THRASHER ANALYTICS

MAY 2, 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. • Bonds COT data bullish.	• Sentiment now weakening. • Nasdaq Composite internals are weakening. • VRT signaled. • Volatility dispersion compressed. • Commodities have gone parabolic. • "Risk On" assets aren't performing.

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Market Dashboard

Sector Rotation: May	
Energy	XLE
Financials	XLF
Communication	XLC

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

Market Health Report	
Breadth	3
Divergence	0
Momentum	4
Sentiment	1
Trend	1
Volatility	2
Total	**11**

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	72%	76%
Nasdaq 100	72%	76%
Nikkei	67%	73%
VIX	19%	15%
10yr Treasury	45%	46%
5yr Treasury	31%	30%
CRB Index	75%	78%
Gold	25%	29%
U.S. Dollar	32%	28%

Green<25%   Red>80%

source: trade-futures.com

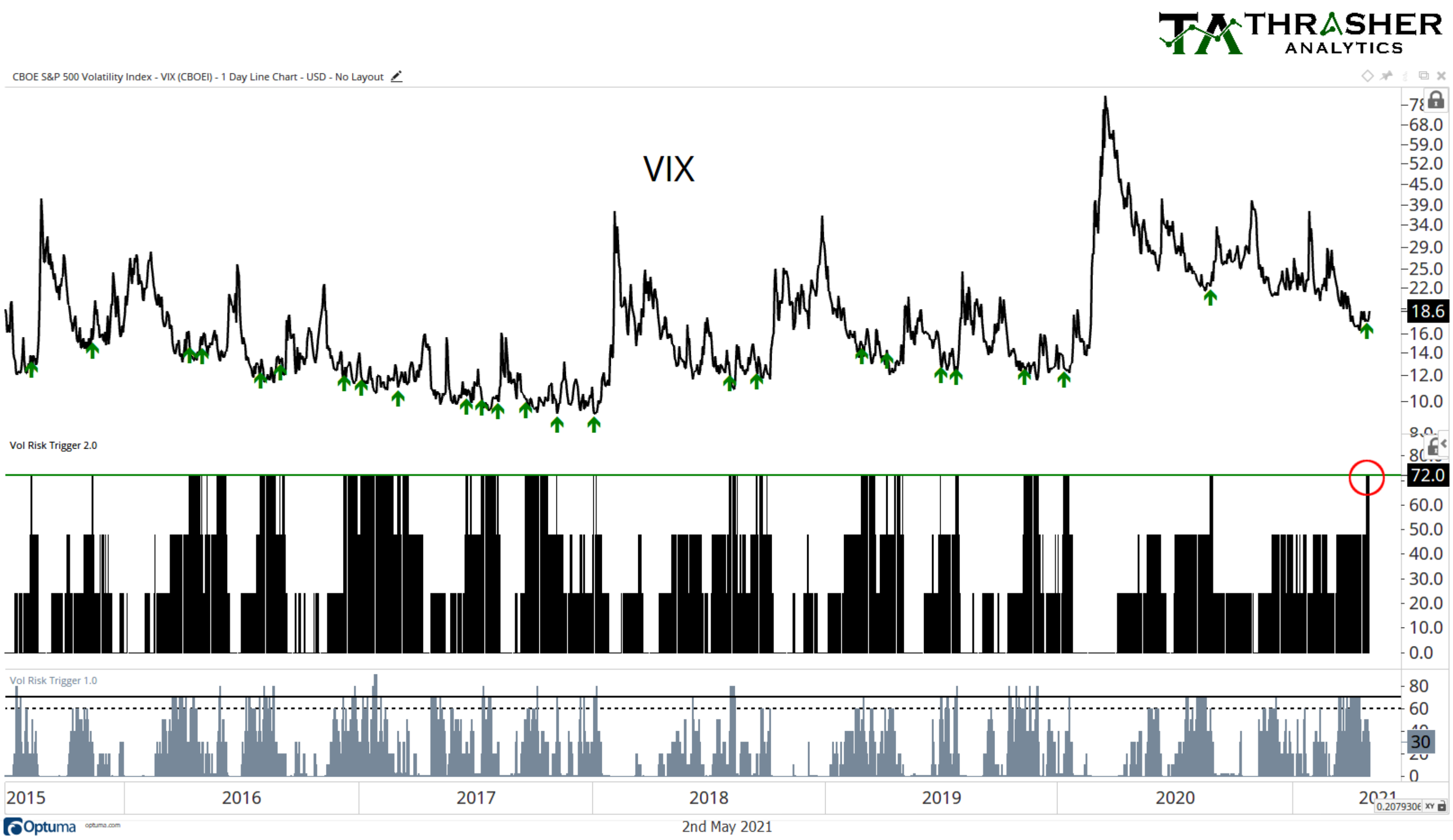
Brief Summary:

Last week we got our first signal from the Volatility Risk Trigger 2.0 (VRT) since last August. The door is now open for a spike in the VIX in the coming weeks, and it appears to be coming at a time when the market is less impressed by earnings beats and sentiment has started to sag (note the S&P 500 DSI chart). Breadth for the Nasdaq Composite continues to look awful, some of the weakest indicators since the 1990s. "Risk On" assets are no longer confirming the up trend in the S&P 500. Commodity prices have gone parabolic and economists have grown frustrated with the Fed. Meanwhile, there's a growing call for Treasury Yields to continue to rise but I think they are mistaken as the COT data suggests the bearishness of Small Traders could signal bond prices to rally.

The market has gone no where in two weeks and my call over the last two weeks continues, the risk/reward is less attractive now than it's been in the past. Based on the VRT I'm cautious towards a rise in volatility and it seems as we exit the most bullish seasonal 6-months, the setting is ripe for a move lower in equities. However, because breadth for the S&P 500 has been so strong recently, hopefully any weakness we do incur is short-lived. I'll use the Market Health Report to gauge the extent of a continued decline, should be occur, providing commentary in this letter of course.

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).

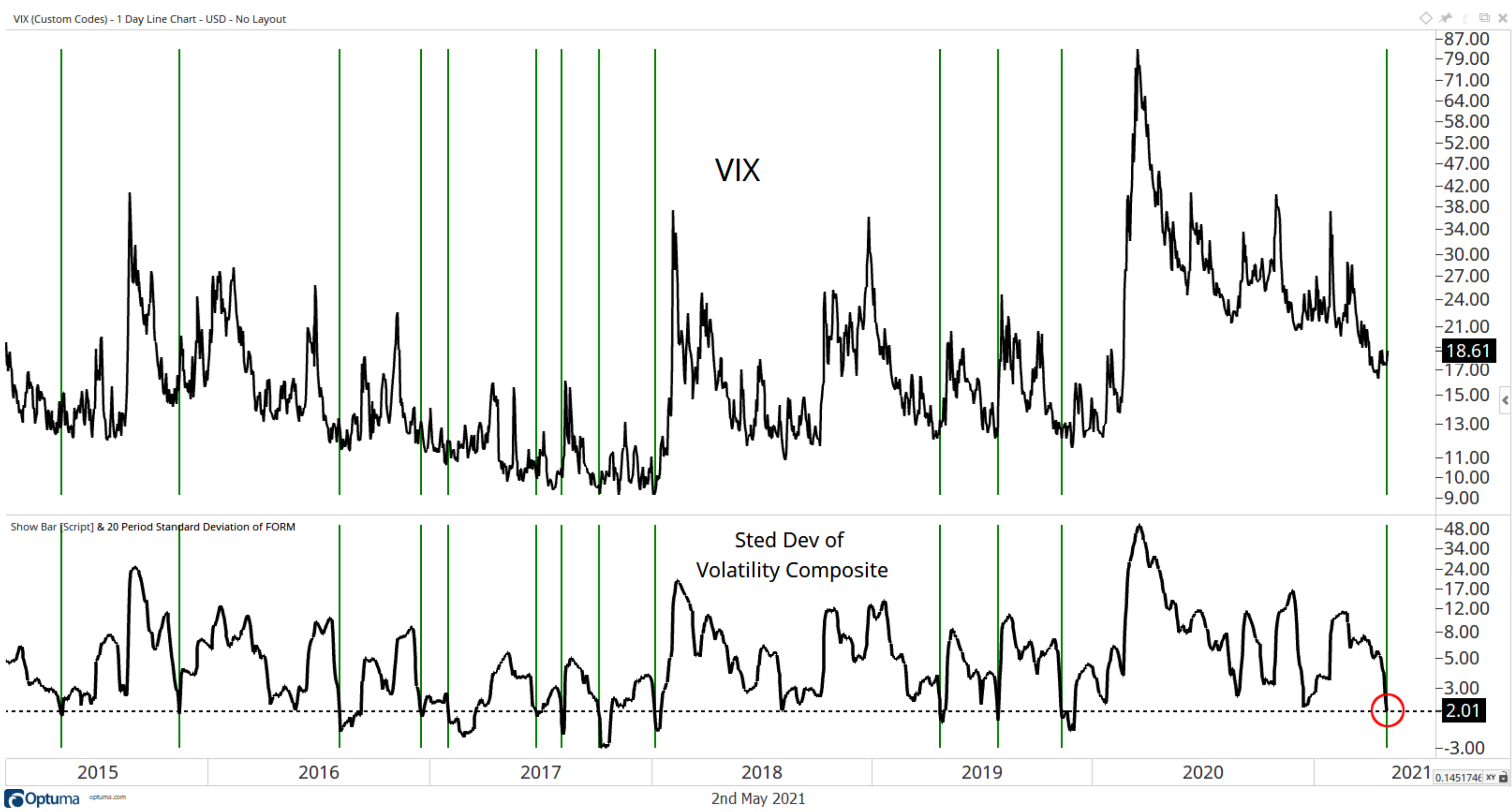
As you should have seen in the Special Update email I sent mid-last week, the VRT 2.0 issued its first signal since August of last year. Volatility dispersion has compressed along with the other key components the VRT needs to see develop to signal a heightened risk of volatility rising and potentially spiking. As I wrote Thursday, this doesn't necessarily happen right away as past signals have often marked a low in vol but the "meat" of the move can take a week or two to play out. For instance, Last August it took two weeks before the major rise in volatility and in early January 2018, VRT 2.0 marked the bottom in the VIX but the spike occurred 1-month later as the VIX slowly began to rise into an eventual crescendo on February 5th.



VOLATILITY

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.

Most recently, it's not just the VIX (which is based on S&P 500 options) but also the Nasdaq 100 and Dow Industrial version of the VIX, that have compressed. Below is a composite of these three volatility indices and the 20-day standard deviation for the Composite, which is the tool I used in my paper. There are green vertical lines when dispersion (measured by Std Dev) has gotten as low as it is today. Notice that nearly all of them saw a rise in volatility soon follow. This is significant because it's not just a "fluke" in the S&P 500 VIX, but we're seeing an over-confidence across the market via the lack of movement in volatility for the S&P 500, Nasdaq 100 AND Dow Industrial. This hasn't happened since January of last year, two months before the Covid Crash.



Equities - S&P 500 Daily

The S&P 500 has basically gone no where for two weeks. For the first time since August 2017, we have two weekly Doji candles formed at a 6-month high in price. The development of this candle pattern on the weekly chart occurred back-to-back weeks is rare but the history doesn't suggest a major edge in either direction. Typically Doji candles represent "indecision" and can be turning points within a trend.

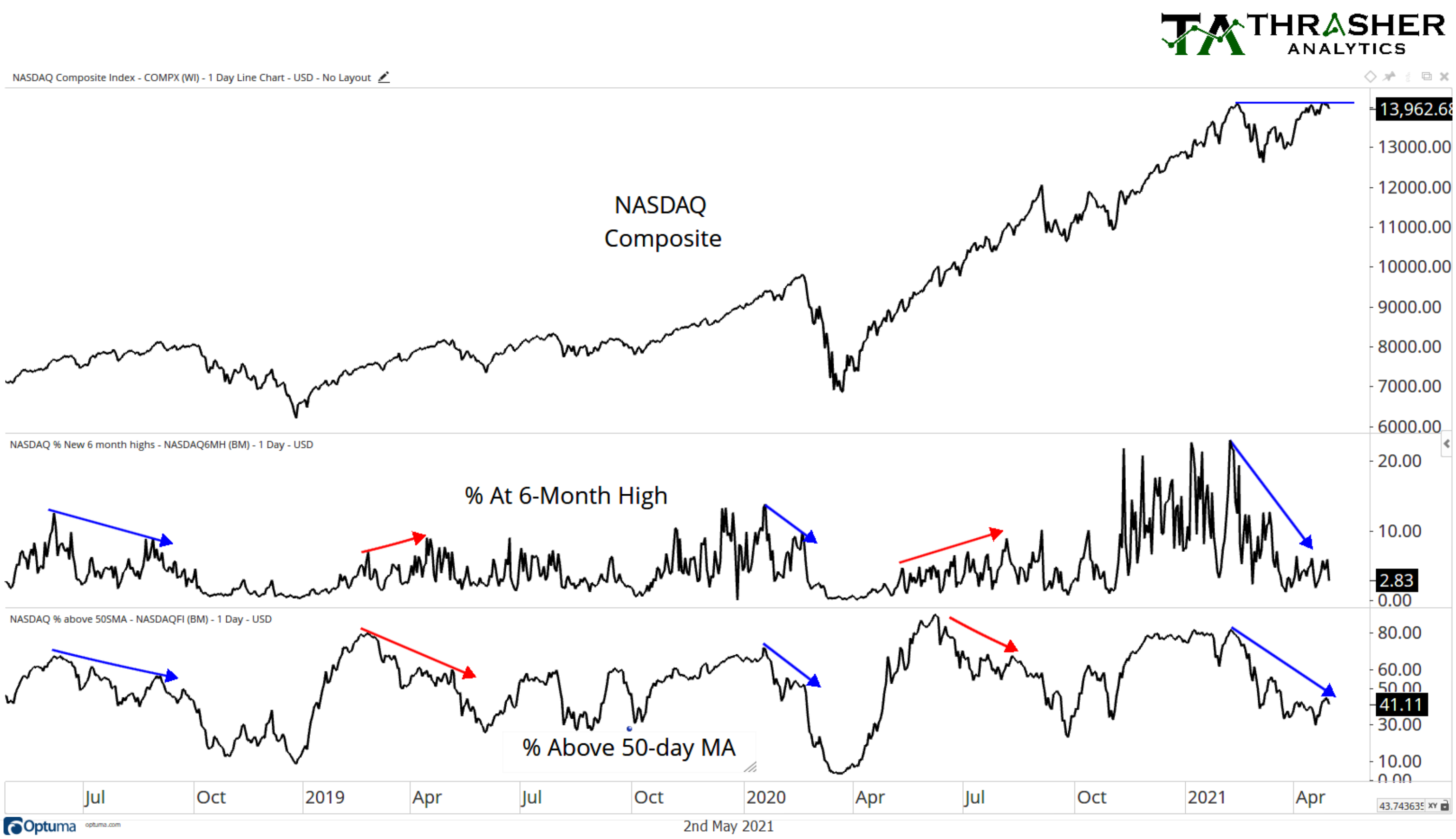
Looking at the daily chart of the S&P 500, we have a lower-high in the RSI as momentum begins to weaken. However, the RSI is still above the prior low and holding firm in a bullish range. Price still sits above the 20-day MA and just a few points from its 52-week high.

EQUITIES - BREADTH: NEW HIGHS

As I've been writing for several weeks, breadth has been very strong for the S&P 500, not so much for the Nasdaq Composite, but the large cap index has seen good participation by the individual stocks. So much so, that the ratio of 52-week highs to 52-week lows, smoothed by 10-day, rose to the highest level since January 2018. I found, when this ratio breaks above 16, as it did last week, and then begins to move lower, as it did on Friday, we've often seen lower prices follow. The caveat to this study was 2013, which was impetuous to the upside and unfazed by any to any bearish argument or technical signal. I find it interesting that both the 2010, 2011, 2018, and 2020 counter-trend moves all were preceded by this condition of strong breadth that then rolled over. As in '10 and '11, if we do see price break lower, because breadth has been so strong the move should be short-lived - but we'll continued to take things day by day rather than make any kind of assumption.

I don't mean to beat a dead horse, covering the awful looking internals of the Nasdaq Composite week-after-week, but it needs to be said! There's just a few stocks acting as toothpicks holding up the trend in the Nasdaq Composite. The most recent high, which appears to be forming a possible double top, saw the fewest stocks at a 6-month high since the 1990s. Not in the last 20 years has breadth been this weak for the Composite when at a 52-week high.

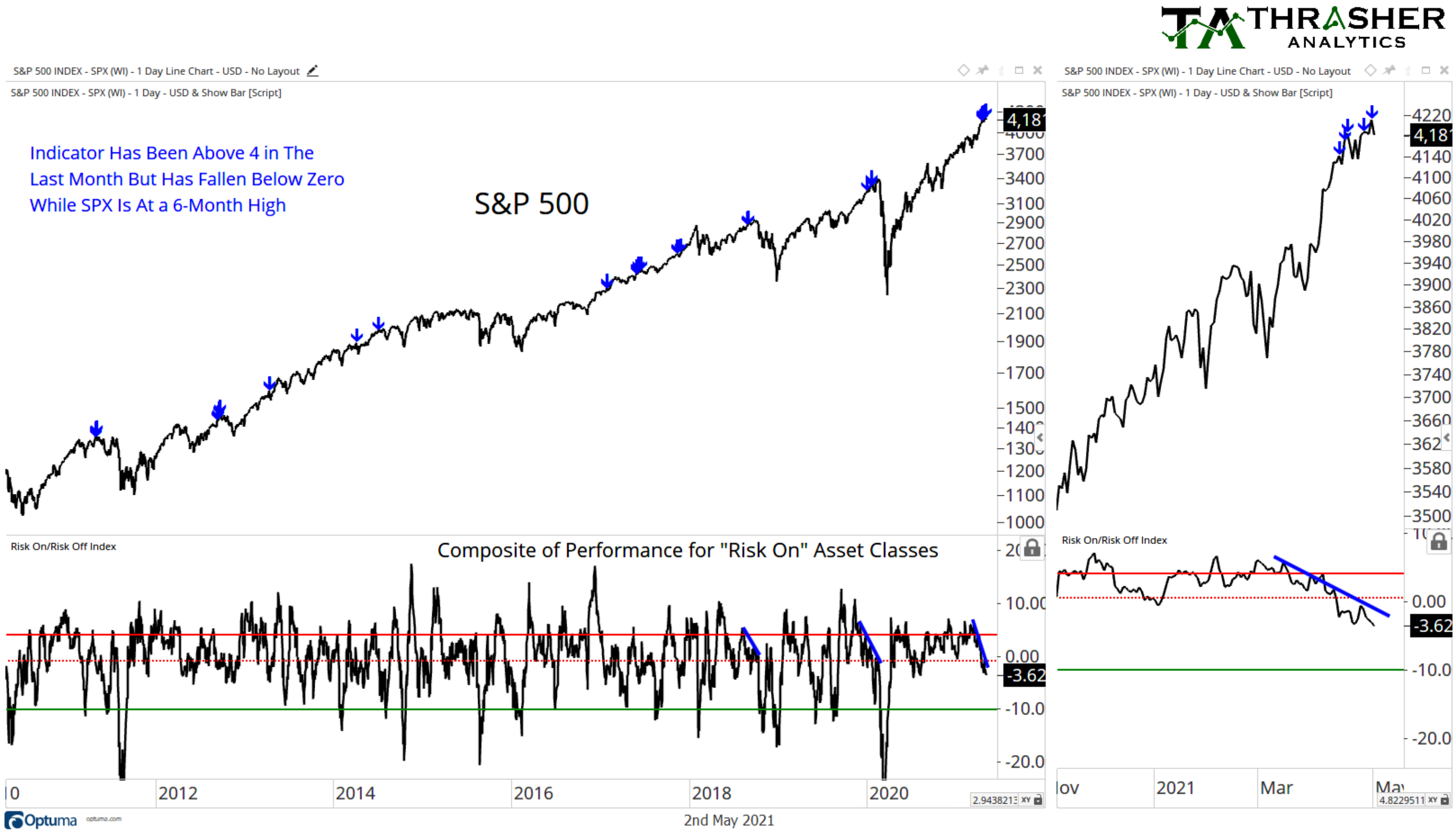
While it's not just stocks not hitting highs, that could be due to consolidation, they aren't holding above their 50-day MA either. We saw this occur in 2018 and 2020. But noticed when the % above the 50-day MA began falling in early '19 and last summer - it wasn't receiving confirmation by the % at 6-mont highs, stocks were still advancing enough to maintain the up trend in the index. Unfortunately, that's not the case today - stocks are trending lower, breaking their 50-day MA and *not* hitting new 6-month highs. The Nasdaq Composite looks fragile.



Equities - Risk On/Off

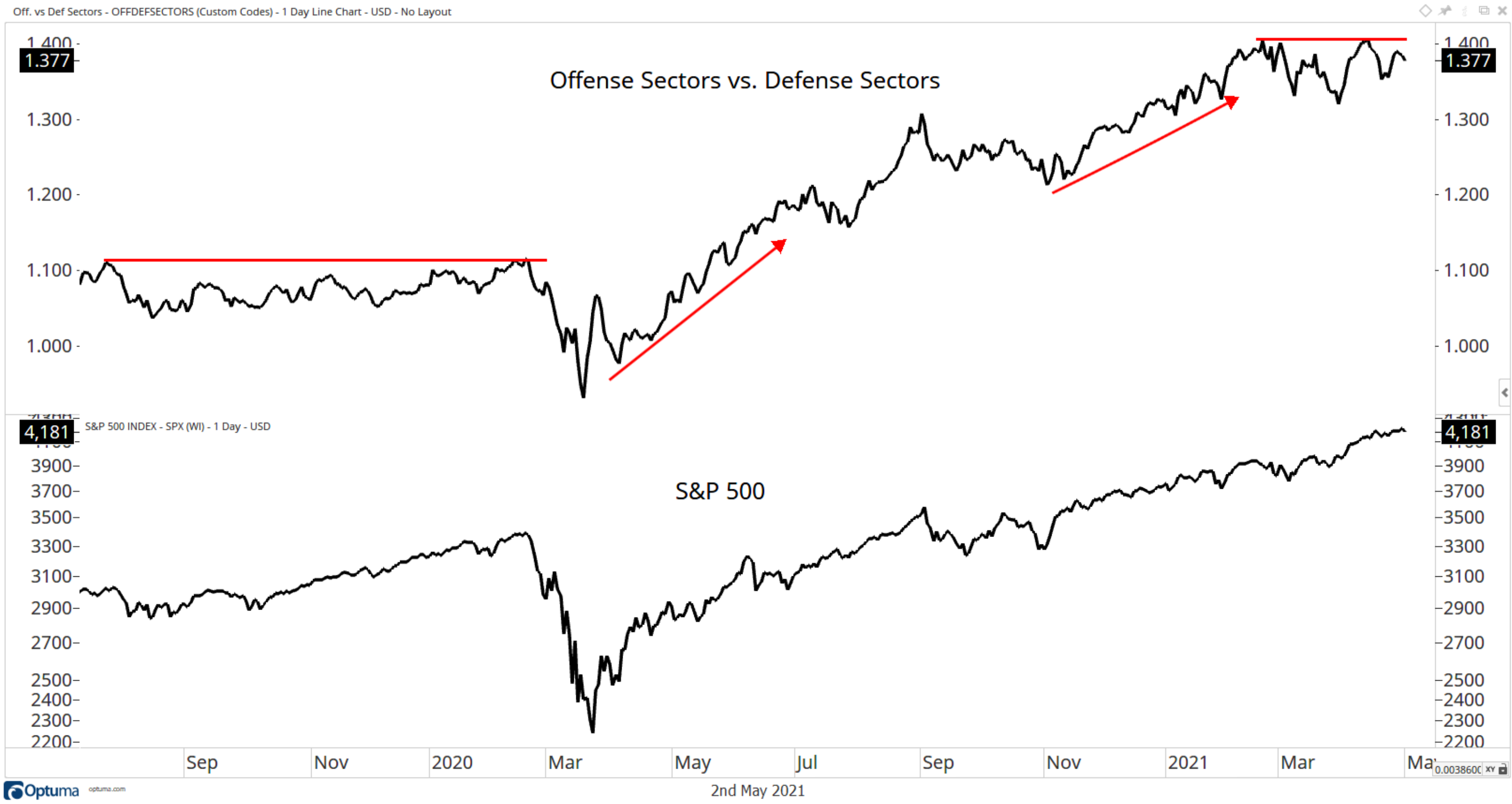
I share two risk appetite-type charts, The RIsk Appetite Index which is based on relative strength of asset classes and the one below, the Risk On/Off Index which looks at the trends of assets you'd expect to be rising in a "risk on" market environment. when the Risk On/Off Index is falling, then the various risk appetite assets are moving lower on an absolute basis.

Below I've plotted arrows when this indicator has been above 4 (strong) but has moved below zero (weak), diverging from the S&P 500. Several "risk on" asset classes are not rallying with the broad market any longer, investors appear to be shedding risk exposure in a manner that's yet to bring down the S&P 500.

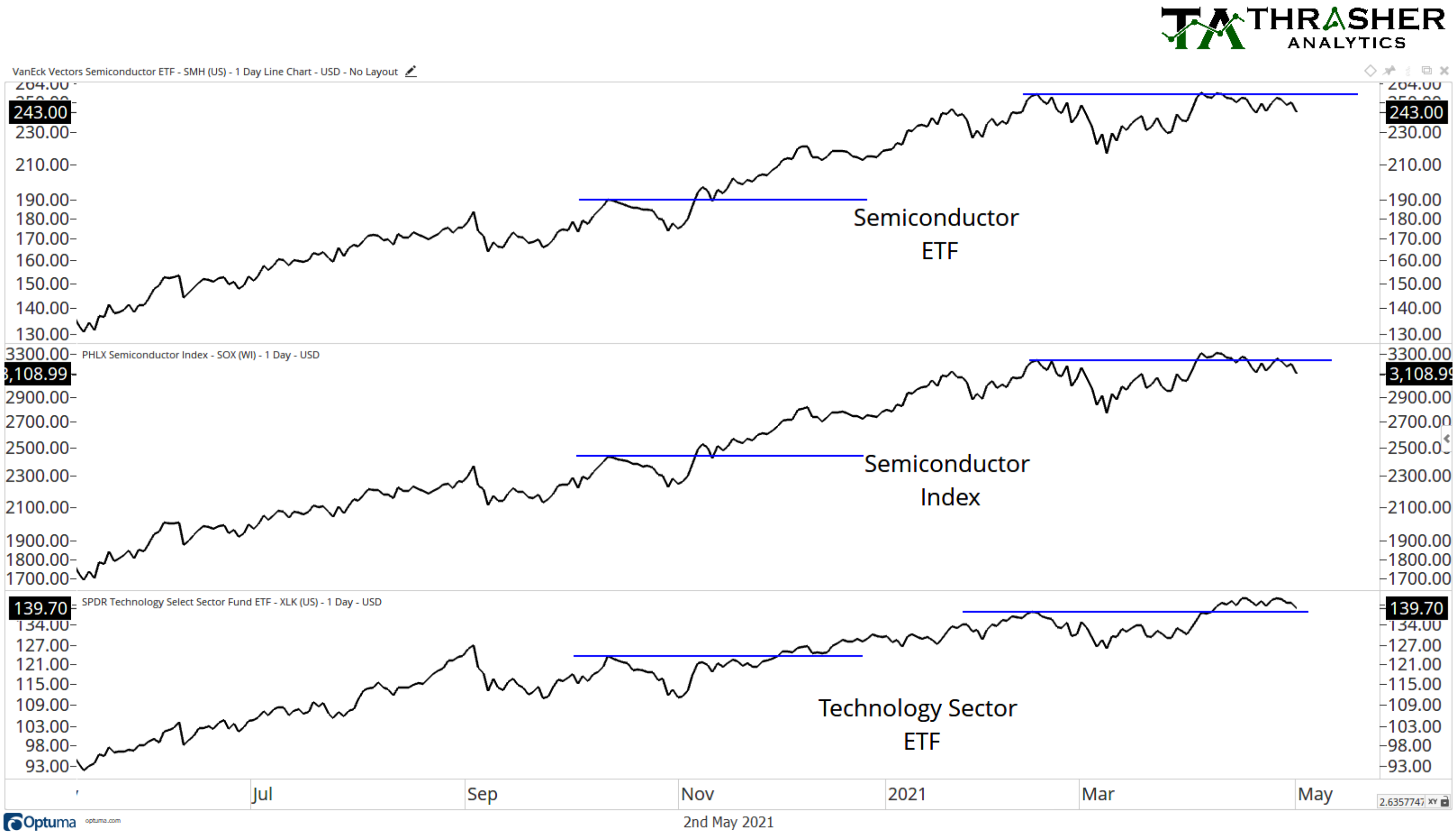


Equities - Sector Leadership

It's not just "risk on" asset classes that have turned lower, we no longer have strong leadership out of "risk on" offense sectors. Offense sectors (like energy, financials, technology) have not been strong relative to defense sectors (such as health care, utilities, or real estate). In a strong up trend, we'd rather see traders pushing offense sectors higher relative to their lower beta counterparts. That's not the case right now.



For long-time readers, you'll remember I've said repeatedly that semiconductors are a key market leader and barometer for the tech sector and thus the market as a whole. When semiconductors are trending higher and showing good relative strength, that's a bullish sign for tech and U.S. stocks. Unfortunately, that's not happening right now with both the index and ETF failing to hold their February highs. This means tech is vulnerable to losing its prior high as well.



Have stocks begun to stagnant because earnings haven't been very good? Nope. Q1 earnings have knocked the socks off estimates. The table below is from Goldman Sachs and shows 69% of S&P 500 companies that have reported so far have seen at least a 1 standard deviation beat to earnings estimates and 67% to revenue estimates. Last week we saw all of the FAAMG stocks report and most had excellent quarters, but the market's response reflected anything but great reports.

In fact, Goldman notes that stock's that beat estimates have risen on average 26 basis points the next day compared to an average of 110 basis points. The market is no longer rewarding good fundamentals, it was expected they'd do well. The market is getting tired and if stellar earnings can't get things moving when valuations are already at historical highs and nearly every stock large cap stock is trading above the 50- and/or 200-day MA (see chart from last week), what catalyst do traders have left?

Exhibit 12: S&P 500 1Q 2021 earnings results
as of April 30, 2021

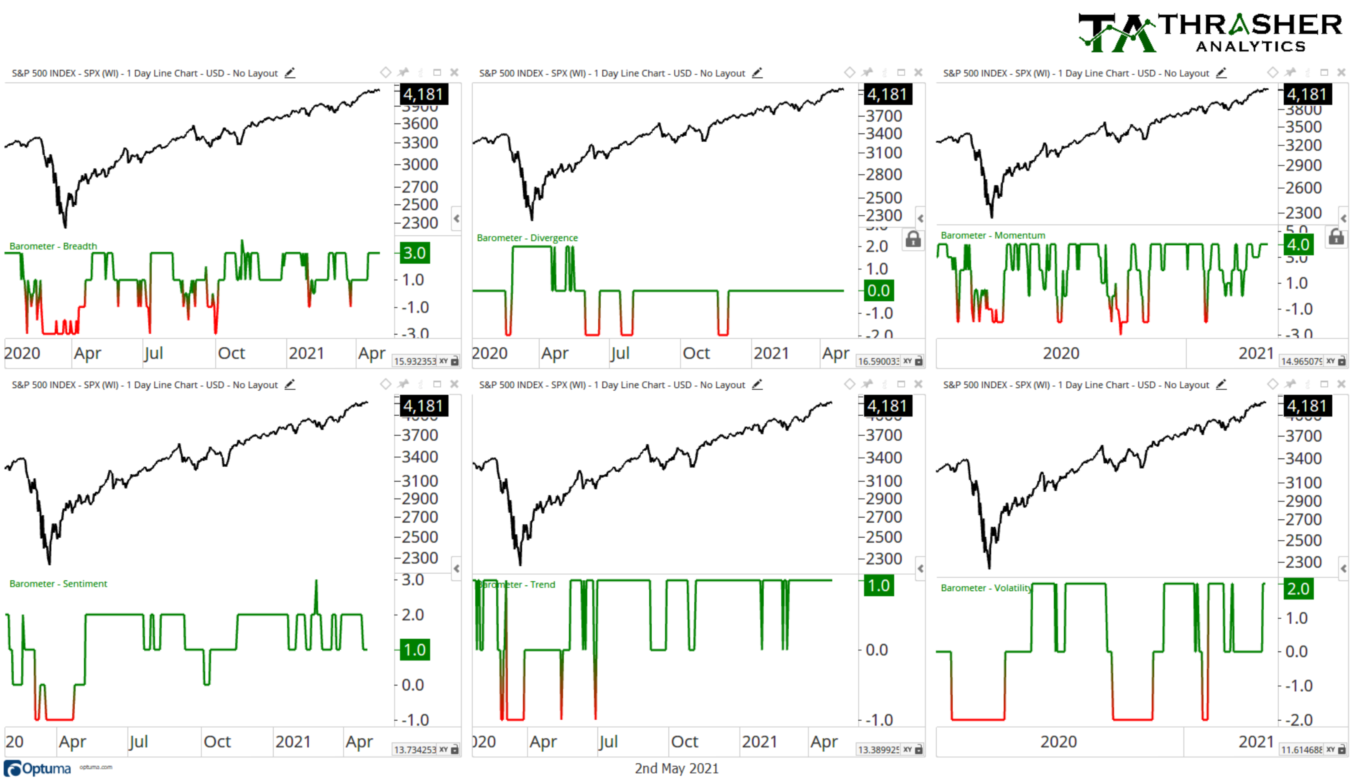
S&P 500 EQUAL-WEIGHTED

	Number of Companies			EARNINGS: Std Dev Surprises			EARNINGS: Absolute Surprises		EARNINGS: Avg 1Q	REVENUE: Std Dev Surprises		REVENUE: Avg 1Q
	Reported	Total	% of Co's	Positive	Negative	In-Line	Positive	Negative	Surprise	Positive	Negative	Surprise
Financials	55	65	85%	**82 %**	4 %	15 %	87 %	13 %	27 %	**67 %**	5 %	5 %
Information Technology	37	75	49	**81**	0	16	95	5	13	**78**	3	3
Materials	13	28	46	**77**	8	15	85	15	16	**54**	8	2
Consumer Discretionary	31	62	50	**74**	0	26	90	10	41	**45**	13	1
Industrials	56	74	76	**70**	7	23	86	13	15	**57**	2	3
Communication Services	12	22	55	**67**	8	25	83	17	37	**58**	0	3
Utilities	9	28	32	**67**	0	33	89	11	11	**44**	11	3
Consumer Staples	21	32	66	**62**	14	24	81	19	7	**62**	19	3
Health Care	37	62	60	**59**	8	32	81	16	14	**49**	16	3
Real Estate	20	29	69	**45**	5	50	80	10	6	**25**	0	1
Energy	12	23	52	**42**	17	42	67	33	34	**50**	0	14
S&P 500	**303**	**500**	**61%**	**69 %**	**6 %**	**25 %**	**85 %**	**13 %**	**20 %**	**57 %**	**7 %**	**3 %**
Comparative Data (full earnings season)												
4Q 2020				61 %	8 %	31 %	78 %	18 %	13 %	55 %	9 %	3 %
3Q 2020				68	6	26	84	14	23	54	7	3
2Q 2020				59	9	32	80	17	23	43	16	2
1Q 2020				34	21	44	57	39	(4)	26	18	(0)

Source: Compustat, FirstCall, Bloomberg, I/B/E/S, and Goldman Sachs Global Investment Research.

Market Health Report

The Market Health Report (MHR) finished the week again at +11. No major changes to the MHR this week, which isn't surprising as the market hasn't really done anything either.

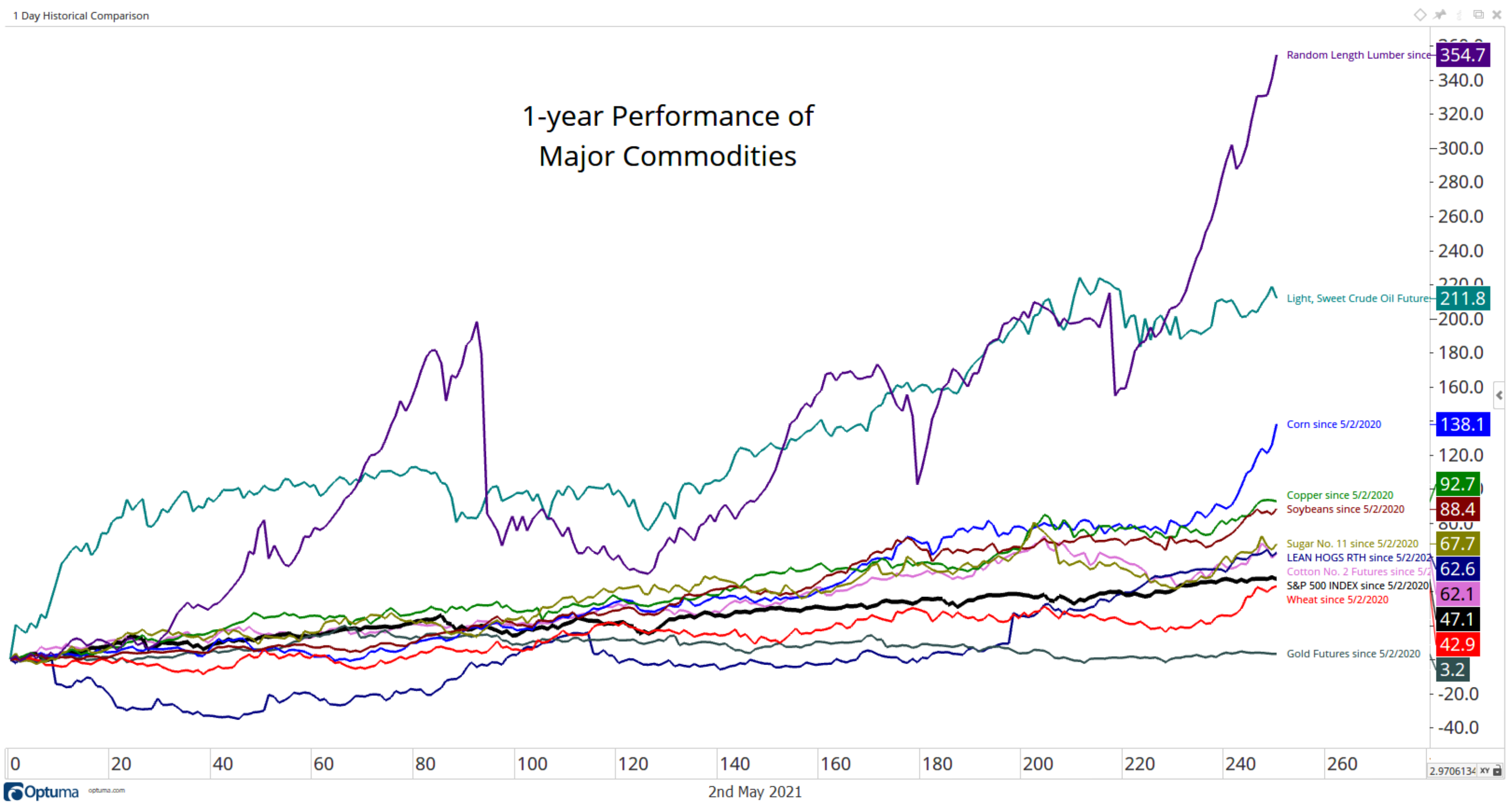


Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	False	True	3.89%	-0.02%	25.61%	29.97%
SPDR Financial Select Sector Fund ETF	True	True	2.49%	5.68%	25.25%	59.1%
SPDR Communication Services Select Sector ETF	True	True	2.09%	6.87%	16.7%	55.23%
SPDR Real Estate Select Sector Fund ETF	True	True	1.25%	7.87%	16.35%	26.09%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	0.62%	7.29%	10.44%	53.45%
SPDR Industrial Select Sector Fund ETF	True	True	0.36%	3.20%	20.24%	58.74%
SPDR Utilities Select Sector Fund ETF	True	True	0.21%	4.96%	7.35%	16.52%
SPDR Materials Select Sector Fund ETF	True	True	0.16%	4.86%	17.55%	60.06%
SPDR S&P 500 ETF	True	True	0.13%	5.72%	12.76%	43.66%
SPDR Consumer Staples Select Sector Fund ETF	True	True	0.01%	1.53%	8.57%	19.43%
SPDR Health Care Select Sector Fund ETF	True	True	-1.9%	4.14%	5.48%	21.66%
SPDR Technology Select Sector Fund ETF	True	True	-2.1%	6.86%	8.35%	52.83%

Commodity - 1Y Performance

The parabolic rise of several major commodities has become near-vertical. For example, Lumber is up over 350%, Corn, +138%, Copper +92%, Soybeans +88%. These are all important commodities that price increases will get felt by the retail consumer. Meanwhile, financial assets, which have done great over the last year as well, are up 47% - a drop in the bucket compared to agriculture commodities.

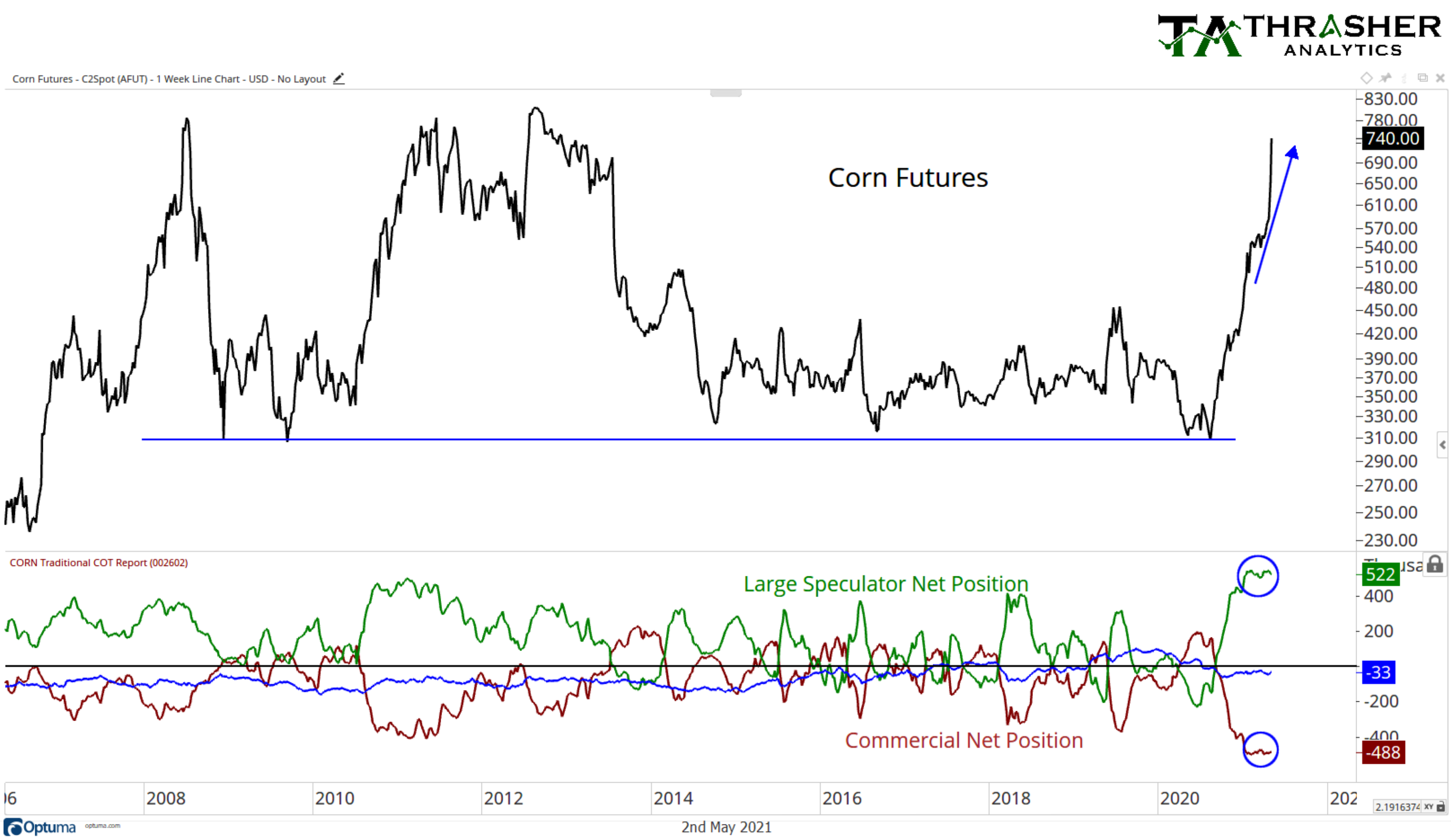
This is what's frustrated many when it comes to evaluating inflation. The Fed continues to call it "transitory" and maybe they'll be right. But I'm starting to hear growing expectation that Powell is waiting for Jackson Hole meeting (which typically occurs in August) to announce the plan to taper and pullback emergency protocols due to covid. Is this new expectation why stocks have slowed their rise these last two weeks? Possibly.



Commodity - Corn

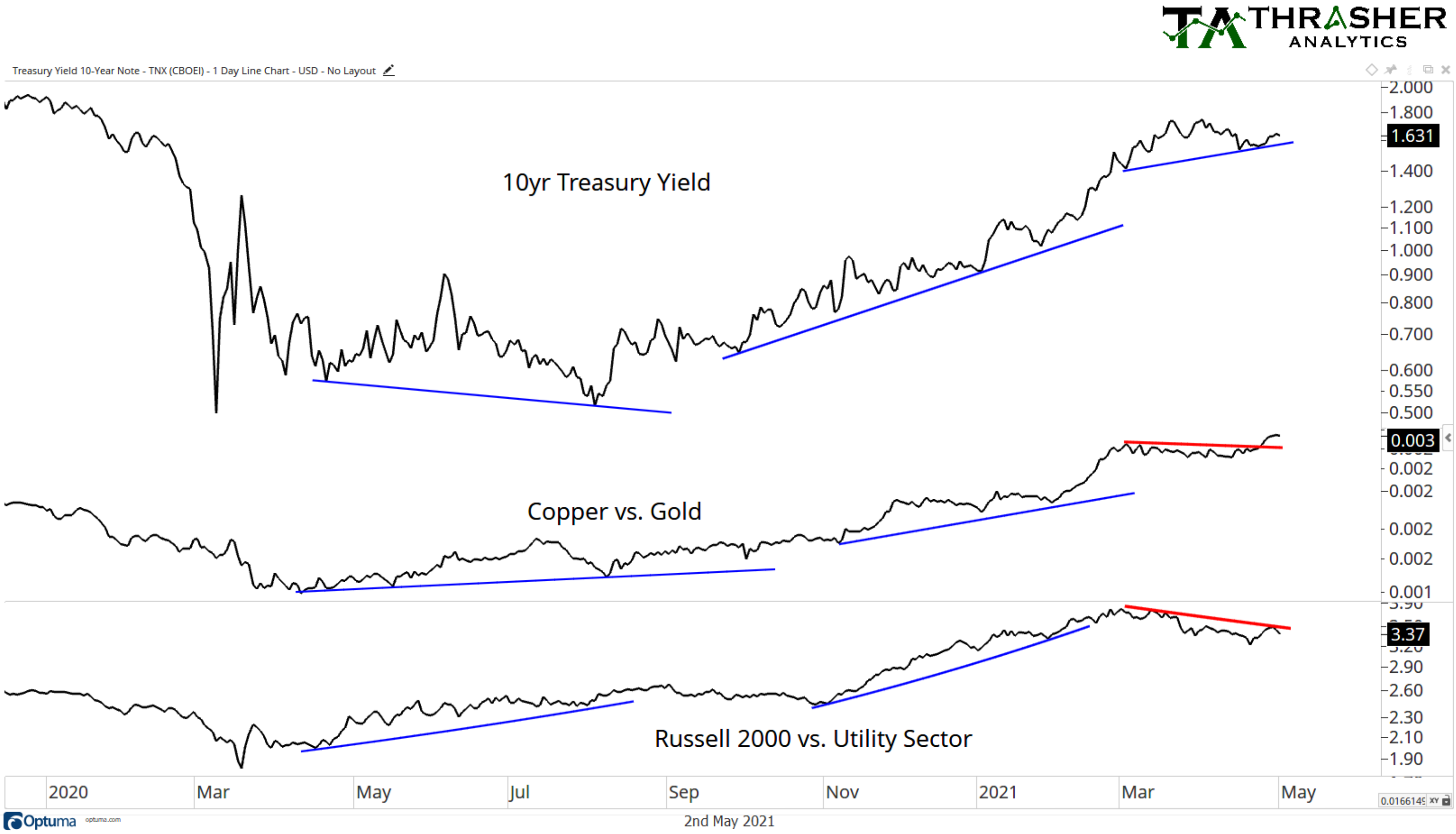
The rise in corn prices is truly amazing to watch. I called the double bottom back near 300 but by no means had any expectation we'd see 740, in fact I began thinking things would cool off closer to 400-450.

What's so interesting about the latest leg in corn, is the lack of change to the net position of Commercial or Large Traders. If someone was accumulating corn future contracts, buyers pushing the price higher, it's not being reflected in the COT data right now. Large Traders are holding a historically massive net-long position but that's been the case for several weeks, so it's not a continued thirst for contracts that's sending futures higher, very interesting and a chart I'll be watching closely.



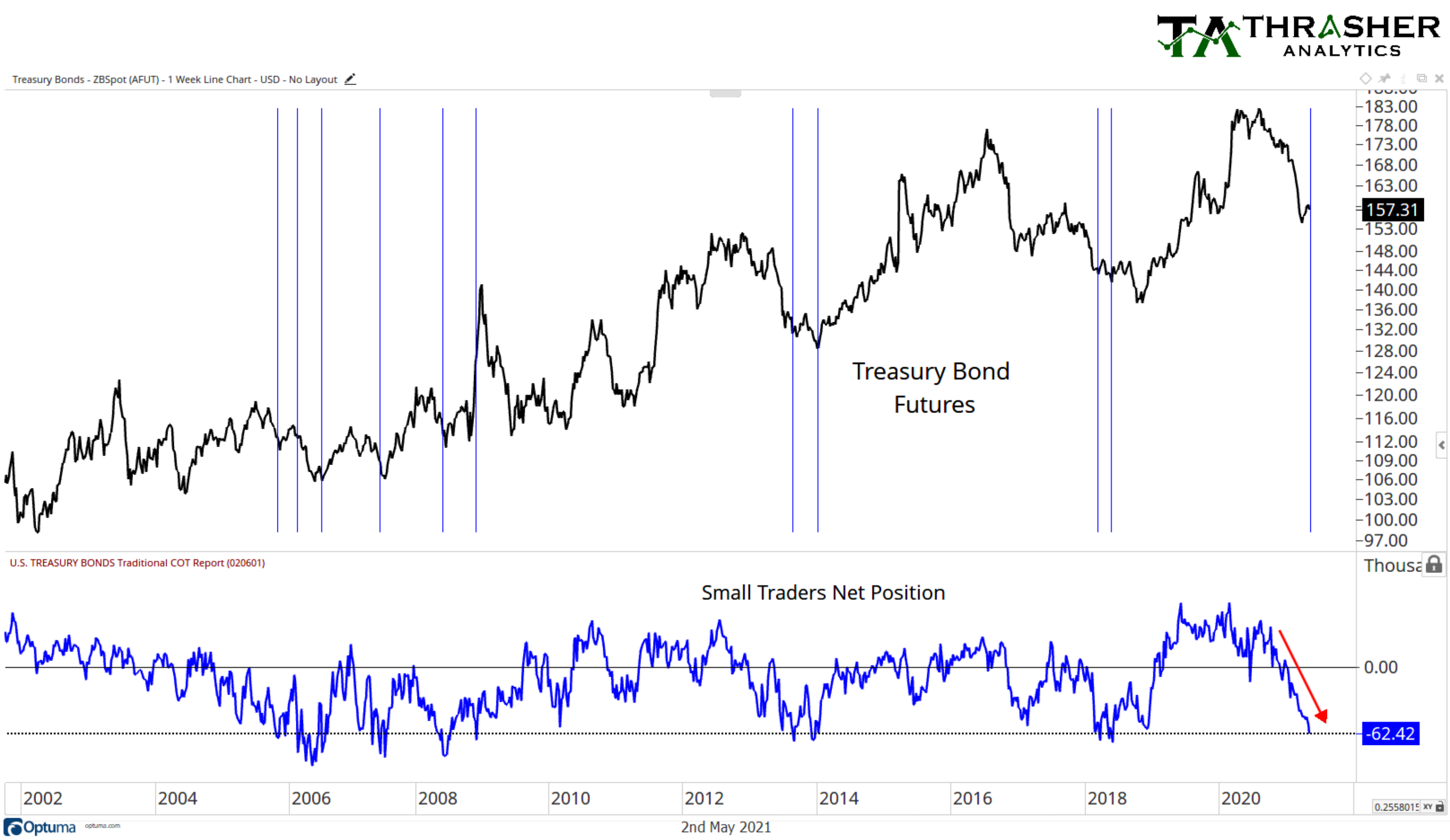
Recently, copper prices have resumed their leadership role against gold, breaking out to a new high within the current up trend and I'm seeing many traders signal this is to send the 10yr Treasury Yield higher as well. While I'm a fan of using the copper/gold relationship to track trend changes in Yield. I also think it's important to watch how small caps perform relative to utilities, which recently has not been strong. Utilities often under-perform when the Yield is rising, sending the ratio against the Russell 2000 higher. But that's not been the case recently as small caps have been lagging relative to utilities.

While the breakout in copper vs. gold is significant, we still have mixed signals since small caps are weak against utilities. This means I can't get behind the idea that the 10-yr will get a major break above 1.8% in the very near future. There seems to still be one piece of the puzzle many traders don't see - but you do, as you read this chart!



The other reason I'm less confident in Treasury Yields going higher (and price lower) is because of the positioning of Small Traders in the COT data. I've shared this chart before but wanted to provide an update...

Small Traders are now holding their largest net-short position in Treasury Bond futures since 2018, which was just as bonds were bottoming. The blue lines on the chart show each time their net-position crossed the level we are at today. Notice, this has lead to bonds eventually rallying or continued to rally further. Small Trades (often deemed the 'dumb money') appears extremely confident that rates will continue to rise and price to fall, but their track record is pretty poor. This is why I think we could see further upside in bond prices.

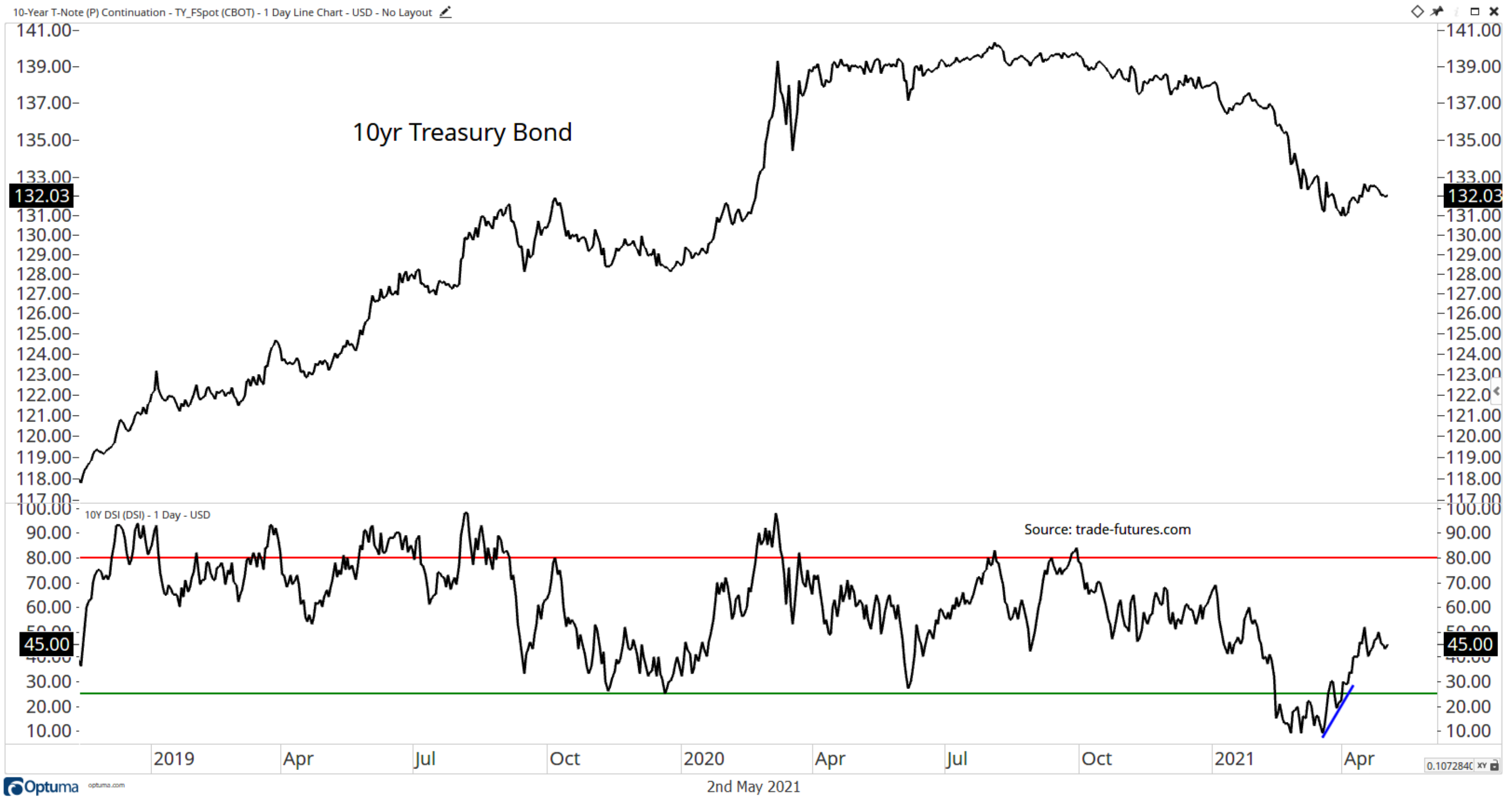


Daily Sentiment Index

Market	% Bullish	5MA	History
Orange Juice DSI	14	17.6	
VIX DSI	19	15	
Cattle DSI	22	17.2	
Gold DSI	25	29.20	
Silver DSI	31.00	34.60	
5YR DSI	31.00	29.80	
US Dollar DSI	32.00	27.60	
Cocoa DSI	36.00	40.60	
Platinum DSI	42.00	50.20	
10Y DSI	45.00	45.60	
Mexican Peso DSI	49.00	56.20	
EuroDollar DSI	55.00	55.00	
Coffee DSI	55.00	59.80	
Swiss Franc DSI	57.00	59.00	
British Pound DSI	59.00	62.80	
Sugar DSI	60.00	60.20	
Euro DSI	63.00	69.40	

Code	% Bullish	5MA	History
Natural Gas DSI	65.00	59.00	
Nikkei DSI	67.00	72.80	
Australian Dollar DSI	69.00	74.80	
New Zealand Dollar DSI	71.00	76.40	
Copper DSI	71.00	74.00	
SPX DSI	72.00	75.60	
Nasdaq DSI	72.00	76.40	
Heating Oil DSI	74.00	74.20	
Gasoline DSI	74.00	70.60	
CRB Index DSI	75.00	78.20	
Lean Hog DSI	79.00	75.00	
Cotton DSI	79.00	79.20	
Crude Oil DSI	80	81.4	
Palladium DSI	82	85.6	
Wheat DSI	83	78.80	
Corn DSI	92	86.8	
Lumber DSI	93	88.6	

Source: trade-futures.com


10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
132.03
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
45.00
2019
Apr
Jul
Oct
2020
Apr
Jul
Oct
2021
Apr
Optuma
2nd May 2021

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Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
63.58
Crude Oil DSI (DSI) - 1 Day - USD
80.00
source: Trade-futures.com
May
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
Optuma
2nd May 2021

Daily Sentiment Index


NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
13,861
Nasdaq DSI (DSI) - 1 Day - USD
72
Source: trade-futures.com
Jul
Sep
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
2nd May 2021

Daily Sentiment Index


THRASHER ANALYTICS
CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
VIX
84.0
77.0
70.0
64.0
58.0
53.0
48.0
44.0
40.0
36.0
33.0
30.0
27.0
24.0
22.0
20.0
18.6
16.0
14.0
12.0
11.0
VIX DSI (DSI) - 1 Day - USD
Source: trade-futures.com
100.0
90.0
80.0
70.0
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50.0
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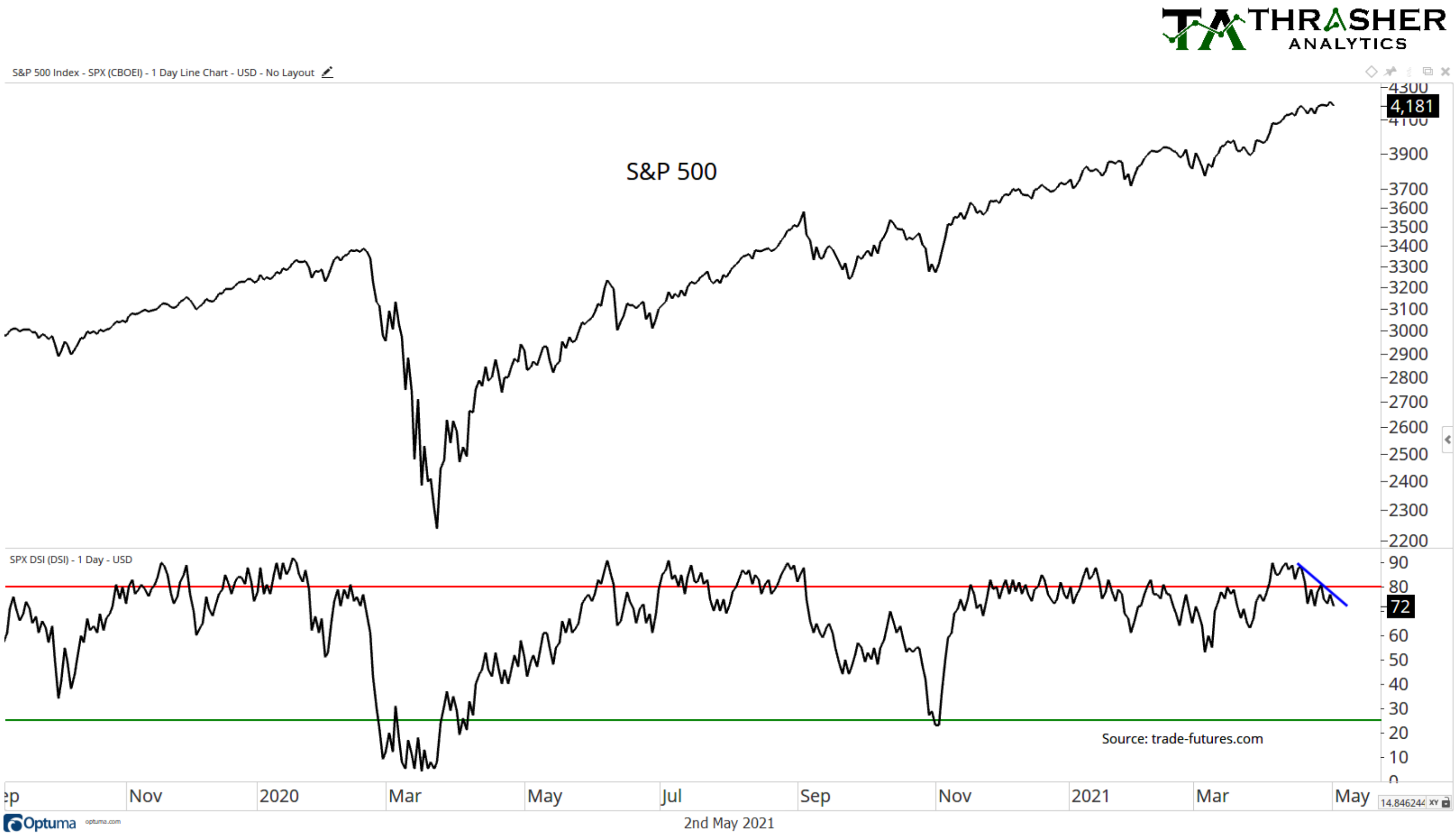
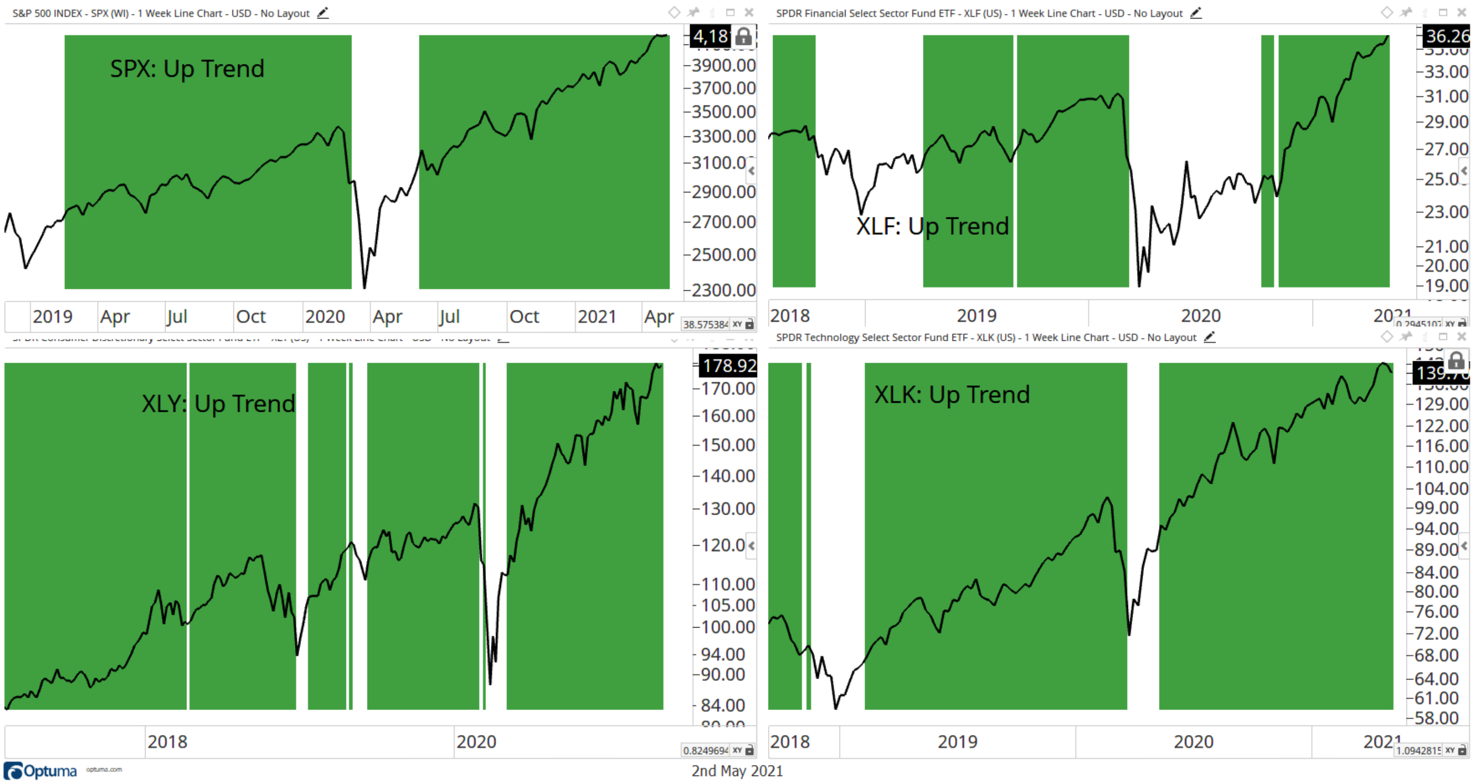
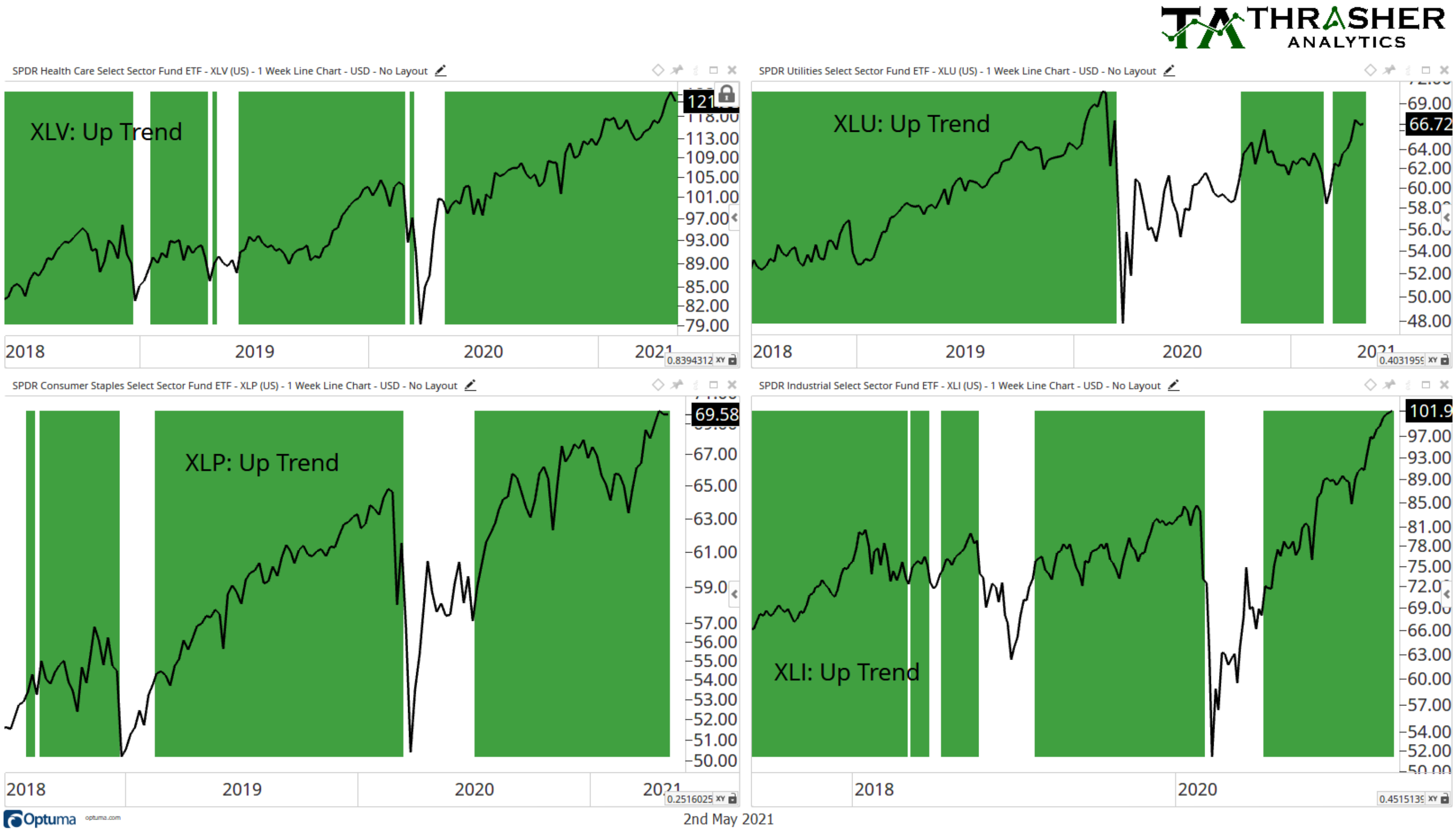
2nd May 2021

Daily Sentiment Index

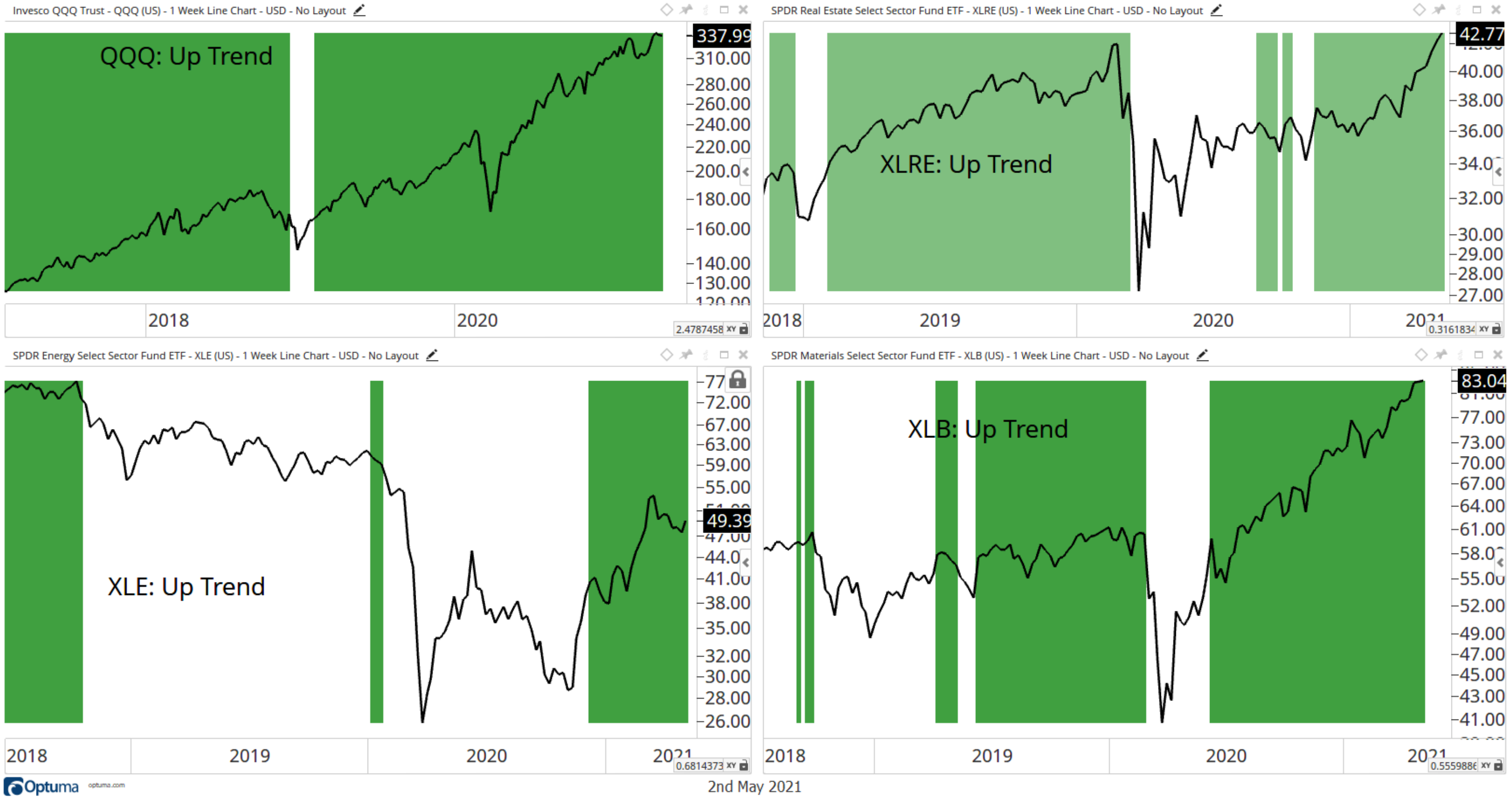


Trend Models




THRASHER ANALYTICS
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
2nd May 2021

Trend Models



DISCLAIMER: