SEVENS REPORT

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

January 30, 2024

Pre 7:00 Look

- U.S. futures are slightly lower as yesterday's late session rally is digested ahead of the Fed and key earnings reports.
- Economically, Australian Retail Sales data from December missed (-2.7% vs. E: -0.6%) but the EU GDP Flash was slightly better than feared at 0.1% vs. (E) 0.0% Y/Y in Q4.
- Econ Today: Case-Shiller Home Price Index (E: 0.4%), FHFA House Price Index (E: 0.3%), Consumer Confidence (E: 112.5), JOLTS (E: 8.70 million). The FOMC meeting begins.
- Earnings: GM ($1.08), UPS ($2.44), SYY ($0.88), AMD ($0.77), MSFT ($2.76), GOOGL ($1.60), SBUX ($0.93).

Market	Level	Change	% Change
S&P 500 Futures	4948.00	-6.50	-0.13%
U.S. Dollar (DXY)	103.434	-.180	-0.17%
Gold	2053.70	9.10	0.45%
WTI	76.97	.19	0.25%
10 Year Yield	4.064	-.027	-0.66%

Equities

Market Recap

Stocks hit fresh highs again on Monday as markets shrugged off rising geopolitical tensions (again) while a smaller-than-expected Treasury funding announcement pushed yields lower and stocks higher late in the session. The S&P 500 rallied 0.76%.

Futures were flat to start Monday as the news of attacks on U.S. soldiers in Jordan resulted in increased geopolitical tensions. But there was no immediate U.S. response and as such stocks drifted slowly higher throughout the day in quiet trade as momentum remains higher and markets expect a not-hawkish Fed, solid earnings and economic data this week.

The rally accelerated shortly after 3:00 p.m. when the U.S. Treasury announced it would need to borrow $55 billion less than previously expected in Q1, while borrowing in Q2 would be much lower than Q1. That news pushed Treasury yields lower and boosted stocks and combined with still-positive momentum to see the major indices close near the highs of the day.

Why the Treasury Funding Announcement Moved Markets

Stocks drifted slightly higher for most of Monday as markets reversed the early, knee-jerk declines following the attacks in U.S. soldiers in Jordan. But the real catalyst for the rally yesterday was the Treasury funding announcement. Put simply, the Treasury announced it needs to borrow less money than previously expected. We know that was the key positive catalyst because stocks accelerated the rally during the final hour and sectors that benefit most from falling yields (small caps and tech) outperformed.

Specifically, the Treasury only needs to borrow $760 billion in Q1 compared to the previously estimated $816 billion. So, while those are clearly huge numbers (and the U.S. remains on a long-term unsustainable fiscal path) it's less than expected and markets welcomed it.

The reason that was positive for stocks was because less borrowing means the Treasury will have to issue fewer Treasury bonds. Less supply means, broadly speaking, higher prices and that's the reason we saw Treasury yields fall to the lows in late trade. That decline in Treasury yields then boosted stocks.

More broadly, the amount of Treasury borrowing became a considerable market concern following last

Market	Level	Change	% Change
Dow	38,333.45	224.02	0.59%
TSX	21,200.06	74.78	0.35%
Stoxx 50	4,661.10	21.74	0.47%
FTSE	7,675.26	42.52	0.56%
Nikkei	36,065.86	38.92	0.11%
Hang Seng	15,703.45	-373.79	-2.33%
ASX	7,600.19	21.75	0.29%

Prices taken at previous day market close.

year's government shutdown drama and the large third and fourth quarter borrowing needs in 2023 contributed to the drop in Treasuries and spike in yields we all saw from August to October. That spike in yields helped cause the correction in stocks. So, with the Fed borrowing less money that has helped to remove concerns about massive Treasury issuance and higher yields and while it's not a catalyst to drive the S&P 500 straight to 5,000, the easing of borrowing anxiety is a general positive for investor sentiment and again, that's the main reason stocks were strong yesterday.

Market	Level	Change	% Change
DBC	22.42	-.19	-0.84%
Gold	2,033.10	15.80	0.78%
Silver	23.33	.46	2.02%
Copper	3.889	.037	0.96%
WTI	77.00	-1.01	-1.29%
Brent	82.55	-1.00	-1.20%
Nat Gas	2.461	-.251	-9.26%
RBOB	2.2319	-.0622	-2.71%
DBA (Grains)	21.35	-.10	-0.44%
Prices taken at previous day market close.			

FOMC Preview

There's virtually zero chance of a rate cut or hike at tomorrow's meeting. As such, what will make this meeting hawkish or dovish (and push stocks lower or extend the rally) will be whether the Fed hints that rate cuts are coming soon. Practically, that means the FOMC statement will be key, as any future policy changes will be communicated via the statement.

That's especially important for this meeting because there is no February Fed meeting. After tomorrow, the next Fed meeting is March 13, a meeting where the market currently has a 50/50 chance of a rate cut!

If the Fed is going to cut rates in March, we'd expect some sort of language change in tomorrow's statement to acknowledge that possibility. Conversely, if the Fed really is serious about only two or three rate cuts in 2024, then the statement should forcefully push back on the idea of a rate cut in March.

Looking specifically, "forward guidance" will remain the key part of the Fed statement as that's likely where the Fed will communicate any changes. For reference, "forward guidance" occurs in the third paragraph of the Fed statement and it's the changes (or lack thereof) to a specific sentence that likely will determine if this statement is hawkish, dovish or in line with expectations.

That key sentence will be this (again located in the middle of the third paragraph): "In determining the extent of any additional policy firming that may be appropriate...". That statement, for over a year, has had a hawkish bias and if (and how) that sentence changes will determine if the Fed is hawkish, dovish or meets expectations.

<u>What's Expected:</u> The Fed says they aren't hiking anymore but also don't promise rate cuts anytime soon.

<u>How They'll Do It:</u> This can be done easily by deleting the "determining the extent of policy firming" sentence and replacing it with something like: "The Fed views policy as sufficiently restrictive to return inflation to its 2% target." That change will tell markets that rate hikes are over and at this point, the next move will be a cut, although it may not be anytime soon. *Likely Market Reaction:* This outcome is largely priced into stocks and we know that because expectations for a March rate cut are about 50/50 and this outcome wouldn't change that much. So, we'd expect small rallies or small declines in stocks depending on other factors (Powell's press conference, earnings, etc. Similarly, Treasury yields may rise slightly on disappointment the decision isn't more dovish, but overall there shouldn't be big moves. The dollar and commodities should also be generally quiet as again, this outcome is largely reflected in current prices and rate cut expectations.

<u>Hawkish If:</u> The Fed says they aren't hiking anymore but also says rate cuts aren't coming anytime soon.

<u>How They'll Do It:</u> The Fed could do this by deleting the "additional policy firming" sentence and saying policy is "sufficiently restrictive," but also adding that it will keep policy sufficiently restrictive for a long period to ensure inflation returns to target. Essentially, this is the Fed's way of saying rate cuts aren't coming anytime soon. *Likely Market Reaction:* A solid decline. This outcome would eliminate the possibility of a March rate cut and put a May rate cut in doubt. That, in turn, would push Treasury yields higher and hit stocks. We'd expect broad weakness in stocks with defensive sectors and value relatively outperforming tech/growth, but we'd expect all 11 sector SPDRs to be lower. The Dollar Index should

rally through 104 and perhaps by 1% higher while Treasury yields would likely rise by 10-20 basis points, with the 2-year yield rising more than the 10-year yield. Commodities, especially gold, would likely get hit hard on the higher dollar. Bottom line, this outcome would invalidate one of the main supports of the Q4 rally and as such we'd expect a pullback in response.

Dovish If: The Fed says they aren't thinking about hiking anymore and that rate cuts are possible going forward.

How They'll Do It: The Fed can do this by referring to risks as balanced between growth and inflation. Referring to risks as balanced has, in the past, foreshadowed rate cuts. In this scenario, the Fed not only deletes that "extent of policy firming" sentence, but also states that risks to the outlook are "balanced," which opens the door to a March rate cut. *Likely Market Reaction:* A continued rally. This outcome would likely increase expectations for a March rate cut back towards 100% (from the current 50%) and that would push stocks broadly higher. We'd expect tech and cyclicals to outperform although all 11 sector SPDRs should be higher on the day. The Dollar Index should drop moderately, possibly below 103 while Treasury yields, especially the 2-year yield, should decline 10-20 basis points (back towards levels of early 2024). Commodities, especially gold, should rally hard on the weaker dollar. Bottom line, this would confirm rate cuts are imminent, and based mostly on momentum a run in the S&P 500 towards, and through, 5,000 is reasonable to expect.

Market	Level	Change	% Change
Dollar Index	103.29	.06	0.06%
EUR/USD	1.0835	-.0018	-0.17%
GBP/USD	1.2712	.0009	0.07%
USD/JPY	147.36	-.79	-0.53%
USD/CAD	1.3413	-.0040	-0.30%
AUD/USD	.6614	.0039	0.59%
USD/BRL	4.9419	.0312	0.64%
Bitcoin	43,044.82	1,246.73	2.98%
10 Year Yield	4.091	-.069	-1.66%
30 Year Yield	4.335	-.055	-1.25%
10's-2's	-25 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.06%		
Prices taken at previous day market close.			

Economics

There were no material economic reports yesterday.

Commodities

Commodities saw a mixed start to the busy week amid a handful of fluid-but-mixed market influences ranging from escalating geopolitical tensions between the U.S. and Iran to a negative development regarding China's embattled property development sector. Ultimately, oil gave up early gains to settle lower while metals reversed early losses to end with gains. The broad-based commodity tracking index ETF, DBC, fell 0.84% on the day.

Starting with the global energy markets, oil futures gapped higher at the electronic open and proceeded to rally to fresh two-month highs Sunday evening after it was reported over the weekend that an attack by Iran-backed militants on a U.S. military base in Jordan resulted in the deaths of three service members and dozens of injuries. Another oil tanker also came under missile attack in the Red Sea underscoring the fact that there remains no end in sight for the conflict.

WTI futures traded higher by more than 1% Sunday evening, however, the gains began to reverse over the course of the evening after Chinese property developer Evergrande was ordered to liquidate assets signaling more turmoil in the world's second largest economy that is likely to translate to falling demand. Ultimately, the concern of weaker demand offset the geopolitical tensions in the Middle East and WTI closed the day down 1.32%. Looking ahead, the early 2024 trend in oil prices remains bullish and the path of least resistance remains higher, but easing geopolitical tensions and a deteriorating global growth outlook remain two major threats to the early year gains.

Copper modestly outperformed with futures gaining 0.87% on the day after recouping early losses linked to the negative Evergrande news. Hopes for a soft landing, declining interest rates in developed economies, and more stimulus out of China combined to bolster the industrial metal with copper futures notably settling at a new 2024 high. That leaves resistance at $3.95 in focus in the sessions ahead with a break above offering renewed anecdotal evidence in support of a soft/no-landing economic scenario.

Gold futures rose a slightly more modest 0.76% to top the $2,050/oz. level for the first time in over two weeks.

The late-day reversal lower in the dollar and spike in bonds following the release of the Treasury's quarterly funding estimates ahead of tomorrow's formal securities issuance plan for the coming quarters supported the gains in precious metals. Gold has been largely sideways since the run to new record highs in late 2023 started to get digested, but the path of least resistance is decidedly higher. The risk of volatility in precious metals this week is elevated, however, due to the potential moves in currencies and rates following the Fed.

Currencies & Bonds

Geopolitics and Treasury issuance were the main influences on currencies and bonds Monday as investors await the week's big catalysts, most of which come between Wednesday and Friday. The Dollar Index ended the day virtually unchanged while the 2-year yield fell 5 basis points and the 10-year yield dropped 9 basis points.

