

TA THRASHER ANALYTICS

APRIL 25, 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.
- Breadth remains extremely strong.

Bearish

- Elevated sentiment.
- Nasdaq Composite internals are weakening.
- Bearish sentiment divergence in copper.
- High sentiment in lumber.
- Bitcoin has weakened.

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Sector Rotation: April	
Energy	XLE
Financials	XLF
Materials	XLB

Fixed Income Rotation: Q2	
Emerging Market Debt	PCY
20+ Yr Treasury	TLT

Market Health Report	
Breadth	3
Divergence	0
Momentum	4
Sentiment	2
Trend	1
Volatility	0
Total	10

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	78%	77%
Nasdaq 100	77%	76%
Nikkei	78%	74%
VIX	14%	16%
10yr Treasury	47%	44%
5yr Treasury	33%	36%
CRB Index	75%	70%
Gold	31%	34%
U.S. Dollar	29%	33%

*Green<25% Red>80%

source: trade-futures.com

Brief Summary.

Not a lot to share this week with the S&P 500 closing down just 0.13% after Friday's bounce higher. This week's note focuses on several breadth charts, showing from different angles just how strong the internals of the market are right now (well except for the Nasdaq Composite). The average sector has over 96% of its stocks above the 200-day moving average right now, an all-time high. It's not that stocks can't correct when breadth is strong, we had over 90% of SPX above the 200-day ahead of the '10, '11 double-digit drawdown for example. There's a great deal of bullishness on the high expectation of market and economic growth b/c of the economic re-opening. I don't disagree long-term but still feel the risk/reward right now is less attractive in the short-term.

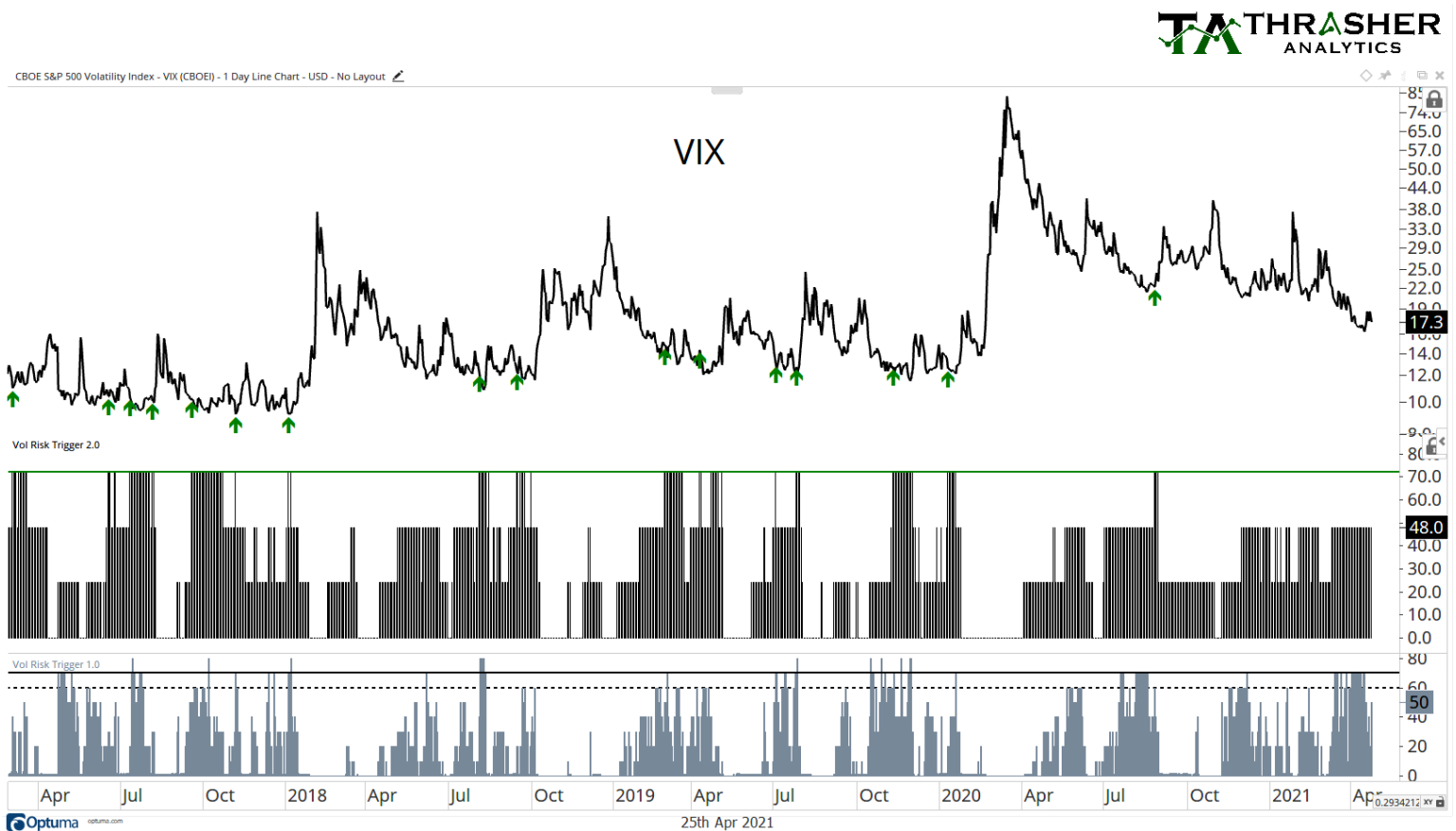
One concern I'm watching is the narrowing in dispersion for the VIX, it's not to an alarming level right now but it's contracting and I'm keeping a close eye on it.

There's a bearish divergence in sentiment for copper and the 10-day average for sentiment for lumber has gotten back above 90% bullish. Bitcoin has become 'oversold' and fallen below the January VWAP with the news of it being potentially banned or heavily taxed.

This week 22.4% of the S&P 500 reports earnings, including all of the FAAMG stocks and Tesla. Biden will also be making an address to Congress. He'll be discussing his infrastructure plan and likely methods for paying for it.

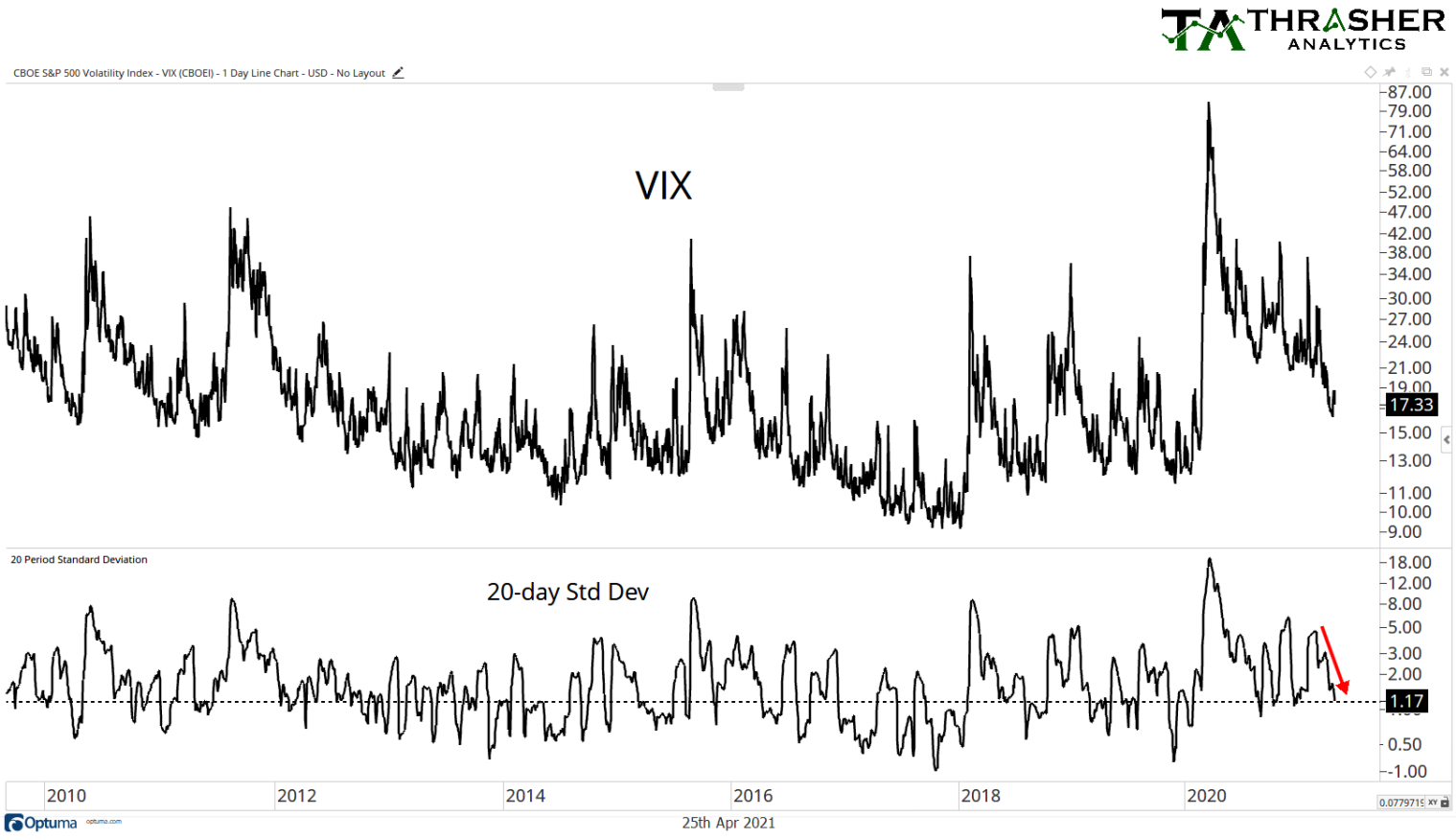
As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

The VRT 2.0 remains a few points below a trigger level. Spot VIX bounced slightly last week, closing above 17. The biggest observation for me regarding the VIX right now is the narrowing of dispersion. More discussion of this on the next page.



In my 2017 Dow Award winning paper, Forecasting a Volatility Tsunami I focus on the standard deviation of the VIX as a quantitative way to show over-confidence via narrow dispersion the volatility market. I've seen improved (in my opinion) upon using just a standard deviation, which is what led to the creation of the Volatility Risk Trigger shown in the prior page. However, I still monitor the original tool from the paper, shown on the chart below. What stands out to me is dispersion via the std dev. has contracted near the low-end of the range post the Covid Crash spike. We've seen much narrower levels in the past but the lack of gyration in the VIX is starting to suggest we're nearing an over-confidence environment.

This alone isn't enough to suggest a spike is likely but we are getting closer to that idea, especially when you bring in the low bullish sentiment readings for the VIX which have hit single digits recently and closed on Friday at just 14% bullish.



EQUITIES - S&P 500 DAILY



Equities struggled slightly mid-week last week but were able to rally on Friday to erase most of the minor drawdown. We finished the week just a few points off an all-time high with SPX not even touching its 20-day MA on the dip nor the RSI indicator materially moving below the 60 level.



S&P 500 INDEX - SPX (WI) - 1 Day CandleStick Chart - USD - No Layout

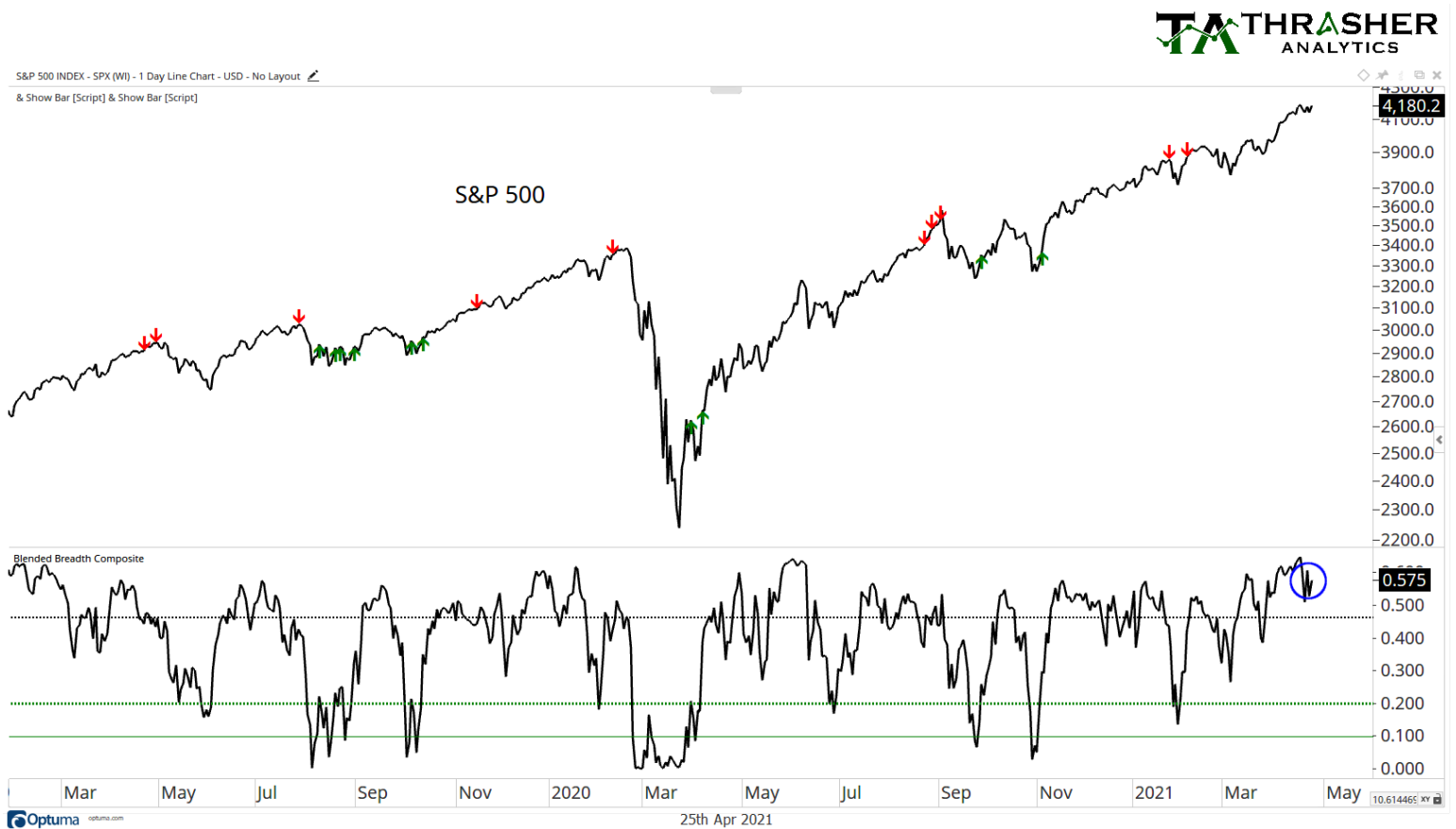
20 Period Simple Moving Average & 200 Period Simple Moving Average & 50 Period Simple Moving Average



EQUITIES - BREADTH: BLENDED



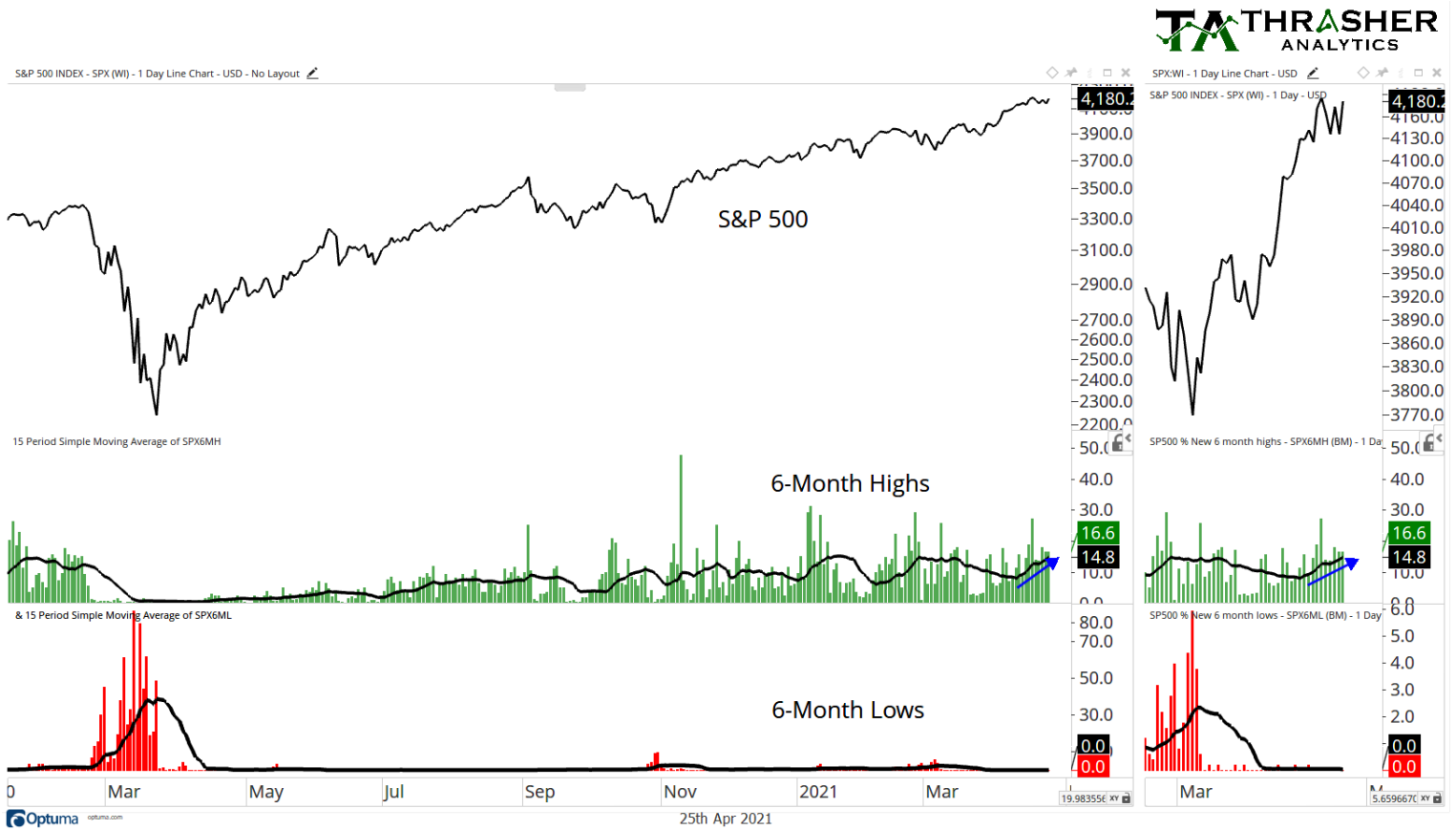
Breadth remains strong for the S&P 500. Below is the Blended Breadth Composite, which incorporates several breadth indicators for the SPX into a single reading. The red arrows on the chart show when the composite is diverging and fortunately we aren't seeing such a development at this time.



EQUITIES - BREADTH: 6M HIGHS



The new high list was starting to be a bit of concern a few weeks ago, but has since improved. Below we can see the percentage of SPX stocks at a 6-month high or low along with a smoothed 15-day average. No stock is at a 6-month low and the 15-day average of 6-month highs has begun trending higher - a good sign for the bulls.

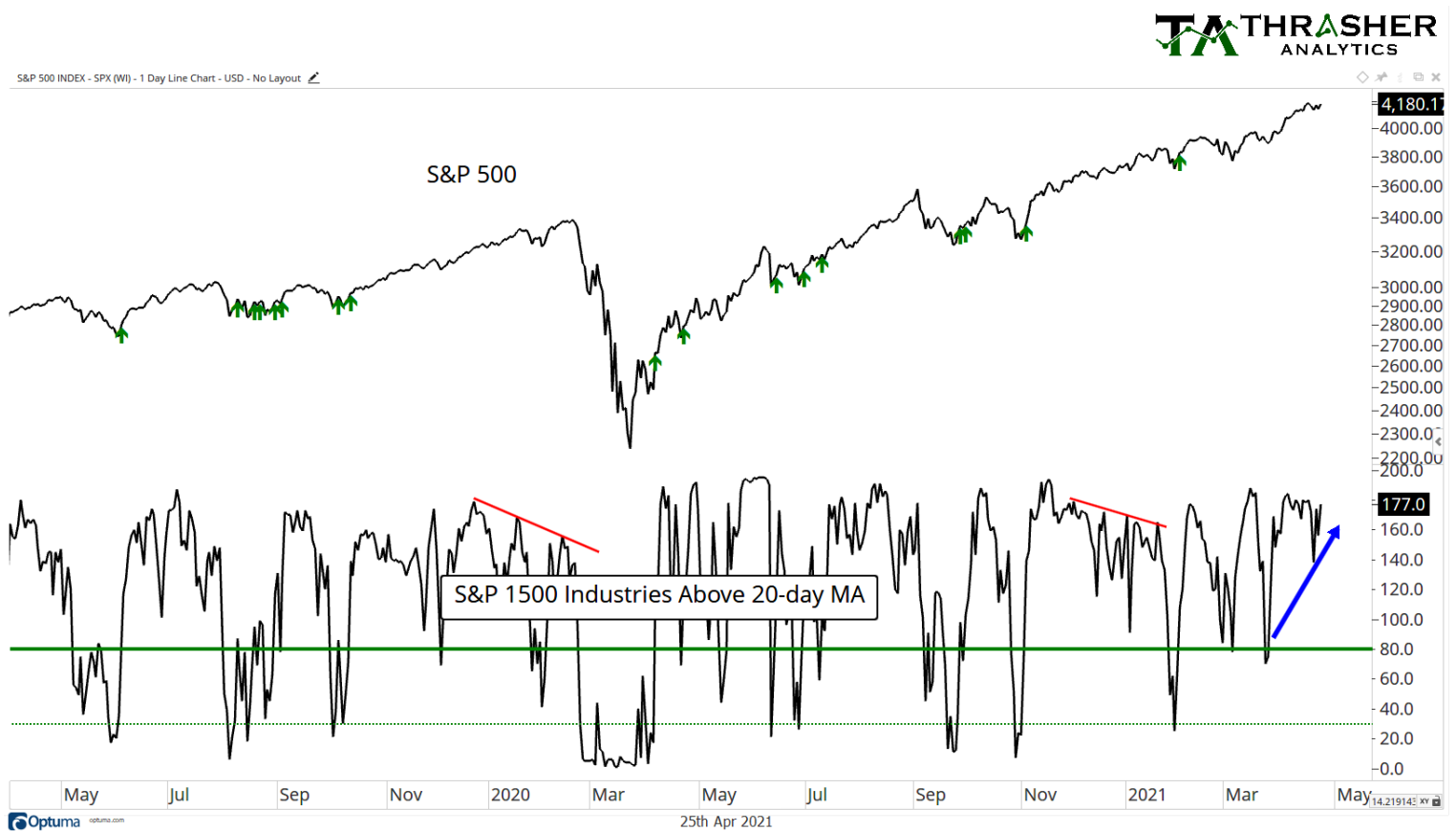


EQUITIES - BREADTH: INDUSTRY



From an industry perspective, things still look good. 177 of the sub-S&P 500 industries I track are trading above their respective 20-day moving averages, near the highest level we've seen in the last couple of months.

Individual stocks are trending higher, holding above their various lookback period moving averages and sub-industries are also retaining a bullish trend. These aren't typically things we would see during or just before a major bear market. Sure things are stretched but the market internals remain healthy.



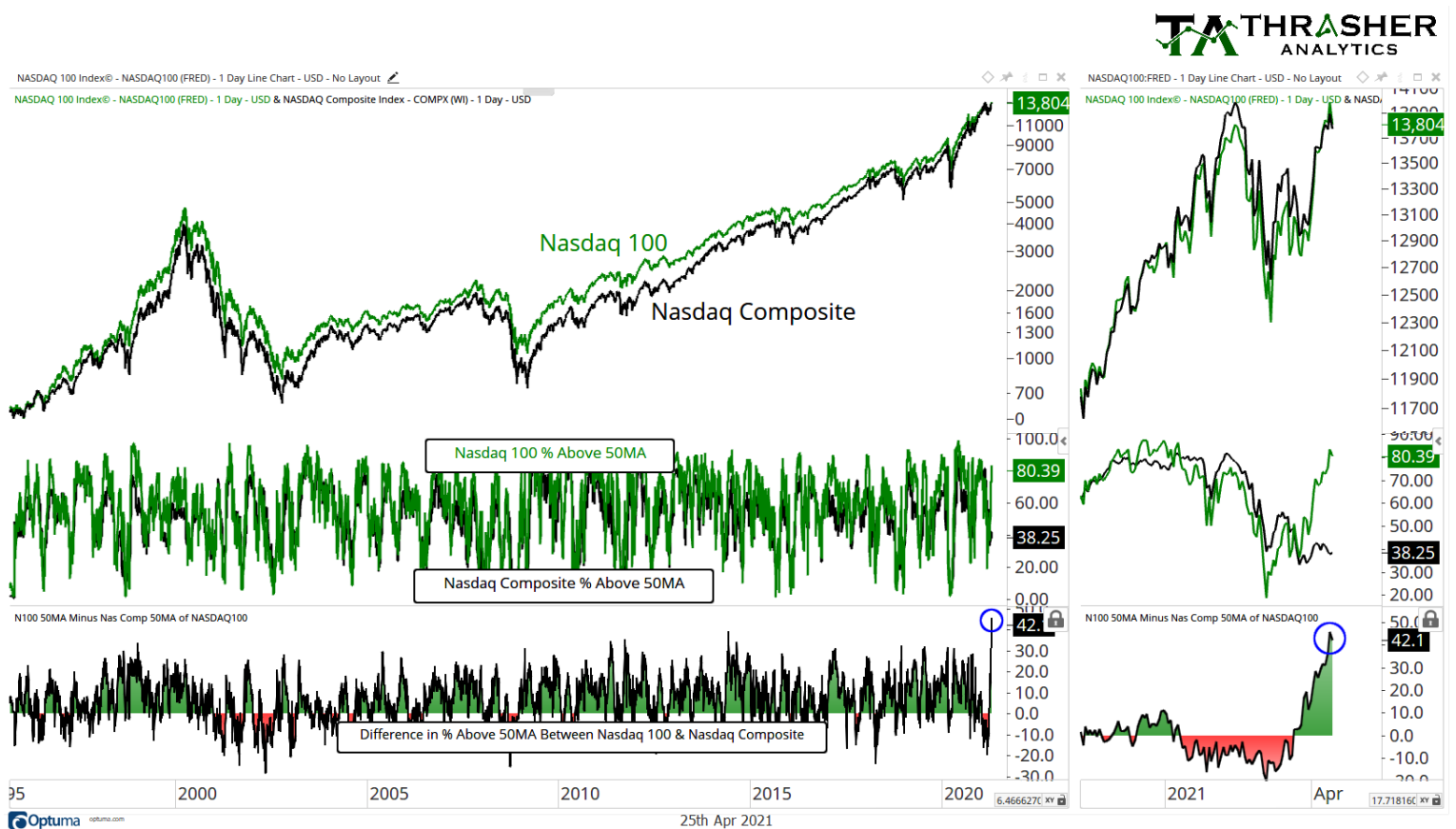
EQUITIES - BREADTH: NASDAQ



I keep coming back to this chart. I've shared it before but I think it's worth keeping in front of us again.

For those that are new, this chart shows the spread between the % of stocks above the 50-day moving average for the Nasdaq 100 (the 100 largest non-financial stocks in the Nasdaq Composite) and the entire Nasdaq Composite. Never has the spread been this wide. Not even during the dot-com bubble when many stocks had fallen 20+% by the time the indices peaked in 2000.

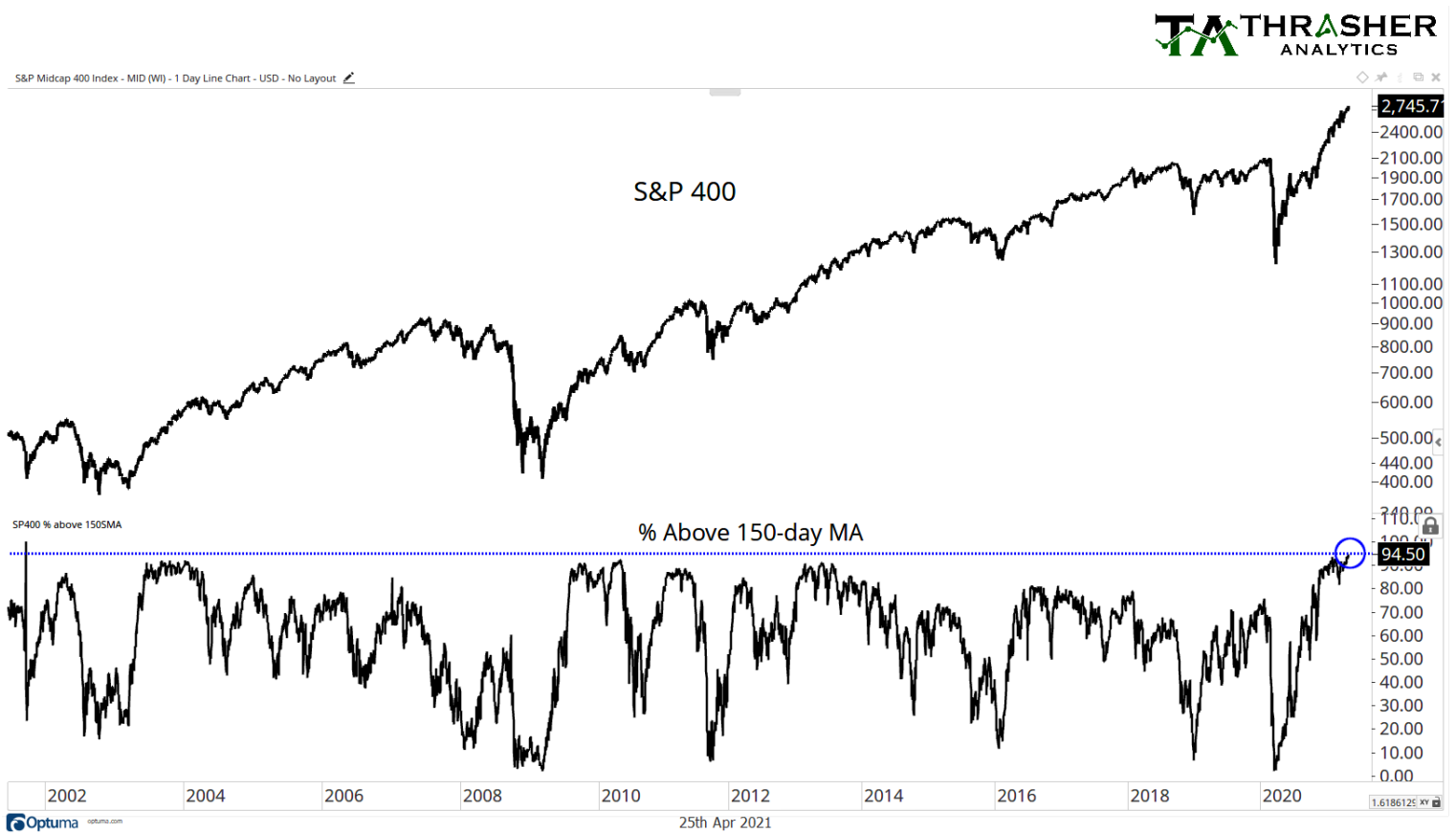
The Nasdaq 100 is back above 80% and the Composite has drifted to 38%. There's clearly something going on here that's beyond just a few REITs or ADRs that are having a negative impact on the Composite. It hasn't seemed to matter much for either index as they both sit just off their highs but clearly performance of their constituents is severely bifurcated.



EQUITIES - BREADTH: MID CAP



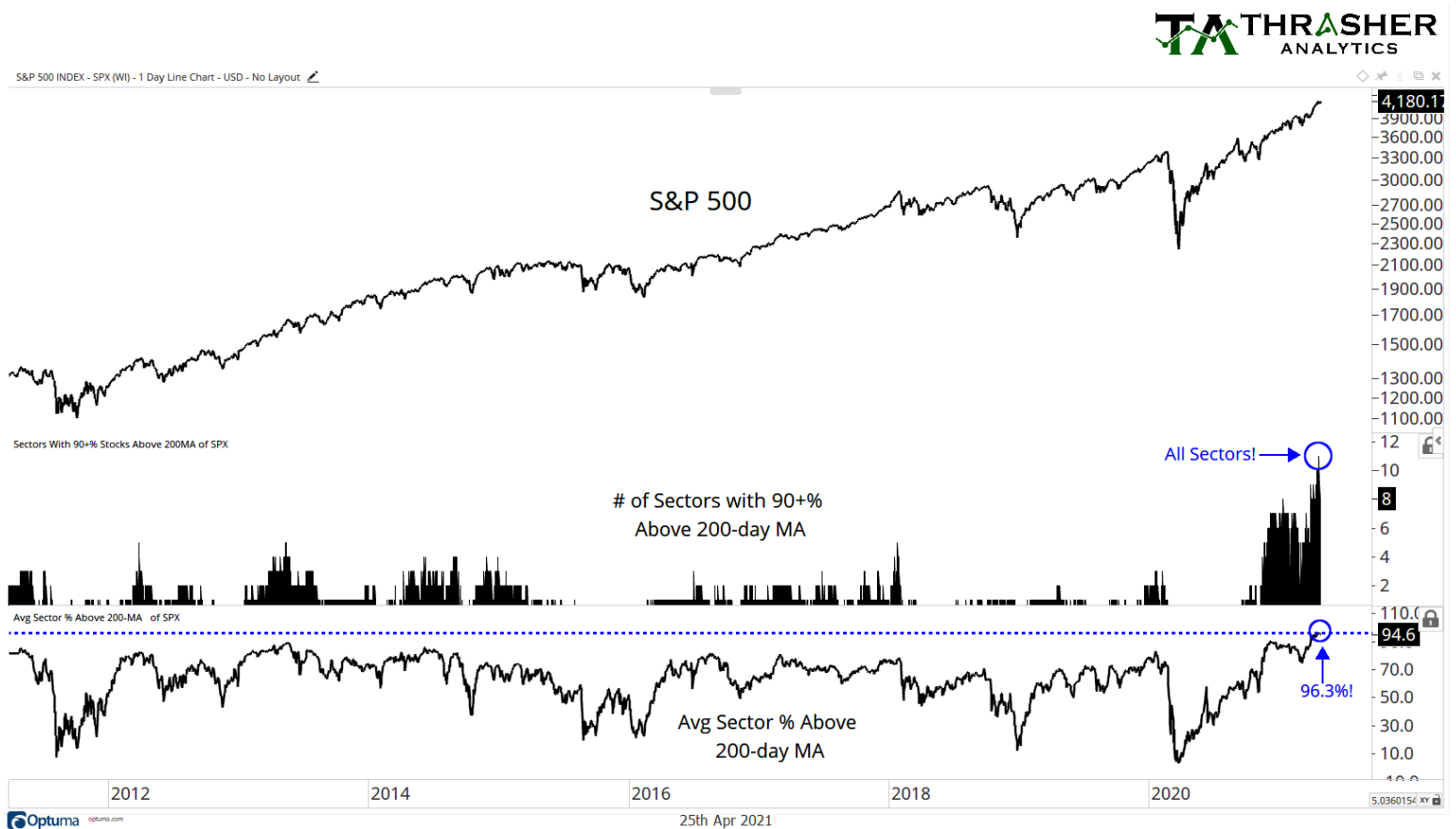
It's not just the S&P 500 large cap index that's showing strong breadth, the Mid Cap S&P 400 also has very strong breadth indicators as well. In fact, 94.5% of the S&P 400 is above the 150-day moving average, the highest reading since the early 2000s. While it would be a concern if it were just the large caps stocks going higher and not the mid or small caps, that's not the case right now. Investors still seem to be bidding mid caps higher as well.



EQUITIES - BREADTH: SECTORS



For the first time, all S&P sectors at one point had at least 90% of their stocks above the 200-day moving average. Mid-week the average sector had over 96% of its stocks above the long-term moving average. The internals have never been as strong as they are now. It's truly amazing the level of strength being shown in the indiv. equities right now.

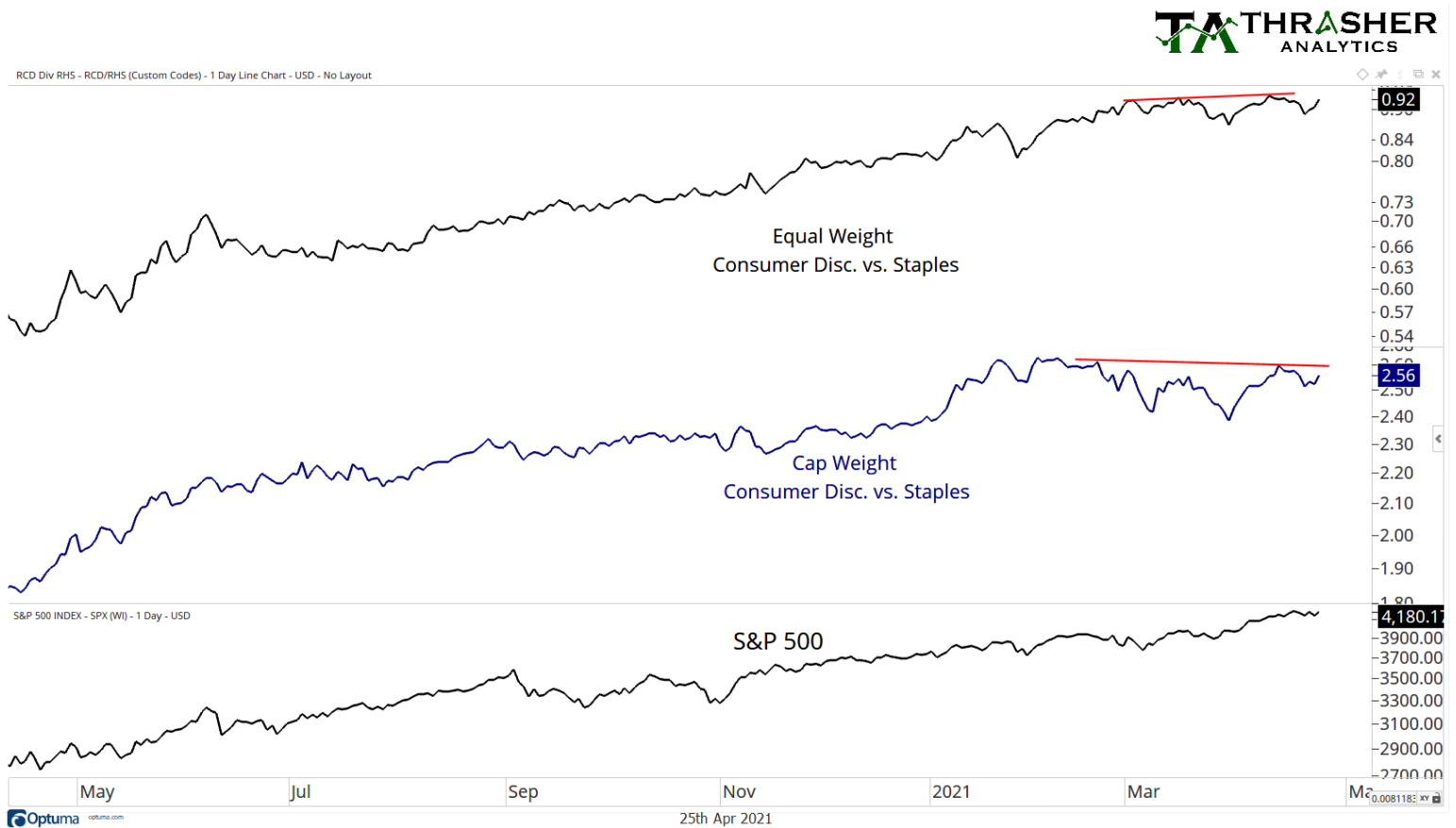


EQUITIES - DISC. VS. STAPLES



I've noticed on social media that quite a few people have pointed out the divergence or lack of confirmation in the Consumer Discretionary vs. Consumer Staples ratio. The main cause for this is due to the lack of movement by Amazon, which has been in a multi-week range and the weakness in Tesla.

If we look at the equal weight version of the ratio we can see there still remains strength in Discretionary, confirming the latest high in the S&P 500.

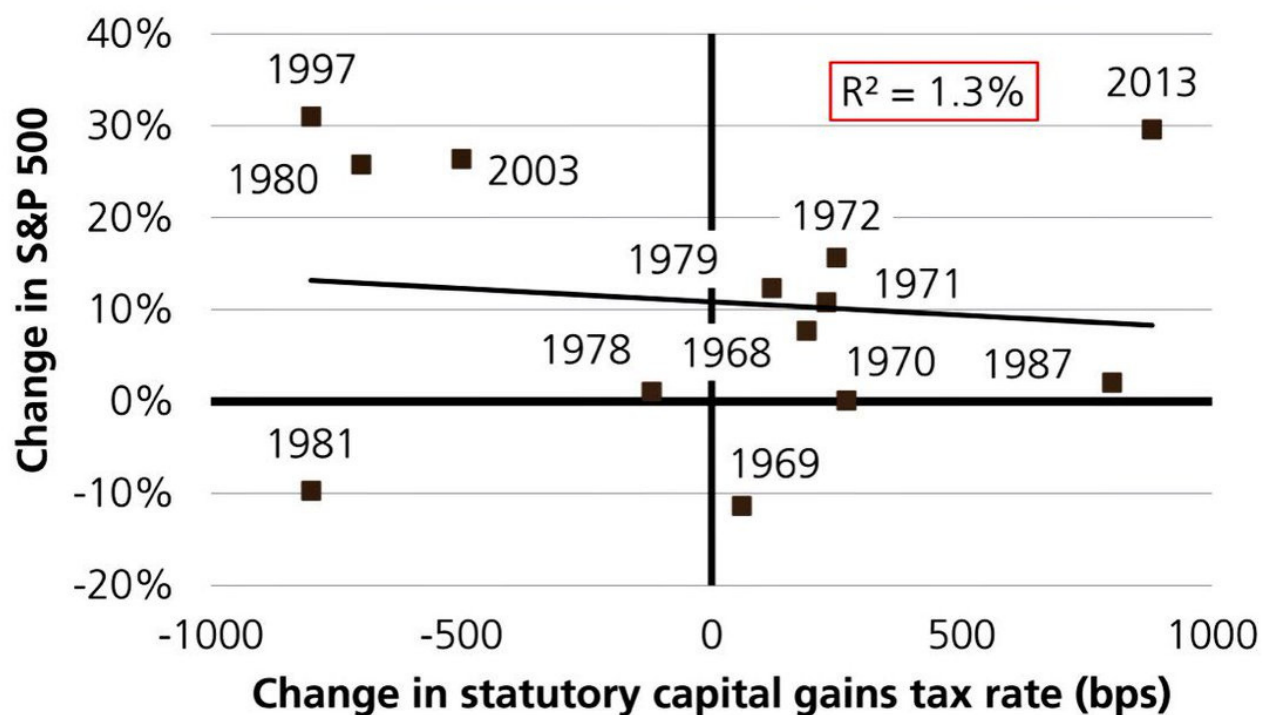


Stocks dipped on Thursday following the news of Biden's interest in raising the capital gains tax. I found the scatter plot below interesting. Shared by [Liz Ann Sonders](#), Chief Investment Strategist for Charles Schwab, "Virtually no relationship between changes in capital gains tax rate & S&P 500 returns in year of change ... last time cap gains went up (in 2013), S&P 500 had stellar year (up 30%)."

There's no doubt that barrels of ink will be spilled pontificating the impact of a possible tax hike but history has shown us that the market hasn't given prior tax increases much focus in the long-term.

Fig. 1: No apparent relationship between changes in capital gains tax rates and market returns

Change in the capital gains tax rate (in basis points) and S&P 500 returns

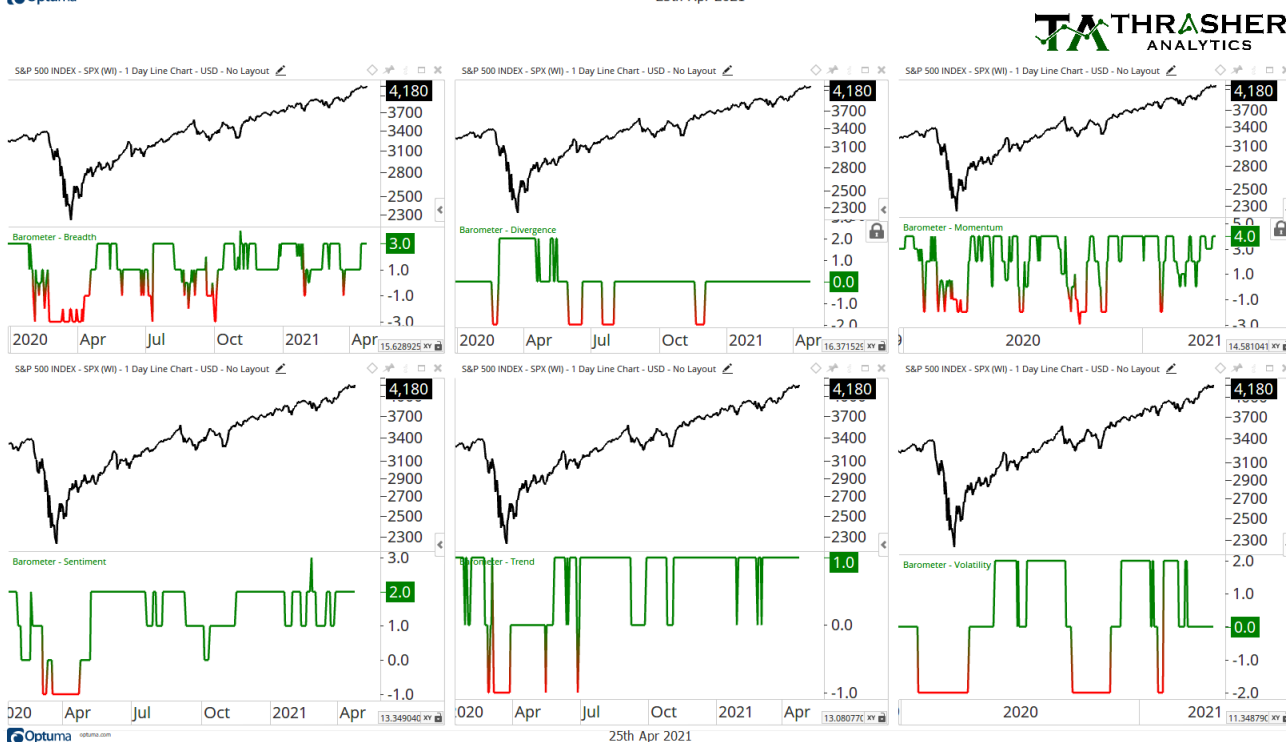
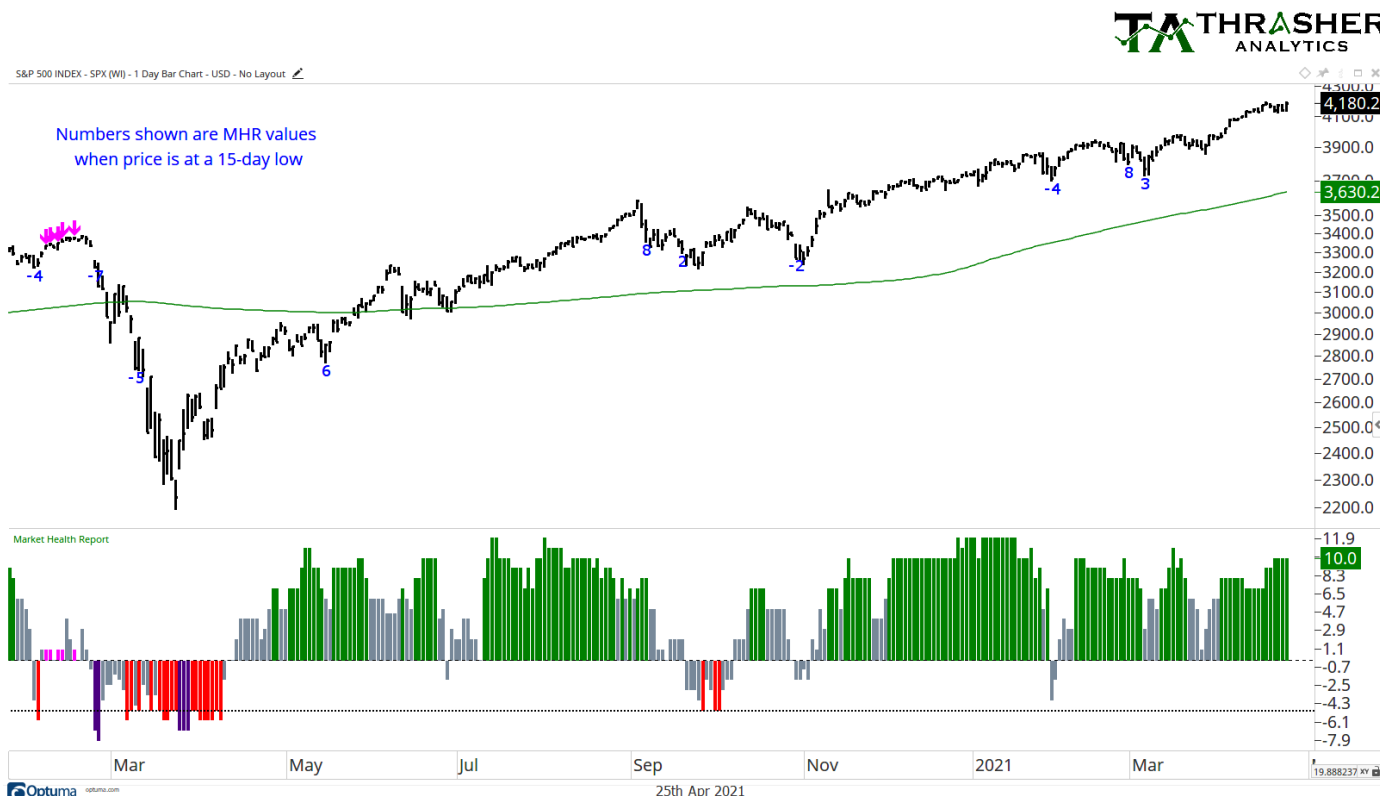


Source: FactSet, UBS, as of 27 October 2020

MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week 1 point higher at +1. The momentum category ticked 1 point higher last week. Currently, the MHR is still showing a strong equity market. The real tell will be what the MHR shows if we ever get another 15-day low, so far this year we've seen just three.



SECTORS - PERFORMANCE

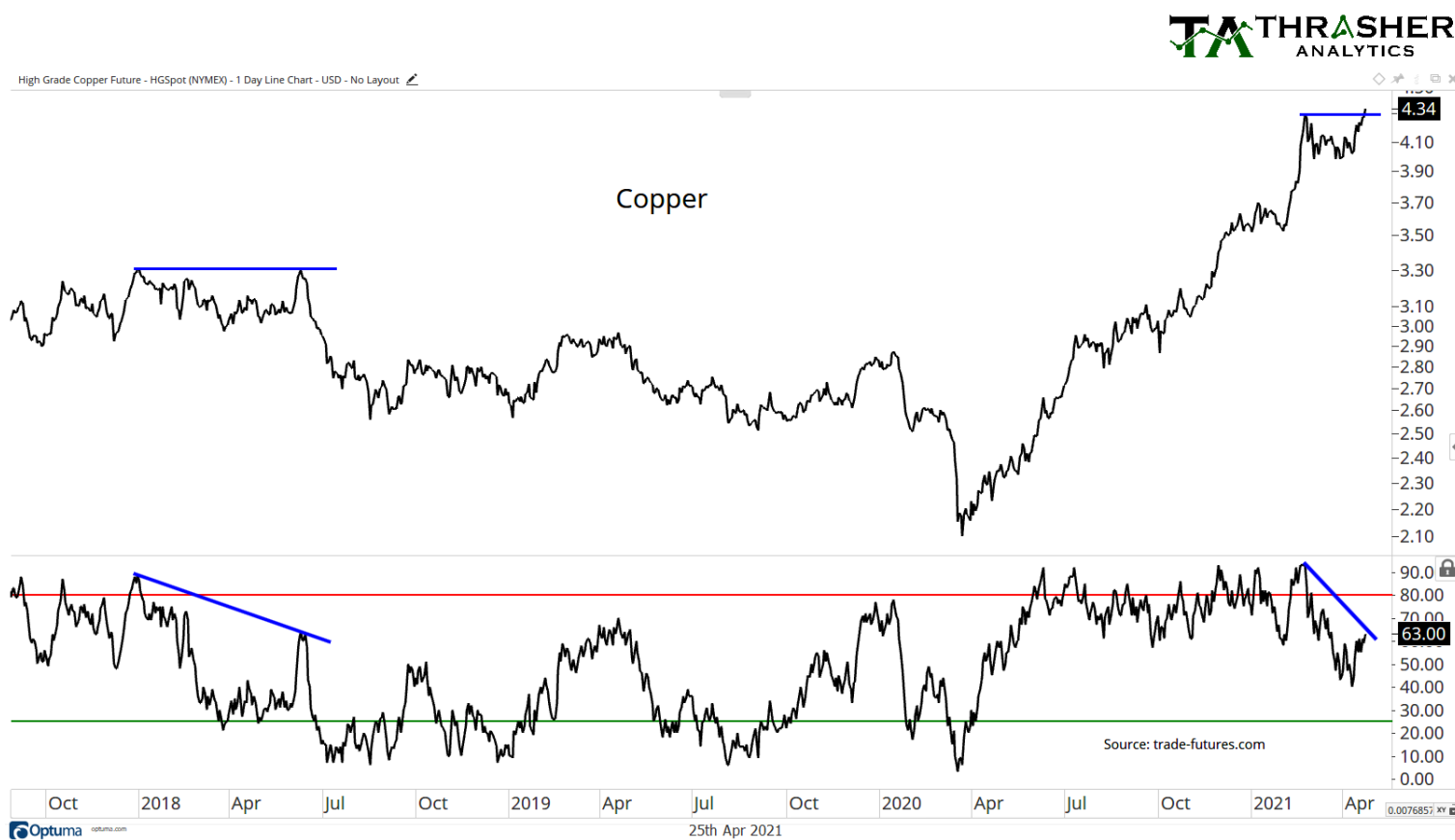


Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Real Estate Select Sector Fund ETF	True	True	2.03%	8.87%	14.72%	28.16%
SPDR Health Care Select Sector Fund ETF	True	True	1.81%	8.02%	5.18%	24.98%
SPDR Industrial Select Sector Fund ETF	True	True	0.42%	7.54%	14.74%	66.27%
SPDR Materials Select Sector Fund ETF	True	True	0.3%	8.95%	11.47%	68.89%
SPDR Financial Select Sector Fund ETF	True	True	-0.06%	6.69%	16.61%	65.1%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.34%	3.84%	6.92%	19.76%
SPDR Technology Select Sector Fund ETF	True	True	-0.42%	8.89%	7.43%	64.42%
SPDR Communication Services Select Sector ETF	True	True	-0.51%	1.46%	11.05%	59.11%
SPDR Utilities Select Sector Fund ETF	True	True	-0.94%	6.41%	5.95%	14.87%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-1.14%	7.31%	4.54%	61.1%
SPDR Energy Select Sector Fund ETF	False	True	-1.78%	-0.61%	13%	37.64%

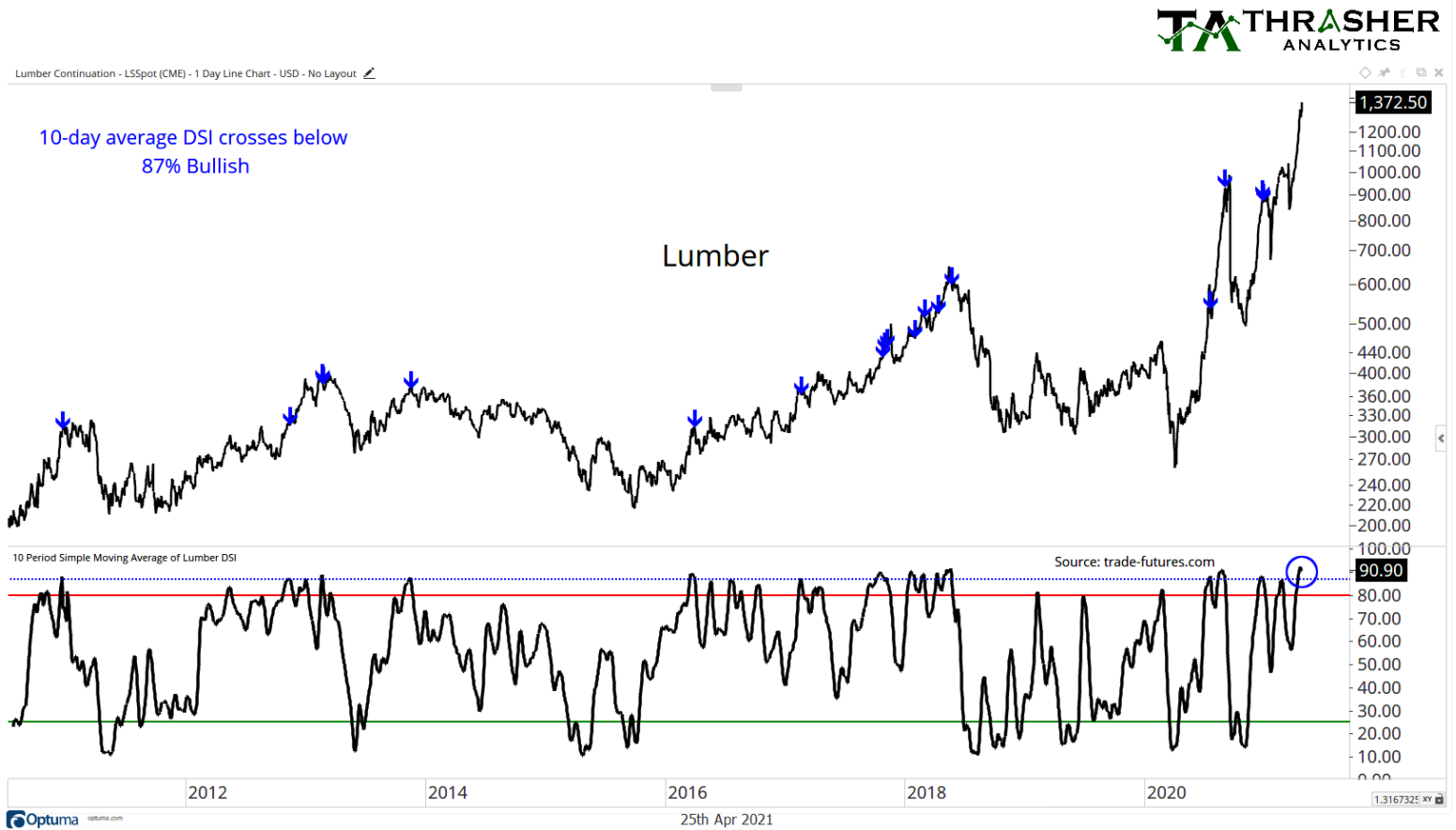
COMMODITY - COPPER



Copper has broken out to a new high but sentiment does not appear to be confirming the move. With the rise over \$4.30, the Daily Sentiment Index for Copper has gone from over 90% bullish to just 63%. We saw a similar development back in 2018 when copper made an eventual double top accompanied by a large lower-high in the % bullish.

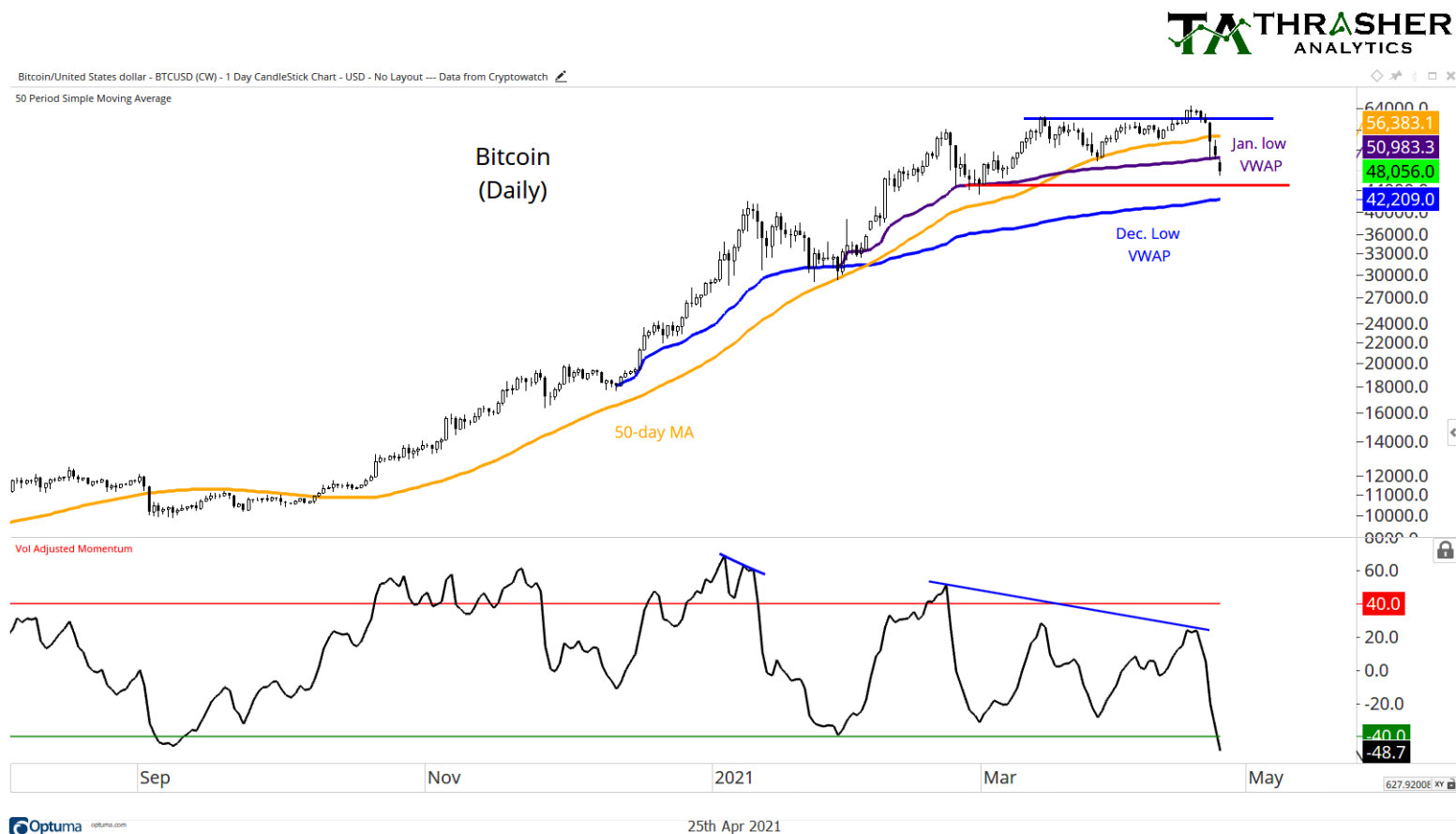


The move in lumber has been quite amazing to watch. Lumber futures have risen 62% from the March 2021 low, a massive move just one month. To little surprise, the sentiment towards lumber has been above 90% bullish for a while. Below is the 10-day average of the DSI, which on Friday moved above 90% as well. I've plotted blue arrows when the 10-day average has gone below 87%, suggesting sentiment had begun to decline from a very high level. This seems to marked many peaks in lumber futures, so I'll be watching this 2-week average closely and share any developments should it begun to roll over.



Over the weekend Bitcoin fell below its January VWAP, a level that had been support in March and mid-last week. The bearish divergence in volatility adjusted momentum has caught up with the cryptocurrency and from here I'm watching the March low at about \$45k as the next potential area of support before we get to the December VWAP. Vol-adjusted momentum is now 'oversold' so I'll be watching if it begins to strength and rise back above -40 like it did in Sept. '20 and Jan. '21 to mark a low in price.

However, the big elephant in the room is government - and not just one government! Both India and Saudi Arabia are proposing a ban on cryptocurrencies and there's rumors Treasury Sec. Yellen may institute a tax on crypto capital gains as high as 80%. This of course has caused some nervousness in Bitcoin and sending it lower. I've personally always been somewhat cautious of crypto assets for this vary reason - the trend can rise until the government gets involved.



DAILY SENTIMENT INDEX



Market	% Bullish [▲]	5MA	History ⁺
Cattle DSI	13	13.4	
VIX DSI	14	15.8	
Orange Juice DSI	23	26.00	
US Dollar DSI	29.00	32.60	
Gold DSI	31.00	33.80	
5YR DSI	31.00	29.20	
Silver DSI	33.00	35.80	
Cocoa DSI	37.00	31.40	
Natural Gas DSI	44.00	41.80	
10Y DSI	47.00	44.00	
Coffee DSI	49.00	39.40	
Sugar DSI	53.00	47.80	
EuroDollar DSI	55.00	55.00	
Swiss Franc DSI	56.00	51.20	
Platinum DSI	56.00	52.40	
British Pound DSI	58.00	56.40	
Gasoline DSI	61.00	59.40	

Code	% Bullish [▲]	5MA	History ⁺
<input type="checkbox"/> Mexican Peso DSI	62.00	58.20	
<input type="checkbox"/> Copper DSI	63.00	59.80	
<input type="checkbox"/> Heating Oil DSI	66.00	62.40	
<input type="checkbox"/> Lean Hog DSI	68.00	67.40	
<input type="checkbox"/> Euro DSI	70.00	62.80	
<input type="checkbox"/> Wheat DSI	73.00	64.40	
<input type="checkbox"/> CRB Index DSI	75.00	70.40	
<input type="checkbox"/> New Zealand Dollar DSI	76.00	74.00	
<input type="checkbox"/> Cotton DSI	76.00	65.60	
<input type="checkbox"/> Australian Dollar DSI	76.00	72.00	
<input type="checkbox"/> Nasdaq DSI	77.00	76.20	
<input type="checkbox"/> SPX DSI	78.00	76.80	
<input type="checkbox"/> Nikkei DSI	78.00	74.40	
<input type="checkbox"/> Crude Oil DSI	79.00	76.60	
<input type="checkbox"/> Palladium DSI	80	81.2	
<input type="checkbox"/> Corn DSI	94	90.8	
<input type="checkbox"/> Lumber DSI	95	89.4	

Source: trade-futures.com

DAILY SENTIMENT INDEX



10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout



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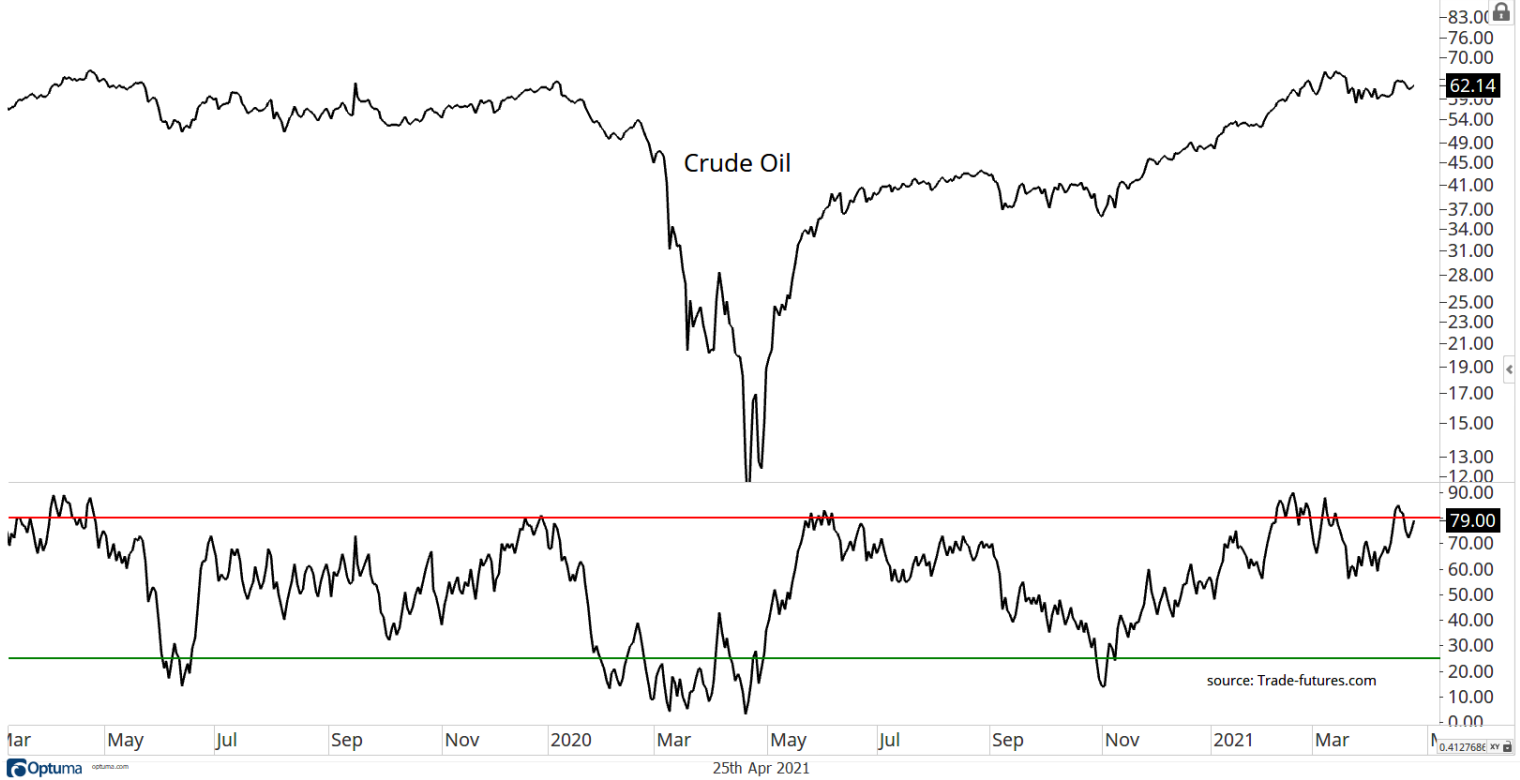
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Crude Oil Light Sweet NYMEX - OILSW (W) - 1 Day Line Chart - USD - No Layout



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



DAILY SENTIMENT INDEX



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



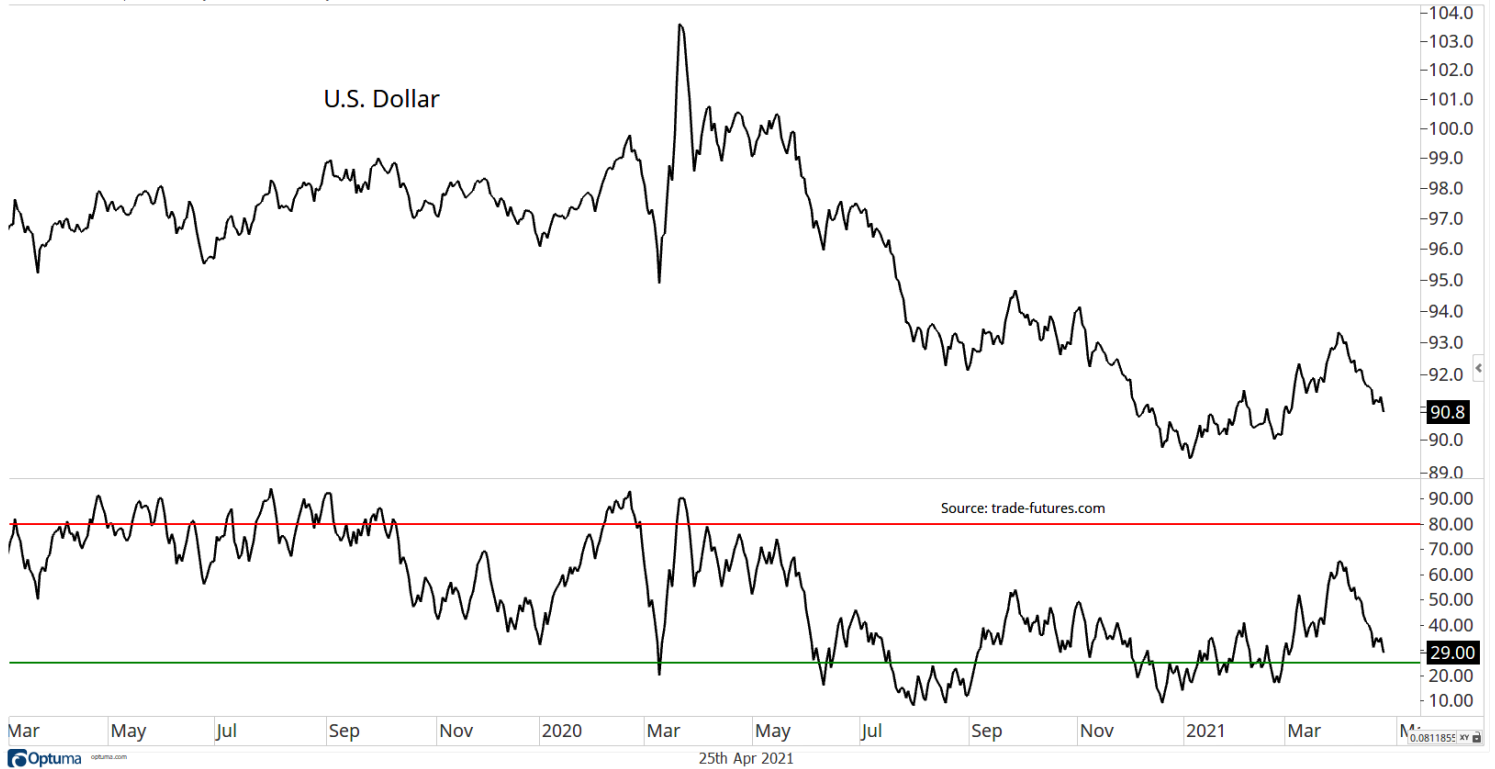
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DAILY SENTIMENT INDEX



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

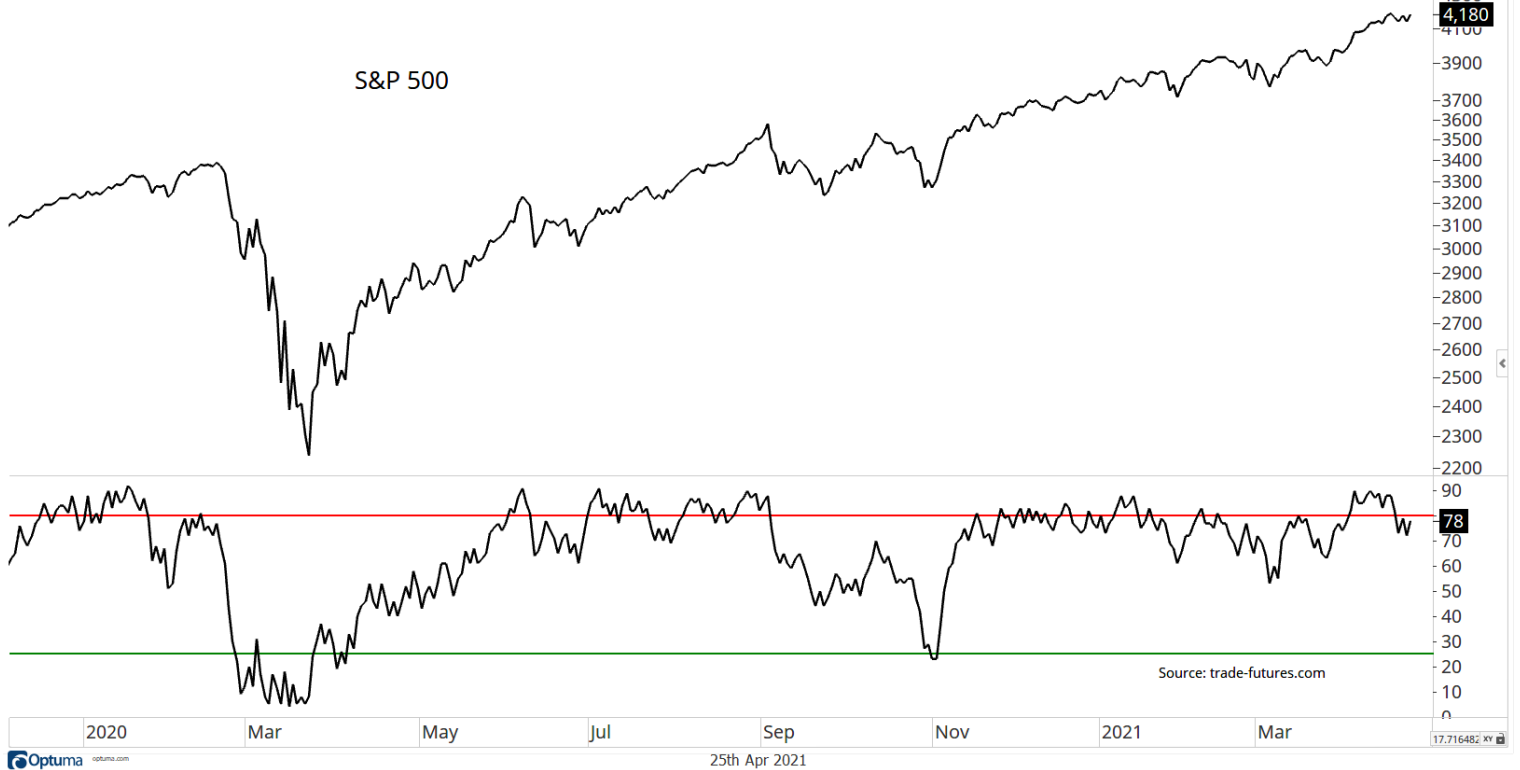


DAILY SENTIMENT INDEX

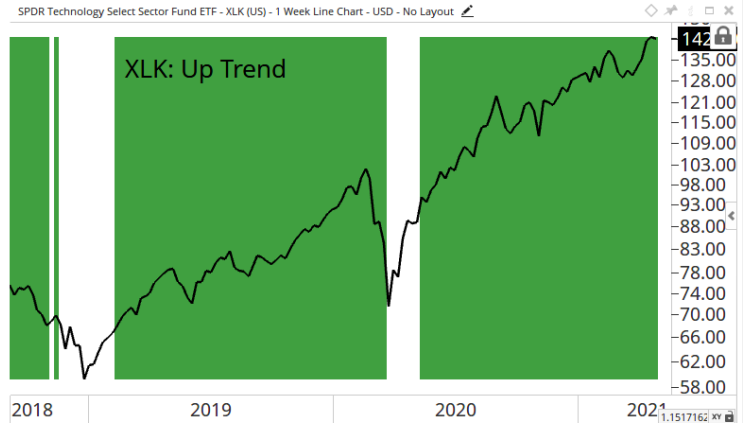
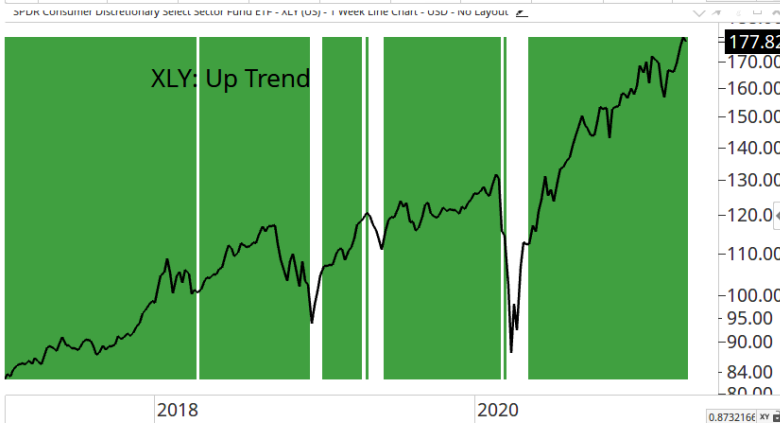
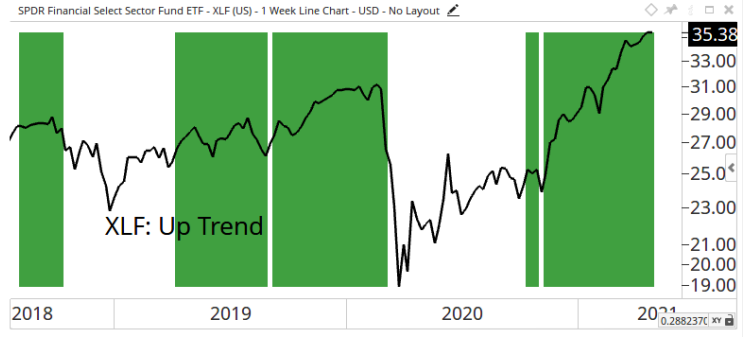
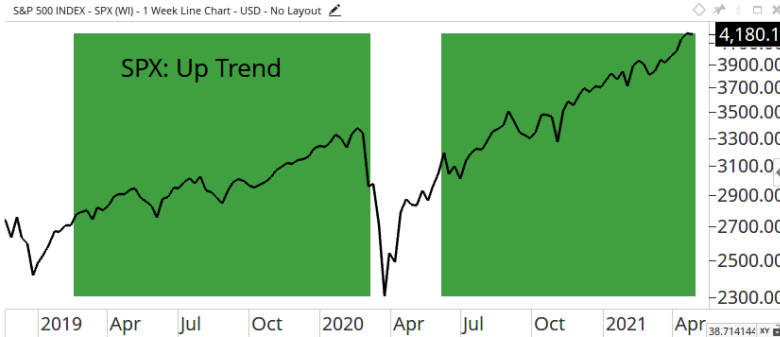


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S&P 500 Index - SPX (CBOE) - 1 Day Line Chart - USD - No Layout



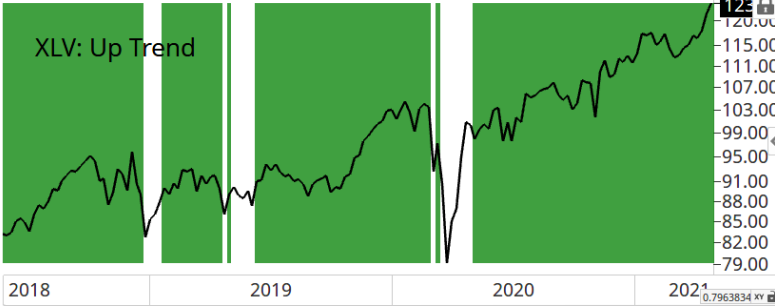
TREND MODELS



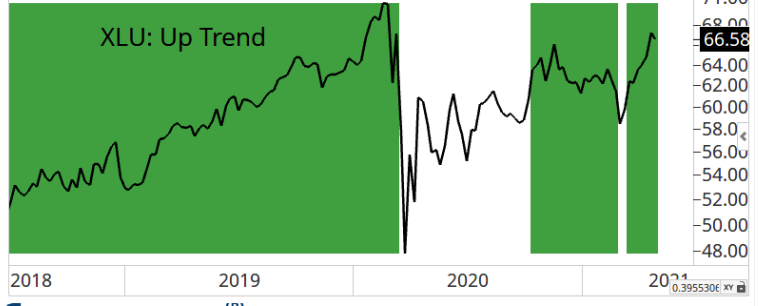
TREND MODELS



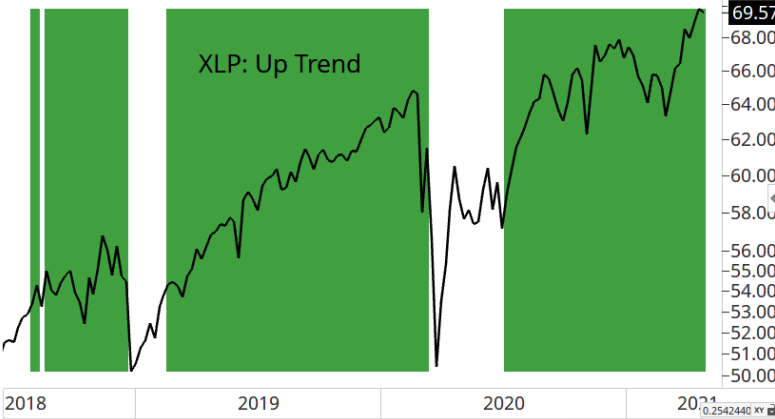
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout



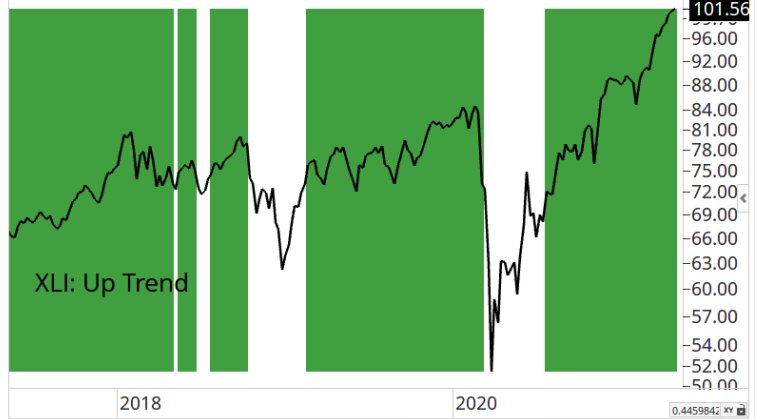
SPDR Utilities Select Sector Fund ETF - XLU (US) - 1 Week Line Chart - USD - No Layout



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



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



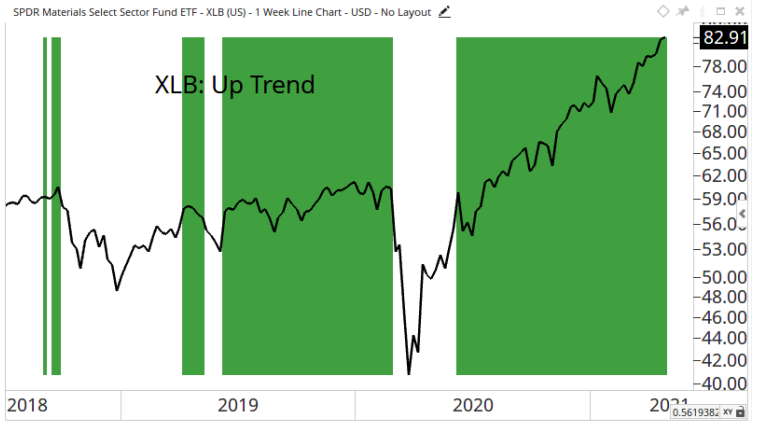
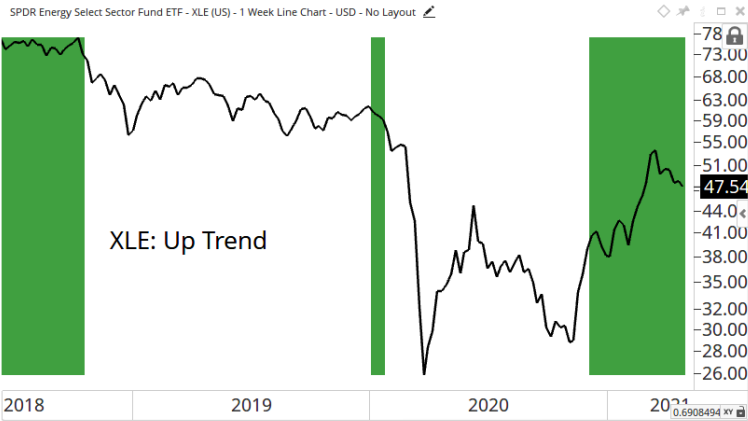
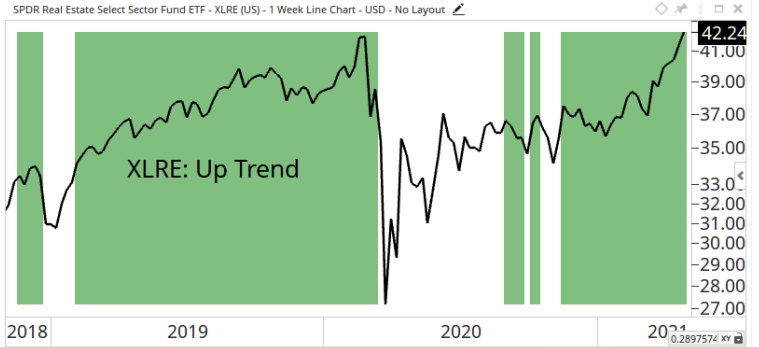
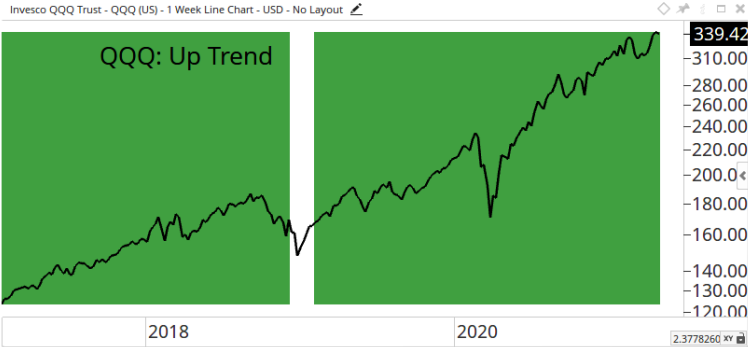
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TREND MODELS



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