that's very possible but with stretched equities and bottom of the barrel sentiment, a VIX in the teens may pose to be attractive to some. I'll continue to allow the VRT to be my guide and right now it's not saying much.



Equities - S&P 500 Daily

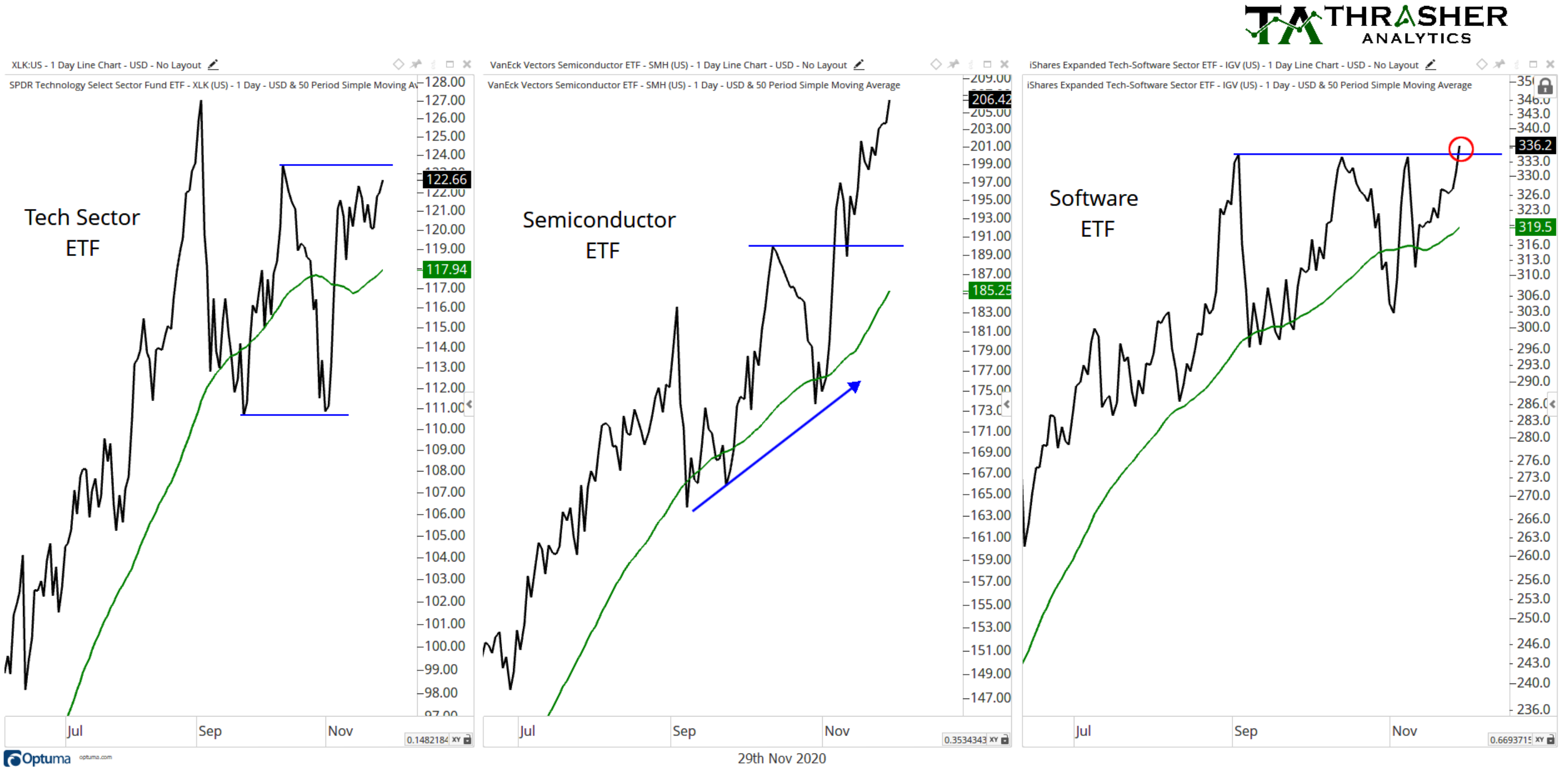
Equities followed the seasonal expectation of a slight tick higher with most traders likely more focused on Thanksgiving dinner in the U.S. than the uneventful price action in financial markets. We closed Friday at a new high but what stands out the most on this chart is the Relative Strength Index (RSI). RSI hasn't been above 68 since September, much less hitting 'overbought' 70+ levels. Even though equities have been strong off the October low, I find it odd to see the momentum indicator stalling out here. It's not a bearish sign, although it is presently making a slight lower-high, the divergence is negligible. That doesn't mean there aren't other divergences to speak of, nearly two-third of stocks have a bearish momentum divergence right now.

This week we get quite a bit of news from the November jobs report to ISM data.

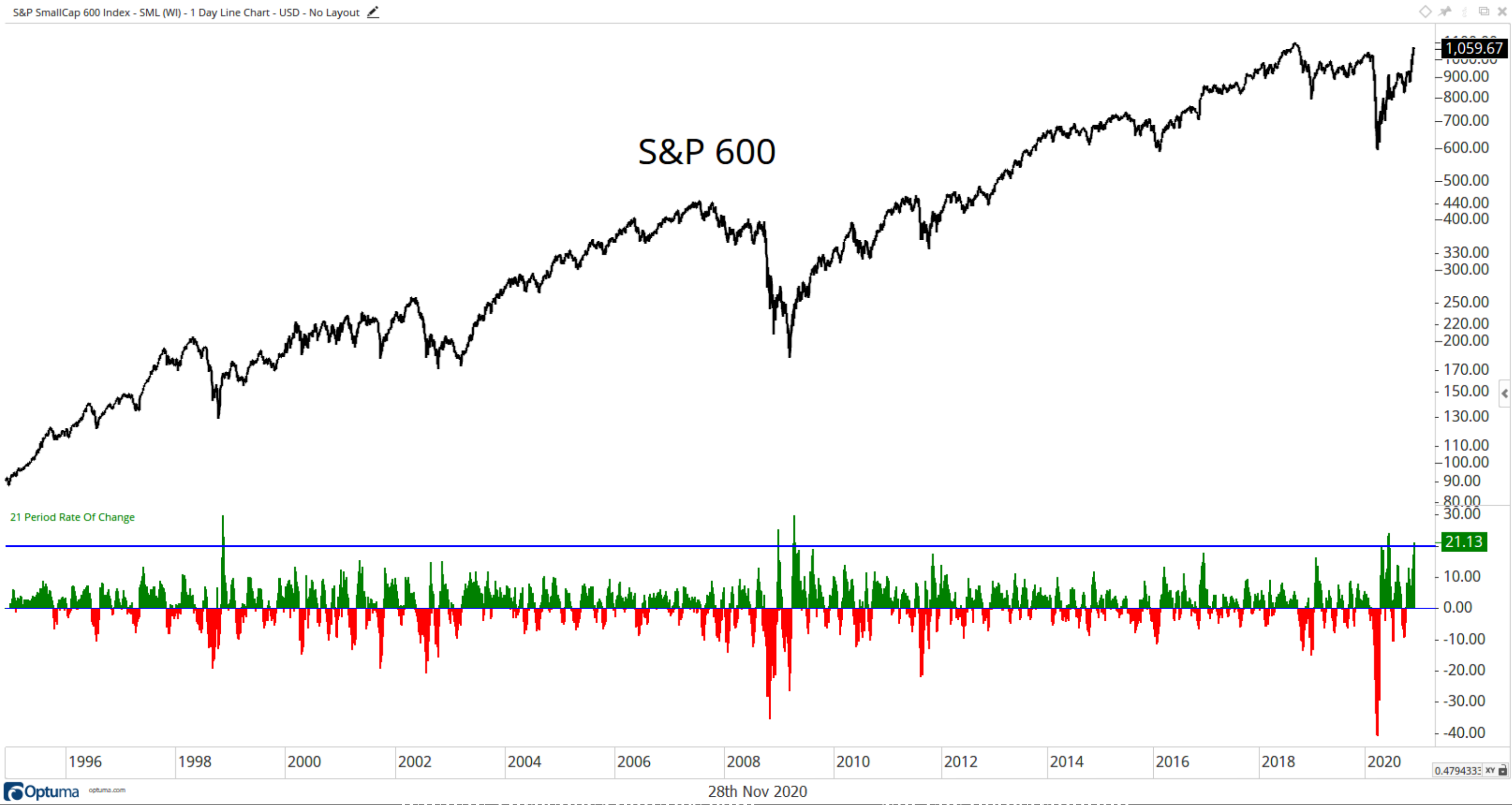
Equities - Offense vs. Defense

Offensive sectors had begun to underperform in September and October but have sense bounced back. Tech is the obvious catalyst here, having taking a punch for several weeks it's returned to a leadership role and helping drive the whole offense group higher. More on tech on the next page.

