SEVENS REPORT

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

January 4, 2024

Pre 7:00 Look

- Futures are rebounding very slightly following better than expected global service PMIs.
- The December Chinese Service PMI handily beat estimates (52.9 vs. (E) 51.6) offering an encouraging signal on Chinese growth while the EU and UK services PMIs also slightly best estimates.
- On inflation, data was more mixed as French CPI met estimates at 3.7% but rose slightly from last month.
- Econ Today: ADP Employment Report (E: 115K), Jobless Claims (E: 218K), PMI Composite Index (E: 51.0).

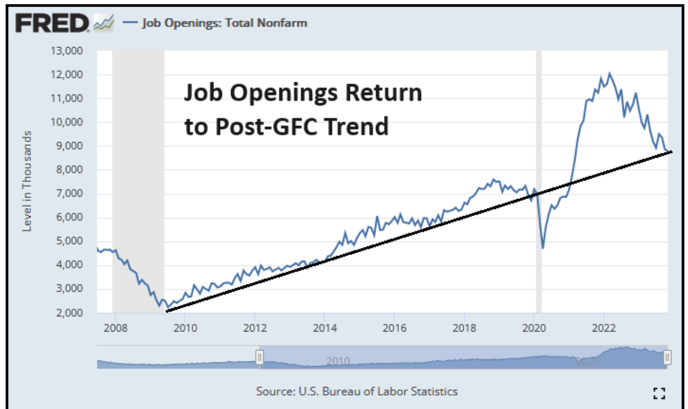
Market	Level	Change	% Change
S&P 500 Futures	4,746.75	0.25	0.01%
U.S. Dollar (DXY)	102.32	-0.18	-0.17%
Gold	2,054.80	12.00	0.59%
WTI	73.50	0.80	1.10%
10 Year Yield	3.96%	0.06	1.50%

Equities

Market Recap

The major equity indices continued to selloff yesterday as a voting member of the Fed noted that rate hikes are still possible, which was reiterated by the FOMC minutes release later in the day while economic data was more or less in line with estimates. The S&P 500 fell 0.80%.

Stocks came for sale and bond yields continued higher at the opening bell yesterday as the Richmond Fed's Barkin said that rate hikes are still on the table despite the widely held expectation of a soft landing. The market bounced at the top of the 10 a.m. hour after the release



The number of available jobs in the U.S. fell to 8.79 million in November (E: 8.75 million) from a upwardly revised October figure of 8.85 million. JOLTS have notably returned to the pre-Covid trend.

of the November JOLTS and December ISM Manufacturing reports. Neither report meaningfully changed Fed policy expectations or soft landing hopes, which left traders focused on the hawkish comments by Barkin and stocks rolled over to new lows in midmorning trade.

The market stabilized into the European close and recovered a good portion of the morning losses into and through the release of the December Fed meeting minutes (although the S&P never turned positive and notably hasn't been "green" yet in 2024). As the minutes were digested in the first half of the 2 p.m. hour, the market began to roll over amid the mention of "higher for longer" policy rates and the fact that the FOMC noted "unusually elevated uncertainty" regarding the outlook for the economy. The 10-year yield pulled back from the important 4% mark while the S&P 500 rolled over to fresh session lows into the close as more important economic data comes into focus.

Trading Color

Stocks dropped again and in the case of the Nasdaq and Russell 2000, sharply, as markets continue to digest and

Market	Level	Change	% Change
Dow	37,430.19	-284.85	-0.76%
TSX	20,818.58	-53.56	-0.26%
Stoxx 50	4,462.62	14.49	0.33%
FTSE	7,691.46	9.13	0.12%
Nikkei	33,288.29	-175.88	-0.53%
Hang Seng	16,645.98	-0.43	0.00%
ASX	7,494.10	-29.10	-0.39%
Prices taken at previous day market close.			

reverse the late-December ramp up. The decline in the Nasdaq and Russell 2000 (1.18% and 2.66%, respectively) are material, but again this must be taken in the context of the large Q4 rally that, in reality, happened almost entirely in the month of November and December. Point being, this can still be considered digestion and not a sudden reversal because the declines aren't being driven by anything actually happening.

Market	Level	Change	% Change
DBC	22.14	.28	1.28%
Gold	2048.60	-24.80	-1.20%
Silver	23.23	-.72	-3.02%
Copper	3.8700	-.0105	-0.27%
WTI	72.95	2.57	3.65%
Brent	78.45	2.56	3.37%
Nat Gas	2.676	.108	4.21%
RBOB	2.1634	.0685	3.27%
DBA (Grains)	20.58	-.11	-0.53%
Prices taken at previous day market close.			

From a sector standpoint we did see defensive sectors relatively outperform for the second straight day as utilities rose 0.4% while healthcare was down fractionally and consumer staples traded in line with the S&P 500. Laggards were REITs (the December outperformers) and Consumer Discretionary (XLY) and that again speaks to the positioning-driven nature of the decline.

Bottom line, the early year decline in stocks is larger than usual, but it's not something that implies a sudden paradigm shift and instead is more about markets digesting the December rally.

Jobs Report Preview

As we start the new year, economic data in 2024 must be viewed in the context of a market that's 1) Very aggressively priced in Fed rate cuts starting (most likely) in March and 2) Priced in essentially zero chance of a significant economic slowdown.

It's through that lens that we're looking at tomorrow's jobs report and the net impact is this: The range for a Goldilocks report keeps shrinking compared to a year ago and if this report is "Too Hot" or "Too Cold" we could see a sharp drop in stocks and, potentially, bonds. That's because a Too Hot report will push back on the idea of March rate cuts while a Too Cold report will increase concerns the economy could slow more than expected.

Regarding the timing of those cuts, we've seen the markets dial back March cut expectations over the past few days but it still remains the consensus expectation. However, if a hot jobs report pushes that probability below 50% and challenges the idea of a May rate cut, expect a pullback in stocks and bonds.

Conversely, if job additions stumble and are much lower than expected, look for some hard landing worries to creep back into the market and for stocks to decline while Treasuries likely rally.

Bottom line, there's still a decent amount of room for the jobs number to be Goldilocks, but that range is shrinking and given the December rally the potential decline in stocks from a number that isn't Goldilocks is larger than it was before and we just need to keep that in mind ahead of tomorrow's report.

"Too Hot" (A March Rate Cut Becomes Unlikely) **> 200k Jobs Adds, UE Rate ≤ 3.7%, Wages ≥ 4.1% yoy.** Markets have aggressively priced in a much more dovish Fed and a hot jobs number will refute that idea and push back on the idea of number and aggressive rate cuts in 2024. *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 back through 103 and towards 104 while commodities (and especially gold) should drop on the dollar strength.

"Just Right" (Expectation for a March Rate Cut and Four Cuts (or More) in 2024 don't change.) **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 current rate cut expectations in place and 2) Not imply the labor market is suddenly losing momentum. *Likely Market Reaction:* Digestion of the recent rally. Slightly disappointing economic data that points to a modest slowing of growth is mostly a positive for stocks as it keeps hopes for rate hikes in place but doesn't signal a looming slowdown. I'd expect mixed performance but general outperformance from cyclical and value sectors, so a continuing broadening of the rally. Treasury

yields should decline modestly and if this number is close to 100k, don't be shocked if the 10-year Treasury 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-yielding sectors (e.g. REITs) rallying. The Dollar Index should drop sharply (below 102) while commodities and gold should rally hard (gold should move further above $2000/oz). The initial declines in stocks could be muted, but a weak number should become a larger negative over the coming days as markets price in a greater chance of a slowing economy.

Economics

December ISM Manufacturing Index

- The headline PMI rose to 47.4 vs. (E) 47.2.

Takeaway

Yesterday's ISM report showed that the factory sector of the economy remained in contraction in December with the headline Manufacturing PMI edging up 0.7 points to 47.4, slightly better than the 47.2 consensus estimate. The forward-looking New Orders index, however, edged down 1.2 points to a deeper contractionary reading of 47.1, which is not promising for the sector's outlook in early 2024. Notably, none of the six largest manufacturing subsectors grew in December, indicating broad weakness in the U.S. manufacturing complex.

Conversely, the Production index rose 1.8 points to expansionary territory above 50 at 50.3 while the Employment Index rose 2.3 points to a less-dismal reading of 48.1. There was also a notable jump in the Backlog of Orders Index, which rose 6.0 points to 45.3, coming off a deeply contractionary low of 39.3 in November. Finally, and potentially most importantly, the Prices Index dropped 4.7 points to 45.2 in December, down from a largely neutral 49.9 reading in November, which is consistent with falling inflation statistics in the broader economy.

Bottom line, the manufacturing sector of the economy is clearly still facing stiff headwinds based on yesterday's ISM release that was admittedly better than feared on the headline amid weak demand in the economy. However, with the prices sub-index dropping measurably and growth metrics contracting, the ISM data offered fresh support for a March rate cut while not coming in "too cold" to materially sound recession alarm bells.

Market	Level	Change	% Change
Dollar Index	102.16	.26	0.26%
EUR/USD	1.0919	-.0023	-0.21%
GBP/USD	1.2661	.0044	0.35%
USD/JPY	143.25	1.26	0.89%
USD/CAD	1.3356	.0035	0.26%
AUD/USD	.6726	-.0035	-0.52%
USD/BRL	4.9181	.0010	0.02%
10 Year Yield	3.907	-.039	-0.99%
30 Year Yield	4.056	-.029	-0.71%
10's-2's	-38 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	3.97%		
Prices taken at previous day market close.			

Commodities

Commodities were split yesterday as energy futures rallied solidly on a combination of high geopolitical tensions and international supply concerns while the metals posted declines amid a stronger dollar with gold underperforming considerably. The commodity ETF, DBC, climbed 1.28% amid strong gains in energy.

Beginning with energy, there was a reversal in the oil market yesterday following Tuesday's negative start to 2024 as futures steadily rallied over the course of the day amid a series of consecutive bullish catalysts. Geopolitically, there were three notable escalations involving the Middle East and specifically Iran: 1) Iran-backed Houthi rebels attacked another ship in the Red Sea, 2) The Israel-Hamas conflict had spread to Lebanon with the killing of a Iran-backed Hamas leader in Beirut, and 3) A memorial service for Iranian Commander Soleimani, who was killed by a U.S. military strike over three years ago, was attacked with a pair of bombs that killed over 100 attendees. Those developments all combined to add considerable fuel to the geopolitical fear bid that has been simmering under the market for months.

Looking at the supply side of the market, there were two more bullish developments yesterday: 1) It was reported that one of Libya's largest oil fields, the El Sharara field capable of producing roughly 300K b/d, had been shut due to protests, and 2) OPEC released a statement reiterating the joint efforts and cooperation among member nations with OPEC+ counterparts and announced a new meeting date for early February. The threat of deeper cuts from OPEC+ and the production that was knocked offline in Libya only added to the bullish sentiment in the oil market.

Bottom line for oil, what was a universally bearish backdrop for oil for much of December has now become largely bullish based on the primary influences on the market right now. And if the oil market gains some upside momentum in January, that will reintroduce the risk of a rebound in inflation in early 2024 that would complicate the Fed's already delicate decision making process this year.

Turning to metals, copper fell by 0.22% as mixed economic data was offset by more selling pressure in stocks and other risk assets amid fading conviction surrounding a March rate cut from the Fed. Copper did end off the day's worse levels potentially due to an upward revision in the Atlanta Fed's GDPNow figure to 2.5% from 2.0% on Tuesday. Looking ahead, the prospects of a soft landing will remain critical to the industrial metals rally that began in late 2023.

Gold dropped a more pronounced 1.17% as the Fed minutes suggested that higher-for-longer policy remained a possibility leaving economic data between now and the weekend critical to the next near-term move in gold. The all-time highs in December leave the longer-term outlook decidedly in favor of the bulls.

Currencies & Bonds

The dollar extended the 2024 rally for a second day thanks to generally solid economic data and despite FOMC minutes that kept rate cut expectations intact. The Dollar Index rose 0.25%.

The greenback was up from the start on Wednesday and spent most of the day higher thanks mostly to economic data, as the ISM Manufacturing PMI was slightly better than expected while JOLTS were also slightly better than estimates. However, the dollar declined following the release of the FOMC minutes as they did not push back against the market's expectation for aggressive Fed rate cuts in 2024. The Dollar Index gave back half the day's gains closing modestly higher.

The euro declined 0.2% while the yen dropped a more substantial 0.9% as markets price in the economic fallout from this weekend's earthquake and airline accident. The pound was the outperformer vs. the dollar, rallying 0.4% mostly on positioning. Bottom line, we should expect some continued start-of-year noise in the dollar but it's going to take the Fed easing off the dovish rhetoric and/or tone or economic data that puts rate cuts in doubt to generate meaningful upside in the greenback in the near term and yesterday was just another example of that reality.

In Treasuries, yields were modestly higher on some early year positioning and following the better-than-expected ISM Manufacturing PMI. But those initial gains were reversed following the FOMC minutes and yields ended the day flat. Similar to the dollar, it's going to take the Fed either backing off the dovish rhetoric and tone or stronger-than-expected economic data that puts rate cuts in doubt to send yields higher from here and we continue to believe the best path for rates in 2024 is a calm, sideways drift amidst hopefully Goldilocks data.

Have a good day,

Tom

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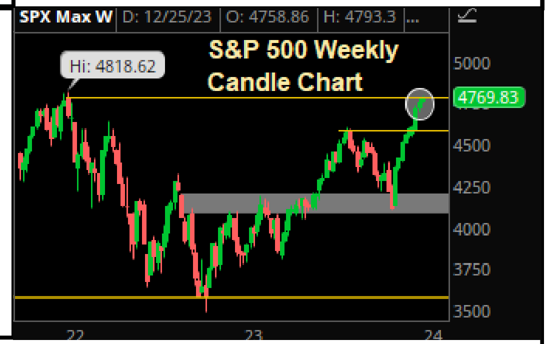
Technical Perspectives (Updated 12/31/2023)

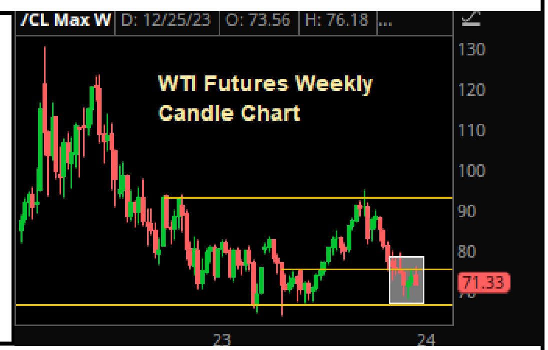
S&P 500

- 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

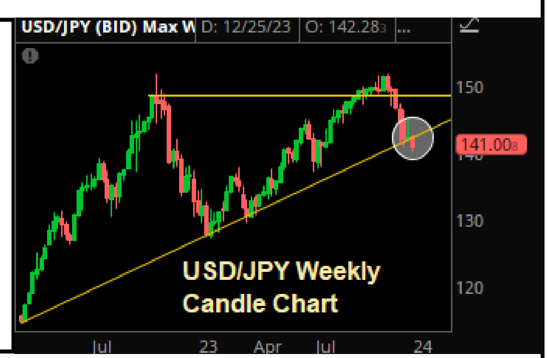
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2089, $2108, $2152
- Key Support Levels: $2033, $2000, $1967

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.