

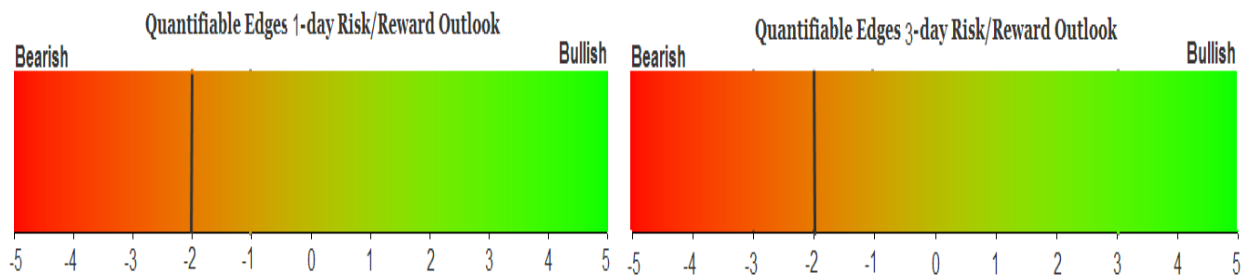
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 8, 2024

Volume 17 Issue 129

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- VIX action on Friday is warning of a possible short-term pullback.
- Friday's weak breadth could actually be a positive.
- Seasonality continues to look positive this week and for the remainder of July.
- NDX is now more than 18% above its 200ma – condition that have been followed by wild swings but often more upward movement.
- The SOMA declined this past week, but so did reverse repos, which meant a bit of a liquidity boost.

Short-term Outlook

The Bottom Line

The Aggregator formation is bearish. But evidence is mixed and I am not so enthused about fighting the trend.

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						
July 8, 2024	VIX up. SPX 50-high. Friday	1-2 days	Bearish			
July 8, 2024	SPX up and > 200. Up Vol % < 40%.	1-8 days	Bullish	1.85%	-1.30%	-2.80%
July 1, 2024	3-day high, 3-day low, 3-day low close	1-5 days	Bullish	1.90%	-1.10%	-2.20%
Active - Long Term						
July 8, 2024	NDX 18% above 200ma	1-90 days	Bullish	14.50%	-9.40%	-18.90%
June 26, 2024	SPY 50-high then 5 sideways	1-10 days	Bullish	2.10%	-1.15%	-2.50%
June 24, 2024	Seasonality Calendar strong end June-July	int term	Bullish			
June 20, 2024	Hindenburg Omen with SPX trend mod	1-35 days	Bearish	-7.40%	2.80%	4.90%
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 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			
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			

