

TAA THRASHER ANALYTICS

MAY 9, 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.
- Gold continues to rise.

Bearish

- VRT signaled.
- Volatility dispersion compressed.
- Momentum getting high in many stocks
- Seasonality turns bearish.

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Energy	XLE
Financials	XLF
Communication	XLC

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

Market Health Report	
Breadth	3
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Sentiment	2
Trend	1
Volatility	2
Total	12

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	80%	72%
Nasdaq 100	73%	66%
Nikkei	77%	71%
VIX	13%	18%
10yr Treasury	52%	51%
5yr Treasury	36%	34%
CRB Index	83%	81%
Gold	49%	35%
U.S. Dollar	20%	28%

*Green<25% Red>80%

source: trade-futures.com

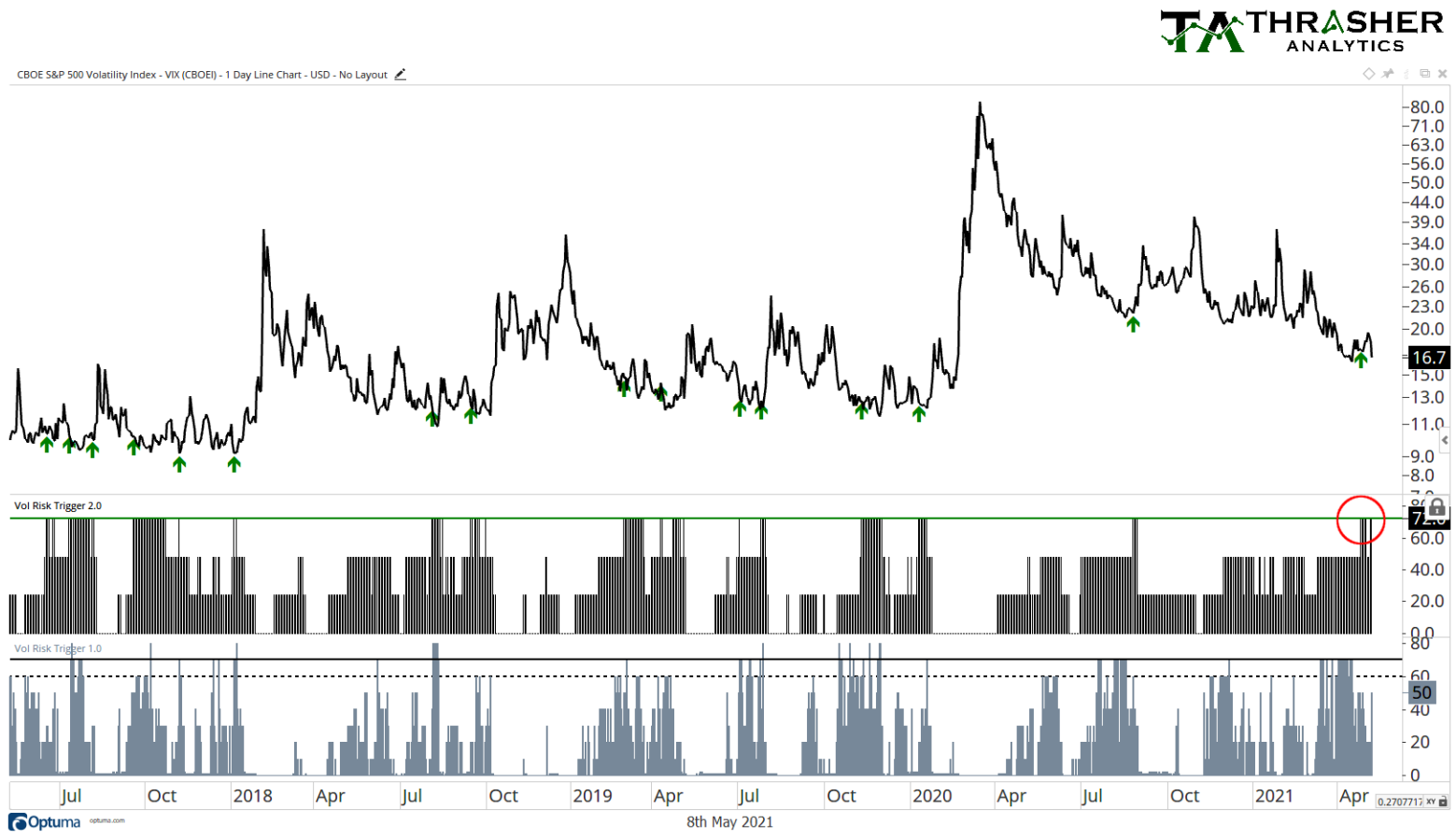
Brief Summary:

Equities started the week with some weakness but recovered on Thursday and Friday. The Volatility Risk Trigger (VRT) continues to show a signal of heightened risk of a spike in the VIX, this is my biggest concern for risk assets right now. However, breadth continues to be strong, with the 52-week high list expanding. Momentum is getting a little "overbought" for many sectors but we still have a lower-high in the RSI for the S&P 500. I remain short-term cautious to equities but believe the long-term picture remains supportive. The Cannabis industry has begun to potentially bottom out after a 30% decline in recent weeks. As I mentioned at the end of last year, I think this space is going overlooked by most investors and offers strong growth potential in the long-term. Gold has continued to strength, rising back above the 50-day MA and now testing the 200-day moving average.

We are now in the bearish 6-month period of seasonality for equities, which doesn't mean a complete shift to cash but gives a note of caution, especially with the compression in volatility we're seeing right now and understanding that beta management can be a greater factor than total equity exposure.

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).

As I wrote in my Special Update email two weeks ago as well as last week's letter, the VRT 2.0 has produced a signal, which was then followed by a brief move higher over 20 last week before moving back under 17 by the end of the week. The VRT has remained at its signal level most of last week, and I think we are still in that "open window" period of volatility to move higher.

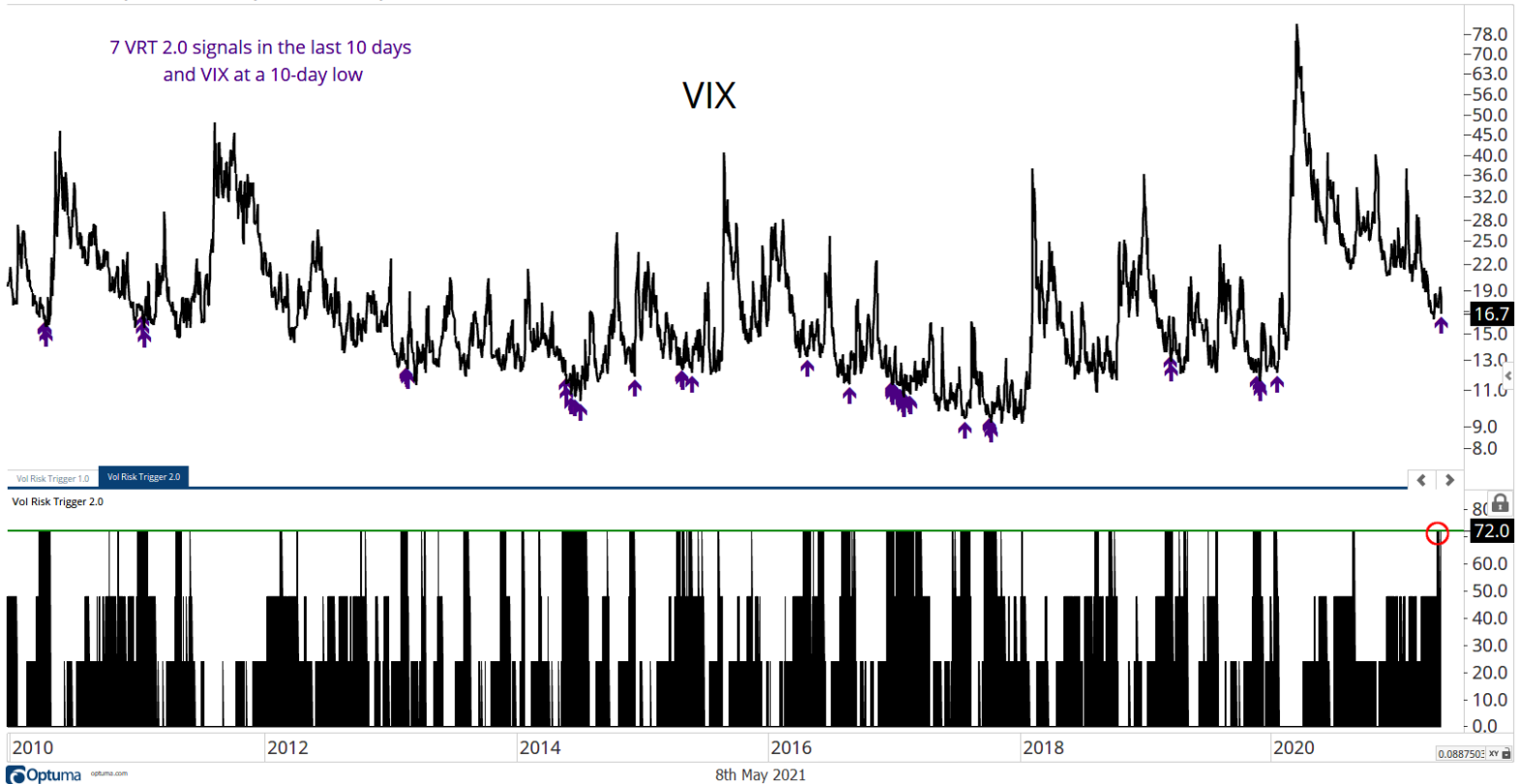


As I mentioned on the prior page, the VRT has continued to be at a signal level most days of the last two weeks. Because of this, I ran a simple study to see prior instances of 7 of the last 10 days that had a VRT signal, essentially looking for persistence in the VRT vs. just 1 or 2 day signals. The purple arrows on the chart below show the results. What stood out to me the most was when this occurred with the VIX at a 2-week low, rarely did volatility not materially move higher in the very near future. It seems when there's several consecutive days of the VRT signaling, the likelihood of a rise in the VIX increased. Outside of a few periods in 2017, most had just preceded the low or marked the low before a move higher.

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

7 VRT 2.0 signals in the last 10 days and VIX at a 10-day low

VIX



The S&P 500 moved lower early in the week, testing the 20-day moving average before bouncing to close out Friday at a new high. Ironically the market strengthened following the big labor market miss on Friday morning, another great example why I don't have economic data as a main input to my process, bad news is sometimes good news and good news is sometimes bad news.

The bearish momentum divergence in the RSI is still with us, as it made another lower-high as the S&P 500 made a higher-high. Friday's price action saw a strong increase in many breadth readings, I'll cover several of them in the following pages.

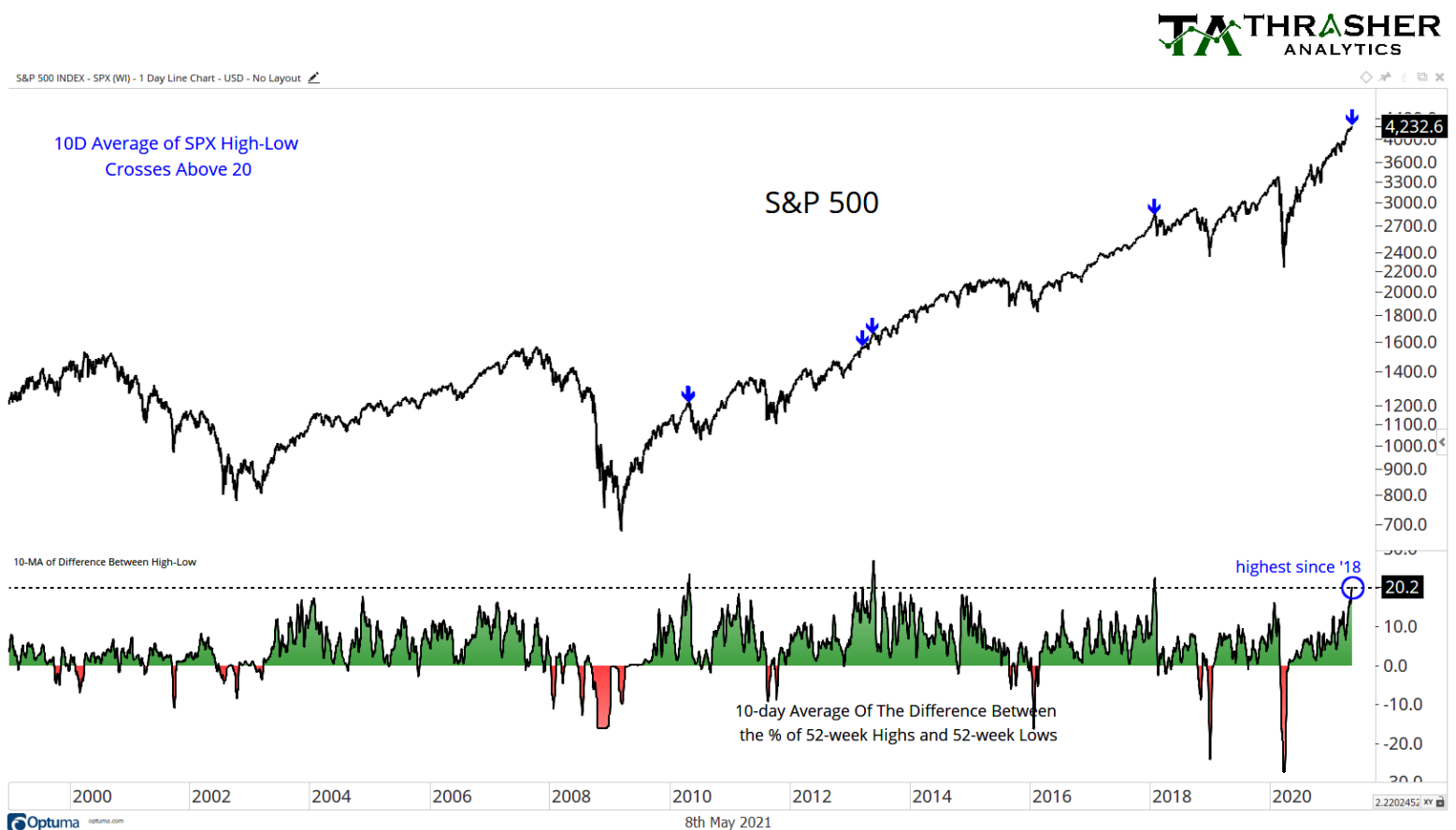


EQUITIES - BREADTH: NEW HIGHS



I shared this chart last week, noting when the high-low indicator moved lower we often saw stocks follow suit. Well while it did move lower for about a day, it quickly reversed to go even higher by the end of the week. Last week the 10-day average of the SPX % at 52-week high minus 52-week was 15%, this week we are now over 20%.

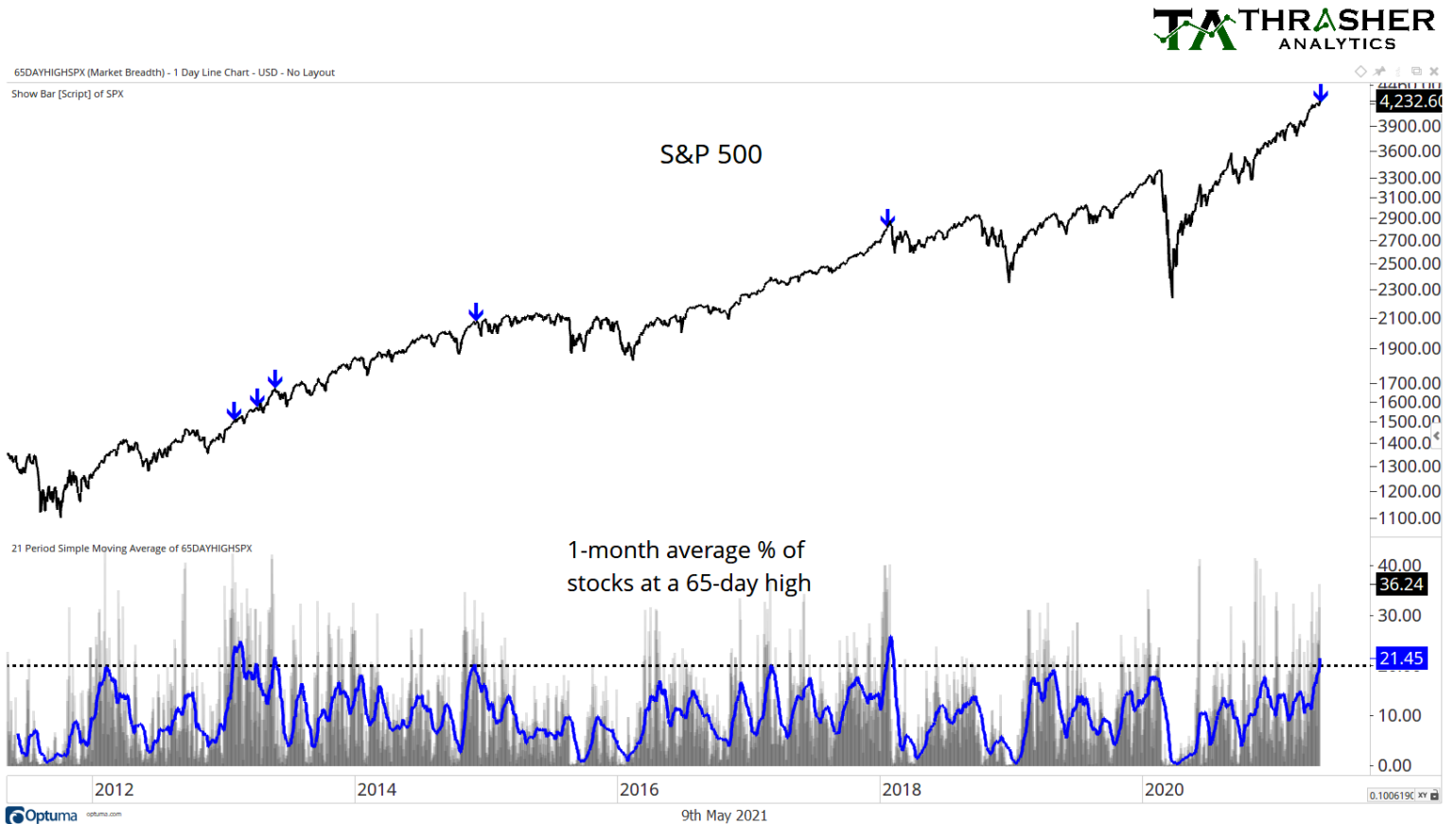
We have only seen this indicator reach such a high level four times in the last 20 years. Two of the four saw material pullbacks in equities (2010 and 2018).



EQUITIES - BREADTH: 65D HIGH



On Friday 36% of stocks closed at a 65-day high, one of highest levels in recent years. However it wasn't alone, we've seen high readings of 65-day highs several times in the last month. In fact, the 1-month average of percent of stocks at a 65-day high is 21.45% - the highest level is January 2018 and only the 6th time to surpass 20%. It's hard to argue that breadth isn't strong right now.



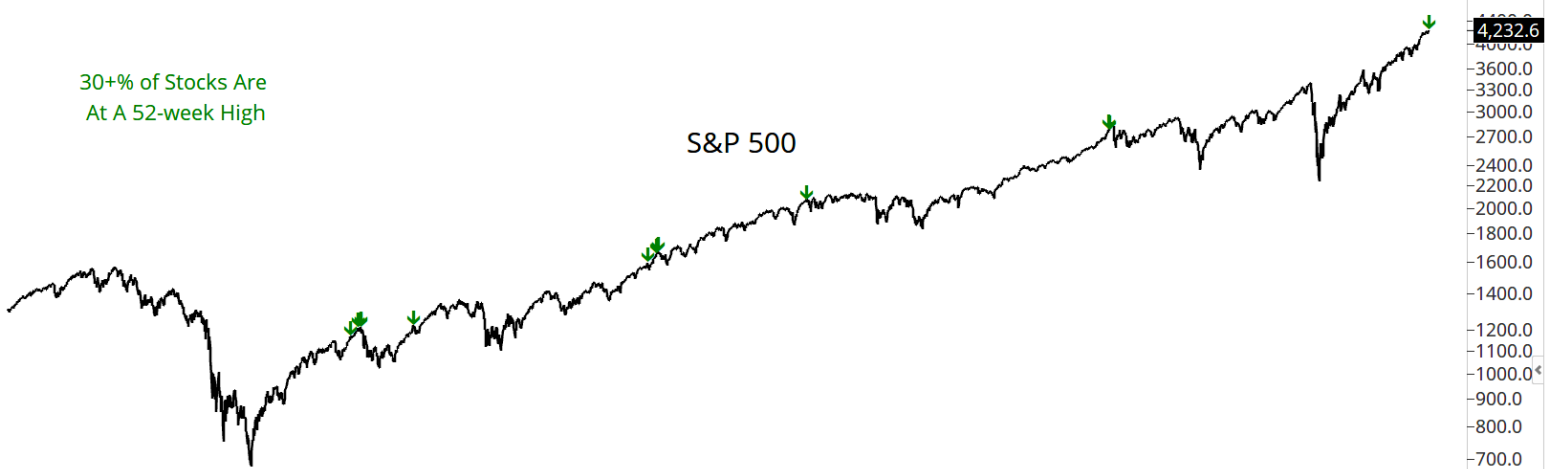
EQUITIES - BREADTH: 52WK HIGH



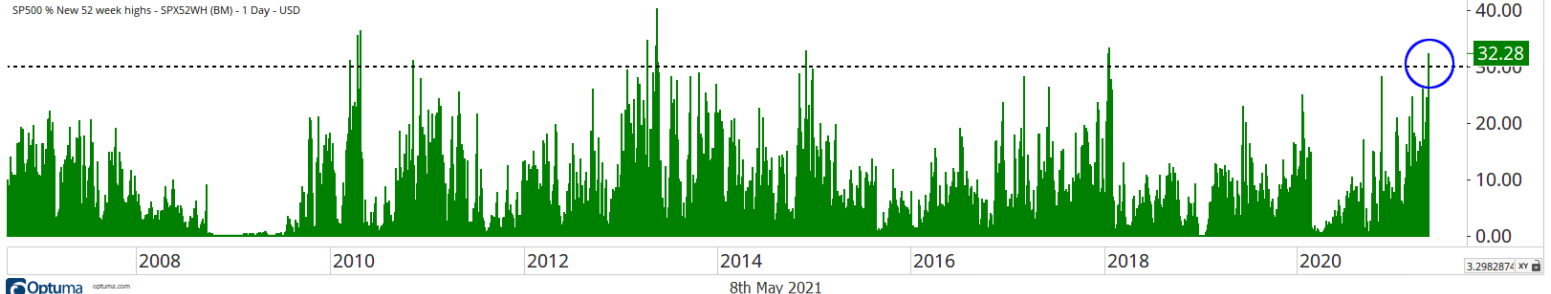
It's not just 65-day highs that are stocks are hitting, Friday we saw 32% of the S&P 500 hit a new one-year high.... again the highest level since January 2018 and again, something we have only seen occur a handful of times in the last decade.



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



SP500 % New 52 week highs - SPX52WH (BM) - 1 Day - USD

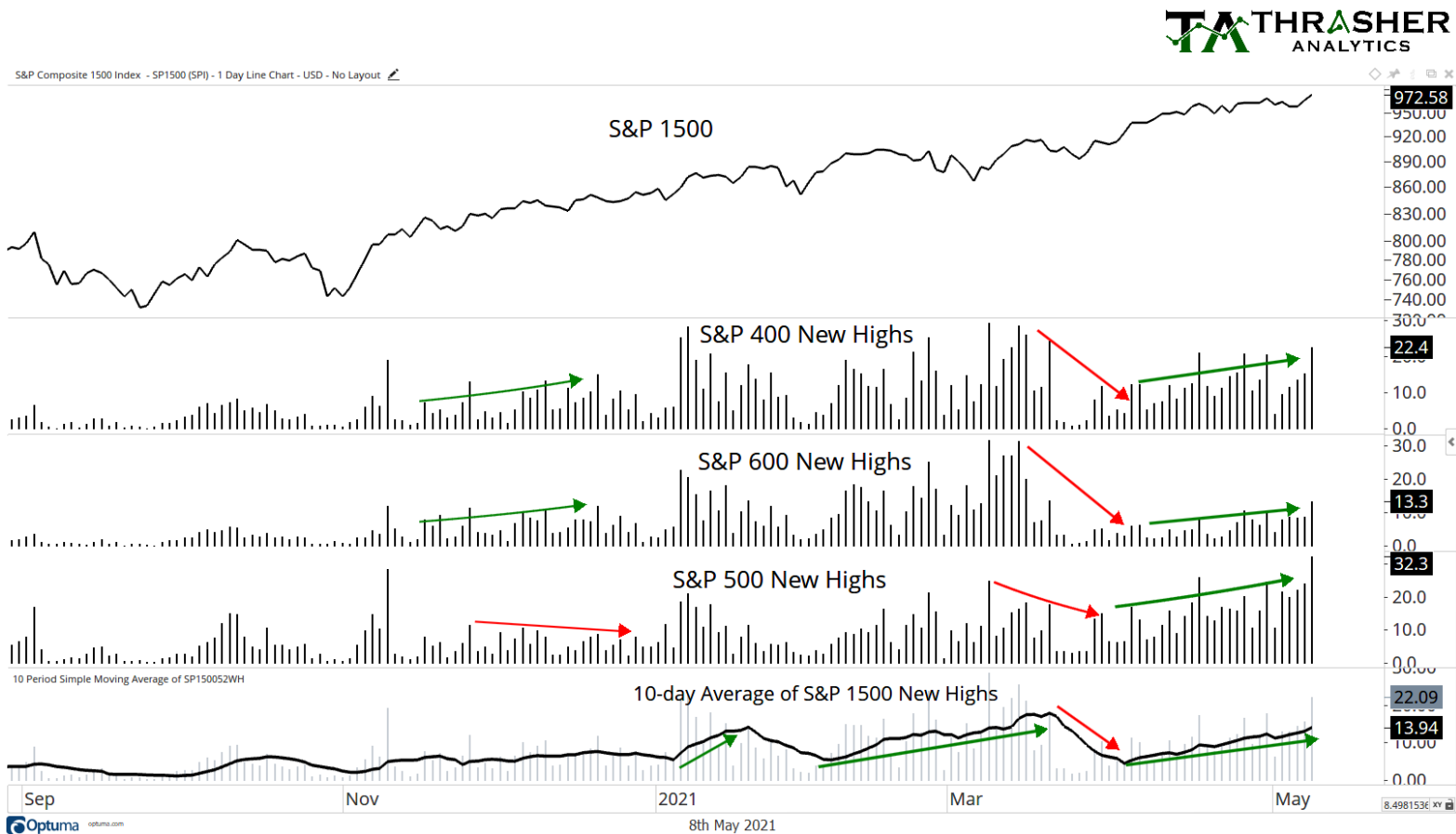


EQUITIES - BREADTH: 52WK HIGH



It's not just the S&P 500 that is showing strong breadth with an expanding list of stocks hitting 52-week highs. Both the S&P 400 and S&P 600 indices (mid and small caps) are also showing rising trends of new highs. Putting them all together we have the S&P 1500, which as you'd expect, has a rising trend of new 52-week highs.

While some corners of the market (like technology) are struggling a bit, broadly the breadth picture remains strong right now which can be a short-term bearish sign as traders may sell into that strength but long-term this is a good thing.



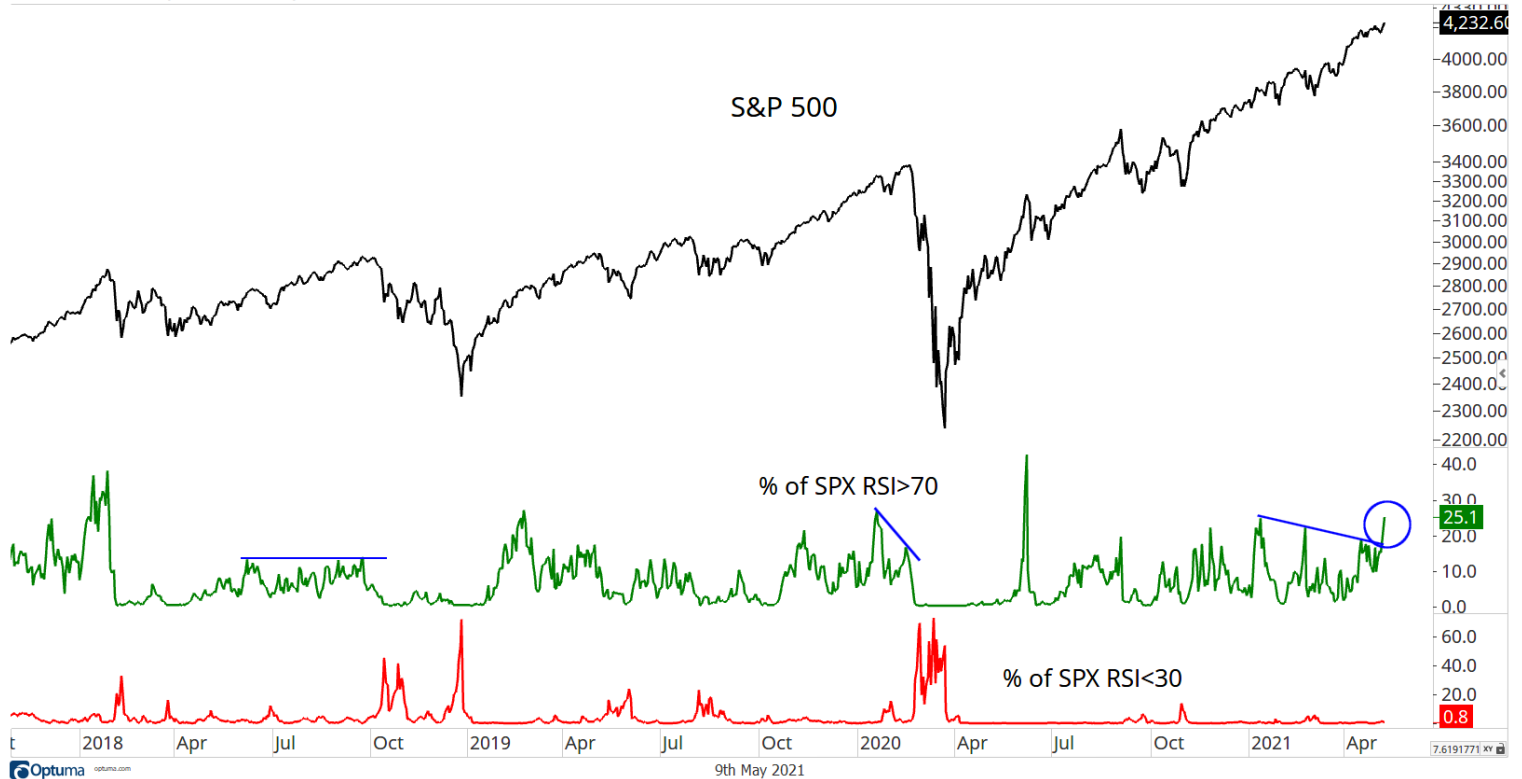
EQUITIES - STOCK MOMENTUM



Coming into April we were starting to see a series of lower highs in the % of the S&P 500 that had an RSI above 70 - similar to the index itself which is currently showing a series of lower-highs in momentum. However, for the individual equities, that figure is now expanding once again. On Friday we saw over 25% of stocks with "overbought" momentum, one of the highest readings since the trend higher began last March. While "overbought" momentum can be a short-term headwind, it's when we see less stocks with strong momentum, not more, that we get concerned. For instances, look at Q4 2018, we didn't see an expansion of "overbought" momentum of indiv. equities as the SPX rose and in Q1 2020 we saw a sharp move lower while the index made a higher high. Both of these were signs that individual stock momentum was potentially slowing. Right now we are seeing the opposite, as stocks are hitting new highs, a fourth of them also have an RSI over 70 - again short-term headwind but long-term it's bullish.

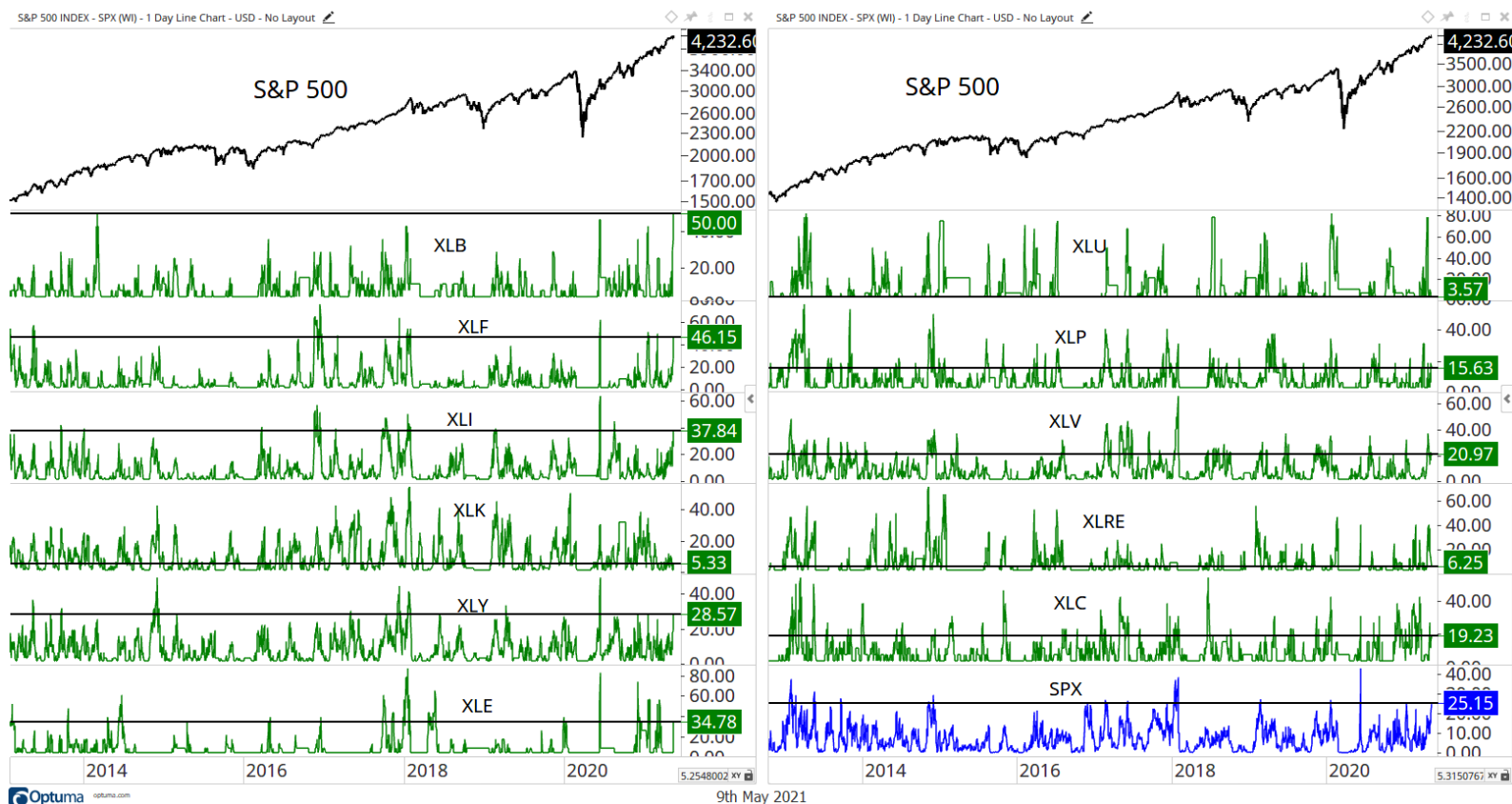


S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



I apologize for how crowded this next chart is but it's necessary to make my point...

Below is the % of stocks in each sector that have an RSI greater than 70, similar to the last chart for the S&P 500 as a whole. Here we can see Materials (XLB) has half of its stocks "overbought", Financials (XLF) at 46A%, Consumer Disc. (XLY) at 28% and Tech (XLK) at just 5%. 5 out of 11 sectors have at least one-fourth of their stocks with "overbought" momentum. From a momentum perspective, things are a little stretched right here, especially in the more offensive-oriented sectors.



Near the end of last year I wrote in a letter that the U.S. cannabis industry was one of the corners of the market I was most interested in for 2021 due to the growth prospects as well as roadmap to both state and federal legalization. From November '20 to March the U.S. Cannabis ETF (MSOS) rose 125% before correcting lower 30%. Since making a low in April which occurred at the lower-end of the gap from December. MSOS has bounced above the 50-day MA and testing the 20-day MA. Should it clear that then next I'll be watching the VWAP from the Feb. peak.

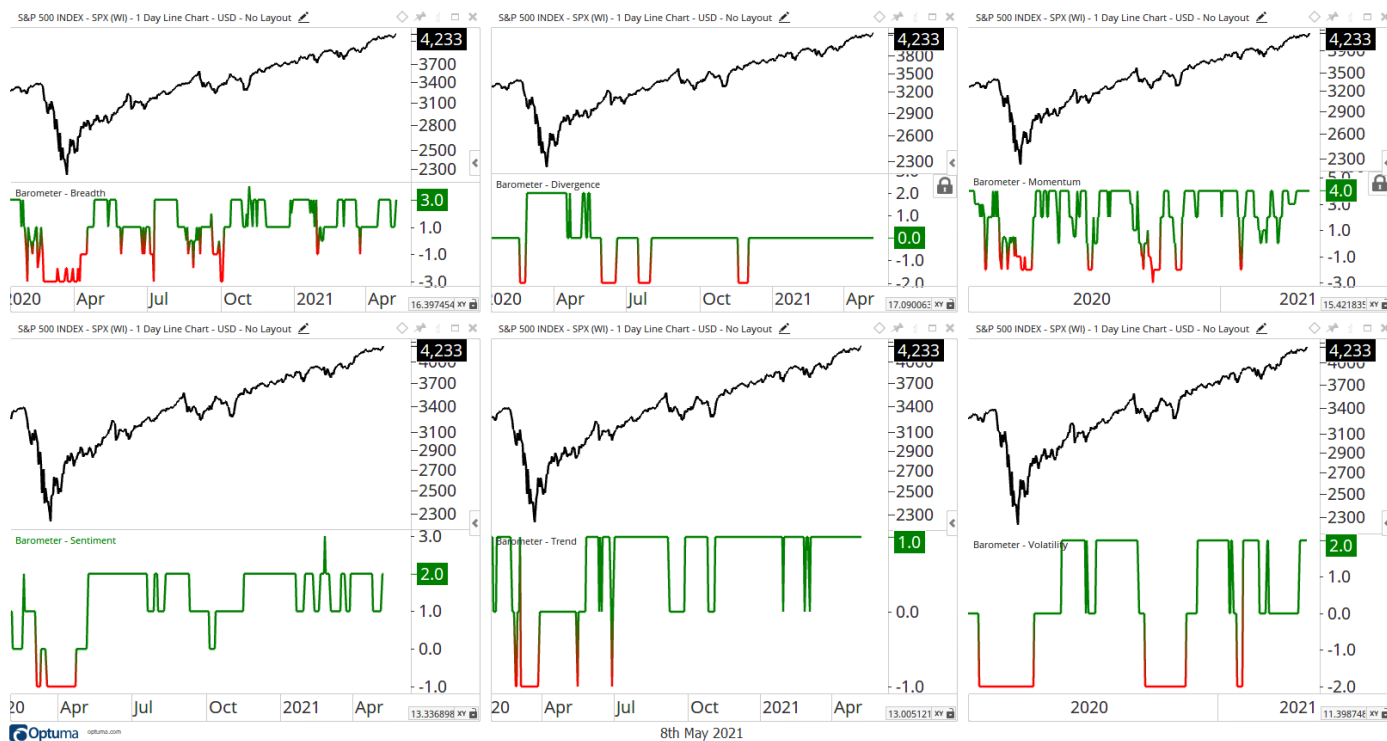
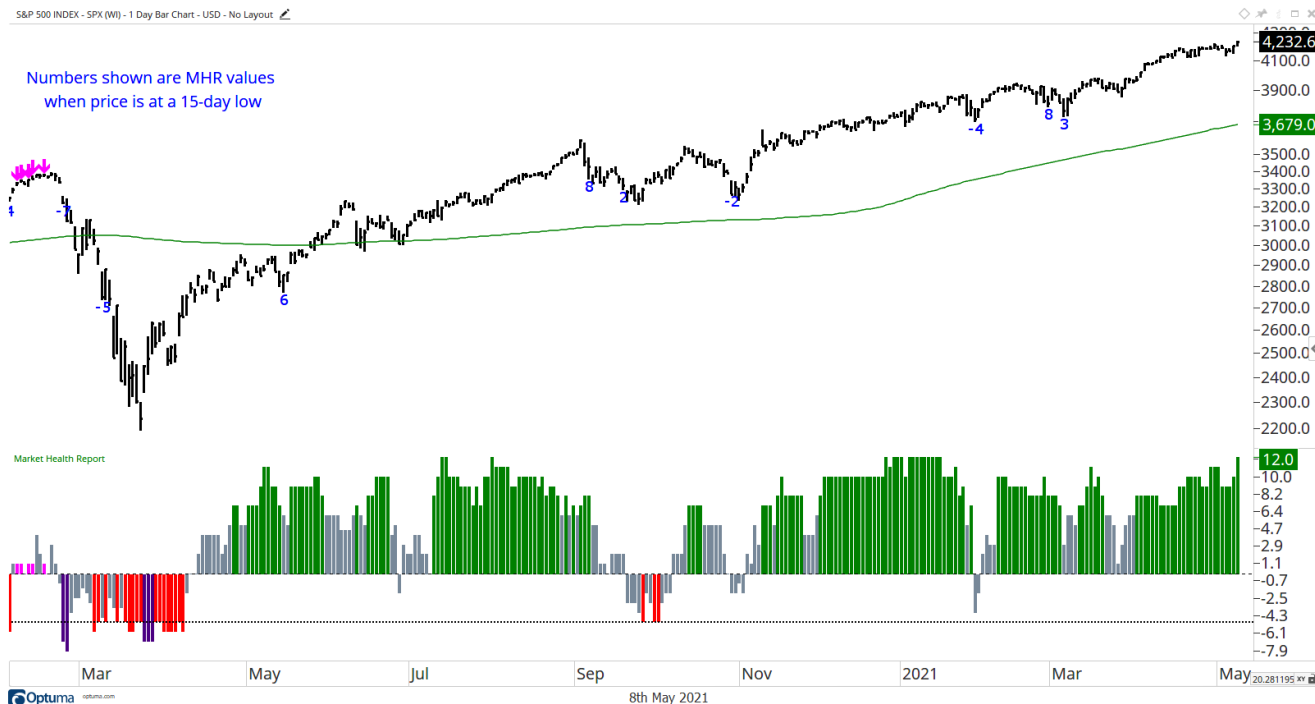
Three of the largest U.S. cannabis multi-state operators report earnings this week and if the beat/meet expectations then we could see that as a catalyst for the space to continue to firm up. I continue to watch and am interested in this industry and while the rest of Wall St. is enamored with NFTs, crypto, and what Cathy Wood is doing at ARK, cannabis stocks seem to be going under the radar. This isn't to say cannabis stocks won't continue to have their bouts of volatility and downside, but long-term I think there is a lot of potential here.



MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week up one point to +12. The six categories remain broadly supportive of equities. While my concern remains short-term, the long-term picture still appears bullish.

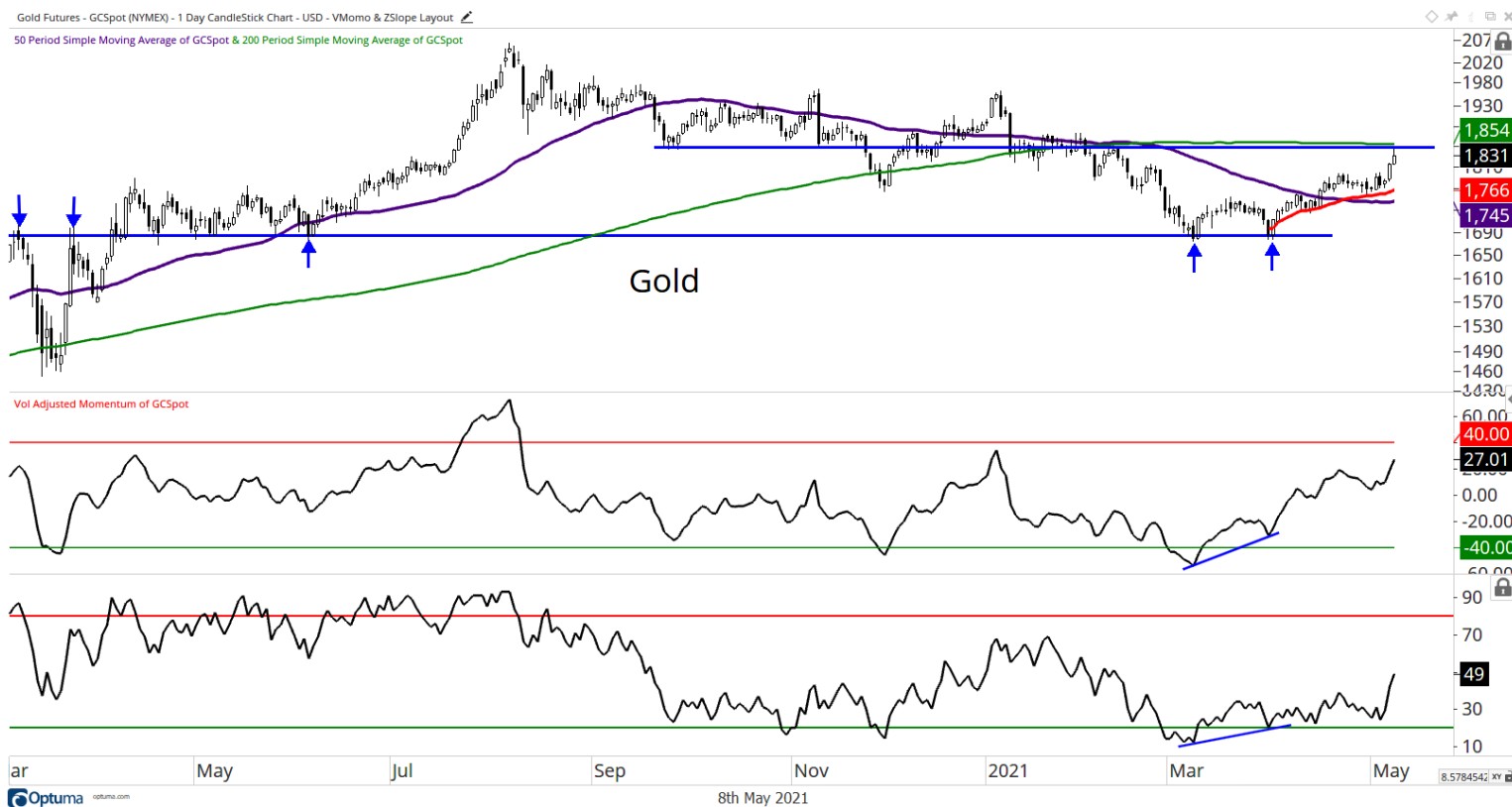


SECTORS - PERFORMANCE



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	8.58%	9.11%	26.01%	44.59%
SPDR Materials Select Sector Fund ETF	True	True	5.82%	10.86%	19.5%	71.45%
SPDR Financial Select Sector Fund ETF	True	True	4.19%	8.44%	22.3%	73.14%
SPDR Industrial Select Sector Fund ETF	True	True	3.36%	6.09%	18.38%	71.08%
SPDR Health Care Select Sector Fund ETF	True	True	2.26%	6.51%	7.26%	25.45%
SPDR Consumer Staples Select Sector Fund ETF	True	True	1.52%	2.42%	7.42%	24.26%
SPDR S&P 500 ETF	True	True	1.16%	3.82%	8.88%	46.73%
SPDR Communication Services Select Sector ETF	True	True	0.29%	1.75%	9.62%	53.7%
SPDR Technology Select Sector Fund ETF	True	True	-0.48%	0.44%	2.74%	48.84%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-0.73%	2.37%	3.13%	54.43%
SPDR Real Estate Select Sector Fund ETF	True	True	-0.94%	4.67%	11.68%	29.37%
SPDR Utilities Select Sector Fund ETF	True	True	-1.02%	1.69%	3.85%	19.96%

Well finally it appears the rest of the market has caught up to the upside potential in gold. I've been writing about my bullish bias for several weeks now following the bullish divergence in sentiment (bottom panel) and momentum (middle panel) as price tested support. We've now seen the metal break above the 50-day MA and rise back to the 200-day moving average which is also where possible resistance at \$1850 could come in, which was prior support towards the end of last year. I think there's still potential in gold if we can clear the 200-MA, opening the door for a possible run back to \$2000.



DAILY SENTIMENT INDEX



Market	% Bullish ▲	5MA	History +
VIX DSI	13	17.6	
US Dollar DSI	20	28.00	
Orange Juice DSI	22	14.4	
Cattle DSI	25	17.8	
5YR DSI	36.00	34.40	
Gold DSI	49.00	35.00	
Cocoa DSI	51.00	39.40	
10Y DSI	52.00	51.00	
Silver DSI	55.00	43.40	
EuroDollar DSI	55.00	55.00	
Platinum DSI	57.00	53.40	
Mexican Peso DSI	60.00	52.60	
British Pound DSI	61.00	60.00	
Palladium DSI	65.00	76.80	
Natural Gas DSI	66.00	67.20	
Sugar DSI	67.00	65.00	
Swiss Franc DSI	70.00	60.20	

<input type="checkbox"/>	Code	% Bullish ▲	5MA	History +
<input type="checkbox"/>	Nasdaq DSI	73.00	66.00	
<input type="checkbox"/>	Coffee DSI	74.00	64.40	
<input type="checkbox"/>	Nikkei DSI	77.00	71.20	
<input type="checkbox"/>	Heating Oil DSI	77.00	79.20	
<input type="checkbox"/>	Cotton DSI	77.00	77.40	
<input type="checkbox"/>	Euro DSI	78.00	67.80	
<input type="checkbox"/>	Lean Hog DSI	79.00	85.2	
<input type="checkbox"/>	Gasoline DSI	79.00	80.2	
<input type="checkbox"/>	SPX DSI	80	72.40	
<input type="checkbox"/>	Crude Oil DSI	81	84.8	
<input type="checkbox"/>	New Zealand Dollar DSI	83	76.40	
<input type="checkbox"/>	CRB Index DSI	83	80.8	
<input type="checkbox"/>	Australian Dollar DSI	85	77.00	
<input type="checkbox"/>	Copper DSI	87	79.60	
<input type="checkbox"/>	Wheat DSI	91	84.2	
<input type="checkbox"/>	Corn DSI	94	91	
<input type="checkbox"/>	Lumber DSI	96	96	

Source: trade-futures.com

DAILY SENTIMENT INDEX



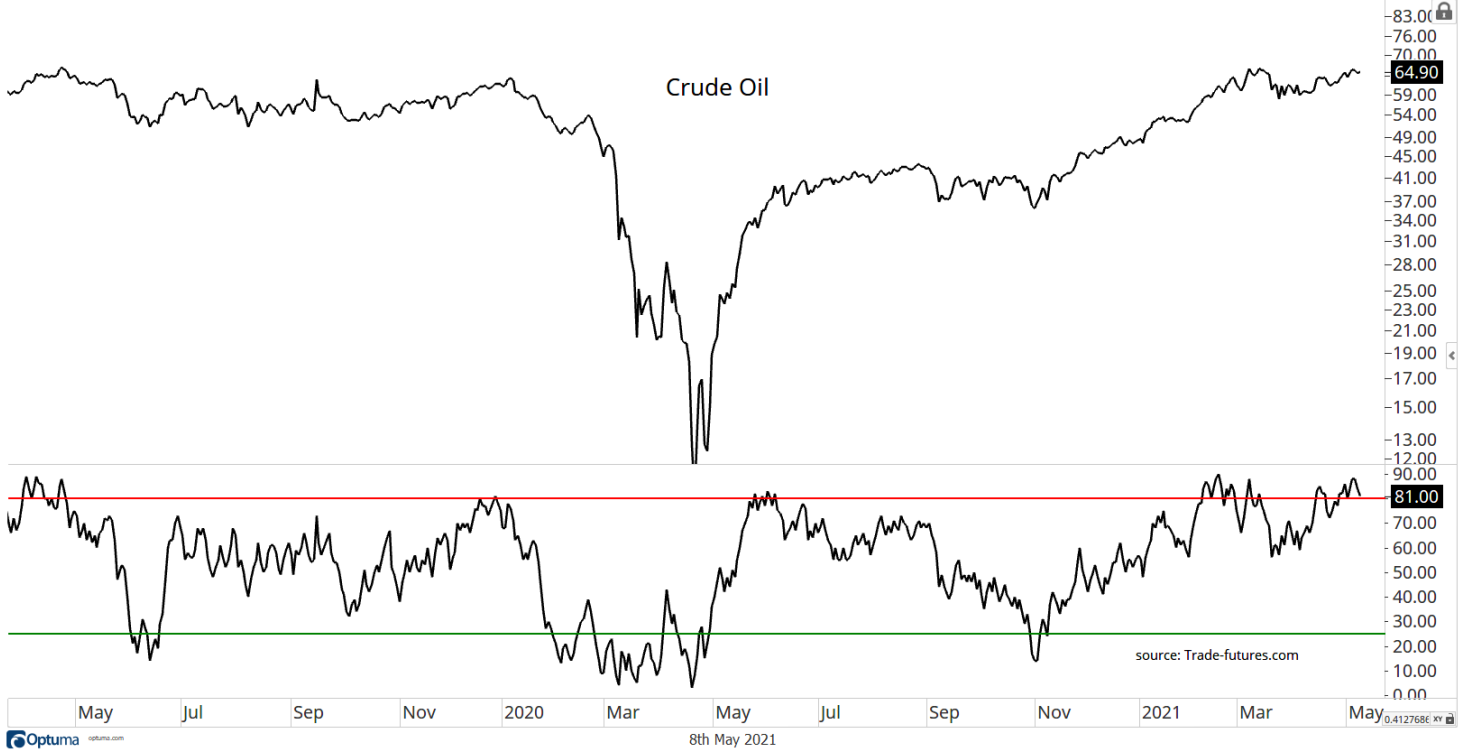
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Crude Oil Light Sweet NYMEX - OILSW (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



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

Gold



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



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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



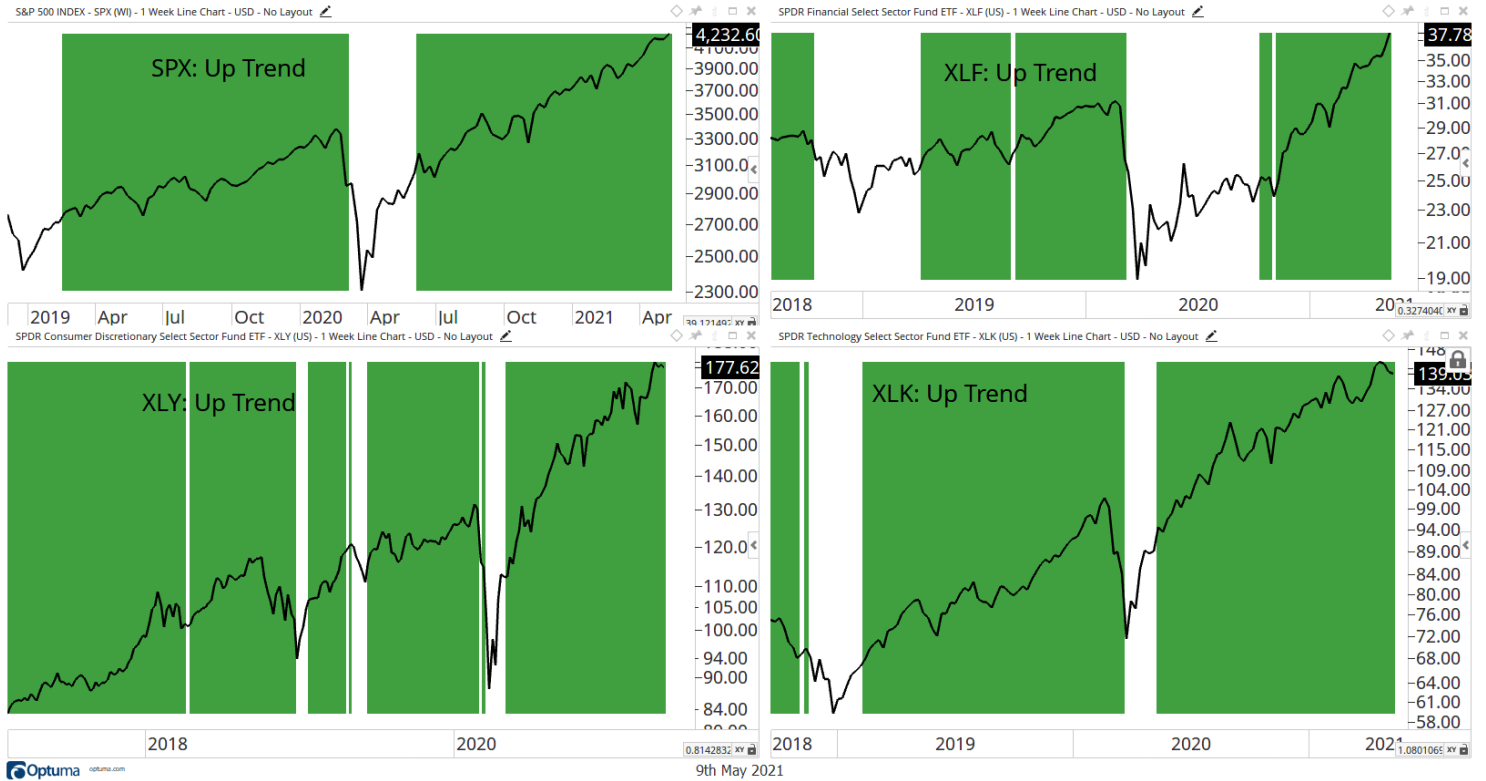
DAILY SENTIMENT INDEX



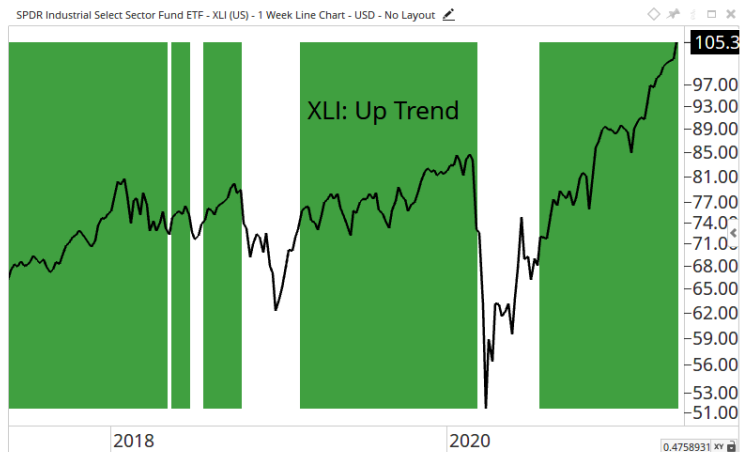
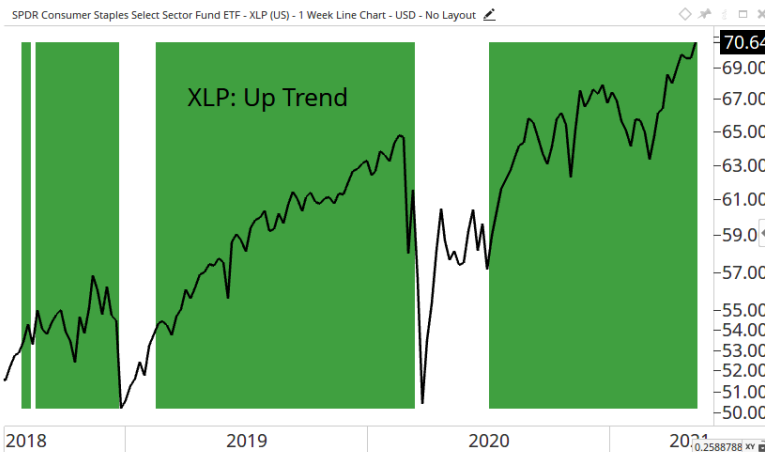
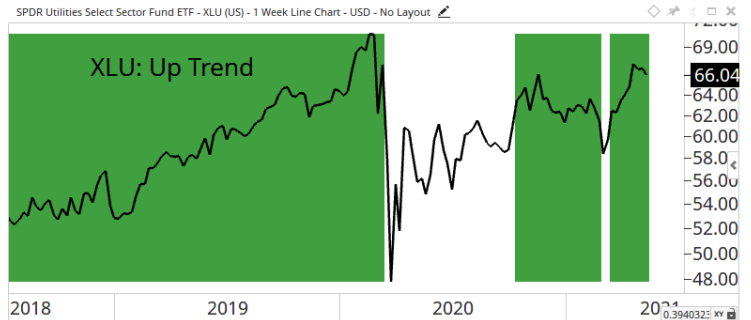
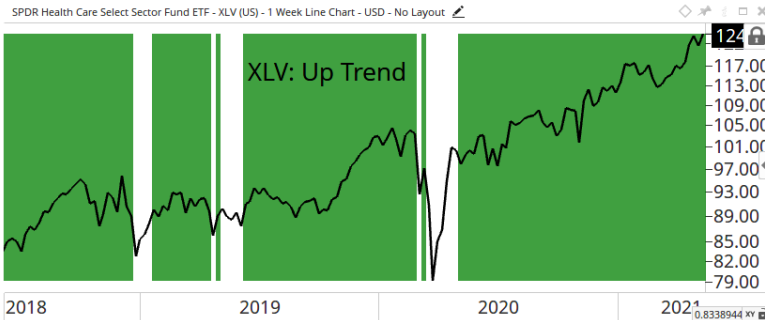
S&P 500 Index - SPX (CBOE) - 1 Day Line Chart - USD - No Layout



TREND MODELS



TREND MODELS



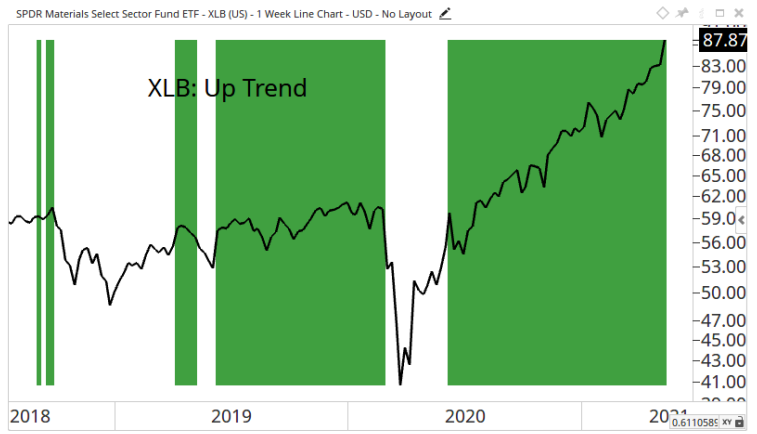
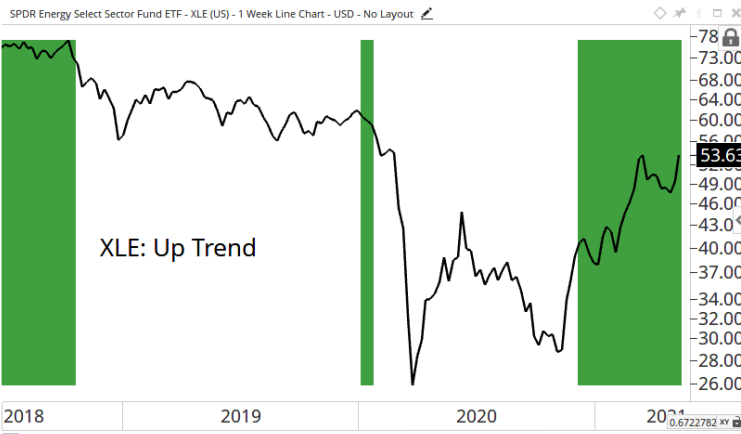
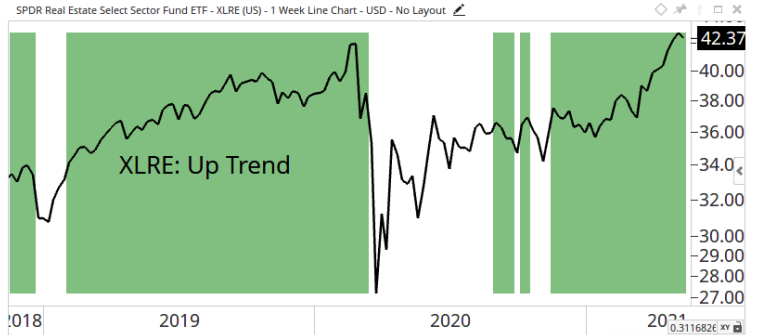
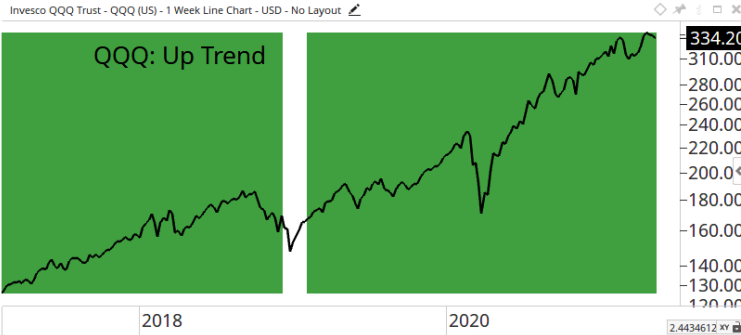
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TREND MODELS



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