SEVENS REPORT

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

January 5, 2024

Pre 7:00 Look

- Futures are modestly lower following more evidence of a bounce back in inflation in the EU and ahead of today's jobs report.
- The EU December HICP (their CPI) rose less than expected (2.9% vs. 3.0% y/y) but still increased from the 2.4% Nov. reading and that's further reducing ECB rate cut expectations and weighing on global markets.
- Econ Today: Employment Situation (E: Job Adds: 158K, UE Rate: 3.8%, Avg Hourly Earnings: 0.3% m/m, 3.9% y/y), ISM Services PMI (E: 52.7). Fed Speak: Barkin 1:30 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	4,711.75	-17.75	-0.38%
U.S. Dollar (DXY)	102.73	0.31	0.30%
Gold	2,045.70	-4.30	-0.20%
WTI	72.62	0.43	0.60%
10 Year Yield	4.04	0.05	1.34%

Equities

Stocks started Thursday higher mostly on an oversold bounce, but stronger-than-expected foreign and domestic economic data pushed yields higher throughout the day and stocks were little changed by lunchtime and finished with modest losses. The S&P 500 fell 0.34%.

Stocks were initially higher as the market tried to recover from two straight declines to start the year thanks to better-than-feared PMIs from the UK and Europe and solid rallies in European indices. However, several important pieces of economic data hit during the 8:00 a.m. hour including German CPI, U.S. jobless claims and the ADP employment report and the net result is they were all slightly "hot." The result was that throughout the day, yields crept higher and progressively weighed on stocks.

The S&P 500 hit the high of the day right at the close in Europe, but once those markets were closed U.S. stocks drifted steadily lower in quiet trade, led lower once again by tech and the Nasdaq as AAPL was downgraded by a second firm (Piper Sandler) this week. The S&P 500 turned negative mid-afternoon and declined into the close, essentially finishing at the lows of the day.

2024 Technical Outlook: Key Levels to Watch in Q1

Volatility has been the major theme at the start of 2024, and with such a cloudy fundamental outlook for the months and quarters ahead amid fading conviction about Fed rate cuts coming in March and historically high uncertainty regarding the outlook for the economy, it is important to understand the primary market trends across asset classes as the first quarter gets underway.

S&P 500: Starting with the stock market, the S&P 500 is in a well-defined uptrend on the weekly time frame chart after the index made new 52-week highs at the end of last year. Stocks became overbought during the melt-up rally in November and December so this early 2024 pullback should not come as a shock to those looking at the charts. With the S&P 500 knocking on the door of new records, the all-time closing high of

Sevens Report Quarterly Letter

Our Q4 '23 Quarterly Letter was delivered to subscribers on Tuesday, complete with compliance backup and citations. **We're already receiving feedback about how it is saving advisors time and helping them communicate with their clients in this volatile environment!**

You can view our Q3 '23 Quarterly Letter here.

To learn more about the product (including price) please click this link.

If you're interested in subscribing, please email info@sevensreport.com.

Market	Level	Change	% Change
Dow	37,440.34	10.15	0.03%
TSX	20,871.35	52.77	0.25%
Stoxx 50	4,428.64	-45.37	-1.01%
FTSE	7,652.71	-70.36	-0.91%
Nikkei	33,377.42	89.13	0.27%
Hang Seng	16,535.33	-110.65	-0.66%
ASX	7,489.07	-5.03	-0.07%
Prices taken at previous day market close.			

4,797 is the key level to watch to the upside as a break higher would offer convicted confirmation that the rally that began in late 2023 is sustainable with a push towards 5,000 very much within the realm of possibility. To the downside, the July highs near 4,590 will offer initial support that will become increasingly formidable towards the pivot point of the H2'23 pullback at 4,375. The Relative Strength Index (RSI) remains bullish, comfortably above the break-even 50 threshold, but the indicator's turn lower to start the year suggests the threat of more price weakness elevated in the weeks ahead.

Market	Level	Change	% Change
DBC	22.02	-.12	-0.54%
Gold	2051.60	8.80	0.43%
Silver	23.22	.06	0.27%
Copper	3.8490	-.0125	-0.32%
WTI	72.30	-.40	-0.55%
Brent	77.61	-.64	-0.82%
Nat Gas	2.852	.184	6.90%
RBOB	2.1129	-.0452	-2.09%
DBA (Grains)	20.68	.09	0.46%
Prices taken at previous day market close.			

10-Yr Treasury Note: Contrary to the consensus on Wall Street, the primary trend in the 10-Yr yield based on the price action alone and leaving all fundamental expectations for Fed policy, inflation, and economic growth out of it, remains to the upside (bearish bond prices, bullish yields). After a steep pullback of more than 100 basis points in Q4, the 10-Yr yield stabilized at the top end of support dating back to the late spring/ early summer of 2023 between 3.70% and 3.85%. To the upside, there is critical resistance at 4.20%, a level that initially became important for the 10-Yr in late 2022 when a top formed that held in late summer of 2023. The Relative Strength Index has made lower highs and lower lows on the weekly time frame chart, which suggests the price action is increasingly favoring the bond bulls/yield bears. However, before we can technically call a top in yields, we will need to see a meaningful new low established in the 10-Yr which is currently the 2023 low of 3.30%. But if the 3.75% area is defended for long enough with no meaningful new lows, then that higher level will eventually become the level to break down through to confirm peak rates.

