SEVENS REPORT

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

January 16, 2024

Pre 7:00 Look

- U.S. futures are tracking European shares lower this morning amid rising bond yields and a stronger dollar following some hawkish central banker commentary this weekend.
- Economically, the German ZEW's Economic Sentiment rose to 15.2 vs. (E) 11.7 in January easing recession concerns.
- This weekend, several ECB officials pushed back on expectations for rate cuts in H1'24 which weighed on risk assets.
- Econ Today: Empire State Manufacturing Index (E: -4.0). Fed Speak: Waller (11:00 a.m. ET).
- Earnings: GS ($3.47), MS ($1.07), PNC ($2.99), IBKR ($1.54).

Market	Level	Change	% Change
S&P 500 Futures	4790.50	-26.00	-0.54%
U.S. Dollar (DXY)	103.273	.870	0.85%
Gold	2044.30	-7.30	-0.36%
WTI	73.10	.42	0.59%
10 Year Yield	4.005	.055	1.39%

Equities

Market Recap

Volatility remained a major theme in markets last week despite the largely stable price action in Treasuries as traders digested mixed inflation readings and mostly as-expected growth metrics. The S&P 500 ended the week with a gain of 1.70% to turn positive for 2024.

Last week started with a sizeable rally in stocks last Monday as the PBOC announced several "credit boosting" measures geared towards stabilizing economic growth. Domestically, both the Manheim Used Car Index and the NY Fed's Consumer survey report revealed meaningful declines in inflation pressures while the Fed's Bostic made encouraging comments on growth and inflation. The S&P 500 lurched higher by 1.41% on the session.

The rally paused on Tuesday following soft economic data overseas and downbeat details to the latest NFIB Small Business Optimism Index (despite the solid headline). An upgrade to the global growth outlook by the World Bank, dovish central banker chatter, and a solid 3-Yr Note auction all combined to help stocks end off the lows, but the S&P 500 still fell 0.15%.

Stocks resumed their early week rally on Wednesday as a cooler-than-feared CPI print in Norway helped ease concerns about the hot German CPI print from the prior week, while ECB Vice President Guindos was cautious and that was received as slightly dovish while the market took a modest tail in a key 10-Yr Treasury Note auction, in stride. The S&P 500 gained 0.57%.

Volatility picked up Thursday with stocks initially gapping higher to test the record close of 4,797 before the S&P retreated by more than 60 points (over 1%) in morning trade amid fears of a rebound in inflation following the hotter-than-expected CPI report and on pushback from the Fed's Mester about rate cuts beginning in March. But counterintuitively, fed funds futures actually showed strengthening conviction for a March rate cut which helped stocks reverse midday and close almost unchanged with the S&P 500 down an incremental 0.07%.

Stocks gapped higher again on Friday as a cooler-than-expected PPI report helped shore up optimism for falling inflation and a March rate cut before the market came for sale in the first hour following some cautious comments from big bank executives after several Q4 earnings releases disappointed. In a similar manner to Thursday, the S&P 500 bottomed midday, attempted to rebound, but ended little changed with a 0.08% gain.

Market	Level	Change	% Change
Dow	37,592.98	-118.04	-0.31%
TSX	21,061.88	71.66	0.34%
Stoxx 50	4,427.73	-26.95	-0.61%
FTSE	7,552.50	-42.41	-0.56%
Nikkei	35,619.18	-282.61	-0.79%
Hang Seng	15,865.92	-350.41	-2.16%
ASX	7,414.79	-81.47	-1.09%
Prices taken at previous day market close.			

Does March vs. May Really Matter?

Market	Level	Change	% Change
DBC	22.06	.08	0.36%
Gold	2051.60	32.40	1.60%
Silver	23.32	.61	2.71%
Copper	3.7415	-.0350	-0.93%
WTI	72.73	.71	0.99%
Brent	78.34	.93	1.20%
Nat Gas	3.341	.244	7.88%
RBOB	2.1230	.0087	0.41%
DBA (Grains)	20.62	-.10	-0.51%
Prices taken at previous day market close.			

If I didn't watch markets last week and was told that 1) the CPI came in hotter than expected on headline and core and 2) Fed officials, including New York Fed President Williams, pushed back on the idea of a March rate cut, I'd have expected markets to be down. Instead, despite those negatives and decidedly mixed earnings on Friday, stocks rallied and that begs this question: Do markets really care if the Fed cuts in March or not?

The short answer is "no," they don't. If the Fed does not signal a March rate cut, that will be a negative influence on stocks and bonds, but not a substantial one. Perhaps that results in a 3%-ish pullback—nothing to ignore but not a material move in markets for anyone with a medium- or long-term time horizon (like most of us). That muted reaction will be because markets will assume that if the Fed doesn't cut in March, it will cut in May and more importantly, the current expectation of six rate cuts in 2024 will, more or less, stay intact.

But if the Fed doesn't signal a May rate cut either, then the market likely will care about that, a lot, because no rate cuts through May means the market is very wrong about its aggressive expectations for Fed easing. And, since a lot of rate cuts is one of the key assumptions underpinning the fourth-quarter rally, that will leave this market vulnerable to a 10% (or more) decline.

Put differently, from a market standpoint it doesn't matter so much when the rate cuts start, as long as the expectation for a lot of policy easing (so more than four rate cuts) remains intact. So, the real risk for this market from a Fed standpoint is that the Fed follows its own projections and only cuts twice (or three times).

That's why stocks didn't drop last week despite the uptick in inflation and hawkish commentary. While both the hot CPI report and hawkish commentary could reduce the chances of a March rate cut, neither were viewed as bad enough to reduce the chances of numerous rate cuts in 2024, and as such, whether they begin in March or May isn't that important in the grand scheme of things.

Practically speaking, that means that hawkish news will only be a mild negative until it gets strong enough to get markets to rethink and idea of massive policy easing (meaning four-to-six rate cuts) and that's the lens through which we need to view the inflation data and Fed rhetoric for the next several weeks. If the data makes a March cut unlikely, it's just a mild negative (1%-5%). But if the data makes March and May cuts unlikely, that's a more substantial negative (5%-10% or more).

From a positioning standpoint, defensive sectors have outperformed cyclicals YTD while value has outperformed growth and I think that can continue given a potential slowing of economic growth and potentially underwhelming earnings season. Because of my concern about a looming growth scare I continue to prefer lower volatility, higher quality stock exposure (defensive sectors such as XLV/XLU/XLP, value over growth, and minimum volatility ETFs).

Economics

Last Week

The message from the first big economic reports of 2024 is clear: Inflation and the labor market are both running slightly "hot" although it's not hot enough to make investors think a March rate cut is less likely (at least, not yet).

The key report last week was the December CPI and it met our "bad" scenario as headline CPI rose more than expected at 3.4% y/y vs. (E) 3.2% while core CPI also rose more than estimates at 3.9% vs. (E) 3.8%. But importantly, core CPI declined to 3.9% from 4.0%. That decline was the key to keeping the CPI report from becoming a larger negative for markets, because while CPI did bounce back in December, Core CPI continued to decline and that kept disinflation in place. Additionally, much of the increase in core CPI was due to still-elevated housing prices and investors continue to believe those housing prices will decline will decline in the CPI stats in the coming month and, in doing so, push year-over-year CPI increases back to the 2% range and allow the Fed to cut rates in March. Bottom line, inflation did bounce back but there was enough there for investors who want to still believe the Fed will cut in March. As a result, the slightly hot CPI didn't derail markets.

Turning to labor markets, the data remained strong. Weekly jobless claims dropped to 202k vs. (E) 209k and Continuing Claims fell to 1.83M vs. (E) 1.87M, and the bottom line is there are no signs the labor market is softening, which is an economic positive but also will push back against the Fed's desire to cut rates soon.

This Week

The focus on data this week will be on economic activity/growth. And while inflation and labor markets have been "hot" so far in 2024, growth/activity readings have not, as the ISM Manufacturing and ISM Services PMIs both were on the softer side (especially the ISM Services PMI). Because of that, extra focus will be paid to the growth/activity data because if it's weaker than expected it'll increase hard landing concerns and that would be a new headwind on stocks.

The key report this week will be Wednesday's Retail Sales report, simply because consumer spending is the engine that powers the U.S. economy. Retail sales have been much stronger than expected and that makes sense given the strong labor market and a small increase is expected this week. However, an outright negative number, not just for one month but for several months, would provide a "warning shot" for the economy. That is not priced into stocks or bonds at all so that is something we need to guard against.

Market	Level	Change	% Change
Dollar Index	102.16	.13	0.13%
EUR/USD	1.0954	-.0018	-0.16%
GBP/USD	1.2745	-.0015	-0.12%
USD/JPY	144.89	-.40	-0.28%
USD/CAD	1.3408	.0013	0.10%
AUD/USD	.6685	-.0003	-0.04%
USD/BRL	4.8563	-.0151	-0.31%
10 Year Yield	3.950	-.027	-0.68%
30 Year Yield	4.197	.015	0.36%
10's-2's	-19 bp		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	3.75%		
Prices taken at previous day market close.			

The other notable growth reports this week provide the first look at January 2024 economic activity via the Empire Manufacturing PMI (Tue) and Philly Fed (Thu). These metrics are always volatile but that's especially been the case lately. However, both Empire and Philly were negative last month and if they get even more negative, that will be another signal that the economy may be weakening more than expected (which it currently is not). Finally, we also get Industrial Production and Capacity Utilization (Wed) and jobless claims (Thu) and those will provide additional insights into the state of the economy.

Bottom line, we need to monitor growth closely because 1) There is no slowing of growth priced into markets, and 2) The market is counting on Immaculate Disinflation, which is falling inflation but no slowing growth. Falling inflation and slowing growth is not what is priced into markets right now and that reality would be a negative for stocks and positive for bonds. More to that point, now that the Fed has pivoted, "bad" economic data is bad for stocks going forward simply because if the Fed starts cutting now to help growth, they'll already likely be too late to stop a slowdown, one that isn't priced into stocks at these levels.

Bottom line, the labor market and inflation remain hot but there have been a few "misses" on economic growth and this week will provide important insight into the state of economic growth. For stocks to resume the Q4 rally, Goldilocks data that meets expectations is what's needed.

Commodities

Commodities were mixed last week as gold and oil ended little changed after a rise in volatility midweek while copper was the notable laggard, ending Friday at a one-month low. The commodity ETF, DBC, fell 0.32% on the week.

Beginning with energy, WTI crude oil futures plunged to start the week Monday after Saudi Arabia slashed prices to physical buyers around the globe, prompting heavy selling pressure by speculators early in the week. After an attempt at stabilizing into the middle of the week a mostly bearish (but not a gamechanger) EIA report saw futures retreat towards the week's lows.

Then on Thursday, news that the Iranian Navy, as opposed to Iran-backed rebel militants out of neighboring countries, was directly involved in the seizure of an oil tanker in the Gulf of Oman marked a significant escalation in the tensions in the Middle East and a measurable threat to global oil supply. That headline followed by coordinated attacks by the U.S. and allies early Friday morning sent oil prices surging to fresh 2024 highs. Oil pulled back into the close Friday, ending the week with a modest loss of 1.61%.

Bottom line, the fundamental backdrop to the global oil market remains mixed right now as OPEC+ production cuts are already financially uncomfortable for member nations (specifically leadership), the economic outlook remains uncertain but currently resilient, while geopolitical tensions continue to unexpectedly deteriorate. For now, that leaves WTI rangebound between support near $67/barrel and 2023 resistance in the low $90s. There is a threat that further tensions in the Middle East send oil back towards those 2023 highs, but also a threat of a breakdown in prices as a result of a resurgence in recession fears. That leaves us largely neutral on oil near term, and cautious about a downturn long term.

In metals, price action between precious varieties and industrials remains split as copper took on a heavy tone to start the year, falling 1.76% last week while gold continues to hold support above $2,020/oz. after an incremental 0.05% gain last week. The dynamic of heavy trade in economically sensitive industrial metals and a healthy bid in the safe-haven precious metals does not bode well for the economic outlook in 2024. If the relationship between the two metals continues the early 2024 trend, we should brace for more volatility.

Currencies & Bonds

Treasury yields fell sharply last week despite the mixed CPI as the 2-year yield fell 23 bps while the 10-year yield declined back below 4.00% to settle around 3.95%. That drop in yields was counter to the headline increase in CPI but there were three reasons yields tumbled despite the hot headline reading. First, core CPI declined further from 4.0% to 3.9%, which kept the belief alive that disinflation was ongoing. Second, PPI undershot expectations on Friday rising 1.0% vs. (E) 1.3% and PPI can be viewed as a loose leading indicator of CPI. Third, investors and analysts are discounting high CPI as a factor of outdated housing price increases and as such continue to expect a drop in CPI in the months ahead. But perhaps bigger than all of that is this simple fact: The market wants to believe that the Fed will cut rates in March so much that it will ignore any evidence to the contrary unless it's forced not to. That includes a hot headline CPI and specific commentary from Fed members saying that a March rate cut is likely too soon.

Simply put, markets ignored it and the 2-year yield unwound the recent decline and is once again reflecting significant easing while the overwhelming expectation remains for a Fed rate cut in March and that's why yields fell last week despite the hot headline CPI (and pushback from Fed officials on rate cuts).

Turning to the dollar, it was little changed last week because while bond markets again embraced looming Fed rate cuts, the outlook for Fed policy compared to its peers (the ECB and BOE) didn't materially change as currency traders expect all the major central banks to be easing policy sooner than later.

As such, the Dollar Index rose 0.1% while the euro gained 0.14% and the pound rose 0.23%. Looking forward, it's the change in relative policy expectations that will move currencies and the bottom line is that it'll be hard for the dollar to decline materially without ECB or BOE officials become more hawkish (very unlikely) or economic data in that region materially surprisingly to the upside (also very unlikely). So, we'd expect a continued sideways churn in the Dollar Index in the low-to-mid 100s.

Have a good week,

Tom

1/16/2024

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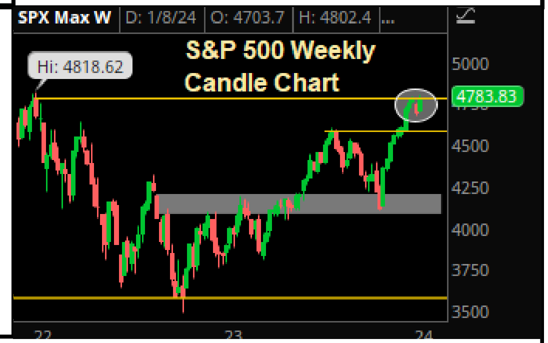
Technical Perspectives (Updated 1/14/2024)

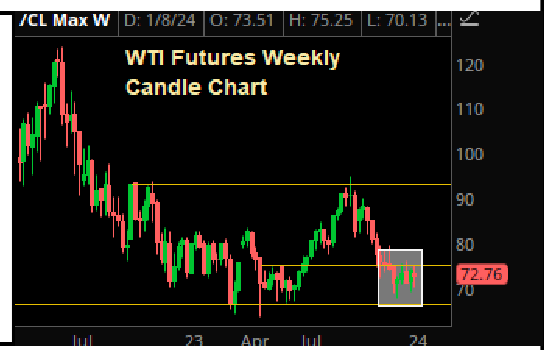
S&P 500

- 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: 4803, 4818, 4850
- Key Support Levels: 4598, 4505, 4415



WTI Crude Oil

- Technical View: The oil market has stabilized to start 2024 but futures remain well off the 2023 highs above $90/barrel.
- Proprietary Model: **Neutral (since the week of November 6, 2023)**
- Key Resistance Levels: $75.43, $77.72, $79.60
- Key Support Levels: $71.32, $69.87, $68.73



Gold

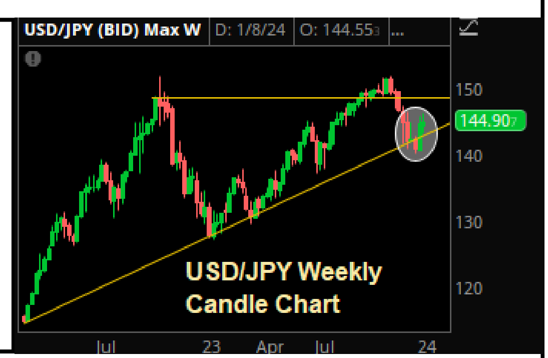
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2076, $2094, $2152
- Key Support Levels: $2030, $2000, $1967

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: 4.059, 4.121, 4.239
- Key Support Levels: 3.907, 3.789, 3.608

Dollar/Yen

- Technical View: The USD/JPY recovered a longstanding uptrend line to start 2024, however, the heavy price action in late 2023 leaves the outlook neutral.
- Proprietary Model: **Neutral (since the week of December 25, 2023)**
- Key Resistance Levels: 145.75, 146.79, 148.31
- Key Support Levels: 143.83, 142.37, 140.18



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Fundamental Market View
(Updated 1/14/2024)

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 rallied last week thanks mostly to falling Treasury yields as markets ignored a hot CPI report and hawkish Fed rhetoric to log a solidly positive return and push the S&P 500 slightly high on the year.*

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 declined modestly last week despite an increase in geopolitical tensions as concerns about economic growth and oversupply continue to be a formidable headwind on the oil markets.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as expectations for a March rate cut from the Fed were unchanged despite the hot CPI report.*
Treasuries	**Turning Positive**	*The 2-year Treasury yield dropped sharply last week despite the hot CPI report as markets more aggressively priced in a March rate cut.*

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.