# SEVENS REPORT

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

***January 17, 2024***

## Pre 7:00 Look

- U.S. futures are tracking global shares lower as the ECB's Lagarde was the latest to push back on overly dovish policy expectations while Chinese economic data showed consumer weakness and inflation reaccelerated in Europe.
- Econ Today: Retail Sales (E: 0.4%), Import & Export Prices (E: -0.6%, -0.6%), Industrial Production (E: -0.1%), Housing Market Index (E: 38). Fed Speak: Barr (9:00 a.m. ET), Bowman (9:00 a.m. ET), Williams (3:00 p.m. ET).
- There is a 20-Yr Treasury Bond auction at 1:00 p.m. ET.
- Earnings Today: SCHW ($0.65), CFG ($0.60), DFS ($2.50).

| Market | Level | Change | % Change |
|---|---|---|---|
| S&P 500 Futures | 4773.50 | -25.00 | -0.52% |
| U.S. Dollar (DXY) | 103.402 | .050 | 0.04% |
| Gold | 2027.70 | -2.50 | -0.12% |
| WTI | 70.77 | -1.63 | -2.25% |
| 10 Year Yield | 4.062 | -.004 | -0.10% |

## Equities

*Market Recap*

After a brief respite last week, the early 2024 volatility picked up again Monday with stocks coming for sale amid a rebound in bond yields and firming dollar as investors dialed back a rather dovish Fed policy outlook for 2024. The S&P 500 fell 0.37%.

Stocks were lower from the start yesterday as hawkish commentary by multiple ECB officials over the long weekend pushed the 10-Yr Treasury yield back above 4% in early trade while MS reported a year-over-year decline in profit sparking a 4%-plus selloff in the company's stock. Results from GS and PNC were less underwhelming and more in line with estimates, leaving the shares of those two banks largely unchanged.

A downright terrible Empire State Manufacturing Index and mostly favorable Canadian inflation report that showed core CPI fell to 2.6% from 2.8% in December failed to rekindle any dovish money flows and stocks continued to trade with a risk-off tone into the late morning. It did not help that the Fed's Waller joined his global central banking peers in pushing back on overly aggressive rate cut expectations when he spoke midday. That saw the market roll over to fresh session lows in the early afternoon. The S&P 500 reversed sharply off the derivative-sensitive 4,750 level and rallied back to end the session in the upper half of the day's trading range, revealing a flicker of bullish price action to start the holiday-shortened trading week.

*Sentiment Update*

Three times last year investor (and advisor) sentiment proved to be a powerful market influence as extremely negative sentiment in early 2023 was an important ingredient for the first half 2023 rally, while overly optimistic sentiment in July 2023 left markets vulnerable to disappointment, which came via an August-October pullback. And in the depths of that August-October pullback (which had some investors nervous the S&P 500 could break through 4,000), extremely negative sentiment again laid the groundwork for the Q4 rally. And we're once again at levels in sentiment that can coincide with more sustainably volatile markets.

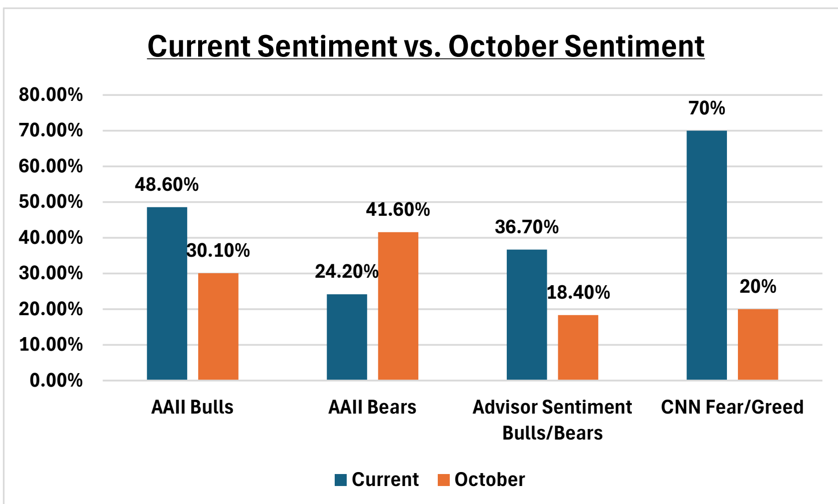
Now, to be clear, sentiment, by itself, doesn't lead to a market turnaround. Actual events (positive or negative) need to occur. But those events combine with extremes in sentiment to fuel powerful market moves such as those referenced above. As such, it's important to know

| Market | Level | Change | % Change |
|---|---|---|---|
| Dow | 37,361.12 | -231.86 | -0.62% |
| TSX | 20,948.09 | -113.79 | -0.54% |
| Stoxx 50 | 4,399.36 | -47.15 | -1.06% |
| FTSE | 7,445.61 | -112.73 | -1.49% |
| Nikkei | 35,477.75 | -141.43 | -0.40% |
| Hang Seng | 15,276.90 | -589.02 | -3.71% |
| ASX | 7,393.08 | -21.71 | -0.29% |
| Prices taken at previous day market close. | | | |

when sentiment becomes very positive or negative because if an event occurs that's contrary to that sentiment, it can cause a sharp and intense move across markets.

| Market | Level | Change | % Change |
|---|---|---|---|
| DBC | 21.87 | -.19 | -0.86% |
| Gold | 2032.10 | -19.50 | -0.95% |
| Silver | 23.10 | -.22 | -0.96% |
| Copper | 3.7670 | .0265 | 0.71% |
| WTI | 72.20 | -.48 | -0.66% |
| Brent | 78.10 | -.05 | -0.06% |
| Nat Gas | 2.857 | -.456 | -13.76% |
| RBOB | 2.1240 | .0037 | 0.17% |
| DBA (Grains) | 20.75 | .14 | 0.70% |
| Prices taken at previous day market close. | | | |

That reality is important because market sentiment is extremely (and unsustainably) positive and that means this market is vulnerable to a sharp, scary pullback if we get real, negative news. We watch three different measures of investors and advisor sentiment: The CNN Fear/Greed Index, the American Association of Individual Investors Investor Sentiment Survey, and Investors Intelligence Advisor Sentiment Survey. All three are in extremely positive territory and are at complete odds with readings at the lows in October.




- The CNN Fear/Greed Indicator currently sits at 70 (on a scale of 0-100). That's deeply in the "Greed" zone and very close to "Extreme Greed" (in fact, it was in Extreme Greed two weeks ago). Comparatively, in early October this indictor was at 20, or an "Extreme Fear" reading. The Fear/Greed Index has become more widely followed on the Street because it incorporates seven different momentum and sentiment indicators and, as such, provides a wide view of current investor and market sentiment. And the message is clear: Investors are greedy and do not see material risks near term.
- AAII Investor Sentiment Survey shows 54.4% bulls. This survey asks respondents (individual investors) whether their outlook is bullish or bearish and the percentage of respondents that say they're bullish, bearish or neutral is tracked over time. Anything over 37.5% bulls is considered extremely bullish so this recent reading of 54.4% is basically off the charts and very near some of the most bullish levels in years! Conversely, the percentage of bears is just 24%, well below the historical average of 31%. Comparatively, the percentage of bulls at the October lows was just 30% (below the long-term average of 37.5%) and the number of bears was 41.6%, well above the historical average of 31%. Again, the message is clear: Investors are extremely bullish about the outlook and not overly concerned about risks.
- Investors Intelligence Advisor Sentiment Survey has a Bulls/Bears spread of 36%. The Investors Intelligence Advisor Sentiment Index is similar to the AAII survey but it polls financial advisors, not individual investors. It's also referenced slightly differently as a spread of bulls/bears as opposed to percentages of each vs. a benchmark. Regardless of the methodology, however, the message is the same: Advisors are very bullish. At 36%, that difference between bullish respondents and bearish respondents shows financial advisors are strongly bullish as it's solidly over the 30% historical average. Additionally, a Bull/Bear spread between 35%-45% is considered to signal elevated chances for a correction, and at 36%, it's within that range. Comparatively, at the October lows the Bulls/Bears spread hit a low of 18.4%, an extremely bearish reading. So, the message is clear: Financial advisors and individual investors are very bullish near term and are not concerned about outlook risks.

*What Does This Mean to You?*

These sentiment indicators mostly provide concrete proof of what most of us already feel and know, namely that sentiment is very bullish and quasi-complacent and that means this market is vulnerable to a potentially outsized decline, and if we get legitimate bad news on 1) Growth, 2) Inflation, 3) The Fed or 4) Geopolitics/politics then this extreme bullishness will make any pullback worse than it should be (based on just fundamentals).

I believe there are two practical takeaways from this reality. First, if you have clients who are averse to "air pockets" in stocks, consider reducing volatility in their portfolios now via hedges or reallocating to lower volatility holdings because if we get a negative event and it combines with this sentiment, we could have a steep decline. Second, if you have clients who are looking to "scoop" then be prepared for a pullback to go longer/deeper than expected but also provide a more attractive entry point for adding long exposure, as long as none of the headlines are bearish gamechangers (if they are, we'll tell you).

Finally, regarding what these negative news items could be, I believe the most likely candidates are 1) Earnings disappointment, 2) Economic growth worries and 3) A geopolitical surprise. We'll be on the lookout for any potential negative surprises from these areas (and anywhere else, including the Fed) as it's these areas we think are the most fertile for a negative surprise.

## Economics

Empire Manufacturing Survey

- The January Empire State Manufacturing Survey collapsed to -43.7 vs. (E) -4.7.

*Takeaway*

The first data point for January collapsed as the Empire Manufacturing survey plunged to the worst levels since the depths of the Covid pandemic and national lockdowns.

Empire manufacturing is a volatile number and it needs to be taken with a grain of salt, but the drop in the headline readings was confirmed by most of the details including New Orders (the leading indicator in the report) which fell to -49.4 vs. from the previous -11.3. Shipments and employment metrics also fell, confirming the widespread slowing of manufacturing activity in the New York state region.

From a market reaction standpoint, stocks declined modestly on the number but currencies and bonds totally ignored it, as the dollar and bond yields surged (more on that in Currencies & Bonds) and that's the opposite reaction we'd expect to this number (currencies and bonds were more driven by Waller's comments than Empire manufacturing).

This is just one regional report and as such it's not an indictment of the U.S. economy. That said, it's a horrible report and if it's confirmed by Philly Fed (Thurs) and, more importantly, next week's national flash PMIs, then expect hard landing worries to rise and for stocks to become more volatile. Bottom line, investors are not prepared for (and markets are not priced for) a sudden and steep slowing of growth. And if that becomes a real concern, expect more volatility.

## Commodities

Commodities were mostly lower to start the week as the headwinds of a stronger dollar and rising interest rates weighed on energy and precious metals while industrial metals were able to buck the heavy trend and rally thanks to better than initially expected growth in China last year. The commodity ETF, DBC, fell 0.86%.

Beginning with the upside standout, copper futures rallied a relatively solid 0.71%, especially considering the rest of the complex was decidedly weaker Monday. The catalyst for the strength came from China's Premier Li announcing that the economy was stronger than expected in 2023, expanding at a rate of 5.2%, which was slightly better than the initial expectation of 5.0% growth. The positive economic outlook by Li helped copper claw back some of the prior week's losses that left

| Market | Level | Change | % Change |
|---|---|---|---|
| Dollar Index | 103.10 | .95 | 0.93% |
| EUR/USD | 1.0871 | -.0079 | -0.72% |
| GBP/USD | 1.2630 | -.0097 | -0.76% |
| USD/JPY | 147.26 | 1.53 | 1.05% |
| USD/CAD | 1.3500 | .0072 | 0.54% |
| AUD/USD | .6583 | -.0077 | -1.16% |
| USD/BRL | 4.9303 | .0650 | 1.34% |
| 10 Year Yield | 4.066 | .116 | 2.94% |
| 30 Year Yield | 4.303 | .106 | 2.53% |
| 10's-2's | -16 bps | | |
| Date of Rate Cut | March 2024 | | |
| 2024 YE Fed Funds | 3.86% | | |
| Prices taken at previous day market close. | | | |

futures to end Friday at a one-month low.

Copper remains in a well-defined downtrend on the daily charts, which is consistent with rising worries about the health of the global economy. As long as copper is trending lower it will be hard to picture a sustainable risk-on rally in stocks emerging as better investor sentiment towards global growth is likely necessary for the S&P 500 to move to meaningful new highs.

In precious metals, the less-dovish money flows across asset classes were clear yesterday with March rate cut expectations fading, the 10-Yr yield rising more than 10 basis points to handily top 4% again while the dollar soared to a one-month high; all of which weighed heavily on gold. Gold continued to hold above the key technical support zone between $2,020 and $2,030/oz. that has been supporting futures since the late-2023 break to new record highs. Looking ahead, gold prices could fluctuate here based on whether money flows continue to give back some of the dovish moves from late 2023, but on a longer time frame the outlook for gold and precious metals remains positive.

Oil futures dropped modestly to start the week as some of the long weekend fear-bid in the energy market due to the ongoing geopolitical tensions in the Middle East unwound despite escalating tensions. WTI crude oil futures fell 0.39% on the session.

There were several more attacks mounted on ships in the Red Sea by Iran-backed rebel forces over the weekend prompting more global shipping companies to announce plans to steer clear of the waterway and take longer trader routes indefinitely. Additionally, Iran mounted missile attacks on targets in Iraq and Syria, claimed to be in retaliation for coordinated strikes on Iranian supported militants in Yemen last week. The negative geopolitical news failed to spark a meaningful rally in oil as traders are beginning to doubt supply or infrastructure will be impacted by the regional unrest while the recent rebound in interest rates threatens to weigh on demand near term. Bottom line, WTI remains stuck in a tight trading range between $70 and $74/barrel so far in 2024 and unless we see a meaningful bullish catalyst, the risks of another test and potential violation of longstanding support at $67/barrel will remain elevated.

## Currencies & Bonds

Treasury yields and the dollar rose sharply on Monday despite generally lackluster U.S. and global economic data. The Dollar Index rose 0.96% while the 10-year yield gained 11 basis points.

The strong rally in the dollar and yields came despite the ugliest Empire State Manufacturing Index since the depths of the pandemic. While it's just a regional report and volatile, the fact that it collapsed can't be totally ignored and if we get a similar message from the Philly report and next week's flash PMIs, look for growth worries to rise and for that to pressure the dollar and yields.

But that absolutely did not happen on Tuesday as the dollar was boosted by 1) More negative sentiment towards the Chinese economy, 2) Lackluster EU growth data and 3) Fed Governor Waller repeating dovish commentary but, most importantly, saying he did not think rate cuts needed to be as quick or dramatic as in past cycles. That comment directly pushes back on the market's expectation for four-to-six rate cuts and that's the main reason we saw yields move sharply higher and the dollar stay buoyant. Looking internationally, the euro and pound declined 0.7% while the yen dropped 0.9%. The Dollar Index closed at a one-month high.

In Treasuries, yields rose sharply as the 2-year yield gained 9 basis points while the 10-year yield rose 11 basis points. Markets reacted primarily to Waller's comments about the pace of rate cuts being slower than current market expectations and that did push yields higher, just as you thought it would. And as was the case last year, if we see an acceleration of yields to the upside, expect a headwind on stocks to increase.

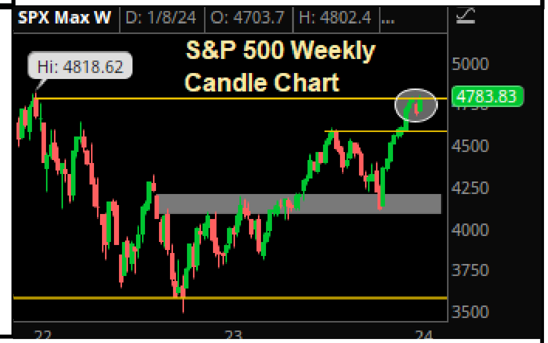
Have a good day,

Tom

# SEVENS REPORT

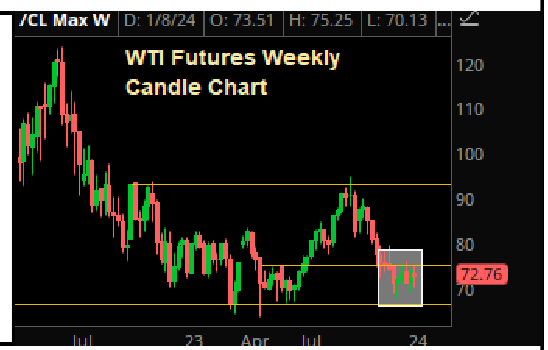
## Technical Perspectives (Updated 1/14/2024)

## *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

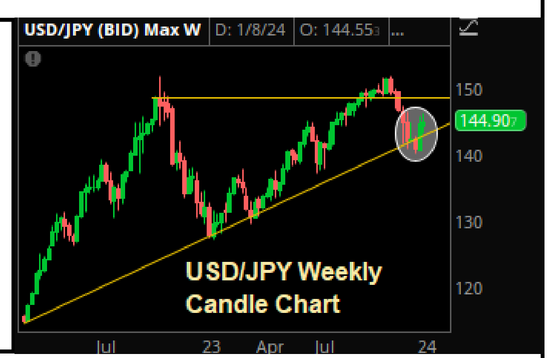
## *Gold*


- 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

# SEVENS REPORT

**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:**<br>**Cautious**<br>**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.