Gold: The primary trend is decidedly bullish right now with futures having just established new record highs in December. The all-time closing high of $2,098/oz. is the level to beat for the bulls to confirm the new uptrend. To the downside, support will begin at the July and October highs of $2,020/oz and continue down to the November low of $1,940. As is the case with the other two securities discussed, the Relative Strength Index is rolling over, suggesting a rising risk of a further pullback into aforementioned support. Notably, it would take a break below the 2023 lows to reverse the current bullish technical set up.

VIX: The CBOE Volatility Index started the year with a modest move to the upside but so far, the "fear gauge" has held below the December high of 14.49. A break beyond that level would suggest more volatility looming ahead. Conversely, a reversal back towards the current 2024 low of 13.10 would suggest volatility is easing and stocks would be in an improving position to stabilize in the weeks ahead and potentially resume the late-2023 rally.

The outlook for markets is as uncertain right now as it was coming into 2022 and 2023, years that clearly saw drastically different outcomes. And the risk that the market breaks one way or another in January is rising, so monitoring the key levels in this section and keeping tabs on the primary underlying market trends, key technical indicators, and maintaining an understanding of historical cross-asset correlation studies will be critical to getting this market right in 2024.

To request a one-page PDF "tear sheet" of the charts on Page 2, complete with price level explanations, please email info@sevensreport.com.

Economics

Labor Reports

- ADP Private Payrolls jumped to 164K vs. (E) 115K
- Initial Jobless Claims fell 18K to 202K vs. (E) 218K
- Continuing Claims fell 31K to 1.855 million

Takeaways

The labor market so far in 2024 has been universally strong and solidly better than expected. Initial jobless claims dropped back to 202K, the lowest reading since mid-October and well below the consensus estimate of 218K. That brought the four-week moving average down to just 207.75K, also the lowest since October, which underscores the still unexpectedly tight conditions in the domestic labor market. Continuing claims, which offer some insight into the current unemployment rate, fell further away from the November peak of 1.925 million (a two-year high) to 1.855 million according to the latest report. Finally, the ADP's headline private payroll job adds figure rose to the highest reading since August at 164K, which was well ahead of estimates calling for 115K.

Market	Level	Change	% Change
Dollar Index	102.16	-.04	-0.03%
EUR/USD	1.0946	.0024	0.22%
GBP/USD	1.2684	.0019	0.15%
USD/JPY	144.56	1.27	0.89%
USD/CAD	1.3352	-.0001	-0.01%
AUD/USD	.6705	-.0027	-0.40%
USD/BRL	4.9070	-.0121	-0.25%
10 Year Yield	3.991	.084	2.15%
30 Year Yield	4.137	.081	2.00%
10's-2's	-39 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	4.05%		
Prices taken at previous day market close.			

Bottom line, the labor market reports so far in 2024 have been almost perfectly Goldilocks as there are few signs of any deterioration in the labor market while at the same time, the data isn't so strong as to stoke concerns about higher wages. The solid data helped stocks rally initially on Thursday although it'll quickly be overshadowed by this morning's jobs report.

German CPI

- German CPI rose 3.7% vs. (E) 3.8% in December

Takeaway

The last two times that German CPI bounced higher, a rise in global bond yields ensued, ultimately triggering volatility in risk assets broadly. As such, inflation metrics in Europe and the U.S. will be important to watch in the weeks ahead.

The first notable inflation report of 2024 was mixed as headline inflation in Germany was slightly better than expectations but, more importantly, registered its first increase since June, rising to 3.7% from the 32.2% reading in November. That bounce back in headline inflation did push back on expectations for rate cuts in the near future in the EU (and German bunds rallied as a result).

Positively, the core figure that filters out Food and Energy prices did drop to 3.5% from November's 3.8% reading, which was favorably the lowest since July 2022. However, with markets viewing inflation data through the lens of whether it will make the ECB more or less likely to cut rates, the bottom line with this inflation number was a mild negative as regardless of the decline in core inflation, the ECB will have a hard time cutting rates if headline inflation remains solidly above 2% in the Eurozone and as a such, this report did weigh on European stocks and German Bunds on Thursday.

Commodities

Commodities were mixed as gold benefitted from continued flight-to-safety money flows despite a steady dollar and rising yields with gold futures climbing 0.40% on the day to hold near the recently magnetic $2,050/oz. area. Copper underperformed amid the continued risk-off money flows in equities and other asset classes, which saw futures fall 0.27%. Copper ended off the lows but did violate an uptrend line dating back to November suggesting a further pullback is increasingly likely in the sessions ahead. Finally, oil was volatile after the latest EIA release but ultimately WTI futures dipped a modest 0.43% on the day.

Oil Update: Lots of Moving Pieces to Start 2024

Starting with the EIA data, the inventory figures were net bearish as the 5.5 million barrel draw in crude oil stockpiles that more than doubled estimates was not nearly enough of a bullish catalyst to offset the massive bearish builds in refined product inventories with both gasoline and disty supply levels rising more than 10 million barrels on the week, nowhere near the consensus expected increases of 400K for each product.

Those huge builds in refined product inventories could not be explained by a sizeable increase in refinery use as the utilization rate only edged up 0.2% to 93.5%; however the very steep combined drop of 2.5 million b/d in gasoline and distillate supplied, totaling -17.5 million barrels of product for the week, did help shed some light on the internals of the physical market last week. Instead of suggesting consumer demand plunged, the 20 million bbl surge in refined product stockpiles was largely the function of the massive drop off in deliveries around Christmas and New Years, which is notably typical in late December and early January. Looking closer at the math, oil inventories fell by 2.8 million barrels more than expected while the rise in refined products of 20MM bbls minus the drop in deliveries of -17.5MM bbls on the week leaves the data more or less a "wash" as far as U.S. supply and demand goes last week.

Bottom line, the EIA report was not as bearish as the initial knee-jerk selloff would have led most to believe as peeling back the layers of the data revealed it was largely a wash. Looking ahead, the market is still demanding more clarity from OPEC+ on commitment to "stable (aka high) prices" even if it means more output curbs.

Currencies & Bonds

Foreign data was the driver in currency markets Thursday as the uptick in German CPI pushed the euro and weighed on the greenback. The Dollar Index fell 0.3%.

There was competing solid economic on Thursday as the EU and UK composite PMIs were better than expected while, more importantly, the German CPI rose solidly from 3.2% in November to 3.8% in December. Those readings, and especially the German CPI, trumped the jobless claims and ADP data on Thursday to boost the euro by 0.3% vs. the dollar.

The reason the German CPI was more important than the U.S. data yesterday in the currency markets goes back to trader expectations for Fed policy. The Fed is expected to be more dovish than the ECB and yesterday's rise in German CPI only reinforced that expectation, as it was seen as reducing the chances the ECB follows the Fed and signals rate cuts anytime soon. Looking forward, how data impacts rate cut expectations for the Fed, ECB and, to a lesser extent, the bank of Japan will remain the dominant influences on currencies.

In Treasuries, yields rallied as the 2-year yield gained 6 basis points while the 10-year yield rose 10 bps. The rise in yields also was driven by the hotter-than-expected German CPI along with the broadly better-than-expected U.S. labor market data. To that point, the German 10-year bund yield rose 15 bps on the increase in CPI and that powered global developed yields higher as a bounce back in inflation is not an impossibility and the German data reminded us of that.

Bottom line, markets have aggressively priced in global rate cuts and dovishness, but yesterday was a reminder that while that is the most likely course, it's not going to occur in a straight line and moderation of expectations on how quickly inflation will fall and how quickly central banks will rush to cut rates is still likely needed, and that will be a steady headwind on markets compared to December.

Have a good weekend,

Tom

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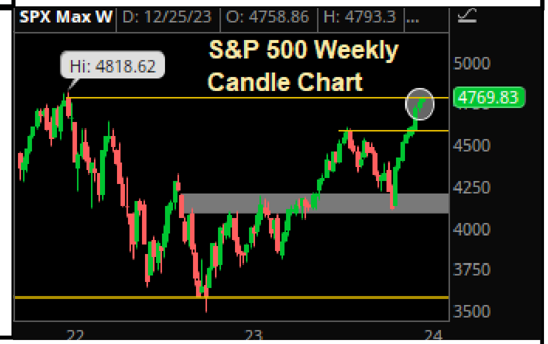
Technical Perspectives (Updated 12/31/2023)

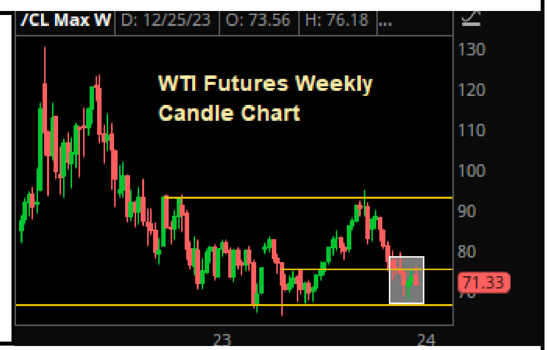
S&P 500

- 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

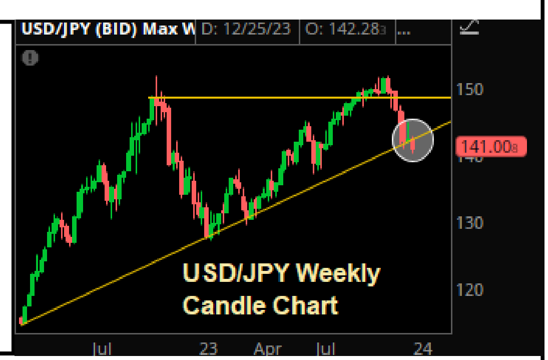
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: \$2089, \$2108, \$2152
- Key Support Levels: \$2033, \$2000, \$1967

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



SEVENS REPORT	**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.

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