THRASHER ANALYTICS

FEBRUARY 21, 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. • Treasury action could provide next stimulus. • Offense sector leadership.	• Equity sentiment is extremely high. • Intermediate-term breadth moves lower for SPX & Nasdaq 100. • Commercial Traders buying VIX futures. • Bond-stock yield ratio stretched. • Oil & gasoline sentiment elevated.

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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	2
Sentiment	2
Trend	1
Volatility	2
Total	**8**

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	69%	76%
Nasdaq 100	66%	78%
Nikkei	81%	87%
VIX	21%	20%
10yr Treasury	15%	19%
5yr Treasury	22%	25%
CRB Index	78%	85%
Gold	31%	30%
U.S. Dollar	22%	26%

*Green<25% Red>80%

source: trade-futures.com

Brief Summary:

Risk towards equities is elevated as sentiment continues to show excessive optimism. However, my models remain supportive and based on the Market Health Report and Volatility Risk Trigger. I'm also not seeing signs of a parabolic top like we experienced in early '18. The recent weakness in large cap breadth has been made up by strength in small/mid caps. A continuation in small cap strength would be bullish. I remain positive on stocks but still cautious in each step higher.

This week we'll year from Powell and inflation will likely be a big focus as well as his continue to push for more fiscal support from Congress. 1.5% on the 10yr is often referenced as a key level for the Fed, we finished last week at 1.345%.

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).

It seems all the fanfare of spot VIX breaking a few basis points below 20 was for not, as we popped right back over the 20-threshold during trading last week. There was no significance to the length of time VIX spent above 20 but you couldn't tell based on how much attention it got. Anyway, we remain without a signal from the VRT 2.0 as daily dispersion for volatility remains high.

Last week I discussed the long-term low level of bullishness for VIX futures. What's interesting is this low bullishness is coming during a time that Commercial Traders are building up a net-position in the VIX contracts. In fact, the net-position percentile for Commercials has risen to the 83rd (2nd panel on the chart below), the highest since early 2020. Looking at their net-position in context of what the Large and Small Traders are holding and the percentile goes to 100 (panel panel on the chart), which I've marked blue vertical lines on past occurrences. Meanwhile, Large Trades (asset managers) are holding a low 18th %tile position, showing a lack of interest in taking on volatility exposure. Large Traders aren't great at owning VIX when they should, before it spikes higher, their net position almost always is at basement levels before a material rise in volatility occurs. So seeing Large Traders shun away from vol and Commercial Traders loading the boat to one of the largest net-long positions in ten years (middle panel), it catches my attention.

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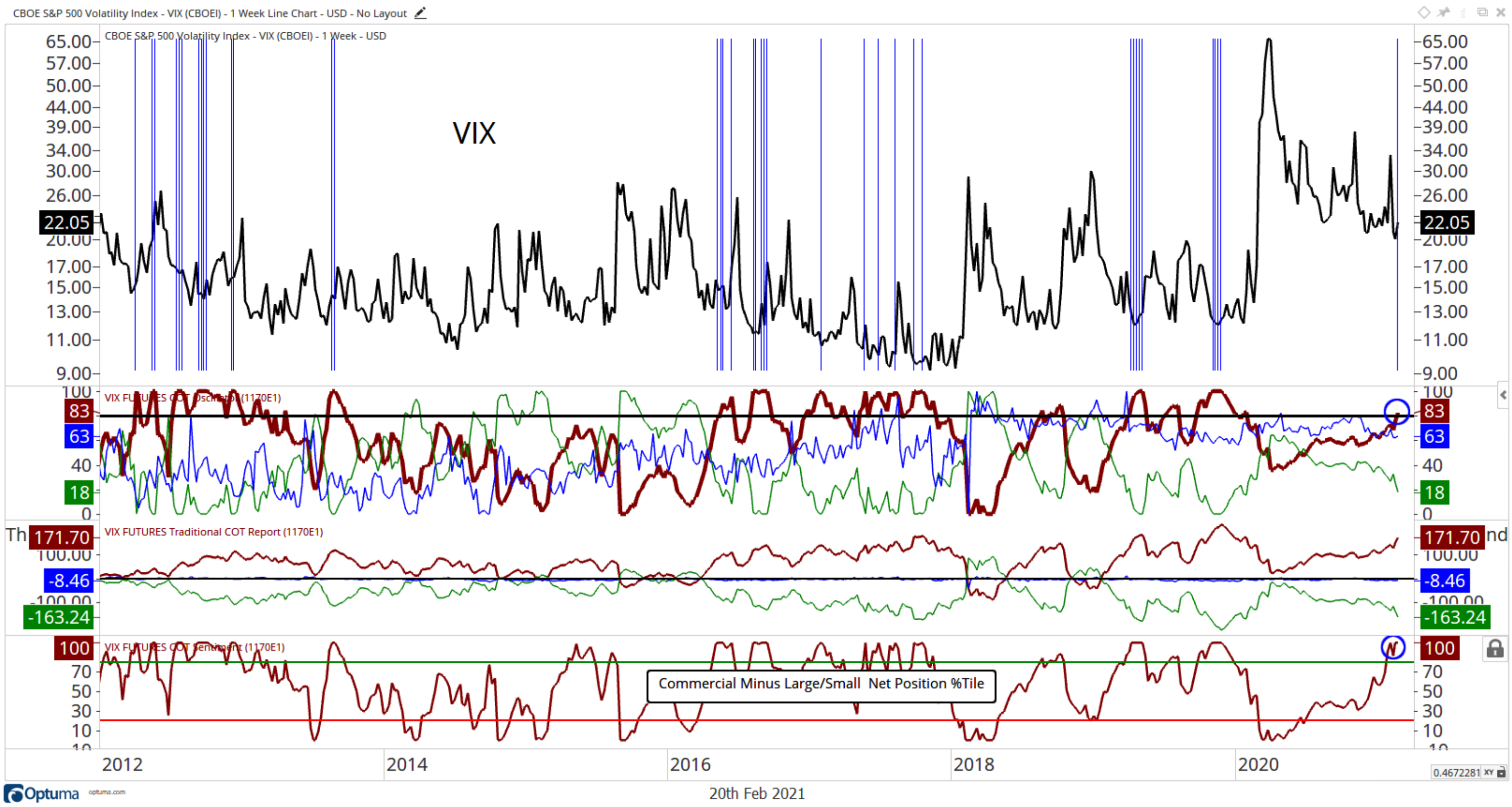
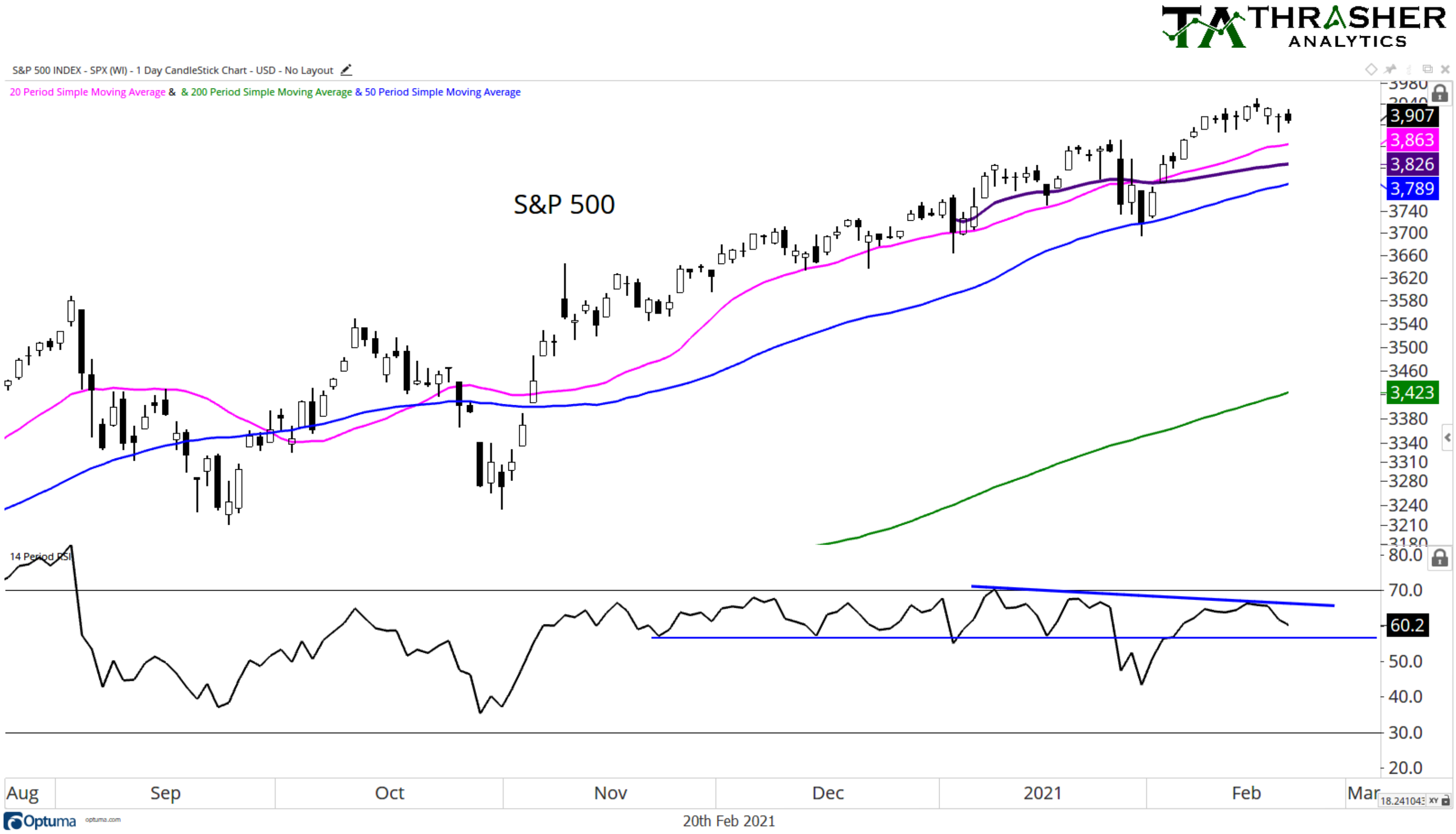
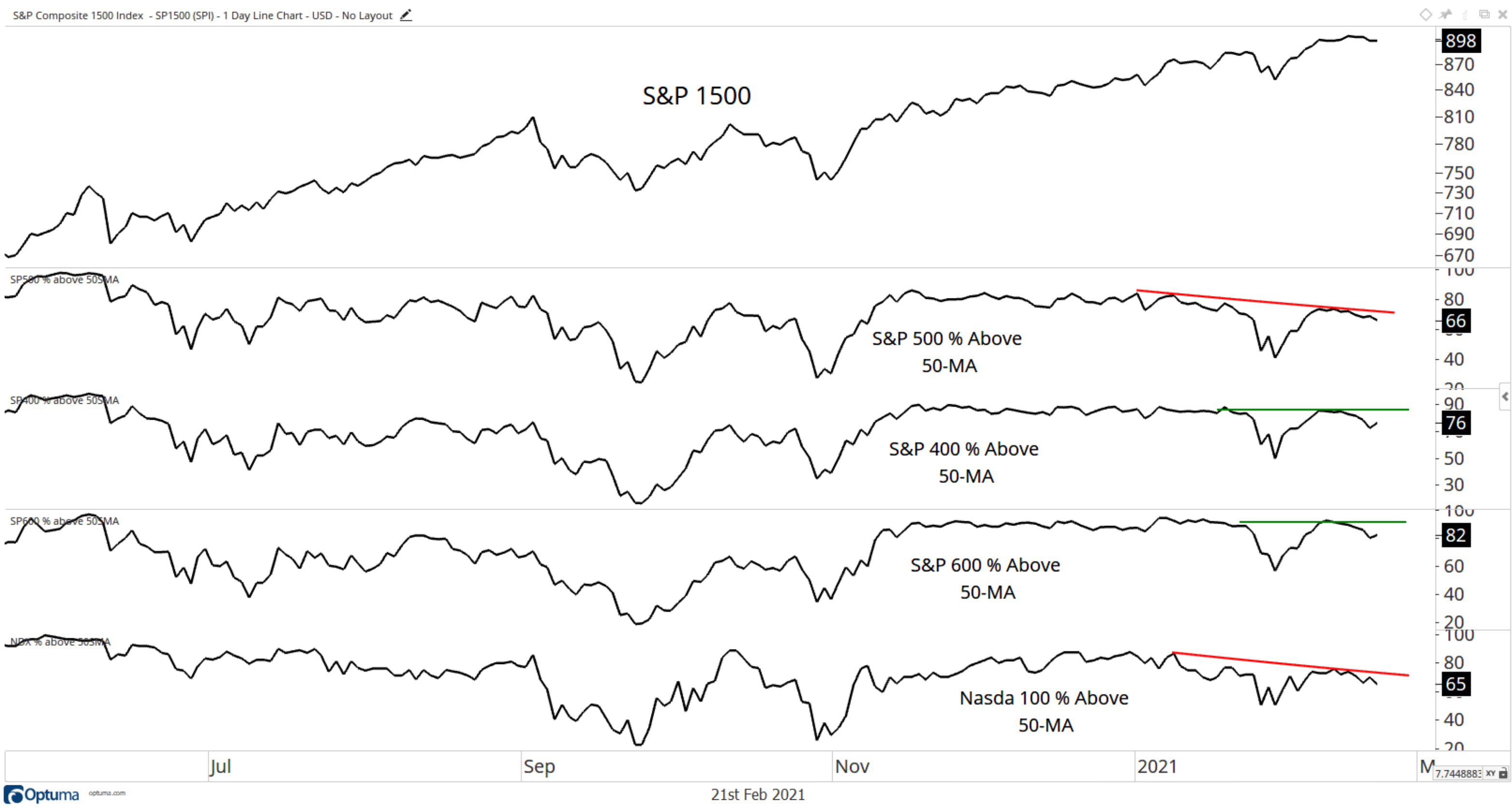


Equities - S&P 500 Daily

The S&P 500 moved slightly lower last week but still holding firm above its short-term 20-day moving average as well as its longer-term moving averages. Momentum has continued to make a lower high even with the intra-week new record high in price. However, the RSI is still in a bullish range long-term. The Market Health Report continues to show internal strength for the market but the stretched sentiment has not been forgotten. Small/mid caps have retained control of leadership, buoying the market in spite of large cap weakness. More on this on the next page.



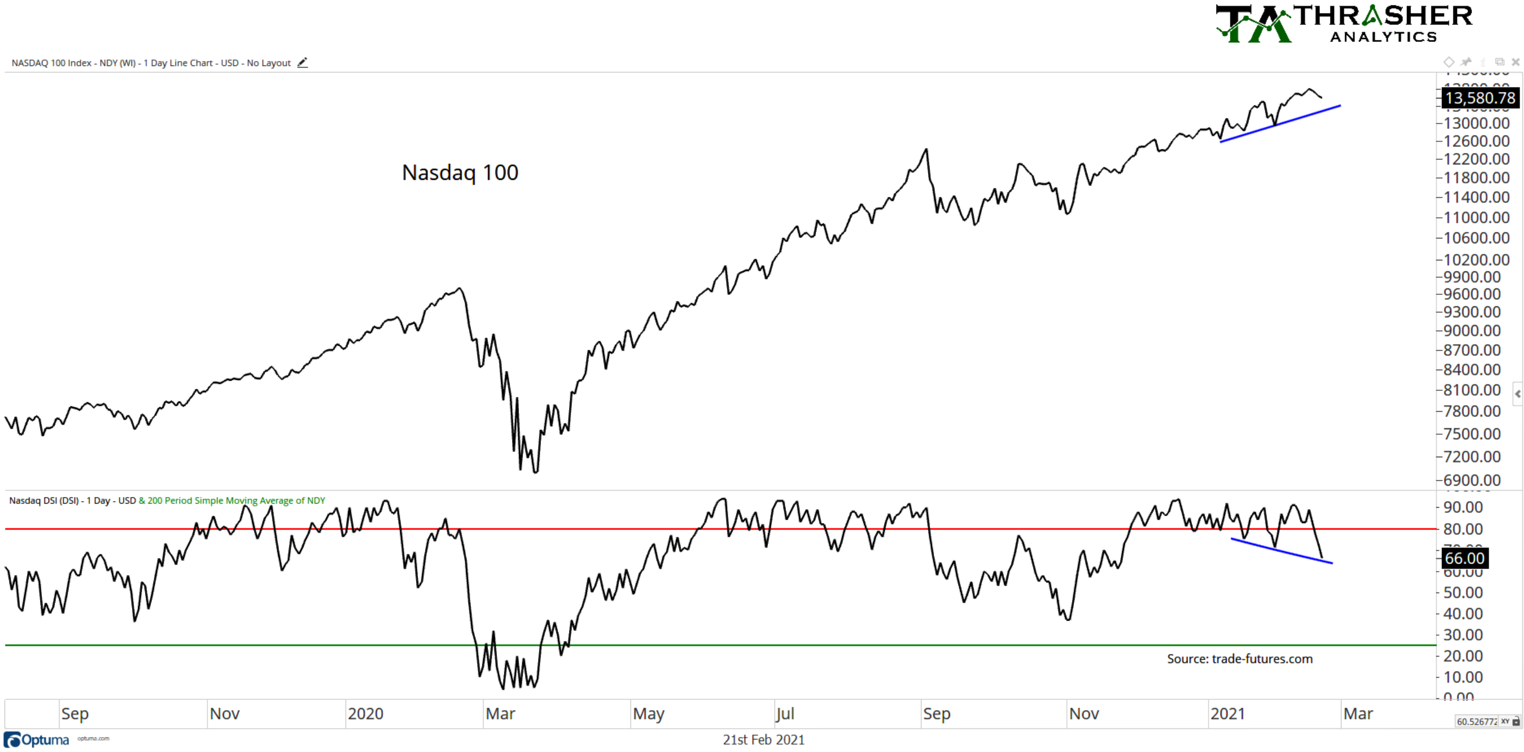
There seems to be a slow bleed in intermediate breadth for the the S&P 500 and Nasdaq 100 with more stocks starting to move below their respective 50-day moving averages. You can see this on the chart below. However, the strength has shifted to the S&P 400 & 600 as mid and small caps have yet to show matching weakness to their larger-cap breadthen. I've written before that it's okay for large caps to under-perform, as we've been witnessing with the FAAMG group, but if they start to lose footing in an absolute sense, that's a much harder pill for the broad market to swallow. So far the rotation has been accepted and price action, while dipped last week, has not panicked just yet. From here I'm watching breadth data for small and mid caps very closely for any signs of cracking as they remain the stronger leg of the proverbial stool at this point.