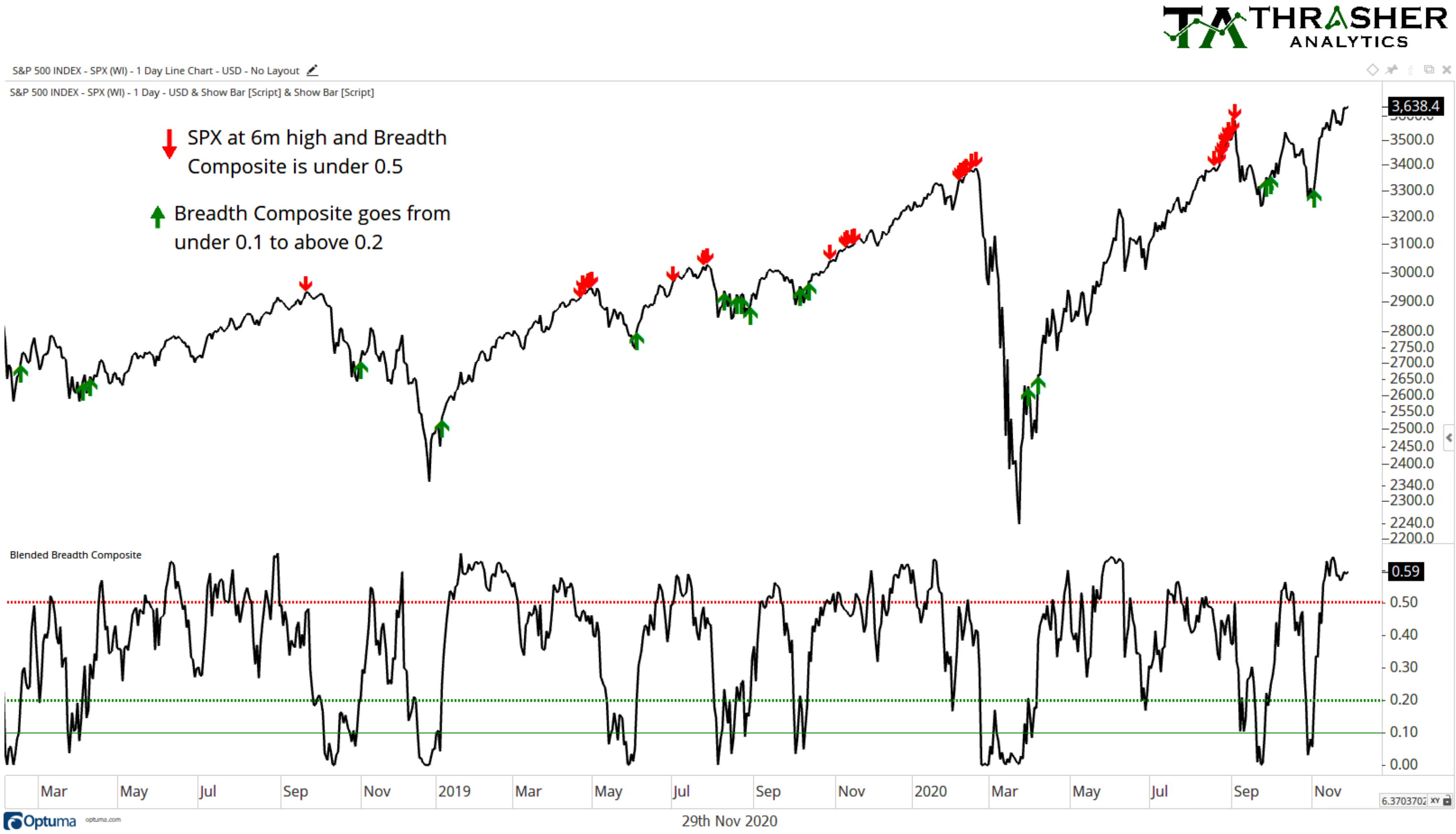
Just last week I was writing about the lackluster performance in the FAAMG stocks and the importance of semiconductors which were looking good. This group (FAAMG) improved last week as the sub-industries for tech saw a strong advance higher. Below is a chart of the Tech Sector, semiconductors, and software. I've argued that semiconductors and software are the tail that wags the dog. Last week, after seeing a pick up in volatility, software broke out to a new high, following the already strong move in semis and potentially foreshadowing the next leg for tech which still sits under its October high.



One of the other leaders in recent weeks has been small caps. In fact, the S&P 600 small cap index is up over 20% for the last month. Typically we don't see that kind of strength in a 21-day period outside of a major downturn recovery. We saw this downturn bounce-back already occur for small caps earlier this year when it last rose 20+%, so the fact that we're seeing a second monthly move like this is quite unique. Is it sustainable? One factor in its favor is year-end seasonality has historically favored small caps, but some would argue that this year-end tailwind has already been pulled forward. The Russell 2000 is well ahead of its 2018 high, but the S&P 600 still sits 3% below its own respective prior high. I'll be watching if SP600 can reach 1100 and get a breakout or if that becomes its exhaustion point and sellers step in.

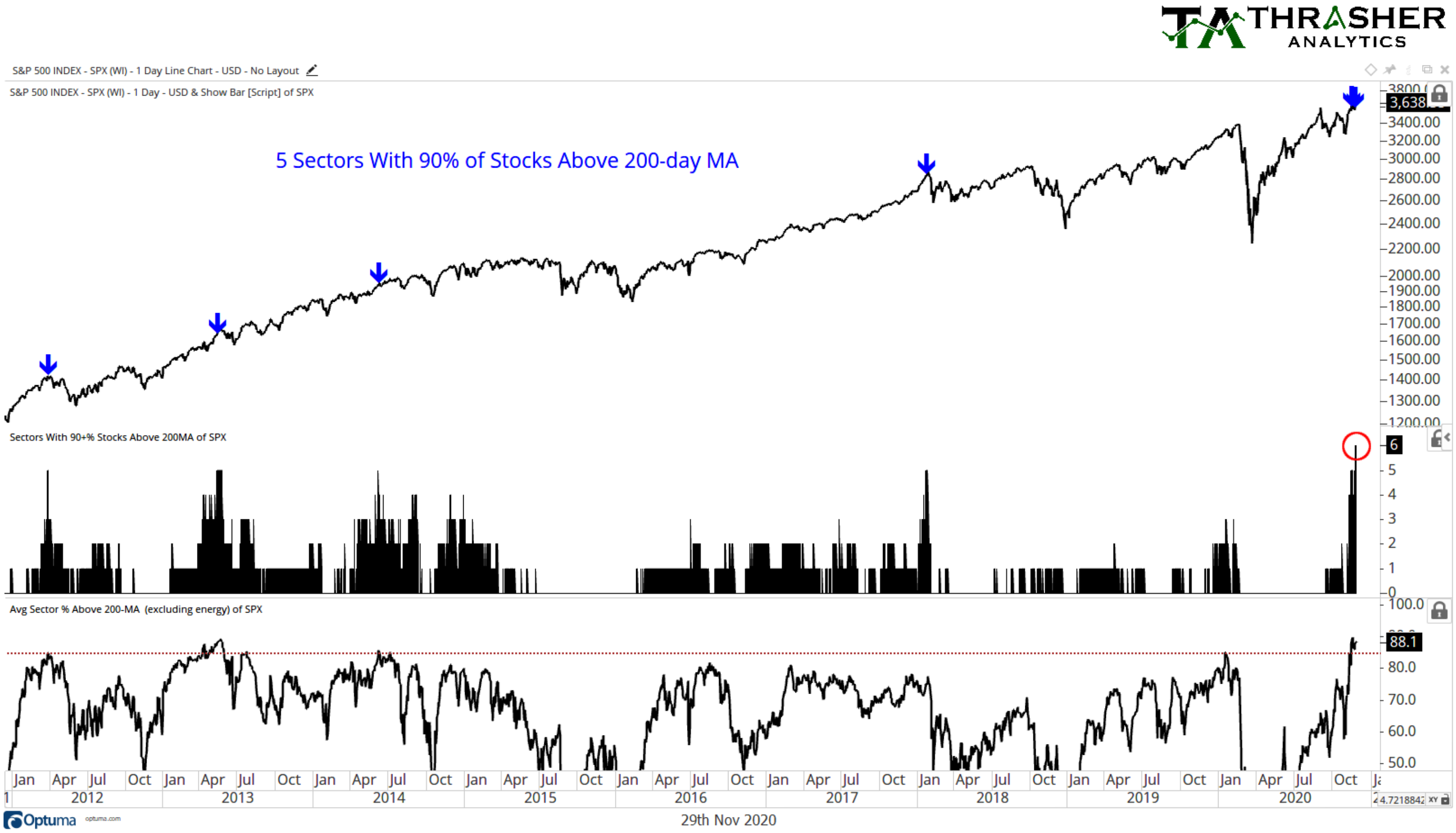


Breadth still looks strong for U.S. equities. Below is the Thrasher Analytics Breadth Composite which evaluates various breadth indicators in relation to their percentile rank. When the Breadth Composite begins to slip as equities rise, we get a red arrow and when it moves higher from an extremely low level, we get a green arrow. Currently the Breadth Composite is still high, signaling many breadth indicators remain in the high-end of their recent range, a bullish sign for the health of the market.



