THRASHER ANALYTICS

MARCH 14, 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.
- Breadth continues to look good.

Bearish

- SKEW/VIX Ratio at high-end of range.
- Bearish divergence in sentiment for equities.
- Lack of confirmation in bond spreads.
- Equity momentum remains below prior highs.

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MARKET DASHBOARD

TA

Sector Rotation: March	
Financials	XLF
Energy	XLE
Technology	XLK

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

Market Health Report	
Breadth	3
Divergence	0
Momentum	2
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	75%	70%
Nasdaq 100	63%	62%
Nikkei	79%	71%
VIX	17%	19%
10yr Treasury	12%	18%
5yr Treasury	13%	18%
CRB Index	77%	76%
Gold	23%	21%
U.S. Dollar	39%	43%

**Green<25% Red>80%*

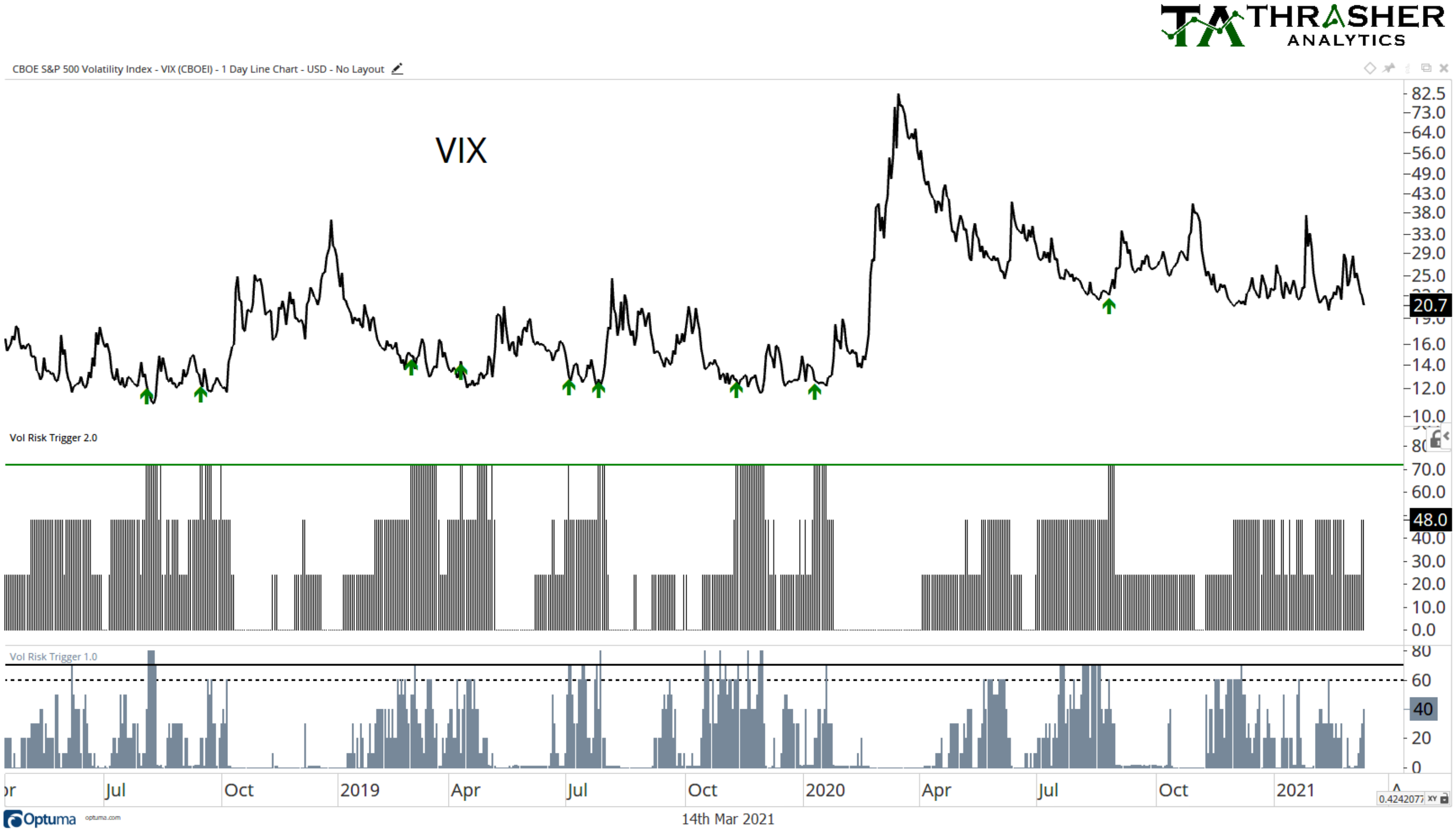
source: trade-futures.com

Brief Summary:

With the strength shown in the Market Health Report and the chart I shared in last week's letter of the Commercial Traders buying Nasdaq futures and the lack of confirmation in volatility and VVIX of the lower-low in equities, it's to little surprise that we saw stocks rally last week and the S&P 500 hit a new high. The market internals remain strong. The big focus continues to be the fixed income market and there's several developments there that have changed recently, specifically to corp. debt (investment grade and high yield). We have an FOMC meeting this week, so we'll see what Powell has to say as my guess will be he tries to calmly talk down rates as the last thing he wants to do is take action and get a repeat of Q4 '18. Overall, equities look good but volatility appears slightly cheap and defensive sectors may be worth an interesting look should a rise in rates put some temporary pressure on financial markets.

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 VRT 2.0 ticked higher at the end of last week, but is still below its threshold for a signal. Spot VIX is back near the low-end if its recent multi-month range and I think it's looking a little cheap at the moment. More on this on the next page.



Volatility

Below is a chart of the ratio between the SKEW Index and the VIX. This relationship has shifted into a new range following the Covid Crash, just like it did after the major VIX spike in February 2018. What I've noticed is when the ratio rises to the high-end of the range, a result of SKEW "outperforming" the VIX, we have often seen the VIX play catchup. We saw this playout now twice in the last couple of months and we once again find the SKEW/VIX ratio back at that upper-end of the range. Will this cause another instance of the VIX playing catchup, rising before it gets another chance to crack under 20? We'll see but I lean more to the affirmative than the negative on this one.

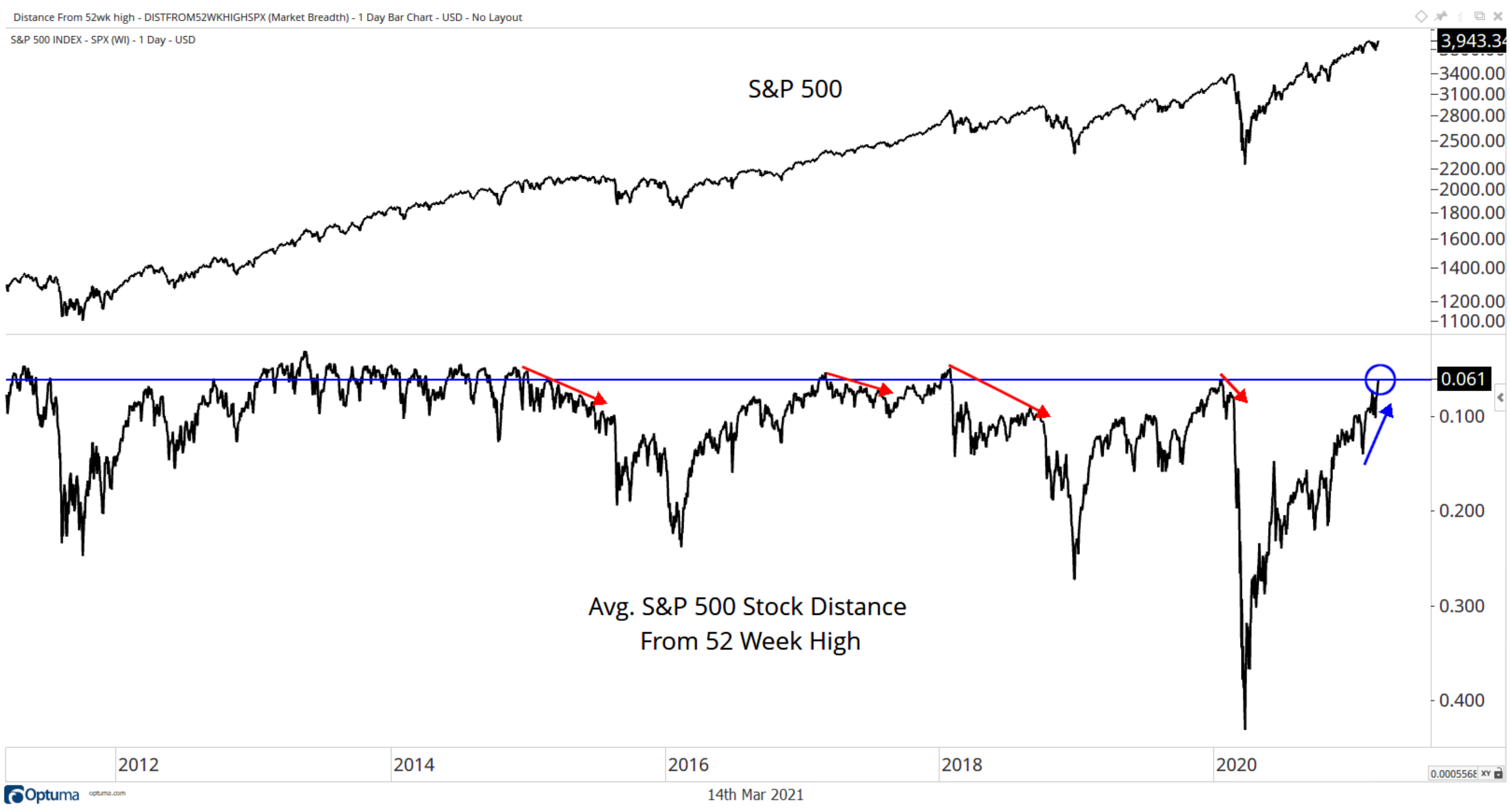
Equities - S&P 500 Daily

Equities rallied last week, sending the the SPX to a new high on both Thursday and Friday. What will likely stand out the most on the chart below is the obvious lower-high in momentum. We continue to see momentum drag lower with each recent rise to new highs in the index. It's hard to argue that momentum for stocks is slowing, but the trends remain positive and the strength in the breadth data seems to make up for the lackluster velocity of said trends.

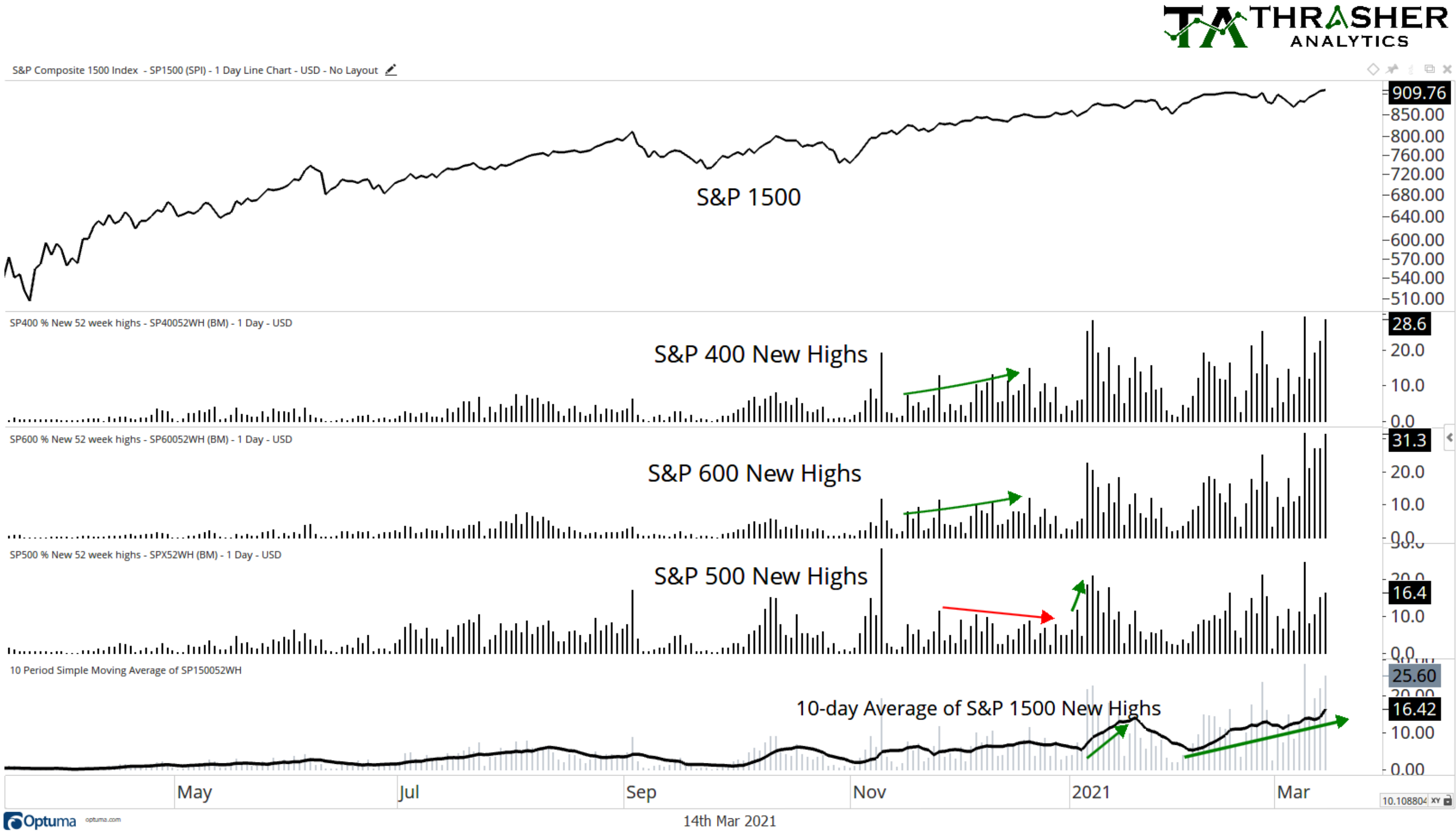
Equities - Breadth

As of Friday the average S&P 500 stock is just 6.1% below its respective 52-week high, the lowest figure since January 2018 as equities continue to recover from the Covid Crash of 2020. When this breadth figure rises, its telling us stocks are going higher not lower and that the breadth landscape for U.S. equities is strong.

You'll notice when we see this figure decline, meaning stocks are getting further way - not closer - to their 52-week high, that's the type of environment that's led to stocks declining: 2015, 2018, 2020. The decline in 2017 was ignored as the index bucked higher regardless of some internal weakness of individual stocks.



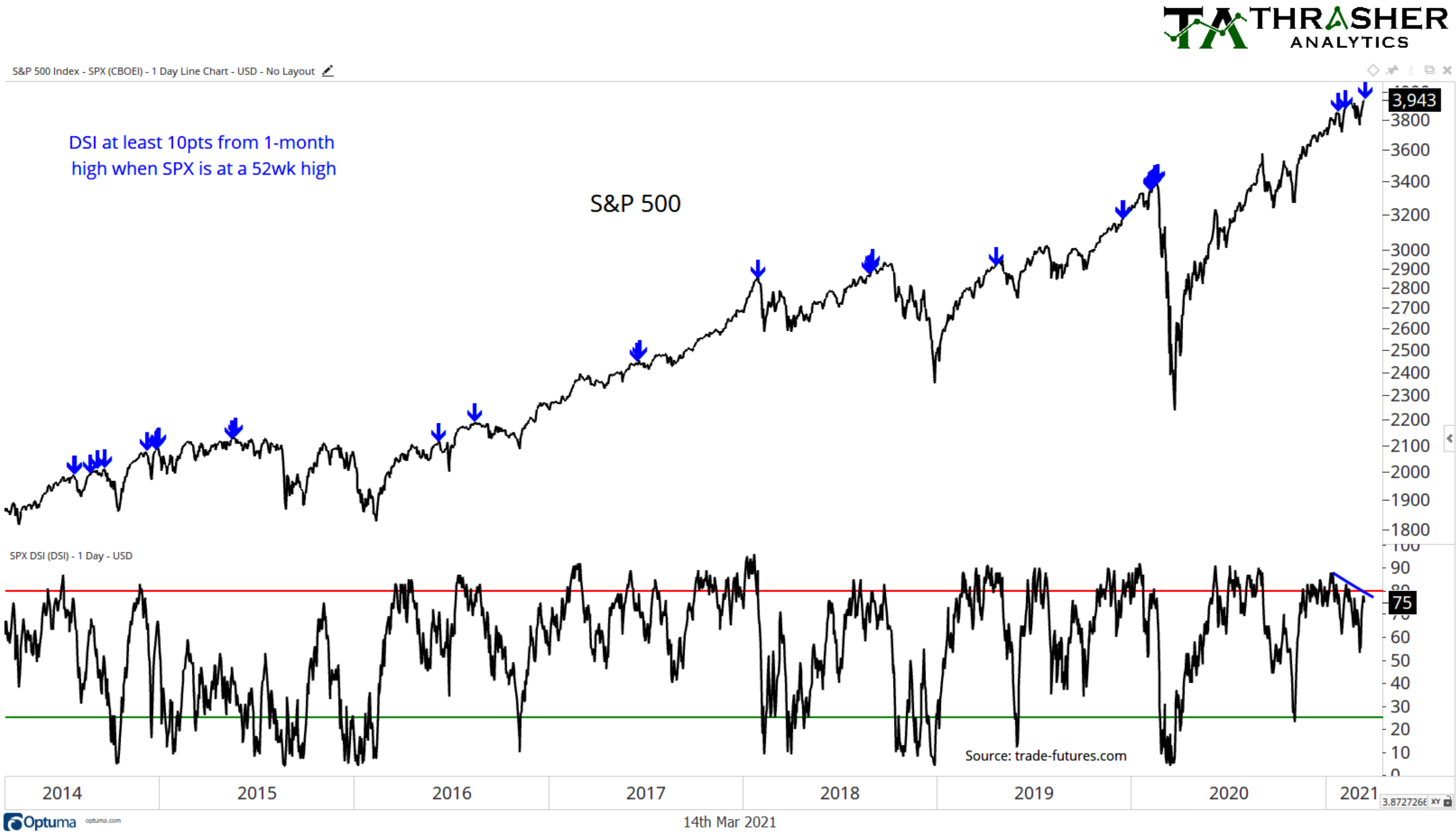
The new high list has continued to expand across asset sizes. Coming into 2021, we saw a decline new highs for large caps but expansion in small and mid, which was enough to keep the up trend in-tact. Following the recent dip in equities, the % of stocks at new highs continues to confirm the advance in all three asset groups. Even the 10-day average of S&P 1500 (which includes, small, mid, and large caps) new highs broke above the January peak as well.



Equities - Sentiment

One area we aren't seeing confirmation of the new high is in sentiment.

