THRASHER ANALYTICS

JANUARY 10, 2021

WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish	Bearish
• 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.	• Equity sentiment is extremely high. • Volatility dispersion is narrowing. • Treasury Yield stretched relative to 200-day MA. • Tesla gone parabolic • bitcoin momentum weakening. • Equity-bond sentiment spread widening

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Market Dashboard

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	88%	80%
Nasdaq 100	92%	84%
Nikkei	93%	84%
VIX	8%	12%
10yr Treasury	45%	57%
5yr Treasury	49%	56%
CRB Index	80%	76%
Gold	55%	63%
U.S. Dollar	24%	21%

**Green<25% Red>80%*

source: trade-futures.com

A Few Thoughts

One of the goals of the Thrasher Analytics letters is to identify market risks and opportunities and then see if the market begins to respond to them. I liken this to identifying storm clouds and knowing when to carry an umbrella and when one isn't necessary. When we believe it will rain we don't walk around with the open umbrella over our heads all day, but when it begins to rain, confirming the original thesis, we are glad we had the umbrella. Below are a few thoughts on several broad topics I'd like to share...

The Fed

Fed interest rate guidance can be defined as 'outcome based' meaning it's based on incoming data vs a preset schedule. The Fed has made it clear they are comfortable with inflation running hot. They didn't define explicitly what that means, with a few speeches suggesting several months of 2-2.5% inflation. The market has snuggled up to the Fed's warm embrace, hearing the sweet words of Powell that he'll be its ultimate protector. He now can co-parent with his beloved predecessor who now takes over at the Treasury. It's become well accepted that inflation is coming but there's still a strong belief the Fed will not take any serious action for years to come. I'm not here to argue Fed policy or play "what will Powell do" but any public comment or tweet sent that's remotely cautious on this market is met by a multitude of "but the fed" or "printing press will save the day!" Most of these respondents have no idea how the Fed or QE works but they've made up their minds the Fed will never remove the proverbial punch bowl and the drum beet of Dave Portnoy of "stocks never go down" has been carved into stone as canon. Many arguments towards higher share prices seem to simply revolve around the Fed providing a safety net for eternity.

Justification

Fundamentals no longer support this market run. Price-to-Earnings Ratios are near dot-com levels. But again, I'm not here to pretend to be a CFA or that fundamentals drive the market, they don't – supply and demand do. But when we reach the point where Elon Musk is the wealthiest man in the world due to the stock performance of his company rising to the 5th largest in the S&P 500. In 2020 Tesla reported 499,500 delivered vehicles, less than 2% of the total U.S. automotive market. This echoes the sentiment of the dot-com era in the justification of outrageous prices. More in Tesla later in the letter but I use it as an example of the market reaching to near point of shoulder dislocation to justify some of the price action being displayed today. 20 of the last 63 trading days saw Tesla rise at least 3% and shares of the automaker are now 150% of the 200-day MA.

A Few Thoughts

Bitcoin

I think bitcoin and Tesla are both bubbles that are inflating. The bigger concern is Tesla now that it's in the top 5 of the S&P 500 and the 2nd largest in the Consumer Discretionary Sector. Whipsaws in Tesla previously were shielded from having a major impact on the indices, that's no longer the case. Tesla now matters. Bitcoin is very reminiscent of the tulip bubble, in the sense that people aren't buying bitcoin because of its utility, you can't (yet) use crypto buy a Big Mac or fill up your gas tank.

Bitcoin is largely purchased for the believe it can be sold to someone else at a higher price. Tulips were bought and sold for the same reason. Initially they were traded in a small market of interested parties until that market attracted a larger speculative audience that had more profit motives than by anthophiles (lover of flowers). The tulip bubble wasn't as large or impactful as it's made out to be, but the parabolic rise in price and ultimate collapse did occur and fortunes were made and lost. The ultimate utility of the bulbs was set aside, which I believe is the same as we have now with Bitcoin, the market has expanded beyond "true crypto believers." This doesn't mean it must collapse today or next week. But it's important to recognize that while we'll see attempts at justifying its rise, this story has been seen before – ironically by bitcoin itself in its prior 80+% declines the faux currency has experienced. I remain long-term constructive/bullish on the prospects of crypto currencies…. That doesn't mean we won't see boom and bust cycles in their discovery phase. More on bitcoin later in the letter.

No "Reset"

Sentiment is extremely high. The Nasdaq 100, S&P 500, and Nikkei all have Daily Sentiment Index readings above 85% and all have 5-day average readings at or above 80% bullish. Stocks have had an extremely strong run, exceeding the advance off the 2002 and 2009 lows in terms of individual stock performance. I think in ten years when we look back at 2020 it will not be classified as a 'resetting' bear market like 2002 and 2009. Instead, it will be a left-tail pandemic-induced crash that took place within a larger up trend. The best example is probably 1998, Long-Term Capital Management and the crisis in the currency market caused a swift correction, which was quickly recovered, and stocks moved higher. The '98 correction didn't "reset" the market. The ultimate peak occurred a couple years later. No market repeats the same pattern, this was the biggest lesson I personally learned in 2020 while expecting a test of the initial March low. I wrote extensively in this letter of the criteria I was looking for to dismiss the probably of a double-bottom, which we eventually got a few months later. While we may not follow the course of the late 90s, the justification of price right now very much resembles that period.

A Few Thoughts

Today

Right now, the breadth data remains extremely support of the underlying up trend, nearly all stocks are above the long-term average and the list of new highs continues to expand.

Volatility remains somewhat elevated, not falling below 20 as many were looking for, but dispersion has not reached concerning levels and the VRT 2.0 is not calling for a rise in risk for a spike.

The S&P 500 remains well above a 15-day low and the Market Health Report is firmly in positive territory, so no concern there as of yet.

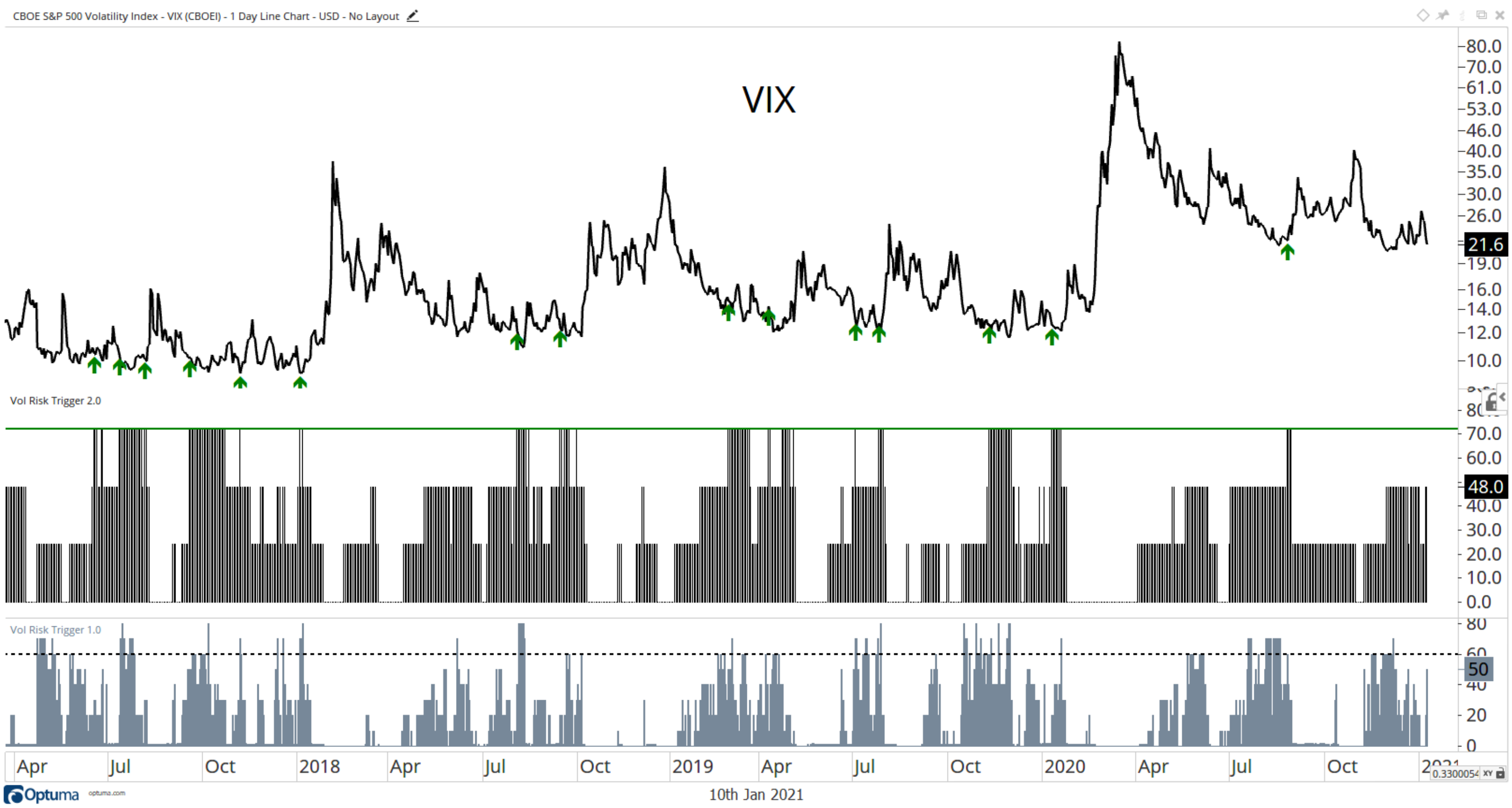
It's likely we see some periods of heightened volatility with 5-10% corrections. That's normal. That's to be expected. I'll do my best to help identify some of these periods with the VRT and Market Health Report.

Short-term, the continued chase of call options has forced dealers to remain hedging these bets with buying the underlying stocks, adding additional fuel to the up trend in equities. There seems to be little to no interest in put ownership, so the only hedging dealers are required to do to offset the daily appetite of option traders is purchasing equities. This matters because this week is option expiration (opex) and with the hyped up focus on the option market, opex has in the past being a potential turning point for trends. This doesn't mean it *HAS* to be a turning point, I simply am pointing to its potential, we'll look for confirming data if it presents itself. As of right now, the bulls remain in the driver seat.

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 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 moved down last week but still above the December low.



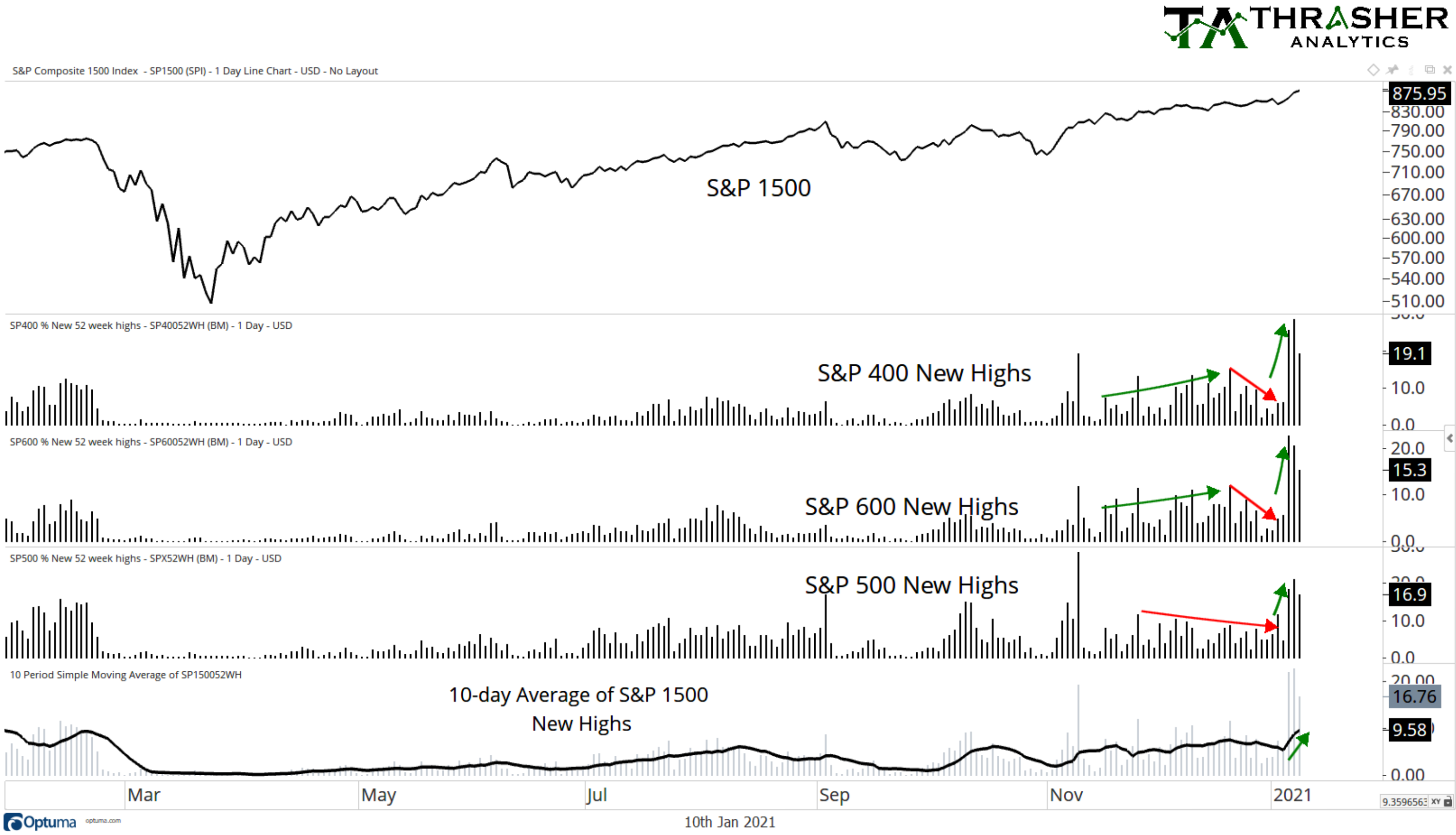
Equities - S&P 500 Daily

Equities continued higher last week, finishing Friday at a new new all-time high. The VWAP off the November low once again acted as support on the dip to start the week and the new year with buyers rushing in to buy the tiny drop. I've added the year-to-date VWAP (in purple) as we often see this type of level act as potential support when tested so I want to keep track of how price moves through 2021-only levels.

Momentum has risen above 70 for the time since August and remains in a bullish range with no defined divergences. Offense sectors continue to lead with the ratio of offense vs defense sectors hitting a new high last week. Risk appetite also turned higher after seeing some brief weakness in December. The S&P 500 finished the week 17% above its 200-day MA, something that's yet to be a concern for traders in recent months.

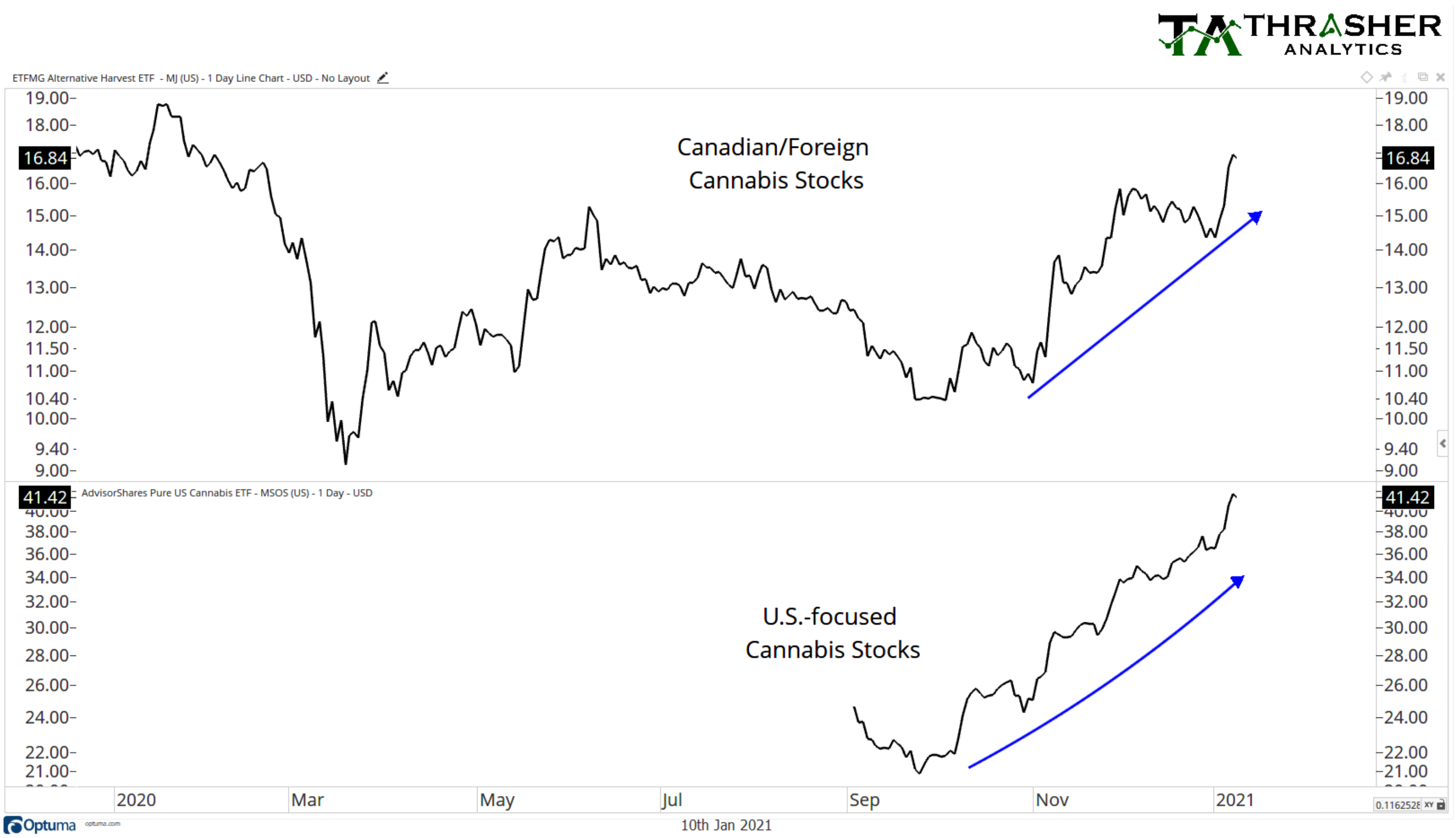
Equities - New Highs

What did it take to get a new surge in new highs? probably me referencing the lack there of in last weeks letter! ha! Alas, we saw a large pick up in new highs across asset size to kick off the new year. The breadth continues to remain supportive of the market up trend.



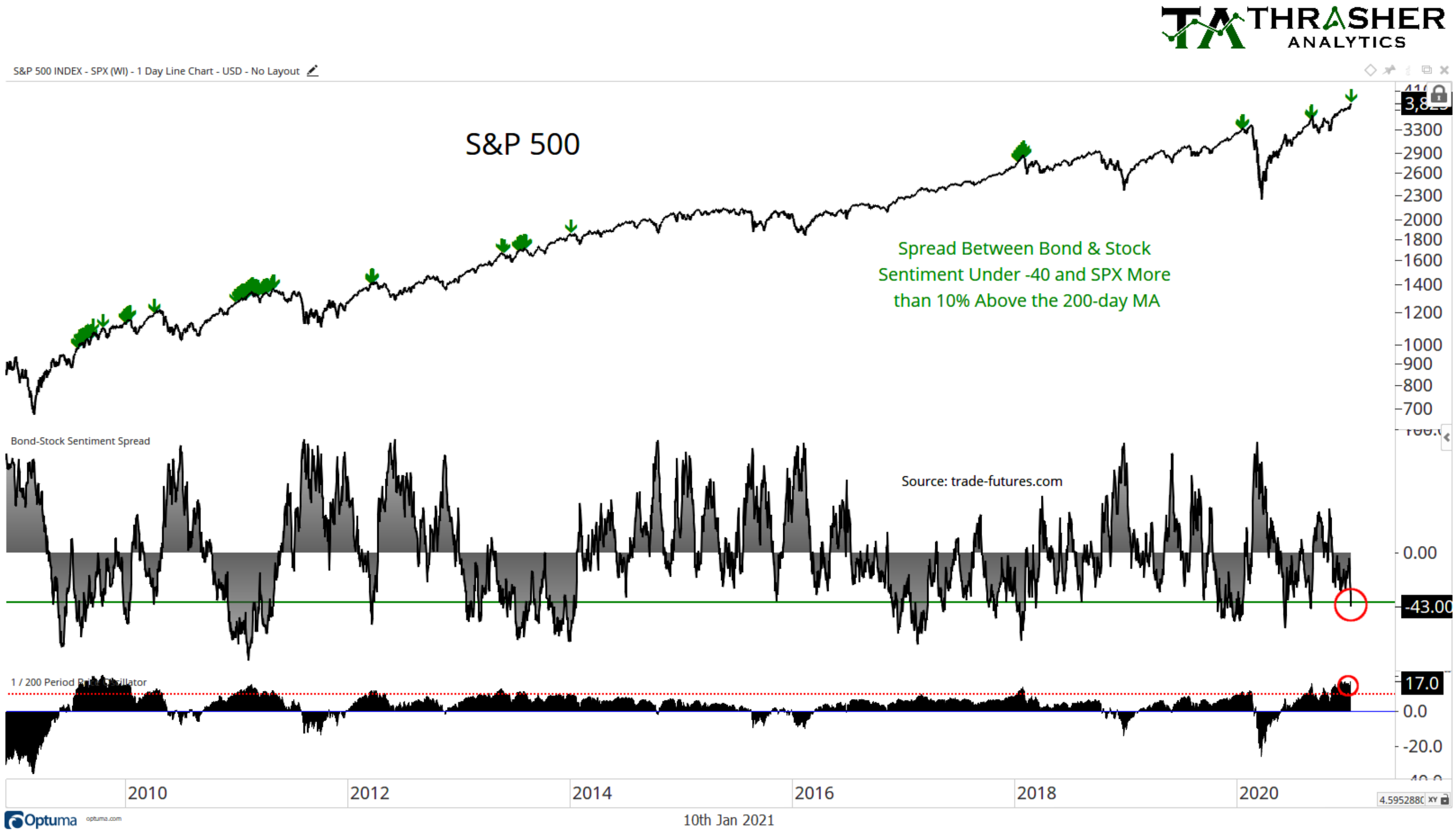
Equities - Cannabis

I wrote several back in the 4th quarter of 2020 that I believed cannabis would be a major theme for the new year, driven by the catalyst of more states legalization and a potential for less restrictive federal policies. Since then, cannabis stocks have ripped higher with both Canadian and U.S. stocks seeing large growth as shown below from two of the industry ETFs. Several stocks in this industry have began raising their cash pile through share offerings, which can put short-term pressure on the stocks but these cash raises are more in preparation of industry growth than a need for survival like it was several years ago ahead of the large decline in cannabis names in 2018. I continue to find this space of interest and the catalysts for growth continue to pile on with more states announcing plans to address cannabis legalization in 2021, recognizing the attractive tax revenue and growing public support.



Equities - Sentiment Spread

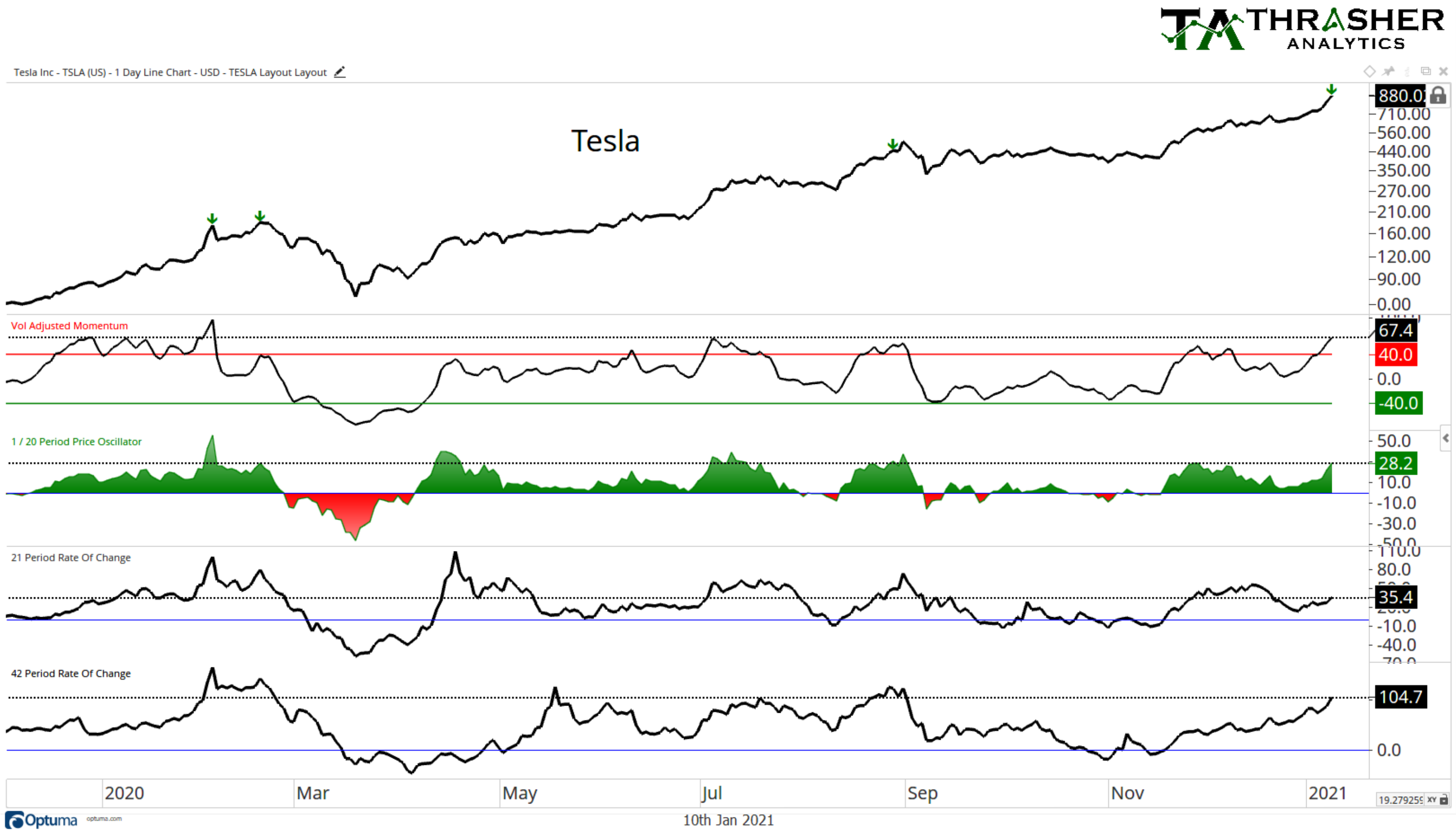
The spread between stocks and bonds Daily Sentiment Index scores has widened. This is unlikely a huge surprise as stocks have been rising nonstock and bonds recently have weakened as interest rates strengthened. With these two opposing trends, the spread is the widest since September. Below I've marked green arrows when the spread has been under 40 points, meaning 10yr Treasury sentiment is 40+% lower than the S&P 500 and the S&P 500 is trading at least 10% above its 200-day moving average, something it's been doing for a while now. This period of froth can persist for several days or weeks, as we saw in January 2018 or 2011.



Equities - Tesla

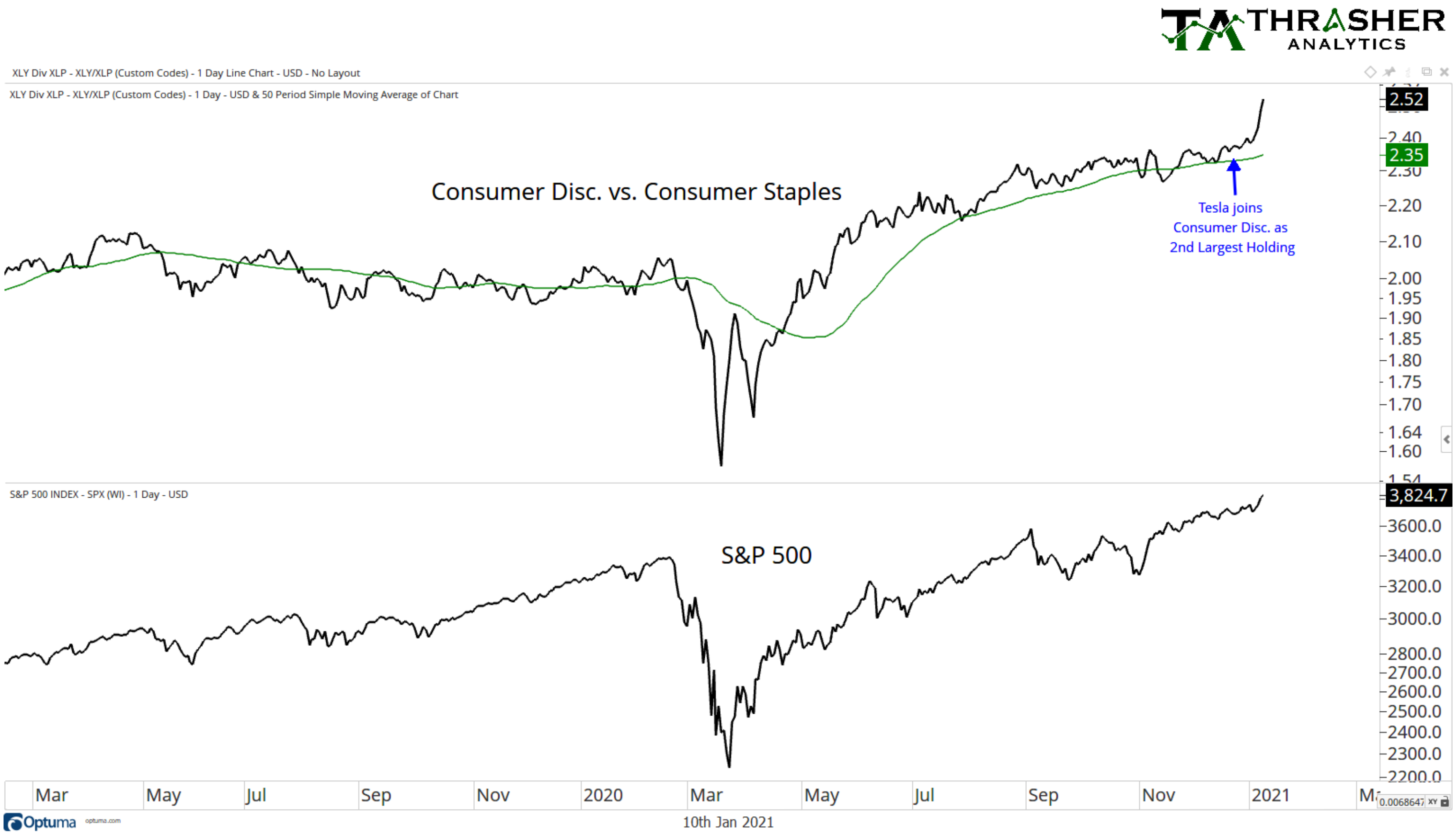
As I mentioned earlier, Tesla has gone parabolic to unjustifiable levels. I've written about Tesla before, calling the top in February of last year in this letter and then making it public on my personal blog: "Has Tesla Peaked? A Historical Chart Study" Tesla fell 58% after the February call and then met the same criteria I laid out once again in September before dropping 28%. The latest rise in Tesla has been assisted with bank analysts raising price targets but the reasons they now use are laughable. Christopher Bloomstran highlight one such price raise by Morgan Stanley which attributes $37/share of the $810 target because of Tesla's insurance business. Which Bloomstran notes implies a value of $40 billion just behind the third largest auto insurance, Progressive which has a market cap of $55billion!

Now to the chart. Tesla is 28% above its 20-day MA and 150% above the 200-day MA. its risen 104% over the last 2 months and 35% over the last month. All while seeing two back-to-back gap opens above the prior day's high. Putting all this together, since 2009 there's been 45 stocks in the S&P 500 that met this criteria, 77% of the time they were lower 2 months later with a median return of -21%. Throw in the Volatility Adjusted Momentum rising to the highest level since my last call on Tesla, I think the risk reward for this vogue stock is poor.
As I said before, Tesla now being the 5th largest weight in the SPX and 2nd largest in XLY make its price moves important. It no longer is just the bearded lady freak show on the side stage, it's taken center spotlight with the ability to be broad market moving.



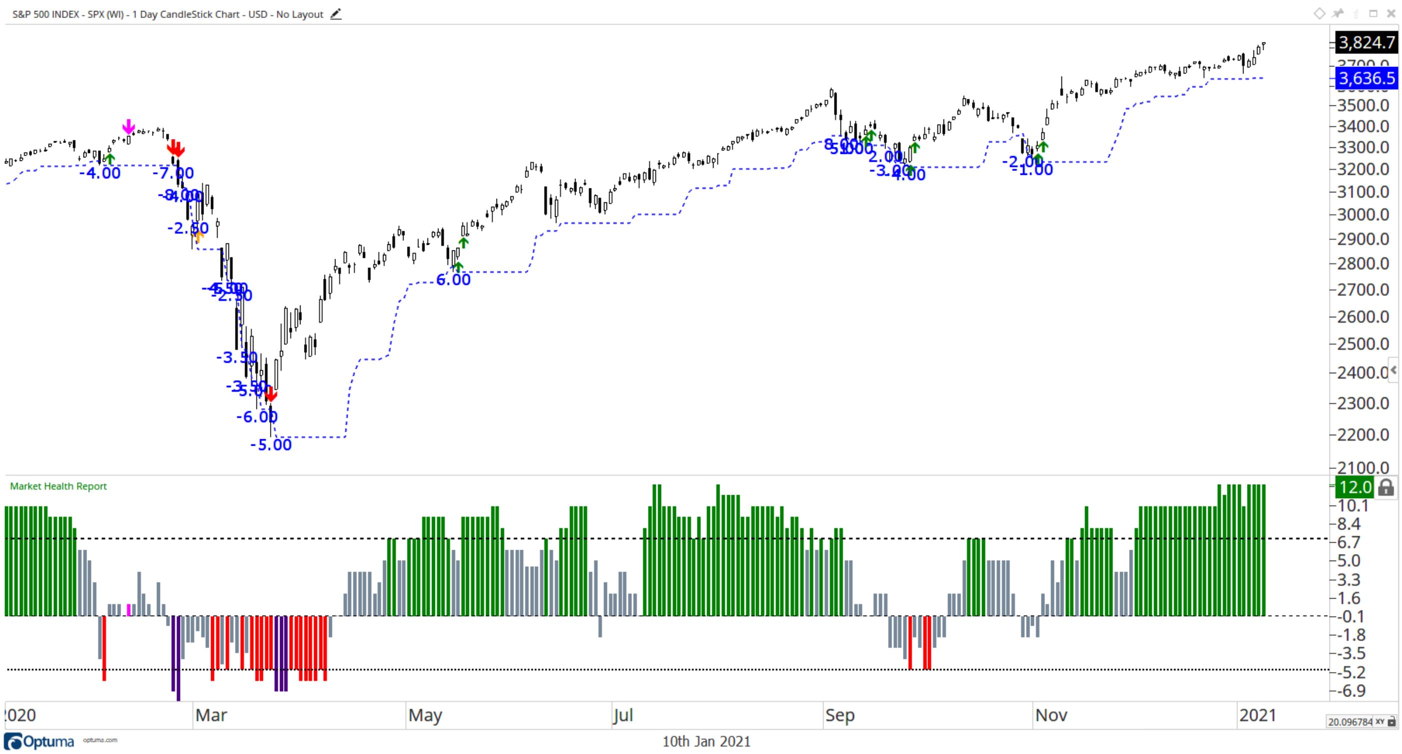
Equities - Disc. vs. Staples

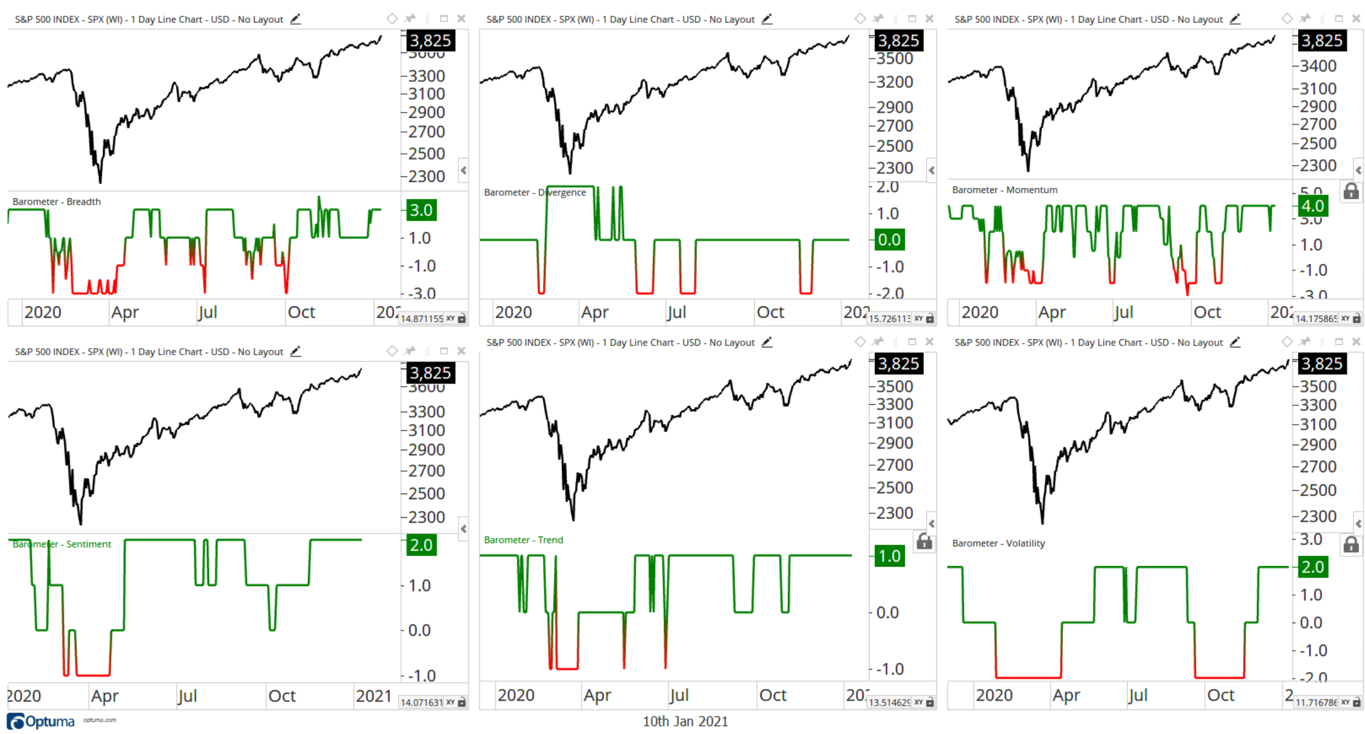
The ratio between Consumer Discretionary (XLY) vs. Consumer Staples (XLP) is one of my favorite ways to evaluating market risk appetite. XLY leading XLP is a positive sign for the broad market as investors show preference of the more economically-sensitive corners of the financial market. This ratio has continued higher with the broad market, confirming the latest new highs. But now it looks like its been turbo charged now that Tesla has been introduced as the second largest holding in XLY, just behind Amazon.



Market Health Report

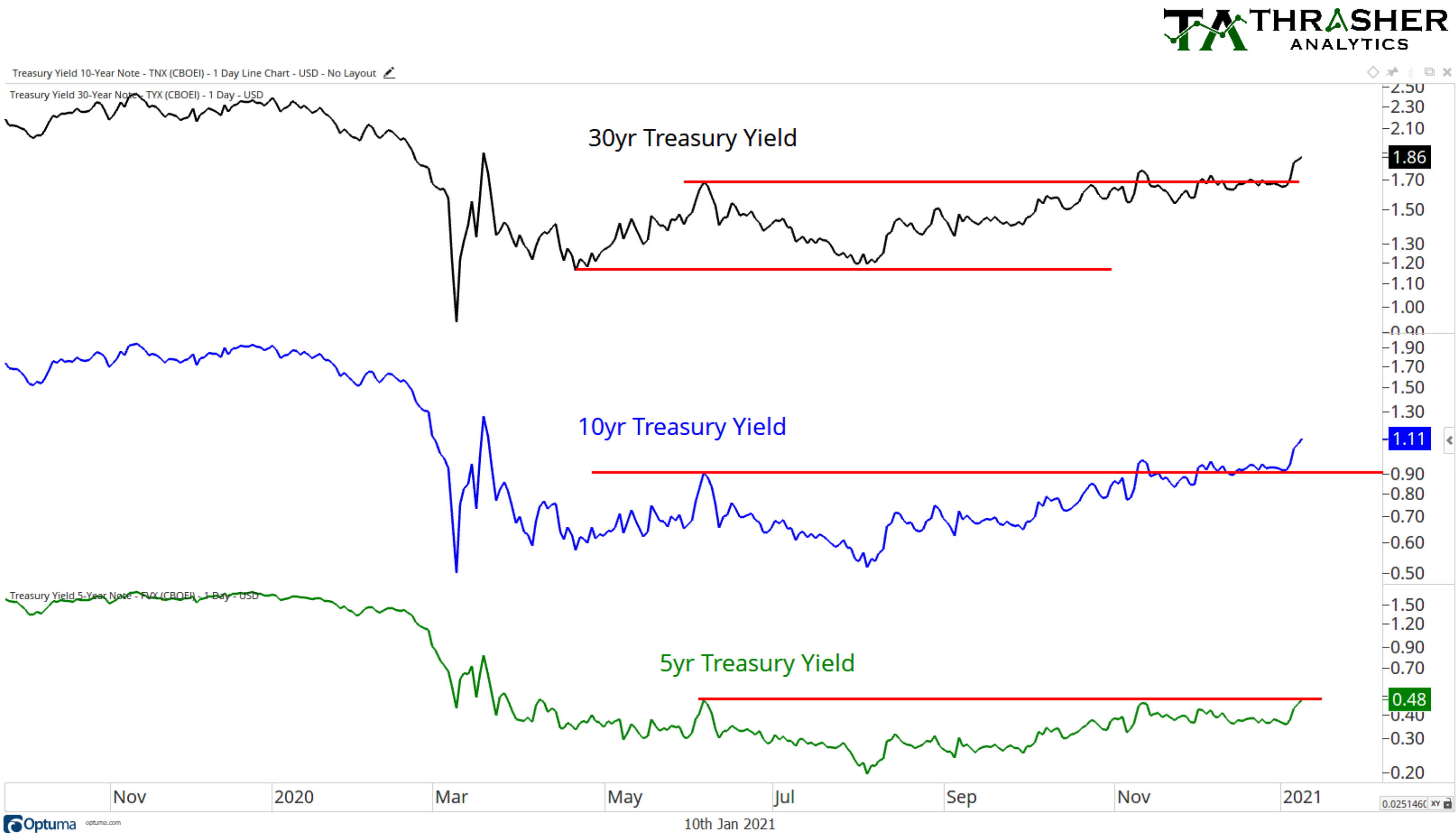
The Market Health Report remains supportive of the up trend in equities, sitting at a strong score of 12 and the S&P 500 well off its 15-day low.





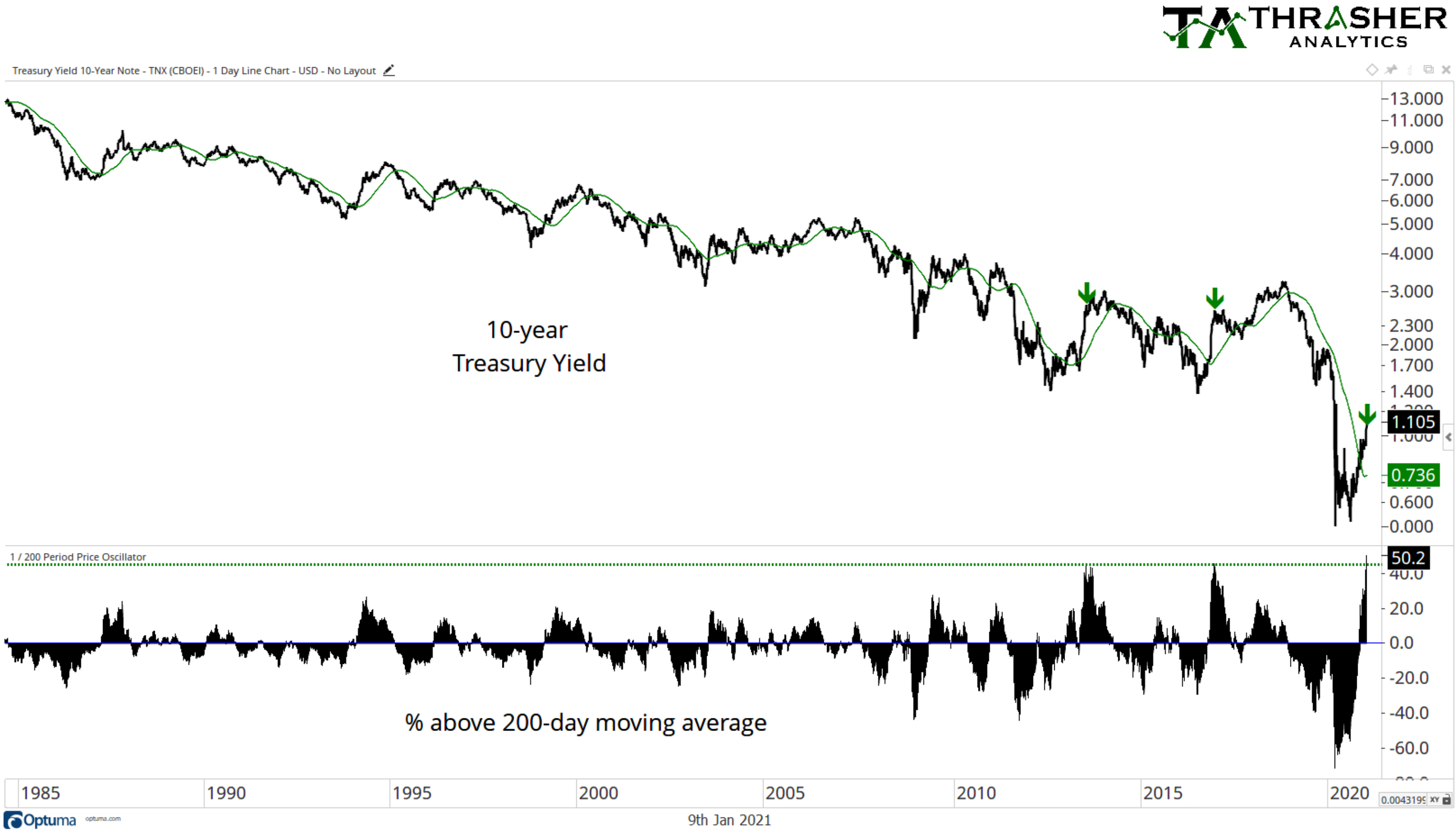
Fixed Income - Treasury Yield

Last week I wrote of the potential for Treasury Yields to decline, continuing under the prior highs. Instead we saw a step lower in bond prices as yields strengthened. The 5yr is the last of the major three to breakout, we'll see if this week it begins to follow the 10yr and 30yr higher.



Fixed Income - Treasury Yield

This chart surprised me. It shows the distance of the 10yr Yield above its 200-day moving average. Since the 1970s, there's only been three times TNX has risen 50+% above its long-term moving average, all occurring in the last couple of years and most recently last week. While the sample size is small, the last two occurrences saw yield slide higher a little longer before resuming its long-term trend lower. Will the third time repeat? We'll see.



Commodity - Gold

Gold prices weakened last week confirming the 'overbought' status of the Volatility Adjusted Momentum indicator I referenced in my last write up for Gold. It's now fallen to the 200-day moving average which was an area of support on the last dip lower in November. The sentiment towards gold is pretty low with traders preferring digital gold (bitcoin) instead of physical gold (actual... gold). If inflation does start to rise and if volatility returns to crypto then I could see investors rushing back to its ole' faithful of the shiny metal, sending it back above the 50-day moving average and potentially breakout above $1960.

Crypto - Bitcoin

What a move! Bitcoin has more than doubled over the last month. After breaking above $20,000 it saw a slight dip and consolidation which now know was it refueling for the next flight higher just in time to ring in the new year at $40,000. BTC is obviously over-extended, its 176% above its 200-day MA, more than at the 2019 peak but not quite to the 2017 peak of 278% above the 200-MA. Volatility Adjusted Momentum is the highest its been since late-2017 and has recently begun to put in a lower high (seen in the right chart). The 10-day moving average has helped define the trend these last couple of weeks so that's where I'm keeping an eye. Trying to call a top in bitcoin has been a failed endeavor but a break of the 10-day MA with the weakening momentum may scare some new entrants and send them cashing in their chips for greenbacks.

Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	9.29%	2.86%	32.37%	-30.63%
SPDR Materials Select Sector Fund ETF	True	True	5.69%	6.69%	15.92%	28.37%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	4.98%	7.28%	11.19%	33.58%
SPDR Financial Select Sector Fund ETF	True	True	4.88%	7.47%	22.7%	0.62%
SPDR Health Care Select Sector Fund ETF	True	True	3.48%	4.16%	9.31%	14.72%
SPDR Industrial Select Sector Fund ETF	True	True	1.2%	0.45%	11.44%	7.98%
SPDR Technology Select Sector Fund ETF	True	True	0.57%	3.11%	10.47%	39.84%
SPDR Communication Services Select Sector ETF	True	True	0.01%	0.28%	12.54%	22.51%
SPDR Utilities Select Sector Fund ETF	False	True	-0.59%	-0.38%	-1.83%	-2.43%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.82%	-1.24%	2.56%	7.45%
SPDR Real Estate Select Sector Fund ETF	False	True	-2.46%	-3.07%	-3.7%	-6.84%

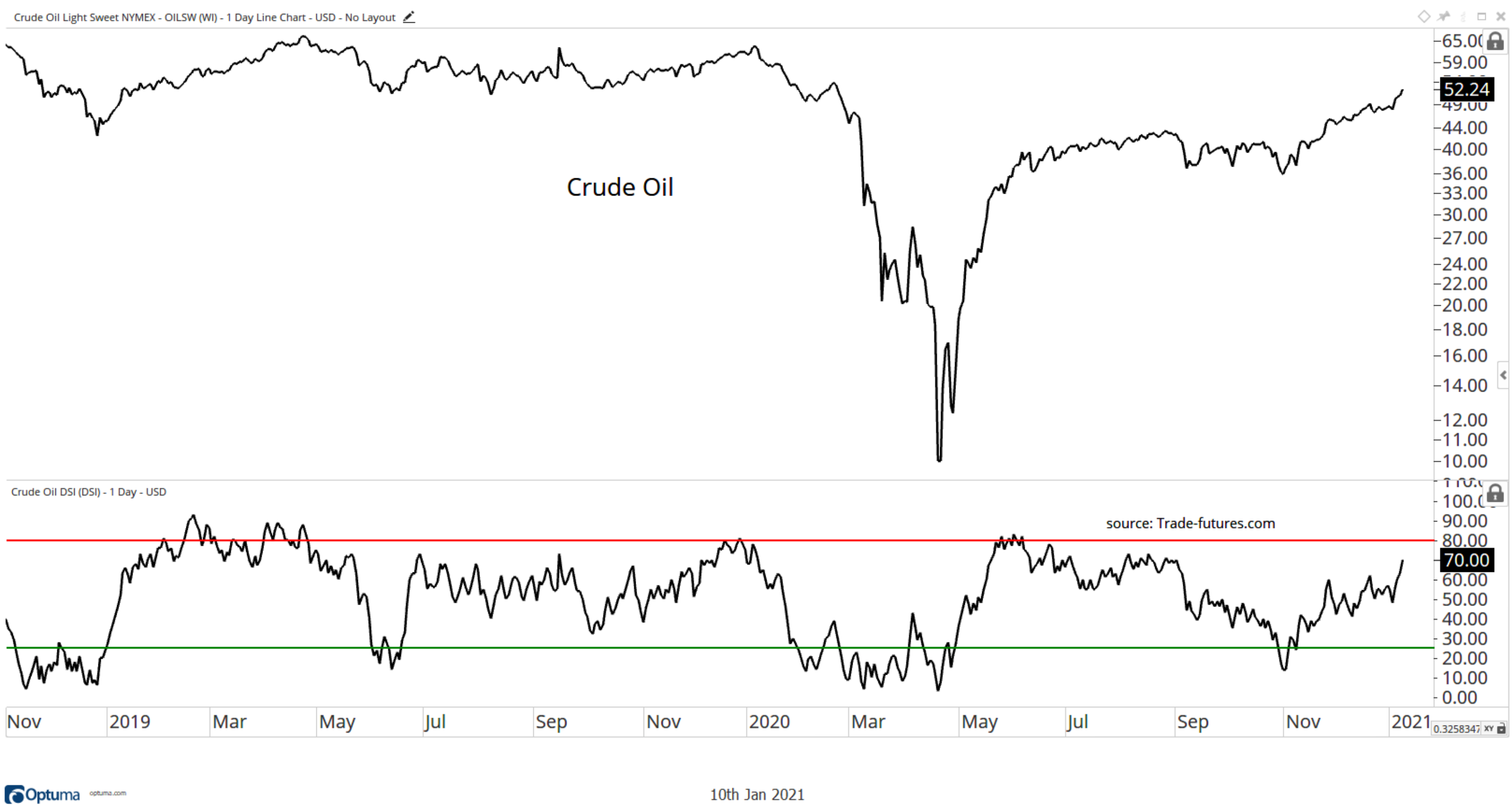
Daily Sentiment Index

Market	% Bullish	5MA	History
VIX DSI	8	12	
US Dollar DSI	24	20.6	
Palladium DSI	29.00	29.60	
Cocoa DSI	32.00	36.20	
10Y DSI	45.00	56.80	
Coffee DSI	46.00	47.40	
Natural Gas DSI	47.00	47.00	
5YR DSI	49.00	55.80	
Lumber DSI	50.00	53.40	
Gold DSI	55.00	62.60	
Cattle DSI	61.00	60.80	
Platinum DSI	66.00	72.80	
Lean Hog DSI	66.00	73.00	
Heating Oil DSI	69.00	59.80	
EuroDollar DSI	70.00	71.60	
Crude Oil DSI	70.00	59.40	
Orange Juice DSI	71.00	71.40	

Code	% Bullish	5MA	History
British Pound DSI	71.00	72.60	
Wheat DSI	72.00	80	
Euro DSI	72.00	80.2	
Sugar DSI	73.00	78.40	
Swiss Franc DSI	75.00	82	
Mexican Peso DSI	75.00	74.80	
Silver DSI	76.00	84.4	
Cotton DSI	76.00	80.4	
CRB Index DSI	80	76.40	
New Zealand Dollar DSI	82	85.2	
Australian Dollar DSI	83	85.6	
Gasoline DSI	85	79.20	
Copper DSI	87	87.8	
SPX DSI	88	80.2	
Corn DSI	88	87.8	
Nasdaq DSI	92	84.2	
Nikkei DSI	93	84	

Source: trade-futures.com


10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
136.66
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
45.00
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Optuma
10th Jan 2021


Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
52.24
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
70.00
Nov
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2020
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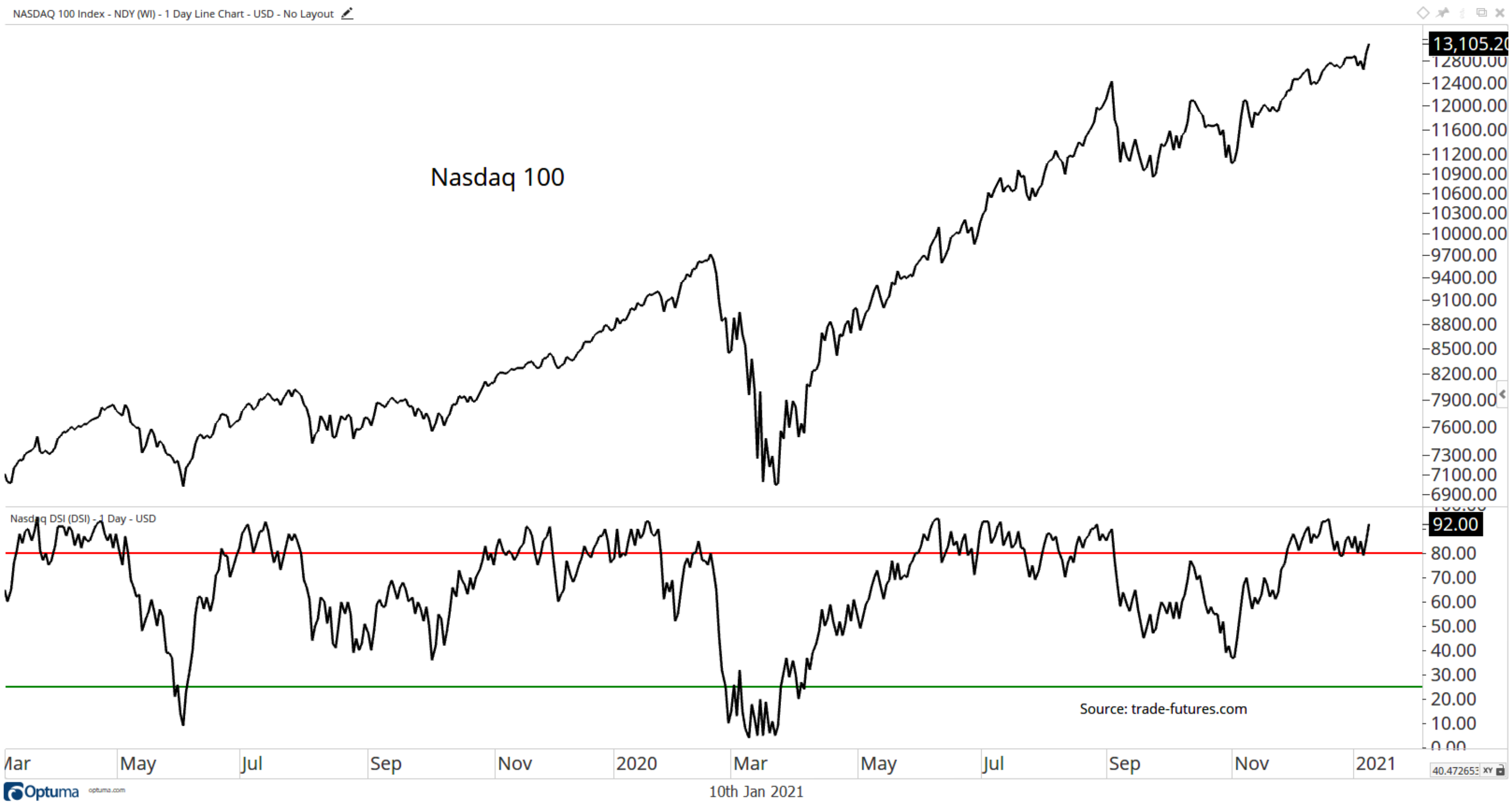
2021
Optuma
10th Jan 2021

Daily Sentiment Index


NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
13,105.20
12800.00
12400.00
12000.00
11600.00
11200.00
10900.00
10600.00
10300.00
10000.00
9700.00
9400.00
9100.00
8800.00
8500.00
8200.00
7900.00
7600.00
7300.00
7100.00
6900.00
Nasdaq DSI (DSI) - 1 Day - USD
92.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
Source: trade-futures.com
Mar
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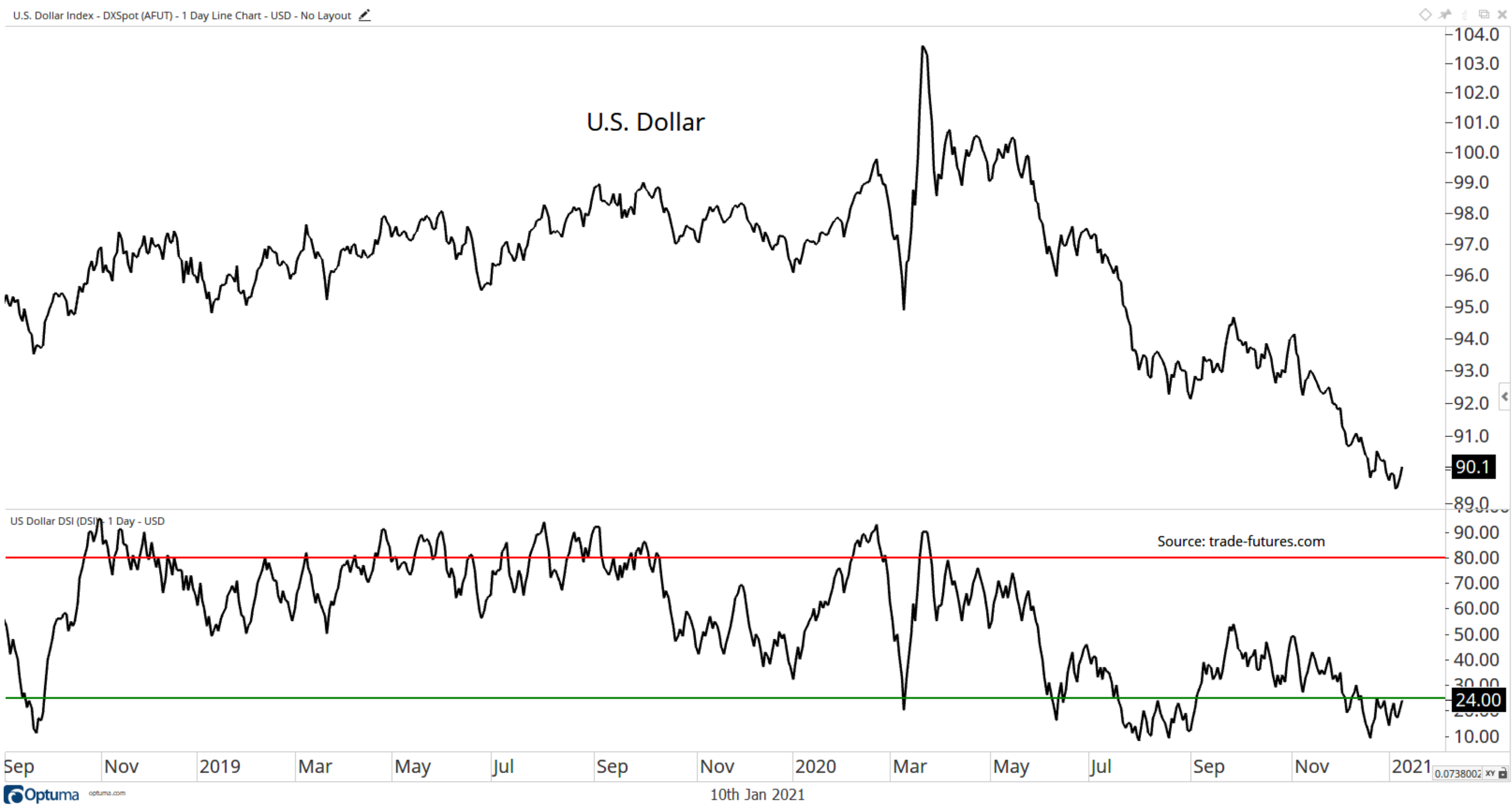
Optuma
10th Jan 2021

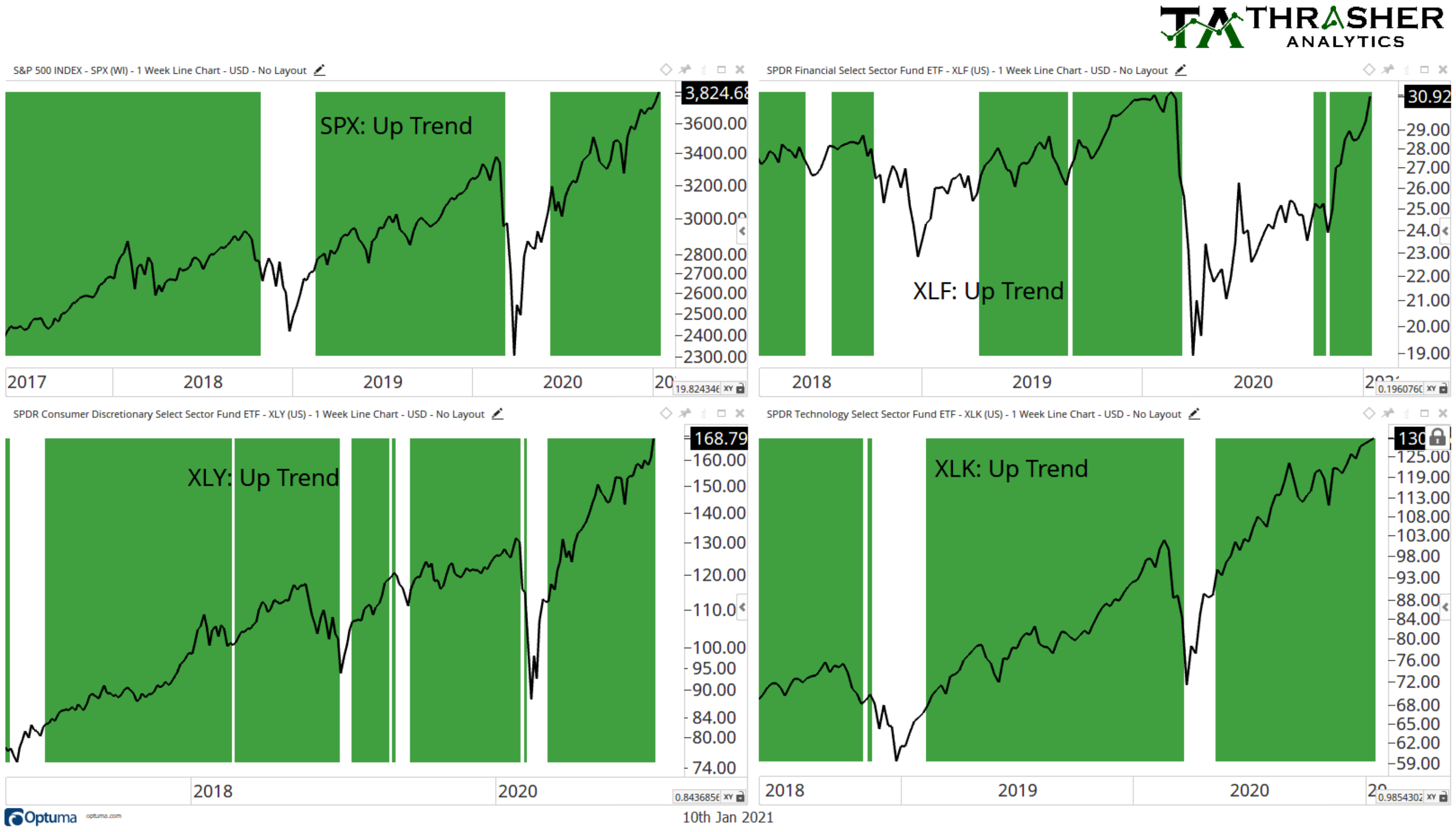
Daily Sentiment Index

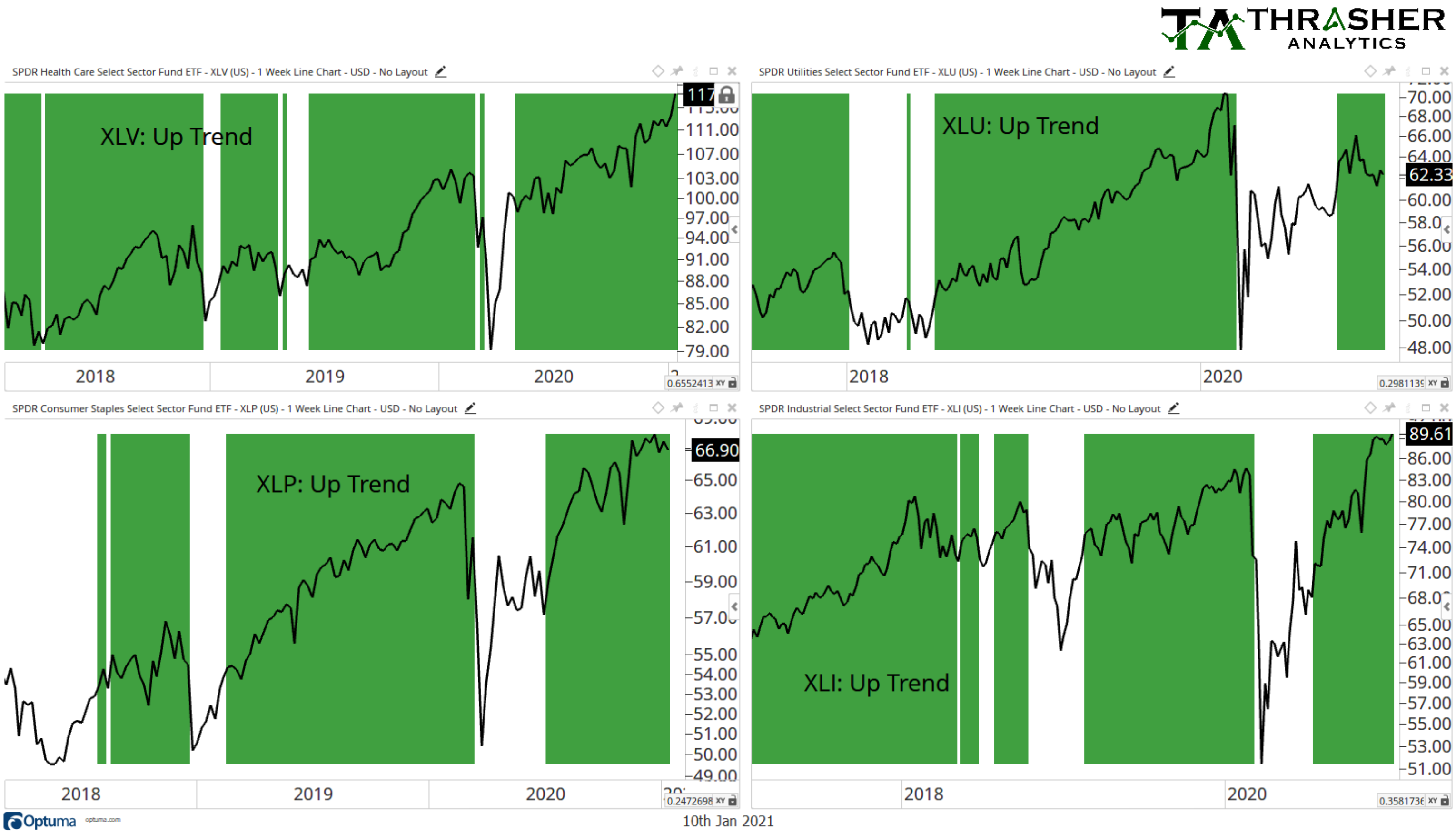


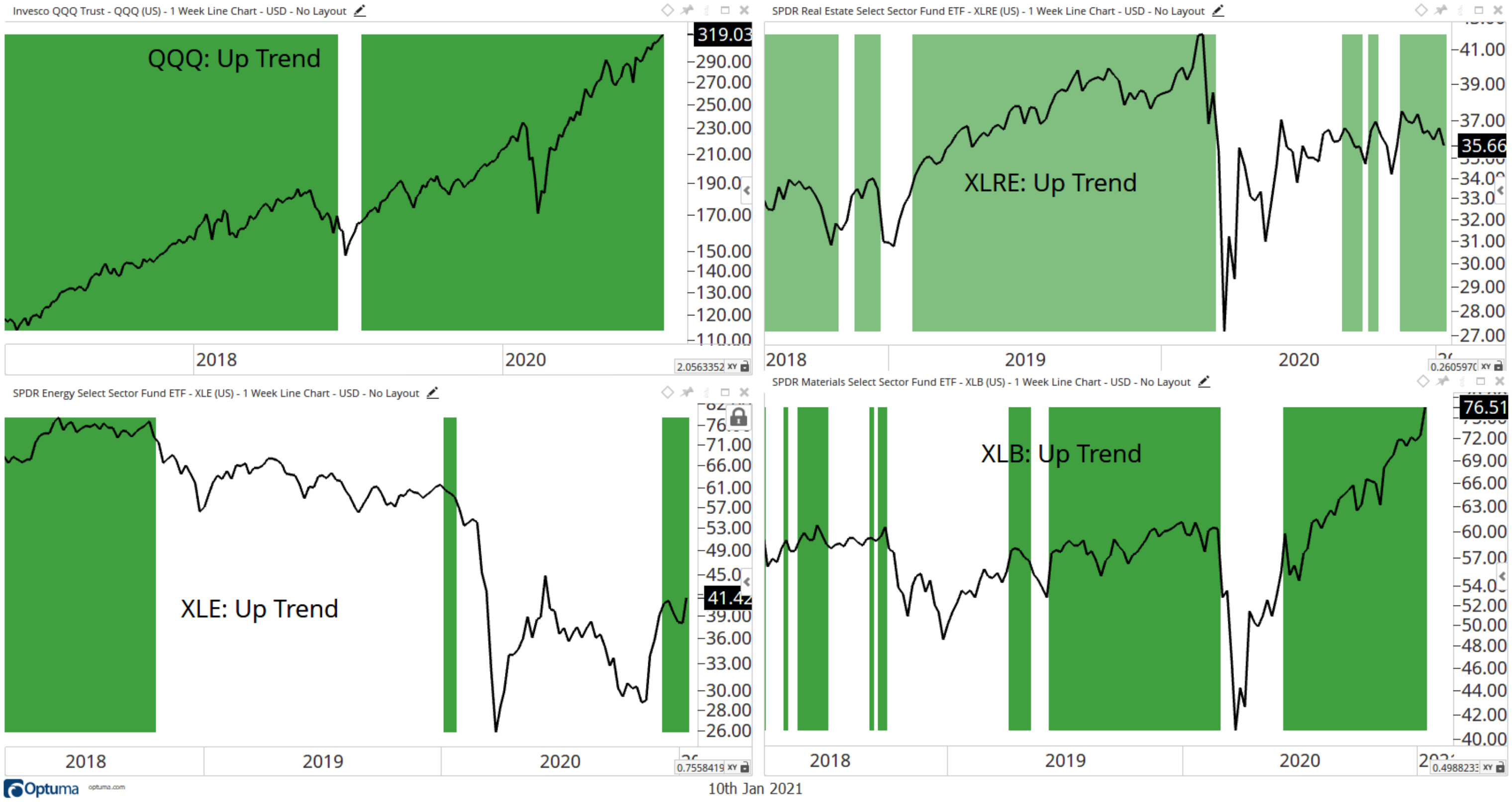

THRASHER ANALYTICS
CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
VIX
VIX DSI (DSI) - 1 Day - USD
Source: trade-futures.com
21.6
8.0
Sep
Nov
2019
Mar
May
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
10th Jan 2021
Optuma

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
2018
2019
2020
Optuma
10th Jan 2021


Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout
QQQ: Up Trend
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout
XLRE: Up Trend
SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout
XLE: Up Trend
SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout
XLB: Up Trend
2018
2019
2020
10th Jan 2021

DISCLAIMER: