

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2023

Volume 16 Issue 106

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	4

Tonight's Research Points

- SPX closing above its 50-day Bollinger Band suggests momentum is strong enough that further intermediate-term gains appear likely.
- The QE Seasonality Calendar for SPX appears mixed until June 20th, when it will turn more bullish.
- The SOMA saw a big drop again this past week. QT remains a headwind.
- Breadth has been extremely weak by many measures.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am not inclined to take on new index exposure in this overbought market. And I am lightening up on individual positions with the CBI dropping from 10 to 4 on Friday.

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						
June 5, 2023	SPX 50-day %b crosses 100	1-50 days	Bullish	4.90%	-4.50%	-9.00%
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

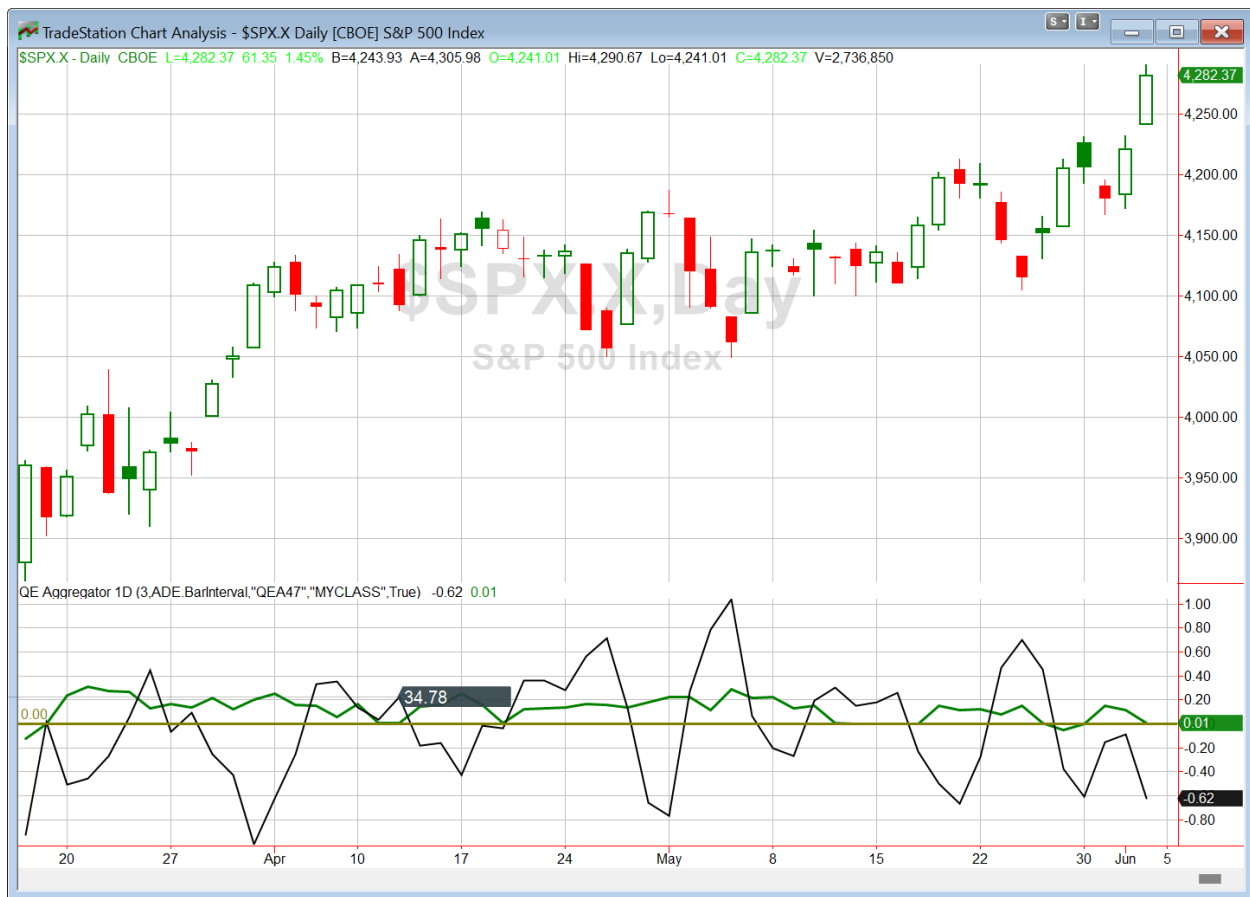
The Employment Report did not disappoint, and the market rallied on Friday. The SPX rose 1.45%, the NASDAQ gained 1.1%, and the Russell 2000 shot up an outsized 3.6%. Breadth was very strong with the NYSE Up Issues % coming in at 85% and the Up Volume % at 86%. NYSE total volume rose some from Thursday's level.

Despite the large moves, I did not spot anything suggesting a substantial short-term edge. But I did post the June Seasonality Calendars. So let's take a quick look at the SPX Calendar for June.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
6/1/2023	57.01	1.519	0.117
6/2/2023	55.71	1.335	0.096
6/5/2023	53.24	1.072	0.010
6/6/2023	48.67	0.857	-0.061
6/7/2023	54.64	1.085	0.000
6/8/2023	53.23	0.847	-0.067
6/9/2023	53.65	1.047	-0.005
6/12/2023	52.95	0.835	-0.064
6/13/2023	51.53	0.970	-0.014
6/14/2023	50.33	0.878	-0.045
6/15/2023	53.56	0.880	-0.044
6/16/2023	51.26	0.848	-0.054
6/20/2023	53.99	1.442	0.112
6/21/2023	53.97	1.143	0.046
6/22/2023	55.78	1.327	0.095
6/23/2023	53.32	1.037	0.008
6/26/2023	57.38	1.246	0.056
6/27/2023	56.97	1.260	0.062
6/28/2023	57.99	1.368	0.096
6/29/2023	62.65	1.660	0.160
6/30/2023	61.49	1.405	0.085
Baseline	53.65	1.126	0.043

Thursday and Friday lived up to their bullish tendency. But the next couple of weeks show a lot of mixed numbers. So if bears want a chance at a push lower, it seems like it would be easier to achieve in the next couple of weeks than it will be starting on the 20th. I will not be adding any new short-term studies to the Active List tonight.

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



Without any new short-term studies making the cut, the green Aggregator Line remained slightly 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 close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

The short-term active list is now lacking meaningful studies, since they all either expired or reached their targets over the last 2 days. Of course the intermediate-term outlook is leaning bullish. So while expectations will be heavily influenced by any new evidence that emerges, expectations are currently slated to remain positive on Monday. Meanwhile, the Differential Pivot will be 4182.28 on Monday. That is a sizable 2.3% below Friday's close. Therefore, SPX will need to close down over 2.3% on Monday in order to flip from overbought to oversold vs recent expectations. More likely, it will take a few days to work off the overbought condition.

So the Aggregator is neutral. The market is strongly overbought in the short-term. But there is no compelling evidence saying you want to bet on an immediate reversal. Patience seems like the most reasonable option. So I will be sidelined, but alert to new opportunities..

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/5 – 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”.*

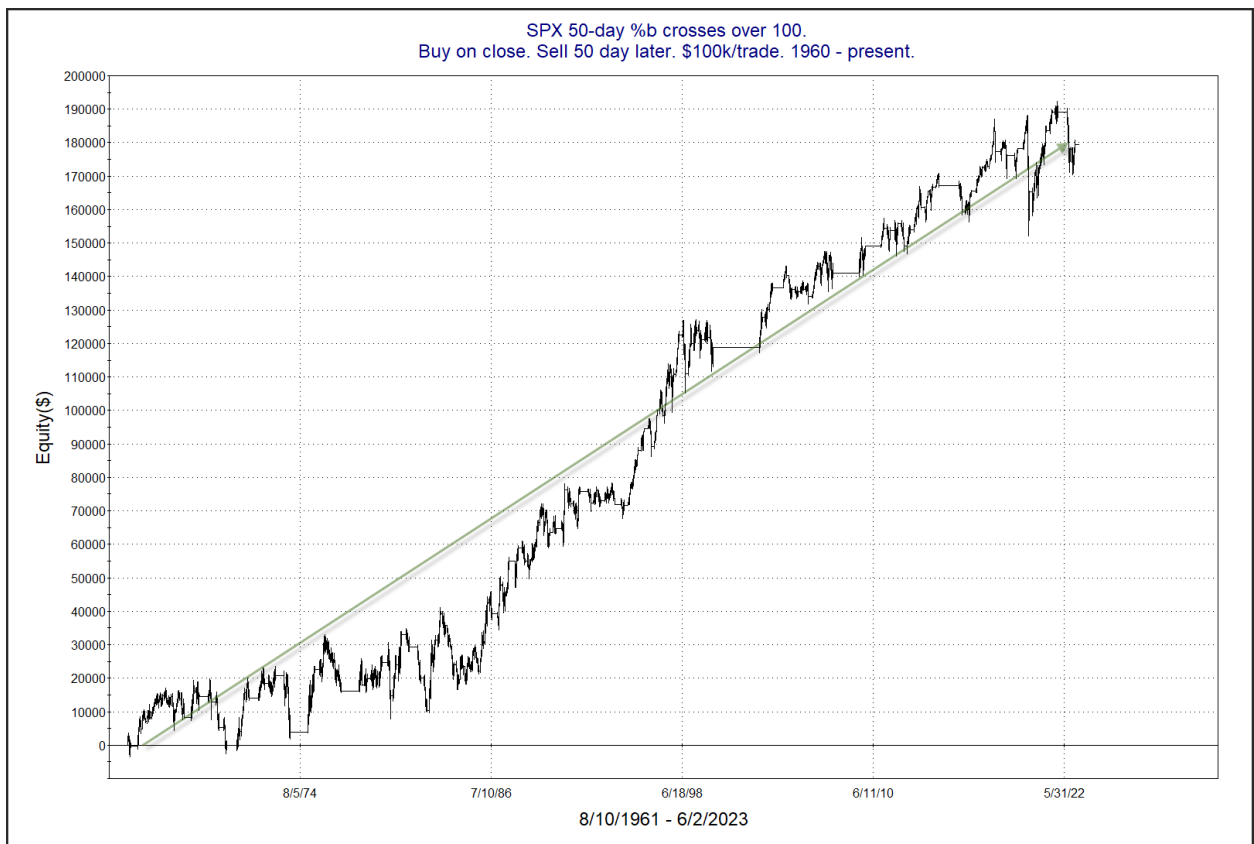
Thursday and Friday made this past week a strong one for stocks. The SPX closed the week up 1.8%, the NASDAQ gained 2.0%, and the Russell 2000 rallied 3.3%. And after 4 consecutive down weeks, bonds even rallied. The US Aggregate Bond ETF (AGG) posted a gain of 0.8%. TLT, the 20-year Treasury Bond ETF, closed the week up 1.2%. Long-term uptrends for the SPX and NASDAQ remain in place. The NASDAQ is at its highest levels since April of 2022 and SPX is getting close to surpassing its August 2022 highs.

One interesting study that triggered in the Quantifinder looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. I last featured this study in the 12/1/22 letter. Updated results are below.

SPX 50-day %b crosses over 100.
Buy on close. Sell 50 day later. \$100k/trade. 1960 - present.


X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	179,456.25	147	90	57	61.22	18,408.18	-20,704.80	4,751.33	-4,353.75	1.09	1.72	1,220.79
45	133,973.38	153	89	64	58.17	15,816.57	-32,382.30	4,891.54	-4,708.96	1.04	1.44	875.64
40	138,561.88	160	96	64	60.00	17,624.67	-27,920.40	4,367.38	-4,386.04	1.00	1.49	866.01
35	134,469.47	168	100	68	59.52	15,782.13	-13,839.56	3,983.49	-3,880.58	1.03	1.51	800.41
30	78,856.47	175	103	72	58.86	11,920.74	-14,377.53	3,267.86	-3,579.63	0.91	1.31	450.61
25	47,756.80	183	103	80	56.28	10,859.94	-8,745.98	2,956.98	-3,210.15	0.92	1.19	260.97
20	49,030.77	196	111	85	56.63	9,501.30	-10,205.38	2,611.13	-2,833.00	0.92	1.20	250.16
15	35,267.63	216	124	92	57.41	7,843.46	-9,763.44	2,310.74	-2,731.13	0.85	1.14	163.28
10	32,737.73	240	144	96	60.00	8,239.16	-9,133.53	1,685.48	-2,187.20	0.77	1.16	136.41
5	5,678.66	293	161	132	54.95	5,030.81	-6,524.55	1,136.29	-1,342.91	0.85	1.03	19.38

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside rather than a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.

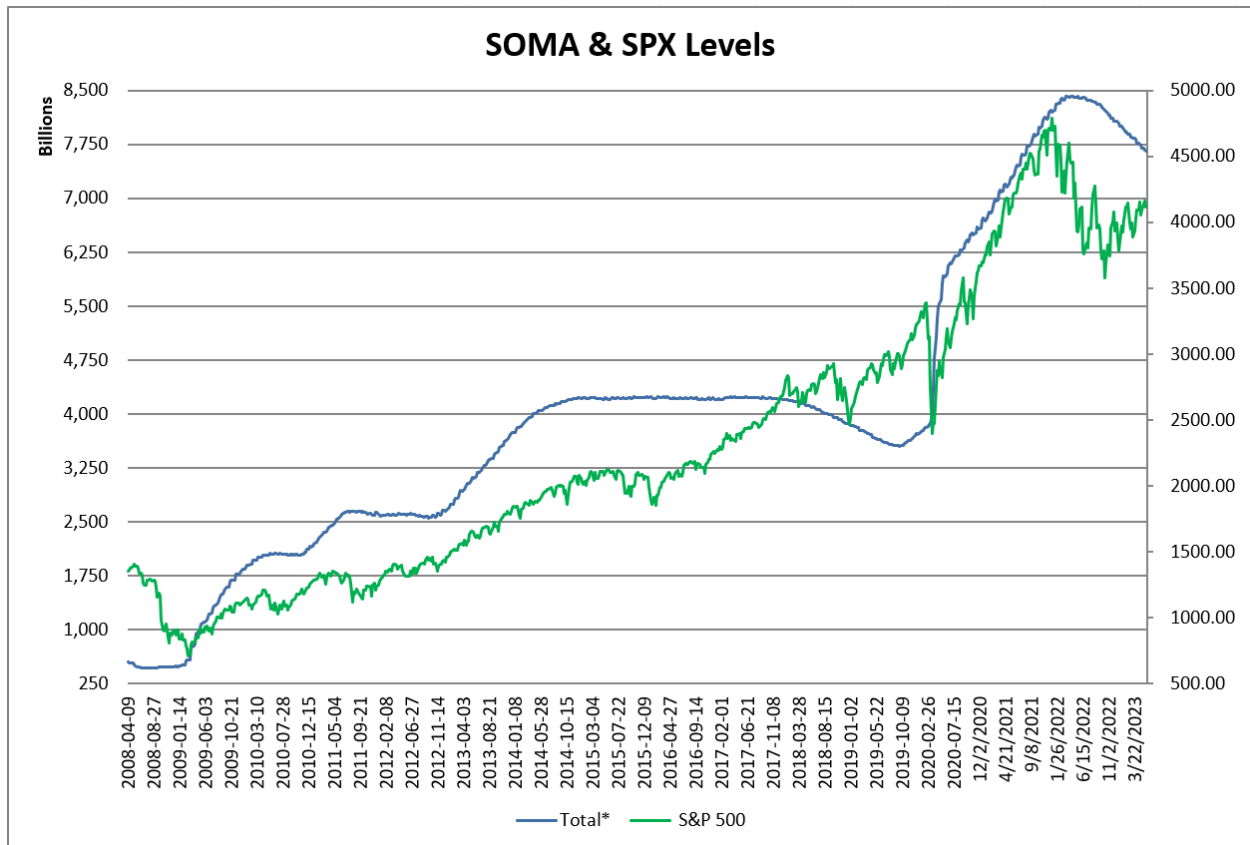


That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

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

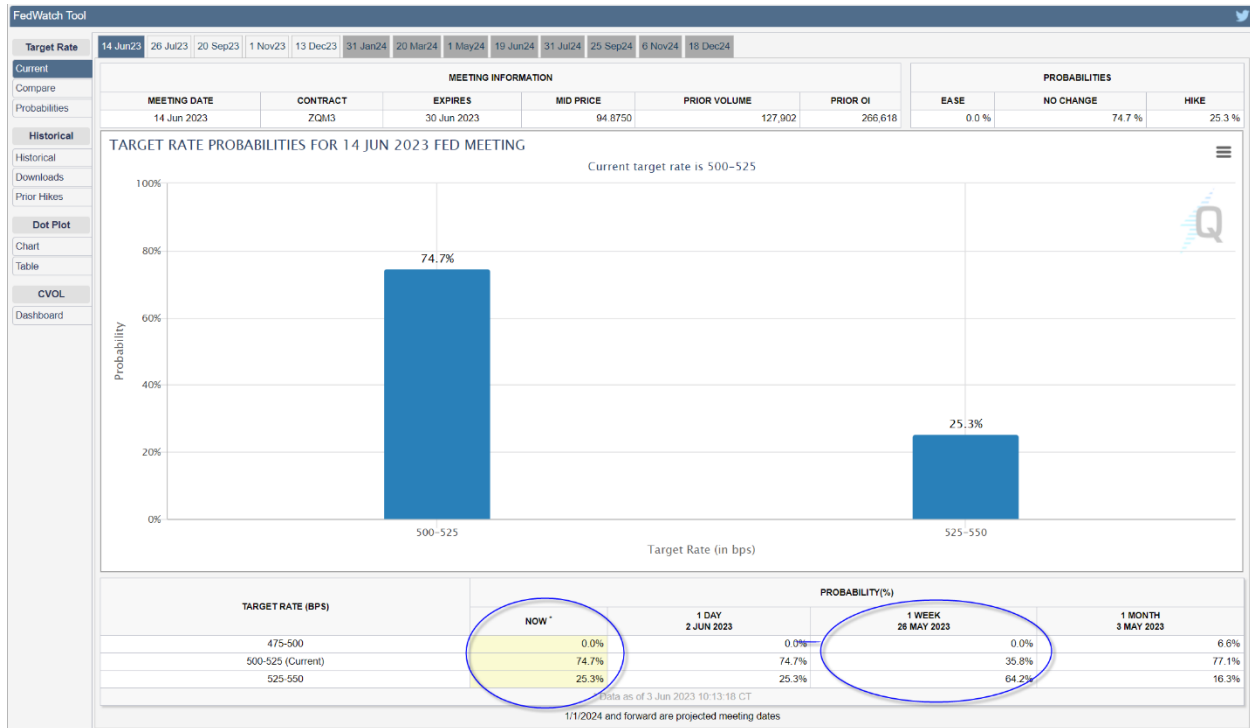
Domestic Security Holdings as of	
◀ Previous	May 31, 2023  <i>Posted June 1, 2023 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	281,041,361.0
US Treasury Notes and Bonds (Notes/Bonds)	4,388,626,165.1
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	368,253,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,549,844,564.0
Agency Commercial Mortgage-Backed Securities***	8,391,409.0
Total SOMA Holdings	7,618,930,539.6
Change From Prior Week	-43,301,378.1

This past week saw a decline of \$43 billion. That is a sizable decline, but in line with what would be expected at this time of the 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 is now 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.

The CME Fedwatch tool odds changed substantially this past week. The market has switched from pricing in a 64% chance of another ¼ point hike at the next Fed meeting to just a 25% chance. A screenshots of the current odds can be seen below.



The Fed says they will remain “data dependent”, so you can expect the market to overreact to data. Odds here will continue to change leading up to the announcement, with economic numbers potentially causing sizable market swings.

I also briefly want to discuss market breadth here, because behavior has been highly unusual. In last weekend’s letter I noted the following two points:

- *I looked at the % of SPX stocks that closed above their 20ma, which is the shortest-term average that Norgate Data uses for such breadth measures. I found that only 36.8% of SPX stocks closed above their 20ma on Friday. Only one other time did SPX make a new 50-day high with < 40% of stocks closing above their 20ma. That was on 6/10/1957 when just 38.5% did it.*
- *Another example of the market being split is the simple fact that the NDX is now up over 30% on the year while the Dow is slightly negative. There have only been 2 other years where NDX was up over 30% with the Dow lower at some point. They were 1998 and 2020. Neither year saw the condition happen this early.*

Then on Twitter Wednesday morning I noted the following:



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...

While **\$SPY** closed at multi-month high on Tues, only 2 of 10 **\$SPX** sector ETFs even closed above their 10-day MA. Rally has been all **\$XLK** and **\$XLY \$STUDY**

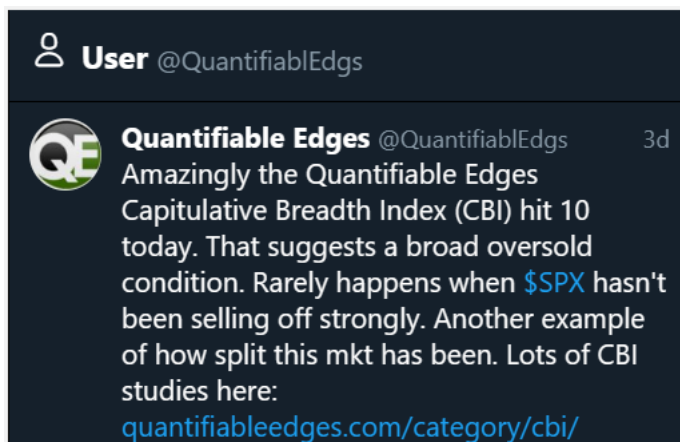
Sector ETFs distance from their 10ma.
5/30/2023

Ticker	Date/Time	Name	Distance From 10ma
XLK	5/30/2023	Technology Select Sector SPDR ETF	4.85
XLY	5/30/2023	Consumer Discretionary Select Sector SPDR ETF	1.61
SPY	5/30/2023	SPDR S&P 500 Trust ETF	0.95
XLRE	5/30/2023	Real Estate Select Sector SPDR ETF	-0.38
XLI	5/30/2023	Industrial Select Sector SPDR ETF	-0.46
XLF	5/30/2023	Financial Select Sector SPDR ETF	-0.48
XLE	5/30/2023	Energy Select Sector SPDR ETF	-1.30
XLB	5/30/2023	Materials Select Sector SPDR ETF	-1.75
XLU	5/30/2023	Utilities Select Sector SPDR ETF	-1.98
XLV	5/30/2023	Health Care Select Sector SPDR ETF	-2.24
XLP	5/30/2023	Consumer Staples Select Sector SPDR ETF	-2.73

Source:
Norgate Data

QuantifiableEdges.com

The SPX was pushing higher, but participation was very light. But not only was there broad non-participation, but there were a lot of groups and issues that were strongly oversold. This was noted on Wednesday night when the CBI hit 10 – something that you just don't see happen when SPX is hitting new highs.



Steve Deppe saw it another way...



RSP is the equal-weighted S&P 500 ETF. So he is saying that the equal-weighted version of the S&P vastly underperformed the normal, market-cap weighted version.

So the question becomes, is the rally likely to fail because it is narrow? Or does the “oversold” breadth mean we are likely to bounce? I viewed the CBI of 10 as a potential bullish indication, but a short-term one. On Thursday and Friday we got a very broad bounce. And some of the above conditions started to revert, including the CBI quickly falling back to 4. That is somewhat encouraging. It helped for some short-term trades. But I believe if the market rally is going to continue in a substantial way, we will likely need to see broader participation moving forward. Anyway, something to keep an eye on, since this environment is unusual and a bit tricky.

Overall, it still appears that we have more evidence favoring the bull case for the intermediate-term. NDX and SPX are again at new multi-month highs, and that is generally a good thing. 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. And now we have the 50-day %b momentum study triggering for the bulls as well. Still, plenty of issues remain. While interest rate hikes may or may not be over, Fed policy is still hawkish thanks to QT. 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 still appears to have problems. Lots of negatives to worry about, not to mention the potential issue of recent breadth. None of it has mattered much so far, but it could soon. Over the years I have learned not to be stubborn when the market is hitting new highs, so I will keep my market bias at “slightly bullish”. But I will be quick to dial it back to neutral if 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

MDLZ – 1/3 @ \$75.87 (bought @ limit)

MDLZ – 1/3 @ \$75.65 (bought @ limit)

MDLZ – 1/3 @ \$75.47 (bought @ limit)

ABBV – 1/3 @ \$136.44 (bought @ limit)

Broad Market Large Cap CBI – 4 (MDLZ-3, ABBV)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MDLZ(1/3)	5/23/2023	\$75.87	\$74.27	-2.11%	Catapult
MDLZ(1/3)	5/24/2023	\$75.63	\$74.27	-1.80%	Catapult
MDLZ(1/3)	5/25/2023	\$74.95	\$74.27	-0.91%	Catapult
PEP(1/3)	5/25/2023	\$182.70	\$184.06	0.74%	<i>sell on open</i>
PEP(1/3)	5/26/2023	\$183.71	\$184.06	0.19%	<i>sell on open</i>
PEP(1/3)	5/30/2023	\$182.06	\$184.06	1.10%	<i>sell on open</i>
ABBV(1/3)	5/31/2023	\$136.44	\$133.44	-2.20%	Catapult
PG(1/3)	5/31/2023	\$143.16	\$146.52	2.35%	<i>sell on open</i>
PG(1/3)	6/1/2023	\$142.50	\$146.52	2.82%	<i>sell on open</i>

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