THRASHER ANALYTICS

JANUARY 31, 2021

WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish	Bearish
• Long-term breadth remains strong. • Trend Model remains positive for all sectors and indices. • The Market Health Report remains supportive.	• Equity sentiment is extremely high. • Volatility has increased. • Commercial Traders de-risk. • Failed breakouts in several sectors • Failed breakouts in international markets. • Seasonality turns bearish for February. • Frenzy in retail option buying.

TABLE OF CONTENTS

Market Dashboard

Sector Rotation: Feb.	
Financials	XLF
Energy	XLE
Technology	XLK

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

Market Health Report	
Breadth	-1
Divergence	0
Momentum	0
Sentiment	1
Trend	0
Volatility	-2
Total	-2

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	

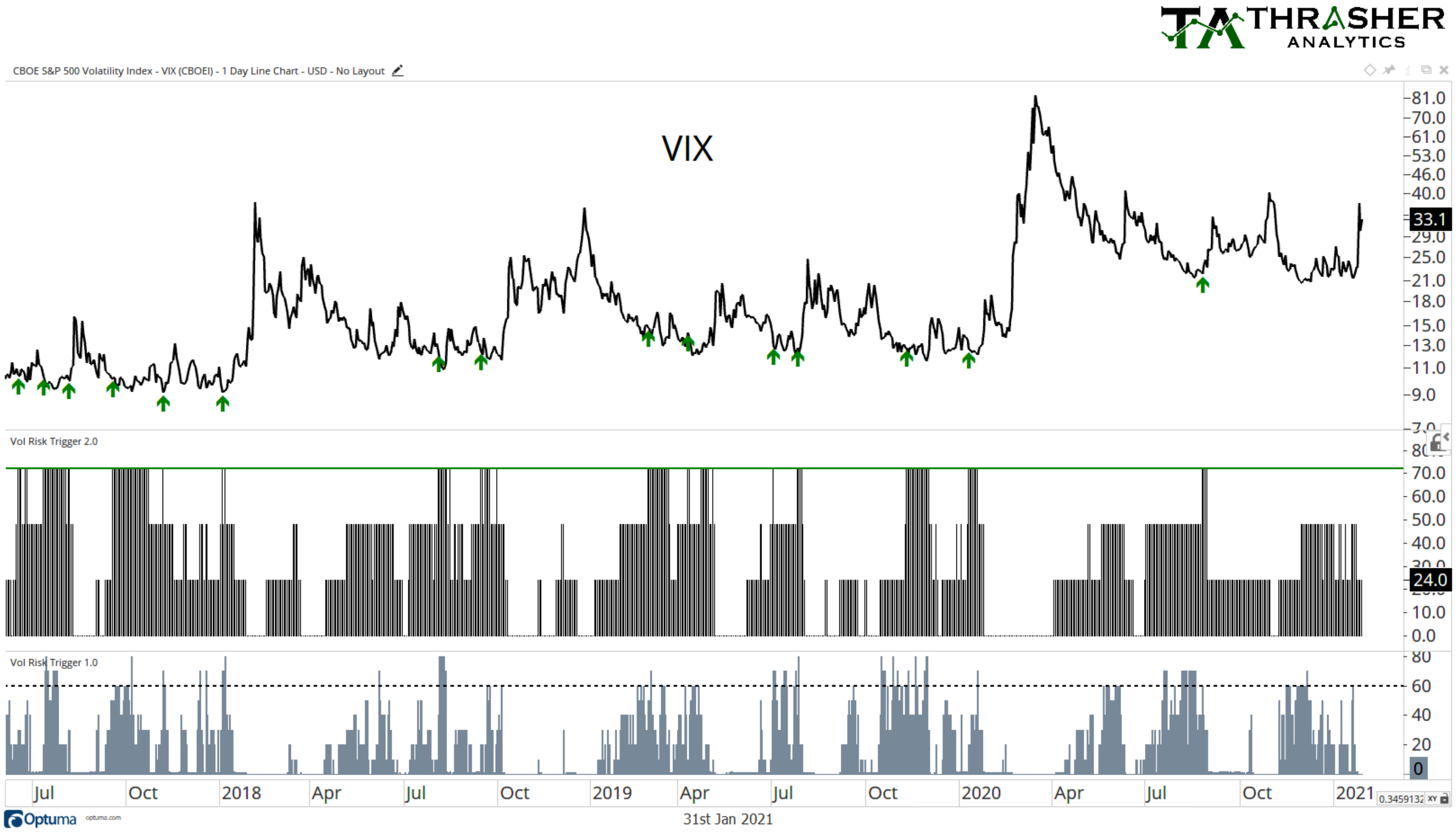
Daily Sentiment Index	% Bullish	5-day MA
S&P 500	61%	71%
Nasdaq 100	71%	81%
Nikkei	69%	77%
VIX	30%	26%
10yr Treasury	53%	56%
5yr Treasury	50%	50%
CRB Index	70%	75%
Gold	51%	53%
U.S. Dollar	29%	25%

**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).

Last week I shared how the VRT 2.0 had not triggered by we did have a signal produced by the original VRT 1.0. This is a great example of why I still share the VRT 1.0, both for transparency since it's the original version but also because it still overs value. I continue to view the VRT 2.0 as my primary tool for volatility but it's of great interest to have seen last week a signal by the original version as well as an increase in the Commercial net-position in VIX futures, which I shared last week. These were then followed, as I'm sure you're well aware, by a spike in vol near 40 last week as equities sold off.



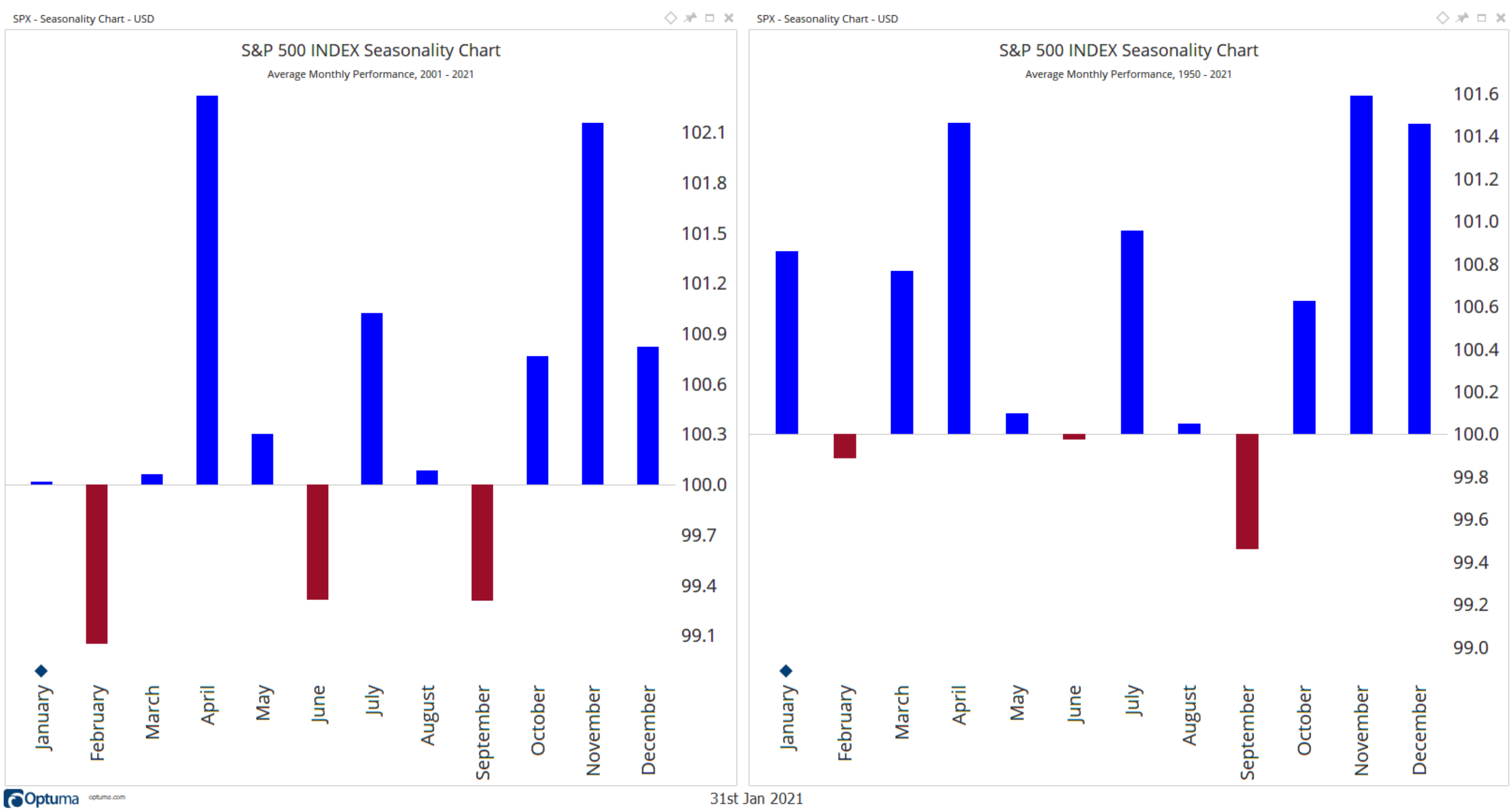
Equities - S&P 500 Daily

The S&P 500 has fallen 3.7% and is now negative on the year. Historically a red January doesn't pose well for the full-year but Jeff at the Stock Trader's Almanac recently noted that even with a down January, since the 'Santa Claus Rally" and the first five days of January were both positive, the seasonal forecast for the full-year remains positive. More about seasonality on the next page.

SPX closed just a hair below the 50-day MA on Friday with momentum falling below the bullish range. The 2021 VWAP is at 3792, so I'll be watching that area if we see some buying this week. On the downside there's the 200-day MA all the way down to 3350 but first I'd be watching the VWAP off the October low which is a few points below us now at 3667.

EQUITIES - SEASONALITY

Below is two looks at monthly seasonality for the S&P 500. The chart on the left shows the last twenty years and the one on the right goes back to 1950. I like to look at both periods to see if there's been a shift in seasonal trends, and for February there doesn't seem to be much different. Both show a historically down seasonal trend for February. Typically January's are positive (not this year) followed by a down February. The fact that January broke its seasonal trend of being positive is important to note, we'll see if headwind for equities in February is shown in 2021.



