

TA THRASHER ANALYTICS

DECEMBER 27, 2020



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish

- Support for SPX remains intact.
- Trend Model remains positive for almost all sectors and indices.
- The VRT 2.0 has not signaled.
- Breadth remains supportive.
- Seasonality is bullish
- Market Health Report remains positive.

Bearish

- Equity sentiment is extremely high.
- Volatility dispersion is narrowing.
- Volatility sentiment extremely low.
- Small Caps are overbought.
- Margin Debt rose to new high.
- Spot-3m VIX spread widening.

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Volatility

Equities

Market Health Report

Fixed Income

Sentiment

Trend Models

Sector Rotation: Dec.	
Materials	XLB
Industrials	XLI
Financails	XLF

Fixed Income Rotation: Q4	
20+ Yr Treasury	TLT
Core U.S. Agg	AGG

Market Health Report	
Breadth	3
Divergence	0
Momentum	4
Sentiment	2
Trend	1
Volatility	2
Total	12

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

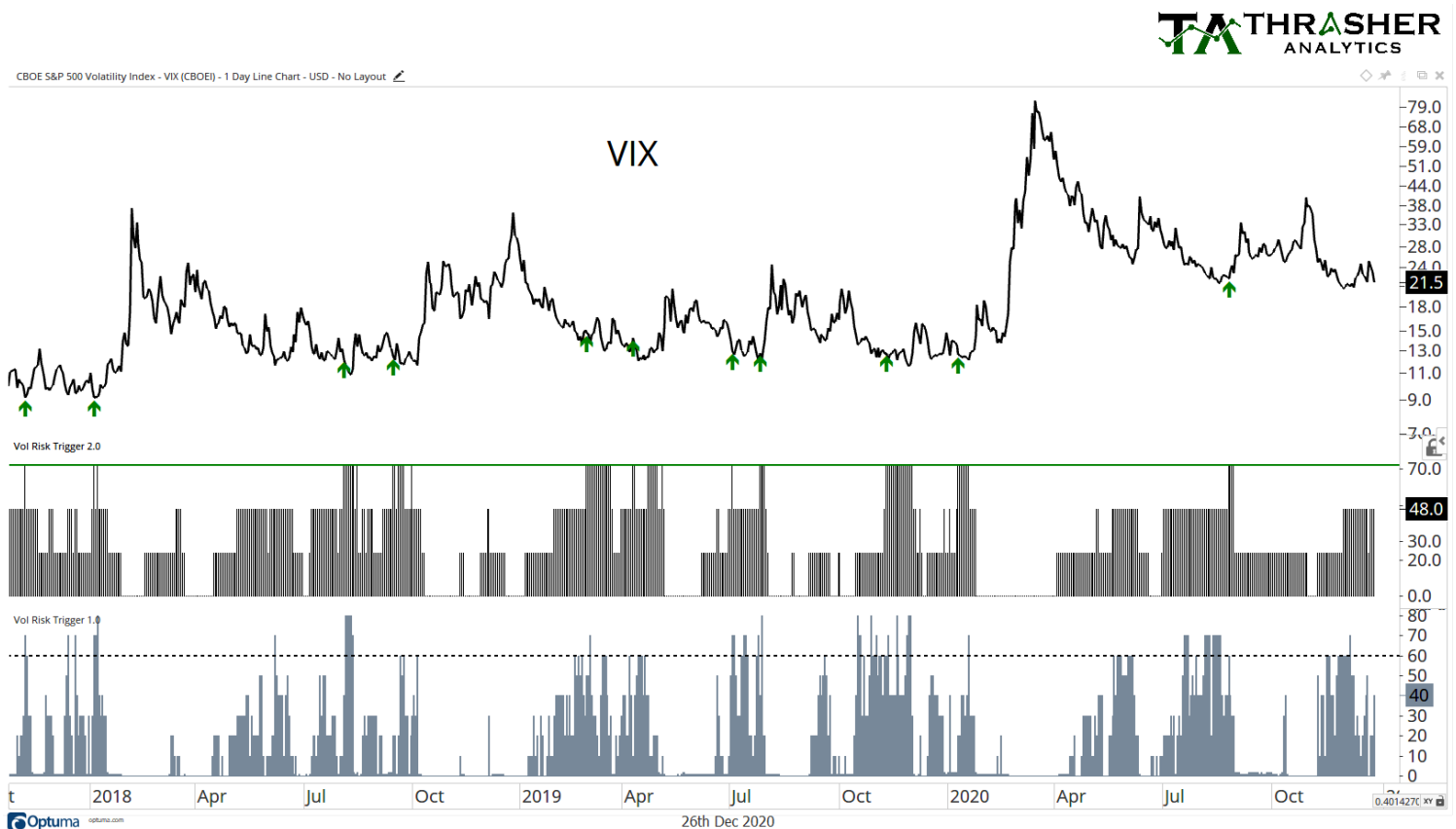
Daily Sentiment Index		
	% Bullish	5-day MA
S&P 500	75%	77%
Nasdaq 100	79%	82%
Nikkei	66%	68%
VIX	13%	14%
10yr Treasury	60%	57%
5yr Treasury	55%	54%
CRB Index	77%	78%
Gold	48%	47%
U.S. Dollar	21%	20%

*Green<25% Red>80%

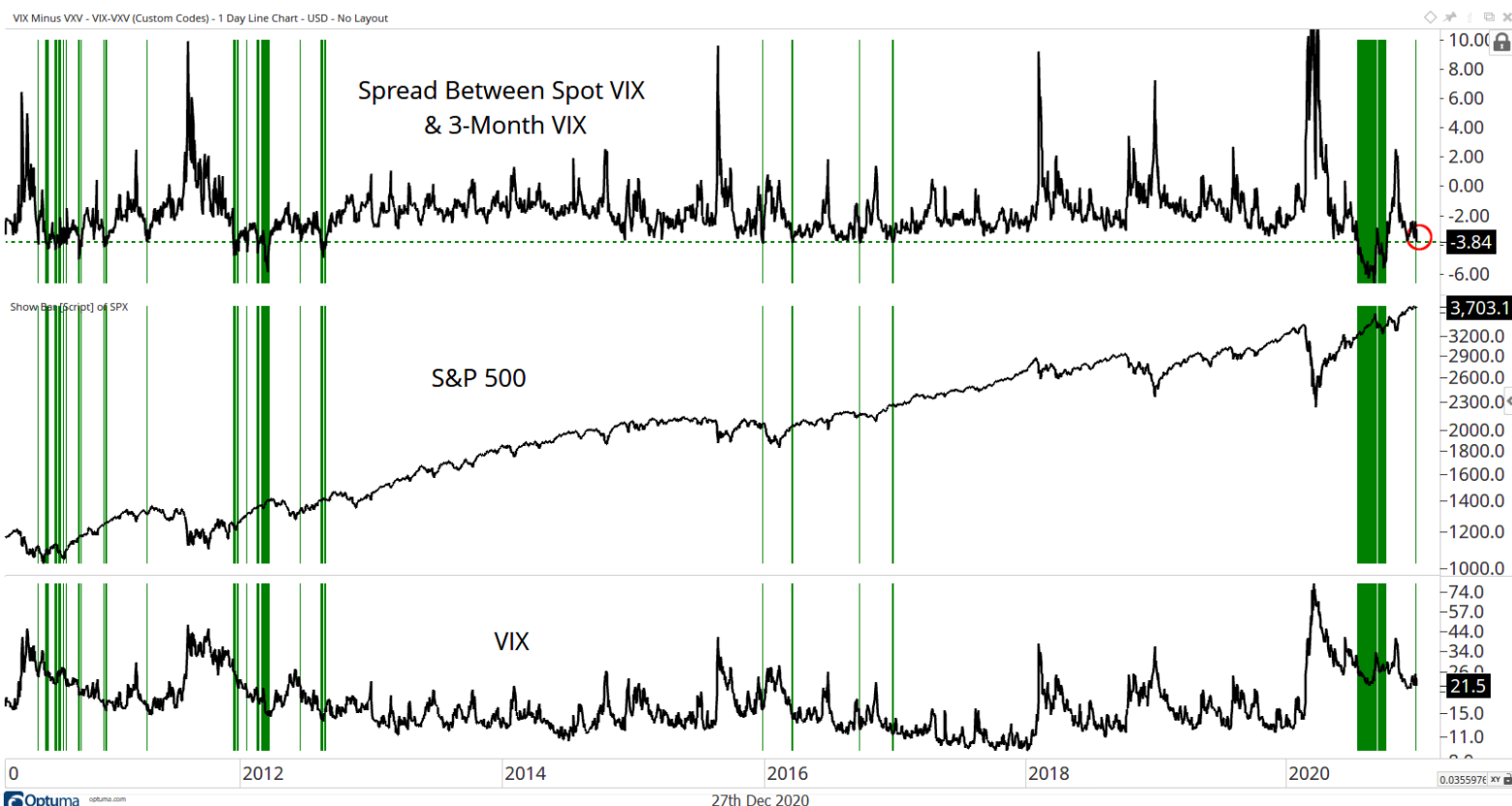
source: trade-futures.com

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 continues to sit just below a level to warrant a heightened risk of a spike in volatility. We had a small pick up in vol but it was quickly sold off and spot VIX finished now the low-end of its recent range but still holding firm above 20.