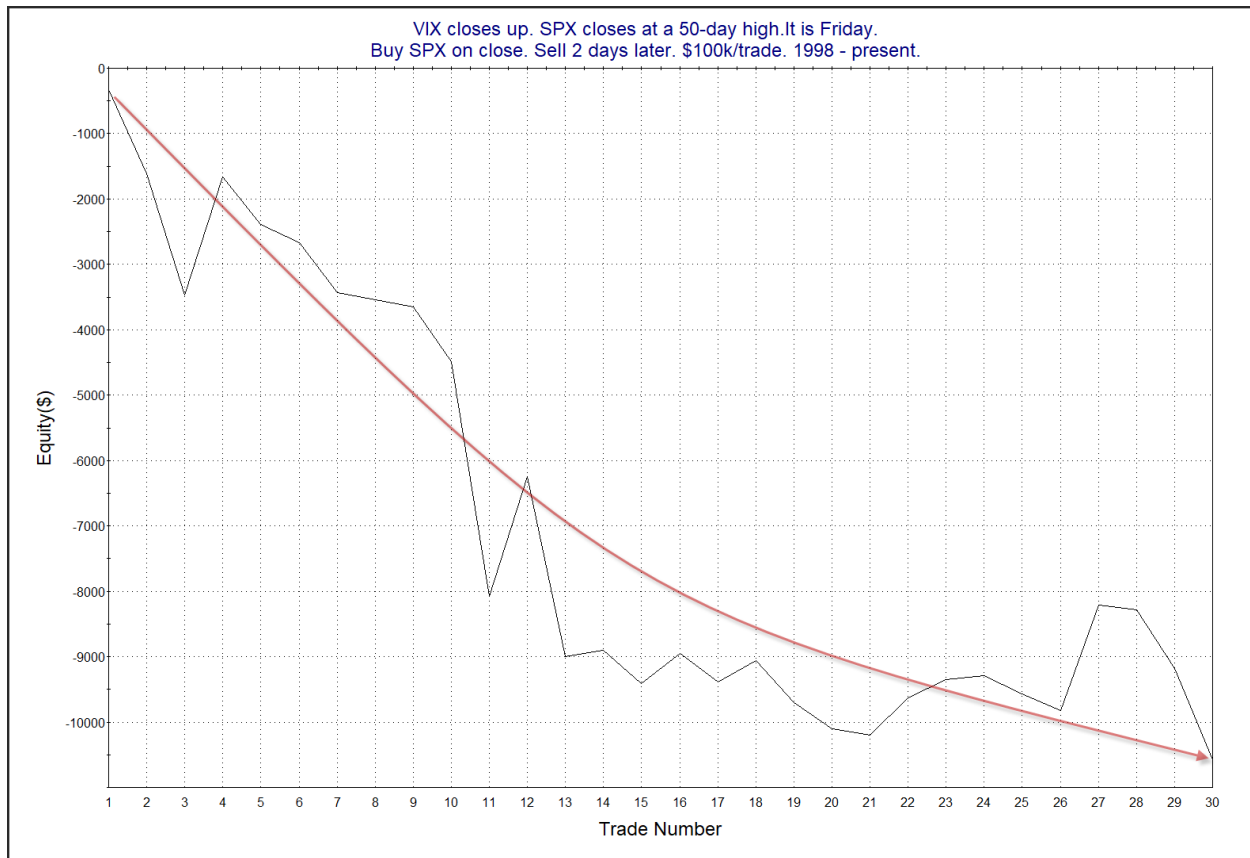
The Evidence

Large-caps again ruled on Friday. SPX rose 0.5%, the NASDAQ gained 0.9%, and the Russell 2000 declined 0.5%. Breadth was weak with the NYSE Up Issues % coming in at 44% and the Up Volume % at 39%. NYSE volume was up a bit from Wednesday's shortened session.

One notable on Friday was that the VIX rose while SPX closed at a new high. Most of the time the VIX will move opposite the SPX. Fridays there is a natural tendency for the VIX to dip in the afternoon. So Friday is the least common day of the week to see SPX and VIX both rise. (Monday there is a natural inclination for the VIX to rise, so Mondays are about 3x as likely to see this happen as Fridays.) Friday also shows the most bearish results going forward for a rising VIX and an SPX new high. The study below is updated from the 12/30/19 letter. It addresses the SPX/VIX action we saw on Friday. Stats are all updated.

VIX closes up. SPX closes at a 50-day high. It is Friday. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	-13,868.80	29	10	19	34.48	2,546.79	-3,458.70	1,143.12	-1,331.58	0.86	0.45	-478.23
4	-10,888.45	30	11	19	36.67	2,920.54	-2,923.20	808.42	-1,041.11	0.78	0.45	-362.95
3	-10,317.94	30	9	21	30.00	1,976.04	-3,727.50	822.67	-843.90	0.97	0.42	-343.93
2	-10,575.54	30	9	21	30.00	1,835.17	-3,595.20	783.96	-839.58	0.93	0.40	-352.52
1	-2,229.32	30	13	17	43.33	1,530.15	-2,361.45	357.32	-404.38	0.88	0.68	-74.31

The numbers here suggest a downside edge. Below is a look at the 2-day profit curve.



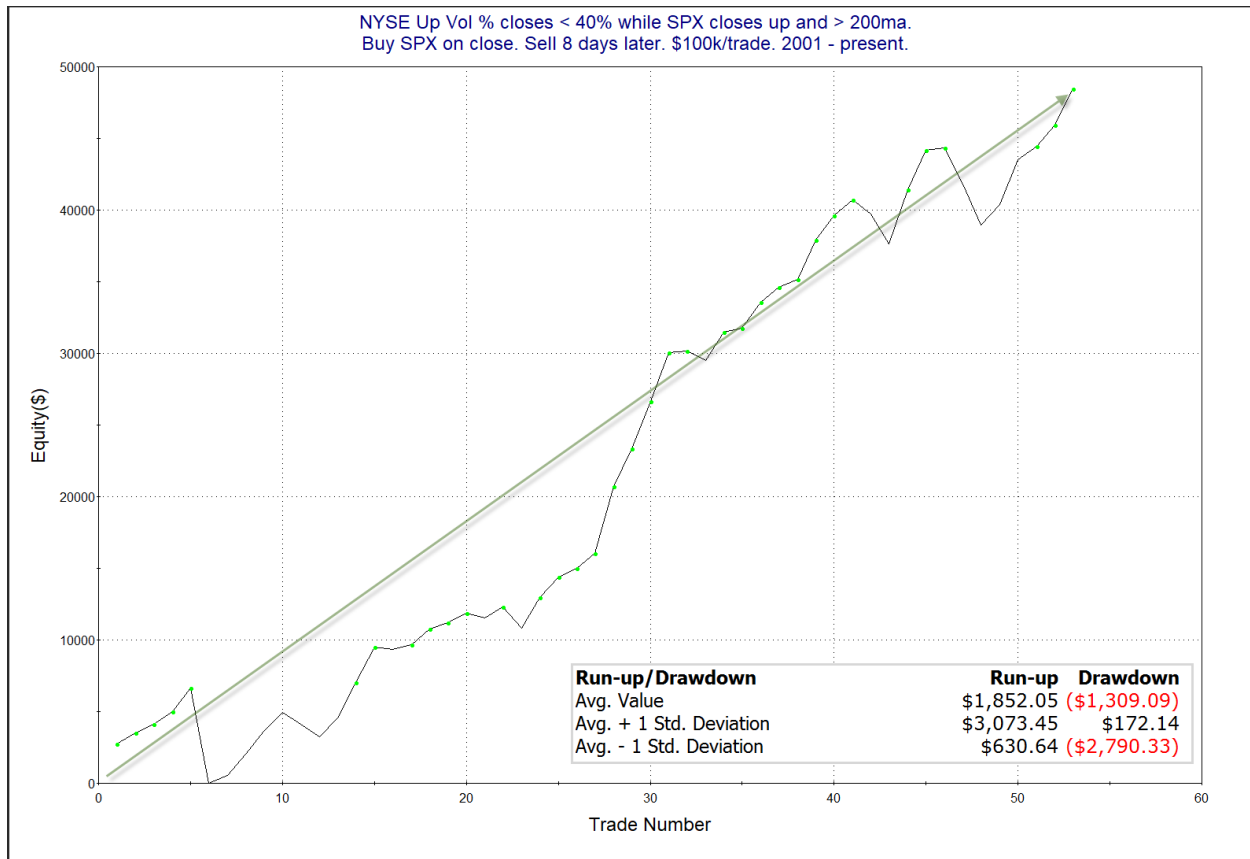
It has not been as consistent in recent times. But it is back at a new low, and seems worth some consideration. So I have added it to the Active List.

Breadth was also again notably weak. Recently in the 6/26/24 letter I looked at times the NYSE Up Volume % came in under 40% while SPX closed higher during a long-term uptrend. This study has actually repeated several times over the last month. I have again updated the results below.

NYSE Up Vol % closes < 40% while SPX closes up and > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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
10	54,450.91	50	39	11	78.00	3,990.80	-7,891.63	2,032.54	-2,256.18	0.90	3.19	1,089.02
9	47,045.74	51	39	12	76.47	3,793.00	-7,594.37	1,834.42	-2,041.37	0.90	2.92	922.47
8	48,452.21	53	42	11	79.25	4,666.56	-6,657.20	1,617.49	-1,771.11	0.91	3.49	914.19
7	47,011.43	58	45	13	77.59	5,211.84	-3,755.76	1,509.05	-1,607.36	0.94	3.25	810.54
6	42,807.59	58	43	15	74.14	6,018.56	-3,495.92	1,486.92	-1,408.67	1.06	3.03	738.06
5	33,510.23	62	47	15	75.81	4,787.84	-4,623.84	1,199.50	-1,524.42	0.79	2.47	540.49
4	18,404.98	63	41	22	65.08	2,689.05	-4,483.92	1,061.68	-1,142.00	0.93	1.73	292.14
3	14,650.20	67	42	25	62.69	2,513.92	-3,122.40	905.99	-936.05	0.97	1.63	218.66
2	17,526.37	73	49	24	67.12	2,661.75	-2,848.17	746.26	-793.36	0.94	1.92	240.09
1	8,580.18	79	48	31	60.76	1,790.64	-1,489.20	535.10	-551.76	0.97	1.50	108.61

Results continue to look very strong, especially over the 7-10 day periods. Below is a look at an 8-day profit curve.



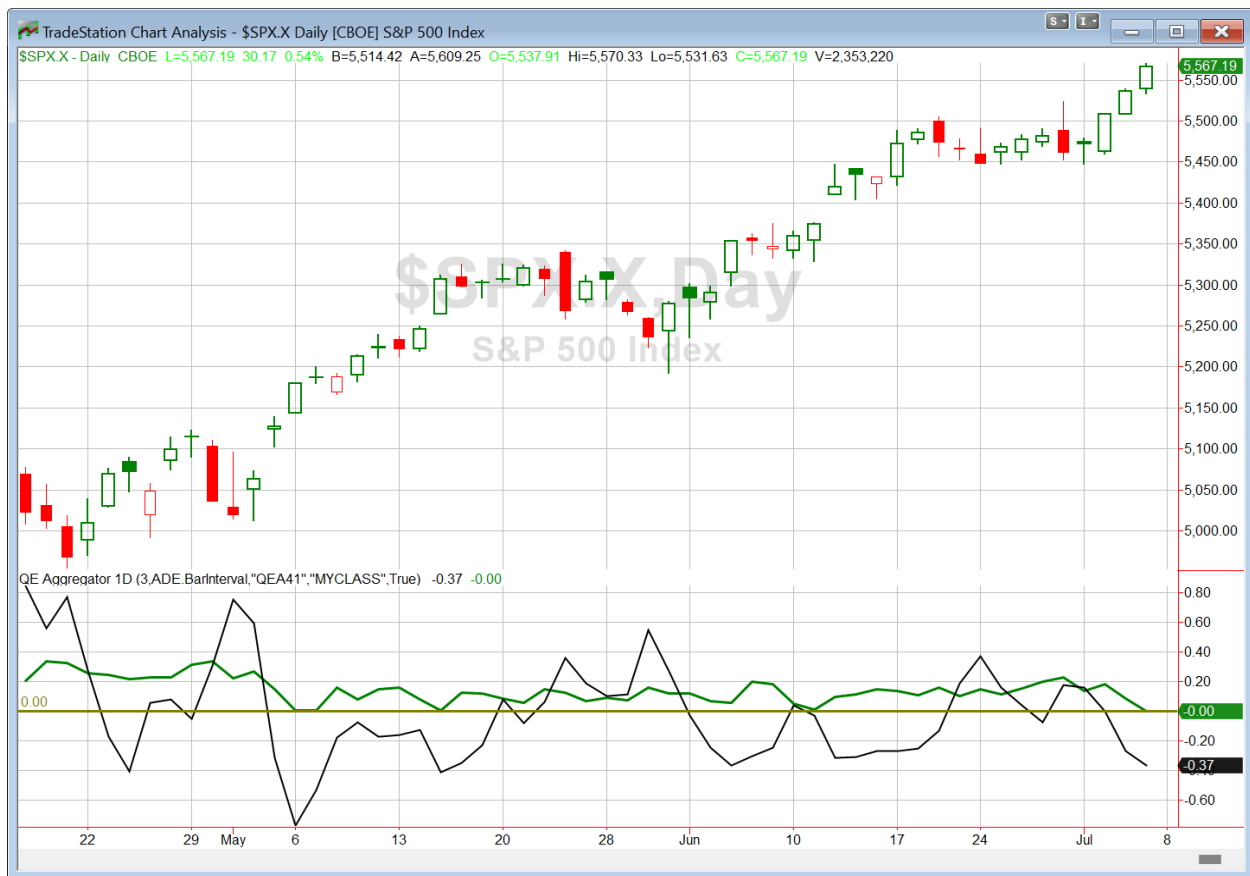
The curve has shown strong upside persistence. I find these results intriguing, and have added this study to the short-term active list. This is one of those studies that traditional analysis would say should not be suggesting a bullish edge. But it keeps proving itself correct. The largecap indices have not been deterred by the poor breadth lately. We have seen some intermediate-term studies recently that suggest the poor breadth could become a problem at some point. But that point has not yet arrived. Over the last month or so the “oversold” breadth readings like we see in the study above have continually been followed by SPX rallies in the following days. So I’ll continue to take the study under consideration as I have been doing.

Next, let’s take a quick look at the QE Seasonality for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
7/1/2024	62.67	1.921	0.213
7/2/2024	57.22	1.319	0.069
7/3/2024	62.35	1.592	0.142
7/5/2024	56.33	1.379	0.106
7/8/2024	53.20	1.306	0.034
7/9/2024	53.48	1.466	0.090
7/10/2024	58.02	1.415	0.074
7/11/2024	59.58	1.406	0.070
7/12/2024	58.62	1.597	0.129
7/15/2024	57.52	1.235	0.057
7/16/2024	54.05	1.452	0.106
7/17/2024	53.91	1.122	0.023
7/18/2024	53.09	1.096	0.014
7/19/2024	49.55	1.037	-0.008
7/22/2024	54.66	1.247	0.058
7/23/2024	53.61	1.194	0.044
7/24/2024	54.88	1.304	0.078
7/25/2024	56.46	1.357	0.093
7/26/2024	54.46	1.161	0.034
7/29/2024	51.77	1.117	0.030
7/30/2024	50.72	1.064	0.016
7/31/2024	49.35	1.170	0.048
Baseline	53.61	1.139	0.047

This upcoming week is all green, showing solid odds for the market to continue higher. So current seasonality may be a positive factor for the bulls.

I have updated [the Aggregator chart](#) below.



With this weekend's mix of evidence considered, the green Aggregator Line dipped slightly below zero. Negative readings mean net expectations are for downside 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 negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Friday. This could change if just about any bullish evidence emerges on Monday. Meanwhile, the Differential Pivot will be 5539.04 on Monday. That is 0.5% below Friday's close. Therefore SPX will need to close down at least 0.5% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is bearish for the 1st time in a while. We are certainly short-term overbought, but evidence is mixed and marginal. With the intermediate-term outlook leaning bullish, shorting would be a counter-trend trade. I'd prefer more compelling evidence before looking to fight this trend. So I'll stand aside another day and see what Monday brings before considering a new index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/8 – *slightly bullish*

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

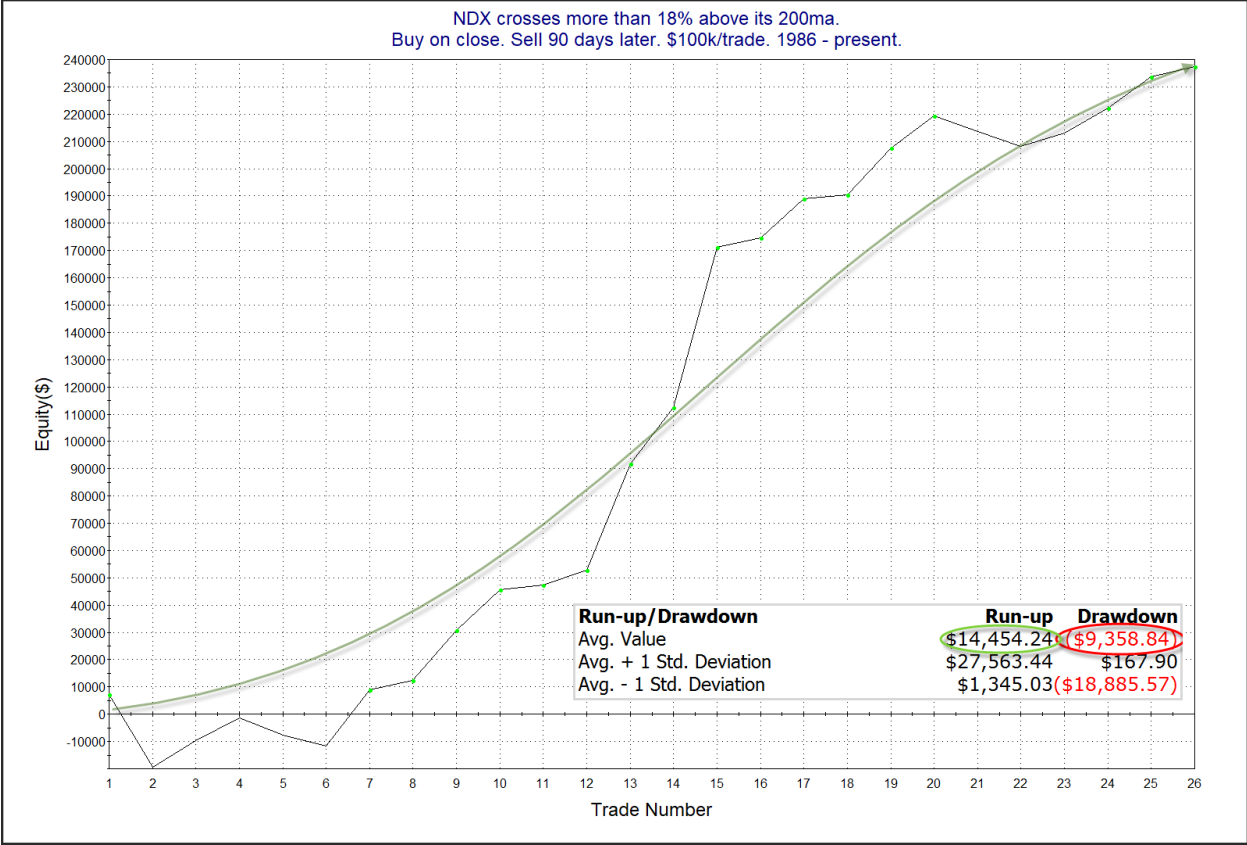
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

Stocks were greatly mixed this past week. The SPX rose 1.95%, the NASDAQ rallied 3.5%, and the Russell 2000 (RUT) declined 1.0%. Bonds rallied after having fallen the last 2 weeks. The US Aggregate Bond ETF (AGG) rose 0.8%. TLT, the 20-year Treasury Bond ETF, gained 1.2%. The SPX and NASDAQ both closed the week at new all-time highs, confirming the long-term uptrend remains in place. There was one intermediate-term study that triggered on Friday worth some discussion.

Friday saw the NDX (NASDAQ 100) get stretched to a point where it is now more than 18% above its 200ma. In the 2/12/20 letter I looked at other instances where the NDX got this stretched. An updated results table can be found below.

NDX crosses more than 18% above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1986 - 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
100	223,015.72	25	18	7	72.00	74,857.66	-24,143.30	14,918.58	-6,502.67	2.29	5.90	8,920.63
90	237,331.71	26	21	5	80.77	58,767.00	-26,660.45	13,597.74	-9,644.15	1.41	5.92	9,128.14
80	193,263.02	27	20	7	74.07	46,441.20	-33,013.95	13,056.76	-9,696.02	1.35	3.85	7,157.89
70	121,890.01	29	18	11	62.07	33,320.04	-30,288.25	11,840.00	-8,293.63	1.43	2.34	4,203.10
60	112,257.08	29	17	12	58.62	24,847.68	-28,561.65	10,691.88	-5,792.08	1.85	2.62	3,870.93
50	115,886.57	30	24	6	80.00	37,210.80	-30,103.95	7,828.74	-12,000.54	0.65	2.61	3,862.89
40	149,401.66	33	22	11	66.67	34,242.12	-14,675.30	9,241.31	-4,900.66	1.89	3.77	4,527.32
30	107,349.70	41	28	13	68.29	22,407.00	-19,630.20	6,278.00	-5,264.18	1.19	2.57	2,618.29
20	65,795.71	47	28	19	59.57	15,754.23	-11,445.70	5,254.18	-4,280.07	1.23	1.81	1,399.91
10	9,933.23	62	34	28	54.84	9,304.39	-13,218.78	3,165.36	-3,488.90	0.91	1.10	160.21

The overextended conditions have not necessarily been a negative in the past. There were some terrible plunges, such as the Crash of '87 and the March 2020 COVID Crash. But there was also several massive runups following these conditions. Below is a look at the profit curve for the 90-day holding period.



The curve is strong. But check out the size of the average run-up *and* average drawdown. Those are some huge swings. The market is overextended. Volatility has been very low, but that could change as it has in the past. The overbought condition will be worked off at some point. But continued strength appears likely – even it comes with a weak period at some point in the next few months.

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

Export current release to: [CSV](#) | [HTML](#)

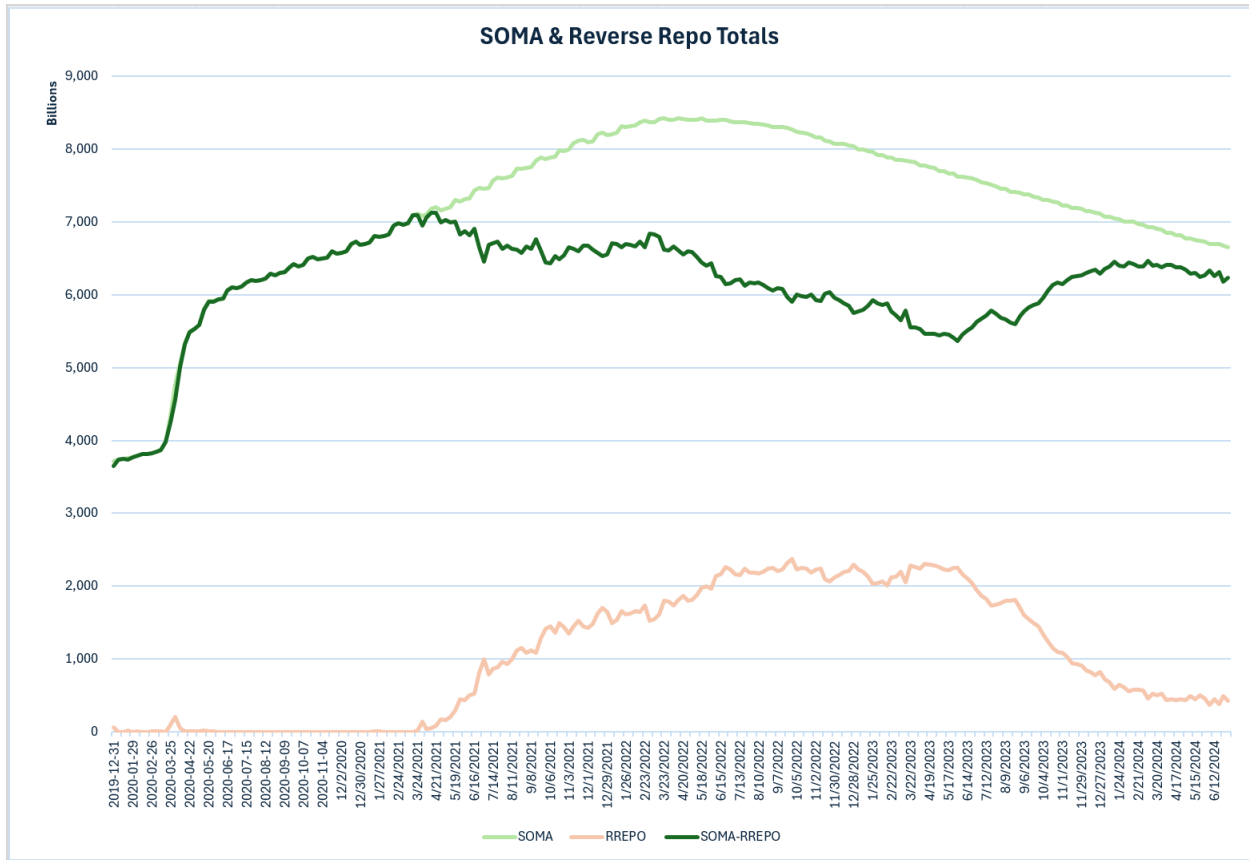
Domestic Security Holdings as of

◀ Previous **July 3, 2024** 📅
Posted July 5, 2024 at 4:30 PM

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

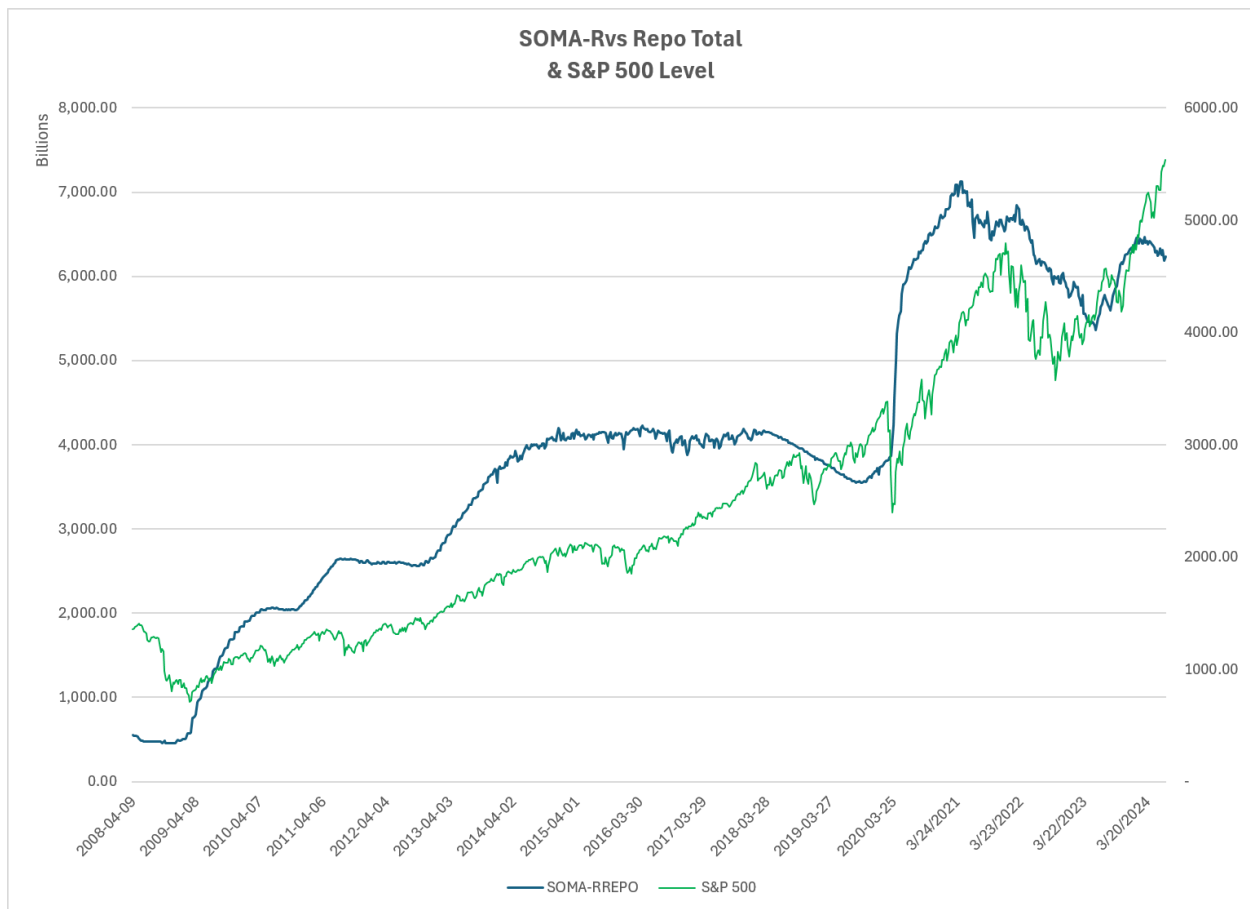
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,766,481,594.9
US Treasury Floating Rate Notes (FRNs)	6,253,764.6
US Treasury Inflation-Protected Securities (TIPS)*	351,086,057.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,327,852,248.9
Agency Commercial Mortgage-Backed Securities***	8,144,317.8
Total SOMA Holdings	6,657,457,910.1
Change From Prior Week	-16,009,980.4

The SOMA saw a decent sized decline this past week of about \$16 billion. Meanwhile, reverse repos declined by a very large \$64 billion! Combined for the week, SOMA and reverse repo action accounted for a \$48 billion liquidity injection. 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 like this past week, 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 few weeks we have seen the number chopping around. This can be seen in the chart below.



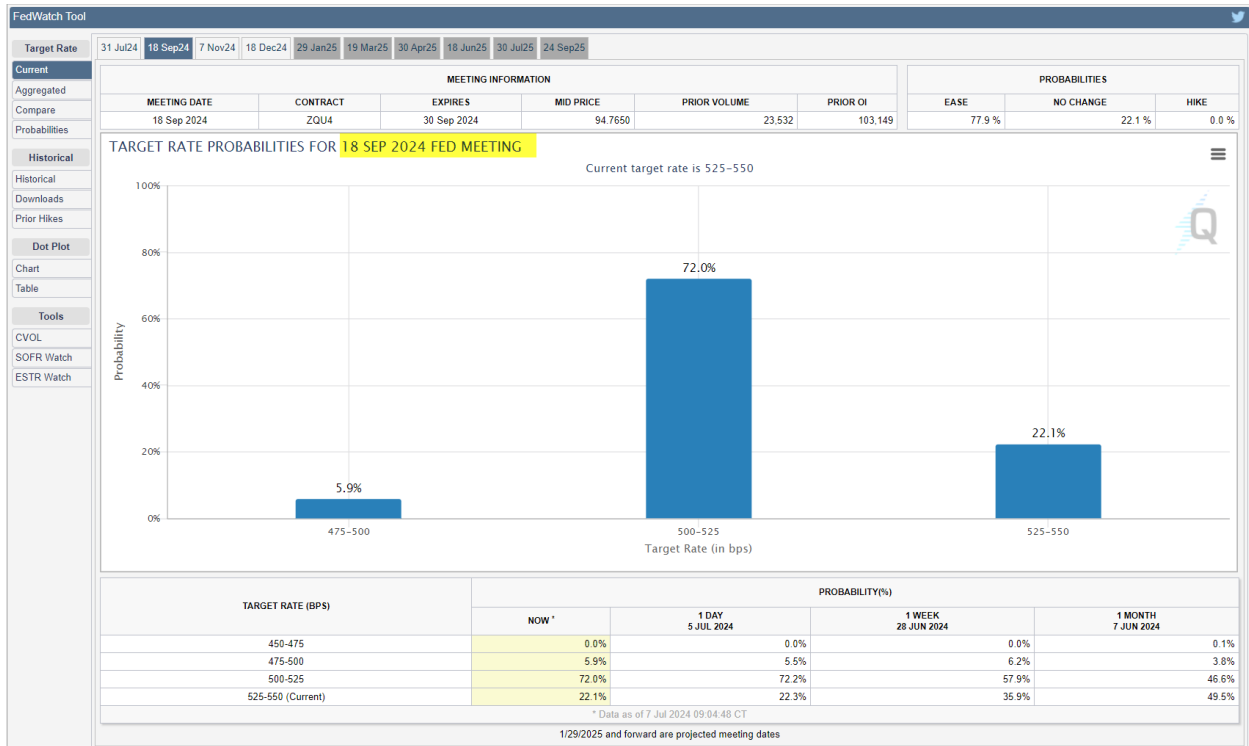
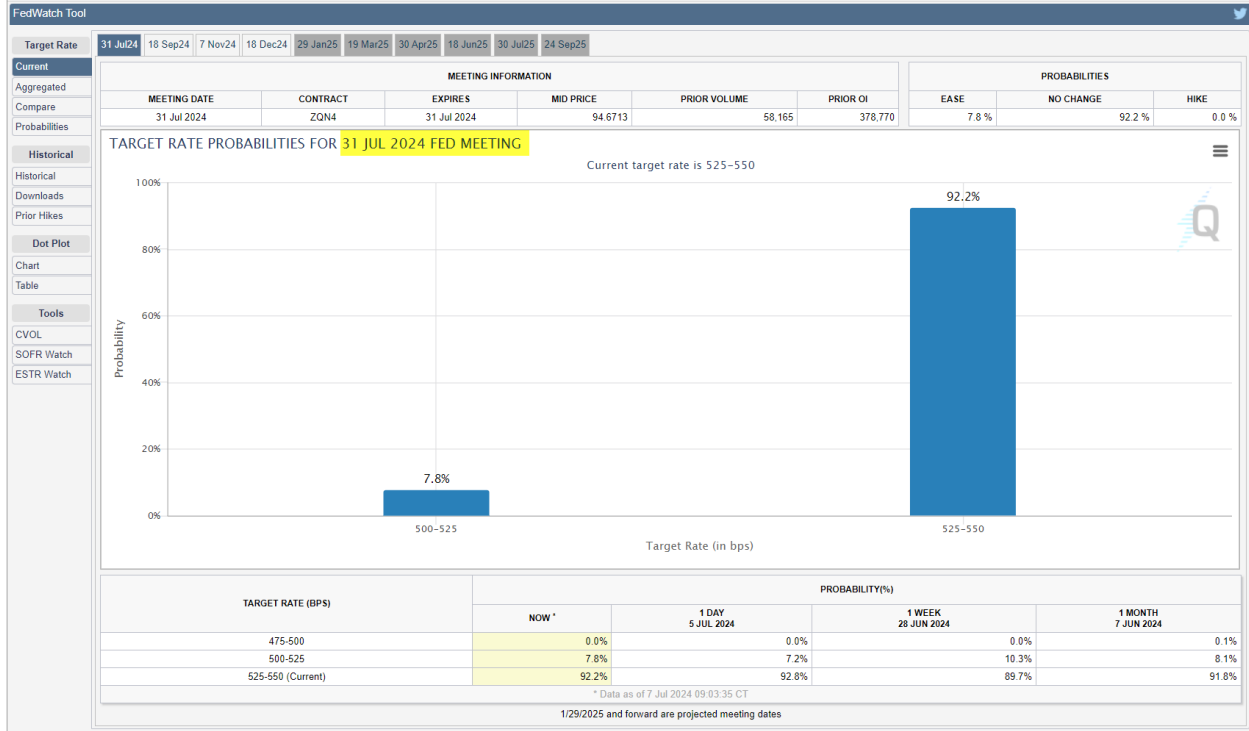
The dark green line looks at SOMA holdings and subtracts reverse repo holdings from it to get a better idea of whether liquidity is increasing or decreasing. The big decline in the reverse repos (orange line) over the last 15 months has helped the market, but there is not much more liquidity that can be provided before it reaches zero.

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 92% chance that the Fed keeps rates steady in July. But September is now showing odds about 78% for a *cut*. Odds of a cut have grown substantially. Last week it was 64%, and a month ago odds were about 50%. 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.

Evidence is mixed but the majority of intermediate-term studies continue to point higher. The NDX momentum study discussed above appears generally favorable and there remain several active studies from past weeks suggesting more upside. They mostly look at trend, leadership (NASDAQ), July seasonality, and momentum. Breadth has been dicey. Several bullish breadth-thrust type studies have recently expired or are aging. Meanwhile, more recent studies noted the low percentage of SPX constituents trading above their 100ma, plus we recently saw several Hindenburg Omen signals trigger. Additionally, the Fed remains a potentially bearish force, despite QT being dialed back in June. Overall, bullish evidence still appears to outweigh bearish. If the rally continues through July, we will see several bullish studies expire, and could easily see others get removed from the active list due to reaching their upside targets. August and September are often difficult market months, and I would not be surprised to see some market struggles as we approach the fall. But for now, the market is rallying and fighting against that does not seem prudent. I will remain “slightly bullish”. I am more inclined to take long positions than short positions until the intermediate-term outlook actually changes to neutral or bearish.

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.

Current Open Trade Ideas

None

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