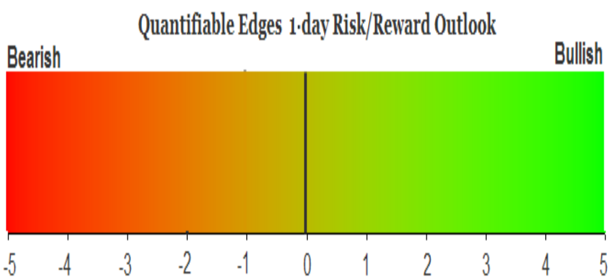
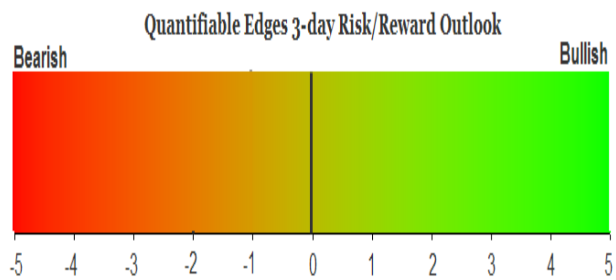
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 18, 2026 Volume 20 Issue 93

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- Friday's action gave mixed signals. We will often see unfilled gaps down from high levels lead to further selling the next day but when the sell-off is large, as it was on Friday, then that edge no longer persists.
- The seasonality calendar for the rest of May looks positive. I have also published and share below the preliminary June calendar.
- The SOMA continues to increase. The Fed is providing liquidity but the next direction of interest rate moves is unclear.
- Intermediate-term indicators remain mostly bullish with a few warning signs.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. That's where I'm at as well

Summary of Recent Active Studies (see Letters from listed dates for details

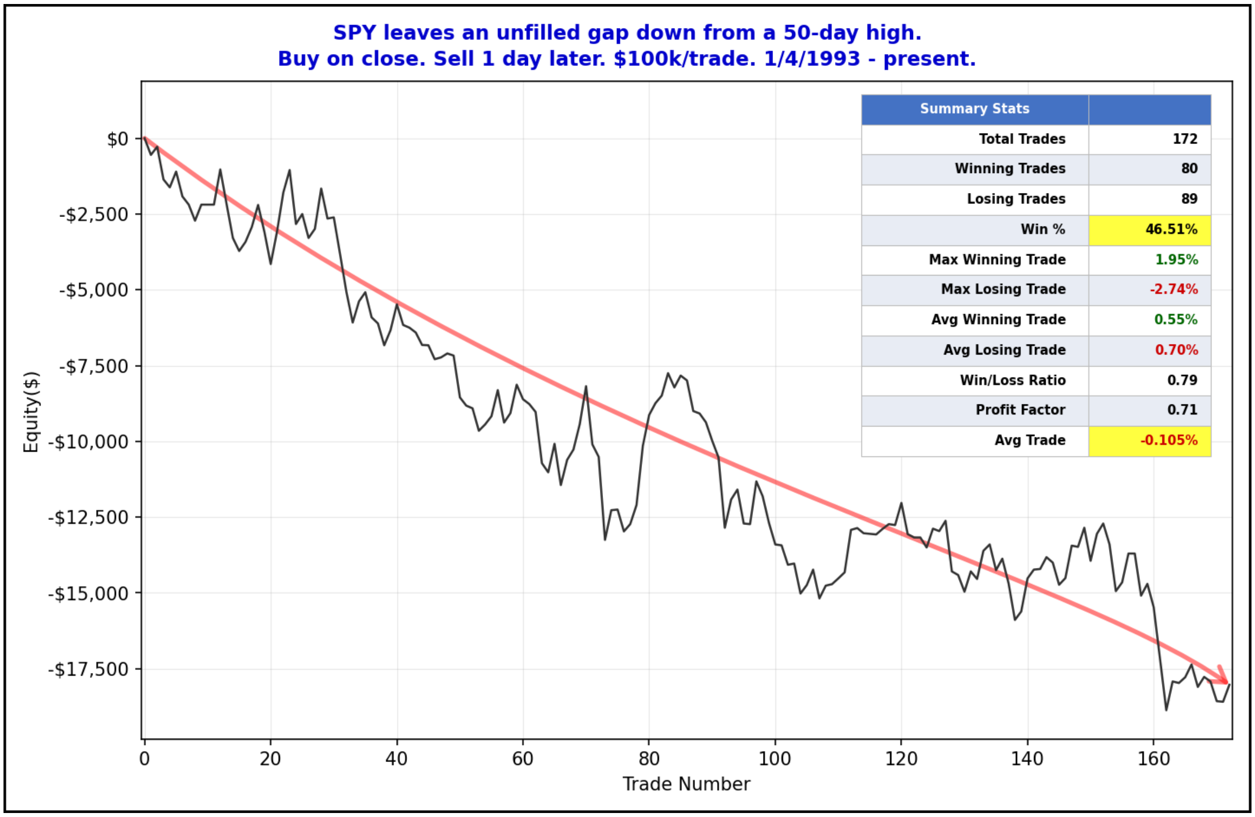
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
None						
Active - Long Term						
May 13, 2026	SPX historically strong 6-week rally	1-12 months	Bullish	18.96%	-8.29%	-10.88%
April 27, 2026	Sell in May 2nd yr Pres Cycle & 5% pullback	1-6 months	Bearish			
April 6, 2026	NASDAQ leading	int term	Bullish			
December 15, 2025	QE active. Rates dropping. Fed dovish	int term	Bullish			
June 30, 2025	SPX Golden Cross (7/1/25)	int term	Bullish			

The Evidence

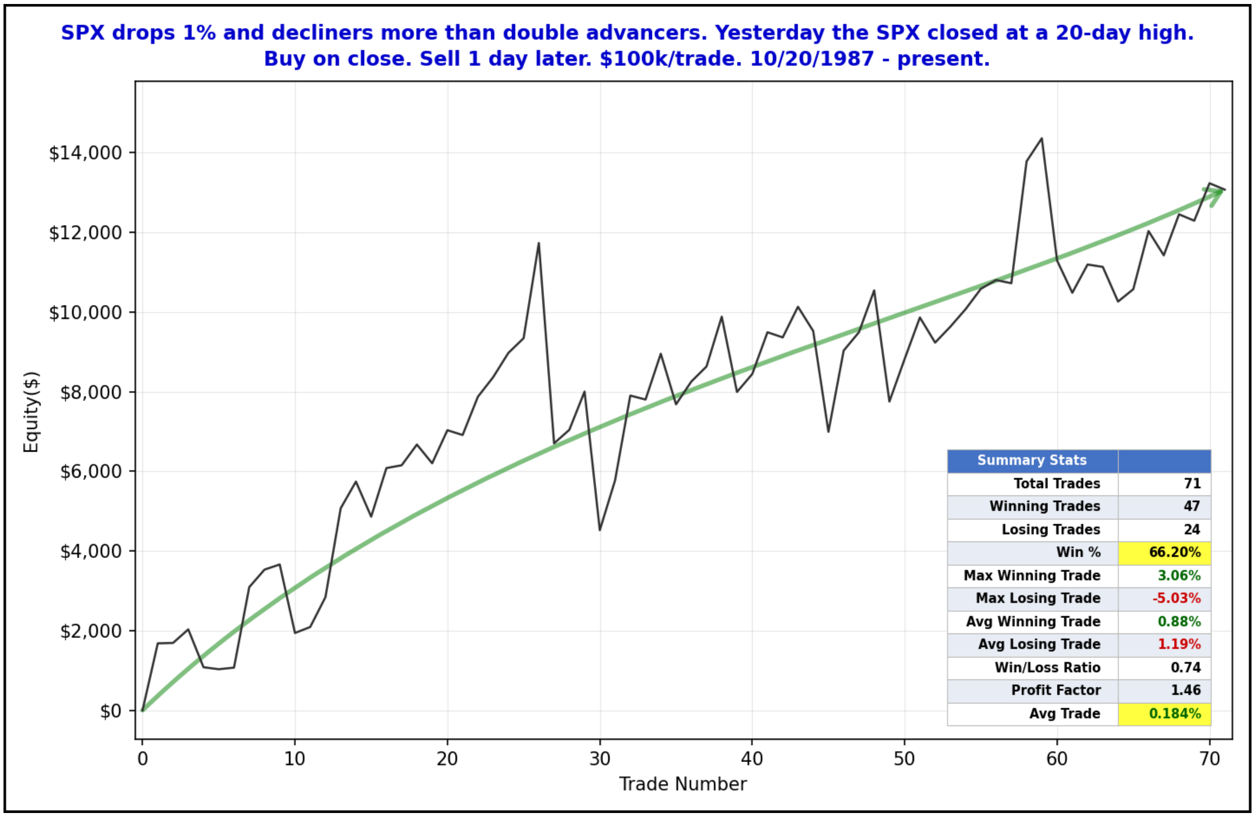
Stocks sold off sharply on Friday. SPX finished down 1.2%, the NASDAQ lost 1.5%, and the Russell 2000 lost 2.4%. Breadth was very weak as the NYSE Up Issues % closed at 22% and the NYSE Up Volume % posted a 25% reading. NYSE total volume spiked higher as it typically does on options expiration Friday.

There were some conflicting studies that emerged in the Quantifinder. They were primarily based on a two concepts: 1) Unfilled gaps down from high levels will often suggest a one-day downside edge. 2) Very strong down days often see a rebound the next day.

