THRASHER ANALYTICS

NOVEMBER 1, 2020

WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

The election and FOMC will be the main focus this week with equities testing the prior September low and sentiment falling, several key indicators are setting up, but not there yet, to give notice to higher prices. I lay out the levels and key data I'm watching this week as well as two sectors I believe are well positioned should buyers re-emerge in U.S. equities. Bonds aren't providing protection as yields rise while volatility continues to expand.

TABLE OF CONTENTS

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

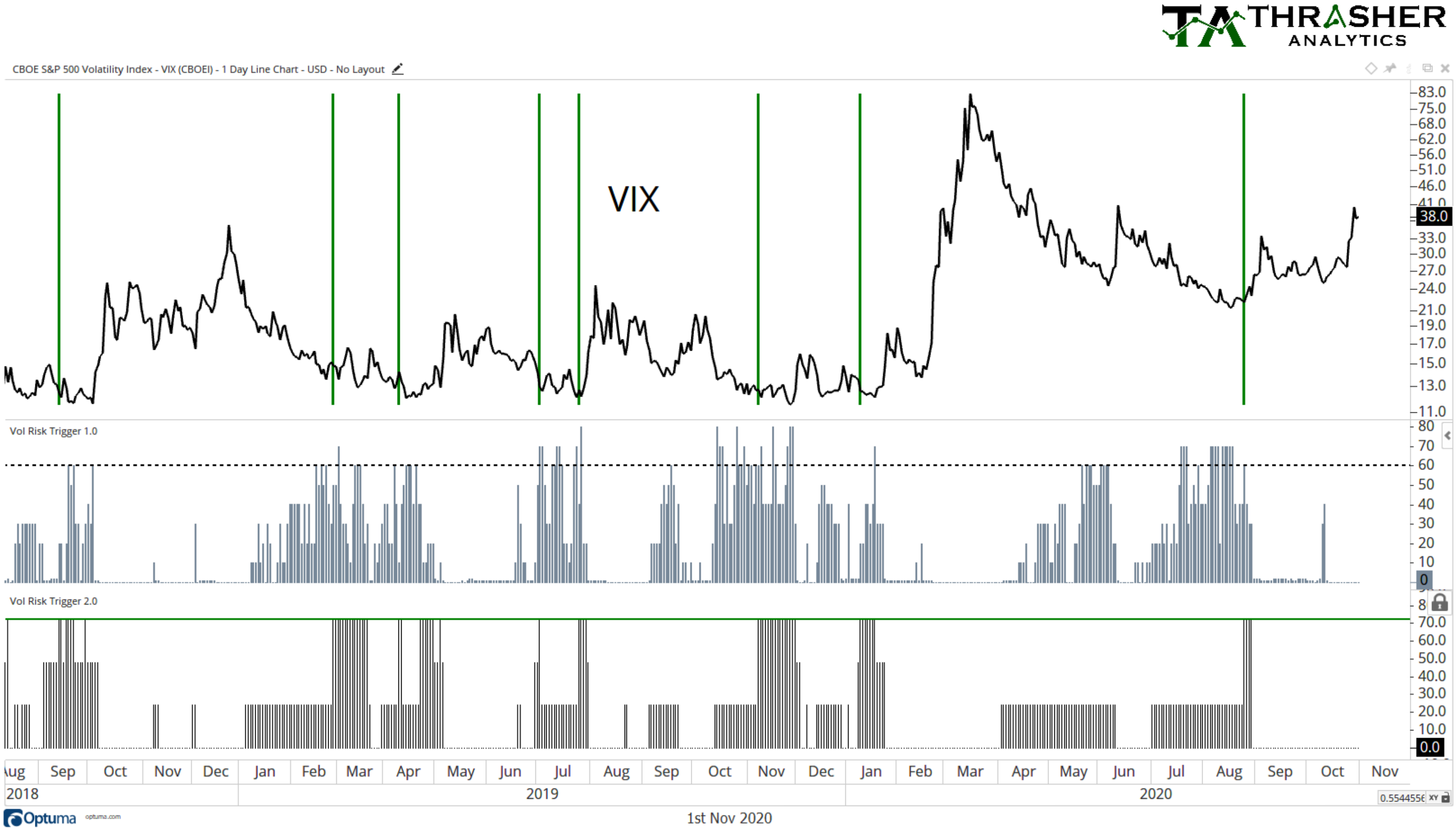
Index & Sector	Up Trend	Down Trend
SPX	X	
QQQ	X	
XLF		X
XLY	X	
XLK	X	
XLV	X	
XLU	X	
XLP	X	
XLI	X	
XLRE		X
XLE		X
XLB	X	

Daily Sentiment Index	% Bullish	5-day MA
S&P 500	23%	34%
Nasdaq 100	37%	43%
Nikkei	51%	58%
VIX	43%	38%
10yr Treasury	52%	58%
5yr Treasury	56%	59%
CRB Index	23%	30%
Gold	20%	22%
U.S. Dollar	49%	40%

**Green<25%   Red>80%*

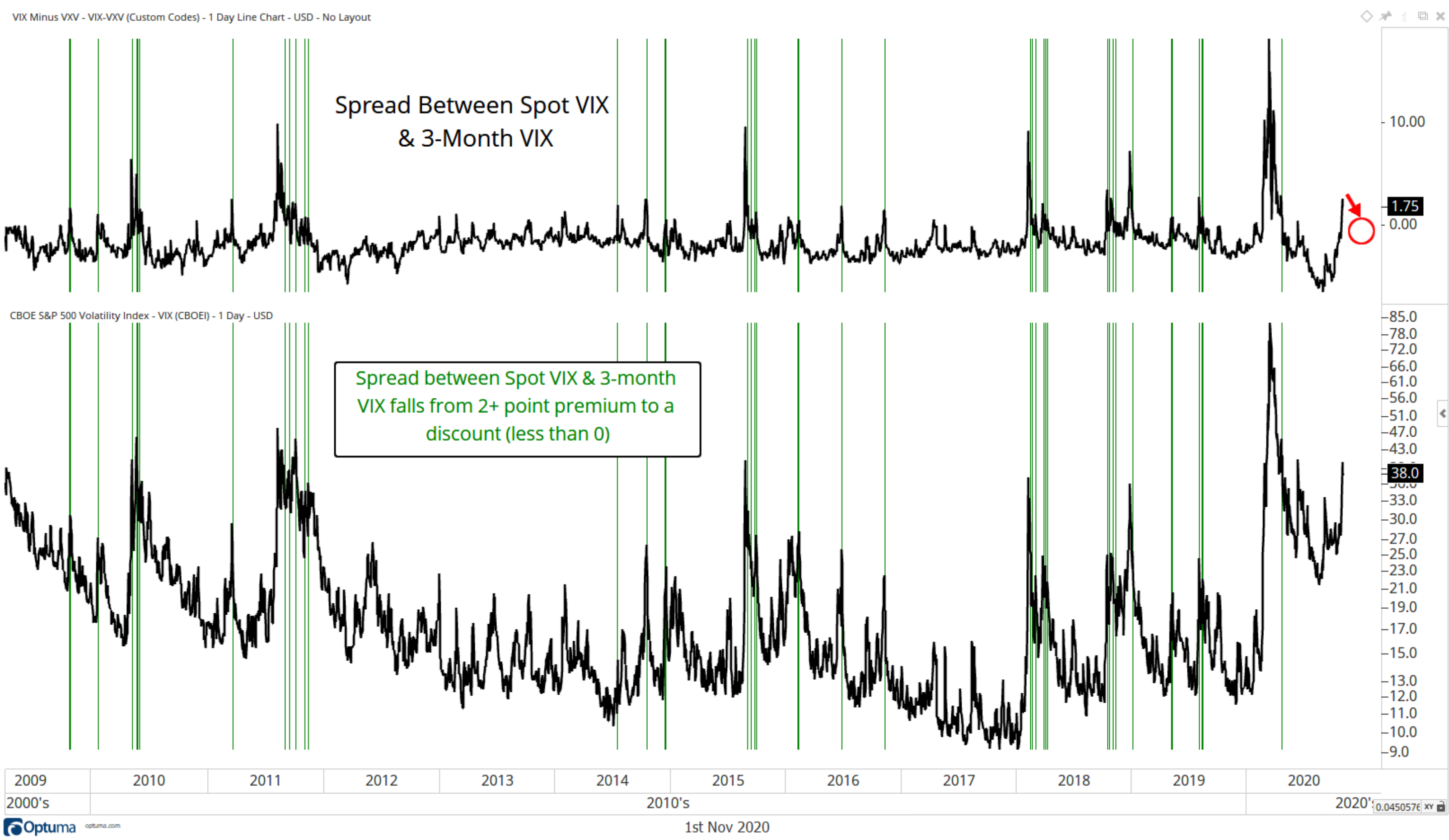
source: trade-futures.com

As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (2.0). Spot VIX continued higher last week, rising as equities sold off. Last week I shared the compression in the Nasdaq 100 VIX (VXN) which did an excellent job noting the heightened risk of a spike higher in volatility. Traders continued to pile into VIX puts, which is why I believe we saw a strong move higher in Volatility of the VIX (VVIX) sending it to 150, the highest level since an intraday move to 170 in June.



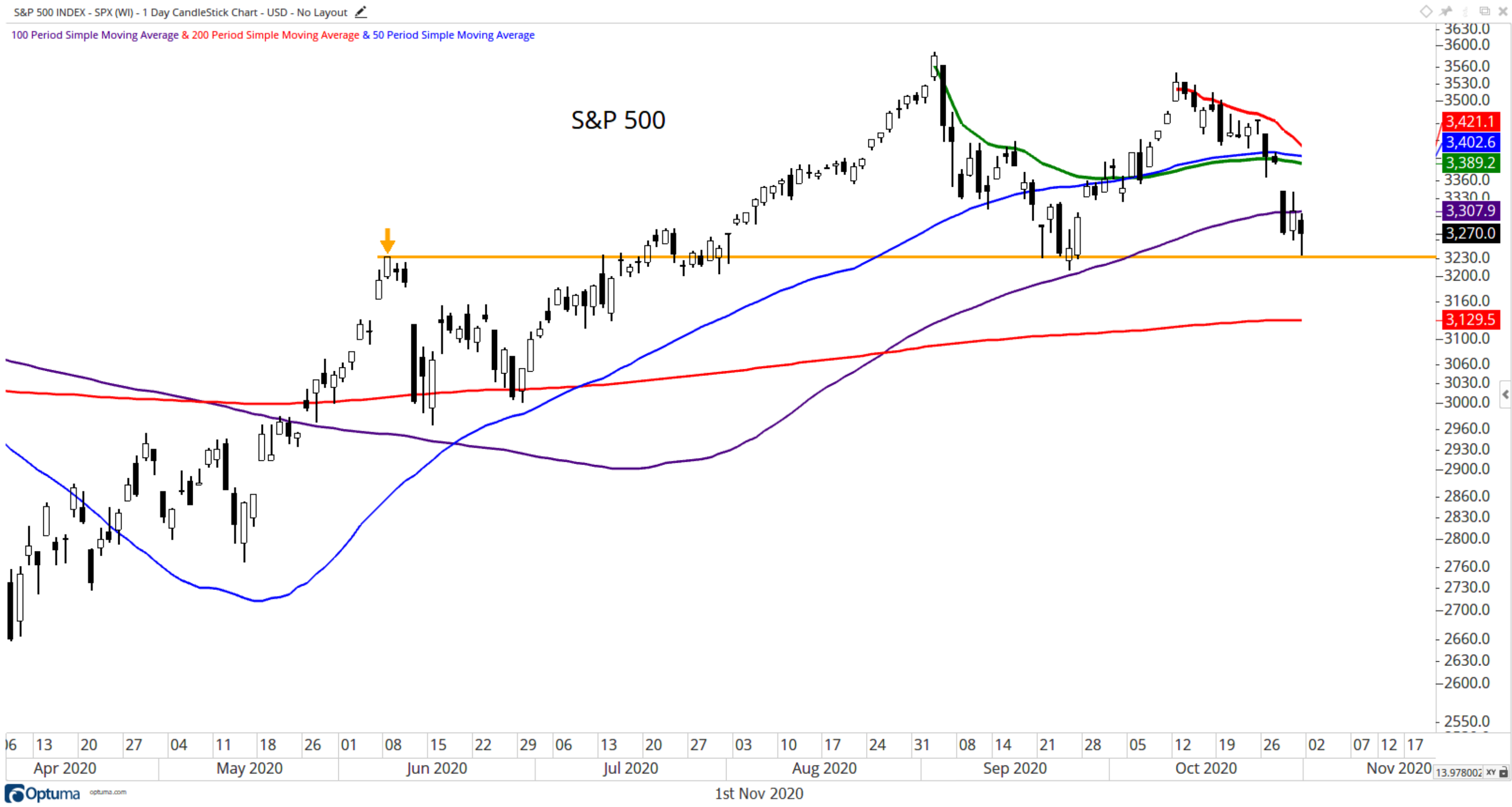
Has volatility peaked? This is a question many are asking with the VIX going from near 25 to finish he week at 38. Many will apply mean-reverting indicators to the VIX, several with success but when they are wrong, they are really really wrong. An over-extend VIX can always (like other pieces of data) become even more 'over-extended' this is why I focus on the VIX curve when evaluating when vol may have peaked out. Specifically, I look at spot VIX relative to 3-month vol and when it trades at a 2-point premium and then falls back to a discount. This will not capture the very peak in spot volatility but that's not my objective either. As the green horizontal lines on the chart below shows, when we see a 2-point premium bleed off, the preceding move in volatility is often over.

Because volatility often leads equities, a better grasp of when the volatility spike has finished can occur ahead of a final low in equity prices. We aren't there yet, there's still 1.75-point premium in spot vol over 3-month, so traders are still demanding a premium in front month contracts, so we can't assume the run in volatility has ended just yet. Maybe this week we'll get that 'all clear' sign, I'll address this again if so in the next letter.

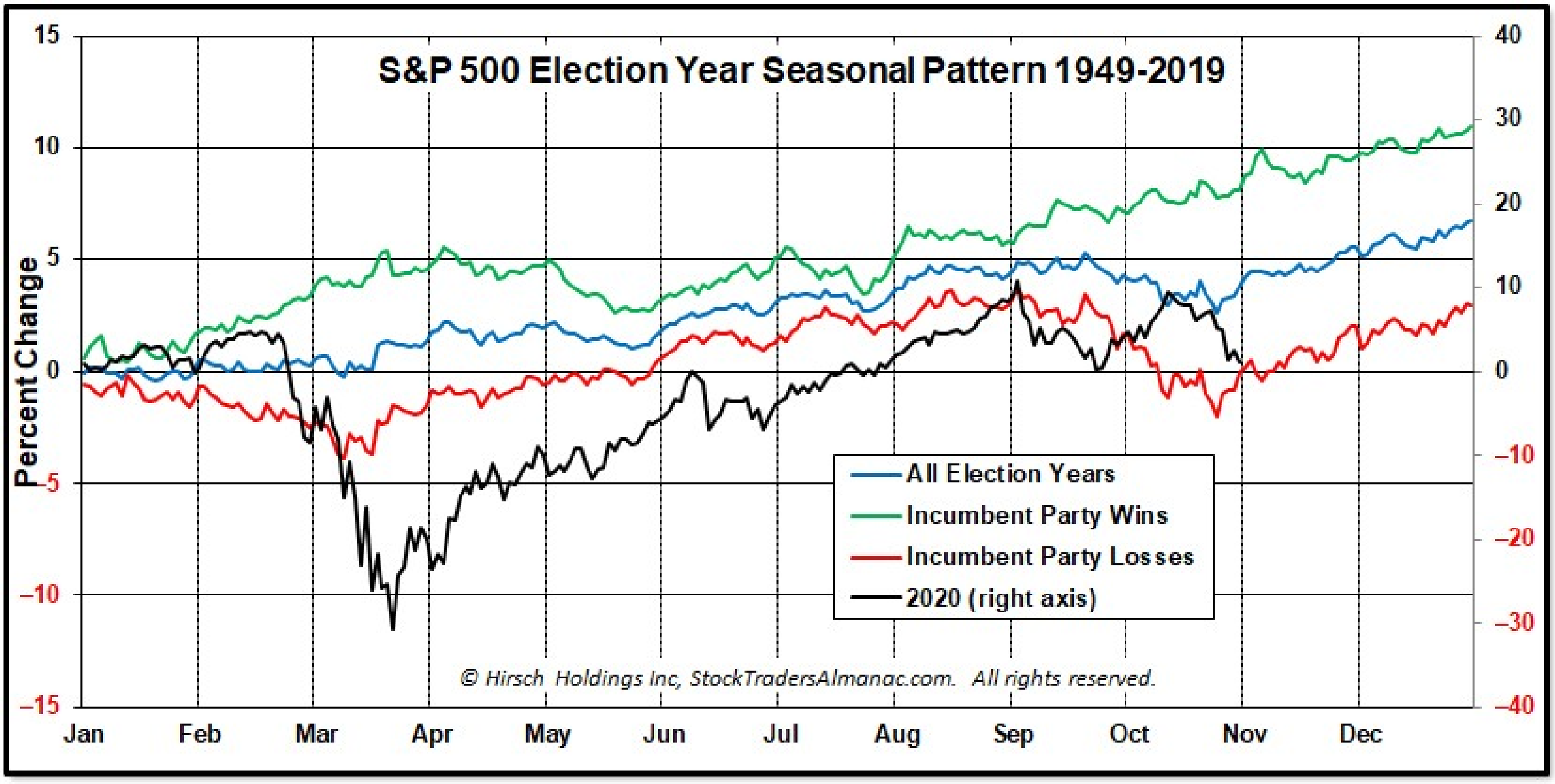


The S&P 500 cut right through the potential levels of interest I wrote about last week, we saw two days of consolidation (Monday and Tuesday) and then Wednesday big gap down made them vanish. We finished Friday just under the 100-day moving average (purple line) and intraday saw a kiss of the June high which also was near the September low. I'll address why this level is likely important in the next page. The September low has a lot of eyes on it, bulls want to see it hold and price to bounce higher while bears want to see a test of the 200-day moving average (red line).

I'm not holding any wishes too tightly as we've got a jam-packed week. Of course we have the election as well as FOMC, ISM data, and October labor market data. The minutes from the September FOMC meeting showed many Fed officials were banking on congressional stimulus to help propel the economy and pick up where the Fed left off. Bill Dudley (former Fed official) recently penned an Op Ed arguing the Fed has done all it can. Not in the sense of being "out of bullets" as they have an unlimited arsenal, but that it's become less potent as it once was. Anyone guessing how the markets will respond to the election can be well served remembering the equity whipsaw that followed the 2016 election, with futures being all over the place that night. Instead, patience can be an important tool and allow price to find its proverbial footing after Wednesday.

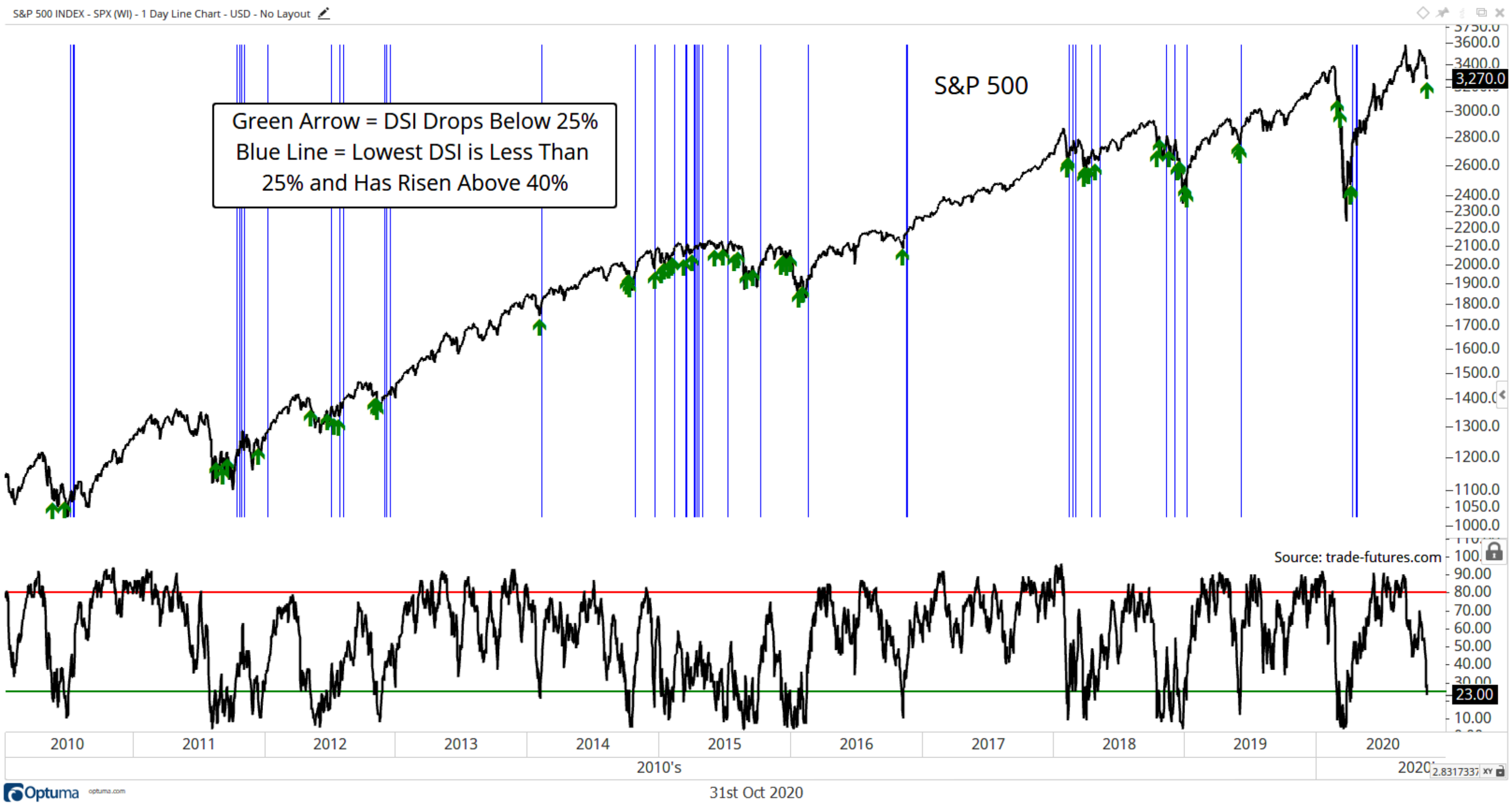


Jeffrey Hirsch of The Stock Trader's Almanac shared this chart of election year seasonality. The implication was to suggest the market is currently suggesting a Biden victory as 2020 has been trending lower since September like past seasonal trends that led to an incumbent defeat. The bigger takeaway, at least for the market, is the fact the seasonal pattern trends higher into year-end. This is a positive sign that if we continue to follow this historical roadmap, we may see equities recover post-election and move higher in the final two months of the year. Of course, there's plenty of hills for equities to climb between now and then but at least it has a seasonal tailwind.

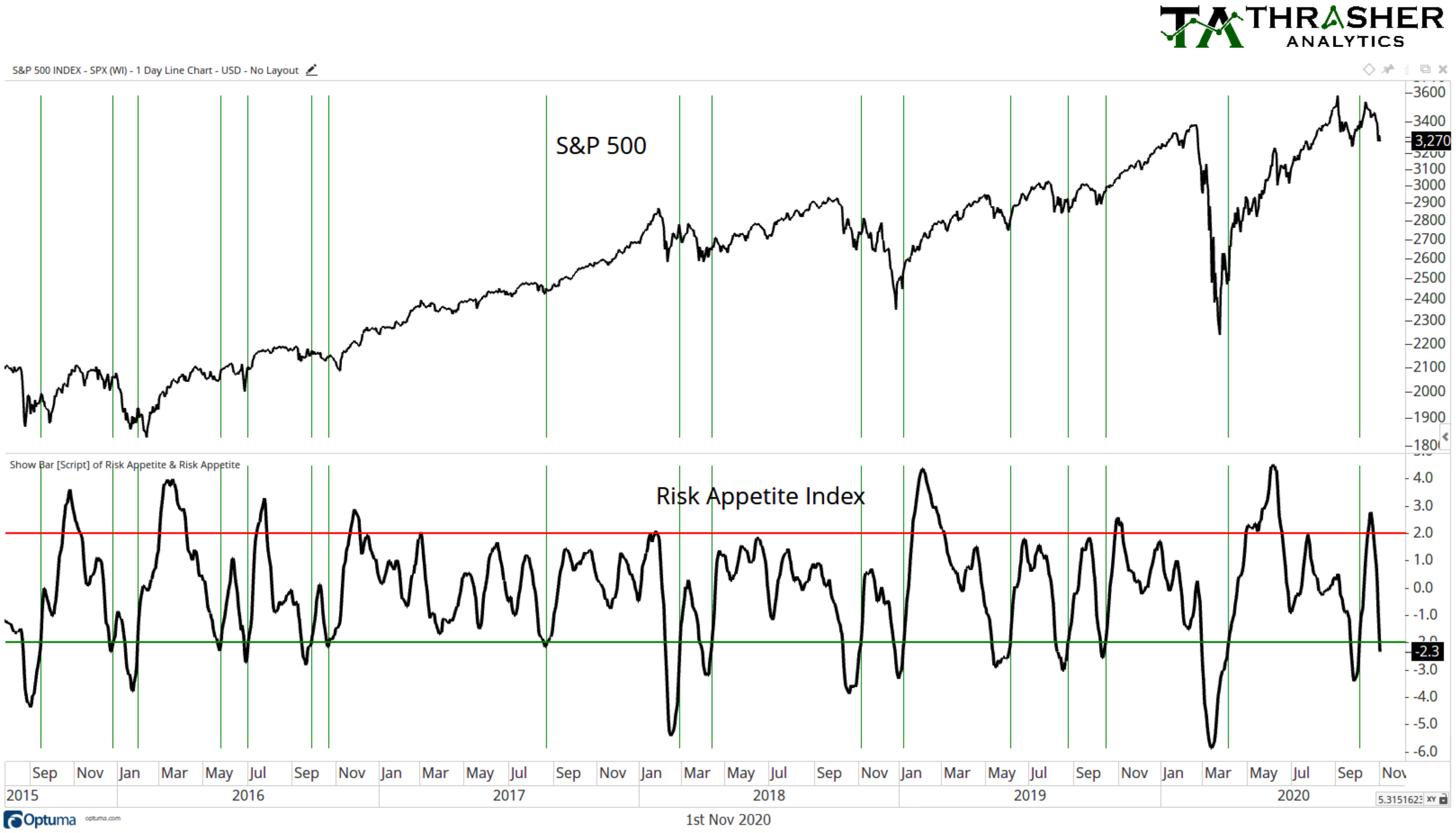


Equities - Sentiment

Sentiment for equities fell to 23% bullish based on the Daily Sentiment Index. Readings under 25% are traditionally 'oversold'. The green arrows on the chart below show prior times the S&P 500 sentiment has fallen under 25%, sometimes it marked a low but many times not. For price to go higher we need buyers to step back in (duh right?) which would cause sentiment to rise. So I've added a criteria with the blue vertical lines that sentiment needs to rise back above 40% bullish to suggest bulls have come out of hiding. This is far from perfect but gives us a framework to operate in. For instance in late '18 we had two bounces above 40% before the final low whereas the March '20 crash and the Jan/Feb '20 correction both didn't move back above 40% until selling dissipated. So while sentiment is low right now, I'd like to see it strength a bid to get confidence selling is close to being over.

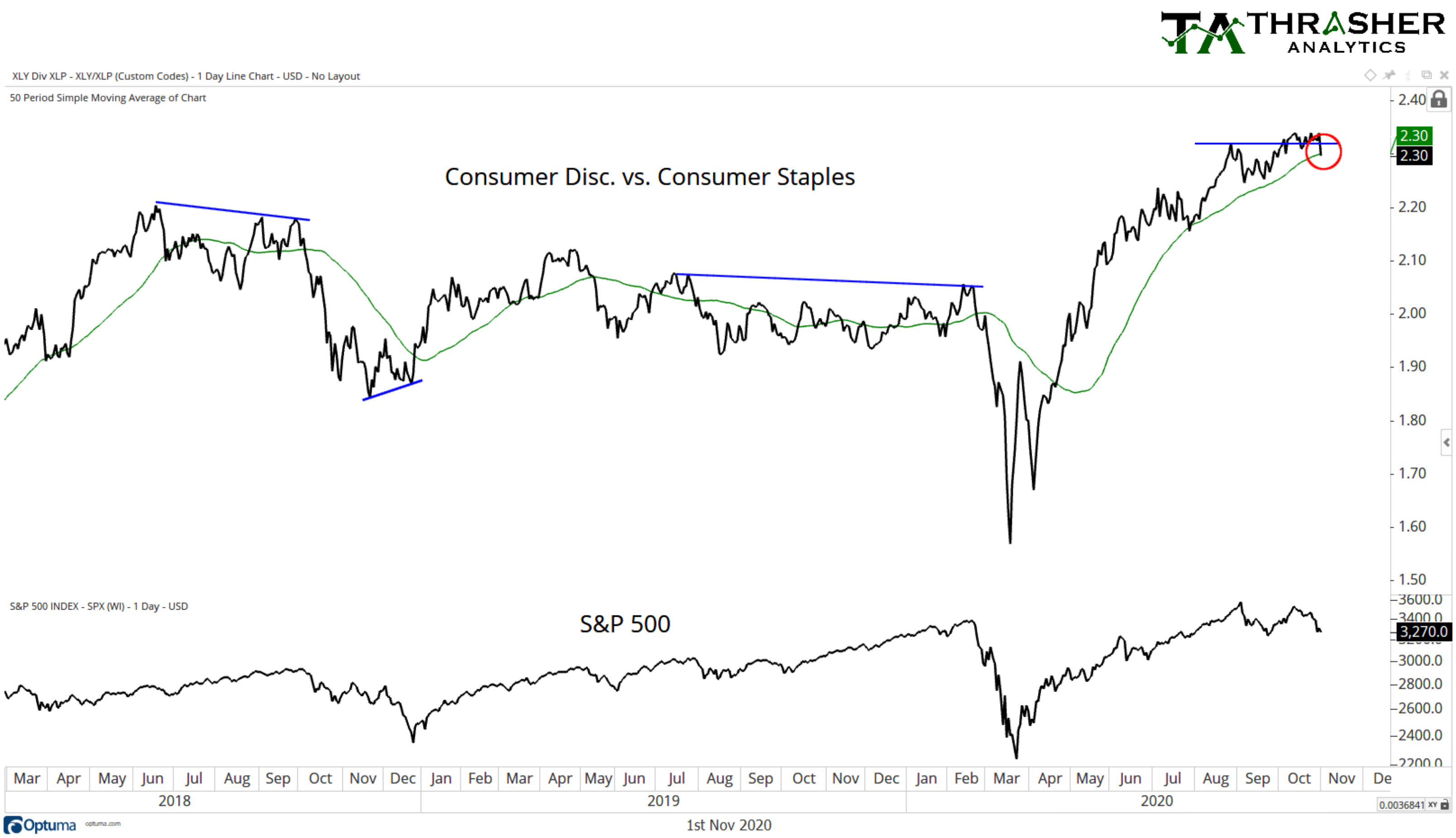


Similar to the above mentioned sentiment chart, my proprietary Risk Appetite Index has fallen to an 'oversold' level as well after last week's decline. Also like the sentiment chart, I'd like to see risk appetite improve to get confidence sellers have finished their work. The green lines on the chart show when the Risk Appetite Index goes from under 2 back above 2. Improvement in risk appetite would suggest bulls may have begun regaining control of the trend, this won't catch the absolute low but will provide - ideally - a more attractive area to get interested in risky assets again.



Equities - Consumer Ratio

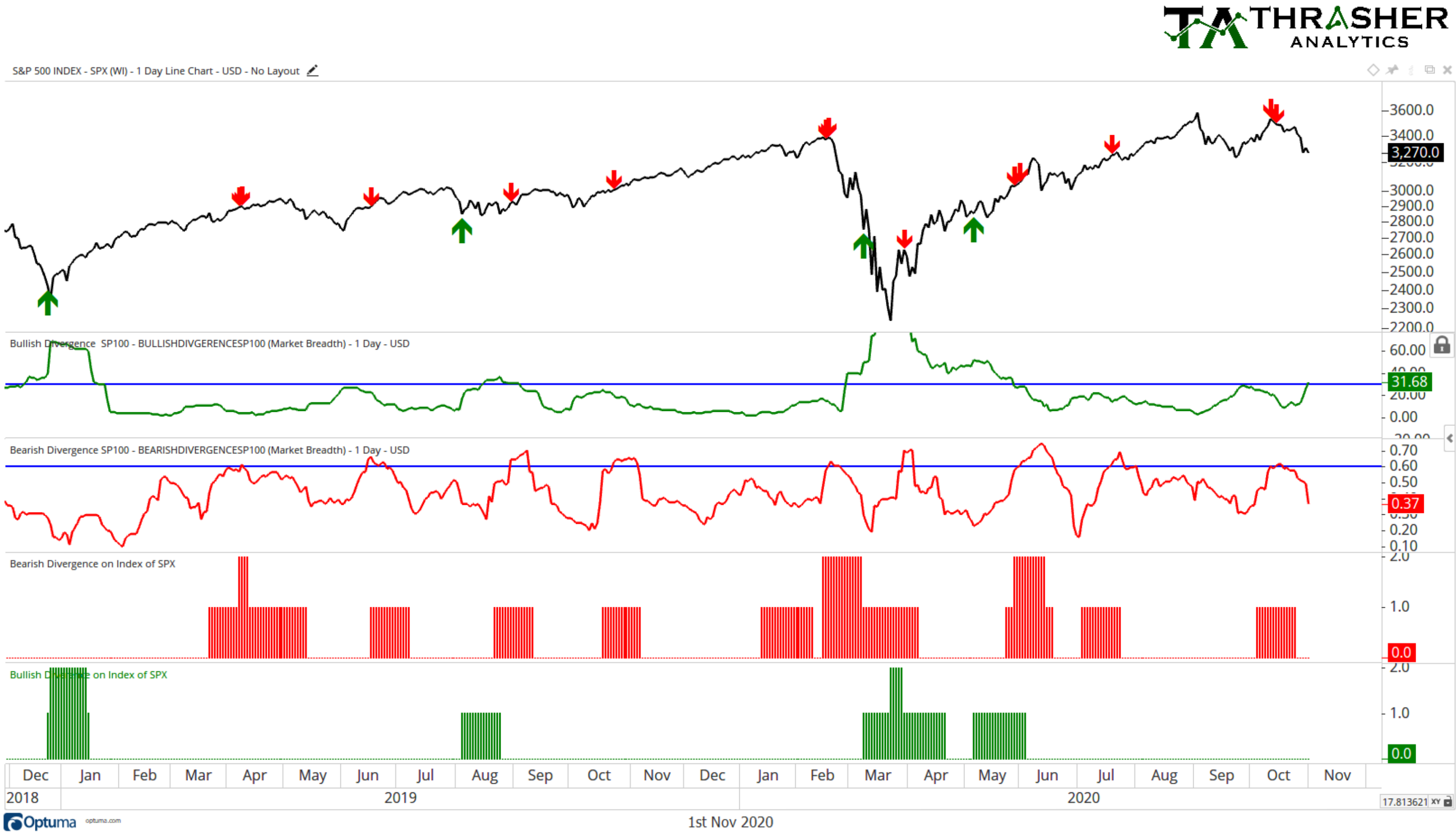
The ratio between Consumer Discretionary and Consumer Staples had held up well at the first part of the sell-off in equities. But Friday's takedown of Amazon -5.4% didn't do any favors for XLY. The ratio has now fallen below its prior high and is testing the 50-day moving average, an area that's held as support (to use the term loosely) in the past. Bulls want to see XLY re-establish its dominance over XLP, which would be a positive sign for risk assets and equities as a whole.



To better quantify the level of participation of individual equities in the trend of the broad market, (which is what breadth data attempts to accomplish), I've built a composite model of several breadth indicators, evaluating them based on their standing relative to their historical percentile. When SPX is hitting new 6-month highs but the composite is not, that suggests a divergence in many of the breadth indicators, a bad sign of equity trend participation. Likewise, when breadth is improving from a very low level, it's a bullish sign that individual stocks are advancing.

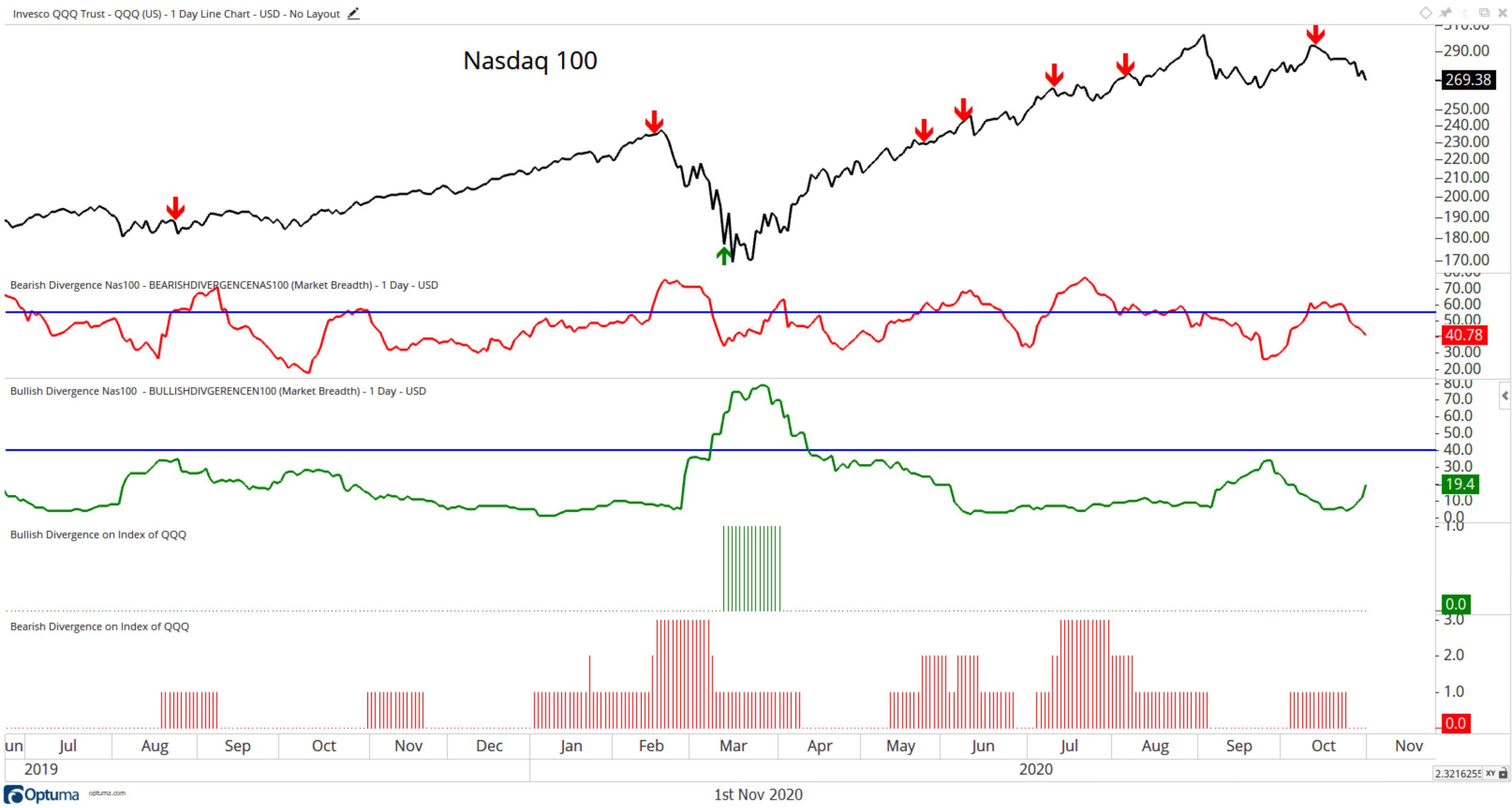
Right now the Breadth Composite has fallen to the low-end of its range, I want to see it rise back above .20 to show a strong starting level of rising participation. We last saw this take place a few days after the September low. We aren't there yet, but I'll update this chart as it develops.

Two weeks ago I highlighted 64% of equities had a bearish momentum divergence, that marked the peak in the current trend ahead of the 8.7% drawdown in SPX and 11% in NDY. Since then, bullish divergences have begun to accumulate with 31% of the S&P 100 with a bullish momentum divergence, matching what took place at the Sept. low but we've yet to see one develop on the SPX price chart as well.

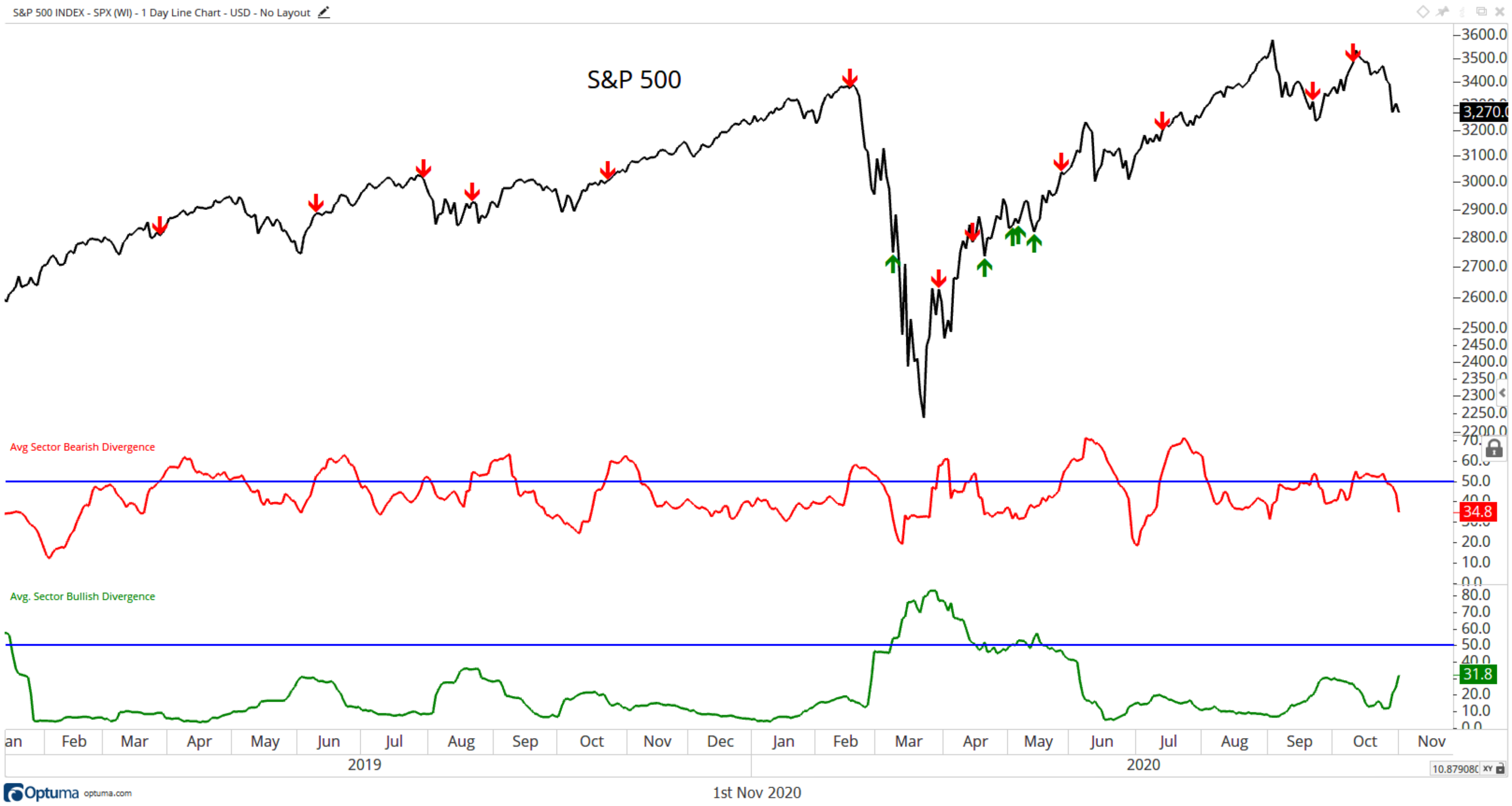


Equities - Divergences

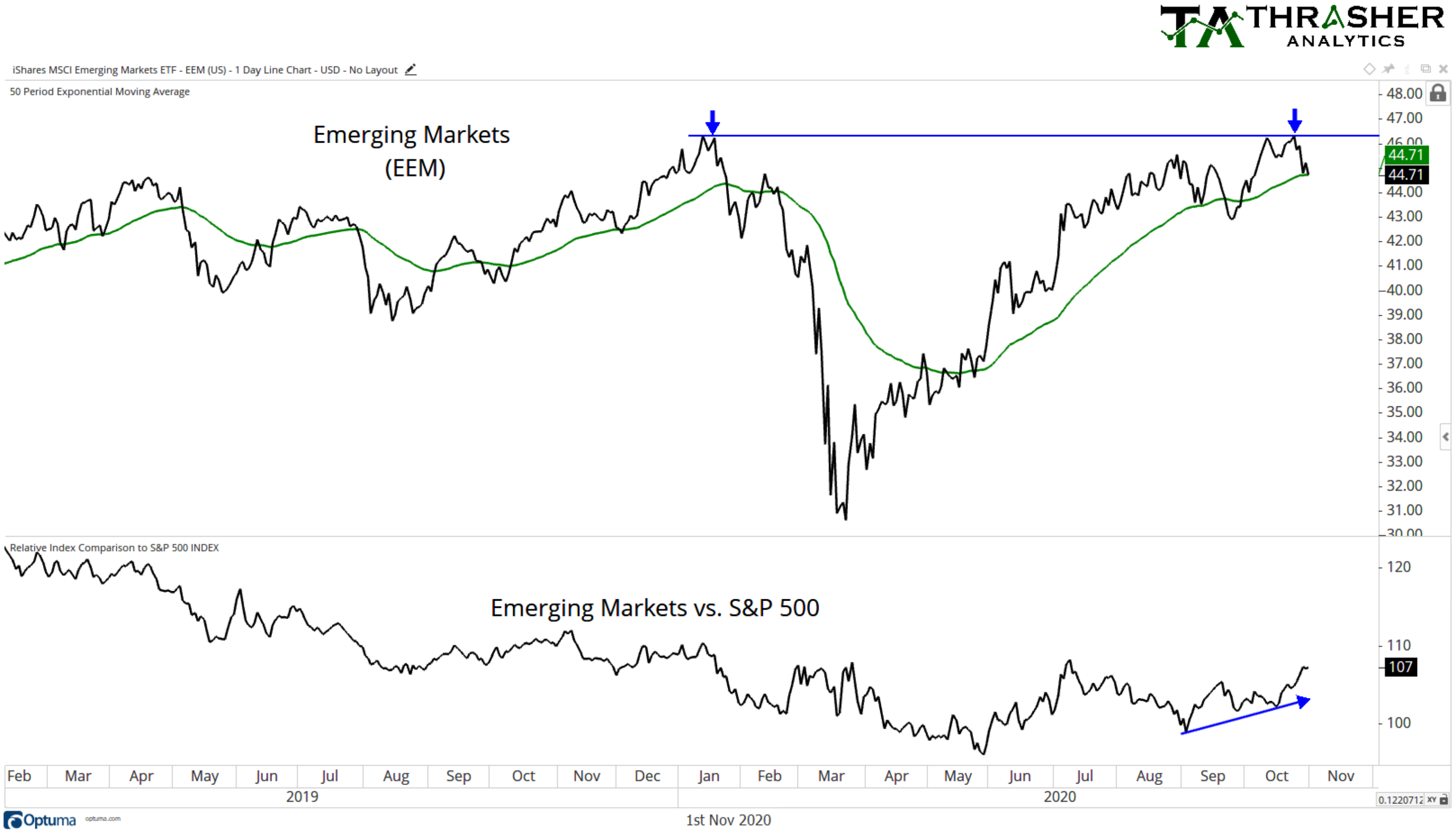
Like the S&P chart, the Nasdaq 100 also saw a large build up in divergences but as of Friday, only 19% have a bullish divergence.



The average S&P 500 sector has 31% of its stocks with a bullish and 34% with a bearish divergence. There's not a clear enough sign here yet to suggest which 'side' will take over so until then, I'm not putting too much weight on these current figures just yet.



Emerging Markets have been improving in relative performance but on an absolute basis, things have weakened. Below is the Emerging Market ETF (EEM), which recently double topped just above $46 and finished Friday right at its 50-day EMA. While it was unable to breakout, it has been creating a new up trend in relative performance against the S&P 500. If the current sell-off is short-lived then it's possible we see EEM as a leader in the next up trend, something we'll want to watch for in the coming weeks.



Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Utilities Select Sector Fund ETF	True	True	-3.66%	5.05%	2.72%	-2.38%
SPDR Real Estate Select Sector Fund ETF	False	False	-4.15%	-3.18%	-5.92%	-13.46%
SPDR Materials Select Sector Fund ETF	False	True	-4.27%	-0.72%	4.78%	7.36%
SPDR Communication Services Select Sector ETF	False	True	-4.69%	-0.34%	3.26%	17.3%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-4.79%	-2.87%	-0.8%	1.65%
SPDR Energy Select Sector Fund ETF	False	False	-5.5%	-4.11%	-20.66%	-50.66%
SPDR Financial Select Sector Fund ETF	False	False	-5.5%	-0.87%	-0.67%	-17.27%
SPDR Health Care Select Sector Fund ETF	False	False	-5.71%	-3.62%	-4.22%	7.17%
SPDR Technology Select Sector Fund ETF	False	True	-6.4%	-5.00%	2.9%	32.42%
SPDR Industrial Select Sector Fund ETF	False	True	-6.53%	-1.44%	5.38%	-4.4%
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	-6.55%	-2.73%	4.9%	17.67%

As I mentioned in when discussing the Consumer Ratio, XLY took a hit on Friday with the drop in Amazon after it reporting earnings (even though they were impressive, The Street apparently wanted more). Even though XLY is nearing its Sept. low, we still have 80% of the stocks above the 200-day MA and short-term breadth of % above 20-MA at the prior lows that preceded a bounce in price. The Momentum Composite has also fallen to an 'oversold' level that could lead to a mean-reversion bounce.

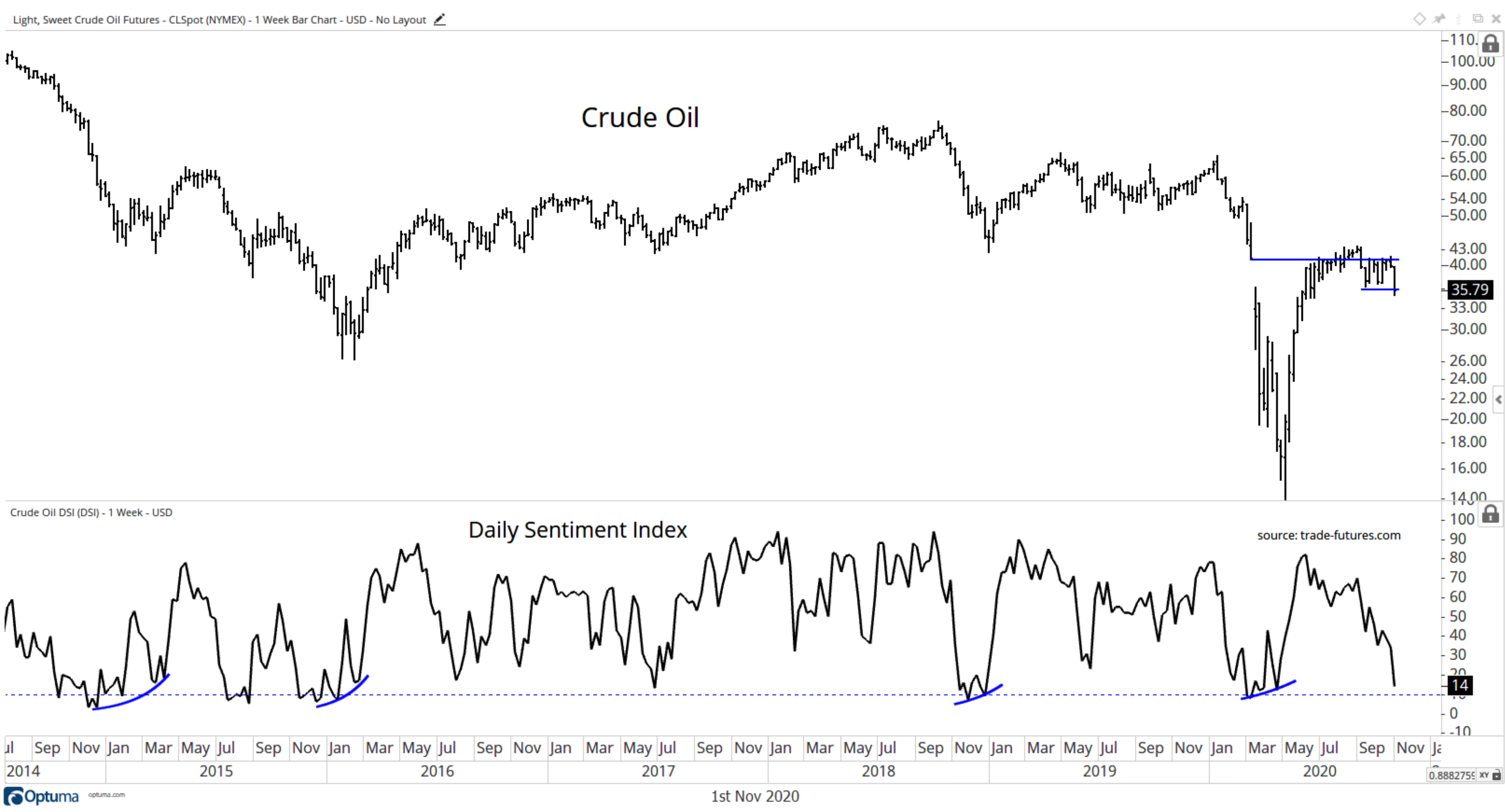
Sectors - Materials

The Materials Sector (XLB) has fallen back to its breakout point of the December '19 high and prior September low. A test and hold of this level would be a bullish sign for XLB, which is support by 89% of its stocks holding firm above their 200-day MA. Meanwhile, like XLY, the Momentum Composite Indicator is 'oversold' which could lead to a mean-reversion bounce.

Commodities - Oil

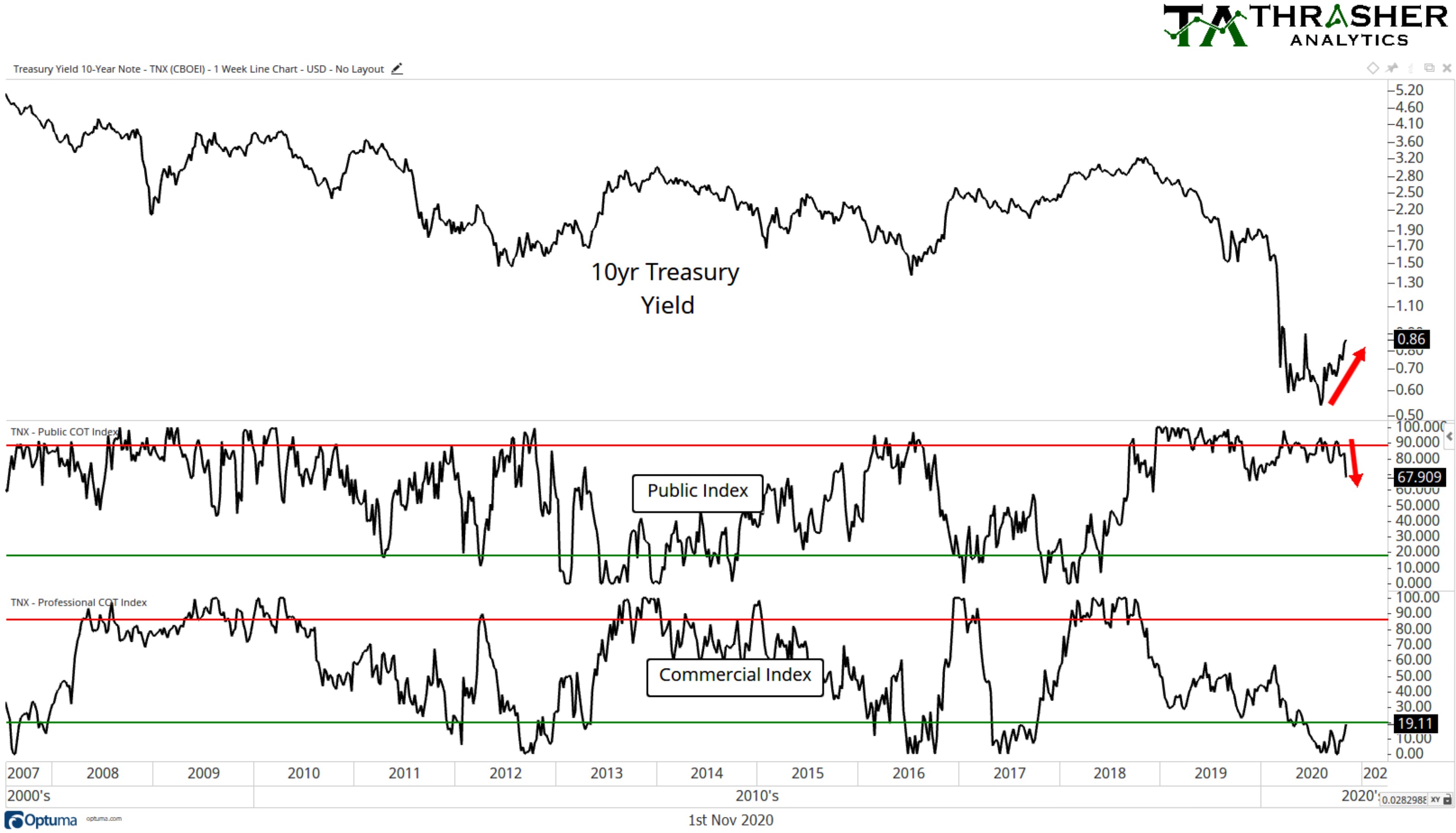
It shouldn't be too much of a surprise that oil has continued to fall, it's a chart I've discussed numerous times after it's inability to hold above the March gap down level. Oil has continued to consolidate under $40 and above $35. Sentiment has dropped to just 14% bullish, which is well under the 25% level that traditionally marks 'oversold' sentiment.

However, as I've shown in the chart we commonly have seen DSI get near 10% and then setup a bullish divergence with price. This happened in March and at the end of 2018 as well as a few other times since 2014. This suggest we could see oil continue to drop, allowing the opportunity for sentiment to begin to improve ahead of the final low.



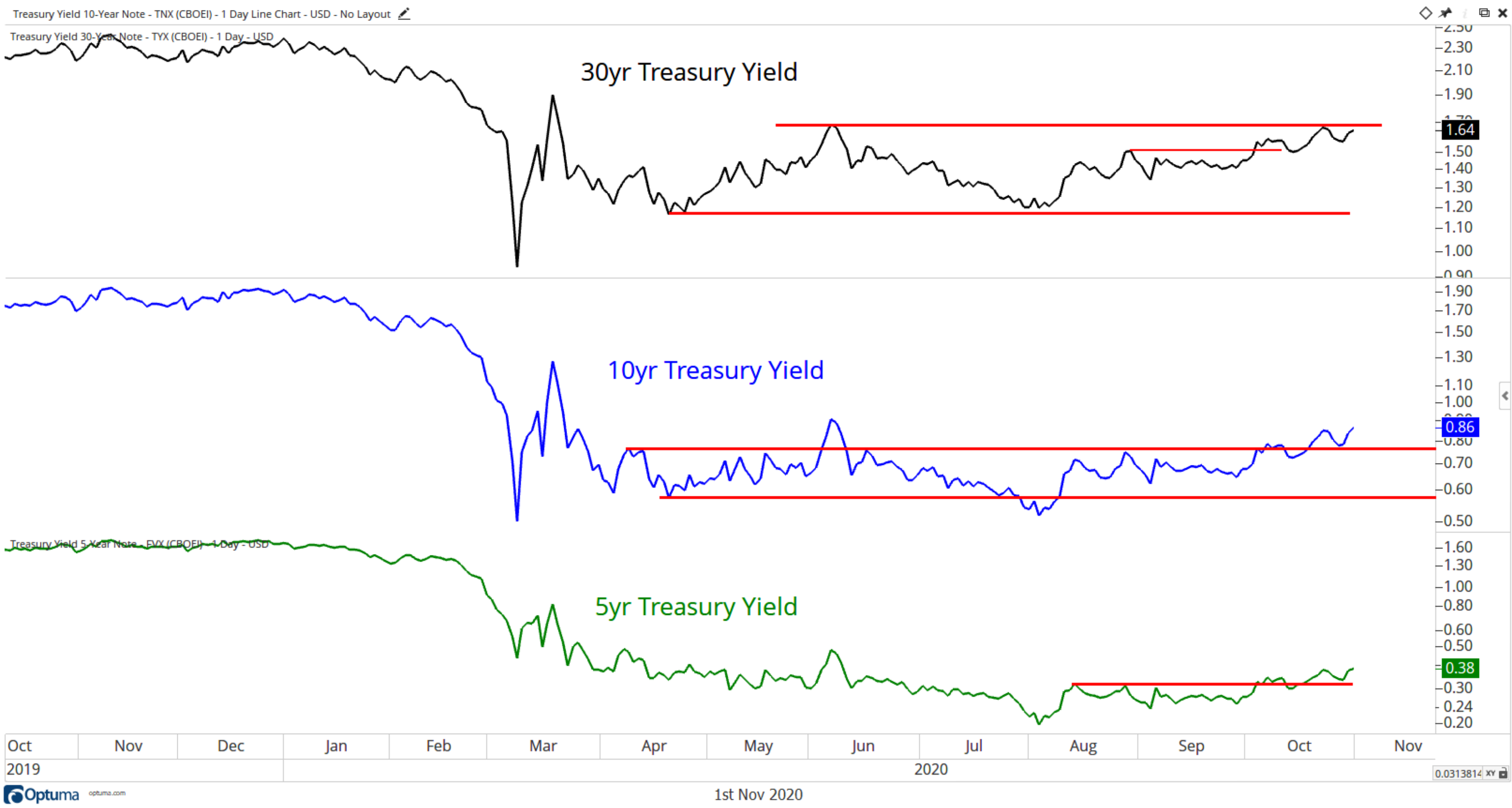
Fixed Income - COT

With the rise in Treasury yield's, Small Traders (Public Index) have begun to abandon their bullish bond bets. After sitting around a 90th %tile, the Public Index dropped to 67th %tile with Commercial Traders still holding firm to their bearish bond position.



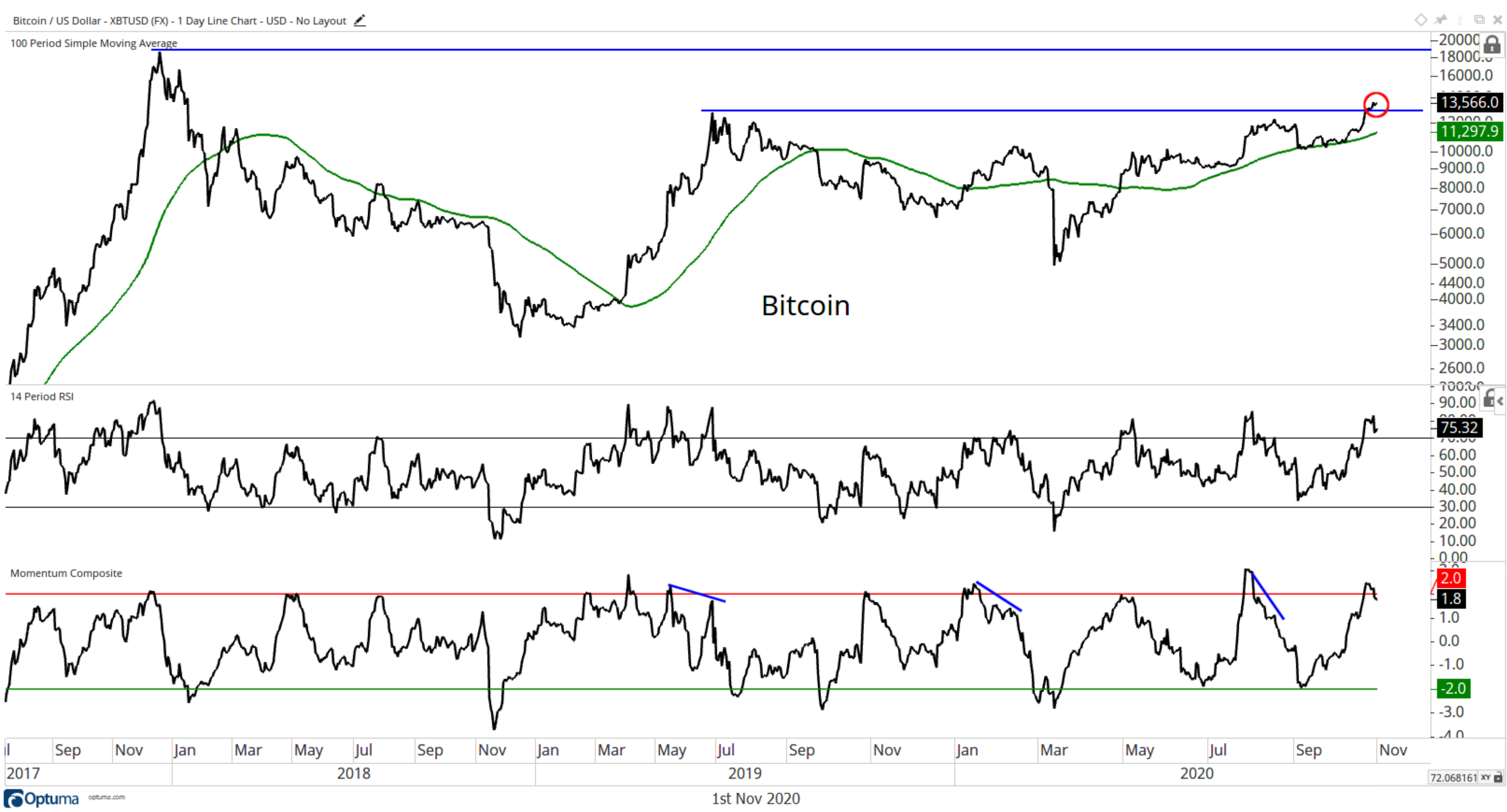
Fixed Income - Yield Breakout

Long-term bonds didn't provide much relief for diversified investors, with TLT down (although marginally) on the week as equities slid 6%. In fact while stocks have been negative the last two weeks so have bonds, making it hard for investors seeking risk protection in gov't fixed income. 10yr and 5yr Yield has held their breakouts and we're close to seeing 30yr Yield move above 1.7%



Bitcoin

Bitcoin saw a major breakout over $13,000 leaving the next price target of bulls at $18,000. With the strong move in BTC, the Momentum Composite and RSI have moved 'overbought' which could pose a headwind for further upside. I'd first point out that prior drops in bitcoin were led by bearish divergences in the Momentum Composite, so we could see a little more juice squeezed if it sets up for another divergence. On the downside I'm watching the 100-day moving average which was good support on prior dips. I think the longer-term prospects for the price action in BTC are there, but short-term it may need to digest these gains.