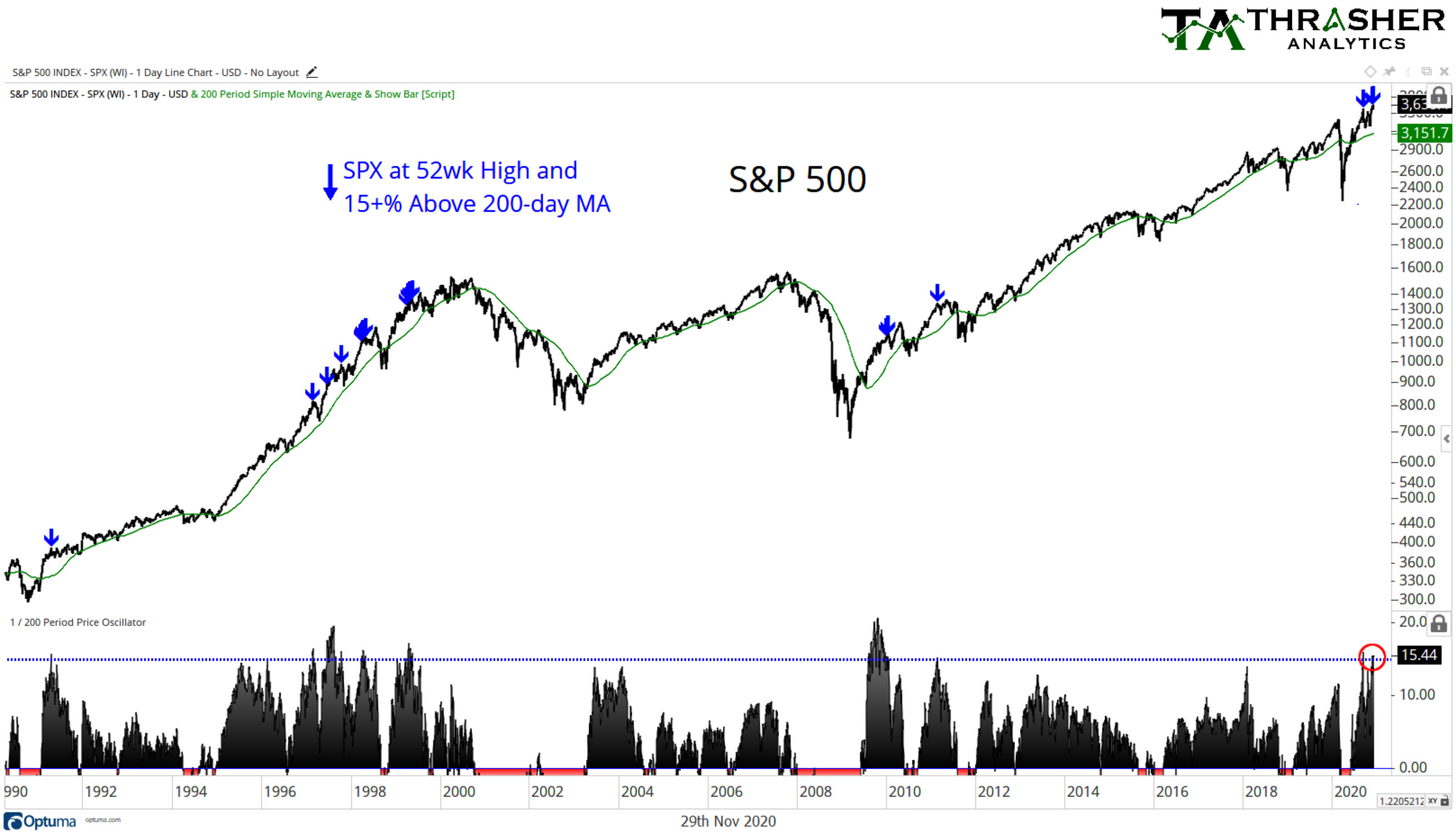
Equities - Breadth

A quick update on the chart I shared previously, showing the number of sectors with 90+% of stocks above the 200-day moving average. The last mention of this chart we were at 5 and now we have risen to 6. I previously had just ran the data back 10 years, never have we had 6 sectors like we do today. So I went back and run the data to 1995 and still this remains the only time 6 sectors have had nearly all its stocks back above the 200-day MA. All the kids are in the pool, leaving few left to join the festivities.



Equities - Distance From MA

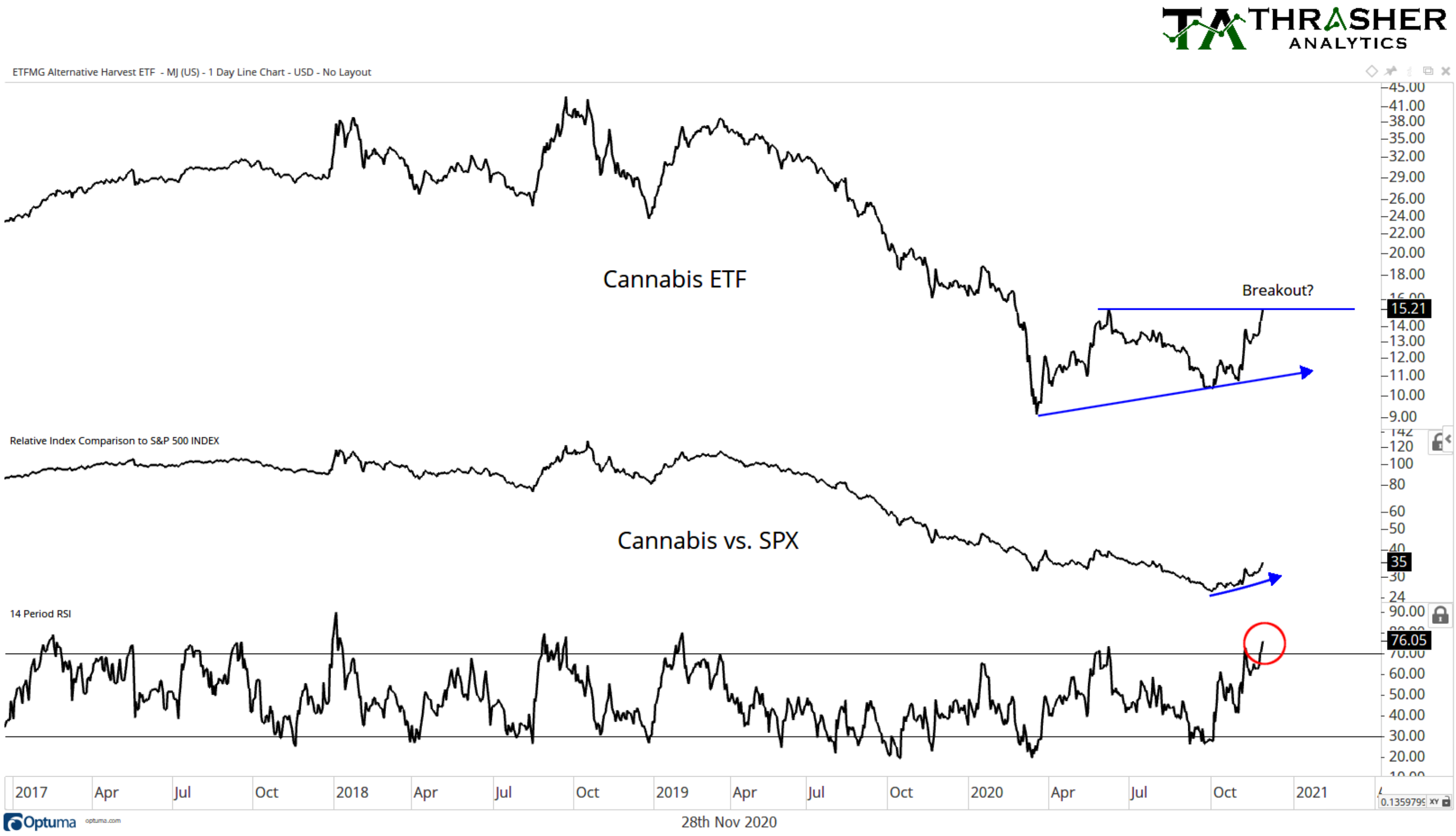
I last showed this chart - I believe - was in September, when we last saw the S&P 500 rising 15% above its 200-day moving average. That was quickly followed by a 10% brief drop before price recovered and moved back to a new high. Once again, we have the index at a new high and more than 15% above its long-term moving average. Before 2020, this happened just twice in the last decade, each time being followed by a pull back of varying degree ('early '10 was minor and '11 was larger). I've said this a few times in my last couple of letters, although the market has ignored it thus far, the short-term risk/reward at this level is less attractive than its been since the March bottom. There's plenty of tailwinds that can keep price moving but we are very stretched at this point and I think few would be shocked to see some kind of digestion of these gains.



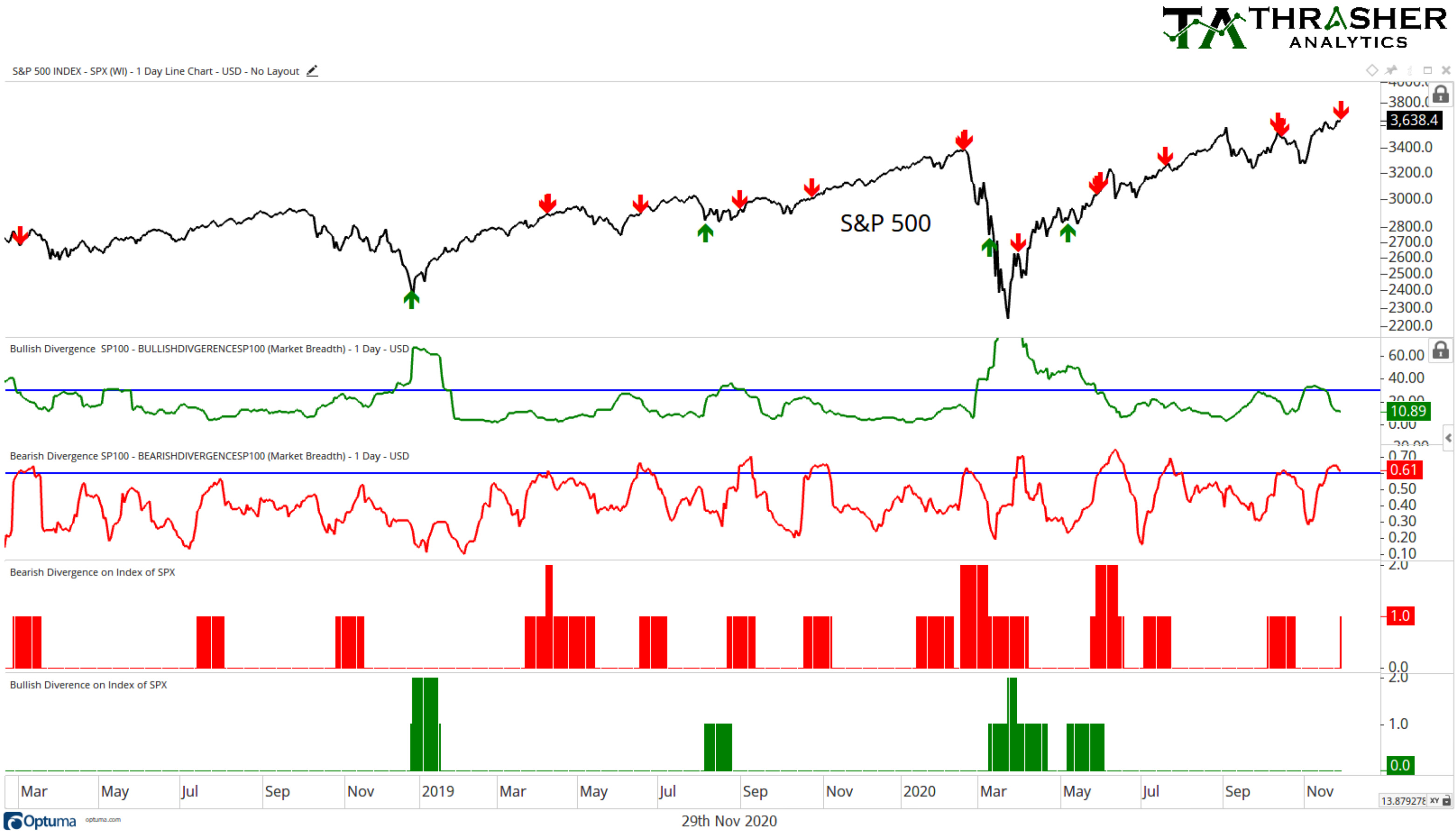
Equities - Cannabis

One of the industries I'm most keen to follow in 2021 is cannabis. The reason being is expectation of industry catalyst related to the Biden administration and an increase in state legalization. This is a fast growing industry and one that could continue to see rapid growth as more states legalize and the potential for national legalization as well as M&A activity within the space.

