SEVENS REPORT

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

January 19, 2024

Pre 7:00 Look

- Futures are extending Thursday's tech driven rally thanks to another round of solid earnings and dovish global data.
- J.B. Hunt (JBHT), an important transportation company, beat earnings estimates and that's helping to extend Thursday's rally.
- Economically, German PPI declined –1.2% vs. (E) -0.4%, further implying inflation pressures are easing in the EU.
- Econ Today: Existing Home Sales (E: 3.82 million). Fed Speak: Barr (1:00 p.m. ET), Daly (4:15 p.m. ET).
- Earnings: TRV ($5.01), ALLY ($0.44).

Market	Level	Change	% Change
S&P 500 Futures	4,835.00	23.75	0.34%
U.S. Dollar (DXY)	103.32	-0.21	-0.20%
Gold	2,033.50	11.90	0.59%
WTI	74.07	-0.01	-0.01%
10 Year Yield	4.13%	-0.01	-0.34%

Equities

Market Recap

Stocks enjoyed a solid rally on Thursday thanks to mostly Goldilocks economic data and strength in tech following solid earnings and upgrades. The S&P 500 rose 0.88%.

Stocks started Thursday with a modest bounce as earnings overnight from Taiwan Semiconductor (TSMC) were better than expected, while Bank of America upgraded Apple (APPL). Additionally, economic data on Thursday was mixed as Philly Fed was weak, but not as bad as feared and actually improved from December while jobless claims remained low and Housing Starts were better than expected. The net result, in aggregate, was that the data was Goldilocks enough not to impact Fed rate cut decisions and as such, stocks held onto the gains through lunchtime.

Markets dipped midday and the Russell 2000 and Dow turned briefly negative on higher yields and on weakness in large-cap healthcare. Comments by the Atlanta Fed's Bostic about rate cuts potentially coming in Q3 (well after the market's March expectation) also weighed slightly on stocks. In the end, tech stocks were strong and supported markets and Bostic's comments were viewed as just one opinion, so stocks rebounded and drifted higher in the afternoon to close with solid gains.

Trading Color

Earnings and corporate actions drove market internals Thursday as tech and industrials led markets higher. On an index level, the Nasdaq was the clear outperformer, rising 1.5% thanks to strength in semiconductors following TSMC earnings and following the AAPL upgrade by BofA. The S&P 500 rose while the Dow Industrials and Russell 2000 both relatively lagged, rising 0.55% each.

On a sector level, performance was mixed as six sector SPDRs rallied while five declined, led by Tech (XLK), which rose 2%. Industrials (XLI) also traded well, rallying 1.35% on solid economic data and a bounce in Boeing (BA) which rose 4.2%. Communications (XLC) also posted a solid gain, up 1.2% as social media and search names rose in sympathy with tech. Bottom line, tech helped carry markets higher on Thursday as solid corporate news and relative calm in Treasury yields allowed stocks to bounce and recoup most of Wednesday's losses.

"Smart Market" Sentiment: Credit Spreads Are Risk-On

Earlier in the week we published our latest update on investor sentiment covering several of the most widely

Market	Level	Change	% Change
Dow	37,468.61	201.04	0.54%
TSX	20,756.73	61.71	0.30%
Stoxx 50	4,467.70	14.65	0.33%
FTSE	7,490.76	31,67	0.42%
Nikkei	35,963.27	497.10	1.40%
Hang Seng	15,308.69	-83.10	-0.54%
ASX	7,421.24	74.76	1.02%
Prices taken at previous day market close.			

followed investor and advisor sentiment gauges for the financial markets. The main takeaway from that update was that investor sentiment has improved considerably since the October lows were established in stocks. And while the mood on Wall Street is not overly "frothy" relative to market history, the generally optimistic mindset of the majority of investors suggests the long side of the market has become overcrowded. Ultimately, a crowded long trade leaves the risk of a multi-percentage-point pullback in stocks elevated if a negative catalyst were to emerge.

Market	Level	Change	% Change
DBC	21.98	.14	0.64%
Gold	2022.90	16.40	0.82%
Silver	22.88	.21	0.91%
Copper	3.7535	.0205	0.55%
WTI	74.04	1.48	2.04%
Brent	79.07	1.19	1.53%
Nat Gas	2.702	-.168	-5.85%
RBOB	2.1773	.0419	1.96%
DBA (Grains)	20.83	.22	1.08%
Prices taken at previous day market close.			

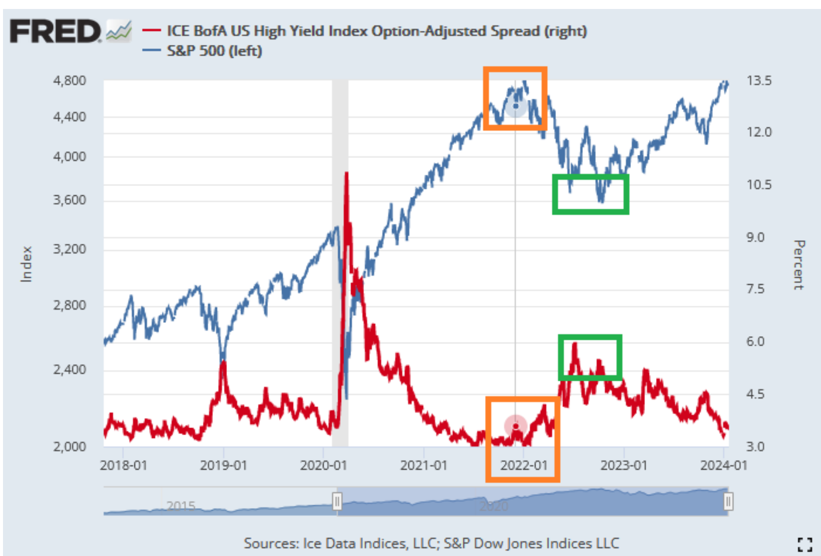
With the threat of a pullback in mind, two logical questions come for investors are: 1) How far could stocks drop? And 2) Could the early 2024 highs mark a lasting peak in the stock market?

To answer those two questions we turn to the bond market, which is affectionately referred to as the "Smart Market" on Wall Street as the more complex fixed income markets tend to be "right" when there is a divergence between stocks and bonds with regard to offering long-term cyclical signals. The flagship example of this dynamic is the fact that an inversion in the Treasury yield curve has preceded every recession in modern market history, yet equities almost always continue to rally to new highs during inversion as equity investors look for excuses to explain why "it's different this time." In the end, bonds are almost always right.

Similar to the yield curve, credit spreads can be a very effective tool in assessing broader market conditions across asset classes as they shed light on what is happening under the surface of the fixed income markets and importantly offer a read on sentiment in the bond market. Simply put, credit spreads are the difference in yield between two bonds with the same maturity but different quality ratings. One of the most popular and widely followed is the spread between junk rated corporate bonds and "riskless" Treasuries.

Historically, when credit spreads begin to rise, or widen out, it signals a negative shift in bond market sentiment and usually precedes a negative shift in stock market sentiment. Case in point, credit spreads jumped towards a one-year high in late 2021 (red line on the chart here) indicating a meaningful deterioration in bond market sentiment while the S&P 500 powered higher into the early days of 2022 (orange boxes on the chart) before the bear market of that year took hold.

Conversely, when credit spreads decline, or tighten, it indicates a rising appetite for risk within the bond markets. To that point, in October 2022, when the S&P 500 collapsed to new lows for the year, credit spreads remained well off the widest levels of the year, which was a divergence that historically favored a bullish reversal in stocks that eventually came to fruition (green boxes).



So, what are credit spreads saying about the market and risks of a lasting downturn today? They suggest the odds of a major reversal are low as benchmark credit spread readings are currently drifting near the cycle lows. So, while overly positive/bullish sentiment suggests the risks of an imminent pullback on a bearish catalyst are elevated, the odds of such a pullback gaining lasting or meaningful downside momentum are currently rather low. If we see a sudden, sharp rise in credit spreads amid the backdrop of an overcrowded long trade in the broader stock market, we could be in for a steep and deep decline in the weeks or months ahead.

Economics

Philadelphia Fed Manufacturing Business Outlook Survey

- January Philly Fed rose to -10.6 vs. (E) -6.7.

Takeaway

There was some added anxiety for Thursday's Philly Fed manufacturing Survey following the implosion of Empire Fed on Tuesday, because if Philly matched that collapse there would have been a palpable increase in hard landing concerns. But that did not occur as Philly remained in negative territory and was weaker than expected, but importantly rose from the -12.8 reading in December. The details of the report were also "ok" as New Orders, the leading indicator in the report, rose to -17.9 from -22.1.

