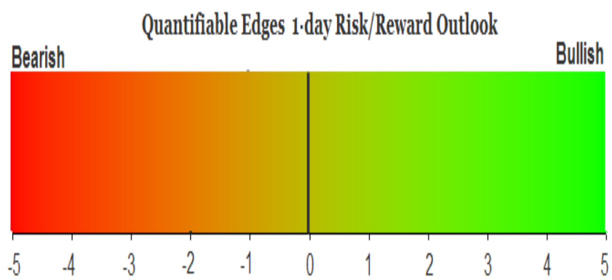
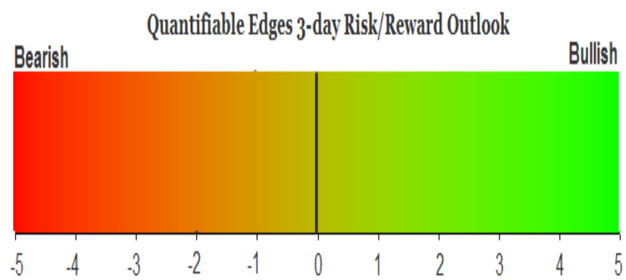
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 25, 2022 Volume 15 Issue 139

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Action over Monday & Tuesday will clue us in about Fed Day odds for Wednesday. I look at this in several ways.
- The SOMA rose this past week. Don't get used to that. It will be heading lower and acting as a headwind to the market.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is flat and there does not appear to be a substantial edge over the next couple of days.

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						
None						
Active - Long Term						
July 11, 2022	NASDAQ Leading	int term	Bullish			
June 13, 2022	Inverse Zweig Breadth Collapse	1-3 months	Bearish			
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

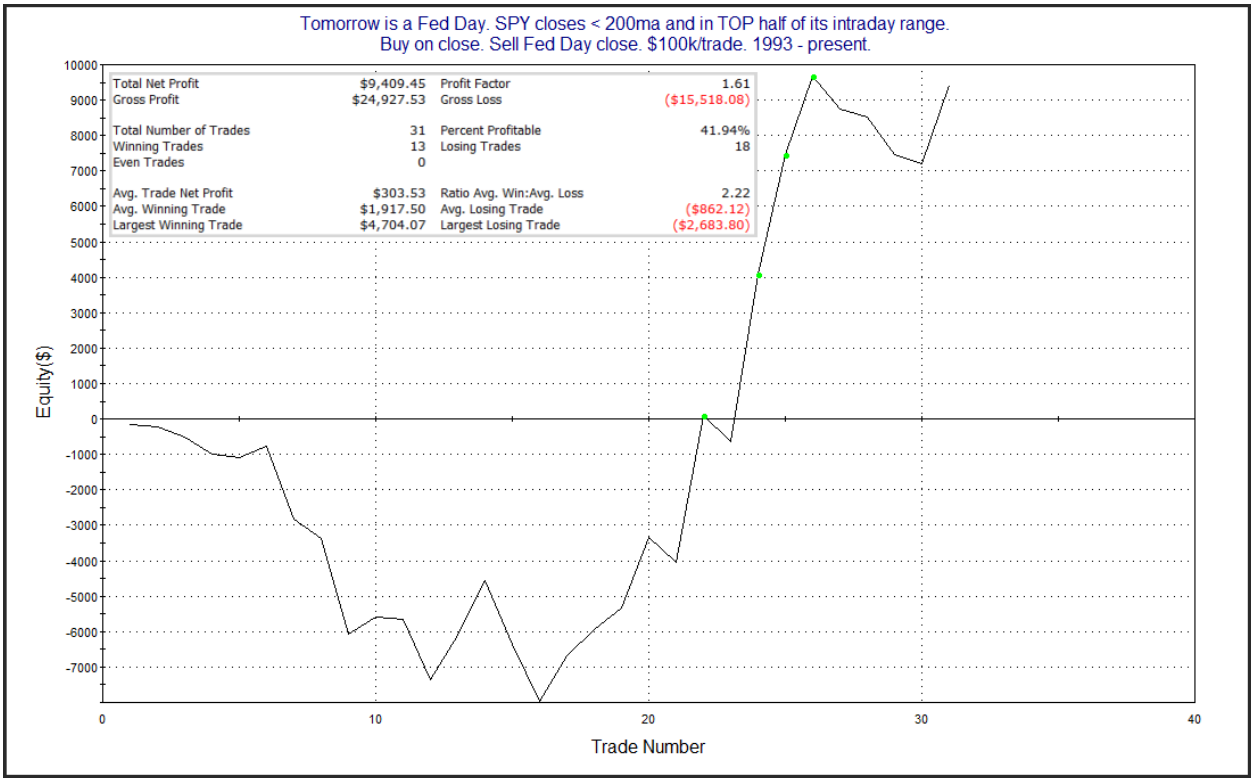
Friday saw the market pull back a bit. SPX declined 0.9%, the NASDAQ tumbled 1.9%, and the Russell 2000 dropped 1.6%. Breadth was negative with the NYSE Up Issues % coming in at 41% and the Up Volume % at 21%. NYSE total volume rose some from Thursday's level.

The pullback was not a big surprise after three strong up days. Wednesday is a Fed Day, and it would be unusual to see the market continue to rally right into the Fed Day. But now we have a pause. And I am not seeing strong hints about Monday and Tuesday just yet. There was one study that triggered in the Quantifinder that looked at consecutive days of higher highs, lows and closes that were followed by a 4th day that had a higher high and higher low, but a lower close. It had bullish implications over the next few days. But in breaking it down this weekend, I found those bullish implications were almost entirely realized when SPX was above its 200ma. So I decided to ignore that study for the time being.

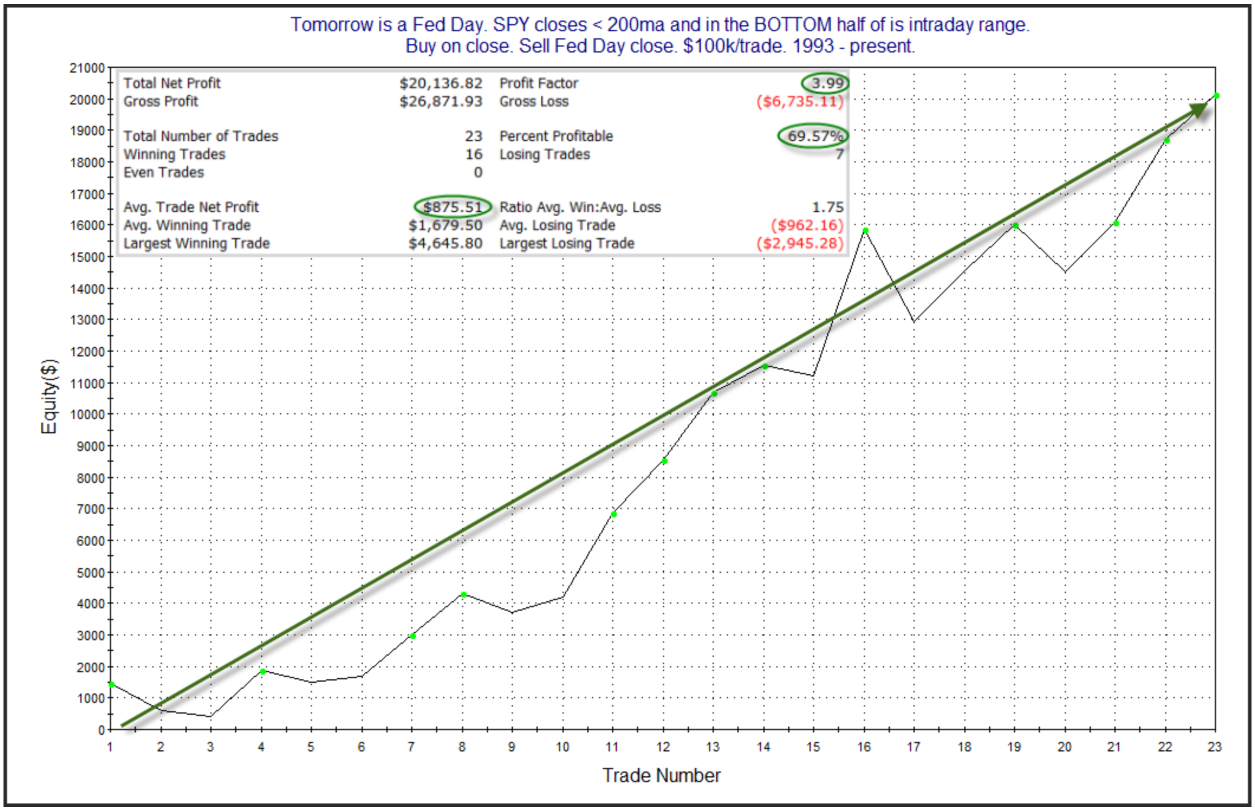
How Monday and Tuesday play out will have a big impact on the potential edge for Wednesday's Fed Day. So let's talk about that a little bit. If we get a move higher on Monday – Tuesday and manage to close at a new 20-day high, that would generally take the wind out of the Fed Day edge. This is something I have discussed several times over the years. Here is an old blog post on this topic:

https://quantifiableedges.com/why-todays-fed-day-setup-may-not-be-as-bullish-as-most/

Where SPY closes within its intraday range on Tuesday could also key us in on how Wednesday is likely to play out. In the 6/14/22 letter I showed that when SPY has been below its 200ma, that closing low in its range the day before a Fed Day appeared advantageous. This is similar to tendencies above the 200ma, which I have shown many times in the past. First let's look at instances where SPY closed strongly the day before a Fed Day.



Results here appear quite inconsistent. Next let's view times SPY posted a weak close the day before a Fed Day.



Weak closes appear promising. A weak close on Tuesday could suggest bullish odds for Wednesday. This would seem worth keeping in mind on Tuesday afternoon.

Also worth keeping in mind is that the Fed Day edge has basically played out before the announcement even takes place. Returns after the announcement have been somewhat random. This is something I discussed in the 6/15/22 letter and blog. A link to the blog is below:

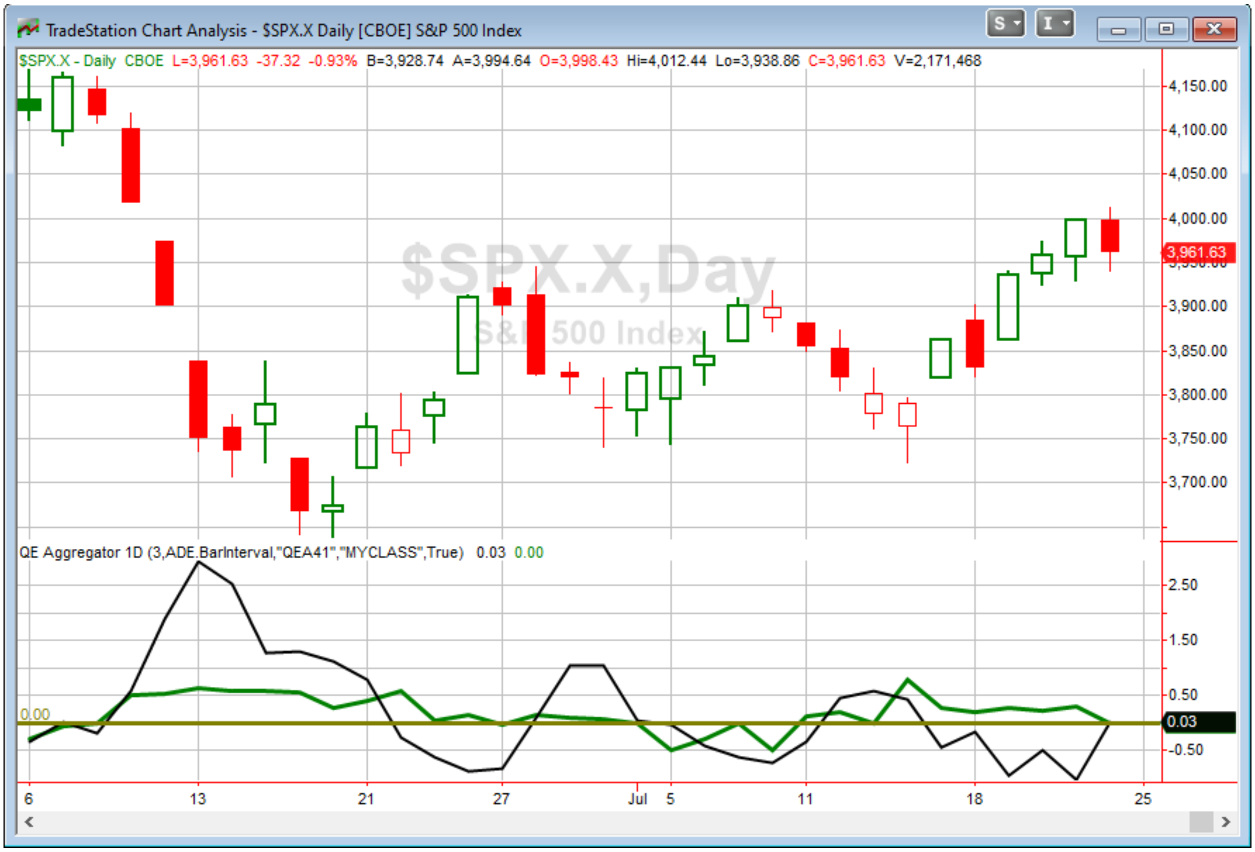
https://quantifiableedges.com/fed-days-pre-vs-post-announcement-action-during-downtrends/

Here is a look at the Quantifiable Edges Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
7/1/2022	58.69	1.317	-0.003
7/5/2022	58.30	1.508	0.142
7/6/2022	62.07	1.657	0.180
7/7/2022	57.87	1.291	0.038
7/8/2022	60.79	1.757	0.219
7/11/2022	53.67	0.945	-0.162
7/12/2022	51.97	1.565	0.191
7/13/2022	52.35	1.166	0.014
7/14/2022	56.46	1.093	-0.031
7/15/2022	54.34	1.302	0.092
7/18/2022	55.92	0.968	-0.127
7/19/2022	54.08	1.809	0.248
7/20/2022	53.35	1.183	0.042
7/21/2022	53.85	1.034	-0.019
7/22/2022	56.38	1.288	0.111
7/25/2022	49.49	0.868	-0.151
7/26/2022	50.14	1.316	0.144
7/27/2022	58.09	3.504	0.378
7/28/2022	53.83	1.192	0.026
7/29/2022	54.38	1.202	0.092
Baseline	*54.52*	*1.150*	*0.048*

Monday and Tuesday look weak. Wednesday looks strong, partly thanks to it being a Fed Day. And Thursday and Friday also look fairly strong. So a further dip on Monday-Tuesday could very well be buyable. But it will require some good fortune in order to get that dip over the next couple of days.

I have updated the Aggregator chart below.



With the last remaining short-term studies expiring and the intermediate-term outlook neutral, the green Aggregator line closed right at zero. Flat readings mean expectations are neutral over the next few days. Meanwhile the black Differential Line closed slightly above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are flat and SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

Expectations over the next few days will be largely dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be 3987.61 on Monday. That is 0.7% above Friday's close. Therefore, SPX will need to close up at least 0.7% on Monday to flip from oversold to overbought vs recent expectations.

So the Aggregator is still neutral. Evidence is lacking and the SPX is neither strongly overbought nor oversold. In other words, there just is not much suggesting a substantial edge for Monday. Of course we have some things to be aware of over the next couple of days that might suggest an edge for Wednesday's Fed Day. No reason to get involved in a new trade just yet, though.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/25 – neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in Lesson 8. Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in Lesson 11, Course Downloads. (You must go through the course first in order to access the Downloads.) *This week all 3 combo systems remained "flat".*

Despite Friday's selling, the market indices all put in a solid week higher. The SPX gained 2.6%, the NASDAQ rose 3.3%, and the Russell 2000 rallied 3.6% on the week. Bonds also rallied. The US Aggregate Bond ETF (AGG) rose 1.1%, while TLT, the 20-year Treasury Bond ETF jumped 2.1%. Both stocks and bonds still appear to be in long-term downtrends, but a series of higher highs and higher lows over the last month or so show an intermediate-term uptrend. There were no new studies that emerged over the last few days that suggested intermediate-term implications.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of

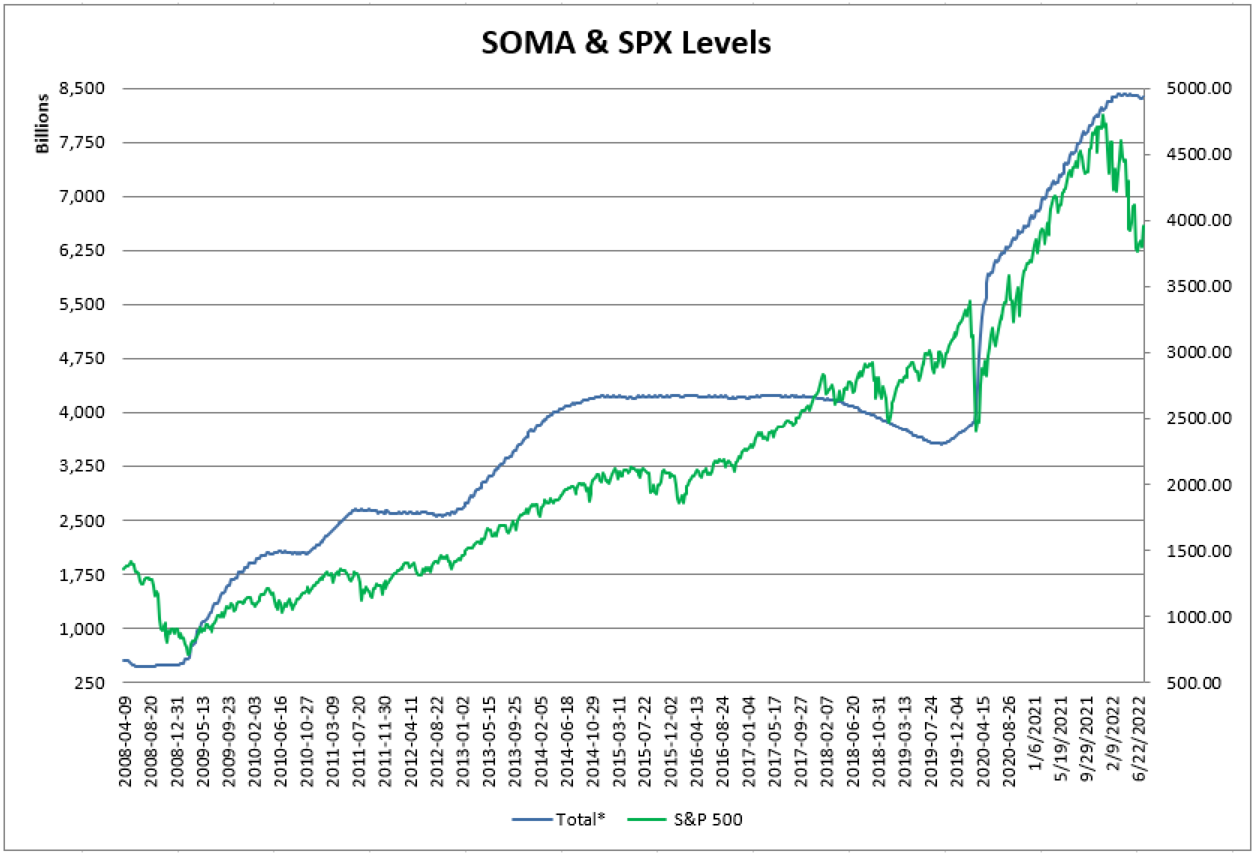
Previous July 20, 2022

Posted July 21, 2022 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,909,888,955.2
US Treasury Floating Rate Notes (FRNs)	30,569,681.8
US Treasury Inflation-Protected Securities (TIPS)*	374,719,153.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,717,516,853.0
Agency Commercial Mortgage-Backed Securities***	8,744,609.6
Total SOMA Holdings	8,369,830,252.7
Change From Prior Week	5,802,491.2

This week the SOMA saw a rise of $5.8 billion. Below is an updated SOMA/SPX chart looking back to 2008.



The largest expansion in the history of the SOMA is over. The blue line has begun to head lower. We will see that happen in a more noticeable way in the coming weeks. A sizable liquidity drain is upon us. The Fed is no longer a friend to the market, and they won't be for as long as they are fighting inflation and the economy appears stable. More rates hikes and more QT are on the way. So far, the market has *not* done well without the Fed on its side.

This past week did not do much to change the intermediate-term outlook. The NASDAQ continues to lead the SPX, so that is a positive. And while the long-term trend still appears to be down, we have seen a move off the bottom over the last several weeks. Breadth has still not strengthened in a meaningful way that could signal the market is flush with liquidity. And the seeming lack of liquidity is not a surprise since the Fed is in the midst of QT (as well as raising interest rates.) Long-term seasonality also remains unfavorable. I will again maintain a neutral trading bias. I am willing to take short-term trades in either direction, but I will not be aggressive on either the long or short side.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult 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