

TA THRASHER ANALYTICS

FEBRUARY 28, 2021



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish

- Long-term breadth remains strong.
- Trend Model remains positive for all but one sector and indices.
- The Market Health Report remains supportive.
- Opportunity in XLP.
- Sentiment stays muted for volatility

Bearish

- Stocks drop to 50-day MA.
- Utilities trend turns negative.
- Divergence in sentiment for crude oil.

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Equities

Market Health Report

Fixed Income

Sector

Sentiment

Trend Models

Sector Rotation: March	
Financials	XLFX
Energy	XLE
Technology	XLK

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

Market Health Report	
Breadth	3
Divergence	0
Momentum	1
Sentiment	2
Trend	0
Volatility	2
Total	8

Index & Sector		
	Up Trend	Down Trend
SPX	X	
QQQ	X	
XLFX	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	65%	69%
Nasdaq 100	65%	64%
Nikkei	63%	73%
VIX	19%	21%
10yr Treasury	18%	13%
5yr Treasury	15%	16%
CRB Index	70%	79%
Gold	14%	27%
U.S. Dollar	30%	21%

*Green<25% Red>80%

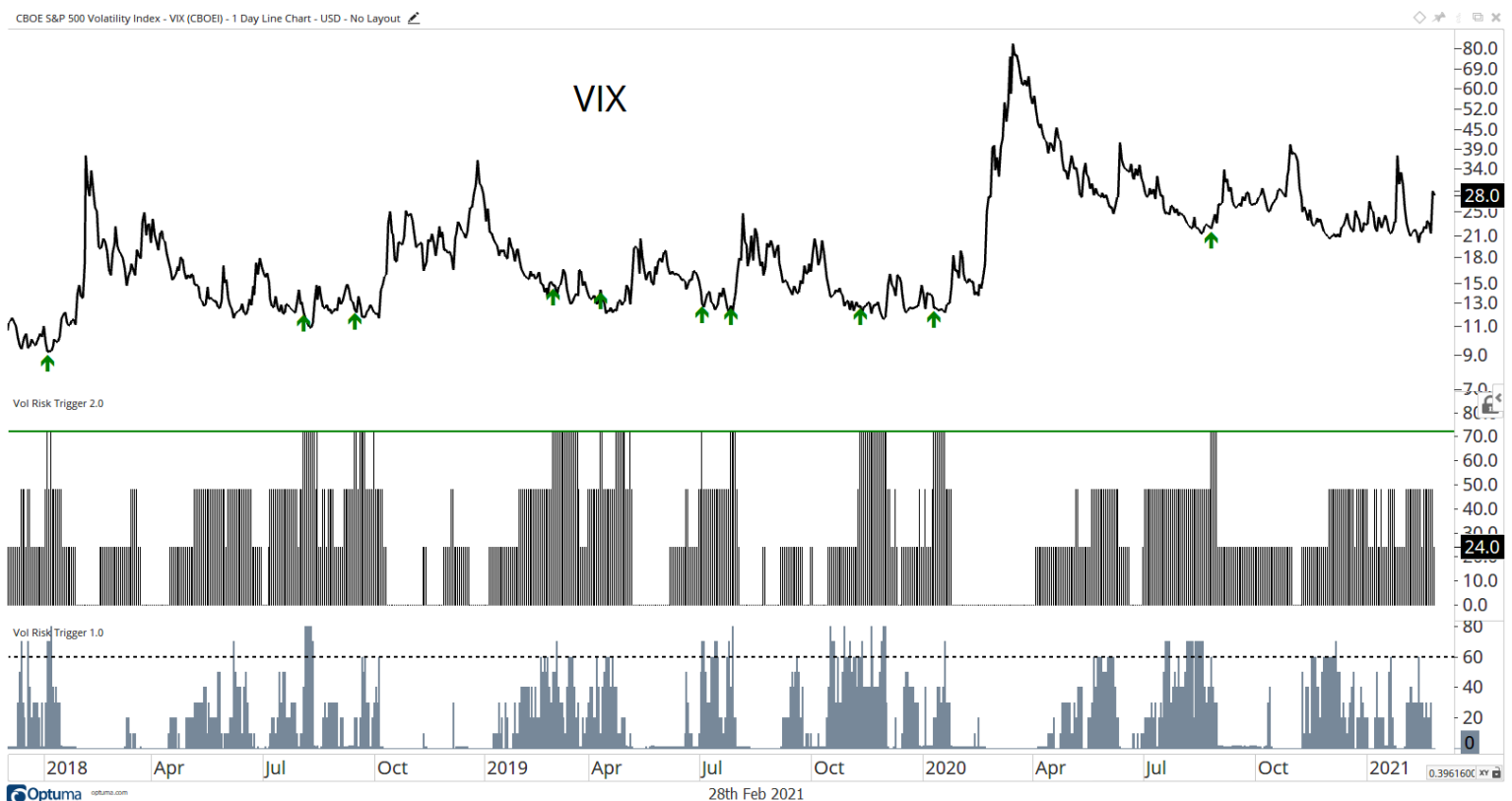
source: trade-futures.com

Brief Summary:

The S&P 500 is now 3% from its high and with a MHR of +8, the decline should be brief as historical weakness has stayed below 8%. Breadth remains supportive as we still have more than half the stocks above their respective 50-day moving average. Large Traders are easing off their net-short of Treasury bonds futures, suggesting we may see a trend change in fixed income. Consumer Staples sector has seen a pop in stocks being 'oversold' which has often been followed by a relief rally in XLP. Crude Oil is showing a bearish divergence in both momentum and sentiment, suggesting potential decline in crude prices.

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).

Volatility continued to move higher last week as equities sold off further. Spot VIX finished the week at 28. Notice in the DSI chart section the % Bullish for the VIX remains extremely low, even this latest pop higher has not breached 33% on the DSI as futures traders continue to think these brief moves higher in vol will be minor. Historically they have often been right, when vol has moved higher by 20+% and DSI remains below 30%, the VIX has often not seen materially higher levels. Last week I shared the COT chart showing the Commercial Traders had been loading up on VIX futures, they appear to have gotten the move correct and continued to add to their net-position through Tuesday of last week (the latest COT data). COT data continues to be ignored by most traders, so I'm happy to take advantage and attempt to find edges in the data like last week.



The S&P 500 has now fallen a little over 3% from its high, resting right at the 50-day moving average. On Friday we breached the year-to-date- VWAP but buyers kept trying to prop up equities at the 50-day MA, we'll see if that continues this week. The bearish momentum diverge continued to show downside pressure, sending the RSI to its prior January low.

If we see further downside in SPX then the January low around 3700 would be the next potential support level. From there I'd be watching the Sept. '20 high at 3580 before we start contemplating the involvement of the 200-day MA, which currently is at 3,448.

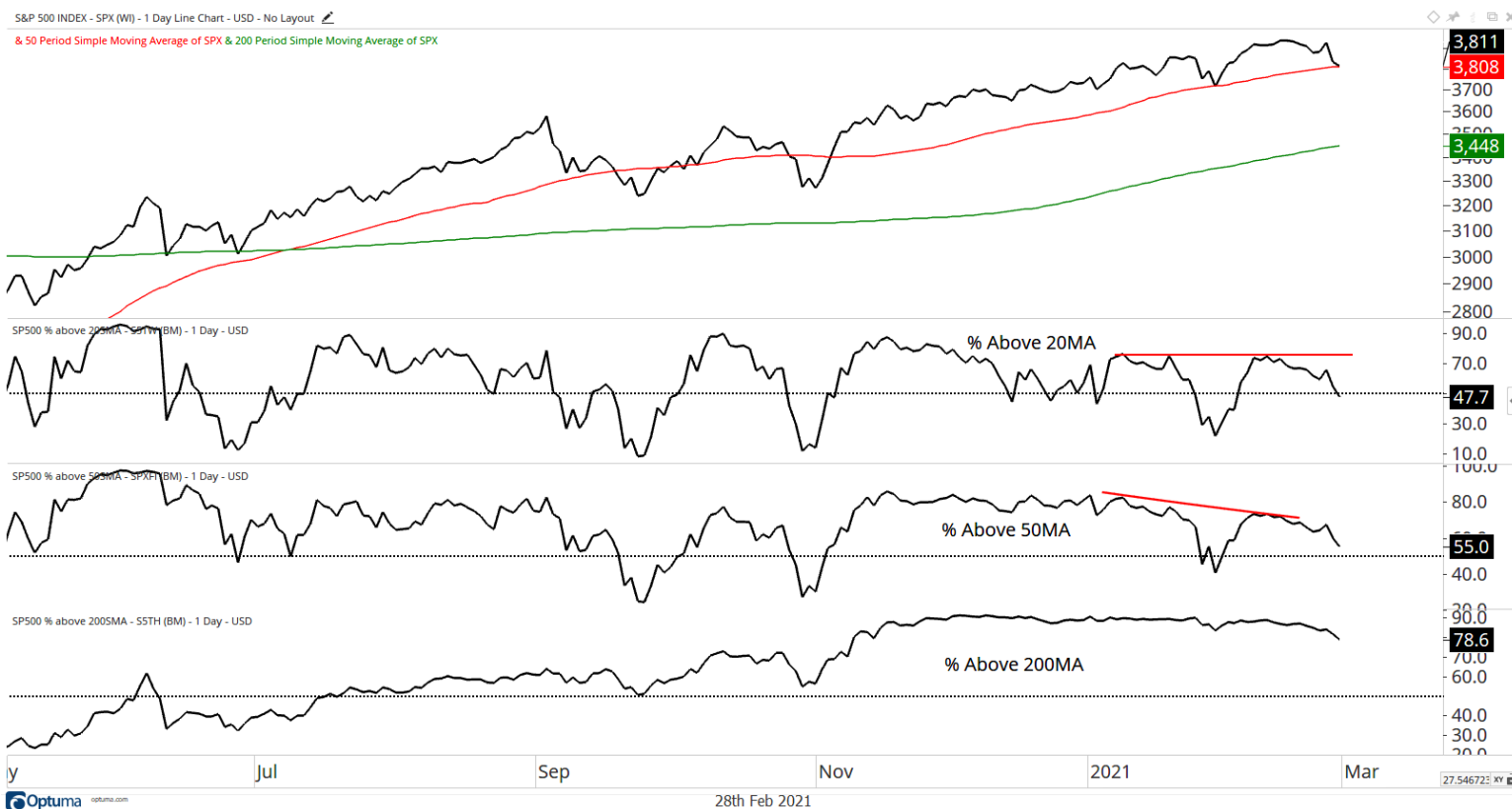
The Market Health Report remains supportive of equities, I'll discuss this topic in greater detail later in the letter.



