THRASHER ANALYTICS

JUNE 20, 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.	• Rise in new 20-day lows. • VIX sentiment data strengthens. • Falling breadth data across asset sizes and industries. • Indices broke the 50-day Moving Average.

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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	-1
Sentiment	2
Trend	0
Volatility	2
Total	**2**

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	67%	73%
Nasdaq 100	71%	76%
Nikkei	73%	82%
VIX	25%	21%
10yr Treasury	83%	77%
5yr Treasury	66%	61%
CRB Index	65%	73%
Gold	23%	39%
U.S. Dollar	52%	38%

**Green<25% Red>80%*

source: trade-futures.com

Brief Summary:
The FOMC announced turned out to be the opposite of a non-event, with markets from equities, currencies, fixed income, and commodities all having large responses to Fed update. The S&P 500 broke its 50-day MA by a few points but the streak of at least less than 1.5% below the MA has moved above 150 days, the second longest in 20 years! When these streaks end, which I discuss in more detail in the note, selling seems to persist and causes drawdowns from 8-19%. The price action is still in no-mans-land with regards to if this is just a buyable dip or the start to more protracted downside.

I will say that when corrections begin with weakening breadth (like we have right now) they typically are more pronounced than just short-term pullbacks like we experienced several times in the first half of this year. This is why I've been vocal in pointing out the unattractiveness of the risk/reward environment right now. Individual stocks are dropping and if/when this impacts the indices, selling could intensify. However if that does not play out, I stand ready to resume being bullish - I discuss some of the charts I'm watching for this setup later in the letter.

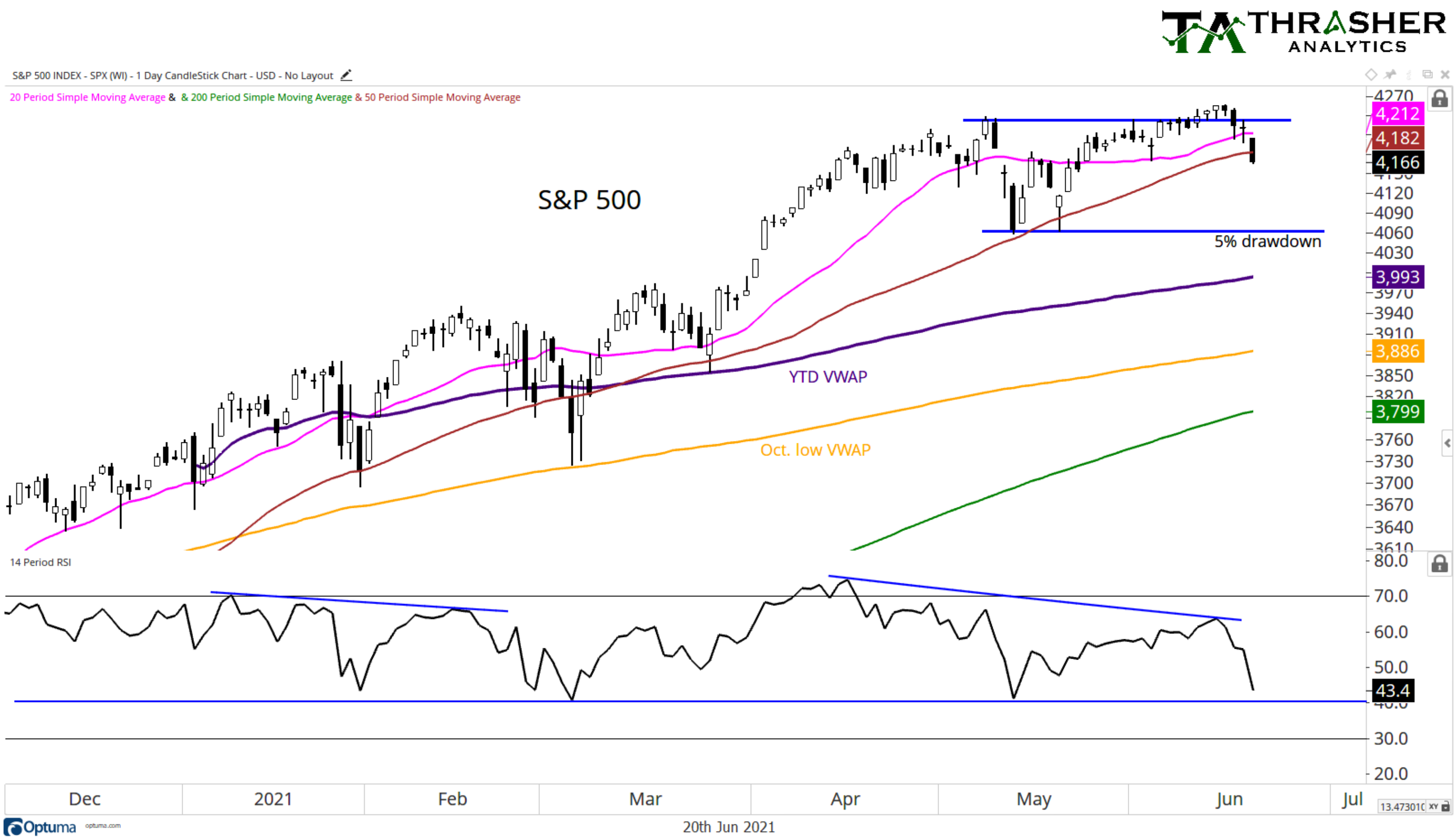
Gold right now has a really interesting setup that involves momentum, sentiment, a macro catalyst, price support, and some mean-reversion in its relationship to the dollar. Natural gas failed to hold its breakout and the Peso (mentioned last week) also has moved lower. Copper had a decent size decline last week which surprisingly caught many off guard, fortunately readers of this letter aren't among them as the COT data was screaming for copper to decline.

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 last two weeks I've discussed the bullish divergence in sentiment for the VIX, which has now led to a move from under 16 to closing on Friday just below 21 as equities sold off. The VRT 2.0 ticked up mid-last week but still remains below its threshold to signal.

Equities - S&P 500 Daily

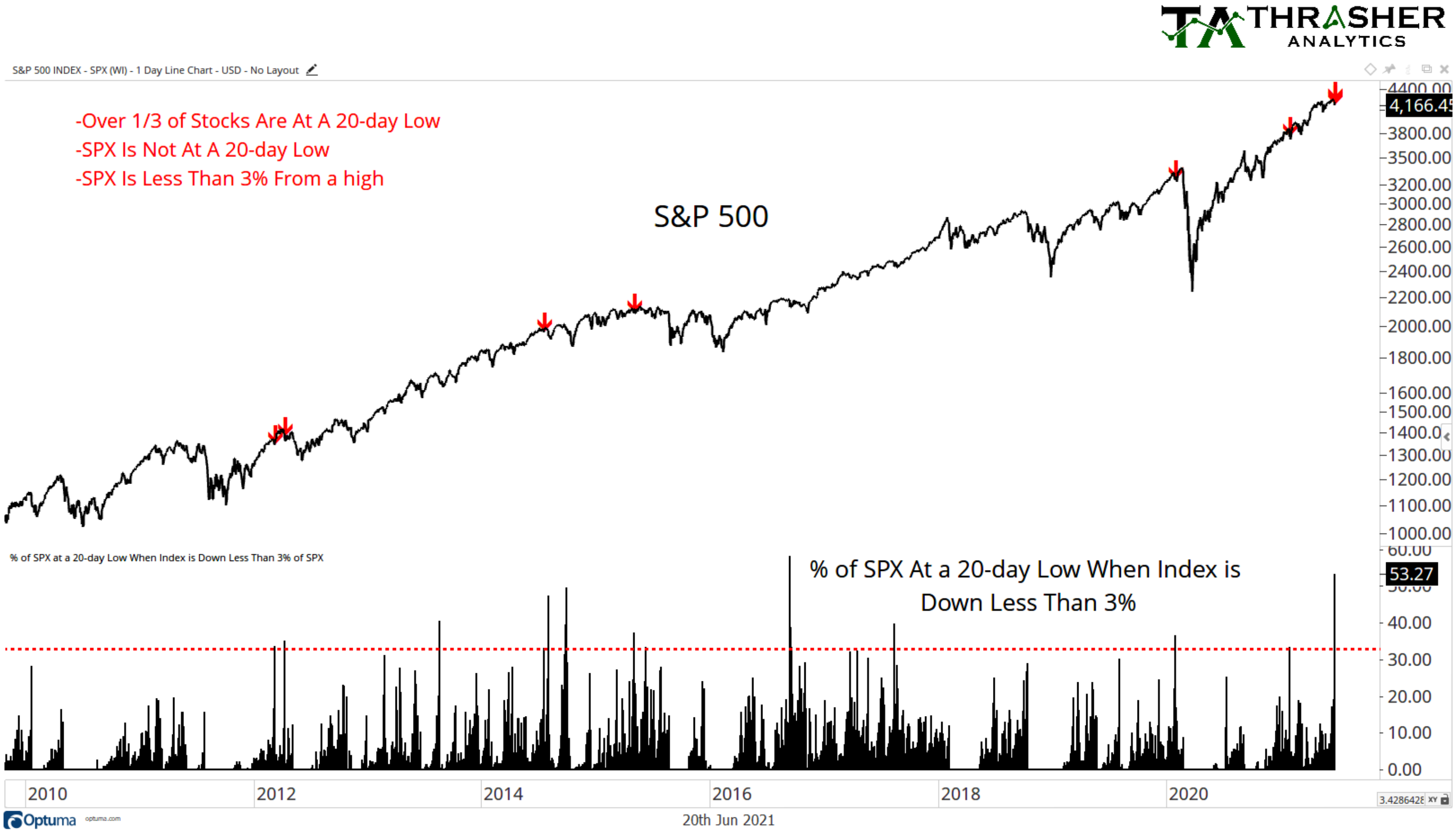
The S&P 500 is now down 2.08% from its 52-week high, falling slightly below the 50-day moving average on Friday. Momentum had been suggesting weakness for several weeks, unable to make a higher-high while price was advancing. A roughly 5% drawdown would take us to the May low, which I don't think is totally out of the question and still in the scope of a simple and healthy pullback. Below the May low I'd be watching the year-to-date VWAP, which right now is just below 4,000.



Equities - New 20-day Lows 1

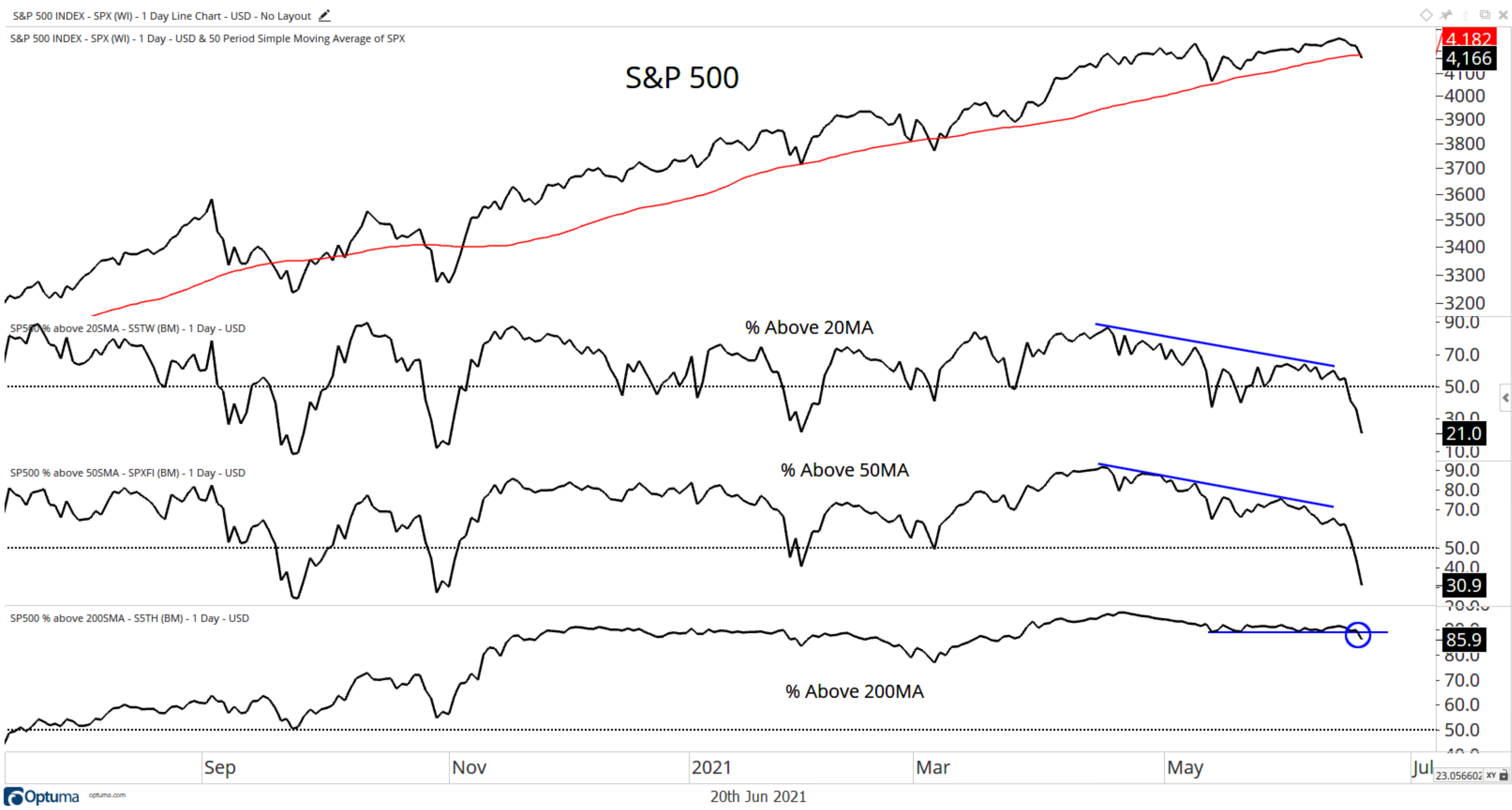
Continuing on the topic of new 20-day lows from last week, we saw a spike up to over 50% of S&P 500 stocks trading at a 20-day low on Friday. What makes it interesting is even though more than half the stocks are meeting this criteria, the index itself still isn't there yet. This hasn't happened very often.

The study below shows when over 33% of stocks are at a 20-day low while the index is less than 3% from a 52-week high and still above its own 20-day low. Since 2007, this has occurred just four previous times, three of which saw further downside in the index. This goes to highlight the internal weakness of individual equities, that has yet to materially impact the broad index just yet.



Equities - % Above MAs

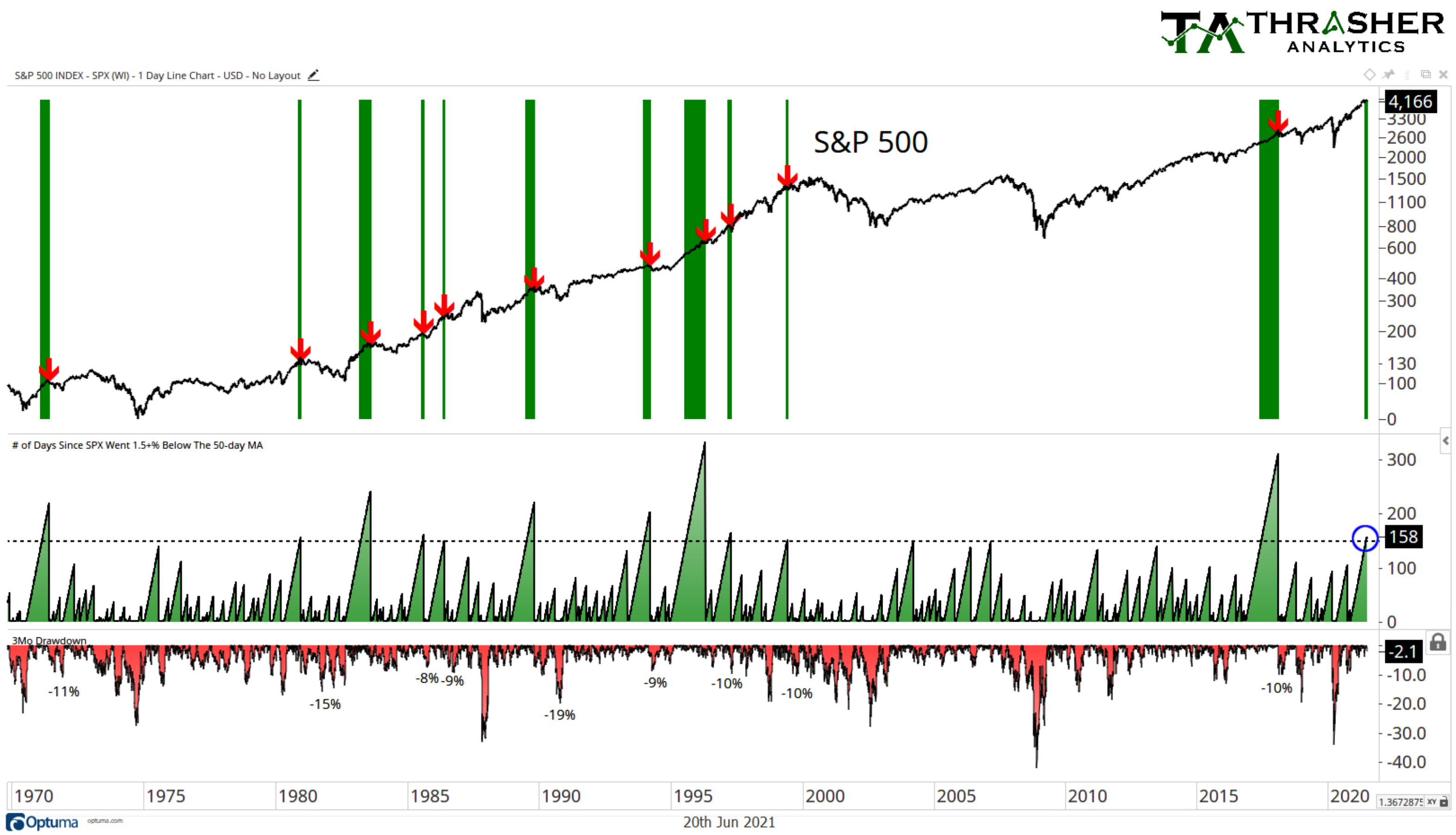
A few letters ago I mentioned that as the short-term % above MAs were breaking down (20-day and 50-day), we hadn't seen a break of the prior lows in the % above the long-term 200-day moving average. That streak ended last week. While still a large majority, 85.9% , are still above the 200-day, this is the lowest reading since March and lowest since last November for % above the 50-day Moving Average.



Equities - Days Above 50-MA

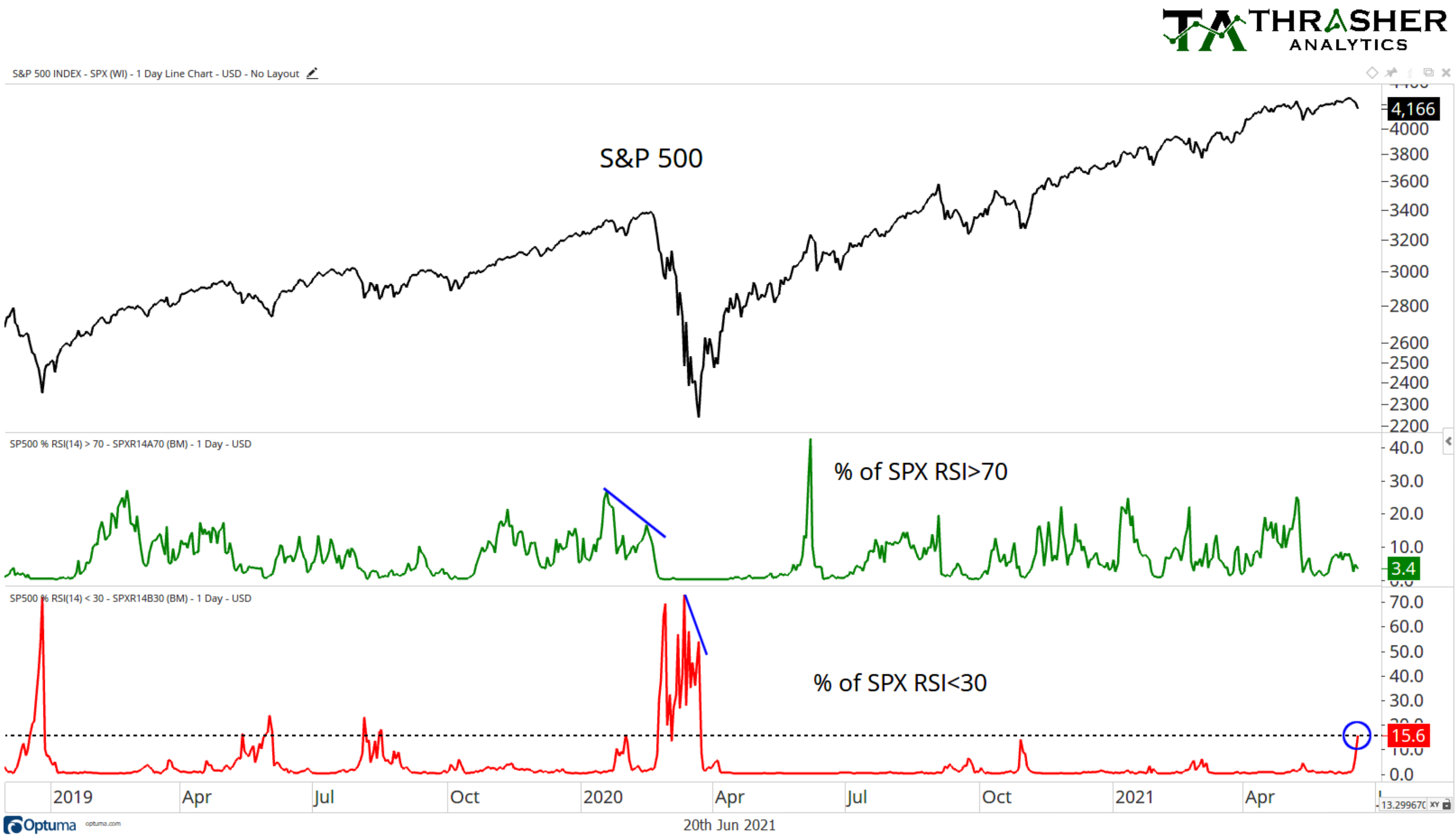
As of Friday, the S&P 500 has gone158 trading days of not closing more than 1.5% below its 50-day moving average. This is the second longest streak in over twenty years and that streak hasn't been broke yet.

I found it interesting we hadn't seen a material (at least 1.5%) break of the 50-MA and if they led to a build up in market strength or lead to an unloading of selling. So I went back to 1970 to find all the previous periods of at least 150 days, which are marked in green on the chart below with red arrows when the streak ended. The bottom panel of the chart shows the daily drawdown which I've noted the drawdowns that the market saw following these 150+% day streaks. It does appear the market continued to sell off once the streak ended, falling on average of 8-19%. We'd need to see a move to 4118 to get 1.5% below the 50-day MA right now. Should that happen and we continue to see this market pattern play out, then we could see an additional 5-15% of downside. It's important to note that there's nothing that requires the market to follow this (or any!) pattern, but I believe it's important to recognize these long periods of strength have often ended in less of a minor pullback and often saw an average of 11% move lower.



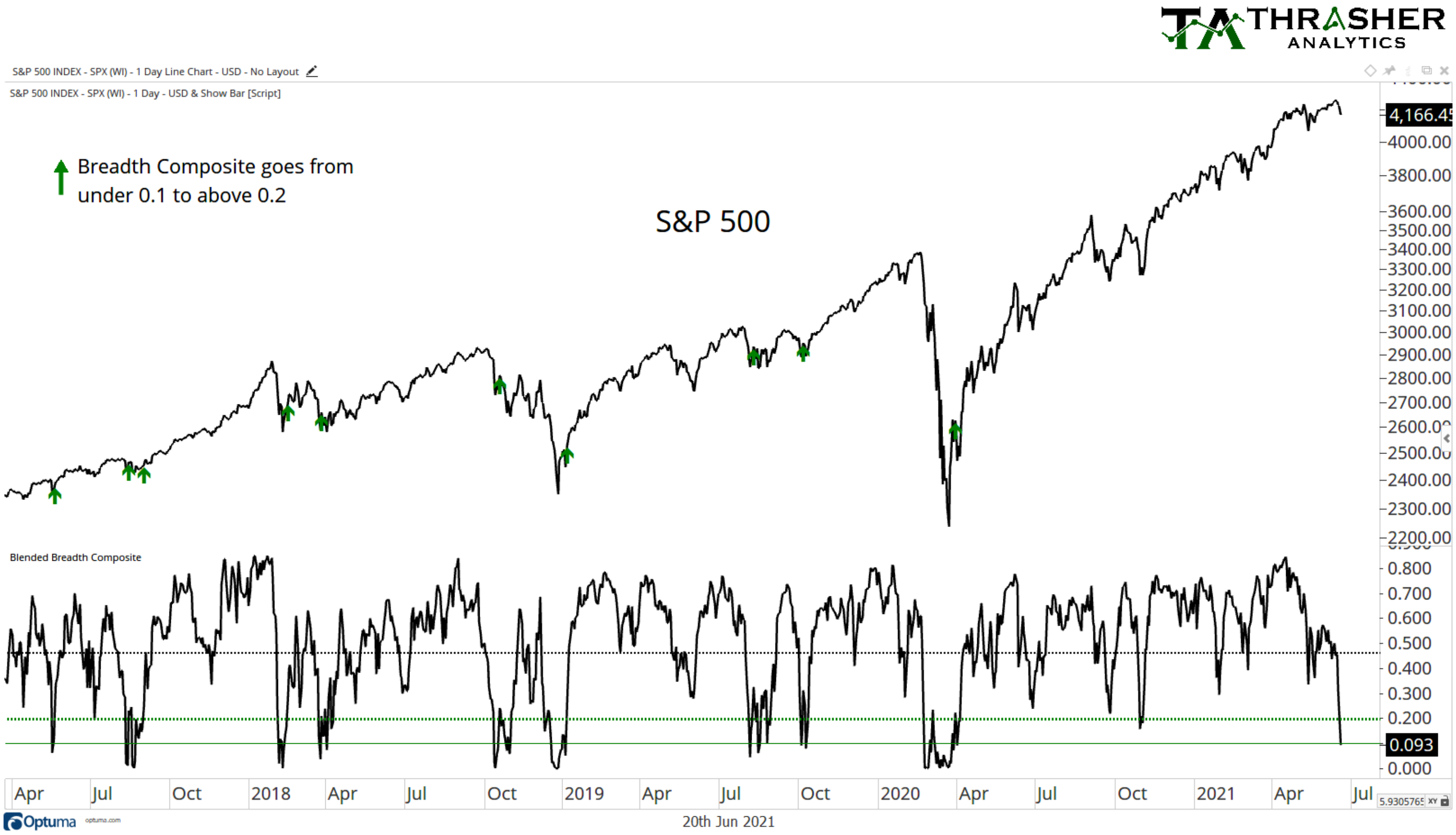
Equities - Momentum

As of Friday, 15.6% of the S&P 500 stocks have "oversold" momentum, based on the Relative Strength Index being below 30. This is the highest % of "oversold" stocks since the Covid Crash last year. Once again, the internals of the market are showing a greater deal of weakness than what may be gleaned from the indices themselves.



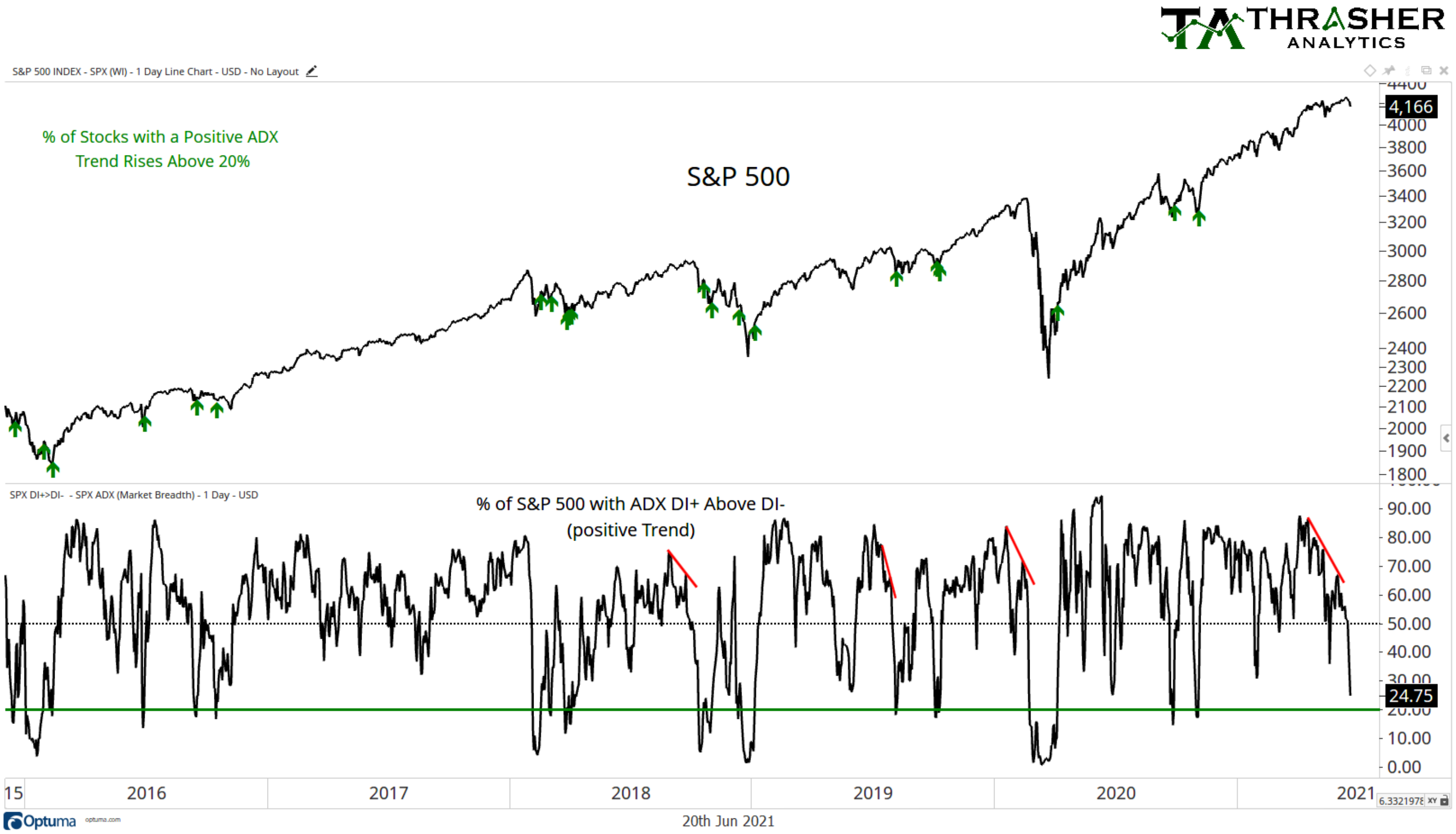
Equities - Breadth Composite

Next I'm going to show several charts to begin building what I'll be looking for as possible signs strength returning to the market. First, the Breadth Composite which has fallen to the 9th %tile, the lowest level since the Covid Crash. The green arrows show when the Composite goes from 10th %tile to above the 20th, a sign that breadth is improving and a possible low may have been put in.

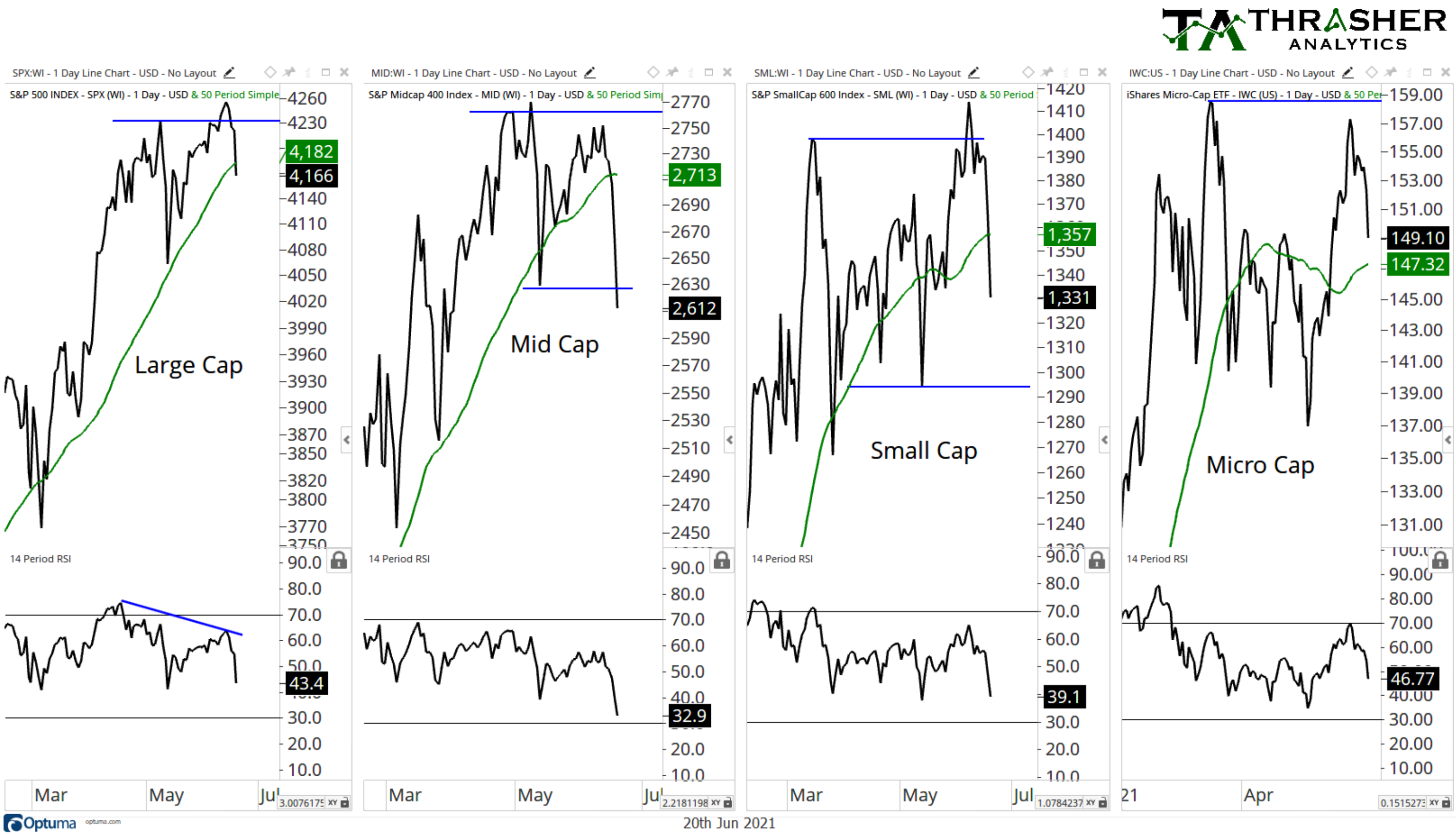


Equities - Trend Breadth

Second, I'd like to see improvement in the % of stocks that are in a up trend based on their ADX Indicator. Currently we have just 24% of stocks in up trends based on the ADX. When this breadth reading gets washed out and goes from below 20% to back above, that's been a great sign that stocks may be creating a swing higher.



I last showed this chart to convey how only the Large Caps were making new highs. That trend has sense obviously reversed and in fact Mid Caps made a break of the prior swing low. All four major asset groups are trading below their respective 50-day moving average and false breakouts have formed in Large and Small Caps.



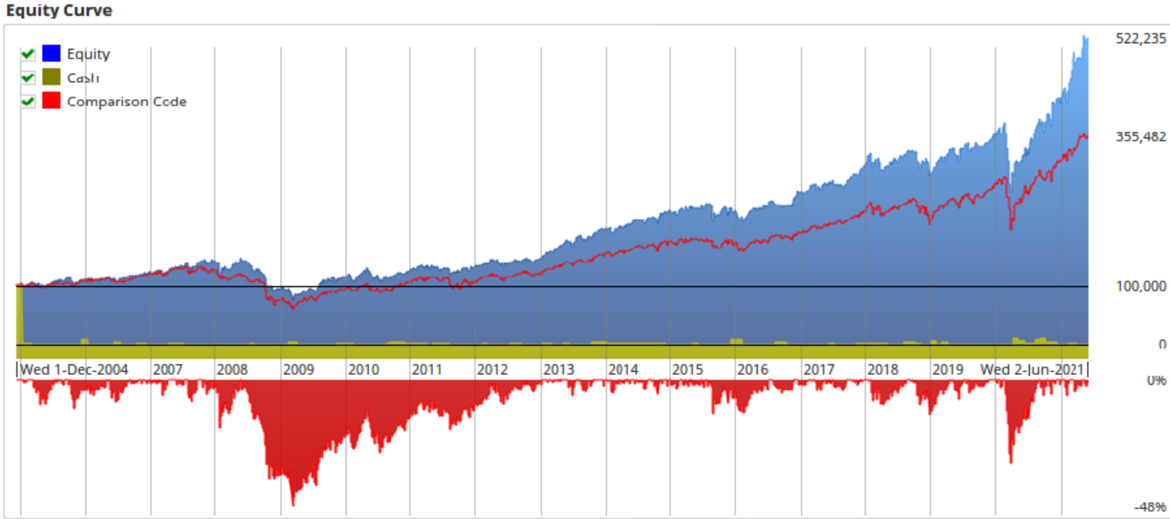
Sector Rotation Model

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.

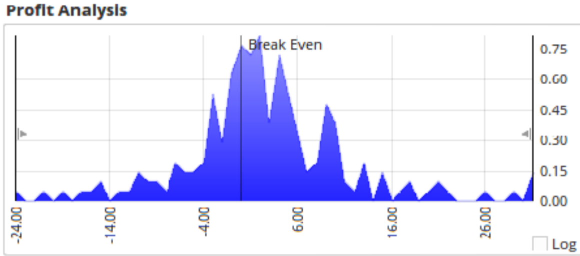
As always, past results are not indicative of future performance and this is not intended to be investment advice.

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

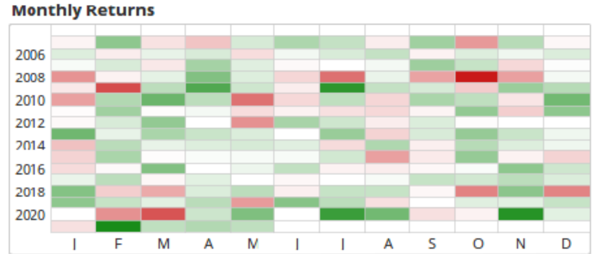
Equity Curve



Profit Analysis

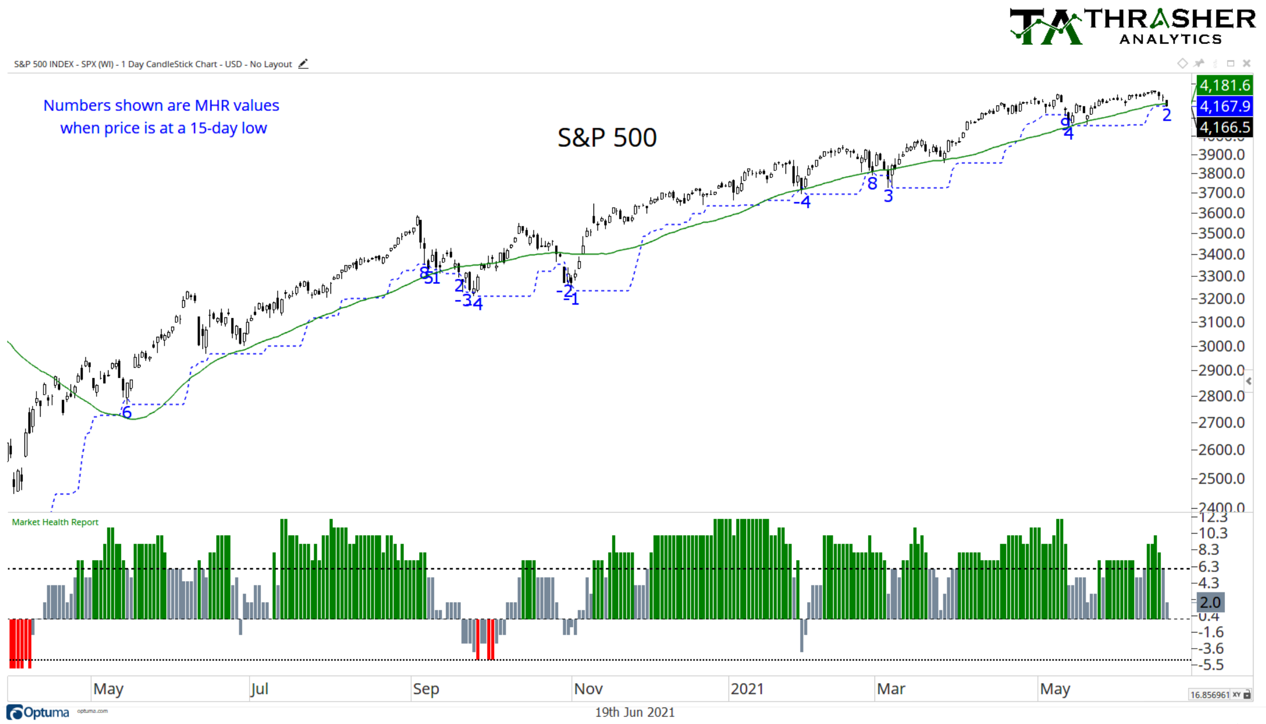


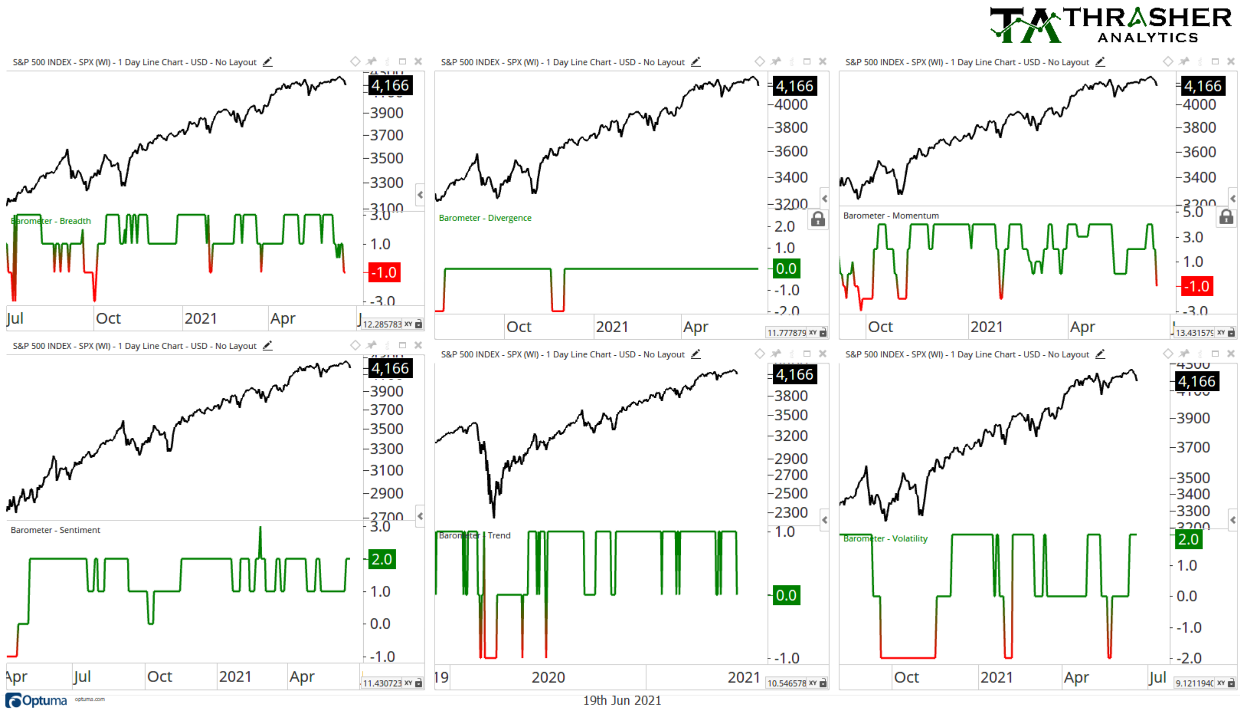
Monthly Returns



Market Health Report

The Market Health Report (MHR) finished the week down to +2, the lowest reading in several months but still showing a small degree of market strength still present. Friday sent us to a 15-day low, which is why the +2 is now displayed on the chart. Most notable is the weakness in the MHR stems from the decline in breadth and momentum to -1 and move to a 'neutral' trend score of 0. This resembles one other period of time, which I'll cover on the next page.

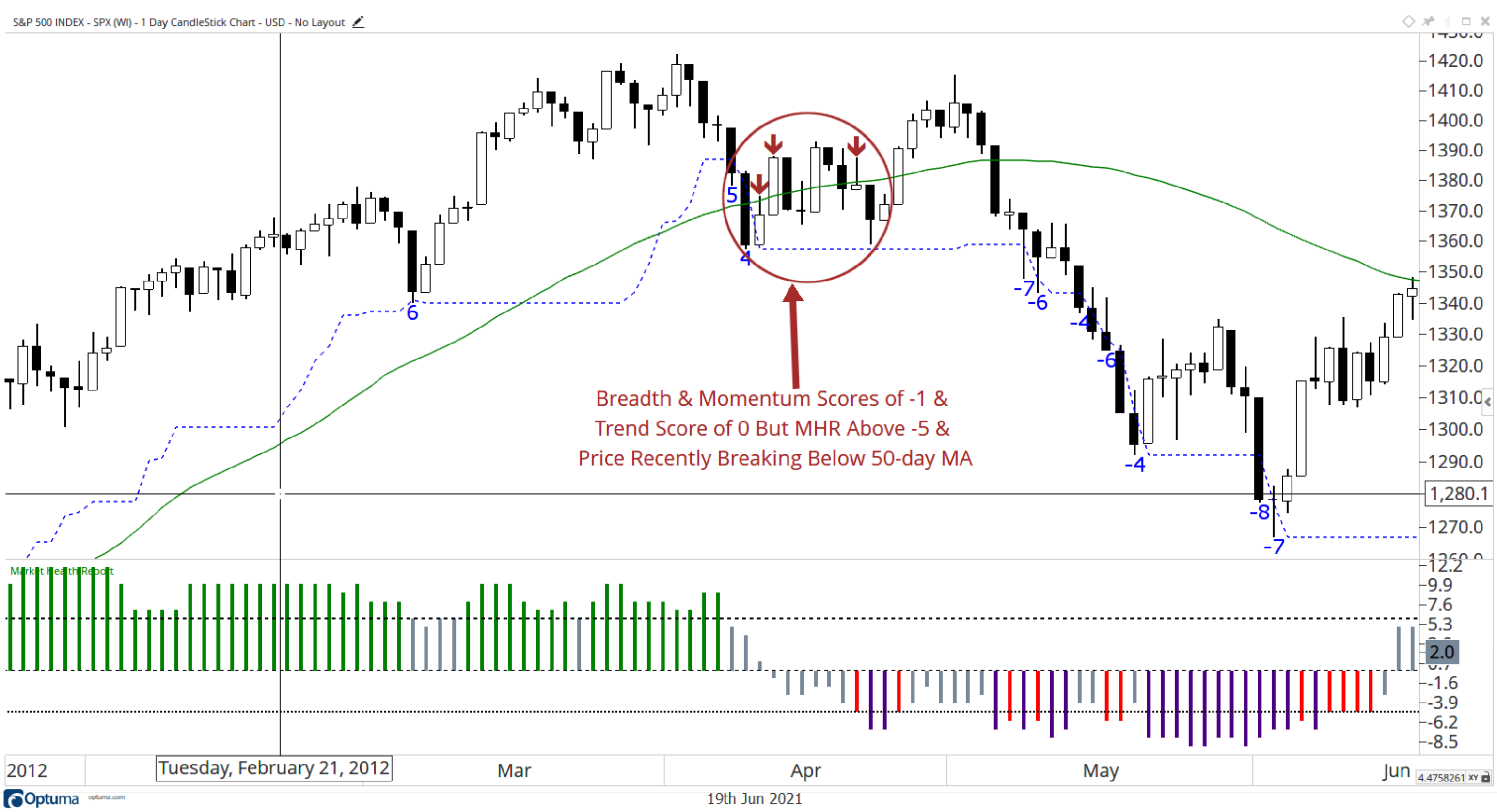




Market Health Report

Looking back in market history at previous times that breadth and momentum fell to -1 and trend was 0 but the Market Health Report was still above -5, one period that stood out the most was 2012. The reason being, in April '12 the S&P 500 also had just crossed below the 50-day moving average like it has today, with a drop in the breadth and momentum scores. Equities whipsawed around the 50-day MA before attempting to rally back to the prior high which was unsuccessful before stocks moved materially lower and we saw the MHR score drop to -7 and SPX moved lower by 6.4% before finding a bottom in June.

This is a great example of initial market strength of MHR scores still above zero seeing further breakdown as equities bounced around. A similar price action could play out today. This isn't to suggest a prediction that we see a failed recovery and slide down by nearly 10% (although that is what the study of days above the 50-day MA is suggesting). I'll continue to focus on the MHR score as we progress. As of Friday, the score remains in 'buy the dip" territory which is why I'm looking for strength in the ADX and Breadth Composite, as I mentioned earlier in the letter, should we see a shallow dip be formed and stocks recover. But if that doesn't paly out then we should see the MHR continue to weaken, like we did in 2012 for example.

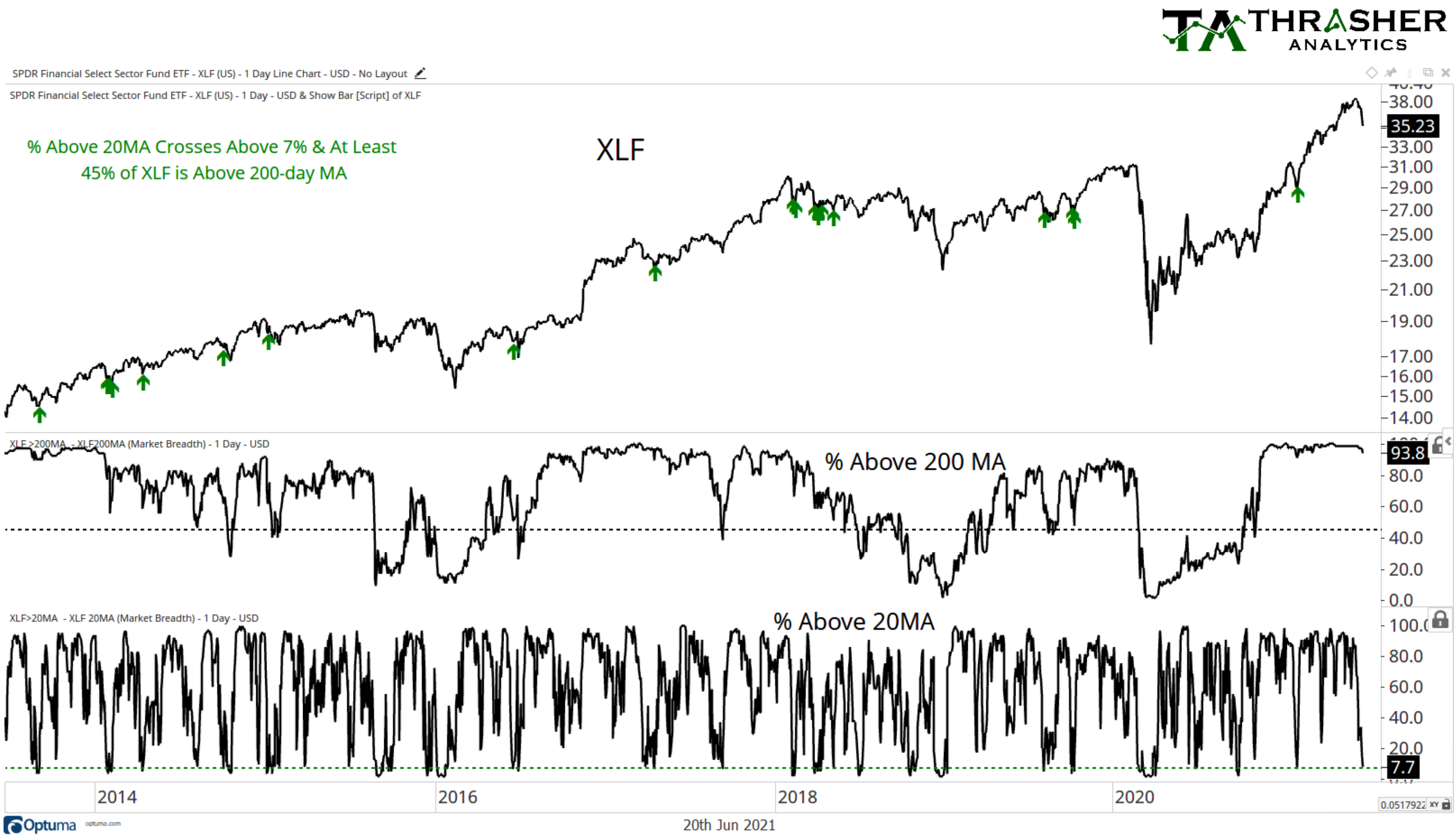


Sectors - Performance

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%

Sectors - Financials

The Financial Sector has seen nearly all of its stocks fall below the 20-day MA, with just 7.7% still holding above. Meanwhile, almost all of them are also still above the 200-day MA. When short-term breadth washes out like this while long-term breadth remains strong, that can create good opportunities for dip buyers. Green arrows show when at least 45% of stocks are above the 200-day MA (good long-term up trends) and the % above the 20-day Rises back above 7%, which would require a little more weakness today to qualify and then setup for a move higher. I'm looking for setups like this in all the sectors should this weakness be just short-lived. I'll report back if/as they develop.

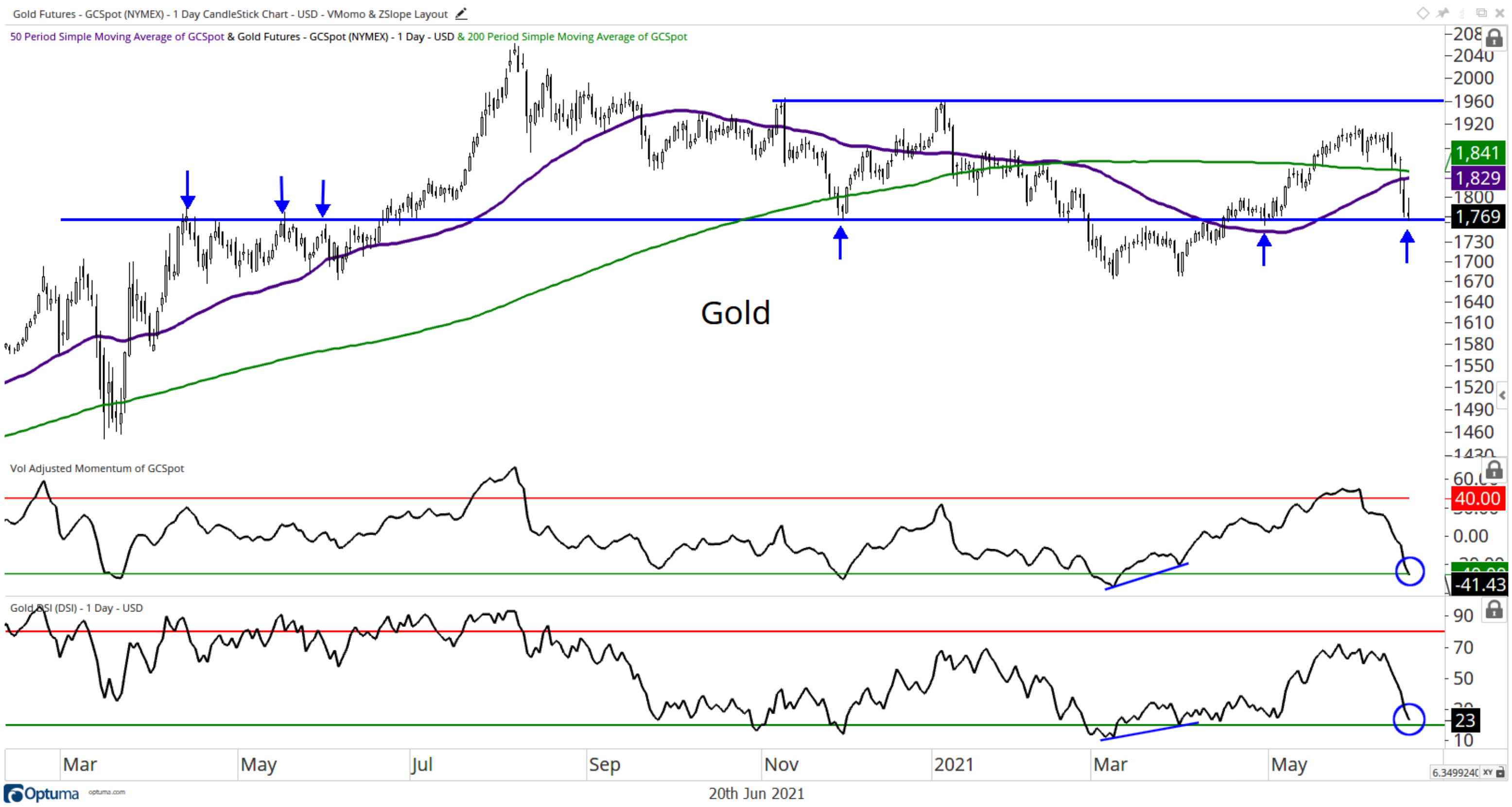


Commodity - Natural Gas 1

Last week I shared a similar Natural Gas chart, highlighting the rise in bullish sentiment. I wanted to provide a quick update as nat gas prices did reverse lower and have put in a possible double top with the prior October high. As a reminder, seasonality turns bearish for natural gas in June, so this false breakout could be the start to a new move lower but keep in mind gas can be quite volatile and heavily news-driven should a weather-related event occur that disrupts the energy market.

Commodity - Gold 1

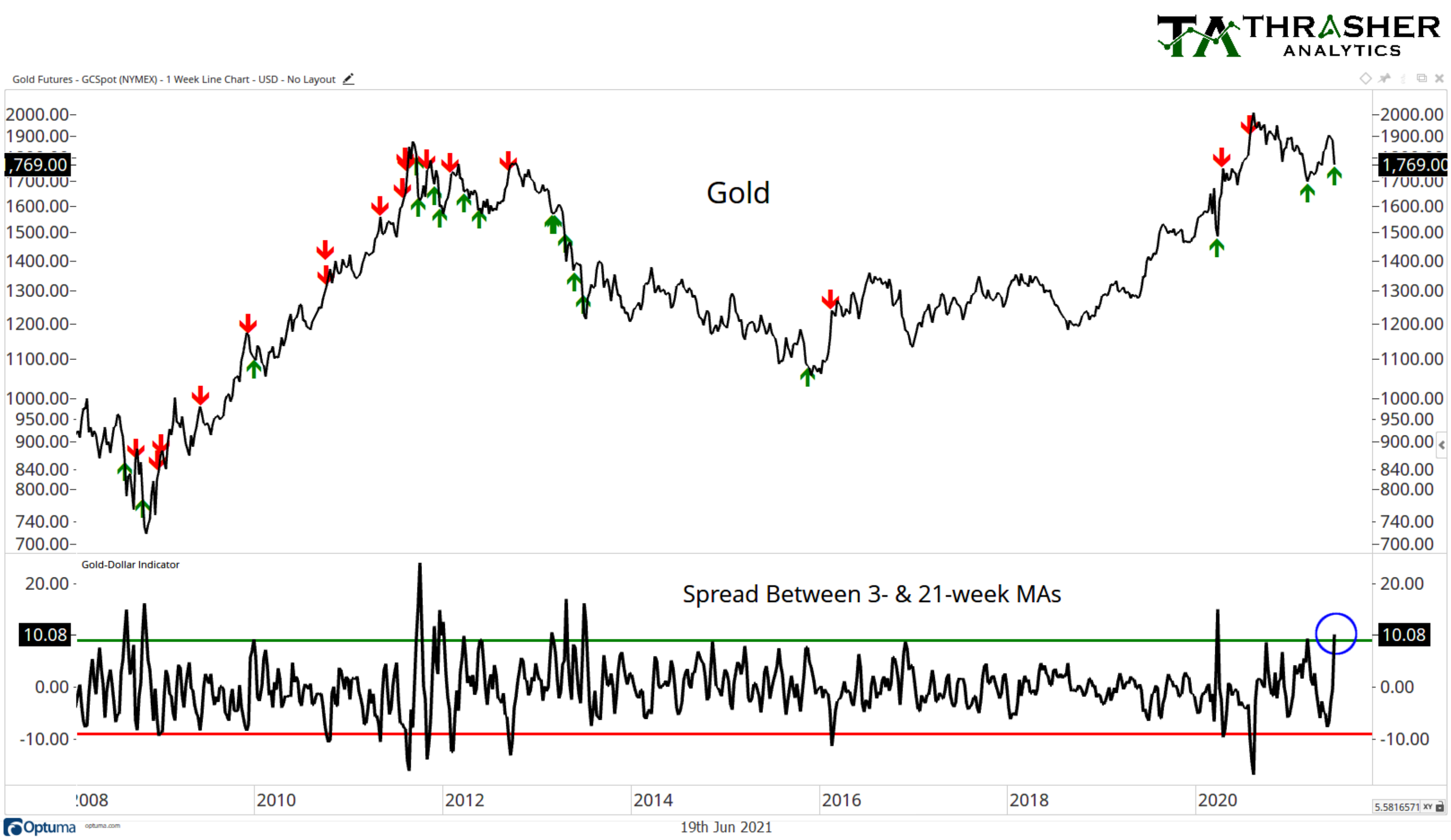
Gold sold off last week and I think now setups for a very interesting opportunity. Gold futures are now back at a key price level that has been previous resistance and support. Momentum is also "oversold" and sentiment has washed out with just 23% bullishness based on the Daily Sentiment Index. There's few bulls with, price is oversold and at support, and the metal's relationship with the dollar suggests positive mean-reversion for gold - which I cover on the next page.



Commodity - Gold 2

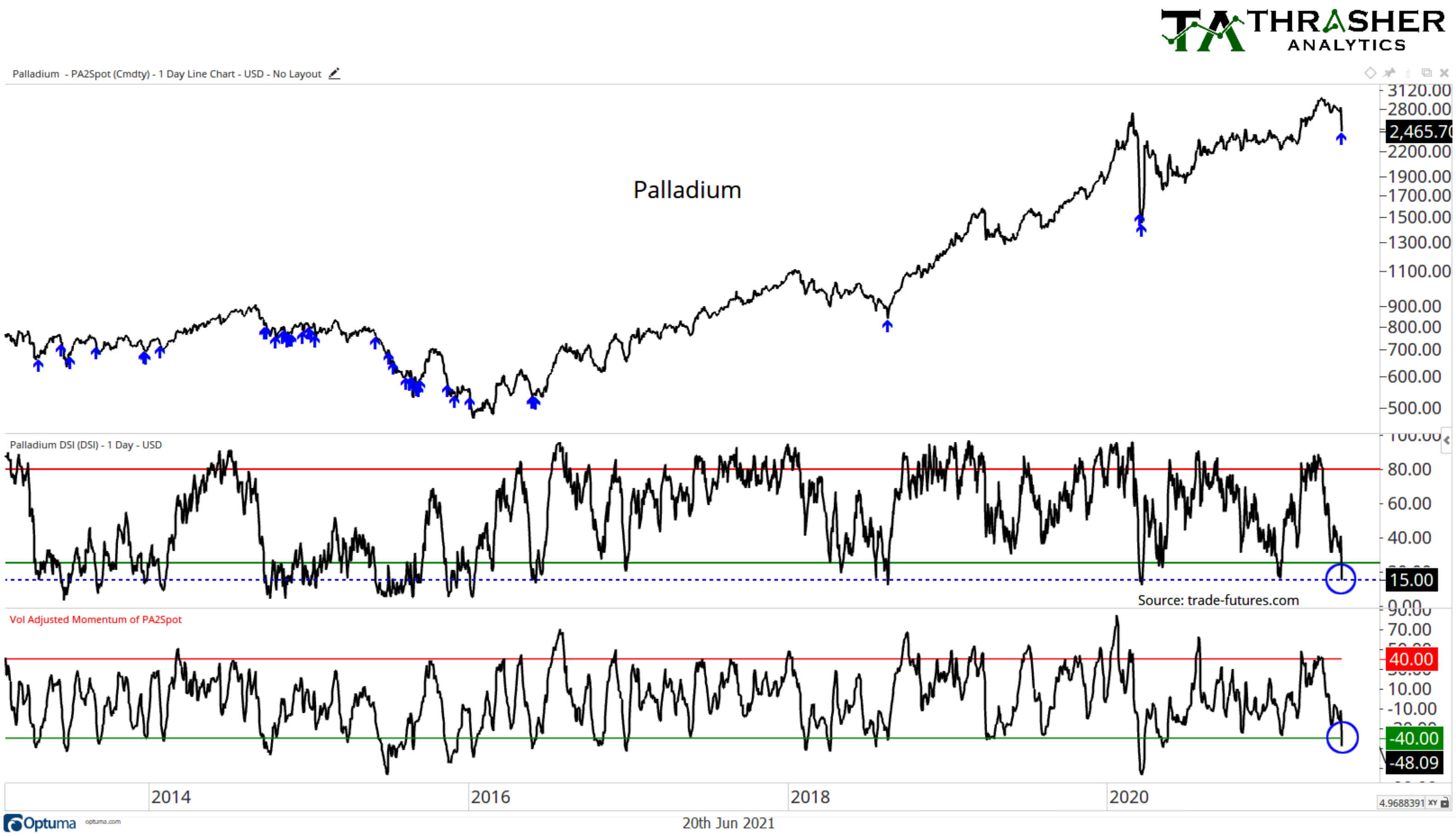
Below is a chart of gold on the top panel and the spread between the 3 and 21-week moving averages for the ratio between gold and the U.S. dollar. I last showed this chart when calling a top in gold back in 2020 due to the spread in the ratio dropping to -16. Gold did in fact peak and move away from $2000 an ounce. The reverse setup is now taking place as gold has weakened and the dollar strengthened. The spread between the short and medium term moving averages has risen to +10, which as the green arrows on the chart show, has been bullish for gold in the past. Pairing this with the prior setup on the daily chart of gold, I think gold prices could move higher.

Another possible catalyst for gold is Basel III which should go into place at the end of this month. Basel III is something I see nearly no one talking about but has major implications for gold, moving it to be classified as a Tier 1 asset along with cash and bank requirements to hold more physical gold as colleterial to unallocated gold (gold shorts and futures for example). This should make gold more attractive for banks. This is a very simplistic overview of Basel III but the main takeaway is I think it tilts more weight to gold demand.



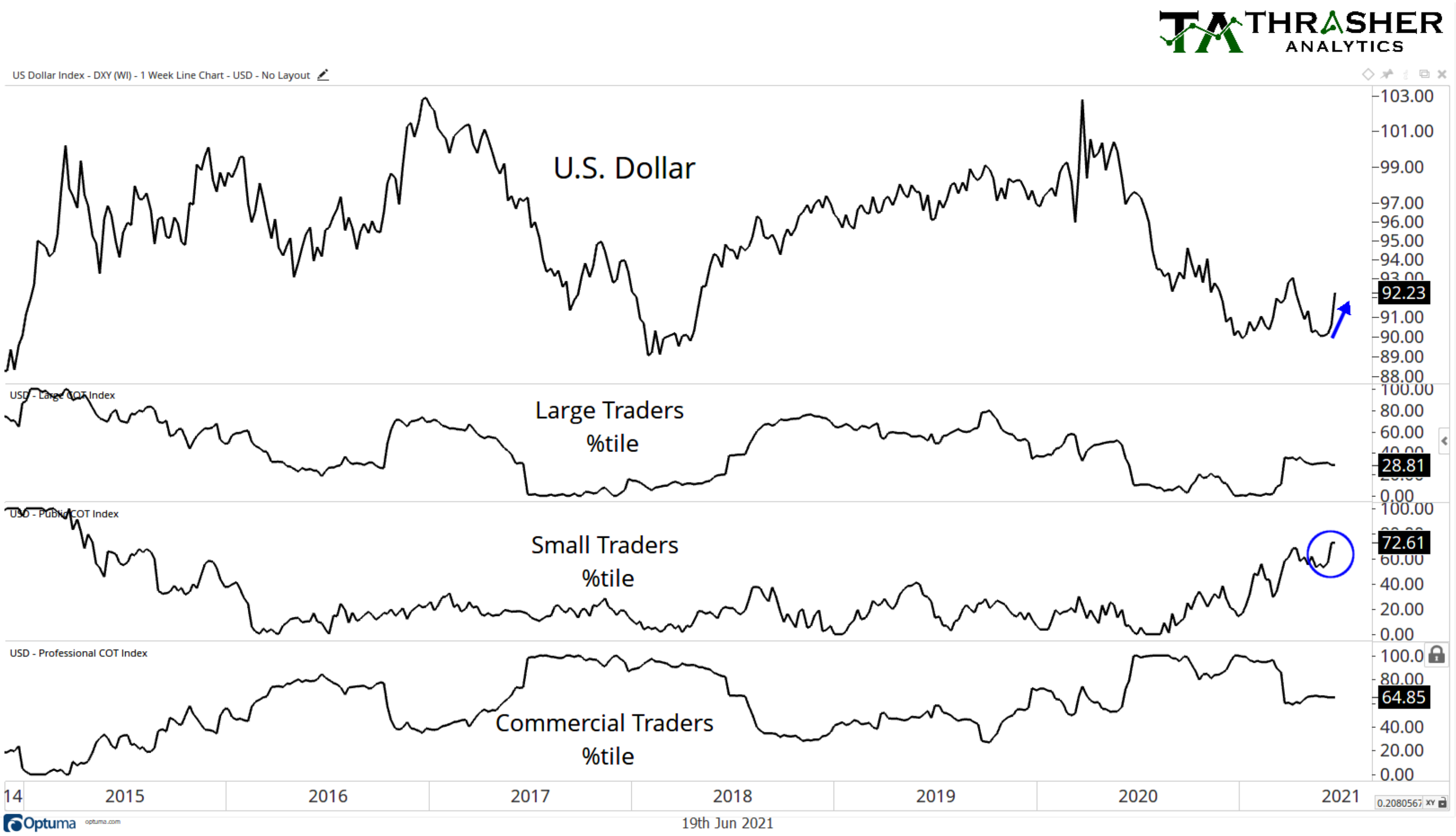
COMMODITY - PALLADIUM

Another commodity that's seeing a big drop in sentiment is Palladium. Bullishness has dropped to just 15%, the lowest since the last major low in the metal. Volatility Adjusted Momentum is also the lowest its been since the Covid Crash.



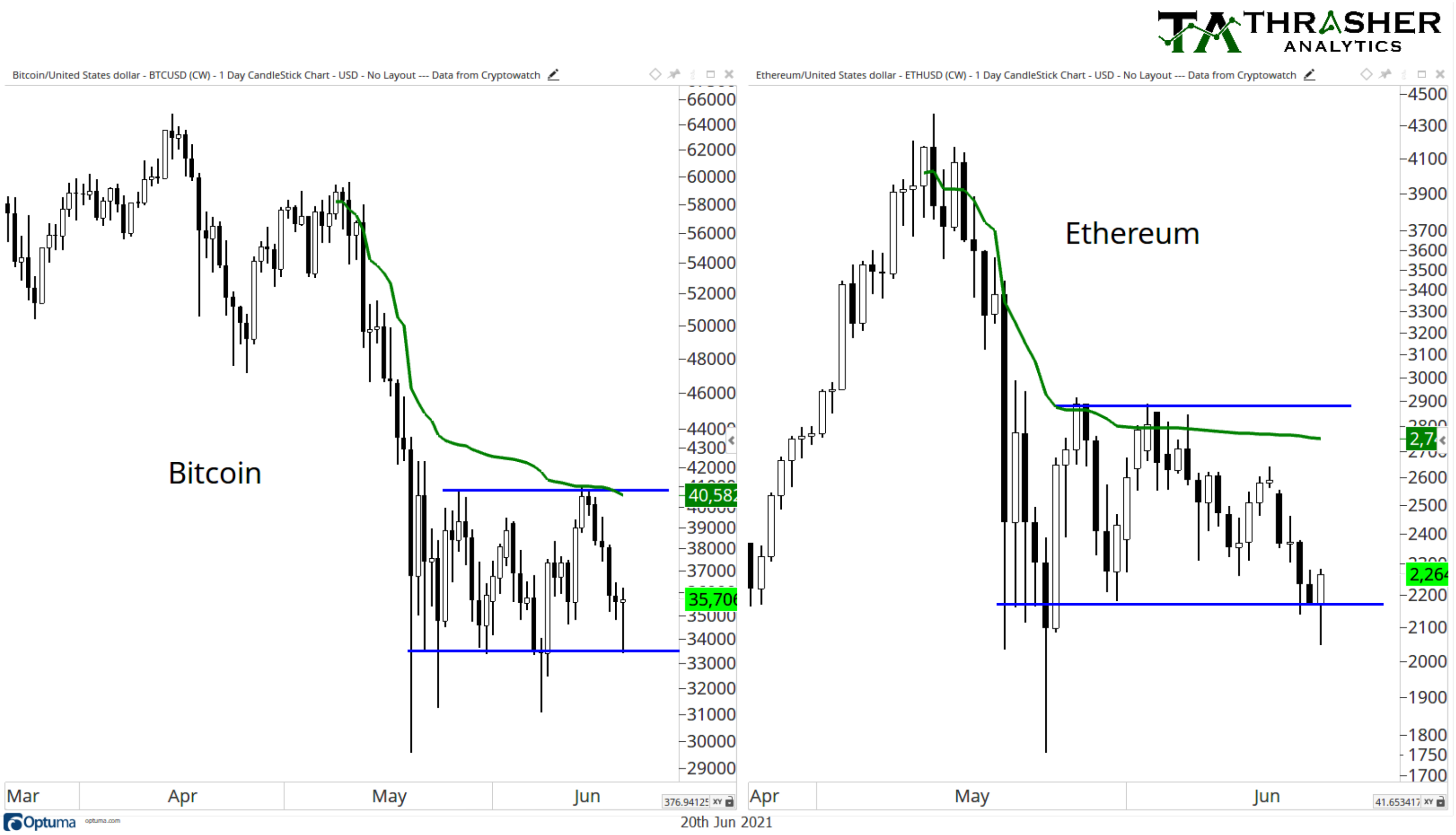
Currency - U.S. Dollar

Many traders are looking for the dollar to have put in a double bottom with the recent rise moving it closer to the prior swing high. However the buyers that are helping push the dollar higher appear to be Small Traders rather than the more desirable Commercial Traders. Small Traders now hold a net position in the 72nd percentile, above that of the Large and Commercial groups. This is why I think we could see gold rise and if the dollar weakens it may shake out these potentially weaker retail trader positions in the currency.



Cryto - BTC & ETH

A brief update on cryto - Both Bitcoin and Ethereum are trading in well-defined ranges that began since their initial large drop in May. Both coins are holding below the VWAP off the May highs and finding support near the initial low from the decline. Until a breakout can occur, these are messy charts with the ranges spanning 22% (BTC) and 33% (ETH) leaving opportunity for those looking for short-term mean version setups but long-term these ranges can just cause frustration for both buyers and sellers.



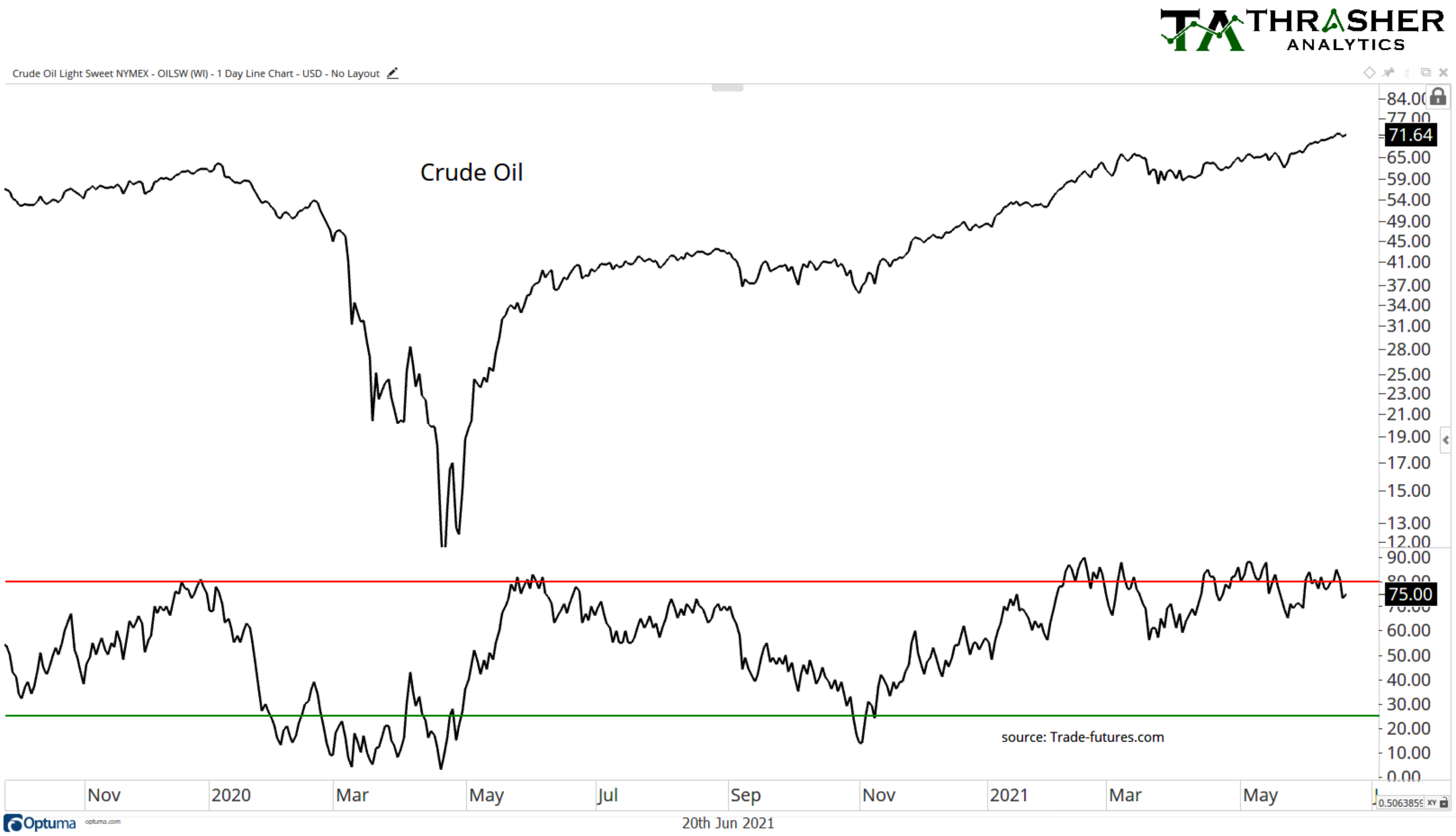
Daily Sentiment Index

Market	% Bullish	5MA	History
Lumber DSI	6	10	
Palladium DSI	15	28.60	
Platinum DSI	17	30.20	
Copper DSI	17	35.20	
Gold DSI	23	39.00	
VIX DSI	25	21	
Wheat DSI	30.00	31.20	
Silver DSI	31.00	43.20	
Cocoa DSI	31.00	38.40	
Lean Hog DSI	32.00	49.80	
Corn DSI	33.00	38.60	
New Zealand Dollar DSI	37.00	48.80	
Euro DSI	39.00	53.20	
Cattle DSI	43.00	46.60	
Orange Juice DSI	45.00	44.60	
Mexican Peso DSI	45.00	55.60	
Australian Dollar DSI	45.00	58.00	

Code	% Bullish	5MA	History
British Pound DSI	46.00	57.00	
Sugar DSI	49.00	56.60	
US Dollar DSI	52.00	37.80	
Swiss Franc DSI	55.00	64.80	
Coffee DSI	58.00	59.60	
Cotton DSI	63.00	68.60	
CRB Index DSI	65.00	73.40	
5YR DSI	66.00	60.80	
SPX DSI	67.00	72.80	
EuroDollar DSI	67.00	66.40	
Nasdaq DSI	71.00	75.80	
Nikkei DSI	73.00	81.8	
Heating Oil DSI	73.00	74.20	
Gasoline DSI	73.00	74.40	
Natural Gas DSI	75.00	82	
Crude Oil DSI	75.00	78.80	
10Y DSI	83	76.60	

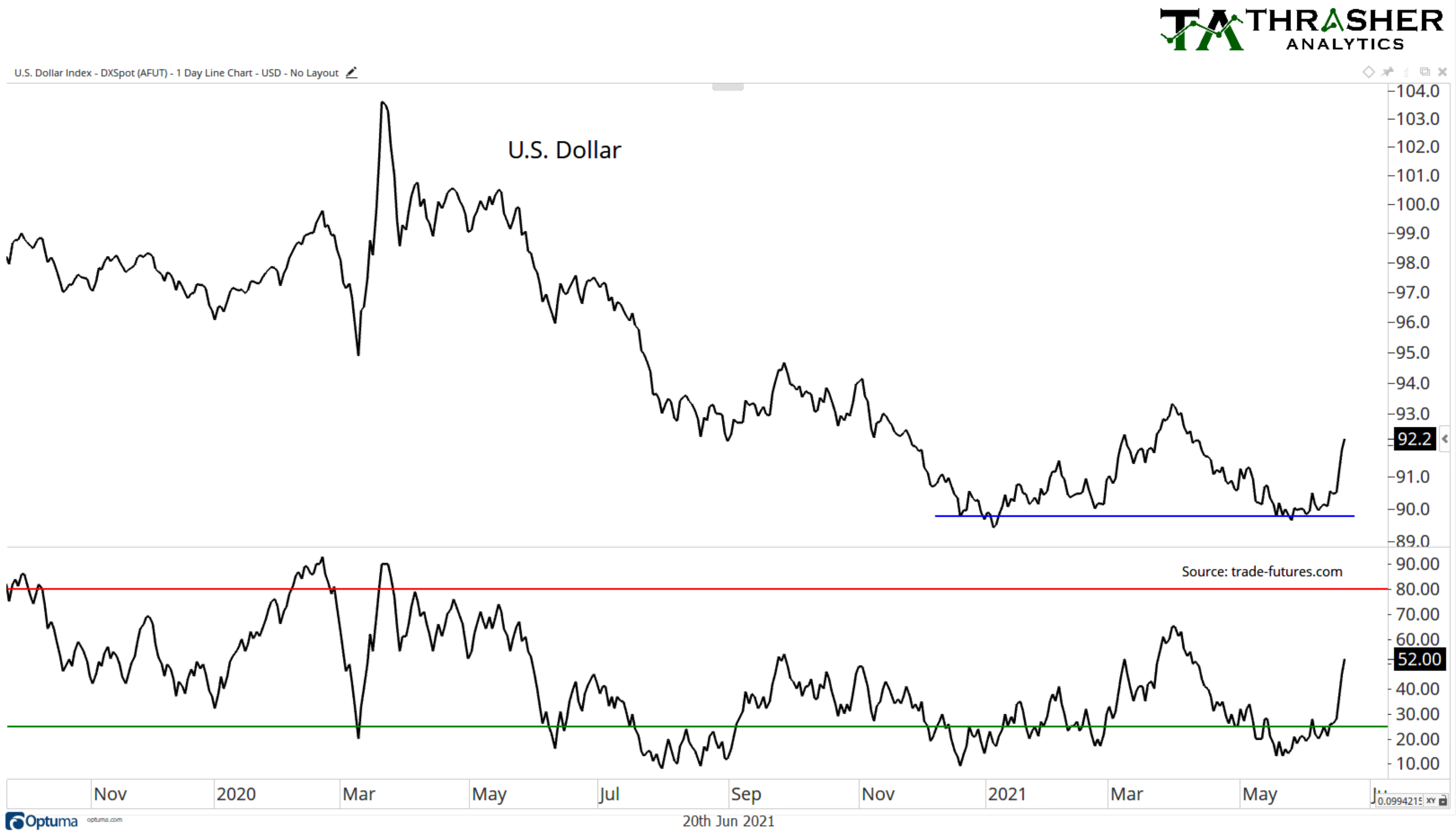
Source: trade-futures.com

Daily Sentiment Index


THRASHER ANALYTICS
Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
71.64
75.00
source: Trade-futures.com
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Optuma
20th Jun 2021

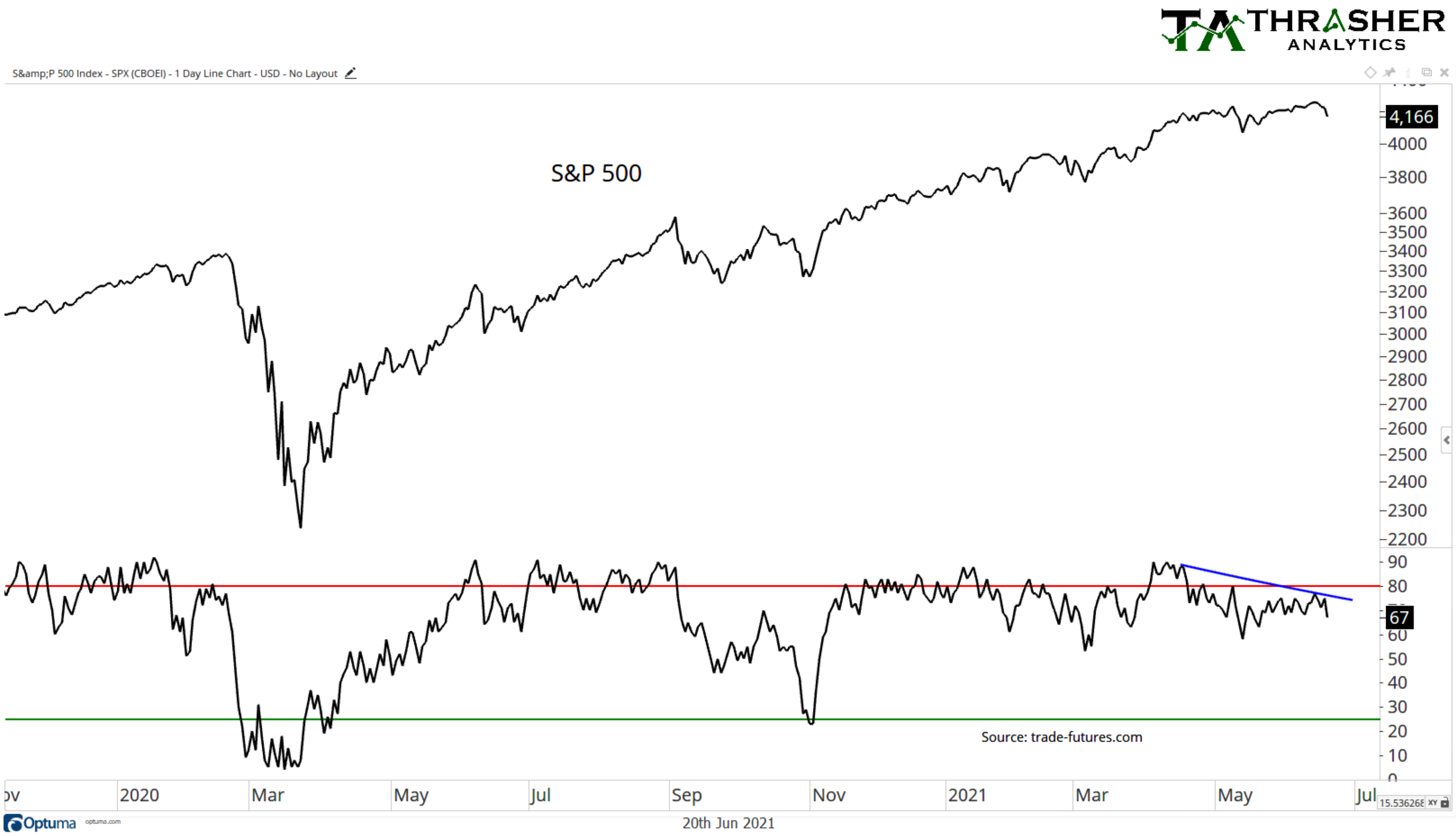
Daily Sentiment Index

Daily Sentiment Index

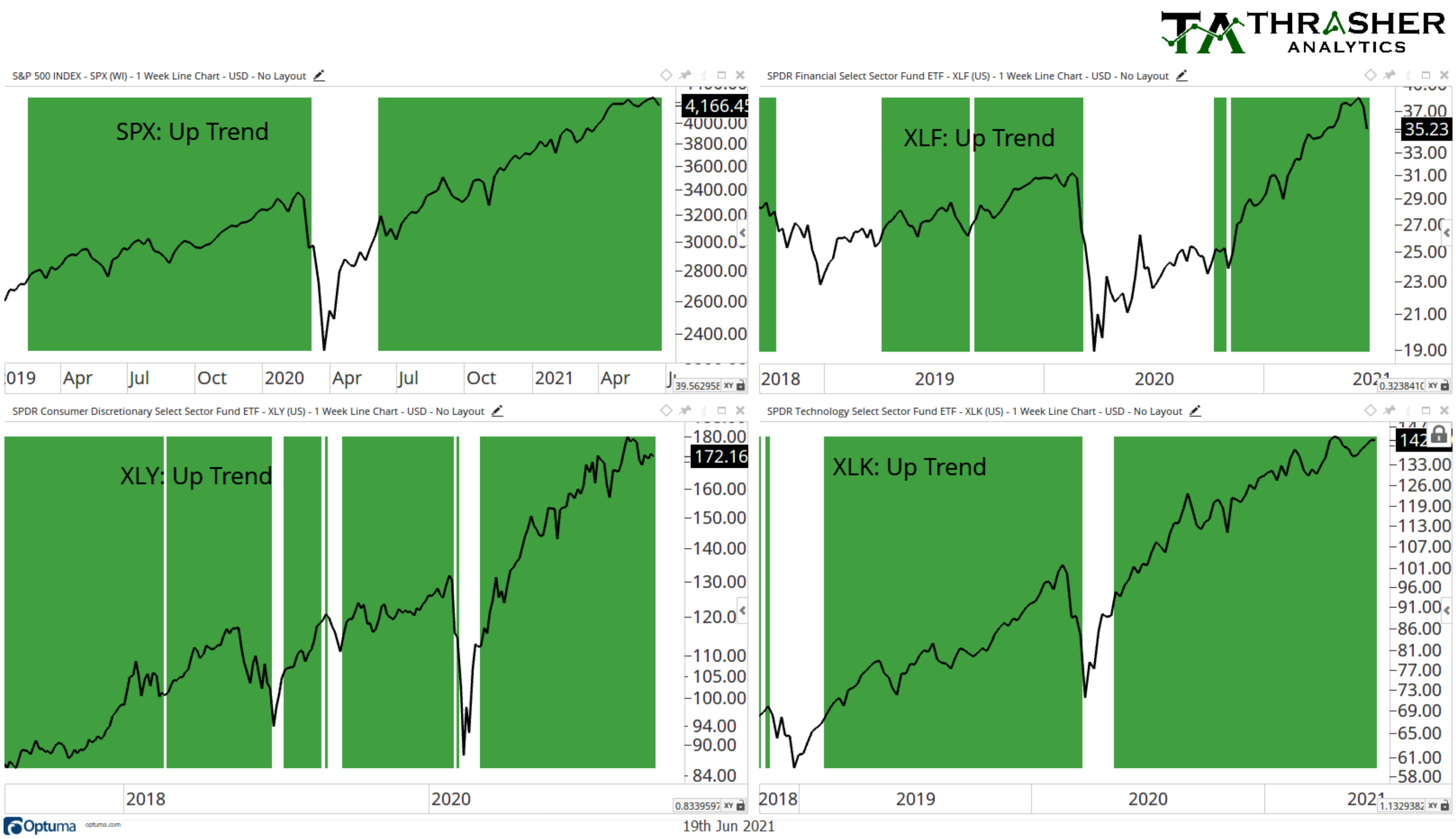

THRASHER ANALYTICS
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout
U.S. Dollar
Source: trade-futures.com
92.2
52.00
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Optuma
20th Jun 2021

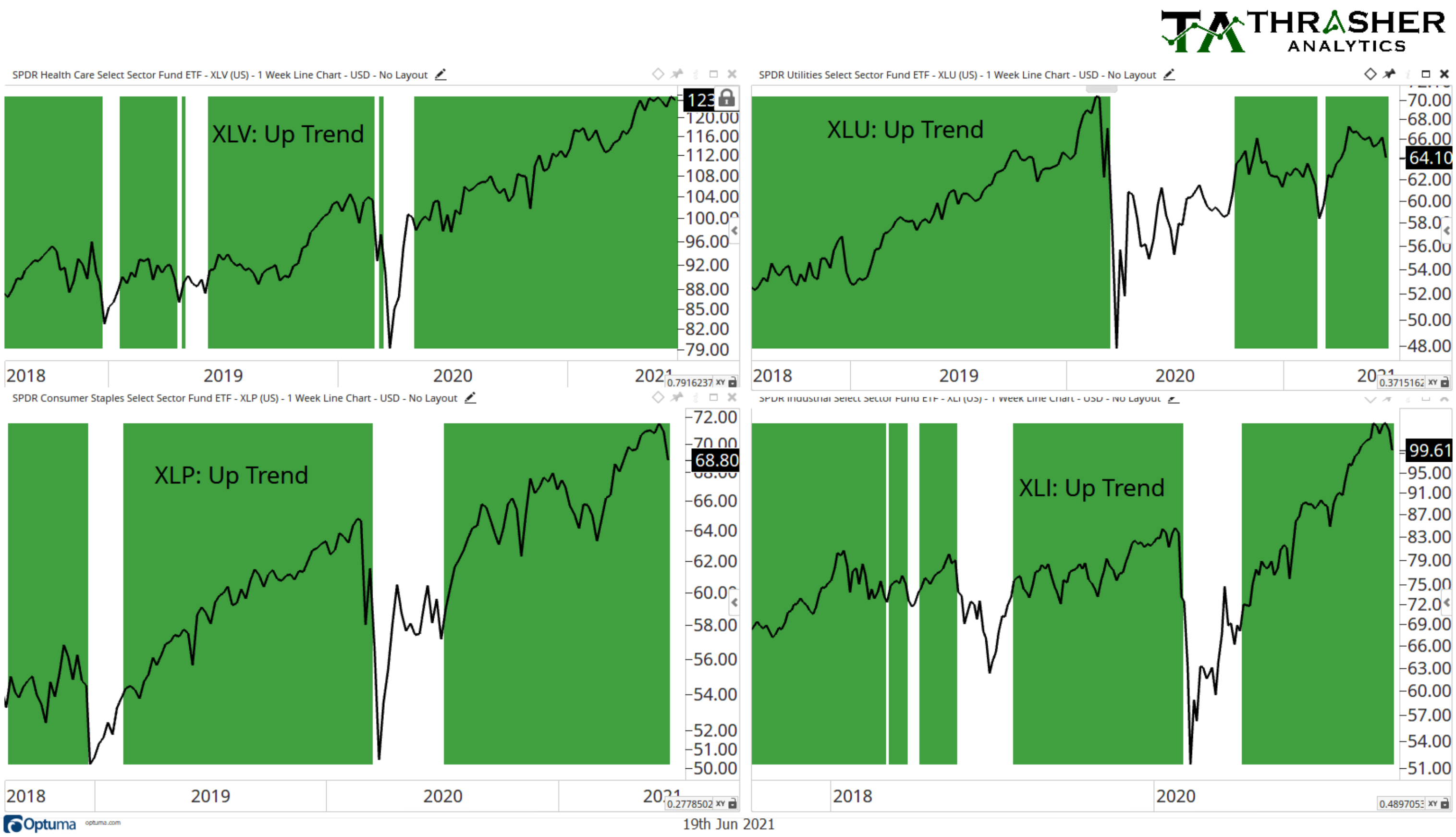
Daily Sentiment Index

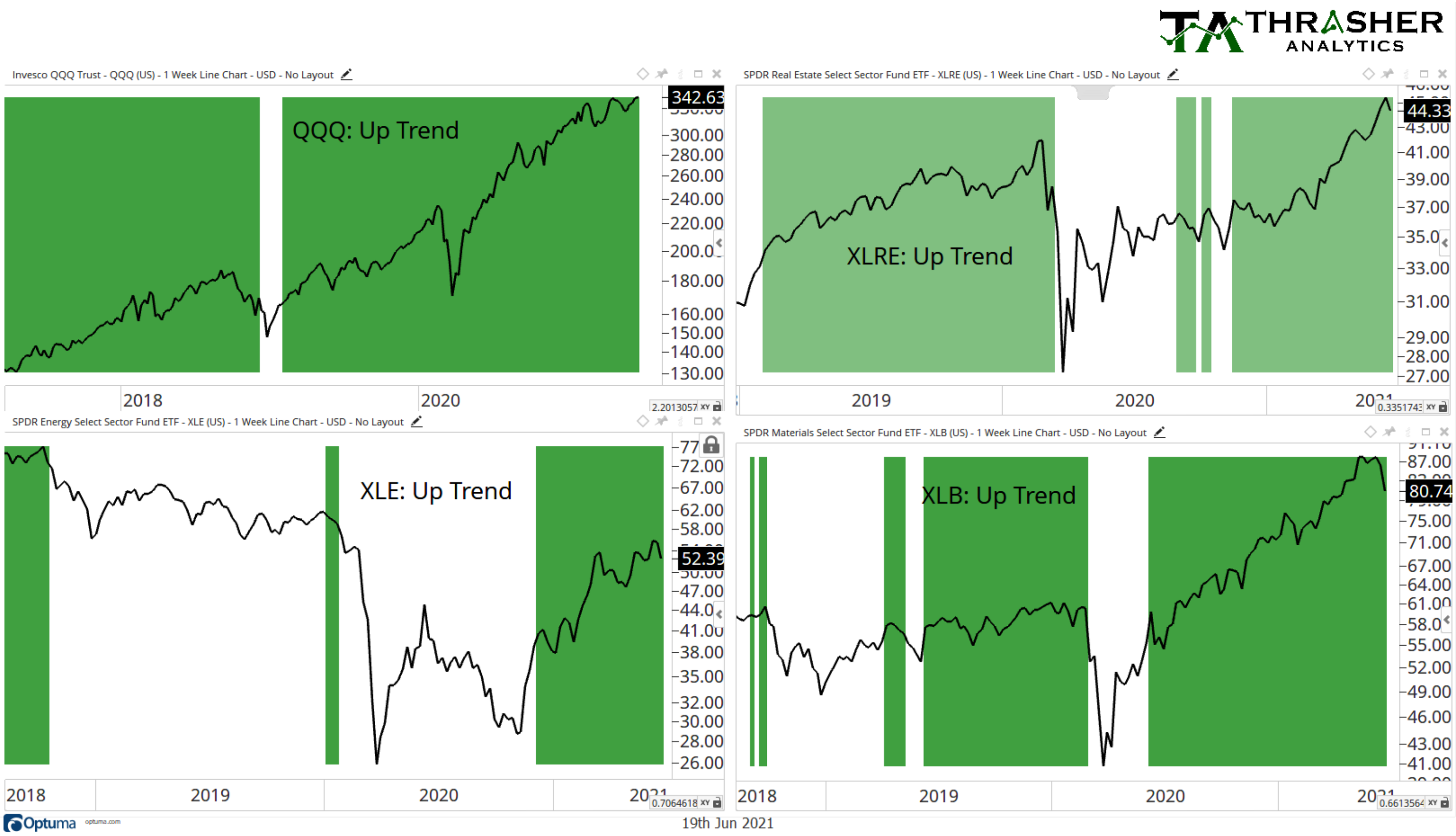
Daily Sentiment Index



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
XLI: Up Trend
2018
2019
2020
Optuma
19th Jun 2021


THRASHER ANALYTICS
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout
QQQ: Up Trend
342.63
300.00
280.00
260.00
240.00
220.00
200.00
180.00
160.00
150.00
140.00
130.00
2018
2020
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout
XLRE: Up Trend
44.33
43.00
41.00
39.00
37.00
35.00
33.00
31.00
29.00
28.00
27.00
2019
2020
SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout
XLE: Up Trend
72.00
67.00
62.00
58.00
52.39
47.00
41.00
38.00
35.00
32.00
30.00
28.00
26.00
2018
2019
2020
SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout
XLB: Up Trend
87.00
80.74
75.00
71.00
67.00
64.00
58.00
55.00
52.00
49.00
46.00
43.00
41.00
2018
2019
2020
Optuma
19th Jun 2021

DISCLAIMER: