THRASHER ANALYTICS

DECEMBER 13, 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.
- Breadth remains supportive
- Positive covid vaccine news.
- Positive fiscal aid news.
- Dollar is setting up to climb.

Bearish

- Equities are stretched relative to the 200-day MA.
- Sentiment is extremely high.
- Volatility dispersion is narrowing.
- Copper is setting up to decline.
- Small caps relative to Dow are extremely stretched.

TABLE OF CONTENTS

Market Dashboard

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	77%	79%
Nasdaq 100	86%	87%
Nikkei	81%	81%
VIX	22%	17%
10yr Treasury	61%	56%
5yr Treasury	56%	55%
CRB Index	73%	73%
Gold	35%	38%
U.S. Dollar	26%	26%

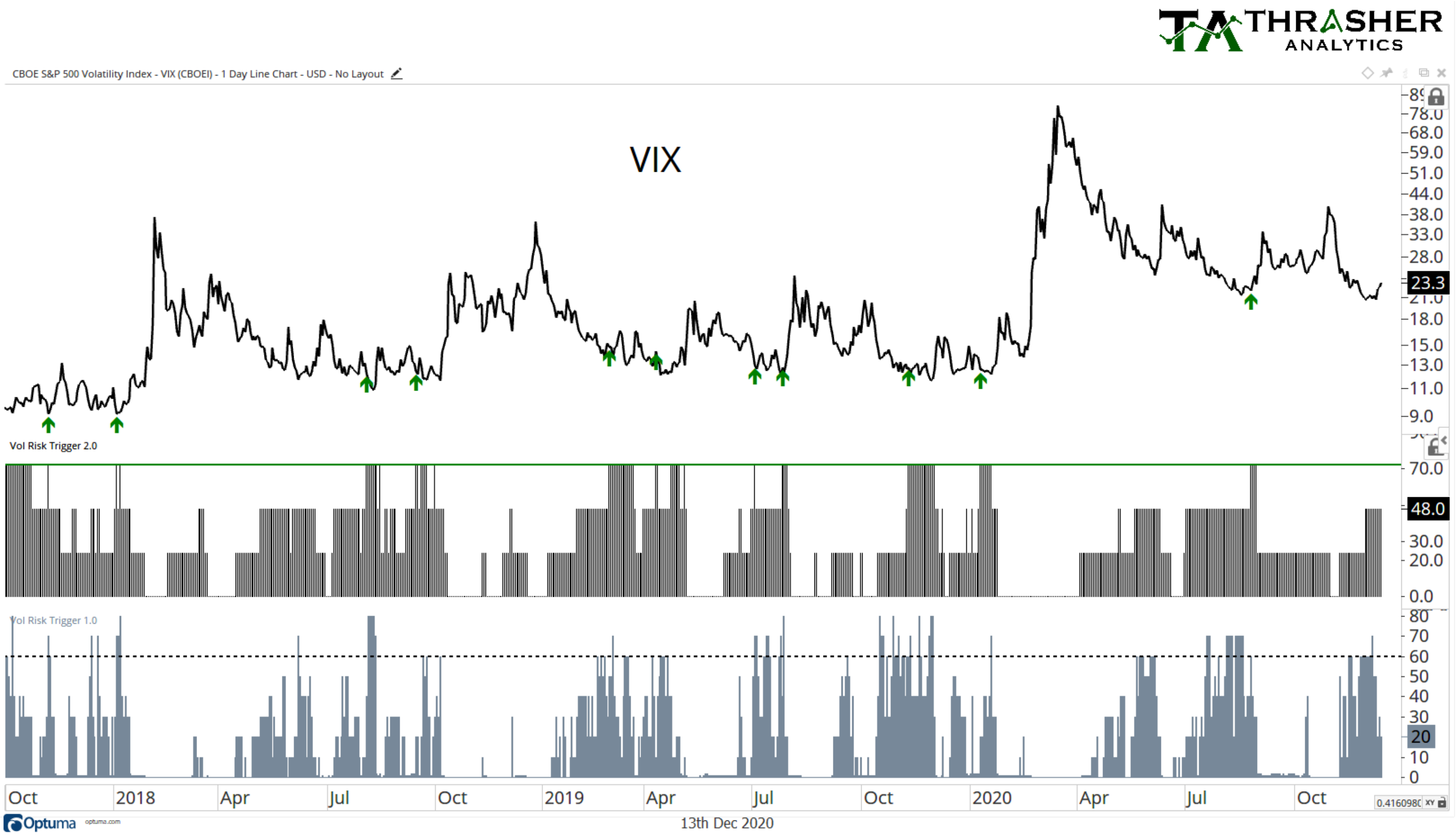
**Green<25%   Red>80%*

source: trade-futures.com

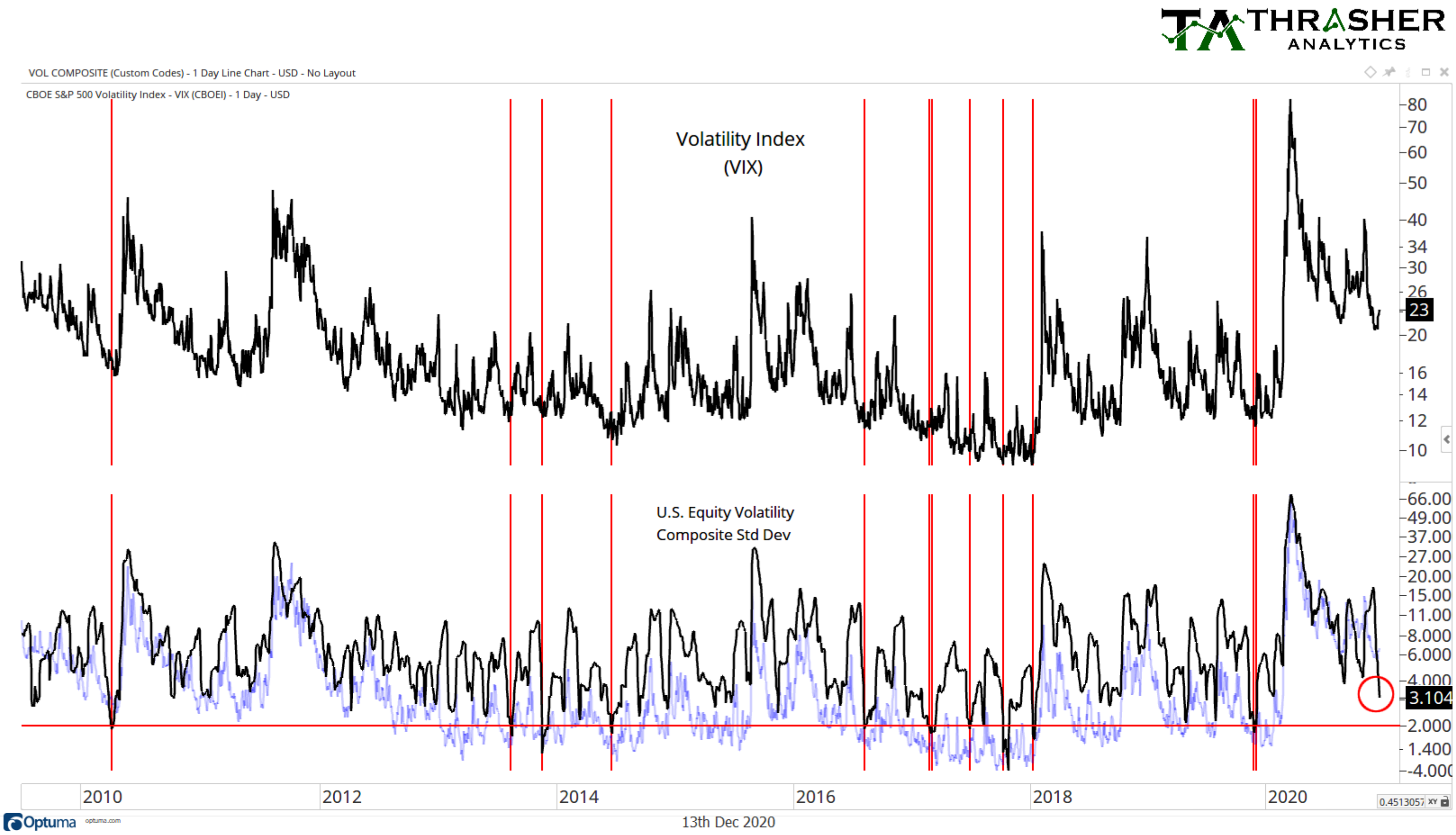
VOLATILITY

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 continues to sit just below a level to warrant a heightened risk of a spike in volatility but the lack of enough decline in daily dispersion has held back a signal. We did see a pick up in spot VIX last week, edging higher while many traders assumed a drop under 20 was all but guaranteed. If we see vol remain calm for a day or two longer then I think it's likely we see enough data to push the VRT 2.0 to signal, if this happens I'll send out an email with an update.



Last week I shared how the Russell 2000 VIX had seen its standard deviation (StdDev) drop to a notable level but not the other VIX indices. A chart I've shared in the past (but not recently) is this composite of the major index volatility indices (SPX, Nas100, Dow, & Russell), then looking at the tool I heavily discussed in my paper, Forecasting a Volatility Tsunami, the 20-day standard deviation. StdDev for the group of volatility indices is now at the lowest level since before the March spike. But not quite to 2.0 which is marked by the vertical red lines, which has marked many key levels preceding large increases in volatility.



Equities - S&P 500 Daily

We finished last week lower by nearly a full percent as equities began to cool off from their strong two month advance. The S&P 500 found some willing buyers at the VWAP from the short-term November dip and we still remain well above the prior September high. Momentum continued to roll over, never quite getting to the 70 level. There's plenty of potential support levels should equities continue to weaken from here.