EQUITIES - BREADTH



The breadth picture for U.S. equities remains supportive of the up trend, we still have 55% above the 50-day MA and 47.7% above the 20-day MA. We saw a lower % above the 50-day MA at the January test of the intermediate moving average, suggesting stocks aren't showing a greater sense of weakness right now as they were back in the January dip.



EQUITIES - BREADTH



Looking at breadth from a different angle, the Blended Breadth Composite, which boils several measures of breadth into a single indicator, remains nowhere near a washout level. This agrees with the prior breadth chart (partially because there's obvious overlap). Typically we can seek a dip buying opportunity when the Blended Composite starts to rise above 0.2 after being under 0.1, something we didn't even get in January since the dip was so shallow and breadth remained bullish.

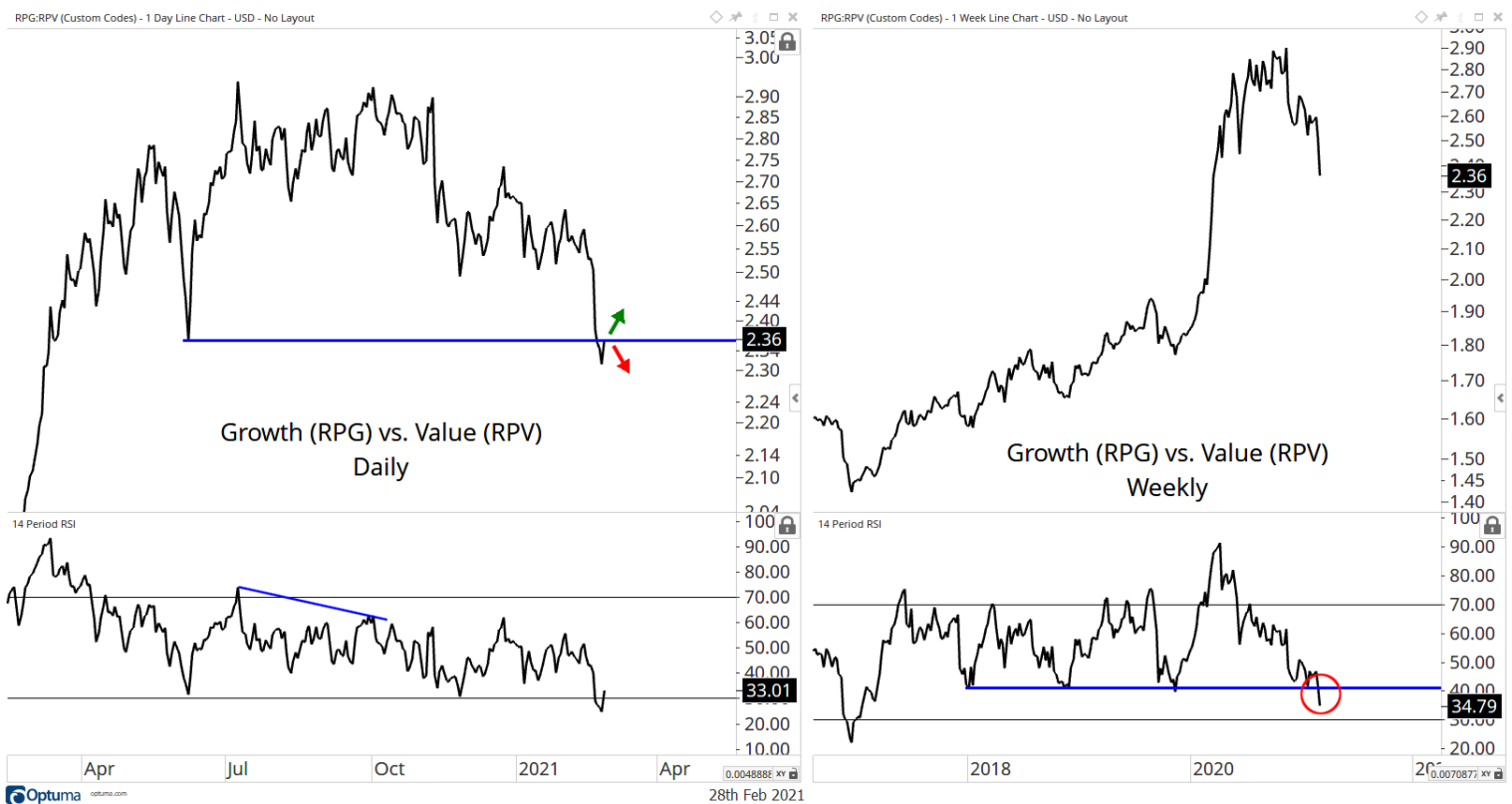


EQUITIES - GROWTH VS. VALUE



Below a daily and weekly chart of the ratio between Growth and Value. I'd been keeping an eye on the weekly chart, specifically the prior lows in the RSI which had held up extremely well on prior counter-trend declines in the ratio. This recent move lower however broke the camel's back, causing RSI to make a new low. This suggests the long-term trend may now be firmly in favor of Value.

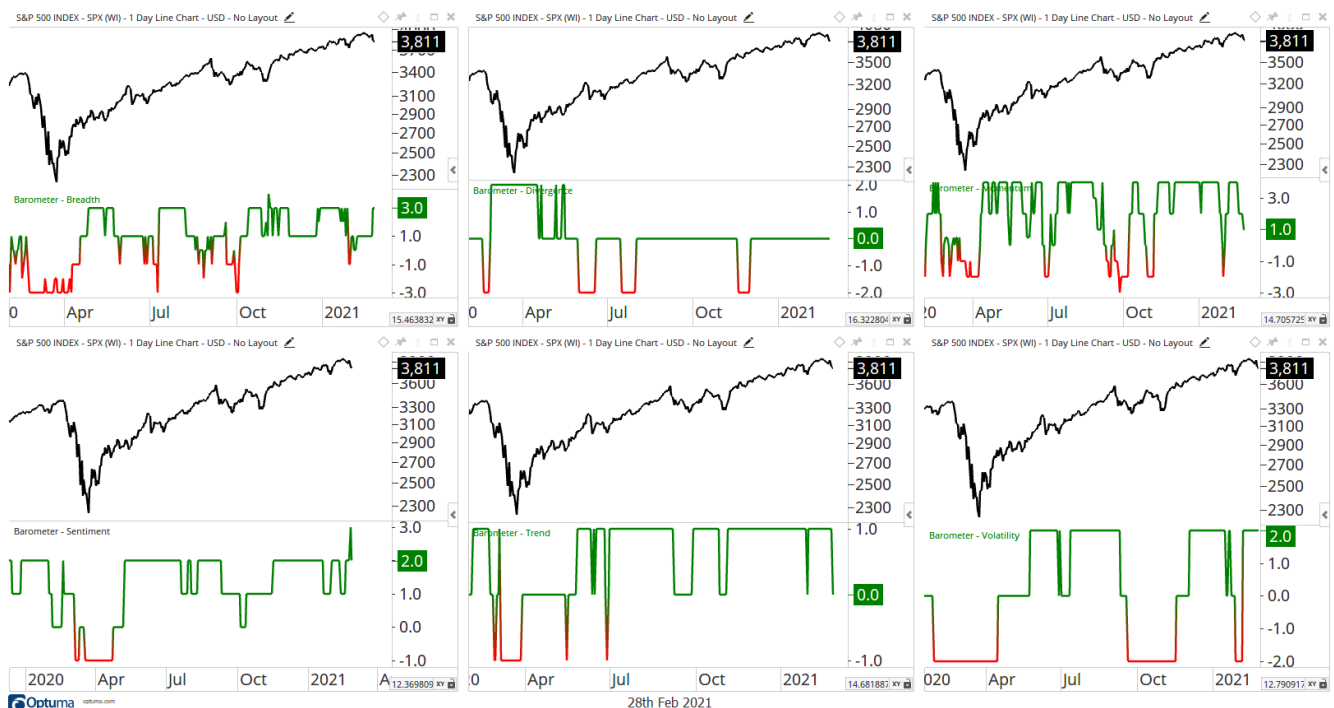
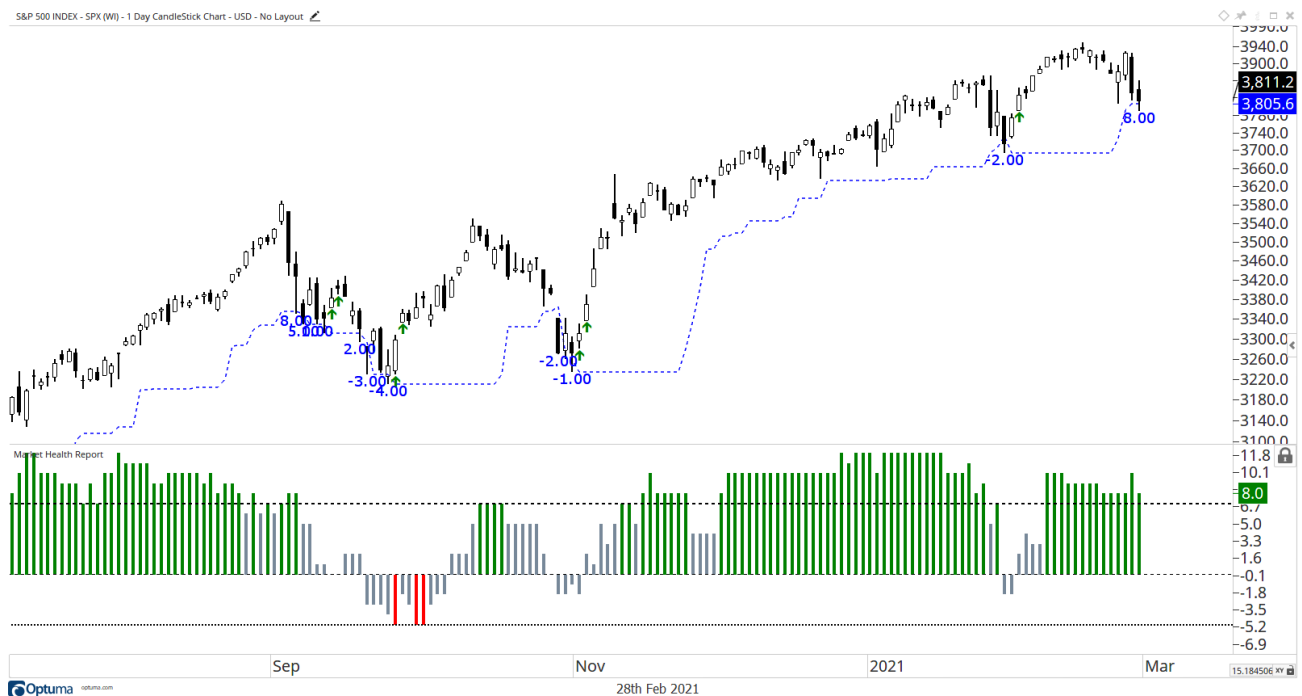
On the daily chart however there's one gleamier of hope for Growth. The ratio broke below the May '20 low but at the end of the weak bounced back up. Will this breakdown be a false break and see growth strength against value in an oversold bounce? Something to watch this week. Short-term, we can't declare Growth dead quite yet.



MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week at +8 and this time it's with the SPX seeing a 15-day low. This signals still bullish support from the six MHR categories. Typically the equity index declines less than 10% when the first 15-day low shows this strong a reading. We could still see downside, but the MRH suggests the weakness should be muted and short-lived. More on this on the next page.



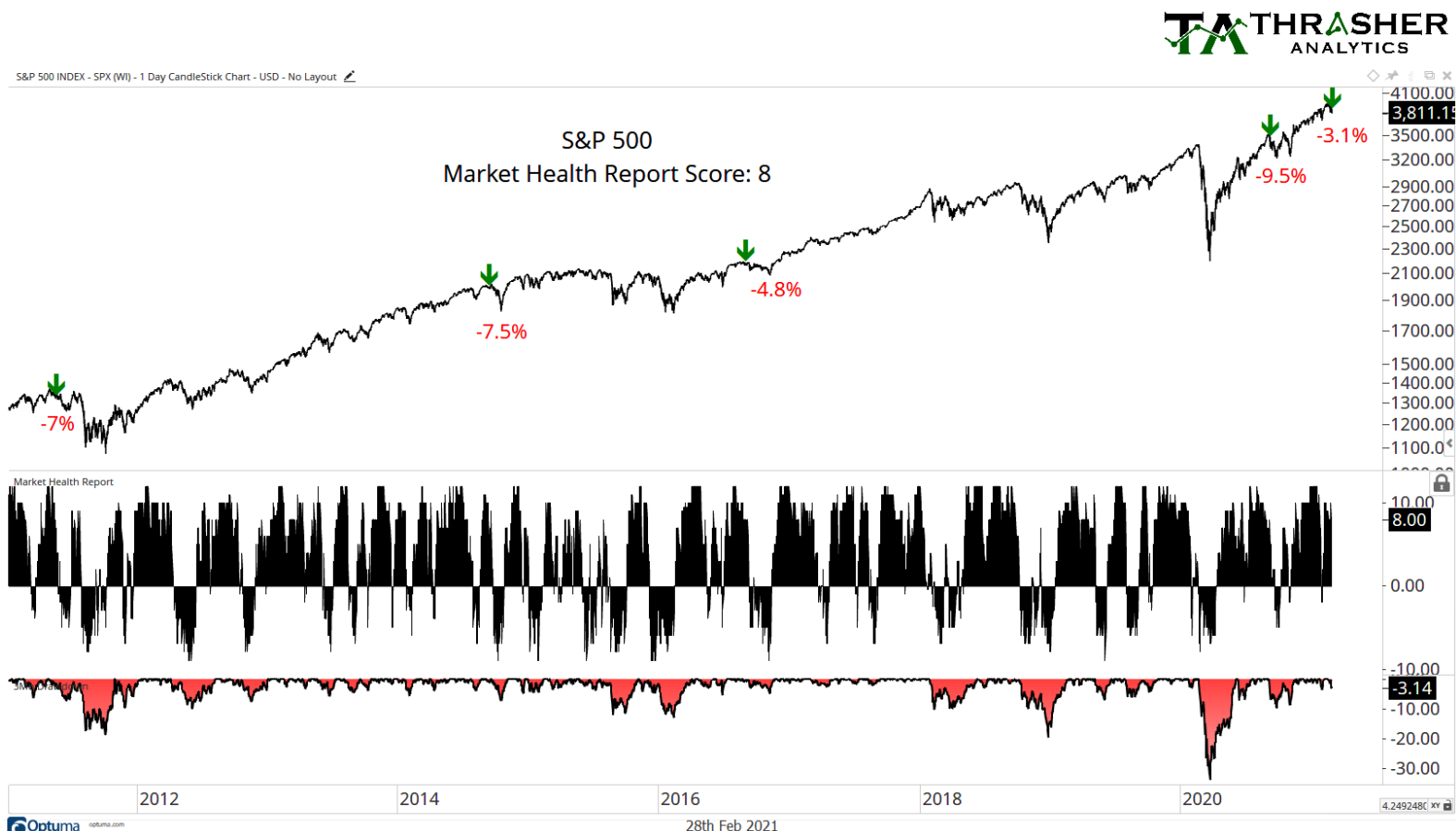
MARKET HEALTH REPORT



To give more context to a MHR reading of +8, below are each of the prior instances of SPX at a 15-day low when the reading was +8 since 2012. I've also included the max drawdown the market experienced during those periods. Most recently, last September we saw a near-10% decline with an initial +8 score. The decline was quick, SPX undercut the 50-day MA briefly before bouncing back and continuing to rise to new highs. The prior declines ranged from -7.5% to -4.8%, all normal corrections within a broad up trend. Notice that during the larger declines (later in 2012, 2015, Q4, 2018, March '20) the declines had weaker MHR scores.

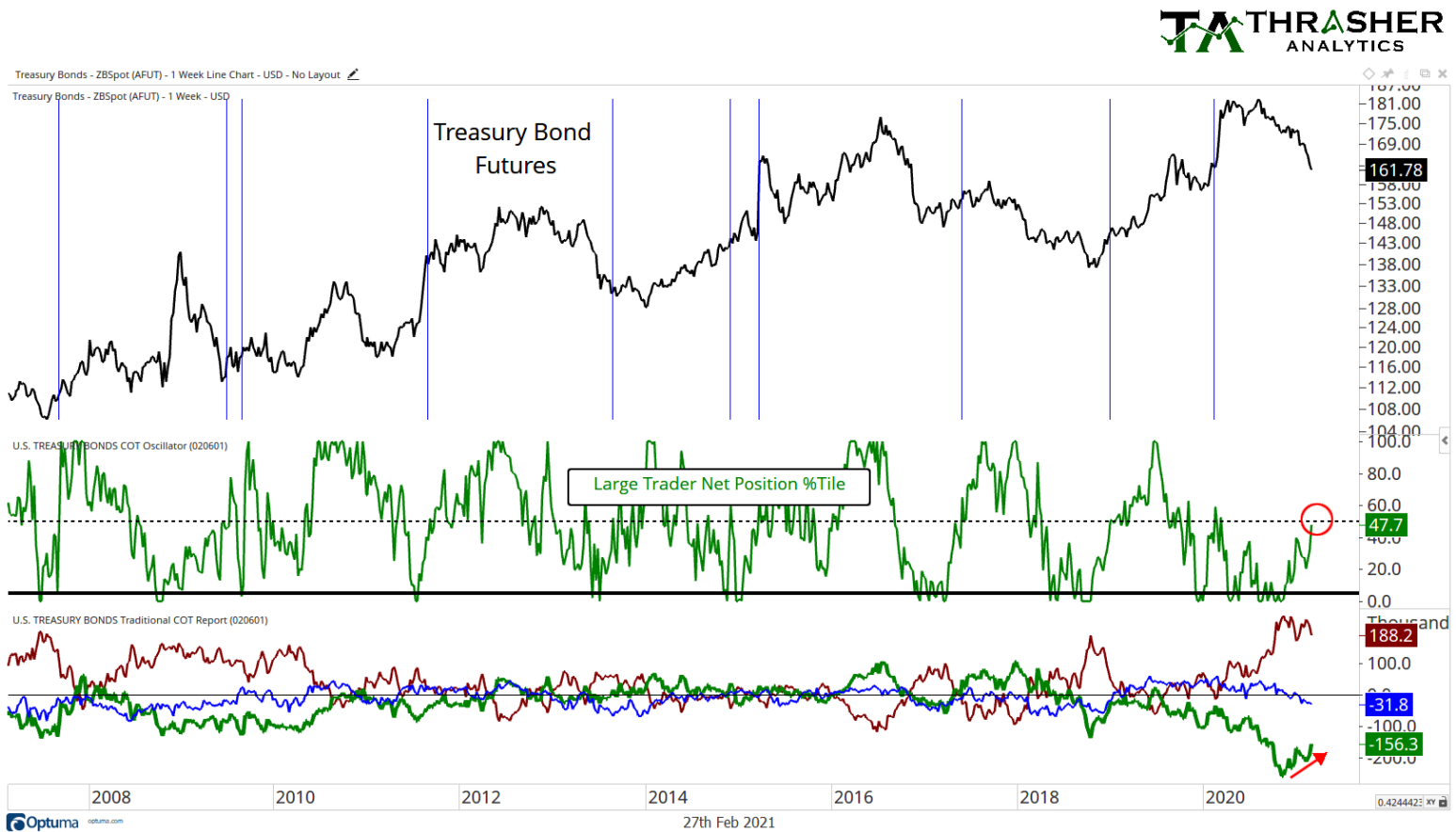
Looking specifically at 2012 the market dropped 7% then bounced back higher by about 8% before a second decline took place. On July 29th we hit a 15-day low and the MHR was at -5, signaling market weak internals/support and price then experienced a 14% drop over the following week. But first we learned the market didn't have support from the six MHR categories, giving warning to a potential larger-than-normal decline which did in fact take place.

Right now, we're down 3.1%, so if we do see further downside, another 2-5% decline wouldn't be unusual or outside historical context.

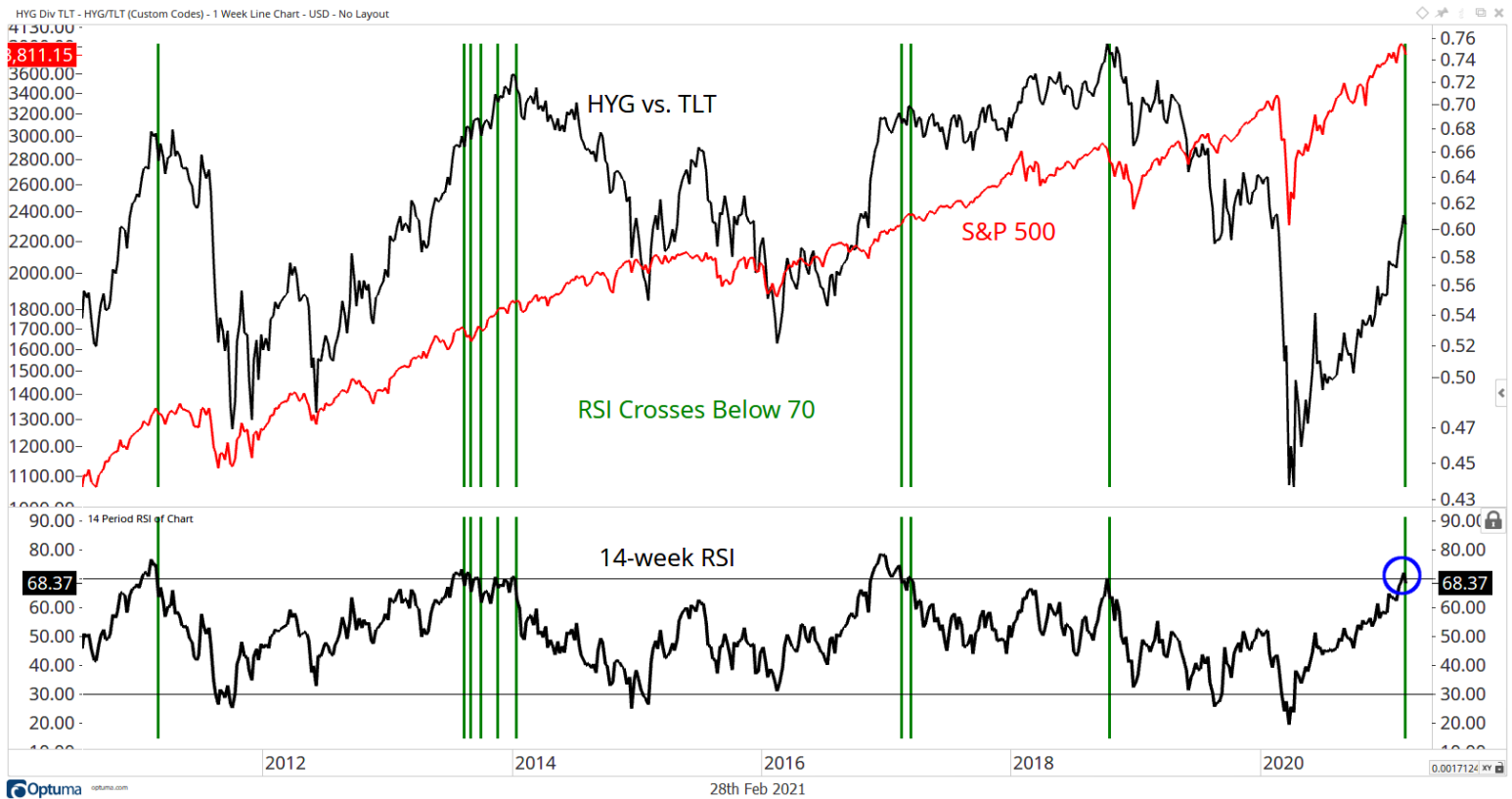


The big topic these last couple of weeks has been the weakness in fixed income and rise in yield. I wrote last week that 1.5% on the 10yr was a line-in-the-sand for many traders, which is right where we peaked on Friday. One chart that stood out the most this week was the setup in the COT data for Treasury Bond Futures. Specifically, the Large Traders as they began unwinding their large net-short position. They were on the right side of this trade coming into the weakness in bonds, holding a massive short but have since begun to rise their net-position. I've drawn blue lines on the chart when their net-position %tile goes above 50th %tile, which has often followed a low in bond prices. As of now, they are at 47th %tile, so still not too far off.

It seems Large Traders (which are made up primarily of asset managers & CTAs) have begun to think the juice has been squeezed from bonds, taking profits. This is a sign bond selling may start to ease.



Last week I showed a ratio chart of stocks/bonds, this week I want to look at high yield bonds vs. Treasury bonds. Specifically the weekly chart and the recent drop in the 14-week RSI back below 70. The weakness in Treasury's/strength in high yield sent the weekly RSI above 70 for the first time since October 2018. What I get interested in, is when momentum begins to decline from high levels, specifically moving off "overbought" levels, which are marked by the vertical green lines on the chart below. I've included the S&P 500 on the chart as well, but I think the biggest implication is for the ratio between high yield and Treasury debt. Since 2011 we've often seen a shift in relative performance trend that favor's Treasury's over high yield once weekly momentum rolls over. We'll see if that plays out this go around as well but I think risk/reward of those betting on further strength in high yield over gov't debt is less attractive at this point.



SECTORS - PERFORMANCE

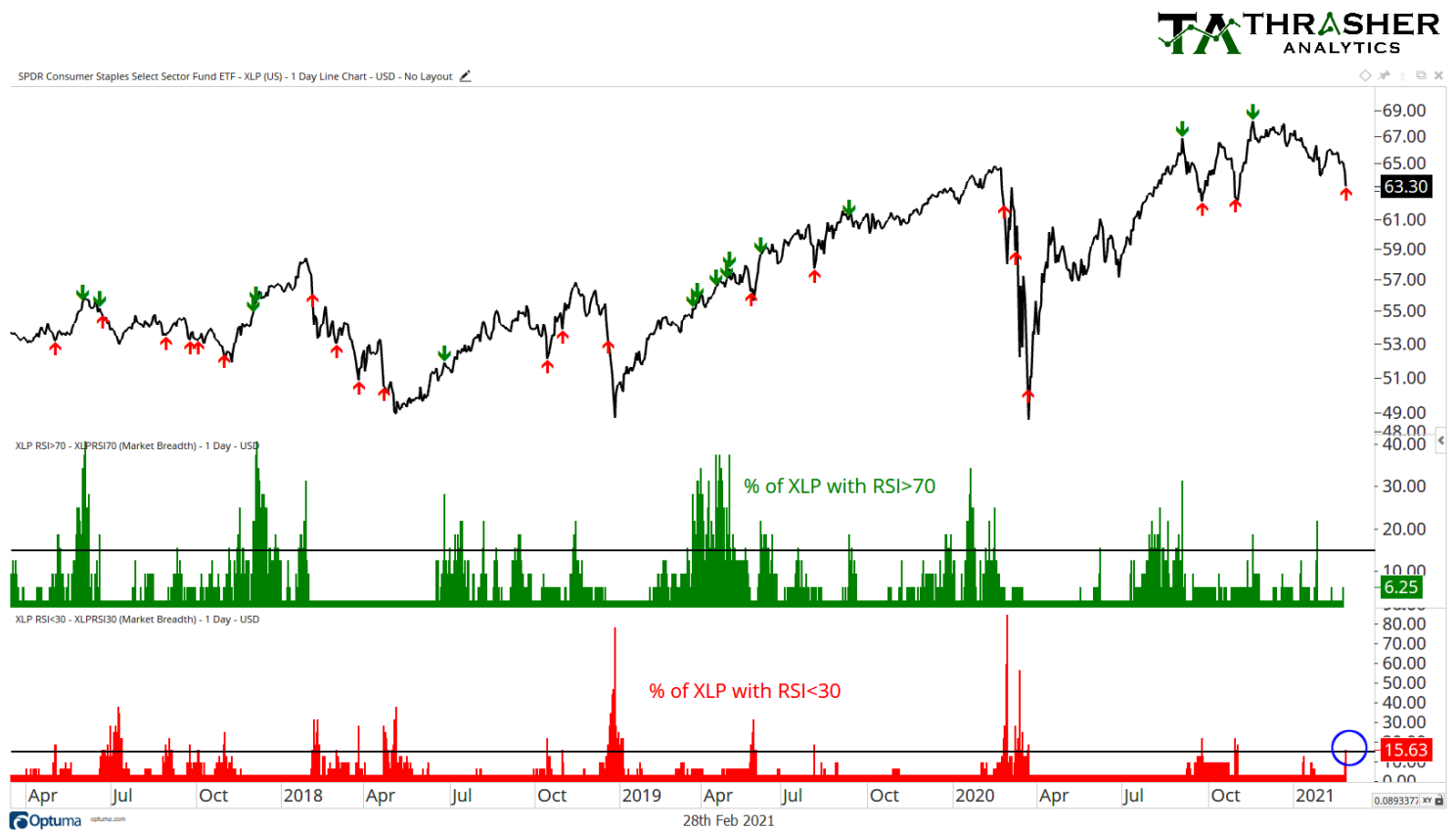


Sector	> 50MA	> 200MA	1wk Perf	1mo Perf ▼	3mo Perf	12mo Perf 📄
SPDR Energy Select Sector Fund ETF	True	True	4.27%	18.16%	22.3%	0.58%
SPDR Financial Select Sector Fund ETF	True	True	-0.31%	8.13%	13.13%	13.17%
SPDR Industrial Select Sector Fund ETF	True	True	-0.41%	4.03%	1.84%	17.2%
SPDR Communication Services Select Sector ETF	True	True	-1.26%	1.98%	9.75%	35.83%
SPDR Materials Select Sector Fund ETF	False	True	-2%	0.79%	3.1%	31.53%
SPDR Real Estate Select Sector Fund ETF	True	True	-1.97%	-0.51%	1.22%	-6.6%
SPDR Technology Select Sector Fund ETF	False	True	-3.94%	-2.49%	7.11%	40.98%
SPDR Health Care Select Sector Fund ETF	False	True	-1.57%	-4.50%	3.85%	15.95%
SPDR Consumer Staples Select Sector Fund ETF	False	False	-2.53%	-4.54%	-5.42%	2.64%
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	-4.99%	-5.55%	2.07%	32.64%
SPDR Utilities Select Sector Fund ETF	False	False	-4.97%	-8.04%	-9.38%	-13.36%

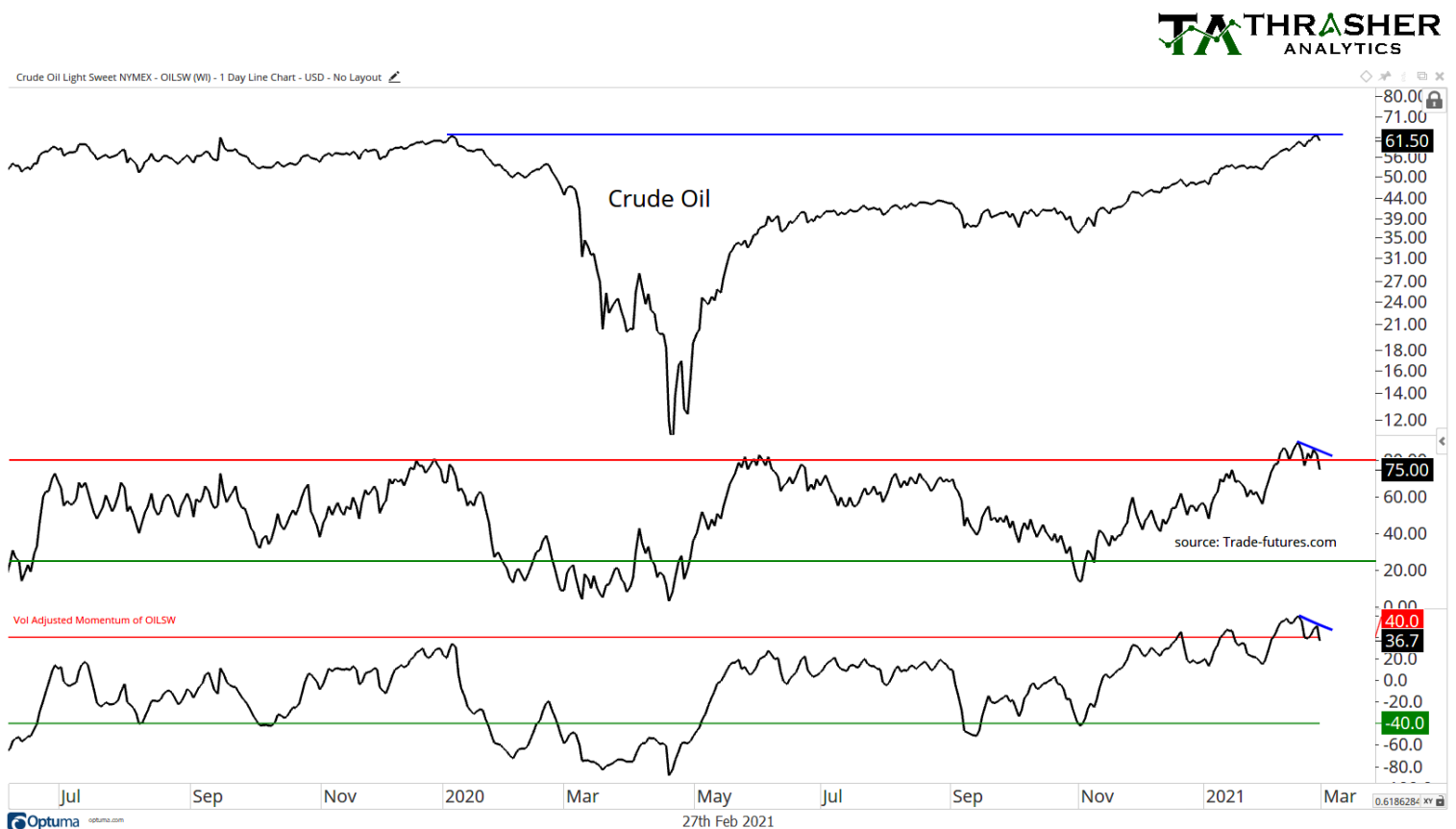
SECTOR - CONSUMER STAPLES



Consumer Staples has been one of the worst performers YTD. However, there's a chance that trend changes as we now have seen a large uptick in the percentage of the stocks within the sector becoming "oversold" based on the RSI indicator. More than 15% of XLP has an RSI below 30, which has often marked swing lows in XLP. As you can see on the chat below with the red arrows, this doesn't always mark a major low, but even within a larger downtrend like in 2018, these spikes in % oversold marked fairly attractive opportunities for those seeking to gain XLP exposure.



Last week I wrote about the high level of sentiment for oil and gasoline. That's since begun to diverge from price as crude oil made a run to the 2020 high at \$62/barrel. We now have a lower-high in both Daily Sentiment Index as well as volatility-adjusted momentum. This suggests that the latest trend higher in crude oil may be getting exhausted and preparing to turn lower as there's now less bulls and momentum has weakened. OPEC meets on Thursday so there's potential for a sizable price response to anything that gets announced following that meeting regarding changes to output.



DAILY SENTIMENT INDEX

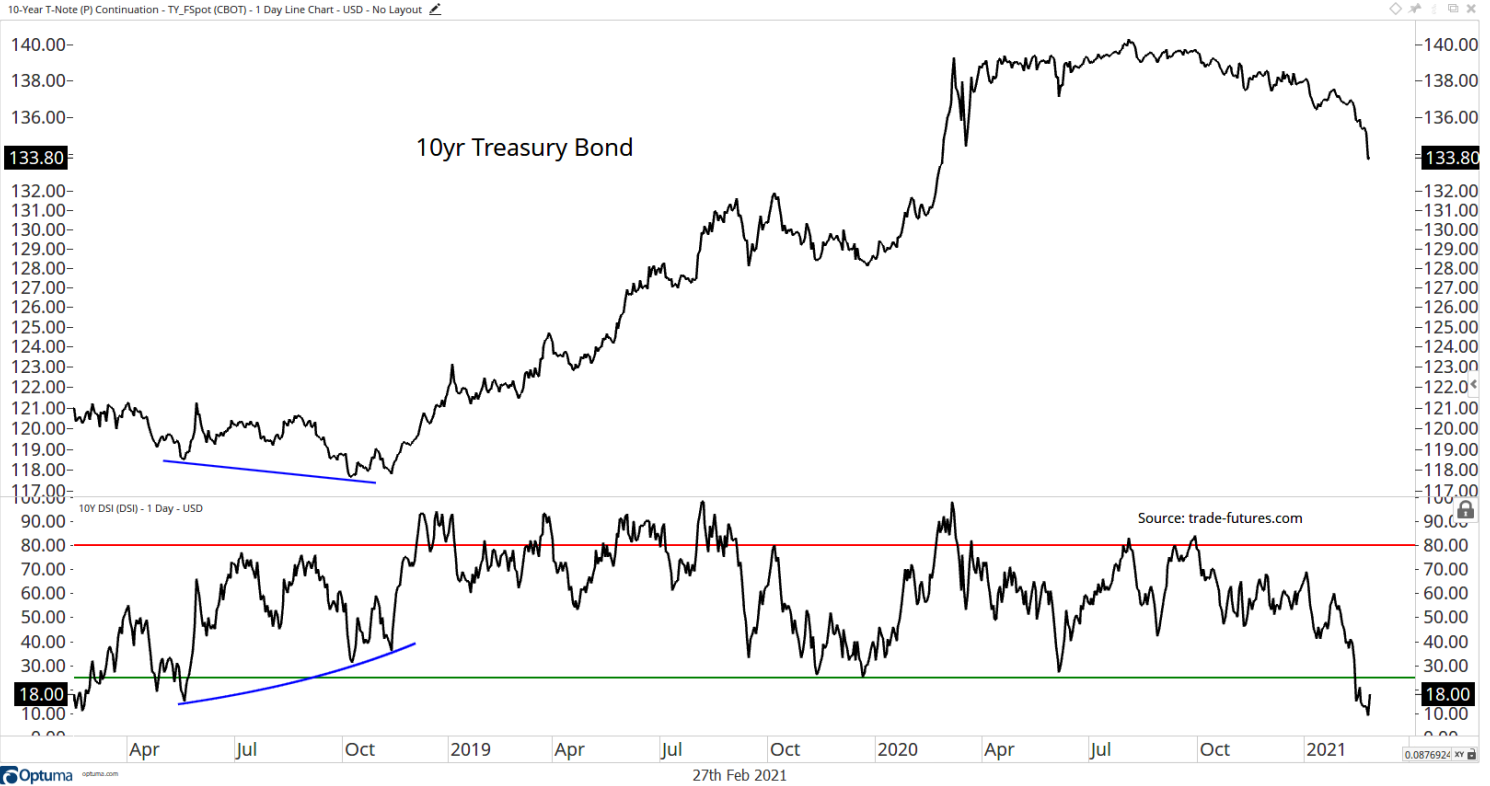


Market	% Bullish ▲	5MA	History 📈
Gold DSI	14	26.60	
5YR DSI	15	15.6	
10Y DSI	18	13.2	
VIX DSI	19	21	
Cattle DSI	20	27.60	
US Dollar DSI	30.00	21.2	
Orange Juice DSI	30.00	33.80	
Mexican Peso DSI	41.00	47.80	
Coffee DSI	41.00	44.20	
Swiss Franc DSI	48.00	54.20	
Palladium DSI	49.00	57.80	
Natural Gas DSI	53.00	55.00	
Wheat DSI	55.00	62.40	
EuroDollar DSI	58.00	61.40	
Cocoa DSI	58.00	50.20	
Lumber DSI	60.00	75.20	
Nikkei DSI	63.00	73.00	

Code	% Bullish ▲	5MA	History 📈
<input type="checkbox"/> SPX DSI	65.00	69.20	
<input type="checkbox"/> Nasdaq DSI	65.00	63.60	
<input type="checkbox"/> Euro DSI	65.00	67.40	
<input type="checkbox"/> Silver DSI	66.00	77.60	
<input type="checkbox"/> Sugar DSI	68.00	79.20	
<input type="checkbox"/> Platinum DSI	68.00	76.80	
<input type="checkbox"/> CRB Index DSI	70.00	79.40	
<input type="checkbox"/> Copper DSI	70.00	86.4	
<input type="checkbox"/> Australian Dollar DSI	70.00	82.6	
<input type="checkbox"/> Cotton DSI	71.00	83.8	
<input type="checkbox"/> British Pound DSI	71.00	78.20	
<input type="checkbox"/> Heating Oil DSI	73.00	81	
<input type="checkbox"/> Corn DSI	73.00	72.80	
<input type="checkbox"/> New Zealand Dollar DSI	74.00	82.6	
<input type="checkbox"/> Crude Oil DSI	75.00	81.8	
<input type="checkbox"/> Lean Hog DSI	76.00	83.4	
<input type="checkbox"/> Gasoline DSI	77.00	84	

Source: trade-futures.com

DAILY SENTIMENT INDEX

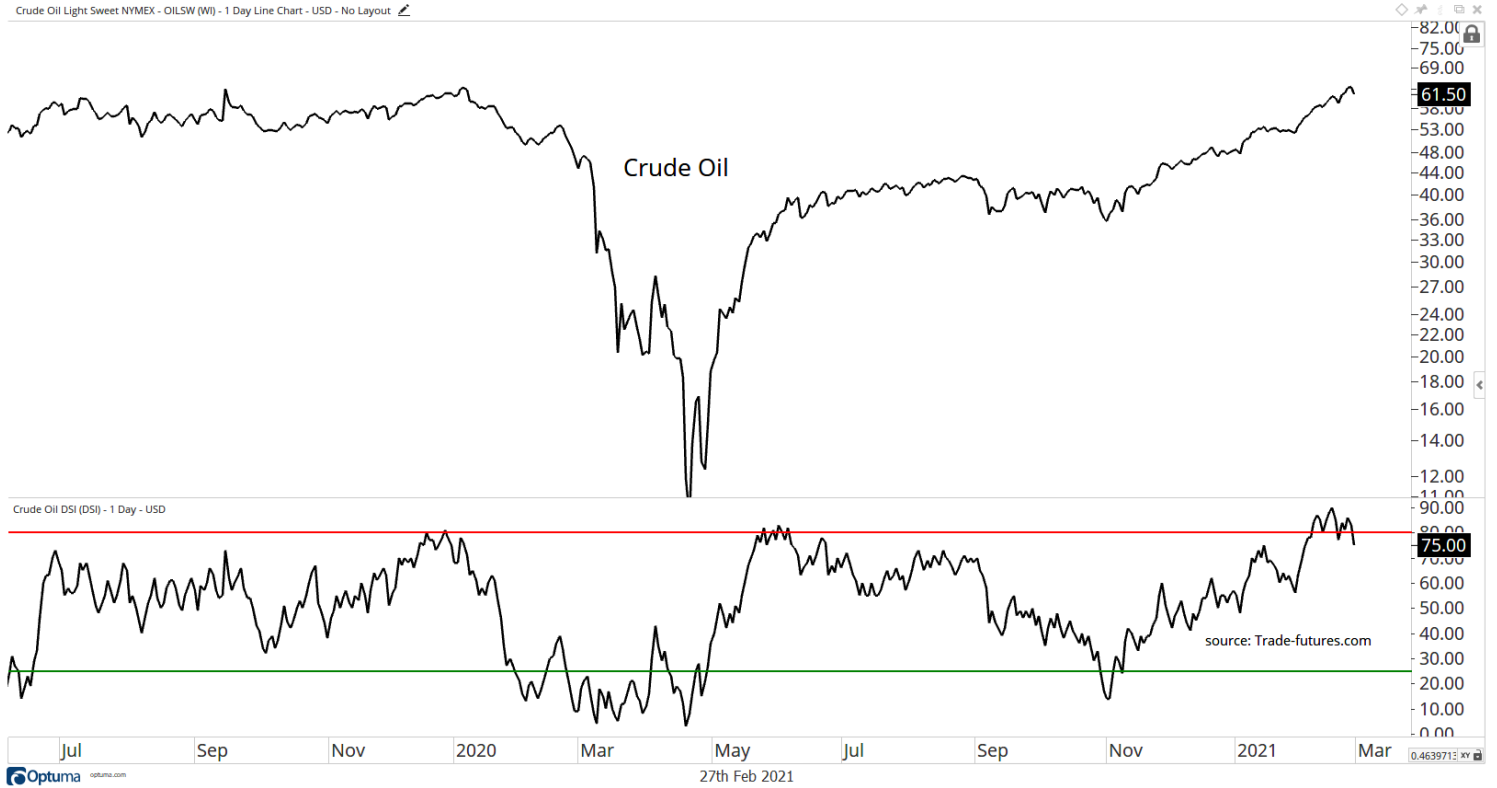


DAILY SENTIMENT INDEX



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Crude Oil Light Sweet NYMEX - OILSW (W1) - 1 Day Line Chart - USD - No Layout

