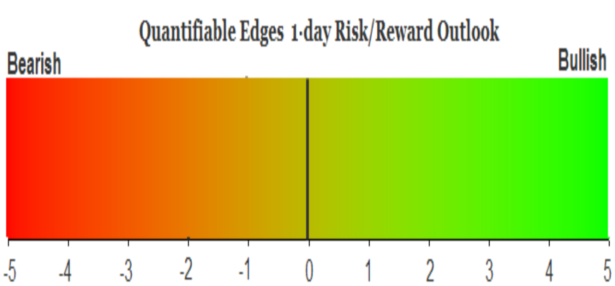
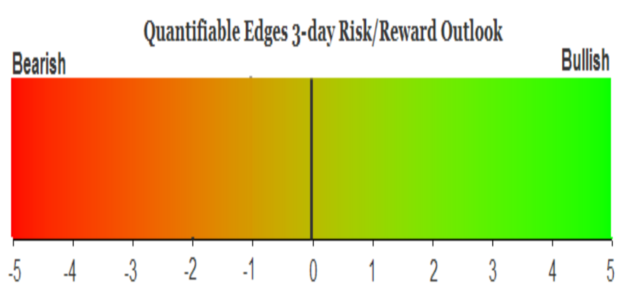
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2024 Volume 17 Issue 87

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	4

Tonight's Research Points

- With SPX short-term overbought and intermediate-term rangebound, no compelling short-term studies emerged on Friday.
- We are entering a weak seasonal period for the next 2 weeks.
- The NASDAQ has taken the lead vs the SPX, which is an intermediate-term positive.
- QT is being dialed back, meaning the liquidity drain will be greatly reduced. But it still exists and the Fed is still not a bullish influence

Short-term Outlook

The Bottom Line

The Aggregator is 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						
May 2, 2024	SPY closes btm 10% range 2 of 3 days < 10m	1-8 days	Bullish	2.80%	-1.30%	-2.80%
May 1, 2024	SPY closes btm 10% range, 5-low and > 200	1-5 days	Bullish	2.25%	-1.90%	-4.10%
Active - Long Term						
May 6, 2024	NASDAQ Leading	int term	Bullish			
April 22, 2024	QQQ down 5+ and acceleration lower	1-18 days	Bullish	9.00%	-4.30%	-7.70%
April 19, 2024	CBI 11+	1-20 days	Bullish	5.90%	-4.20%	-9.50%
March 4, 2024	Jan & Feb both close positive	1-10 months	Bullish			
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			
Dropped Tonight (expired, target hit, or avg drawdown + 1 std dev exceeded)						
May 1, 2024	SPX down 2+. Today is Fed Day	1-6 days	Bullish	2.25%	-1.90%	-4.10%

The Evidence

Friday saw strong buying. The SPX gained 1.3%, the NASDAQ rallied 2.0%, and the Russell 2000 rose 1.0%. Breadth was strong, with the NYSE Up Issues % coming in at 75% and the Up Volume % at 70%. NYSE total volume declined some from Thursday’s level.

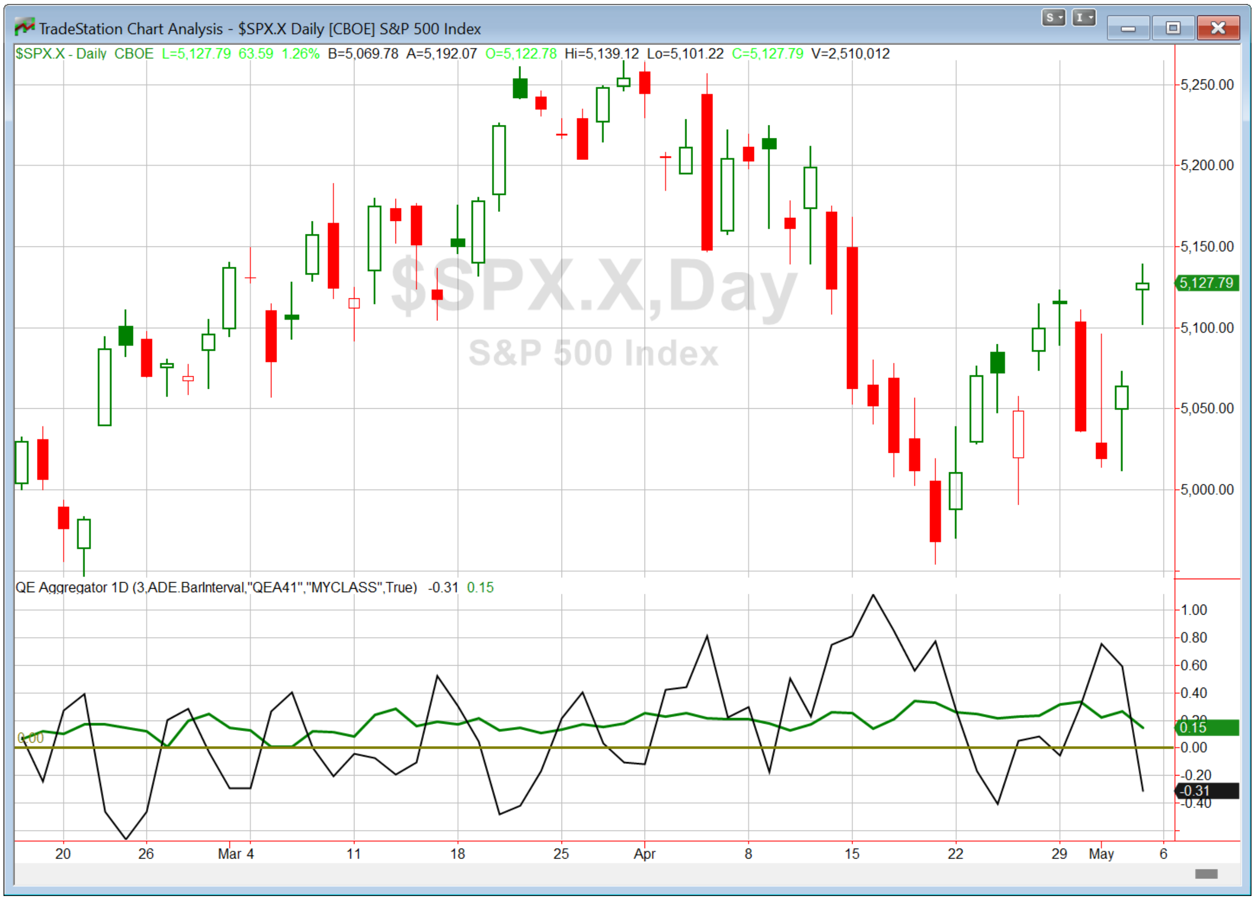
The last couple of days have seen a sizable move higher. SPX closed at a 10-day high. But it is still slightly below its 50ma, and has only made back about 56% of its decline from it March high. So it is in a bit of an odd position that is only stretched on a short-term timeframe. The NDX is set up similarly. Nothing compelling appeared in the Quantifinder suggesting a short-term edge. (There was one intermediate-term study that I will discuss in the next section.)

But seasonality is worth some discussion. The [QE Seasonality Calanders] for May were finalized and updated. I have copied the SPX Calendar below.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
5/1/2024	53.86	1.177	0.042
5/2/2024	53.32	0.962	-0.018
5/3/2024	53.97	1.110	0.029
5/6/2024	55.00	1.325	0.092
5/7/2024	48.72	0.937	-0.026
5/8/2024	52.28	0.958	-0.015
5/9/2024	53.60	0.956	-0.019
5/10/2024	53.83	1.167	0.048
5/13/2024	52.20	0.910	-0.046
5/14/2024	50.57	0.990	-0.012
5/15/2024	52.56	0.904	-0.038
5/16/2024	51.94	0.877	-0.049
5/17/2024	48.75	0.831	-0.066
5/20/2024	61.01	1.683	0.133
5/21/2024	56.63	1.873	0.177
5/22/2024	59.17	1.887	0.181
5/23/2024	60.54	1.945	0.197
5/24/2024	59.71	1.730	0.127
5/28/2024	50.07	1.326	0.070
5/29/2024	51.00	1.459	0.110
5/30/2024	52.37	1.517	0.126
5/31/2024	54.37	1.318	0.067
Baseline	*53.65*	*1.134*	*0.046*

Monday has positive seasonal numbers. After that, the stats are mostly neutral or negative from the 7th through the 17th. Seasonality is never a primary market force. But it can serve as a valuable input. It is easier to run fast when you are going slightly downhill than when you are going slightly uphill. So if bears are going to make a push, the next couple of weeks appear to be a time where it would be easier for them to move the market lower. And it may be a more difficult time for the bulls to push the market upwards.

I have updated the Aggregator chart below.



With tonight'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 dropped below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive and 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 set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5061.66 on Monday. That is 1.3% below Friday's close. Therefore, SPX will need to close down at least 1.3% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is neutral. Evidence is bullish but fading. And we are entering a 2-week period where bulls could struggle. So I will look to close out my current long index position and await the next favorable reward/risk opportunity..

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/6 – 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 changed to long QQQ at the close on Friday.*

This past week saw stocks climb. The SPX gained 0.55%, the NASDAQ rallied 1.4%, and the Russell 2000 rose 1.7%. Bonds had a big week. The US Aggregate Bond ETF (AGG) gained 1.2%. TLT, the 20-year Treasury Bond ETF, jumped 2.2%. The long-term trend still looks up, but there is work to do to get back to new highs. It is positioned slightly below its 50ma and still well above its 200ma.

After lagging the SPX since mid-April, the NASDAQ has now moved into a leading position. This can be seen in the chart below.

The movement of the red line (which is about to turn green) above the blue dotted line is our indication that the NASDAQ is leading. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of $100,000 Starting Portfolio Using the NASDAQ/SPX Relative Leadership Indicator as a Filter. 12/31/71 - 5/3/2024.

	Compound Annual Growth Rate	Max Drawdown	End Value of $100,000
S&P 500 Index	7.76%	-56.78%	$5,022,813.33
SPX when NASDAQ lags	0.05%	-67.21%	$102,386.89
SPX when NASDAQ leads	7.71%	-33.92%	$4,905,719.14
NASDAQ Composite	9.92%	-77.93%	$14,157,316.48
NASDAQ when lagging	-1.31%	-85.53%	$50,082.81
NASDAQ when leading	11.38%	-40.62%	$28,267,815.57
NASDAQ when leading (with interest when in cash)*	13.88%	-37.64%	$90,512,986.46
*interest on cash calculated at historical 30-day Fed Funds rate			

More on this indicator can be found in the Market Timing Course. (Free for all annual subscribers.)

This means all four of the original Market Timing Course Combo models are now bullish and long QQQ. That is a favorable intermediate-term situation.

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

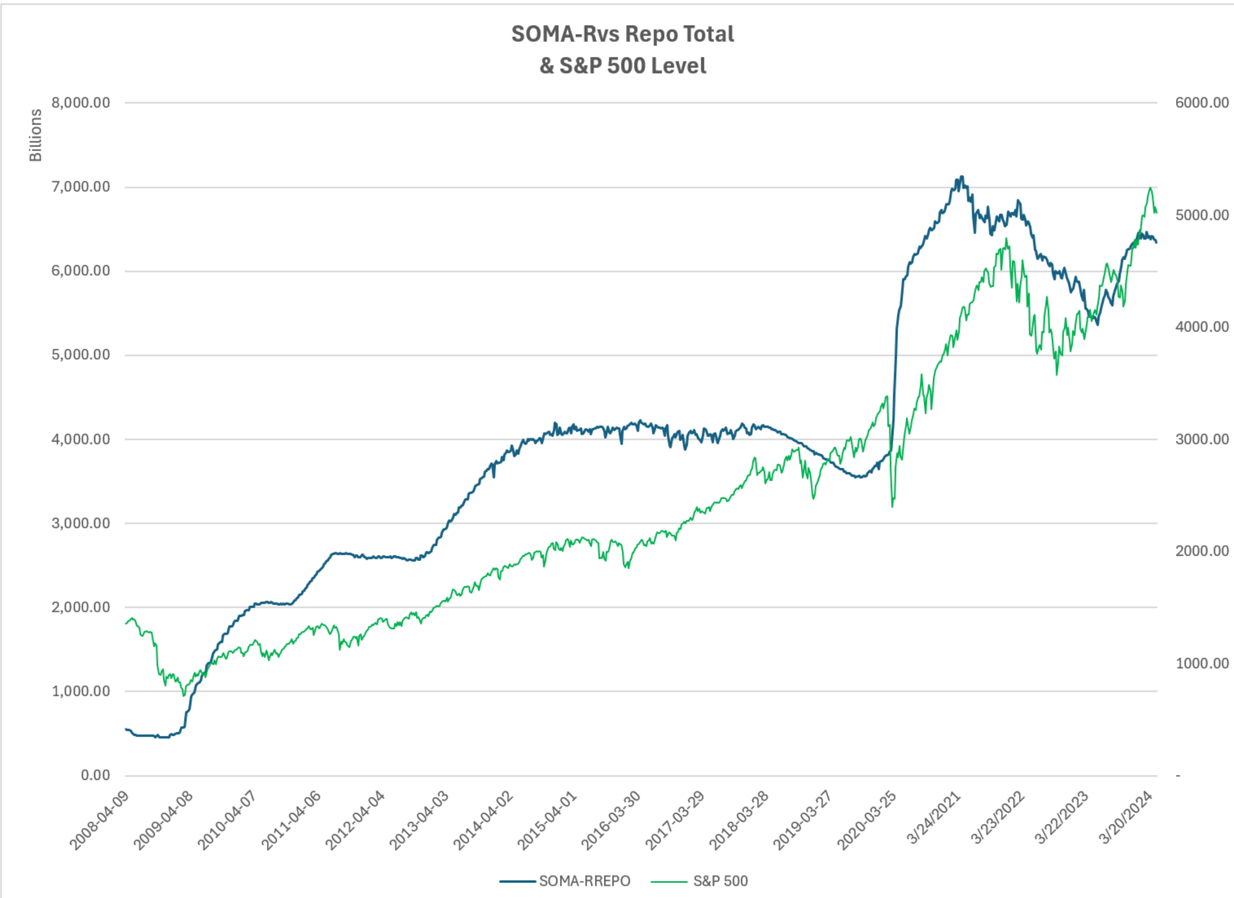
Previous May 1, 2024

Posted May 2, 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)	3,854,093,773.0
US Treasury Floating Rate Notes (FRNs)	4,591,469.5
US Treasury Inflation-Protected Securities (TIPS)*	350,136,174.4
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,363,882,894.6
Agency Commercial Mortgage-Backed Securities***	8,165,720.1
Total SOMA Holdings	6,778,359,958.3
Change From Prior Week	-35,231,448.1

The SOMA dropped a sizable $35 billion this past week. The current week should see a much smaller decline. Meanwhile, reverse repos declined about $3 billion. Combined this amounts to about a $32 billion drain on liquidity. I discussed reverse repos impact on liquidity in the 4/8/24 letter. Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.

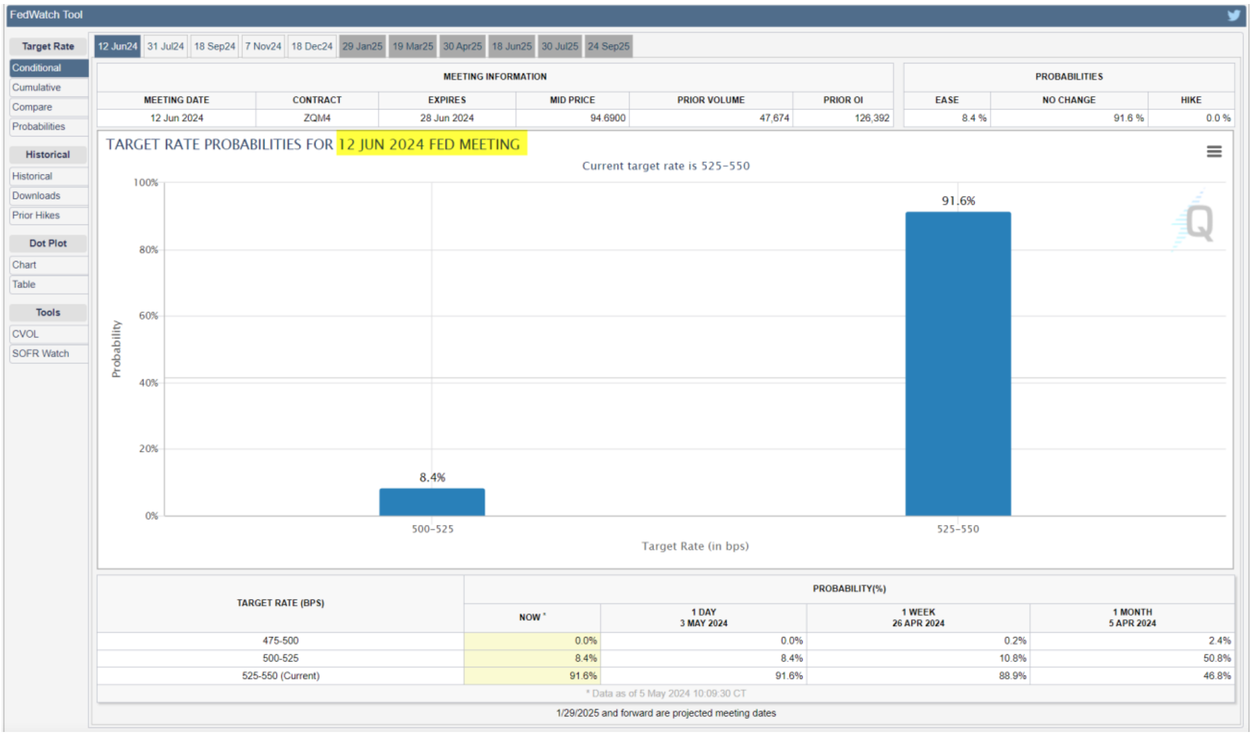


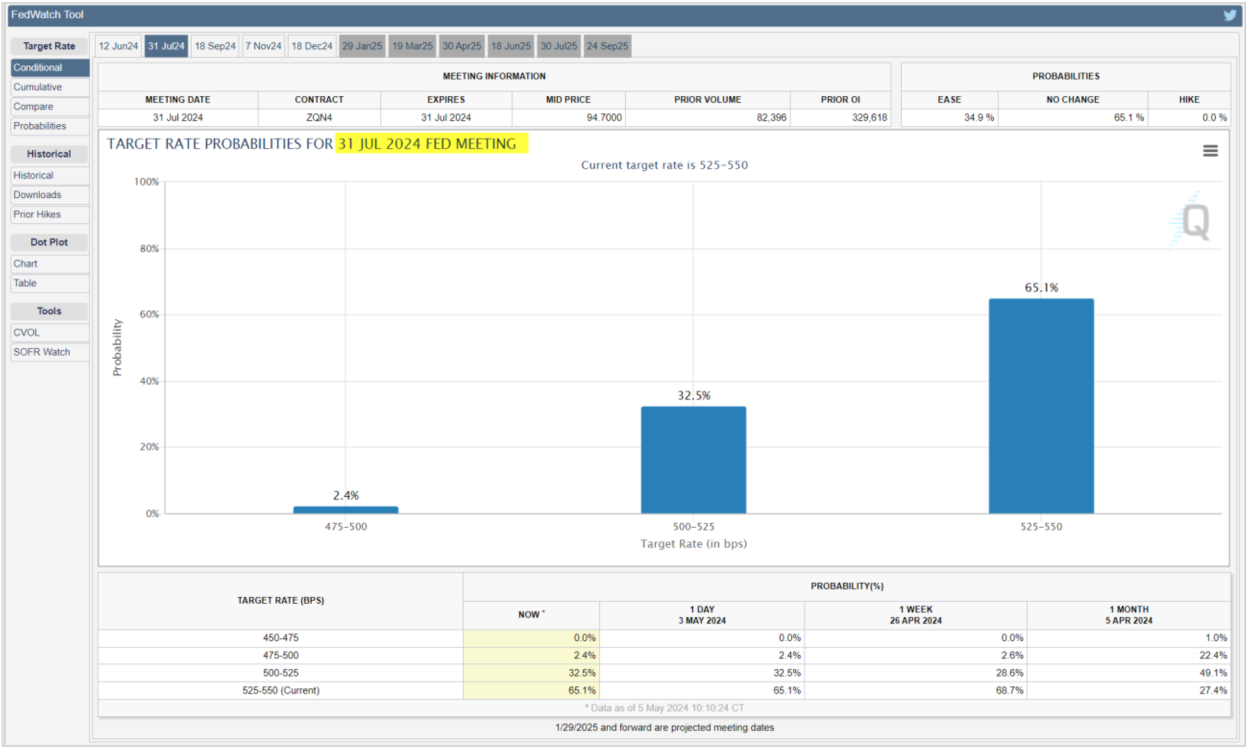
Quantitative Tightening (QT) can still be a headwind to the market. Reverse repo closeouts more than offset the QT from April 2023 through early March of 2024, and this helped provide fuel for the market rally. But since early March, there has been a chopping around of the blue line and a small drain on liquidity. This could be a contributor to market struggles since early March. There are still plenty of reverse repos to provide liquidity support, but the level has declined over 80% from what it was about a year ago.

In other news, the Fed declared they will be dialing back the amount of QT that will occur starting in June. The monthly cap on treasury reductions will drop from $60 billion to $25 billion. The cap on agency and mortgage-backed securities (which is not often reached) will remain $35 billion.

So the total potential reductions will drop from $95 billion to $60 billion per month. This can still be a liquidity drain (if reverse repos don't offset it), but it will be less of a drain.

With regards to rates, odds are showing just an 8% chance that the Fed cuts rates in June, and a 35% chance that rates are lowered by the July meeting. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.





MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
31 Jul 2024	ZQN4	31 Jul 2024	94.7000	82,396	329,618	34.9 %	65.1 %	0.0 %

TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 3 MAY 2024	1 WEEK 26 APR 2024	1 MONTH 5 APR 2024
450-475	0.0%	0.0%	0.0%	1.0%
475-500	2.4%	2.4%	2.6%	22.4%
500-525	32.5%	32.5%	28.6%	49.1%
525-550 (Current)	65.1%	65.1%	68.7%	27.4%

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. September appears the earliest now, and being that close to an election, the Fed might be inclined to wait all the way until November unless data is screaming at them that there is a real need to cut. Overall, while QT is being dialed back and rates remain elevated, 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. Evidence this week has become more favorable for the bulls. The NASDAQ retook a leading position, which is bullish scenario. The trend still appears up, though a cross above the 50ma would solidify the long-term trend outlook a bit more. The Fed remains a potentially bearish force, but the dialing back of QT means the bearish force they are exerting is weakening. Seasonality is weaker now that we are in the "worst 6 months", and the next couple of weeks appear especially weak. Still, bullish evidence appears to outweigh bearish by a substantial amount. I am again bullish for the intermediate-term. Of course this could quickly change. But for now, I will be more conservative with potential short trades and more aggressive with long positions.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

CVS – 1/3 @ $56.31 – bought @ limit

CVS – 1/3 @ $55.15 – bought @ limit

COP – 1/3 @ $122.25 – bought @ limit

New

COP – 1/3 @ $122.23 – buy @ limit

Broad Market Large Cap CBI – 4(CVS-2, COP-2)

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.*

COP – Buy 1/3 Catapult position @ 122.23 LIMIT. From the Catapult section above the is the 2nd of up to 3 possible lots of COP.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	***4/30/2024***	***$501.98***	***$511.29***	***1.85%***	***sold on close***
SPY(1/4)	5/1/2024	$500.35	$511.29	2.19%	*sell on open*
ACN(1/3)	5/1/2024	$300.13	$303.71	1.19%	*sell on open*
ACN(1/3)	5/1/2024	$300.13	$303.71	1.19%	*sell on open*
ACN(1/3)	5/2/2024	$298.66	$303.71	1.69%	*sell on open*
CVS(1/3)	5/2/2024	$56.31	$55.90	-0.73%	Catapult
CVS(1/3)	5/3/2024	$55.15	$55.90	1.36%	Catapult
COP(1/3)	5/3/2024	$122.25	$122.23	-0.02%	Catapult