Below is the Alternative Harvest ETF (MJ), I don't believe this is the BEST ETF to play cannabis but it's the one with the longest history so I'm using it for charting purposes. Note the recent improvement in relative performance (middle panel) and the possible breakout of the June high. Cannabis is coming off a 77% drawdown, leaving it plenty of room to run higher if buyers push it hard enough. Short-term, momentum is high at 76 but I think this is a place to keep an eye on as we roll into 2021.

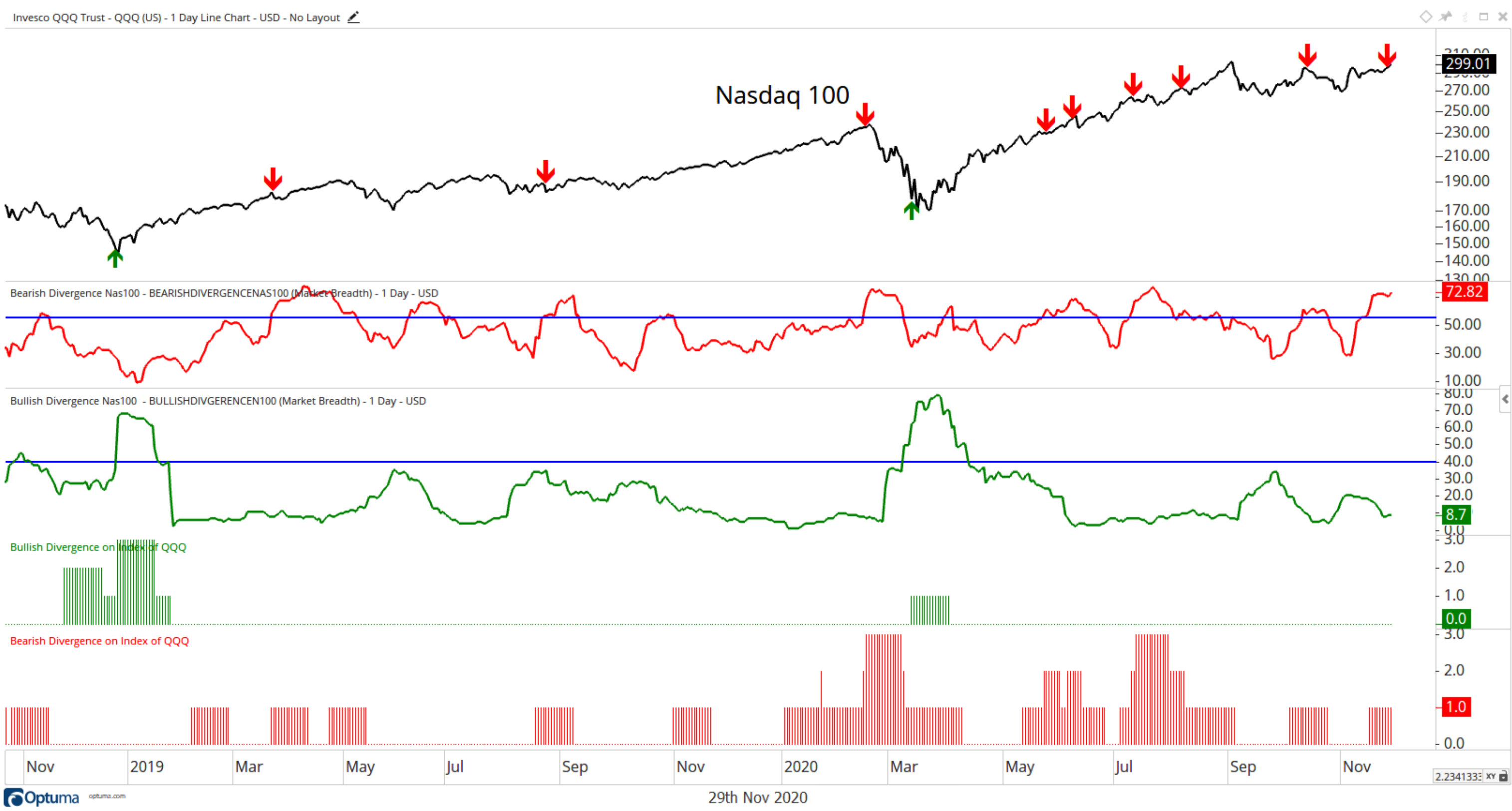


The list of bearish divergences remains elevated, with a newly identified divergence on the index developing last week, giving the final 'piece of the puzzle' to get a red arrow on the chart below, showing a large number of individual equity bearish divergences and now a bearish divergence on the index itself.



Equities - Divergences

Like the S&P chart, the Nasdaq 100 also continues to see a rising number of bearish divergences.



Sectors

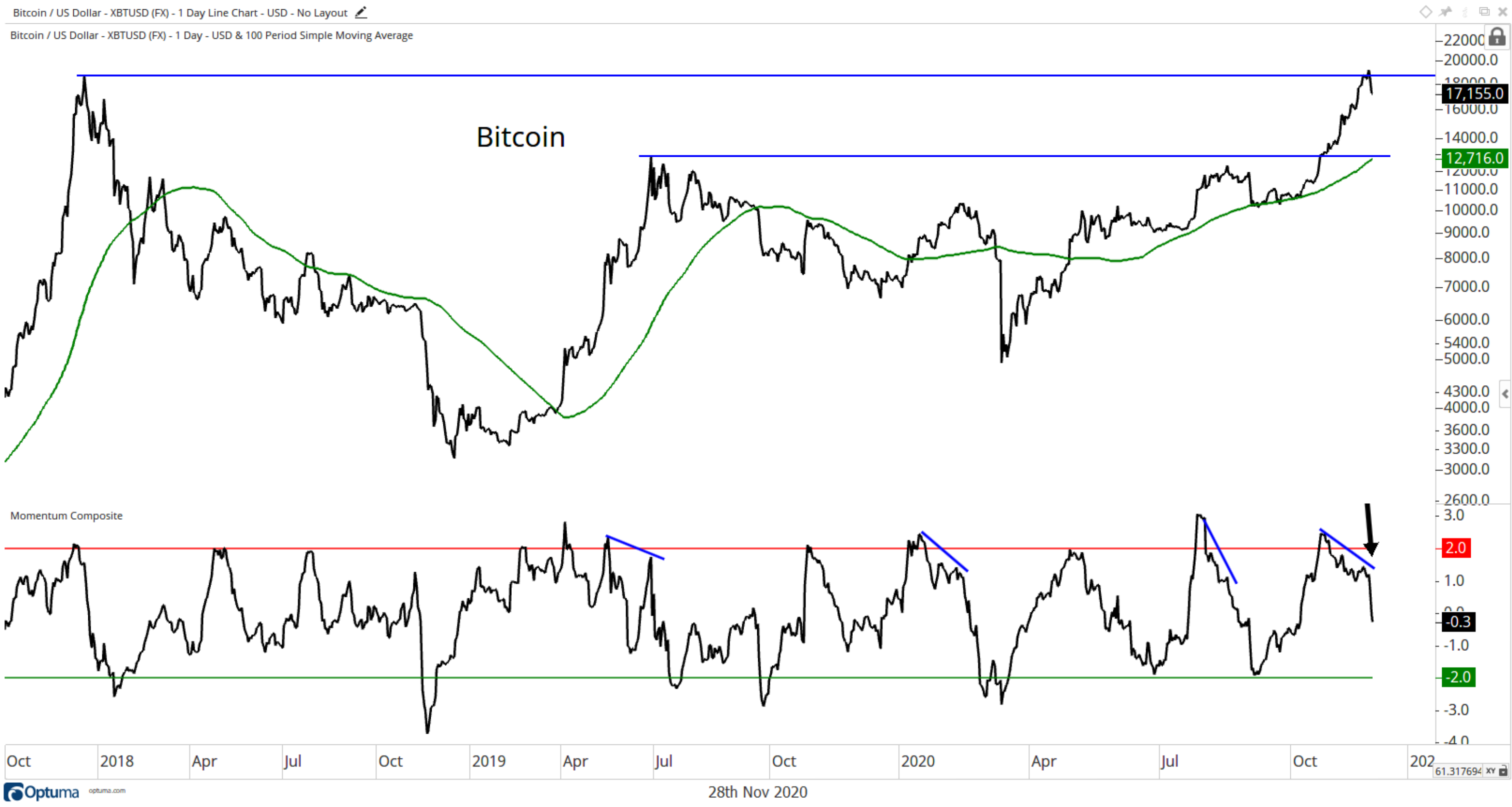
Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	8.66%	34.54%	8.69%	-34.59%
SPDR Financial Select Sector Fund ETF	True	True	4.75%	17.50%	12.71%	-5.73%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	2.95%	5.49%	5.8%	28.37%
SPDR Materials Select Sector Fund ETF	True	True	2.8%	12.50%	13.43%	19%
SPDR Communication Services Select Sector ETF	True	True	2.74%	7.34%	3.5%	24.44%
SPDR Industrial Select Sector Fund ETF	True	True	2.49%	14.74%	13.8%	7.77%
SPDR Technology Select Sector Fund ETF	True	True	2.12%	5.33%	0.47%	38.72%
SPDR Consumer Staples Select Sector Fund ETF	True	True	0.63%	3.95%	2.65%	7.9%
SPDR Health Care Select Sector Fund ETF	True	True	0.59%	3.35%	1.56%	9.62%
SPDR Utilities Select Sector Fund ETF	True	True	0.35%	-1.42%	8.25%	1.03%
SPDR Real Estate Select Sector Fund ETF	True	True	-0.32%	5.96%	1.46%	-5.1%

Last week I wrote about a few bearish points on Real Estate, which was the worst performer for the week but now I'm back on Energy. I've been wrong (can I say early?) about energy, I'm the first to admit it! I didn't think we'd see this level of strength, but here we are. I still remain bearish on energy though, let me explain..

