

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 3, 2024

Volume 17 Issue 106

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	2

## Tonight's Research Points

- The CBI dropped from a moderately bullish 8 on Thursday to a neutral 2 on Friday.
- Turn of month odds would be much stronger if SPY did not rally so hard Friday afternoon.
- The Seasonality Calendar looks favorable the first and last week in June, and mostly neutral in between.
- Quantitative Tightening (QT) was overshadowed by a sizable drop in reverse repos this past week, causing a moderate liquidity infusion.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator formation is bullish. That will change if SPX closes even moderately higher on Monday.

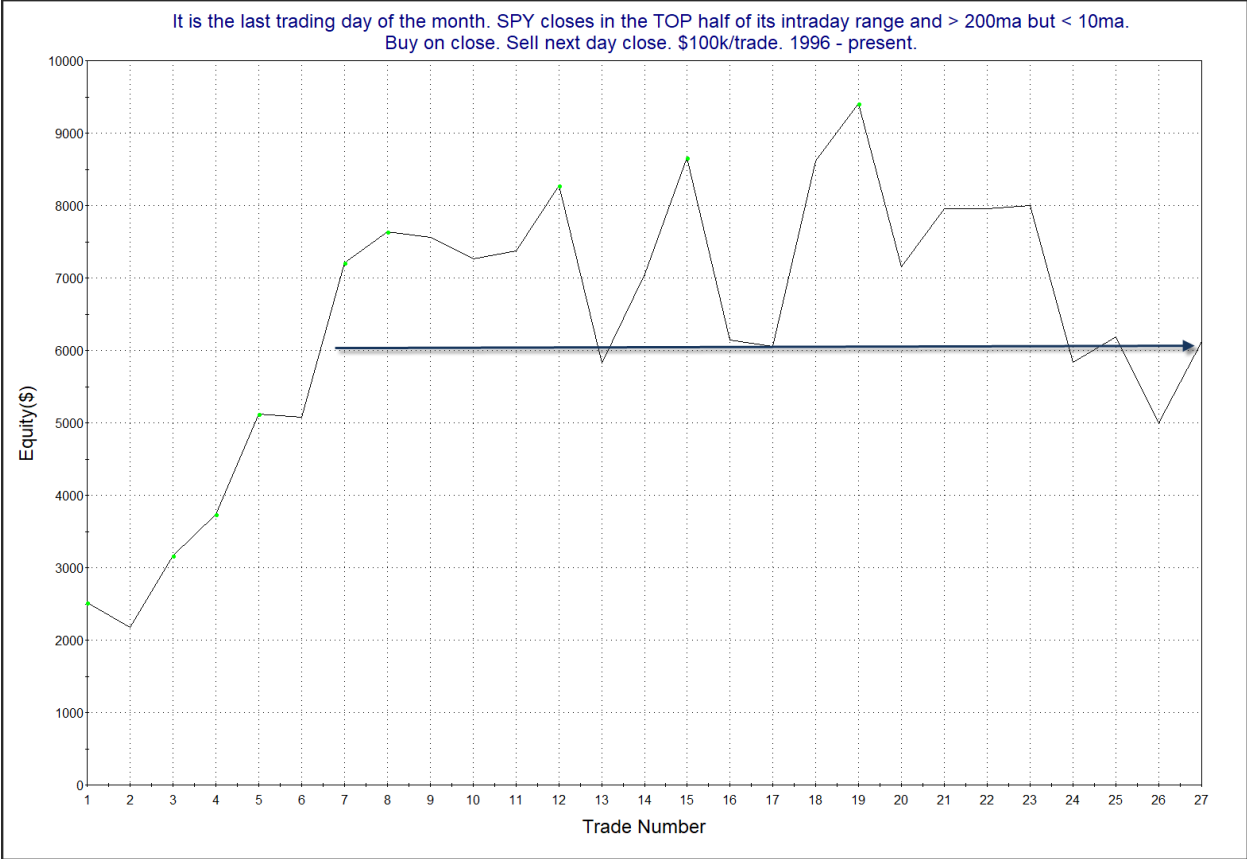
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
May 31, 2024	Gap < 5-low close. Close < open > 200ma	1-5 days	Bullish	1.90%	-1.40%	-3.00%
<b>Active - Long Term</b>						
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 huge turnaround that caused most indices to go from sizable losses to gains. SPX finished up 0.8%, the NASDAQ was about even with a 0.01% loss, and the Russell 2000 rose 0.7%. Breadth was strong for the 2<sup>nd</sup> day in a row, with the NYSE Up Issues % coming in at 76% and the Up Volume % at 78%. NYSE total volume spiked to the highest level in a while.

There were several studies that appeared in the Quantifinder that considered the fact that Monday is the 1<sup>st</sup> day of a new month. Over the years I have found that when the market closes poorly on the last day of the month that tends to lead to a high-probability of a strong Day 1. But strong closes have not seen consistent turn-of-month returns. I have also found that the market closing low in its short-term range tended to be a plus for first of the month. SPY closed near the top of its intraday range, but still below it 10ma. So I combined a few studies to check the implications of this kind of combination.



This is not an appealing curve. I looked at a few similar studies, and the answer kept coming out the same: Friday’s late rally killed the bullish turn-of-month edge.

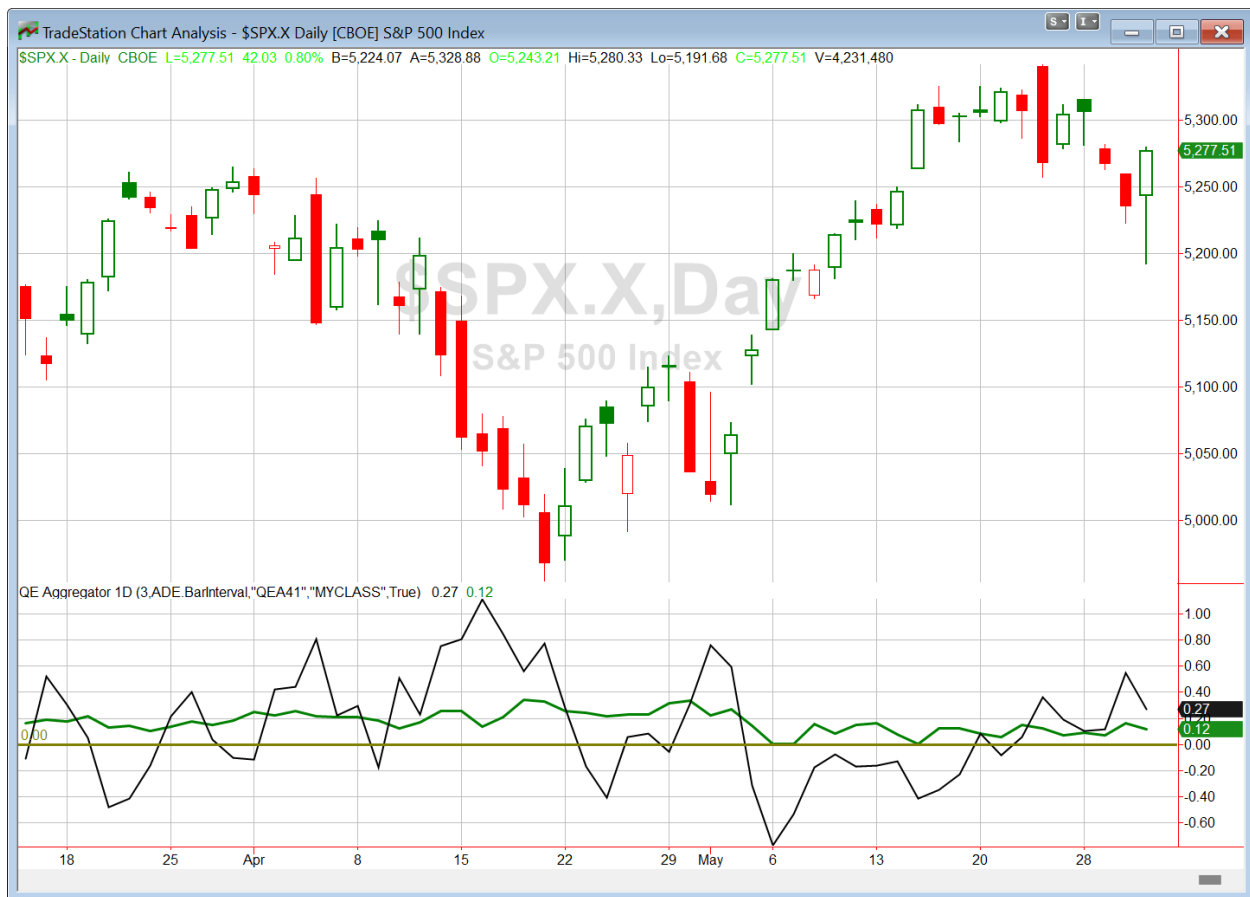
The QE Seasonality Calendars for June have been posted. The SPX one is below:

<b>Quantifiable Edges Seasonality Calendar</b>			
<b>\$SPX S&amp;P 500 Index</b>			
<b>Date</b>	<b>Win%</b>	<b>Profit Factor</b>	<b>Avg % Chg</b>
6/3/2024	59.65	1.992	0.226
6/4/2024	51.32	1.252	0.051
6/5/2024	57.45	1.491	0.124
6/6/2024	55.66	1.317	0.077
6/7/2024	56.31	1.469	0.124
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	54.64	1.050	0.003
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	50.89	0.914	-0.032
6/24/2024	51.99	1.109	0.031
6/25/2024	50.42	1.044	0.014
6/26/2024	51.97	1.157	0.049
6/27/2024	53.85	1.222	0.067
6/28/2024	52.39	1.031	0.010
<b>Baseline</b>	<b>53.65</b>	<b>1.137</b>	<b>0.047</b>

As mentioned last week when I looked at the preliminary version, the first and last week of the month look quite strong. The middle of the month is more neutral. Friday's reversal will have a seasonal tailwind the next few days to see if it can generate more of a bounce.

It is also notable that the CBI spike the last few days halted at 8 and the big reversal on Friday caused it to drop all the way to 2. So the CBI quickly returned to a neutral reading after being moderately bullish for a couple of days. Other studies I examined today have not held up well in recent years for whatever reason. So I am not going to be adding anything new to the short-term active list.

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 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 Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5279.02 on Monday. That is less than 0.1% above Friday's close. Therefore, SPX will remain oversold on any down close, but turn overbought on almost any up close.

So the Aggregator is bullish. But it is not as compelling of a setup as it was a day ago. The CBI has dropped, current evidence is fairly mild, and SPX will turn overbought on nearly any higher close. So I'd like to start taking some profits on my long index positions if the market does move up on Monday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/3 – *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.*

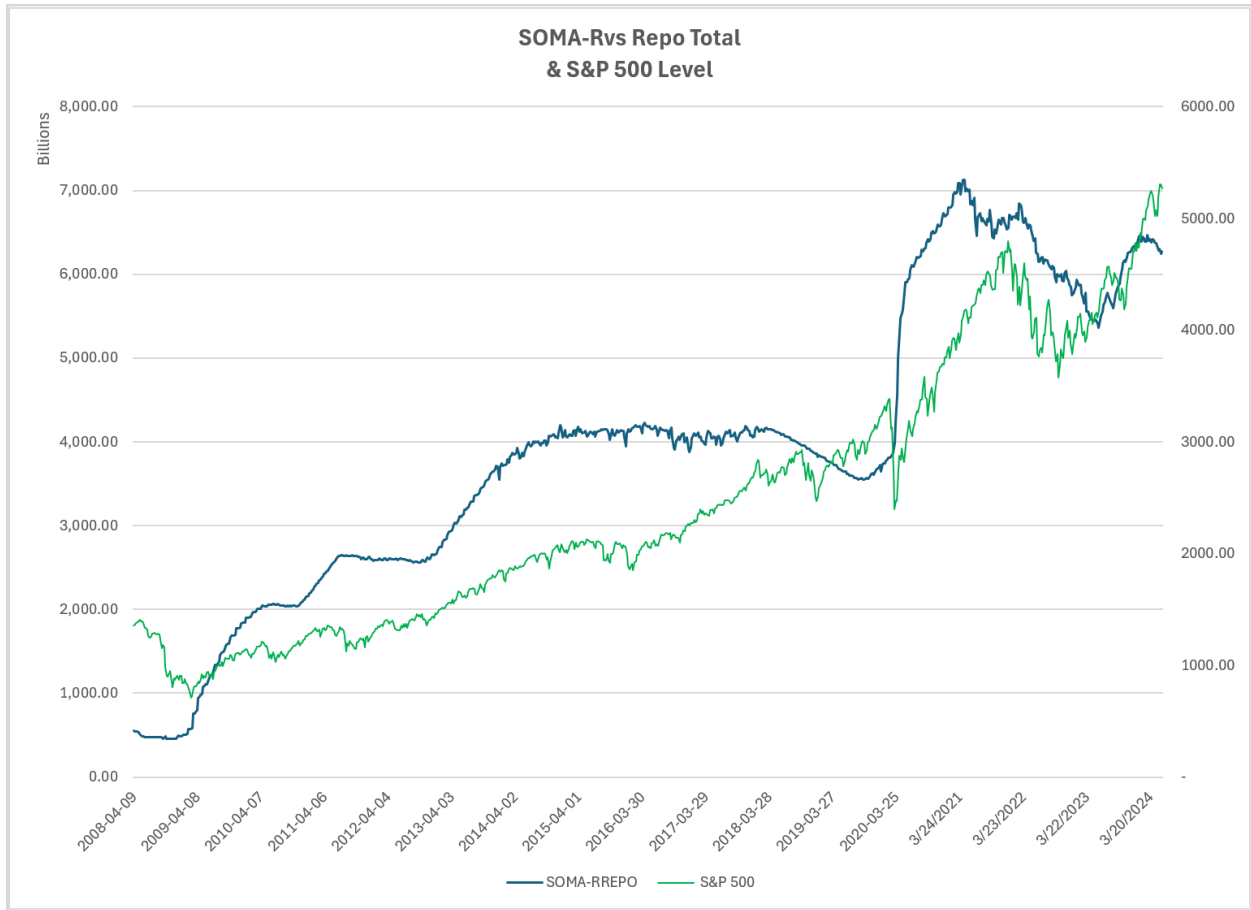
Despite Friday’s turnaround, SPX and NASDAQ both posted down weeks after a 5-week winning streak. The SPX declined 0.5%, the NASDAQ dropped 1.1%, and the Russell 2000 managed to rise 0.02%. Bonds dipped. The US Aggregate Bond ETF (AGG) lost 0.1%. TLT, the 20-year Treasury Bond ETF, got hit worse with a 1.0% loss. The long-term trend still looks up with SPX and NASDAQ both near all-time highs. There were not any new studies with intermediate-term implications that emerged in the last few days. Despite the lack of new intermediate-term evidence, there remains a solid amount of studies pointing (mostly) higher for the intermediate-term.

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 29, 2024 📅 Posted May 30, 2024 at 4:30 PM
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </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***	2,346,483,329.6
Agency Commercial Mortgage-Backed Securities***	8,158,983.2
Total SOMA Holdings	6,729,774,622.7
Change From Prior Week	-13,597,793.1

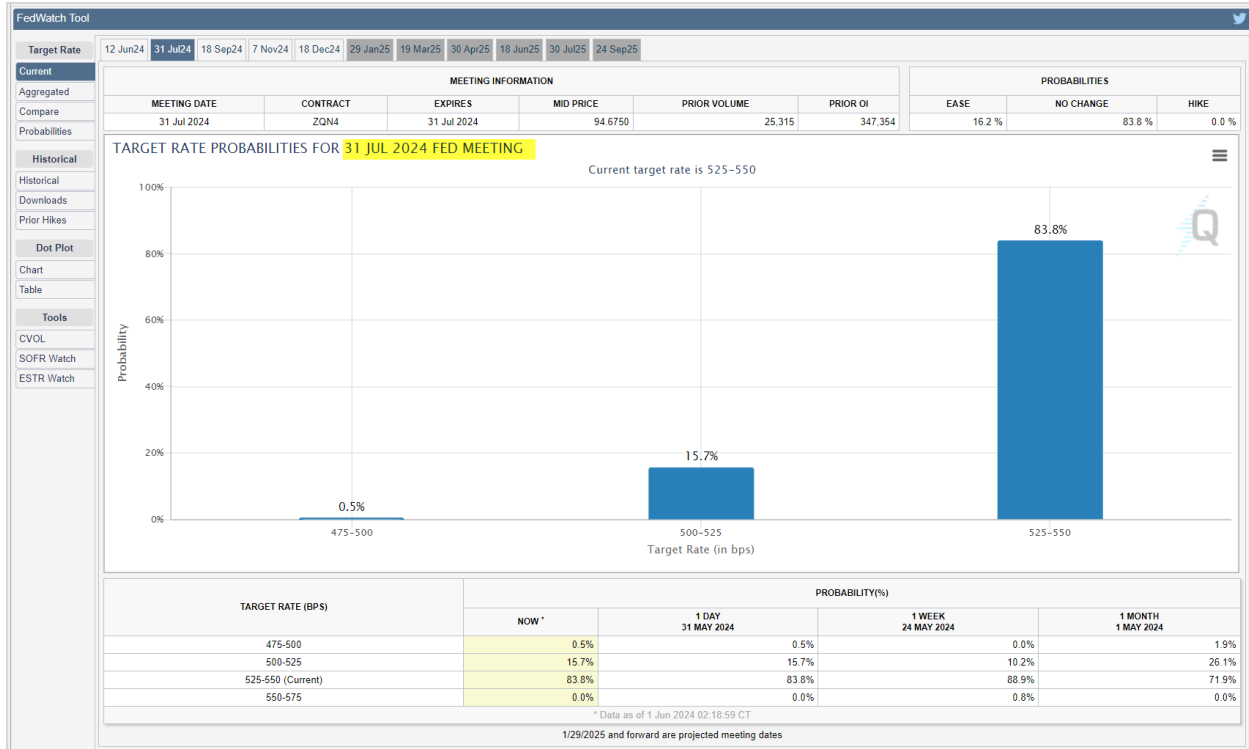
The SOMA dropped \$13.5 billion this past week. The current week should see a more substantial decline. There are a good number of treasuries expiring. This is also the last week before the June reduction in max QT amounts. Meanwhile, reverse repos declined by \$37 billion, which served as

a liquidity infusion. Combined, this amounts to about a \$23.5 billion liquidity expansion. 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 1<sup>st</sup> 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, suggesting 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.

With regards to rates, odds are showing a 96% chance that the Fed keeps rates steady in June and about a 4% chance of a cut. July is showing an 84% chance rates stay the same and a 16% chance they decline. This can be seen in the graphic 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 September meeting is now the next one where odds of lower rates are above 50%. (I think a cut before November is unlikely.) 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 good amount 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 near new all-time highs. The Fed remains a potentially bearish force, but the dialing back of QT starting in June means the bearish force they are exerting is weakening. Seasonality is sub-par since 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*

ACN @ \$284.80 (bought at limit)

*New*

ACN @ \$282.29 (buy at limit)

### *Broad Market Large Cap CBI – 2(ACN-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.

**ACN – Buy 1/3 Catapult position @ \$282.29 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots of ACN.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
BMY(1/3)	5/21/2024	\$43.14	\$41.09	-4.75%	<i>Sell on open</i>
BMY(1/3)	5/22/2024	\$42.22	\$41.09	-2.68%	<i>Sell on open</i>
BMY(1/3)	5/29/2024	\$40.28	\$41.09	2.01%	<i>Sell on open</i>
AMGN(1/3)	5/29/2024	\$299.04	\$305.85	2.28%	<i>Sell on open</i>
<b>CVS(1/3)</b>	<b>5/29/2024</b>	<b>\$53.20</b>	<b>\$56.00</b>	<b>5.26%</b>	<b><i>sold on open</i></b>
AMGN(1/3)	5/30/2024	\$297.18	\$305.85	2.92%	<i>Sell on open</i>
CL(1/3)	5/30/2024	\$91.27	\$92.96	1.85%	<i>Sell on open</i>
SPY(1/4)	5/30/2024	\$524.52	\$527.37	0.54%	<i>sell @ \$527.50 LIMIT ON CLOSE</i>
SPY(1/4)	5/31/2024	\$522.50	\$527.37	0.93%	Aggregator
CL(1/3)	5/31/2024	\$90.93	\$92.96	2.23%	<i>Sell on open</i>
ACN(1/3)	5/31/2024	\$284.80	\$282.29	-0.88%	Catapult

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