

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 22, 2023

Volume 16 Issue 97

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Short-term seasonality should be a bit better through early June.
- SPX made a new 50-day high on Thursday, but the lack of participation is somewhat concerning.
- The SOMA saw a \$30 billion decline last week. QT remains strong, which is a bearish force.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Mild evidence suggesting an upside edge in a short-term overbought market. I'm not enthused.

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						
May 19, 2023	SPX breakout on lower volume	1-5 days	Bullish			
Active - Long Term						
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
May 1, 2023	NASDAQ Leading	int term	Bullish			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Deemer Breakaway Momentum	1-6 months	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
December 1, 2022	SPX goes from < 15% above 50 to > 90%	1-6 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

As often happens on opex Friday, we saw the market gap up and then sell off intraday. The net result was a mild down day for the major indices. The SPX lost 0.1%, the NASDAQ fell 0.2%, and the Russell 2000 declined 0.6%. Breadth was negative with the NYSE Up Issues % coming in at 39% and the Up Volume % at 37%. NYSE total volume rose as it typically does on opex Friday.

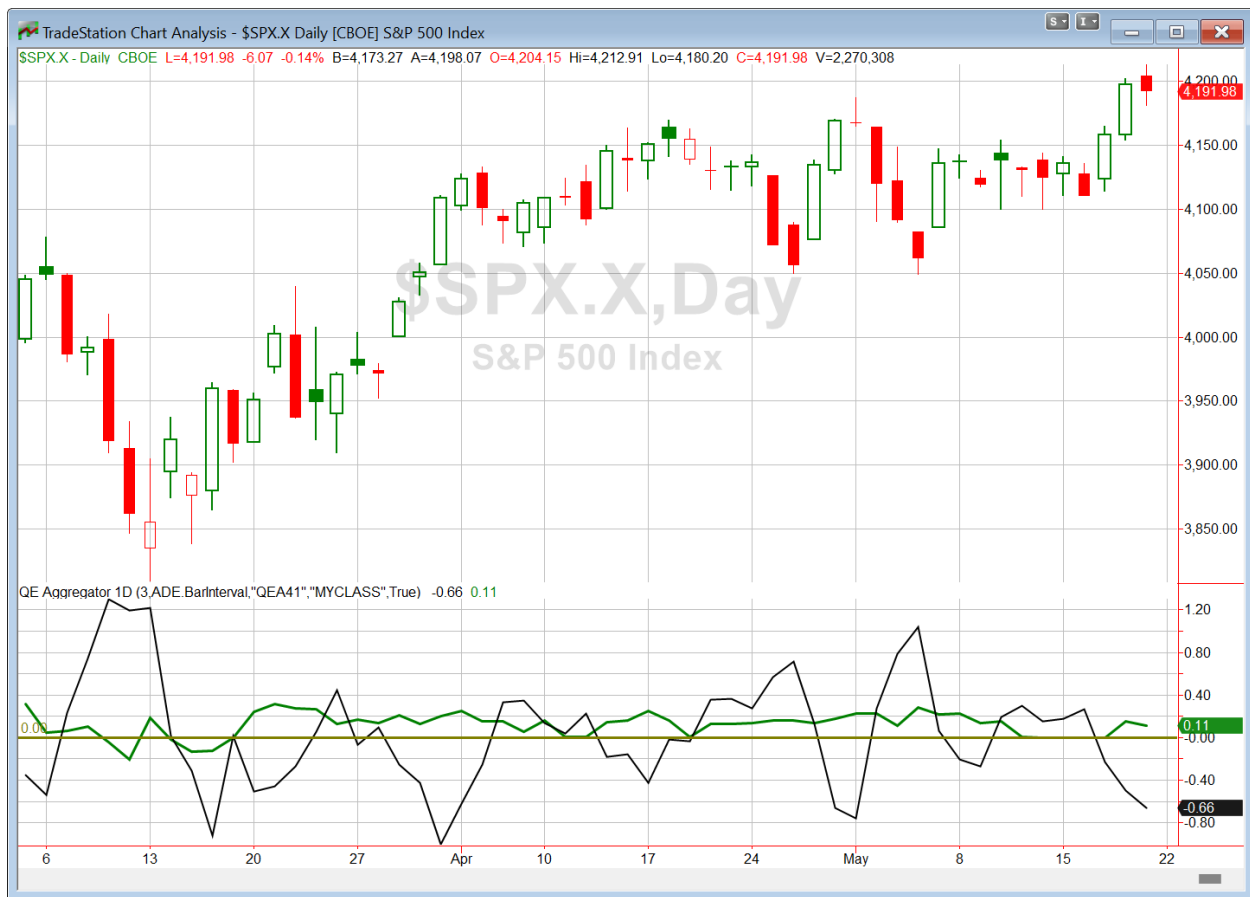
Price action did not inspire anything in the way of short-term evidence. I do have one interesting study to share in the intermediate-term section based on Thursday's breakout. But I won't be adding anything to the short-term active list tonight.

I did want to repost the Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
5/1/2023	58.89	1.501	0.130
5/2/2023	51.84	1.031	0.008
5/3/2023	54.54	1.220	0.058
5/4/2023	55.59	1.016	0.005
5/5/2023	56.13	1.130	0.041
5/8/2023	52.89	0.936	-0.028
5/9/2023	52.22	1.104	0.031
5/10/2023	52.89	0.972	-0.011
5/11/2023	55.23	1.006	-0.001
5/12/2023	56.07	1.217	0.063
5/15/2023	55.82	0.974	-0.015
5/16/2023	54.33	1.318	0.062
5/17/2023	53.62	0.972	-0.015
5/18/2023	52.61	0.882	-0.047
5/19/2023	51.02	0.871	-0.049
5/22/2023	54.06	1.564	0.091
5/23/2023	54.33	1.605	0.105
5/24/2023	56.83	1.854	0.165
5/25/2023	58.94	1.946	0.187
5/26/2023	58.21	1.755	0.111
5/30/2023	51.07	1.251	0.065
5/31/2023	51.17	1.363	0.099
Baseline	53.81	1.132	0.045

Notable here is that we are now through the mild seasonal weakness and it appears there may be a bullish breeze between here and the end of the month. As I showed last week, June will likely show some seasonal weakness between the 6th and the 16th of the month.

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



Without any new short-term studies making the cut, the green Aggregator Line remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held below zero. The negative Differential Line reading means that 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 fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4158.44 on Monday. That is 0.8% below Friday's close. Therefore, SPX will need to close down at least 0.8% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. The low-volume breakout study from Thursday night says we have a good chance of moving higher over the next few days. But SPX remains strongly overbought. If the market continues to pull back over the next day or two, then I may be looking to take on some long exposure. But I am not going to get ahead of myself here. I'll wait at least until I see how Monday plays out before considering a new index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/22 – slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

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 “long”.*

The major indices posted solid up weeks, and new intermediate-term highs were reached by the SPX and NASDAQ. The SPX rose 1.65%, the NASDAQ gained 3.1%, and the Russell 2000 climbed 1.9%. Bonds stunk. The US Aggregate Bond ETF (AGG) posted a loss of 1.3%. TLT, the 20-year Treasury Bond ETF, closed the week down 3.0%. Long-term uptrends for the SPX and NASDAQ remain in place.

In Thursday night’s letter I discussed the new high in NDX...

I will also note that NDX closed at its 1st 1-year closing high since December 2021. I looked back at other times NDX closed at a 1-year high for the 1st time in over a year. There have not been many instances.

NDX closes at a 1-year high for the 1st time in over a year. Forward results shown. 1986 - present.						
Ticker	Date/Time	NDX Close	21-Day %Chg	63-Day %Chg	126-Day %Chg	252-Day %Chg
\$NDX	2/7/1989	192.05	-3.49	5.53	14.41	6.78
\$NDX	6/3/2003	1198.57	3.94	13.56	20.73	22.16
\$NDX	9/21/2009	1731.58	1.42	4.38	13.38	14.87
\$NDX	5/18/2023	13834.62	na	na	na	na

The numbers look great, except for the fact that there have only been 3 past instances. I certainly don’t consider this a signal. But I thought it was interesting enough to share.

This weekend in looking over my charts and data I notice that while SPX broke out to a 50-day high on Thursday, there was still less than 50% of the SPX constituents that were above their

50ma. This seemed like very poor participation. So I looked back at other times SPX made a 50-day high while less than half its constituents were below their 50mas. Results below.

SPX hits a 50-day high while the % of SPX constituents above their 50ma < 50%. Forward returns shown. 1957 - present.							
Ticker	Date/Time	SPX Close	1-Mth %Chg	3-Mth %Chg	6-Mth %Chg	9-Mth %Chg	12-Mth %Chg
\$\$SPX	7/3/1957	48.46	-1.61	-11.06	-15.66	-14.16	-6.48
\$\$SPX	4/18/1960	56.59	-2	-1.57	-3.06	5.39	16.98
\$\$SPX	12/17/1963	74.74	2.44	6.21	8.12	11.37	11.79
\$\$SPX	5/24/1972	110.31	-1.85	1.77	5.97	0.53	-2.54
\$\$SPX	8/8/1972	110.69	-0.36	2.97	3.6	-2.28	-5.35
\$\$SPX	8/11/1981	133.85	-10.24	-7.89	-15.07	-10.78	-23.17
\$\$SPX	6/24/1998	1132.88	0.7	-5.9	6.24	13.87	16.14
\$\$SPX	12/21/1999	1433.43	0.55	4.69	3.19	1.25	-8.92
\$\$SPX	6/24/2021	4266.49	3.65	4.28	10.08	5.95	-8.31
\$\$SPX	5/18/2023	4198.05					
		Avg	-0.97	-0.72	0.38	1.24	-1.10
		% Wins	44.4%	55.6%	66.7%	66.7%	33.3%

Only 9 instances to go on. But results are not encouraging looking forward. Flat results over the next 1-12 months. Weak breadth is often a sign of trouble. This is somewhat concerning. While not outright bearish I did decide to add it to the intermediate-term active list as “neutral”, so I could keep it in mind over the next few months.

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

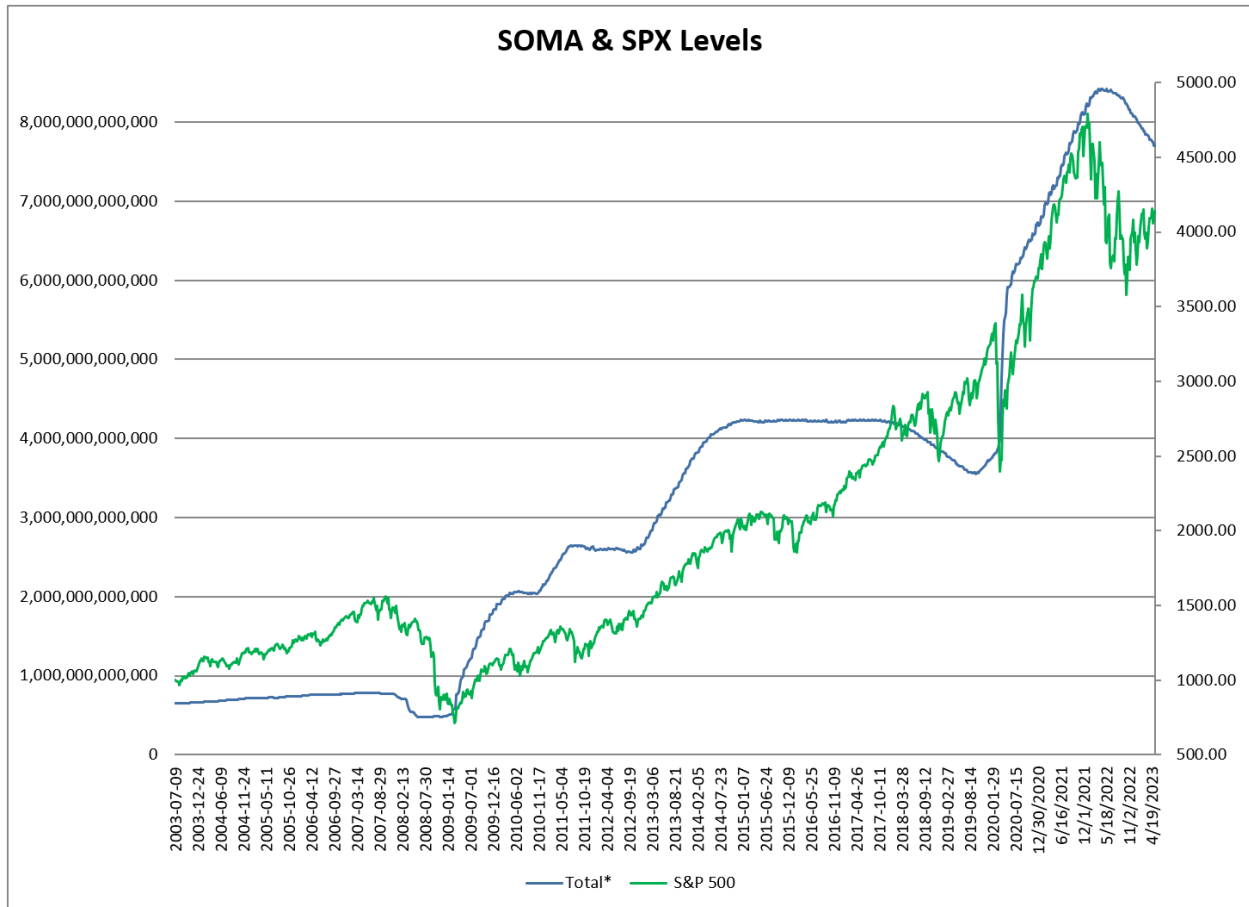
Domestic Security Holdings as of

◀ Previous **May 17, 2023** 📅
 Posted May 18, 2023 at 4:30 PM

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

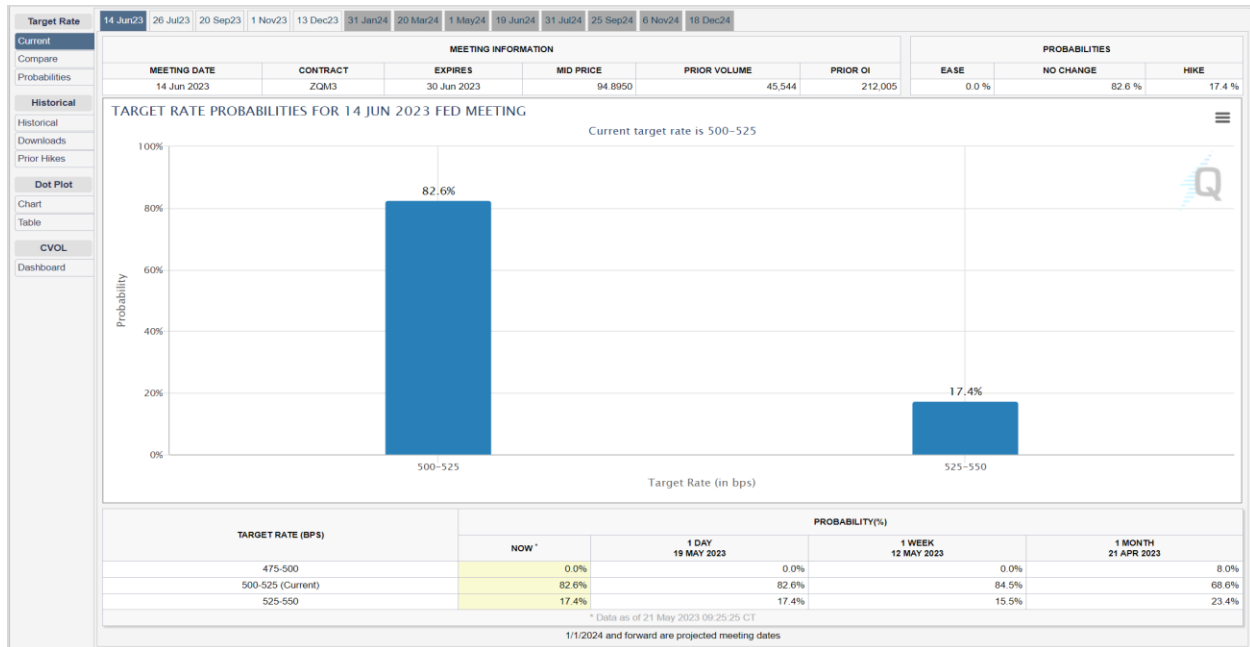
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	281,041,361.0
US Treasury Notes and Bonds (Notes/Bonds)	4,422,555,952.5
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	365,436,327.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,566,021,392.1
Agency Commercial Mortgage-Backed Securities***	8,406,394.1
Total SOMA Holdings	7,666,235,181.3
Change From Prior Week	-30,239,546.2

This past week saw a decline of over \$30 billion. That is a sizable number, but in line with what would be expected mid-month during the current QT period. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is now in the midst of what could be the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has given no indication that it is planning to dial back the Quantitative Tightening anytime soon.

But as I mentioned last week, the Fed may be done hiking rates, leaving policy as potentially “less hawkish” than its been over the last year. The CME Fedwatch tool is currently showing an 82% chance of “no change” in the Fed rate at the June meetings. This is almost unchanged from 85% last week. This can be seen below.



The Fed says they will remain “data dependent”, so you can expect the market to overreact to data. There will be several Fed presidents speaking Monday through Thursday of this week. And then on Friday, Personal Consumption Expenditures (PCE) numbers will be released. The Core PCE is closely watched by the Fed, so that could be a market mover. Between comments and data, there is potential for some volatility this upcoming week. There is also the debt ceiling ridiculousness, which could be another source of volatility.

We saw somewhat mixed evidence this past week. NDX and SPX broke out to new highs, and that is generally a good thing. But the lack of participation among SPX constituents is somewhat concerning. The overall long-term trend signals remain mostly positive. Golden crosses are in effect for the NASDAQ and SPX, and both are firmly above their 200ma. The NASDAQ also continues to lead the SPX with our NASDAQ/SPX lead/lag indicator, and that has historically been bullish. Two bullish breadth thrusts from January are still in effect. Still, plenty of issues remain. While interest rate hikes might be over, Fed policy is still hawkish thanks to QT. The market may be especially reactive to news this week between Fed and debt ceiling issues. We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. Additionally, a recession could be coming and the banking system does not appear as stable as Powell would have us believe. Also, valuations remain high vs historical norms. Lots of negatives to worry about. None of it has mattered much recently, but it could soon. Over the years I have learned not to be stubborn when the market is hitting new highs, so I will increase my market bias to “slightly bullish” for now. But I will be quick to dial it back to neutral as soon as trouble arrives. This means I will be a bit more aggressive with long trades than short trades for the time being.

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

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