SEVENS REPORT

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

January 29, 2024

Pre 7:00 Look

- Futures are little changed following an increase in geo-political tensions over the weekend and ahead of the first really busy week of 2024.
- Three U.S. soldiers were killed in an attack in Jordan by Iranian backed militants and that's further escalating tensions in the region and oil rallied in response.
- There were no economic reports overnight.
- Econ Today: No reports today.
- Earnings Today: WHR ($ 3.64), SOFI (E: $0.00), CLF ($-0.07).

Market	Level	Change	% Change
S&P 500 Futures	4,918.00	1.75	0.04%
U.S. Dollar (DXY)	103.58	0.15	0.14%
Gold	2,027.00	9.70	0.48%
WTI	78.14	0.13	0.19%
10 Year Yield	4.11%	-0.05	-1.37%

Equities

Market Recap

Stocks extended the rally last week and hit fresh highs thanks to Goldilocks economic data and solid tech earnings. The S&P 500 gained 1.06% on the week and is now up 2.54% YTD.

Stocks started the week with small, mostly momentum-driven gains on Monday and the rally continued on Tuesday as investors shrugged off some soft earnings from GE and MMM and instead focused on another soft regional Fed survey (Richmond) that eased some of the recently hawkish money flows.

Solid earnings from NFLX and the market getting the reserve rate cut from the PBOC it was looking for at the start of the week supported a sprint beyond the psychological 4,900 level in the S&P 500 on Wednesday although a soft 5-Yr Treasury auction weighed on stocks and bonds in the afternoon and the S&P 500 finished with a fractional gain.

The rally resumed on Thursday, however, thanks to Goldilocks economic data and a not-as-hawkish-as-feared ECB decision. A solid 7-Yr Treasury Note auction took the edge off the bad 5-Yr auction the prior session and the S&P 500 rallied 0.53%.

On Friday, stocks started trading lower following soft guidance from INTC and underwhelming earnings from V and TMUS. But an in-line Core-PCE Price Index print helped confirm that disinflation is ongoing and that increased expectations for Fed rate cuts, which helped stocks turn positive in the first hour with the S&P 500 hitting all-time highs before pulling back into the European close and ending little changed, down 0.07% but still up solidly for the week.

Five Market Assumptions: Where Are We Now?

On the first trading day of the year, I identified five assumptions that investors were making based on the Q4 rally and stated that if the rally was going to hold and continue, then the assumptions that powered stocks higher in November and December would have to be reinforced with actual data and Fed speak.

Positively, that's what's happened through the first month of 2024 and that's largely why stocks are higher year to date. With the month all but over and us looking ahead at the first really "important" week of the year (given the Fed decision, jobs report and other economic data) I wanted to revisit and update these assumptions so we know where we stand heading into this week and

Market	Level	Change	% Change
Dow	38,109.43	60.30	0.16%
TSX	21,125.28	23.74	0.11%
Stoxx 50	4,630.61	-4.86	-0.10%
FTSE	7,649.27	14.18	0.19%
Nikkei	36.026.94	275.87	0.77%
Hang Seng	16,077.24	125.01	0.78%
ASX	7,578.45	23.08	0.31%
Prices taken at previous day market close.			

in the second month of the year.

Assumption 1: Fed cuts rate six times for 150 basis points of easing and a year-end fed funds rate below 4.0%. Update: The chances of a March rate cut have fallen but markets still fully expect a May rate cut (and maybe a March cut) and most importantly, investors still expect a year-end fed funds rate below 4.00%. And this hasn't been forcefully contradicted by any Fed officials. Bottom line, the first rate cut may not come in March but the market still fully expects it'll come in May and that's keeping this assumption in place. *How do we know this is a market assumption?* Fed fund futures. According to fed fund futures, there's a 70%-ish probability the fed fund rates ends 2024 between 3.50%-4.00%.

Market	Level	Change	% Change
DBC	22.61	.10	0.44%
Gold	2,016.30	-1.50	-0.07%
Silver	22.87	-.06	-0.25%
Copper	3.8515	-.0175	-0.45%
WTI	78.06	.70	0.90%
Brent	83.52	1.09	1.32%
Nat Gas	2.604	.033	1.28%
RBOB	2.2903	.0259	1.14%
DBA (Grains)	21.46	.06	0.28%

Prices taken at previous day market close.