Empire and Philly being solidly negative does signal that manufacturing activity in the most populous regions of the country remains under pressure. But there's enough discrepancy in the data to keep hard landing concerns at bay, for now.

From a market reaction standpoint, this data hit at the same time as the very low jobless claims and together was taken as "Goldilocks enough" that it didn't impact Fed rate cut expectations or economic growth expectations and stocks held their gains following the release. Looking forward, next week's flash composite PMIs will be closely watched to see if it mirrors the weakness in Empire and/or Philly. If it does, look for some hard landing concerns to rise and put a mild headwind on stocks.

Market	Level	Change	% Change
Dollar Index	103.32	.11	0.11%
EUR/USD	1.0865	-.0018	-0.17%
GBP/USD	1.2691	.0015	0.12%
USD/JPY	148.26	.10	0.07%
USD/CAD	1.3501	-.0005	-0.04%
AUD/USD	.6565	.0013	0.20%
USD/BRL	4.9301	-.0015	-0.03%
10 Year Yield	4.144	.038	0.93%
30 Year Yield	4.371	.059	1.37%
10's-2's	-21 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	4.02%		
Prices taken at previous day market close.			

Commodities

Commodities were mostly higher led by energy futures as oil rallied on supply outages both domestically and abroad. Within the metals, precious varieties outperformed industrials amid an uptick in inflation worries but both types rallied on the day. The commodity ETF, DBC, gained 0.64%.

Gold outperformed amid a little-noticed uptick in market-based inflation expectations as the 5-Year breakeven inflation rate (5-Yr Treasury Note Yield less 5-Yr TIPS yield) jumped to 2.30%, a two-plus-month high. Considering the fact that the dollar continued to climb higher, albeit at a more modest pace than recent gains, and Treasury yields were higher yesterday most investors would have expected a decline in gold rather than a 0.84% rally. Looking ahead, the outlook for gold remains bullish on a longer time frame, but a more-pronounced pullback before an advance towards the record highs should not come as a surprise, especially if there is an unexpected hawkish catalyst for markets in the sessions ahead.

Copper futures rallied amid the risk-on money flows in equities and as high-frequency labor market data pointed to a still-resilient and very tight jobs market. Copper futures rallied 0.56%. Copper continues to pullback from recent highs but on a longer time frame futures are still rangebound and not currently offering a great anecdotal read of the macroeconomic backdrop.

EIA Takeaways and Oil Update

Yesterday's delayed release of the weekly EIA inventory data was net bullish on the headlines as oil inventories declined more than expected while product builds were not as large as feared. Meanwhile, the details were mixed and slightly favored the oil bears. WTI futures rose 2.06%.

Starting with the headlines, commercial crude oil stockpiles fell by -2.5 million barrels vs. (E) -900K and the API's reported build of +483K bbls. Gasoline supply rose by +3.1MM bbls, a bit more than the expected build of +2.5MM but well below the API's reported build of +4.86MM, which boosted the "whisper number" ahead of the report. Distillate supply, meanwhile, rose +2.4MM well above the consensus estimate of +600K but less than half of the API's reported build of +5.21MM. The larger draw in crude stocks and smaller builds in the official data relative to the API were net bullish, and oil as well as the refined product futures rallied in the wake of the release.

In the details, the EIA reported a rebound back to a record high 13.3MM b/d in total U.S. production last week but that figure will fall by roughly 600K b/d based on the latest update provided by the North Dakota Pipeline Authority who noted as much as 650K b/d in output could be idled. In weekly terms that would mean a drop of 4.5 million barrels of newly available oil this week, which accounts for about 25% of weekly refinery inputs (16.7 million barrels/day as of last week). Oil operations should come back on as the weather passes but the threat of complications being encountered in that process is fueling a supply side fear bid this week. Turning to the demand metrics in the report, they were not very rosy as gasoline supplied, an implied measure of consumer demand, fell 57K b/d to 8.3 million barrels/day. That left the smoother look at the data in the form of the four-week moving average at 8.4 million b/d, the lowest since early October. Fading demand amid an uncertain economic outlook remains one of the most significant threats to the oil market in 2024, so gasoline supplied warrants watching in the weeks ahead.

Looking ahead, it appears the market is poised to rebound off the lower bound of the long-standing support zone centered around $70/barrel and attempt a run beyond the late-December highs in the upper $70s to revisit the psychological $80/barrel level. If any of the aforementioned price-supportive factors go away, expect a pullback towards the $70 level.

Currencies & Bonds

After several days of volatility there was relative calm in the currency and bond markets Thursday as the dollar and Treasury yields were, mostly, little changed.

There were several U.S. economic data points on some notable Fed speak on Thursday, including the soft Philly Fed Manufacturing Survey, the very low jobless claims, the larger-than-expected housing starts and Atlanta Fed President Bostic stating he thought Q3 was a good time for a potential rate cut. But none of it moved the dollar which started the day higher, up 0.15%, and drifted lower back to flat by day's end. And while those headlines are notable, the reality is that none of them moved the outlook for the Fed or rate cuts and considering the dollar's recent rally, it was due for some consolidation and that's what happened on Thursday.

Internationally, the only notable number yesterday was the Australian jobs report, which was much weaker than expected. Aussie jobs declined -65k vs. (E) 15k and to underscore just how much of a loss that is, the Aussie population is about 25 million, so the equivalent would be a more than 650k job losses in the U.S. Bottom line, it was a shockingly bad number and since the whole global economy is linked together (especially recently) it did get the market's attention. But other than hitting the Aussie dollar moderately, that number didn't impact markets and the euro, pound and yen were all little changed.

In Treasuries, much of the volatility this week was in the front end of the curve as Fed rate cut expectations for March declined, but that wasn't the case on Thursday and because none of the data or Fed speak moved rate cut expectations. As a result, the 2-year yield was flat.

However, the 10-year yield rose 4 basis points as on balance, the economic data in the U.S. was better than expected and the low jobless claims and solid Housing Starts pointed towards resilient growth, while the 2% rally in oil increased some inflation expectations as the 10-year yield rose to a one-month high. However, the rise in yields wasn't enough to pressure stocks on Thursday, although going forward we should continue to expect higher yields to be a negative on stocks, especially if we see an acceleration in the rally in the 10-year yield above 4.25% and towards 4.50%.

Have a good weekend,

Tom

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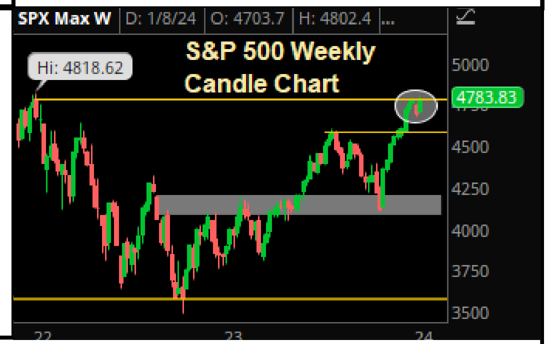
Technical Perspectives (Updated 1/14/2024)

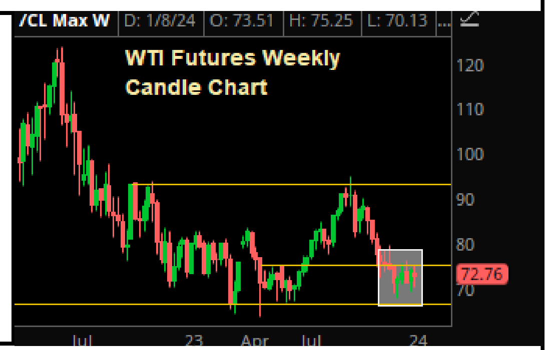
S&P 500

- 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

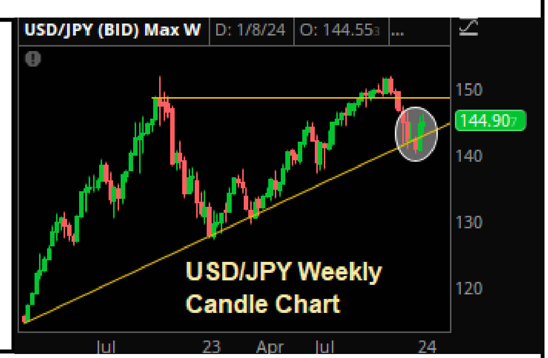
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2076, $2094, $2152
- Key Support Levels: $2030, $2000, $1967

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



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: **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.