Last week I noted the bearish divergence that had formed in the percentage of stocks above the 50-day moving average. This weakness in intermediate breadth continued as price began to respond negatively, sending the breadth indicator to 40%, the lowest since November. It's important to still observe we have 83% of stocks above the 200-day MA, the long-term breadth trend remains firmly bullish.

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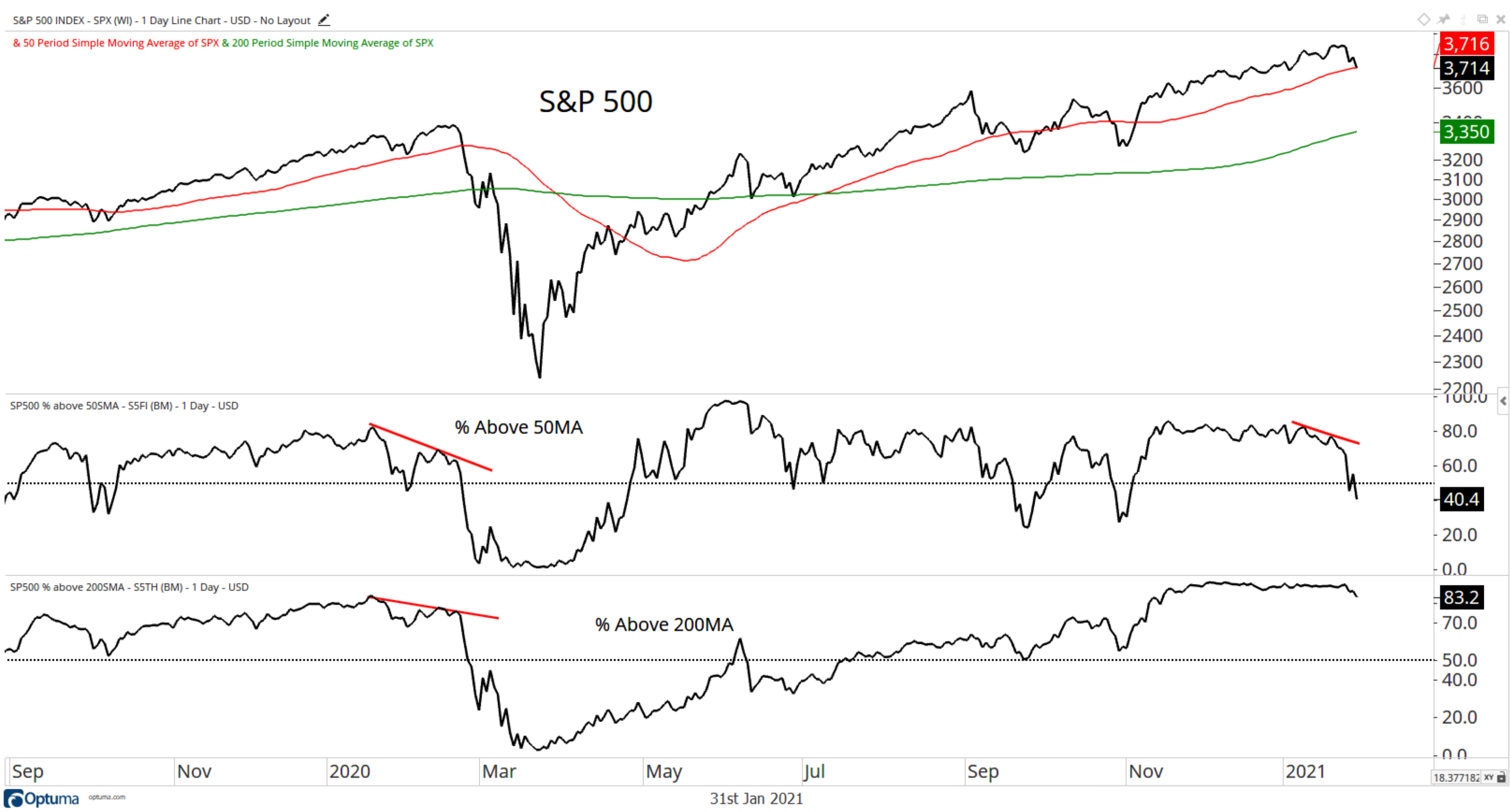
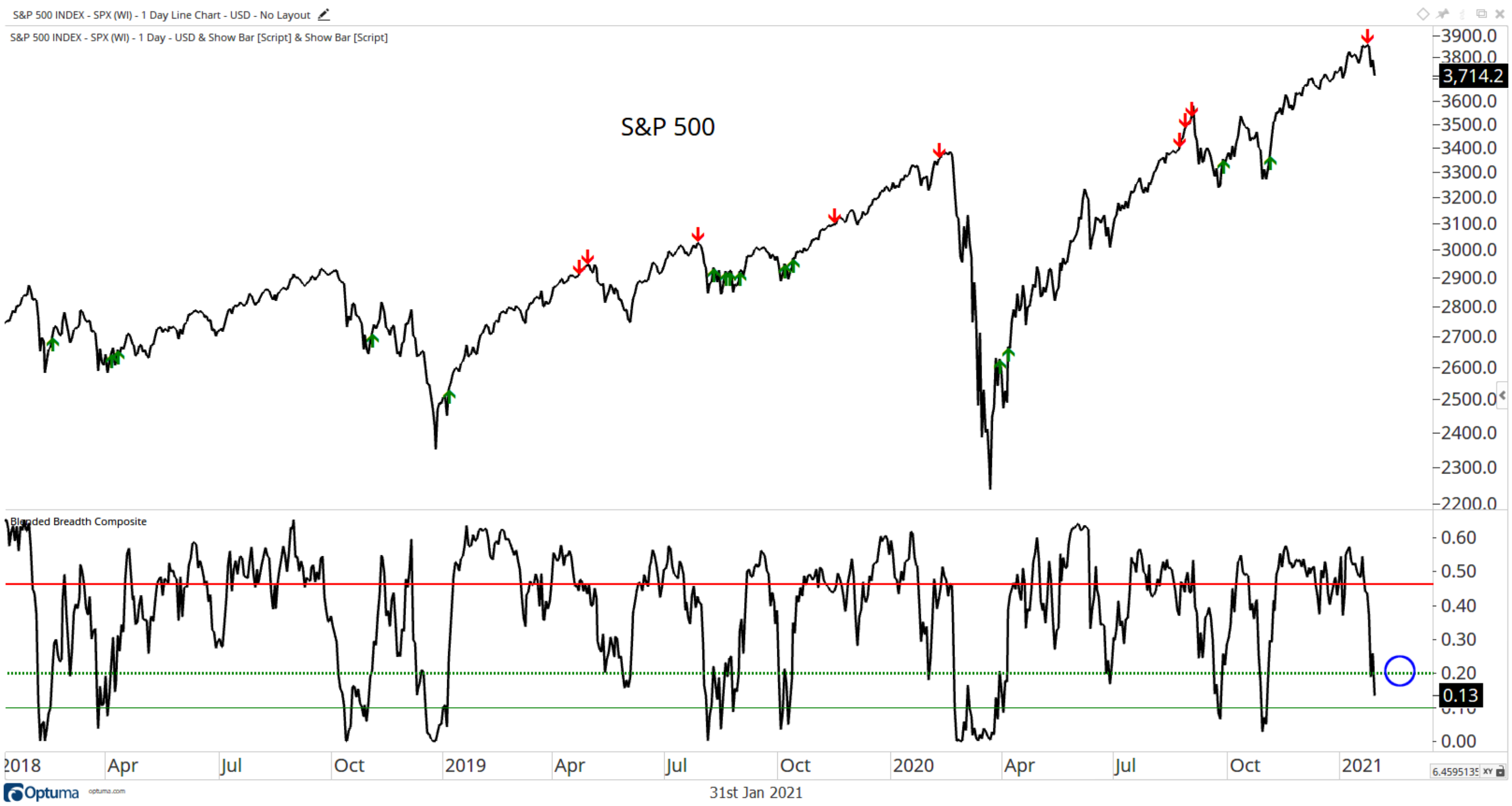
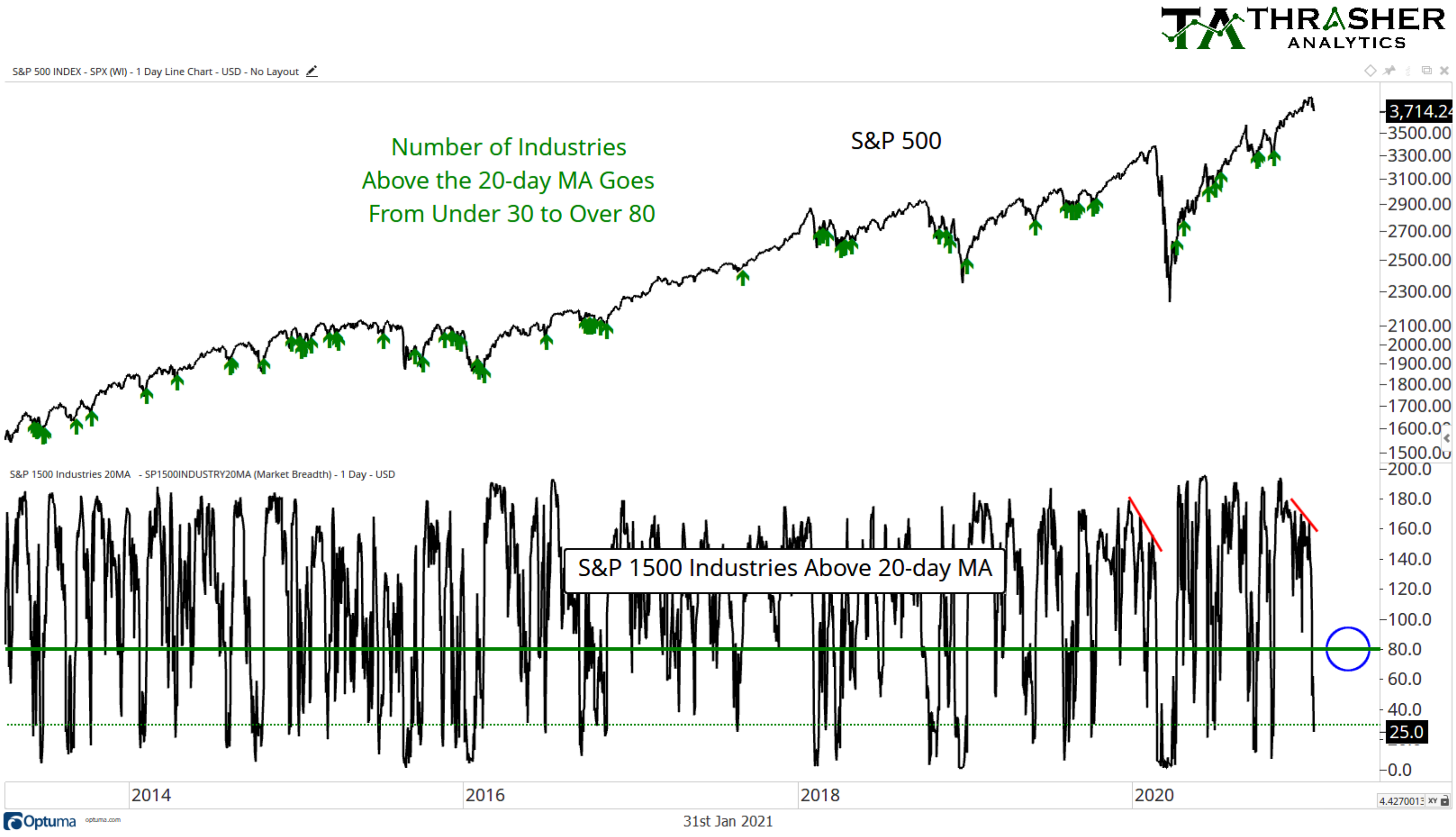


The Thrasher Analytics Breadth Composite takes many different breadth indicators and boils them down into a signal reading. One of the signs I look for that the selling as ended is an improvement in the Composite (BC), shown by the green arrows. I'm now watching for is if breadth worsens and the BC drops below 0.1 and then rises above 0.2. This isn't meant to find an exact bottom but to show an improvement in market internals.

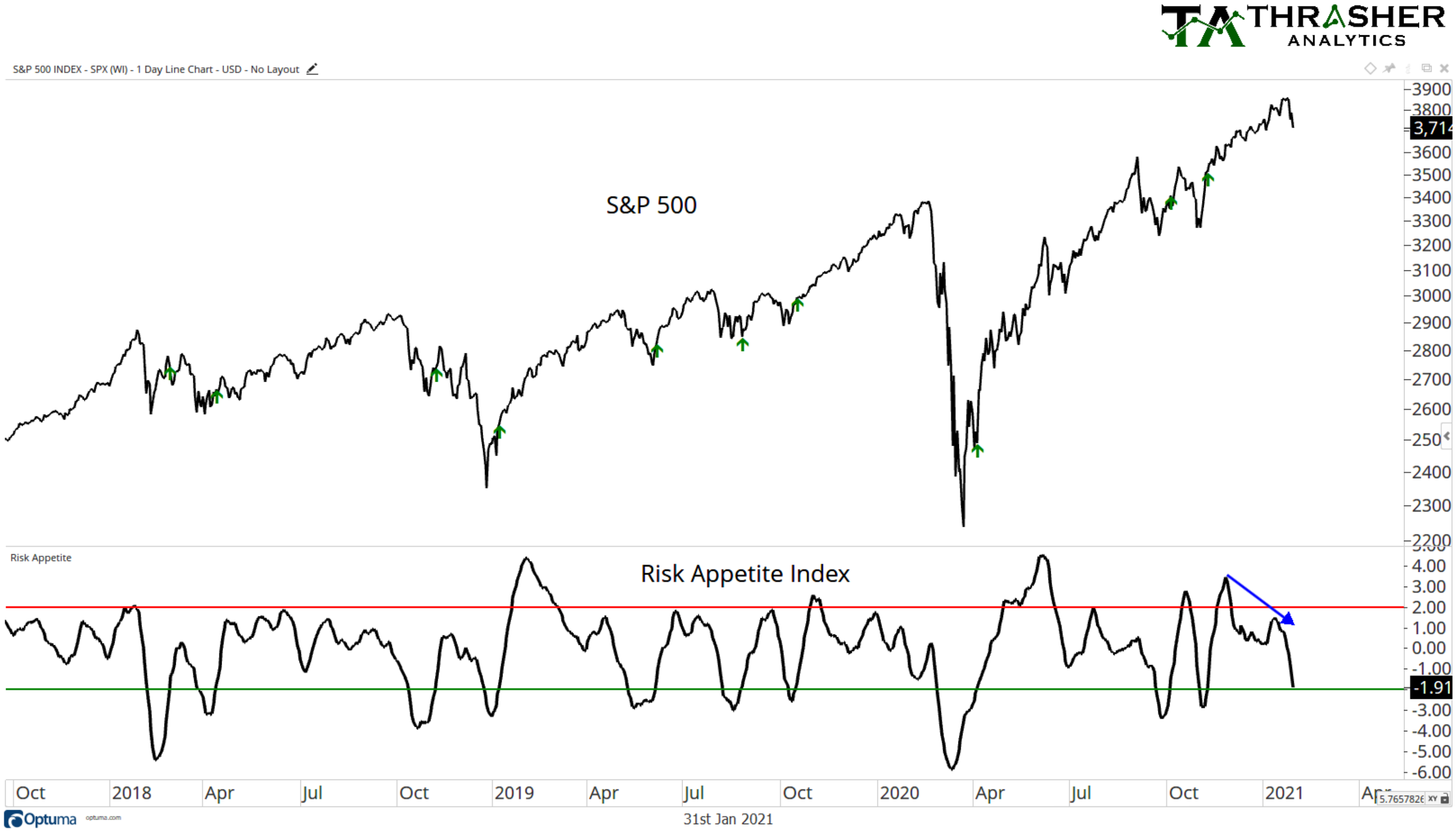


Equities - Industry Breadth

Similar to the Breadth Composite, I'd also like to see an improvement in S&P 1500 industries trading above their respective short-term 20-day moving average. Again, this isn't an exercise in timing a market bottom but to observe an improvement in trend strength of the underlying industries. Right now, just 25% of the nearly 200 industries I track are above the 20-day MA, I'm watching for this figure to improve to 80 industries (which is a little less than 50% of them).



The Risk Appetite Index (RAI) had been falling before last week's decline in equities. I shared the divergence most recently in last week's note. Now, The RAI is near an 'oversold'-type level. I'm watching for it to improve, accomplished by a return of risk appetite and 'risk on' assets improving in their performance. Any improvement this week should get that accomplished, I have my eye closely on how High Beta and small cap stocks act this week and if they can show any signs of outperformance on a rally in equities if one occurs.



Equities - Bollinger Band

I found it interesting that on Friday the S&P 500 saw it's low break below the lower Bollinger Band but bounce back to close back above. I ran a study to see if this happens very often, most notably after the equity index had set a new 52-week high recently. These instances are marked by the red arrows with blue circles showing all the other occurrences when it was not within 1-month of the SPX hitting a 52-week high.

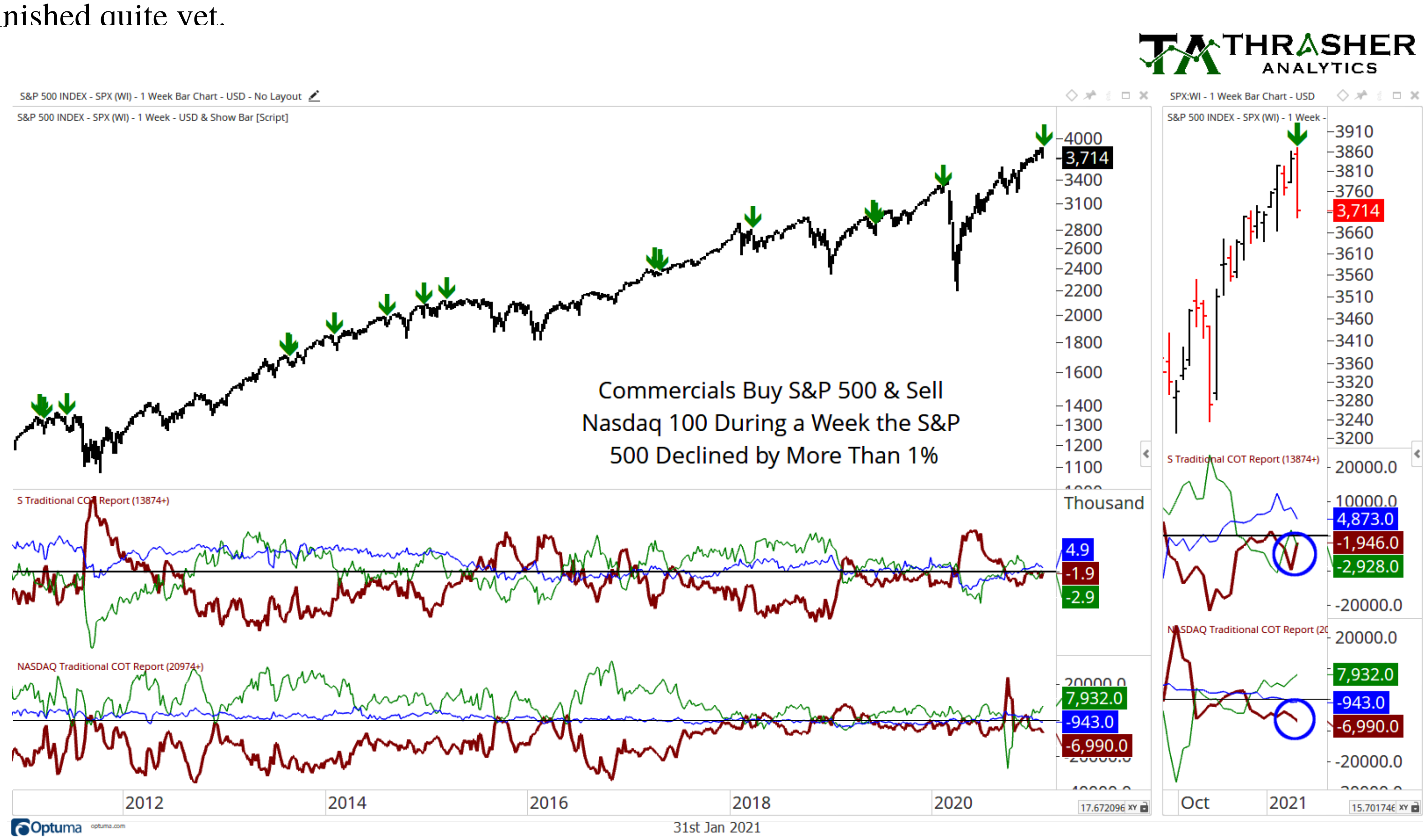
When following a new high, it seems the selling continued for many of the instances compared to when it occurred well off a new high. The most notable occurrence being just before the Q4 2018 decline. I believe this is due to the need to have a strong selling pressure to push price this hard to get under the lower band, showing control by the bears. Not every time did selling continue, September last year as an example, but as we work off the froth in sentiment, there's a chance we see some more downside from here.

Equities - Commercial Traders

Each week I monitor the net-positions of Commercial Traders in all the major futures markets, including the equity indices. When the market has a decent-sized move I want to see if Commercial Traders 'bought the dip' or lowered their risk exposure. During last week's decline, they lowered their net-short in S&P 500 futures but added to their net-short in Nasdaq 100 futures (they also added to net-longs in the Dow and the VIX). I view this pair-like trade in the SPX and Nas100 as a de-risking action, lowering exposure to the higher beta Nasdaq contracts while shifting to the more broad large cap index.

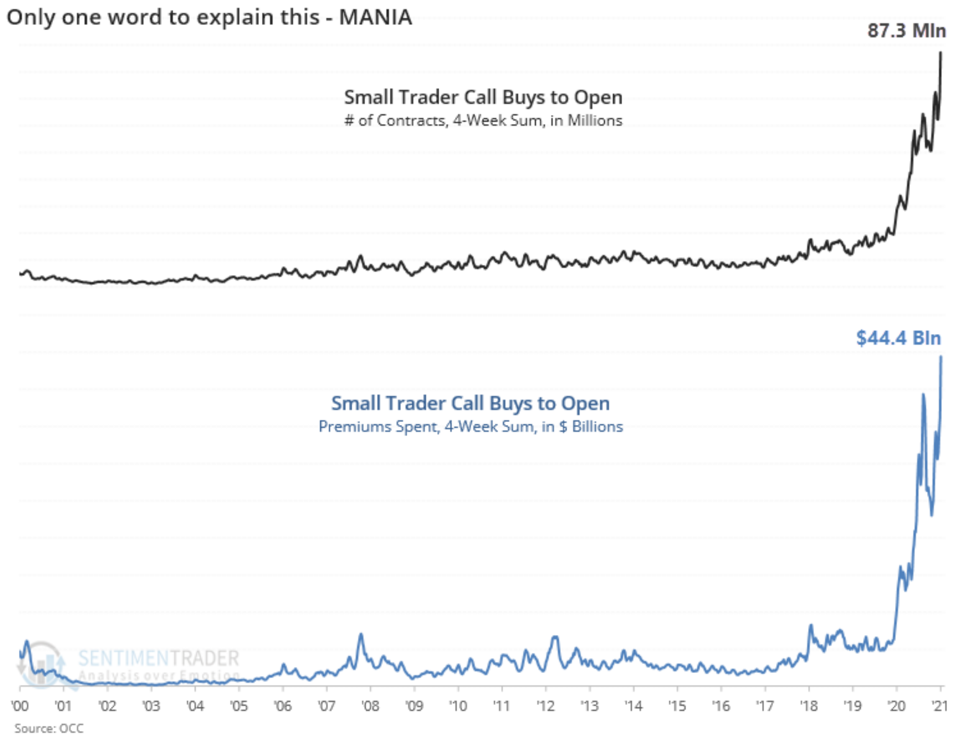
Below I've plotted green arrows when they've done a similar shift following at least a 1% decline in the S&P 500. This hasn't happened a lot since 2011 but when it has, nearly each occurrence was followed by a move lower in equities of varying degrees. This wasn't an action that was associated with major or minor market bottoms. Most recently, just before the Covid crash, '19 when stocks fell another 3%, after the first bounce in Q1' 18 before a 6% drop, March '17 ahead of a small 1% decline, and near the high in 2015 before a 15% correction.

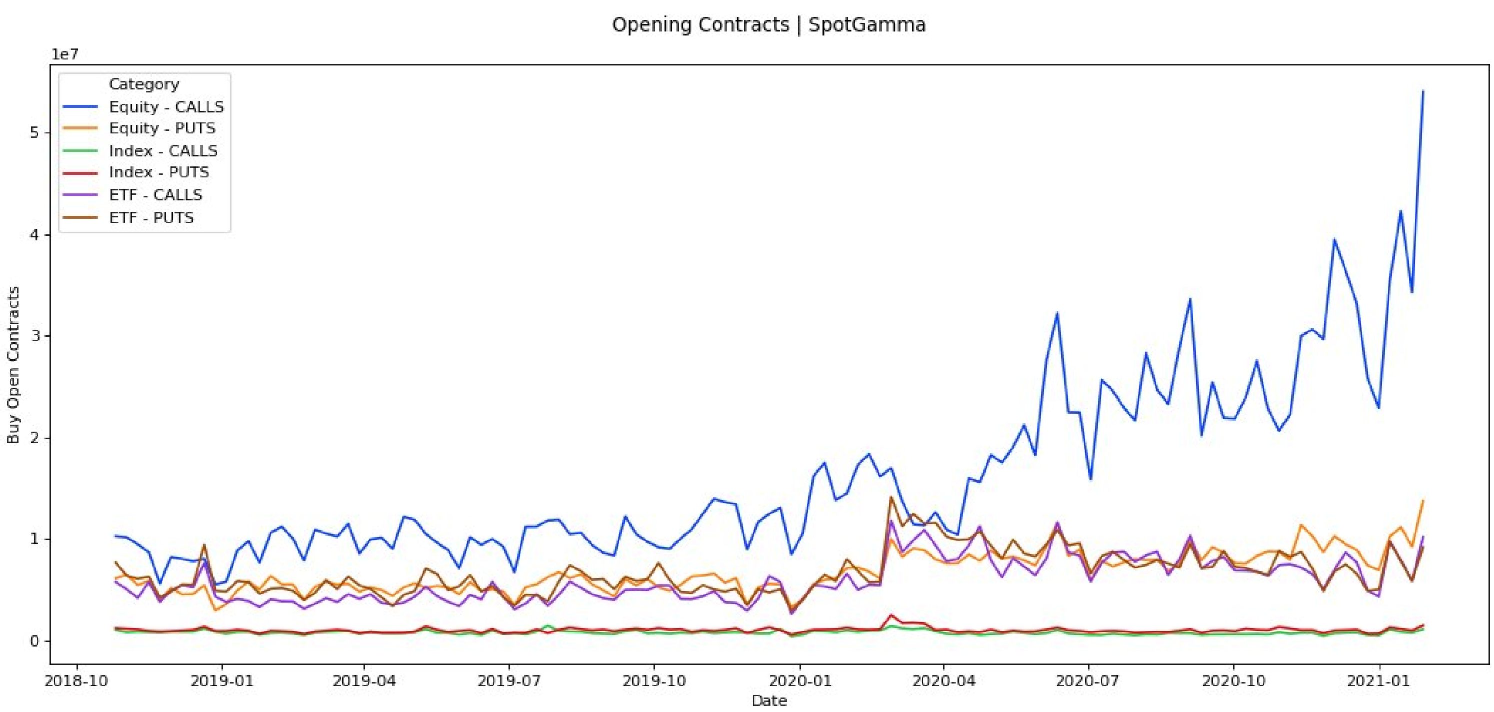
It seems Commercial Traders continued to shed equity risk last week, believing the selling may not be finished quite yet.



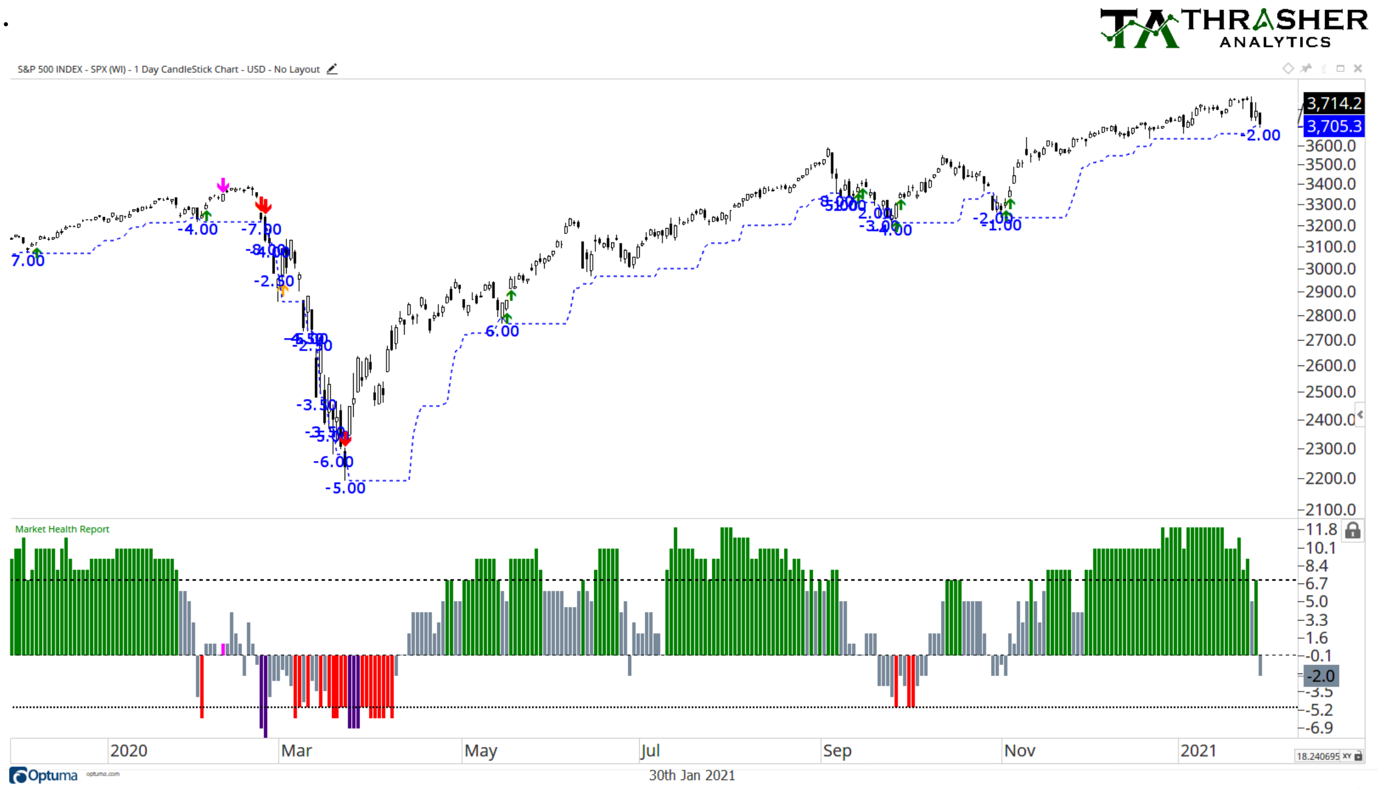
Last week in my "A Few Thoughts" I shared that the bubble most concerning to me was the options market and retail traders moving in. That trend continued to grow exponentially last week with small trader doubling the amount spent on buying calls as reported by Jason at SentimenTrader. Jason noted the 4-week sum has hit $44.4 billion. This figure was less than $5 billion in 2019.

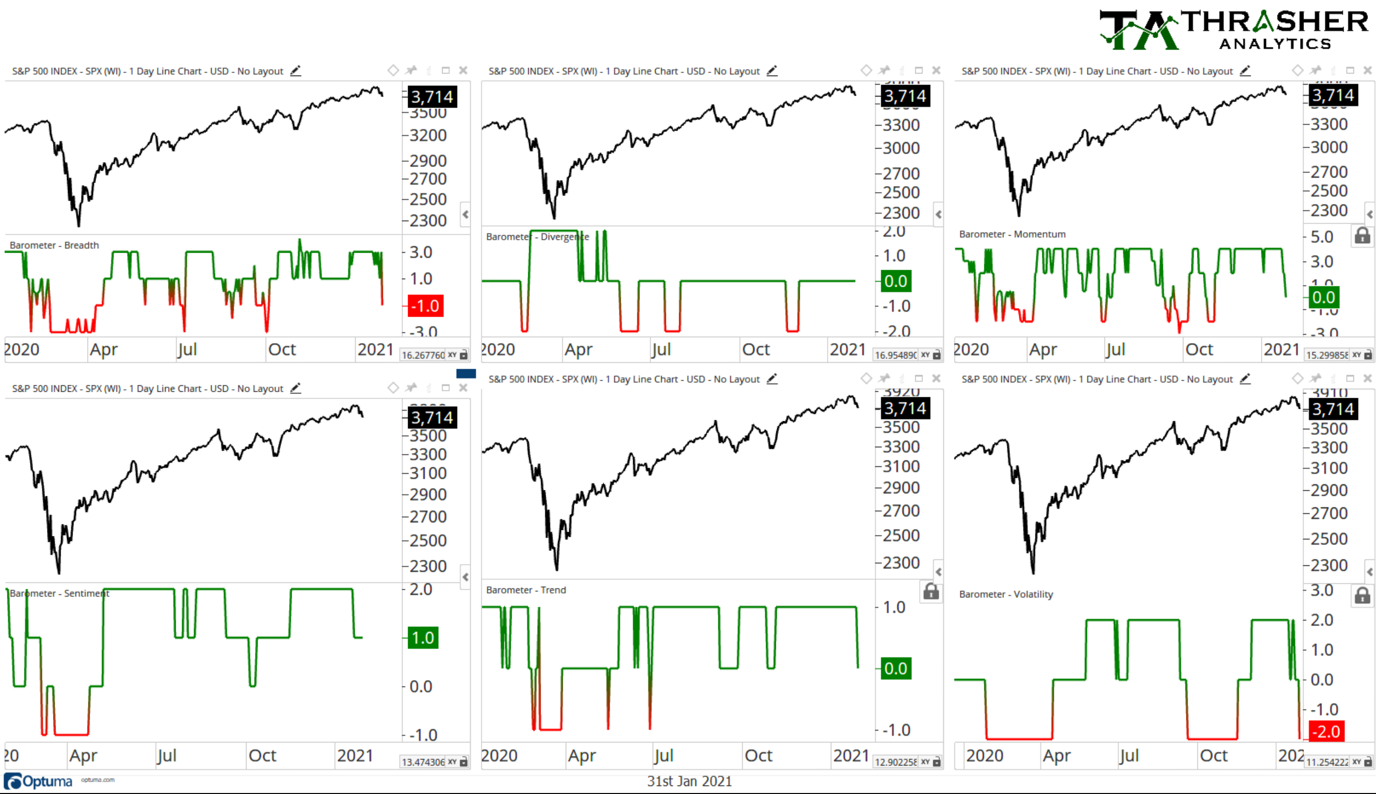
The chart below is from SpotGamma and breaks apart the various types of options (equity, index, and ETFs) to show the strong focus in individual equity calls, which trend is going near-vertical.





The Market Health Report (MHR) finished the week at -2 with the S&P 500 seeing an intraday move to a 15-day low. At this level, the MHR still shows good internal support from the six components. At this point the MHR would suggest the current dip in equities should be shallow and create a buyable dip opportunity. I'll be monitoring how the six components progress this week and share any necessary updates.



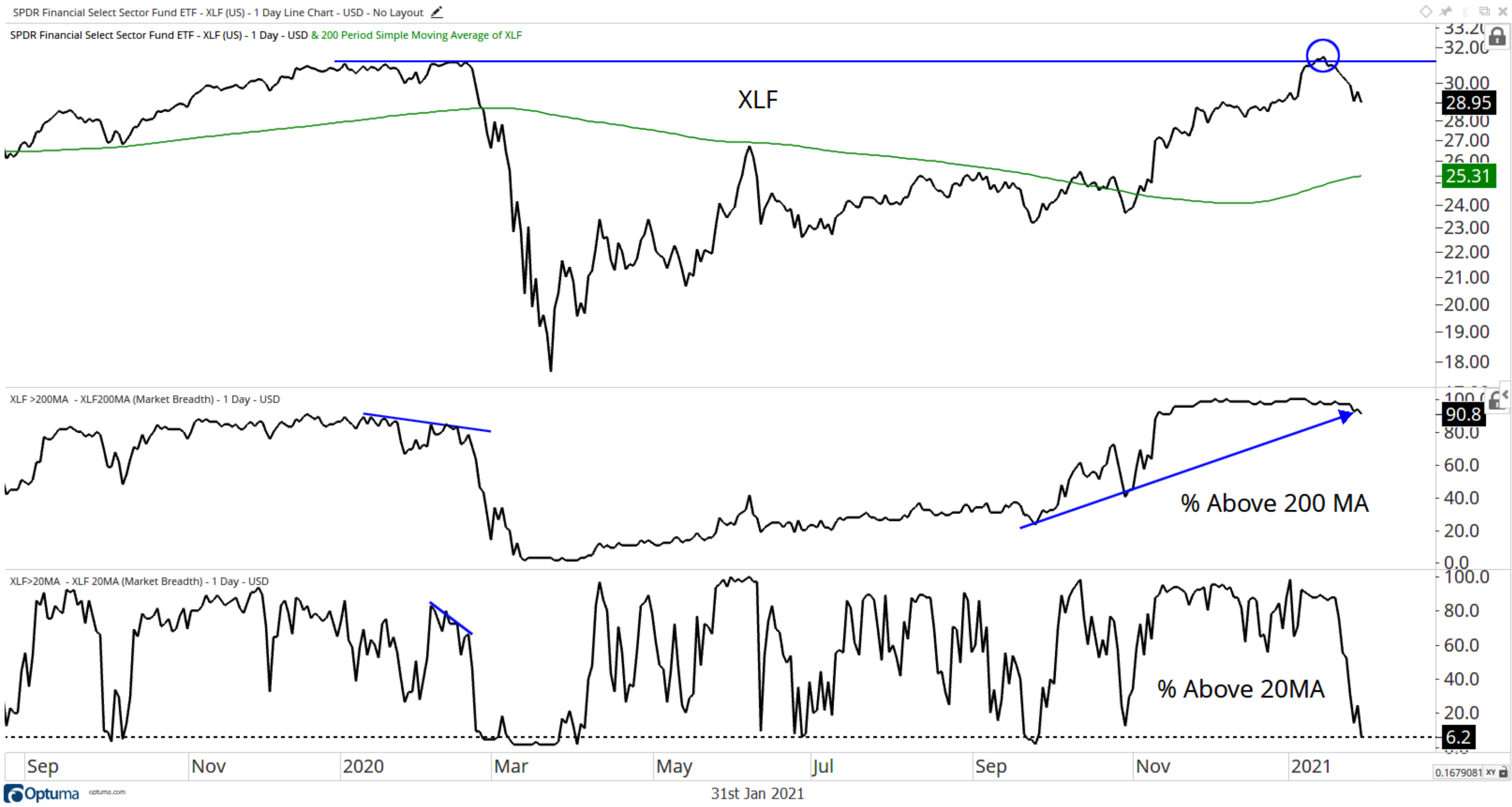


Commodities - Copper

I wanted to provide an update to the COT data for copper. I last discussed copper when both the Large and Small Traders were at a 90th percentile net-long while Commercial Traders sit heavily net-short, which has corresponded to several peaks in the price of the industrial metal. I had written previously that selling typically followed when the Large Traders began to unwind their long bias, which has begun to happen now. I think copper prices are at a heightened risk of moving lower from here.

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Real Estate Select Sector Fund ETF	True	True	-0.16%	2.34%	6.95%	-7.43%
SPDR Utilities Select Sector Fund ETF	False	True	-1.1%	1.11%	-1.3%	-9.47%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-1.51%	-4.41%	2.58%	1.49%
SPDR Health Care Select Sector Fund ETF	True	True	-2.18%	2.45%	13.12%	12.89%
SPDR Communication Services Select Sector ETF	True	True	-2.85%	-0.76%	11.06%	20.81%
SPDR Technology Select Sector Fund ETF	True	True	-2.94%	-0.75%	13.72%	32.67%
SPDR Industrial Select Sector Fund ETF	False	True	-4.23%	-3.21%	11.6%	2.21%
SPDR Financial Select Sector Fund ETF	False	True	-4.58%	-0.14%	21.69%	-4.2%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-4.76%	1.43%	10.84%	29.39%
SPDR Materials Select Sector Fund ETF	False	True	-5.03%	-0.69%	11.74%	19.12%
SPDR Energy Select Sector Fund ETF	False	True	-6.54%	4.49%	37.68%	-28.14%

The Financial sector failed to hold above the prior 2020 high with the XLF ETF declining last week under \$30. Long-term breadth still appears strong for the sector with 90% of stocks above the 200-day MA. Short-term breadth has basically washed out as only a handful of financial stocks remain above their respective 20-day MA, the lowest percentage since September. From here I'm watching that prior 2020 failed breakout point. XLF needs to recover that area for me to regain confidence in the sector.



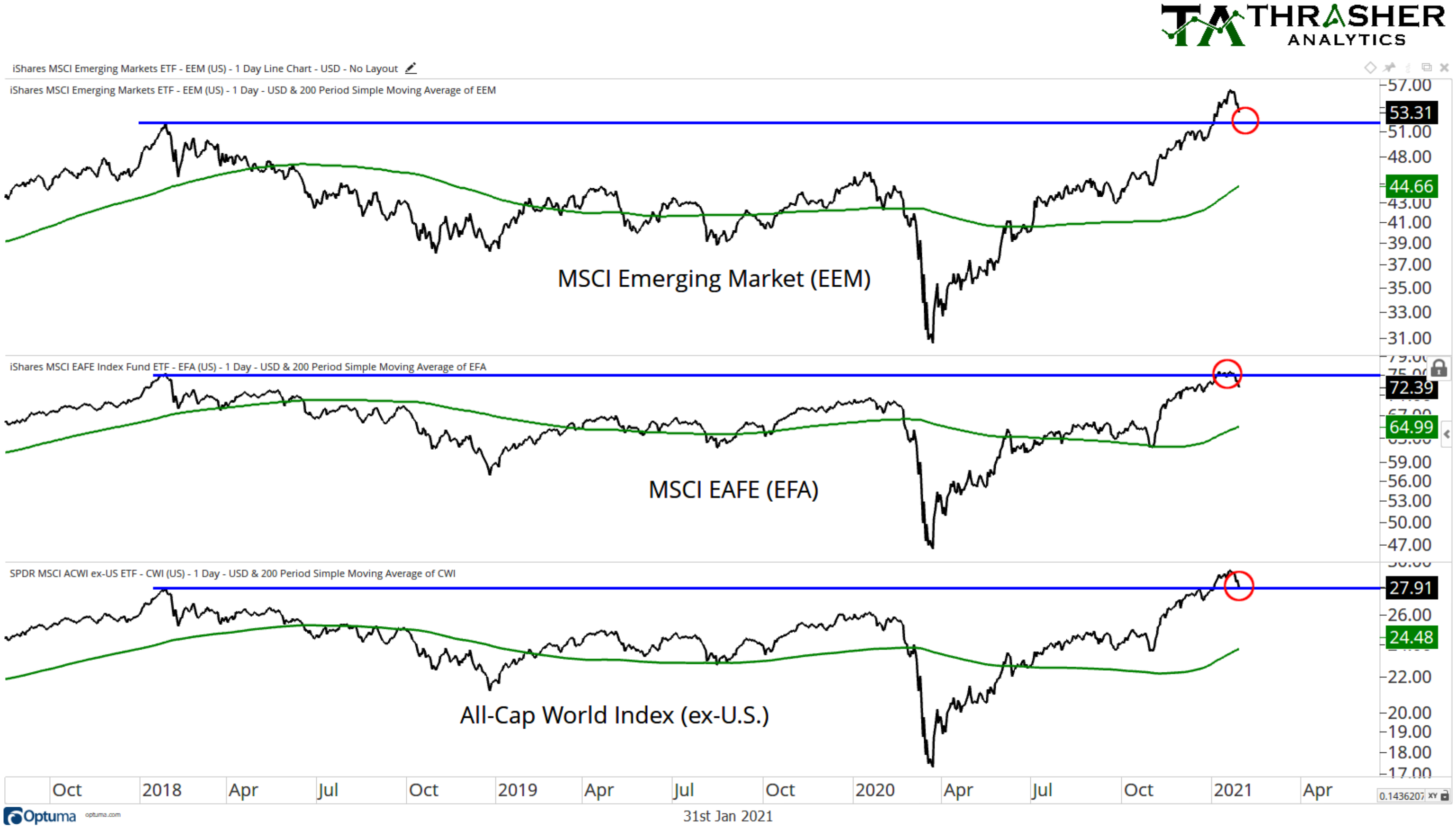
Sectors - Industrials

Similar to financials, the industrial sector is nearing a failed breakout of the prior 2020 high. XLI closed just a few cents under this level on Friday. Also like XLF, nearly all the stocks are above the 200-day MA with only a few left above the 20-day MA.

International

Last week I wrote about the potential trouble for the Hang Seng, which did move lower with many other Asian equity markets on the news of the PBOC tightening liquidity measures. With those bearish moves, the MSCI EAFE Index failed to hold above the 2018 high with the ACWI Index also now testing this level as potential support or a failed breakout while Emerging Markets still have some cushion left before it tests its breakout point. International markets were extremely overbought going into last week, with many (like Hang Seng) testing important price levels that have now failed.

While this weakness is not coming on the back of a strengthening dollar, which didn't see much movement last week, if the dollar does pick up that would only add to the bearish catalysts for foreign markets.

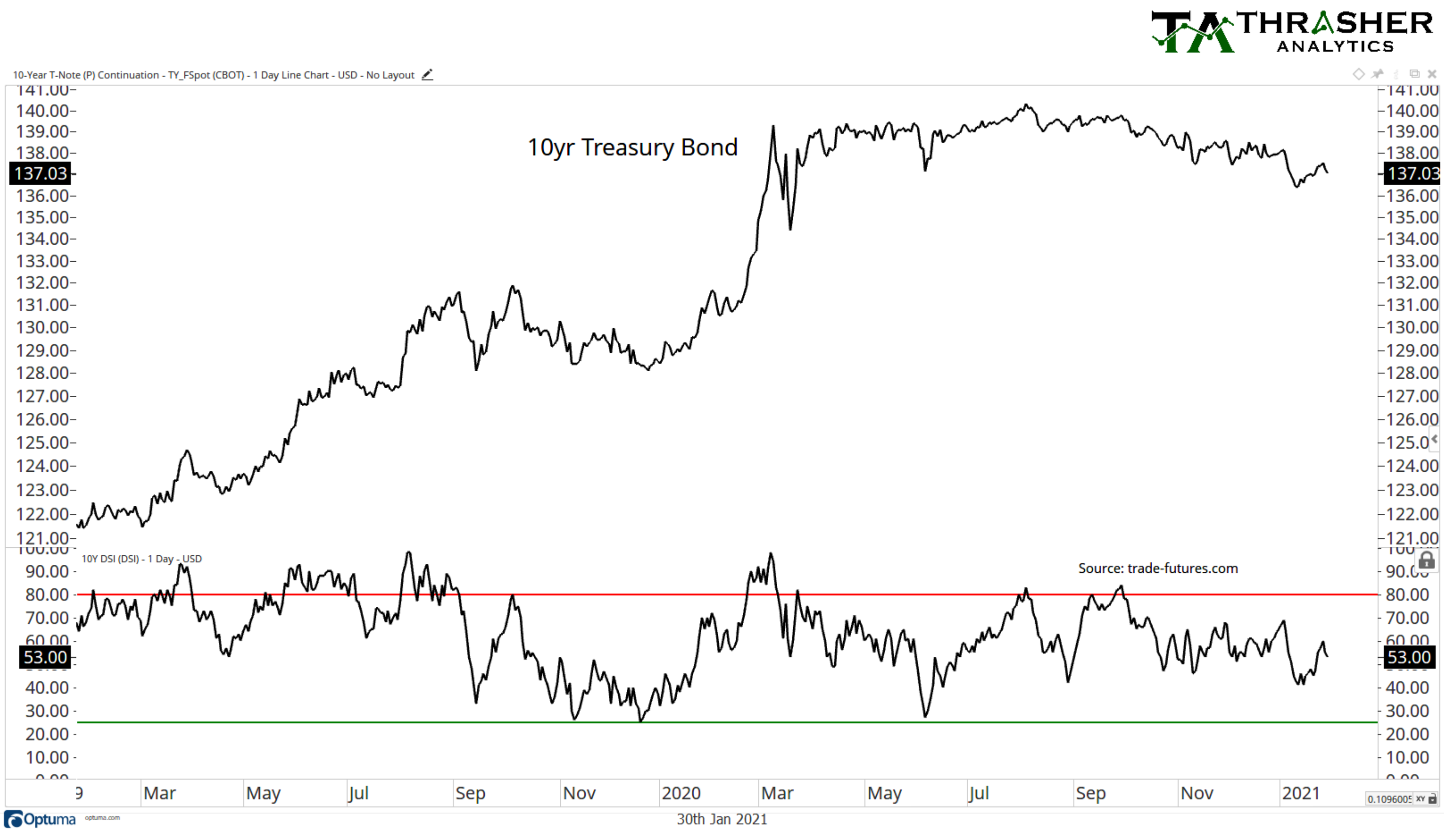


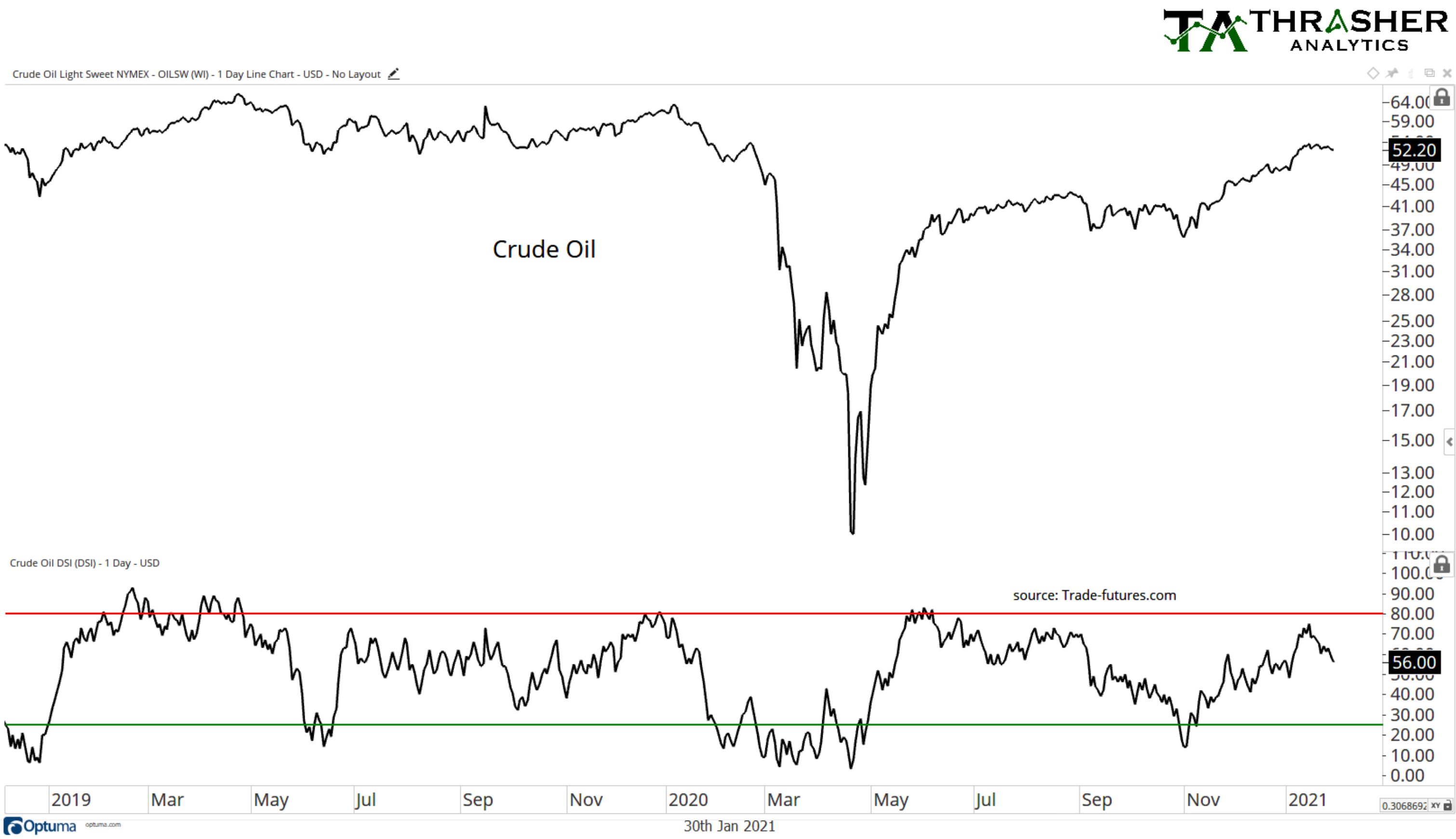
Daily Sentiment Index

Market	% Bullish	5MA	History
Palladium DSI	16	18.4	
Cocoa DSI	20	20.8	
US Dollar DSI	29.00	25.40	
VIX DSI	30.00	25.60	
Coffee DSI	30.00	33.80	
Orange Juice DSI	37.00	44.60	
Natural Gas DSI	46.00	47.60	
Cattle DSI	50.00	57.60	
5YR DSI	50.00	49.60	
Gold DSI	51.00	52.60	
10Y DSI	53.00	56.00	
Crude Oil DSI	56.00	60.60	
Swiss Franc DSI	57.00	61.80	
Mexican Peso DSI	57.00	65.80	
Heating Oil DSI	57.00	62.20	
Platinum DSI	59.00	59.20	
Sugar DSI	60.00	60.00	

Code	% Bullish	5MA	History
SPX DSI	61.00	70.60	
Euro DSI	61.00	64.20	
Copper DSI	61.00	67.80	
Lean Hog DSI	64.00	69.60	
British Pound DSI	65.00	67.40	
Australian Dollar DSI	65.00	70.00	
Wheat DSI	67.00	65.00	
Nikkei DSI	69.00	76.60	
EuroDollar DSI	69.00	69.00	
New Zealand Dollar DSI	70.00	73.00	
CRB Index DSI	70.00	74.80	
Cotton DSI	70.00	73.60	
Nasdaq DSI	71.00	81	
Gasoline DSI	75.00	78.00	
Lumber DSI	81	85.8	
Silver DSI	83	77.40	
Corn DSI	84	81.2	

Source: trade-futures.com


10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
30th Jan 2021


THRASHER ANALYTICS
Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
52.20
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
56.00
2019
Mar
May
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Optuma
30th Jan 2021

Daily Sentiment Index

Daily Sentiment Index


THRASHER ANALYTICS
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
Source: trade-futures.com
104.0
103.0
102.0
101.0
100.0
99.0
98.0
97.0
96.0
95.0
94.0
93.0
92.0
90.6
90.0
89.0
90.00
80.00
70.00
60.00
50.00
40.00
29.00
20.00
10.00
2019
Mar
May
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2020
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May
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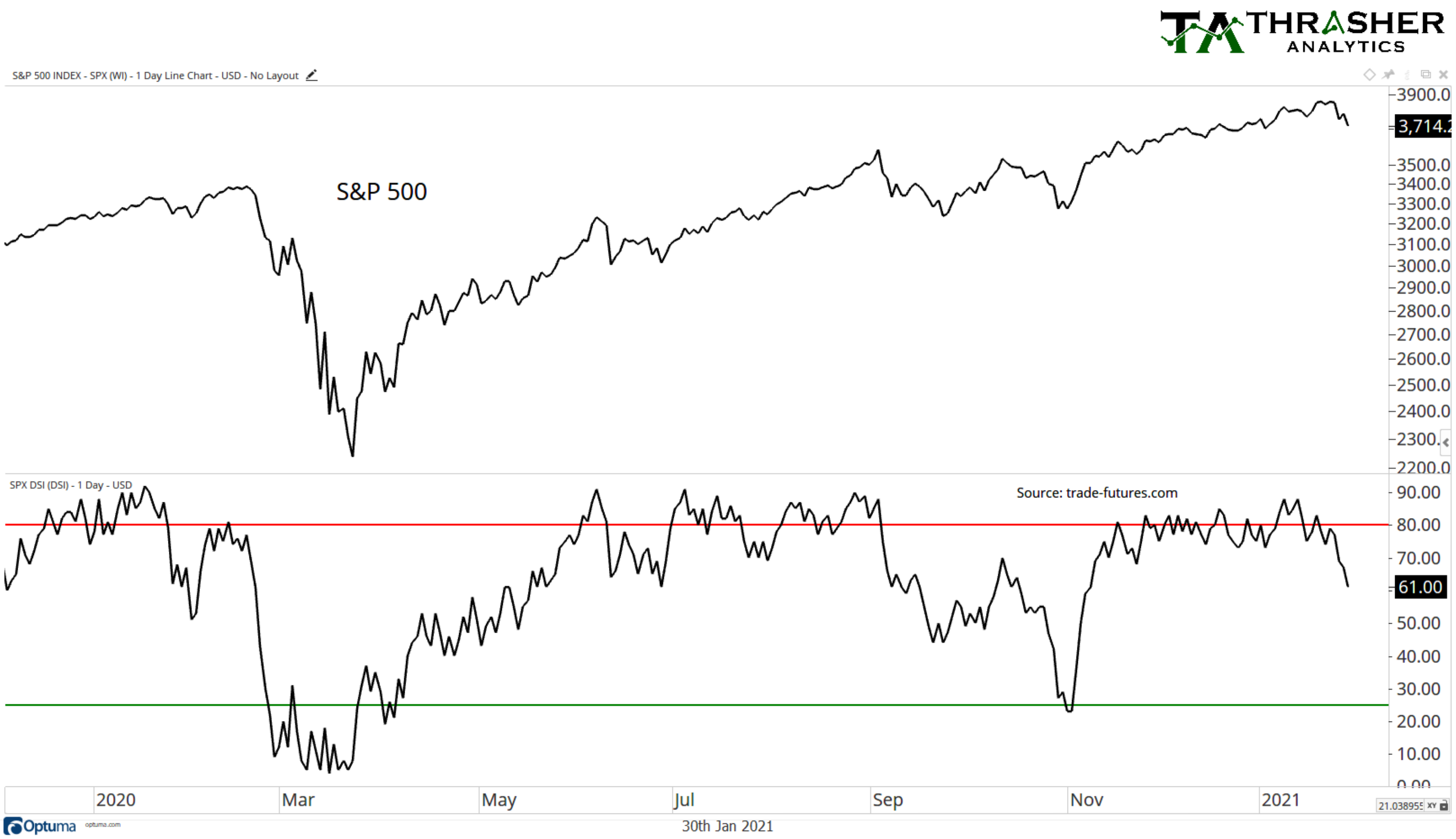
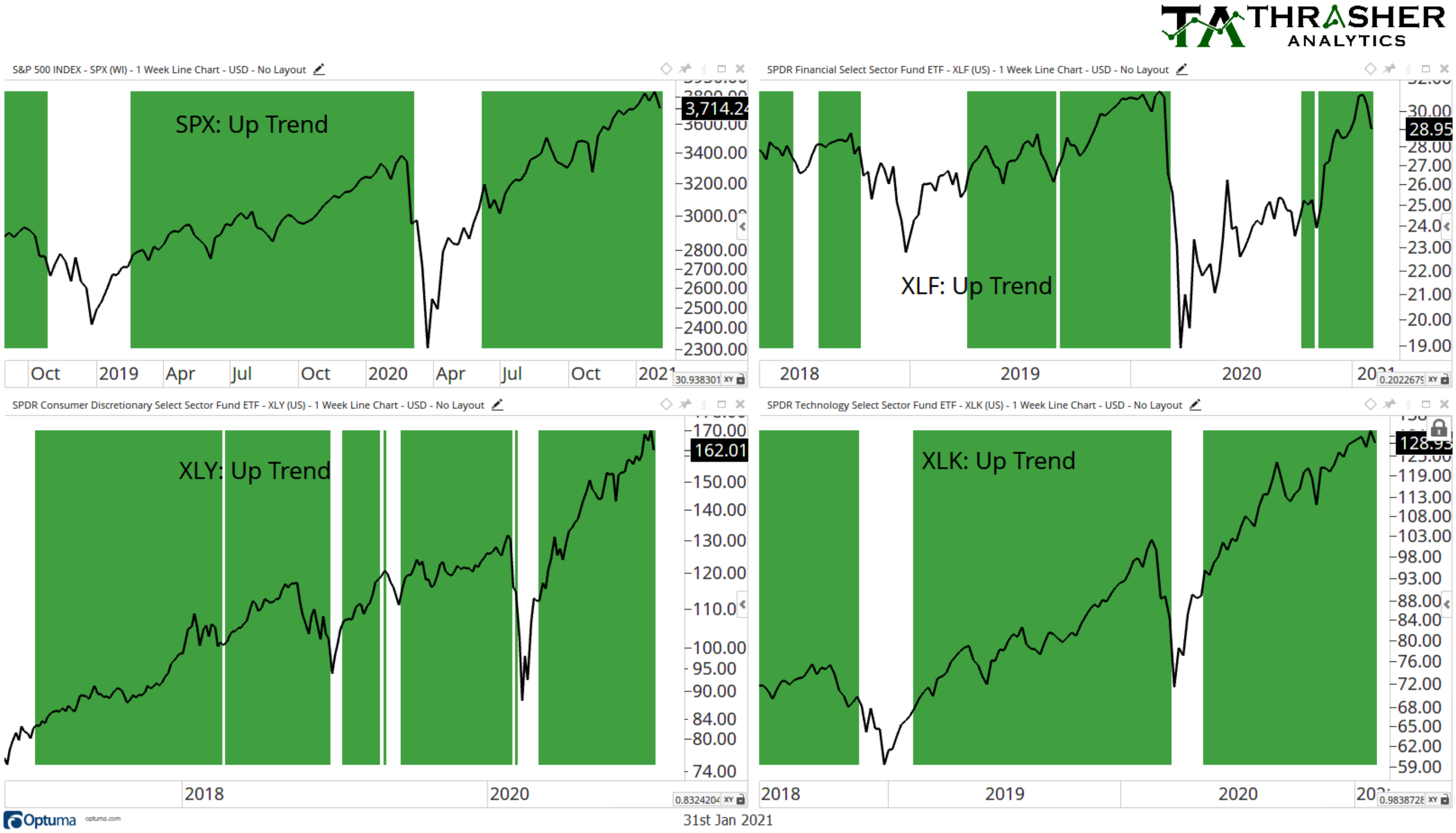
Sep
Nov
2021
Optuma
30th Jan 2021

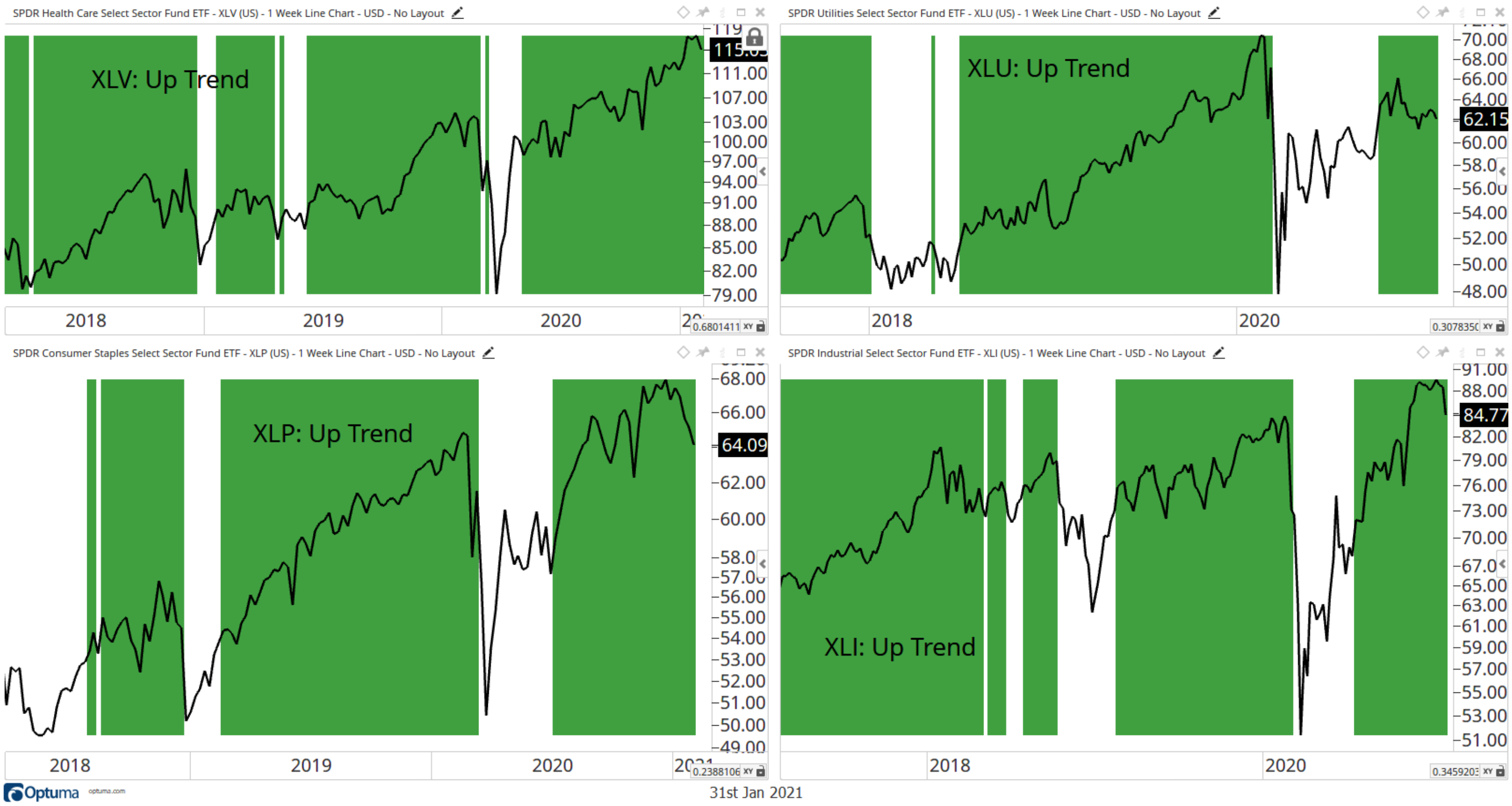
Daily Sentiment Index

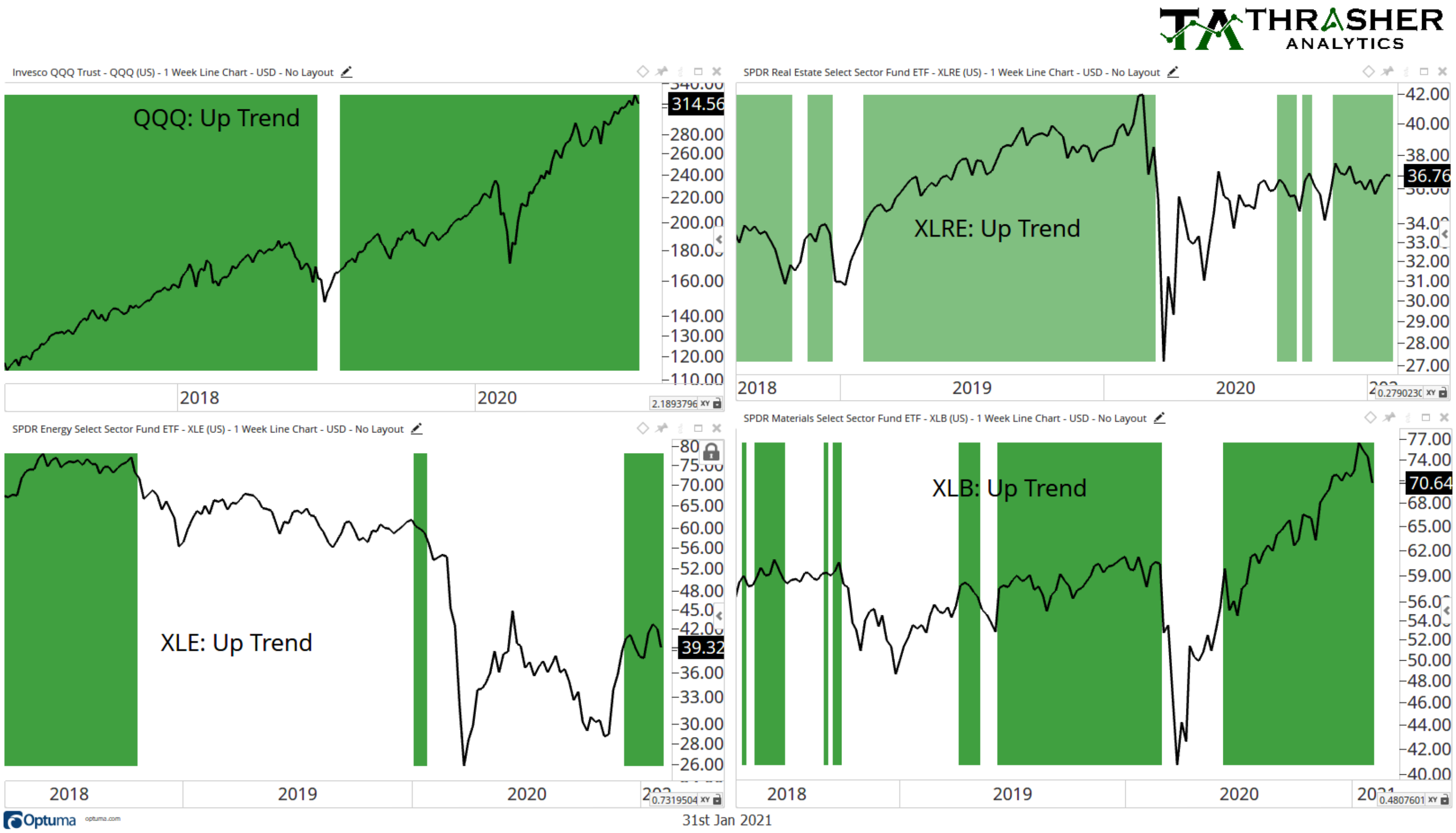
Daily Sentiment Index




THRASHER ANALYTICS
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout
SPX: Up Trend
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout
XLF: Up Trend
SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout
XLY: Up Trend
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout
XLK: Up Trend
Optuma
31st Jan 2021

Trend Models




THRASHER ANALYTICS
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout
QQQ: Up Trend
314.56
2018
2020
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout
XLRE: Up Trend
36.76
2018
2019
2020
SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout
XLE: Up Trend
39.32
2018
2019
2020
SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout
XLB: Up Trend
70.64
2018
2019
2020
Optuma
31st Jan 2021

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