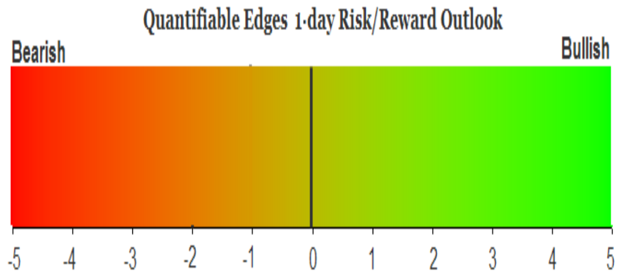
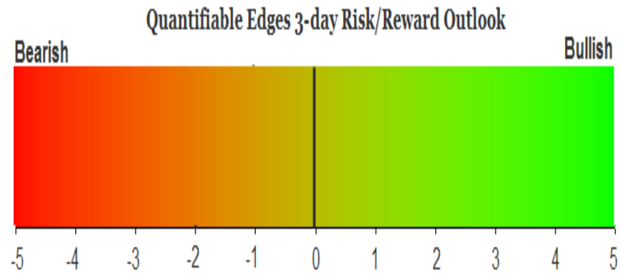
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2024 Volume 17 Issue 111

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Pullbacks from 50-day highs that were as mild as we have seen over the last 2 days have often been followed by a rise over the next 2 days.
- Seasonality for SPX appears neutral over the next couple of weeks.
- There was a sizable decline in the SOMA last week, but this was more than offset by a massive drop in reverse repos.
- New highs in SPX and NASDAQ mean the uptrend remains intact.

Short-term Outlook
The Bottom Line

The Aggregator formation is neutral. If selling persists Monday and/or Tuesday there is a good chance we could see the Aggregator turn bullish.

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						
June 10, 2024	SPX dn 2 days from 50-high. < 0.25% drop	1-2 days	Bullish			
June 7, 2024	SPX down. RSI(2) > 90.	1-2 days	Bullish			
June 5, 2024	NYSE Up Vol % < 40. SPX up & > 200ma	1-8 days	Bullish	1.80%	-1.30%	-2.80%
Active - Long Term						
June 7, 2024	RUT btm 25% 20-day rng. SPX top 25%.	1-40 days	Bullish	5.30%	-3.30%	-6.60%
May 16, 2024	SPX 50-day %b crosses 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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

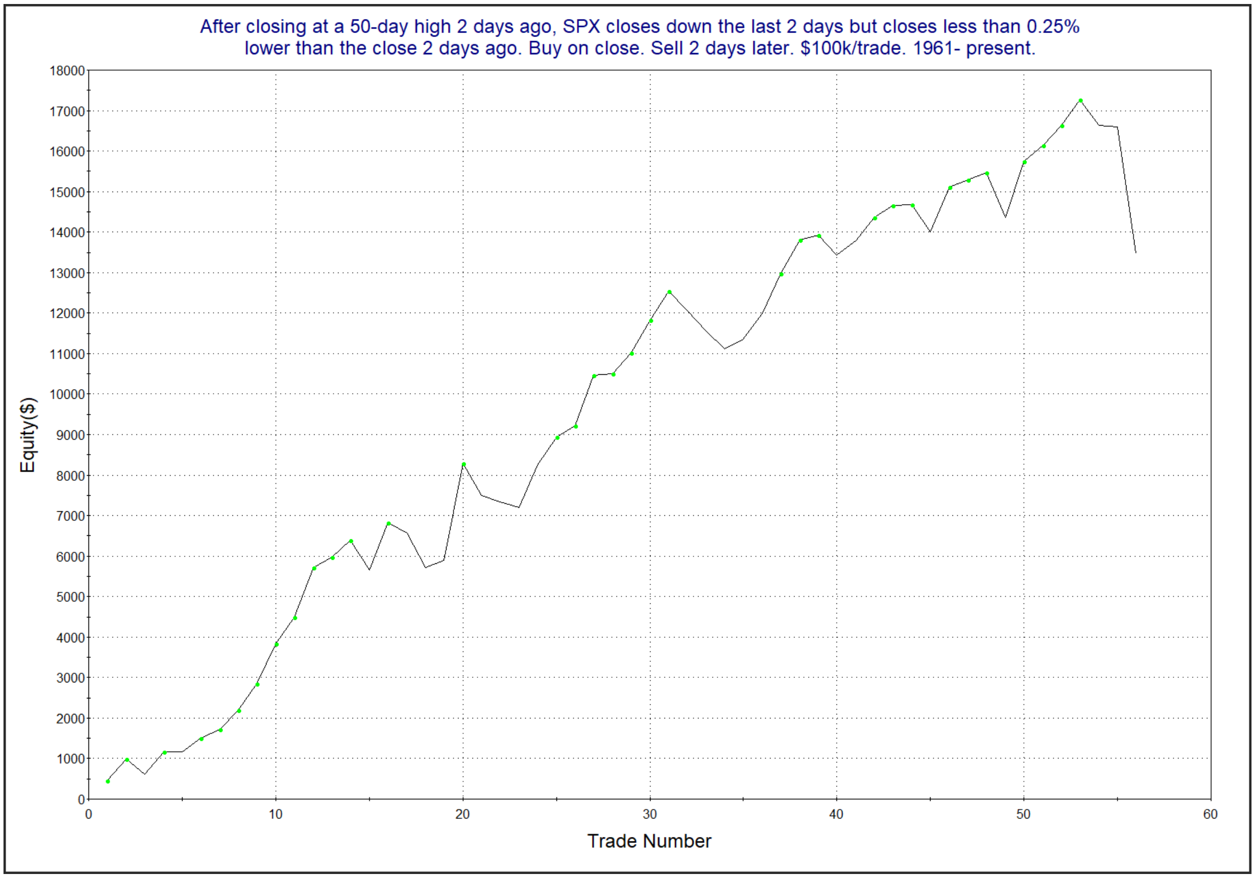
Friday chopped back and forth, but finished lower. SPX lost 0.1%, the NASDAQ fell 0.2%, and the Russell 2000 dropped 1.1%. Breadth was weak with the NYSE Up Issues % coming in at 27.5% and the Up Volume % at 26.5%. NYSE total volume rose some from Thursday's level.

SPX closed at a 50-day high 2 days ago, and while it has closed lower the last 2 days, the combined 2-day selloff has it only 0.13% below Wednesday's close. Often if an uptrending market tries to pull back, and it just cannot, then the next move will be higher. Tonight I looked at other instances of SPX closing down 2 days in a row from a 50-day high, but still closing less than 0.25% below that closing high. This is a study that was last seen in the 2/28/19 letter. Updated results can be seen below.

After closing at a 50-day high 2 days ago, SPX closes down the last 2 days but closes less than 0.25% lower than the close 2 days ago. Buy on close. Sell X days later. $100k/trade. 1961- 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
5	8,934.68	54	32	22	59.26	4,579.74	-3,618.28	911.77	-920.08	0.99	1.44	165.46
4	9,420.02	56	33	23	58.93	3,712.50	-3,370.08	911.11	-897.67	1.01	1.46	168.21
3	8,751.57	56	39	17	69.64	2,141.37	-3,892.32	674.92	-1,033.55	0.65	1.50	156.28
2	13,467.17	56	39	17	69.64	2,399.76	-3,130.56	622.18	-635.16	0.98	2.25	240.49
1	6,242.64	56	33	23	58.93	1,502.82	-1,748.64	452.96	-378.47	1.20	1.72	111.48

Such mild 2-day pullbacks from 50-day highs have been fairly rare. But the stats suggest a propensity for a rise over the next 2 days. Below is a look at the 2-day profit curve.



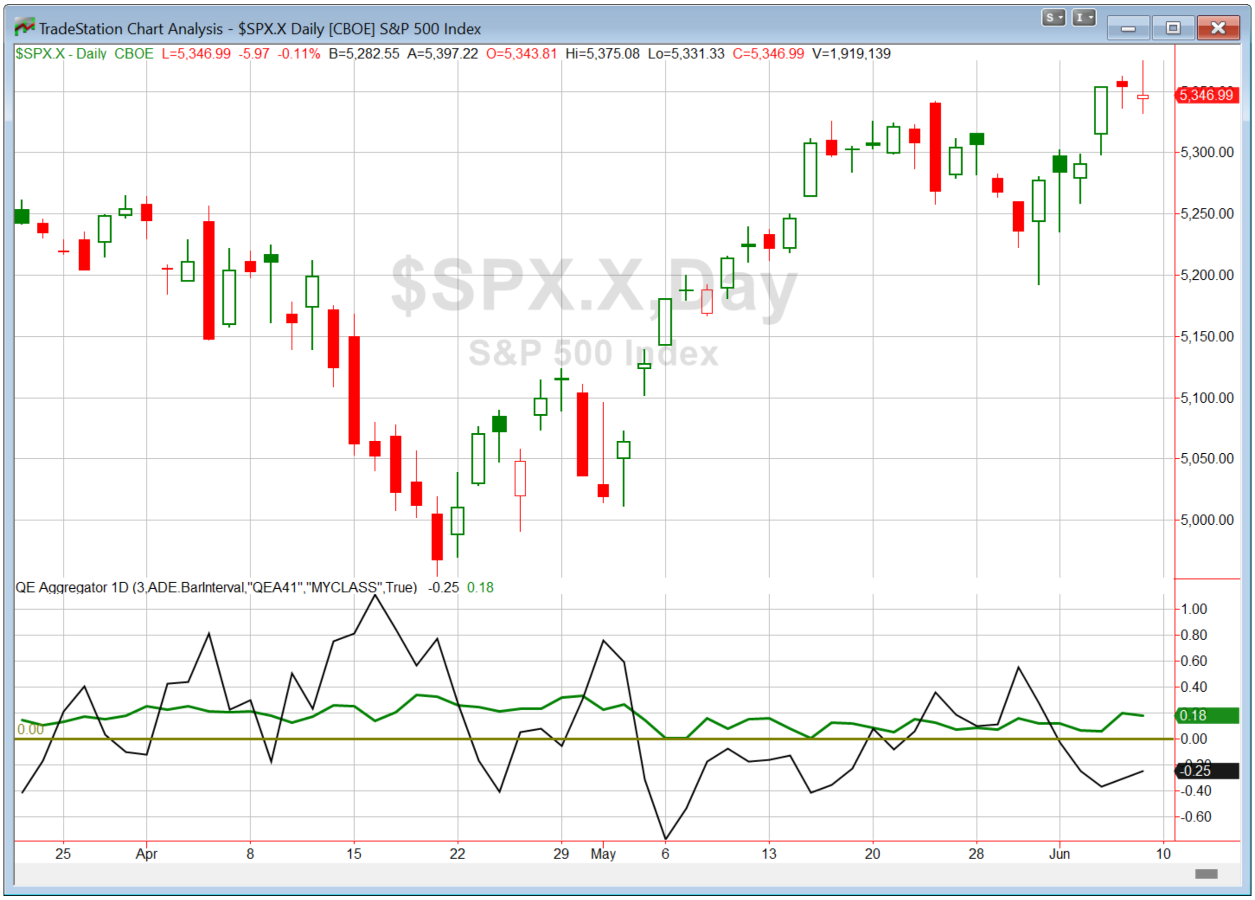
So the last instance, which triggered 12/2/2022, really changed the look of the curve. But this has headed high for a very long time. So I will view the last instance as an outlier for the time being and still include this study on the active list. If the uptrend does not start to reassert itself in the next few instances, then I will likely eliminate this study from future consideration.

Next let's take a look at the June Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
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
Baseline	***53.65***	***1.137***	***0.047***

Last week was all green and the SPX managed to rally. The next couple of weeks we see many more neutral readings. It will be interesting to see if the bulls can continue to push the market higher without the help of seasonality for much of the next 2 weeks.

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 remained 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 stayed flat 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 *inverted at* 5367.21 on Monday. That is 0.4% *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 at least 0.4% in order to remain overbought. Anything other than that and it will be considered oversold versus recent expectations as of Monday's close.

So the Aggregator is formation is still neutral. Evidence suggests a good chance of a rise over the next few days, but the current overbought status reduces reward/risk potential. If the market closes down on Monday, then we would have 3 lower closes heading into a potential Turnaround Tuesday, which would certainly generate some additional bullish evidence. Also worth keeping in mind is that Wednesday is a Fed Day. There could be some market anxiety headed into that. And if there is selling ahead of the announcement on Monday, and especially Tuesday, then that could set up for a bullish Wednesday. Aggressive traders could consider taking some long exposure if SPX sells off a bit more on Monday. I'll show a little bit of patience and wait to see how Monday unfolds. If selling persists, I will likely be looking to get long on Tuesday ahead of the Wednesday Fed meeting. Note – if I do get long Tuesday I may look to take some pf the exposure off ahead of the Fed meeting on Wednesday, since the bullish tendency of Fed Days can primarily be attributed to the overnight and the morning leading up to the announcement. See this old blog post for more details on Fed Days pre/post announcement performance.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/10 – bullish

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

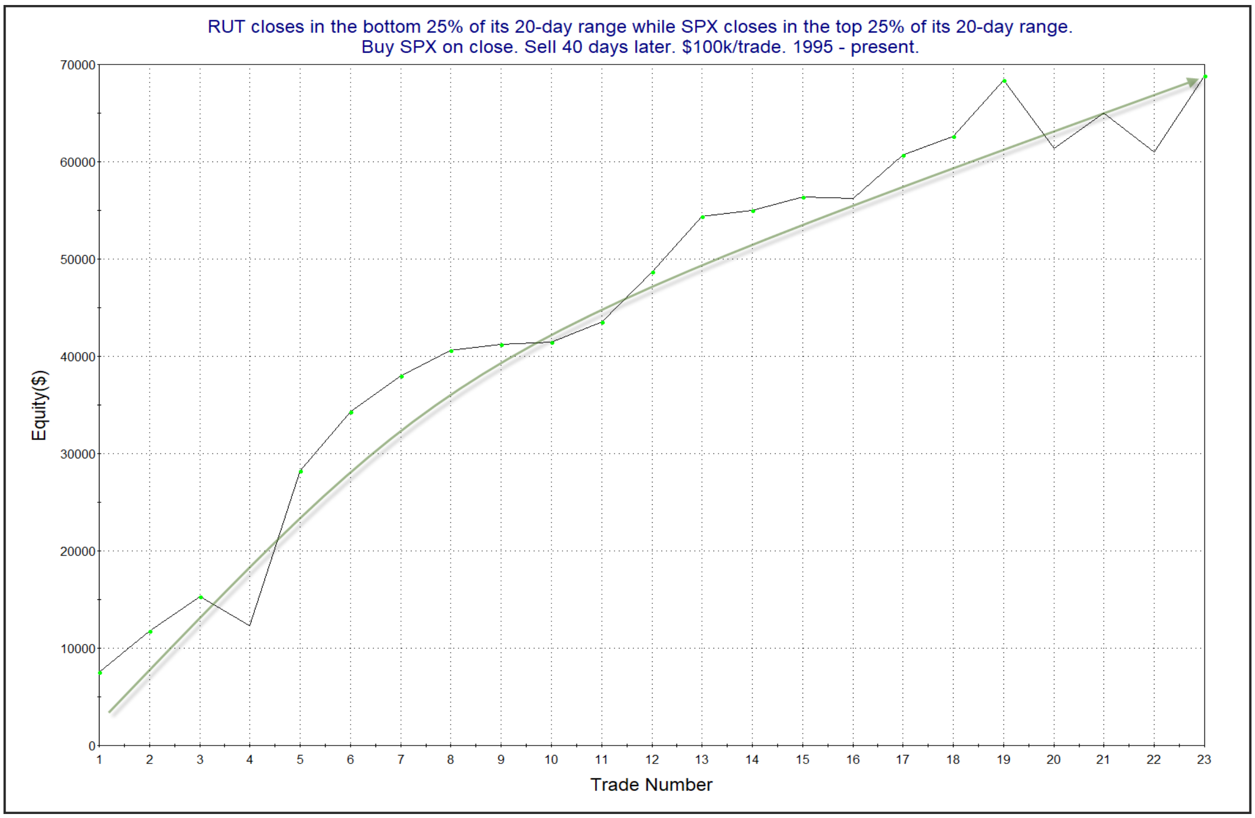
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. *The Combo Systems all remained long QQQ this week.*

Stock performance was greatly split between large and smallcap this past week. The SPX rose 1.3%, the NASDAQ gained 2.4%, and the Russell 2000 (RUT) declined 2.1%. Bonds rallied. The US Aggregate Bond ETF (AGG) climbed 0.4%. TLT, the 20-year Treasury Bond ETF, jumped 1.5%. The SPX and NASDAQ both made new all-time highs, confirming the long-term uptrend remains in place. The split action between the SPX and RUT triggered a study that I discussed in the Thursday night letter that suggested positive intermediate-term implications. I have copied that study below.

While SPX closed near a new high, RUT closed down near the bottom of its 20-day range. This triggered the study below, which looked at times SPX closed high in its 20-day range while RUT closed low in its range. It is updated from the 1/16/24 letter.

RUT closes in the bottom 25% of its 20-day range while SPX closes in the top 25% of its 20-day range. Buy SPX on close. Sell X days later. $100k/trade. 1995 - 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
50	57,418.74	21	14	7	66.67	17,360.82	-10,216.92	5,819.76	-3,436.84	1.69	3.39	2,734.23
45	60,293.39	22	16	6	72.73	15,231.03	-8,772.68	5,347.87	-4,212.09	1.27	3.39	2,740.61
40	68,841.54	23	19	4	82.61	15,916.02	-7,016.58	4,369.74	-3,545.87	1.23	5.85	2,993.11
35	59,105.02	23	17	6	73.91	15,668.34	-3,769.92	4,321.48	-2,393.36	1.81	5.12	2,569.78
30	52,734.49	23	19	4	82.61	11,907.99	-7,466.97	3,557.10	-3,712.59	0.96	4.55	2,292.80
25	38,334.58	24	17	7	70.83	9,355.08	-8,562.90	3,196.71	-2,287.08	1.40	3.39	1,597.27
20	35,585.01	24	17	7	70.83	9,900.75	-6,058.36	3,105.09	-2,457.36	1.26	3.07	1,482.71
15	35,416.07	24	19	5	79.17	7,779.99	-5,109.23	2,636.54	-2,935.65	0.90	3.41	1,475.67
10	24,415.86	29	21	8	72.41	8,346.30	-6,893.04	2,044.42	-2,314.63	0.88	2.32	841.93
5	11,919.49	31	13	18	41.94	7,383.96	-2,806.44	2,245.75	-959.74	2.34	1.69	384.50

It appears the lagging RUT in similar circumstances has not been a drag going forward, and that SPX has continued to flourish. Below is a look at a profit curve with a 40-day holding period.



There have been a couple of recent stumbles, but overall this appears to be a favorable looking curve. I also checked to see how the Russell 2000 did going forward.

RUT closes in the bottom 25% of its 20-day range while SPX closes in the top 25% of its 20-day range. Buy RUT on close. Sell X days later. $100k/trade. 1995 - 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
50	15,772.30	21	13	8	61.90	18,203.13	-13,291.46	5,868.43	-7,564.66	0.78	1.26	751.06
45	22,388.18	22	14	8	63.64	17,231.94	-16,401.84	5,233.82	-6,360.66	0.82	1.44	1,017.64
40	44,807.14	23	15	8	65.22	16,988.40	-11,624.36	5,348.41	-4,427.38	1.21	2.27	1,948.14
35	35,526.57	23	15	8	65.22	16,765.65	-10,617.88	4,869.73	-4,689.93	1.04	1.95	1,544.63
30	33,152.60	23	14	9	60.87	15,209.37	-11,108.16	5,307.61	-4,572.67	1.16	1.81	1,441.42
25	16,969.30	24	14	10	58.33	14,012.46	-13,585.34	4,147.98	-4,110.24	1.01	1.41	707.05
20	13,515.42	24	15	9	62.50	12,067.11	-16,370.90	3,945.77	-5,074.57	0.78	1.30	563.14
15	18,653.60	24	14	10	58.33	11,066.88	-8,143.20	4,010.43	-3,749.23	1.07	1.50	777.23
10	3,489.29	29	14	15	48.28	8,215.02	-10,958.54	3,450.79	-2,988.12	1.15	1.08	120.32
5	1,340.26	31	15	16	48.39	7,817.04	-4,524.56	2,244.80	-2,020.73	1.11	1.04	43.23

Results still lean bullish over the intermediate-term, but not to the degree that we see with the SPX. This suggests the leading SPX has a good chance to rally, and over the intermediate-term, continue to outperform the RUT.

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

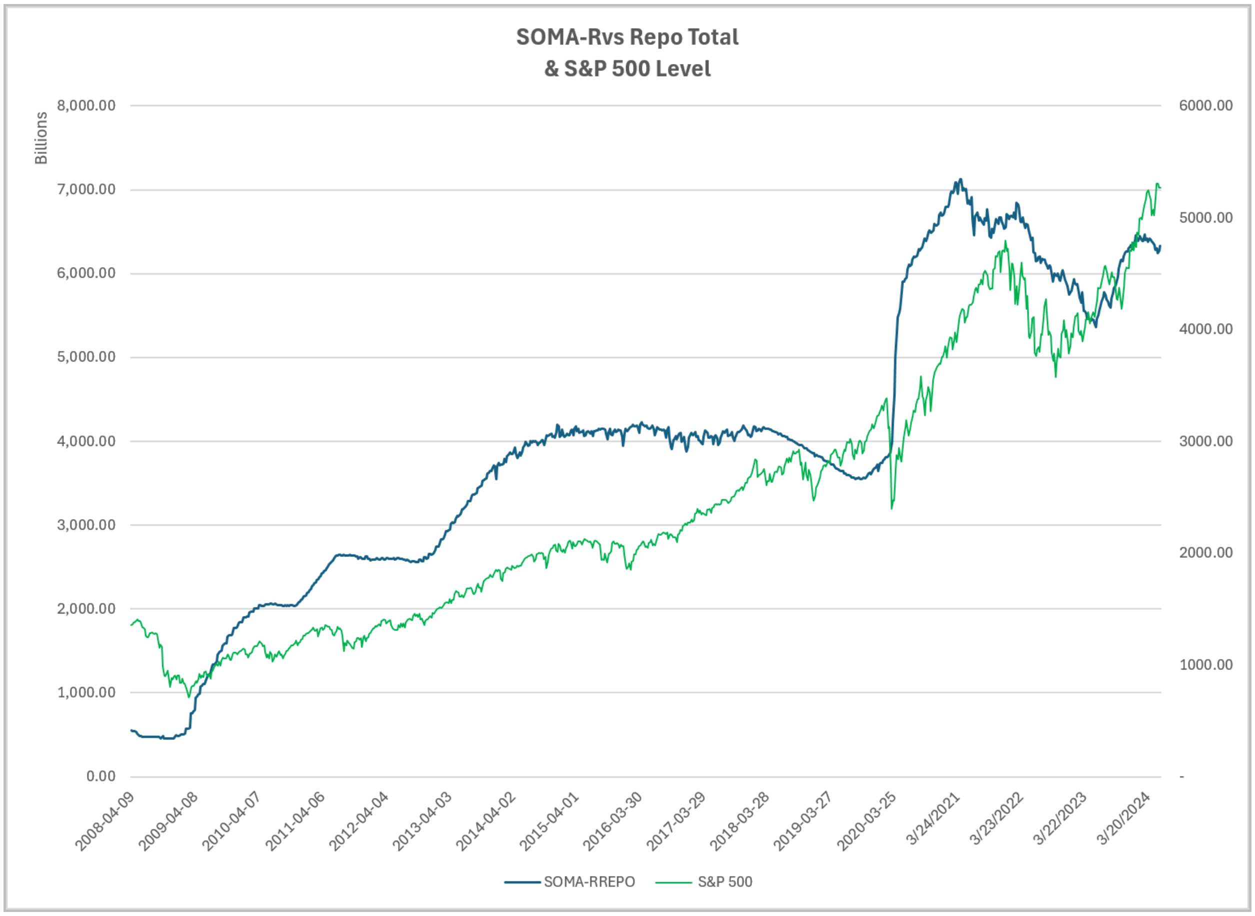
Previous June 5, 2024

Posted June 6, 2024 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

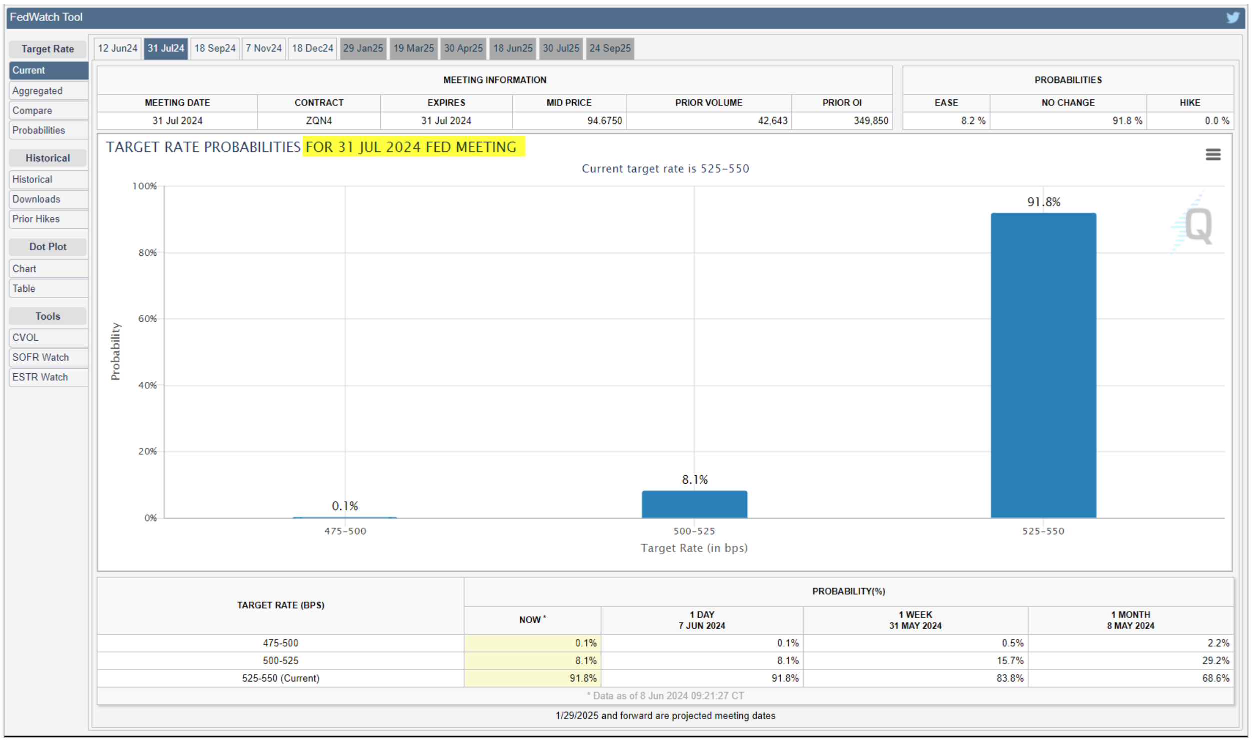
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	195,217,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,791,481,595.0
US Treasury Floating Rate Notes (FRNs)	6,253,764.6
US Treasury Inflation-Protected Securities (TIPS)*	351,111,057.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,346,483,329.6
Agency Commercial Mortgage-Backed Securities***	8,158,983.2
Total SOMA Holdings	6,701,053,656.3
Change From Prior Week	-28,720,966.4

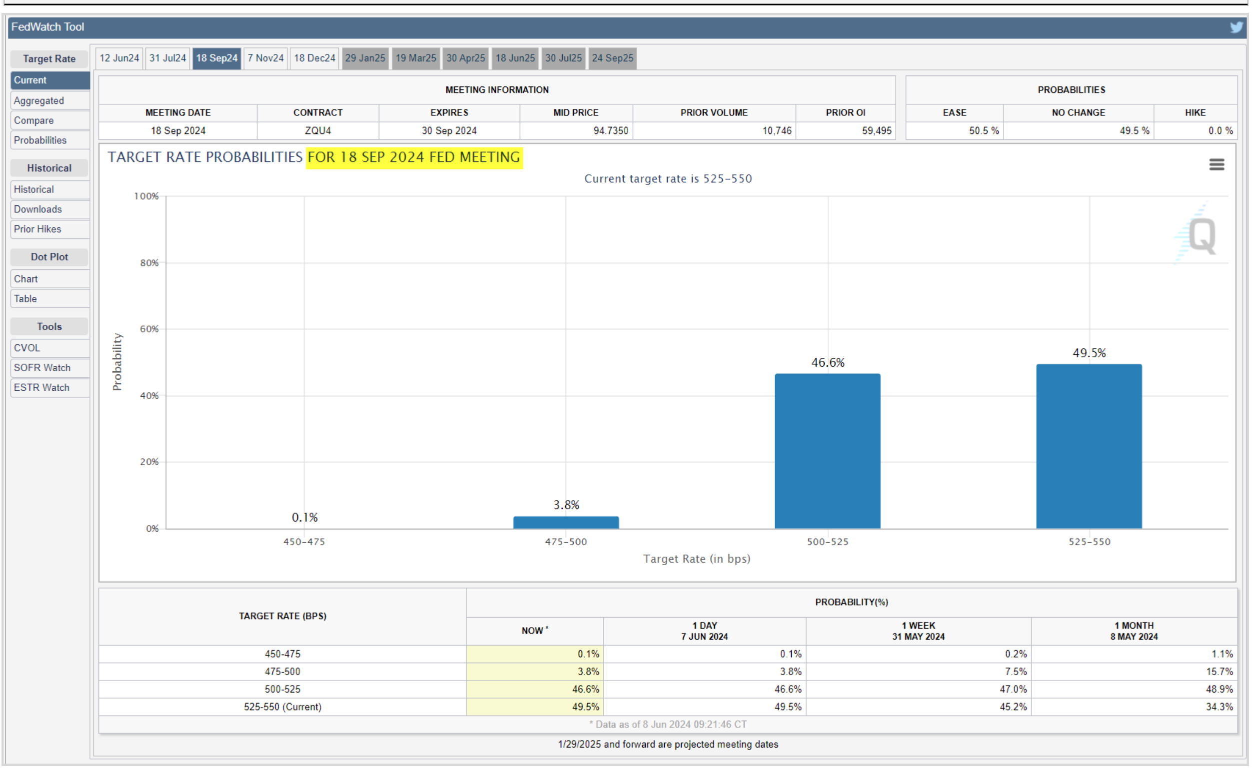
The SOMA dropped $28.7 billion this past week. That included the last bit of treasury rolloff in May. This is about as large as you are going to see a week decline from here forward, since the monthly total is falling from $95 billion to $60 billion. Meanwhile, reverse repos declined by a massive $87.5 billion! This serves as a liquidity infusion. To gain some perspective, that brought the total amount of reverse repos down from $459 billion to $372 billion. A 19% decline in just one week! The reverse repo tank is getting low on fuel. Combined for the week, this amounts to about a $59 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 1st quarter of 2024 reverse repos declined substantially and had a positive impact on liquidity. From early March through May the level of reverse repos remained about the same. But this last week put us back at new lows for the 1st time in a while. 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, but it is being dialed back now. 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 they are starting to run low. Since early March, there has been a chopping around of the blue line, which looks at the SOMA level and subtracts the amount of outstanding reverse repos. If that line begins to head lower again as reverse repos approach $0, then that could mean a liquidity headwind for the market.

With regards to rates, odds are showing a 98% chance that the Fed keeps rates steady this week and about a 2% chance of a cut. July is showing an 92% chance rates stay the same and an 8% chance they decline. And September is now showing odds about 50/50 for a cut. 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, with the Fed sticking to its "data dependent" rhetoric. Overall, while QT is still active, 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. We saw this week that the recently lagging RUT does not appear to suggest a problem for the SPX. There is also still a preponderance of bullish evidence listed on the intermediate-term active list. Several studies 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 posting new all-time highs. The Fed remains a potentially bearish force, but QT is now being dialed back, so the bearish force they are exerting is less. 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

None

Broad Market Large Cap CBI – 0

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

None