The DSI % Bullish for the S&P 500 finished the week at 75%, well off its high from the last month. The chart below shows prior instances of the SPX being at a 52wk high while DSI is 10+ points off its 1-month high, meaning that sentiment has deteriorated as equities moved higher. When this has occurred in the past, the market has responded negatively. We often see peaks in equities when sentiment has already peaked itself. This is what I'd point to as the biggest risk for equities (besides the monster of fixed income which I'll get to later). Sentiment just isn't as strong as it once was and that's not bullish.

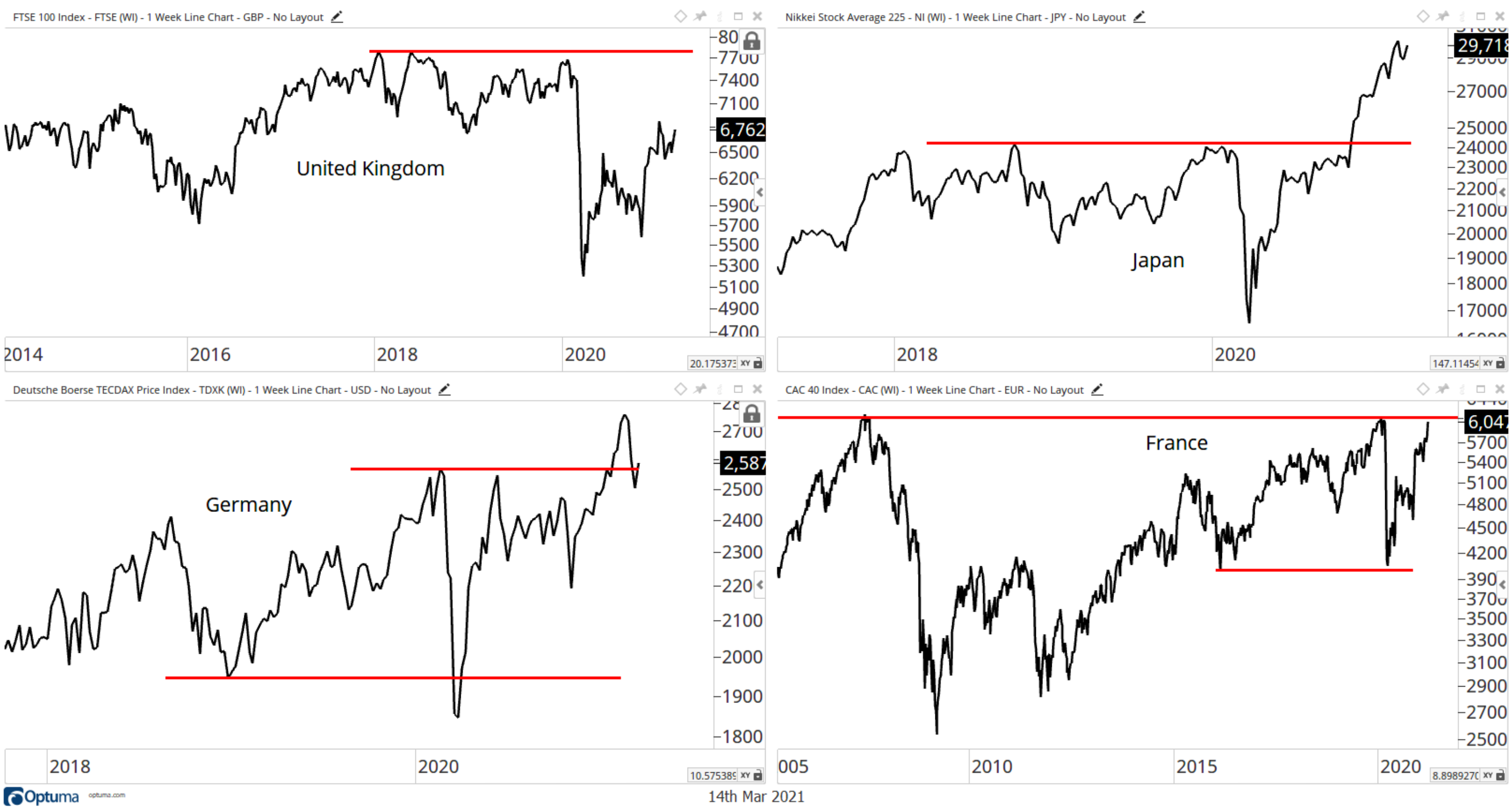


Equities - International

Internationally, things have improved.

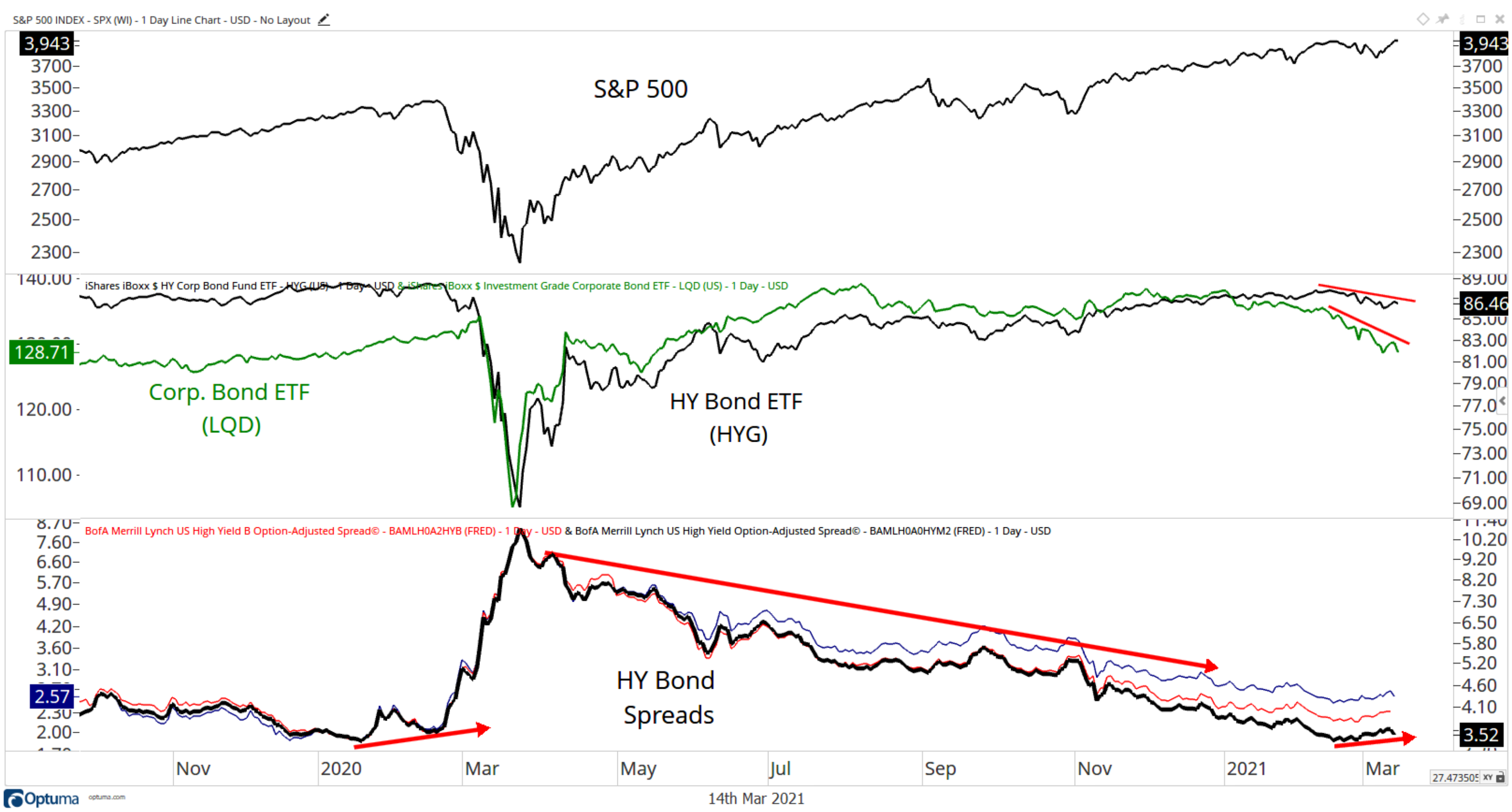
Germany had shown a risk of a false breakout, falling back under the prior high but was able to (so far) recover that level last week. Japan continues to move higher and what has most of my attention right now is France. the CAC 40 (French equity index) is nearing a breakout of a multi-year resistance level that goes all the way back to before the Financial Crisis. The CAC 40 is fairly stretched right now, so I'm a bit concerned if there's enough firepower left to get the breakout, but long-term, a move higher to fresh air would be bullish for French equities and a positive sign for international markets as a whole.

THRASHER ANALYTICS

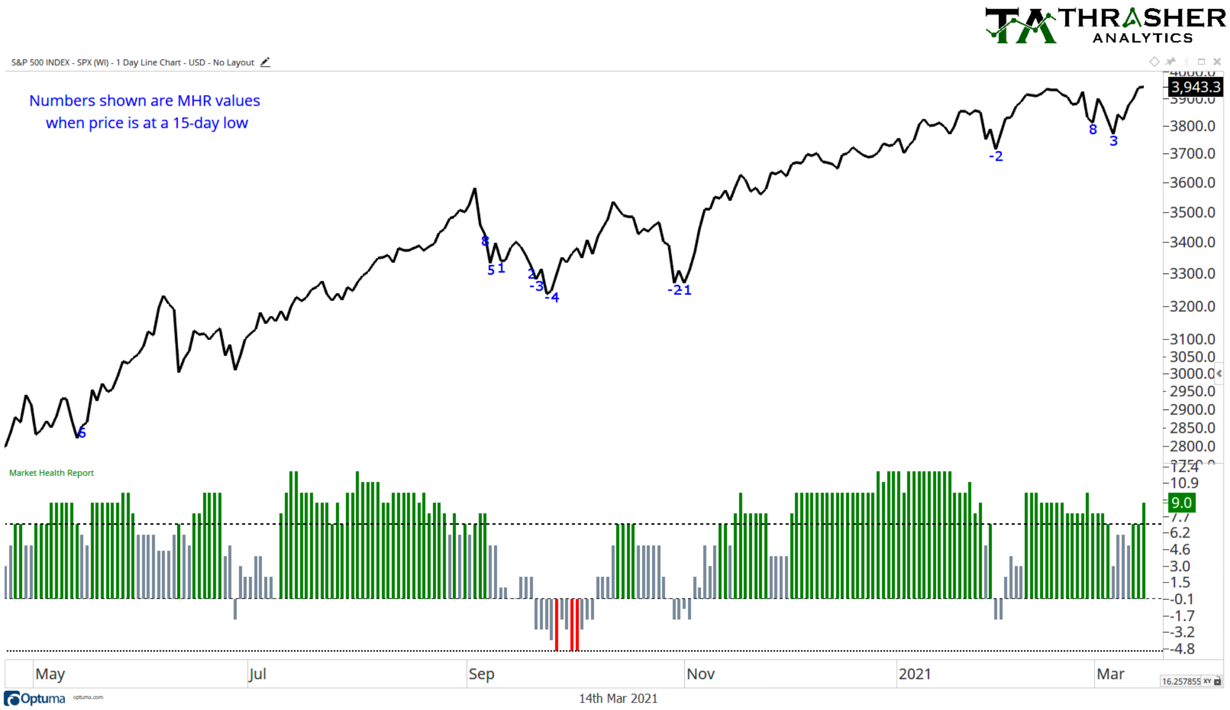


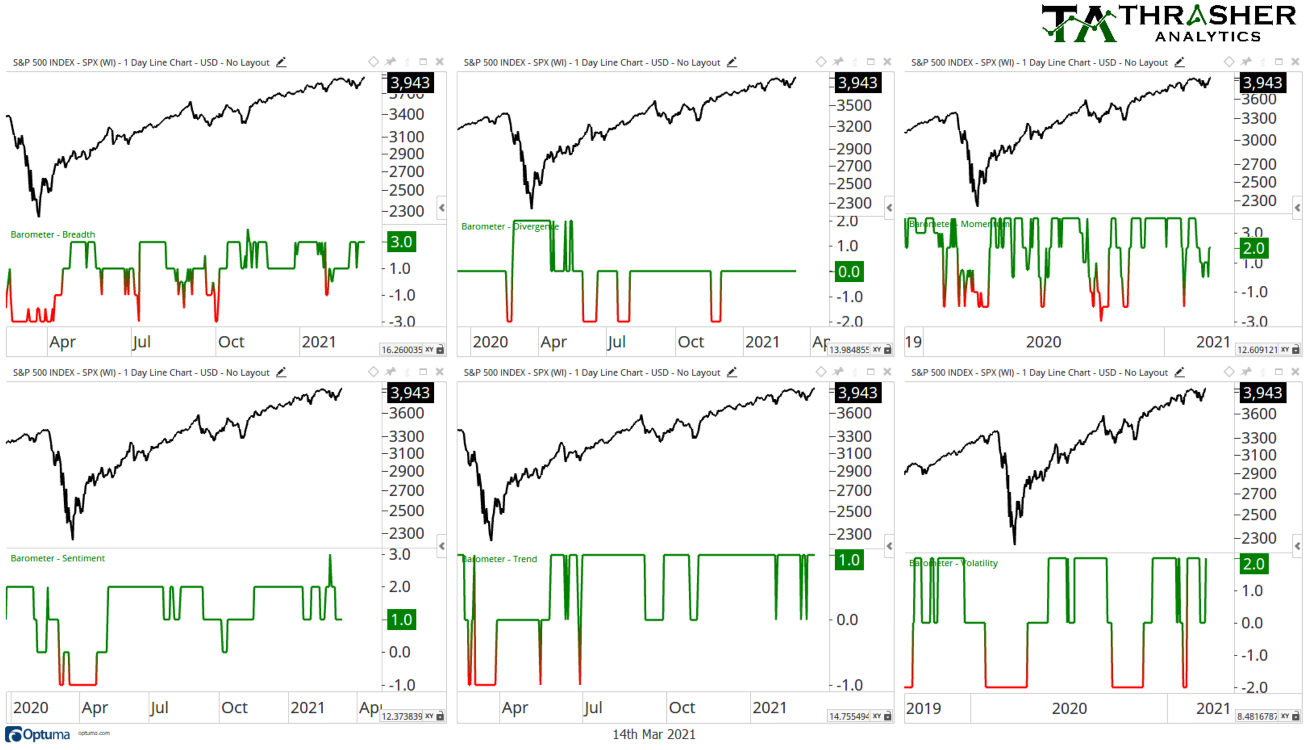
Equities - Bond Spreads

As we move into the fixed income portion of the letter I want to connect equities back to bonds, via High Yield Spreads and the lack of price confirmation in both investment grade and HY bonds via LQD and HYG. Since after the Covid Crash spreads have narrowed, confirming the bullishness in equities as fixed income investors became less concerned about high yield debt, requiring a smaller spread relative to Treasury's in order to own it. That's a good sign for equities. However spreads, along with LQD and HYG, have not confirmed this latest move in equities. Spreads have not declined in March while corporate bonds and high yield bond ETFs have moved lower - a divergence with equities we haven't seen since last September. When stocks rallied off the low during that minor decline, LQD and HYG buyers were absent.



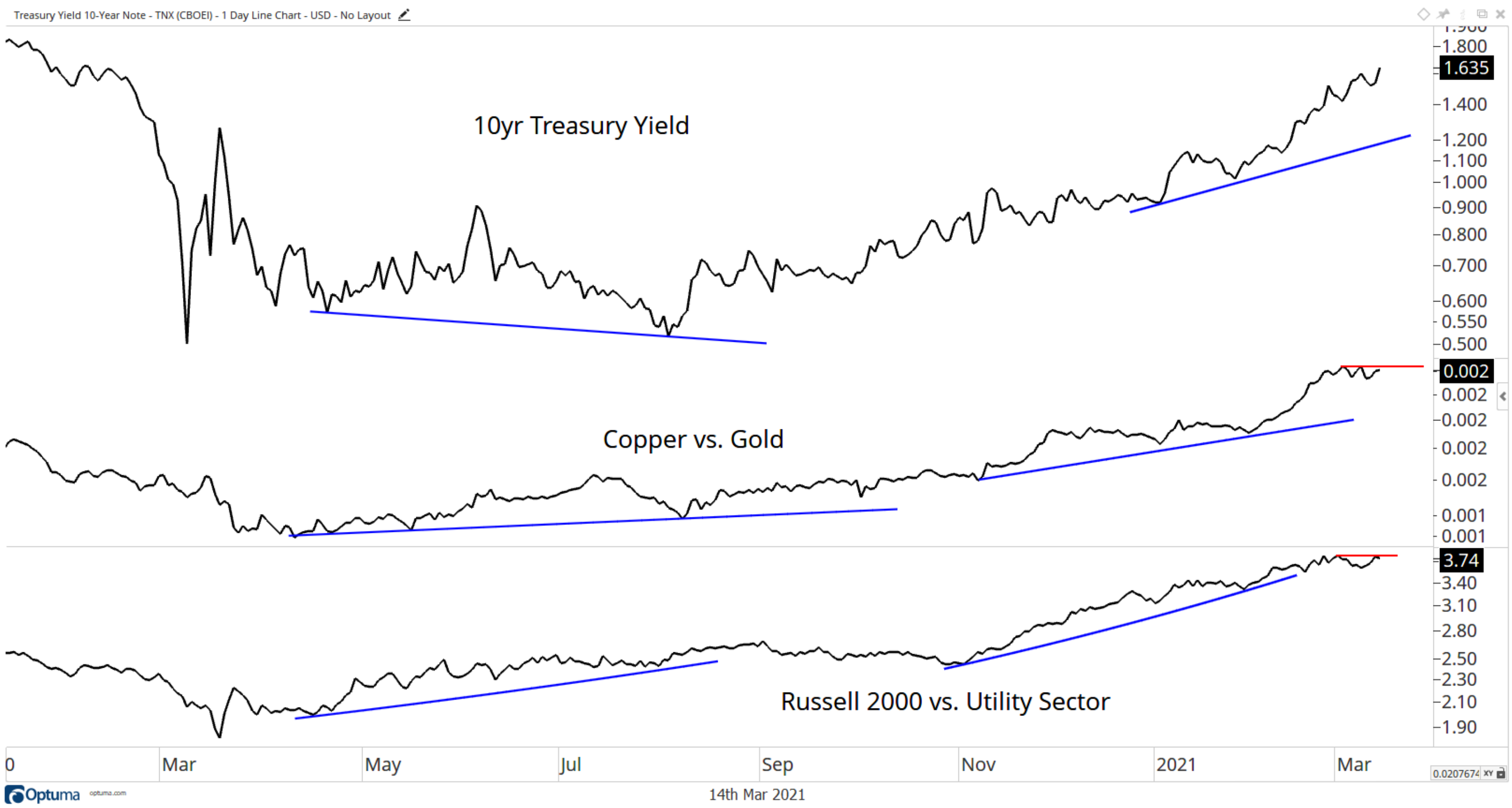
The Market Health Report (MHR) finished the week at +9. All of the categories are at least at zero or positive, a bullish sign for the market internals and positive for equities. The two 15-day lows we saw in the most recent dip had strong MHR scores, signaling the decline should be brief and thankfully that's exactly what we saw as equities moved back to new highs last week.





Fixed Income - Confirmation

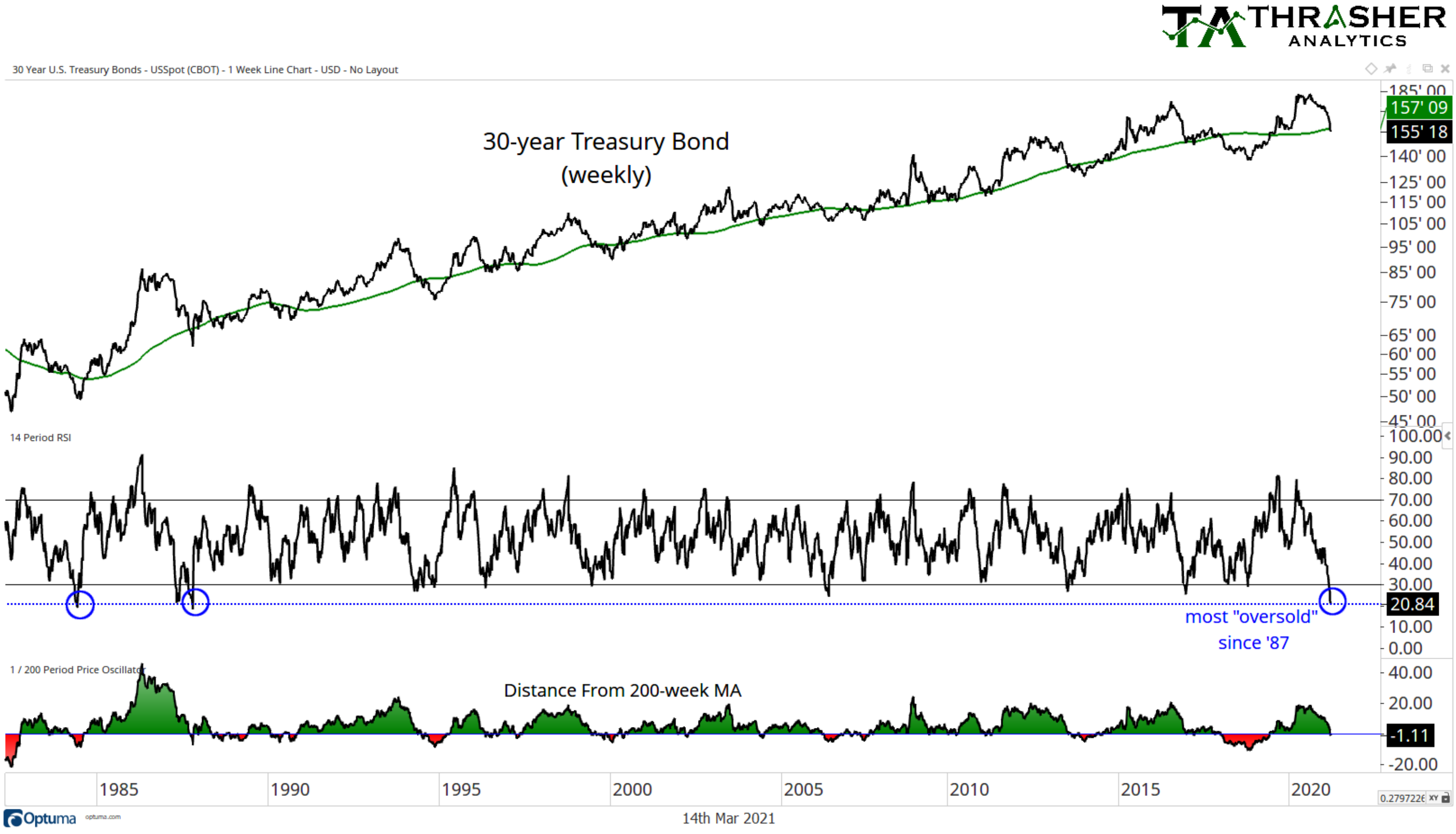
Two of my favorite ratios to look at for confirmation in the trend of the 10yr Treasury yield is copper vs. gold and small caps utilities. Between these two we get an idea if the commodity and equity markets are showing the same bullishness or bearishness to warren rates going higher or lower. We saw an excellent bullish divergence last summer signaling rates to move higher and both continued to confirm the advance since then. However, the short-term trends in these two ratios have not confirmed the latest step up in rates. Copper has not made a higher-high relative to gold and small caps have weakened briefly against utilities. Many are looking for the 10yr to rise to 1.8% but I need to see some confirmation here to get comfortable that rates can keep going higher, especially as stretched as the bond market is already.



Fixed Income - Oversold

Below is a weekly chart of the 30-yr Treasury Bond along with the 200-week moving average (green line) going back to the 1980s. You'll notice the 30yr bond doesn't stray from the 200-week MA very often. The bottom panel of the chart shows the distance price oscillates around the long-term moving average, not a lot of red, and a big reason why is because bonds have been in a 30+ year bull market! But look at momentum, using the 14-week RSI. It's the lowest its been since 1987. There's no arguing that bonds are 'oversold' right now. The move just under the 200-MA and stretched momentum makes me wonder if this bout of selling in fixed income is getting exhausted. I've shared in the past two letters the net-position of Large Traders, they still haven't picked up their holdings to a 50th %tile, an area that often signals bullishness for bonds.

As I said on the prior page, many are looking for 1.8% on the 10yr and we have an FOMC meeting this week. I think Powell does his best to talk the bond market off that level, which could be bullish for bonds. We'll see.



Fixed Income - Correlation

Below is a correlation chart for the S&P 500 sectors and the 10yr Treasury Yield (TNX). I want to focus on the first column, which shows the 1yr correlation of TNX to each sector. If we do see a move lower in rates, then the sectors with the highest correlation are likely feel that pain while the lowest correlation sectors may provide an interesting opportunity. Right now the Financial Sector (no surprise here) has the highest correlation, and has been one of the best performers in recent weeks. Meanwhile, Utilities and Consumer Staples has the lowest correlation. I think Staples look the most interesting right now and may be a way to retain equity exposure while minimizing risk towards a reversion in rates.

Code	TNX	XLK	XLI	XLV	XLY	XLP	XLF	XLE	XLC	XLB	XLRE	XLU
TNX		0.57	0.68	0.52	0.55	0.39	0.83	0.65	0.66	0.64	0.42	0.32
XLK	0.57		0.96	0.95	0.99	0.92	0.88	0.52	0.98	0.97	0.84	0.74
XLI	0.68	0.96		0.92	0.96	0.91	0.93	0.57	0.97	0.99	0.84	0.77
XLV	0.52	0.95	0.92		0.95	0.90	0.87	0.61	0.94	0.95	0.86	0.80
XLY	0.55	0.99	0.96	0.95		0.93	0.87	0.50	0.97	0.98	0.85	0.78
XLP	0.39	0.92	0.91	0.90	0.93		0.75	0.34	0.88	0.91	0.84	0.86
XLF	0.83	0.88	0.93	0.87	0.87	0.75		0.77	0.93	0.92	0.77	0.63
XLE	0.65	0.52	0.57	0.61	0.50	0.34	0.77		0.64	0.57	0.57	0.26
XLC	0.66	0.98	0.97	0.94	0.97	0.88	0.93	0.64		0.97	0.85	0.71
XLB	0.64	0.97	0.99	0.95	0.98	0.91	0.92	0.57	0.97		0.84	0.77
XLRE	0.42	0.84	0.84	0.86	0.85	0.84	0.77	0.57	0.85	0.84		0.82
XLU	0.32	0.74	0.77	0.80	0.78	0.86	0.63	0.26	0.71	0.77	0.82	

Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	6.34%	-2.08%	6.7%	73.11%
SPDR Real Estate Select Sector Fund ETF	True	True	5.94%	1.72%	7.61%	20.24%
SPDR Utilities Select Sector Fund ETF	True	True	4.57%	-0.34%	0.27%	14.12%
SPDR Materials Select Sector Fund ETF	True	True	4.49%	5.85%	10.99%	81.06%
SPDR Industrial Select Sector Fund ETF	True	True	3.56%	7.17%	9.01%	65.76%
SPDR Financial Select Sector Fund ETF	True	True	3.14%	10.31%	22.17%	70.69%
SPDR Consumer Staples Select Sector Fund ETF	True	True	2.24%	0.70%	-1.74%	26.8%
SPDR Technology Select Sector Fund ETF	False	True	1.91%	-5.18%	5.72%	74.4%
SPDR Communication Services Select Sector ETF	True	True	1.8%	2.32%	11.58%	76.24%
SPDR Health Care Select Sector Fund ETF	False	True	1.4%	-2.29%	2.61%	35.17%
SPDR Energy Select Sector Fund ETF	True	True	1.17%	19.92%	30.28%	81.78%

