QUANTIFIABLE EDGES SUBSCRIBER LETTER
ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 3, 2023 Volume 16 Issue 125

Market Overview

Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- July has historically had the best 1st day of any month.
- When the last day of the month marks the highest close of the month, then the momentum often carries through into the 1st week of the new month.
- The SPX July QE Seasonality Calendar looks as bullish as any month I have seen for a long time.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. There is reason to believe the market rally could continue over the next few days, but risk/reward is not terribly favorable, because the market is already so overbought.

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

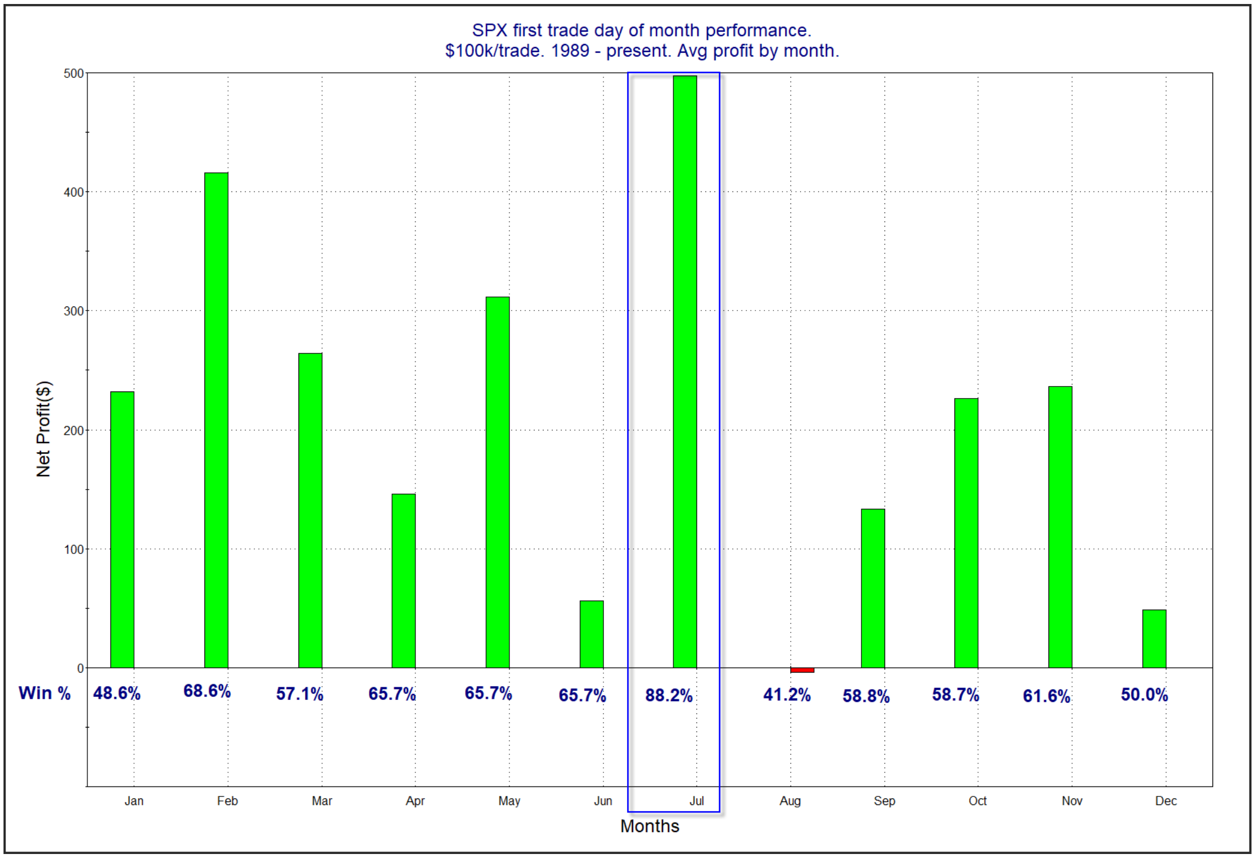
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
July 3, 2023	Close month at high of month	1-5 days	Bullish	1.90%	-1.10%	-2.40%
Active - Long Term						
June 23, 2023	Up Vol < 40% SPX up and > 200ma	1-10 days	Bullish	2.15%	-1.50%	-3.30%
June 20, 2023	5up to 50-high. Down 1. > 200ma	1-10 days	Bullish	1.85%	-1.10%	-2.30%
June 20, 2023	20-high.Close btm 10%.	1-10 days	Bullish	2.00%	-1.50%	-2.90%
June 16, 2023	RSI(2) cross over 99.	1-15 days	Bullish	2.30%	-1.50%	-2.95%
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	Whaley ADT5 > 73.66	1-12 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
June 27, 2023	*Close btm 10% range and 5-low on Monday*	*1-5 days*	*Bullish*			
June 23, 2023	*Up Vol < 40% SPX up and > 200ma*	*1-7 days*	*Bullish*	*1.70%*	*-1.20%*	*-2.50%*

The Evidence

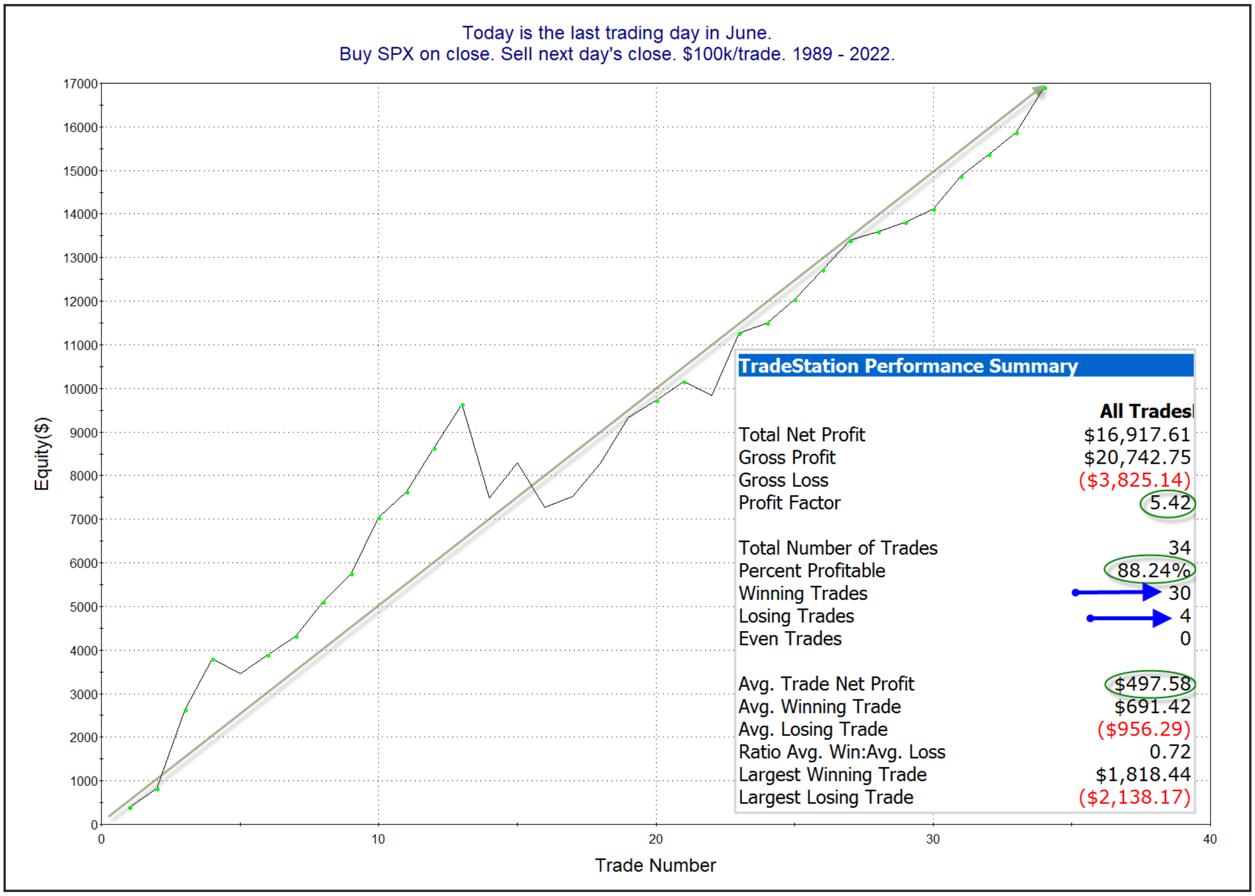
Friday was a good finish to a strong month for the bulls. The SPX rose 1.2%, the NASDAQ rallied 1.45%, and the Russell 2000 gained 0.4%. Breadth was positive with the NYSE Up Issues % coming in at 71% and the Up Volume % at 75%. NYSE total volume rose some from Thursday's level.

The most compelling studies to discuss today all involve seasonality. This 1st one examines returns on the 1st trading day of July. I wrote about it Thursday night and have copied it below.

When looking ahead to Monday, it is worth noting that July has had the best performance of any month with regards to the 1st trading day of the month. This can be seen in the chart below.



As you can see, July has both the highest Win % and the largest Avg Trade. So maybe some of that July magic will help the bulls on Friday. I'll also note that August has had the worst Day-1 performance of any month. So we will keep that in mind as we approach it. Below is a more detailed look at how July has played out.



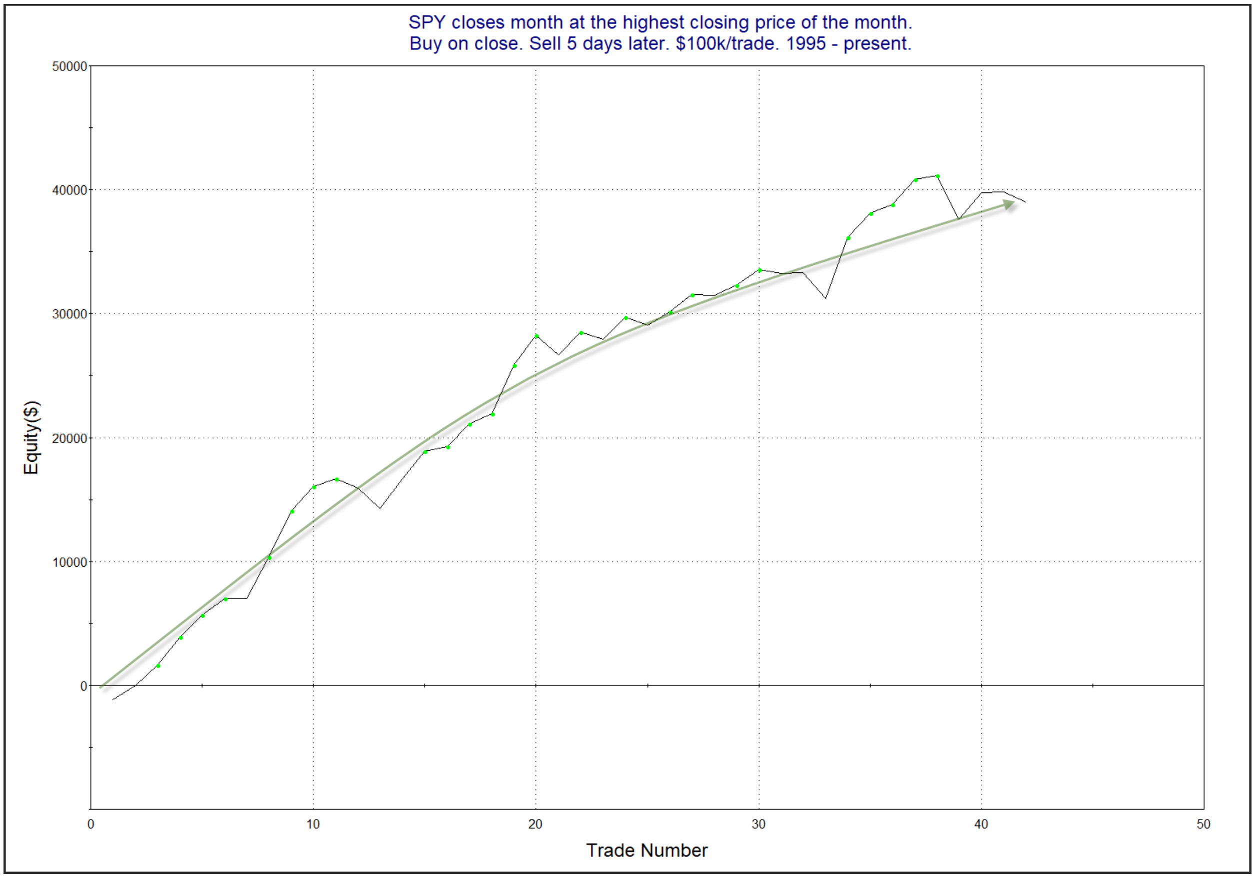
Impressive stats and curve. And the last 12 instances have all been winners. July performance appears strong enough to merit some consideration.

SPY closing in the upper half of its intraday range is something that often reduces the Day 1 edge for the next month. But the fact that SPY closed at an intermediate-term high on the last day of the month suggests that, even if Day 1 is not great, we could see further rallying in the next few days. One study I have shown several times over the years looks at times that a month finishes on a high. Results below are updated from the 5/1/23 letter.

SPY closes month at the highest closing price of the month.
Buy on close. Sell X days later. $100k/trade. 1995 - 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	39,009.16	42	30	11	71.43	4,926.56	-3,557.40	1,742.63	-1,206.33	1.44	3.94	928.79
4	30,104.82	42	28	14	66.67	5,394.96	-4,338.40	1,698.94	-1,247.54	1.36	2.72	716.78
3	19,955.74	42	27	15	64.29	4,105.92	-4,678.40	1,382.82	-1,158.70	1.19	2.15	475.14
2	13,036.94	42	22	20	52.38	3,954.78	-4,848.40	1,303.40	-781.89	1.67	1.83	310.40
1	4,787.60	42	22	20	52.38	1,850.94	-1,359.03	693.92	-523.93	1.32	1.46	113.99

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.



Despite a couple of recent hiccups, the steady upslope is comforting. I have added this study to the active list tonight.

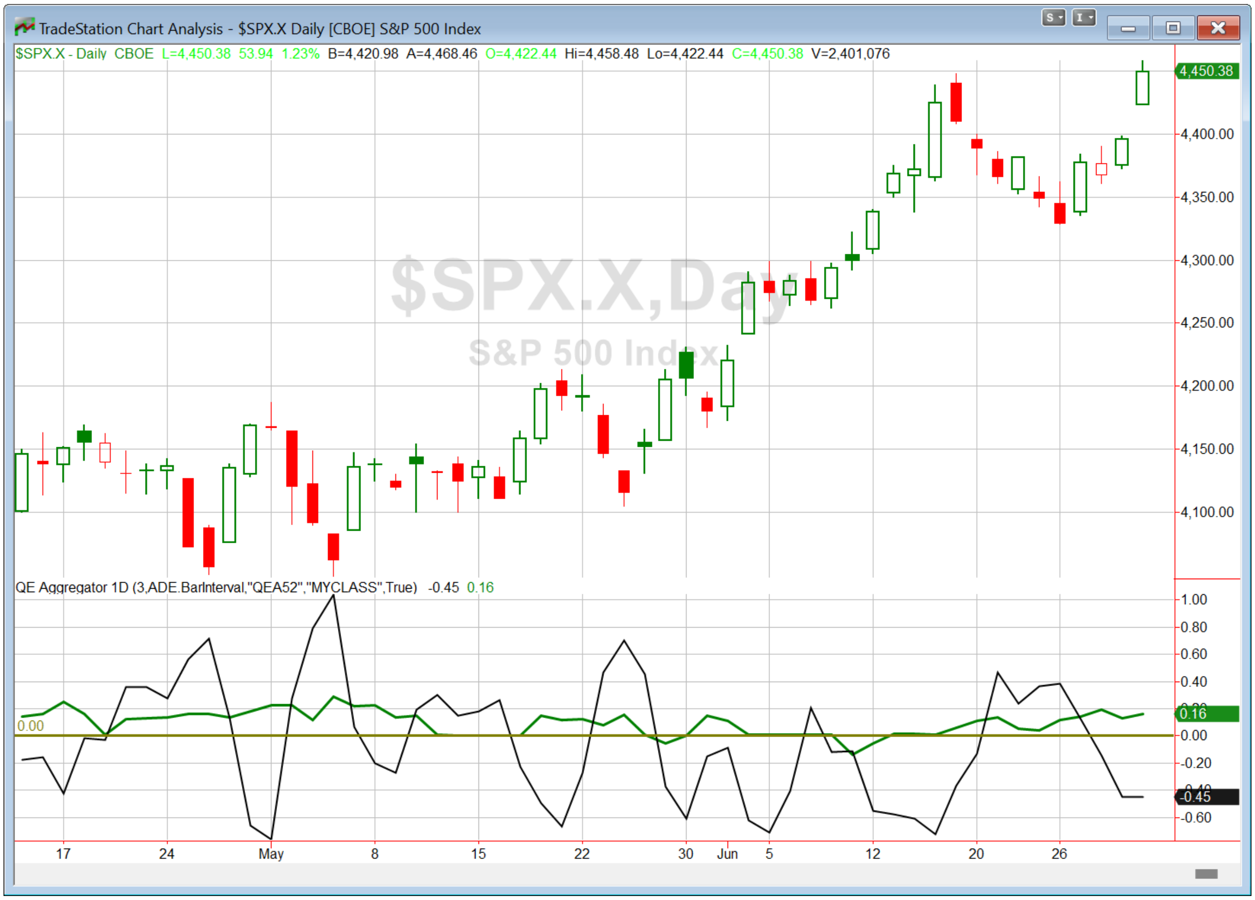
With the calendar now turning to July, I ran the final numbers for the QE Seasonality Calendars for July. The SPX version from the website can be seen below.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
7/3/2023	62.77	1.833	0.204
7/5/2023	59.51	1.573	0.140
7/6/2023	56.77	1.315	0.072
7/7/2023	58.76	1.484	0.127
7/10/2023	57.92	1.375	0.050
7/11/2023	56.60	1.523	0.103
7/12/2023	57.72	1.415	0.068
7/13/2023	60.08	1.443	0.075
7/14/2023	60.67	1.656	0.140
7/17/2023	56.75	1.180	0.041
7/18/2023	54.13	1.473	0.108
7/19/2023	54.14	1.200	0.047
7/20/2023	53.99	1.137	0.026
7/21/2023	51.02	1.069	0.004
7/24/2023	53.45	1.148	0.031
7/25/2023	53.14	1.161	0.036
7/26/2023	51.90	1.291	0.075
7/27/2023	57.68	1.401	0.103
7/28/2023	55.11	1.113	0.019
7/31/2023	51.45	1.123	0.024
Baseline	***53.77***	***1.139***	***0.047***

This is the first month I can recall since at least 2021 where every day of the month showed a Win % above 50% and a Profit Factor greater than 1. The market is carrying some strong momentum, and it also has a Calendar tailwind for at least the next several weeks.

Of note with regards to the Active List, the rally on Friday was strong enough that the studies that were already active met their profit targets and were therefore removed from the list. It doesn't mean the market won't continue to rally. It does mean further rallying is likely not due to those studies that we noted several days ago.

I have updated the Aggregator chart below.



With this weekend's evidence considered, 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 close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current active studies, expectations are set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4395.79 on Friday. That is 1.2% below Friday's close. Therefore, SPX will need to close down at least 1.2% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. I was hoping for a dip on Friday to buy into ahead of month end, but that did not materialize. Evidence is still pointing higher, but the market is so overbought that reward/risk just isn't that favorable. So I will not be looking to take on any new index exposure until at least after the 4th of July.

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Intermediate-term Outlook (2 weeks – 2 months) – updated 7/3 – 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 some big returns for the market. The SPX gained 2.35%, the NASDAQ rose 2.2%, and the Russell 2000 rallied 3.7%. Bonds struggled some. The US Aggregate Bond ETF (AGG) posted a loss of 0.3%. TLT, the 20-year Treasury Bond ETF, fell 0.4%. Long-term uptrends for the SPX and NASDAQ remain in place. Both finished Friday at their highest closing prices of the year. There were no new studies that emerged 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

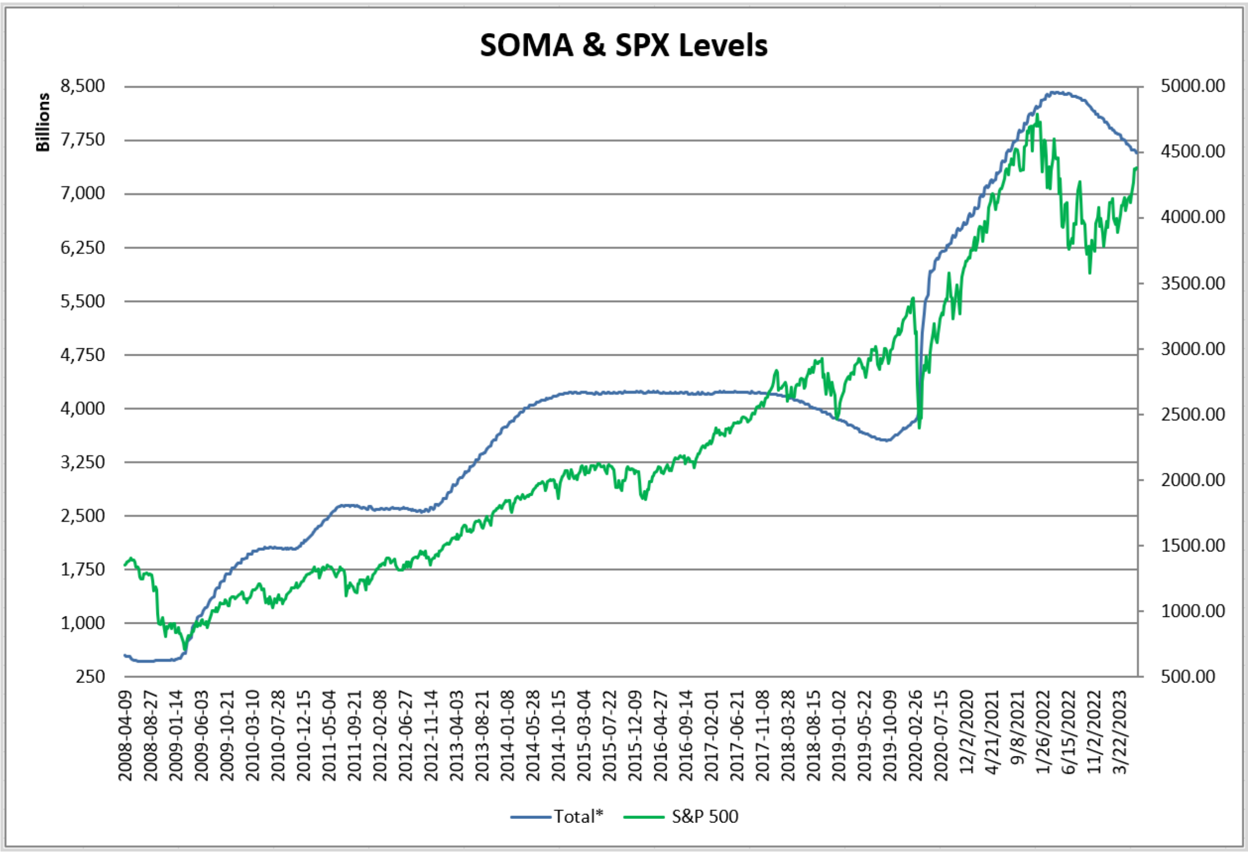
Previous June 28, 2023

Posted June 29, 2023 at 4:30 PM

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

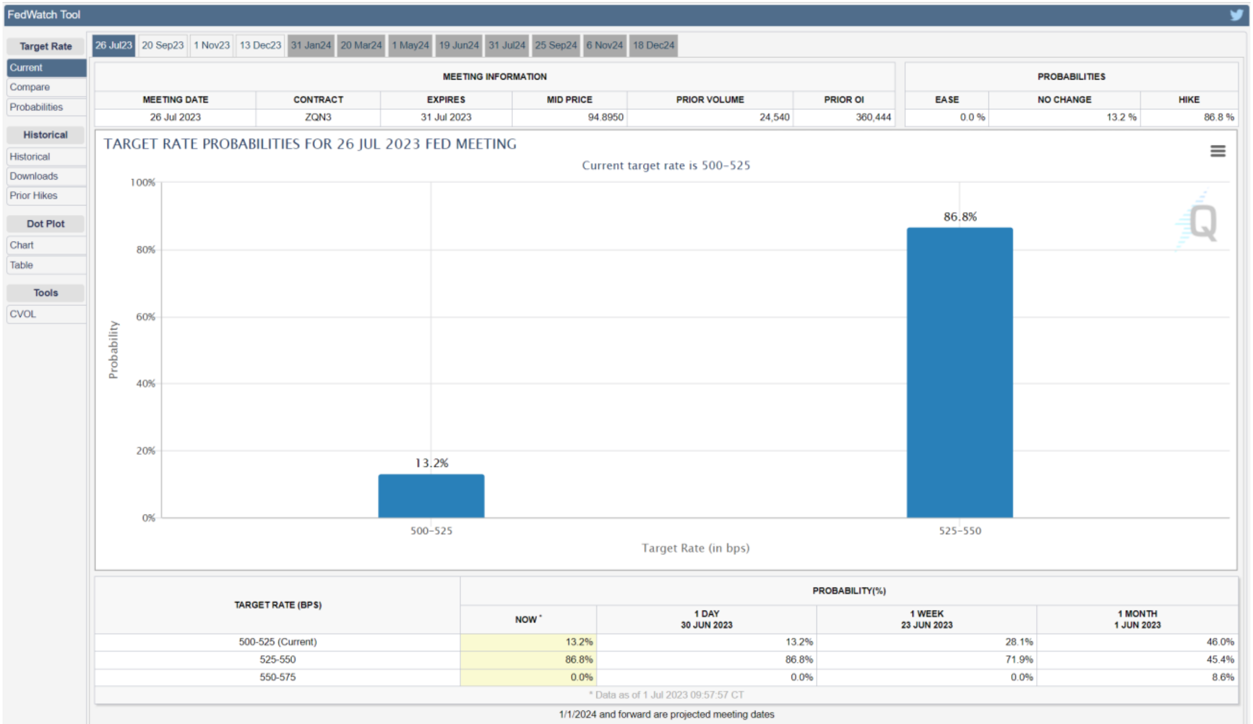
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	271,802,808.5
US Treasury Notes and Bonds (Notes/Bonds)	4,376,496,599.8
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	368,228,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,529,753,022.3
Agency Commercial Mortgage-Backed Securities***	8,385,441.2
Total SOMA Holdings	7,577,439,912.4
Change From Prior Week	-16,400,690.6

This past week saw a decline of $20 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. This week I expect to see a more moderate decline in the SOMA. 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.

With regards to rates, odds of further hikes keep increasing. The CME Fedwatch tool is currently showing about an 86% chance of a ¼ point hike in July. That is up from the 72% we saw a week ago. Below is a screenshot.



MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
26 Jul 2023	ZQN3	31 Jul 2023	94.8950	24,540	360,444	0.0 %	13.2 %	86.8 %

TARGET RATE (BPS)	NOW *	1 DAY 30 JUN 2023	1 WEEK 23 JUN 2023	1 MONTH 1 JUN 2023
500-525 (Current)	13.2%	13.2%	28.1%	46.0%
525-550	86.8%	86.8%	71.9%	45.4%
550-575	0.0%	0.0%	0.0%	8.6%

Odds will change as new data emerges and as we get closer to the date. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

Overall, it again appears that we have more evidence favoring the bull case for the intermediate-term. 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 relative leadership indicator, and that has historically been bullish. The QE Seasonality Calendar for SPX is showing all green from now until the end of July. We have several bullish intermediate-term studies that emerged in the 2nd half of June. So there is a lot favoring the bull case. Still, plenty of issues remain. Fed policy is still hawkish, with or without another rate hike. We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. Additionally, recession fears, a shrinking money supply, and high stock valuations are all potential rally killers. None of the potential negatives have mattered much to this point, but they likely will someday. With the bulk of quantifiable evidence pointing higher, I am leaning bullish. But I will be quick to switch to neutral if trouble arrives. For now, I will remain a bit more aggressive with long trades than short trades.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

KHC @ $35.55 (bought at limit)

Broad Market Large Cap CBI – 1 (KHC)

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
AMD(1/3)	***6/26/2023***	***$110.01***	***$113.03***	***2.75%***	***sold on open***
IBM(1/3)	***6/26/2023***	***$129.39***	***$134.69***	***4.10%***	***sold on open***
KHC(1/3)	6/27/2023	$35.55	$35.50	-0.14%	Catapult