

TA THRASHER ANALYTICS

JANUARY 3, 2021



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.
- long-term 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 have begun to rollover relative to the Dow.
- Declining percent of new 52-week highs.

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Volatility

Equities

Market Health Report

Fixed Income

Commodity

Sectors

Sentiment

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Sector Rotation: Jan.	
Financails	XLF
Industrials	XLI
Materials	XLB

Fixed Income Rotation: Q1	
20+ Yr Treasury	TLT
Muni Bond	MUB

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	
XLY	X	
XLK	X	
XLV	X	
XLU	X	
XLP	X	
XLI	X	
XLRE	X	
XLE	X	
XLB	X	

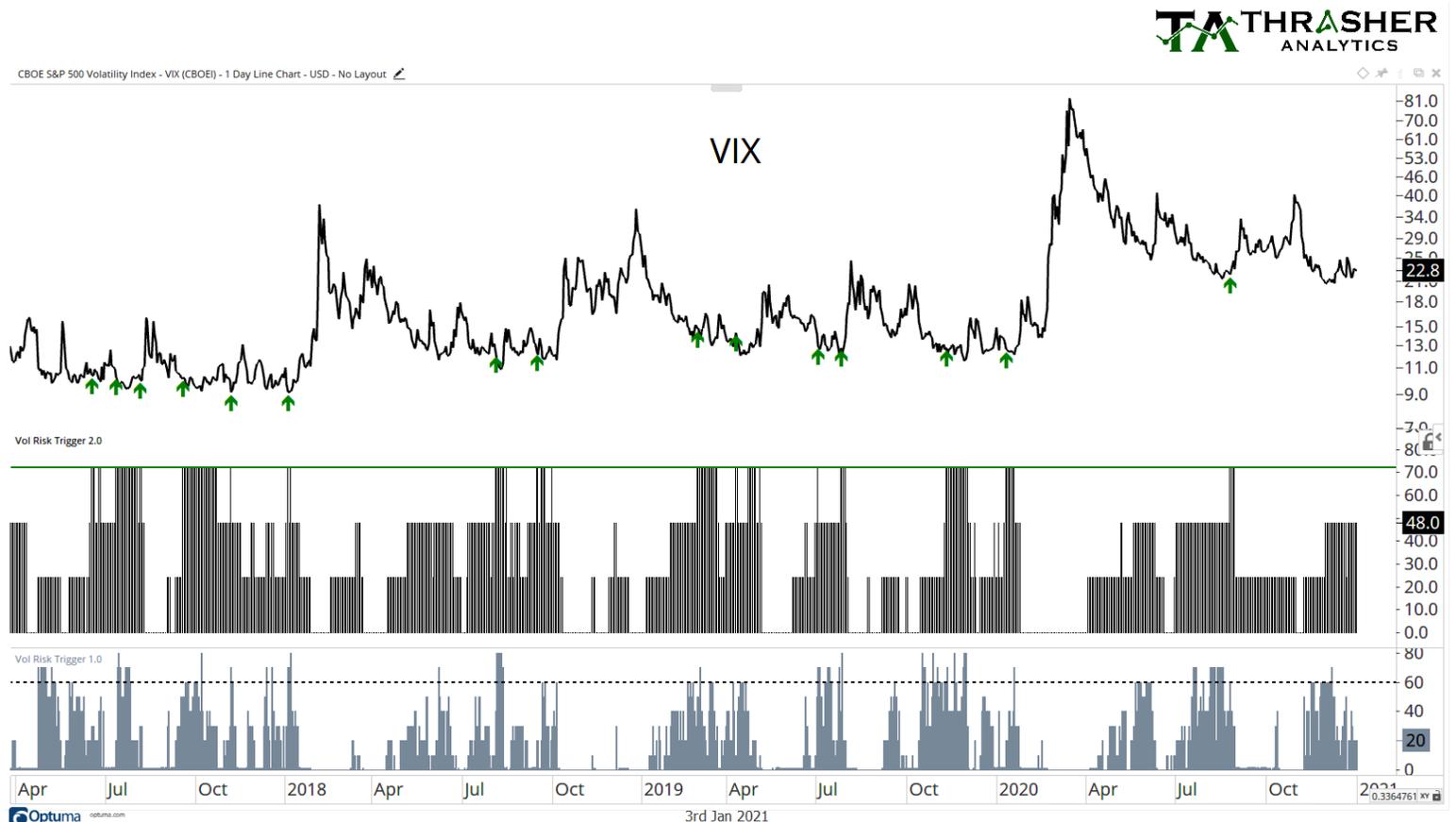
Daily Sentiment Index		
	% Bullish	5-day MA
S&P 500	80%	78%
Nasdaq 100	87%	84%
Nikkei	82%	76%
VIX	10%	12%
10yr Treasury	67%	63%
5yr Treasury	57%	57%
CRB Index	78%	75%
Gold	51%	45%
U.S. Dollar	19%	19%

*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 remains unchanged from the prior weeks. While dispersion has remained low, it has not yet reached the threshold needed, along with the other components of the indicator, to suggest heightened risk of a spike in volatility. Vol has actually risen slightly, holding above 20 before closing out the year.



Sentiment towards volatility has remained extremely bearish and the spread discussed last week between spot and 3-month VIX suggested spot and front month vol would rise to close the margin. We have seen a slight uptick in volatility, creating a positive correlation with the S&P 500, not something we see too often. We've seen the VIX move higher with SPX a few times in the last twelve months: Ahead of the quick September drop and into the February before of course the covid crash.

The VIX isn't alone in rising with equities, VVIX (Volatility of the VIX) has also made a higher-low, something we didn't see in September but did in February (in fact my charting of this was named one of the top ten charts of 2020 by The Chart Report)



Equities appeared like they would close flat on Thursday, putting a period on 2020 trading but saw a late-day jump to send the S&P 500 to a new all-time high and erasing the prior two days of weakness. Momentum remains in a bullish range and price has continued to hold above the November VWAP.

This week we get ISM and labor market data at the end of the week and election headlines will be the focus on Tuesday and Wednesday with the Georgia run-off and Congressional certification of the Biden's win. Several republicans have made it clear they plan to protest the certification, but I believe the bigger story will be out of Georgia and which party gains the Senatorial seats and thus control.



Offense sectors have continued to show strength relative to defensive sectors, although last week saw a slight downtick in the ratio between the two. The trend is clearly up with sectors sending a message of 'risk on' in performance.



EQUITIES - NEW HIGHS

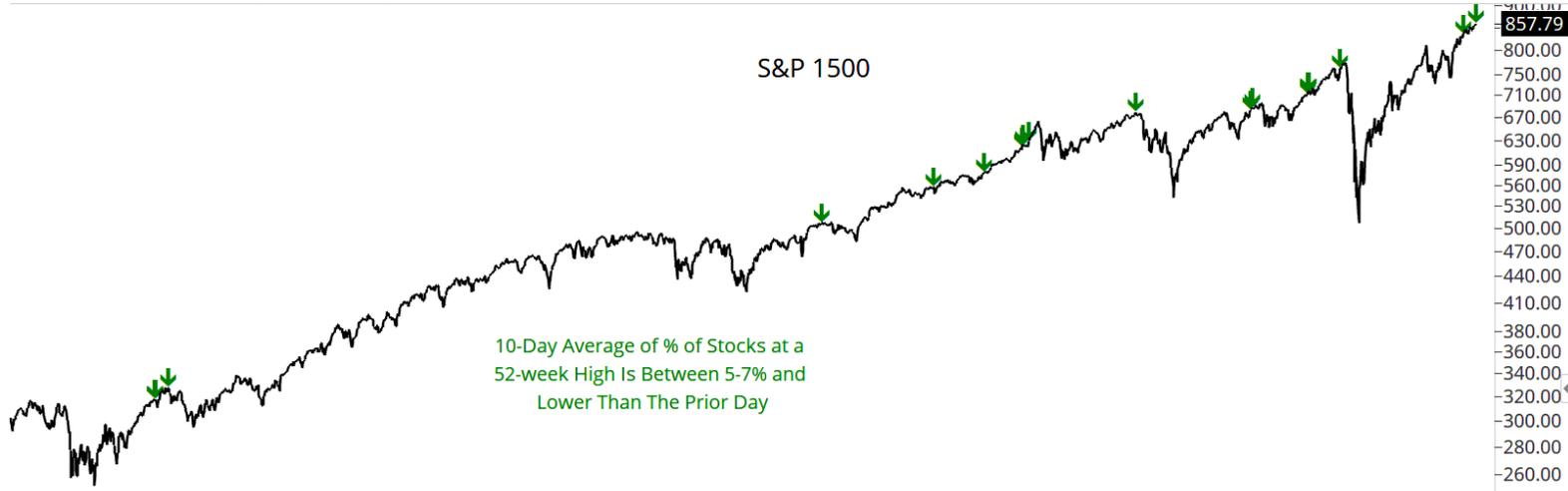


While the S&P 500 finished the year at a new 52-week high, not as many stocks joined the list as we would like. Looking at the S&P 1500, which includes not just large caps but mid and small caps as well, eliminating the bias of strength shown in just one market cap group, the % at new highs has dwindled. Taking the 10-day average, only 6% of stocks are hitting new highs and the average actually turned lower on Friday with the SPX ticking up. I've plotted green arrows below when the 10-day average has been between 5% and 7% while also moving below the prior day's level. This is the second occurrence in the current trend. There's been a handful of such instances, several occurring at major market turning points like March '20 and October '19.

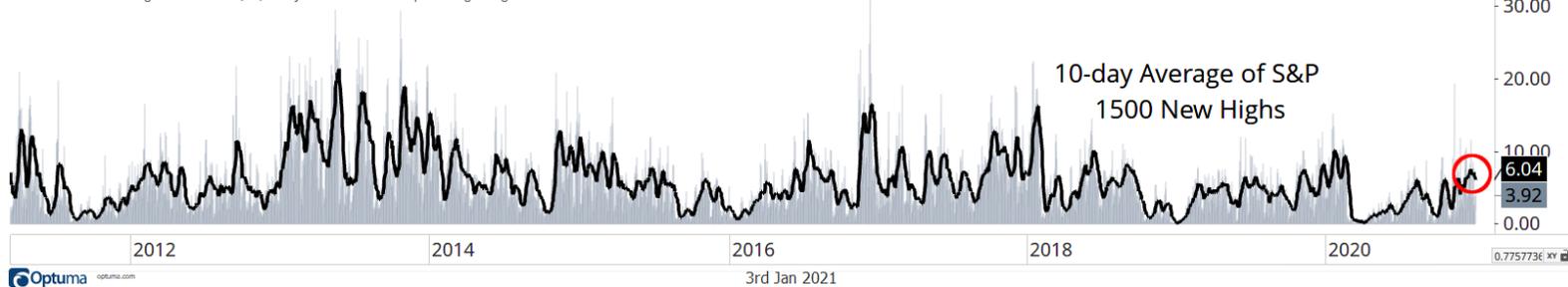
While less stocks are hitting new highs, they have not begun to roll over entirely, as we'll see on the next chart.



S&P Composite 1500 Index - SP1500 (SPI) - 1 Day Line Chart - USD - No Layout



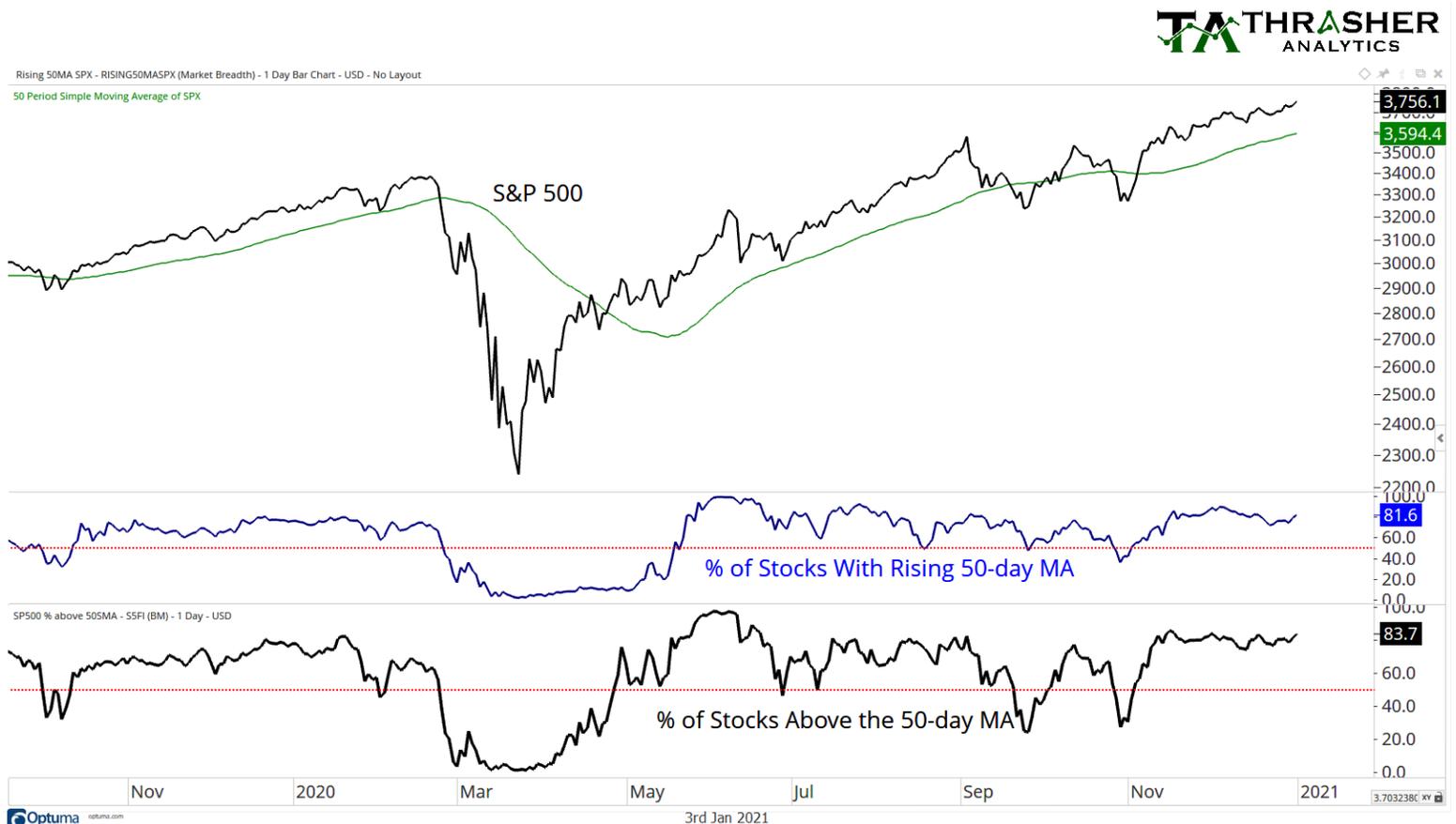
SP1500 % New 52 week highs - SP150052WH (BM) - 1 Day - USD & 10 Period Simple Moving Average of SP150052WH



EQUITIES - BREADTH

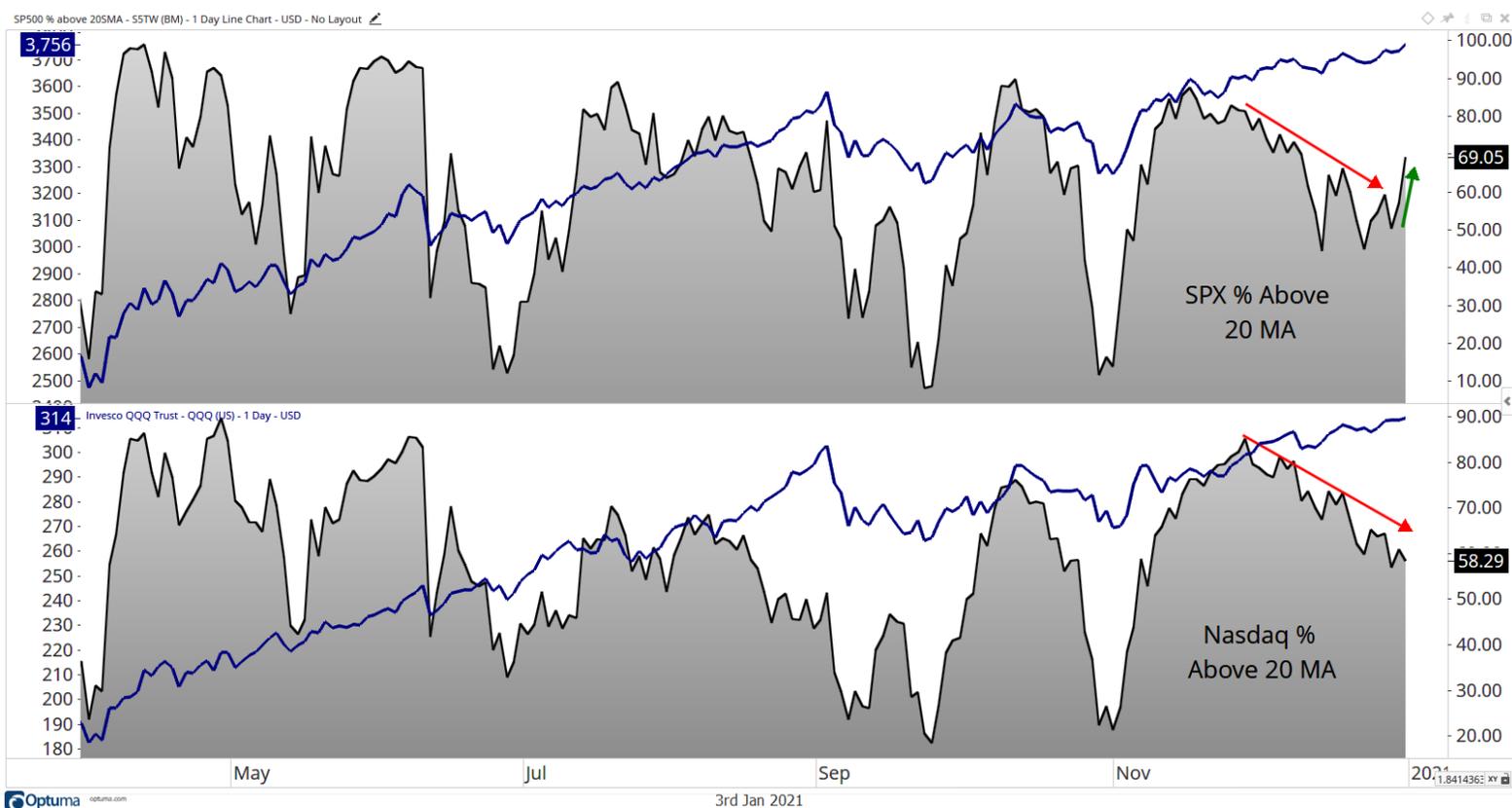


On the previous page I showed how less stocks are making new highs, on the chart below we have the percent that have rising 50-day moving averages and the % that are trading above their own respective 50-day MA. Both of these remain supportive of the current up trend as a healthy number of stocks find themselves above the intermediate moving average. From the perspective of % above the 50-day MA, the data remains bullish.

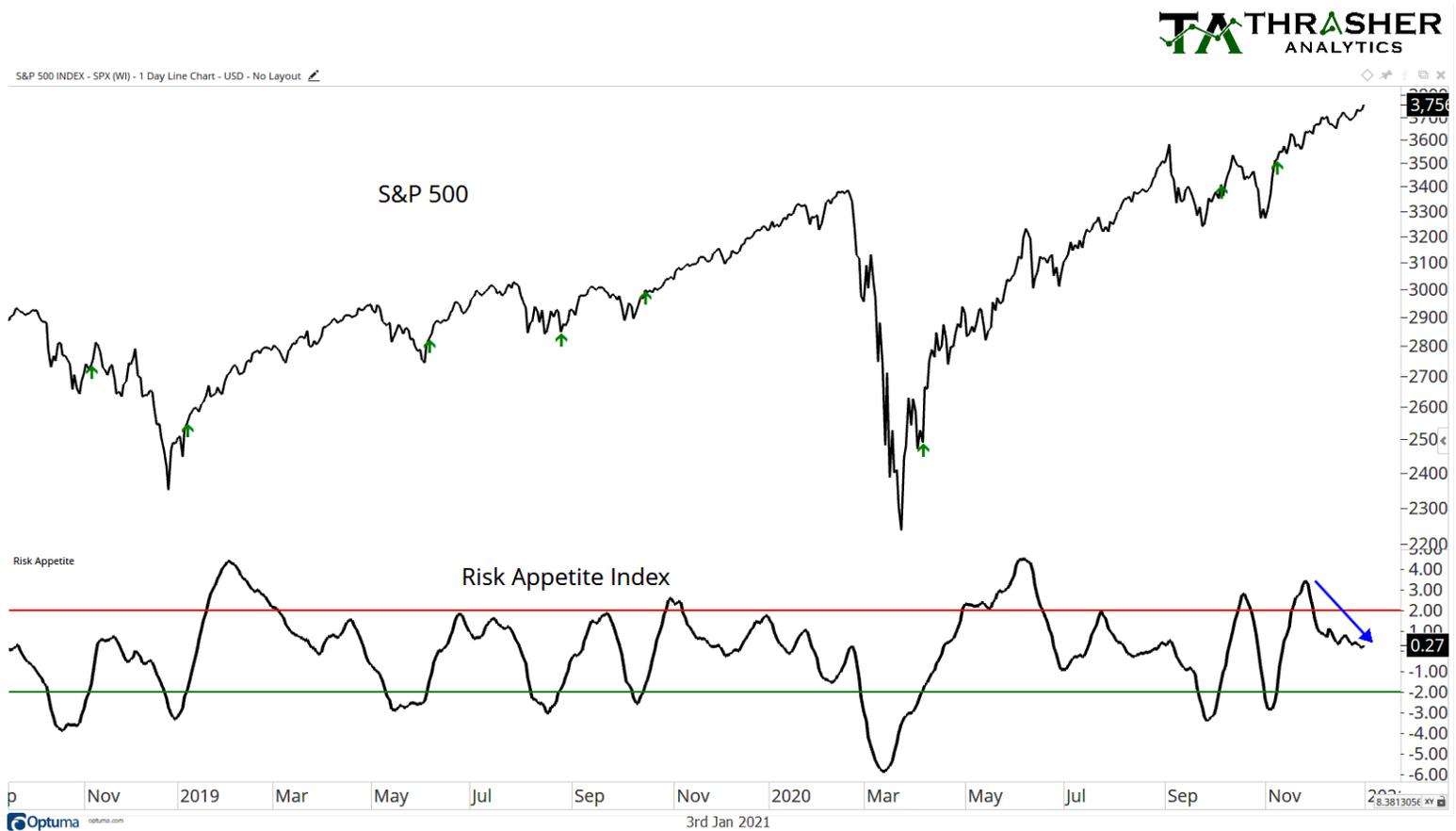


Looking a little shorter-term, this time at the % above the 20-day moving average for the S&P 500 and Nasdaq 100, the picture diverges. We had a declining % for both indices and late-last week the % for the S&P 500 ticked up from under 50% to 69%. However, the Nasdaq continues to bleed, having peaked in % of stocks above the short-term MA, finishing at 58%, just off a multi-week lo set earlier in the week.

Short-term breadth is bit weak, but the fact that we still have a great deal of stocks above the 50-day MA without a divergence there makes up for the weakness in this 20-MA data.



While we are seeing offense sectors lead defense sectors, other gauges of risk appetite aren't as strong, specifically the drop we saw last week in small caps and high beta stocks. Both groups saw an under-performance of the S&P 500 as traders moved away from these 'risk on' market groups. Risk appetite is more useful at showing a return of strength to the market than weakness taking over, but I think it's still worth noting the recent change since small caps had been so strong as of late. Although this isn't a huge surprise, refer to last week's note on the Russell 2000.

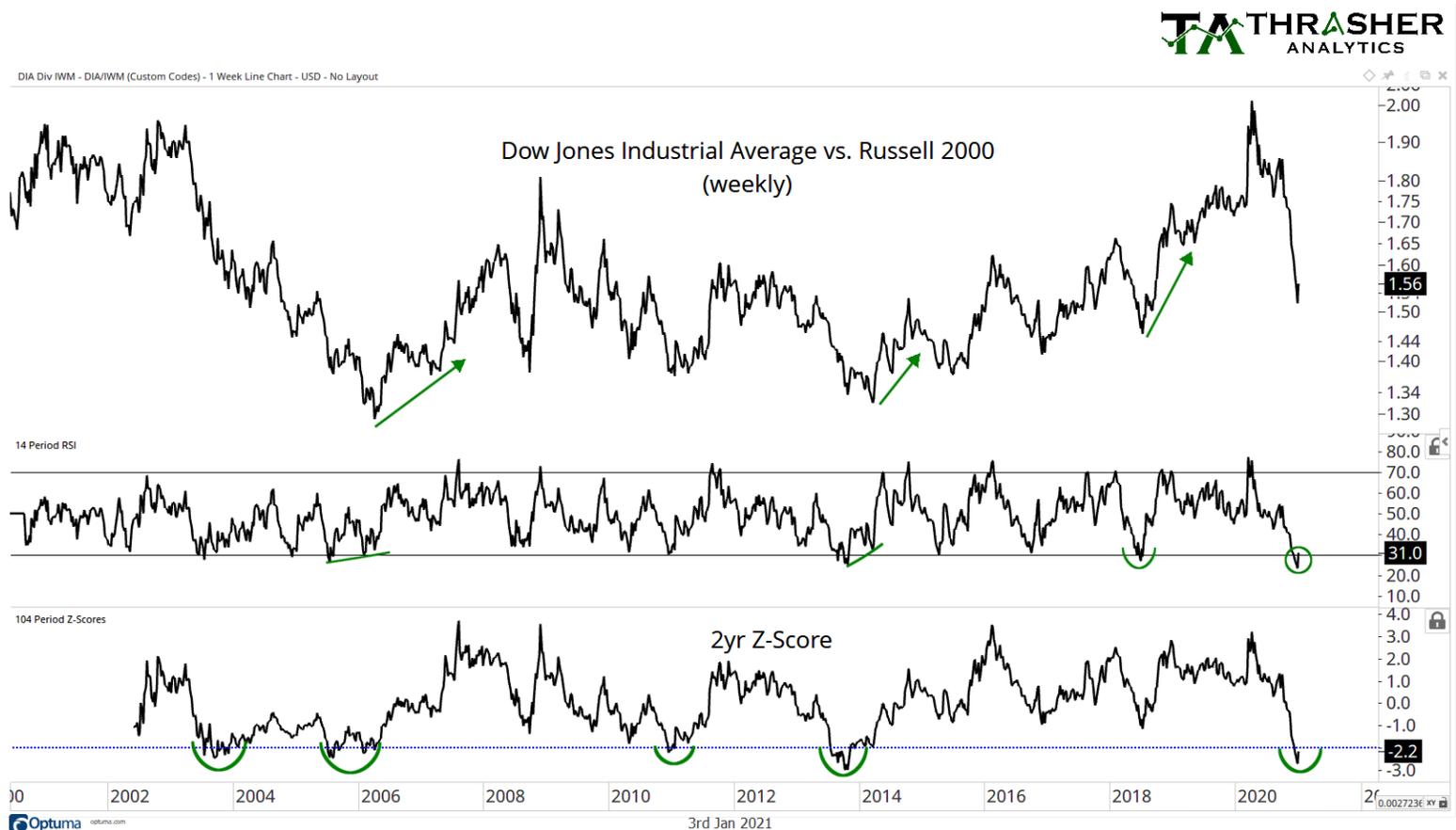


EQUITY - DOW VS. RUSSELL



I shared this chart a few weeks ago, noting the extreme underperformance in the Dow Jones Industrial Average against the Russell 2000. Last week we saw the start of a move back to favor the Dow, with the DJIA outperforming the small cap index by 2.77%. The ratio between these two has fallen below a 2-sigma (using a 2yr z-score) for the first time since 2013. Along with momentum being 'oversold' prior rebounds in Dow strength over small caps saw either a divergence in momentum with a z-score this low (like in 2006 or 2013) or an immediate snap-back rally (like in 2018).

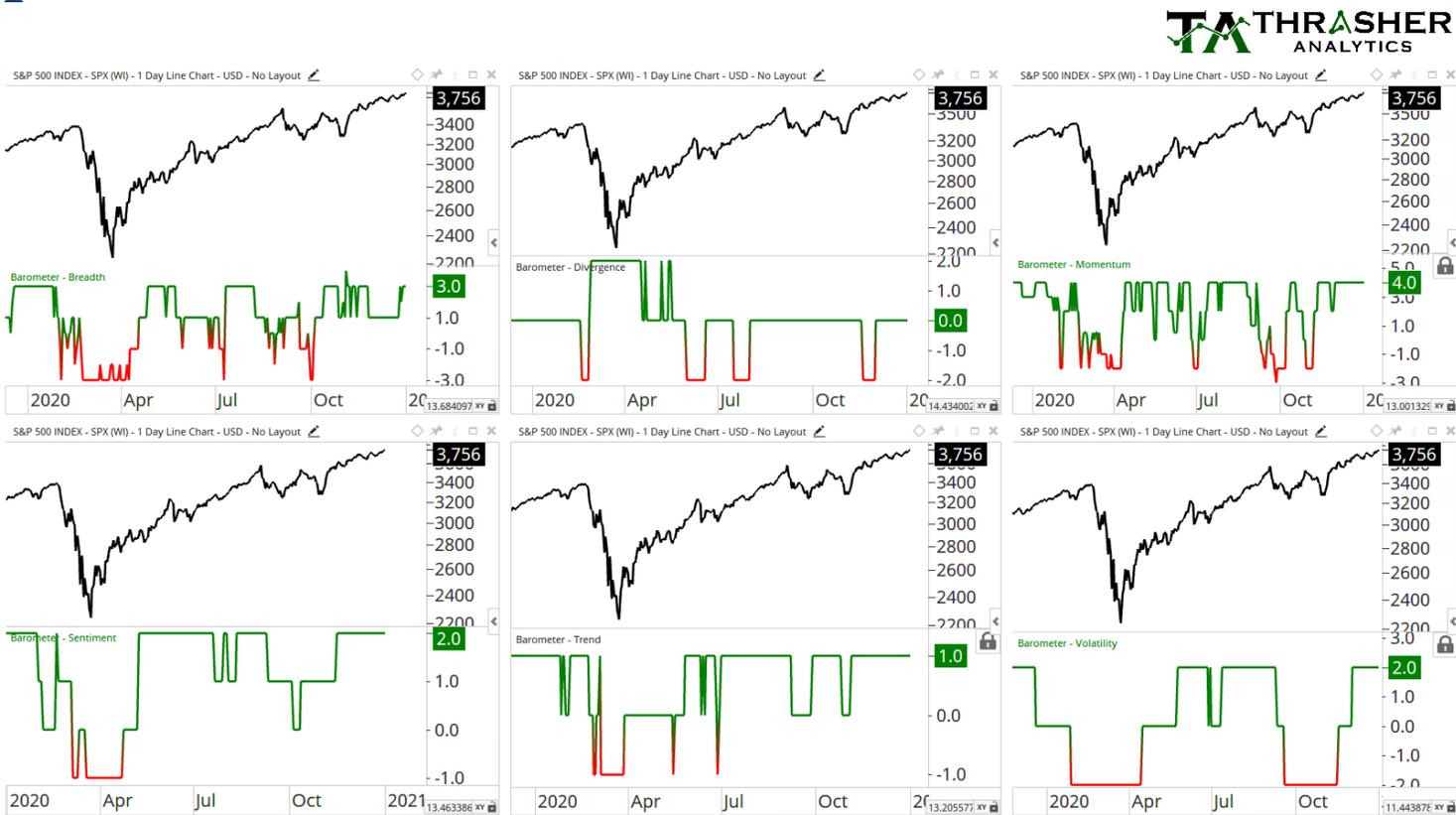
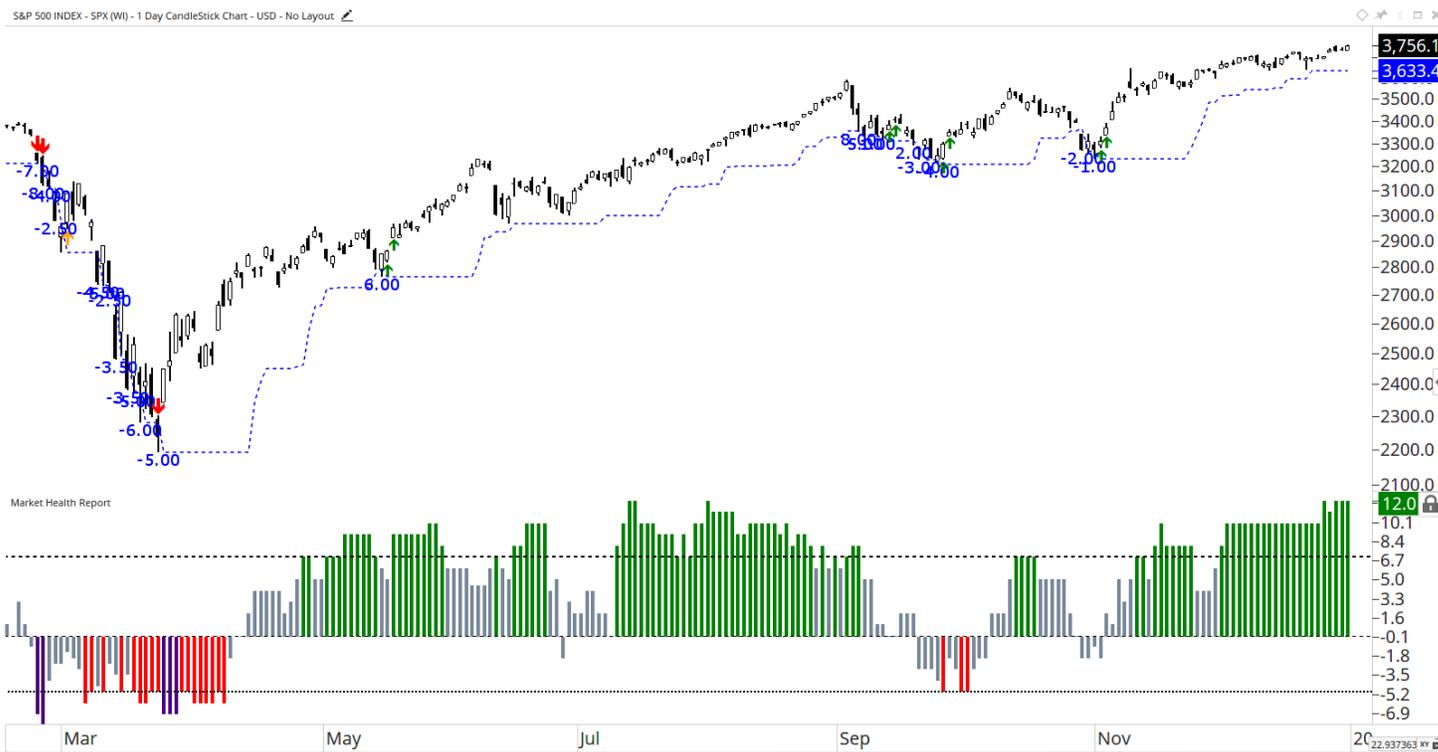
I continue to think mean-reversion will take place in this pair that favors the Dow. It may play out with another final lower-low but I don't think we'll see all of 2021 with small caps trouncing the Dow 30 like they did in 2020.



