SEVENS REPORT

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

January 26, 2024

Pre 7:00 Look

- Futures are modestly lower following a night of underwhelming earnings results.
- INTC (stock down 10% premarket) gave soft guidance while V and TMUS (stocks down –3% each) posted underwhelming results.
- Economically, German GfK Consumer Climate missed (-29.7 vs. (E) -24.5) but that's not moving markets.
- Econ Today: Core PCE Price Index (E: 0.2% M/M, 3.0% Y/Y), Pending Home Sales (E: 1.3%).
- Earnings: AXP ($2.65), CL ($0.85), NSC ($2.90).

Market	Level	Change	% Change
S&P 500 Futures	4,917.00	-6.75	-0.13%
U.S. Dollar (DXY)	103.28	-0.29	-0.28%
Gold	2,023.60	5.80	0.29%
WTI	76.74	-0.62	-0.80%
10 Year Yield	4.12%	-0.01	-0.24%

Equities

Market Recap

Stocks chopped sideways in modestly positive territory yesterday following more Goldilocks economic data, mixed but net positive earnings reports, and a stable bond market. The S&P 500 rose 0.53%.

The major U.S. equity indexes gapped higher for the second day in a row at the open yesterday amid favorable economic news and mostly solid earnings news. Economically, headline GDP came in well ahead of expectations at 3.3% while most measures of inflation in the release declined to, or through, the Fed's 2% target last quarter. Solid details from the Durable Goods release (despite a weak headline) and a rebound in jobless claims helped shore up hopes for a soft landing and ease worries about the Fed being forced to remain hawkish due to a very tight labor market and sticky high inflation.

On the earnings front, TSLA results were a disaster as the company missed on both the top and bottom line and cautioned about lower volume growth in 2024, sending the shares down 12.1%. Conversely, computing-giant IBM posted solid results with strong guidance sending the company's stock up as much as 13% in intra-day trade. Upbeat earnings reports from luxury brand owner LVMH based in Europe and domestic airline giant AAL both indicated no material weakness emerging among the consumer into the end of 2023, setting the economy up for a solid 2024.

The ECB decision was digested as mildly dovish which helped risk assets early but the subsequent dollar strength became a headwind and stocks began to rollover as traders looked ahead to today's inflation data. The morning selling pressure began to ease in the early afternoon thanks to a solid 7-Yr Treasury Note auction, which weighed on yields as the auction was a favorable contrast to Wednesday's notably weak 5-Yr auction. After filling a gap back to Wednesday's close, the S&P 500 began to drift steadily higher into the close, ending comfortably in the upper half of the session's trading range.

Earnings or GDP—Which Is A Better Gauge of the Economy?

Are earnings or GDP a better gauge of the economy?

I imagine most people would say GDP, and I bring this up because yesterday, the first look at Q4 GDP printed 3.3%, a strong number indeed. And the financial media headlines around that number were as you'd expect: That U.S. economic growth is very strong. But while GDP

Market	Level	Change	% Change
Dow	38,049.13	242.74	0.64%
TSX	21,101.54	75.76	0.36%
Stoxx 50	4,618.16	35.90	0.78%
FTSE	7,617.38	87.65	1.16%
Nikkei	35,751.07	-485.40	-1.34%
Hang Seng	15,952.23	-259.73	-1.60%
ASX	7,555.36	36.17	0.48%
Prices taken at previous day market close.			

is the most useful number to give us an idea of total economic activity in the U.S., it's actually not that useful in telling us what comes next.

