THRASHER ANALYTICS

DECEMBER 20, 2020

WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish	Bearish
• Seasonality • Trend Model remains positive for almost all sectors and indices. • The VRT 2.0 has not signaled. • Breadth remains supportive • Rotation from Large to S/Mall continues. • Market Health Report remains positive. • Online retailers strength.	• Equities are stretched relative to the 200-day MA. • Equity sentiment is extremely high. • Volatility dispersion is narrowing. • Volatility sentiment extremely low. • Bearish divergence in energy sector.

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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	83%	80%
Nasdaq 100	87%	97%
Nikkei	73%	79%
VIX	13%	18%
10yr Treasury	53%	58%
5yr Treasury	52%	54%
CRB Index	85%	78%
Gold	52%	45%
U.S. Dollar	14%	14%

**Green<25%* *Red>80%*

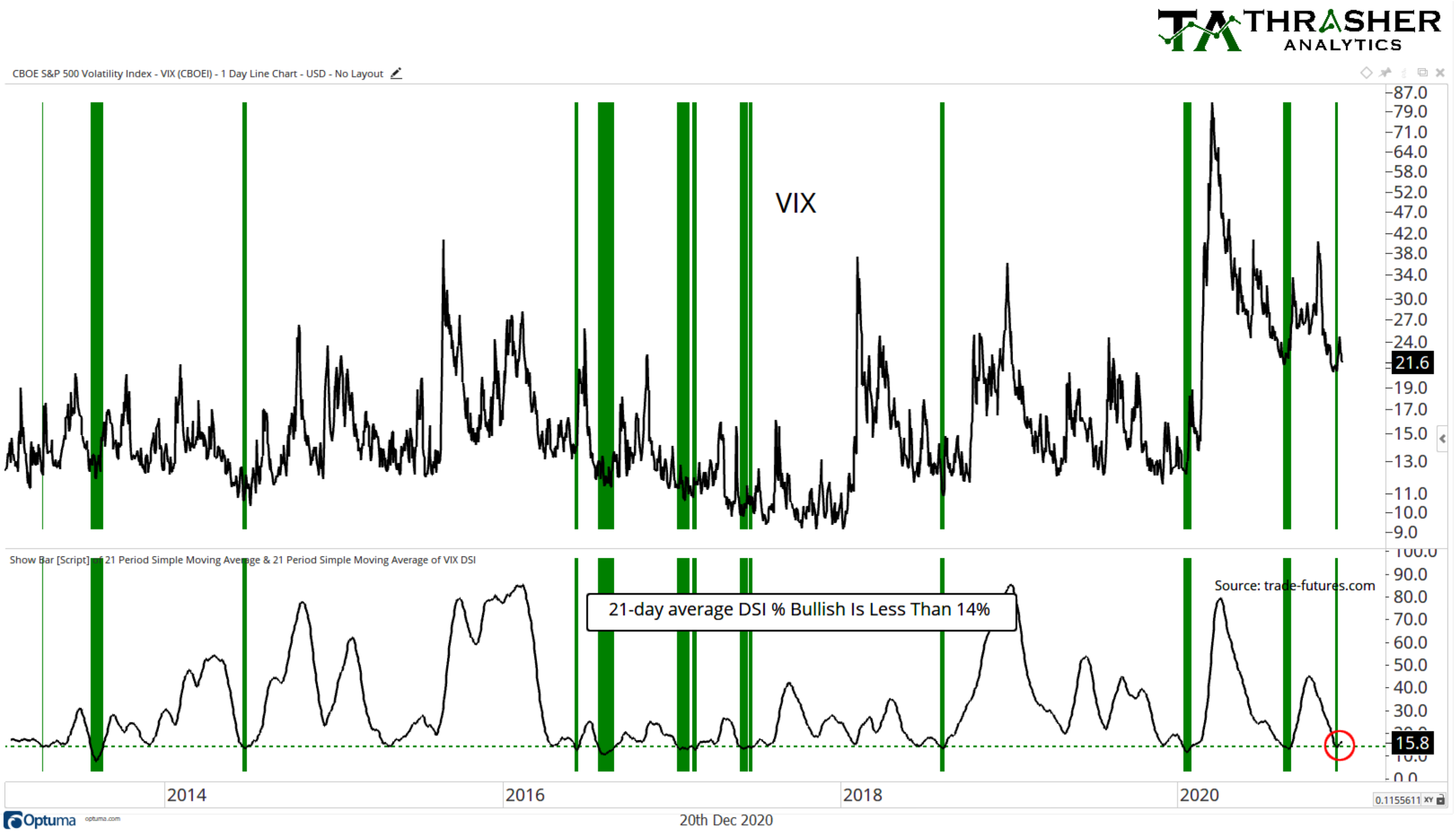
source: trade-futures.com

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. We still haven't enough compression in daily VIX dispersion. Sentiment towards volatility has continued to move lower, more on that later but the slight pick up in spot VIX was given back at the end of last week. The the recent inclusion of TSLA into the S&P 500 is not a surprise, the options market will need to adjust to the volatility the stock will bring to the index, especially as the seventh largest weighting.

The Daily Sentiment Index (DSI) for the VIX has been staying suppressed for the last couple of weeks. In fact, the 21-day (1 month) average % Bullish for the Volatility Index dropped under 14%. As you can see on the chart with the green vertical lines, this doesn't happen all too often. We last saw sentiment be this low for a protracted period in August before VIX went form 21 to 40 and before that was just off the lows ahead of the eventual "covid crash." I think few would argue sentiment across the board is overly bullish for risky assets. NAAIM Exposure Index (professional money manager survey) has been above 100 (meaning the avg survey respondent is leveraged long) since mid-November, the longest streak since the survey began in 2006. Typically we'd see spikes above 100 but rarely do managers maintain a leveraged long position this long, that's some seriously confident bulls and the disinterest in volatility shows through from the data below as well.

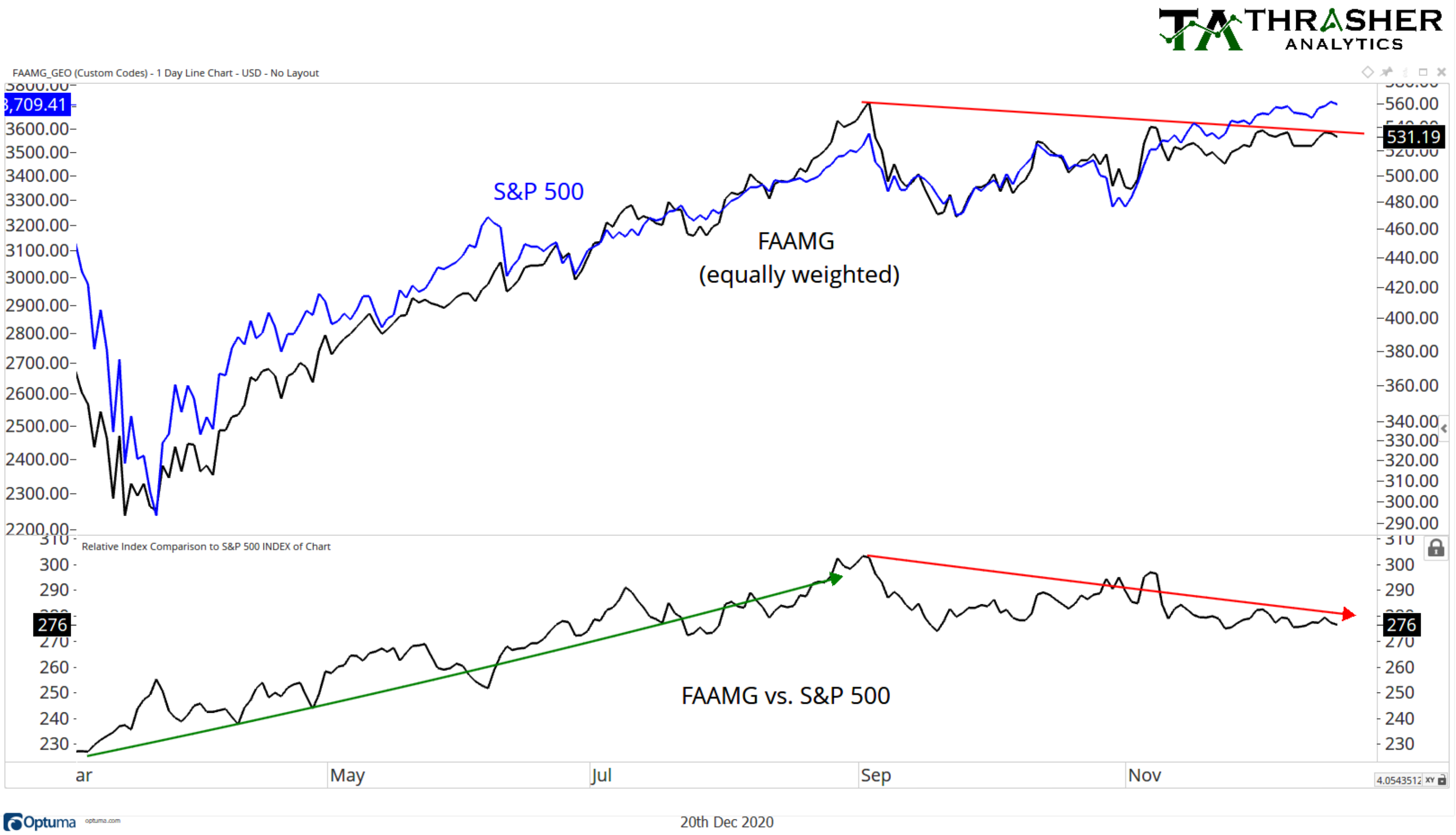


Equities - S&P 500 Daily

We finished last week up slightly with the VWAP discussed last week, off the brief November low continuing to act as support for the S&P 500. Friday was triple witching option expiration as well as the widely anticipated S&P 500 rebalance that introduced Tesla to the 7th spot in the index. A massive amount of options rolled off last week. It's been widely reported the exuberances that's taken over in the options market as calls are being purchased faster than beanie babies in the mid 1990s.

