

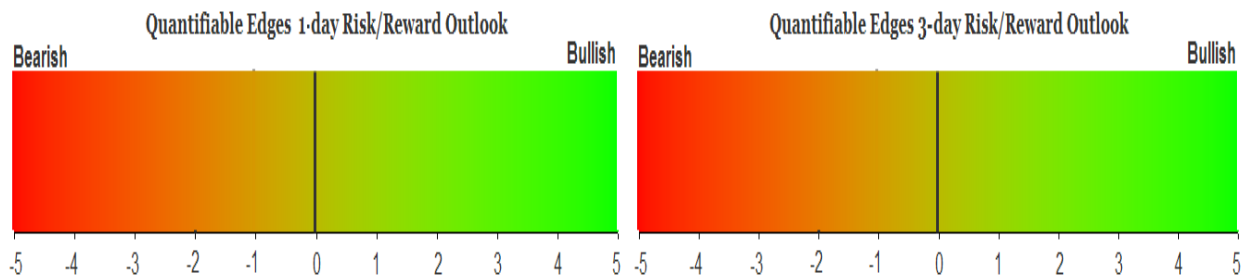
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 16, 2024

Volume 17 Issue 178

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Up 5 days in a row < a 50-day high is a setup that often sees continued momentum over the next few weeks.
- We are entering a weak seasonal period.
- Wednesday's Fed day will show stronger odds for a rally if there is some selling leading up to it.
- The SOMA rose and there was a decline in reverse repos, essentially creating a QE effect with increased liquidity. QT is still here. We will see if the Fed changes that at all on Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am as well.

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						
September 16, 2024	SPX up 5 < 50-high. 5-day ROR > 3%	1-10 days	Bullish	2.50%	-1.40%	-2.70%
September 13, 2024	4 days up. Close < 10-high.	1-4 days	Bullish	1.85%	-0.65%	-1.40%
September 12, 2024	10-high then 4 down and 3 up < 7 ago	1-7 days	Bullish	2.30%	-1.00%	-2.10%
September 9, 2024	Down 1.5% 2x in 10 days. 10-day low.	1-6 days	Bullish	3.40%	-1.80%	-4.20%
Active - Long Term						
September 16, 2024	SPX up 5 < 50-high. 5-day ROR > 3%	1-15 days	Bullish	3.35%	-1.60%	-2.90%
August 12, 2024	SPX dn 4 weeks in a row > 40-week ma	1-10 weeks	Bullish	8.70%	-3.10%	-7.10%
July 22, 2024	NASDAQ Lagging	int term	Neutral			
July 15, 2024	Triple 70 Breadth Thrust	1-80 days	Bullish	10.10%	-4.80%	-11.20%
July 8, 2024	NDX 18% above 200ma	1-90 days	Bullish	14.50%	-9.40%	-18.90%
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 months	Bearish			
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, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

Friday was a strong end to a strong week. The SPX gained 0.5%, the NASDAQ rallied 0.65%, and the Russell 2000 shot up 2.5%. Breadth was positive as the NYSE Up Issues % was 80% and the Up Volume % came in at 85%. NYSE total volume declined some from Thursday’s level.

There were a few studies that examined the strong move we have seen over the last several days. While many measures (including our own Differential tool) will consider the market short-term overbought at this point, that does NOT mean it is primed for an immediate pullback. The study below recognized the move higher over the last few days and suggested the momentum is likely to continue. It was from the 8/15/24 letter, and it looked at 5 up days that closed above the 200ma, but failed to close at a 50-day high. I have updated the results below.

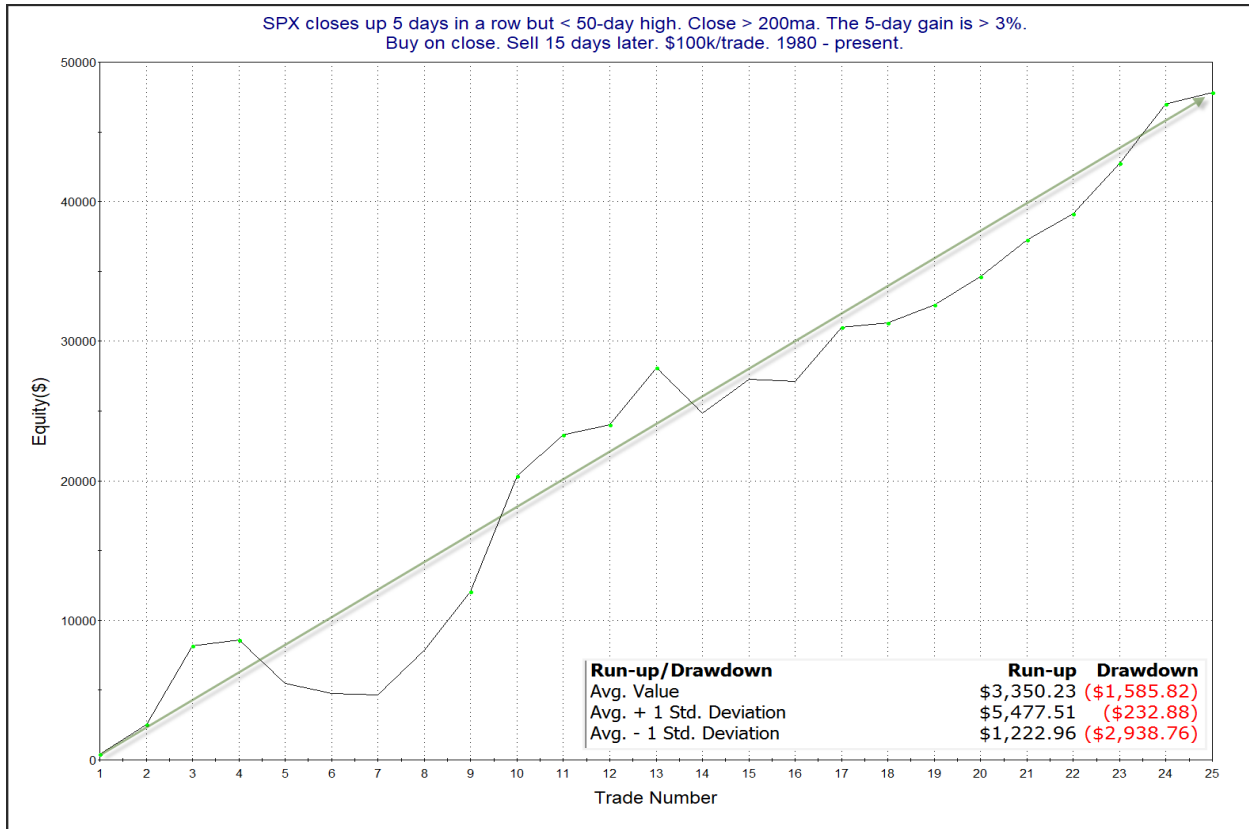
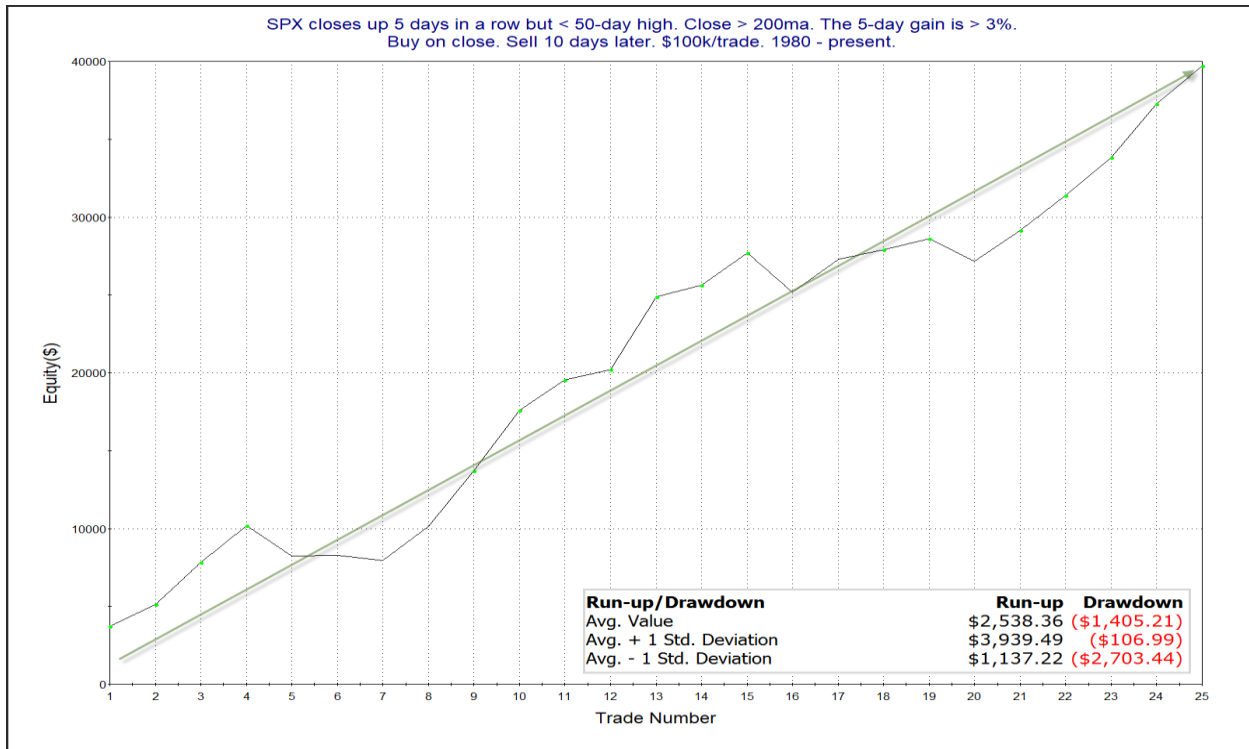
SPX closes up 5 days in a row but < 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	87,342.62	54	39	15	72.22	8,288.00	-3,766.10	2,728.19	-1,270.46	2.15	5.58	1,617.46
14	78,911.68	54	39	15	72.22	8,272.60	-4,738.50	2,532.88	-1,324.70	1.91	4.97	1,461.33
13	81,950.52	54	41	13	75.93	6,401.50	-3,773.44	2,502.86	-1,589.75	1.57	4.97	1,517.60
12	77,169.75	55	41	14	74.55	5,925.50	-2,944.80	2,349.61	-1,368.86	1.72	5.03	1,403.09
11	60,601.54	56	38	18	67.86	4,158.88	-4,894.24	2,181.24	-1,238.08	1.76	3.72	1,082.17
10	62,995.31	56	42	14	75.00	4,691.28	-4,684.28	1,947.75	-1,343.57	1.45	4.35	1,124.92
9	57,372.07	56	40	16	71.43	4,722.08	-4,910.55	1,997.76	-1,408.65	1.42	3.55	1,024.50
8	53,569.99	56	42	14	75.00	3,781.36	-3,376.64	1,734.96	-1,378.45	1.26	3.78	956.61
7	50,049.16	56	41	15	73.21	4,385.01	-3,500.70	1,752.96	-1,454.80	1.20	3.29	893.73
6	36,136.74	56	42	14	75.00	3,770.55	-3,366.60	1,405.72	-1,635.96	0.86	2.58	645.30
5	26,490.90	56	37	19	66.07	3,044.37	-3,496.92	1,351.89	-1,238.37	1.09	2.13	473.05
4	16,130.61	56	33	23	58.93	3,138.08	-3,330.40	1,180.70	-992.71	1.19	1.71	288.05
3	14,074.39	56	35	21	62.50	2,754.72	-3,359.36	1,019.21	-1,028.47	0.99	1.65	251.33
2	6,138.46	56	30	26	53.57	2,205.03	-3,748.50	867.78	-765.19	1.13	1.31	109.62
1	4,987.43	56	33	23	58.93	2,211.54	-2,200.96	626.21	-681.63	0.92	1.32	89.06

Though the 1st couple of days don't show much of an edge, these results appear to suggest a pretty consistent upside tendency over the 1-3 week period. One thing that stands out about the current rally is that it has been quite powerful compared to most. Many of the 5-day moves in the study above occurred in low-volatility markets. In the 8/15/24 letter I also filtered further to see how results appeared when the move was fairly strong. I used a 3% threshold. The last 5 days have gained 4.0%.

SPX closes up 5 days in a row but < 50-day high. Close > 200ma. The 5-day gain is > 3%.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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
15	47,848.75	25	20	5	80.00	8,288.00	-3,282.90	2,760.72	-1,473.14	1.87	7.50	1,913.95
14	44,454.03	25	21	4	84.00	8,272.60	-3,691.52	2,403.18	-1,503.19	1.60	8.39	1,778.16
13	43,684.77	25	20	5	80.00	6,401.50	-3,773.44	2,596.79	-1,650.22	1.57	6.29	1,747.39
12	44,668.52	25	19	6	76.00	5,925.50	-2,877.44	2,649.14	-944.20	2.81	8.88	1,786.74
11	39,052.60	25	17	8	68.00	4,158.88	-2,485.76	2,667.85	-787.60	3.39	7.20	1,562.10
10	39,725.15	25	21	4	84.00	4,691.28	-2,533.02	2,188.01	-1,555.77	1.41	7.38	1,589.01
9	36,028.22	25	20	5	80.00	4,722.08	-3,125.76	2,209.13	-1,630.86	1.35	5.42	1,441.13
8	23,569.62	25	18	7	72.00	3,781.36	-3,376.64	1,922.22	-1,575.76	1.22	3.14	942.78
7	20,598.34	25	18	7	72.00	3,814.86	-3,500.70	1,822.39	-1,743.52	1.05	2.69	823.93
6	15,082.50	25	18	7	72.00	3,720.00	-2,882.56	1,463.89	-1,609.64	0.91	2.34	603.30
5	11,349.45	25	16	9	64.00	3,025.44	-2,664.96	1,428.91	-1,279.24	1.12	1.99	453.98
4	9,160.07	25	15	10	60.00	3,138.08	-2,002.44	1,263.81	-979.70	1.29	1.93	366.40
3	9,717.81	25	15	10	60.00	2,754.72	-2,971.50	1,317.02	-1,003.75	1.31	1.97	388.71
2	3,385.98	25	11	14	44.00	2,205.03	-3,748.50	1,145.18	-657.93	1.74	1.37	135.44
1	3,712.86	25	14	11	56.00	2,211.54	-1,252.30	668.34	-513.08	1.30	1.66	148.51

Results here are even more impressive than in the larger sample. The consistency and the size of the moves over the next 1-3 weeks is considerable. Below is a look at the 10 and 15-day profit curves.



That is a nice move from lower left to upper right in both cases. I have included this study on the short and intermediate-term active lists.

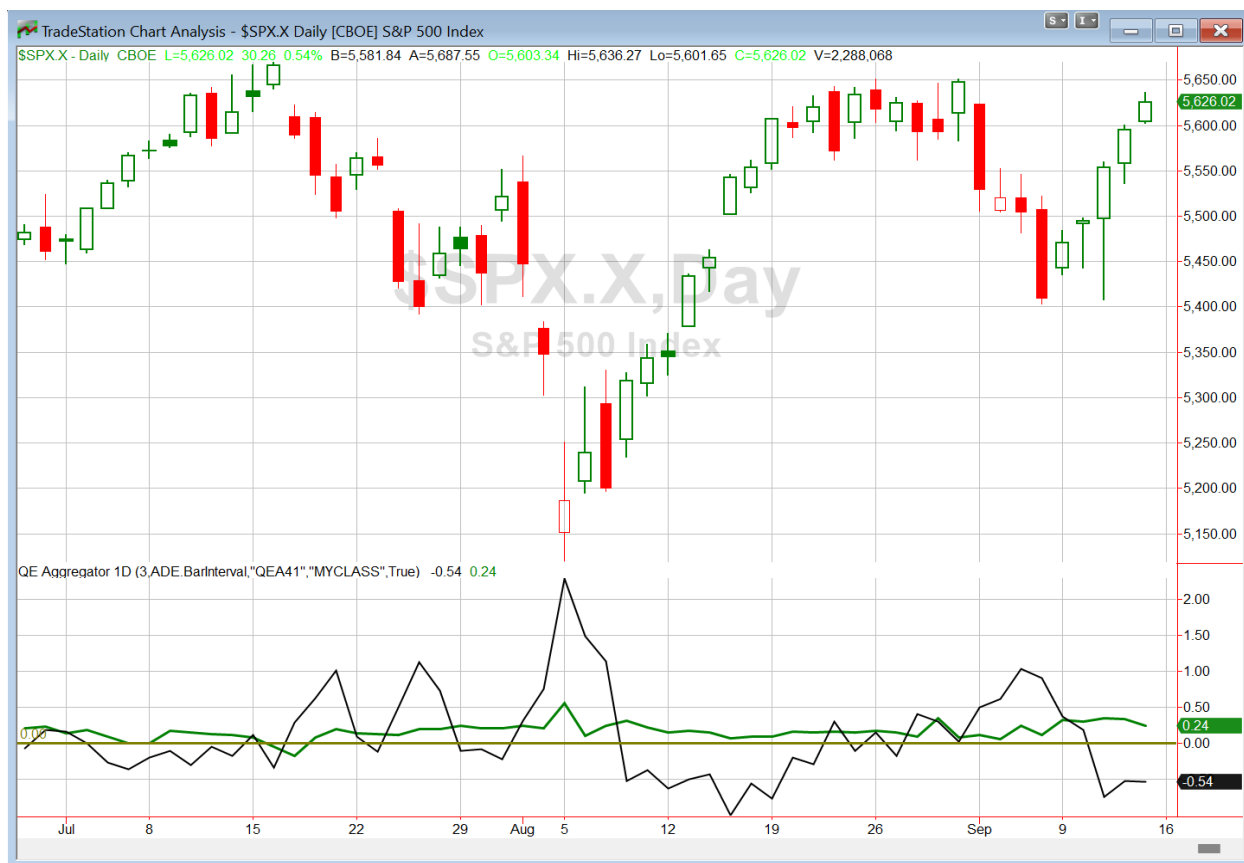
Next is a look at the QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
9/3/2024	54.71	1.367	0.066
9/4/2024	53.07	1.215	0.061
9/5/2024	50.50	1.009	0.002
9/6/2024	54.97	1.173	0.056
9/9/2024	51.33	0.924	-0.034
9/10/2024	51.60	1.091	0.024
9/11/2024	51.88	0.940	-0.020
9/12/2024	53.88	0.975	-0.010
9/13/2024	53.01	1.136	0.038
9/16/2024	57.15	1.050	0.013
9/17/2024	53.49	1.292	0.067
9/18/2024	50.33	0.959	-0.016
9/19/2024	52.44	0.950	-0.019
9/20/2024	48.98	0.849	-0.056
9/23/2024	48.61	0.895	-0.055
9/24/2024	47.51	0.864	-0.064
9/25/2024	48.03	0.924	-0.044
9/26/2024	50.25	1.040	-0.011
9/27/2024	48.98	0.840	-0.070
9/30/2024	53.37	1.038	0.008
Baseline	53.61	1.139	0.048

Monday and Tuesday show positive numbers, and then things start to deteriorate. Of course Wednesday is a Fed Day. Fed Days have historically been bullish, but the edge has been stronger when the market sells off leading up to the Fed Day than times when it rallies into the Fed Day. I've shown this many times and several different ways over the years. But the bottom line is that the Fed Days odds will be a good bit stronger if we see a rough lead-up, with Tuesday's action being especially important.

The week starting Monday the 23rd is one I have dubbed the "[weakest week](#)" for many years. It has traditionally shown the worst returns since SPX options began trading in 1984, and back even further to the early 60s. I will discuss this in greater detail next week. But it is worth noting that we are approaching a time where the market has often struggled.

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



With tonight's bullish evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held 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. This is unlikely to change. Meanwhile, the Differential Pivot will be 5607.74 on Monday. That is 0.3% below Friday's close. Therefore, SPX will need to close down over 0.3% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is again neutral. Compelling evidence is pointing higher, but the overbought SPX dampens reward/risk. So I am not inclined to look for new entries just yet. I'll see how Monday plays out and what new evidence emerges while I wait for the next favorable entry opportunity. With such a weak seasonal period coming up, I will also likely be somewhat conservative with new long entries.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/16 – *bullish*

Combo #1	Combo #2	Combo #3	Combo #4
Long SPY	Long SPY	Flat	Long SPY

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 stayed the same as last week.*

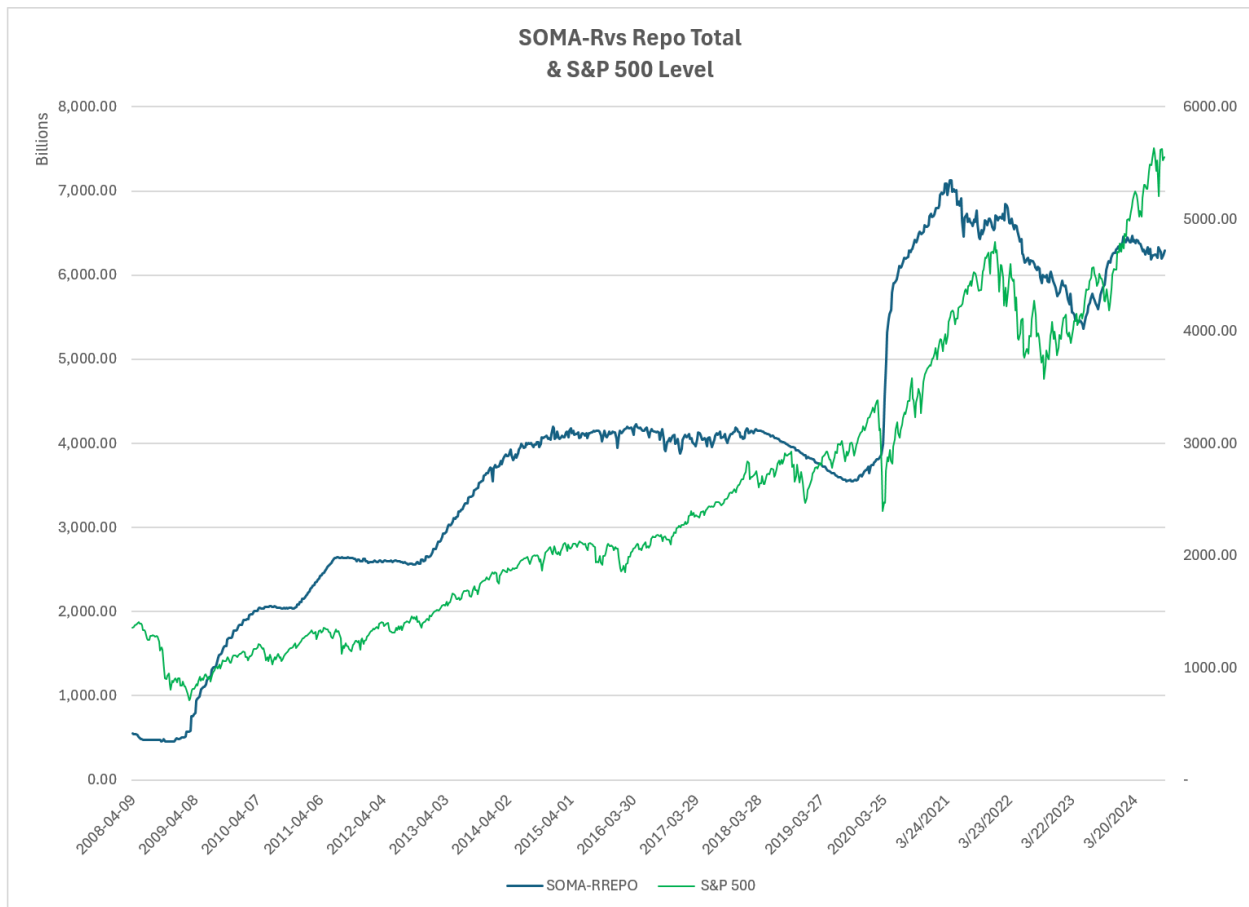
This past saw a big rebound from the losses of the week before. The SPX rallied 4.0%, the NASDAQ shot up 5.95%, and the Russell 2000 (RUT) jumped 4.35%. Bonds also posted gains. The US Aggregate Bond ETF (AGG) closed up 0.5%. TLT, the 20-year Treasury Bond ETF, rallied 0.85%. The rally has brought SPX back to less than 1% from the July all-time high. So it won't take much more upside to confirm the uptrend remains in place. The only new study to emerge with intermediate-term implications is the 5-day rally study discussed in the short-term section above.

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	September 11, 2024 📅
<small>Posted September 12, 2024 at 4:30 PM</small>	
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,292,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,726,627,861.2
US Treasury Floating Rate Notes (FRNs)	5,850,583.8
US Treasury Inflation-Protected Securities (TIPS)*	344,043,784.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,291,676,263.9
Agency Commercial Mortgage-Backed Securities***	8,121,400.2
Total SOMA Holdings	6,573,959,820.5
Change From Prior Week	75,000.0

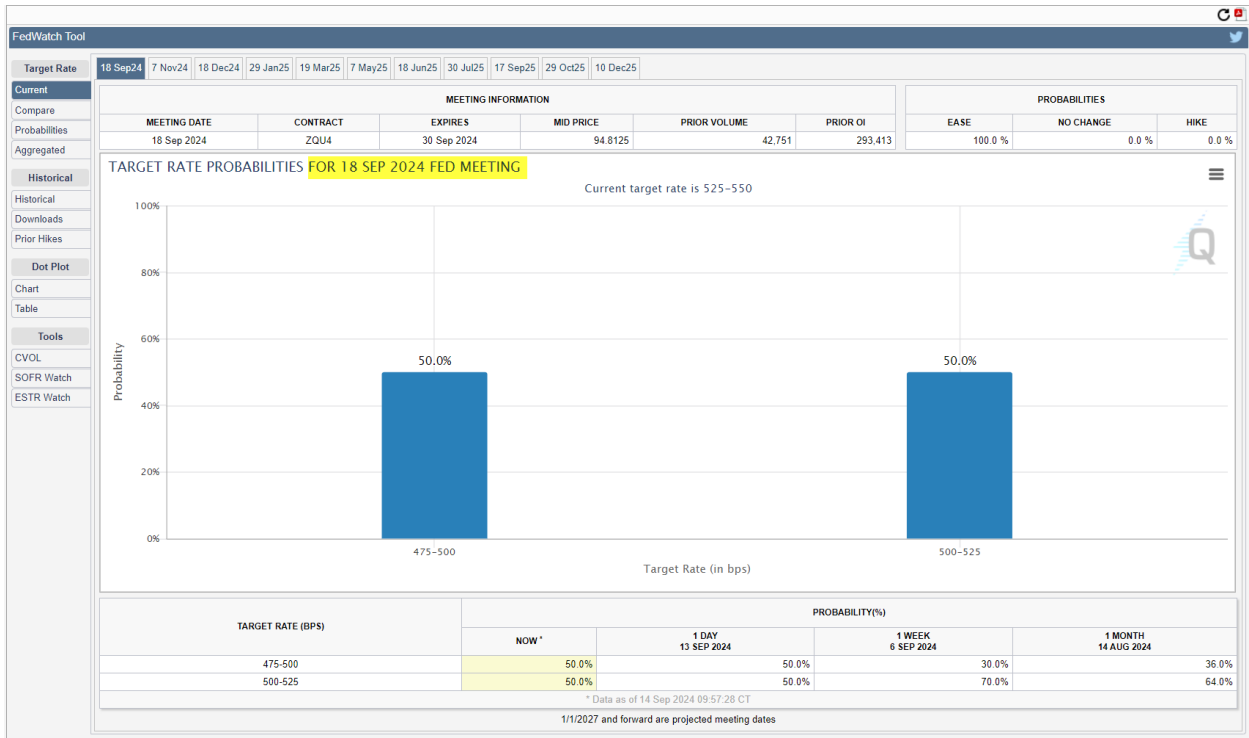
The SOMA actually saw a very slight rise of \$75 million this past week. That is not due to a policy change, but rather a calendar quirk. I expect to see a decent decline this upcoming week as there are \$6 billion in treasuries set to mature on the 15th. Meanwhile, reverse repos declined by \$58

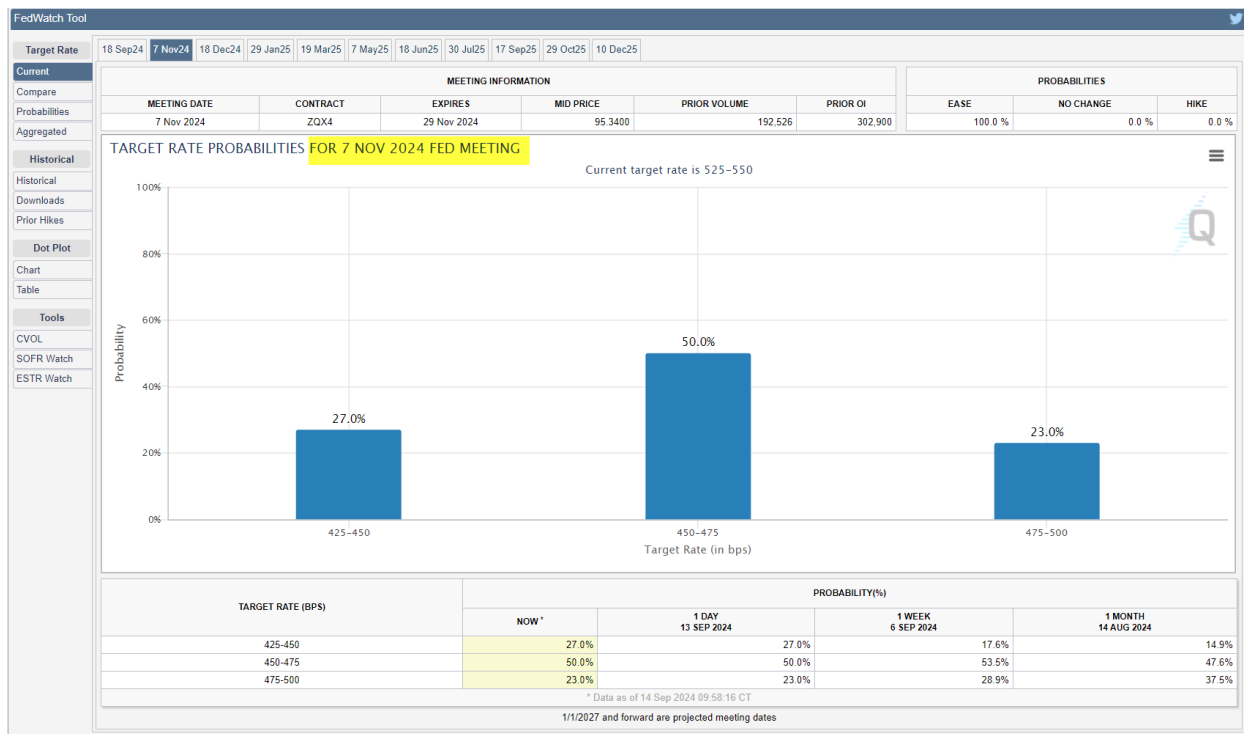
billion. Combined for the week, SOMA and reverse repo action accounted for a \$58 billion liquidity infusion. I discussed reverse repos impact on liquidity [in the 4/8/24 letter](#). When they are rising, it tends to drain liquidity, and when they are falling, it acts as a liquidity injection. Throughout 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 few months we have seen the number chopping around, but it is now quite low, with only \$279 billion outstanding as of Wednesday. 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 continues to head lower as reverse repos approach \$0, then that could mean a liquidity headwind for the market. We will be on the lookout for changes in QT policy at upcoming Fed meetings.

With regards to rates, odds moved substantially for the September meetings. September is now showing odds of 100% for a cut, *and that is split 50/50 between 25 and 50 basis points. Last week the odds were 70/30. It is quite unusual for the odds to be so split just days before a Fed announcement. Normally the market has a strong opinion of the likely move.* But November is showing a 77% chance that rates will be at least 75 basis points lower than they are now. That is a little bit stronger than we saw last week. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.





As we have seen over and over, odds continually shift, so expect further refinement on the November odds as we get closer to that.

At this point QT is still active. And rates have not yet begun to decline. The Fed seems as if it is about to start utilizing both a contractionary policy (QT) and a stimulative policy (lowering rates) at the same time. That is unusual, but not unprecedented.

The last time it happened was in 2019. The Fed cut rates at their July 31st meeting. Meanwhile, QT was still active and the SOMA continued to decline until 9/25/2019. August and September that year were quite choppy. Net over the 7/30/2019 – 9/25/2019 period, the SPX lost about 0.9%.

Last weekend I considered moving off my bullish bias to more neutral, but short-term evidence was so strong that I decided to wait a week and see if anything changed. It did. SPX is back near new highs, and we have a compelling momentum study that emerged on Friday. We are now just a few days away from the Fed changing from a potential bearish force to a neutral market force. There are also still a few bullish studies in place on the Active List from earlier in the year. Of course there are also some bearish forces, with seasonality being a standout at the moment. Still, with the weight of the evidence leaning bullish, I will be more conservative with short entries than I am with long entries. (And I may not be very aggressive to the long side for a few weeks here.)

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

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