With this latest leg up in XLE, there's now over 70% of the sector with an RSI over 70, suggesting momentum is short-term 'overbought' for the 70% of the sector. The chart below plots green arrows when we've previously seen over 60% 'overbought', each leading to a pullback in XLE. On the right, a zoomed in version which shows in the bottom panel how the Momentum Composite has been rolling over from being extended and overbought. In the holiday shortened week we did see XLE pullback slightly, I think this continues, well see if this turns out to be just a counter-rally within a broad down trend or truly a bottoming process for new bull market in energy.

When bitcoin moves, people sure do freak out. Last week we saw the cryptocurrency pull back under the prior 2017 high and begin to confirm the bearish divergence I wrote about in my last letter, an update of the chart I last shared is below.

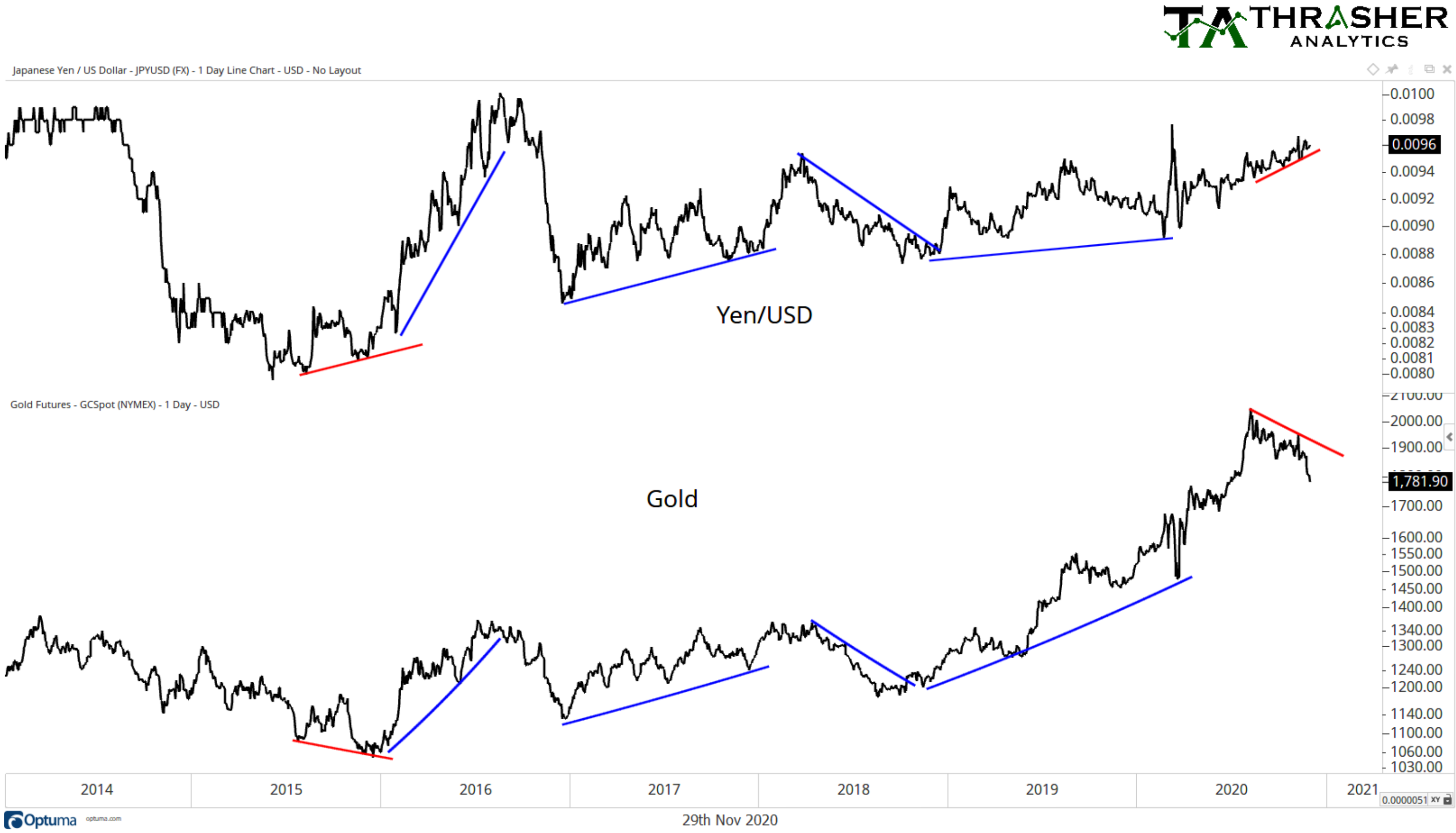
Part of the reason bitcoin dipped last week is likely attributed to what Coinbase CEO, Brian Armstrong tweeted on Wednesday, "Last week we heard rumors that the U.S. Treasury and Secretary Mnuchin were planning to rush out some new regulation regarding self-hosted crypto wallets before the end of his term. I'm concerned that this would have unintended side effects, and wanted to share those concerns." If the U.S. government does begin to attempt to tighten controls on crypto assets, that obviously will have a negative impact on the coins themselves and cause many to hit the 'sell' button in fear of what's to come. It's important to remember this is not the first (nor will it be the last) mention of gov't regulation of crypto, so until an official order from the Treasury comes out, I think any material decline can offer an opportunity. For a short-term focus, we still have the bearish divergence to contend with but if we start nearing the 100-day MA or the prior breakout point near $13k then I think may be a place to re-visit this asset and I'll continue to provide commentary each step of the way.



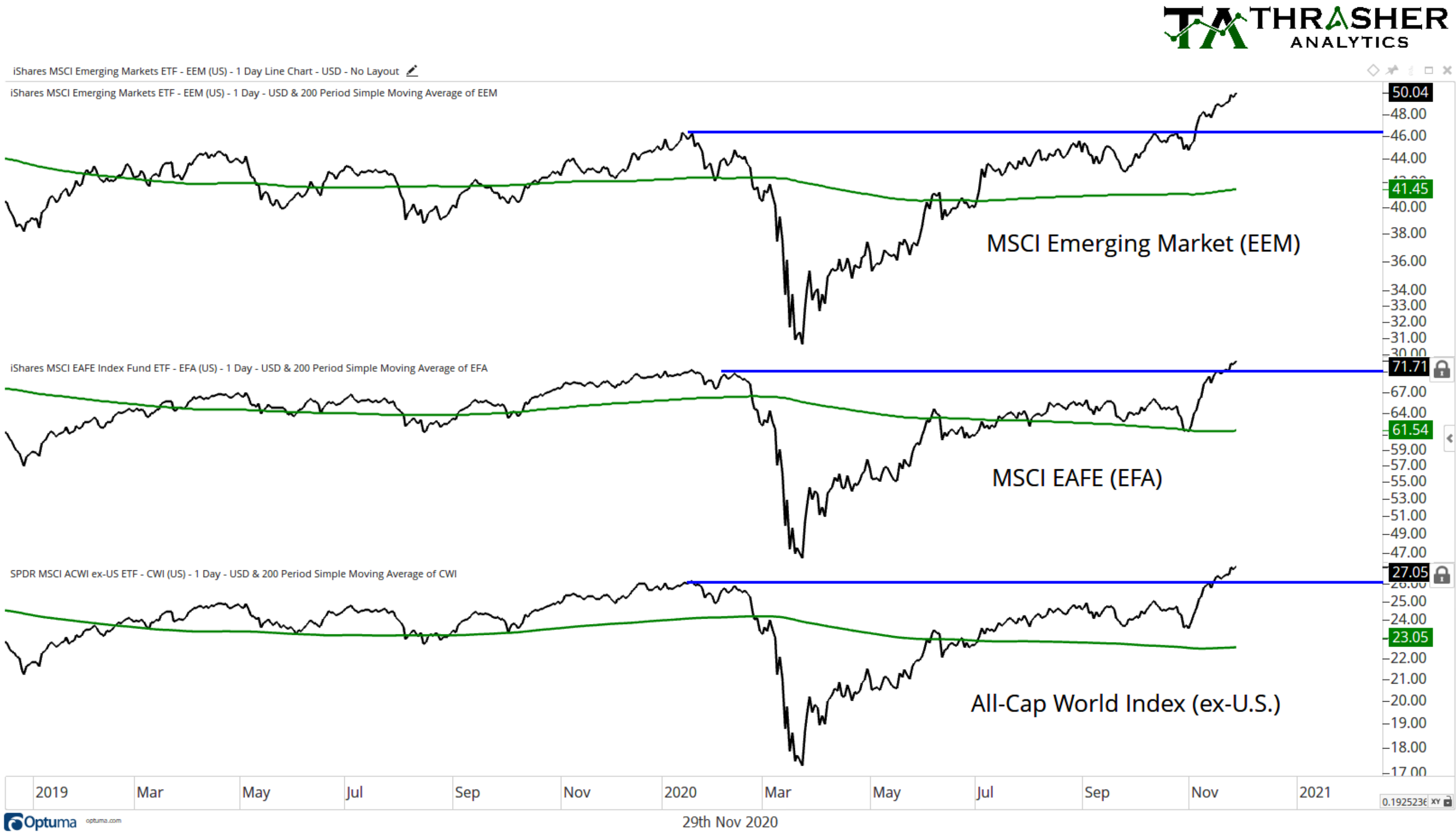
Gold

Gold continued to slide last week, dropping under its 200-day moving average. I still believe there's an opportunity here but need to see price respond accordingly before trying to catch any knives. Both the Momentum Composite and Volatility Adjusted Momentum indicators are oversold. If we do see price move lower, I'm watching the area just above $1730 from the consolidation in April and May. I'd like to see the shiny metal recapture its 200-day MA and it would also be bullish if it can regain the prior September low at $1860. More on gold on the next page.

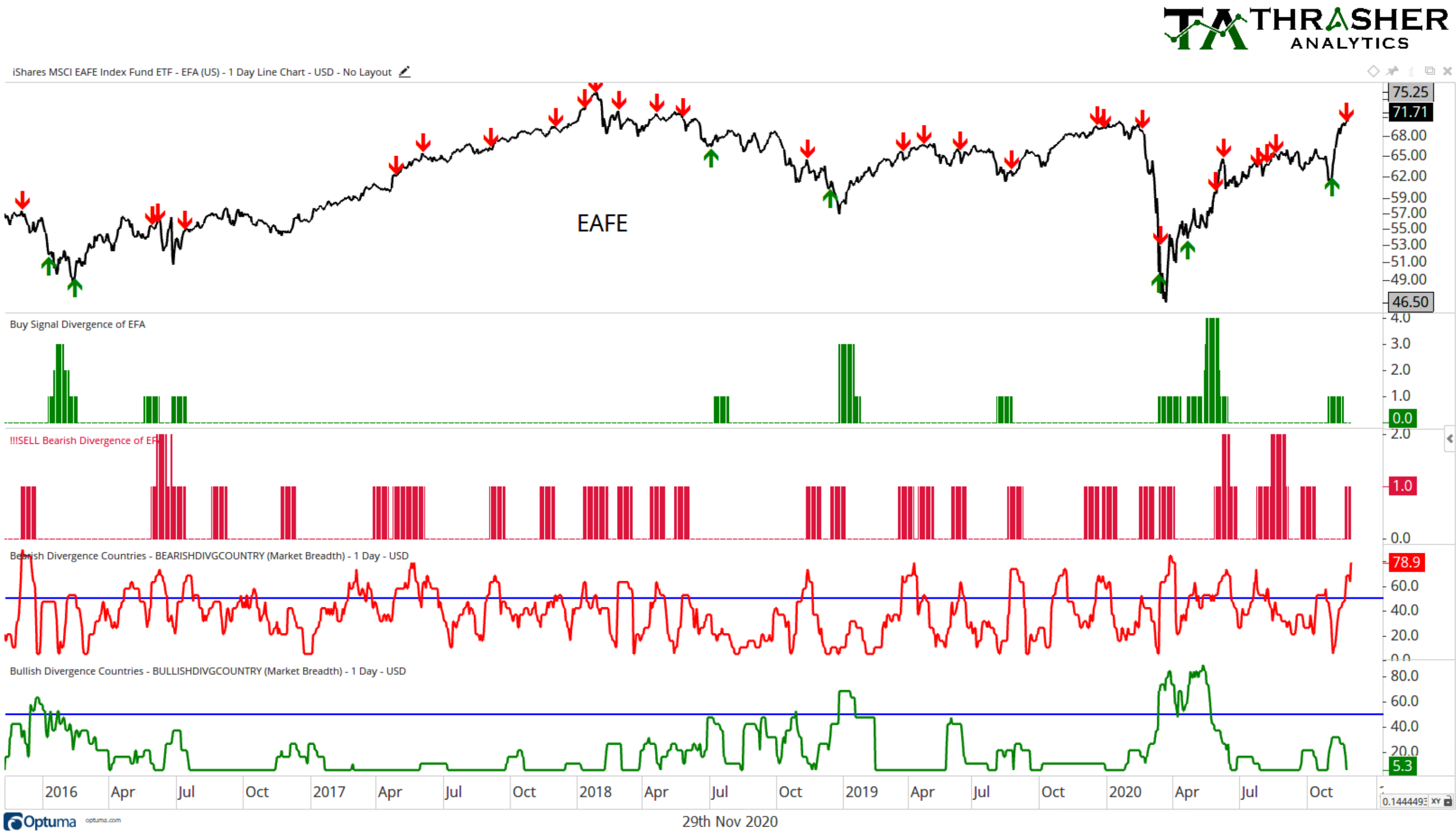
Long-time readers of my letter know I'm a fan of using the Japanese Yen as a leading indicator of gold. These two often move together and then they divergence most of the time the currency is who is proven 'correct.' You can see the last major divergence was in 2015 (with a few smaller ones since then). That marked the final bottom in gold and it began to rally along with the Yen for the next year. Once again, we have gold sinking but the yen has remained firm. This is another reason I haven't thrown in the towel on gold just yet, the forex market still suggests the trend *should* be higher for gold. From here, if yen begins to sink and chase after gold lower, then we know gold won out this duel, but if history repeats and we see gold bounce higher then it has some catching up of its own to do.



International markets continued to move higher last week with a breakout in EAFE. We now have emerging markets, EAFE, and ACWI ex-US all above their prior major highs.



Just like I do for the major indices and sectors, I also track bullish and bearish momentum divergences on an individual country basis, creating a breadth-like composite for EAFE. When too many countries are showing a bearish momentum divergence, like they are now with over 78% of countries having a divergence, it has often created a headwind for EAFE to move higher. While there can still be individual country opportunities, the latest move higher in international indices may setup for a false breakout, I'll be watching international markets closing this week.



Daily Sentiment Index

Market	% Bullish	5MA	History
VIX DSI	14	11.6	
Gold DSI	17	22.8	
Silver DSI	19	25	
US Dollar DSI	31.00	35.00	
Natural Gas DSI	32.00	36.20	
Crude Oil DSI	51.00	53.40	
Coffee DSI	56.00	46.20	
Swiss Franc DSI	63.00	53.60	
Sugar DSI	63.00	68.60	
Australian Dollar DSI	64.00	58.40	
5YR DSI	64.00	60.80	
Palladium DSI	66.00	57.00	
Wheat DSI	67.00	65.20	
10Y DSI	68.00	63.20	
CRB Index DSI	69.00	68.40	
Heating Oil DSI	70.00	68.40	
Cotton DSI	70.00	69.40	

Code	% Bullish	5MA	History
Cattle DSI	70.00	73.60	
Platinum DSI	71.00	70.20	
Mexican Peso DSI	71.00	74.20	
British Pound DSI	71.00	71.20	
EuroDollar DSI	72.00	72.40	
Corn DSI	73.00	71.60	
Lumber DSI	75.00	70.60	
Orange Juice DSI	79.00	82	
Gasoline DSI	79.00	76.60	
Euro DSI	79.00	72.20	
SPX DSI	80	78.80	
Lean Hog DSI	81	79.80	
Nasdaq DSI	82	74.40	
Cocoa DSI	82	83.2	
Nikkei DSI	88	83.8	
New Zealand Dollar DSI	88	83	
Copper DSI	93	85.6	

Source: trade-futures.com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10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
138.55
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
68.00
May
Jul
Sep
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Nov
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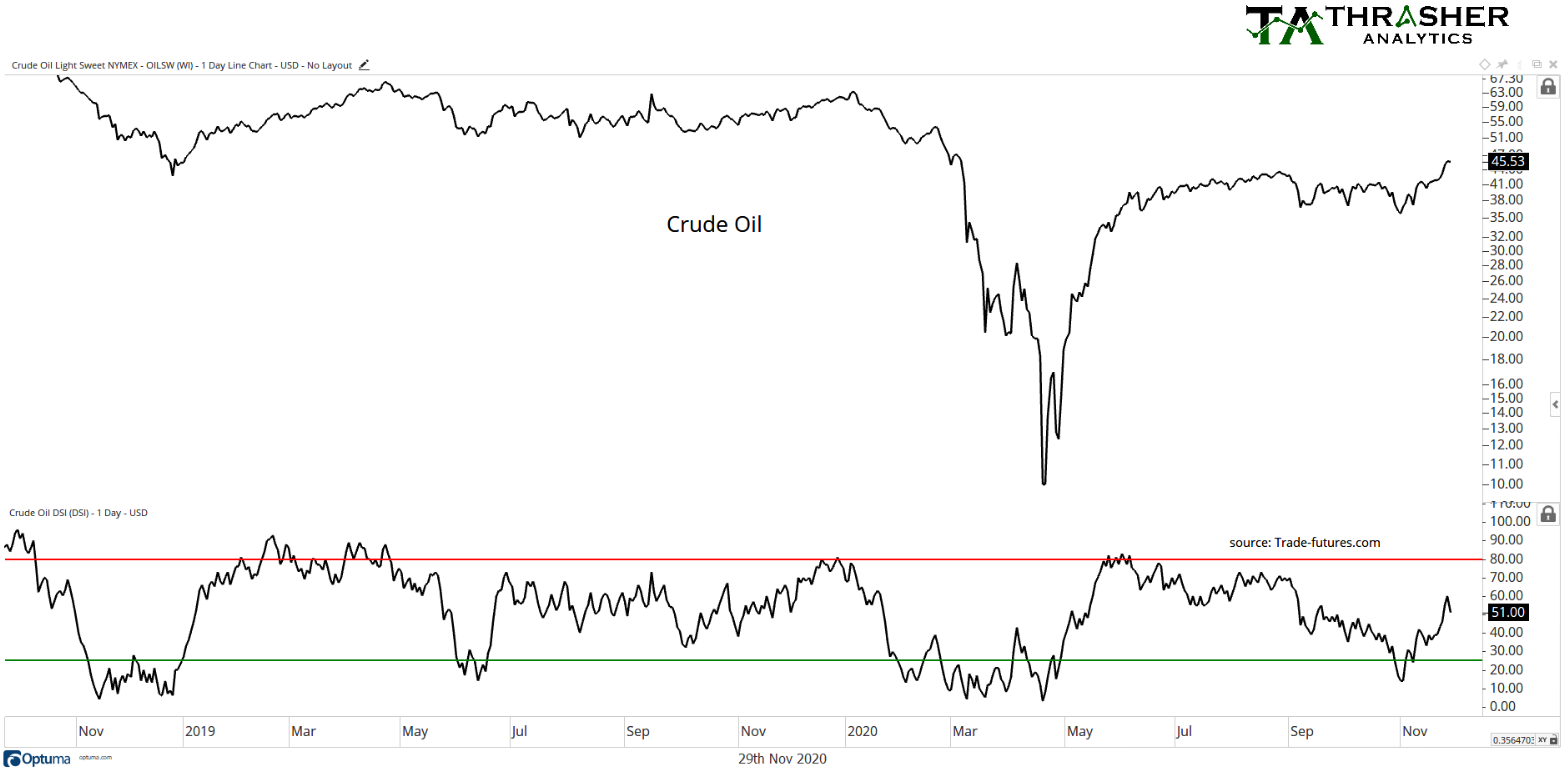
29th Nov 2020


Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
45.53
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
51.00
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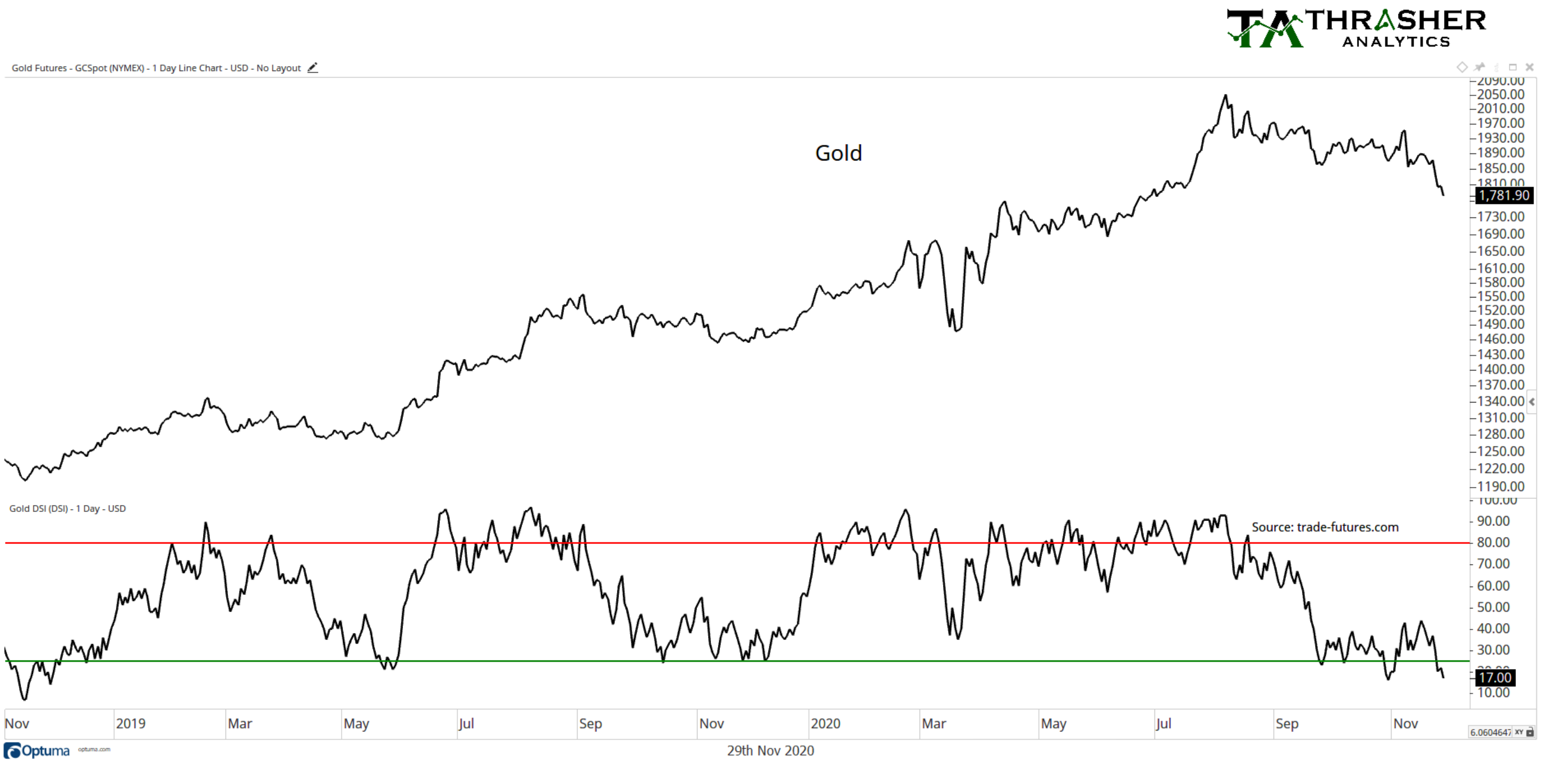
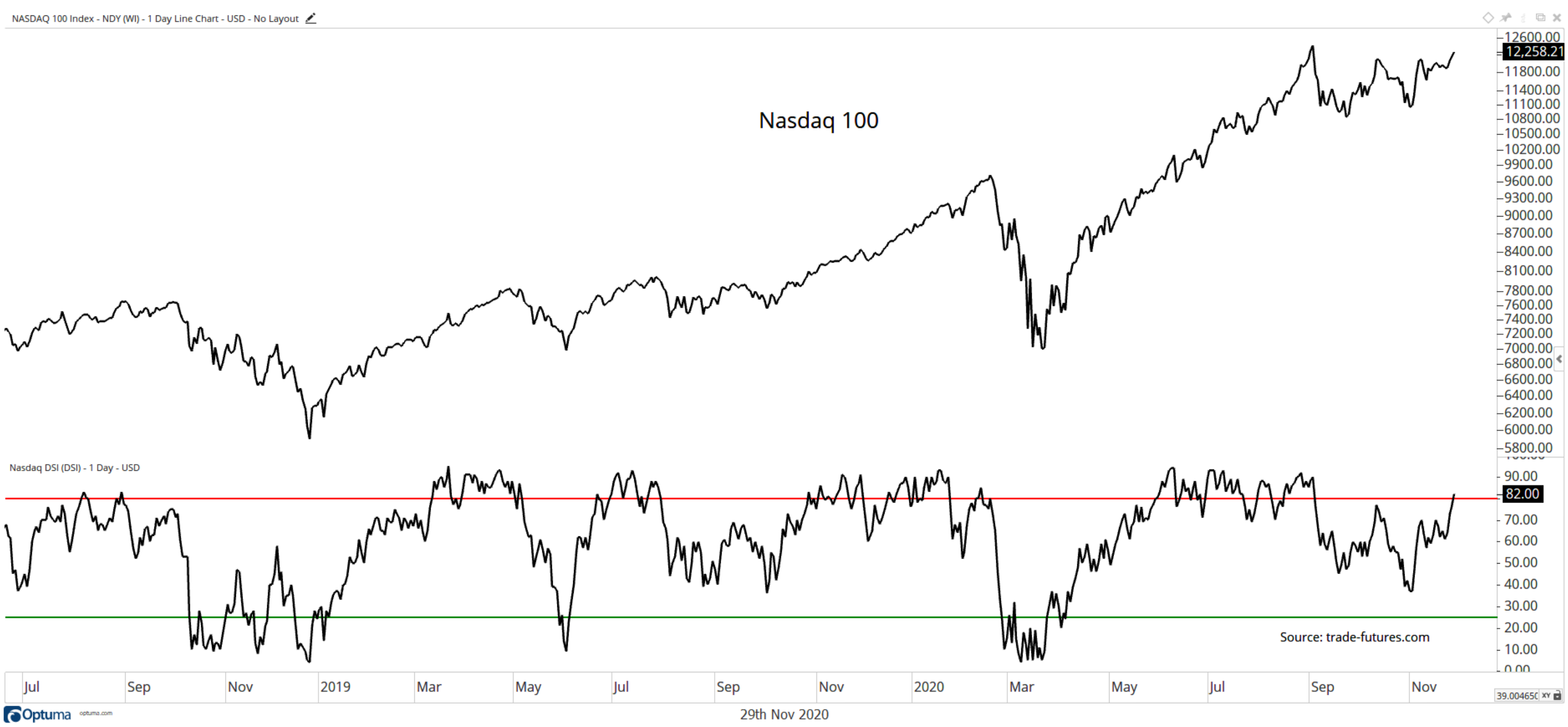
Daily Sentiment Index



Daily Sentiment Index

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U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
US Dollar DSI (DSI) - 1 Day - USD
Source: trade-futures.com
91.8
31.00
2019
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29th Nov 2020
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Daily Sentiment Index


THRASHER ANALYTICS
S&P 500 INDEX - SPX (WI) - 1 Day Line Chart - USD - No Layout
S&P 500
3,638.4
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3300.0
3200.0
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2800.0
2700.0
2600.0
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2400.0
2300.0
2200.0
SPX DSI (DSI) - 1 Day - USD
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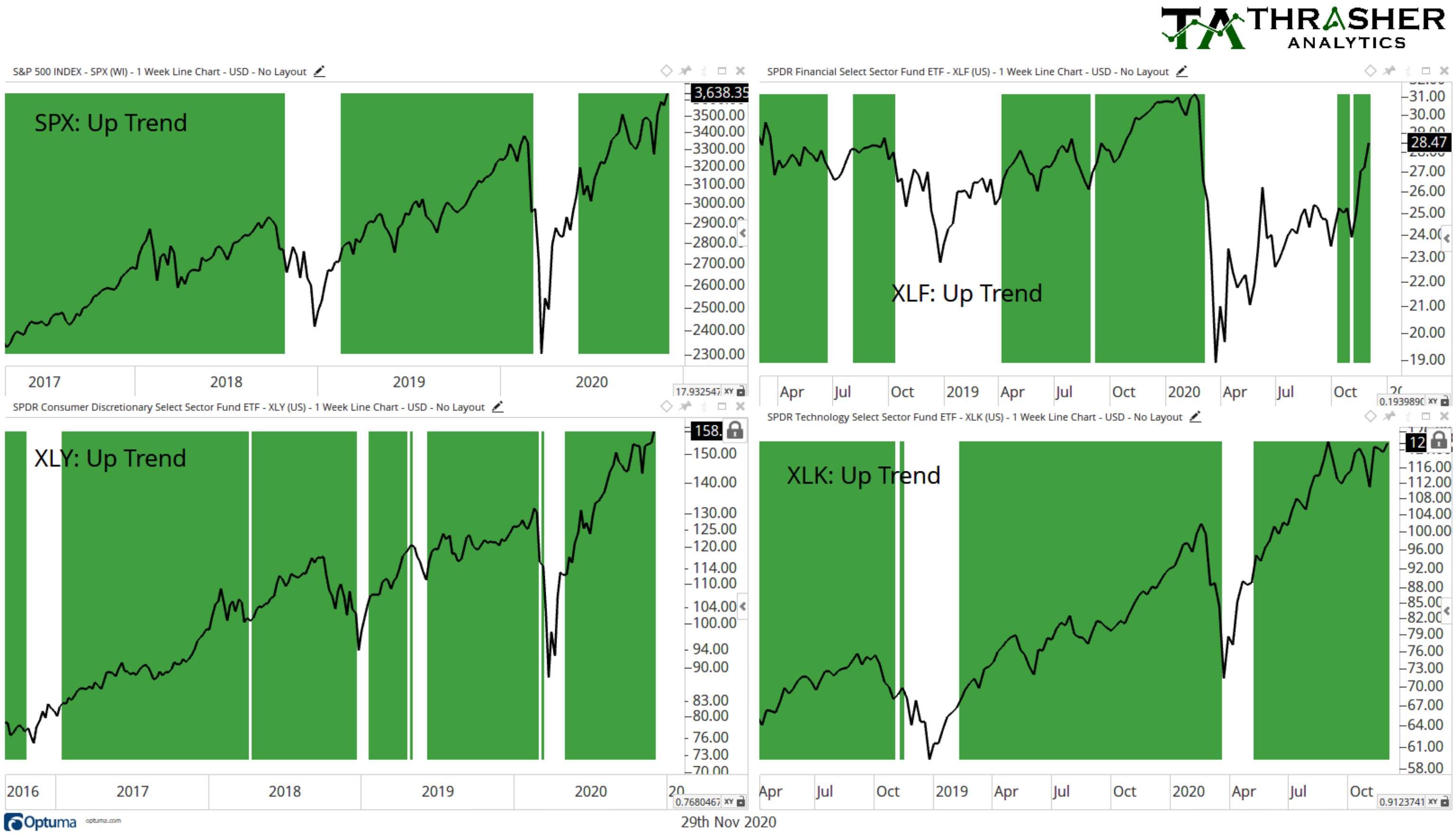
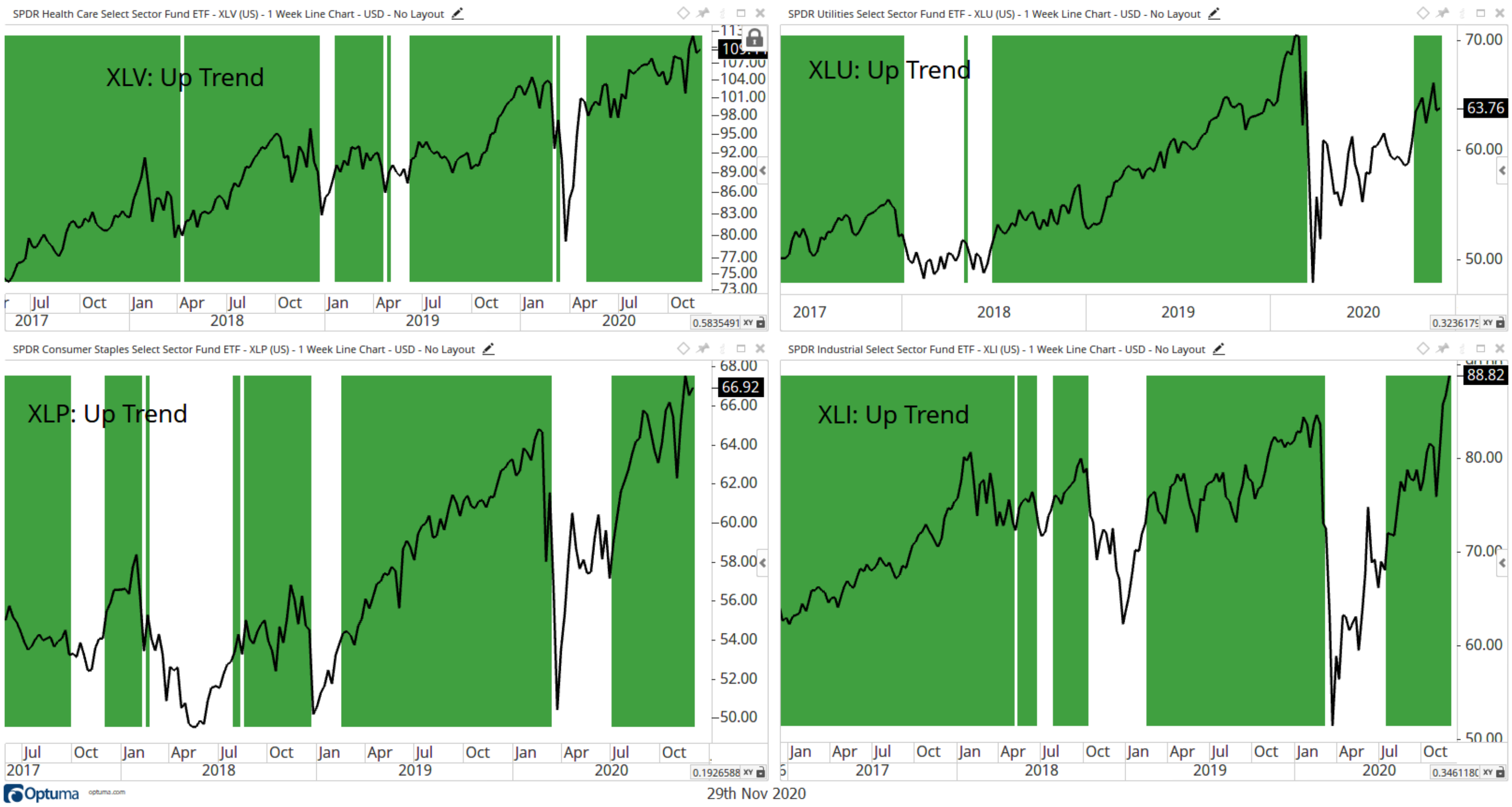
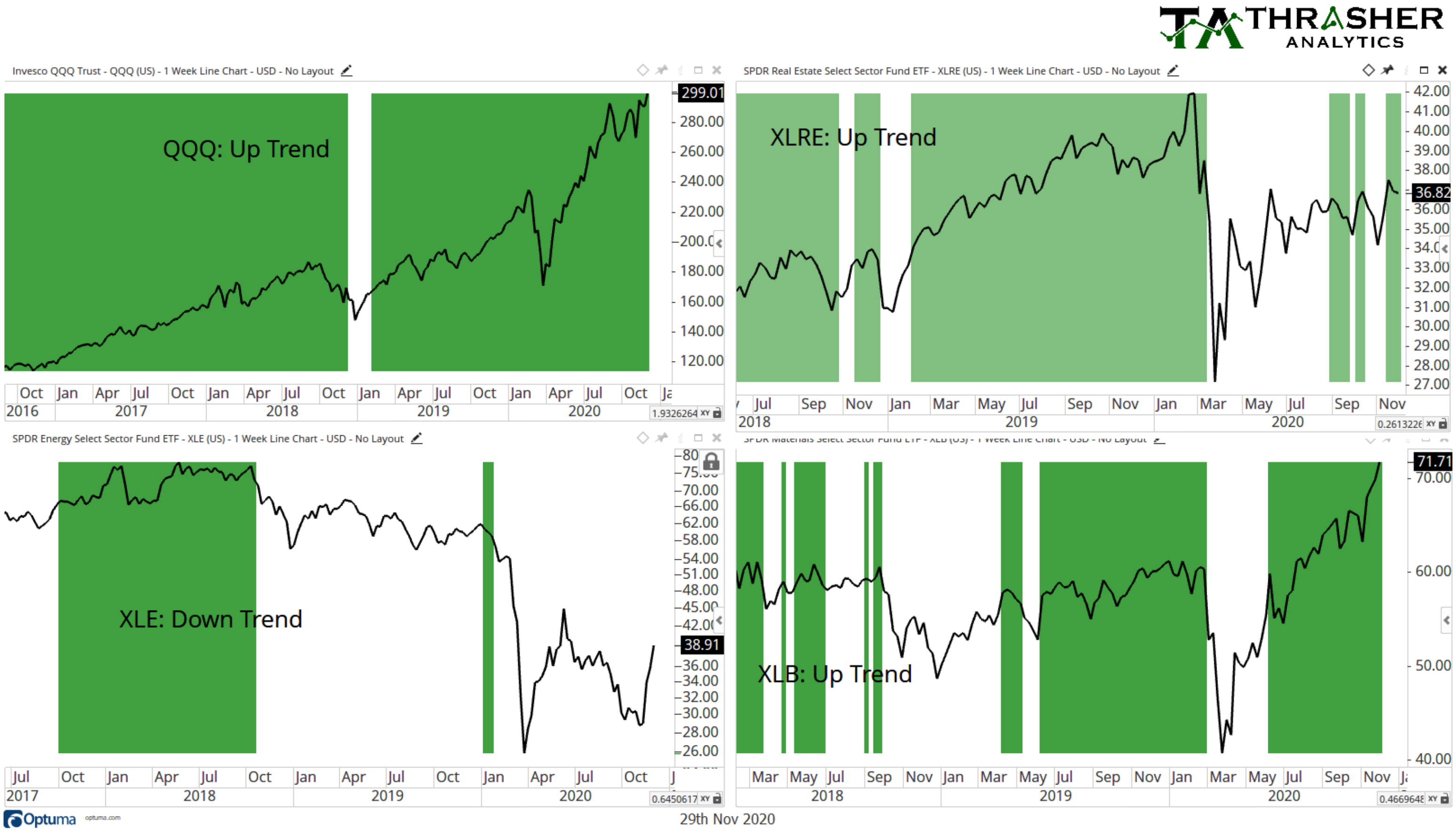
Trend Models



Trend Models

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Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout
QQQ: Up Trend
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout
XLRE: Up Trend
SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout
XLE: Down Trend
XLB: Up Trend
Optuma
29th Nov 2020

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