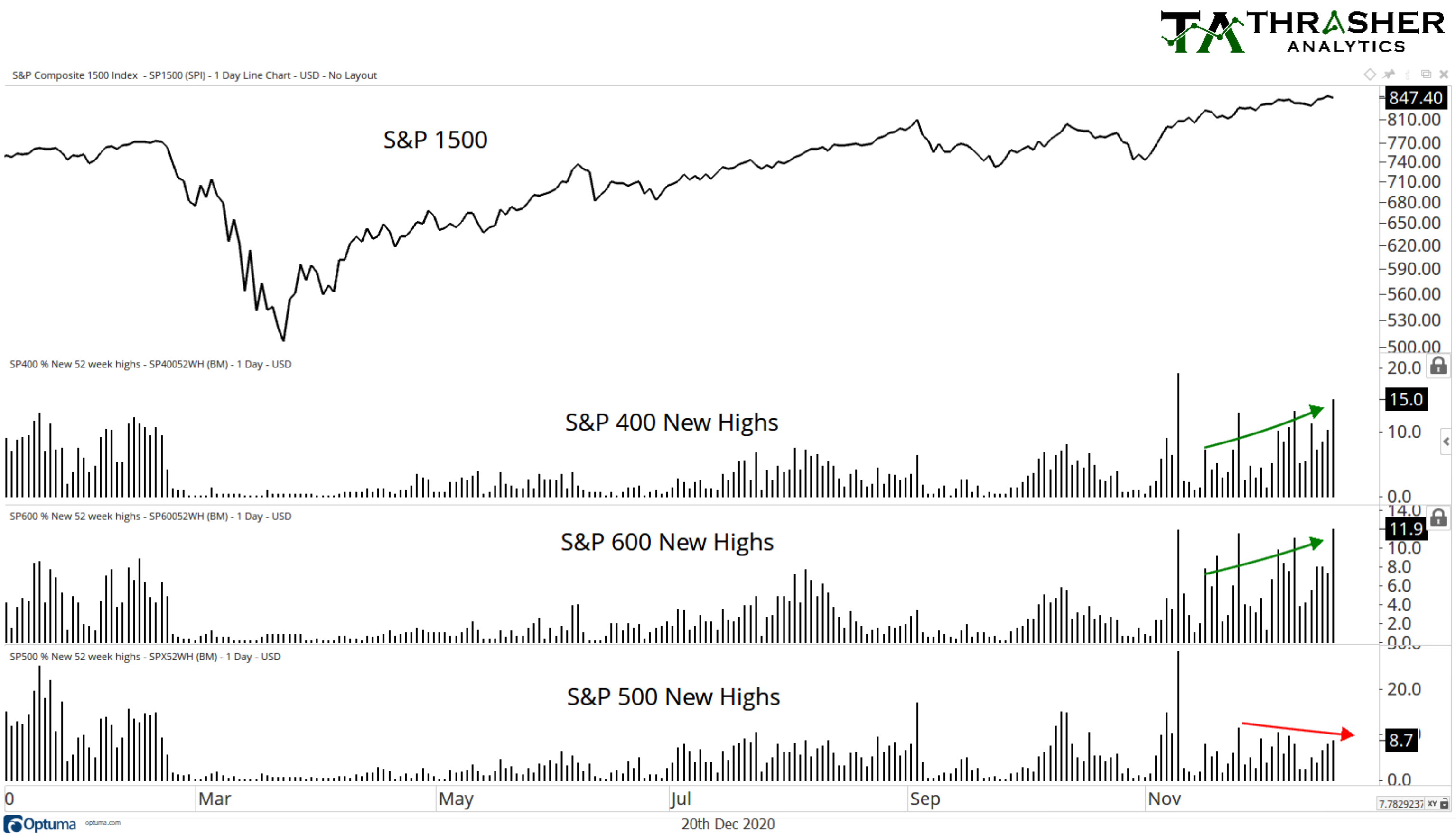
It was announced over the weekend that Congress has finally come to an agreement over the details of the rescue package. While the line items are less than what many had hoped, the fact they are moving forward *should* be viewed as a positive by risk assets come Monday. While it's not a surprise, any positive news these days gets treated as such with big gap ups in the futures market that rarely get sold. Bullish sentiment has a tight grip and until it begins to loosen, the bulls squarely have control of this tape.

I've shown this chart a few times but I believe it's worth not losing sight of. FAAMG stocks continue to underperform the broad market with the slack getting picked up by small caps. An equally-weighted FAAMG still resides under the September low with relative performance continuing to drift lower. So far the market has been okay with this. Even though FAAMG makes up the lions share of the SPX, the smaller components have shown enough upside to act as a counterweight to the drag from these five names.

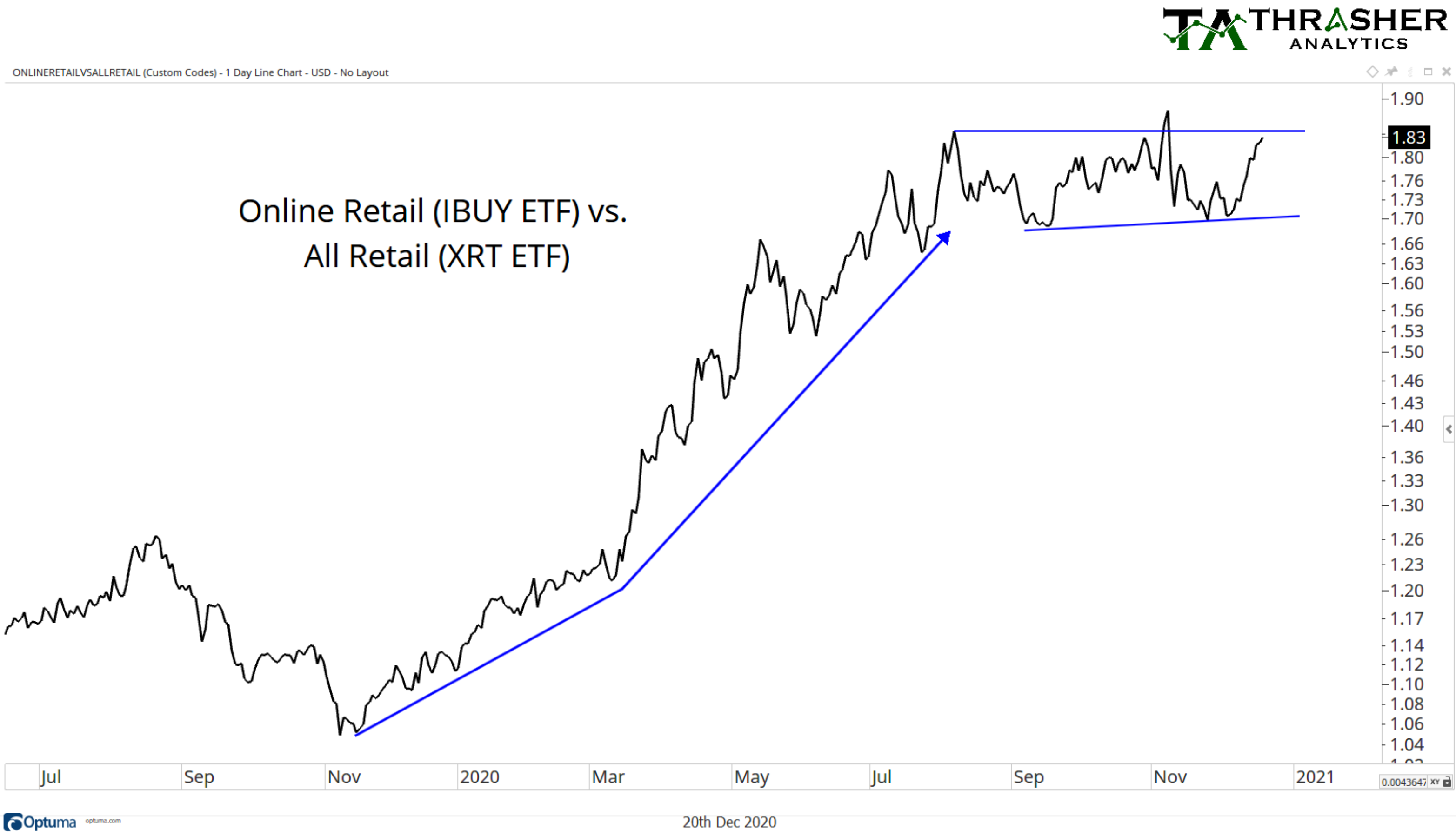


There's no better chart to see the rotation from large caps to small/mid caps than the one below.

Here we have the % New 52-week highs for the S&P 400, S&P 600, and S&P 500. You can clearly see the drop off in new highs for the large cap index while the mid and small caps saw a big move higher in their breadth indicators.

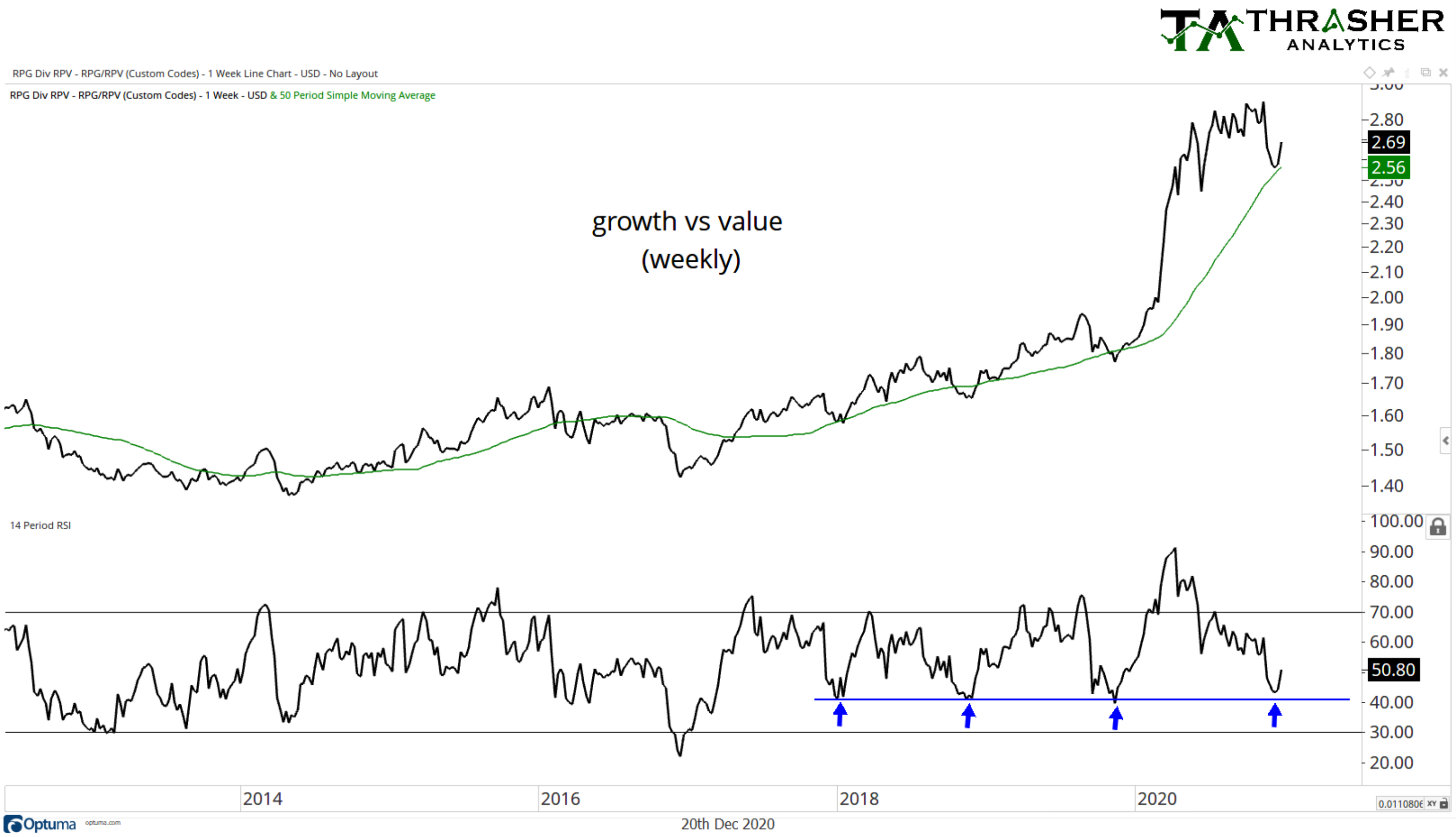


Online retailers began to consolidate in their relative performance starting in September. Since this multi-month breather, they've begun to strengthen once again, rising against the broad retail market - approaching prior highs. As several states and European countries increase their covid-related restrictions, consumers have once again likely turned back to making the bulk of their activity online. While many online retailers have already had record years, their strength is showing up once again as we prepare to close out 2020.



Equities - Growth vs. Value

The call for the death of growth has been made from nearly every corner of financial journalism and social media. However, I'm just not convinced (the contrarian in me!). The weekly ratio chart of growth vs. value just doesn't seem to have totally thrown in the towel in value's value. I say this because we remain in a bullish momentum range that still favors growth. Since 2018 momentum has found a low around the 40 level on each attempt for value to rally. The 50-week moving average has also done a great job defining the trend higher for growth, which still remains positively slowed and just below the ratio as of this week. Sure value has had a solid few weeks but I don't think we can completely dismiss growth just yet.

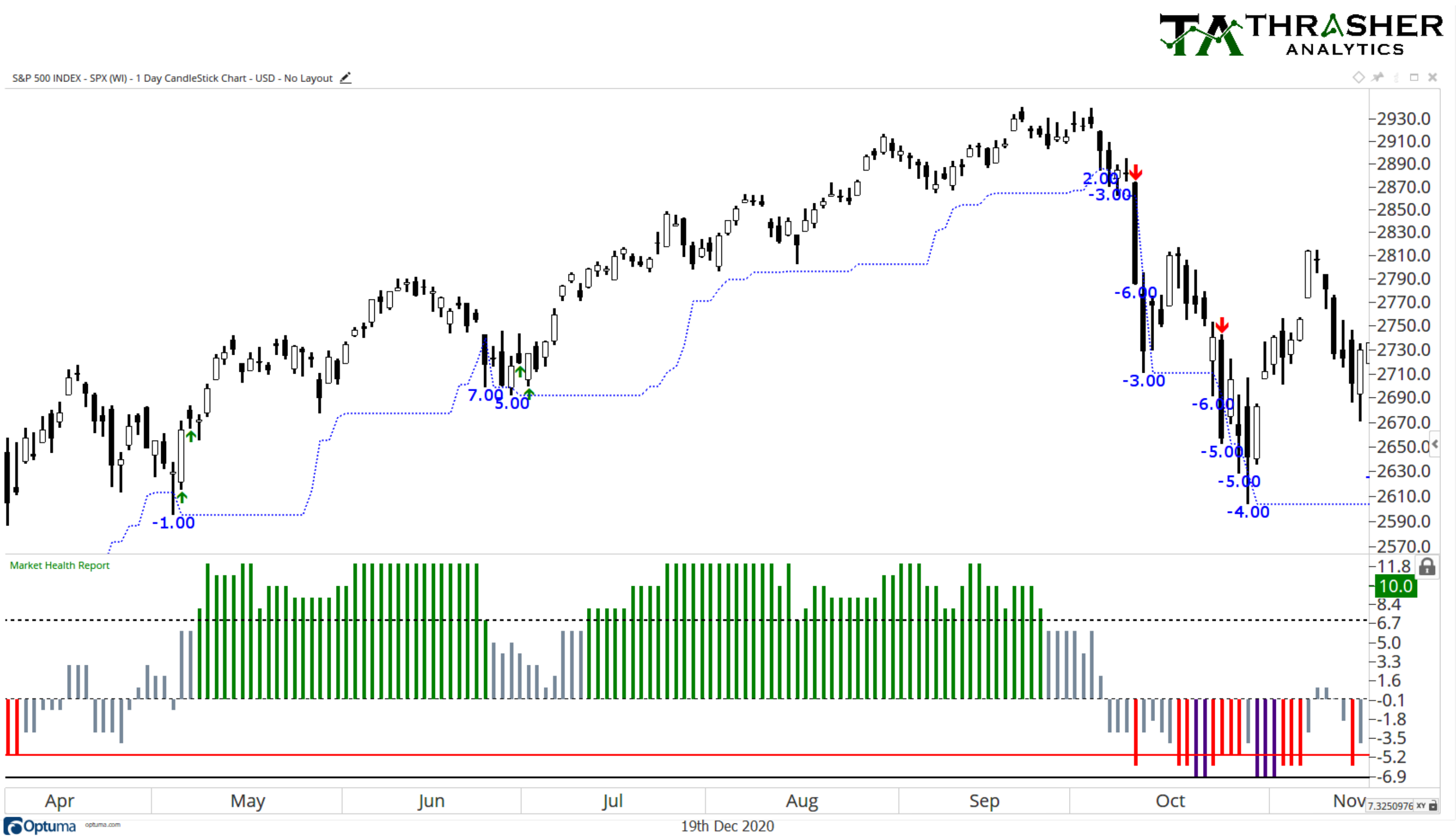


One of the goals of Thrasher Analytics is to provide a unique insight into the markets from different vantage points. To accomplish this, custom built indicators and data sets are used, giving subscribers an edge over the other market participants. While each distinctive view is useful, putting it all together into a single market signal can, at times, be difficult. For instance, if there is a build up in bullish momentum divergences, and improving breadth, but sentiment and volatility are bearish – what's the ultimate takeaway? That's the question I believe gets answered with the Thrasher Analytics Market Health Report.

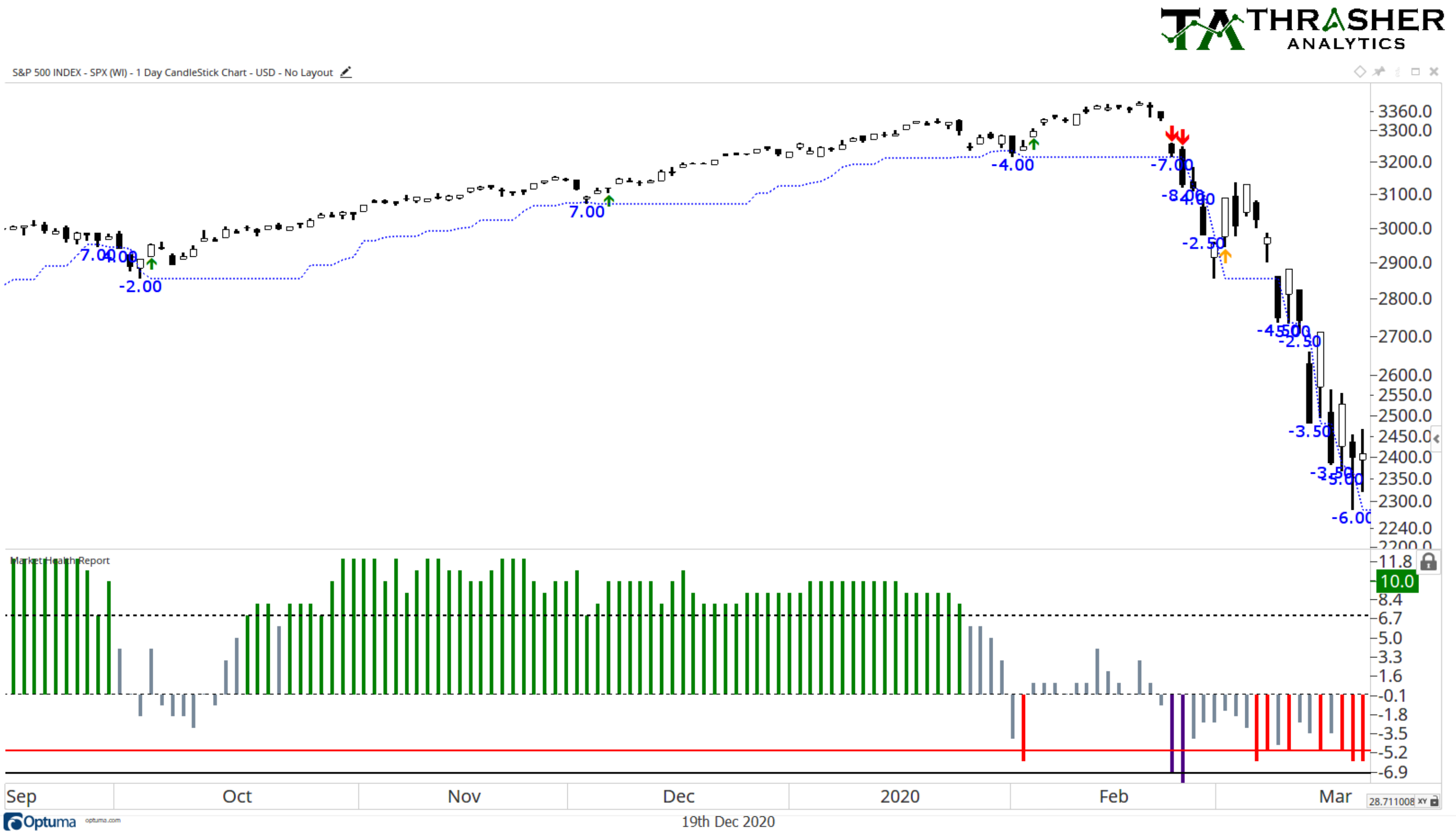
The Market Health Reports (MHR) incorporates breadth, sentiment, bullish/bearish divergences, volatility, trend, and momentum into a single composite. This tool is not intended to predict the market, call tops or bottoms or pinpoint short-term wiggles in the S&P 500 or a single stock. Instead, it tells a story of the health of the underlying market at critical junctures.

Rather than be used to signal market peaks and bottoms, the Market Health Report's goal is to identify periods in the market where selling is likely to continue and be just a brief dip. Just like you would not go to the doctor for a check-up every day, we don't need to concern ourselves with the MHR every tick of the S&P 500. Instead, we focus on the Health Report when the market has weakened to a 15-day low. When equities has fallen to a new 15-day low, we want to check to see if the health of the market remains strong, signaling the recent bit of weakness should be just momentary, or if the health of the market is weak then the selling could intensify and stocks could move materially lower. There's nothing special about 15-day lows, other periods of time but I believe keeping it less than monthly lows but not as sensitive as weekly lows keeps the time horizon well-positioned.

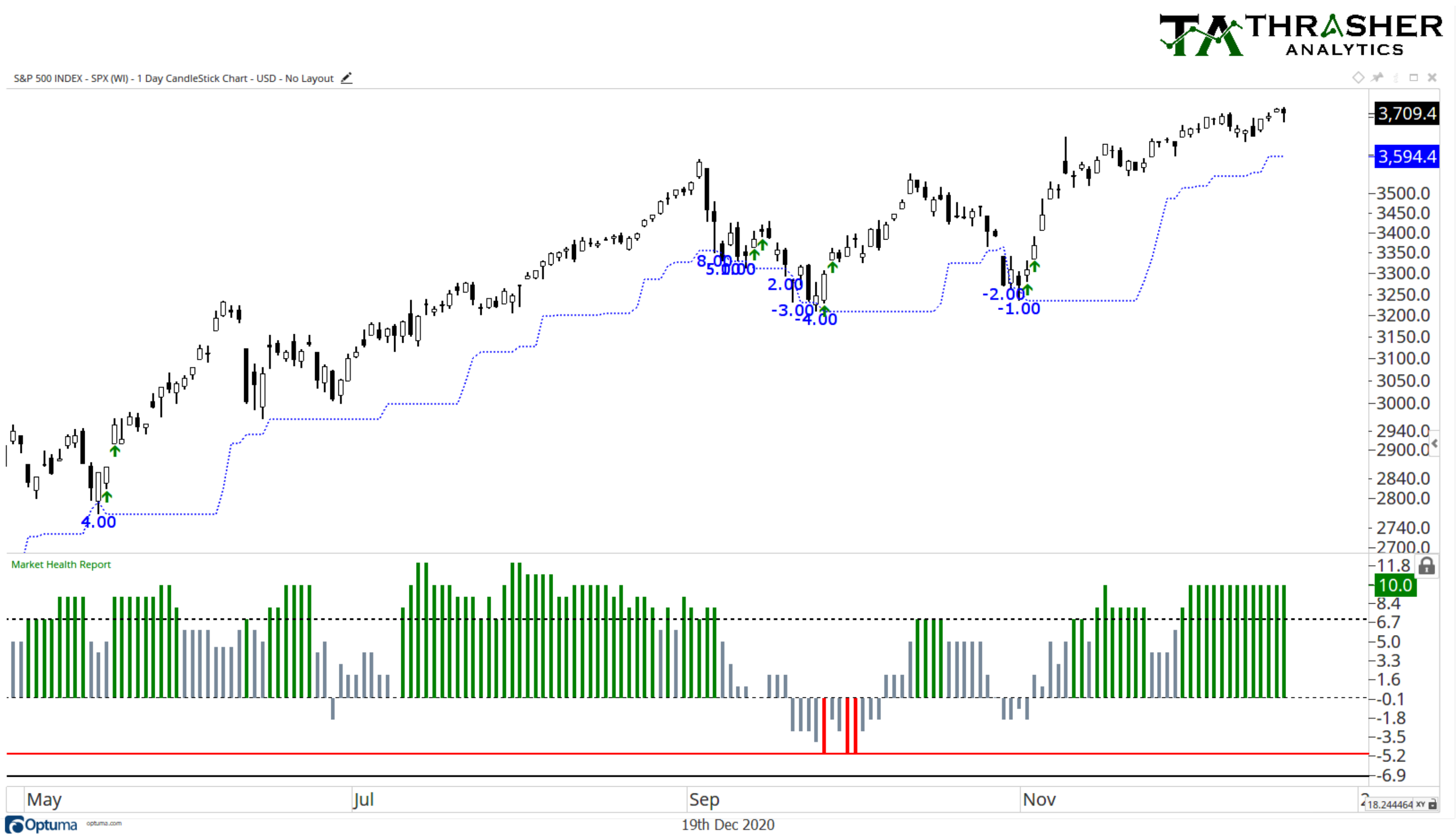
Below is the S&P 500 during the second and third quarters of 2018. The dotted line markets the 15-day low with the Market Health Report at the bottom and the daily score at 20-day lows shown below the price candles. You can see in May the S&P 500 dipped 4% but the MHT was at just a -1, signaling the market was still healthy and the dip should be brief. The same can be seen in early July, the MHR was at a +7 and a few days later stocks bottomed and continued higher. Then we moved into the fourth quarter and the MHR dropped to a -6, the lowest level in over six months. The data below the surface was turning bearish and the current 5% dip could see further downside, which we of course know was correct as stocks fell 20% before bottoming out that December. The MHR didn't call the top, it took a 5% slide in the index to get us to a place where we would want to stop and take the temperature of the financial market, allowing us to better prepare if needed.



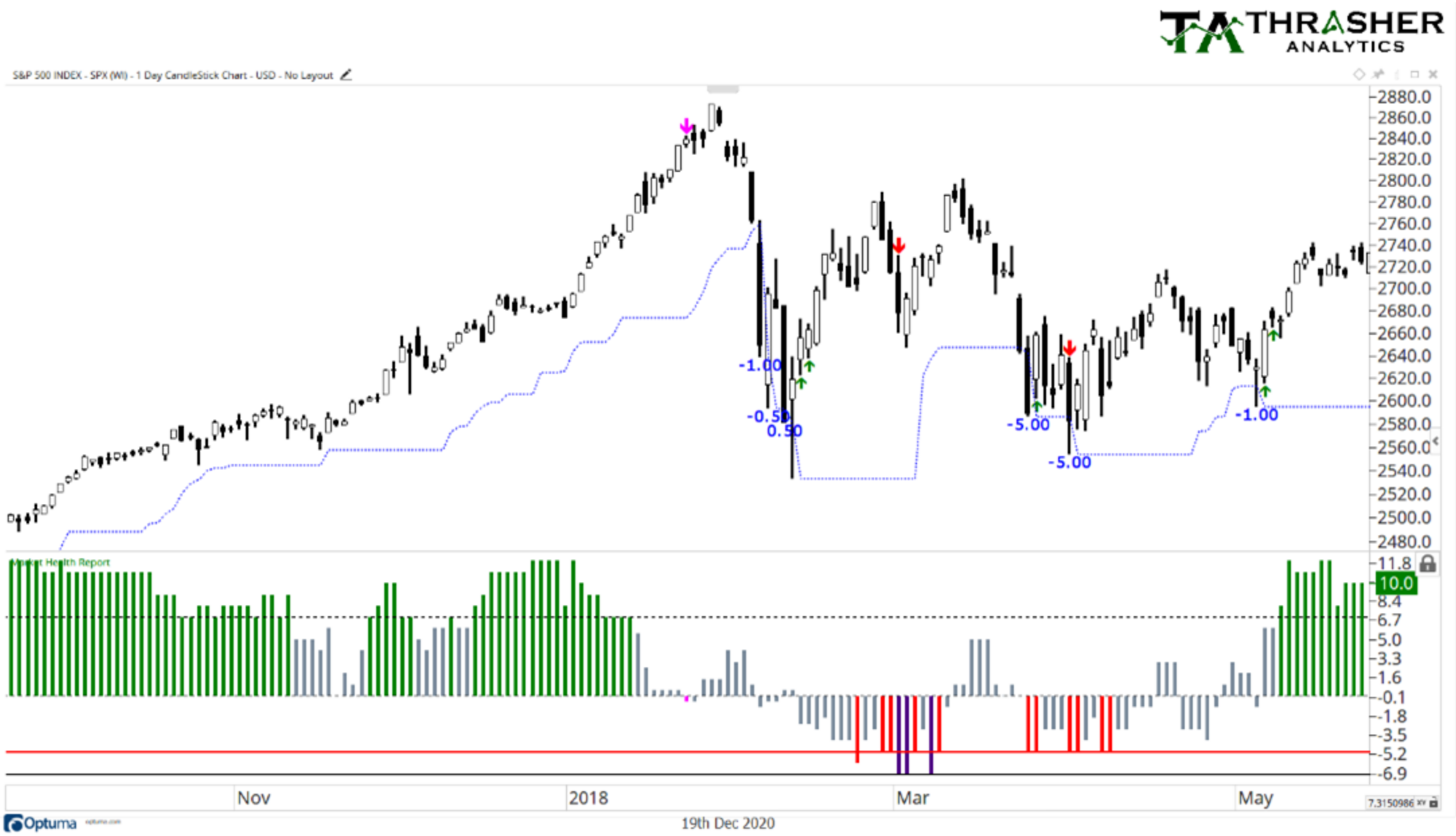
Let's look at another recent example, the March 2020 drop. In the months prior the covid crash, there were a few dips to 20-day lows in October '19, December, '19, and January '20. Each of these declines had strong MHR scores, suggesting the dips were not expected to produce larger moves. Then we advanced into March and the first 15-day low saw the MHR drop to -7 and -8, very low figures that tell us the market may not be well and could see further downside. Unfortunately, that's exactly what happened with one of the largest and fastest declines in market history. The MHR of course didn't know how much the market would move, simply that at that snapshot in time, the 15-day low in price was accompanied by poor data from the six equally weighted inputs.



Now let's turn to current day (at least as of this writing). We've seen a couple short-term declines in equities that sent the S&P 500 to 15-day lows, each accompanied by a strong MHR score. Note that the score isn't intended to market a bottom or tell us when the selling has dried up. For instance, in September, the first 15-day low had a score of +8; but after SPX fell nearly 7% the market continued to decline another 4% before a final low was made 12 days after our initial score of +8. We knew from the Market Health Report that the dip should be shallow, and it was, but we can't know (no one can!) just how short or how steep the decline will ultimately be. Less than two weeks later the market found a low and continued to advance. Then it dipped to another 15-day low, the MHR score was healthy at -2, the S&P 500 bottomed a few days later and resumed its advance to a new all-time high.



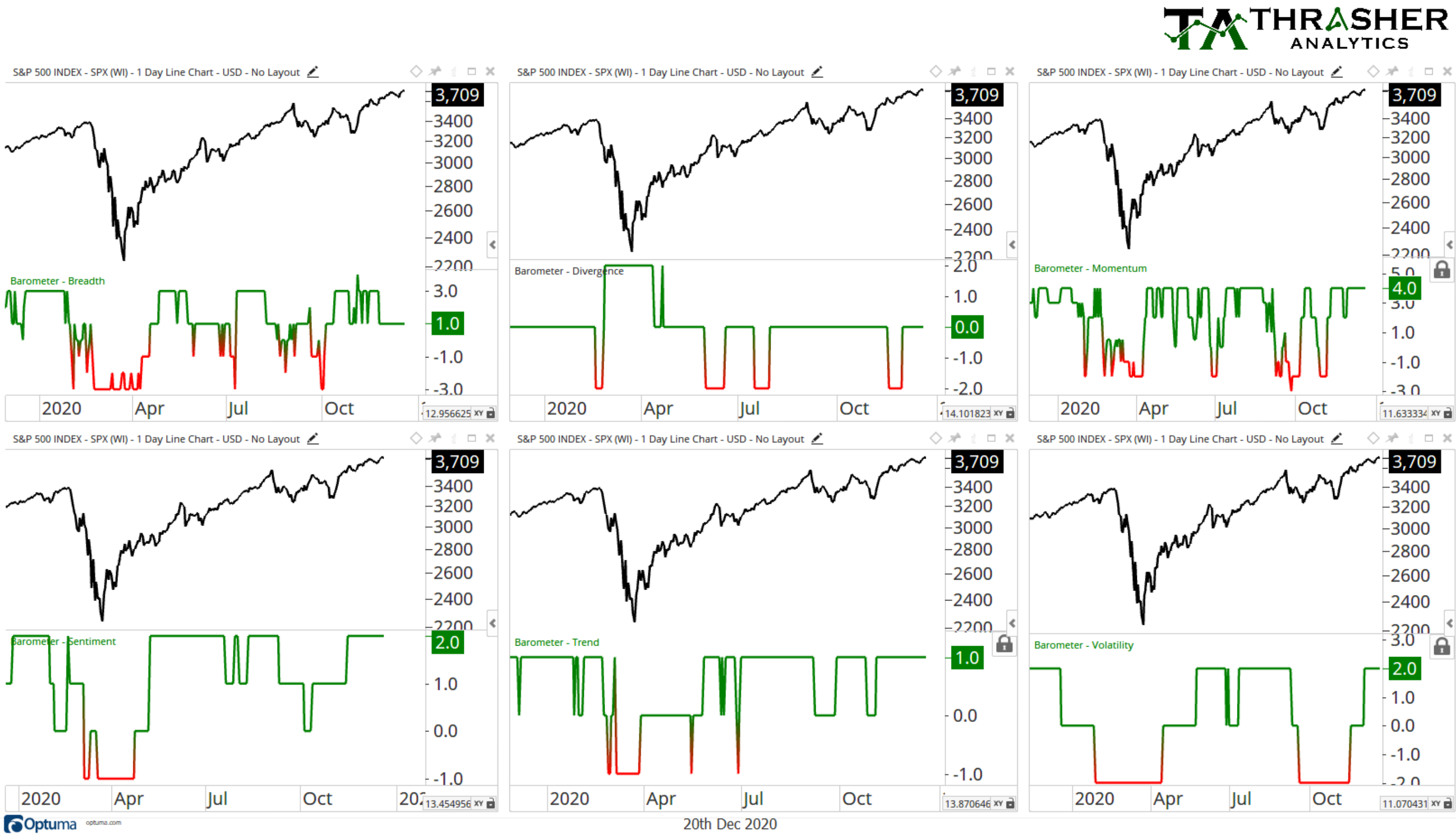
One last look back at market history and how the MHR can be insightful. While we take the temperature of the market at 15-day lows, it can also be valuable during ‘blow off top’-type market environments. This occurs when the market, instead of being at a 15-day low, is at a 63-day (3-month) high but the Market Health Report has turned negative. This doesn’t happen very often. In fact, since 2011, it’s only occurred three times. Most recently, on January 22nd, 2018, four days before the final peak ahead of what turned out to be the “volatility crash” that sent the SPX down a quick 10. These ‘blow off tops’ often experience very quick and short-lived market responses that many investors often miss if they aren’t watching the daily price action. And we can see that by the time SPX hit a 15-day low the MHR was at just -1, suggesting the drop would not be much more severe. But by identifying periods where the market is extremely strong, hitting 15-day highs, and yet the Market Health Report has gone negative (tough to do!), we need to pay attention. Ultimately stocks bottomed a few weeks later, holding above the 200-day moving average (not shown) and continued rallying for several more months.



Is the Market Health Report the end-all-be-all market indicator? Absolutely not. It's our way of taking the proverbial temperature of the market to determine if it has just a head cold, so to speak, or something much more serious. This type of information can be valuable to subscribers by helping answer the question: "The market has dipped; do I need to de-risk or should I consider buying the dip?" There will of course be periods where the MHR gets it wrong, nothing is perfect. But by being a systematic process of evaluating the health of a market after short declines in price we can objectively attempt to understand if the underlying market dynamics remain supportive of a bullish trend or suggest further weakness could emerge.

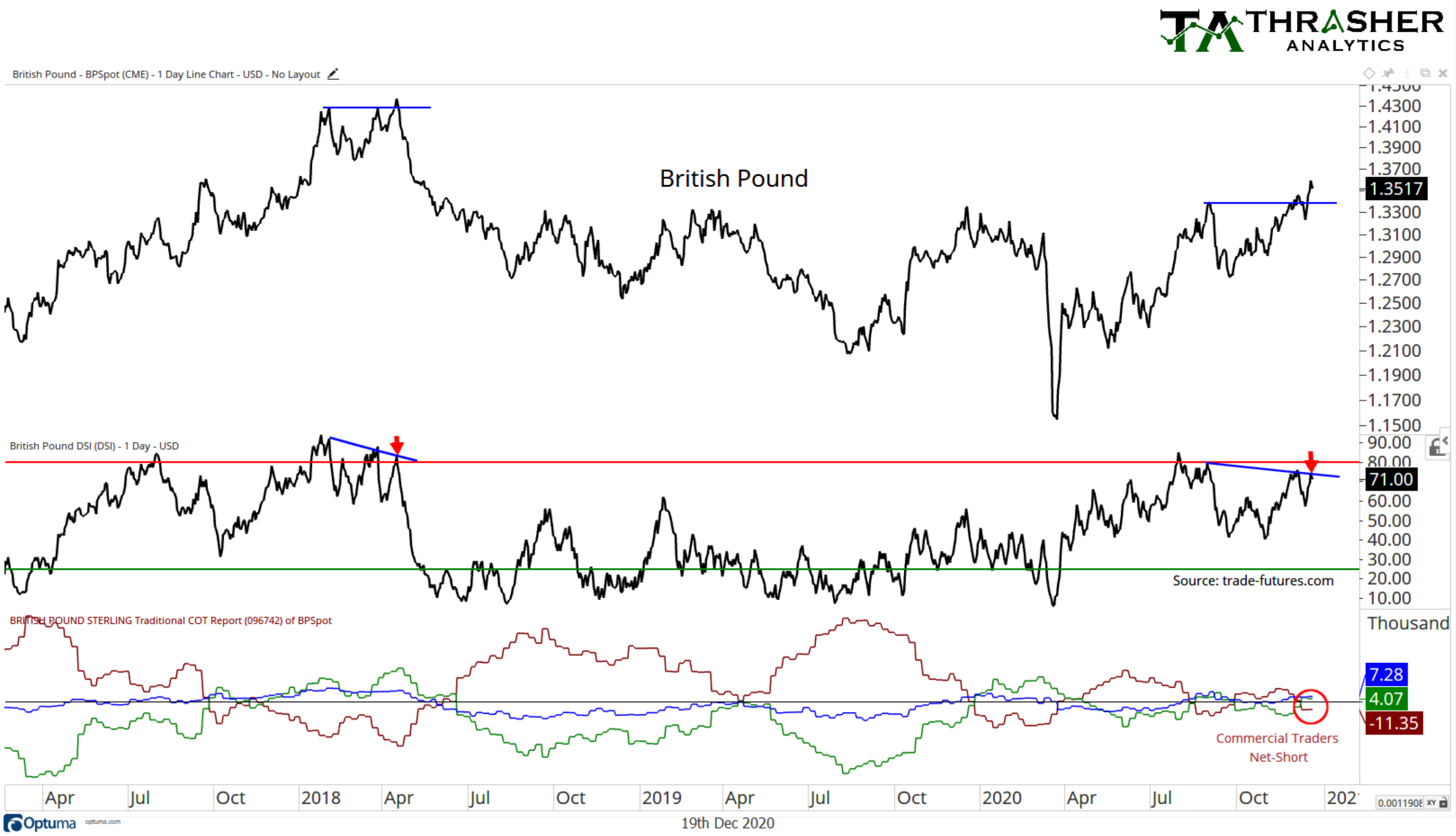
You probably have noticed there's different colors of the MHR and various arrows on the charts. I'll use those to help explain what's unfolding within the MHR as its shown every week, or each time I send a special email update if needed. This tool brings together many of the other proprietary gauges and indicators found in the weekly Thrasher Analytics letter. While it does not replace other forms of analysis, it makes an excellent contribution in giving a complete diagnosis of what's transpiring in the rapidly changing market. While I will post the daily chart of the Market Health Report, I will also share the individual components, so you have more insight into what's making an impact on the changes the MHR displays. For instance, if the MHR begins to decline, you'll be able to tell if it's a result of deteriorating sentiment, falling momentum, or something bubbling up in the volatility market. While the exact details of the six components are proprietary, I'll do my best to paint the picture of what they are showing. I am extremely excited to sharing this tool with you and I look forward to continuing to raise the bar of market analysis, working hard to keep you well informed.

Market Health Report



Currency - British Pound

The pound continued to move higher last week, but momentum remains in a bearish divergence, not confirming the latest breakout in the forex. Commercial Traders remain net-short the pound and their track record for turning negative on the currency has almost always led to an eventual depreciation. Back in 2018 we saw an initial breakout that was accompanied by slightly lower momentum (not as weak as we have now) and Commercials net-short. The breakout failed and the pound moved lower for the next two years. I'm not calling for another 2 year down trend, but the lack of momentum or Commercial Trader support makes me cautious of this move above $1.33.



Commodity - Gold

Gold acted well last week, moving and holding above the 50-day moving average. Price now sits just under the 2011 high. It's very possible there's been enough whipsawing across this price level that supply could be drying up and buyers able to remain in the driver seat. If we see gold continue higher then I'll be watching $1970 as the next price level of interest.

Sectors

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Technology Select Sector Fund ETF	True	True	3.18%	6.53%	14.75%	42.39%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	2.36%	4.07%	11.19%	28.63%
SPDR Materials Select Sector Fund ETF	True	True	1.85%	3.85%	9.88%	18.94%
SPDR Health Care Select Sector Fund ETF	True	True	1.18%	3.55%	7.07%	10.78%
SPDR Consumer Staples Select Sector Fund ETF	True	True	0.91%	1.78%	6.66%	8.17%
SPDR Real Estate Select Sector Fund ETF	True	True	0.47%	-1.86%	2.36%	-4.11%
SPDR Communication Services Select Sector ETF	True	True	0.25%	5.45%	14.25%	25.7%
SPDR Financial Select Sector Fund ETF	True	True	0.11%	4.24%	15.44%	-7.53%
SPDR Utilities Select Sector Fund ETF	False	True	0.08%	-2.93%	6.44%	-3.62%
SPDR Industrial Select Sector Fund ETF	True	True	0.08%	1.85%	12.77%	9.34%
SPDR Energy Select Sector Fund ETF	True	True	-4.18%	11.24%	17.23%	-35.82%

Sectors - Energy

Energy has begun to falter and XLE finished the week back under the prior November high. I had expected energy to not even make it materially above the 200-day Moving Average but buyers held firm and took the sector above $40. But with this latest move momentum has weakened. Both the Momentum Composite and Volatility Adjusted Momentum have turned lower, diverging from price.

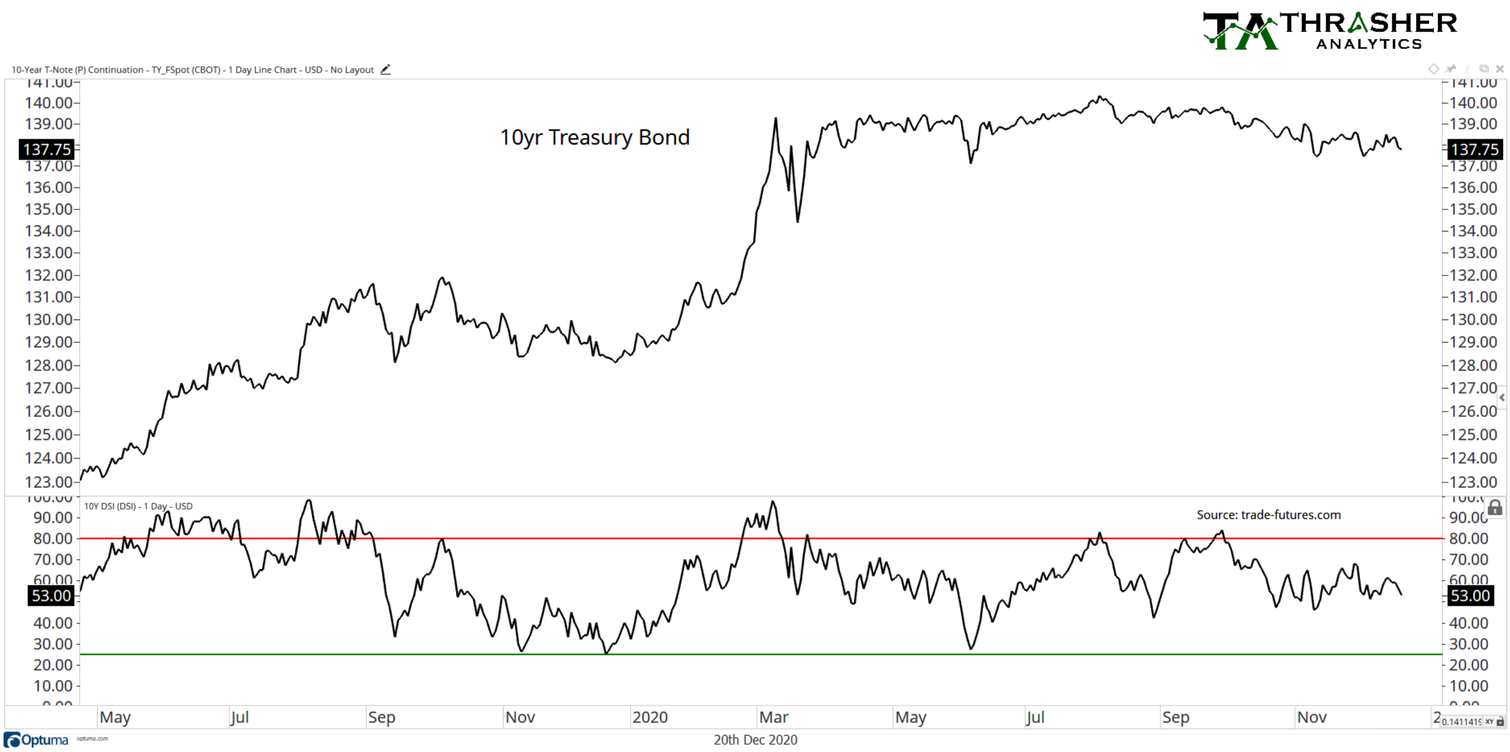
Daily Sentiment Index

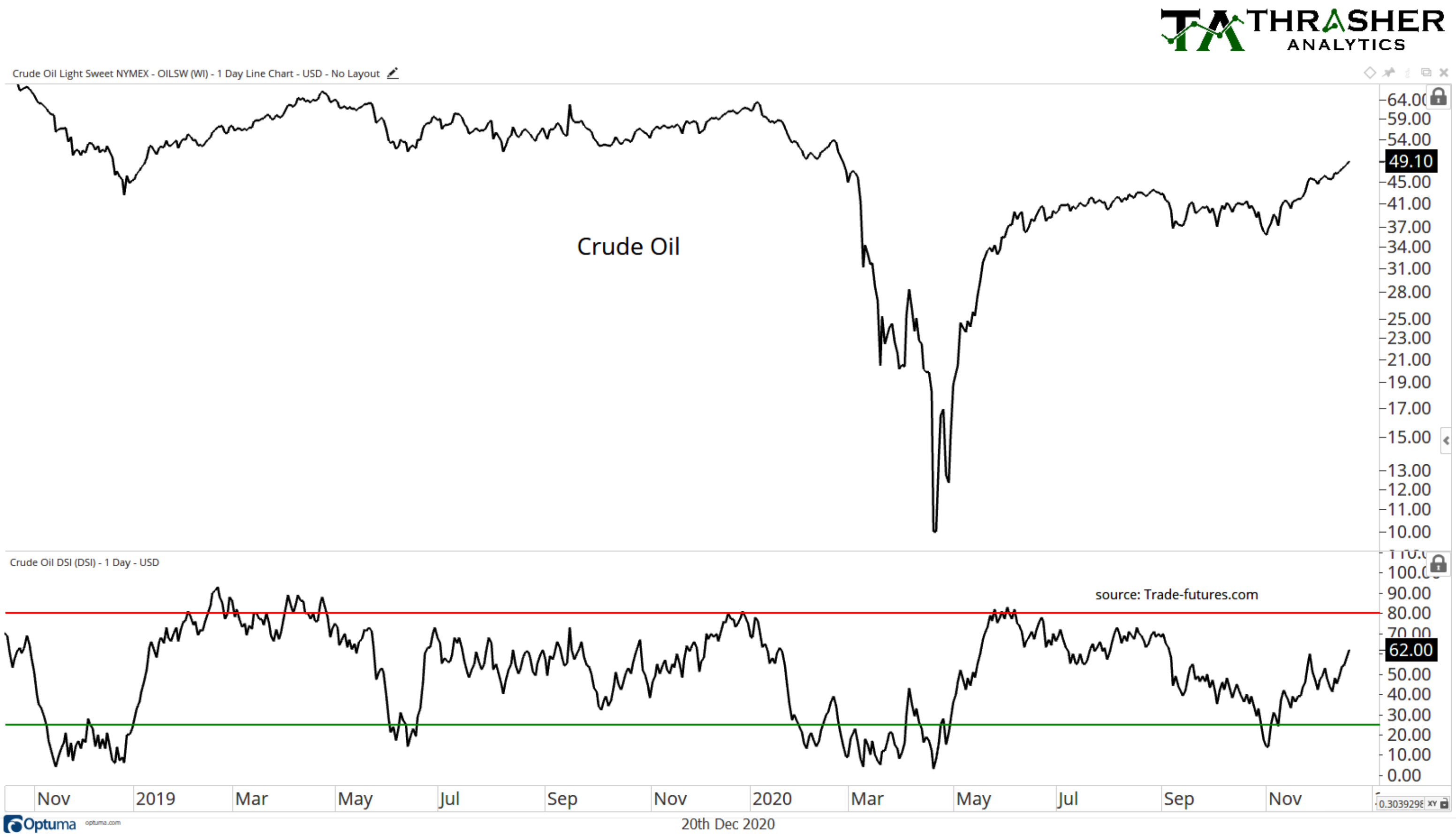
Market	% Bullish	5MA	History
VIX DSI	13	17.6	
US Dollar DSI	14	14.2	
Natural Gas DSI	36.00	34.00	
Palladium DSI	45.00	40.80	
Cocoa DSI	48.00	51.60	
Coffee DSI	49.00	49.80	
Sugar DSI	51.00	50.80	
Gold DSI	52.00	44.60	
5YR DSI	52.00	54.40	
10Y DSI	53.00	57.60	
Orange Juice DSI	55.00	52.20	
Crude Oil DSI	62.00	55.40	
Cattle DSI	68.00	62.80	
Lean Hog DSI	69.00	69.80	
Wheat DSI	70.00	67.40	
Silver DSI	70.00	61.60	
Mexican Peso DSI	70.00	68.60	

Code	% Bullish	5MA	History
EuroDollar DSI	70.00	70.00	
British Pound DSI	71.00	68.60	
Nikkei DSI	73.00	78.80	
Corn DSI	76.00	69.00	
Platinum DSI	77.00	77.60	
Australian Dollar DSI	79.00	75.00	
Cotton DSI	80	78.00	
Heating Oil DSI	81	76.80	
Gasoline DSI	81	77.80	
SPX DSI	83	80.2	
New Zealand Dollar DSI	83	80.4	
CRB Index DSI	85	78.40	
Swiss Franc DSI	87	82.4	
Nasdaq DSI	87	91	
Lumber DSI	88	84.6	
Euro DSI	88	87	
Copper DSI	89	80.6	

Source: trade-futures.com

Daily Sentiment Index




THRASHER ANALYTICS
Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
64.00
59.00
54.00
49.10
45.00
41.00
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23.00
21.00
19.00
17.00
15.00
13.00
12.00
11.00
10.00
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
100.00
90.00
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70.00
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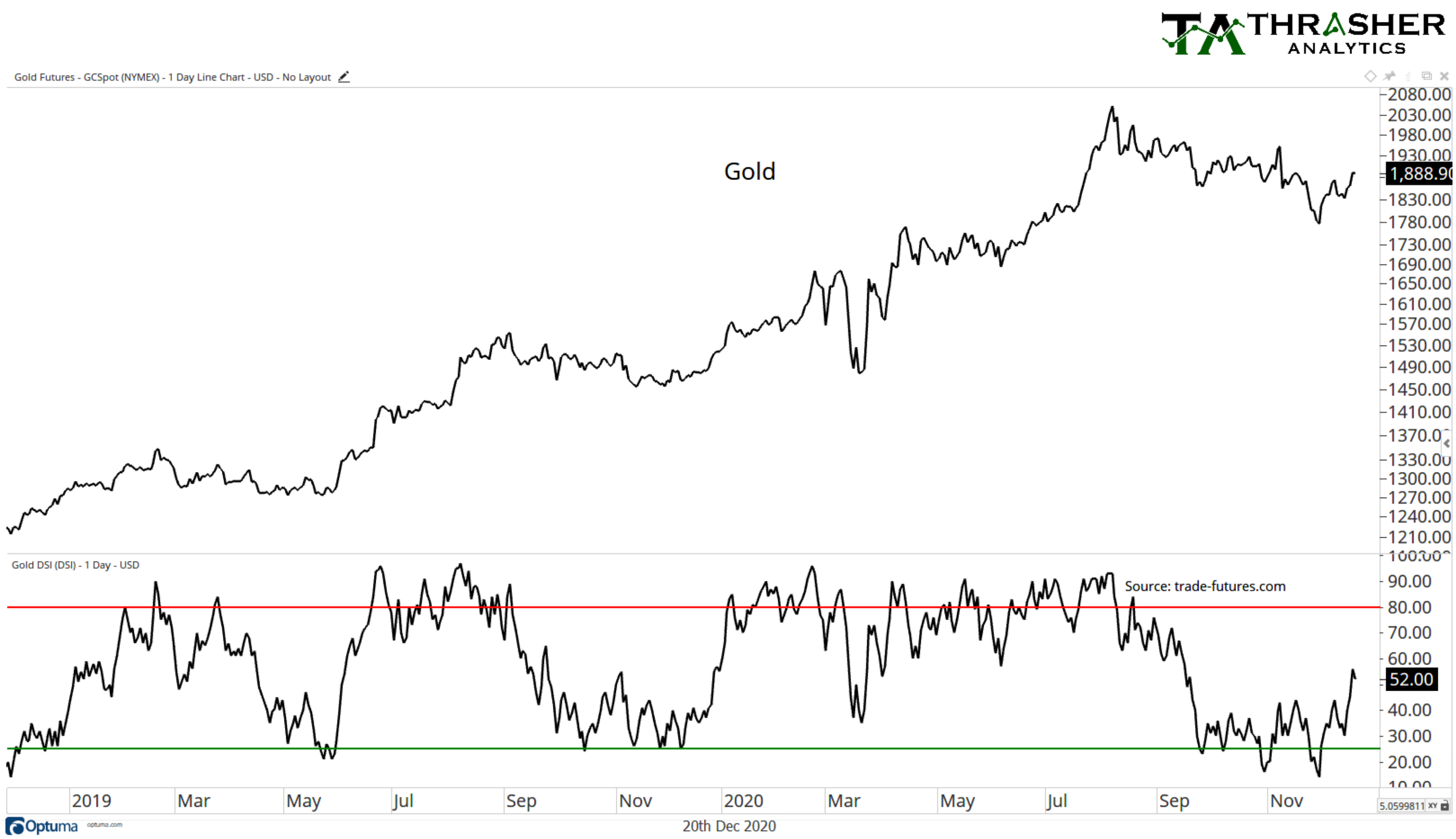
THRASHER ANALYTICS
Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
Gold DSI (DSI) - 1 Day - USD
Source: trade-futures.com
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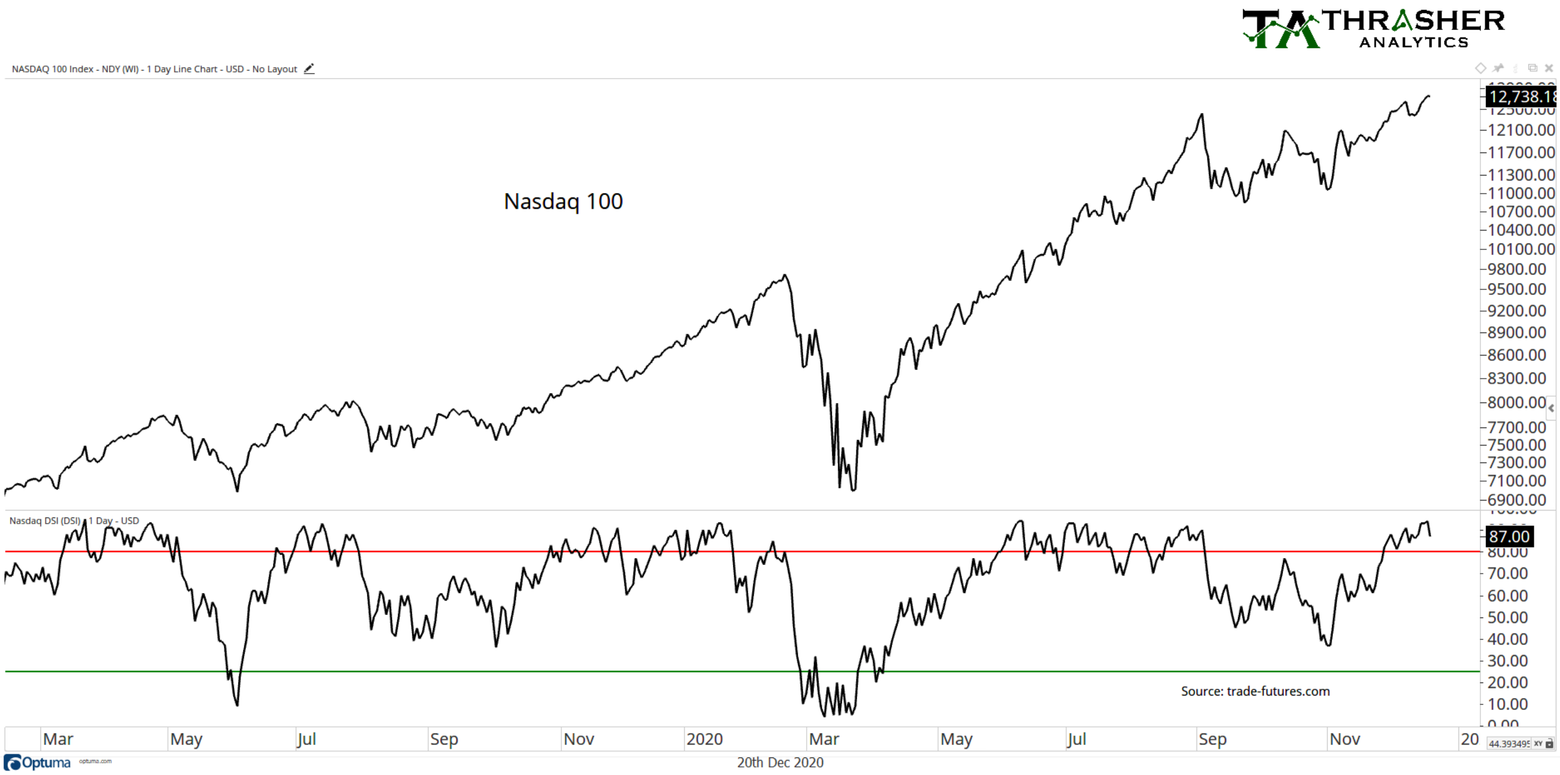
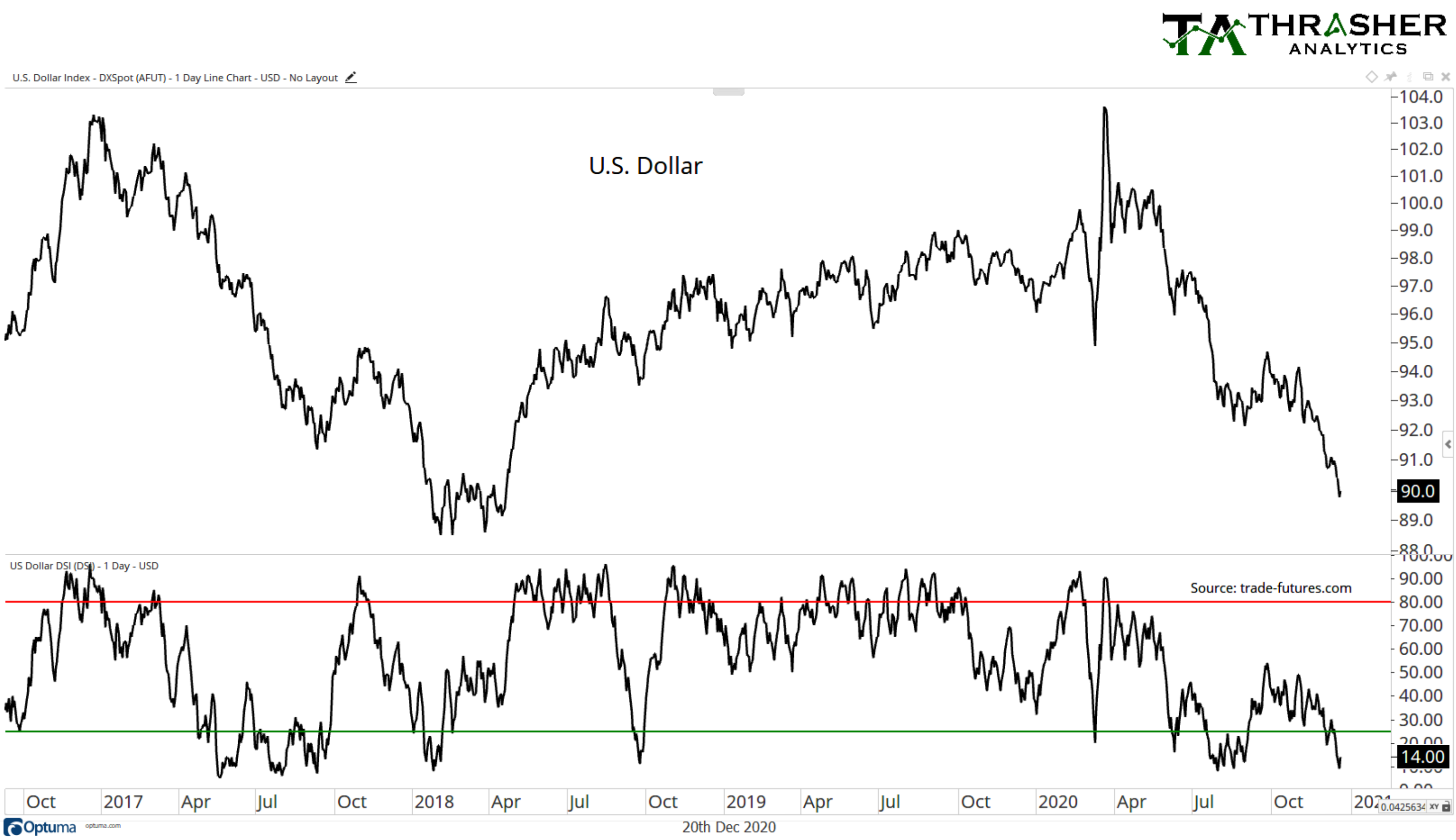
Daily Sentiment Index



Daily Sentiment Index




THRASHER ANALYTICS
CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
VIX
82.0
75.0
68.0
62.0
56.0
51.0
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38.0
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25.0
21.6
20.0
18.0
16.0
14.0
12.0
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100.0
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
13.0
Source: trade-futures.com
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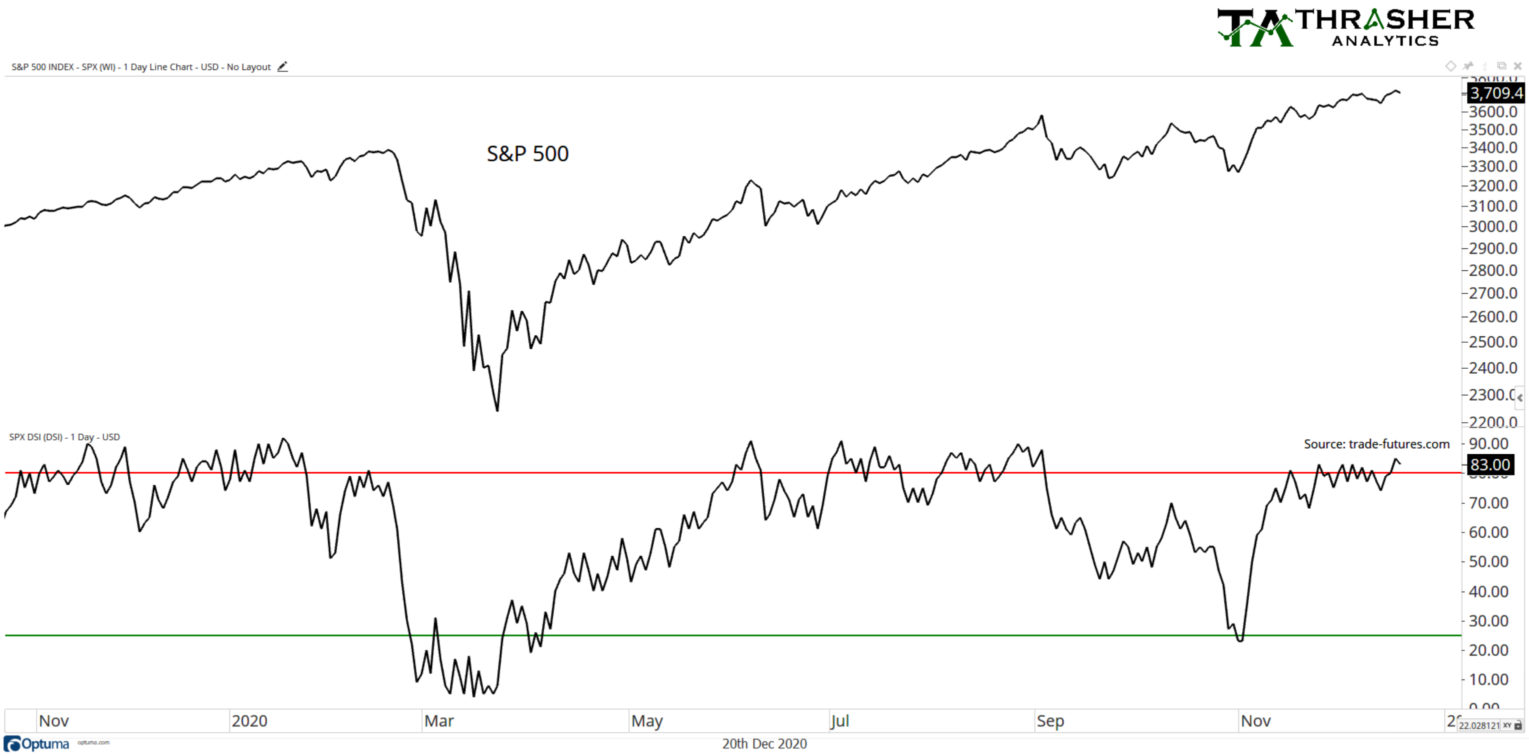
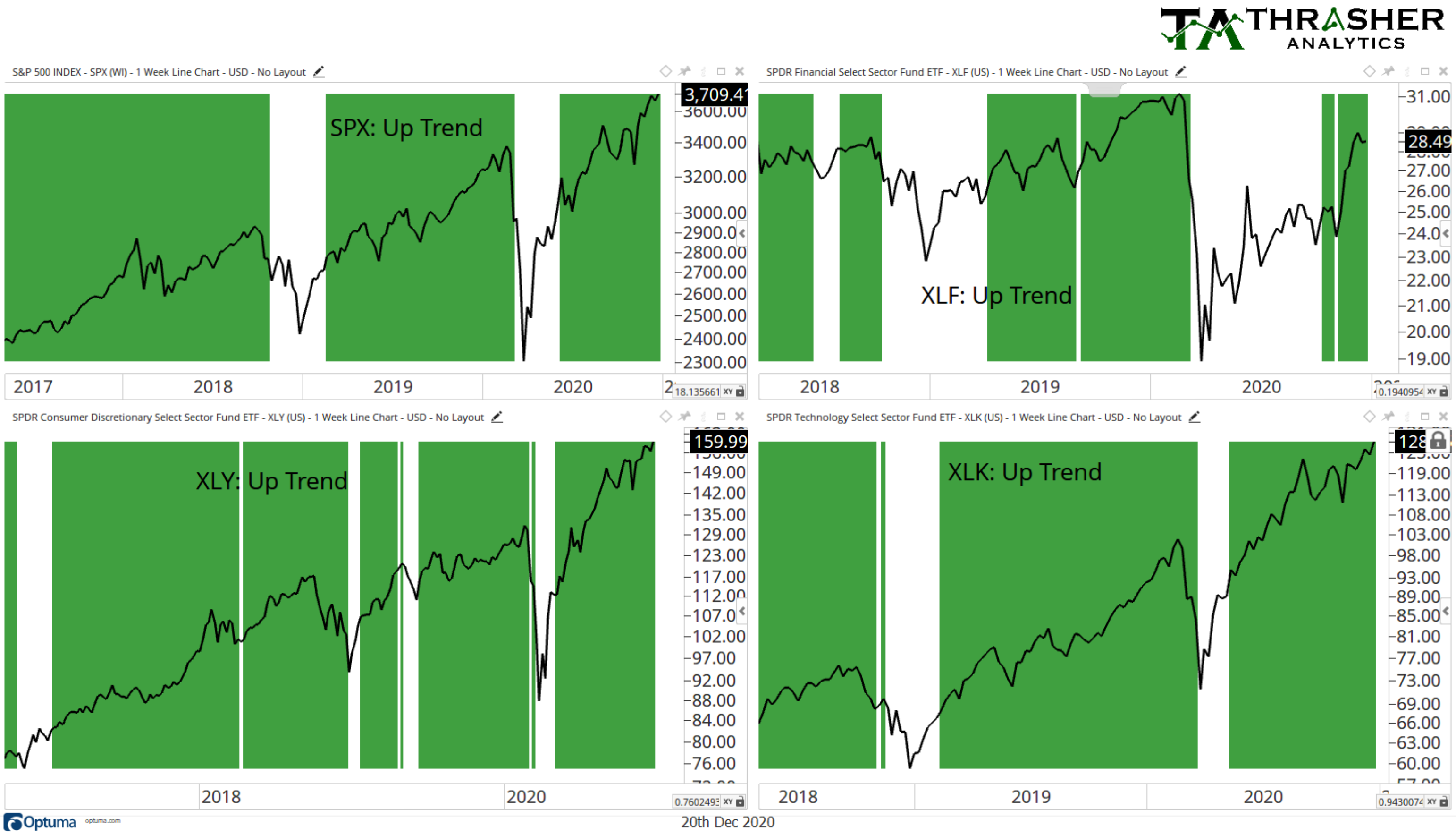
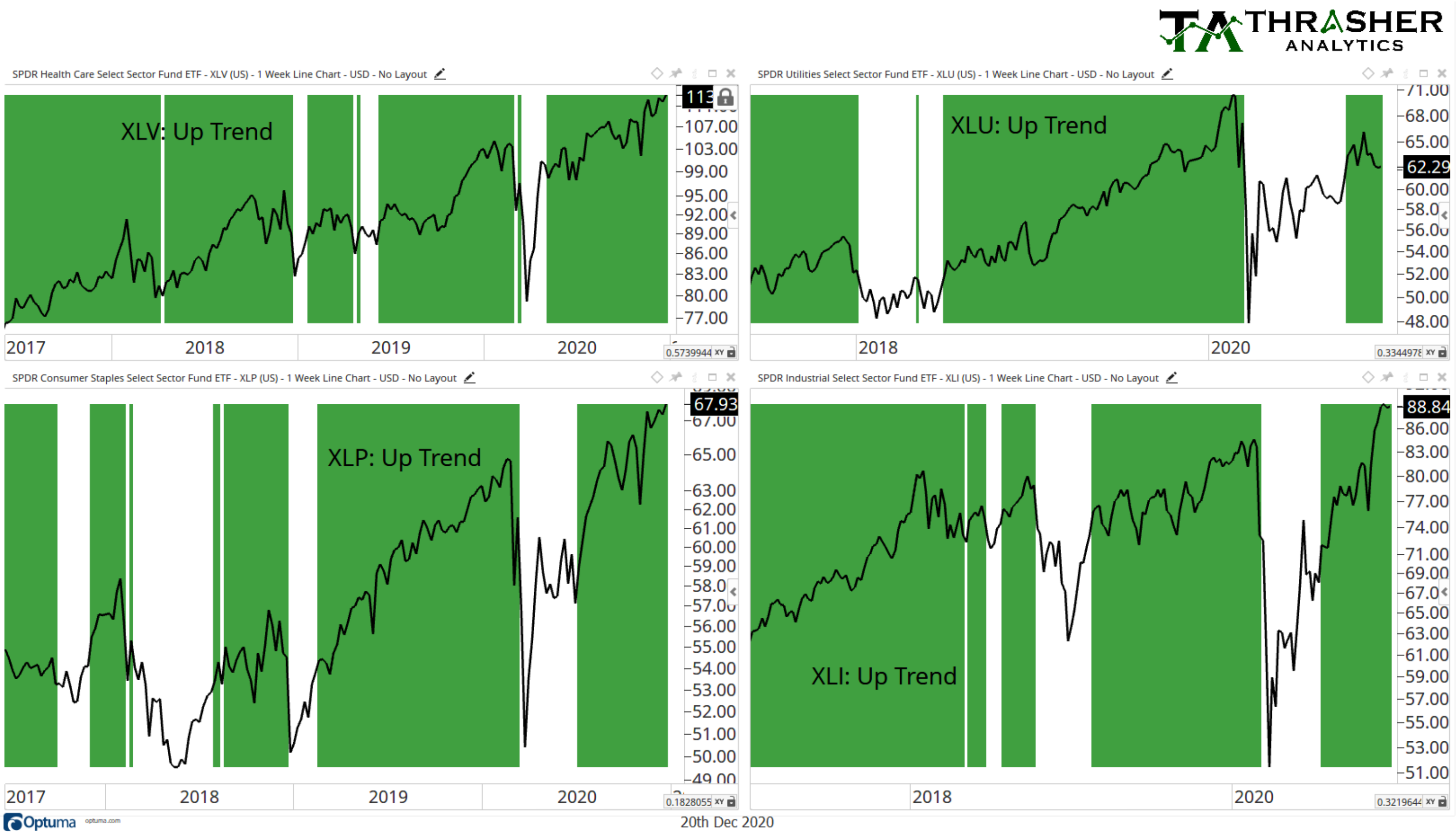
Daily Sentiment Index



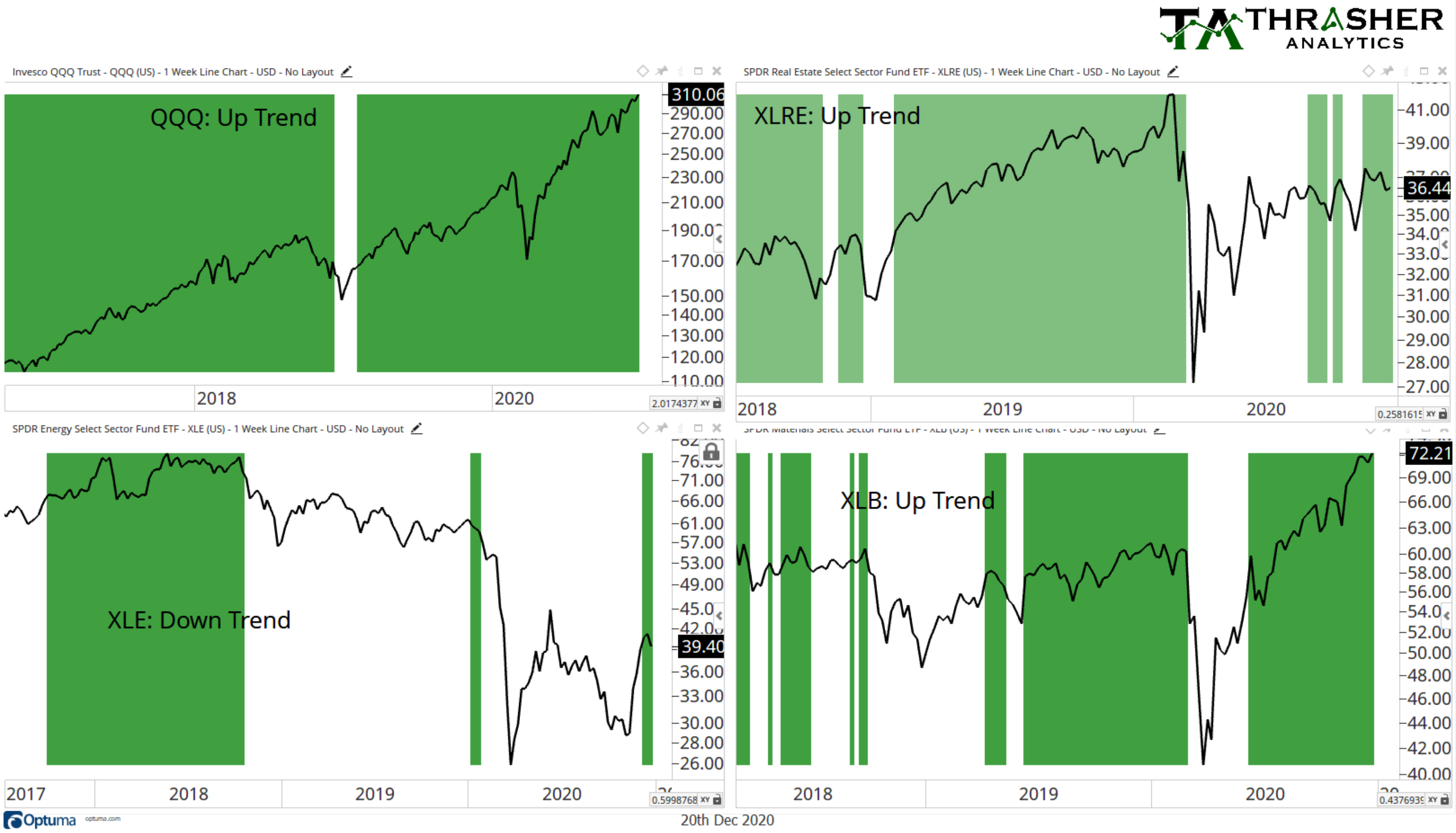
Trend Models



Trend Models



Trend Models



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