SEVENS REPORT

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

January 31, 2024

Pre 7:00 Look

- Stock futures are down after mega-cap tech earnings failed to meet overly optimistic estimates, Chinese Manufacturing PMI missed, and French CPI was higher than expected.
- AMD (-11%), GOOGL (-6%), and MSFT (-1%) are all lower in the pre-market despite generally healthy quarterly reports.
- Econ Today: ADP Employment Report (E: 130K), Q4 Employment Cost Index (E: 1.0%).
- Treasury Refunding Announcement (8:30 a.m. ET), FOMC Decision (2:00 p.m. ET), Powell speaks (2:30 p.m. ET).
- Earnings: MA ($3.08), QCOM ($2.37), MET ($1.95).

Market	Level	Change	% Change
S&P 500 Futures	4927.75	-23.25	-0.47%
U.S. Dollar (DXY)	103.547	.150	0.15%
Gold	2055.60	4.70	0.23%
WTI	76.95	-.87	-1.12%
10 Year Yield	4.030	-.027	-0.67%

Equities

Market Recap

Stocks were little changed Tuesday as investors digested Monday's solid rally to record highs amid a fresh dose of solid economic data, mixed earnings, and less-dovish money flows ahead of today's Fed decision. The S&P 500 dipped 0.06%.

Equities opened near the unchanged mark yesterday as traders digested soft Australian Retail Sales, but a slightly better-than-feared Eurozone GDP report. In corporate news, GM shares spiked higher in early trade as earnings handily topped estimates; however, logistics behemoth UPS sold off hard after package volumes declined in the most-recent quarter and revenue forecasts disappointed versus estimates.

Economically, the IMF came out with an upward revision to global growth, raising its 2024 GDP forecast to 3.1% from 2.9% previously, citing a solid U.S. economy and Chinese fiscal support. The Case-Shiller Home Price Index was cooler than expected at 0.1% (E: 0.3%), while JOLTS data came in hot with job openings topping 9.02 million vs. (E) 8.75 million. Consumer Confidence was only slightly better than expected but 1-yr ahead inflation expectations favorably dropped to 5.2% vs. (E) 5.6%, the lowest reading since March 2020. The "hot" JOLTS report caught most of the market attention, however, and a pop in yields weighed on stocks midday.

Newswires were quiet through the lunch hour but some dovish commentary out of multiple ECB officials, including President Lagarde, saw yields pullback and stocks were able to stabilize into key mega-cap earnings from MSFT and GOOGL as well as today's Fed decision and Treasury Refunding announcement.

Key Technical Levels to Watch on Fed Day

Between the Fed decision and the details of the Treasury's latest Quarterly Refunding announcement, both due today, the markets are once again primed for volatility. And when volatility picks up it is always nice to have some key technical support and resistance levels on hand to help "cut through the noise."

Stocks: The S&P 500 is sitting just off fresh record highs, which obviously means there is no historical price action to reference to identify technical resistance. Yesterday's intraday record high of 4,931 will offer initial resistance as speculators look for a low-risk/high-reward setup for short positions, a break higher will likely see cautious follow through on short covering. Beyond there we will

Market	Level	Change	% Change
Dow	38,467.31	133.86	0.35%
TSX	21,227.87	27.81	0.13%
Stoxx 50	4,660.64	-2.06	-0.04%
FTSE	7,669.21	2.90	0.04%
Nikkei	36,286.71	220.85	0.61%
Hang Seng	15,485.07	-218.38	-1.39%
ASX	7,680.72	80.52	1.06%
Prices taken at previous day market close.			

look to the most popular options strikes of 4,950 and 5,000 as logical next resistance levels. To the downside, the upper and lower bounds of the early 2024 trading range at 4,790 and 4,690 will offer initial and secondary support in the event of a pullback.

Market	Level	Change	% Change
DBC	22.57	.15	0.67%
Gold	2,054.30	9.70	0.47%
Silver	23.29	.04	0.18%
Copper	3.915	.036	0.93%
WTI	77.78	1.00	1.30%
Brent	82.76	.36	0.44%
Nat Gas	2.102	.048	2.33%
RBOB	2.2590	.0305	1.37%
DBA (Grains)	21.66	.31	1.45%
Prices taken at previous day market close.			

<u>Treasuries:</u> The 10-Yr Treasury Note has notably broken down through a one-month uptrend this week with confirmation from a deteriorating RSI reading skewing the technical view in favor of the bond bulls (yield bears). The 3.95% mark, the low close from 1/12, is the first key level to watch but the low close for the year at 3.91% is the more important level to watch. If yields drop further than the low 3.90% area, the late-2023 low close of 3.79% will come into focus.

<u>Gold</u>: The outlook for gold became decidedly bullish in December after a run to record highs. There is a key support band from the lows of the last two months between $2,030 and $1,995/oz. that should offer solid support unless a deeper correction is looming in the precious metal. To the upside, the late-2023 closing high of $2,090 will be the first resistance level to watch while the record intraday high of $2,152/oz. will be the next key technical level to watch.

<u>VIX</u>: The CBOE Volatility Index has been churning higher so far in 2024 but is currently centered in the middle of a low-angle uptrend channel. An upward-trending VIX is typically a caution signal for stocks but we would need to see any selloffs in the equity markets coincide with a break of initial resistance at 14.13 to become concerned that a sustainable decline in stocks may be looming. Beyond that initial resistance level, the 2024 closing high of 14.79 would come into view. To the downside, a break below the pivot point of the late-January lows at 13.14 will be initial support and a push below would be welcomed for equity bulls today. Beyond there, the 2024 closing low of 12.44 would come into focus as a sharply declining VIX would be a de facto all-clear signal from the derivatives markets (but also a contrarian sign of emerging complacency among investors). ***To request a one-page PDF "tear sheet" of the charts on Page 2, complete with price level explanations, please email info@sevensreport.com.***

<u>Jobs Report Preview</u>

I'm producing the Jobs Report Preview few days earlier than normal this week because of the Fed decision and the looming space constraints in tomorrow's issue and also because, barring a major surprise from the Fed, that decision shouldn't impact what will make this jobs report Too Hot, Too Cold or Just Right.

Regarding the jobs report, with Fed officials pushing back against rate cut expectations a strong print will make a March rate hike unlikely. However, that's not a major negative for stocks, as we have covered the "March vs. May" cut debate really isn't that important.

What is important, however, is if the jobs report is so strong that it puts a May rate cut in doubt. If that's the case, the report will be "Too Hot" and we can expect a negative reaction in the markets because traders will have to start to rethink the idea of six-ish rate cuts in 2024. And since that was a major reason behind this three-month rally in stocks, it would leave stocks and bonds vulnerable to a pullback.

Positively, the channel for a mostly "Just Right" report remains wide, again mostly because markets don't care *that* much about whether the first cut comes in March or May. Yes, a slightly high number in the "Just Right" range may make a March cut probability fall solidly below 50%, but unless it damages the May cut expectation, any decline should be modest. Finally, the best outcome for this number remains something in the low-to-mid 100k range, a number that shows solid job growth but that also would give the Fed cover to cut rates in March, fulfilling those market expectations.

"Too Hot" (A March Rate Cut Becomes Unlikely and a May Cut Comes into Doubt) **> 200k Jobs Adds, UE Rate ≤ 3.7%, Wages > 4.1% yoy.** Numbers this strong (so not just the headline job adds but all three metrics) would likely push back on the idea of six rate cuts in 2024 and that could easily cause a solid pullback given the expectation for six (or more) cuts is one of the main forces that pushed stocks higher over the past three months. *Likely Market Reaction:* A sharp decline in stocks and bonds. Treasury yields should rise sharply (the 2- and 10-year yields could easily rally 15 basis points or more) and that would hit stocks and a decline in the S&P 500 of more than 1% shouldn't be a surprise. Defensive sectors (utilities, healthcare, staples) should relatively outperform but we'd expect all 11 S&P 500 sectors to be lower. The Dollar Index should rally through 104 and towards 105 while commodities (and especially gold) should drop hard on the dollar strength. A pullback of 5% or more on this outcome in the coming weeks would be possible.

