THRASHER ANALYTICS

JUNE 6, 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.	• Breadth data weakens. • VIX sentiment data strengthens. • Large Traders keep selling copper. • Little confirmation for the new highs in large caps. • Invisible art is being sold.

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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	3
Divergence	0
Momentum	2
Sentiment	1
Trend	1
Volatility	0
Total	7

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	75%	71%
Nasdaq 100	63%	63%
Nikkei	81%	78%
VIX	19%	23%
10yr Treasury	67%	63%
5yr Treasury	62%	58%
CRB Index	79%	79%
Gold	65%	66%
U.S. Dollar	22%	22%

**Green<25% Red>80%*

source: trade-futures.com

Brief Summary:

It's always encouraging to see the broad indices march to new highs, the S&P 500 finished Friday just a few points away (the SPY ETF did close at a new high). However, there is a lot left to be desired from this market right now. Divergences are building up both in momentum, sentiment, and breadth. Less stocks seem to be rallying with the large caps as almost half as many new highs were accounted for last week compared to at the peak in May.

Meanwhile, the sectors showing the greatest strength are more defensive than offensive and even Real Estate (a defense sector) appears posed to move lower, along with an offense sector, Communications. Large Traders keep shedding their long exposure to Copper and even though inflation data has been coming in hot, the fixed income market appears to be totally ignoring it. One bank's model shows the 10yr should be closer to 4% based on what's showing in the CPI figures.

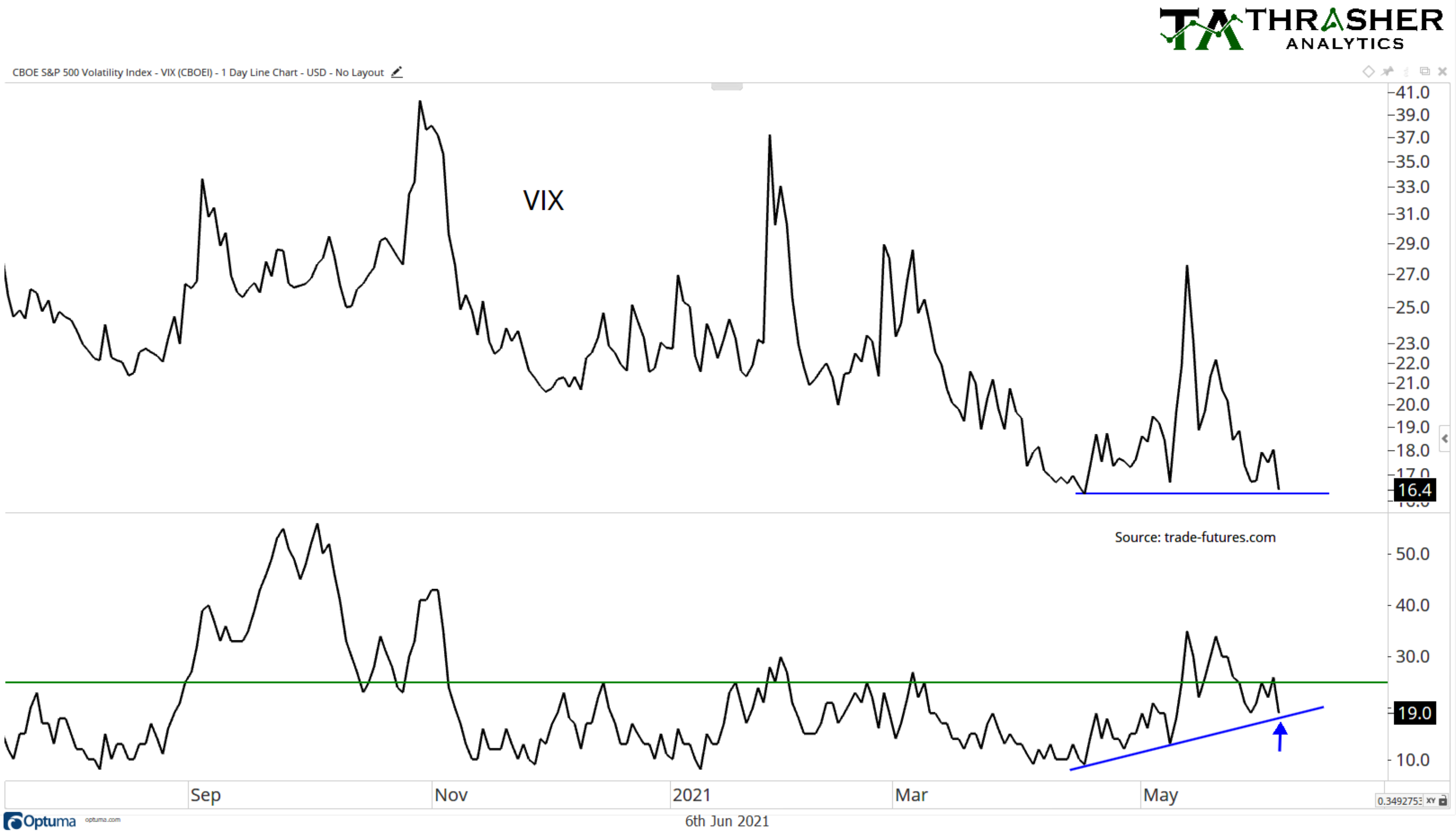
Morgan Stanley recently shared that S&P earnings revisions are at the highest level in nearly 30 years which comes as invisible art is selling for $18,000. Has all the good news and jubilee been priced-in at this point? Wouldn't be hard to make that argument. But price data has remained strong, and the Market Health Report still is at a solid +7. I continue to believe the risk/reward is much less attractive right now, especially as some of the internal data begins to degrade. There's time to be aggressive and times to be conservative and this doesn't feel like one of the times for the former.

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 has now moved back to the prior lows, finishing Friday just 10bps above the April low. The old version of the VRT (VRT 1.0) is signaling a heightened risk for volatility to move higher, but the current version (VRT 2.0) still remains well below a signal threshold. Last week I wrote about the extremely high level of SKEW, noting that it's most meaningful when SKEW begins to decline after seeing an elevated reading. That's what we saw last week with the "crash" gouge going from 155 to 145. The fact that SKEW got that high still is something I keep in the back of my mind, the market may be showing some cracks below the surface that's yet to float to the top and impacted the major equity indices.

Volatility - VIX Sentiment

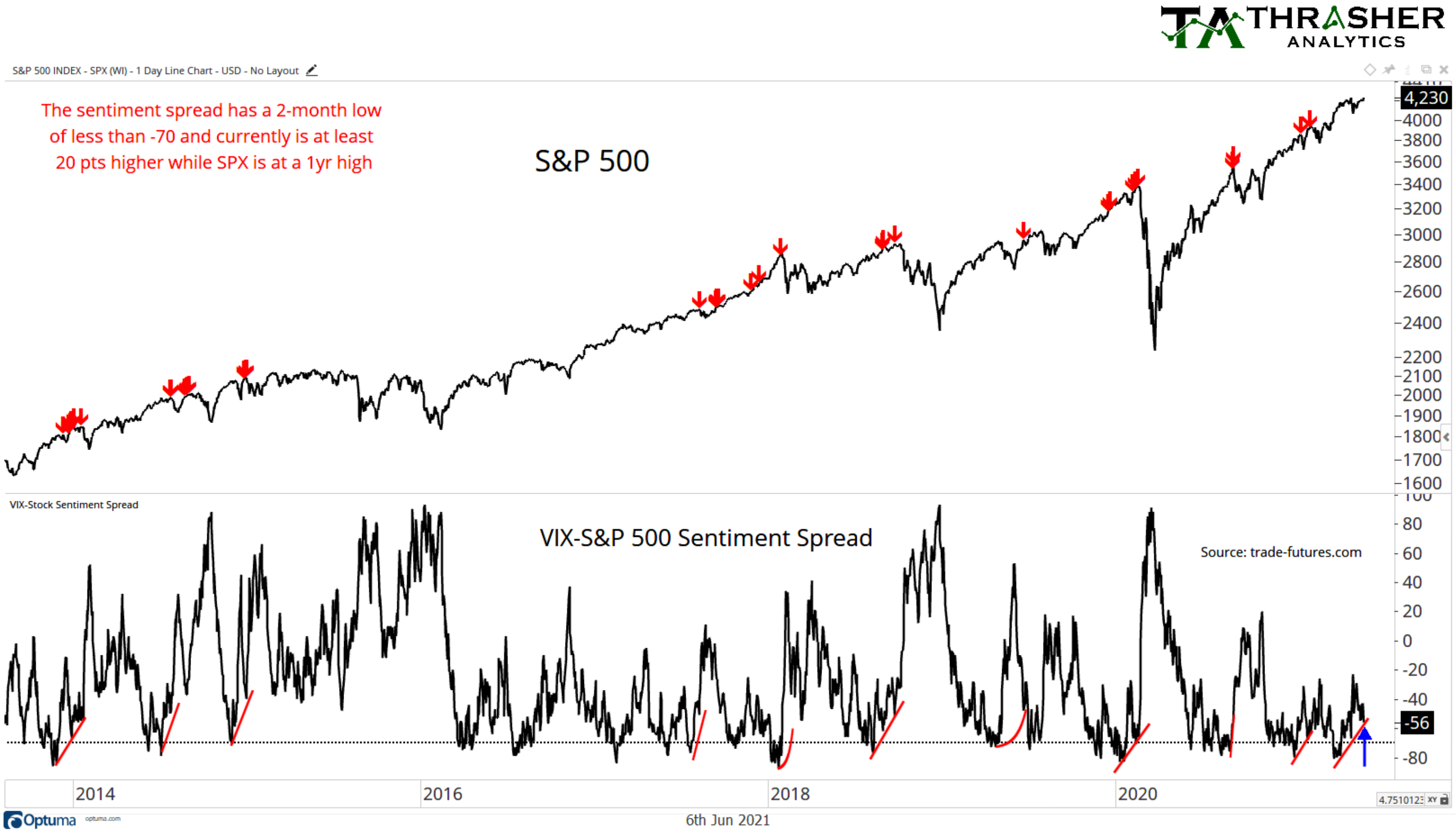
While spot VIX is just 10 bps off the multi-month low, sentiment is still well off its low. The Daily Sentiment Index (DSI) was in the single digits back in April but currently sits at 19% bullish - a pretty large divergence. The hatred of volatility earlier in the year has not entirely washed out but is well off the lows. Divergences like this often lead to the underlying asset/index to "respond" in the direction of sentiment - which would suggest the VIX to move higher if the sentiment data is getting this call right.



Volatility - VIX-SPX Sentiment

I shared a version of this chart last week but wanted to share it again with a different view.

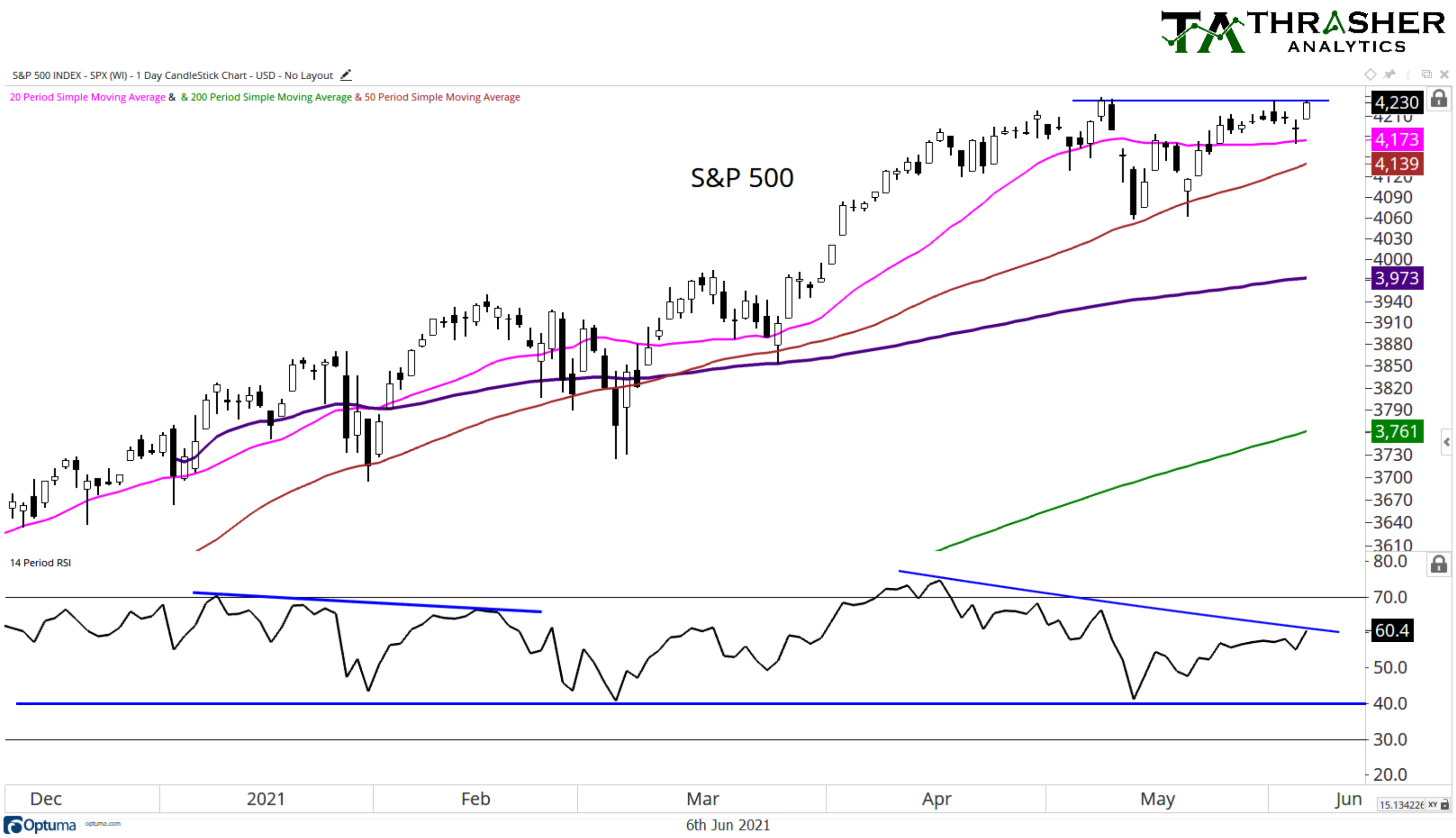
Below is a ratio of VIX and S&P 500 DSI readings. When the ratio is moving higher with equities, it suggests volatility sentiment is strengthening more relative to equity sentiment, even though equities are rising. That theme continued last week and on the chart I've plotted red arrows when the spread has been as wide as it is now from the ratio's 2-month low and the current level. Notice this occurred as several key turning points for equities. Unfortunately VIX DSI sentiment data only goes back to 2013, so I can't look further back in history.



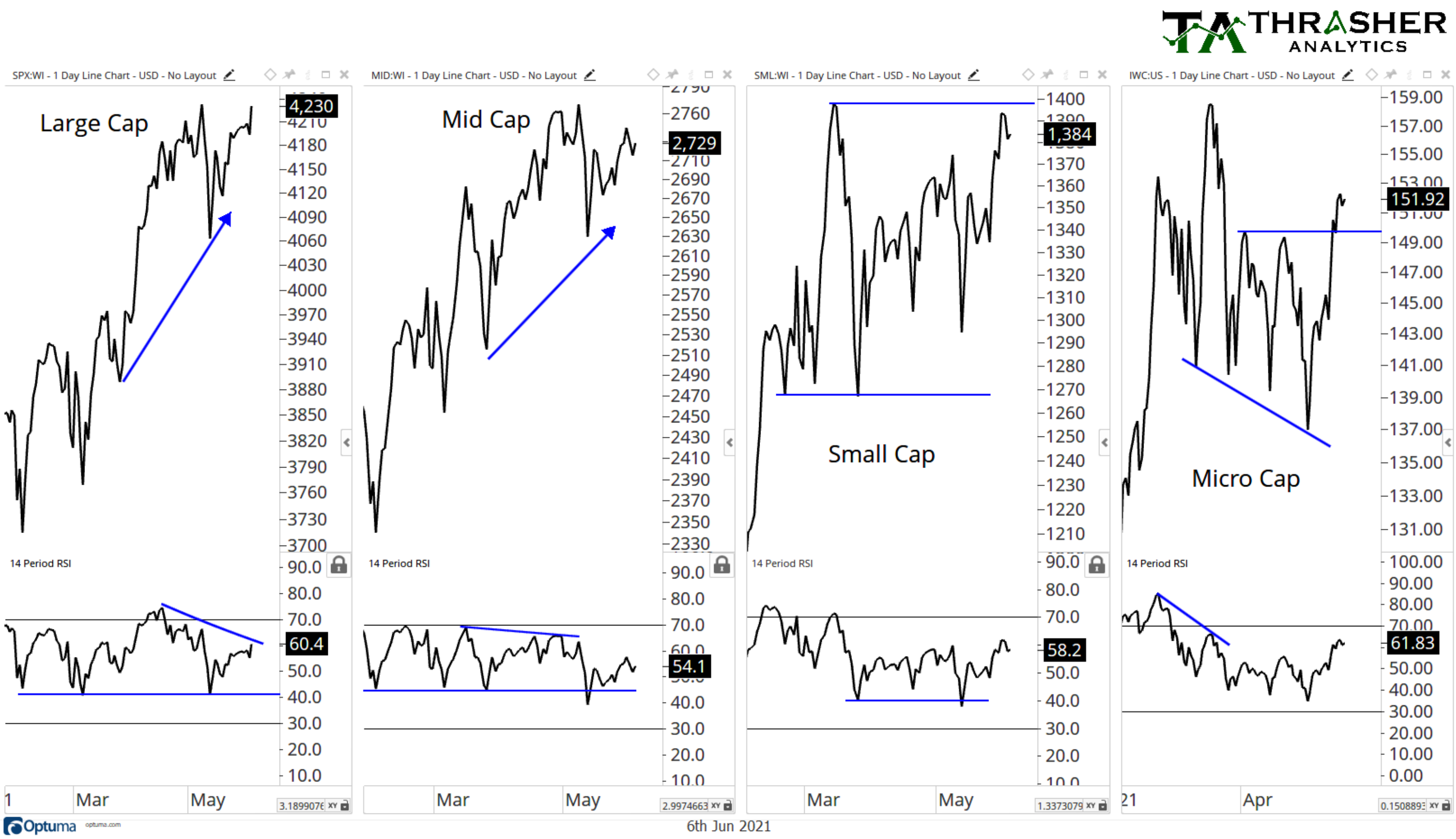
Equities - S&P 500 Daily

The S&P 500 closed just a couple points off its all-time high, however the SPDR S&P 500 ETF (SPY) did close at a new high (as did the e-mini futures if my memory is correct). Even though we got a rise on Friday off the 20-day moving average back to a high (close enough), momentum remains in a well-defined bearish divergence that's been building since April.

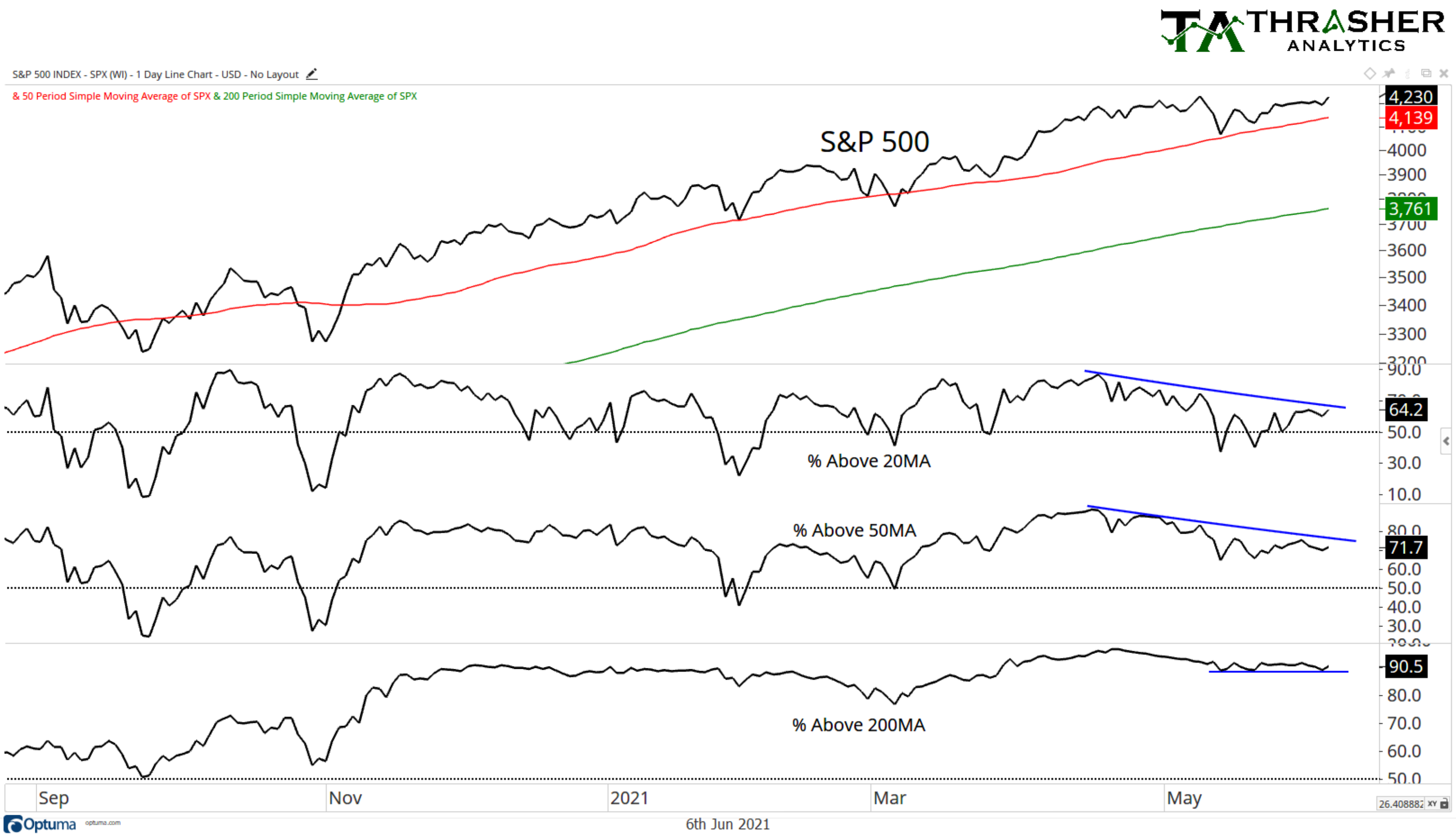
The theme of "bearish divergences" plays out in nearly every equity-related chart from momentum, breadth, etc. Not much is confirming this strength in equities. With that in mind, we must still give the benefit of doubt to the up trend and it's "innocent until proven guilty," however the evidence for the bears is building a case against the bulls and they seem far from ready to settle their case.



With the rise in equity prices, I always want to check to see how the move is moving across asset sizes. This week's strength was heavily dependent on the mega caps which can be seen in the chart below with mid cap, small cap, and micro caps still well off their prior highs. This latest attempt of a 'risk on' rally wasn't carried out on the backs of smaller capitalization stocks compared to the price action in their bigger brother, S&P 500.



You're most likely going to see a lot of shared charts this week of the declining percentage of stocks above the 50-day moving average. I'll explain a portion of why I think this is happening on the next page. But for right now not the falling % above 20-day and 50-da MA but we still have a solid 90% of stocks above the 200-day moving average. That's important. We aren't see major distribution in the internals with stocks breaking their long-term moving averages with the S&P 500 basically at a all-time high. Yes it's discouraging seeing the short-term and intermediate MAs weakening but until the bears start breaking the 200-day MA in individual equities, there's still a chance weakness could be dip-buying opportunities supported by long-term up trends.

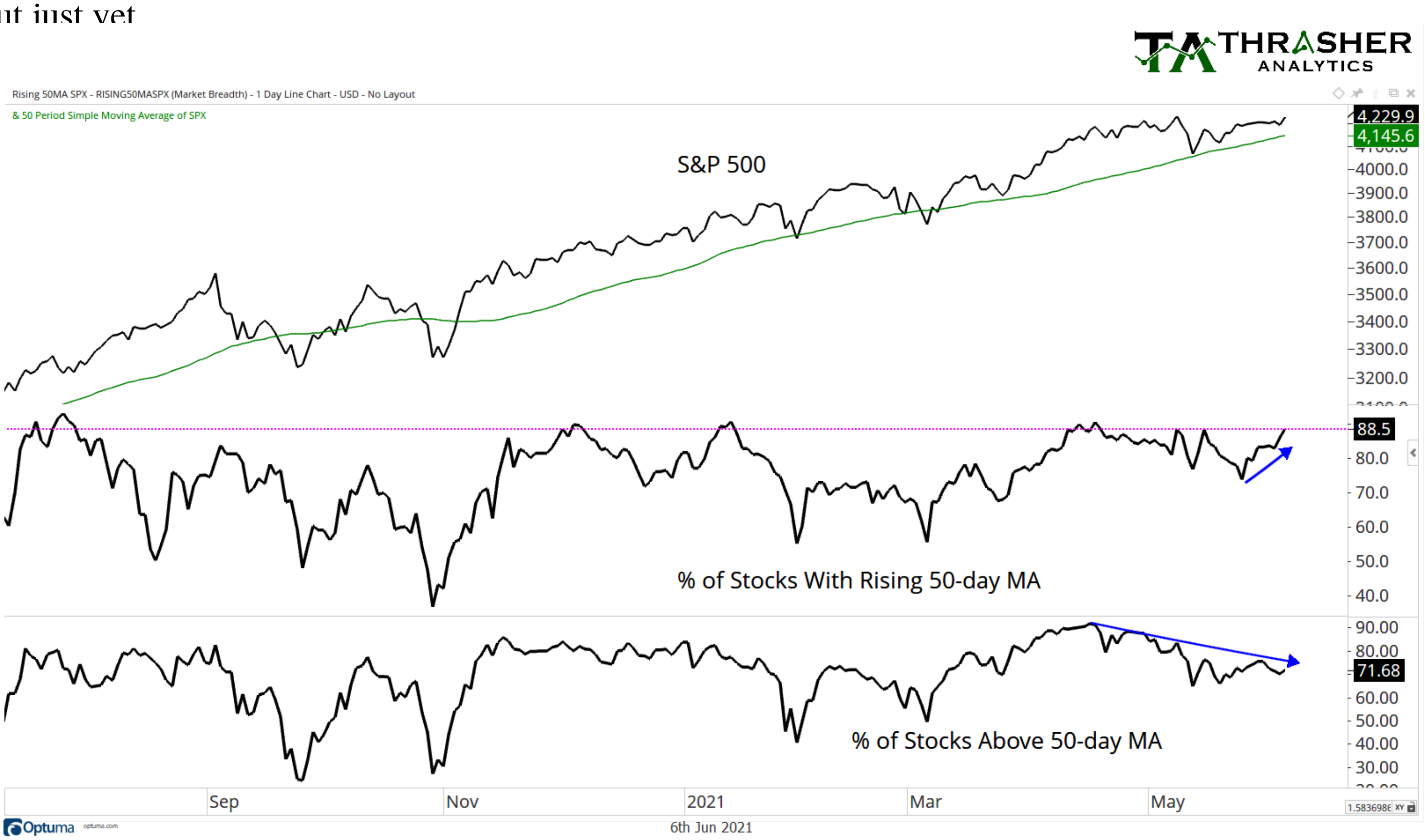


Equities - Breadth: 50MA

Here's one reason I think we are seeing a breakdown in the percentage of stocks trading above their 50-day moving average: Many stocks have been moving in a consolidation while the 50-day MA is rising. Meaning, it's less stocks FALLING below the moving average as much as the MA is RISING above price. Currently, we have 88.5% of stocks with a rising 50-MA, one of the highest levels in several months, a god improvement after dipping to near 70% during that mini-dip in stocks last month.

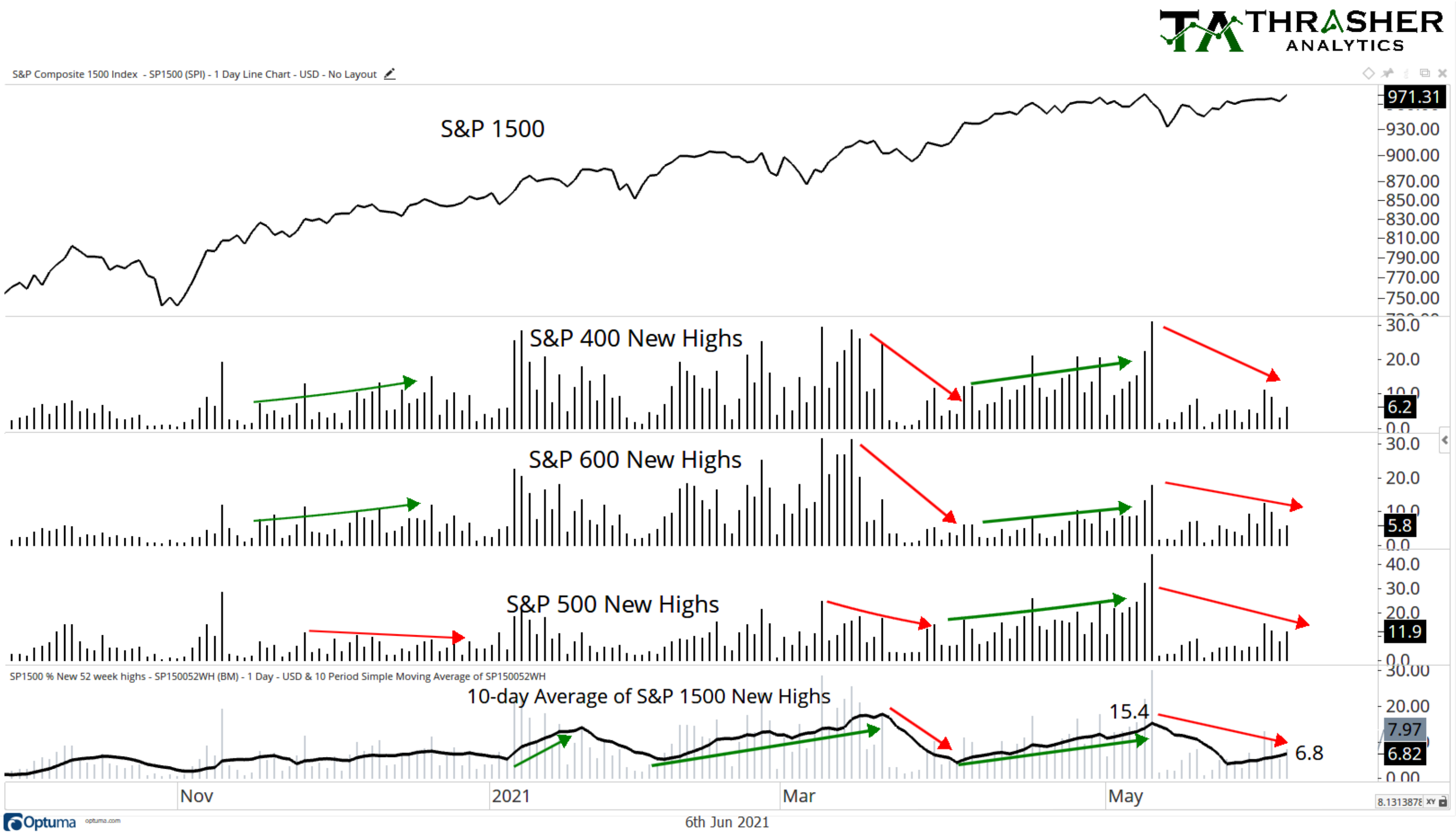
In previously divergence-led market corrections we often will see a divergence in stocks above the 50-day MA - like we are now- as well a declining number of rising moving averages. What this would tell us (less stocks above the MA and less MAs rising) is stocks actually are falling, and not just getting outpaced by the moving average. A stock could theoretically still be rising and whipsaw back and forward over its moving average, retaining its up trend status. But if the stock moves below the moving average and the moving average is also moving lower, that's a sign of a possible down trend.

So for today, the data is mixed. Wish it was clearer than that but at this moment the bears haven't won out just yet



Equities - Breadth: New Highs

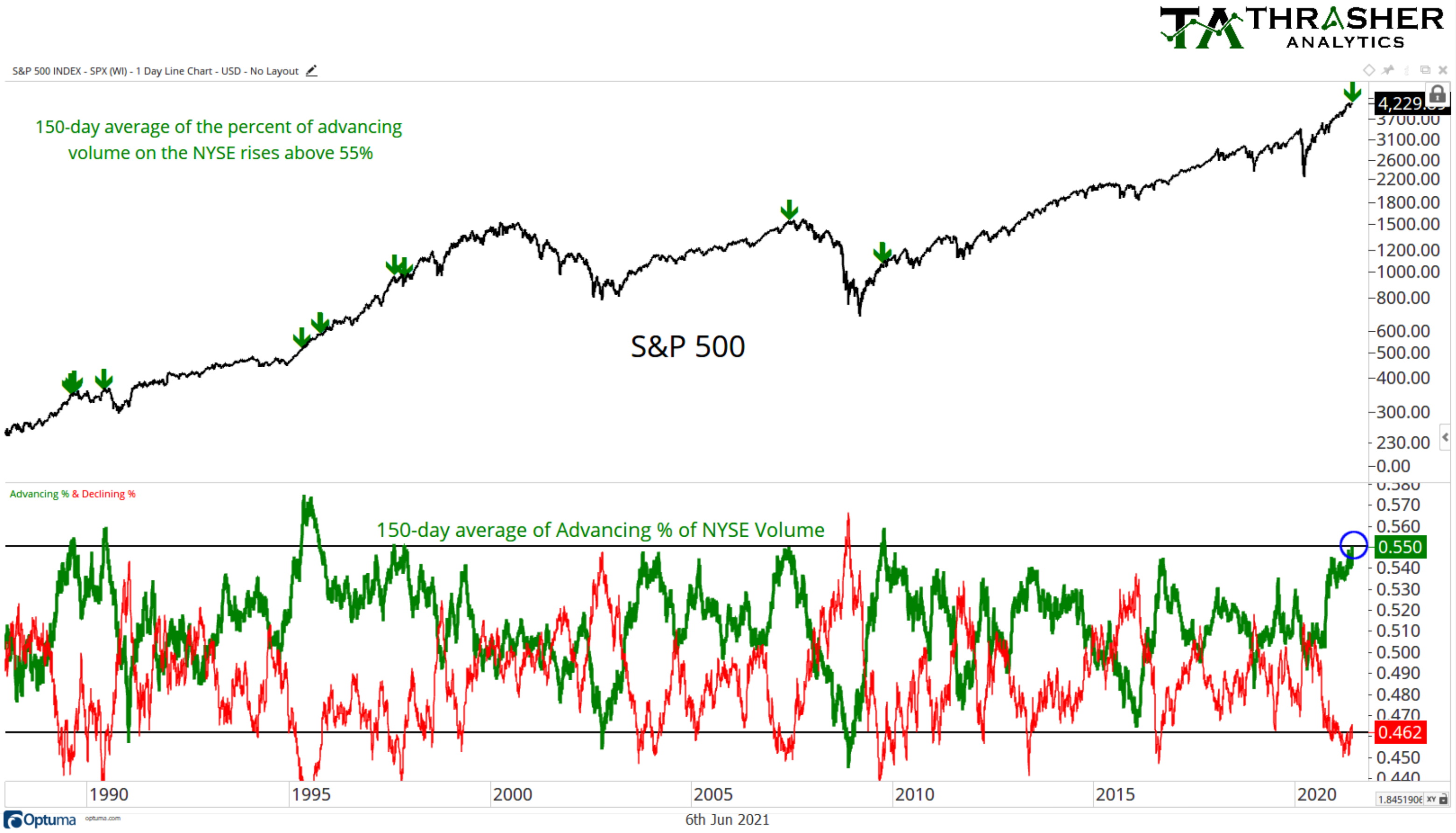
It shouldn't surprise you at this point that the new high data isn't screaming higher. Like other measures of breadth, we've seen a drop-off in the percentage of stocks making new highs. This is across the board, small cap, mid cap, and large cap. The smoothed 10-day average of new highs for all three (measured by the S&P 1500) went from over 15% in May to 6.8% as of Friday. This could be caused by stocks simply consolidation and just not registering new highs, which I think at this point is more likely than the other alternative - stocks are falling. The % above MA data I shared on the prior pages just doesn't support the idea that stocks are all-out going lower just yet.



Equities - Breadth: Volume

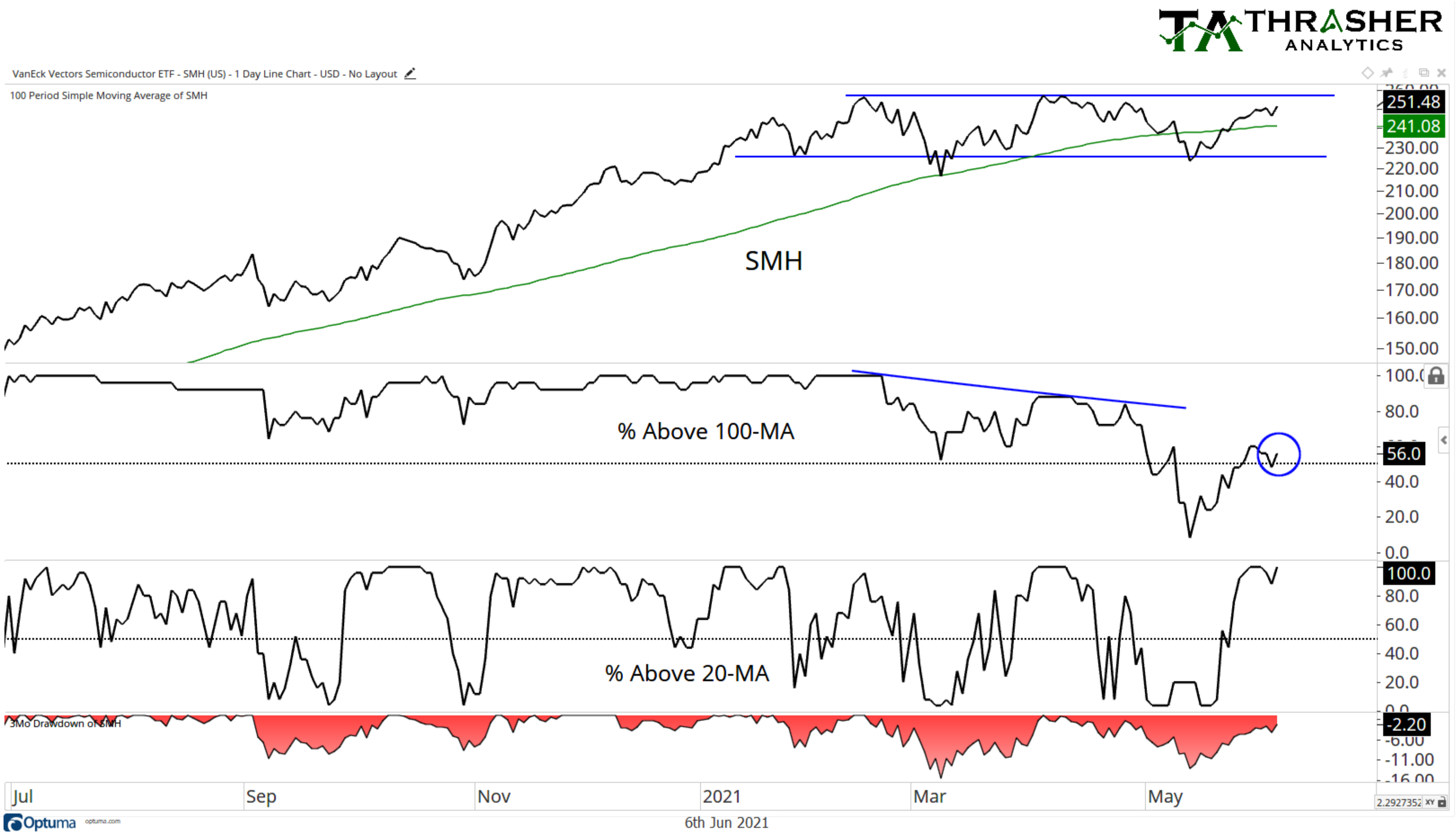
One corner of the market data that's been trending higher has been volume. The 150-day average of the percent of NYSE volume that is advancing is hitting rare air right now. Going back to the early 1990s we've only seen the current level hit a hand full of times. Each is marked on the chart below with a green arrow. Fueled in-part by the strong emergence of retail trading over the last 12-months, volume has been extremely heavy on the buy-side. But this isn't just the meme stocks going parabolic, this is just NYSE volume not the high flying Nasdaq stocks.

I view this as a quasi-look at sentiment. Investors have gotten very used to shares going higher, volume has been on the buyer's side of the ledger more so than really any time during the bull market over the prior ten years.



As long-time readers know, I'm a big fan of watching semiconductors as a good gauge of market risk appetite. As semiconductors go, so does technology and because tech is a big part of the S&P 500, it's a key sector to keep indices moving higher.

Right now we have SMH (semiconductor ETF) sitting just 2.2% off its 52-week high. However, only a little over half of the components are trading above their 100-day moving average. Compare that to when 100% of semiconductors were above the 100-MA back in February. While the index has done a great job recovering, we aren't seeing the same level of strength across the board on the individual stock level. What we don't want to see happen is semi's to roll over and drag down tech with them. That would knock out a key leg of market's stool that's keeping prices up.



Here's a chart I'm sure you won't see anywhere else...

Below is a breakdown of the % of offense and defense sectors that have an RSI above 70. In healthy rising markets we should see offense sectors showing strong momentum compared to defense sectors. When this reverses and the SPX is at a high, that's telling us that defense sectors are stronger than offense, not an ideal sign of healthy risk appetite.

That's exactly what we have happening right now. The spread between the two has gone negative, meaning more defense stocks have 'overbought' momentum compared to offense stocks. In fact we had over 30% of offense sectors with 'overbought' momentum at the prior high which dropped off to 7.8% this week.

From an sector standpoint, the offense is losing out to defense on this latest leg higher in the index.

Equities - Sentiment, maybe?

yahoo!finance | Yahoo Finance AU

'Invisible sculpture' sells for $23,500

Eliza Bavin
Thu, 3 June 2021, 11:13 pm · 2-min read

Artist Salvatore Garau has sold an invisible sculture for $23,500 (Source: Instagram @salvatore_garau)

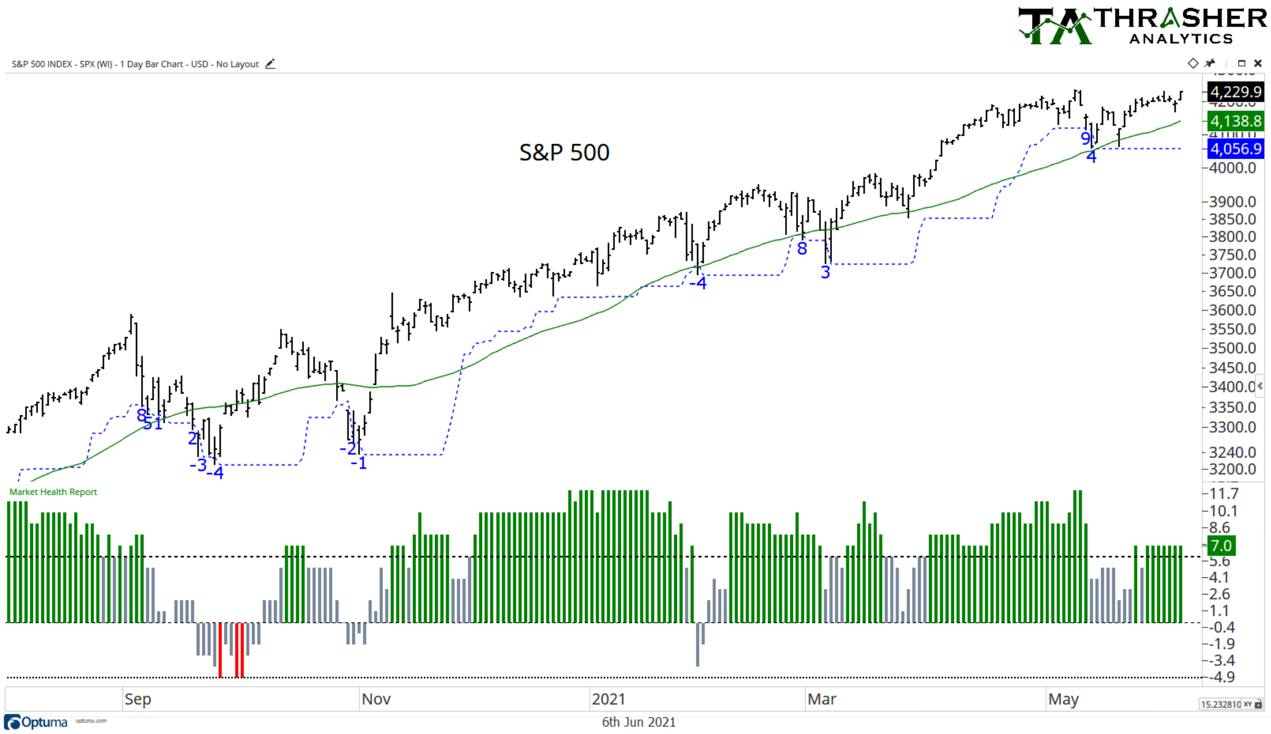
This is the type of headline you'd expect from the Onion but sadly it's actually true. A sculpture by an Italian artist sold for $18,000 that was invisible. I'm shaking my head as I write this! From the Yahoo! article shown above, "Garau said the Io Sono (I am) sculpture is made from "air and spirit", exists like a "vacuum" and does not take any material form."

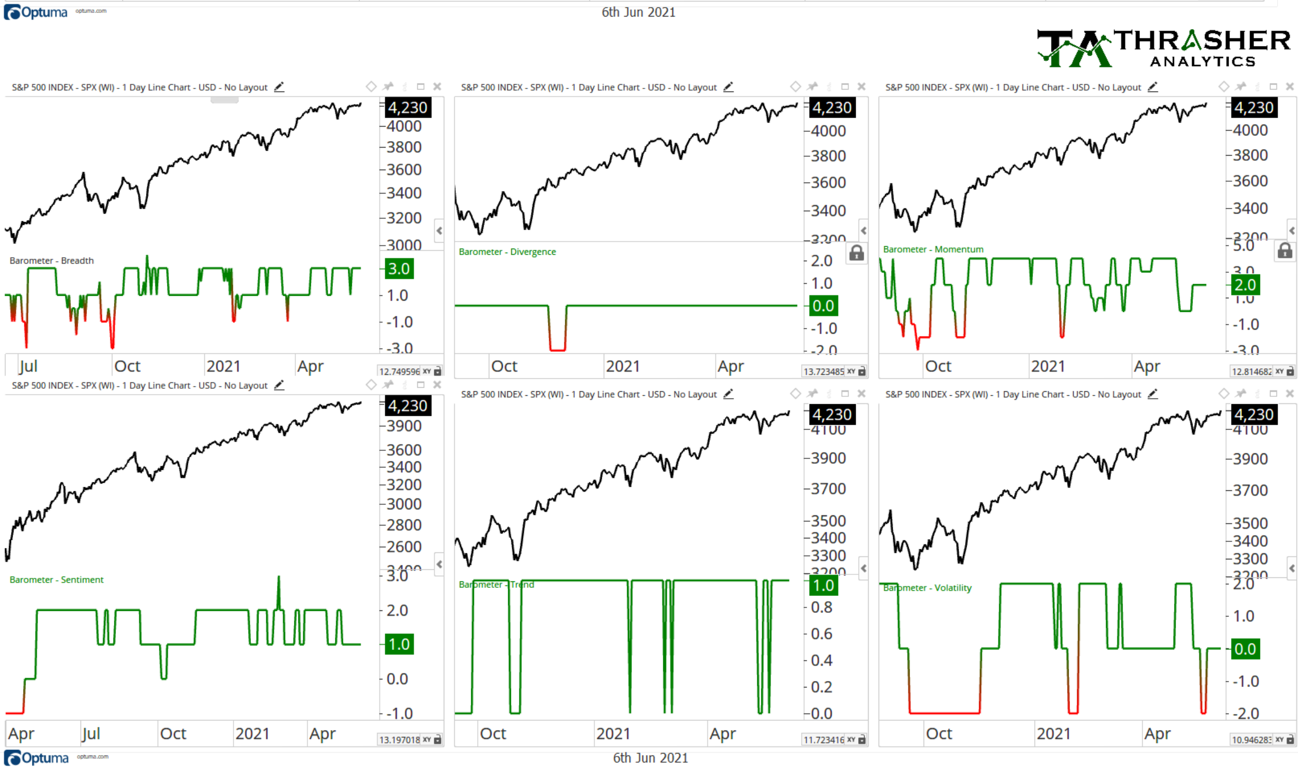
People will literally buy anything. I thought the limits were being stretched with NFTs, where you could pretend to own digital art (yes, I realize people feel NFTs are legit, I'm not just a believer). But this 'invisible sculpture' sale takes things to a whole new level. A banana duct taped to a wall was believed to be "peak art insanity", well move over decaying fruit, there's a new king in town!

Used cars are selling for 20+% more right now than this time last year, the housing market is on fire, you can buy pixelated cartoons for seven figures, and now you can even buy "art" that is invisible. If that doesn't scream overconfidence I'm not sure what would. I can't wait for the buyer to flip it for a profit, that'll be a great story I'm sure we'll read before the year-end. When people think nothing will lose money, whether it's crypto, new "art" forms, stocks of bankrupt companies, or electronic car companies, slowly but surely the sentiment levels reach their peak. Are we there yet? Only the historians writing about this period of time will know for sure, but things are getting a little ridiculous.

Market Health Report

The Market Health Report (MHR) finished the week still at +7. All six categories stayed the same last week. Several are close to moving lower but remain solidly bullish at this time.



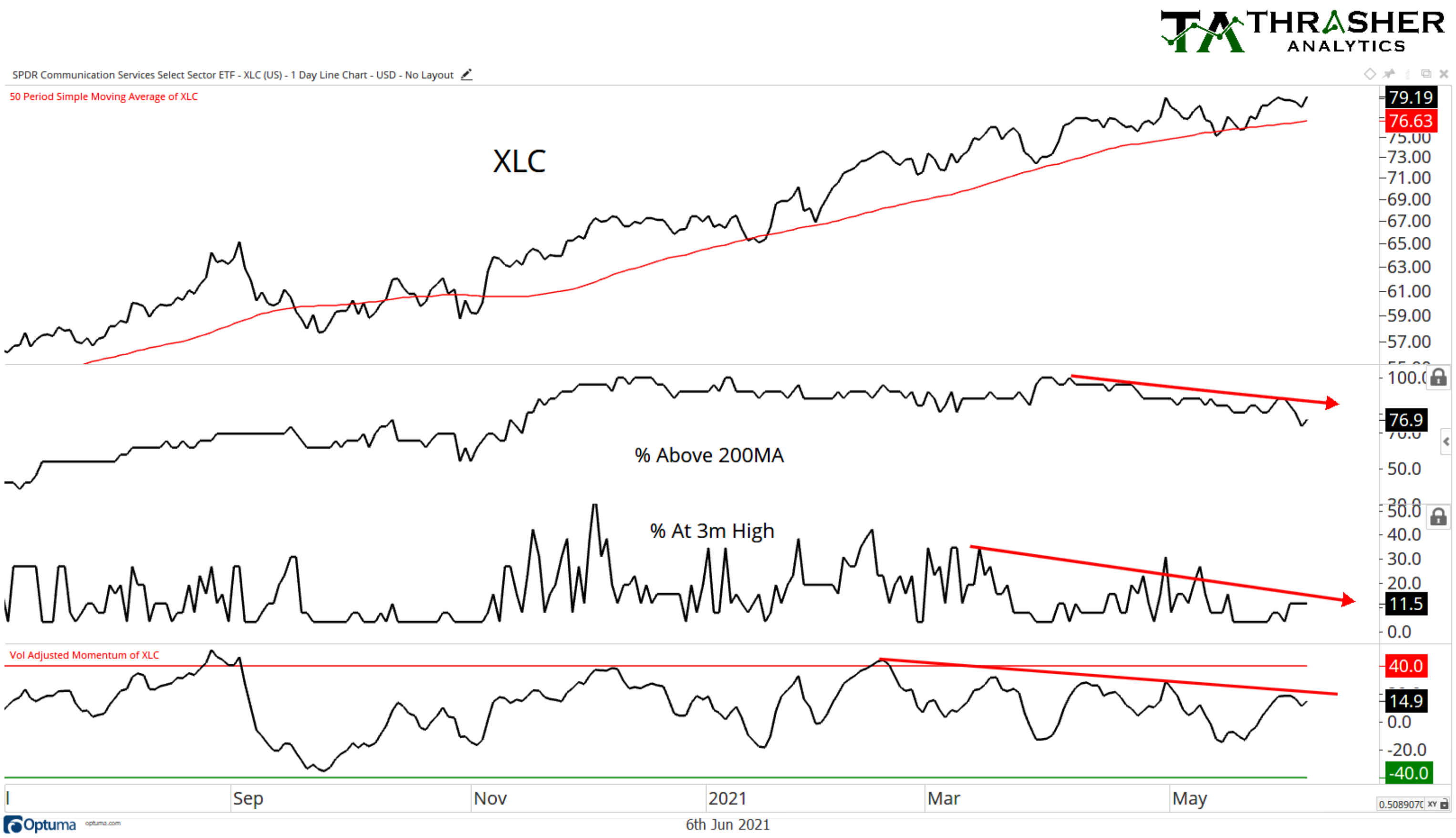


Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Energy Select Sector Fund ETF	True	True	6.78%	9.79%	9.23%	33.56%
SPDR Real Estate Select Sector Fund ETF	True	True	3.01%	5.39%	22.35%	24.68%
SPDR Financial Select Sector Fund ETF	True	True	1.26%	4.74%	16.29%	52.06%
SPDR Technology Select Sector Fund ETF	True	True	1.17%	2.35%	10.64%	41.71%
SPDR Consumer Staples Select Sector Fund ETF	True	True	1%	2.48%	12.99%	20.02%
SPDR Materials Select Sector Fund ETF	True	True	0.74%	3.18%	19.41%	50.69%
SPDR S&P 500 ETF	True	True	0.61%	1.68%	12.18%	35.73%
SPDR Communication Services Select Sector ETF	True	True	0.51%	2.92%	10.46%	44.98%
SPDR Utilities Select Sector Fund ETF	False	True	0.35%	-1.61%	11.36%	8.23%
SPDR Industrial Select Sector Fund ETF	True	True	0.21%	1.85%	15.4%	46.02%
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	-1.05%	-2.94%	9.75%	33.43%
SPDR Health Care Select Sector Fund ETF	True	True	-1.22%	-0.61%	10.19%	20.2%

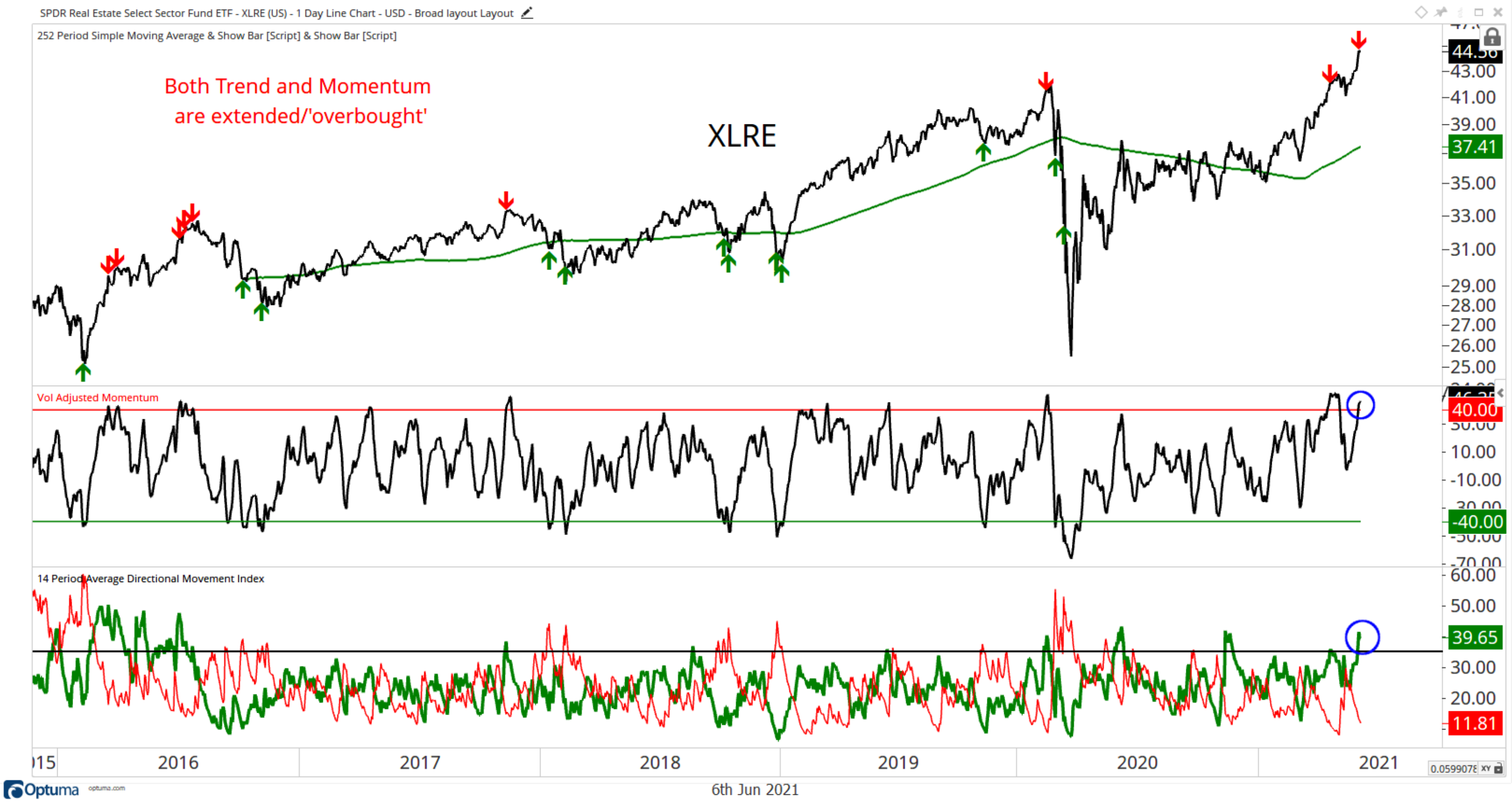
Sectors - Communications

The Communications sector is sitting near a high but the internals have begun to weaken. The percentage of stocks above the 200-day moving average has gone from 100% to 76.9%, even though the broad sector has moved higher. There's also been a drop-off in stocks making new 3-mont highs. Looking at the momentum of XLC, there's also a divergence of lower-highs here in the the Volatility Adjusted Momentum Indicator. All in all, the Communications sector looks like it may have some hard work ahead if its going to dodge these bearish developments. The 50-day MA has been good support during the up trend, if XLC does move lower I wouldn't be surprised if it undercut the moving average based on the weakness of the breadth data.



Sectors - Real Estate

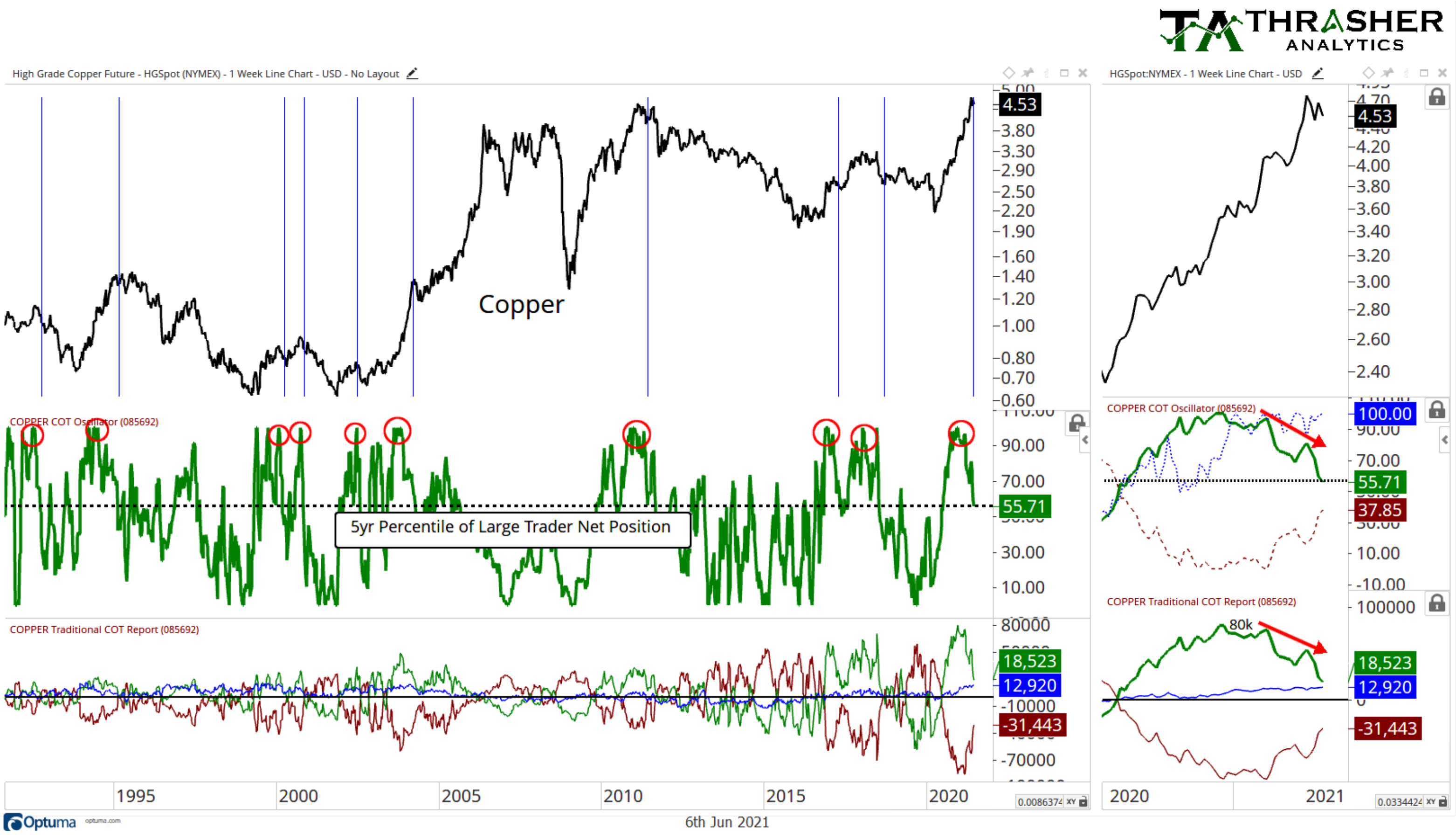
The Real Estate sector has been extremely strong lately, up over 22% during the last three months. But I think that strength may start to wane soon. With lumber appearing to have peaked and begun to roll over and copper COT data turning bearish (next page), the external factors for the sector that were tailwinds are turning into headwinds. Meanwhile, the technicals also are over-extended and overbought. The Volatility Adjusted Momentum is over 40 and the ADX Trend Indicator is showing an over-extended up trend signal. Red arrows on the chart show when both these conditions were present at the same time in the past, notice XLRE often moved lower soon after. I think Real Estate is a good place to look for potential hedges to equity exposure, if we see the broad market weaken I'd be surprised if Real Estate was able to buck that move and not see downward pressure.



Commodity - Copper

I showed this chart last week but wanted to update it again because a lot of attention has been put on industrial commodities and by extension, the housing market and more broadly - inflation.

Commodity prices ripped higher but have since begun to cool off, lumber has come down, corn has cooled off, and copper has made its first possible lower-high. This move in copper follows what I've been discussing recently about the take down in long-exposure by Large Traders in the COT data. Large Traders went from a net-long 80,000 copper contracts to just 18,523 as of last week, all while copper sits just a few percent off its high. Large Traders, which did a great job catching the turn in copper, seem to be turning less bullish and I think this could be a good "tell" into the inflation story. We'll get more inflation data this week but my expectation is copper prices continued to move lower.

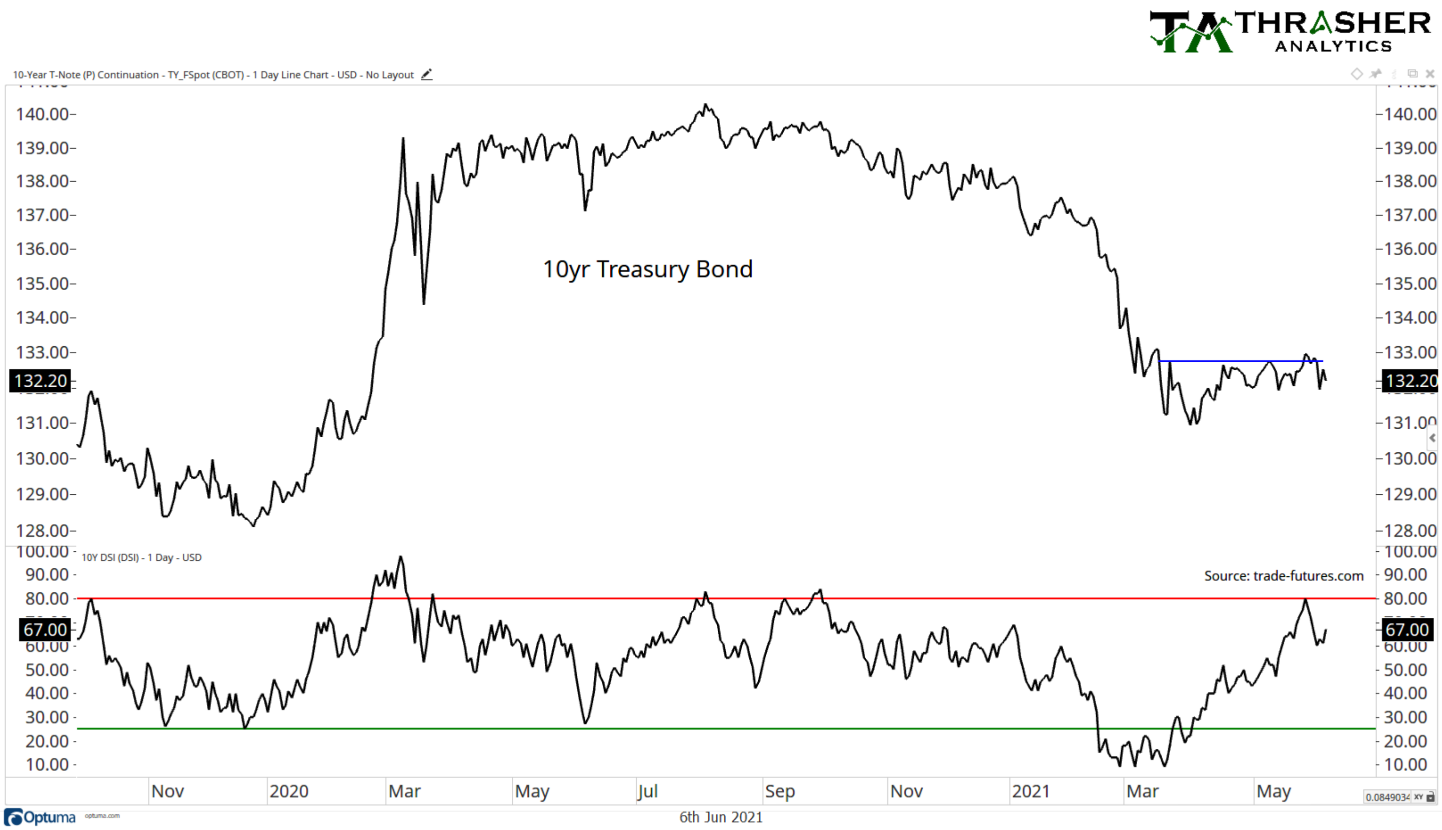


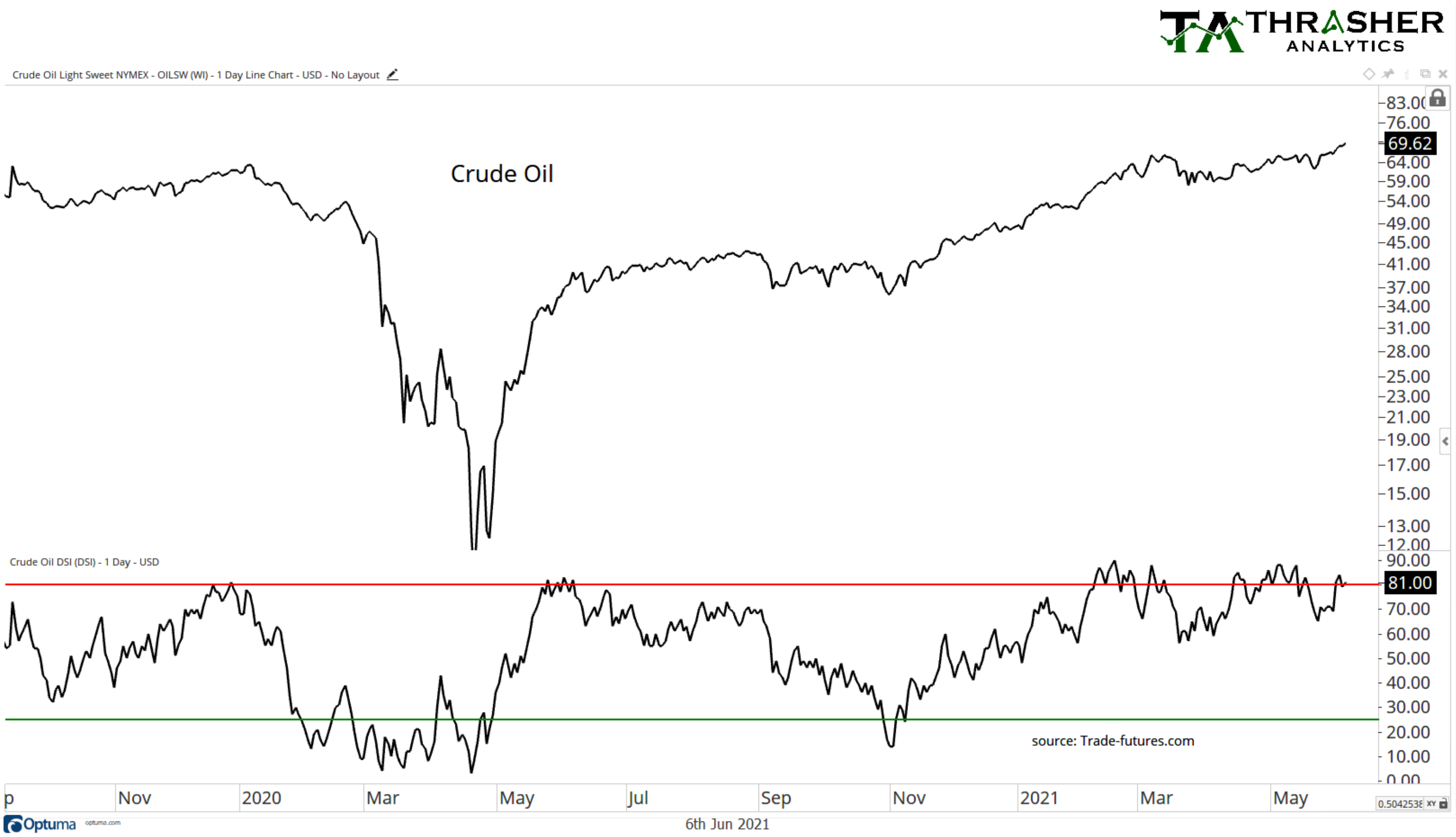
Daily Sentiment Index

Market	% Bullish	5MA	History
Lumber DSI	10	14.4	
VIX DSI	19	23	
US Dollar DSI	22	22.2	
Cattle DSI	25	27.80	
Cocoa DSI	41.00	42.80	
Wheat DSI	42.00	41.60	
Platinum DSI	43.00	44.60	
Palladium DSI	44.00	43.60	
Copper DSI	55.00	60.60	
Orange Juice DSI	56.00	50.20	
5YR DSI	62.00	58.00	
Silver DSI	63.00	63.00	
Nasdaq DSI	63.00	62.60	
Mexican Peso DSI	64.00	61.20	
EuroDollar DSI	64.00	63.60	
Sugar DSI	65.00	63.60	
Gold DSI	65.00	65.80	

Code	% Bullish	5MA	History
Corn DSI	66.00	64.60	
British Pound DSI	67.00	67.60	
10Y DSI	67.00	62.80	
New Zealand Dollar DSI	68.00	69.80	
Swiss Franc DSI	73.00	72.80	
Australian Dollar DSI	73.00	72.00	
Euro DSI	74.00	75.80	
SPX DSI	75.00	71.00	
Coffee DSI	77.00	76.80	
Natural Gas DSI	79.00	79.20	
CRB Index DSI	79.00	78.80	
Cotton DSI	79.00	73.00	
Nikkei DSI	81	78.40	
Lean Hog DSI	81	85.4	
Crude Oil DSI	81	79.40	
Heating Oil DSI	85	83.8	
Gasoline DSI	86	83.4	

Source: trade-futures.com


THRASHER ANALYTICS
10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout
10yr Treasury Bond
132.20
10Y DSI (DSI) - 1 Day - USD
Source: trade-futures.com
67.00
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Optuma
6th Jun 2021


THRASHER ANALYTICS
Crude Oil Light Sweet NYMEX - OILSW (WI) - 1 Day Line Chart - USD - No Layout
Crude Oil
83.00
76.00
69.62
64.00
59.00
54.00
49.00
45.00
41.00
37.00
34.00
31.00
28.00
25.00
23.00
21.00
19.00
17.00
15.00
13.00
12.00
Crude Oil DSI (DSI) - 1 Day - USD
90.00
81.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
source: Trade-futures.com
Nov
2020
Mar
May
Jul
Sep
Nov
2021
Mar
May
Optuma
6th Jun 2021


Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout
Gold
1,892.00
Source: trade-futures.com
65.00
2020
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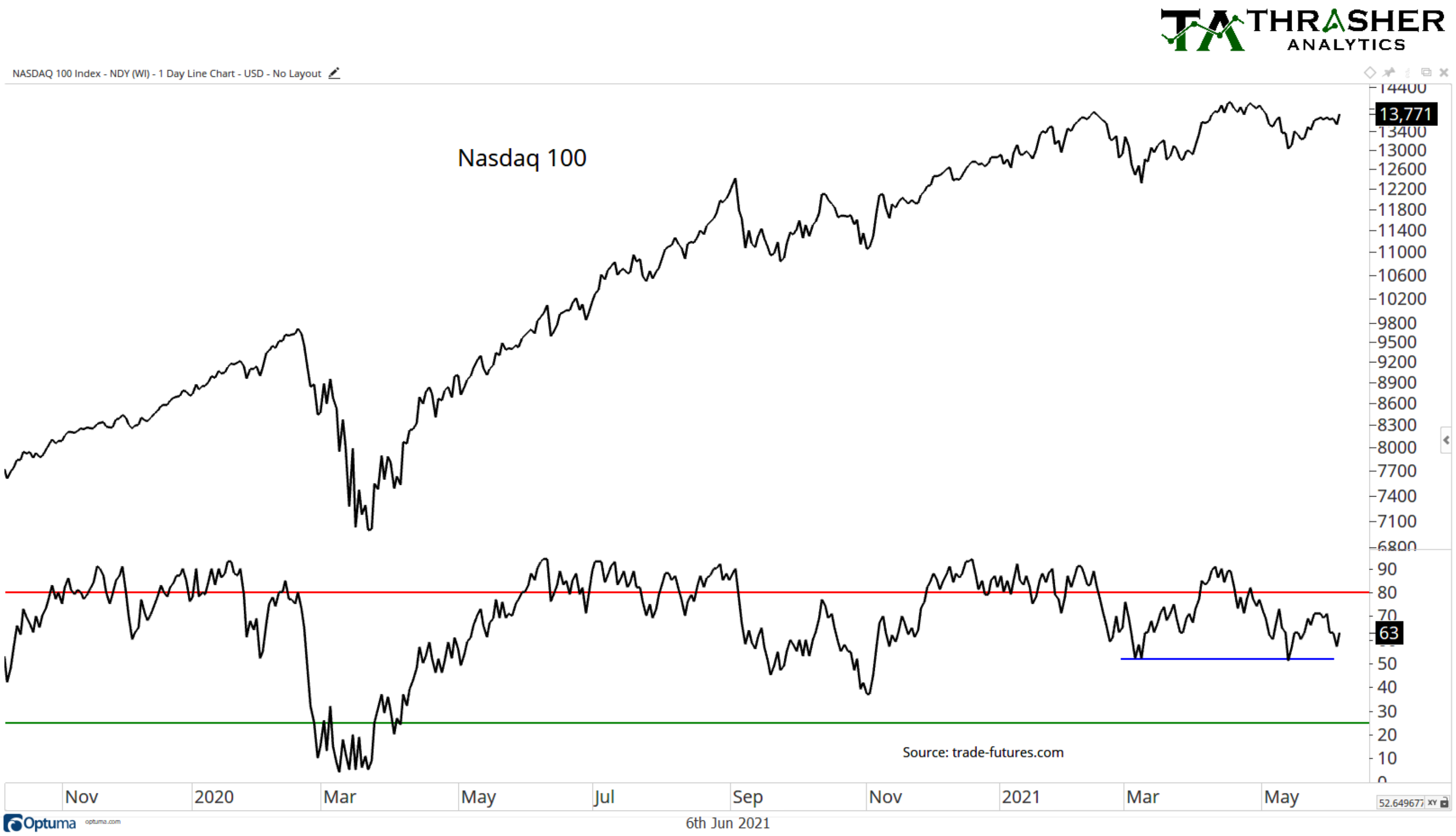
2021
Mar
May
Optuma
6th Jun 2021

Daily Sentiment Index



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
18.0
16.4
14.0
12.0
11.0
Source: trade-futures.com
90.0
80.0
70.0
60.0
50.0
40.0
30.0
19.0
10.0
Nov
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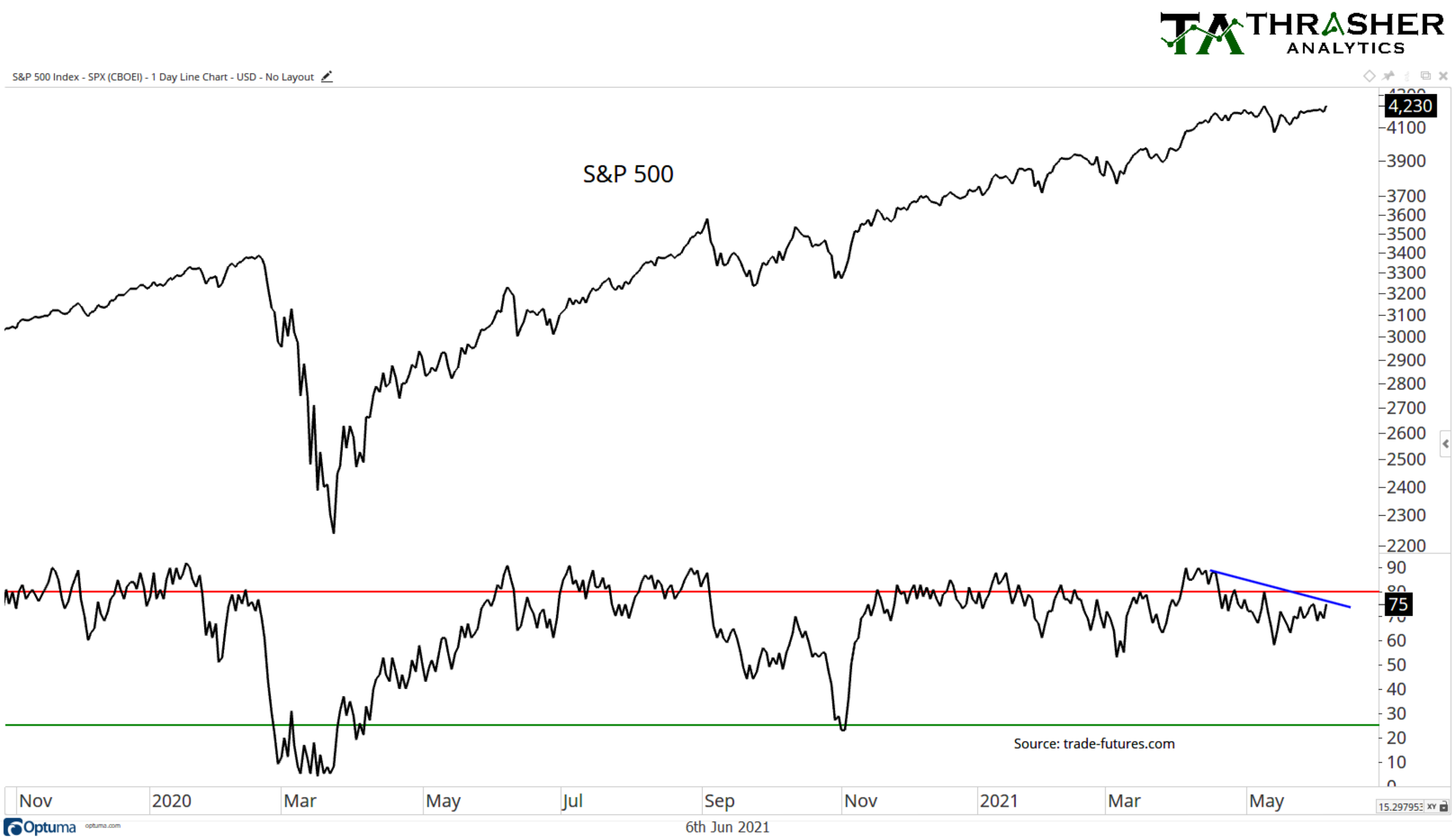
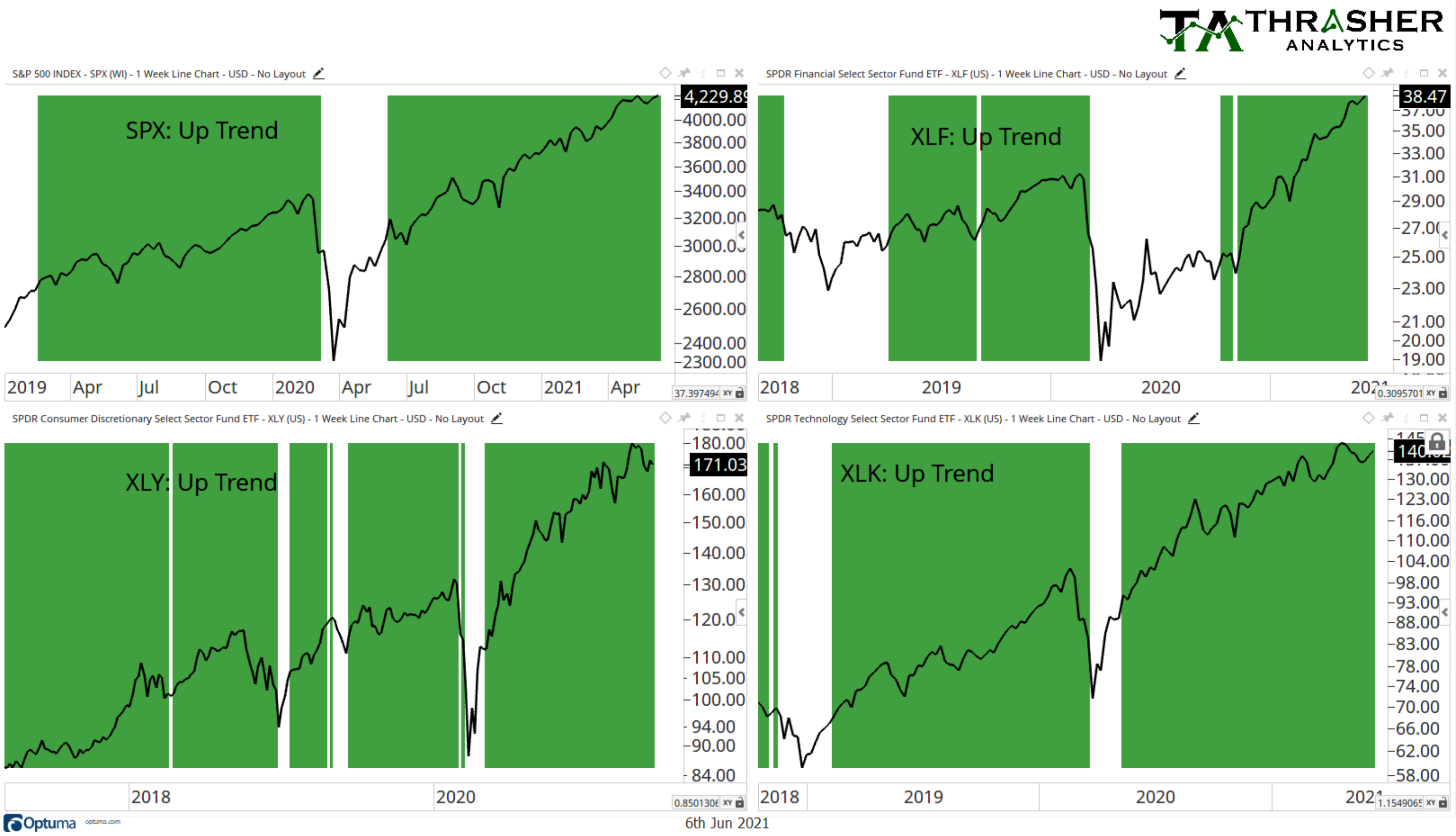
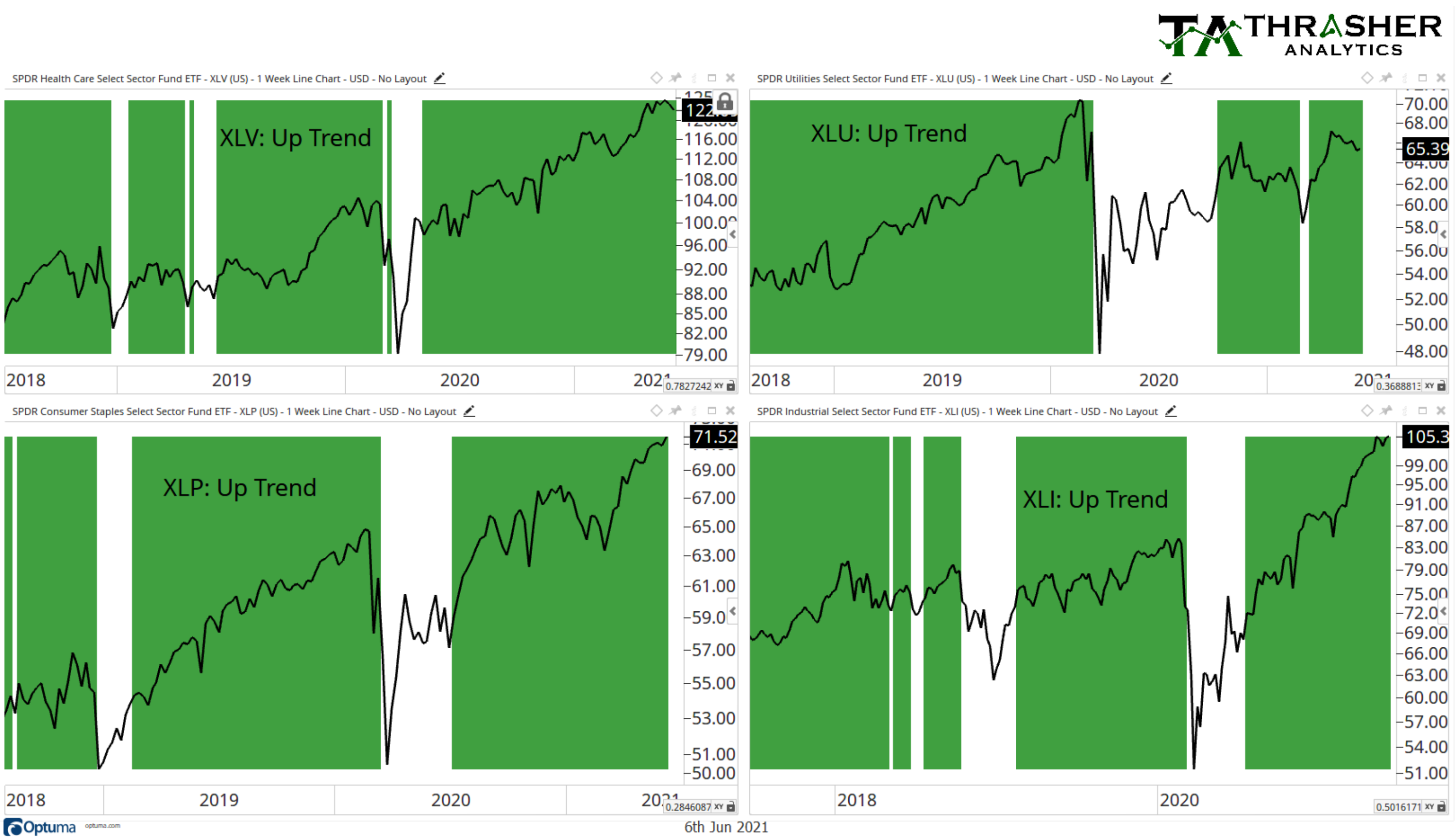
Daily Sentiment Index




THRASHER ANALYTICS
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout
SPX: Up Trend
4,229.89
2019 Apr Jul Oct 2020 Apr Jul Oct 2021 Apr
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout
XLF: Up Trend
38.47
2018 2019 2020 2021
SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout
XLY: Up Trend
171.03
2018 2020
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout
XLK: Up Trend
2018 2019 2020 2021
Optuma
6th Jun 2021

Trend Models



Trend Models

DISCLAIMER: