SEVENS REPORT

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

January 12, 2024

Pre 7:00 Look

- Futures are modestly lower following an increase in geopolitical tensions and subsequent 4% rally in oil.
- The U.S. launched multiple missile strikes against Houthi targets in Yemen in response to the recent attacks on commercial ships in the Red Sea and that's increasing concerns about a broader conflict in the region.
- Econ Today: PPI (E: 0.2% m/m, 1.3% y/y), Core PPI (E: 0.2% m/m, 2.0% y/y). Fed Speak: Kashkari (10:00 a.m. ET).
- Earnings Today: JPM ($3.73), BAC ($0.69), UNH ($5.98), BLK ($8.84), WFC ($1.16), C ($0.73), BK ($1.12).

Market	Level	Change	% Change
S&P 500 Futures	4,798.75	-16.75	-0.35%
U.S. Dollar (DXY)	102.50	0.21	0.21%
Gold	2,050.00	30.60	1.52%
WTI	74.99	2.95	4.08%
10 Year Yield	3.99%	0.02	0.51%

Equities

Market Recap

The widely anticipated CPI report was slightly hotter than expected but also showed a continued drop in core inflation and the result was a mixed and volatile day on Wall Street. The S&P 500 edged down 0.07%.

Stocks dropped early in trading on Thursday following the hotter than expected CPI report, although it took about 90 minutes after the release for the selling to begin. Stocks fell steadily into the lunch hour until beginning to stabilize near the 4,750 support area, as the Fed's Mester (not a voting member of the FOMC this year) began to speak. She pushed back on market's expectation of a March rate cut but also vaguely suggested that the FOMC needs to be more focused on the labor market as opposed to solely working on getting inflation down in 2024. Then the Fed's Barkin (not a voting member this year either), said he was open to cuts if inflation proved on track to target later this year.

Barkin's dovish commentary along with the fact that the CPI report didn't reduce March rate cut expectations helped the S&P 500 to drift higher in the afternoon and the S&P 500 erased its losses and finished the day largely unchanged.

Bitcoin ETF Primer (For Discussions With Clients)

After the close on Wednesday the SEC cleared the way for 11 bitcoin ETFs to start trading and they did so yesterday. Given this is likely already (or soon will be) a topic of discussion with clients, I wanted to spend some time explaining 1) What these are, 2) How they work, 3) What they mean for Bitcoin and other stocks (including some winners from this) and 4) How I would personally approach these ETFs.

Before I get to that, though, I do believe this is a relatively large positive for Bitcoin and that opinion stems from my experience with the launches in GLD and SLV. I was working for Merrill back when GLD launched and on the

Market	Level	Change	% Change
Dow	37,711.02	15.29	0.04%
TSX	20,918.40	-71.02	-0.34%
Stoxx 50	4,474.73	32.45	0.73%
FTSE	7,626.33	49.74	0.66%
Nikkei	35,577.11	527.25	1.50%
Hang Seng	16,244.58	-57.46	-0.35%
ASX	7,498.28	-7.74	-0.10%
Prices taken at previous day market close.			

buy side when SLV launched, and I can absolutely tell you they did "change the game" when it came to investors gaining exposure to physical gold and silver. And I believe we will see something similar with these Bitcoin ETFs and Bitcoin, although importantly I will caution that it could take years for that to occur and it likely won't happen "all at once," as some Bitcoin proponents have implied.

Market	Level	Change	% Change
DBC	21.98	.16	0.73%
Gold	2029.50	1.70	0.08%
Silver	22.56	-.21	-0.91%
Copper	3.784	.003	0.08%
WTI	72.11	.74	1.04%
Brent	77.53	.73	0.95%
Nat Gas	3.089	.050	1.65%
RBOB	2.1193	.0520	2.52%
DBA (Grains)	20.72	.11	0.53%

Prices taken at previous day market close.

Additionally, these ETFs do nothing to address many of the legitimate concerns investors have with Bitcoin including its sporadic associated fraud, use in illegal activities and other issues. Those are different discussions to have with clients about Bitcoin exposure. But ignoring those issues, from a purely financial and trading impact, I do believe these ETFs will be a gamechanger for Bitcoin over the medium/longer term. So, with that framework in mind, I want to get into some of the specifics of these Bitcoin ETFs.

What Are Bitcoin ETFs? These are ETFs that own actual Bitcoin and that's an important difference from what was available before. Via these ETFs, investors that don't want to bother opening "wallets" or accounts with crypto custody firms can own real Bitcoin and get true exposure to the price of Bitcoin. Prior to these ETFs, U.S. investors that didn't open wallets, etc. could only get loosely directional exposure to Bitcoin prices via Bitcoin futures, Bitcoin futures ETFs or some other bitcoin linked ETN like structure. Point being, U.S. investors could somewhat get exposure to the moves in Bitcoin prices but it was 1) Prone to large spreads versus actual Bitcoin prices and 2) Was subject to future rolls and other financial realities that made the exposure the best thing available, but not true and "pure" exposure. The new Bitcoin ETFs provide regular investors an easy way to easily get pure Bitcoin exposure to Bitcoin prices.

How Do They Work? The Bitcoin ETFs are very similar to GLD or SLV in that, generally speaking, the ETFs operate as "trusts" or pools of capital that then take that capital and buy actual Bitcoin and store it. Just like GLD accepts investor capital via share purchases to buy physical gold and store it in a vault, so too do these Bitcoin ETFs take capital and then actually buy Bitcoin and store it in a digital vault with a custody firm. Again, this is different from previous Bitcoin alternatives because investors actually get true exposure to Bitcoin and, as such, Bitcoin prices.

What Does This Mean for Bitcoin and Crypto Industry Companies? It's positive, plain and simple. Because these Bitcoin ETFs *have* to buy actual Bitcoin, it opens up a tremendous amount of potential investor demand in a market that's still relatively slim. Consider: The domestic U.S. ETF industry is around $7.3 trillion. At its peak in late 2021 (when Bitcoin prices were above $60,000) the "market cap" of Bitcoin was just over $500 billion. While obviously not all of that $7.3 trillion is going to go into Bitcoin, the point is clear: If just 10% of it flows to Bitcoin over the next several years, it's a massive amount of demand for a small market.

Notably, this is the same argument gold and silver bulls made for rallies in gold and silver when those ETFs came out and I remember that many gold and silver investors expected a straight-line rally on the approval of the ETFs. But that didn't occur. So, don't be shocked if the "news" of the Bitcoin ETF approval is disappointing in the near term.

I do, however, believe there absolutely will be an impact over the longer term, as inflows from GLD and SLV provided consistently upward pressure on prices for several years after their release and it wouldn't shock me to see something similar for Bitcoin prices over the coming years, now that the ETF has been released.

Interestingly, beyond being positive for Bitcoin prices, the other potential winner of these Bitcoin ETFs are the custodians, specifically Coinbase (COIN). The major ETF issuers such as Greyscale, iShares, WisdomTree and others don't have their own Bitcoin custody operations to hold the actual Bitcoin. Instead, most of the biggest Bitcoin ETF issuers will use Coinbase as their custodian, which is obviously a positive for that stock (which is why the stock rallied from about $75 to over $180 between late October and year-end).

Bottom line: Don't be shocked if we see a "sell the news" reaction for several days or even weeks, as the rallies in Bitcoin and Coinbase (and similar crypto custodians) have been intense and unsustainable. But with Bitcoin ETFs now legal, I do think substantial declines in Bitcoin or the custodian ETFs should be viewed as a potential entry point for investors looking for this type of exposure.

Some ETFs to Consider. At the risk of oversimplifying things, I'd stick to buying the biggest Bitcoin ETFs and the ones backed by the largest investment firms, including the Greyscale Bitcoin ETF (GBTC) as it has the most AUM at over $28 billion. Other Bitcoin ETFs from larger (and well-capitalized) firms include the iShares Bitcoin Trust (IBIT), Invesco Galaxy Bitcoin ETF (BTCO) and Fidelity Wide Origin Bitcoin Trust (FBTC). From an investment standpoint, focus on fees (many firms are waving fees for a period of time) and also who is the custodian, because that does matter (again, most are using Coinbase).

Bottom line, I'm not a Bitcoin proponent on a fundamental basis nor am I an expert. But I have been through several of these types of ETF launches, where an ETF finally provides exposure to a previously difficult-to-own asset and more times than not, it's a positive. And while the ETF doesn't address any of the major legitimate concerns with Bitcoin as a financial asset, this is likely a medium- and long-term positive for Bitcoin prices.

Market	Level	Change	% Change
Dollar Index	102.13	.05	0.05%
EUR/USD	1.0961	-.0012	-0.11%
GBP/USD	1.2752	.0010	0.08%
USD/JPY	145.42	-.34	-0.23%
USD/CAD	1.3401	.0020	0.15%
AUD/USD	.6684	-.0016	-0.24%
USD/BRL	4.8749	-.0181	-0.37%
10 Year Yield	3.977	-.053	-1.32%
30 Year Yield	4.182	-.018	-0.43%
10's-2's	-28 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	3.90%		
Prices taken at previous day market close.			

Economics

CPI

- CPI rose 0.3% vs. (E) 0.2% m/m and 3.4% vs. (E) 3.2% y/y.
- Core CPI rose 0.3% vs. (E) 0.2% m/m and 3.9% y/y.

Takeaway

The December CPI reading was expected to show a bounce back in inflation pressures and it did just that, although a small decline in year-over-year Core CPI (from 4.0% in November to 3.9% in December) helped keep the number from being an "ugly" one for markets (although stocks did drop a bit after the release).

With CPI now in a range that isn't substantially negative for the economy (3% inflation isn't a catastrophe) the key is whether CPI makes expected, and priced in, Fed rate cuts more likely. And while yesterday's CPI was hotter than expected, it likely did not materially change the market's expectations for a Fed rate cut, and there are two reasons for that.

First, Core CPI declined to 3.9%. So, while it was disappointing that headline CPI jumped to 3.4%, if we strip out food and energy inflation CPI did decline year over year. The point being disinflation is still ongoing.

Second, for those that believe lagging housing metrics are artificially keeping CPI high can keep that argument, because a 0.4% increase in Tenant's Rent and a 0.5% increase in Owner's Equivalent Rent were responsible for much of the buoyancy in the CPI report. So, if these people are right and housing metrics will decline in future CPI reports, then the Fed can still cut rates in March.

From a market's reaction standpoint, stocks dropped shortly after the open but rebounded by midmorning and that felt more like program and algo driven than anything else. CPI was not the major contributor to the early decline and we know that because Treasury yields didn't move off the data (the 2-year yield was down following the CPI report) while the dollar was barely higher. That makes sense because this market "wants" to look at the economic and inflation glass as "half full" so it's going to take something more blatantly negative than yesterday's CPI to materially reduce rate cut chances and that's why stocks and bonds didn't move materially despite the higher-than-expected readings.

Commodities

Commodities were mostly higher yesterday as the slightly hotter-than-expected CPI report was ultimately not seen as enough to prevent a Fed rate cut in March. Geopolitical tensions supported a solid rally in oil that moderated into the afternoon while the metals ended with slight gains after a volatile session. The commodity ETF, DBC, gained 0.73%.

After a volatile session, gold ended yesterday little changed while on the charts, gold is holding above key support between $2,020 and $2,030/oz with the primary trend remaining bullish after the December run to new all-time highs.

Rising Geopolitical Tensions Rekindle Fear Bid in Oil

WTI crude oil futures have held longstanding support at $70/barrel so far in 2024 and the main reason has been geopolitical uncertainty surrounding the expanding conflict between Israel and Hamas in the Middle East and the related attacks by Iran-backed Houthi rebels on ships in the Red Sea.

The frequency and intensity of those attacks on vessels in Middle Eastern waters have picked up this week with one key difference today; this time it wasn't rebel groups attacking ships, it was the Iranian Navy who took control of an oil tanker in the Gulf of Oman and that marks a material escalation in the ongoing tensions in the broader Middle East, which is the primary source of support behind today's oil rally. WTI rallied 0.91% yesterday.

Geopolitics aside, the fundamental backdrop of the oil market is mixed right now as the widely anticipated recession of 2023 never materialized with the labor market remaining tight and inflation retreating favorably. Those economic trends have left expectations for the start of a rate cutting cycle in March intact and ultimately a soft landing has become the consensus outlook for the economy, which is clearly a positive relative to the fears of a demand-crippling recession emerging as many expected over the last 18 months or so. The better outlook for the physical market can be clearly seen in the term structure of the futures market which has reverted back into backwardation, with front month contracts trading at a premium to those with deliveries further into the future, signaling tight physical market conditions.

Barring a sudden drop off in economic activity, hawkish shift in Fed policy expectations, or a favorable resolution to the conflict in the Middle East resulting in the geopolitical fear bid disappearing from the market, WTI crude futures should be able to hold support near $70/barrel and remain rangebound between that lower bound and 2023 resistance in the low $90s in the months ahead. Looking further into the future, the threat of recession or a financial failure of some degree is continuing to simmer in the background and anything that raises the odds of turmoil in the financial system or a downturn in growth will likely weigh heavily on oil in Q1 '24.

Currencies & Bonds

The hotter-than-expected CPI report had the opposite effect of what would be expected as Treasury yields fell moderately while the dollar was little changed. The 2-year Treasury yield fell 10 basis points while the 10-year yield was flat on the day while the Dollar Index was little changed.

I'll keep this brief due to space, but the drop in the 2-year yield, despite the mixed CPI, is surprising. However, the CPI report didn't alter investors' outlook for March rate cuts, nor did Cleveland Fed President Mester saying a March cut was likely too soon. That's because the market simply does not believe the Fed and until data is more forceful in showing a bounce back in inflation or we hear more directly hawkish rhetoric from Fed Chair Powell, the market will essentially view hawkish Fed members as bluffing. Until that changes Treasury yields and the dollar will have a hard time sustaining a rally.

Have a good weekend,

Tom

1/12/2024

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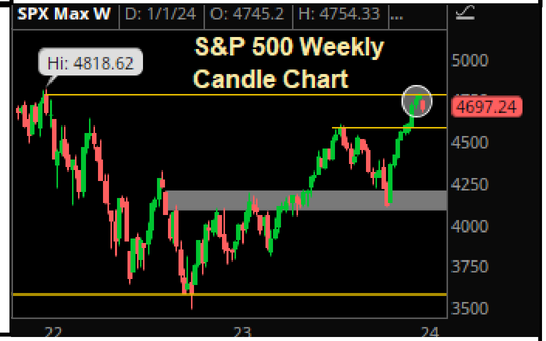
Technical Perspectives (Updated 1/7/2024)

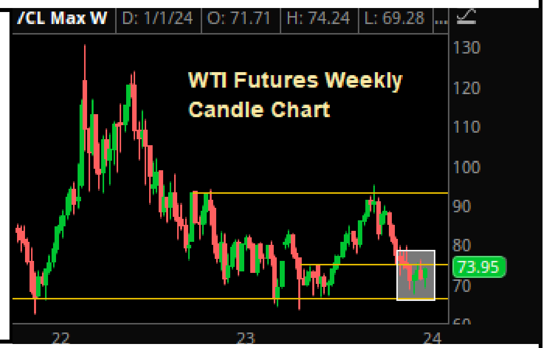
S&P 500

- 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

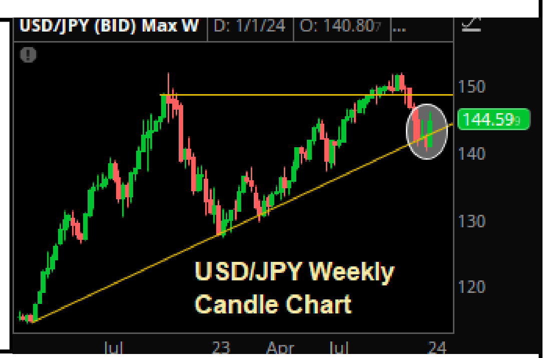
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2089, $2108, $2152
- Key Support Levels: $2033, $2000, $1967

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.