QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 26, 2026 Volume 20 Issue 204

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 2 unfilled gaps down while above the 200ma has often been followed by a bounce the next day.
- Monday after the 4th Friday in October has often struggled, but the market has typically done well the rest of the week.
- The SOMA shrank and liquidity flows were poor this past week. The Fed still appears hawkish, though chances of another rate increase on Wednesday are very muted. The market is now anticipating the next rate increase will occur in December.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Monday's evidence is mixed, but there appears to be a good chance of a bounce in the next few days.

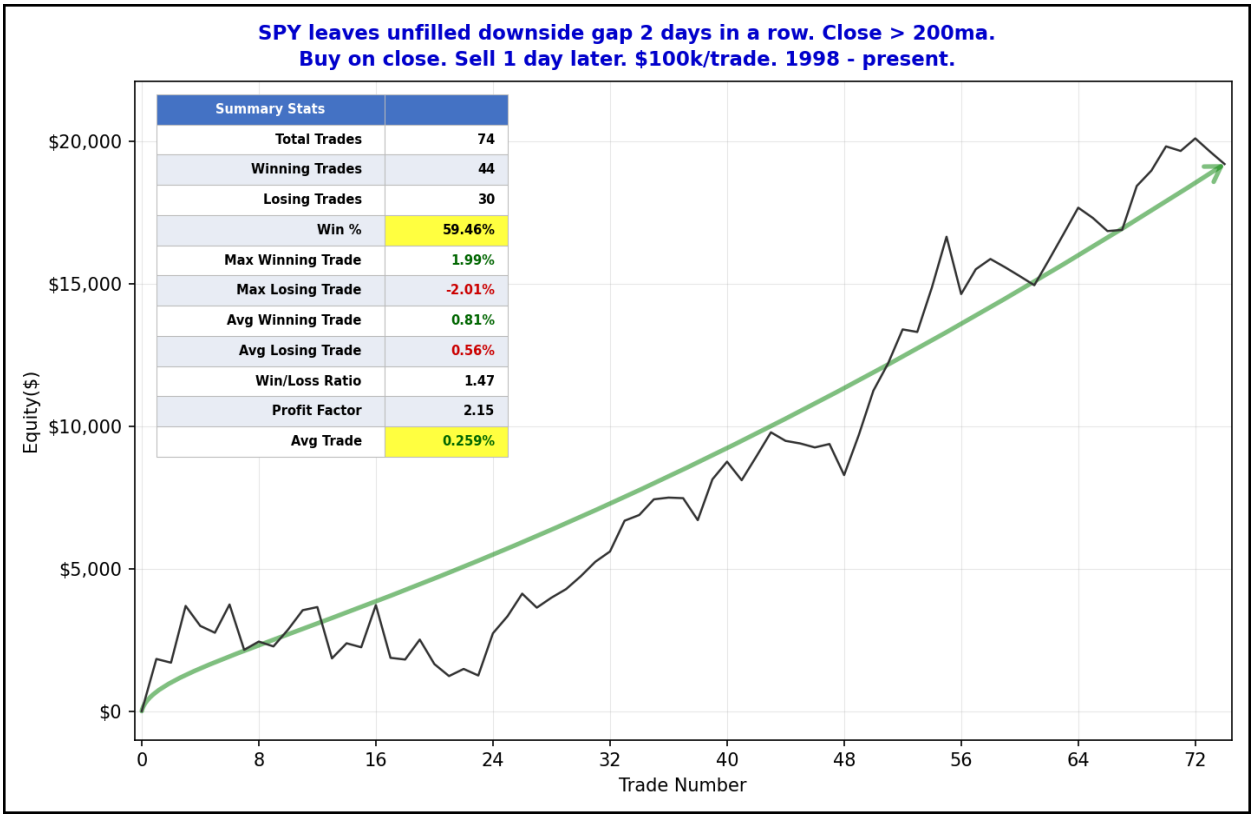
Summary of Recent Active Studies (see Letters from listed dates for details

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
October 26, 2026	Monday after the 4th Friday in October	1 day	Bearish			
October 26, 2026	SPY unfilled gap down 2 days in a row, > 20(	1 day	Bullish			
October 20, 2026	NYSE Up Vol % < 40. SPX closes up.	1-6 days	Bullish	1.51%	-1.36%	-2.71%
Active - Long Term						
October 23, 2026	SPX down 1%+ 3rd time in 10 days, > 200ma	1-20 days	Bullish	4.02%	-3.60%	-8.30%
October 19, 2026	NASDAQ lagging	int term	neutral			
October 19, 2026	QQQ 5+ lower lows, worst day of the decline	1-20 days	Bullish	9.15%	-4.70%	-9.55%
September 22, 2026	RUT low in 20-day range, SPX high in range	1-40 days	Bullish	5.17%	-3.67%	-6.92%
July 6, 2026	No QE. Rate rise probable. Fed hawkish	int term	Bearish			
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			
June 30, 2025	SPX Golden Cross (7/1/25)	int term	Bullish			

The Evidence

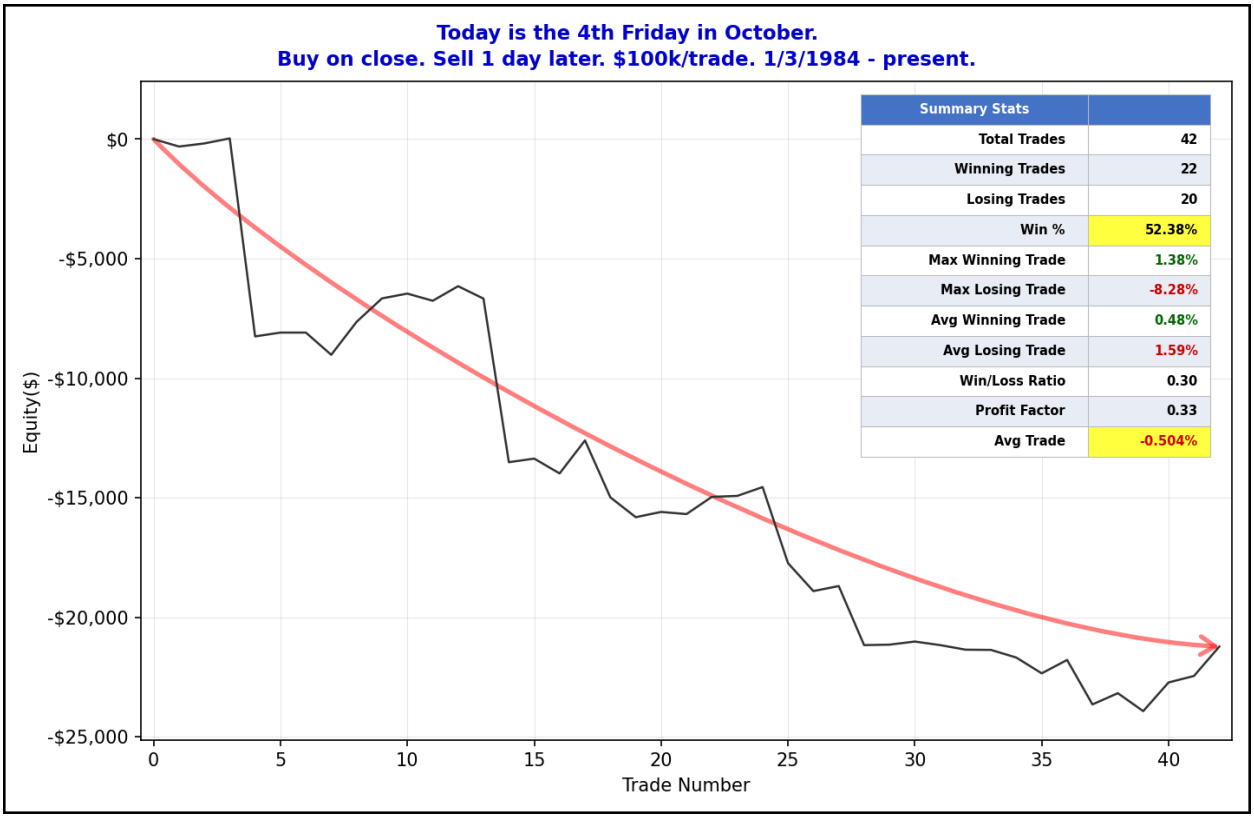
Friday was a down day for the market. SPX finished lower by 0.5%, the NASDAQ lost 0.2%, and the Russell 2000 fell 0.3%. Breadth was negative as the NYSE Up Issues % closed at 37% and the NYSE Up Volume % posted a 42% reading. NYSE total volume declined some from Thursday's level.

Notable about Friday's action is that it was the 2nd day in a row that SPY left an unfilled gap down. The study below suggests there has been a bullish tendency the following day after similar historical occurrences. Last featured in the 7/20/26 letter, results are updated.



The curve is certainly choppy, but it continues to persist upwards. I find the overall evidence strong enough to add it to the Active List as a 1-day edge.

The week after the 4th Friday in October has been an interesting one historically. The studies below are updated from the 10/27/25 letter. They show that Monday has seen difficulties, but the rest of the week has been strong, and it has even carried through to the next Monday. Let's first look at the Monday after the 4th Friday:

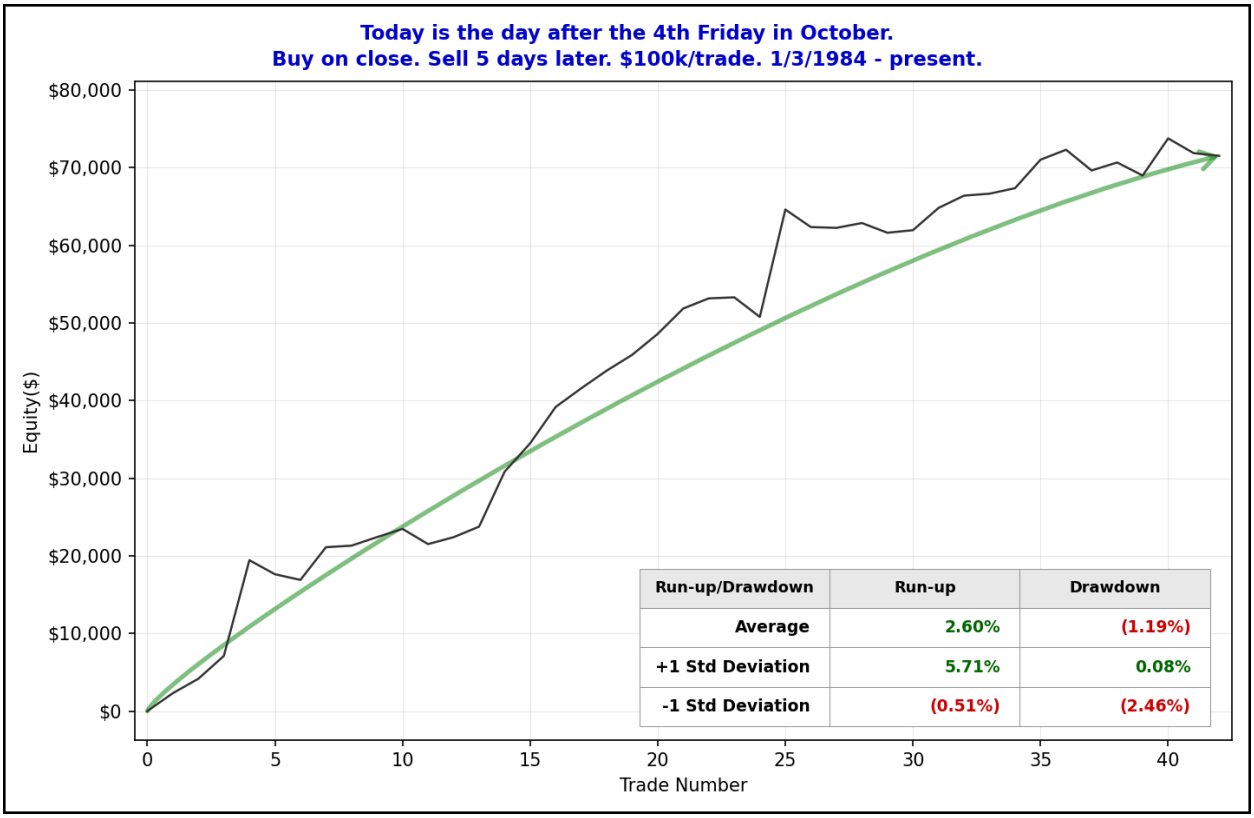


There have been about the same number of Mondays here that have closed higher as lower, but the losers have been over 3x the size of the winners on average. The profit curve is choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may carry a little extra risk to see a sizable decline. But Tuesday through the following Monday have shown very positive seasonality. This can be seen below.

Today is the day after the 4th Friday in October.
Buy on close. Sell X days later. 1/3/1984 - present.

X Days	Total Trades	Winning Trades	Losing Trades	Win %	Max Winning Trade	Max Losing Trade	Avg Winning Trade	Avg Losing Trade	Win/Loss Ratio	Profit Factor	Avg Trade
5	42	31	11	73.81%	13.83%	-2.67%	2.86%	1.57%	1.83	5.15	1.703%
4	42	29	13	69.05%	14.12%	-3.85%	2.58%	1.52%	1.70	3.79	1.314%
3	42	29	13	69.05%	12.39%	-3.93%	2.07%	1.24%	1.67	3.74	1.048%
2	42	30	12	71.43%	9.56%	-3.82%	1.31%	1.37%	0.96	2.40	0.545%
1	42	27	15	64.29%	10.79%	-2.79%	1.30%	0.74%	1.74	3.14	0.569%

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



The curve has headed upwards for a long time. This short-term look at seasonality suggests the market could have some wind at its back after Monday.

For another seasonality perspective here is a look at the seasonality calendar from the website.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/1/2026	56.31	1.111	0.024
10/2/2026	56.20	1.062	0.025
10/5/2026	57.45	1.327	0.090
10/6/2026	51.21	0.969	-0.017
10/7/2026	57.87	1.303	0.071
10/8/2026	53.02	0.898	-0.047
10/9/2026	54.69	1.281	0.065
10/12/2026	55.16	1.373	0.091
10/13/2026	51.25	1.377	0.095
10/14/2026	55.65	1.431	0.116
10/15/2026	50.67	1.198	0.044
10/16/2026	49.48	1.201	0.044
10/19/2026	56.00	1.139	0.034
10/20/2026	51.25	1.165	0.049
10/21/2026	52.60	0.928	-0.032
10/22/2026	53.06	1.121	0.037
10/23/2026	53.12	1.045	0.016
10/26/2026	59.06	1.397	0.113
10/27/2026	54.92	1.205	0.065
10/28/2026	49.29	1.066	0.015
10/29/2026	56.40	1.224	0.072
10/30/2026	56.45	1.148	0.050
Baseline	*54.64*	*1.168*	*0.057*
	QuantifiableEdges.com		

Based on the mix of algorithms we use here, Monday doesn't look bad at all. Wednesday is neutral and the rest of the week is solidly bullish.

I have updated the Aggregator chart below.



With this weekend's mix of 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 above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 7784.19. That is 2.1% above Friday's close. Therefore, SPX will need to close up a sizable 2.1% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. We have a bit of a mixed bag for Monday, and evidence overall is still fairly light. But the market is certainly oversold on a short-term basis. That helps reward/risk. If not for the one "Monday after the fourth Friday in October" study, I might be eager to jump in with some index exposure at the open on Monday. I'm more inclined to look to possibly enter near the close if Monday does in fact struggle. A down day on Monday would be the third day in a row, heading into a potential Turnaround Tuesday. I am confident that would generate even more bullish evidence. So traders can determine their level of aggressiveness, but if there appears to be a favorable entry opportunity on Monday, it might be a good time to look to take on some long SPX exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/26 – neutral

Combo #1	Combo #2	Combo #3	Combo #4
Flat	Flat	Flat	Flat

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. *All 4 Combo models remain flat.*

This past week saw a sizable rotation in stocks. The SPX fell 0.5%, the NASDAQ lost 0.7%, and the Russell 2000 defied them and rallied 2.0% (ending its 6-week losing streak). Bonds posted a 2nd strong week in a row. The US Aggregate Bond ETF (AGG) rose 0.6%. TLT, the 20-year Treasury Bond ETF, rallied 1.6%. The Nasdaq and SPX both closed at one-month lows on Friday and are both trading below their 50-day moving averages but above their 200-day moving averages. So the long-term uptrend remains in doubt. There were not any new studies that emerged over the last few days with intermediate-term implications.

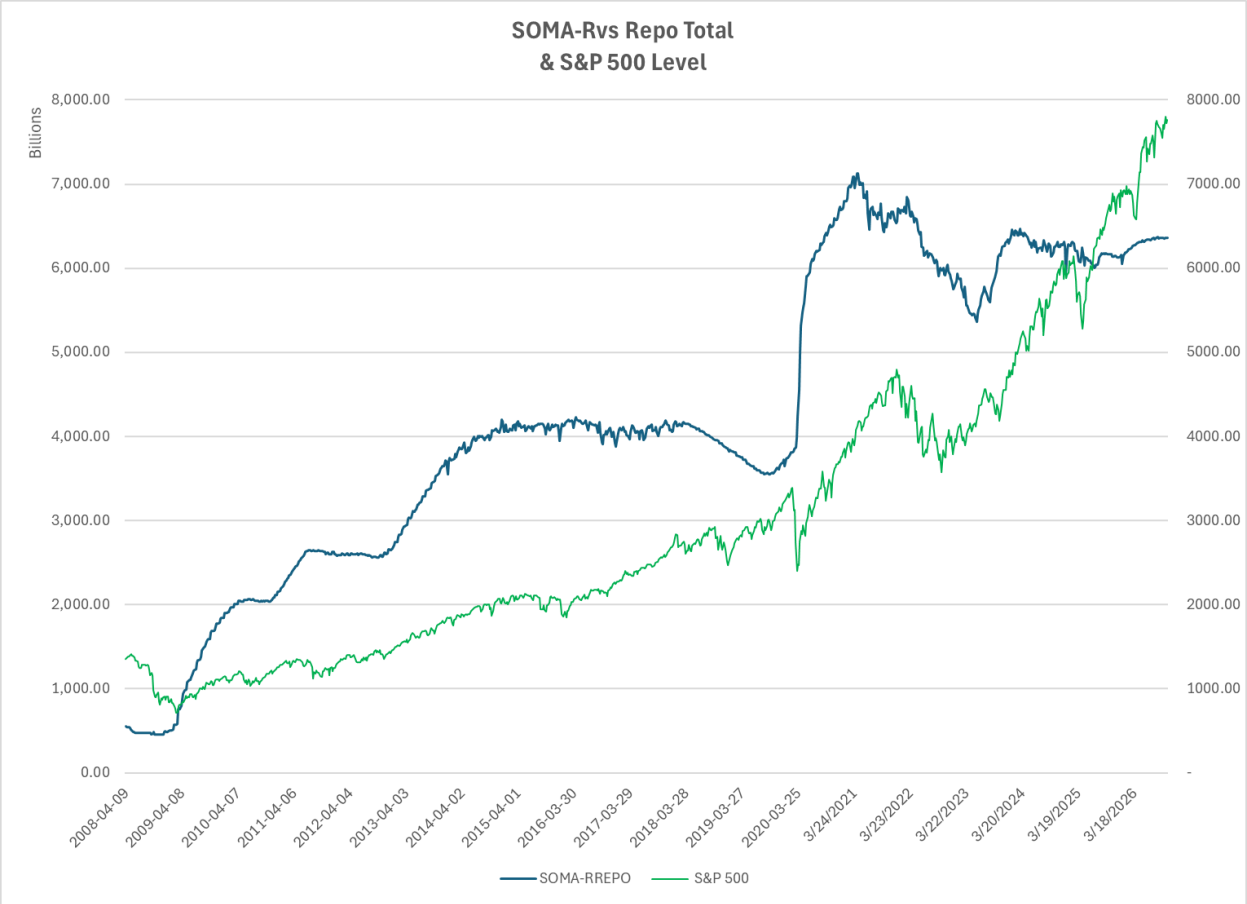
I will note that with this being the last week in October, the "worst six months" period is ending. Next weekend I will discuss the potentially bullish implications of moving into the November-through-April period during the third year of a presidential cycle.

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

Domestic Security Holdings as of 2026-10-21	
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills	567,874,926.7
US Treasury Notes and Bonds	3,600,742,227.8
US Treasury FRNs	20,045,553.8
US Treasury TIPS	277,655,585.9
Federal Agency Securities	2,347,000.0
Agency MBS	1,887,796,043.9
Agency CMBS	7,380,719.4
Total SOMA Holdings	6,363,842,057.5
Change From Prior Week	-639,938.5

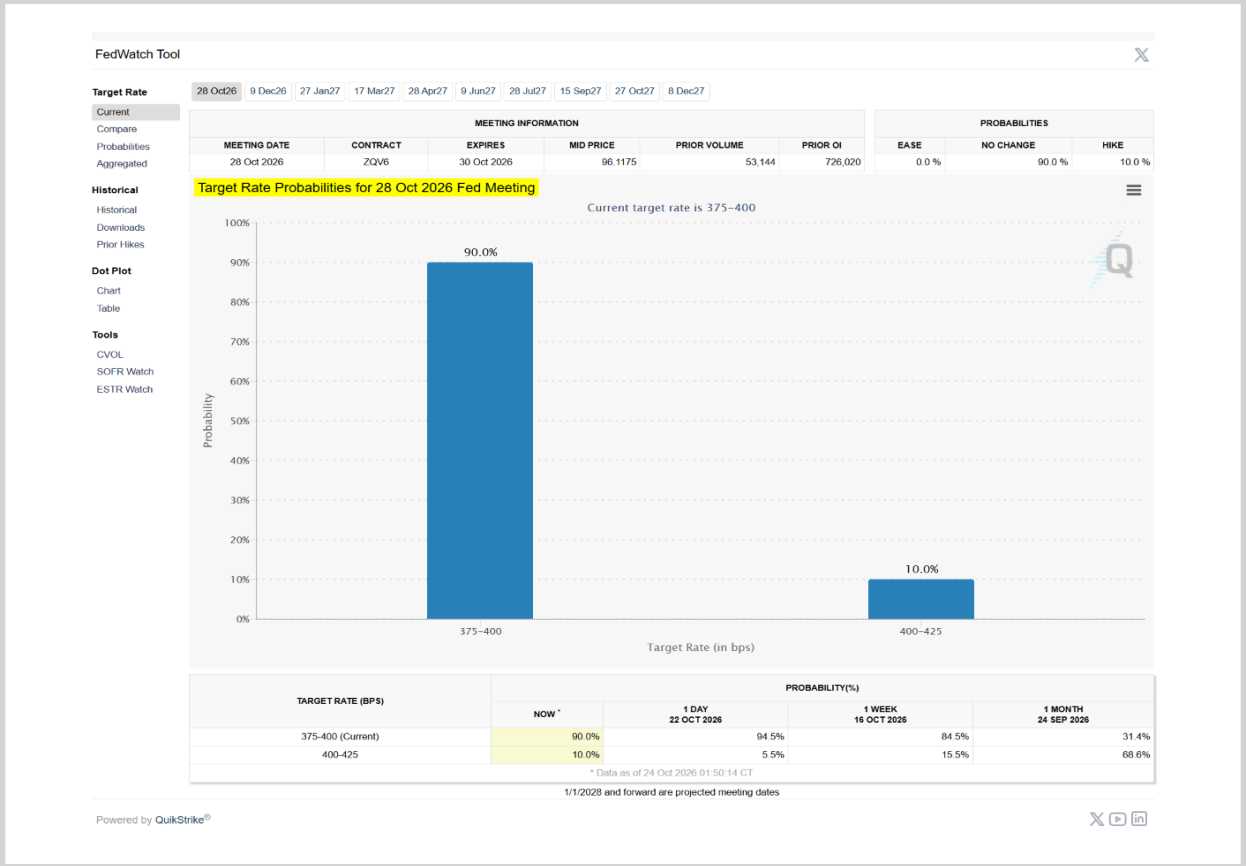
The SOMA declined by $600 million this past week, draining some liquidity from the system. Meanwhile, reverse repos rose by a scant $36 million for the week ending 10/21/26. A rise in

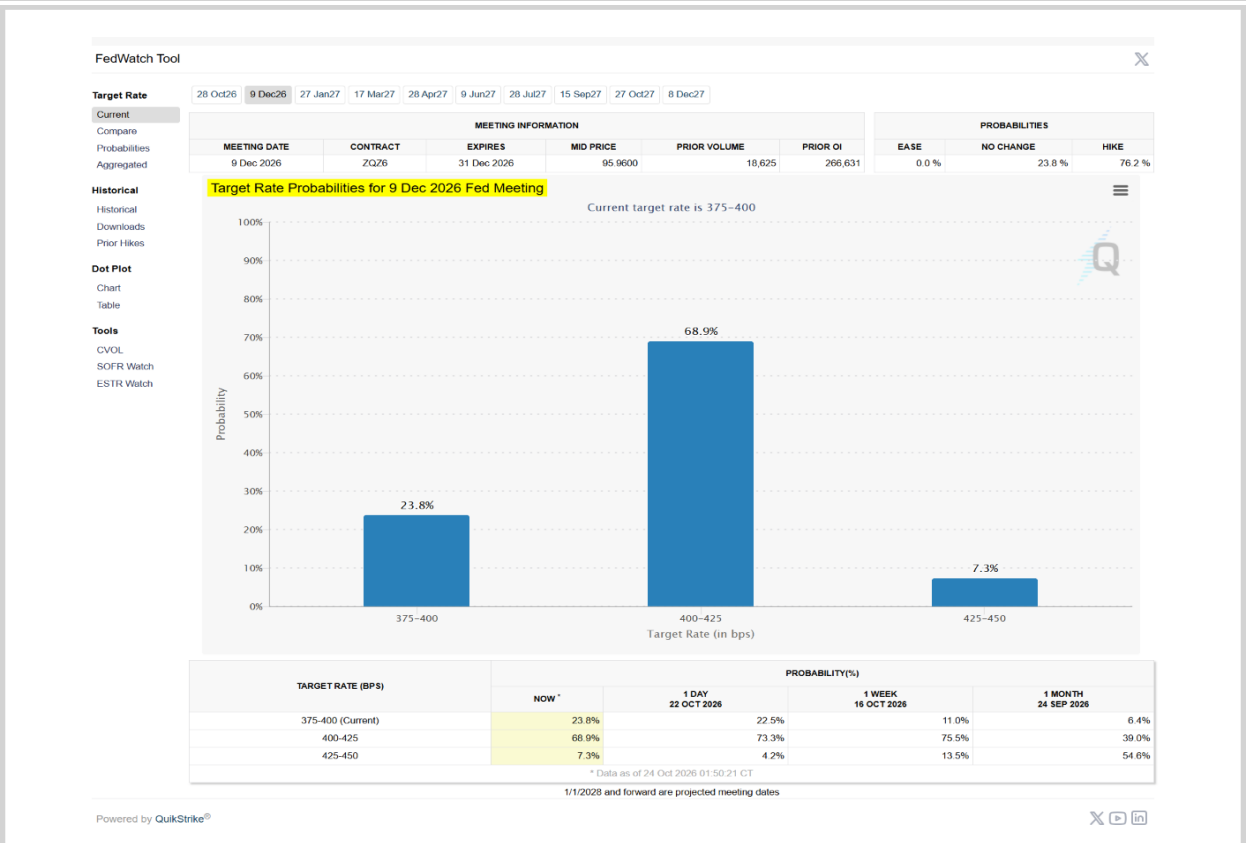
reverse repos can act as a liquidity reduction. Combined for the week, SOMA and reverse repo action accounted for a liquidity drain of about $700 million (through Wednesday the 21st). Below is an updated SOMA-Reverse Repo and SPX chart looking back to 2008.



Reverse repos are extremely low. So unless they rise substantially, they will not be providing much influence on liquidity flows. Quantitative Easing had been providing some support for the bulls early in the year, but that no longer appears to be the case since Warsh took over in June. Fed policy has been more hawkish and the recent rate increase is evidence of that.

With regards to future rate moves, the market suspects the Fed is not done with just the ¼ point move we saw at the September meeting. But it no longer feels the increase will occur this upcoming week. The October meeting now shows a 10% chance of another rate increase. That is down substantially from where it was a few weeks ago. Looking out to December, odds still show a 76% chance that rates are elevated vs today's rates. That's just a small amount below where the odds were a couple of weeks ago. 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
28 Oct26
9 Dec26
27 Jan27
17 Mar27
28 Apr27
9 Jun27
28 Jul27
15 Sep27
27 Oct27
8 Dec27
MEETING INFORMATION
PROBABILITIES
MEETING DATE
CONTRACT
EXPIRES
MID PRICE
PRIOR VOLUME
PRIOR OI
EASE
NO CHANGE
HIKE
28 Oct 2026
ZQV6
30 Oct 2026
96.1175
53,144
726,020
0.0 %
90.0 %
10.0 %
Target Rate Probabilities for 28 Oct 2026 Fed Meeting
Current target rate is 375-400
90.0%
10.0%
Probability
375-400
400-425
Target Rate (in bps)
TARGET RATE (BPS)
PROBABILITY(%)
NOW *
1 DAY 22 OCT 2026
1 WEEK 16 OCT 2026
1 MONTH 24 SEP 2026
375-400 (Current)
90.0%
94.5%
84.5%
31.4%
400-425
10.0%
5.5%
15.5%
68.6%
* Data as of 24 Oct 2026 01:50:14 CT
1/1/2028 and forward are projected meeting dates
Powered by QuikStrike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28 Oct26
9 Dec26
27 Jan27
17 Mar27
28 Apr27
9 Jun27
28 Jul27
15 Sep27
27 Oct27
8 Dec27
MEETING INFORMATION
PROBABILITIES
MEETING DATE
CONTRACT
EXPIRES
MID PRICE
PRIOR VOLUME
PRIOR OI
EASE
NO CHANGE
HIKE
9 Dec 2026
ZQZ6
31 Dec 2026
95.9600
18,625
266,631
0.0 %
23.8 %
76.2 %
Target Rate Probabilities for 9 Dec 2026 Fed Meeting
Current target rate is 375-400
23.8%
68.9%
7.3%
Probability
375-400
400-425
425-450
Target Rate (in bps)
TARGET RATE (BPS)
PROBABILITY(%)
NOW *
1 DAY 22 OCT 2026
1 WEEK 16 OCT 2026
1 MONTH 24 SEP 2026
375-400 (Current)
23.8%
22.5%
11.0%
6.4%
400-425
68.9%
73.3%
75.5%
39.0%
425-450
7.3%
4.2%
13.5%
54.6%
* Data as of 24 Oct 2026 01:50:21 CT
1/1/2028 and forward are projected meeting dates
Powered by QuikStrike

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. It currently seems that the next Fed move is more likely to be a hike in rates than it is to be a cut. There is a decent chance that move could come soon.

Intermediate-term evidence remains mixed. The 5 lower lows for QQQ study from last weekend suggests a 3-4 week bullish tendency. And we still have a few bullish studies from a while back that remain on the intermediate-term active list. Last week the NASDAQ fell into a lagging position versus the S&P, which is a formation that has seen the market historically struggle to make gains. And the long-term trend is in doubt. Additionally, we have the multi-month new-high divergence and the weak advance/decline line from the Study of Tops I discussed a couple of weeks ago. Long-term seasonality is poor, but that will flip next weekend. The Fed is looking hawkish, and further rate increases still appear likely. Geopolitical risks can pop up at any time. And with mid-term elections around the corner, we could see more volatility. I am keeping my bias "neutral" for one more week. All else holding the same, there is a good chance I'll turn it back to bullish again next weekend when better long-term seasonality kicks in. But not yet. So I will continue to trade both long and short setups a bit more conservatively.

Catapult and Capitulative Breadth Statistics
Catapult & CBI Presentation Link

Open Catapult Triggers
None

***Broad Market Large Cap CBI* – 0**

Additional New Trade Ideas

SPY – Buy ¼ index position @ $761.10 LIMIT ON CLOSE. Based on the short-term outlook above, this trade idea will look to enter at the close on Monday if SPY finishes down even a penny.

Current Open Trade Ideas
None

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