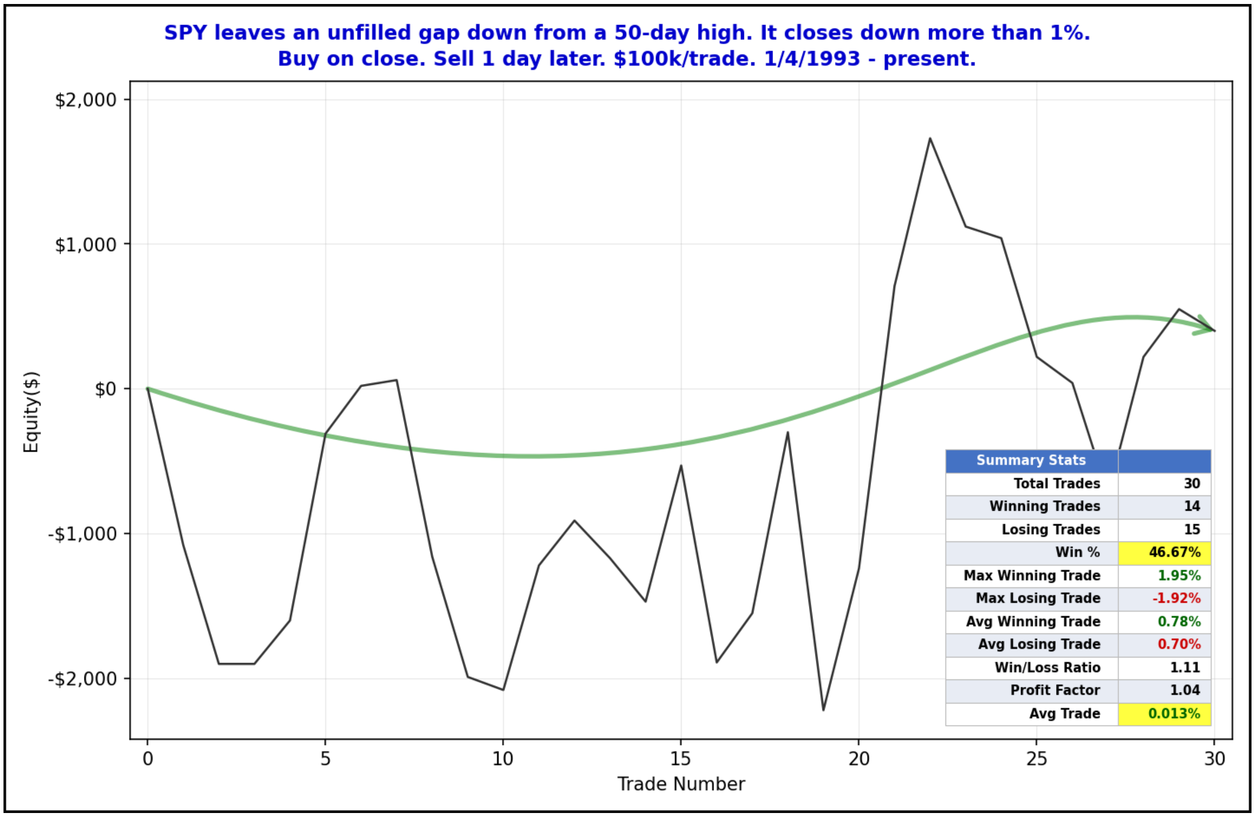
The study below is one that we've seen a number of times lately. It looks at occurrences when SPY leaves an unfilled gap down from a 50-day high.



As you can see the numbers and the profit curve point lower. This is an example of the first concept I mentioned above. But the next study is an example of concept two.



Big 1-day moves lower from intermediate-term high, often see a bounce the next day. So I decided to combine the two concepts in one study. Below is what I came up with.



No surprise here - results do not appear compelling for either the bulls or the bears. I won't be adding any new studies to the short-term active list this weekend. We are still seeing a lack of evidence there.

Next let's take a quick look at the seasonality calendar.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
5/1/2026	59.78	1.260	0.079
5/4/2026	56.97	1.359	0.104
5/5/2026	50.56	0.985	-0.010
5/6/2026	57.71	1.336	0.084
5/7/2026	51.47	0.961	-0.014
5/8/2026	52.69	1.209	0.059
5/11/2026	57.75	1.178	0.048
5/12/2026	54.11	1.178	0.051
5/13/2026	57.88	1.225	0.069
5/14/2026	53.74	0.925	-0.036
5/15/2026	50.58	0.978	-0.007
5/18/2026	60.32	1.466	0.108
5/19/2026	55.16	1.497	0.125
5/20/2026	57.13	1.440	0.086
5/21/2026	56.29	1.492	0.111
5/22/2026	58.95	1.514	0.108
5/26/2026	53.03	1.539	0.124
5/27/2026	52.31	1.541	0.124
5/28/2026	54.18	1.575	0.135
5/29/2026	55.20	1.429	0.090
Baseline	***54.68***	***1.165***	***0.056***

QuantifiableEdges.com

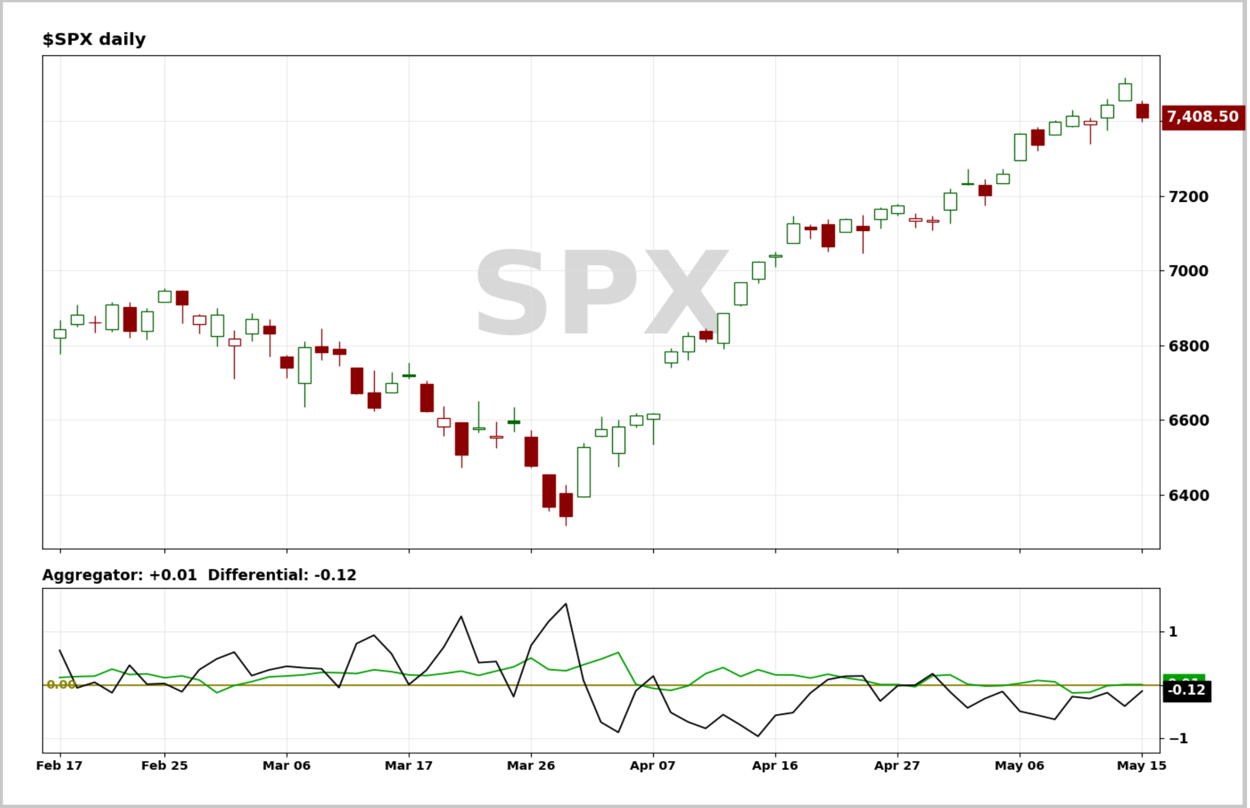
This week and next both look quite positive. I also created the preliminary calendars for June. The SPX one can be seen below.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
6/1/2026	60.18	1.776	0.191
6/2/2026	53.62	1.430	0.086
6/3/2026	60.98	1.810	0.184
6/4/2026	54.35	1.393	0.076
6/5/2026	57.26	1.534	0.130
6/8/2026	57.91	1.039	-0.002
6/9/2026	53.96	1.041	0.001
6/10/2026	58.19	1.103	0.023
6/11/2026	53.98	0.794	-0.083
6/12/2026	54.77	1.098	0.018
6/15/2026	56.34	1.096	0.020
6/16/2026	51.14	1.133	0.037
6/17/2026	46.19	0.799	-0.075
6/18/2026	50.03	0.907	-0.030
6/22/2026	58.08	1.408	0.114
6/23/2026	54.08	1.252	0.076
6/24/2026	54.83	1.239	0.073
6/25/2026	55.33	1.244	0.074
6/26/2026	54.49	1.124	0.038
6/29/2026	62.32	1.624	0.149
6/30/2026	60.42	1.630	0.148
Baseline	***54.76***	***1.170***	***0.057***

QuantifiableEdges.com

June looks like it is pretty strong both at the beginning and the end of the month, with the middle of the month underwhelming.

I have updated the Aggregator chart below.



Without any new studies being added, 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.

With the short-term active list currently bare, expectations are positive entirely thanks to intermediate-term evidence. With this being the case, any evidence that emerges over the next few days could be highly impactful on expectations going forward. Meanwhile, the Differential Pivot will be slightly *inverted at* 7420.46. That is 0.2% *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 0.2% on Monday in order to remain overbought. Anything other than that and it will flip to oversold versus recent expectations as of Monday's close.

So the Aggregator is still neutral. Short-term evidence is lacking and the market has been persistently over-bought. This is still not the kind of high-probability setup that I would like to see before taking on new short-term index exposure. If we get more of a pullback in the next few days then I would expect some bullish studies to emerge. That could be an entry opportunity for a new short-term index trade. But I don't view the current situation as a great entry opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/18 – bullish

Combo #1	Combo #2	Combo #3	Combo #4
Flat	**Long $NDX**	**Long $NDX**	**Long $NDX**

Above is the status of the different Combination Signals from the Quantifiable Edges Market Dynamics 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 Dynamics Course, which is included with all annual subscriptions. *Combo 1 switched to Flat while the other models remained Long $NDX this week.*

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Stocks finished mixed this past week. The SPX gained 0.1%, the NASDAQ declined 0.1%, and the Russell 2000 fell 2.4%. Bonds got pummeled. The US Aggregate Bond ETF (AGG) fell 1.2%. TLT, the 20-year Treasury Bond ETF, tumbled 2.8%. The SPX and NADSAQ again both made all-time highs, so clearly stocks are in a long-term uptrend. As far as intermediate-term evidence goes, there was one new study that appeared in Tuesday Night's Letter. I have copied it below.

Monday on X, Charlie Bilello pointed out *SPX had gained more than 16% over the previous six weeks and that's one of the biggest six-week rallies of all time. I looked back at the top 20 non-overlapping 30-trading-day rallies since 1950. They can all be found in the table below.*

Top 20 non-overlapping 6-week SPX rallies (1950–2026)
Shaded rows = non-bear context • Darker row = current rally (excluded from summary)

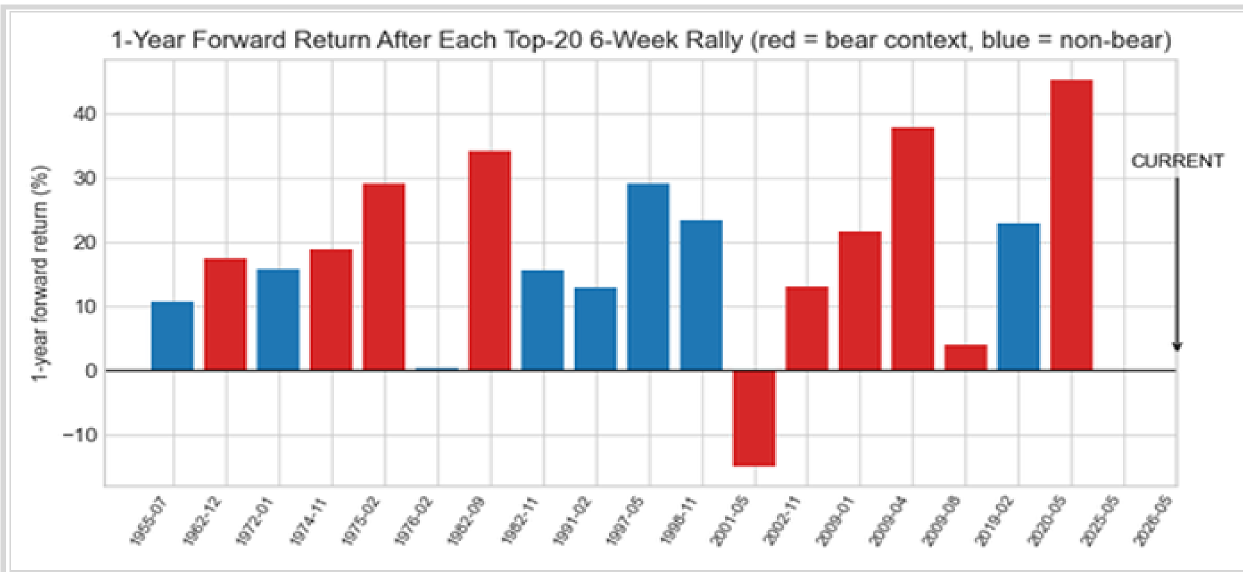
Rank	End Date	Gain	DD at Start	Fwd 1M	Fwd 6M	Fwd 1Y
1	2020-05-05	28.20%	-33.9%	+8.50%	+15.40%	+45.29%
2	2009-04-17	27.40%	-52.2%	+4.61%	+26.10%	+37.71%
3	2009-01-06	24.22%	-50.4%	-9.51%	-5.90%	+21.66%
4	1982-09-21	21.15%	-23.0%	+11.49%	+21.07%	+34.22%
5	1998-11-19	20.13%	-19.1%	+4.36%	+13.36%	+23.37%
6	1975-02-05	19.69%	-33.9%	+6.78%	+9.25%	+29.08%
7	1974-11-11	18.27%	-43.0%	-9.95%	+21.86%	+18.88%
8	1982-11-11	17.71%	-4.7%	-1.27%	+15.87%	+15.68%
9	2002-11-20	17.69%	-33.8%	-2.01%	+2.09%	+13.07%
10	1962-12-06	17.65%	-26.4%	+2.88%	+11.89%	+17.53%
11	2025-05-19	17.53%	-17.4%	+0.29%	+11.89%	n/a
12	1991-02-27	17.22%	-15.0%	+2.03%	+6.89%	+12.95%
13	2001-05-17	16.79%	-27.5%	-6.21%	-11.32%	-14.86%
14	2009-08-21	16.72%	-32.7%	+4.44%	+6.67%	+4.02%
15	**2026-05-11**	**16.39%**	**-8.7%**	**n/a**	**n/a**	**n/a**
16	1976-02-04	15.62%	-7.8%	-2.75%	+2.47%	+0.44%
17	1955-07-06	15.21%	-2.2%	-1.90%	+4.10%	+10.70%
18	2019-02-07	15.10%	-19.8%	+2.85%	+8.57%	+22.97%
19	1997-05-23	14.83%	-9.6%	+5.82%	+13.22%	+29.16%
20	1972-01-06	14.81%	-13.9%	+1.30%	+5.34%	+15.79%
	All — Mean			**+1.15%**	**+9.41%**	**+18.76%**
	All — Win %			**63.2%**	**89.5%**	**94.4%**
	Bear — Mean			**+1.10%**	**+9.71%**	**+20.66%**
	Bear — Win %			**60.0%**	**80.0%**	**90.0%**
	Non-bear — Mean			**+1.19%**	**+9.08%**	**+16.38%**
	Non-bear — Win %			**66.7%**	**100.0%**	**100.0%**

Shaded rows are those instances where there was less than a 20% drawdown at the start of the rally. The current instance saw one of the shallower drawdowns. Only 1955, 1976, and 1982 saw rallies that were not coming out of larger drawdowns than the current one. After such strong rallies whether they were bear or non-bear, the next month generally did not see much progress. But longer-term results were quite impressive. After the 19 prior top-20 6-week rallies, SPX averaged +18.8% over the next year with a 94.4% win rate, versus a +9.4% / 74.5% baseline. Below you can see the signal versus the baseline numbers.

Signal vs baseline forward returns (top 20 rallies)

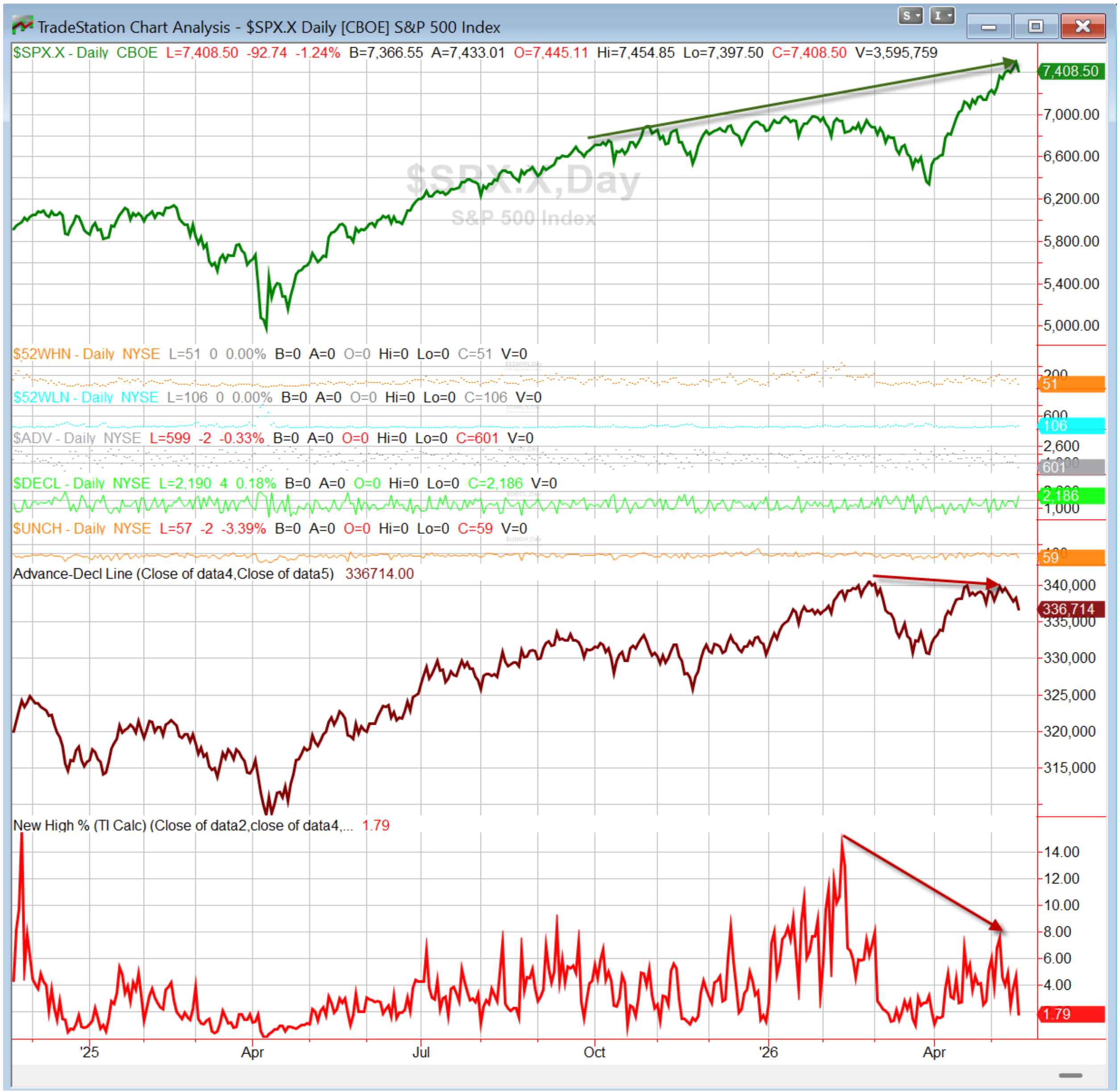
Horizon	Signal Mean	Signal Win%	Baseline Mean	Baseline Win%	Diff (pp)
3M	+3.97%	73.7%	+2.26%	66.7%	+1.71
6M	+9.41%	89.5%	+4.59%	70.6%	+4.82
1Y	+18.76%	94.4%	+9.36%	74.5%	+9.40

Lastly a little graphic showing the one-year forward returns after each of the 6-week rallies:



So the momentum over the last six weeks seems to be positive. We've seen this other ways but I thought this was an interesting look. Also impressive is that looking at the eight non-bear instances the average drawdown was only 8.29%, while the average run-up was 18.96%. I have added this study to the long-term active list tonight.

But breadth is ***still*** lagging. As I have discussed the last several weeks, the QE Study of Tops shows that nearly every major market top since 1970 saw a breadth divergence occur ahead of it. The lone exception was 2020. The measurements the study looks at are 1) the NYSE Advance/Decline Line, and 2) the Net % of NYSE stocks making new highs (vs new lows). When SPX topped at the end of January, there was no divergence. Breadth was strong by both measures. This led me to believe that a major selloff (20% +) seemed unlikely. But here is an updated look at where we are now:

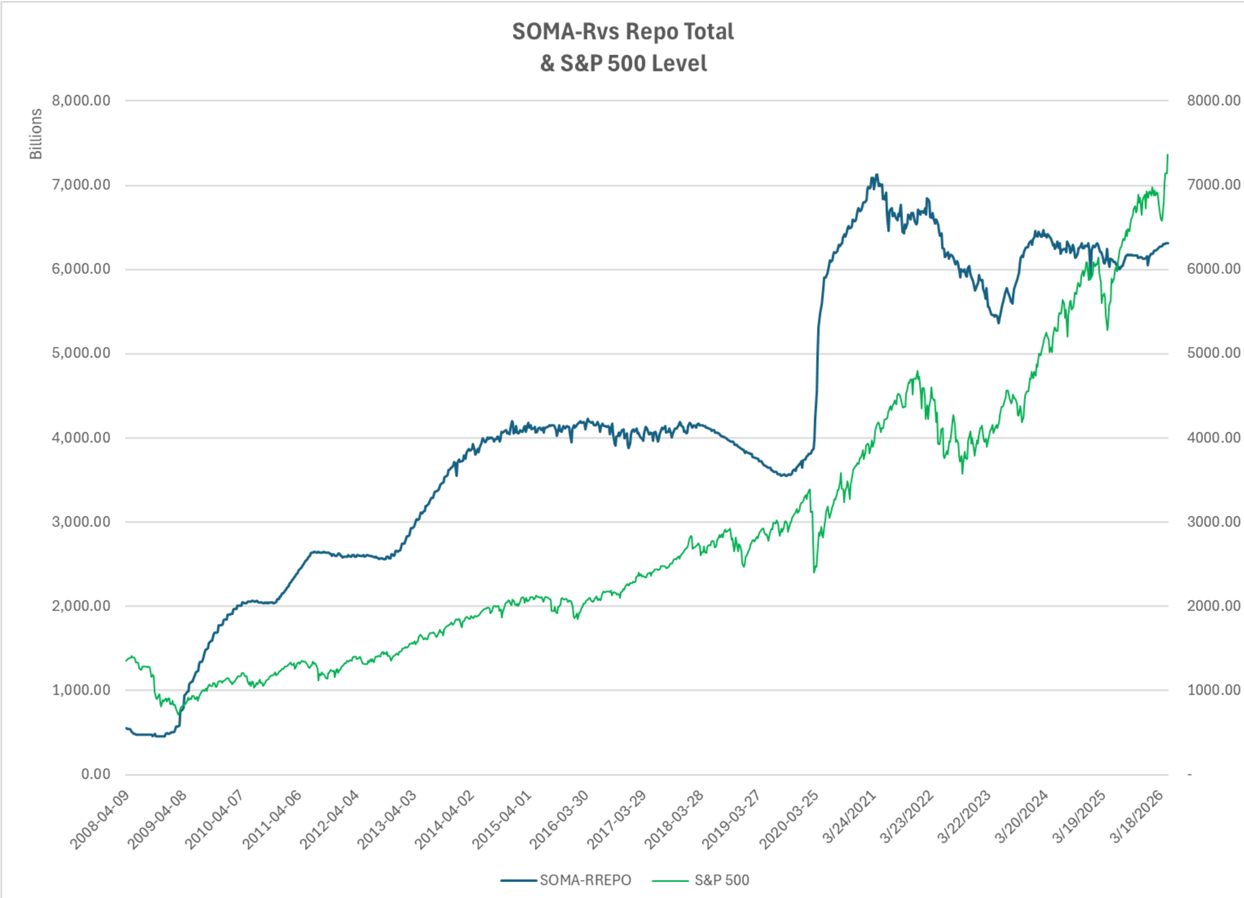


The Advance/Decline line is still lagging. I will note that some data providers did show the AD line making a new high a couple weeks ago, but my TradeStation data did not. Either way the Net New High % is ***way*** off. This is not a trigger to sell. It is a condition that sets the stage for a possible major top. But that top could still be many weeks or months away. If this divergence resolves itself and the Net New High % and the NYSE Advance/Decline Line make new highs, then we will be back to a point where the market would be unlikely to top out for at least 2-3 more months. So it is nothing to act on yet. But it is something that bears watching. I'll especially be watching the Net New High % very closely should this rally continue, since that is lagging by such a large amount.

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

Domestic Security Holdings as of 2026-05-13	
SECURITY TYPE	**TOTAL ($Thousands)**
US Treasury Bills	453,030,926.7
US Treasury Notes and Bonds	3,597,035,598.2
US Treasury FRNs	18,357,825.8
US Treasury TIPS	279,041,230.2
Federal Agency Securities	2,347,000.0
Agency MBS	1,973,437,803.3
Agency CMBS	7,622,211.7
Total SOMA Holdings	**6,330,872,595.9**
Change From Prior Week	**+15,174,000.0**

The SOMA rose over $15 billion this week, adding liquidity to the system. Meanwhile, reverse repos rose by about $2 billion for the week ending 5/6/26. A rise in reverse repos can act as a liquidity drain. Combined for the week, SOMA and reverse repo action accounted for a liquidity infusion of about $13 billion (through Wednesday the 13th). Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.



Reverse repos are still quite low. So unless that changes, they will not be providing too much influence on liquidity flows. Quantitative Easing has kicked in and is providing some support for the bulls. But while current Fed policy is a bit dovish, the market is unsure of what or when the next policy move will be.

With regards to rates, odds of a cut at the next couple of upcoming meetings shifted some but still appear low. The June meeting shows a 1% chance of a decrease from current levels. And looking out to July, odds currently show a 1% chance of a decrease from today's rates and a 4% chance of a possible increase. That's quite a bit different from last week when odds showed a 13% chance that rates are lower in July than today. This can be seen in the graphics below, courtesy of the CME Fedwatch tool.

FedWatch Tool

Target Rate
Current
Compare
Probabilities
Aggregated

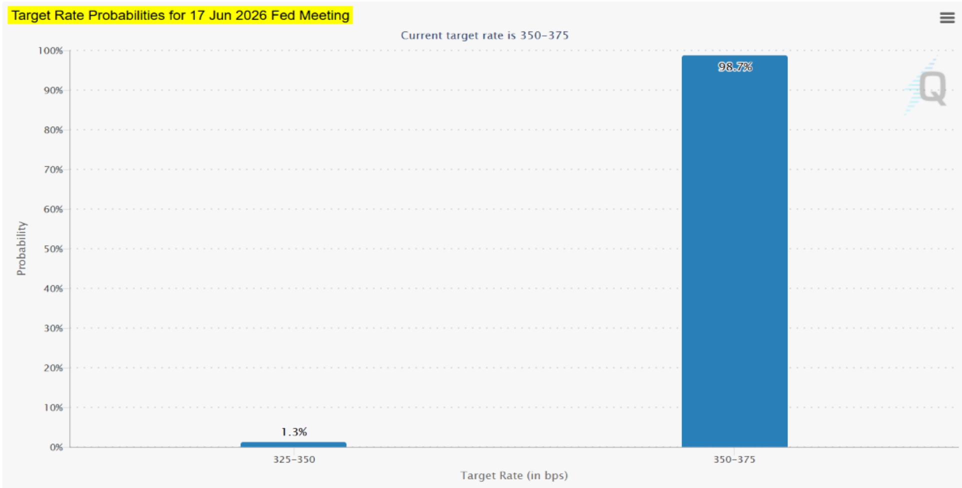
Historical
Historical
Downloads
Prior Hikes

Dot Plot
Chart
Table

Tools
CVOL
SOFR Watch
ESTR Watch

17 Jun26 | 29 Jul26 | 16 Sep26 | 28 Oct26 | 9 Dec26 | 27 Jan27 | 17 Mar27 | 28 Apr27 | 9 Jun27 | 28 Jul27

MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
17 Jun 2026	ZQM6	30 Jun 2026	96.3800	102,322	252,159	1.3 %	98.7 %	0.0 %



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 14 MAY 2026	1 WEEK 8 MAY 2026	1 MONTH 16 APR 2026
325-350	1.3%	2.1%	6.6%	1.6%
350-375 (Current)	98.7%	97.9%	93.4%	98.4%

* Data as of 16 May 2026 01:45:27 CT

1/1/2028 and forward are projected meeting dates

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FedWatch Tool

Target Rate
Current
Compare
Probabilities
Aggregated

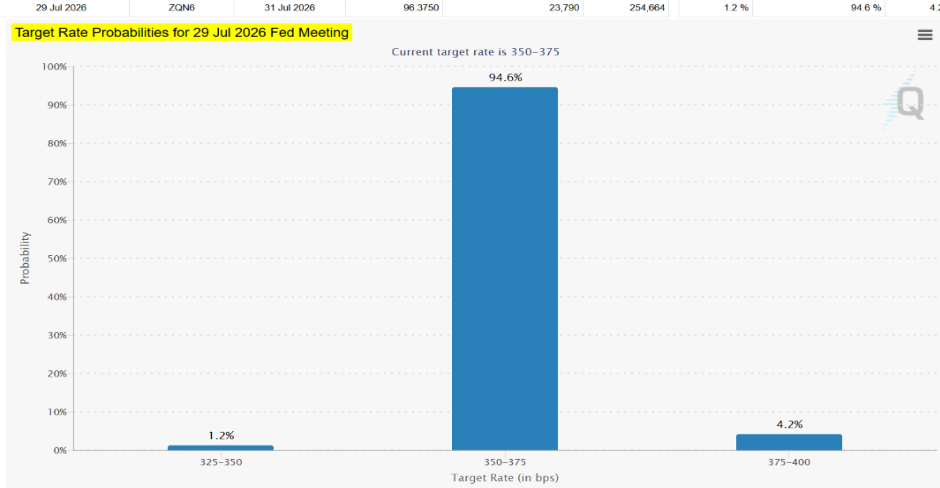
Historical
Historical
Downloads
Prior Hikes

Dot Plot
Chart
Table

Tools
CVOL
SOFR Watch
ESTR Watch

17 Jun26 | 29 Jul26 | 16 Sep26 | 28 Oct26 | 9 Dec26 | 27 Jan27 | 17 Mar27 | 28 Apr27 | 9 Jun27 | 28 Jul27

MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
29 Jul 2026	ZQN6	31 Jul 2026	96.3750	23,790	254,664	1.2 %	94.6 %	4.2 %



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 14 MAY 2026	1 WEEK 8 MAY 2026	1 MONTH 16 APR 2026
300-325	0.0%	0.0%	0.4%	0.1%
325-350	1.2%	2.1%	12.2%	7.8%
350-375 (Current)	94.6%	95.8%	87.4%	92.1%
375-400	4.2%	2.1%	0.0%	0.0%

* Data as of 16 May 2026 01:47:54 CT

1/1/2028 and forward are projected meeting dates

As we have seen over and over, odds continually shift, so we will likely see further refinement as we get closer to these meeting dates. But right now, any move looks unlikely for the next few months.

It is tough to argue with a market that just keeps going up. We have seen several price momentum studies with bullish intermediate-term implications trigger during the course of this recent rally. The NASDAQ took leadership from the SPX almost exactly when the market bottomed at the end of March and has remained the leader since. A leading NASDAQ is generally a positive. Additionally, the Fed appears dovish since it is increasing the size of the SOMA, so liquidity is positive. Of course the Fed could turn more neutral if rates hikes come into play, but that is still looking unlikely. Long-term seasonality is now bearish through October. The lagging A/D line and Net New Highs % have created a divergence that could lead to trouble at some point, but that is not a great timing signal. Risks remain elevated with geopolitical and economic news capable of shifting the environment quickly. Overall, I am leaning bullish. I am always willing to change my stance if new evidence emerges, but for now I remain more willing to take long positions than short positions.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

MDT – 1/3 @ $79.37 – (bought @ limit)

***Broad Market Large Cap CBI* – 1 (MDT)**

Additional New Trade Ideas

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MDT(1/3)	4/30/2026	$79.37	$76.15	-4.06%	Catapult
ABT(1/3)	5/7/2026	$86.30	$84.47	-2.12%	*sell on open*