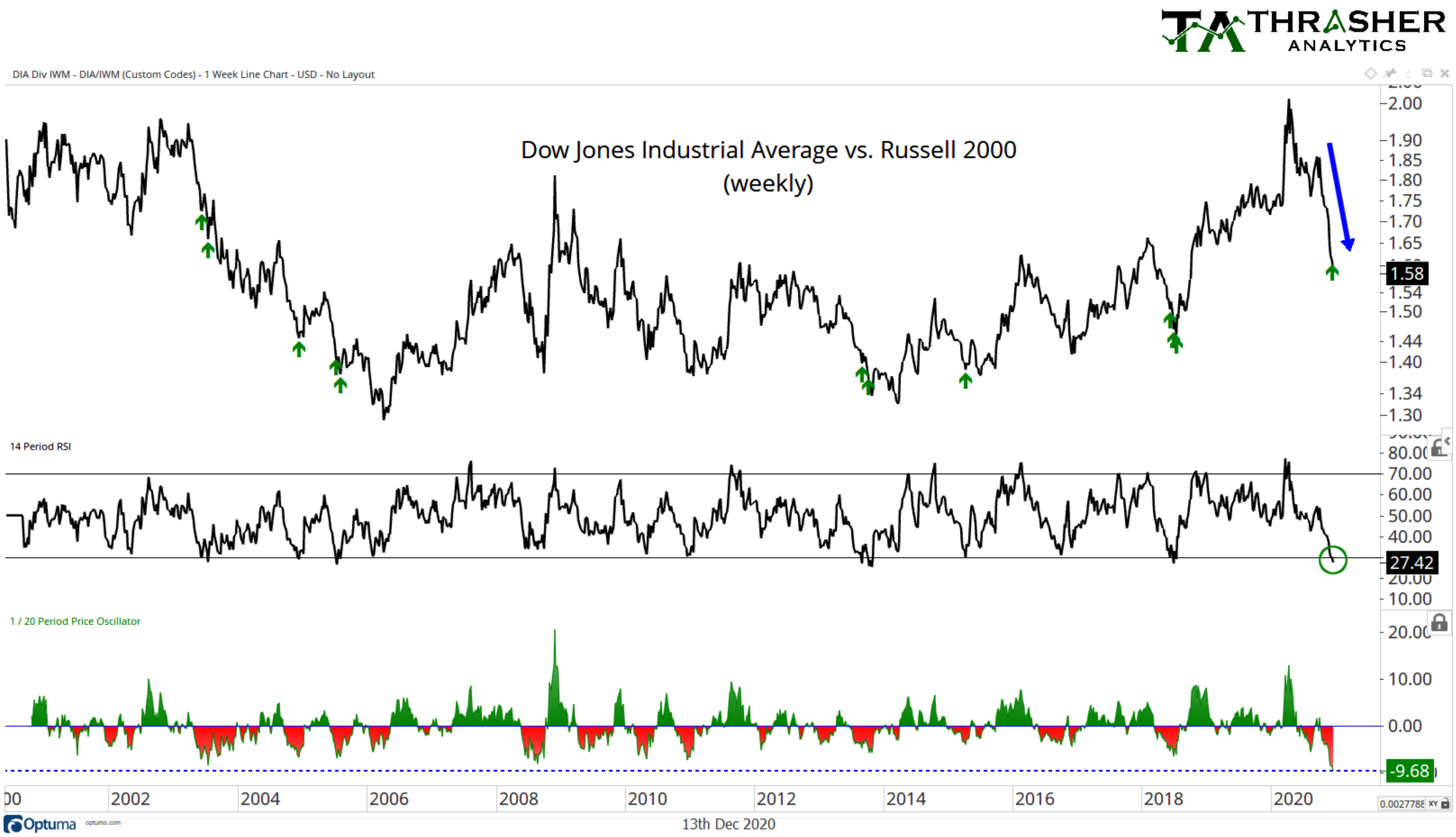
A major focus for the market in the next couple of weeks will be the addition of Tesla tot he S&P 500, which JPM noted could cause \$57 billion in selling of current SPX index constituents to make room for the automaker. Just as important but less discussed, is the rebalance in the Nasdaq 100 that will be taking place on Dec. 21st. It's expected to be 3x the size as last year and will introduce stocks like Peloton, Atlassian, Match Group, Marvell Tech., and Okta to the index. Many of these names are up 100+% this year (PTON has gained 300% YTD).

Over the weekend the Pfizer vaccine was put on trucks for delivery and it's now rumored we'll get an announced relief bill from Congress this week so equities should respond positively Monday, I'll be watching where leadership comes from and if any morning gap up (if we get one) is extended during the trading session or sold.

Equities - Dow vs. Russell

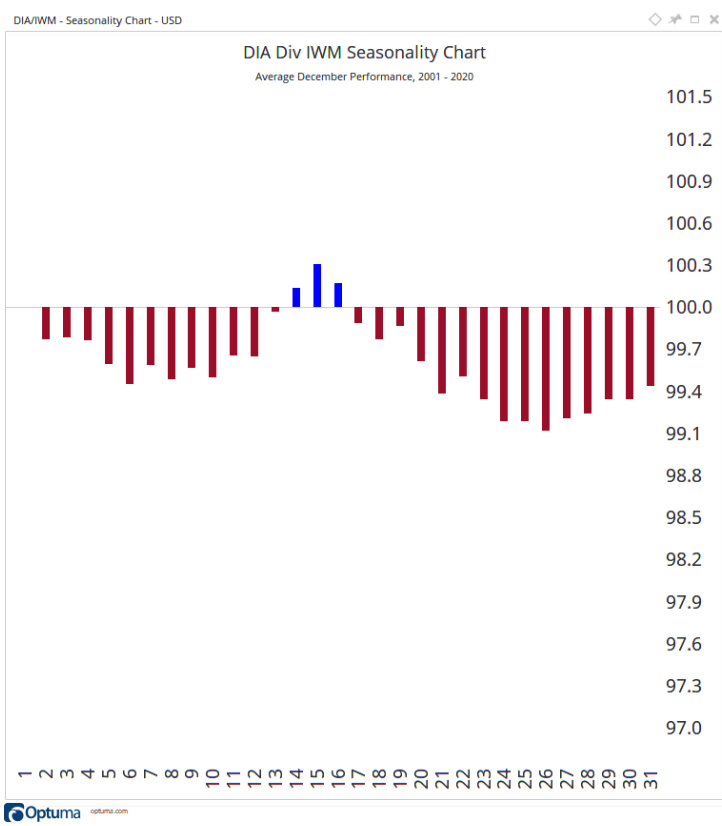
The relative performance of the Dow Jones Industrial Average (DJIA) vs. the Russell 2000 (R2K) has entered historic territory. Below the relative performance line between the two on a weekly basis back to 2001 along with the weekly RSI and % above/below the 20-week moving average. Green arrows note when the RSI has fallen below 30 on the chart, which it hadn't done since near the 2018 low. While we've had momentum 'oversold' at current levels, the ratio has never been this far below the 20-week MA, showing just how fast the move has taken place.

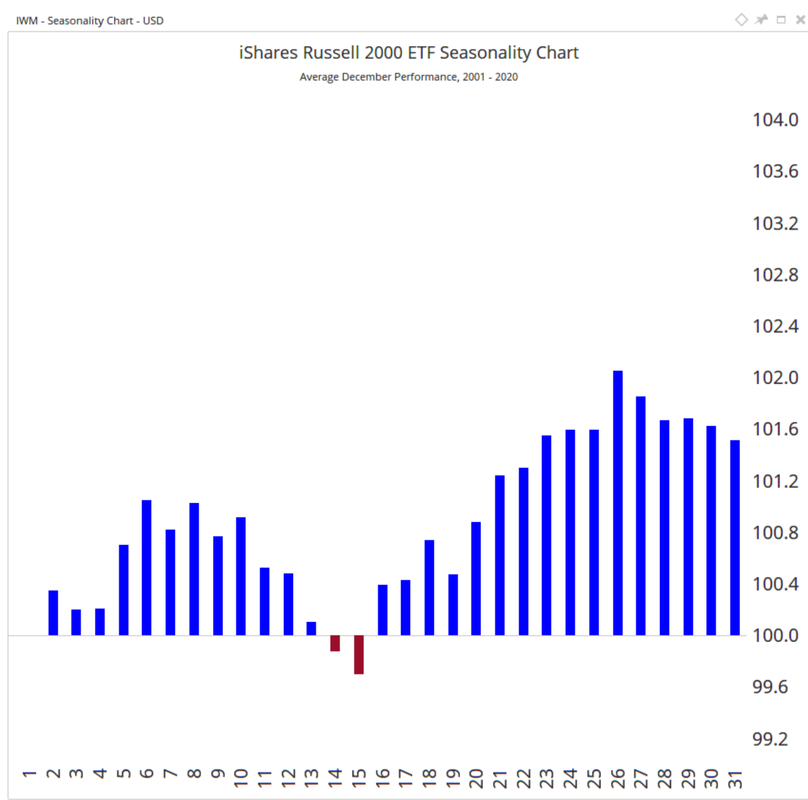
One may begin to look for some form of mean-reversion away from the R2K and back to the DJIA, releasing the tension in the proverbial rubber band. The one caveat here is seasonality, which I'll cover on the next page.



While small caps have already taken the Dow to the cleaners, from a seasonality standpoint, the pain train hasn't even left the station! It's well known that small caps see a strong seasonal tailwind at the end of the year and into early January. This strength in the Russell 2000 is also shown in its relative performance against the Dow in the seasonal chart on the left below. Into year-end the Dow historically under-performs the Russell, but the question then becomes - has that year-end strength been pulled forward? Can the R2K continue its dominance when it's already 30% above its 200-day MA, the most in over a decade and even exceeding the strength it saw off the 2009 bottom?

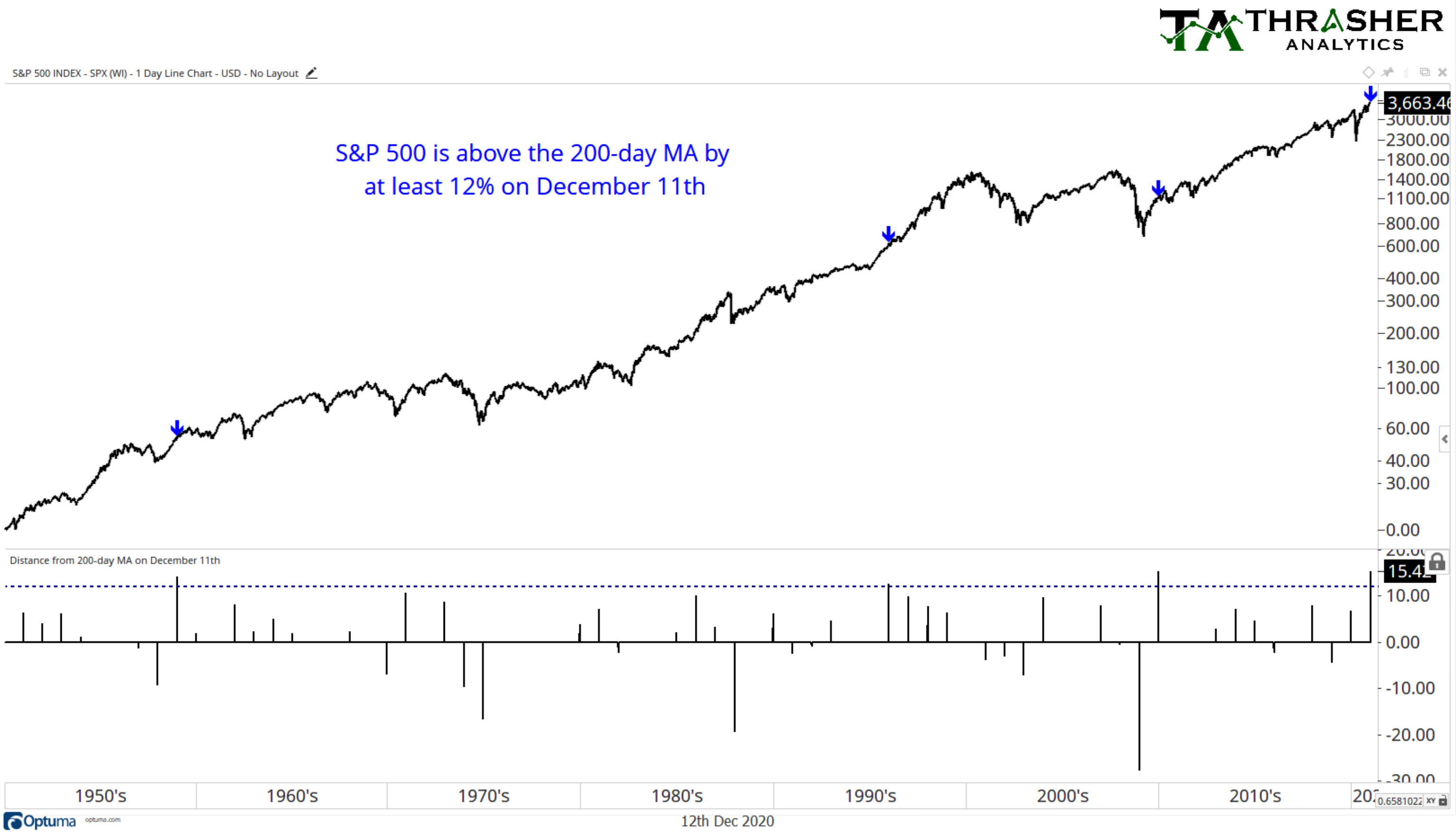
There's been a lot of juice squeezed from small caps in the last couple of weeks and traders may get greedy assuming seasonality will provide that extra squeeze. All of this of course possible, but the risk/reward becomes tough to accept when the ratio between these two is already stretched as I showed on the prior page.