Assumption 2: No Economic Slowdown. Update: Economic data is beginning to broadly show that the U.S. economy is losing forward momentum but it's still not pointing to a slowdown. *How do we know this is a market assumption?* The market multiple. The S&P 500 is trading at just under 20X the $240-$245 expected S&P 500 earnings expectation. A 20X multiple is one that assumes zero economic slowdown (if markets were expecting a mild slowdown, a 17X-18X multiple would be more appropriate).

Assumption 3: Solid earnings growth. Update: Mild deterioration but not enough to invalidate the assumption. The Q1 earnings season has been decidedly mixed so far (and that's especially true outside of the tech sector). The 2024 earnings estimates are drifting very slightly lower to $240-$245 but that's not enough to invalidate this earnings growth assumption. *How do we know this is a market assumption?* The consensus expectations for 2024 S&P 500 earnings per share remain around $245-ish per share. That's nearly 10% higher than the currently expected $225 per share earnings for last year (2023), which points to strong annual earnings growth.

Assumption 4: No additional geopolitical turmoil. Update: Mild deterioration but not enough to invalidate the assumption. Geopolitical situations have deteriorated since the start of the year as the U.S. is now actively striking Iranian proxy groups and trade through the Suez Canal has been disrupted. Meanwhile, there's still no deal on Ukrainian aid and Russia is reportedly gearing up for an offensive in the coming months. But despite that, rising geopolitical risks are not yet high enough to spook stocks. *How do we know this is a market assumption?* Oil prices. Oil prices have risen since the start of the year but not to the point that it has negatively impacted stocks. Oil prices in the high $80s to low $90s reflect elevated geopolitical concern while prices above $100/bbl reflect real worry.

Assumption 5: No domestic political chaos. Update: Former President Trump will almost certainly win the Republican nomination and have that issue decided within the next few weeks. However, there's been little-to-no resolution on his various criminal cases and those will unfold over the coming months. Despite this uncertainty and mild deterioration, it hasn't impacted stocks and broadly markets still assume no negative political influence on stocks. *How do we know this is a market assumption?* Treasury yields. The 10-year yield has risen from 3.80%ish at the start of the year to over 4.15%, but that's mostly been driven by reduced expectations of a March rate cut. For now, this mild deterioration hasn't impacted stocks.

Bottom line, the market assumptions that pushed stocks higher in Q4 are still broadly in place although three of them have seen deterioration in their respective situations. As such, we'll need to continue to watch growth, earnings and global and domestic politics because if these assumptions are proven false, stocks will drop 5%-10% (or more).

Economics

Last Week

Economic data last week was decidedly Goldilocks and showed solid (but not spectacular) economic growth and more hints of a decline in inflation and as such, economic data absolutely contributed to the extension of the rally in stocks.

Starting with inflation, the Core PCE Price Index was mostly in line and contributed to the Goldilocks data last week. Specifically, the monthly increase was slightly larger than expected at 0.2% vs. (E) 0.1% but, more importantly, the year-over-year increase was slightly lower at 2.9% vs. (E) 3.0% and, most importantly, down from 3.2%. This is the Fed's favorite gauge of inflation and it's now got a "2" handle on it. So while it's not yet at 2% (their target) this number will absolutely reinforce the expectation for a March or May rate cut (although that's already priced in so it's not a new, positive catalyst).

The key report last week from a growth standpoint was the January flash PMIs and they were solid. The January manufacturing PMI rose back above 50 to 50.3 (slightly in expansion territory) while the flash service PMI moved further above 50 to 52.9. Readings on both that are below 50 is a pretty bad economic sign, so that fact that both are above 50 is a positive.

Durable Goods had a soft headline reading (flat vs. (E) 1.0%) but that headline was misleading as the details of the report were solid. New orders for non-defense capital goods ex-aircraft (NDCGXA) rose 0.3% vs. (E) -0.2% and saw positive revisions to the November data. That tells us that business spending and investment, while slowing from the pace in mid-2023, is still positive again that's a Goldilocks data point.

Regarding GDP, the headline reading was a bit "Too Hot" at 3.3% vs. 2.0% but like Durable Goods, the headline was misleading. An inventory build (which isn't positive for growth) inflated Q4 GDP and the better measures of actual growth in the quarter (Personal Consumption Expenditures, Final Sales to Domestic Purchasers) both posted numbers around 2.8%. That's the type of growth that's welcomed by the Fed and will allow them to cut rates in the coming months.

