

TAA THRASHER ANALYTICS

FEBRUARY 14, 2021



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish

- Long-term breadth remains strong.
- Trend Model remains positive for all sectors and indices.
- The Market Health Report remains supportive.
- Two Breadth Thrusts.
- Lack of divergence in SKEW/VIX.

Bearish

- Equity sentiment is extremely high.
- Commercial sector bearish setup.

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Volatility

Equities

Market Health Report

Fixed Income

Sectors

Sentiment

Trend Models

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	4
Sentiment	1
Trend	1
Volatility	2
Total	9

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	81%	79%
Nasdaq 100	89%	87%
Nikkei	88%	86%
VIX	17%	18%
10yr Treasury	32%	38%
5yr Treasury	34%	39%
CRB Index	80%	82%
Gold	44%	48%
U.S. Dollar	27%	26%

*Green<25% Red>80%

source: trade-futures.com

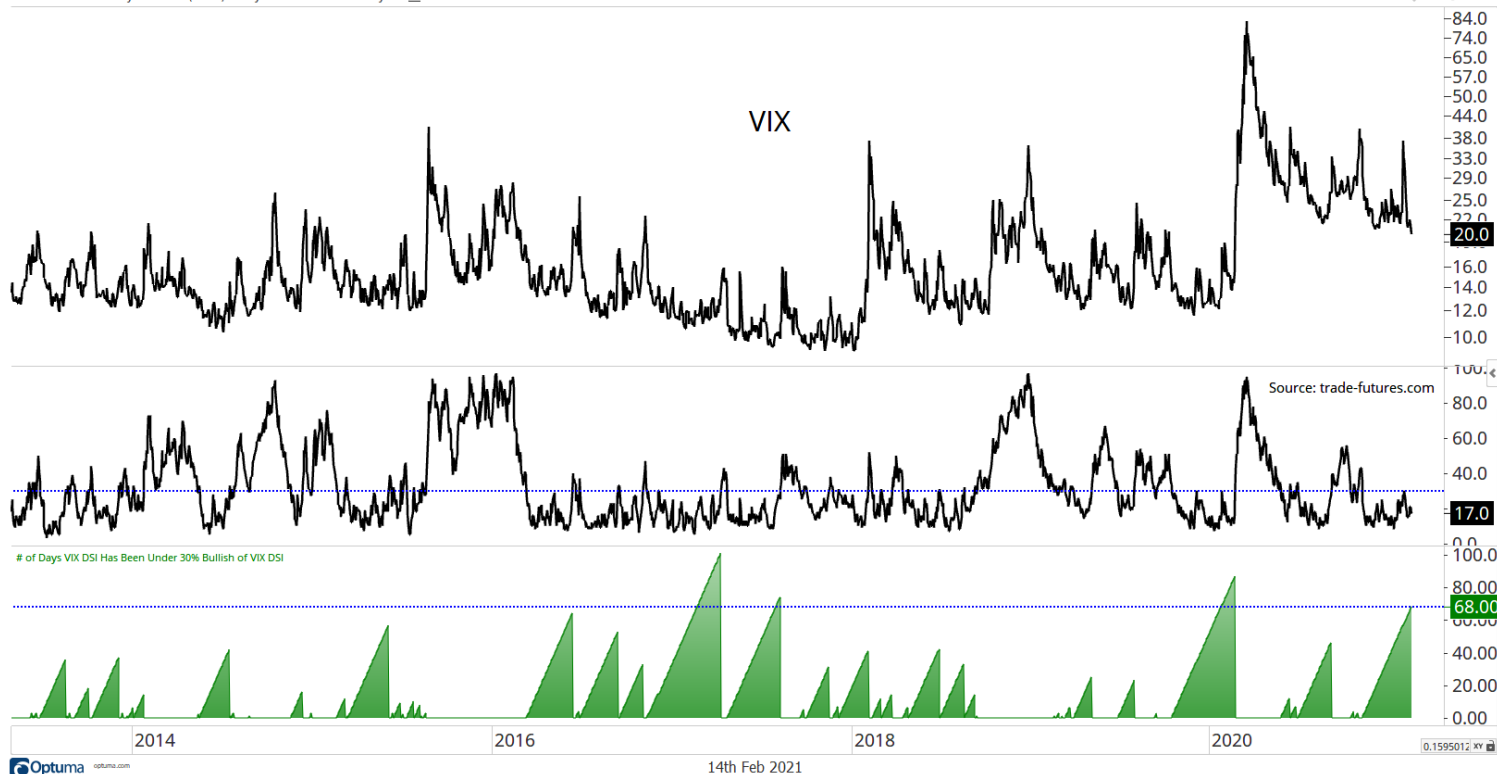
As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

In the final minutes of trading on Friday, spot \$VIX edged just below 20 for the first time since just before the Covid Crash last March. As meaningless as this "accomplishment" is, based on social media you'd think world hunger had been solved. Nonetheless, front month volatility contracts have moved lower with the back-end of the curve holding firm over 28. The old version, VRT 1.0 has signaled once again, like it had before the recent pop up to 37 at the end of January. However, the current version, VRT 2.0 remains below its signal threshold. What's pushing VRT 1.0 higher is the mean-reversion and spread between 1-3month volatility hitting levels of concern but this is not enough to get an official VRT 2.0 signal, so while I wouldn't be shocked to see spot cross back above 20, I'm not expecting any major sustained spikes just yet.



While VIX is just now getting back to pre-Covid Crash levels, sentiment towards volatility has been low for quite some time. Below is a chart of the VIX, the Daily Sentiment Index, and the number of trading days the DSI has been under 30. As of Friday, the % Bullish for the Volatility Index has been sub-30 for 68 straight days. The record was set in 2017. I don't think there's an edge in monitoring how many days we are below 30% bullish but I do think it shows the broad sentiment in the market, with little interest in futures trading getting bullish on volatility.

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



VOLATILITY - SKEW



Many traders put their nose up to the SKEW Index, dismissing it as a useless second derivative of options data. I disagree, I think there can be some usefulness found in SKEW data. One way I use this measure of deep OTM option activity is as it relates to the VIX. While SKEW has come down from an elevated, so as the VIX which has kept the ratio between the two still near its recent high. Typically before a turn lower equities we see the VIX outperform the SKEW Index, sending the ratio lower and diverging from the S&P 500. This has yet to occur. While sentiment is extremely elevated for risk assets, the options market has yet to begin preparing for a bearish trend in stocks.



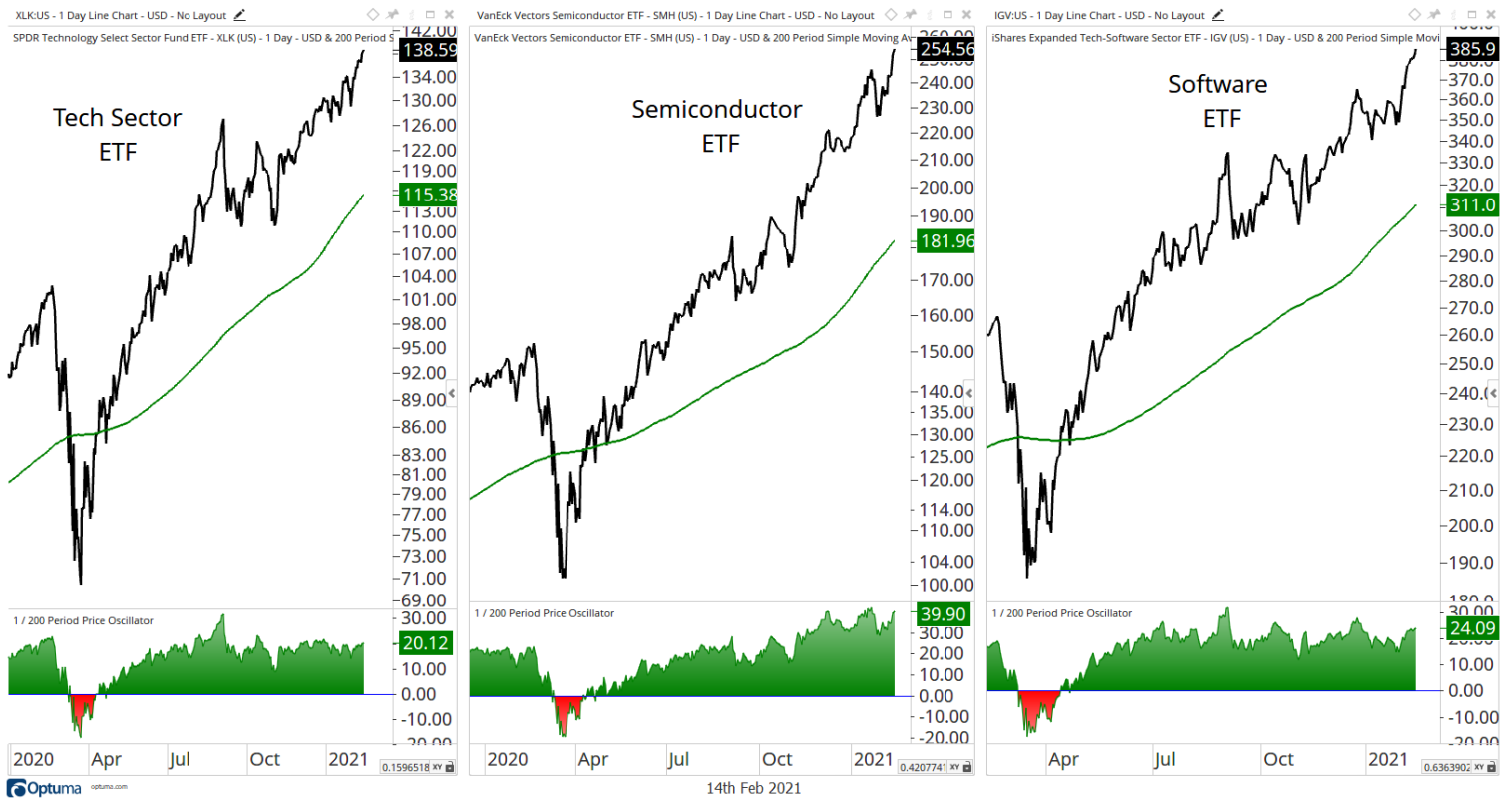
EQUITIES - S&P 500 DAILY



The Strength in the Market Health Report appears to have been correct in suggesting higher equity prices. The S&P 500 finished the week at a new all-time high as it rises further off the 50-day MA which was support a couple of weeks ago. Momentum is back in a bullish range but still sits below the prior swing highs. However, the current lower-high in the RSI is less of a concern as its still rising and the move higher remains bullish.



I've written in the past that semiconductors and software are good leadership markets for the tech sector and due to the size of tech, for the market as a whole. All three - technology, semiconductors, and software - hit new highs last week. Tech is 20% above its 200-day MA but that's been fairly "normal" of a spread since this past summer. Semiconductors are edging near 40% above its own 200-MA, a level that's a bit concerning but the strength here has bucked any signs of warning. Currently, all three display well-defined trends with no notable divergences among them, a positive sign.



EQUITIES - BREADTH



Below is the Nasdaq 100 with the percentage of Nasdaq 100 stocks at 52-week highs and 52-week lows. While the new high list has cooled for the S&P 500, although it has improved a bit, the more speculative and tech-heavy Nasdaq 100 has seen strong growth in its new high list. Friday finished with nearly 25% of stocks at a new high, a positive sign that there's plenty of strength internally for the index.



EQUITIES - BREADTH



To show the strength in the Nasdaq 100 another way, below is the average stock's distance from its 1-year high. The average stock is now just 6.2% from a 52-week high, the highest since just before the March 2020 crash. Broadly, the stocks within the Nasdaq 100 continue to climb and recover their 2020 declines. The smallest average distance in recent years was back in January 2018 of almost 5%, a level not far from where we are today.



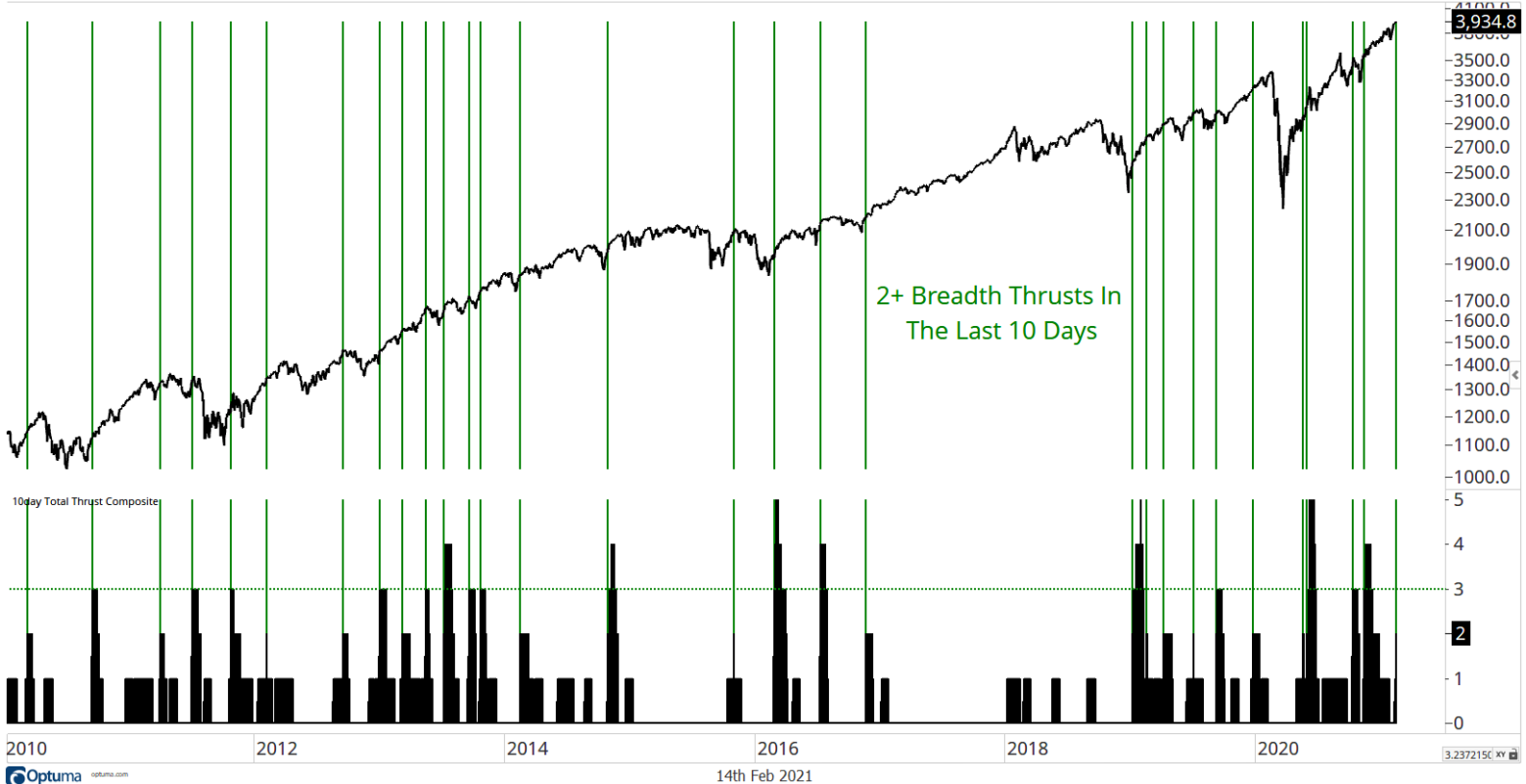
EQUITIES - BREADTH THRUSTS



Last week we had two breadth thrusts triggered in equities. I monitor several different methods for measuring "breadth thrusts" and the below chart plots a running tally of them over a trailing 10 day period. The green lines show when there's been at least two in the last 10 days. Breadth thrusts are historically long-term bullish, showing strong internal strength of individual stocks. Short-term, breadth thrusts can be followed by pullbacks as stocks get slightly stretched to the upside (like we saw last September) but broadly these types of market developments are bullish.

