SEVENS REPORT

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

January 10, 2024

Pre 7:00 Look

- There is a cautious bid in equity futures today as the 10-Yr yield hovers just under 4% following an importantly steady inflation print in Europe and dovish leaning ECB chatter.
- Economically, Norwegian CPI rose 4.8% in December, unchanged from November and just below estimates of 4.9%.
- ECB Vice President Luis de Guindos was mildly dovish in a speech overnight, citing the possibility that the economy fell into a technical recession in late 2023.
- No notable economic reports today. Fed Speak: Williams (3:15 p.m. ET). 10-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	4797.25	4.50	0.09%
U.S. Dollar (DXY)	102.423	-.150	-0.14%
Gold	2040.50	7.50	0.37%
WTI	72.29	.05	0.07%
10 Year Yield	3.990	-.027	-0.67%

Equities

Market Recap

Stocks pulled back modestly yesterday as Monday's sizeable rally in the broad market, led by tech shares, was digested amid mostly quiet newswires. The S&P 500 dipped 0.15%.

Stocks gapped solidly lower at the opening bell yesterday as economic data overseas underwhelmed versus analysts estimates while a solid headline to the U.S. NFIB Small Business Optimism Index was misleading and masked several sub-readings that are more consistent with a recessionary period than a looming soft economic

Traders have corralled the S&P 500 into a typical pre-catalyst trading range with the index near the middle of the late-2023 high and early 2024 low ahead of tomorrow's CPI report. A break either way is likely to see follow through.

landing. Inflation was also still the number one concern among respondents, which weighed modestly on sentiment, especially towards small caps, which underperformed yesterday.

Equity markets were quick to bottom though as the World Bank's growth forecasts for the U.S. and EU this year were upgraded, helping to offset a lower-revised outlook for the Chinese economy. Furthermore, ECB officials confirmed rate cuts likely occurring in the months ahead which invited a bid back into the bond markets.

In the early afternoon, there was a solid 3-Yr Treasury Note auction with the yield awarded of 4.105% stopping through the when-issued yield of 4.116% by just over a full basis point. That boosted the S&P 500 to a session high, just beyond Monday's peak print. The benchmark 10-Yr yield held above 4%, however, and markets turned sideways in afternoon trade, closing the day with a modest loss.

On the charts, the S&P is in a typical pre-catalyst posi-

Market	Level	Change	% Change
Dow	37,525.16	-157.85	-0.42%
TSX	20,970.98	-103.93	-0.49%
Stoxx 50	4,468.57	1.40	0.03%
FTSE	7,664.76	-19.20	-0.25%
Nikkei	34,441.72	678.54	2.01%
Hang Seng	16,097.28	-92.74	-0.57%
ASX	7,468.46	-52.06	-0.69%

Prices taken at previous day market close.

tion, holding near the middle of the 2024 trading range this week. That range spans from the recent high of 4,793 and low of 4,682. Those two levels should be closely watched into the end of the week, as whichever one is violated first will likely see some meaningful follow through with the S&P 500 advancing to new record highs or retreating back for a test of 4,600. For now, the technical path of least resistance remains higher but that could change in an instant with a hawkish CPI print pushing yields higher.

Market	Level	Change	% Change
DBC	21.97	.16	0.73%
Gold	2036.30	3.30	0.16%
Silver	23.165	.074	0.32%
Copper	3.7615	.0030	0.08%
WTI	72.15	-.09	-0.12%
Brent	77.43	-.16	-0.21%
Nat Gas	3.177	-.013	-0.41%
RBOB	2.0733	-.0035	-0.17%
DBA (Grains)	20.65	.14	0.68%
Prices taken at previous day market close.			

CPI Preview: Good, Bad & Ugly

A steady decline in inflation is assumed by investors and currently priced into stocks so, as we saw last week when inflation in the EU bounced back, disappointment on inflation statistics will likely send yields higher and stocks and bonds lower.

For much of 2023 only core CPI was the key metric to watch in the CPI report. But that changed last month as headline CPI is no also important and it remains that way ahead of tomorrow's CPI release.

The most likely scenario for tomorrow's CPI is that we see a bounce back in headline CPI but a decline in core CPI. If that occurs, don't be surprised if there's a mixed (and modestly negative) market reaction. Here's why:

A drop in core CPI is a larger positive than a rise in headline CPI is a negative, but we have to keep in mind Fed rate cut expectations. It's very unlikely the Fed will be "ok" cutting rates if headline inflation is still comfortably above 3.0% and core CPI is just under 4.0%. As such, that result could push back on rate cut assumptions and cause modestly selling in stocks and bonds.

Bottom line, the rally in stocks in November and December assumes a continued decline in inflation. So, while a bounce in headline CPI won't undermine that (especially if core CPI declines further) it will be a mild disappointment. And given that said rally, an uptick in volatility shouldn't shock anyone.

Below is our full "Good/Bad/Ugly" CPI preview:

A "Good" CPI Report: Headline CPI ≤ 3.1% y/y. Core CPI ≤ 3.8% y/y. *Likely Market Reaction:* A likely strong rebound and possible resumption of the Q4 rally. Declines in both headline and Core CPI would remind investors disinflation is ongoing and increase expectations for a March rate cut. As such, we should see a broad rally that mostly mirrors the December gains. So, strength in the "rest" of the market while tech lags, including rallies in defensive sectors and "bond proxy" sectors such as REITs. Treasury yields should fall (potentially hard) on this outcome and the 10-year yield should decline solidly below 4.00% again. The Dollar Index should drop as rate cuts become more certain and potentially fall below 102 while commodities (especially gold) rally.

A "Bad" CPI Report: **Headline CPI 3.2% y/y. Core CPI 3.8% - 4.0% y/y.** *Likely Market Reaction:* Disappointment as a reading in this range would push back on rate cut expectations and imply a bounce back in headline inflation and minimal declines in core inflation. We'd expect stocks to drop modestly (part of this is priced in following the hotter-than-expected HICP from last week) led by cyclicals and small caps. The Dollar Index should rally modestly (towards 103) while Treasury yields should also rise further as the solid inflation data pushes back on rate cut expectations. Commodities should drop on the stronger dollar (especially gold) although we'd expect the moves to be modest, not intense.

An "Ugly" CPI Report: **Headline CPI ≥ 3.3% y/y. Core CPI ≥ 4.1% y/y.** *Likely Market Reaction:* A solid selloff. A hotter-than-expected CPI report that shows inflation bounced on headline and core would push back hard on rate cut expectations and we should see stocks and bonds drop moderately as a result. Treasury yields should rise solidly (10-20 bps) and that rise in yields would, in turn, pressure stocks the same way it did in August-October. We'd expect defensive sectors to relatively outperform, but all 11 SPDRs would likely be solidly lower on the day. The Dollar Index should jump back above 103, as the market dials back expectations for a Q1 rate cut. Commodities would likely be hit very hard on the surging dollar and worries about further growth given higher yields.

Bottom Line

Tomorrow's CPI is a potentially important number because it will confirm or refute two of the five market assumptions that have powered stocks higher: Continued falling inflation and near-term rate cuts. The key here is that both headline and core inflation don't both bounce. As long as headline bounces but core continues to fall, then the impact on markets should be modest.

Economics

The NFIB Small Business Optimism Index was the only notable domestic economic release yesterday. And while the headline topped estimates, the details painted a less-encouraging picture for the state of small business USA (see charts).

Commodities

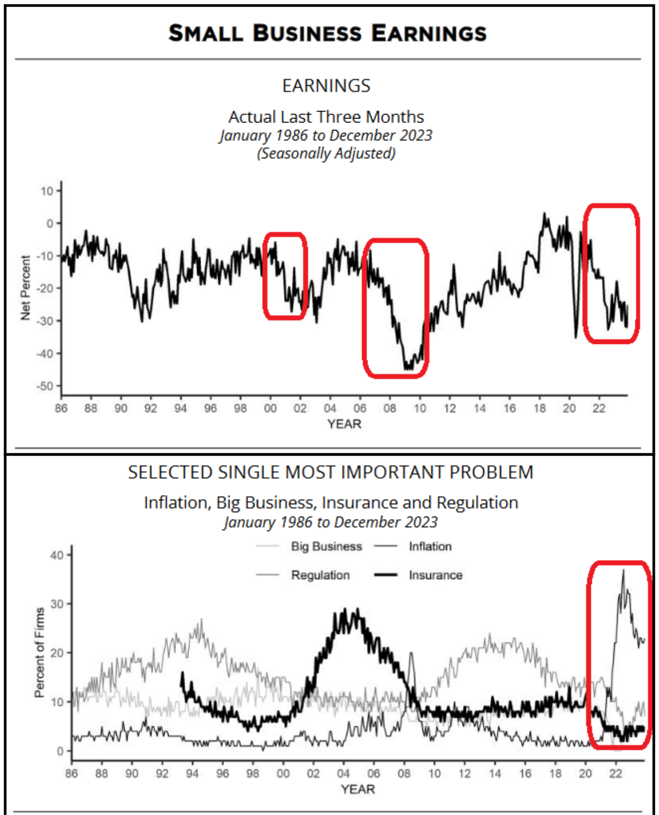
Oil was once again front and center on the commodity stage as futures recovered nearly half of Monday's steep 4%+ decline with a gain of 2.02% on the session. The market-moving headlines for oil were mostly related to the supply side of the market as Israel confirmed the conflict with Hamas will last well into 2024, leaving regional tensions elevated while Saudi Arabia reiterated support for "stable" oil prices, which is their way of saying "high prices." The commodity ETF, DBC, rose 0.73%.

Additionally, one of Libya's largest oil fields remains idle due to protests in the area, which is beginning to add up as its capacity is roughly 300K b/d. From a demand standpoint, economic data overseas was market negative but the solid NFIB small business headline helped offset that influence while a strong 3-Yr Treasury auction helped underscore still-dovish investor expectations right now, a good thing for consumer demand for refined products.

Bottom line, oil remains much closer to the lower bound of its 52-week trading range with plenty of risks that could send the market to new lows in the mid-$60s area. Saudi Arabia and the rest of OPEC+ do not want to see that, however, as a new downtrend emerging would have very negative implications for revenues. Hopes for an accommodative shift in Fed policy and a soft landing are also helping keep oil above key support from last year, but the outlook for the economy could also change in a hurry if the data takes a turn for the worse. Today, the weekly EIA data will be in focus.

In metals, copper futures retreated 1.25% to close at a one-month low yesterday amid reports of very healthy supply levels in LME registered warehouses and a drop to a record contango (discount in price of front-month futures) in the spread between front-month futures contracts and those three months in the future.

Calendar spreads are a valuable measure of various



The NFIB does not produce the most visually appealing charts, but it is clear in the top chart here that small business earnings trends are decidedly negative, resembling the recessionary periods of the early 2000s (marked by red rectangles) while the lower chart shows that inflation remains, by a wide margin, the single most important problem facing small business owners.

Market	Level	Change	% Change
Dollar Index	102.519	.310	0.30%
EUR/USD	1.0932	.0001	0.01%
GBP/USD	1.2711	.0001	0.01%
USD/JPY	144.39	-.09	-0.06%
USD/CAD	1.3391	.0001	0.01%
AUD/USD	.6686	-.0001	-0.01%
USD/BRL	4.9070	.0325	0.67%
10 Year Yield	4.019	.017	0.42%
30 Year Yield	4.185	.012	0.29%
10's-2's	-35 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	375 - 400 bp		
Prices taken at previous day market close.			

commodities as positive spreads like we've had in oil for the last few years indicate strong demand/low supply dynamics while negative readings suggest an oversupply or weak demand dynamic. With that in mind, the drop to a record low contango reading in a key calendar spread of the world's most economically sensitive industrial metal is *not* a favorable development from a cross-asset, macroeconomic analysis standpoint, especially given the prolonged inversion of the Treasury yield curve and threat of a global recession. Copper will remain critical to watch in the weeks and months ahead.

Gold saw a fairly muted session with futures ending the day up a nominal 0.13%. A partial reversal in early risk-off money flows was partially responsible for gold giving back early safe-haven gains; however, the market is also largely in "wait-and-see mode" right now ahead of tomorrow's CPI. On the charts, $1,992 is key support to watch as a close below would be a new one-month low while the all-time closing high of $2,092/oz. is the level to beat for gold bulls.

Currencies & Bonds

The dollar rallied modestly on Tuesday in generally quiet trade as the U.S. CPI loomed just 48 hours away, as soft EU economic data pressured the euro and boosted the dollar. The Dollar Index rose 0.36%.

The key economic report yesterday (and only really notable economic report) was German Industrial Production which fell -0.7% vs. (E) 0.0%. That soft number weighed on the euro, which fell 0.3% and helped push the dollar higher. The pound dropped 0.5% in sympathy with the weakness in German Industrial Production.

Normally, a soft German IP number wouldn't push the euro and pound lower, but right now markets view the EU economy has being much weaker than the U.S. economy, and as having much higher recession chances than the U.S. So, this type of soft data isn't brushed off like isolated soft data points are brushed off in the U.S. Instead, this data matters, especially from Germany, the largest economy in the region. So, the soft IP sent the euro modestly lower and boosted the dollar moderately.

However, with Fed officials reinforcing that December dovish pivot, it'll take very bad EU and UK economic data to send the euro or pound sharply lower and the dollar sharply higher. So, even with underwhelming data, it's unlikely we get a strong dollar rally absent hawkish commentary from Powell, although soft EU or UK data will help keep the Dollar Index above 100.

Turning to Treasuries, yields were slightly higher despite the soft German IP data and a strong 3-Year Treasury auction. The 2-year yield rose 3 basis points while the 10-year yield drifted higher by 1 basis point.

As mentioned, the German Industrial Production data was soft, but it wasn't bad enough to impact global bond markets. Meanwhile, the first Treasury auction of 2024 went well, with strong demand for 3-year Treasury Notes as the bid to cover was solidly higher than expected (2.67X vs. 2.41X prior). Other details of the auction were also strong although markets didn't trade off that solid demand.

However, the looming CPI report, which will be the next major catalyst for Treasury yields, kept the movement in yields mostly calm and we can expect more of that today given Thursday's CPI report (barring any big surprises).

