

TA THRASHER ANALYTICS

JULY 18, 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.

Bearish

- Poor Sector Leadership
- Frothy sentiment.
- short-term breadth still weak
- Breakdown in the Dow.
- Breakdown in Consumer Ratio.
- Lack of new high in semiconductors.
- Positive correl. between SPX & VIX.

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Volatility

Equities

Market Health Report

Sector

Commodity

Fixed Income

Sentiment

Trend Models

Sector Rotation: July	
Financials	XLFX
Energy	XLE
Real Estate	XLRE

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

Market Health Report	
Breadth	-3
Divergence	0
Momentum	2
Sentiment	2
Trend	1
Volatility	2
Total	4

Index & Sector		
	Up Trend	Down Trend
SPX	X	
QQQ	X	
XLFX	X	
XLFX	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	72%	81%
Nasdaq 100	75%	84%
Nikkei	47%	57%
VIX	25%	23%
10yr Treasury	86%	82%
5yr Treasury	78%	77%
CRB Index	64%	72%
Gold	44%	46%
U.S. Dollar	58%	53%

*Green<25% Red>80%

source: trade-futures.com

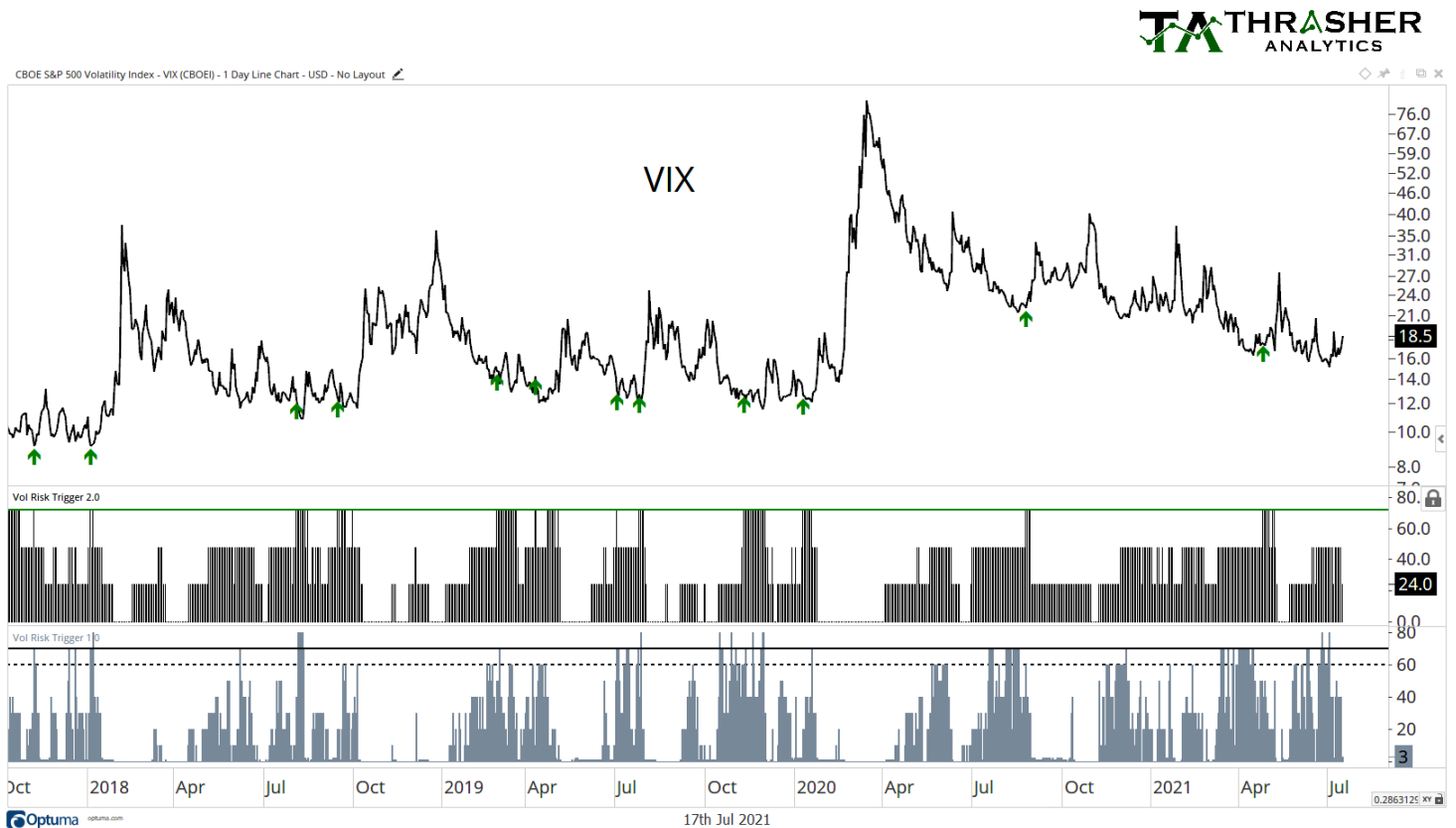
Brief Summary:

The list of bearish developments in the internals of the market continue to build. I've actually had to stop myself from including them all or this report would be just too long. That's the point we've now reached! I've provided some important updates to several charts I've been closing watching, like the drawdown reports and 6-month lows. We are also seeing some major breakdowns in sector leadership. Offense Sectors are no longer leading and relative performance is showing a preference for Defensive stocks. The Dow may have made a false breakout and the Consumer Ratio was unable to hold its breakout either. More stocks now have falling 50-day moving averages and we've gone 18 days without the % above the 50-day going above 60% while the index is at a high. This has happened just one other time in the last decade. Breadth has clearly broken down and while price has ignored it for the last few weeks, it started to show signs of mattering (maybe) last week. But it's going to take more than a 1% drop to suggest a confirmation of the bearish internals. This week is light on news but as we get more into earnings session there's always potential for a report to throw off the market. Thankfully we can focus on price action and not the news as a guiding light.

I remain in the camp that the market has looked better than right now and risk appetite is not attractive in this current environment.

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).

Volatility has ticked higher with the VIX finishing the week above 18. The VRT 2.0 has not signaled but the rise in correlation between the S&P 500 and the VIX is a concern, more on this on the next page.

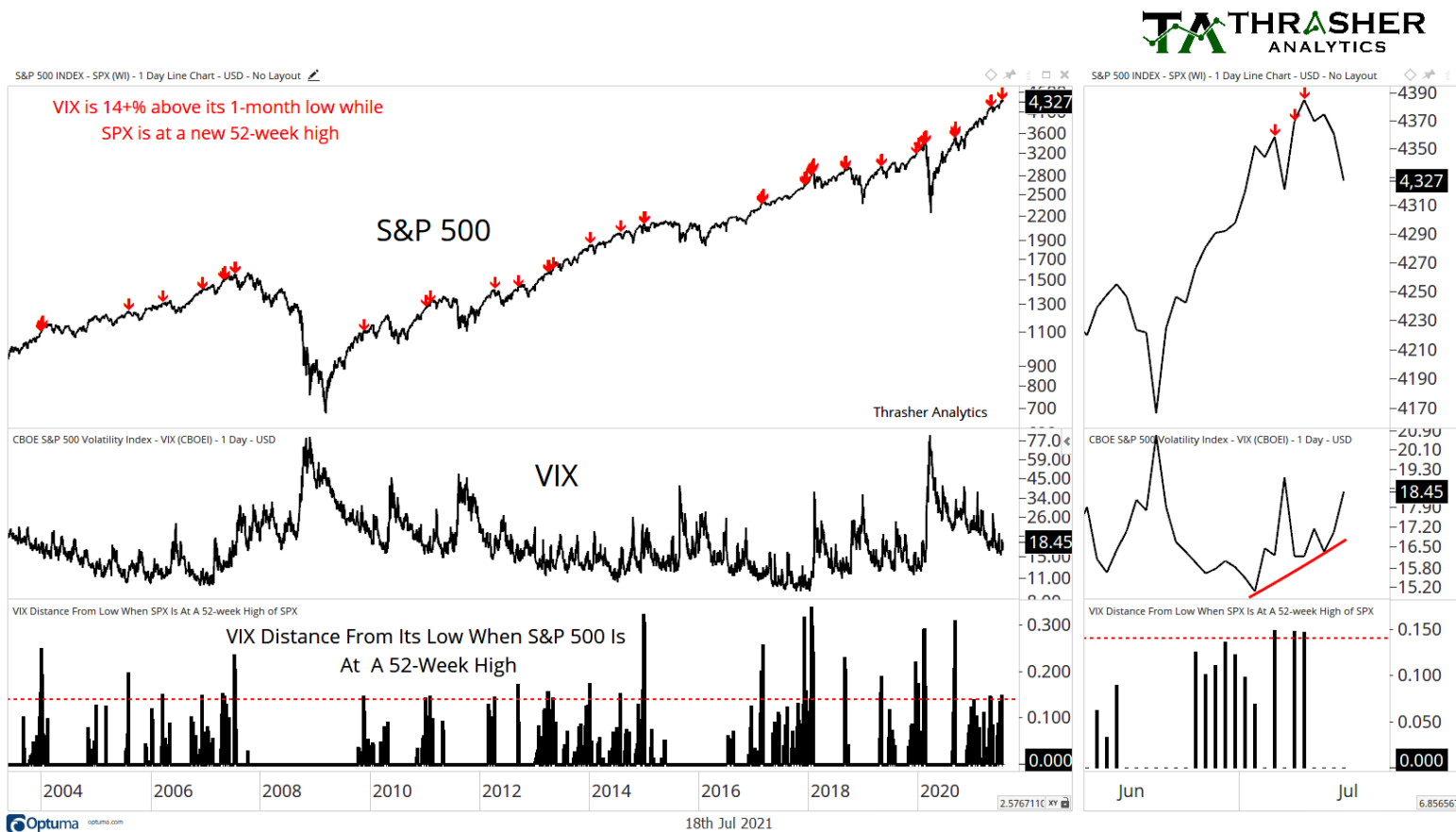


VOLATILITY - CORRELATION



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).

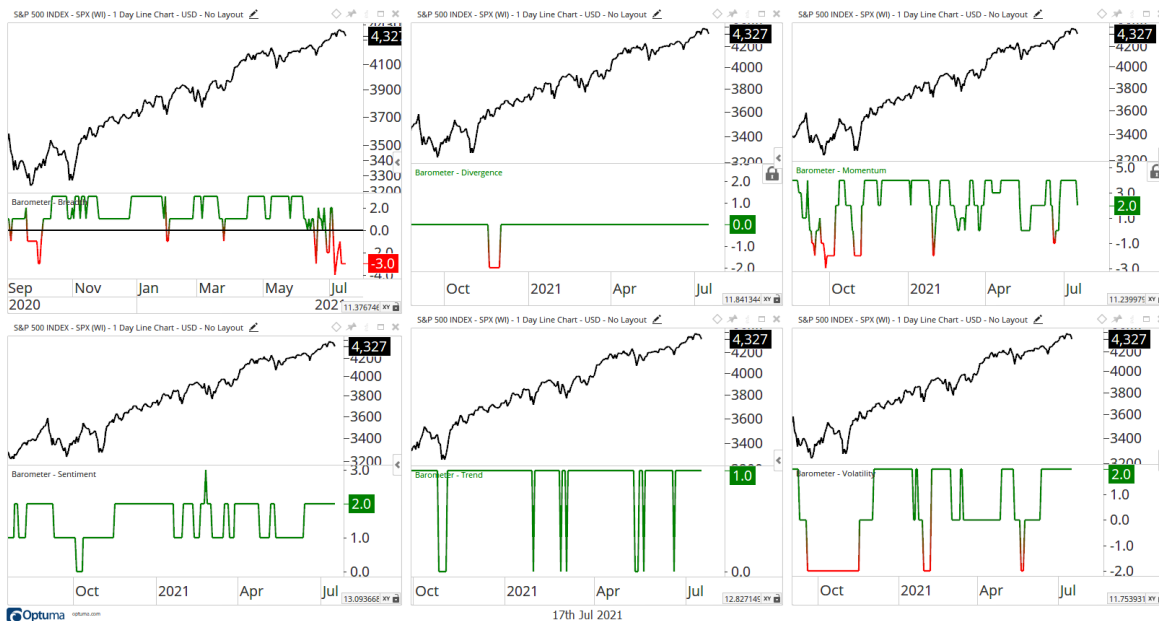
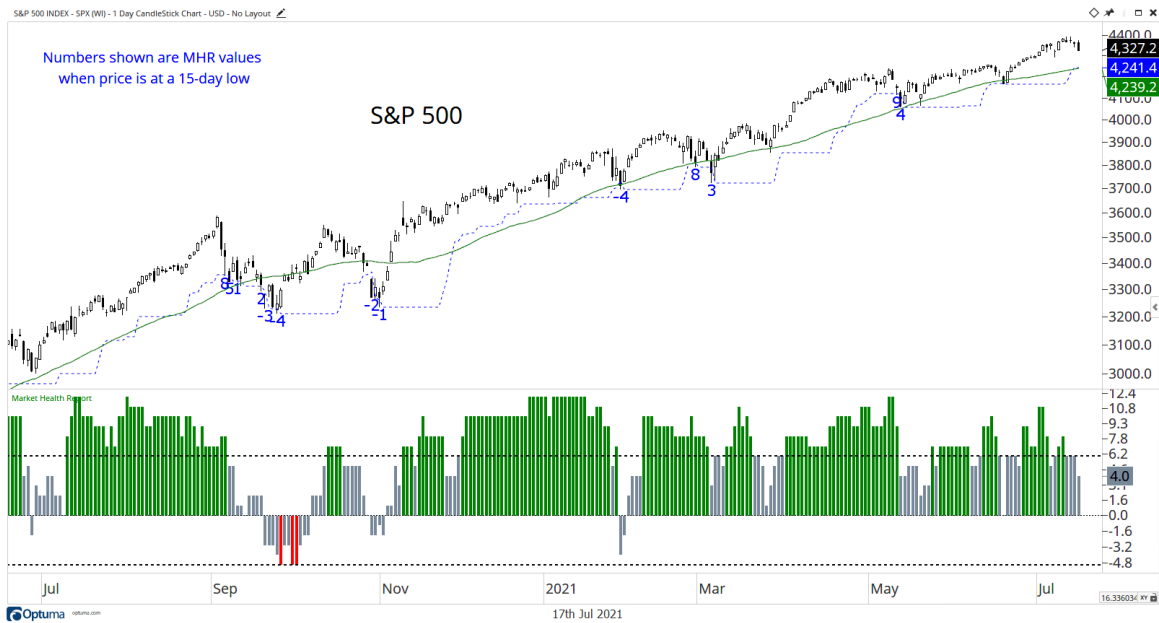
The VIX has been rising higher along with the S&P 500, sending its 15-day correlation into positive territory and to its highest level since just before the 10% drop in stocks last September. Positive correlation between volatility and equities has not been a historically bullish development. As you can see from the chart below when the VIX rises at least 14% from a low while the equity index was at a 52-week high, stocks often struggled.



MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week down slightly to +4. The Breadth category has continued to decline, now at -3 and the Momentum category dipped to +2. The S&P 500 finished above its 15-day low but did begin to move lower last week. We'll re-evaluate when we get to a new 15-day low to give a better look at the Health Report.



The S&P 500 failed to hold its recent breakout to a fresh high just below 4400. Thursday and Friday last week saw stocks struggle, sending the index to just above its 20-day moving average and creating a lower-high in the 14-period RSI (bottom panel). If stocks continue to weakness, which would confirm the weakness that's been screaming from the breadth data, I'm watching for how price reacts to the 50-day moving average and prior June high.

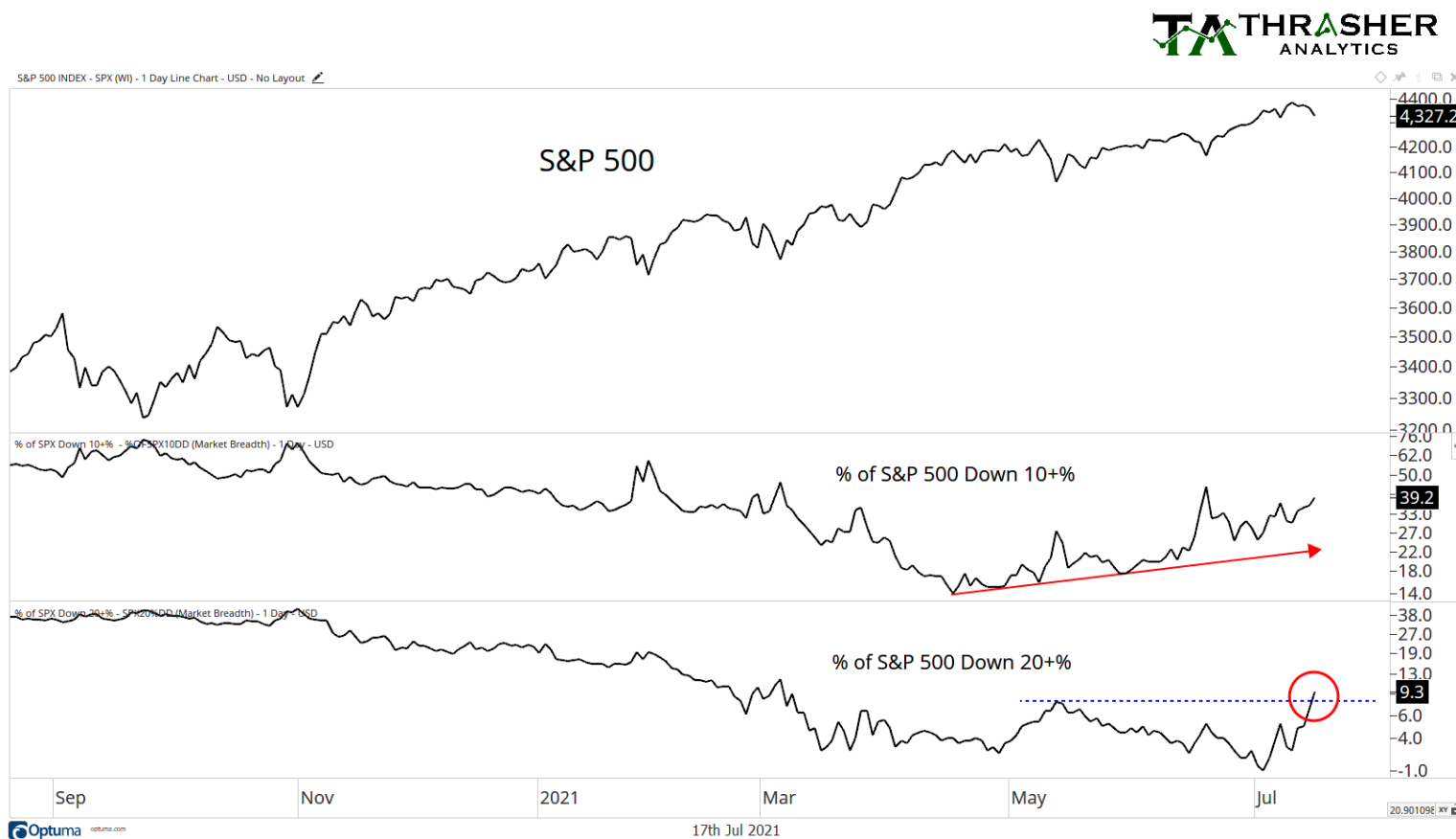


EQUITIES - DRAWDOWN



Another update on the drawdown chart for S&P 500 stocks. I think this is extremely important chart to be watching to get a good understanding of what's developing below the surface of the large cap equity market.

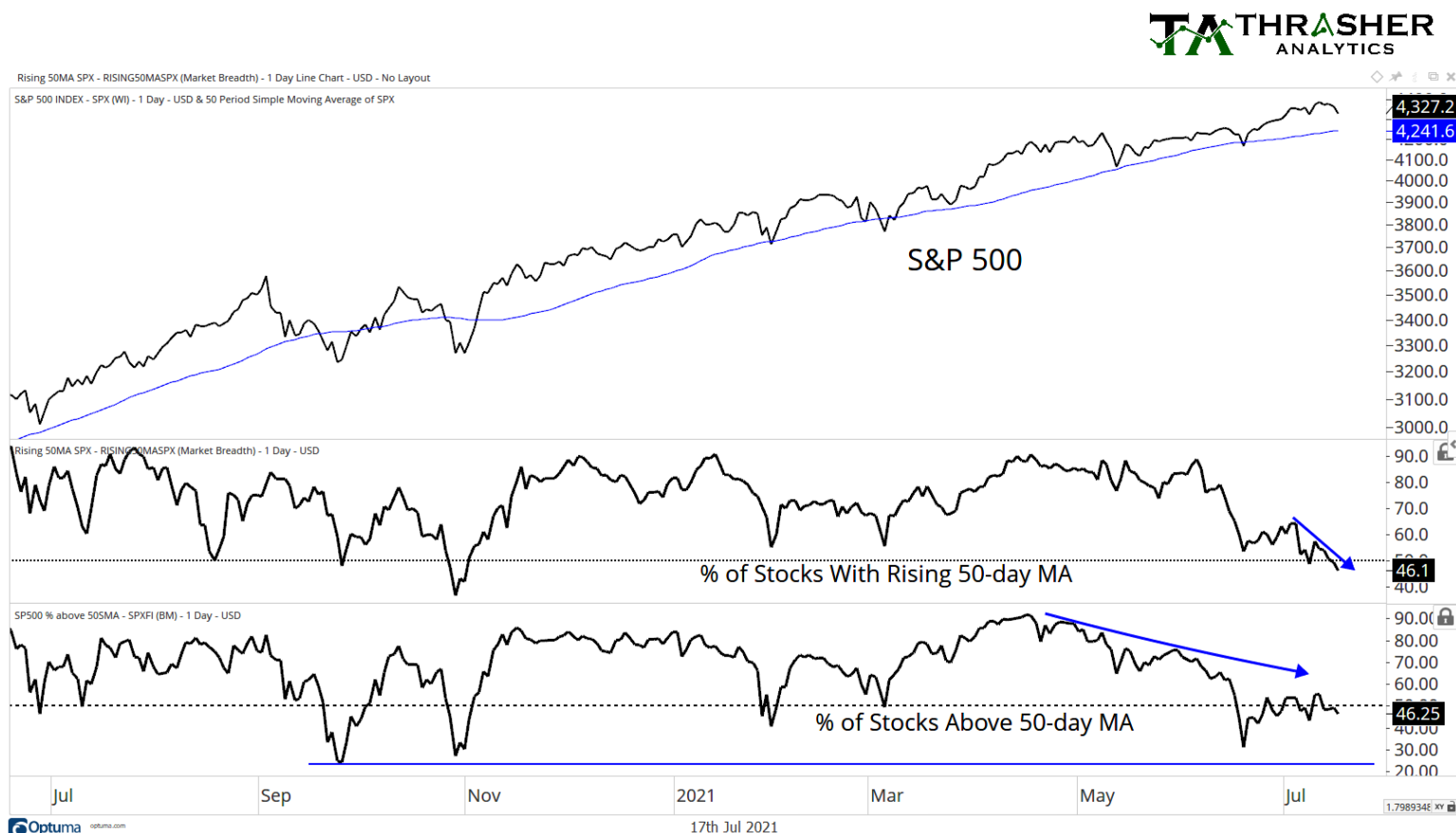
We now have over one-third of stocks down at least 10% and 9.3% that are down 20+% which rose above the prior May high and is the highest level sine March as the market continued to work off the drawdown that had built up from the Covid Crash. What had been a steady downtrend in stocks in major corrections, that trend is starting to reverse.



EQUITIES - BREADTH

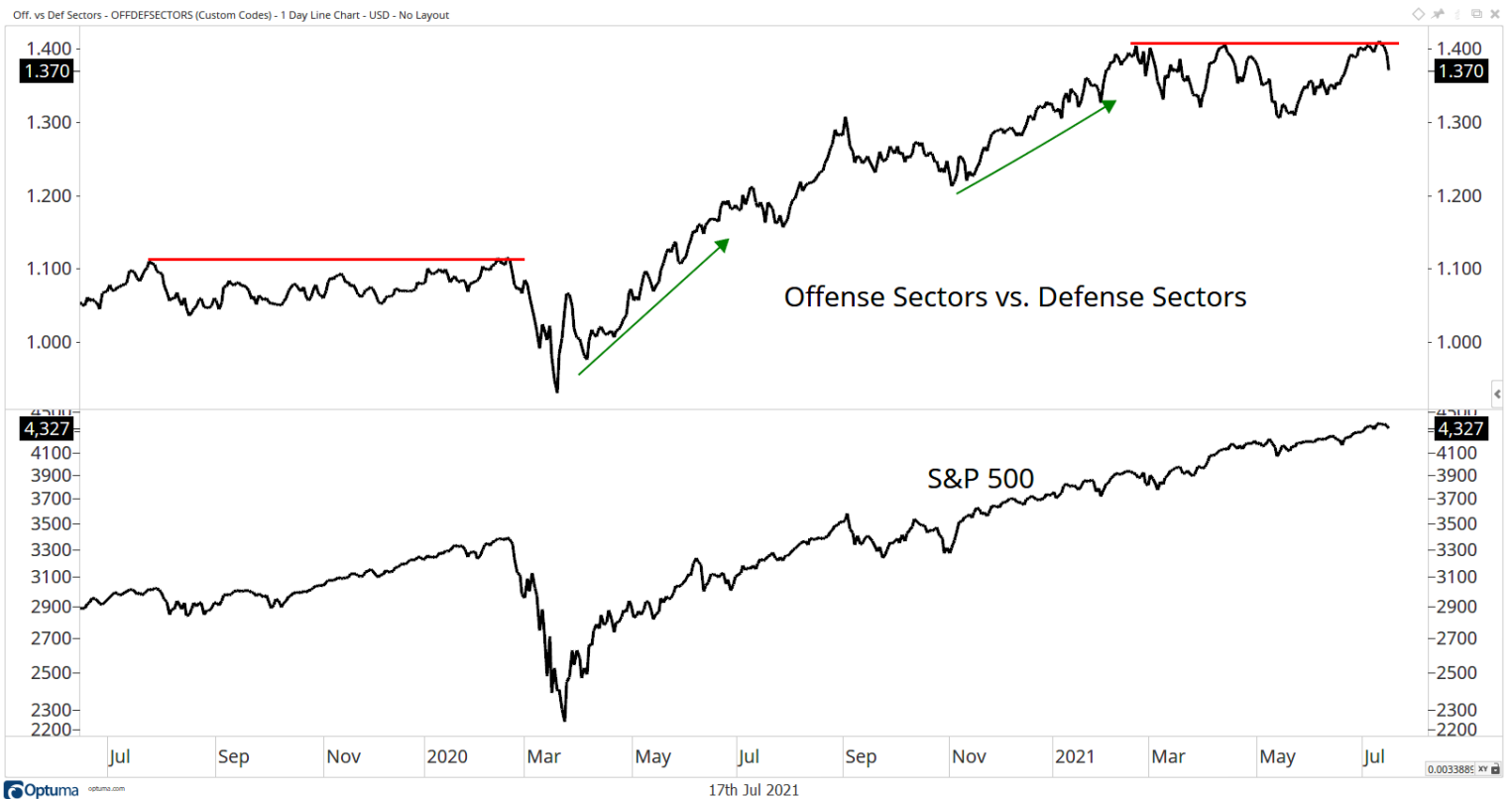


We continue to have a trend lower in the percent of stocks above the 50-day Moving Average and now over half of the stocks have a declining moving average as well. The fewest stocks in 2021 as of Friday have a rising 50-day MA as more individual stocks begin to decline.



EQUITIES - OFFENSE VS. DEFENSE

The ratio between offense vs defense sectors failed to breakout to a new high, unable to confirm the rising trend in the large cap index. We had been seeing good strength in offense sectors like financials and technology but XLF peaked last month and technology stocks have begun to struggle.



EQUITIES - CONSUMER RATIO

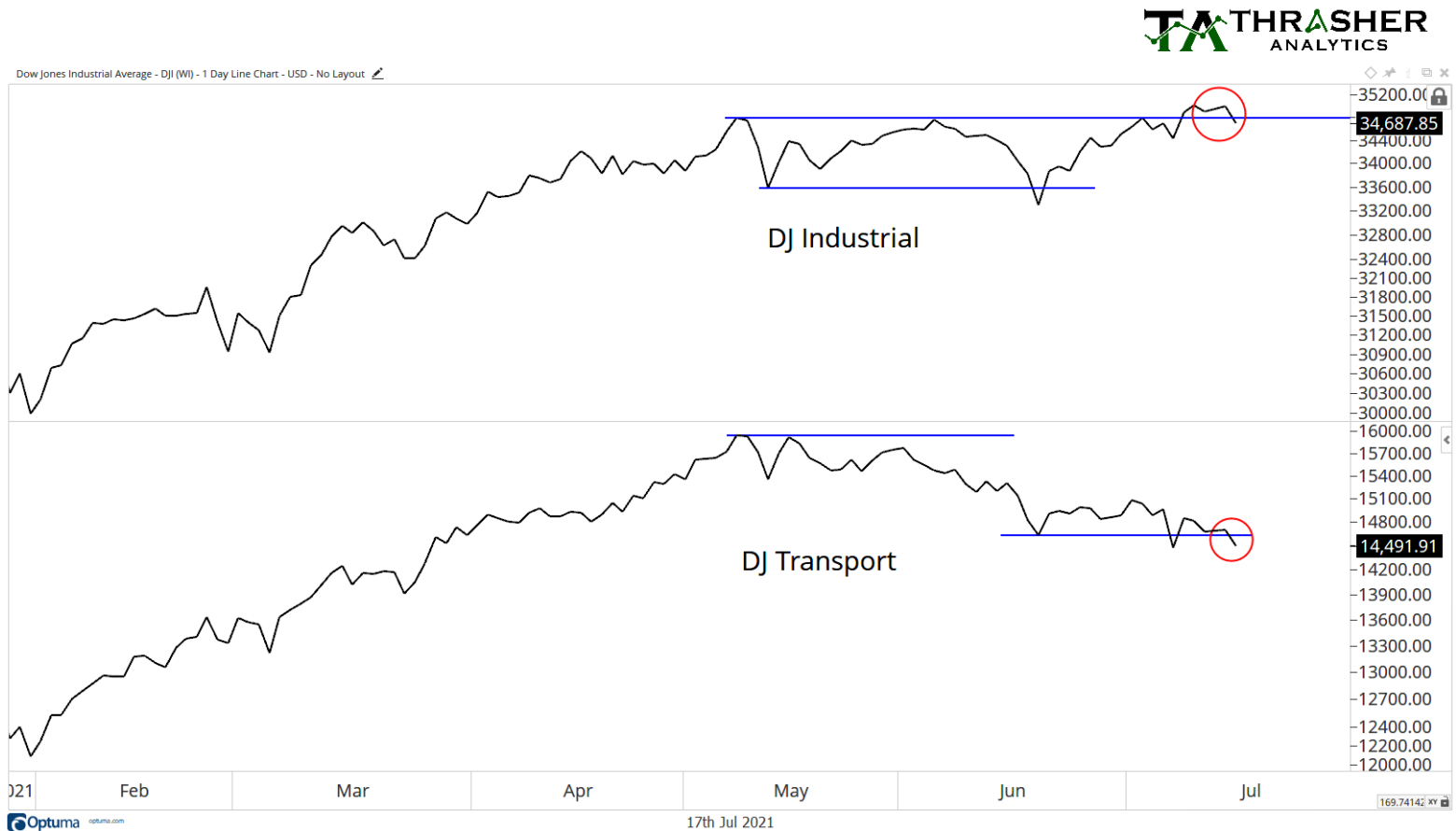


The Consumer Ratio, the relative performance of Consumer Discretionary and Consumer Staples also failed to breakout - in both cap weighed and equal weight version. In a strong bull trend, consumer discretionary stocks often show leadership over consumer staple stocks. When Tesla joined the Consumer Disc. sector, I flipped to focusing more on the the equal weight version, which prevents that one stock's heavy volatility from being too much an influence. But even the equal weight ratio has struggled.



EQUITIES - INDUSTRIAL & TRANSPORT

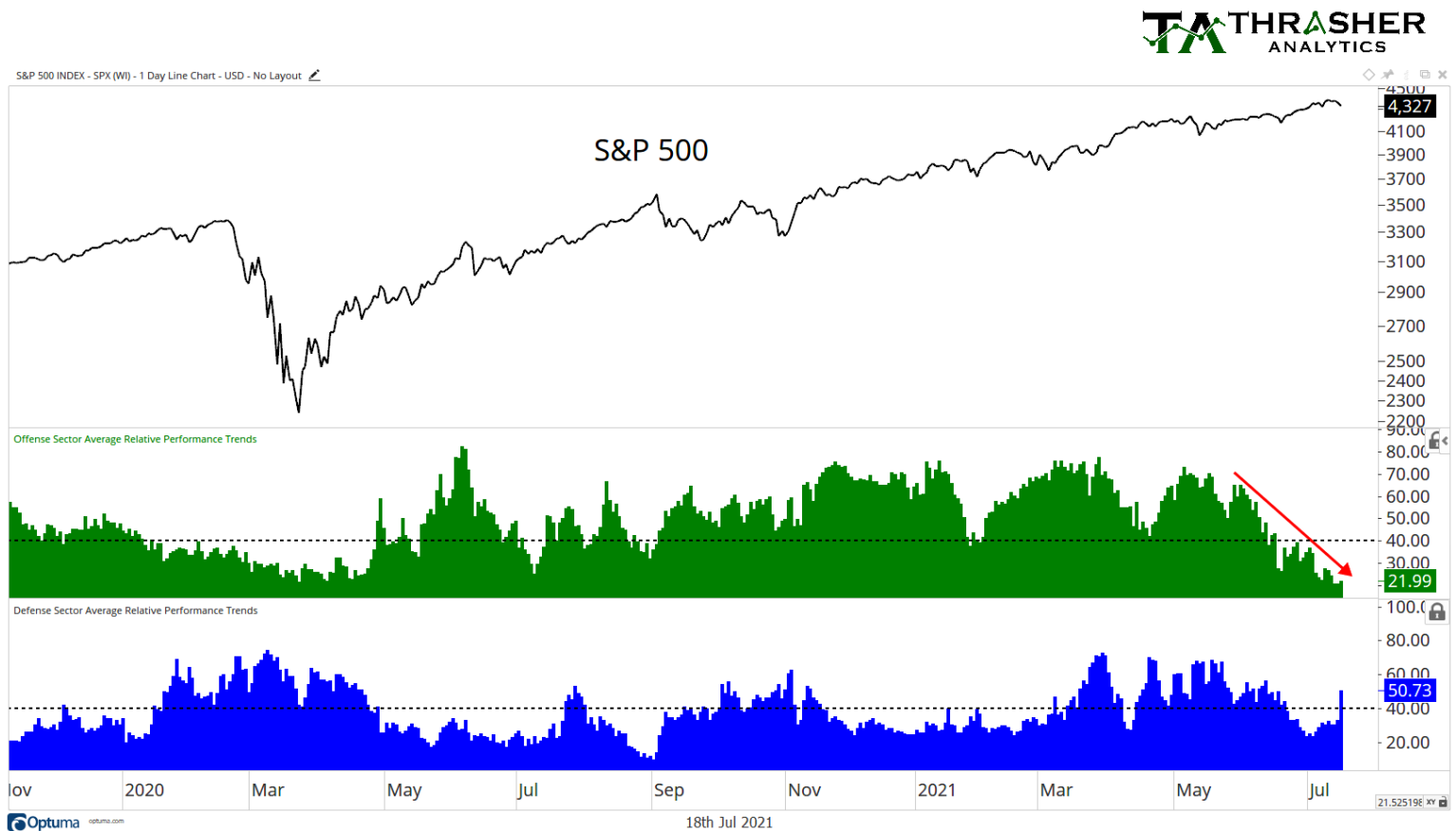
The Dow Jones Industrial Average began to break below its prior high on Friday, starting the process for a possible false breakout. The Transports, which have been struggling for several months made another lower-low. From the Dow's perspective, these aren't developments of a strong up trend 'risk on' rally. They can of course fix themselves, the Dow could move back above 35,000 but until then, the chart doesn't look great.



EQUITIES - SECTOR LEADERSHIP 1

Another way we can look at sector leadership is by a unique method of relative performance. This chart looks at the stocks in each sector and evaluates their individual relative performance trend to the broad market, and then calculates how many are in up trends for relative performance (meaning they are outperforming the SPX). Currently 21.9% of Offense Sectors are seeing individual stocks with up trends in relative performance compared to 50.7% of Defense sectors.

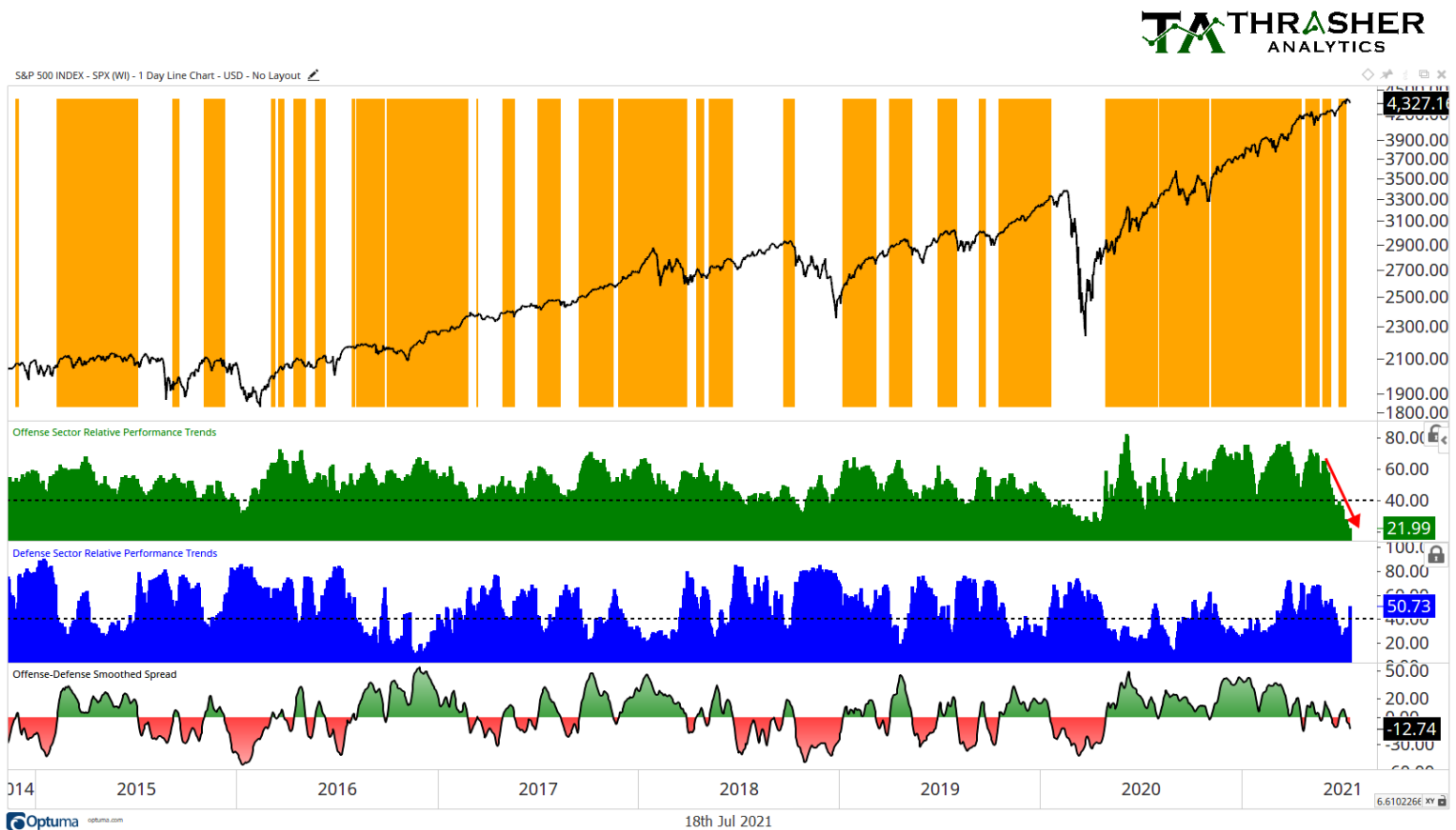
The trend in relative performance for Offense stocks went from over 70% to the lowest level in over ten years. I'll explain on the next page why this is important.



EQUITIES - SECTOR LEADERSHIP 2

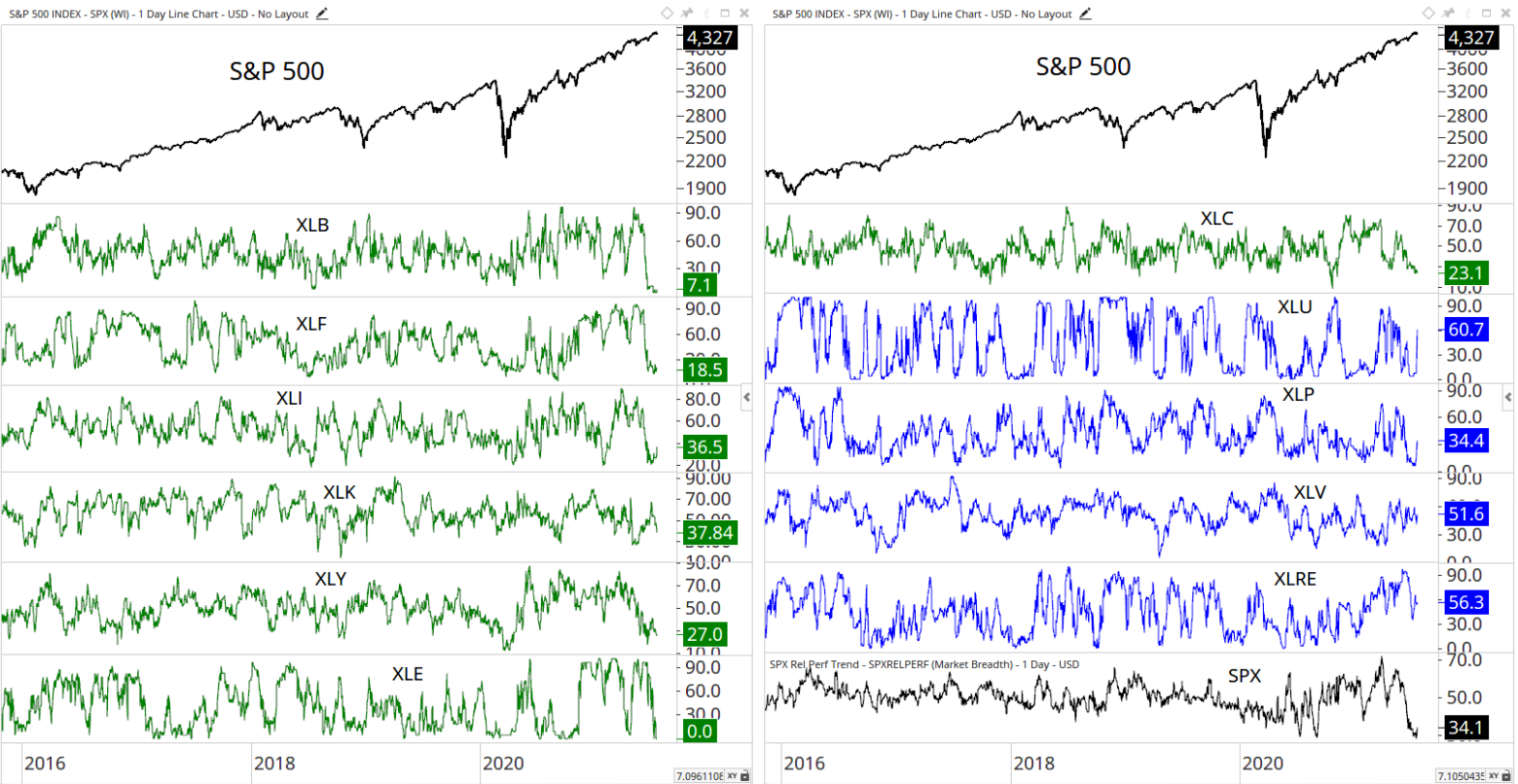
The chart below is similar to the one on the last page but now looking at a smoothed average in the spread between offense and defense average relative performance figures. The orange lines on the S&P 500 chart show when this spread is positive, suggesting more Offense sectors with good relative performance compared to Defense. When Offense stocks relative performance is strong, the market often is too and we see the SPX trend higher. When it's not, the market often struggles.

For the last few days this figure has been negative, which means we have stronger relative performance in defense stocks, not a characteristic of a strong 'risk on' environment.



EQUITIES - SECTOR LEADERSHIP 3

Breaking down sector relative performance one last time, here is each individual sector's relative performance %. Notice XLU has 60% of stocks in relative performance up trends, XLP at 34%, XLV at 51%, and XLRE at 56% meanwhile Offense sectors are between 0% (energy) and 37% (Technology).



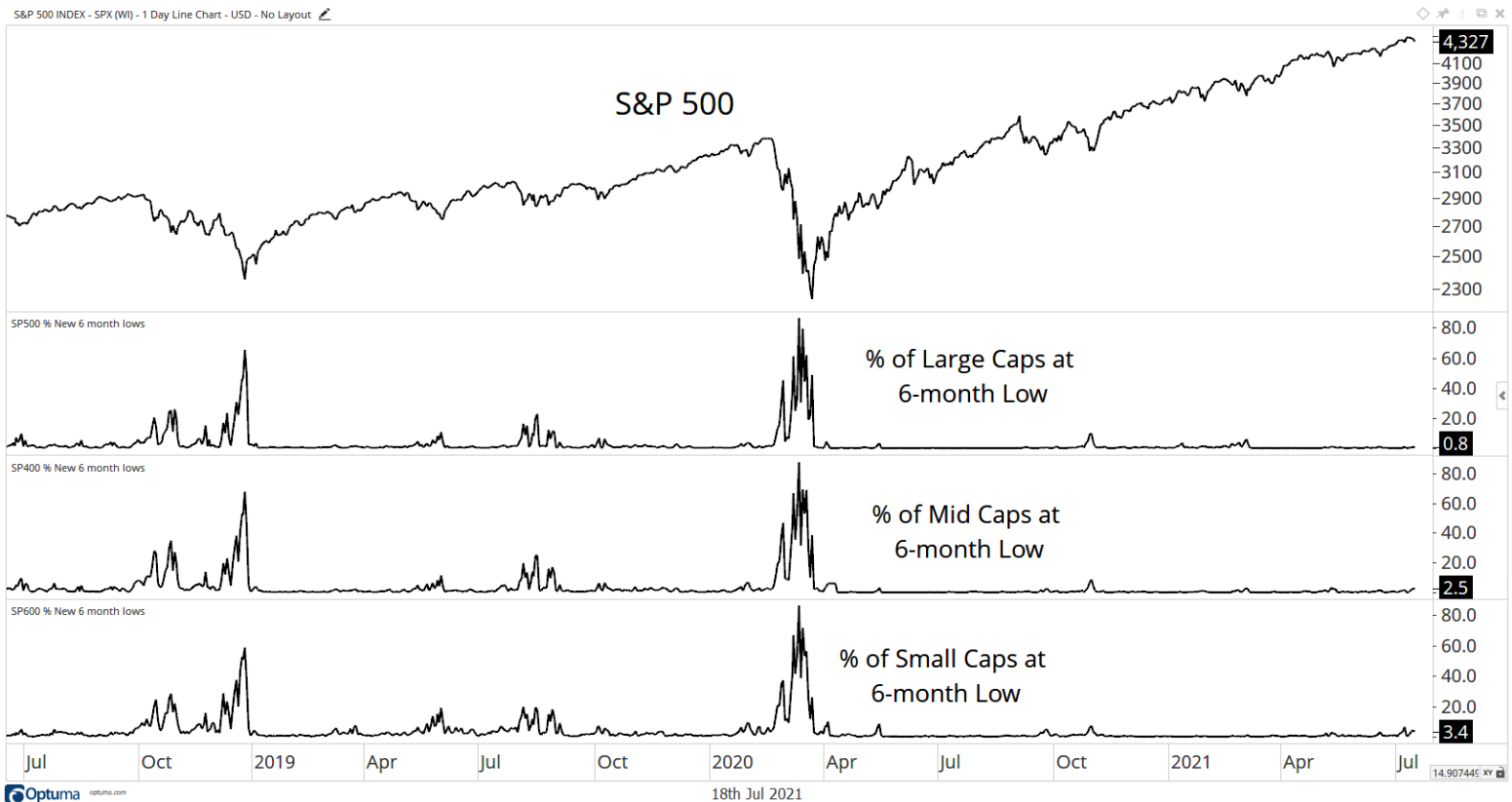
18th Jul 2021

EQUITIES - 6-MONTH LOWS



I wrote last week the significance of more than 5% of stocks being at a 6-month low when the SPX breached its 20-day moving average, and how many major declines were started this way - showing the internal breakdown of individual stocks as the broad index began to weaken.

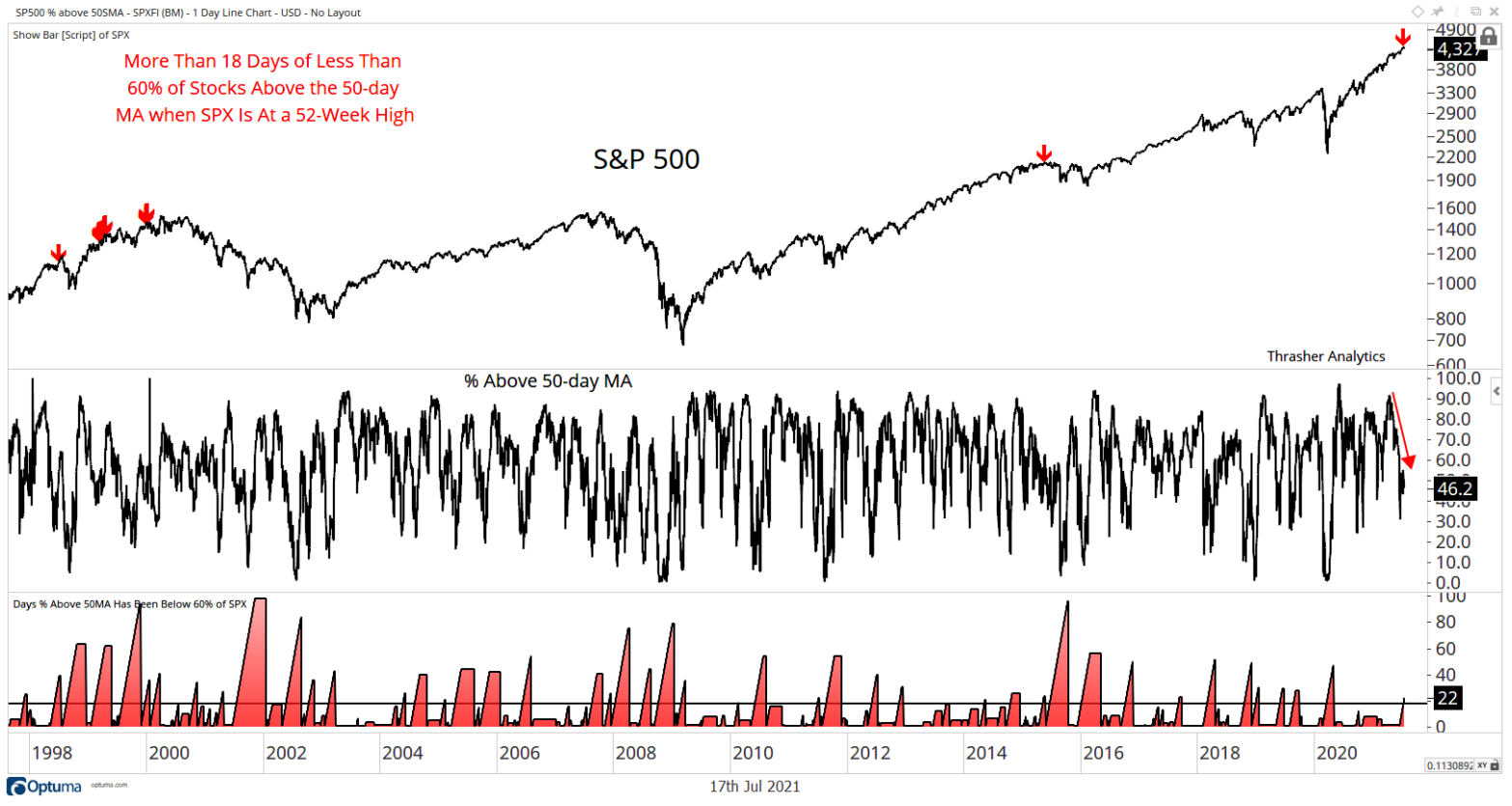
The below chart looks at the % of stocks at a 6-month low for large, mid, and small caps. There's still just a handful of stocks but the small cap has the most at 3.4% compared to the large cap index at less than 1%. If we continue to move lower this week and break the 20-day MA I'll be watching to see how these data sets develop.



EQUITIES - LENGTH OF BAD BREADTH



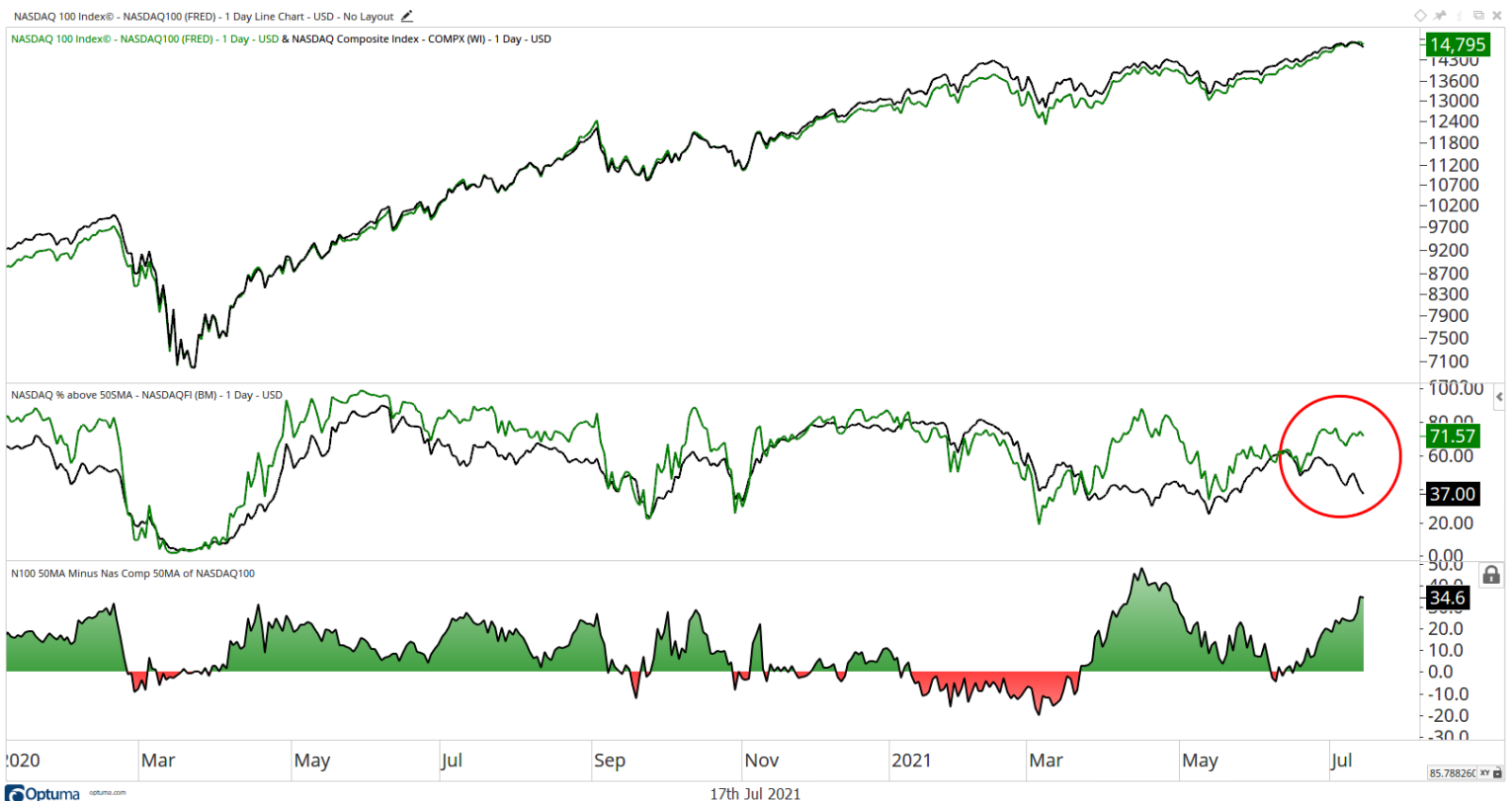
The S&P 500 has now gone 18 days with the % of stocks above the 50-day moving average not breaching 60% while the index hits a new 1-year high. This has happened just one other time in the last ten years, before the decline in 2015. We'd have to go back to a few occurrences in the late 90s to find other examples, as shown on the chart below.



EQUITIES - NASDAQ BREADTH



Last week I shared a chart that suggested an outperformance by SPX over the Nasdaq 100. That trend continued to play out during the week and I think will continue. Part of the reason why is the comparison in breadth for the Nasdaq 100 and Nasdaq Composite. Remember the Composite is just the broader Index while the Nas100 are the largest 100 stocks in the Composite. The % of the Composite above the 50-day MA has fallen to 37% with the Nas 100 at 71%. Smaller cap stocks in the Composite are losing their intermediate moving average and I suspect this could flow over to the larger caps if/when it is put under pressure. While the SPX is already beginning to rally relative to the Nasdaq 100, this is before we have seen a major breakdown in the Nas100's breadth which could be the next catalyst that causes it to struggle relative to the SPX.



SECTORS - PERFORMANCE



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Utilities Select Sector Fund ETF	True	True	2.59%	1.25%	-1.4%	12.55%
SPDR Consumer Staples Select Sector Fund ETF	True	True	1.27%	1.79%	1.76%	15.96%
SPDR Real Estate Select Sector Fund ETF	True	True	0.7%	3.03%	11.67%	33.84%
SPDR Health Care Select Sector Fund ETF	True	True	-0.07%	3.54%	5.88%	23.13%
SPDR Technology Select Sector Fund ETF	True	True	-0.6%	6.02%	4.88%	41.38%
SPDR Communication Services Select Sector ETF	True	True	-0.96%	2.12%	5.23%	40.53%
SPDR S&P 500 ETF	True	True	-0.96%	2.19%	3.37%	34.46%
SPDR Industrial Select Sector Fund ETF	False	True	-1.53%	-0.58%	0.76%	42.39%
SPDR Financial Select Sector Fund ETF	False	True	-1.61%	-2.90%	2.03%	49.57%
SPDR Materials Select Sector Fund ETF	False	True	-2.28%	-3.40%	-1.9%	33.7%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-2.45%	3.24%	-1.03%	32.38%
SPDR Energy Select Sector Fund ETF	False	True	-7.89%	-12.90%	0.58%	30.83%

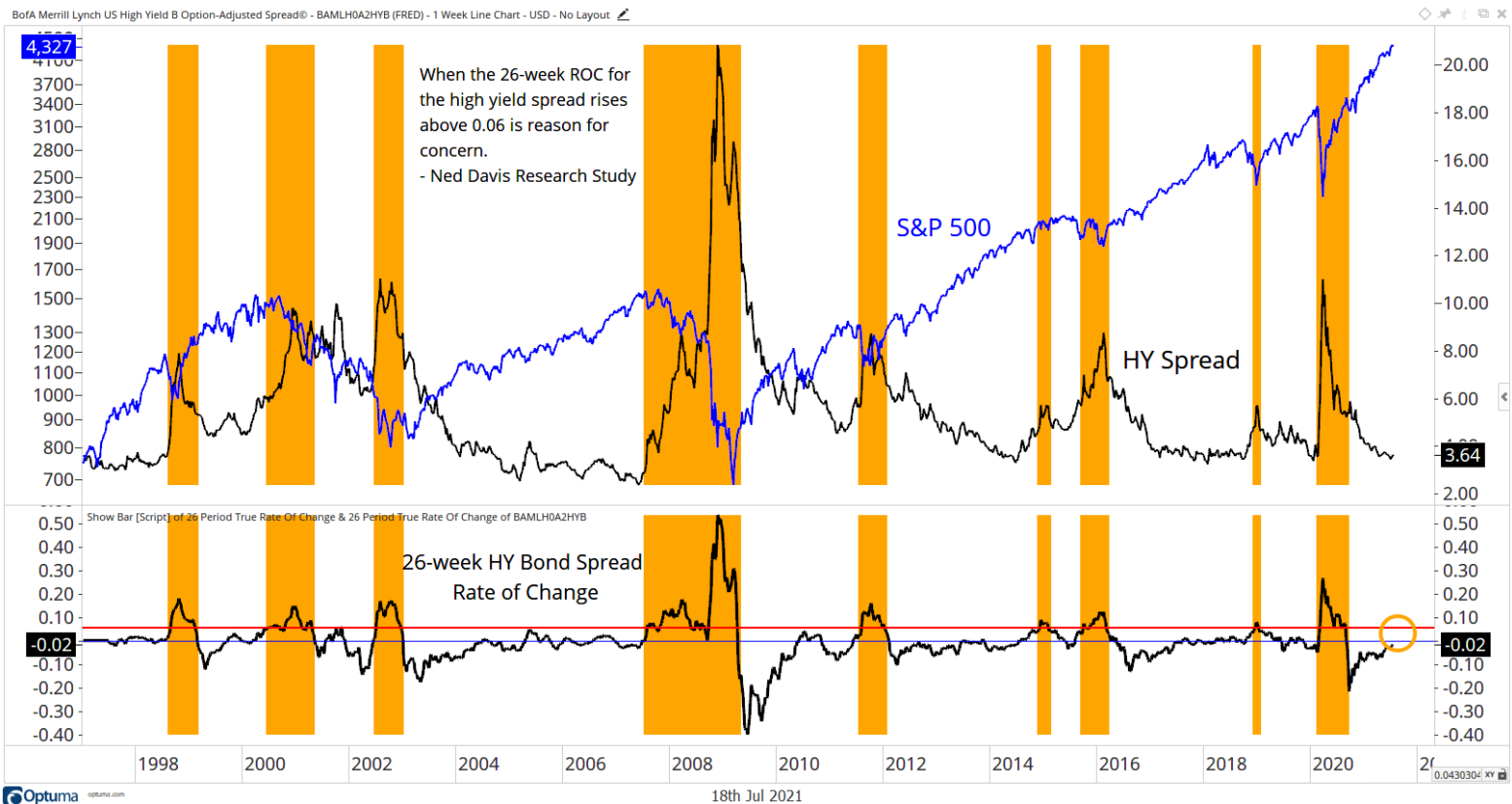
Gold rallied up to the 50-day and 200-day moving averages last week which brought in some sellers, sending gold lower on Friday. This was to be expected, major moving averages are key price points traders will use to take profits. I still am bullish on gold, the sentiment and momentum readings haven't gotten overextended and I think the start of a new up trend is still intact.



FIXED INCOME: HY BONDS



High Yield bonds have been struggling relative to Treasury bonds, but the HY spread still hasn't seen a large increase, which as a study done by Ned Davis Research, is when more concerning the fixed income becomes. NDR found that when the 26-week rate of change of the HY Spread rises over 0.6, we see an increase in market volatility and stocks struggle. We aren't there yet, so from a fixed income perspective, the market isn't in a panic.



DAILY SENTIMENT INDEX



Code	% Bullish ^	5-day MA	History
Lumber DSI	9	10	
Cocoa DSI	19	27	
Corn DSI	22	24	
VIX DSI	25	23	
Cattle DSI	25	30	
Palladium DSI	30	43	
Soybean DSI	33	30	
Yen DSI	34	32	
Australian Dollar DSI	34	41	
Euro DSI	36	40	
Silver DSI	37	38	
British Pound DSI	39	42	
Bitcoin DSI	41	42	
Wheat DSI	44	31	
Gold DSI	44	46	
Copper DSI	45	45	
Nikkei DSI	47	57	
Platinum DSI	48	50	

<input type="checkbox"/>	Code	% Bullish ^	5-day MA	History
<input checked="" type="checkbox"/>	Swiss Franc DSI	51	54	
<input checked="" type="checkbox"/>	US Dollar DSI	58	53	
<input checked="" type="checkbox"/>	CRB Index DSI	64	72	
<input checked="" type="checkbox"/>	EuroDollar DSI	65	65	
<input checked="" type="checkbox"/>	Sugar DSI	66	57	
<input checked="" type="checkbox"/>	Mexican Peso DSI	66	64	
<input checked="" type="checkbox"/>	Heating Oil DSI	66	73	
<input checked="" type="checkbox"/>	Orange Juice DSI	67	68	
<input checked="" type="checkbox"/>	Gasoline DSI	69	74	
<input checked="" type="checkbox"/>	Crude Oil DSI	69	77	
<input checked="" type="checkbox"/>	Cotton DSI	69	68	
<input checked="" type="checkbox"/>	SPX DSI	72	81	
<input checked="" type="checkbox"/>	Natural Gas DSI	72	78	
<input checked="" type="checkbox"/>	Nasdaq DSI	75	84	
<input checked="" type="checkbox"/>	Lean Hog DSI	76	67	
<input checked="" type="checkbox"/>	5YR DSI	78	77	
<input checked="" type="checkbox"/>	Coffee DSI	80	71	
<input checked="" type="checkbox"/>	10Y DSI	86	82	

Type Code or Name to add an item to the watchlist

Source: trade-futures.com

DAILY SENTIMENT INDEX

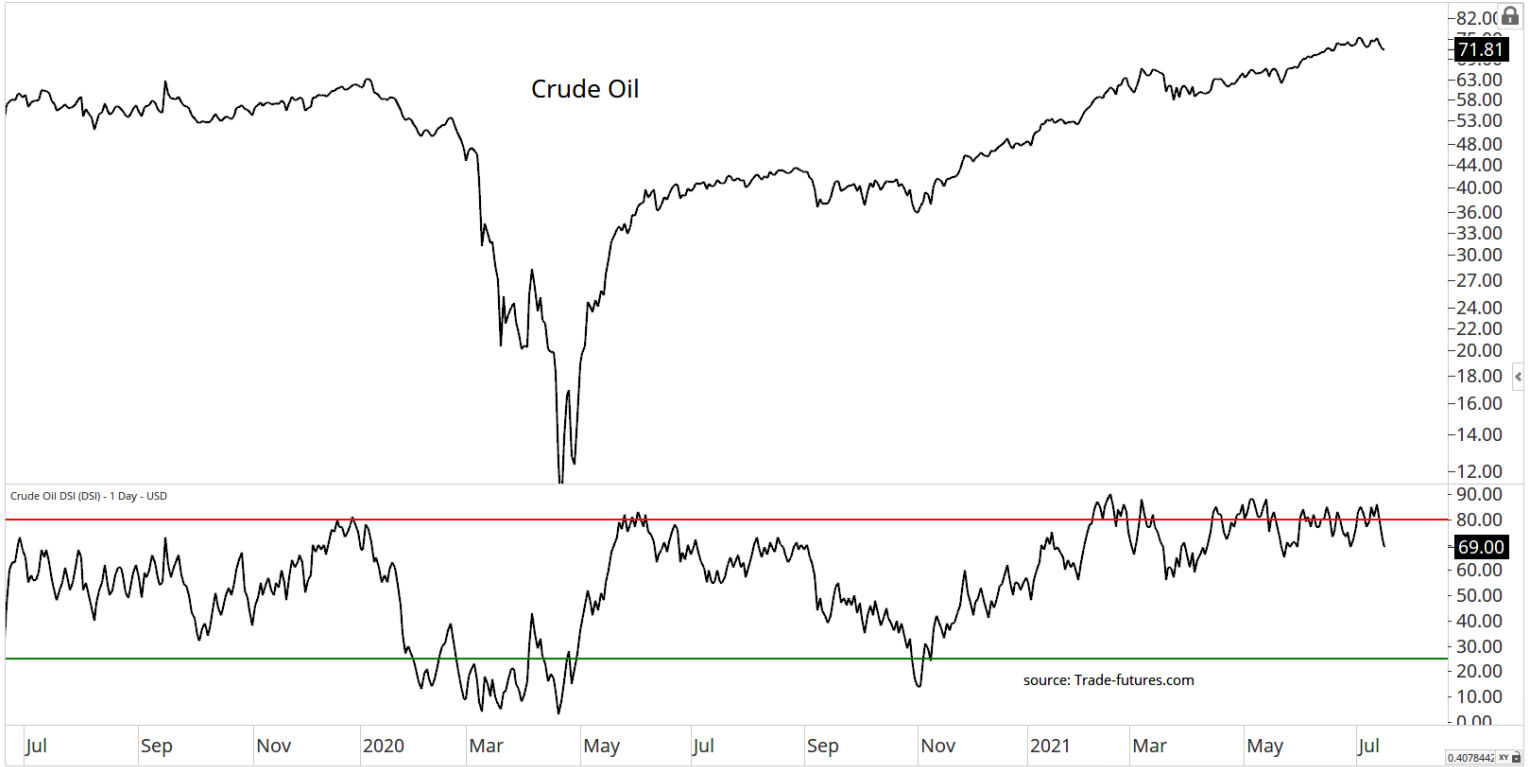


DAILY SENTIMENT INDEX



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Crude Oil Light Sweet NYMEX - OILSW (WT) - 1 Day Line Chart - USD - No Layout



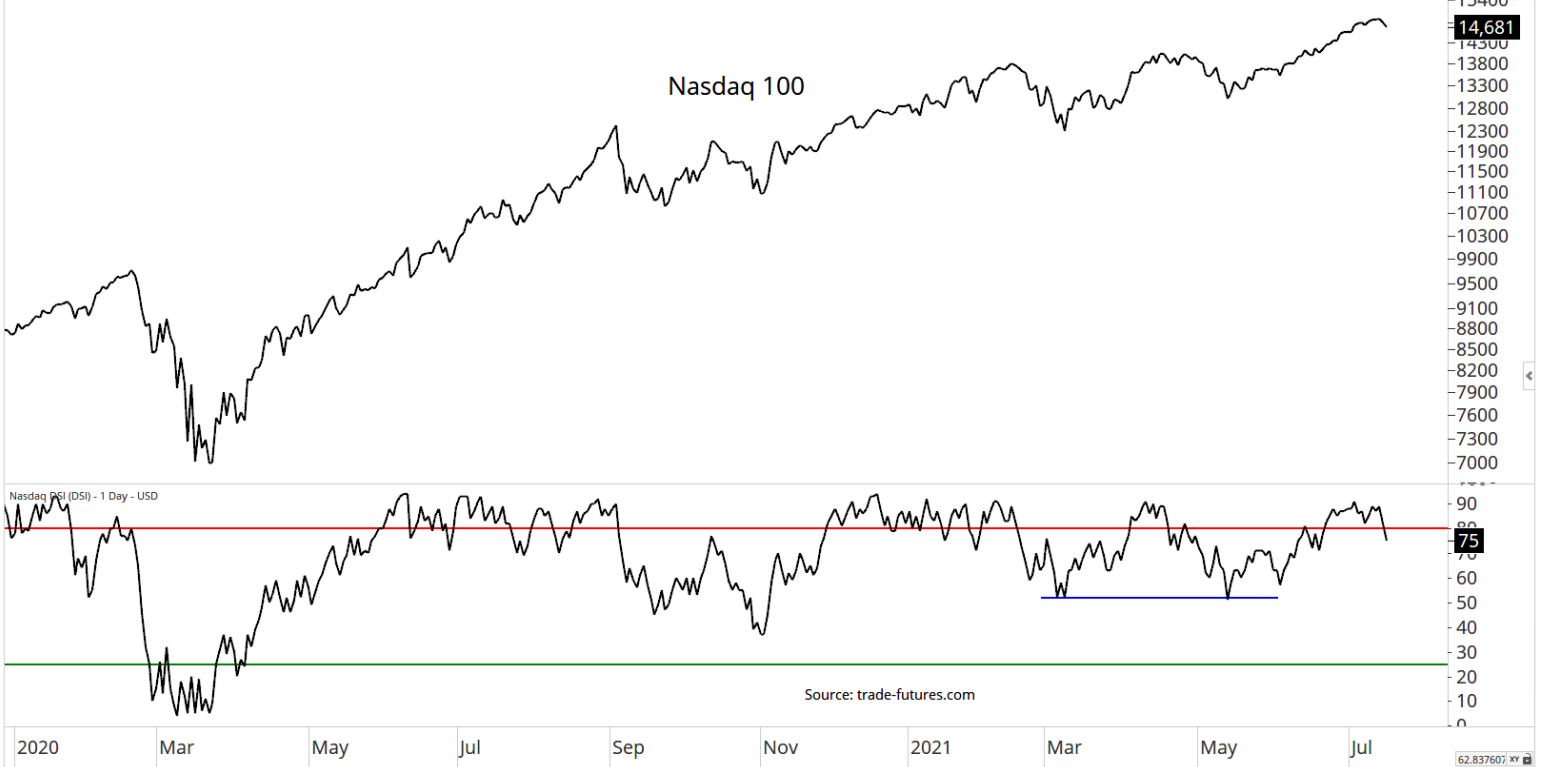
DAILY SENTIMENT INDEX



DAILY SENTIMENT INDEX



NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout

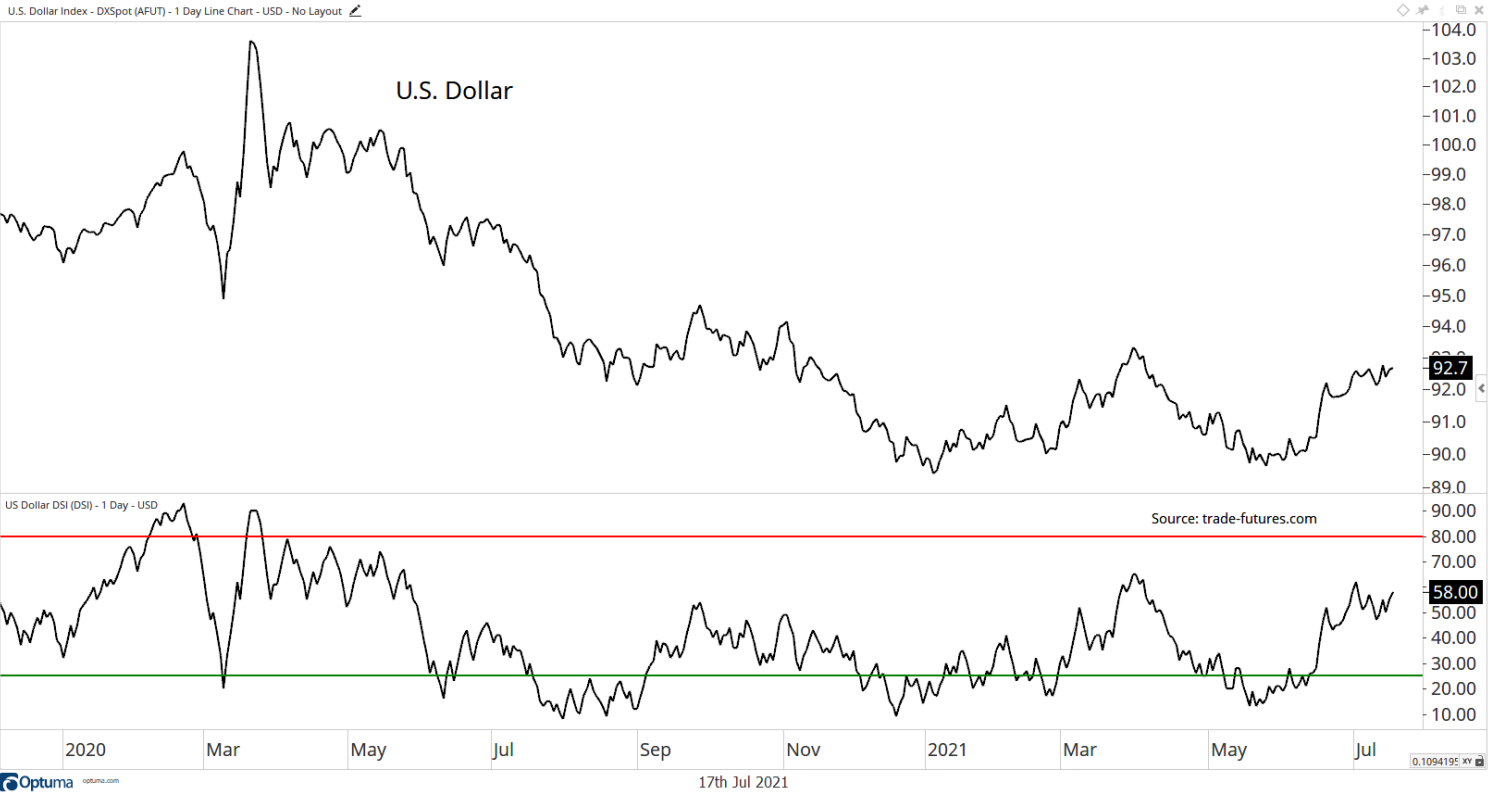


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DAILY SENTIMENT INDEX



CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout

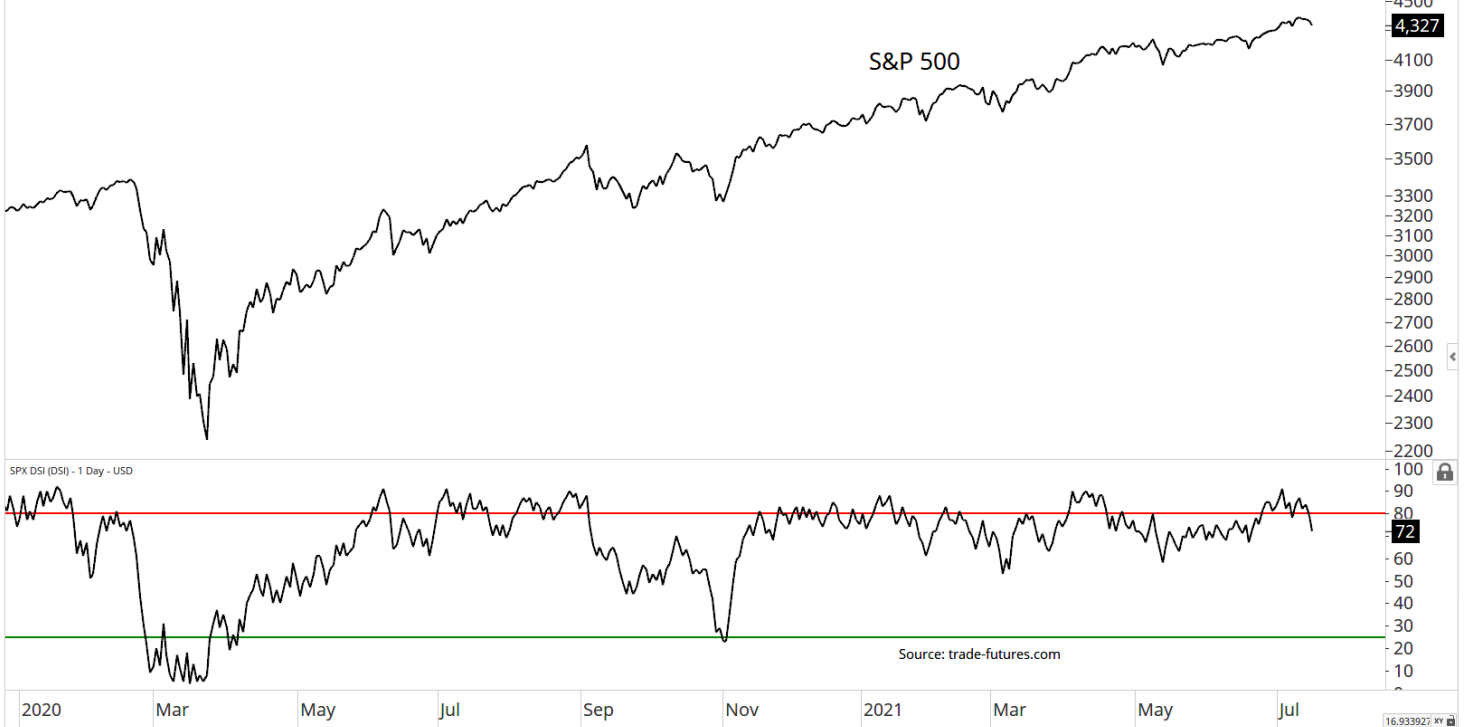


DAILY SENTIMENT INDEX



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S&P 500 Index - SPX (CBOE) - 1 Day Line Chart - USD - No Layout



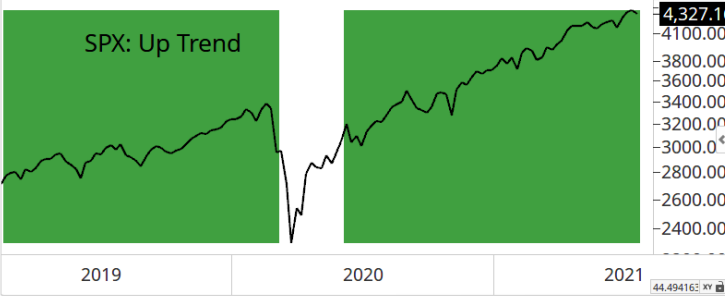
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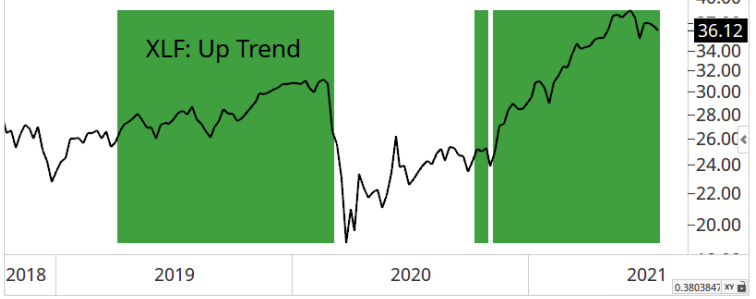
TREND MODELS



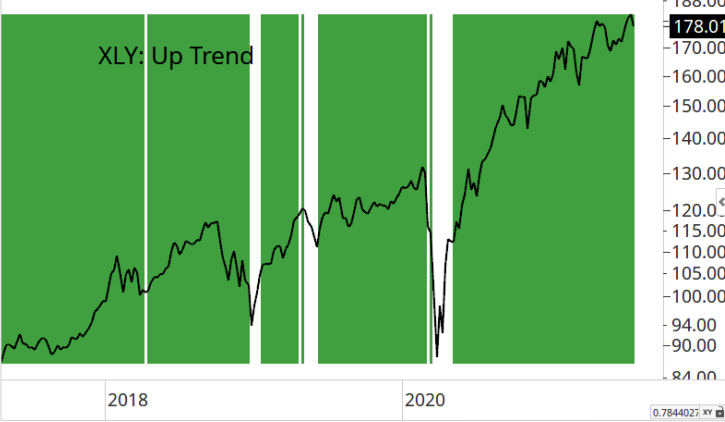
S&P 500 INDEX - SPX (WI) - 1 Week Line Chart - USD - No Layout



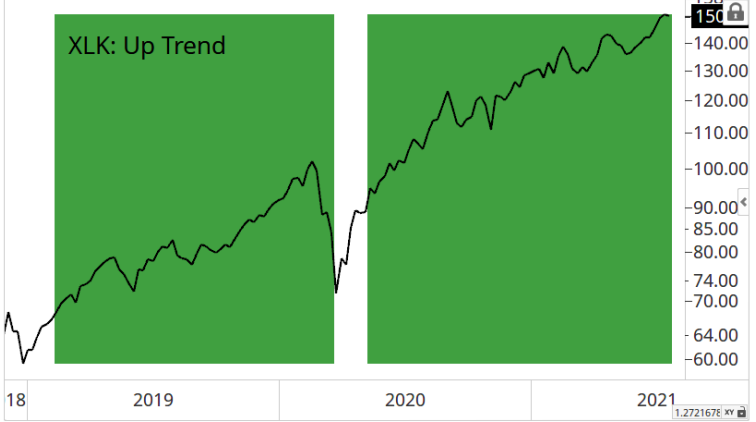
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout



SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout

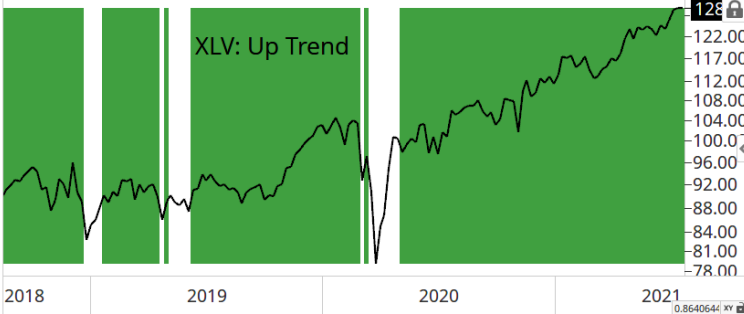


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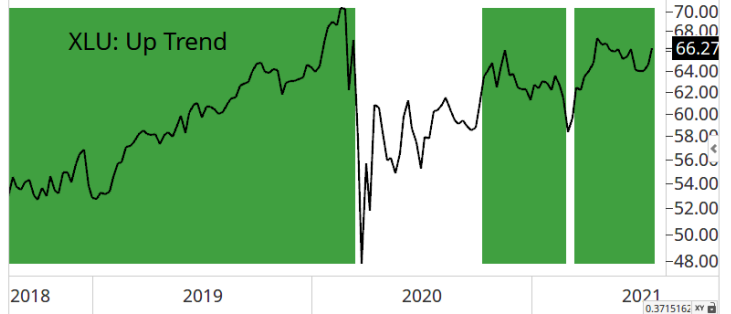
TREND MODELS



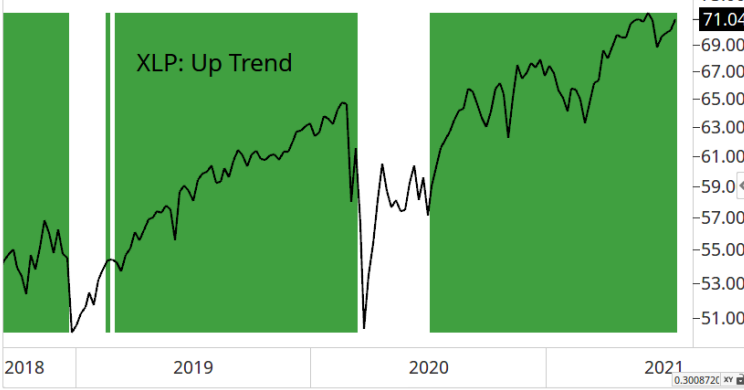
SPDR Health Care Select Sector Fund ETF - XLV (US) - 1 Week Line Chart - USD - No Layout



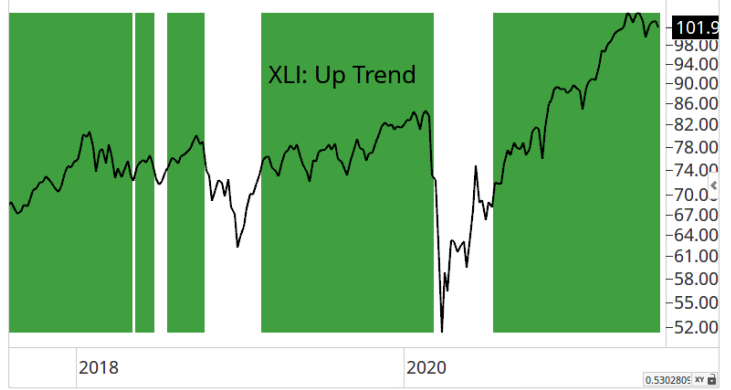
SPDR Utilities Select Sector Fund ETF - XLU (US) - 1 Week Line Chart - USD - No Layout



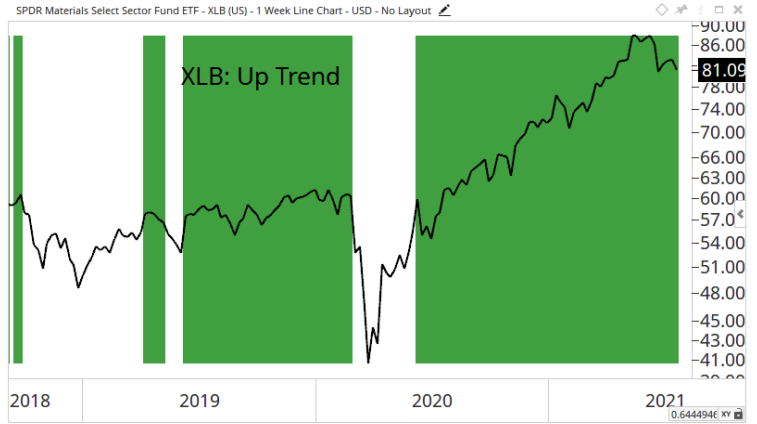
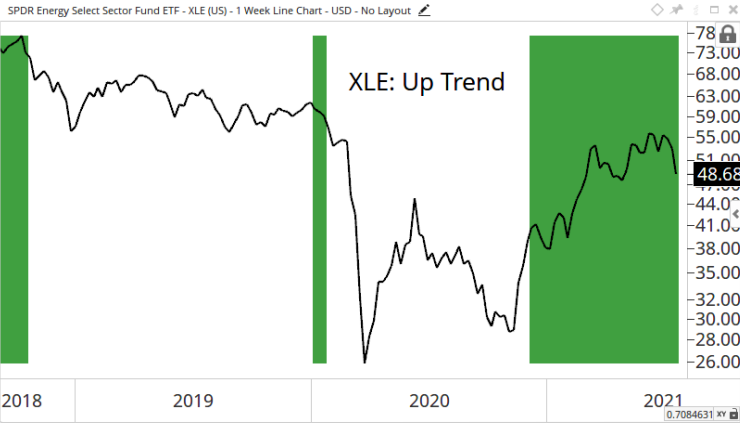
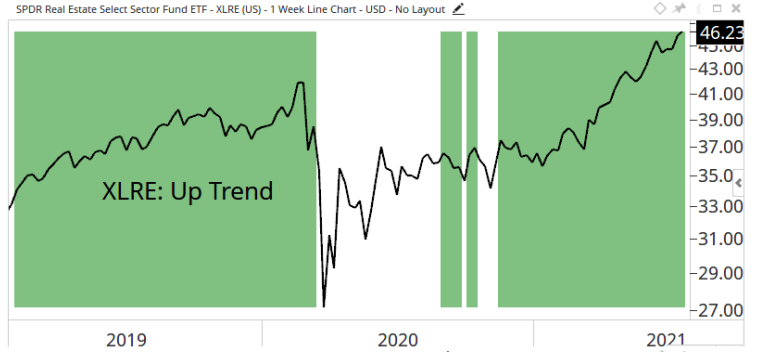
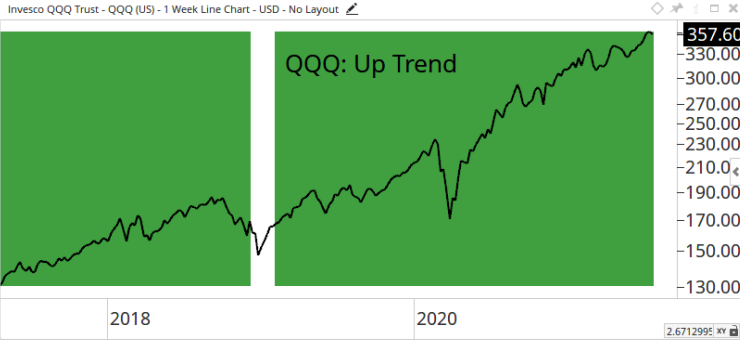
SPDR Consumer Staples Select Sector Fund ETF - XLP (US) - 1 Week Line Chart - USD - No Layout



SPDR Industrial Select Sector Fund ETF - XLI (US) - 1 Week Line Chart - USD - No Layout



TREND MODELS



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