

TA THRASHER ANALYTICS

DECEMBER 6, 2020



WEEKLY RESEARCH & ANALYSIS

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Bullish

- Seasonality
- Trend Model remains positive for almost all sectors and indices.
- The VRT 2.0 has not signaled.
- Large % of stocks in defined up trends based on the ADX.
- Canadian equities breakout.

Bearish

- Equities are stretched relative to the 200-day MA.
- Market leader, semiconductors, has become extremely overbought.
- Nearly every index is at a 52-week high.
- Breadth Thrusts have begun to cluster.
- FAAMG continues to lag.

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Volatility

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Sector Rotation: Dec.

Materials	XLB
Industrials	XLI
Financails	XLF

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

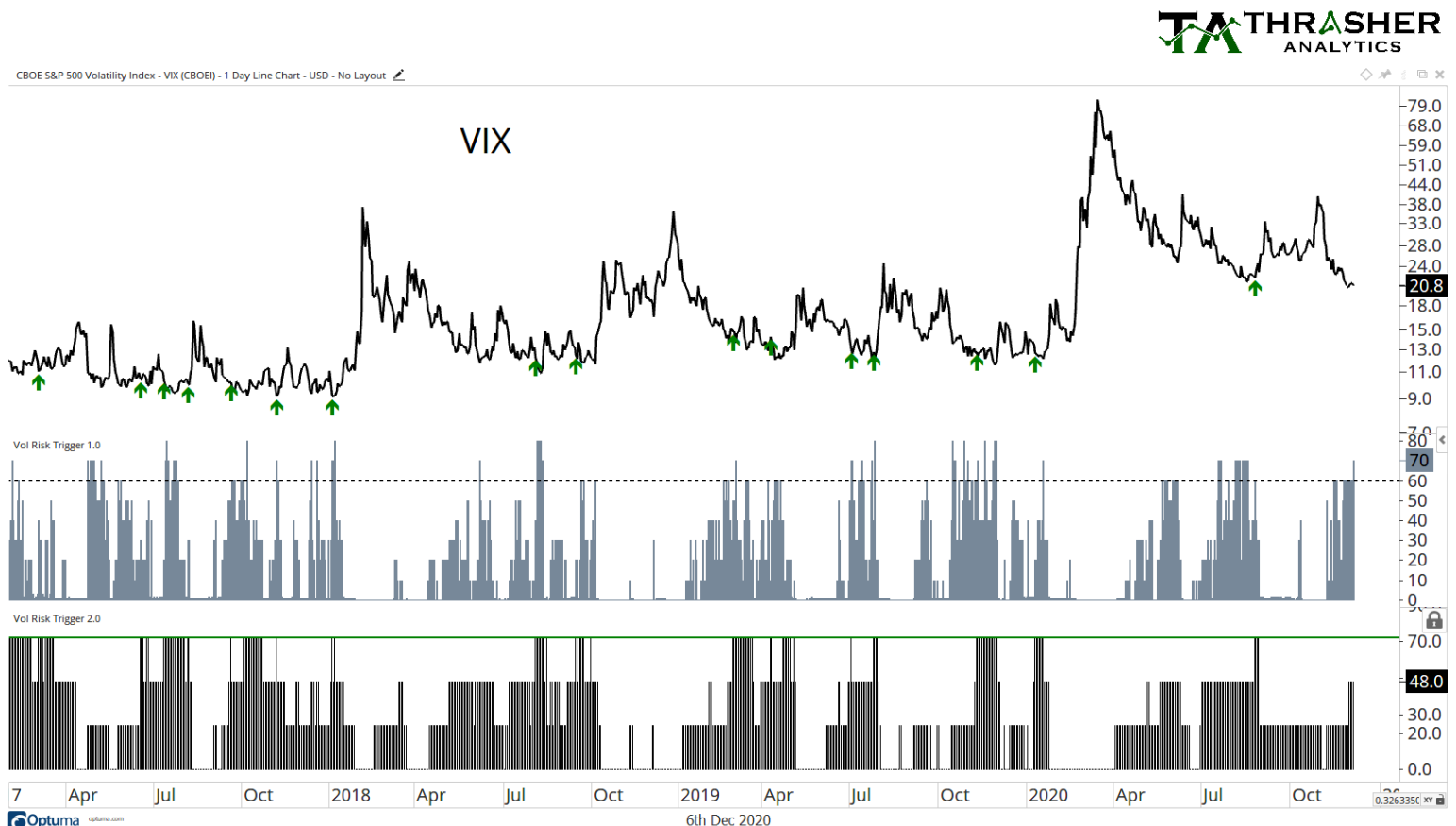
	% Bullish	5-day MA
S&P 500	83%	80%
Nasdaq 100	85%	85%
Nikkei	84%	84%
VIX	18%	18%
10yr Treasury	51%	57%
5yr Treasury	53%	56%
CRB Index	76%	71%
Gold	33%	28%
U.S. Dollar	21%	25%

*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).

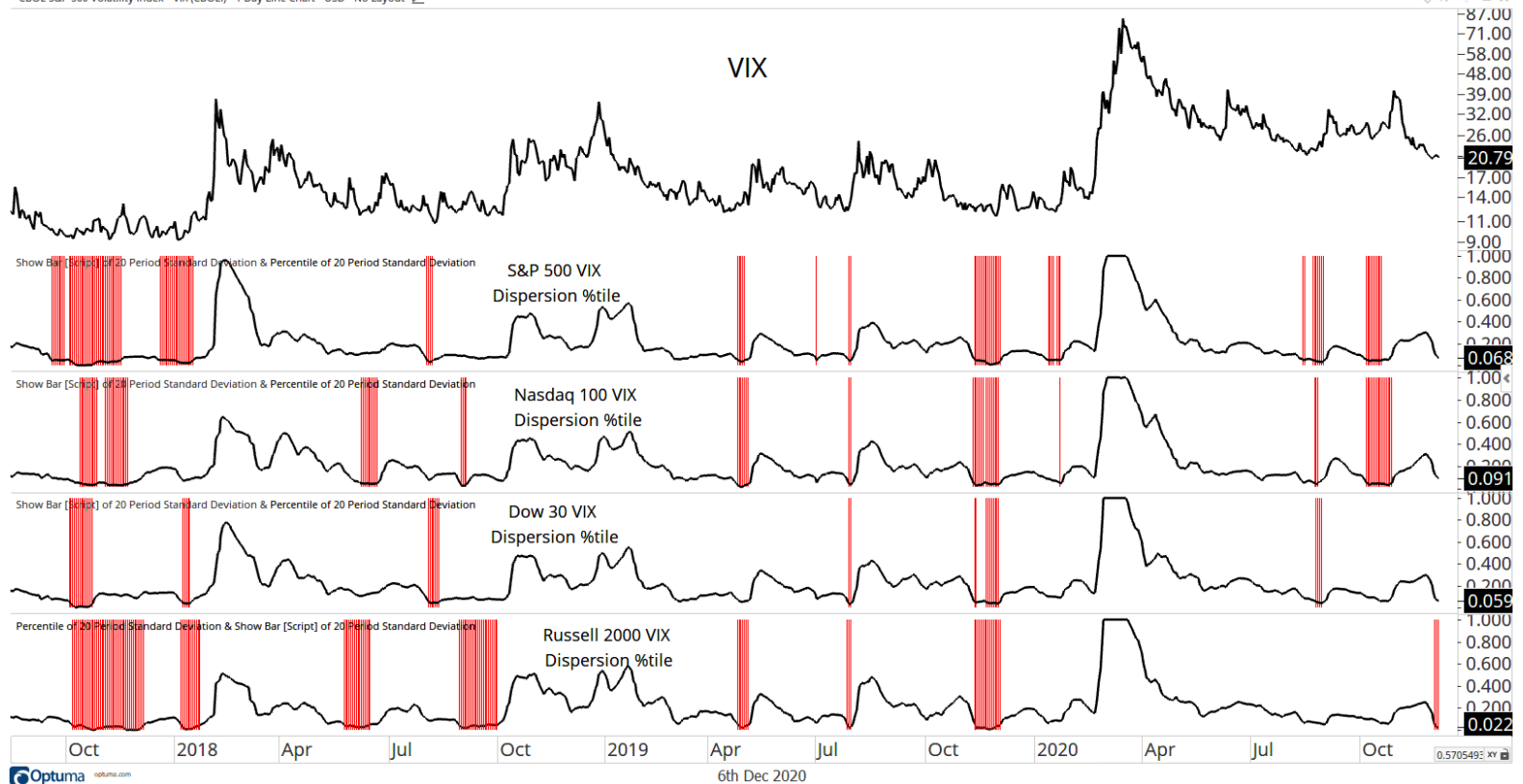
The Volatility Risk Trigger 2.0 has not confirmed the signals produced by the VRT 1.0 in the last three weeks. Volatility continues to compress but has not reached the level to warrant a serious increase in risk of a vol spike. Not only is dispersion compressing for the VIX but the other vol indices for the other major indices as well are seeing compression, the chart of this is on the next page.



As I mentioned on the prior page, volatility dispersion for the VIX (based on S&P options) and the Volatility Index for the Dow, Russell 2000, and Nasdaq 100 are also declining. Of the major indices, just the Russell 2000 is seeing its Volatility index reach a substantively low level.



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



We finished last week with broad market strength -new highs were put in for Nasdaq 100, S&P 100, S&P 600, S&P 400, S&P 500 and the Dow Jones Industrial Average, and Dow Jones Transportation Average. Interestingly, most of the above mentioned indices have a 14-day RSI that's still below 70, except for S&P 400 which has a RSI of exactly 70 and S&P 600 with an RSI of 70.7. All the major indices have momentum indicators that are trending higher and I'd assume if we see further strength this week we'll see their RSI readings breach the 70 level, a short-term bearish sign but a long-term positive condition. The fact that so many indices hit a high all at once is fairly unique and I'll share that chart on the next page.



It's not unique to see the indices be highly correlated, rising and falling together. What is unique is to not have some leaders and laggards among the group of U.S. indices. Typically, we'll have large caps leading or small caps breaking out first, maybe Industrials are rising ahead of Transports or its the Nasdaq composites that are lagging. In a typical market environment theirs a degree of rotation that shows up among the indices.

However, right now they are all shifting in high gear and on Friday just about everyone hit a new 52-week high: S&P 500, S&P 400, S&P 600, Nasdaq 100, Nasdaq Composite, Dow Jones Industrial, and Dow Jones Transport. It's not just small caps, or tech-heavy Nasdaq, it's not a focus on industrials or mega caps. It's everything. And that speaks volumes to the sentiment flowing through the veins of the financial system right now.