MARKET HEALTH REPORT

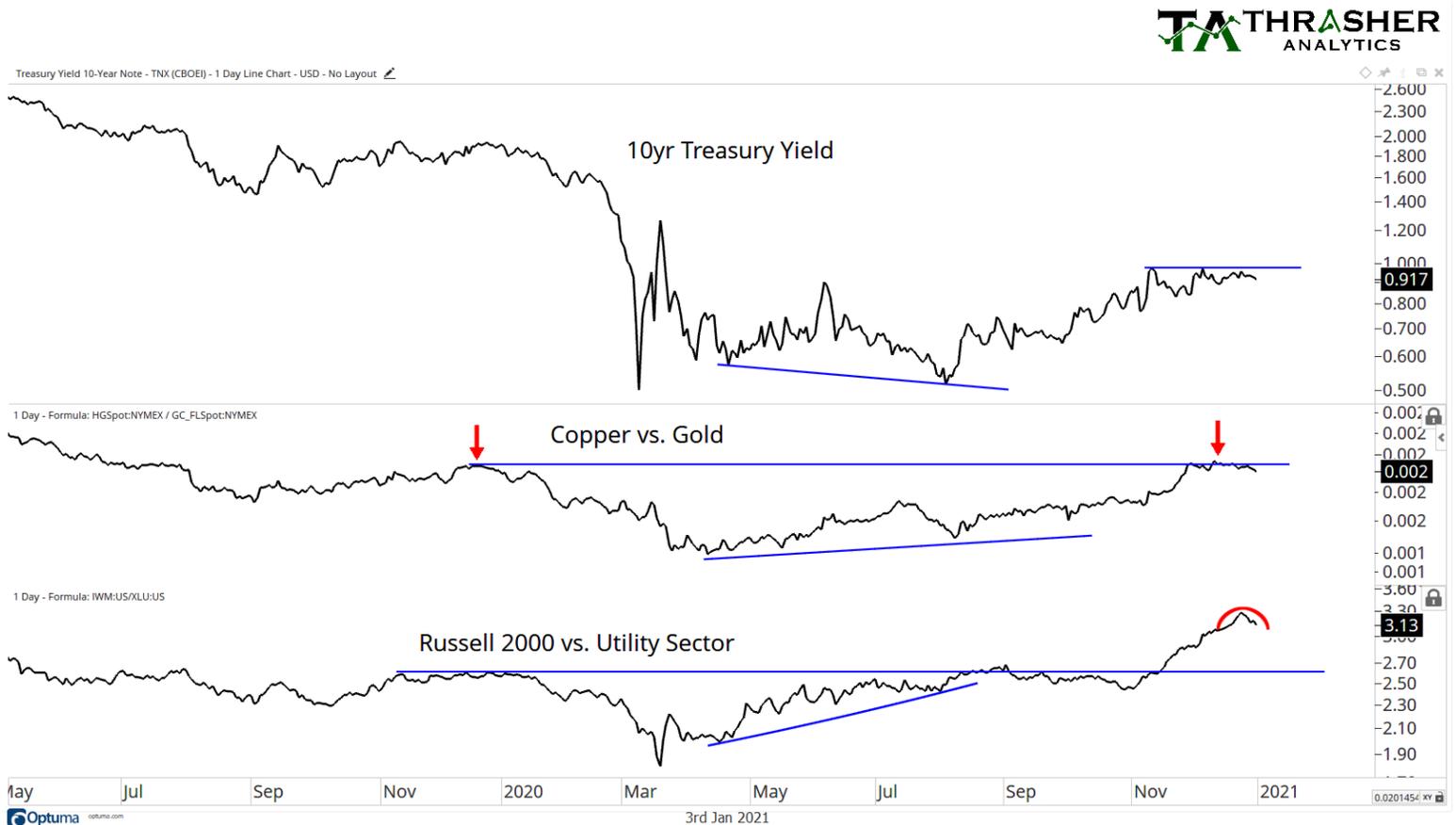


The Market Health Report remains supportive of the up trend in equities, sitting at a strong score of 12 and the S&P 500 well off its 15-day low.



I've written several times that I favor gold over copper, and I'll be addressing copper again in this letter in the commodities section. With that, it's no surprise to see gold strength against copper after the ratio between the two failed to breakout above the prior high (red arrows). Along with the latest weakness in copper, small caps have also started to show signs of rolling over against utilities, the other key ratio I watch for Treasury Yield trend forecast.

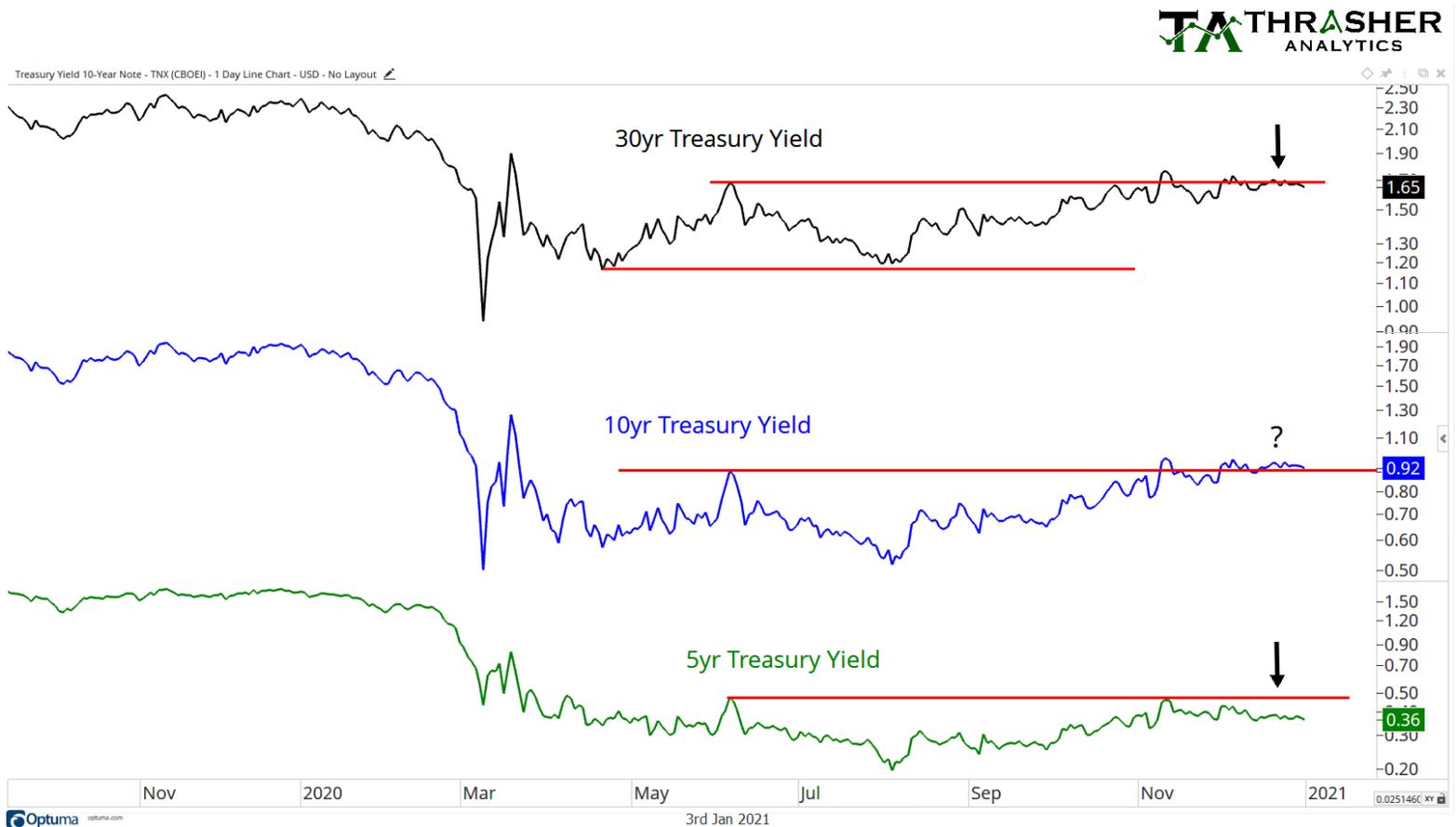
If both copper and small caps continue to fall, while the 10yr Yield fails to regain 1% level, it's very possible we see 2021 start with bond strength and further pressure on government yields.



FIXED INCOME - TREASURY YIELD



With the above weakness in copper and small caps, we also have the 30yr Yield unable to hold above the prior June high while the 5yr Yield still has yet to test its own June level. It appears the 10yr yield is nearing its own failed breakout as bond prices firmed up at the end of 2020.



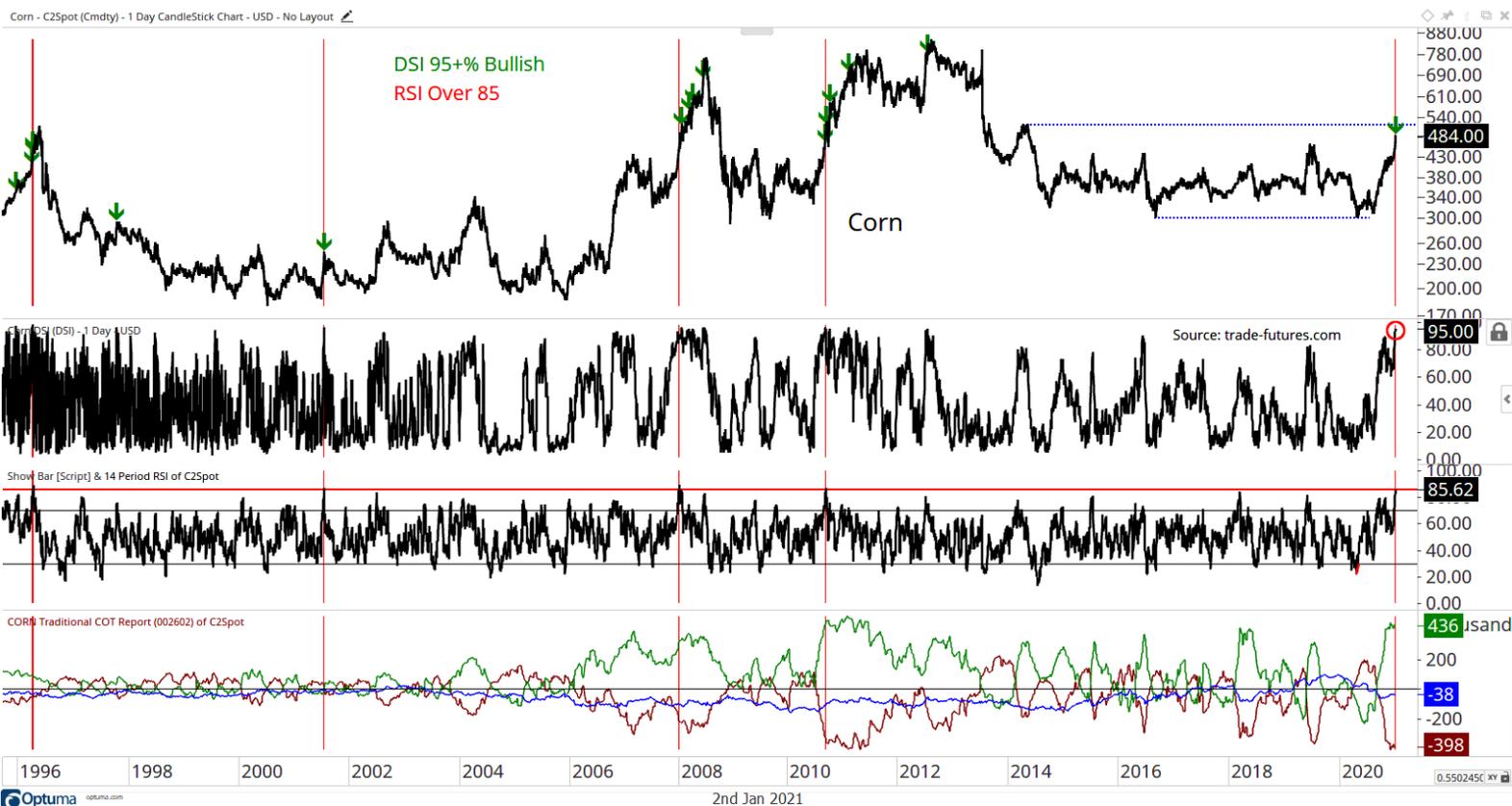
COMMODITY - CORN



This isn't the first time I've taken a shot at corn in the last couple of weeks. The prior bearish calls have been proven wrong (I'm the first to admit when price doesn't confirm a thesis!). But I still believe the next major move in corn prices will be lower, and Commercial Traders continue to appear to show the same belief. I think corn is at an important juncture if we look at the prior major advances in the price....

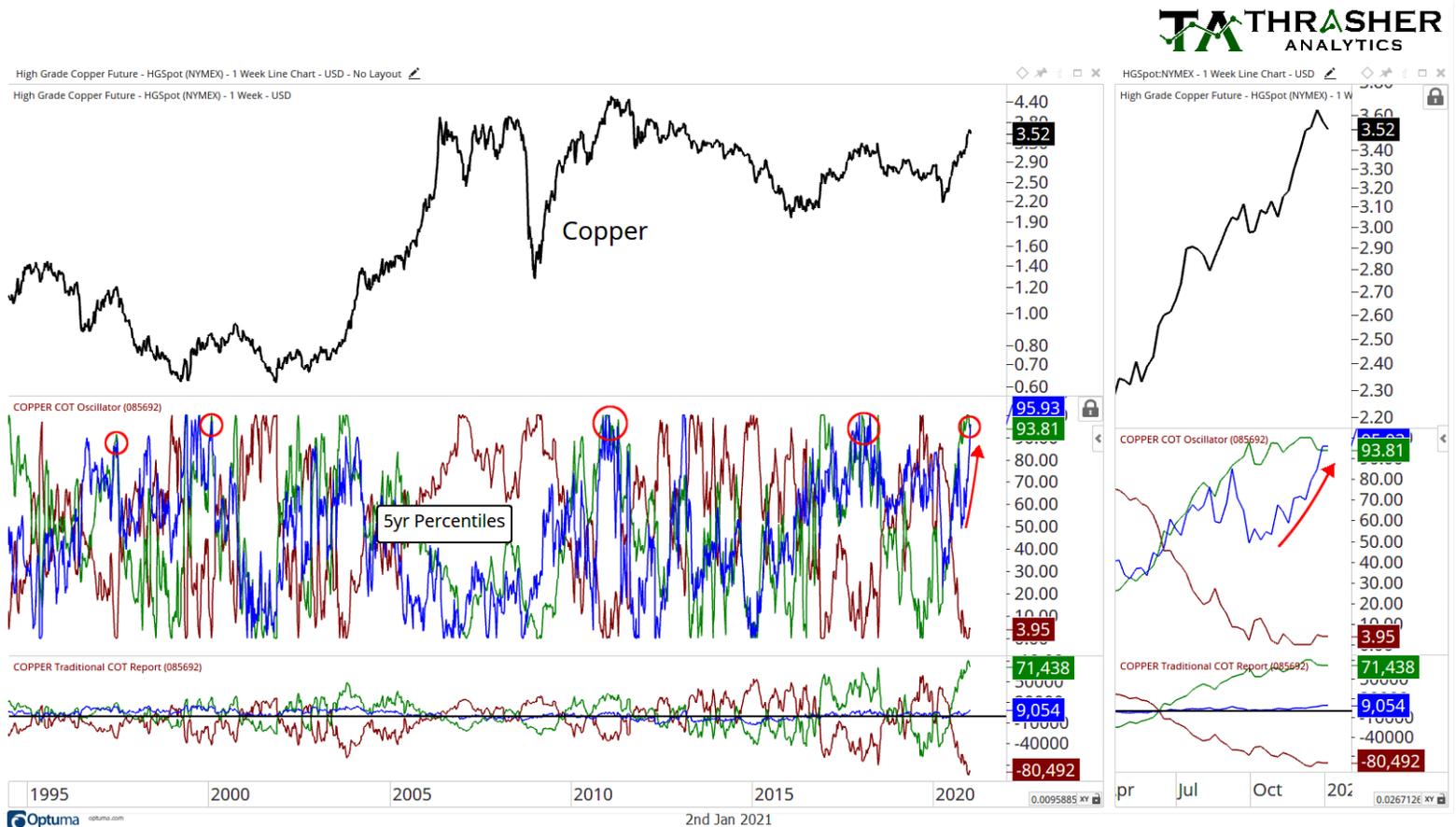
Corn has risen 57% over the last six months. The strongest performance since 2011. With it, sentiment has gone through the roof, closing Friday at 95% bullish. There's been three prior times that corn sentiment was 95+% bullish and the 14-day RSI was over 85: 1996, it rose about 10% before a final peak and then dropped 60%, in 2001 it peaked immediately and fell 20%, in 2008 corn continued higher by an additional 50% and in 2011 it went another 53% before final peaks were put in. In 2012 sentiment got over 95% but momentum wasn't as high as it is today, corn continued higher by a few percent before getting cut in half over the next year.

Turning to the bottom panel, showing the COT data for corn, commercial traders are holding a massive net-short position, similar to 2011. In '11 by the time Commercials got this net-short it was February and corn had just another 10% to go before it hit its high.



Both public (green) and large/inst'l (blue) trader COT categories are holding a position north of the 90th percentile in copper futures. This has occurred just a few times since the 1990s, each was followed by lower copper prices in the following months. A commonality during these periods were large/inst'l traders would call it quits first. Their positions would begin to scale down, sometimes ahead of the final peak in copper if not at the peak in copper, and that would mark the exhaustion in the move as the first sign of buyers finished pushing prices higher.

Copper finished Friday under the 20-day MA. I last wrote about copper and the declining momentum along with the COT spread, momentum had continued to fall after the bearish divergence that setup at the current peak (so far). The massive spread between Commercial Traders and public/large traders will close and I think it will be accompanied by lower copper prices.



SECTORS - PERFORMANCE

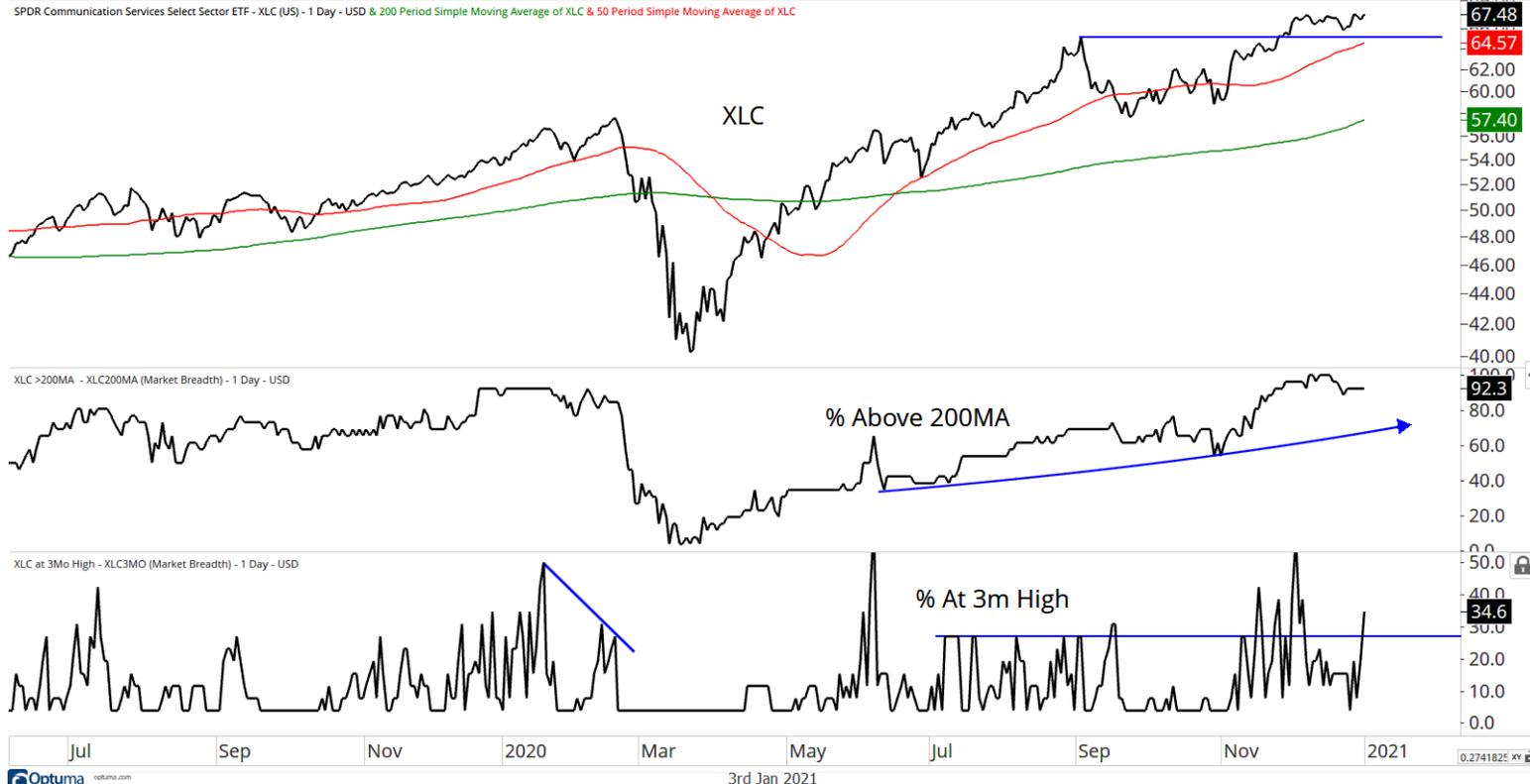


Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf +
SPDR Utilities Select Sector Fund ETF	False	True	2.43%	-0.22%	5.59%	-2.97%
SPDR Communication Services Select Sector ETF	True	True	1.84%	3.18%	13.6%	25.83%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	1.84%	2.24%	9.39%	28.19%
SPDR Financial Select Sector Fund ETF	True	True	1.83%	5.74%	22.48%	-4.22%
SPDR Real Estate Select Sector Fund ETF	True	True	1.81%	0.16%	3.66%	-5.46%
SPDR Health Care Select Sector Fund ETF	True	True	1.77%	3.37%	7.55%	11.37%
SPDR Materials Select Sector Fund ETF	True	True	1.13%	1.97%	13.75%	17.86%
SPDR Consumer Staples Select Sector Fund ETF	True	True	1.09%	0.81%	5.23%	7.1%
SPDR Technology Select Sector Fund ETF	True	True	0.74%	5.30%	11.41%	41.83%
SPDR Industrial Select Sector Fund ETF	True	True	0.62%	0.59%	15.03%	8.69%
SPDR Energy Select Sector Fund ETF	True	True	-0.58%	3.10%	26.54%	-36.88%

The Communications sector (XLC) is made up largely by Google (22%) and Facebook (21%), both of which have recently come under scrutiny by the FTC with lawsuits. However, the sector as a whole still looks bullish from a price perspective. In fact, Friday saw a nice pick up in new 3-month highs by 34.6% of the constituents and over 90% of the holdings are above the 200-day MA as price sits at the high-end of the consolidation that formed in December.

SPDR Communication Services Select Sector ETF - XLC (US) - 1 Day Line Chart - USD - No Layout

SPDR Communication Services Select Sector ETF - XLC (US) - 1 Day - USD & 200 Period Simple Moving Average of XLC & 50 Period Simple Moving Average of XLC



DAILY SENTIMENT INDEX



Market	% Bullish [▲]	5MA	History [📄]
VIX DSI	10	11.8	
US Dollar DSI	19	19.4	
Natural Gas DSI	38.00	34.60	
Palladium DSI	48.00	37.80	
Cocoa DSI	50.00	48.20	
Gold DSI	51.00	45.20	
Heating Oil DSI	55.00	68.00	
Crude Oil DSI	55.00	54.80	
5YR DSI	57.00	56.60	
Lumber DSI	63.00	74.60	
Coffee DSI	63.00	58.40	
Cattle DSI	64.00	63.60	
10Y DSI	67.00	63.20	
Copper DSI	71.00	77.20	
EuroDollar DSI	73.00	73.00	
Sugar DSI	74.00	65.40	
Orange Juice DSI	74.00	70.20	

Code	% Bullish [▲]	5MA	History [📄]
<input type="checkbox"/> Mexican Peso DSI	75.00	75.00	
<input type="checkbox"/> British Pound DSI	76.00	70.40	
<input type="checkbox"/> Silver DSI	77.00	77.80	
<input type="checkbox"/> Cotton DSI	77.00	75.80	
<input type="checkbox"/> Platinum DSI	78.00	78.60	
<input type="checkbox"/> CRB Index DSI	78.00	75.00	
<input type="checkbox"/> SPX DSI	80	77.80	
<input type="checkbox"/> Gasoline DSI	80	75.80	
<input type="checkbox"/> Lean Hog DSI	81	75.40	
<input type="checkbox"/> Euro DSI	81	84.4	
<input type="checkbox"/> Nikkei DSI	82	76.40	
<input type="checkbox"/> Swiss Franc DSI	83	82.6	
<input type="checkbox"/> Wheat DSI	84	81.6	
<input type="checkbox"/> New Zealand Dollar DSI	84	83	
<input type="checkbox"/> Nasdaq DSI	87	84	
<input type="checkbox"/> Australian Dollar DSI	87	80.2	
<input type="checkbox"/> Corn DSI	95	91.2	

Source: trade-futures.com

DAILY SENTIMENT INDEX

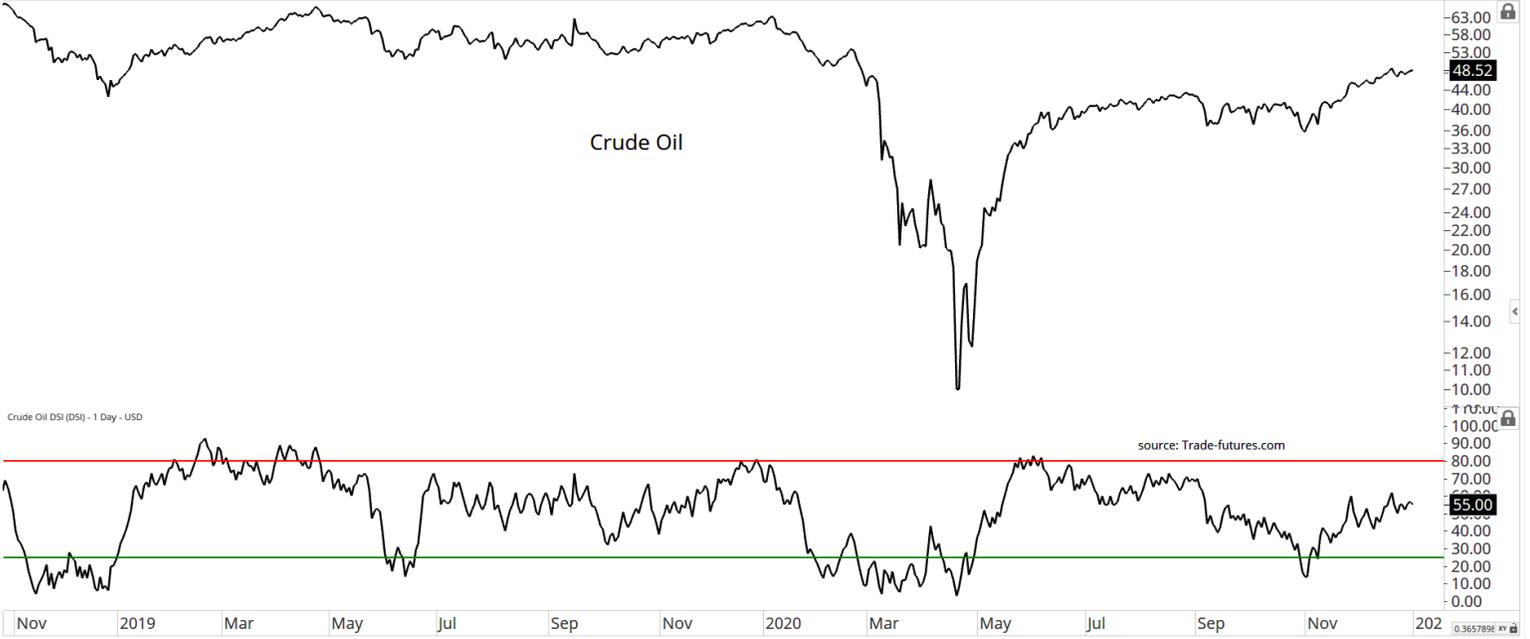


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Crude Oil Light Sweet NYMEX - OILSW (W) - 1 Day Line Chart - USD - No Layout



