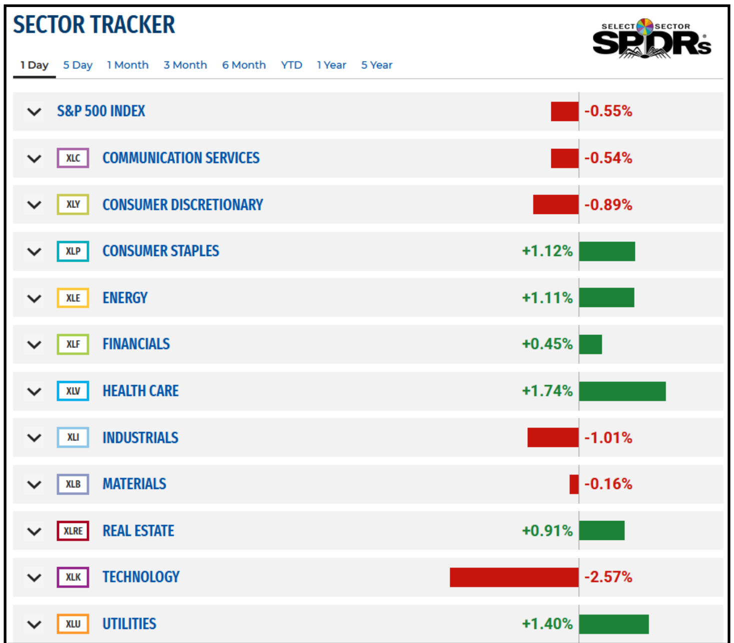
SEVENS REPORT

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

January 3, 2024



Portfolio rebalancing and trader positioning dominated the internal price action in the stock market yesterday with the Health Care sector outperforming with a gain of 1.74% while Tech shares dropped a hefty 2.57% to start the year.

Pre 7:00 Look

- Stock futures are modestly lower and Treasury yields are extending their early 2024 gains as some of the dominant money flows from late last year continue to unwind.
- Economically, Germany's Unemployment Rate held steady, as expected, at 5.9% in December.
- Econ Today: ISM Manufacturing Index (E: 47.2), JOLTS (E: 8.75 million), Motor Vehicle Sales (E: 15.4 million).
- Fed Speak: Barkin (8:00 a.m. ET).
- December FOMC Meeting Minutes Release (2:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	4776.25	-11.00	-0.23%
U.S. Dollar (DXY)	102.373	.170	0.17%
Gold	2061.20	12.20	0.59%
WTI	70.26	-.12	-0.17%
10 Year Yield	3.974	.030	0.76%

Equities

Market Recap

After a quiet end to 2023, the stock market began the new year with a flurry of volatility yesterday as portfolio rebalancing dominated the tape amid a rebound in Treasury yields. The S&P 500 fell 0.57%.

Stock futures were lower in premarket trade yesterday morning as mixed PMI data was followed by rare, cautious economic commentary by China's President Xi Jinping, raising fresh concerns about the outlook for the world's second largest economy. A slightly better-than-expected PMI release in Europe with a headline of 44.4 vs. (E) 44.2 failed to generate much excitement as the number continued to point to deep contraction in the factory sector. In corporate news, AAPL shares fell as Barclays warned demand for iPhones was easing while semiconductor maker ASML announced cancelled shipments to China, adding to the negative sentiment at the start of the new trading year.

After the market gapped lower at the open, stocks continued to come for sale in the wake of the U.S. PMI release, which underwhelmed with a headline of 47.9 vs. (E) 48.4. A reversal in oil futures, which were initially higher on geopolitical tensions from the weekend, helped stocks attempt to stabilize into the European close but heavy selling in mega-cap tech shares resumed and the major indexes rolled over in the afternoon.

Market	Level	Change	% Change
Dow	37,715.04	25.50	0.07%
TSX	20,872.13	-86.31	-0.41%
Stoxx 50	4,477.35	-35.46	-0.79%
FTSE	7,685.39	-36.13	-0.47%
Nikkei	33,464.17	-75.45	-0.22%
Hang Seng	16,646.41	-142.14	-0.85%
ASX	7,523.20	-104.59	-1.37%
Prices taken at previous day market close.			

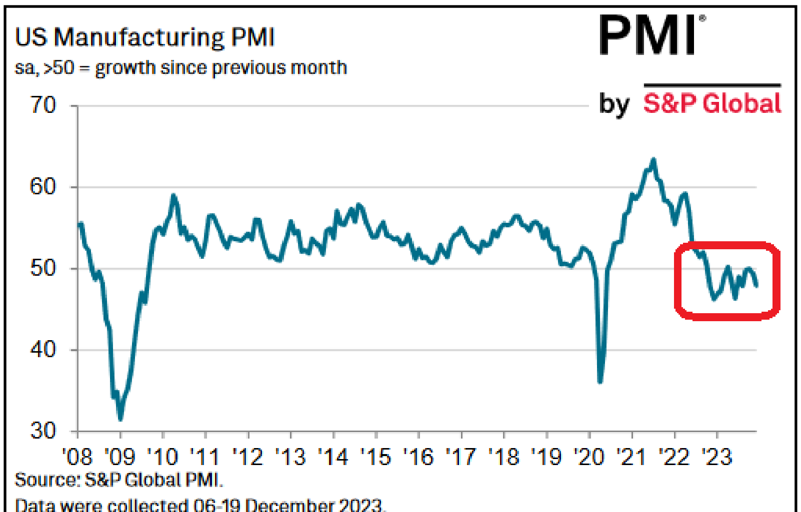
The S&P 500 fell to new lows in the final hour before a massive Market-On-Close imbalance of more than $7B sent the index back to within three points of where it opened.

Market	Level	Change	% Change
DBC	21.86	-.18	-0.82%
Gold	2069.70	-2.10	-0.10%
Silver	23.89	-.20	-0.81%
Copper	3.8685	-.0220	-0.57%
WTI	70.58	-1.07	-1.49%
Brent	76.11	-.93	-1.21%
Nat Gas	2.560	.046	1.83%
RBOB	2.1023	-.0040	-0.19%
DBA (Grains)	20.70	-.03	-0.17%
Prices taken at previous day market close.			

A Volatile Start to 2024, But Don't Read Too Much Into It

The new year started with the opposite performance of 2023 as tech dropped sharply while defensive sectors and indices rose sharply, although most of the price action yesterday was driven solely by beginning-of-year positioning (booking profits, rebalancing to lagging sectors) and not by actual news (although there was some notable news, more on that below).

On an index level, the Nasdaq dropped 1.63% and handily underperformed the remaining four major indices, although all finished the day lower. The Russell 2000 declined 0.7% while the Dow was the clear outperformer, finishing with a slight 0.07% gain.



According to the S&P Global Manufacturing PMI, the U.S. factory sector has been in contraction for well over a year, which adds to the still-lingering recession risks facing the market in early 2024.

On a sector level, performance was much more mixed than the headline index would imply as six of the 11 sector SPDRs rose on the day. Underscoring how much of a negative impact tech had on markets (the opposite of 2023), RSP, the equal weight S&P 500, was flat compared to the moderate decline in the SPY.

Starting first with the lagging sectors, tech was the worst, falling 2.6% thanks to 1) General profit taking following the massive 2023 rally and 2) As Barclays downgraded AAPL on fears of another year of uninspiring product launches. Industrials and consumer discretionary also declined 1% each on 1) The underwhelming S&P manufacturing PMI and 2) Rebalancing by investors as AMZN and cruise line stocks (RCL down 7.2%) fell sharply as investors booked profits.

Turning to the outperformers, it was a list of sector laggards from 2023, further confirming the rebalancing that drove trading Tuesday. Healthcare (XLV), utilities (XLU), energy (XLE) and consumer staples (XLP) all rose more than 1% with the first three sectors gaining solidly more than 1% each. Moderna (MRNA) rallied 13.1% following an Oppenheimer upgrade and that pulled many of the pharma stocks higher, which boosted XLV. The other defensive sectors and energy benefitted from the aforementioned rotation into the 2023 laggards.

Bottom line: yesterday was a volatile start to the new year but don't read too much into it. Natural rebalancing and book squaring that should have occurred in 2023 was delayed as investors and traders hung on to strong gains into year-end. The result was pent-up rebalancing demand, which moved stocks sharply to start the new year, although we'd expect this rebalancing to ease going forward and for economics, earnings and central bank speak to begin to drive markets again starting potentially later this week with the jobs report.

Economics

There were no material economic reports yesterday.

Commodities

Commodities began the new year with a thud yesterday as crude oil futures reversed from early gains to close decidedly lower while both industrial and precious metals posted declines. The strength in the dollar proved a significant headwind on the commodity complex, pressuring the commodity index ETF, DBC, down 0.82%.

Starting with the biggest mover, crude oil was initially in rally mode yesterday morning with WTI futures pushing towards $74/barrel thanks to another uptick in geopolitical tensions in the Middle East. This time it was news that several Iran-backed Houthi rebel boats were sunk by the U.S. Navy in the Red Sea over the weekend. In response, Iran announced plans to send a ship to the area increasing the threat of a naval conflict in the oil-sensitive waters of the Middle East.

Once the dust settled and the primary futures market opened, it was clear that the U.S. was serious about protecting international trade through the Red Sea and some of the fear bid came unwound. Oil began to come for sale in a big way in midmorning trade as stocks traded with a clear risk-off tone to start the year and as Chinese economic worries mounted following President Xi's cautious comments on the health of the consumer and growth last year.

Looking ahead, WTI is so far still holding above the 2023 lows in the upper-$60s, but the price action in the futures market has become increasingly heavy in recent months and the threat of a break to the downside appears to be on the rise amid economic uncertainties and less-conviction behind the idea of a Fed pivot in Q1 '24.

The price action in copper was similar to that of the oil market yesterday as futures were initially higher as traders digested President Xi's comments as reason to expect more economic stimulus before economic data largely disappointed around the rest of the globe. Copper ended the day lower by 0.62% at a two-week low, notably on a key uptrend line off the early November lows.

Turning to precious metals, gold relatively outperformed the broader commodity space with futures declining just 0.20%. Rising demand for safe-haven assets such as gold amid the stock market volatility to start 2024 helped offset some of the pressure from the sharp rise in the Dollar Index and noteworthy rebound in Treasury yields.

Going forward, gold remains the most appealing commodity right now as futures hit new all-time highs last month, adding conviction to the bullish technical argument for the yellow metal while economic uncertainty and dovish money flows offer fundamental support for the bull case.

Currencies & Bonds

The dollar started 2024 with a strong rally, not so much because of data or central bank speak, but instead as traders squared their books at the start of a new year following the steep declines in the greenback in December. The Dollar Index rose 0.8%.

The dollar was higher from the outset but the major positive influence was the calendar and not actual data which, if anything, slightly reinforced dovish Fed expectations. I say that because German and Eurozone December manufacturing PMIs were slightly better than expected and rose slightly from November. Conversely, the U.S. Standard and Poor's manufacturing PMI (the old Markit PMI) missed estimates at 47.8 vs. (E) 48.2.

Market	Level	Change	% Change
Dollar Index	101.89	.86	0.85%
EUR/USD	1.0950	-.0095	-0.86%
GBP/USD	1.2626	-.0101	-0.79%
USD/JPY	141.88	.99	0.70%
USD/CAD	1.3327	.0088	0.66%
AUD/USD	.6762	-.0051	-0.75%
USD/BRL	4.9156	.0631	1.30%
10 Year Yield	3.946	.080	2.07%
30 Year Yield	4.085	.066	1.64%
10's-2's	-39 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	3.93%		
Prices taken at previous day market close.			

So, just on a data basis, we should have seen some weakness in the dollar and relative strength in the euro, but again that wasn't the case and the reason was begging-of-year positioning.

Instead, the opposite occurred and frankly that's the be expected. The Dollar Index fell about 3% in December following the Fed's dovish pivot and that's a very large monthly decline for a currency as liquid as the dollar. Some digestion of that decline was due and while year-end positioning delayed it, it didn't negate it. As a result, we saw short cover and dip buyers step in ahead of the start of 2024 economic data and central bank speak.

Looking forward, now that we're in a new year we can expect economic data and Fed speak to drive the dollar once again and that starts this week with today's ISM Manufacturing PMI and Friday's jobs report. But keep in mind the outlook for the Fed is very dovish, so if data contradicts the idea of rate cuts in March (just two months from now) then the dollar is still short-term oversold and the bottom line is a bounce back towards the mid 100s (so 103-105) shouldn't shock anyone.

Turning to yields, they also rose thanks mostly to the calendar as investors sold bonds following the big year-end rally. The 2-year yield gained 7 basis points while the 10-year yield rose 8 basis points. Like in the currency markets, economic data was not the driving factor in the rise in Treasury yields Tuesday as U.S. data was under-whelming while EU data can be considered mostly in line with expectations.

Instead, it was book squaring given the new year as investors and traders sold Treasury longs and positioned for the possibility that economic data is stronger than expected and the Fed isn't as likely to cut rates in March as markets currently believe. Again, now that we're in a new year the data and Fed speak will become the dominant factor for Treasury yields and that includes data today (ISM Manufacturing PMI) and Friday's jobs report.

From a market standpoint, the best-case scenario is for "calm" in Treasury yields to start 2024 as a spike in yields on strong data will reflect fewer (or delayed) Fed rate cuts while a continued drop in yields will begin to warn of a future slowing of growth. A "sideways chop" and digestion of the Q4 decline in yields (which was substantial and over a 100-bps decline in the 10 year) would be a decent scenario for markets as we start the new year.

Bottom line, there were sizeable moves in the dollar and yields in the fourth quarter, and December specifically, so digestion is needed and healthy. Year-end momentum prevented that over the past few weeks but it shouldn't be a shock that we see some given back of the dollar and yield declines now that we're in a new calendar year.

Have a good day,

Tom

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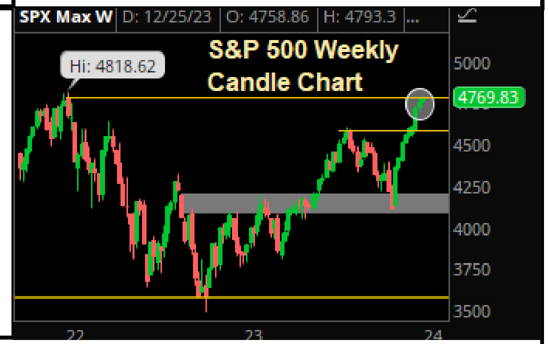
Technical Perspectives (Updated 12/31/2023)

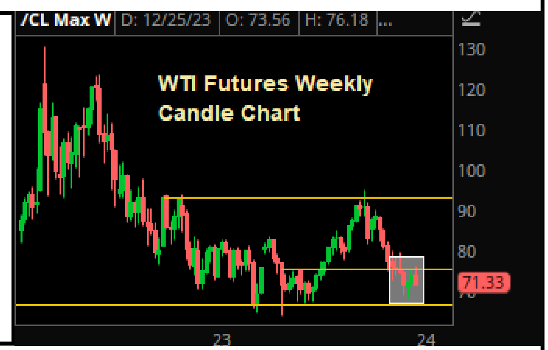
S&P 500

- 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: 4783, 4818, 4850
- Key Support Levels: 4555, 4496, 4415



WTI Crude Oil

- Technical View: The price action in oil deteriorated in H2’23 but continues to hold above the 2023 lows, leaving the outlook neutral.
- Proprietary Model: **Neutral (since the week of November 6, 2023)**
- Key Resistance Levels: $73.82, $75.02, $77.72
- Key Support Levels: $71.15, $69.87, $68.01



Gold

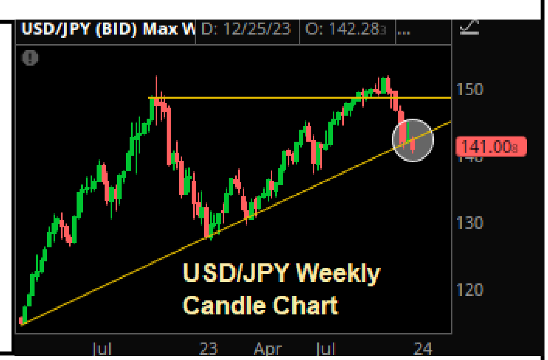
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2089, $2108, $2152
- Key Support Levels: $2033, $2000, $1967

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: 3.908, 4.033, 4.121
- Key Support Levels: 3.789, 3.608, 3.405

Dollar/Yen

- Technical View: The USD/JPY violated a longstanding uptrend line to end 2023 shifting the technical outlook from bullish to neutral.
- Proprietary Model: **Neutral (since the week of December 25, 2023)**
- Key Resistance Levels: 142.11, 143.83, 145.46
- Key Support Levels: 140.18, 138.78, 137.70



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Fundamental Market View (Updated 12/31/2023)

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 were little changed last week in very quiet trade as investors wanted a quiet end to a very strong 2023 as the S&P 500 rose more than 24% 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 slightly following a reduction in geopolitical tensions and despite a continued decline in the U.S. dollar.*
US Dollar	**Neutral**	*The Dollar Index dropped further to fresh multi-month lows last week thanks to momentum and a slight uptick in weekly jobless claims.*
Treasuries	**Turning Positive**	*The 2-year Treasury yield fell modestly on strong short-term auction demand while the 10-year yield was little changed as there was no notable economic data or central bank speak.*

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.