"Just Right" (Expectation for a March Rate Cut Stay 50/50 and A May Cut Remains Certain) **0k-200k Job adds, UE Rate ≥ 3.8%, Wages: ≤ 4.1%.** The best-case scenario for markets is a slightly underwhelming number as that will 1) Keep a March rate cut possible and 2) Not imply the labor market is suddenly losing momentum. *Likely Market Reaction:* A continued grind higher. Momentum in this market is higher and as long as there are no negative surprises from the Fed or earnings, a number in this range will keep May rate cuts fully expected. I'd expect outperformance from cyclical and value sectors, so a continued broadening of the rally, although I think most of the market would be broadly higher. Treasury yields should decline modestly and if this number is close to 100k, don't be shocked if the 10-year yield drops below 3.80%. The Dollar Index should also drop moderately (but not more than 1%) on a number in this range while commodities, including gold, should see a modest rally. **A number in the low-100k range remains the "best case" for this market as it essentially keeps the recent "status quo" intact.**

"Too Cold" (Hard Landing Concerns Grow) **<0 Job adds.** In the immediate reaction, a very soft number will pressure Treasury yields further and could result in a knee-jerk rally in stocks. But a sudden collapse in job adds would increase concerns the economy may be slowing more than anticipated and that would, in time, start to weigh on risk assets. *Likely Market Reaction:* There could be an initial rally in stocks based on a "bad is good" mentality. Yields should decline and the drop in yields should provide an initial boost to stocks, with super-cap tech, defensive sectors and higher-yield sectors (e.g. REITs) rallying. The Dollar Index should drop moderately (below 103) while commodities and gold should rally hard (gold should move further above $2000/oz). However, while an initial "bad is good" rally might ensue, I'd be shocked if it lasted more than a day or so, because slowing growth into Fed rate cuts is not what's priced into stocks at these levels and a pullback on hard landing concerns would become more likely.

Market	Level	Change	% Change
Dollar Index	103.22	-.20	-0.19%
EUR/USD	1.0844	.0011	0.10%
GBP/USD	1.2690	-.0019	-0.15%
USD/JPY	147.65	.15	0.10%
USD/CAD	1.3398	-.0016	-0.12%
AUD/USD	.6602	-.0009	-0.14%
USD/BRL	4.9468	-.0004	-0.01%
Bitcoin	43,617.06	548.53	1.27%
10 Year Yield	4.059	-.032	-0.78%
30 Year Yield	4.278	-.057	-1.31%
10's-2's	-30 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.13%		
Prices taken at previous day market close.			

Economics

There were no material economic reports yesterday.

Commodities

Commodities were broadly higher as the dollar was little changed and yields drifted lower ahead of today's Treasury refunding and FOMC announcements. The commodity ETF, DBC, rose 0.67%.

Oil was the upside standout as WTI crude futures gained 1.34% to settle just below the $78/barrel level, the current 2024 closing high. Fundamentally, news that Saudi Arabia's state-owned oil giant, Aramco, was choosing to scrap plans to boost output capacity by 1 million barrels/day to total 13 million b/d in the coming years. Initially, the decision was viewed as a negative amid assumptions that internal demand forecasts had been lowered, however, in the near term less global production capacity means a tighter physical market for the foreseeable future and that concept limited the downside in oil prices early. Then the solid set of economic data in the U.S. (JOLTS and Consumer Confidence in particular) and upward revision to the IMF's global GDP forecast for 2024 helped to further ease demand concerns linked to fading economic momentum.

Today, there are a slew of potential catalysts for oil starting with the Treasury Refunding announcement details before the open. A dovish reaction that sends yields lower should bolster oil and refined products prices ahead of the EIA report, in which traders will be looking for strengthening demand for gasoline after a lull at the turn of the year, as well as specifics on how much production in North Dakota has rebounded since freezing temperatures knocked output offline earlier this month. Finally, an as-expected or dovish Fed should help keep the early 2024 uptrend intact while a hawkish surprise out of the FOMC would threaten the fragile YTD gains.