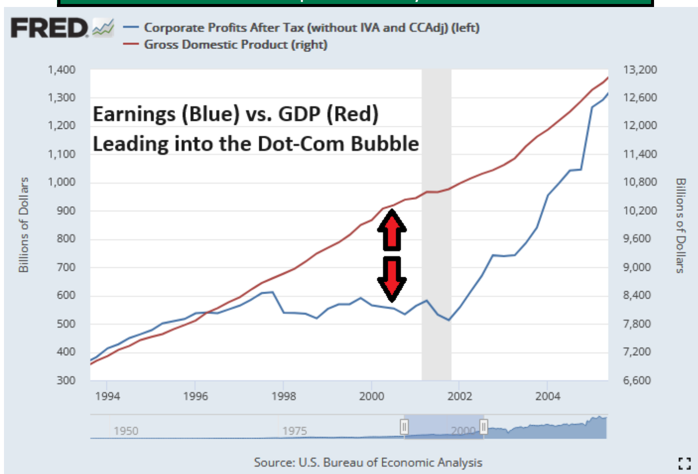
I say that for two reasons. First, GDP can be massively influenced by inventories (which can rise and inflate GDP, but not translate to economic growth) and trade balance, as imports and exports can impact GDP but give misleading signals about growth.

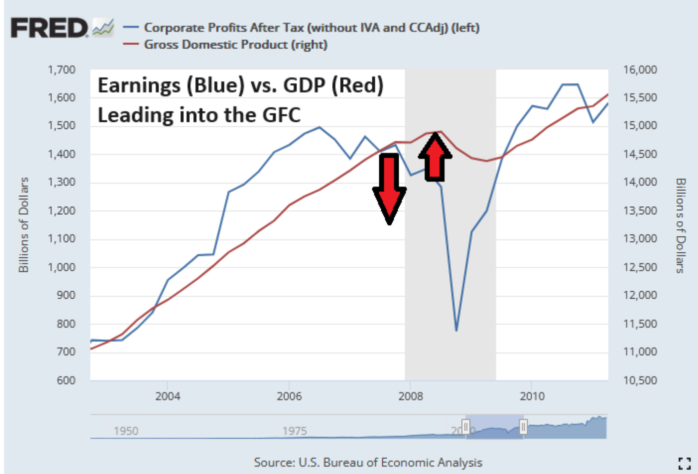
Market	Level	Change	% Change
DBC	22.51	.17	0.76%
Gold	2,018.00	2.00	0.10%
Silver	23.00	.11	0.48%
Copper	3.8685	-.0175	-0.45%
WTI	77.38	2.29	3.05%
Brent	82.48	2.44	3.05%
Nat Gas	2.580	-.061	-2.31%
RBOB	2.2615	.0520	2.35%
DBA (Grains)	21.40	-.10	-0.49%
Prices taken at previous day market close.			

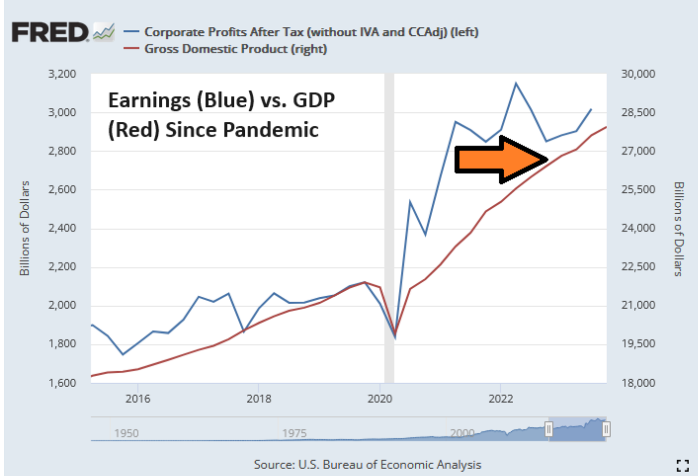
Instead, while they aren't as followed from an economic standpoint, earnings really offer a better look at economic growth. One of the biggest reasons for this is earnings provide linear insights. Here's what I mean.

If a bunch of companies in different industries say October was strong but December was weak (meaning activity declined over the quarter) that's a negative economic signal. Conversely, if the opposite occurs (weak activity in month one of a quarter and strong activity in month three) that's a positive signal on the economy (this is exactly what happened in Q2 '23 earnings and that helped power stocks).

So, what are earnings saying about growth right now? It's still early in the season, but generally speaking non-tech earnings results are confirming what the Hard Landing/ Soft Landing Scoreboard said, i.e. growth is still positive, but it's losing momentum.







We've seen that in commentary from the banks on consumer spending and, especially, on charge off and delinquency rates (Synchrony Financial, which handles primarily consumer loans, saw a big jump in late payers). That commentary has been reinforced by large consumer/industrial companies such as MMM and others.

Bottom line, it's still too early to draw any conclusions about growth from earnings season, and mega-cap tech earnings will still dominate the narrative. So far, non-tech corporate commentary is echoing what we're seeing in the broader economic data, i.e. that growth, while still positive, is moderating. I wanted to point this out because that's a different message than the one from the financial media following yesterday's GDP report.

Economics

Economic data continued this week's trend of being Goldilocks and that data absolutely helped stocks rally, as GDP, Durable Goods and Jobless Claims showed an economy enjoying solid (but not great) growth and strong employment. From a Fed standpoint, there was nothing in the data that would make them less likely to cut rates in March (if they are inclined to do so).

Advance Q4 GDP

- Q4 GDP rose 3.3% vs. (E)

2.0%.

GDP was stronger than expected but this report is a good example of why it's important to look beyond the headline, because an inventory build accounted for about 1/3 of the GDP gains. Point being, growth was solid in Q4, but it wasn't as good as the headline implied. Inventory impacts are why we also look at Final Sales of Domestic Product (the sum of all the "stuff" sold in the U.S. that quarter) and that rose a more modest 2.7%, down from 3.5% in Q3.

Similarly, Consumer Spending (called Personal Consumption Expenditures) rose 2.8% and that number was confirmed by the less-followed Final Sales of Domestic Purchasers, which is the sum of all the "stuff" bought in the U.S. regardless of where it came from (this ignores export/import distortions). Final Sales of Domestic Purchasers rose 2.7%, essentially confirming that in reality, economic growth was between 2%-3% annualized in the fourth quarter. That's a solid number and about "perfect" for the Fed, because it's not the type of growth that will boost inflation. Bottom line, the GDP report showed solid growth and nothing in it will make the Fed more hawkish and that's why it helped stocks rally.

Durable Goods

- December Durable Goods were flat vs. (E) 1.0%.

Similar to the GDP report, the headline reading for Durable Goods was misleading as it implied a disappointing number when, in reality, this showed continued strength in business spending and investment.

Longer time readers know we focus on New Orders for Non-Defense Capital Goods ex-Aircraft in the Durable Goods report because airplane orders can massively impact the headline data and that was the case this month. NDCGXA was strong and rose 0.3% vs. (E) -0.2% and that was after a revised November number that increased to 1.0% from 0.8%. Bottom line, the pace of business spending and investment has slowed, but it's still positive and not contracting and as such it implies stable, but not spectacular, economic growth.

Again, there's nothing in the Durable Goods report that would make the Fed more hawkish and that's why it helped stocks rally yesterday.

Commodities

Commodities were mixed but a sizeable rally in oil supported a 0.76% jump in the commodity ETF, DBC. Gold slipped on the strong economic data and firming dollar while copper was down modestly after hitting new highs as China's stimulus announcement from earlier in the week was digested.

Starting with energy, news flow this week has been almost universally bullish for oil prices and we saw more upside in the futures market yesterday after the market has churned largely sideways for most of the year. WTI ended up 2.90%. Continued uncertainty regarding when idled crude production in North Dakota will come back online paired with Ukrainian attacks on Russian oil and gas infrastructure occurring more frequently and with higher intensity were two of the main bullish catalysts this week. Additionally, there remains no end in sight for the conflict in the Middle East and the attacks on ships in the Red Sea by Houthi rebels backed by Iran, continue to interfere with global shipping routes including seaborn crude oil cargoes. The increasingly backwardation of the oil futures market has offered a real-time read of the rising concerns of an emerging supply deficit in global oil.

Market	Level	Change	% Change
Dollar Index	103.37	.33	0.32%
EUR/USD	1.0835	-.0050	-0.46%
GBP/USD	1.2698	-.0028	-0.22%
USD/JPY	147.80	.29	0.20%
USD/CAD	1.3482	-.0042	-0.31%
AUD/USD	.6579	.0002	0.03%
USD/BRL	4.9261	-.0060	-0.12%
10 Year Yield	4.132	-.046	-1.10%
30 Year Yield	4.380	-.033	-0.75%
10's-2's	-18 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.03%		
Prices taken at previous day market close.			

The only noteworthy bearish developments this week were with regard to the gasoline data in the weekly EIA report as inventories rose despite a drop off in refinery runs and lower refined product deliveries. Bottom line, whether geopolitical tensions in the Middle East and Eastern Europe begin to ease or pick up, and how the trends in the EIA data playout in the weeks ahead (specifically regarding gasoline supply and demand) will be critical to the sustainability of the rally in oil.

In natural gas, last week's -326 MMBTU drop in inventories was the largest since the Great Texas Freeze of February 2021, when inventories declined -338 MMBTU. The headline storage drop was only slightly more than the consensus estimate of -323 MMBTU and inventories remain 4.0% above the corresponding week in 2023 and 5.2% below the 5-Yr average. The absence of a more shocking headline draw in nat gas storage given worries of a possible record draw leading into the report resulted in nat gas futures giving back their big morning gains to end the day down 1.97%.

On the charts, the technical outlook for nat gas is improving modestly but the price action is far from bullish. A close above the early 2024 high of $3.33 would be a bullish near-term development while a run beyond the current 52-week high of $3.61 should be considered a signal that a more sustainable rally in natural gas is developing.

In metals, copper tested the 2024 highs in early trade before risk-off money flows and digestion of the big gains Wednesday following the Chinese stimulus announcement. Industrial metals have stabilized and begun to rebound with copper threatening to turn positive for the year, which is supportive of the general risk-on move and equity market rally so far in 2024.

Gold was initially higher amid dovish money flows in the wake of the ECB, but futures gave back gains to end the day little changed ahead of today's PCE Price Index release, the final catalyst for the week. Gold continues to hold above the psychological $2,000/oz. mark but that could be forfeited in the event of a hot inflation print today. Conversely, a "Fed-friendly" number this morning has the potential to send futures back to the 2024 highs.

Currencies & Bonds

The dollar rallied modestly Thursday thanks to a slightly more-dovish-than-expected ECB decision and following solid U.S. economic data. The Dollar Index rose 0.26%.

The dollar was higher from the start on Thursday thanks to two main factors: The ECB and economic data. ECB President Lagarde didn't materially push back on the idea that ECB rate cuts could come in the first half of the year, although officially she still pointed to the summer as the most likely period. That, in turn, weighed on the euro which declined 0.5% on the day. It also weighed on the pound in sympathy, which fell a more modest 0.2%.

Then at 8:30 a.m. we received several U.S. economic reports including Advanced Q4 GDP, Durable Goods and Jobless Claims and all three of them were solid reports. That added to the upward momentum in the dollar and the greenback drifted steadily higher on solid data and not-hawkish ECB speak to finish within striking distance of 104, a level last seen six weeks ago.

Bottom line, the dollar continues to drift higher as the market reassess the outlook for Fed rate cuts (later than expected) and ECB/BOE rate cuts (possibly sooner than expected). Until that changes we can expect a generally buoyant dollar in the mid-to-lower 100's (which is no longer a tailwind on stocks like it was the past month, but not a headwind, either).

In Treasuries, yields declined thanks to the ECB commentary which left open the possibility of rate cuts before the summer (and at the least kept the expectation for rate cuts this summer). The 2-year yield fell 5 basis points while the 10-year yield fell 3 basis points. Both were pushed lower by a 5-bps decline in the 10-year German Bund yield. Also pressuring yields was a solid 7-year Treasury auction that countered Wednesday's soft 5-year offering.

Finally, economic data yesterday was solid but it didn't result in higher yields because of the aforementioned factors and also because the data wasn't good enough to change Fed expectations and that's important to remember going forward. In order for economic data to move yields, it must be so good or so bad it alters the market's outlook for rate cuts and either pushes it back more (yields higher) or pulls it forward (yields lower). Going forward, the calmer yields are (like yesterday) the more they'll support these gains in stocks.

Have a good weekend,

Tom

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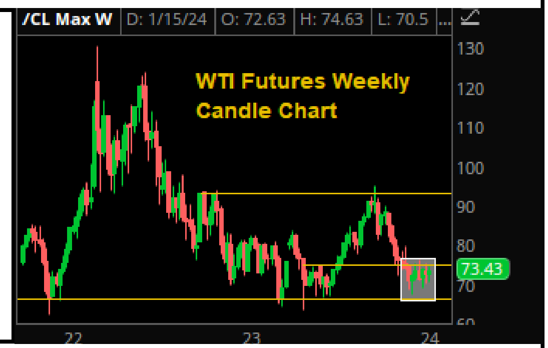
Technical Perspectives (Updated 1/21/2024)

S&P 500

- Technical View: **The medium-term trend in equities remains bullish** confirmed by the latest run to all-time highs in the benchmark equity index.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 4875, 4900, 4950
- Key Support Levels: 4783, 4697, 4598

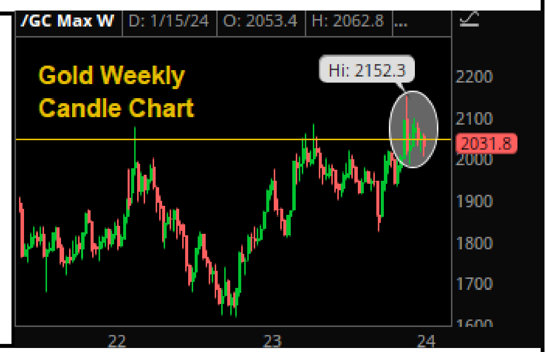
WTI Crude Oil

- 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: $70.91, $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: $2009, $1995, $1950

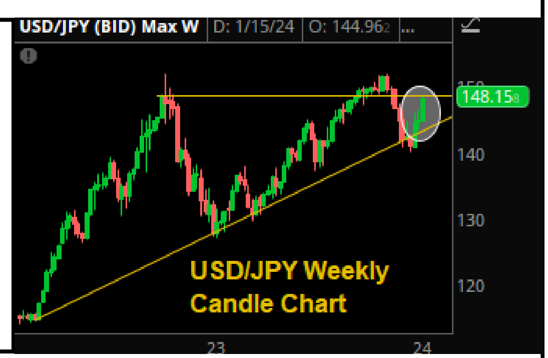


10-Year T-Note Yield

- 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: 4.206, 4.274, 4.352
- 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: 148.67, 149.57, 151.38
- Key Support Levels: 146.15, 144.62, 142.37



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Fundamental Market View
(Updated 1/21/2024)

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%**	*The S&P 500 hit a new all-time high last week recouping the past two years' declines despite a rise in Treasury yields as strong earnings and positive economic data pushed stocks higher.*

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 on a combination of a stronger dollar, soft Chinese growth and lingering demand concerns for oil.*
US Dollar	**Neutral**	*The Dollar Index rallied nearly 1% last week thanks to strong retail sales and low jobless claims while Fed officials pushed back on expectations for a March rate cut.*
Treasuries	**Turning Positive**	*Treasury yields rose sharply last week as Fed officials pushed back on the idea of imminent rate cuts while the economic data showed no significant signs of slowing growth.*

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.