SEVENS REPORT

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

January 11, 2024

Pre 7:00 Look

- Futures are slightly higher ahead of this morning's CPI report after another dovish pivot by a global central bank and despite an potential uptick in geo-political tensions.
- South Korea's central bank made a dovish pivot and added to the idea global central banks are turning dovish.
- Geo-politically, expectations are rising for a joint U.S./U.K strike on Houthi's attacking ships in the Red Sea.
- Econ Today: CPI (E: 0.2% m/m, 3.2% y/y), Core CPI (E: 0.2% m/m, 3.8% y/y), Jobless Claims (E: 209K). Fed Speak: Barkin (12:40 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	4,824.75	4.50	0.09%
U.S. Dollar (DXY)	102.26	-0.10	-0.10%
Gold	2,038.30	10.50	0.52%
WTI	72.78	1.41	1.98%
10 Year Yield	3.99%	-0.04	-1.12%

Equities

Market Recap

Stocks rallied towards the late-2023 highs yesterday as bond yields were little changed after a steady inflation report out of Europe and some less-hawkish central bank chatter overseas. With today's December CPI report in focus, the S&P 500 ended with a gain of 0.57%.

Equities began yesterday with a cautious bid as investors digested Norway's latest inflation report that showed a slightly lower-than-expected headline of 4.8%, which was importantly unchanged from November unlike the German CPI figure that jumped 0.5% last week. Additionally, ECB Vice President Guindos offered mixed commentary in an interview yesterday, noting that the risk of inflation rebounding is still elevated but there is also a good chance that the European economy fell into a "technical recession" late last year, supporting the case for rate cuts sooner than later.

Impactful news flow was limited over the course of the morning but Treasury yields hovering near the unchanged mark with the 10-Yr notably holding close to 4% allowed the markets to extend early gains through the European close. A modest, half-basis-point tail in the Treasury's $37B auction for 10-Yr Notes was taken in stride in the early afternoon as the bid-to-cover (a measure of demand) was slightly firmer than the December auction.

In the final hour, the Fed's Williams said he believed policy needed to remain restrictive for some time but also noted that the jobs market is strong and inflation situation "has improved quite a bit." The S&P 500 approached the recently established 52-week highs in the low 4,790s before a wave of profit taking saw the index pullback into the close.

S&P 500 Market Multiple Targets: January Update

To start 2024, both the "current situation" and "better if" scenario fundamental valuation targets were revised higher while the "worse if" scenario was left unchanged from December. Both upside revisions were due to rising market multiple levels while 2024 earnings expectations remained the same across the board. The S&P 500 began the week roughly 3.5% above the current situation midpoint target of 4,533 despite the moderate wave of profit taking that saw the market decline in the first trading week of the year while the better if target hovered 4% above where the S&P 500 started the week.

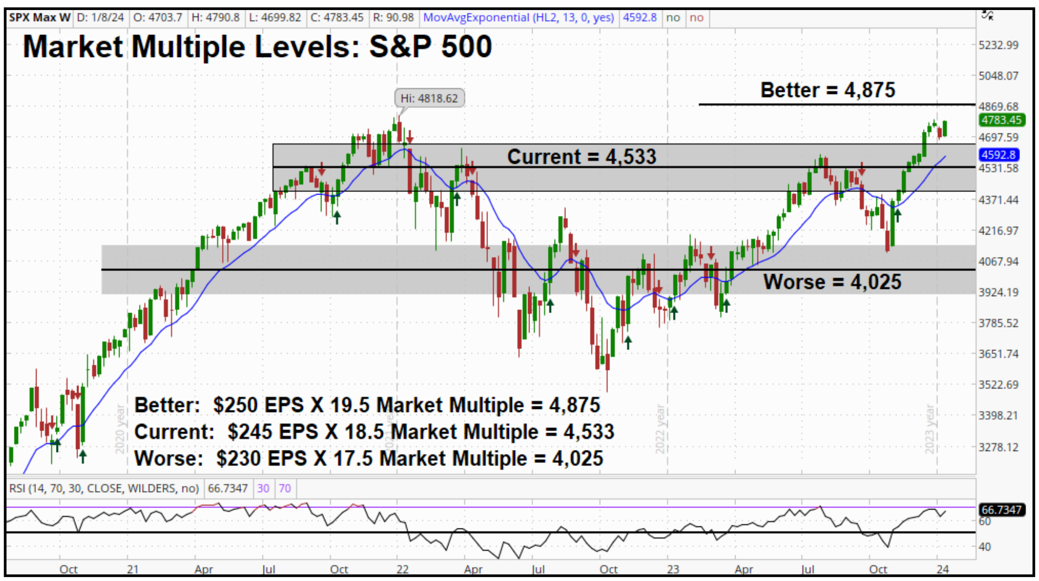
Current Situation: The current situation target price

Market	Level	Change	% Change
Dow	37,695.73	170.57	0.45%
TSX	20,989.42	18.44	0.09%
Stoxx 50	4,482.97	13.99	0.31%
FTSE	7,647.13	-4.63	-0.06%
Nikkei	35,049.86	608.14	1.77%
Hang Seng	16,302.04	204.76	1.27%
ASX	7,506.03	37.57	0.50%
Prices taken at previous day market close.			

range was revised higher for the second consecutive month in January thanks to a modest increase in the market multiple range from 17.5X-18.5X up to 18X-19X while collective earnings for the S&P 500 held steady at $245/share. Those figures provide a new current situation target range of 4,410 to 4,655 with a midpoint of 4,533 for the S&P 500. The benchmark index started the week 3.5% above the current situation midpoint.

Market	Level	Change	% Change
DBC	21.82	-.15	-0.68%
Gold	2028.10	-4.90	-0.24%
Silver	23.08	-.01	-0.05%
Copper	3.7840	.0255	0.68%
WTI	71.29	-.95	-1.32%
Brent	76.73	-.86	-1.11%
Nat Gas	3.036	-.154	-4.83%
RBOB	2.0669	-.0099	-0.48%
DBA (Grains)	20.62	-.03	-0.15%
Prices taken at previous day market close.			

Looking to the charts, the first thing to note is that the current situation midpoint of 4,533 cuts right through the critical pivot point of the late-2021/early 2022 market top that has held for over two years. To clarify, a pivot point is a level within a market turning point that, in the case of an uptrend, first offers support before being violated and then acts as resistance. On the daily chart, the midpoint of 4,522 was also a “pivot point” during the July 2023 market peak and subsequent decline. The midpoint also closely coincides with the lows of the July 27 “outside reversal” in the S&P 500 that marked the summer 2023 peak, adding to the level’s technical significance.



The upper bound of the current situation target range of 4,655 is important for two reasons. First, it is close to where the S&P 500 peaked during the first “bull trap” of 2022 when the market pushed beyond the February highs in late Q1 only to selloff steadily over the course of Q2. Second, it is where the massive post-December Fed meeting rally began on December 13. Bottom line, the midpoint of the current situation target range of 4,533 should be viewed as formidable support for the current multi-quarter rally in the broader stock market while the upper bound of 4,655 will offer initial support if the market pulls back.

Things Get Better If: The better if scenario target was revised higher for the first time since July in this month’s MMT update, as expected 2024 S&P 500 earnings were unchanged at $250/share but the market multiple was increased from 19X to 19.5X providing a target of 4,875, which is up from the H2 ’23 level of 4,750. It is worth pointing out that the previous better if target of 4,750 did present some fundamental resistance at the start of the year as the late-December closing high of 4,767 (less than 20 points beyond the better if target) failed to hold and the S&P fell 2% to start the year.

The new better if target of 4,875 would mean a fresh set of all-time highs in the S&P 500, above the current closing and intraday highs of 4,797 and 4,819, respectively. One of the most interesting takeaways from this month’s MMT update, from a technical perspective, is the fact that the 94-point market pullback at the start of 2024 almost perfectly matches the distance from the late-2023 closing high of 4,783 to the new better if target of 4,875 (the measured move target is just 2 points above at 4,877). It is always interesting to see in real time just how methodical markets can be, and generally are, when you take a close look at the price action. Bottom line, the new better if target of 4,875 should be viewed as both a technical and fundamental price target should we get new record highs in the S&P 500.

Things Get Worse If: The worse if target range was revised higher again in January, topping the psychologically important 4,000 level as expected 2024 S&P 500 earnings remained $230/share while the multiple range was revised up from 16X-17X to 17X-18X. The new figures provide a worse if target range of 3,910-4,140 with a midpoint of 4,025, which was 14% below where the S&P 500 began the trading week.

Looking at the chart, the first thing that stands out is the fact that the upper bound of the worse-if target range of or 4,140 coincides with the late-October 2023 "V-shaped" reversal bottom as well as the early 2023 highs that kept a lid on the thinly led rally before the renewed leg higher in early summer. That upper bound at 4,410 should be viewed as a critical "line in the sand" for the rally dating back to the 2022 lows. The midpoint of 4,025 cuts right through a significant amount of market congestion spanning from April 2022 to March 2023, which adds to the technical significance while the lower bound corresponds with the pivot area from the March 2022 pullback in stocks fueled by the bank failures, and is another important dual-pronged support area at 3,910 with both fundamental and technical significance.

Bottom Line: The late-2023 rally in stocks was widely viewed as overdone and the rapid pace of the recovery off the late-October lows was admittedly unsustainable. But the fresh 52-week highs into the end of the year leave the technical outlook decidedly bullish right now, with another leg up to fresh 2023 highs likely in the sessions ahead. Today's CPI report could make or break the chances of that happening today, however, as a "hot" print would almost certainly send the S&P down for a test of the 2024 lows.

For a higher-resolution, unbranded copy of this chart, please email info@sevensreport.com.

Economics

There were no material economic reports yesterday.

Commodities

Commodities traded with a very mixed tone as industrial metals rallied amid soft landing hopes but a bearish inventory report weighed on oil while gold pulled back on positioning ahead of the CPI. The commodity ETF, DBC, fell 0.68%.

Starting with metals, positioning ahead of today's CPI dominated trade as gold pulled back a modest 0.23% as the 10-Yr yield hovered just above the 4% mark. Futures importantly held above initial support at $2,020/oz. and the bullish technical outlook remains intact. Industrial metals rebounded from Tuesday's steep losses yesterday as copper futures bounced 0.69% but remained near a one-month low. The favorable central bank chatter about a soft economic landing, looming rate cuts, and the "cool" inflation print in Europe all helped support demand for the economically sensitive industrial metal yesterday. Today, $3.75 will be a key level to watch as a break below will confirm a more convicted pullback is underway and more downside is likely looming for copper, and risk assets broadly.

EIA Data Takeaways and Oil Update

The weekly EIA report was not what the bulls were looking for. At the same time, it was not an all-out bearish game changer for the oil market either as measures of consumer demand importantly recovered from a holiday slump. WTI crude oil ended the day lower.

Market	Level	Change	% Change
Dollar Index	102.06	-.22	-0.22%
EUR/USD	1.0963	.0032	0.29%
GBP/USD	1.2733	.0023	0.18%
USD/JPY	145.73	1.25	0.87%
USD/CAD	1.3382	-.0008	-0.06%
AUD/USD	.6696	.0009	0.13%
USD/BRL	4.8913	-.0157	-0.32%
10 Year Yield	4.030	.011	0.27%
30 Year Yield	4.200	.015	0.36%
10's-2's	-34 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	4.02%		
Prices taken at previous day market close.			

Looking at the headline inventory change figures, they were universally bearish with crude stockpiles unexpectedly rising +1.3MM bbls (E: -600K, API: -5.125MM). And there were more pronounced builds in the refined products as gasoline supplies rose +8.0MM bbls (E: +2.1M, API: +4.9MM) and distillate inventories rose +6.5MM bbls (E: +1.0MM, API: +6.9MM).

Diving into the details, refining activity fell 0.6% to a utilization rate of 92.9% to start the year while domestic production held steady at 13.2MM b/d, just shy of a record high. Demand metrics did notably rebound from their typical, year-end collapse during the week between Christmas and New Years with gasoline supplied rising +371K b/d to 8.3MM b/d and distillate supplied jumping a more pronounced +774K b/d to 3.4MM b/d. Both figures notably held above their late-November/early December troughs, which is mildly bullish for near-term demand trends.

It is also important to point out, however, that the implied demand readings for both gasoline and distillates remained well off the levels seen leading into Christmas and those strategists and traders that follow the fundamental supply and demand figures closely will want to see a further rebound as we continue through January.

Bottom line, the EIA report was certainly not bullish and the universal inventory builds point to the threat of an oversupply dynamic gripping the market in early 2024, which would act as a considerable headwind for oil prices in the first quarter. However, with geopolitical tensions still elevated in the Middle East and OPEC+ continuing to reiterate its commitment to supporting "stable" (the word "high" is interchangeable here) global energy prices, there is no reason to suspect that WTI futures will break 2023 support near $67/barrel in the very near term.

That is especially true considering the front month calendar spread in oil futures hit a one-month-plus high yesterday, pushing into backwardation (front month futures trading at a premium to back month futures) which is consistent with a tight/tightening physical market.

Currencies & Bonds

The dollar declined slightly on Wednesday as slightly hawkish comments from a prominent Fed official partially offset solid economic data, while the looming CPI report kept movements in the currency and bond markets small. The Dollar Index fell 0.15%.

The dollar spent much of the trading day down approximately 0.2% as it declined early on Tuesday morning following better-than-expected French Industrial Production (0.5% vs. (E) 0.1%) and Italian Retail Sales (0.4% vs. (E) 0.2%). The dollar declined on those readings and the euro and pound both rallied modestly (up 0.2% each) on the slightly better data.

The Dollar Index largely chopped sideways for much of the trading amidst quiet activity and that's to be expected with the CPI report looming later this morning.

However, we did see a small uptick in movement in currencies and bonds shortly after 3:00 p.m. ET when New York Fed President Williams reiterated that rate cuts are likely over but also pushed back on the idea of eminent rate cuts (March). More importantly, he also pushed back on the idea Quantitative Tightening might begin to be reduced anytime soon. Remember, over the weekend Dallas Fed President Logan brought up the possibility of QT beginning to be reduced. If Williams had endorsed that idea, it would have been viewed as dovish and sent Treasury yields and the dollar lower. Instead, he pushed back on that idea and as a result the dollar rallied slightly while Treasury yields rose a few basis points.

Speaking of Treasuries, the 2-year yield was down 3 basis points for much of the day but drifted higher to trade down 1 basis point following the Williams comments, while the 10-year Treasury yield was flat for much of the day but then closed higher by 2 basis points.

Bottom line, the CPI report this morning kept these moves small but Williams is the first speaker from Fed leadership this year and his comments were clear: Rate hikes are over but the Fed doesn't have any plans to ease policy (meaning rate cuts or a reduction in QT) anytime soon. As such, there remains a large gap between what the Fed says and what the market thinks, and whether that gap closes with the Fed moving to the market's expectation (positive for stocks/bonds) or the market's moving to the Fed's statements (negative stocks/bonds) will be a major factor in Q1 performance.

Have a good day,

Tom

1/11/2024

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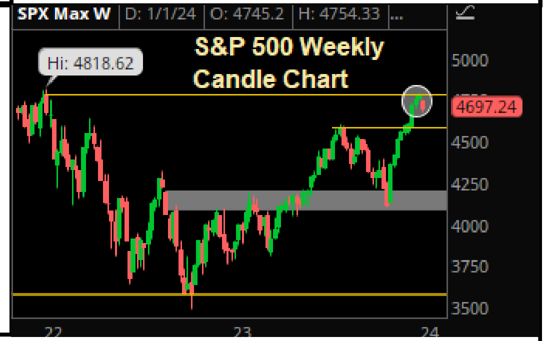
Technical Perspectives (Updated 1/7/2024)

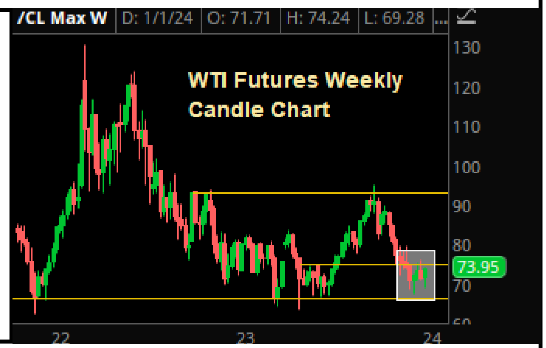
S&P 500

- 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

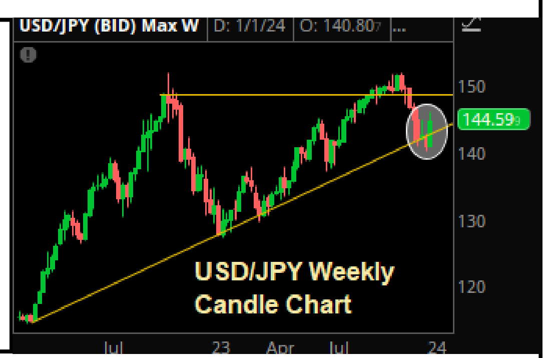
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2089, $2108, $2152
- Key Support Levels: $2033, $2000, $1967

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



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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.