While the S&P 500 saw a slight dip last week, sector leadership remained strong as the ratio between offense and defense sectors hit a new high on Friday. If investors are worried right now (they aren't) then they aren't expressing it in their sector trading.

For those that were readers back in September, I had discussed the weekly engulfing candle pattern on the Nasdaq 100 which occurred at a fresh high. This isn't something we see happen very often, which is why I discussed it. This is historically a bearish pattern and back in September we did see stocks slide for a couple of weeks before dip buyers came rushing in at the end of the month. Well once again we have another engulfing pattern at a 52-week high. The chart below shows past occurrences since 1985. The results are fairly mixed, with the two most recent examples being last September and at the peak in Q4 2018. I view this as second tier data, meaning it doesn't supersede my primary models but is interesting to take note of.

In the past two letters I've highlighted the high long-term readings in the DSI for equity indices, specifically the Nasdaq 100 (two letters ago). Since then I've noticed that DSI % Bullish for NDX has been making lower-lows while price is making higher-lows. Each minor dip in price has quickly been bought but has also pushed sentiment lower each time. Referencing the chart from last week of the combined DSI for SPX, NDX, and Nikkei which has been north of 80% on average for 3-months. Is this pattern of lower-lows in sentiment for the Nasdaq 100 a sign of cracking? What matters most, as always, is if price responds.

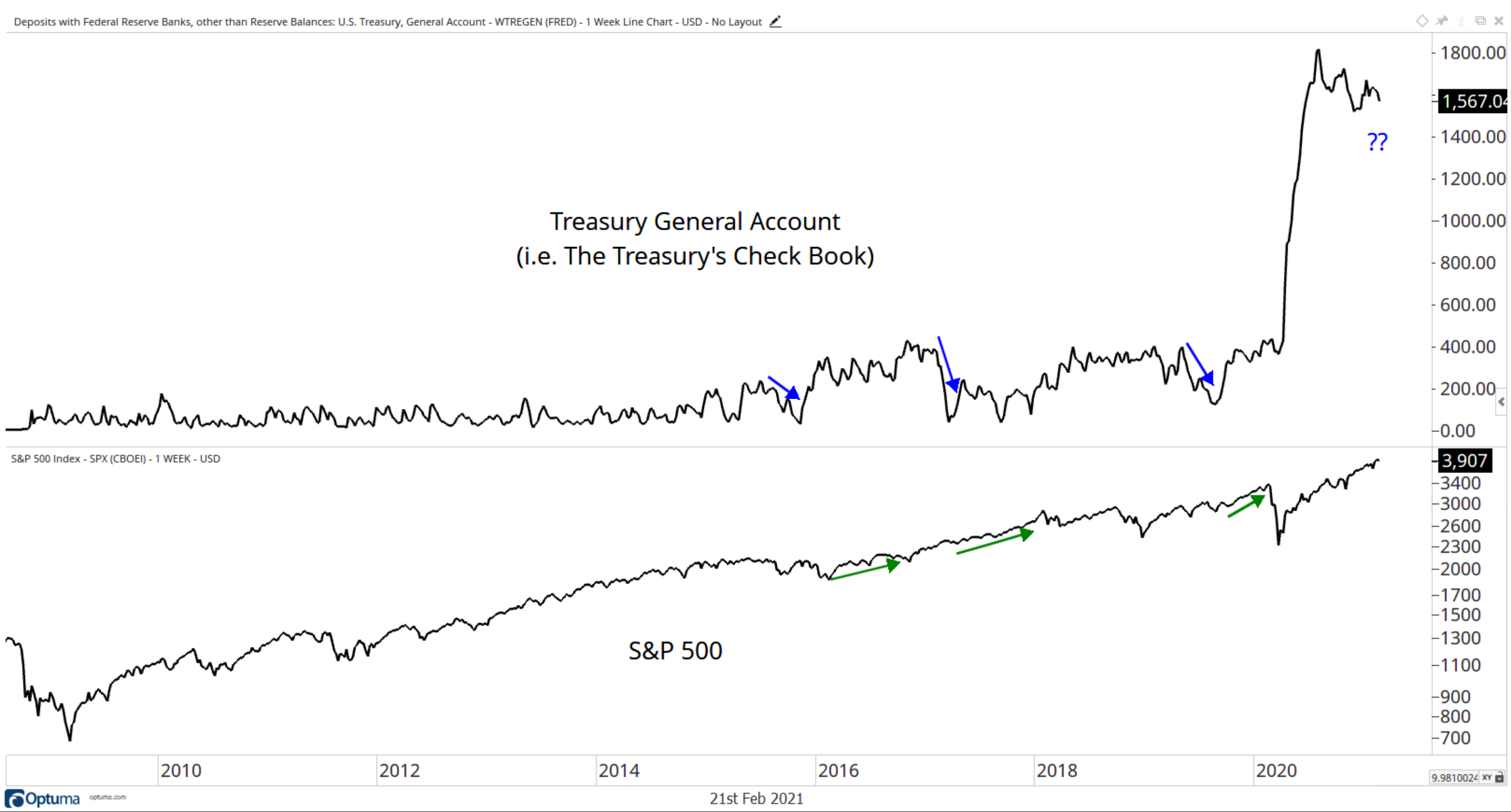


Equities - Treasury Account

Potentially one of the most bullish arguments from a fiscal/monetary perspective in my eyes is the upcoming winding down of the Treasury's General Account, which swelled to over $1 trillion during the crisis last year. This account can be thought of as the Treasury's check book. Whenever the topic of the debt ceiling comes up, this is the account the Treasury often uses to pay bills until Congress gets their act together, among other uses of course. When the Treasury winds down the balance, it's similar to the Fed conducting QE, providing stimulus to the markets and the economy (I'm keeping this very broad as not to get too far into the weeds on the topic). Sec. Yellen has stated her plans to bring the balance down significantly between now and this summer, which would flood the short-term Treasury market with a massive amount of liquidity. When this has happened before, the market saw strong price action during the follow months, note the blue and green arrows on the chart below.

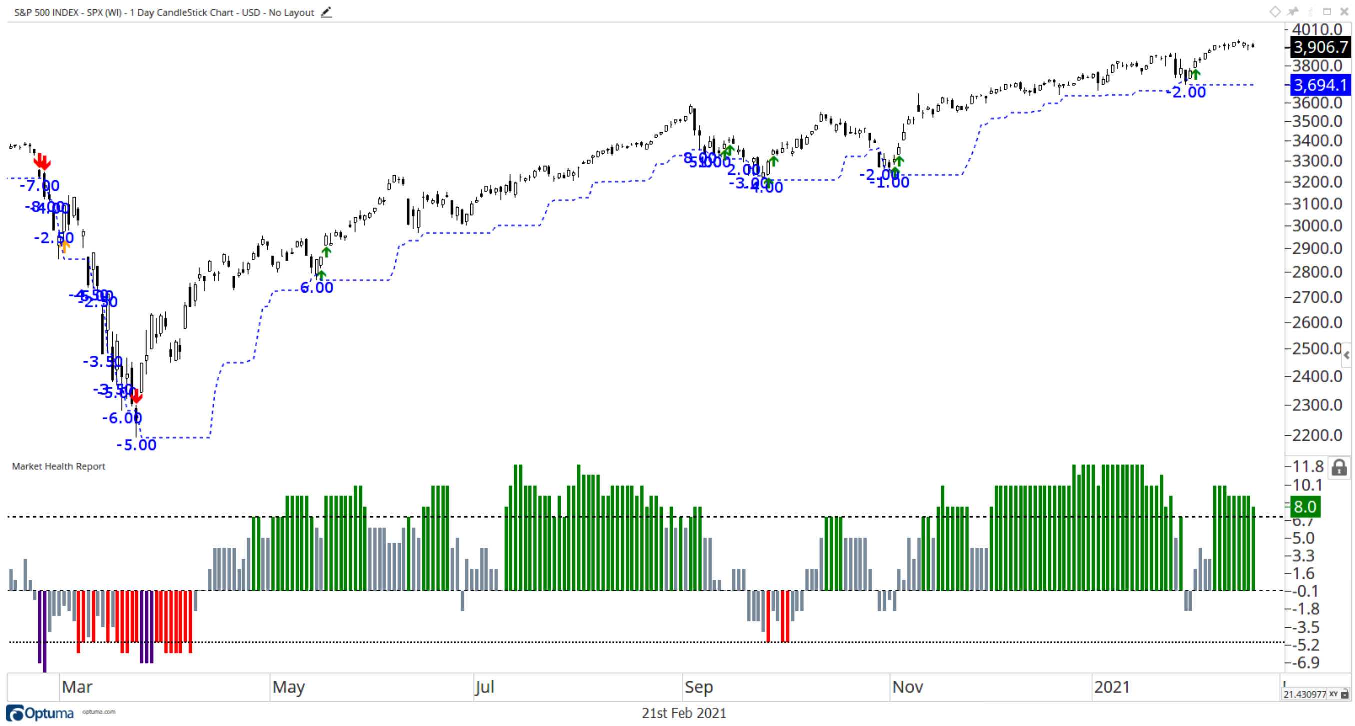
The bear case with this? The impact likely would be bearish for bonds and push rates higher. Many notes I reach say 1.5% on the 10yr is when Powell and the Fed will start to get a bit nervous. Of course the Fed will work with the Treasury in bringing down the balance but if this does have a major impact on rates it may get the Fed to respond through a rise in overnight rates or other short-term dials they can adjust.

