SEVENS REPORT

Monday April 24, 2023 TYLER RICHEY, CMT

trichey@sevensreport.com 4880 Donald Ross Road, Palm Beach Gardens, FL 33418 (561) 257-4023

Special Technical Market Update - Executive Summary

Stocks pulled back from multi-month highs last week as a very short-term downtrend in the S&P 500 formed in the wake of Monday's midday reversal. A longer-term uptrend dating back to the April 10th lows was tested on Friday but so far remains intact. We always respect the longer standing-trend as being stronger, so until we see the uptrend that began in mid-April violated, risks are skewed to the upside. Zooming out to the daily chart the rally off the March lows is showing signs of losing momentum. Bottom line for the S&P 500, we have approached a tipping point in the market that should be resolved this week with last week's downtrend being broken or stocks violating the longer-standing uptrend dating back several weeks. To the upside, 4,179 is a key level to beat for the bulls looking for a break beyond 4,200 while 4,114 to 4,117 is important support that, if broken, would open the door to a potentially quick drop to 4,050.

Looking at valuation targets from our monthly MMT chart, the S&P is trading above the "current situation" range but still below the lower bound of the better-if target range at 4,200. The S&P 500 also is trading comfortably above all-three major moving averages we (and most of the Street) follow, which are the 50-, 100-, and 200-day Mas, which just recently completed a bullish "golden cross" with the two shorter period averages overtaking the longer 200-day MA. By itself, this was a bullish development. But considering the multitude of other factors in the technical backdrop right now, it is difficult to get overly bullish because of the development.

Dow Theory remains bearish, albeit only barely as the DJIA is only one "higher high" away from offering a bullish signal. Looking at the major indexes, the tech-heavy Nasdaq has been the clear upside standout YTD but there are some signs that the rally is losing momentum. Small caps, meanwhile, remain a major market laggard with the Russell 2000 barely positive YTD. Between the two major investment styles, growth has massively outperformed value so far in 2023, but there has so far not been concrete evidence that the definitive and primary trend of value-over-growth that dominated markets in 2022 has reversed just yet, leaving the gains in growth stocks so far this year at risk of a reversal or steep pullback. Among the major market sectors, we are currently bullish on Consumer Staples, Energy, Healthcare, Industrials, and Technology. Communication Services, Financials, Materials, and Utilities all appear to be market neutral while we are bearish on Consumer Discretionary and Real Estate at this time.

Looking at other asset classes, Treasuries have posted solid gains since mid-March and the bullish case that a bottom is in, is building some momentum, although both the 10-year and 2-year Notes have pulled back to notable support areas that will need to hold this week if the gains will continue.

trichey@sevensreport.com 4880 Donald Ross Road, Palm Beach Gardens, FL 33418 (561) 257-4023

Executive Summary (Continued)

The 10s-2s yield curve spread has potentially put in a cycle low of deeper than -100 basis points but the spread has settled back in the -50 to -60 basis points area as investors continue to digest economic data and assess what the Fed is going to do into the second half of the year. A break to new YTD highs beyond the recent high of -38 basis points would be a development that suggests a heightened degree of vigilance to volatility would be well warranted.

The Dollar Index also is testing a key support level of its own near the 101 area right now and whether the greenback begins to move meaningfully back higher, or breaks down to new lows will have implications for global markets from commodities and emerging markets to individual stock sector performance.

In the commodity space, gold is in a well-defined, near-term uptrend but so far the yellow metal has yet to break out to new highs above 2022's best closing levels, which is preventing us from getting overly convicted on the long call. Price action in gold has also indicated some degree of exhaustion and the risk of a pullback to test the current uptrend is rising.

Oil rallied to new YTD highs recently and that shifts the technical outlook in favor of the bulls, but again there is some caution in the market regarding the sustainability of the new uptrend and a rally beyond the upper $80s is currently unlikely given current macroeconomic expectations, specifically recession fears.

Finally, the VIX remains under heavy pressure, and while many believe this is because the index is "broken" and no longer a valid "fear gauge," we feel differently as the VIX traded with a heavy tone in the early to middle innings of every major bear market since its inception. Using history as a guide, the VIX should offer us a very clear indication that capitulation and general market panic is underway and help us better identify a lasting market bottom in stocks, which so far, we have no evidence is in place with the October lows.

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S&P 500 Futures

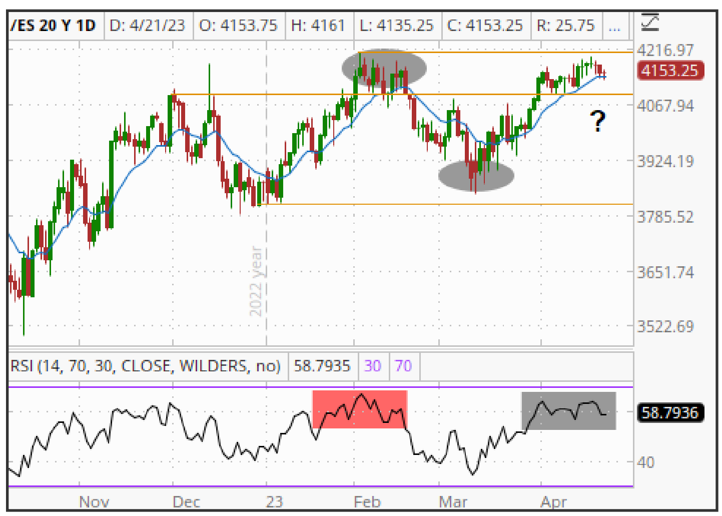
1-hour candle chart (above) - daily candle chart (below) w/ 13 period EMAs

- ***Near-term trend and risks:*** S&P 500 futures retreated from multi-month highs last week, and the very near-term trend is lower. Prices did, however, hold a longer-duration uptrend on Friday and the market has reached a tipping point as we start the final week of April. Looking into the technical indicators, the fact that the Friday's lower-lows in S&P futures were not confirmed by lower-lows in the RSI (Relative Strength Index), indicated by the shaded boxes in the chart suggests there is a rising risk that the short-term downtrend is violated this week. As such, 4,160 is a key level to watch.

Key near-term resistance: 4,160

Key near-term support: 4,137

- ***Medium-term trend and risks:*** S&P 500 futures have established higher highs and higher lows so far in 2023 leaving the path of least resistance higher for the medium term (coming weeks) but there are signs that the uptrend is becoming exhausted on the daily chart as the RSI has turned sideways while futures have continued higher. The last time we saw a similar dynamic was in early February (shaded red box in the chart) before stocks pulled back to test the early 2023 lows.



Key medium-term resistance: 4,179

Key medium term support: 4,114 - 4,117

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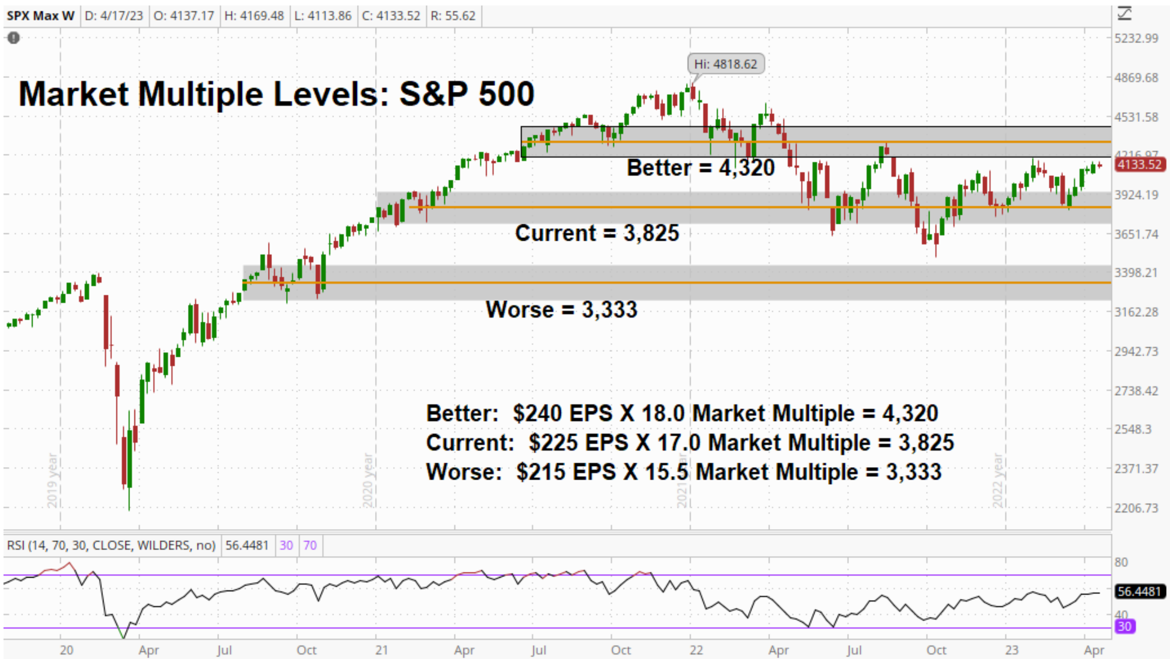
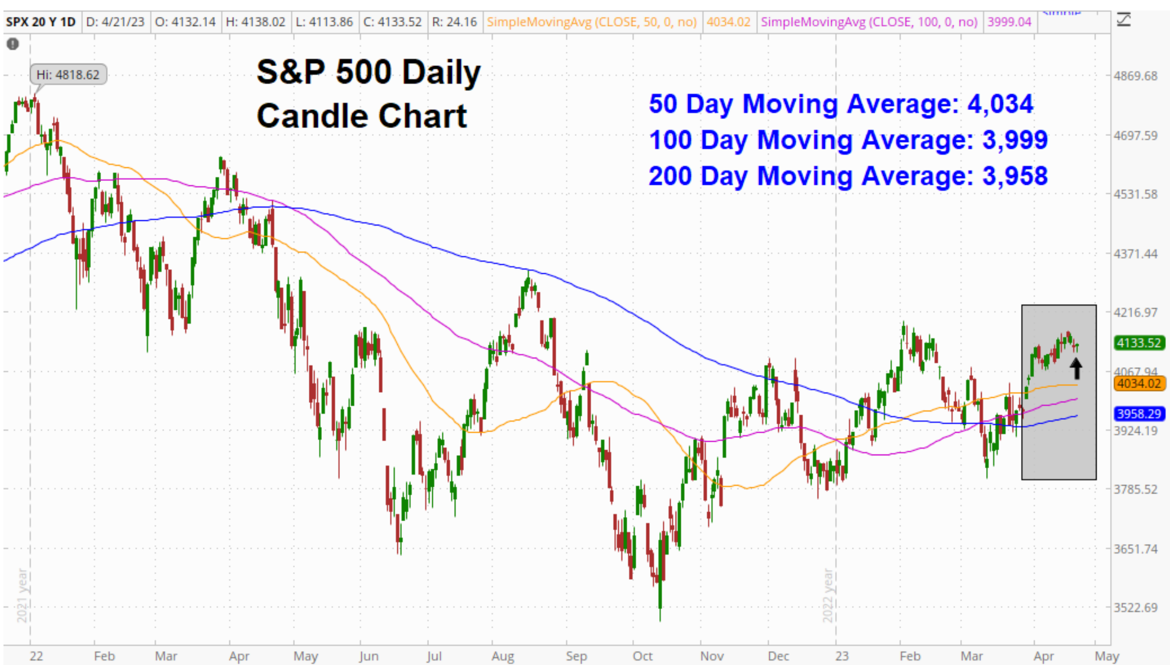
Fundamental Targets and Long Term Technical Levels



The S&P 500 is trading between the "current situation" and "better-if" scenario MMT target ranges for April, leaving risks elevated that an "air-pocket" could open up.



The S&P 500 has been trading comfortably above all of the widely followed, long-term moving averages (50, 100, and 200 day) for all of April. The compression of the averages is notable as it underscores the trendless, sideway price action in the S&P.

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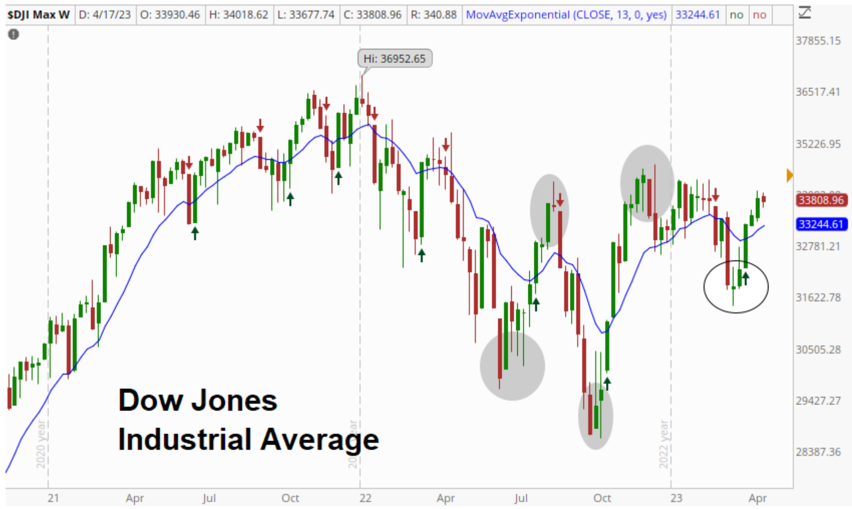
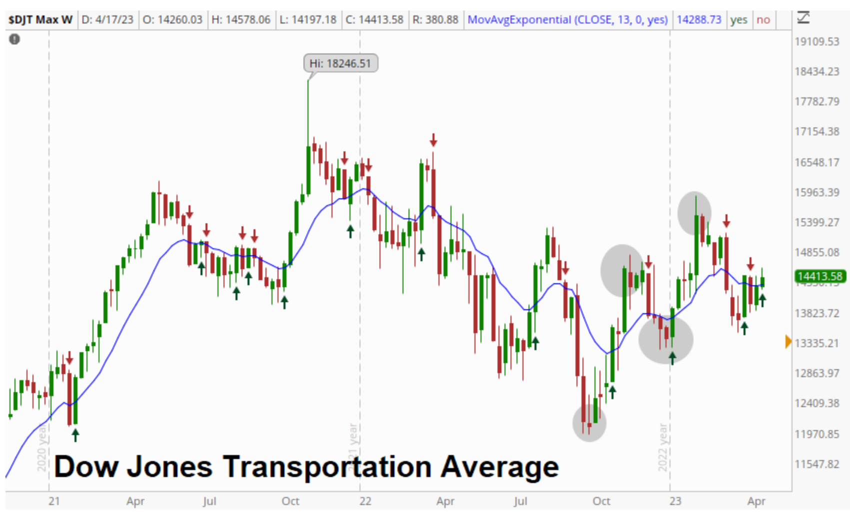
The Current Position of Dow Theory

Weekly Candle Charts - 13 Period Exponential Moving Average Used to Identify Highs and Lows





Dow Theory turned bearish in Q2 of last year as both the Dow Jones Industrial Average and the Dow Transports established respective sets of "lower lows" and "lower highs" on the weekly time frame chart. Since the October lows there have been positive developments with the Transports establishing both higher-highs and higher-lows. The price action in the Industrials has been similar but a potential higher low in the average (unshaded circle in the top chart) has not been confirmed by new highs. It will be important to continue to monitor the price action in the Industrials as we are one higher-high away from a bullish reversal in the time tested technical strategy.

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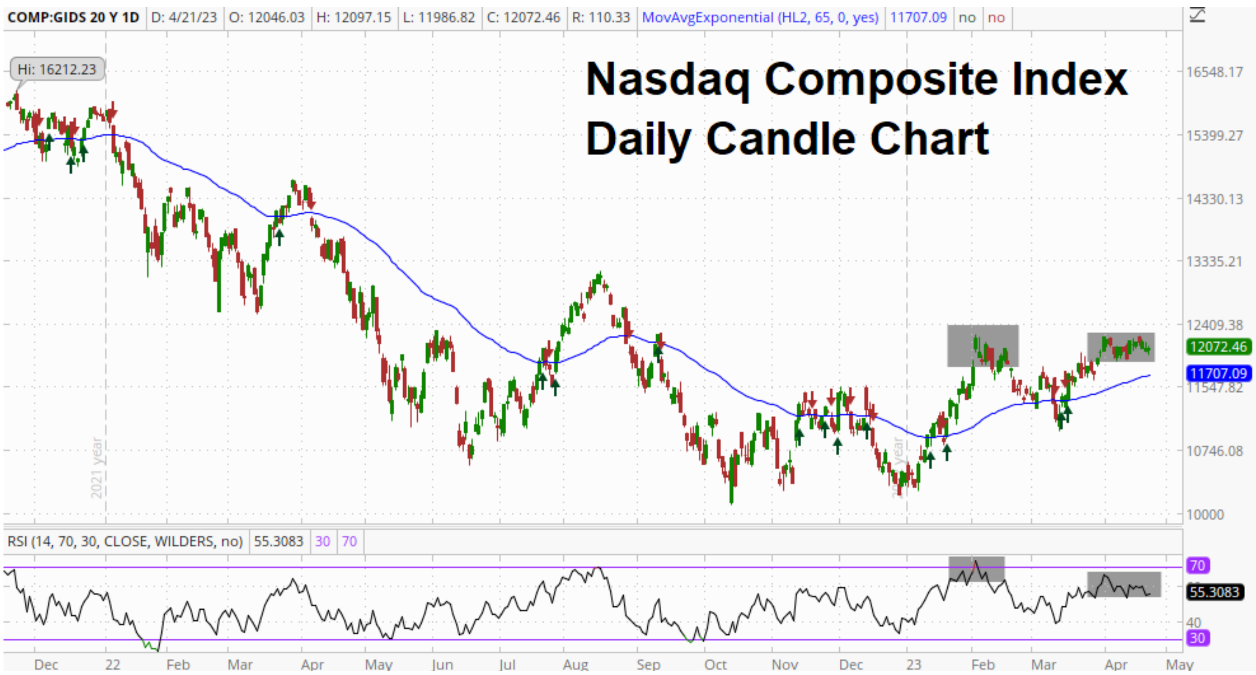
Tech-Heavy Nasdaq Composite Index

Daily Candle Chart with a 13-Week Moving Average



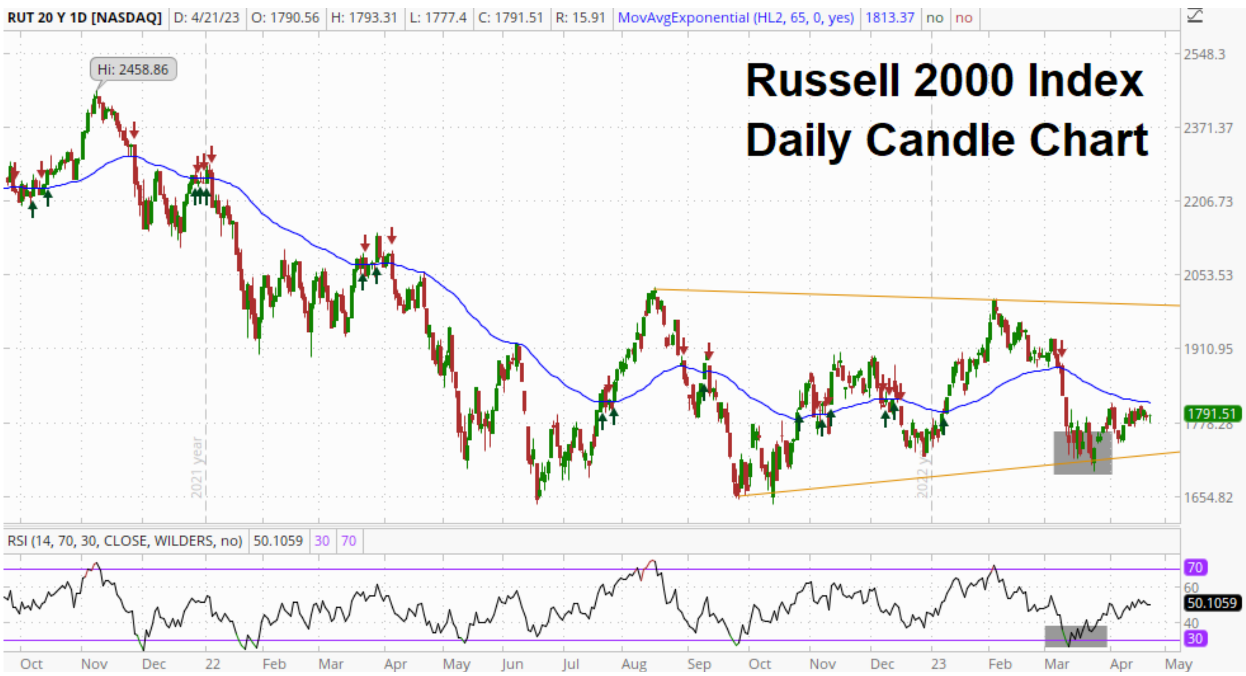
The Nasdaq Composite Index

Trend: **Neutral-to-Bullish.** YTD Performance: **+15.34%.** The Nasdaq has handily out-performed this year and while the price action has become increasingly bullish, the tape remains tentative as volumes have been fading during rallies.

- Key Resistance Levels to Watch: **12,222** which is the YTD high. A close above would shift the technical outlook further in favor of the bulls.
- Key Support Levels to Watch: **11,929** which is the April closing low. A break below would open the door to a retest of the March lows (11,139).
- 50-day SMA: **11,779,** 100-day SMA: **11,423,** 200-day SMA: **11,466.** The Nasdaq is trading comfortably above all three moving averages, but it would only take a few sessions of a volatile selloff to see them each retested.

Small-Cap Russell 2000 Index

Daily Candle Chart with a 13-Week Moving Average



The Russell 2000 Index

Trend: **Neutral.** YTD Performance: **+1.72%.** The small-cap Russell 2000 Index has been a notable laggard this year as it broke down to fresh YTD lows in March. The divergence between the index and its RSI reading (shaded boxes above) helped identify the recent bottom but there is still not much to be bullish about on this daily chart.

- Key Resistance Levels to Watch: **1,807**, the opening level from April 18th as a break above would likely see some follow through bids push the index back towards the 1,900 area.
- Key Support Levels to Watch: **1,752**, the early April closing low. A breakdown below would likely result in a retest of the 2023 lows in the low 1,700s.
- 50-day SMA: **1847,** 100-day SMA: **1833,** 200-day SMA: **1826.** All three averages being so close together underscores the long-term sideways trend the Russell has been in since H2'22.

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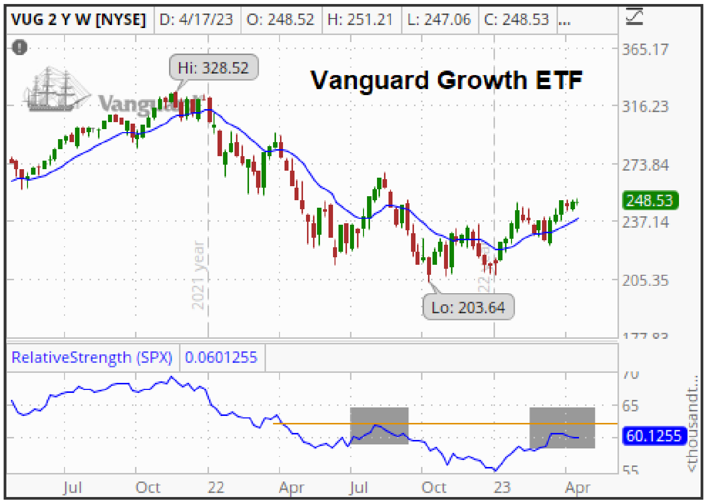
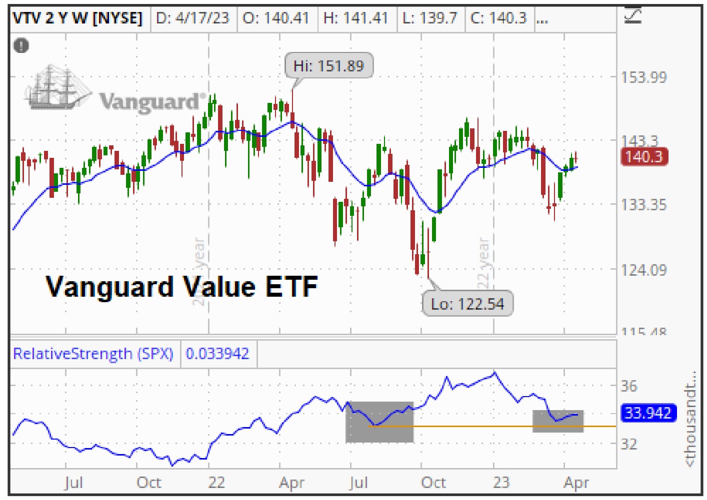
Investment Styles

Weekly Candle Chart– 13 Week Exponential Moving Averages





Growth stocks have been outperforming so far in 2023, underscored by the sizeable gains in the tech-heavy Nasdaq over the other major indices. However, looking at the Relative Strength of each investment style to the S&P 500 reveals that growth has still yet to establish a relative uptrend to the broader market while value has not meaningfully broken down just yet. In order for us to get convicted about a growth-over-value call, we would need to see new highs in the Relative Strength to the S&P 500 in growth, and new lows in the Relative Strength reading to the S&P 500 in value stocks. Additionally, when you plot the two above ETFs against each other's prices, growth has not yet broken above the most-recent established high from August of last year, and until we see that development we will continue to favor value over growth when it comes to style decisions. While this position has not been enjoyable so far in 2023, since the bear market began in early 2022, value is still the considerable outperformer and, for the time being, we expect that trend to resume this year.

- **The Vanguard Growth ETF, VUG, is up +17.45% YTD.**
- **The Vanguard Value ETF, VTV, is up +0.12% YTD.**

2023 S&P 500 Sector Performance - Wide Divergences YTD

Sector Dashboard

Sector	YTD Return	Since	Analyst Call
Communication Services (XLC)	+20.21%	4/24/2023	Market Perform
Consumer Discretionary (XLY)	+14.10%	4/24/2023	Underperform
Consumer Staples (XLP)	+2.71%	4/24/2023	Outperform
Energy (XLE)	-2.85%	4/24/2023	Outperform
Financials (XLF)	-2.87%	4/24/2023	Market Perform
Health Care (XLV)	-1.14%	4/24/2023	Outperform
Industrials (XLI)	+2.44%	4/24/2023	Outperform
Materials (XLB)	+3.89%	4/24/2023	Market Perform
Real Estate (XLRE)	+0.68%	4/24/2023	Underperform
Technology (XLK)	+18.74%	4/24/2023	Outperform
Utilities (XLU)	-1.25%	4/24/2023	Market Perform
S&P 500 Index (SPY)	+7.66%		

The divergence in sector performance so far in 2023 has been substantial with some of the worst performers from 2022 enjoying double digit percentage gains while the market laggards, most of which outperformed last year, are down modestly, between 1% and 3% YTD. Notably, some of the best performers, including Communication Services and Consumer Discretionary sectors, do not have strong or healthy technical setups or Relative Strength readings to the broader market and for the time being, they remain at risk of giving back YTD gains. Conversely, some of the laggards which are negative YTD, such as Energy and Healthcare, still have favorable technical dynamics and could very well resume their outperformance as we continue through the year.

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Communication Services Sector: XLC has posted solid gains so far in 2023 but that has only resulted in a portion of last year's losses being recovered and there are cracks emerging in the current uptrend leaving us neutral on the sector.

- Analyst Call: **Market Perform**
- YTD Performance: **+20.21%**

Consumer Discretionary Sector: XLY has rallied off the late-2022 lows but the downtrend dating back to late 2021 remains intact while relative strength to the S&P 500 has not showed any signs of meaningful improvement in money flows into the sector.

- Analyst Call: **Underperform**
- YTD Performance: **+14.10%**

Consumer Staples Sector: XLP struggled early in the year but the sector just rallied to fresh YTD highs last week and Relative Strength to the S&P 500 continues to favor the bulls.

- Analyst Call: **Outperform**
- YTD Performance: **+2.71%**

Energy Sector: XLE pulled back with oil prices in Q1 2023, but has since stabilized leaving a multi-month uptrend intact while Relative Strength remains well above the notable lows from last summer.

- Analyst Call: **Outperform**
- YTD Performance: **-2.85%**

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Financials Sector: XLF got crushed due to the banking turmoil in March but the index was able to hold above the 2022 lows and has since recovered a good portion of the losses. While there is a value argument for XLF, the risks outweigh the potential upside for now.

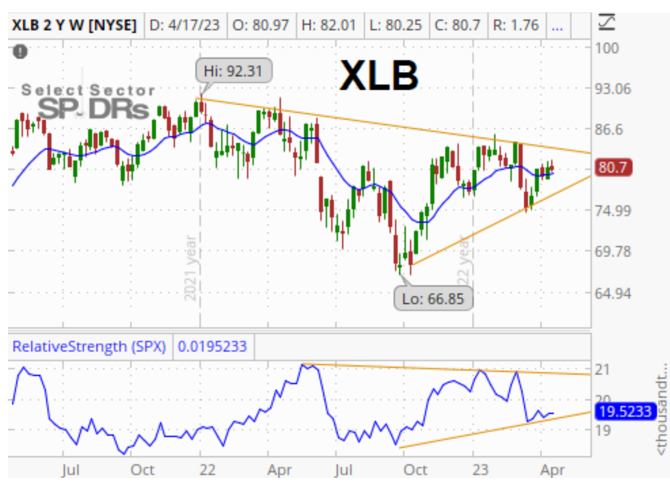
- Analyst Call: **Market Perform**
- YTD Performance: **-2.87%**

Health Care Sector: XLV has fallen into a broad but compressing trading range since the broader equity bear market began in 2022, however, both the outright price and Relative Strength to the S&P 500 continue to support the bullish-leaning call for Healthcare.

- Analyst Call: **Outperform**
- YTD Performance: **-1.14%**

Industrials Sector: XLI has largely turned sideways since pulling off an impressive rally into the end of 2022. There have been some signs of weakness in the sector's price action, but for now the Relative Strength reading suggests the path of least resistance is still to the upside.

- Analyst Call: **Outperform**
- YTD Performance: **+2.44%**



Materials Sector: XLB was another sector that struggled early in the year and while there is an uptrend in place since the October lows were established, the longer-standing downtrend from the 2022 highs demands respect, leaving us neutral on the sector for now.

- Analyst Call: **Market Perform**
- YTD Performance: **+3.89%**

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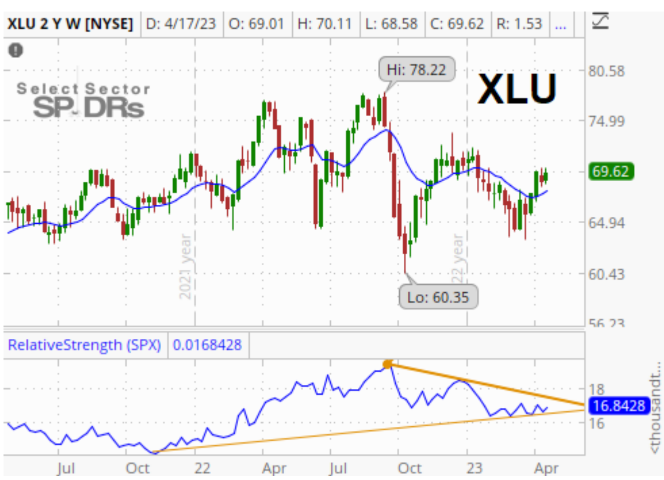
Real Estate Sector: XLRE has been able to hold above the October lows so far but the dominant trend remains lower for both the outright price and via Relative Strength to the S&P 500.

- Analyst Call: **Underperform**
- YTD Performance: **+0.68%**

Technology Sector: XLK has been an upside standout in 2023 as the 2022 downtrend was broken in Q1 and an uptrend formed shortly thereafter (yellow lines on the chart above). Relative Strength also indicates sizeable inflow into the sector so far in 2023.

- Analyst Call: **Outperform**
- YTD Performance: **+18.74%**

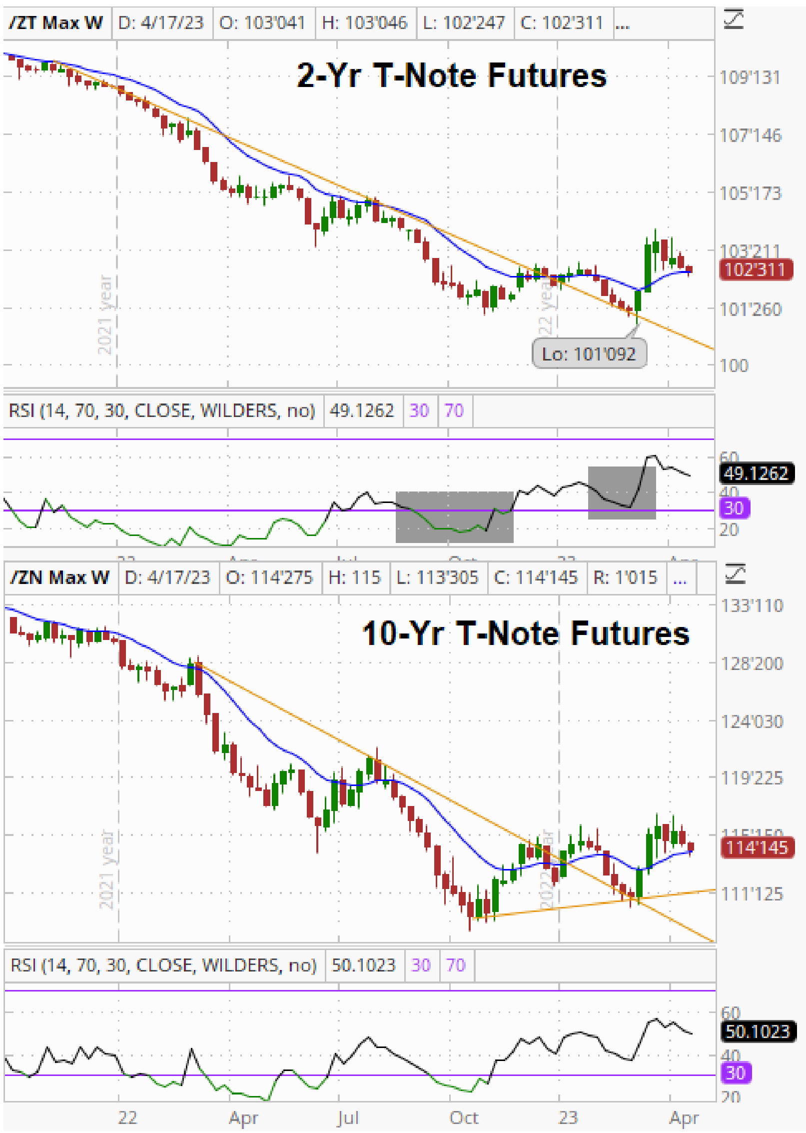


Utilities Sector: XLU has been wavering within a broad trading range so far this year while Relative Strength to the S&P 500 has also been fairly sideways leaving our outlook neutral.

- Analyst Call: **Market Perform**
- YTD Performance: **-1.25%**

Treasury Futures Prices (Inverse to Yields)

Weekly Candle Charts - 13 Period Exponential Moving Average



Treasuries surged amid the banking turmoil in March and while some of that upside move in prices was amplified by an overcrowded short side of the market, the higher highs in both the 2-year and 10-year Notes suggest that more sustainable bottoms are in the works. Both the 2- and 10-Year Notes have notably pulled back to test their respective 13-week moving average (one calendar quarter) and it will be very important that they both hold above those averages if we are going to see a sustained move higher in Treasuries and subsequent decline in yields.

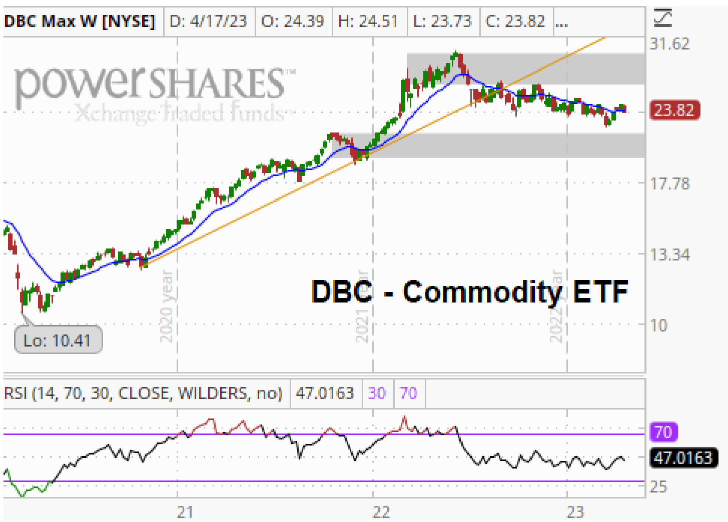
Yield Curve

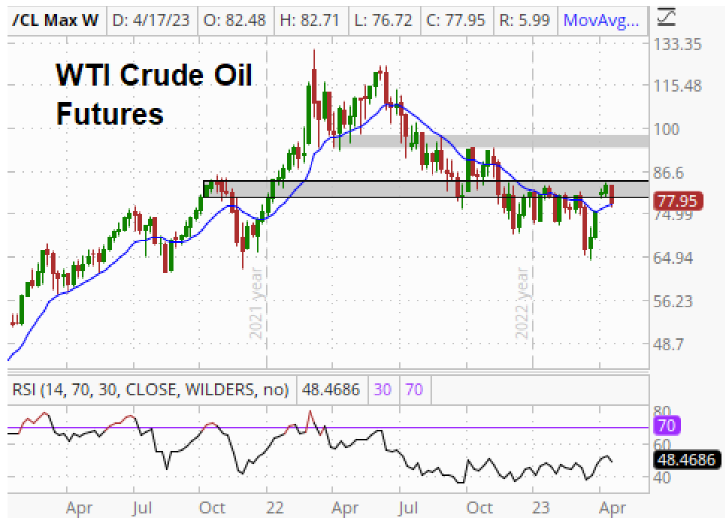
Weekly Candle Charts - 13 Period Exponential Moving Average

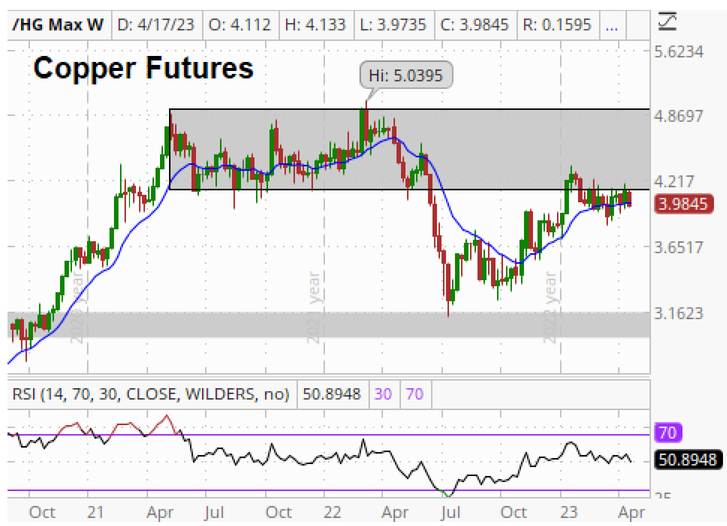
The 10s-2s yield curve spread remains decidedly inverted but notably broke through an important long-standing downtrend suggesting the inversion lows could be in for the cycle. Using history as a guide, once we start to see meaningful upside momentum begin to develop in the widely followed yield curve spread, volatility often rises across asset classes as well. The 10s-2s ended last week at -60 basis points, well below the recent highs of -38 basis points, and that latter level is one we will be watching closely in the weeks and months ahead.

Commodities

Weekly Candle Charts - 13 Period Exponential Moving Averages







Precious metals have been the upside standout in the commodity space for much of 2023 with gold testing the 2022 highs in recent weeks. The near-term uptrend in gold remains intact but we have noticed some weakness in the RSI emerging, which could be signaling a retest of the uptrend looming. Copper has been largely trendless and not offering much macroeconomic insight into the health of the global economy, but we will continue to monitor the market, looking for signs of a breakout in either direction. Oil meanwhile just spiked to multi-month highs shifting the outlook for oil and refined product markets in favor of the bulls, but there remains some a sense of caution in the market due to recession fears. **The broad-based commodity tracking index ETF, DBC, is down 1.00% YTD.**

Dollar Index Futures

Weekly Candle Chart - 13 Period Exponential Moving Average

The Dollar Index recently fell to new YTD lows; however, it is largely holding support near the high range of the 2020 pandemic “panic highs,” which also corresponds to the 50% Fibonacci retracement level of the sizeable 2021-2022 rally. The 101 area will be a very important support zone to watch as we continue to navigate the year and if it does hold, expect a new leg of the rally, or at least a reactionary move up towards the 104 to 107 area to develop.

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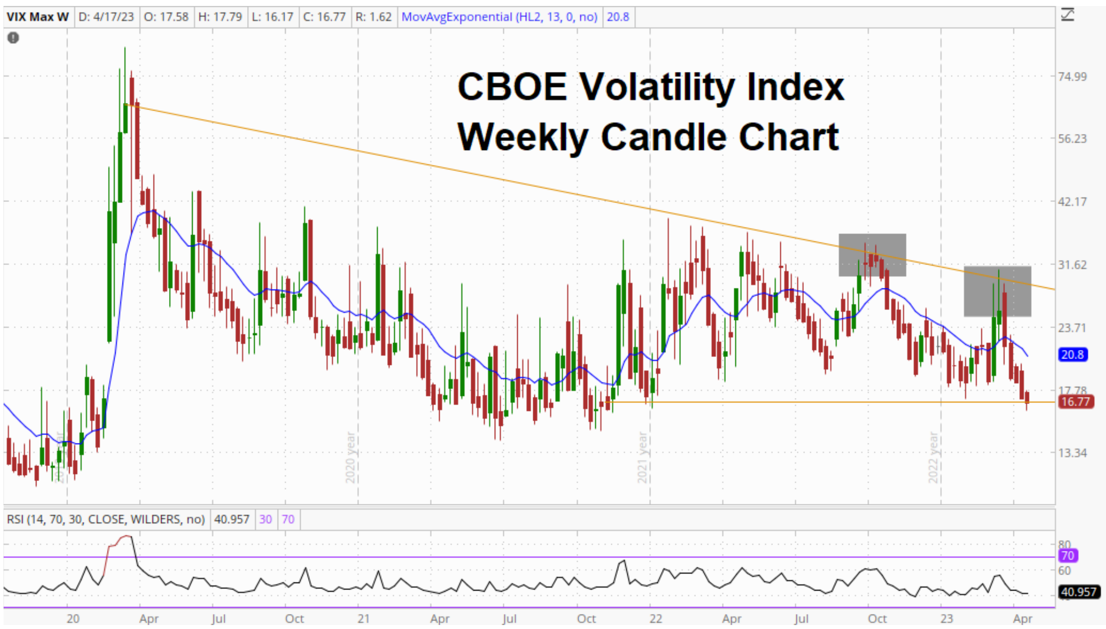
CBOE Volatility Index

Weekly Candle Chart - 13 Period Exponential Moving Average



The CBOE Volatility Index declined for a fifth consecutive week last week suggesting still-muted demand for downside protection in the broader equity market and a likely rise in broader investor complacency despite a very unclear market backdrop and a slew of uncertainties lying ahead. As we have noted in the daily Sevens Report on multiple occasions over the last 12 months or so, a suppressed VIX is not uncommon during bear market cycles as the index is pressured by institutional investors abandoning their option hedges when liquidating long-term equity positions. We also noted recently that every bear market that has followed a yield curve inversion during the "VIX era," which dates back to the early 1990s, and has seen a surge in the VIX to the point that the RSI indicator reaches overbought territory above 70 amid a sense of investor panic before stocks officially put a bottom in. The VIX can tell us a lot about what is going on under the market's surface and that is why we keep such close tabs on the widely misunderstood "fear gauge." Bottom line for the VIX, we are going to need to see a rise beyond the 2022 highs before we can even discuss a formidable and lasting market bottom developing.

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Bottom Line - Tying It All Together

After the flurry of volatility and short-lived pullback in stocks in the first quarter, due to the notable bank failures, stocks have recovered and are once again testing YTD highs with the S&P 500 notably approaching the “better if” scenario target range from our April Market Multiple Table update. And with a lack of meaningful positive developments in the fundamental backdrop, we continue to view equities as being at risk of a pullback.

Technical analysis is, by nature, a study of history, specifically historical price action. And over the years it has become clear that some of the best market insights have been the product of cross-asset analysis with consideration of the market cycle. So the biggest question facing investors right now is: *Where are we in the cycle and what is the price action telling us?* To answer that question we start with the deeply inverted yield curve that is clearly broadcasting a looming recession. The severity of that recession, and when it officially begins, remains to be seen, but if the October lows in the S&P 500 were to hold, and markets began a new uptrend through this coming recession, it would be the first time in history that a bear market ended and the stock market bottomed **before** a recession actually began. Not saying that it is in impossible feat, but it would be unprecedented and that leaves us in the cautious camp when it comes to equity markets right now.

Additionally, there are several other developments that have occurred during bear market bottoms in modern market history, the most notable of which is measurable investor capitulation. Two ways that we have found capitulation can be measured are stocks reaching an oversold level via the RSI indicator (below 30), and the VIX rising to an overbought condition, also via RSI (above 70). Neither of those two developments have occurred thus far in the bear market that began in 2022. Volumes have also notably been rising during periods of market declines and falling over the course of market rallies which indicates the bears are still in control of the market right now. As we covered in the sector and style sections, there are opportunities to be had in this market and ways to limit potential downside risks, however broadly speaking we continue to be weary of a looming surge in volatility amid a largely complacent mood among investors right now.

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