THRASHER ANALYTICS

JUNE 13, 2021

WEEKLY RESEARCH & ANALYSIS

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Bullish

- Long-term breadth remains strong.
- Trend Model remains positive for all sectors and indices.
- The Market Health Report remains supportive.
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Bearish

- Rise in new 20-day lows.
- VIX sentiment data strengthens.
- Falling breadth data across asset sizes and industries.
- indiv. stock volatility declines.
- Natural gas bearish setup.
- Peso failed breakout.

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Market Dashboard

Sector Rotation: June	
Financials	XLF
Energy	XLE
Communication	XLC

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

Market Health Report	
Breadth	1
Divergence	0
Momentum	4
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	73%	71%
Nasdaq 100	77%	71%
Nikkei	80%	80%
VIX	17%	20%
10yr Treasury	79%	74%
5yr Treasury	65%	64%
CRB Index	77%	78%
Gold	59%	63%
U.S. Dollar	26%	23%

*Green<25% Red>80%

source: trade-futures.com

Brief Summary:

This week all eyes and ears will be on Powell and the FOMC announcement on Wednesday. With inflation data rising and labor market improving (on most levels), it's still expected to be a non-event but the press conference always presents the opportunity for some fireworks. I've discussed in prior letters the build up in net-shorts in Eurodollar futures, which typically occurs in anticipation of a rate increase. However, last week we saw the market squarely make its bet that rates aren't going higher any time soon with bonds strengthening in the face of the uptick in several inflation reports. It seems Mr. Market has bought into the idea of "transitory" inflation and the uptick in the last two months data prices in the bulk of that "transitory" rise.

On the equity front, we have new highs in the S&P 500 but few stocks are joining that new high party. In fact we have a rise in new 1-month lows with weakening breadth indicators. We also have weakness showing up in industry data and across asset sizes. The next step here is to watch if the indices begin to confirm what's transpiring under the surface. I still believe the risk/reward towards equities is not ideal right now and unless the breadth data improves, I think equities will roll over and if that takes the Market Health Report down then we could see a more protracted decline. But as always, we'll let the data be our guide.

Natural gas has elevated sentiment as it moves into a bearish period of seasonality which could cause it to report. The Peso also looks weak as it failed to hold a breakout.

Volatility

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 sentiment data for the VIX remains well above the prior lows with spot VIX breaking below 16 to finish last week. VRT 2.0 remains off its signal level. Volatility does appear stretched to the downside but rarely in market history do we see a volatility spike off a new low, so while we could see vol rise from here, a spike is less likely.

Equities - S&P 500 Daily

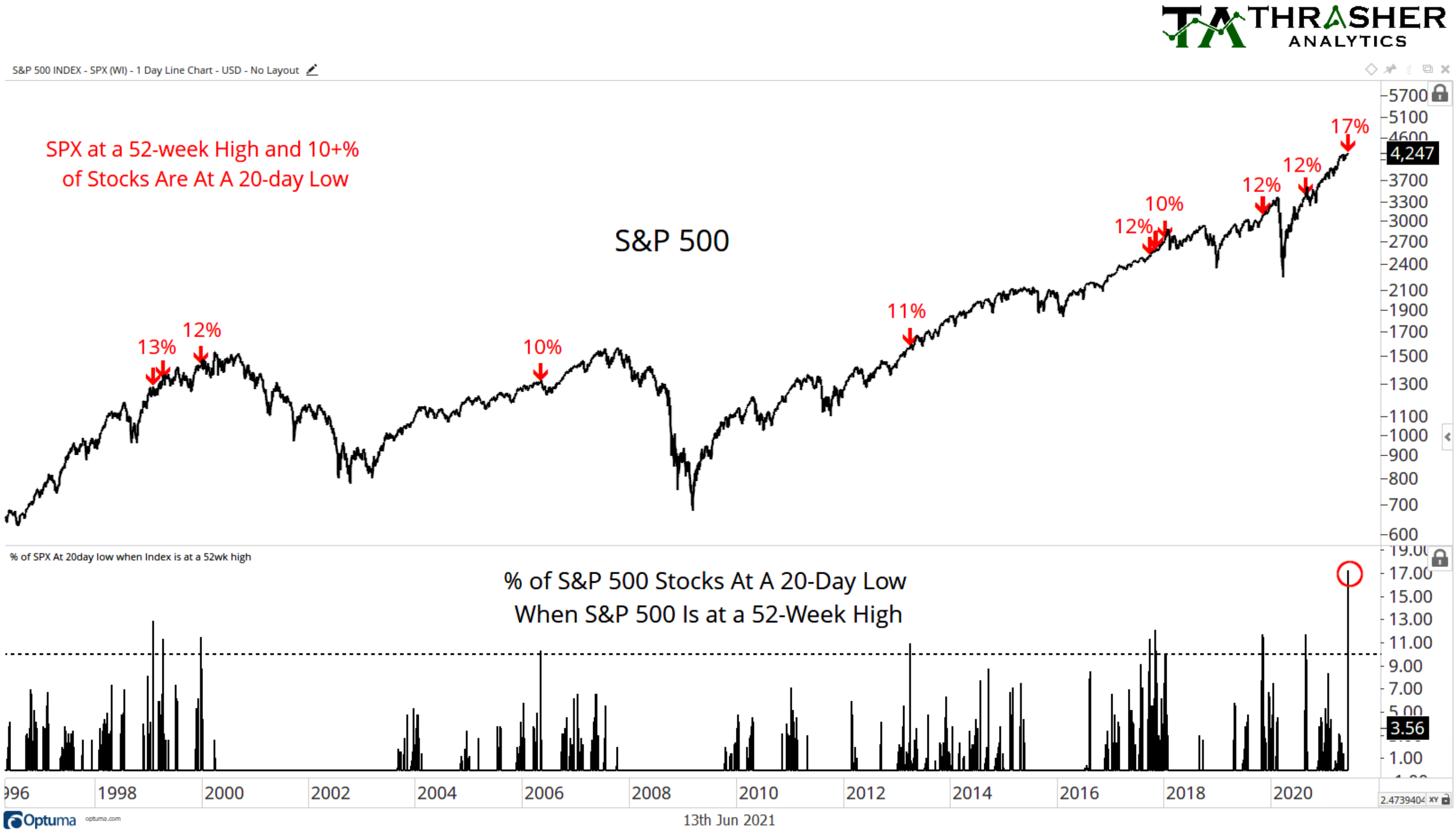
For several days the S&P 500 edges near its prior high and then finally got a breakout on Thursday with sight continuation on Friday. Momentum is still well below the 70 level, creating a bearish momentum divergence. The 20-day and 50-day moving averages continue to be good support on any short-term weakness. While the index hit a fresh high, few stocks were able to accompany it, which I'll be diving into in further detail later in the letter.

Equities - New 20-day Lows 1

On Thursday I went on Fox Business to discuss the latest rise in new 20-day lows that were accompanying the S&P 500 in rising to a new high. I shared the chart on social media but below is a much clearer version I think tells the story more clearly.

Below we can see each time the S&P 500 hit a new 52-week high and the percentage of stocks that were making a 20-day low on that day. This way of looking at the data makes it much easier to compare apples-to-apples of internal weakness on days the market was at a new high. Last week we had 17% of stocks at a 1-month low, the highest level in over twenty years. The next closest date was in 1999 at 13%. I've marked each occurrence that was at 10+%, as you can see it hasn't happened that often.

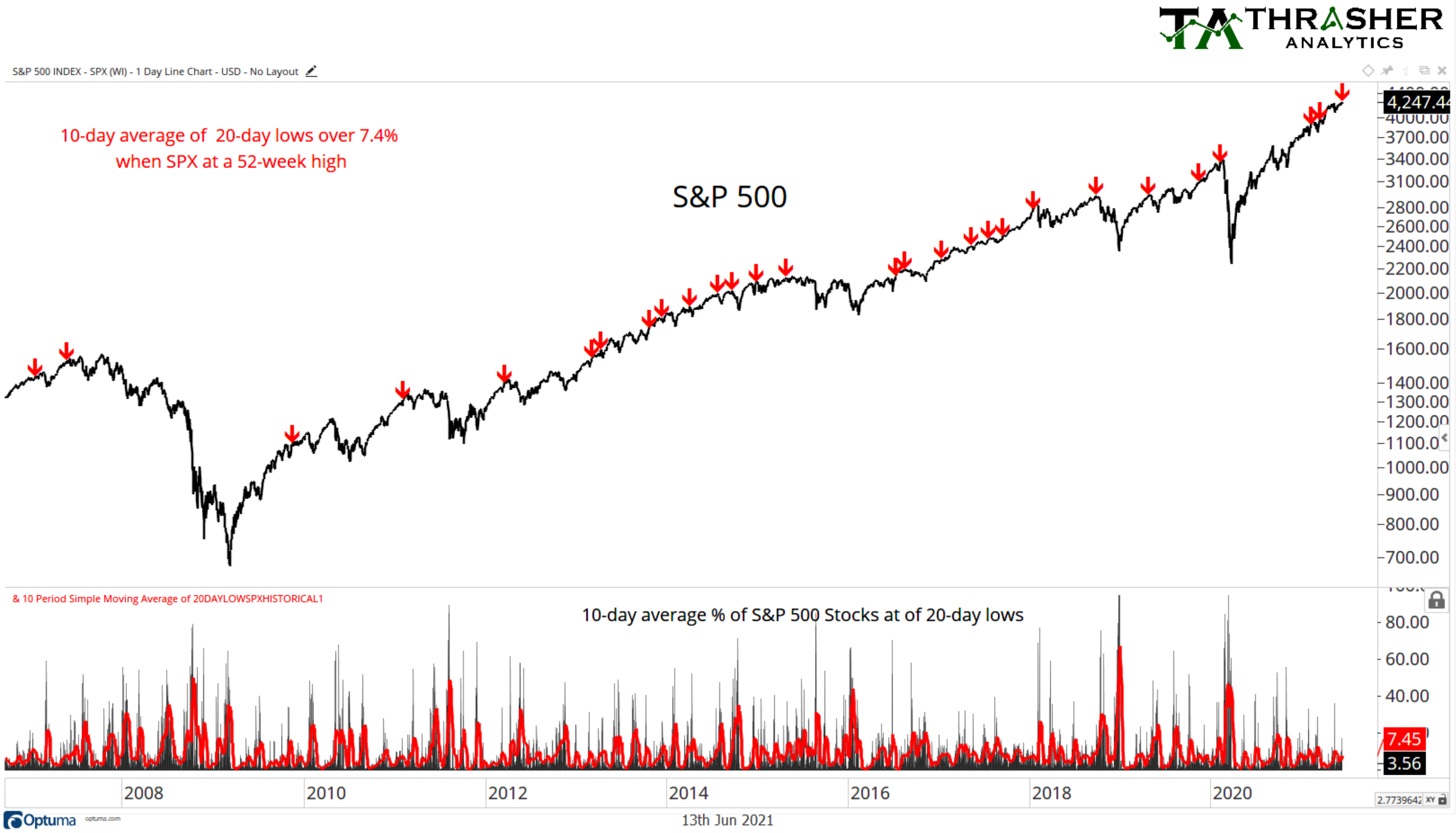
This is a sign of individual stock weakness. But it also signify just one day. The next chart I'll look at a smoothing of new lows to show it wasn't just a single day occurrence.