Daily Sentiment Index

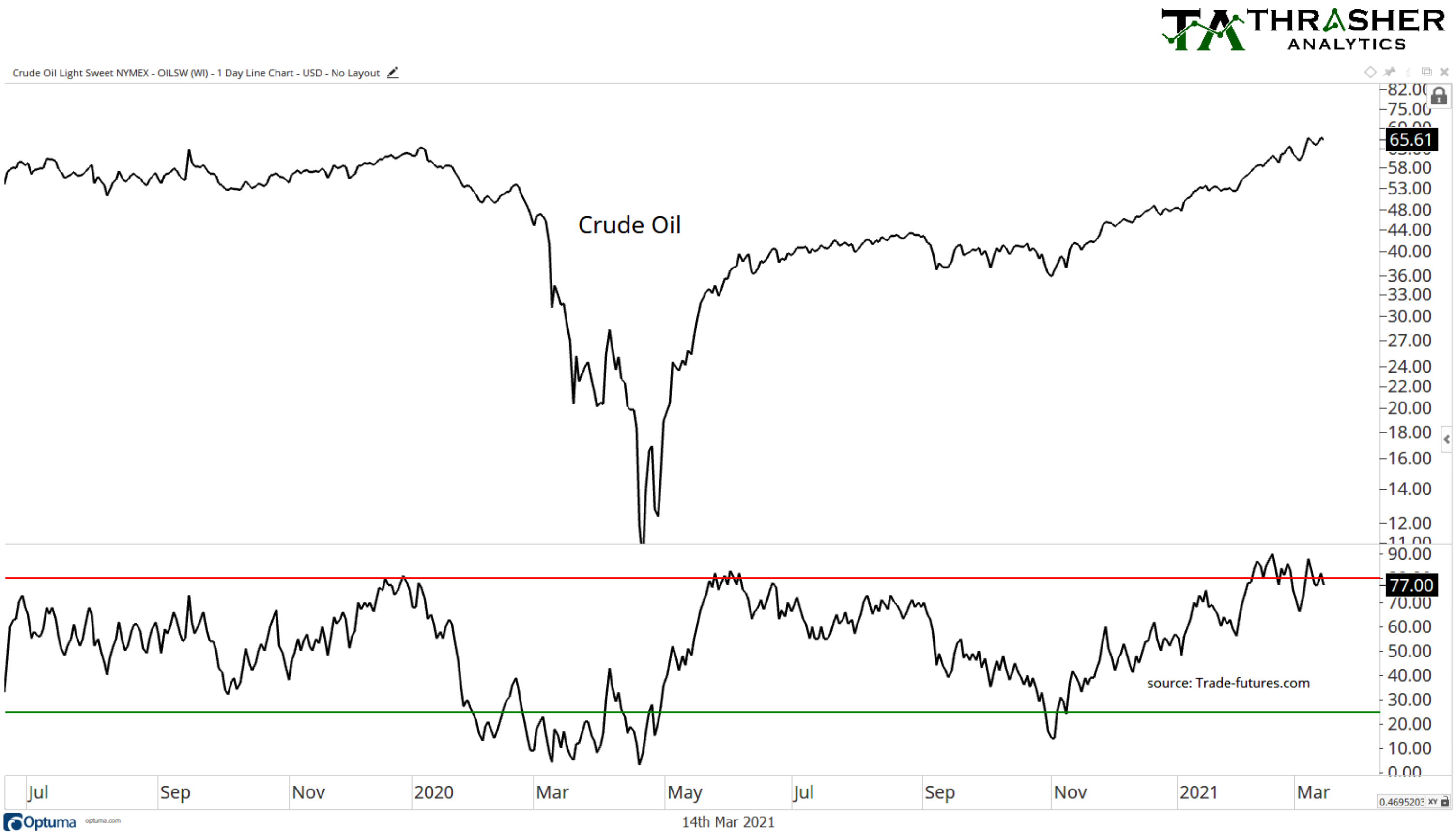
Market	% Bullish	5MA	History
10Y DSI	12	18.2	
5YR DSI	13	18	
VIX DSI	17	19.4	
Swiss Franc DSI	21	22.4	
Cattle DSI	22	19.2	
Gold DSI	23	20.6	
Coffee DSI	25	21.4	
Wheat DSI	37.00	44.80	
Mexican Peso DSI	37.00	32.20	
US Dollar DSI	39.00	42.60	
Natural Gas DSI	40.00	42.80	
Palladium DSI	43.00	38.60	
Orange Juice DSI	43.00	36.60	
Cocoa DSI	48.00	44.20	
Silver DSI	50.00	52.60	
Sugar DSI	51.00	52.00	
Lumber DSI	55.00	62.80	

Code	% Bullish	5MA	History
EuroDollar DSI	55.00	55.00	
Euro DSI	56.00	51.80	
Corn DSI	62.00	60.40	
Nasdaq DSI	63.00	61.80	
Cotton DSI	65.00	63.00	
New Zealand Dollar DSI	68.00	67.40	
British Pound DSI	68.00	69.40	
Australian Dollar DSI	71.00	68.20	
Copper DSI	74.00	67.40	
SPX DSI	75.00	70.40	
Heating Oil DSI	77.00	77.40	
Crude Oil DSI	77.00	79.00	
CRB Index DSI	77.00	76.00	
Platinum DSI	78.00	74.80	
Nikkei DSI	79.00	70.60	
Lean Hog DSI	81	79.20	
Gasoline DSI	84	81.4	

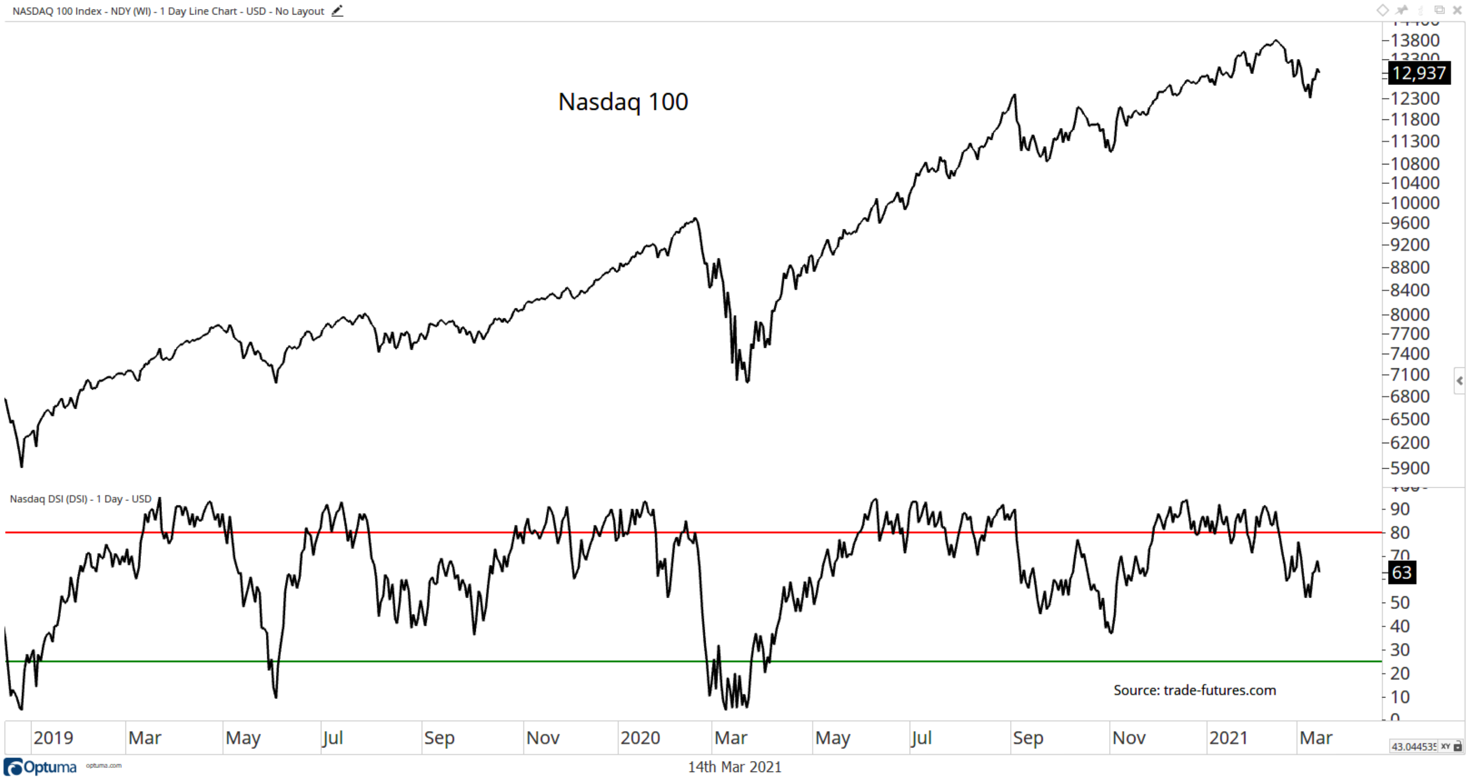
Source: trade-futures.com

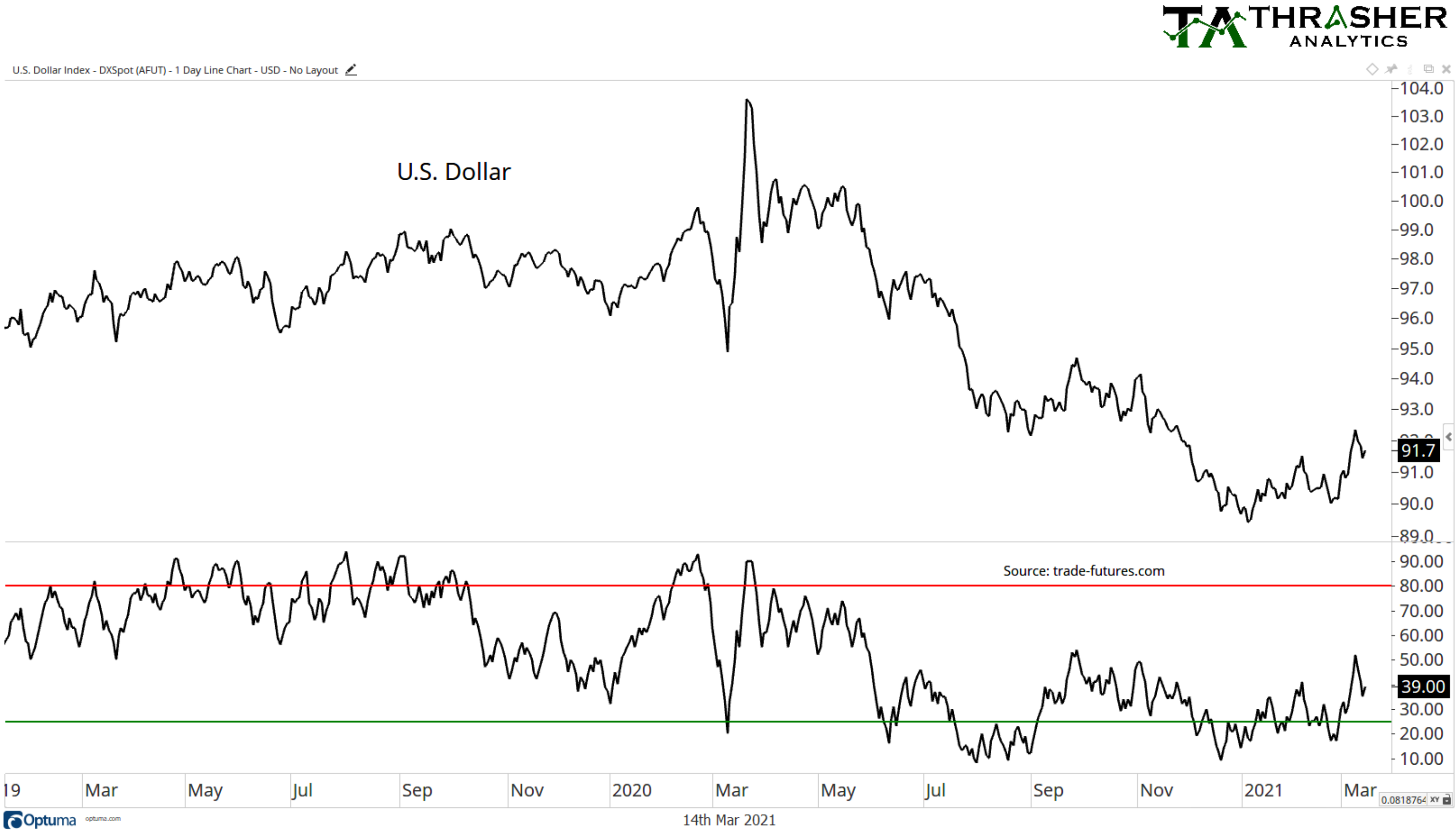

10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
132.91
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
12.00
Apr
Jul
Oct
2019
Apr
Jul
Oct
2020
Apr
Jul
Oct
2021
Optuma
14th Mar 2021

Daily Sentiment Index



Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
Source: trade-futures.com
1,719.80
23.00
Nov
2019
Mar
May
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
Optuma
14th Mar 2021


NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
12,937
Nasdaq DSI (DSI) - 1 Day - USD
63
Source: trade-futures.com
2019
Mar
May
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
14th Mar 2021
Optuma


THRASHER ANALYTICS
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
104.0
103.0
102.0
101.0
100.0
99.0
98.0
97.0
96.0
95.0
94.0
93.0
91.7
91.0
90.0
89.0
Source: trade-futures.com
90.00
80.00
70.00
60.00
50.00
39.00
30.00
20.00
10.00
19
Mar
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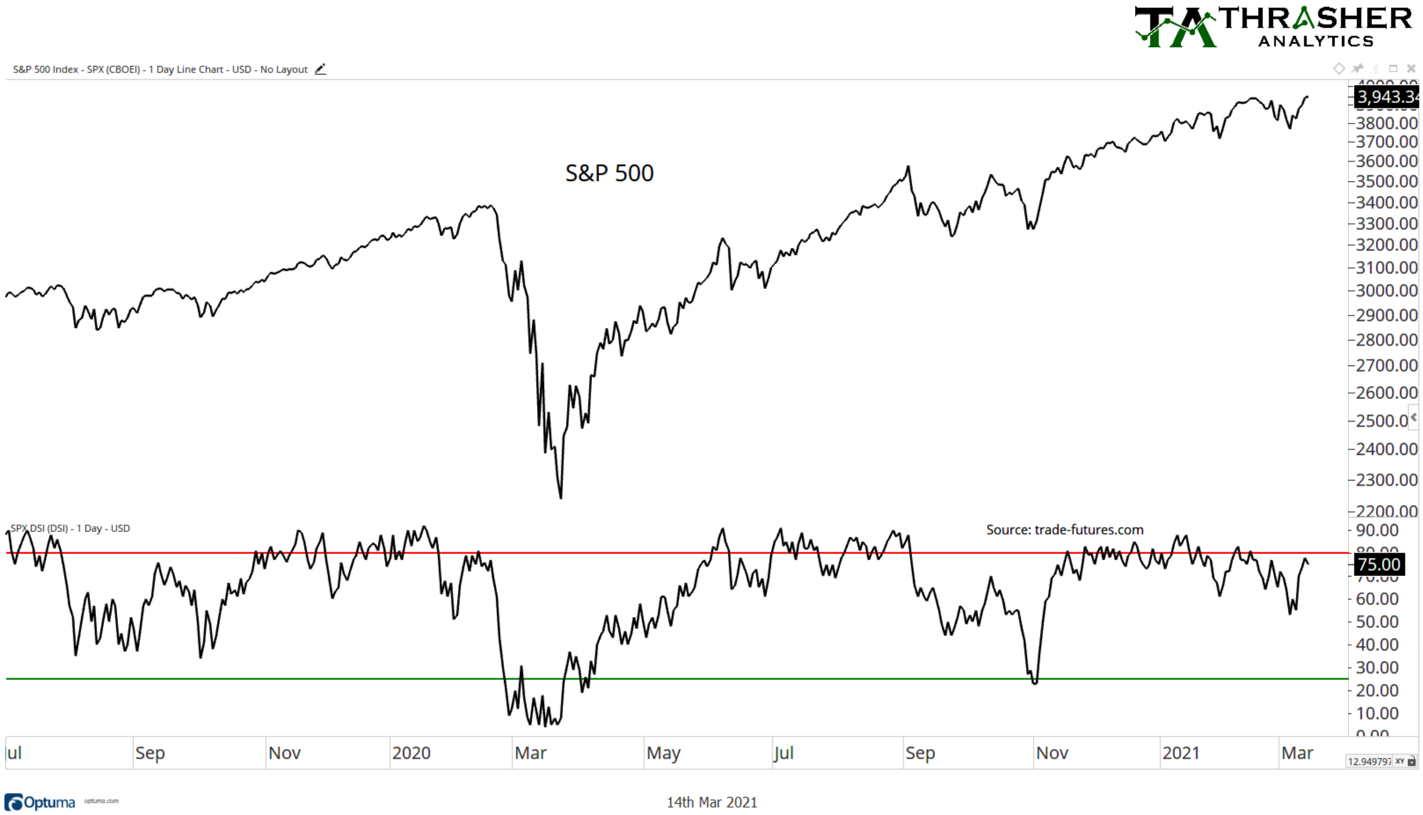
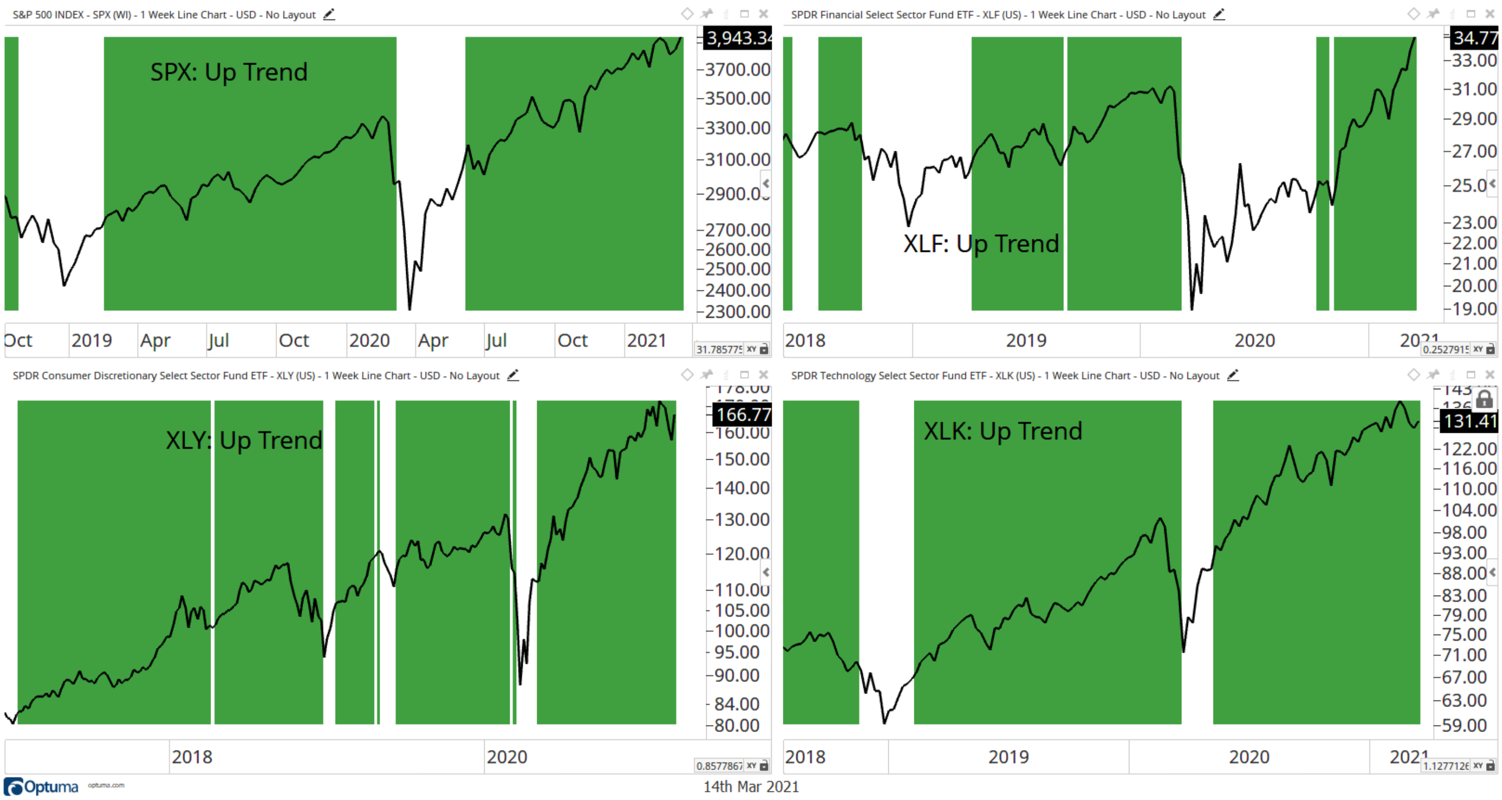
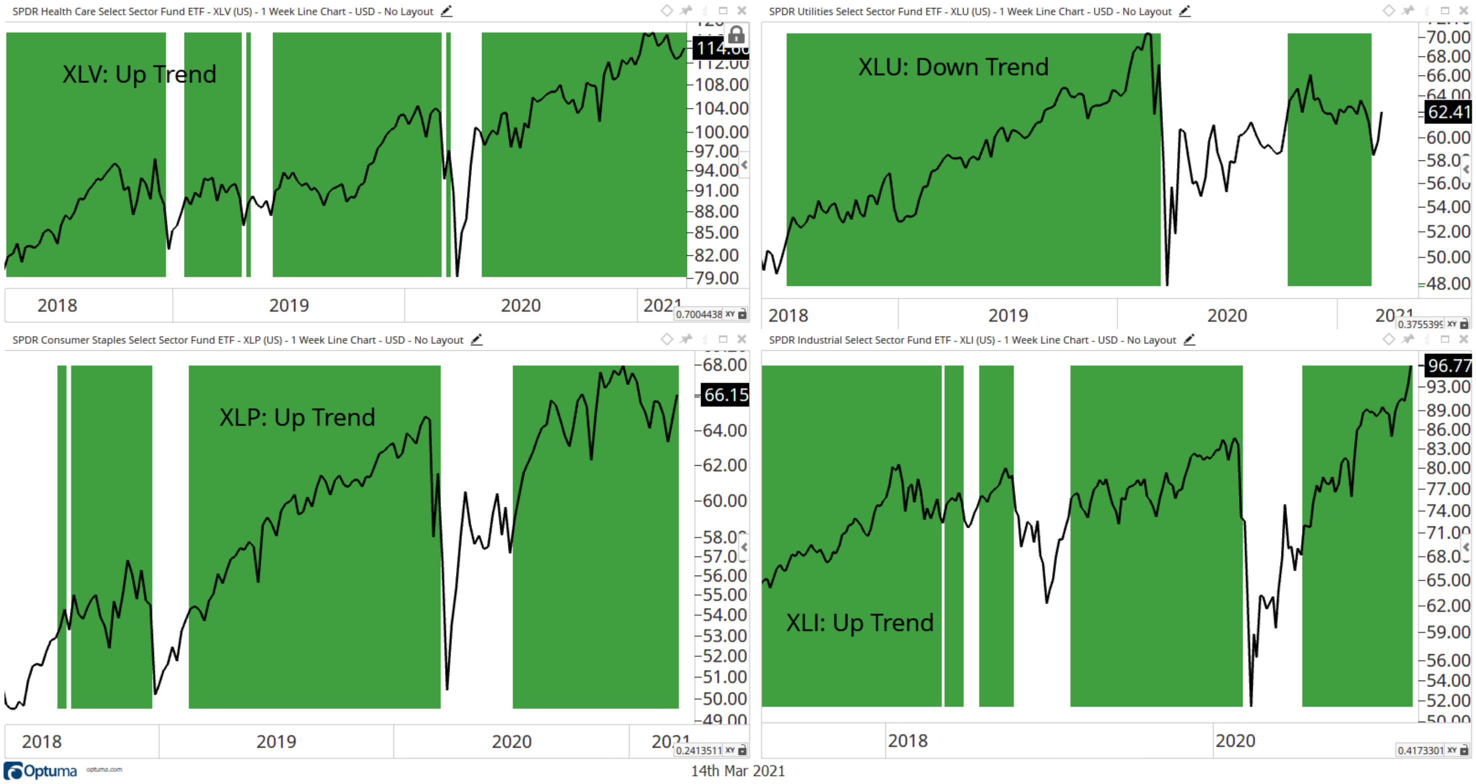
Mar
Optuma
14th Mar 2021

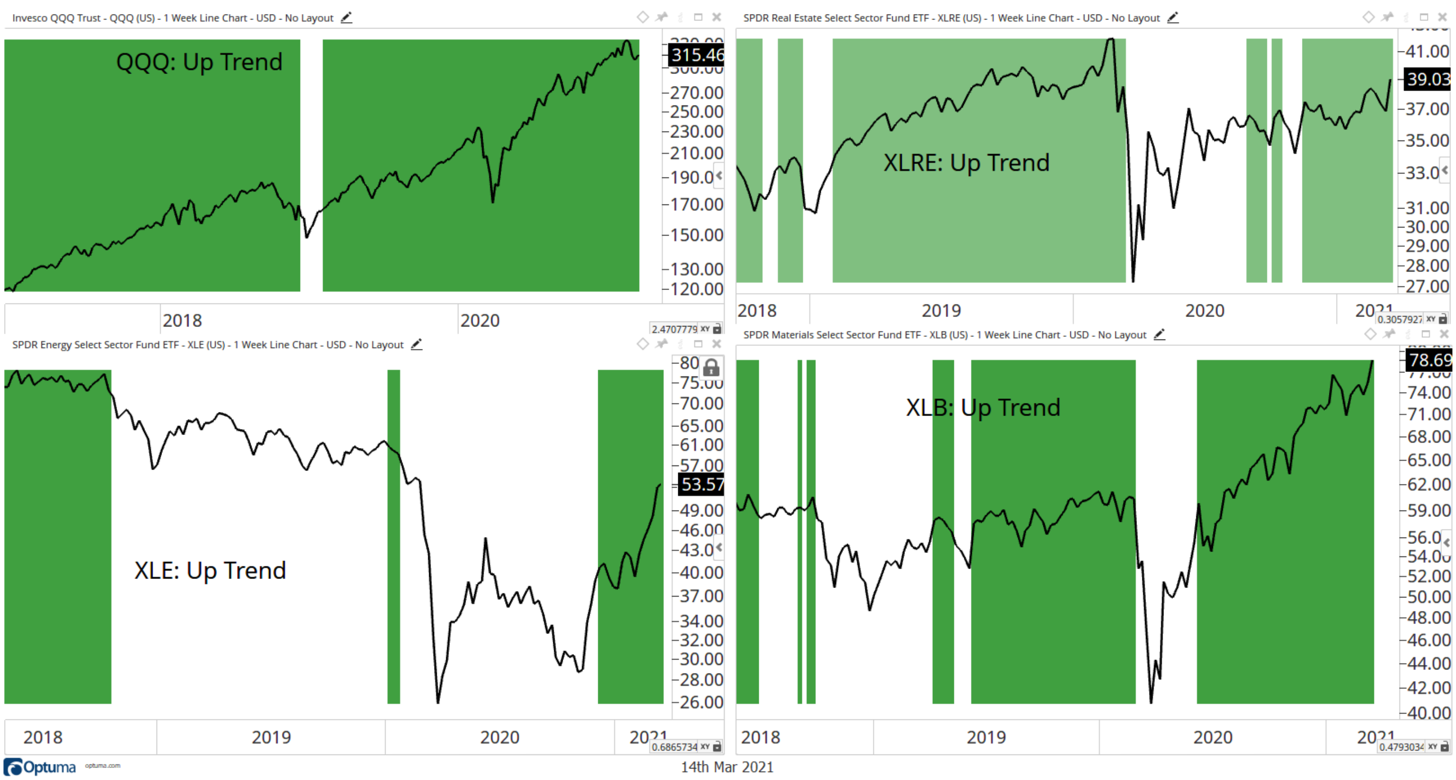
Daily Sentiment Index


S&P 500 Index - SPX (CBOEI) - 1 Day Line Chart - USD - No Layout
S&P 500
3,943.34
SPX DSI (DSI) - 1 Day - USD
Source: trade-futures.com
75.00
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
Optuma
14th Mar 2021

Trend Models




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: Down 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
14th Mar 2021


Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout
QQQ: Up Trend
315.46
2018
2020
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout
XLRE: Up Trend
39.03
2018
2019
2020
2021
SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout
XLE: Up Trend
53.57
2018
2019
2020
2021
SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout
XLB: Up Trend
78.69
2018
2019
2020
2021
Optuma
14th Mar 2021

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