Copper extended this week's outperformance with a gain of 0.86% thanks to the IMF's upward revision to global growth, which specifically citied strength in the U.S. economy, reiterated by the upbeat data yesterday, and fiscal measures in China (also favorable for copper). Copper futures notably closed at a new 2024 high, but they remain just shy of key resistance at $3.95 from late 2023, and that will be a key level to watch today.

Gold rose by 0.52%, but fell short of notching a new 2024 high like copper, with futures holding below $2,068. The yellow metal remains in a consolidatory trading range with support building out in the lower $2,000s this year while the early December record high of $2,092/oz. is the level to beat for the bulls.

Currencies & Bonds

Economic and inflation data that was generally stronger than expected drove the currency and bond markets on Tuesday. The Dollar Index finished down 0.15%.

The key economic report on Tuesday wasn't from the U.S. Instead, it was from Europe as Spanish CPI unexpectedly rose to 3.5% y/y vs. (E) 3.1%. That's just one inflation reading and by no means does it invalidate the global disinflation we've witnessed over the past several months, but it did catch markets by surprise and pushed back against the "ECB cuts rates in the summer" narrative. That boosted the euro which rose 0.3% early Tuesday and that pressured the dollar.

However, U.S. data was also stronger than expected including Consumer Confidence and, more importantly, JOLTS (Job Opening and Labor Turnover Survey). That pushed the 2-year yield higher and slightly decreased March rate cut expectations and that caused the dollar to rally through the day and it recouped most of the early losses to finish down 0.1%.

Looking to today's FOMC decision, in order for the dollar to move sustainably higher we'll need to see the Fed materially push back on March (and May) rate cuts and in that instance, a rally through 104 towards 105 shouldn't be a surprise (although it'll take a rally through 105 to really start to become a headwind on stocks).

In Treasuries, the strong U.S. data was the main catalyst as the 2-year yield rose 5 basis points thanks mostly to the higher-than-expected JOLTS, although the rise in short-term European yields following the Spanish CPI also pushed 2-year Treasury yields higher. The 10-year yield declined slightly, falling 3 basis points, on the idea that delayed rate cuts would be a negative for future growth (although the slight move lower ahead of the Fed can also be attributed to pre-Fed positioning).

Like the dollar, to get yields moving sharply higher today the Fed will have to push back deliberately—not just on March rate cuts, but also May rate cuts. In that outcome, a rise in yields of 10-20 basis points can't be ruled out (and if that happens, it'll weigh on stocks).

Have a good day,

Tom

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Technical Perspectives (Updated 1/28/2024)

S&P 500

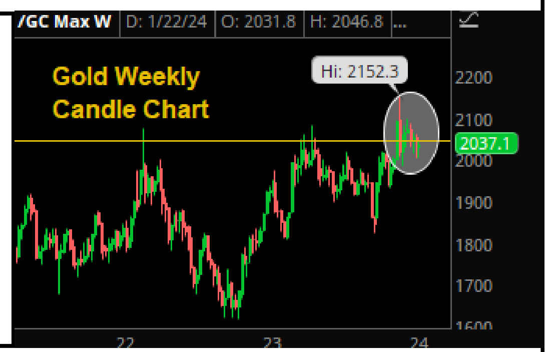
- Technical View: **The medium-term trend in equities remains bullish** confirmed by the latest run to all-time highs in the benchmark equity index.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 4907, 4969, 4100
- Key Support Levels: 4853, 4792, 4697

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

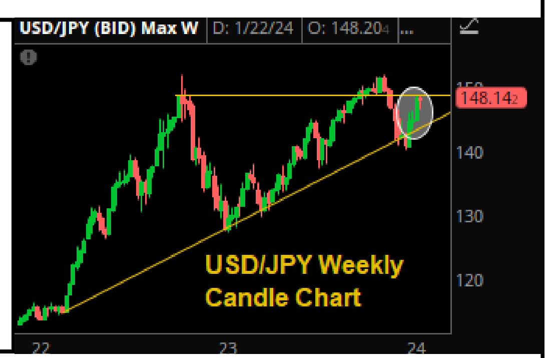


10-Year T-Note Yield

- 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



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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.