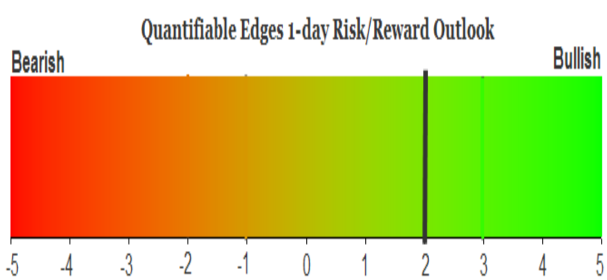
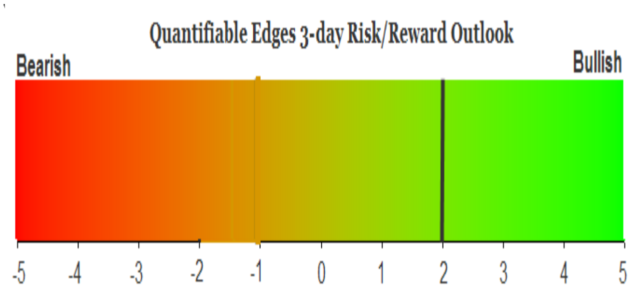
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 8, 2024 Volume 17 Issue 67

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- After closing at a 10-day low on Thursday, Friday's unfilled gap up and close above the open but below the 10ma suggest more upside in the coming days.
- Seasonality appears positive for the next few weeks.
- The SOMA saw a big decline.
- Reverse repos offset the SOMA decline. I discuss SOMA and reverse repos and the net effect on liquidity in the intermediate-term section.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence suggests there should be more to this bounce, but reward/risk does not look as enticing as it did Thursday evening.

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						
April 8, 2024	10-low yest. Unfill up < 10ma > 200 today	1-5 days	Bullish	1.60%	-1.60%	-2.90%
April 5, 2024	Outside Day Cls Btm 10% 10-day rng> 200	1-6 days	Bullish			
April 5, 2024	Up<50-highYest. 3HiLoCls > 200	1-4 days	Bullish			
April 5, 2024	1st 10-low close in 30+ days	1-8 days	Bullish			
April 3, 2024	3 down from 50-high < 10ma > 10-low	1-4 days	Bullish	1.60%	-0.90%	-1.90%
April 1, 2024	Early April bullish	1-4 days	Bullish	3.40%	-1.70%	-3.40%
Active - Long Term						
March 4, 2024	Jan & Feb both close positive	1-10 months	Bullish			
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			
December 27, 2023	%SPX > 50 moves frm 15% > 90% in 50 dys	1-6 months	Bullish			
November 7, 2023	Whaley ADT5 > 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			

The Evidence

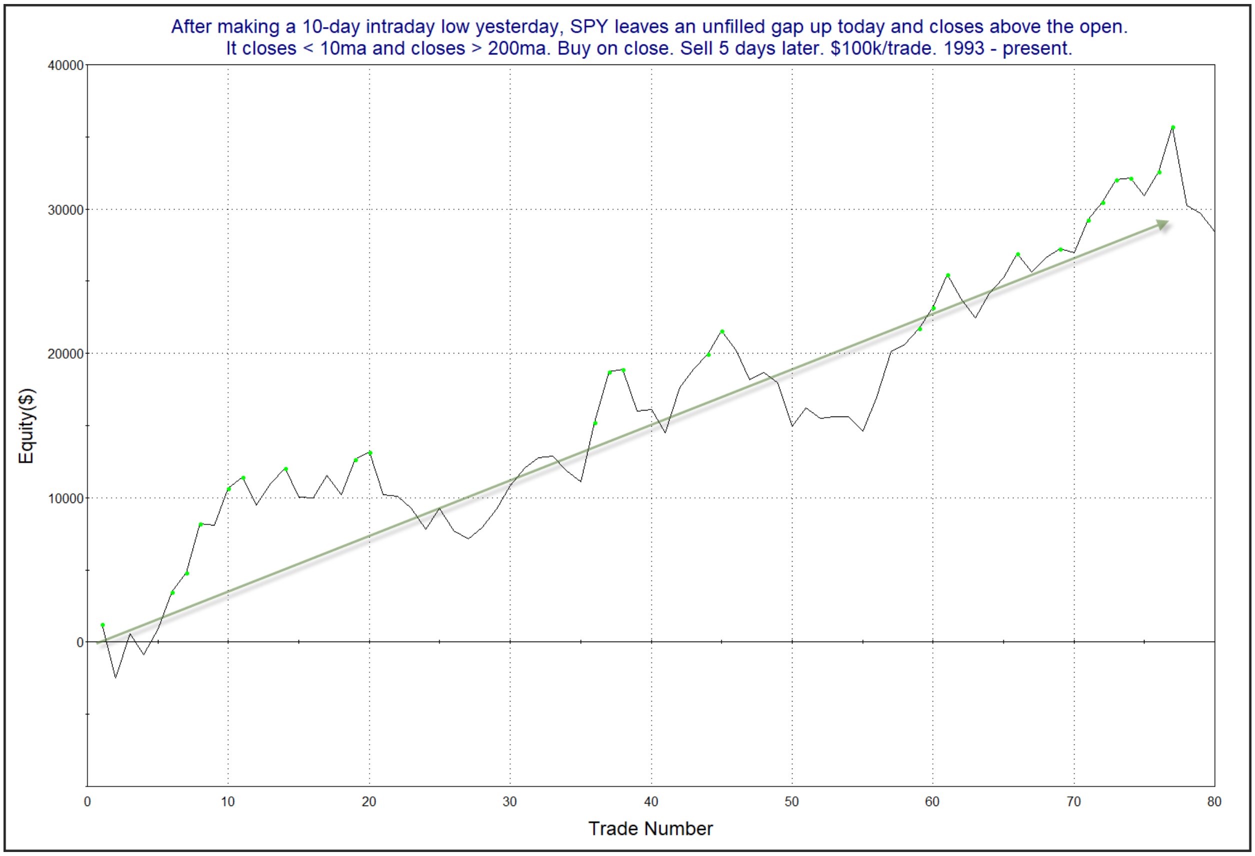
Friday was another positive reaction to the jobs report. SPX closed up 1.1%, the NASDAQ gained 1.2%, and the Russell 2000 rose 0.5%. Breadth was positive with the NYSE Up Issues % coming in at 59% and the Up Volume % at 65%. NYSE total volume declined some for the 3rd day in a row.

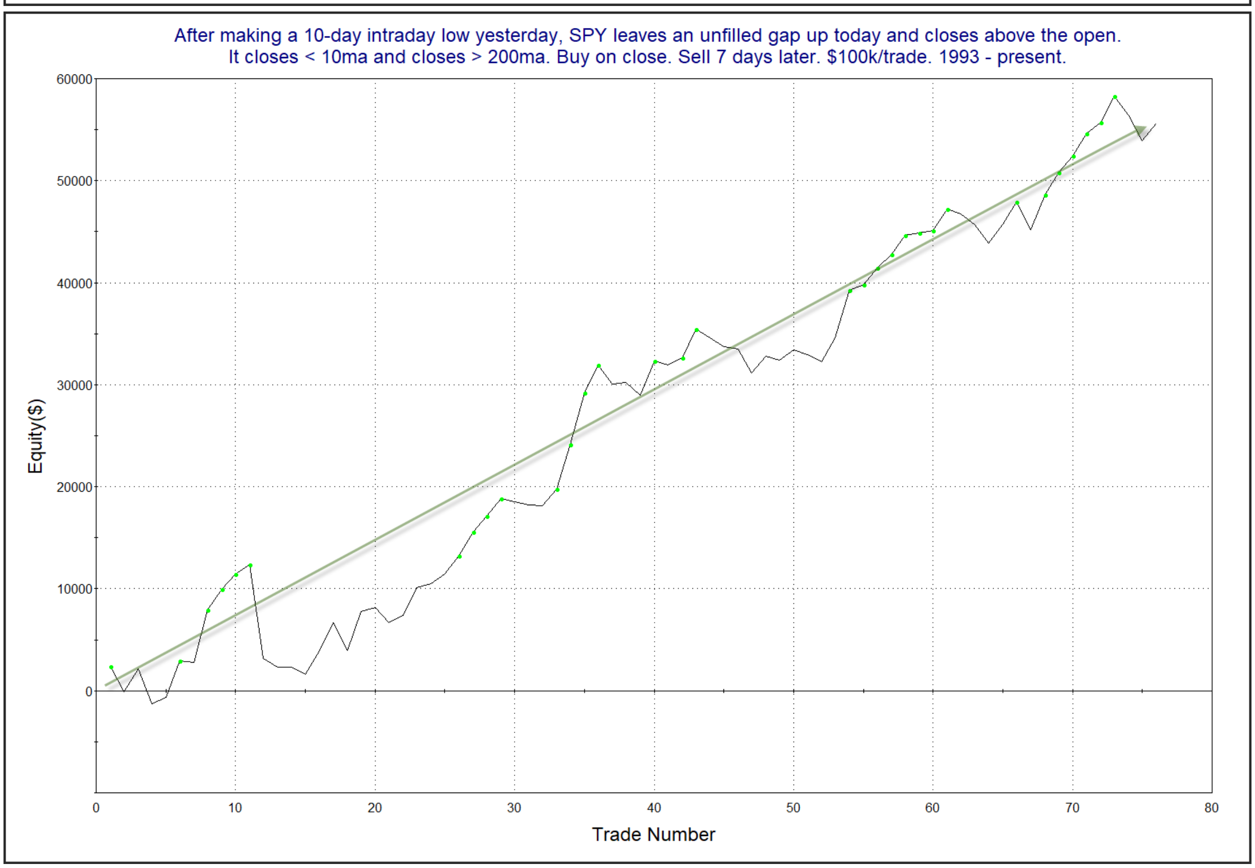
A few studies triggered in the Quantifinder. But upon close examination, most were not very appealing. The one below looked at patterns similar to the current one where SPY made a 10-day intraday low yesterday and then posted an unfilled gap up today along with a close above the open (and above the 200ma but below the 10ma) Results are updated.