At the start of trade there was a clear geopolitical risk-off move as the dollar and yen were higher while Treasury yields were down modestly. That was in response to the attacks on U.S. soldiers this weekend and rising concerns that there could be a broader regional conflict in the Middle East potentially involving the U.S. and Iran. And as so often the case when geopolitical risks rise, investors move towards the dollar and Treasury yields, which is exactly what happened on Monday morning.

The Dollar Index rose 0.3% Monday morning while the euro and pound declined 0.5% and 0.1%, respectively. The yen, which is another important risk-off currency, also gained 0.3%. Treasury yields, meanwhile, declined slightly as the 2-year yield fell 3 basis points while the 10-year yield declined 5 basis points.

The Dollar Index drifted off those early gains as the day moved on as there was no immediate military response from the U.S. while Treasuries largely chopped sideways for most of the day. However, the Treasury funding announcement, which was lower than expected and positive for Treasuries, caused Treasury yields to decline further while the dollar drifted back towards flat (the funding announcement didn't directly impact the dollar). The biggest mover was the 10-year yield, which again fell 9 basis points, and that makes sense because if there are signs the U.S. borrowing needs aren't as bad as previously feared that is positive for long-term Treasuries (and, keep in mind, these are all relative measures, so the U.S. still needs to borrow a mind-boggling amount of money and the fiscal path is still ultimately unsustainable, but compared to what was expected, Monday's announcement was better and that's why Treasuries rallied.

Looking forward, obviously catalysts start to arrive tomorrow via the Fed and important economic data. As a broad guideline, flat-to-modestly lower yields will be a short-term positive for stocks thanks mostly to the fact that a decline would undo the rise in yields we've seen over the past few weeks. However, a sudden plunge in yields on bad data wouldn't be positive.

More specifically, a drop back below 4% and towards 3.80% in the 10-year yield likely would be a positive in the near term and that should happen if Powell's dovish and data is Goldilocks. On the flip side, any rise in yields should be a headwind on stocks and the larger the increase (if the Fed is hawkish or data is "Too Hot") the stronger the headwind.

Have a good day,

Tom

SEVENS REPORT

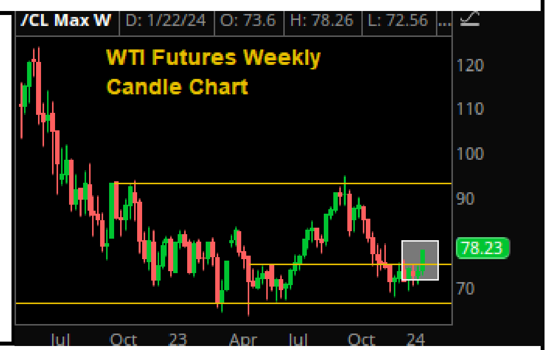
Technical Perspectives (Updated 1/28/2024)

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

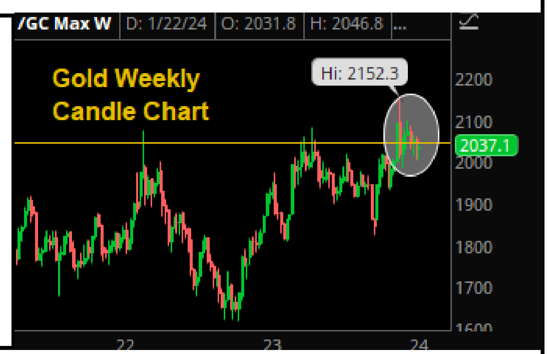
WTI Crude Oil

- 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

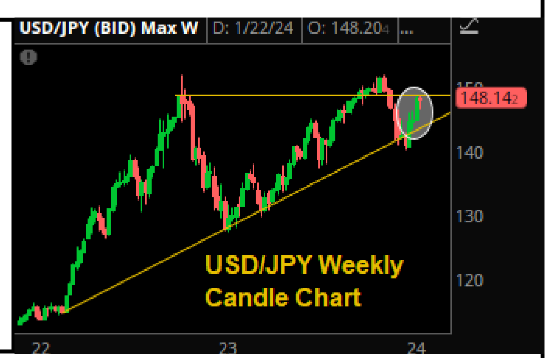


10-Year T-Note Yield

- 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.