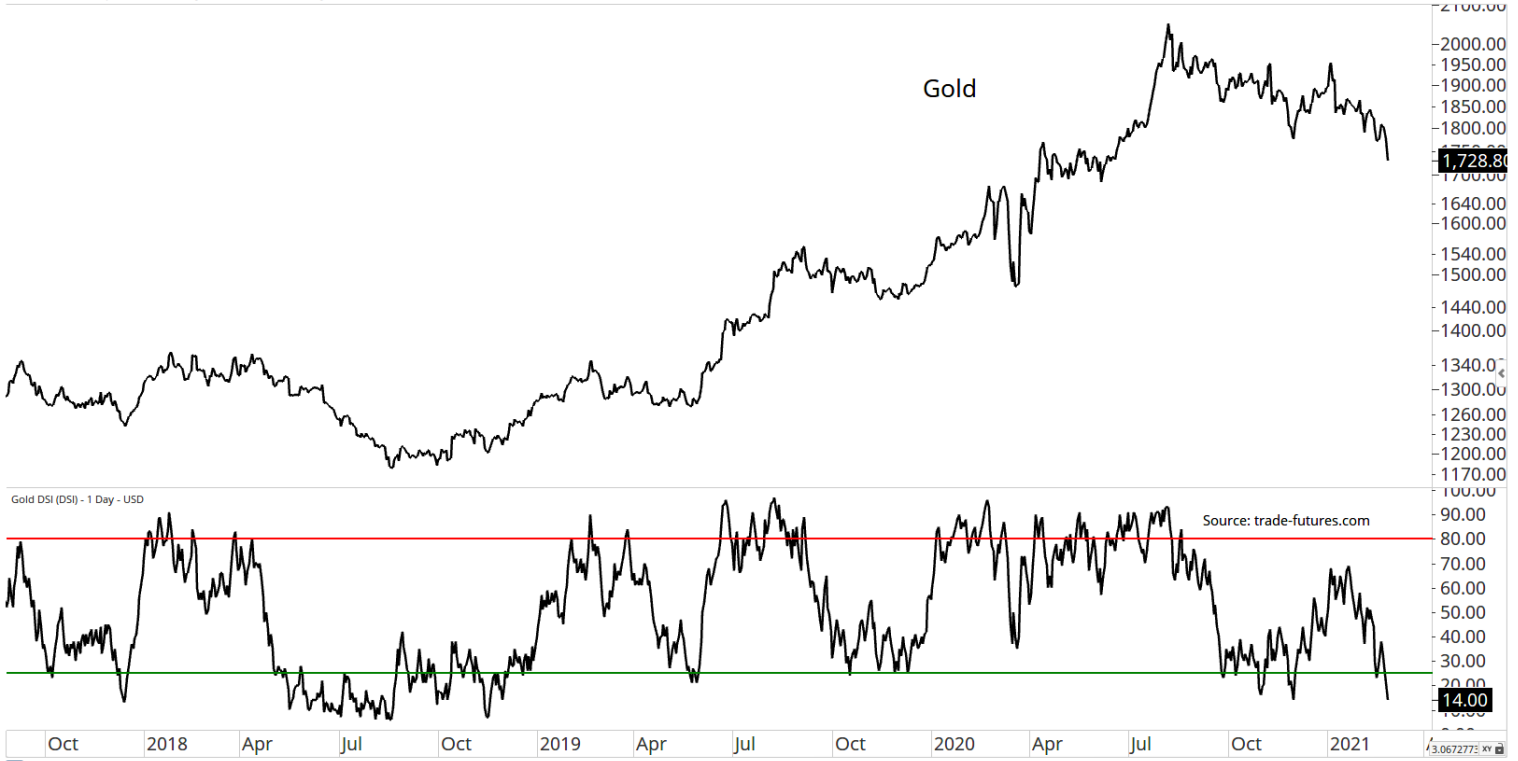


DAILY SENTIMENT INDEX



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



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DAILY SENTIMENT INDEX



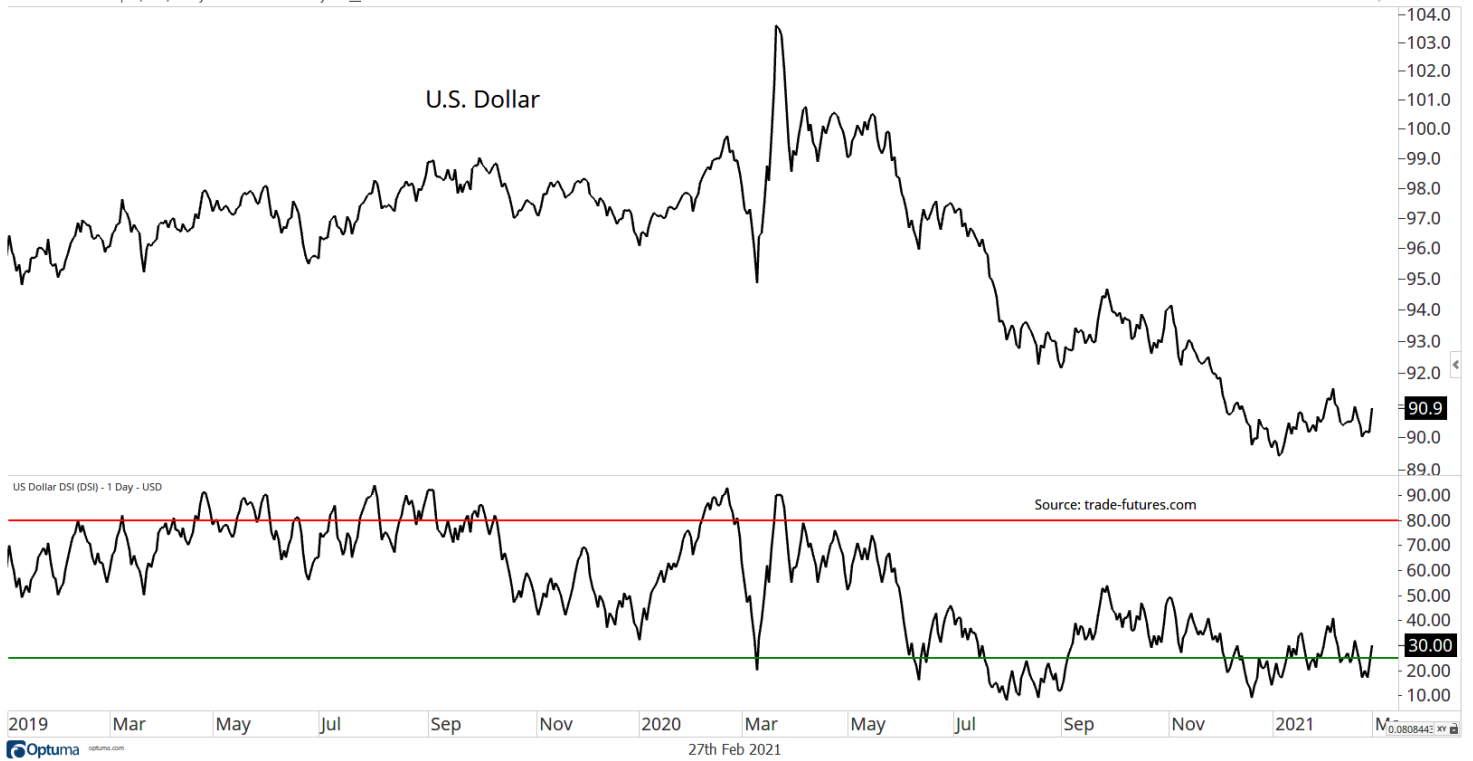
NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



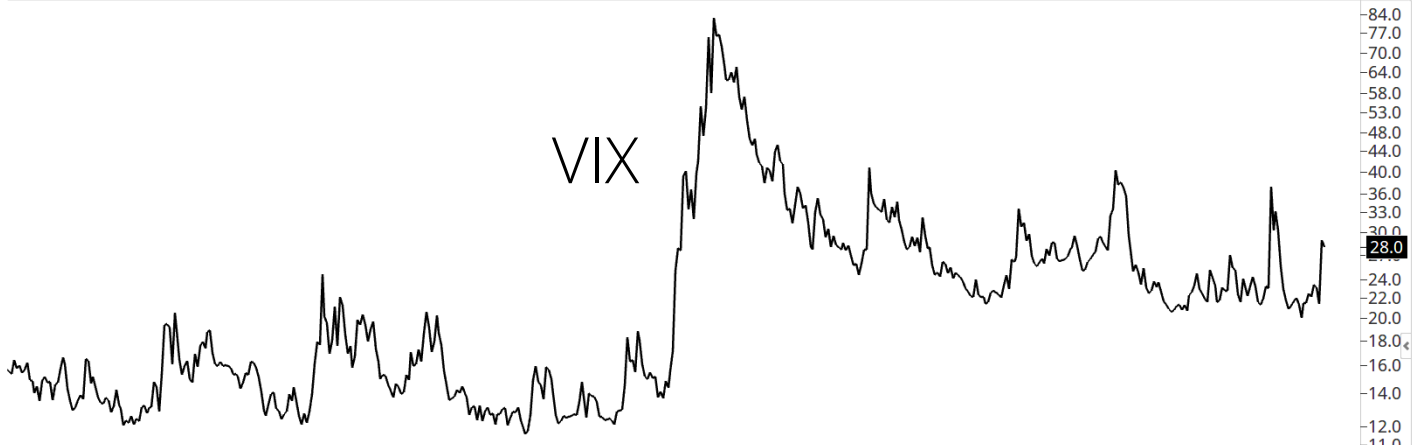
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX

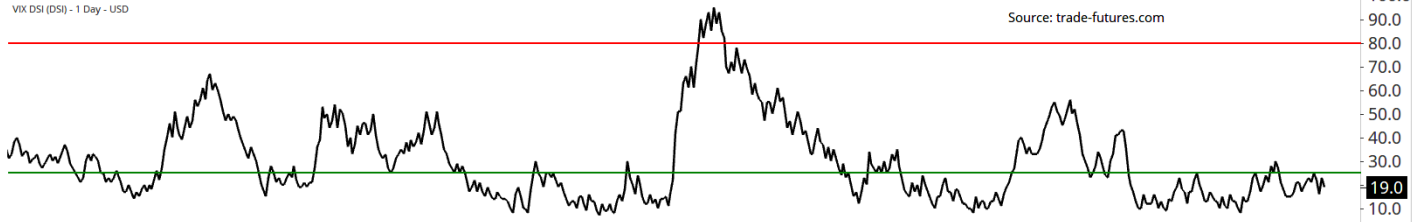


CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout



VIX DSI (DSI) - 1 Day - USD

Source: trade-futures.com



Mar May Jul Sep Nov 2020 Mar May Jul Sep Nov 2021 M0,4352312 XY



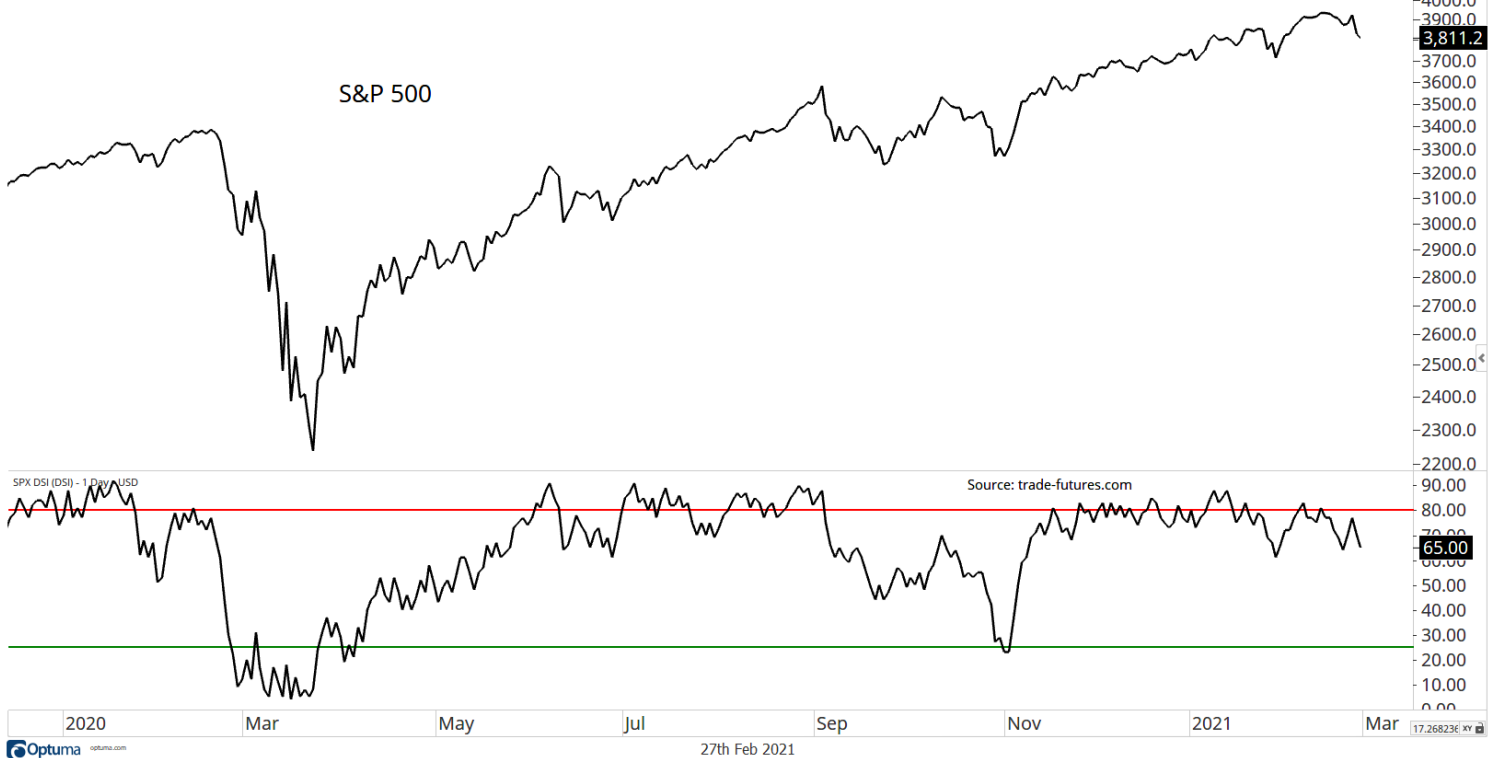
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DAILY SENTIMENT INDEX



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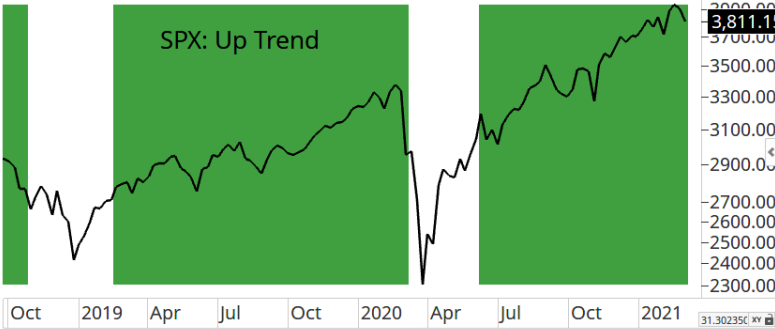
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



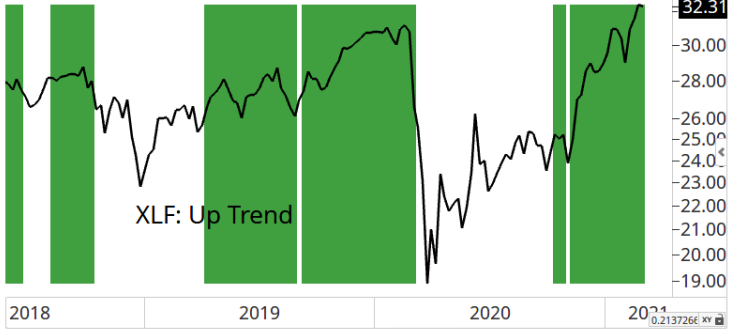
TREND MODELS



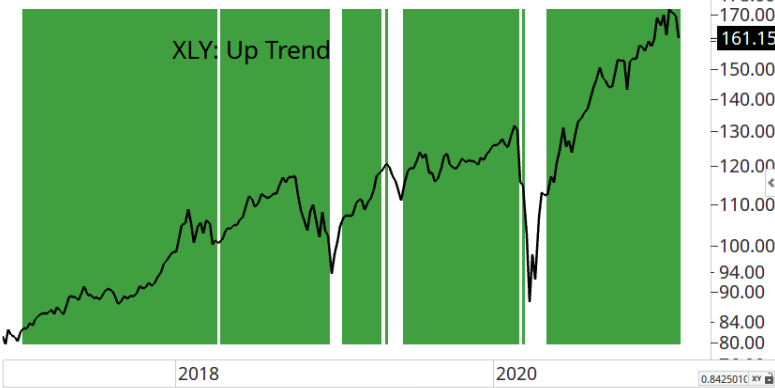
S&P 500 INDEX - SPX (W) - 1 Week Line Chart - USD - No Layout



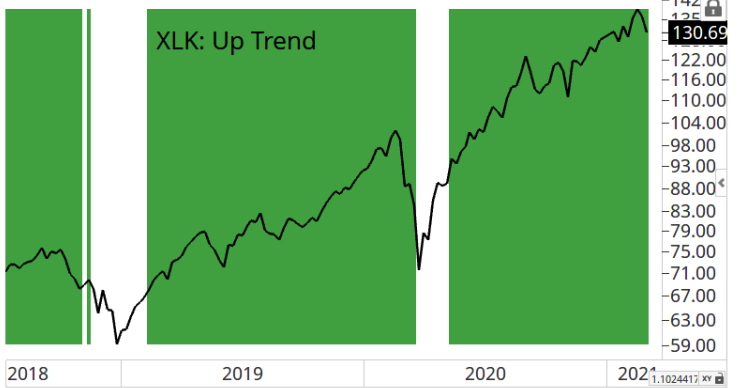
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



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



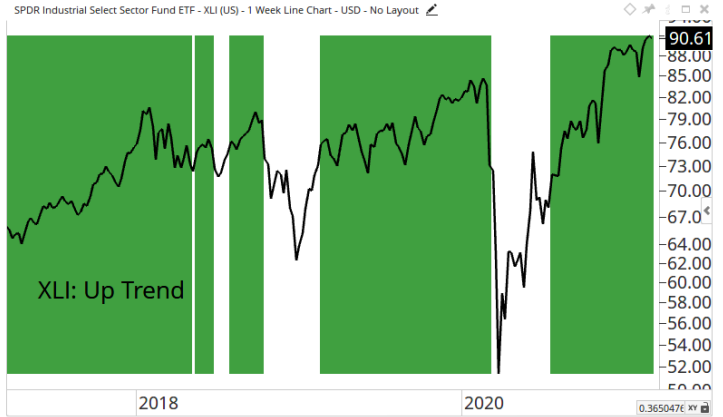
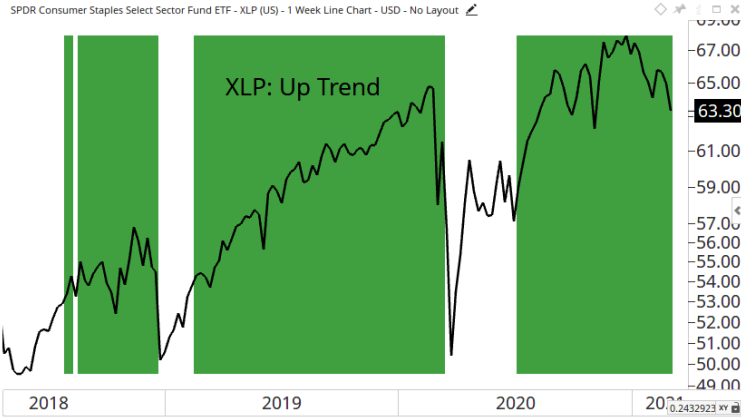
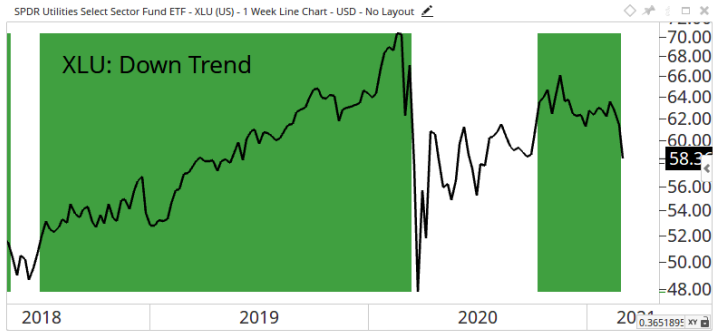
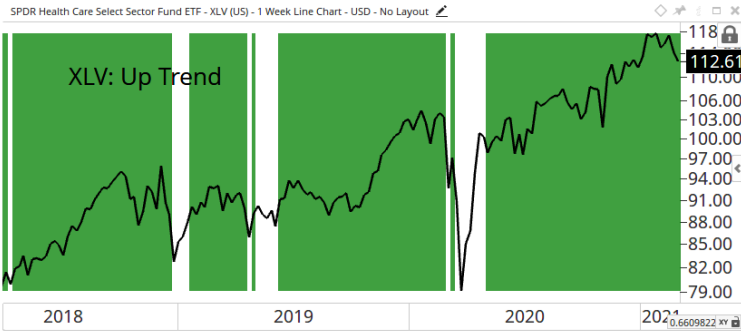
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



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TREND MODELS



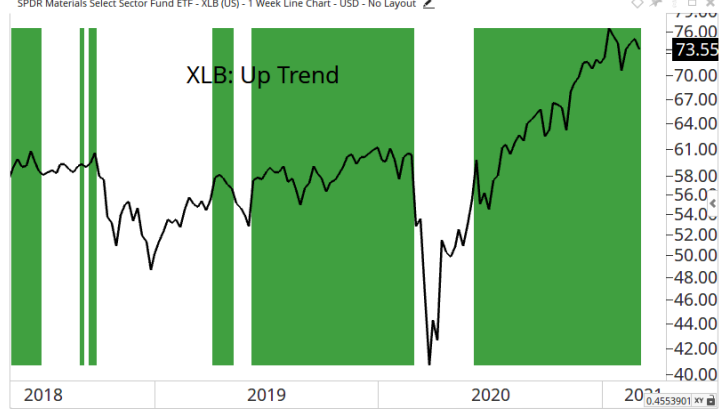
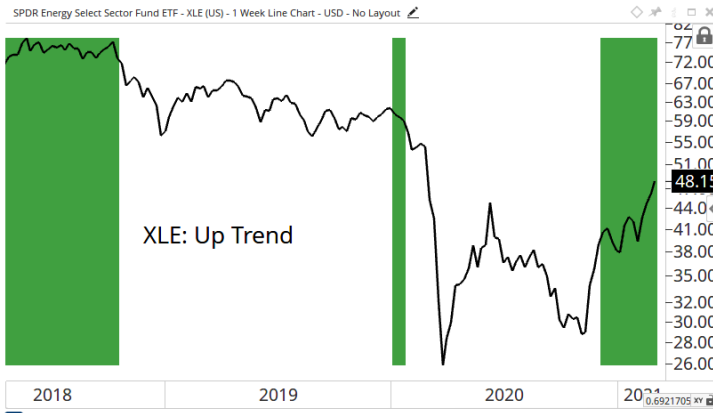
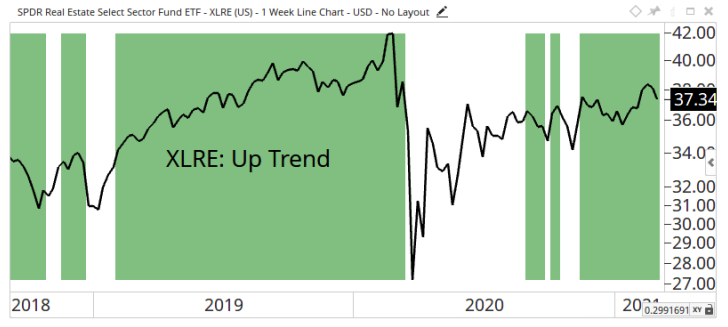
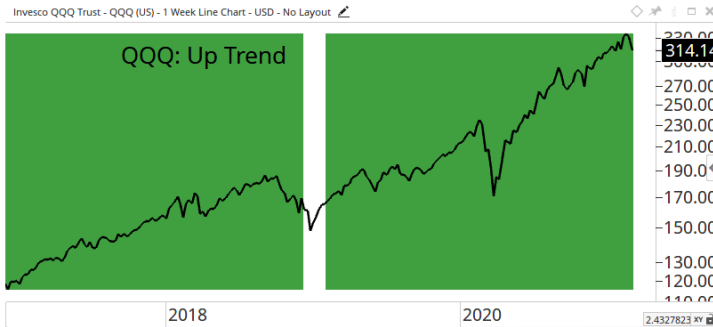
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