We last saw an "everything to a new high" in January and before that, January '18. You can see the other occurrences on the chart below. While new highs are bullish, it appears when EVERYTHING is hitting a new high it brings about some short-term weakness of varying degree.

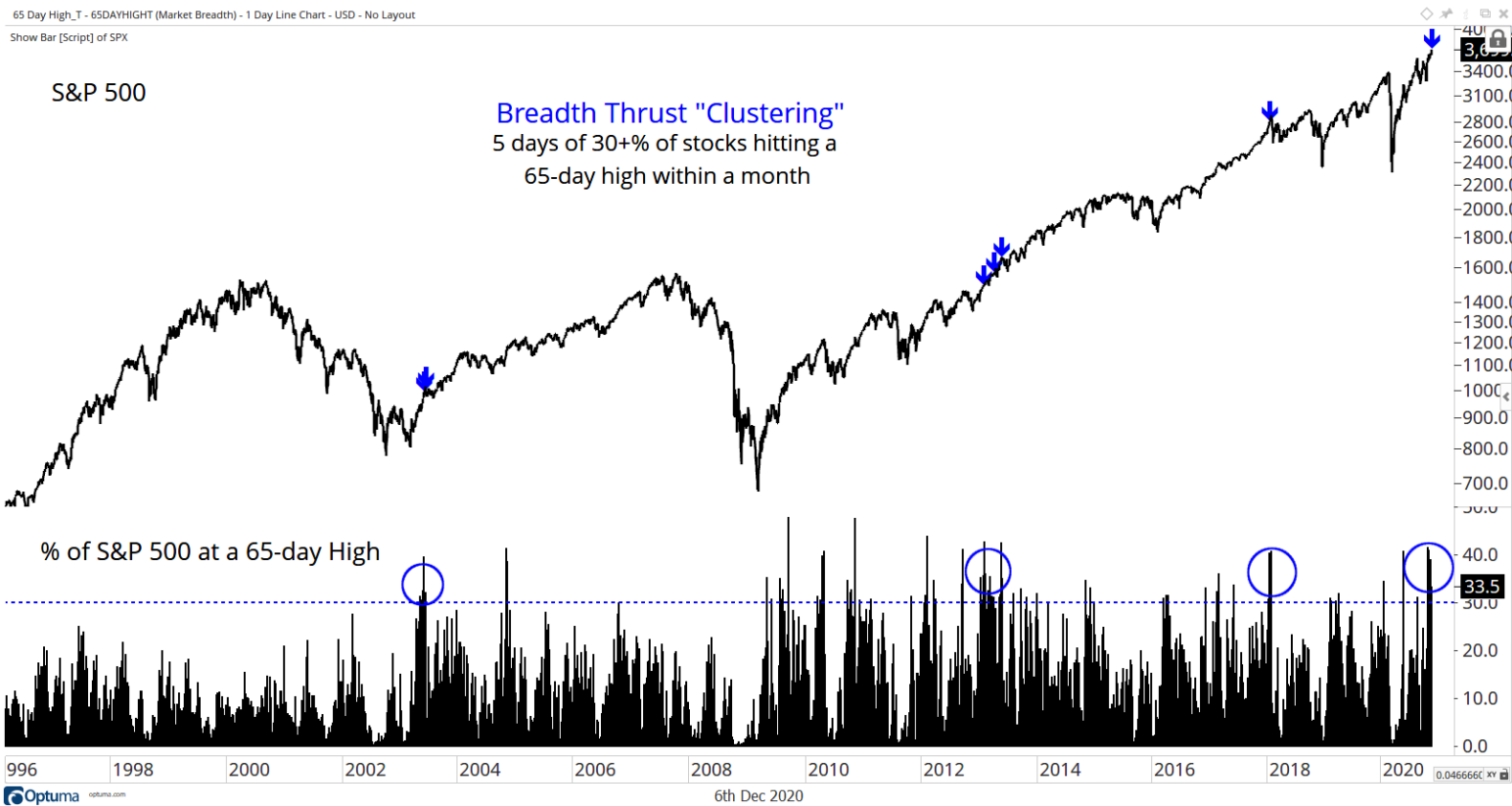


EQUITIES - NEW HIGHS



One method for looking for a breadth thrust is a day when 30+% of stocks hit a 65-day high (roughly 3 months). These days signify strong market internals and first occurred after the March crash in June and didn't happen again until September. As you can see on the chart below, having 30+% of stocks hit a 3-month high doesn't happen often, making it unique when it does occur. What's even less common is seeing clusters of these days like we are experiencing right now. In fact, there's been 5 such days in the last month, the most since January 2018. Before '18 it happened in 2013 and after the end of the bear market in 2003. This clustering suggests extremely aggressive buying activity as traders put pressure on individual stocks to continuing hit new highs.

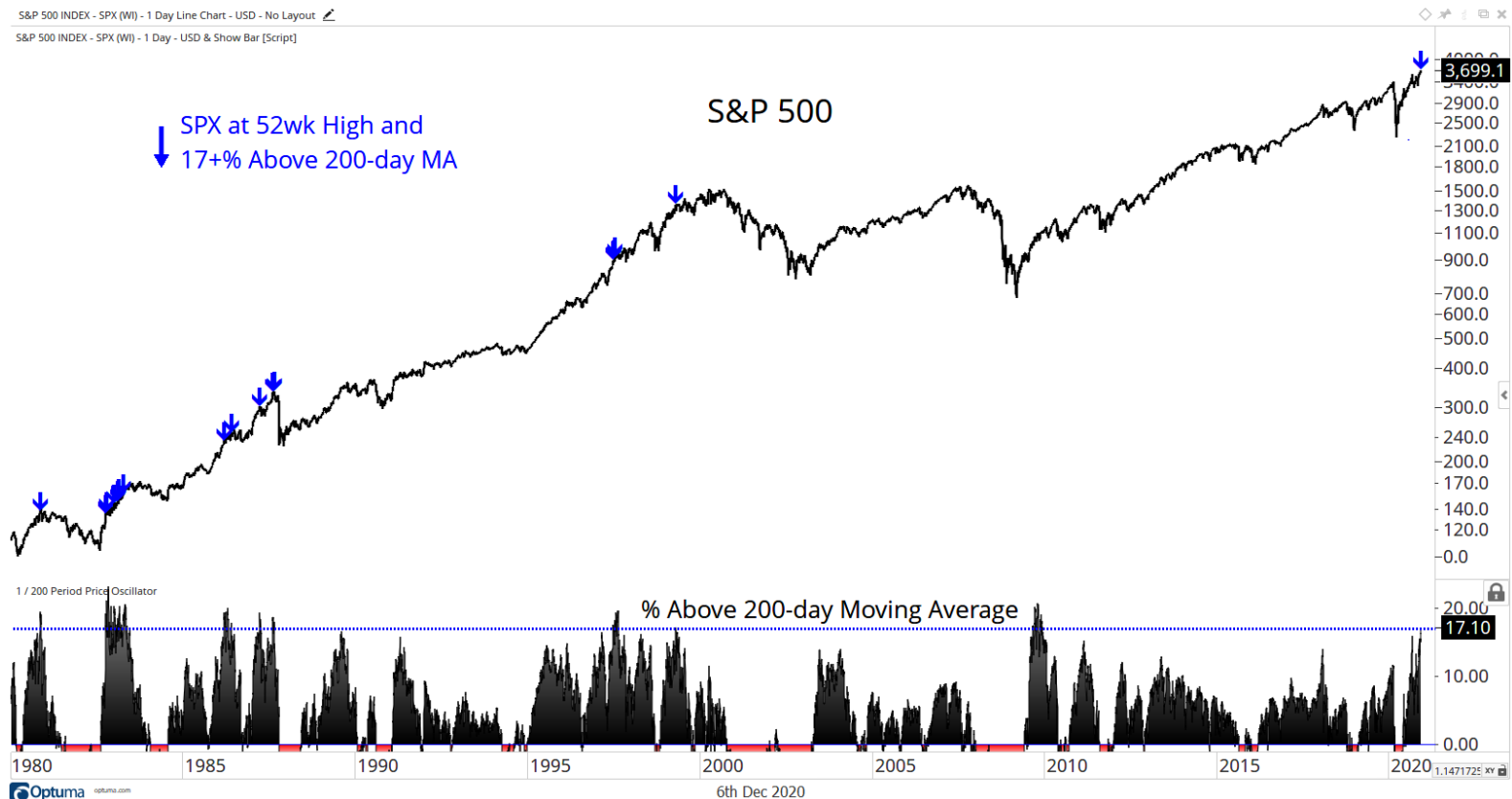
I show this as another argument towards excessive bullish sentiment as shown by the internal price action of individual stocks.



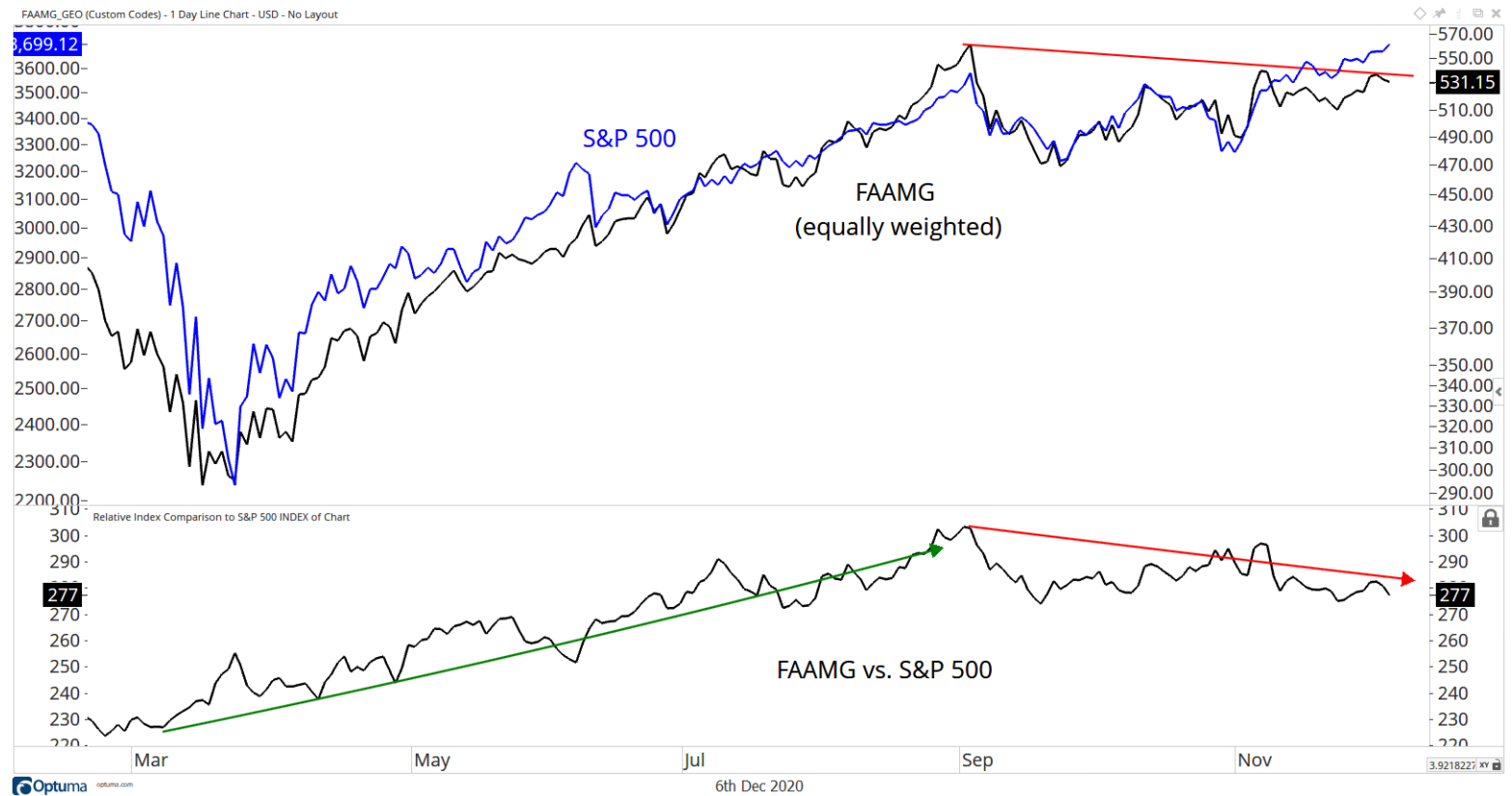
EQUITIES - DISTANCE FROM MA



I share this chart last week when we were up 15.4% above the 200-day MA and at a new high on the S&P 500. There were a couple other occurrences of this in the last ten years but now we've moved to an even smaller sample size as we eclipse 17% above the long-term moving average. We'll have to go back to the late 90s to find the next occurrences of being at a new high and this far above the 200-MA. In April 1999, equities didn't drop like a rock as many are hoping to see happen today. Instead we saw the indices chop around for several months. Before that, in June 1997, the S&P continued higher another 8% before consolidating for about six months. Before that, we have March and August 1987, a 7.5% drawdown and of course the "black Monday" crash of 30% in August.



The FAAMG group (FB, AMZN, AAPL, & GOOGL) continuing to lag the broad market. This was the group that were market leaders out of the March low and their impressive performance lead to a massive takeover in market share of the SPX index. Now, we've seen a rotation to smaller capitalized stocks, sending the index to a new high while an equally-weighted FAAMG still remains below its own September peak. I've argued that it would be tough to see a material trend higher without the participation of FAAMG stocks. It's not that we require their leadership, just their participation in the up trend and right now we still can't get a new one-month high must less a new 52-week high from these tech heavy weights.

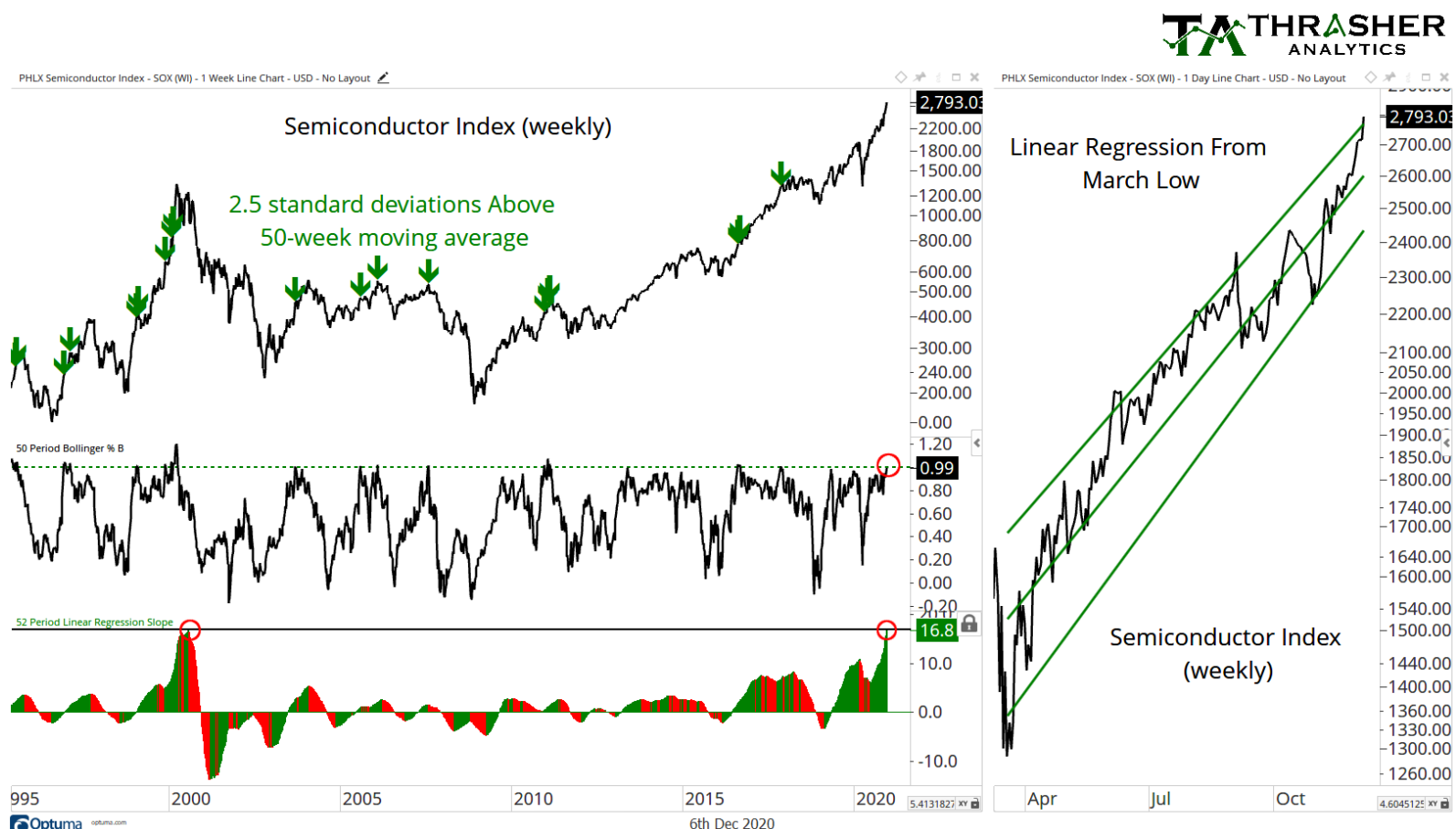


Semiconductors have been a leader of this market for several years. Where semis go, the market often follows. I've argued since 2013 that semis were the "new" copper as a barometer for equities and that's continued to be true this year as well. In fact, semiconductors have now gone near-vertical, and that's becoming a bit of a concern.

The chart below is a weekly chart of the Philadelphia Semiconductor Index. On the left I'm showing with green arrows when the weekly price of semiconductors is more than 2.5 standard deviations above the 50-week moving average, this has happened since Nov. '17 and we're just spitting distance from it happening today.

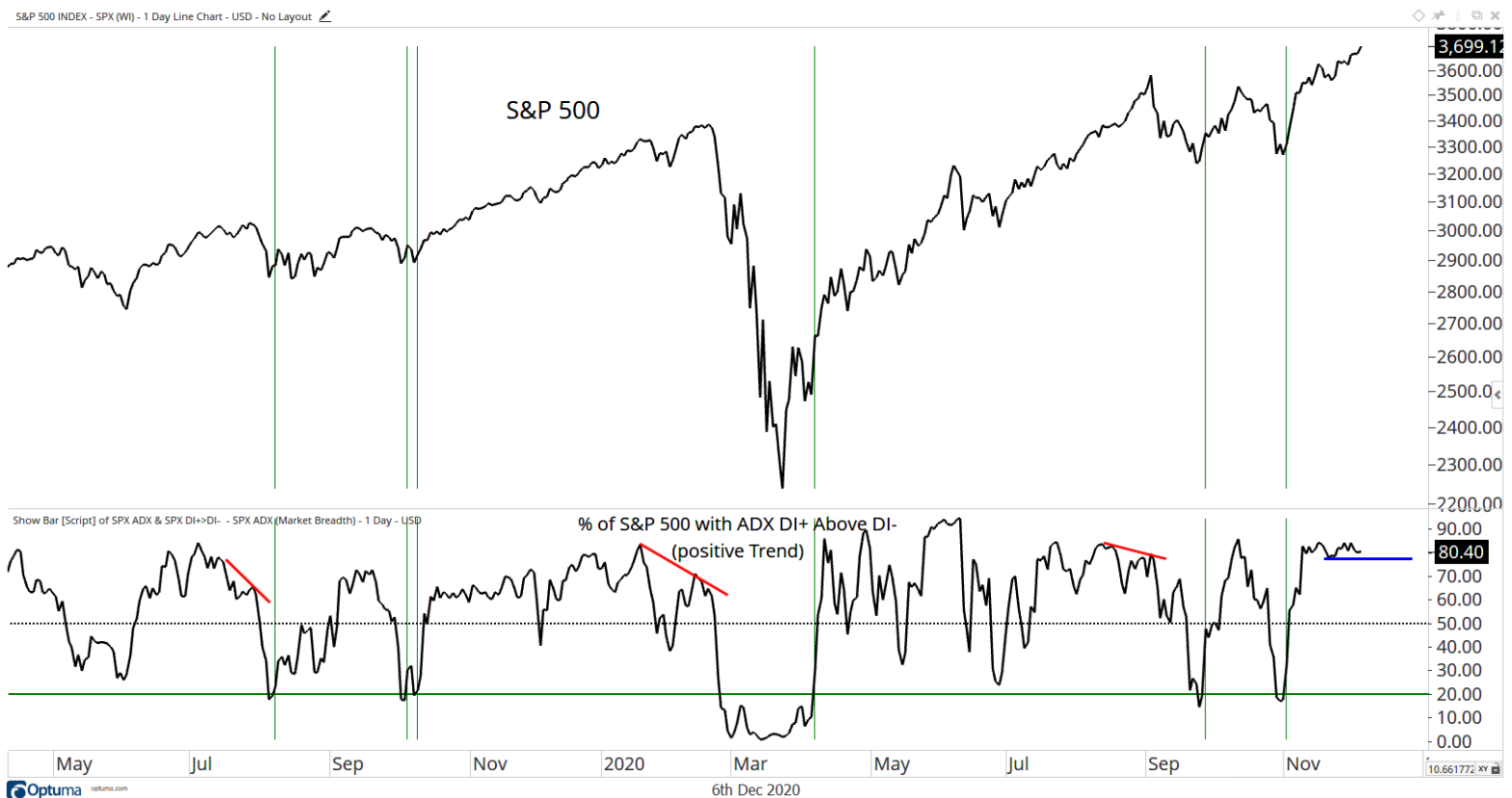
The bottom panel shows the 1-year slope of the semiconductor Index, which has now risen to its highest level since the peak in 2000. On the right, is a linear regression line from the March 2020 low through today, currently semis are more than 2 standard deviations above the "best fit" line, which is often viewed as excessively 'overbought' due to price running too hot and rarely is a market or asset able to sustain that level of appreciation.

The up trend in semiconductors is to be respected but I think it's gotten too far ahead of itself and if it begins to respond by moving lower, it's likely we see tech stocks and the broad market to follow.

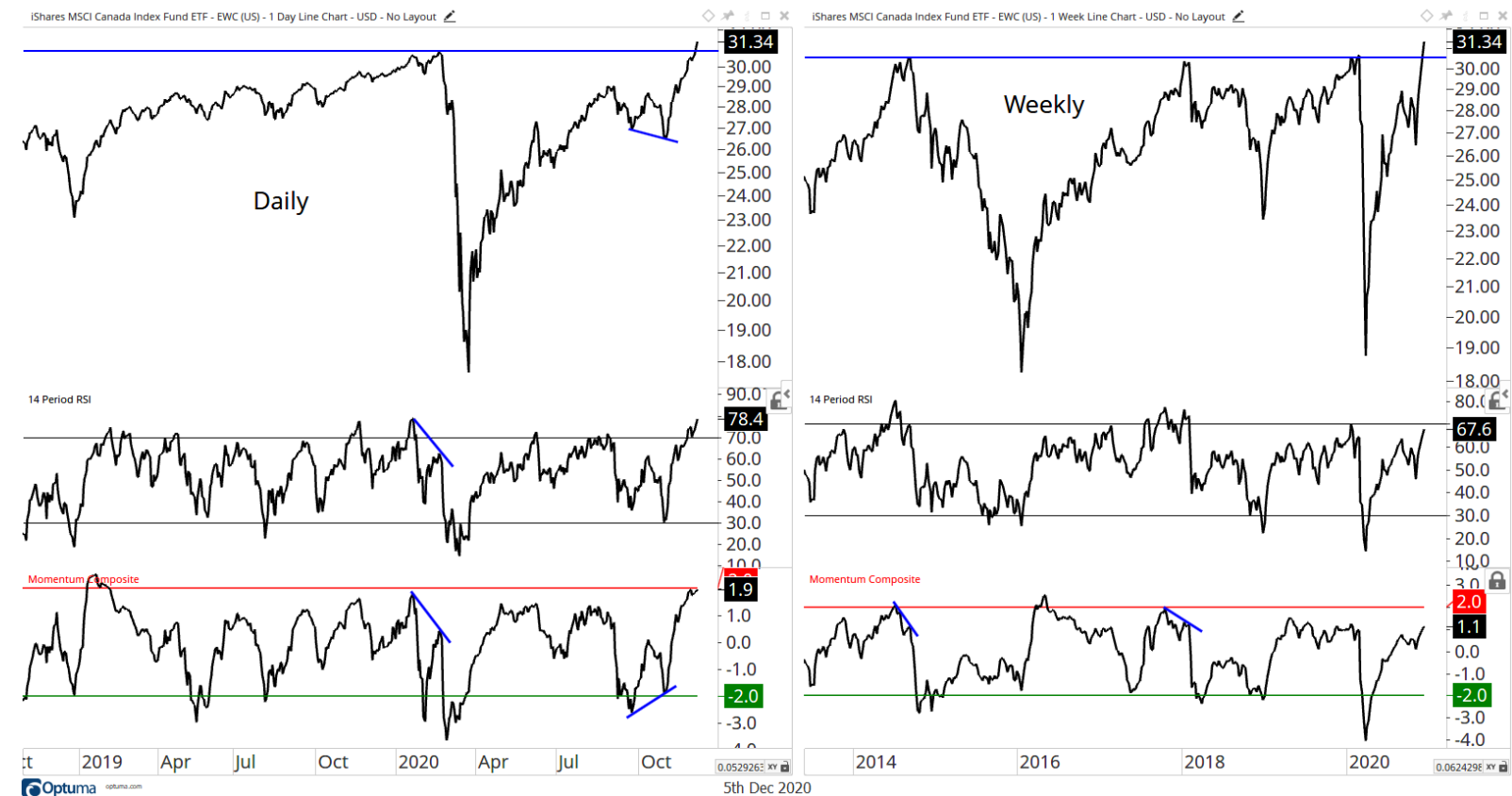


Lets look at a bullish chart for a second, taking a break from the bearish ones I've shown on the prior pages....

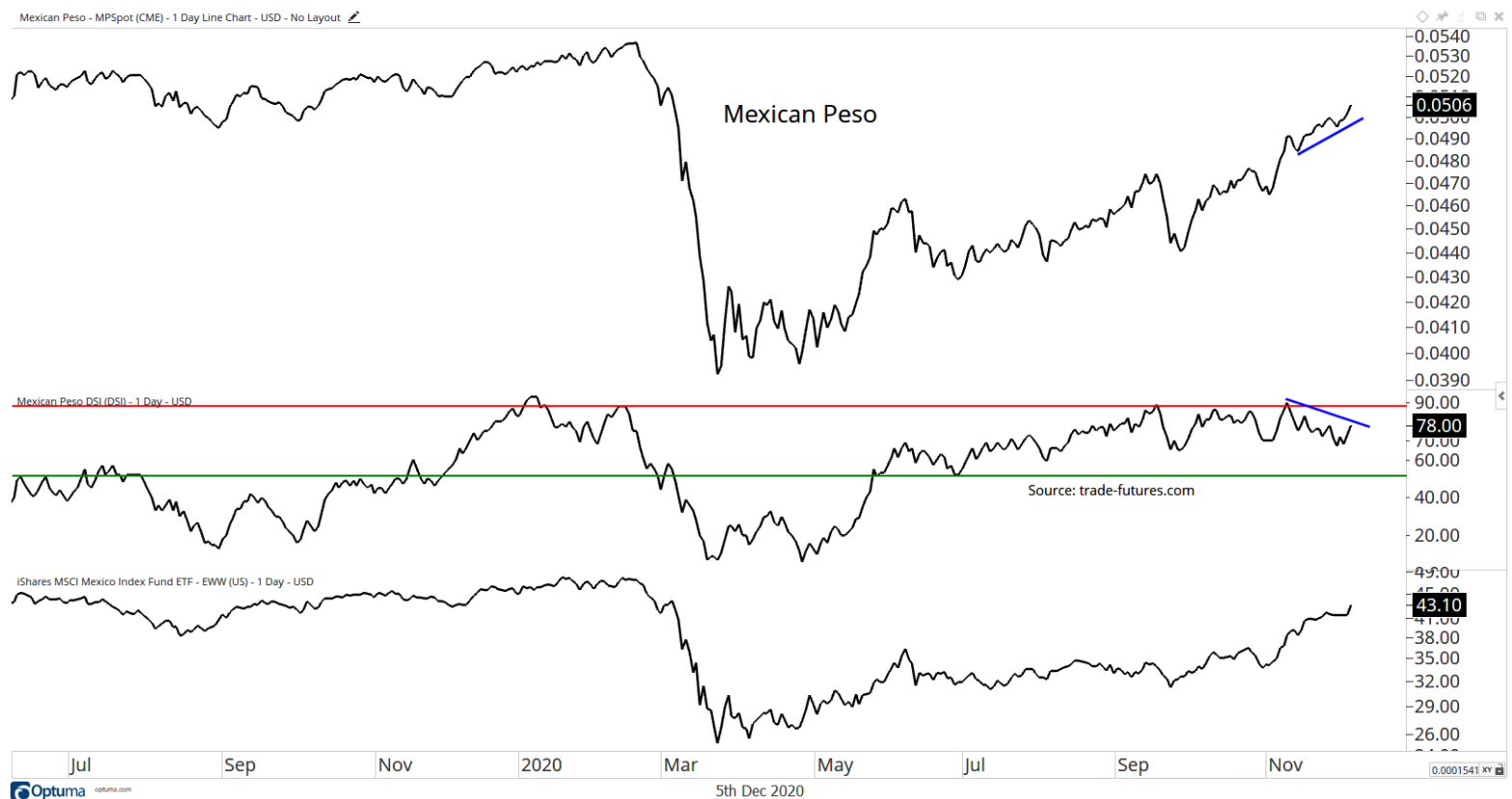
The percentage of stocks in defined up trends based on their ADX indicator remains high and has not created a bearish divergence that's lead to several prior down trends in the equity index like in February and September of this year. The more stocks that are in up trends the more bullish support the market has, and right now breadth appears strong based on this measure. There's many charts like this one, which is why I believe the larger risk to the market isn't one from deteriorating support of individual stocks but one of too hot sentiment. This is a good thing, as bearish breadth has larger implications for a more protracted move lower than ones caused by sentiment. So if we do see a move lower, the support provided by good internals should suggest a muted bearish reaction compared to ones lead by weak internals.



While the broad international markets have continued to hold their recent breakouts, one specific country that has recently caught my eye is Canada. The Canadian ETF (EWC) has recently broken out of a multi-year high, going back to 2014. You can see the short-term breakout on the daily chart on the left and the weekly chart on the right. If this break to a new high can hold, then I think that's very encouraging from Canadian equities. This is likely due to the recent strength in the energy market, which is a big benefactor in Canada. On the daily chart, momentum is a little elevated right now but is less of a concern on the weekly chart. So it's possible we could see a re-test of \$30.80 as momentum calms down and then a continuation of the breakout. This re-test is not required, simply a possibility, but I think EWC looks interesting and not a market I see many traders discussing lately with such a heavy focus on emerging markets and U.S. small caps taking the spot light lately.



Going from our northern neighbor down to our southern neighbor, Mexico also has my attention right now. Specifically the declining Daily Sentiment Index for the Mexican Peso. While the Peso has been rising, we're now getting lower highs in the % Bullish which is negative sign for this positive trend in the currency. With that, it also is a bearish sign for Mexican equities as they typically trend higher when the peso is doing well. So if sentiment is proven correct and the Peso depreciates, then Mexican equities would likely follow suit as well.

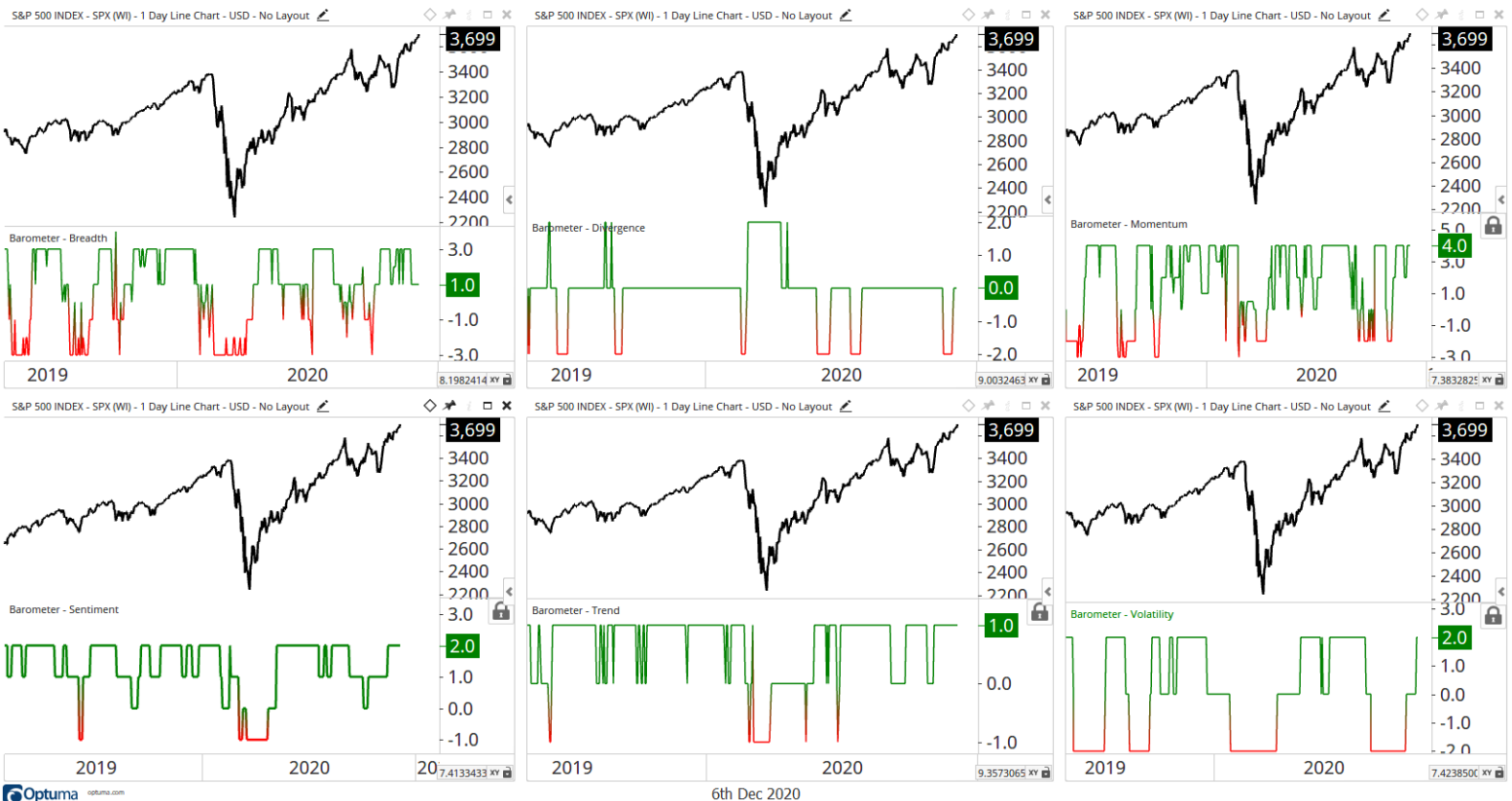


EQUITIES - HEALTH REPORT



I'm really excited about this next chart and it comes from speaking with several of you and the results from the survey I sent out about two months ago. One common topics I heard back was the request to bring all the models and data I show together into a single conclusion. I had been hesitant against this as it can often lead to either too jumpy of conclusions (i.e. heavy focus on short-term) or be washed out leaving no significant result. However, I've spent a great deal of time (with apologies to my wife!) working on this and will be rolling out a Master Model I'll be calling the Market Health Report (MHR).

I'll be doing a much longer write up on the MHR, including a deep dive into what's being measured and how it can be used. For now, I am giving a small glimpse into the individual components that will make up the model. The range from the Breadth Composite model, Divergences, proprietary Momentum Indicator, sentiment, trend, and volatility. All of this will be boiled down to a single market tool. There will no longer be any question about what the data is saying, and most importantly, it's entirely systematic, so no personal bias will be involved. More on this soon!



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	4.42%	37.40%	16.52%	-31%
SPDR Health Care Select Sector Fund ETF	True	True	2.83%	2.63%	6.47%	12.82%
SPDR Technology Select Sector Fund ETF	True	True	2.76%	7.27%	6.71%	45.74%
SPDR Communication Services Select Sector ETF	True	True	2.06%	6.93%	8.42%	28.24%
SPDR Financial Select Sector Fund ETF	True	True	1.79%	18.00%	14.59%	-2.82%
SPDR Real Estate Select Sector Fund ETF	True	True	1.39%	4.74%	2.98%	-2.91%
SPDR Consumer Staples Select Sector Fund ETF	True	True	1.06%	5.15%	3.19%	8.29%
SPDR Industrial Select Sector Fund ETF	True	True	0.44%	12.37%	14.61%	11.35%
SPDR Materials Select Sector Fund ETF	True	True	0.1%	10.14%	11.39%	21.27%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-0.12%	5.15%	7.39%	30.72%
SPDR Utilities Select Sector Fund ETF	False	True	-2.12%	-2.03%	5.12%	-1.39%

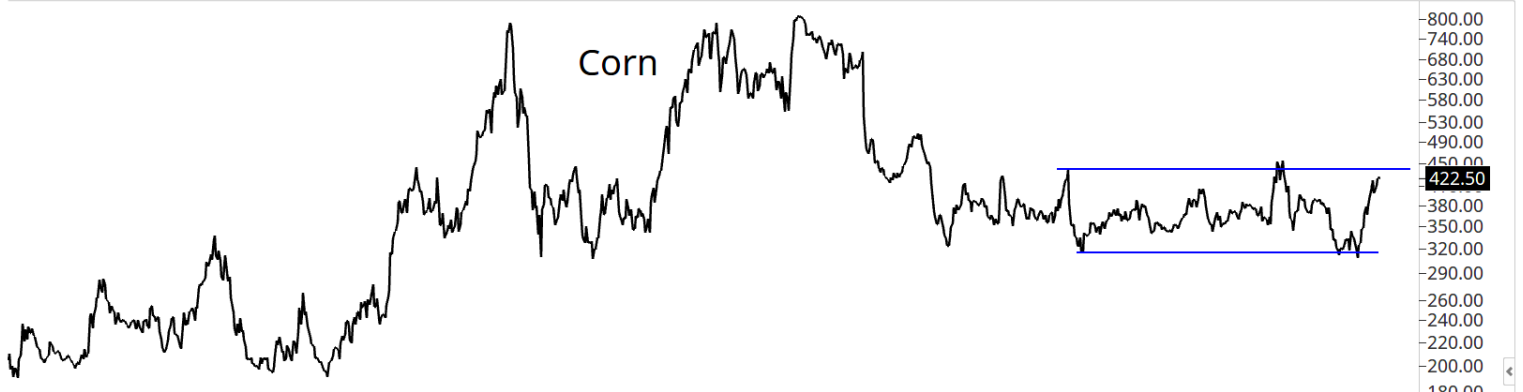
COMMODITY - CORN



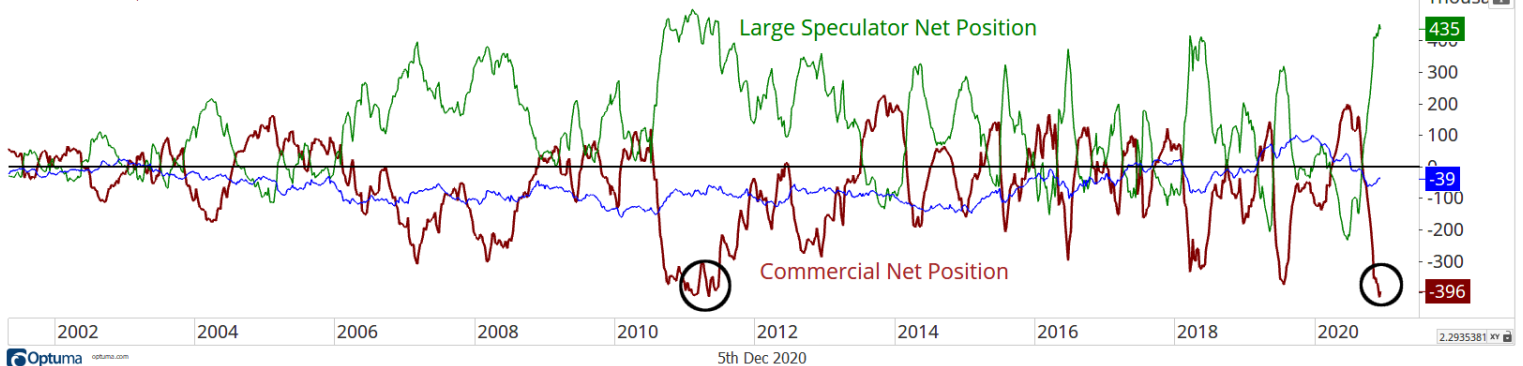
Corn has had a strong run lately and is now approaching the high-end of its multi-month range just below \$450. Back in August, Commercial Traders built a net-long position in corn futures just as price was testing the prior low. That low held and the price of corn has rallied. Now, Commercial Traders are holding a large net-short position. It's the largest net-short they've taken on since 2011 before corn futures dropped nearly 30%. It's possible the trend in corn may soon turn lower.



Corn Futures - C2Spot (AFUT) - 1 Week Line Chart - USD - No Layout



CORN Traditional COT Report (002602)



DAILY SENTIMENT INDEX



Market	% Bullish ▲	5MA	History +
VIX DSI	18	18	
US Dollar DSI	21	25.40	
Natural Gas DSI	25	29.80	
Gold DSI	33.00	27.80	
Coffee DSI	42.00	47.00	
Silver DSI	47.00	38.60	
10Y DSI	51.00	56.80	
Wheat DSI	52.00	57.00	
Sugar DSI	53.00	54.80	
Crude Oil DSI	53.00	47.60	
5YR DSI	53.00	56.20	
Palladium DSI	55.00	57.80	
Cotton DSI	59.00	59.40	
Cattle DSI	60.00	65.40	
Corn DSI	64.00	65.00	
Cocoa DSI	66.00	67.60	
Australian Dollar DSI	66.00	63.60	

<input type="checkbox"/>	Code	% Bullish ▲	5MA	History +
<input type="checkbox"/>	Orange Juice DSI	70.00	73.00	
<input type="checkbox"/>	EuroDollar DSI	70.00	70.80	
<input type="checkbox"/>	Heating Oil DSI	71.00	68.40	
<input type="checkbox"/>	British Pound DSI	73.00	73.40	
<input type="checkbox"/>	Lean Hog DSI	74.00	81.4	
<input type="checkbox"/>	Swiss Franc DSI	75.00	70.40	
<input type="checkbox"/>	CRB Index DSI	76.00	70.80	
<input type="checkbox"/>	New Zealand Dollar DSI	77.00	83.4	
<input type="checkbox"/>	Mexican Peso DSI	78.00	71.60	
<input type="checkbox"/>	Gasoline DSI	79.00	77.20	
<input type="checkbox"/>	SPX DSI	83	79.60	
<input type="checkbox"/>	Nikkei DSI	84	84	
<input type="checkbox"/>	Nasdaq DSI	85	84.8	
<input type="checkbox"/>	Euro DSI	85	83.8	
<input type="checkbox"/>	Copper DSI	86	86.4	
<input type="checkbox"/>	Lumber DSI	90	80.2	
<input type="checkbox"/>	Platinum DSI	93	82.2	

Source: trade-futures.com

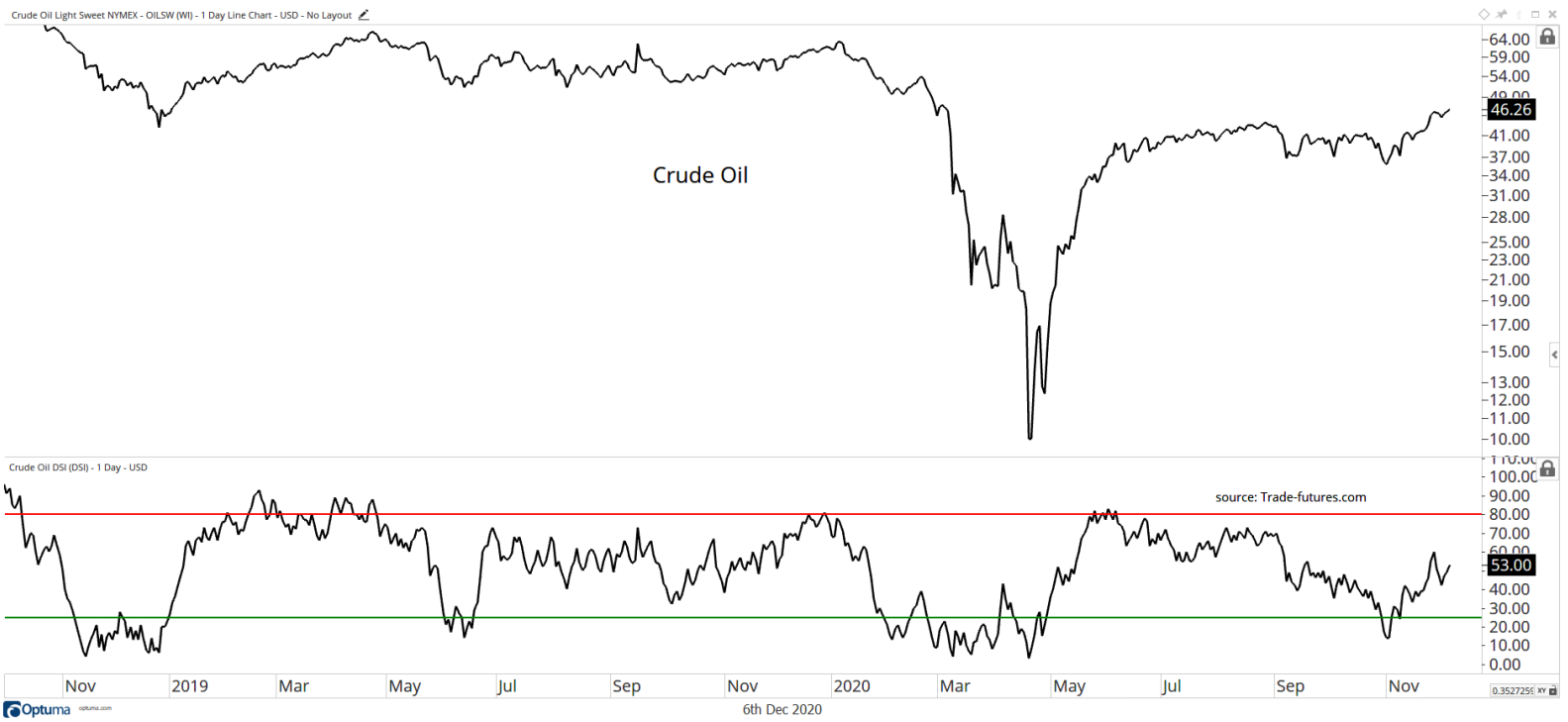
DAILY SENTIMENT INDEX



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DAILY SENTIMENT INDEX

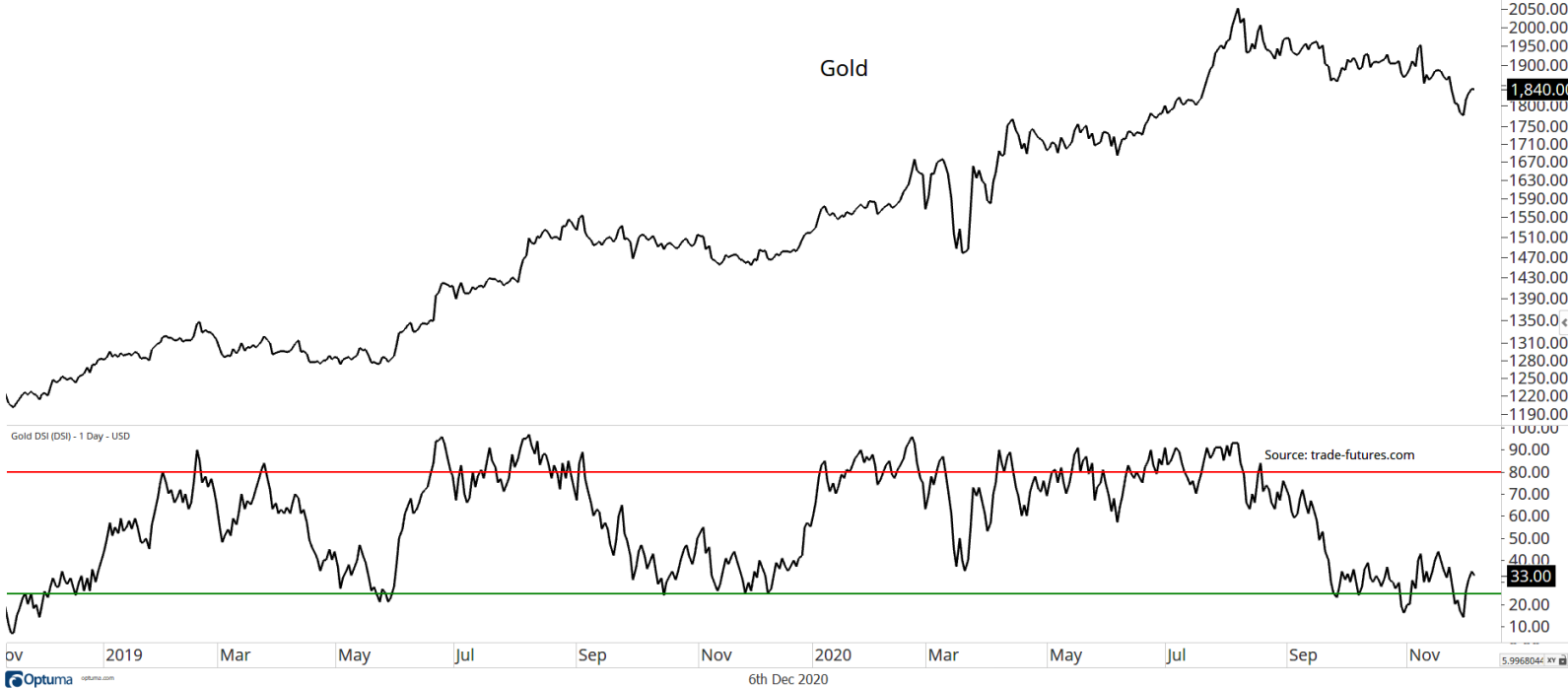


DAILY SENTIMENT INDEX



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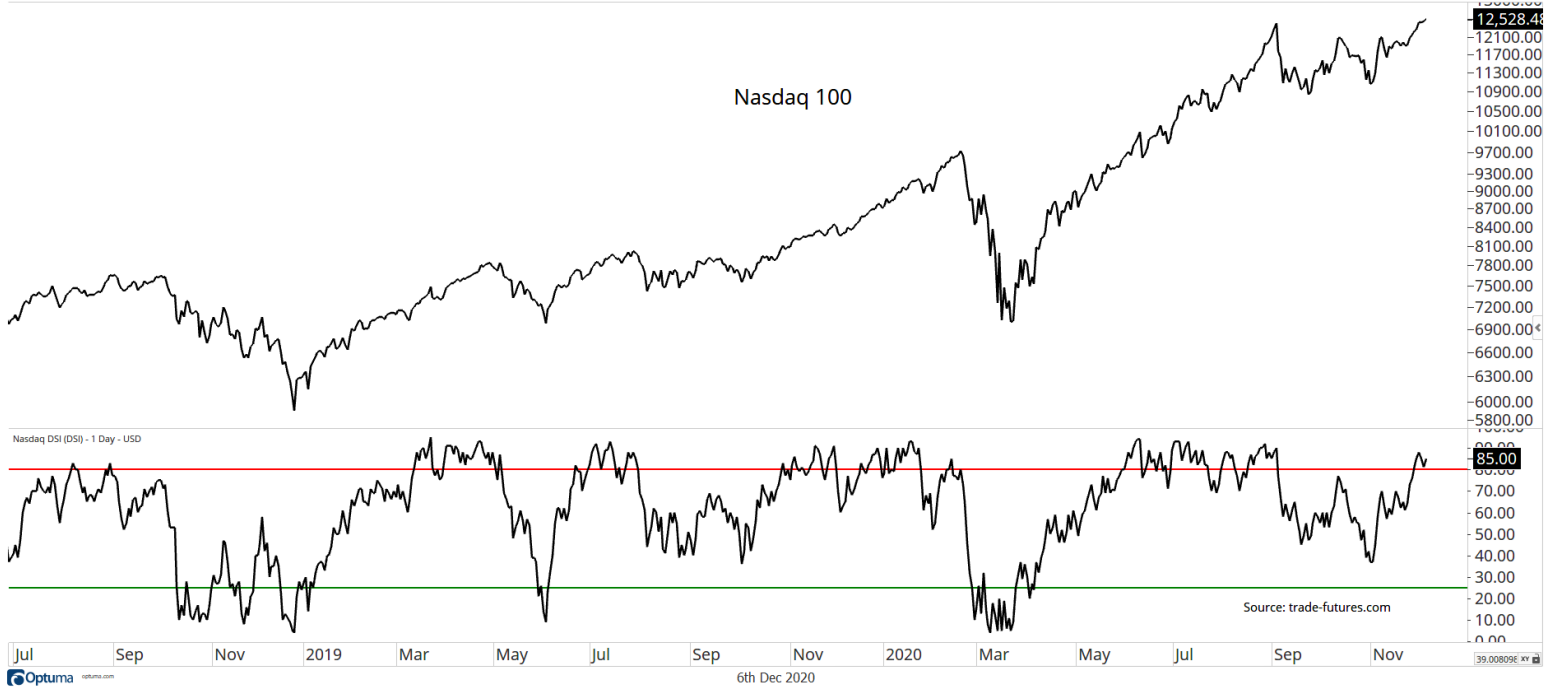
Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



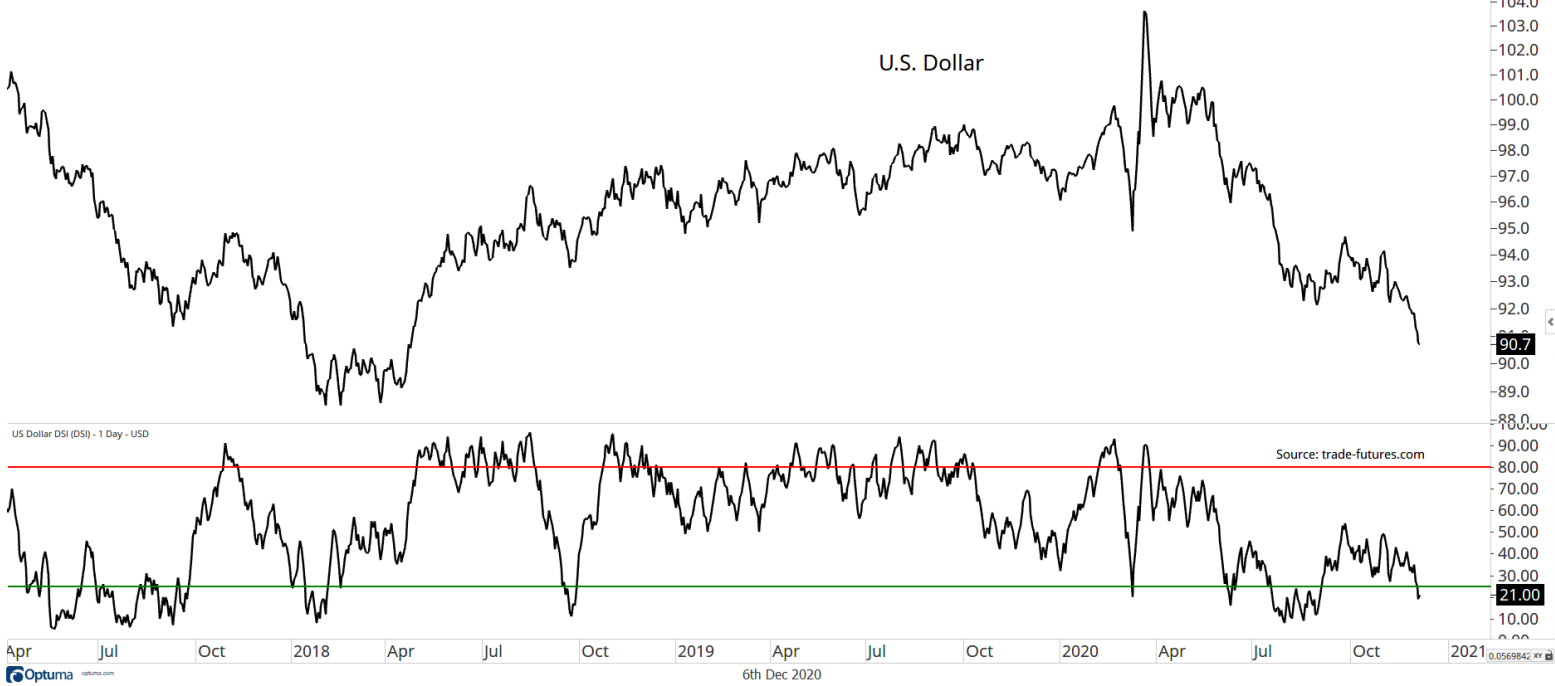
NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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



DAILY SENTIMENT INDEX



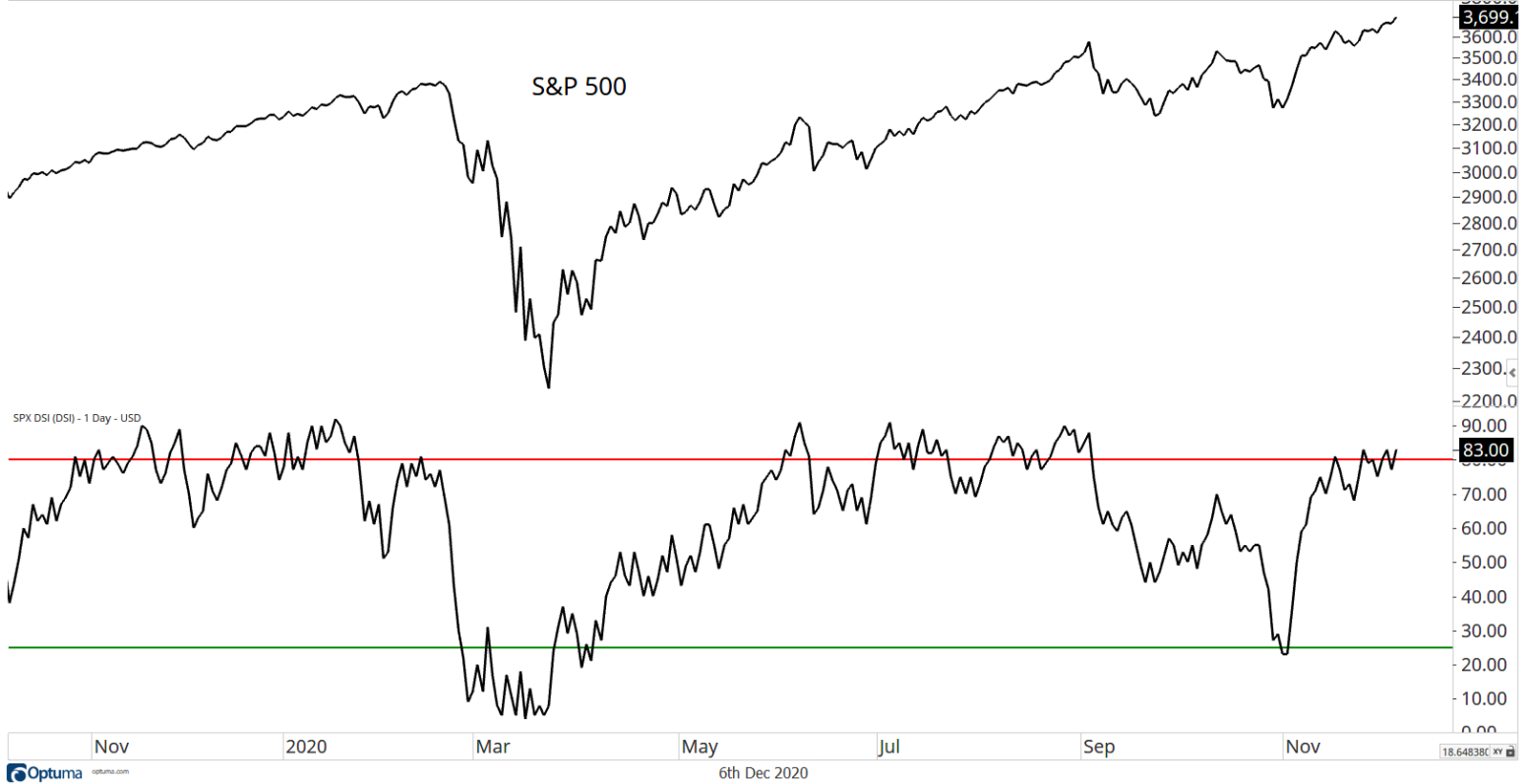
CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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



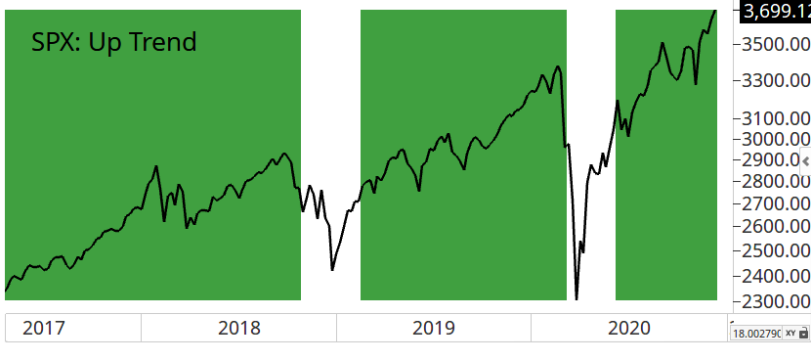
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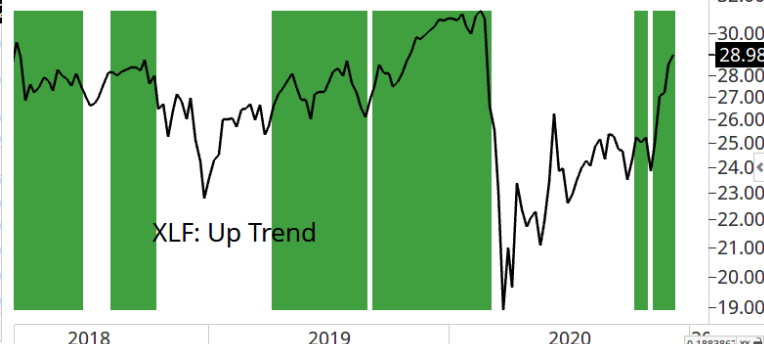
TREND MODELS



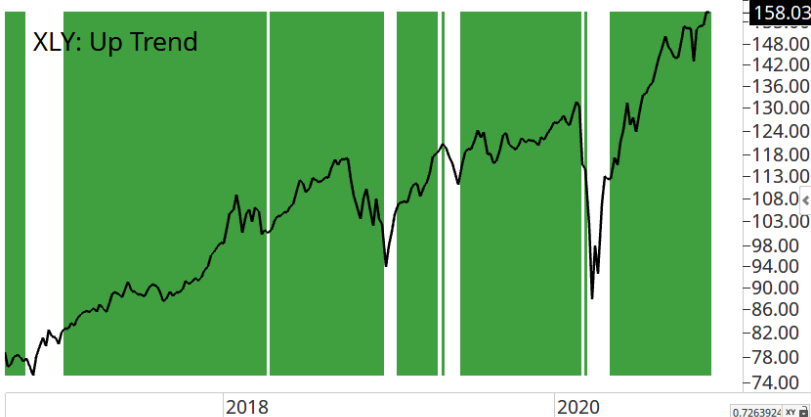
S&P 500 INDEX - SPX (W) - 1 Week Line Chart - USD - No Layout



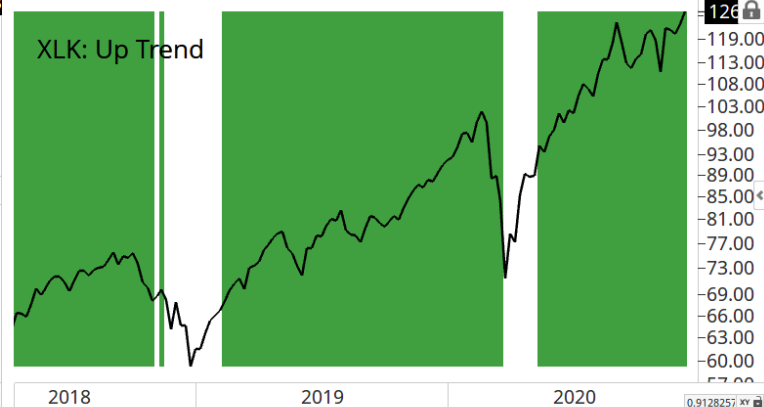
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



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



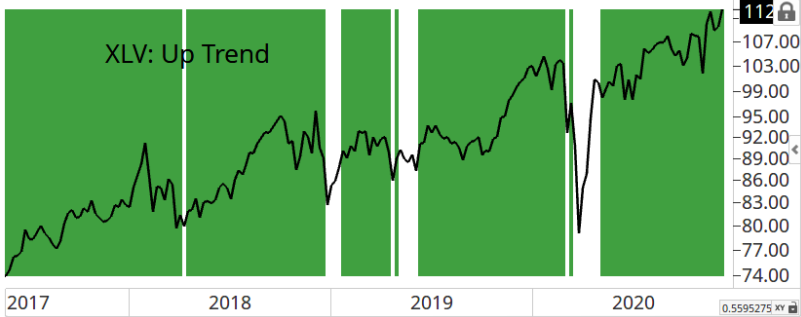
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



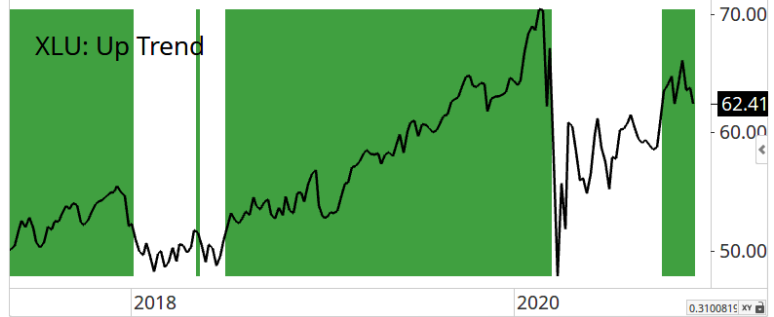
TREND MODELS



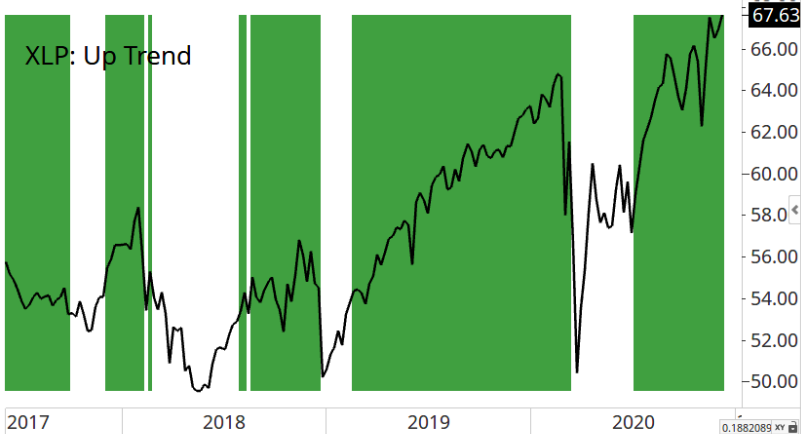
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout



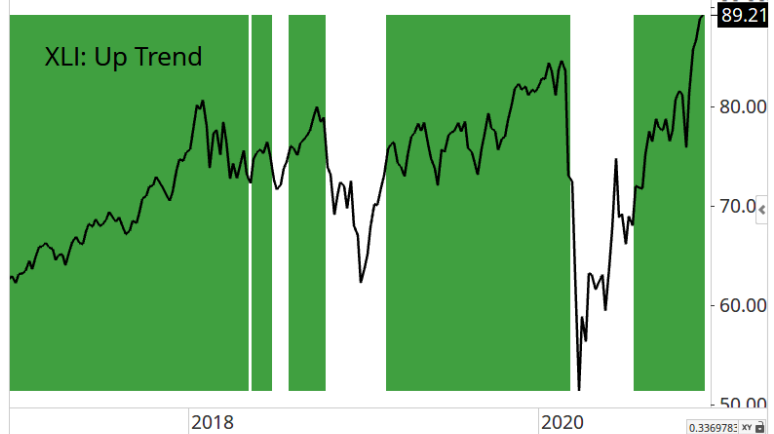
SPDR Utilities Select Sector Fund ETF - XLU (US) - 1 Week Line Chart - USD - No Layout



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



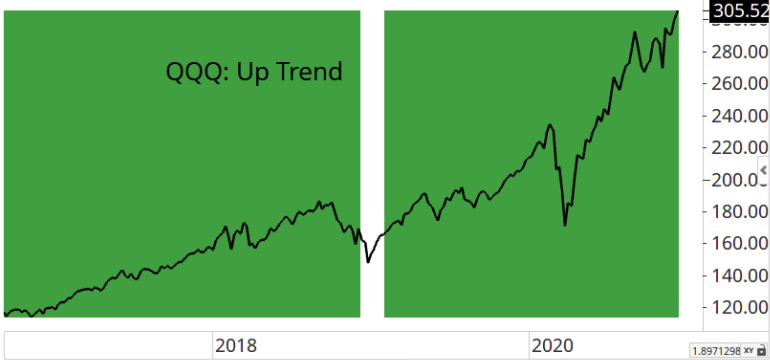
SPDR Industrial Select Sector Fund ETF - XLI (US) - 1 Week Line Chart - USD - No Layout



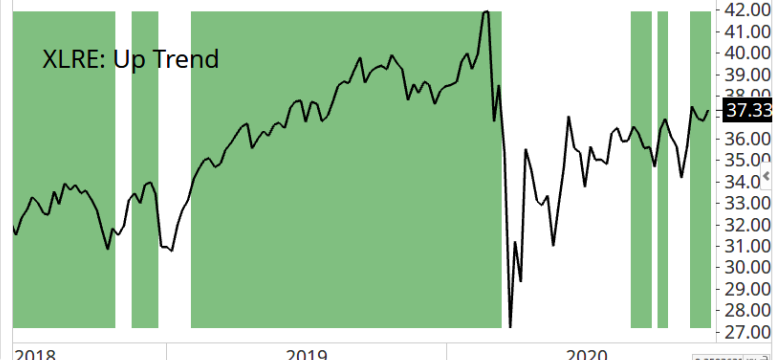
TREND MODELS



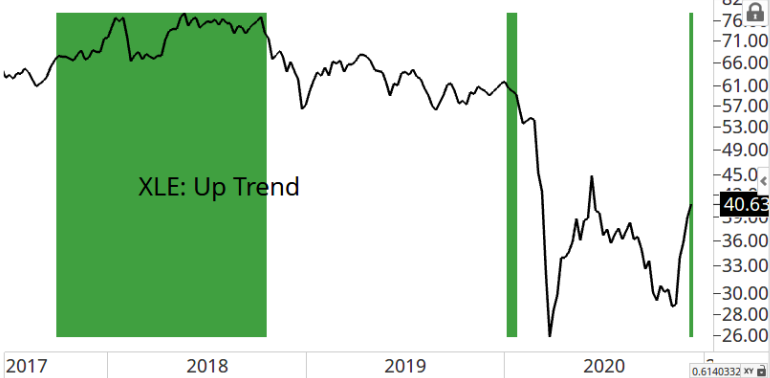
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



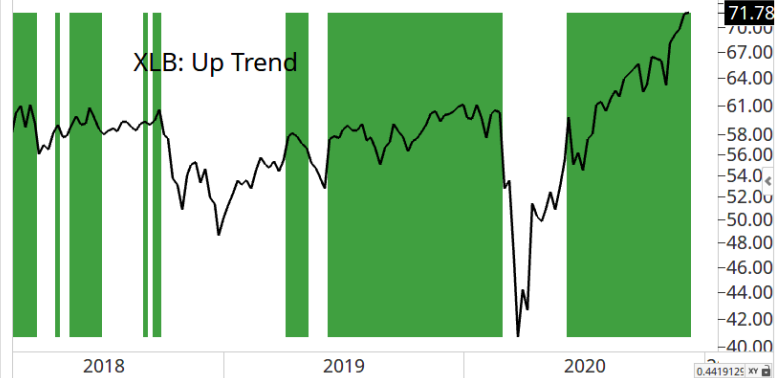
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



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



6th Dec 2020

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