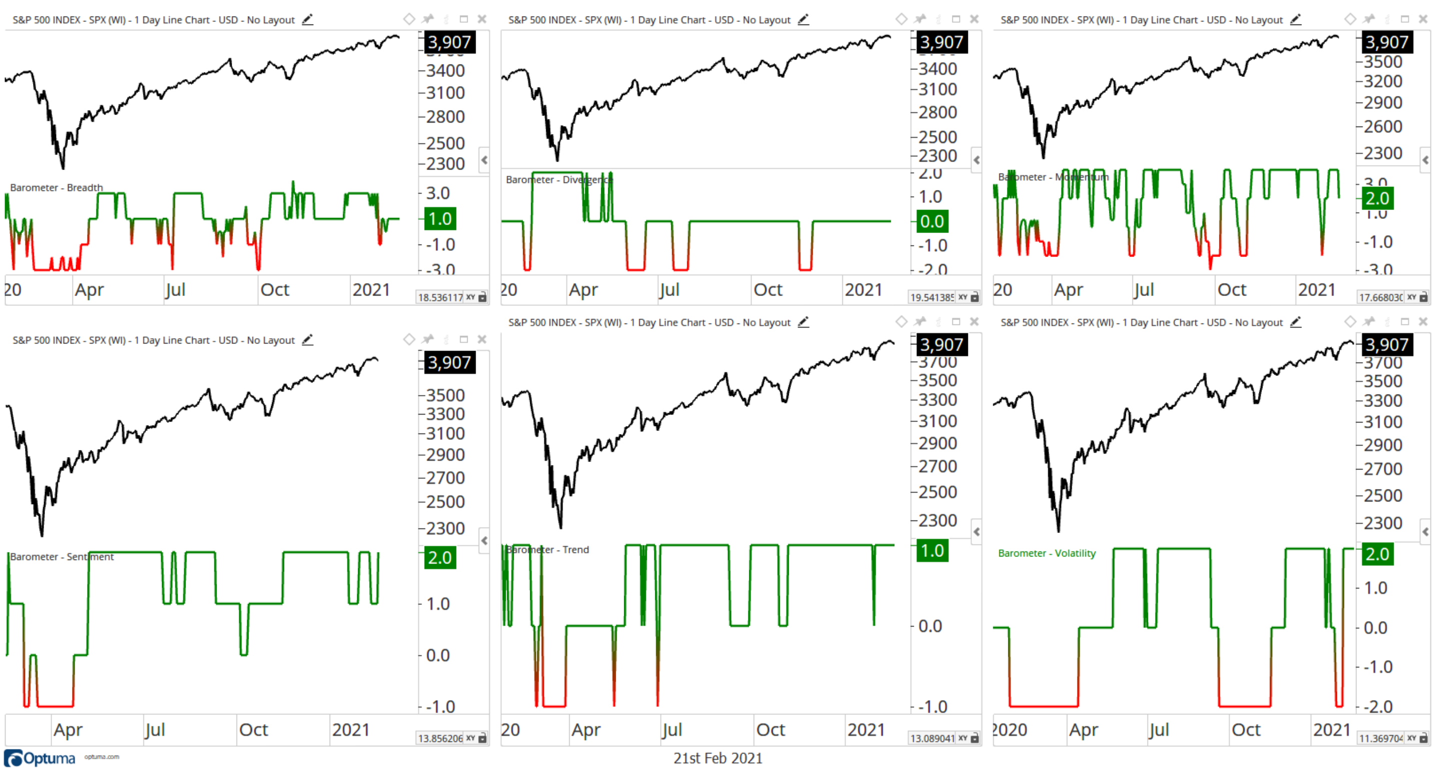
Bottom line, this unwind of the Treasury's GA has a strong chance of being important for the market, the past has been bullish for equities. We'll see if that repeats this go around.



Market Health Report

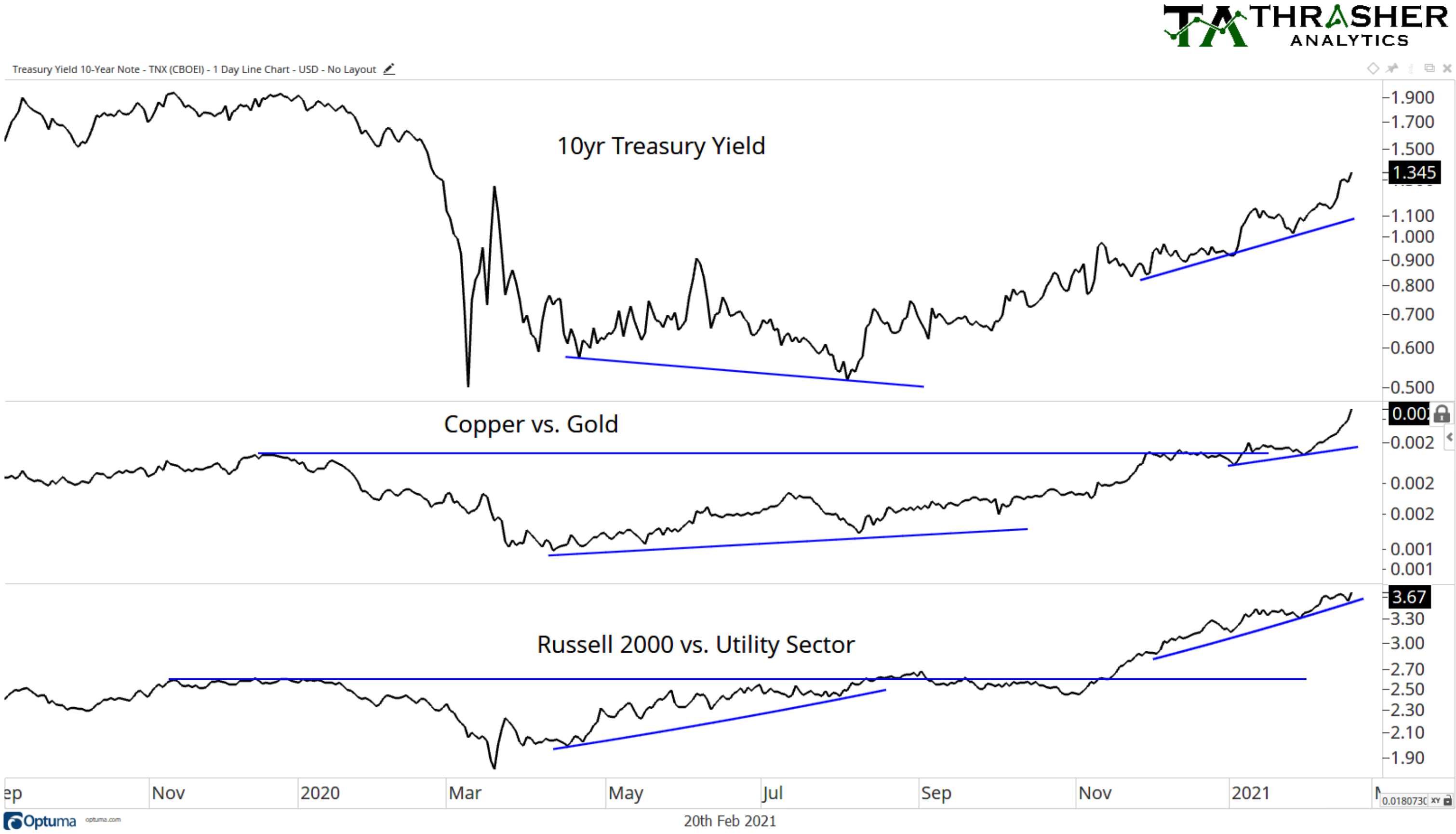
The Market Health Report (MHR) finished the week at +8. The health of the market right now remains positive and the data does not suggest a parabolic top pattern is developing just yet nor signs of bearishness in any of the six categories.





