

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2020

Volume 13 Issue 109

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- When SOX has rallied despite the NDX falling a fair amount it has typically led to an NDX bounce the next day.
- Fed QE has become more mild in recent weeks.
- The employment report on Friday could be a big market mover.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I. Friday's employment report could generate a strong reaction, and that could lead to a playable setup for the next few days. But I don't see a compelling edge right here.

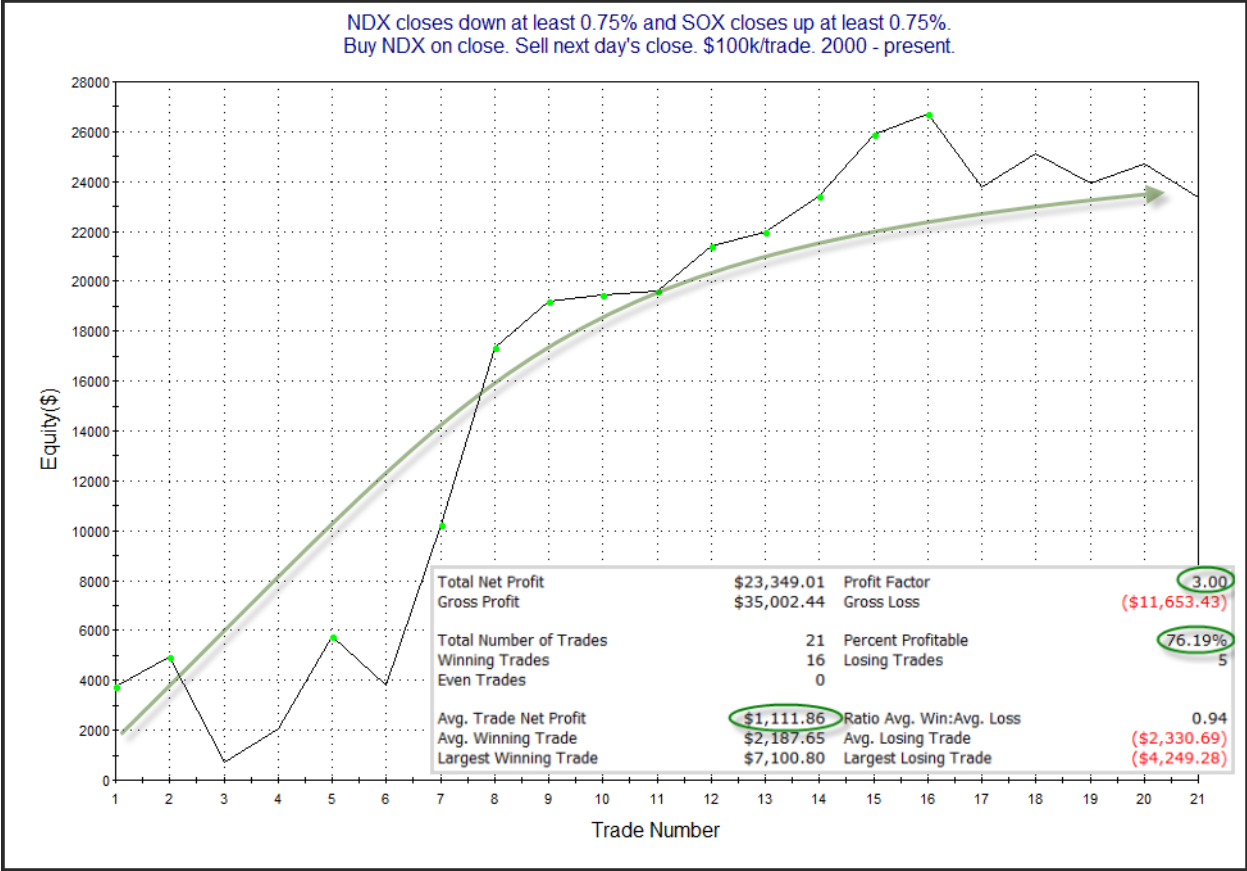
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 5, 2020	NDX down 0.75%. SOX up 0.75%	1 day	Bullish			
June 1, 2020	Finish month at high of month	1-5 days	Bullish			
Active - Long Term						
June 4, 2020	SPX RSI2 crosses 99	1-18 days	Bullish			
May 19, 2020	Breakout on 90% Up Volume	1-40 days	Bullish	7.90%	-1.90%	-4.50%
April 30, 2020	370% Up Issues Days	1-85 days	Bullish	10.40%	-4.30%	-11.00%
April 29, 2020	Sell in May after 5% drop Jan-Apr	6 months	Bearish			
March 23, 2020	QE4	int term	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
June 4, 2020	NASDAQ Adv/Decl 3:2 3+ days	1 day	Bearish			
May 29, 2020	Gap up, run higher, then reverse down	1-4 days	Bullish			

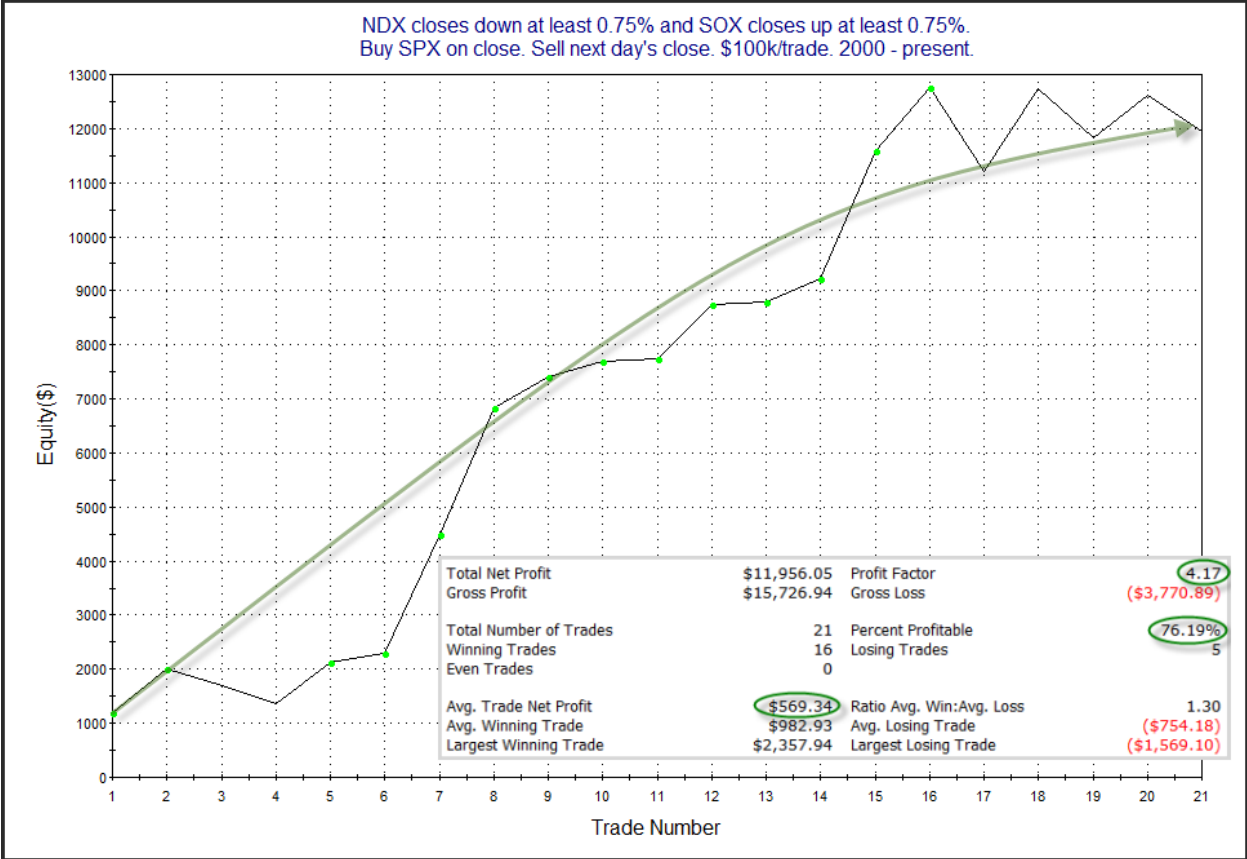
The Evidence

Thursday saw the market pull back some. The SPX declined 0.3%, the NASDAQ lost 0.7%, and the Russell 2000 closed down a mere 0.03 points. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 72%. NYSE volume rose some from Wednesday's level.

Interesting about Thursday's action is that the SOX moved up nicely even though the NDX suffered a sizable decline. Since SOX stocks make up a decent portion of the NDX, this is unusual. In fact, Thursday was the 1st time since 2018 that the study below triggered. I last discussed it in the 7/27/18 letter. I have updated the results tonight.



The numbers are quite impressive, with the NDX closing up about 1.1% on average the next day. The curve has struggled some lately. I decided to also look at SPX performance after this setup.



The curve looks a little better here, though the average move is somewhat less than for NDX. Overall, this study still appears to be worth some consideration, and I have added it to the active list tonight.

I will note that the Fed released the SOMA data for this past week on Thursday after the close. You can see the numbers below.

« As of 05/27/2020

DOMESTIC SECURITIES HOLDINGS AS OF

June 3, 2020 📅

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,496,878,049.6
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	259,150,919.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,826,488,559.1
Agency Commercial Mortgage-Backed Securities***	9,105,679.4
Total SOMA Holdings	5,935,559,953.3
Change From Prior Week	25,434,238.1

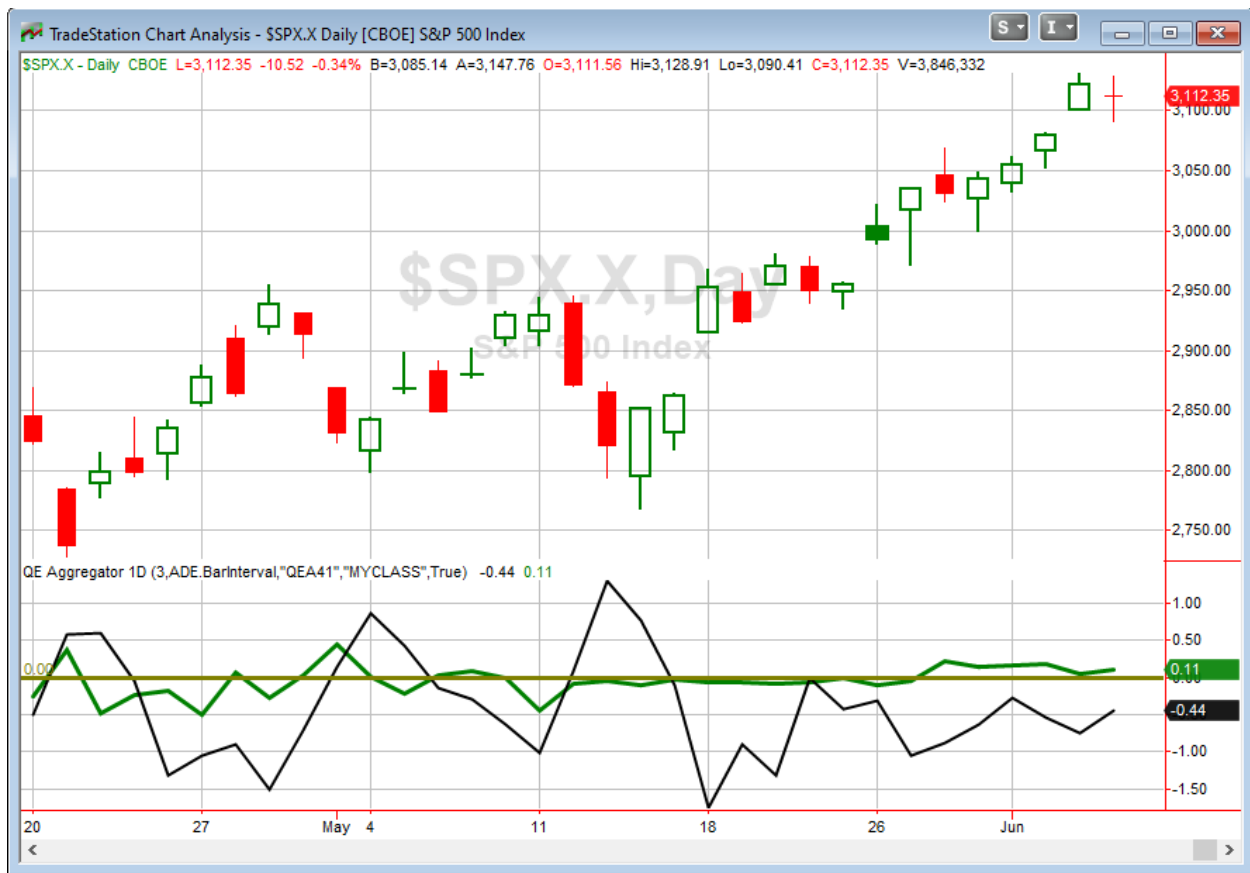
*Does not reflect inflation compensation of 36,736,946.7
**Fannie Mae, Freddie Mac and Federal Home Loan Bank
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 06/04/2020 4:30pm.

The \$25 billion increase this week is up from the negative number we saw last week, but is still dramatically lower than the \$100 billion+ numbers we were seeing in April and a little bit in May. The Fed is continuing to pump, but the pressure has been dialed back a good amount. It will be interesting to see whether the market can still rally with the support reduced.

Of course a big potential mover for Friday will be the employment report. The number will be horrific, but the market already knows that. The actual number is hard to predict, and so is the reaction. But it could certainly lead to a strong reaction and a big move in either direction.

I have updated [the Aggregator chart](#) below.



With tonight's new evidence included, the green Aggregator line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is again below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current list of active studies, expectations are set to turn neutral on Friday. Of course this could change based on new evidence that emerges. Meanwhile, the Differential Pivot will be 3095.76 on Friday. That is 0.5% below Thursday's close. Therefore, it will take a drop of at least 0.5% on Friday to see SPX flip from overbought to oversold vs expectations.

The Aggregator is neutral. Expectations are positive, but the employment report could be the real mover on Friday, and I do not have an edge in trying to anticipate that. So I'll remain patient and wait until a clear and compelling edge emerges. A strong move on Friday could easily generate a favorable short-term setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/1 – neutral

The intermediate-term outlook was last updated in the 6/1 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

None

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