

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 20, 2024

Volume 17 Issue 34

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- Seasonality over the shortened week appears negative for stocks and positive for bonds.
- The SOMA rose this past week, but that is thanks to a calendar quirk. I expect to see a substantial decline for the current week.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. That is where I am at as well.

Summary of Current 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						
February 15, 2024	1-yr Up Issue % Rank > 90% 2x. SPX 50-hi	1-7 days	Bullish	2.00%	-1.30%	-2.90%
Active - Long Term						
February 12, 2024	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.40%	-9.00%
February 2, 2024	SPX up > 15% last 3 months	1-6 months	Bullish			
January 16, 2024	NASDAQ Leading	int term	Bullish			
January 16, 2024	RUT btm 25% 20-day rng. SPX top 25%	1-40 days	Bullish	5.20%	-3.40%	-6.70%
December 27, 2023	%SPX > 50 moves frm 15% > 90% in 50 dys	1-6 months	Bullish			
December 21, 2023	SPX 20-day intra high. NDX worst dn in 20	1-50 days	Bullish			
November 7, 2023	Whaley ADT ₅ > 73.66	1-12 months	Bullish	25.20%	-8.10%	
November 6, 2023	Zweig Thrust	1-12 months	Bullish	29.00%	-3.20%	-7.00%
November 6, 2023	Best 6 Months	6 months	Bullish			
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
February 2, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
January 17, 2024	CBI 11+	1-20 days	Bullish	5.90%	-4.30%	-9.65%
February 5, 2024	Up Vol % < 40%. SPX up.	1-10 days	Bullish	2.10%	-1.60%	-3.40%

The Evidence

Friday saw the market dip. SPX closed down 0.5%, the NASDAQ fell 0.8%, and the Russell 2000 dropped 1.4%. Breadth was weak with the NYSE Up Issues % coming in at 33% and the Up Volume % at 36%. NYSE total volume rose some from Thursday's level.

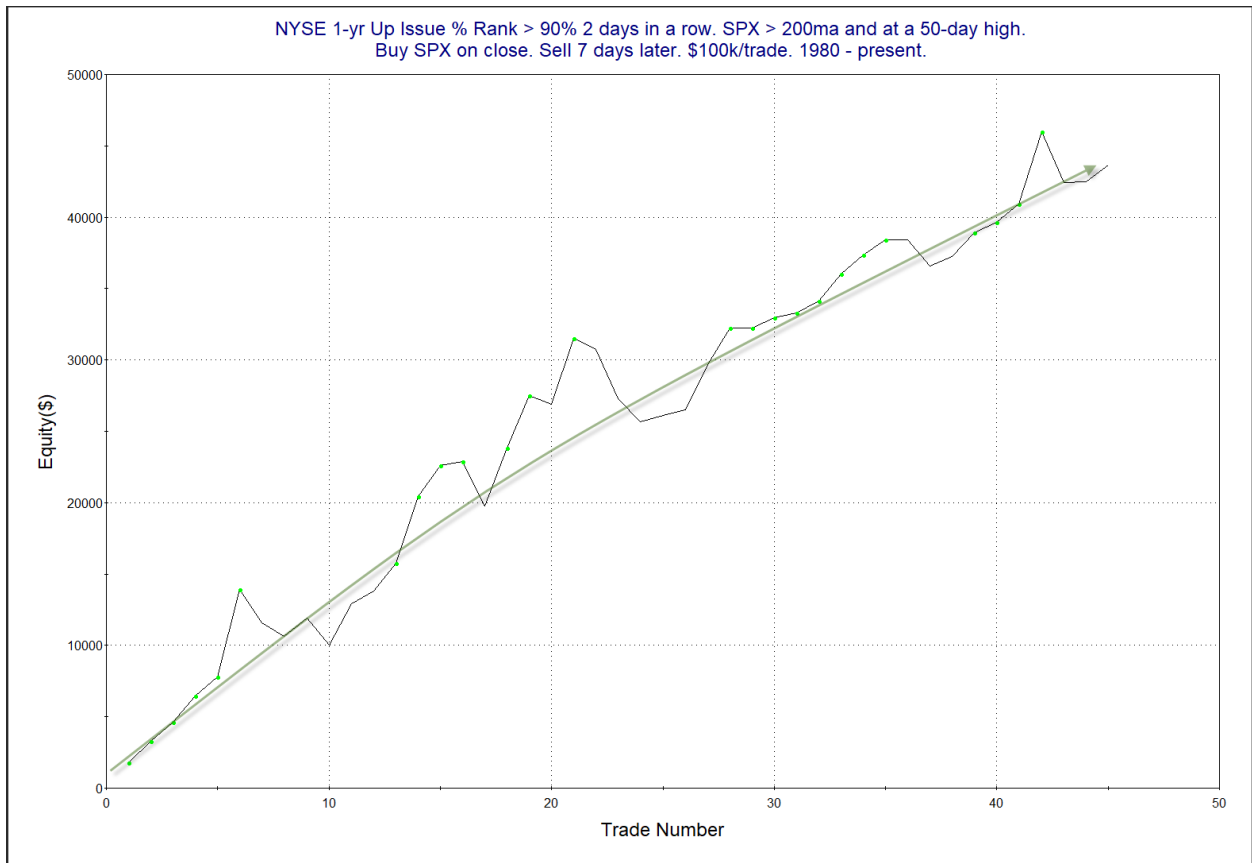
The choppy action over the last week has done very little to generate compelling new studies. Nothing triggered on Friday. In fact, the only short-term study on the active list is the one from Thursday night. And since I have not much else to cover tonight, I decided to copy that study again below for anyone that may have missed it on Thursday:

One tool I use to measure breadth is the Breadth % Rank calculation. For those unfamiliar, Breadth % Rank takes all of the breadth readings over a specified period and assigns a percentile rank rather than just using the raw breadth %.

Using a one-year look back, the last 2 days both saw readings over 94%. The study below simply looks for two consecutive days with a percent rank over 90%. It also requires that the SPX is making a 50-day high while the breadth thrust is occurring. I last discussed it a long time ago in the 10/18/13 letter. Stats are all updated.

NYSE 1-yr Up Issue % Rank > 90% 2 days in a row. SPX > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1980 - 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
10	44,363.29	42	30	12	71.43	7,961.76	-5,262.54	2,330.56	-2,129.47	1.09	2.74	1,056.27
9	38,403.45	43	27	16	62.79	8,093.68	-6,305.04	2,509.00	-1,833.72	1.37	2.31	893.10
8	43,590.93	45	32	13	71.11	6,280.32	-5,493.28	2,117.35	-1,858.79	1.14	2.80	968.69
7	43,650.26	45	34	11	75.56	6,153.68	-3,567.00	1,876.41	-1,831.61	1.02	3.17	970.01
6	32,220.00	46	31	15	67.39	5,043.84	-3,438.86	1,669.71	-1,302.73	1.28	2.65	700.43
5	24,648.99	46	28	18	60.87	4,482.50	-4,974.00	1,656.49	-1,207.37	1.37	2.13	535.85
4	21,272.89	47	30	17	63.83	6,138.16	-5,732.40	1,434.90	-1,280.84	1.12	1.98	452.61
3	9,098.89	48	30	18	62.50	4,376.64	-6,908.70	1,157.77	-1,424.12	0.81	1.35	189.56
2	11,474.12	49	30	19	61.22	4,399.92	-2,409.33	836.57	-717.00	1.17	1.84	234.17
1	4,729.43	53	29	24	54.72	2,609.46	-1,213.92	543.41	-459.56	1.18	1.43	89.23

The numbers here are all solidly positive. Below you can see the 7-day profit curve.



The solid upslope serves as confirmation of the short-term bullish edge.

We are entering an interesting week from a seasonality standpoint. Below I have posted the QE Seasonality Calendars for SPX and the 20+ Yr Bond Index (think TLT).

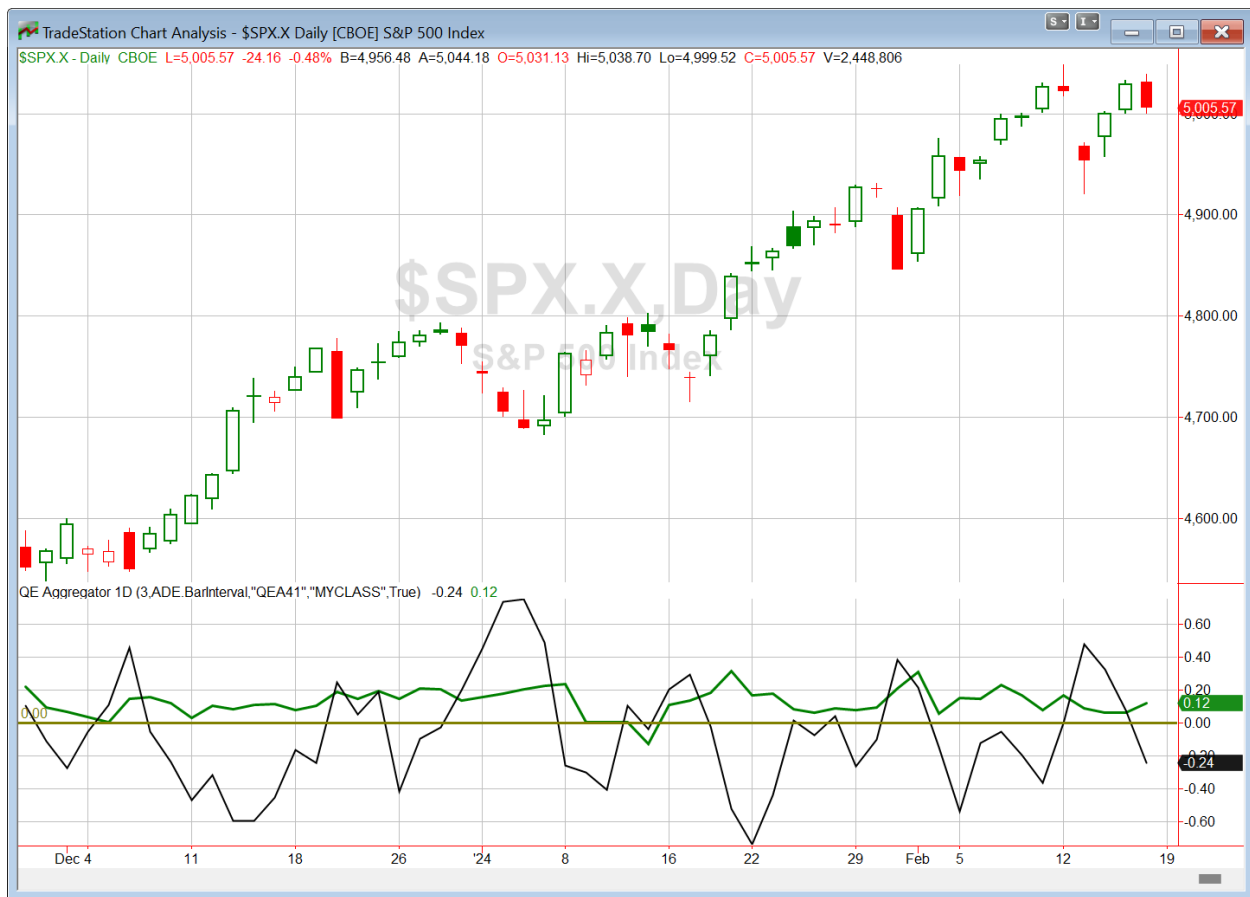
Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
2/1/2024	57.45	1.375	0.090
2/2/2024	55.51	1.170	0.060
2/5/2024	57.33	1.272	0.083
2/6/2024	51.40	0.991	-0.007
2/7/2024	57.16	1.189	0.051
2/8/2024	55.38	0.941	-0.027
2/9/2024	55.68	1.177	0.049
2/12/2024	54.20	1.288	0.050
2/13/2024	51.79	1.387	0.088
2/14/2024	56.00	1.454	0.094
2/15/2024	55.17	1.423	0.082
2/16/2024	53.93	1.492	0.075
2/20/2024	49.06	1.152	-0.014
2/21/2024	47.95	0.823	-0.095
2/22/2024	49.21	1.021	-0.037
2/23/2024	50.78	0.812	-0.100
2/26/2024	52.04	1.133	0.047
2/27/2024	50.01	1.086	0.035
2/28/2024	51.34	1.157	0.057
2/29/2024	53.42	1.238	0.078
Baseline	53.81	1.135	0.046

SPX seasonality is looking weak for the next 4 days. I generally do not view Calendar odds as entry and exit triggers. But with the market overbought and having had such a long run-up, this week could be an opportunity for bears to generate an overdue pullback.

Quantifiable Edges Seasonality Calendar			
\$SPBDUSLT S&P US Treasury Bond 20+ Year Total Return Index			
Date	Win%	Profit Factor	Avg % Chg
2/1/2024	48.73	0.881	-0.051
2/2/2024	48.43	1.122	0.026
2/5/2024	44.69	0.802	-0.095
2/6/2024	51.61	0.947	-0.016
2/7/2024	50.66	0.731	-0.103
2/8/2024	51.95	0.937	-0.028
2/9/2024	49.67	1.006	-0.021
2/12/2024	45.71	0.848	-0.056
2/13/2024	52.73	0.986	-0.008
2/14/2024	56.30	1.291	0.064
2/15/2024	53.80	1.114	0.021
2/16/2024	54.37	1.056	-0.002
2/20/2024	51.74	1.081	0.011
2/21/2024	54.80	1.303	0.098
2/22/2024	55.18	1.232	0.075
2/23/2024	57.78	1.730	0.172
2/26/2024	47.71	1.068	0.007
2/27/2024	51.16	1.011	-0.008
2/28/2024	49.88	0.941	-0.039
2/29/2024	51.44	1.003	-0.009
Baseline	50.91	1.030	0.010

It could also be an opportunity for TLT to bounce. TLT is near its 2024 lows and a short-term rally would not be surprising. And positive seasonality as we see above could help such a bounce.

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



Without much to consider this weekend, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dropped 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 list of active studies, expectations are slated to remain positive on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 5016.60 on Tuesday. That is 0.2% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up over 0.2% on Tuesday in order to remain "overbought" vs recent expectations. Anything other than that, and it will flip to "oversold" as of Tuesday's close.

So the Aggregator is flat. There is not much in the way of short-term evidence to get excited about. Just the one bullish study. A pullback would not be surprising, especially with the seasonal weakness over the next few days. So there does not seem to be a strong case for either a long or short trade. I'll wait until a more favorable entry opportunity arises before making my next move.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/20 – *bullish*

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

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. 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. *The Combo Systems all remained long QQQ this week.*

This past week saw mixed and mild returns among the indices. The SPX lost 0.4%, the NASDAQ fell 1.3%, and the Russell 2000 rose 1.1%. Bonds struggled. The US Aggregate Bond ETF (AGG) posted a loss of 0.5%. TLT, the 20-year Treasury Bond ETF, dropped 1.2%. But SPX did make another all-time closing high during the week, so the long-term market uptrend still appears intact. The choppy action over the last few days failed to generate any new compelling studies with intermediate-term implications.

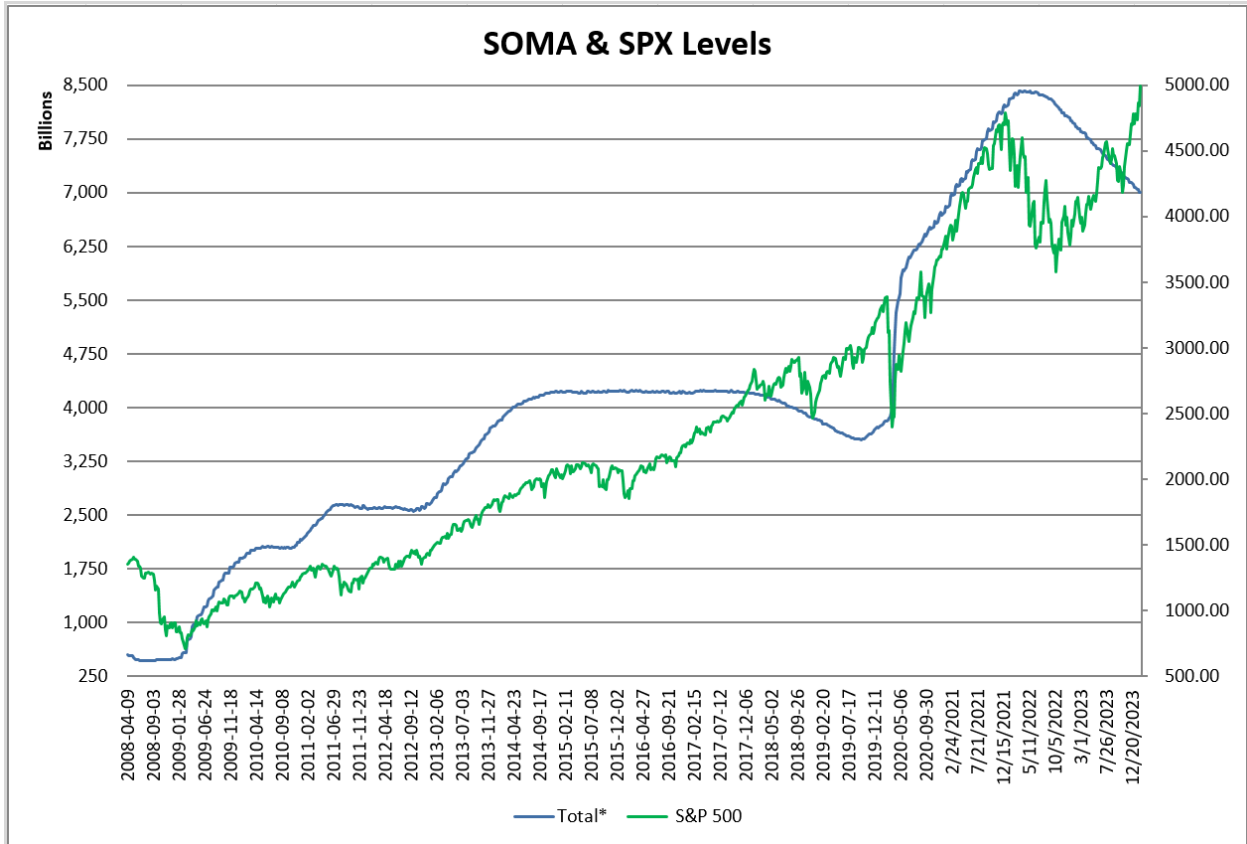
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

[Export current release to: CSV | XML](#)

Domestic Security Holdings as of
[◀ Previous](#) **February 14, 2024** 📅
Posted February 15, 2024 at 4:30 PM

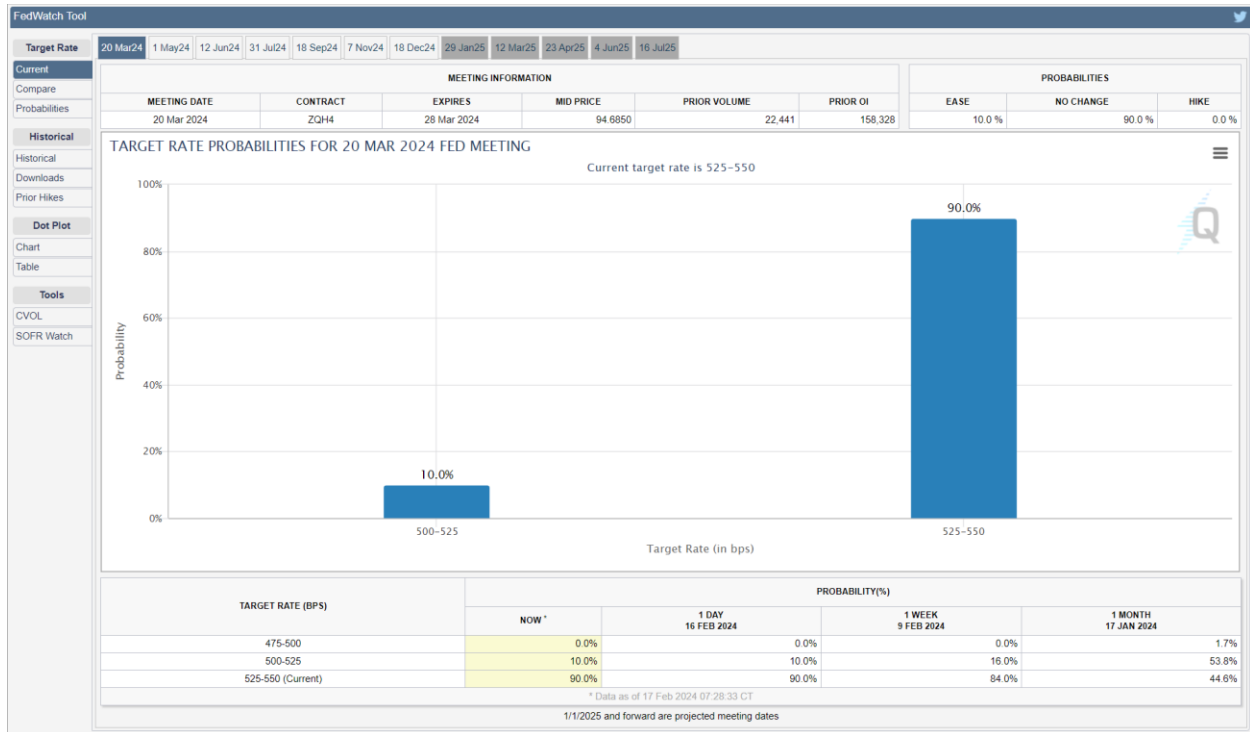
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	210,353,374.1
US Treasury Notes and Bonds (Notes/Bonds)	4,003,117,212.1
US Treasury Floating Rate Notes (FRNs)	7,777,080.8
US Treasury Inflation-Protected Securities (TIPS)*	360,222,223.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,409,006,931.9
Agency Commercial Mortgage-Backed Securities***	8,220,530.3
Total SOMA Holdings	7,001,044,352.9
Change From Prior Week	70,995.9

The SOMA actually posted a small gain for the week ending 2/14/24. That is quite unusual for the current QT cycle. The last time we saw a weekly rise in the SOMA was November of 2023. This is not due to a change in policy. It is more a calendar quirk with the bond maturity schedule. For the week ending 2/21/24 I anticipate a very large decline, and then the week after should be a more moderate drop. Below is an updated SOMA/SPX chart looking back to 2008.

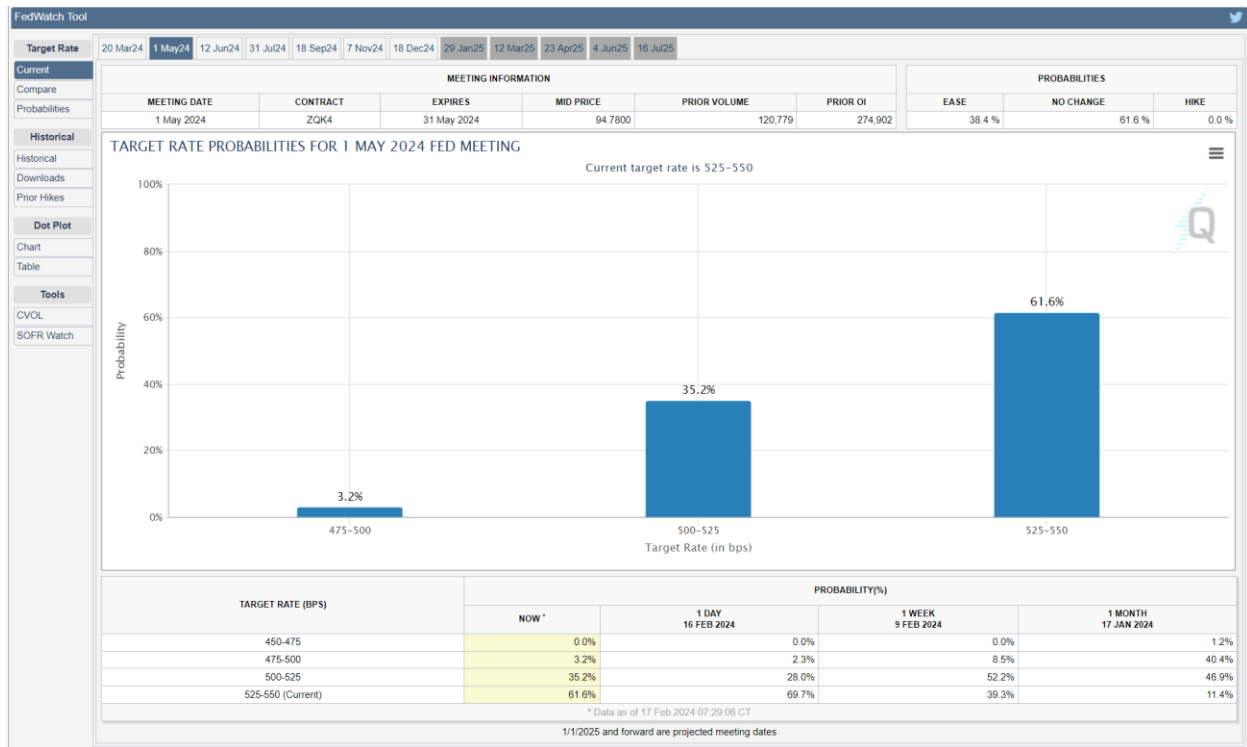


The Fed is in the midst of what is now the largest ever reduction in the size of the SOMA. Despite the strong rally over the last few months, SPX is only up moderately since Quantitative Tightening (QT) began in early 2022. Looking back to 2003, the market has posted net mild losses during times that 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. Notable with regards to QT is that we may be nearing a point where the Fed will begin winding it down. Powell indicated recently that there would be discussion about possible QT changes at the March meeting. I suspect they will taper the amount of QT over time, rather than simply halting it.

With regards to rates, odds are now showing just a 10% chance that the Fed cuts rates in March. Below is a look at the March odds, courtesy of the CME Fedwatch Tool:



So March appears an unlikely time to see the 1st rate cut. I may not even post this graphic after this week unless odds start to increase dramatically. But the hotter than expected CPI and PPI numbers this past week seemed to mostly eliminate the chance that the Fed will start cutting rates at the next meeting. The May meeting is still a possibility. But odds there are now leaning towards holding rates at their current level. This can be seen in the graphic below.



A month ago, odds of the Fed keeping rates at the current level through the May meeting were only 11.4%. Now they are at 62%. That is quite a change. There are still expectations that the next move will be a cut, and it will probably happen in the next few meetings. Of course, as we have seen, odds change. So while high rates and QT may be nearing an end, they still remain. I am still viewing the Fed as a bearish market force.

I've had a bullish overall bias for a while now. And nothing occurred this week to change my outlook. We again saw new all-time highs for SPX. Strong momentum over the last 3+ months have been suggesting favorable market conditions and we have several studies on the active list exemplifying this. The leading NASDAQ is a positive. The trend is clearly up, and we are in a favorable seasonal cycle (though this upcoming week is sub-par). The one substantial detractor is the Fed, though the Fed is beginning to back off some hawkish policy. Things can change quickly, but I am again keeping my intermediate-term bias "bullish". I will be more aggressive with long entries, and will be especially conservative when considering short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

AMGN @ \$291.12 – bought @ Limit

Broad Market Large Cap CBI – 1(AMGN)

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
AMGN(1/3)	2/12/2024	\$289.97	\$285.95	-1.39%	*dividend adjusted price

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