

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 21, 2025

Volume 18 Issue 12

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Inaugurations of new presidents don't often see the stock market rise on Inauguration Day, but they do in the days following.
- MLK week used to appear bearish, but that has not been the case in the last 11 years.
- The QE Seasonality Calendar looks solid for the upcoming week.
- There was a liquidity inflow this past week, but reverse repos are getting very low at this point.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. That is where I am at 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						
January 17, 2025	5 intra-high. Down close. Up Iss > 60%	1-3 days	Bullish	1.50%	-0.90%	-2.10%
Active - Long Term						
January 8, 2025	SPX down 1% 3rd day in last 10	1-20 days	Bullish	4.00%	-3.60%	-8.50%
December 23, 2024	Rebound from 1-month low on a Friday	1-20 days	Bullish			
November 26, 2024	Triple 70 Thrust	1-80 days	Bullish	9.40%	-4.60%	-11.20%
September 30, 2024	NASDAQ Leading	int term	Bullish			
September 23, 2024	Fed neutral. QT active. Rates dropping.	int term	Neutral			
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 months	Bearish			
February 2, 2023	SPX Golden Cross	int term	Bullish			

The Evidence

Friday was one for the bulls. SPX closed up 1.0%, the NASDAQ rallied 1.5%, and the Russell 2000 gained 0.4%. Breadth was positive as the NYSE Up Issues % closed at 62% and the NYSE Up Volume % posted a 61% reading. NYSE total volume was fairly high, but not at an extreme level that is often seen on opex Fridays.

Action in the market did not inspire much from a price-action perspective. But there were some interesting seasonality studies. Back in the 1/20/21 letter I looked at inauguration day returns. I wondered whether a new president brought about new hope and optimism for the market. I have decided to update that study today.

I limited the instances to only those inaugurations where a new president was entering office. I don't think re-elections carry a sense of "new hope" the way a new president does. I also eliminated inaugurations of Presidents that weren't elected (Ford in '74, Johnson in '63, Truman in '45, and Coolidge in '23). I just don't believe the same sense of excitement is generated by a replacement as by a newly elected president. The remaining presidents and their inaugurations can be found in the table below.

