EVERYTHING YOU NEED TO KNOW ABOUT THE MARKETS
BY 7AM EACH MORNING IN SEVEN MINUTES OR LESS

December 30, 2022

Pre 7:00 Look

- Futures are slightly lower following a quiet night of news as markets digest Thursday's rally.
- Economically the only notable number was the UK Home Price Index, which like the U.S. readings this week saw smaller than expected declines, falling –0.1% vs. (E) -0.7%.
- Geopolitically, Russia continued Thursday's missile bombardment of Ukraine is a clear signal that fighting will rage on as the New Year begins.
- Econ Today: Chicago PMI (E: 41.0).

Market	Level	Change	% Change
S&P 500 Futures	3,859.50	-12.25	-0.31%
U.S. Dollar (DXY)	103.63	-0.20	-0.19%
Gold	1,825.10	-0.90	-0.05%
WTI	78.42	0.02	0.03%
10 Year Yield	3.85%	0.02	0.49%

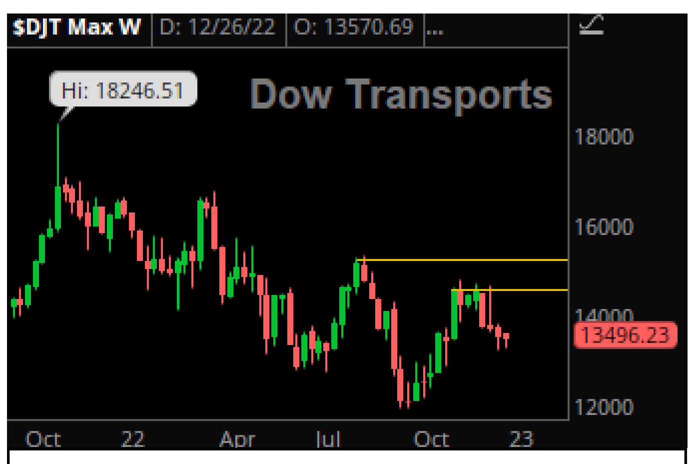
Equities

Market Recap

Stocks rallied in thin trade yesterday amid a stabilizing bond market and renewed optimism for peak Fed hawkishness following new labor market data in the U.S. The S&P 500 climbed 1.75%.

Stocks gapped higher at the opening bell yesterday as traders eyed a stabilizing Treasury market in the wake of fresh weekly jobless claims data. Continuing jobless claims, or the number of people continuing to receive unemployment benefits, jumped by the most since the depths of the pandemic to hit a 10-month high. That helped yields come in modestly and rekindled hopes that the Fed may not have to be as hawkish as they have previously outlined in 2023, ultimately sparking big gains in beaten-down, higher-valuation corners of the market such as technology shares.

News wires remained fairly quiet while attendance and trader conviction were light given the holidays, which saw stocks continue to rally over the course of the morning. The market stalled into the European close and began to churn sideways early afternoon, but mostly solid demand in the final Treasury auction of the year, this one for 7-Year Notes, saw stocks hold the morning gains as the quiet session pro-



Despite some improved price action in the Dow Industrials in Q4, Dow Theory remains decidedly bearish given the sustained price weakness in the Transports in 2022.

Sevens Report Q4'22 Quarterly Letter Coming Tuesday.

The Q4 2022 Quarterly Letter will be delivered to advisor subscribers on Tuesday, January 3.

We will deliver the letter on Tuesday because we want you to be able to send your quarterly letter before your competition (and with little-to-no work from you).

You can view our Q3'22 Quarterly Letter here.

To learn more about the product (including price) please click this link, and if you're interested in subscribing please email info@sevensreport.com.

Market	Level	Change	% Change
Dow	33,220.80	345.09	1.05%
TSX	19,485.89	201.79	1.05%
Stoxx 50	3,818.33	-31.74	-0.82%
FTSE	7,480.89	-31.83	-0.42%
Nikkei	26,094.50	0.83	0.01%
Hang Seng	19,781.41	40.27	0.20%
ASX	7,038.69	18.63	0.27%

Prices taken at previous day market close.

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gressed. Additionally, news out of Rome that just 10% of passengers on a flight originating in China tested positive for Covid eased health worries from Wednesday after half of two Chinese flights tested positive for the virus in Milan. Stocks chopped for the remainder of the session and closed just off session highs.

Market	Level	Change	% Change
DBC	24.43	-.03	-0.12%
Gold	1823.10	7.30	0.40%
Silver	24.16	.32	1.34%
Copper	3.8330	-.0095	-0.25%
WTI	78.37	-.59	-0.75%
Brent	82.26	-1.00	-1.20%
Nat Gas	4.586	-.099	-2.11%
RBOB	2.3724	.0095	0.40%
DBA (Grains)	20.15	-.10	-0.52%

Prices taken at previous day market close.

Bottom Line

Today will close the most difficult year for stock investors since 2008 and the worst year for bond investors basically within any of our lifetimes. And while it's not accurate to say the outlook for markets is "good" (it's not), there are reasons to be at least somewhat optimistic as we start 2023 especially compared to the start of 2022.

First, the market is no longer overvalued. It may seem a like a lot longer than just a year ago, but stocks ended 2021 and started 2022 at nosebleed valuations. However, currently the S&P 500 is trading at approximately 17.1X 2023 S&P 500 EPS of $225. Now, certainly that number can go lower if a full-fledged and deep recession occurs (it can fall to 15X or below in extreme cases), but at the same time there's also legitimate upside if a "soft landing" does occur (up to 18.5X).

Source: *Bloomberg, ZeroHedge.com*

Continuous claims jumped by the most since the depths of the pandemic, rising to a fresh 10-month high in the latest release by the BLS, which hints at some deterioration in the labor market.

Second, for the first time in a year, there's actually positive progress on inflation. Now, hopes of a sharp drop in inflation that brings it back to 2% likely aren't realistic. The days of sub-2% CPI that we enjoyed from '08-'20 are likely gone, possibly for a long time. But inflation could fall far enough (3%-4%) for the Fed to essentially think it has accomplished its mission (although it won't say it directly as the target is still 2%), but for all intents and purposes, we could exit 2023 without a material inflation problem.

Third, it's undeniable that the economy is slowing and that there will be an economic loss of momentum, but it doesn't automatically mean a horrible recession. Yes, history is not on the Fed's side here (I've never seen a "soft landing" successfully executed and I don't think anyone else has either). But this is not a normal time. The pandemic stimulus and lockdowns essentially supercharged the economy and personal balance sheets. Employment remains absurdly strong and while rates are high, they are still just at levels those of us who are older remember as "normal." Point being, we're not talking about 18% mortgages, we're talking about 6%-7%, which until 2008 wasn't a terrible rate (on a personal note, my first house was purchased with a 5.125% mortgage rate and I thought it was the deal of the century!).

Finally, geopolitics are admittedly a mess. But if there's a lesson for every global troublemaker from 2022, it's that causing trouble isn't worth it. Putin's invasion of Ukraine has proven to be a massive mistake. Yes, in the end Russia may well seize a bit more Ukrainian territory, but it will come at a fantastically high cost. Meanwhile, Europe, Russia's main energy market, has essentially replaced Russian supply and long after the conflict has ended that will have negative implications for the Russian economy. Moreover, it turns out that when tested, NATO stepped up and the coalition against Russia has held together and that demonstration will make other countries (China, North Korea, Iran) less inclined to cause trouble. Yes, the risk of nuclear war is much higher than at any point since the 1960s, so it's not like the invasion of Ukraine isn't a massive negative for Ukraine and the world. But there are positive takea-

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ways from it that could pave the road to geopolitical calm in the years ahead, as the clear lesson from Russia's invasion of Ukraine is that it simply isn't worth it.

To be clear, I'm not trying to put on rose-colored glasses on the last day of an awful year. But I cannot help but notice the total 180-degree sentiment change from last year. A year ago, stocks were going out at all-time highs and optimism was palpable. The good times, it seemed, didn't need to end. Now, with the S&P 500 ending the year down just under 20%, sentiment is as negative as I've seen it since 2009. And while I can't say with confidence the bottom is in (it may not be), I can say there's a legitimate path to a rebound. It's not an easy one, but it exists, and that's worth something as we start the year.

Economics

No material economic reports other than jobless claims.

Commodities

Commodities were mixed as oil and copper declined amid a resurgence in Covid fears while gold rallied on a weaker dollar and dip in bond yields. The commodity ETF, DBC, was little changed, down 0.12%.

Gold rallied 0.36% thanks to a 5-bps dip in benchmark Treasury yields and a pullback in the dollar. Dovish money flows following a large uptick in continuous jobless claims were responsible for most of the move higher, but futures did fall short of hitting new highs as Fed policy worries persist. Gold is in a near-term uptrend but the risk of another hawkish shock to precious metals remains.

Market	Level	Change	% Change
Dollar Index	103.59	-.59	-0.57%
EUR/USD	1.0671	.0059	0.56%
GBP/USD	1.2064	.0046	0.38%
USD/JPY	132.98	-1.49	-1.11%
USD/CAD	1.3547	-.0061	-0.45%
AUD/USD	.6780	.0043	0.64%
USD/BRL	5.2767	.0133	0.25%
10 Year Yield	3.835	-.052	-1.34%
30 Year Yield	3.924	-.050	-1.26%
10's-2's	-54 bp		
Prices taken at previous day market close.			

Copper fell 0.26% on the back of increasingly urgent reports of a massive spike in Chinese Covid cases as the country finally, and swiftly, moves to abandon its Zero-Covid policy. Risk-on money flows in U.S. equity markets and other asset classes saw copper end off the worst sessions but still comfortably below key resistance that is in focus right now at $3.90. Looking ahead, a breakout in the copper market would be a positive signal for those hoping for a soft landing for the U.S. economy while a breakdown would be a clear macroeconomic warning sign.

EIA Data Takeaways and Oil Update

Despite an unexpected supply build in commercial crude oil stockpiles, the weekly EIA report was largely bullish for markets as there were clear signs of firming demand in the internals of the data. WTI crude oil futures recovered some morning losses on the release but still ended down 0.85% on the session.

Starting with the inventory changes, commercial crude oil stockpiles rose +700K bbls vs. (E) -700K (API: -1.3MM) last week but that modestly bearish headline was more than offset by the reported change in gasoline supply, which dropped a sizeable -3.1MM bbls vs. (E) -100K (API: +510). The SPR notably fell by another 3.5MM bbls last week bringing reserves down to the lowest level since 1983 at 375MM bbls which is a 37% drop from last year before the Biden administration began unleashing emergency crude supply.

In the details, there was evidence of rising consumer demand as the refinery utilization rate rose 1.1% vs. (E) -1.3% to 92.0%. That figure was accompanied by a 613K b/d jump in gasoline supplied, an implied measure of consumer demand, which rose to 9.3M b/d last week, the highest since late September as holiday travel began to pick up and bolster demand. Finally, domestic crude oil production dipped 100K b/d to 12.0MM b/d as adverse weather impacted upstream operations.

Bottom line, the EIA report was on balance bullish for the oil market as it indicated an uptick in consumer demand; however, that was not enough to offset the macroeconomic headwinds related to a resurgence in Covid cases in China that have been weighing on sentiment in recent sessions. Looking ahead, WTI crude oil futures remain rangebound right now between support at $70/barrel that is backed by both technical levels and Biden's "SPR Put," while general recession worries continue to help fortify resistance near the $80/barrel mark.

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Currencies & Bonds

Year-end positioning drove trading in the currency and bond markets as they were devoid of any market-moving economic or central bank news. The Dollar Index fell 0.57%.

The greenback was lower from the start Thursday but there wasn't any specific catalyst for it as the only economic report overnight Thursday, Eurozone Money Supply, was essentially in line with estimates. Instead, like stocks, currencies were driven by year-end money flows and positioning, as we saw funds closing out trades and reestablishing new ones for the coming year. Specifically, the dollar has obviously been strong for the vast majority of 2022, and the second-to-last trading day of the year saw selling in the dollar despite the lack of any actual dollar negative catalyst.

Yes, I know the jobless claims report was cited as a "negative," but at 225k jobless claims, the truth is that number remains far below a level that would make the Fed confident there's balance returning to the labor market. So, while the financial media cited it as a catalyst yesterday, in reality we must get claims above 250k and towards 300k before they will signal anything other than a still-tight labor market.

Internationally, dollar weakness was the major driver of currency markets as we saw broad strength across the major currency pairs. The euro rose 0.6% while the pound gained 0.5% and the yen surged 1.12%, and the size of those rallies is generally reflective of how much each currency declined vs. the dollar in 2022 (meaning the yen fell the hardest, so it bounced most Thursday).

Bottom line, the Dollar Index ended 2022 with nearly a 10% gain, but at its peak it was well over 20% higher, and dollar strength was an additional headwind on stocks this year. However, as we enter 2023, the outlook for the dollar (which was decidedly positive at this point last year) is much more mixed.

First, the Fed is near the end of its rate hike campaign, and according to markets, even closer than it currently thinks. Second, the ECB appears to be making a run for the title of "most hawkish major global central bank" as ECB Governing Council members have been a hawkish tour de force ever since the December ECB meeting. If that continues, it'll boost the euro at the expense of the dollar. Finally, inflation and growth are declining in the U.S. and if that continues it'll make additional Fed rate hikes less likely.

So, as we begin 2023, there is the real possibility that the dollar decline continues (possibility, not a guarantee) but at a minimum the outlook for the dollar is much more mixed than it's been in over a year. And if we can get the dollar to decline towards 100 in the first part of 2023, that will be an unanticipated positive tailwind on risk assets to start the year, and it's not as far-fetched an idea as it might sound.

Turning to Treasuries, the 2-year yield rose 2 bps (despite the commentary that jobless claims might make the Fed less hawkish, which isn't true) while the 10-year yield declined 5 bps. Similar to the currency space, there was no material catalyst for the movement in Treasuries other than year-end book squaring. The 10-year yield has risen solidly over the past several weeks, as it is up nearly 40 bps since the Dec. 15 ECB meeting, and yesterday saw a mild give back of that rally. The 2-year yield remains largely stable as the outlook for Fed rate hikes hasn't changed over the past several weeks.

Looking at the past year, the move in Treasury yields has simply been historic. For perspective, we started 2022 with the 2-year yield around 0.9%. It closed yesterday at 4.37%. Similarly, the 10-year yield began 2022 around 1.7% and it closed yesterday at 3.84%.

Rising rates were a material headwind on stocks in 2023. But declining inflation pressures and a slowing economy should put pressure on longer-dated yields in 2023, and it's the basis behind our contrarian preference for longer-dated, high-quality bonds as a tactical long in 2023. And a drop in yields could be a very real surprise positive for markets in the year to come.

Have a safe and Happy New Year,

Tom

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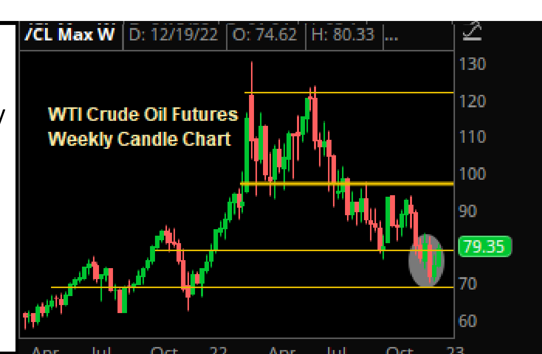
Technical Perspectives (Updated 12/26/22)

S&P 500

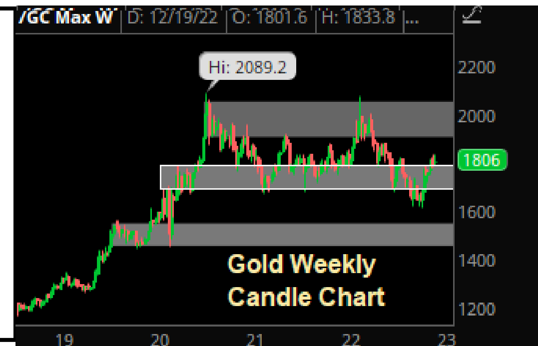
- Technical View: **The medium-term trend in equities remains bearish** despite the latest relief rally that saw the S&P 500 climb more than 15% off the YTD lows.
- Dow Theory: **Bearish (since the week of May 2, 2022)**
- Key Resistance Levels: 3934, 4020, 4077
- Key Support Levels: 3807, 3720, 3657

WTI Crude Oil



- Technical View: Oil broke down to new 52-week lows this month shifting the primary trend to bearish from neutral.
- Proprietary Model: **Bearish (since the week of December 5, 2022)**
- Key Resistance Levels: $80.34, $82.82, $85.64
- Key Support Levels: $77.42, $75.86, $73.30

Gold



- Technical View: The outlook for gold turned neutral in the wake of the October CPI report as prices jumped to fresh multi-month highs.
- Proprietary Model: **Neutral (since the week of November 7, 2022)**
- Key Resistance Levels: $1824, $1875, $1922
- Key Support Levels: $1787, $1741, $1710

10-Year T-Note Yield

- Technical View: The 10-year yield has dropped considerably but remains within reach of the recently established cycle highs and has not meaningfully broken down.
- Proprietary Model: **Bullish (since the week of September 19, 2022)**
- Key Resistance Levels: 3.814, 3.937, 4.075
- Key Support Levels: 3.647, 3.581, 3.505

Dollar/Yen

- Technical View: The USD/JPY also has dropped sharply from recent highs but remains above the August lows leaving the path of least resistance still higher.
- Proprietary Model: **Bullish (since the week of October 4, 2021)**
- Key Resistance Levels: 134.30, 135.44, 137.78
- Key Support Levels: 131.61, 130.13, 127.87

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Fundamental Market View (Updated 12/26/22)

Near-Term General U.S. Stock Market Outlook

This is designed to provide a snapshot of our near-term (1 month) outlook for stocks. For general equity market exposure, we use a mix of SPHB (S&P 500 High Beta) and SPLV (S&P 500 Low Volatility) to create an aggressive, neutral or defensive stance on general equity market exposure.

Near Term Stock Market Outlook: Cautious SPHB: 25% SPLV: 75%	*Stocks declined modestly last week thanks mostly to a solid Friday rally, as mixed earnings news and economic data made for volatile trade before stocks ended the week on a bullish note.*

Tactical Allocation Ideas:

- **What's Outperforming: Value and cyclical sectors have given back some of their early year outperformance in recent weeks, but as long as bond yields begin to rebound, value and cyclicals should outpace growth. RSP, XLI, XLV, XLP, XLF.**
- **What's Underperforming: Tech and growth stocks have recovered some ground on value recently but we continue to believe that progress in the economic recovery and subsequently higher interest rates will be a headwind for tech and a rotation from growth to value can be utilized to reduce tech overweights, but not abandon super-cap tech holdings altogether.**

Long Term Fundamental Outlook for Other Asset Classes

	Fundamental Outlook	Market Intelligence
Commodities	**Neutral**	*Commodities rose moderately again last week thanks to a big Friday rally in the energy complex following supply threats from Russia, combined with a weaker dollar and continued evidence of China's reopening.*
US Dollar	**Bullish**	*The Dollar Index fell slightly this week as the Bank of Japan executed a surprise interest rate "hike," sending the yen sharply higher vs. the greenback.*
Treasuries	**Turning Positive**	*Treasury yields rose last week thanks to buoyant U.S. labor market data (jobless claims) and the surprise BOJ rate "hike," although the 10s-2s yield spread did rise to -56 bps as longer-dated yields rose on the BOJ news.*

This page is meant to provide a general outlook for the path of each major asset class and is updated at the start of each week.

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