After making a 10-day intraday low yesterday, SPY leaves an unfilled gap up today and closes above the open. It closes < 10ma and closes > 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - 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	58,951.77	74	48	26	64.86	5,766.24	-5,042.10	2,187.48	-1,771.05	1.24	2.28	796.65
9	63,850.95	75	44	31	58.67	6,522.72	-3,610.88	2,483.10	-1,464.70	1.70	2.41	851.35
8	58,422.00	75	49	26	65.33	5,468.09	-5,654.80	2,022.08	-1,563.83	1.29	2.44	778.96
7	55,613.38	76	48	27	63.16	5,136.00	-9,172.30	2,024.85	-1,539.99	1.31	2.34	731.75
6	36,654.17	78	45	33	57.69	5,589.68	-3,987.20	1,772.83	-1,306.76	1.36	1.85	469.93
5	28,423.79	80	49	31	61.25	4,106.63	-5,409.60	1,525.67	-1,494.64	1.02	1.61	355.30
4	25,981.57	84	52	32	61.90	3,904.83	-3,702.72	1,377.16	-1,425.96	0.97	1.57	309.30
3	14,765.89	89	50	39	56.18	3,914.92	-3,070.92	1,215.79	-1,180.09	1.03	1.32	165.91
2	5,235.39	92	51	41	55.43	3,089.76	-3,031.50	1,132.74	-1,281.33	0.88	1.10	56.91
1	-317.32	92	44	47	47.83	2,470.05	-2,895.33	853.36	-805.64	1.06	0.99	-3.45

There appears to be a moderate upside edge. I have produced the 5-day and 7-day profit curves below.


After making a 10-day intraday low yesterday, SPY leaves an unfilled gap up today and closes above the open.
It closes < 10ma and closes > 200ma. Buy on close. Sell 5 days later. $100k/trade. 1993 - present.
Equity($)
40000
30000
20000
10000
0
0
10
20
30
40
50
60
70
80
Trade Number


After making a 10-day intraday low yesterday, SPY leaves an unfilled gap up today and closes above the open.
It closes < 10ma and closes > 200ma. Buy on close. Sell 7 days later. $100k/trade. 1993 - present.
Equity($)
60000
50000
40000
30000
20000
10000
0
0
10
20
30
40
50
60
70
80
Trade Number

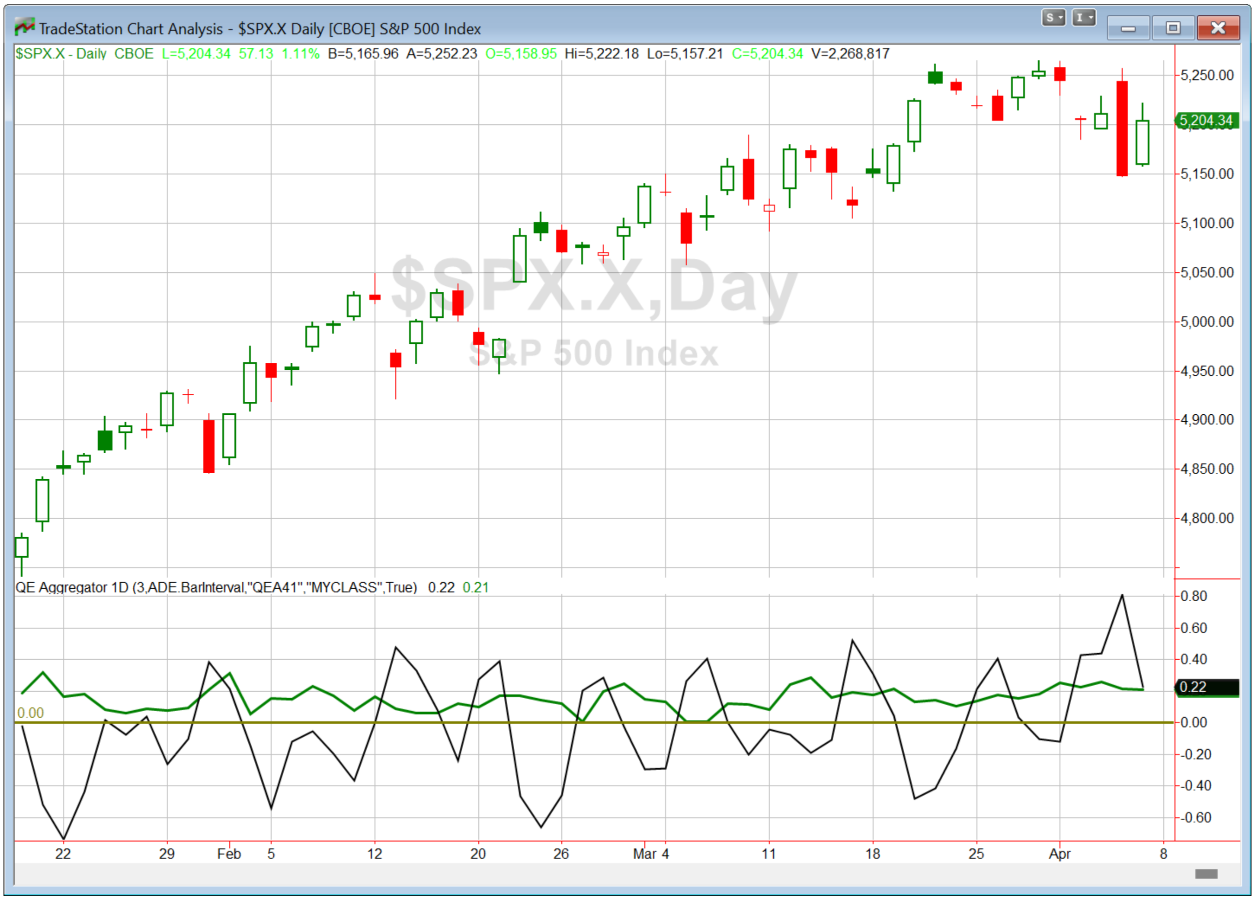
The 7-day looks a little more appealing due to a few recent instances. But I decided to add the study to the active list as a 5-day edge. I just wasn't convinced it was compelling enough to credit it for longer than 5 days.

Below is a look at the April Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
4/1/2024	61.17	1.867	0.207
4/2/2024	49.99	1.104	0.029
4/3/2024	55.69	1.370	0.109
4/4/2024	56.40	1.173	0.056
4/5/2024	56.65	1.281	0.091
4/8/2024	54.56	1.335	0.081
4/9/2024	52.66	1.417	0.114
4/10/2024	54.79	1.341	0.091
4/11/2024	55.41	1.293	0.070
4/12/2024	55.82	1.526	0.145
4/15/2024	60.70	1.481	0.102
4/16/2024	57.61	1.734	0.161
4/17/2024	54.76	1.200	0.052
4/18/2024	53.99	1.148	0.033
4/19/2024	50.55	1.102	0.017
4/22/2024	54.81	1.105	0.030
4/23/2024	53.14	1.047	0.015
4/24/2024	54.67	1.161	0.050
4/25/2024	56.80	1.229	0.067
4/26/2024	54.60	1.002	0.000
4/29/2024	52.40	1.028	0.001
4/30/2024	50.73	0.969	-0.014
Baseline	***53.81***	***1.140***	***0.047***

This past week did not play out so great, but the market still appears to have bullish seasonality over the next few weeks.

I have updated the Aggregator chart below.



With this weekend's evidence considered, 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 remained 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 list of active studies, expectations are set to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 5249.07 on Monday. That is 0.9% above Friday's close. Therefore, SPX will need to close up at least 0.9% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is again bullish. Short-term evidence is all pointing higher. And there is still room to the north before SPX will turn overbought. But bargain basement prices like we saw on Thursday are no longer available. I have a small long position in SPY. I'll keep it that way for now. If Monday is a strong up day, I may look to take profits. If Monday is a dud, I may look to increase my position on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/8 – bullish

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

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 SPY.*

This past week saw stocks struggle. The SPX fell 0.95%, the NASDAQ declined 0.8%, and the Russell 2000 tumbled 2.9%. Bonds also had a bad week. The US Aggregate Bond ETF (AGG) fell 1.0%. TLT, the 20-year Treasury Bond ETF, dropped an outsized 3.1%. SPX and NASDAQ are still not far from new all-time highs, and the long-term uptrend appears to be intact. There were no 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

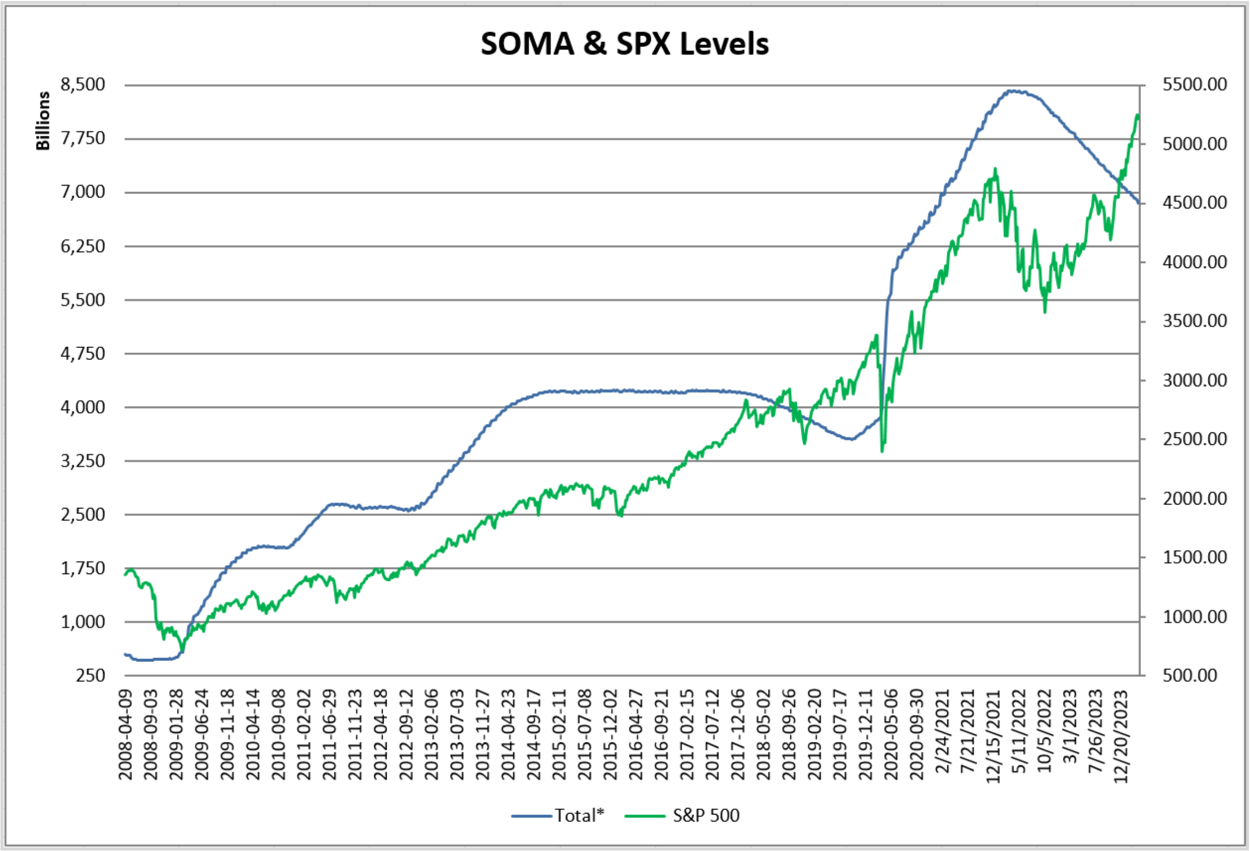
Previous April 3, 2024

Posted April 4, 2024 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)	195,142,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,897,986,286.9
US Treasury Floating Rate Notes (FRNs)	7,777,080.8
US Treasury Inflation-Protected Securities (TIPS)*	360,611,595.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,380,239,926.0
Agency Commercial Mortgage-Backed Securities***	8,195,378.6
Total SOMA Holdings	6,852,300,194.7
Change From Prior Week	-43,545,056.0

The SOMA saw a massive decline this past week of $43.5 billion. That is the biggest 1-week decline since 4/5/2023, and one of the 3 biggest of all time. The current week should see a much more mild decline. Below is an updated SOMA/SPX chart looking back to 2008.



Quantitative Tightening (QT) seemed to have a strongly bearish impact on markets in 2022, and during other times when QT was instituted. But during 2023 and so far in 2024, QT has not seemed to have the same bearish force. In looking at the chart, it is obvious that the continued reduction in the SOMA over the last 15 months has not prevented the market from rallying. Why? I've seen a number of people discuss possible reasons, including Scott Murray (@VolatilityWiz on X) and Aidan Garrib on the 3/27 edition of The Market Huddle podcast. The prime suspect is the large drawdown in reverse repos since the start of 2023, which has injected liquidity into the system at the same time QT was reducing liquidity. But the person that really demonstrated the point the best to me through some emails was my friend and colleague Tom McClellan, of the McClellan Financial Publications (https://www.mcoscillator.com/). The charts below are similar to ones that Tom showed me, which he also published in a recent McClellan Market Report.

First, a very short explanation of reverse repos, taken directly from the New York Fed website (https://www.newyorkfed.org/markets/rrp_faq.html):

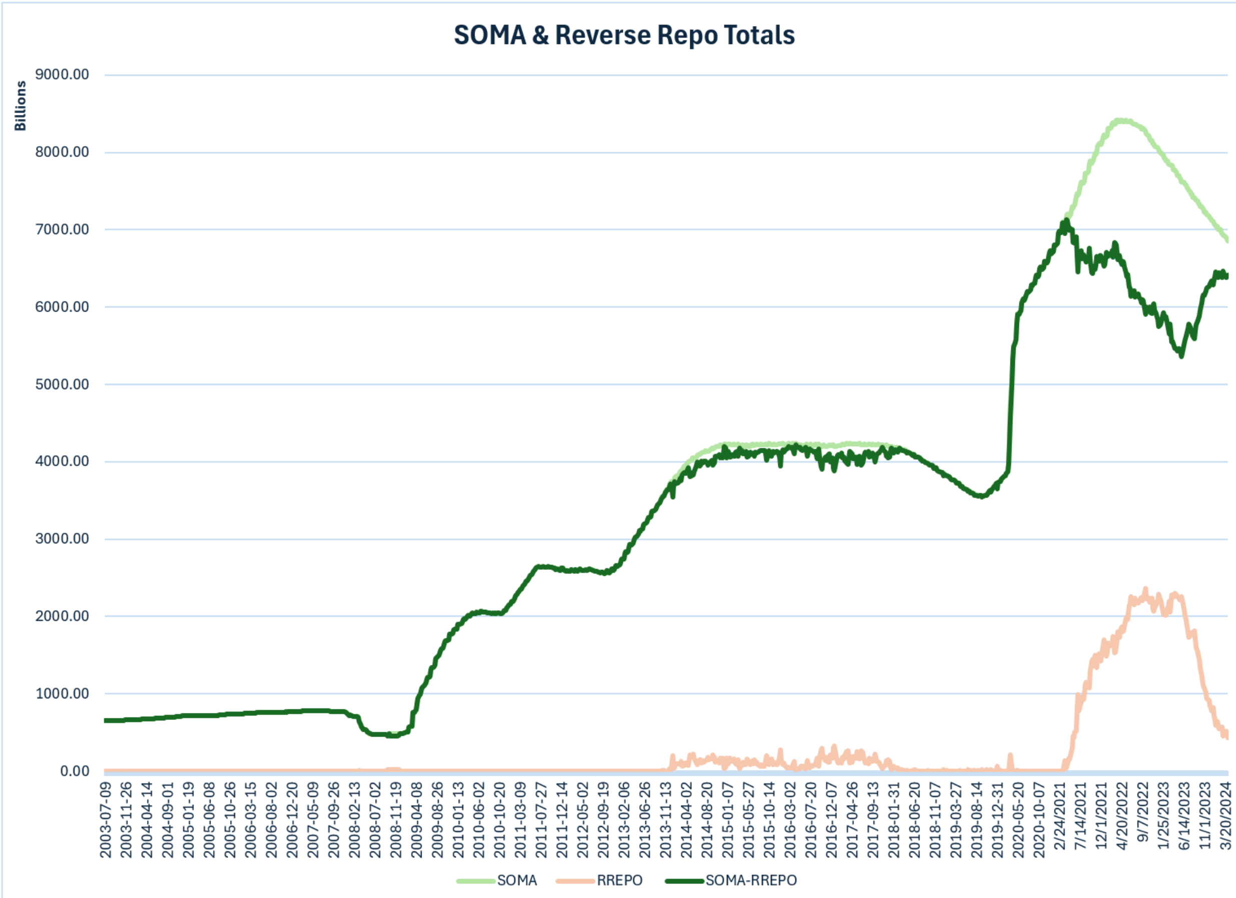
A reverse repurchase agreement conducted by the Desk, also called a "reverse repo" or "RRP," is a transaction in which the Desk sells a security to an eligible counterparty with an agreement to repurchase that same security at a specified price at a specific time in the future. The difference between the sale price and the repurchase price, together with the length of time between the sale and purchase, implies a rate of interest paid by the Federal Reserve on the transaction.

When the Desk conducts RRP open market operations, it sells securities held in the System Open Market Account (SOMA) to eligible RRP counterparties, with an agreement to buy the assets back on the RRP's specified maturity date. This leaves the SOMA portfolio the same size, as securities sold temporarily under repurchase agreements continue to be shown as assets held by the SOMA in accordance with generally accepted accounting principles, but the transaction shifts some of the liabilities on the Federal Reserve's balance sheet from deposits held by depository institutions (also known as bank reserves) to reverse repos while the transaction is outstanding. These RRP operations may be for overnight maturity or for a specified term.

So here are important points to keep in mind as I understand it:

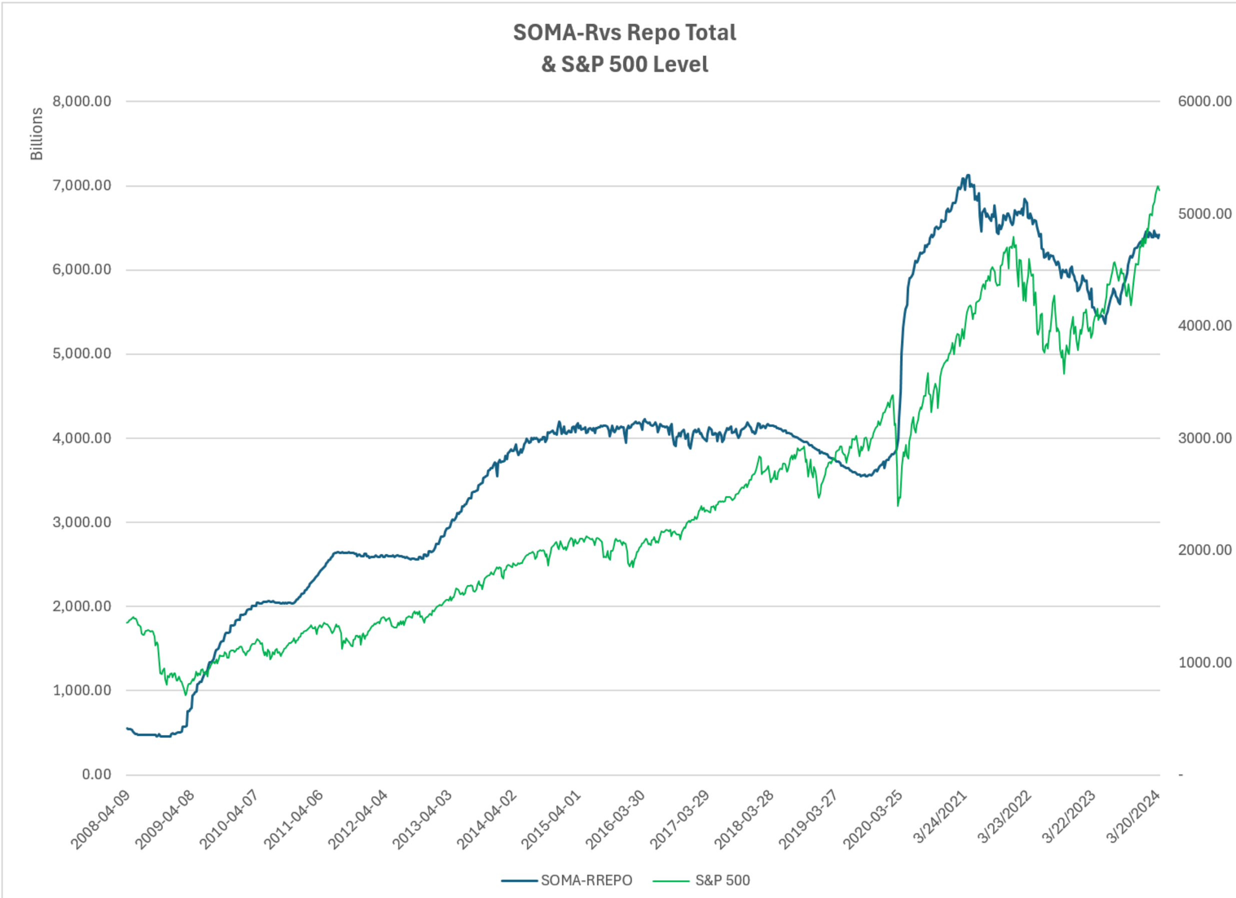
- Reverse repos are essentially invisible when looking at the SOMA.
- When reverse repos are opened, that can be a liquidity drain on the system.
- The closing of reverse repos can inject liquidity back into the system as banks turn in the securities for "money".

So here is a chart showing the SOMA, outstanding reverse repos, and then a line showing SOMA minus Reverse Repos. We subtract the reverse repos because they have the opposite impact on liquidity that the SOMA does. The reverse repo data was taken from the St. Louis Fed's FRED database. (https://fred.stlouisfed.org/series/RRPONTSYD)



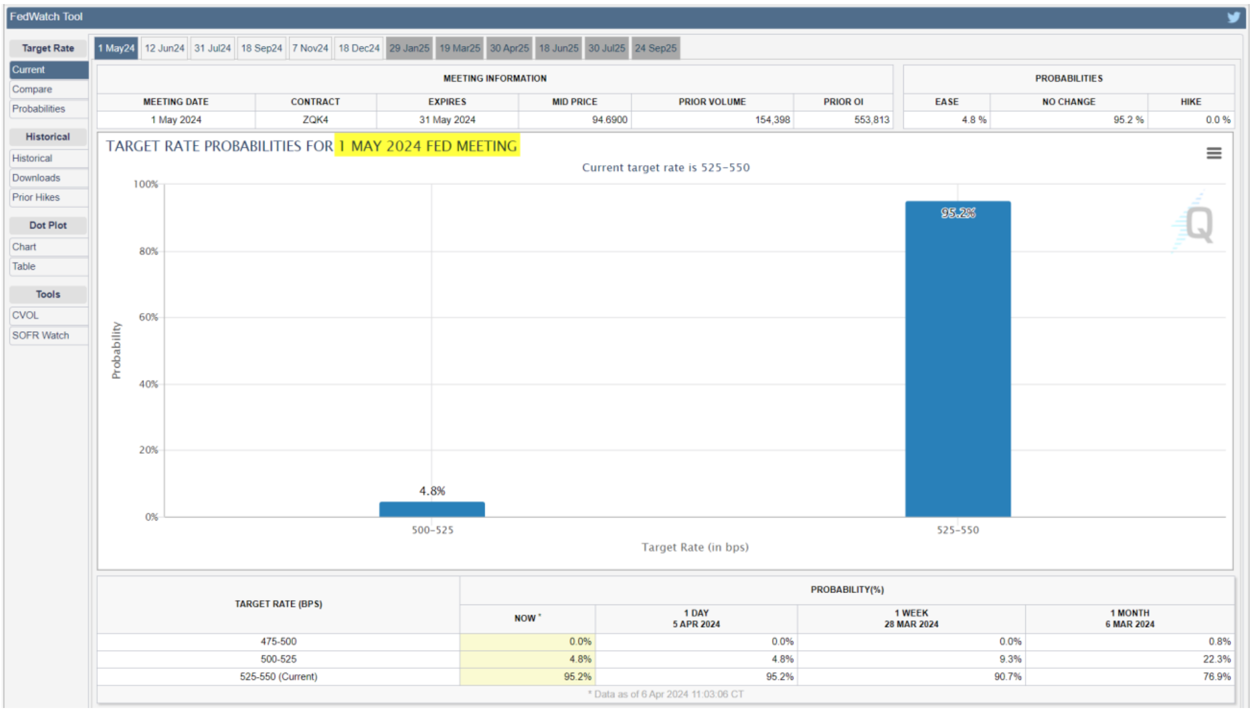
So while the SOMA has come down substantially over the last year-plus, it has not come down as quickly as the reverse repo balances have come down. Reverse repos closing out has more than offset the impact of QT, and essentially created a faux-QE scenario. This is evident by the rise in the SOMA-RREPO line. The market has been helped by all this liquidity.

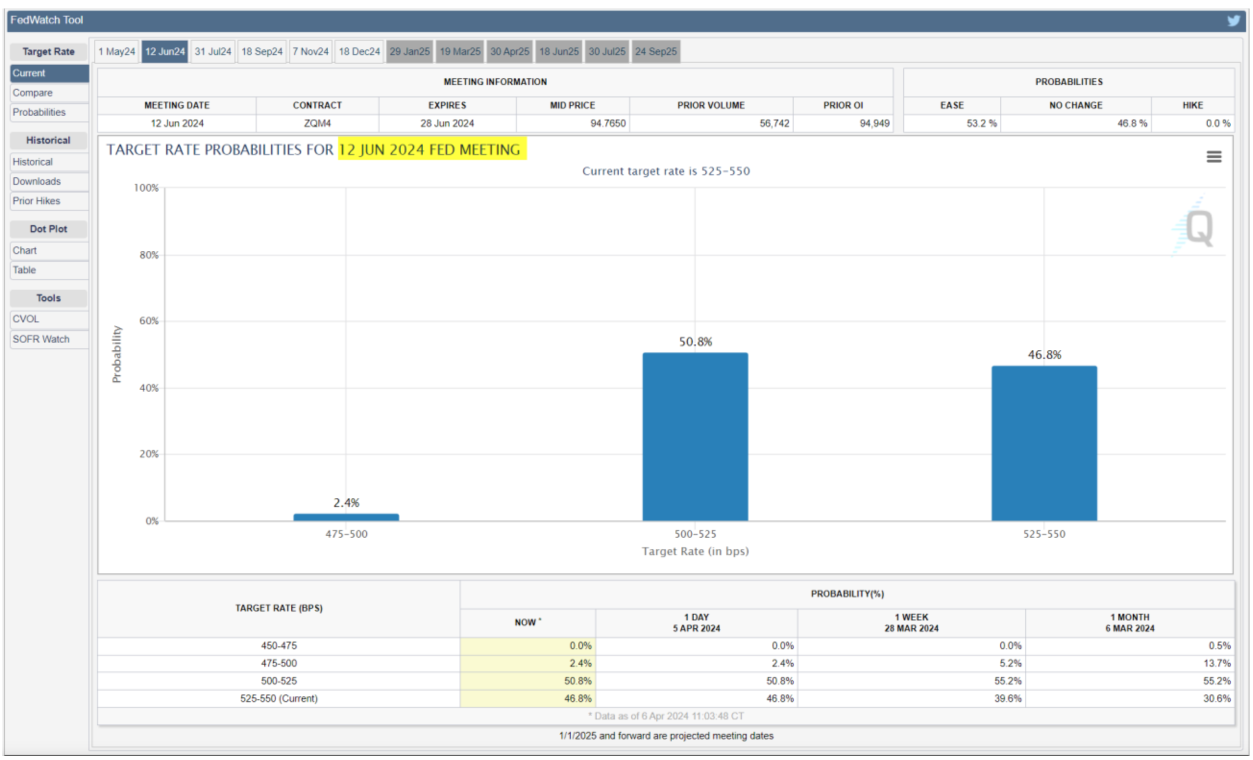
The bad news? Reverse repos don't have a whole lot further to fall before they are back near zero. When that happens, faux-QE will be gone. If the Fed wants to keep liquidity flush, it will need to stop QT, and perhaps even start actual QE. (Not near there yet.) Here is a chart of SPX with SOMA-RREPO, similar to our SOMA & SPX chart we have shown for a long time.



This matches up Fed liquidity flows with the SPX in a way that we were accustomed to seeing them move together for a long time. So QT can still be a headwind to the market. But it has not been lately thanks to reverse repos closing out. I will continue to keep an eye on this in the coming weeks and months, because we could very well see the market stumble when reverse repos get too low. Props again to Tom McClellan, whose work I do recommend people check out. Last note with regards to SOMA/RREPO action this past week: while the SOMA saw a big decline of $43.5 billion (reducing liquidity), reverse repos dropped by $81.7 billion (injecting liquidity). So for the week ending 4/3 there was not a liquidity drain despite the substantial decline in the SOMA. One potential frustration with regards to utilizing reverse repo activity is that it cannot be easily anticipated in a way that SOMA activity can. Still, it is worth tracking and I will do so.

With regards to rates, odds are showing just a 5% chance that the Fed cuts rates in May, but a 53% chance that rates are lowered by the June meeting (down from 76% two weeks ago). This can be seen in the graphics below, courtesy of the CME Fedwatch tool.





There continue to be expectations that the next move, when it eventually comes, will be a cut. Keep in mind that these odds continue to shift. Last year at this time most people believed the Fed was going to start cutting rates in July of 2023. We are now way beyond that. I am still viewing the Fed as a potentially bearish market force.

I've had a bullish overall bias for a while now. And most of what we see on the intermediate-term active list remains bullish. Momentum is strong, seasonality is generally favorable, breadth thrusts we saw a few months ago have seen great follow through to this point. The trend is clearly up and the market is near all-time highs. And as discussed this week, overall liquidity has been positive. There are still some negatives, including potentially bearish Fed policies, and the fact that the NASDAQ is in a lagging position. But there is enough pointing higher at this point that I will keep my outlook bullish. I will look to be more aggressive with long-side trades, and will be conservative when considering short positions.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

NVDA – 1/3 @ $859.05 (buy @ limit) – *not filled, cancel for now*

Broad Market Large Cap CBI – 1(NVDA)

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
SPY(1/4)	4/3/2024	$517.72	$518.43	0.14%	*sell @ $523.50 limit on close*