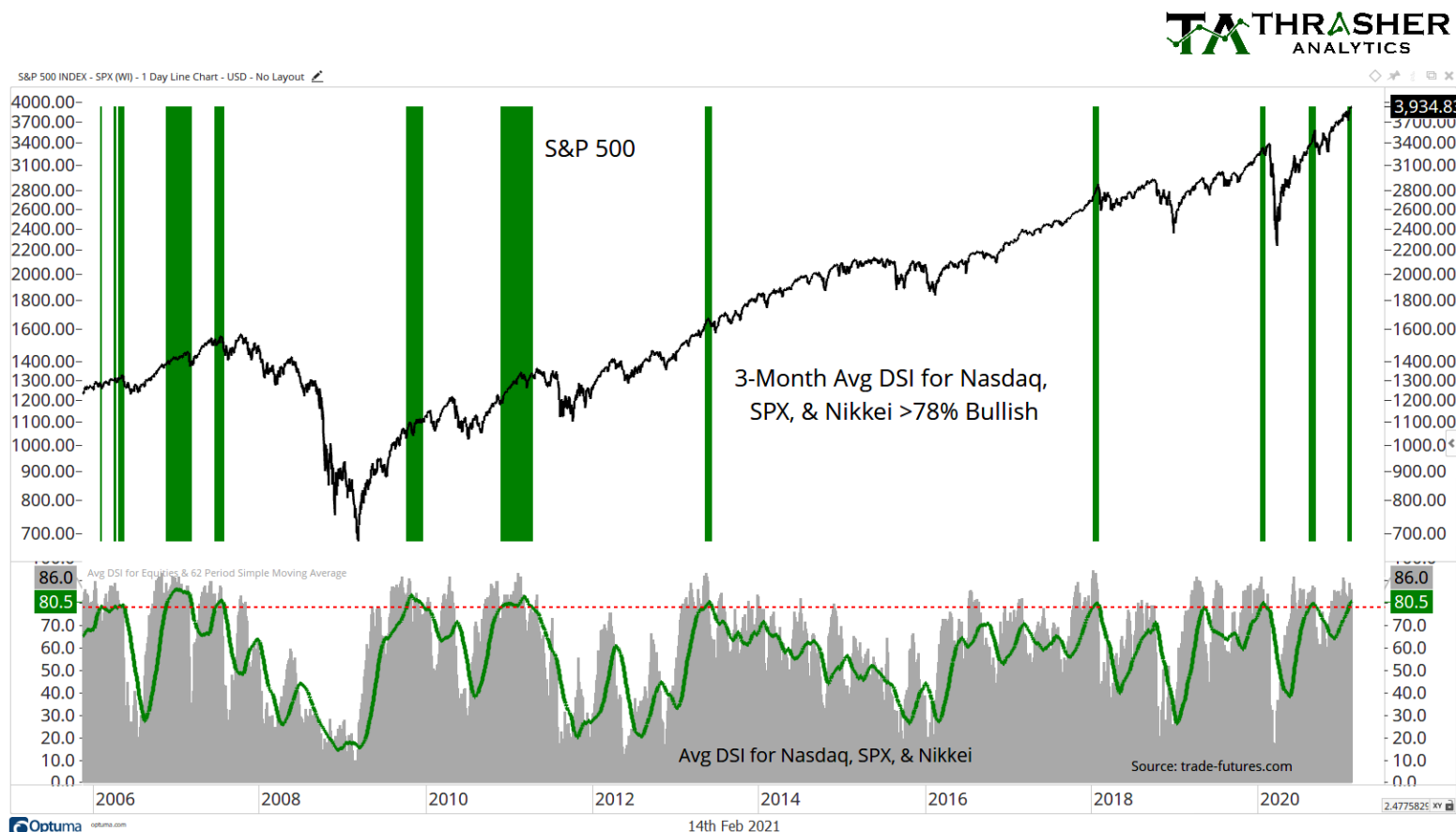


S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



I've mentioned several times in prior letters just how stretched sentiment is. Last week I shared the 50-day average DSI for the Nasdaq 100, below is a similar chart but looking at the average Daily Sentiment Index for the S&P 500, Nasdaq 100, and Nikkei. The 50-day average for these three equity indices is now above 80%. When we've seen in the past sentiment be this high over a long period of time (Sept. '20, Feb. '20, Jan. '18), stocks responded by moving lower. This decline in equities didn't necessarily occur immediate, such as in Jan. '18 elevated sentiment persisted for nearly two weeks before a 10% decline. Looking further back we had a tiny dip in 2013 and a double-digit decline a few weeks later in 2011, a minor pullback in early 2010, and then just before the 2007 peak.

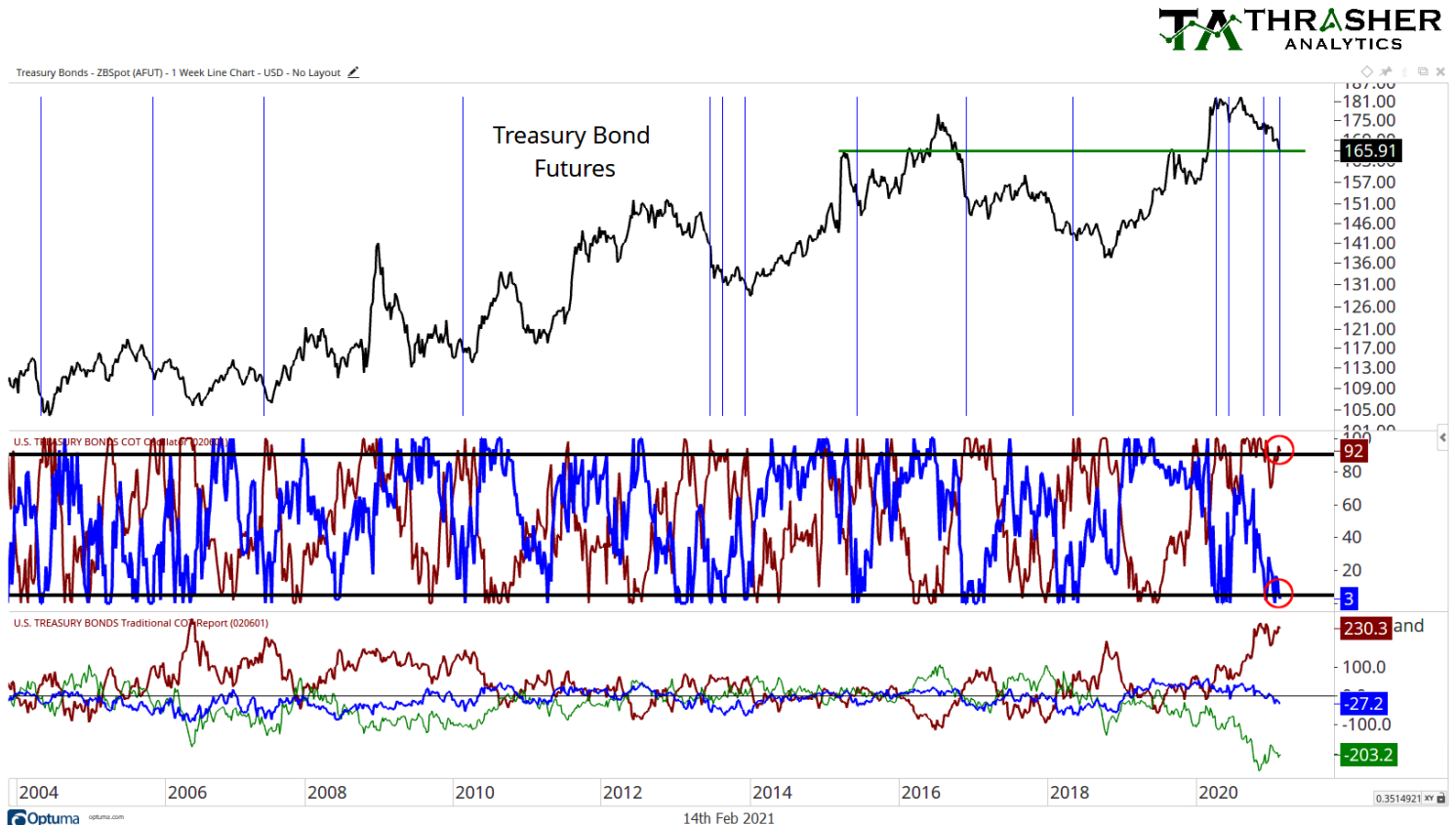
Some traders and analysts argue passionately that sentiment is not stretched to the upside, I just can't seem to square that line of reasoning. I think this has short-term implications but with the strong internal support shown in breadth and the recent breadth thrusts, any decline we do see will likely be short-lived.