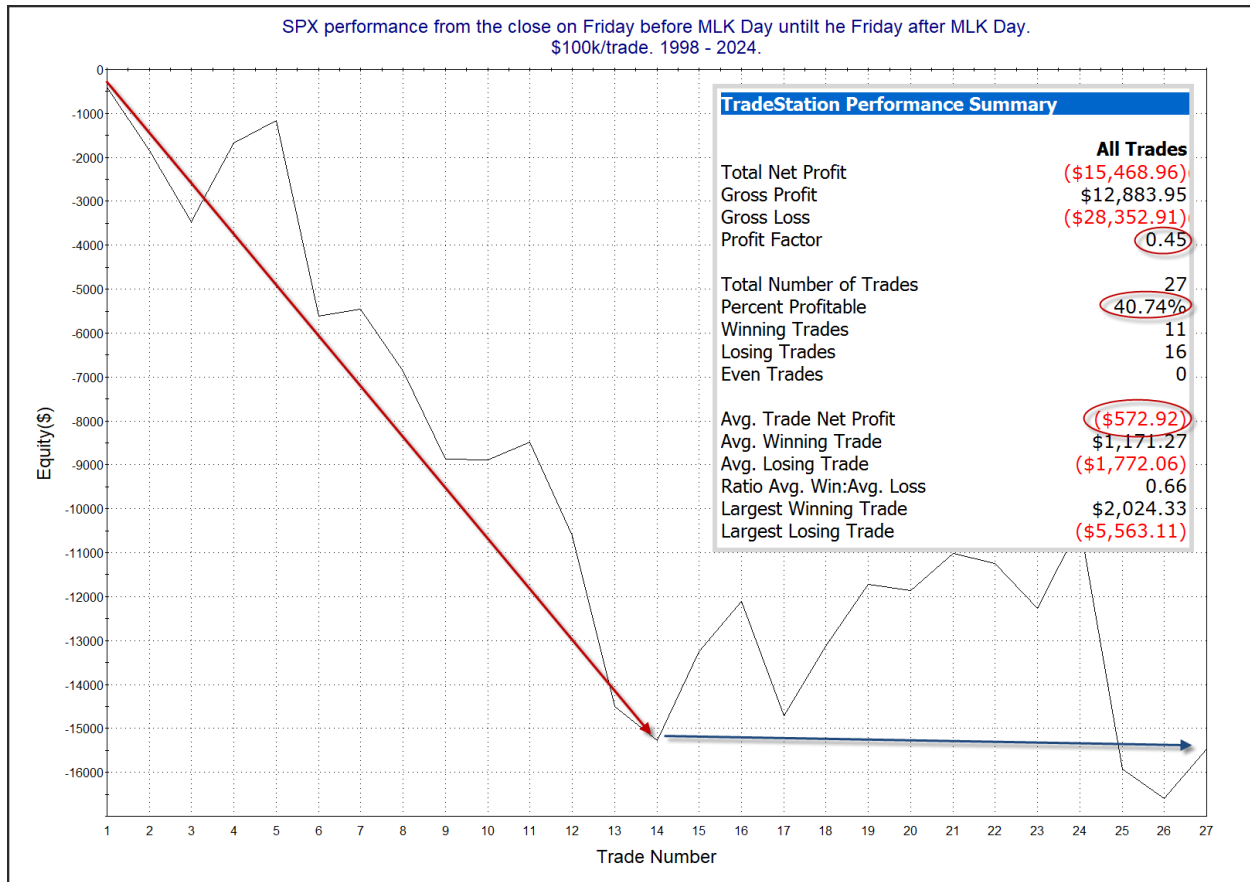
DJI Performance On & After Inauguration of New Presidents. 1921 - 2021.						
President	Date	Dow Price	Inauguration Day % Chg	Next 10-day % Change	Next 75-day % Change	
Warren G Harding	3/4/1921	75.1	-0.13%	1.60%	-11.72%	
Herbert Hoover	3/4/1929	313.9	-2.27%	1.19%	0.81%	
Franklin D Roosevelt**	3/4/1933	62.1	15.43%	-8.52%	58.04%	
Dwight Eisenhower	1/20/1953	288	0.35%	0.76%	-3.40%	
John Kennedy	1/20/1961	634.3	0.32%	2.93%	8.28%	
Richard Nixon	1/20/1969	931.3	-0.45%	1.68%	3.26%	
Jimmy Carter	1/20/1977	959	-1.00%	-1.24%	-2.70%	
Ronald Reagan	1/20/1981	950.68	-2.09%	-0.98%	2.91%	
George HW Bush	1/20/1989	2235.36	-0.17%	4.29%	6.08%	
William Clinton	1/20/1993	3242	-0.43%	4.07%	6.02%	
George W Bush*	1/20/2001	10578.24	-0.09%	3.66%	2.73%	
Barack Obama	1/20/2009	7949.09	-4.01%	1.63%	5.80%	
Donald Trump	1/20/2017	19827.25	0.48%	1.23%	5.79%	
Joe Biden	1/20/2021	34715.14	-0.89%	-1.49%	11.51%	
<p>* George W Bush's inauguration was on a Saturday. The "Inauguration Day % Chg" shown is for Monday 1/22/2001.</p> <p>** Franklin Roosevelt was inaugurated on a Saturday. But a "Bank Holiday" was established, closing banks for the next 2 weeks to try and avoid massive additional bank failures. NYSE followed suit, and did not re-open until 3/15/33. So the 15.43% return was the 1st day back after being closed since 3/3/1933.</p>						

First, I found it interesting that the wonderful speeches and overall positive vibes surrounding a new president did NOT translate to a strong Inauguration Day performance. (You could throw out Roosevelt and G.W. Bush here, since the market was not open on the days they were giving their speeches. Same with whatever happens Tuesday since Trump will be inaugurated with the market closed on Monday.) I'll also note that Donald Trump could (and certainly would) claim he gave the greatest Inauguration Day speech of the last 100 years back in 2017, since the 0.48% rise on that day was the best of any president on the actual Inauguration Day. It could also be claimed that Obama gave the worst speech in 100 years, since the Dow tumbled 4% on the day of his inauguration.

I'll also note that looking out over the next 10 and 75 days the market did often seem to embrace the new hope that comes along with a new administration. Harding in 1921 is the only one on the list that saw the market more than 3.5% lower 75 days out. Meanwhile, there were 7 instances where the market was more than 3.5% higher. Biden had the best 75-day performance since Roosevelt in 1933. It is tough to draw conclusions based on just 14 instances over a 100+ year period. Also, some might consider Trump to be a "2nd-term" president. While it is his 2nd term, and he is not eligible for another, he is elected, and it will be a new administration from the previous 4 years. So I'd view it more similar to a 1st term than a 2nd term from a seasonality perspective. With

11 of the last 13 instances showing gains, and most of them strong gains, I did add this to the intermediate-term active list tonight.

For the 1st 14 years of MLK week (MLK was first observed as a market holiday in 1998) the SPX seemed to struggle consistently. More recently, there has been a lot of chop. This can be seen in the study below, which is updated from the 1/17/23 letter.



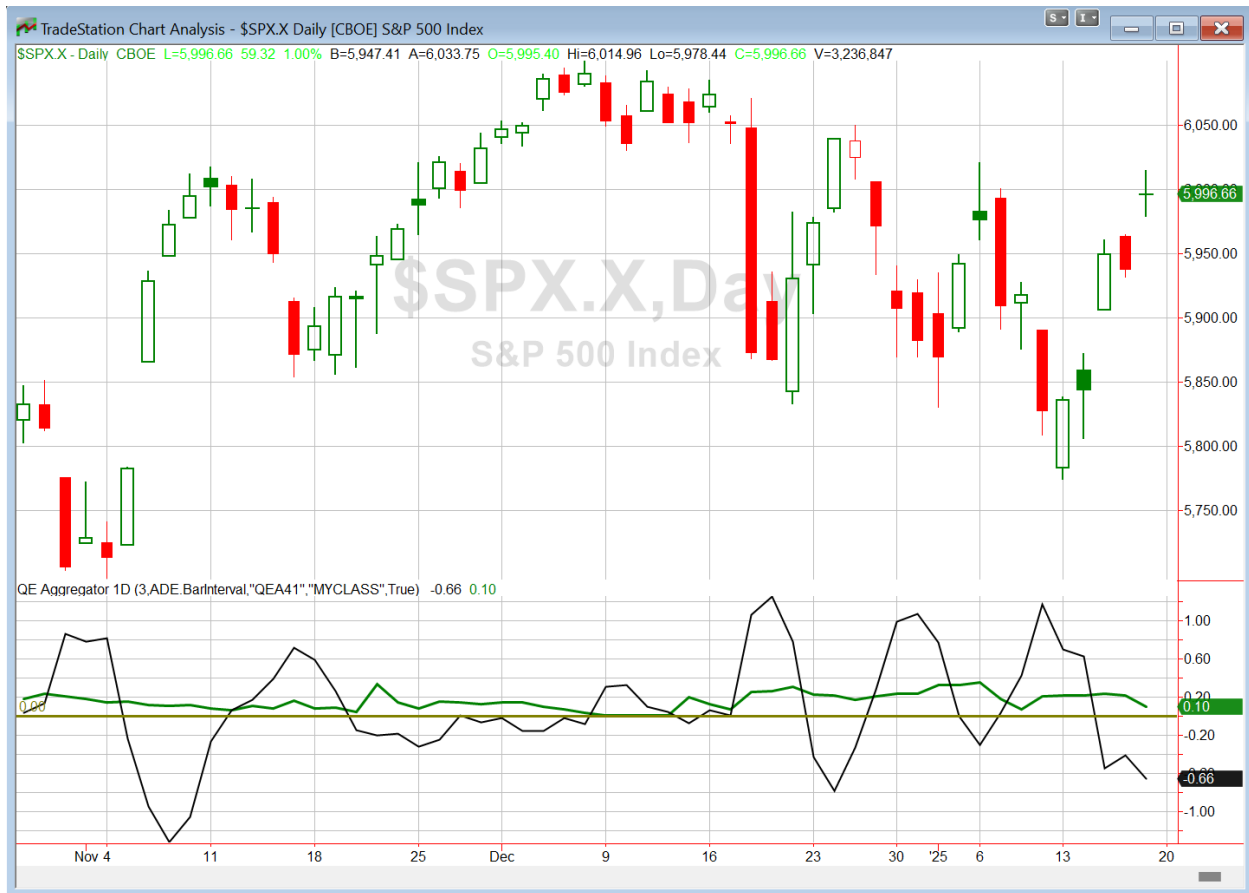
The move lower seemed to abruptly end after the first 14 years, and there has not been any progress since. I won't be including this on the active list.

Let's also take a quick peek at the QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar				
\$SPX S&P 500 Index				
Date	Win%	Profit Factor	Avg % Chg	
1/2/2025	54.91	1.326	0.061	
1/3/2025	50.68	1.091	0.031	
1/6/2025	55.22	1.325	0.097	
1/7/2025	53.94	1.128	0.028	
1/8/2025	56.58	1.142	0.038	
1/9/2025	56.44	1.138	0.036	
1/10/2025	57.01	1.362	0.095	
1/13/2025	53.25	1.064	0.015	
1/14/2025	52.54	1.202	0.061	
1/15/2025	54.16	1.139	0.032	
1/16/2025	52.62	1.152	0.038	
1/17/2025	51.25	1.119	0.009	
1/21/2025	53.07	1.413	0.105	
1/22/2025	51.47	1.232	0.068	
1/23/2025	53.21	1.310	0.087	
1/24/2025	54.78	1.140	0.037	
1/27/2025	55.87	1.160	0.054	
1/28/2025	54.09	1.110	0.039	
1/29/2025	51.01	1.117	0.043	
1/30/2025	55.76	1.256	0.083	
1/31/2025	54.37	1.046	0.020	
Baseline	53.69	1.139	0.048	

Numbers this upcoming week appear solid, but unspectacular. The last week in January is showing stronger numbers than this one.

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



With this weekend's studies 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 slated to remain bullish on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 5989.19. That is just 0.1% below Friday's close. Therefore, SPX will flip from overbought to oversold versus recent expectations with just about any lower close on Tuesday.

So the Aggregator is neutral. Short-term evidence is light, and the Differential Pivot is nearby. None of this is suggesting a strong short-term edge. I am content to wait until the next favorable reward/risk opportunity arrives before putting short-term capital back to work in an index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/21 – *bullish*

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

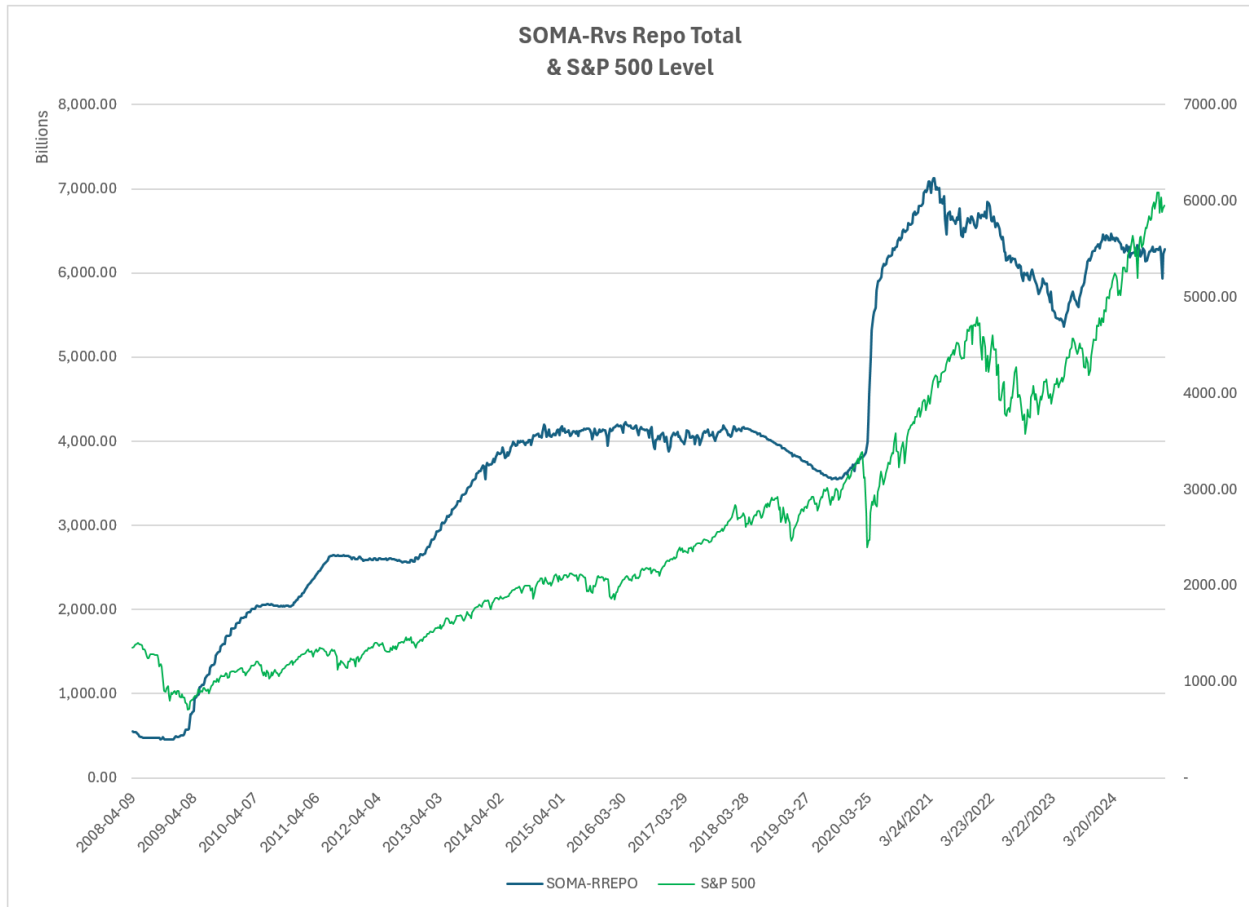
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

It was a strong week for stocks. The SPX rose 2.9%, the NASDAQ gained 2.45%, and the Russell 2000 (RUT) shot up 4.0%. Bonds also performed well. The US Aggregate Bond ETF (AGG) climbed 1.0%. TLT, the 20-year Treasury Bond ETF, jumped 2.0%. Other than the inauguration study above, there were no new studies with intermediate-term implications that emerged over the last few days.

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

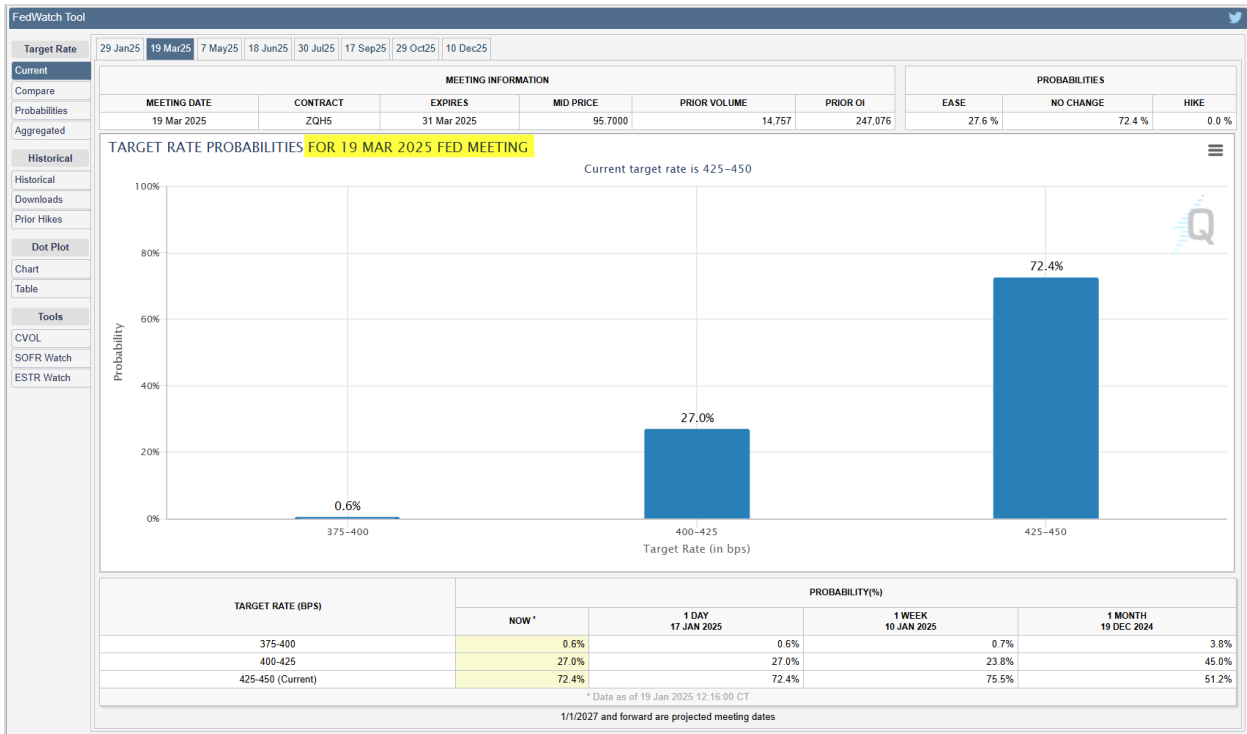
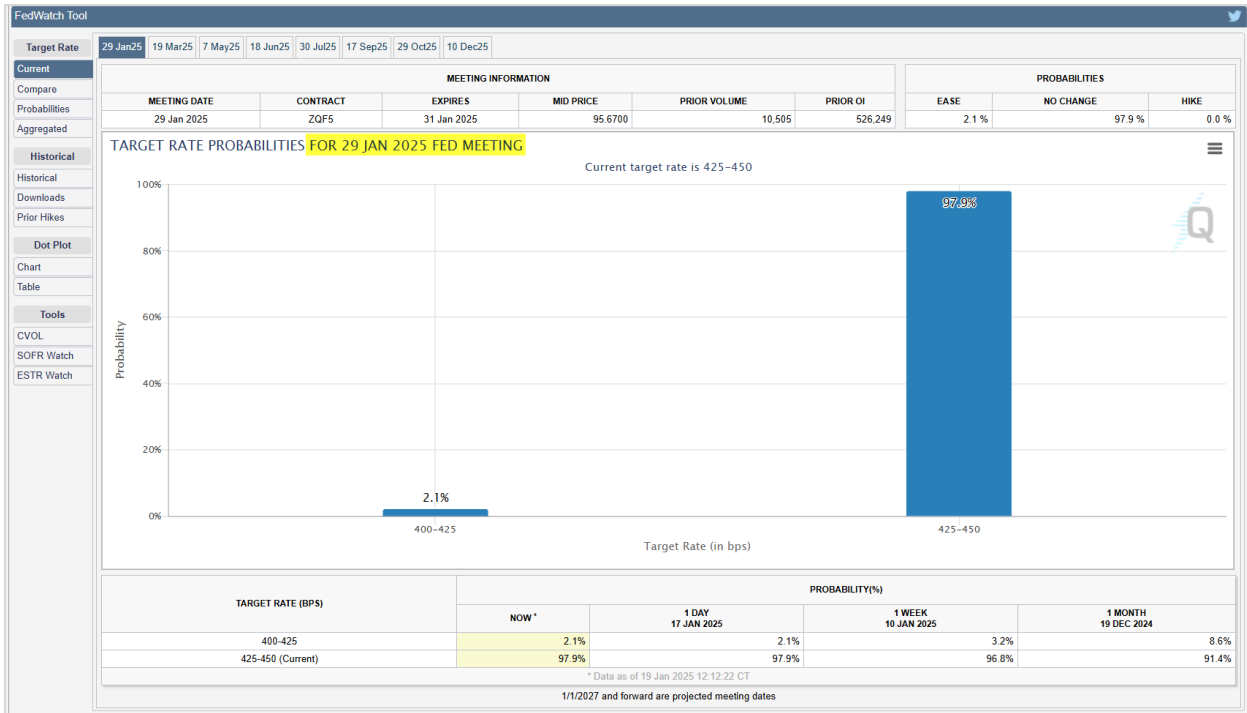
Domestic Security Holdings as of	
◀ Previous	January 15, 2025 📅 <small>Posted January 16, 2025 at 4:30 PM</small>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	195,342,926.7
US Treasury Notes and Bonds (Notes/Bonds)	3,647,289,591.0
US Treasury Floating Rate Notes (FRNs)	6,345,642.2
US Treasury Inflation-Protected Securities (TIPS)*	318,893,978.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,225,157,681.8
Agency Commercial Mortgage-Backed Securities***	8,046,833.1
Total SOMA Holdings	6,403,423,653.6
Change From Prior Week	-4,910,214.5

The SOMA account declined by \$4.9 billion this past week. Meanwhile, reverse repos fell by over \$65 billion for the week ending 1/15. That is a large amount considering there are only \$120 billion remaining. Combined for the week, SOMA and reverse repo action accounted for a \$115 billion liquidity infusion. Reverse repos spiked right at the end of 2024, but the spike quickly disappeared and the amount of liquidity they can provide is getting quite low at this point. 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 not nearly as strong as it has been at times in the last few years. I am expecting that the Fed will stop QT at some point in 2025, but they gave no indication at the last meeting. 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. Since last 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. The Fed did reduce the repo rate at their last meeting, but that does not seem to be increasing demand for them at this point.

With regards to rates, the chance of a 25 point cut in January is now just 2%, almost assuring us the Fed will hold firm. Meanwhile, March odds show a 28% chance that rates are lower than they are now. That is down from 44% 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 as we get closer to these Fed meeting dates.

From an intermediate-term standpoint, bulls still appear to be hanging on. We have a few studies left on the intermediate-term active list that suggest further upside. The long-term trend is somewhat in doubt with SPX basically chopping sideways over the last 2 months. The NASDAQ/SPX Relative Leadership indicator continues to favor the NASDAQ, which is typically a positive. We are in the best 6 months of the year, and the January Seasonality Calendar appears favorable. Fed policy is basically neutral. There are plenty of potential triggers that could cause a market shock. Overall, bullish evidence is still outweighing bearish. But unless we see more bullish evidence emerge, things might not look as positive soon. For now, I will maintain a bullish bias. Hence, I'll remain more aggressive with long trades than I am with short trades.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>PEP(1/3)</i>	<i>1/7/2025</i>	<i>\$146.27</i>	<i>\$147.72</i>	<i>0.99%</i>	<i>sell on open</i>
<i>PEP(1/3)</i>	<i>1/8/2025</i>	<i>\$145.40</i>	<i>\$147.72</i>	<i>1.60%</i>	<i>sell on open</i>
CMCSA(1/3)	1/13/2025	\$36.36	\$36.58	0.61%	<i>sell on open</i>
<i>MDLZ(1/3)</i>	<i>1/13/2025</i>	<i>\$56.25</i>	<i>\$58.42</i>	<i>3.86%</i>	<i>sell on open</i>
<i>MDLZ(1/3)</i>	<i>1/13/2025</i>	<i>\$56.11</i>	<i>\$58.42</i>	<i>4.12%</i>	<i>sell on open</i>

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