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DAILY SENTIMENT INDEX



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

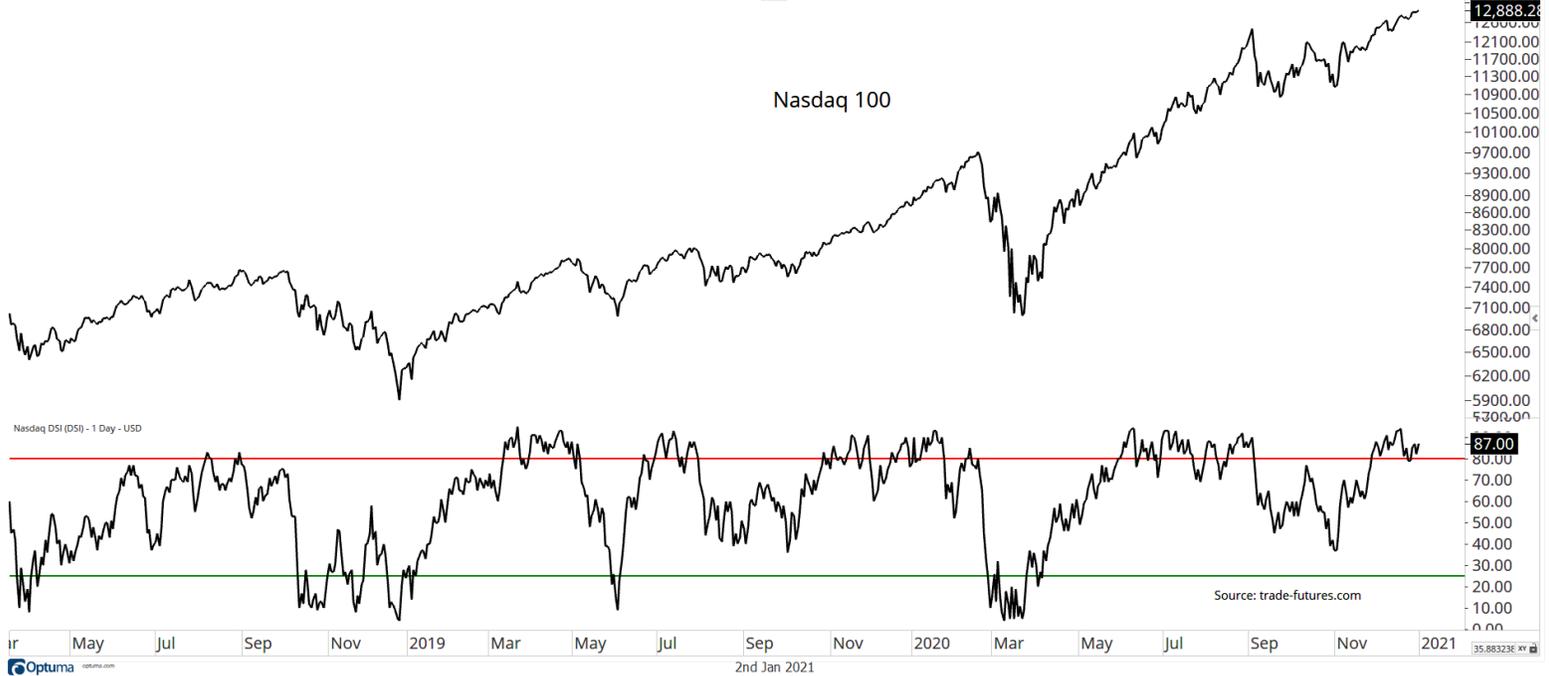


DAILY SENTIMENT INDEX



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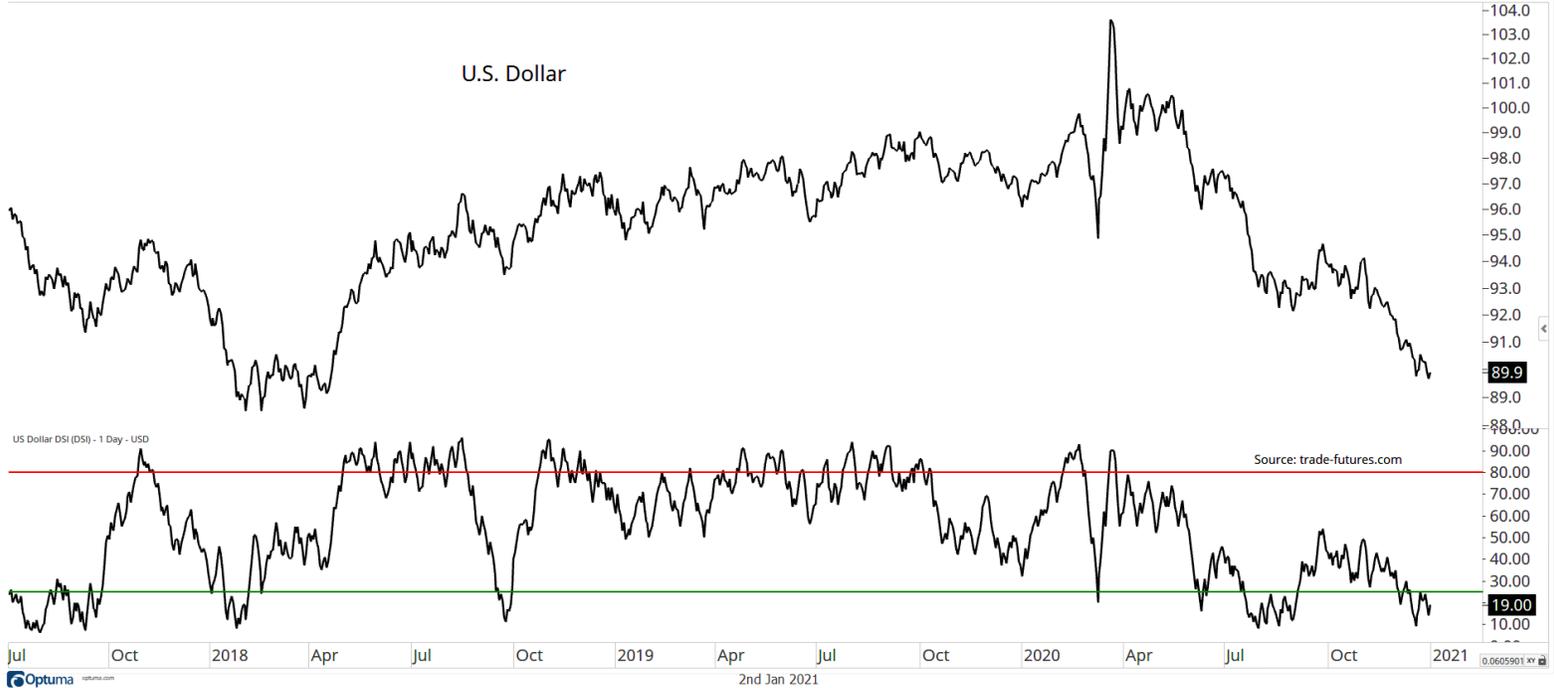
NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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



DAILY SENTIMENT INDEX

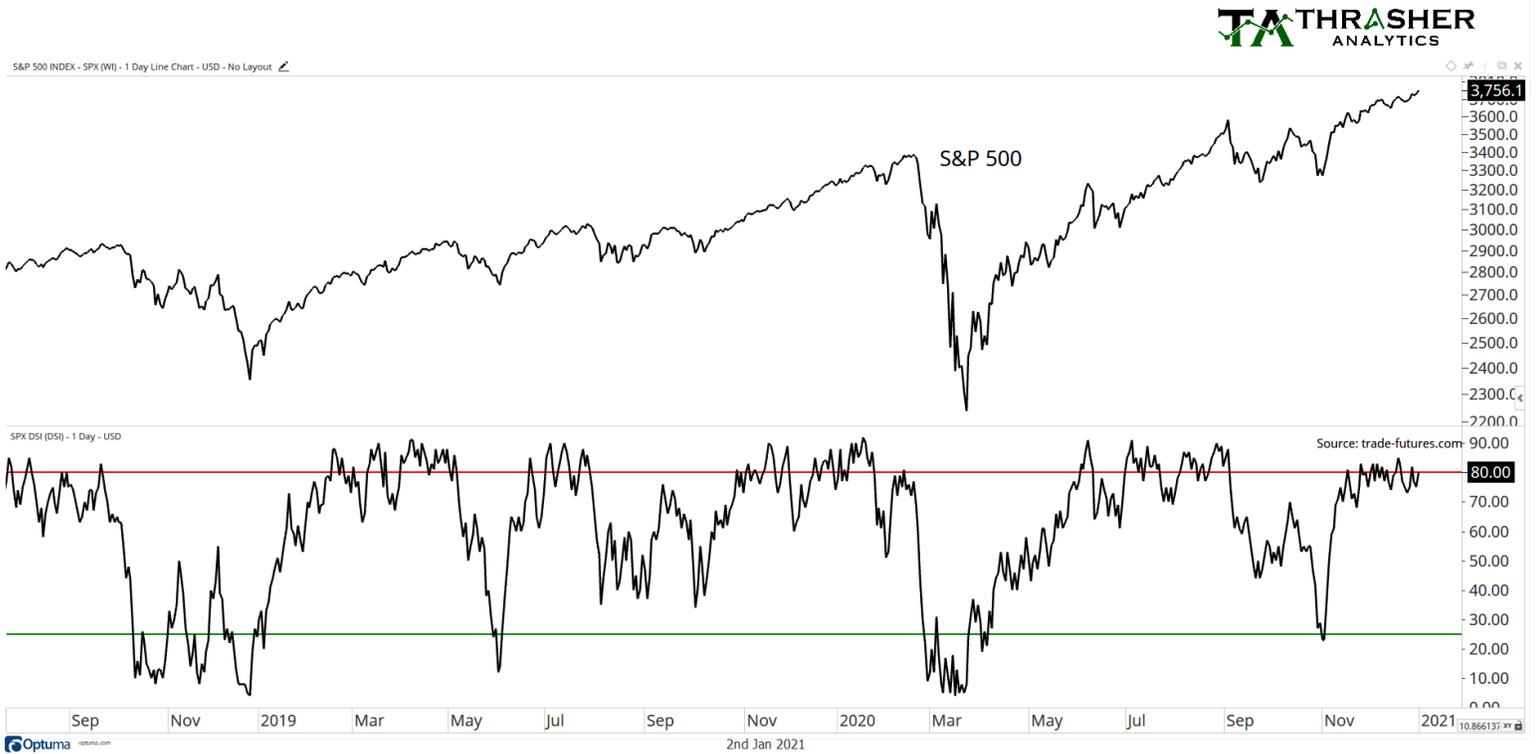


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CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout



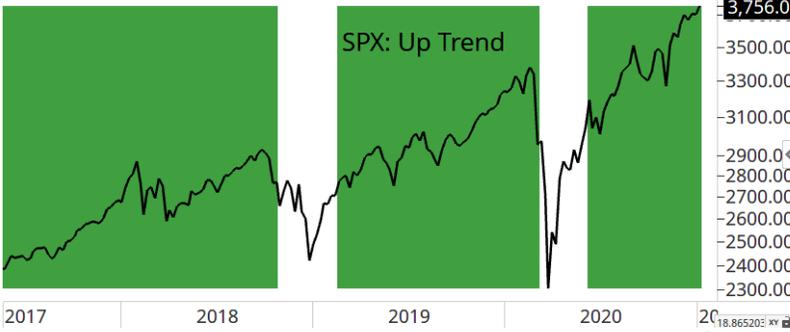
DAILY SENTIMENT INDEX



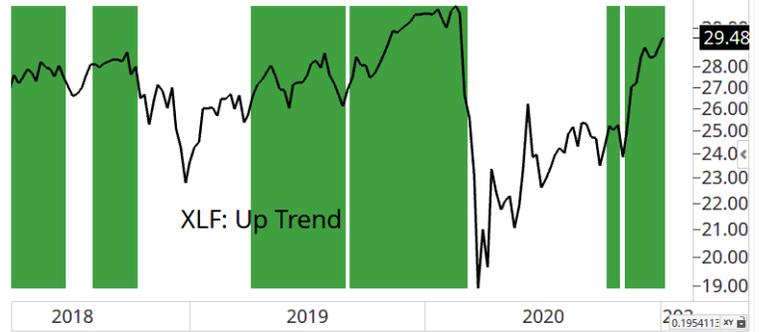
TREND MODELS



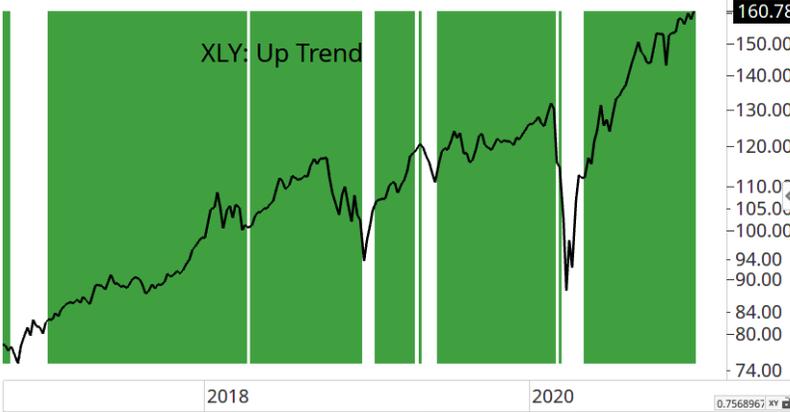
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout



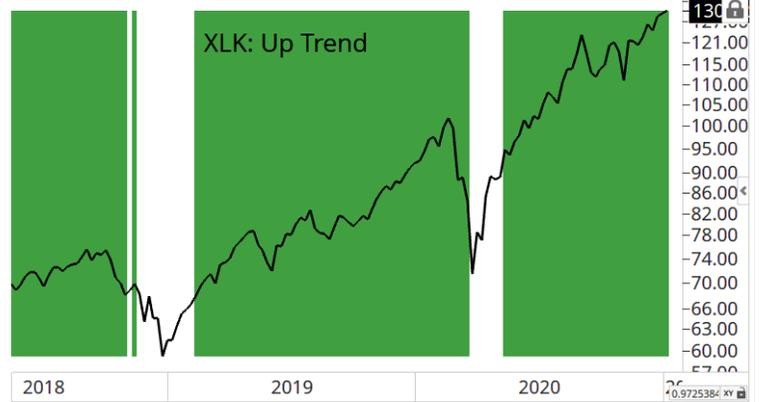
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



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



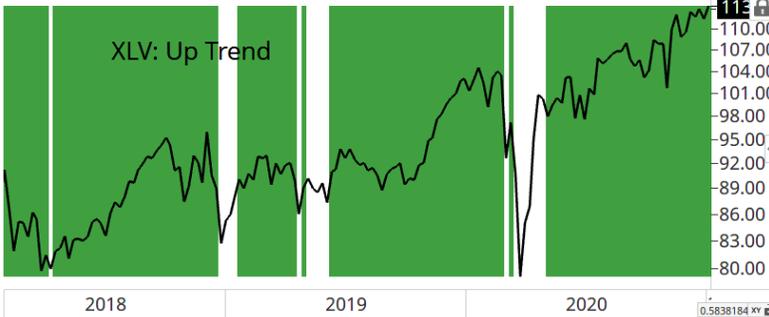
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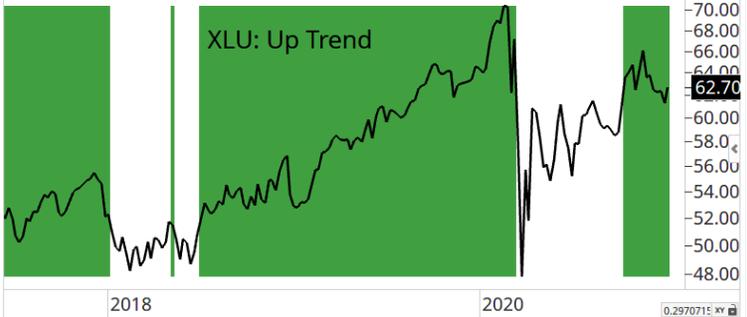
TREND MODELS



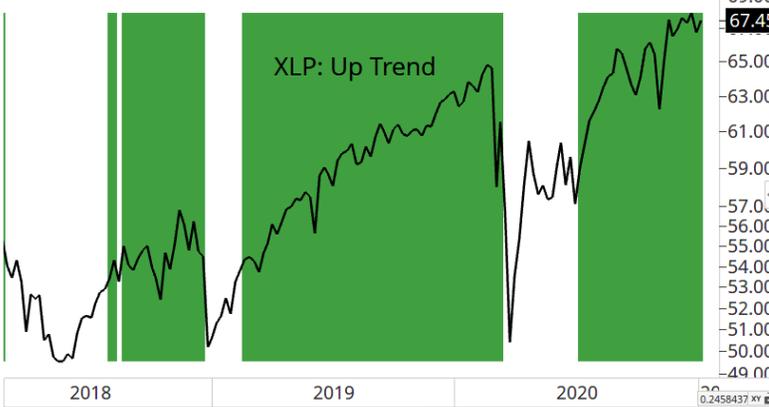
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout



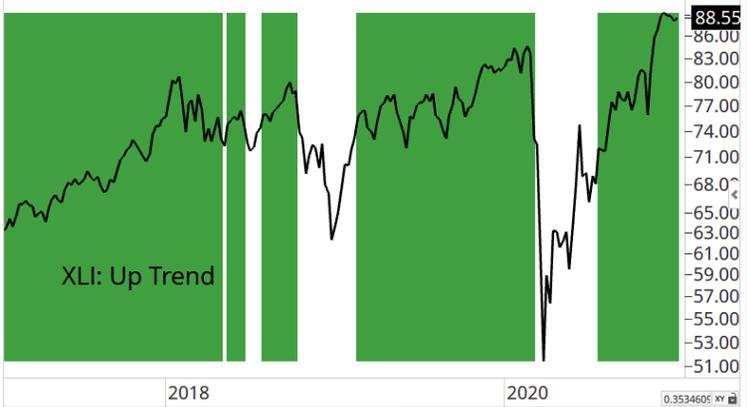
SPDR Utilities Select Sector Fund ETF - XLU (US) - 1 Week Line Chart - USD - No Layout



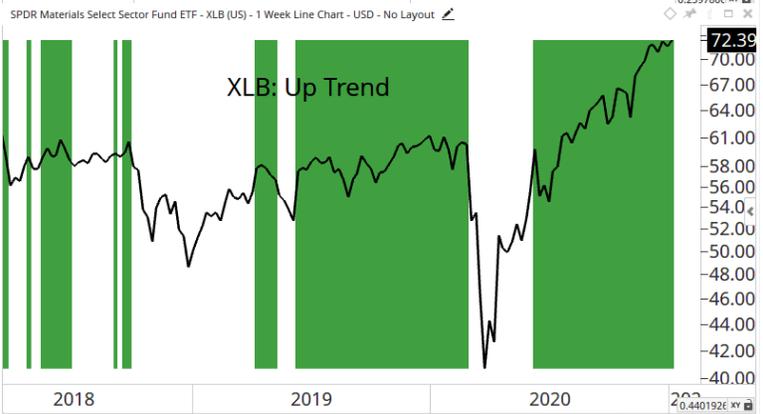
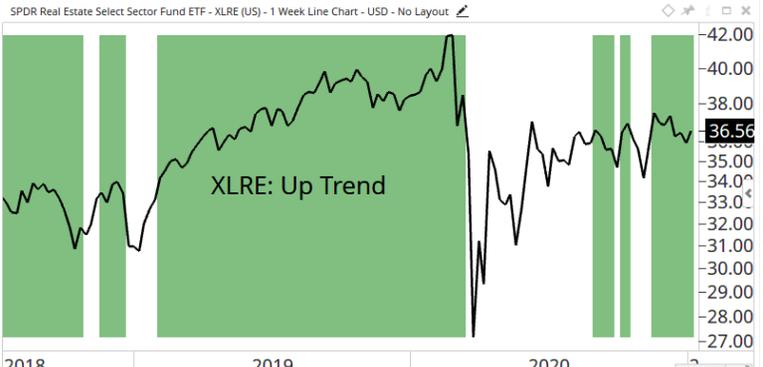
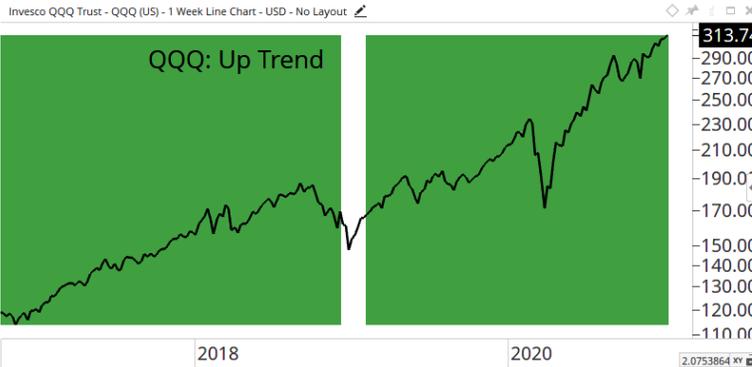
SPDR Consumer Staples Select Sector Fund ETF - XLP (US) - 1 Week Line Chart - USD - No Layout



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



TREND MODELS



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