Have a good day,

Tom

1/10/2024

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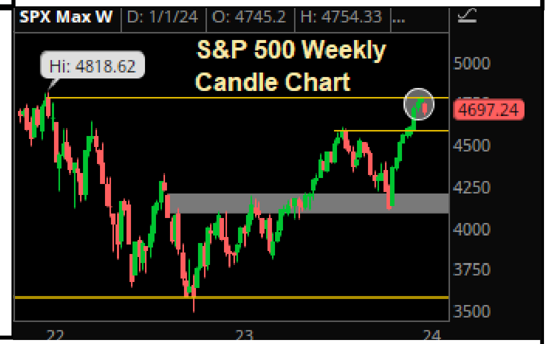
Technical Perspectives (Updated 1/7/2024)

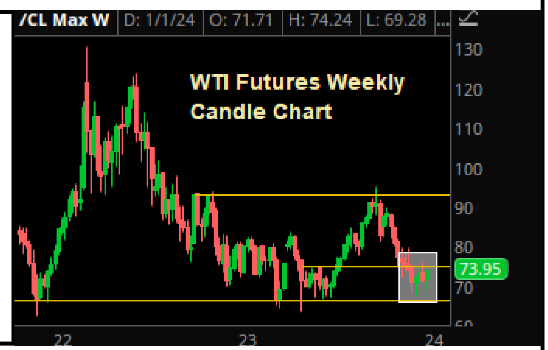
S&P 500

- Technical View: **The medium-term trend in equities flipped bullish** to start December as the S&P 500 rallied to fresh 2023 highs.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 4783, 4818, 4850
- Key Support Levels: 4598, 4505, 4415



WTI Crude Oil

- Technical View: The price action in oil deteriorated in H2'23 but continues to hold above the 2023 lows, leaving the outlook neutral.
- Proprietary Model: **Neutral (since the week of November 6, 2023)**
- Key Resistance Levels: $75.43, $77.72, $79.60
- Key Support Levels: $72.40, $71.15, $69.87



Gold

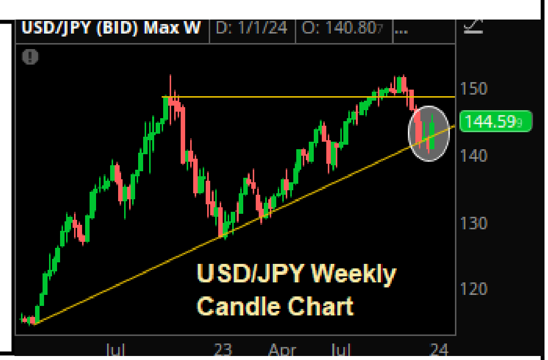
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2089, $2108, $2152
- Key Support Levels: $2033, $2000, $1967

10-Year T-Note Yield

- Technical View: The 10-year yield has pulled back considerably since the October highs, but the "V-shaped" top has not seen a bearish "lower low" established yet.
- Proprietary Model: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.099, 4.121, 4.239
- Key Support Levels: 3.907, 3.789, 3.608

Dollar/Yen

- Technical View: The USD/JPY violated a longstanding uptrend line to end 2023 shifting the technical outlook from bullish to neutral.
- Proprietary Model: **Neutral (since the week of December 25, 2023)**
- Key Resistance Levels: 145.46, 146.79, 148.31
- Key Support Levels: 142.37, 140.18, 138.78



SEVENS REPORT

Fundamental Market View (Updated 1/7/2024)

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 started 2024 with moderate declines as inflation data bounced back while some growth data disappointed, pushing back on the idea of imminent and aggressive rate cuts.*

Tactical Allocation Ideas:

- **What's Outperforming: Growth factors, tech, consumer discretionary and communication services, the worst performers in 2022, have outperformed YTD. However, higher yields remain a headwind and as such we don't think this outperformance will last over the longer term.**
- **What's Underperforming: Defensive sectors and value have underperformed YTD, but are still massively outperforming since the bear market started in 2022, and since our primary concern in 2023 is economic growth, we think this underperformance will be temporary.**

Long Term Fundamental Outlook for Other Asset Classes

	Fundamental Outlook	Market Intelligence
Commodities	**Neutral**	*Commodities rallied modestly last week thanks to a bounce back in oil (mainly) and despite a stronger U.S. dollar, as rising geopolitical tensions increased the risk premium in oil.*
US Dollar	**Neutral**	*The Dollar Index rallied hard last week despite a bounce back in EU inflation, as markets dialed back expectations for aggressive Fed rate cuts starting in March (although that's still the consensus expectation).*
Treasuries	**Turning Positive**	*Yields rallied to start 2024 thanks to the aforementioned bounce in European inflation data as both the 2- and 10-year yields are again back above 4.00%.*

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.