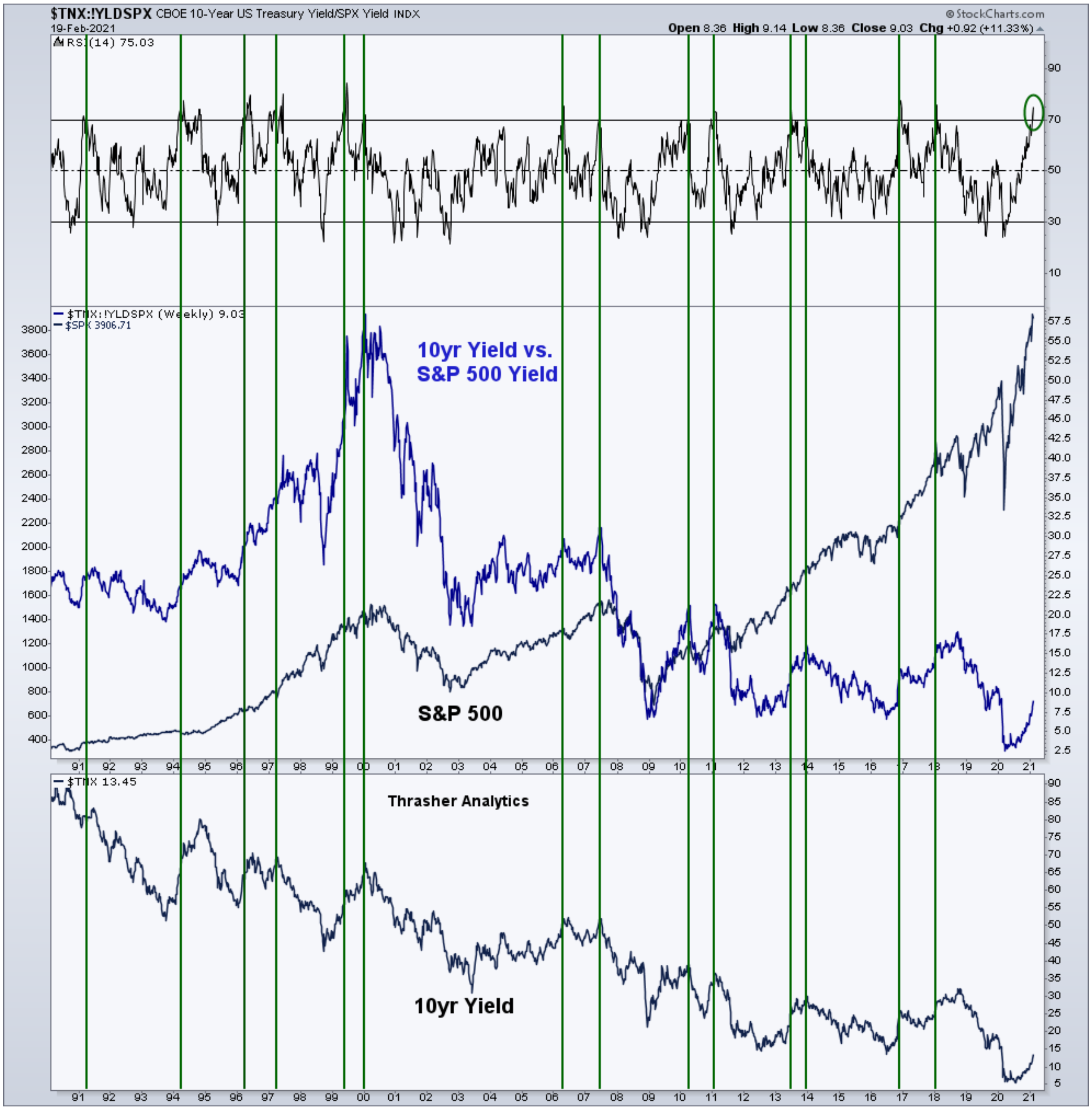
Fixed Income - Confirmation

For long-time readers this chart should look familiar. My two primary ratios I look at for confirmation in the trend of the 10yr yield is copper vs. gold and small caps vs. utilities. Both ratios continue to rise, confirming the advance higher in Treasury rates. A trend change in either gold outperforming copper or utilities strengthening over small caps has historically led to a lower 10yr yield but currently there are not any signs of that at this time.



Fixed Income - Bonds/Stocks

While there's not signs of lack in confirmation of the trend higher in yield, the relationship of the 10yr to the S&P 500 yield is getting stretched. Below is a weekly chart back to 1990 for the ratio of TNX to the SPX Yield along with the 14-period Relative Strength Index. While strong momentum is a good thing on single security charts, for ratios "overbought" is often less sustainable. I've plotted green lines when we've been "overbought" before and it seems to hold bigger implications for rates than for stocks. We've seen several key turning points for equities but the hit rate on yield rolling over appears much higher. The rubber band between fixed income and equity yield is stretched near its breaking point, watching if history repeats and buyers step back into the Treasury market to ease the 'overbought' condition and move yield lower.



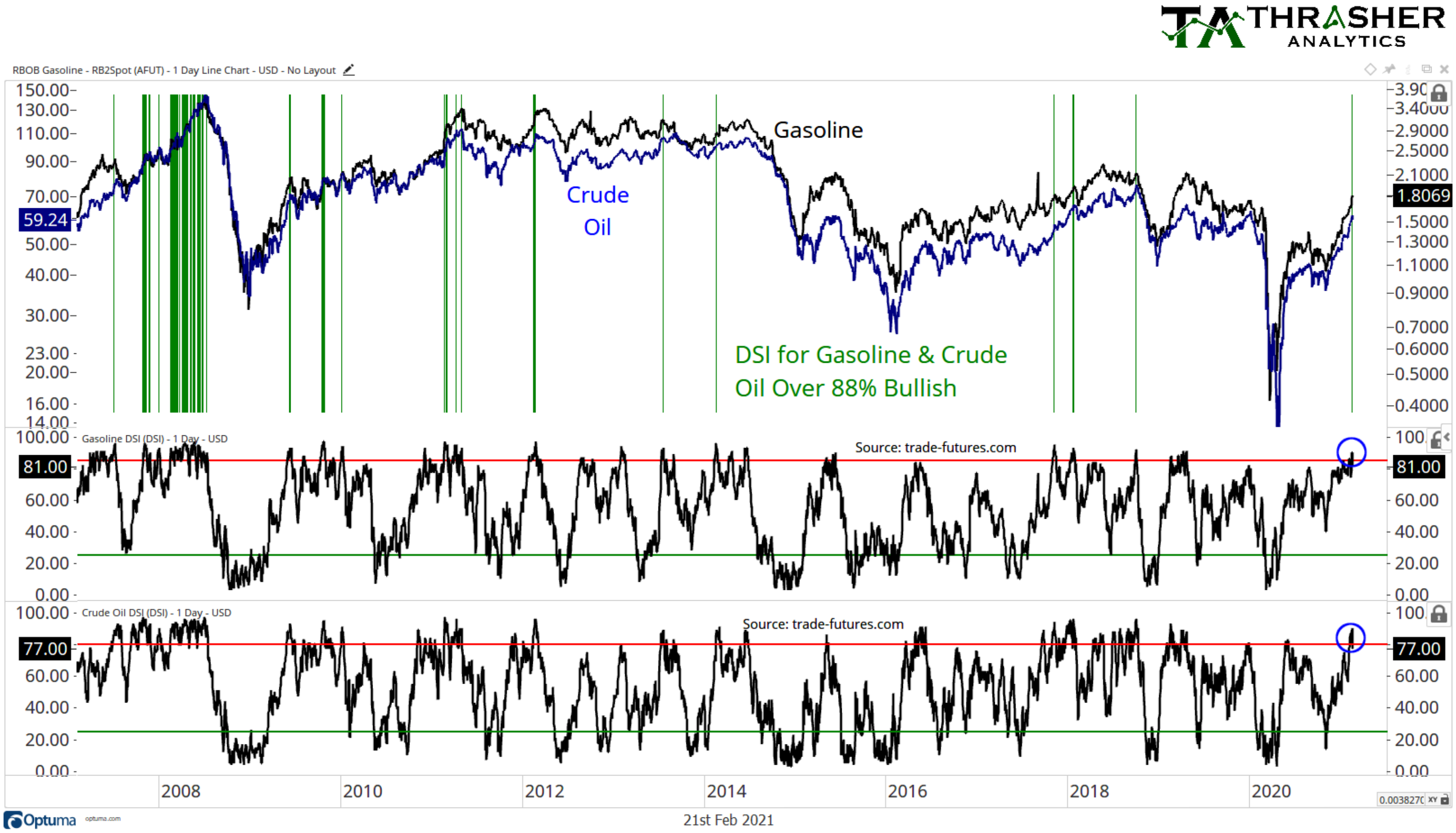
Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	3.38%	5.89%	28.28%	-15.81%
SPDR Financial Select Sector Fund ETF	True	True	2.82%	4.48%	18.2%	4.11%
SPDR Materials Select Sector Fund ETF	True	True	0.96%	-0.73%	7.49%	24.01%
SPDR Industrial Select Sector Fund ETF	True	True	0.75%	2.09%	4.04%	8.14%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-0.41%	1.73%	9.79%	28.24%
SPDR Communication Services Select Sector ETF	True	True	-0.71%	9.04%	13.2%	25.88%
SPDR Real Estate Select Sector Fund ETF	True	True	-0.73%	5.51%	2.42%	-7.66%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-1.14%	-0.61%	-2.96%	0.7%
SPDR Technology Select Sector Fund ETF	True	True	-1.83%	5.40%	12.1%	32.36%
SPDR Utilities Select Sector Fund ETF	False	True	-1.93%	-2.14%	-3.34%	-12.53%
SPDR Health Care Select Sector Fund ETF	False	True	-2.45%	-2.92%	4.92%	9.97%

With the rise in real rates (interest rates adjusted for inflation), the bullish argument for holding gold takes a swift punch to the jaw. Gold responds more to real rates (inflation-adjusted) than nominal rates, so when both interest rates and inflation are moving higher, gold tends to struggle. The shinny metal has now moved down to prior support at $1760. This support comes from being prior resistance last year, so there's plenty of "price memory" at this level, we'll see if buyers step back once again. I last wrote about gold and the resistance of the 50-day MA, that still remains an area I'm watching. I want to see gold strength and be able to move back above that area that's drawn in sellers in the recent past before getting overly bullish on the precious metal.

Commodity - Oil & Gas

The Daily Sentiment Index for both crude oil and gasoline has been on the rise, matching the up trend in both price charts of the two energy commodities. They are now at the point that both are over 88% bullish, for the first time since 2018. The green vertical lines on the chart show prior occurrences. The energy complex has shown signs of running out of gas (pun intended) when sentiment reaches these kinds of levels. As oil went from being negative to $50/barrel, Commercial Traders lowered their net-short position but since late-December they've begun to pick up more shorts and went from a 100th %tile to 85th %tile net-position. This is a possible sign the Commercial ("Smart Money") thinks crude has begun to exhaust its trend as it approaches the $60 mark.



Daily Sentiment Index

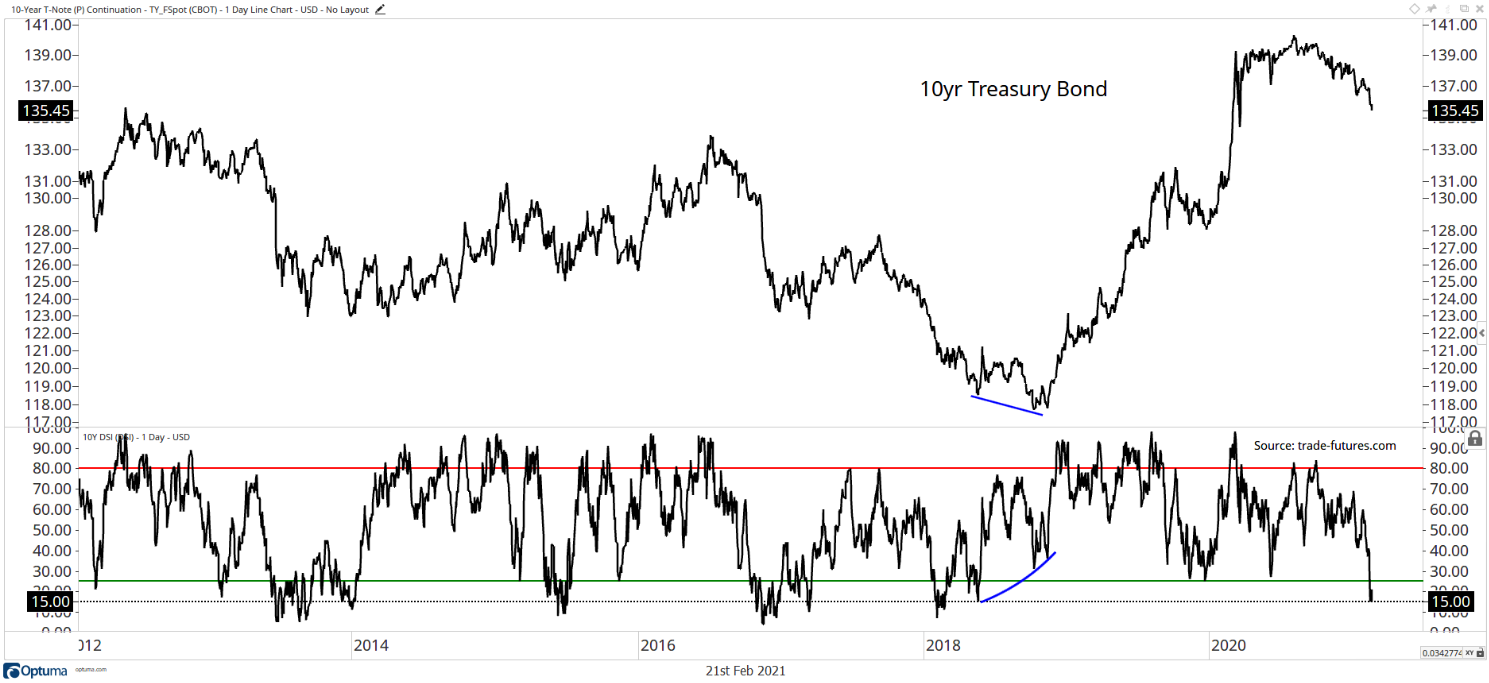
1 Day - Watch List - No Layout

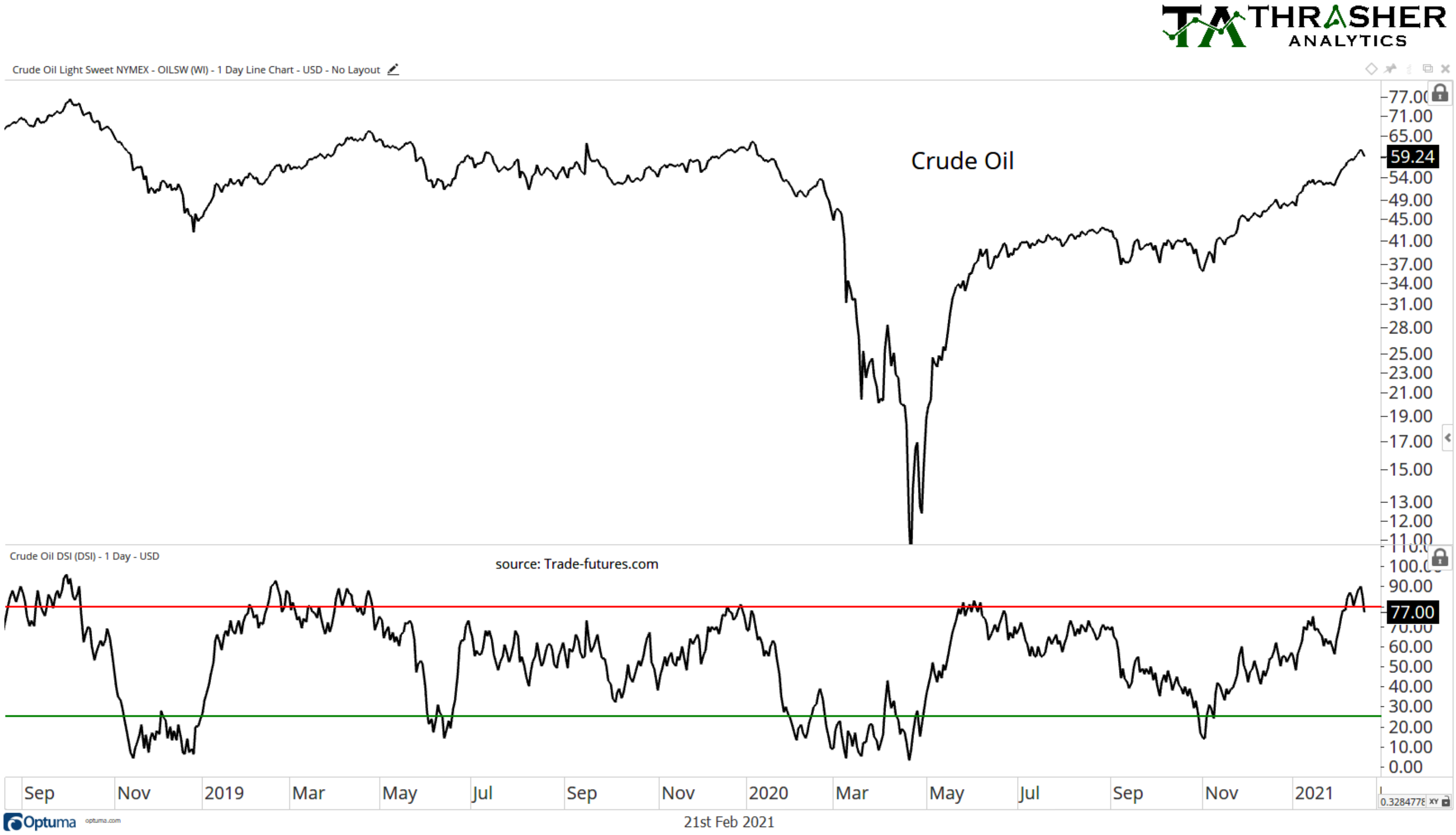
Market	% Bullish	5MA	History
10Y DSI	15	18.6	
VIX DSI	21	19.6	
US Dollar DSI	22	25.80	
5YR DSI	22	24.6	
Orange Juice DSI	30.00	35.40	
Gold DSI	31.00	30.40	
Coffee DSI	34.00	29.00	
Cocoa DSI	35.00	32.40	
Cattle DSI	39.00	42.60	
Wheat DSI	55.00	54.60	
Palladium DSI	55.00	54.60	
Mexican Peso DSI	55.00	62.60	
Natural Gas DSI	61.00	61.20	
Swiss Franc DSI	62.00	61.80	
Corn DSI	64.00	71.40	
EuroDollar DSI	65.00	65.40	
Euro DSI	65.00	62.40	

1 Day - Watch List - No Layout

Code	% Bullish	5MA	History
Nasdaq DSI	66.00	77.80	
SPX DSI	69.00	76.00	
Silver DSI	74.00	75.40	
Lean Hog DSI	77.00	83.6	
Crude Oil DSI	77.00	85.6	
CRB Index DSI	78.00	85.2	
New Zealand Dollar DSI	79.00	72.80	
Heating Oil DSI	79.00	86.8	
British Pound DSI	80	77.80	
Nikkei DSI	81	87.2	
Lumber DSI	81	85.8	
Gasoline DSI	81	86	
Sugar DSI	84	74.60	
Australian Dollar DSI	84	79.00	
Cotton DSI	85	86.6	
Platinum DSI	88	87.4	
Copper DSI	93	90.2	

Source: trade-futures.com


10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
135.45
10Y DSI - 1 Day - USD
Source: trade-futures.com
15.00
2014
2016
2018
2020
21st Feb 2021
Optuma


Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
59.24
Crude Oil DSI (DSI) - 1 Day - USD
source: Trade-futures.com
77.00
Sep
Nov
2019
Mar
May
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Optuma
21st Feb 2021


Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
1,777.40
Gold DSI (DSI) - 1 Day - USD
Source: trade-futures.com
31.00
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
21st Feb 2021
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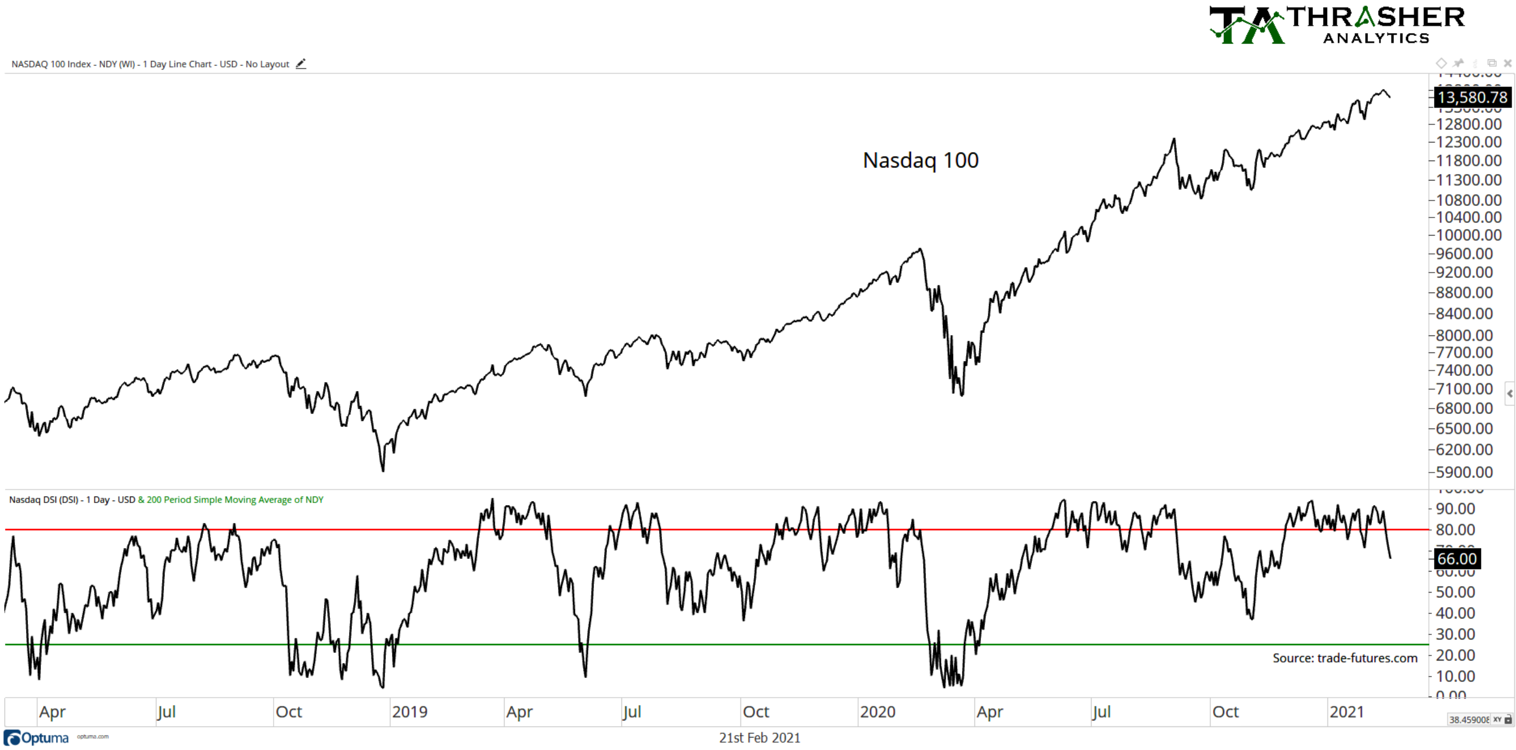
Daily Sentiment Index



Daily Sentiment Index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CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
83.0
76.0
69.0
63.0
57.0
52.0
47.0
43.0
39.0
35.0
32.0
29.0
26.0
22.1
19.0
17.0
15.0
13.0
11.0
VIX DSI (DSI) - 1 Day - USD
Source: trade-futures.com
90.0
80.0
70.0
60.0
50.0
40.0
30.0
21.0
10.0
Sep
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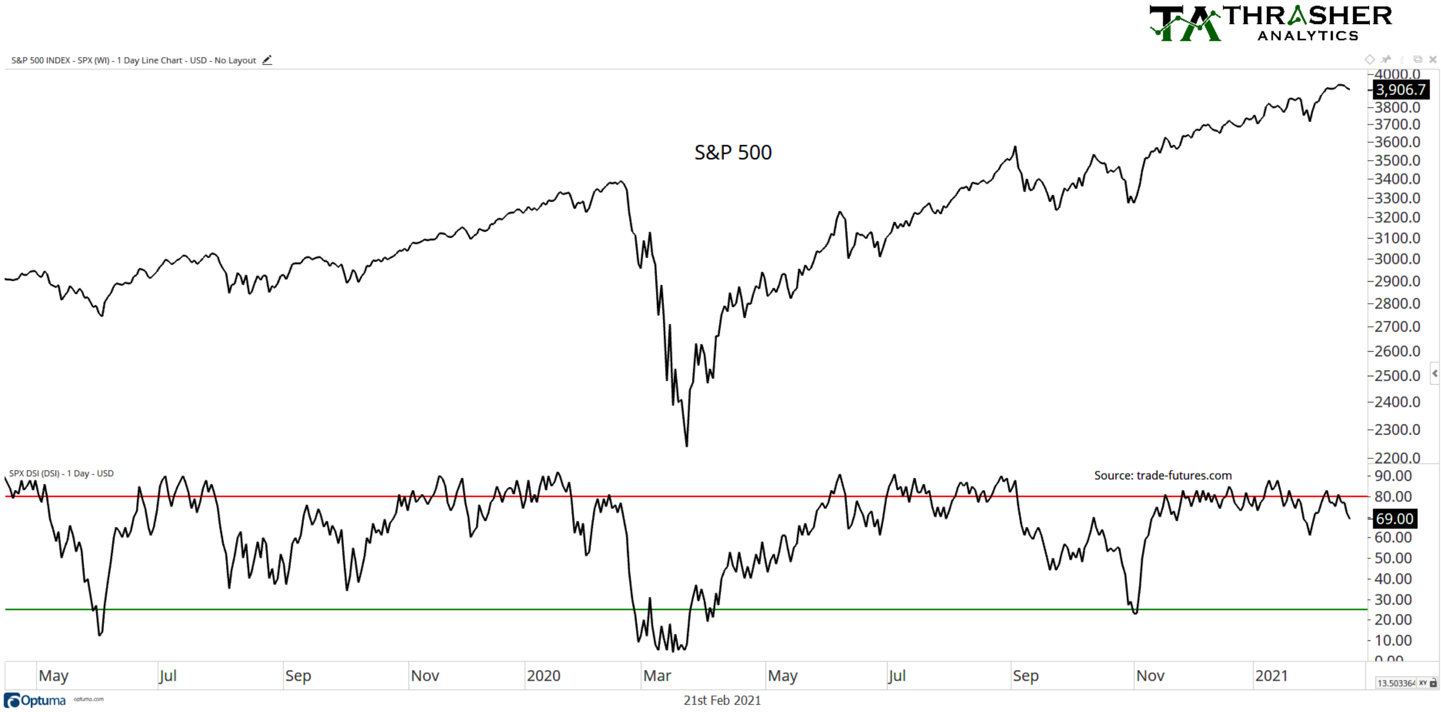
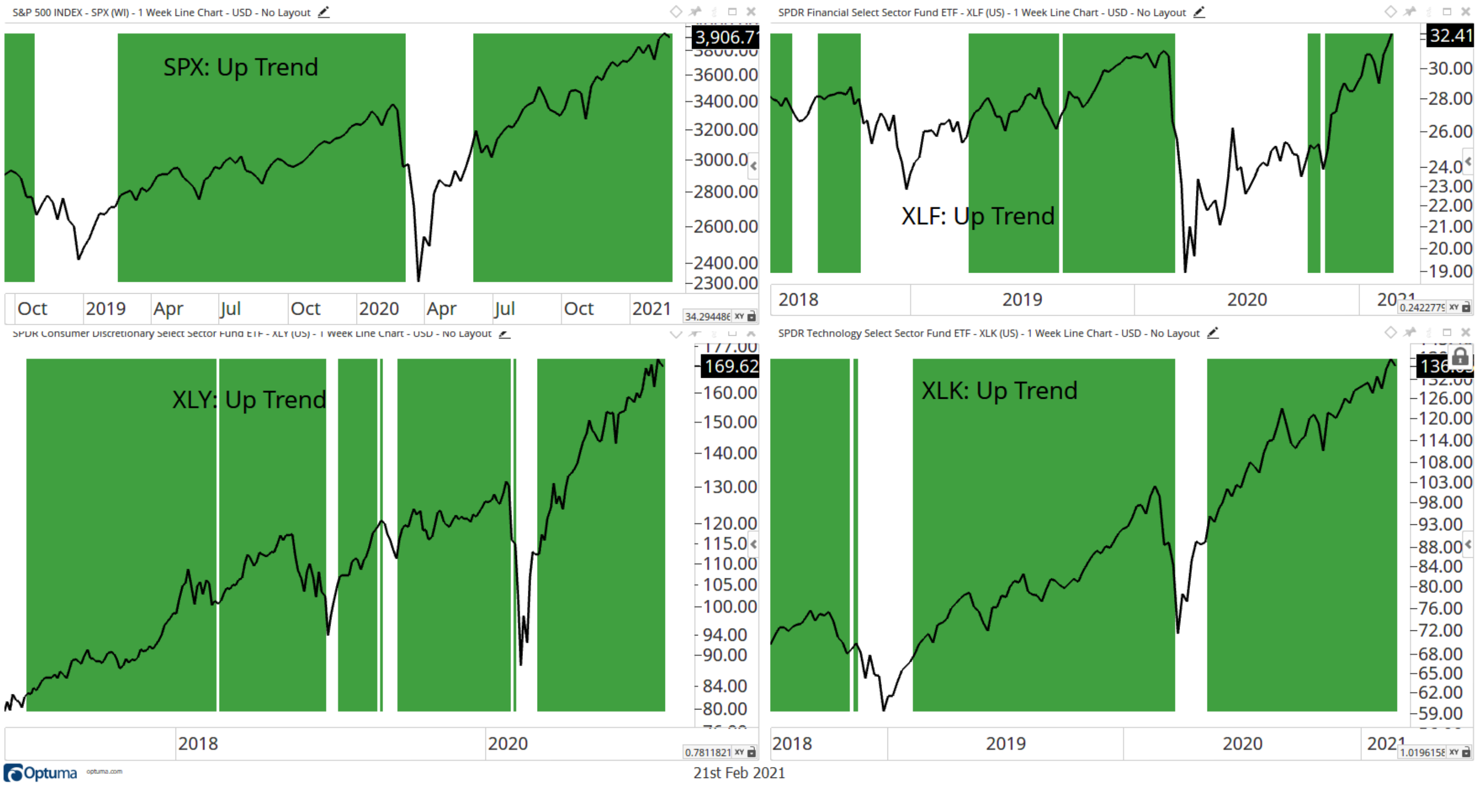
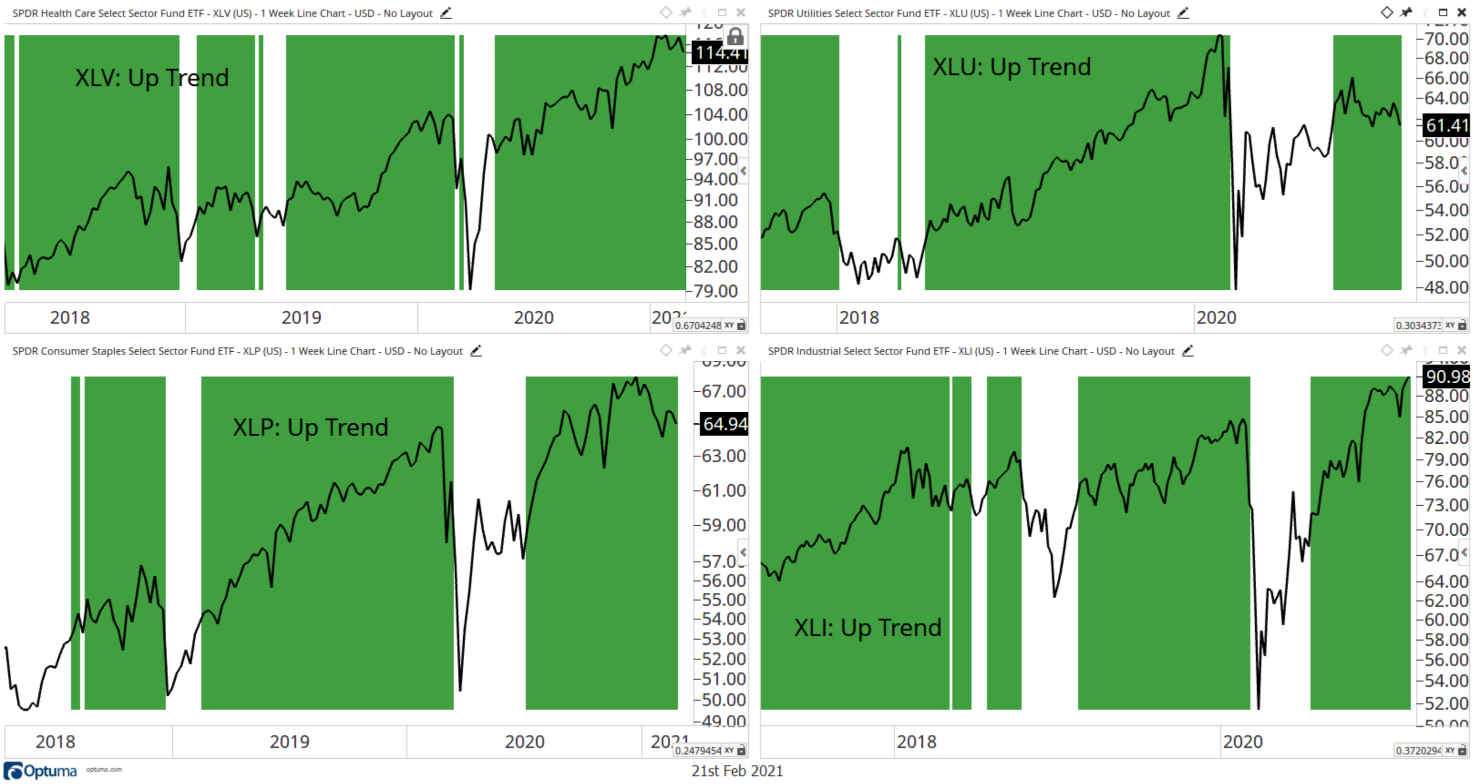
21st Feb 2021

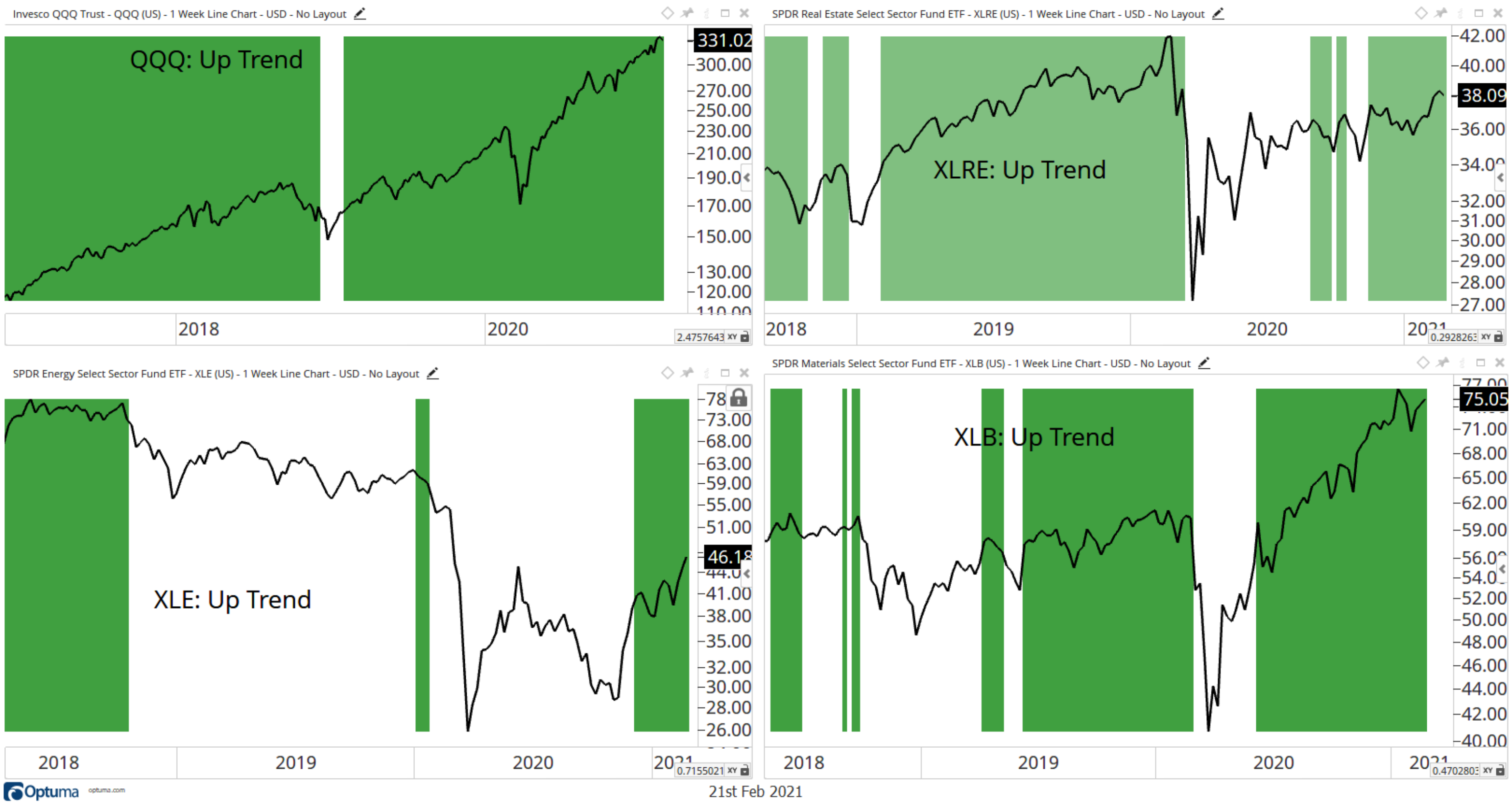
Daily Sentiment Index




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
XLY: Up Trend
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout
XLK: Up Trend
21st Feb 2021


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
Optuma
21st Feb 2021

Trend Models



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