

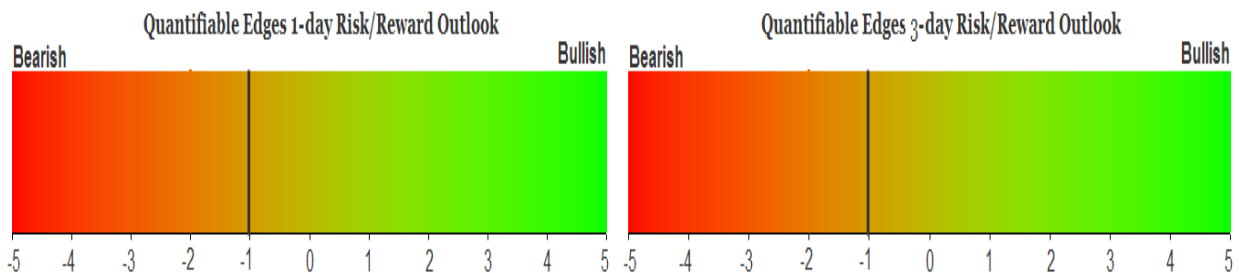
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2023

Volume 16 Issue 111

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- An up VIX on a Friday with SPX making a new 50-day high is a combination that was often been followed by a pullback over the next few days.
- Opex bullishness has seemed to reverse course over the last few years.
- The CPI report on Tuesday and the Fed meeting on Wednesday could cause some strong market reactions.
- The SOMA saw just a slight decline this past week, but that is a typical amount of QT for this time of the month.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But evidence is somewhat light, the intermediate-term outlook is leaning bullish, and possible volatility events the next few days increase risk. So I am feeling more neutral.

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 12, 2023	VIX up. SPX 50-high. Friday.	1-4 days	Bearish	-1.20%	0.60%	1.10%
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			

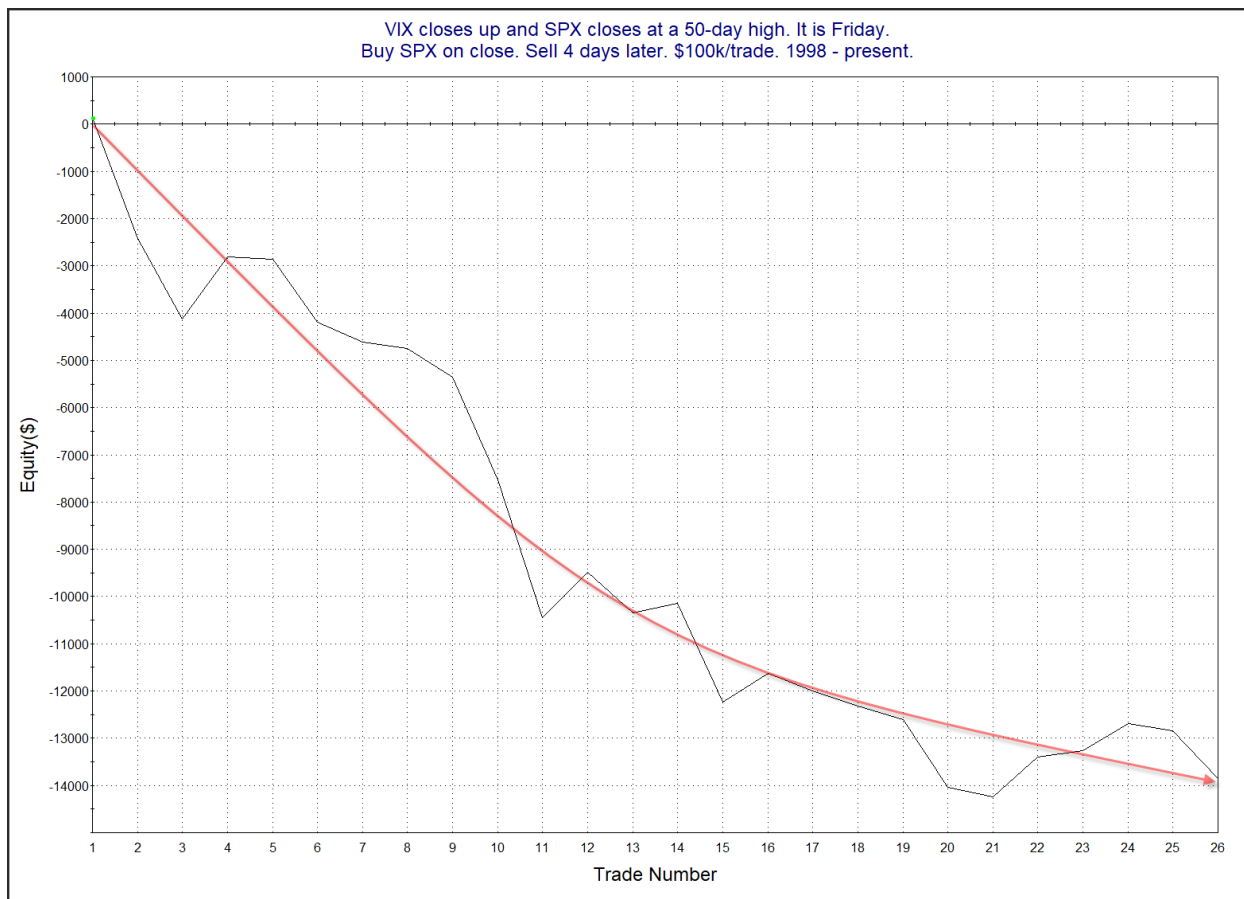
The Evidence

Friday saw mostly mixed and mild results. The SPX rose 0.1%, the NASDAQ gained 0.2%, and the Russell 2000 declined 0.8%. Breadth was weak with the NYSE Up Issues % coming in at 37% and the Up Volume % at 43%. NYSE total volume rose some from Thursday's level.

VIX action was unusual on Friday. The VIX rose while SPX closed at a new high. Most of the time the VIX will move opposite the SPX. Fridays there is a natural tendency for the VIX to dip in the afternoon. So Friday is the least common day of the week to see SPX and VIX both rise. (Monday there is a natural inclination for the VIX to rise, so Mondays are about 3x as likely to see this happen as Fridays.) Friday also shows the most bearish results going forward for a rising VIX and an SPX new high. The study below was seen 12/30/19 letter. It addresses the SPX/VIX action we saw on Friday. Stats are all updated.

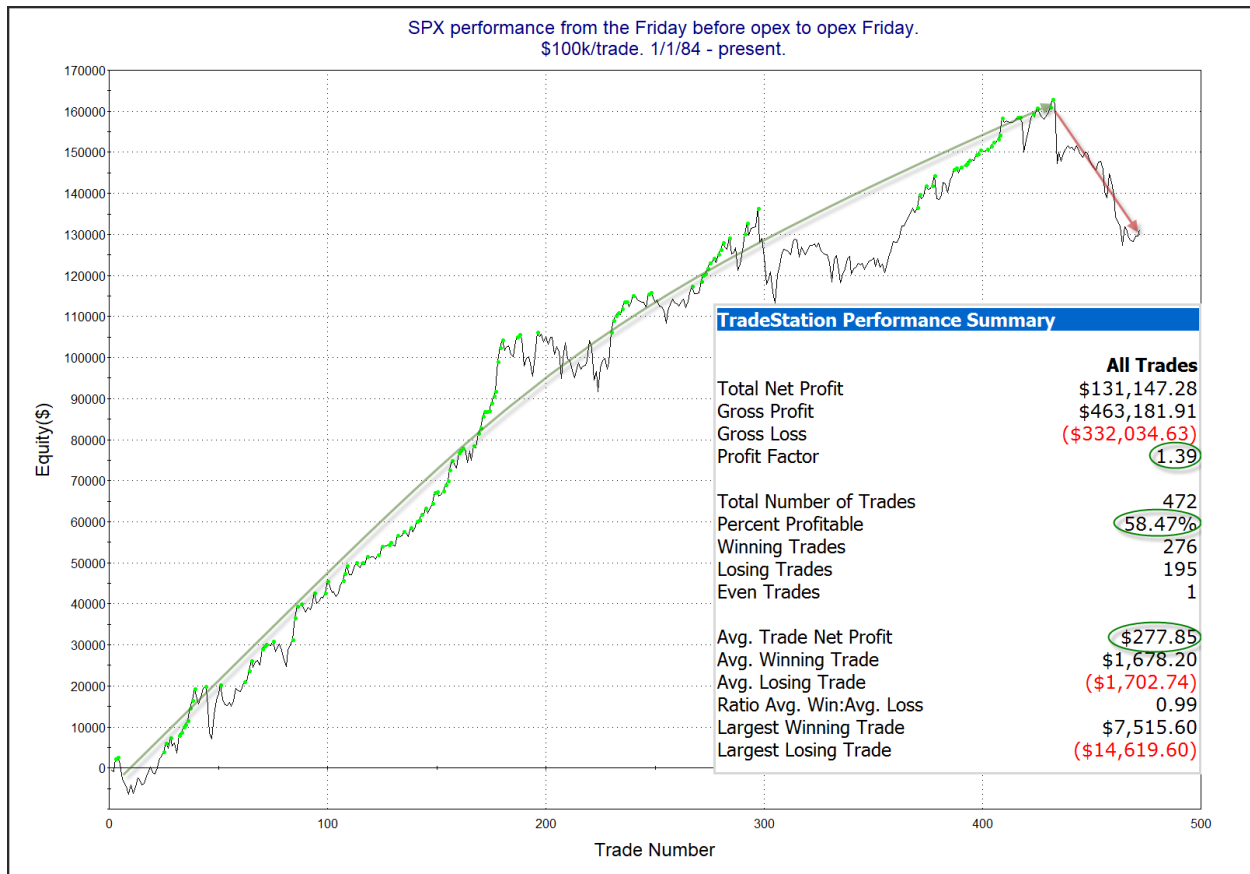
VIX closes up and SPX closes at a 50-day high. It is Friday. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-16,449.13	25	8	17	32.00	2,339.37	-3,458.70	944.05	-1,411.85	0.67	0.31	-657.97
4	-13,856.41	26	8	18	30.77	1,324.62	-2,923.20	599.15	-1,036.09	0.58	0.26	-532.94
3	-10,608.74	26	8	18	30.77	1,976.04	-3,727.50	713.53	-906.50	0.79	0.35	-408.03
2	-9,822.91	26	8	18	30.77	1,835.17	-3,595.20	680.27	-848.06	0.80	0.36	-377.80
1	-2,817.92	26	11	15	42.31	1,530.15	-2,361.45	328.08	-428.45	0.77	0.56	-108.38

The numbers all appear to suggest a bearish edge. Below is a profit curve assuming a 4-day exit strategy.

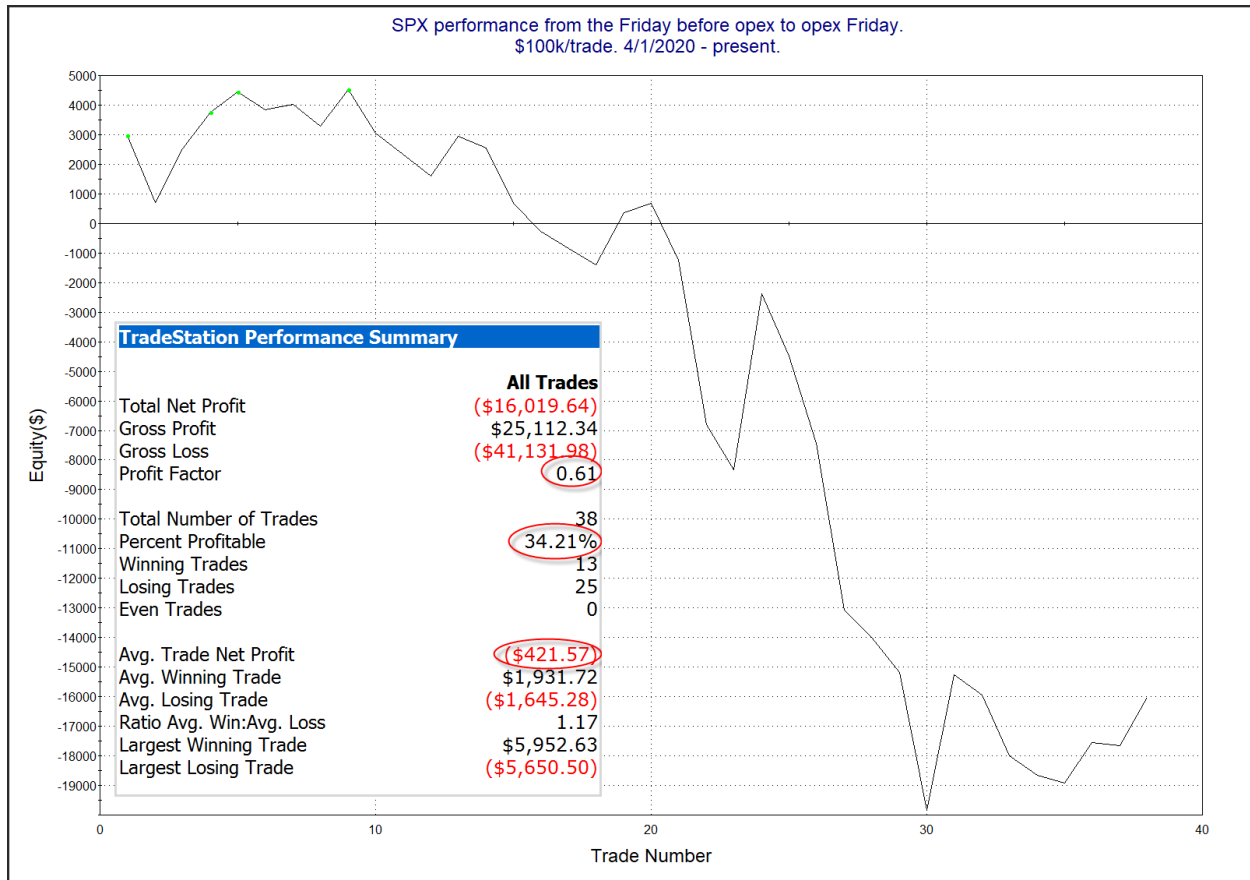


The curve has persisted lower over a long time and is back again near new lows. This suggests a pullback is likely over the next few days. There is one last thing I will note. And that is a rise in the VIX makes sense due to the fact that we have CPI on Tuesday and the Fed on Wednesday. There are volatility events just ahead. That is likely part of the reason we saw the VIX close higher on Friday. Still, I have added this study to the active list.

Of course this upcoming week is options expiration week. And we have known for a long time that opex is often a bullish week for the market. Interestingly, that seasonal tendency has not seemed to hold true since the COVID crash in 2020. Below is a look at performance of all opex weeks since 1984.



There has been a clear shift in the curve over the last few years. The top of this curve came in January of 2020. February of 2020 saw a decline of 1.25%, and then March had the worst opex week ever, with a 14.6% drop. But unlike other periods, opex week has never recovered its bullish tendency. The chart below looks at performance since April of 2020. I started the chart at that point simply to see how it has done since the market bottomed in 2020. So this does NOT include the worst week of March 2020.



There has been a little bit of a bump up over the last few instances, but the stats and curve still look pretty awful. I am not yet convinced that downside tendency of the last few years is a new seasonal trend. But I certainly see enough evidence here that I am no longer looking at opex weeks and thinking they are automatically bullish.

Perhaps the QE Seasonality Calendar algorithm has picked up on this as well, because there is not a single day this upcoming week that the Seasonality Calendar is showing as bullish.

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

Between the SPX/VIX study and the potential seasonal weakness this upcoming week, it may be time for a pullback.

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



With today's evidence considered, the green Aggregator Line dropped below zero. Negative readings mean expectations are for downside 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 negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the limited evidence on the active list, expectations are currently slated to remain negative on Monday. Of course this could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4268.09 on Monday. That is 0.7% below Friday's close. So SPX will need to close down at least 0.7% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator has now turned bearish. There appears to be a bit of a downside edge. Of course this would be a counter-trend trade if I were to take a short position. More aggressive traders could certainly consider a short trade. But I am a little bit wary. Tuesday is the CPI release and Wednesday is the Fed meeting. Either of those things could be followed by a strong market reaction. I am not interested in taking a counter-trend trade on modest evidence while heading into two potentially combustible events. I'll wait until at least Tuesday or Wednesday before taking on my next index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/12 – slightly bullish

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

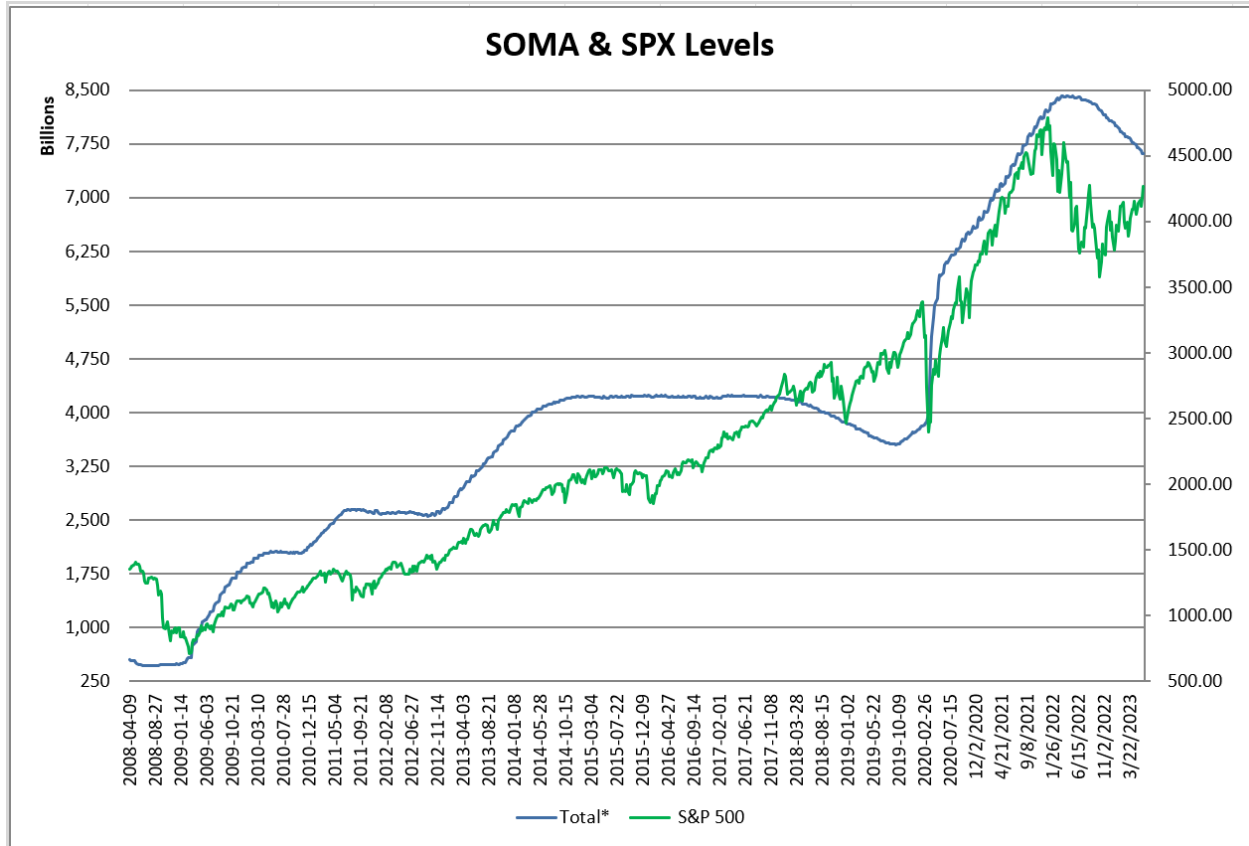
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

This past week saw more gains for the market. The SPX closed the week up 0.4%, the NASDAQ gained 0.1%, and the Russell 2000 rallied 1.9%. Bonds did not accomplish much. The US Aggregate Bond ETF (AGG) posted a loss of 0.12%. TLT, the 20-year Treasury Bond ETF, closed the week down 0.07%. Long-term uptrends for the SPX and NASDAQ remain in place. The NASDAQ is around its highest levels since April of 2022 and SPX is getting close to surpassing its August 2022 highs on a closing basis. There were no new studies that triggered in the last few days with intermediate-term implications.

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

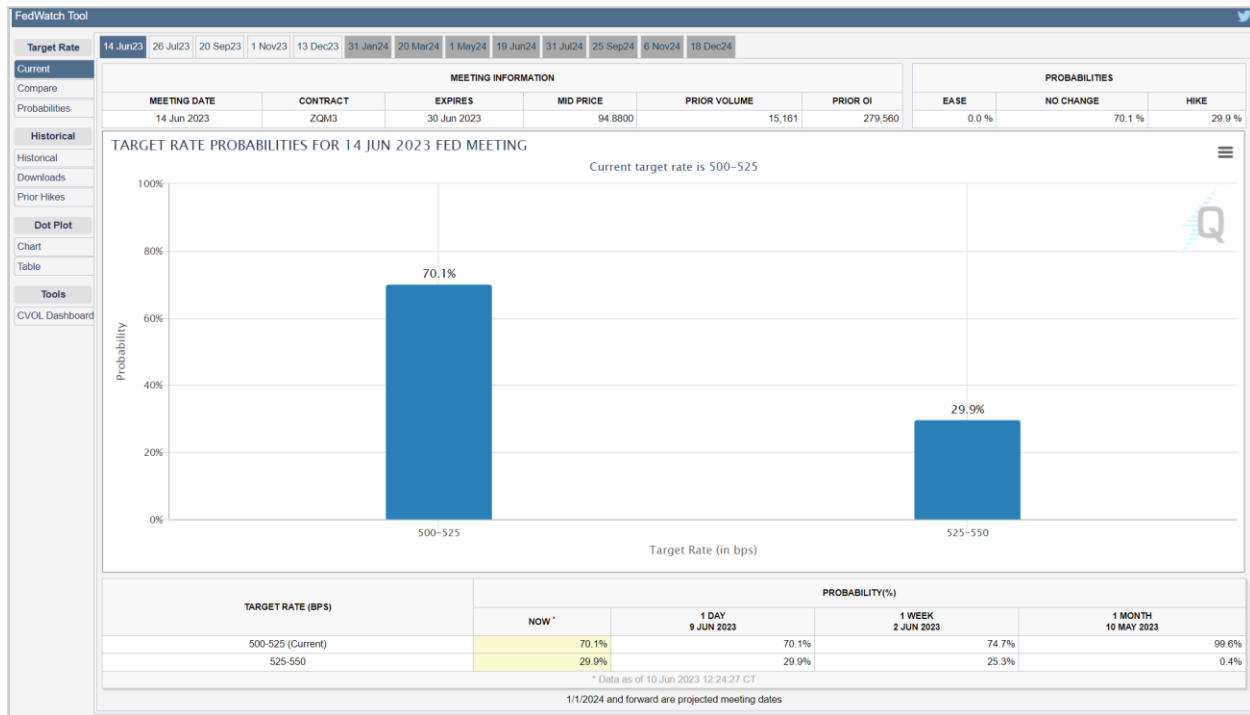
Domestic Security Holdings as of	
◀ Previous	June 7, 2023 📅
Posted June 8, 2023 at 4:30 PM	
SUMMARY	T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	278,066,307.6
US Treasury Notes and Bonds (Notes/Bonds)	4,388,626,165.1
US Treasury 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***	2,549,844,573.7
Agency Commercial Mortgage-Backed Securities***	8,391,409.0
Total SOMA Holdings	7,615,955,495.9
Change From Prior Week	-2,975,043.8

This past week saw a decline of \$3 billion. That is a mild 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 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 did not change much this past week. The market is pricing in a 30% chance of another ¼ point hike at the next Fed meeting. A screenshot of the current odds can be seen below.



Often the market has a better feel for what the Fed is going to do. A 70/30 split is actually fairly narrow with an announcement coming up in just a few days. The CPI will be released on Tuesday morning. And that is the last bit of important data that the Fed will have to consider before the Wednesday announcement. I cannot anticipate with certainty what the Fed will do, nor how the market will react. I do know that Fed Days have long had a bullish edge, and that the bullish edge is greatly enhanced if there is selling in the days leading up to the announcement. So a negative reaction to the CPI on Tuesday could set us up nice for a Fed Day bounce. But I am getting a bit ahead of myself. Bottom line is that the Fed is currently a bearish market force. That will continue assuming they do not stop the QT program. And further rate increases would make them even more of a bearish force over the intermediate-term.

Overall, it still appears that we have more evidence favoring the bull case for the intermediate-term. NDX and SPX are again at or near 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 we also have the 50-day %b momentum study from last week suggesting a bullish edge. 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. 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

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
ABBV(I/3)	5/31/2023	\$136.44	\$137.56	0.82%	<i>sold on open</i>

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