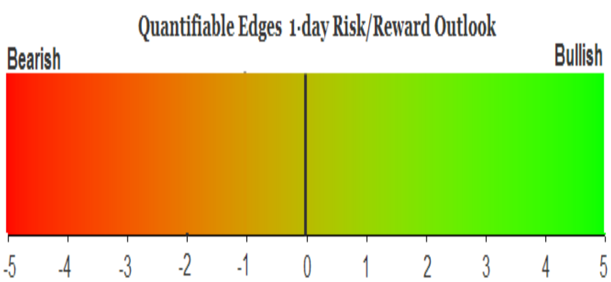
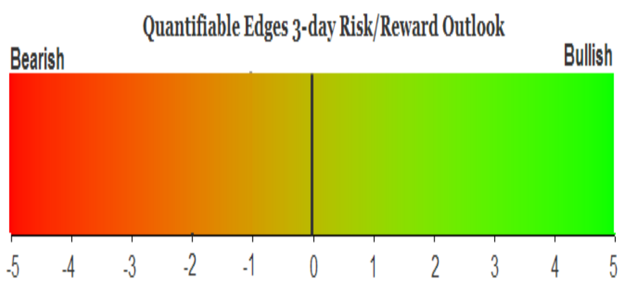
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2023 Volume 16 Issue 144

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	**1**

Tonight's Research Points

- No compelling evidence emerged on Friday suggesting a short-term edge.
- The SOMA declined again last week, and we anticipate this upcoming week should see a sizable decline as well.

Short-term Outlook
The Bottom Line
The Aggregator neutral. I am as well.

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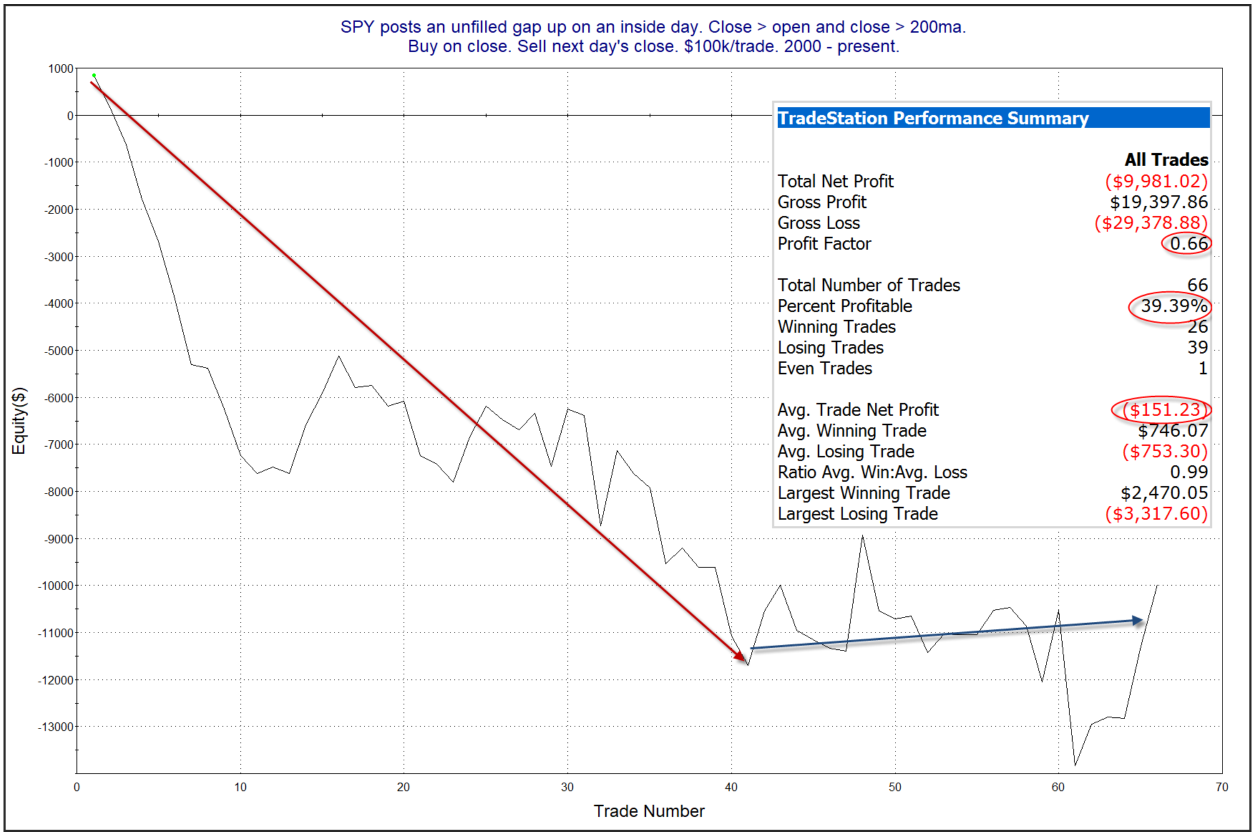
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
July 28, 2023	SPY 2x outside days	1-5 days	Bullish	1.70%	-0.80%	-1.40%
July 27, 2023	SPX recent intraday high. Dn cls. ++Breadth	1-4 days	Bullish	1.90%	-1.10%	-2.40%
Active - Long Term						
July 19, 2023	DJI close up 7 days in a row & > 200ma	1-19 days	Bullish			
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)						
July 28, 2023	NASDAQ down. SOX up > 1%	1 day	Bullish			

The Evidence

Friday was a strong up day. The SPX closed up 1.0%, the NASDAQ rallied 1.9%, and the Russell 2000 gained 1.4%. Breadth was positive with the NYSE Up Issues % coming in at 70% and the Up Volume % at 74%. NYSE total volume declined some heading into the weekend.

The back and forth chop the last few days did not inspire much new evidence. There was one study from the 10/8/20 letter that looked interesting, but the edge has not persisted recently. It looked at days like Friday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. Updated results are below.



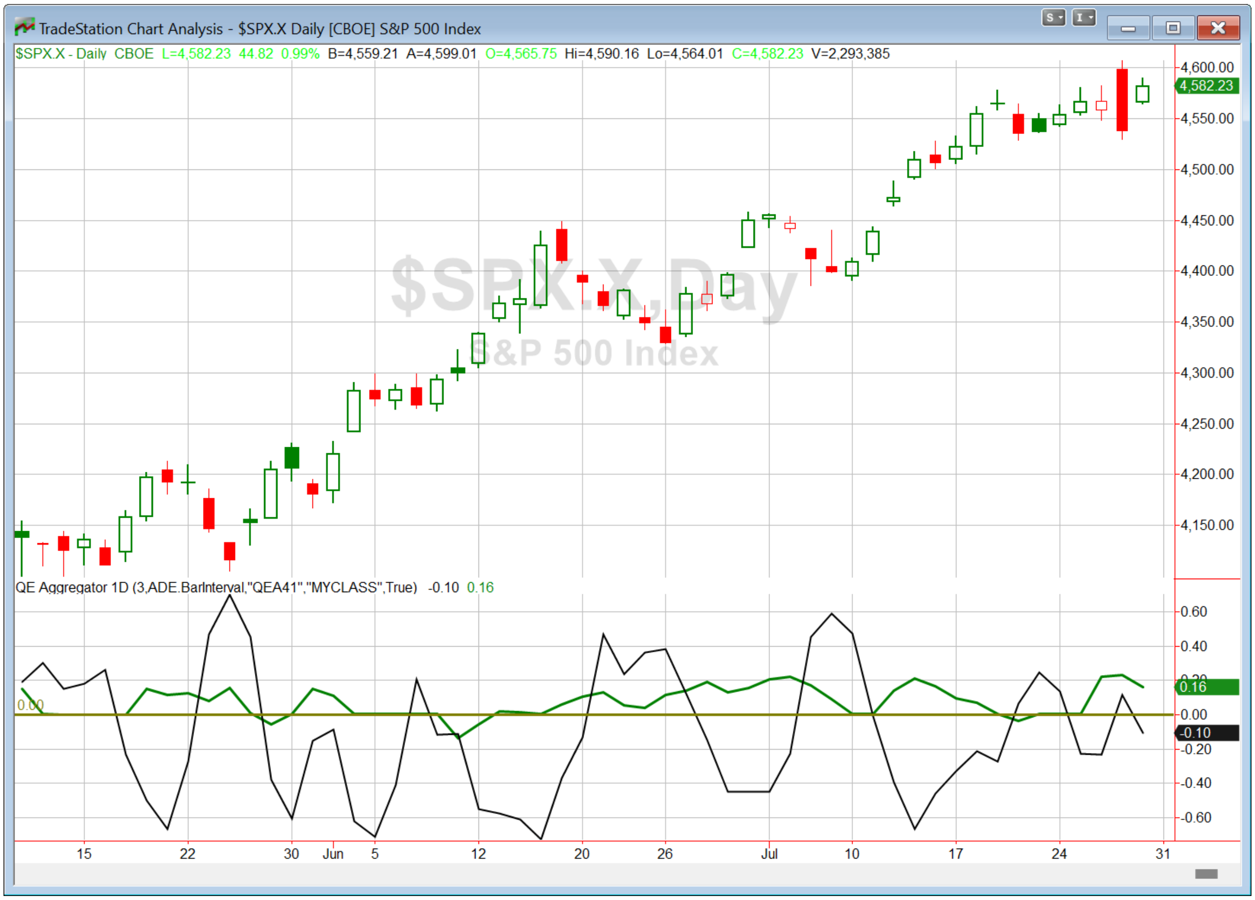
It recently appeared as though the downside edge might be reasserting itself. But the last several instances have the curve back to a level near where it was 25 instances ago. That is a long time with no progress, so I will not be including this on the active list tonight.

Below is a look at the (preliminary) August QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
8/1/2023	54.16	1.458	0.096
8/2/2023	55.54	1.376	0.092
8/3/2023	54.02	1.131	0.028
8/4/2023	54.57	1.257	0.069
8/7/2023	52.97	1.282	0.086
8/8/2023	50.06	1.156	0.043
8/9/2023	51.03	1.050	0.009
8/10/2023	53.23	1.059	0.009
8/11/2023	53.65	1.274	0.076
8/14/2023	52.61	0.793	-0.088
8/15/2023	53.90	1.224	0.029
8/16/2023	53.47	0.930	-0.037
8/17/2023	53.03	0.852	-0.062
8/18/2023	50.46	0.794	-0.082
8/21/2023	58.80	1.116	0.039
8/22/2023	53.96	1.086	0.029
8/23/2023	54.47	1.185	0.059
8/24/2023	58.10	1.306	0.090
8/25/2023	55.85	1.029	0.010
8/28/2023	52.85	0.976	-0.009
8/29/2023	52.65	0.994	-0.002
8/30/2023	55.75	1.286	0.068
8/31/2023	58.29	1.392	0.094
Baseline	***53.69***	***1.135***	***0.046***

Early August shows fairly solid numbers. It is not until we get to August 14th that the stats get more mixed. So the bulls may have a seasonal wind at their back for a couple more weeks.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dipped back 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 turned flat at the close.

Based on the current active studies, expectations are slated to remain positive on Monday. This could change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 4577.17 on Monday. That is just 0.1% below Friday's close. Therefore, SPX will only need to close down a little over 0.1% in order to flip from overbought to oversold vs expectations.

So the Aggregator formation is neutral. It could easily turn bullish on Monday if SPX closes lower. But right now, reward/risk is not very appealing. I'm not inclined to take on new index exposure until that improves.

Intermediate-term Outlook (2 weeks – 2 months) – ***updated 7/31 – bullish***

Combo #1	Combo #2	Combo #3	Combo #4
Long	Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – ***Updated and Expanded for 2023***! Signals are long-term in nature. All 4 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. *This week all 4 combo systems remained "long".*

This past week saw strong results for stocks. The SPX rose 1.0%, the NASDAQ rallied 2.0%, and the Russell 2000 gained 1.1%. Bonds struggled. The US Aggregate Bond ETF (AGG) posted a loss of 0.4%. TLT, the 20-year Treasury Bond ETF, dropped 1.9%. Long-term uptrends for the SPX and NASDAQ remain in place. SPX closed at a new 2023 high on Friday. No new studies 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.

Export current release to: CSV | XML

Domestic Security Holdings as of

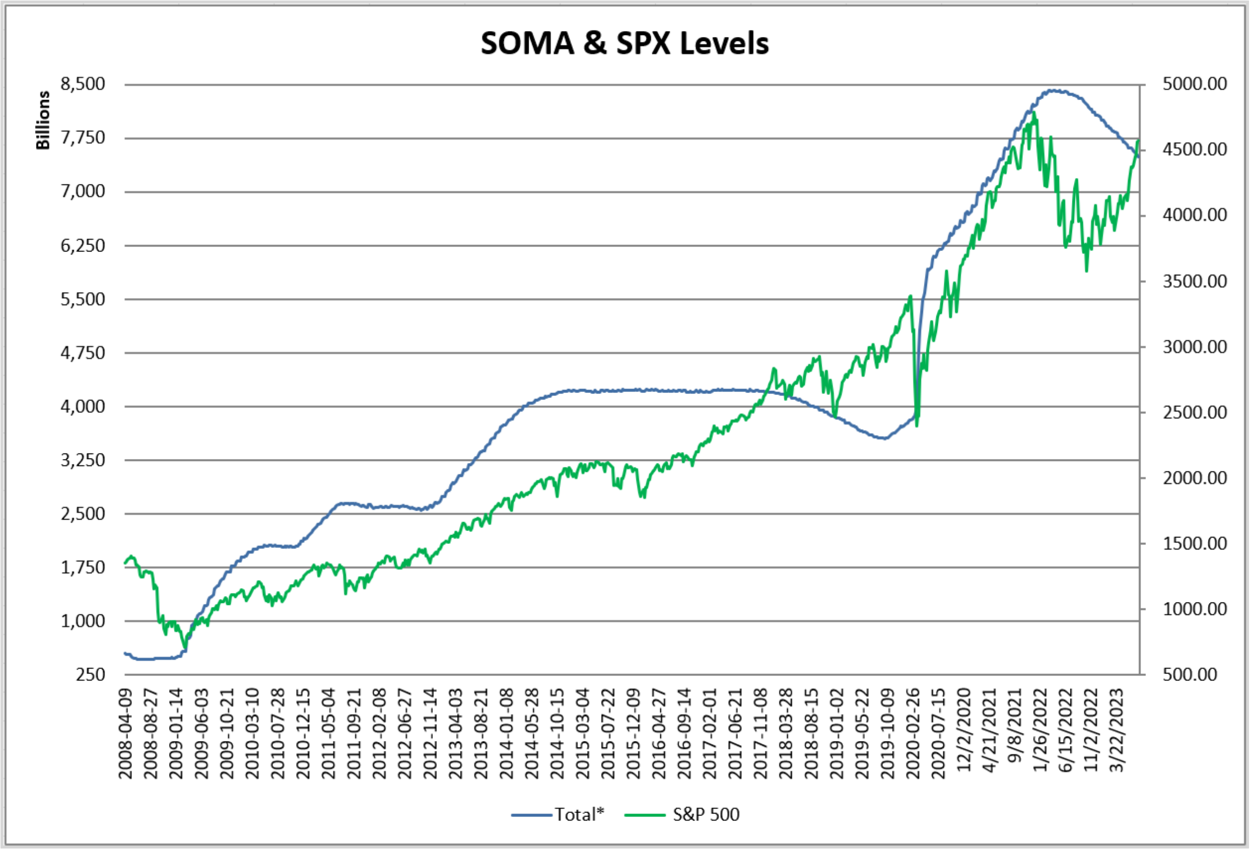
Previous July 26, 2023

Posted July 27, 2023 at 4:30 PM

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

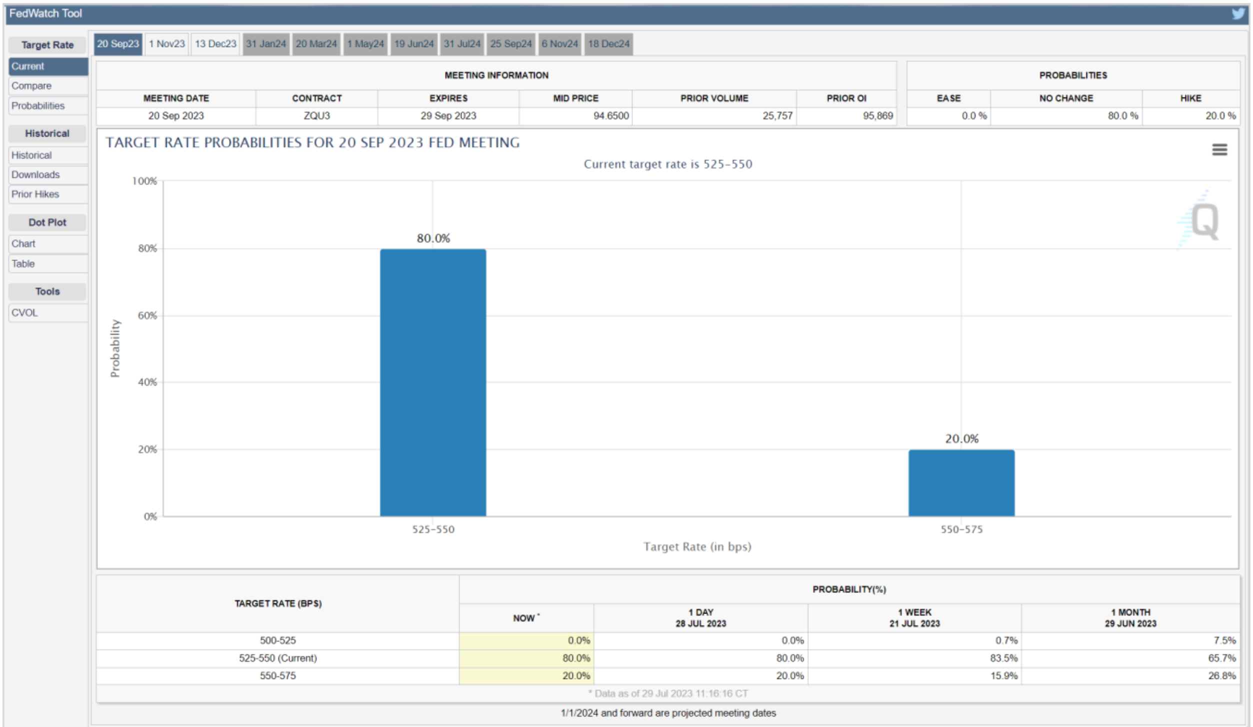
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	261,294,240.8
US Treasury Notes and Bonds (Notes/Bonds)	4,326,545,550.6
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	364,549,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,509,187,003.8
Agency Commercial Mortgage-Backed Securities***	8,372,458.1
Total SOMA Holdings	7,492,722,293.9
Change From Prior Week	-22,822,136.7

This past week saw a sizable decline in the SOMA of $22 billion. This is in line with what would be expected at this point in the month during the current QT period. This week I expect the decline in the SOMA to be even bigger. 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 Quantitative Tightening anytime soon. SPX has rallied over the last several months despite the decline in the SOMA. Still, this has only brought it to around breakeven since QT began in early 2022. Looking back to 2003, the market has posted net mild losses during times that the SOMA was shrinking. The gains have all come during periods that the SOMA was growing. The shrinking SOMA remains a headwind for the market.

With regards to rates, the Fed hiked another ¼ point this past week, bringing the current rate to 5.25% - 5.50%. The Fed stuck with their "data dependent" stance when considering likelihood of further policy changes. Odds of additional of an additional hike at the September meeting are currently about 20%. This can be seen in the screenshot below of the CME Fedwatch Tool:



Plenty of economic data will be released between now and the next Fed meeting. So these odds could fluctuate quite a bit over the next several weeks. And that could make for some swings in the market. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

There still appears to be a bit more evidence favoring the bull case for the intermediate-term. The recent Dow win streak was found to be a positive in a recent study. 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 mid-August. Still, plenty of issues remain. Fed policy is still hawkish. We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. And mid-August through September has traditionally been among the weakest times of the year. 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 more evidence pointing higher, I am still leaning bullish. But I will be ready 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

F @ $14.03 (bought @ limit)

Broad Market Large Cap CBI – 1(F)

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
F(1/3)	7/21/2023	$14.01	$13.26	-5.35%	Catapult