THRASHER ANALYTICS

JULY 5, 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.
- Breadth has improved.

Bearish

- Lack of new highs in indiv. equities.
- Frothy sentiment.
- Poor relative performance.
- Disappearing volatility.
- Natural gas stretched.

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Meet My Daughter

Before getting started with this week's letter let me proudly introduce you to my new baby girl, Elizabeth Thrasher. Elizabeth was born on June 30th at 4:41 in the morning and both her and her mom are doing great! My wife and I couldn't be happier to welcome our daughter into the family.

Market Dashboard

Sector Rotation: July	
Financials	XLF
Energy	XLE
Real Estate	XLRE

Fixed Income Rotation: Q3	
High Yield Corp.	HYG
20+ Yr Treasury	TLT

Market Health Report	
Breadth	2
Divergence	0
Momentum	4
Sentiment	2
Trend	1
Volatility	2
Total	**11**

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	91%	85%
Nasdaq 100	91%	88%
Nikkei	73%	74%
VIX	17%	17%
10yr Treasury	80%	77%
5yr Treasury	69%	67%
CRB Index	83%	78%
Gold	29%	23%
U.S. Dollar	55%	56%

*Green<25% Red>80%

source: trade-futures.com

Brief Summary:

Previously the story had been the breakdown in breadth data. A majority of stocks had fallen below their 50-day moving average and we weren't (and still aren't) seeing confirmation of the higher-highs of large caps in the mid/small/micro caps. But I think the bigger story is now sentiment-driven. We have over 90% bullish DSI for SPX and less than 2.2% of stocks are in a major drawdown. Volatility within individual stocks has dried up. While stocks may not be declining, they aren't outperforming either with just 31% in relative performance up trends.

Does this mean the S&P 500 is required to decline? Of course not. But if/when a catalyst is presented for market to respond poorly to, these examples of over-confidence can provided the needed fuel to cause a sentiment-driven correction. Fortunately sentiment-led declines are often short-lived compared to those driven by falling internals - think more early '18 or '10 and less Q4 '18 or '08. The Market Health Report remains positive, we'll see if that continues to hold up should stocks move lower - as always we want to check back in with the MHR at each 15-day low.

On the commodity front, I continue think gold is setting up nicely while natural gas on the other hand appears over-extended with sentiment and COT positioning suggesting a less attractive setup.

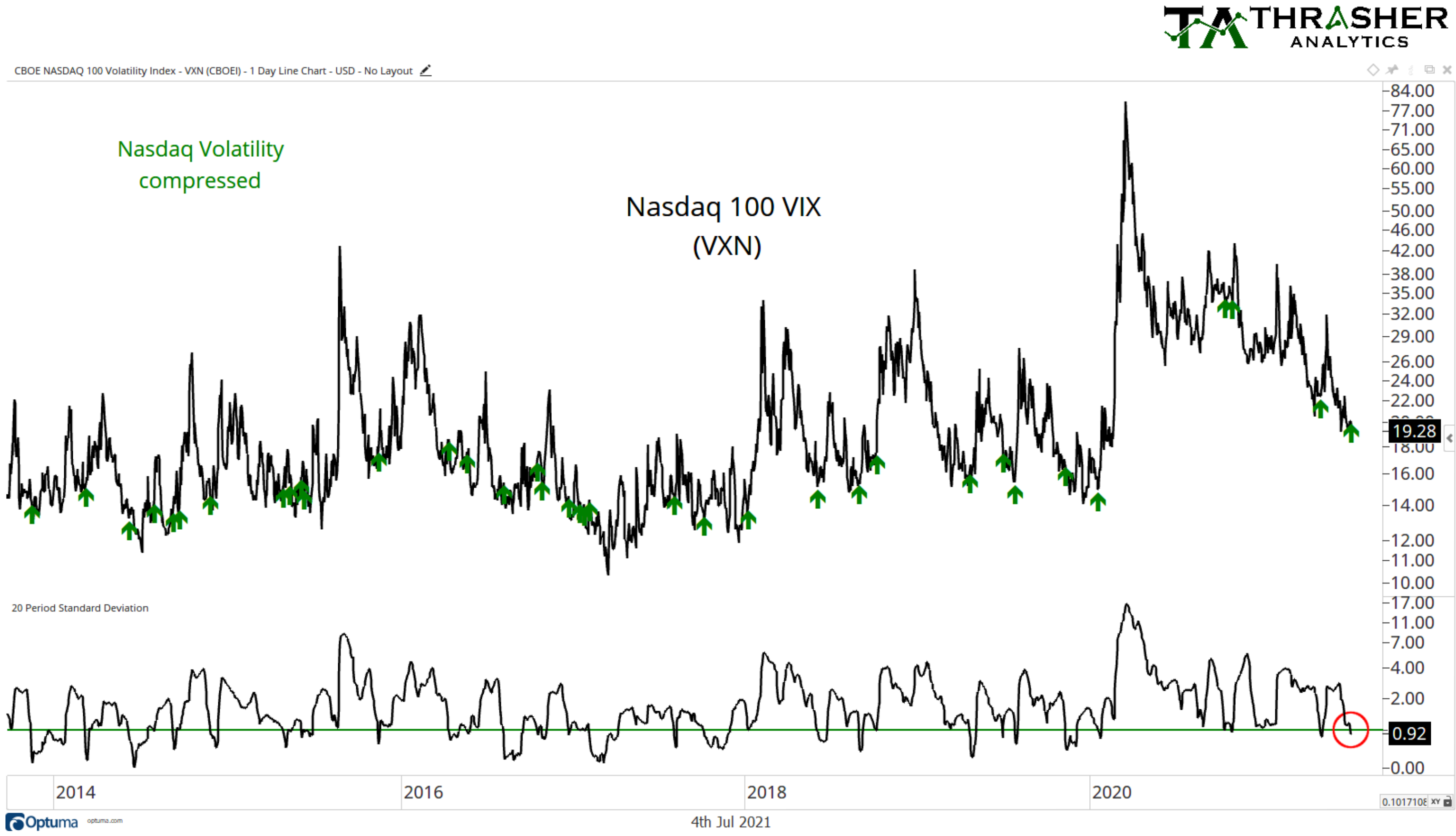
Volatility

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 VRT 2.0 continues to sit just below a trigger level. Dispersion for volatility (across indices) has narrowed and the Nasdaq 100 VIX (VXN) has seen its daily dispersion compress below a std dev of 1, more on this on the following page. The VRT 2.0 so far has been on the right side of the volatility market, holding off on a signal as spot VIX continues to trend lower over the last couple of weeks.

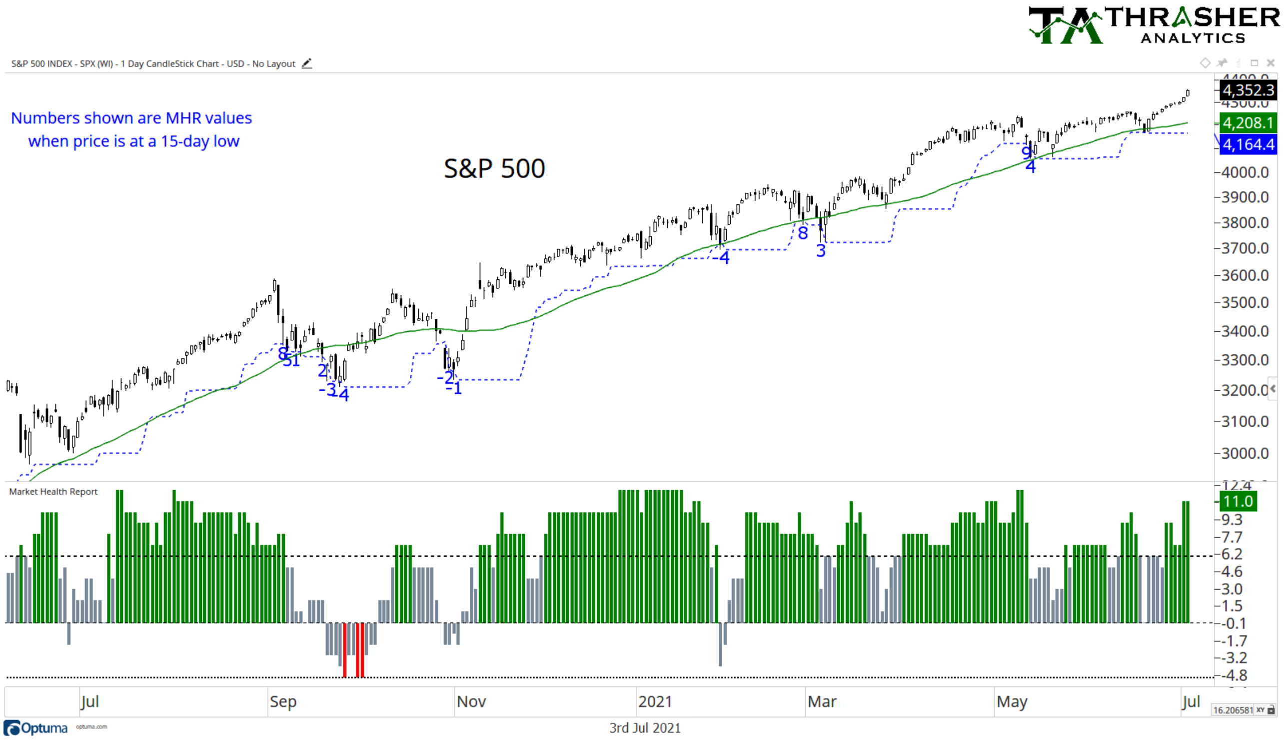
Volatility - Nasdaq 100 VIX

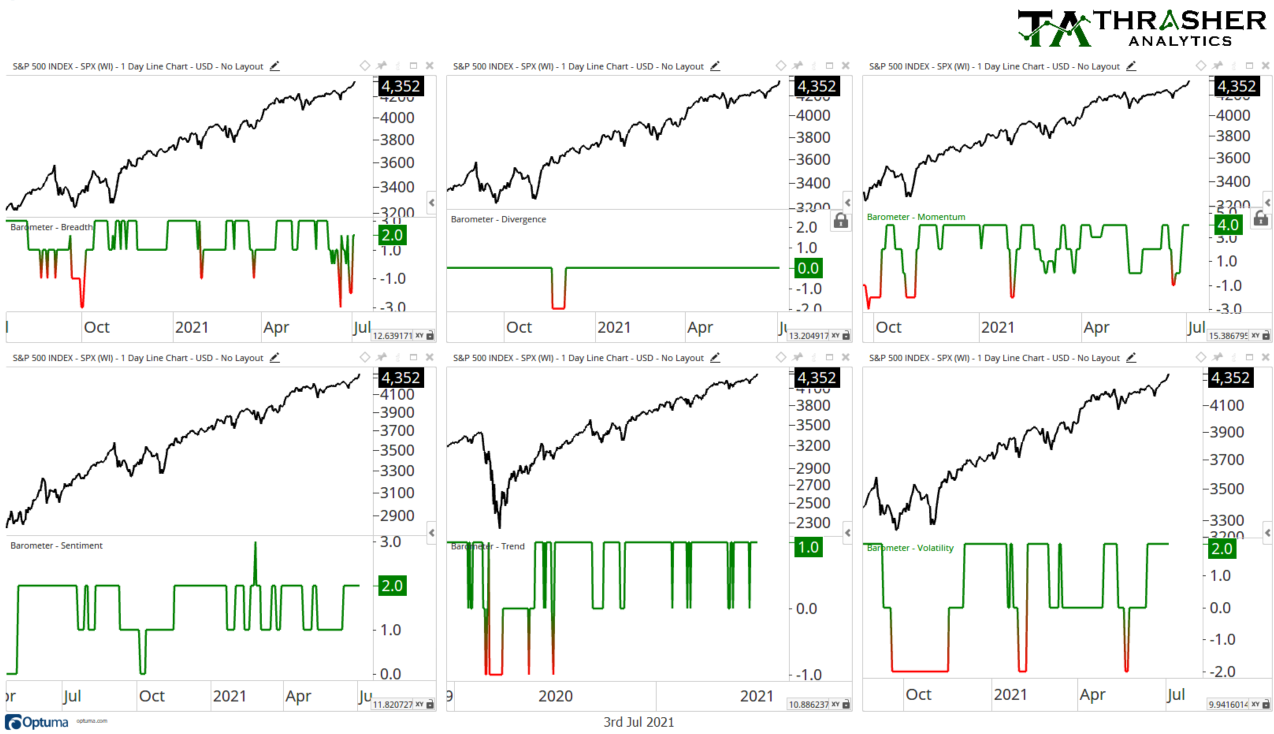
Below is the Nasdaq 100 Volatility Index (VXN) and its 20-day standard deviation. For the first time since April (just before VXN went from 22.40 to 32), dispersion (as measured by std dev) has fallen below 1.0, suggesting a very compressed environment for the Nasdaq VIX. While not to be viewed alone, this does increase the likelihood of some the Nasdaq's own fireworks.



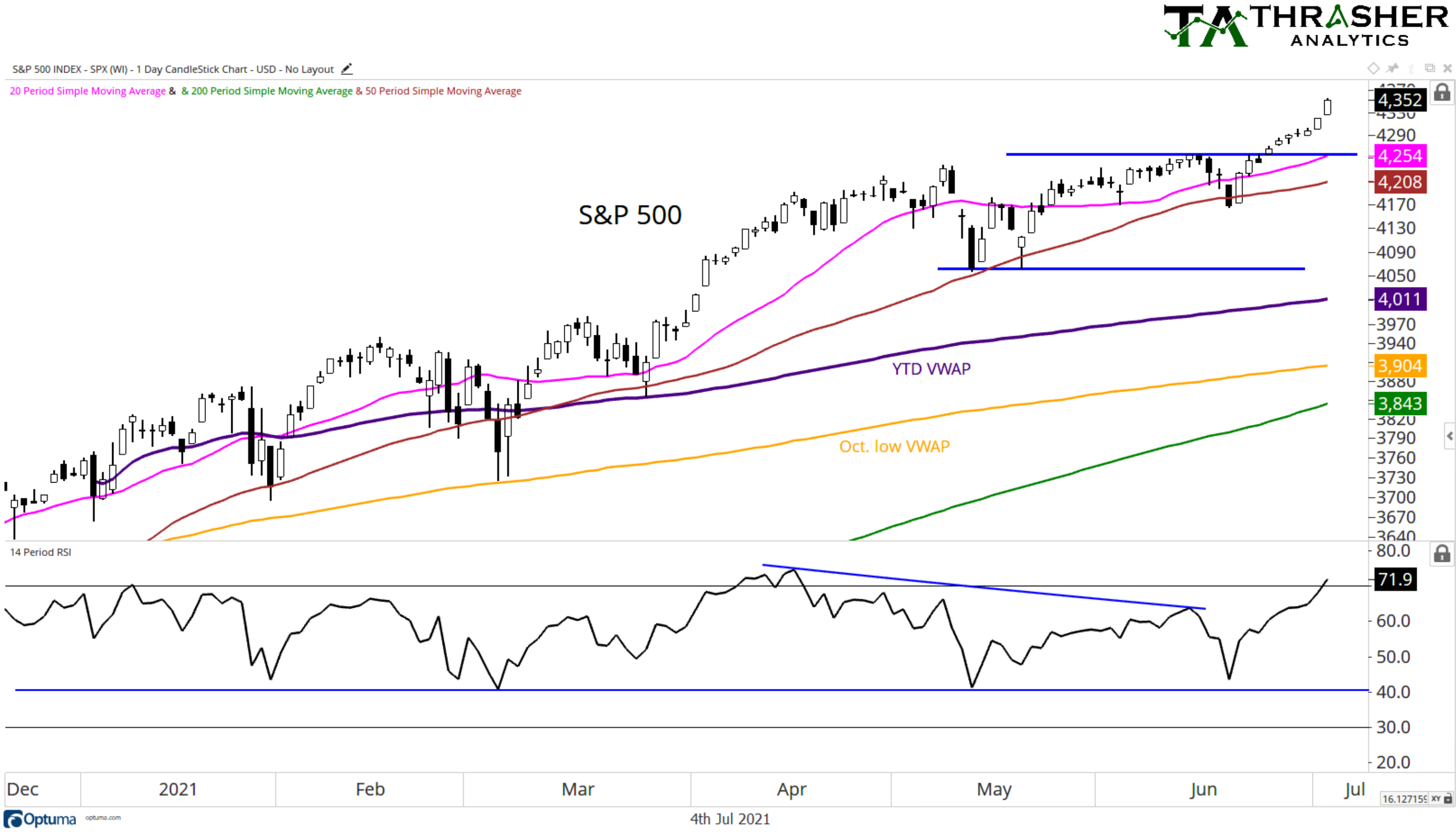
Market Health Report

The Market Health Report (MHR) finished the week up to +11. All six categories are now at/above 0, a bullish sign for the market. The momentum and volatility categories made bullish improvements last week.





One of the 'big' stories for the S&P 500 chart lately has been the seven consecutive positive days which I believe is the first time since 1997. More important in my eyes is the move in momentum with the 14-period RSI rising back above 70, which ends the bearish divergence that had been setting up since April. an RSI over 70 can be a short-term bearish sign momentum is overheated but long-term it's bullish as strong upside momentum often leads to further upside.



Equities - Drawdown -1

Less than 2.2% of stocks are in a 20+% drawdown right now. This is the lowest reading since just before the 2010 decline and only the second time less than 2.2% of stocks were in down by 20% since 1996. While the breadth data shows many stocks may not be at their highs or are below their intermediate moving average, they definitely aren't seeing major weakness.

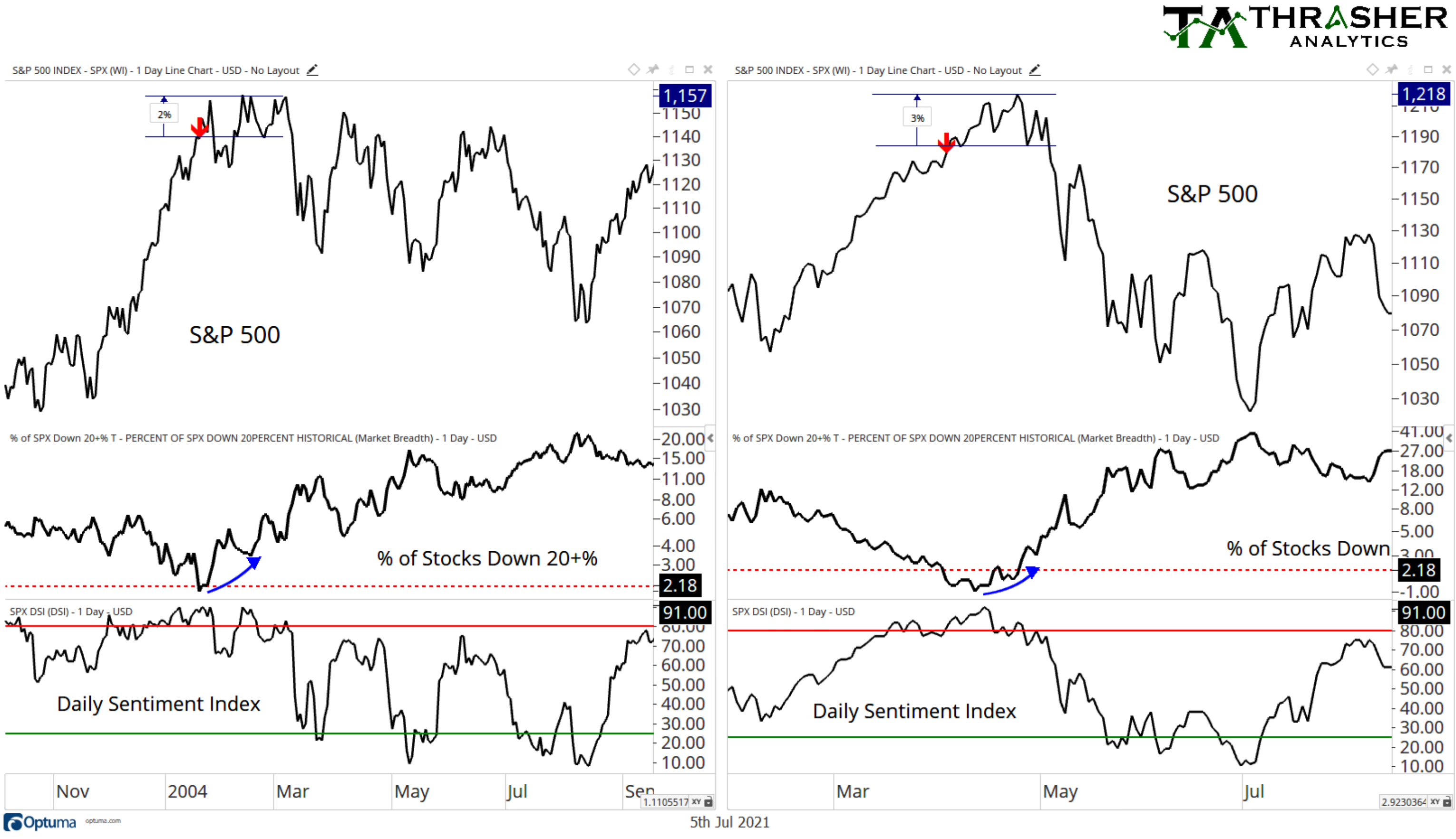
A lack of ANY internal weakness like this has not setup well for equities in the following weeks although the sample size is extremely small (n=2). The major market declines (ala '00, '08, '15, '18) were preceded by a rising number of stocks - the opposite of what we are seeing today. This suggests a resulting decline in equities should be contained to less than 8-15% if market history is to repeat or rhyme. More on the next page.

Equities - Drawdown -2

Here's a closer look at the '04 and '10 instances of when less than 2.2% of stocks were in a major decline. I share this to show that when they crossed the 2.2% threshold, it's not as if the index immediately peaked. Instead we saw the S&P 500 rise another 2-3%, which was accompanied by an increase in the percent of stocks in a 20+% drawdown by the time the index did hit a high.

Not shown on the chart, but both of these periods saw strong breadth as measured by % of stocks above major Moving Averages. In both 2004 and 2010 over 90% of stocks were above the 200-day MA (like today) and over 75% above the 50-day MA (stronger than today).

The REAL story was that sentiment was getting overheated. It wasn't the weakness in breadth that took the market lower, it was sentiment. Nearly no stock was in a major drawdown and over 90% of the market was bullish (via DSI). In both cases the DSI for the S&P 500 was at or over 90% (like today).

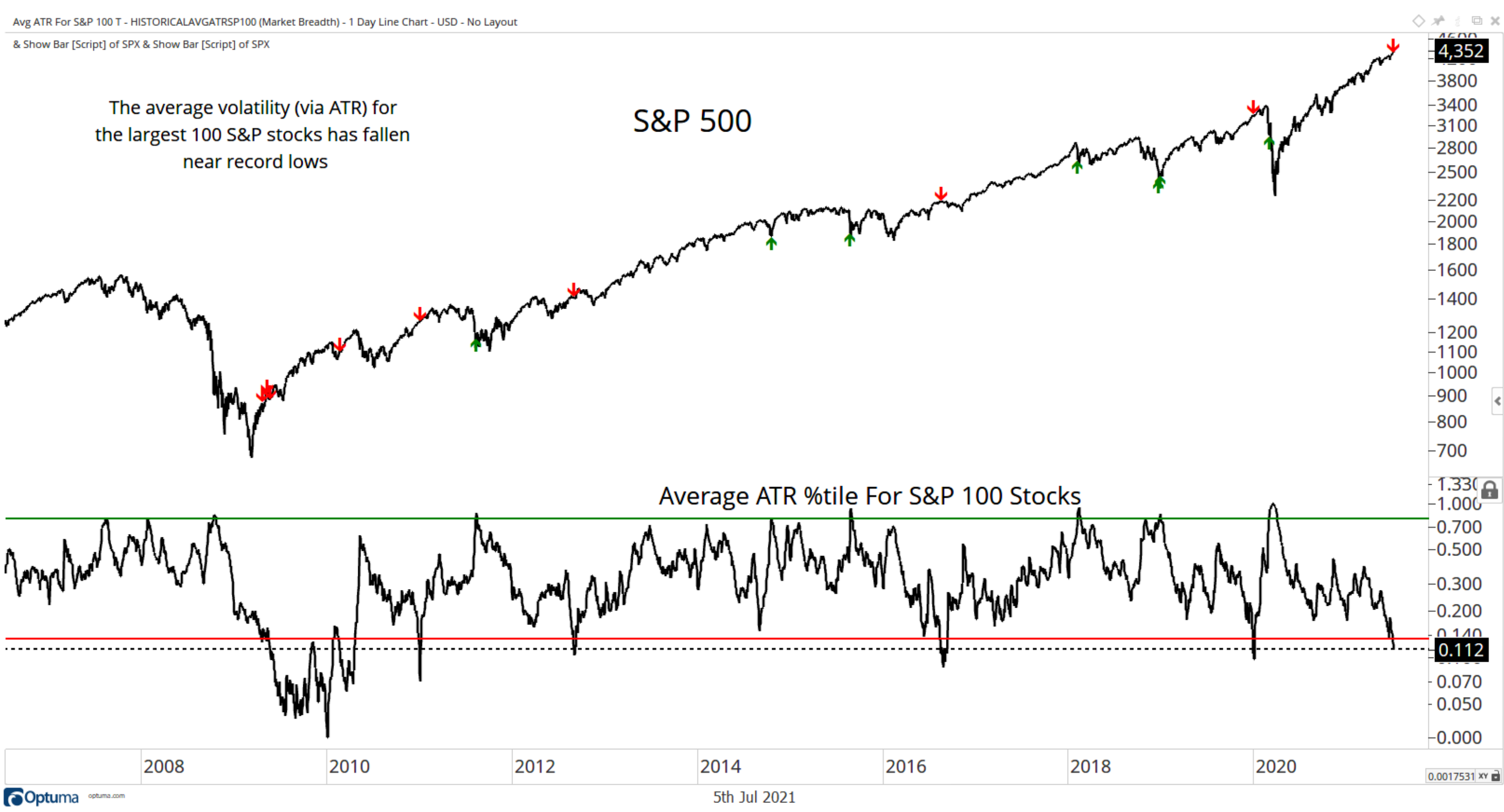


Equities - Avg Stock ATR

The Average True Range (ATR) indicator was developed by Welles Wilder and measures volatility based on the range a security is in over a specified lookback period.

Below shows the percentile for the S&P 100 stocks ATR. Using a percentile allows me to compare apples to apples across stocks. Right now in short - there is extremely low amounts of volatility based on the ATR of the mega caps. The current average (11th %tile) is the lowest since just before the Covid Crash. Stocks are seeing minimal trading ranges, this goes with the above charts discussing sentiment. Why would any bears exist if there's no volatility to convert them from the warmth of bullishness?

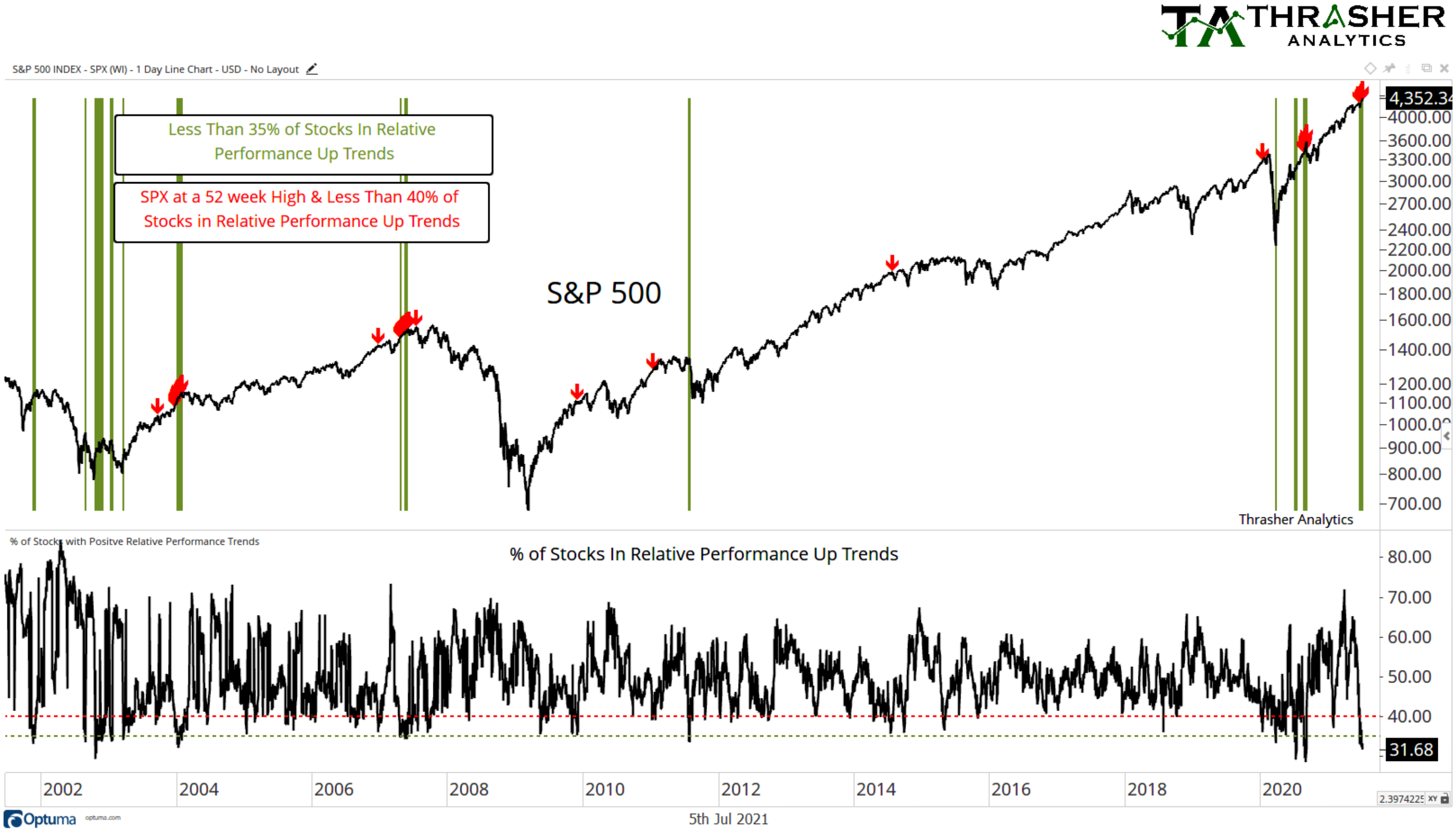
Historically when the average ATR for the mega caps gets this low the broad market has struggled. When rotation is the lifeblood of an uptrend traders need something to rotate from. When there's no volatility within individual equities that rotation is harder to execute and what often occurs instead is the whole market experiences volatility.



Equities - Relative Strength

So stocks aren't seeing volatility and few are in a drawdown of 20+% so they must be doing really well in relative performance as well, right? Actually no.

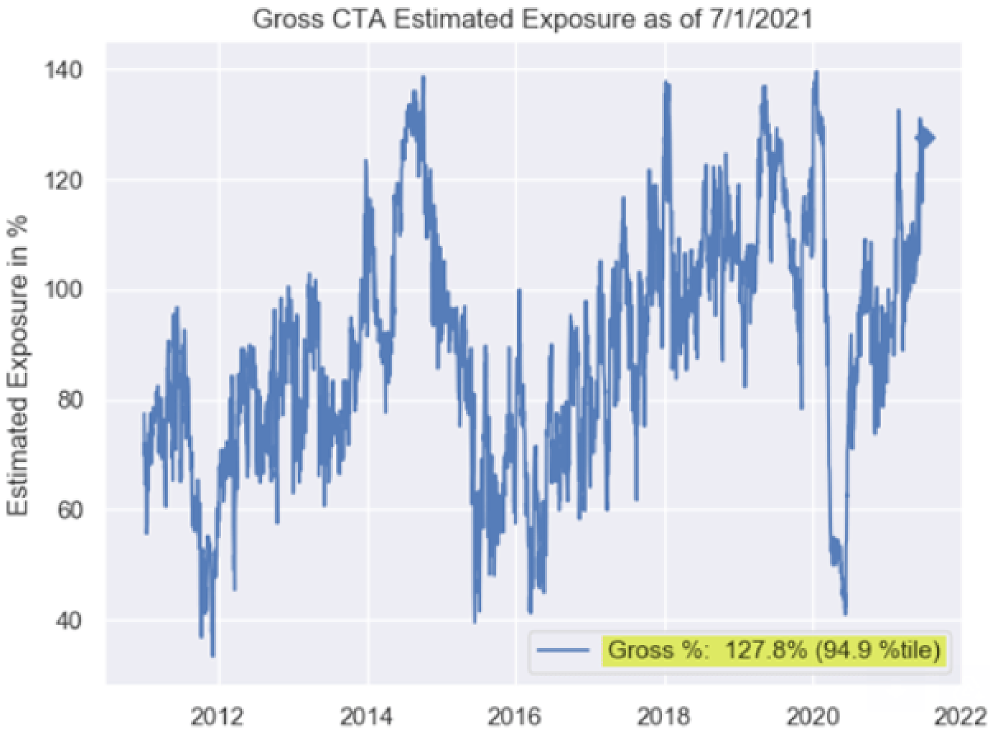
Only 31% of stocks are seeing their relative performance ratio against the index in an up trend. The red arrows on the chart show when less than 40% of stocks have strong relative performance while the index is at a 52wk high and the green lines show all the instances of less than 35% of stocks with strong relative performance. 2004 stands out since its also when we saw nearly no major drawdowns in individual equites like today. So does Sept. of last year when SPX was at a high and few stocks were outperforming which led to a quick 10% drop in the index.



Equities - CTA Exposure

CTA exposure (another measure of trader sentiment) also shows that everyone is in the pool (so to speak).

The chart below comes from Nomura and shows their estimate for market exposure by Commodity Trading Advisors (CTA) which are often systematic trend followers. Currently they are at a 94.9th percentile. Charlie McElligott of Nomura wrote that this is due to "insanely compressed volatility and trend stability." Charlie also notes that this type of "over-positioning" is what can cause the market to "tip over" as the heavy exposure provides kindling to the fire should equities no longer persist in their current trend.

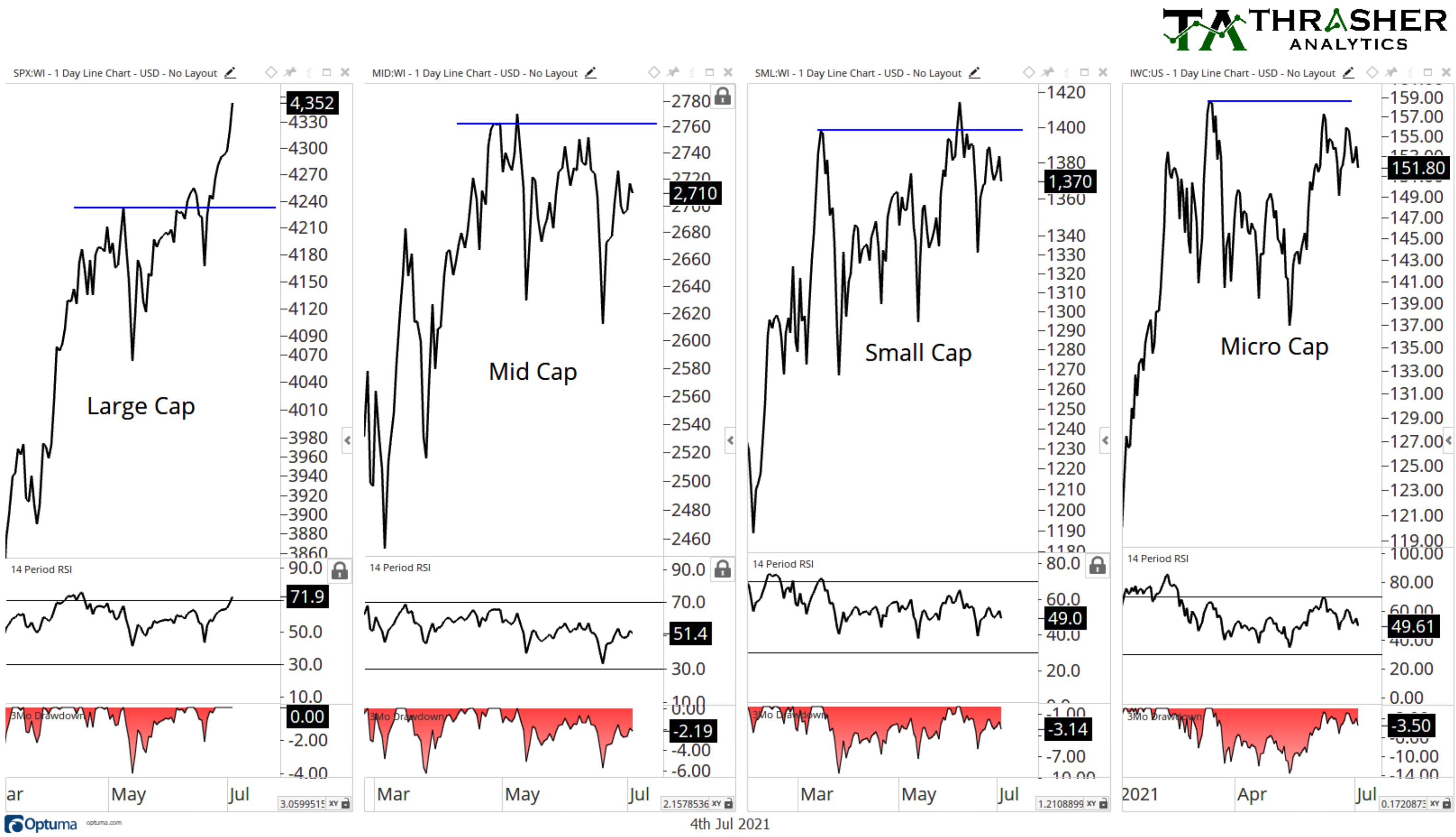


So what is holding the broad market up? Mega Caps.

Strength *has* been coming from the FAAMG Group (FB, AAPL, AMZN, MSFT, GOOGL). This group consolidated between September and March and then broke out and saw its relative performance rise as well. What's driving the cap-weighted S&P 500 higher, a big chunk of the latest appreciation is the mega caps have returned to their leadership role. These are definitely the collective tail that wags the dog as their trend dictates the trend of the broad market and helps explain (as well as the rotation discussed last week from value to growth) why the market has been able to ignore the drop in breadth indicators.

Equities - Asset Size

This chart of Large, Mid, Small, and Micro Caps clearly shows a lack of confirmation from the smaller corners of the equity market joining in the 'new high party' that currently has an attendance of just the Large Caps. The other three are still 2.2-3.5% off their highs.

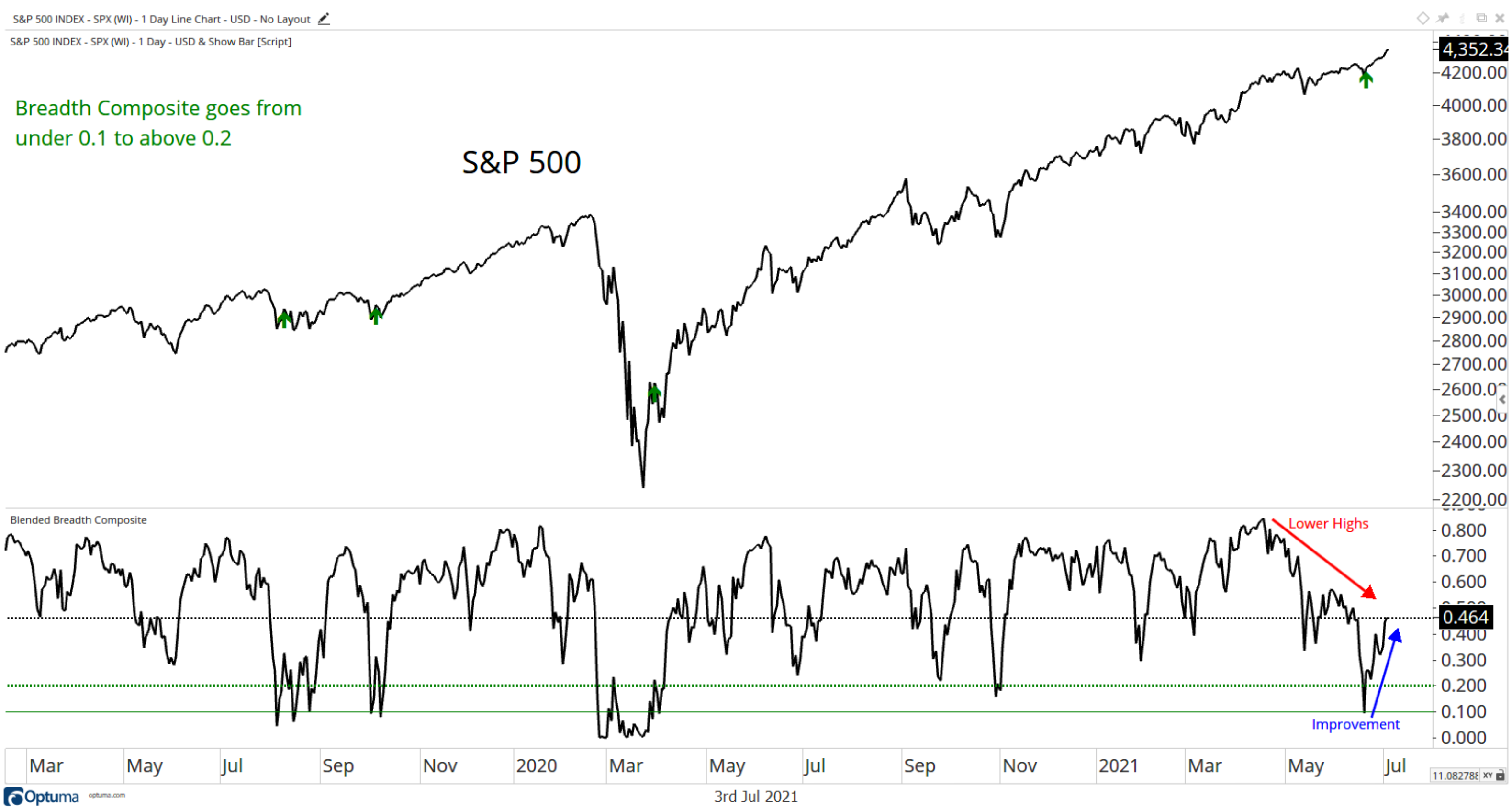


Equities - Breadth Composite

The Breadth Composite has continued to rise, finished the week at a two week high. This leaves breadth at an important junction. We are still well off the highs but the improvement can continue to build upon itself, sending equities higher with FAAMG back in the driver seat.

We saw SPX peak with Composite readings at this current level ahead of a 6.5% dip in '05, 7.4% in '06, 7% dip in '14, 11% drop in '15 as well as no material response during 2017 on multiple occasions. Going back to the 90s there were several similar Composite readings at highs that preceded 9-19% drawdowns. Looking at trends higher from low Composite readings, '98, '15, and once in '17 saw Composite improvement from a low level but still under 0.5 when SPX was at a 52-week high.

All this to say - yes improvement has been made but the market has shown in the past that it's can still be vulnerable at this level.



Equities - Industry Breadth

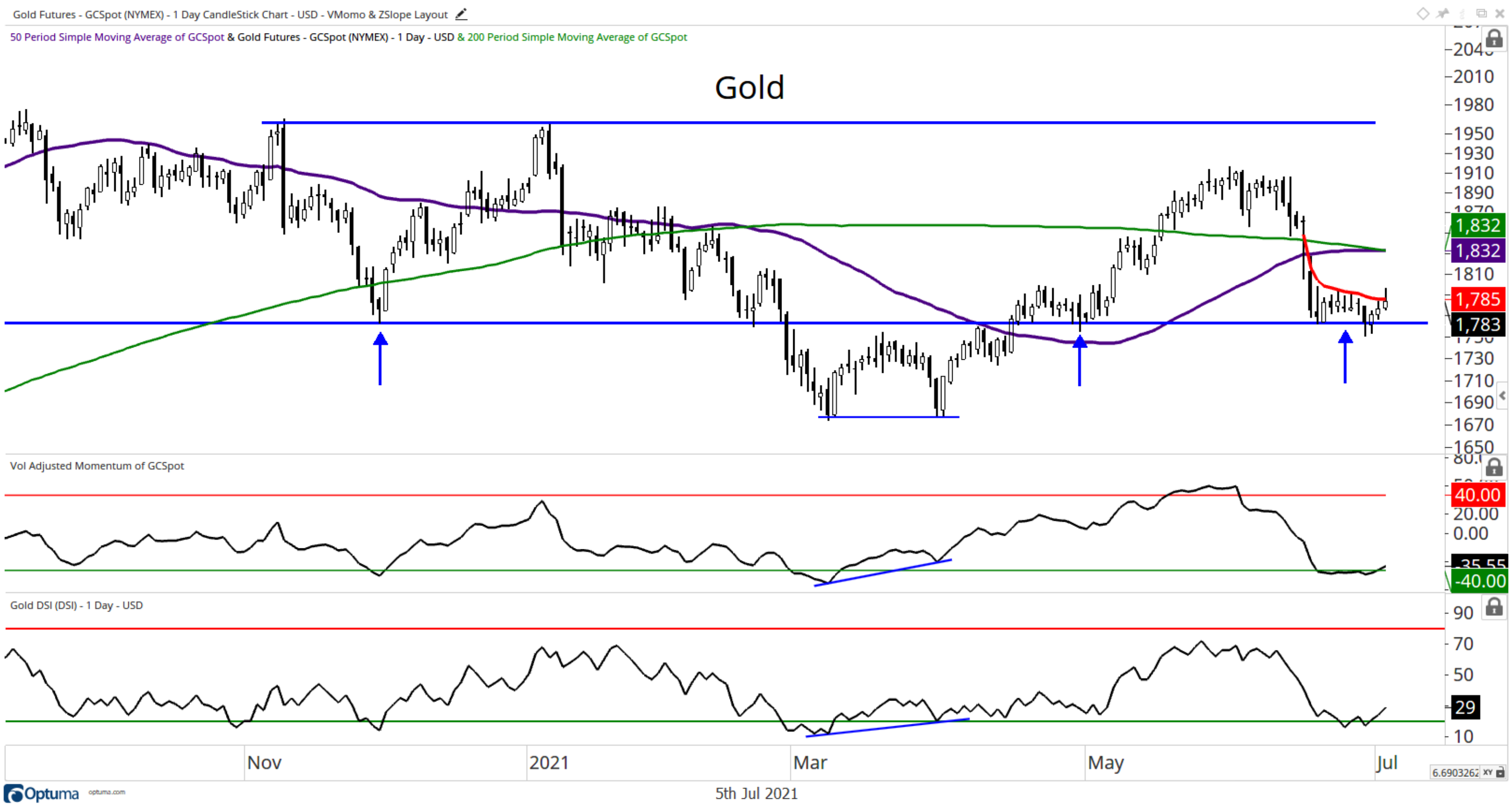
Like the Breadth Composite Model, on the industry level we have some good improvement being made. More than half of the S&P 1500 industries have recovered their short-term moving average but we're still well off the levels seen earlier this year. Bulls will want to see this trend continue.

Sectors - Performance

Sector	> 50MA	> 200MA	1wk Perf	1mo Perf	3mo Perf	12mo Perf
SPDR Technology Select Sector Fund ETF	True	True	3.19%	8.07%	10.61%	42.36%
SPDR Health Care Select Sector Fund ETF	True	True	2.06%	5.74%	10.22%	26.27%
SPDR Communication Services Select Sector ETF	True	True	1.85%	4.50%	10.14%	48.8%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	1.8%	5.49%	6.92%	39.87%
SPDR S&P 500 ETF	True	True	1.67%	3.19%	8.26%	38.91%
SPDR Industrial Select Sector Fund ETF	True	True	0.92%	-1.84%	4.57%	49.74%
SPDR Materials Select Sector Fund ETF	False	True	0.91%	-5.54%	4.26%	44.06%
SPDR Consumer Staples Select Sector Fund ETF	False	True	0.36%	-1.27%	2.87%	18.55%
SPDR Real Estate Select Sector Fund ETF	True	True	0.07%	0.25%	11.47%	25.48%
SPDR Utilities Select Sector Fund ETF	False	True	0.06%	-1.66%	0.06%	10.57%
SPDR Financial Select Sector Fund ETF	False	True	0.03%	-3.50%	7.17%	60.82%
SPDR Energy Select Sector Fund ETF	True	True	-1.17%	-0.98%	8.71%	46.46%

Commodity - Gold

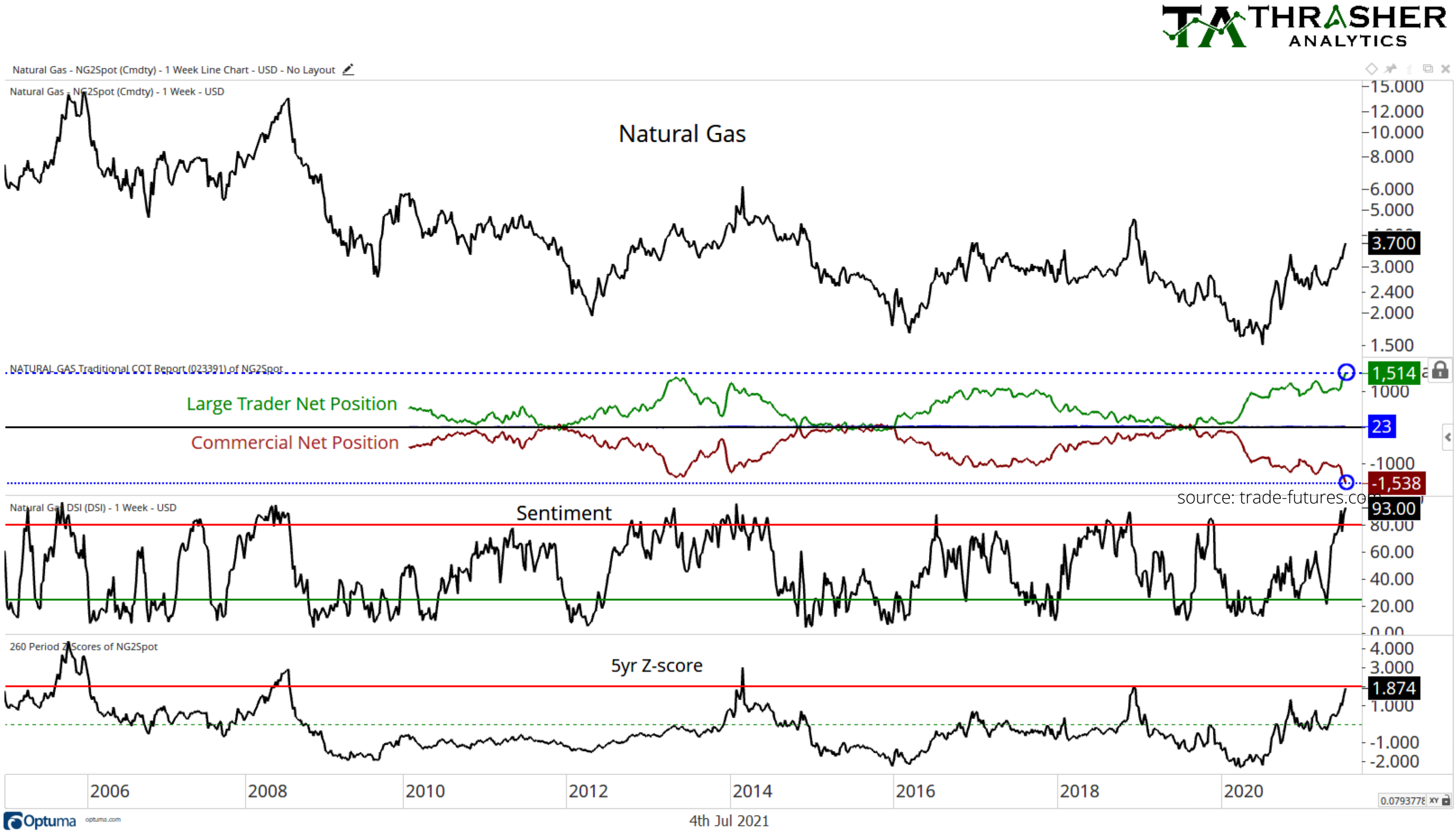
Gold continues to hold above prior support and saw improvement in sentiment and momentum last week. During the current short-term consolidation the highs have been hitting the VWAP off the big drop on June 16th which current sits at $1,785/oz. I think if gold can work through that price level it has a shot to get back to the 200-day Moving Average just above $1,800/oz. I've talked in prior letters about Basel III and its implications for gold and I think that continues to provide a bullish long-term catalyst for the precious metal.



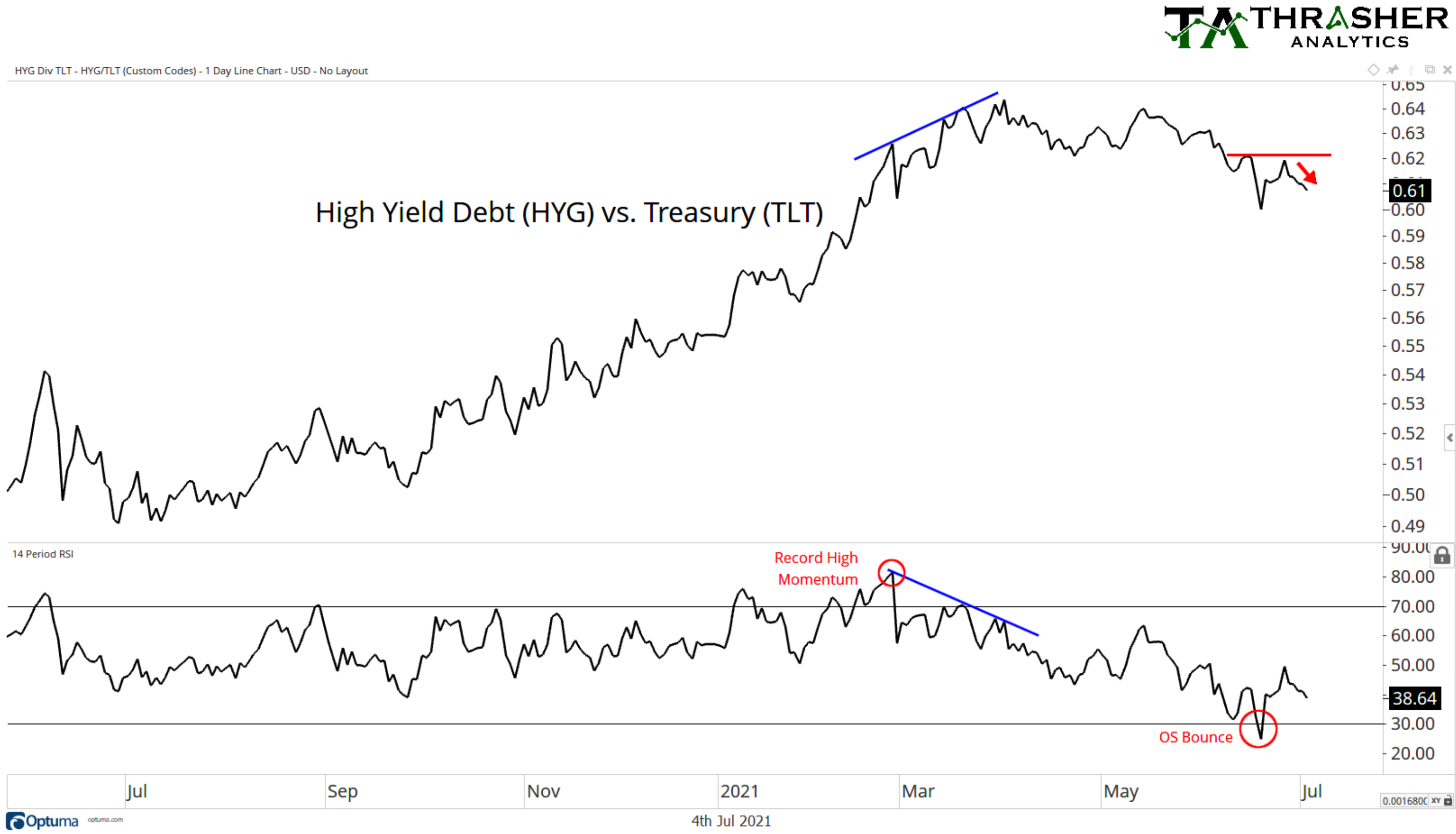
Commodity - Natural Gas

Natural Gas worked up to $3.70 last week and with it a continued widening between Large and Commercial Trader net position, the largest since at least 2010. Sentiment has also risen to over 90% bullish, finishing Friday at 93% which is the highest sentiment reading since November '18 before nat gas fell over 50% over the following year.

Looking at the trend for natural gas, its historically struggled to not reverse when reaching at/near a 2-sigma 5yr z-score. Only 2005 and briefly in 2008 did the z-score get materially higher before price eventually collapsed. I'm watching $3.40 which was the Nov. '20 high, should price break below then we could see a failed breakout and an end to the current up trend.



I shared this chart last week and said that I'd be watching for the ratio between HYG and TLT to break above the price swing high to suggest the bounce wasn't just a response to being "oversold." That didn't happen and instead we saw Treasury's strength relative to HY bonds. Even though equity markets were showing signs of bullishness, fixed income traders were showing a bigger preference for government debt over high yield corporate debt.



Daily Sentiment Index

1 Day - Watch List - No Layout

Market	% Bullish	5MA	History
VIX DSI	17	17.2	
Lumber DSI	20	14.6	
Wheat DSI	24	27.40	
Cocoa DSI	27.00	34.00	
Gold DSI	29.00	22.8	
Silver DSI	31.00	25.60	
Corn DSI	33.00	35.20	
Platinum DSI	36.00	29.60	
Cattle DSI	36.00	38.40	
Lean Hog DSI	38.00	31.60	
Euro DSI	39.00	39.60	
Copper DSI	39.00	35.20	
Palladium DSI	43.00	38.80	
British Pound DSI	43.00	42.20	
Swiss Franc DSI	52.00	50.80	
New Zealand Dollar DSI	52.00	50.40	
Australian Dollar DSI	52.00	50.40	

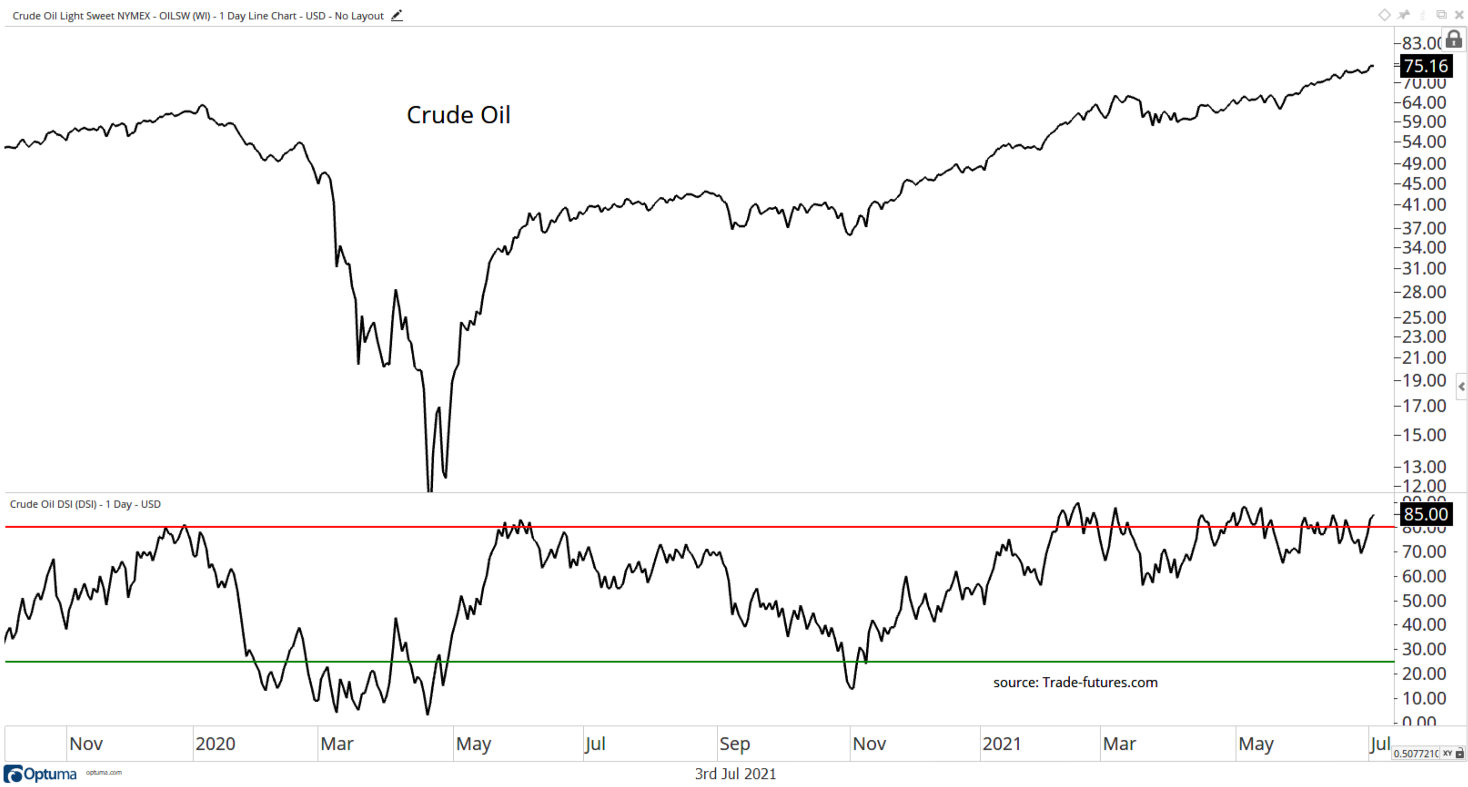
1 Day - Watch List - No Layout

Code	% Bullish	5MA	History
US Dollar DSI	55.00	55.60	
Coffee DSI	62.00	72.00	
Mexican Peso DSI	65.00	62.60	
EuroDollar DSI	65.00	65.00	
Cotton DSI	65.00	66.40	
Orange Juice DSI	67.00	59.60	
Sugar DSI	69.00	68.60	
5YR DSI	69.00	67.80	
Nikkei DSI	73.00	73.80	
10Y DSI	80	77.40	
Gasoline DSI	82	77.40	
Heating Oil DSI	83	76.80	
CRB Index DSI	83	78.00	
Crude Oil DSI	85	77.20	
SPX DSI	91	85.4	
Nasdaq DSI	91	88.2	
Natural Gas DSI	93	90.8	

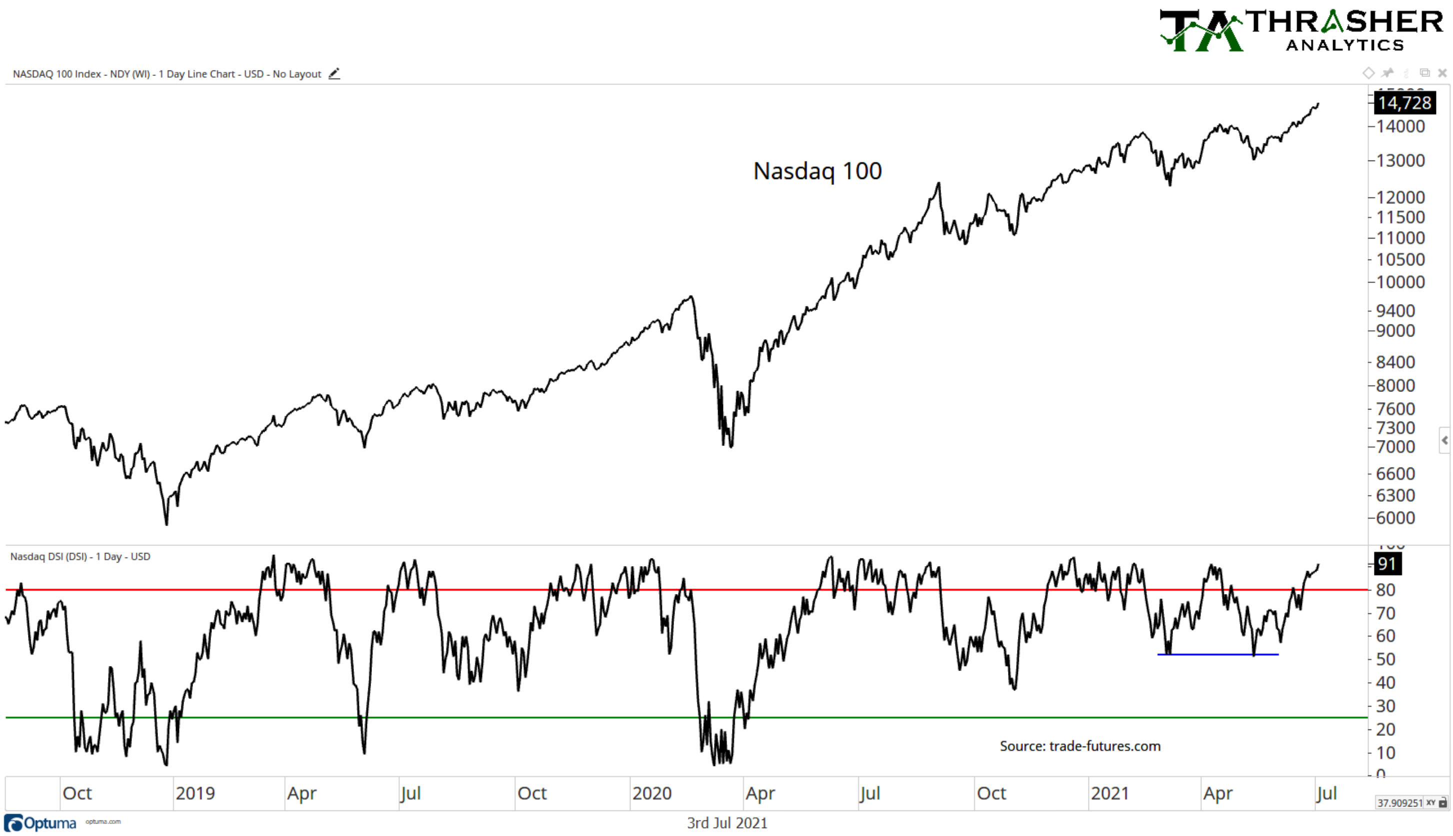
Source: trade-futures.com

Daily Sentiment Index

Daily Sentiment Index



Daily Sentiment Index


THRASHER ANALYTICS
NASDAQ 100 Index - NDY (WI) - 1 Day Line Chart - USD - No Layout
Nasdaq 100
14,728
14000
13000
12000
11500
11000
10500
10000
9400
9000
8400
8000
7600
7300
7000
6600
6300
6000
Nasdaq DSI (DSI) - 1 Day - USD
91
80
70
60
50
40
30
20
10
0
Source: trade-futures.com
Oct
2019
Apr
Jul
Oct
2020
Apr
Jul
Oct
2021
Apr
Jul
Optuma
3rd Jul 2021

Daily Sentiment Index

THRASHER ANALYTICS
CBOE S&P 500 Volatility Index - VIX (CBOEI) - 1 Day Line Chart - USD - No Layout
VIX
83.0
76.0
69.0
63.0
57.0
52.0
47.0
43.0
39.0
35.0
32.0
29.0
26.0
23.0
21.0
19.0
17.0
15.1
13.0
11.0
VIX DSI (DSI) - 1 Day - USD
Source: trade-futures.com
90.0
80.0
70.0
60.0
50.0
40.0
30.0
17.0
10.0
Jul
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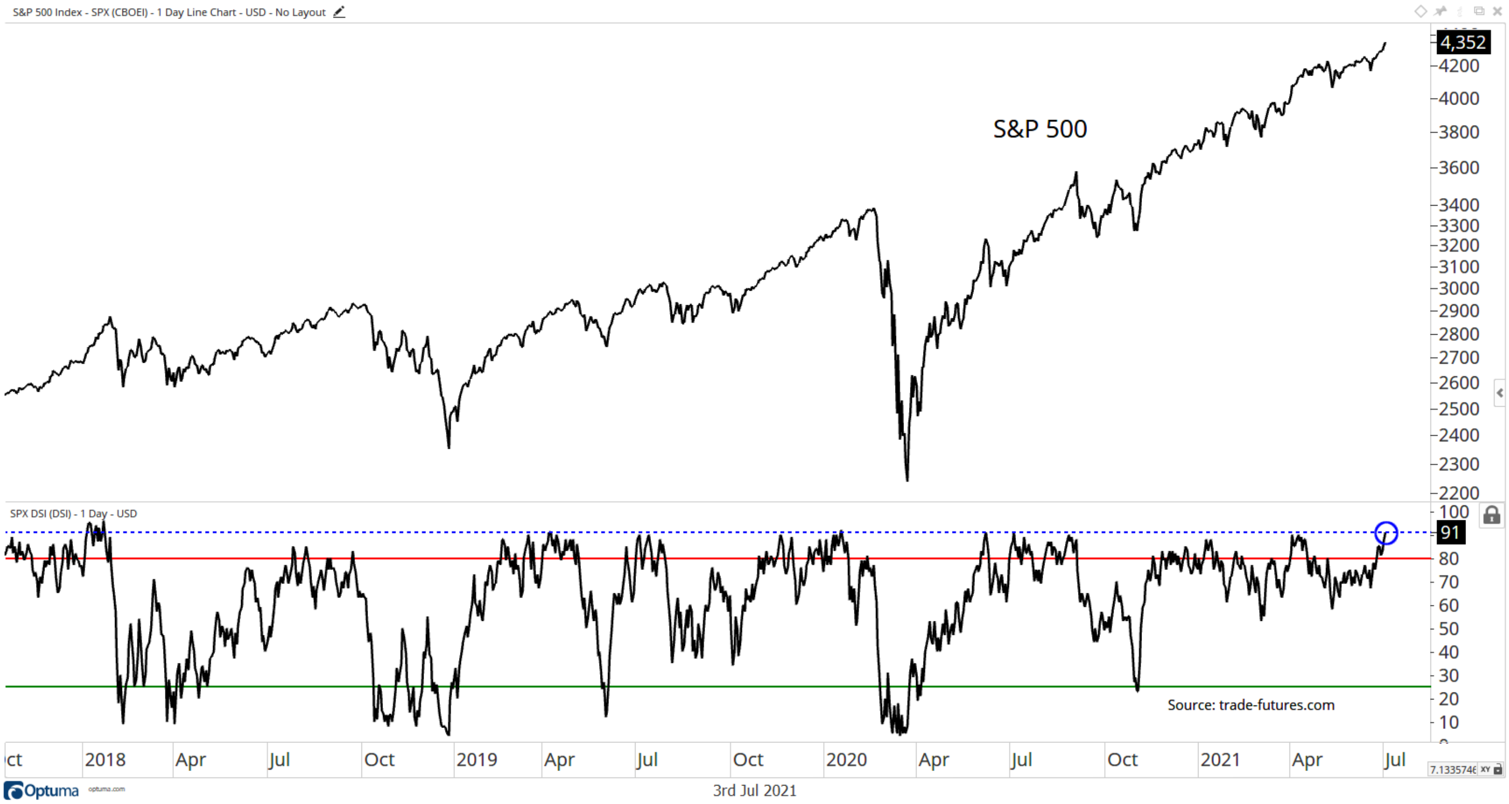
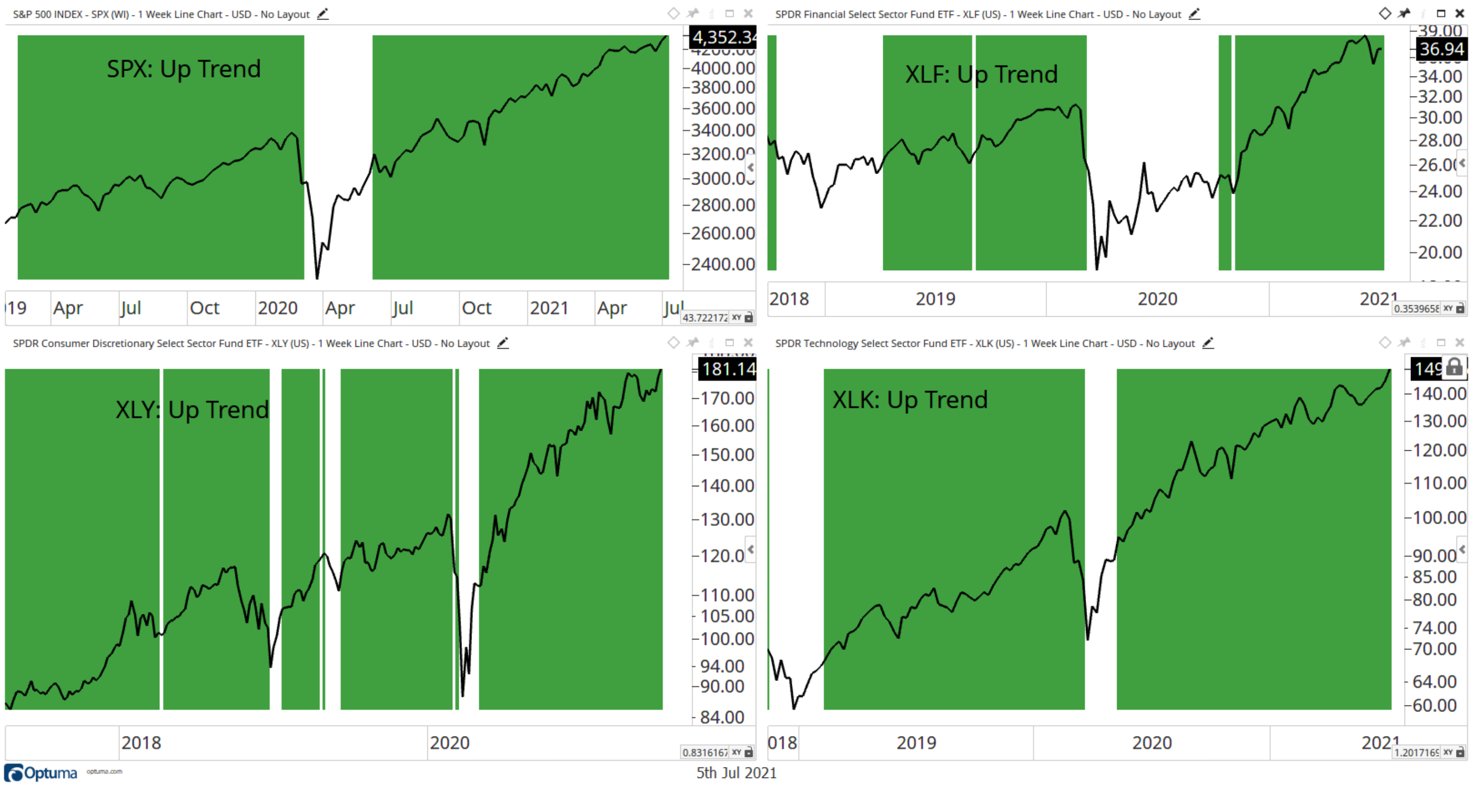
3rd Jul 2021

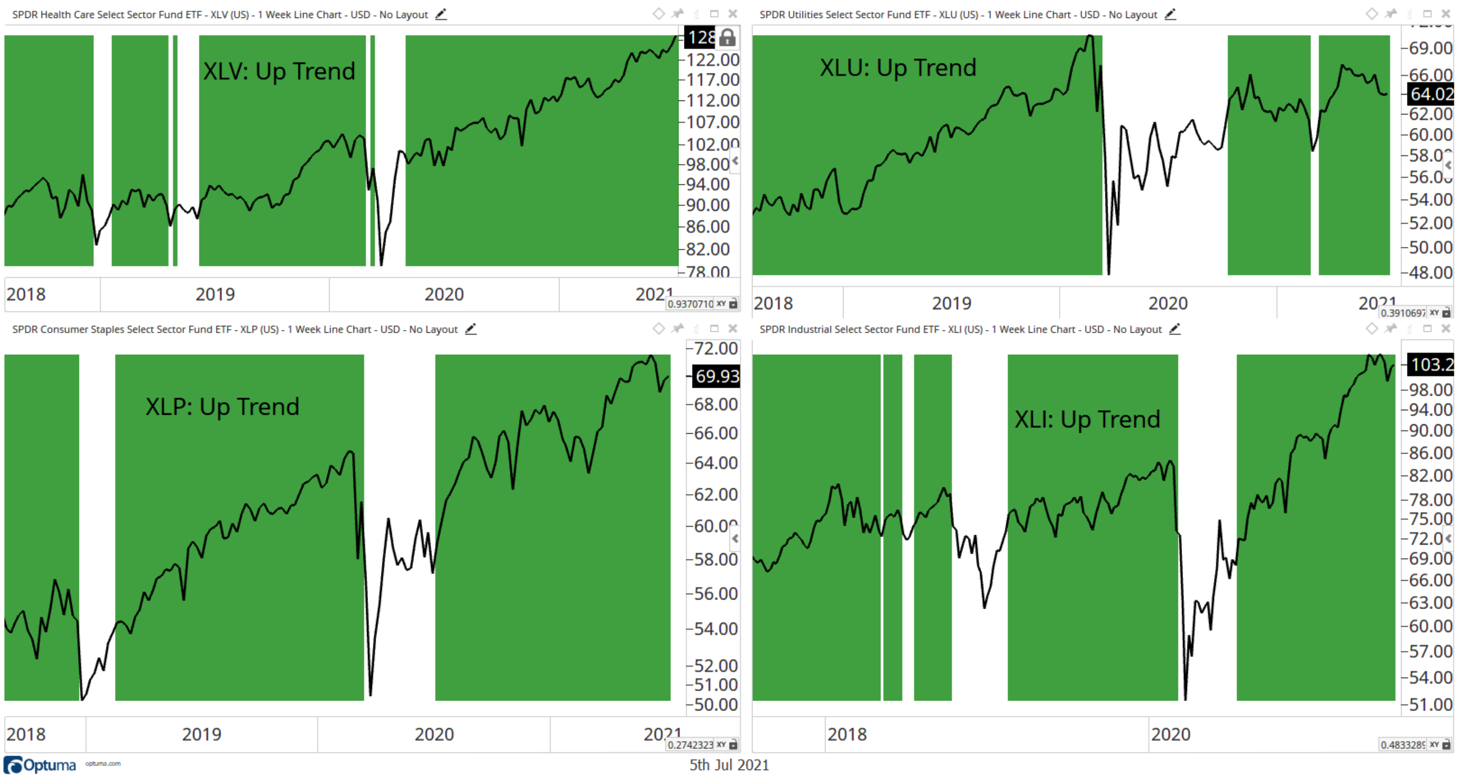
Daily Sentiment Index



Trend Models



Trend Models



Trend Models