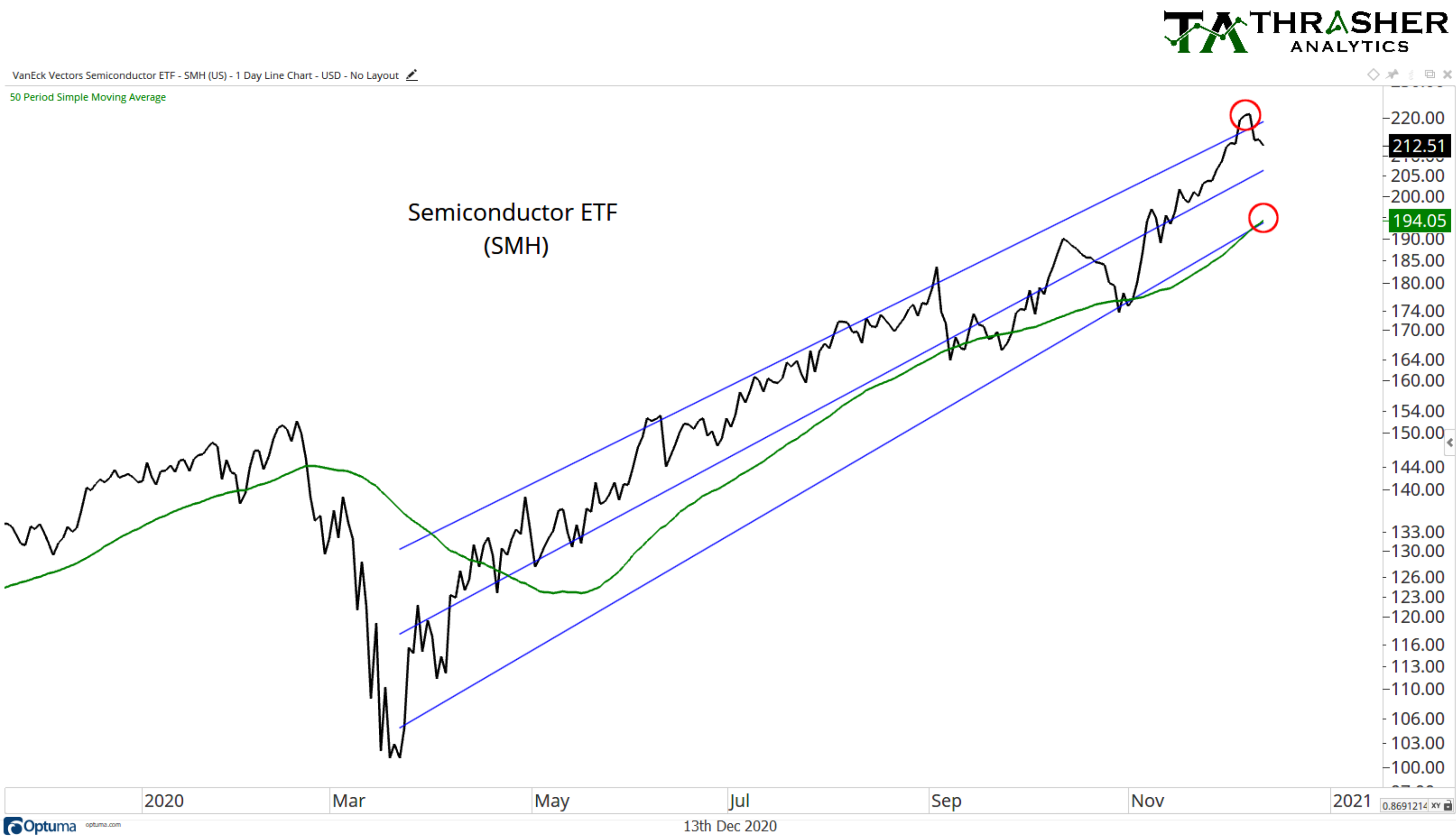


13th Dec 2020

Historically, equites do well in the last weeks of December, dubbed the "Santa Claus rally." What I wanted to know this weekend was how that seasonal tailwind handled an equity market that already had experienced a short-term run higher. Looking back to 1950, the S&P 500 has only been above the 200-day MA by at least 12% just three prior times on December 11th. The chart below shows the spread between price and the Moving Average each year on December 11th. Being that the sample size is so small, it's tough to extract useful information from this study. However, for those that are curious, two of the three saw the market see slight gains and then trade sideways while one (in the 90s) saw equities continue to follow Santa higher. The takeaway for me from this study is that we are in 'rare air' at this point, we don't have much visibility to go on considering the impressive climb the market's already made and whether Santa can carry us further. I continue to believe the risk/reward relationship is poor in the short-term but Santa can do amazing things, so we'll soon see if he can pull it off!



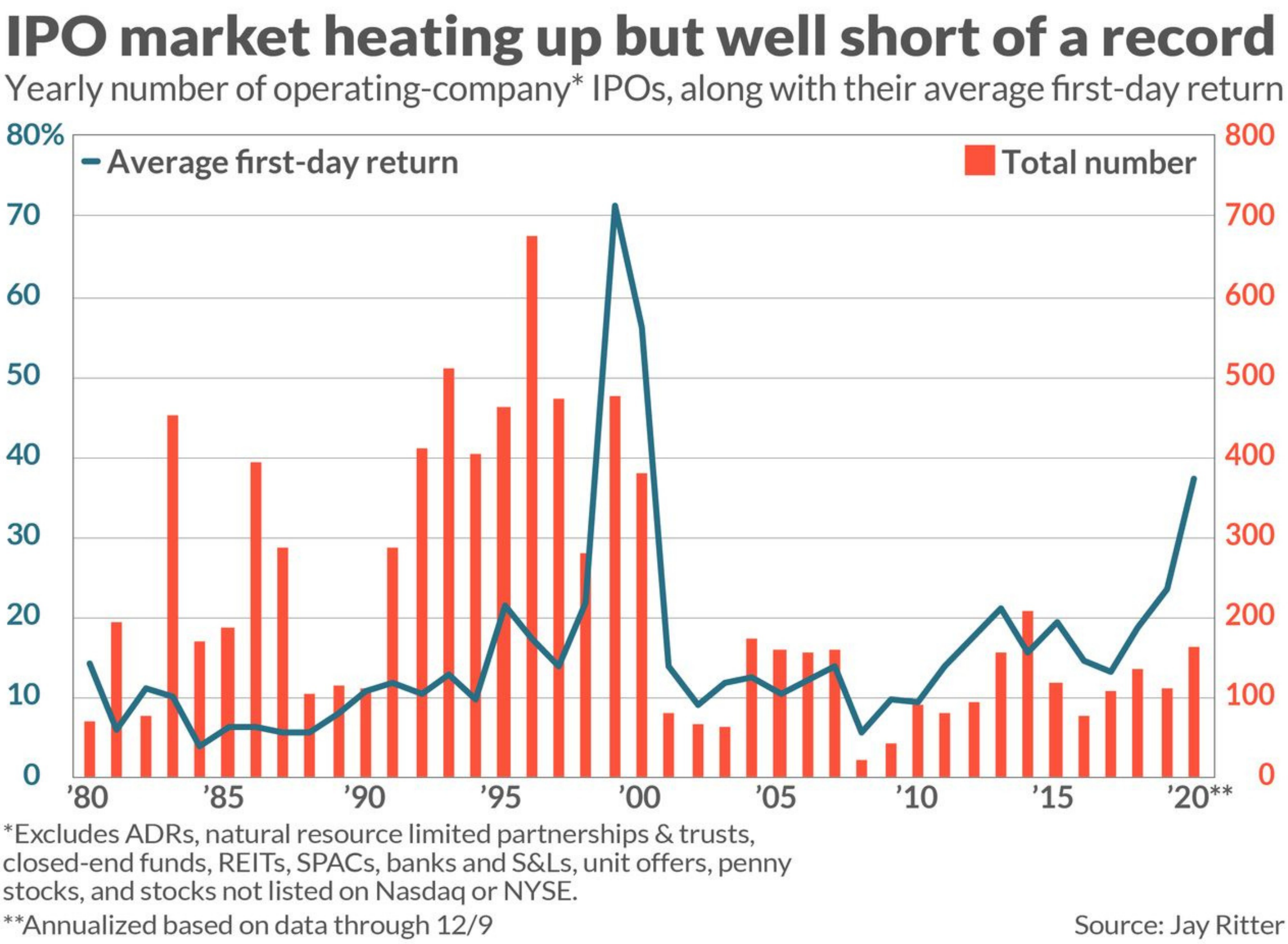
I shared a version of the below chart last week, citing an expectation that semiconductors could pullback. Semis did weaken last week, with SMH falling about 4%. As semis respond to their 'overbought' status being 2 standard deviations above the 'best fit' line off the March low, if they continue to slide I'm watching the 50-day moving average which currently sits exactly 2 standard deviations BELOW the 'best fit' line. The 50-MA was support several times in Sept. and Nov. so there's obviously buyers interested in buying dips off this level.



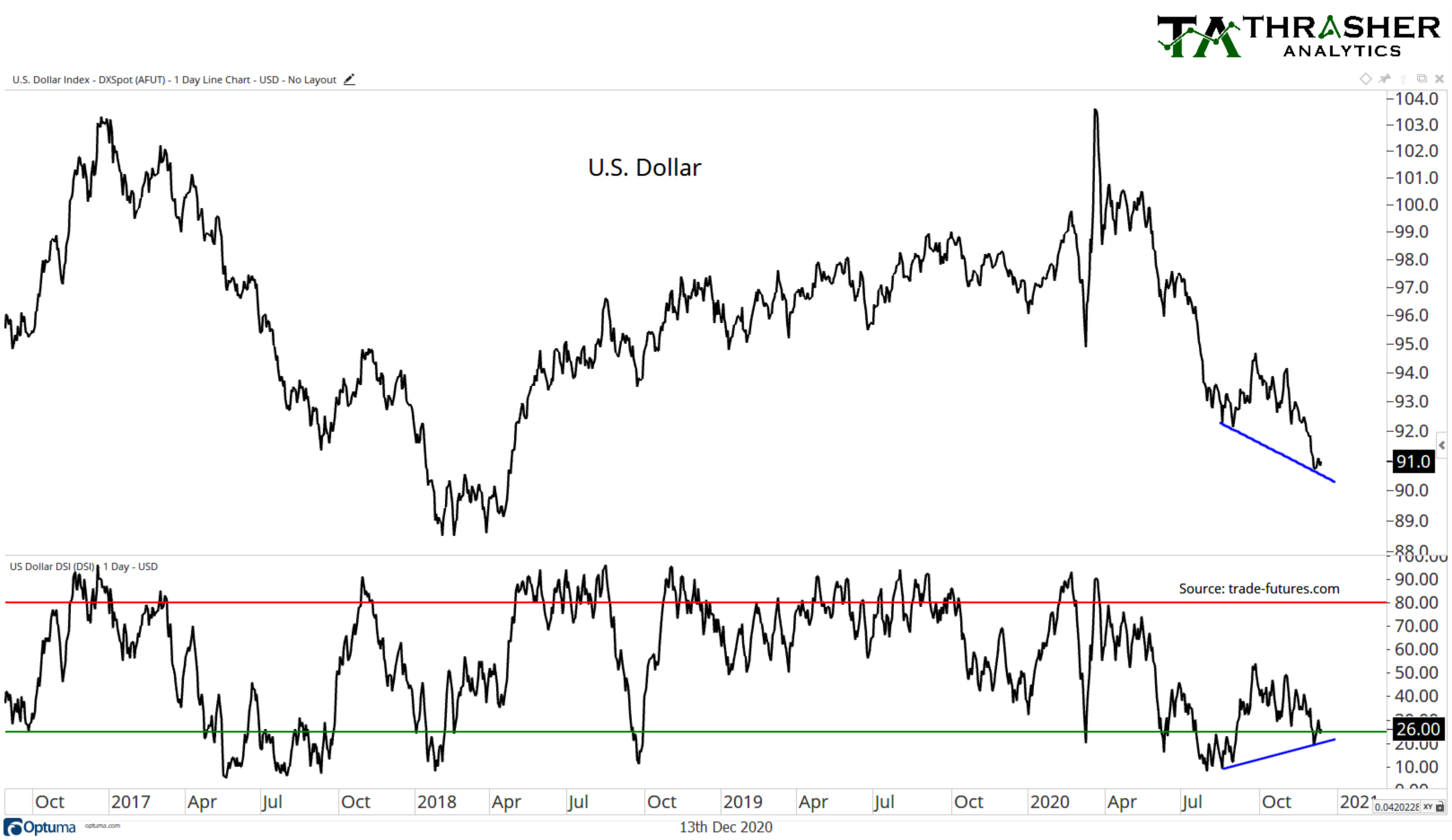
Equities - IPO Frenzy

Airbnb has their much anticipated IPO last week, seeing their valuation rocket to $100B and the stock moving 80%. Jay Ritter, the finance professor at Univ. of Florida is an expert in the IPO market and in a recent interview with Mark Hulbert noted that while we aren't to the peak craziness of '99, we are seeing excessive bullishness towards IPOs that exceed any period since the dot-com era. Jay highlights that this year's average 1st day return for IPOs is 37%, the highest since 2000 but still half of what '99 experienced and said “We’re seeing the same kind of disconnect today… The valuations of some of these companies going public have gotten so high that they offer very little upside for investors.”

There's little doubt that froth has begun to build in thee IPO market and Jay's data excludes SPACs. Goldman Sach's recently wrote that SPAC IPOs have raised $70B, which is 5x the figure last year which was up 44% from '18 - showing the appetite of the market right now for speculation.

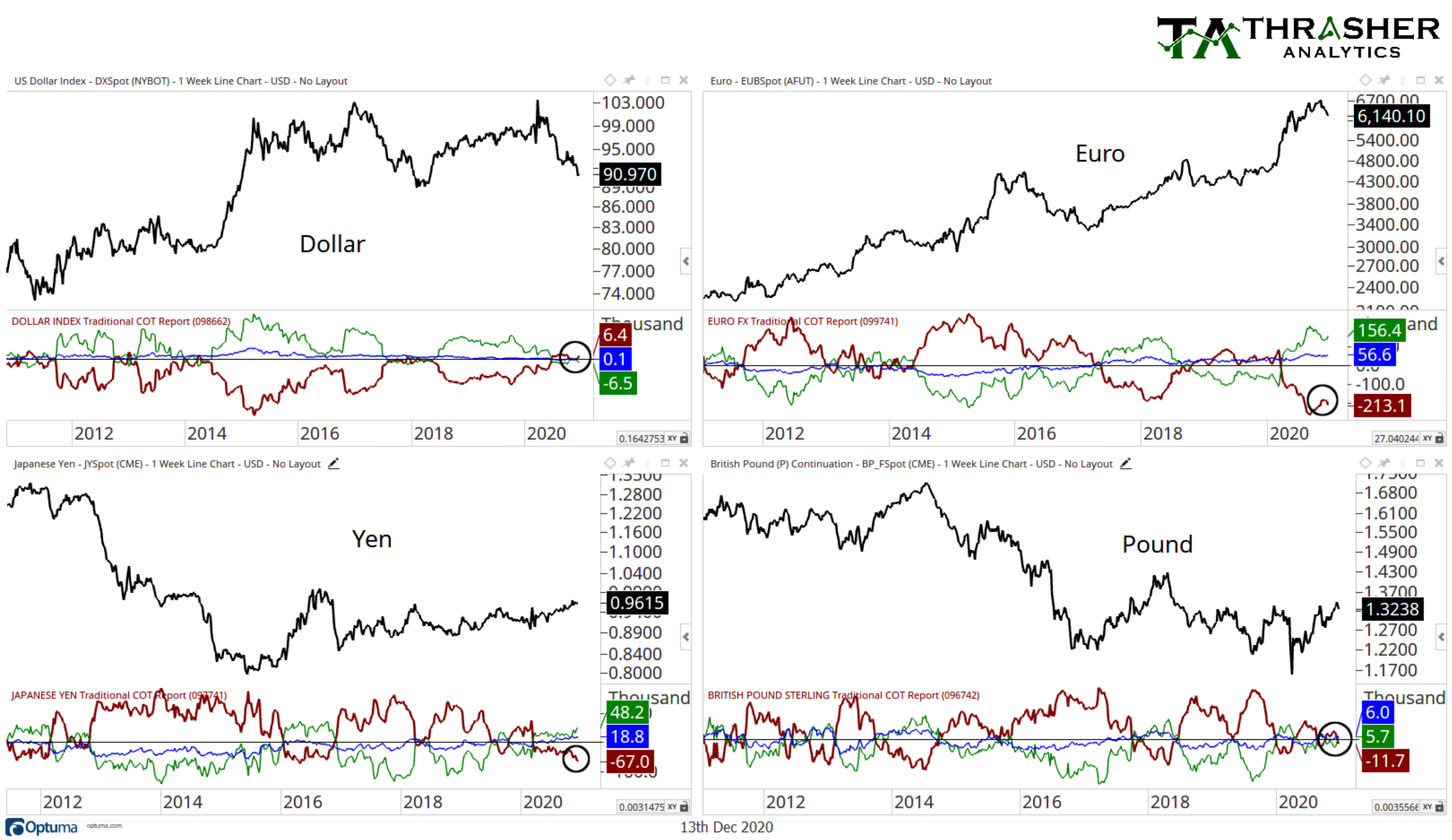


Trying to find a bullish trader on the U.S. dollar is a pretty tough task these days, but based on the Daily Sentiment Index for the USD, it's less tough than it was in the summer. While the U.S. currency has made a lower-low, the %Bullish has made a meaningful higher-low as less traders are bearish on the currency as they once were at higher prices. This bullish divergence suggests sellers are drying up and there may not be the level of selling pressure that was present in the market a few months ago.



Looking again at the dollar but from the viewpoint of other currencies and their respective Commitment of Traders (COT) data, we can see a picture that may bode well for the greenback. The top three currencies in the weighted ICE Dollar Index are Euro (58%), Yen (14%) and Pound (12%). Currently we're seeing Commercial Traders taking on net-short positions in all three of these currencies while recently moving net-long the dollar. Not only are they net-short this basket, but it's the largest net-short in the Yen and Euro for over five years. And as you can see in the top left, Commercial Traders don't take on net-long exposure in the dollar very often but when they have, the greenback has bottomed and seen sizable rallies.

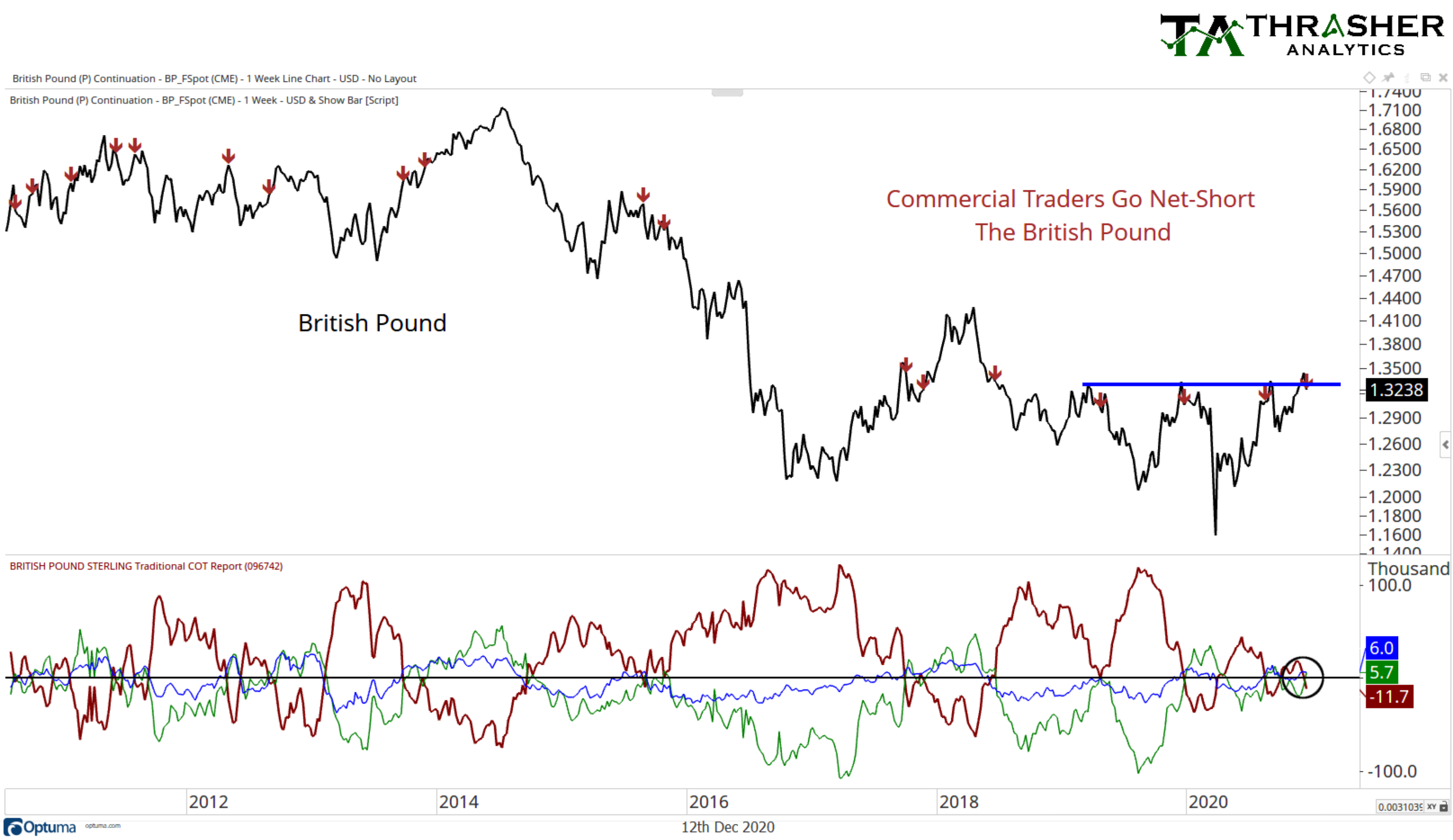
I think few people are expecting the dollar to appreciate any time soon but based on sentiment and Commercial Trader ('smart money') positioning, there seems to be a growing level of bullishness below the surface that could put a floor under the USD. It doesn't mean we will see an immediate move higher from here, but I think looking for price to begin to respond to this bullish thesis in the coming weeks is something to keep on the radar.



Currency - British Pound

As I mentioned on the last, Commercial Traders have gone net-short the Pound but I want to explore this specific chart a little more closely. Below I've drawn red arrows each time this trade group went net-short since 2011. You can see these are often timely periods in the currency's trend, often reversing lower soon after. I also notice that the Pound is butting up against the prior 2019 high and September high before moving lower last week. There's resistance here and enough supply to cause the Pound to falter.

While there's of course Brexit implications for this currency, I by no means tout myself as a geopolitical European expert. What I do know is price action and right now price action appears to be turning bearish on the British currency.

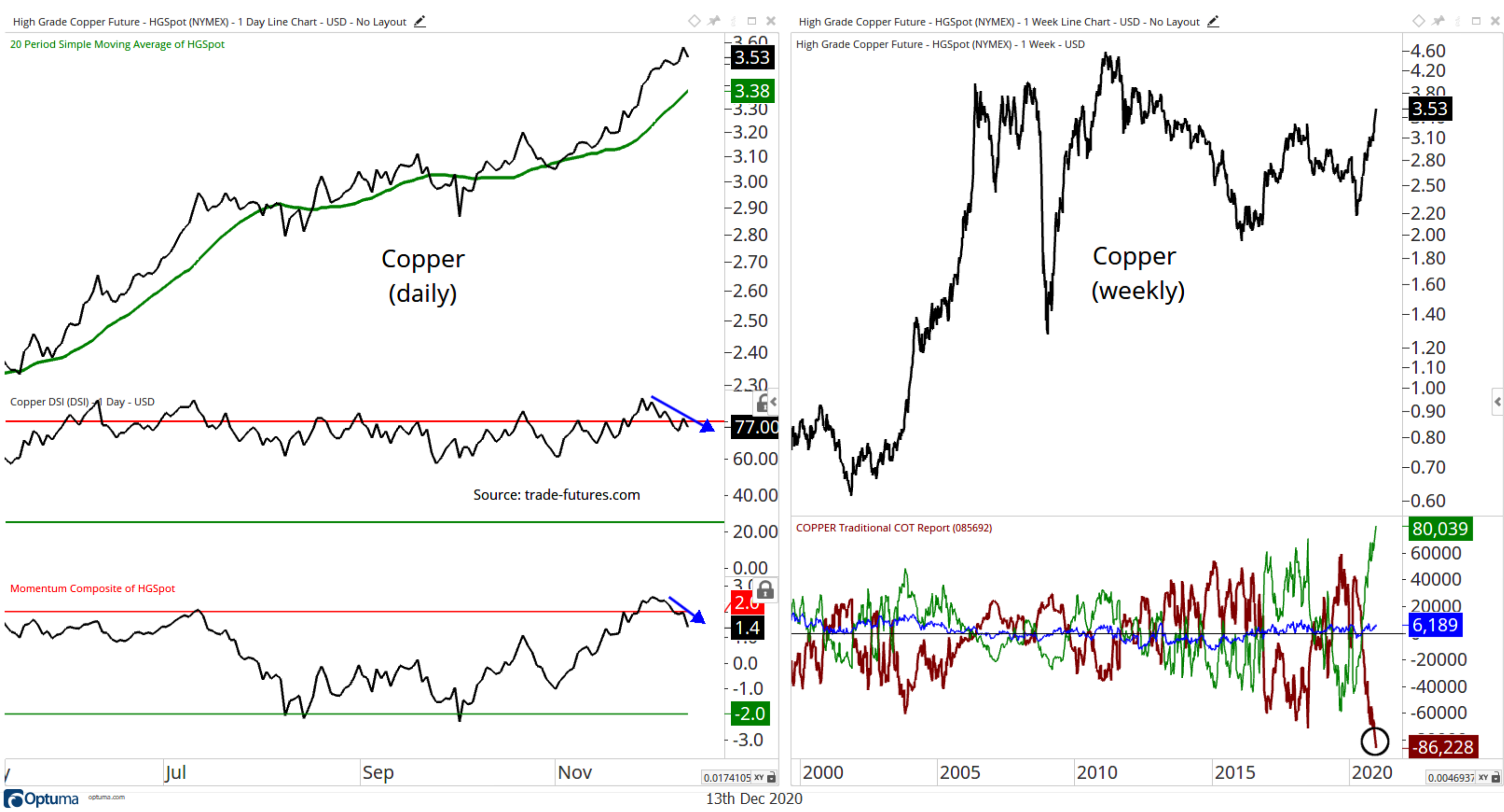


It seems everyone loves copper. I see the chart of copper vs. gold shared constantly on social media and investment research reports. The commodity has had a strong move higher, rising 70% off the market low.

When something is this loved and it appears to be being taken for granted, my radar goes up. And I apparently am not alone, as there's been a drop lower in %Bullish for the Daily Sentiment Index (left chart), creating a bearish divergence with price. The same divergence is showing up in momentum which has also turned lower.

And how are traders position in copper? well Large Traders can't get enough, holding a MASSIVE net-long position while Commercial Traders have never been more net-short. This gap has to close at some point and the last time it was almost this last, copper fell over 30%.

Sentiment has begun to weaken, momentum is slowing and the 'smart money' is betting big that copper cant maintain this strength. I lean to believe the Commercials will be right and copper prices will return to earth. This, like the dollar I mentioned earlier, is not what the market is expecting. For price confirmation I'm watching the 20-day moving average, which has 'defined' the trend higher, a move under that I think tells us the supply/demand dynamic has shifted.

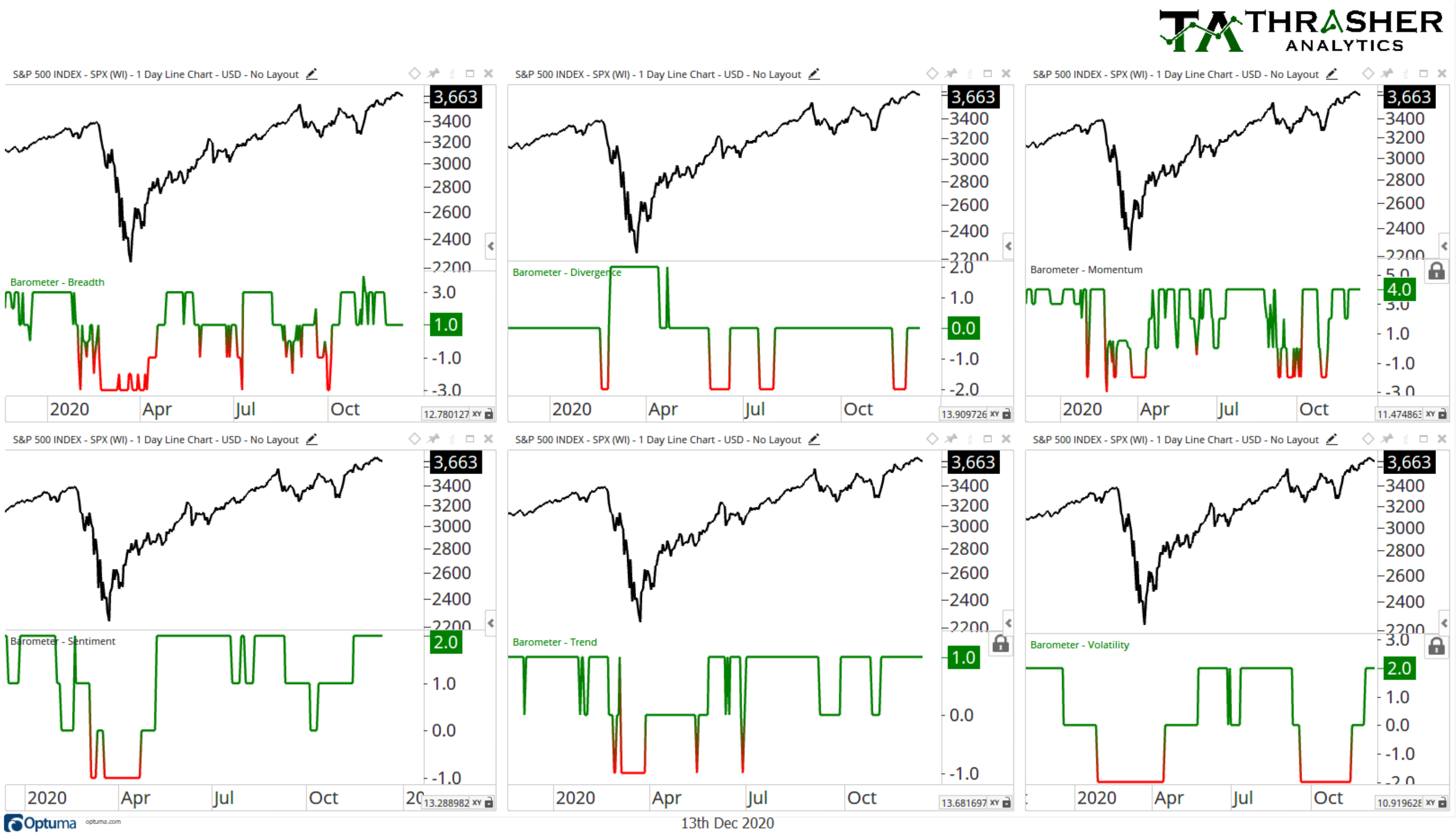


Commodity - Gold

Gold prices have bounced off the 200-day moving average but have met some sellers at the 50-day moving average, clearly seen in the chart below. While the move back above the September low is a good sign, the supply of sell tickets at the 50-day MA needs to be worked through to get a stronger belief buyers are in control. Quite a few traders are leaning hard on the rotation trade from precious metals to industrial metals, i.e. out of gold and into copper. If the setup I shared on the prior page proves correct, then precious metals could benefit from the copper unwind. I'll continue to be watching the 50-day MA in gold and if price can hold above that then I think it could make a challenge back to $2000.

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 topic 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 apologizes 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!



Sectors

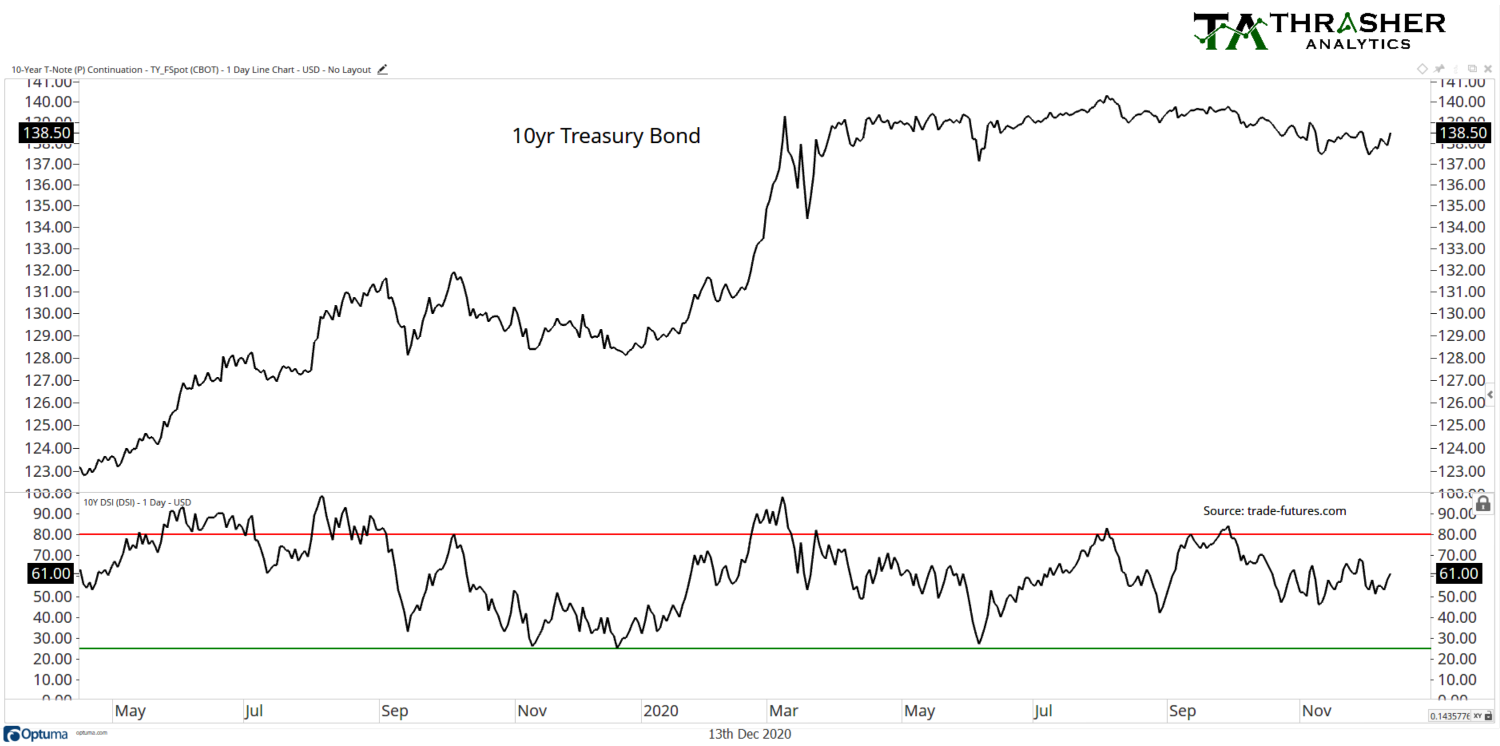
Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	1.21%	21.73%	26.06%	-31.09%
SPDR Communication Services Select Sector ETF	True	True	-0.06%	5.37%	11.98%	27.21%
SPDR Utilities Select Sector Fund ETF	False	True	-0.27%	-6.42%	5.62%	-1.44%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.46%	0.79%	4.13%	7.52%
SPDR Industrial Select Sector Fund ETF	True	True	-0.49%	4.60%	14.38%	9.31%
SPDR Health Care Select Sector Fund ETF	True	True	-0.76%	0.49%	6.78%	11.66%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-1.09%	2.12%	7%	28.13%
SPDR Materials Select Sector Fund ETF	True	True	-1.23%	2.31%	8.96%	18.03%
SPDR Technology Select Sector Fund ETF	True	True	-1.38%	2.51%	10.04%	41.31%
SPDR Financial Select Sector Fund ETF	True	True	-1.79%	5.25%	15.18%	-5.86%
SPDR Real Estate Select Sector Fund ETF	False	True	-2.84%	-2.11%	2.03%	-4.58%

Daily Sentiment Index

Market	% Bullish	5MA	History
VIX DSI	22	17	
US Dollar DSI	26.00	26.40	
Natural Gas DSI	30.00	22.8	
Gold DSI	35.00	37.80	
Palladium DSI	43.00	44.40	
Coffee DSI	44.00	44.20	
Crude Oil DSI	45.00	45.20	
Sugar DSI	51.00	53.80	
Silver DSI	51.00	52.40	
Orange Juice DSI	55.00	65.60	
5YR DSI	56.00	55.20	
British Pound DSI	57.00	62.60	
Lean Hog DSI	60.00	67.40	
10Y DSI	61.00	56.40	
Cattle DSI	62.00	53.80	
Cocoa DSI	63.00	59.80	
Mexican Peso DSI	64.00	71.60	

Code	% Bullish	5MA	History
Corn DSI	68.00	67.00	
Wheat DSI	70.00	58.20	
Heating Oil DSI	70.00	70.00	
EuroDollar DSI	70.00	70.00	
Australian Dollar DSI	70.00	66.40	
Cotton DSI	71.00	65.60	
CRB Index DSI	73.00	72.60	
Swiss Franc DSI	74.00	75.40	
Gasoline DSI	74.00	76.60	
SPX DSI	77.00	79.00	
Platinum DSI	77.00	80	
Copper DSI	77.00	78.60	
New Zealand Dollar DSI	79.00	79.80	
Euro DSI	79.00	79.20	
Nikkei DSI	81	81.4	
Nasdaq DSI	86	87.4	
Lumber DSI	87	91	

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
138.50
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
61.00
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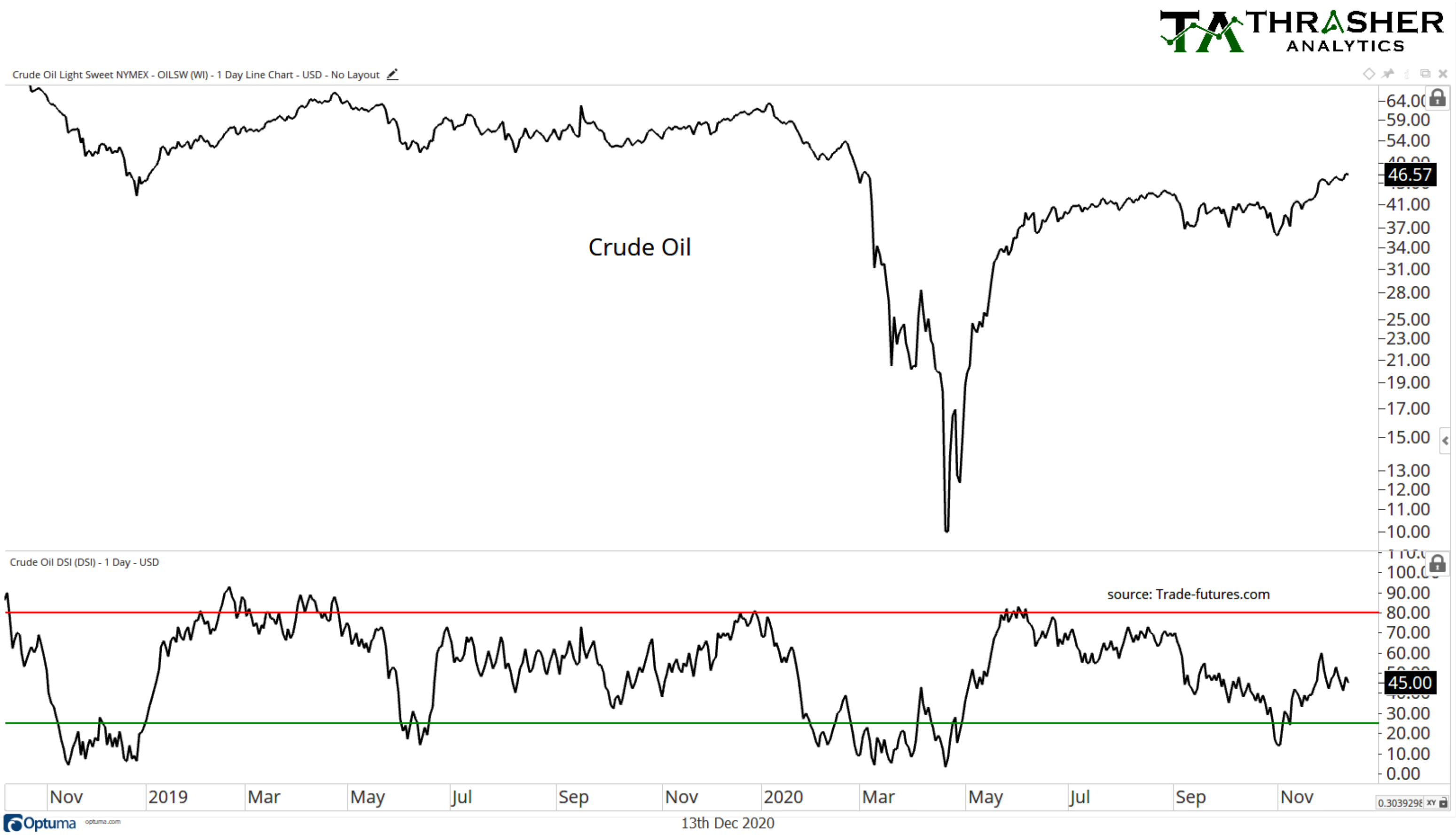
THRASHER ANALYTICS
Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
46.57
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
45.00
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THRASHER ANALYTICS
Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
1,843.60
Gold DSI (DSI) - 1 Day - USD
Source: trade-futures.com
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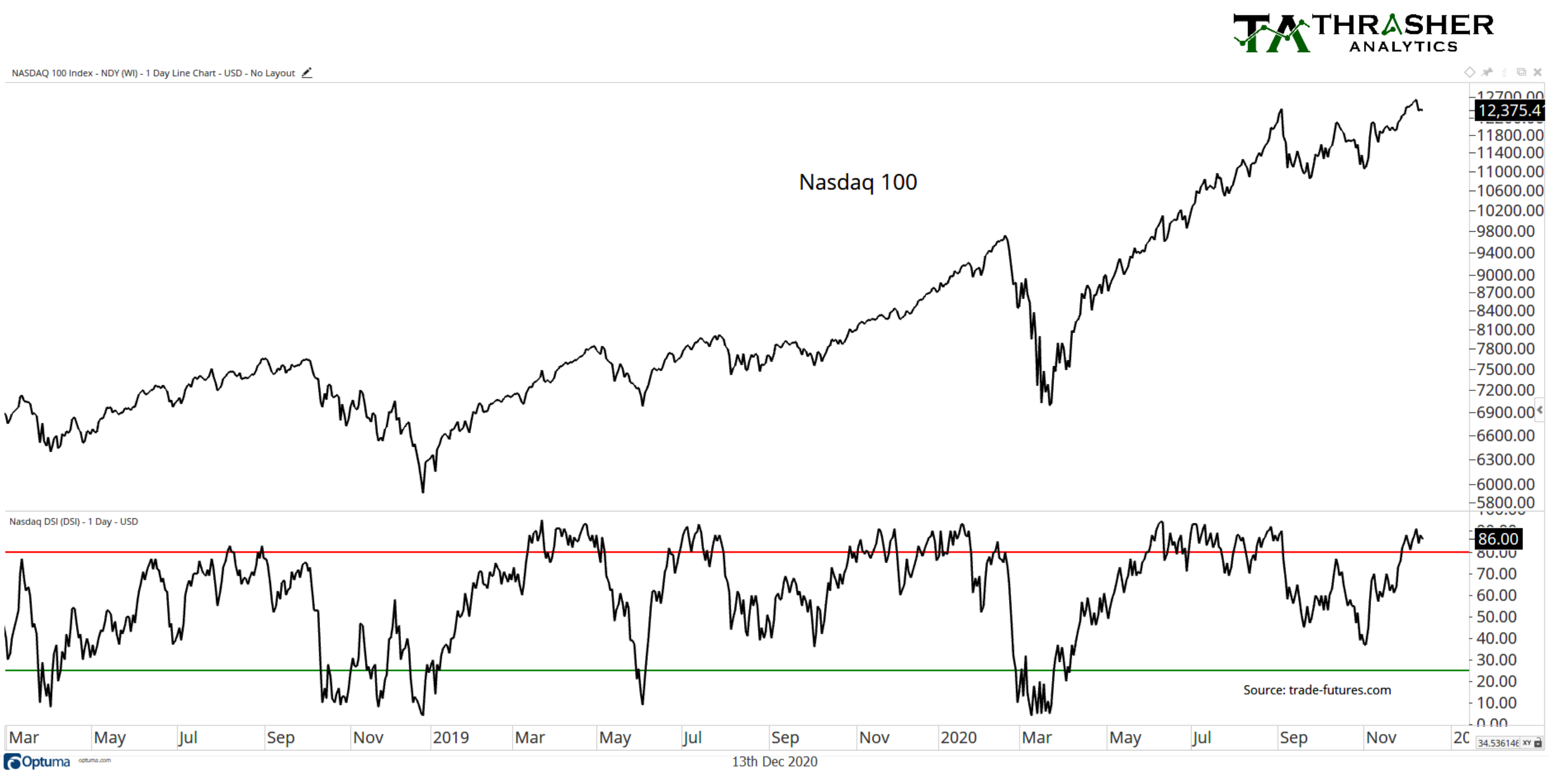
13th Dec 2020


THRASHER ANALYTICS
NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
12,375.41
Nasdaq DSI (DSI) - 1 Day - USD
86.00
Source: trade-futures.com
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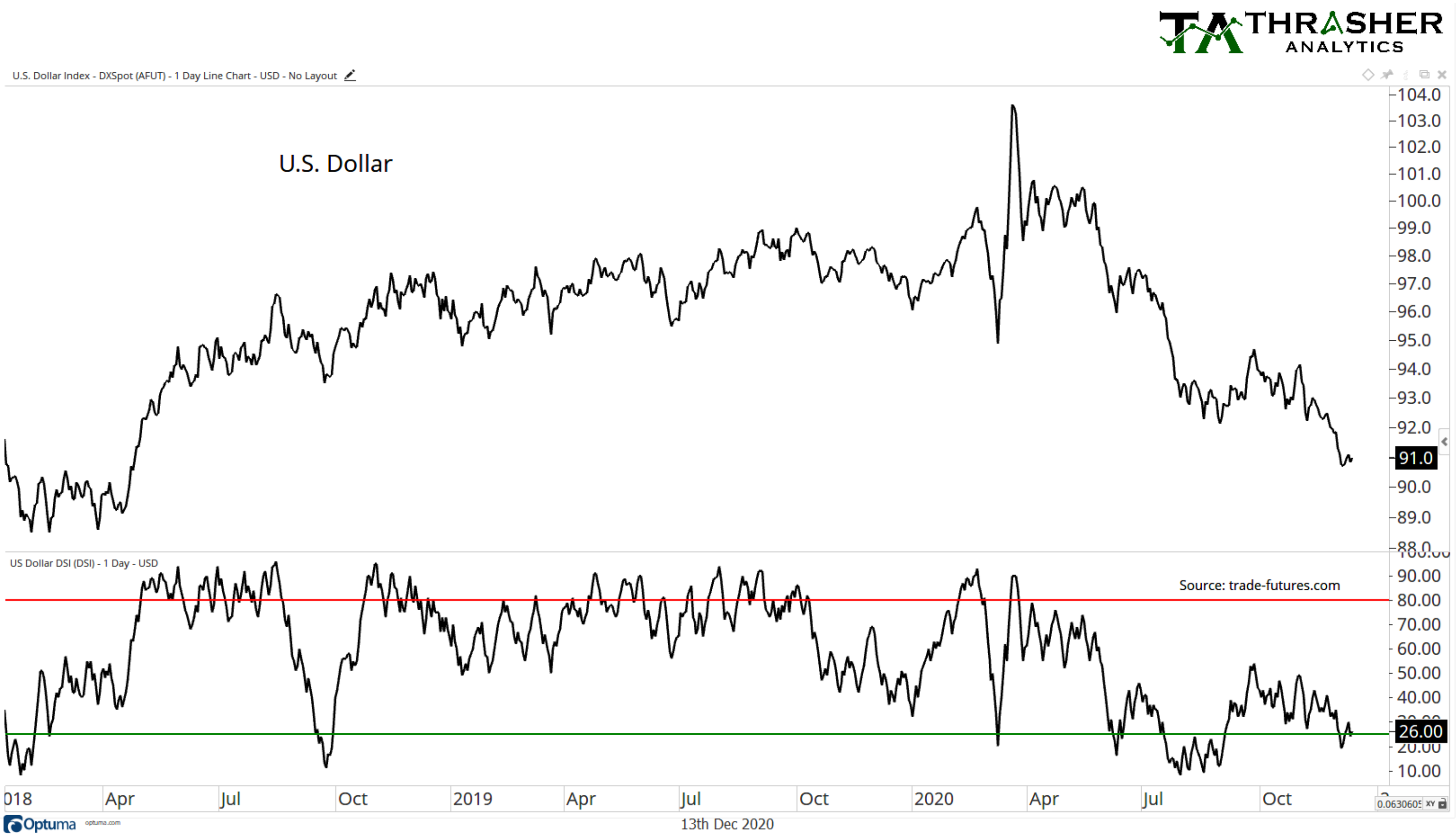
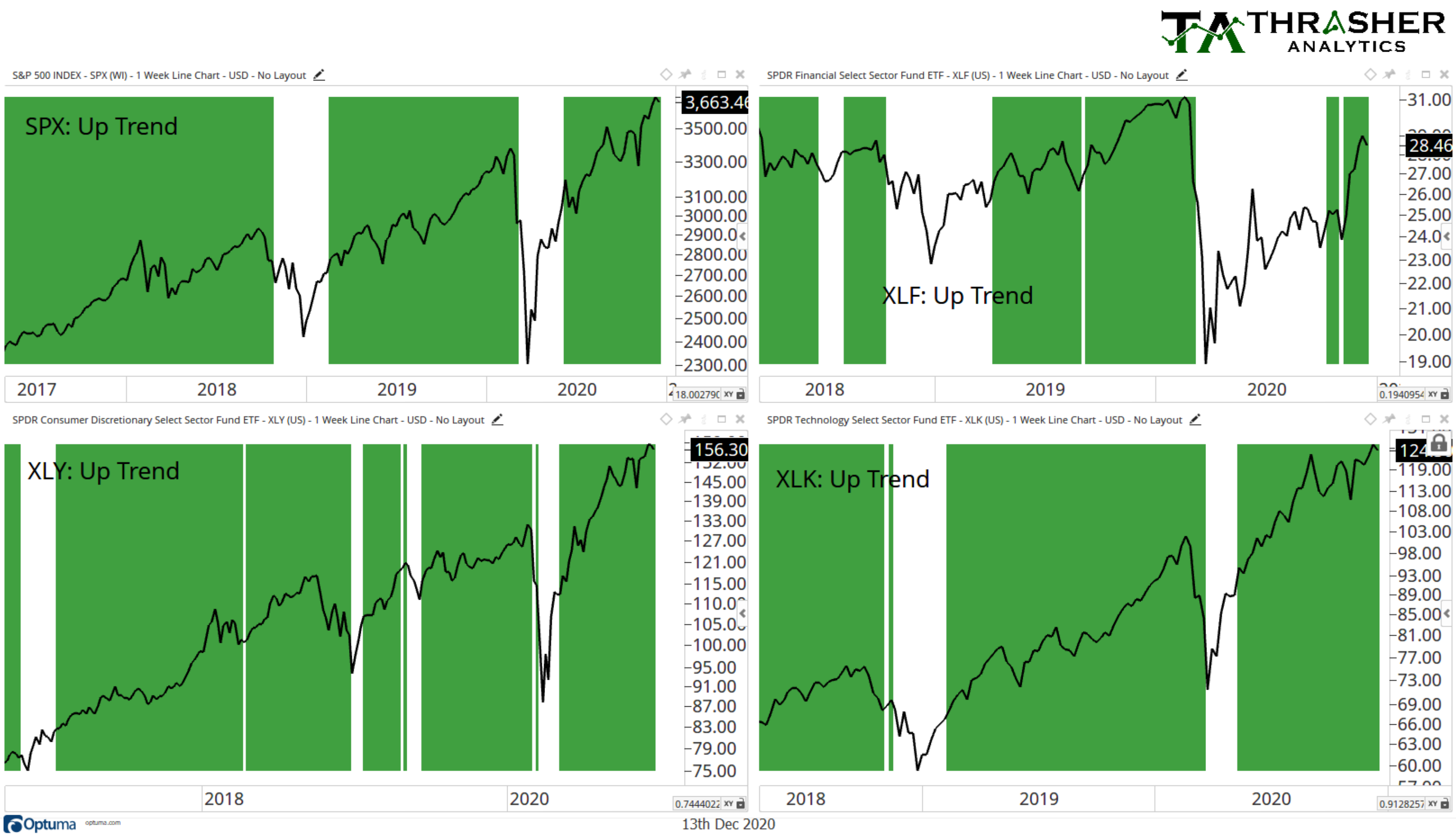
Daily Sentiment Index

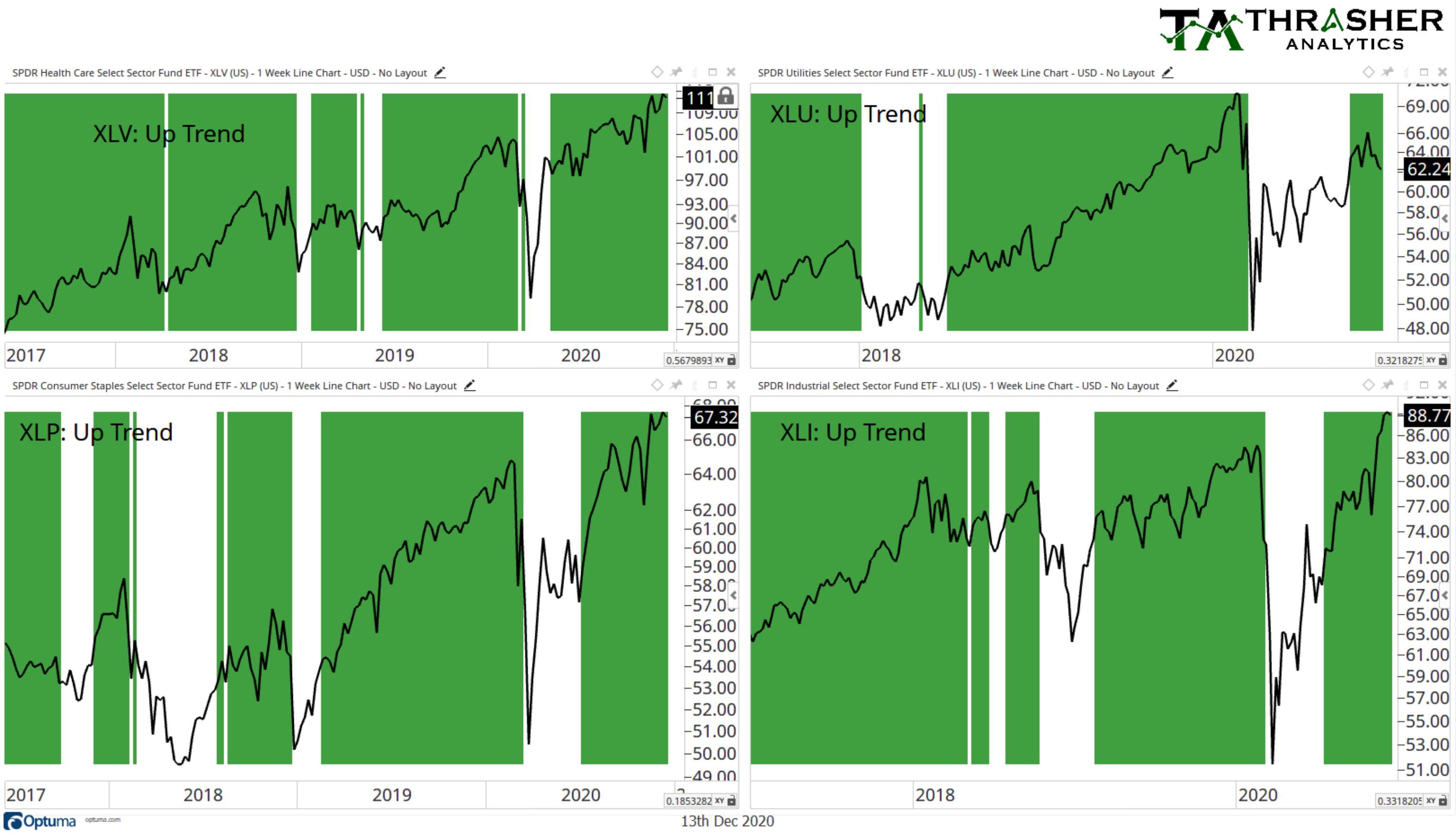


Daily Sentiment Index

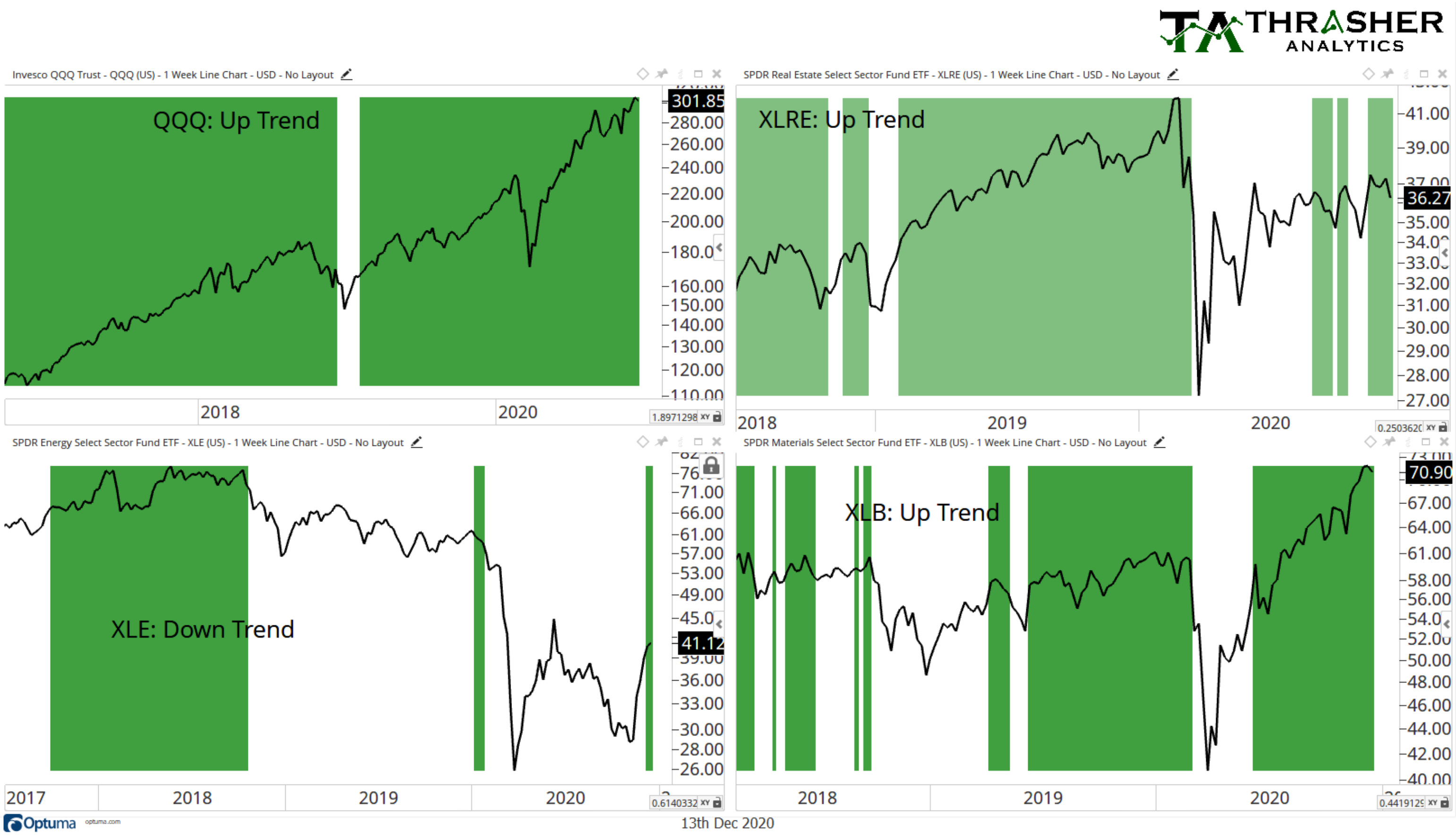
Daily Sentiment Index

Trend Models




THRASHER ANALYTICS
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout
XLV: Up Trend
SPDR Utilities Select Sector Fund ETF - XLU (US) - 1 Week Line Chart - USD - No Layout
XLU: Up Trend
SPDR Consumer Staples Select Sector Fund ETF - XLP (US) - 1 Week Line Chart - USD - No Layout
XLP: Up Trend
SPDR Industrial Select Sector Fund ETF - XLI (US) - 1 Week Line Chart - USD - No Layout
XLI: Up Trend
Optuma
13th Dec 2020

Trend Models



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