THRASHER ANALYTICS

JUNE 27, 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. • Other breadth gauges improved. • Rotation from value back to growth.	• Lack of new highs in indiv. equities. • Falling breadth data across asset sizes and industries. • No confirmation in SPX by other indices. • Lofty sentiment.

TABLE OF CONTENTS

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	2
Divergence	0
Momentum	2
Sentiment	2
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	85%	78%
Nasdaq 100	85%	84%
Nikkei	80%	80%
VIX	14%	16%
10yr Treasury	69%	75%
5yr Treasury	65%	66%
CRB Index	73%	73%
Gold	20%	22%
U.S. Dollar	47%	45%

**Green<25% Red>80%*

source: trade-futures.com

Brief Summary:

No surprises came from the Fed speeches last week and while some economic data disappointed, the rotation from value back to growth provided much needed oxygen to keep the bulls fire burning and new highs in the S&P 500 getting hit. While other indices aren't as lucky to hit new highs like SPX, the long-term breadth picture remains strong and the short-term picture saw some improvement last week. Will that strength last this week and keep the index moving higher? We'll see. Growth is now 'overbought' relative to value so that catalyst could have run out of steam and another hand-off may be needed.

The % above 50MAs improved last week but still well off the highs and the New High list is well below the readings we saw a few weeks/months ago. Sentiment has risen to 85% for SPX and Nasdaq, ending the divergence that had built up as more investors dove back into the proverbial pool.

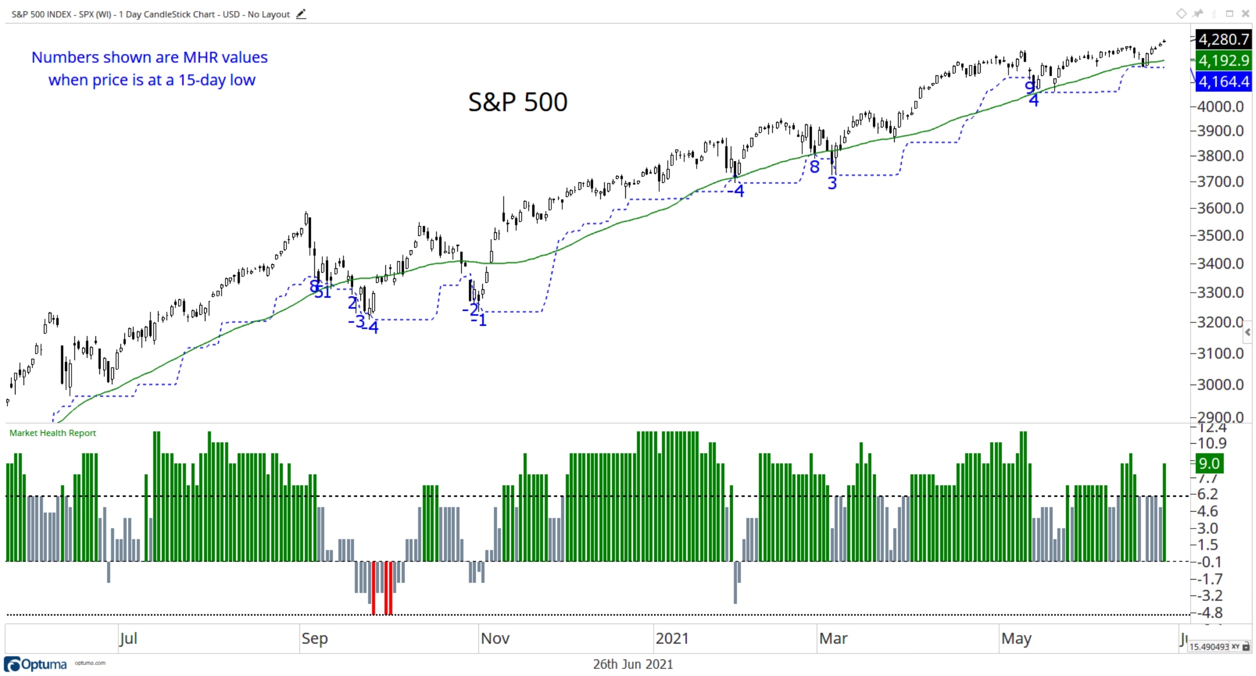
Gold still is a big focus as sentiment dropped but price didn't last week. Basel III kicks into gear this week and should be a bullish catalyst for precious metals.

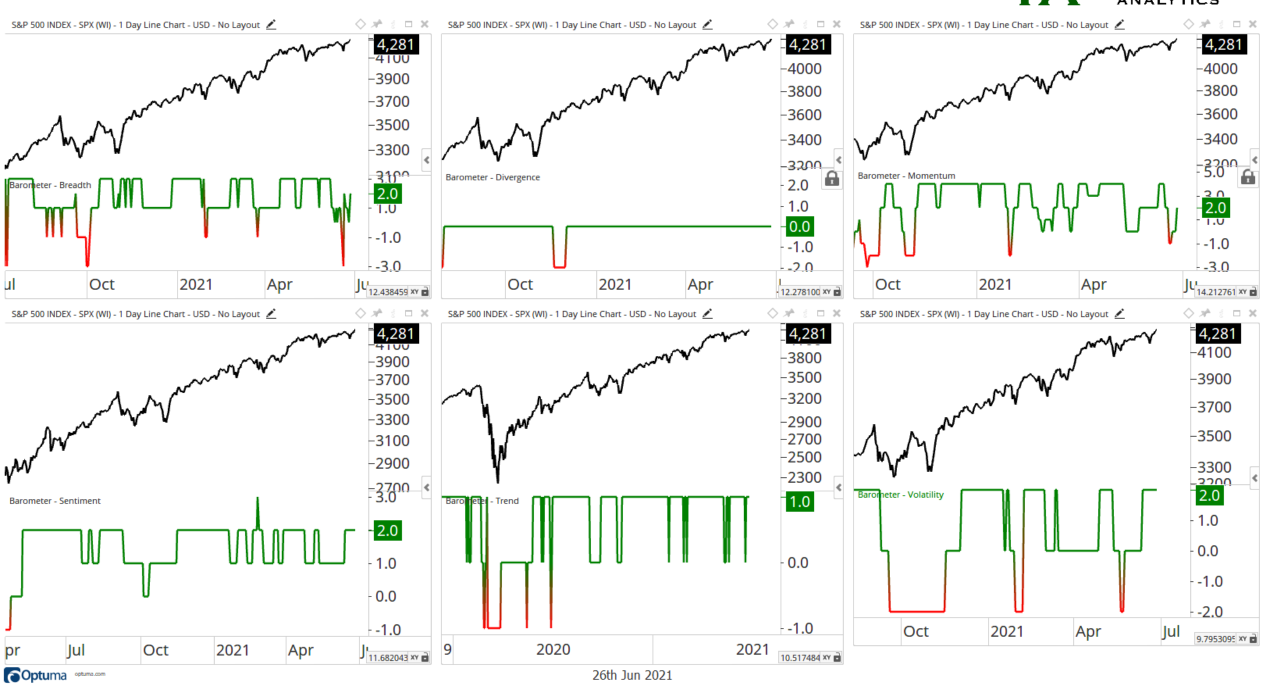
As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

The VRT 2.0 continues to sit just below a trigger level. Dispersion for volatility (across indices) has narrowed but not to a level to warrant caution. The VRT 1.0 (the old version) has risen to the highest level since late-2019 and also the level that was reached before the spike in early 2018. I continue to monitor the situation in the volatility complex but at this time we don't have a trigger of the VRT warning of a possible spike.

Market Health Report

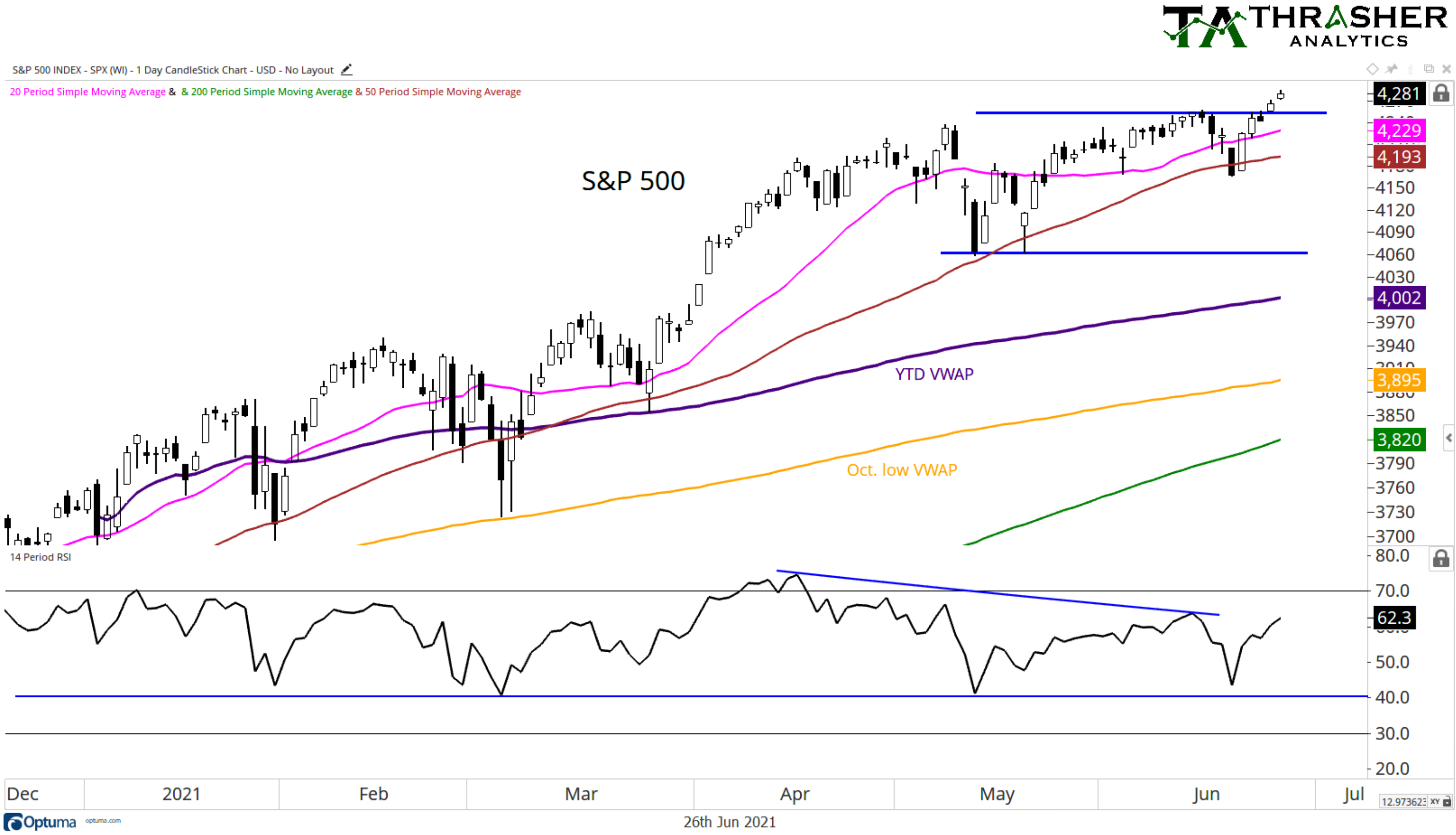
The Market Health Report (MHR) finished the week up to +9. All six categories are now at/above 0, a bullish sign for the market. While the MHR is below its prior high set in May, at +9 there's good underlying support for a bullish argument. This can of course change quickly but as of right now, the bearishness in the breadth and momentum scores has corrected itself back slightly into the green.





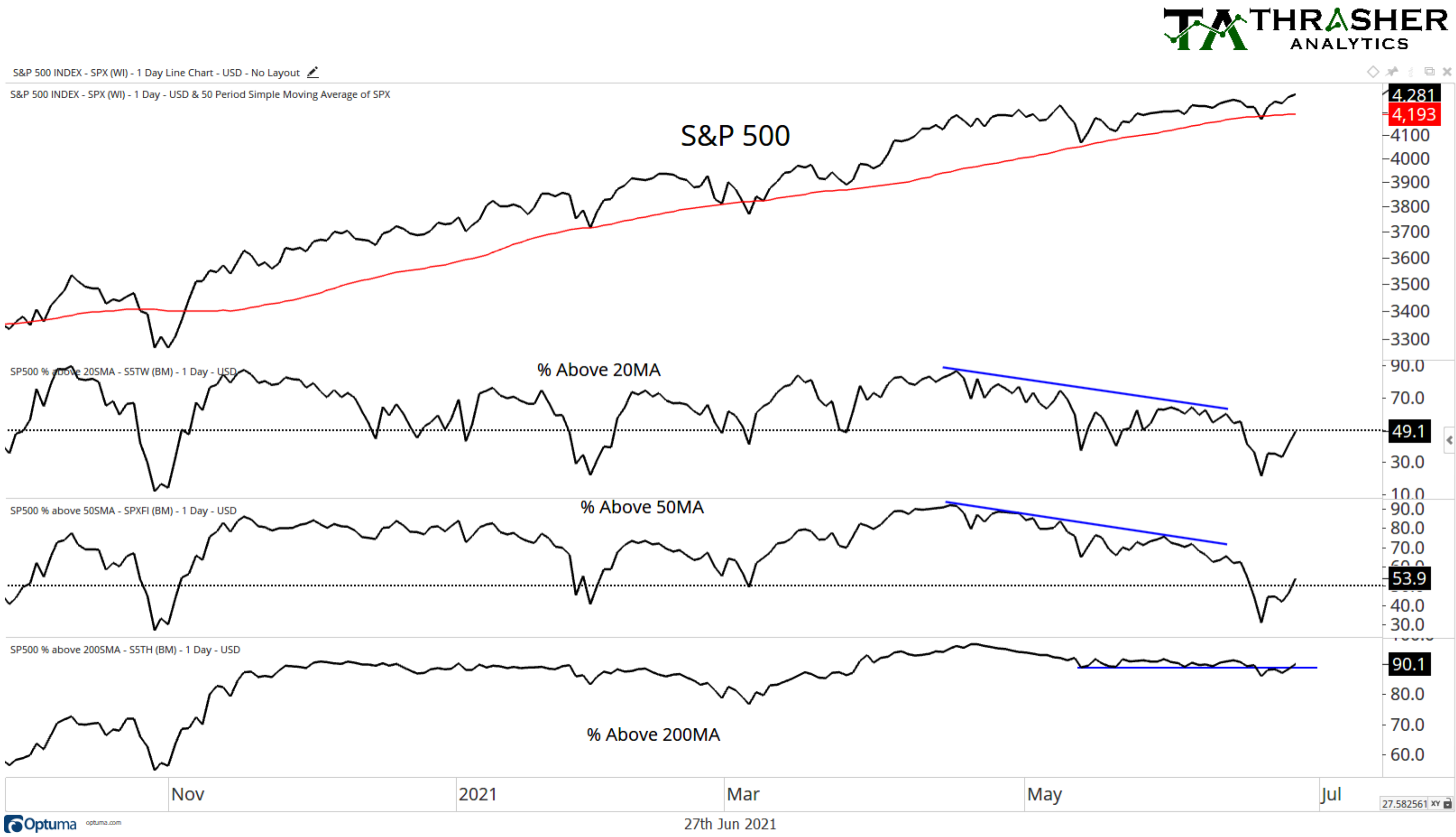
Equities - S&P 500 Daily

The S&P 500 bounced back after giving a test of the 50-day moving average, rising to a new high on Friday. The Russell indices completed their annual rebalance at the end of the week, which likely help give some volume and lift to stocks as they got swapped around. Both Thursday and Friday saw gap ups in the SPX with positive closes. However, momentum still sits below its prior swing high and remains in a bearish divergence. The price action has been extremely strong with each dip getting bought up and the resulting recovery being faster and stronger than the last. The last two dips (May and June) were just three days long before buyers emerged. While some of the internal data has weakened, its hard to argue that price action is strong.



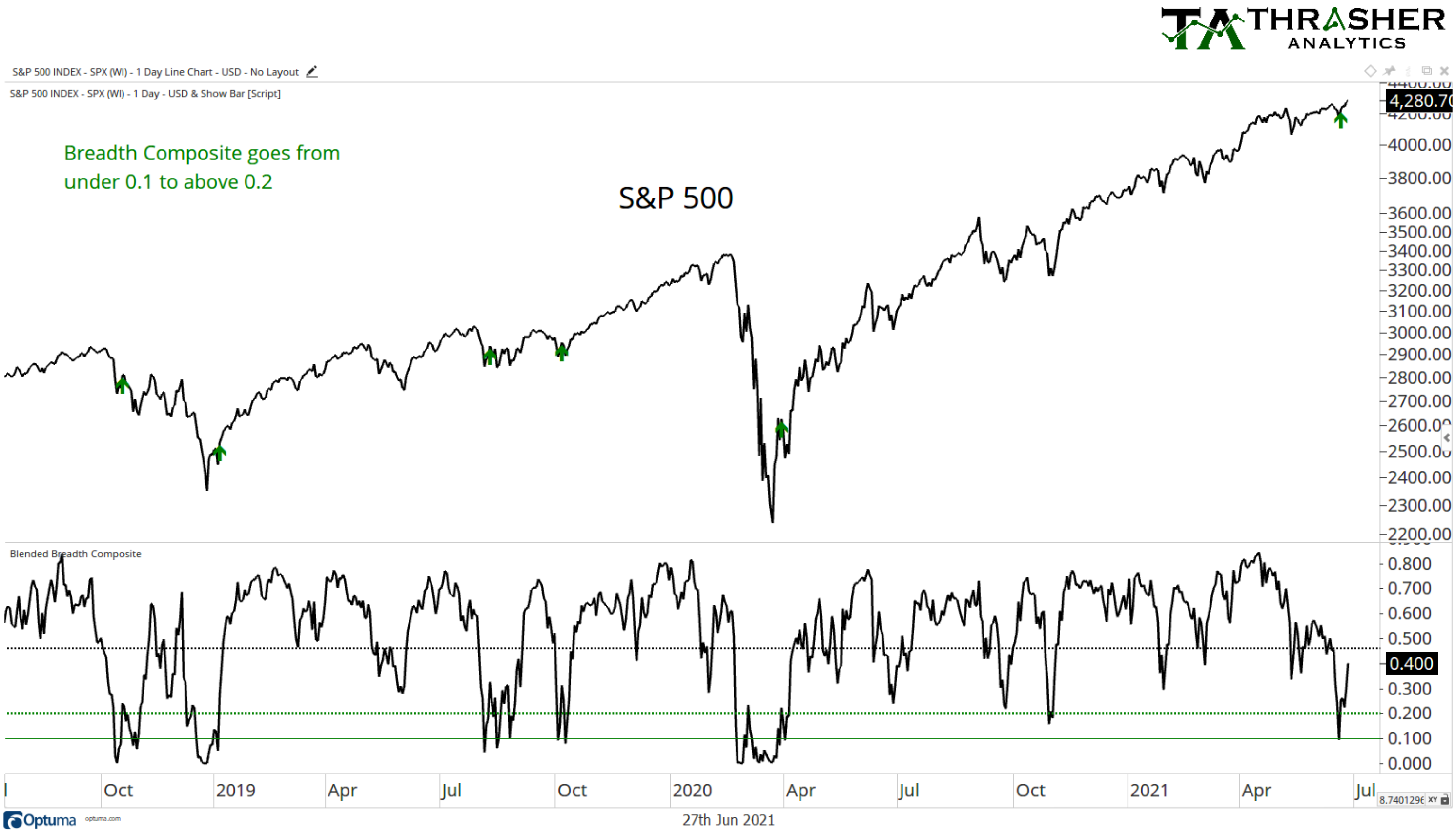
Equities - % Above MAs

Last week I noted the small drop below the prior lows in the % of stocks above the 200-day MA, well that weakness has self-corrected and we are are back to over 90% of stocks trading above the long-term average. We also saw a bounce in % above the 50% to nearly 54%, which is good but still well below the levels we saw over the last couple of months. The breadth picture has seen good improvement but still not ideal - but rarely do we get a picture perfect image so right now it seems bulls are fine with market rotation acting as the stilts propping up the indices.



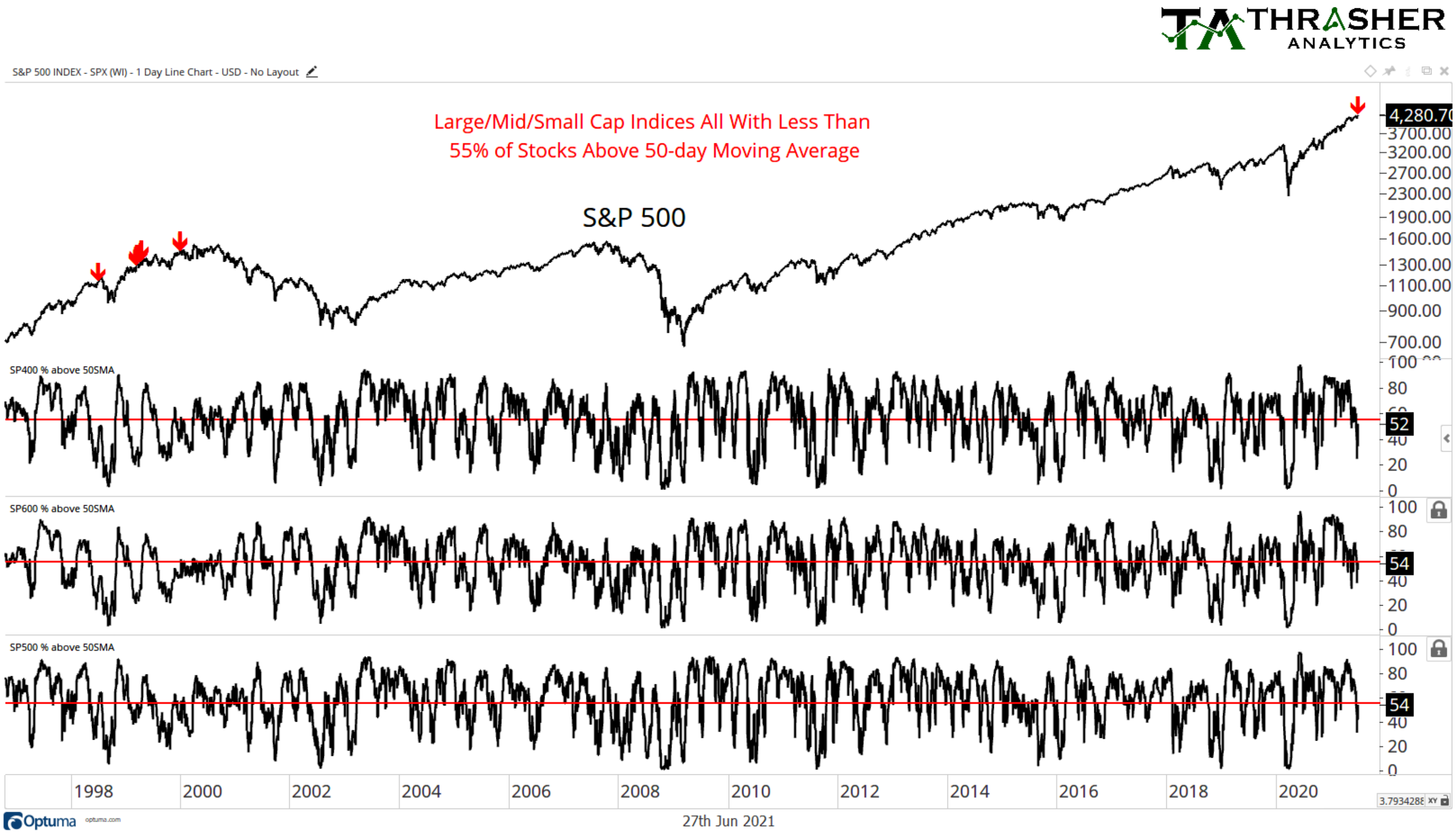
Equities - Breadth Composite

The Breadth Composite has improved from being at the 10th %tile to 40th. Obviously we are still well off the highs for the Composite of Breadth indicators but last week's buying showed some improvement.



Equities - Asset Size Breadth

I've shown a version of this chart below, looking at the % of stocks in S&P 500, 400, and 600 above the 50-day moving average. It has not just been small or large caps that saw drops in their breadth readings. In fact, when the SPX was at a 52-week high, we'd have to go back to the 1990s to find a time when all three asset sizes had less than 55% of stocks trading above the 50-day MA. With such a small sample, it's hard to extract a meaning of this but I thought it interesting to share just how unique this market is right now.

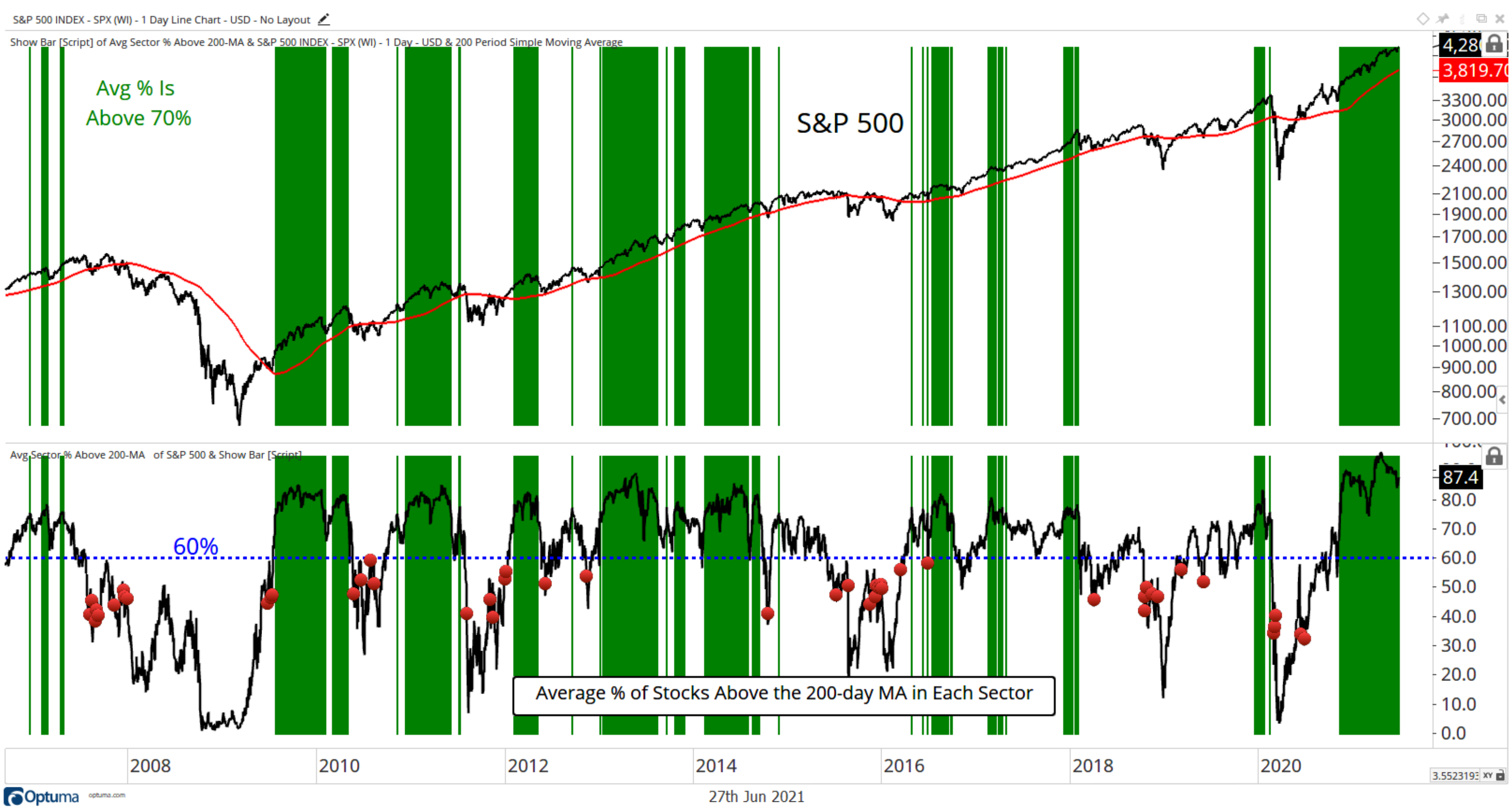


EQUITIES - SECTOR BREADTH

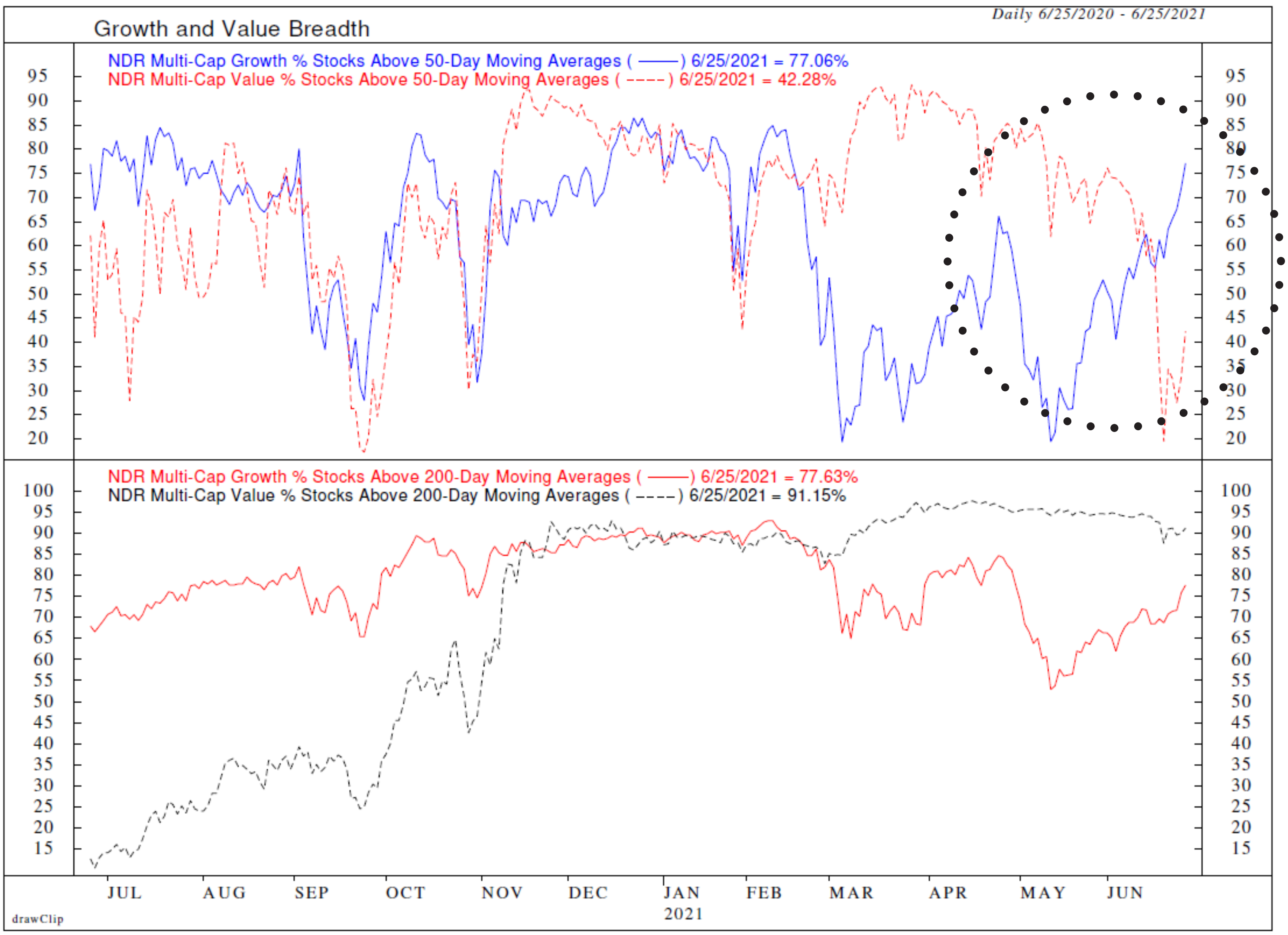
On a brighter note, as it relates to breadth, we have a very high average of stocks above the 200-day moving average across sectors. This figure at one point was north of 90% but is 87.4% as of Friday. The green bars show when there's been an average of more than 70% of stocks above the 200-MA, note these periods are associated more with bullish up trends than with ominous downturns.

Since 2007, we have seen much weaker readings here going into the S&P 500 itself breaking its 200-day moving average. In fact, each time the index broke its long-term average the average sector had less than 60% of stocks above the 200-MA. The red dots in the bottom panel show when the index broke its MA and the corresponding sector average.

This means, if history is our guide, that we would see a much larger breakdown in long-term trends before a major drawdown (defined as SPX trading below its 200-MA) occurs. While shorter measures of breadth have fallen, we still have good long-term trends holding firm across the equity market.

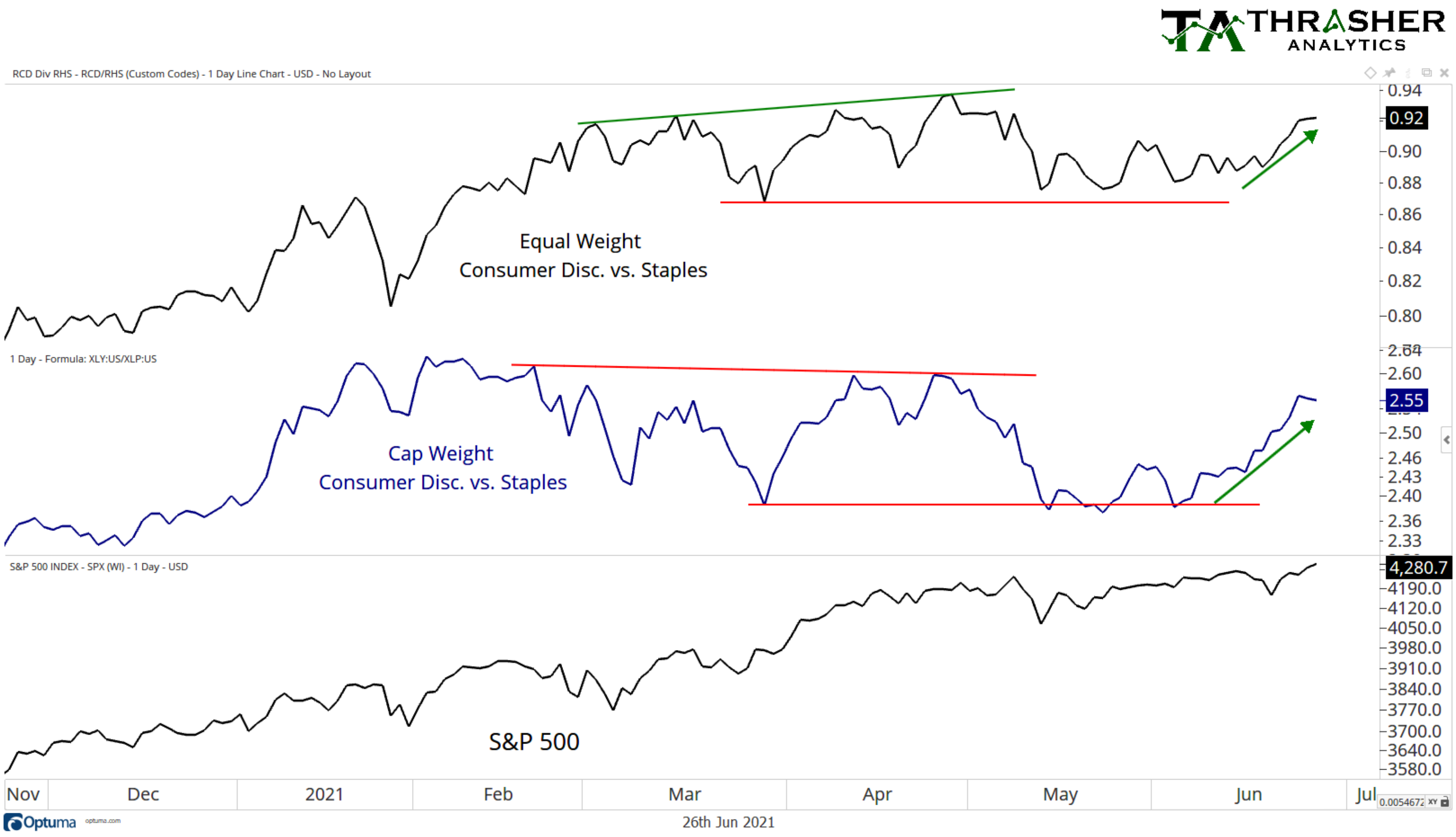


A big contribution factor to what helped stocks stay afloat over the last two months has been the rotation back to growth from value (dotted circle on the chart). The % of stocks above the 50-day MA for growth went from 20% to nearly 80% while value saw an opposite change. The chart below comes from Ed Clissold of Ned Davis Research. This helps explain a big part of why stocks were able to move back to new highs in the face of poor broad market breadth - below the surface there was handing of the baton from value to growth and its success kept bulls in control.



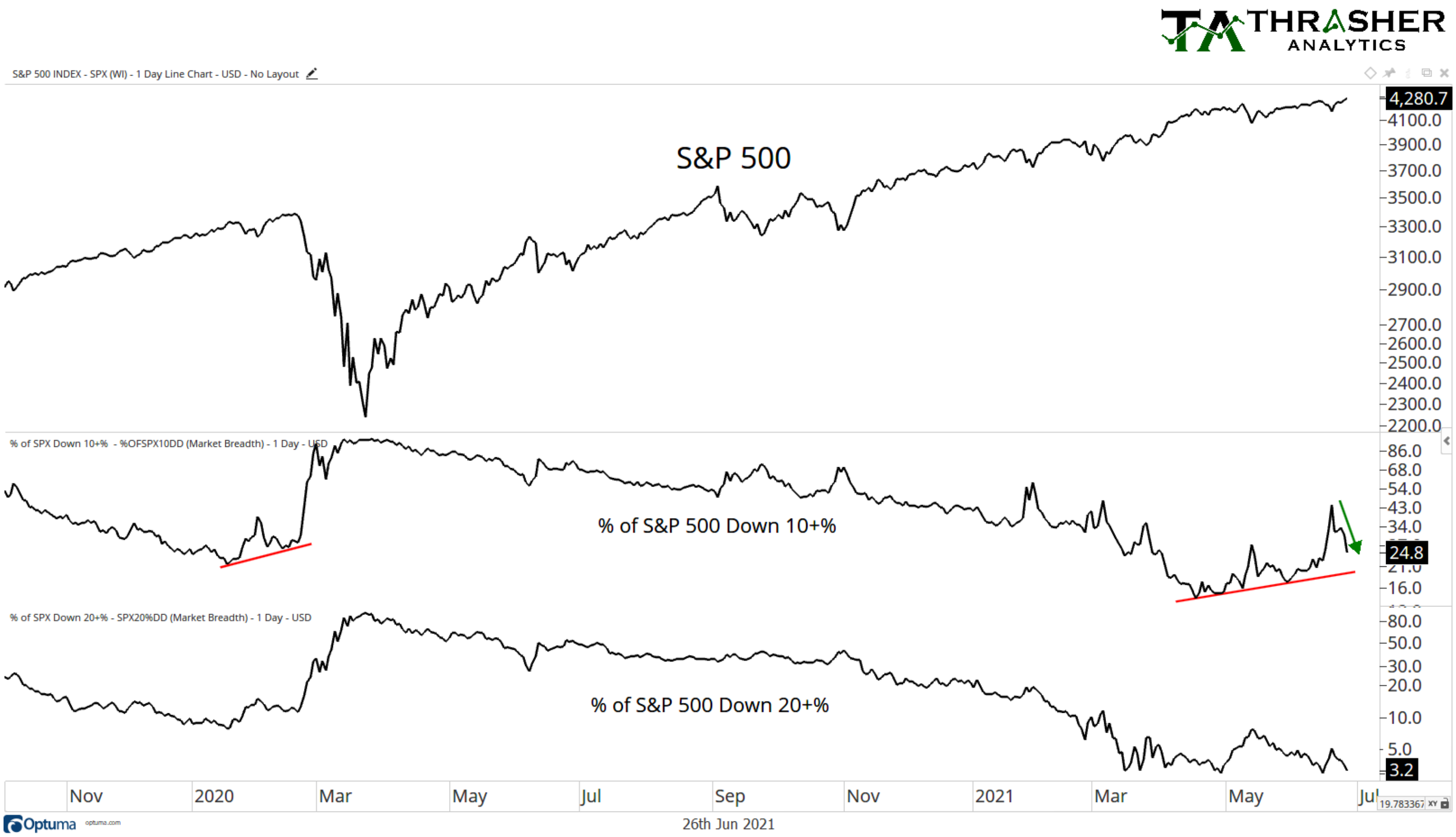
Equities - Consumer Ratio

Another positive sign from last week was the improvement in the consumer ratio, both in equal weight and cap weight form. I spoke in prior letters that the inclusion of Tesla in XLY has caused it to become more volatile and why those that just looked at the XLY vs. XLP thought the breakdown in May as a bearish sign for equities. However, equal weight was still making higher lows, a bullish sign for risk appetite. Last week both began to rise as Discretionary stocks outperformed Staples, exactly what market bulls want to see.



We started to see an increasing number of S&P 500 stocks trading lower by at least 10%, even though the index itself had been down marginally. This breakdown by individual equities was initially a bearish sign that stocks were starting to trend lower. However, last week that trend started to reverse as we went from over 40% of stocks down at least 10% to 24.8%. We also have just 3.2% of stocks off by 20+%, one of the lowest records in the last twelve months.

Stocks had started to stumble but made up ground last week. Will this continue going forward? We'll soon find out.

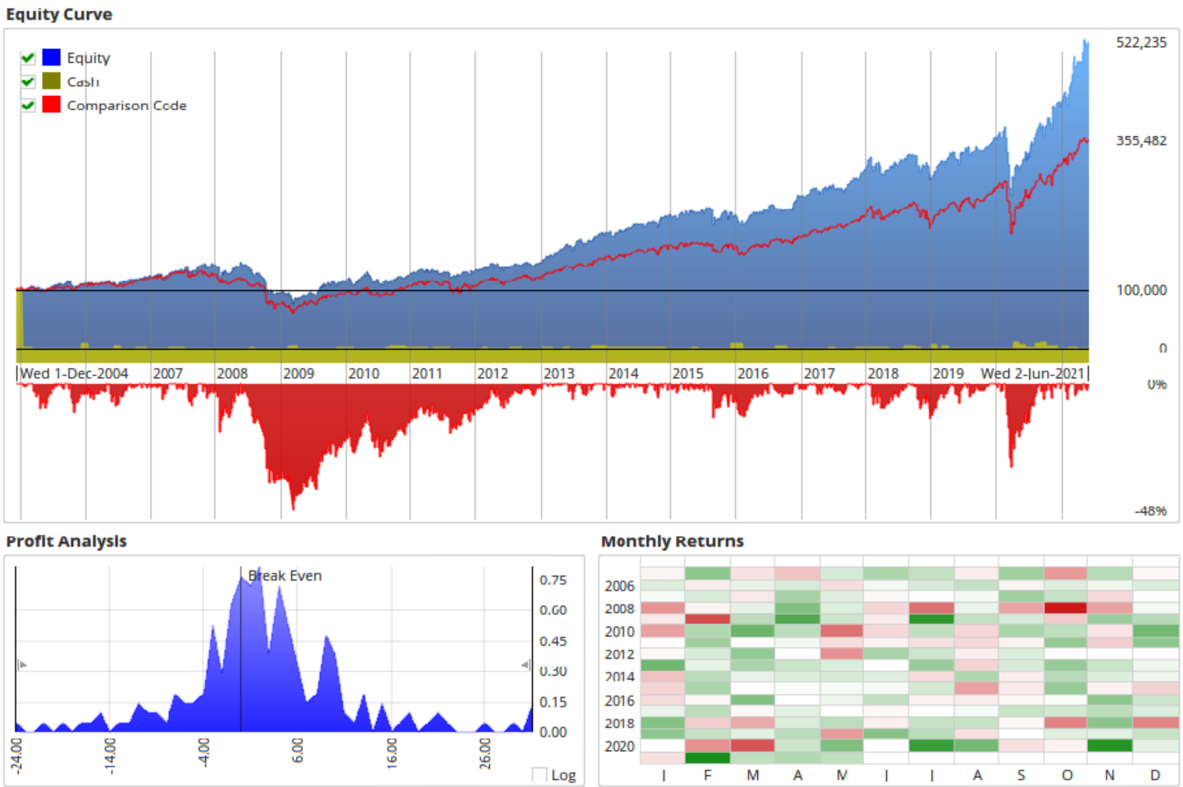


SECTOR ROTATION MODEL

I've gotten a couple questions about seeing a back test of the Sector Rotation Model. Below you can find the model going back to 2005. As a reminder, the model invests in the top three sectors each month. The methodology is different than what you'd find in most research firms or academic papers as it pertains to sector modeling. This model doesn't just use simple 3- or 6-month momentum but evaluates the health of each sector's trend and takes a unique approach to adjusting each trend for volatility.

As always, past results are not indicative of future performance and this is not intended to be investment advice.

Test Results	
Start Date	12/1/2004
End Date	6/2/2021
Starting Balance	$100,000.00
Ending Balance	$525,051.83
$ profit	$344,863.31
% profit	344.9%
Number of trades	200
System Performance	
Annualized Returns	11.8%
Annualized Volatility	14.9%
Beta	0.82
CAGR	10.6%
Sharpe Ratio	0.62
Maximum drawdown %	48.2%
Longest recovery time	4 years 7 months
Trading Expectancy	$1,750.58
Index Results (SPX:WI)	
Index Returns	9.4%
Index Volatilty	15.8%
Index CAGR	8.0%
Index Sharpe	0.43



Optuma optuma.com

Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Technology Select Sector Fund ETF	True	True	0.08%	6.12%	9.31%	38.02%
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	-0.61%	1.81%	4.05%	34.1%
SPDR Health Care Select Sector Fund ETF	True	True	-0.65%	0.39%	7.92%	24%
SPDR Communication Services Select Sector ETF	True	True	-1.54%	3.80%	5.11%	41.1%
SPDR S&P 500 ETF	False	True	-2.21%	0.72%	5.99%	33.08%
SPDR Real Estate Select Sector Fund ETF	True	True	-2.44%	5.42%	13.2%	24.14%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-3.02%	-2.54%	4.01%	14.8%
SPDR Utilities Select Sector Fund ETF	False	True	-3.04%	-1.93%	3.34%	8.37%
SPDR Industrial Select Sector Fund ETF	False	True	-3.77%	-3.19%	2.47%	42.12%
SPDR Energy Select Sector Fund ETF	True	True	-5.4%	-2.00%	5.8%	30.39%
SPDR Financial Select Sector Fund ETF	False	True	-6.2%	-5.85%	1.76%	45.94%
SPDR Materials Select Sector Fund ETF	False	True	-6.25%	-7.94%	3%	43.28%

International - China

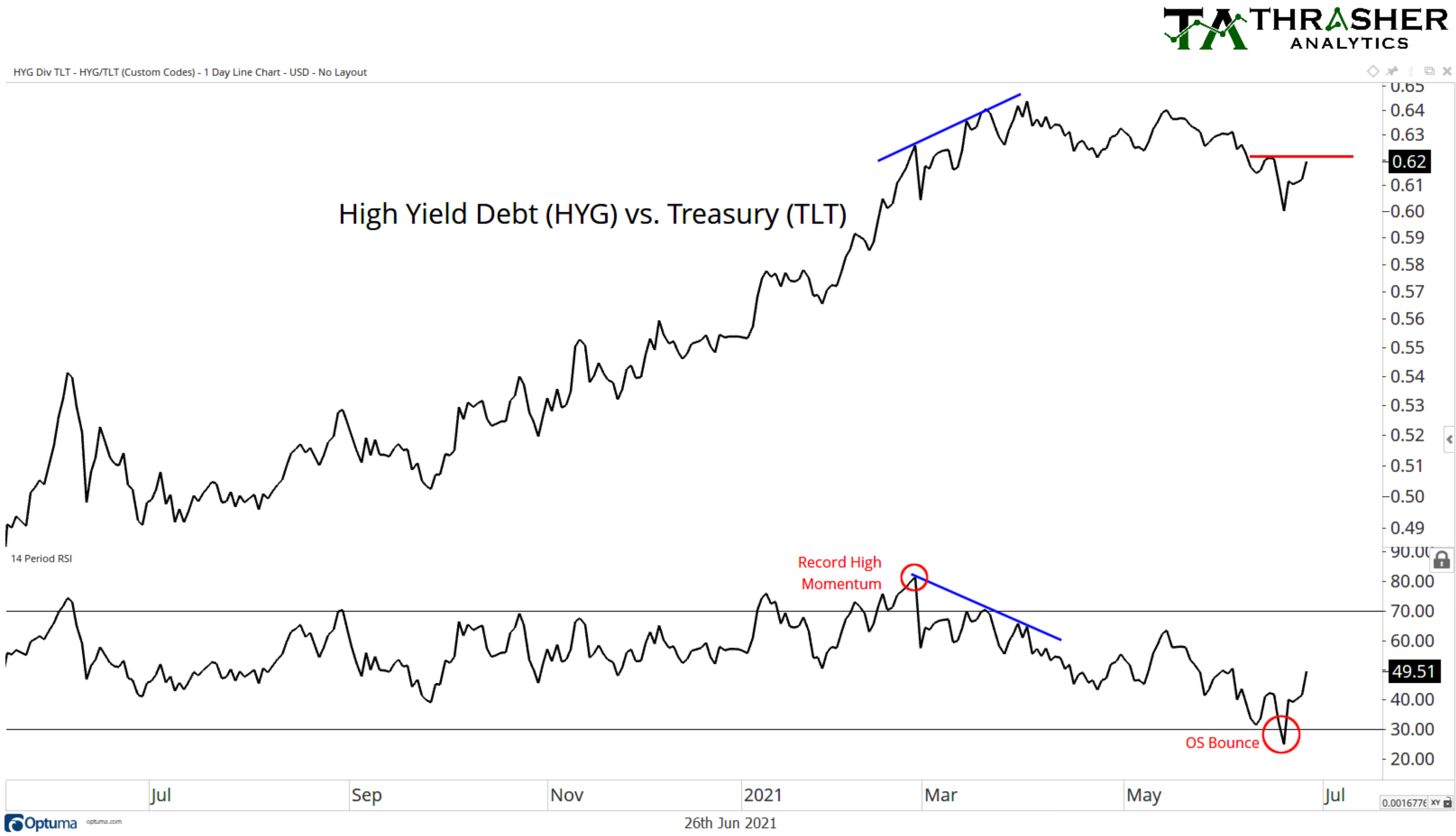
The China Internet ETF (KWEB) has bounced off prior support and now has a bullish divergence in the Volatility Adjusted Momentum indicator. This is a bullish setup and I'm watching for KWEB to rise back to the VWAP off the 2021 high, currently at $76.11. If KWEB can hold above $66 then this bounce could have legs.

Commodity - Gold

Gold continues to hold above prior support and even though sentiment moved lower last week as the DSI dropped to 20% bullish, price holding firm is a good sign. Momentum remains "oversold" and still has the potential to help get some mean-reversion in gold. Basel III should kick in this week, which I view as bullish for gold as it moves the commodity to Tier 1 status for banks and makes it most attractive of an asset.

Fixed Income - HY Debt

I last discussed the ratio of High Yield Debt to Treasury's when a bearish divergence had developed following the highest reading in the 14-day RSI in the history of the ratio (i.e. the ETFs). We saw HY debt weaken relative to Treasury bonds but then saw a bounce last week. The strength in relative performance of HY debt came after momentum was 'oversold' and sent the ratio just below its prior swing high. If the ratio doesn't break the prior May level then last week's bounce may just be the market experiencing some short-term mean reversion within a longer down trend favoring Treasury's. But if it does break above then we could see further upside in HYG relative to TLT.



Daily Sentiment Index

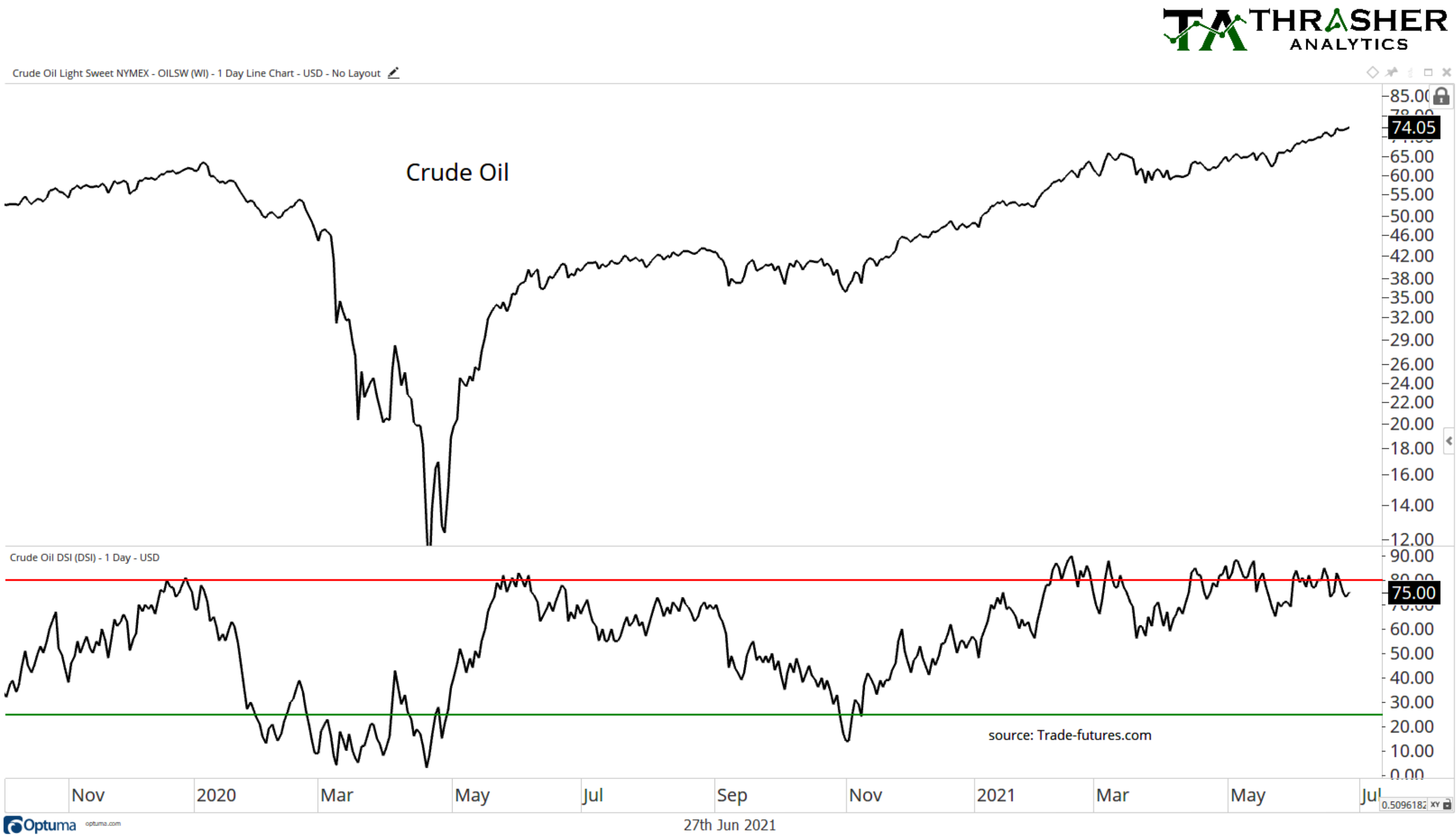
Market	% Bullish	5MA	History
Lumber DSI	7	11.6	
VIX DSI	14	16	
Lean Hog DSI	15	22	
Wheat DSI	17	25	
Corn DSI	17	21	
Gold DSI	20	21.6	
Silver DSI	25	27.80	
Palladium DSI	30.00	25.60	
Cocoa DSI	33.00	32.20	
Copper DSI	34.00	31.20	
Platinum DSI	35.00	29.80	
Cattle DSI	41.00	43.40	
British Pound DSI	44.00	49.80	
Euro DSI	45.00	44.00	
US Dollar DSI	47.00	45.20	
New Zealand Dollar DSI	53.00	49.40	
Swiss Franc DSI	57.00	59.20	

Code	% Bullish	5MA	History
Australian Dollar DSI	57.00	55.40	
Orange Juice DSI	58.00	54.20	
Sugar DSI	64.00	56.80	
Mexican Peso DSI	65.00	59.60	
EuroDollar DSI	65.00	65.80	
5YR DSI	65.00	65.80	
10Y DSI	69.00	74.60	
Cotton DSI	70.00	66.20	
Coffee DSI	70.00	62.80	
CRB Index DSI	73.00	72.80	
Crude Oil DSI	75.00	77.20	
Heating Oil DSI	77.00	79.80	
Gasoline DSI	79.00	80.6	
Nikkei DSI	80	80.4	
SPX DSI	85	78.40	
Nasdaq DSI	85	83.8	
Natural Gas DSI	88	84	

Source: trade-futures.com

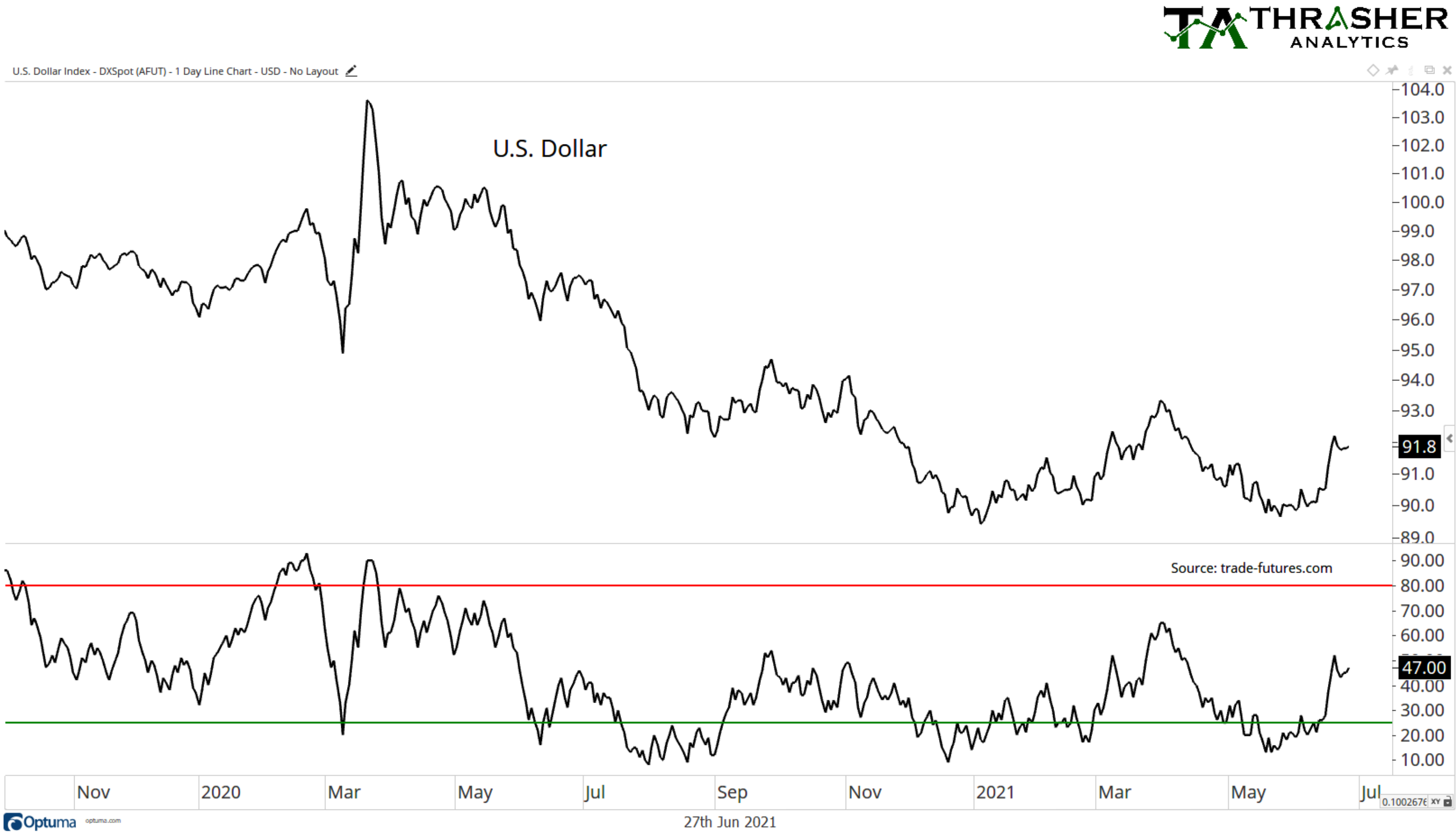
10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
131.86
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
69.00
Jul
Oct
2019
Apr
Jul
Oct
2020
Apr
Jul
Oct
2021
Apr
Optuma
27th Jun 2021

Daily Sentiment Index




Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
Gold DSI (DSI) - 1 Day - USD
Source: trade-futures.com
1,777.80
20.00
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Optuma
27th Jun 2021

THRASHER ANALYTICS
NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
14,345
13900
13400
12900
12500
12100
11700
11300
10900
10500
10100
9700
9400
9100
8800
8500
8200
7900
7600
7300
7000
Nasdaq DSI (DSI) - 1 Day - USD
85
70
60
50
40
30
20
10
Source: trade-futures.com
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Optuma
27th Jun 2021

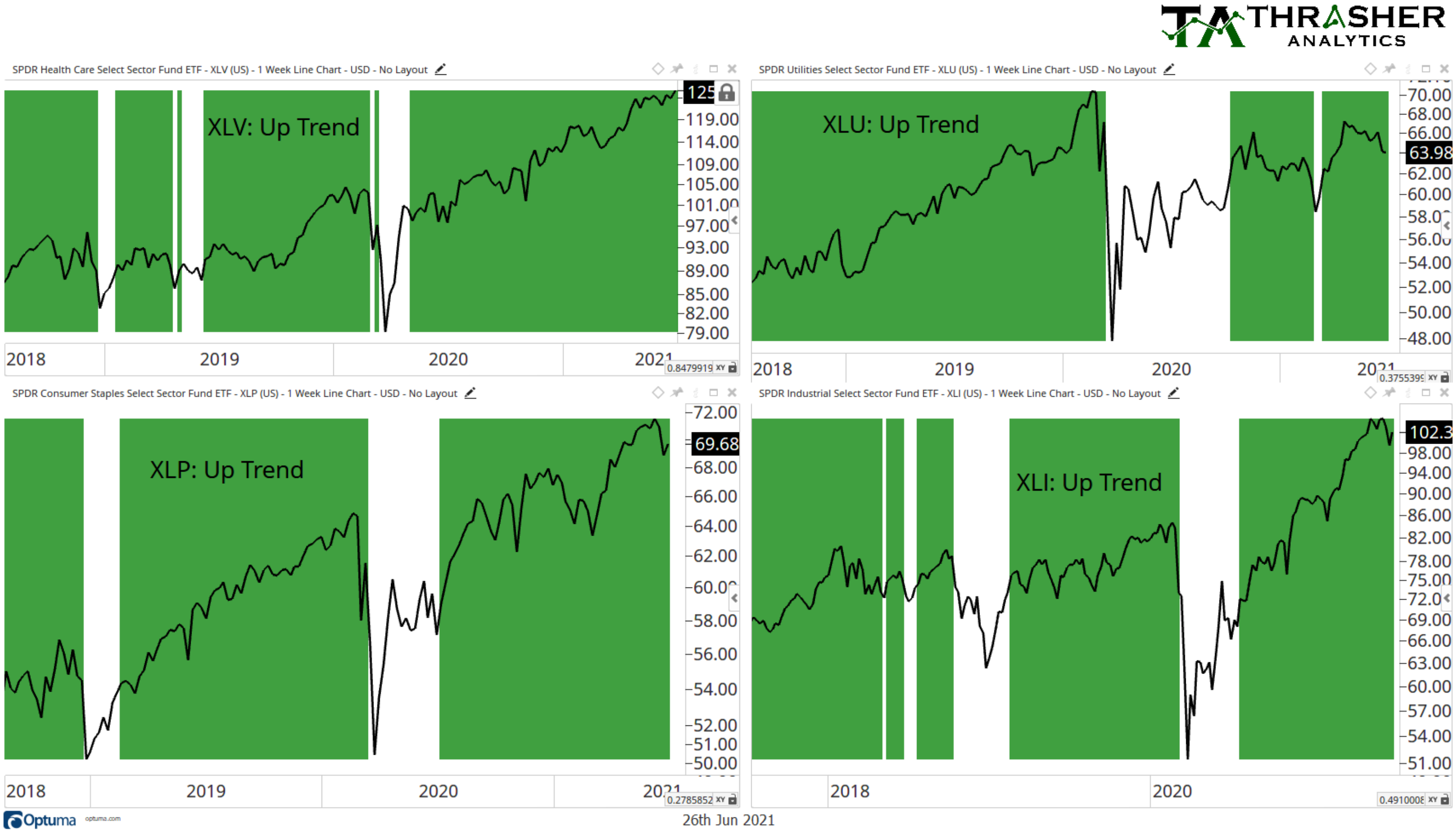

THRASHER ANALYTICS
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
104.0
103.0
102.0
101.0
100.0
99.0
98.0
97.0
96.0
95.0
94.0
93.0
91.8
91.0
90.0
89.0
Source: trade-futures.com
90.00
80.00
70.00
60.00
47.00
40.00
30.00
20.00
10.00
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Jul
Optuma
27th Jun 2021

Daily Sentiment Index

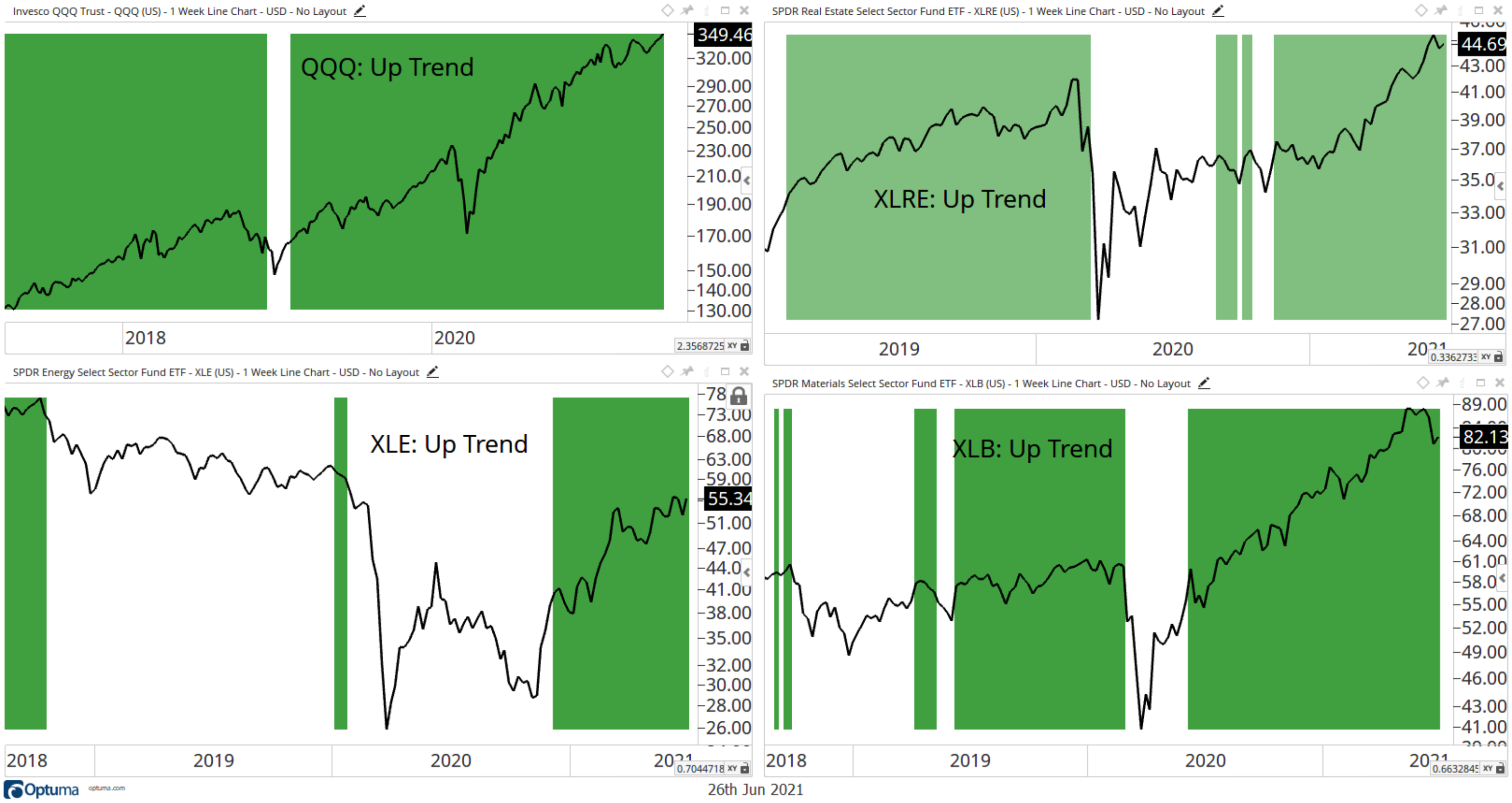
Daily Sentiment Index


S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout
SPX: Up Trend
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout
XLF: Up Trend
SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout
XLY: Up Trend
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout
XLK: Up Trend
Optuma
26th Jun 2021

Trend Models



Trend Models



DISCLAIMER: