

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2023

Volume 16 Issue 129

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- The 3-day pullback and poor close suggest Monday is likely to bounce.
- This upcoming week looks especially bullish on the Seasonality Calendar.
- The SOMA continues to decline and the Fed remains a bearish force.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I like the long side.

**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
<b>Active - Short Term</b>						
July 10, 2023	Dn 3 days from 50-high. Poor close today.	1 day	Bullish			
July 3, 2023	Close month at high of month	1-5 days	Bullish	1.90%	-1.10%	-2.40%
<b>Active - Long Term</b>						
June 23, 2023	Up Vol < 40% SPX up and > 200ma	1-10 days	Bullish	2.15%	-1.50%	-3.30%
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
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%
July 7, 2023	Strong close. Jobs report tomorrow.	1 day	Bullish			

**The Evidence**

Friday saw back and forth action and the indices finished mixed. The SPX declined 0.3%, the NASDAQ fell 0.1%, and the Russell 2000 rose 1.2%. Breadth was positive with the NYSE Up Issues % coming in at 72% and the Up Volume % at 75%. NYSE total volume rose for the 3<sup>rd</sup> day in a row.

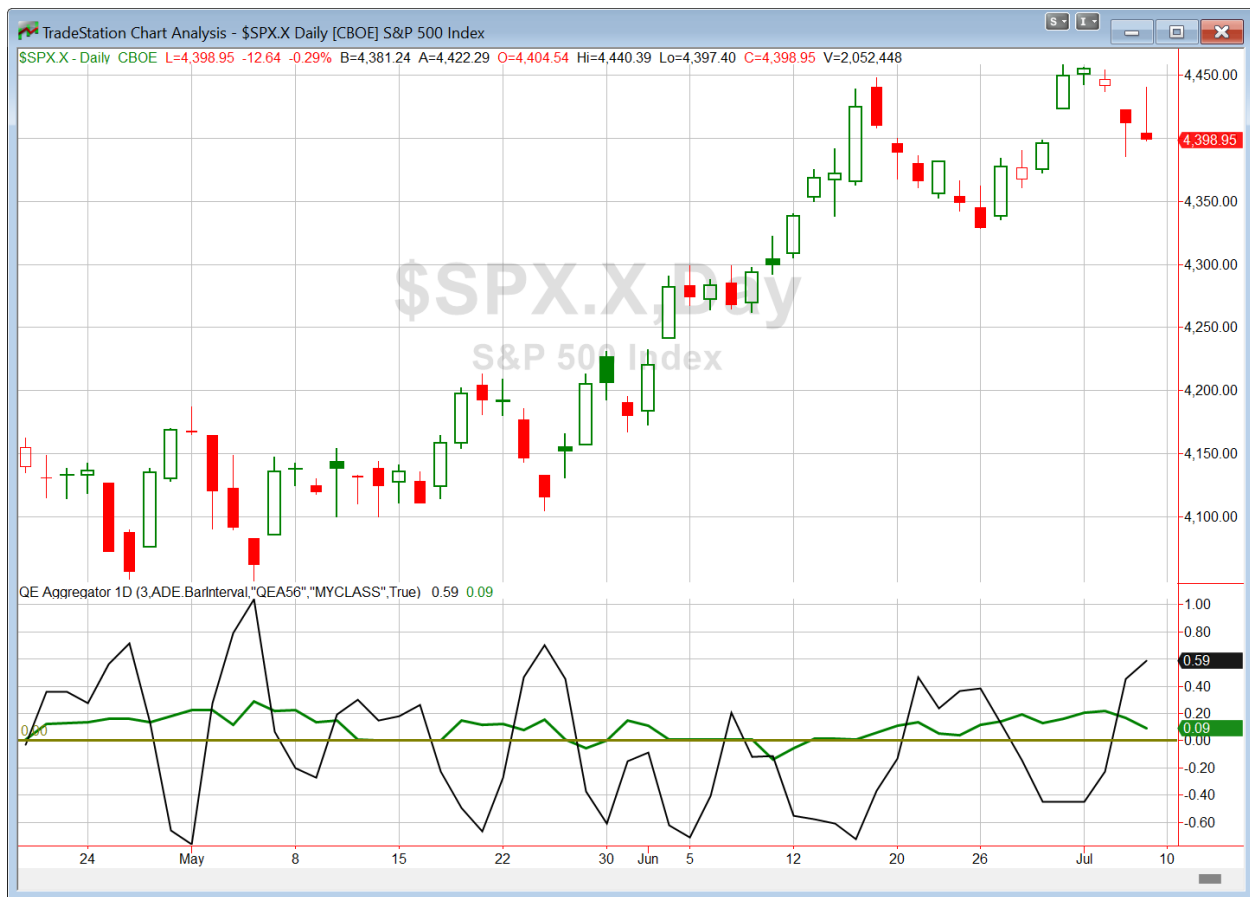
There were a few studies that noted the 3-day pullback the market is now experiencing. I noted the facts that 1) the market is coming off an intermediate-term high, and 2) it closed poorly on Friday, in devising the study below.



There did appear to be an edge beyond just one day, but most of the upside for the next several days was captured on Day 1. Both the numbers and the curve are suggestive of a likely bounce. So I will be adding this to the active list as a 1-day edge.

This upcoming week for the market there are a few potential volatility events on tap. They include speeches from Fed members on Monday, Wednesday, and Thursday, CPI numbers on Wednesday morning and PPI numbers coming out on Thursday morning. So “inflation” and “rate hike” will be a few terms you’ll hear if you listen to financial media this upcoming week. From a seasonality standpoint, the QE Calendar for SPX is 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 above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation stayed long 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 4472.11 on Monday. That is 1.7% above Friday's close. Therefore, SPX will need to close up at least 1.7% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. Evidence is pointing higher, though it is fairly mild at this point. The market is strongly oversold with plenty of room to the upside for a bounce. So I like the risk/reward profile for the bulls. I took a small amount of long index exposure at the close on Friday. I may take more on Monday if SPX closes down much more. I suspect that would bring about some compelling Turnaround Tuesday studies. Plus, as we saw above, seasonality is quite strong this week.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 7/10 – 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”.*

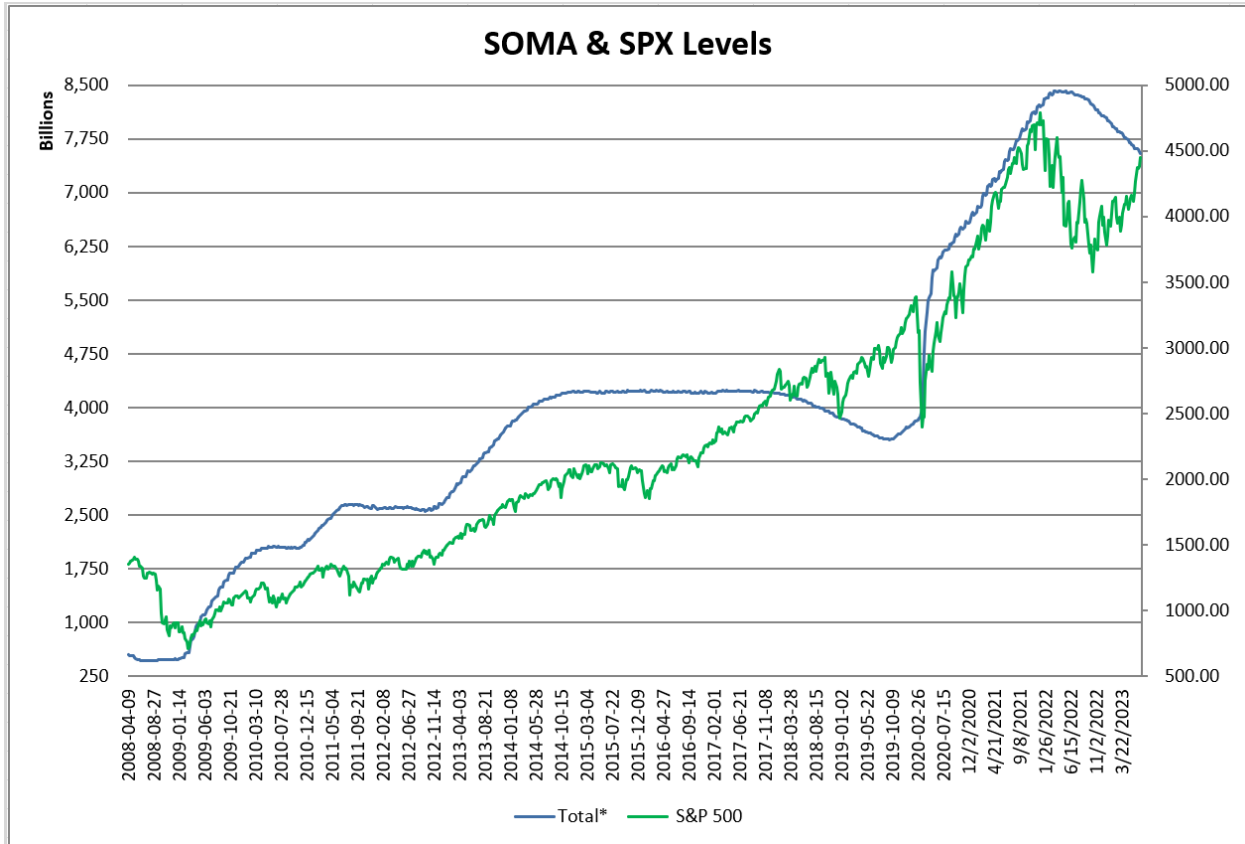
July has stumbled at the start. This past week the SPX lost 1.2%, the NASDAQ fell 0.9%, and the Russell 2000 dropped 1.3%. Bonds did worse. The US Aggregate Bond ETF (AGG) posted a loss of 1.45%. TLT, the 20-year Treasury Bond ETF, fell 3.75%. Long-term uptrends for the SPX and NASDAQ remain in place. 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	July 5, 2023 📅
Posted July 6, 2023 at 4:30 PM	
<div style="display: flex; justify-content: space-between; font-size: small;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	268,928,292.3
US Treasury Notes and Bonds (Notes/Bonds)	4,340,398,167.7
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	7,538,466,964.1
Change From Prior Week	-38,972,948.3

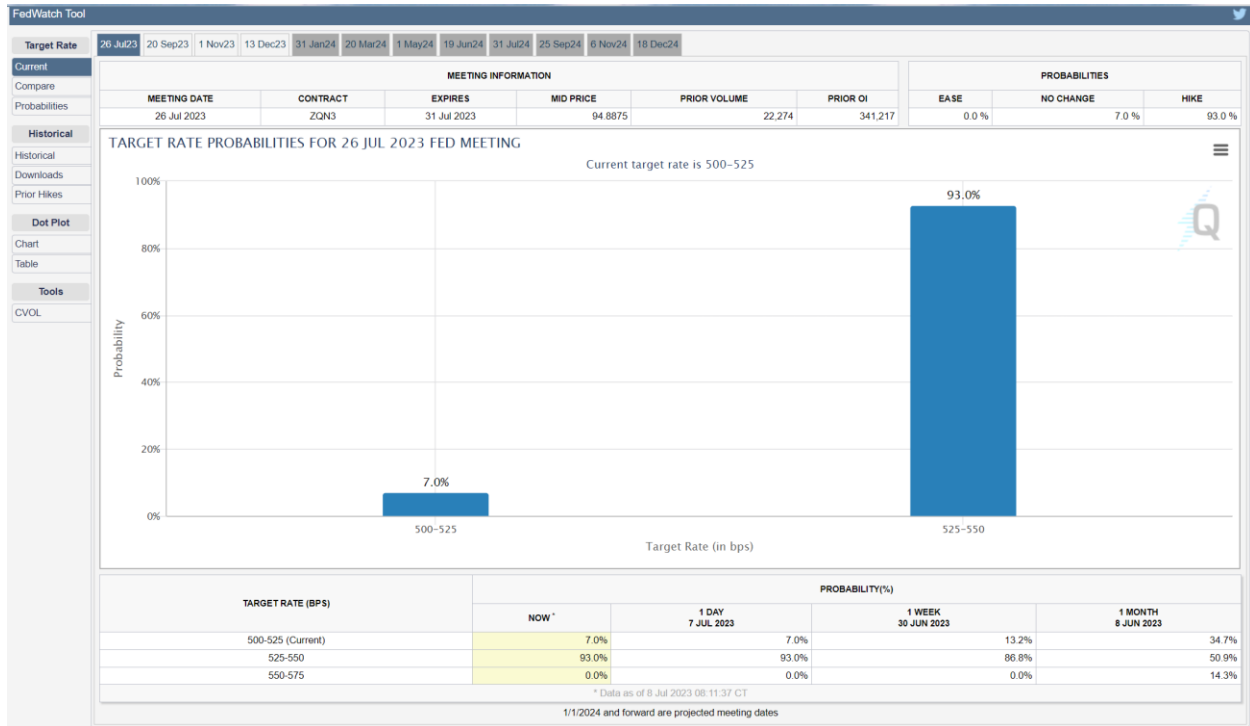
With many bonds maturing at the end of June, this past week saw a decline in the SOMA of \$38 billion. That is a sizable decline, but in line with what would be expected over a month-end during

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. SPX has rallied over the last few months despite the rally in the SOMA. Still, this has only brought to near breakeven since QT began in 2022. Looking back to 2003, the market has posted net mild losses during time that the SOMA was shrinking. The gains have all come during periods that the SOMA was growing.

With regards to rates, odds of further hikes keep increasing. The CME Fedwatch tool is currently showing about an 93% chance of a ¼ point hike in a few weeks. That is up from the 86% we saw a week ago. Below is a screenshot.



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.

While several intermediate-term studies from June have now expired, it still 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. Still, plenty of issues remain. Fed policy is still hawkish and another rate hike appears likely. 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 again 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***

**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.*

**SPY – Buy ¼ index position @ \$435.00 LIMIT ON CLOSE.** Based on the short-term outlook, I will look to add to my SPY position if we get some sizable selling on Monday.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Notes</b>
SPY(1/4)	7/7/2023	\$438.55	\$438.55	0.00%	Aggregator

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter from QE at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2023 Quantifiable Edges, LLC.