The COT profile for Treasury Bond futures is getting interesting. Small Traders net-position (blue line) have fallen to the 3rd %tile while the net-position of Commercial Traders (red line) is up to the 92nd %tile. I've drawn blue vertical lines when Small Traders get below the 5th %tile and Commercial rise above the 90th. My takeaway from this is the wide spread between the Small and Commercial often has developed prior to a final low in Treasury Bonds but it seems the low then isn't too far off.

Once the Small Traders have finished exiting their long positions, the selling seems to soon dissipate and bonds are able to start rising again, matching the bullish consensus of the Commercial Trader. This isn't always the case of course, back at the peak in bonds Small Traders had it right, with a low net-position, but besides then the Commercial Traders are often on the right side of the next leg in bonds.

In the bottom panel of the chart you can see just how large a net-position Commercial Traders have, one of the largest in over ten years.



SECTORS - PERFORMANCE



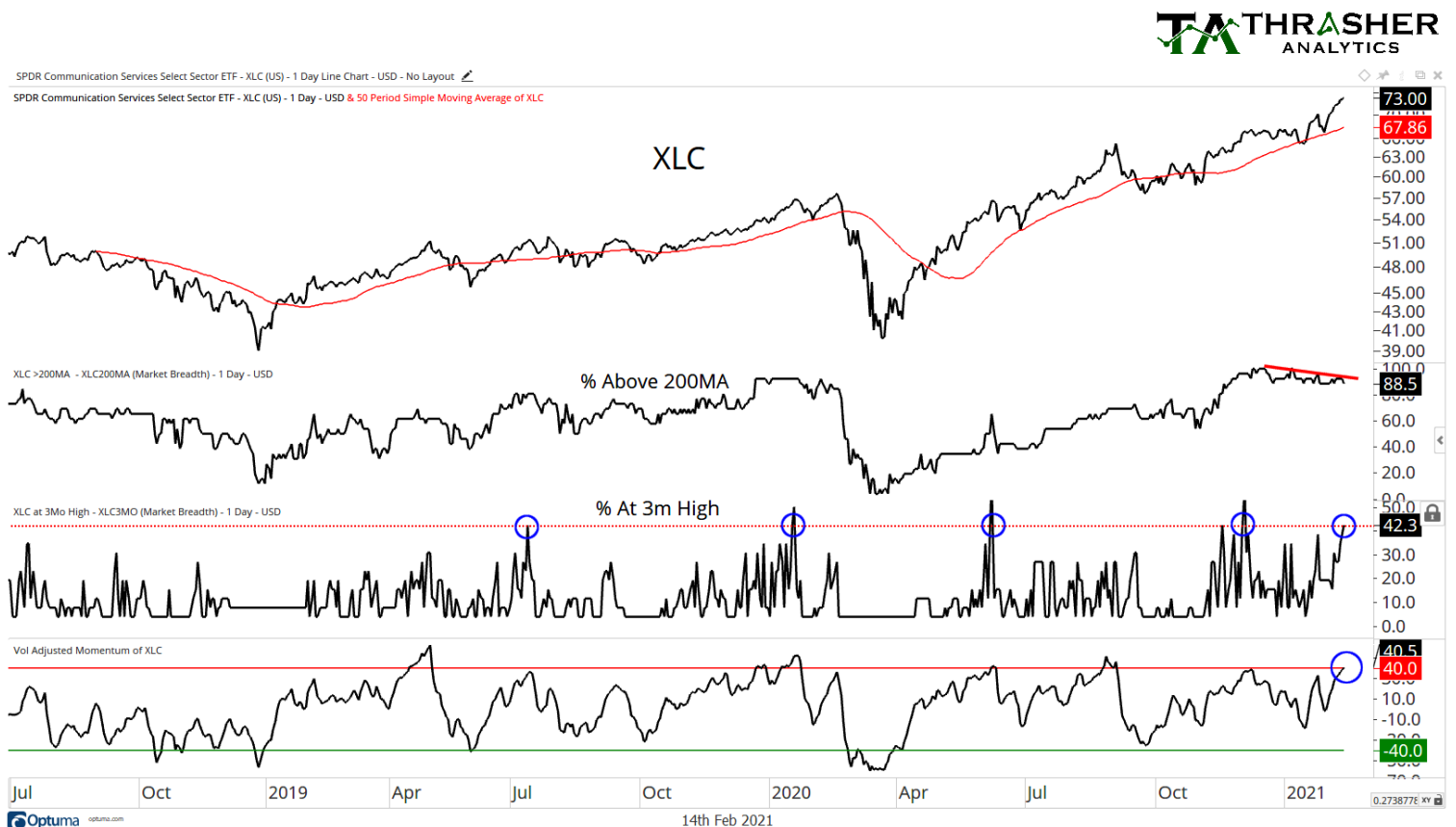
by Thrasher Analytics

Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	4.96%	2.60%	36.65%	-18.84%
SPDR Technology Select Sector Fund ETF	True	True	2.42%	7.38%	15.32%	36.15%
SPDR Communication Services Select Sector ETF	True	True	2.23%	11.93%	15.56%	28.39%
SPDR Financial Select Sector Fund ETF	True	True	2.04%	0.57%	18.54%	1.22%
SPDR Industrial Select Sector Fund ETF	True	True	1.47%	-0.19%	7.63%	5.95%
SPDR Health Care Select Sector Fund ETF	True	True	1.39%	0.53%	5.92%	12.4%
SPDR Real Estate Select Sector Fund ETF	True	True	1.13%	9.35%	4.64%	-6.76%
SPDR Materials Select Sector Fund ETF	True	True	1.1%	-4.05%	9.58%	22.43%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-0.11%	-0.64%	-1.38%	2.23%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-1.11%	1.28%	12.79%	28.91%
SPDR Utilities Select Sector Fund ETF	True	True	-1.53%	1.95%	-4.31%	-9.44%

Code: SPDR Select Sector Fund ETF

Last week I wrote about the Industrials Sector, which rose to hit new highs. This week I want to spotlight the Communications Sector (XLC).

