

# TA THRASHER ANALYTICS

AUGUST 1, 2021



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

## Bullish

- Trend Model remains positive for all sectors and indices.
- The Market Health Report remains supportive.
- Bullish setup for platinum.
- Real Estate sector has strong breadth.

## Bearish

- Poor Sector Leadership
- Frothy sentiment.
- short-term breadth still weak.
- No new high in consumer ratio.
- No new high in offense vs. defense ratio.
- Credit spreads widening.
- Emerging Markets breakdown.

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Trend Models

Sector Rotation: August	
Real Estate	XLRE
Communications	XLC
Financials	XLF

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

Market Health Report	
Breadth	-1
Momentum	4
Sentiment	2
Trend	1
Volatility	2
<b>Total</b>	<b>8</b>

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	77%	79%
Nasdaq 100	76%	79%
Nikkei	37%	45%
VIX	21%	23%
10yr Treasury	80%	75%
5yr Treasury	77%	77%
CRB Index	76%	75%
Gold	39%	39%
U.S. Dollar	51%	54%

\*Green<25% Red>80%

source: trade-futures.com

## Brief Summary:

The theme of 2021 has been "Fail, Test, Hold" but the internals began to tell a different story starting in June. The tests of the 50-day MA originally had good support by individual equities however that has changed. We have a growing list of stocks in corrections and the FAAMG group that helped push the indices higher lost some of their luster last week. The sectors with the strongest breadth data are nearly all in the defensive category.

A new development has been a widening of credit spreads, seeing their correlation to equities hit the highest level since 2018.

Emerging markets have started to breakdown and this has major implications for the commodities market, which could soon find itself under pressure like the prior major peaks that were led by EEM weakness. However, there's an interesting setup in one commodity - platinum. Commercial Traders have turned less bearish on platinum and that's historically been a bullish catalyst for the metal.

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).

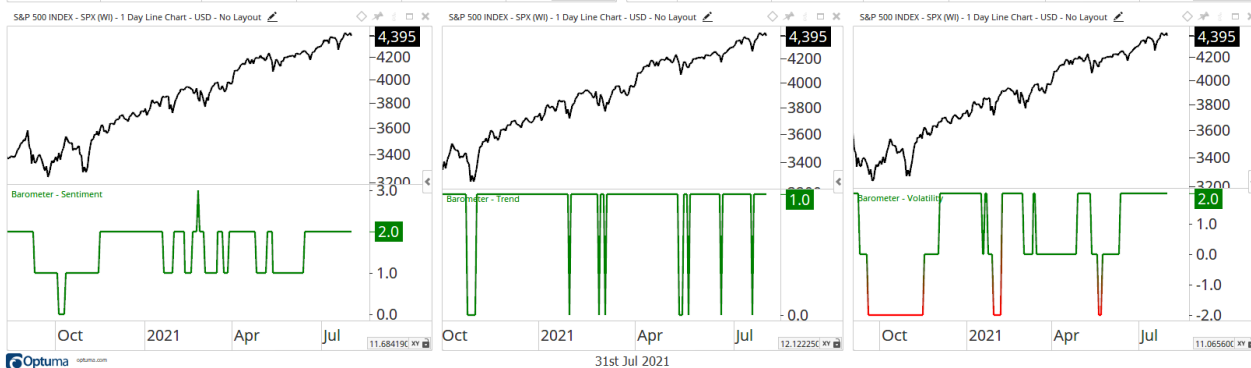
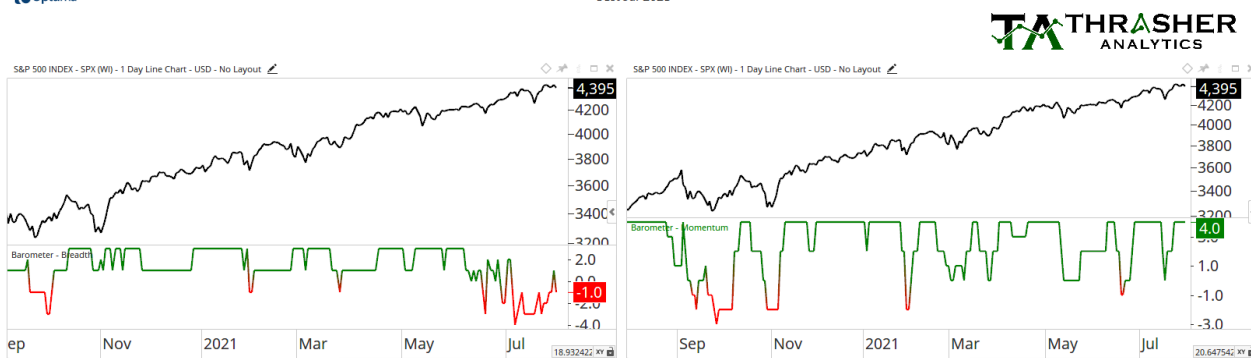
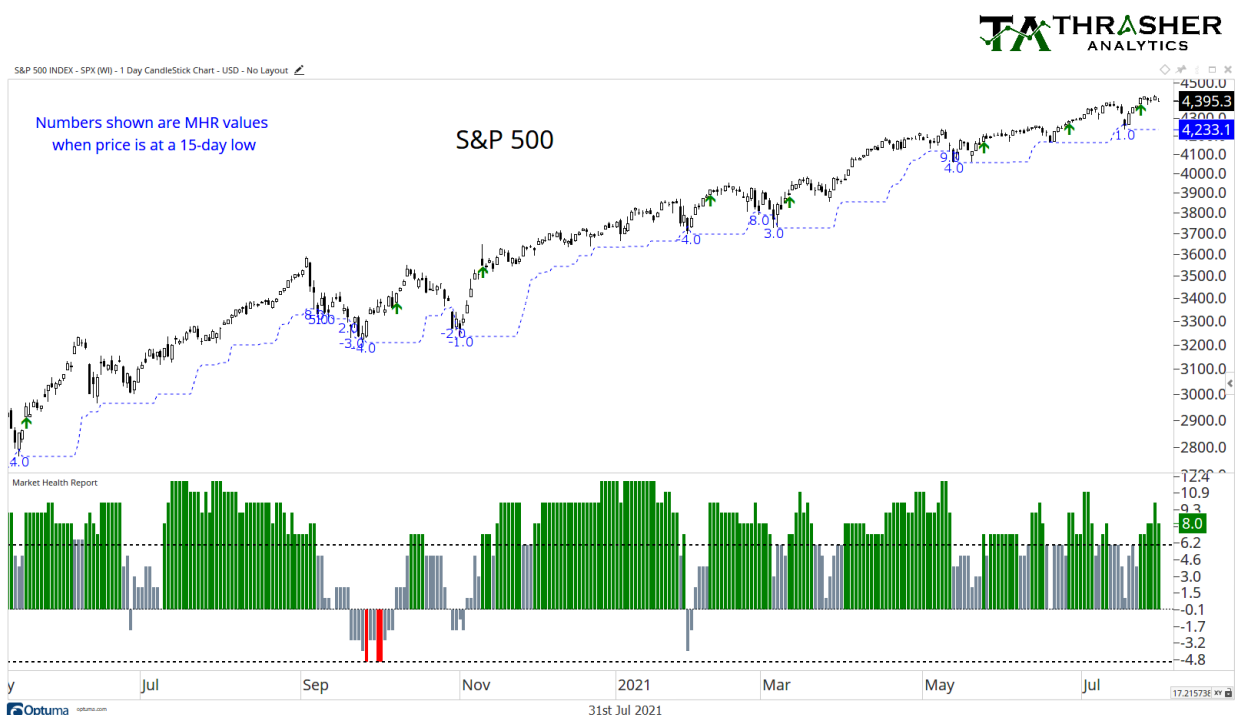
Volatility has remained above the prior 1-month lows while the equity marked charges higher. The VRT 2.0 has moved away from its signal threshold. This paints a mixed picture for volatility, we have the VIX rising which prevents dispersion from compressing and the build up that often leads to spikes in volatility. As I've said repeatedly, volatility doesn't spike from major lows, it begins to tick higher and then sees a major move, so the rise in vol we've seen over the last month is not an abnormal characteristic of volatility threatening the up trend in stocks.



# MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week up to +8. The MHR continues to do a great job at being on the right side of this market and showing the healthy score for the S&P 500 on each minor dip.





# EQUITIES - S&P 500 DAILY



The S&P 500 saw a few minor dips last week but continued to hold above the prior July swing high and the 20-day moving average. The RSI continues to diverge, making lower-highs in the face of the strength displayed in the price action. The trend is clearly up but that's not without some building headwinds in breadth and momentum.

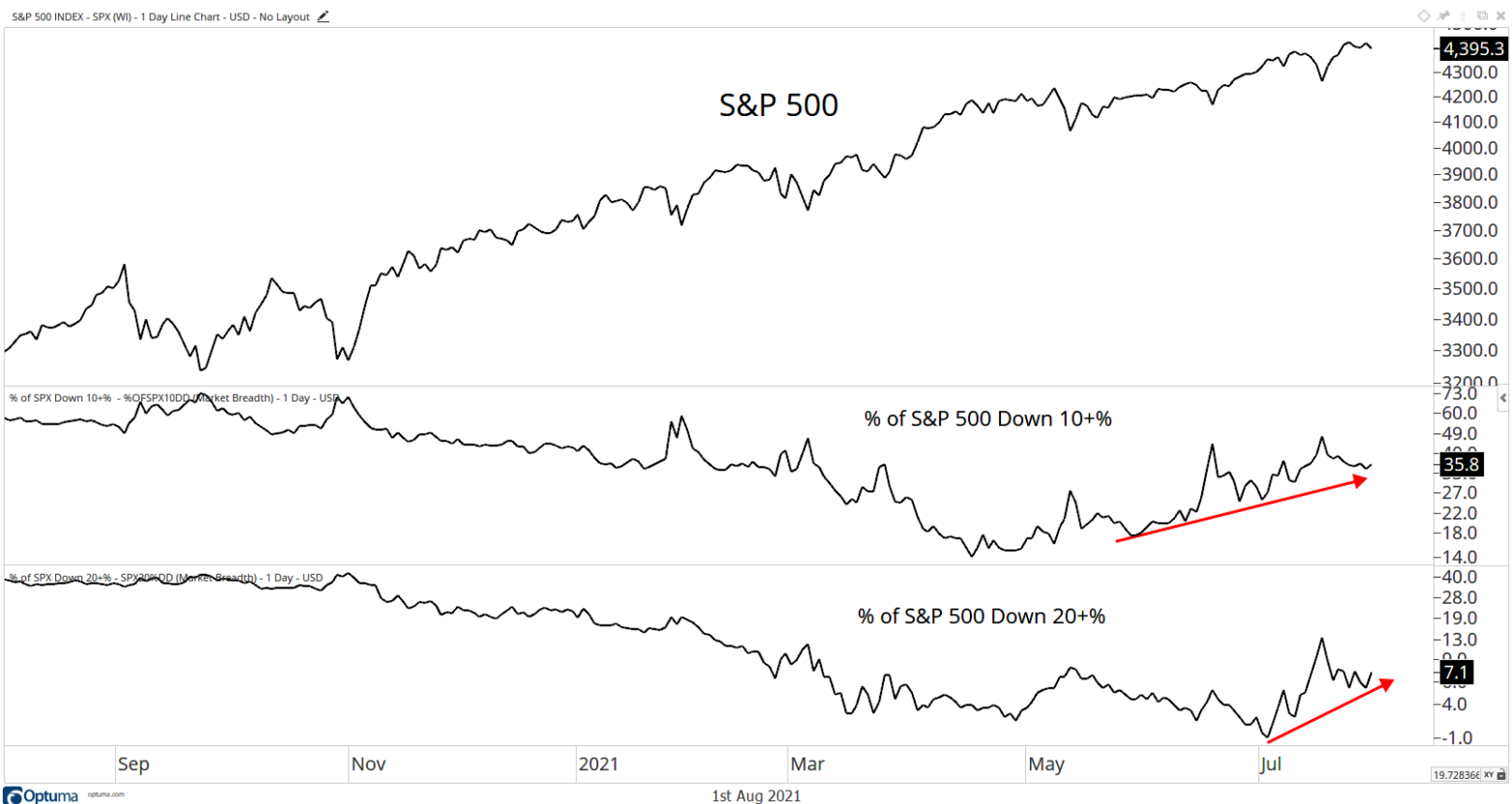


# EQUITIES - DRAWDOWN



Another update on the drawdown chart for S&P 500 stocks.

We continue to make higher lows in the % of stocks down 10+% and 20+%. We finished the week with over one-third of stocks off their high by double-digits and 7% are down by at least 20 percent.





# EQUITIES - 2021 THEME



The theme of 2021 has been "Fail, Test, Hold". The market has grinded higher with each new swing high initially seeing a fail as the equity index drops down to test the 50-day moving average, which holds and sends price higher to reach a new high. This pattern has played out six times so far. The repetitive beat of this proverbial metronome will come to an end at some point, it could be 1,000 points higher or it could be this week. But what has begun to change is what's developing at each of the last several tests of the intermediate moving average. More on the next page.





# EQUITIES - 2021 THEME



Below is the same chart as the prior page but with the % of stocks above the 50-day moving average and the % down 10+%. Initially the tests of the 50-day by the S&P 500 were accompanied by a rising trend in stocks trading above their own 50-MA as well as a declining number that were in 10+% drawdowns. That changed somewhat in May. The June and July tags of the 50-MA saw an increase in stocks in corrective drawdowns and an initial lower-low in the number holding above their 50-day MA. The July test saw an uptick in the moving average breadth indicator but a continued rise in drawdowns.

While the theme of "Fail, Test, Hold" continued in June and July the internals of the market begun to shift and show greater signs of weakness. The last three tests of the 50-day MA by SPX saw us go from 28% to 46% to 48% of stocks down double digits.

2011 saw a similar picture, its chart on the next page.

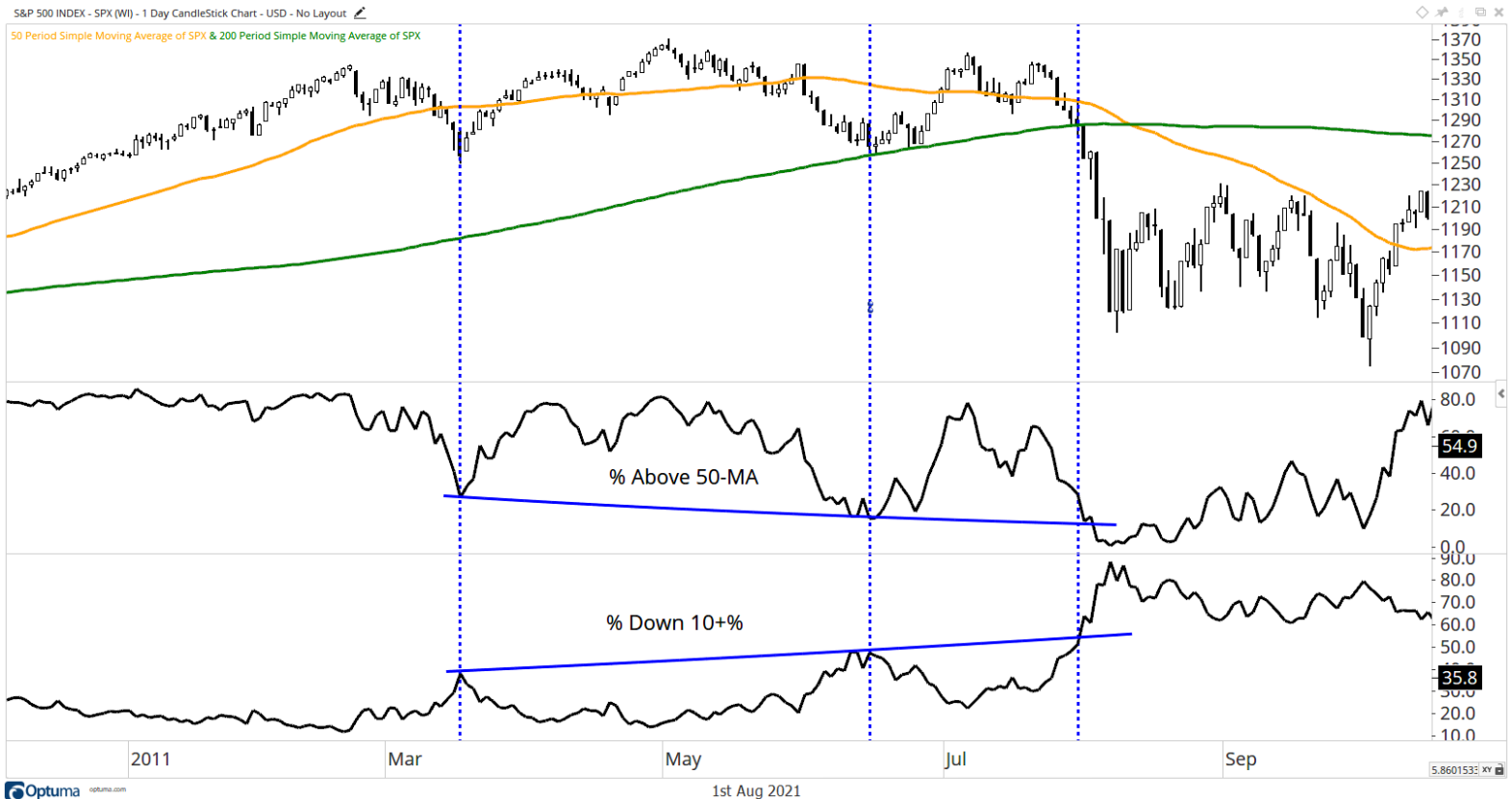


# EQUITIES - 2021 THEME

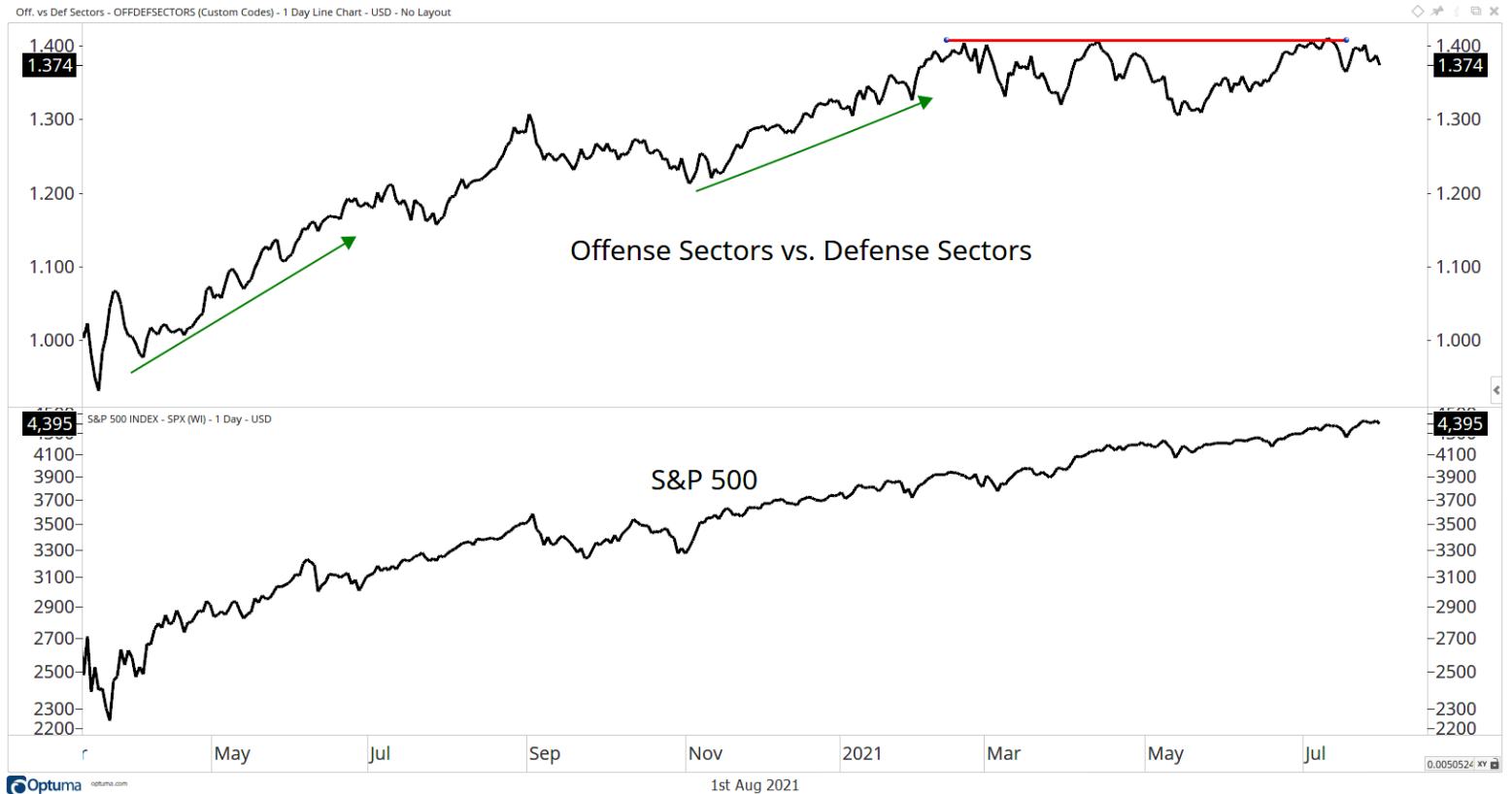


In March '11 there were 38% down then 48% in May and when SPX tested the 200-day MA on August 1st there were 51% stocks down double digits. Over the next five days the index fell 13%. We can see that the % above the 50-day MA was also making lower lows while price was testing the 1265 level. By the final breakdown less than 30% of stocks were above the 50-MA, many traders at that time began calling for a "breadth bounce" but sellers weren't done yet.

I'm not pointing or calling for a repeat of 2011 but using it as an example of when the internals were breaking down ahead of the index and as an example of the resulting price action that then followed. At the end of the day the S&P 500 truly is a market of individual stocks and over the last two months, more of those stocks have begun showing signs of distribution and weakness. Maybe we'll see improvement and their reversals will be the catalyst for the next leg up in the SPX but it's also very likely the weakness pulls down the index, and ironically the 2011 example took place in August as well. As Mark Twain is credited for saying, "history doesn't repeat itself but it often rhymes."



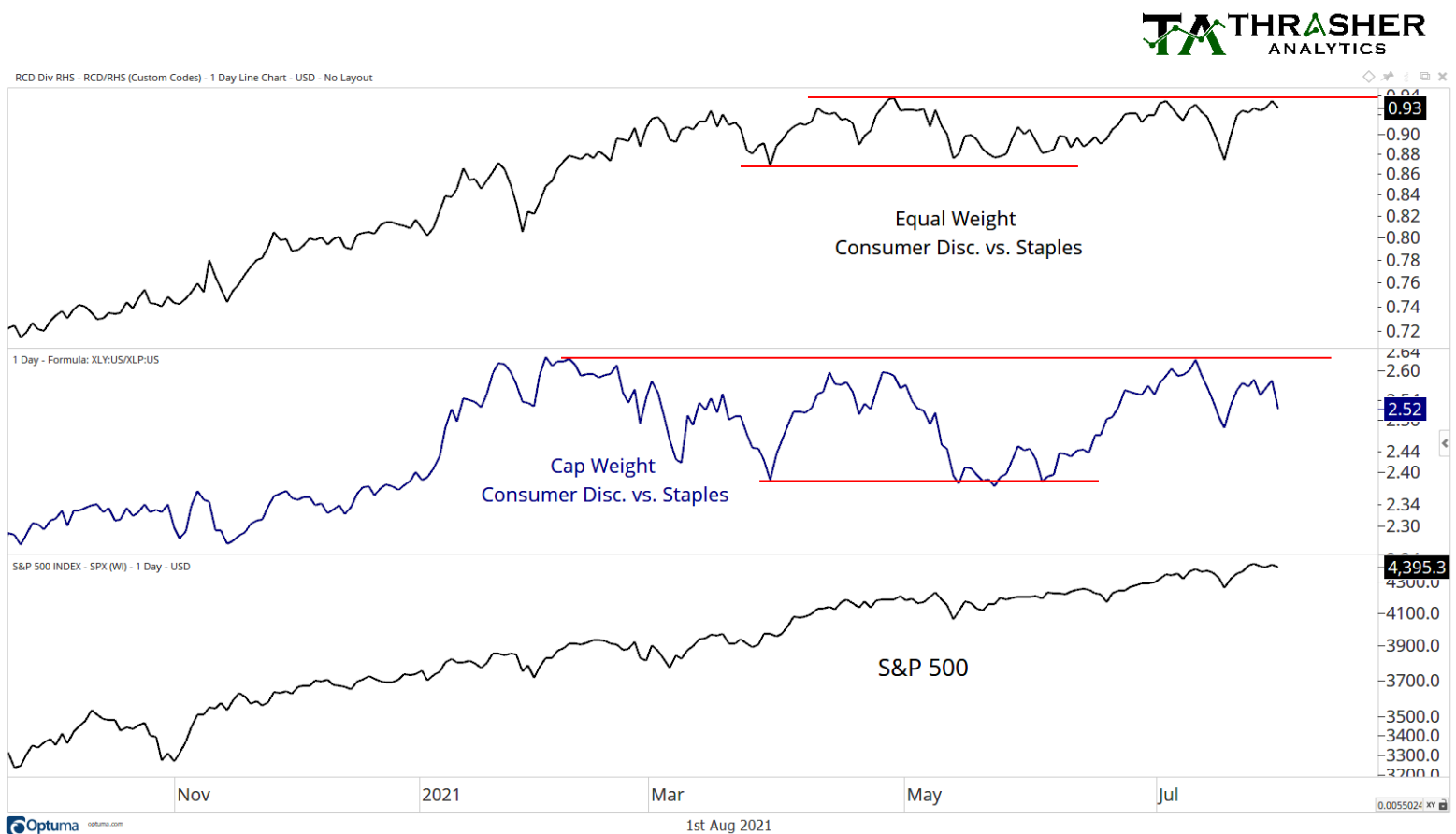
We still have yet to see a new high in offense sectors over defense sectors. In fact the best performing sectors and the only sectors to outperform the S&P 500 last month were Health Care, Real Estate, Utilities, and Tech (in that order).



# EQUITIES - CONSUMER RATIO



After the last chart showing the ratio between offense and defense sectors, this next one shouldn't be too much of a surprise - the consumer ratio (the ratio between Consumer Discretionary and Consumer Staples) has also failed to breakout, for both the cap and equal weight versions.



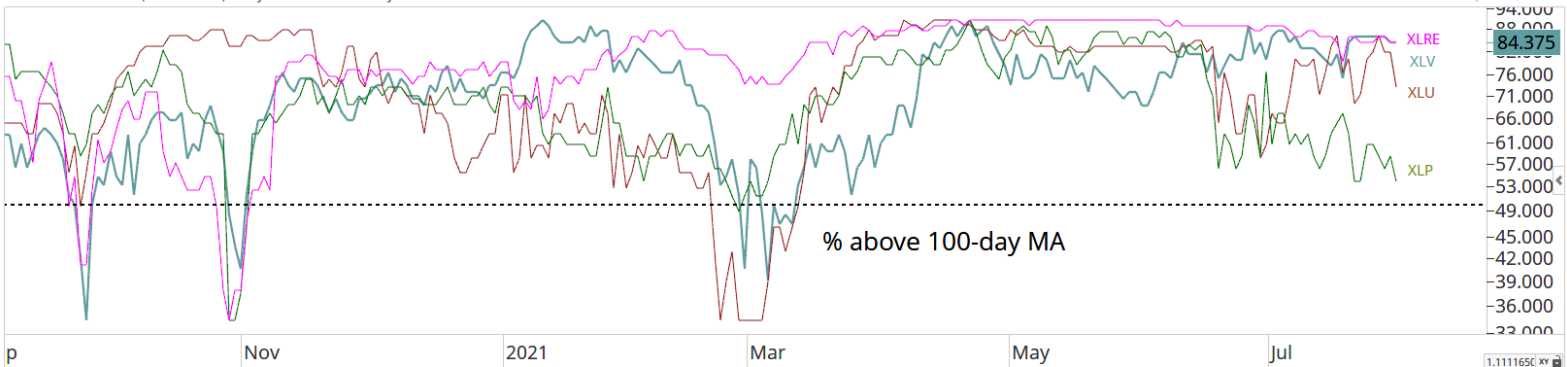
# EQUITIES - SECTOR BREADTH



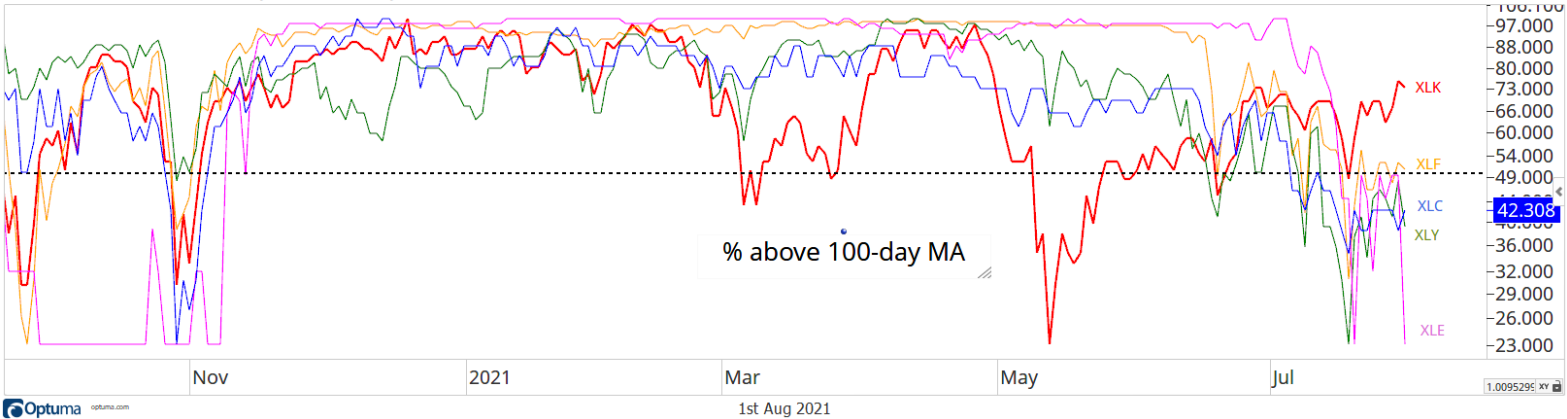
While on the topic of sectors, here are each of the sector's breadth readings for the % above the 100-day moving average. The Defense group, (XLRE, XLV, XLU, XLP) all have over 50% of their holdings above the 100-day MA while the more offensive sectors have just 2, XLK and XLF with over 50% of stocks above the 100-day MA. This is contributing to why we're seeing weakness in the offense vs. defense ratio, the breadth picture is starting to diverge and not on the favor of the more 'risk on' sectors.



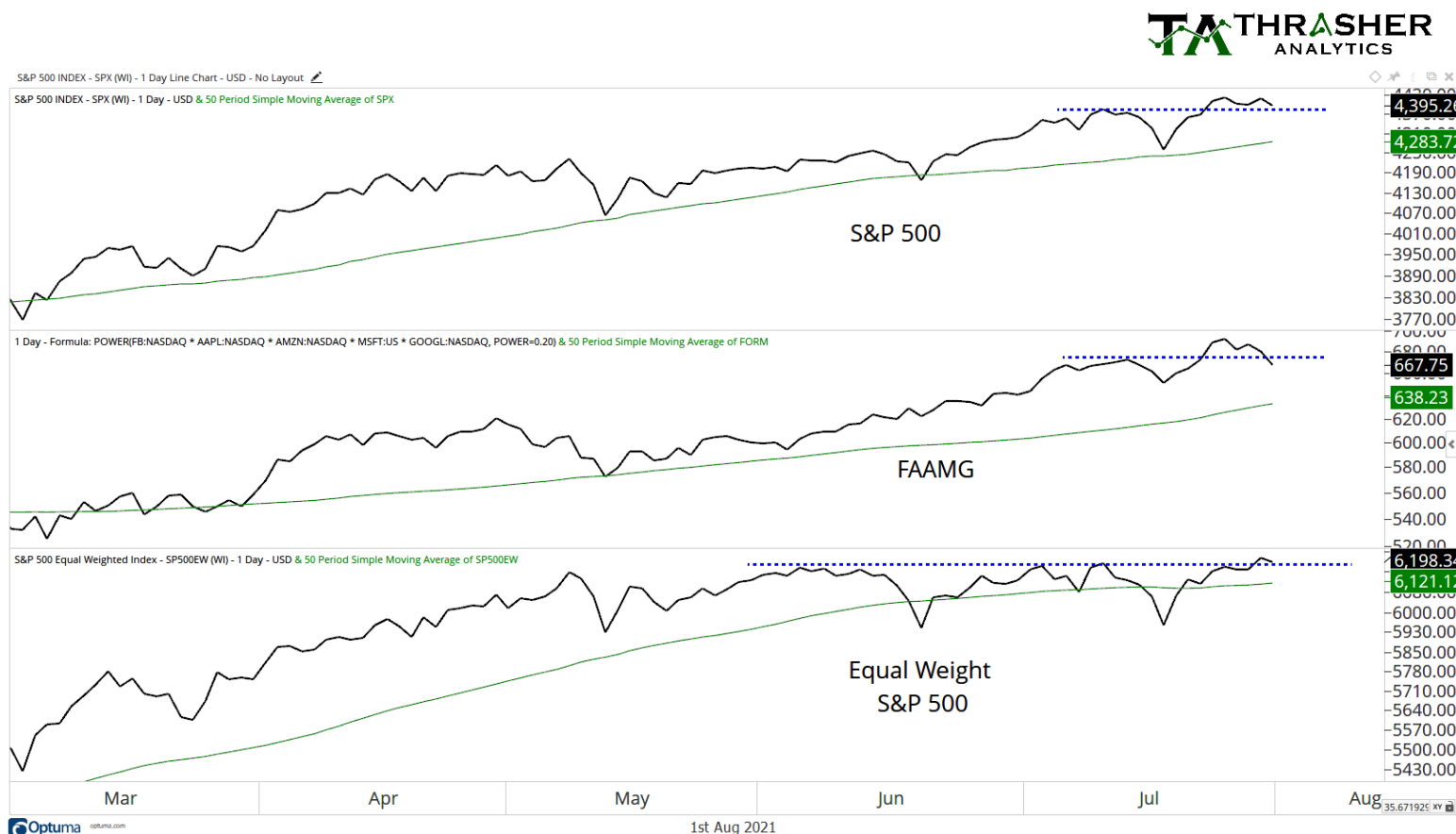
XLV > 100MA - XLV 100MA (Market Breadth) - 1 Day Line Chart - USD - No Layout



XLK > 100MA - XLK 100MA (Market Breadth) - 1 Day Line Chart - USD - No Layout

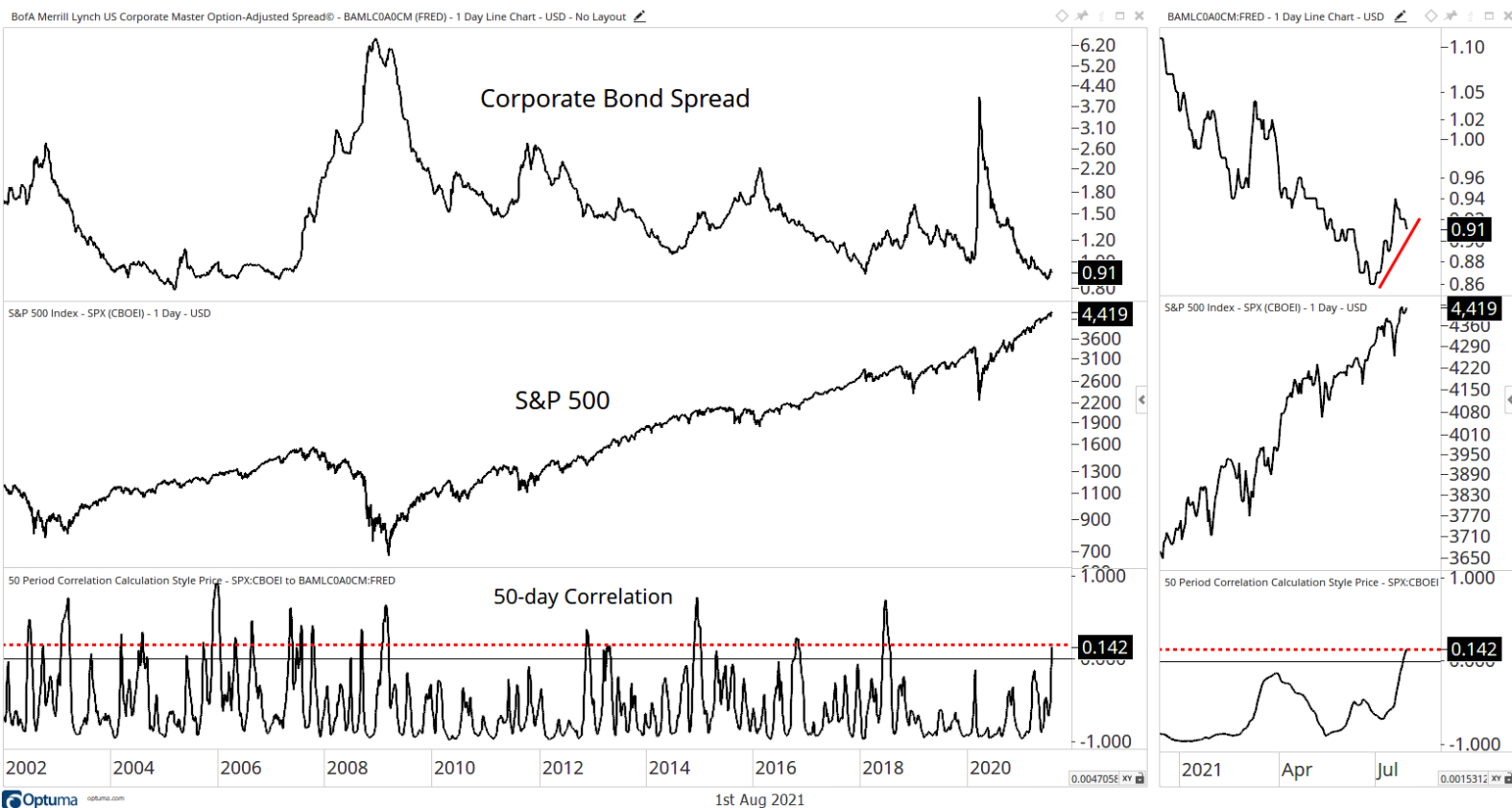


While the S&P 500 has held firm above the prior July swing high, the FAAMG group, which had been driving stocks higher in the last few weeks took a slight stumble as a result of some poor Q2 earnings reactions in stocks like Amazon. Equal Weight S&P 500 also finished the week right at that July swing high.



Of the major stories over the last year has been the drop in the corporate bond spread to historic lows. When spreads decline it's often the market signaling its lack of concern over the creditworthiness for the corporate bond market (yes this is extremely simplistic description!). Typically when stocks are going up, the spread is going down as the fixed income market confirms the bullishness towards corporate America.

But when the correlation begins to rise as a result of spreads widening (rising) it can often be said that fixed income markets have begun getting a little more concerned relative to their equity counterparts. And that's what is happening right now. The 50-day correlation between bond spreads and the S&P 500 is at its highest level since the summer of 2018. While it must be acknowledged that spreads are still extremely low in a historical context, the recent rise still can't be ignored.



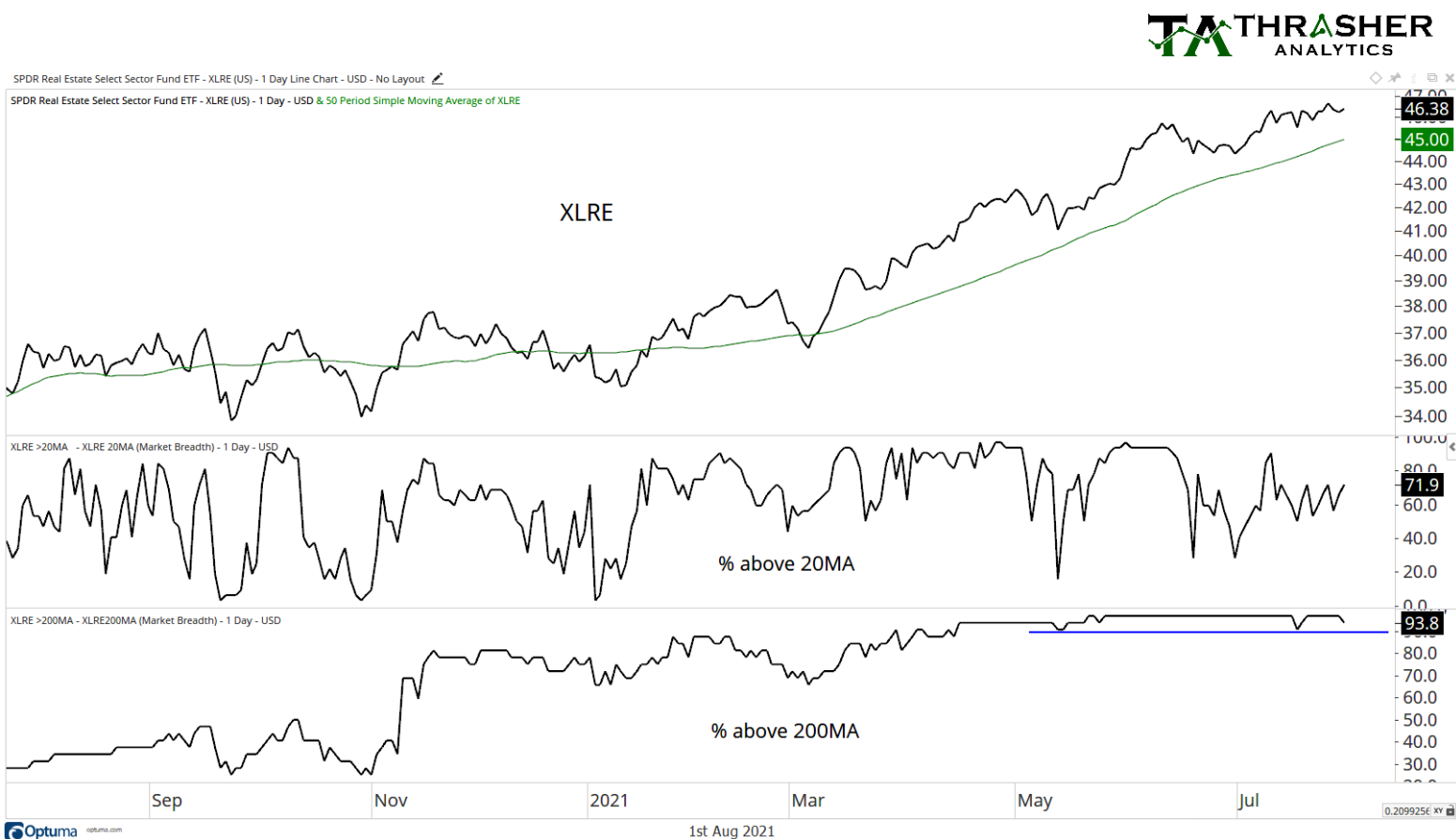


# SECTORS - PERFORMANCE

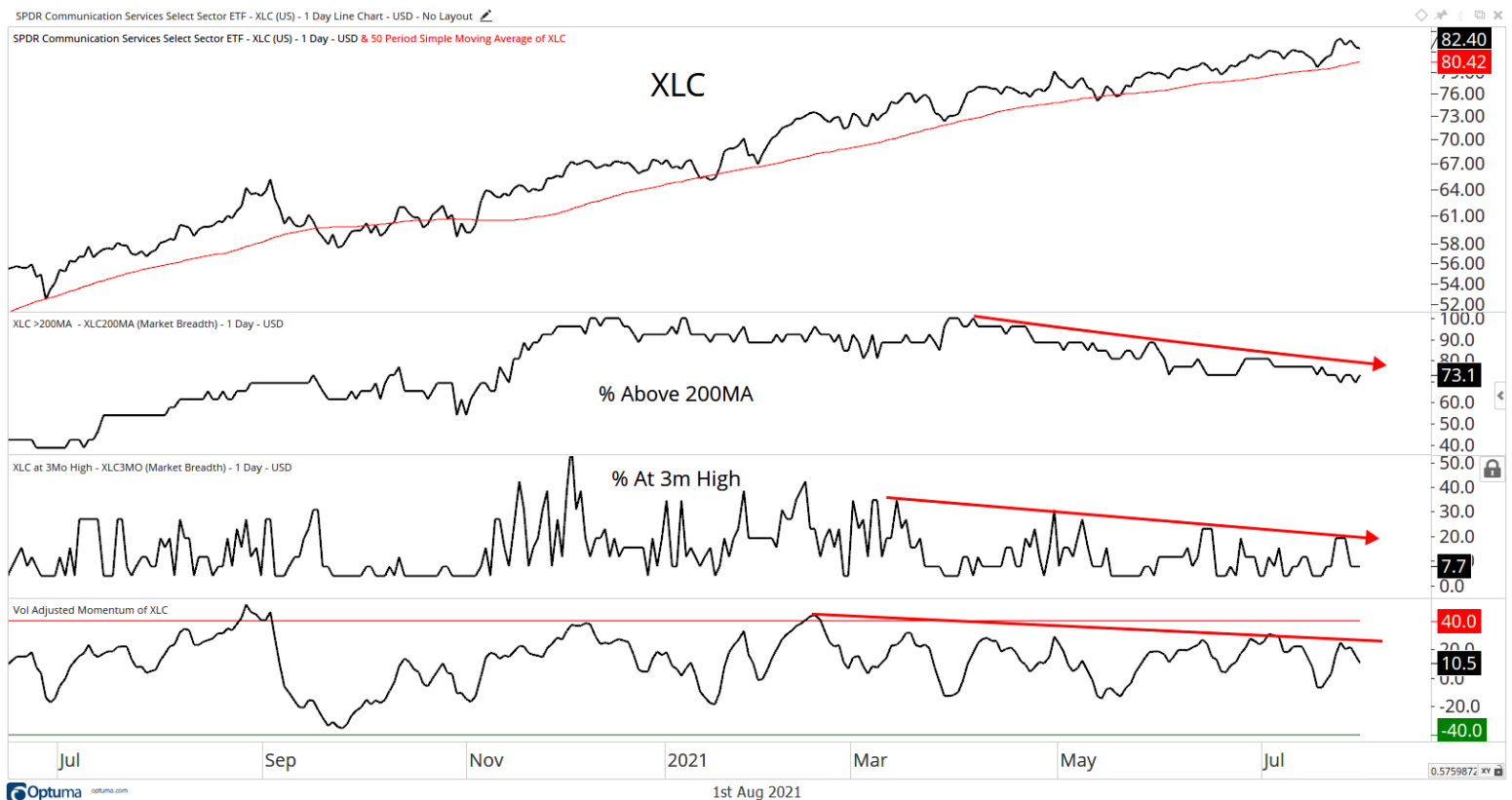


Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Materials Select Sector Fund ETF	True	True	2.8%	2.08%	1.18%	39.34%
SPDR Energy Select Sector Fund ETF	False	True	1.79%	-8.32%	0.00	36.44%
SPDR Financial Select Sector Fund ETF	False	True	0.72%	-0.46%	0.72%	52.04%
SPDR Health Care Select Sector Fund ETF	True	True	0.51%	4.92%	8.92%	24.51%
SPDR Utilities Select Sector Fund ETF	True	True	0.4%	4.33%	-1.12%	8.63%
SPDR Real Estate Select Sector Fund ETF	True	True	0.22%	4.62%	8.44%	27.77%
SPDR Consumer Staples Select Sector Fund ETF	True	True	0.15%	2.20%	2.77%	13.94%
SPDR Industrial Select Sector Fund ETF	True	True	-0.24%	0.94%	1.4%	43.56%
SPDR S&P 500 ETF	True	True	-0.33%	2.44%	5.08%	35.36%
SPDR Technology Select Sector Fund ETF	True	True	-0.72%	3.89%	9.81%	42.38%
SPDR Communication Services Select Sector ETF	True	True	-1.32%	1.77%	5.57%	43.73%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	-1.55%	1.05%	0.84%	32.39%

As I mentioned earlier, Real Estate was one of the best performing sectors in July and has one of the strongest breadth pictures of the 11 sectors. Over 90% of its stocks are still trading above the 200-day moving average and there's a rising level that are above the 20-day MA as well.



On the other hand, we have a falling percentage of stocks in the Communications sector that are above the 200-day MA, this figure went from over 90% to 73% with XLC just a few points off its all-time high. We also have a slight series of lower-highs in new 3-month highs and Volatility Adjusted Momentum is diverging. Not the best setup for XLC.

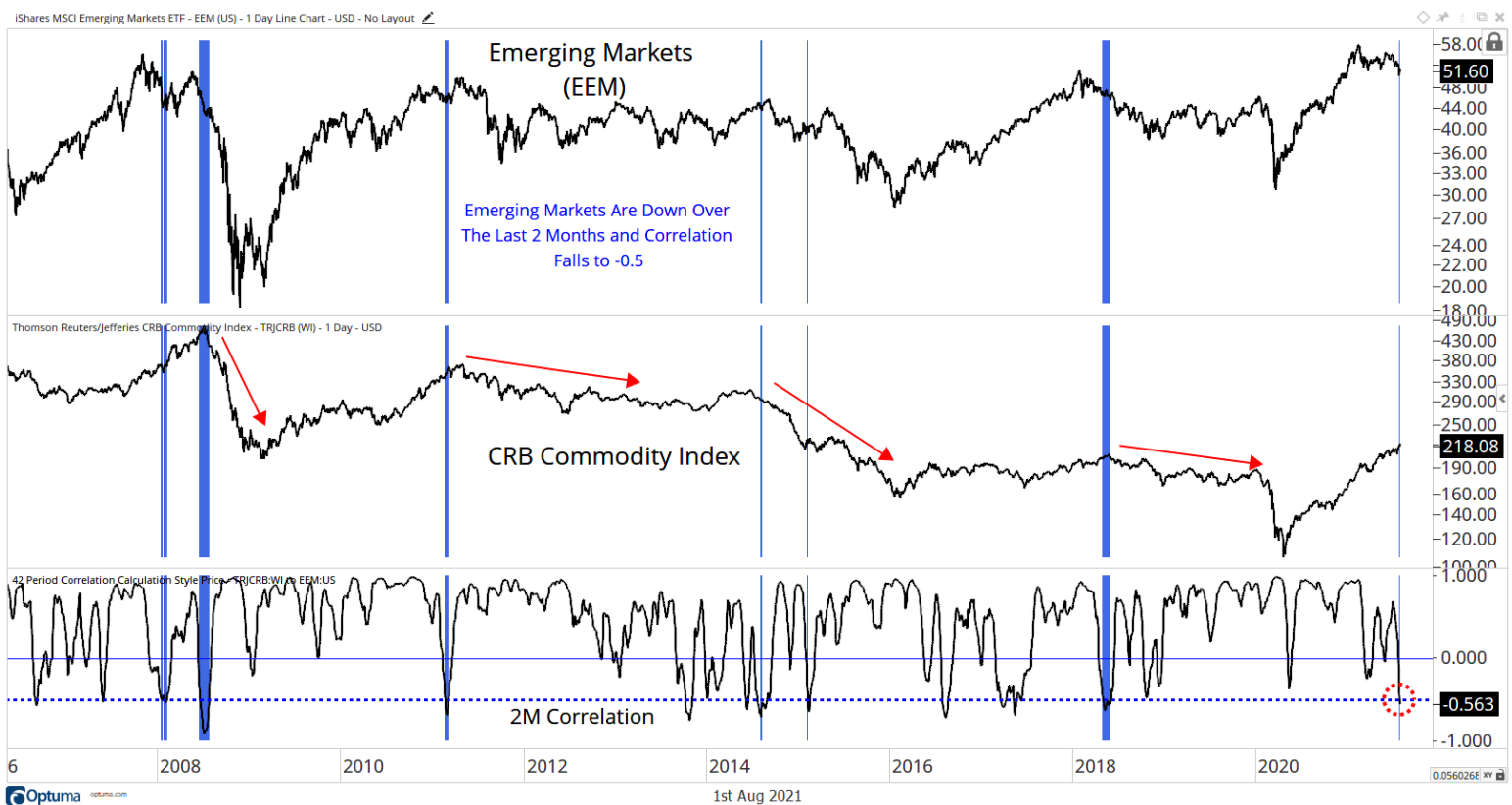


Emerging Markets, driven by big moves in China and Hong Kong markets, have fallen back below the major 2008 high as well as the 2018 prior high. This has gotten a lot of attention, even making the cover of the latest The Economist Magazine and the headline, "Dashed Hopes: Emerging Markets' Growth Problem". These types of headlines often get viewed as contrarian, i.e. if its on the cover then its already well in the price. That break of the '08 high is significant but EEM is still above the 50-week moving average and I'm watching that level as well as the 2018 high, should EEM get a bounce.

However, I think the weakness in emerging markets has bigger implications for commodities, which I'll discuss on the next page.



With the weakness in emerging markets, the correlation between EEM and the CRB Commodity Index has fallen to the lowest level since 2018. Emerging Markets often lead the commodity market and we've seen several major tops in commodities form after emerging markets breakdown first, noted by the light blue lines on the chart below. There's been a lot of discussion about rising inflation and we've seen some huge moves in commodities like lumber, corn, and coffee but it's possible the drop in emerging markets is leading to another major peak in commodities as well.

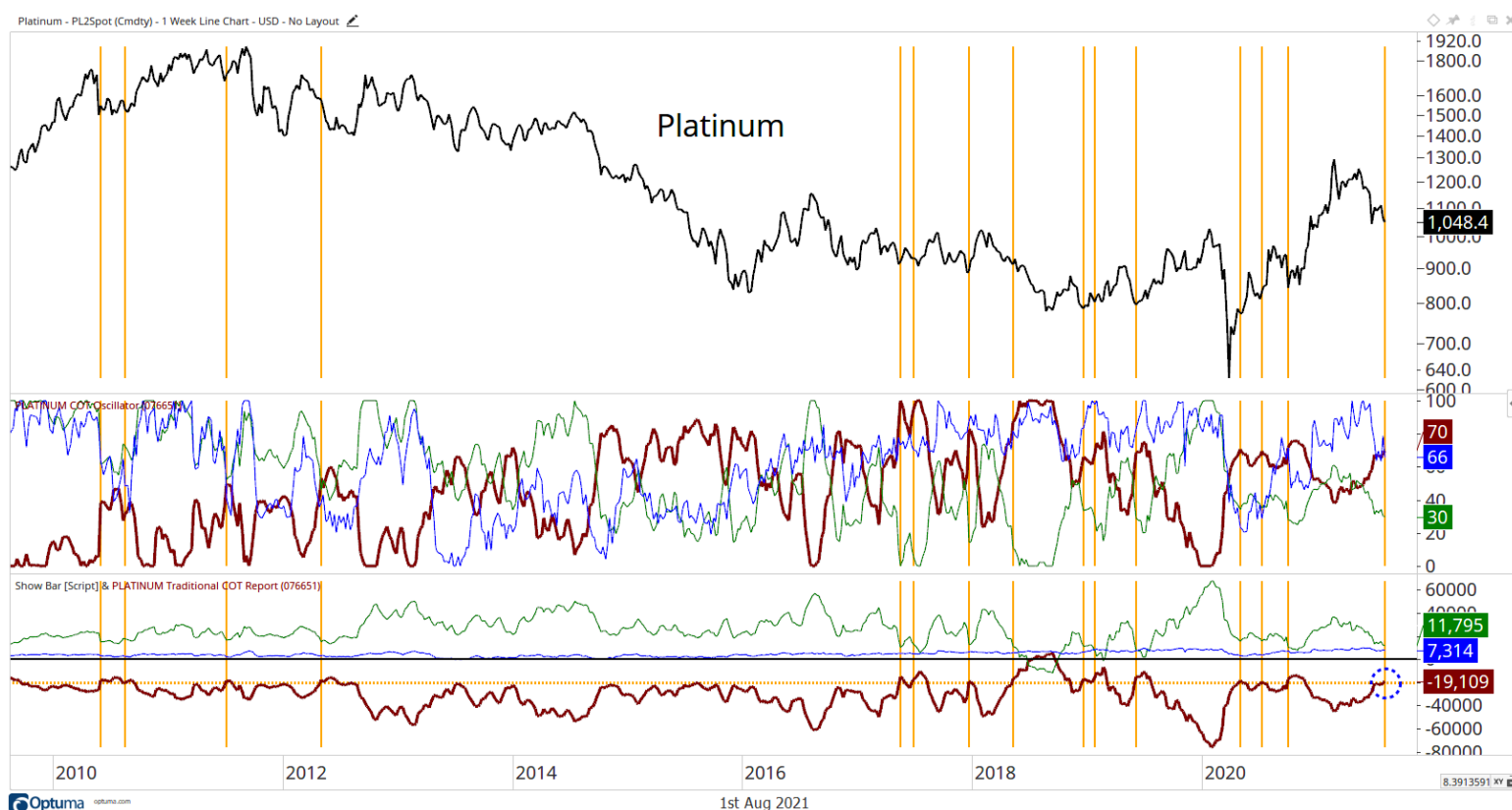


A quick update on gold.... gold futures rose last week to test the 50-day moving average but saw some selling come in as the precious metal was unable to get a breakout and closed Friday back below the nearby 200-day MA. Gold is now in a short-term consolidation between the 50-day MA and the previously discussed (in prior letters) June VWAP. I'd like to see sentiment get above 50%, it closed the week at 39% bullish. I'm still bullish towards gold if it can hold above \$1800. The prior commodity chart would have implications for gold as well should the broad commodity market be put under pressure.



Platinum is my favorite COT chart for this week and I'm not alone it seems as there's been a pick up in buying by Commercial Traders which have been working off their net-short position. Commercial Traders are almost always net-short some amount of Platinum but when they bring that net position to less than 20,000 contracts (marked by the gold vertical lines), we've seen a rally in platinum futures. As of the latest COT report, the net position is -19,109 and Commercial Traders are now at their 70th percentile, the highest since the last big run in the metal last year.

Platinum wouldn't be necessarily immune to a drop in the broad commodity market as discussed two pages prior. During past declines in the CRB Index platinum struggled all but once (2018) so we want to keep that in mind when discussing potential bullish setups in metals.





# DAILY SENTIMENT INDEX



Code	% Bullish ^	5-day MA	History
Corn DSI	17	18	
Soybean DSI	19	22	
VIX DSI	21	23	
Palladium DSI	25	25	
Platinum DSI	30	33	
Lumber DSI	30	23	
Cattle DSI	30	33	
Yen DSI	33	32	
Silver DSI	33	31	
Cocoa DSI	35	40	
Nikkei DSI	37	45	
Gold DSI	39	39	
Australian Dollar DSI	39	39	
Wheat DSI	44	38	
British Pound DSI	44	43	
Copper DSI	50	54	
US Dollar DSI	51	54	
Euro DSI	53	45	

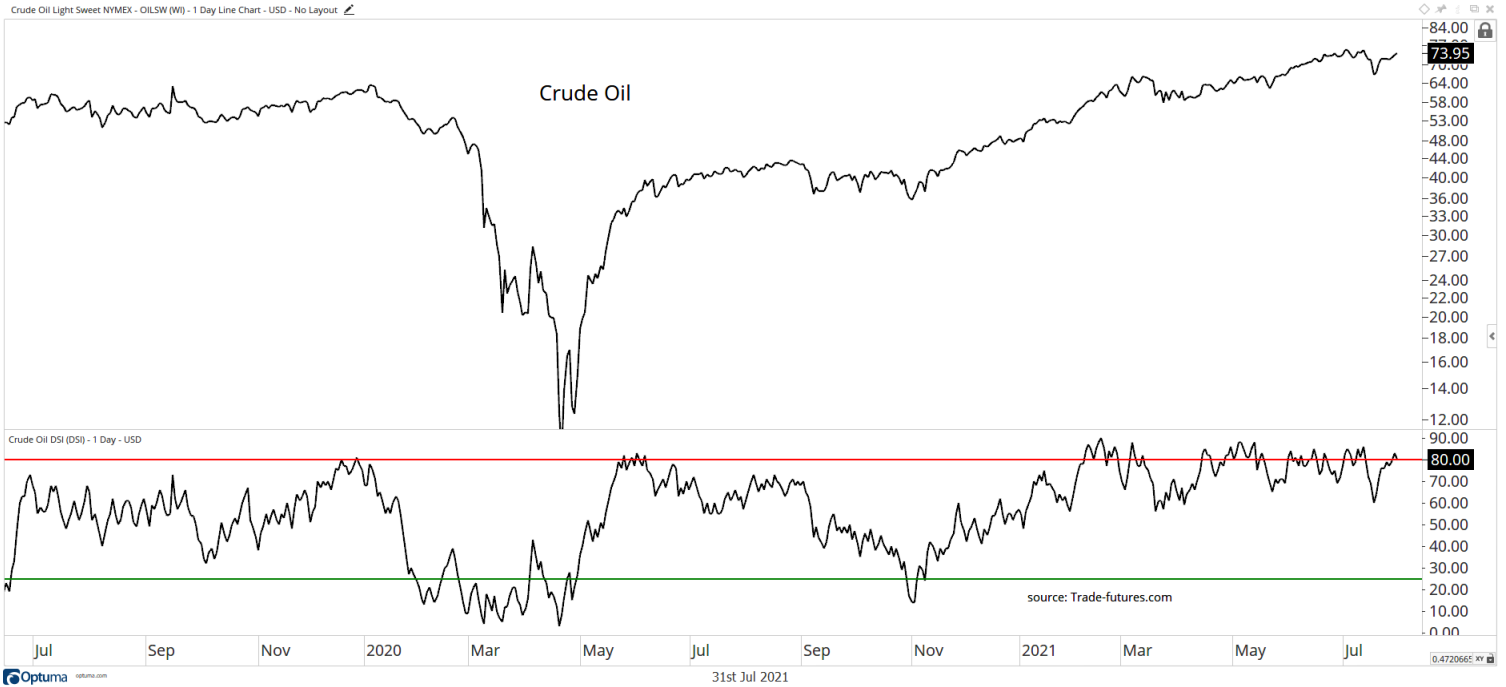
Code	% Bullish ^	5-day MA	History
Lean Hog DSI	61	69	
Sugar DSI	65	74	
Orange Juice DSI	65	75	
EuroDollar DSI	65	65	
Coffee DSI	65	80	
Cotton DSI	66	67	
Bitcoin DSI	67	61	
Swiss Franc DSI	69	64	
Mexican Peso DSI	70	67	
Heating Oil DSI	75	74	
Nasdaq DSI	76	79	
CRB Index DSI	76	75	
SPX DSI	77	79	
5YR DSI	77	77	
Natural Gas DSI	78	81	
Crude Oil DSI	80	80	
10Y DSI	80	75	
Gasoline DSI	86	85	

Source: trade-futures.com

# DAILY SENTIMENT INDEX



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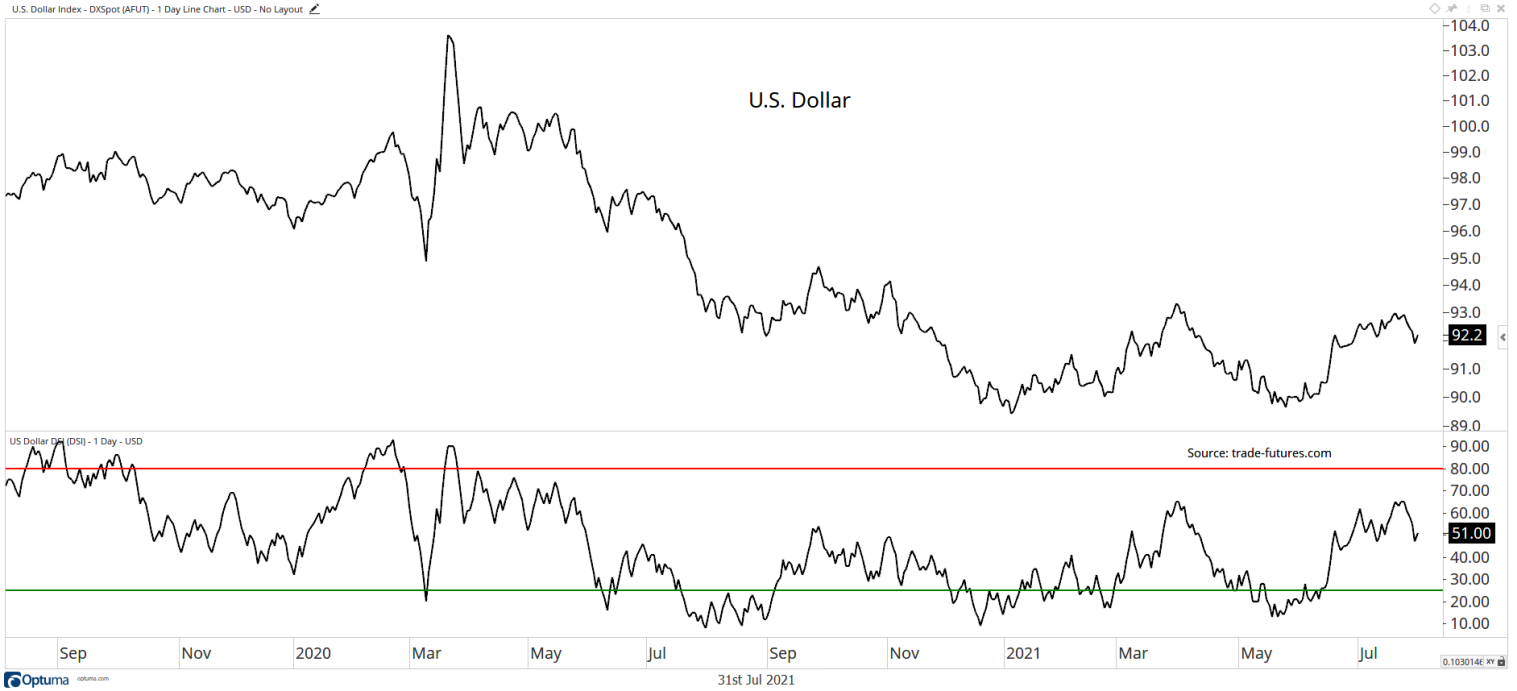
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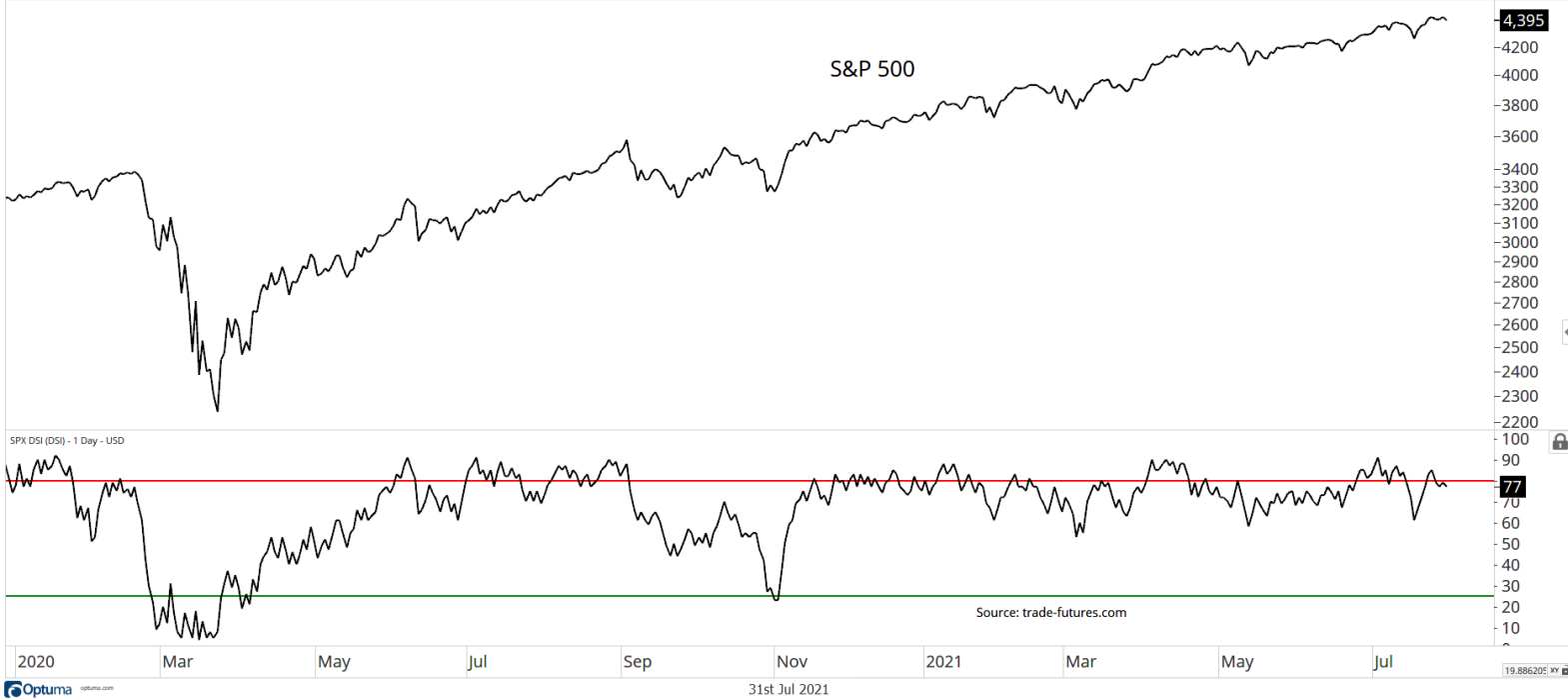




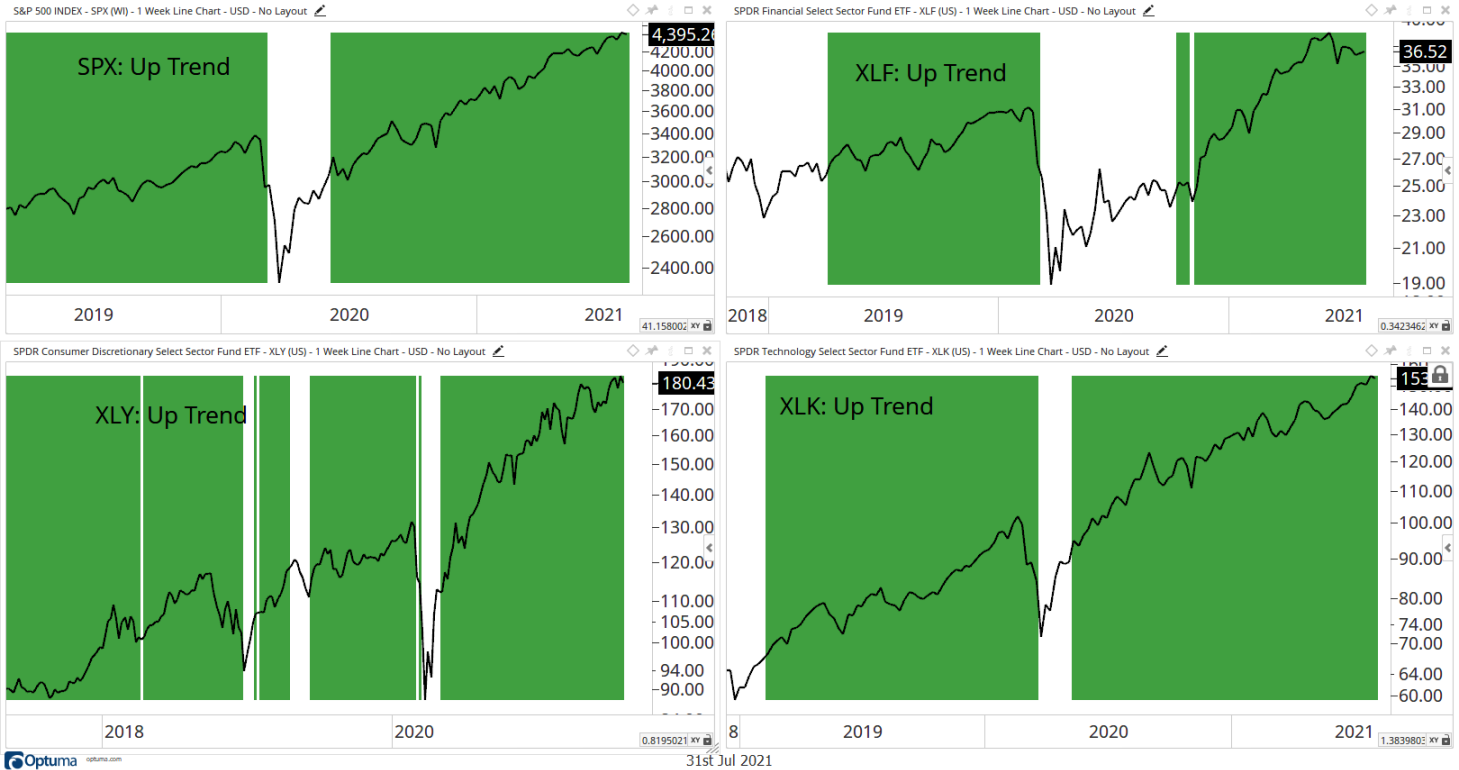
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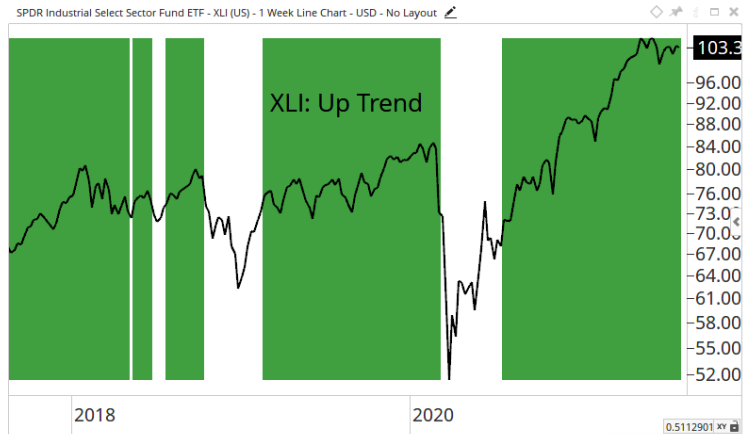
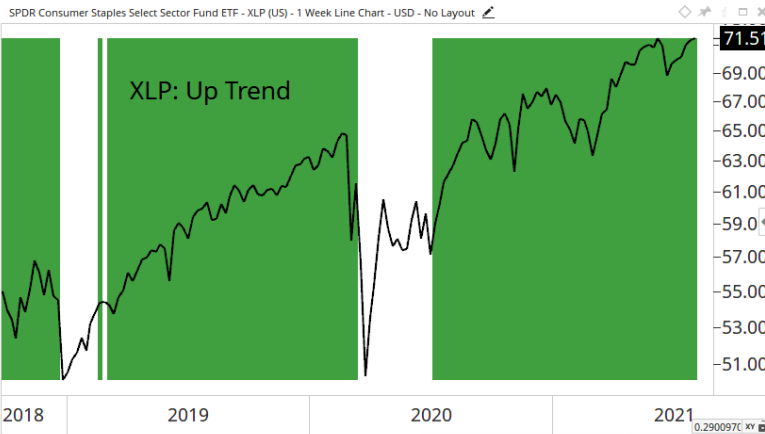
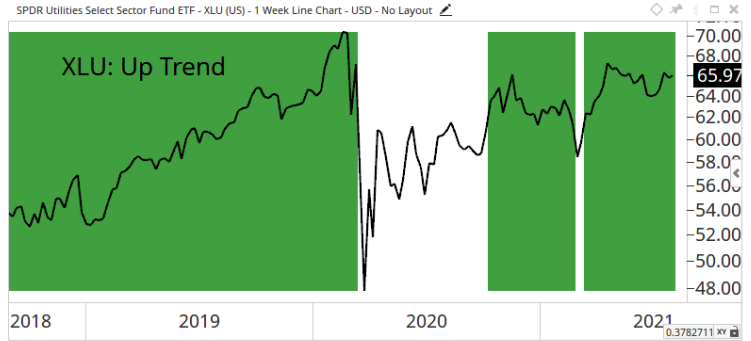
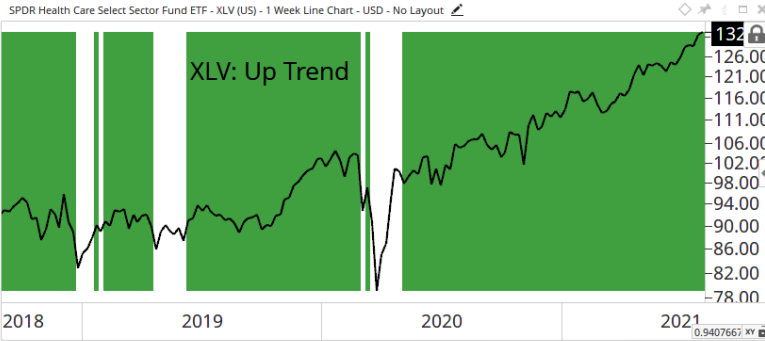
S&P 500 Index - SPX (CBOE) - 1 Day Line Chart - USD - No Layout



# TREND MODELS



# TREND MODELS



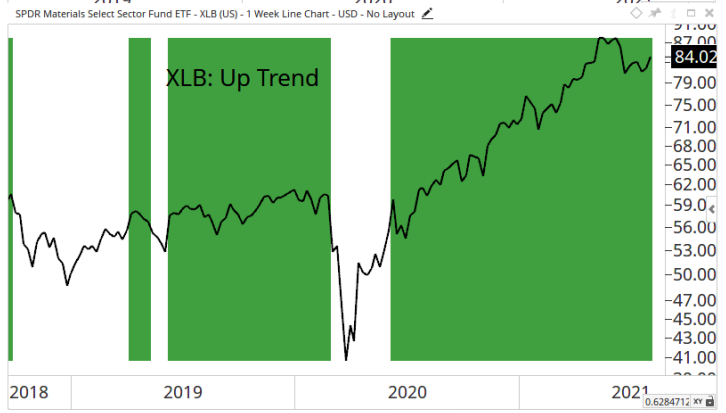
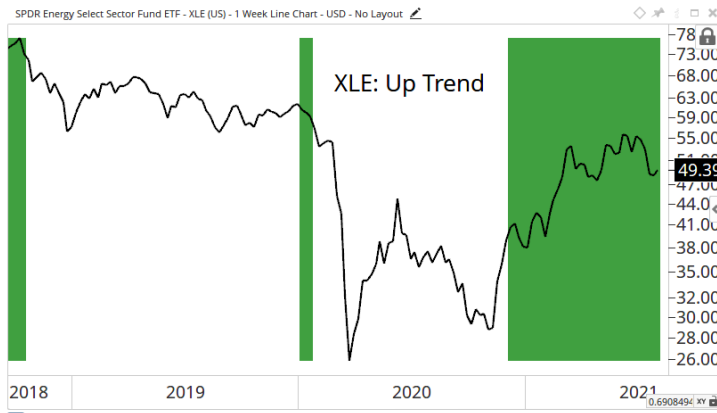
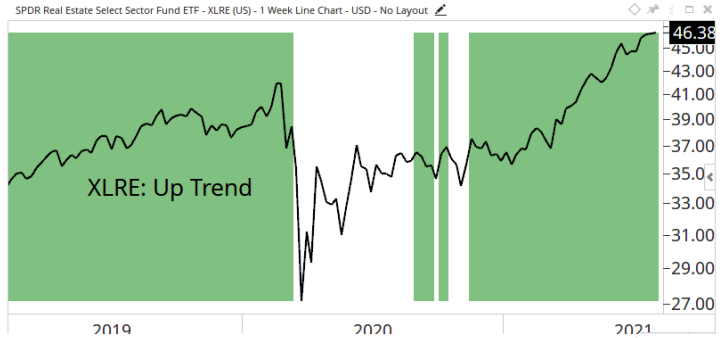
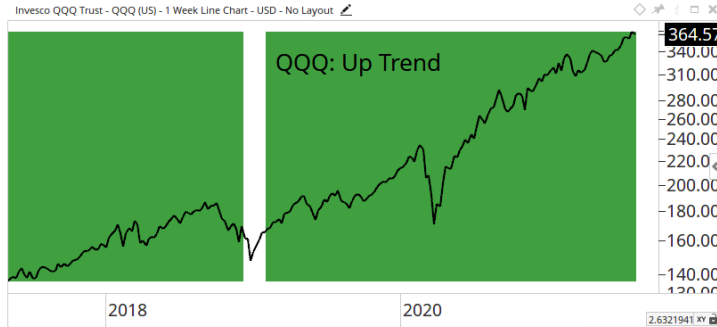
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# TREND MODELS



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