Equities - New 20-day Lows 2

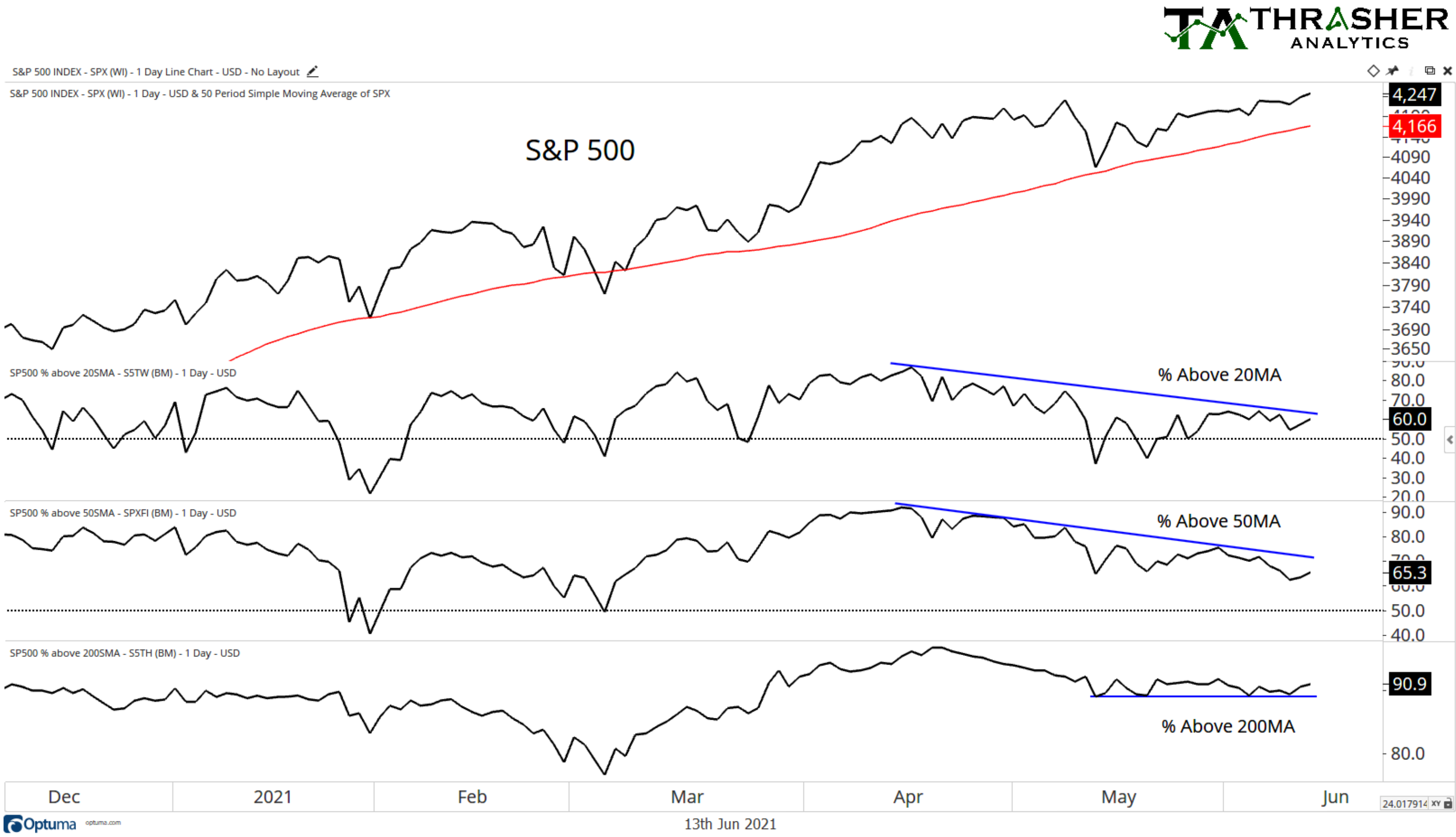
was the 17% spike in new lows just a result of the other days being extremely low? No, not really. Below is a 10-day average of new 20-day lows which rose over 7.4% when the index hit a fresh 52-week high. The red arrows show each prior occurrence, which is much more common than a single day being over 10% like the prior chart showed.

What stands out the most here is obviously the resulting price action following these higher new low days. Most (but not all) were followed by some degree of market weakness. Really just 2017 stood out as the outlier period, every other time did see some form of drawdown occur.



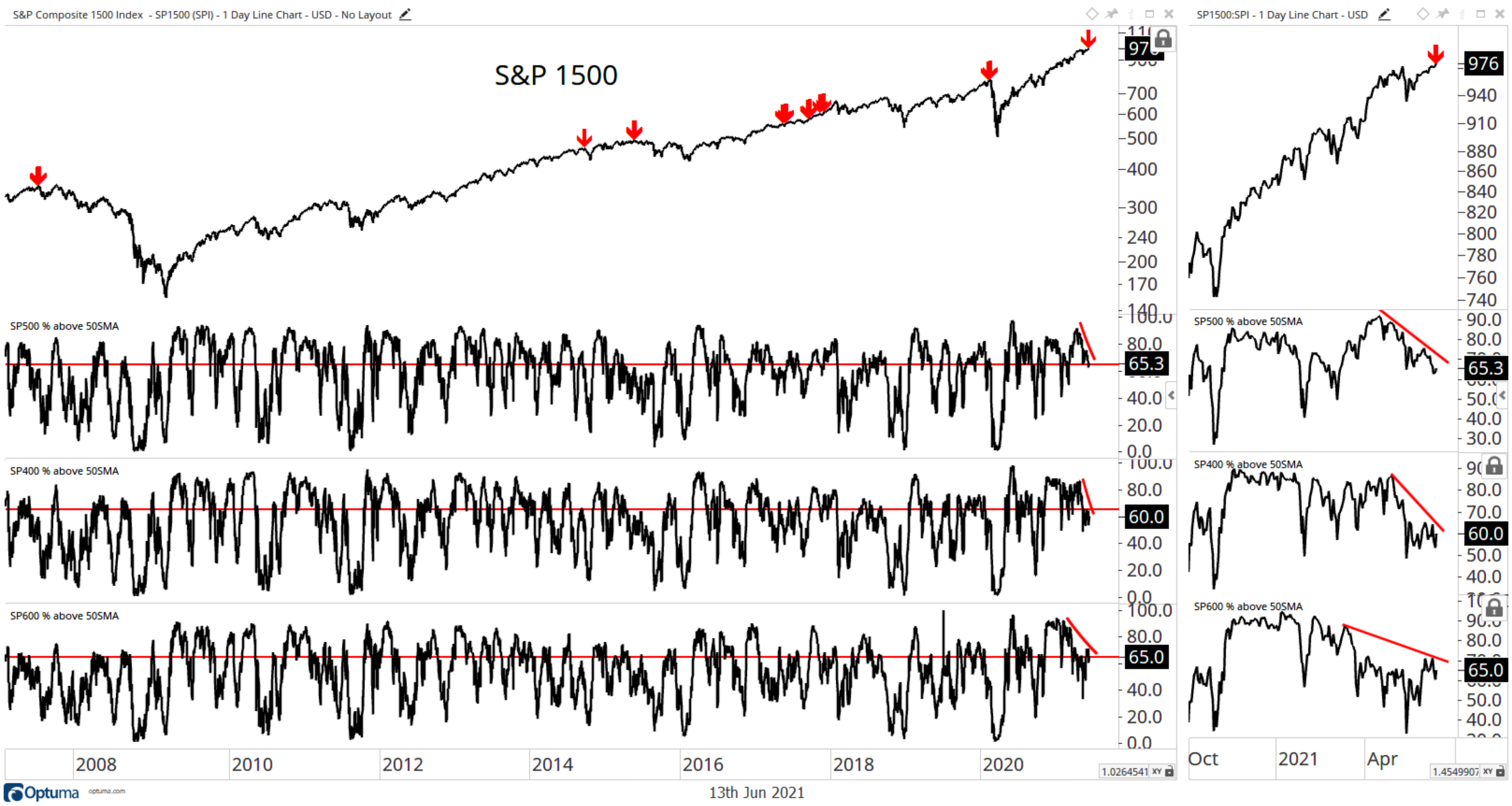
Equities - % Above MAs

Here we can see the % of S&P 500 stocks above the 20-day, 50-day, and 200-day Moving Average. We have deterioration in the 20-day and 50-day with strength still being shown in the longer-term lookback period. With the rise in new 1-month lows shown in the prior two charts, I'm really interested in how long the % above the 200-day MA can hold up. We are still at over 90% and if this figure begins to drop below the prior May lows I think that will be a huge "tell" into what's happening on the individual stock level. It's not showing up yet but I'm keeping an close eye on this figure.

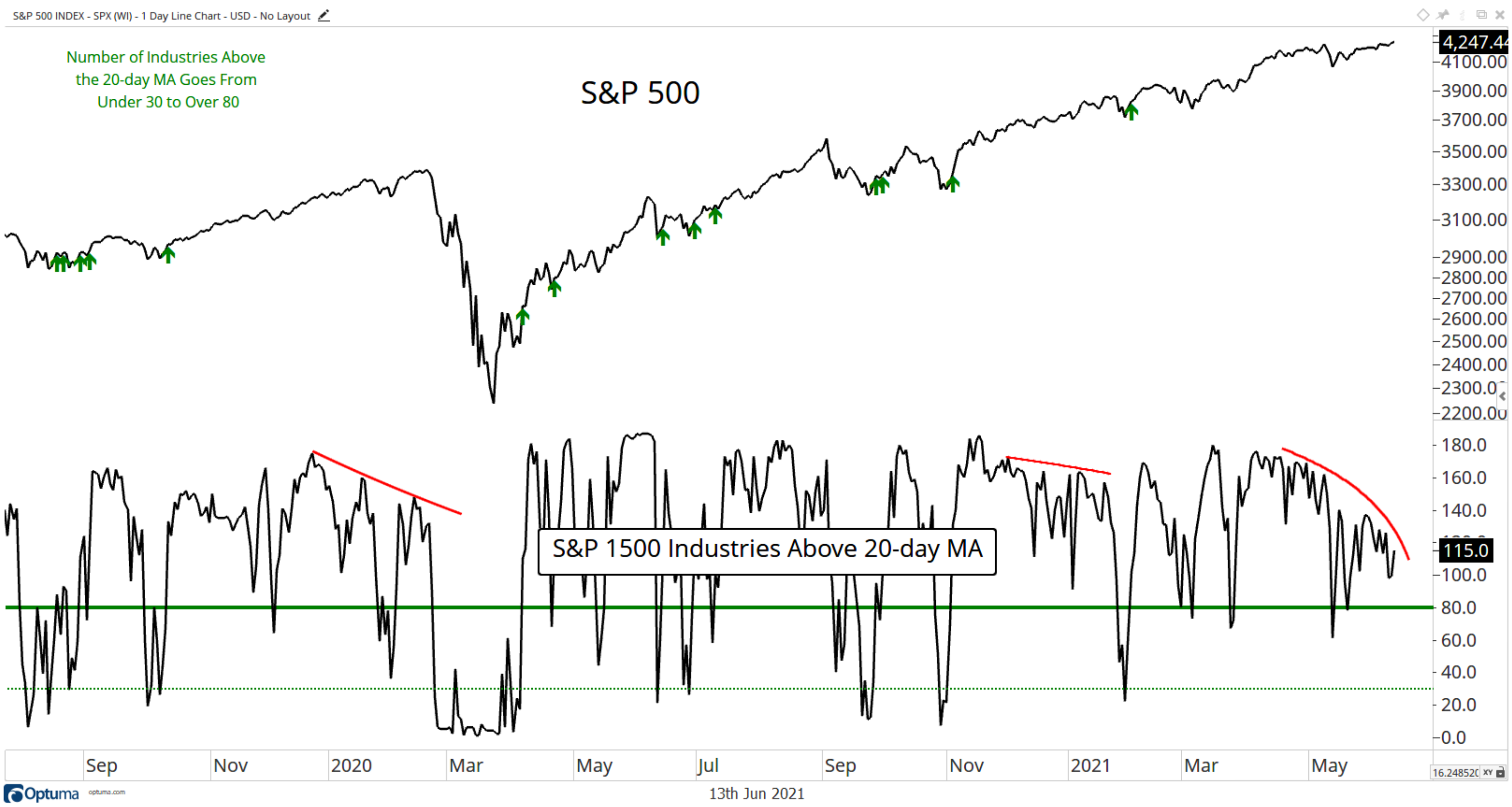


Equities - Asset Size Breadth

It's not just the large caps that are showing some internal weakness. S&P 500 (large cap) S&P 400 (mid cap) and S&P 600 (small cap) are all seeing lower-highs in the % of their stocks trading above the respective 50-day moving average. In fact if we look for when all three have less than 65%, as they did on Thursday of last week, it wasn't this low since the peak before the Covid Crisis last year and only occurred a handful of times since 2007. But when we did see weakness across asset sizes, equities struggled - except in 2017. 2017 was a bullet proof year, can it be repeated? I guess we'll see but the rest of the same set suggests the odds are against it.



I've shown that individual stocks are falling below the 50-day moving average but it's yet to impact the broad index. How about industries, how are they holding up? Well they look more like the stocks than the index. We went from nearly 180 S&P 1500 industries trading above the short-term 20-day moving average to 115 on Friday and less than 100 mid-last week. It's not just a handful of stocks that are moving lower but entire industries across asset size (this groups large/mid/small caps together so there's no asset size bias) are drifting lower as well.

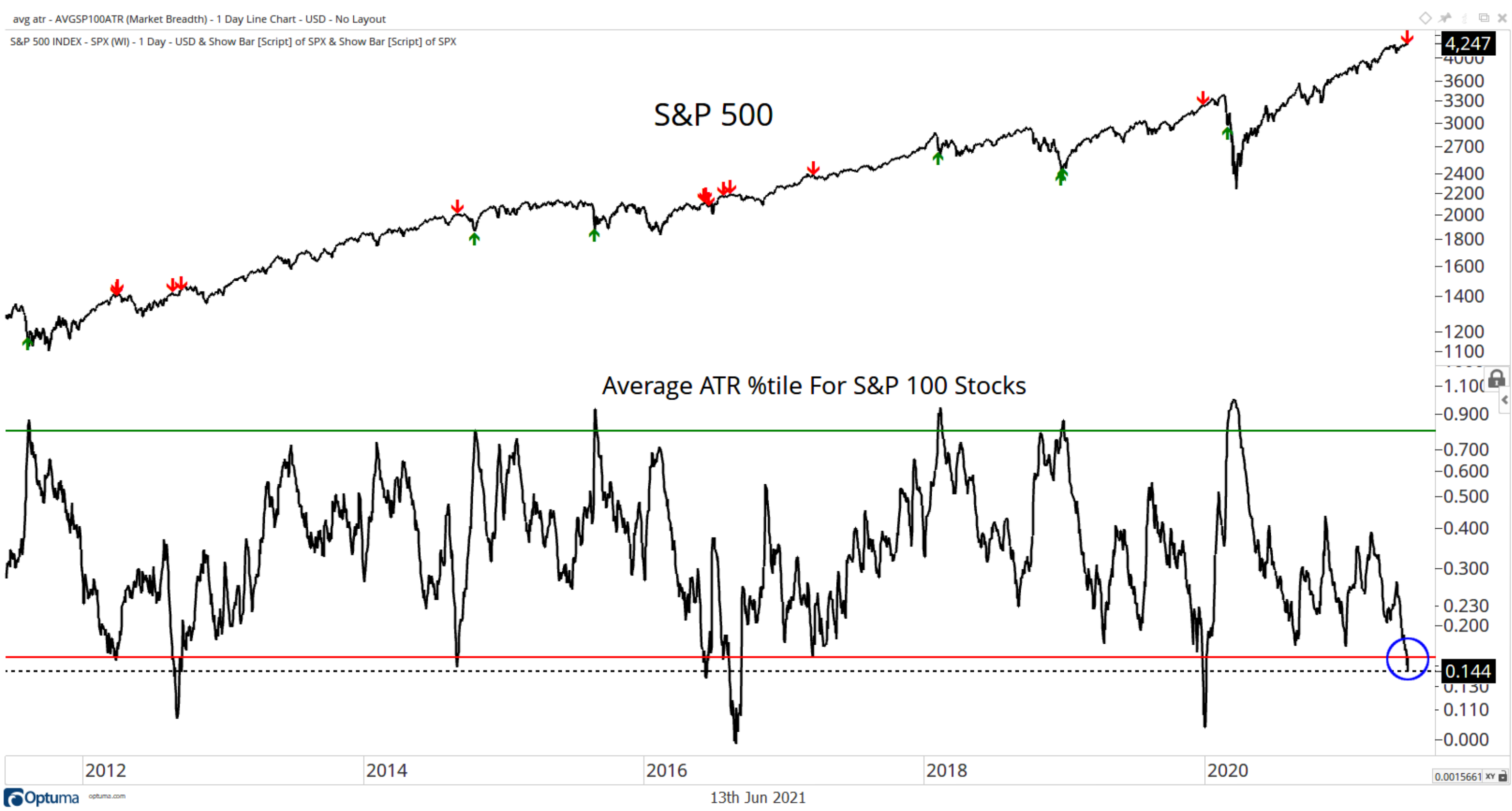


Equities - Average ATR

Average True Range (ATR) is an indicator used to look at volatility of a security with no regard for the direction of that volatility, based on the daily price range of a security over a specific lookback period.

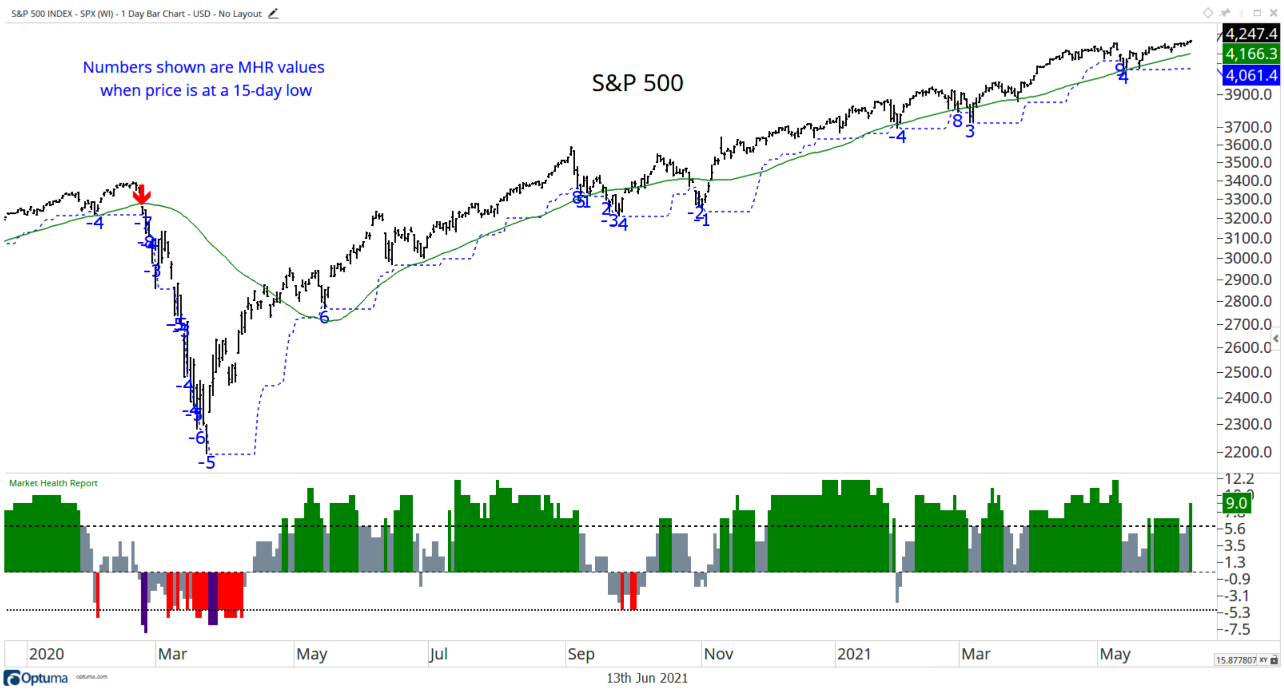
Some stocks naturally have high ATRs, being highly volatility stocks while others see much lower volatility. Because of this, I evaluate each security's ATR based on its own historical data, taking the current reading as a percentile of its historical range. Currently the average ATR for the S&P 100 stocks is extremely low, suggesting the typical stock is seeing significantly below average volatility in either direction (up or down).

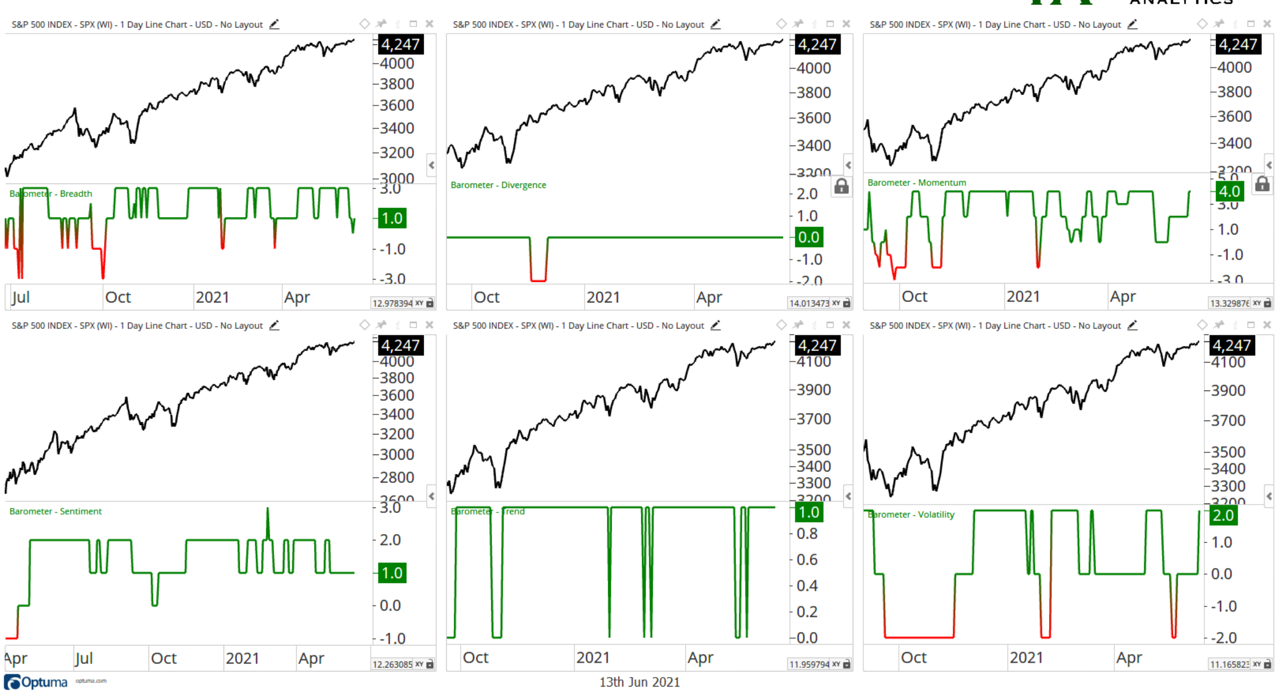
When the average ATR %tile has been below 0.14 I've plotted red arrows. Notice that most occurrences did led to lower equity prices for the S&P 500. The narrow average volatility of the mega caps might be due to over-confidence of traders (although the reason doesn't really matter!). Only a few times in the last ten years as the %tile been lower, each resulting in a short-term drawdown for the index.



Market Health Report

The Market Health Report (MHR) finished the week still at +9. All six categories are now at or above zero, a bullish sign for equities. While the MHR is used at 15-day lows (when the numbers are printed on the chart below, currently the reading does suggest good support for the current up trend. We'll see if the weakness discussed earlier in the letter begins to have an impact on the MHR but as of today, that hasn't developed yet.





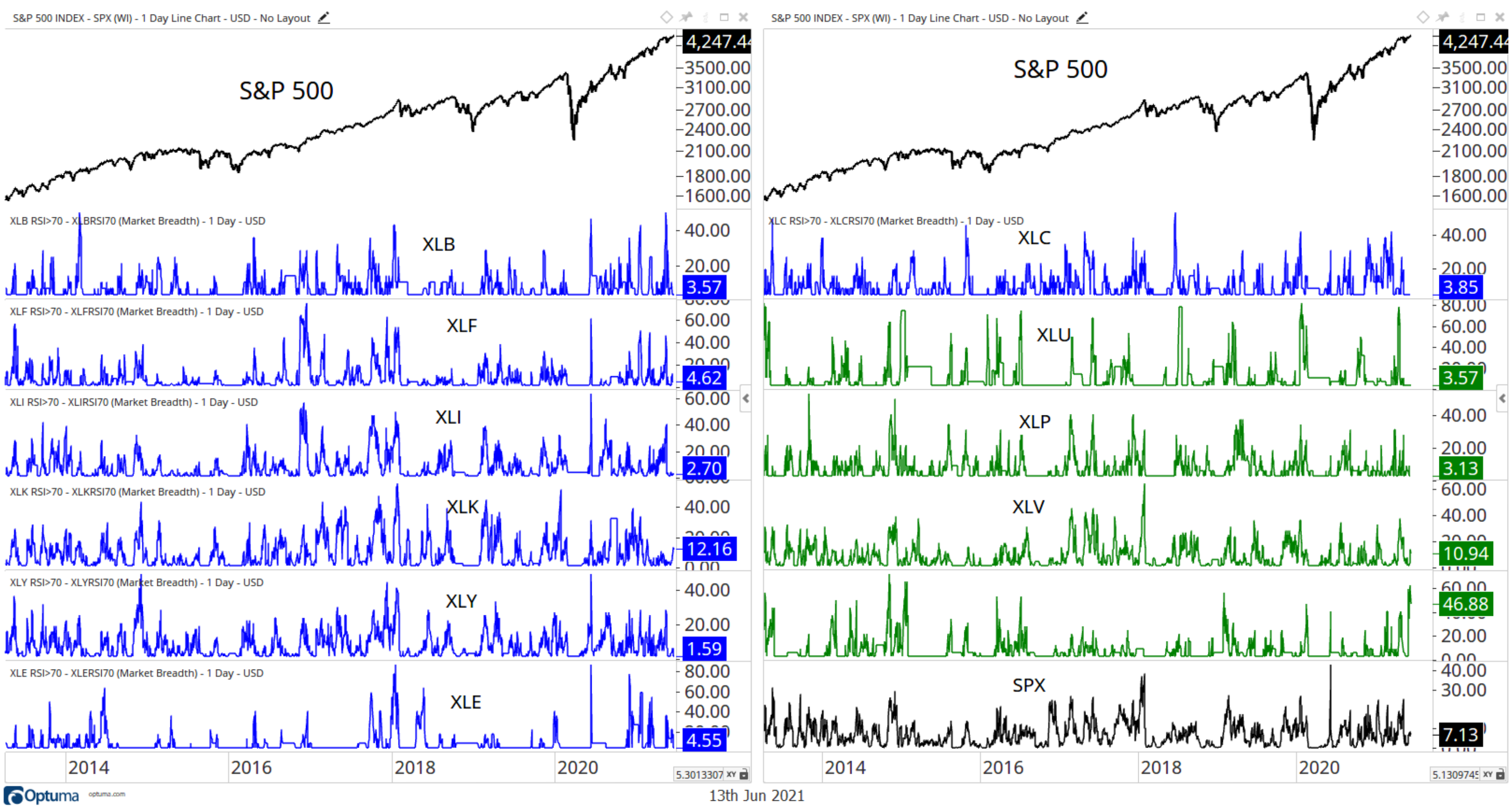
Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Health Care Select Sector Fund ETF	True	True	2.01%	1.35%	8.92%	28.44%
SPDR Real Estate Select Sector Fund ETF	True	True	1.97%	8.04%	18.43%	31.9%
SPDR Technology Select Sector Fund ETF	True	True	1.39%	5.08%	7.26%	44.66%
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	1.27%	0.42%	4.17%	39.56%
SPDR Utilities Select Sector Fund ETF	True	True	1.1%	0.33%	7.36%	12.39%
SPDR Communication Services Select Sector ETF	True	True	0.78%	4.25%	6.56%	48.76%
SPDR S&P 500 ETF	True	True	0.4%	2.44%	7.82%	41.15%
SPDR Energy Select Sector Fund ETF	True	True	-0.66%	5.95%	3.59%	42.58%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.81%	0.54%	8.12%	22.08%
SPDR Industrial Select Sector Fund ETF	True	True	-1.74%	-0.37%	8.4%	53.33%
SPDR Materials Select Sector Fund ETF	True	True	-2.04%	-1.88%	9.73%	59.51%
SPDR Financial Select Sector Fund ETF	True	True	-2.37%	1.29%	9.12%	62.39%

SECTORS - AVERAGE RSI

The below chart shows each sector and the % of their stocks that have a Relative Strength Index (RSI) reading above 70. In blue are the "offense" sectors and in green are the "defense" sectors. Notice the three highest readings are Real Estate, Technology, and Health Care. The 46% for XLE really stands out and is why I turned cautious towards this sector last week. The "offense" parts of the market aren't seeing individual stocks show strong momentum readings like you'd expect with SPX at a new high.

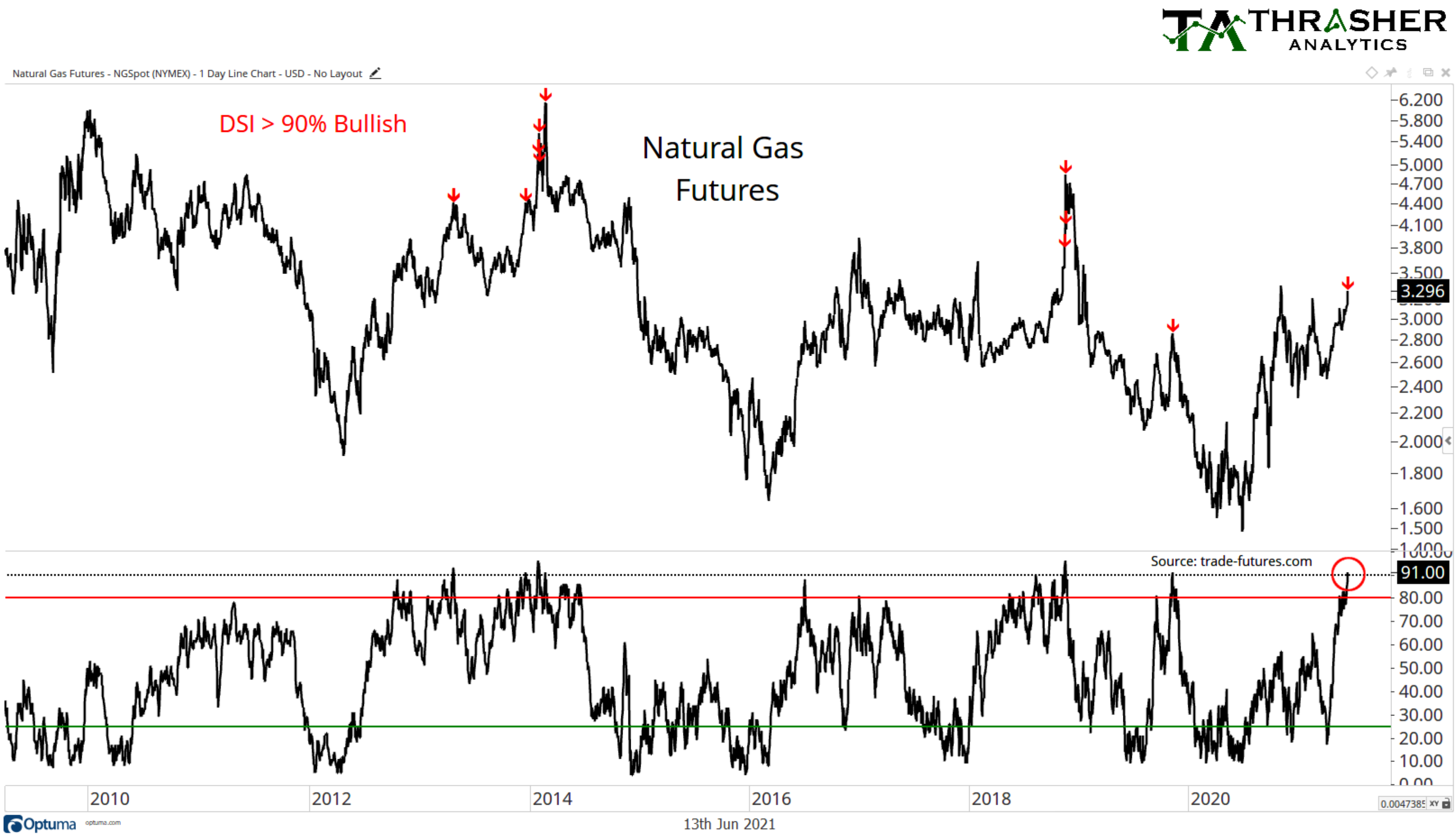
Also compare the 7.13% for the broad market relative to the "offense" sectors, which have about half that (3.57%, 4.62%, 2.7%, 1.59%, etc.). The momentum is showing stronger in defense sectors not offense, not what you'd expect in a strong "risk on" rally.



Commodity - Natural Gas 1

The Daily Sentiment Index (DSI) for Natural Gas has risen to 91%, the highest level in over a year. The below chart shows when the DSI %bullish for gas goes above 90%. As you can see, this has been a major headwind for nat gas prices, often reversing lower soon after.

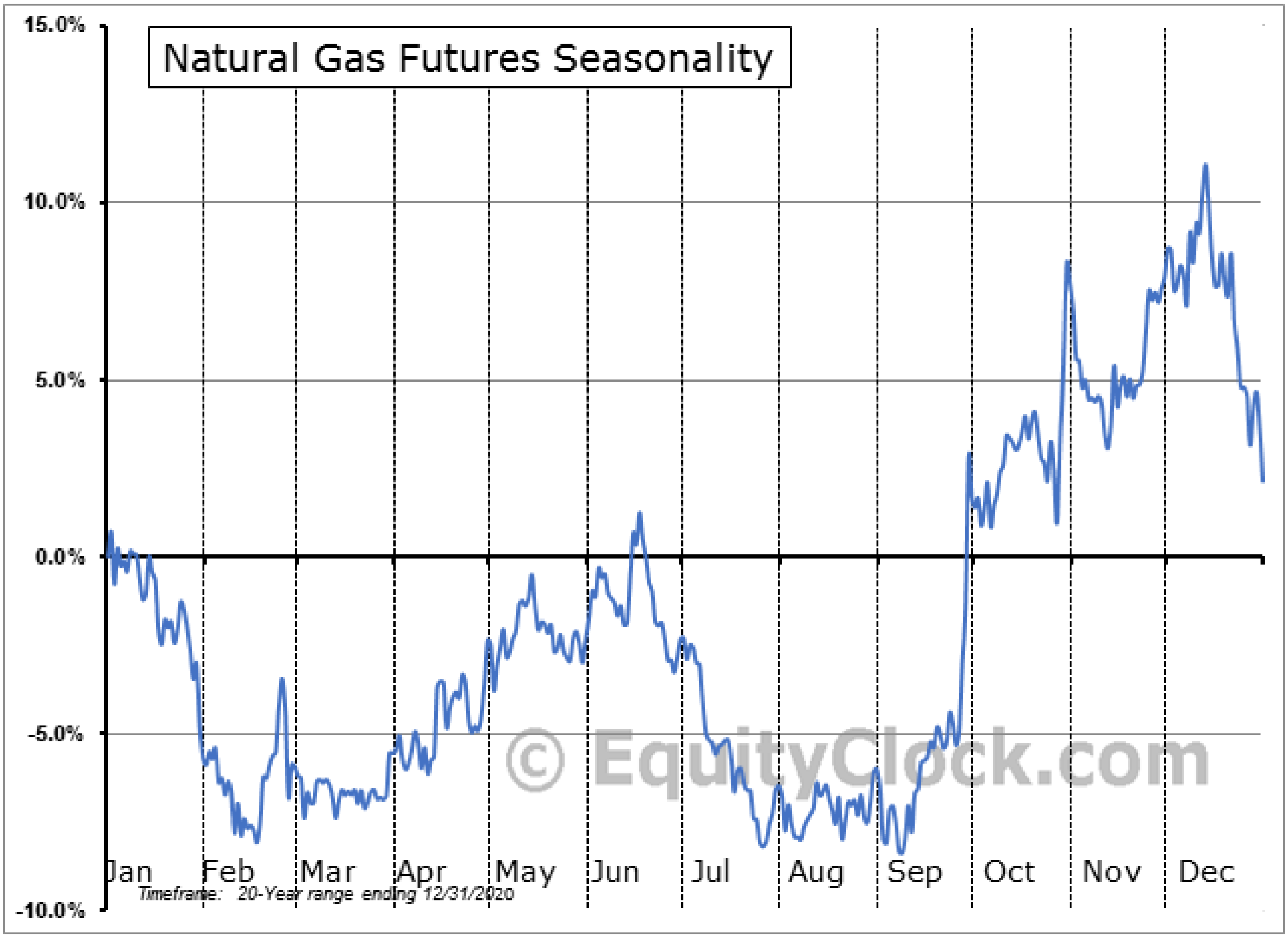
What's even more interesting about this rise in sentiment for natural gas is how it aligns with the seasonality, which I show on the next page.



Commodity - Natural Gas 2

Below is a chart of the seasonal trend for natural gas over the last twenty years, from Equityclock.com

Notice that there's a seasonal peak in mid-June, suggesting nat gas should be peaking very soon based on the historical pattern. So not only do we have extremely elevated sentiment levels but a bearish turn in the seasonal pattern as well. I think this sets up for a ripe opportunity to see natural gas futures move lower in the following weeks, confirming the seasonal trend and working off the lofty DSI level.



INTERNATIONAL - MEXICO

The Mexican Peso recently failed to hold above the prior November high, setting up a potential false breakout. This comes after a bearish divergence was formed in the Daily Sentiment Index (DSI), with lower-highs in bullishness towards the currency.

The Mexico equity ETF, EWW, has a strong correlation to the Peso so if the currency does continue to weaken from here then that would be bearish for EWW as well. This is something to keep an eye on for those with exposure to equities in Mexico.

Daily Sentiment Index

Market	% Bullish	5MA	History
Lumber DSI	7	10.8	
VIX DSI	17	20	
US Dollar DSI	26.00	22.8	
Platinum DSI	37.00	38.80	
Palladium DSI	37.00	38.00	
Cattle DSI	38.00	29.20	
Cocoa DSI	40.00	38.40	
Wheat DSI	41.00	41.80	
Orange Juice DSI	52.00	62.80	
Copper DSI	56.00	54.80	
New Zealand Dollar DSI	57.00	62.80	
Gold DSI	59.00	63.40	
Silver DSI	60.00	61.80	
Mexican Peso DSI	60.00	64.60	
Euro DSI	62.00	69.20	
Corn DSI	62.00	65.40	
British Pound DSI	62.00	65.60	

Code	% Bullish	5MA	History
Sugar DSI	65.00	64.00	
5YR DSI	65.00	63.80	
EuroDollar DSI	66.00	64.40	
Coffee DSI	67.00	69.60	
Australian Dollar DSI	67.00	71.80	
Swiss Franc DSI	68.00	72.80	
Lean Hog DSI	70.00	78.40	
SPX DSI	73.00	71.40	
Heating Oil DSI	76.00	79.80	
Nasdaq DSI	77.00	71.20	
Gasoline DSI	77.00	82.4	
CRB Index DSI	77.00	78.40	
10Y DSI	79.00	74.00	
Nikkei DSI	80	79.60	
Crude Oil DSI	80	78.60	
Cotton DSI	81	79.40	
Natural Gas DSI	91	84.2	

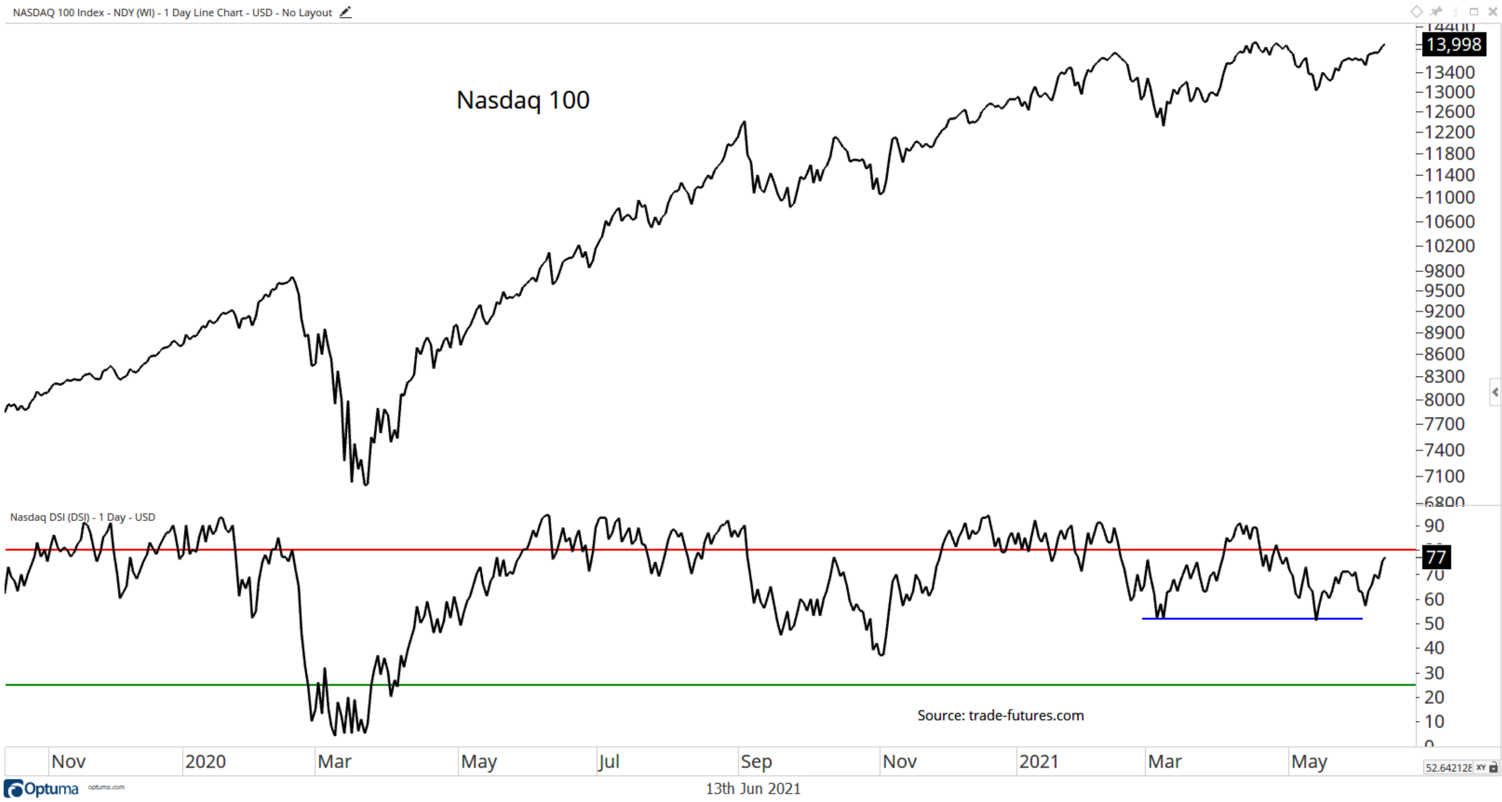
Source: trade-futures.com


10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
133.70
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
79.00
2019
Apr
Jul
Oct
2020
Apr
Jul
Oct
2021
Apr
Optuma
13th Jun 2021

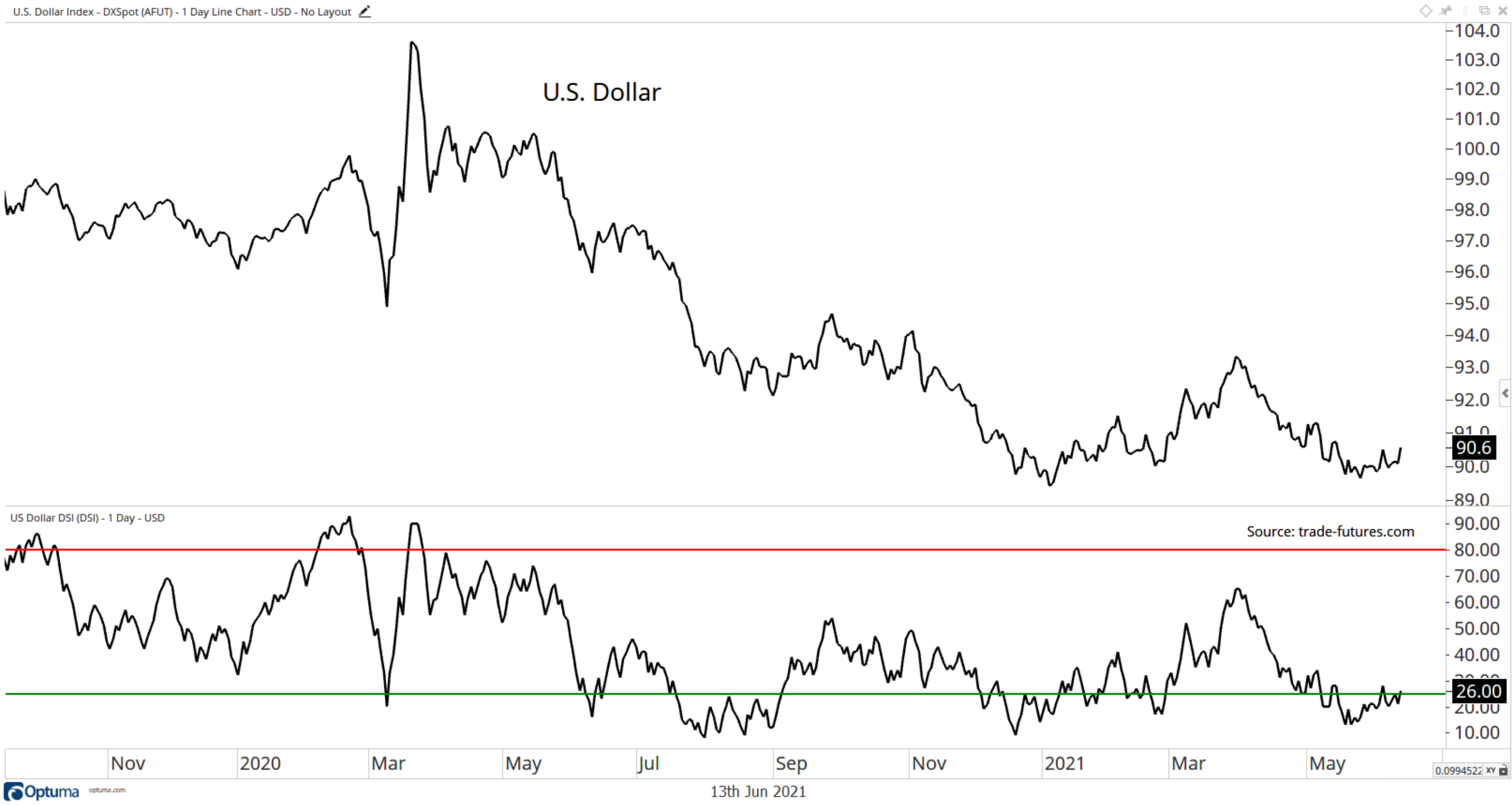

Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
70.91
Crude Oil DSI (DSI) - 1 Day - USD
80.00
source: Trade-futures.com
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
13th Jun 2021

Daily Sentiment Index

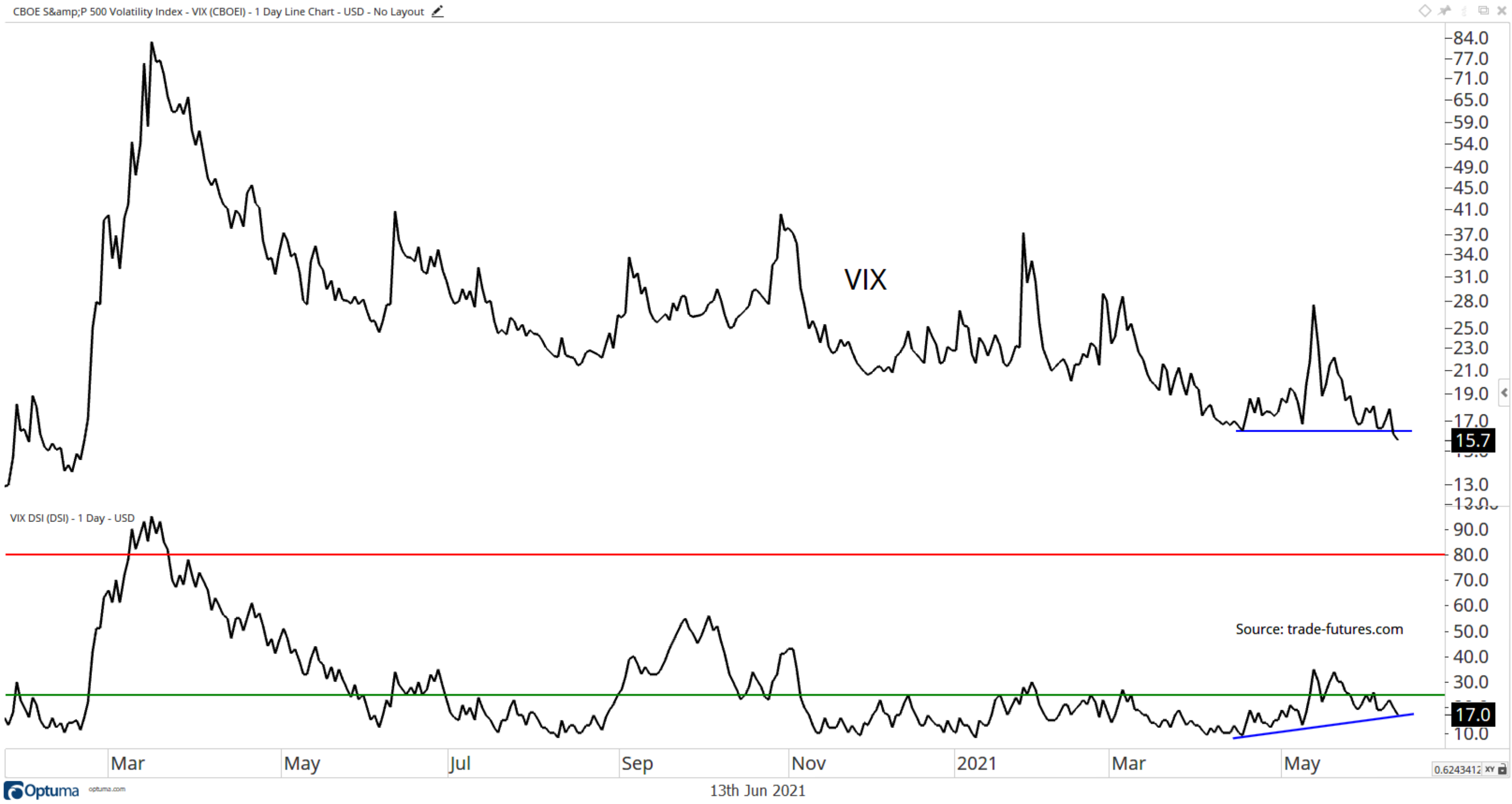
Daily Sentiment Index



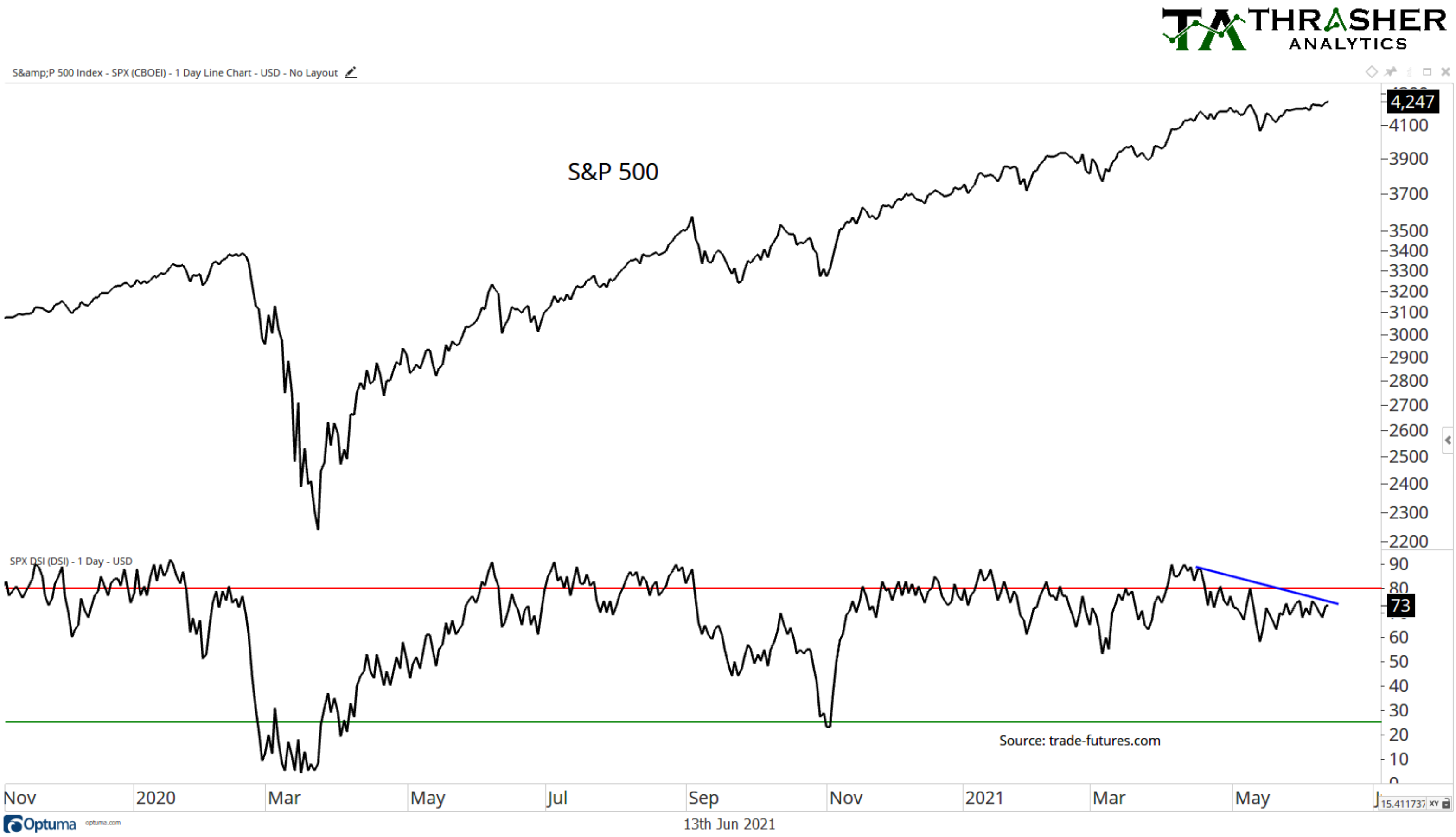
Daily Sentiment Index



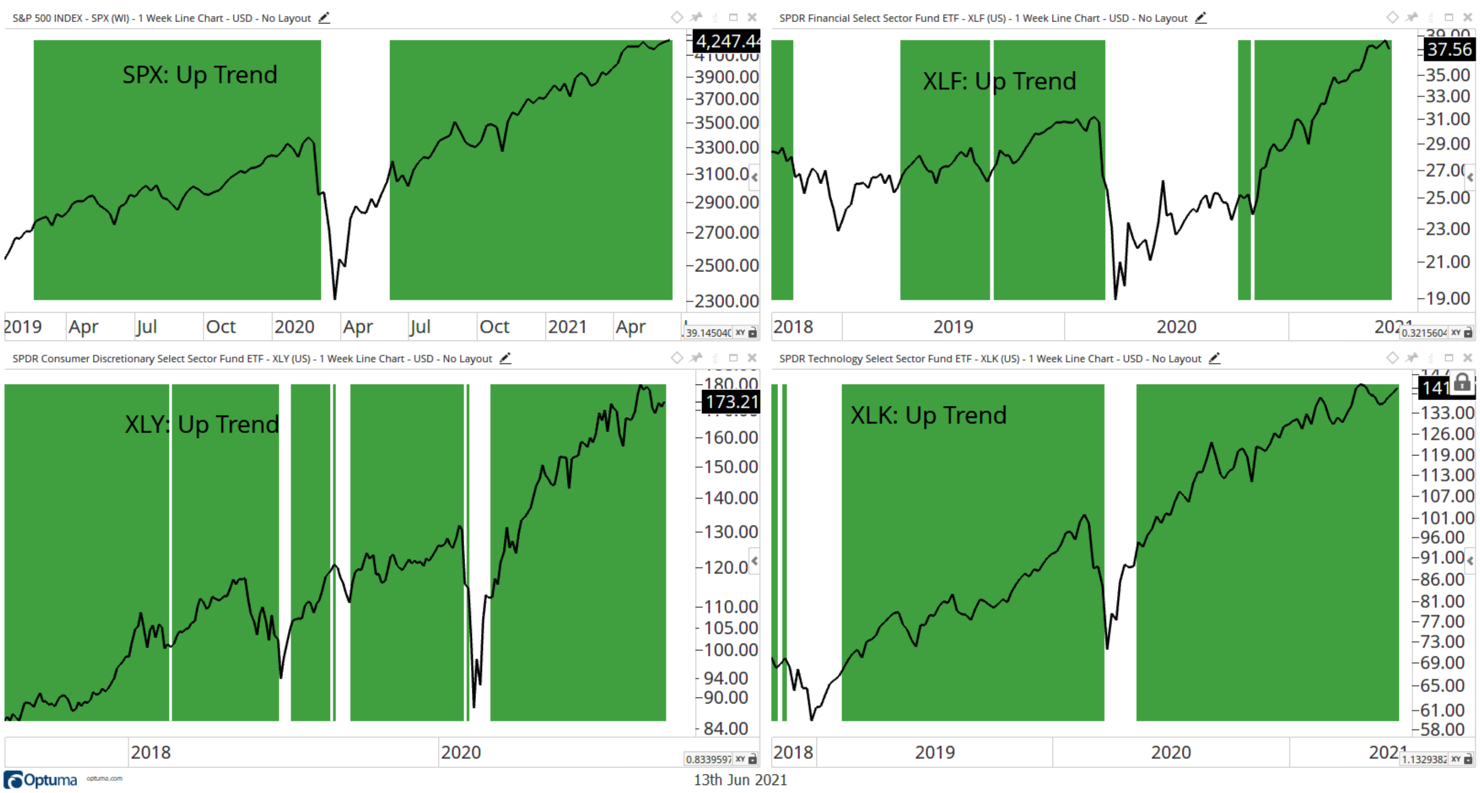
Daily Sentiment Index



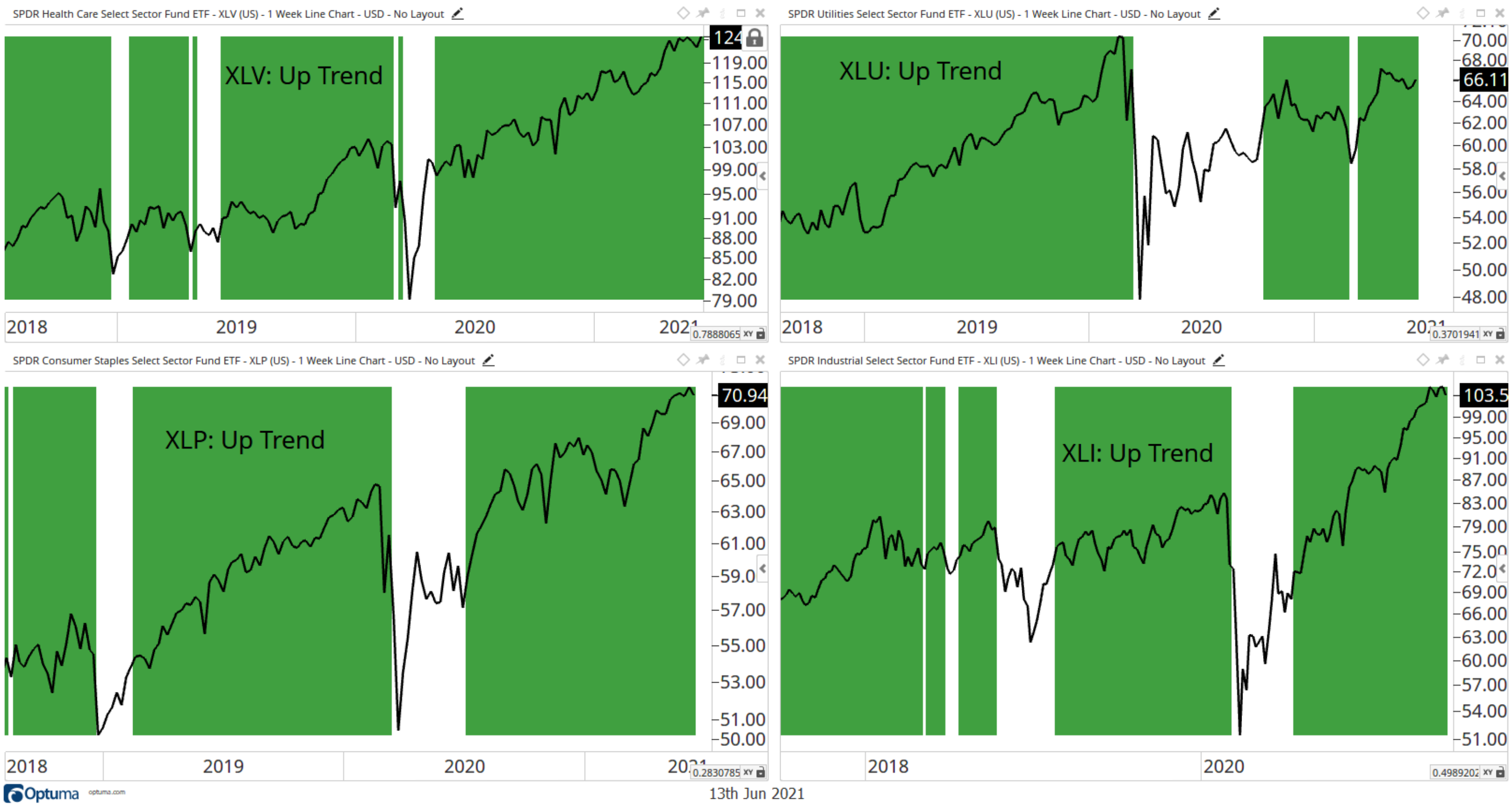
Daily Sentiment Index



Trend Models



Trend Models



Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout
QQQ: Up Trend
341.24
2018
2020
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout
XLRE: Up Trend
45.44
2019
2020
SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout
XLE: Up Trend
55.38
2018
2019
2020
SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout
XLB: Up Trend
86.12
2018
2019
2020
Optuma
13th Jun 2021

DISCLAIMER: