

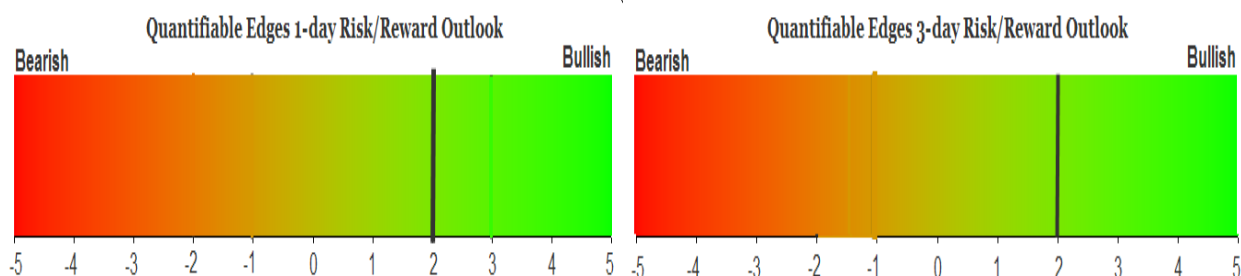
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 28, 2024

Volume 17 Issue 102

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- Memorial Day week used to be quite bullish. In recent years, only Thursday has seen the bullish tendency persist.
- The Seasonality Calendar looks favorable for the bulls over the next couple of weeks.
- A decline in the SOMA and a rise in reverse repos meant a liquidity drain this past week.
- While no new evidence emerged, there remains quite a bit pointing higher over the intermediate-term.

Short-term Outlook

The Bottom Line

The Aggregator formation is bullish. There appears to be a moderate upside edge over the next few days.

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

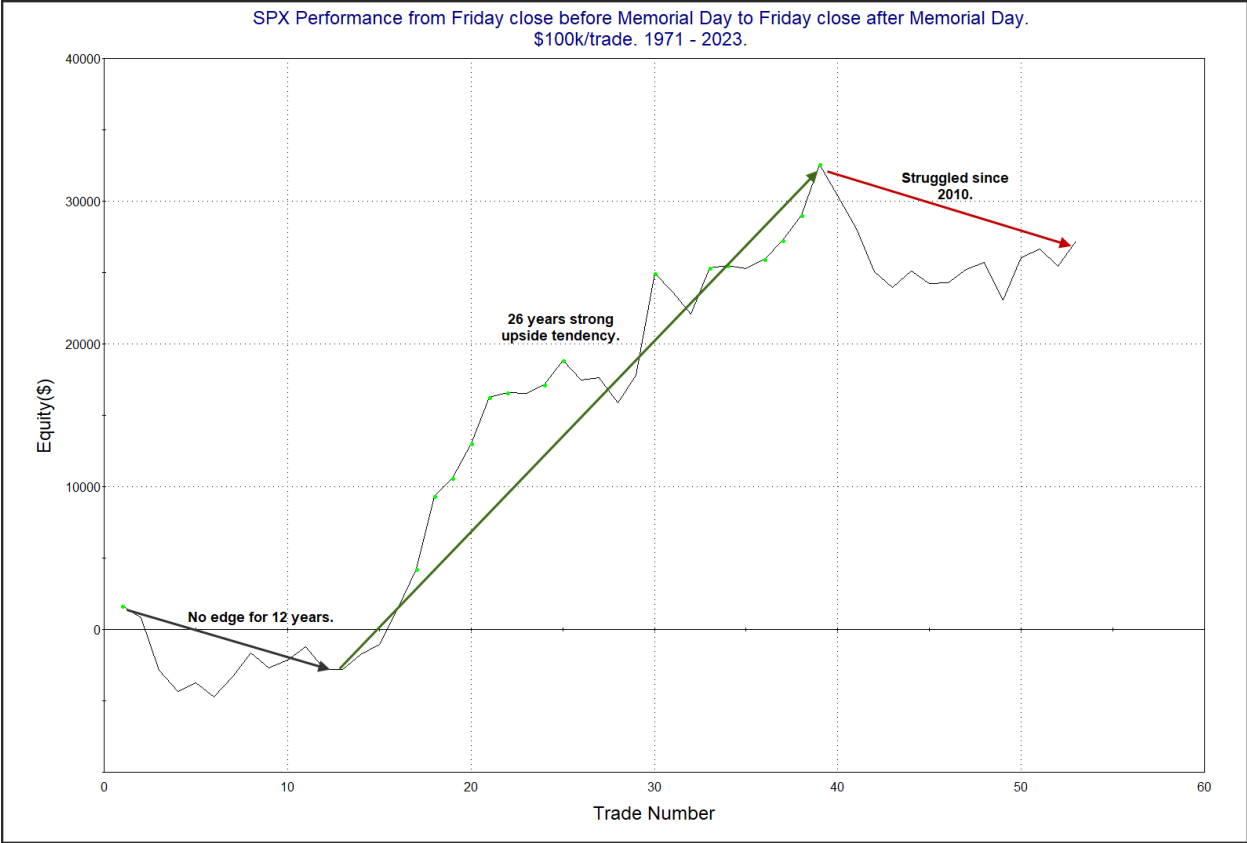
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
May 24, 2024	1st SPX close < 10ma in 15+ days	1-3 days	Bullish			
Active - Long Term						
May 17, 2024	20-high then close bottom 10% intraday rng	1-10 days	Bullish			
May 16, 2024	SPX > 200ma. RSI2 crosses over 99.	1-15 days	Bullish	2.30%	-1.50%	-2.90%
May 16, 2024	SPX 50-day %b crosses 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
May 10, 2024	DJI Up 7 days in a row	1-19 days	Bullish	3.25%	-1.50%	-2.70%
May 7, 2024	Triple 70 Breadth Thrust	1-80 days	Bullish	10.10%	-4.80%	-11.20%
May 6, 2024	NASDAQ Leading	int term	Bullish			
April 29, 2024	May-October selloff potential when 5% dn	1-6 months	Bearish			
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%
February 2, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

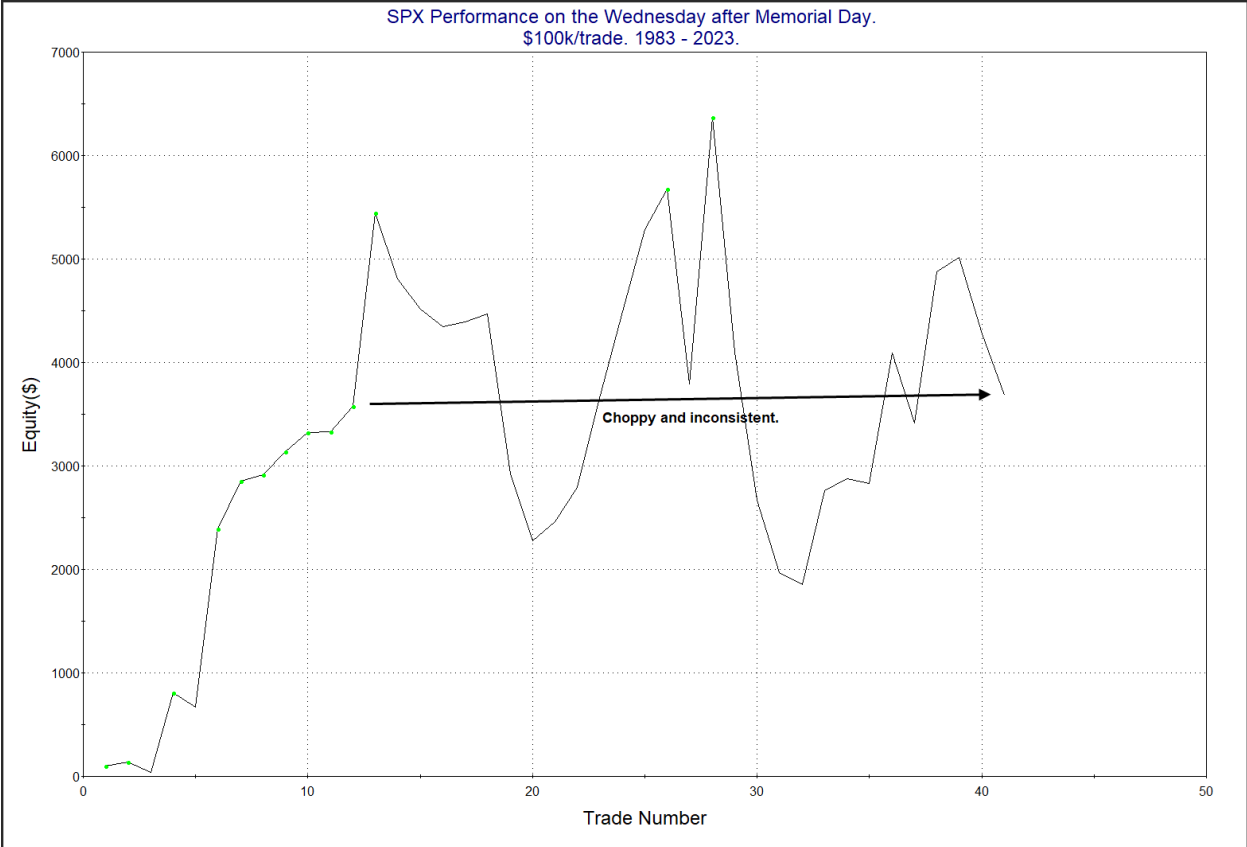
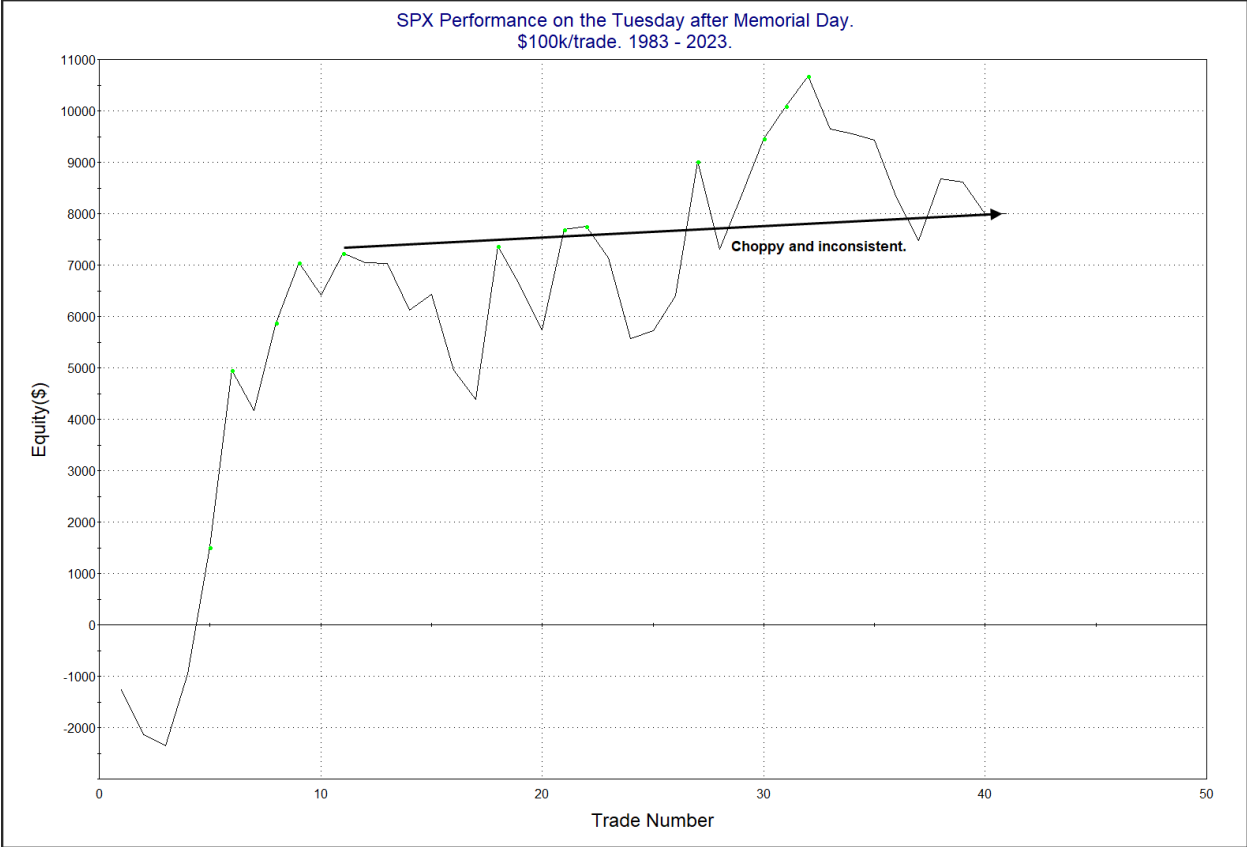
Friday saw a bit of a bounce back from Thursday's selling. SPX gained 0.7%, the NASDAQ rallied 1.1%, and the Russell gained 1.0%. Breadth was positive, with the NYSE Up Issues % coming in at 73% and the Up Volume % at 71%. NYSE total volume was light heading into the long weekend.

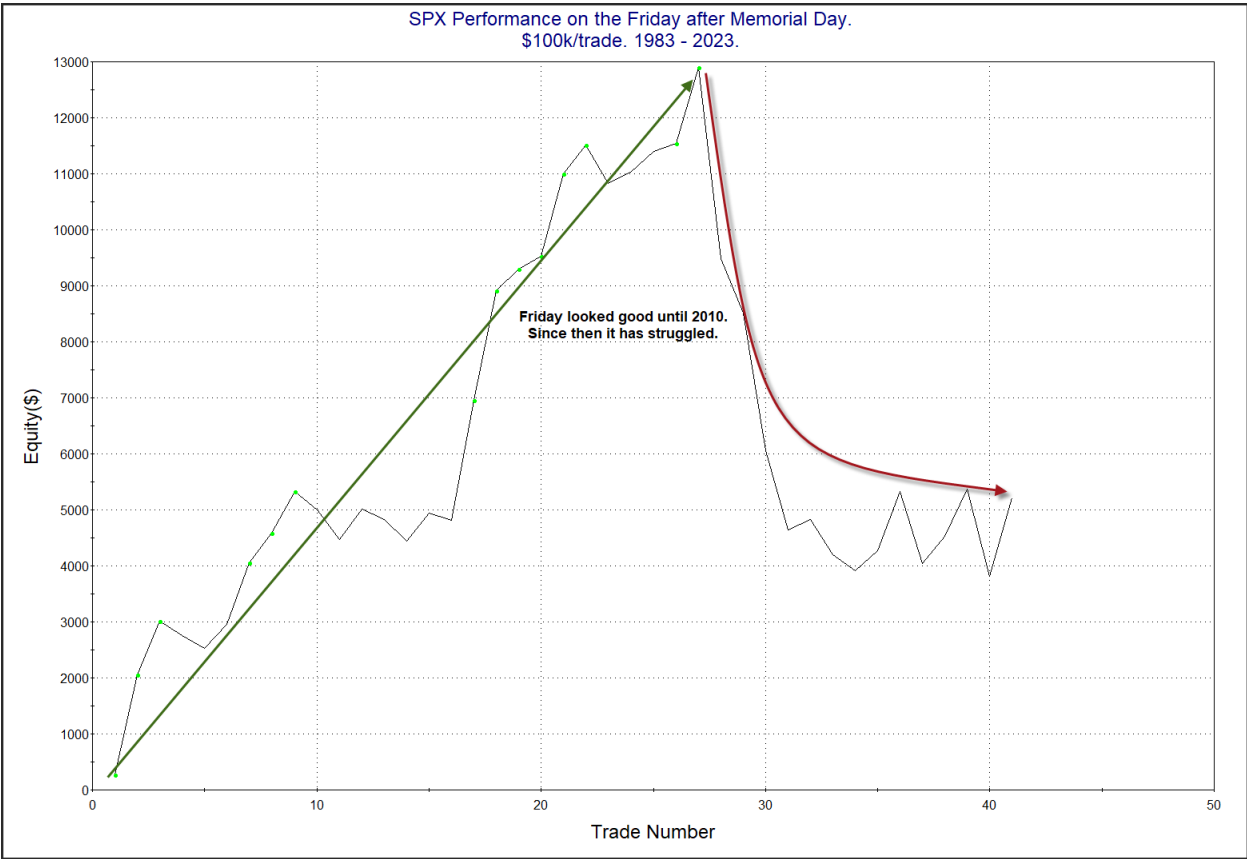
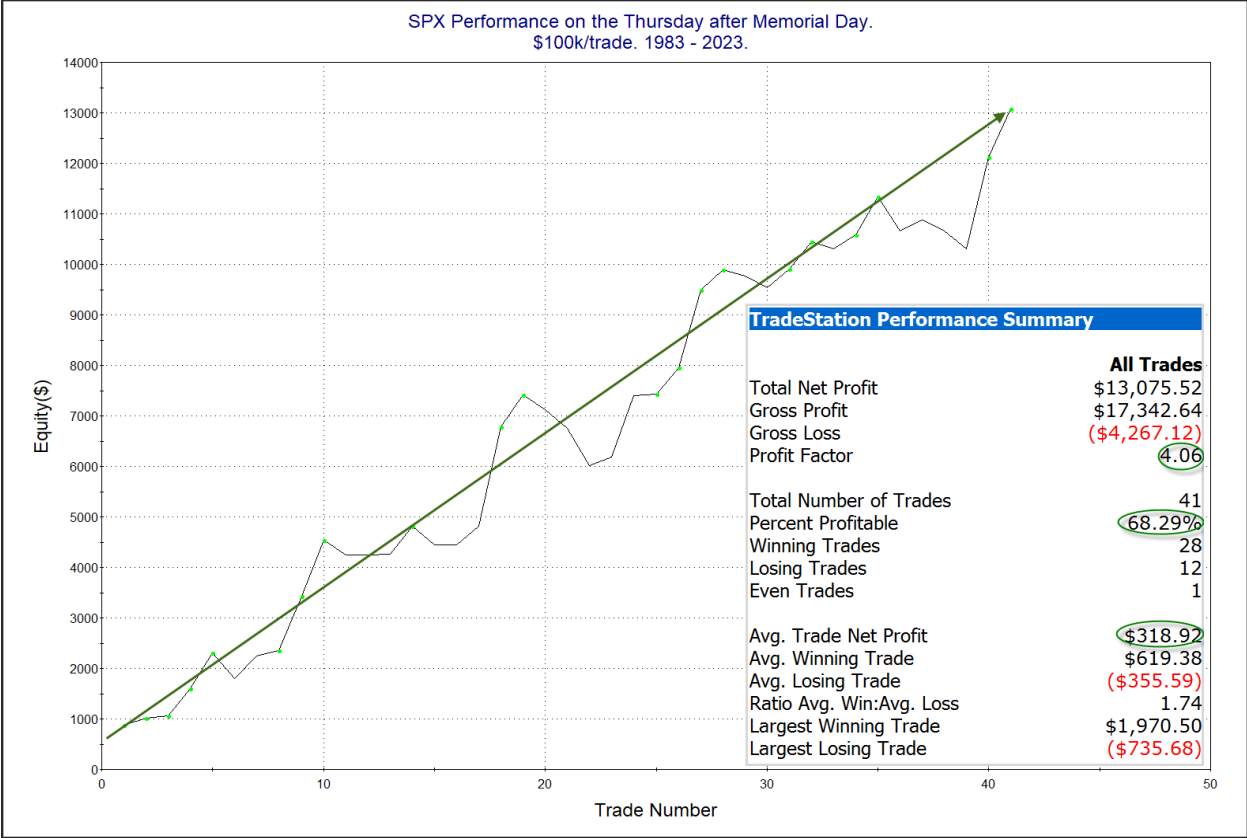
Nothing compelling triggered from a price action standpoint. There was one study in the Quantifinder that looked at inside days that were also unfilled gaps up. The last few years have not seen the prior downside edge persist with that study, so I have not left it out of the letter today.

Of course Monday is Memorial Day. The week of Memorial Day has shown some interesting tendencies over the years. But it has been less consistent recently. The chart below is from the 5/30/23 subscriber letter and has been updated. It examines SPX performance from the Friday before Memorial Day to the Friday after it.



There was no substantial edge apparent throughout the 70s, but starting in 1983 through 2009 there was a bullish tendency. The last 14 years this week has seen more of a struggle. Last year I took a day by day look. I decided to do that again to see where the market has struggled recently. Here are the charts for each day of the week, going back to 1983.





Thursday is the only day that has appeared to show a persistent seasonal edge. This will be something to keep in mind later this week.

Next is a look at the Seasonality Calendar for the rest of May.

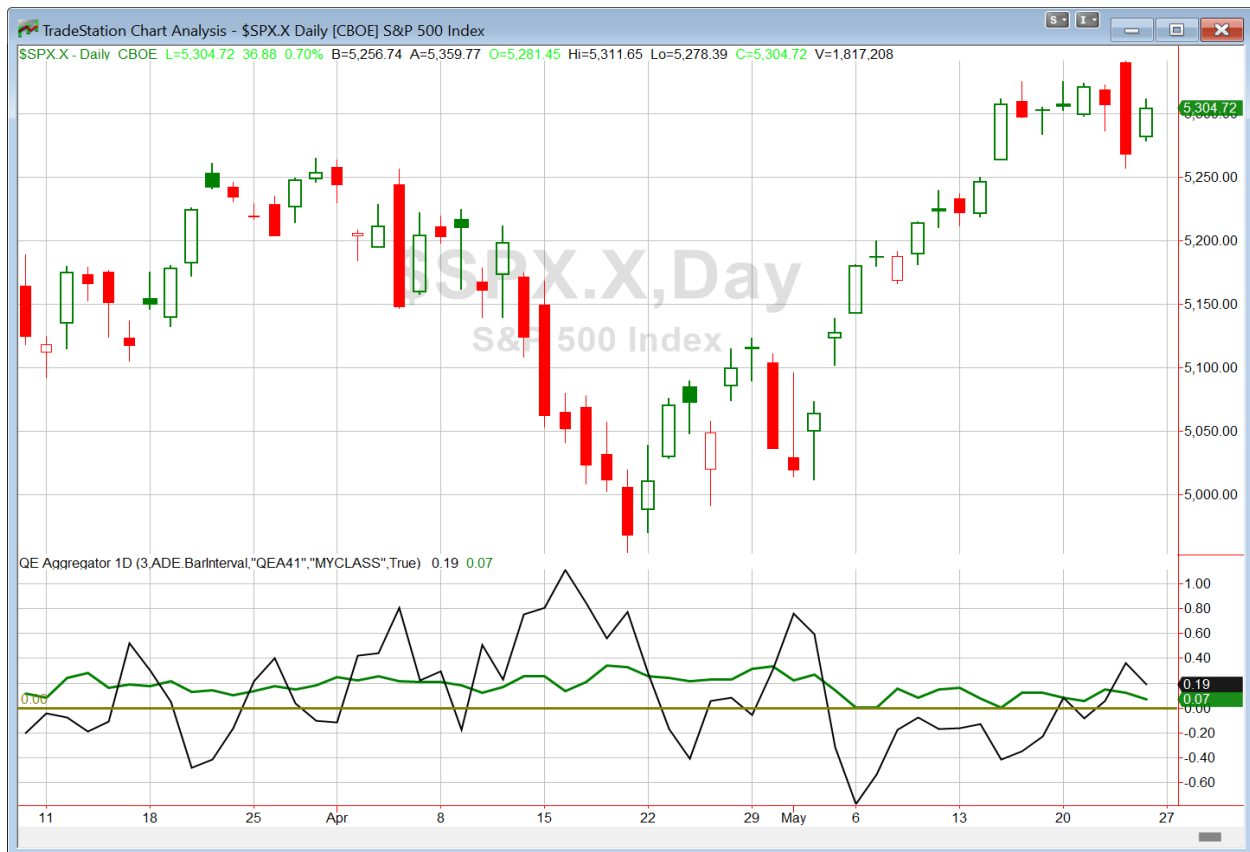
Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
5/1/2024	53.86	1.177	0.042
5/2/2024	53.32	0.962	-0.018
5/3/2024	53.97	1.110	0.029
5/6/2024	55.00	1.325	0.092
5/7/2024	48.72	0.937	-0.026
5/8/2024	52.28	0.958	-0.015
5/9/2024	53.60	0.956	-0.019
5/10/2024	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

The Seasonality Calendar numbers look strong – especially the profit factors and average % changes. So from the perspective of the Seasonality Calendar algorithms, this upcoming week looks quite favorable. Next is a look at the preliminary June calendar.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
6/3/2024	59.72	2.044	0.234
6/4/2024	51.39	1.304	0.058
6/5/2024	57.52	1.543	0.132
6/6/2024	55.73	1.369	0.085
6/7/2024	56.33	1.518	0.131
6/10/2024	52.44	0.841	-0.069
6/11/2024	51.40	0.942	-0.028
6/12/2024	50.46	0.846	-0.059
6/13/2024	54.71	0.844	-0.061
6/14/2024	54.60	1.047	0.002
6/17/2024	58.19	1.096	0.028
6/18/2024	54.40	1.316	0.078
6/20/2024	54.10	0.969	-0.012
6/21/2024	50.85	0.912	-0.032
6/24/2024	51.99	1.109	0.031
6/25/2024	50.42	1.047	0.015
6/26/2024	51.97	1.163	0.050
6/27/2024	54.07	1.230	0.069
6/28/2024	52.35	1.026	0.009
Baseline	53.69	1.139	0.047

The 1st and last weeks in June look strong. In between the odds have been more neutral. We'll keep this under consideration when we get there.

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 also 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 Tuesday. Of course this could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5322.18 on Tuesday. That is 0.3% above Friday's close. Therefore, SPX will need to close up at least 0.3% on Tuesday in order to flip from oversold to overbought vs expectations.

So the Aggregator is again bullish. We don't have any new evidence from Friday confirming the upside edge, but Thursday's short-term study as well as the intermediate-term outlook are pointing higher. And despite the rise on Friday, the market is still oversold. The gap up kept me from getting a fill on a potential long trade Friday. I still like the long side – just not as much as I did Thursday night. I will try again Tuesday to get some long exposure, but only if there is a sizable gap down, or a substantially lower close. Otherwise, I will sit out.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/20 – *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.*

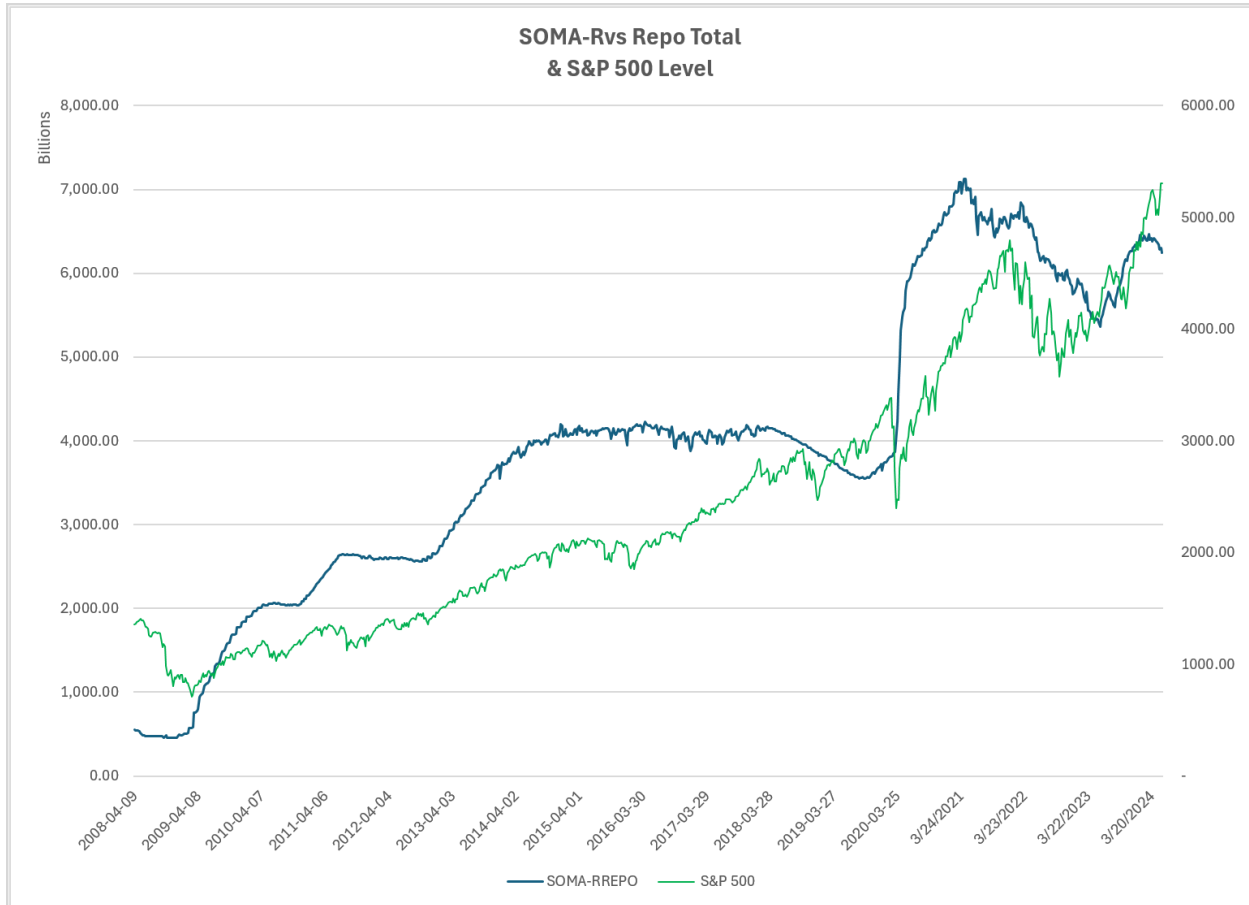
The big indices climbed for the 5th week in a row. The SPX inched up 0.03%, the NASDAQ rallied 1.4%, and the Russell 2000 declined 1.2%. Bonds retreated slightly. The US Aggregate Bond ETF (AGG) lost 0.2%. TLT, the 20-year Treasury Bond ETF, was near breakeven with a 0.01% loss. The long-term trend still looks up with SPX and NASDAQ both making new all-times highs this past week. There were not any new studies with intermediate-term implications that emerged in the last few days. We did have several emerge the previous two weeks, so the pause in new intermediate-term evidence is not alarming.

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 22, 2024 <small>Posted May 23, 2024 at 4:30 PM</small>
<div style="display: flex; justify-content: space-between; font-size: small;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,217,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,822,814,739.3
US Treasury Floating Rate Notes (FRNs)	4,591,469.5
US Treasury Inflation-Protected Securities (TIPS)*	350,161,174.4
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,360,076,208.2
Agency Commercial Mortgage-Backed Securities***	8,163,897.7
Total SOMA Holdings	6,743,372,415.8
Change From Prior Week	-3,743,242.7

The SOMA dropped a mild \$3 billion this past week. The current week should also see a mild decline. Meanwhile, reverse repos rose by nearly \$53 billion, which exacerbated the QT by the Fed. Combined this amounts to about a \$56 billion liquidity drain. I discussed reverse repos impact

on liquidity [in the 4/8/24 letter](#). When they are rising, it tends to drain liquidity, and when they are falling, it acts as a liquidity injection. Throughout much of 2023 and the 1st quarter of 2024 reverse repos declined substantially and had a positive impact on liquidity. Since March, the decline has halted and we have actually seen a slight rise in bank reverse repo holdings. Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.

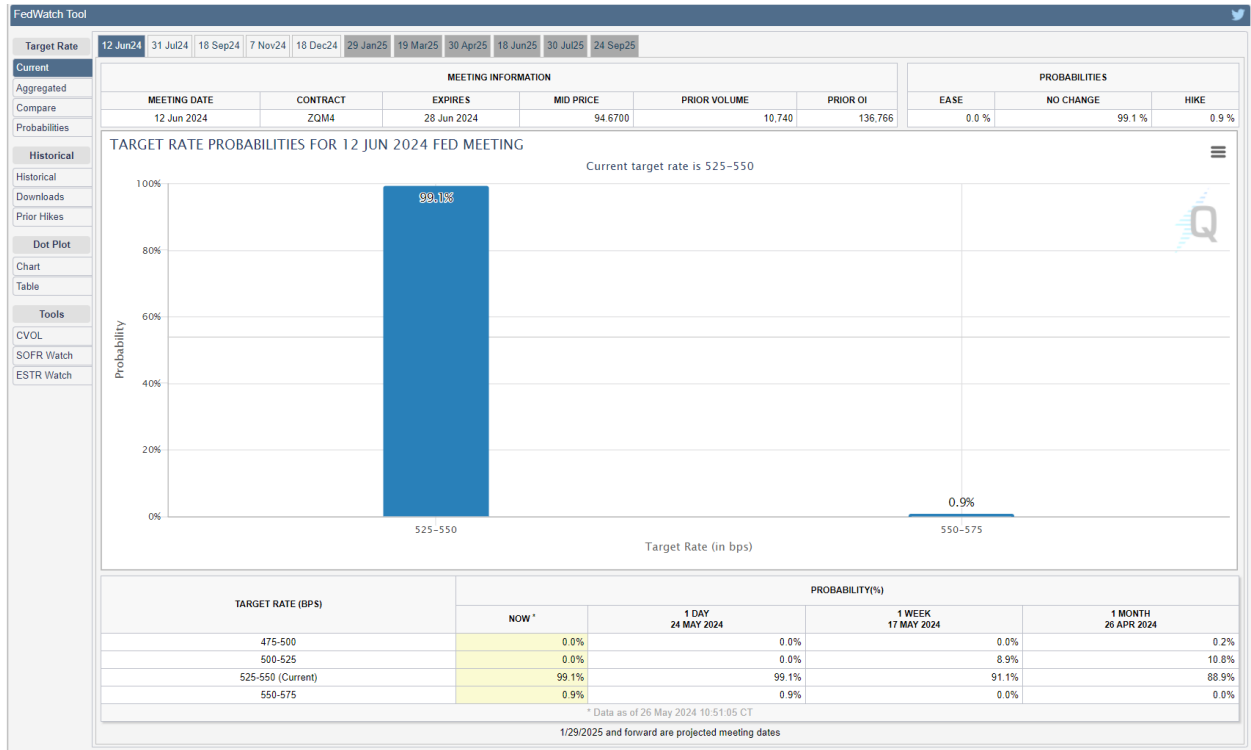


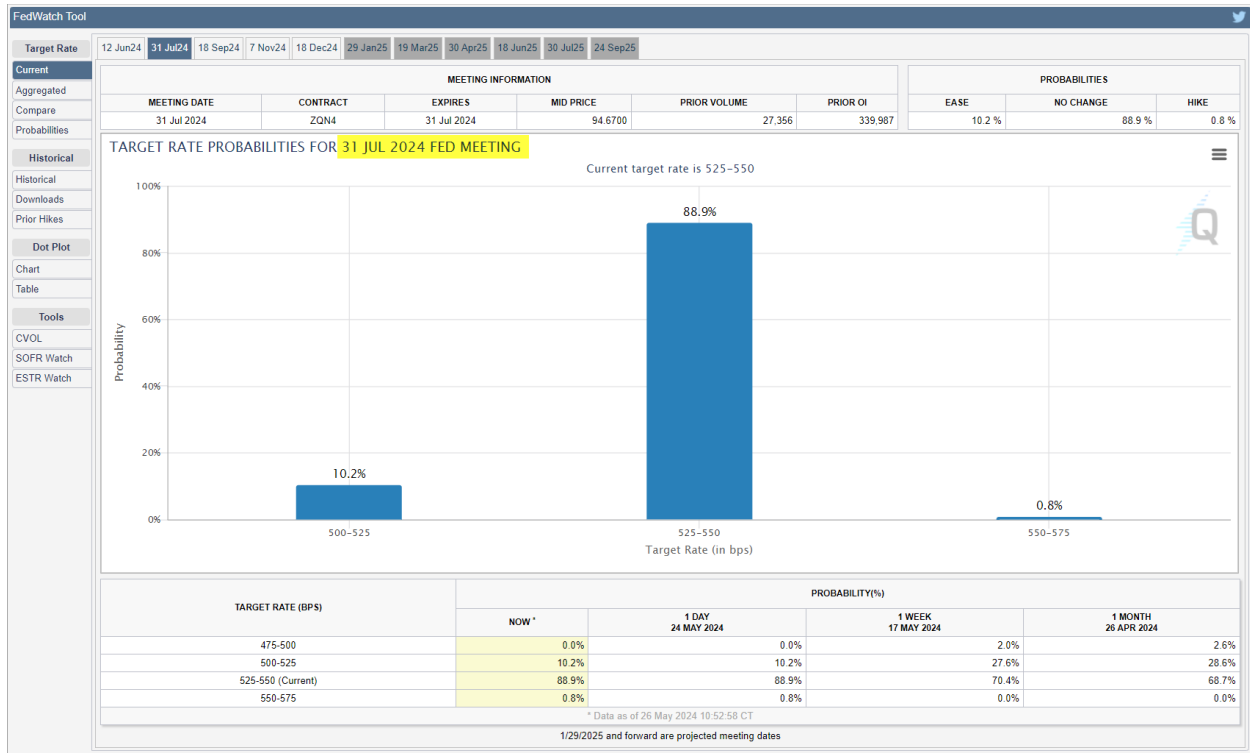
Quantitative Tightening (QT) can still be a headwind to the market. Reverse repo closeouts more than offset the QT from April 2023 through early March of 2024, and this helped provide fuel for the market rally. But since early March, there has been a chopping around of the blue line and a small drain on liquidity. This could be a contributor to market struggles seen in April. There are still plenty of reverse repos to provide liquidity support, but the level has declined over 80% from what it was at its peak. So I don't expect support to be as strong as we saw in 2023 and early 2024.

Also worth mentioning again is the fact that the Fed will be dialing back the level of QT starting in June. It will drop from a max of \$95 billion per month down to \$60 billion. I expect further QT reductions to occur at upcoming Fed meetings. So while reverse repos are becoming less bullish,

the QT is going to be reduced. This may mean the market rally can continue a bit longer without facing a strong liquidity headwind.

With regards to rates, odds are showing a 99% chance that the Fed keeps rates steady in June and a 1% chance that they *raise* rates! July is showing an 89% chance rates stay the same, a 1% chance they rise, and a 10% chance they decline. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.





Odds still suggest that the next move, when it eventually comes, will be a cut. Keep in mind that these odds continue to shift. The November meeting is now the next one where a lower rate appears probable. 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. While nothing new emerged this week, there is still a plethora of bullish evidence listed on the intermediate-term active list. Most of them are related to strong momentum and strong breadth. Additionally, the NASDAQ still leads the SPX according to our NASDAQ/SPX relative leadership indicator, which is a bullish scenario. The trend is still up, and SPX and NASDAQ are making new all-time highs. The Fed remains a potentially bearish force, but the dialing back of QT means the bearish force they are exerting is weakening. Seasonality is sub-par now that we are in the "worst 6 months". Overall, 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

BMY @ \$43.36 (bought at limit)

BMY @ \$43.27 (buy at limit)

Broad Market Large Cap CBI – 2(BMY-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.

SPY – Buy ¼ index position @ \$527.00 LIMIT ON OPEN. If not filled, cancel order and then look to enter @ \$526.00 LIMIT ON CLOSE . From the short-term outlook above, I will look to start scaling into an index position on Tuesday if I can get a favorable fill at either the open or the close. I am not interested in jumping into an intraday selloff.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
BMY(1/3)	5/21/2024	\$43.14	\$41.24	-4.40%	Catapult
BMY(1/3)	5/22/2024	\$42.22	\$41.24	-2.32%	Catapult

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