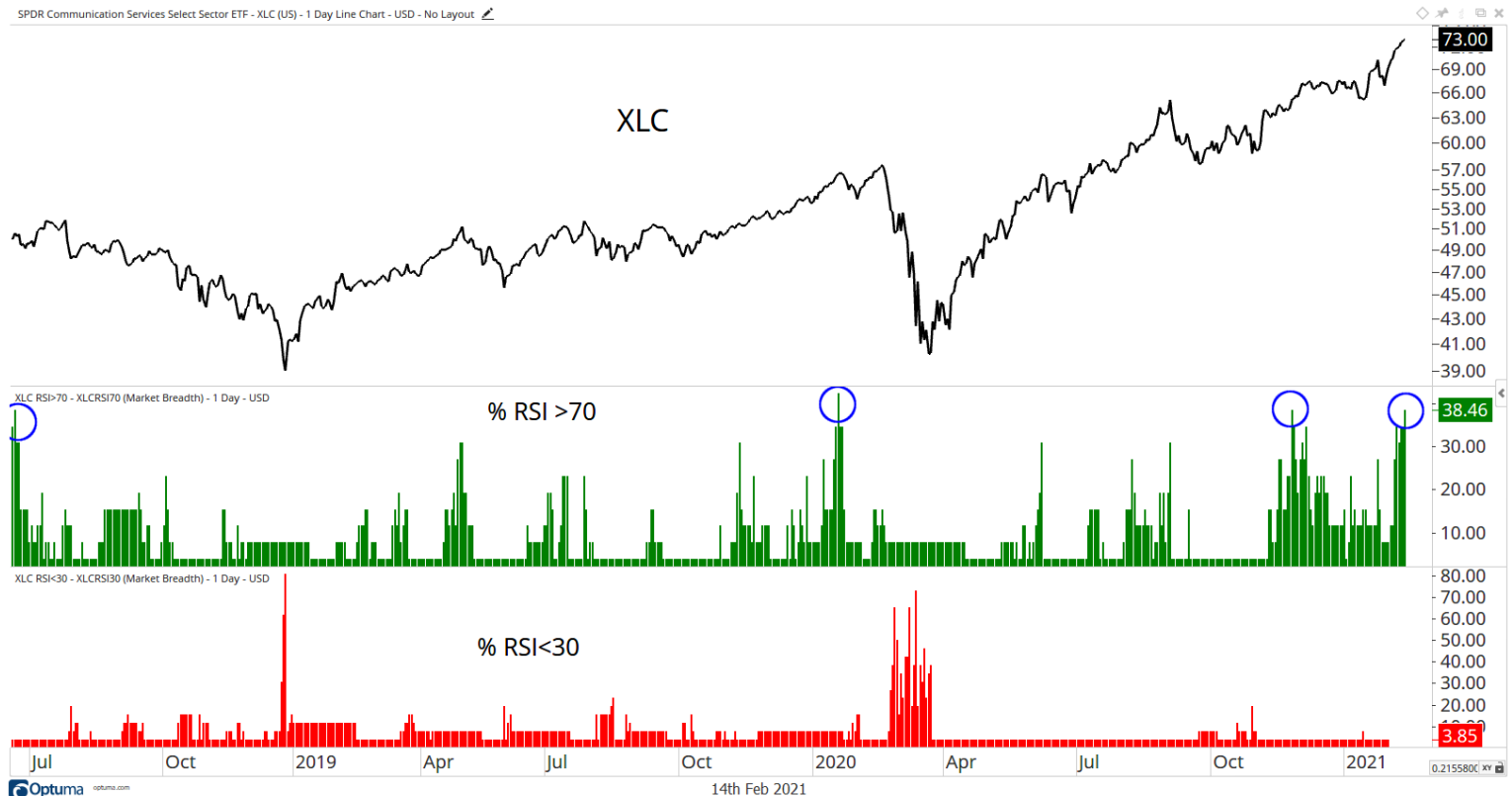
A few things concern me for this sector, first the recent drop in the % above the 200-day MA which has gone from 100% to 88%. However we saw on Friday a pop to a 3-month high by 42% of the sector, which previously has lead to some consolidation in XLC and often a pullback to the 50-day Moving Average. Volatility-Adjusted Momentum has also now risen to 'overbought' for XLC, suggesting we could see a mover lower. More on this sector on the following page.



On the last page I showed how vol-adjusted momentum is 'overbought'. Below is a chart showing the percentage of the stocks within the Communications sector that have a RSI above 70 or below 30.

"overbought" momentum based on the RSI is a long-term positive, strong momentum is a good thing! But short-term it can bring sellers seeking mean-reversion to take hold. With the pop of 42% of the sector to a 3-month high, 38% also now have an RSI over 70. Like the 3-month figure, this rise in RSI for so many stocks has historically led to pullbacks in XLC.

The two largest holdings in XLC are two of the FAAMG group: Facebook and Google, accounting for 19.6% and 12.6% of XLC, respectively. Other popular stocks also sit with large weightings including Twitter, Netflix, and Disney.



DAILY SENTIMENT INDEX

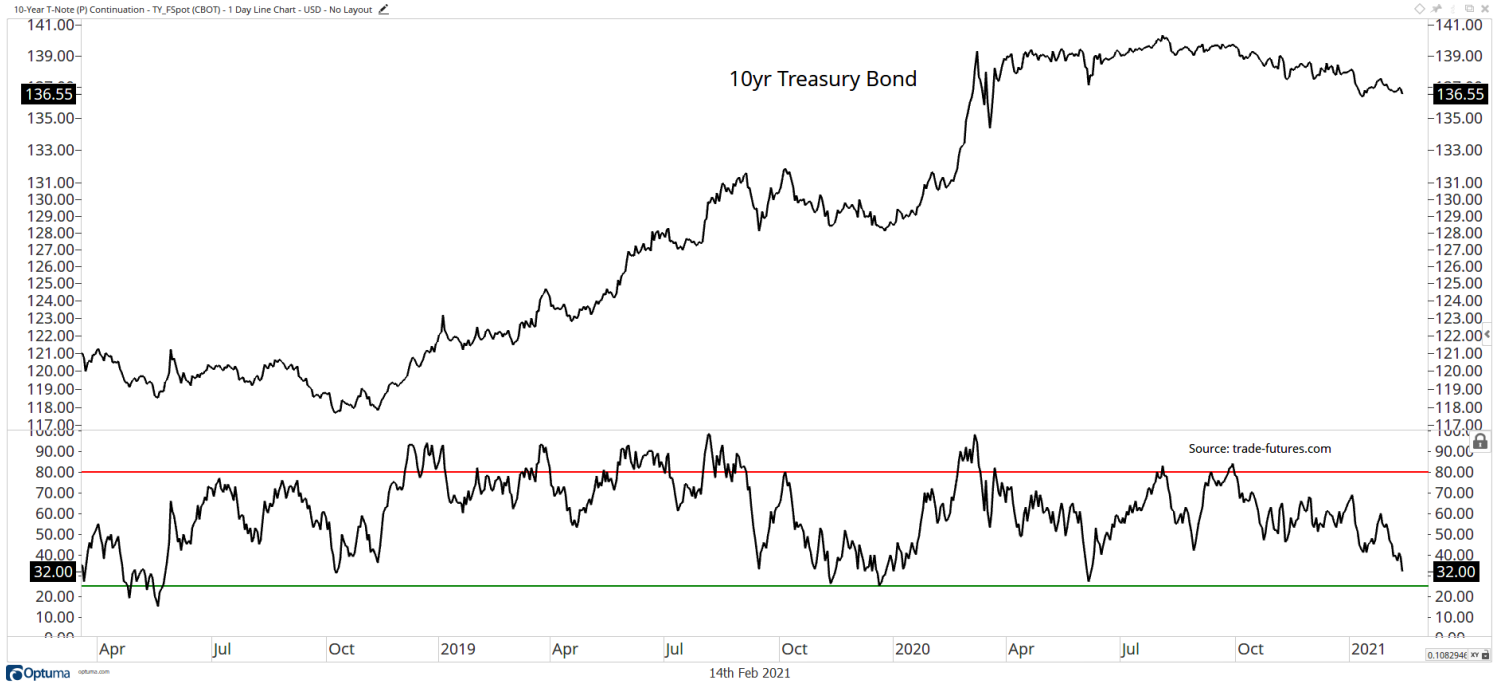


Market	% Bullish [▲]	SMA	History [📄]
VIX DSI	17	18.2	
Coffee DSI	20	24.4	
US Dollar DSI	27.00	26.00	
10Y DSI	32.00	37.80	
5YR DSI	34.00	39.20	
Cocoa DSI	37.00	36.20	
Orange Juice DSI	41.00	46.00	
Gold DSI	44.00	48.20	
Cattle DSI	46.00	40.20	
Wheat DSI	47.00	51.60	
Natural Gas DSI	52.00	50.00	
Palladium DSI	55.00	50.20	
Swiss Franc DSI	60.00	59.20	
Euro DSI	62.00	60.40	
Sugar DSI	66.00	67.20	
EuroDollar DSI	67.00	67.00	
Corn DSI	69.00	74.60	

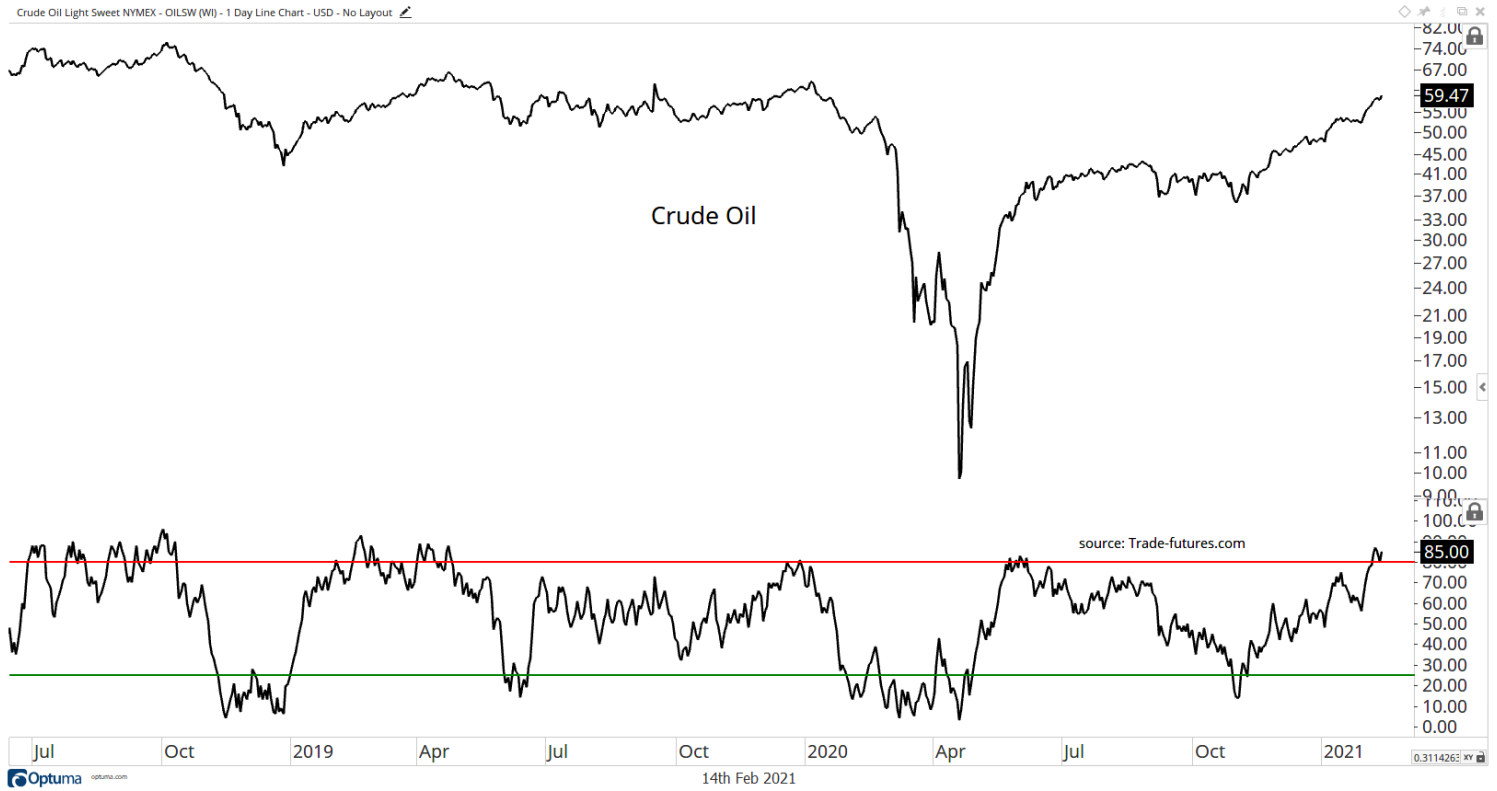
<input type="checkbox"/>	Code	% Bullish [▲]	SMA	History [📄]
<input type="checkbox"/>	Mexican Peso DSI	70.00	67.60	
<input type="checkbox"/>	New Zealand Dollar DSI	71.00	72.60	
<input type="checkbox"/>	British Pound DSI	75.00	75.80	
<input type="checkbox"/>	Australian Dollar DSI	77.00	76.00	
<input type="checkbox"/>	Silver DSI	78.00	79.00	
<input type="checkbox"/>	Gasoline DSI	79.00	79.80	
<input type="checkbox"/>	CRB Index DSI	80	81.6	
<input type="checkbox"/>	SPX DSI	81	78.60	
<input type="checkbox"/>	Heating Oil DSI	84	83.8	
<input type="checkbox"/>	Platinum DSI	85	82.8	
<input type="checkbox"/>	Crude Oil DSI	85	84.2	
<input type="checkbox"/>	Lean Hog DSI	87	82	
<input type="checkbox"/>	Copper DSI	87	82.2	
<input type="checkbox"/>	Nikkei DSI	88	86.4	
<input type="checkbox"/>	Cotton DSI	88	83.6	
<input type="checkbox"/>	Nasdaq DSI	89	86.8	
<input type="checkbox"/>	Lumber DSI	91	88.4	

Source: trade-futures.com

DAILY SENTIMENT INDEX



DAILY SENTIMENT INDEX



DAILY SENTIMENT INDEX



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



DAILY SENTIMENT INDEX



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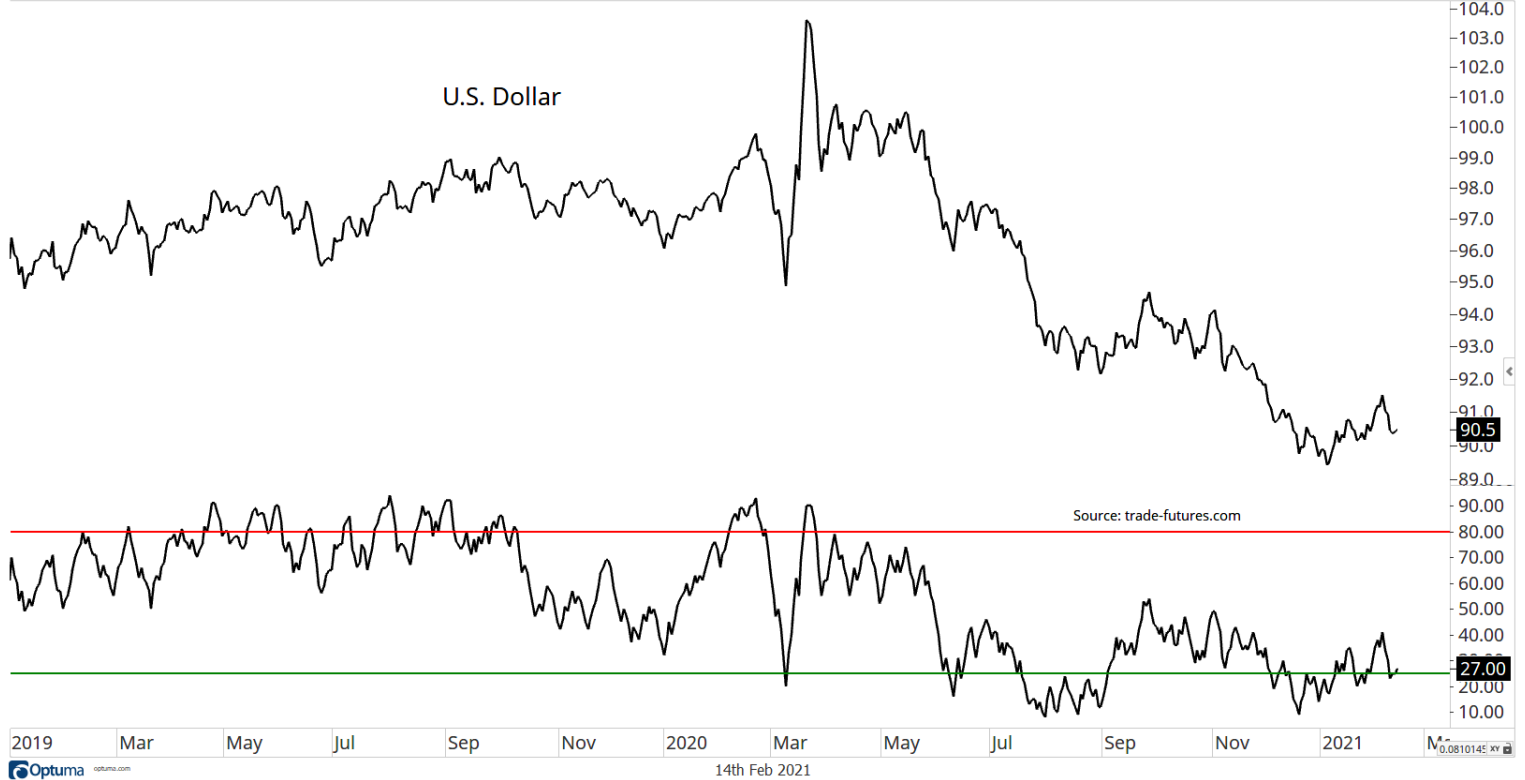
NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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



DAILY SENTIMENT INDEX



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



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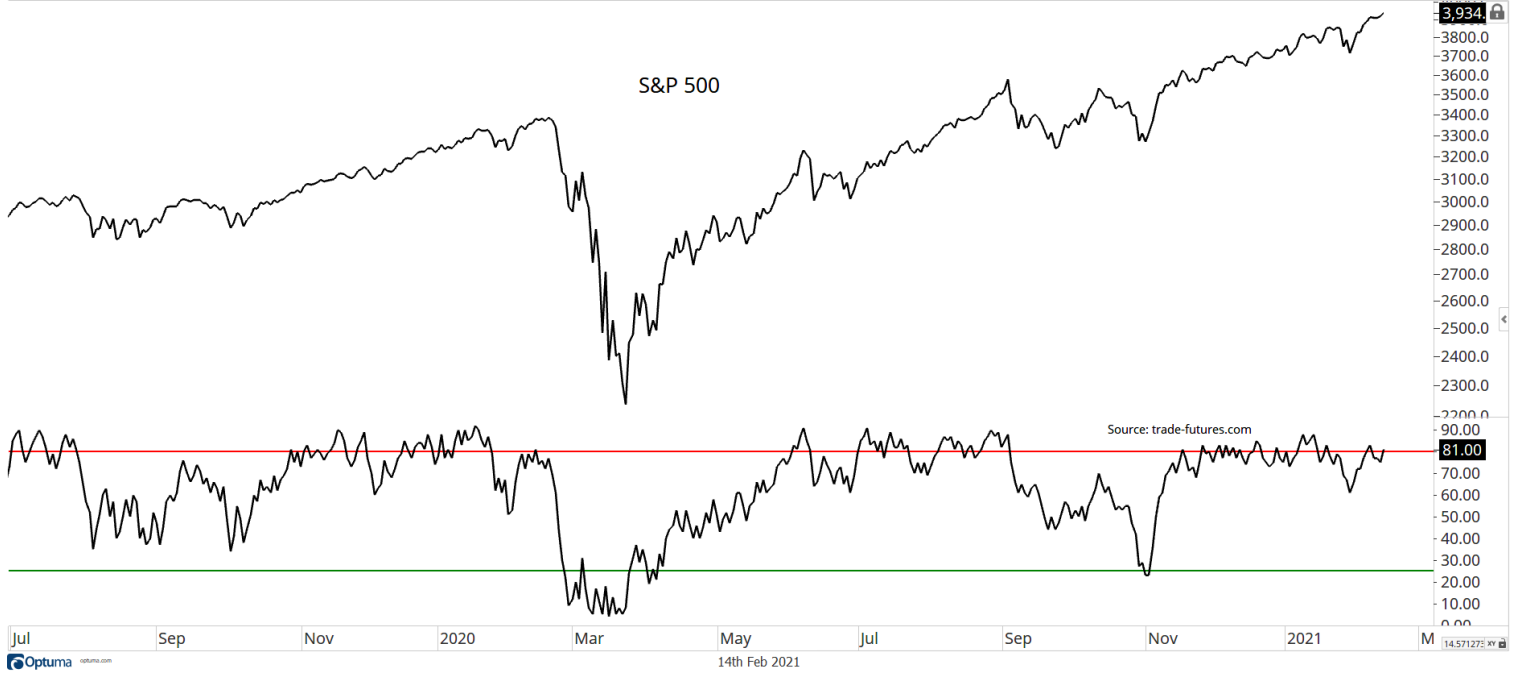
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DAILY SENTIMENT INDEX



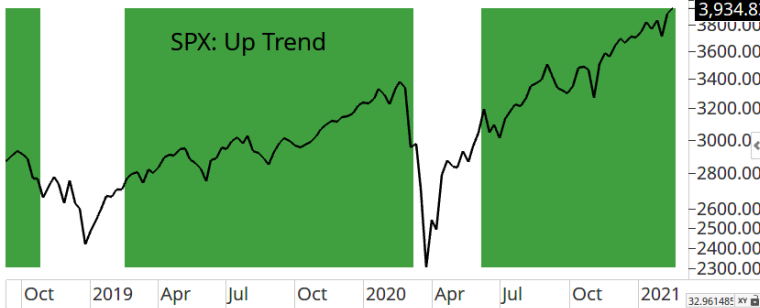
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



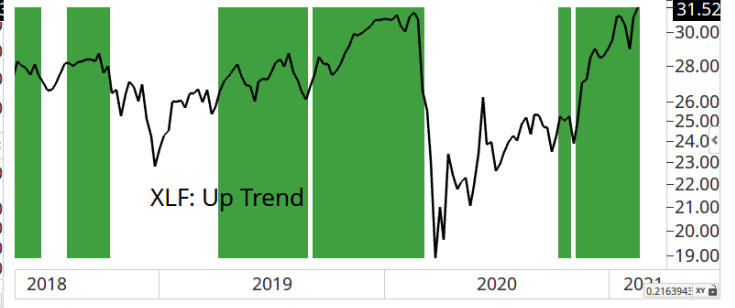
TREND MODELS



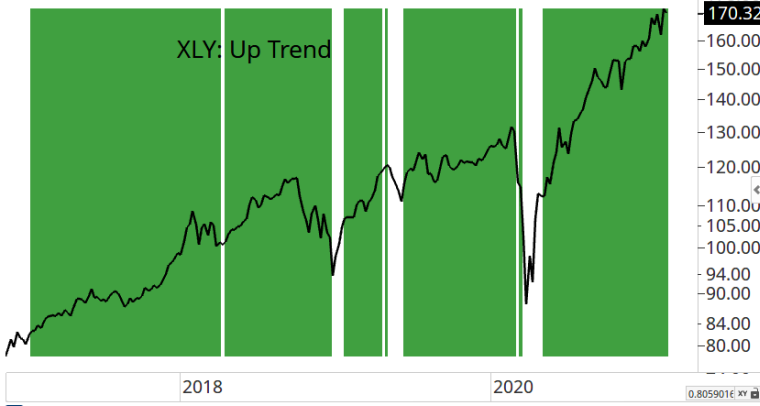
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout



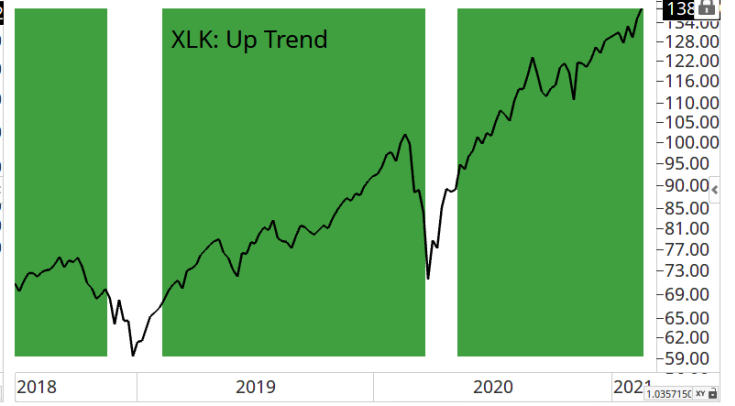
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



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



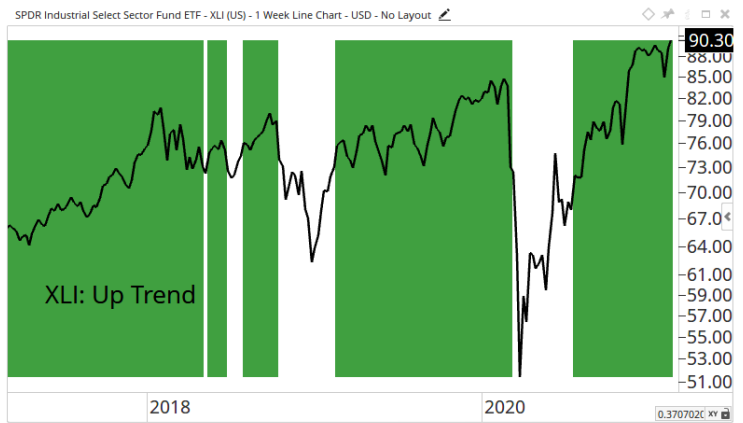
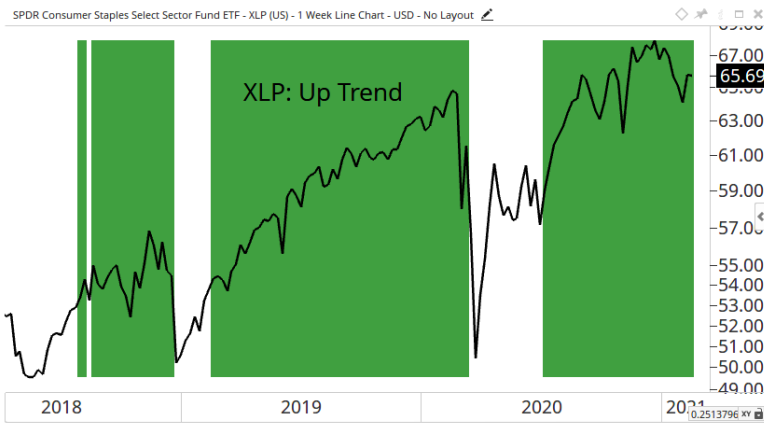
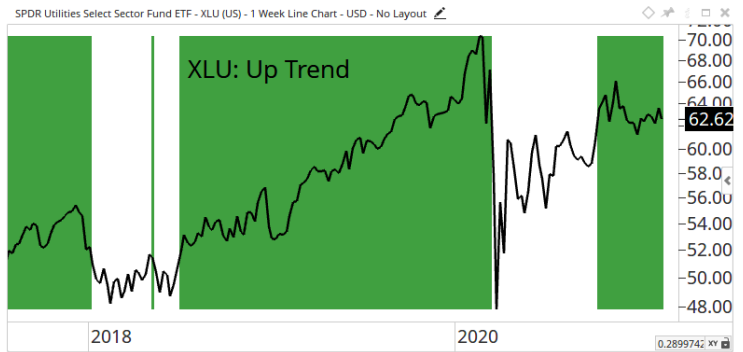
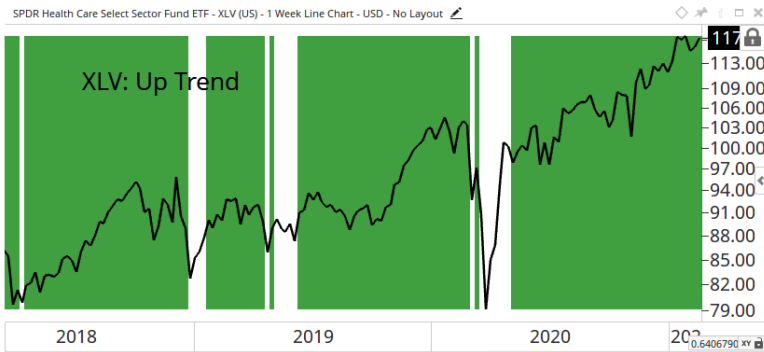
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



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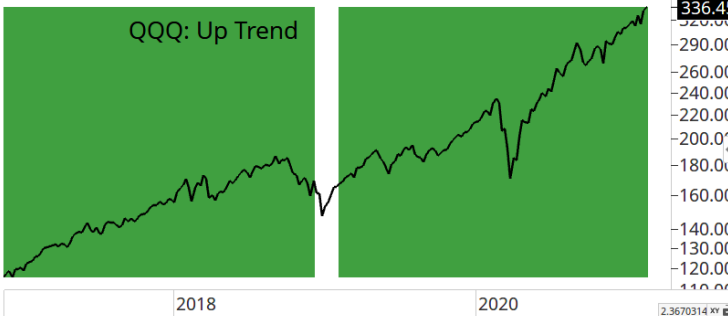
TREND MODELS



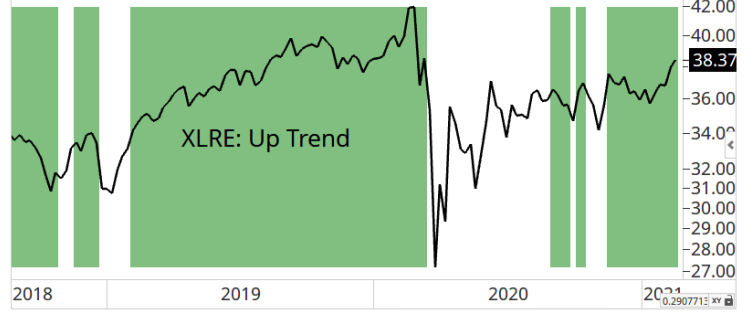
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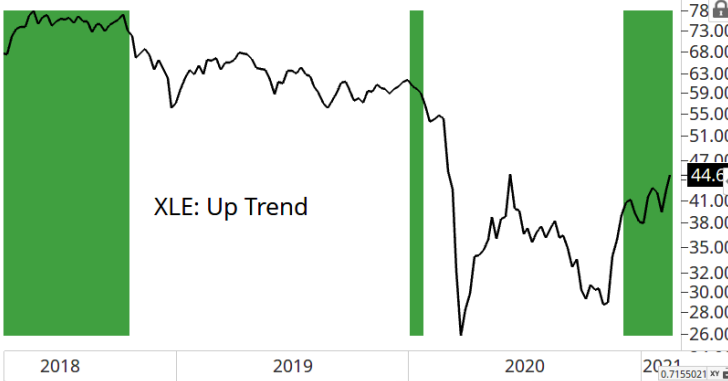
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



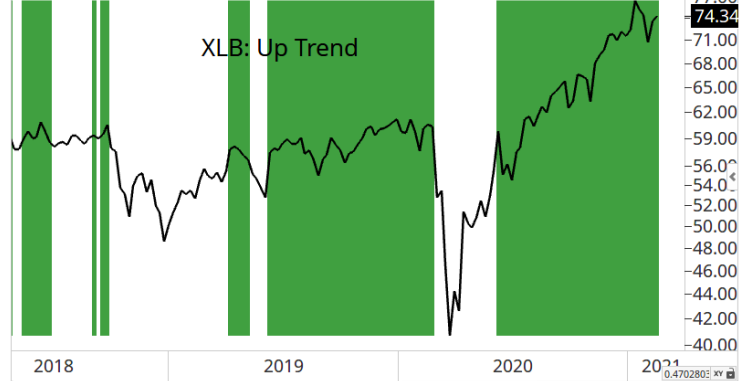
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



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



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



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