Daily Sentiment Index

1 Day - Watch List - No Layout

	Market	% Bullish	5MA	History
	Crude Oil DSI	14	23.6	
	Lumber DSI	15	13.8	
	Coffee DSI	15	17.2	
	Gold DSI	20	22.4	
	SPX DSI	23	33.60	
	CRB Index DSI	23	30.40	
	Silver DSI	26.00	22.4	
	Australian Dollar DSI	29.00	33.60	
	Heating Oil DSI	30.00	35.40	
	Cocoa DSI	31.00	45.80	
	Platinum DSI	35.00	41.80	
	Swiss Franc DSI	37.00	46.40	
	Palladium DSI	37.00	45.00	
	Nasdaq DSI	37.00	43.40	
	Gasoline DSI	40.00	46.20	
	British Pound DSI	42.00	44.00	
	VIX DSI	43.00	37.60	

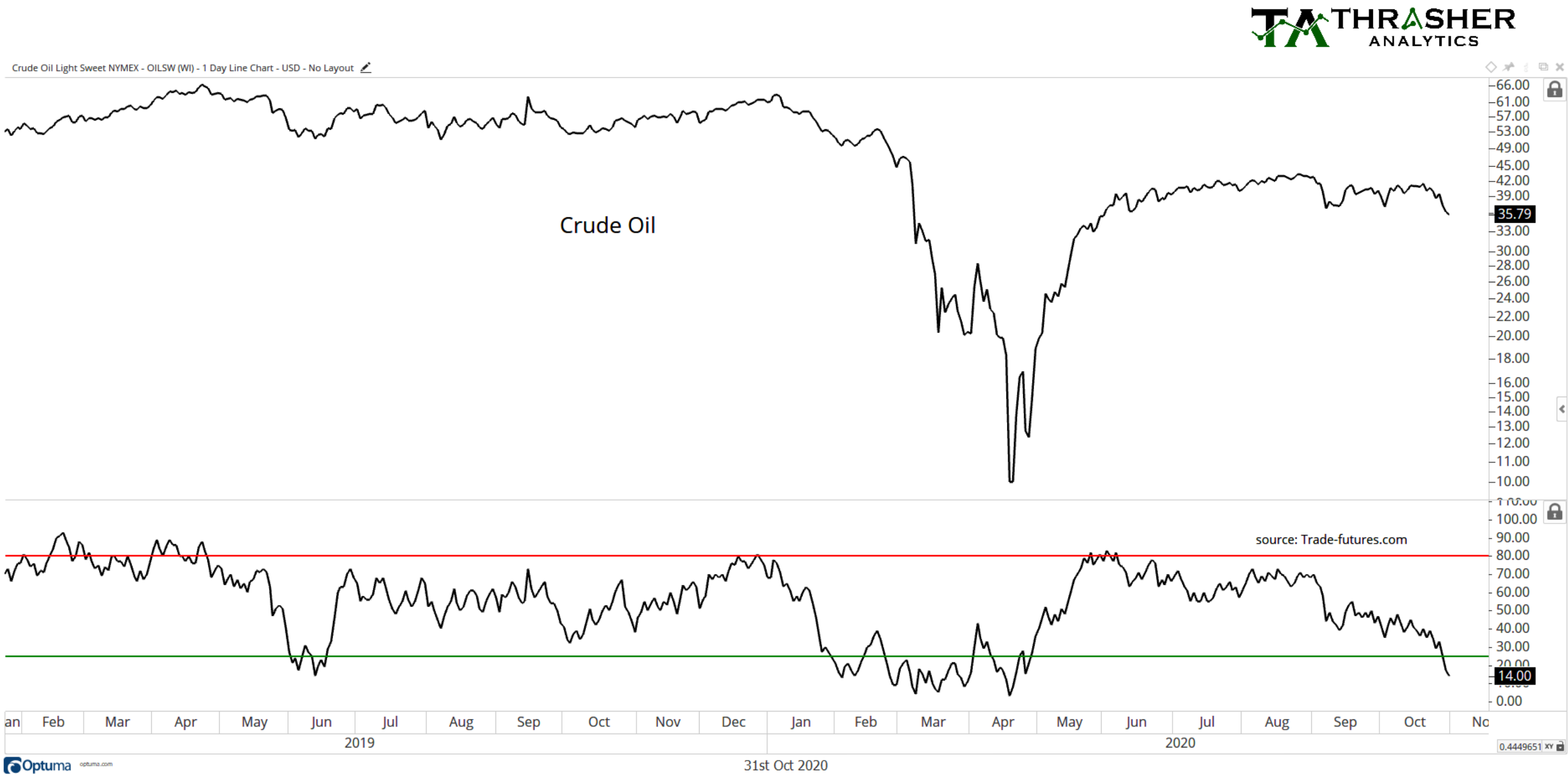
1 Day - Watch List - No Layout

	Code	% Bullish	5MA	History
	US Dollar DSI	49.00	39.80	
	Nikkei DSI	51.00	57.80	
	Euro DSI	52.00	49.60	
	10Y DSI	52.00	57.80	
	New Zealand Dollar DSI	55.00	57.20	
	5YR DSI	56.00	58.80	
	Wheat DSI	57.00	67.20	
	Natural Gas DSI	57.00	52.40	
	Copper DSI	61.00	67.60	
	Corn DSI	63.00	72.40	
	Cotton DSI	65.00	74.60	
	Lean Hog DSI	67.00	71.80	
	Cattle DSI	68.00	56.00	
	Sugar DSI	70.00	75.60	
	Orange Juice DSI	70.00	65.00	
	Mexican Peso DSI	70.00	76.00	
	EuroDollar DSI	74.00	74.00	

Source: trade-futures.com

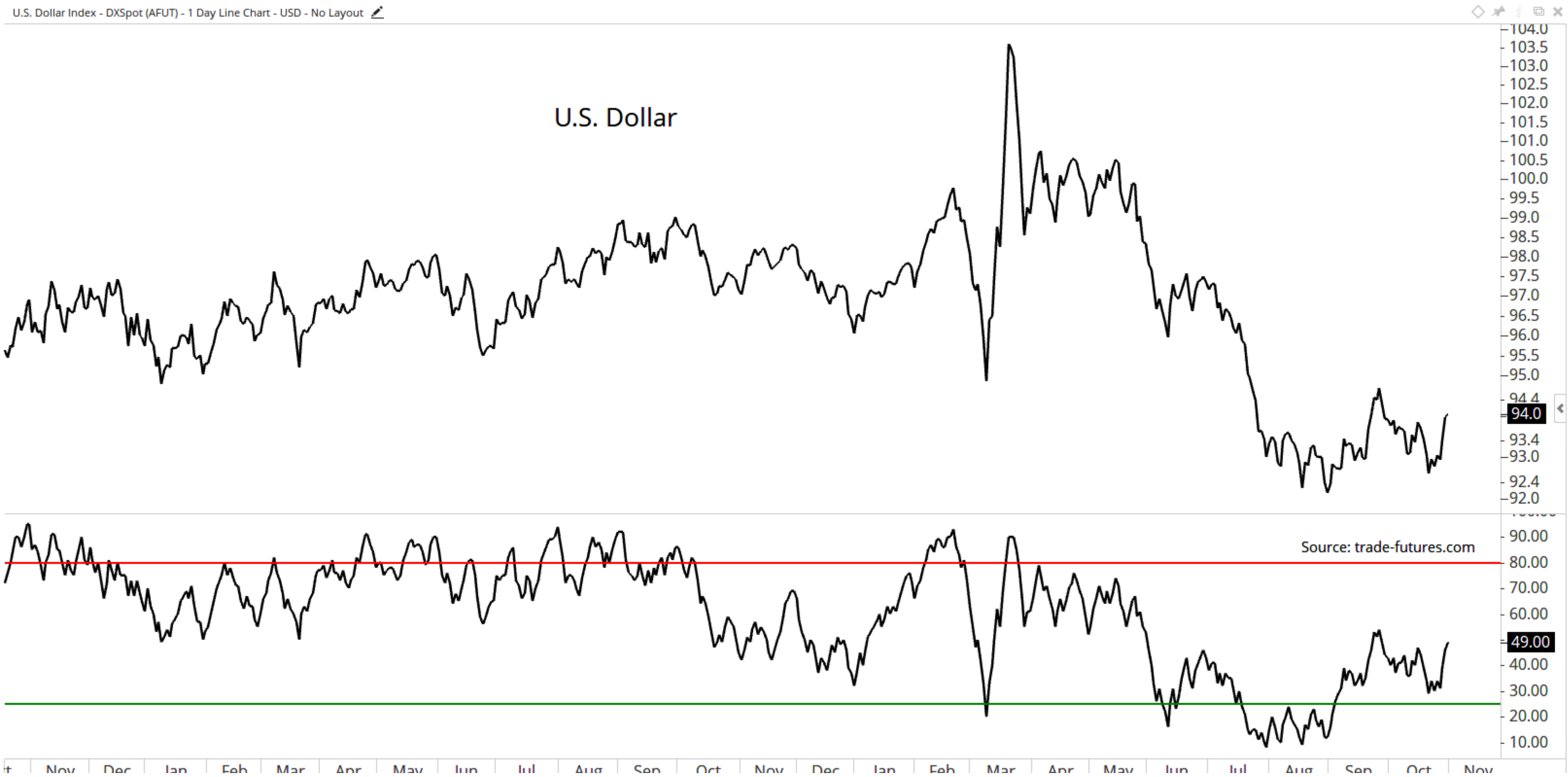

THRASHER ANALYTICS
10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
138.22
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
52.00
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
2019
2020
31st Oct 2020
Optuma

Daily Sentiment Index



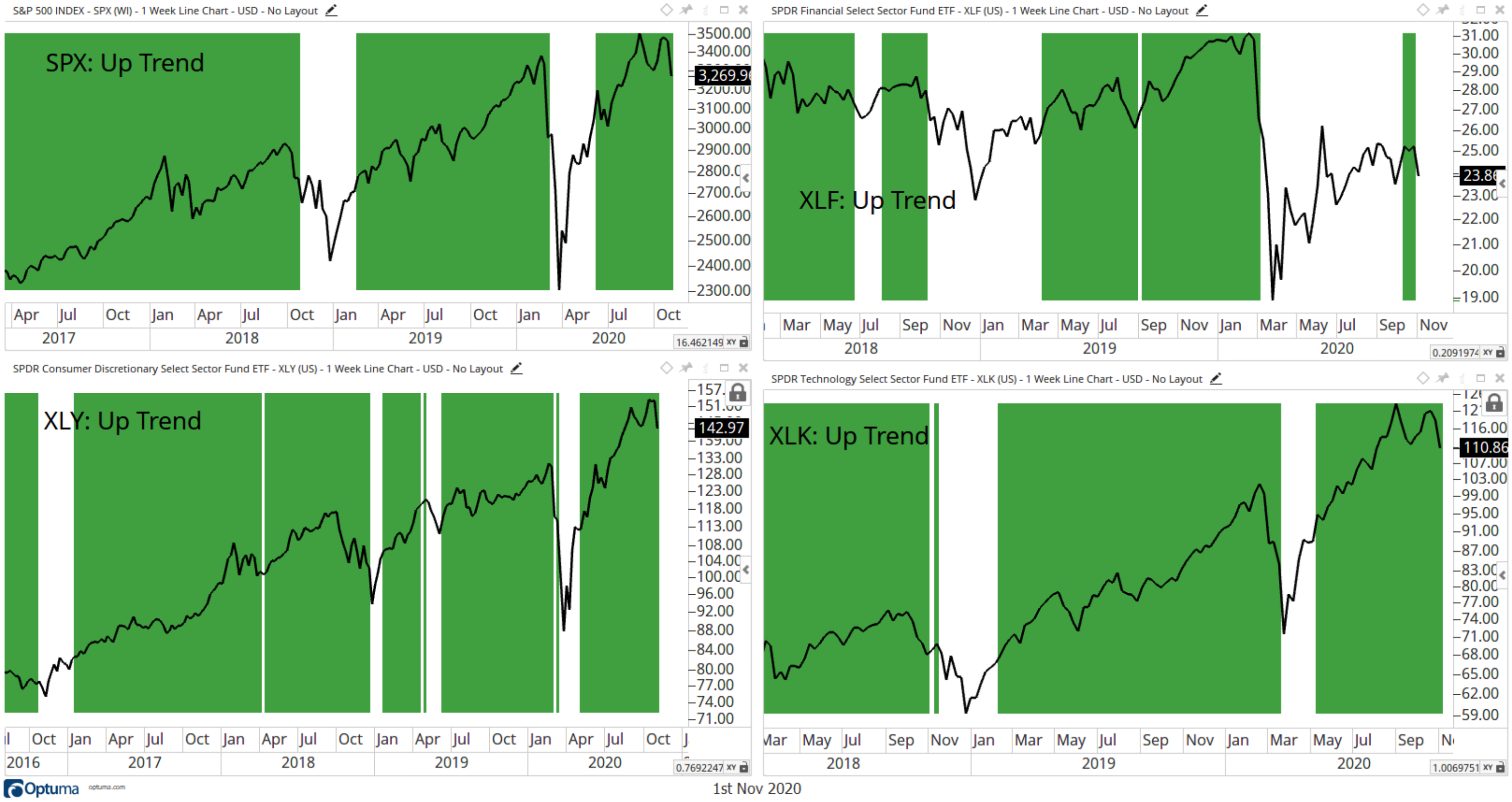

THRASHER ANALYTICS
Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
Gold DSI (DSI) - 1 Day - USD
Source: trade-futures.com
1,879.90
20.00
2018
2019
2020
Optuma
31st Oct 2020

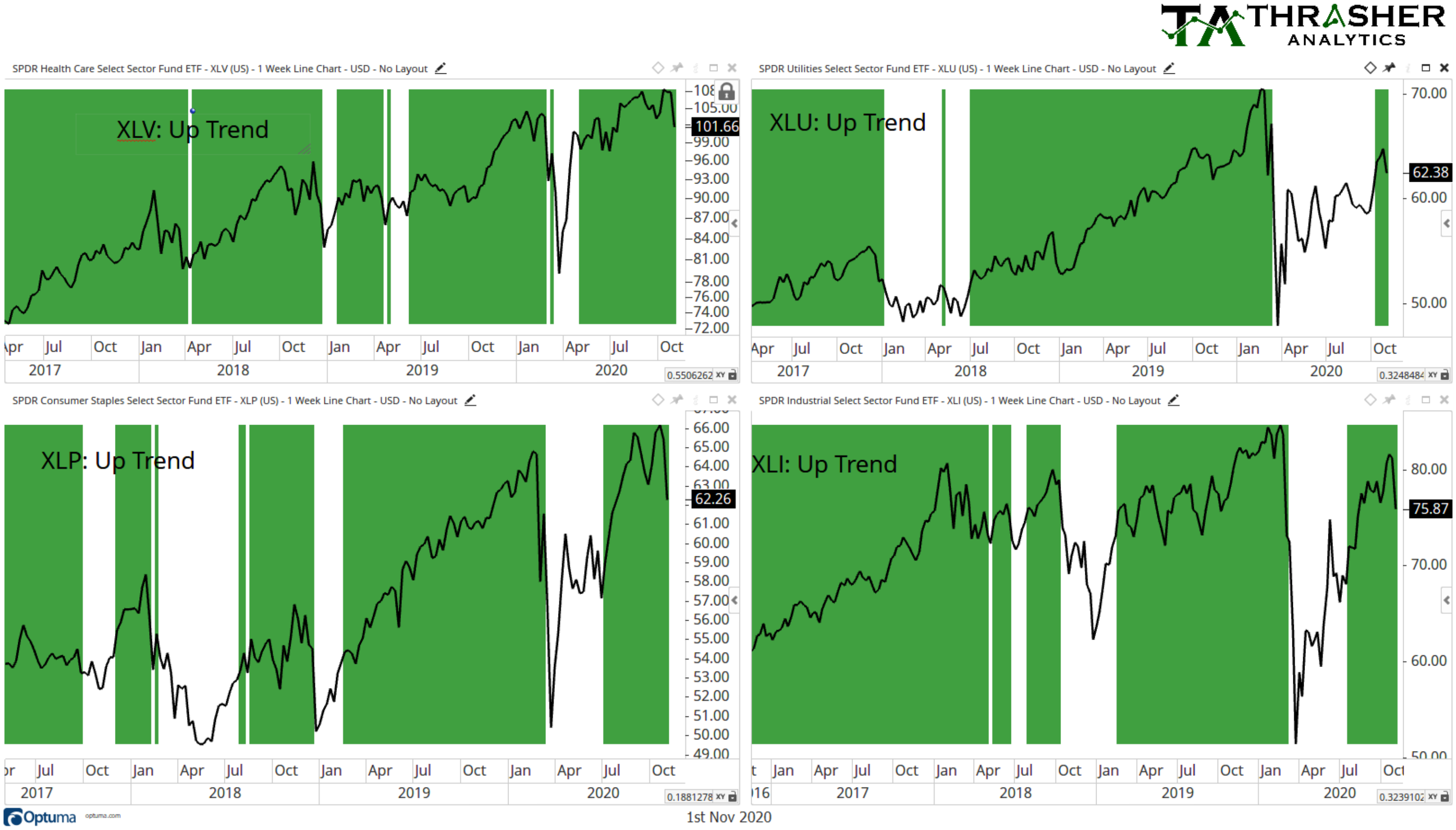
Daily Sentiment Index

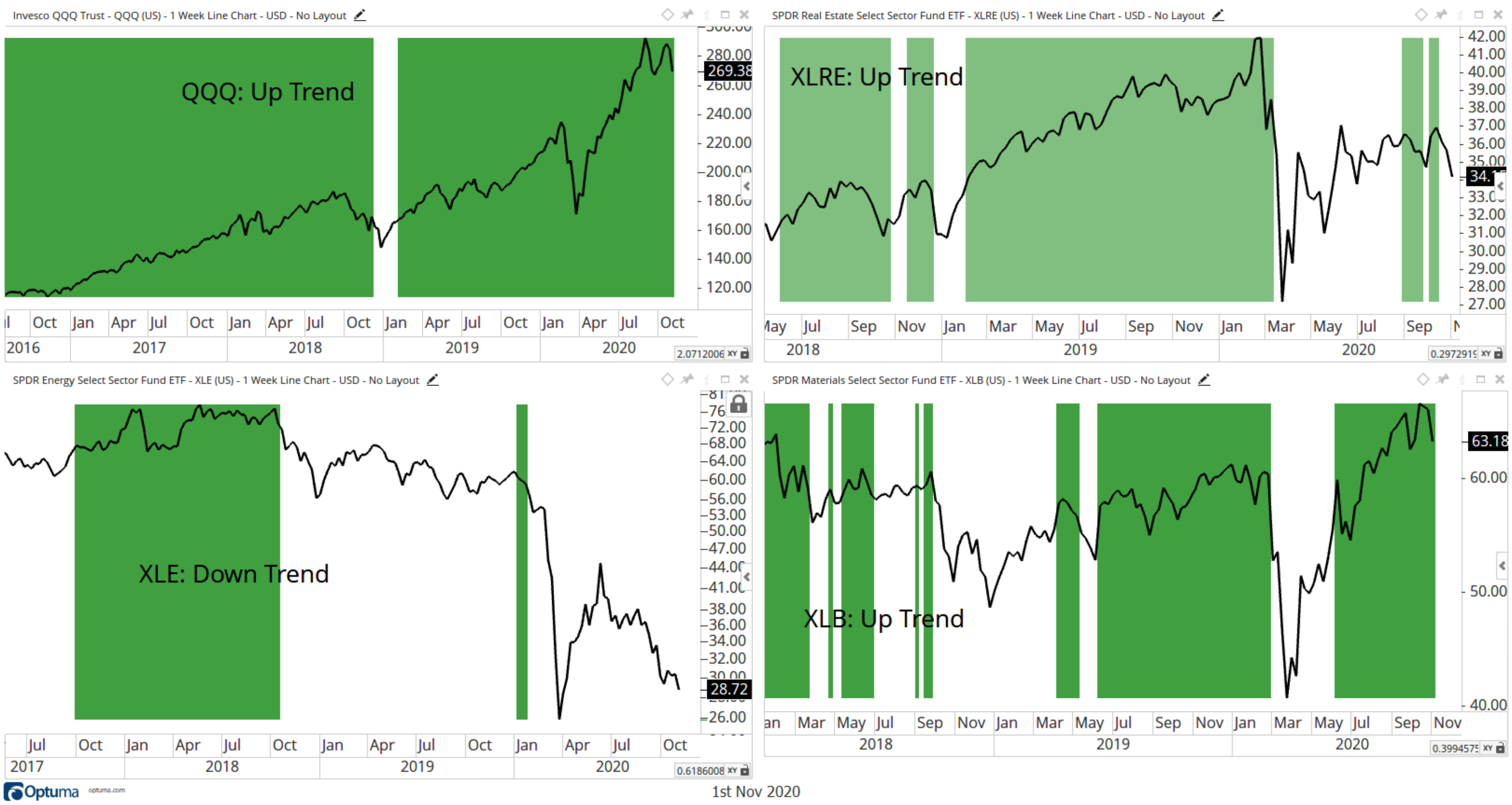

U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
Source: trade-futures.com
94.0
49.00


CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
VIX
Source: trade-futures.com
38.0
43.0

Daily Sentiment Index


S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout
SPX: Up Trend
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout
XLF: Up Trend
SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout
XLY: Up Trend
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout
XLK: Up Trend
Optuma
1st Nov 2020


THRASHER ANALYTICS
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout
XLV: Up Trend
101.66
SPDR Utilities Select Sector Fund ETF - XLU (US) - 1 Week Line Chart - USD - No Layout
XLU: Up Trend
62.38
SPDR Consumer Staples Select Sector Fund ETF - XLP (US) - 1 Week Line Chart - USD - No Layout
XLP: Up Trend
62.26
SPDR Industrial Select Sector Fund ETF - XLI (US) - 1 Week Line Chart - USD - No Layout
XLI: Up Trend
75.87
2017
2018
2019
2020
Optuma
1st Nov 2020


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
SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout
XLB: Up Trend
Optuma
1st Nov 2020

DISCLAIMER: