

TAA THRASHER ANALYTICS

MAY 23, 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.
- Support holds in SPX.
- Industrial internals strong.

Bearish

- VIX Spike.
- Oil and gasoline bearish sentiment.
- health care weakening internals.
- lack of confirmation for 10yr Yield.
- Falling call option activity.

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Volatility

Equities

Market Health Report

Sector

Crypto

Commodity

Sentiment

Trend Models

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	0
Sentiment	1
Trend	1
Volatility	-2
Total	3

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	69%	67%
Nasdaq 100	66%	64%
Nikkei	70%	66%
VIX	30%	30%
10yr Treasury	72%	67%
5yr Treasury	50%	48%
CRB Index	55%	67%
Gold	63%	65%
U.S. Dollar	16%	16%

*Green<25% Red>80%

source: trade-futures.com

Brief Summary:

Equities continue to be in a less attractive risk/reward environment but are still supported by a positive Market Health Report. Equity call buying has been falling as volatility moves higher. The 50-day moving average has been strong support with bulls focus this week on re-capturing the 20-day MA. If the 50-day MA fails to hold and the MHR weakens further, it's possible we see a protracted move lower but the data doesn't suggest that just yet. But if we can get the Nasdaq and SPX back above the 20-day MA then there's hope yet to see new highs in the future. Until one of these are resolved, I'm less inclined to be aggressive in either direction. Internals for the industrial sector look strong as internals for health care have diverged lower.

For commodities, gold has acted well while gasoline and crude oil may have some bearish headwinds as sentiment declines.

Crypto has been a hot mess, with bitcoin struggling. However, Ethereum has a possible bullish setup.

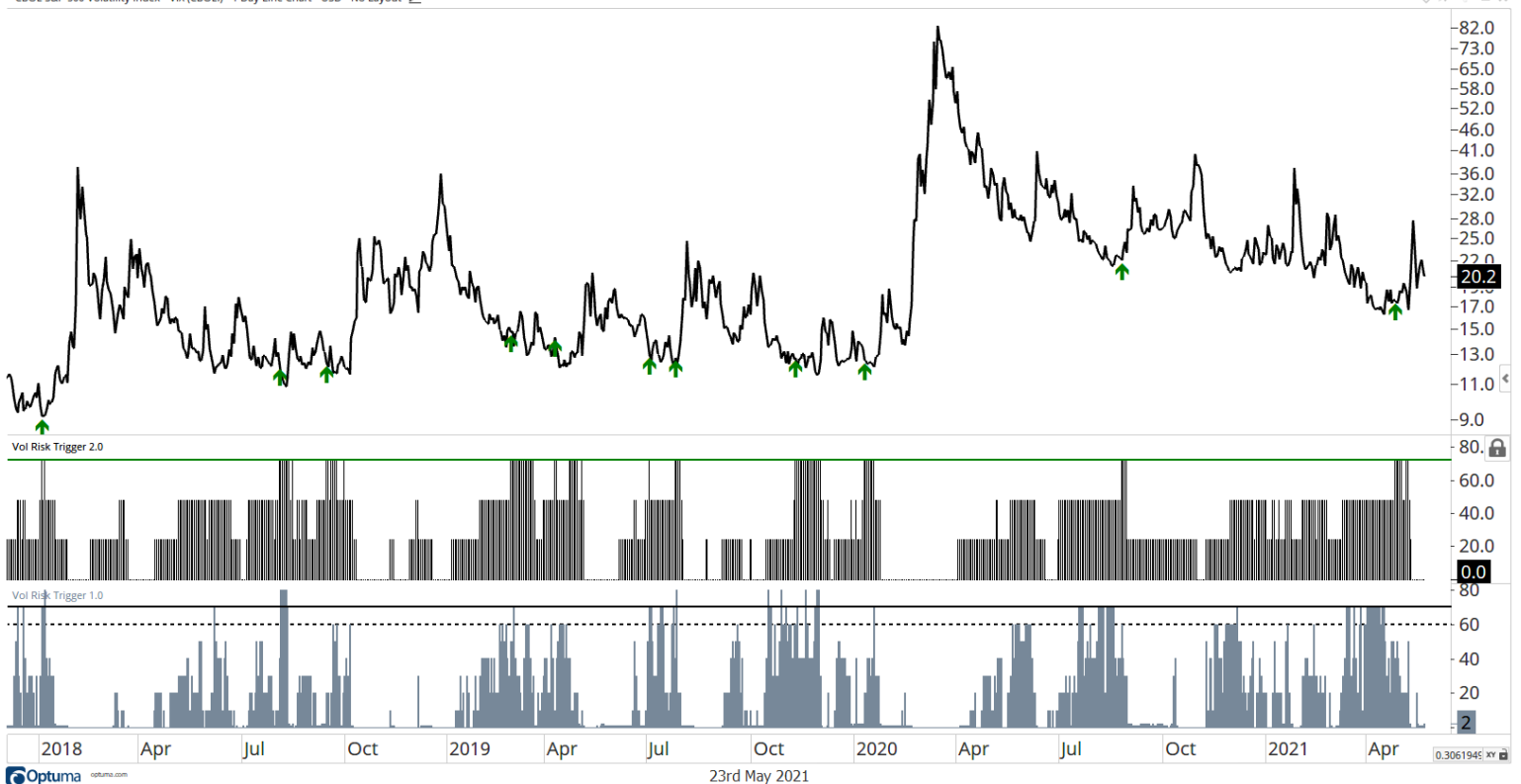
Fixed Income has the most important chart of the week as Eurodollar traders go net-short, suggesting an expectation the Fed will raise rates sooner than many may think. Meanwhile short-term rates are under pressure with no confirmation of the up trend by equities or commodities.

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 VIX remains elevated after seeing a dip from 28 back to the teens. We finished the week however back in the 20s. This comes after the VRT 2.0 signaled a warning for a VIX spike which was followed by one of the largest 3-day rises in vol since 2018. The longer we see the Volatility Index remain holding higher-lows and building a short-term to potential intermediate-term up trend, the more concerning equity bulls will become.



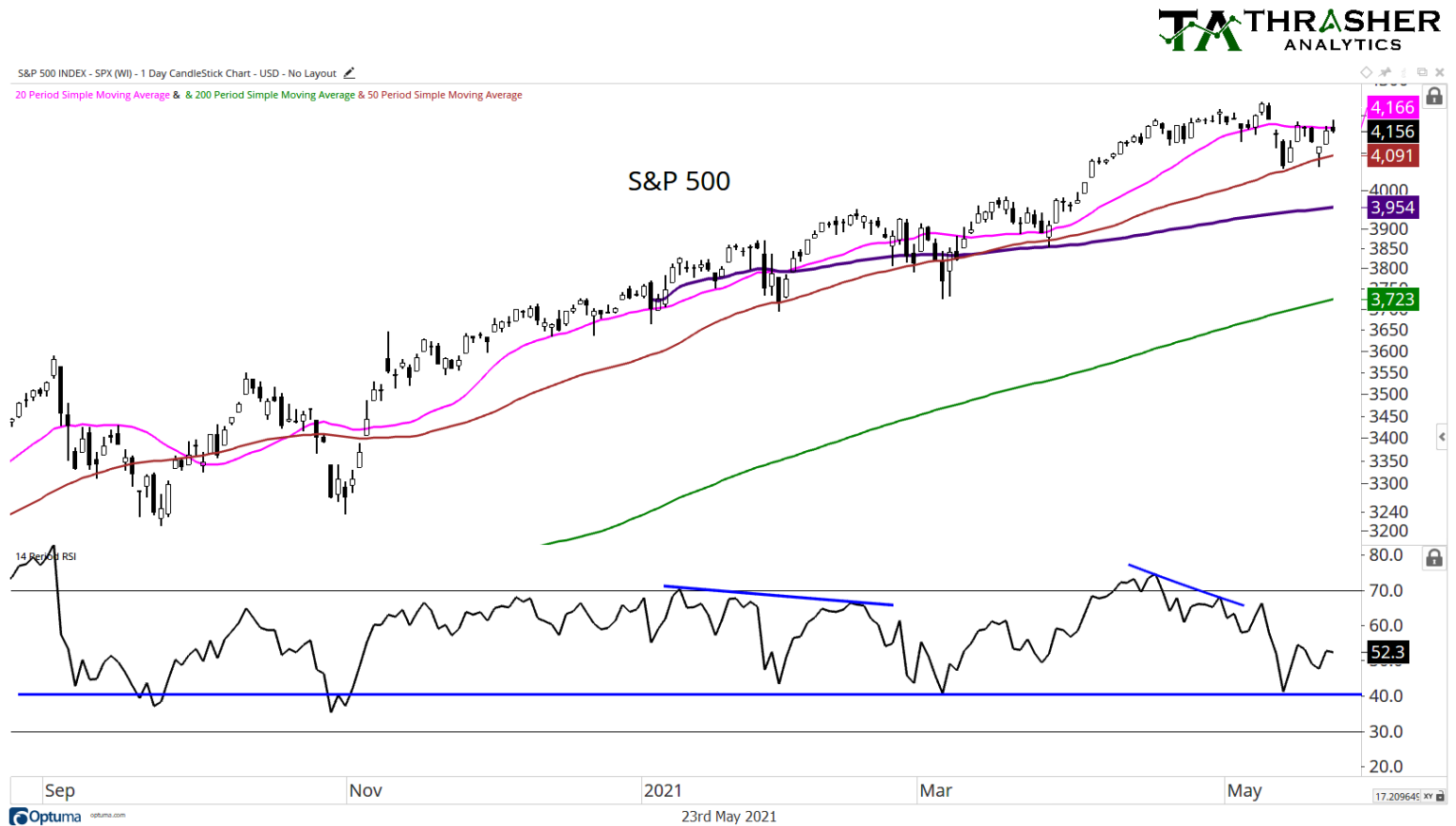
CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout



EQUITIES - S&P 500 DAILY



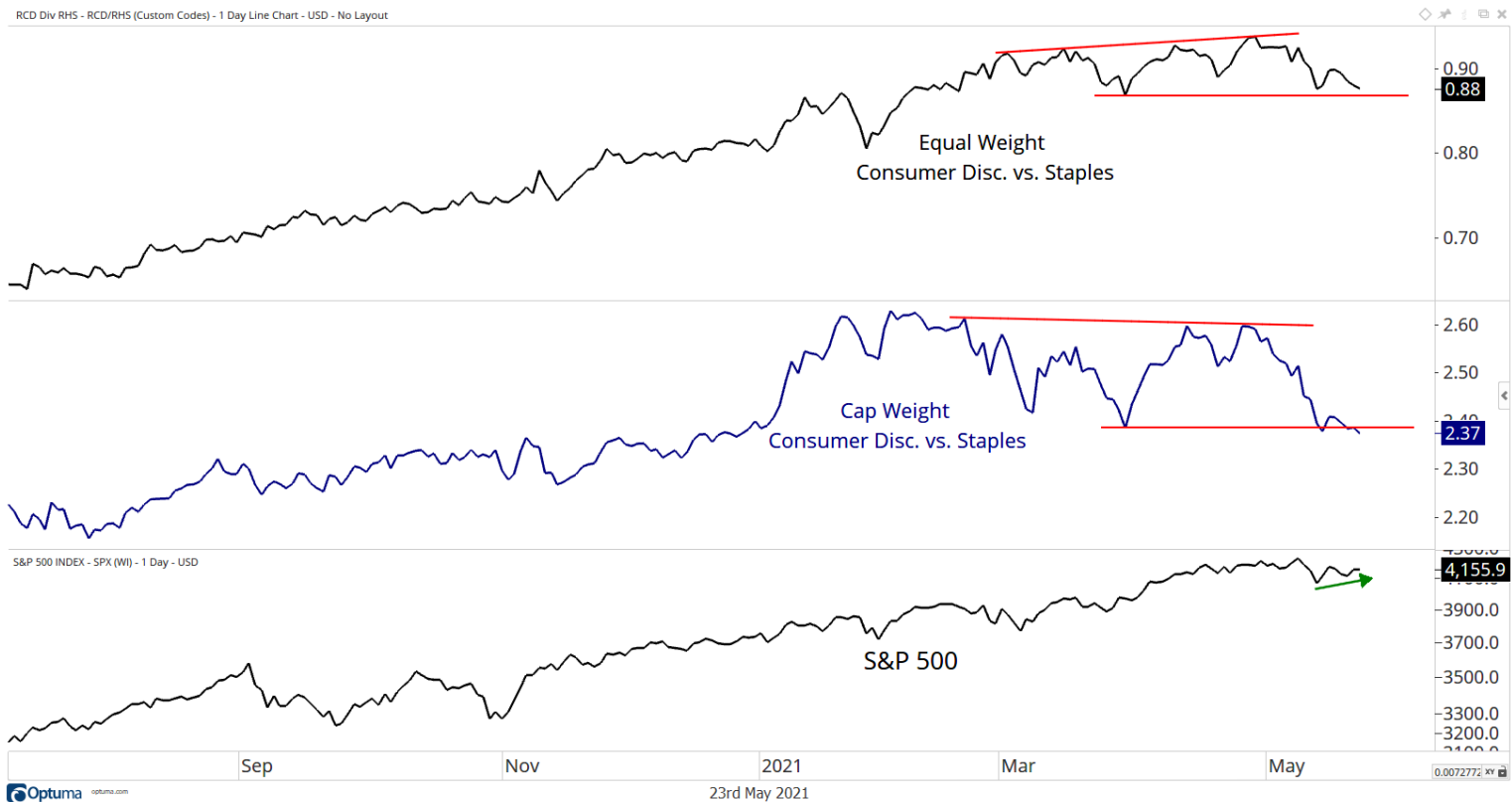
The S&P 500 finished the week slightly down but still holding above the 50-day moving average. Friday's price action took us back to test the 20-day but was unable to get a close above. We've now had several tests of the 20-day and each was met as resistance. I'll be watching last week's highs in the S&P 500 and the Nasdaq 100 (and Composite), bulls want to see these levels taken out - they want the 50-day MA to be in the rearview mirror and recover the 20-day MA as quickly as possible. This has become a traders market and I'll echo what I've said for the last several weeks, the risk/reward is much less attractive at the moment. This may resolve with equities moving higher and the environment appear clearer to the upside but until then less aggressive bullish bias may be warranted.



EQUITIES - CONSUMER RATIO



Now that the Consumer Disc. sector has Tesla as a top weighting, bringing with it a bunch of noise. To adjust for this, we look at the equal-weighted versions of Staples and Discretionary. While the Cap-weighted (thanks Tesla) broke the March low, the equal-weight has yet to do so. But do notice the equal-weight ratio is still sitting near the lows and didn't participate in the 'risk on' bounce with the S&P 500 at the end of last week. When equities are rallying, Discretionary stocks often outperform Staples and we didn't see that last week for either the largest Disc. stocks nor the equally weighted version.



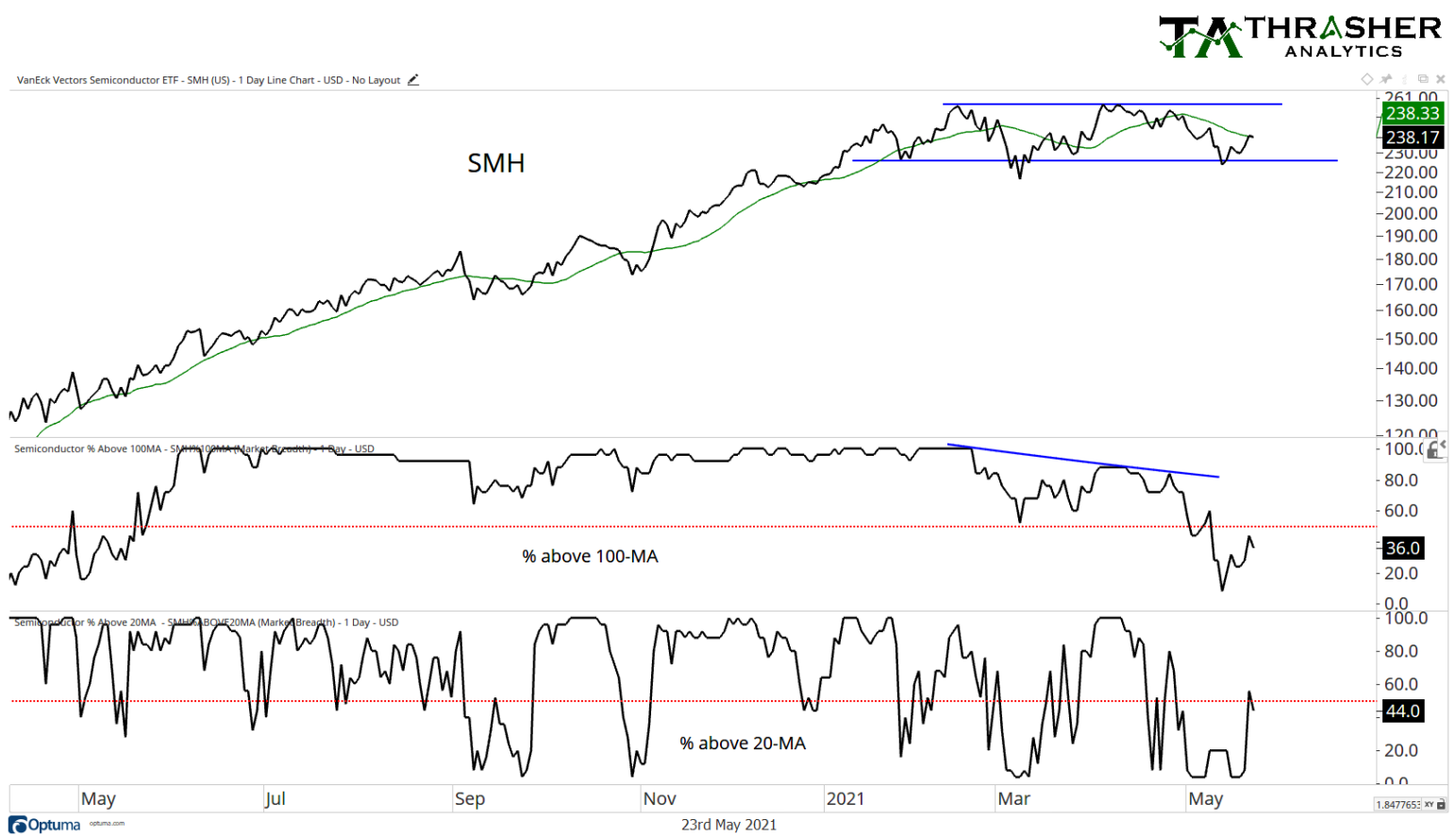
EQUITIES - CALL ACTIVITY



The following chart comes from SpotGamma and shows (blue line) the drop in buy to open call activity for equities (blue line). This echoes what I wrote several weeks ago when I shared a chart that option activity didn't spike after the most recent round of stimulus checks like it did prior, suggesting retail trading frenzy was cooling off. That trend has continued as overall call activity declining and put/call ratios rising as a result. This shows sentiment is less extreme bullish as it was earlier in the year.



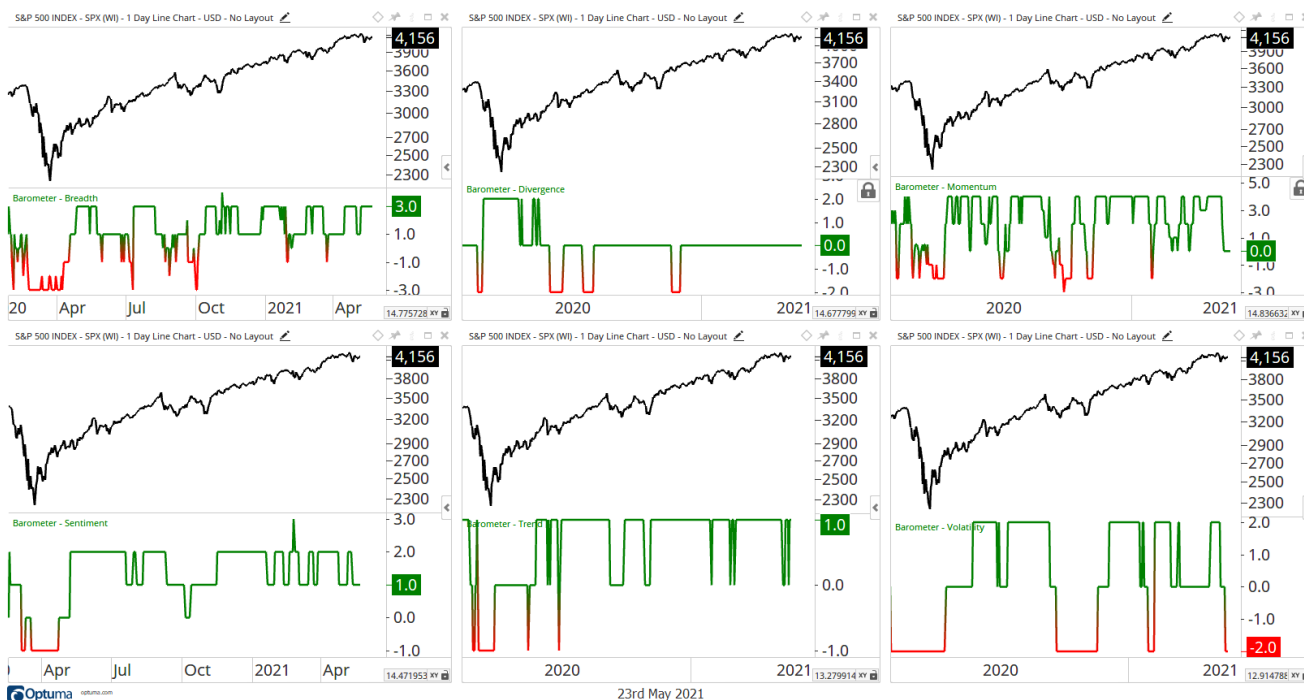
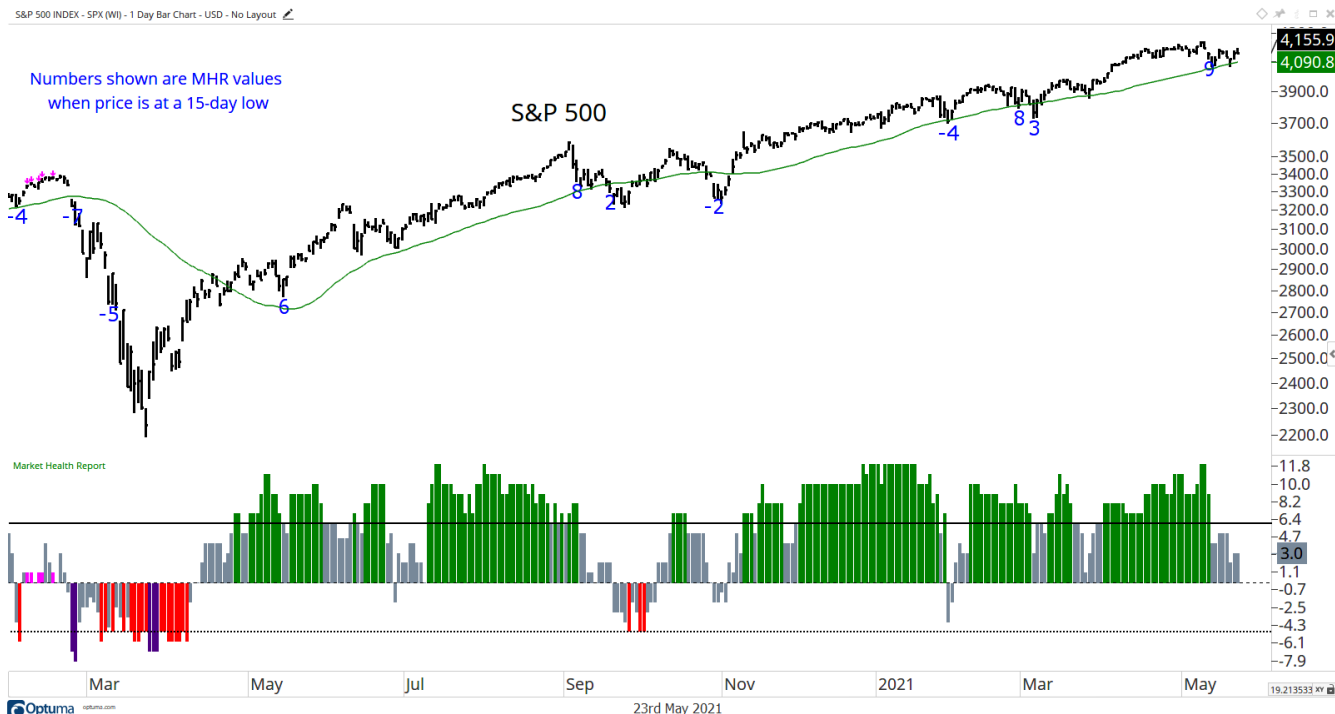
I continue to believe semiconductors are one of the best leading barometers for this market, largely due to the heavy weighting of tech within the major indices. If semis are doing well then tech likely is due and giving a boost to the SPX and Nas100. I last called a top in semis due to the bearish divergence in breadth (shown below) as SMH put in a double top. That sent the ETF down to test the prior March low and now bounce back to the 20-day moving average. Both short-term and long-term breadth remains weak with % above the 100-day and above the 20-day both under 50%. I'd like to see semiconductors simply consolidate here and break out higher, but for that to happen we will need stronger participation by the individual stocks, which we aren't getting much of right now.



MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week down to +3 after having its first 15-day low at +9. While the MHR remains positive, and supports a bullish thesis for equities, we are seeing some categories begin to weaken - most notably Volatility. The MHR still is suggesting this is a 'buyable dip' move lower, meaning it shouldn't be severe but that can change as the data changes, so we'll stay optimistically cautious until we can get some better price action in the indices.

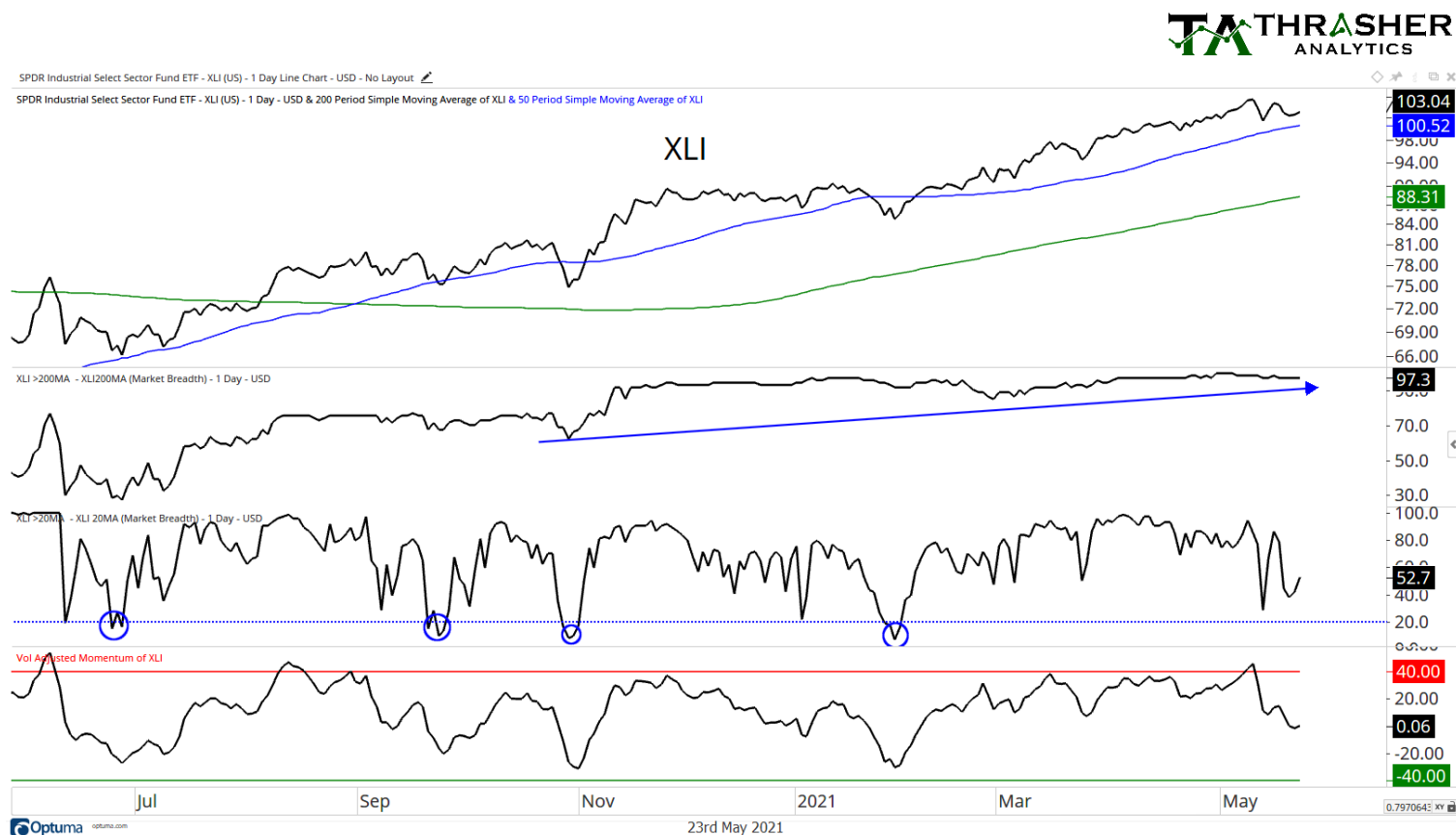


SECTORS - PERFORMANCE



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Real Estate Select Sector Fund ETF	True	True	0.93%	0.38%	11.16%	32.31%
SPDR Health Care Select Sector Fund ETF	True	True	0.74%	0.76%	8.7%	25.1%
SPDR Utilities Select Sector Fund ETF	True	True	0.38%	-1.47%	7.73%	18.44%
SPDR Consumer Staples Select Sector Fund ETF	True	True	0.16%	1.07%	9.36%	24.01%
SPDR Technology Select Sector Fund ETF	False	True	0.15%	-4.27%	0.1%	41.66%
SPDR Communication Services Select Sector ETF	True	True	-0.3%	0.96%	6.04%	43.96%
SPDR S&P 500 ETF	True	True	-0.39%	-0.27%	6.39%	40.71%
SPDR Financial Select Sector Fund ETF	True	True	-0.79%	7.00%	15.95%	70.82%
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	-1.28%	-5.28%	-0.63%	38.83%
SPDR Materials Select Sector Fund ETF	True	True	-1.49%	4.38%	15.39%	63.37%
SPDR Industrial Select Sector Fund ETF	True	True	-1.61%	2.05%	13.26%	61.28%
SPDR Energy Select Sector Fund ETF	True	True	-2.49%	9.42%	12.95%	34.71%

While stocks have weakened in the short-term, the industrial sector is one place that seems to have strong body armor. We still have 97% of industrial stocks trading above the 200-day MA and XLI is just a few points off its all-time high. We also have 52% above the 20-day MA, with that metric rising at the end of last week. Even though it was the second worst performing sector last week, XLI still appears to be holding up fairly well based on its internals.



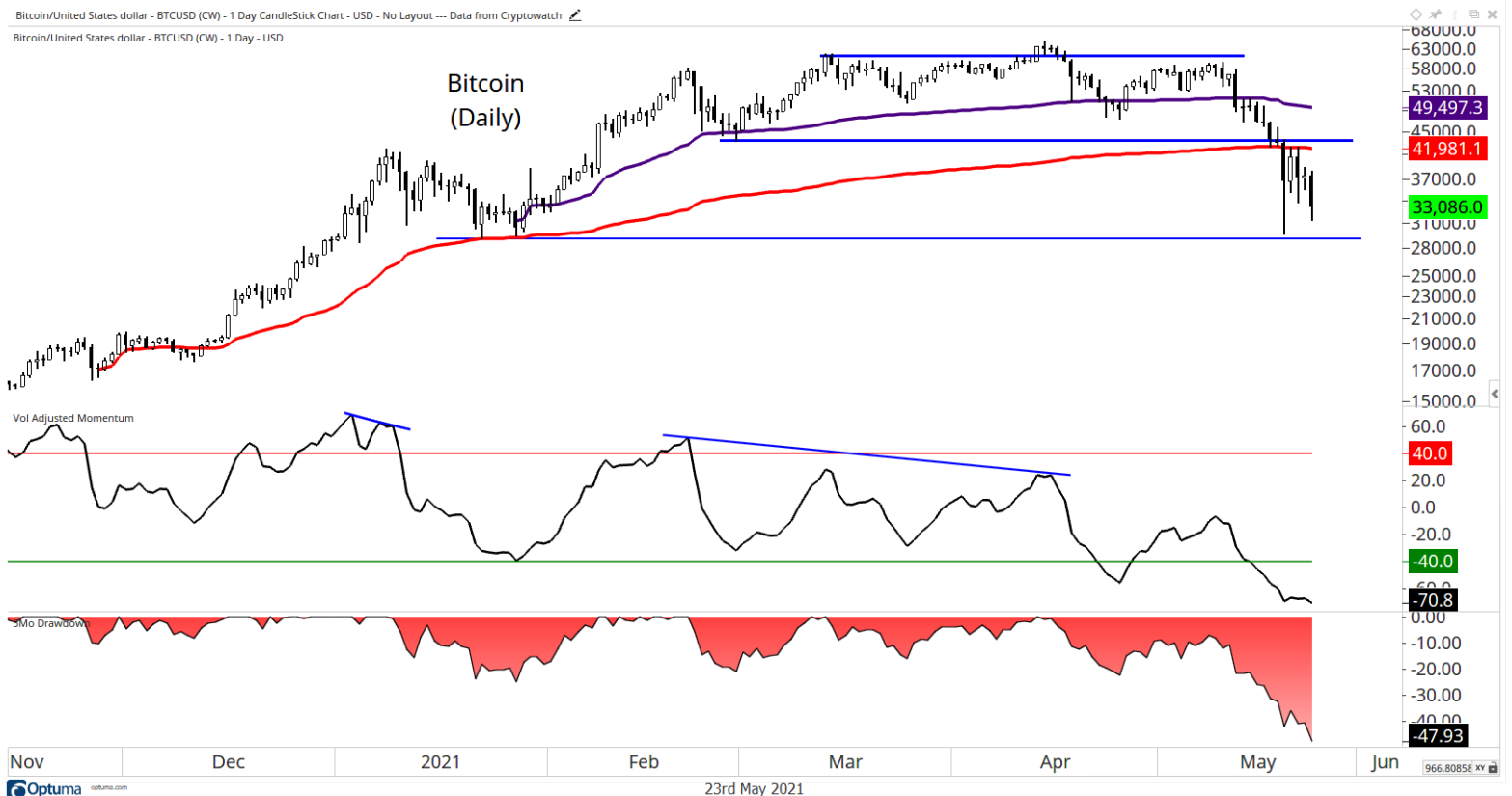
SECTOR - HEALTH CARE



Health Care finished near its high last week and was the second best performing sector but its internals, unlike Industrials, don't look great. We have lower-highs in % above XLV above the 200-day and 20-day moving average as well as a declining list of new 3-month highs. While XLV has held up well, individual stocks appear to be weakening below the surface. Something to keep an eye on.



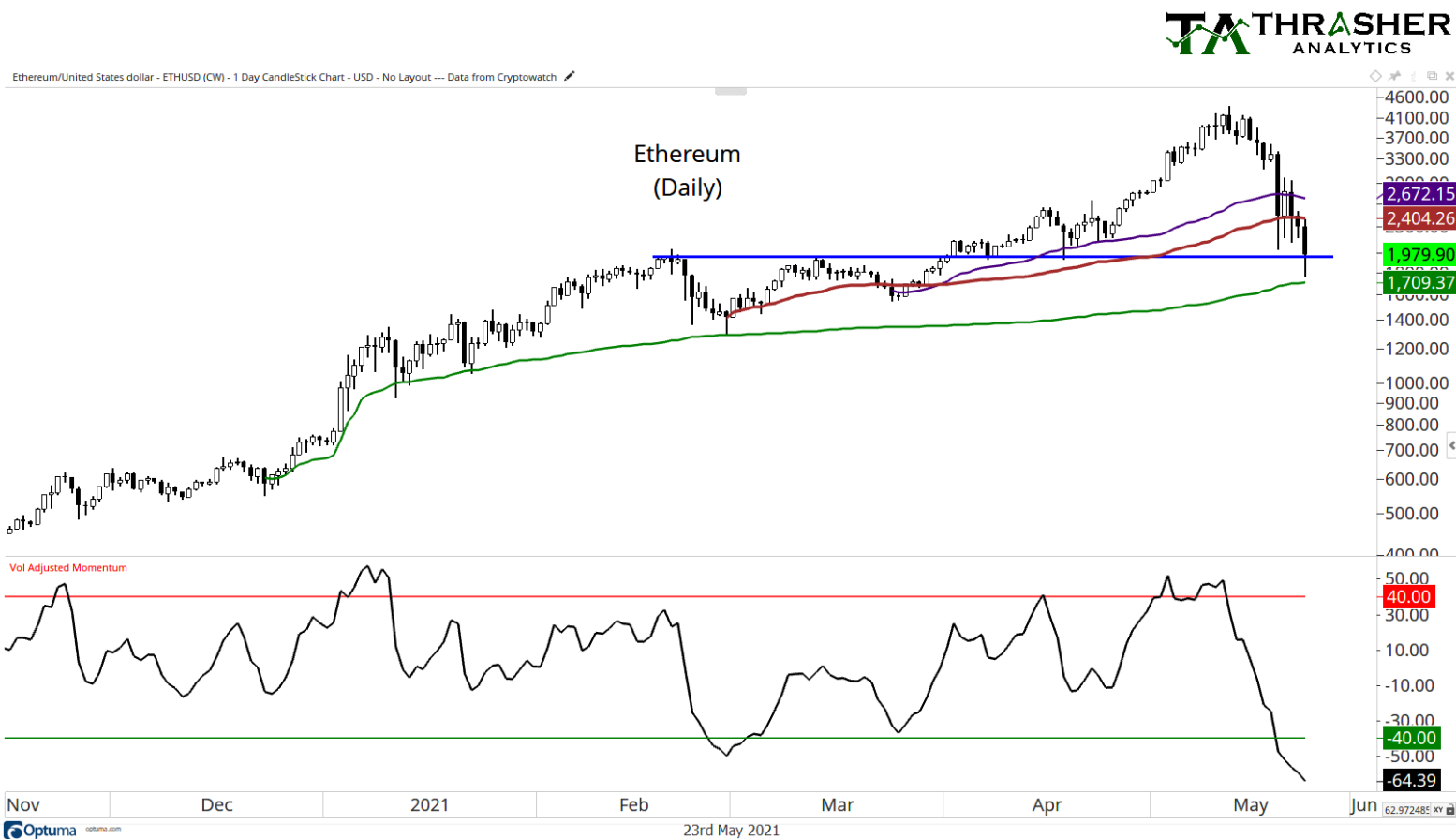
Bitcoin has been in the middle of a large drawdown, falling over 50% at one point last week. This comes after the Volatility Adjusted Momentum (VaM) indicator put in a bearish divergence when BTC was at \$63k. Bitcoin has now fallen to \$33k and sitting just above January lows. VaM is extremely low, suggesting bitcoin is "oversold". With this kind of drawdown I turn to the weekly chart to see if a long-term view can be useful. More on the next page.



Currently the weekly chart of Bitcoin has it just above the 50-week MA which has done a nice job defining the trend since April of last year. Above the 50-week and we may see some buyers step in to end the bleeding. The 1yr (52-week) z-score has from a 4-sigma to near zero, similar to the decline in 2017 that shredded Bitcoin with an 80% decline before bottoming out. Like the daily, the weekly VaM is also "oversold" but you'll note on the chart it can hold this condition for an extended period. From a Z-score perspective, we aren't stretched yet to the downside like in 2020 or 2018. Below the 50-week MA I'm watching the VWAP off the 2018 low, currently just above \$15k, should bitcoin get cut in half from its current level and get back into the teens, this VWAP may be one to provide potential support. But we won't know until if/when we get there.



Of all the major crypto coins, Ethereum (ETH) has the most attractive chart (best looking pig in the pin so to speak). ETH dropped down under the prior February highs and bounced back, holding above the November VWAP. From here I want to see if it can regain the February VWAP, currently at \$2403, which drew in sellers the last two days, keeping price from breaking above. If there was one coin that didn't have a chart that looked like garbage, it's probably Ethereum - but that still not say much.



Gold has continued to move well, rising to \$1876 last week and sending the VaM to "overbought" status. Sentiment (based on DSI) is back to the January highs near 70% bullish. From here I want to see if bulls can push through and get a higher DSI reading and maintain this "overbought" level in momentum. Should we see some short-term weakness, I'm watching the VWAP off the March low, which comes into play just under \$1800.



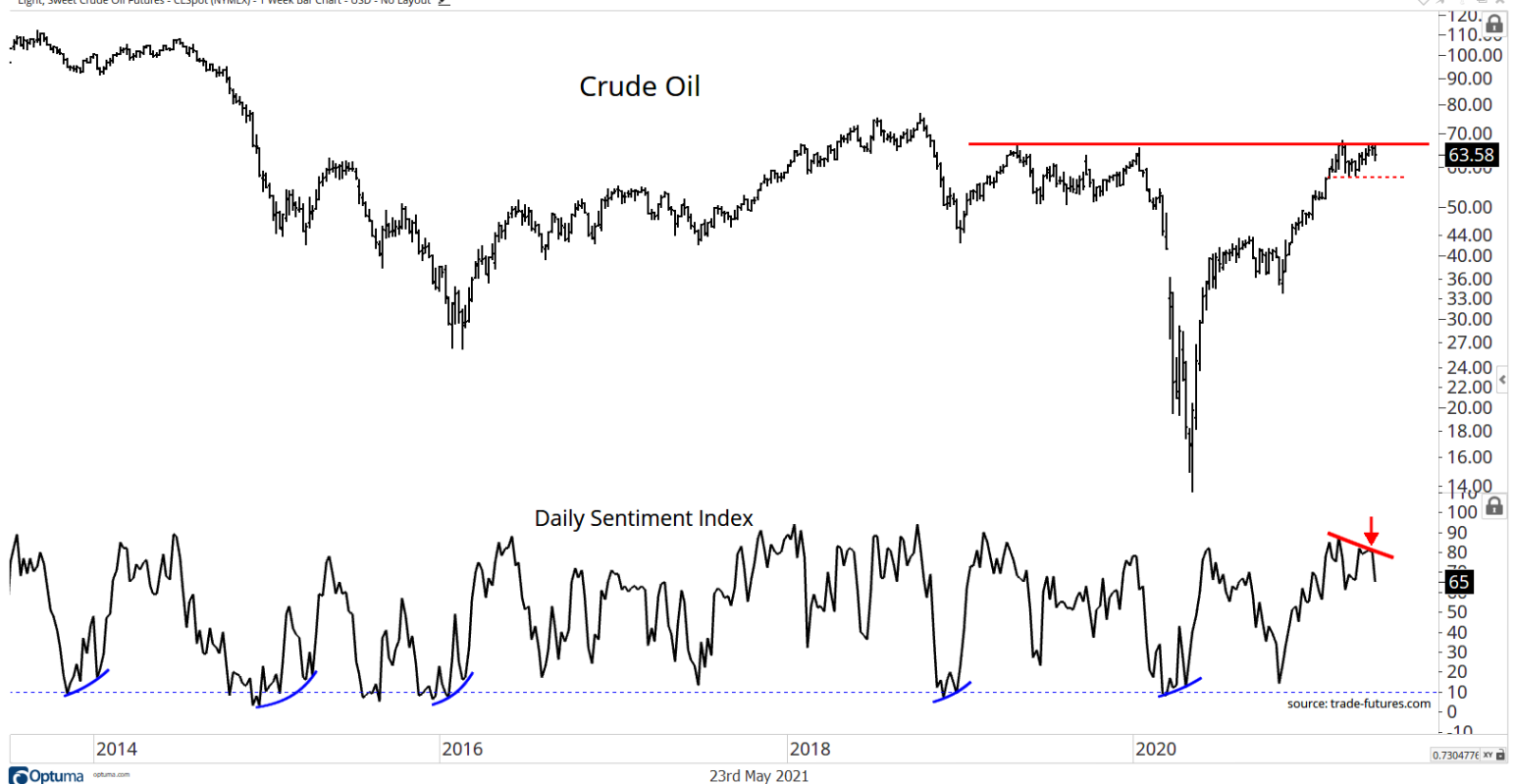
COMMODITY - CRUDE OIL



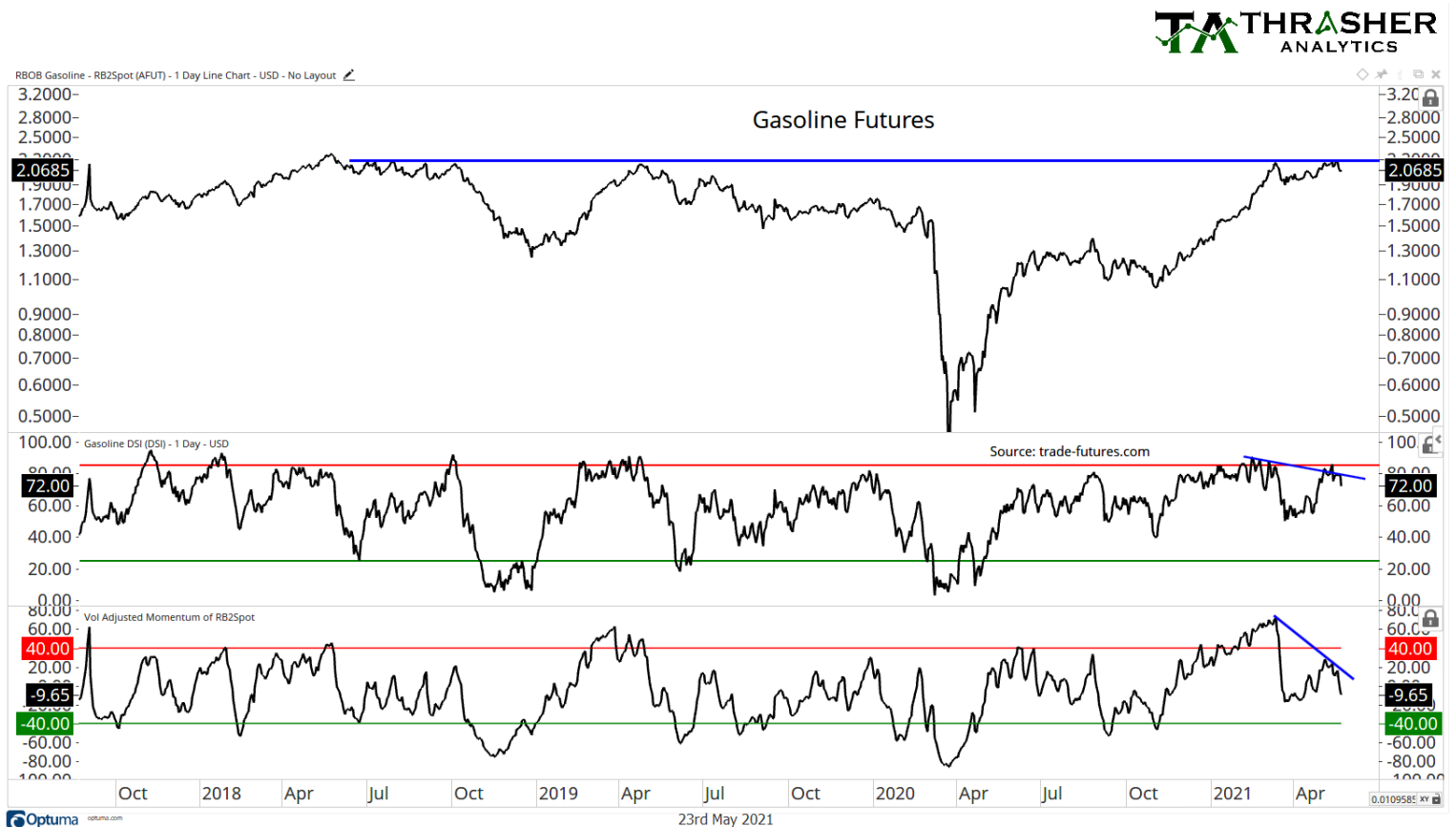
Crude oil has risen back near prior highs just under \$70/barrel. With this climb and potential double top, sentiment has begun to wane. The DSI for oil has made a lower-high with less bulls joining the trend. I'm watching the current YTD low just below \$60, should that break then the overall trend since oil going negative during the Covid Crisis may be put under pressure.



Light, Sweet Crude Oil Futures - CLSpot (NYMEX) - 1 Week Bar Chart - USD - No Layout



Like crude oil, gasoline futures have risen to their prior recent year highs but have a bearish divergence in sentiment as well as momentum. While there were upside pressure on crude and gas prices due to the pipeline hacking, it seems the current trends may become exhausted and we could see lower prices at the gas station in the coming weeks.

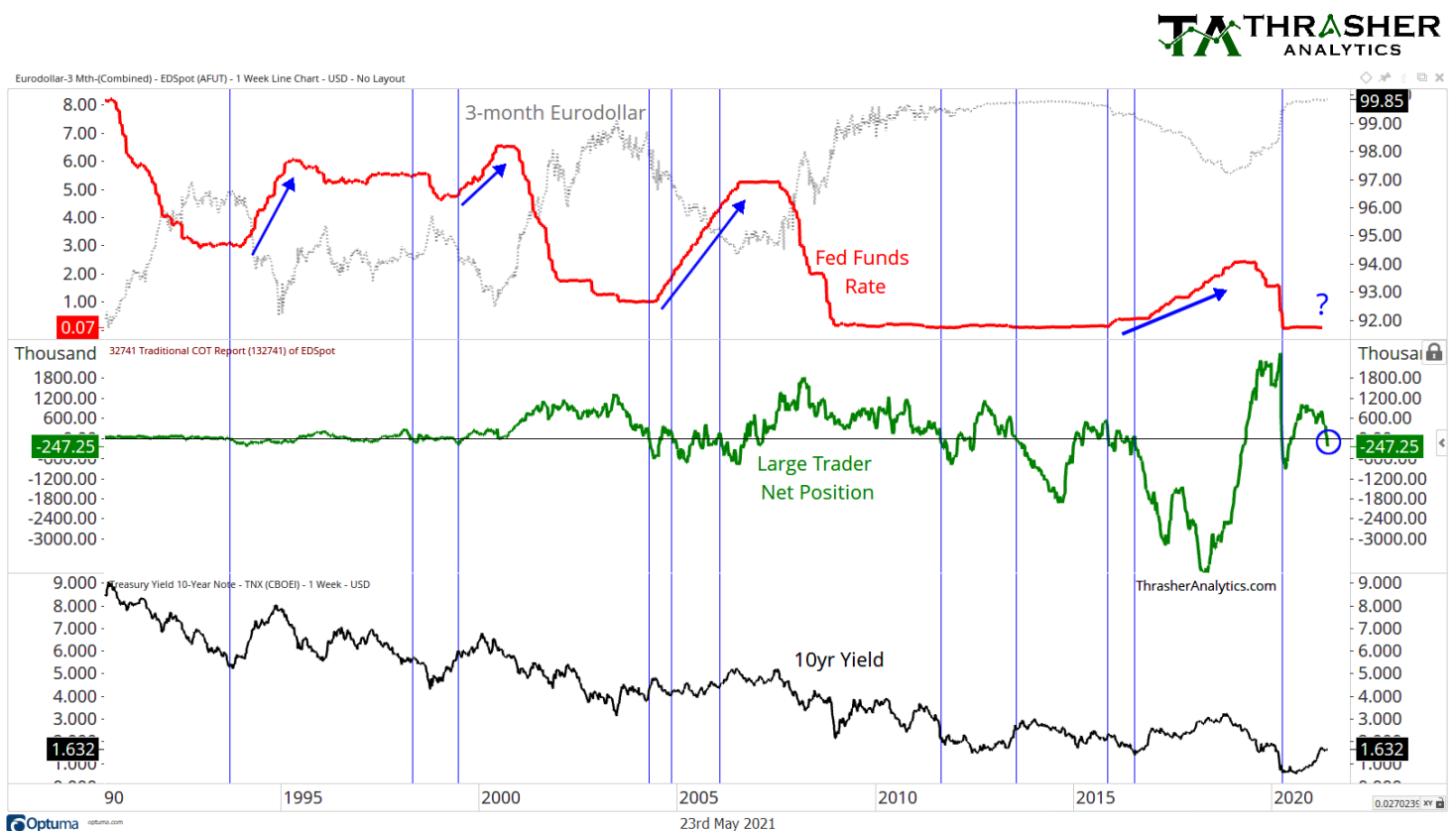


Eurodollar futures don't get a lot of attention, largely because they don't move much and if a market isn't rising and falling by double digits or being tweeted about by Elon Musk, few pay attention.

But I do pay attention to Eurodollars, and this may be the most important chart in this week's letter.

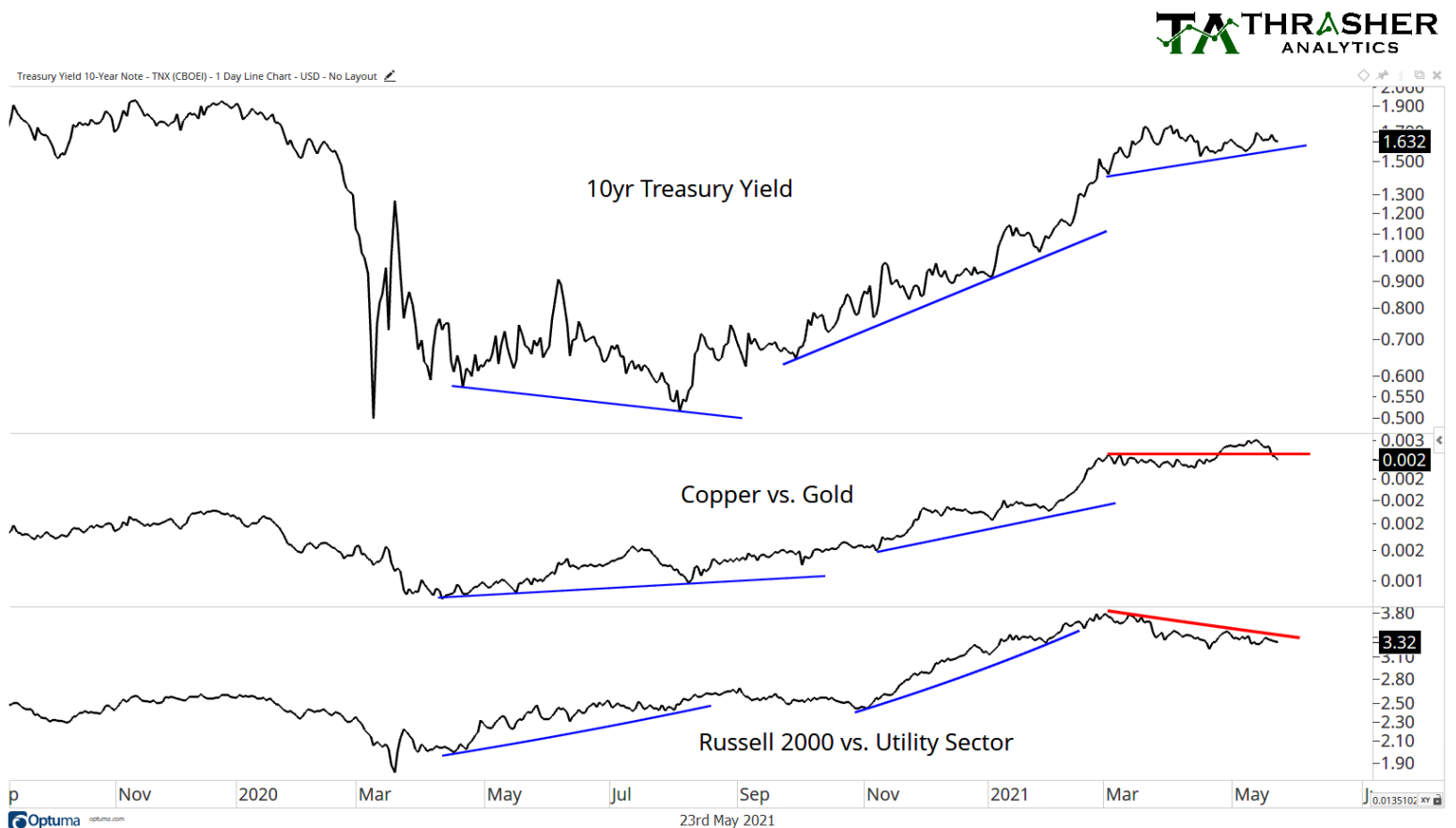
Excluding the Covid Crash, Large Traders have taken their position in Eurodollars to net-short for the first time since when the Fed began raising interest rates roughly 6 years ago. Bearish bets on the Eurodollar are how traders can express an opinion on the Fed raising rates. Notice the blue vertical lines when Large Traders have previously gone net-short. Each was followed by rising Fed Funds Rate except for the Covid Crash, the Taper Tantrum in 2013, and the currency/LTCM crisis in '98.

Why this is important is because the market and most economists don't think the Fed is anywhere near ready to raise rates. Powell has tried beating this topic down each chance he gets. But traders have begun pricing in the opposite. This doesn't mean the traders or the market expect rates to rise tomorrow, this is a long-term chart but still extremely important. I'll continue to monitor and write about if Large Traders continue to build up a short position un Eurodollars or if this was just a blip that gets reversed.



While the Eurodollar COT data suggests traders are positioning for rates to go higher which would likely take Treasury yield's along with it - shorter-term the market doesn't seem too keen on rates going higher. Not based on how copper is trading against gold or small caps against utilities. This is the chart I've shared several times lately to pound the table that the up trend in rates wasn't being confirmed by other asset classes. Initially it was just equities but now we have gold strengthening relative to copper and so the commodities market as well is no longer screaming for a higher 10-year yield.

In the Daily Sentiment Index section, notice the rising trend in % bullish for Treasury bonds even though price hasn't moved a whole lot in recent weeks. Price has been relatively flat but sentiment has been strengthening. That's not bearish for bonds, nor is it for gold to be rising and smalls to be weakening in relative performance.



DAILY SENTIMENT INDEX



Market	% Bullish ^	5MA	History
US Dollar DSI	16	15.8	
VIX DSI	30.00	30.00	
Orange Juice DSI	30.00	27.80	
Platinum DSI	37.00	43.80	
Palladium DSI	39.00	51.40	
Cattle DSI	39.00	32.80	
Lumber DSI	40.00	27.00	
Wheat DSI	42.00	49.40	
Cocoa DSI	43.00	49.80	
Sugar DSI	45.00	50.20	
5YR DSI	50.00	47.60	
Cotton DSI	51.00	51.20	
Copper DSI	52.00	64.20	
Silver DSI	55.00	65.00	
CRB Index DSI	55.00	67.40	
EuroDollar DSI	57.00	56.60	
Mexican Peso DSI	63.00	65.60	

<input type="checkbox"/>	Code	% Bullish ^	5MA	History
<input type="checkbox"/>	Gold DSI	63.00	64.60	
<input type="checkbox"/>	Corn DSI	63.00	62.40	
<input type="checkbox"/>	Coffee DSI	63.00	67.20	
<input type="checkbox"/>	Crude Oil DSI	65.00	73.60	
<input type="checkbox"/>	Nasdaq DSI	66.00	64.20	
<input type="checkbox"/>	SPX DSI	69.00	67.40	
<input type="checkbox"/>	Nikkei DSI	70.00	65.60	
<input type="checkbox"/>	Australian Dollar DSI	70.00	72.60	
<input type="checkbox"/>	Natural Gas DSI	72.00	75.40	
<input type="checkbox"/>	Heating Oil DSI	72.00	74.80	
<input type="checkbox"/>	Gasoline DSI	72.00	77.00	
<input type="checkbox"/>	10Y DSI	72.00	66.80	
<input type="checkbox"/>	Euro DSI	73.00	75.00	
<input type="checkbox"/>	Swiss Franc DSI	74.00	72.00	
<input type="checkbox"/>	New Zealand Dollar DSI	74.00	75.60	
<input type="checkbox"/>	British Pound DSI	75.00	74.80	
<input type="checkbox"/>	Lean Hog DSI	85	72.20	

Source: trade-futures.com

DAILY SENTIMENT INDEX

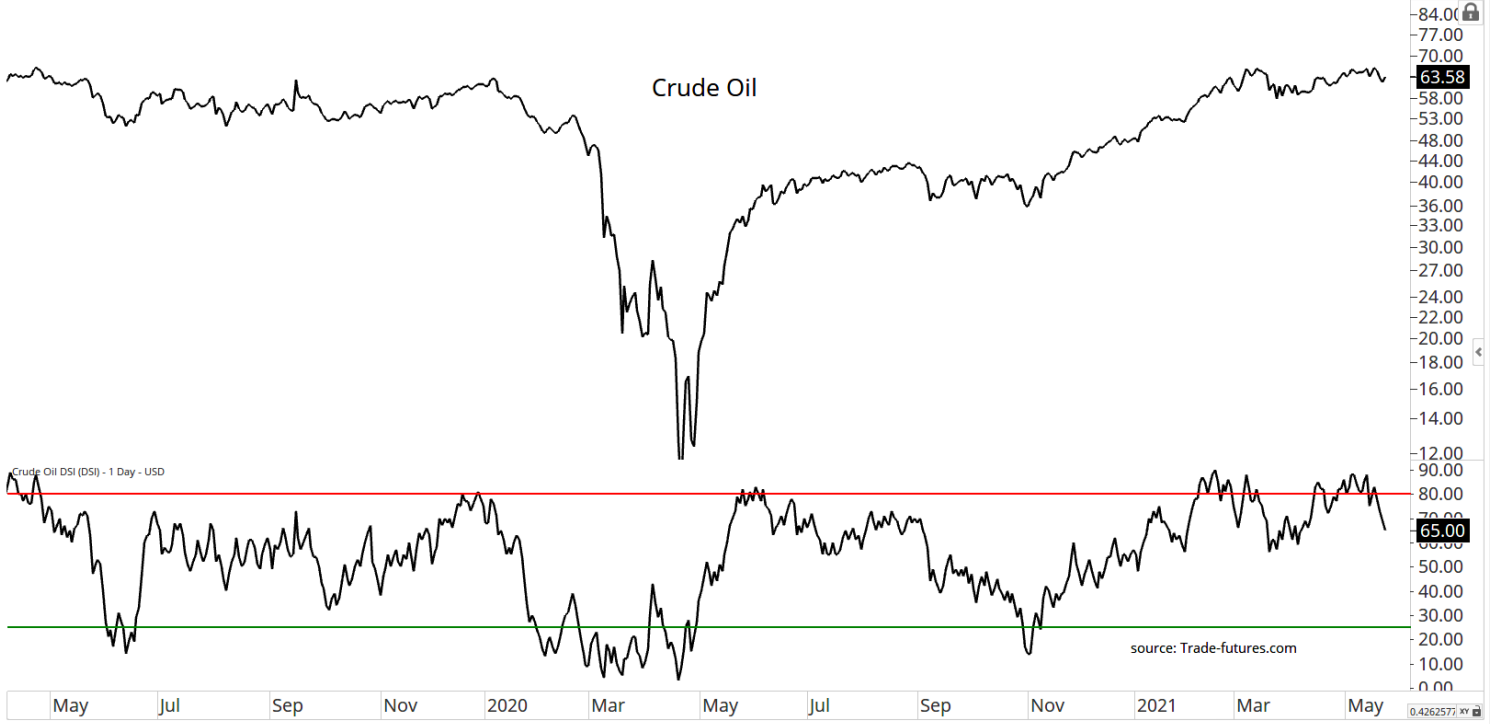


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Crude Oil Light Sweet NYMEX - OILSW (W) - 1 Day Line Chart - USD - No Layout



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DAILY SENTIMENT INDEX



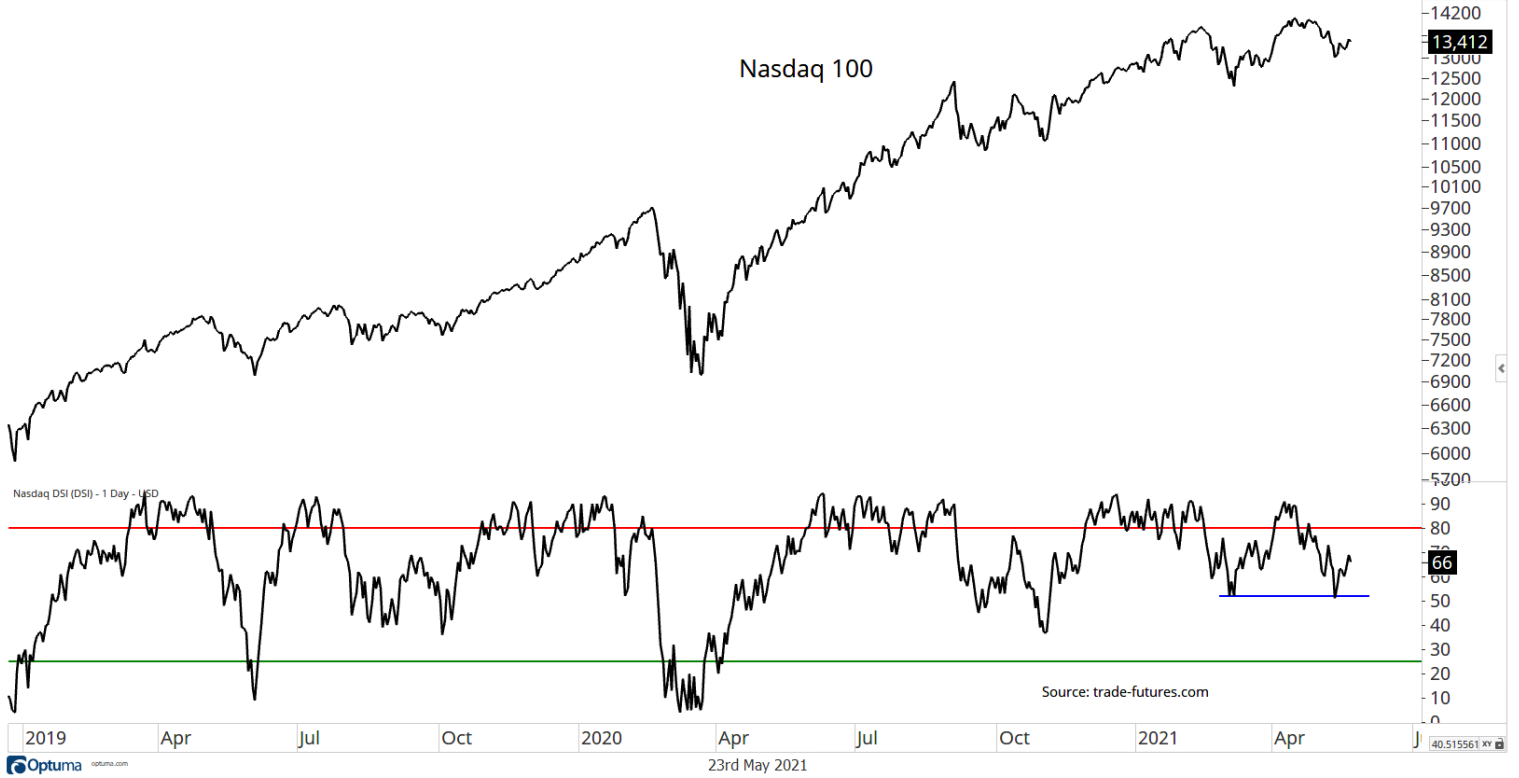
Gold Futures - GCSPot (NYMEX) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



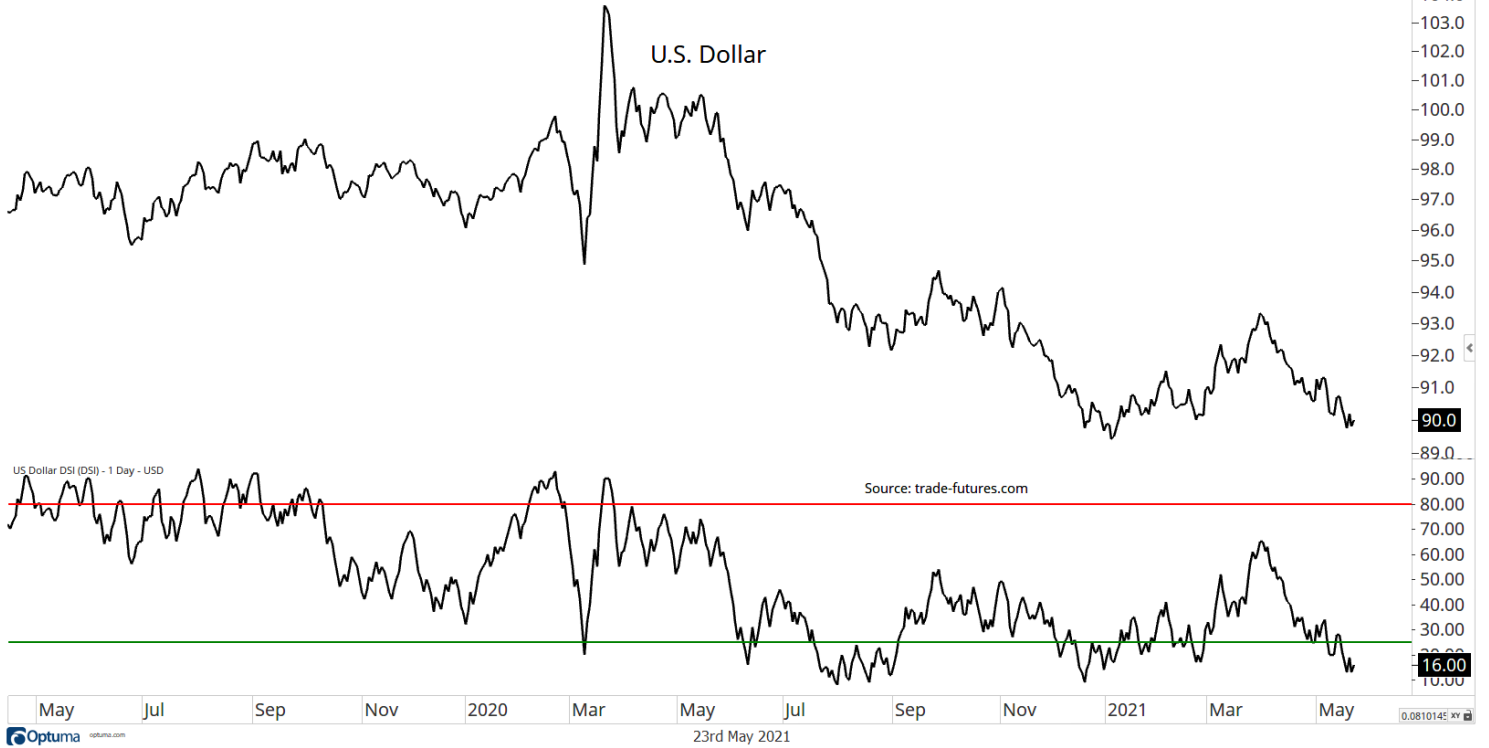
NASDAQ 100 Index - NDY (W1) - 1 Day Line Chart - USD - No Layout



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 (CBOEI) - 1 Day Line Chart - USD - No Layout

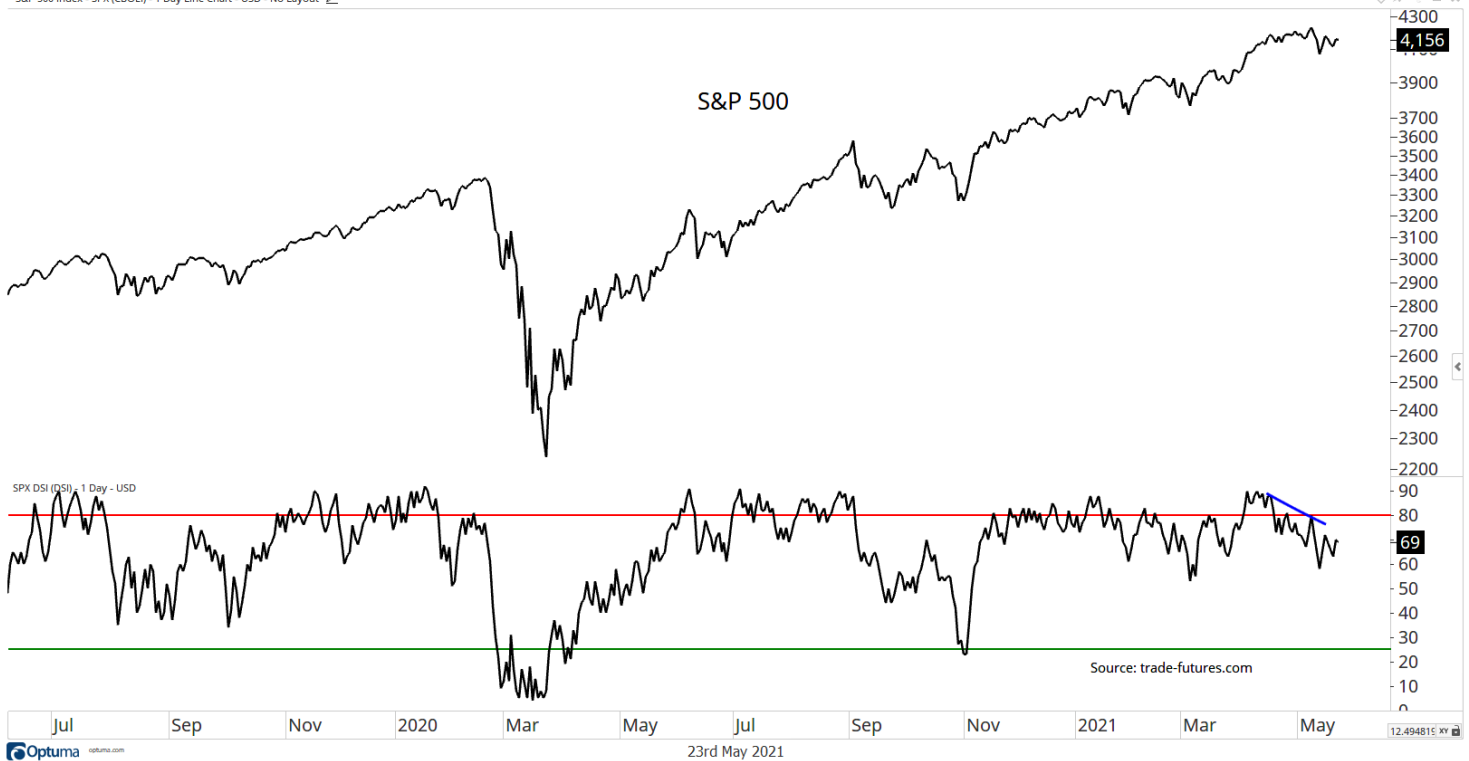


DAILY SENTIMENT INDEX



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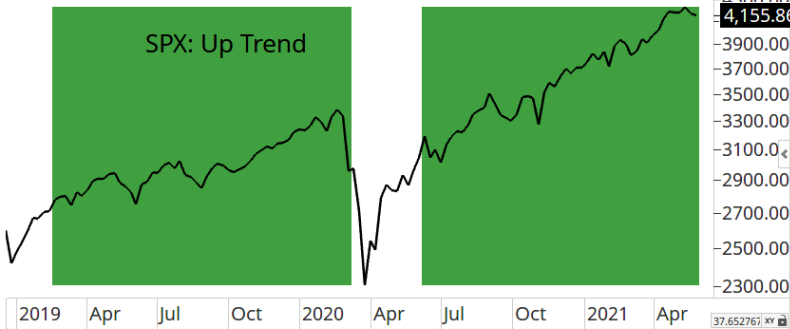
S&P 500 Index - SPX (CBOE) - 1 Day Line Chart - USD - No Layout



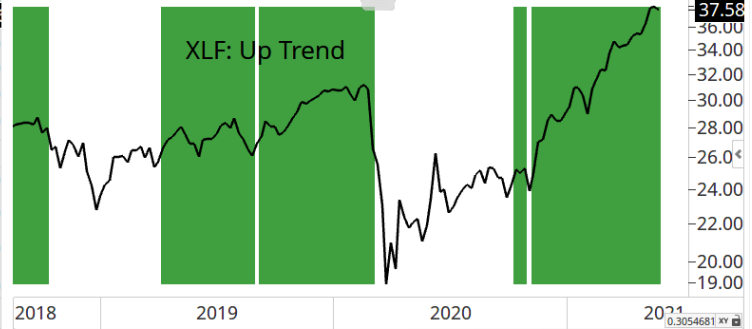
TREND MODELS



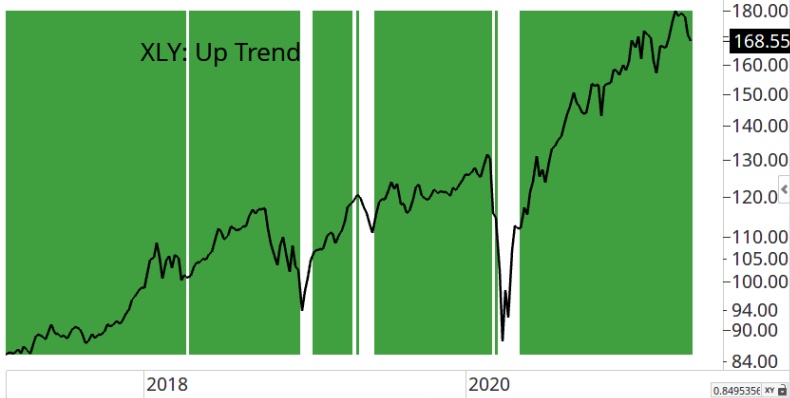
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout



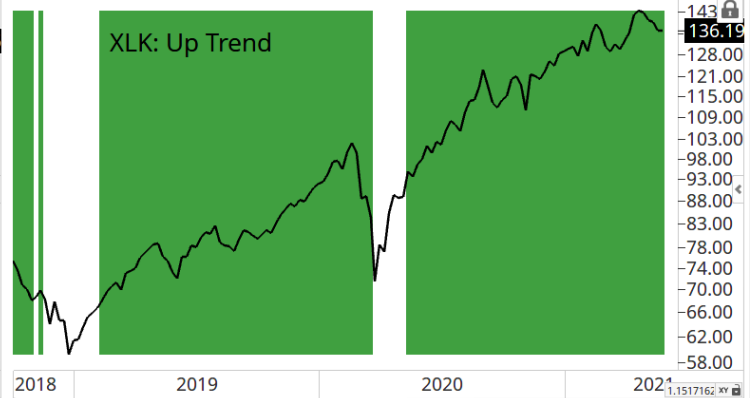
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



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



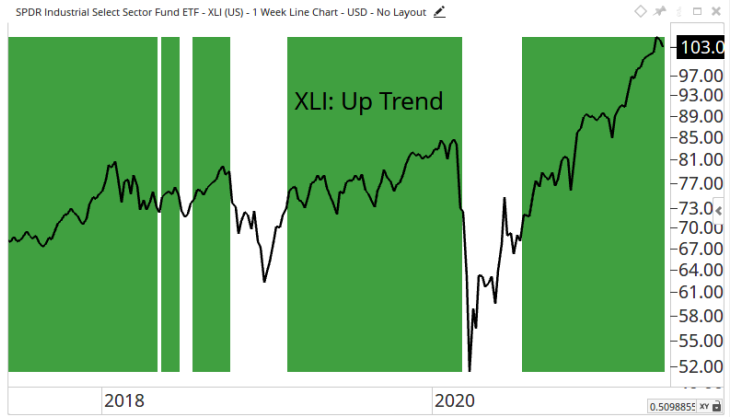
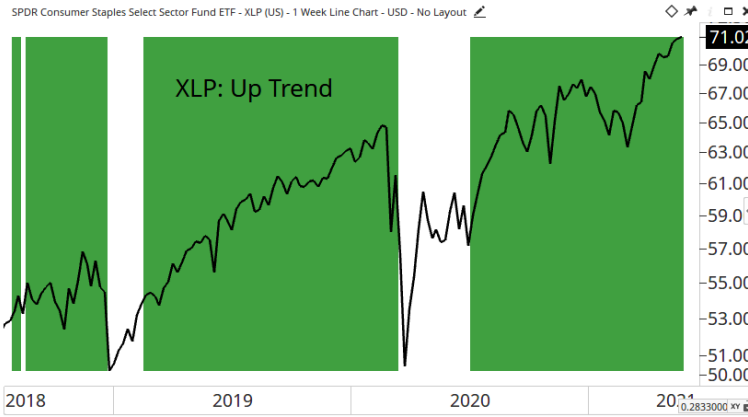
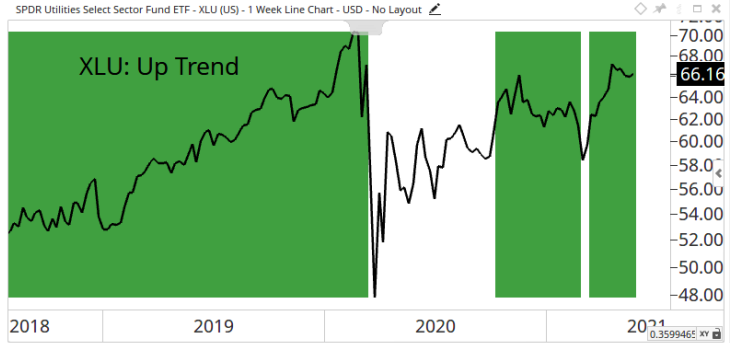
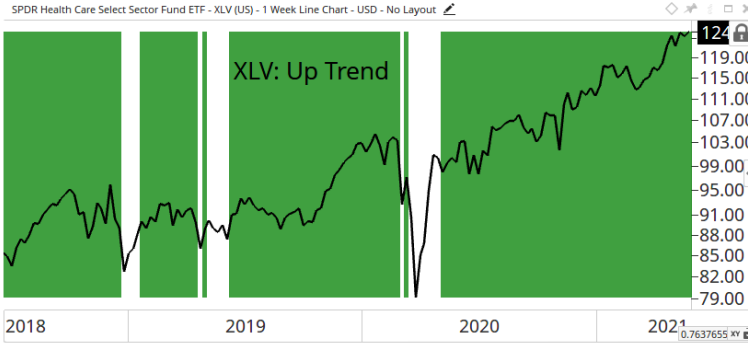
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



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TREND MODELS



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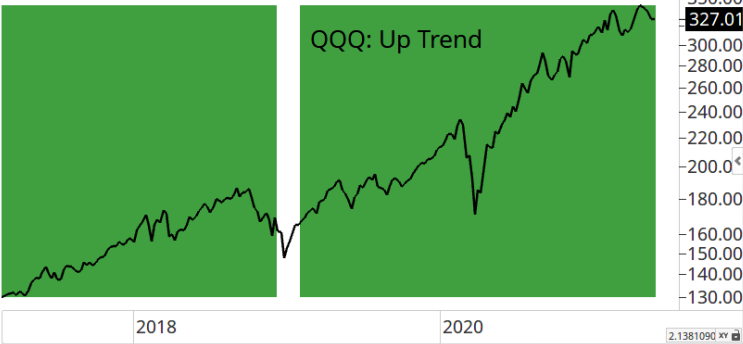
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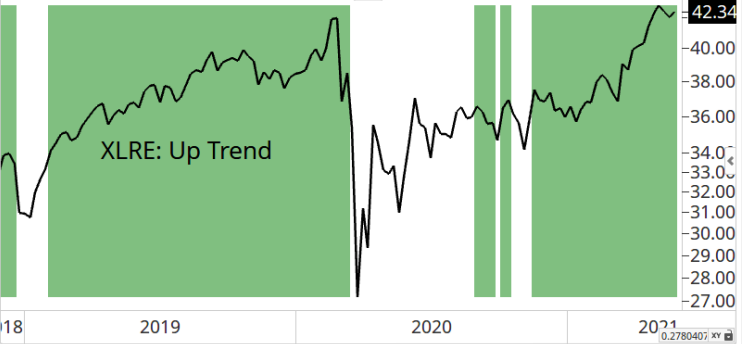
TREND MODELS



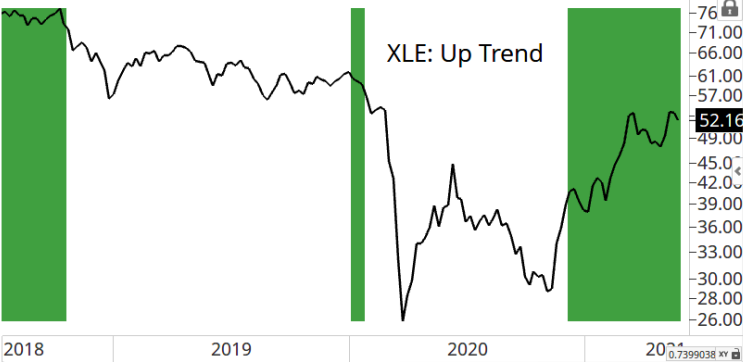
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



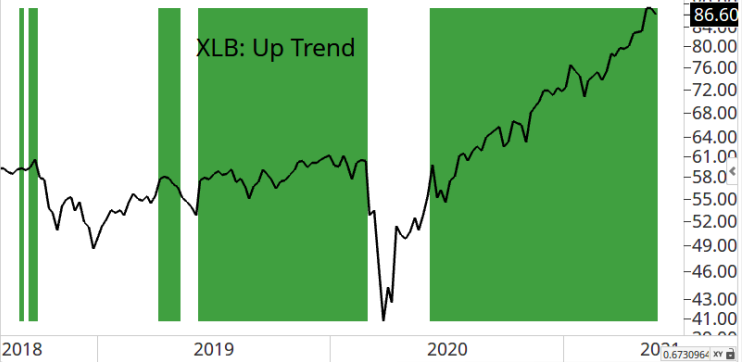
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



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



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



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