

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2024

Volume 17 Issue 116

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	4

Tonight's Research Points

- SPY up while VIX rising over 6% with it not being the 1st day of the week triggered an old study suggesting there should be a move higher over the next few days.
- Poor participation in the rally could mean trouble down the road.
- The SOMA was flat but there was a liquidity drain from reverse repos last week.

Short-term Outlook

The Bottom Line

The Aggregator formation is neutral. So am I.

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 17, 2024	SPY up. VIX up > 6%. Not 1st day of week.	1-5 days	Bullish	2.00%	0.90%	-1.80%
June 13, 2024	SPY 20-high. Unfilled gap up. Close < open	1-3 days	Bullish			
June 13, 2024	SPX 100-day high on a Fed Day	1-8 days	Bullish			
June 12, 2024	NYSE Up Vol % < 40. SPX up & > 200ma	1-8 days	Bullish	1.80%	-1.30%	-2.80%
Active - Long Term						
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 months	Bearish			
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

The market started off poorly on Friday, but rallied during the day to finish mixed. SPX declined 0.04% (but SPY rose 0.06%), the NASDAQ rallied 0.12%, and the Russell 2000 lost 1.6%. Breadth was poor with the NYSE Up Issues % coming in at 24% and the Up Volume % at 22%. NYSE total volume declined some from Thursday's level.

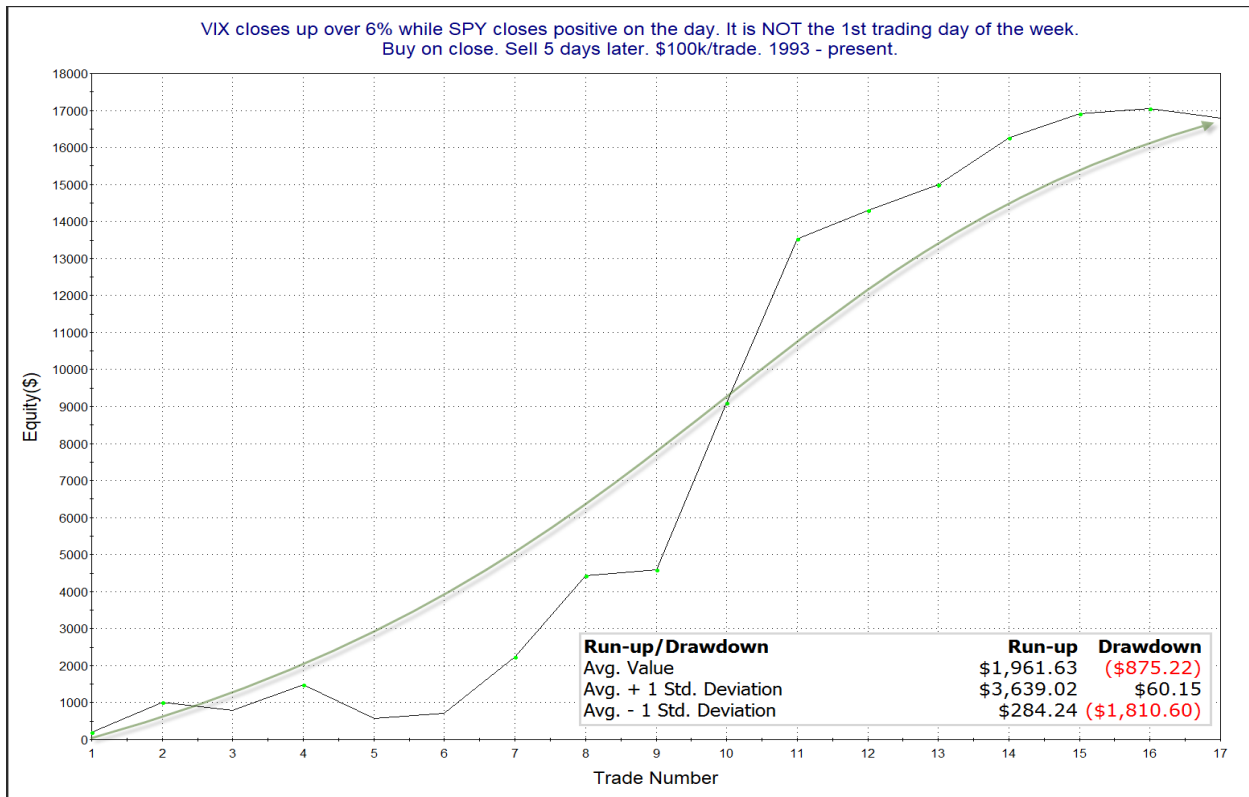
While SPY closed near flat (up slightly) on the day, the VIX saw a sizable rise of 6.03%. This triggered the study below, which looks at times SPY closes positive while VIX rises at least 6%. The original version of the study also required that this did not trigger on a Monday. The reason for this is that VIX tends to decline on Friday afternoons and then rise on Monday mornings. This weekend effect makes it more common for the VIX to move higher along with the SPY on Mondays than it does any other day of the week. This weekend I adjusted the code slightly so that it required today not be the "1st trading day of the week" rather than not being Monday. In other words, if Monday was a holiday and today is Tuesday, it still would not qualify. That is because the weekend effect would be moved to Tuesday. This slight change did filter out a few additional instances. So here is an updated version of the study:

VIX closes up over 6% while SPY closes positive on the day. It is NOT the 1st trading day of the week.
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
5	16,786.65	17	14	3	82.35	4,501.60	-914.83	1,299.34	-468.04	2.78	12.96	987.45
4	14,526.87	17	13	4	76.47	4,225.18	-1,173.60	1,333.72	-702.87	1.90	6.17	854.52
3	10,190.34	17	12	5	70.59	4,576.06	-3,070.92	1,216.12	-880.61	1.38	3.31	599.43
2	7,481.28	17	12	5	70.59	2,807.04	-2,288.52	925.60	-725.20	1.28	3.06	440.08
1	60.93	18	9	9	50.00	1,893.29	-1,613.70	534.05	-527.28	1.01	1.01	3.38

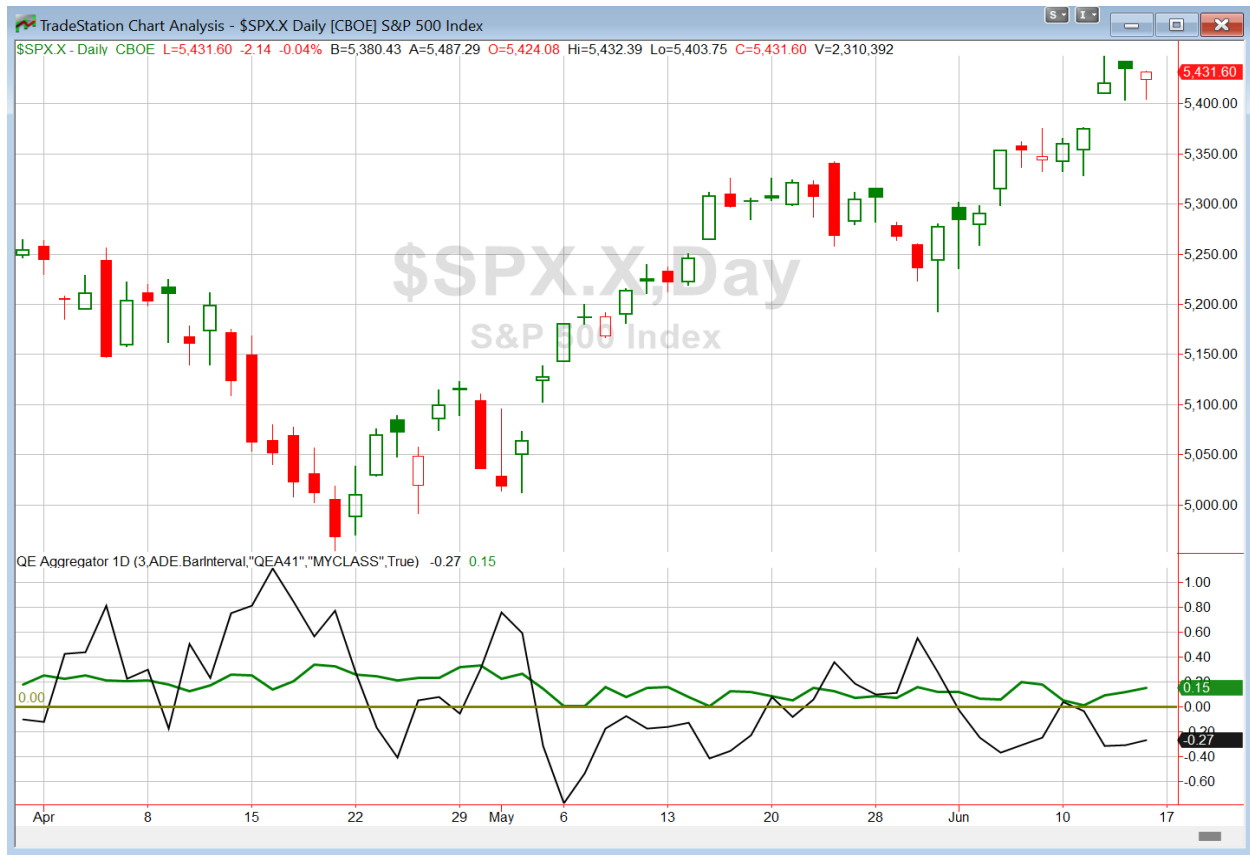
100% of instances closed above the entry price at some point in the next week.

Instances are a little light, but there does appear to be a tendency for the market to rise in the following days. Below is a look at the profit curve assuming a 5-day holding period.



I find this study compelling and have added it to the Active List. My only real concern with the current instance is that we *barely* qualified with both SPY closing marginally higher and VIX closing up only 6.03%. Still, the study triggered, and I will give it the benefit of the doubt rather than make excuses.

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 5429.66 on Monday. That is only about 2 *points* below Friday's close. Therefore, SPX will need to close down just 2 points on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is neutral. And my general outlook is the same as the last couple of days. Short-term evidence says there could be more upside to come despite the market being overbought. But the overbought nature reduces reward/risk potential. This is still not a setup that gets me excited about taking on new short-term index positions. I will stay mostly sidelined until a more compelling setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/17 – *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 for the 2nd week in a row. The SPX rose 1.6%, the NASDAQ gained 3.2%, and the Russell 2000 (RUT) declined 1.0%. Bonds rallied. The US Aggregate Bond ETF (AGG) climbed 1.35%. TLT, the 20-year Treasury Bond ETF, jumped 3.5%. The SPX and NASDAQ both made new all-time highs, confirming the long-term uptrend remains in place. The continued struggles among smallcaps and weak breadth did generate the study below, which I featured in Thursday night’s letter.

In my observation of current conditions I noticed that the % of SPX stocks above their 100ma is just 48%. This is the 2nd time in the last 3 days that it came in below 50% with SPX closing at a new all-time high. That is highly unusual. I generated a study looking at other instances where SPX was closing at a new 2-year high while the % of constituents above their 100ma was less than 50%. Since the inception of the SPX in 1957, this has been quite rare. And long-term returns have NOT been good. This can be seen in the table below.

SPX closes at a 500-day high while the % of SPX constituents above their 100ma < 50%. This is the 1st such instance in the last month. Forward SPX returns shown. 1957 - present.									
Ticker	Date/Time	10-Day %Chg	21-Day % Chg	42-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg	378-Day % Chg	504-Day % Chg
\$SPX	5/24/1972	-2.75	-1.85	-2.46	1.77	5.97	-2.54	-12.45	-19.89
\$SPX	8/8/1972	1.55	-0.36	-0.97	2.97	3.6	-5.35	-16.59	-26.95
\$SPX	6/17/1976	-0.02	0.66	1.15	1.67	1.15	-3.63	-9.71	-5.97
\$SPX	11/18/1999	0.59	-0.48	1.45	-5.53	-1.26	-3.69	-7.87	-19.27
\$SPX	3/21/2000	0.06	-4.44	-5.82	-1.18	-2.27	-24.88	-32.24	-23.38
\$SPX	6/11/2024	na	na	na	na	na	na	na	na
	Avg	-0.11	-1.29	-1.33	-0.06	1.44	-8.02	-15.77	-19.09
	Median	0.06	-0.48	-0.97	1.67	1.15	-3.69	-12.45	-19.89
	Win %	60%	20%	40%	60%	60%	0%	0%	0%

[QuantifiableEdges.com](https://www.quantifiableedges.com)
Data from Norgate Data

Note: 21 days is approx 1 month. 252 days is approx 1 yr. 504 days is approx 2 years.

Only 5 previous instances. So it is a bit dangerous to put much faith in this study. But each time the narrow leadership has eventually failed and the market has seen some long-term suffering.

I’m not inclined to give this much weight, but I did add it to the intermediate-term list to keep track of.

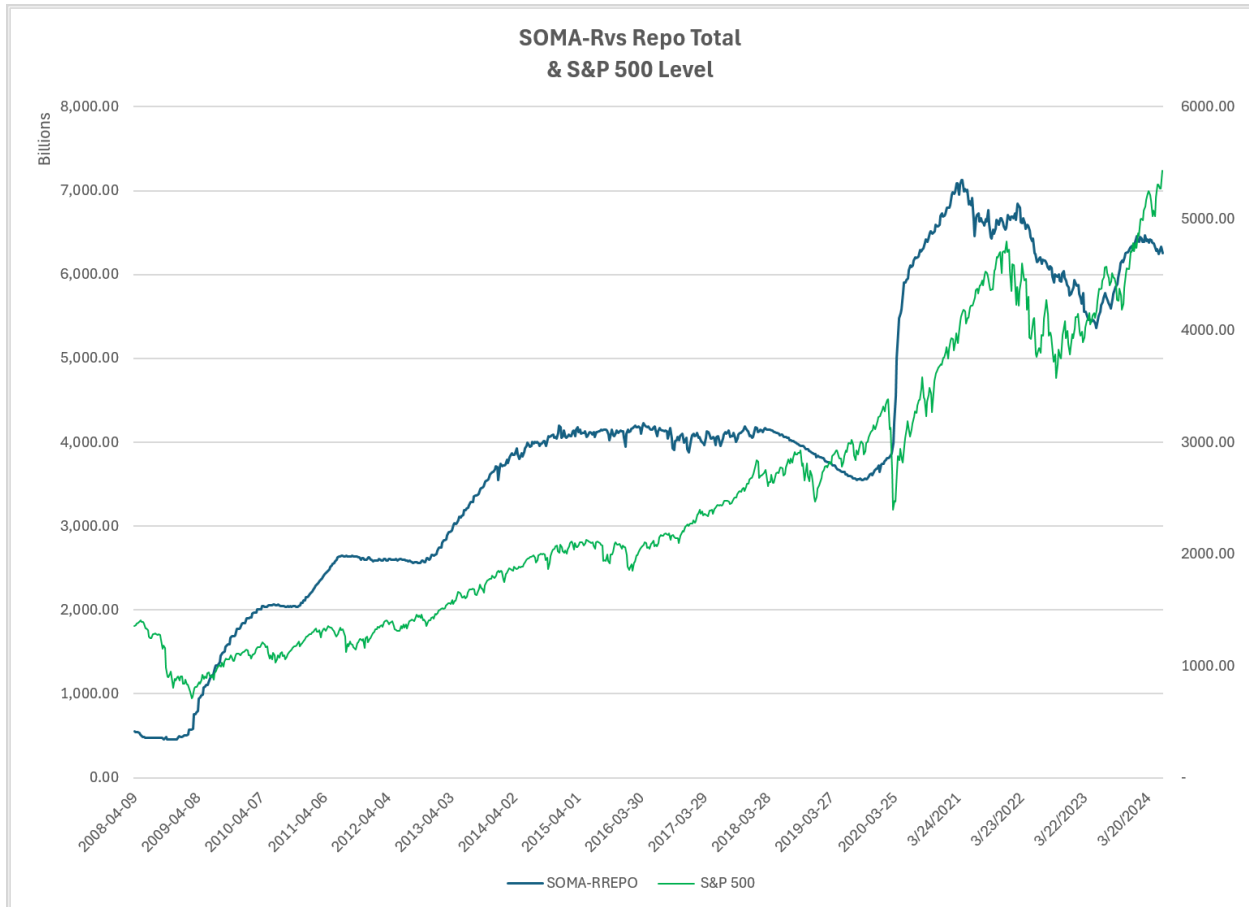
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of

◀ Previous **June 12, 2024** 📅
Posted June 13, 2024 at 4:30 PM

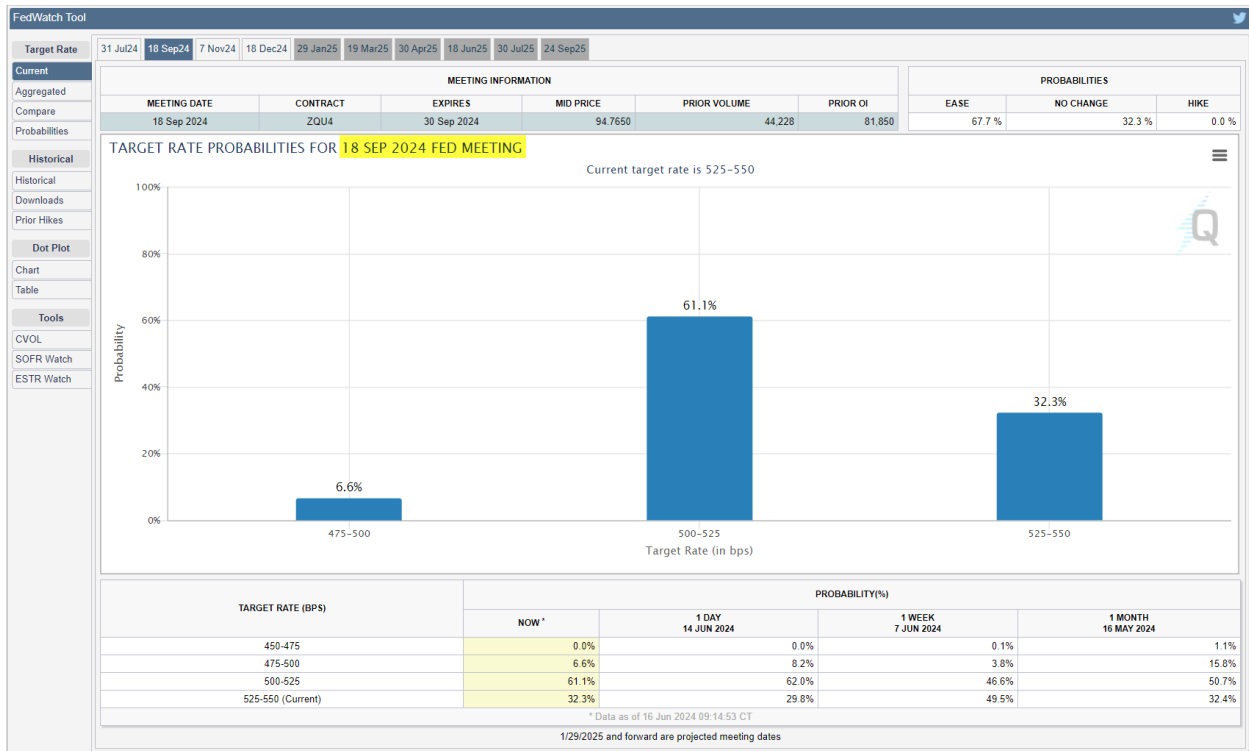
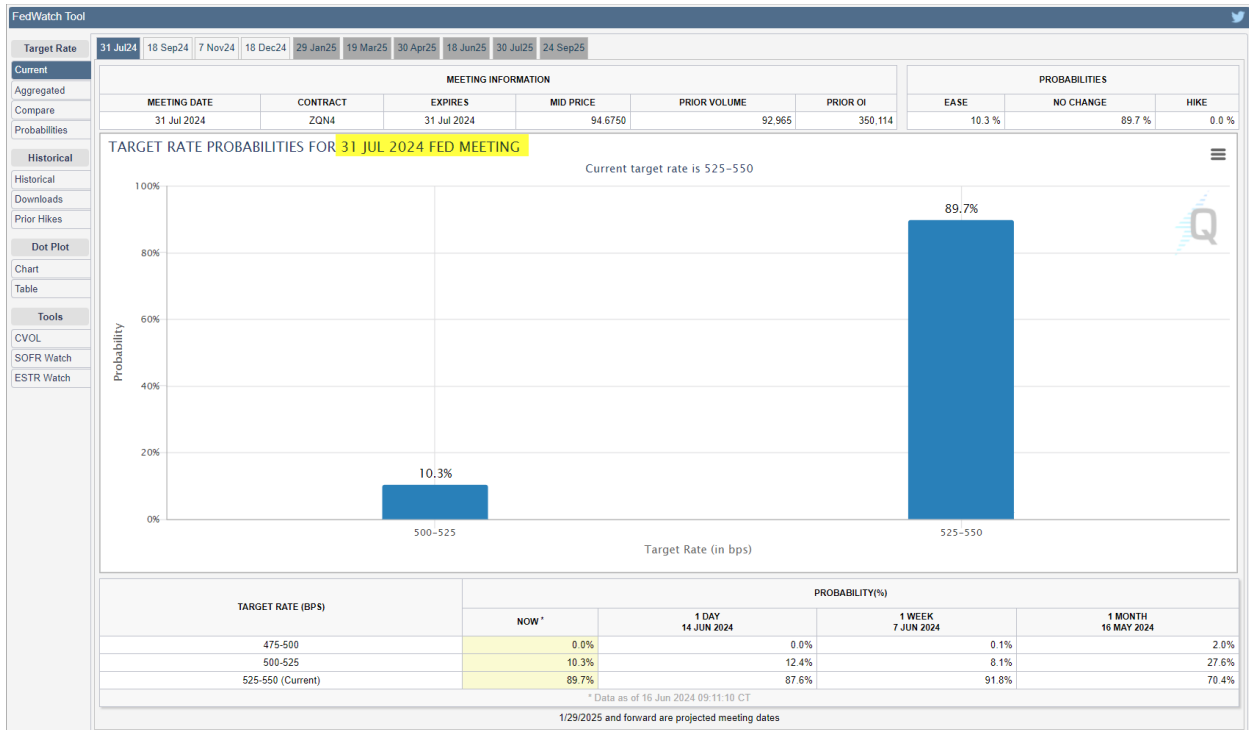
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,217,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,791,481,595.0
US Treasury Floating Rate Notes (FRNs)	6,253,764.6
US Treasury Inflation-Protected Securities (TIPS)*	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

The SOMA saw *zero* change this past week. Meanwhile, reverse repos rose by a sizable \$75.7 billion! This serves as a liquidity drain. The reverse repo tank remains fairly low on fuel. Combined for the week, this amounts to about a \$76 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. From early March through May the level of reverse repos remained about the same. The last couple of weeks we have seen the number chopping around. 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 now at a lower level than we saw over the last couple of years. 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 heads 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 90% chance that the Fed keeps rates steady in July. But September is now showing odds about 68% 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. The breadth study we saw this week is not encouraging over the next 1-2 years, but it does not mean an immediate end to the narrow uptrend. There is also still a preponderance of bullish evidence listed on the intermediate-term active list. Several studies are related to strong momentum. 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, despite QT 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 still appears to outweigh bearish by a decent 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

MO @ \$45.75 (bought @ limit)

RTX @ \$105.03 (bought @ limit)

New

MO @ \$44.32 (buy @ limit)

RTX @ \$104.23 (buy @ limit)

Broad Market Large Cap CBI – 2(MO, RTX)

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.

MO – Buy 1/3 Catapult position @ \$44.32 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of MO.

RTX – Buy 1/3 Catapult position @ \$104.23 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of RTX.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MO(1/3)	6/14/2024	\$44.49	\$44.32	-0.38%	Catapult
RTX(1/3)	6/14/2024	\$104.59	\$104.23	-0.34%	Catapult

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