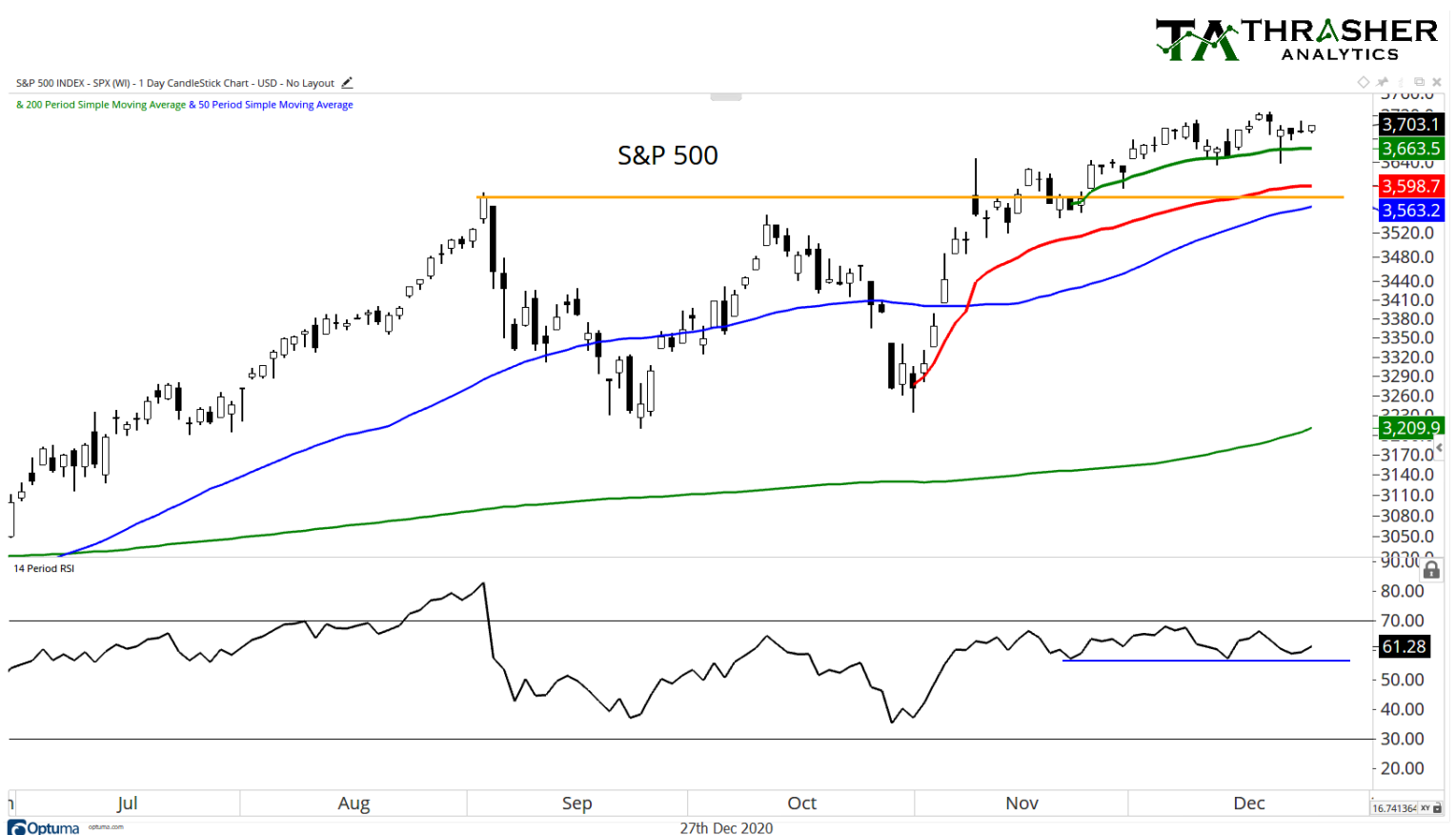
Last week I noted the sentiment toward the VIX had sunk quite low, marking an area that often traces out a low in spot VIX. Another branch of sentiment for volatility can be found in the VIX futures curve, specifically the spread between spot VIX and 3-month VIX. Traditionally, during heightened volatility, spot will trade a large premium to 3-month vol, like we saw at the depths of the March crash when spot was at a 10pt premium. When this flips and spot trades a steep discount, that suggests the market is potentially underpricing current volatility compared to 3-months out. This occurred earlier in the year due to the election, but right now spot is at a 3.84 discount and I've drawn green lines when the discount has been at least 3.8 points - something we don't see very often. In the past, this discount is closed fairly quickly and often by spot moving higher vs. the 3-month contracts falling to 'meet' spot. This is just another example of excessive bullish sentiment towards risk assets, no longer are traders pricing up volatility in the front portion of the curve.... why bother when volatility is dead right?



The November low VWAP continues to do a great job holding up the S&P 500. We saw an intraday move below it last week but buyers stepped right up and kept the close above the volume weighted average price.

The S&P 500 has basically gone no where for the last couple of weeks. The range so far for December is the smallest since July 2019. Is this the digestion of gains we needed to work off some of the froth? I hope so, it would setup for a nice start to 2021 if that were the case. During this period, momentum (via the RSI) has remained in a bullish range, not making any lower-lows just yet - a positive sign for equities.

Short-term risk/reward is unattractive based on sentiment but long-term, breadth remains supportive with well-defined up trends displayed in all sectors and major indices.



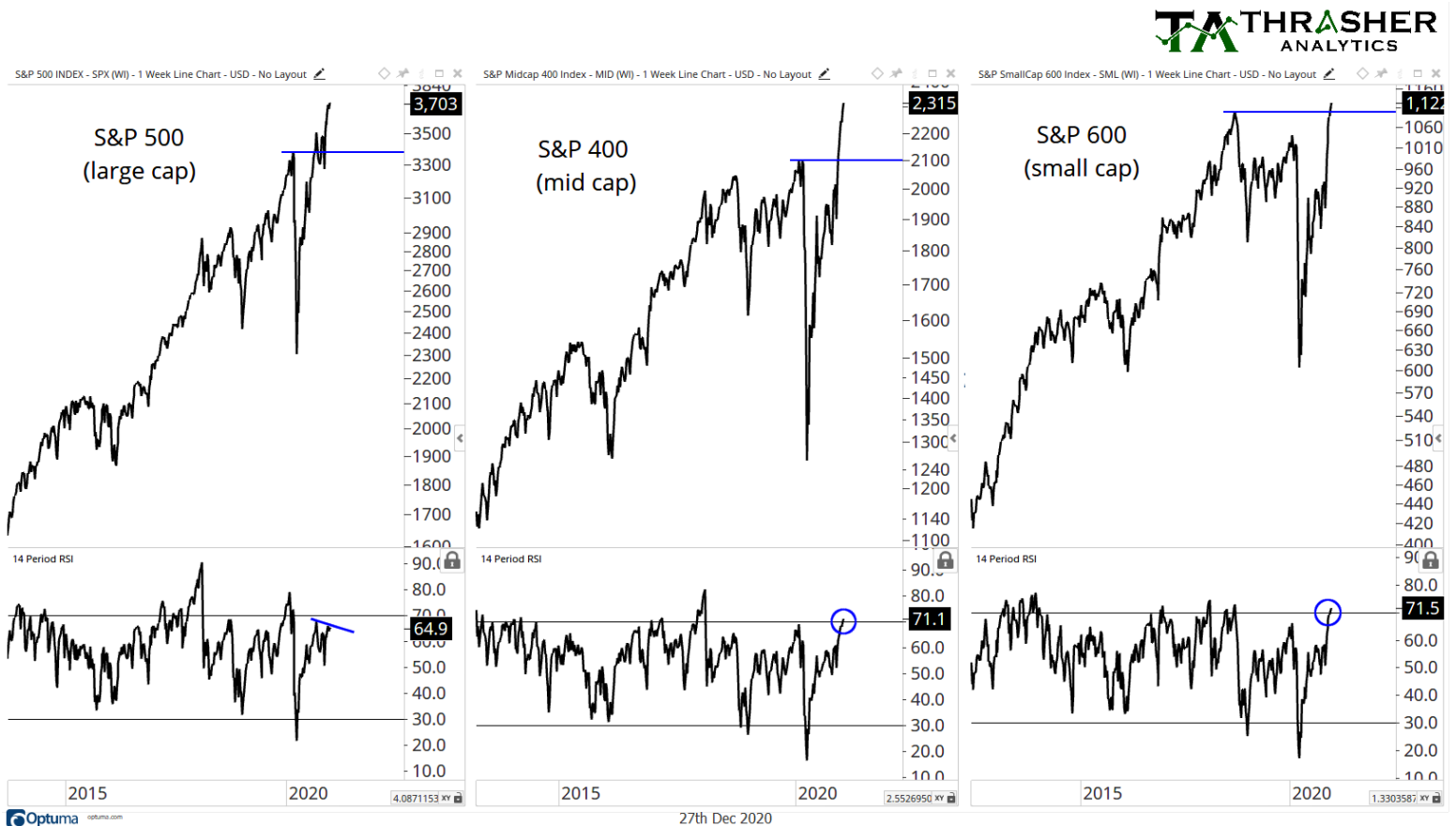
Jeff Hirsch at the Stock Trader's Almanac always does a great job discussing the seasonal trends each year. Next up on the seasonal list is the Santa Rally, which begins December 24th and lasts until the second trading day of the new year. Hirsch notes the S&P 500 historically gains 1.3% (since '69) during this period and when a positive gain does not come to fruition, the equity market has shown to struggle in the following year, as you can see on Jeff's table below.

Santa Claus Rally			
Last 5 Days of Year + 1st 2 of New Year			
New Year	SCR	Year	
1994	- 0.1%	- 1.5%	Flat
1995	0.2%	34.1%	
1996	1.8%	20.3%	
1997	0.1%	31.0%	
1998	4.0%	26.7%	
1999	1.3%	19.5%	
2000	- 4.0%	- 10.1%	Bear
2001	5.7%	- 13.0%	
2002	1.8%	- 23.4%	
2003	1.2%	26.4%	
2004	2.4%	9.0%	
2005	- 1.8%	3.0%	Flat
2006	0.4%	13.6%	
2007	0.0%	3.5%	
2008	- 2.5%	- 38.5%	Bear
2009	7.4%	23.5%	
2010	1.4%	12.8%	
2011	1.1%	- 0.003%	
2012	1.9%	13.4%	
2013	2.0%	29.6%	
2014	0.2%	11.4%	
2015	- 3.0%	- 0.7%	Flat
2016	- 2.3%	9.5%	Mini Bear 2/11
2017	0.4%	19.4%	
2018	1.1%	- 6.2%	
2019	1.3%	28.9%	

Based on S&P 500

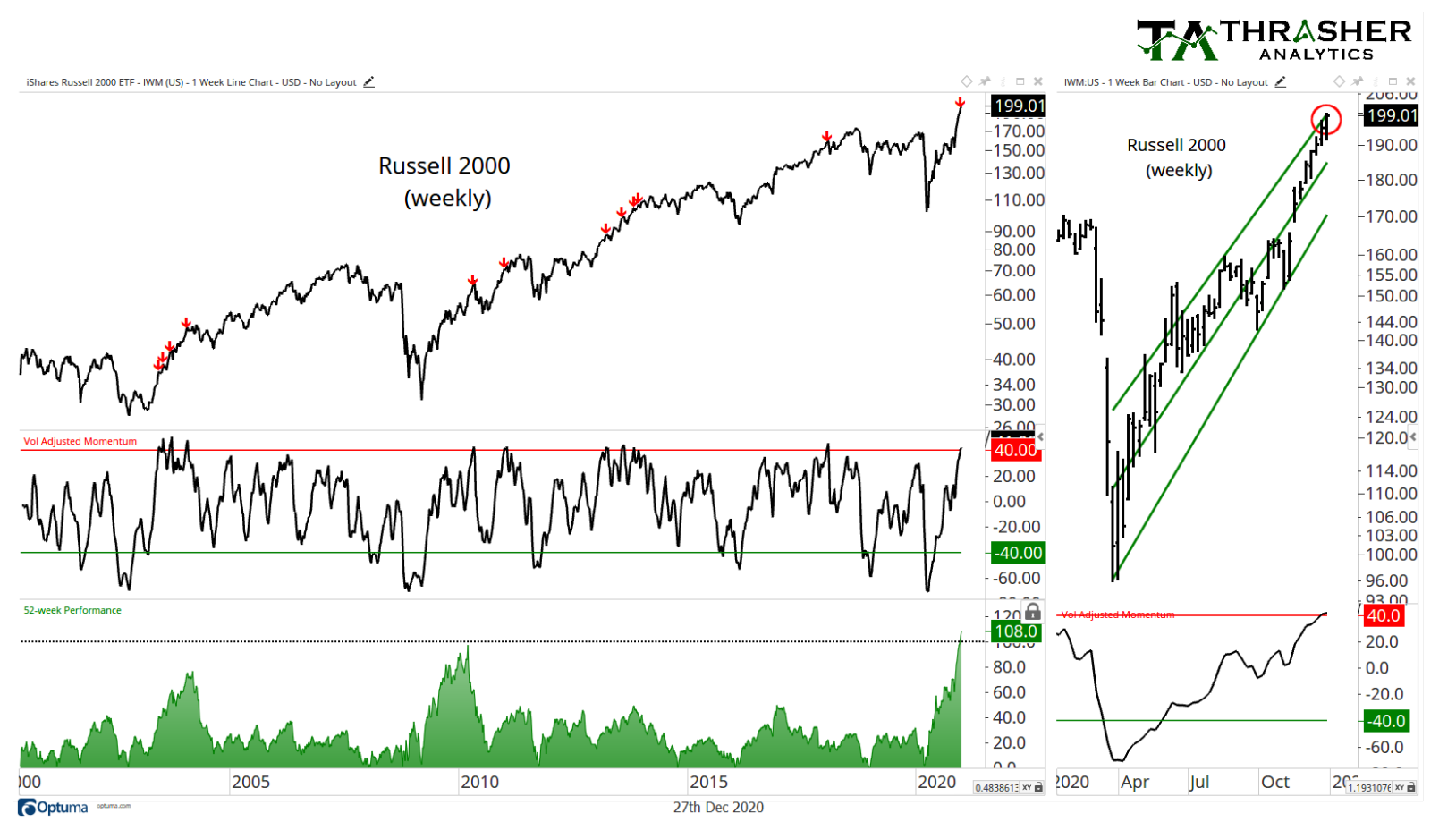
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Below is a weekly chart of the S&P 500, S&P 400, and S&P 600 indices. The large cap index still has a minor bearish divergence brought with the latest higher-high in price. While the other two indices now have pushed their weekly RSI above 70 for the first time since August 2018. "Overbought" momentum is typically a bullish long-term development, objects in motion typically stay in motion, i.e. momentum is a good thing. However, it can create a short-term headwind as traders begin to expect a pullback to digest the overheating of the price action. Small Caps have now broken out, so I'll be watching if they can hold above the prior 2018 high or if this turns into a false break. The extended momentum could bring in some sellers, but as I said, long-term momentum remains bullish for mid and small caps.



Speaking of small caps, the *other* small cap index, Russell 2000 has been screaming higher. In fact, it's now up over 100% from the March bottom, a 52-week gain in triple digits for just the second time in its history (it got close in 2010 but didn't quite get to triple digits). Bespoke Investment Group noted that when it last got to 100% (110% to be exact) in 1983, it was followed by a drop of 15%. The near-100% in 2010 was also followed by a brief correction as well. The weekly Volatility Adjusted Momentum (VaM) is now at 40 for the first time since January 2018. I've marked prior VaM at 40 with red arrows.

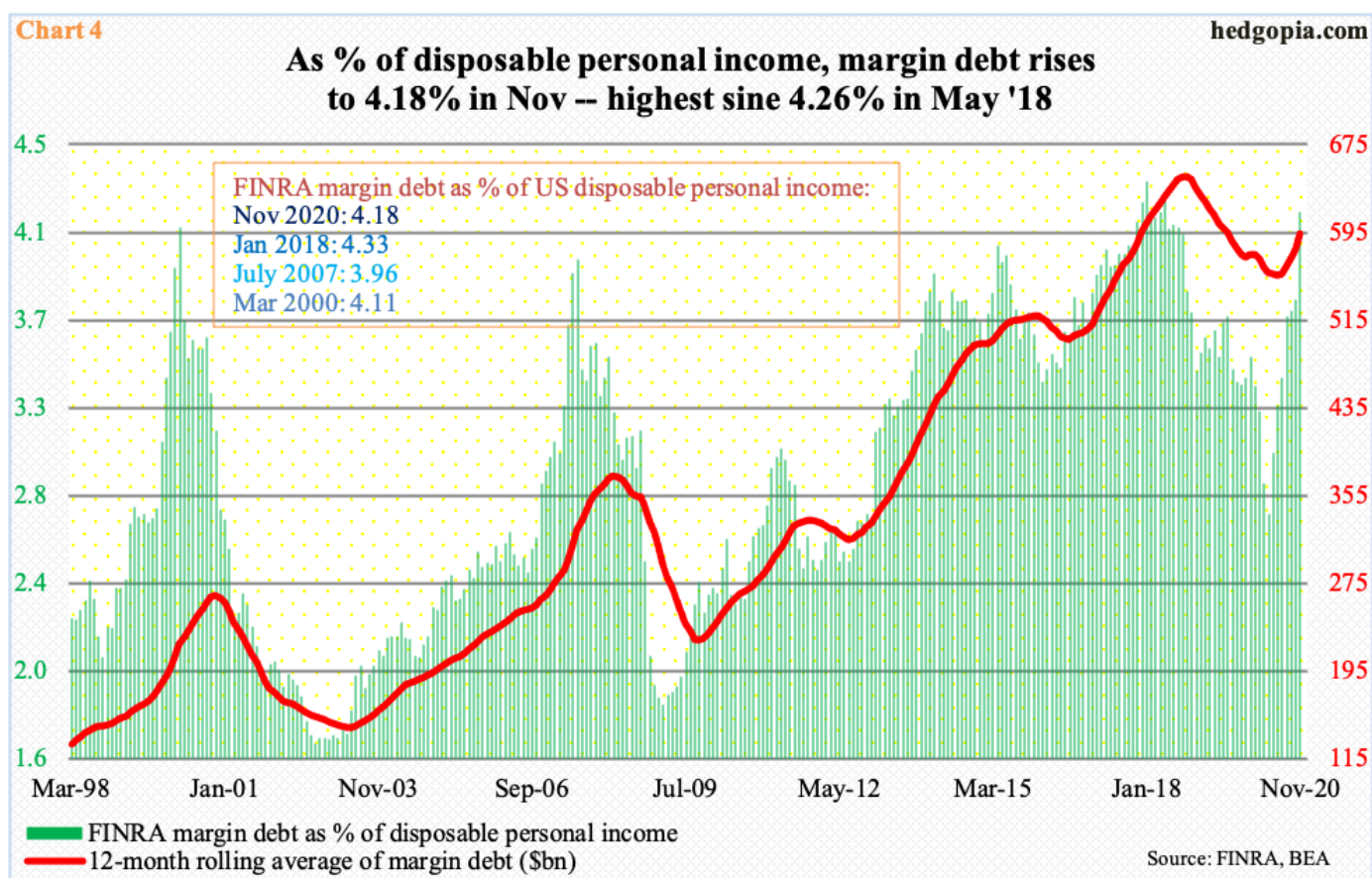
On the right chart, is the Linear Regression for IWM since the March low, I last used this tool to highlight the peak (so far) in semiconductors, and once again we have the Russell hitting 2 standard deviations above the 'best fit line'. We last had a breach of 2 std dev at the end of 2016, which was followed by IWM going flat until April '17, digesting the prior gains and under-performing large caps in the process. I continue to believe the risk/reward for the Russell 2000 is not attractive at this time.



Margin Debt hit a new high in November (the latest reported data) of \$722 billion, exceeding the prior peak set in May 2018 of \$668.9 billion. The chart below is from Hedgopia and divides margin debt by personal income. Evaluating margin debt, which by itself can continue to rise indefinitely, many bears have been slaughtered trying to use raw margin debt data to call tops. Looking at debt as a % of income (green line on chart below) puts it in better context in my opinion. This value last peaked in January '18 at 4.33%, just above our current level of 4.18%.

As margin debt speaks to sentiment, as investors take on debt to buy more risk assets, the WSJ has an article out on the 'average investor' becoming a near-overnight millionaire thanks to stocks like Tesla, Bruce Burnworth used to clip coupons and look for deals before his investment in Tesla Inc. made him a millionaire. [...] 'Before, I wasn't doing particularly well financially, Now, I'm well beyond where I wanted to be for retirement,' said Mr. Burnworth, who added that he also sold his own home and used some of the proceeds to buy more Tesla options.'"

These types of stories aren't the ones you see at market bottoms. I'm not suggesting the WSJ article is calling a top but just, once again, highlighting the excessive sentiment in equities right now. from coupon clipping to Tesla millionaire rings a "investing is so easy!" type tone that so often brings with it a quick 'rest' of equity prices. Not necessary a disaster or crash but the market is prone to teach lessons and we seem to be overdone for such coursework today.



I've mentioned in prior letters that I think 2021 could be a very interesting a potentially bullish year for cannabis. For new subscribers I thought this needed to be repeated, this time with the below table from New Cannabis Ventures (NCV). The table shows the nine largest multi-state operators (MSOs) and their 2021 growth projections.

From NCV's report, "In addition to the newly legal for adult-use markets of Arizona and New Jersey rolling out this year, Virginia's medical program has just launched. Many of the fastest-growing markets, like Illinois and Pennsylvania, remain undersupplied. The 9 largest MSOs by market cap are expected to see substantial growth in revenue and adjusted EBITDA in the year ahead."

Many cannabis stocks have had a strong Q4 performance, so some pullback could be warranted, but I think long-term there's a lot of potential in this space that continues to strong strong and will even more so as banking options become more available and states continue to recognize the tax benefit of legalization.

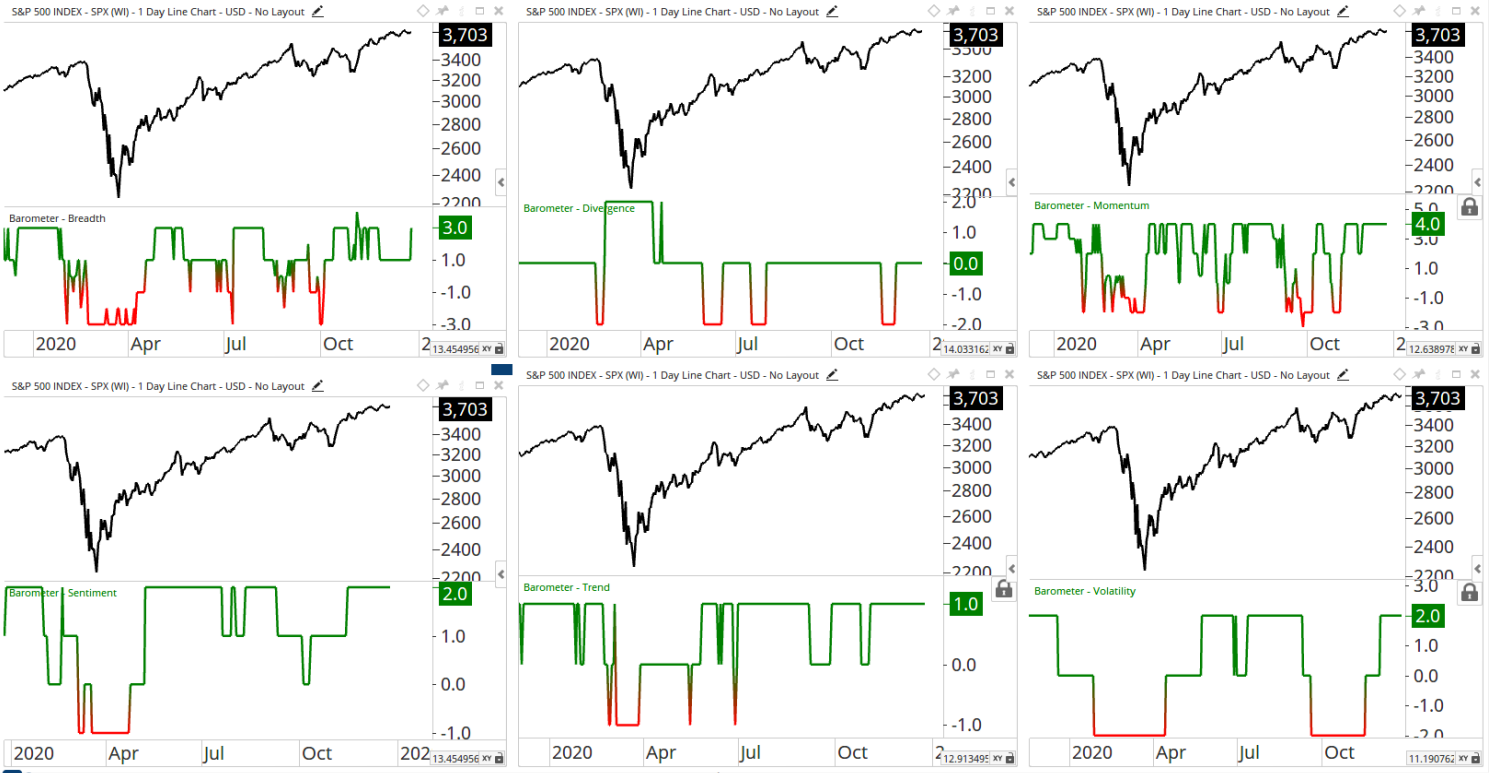
	2021 Projected		2021 Projected	
	Revenue	Growth	Adj. EBITDA	Growth
Ayr Strategies	\$388	149%	\$155	171%
Columbia Care	\$460	153%	\$94	+\$99
Cresco Labs	\$807	69%	\$259	126%
Curaleaf	\$1,261	99%	\$399	175%
Green Thumb Industries	\$841	53%	\$293	71%
Jushi Holdings	\$190	176%	\$40	+\$43
Planet 13	\$142	94%	\$42	168%
TerrAscend	\$284	85%	\$112	143%
Trulieve	\$786	54%	\$352	40%

Source: Sentieo, compiled by New Cannabis Ventures

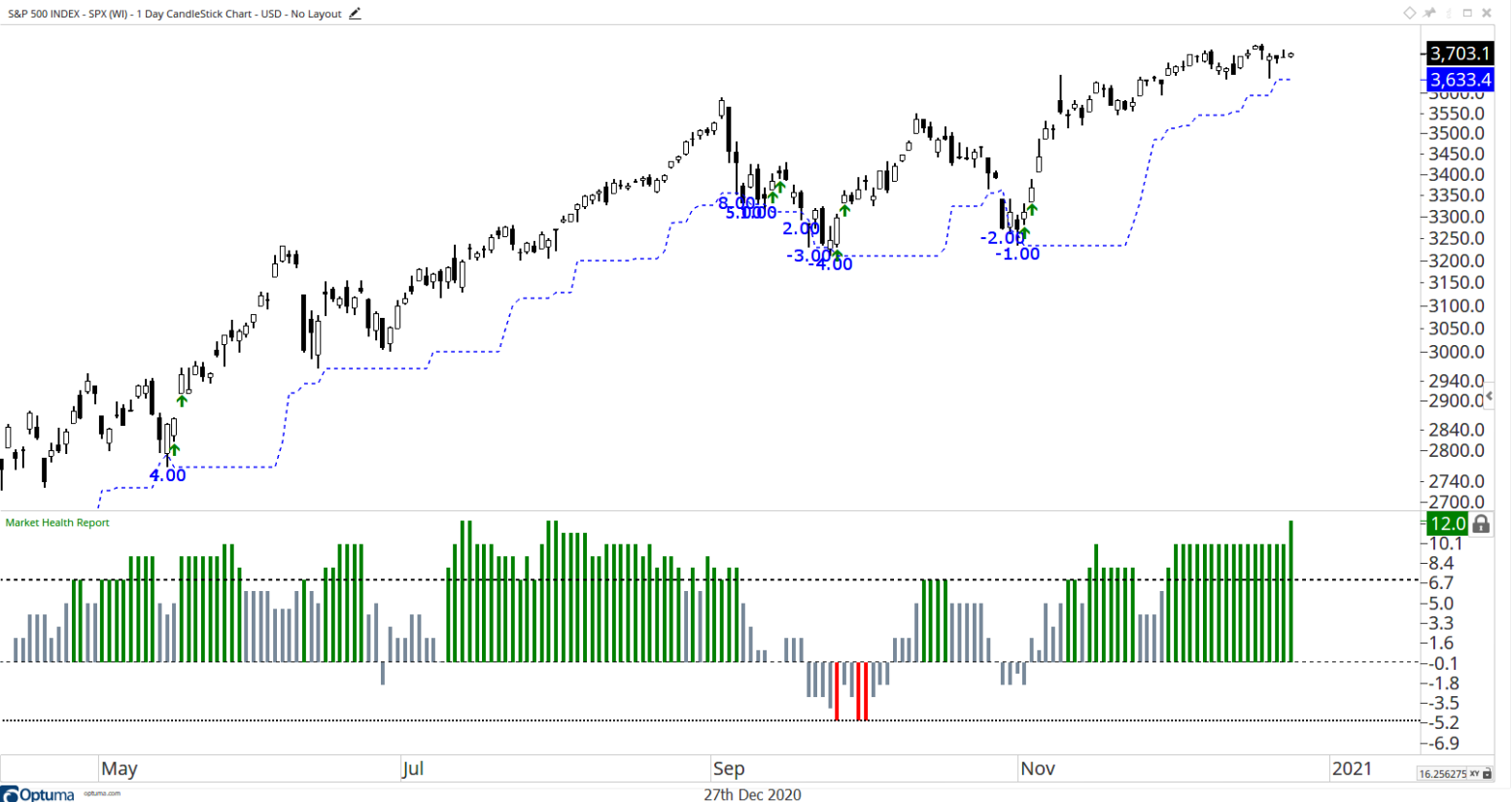
MARKET HEALTH REPORT



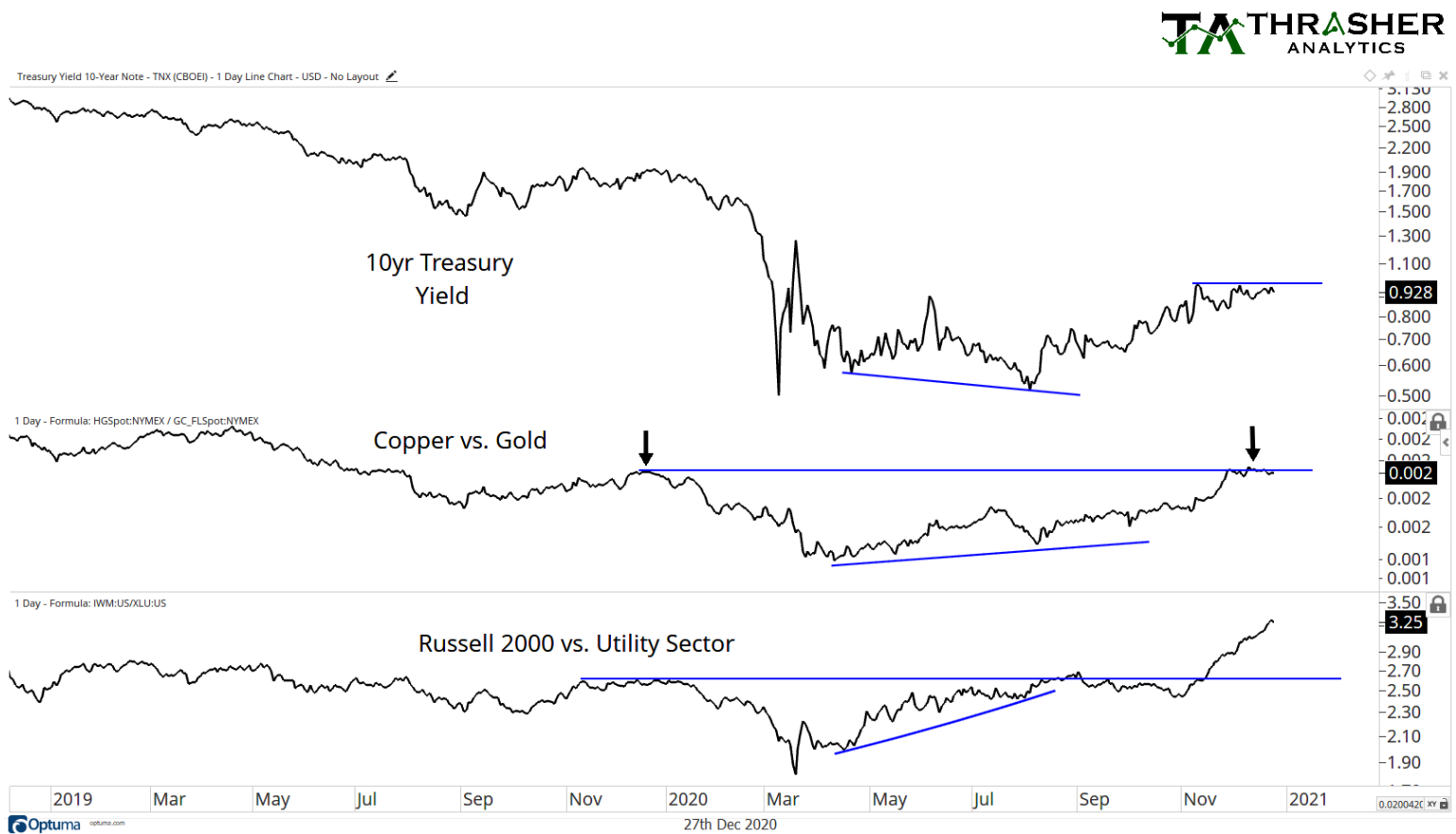
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I've written in the last couple of letters the possible bullish setup for gold and the bearish setups in copper. Those have continued to play out and with them, the ratio of copper vs. gold has stalled. I often look at this ratio as one barometer for Treasury yield trend, noting divergences along with the Russell 2000 vs. Utilities. When these two ratios are rising, we often see yield advance as well. As copper vs. gold falters at the late-2019 level and the extremely stretched Russell 2000, a reversal in these two key ratios may begin to suggest a lower 10yr Treasury yield (and with it rising price). IWM has yet to show signs of weakening against XLU but I wouldn't be surprised if this transpired based on my prior writing on the small cap index.



SECTORS - PERFORMANCE



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Financial Select Sector Fund ETF	True	True	0.73%	1.01%	24.52%	-5.64%
SPDR Technology Select Sector Fund ETF	True	True	0.28%	6.00%	15.98%	41.45%
SPDR Materials Select Sector Fund ETF	True	True	-0.43%	-0.71%	15.62%	17.11%
SPDR Industrial Select Sector Fund ETF	True	True	-0.93%	-1.84%	16.77%	7.61%
SPDR Communication Services Select Sector ETF	True	True	-1.18%	1.59%	14.74%	23.21%
SPDR Health Care Select Sector Fund ETF	True	True	-1.28%	2.42%	9.94%	8.24%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-1.56%	-0.37%	6.39%	6.06%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-1.8%	0.12%	11.13%	26.77%
SPDR Utilities Select Sector Fund ETF	False	True	-2.58%	-4.70%	5.95%	-4.48%
SPDR Real Estate Select Sector Fund ETF	False	True	-3.16%	-2.42%	5.59%	-5.65%
SPDR Energy Select Sector Fund ETF	True	True	-4.87%	-5.43%	26.23%	-38.48%

DAILY SENTIMENT INDEX



Market	% Bullish ▲	5MA	History 📊
VIX DSI	13	14.2	
US Dollar DSI	21	19.6	
Natural Gas DSI	37.00	38.60	
Palladium DSI	38.00	37.60	
Gold DSI	48.00	46.80	
Crude Oil DSI	55.00	55.40	
Cocoa DSI	55.00	50.80	
5YR DSI	55.00	53.60	
Sugar DSI	59.00	54.00	
Coffee DSI	60.00	54.20	
10Y DSI	60.00	57.20	
Orange Juice DSI	63.00	60.20	
Cattle DSI	64.00	63.60	
Nikkei DSI	66.00	68.40	
British Pound DSI	70.00	67.40	
Platinum DSI	73.00	71.40	
EuroDollar DSI	73.00	70.60	

<input type="checkbox"/>	Code	% Bullish ▲	5MA	History
<input type="checkbox"/>	Cotton DSI	73.00	73.20	
<input type="checkbox"/>	SPX DSI	75.00	76.60	
<input type="checkbox"/>	Silver DSI	75.00	71.20	
<input type="checkbox"/>	Gasoline DSI	75.00	74.80	
<input type="checkbox"/>	Mexican Peso DSI	76.00	72.20	
<input type="checkbox"/>	Lean Hog DSI	76.00	73.60	
<input type="checkbox"/>	Heating Oil DSI	76.00	75.80	
<input type="checkbox"/>	Swiss Franc DSI	77.00	82.2	
<input type="checkbox"/>	CRB Index DSI	77.00	78.40	
<input type="checkbox"/>	Nasdaq DSI	79.00	82.2	
<input type="checkbox"/>	Australian Dollar DSI	79.00	77.20	
<input type="checkbox"/>	Copper DSI	80	80.8	
<input type="checkbox"/>	Wheat DSI	81	77.60	
<input type="checkbox"/>	New Zealand Dollar DSI	81	78.20	
<input type="checkbox"/>	Euro DSI	81	82.8	
<input type="checkbox"/>	Lumber DSI	85	87.2	
<input type="checkbox"/>	Corn DSI	85	80.6	

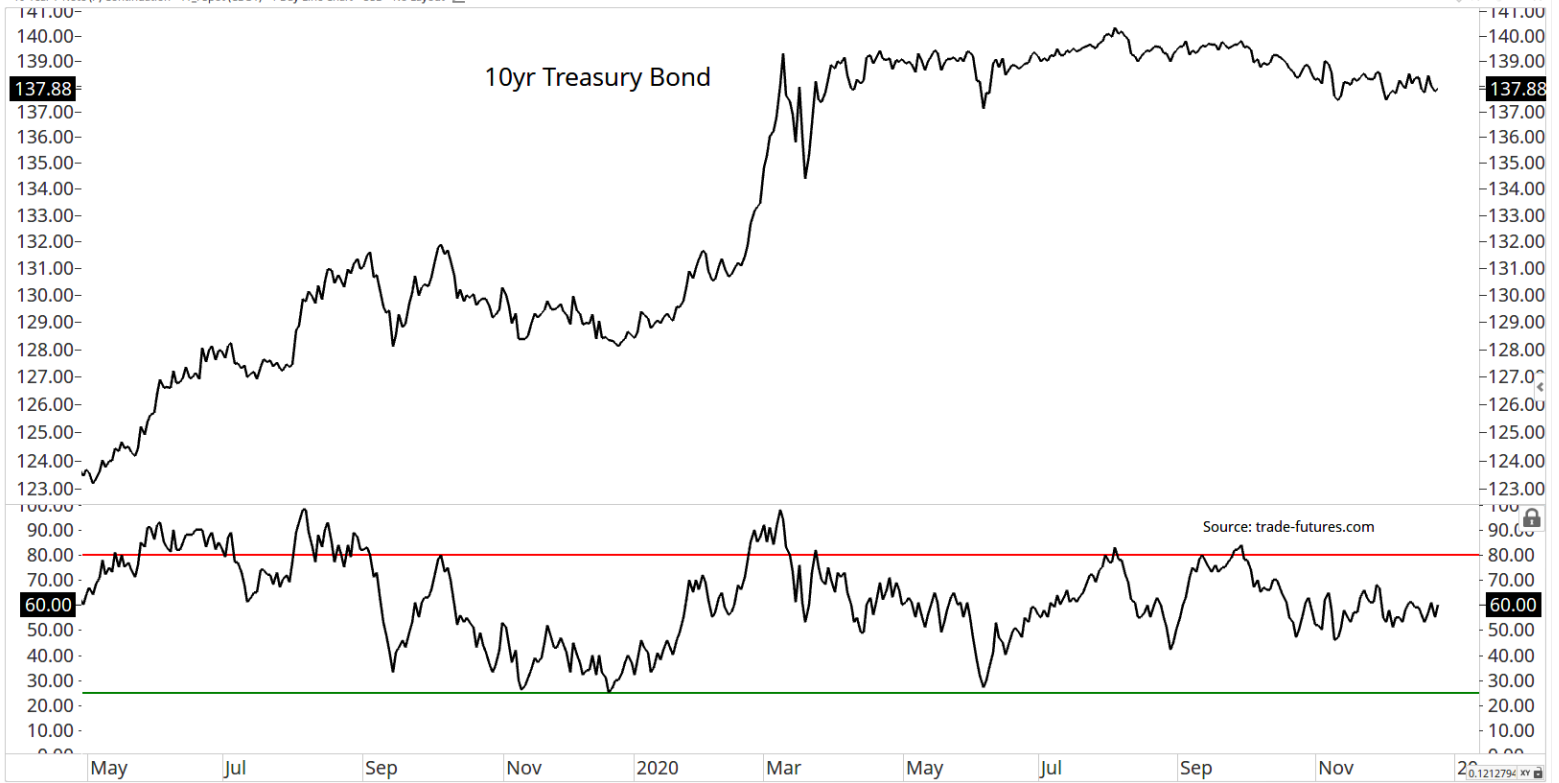
Source: trade-futures.com

DAILY SENTIMENT INDEX

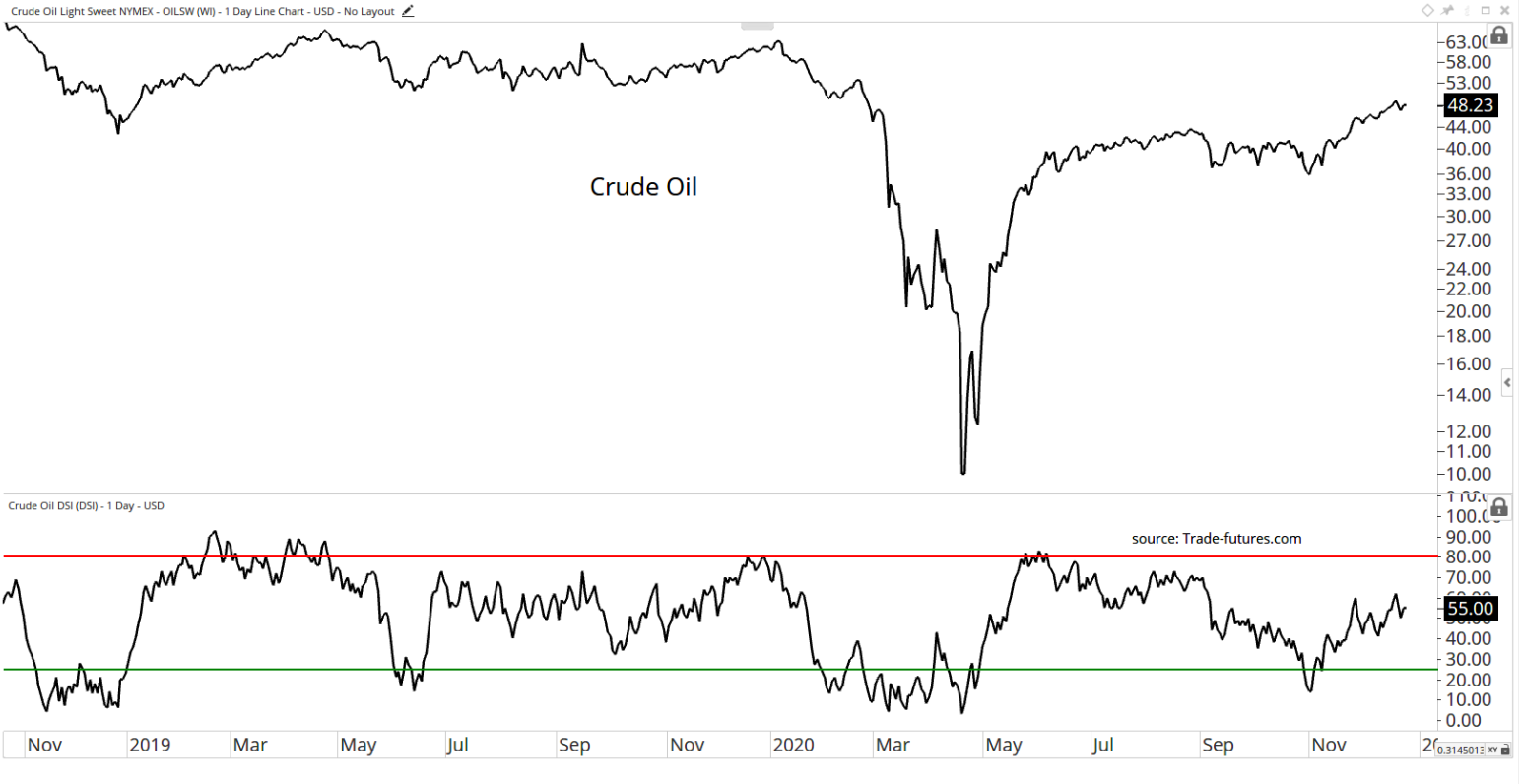


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10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



DAILY SENTIMENT INDEX



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



DAILY SENTIMENT INDEX



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

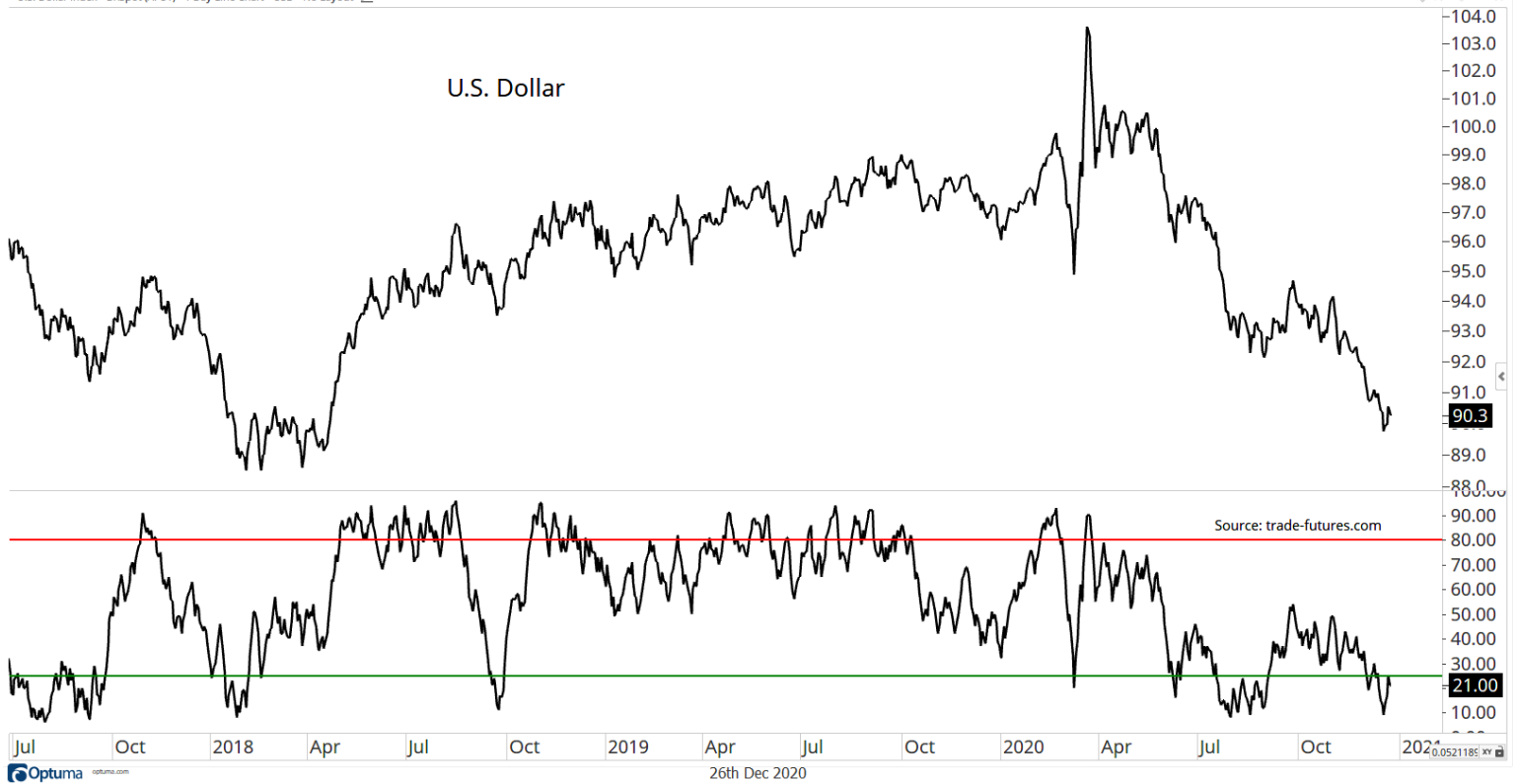


DAILY SENTIMENT INDEX



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

U.S. Dollar



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DAILY SENTIMENT INDEX



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

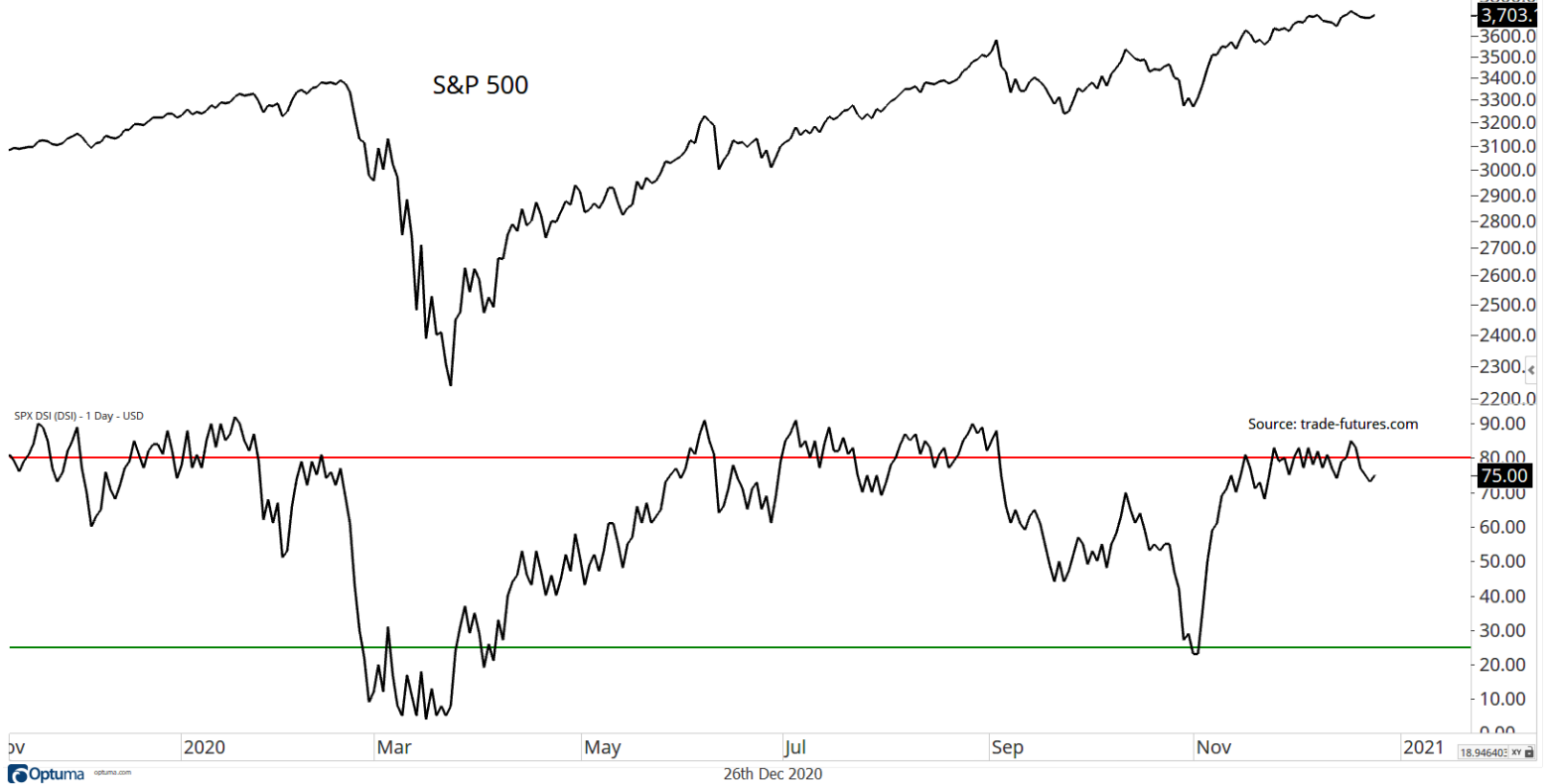


DAILY SENTIMENT INDEX



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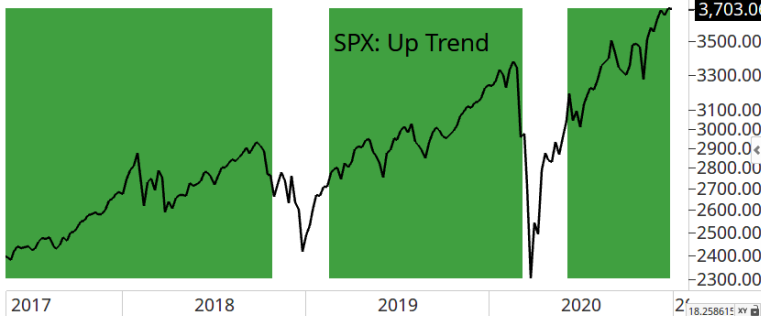
S&P 500 INDEX - SPX (W1) - 1 Day Line Chart - USD - No Layout



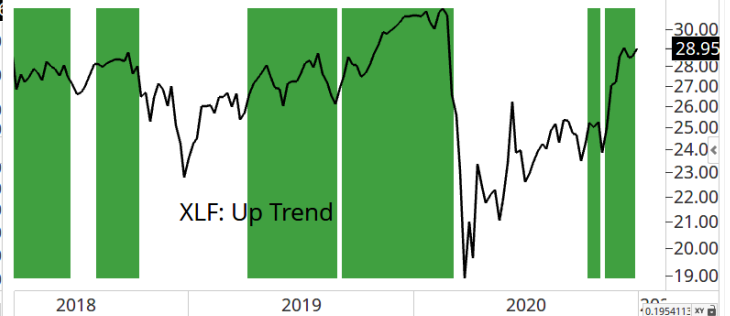
TREND MODELS



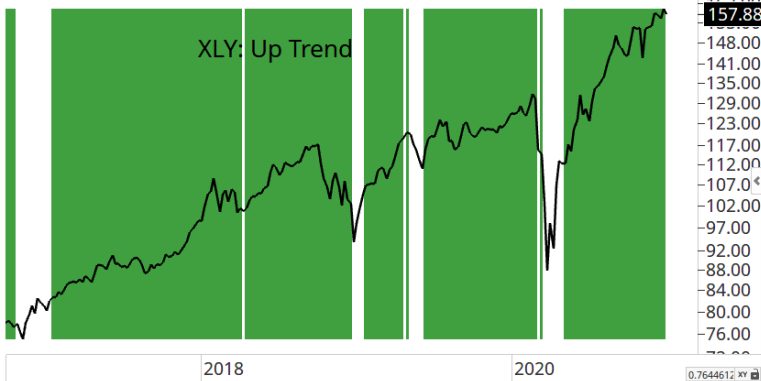
S&P 500 INDEX - SPX (W1) - 1 Week Line Chart - USD - No Layout



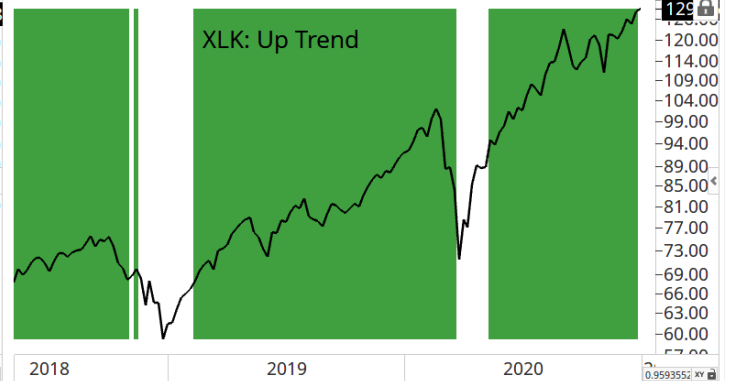
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



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



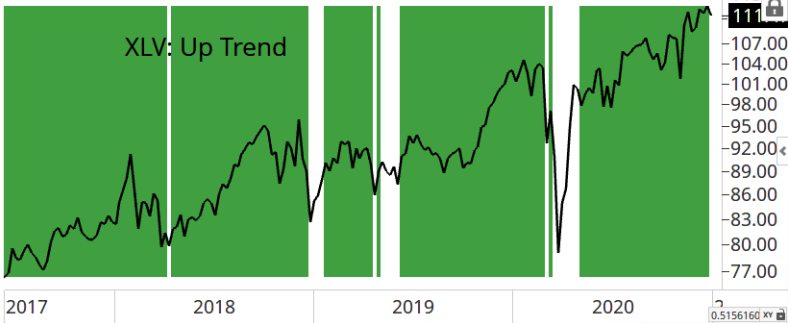
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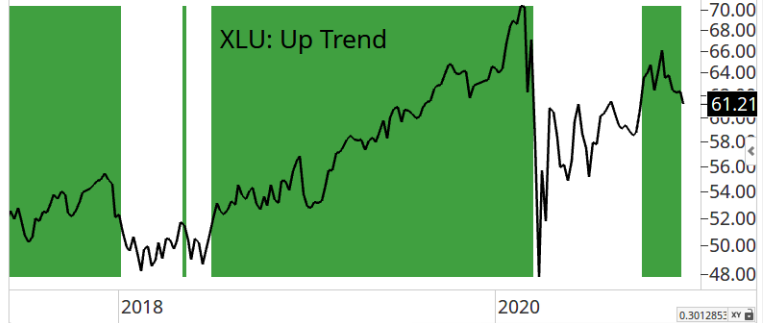
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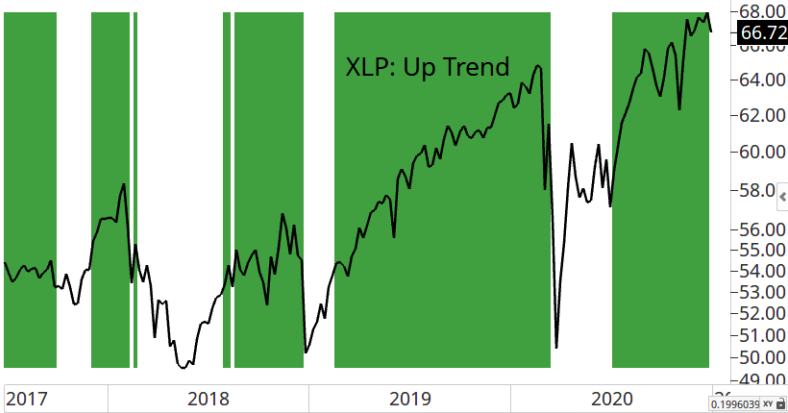
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout



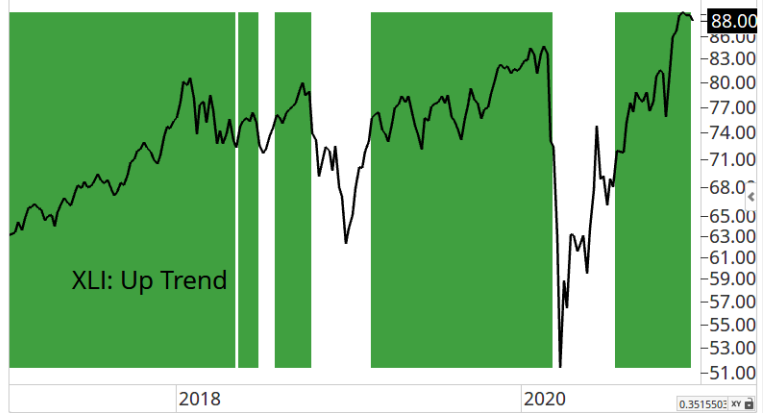
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SPDR Industrial Select Sector Fund ETF - XLI (US) - 1 Week Line Chart - USD - No Layout



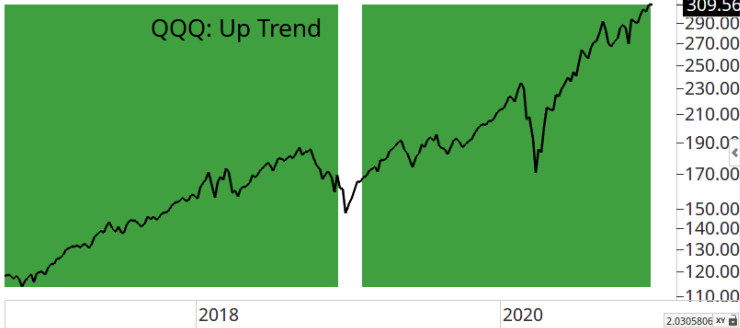
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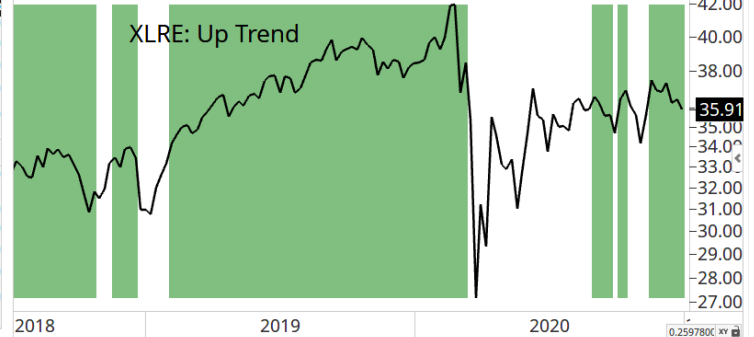
TREND MODELS



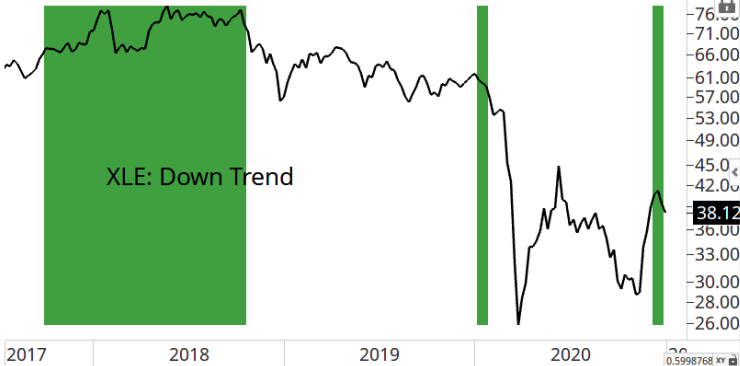
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



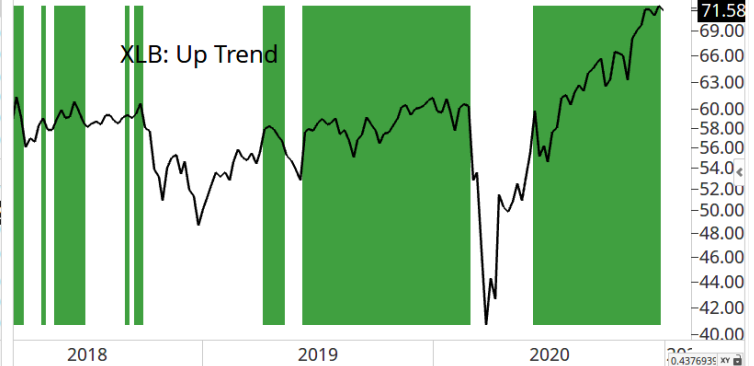
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



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



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



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