This Week

This week is the first truly busy and potentially impactful week of data in 2024 as it includes a Fed meeting, two of the three most important economic reports of the month and important inflation updates. This week's data and Fed decision has the potential to either reinforce the recent gains and lay the foundation for the S&P 500 to make a run at 5,000 or open a trap door to a 5% or worse pullback.

The most important event this week is the Fed decision on Wednesday. We'll provide our regular FOMC decision in tomorrow's Report, but there's zero chance of a rate move (cut or hike) and the key to this meeting will be how hard the Fed pushes back on the idea of a March rate cut. For reference, there is no Fed meeting in February so if the Fed is thinking about cutting in March, they likely will give some hints on Wednesday.

Turning to economic data, as mentioned, two of the three most important monthly economic reports come on Friday via the Jobs Report and the ISM Manufacturing PMI. We'll include our regular Jobs Report Preview later in the week but the key here is for a gradual cooling of job adds to provide the Goldilocks data needed to keep rate cut expectations alive. Additionally, it's "jobs week" as we also get JOLTS on Tuesday, ADP jobs report on Wednesday and claims on Thursday. Bottom line, the jobs report is the most important labor report but markets will want to see moderation across labor market indicators to keep rate cut hopes alive.

Finally, on the inflation front, we get the Employment Cost Index on Wednesday and Unit Labor Costs on Thursday and those are two important inflation updates that have the potential to move the market's expectation for rate cuts as early as March.

Market	Level	Change	% Change
Dollar Index	103.24	-.13	-0.13%
EUR/USD	1.0861	.0015	0.14%
GBP/USD	1.2708	.0000	0.00%
USD/JPY	148.06	.40	0.27%
USD/CAD	1.3447	-.0028	-0.21%
AUD/USD	.6583	-.0002	-0.03%
USD/BRL	4.9096	-.0076	-0.15%
Bitcoin	42,007.62	2,085.13	5.22%
10 Year Yield	4.160	.028	0.68%
30 Year Yield	4.390	.010	0.23%
10's-2's	-21 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.09%		
Prices taken at previous day market close.			

For stocks to hold this rally, the Fed can't be so hawkish it pushes back on May rate cut expectations, economic data needs to be good enough that it doesn't imply a slowing economy yet doesn't make the Fed more hawkish, while inflation data simply can't bounce back. This week will give us potentially important updates on all three aspects and for stocks to hold these gains the Fed has to keep alive expectations for a May cut, growth data needs to be Goldilocks and inflation readings need to show continued declines.

Commodities

Commodities traded with an upside bias last week with energy and industrial metals futures handily outperforming gold amid optimism about new stimulus efforts in China, domestic economic data that supported a soft landing, and increasing concerns about global oil supply. The commodity ETF, DBC, jumped 3.05% on the week.

In oil, just about all the fundamental news was bullish as domestic oil output dropped by 1 million barrels per day due to adverse weather across some of the biggest oil producing states (North Dakota), which contributed to futures flipping into backwardation, which underscores worries of an emerging supply deficit.

The geopolitical fear bid also came back in a measurable way as more ships were attacked by Iranian-backed Houthi rebels in the Red Sea leaving many oil tankers rerouted to avoid the area, adding to delivery times. In that same vein, there were no signs of easing tensions between Israel and Hamas and the longer the regional conflict rages on, the higher the odds of oil infrastructure being attacked and global supply being disrupted. In Russia, Ukraine claimed responsibility for multiple drone attacks on various oil-related facilities including an export terminal adding to the uncertainty about global supply near term. WTI rose 6.54% on the week.

The combination of bad weather in the U.S. and the ongoing conflicts overseas beginning to impact oil production and transportation has sparked concerns about near-term global supply while economic data remains resilient suggesting consumer demand for refined products will continue to firm in the months ahead. That leaves the path of least resistance higher with $80/barrel in WTI possible in the weeks ahead.

Gold was little changed, up just 0.26% last week, as the dollar and bond yields were little changed as were inflation expectations. Gold importantly held above the psychological support level of $2,000/oz. and ended the week near the highs adds, which supports the bulls.

Currencies & Bonds

The dollar was little changed last week as markets digested economic data and central bank decisions that reinforced current expectations of solid economic growth and Fed rate cuts by May (and possibly in March). The Dollar Index rose 0.1%.

Looking at the probability of a March rate cut via Fedwatch.com is the easiest and most efficient way to see what economic data and central bank speak means for markets and the outlook for March rate cuts didn't change last week, ending the week the way it started, at about 50/50. As a result, the dollar was little changed.

The Dollar Index is sitting just under 104 but it's going to take either 1) A forcefully hawkish message from the Fed or 2) Very strong economic data to push the dollar materially higher from here. We should expect the dollar to remain in the lower 100 range for the near term and that's neither a positive nor a negative for stocks.

Turning to Treasuries, trading was also quiet last week as the 2-year yield fell 6 basis points thanks mostly to a decline in German Bund yields, following the ECB's not-hawkish commentary. The 10-year Treasury yield, meanwhile, was flat on the week and rightly so as the neither the data nor the ECB changed the outlook for rate cuts.

Looking to this week, the bottom line remains that higher yields are a headwind on stocks so the "calmer" the movement of yields this week, the more likely stocks will be able to hold these gains.

Have a good week,

Tom

1/29/2024

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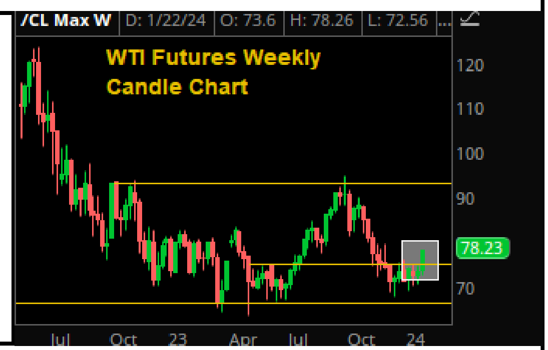
Technical Perspectives (Updated 1/28/2024)

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: 4907, 4969, 4100
- Key Support Levels: 4853, 4792, 4697

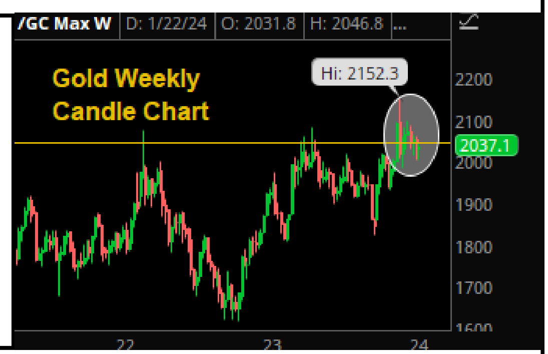
WTI Crude Oil

- Technical View: The oil market has stabilized and begun to rally in early 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: $78.53, $80.81, $83.50
- Key Support Levels: $75.43, $73.95, 70.92



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

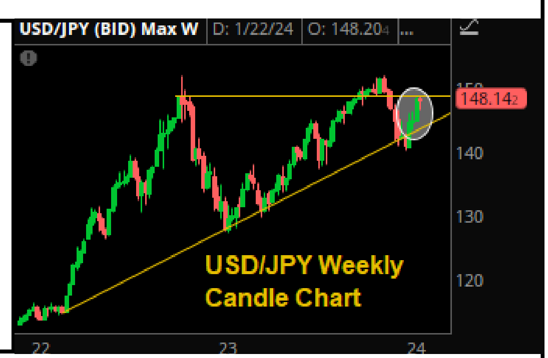


10-Year T-Note Yield

- 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: 4.094, 3.907, 3.789

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



SEVENS REPORT

Fundamental Market View
(Updated 1/28/2024)

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 again thanks to Chinese stimulus and Goldilocks economic data that showed solid growth and continued disinflation.*

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 surged last week on a combination of Chinese economic stimulus and rising geopolitical tensions.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as rising expectations for a Fed rate cut offset a not-as-hawkish-as-expected ECB press conference.*
Treasuries	**Turning Positive**	*The 2-year Treasury yield declined modestly last week thanks to the ECB not pushing back against summer rate cut expectations while the Goldilocks economic data increased expectations for Fed rate cuts in early 2023.*

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.