SEVENS REPORT

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

January 9, 2024

Pre 7:00 Look

- U.S. futures are tracking European shares lower this morning as yesterday's squeezy, tech-led rally is digested amid a rebound in global bond yields with the 10-Yr above 4%.
- Economic data was mixed overnight as German Industrial Production fell -0.7% vs. (E) 0.0% while Eurozone Unemployment fell to 6.4% vs. (E) 6.6%. Domestically, the NFIB Small Business Optimism Index rose to 91.9 vs. (E) 90.6.
- Econ Today: International Trade in Goods (E: -$64.8B).
- Fed Speak: Barr (12:00 p.m. ET).
- The Treasury will hold a 3-Yr Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	4783.50	-17.75	-0.37%
U.S. Dollar (DXY)	102.415	.210	0.20%
Gold	2040.50	7.00	0.34%
WTI	72.26	1.49	2.11%
10 Year Yield	4.046	.044	1.10%

Equities

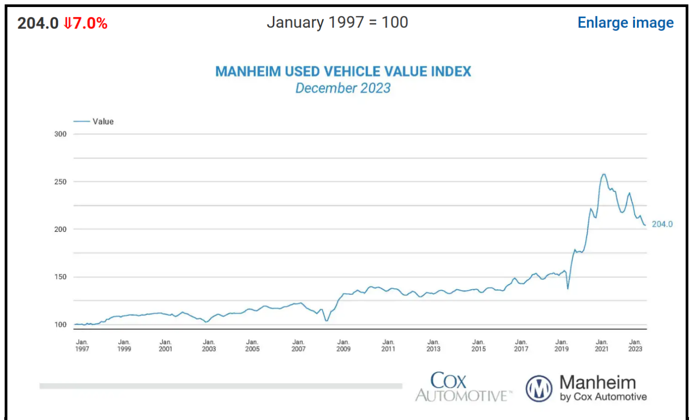
Market Recap

Equities rebounded on Monday with the S&P 500 hitting a fresh 2024 high thanks to a "cool" U.S. inflation print and renewed AI optimism after a corporate announcement from NVDA. The S&P 500 surged 1.41%.

Stock futures were initially lower in pre-market trade yesterday as the combination of weak German Manufacturing data and a soft Eurozone Retail Sales report rekindling recession worries among global investors while the Dallas Fed's Logan warned that easing financial conditions could prevent the Fed from moving forward with rate cuts in March. However, stocks stabilized and turned positive around the open thanks to a rally in tech, as the looming start of the Consumer Electronics Show and a temporary renewal of AI enthusiasm ahead of those presentations over the coming days boosted stocks.

The early gains were extended in morning trade after the PBOC announced multiple measures aimed at "boosting credit" and following a drop in 1-Yr inflation expectations from 3.4% to 3.0% in the NY Fed Inflation Expectations Survey, which was the lowest since January 2021.

In the afternoon, the Atlanta Fed's Bostic made some encouraging comments on the dynamics



The Manheim Used Vehicle Value Index (UVVI) became the poster child for surging inflation and now it's clearly signaling disinflation as it dropped 7% y/y. But at 204, it's still 30% above pre-pandemic levels.

Sevens Report Quarterly Letter

Our Q4 '23 Quarterly Letter was delivered to subscribers last 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	37,683.01	216.90	0.58%
TSX	21,074.91	137.36	0.66%
Stoxx 50	4,468.52	-16.96	-0.38%
FTSE	7,694.40	0.21	0.01%
Nikkei	33,763.18	385.76	1.16%
Hang Seng	16,190.02	-34.43	-0.21%
ASX	7,520.52	68.97	0.93%
Prices taken at previous day market close.			

between inflation and the labor market so far during this tightening cycle. But he also noted he only expects two rate cuts in 2024 with the first occurring in Q3. The melt-up rally and strong bullish momentum from the late morning continued through the close with the S&P 500 ending at a new 2024 high, less than 10 points from turning positive for the year.

Market	Level	Change	% Change
DBC	21.81	-.32	-1.45%
Gold	2035.90	-13.90	-0.68%
Silver	23.33	.01	0.04%
Copper	3.826	.020	0.53%
WTI	71.02	-2.79	-3.78%
Brent	76.42	-2.34	-2.97%
Nat Gas	3.003	.110	3.80%
RBOB	2.0384	-.0671	-3.19%
DBA (Grains)	20.52	-.06	-0.29%
Prices taken at previous day market close.			

Market Multiple Table Update

The first Market Multiple Table of 2024 provides a useful and clear illustration of this simple market reality: Investors have very aggressively priced in assumptions on rate cuts, economic growth and inflation and if those assumptions are right, then markets can solidify the gains of Nov/Dec and the S&P 500 can possibly challenge old all-time highs. But if those assumptions are incorrect, then it's a long way down to fundamental support.

The Market Multiple Table shows that it's not a very complicated market right now. Unlike the past several years, there aren't a lot of influences on stocks and bonds right now, as there are really just three macro influences driving markets: Fed policy expectations, economic growth (Hard Landing/Soft Landing) and inflation.

A Game of Multiples (Updated 1/8/2024)			
Market Influence	**Current Situation**	**Things Get Better If...**	**Things Get Worse If...**
Fed Policy Expectations	The Fed dovishly pivoted in December and the market has now priced in the first rate cut in March and four-to-six cuts in 2024.	The Fed begins to hint that a March rate cut is possible.	The Fed pushes back against the market's aggressive rate cut assumptions, reiterating two-to-three cuts at most in '24.
Hard Landing vs. Soft Landing	Economic data broadly remains resilient although there are some signs that a slowing may be occurring.	Economic data remains Goldilocks and isn't so strong that it decreases the chances of rate cuts, nor so weak it sparks slowdown concerns.	Economic data begins to point towards a slowdown or re-accelerates and jeopardizes rate cuts.
Inflation	Inflation dropped meaningfully in 2023 although it still remains solidly above the Fed's 2% target.	Core inflation metrics decline towards 2% increasing the likelihood of rate cuts in early 2024.	CPI bounces back and implies the pace of disinflation has slowed, jeopardizing the Fed pivot.
Expected 2024 S&P 500 EPS	**$245**	**$250**	**$230**
Multiple	18X-19X	19.5X	17X-18X
S&P 500 Range	4,410-4,655	4,875	3,910-4,140
S&P 500 Target (Midpoint)	4,533	4,875	4,025
Change from today	**-4.8%**	**2.3%**	**-15.4%**

What's not included are 1) Treasury yields (a change from December), 2) Geopolitics and 3) Domestic politics. While those topics are generating headlines, they aren't a major influence on the markets right now for these reasons. First, Treasury yields, unlike back in Q3, aren't rallying essentially on their own and instead are just reflecting changes in growth, inflation and expected Fed policy. Second, geopolitical headlines are scary as they pertain to the chances of a broader Middle East conflict, but the market isn't buying it and unless we get oil to rally, geopolitics just won't be a significant influence on markets (despite the press coverage). Finally, regarding domestic politics, this will become an influence on markets later in the year but for now the market does not think a government shutdown or other funding drama is likely simply because it's in neither party's best interest.

That leaves Fed policy expectations, growth and inflation as the drivers of markets and, more specifically, the very positive assumptions regarding those influences that have fueled the rally in stocks since the October lows. The potential problem is that the market has traded to levels that says these assumptions are reality, and that is not the case yet. Bottom line, how the facts begin to play out in the new year compared to these expectations will ultimately decide whether markets hold and digest the Q4 gains or give them back (and possibly more) as reality may not match these optimistic assumptions.

Current Situation: The Fed has dovishly pivoted and markets assume a rate cut in March and four-to-six cuts total in 2024, economic growth remains Goldilocks and stays solidly positive, inflation continues to trend lower towards the Fed's 2% target opening the possibility of rate cuts. The current situation largely reflects the positive assumptions investors made about rate cuts, growth and inflation and if the facts match these assumptions, that will help to solidify the Q4 rally. However, it will not justify a continued rally in stocks, more just a solidification of the current gains (which is still positive as it reduces pullback risks and would help form a base for a rally later in 2024).

Things Get Better If: The Fed begins to hint at a March rate cut, economic data stays Goldilocks and inflation continues to decline towards the Fed's 2% target. This environment would more forcefully confirm all the assumptions about the Fed, growth and inflation are right, and that would extend the reasonable ceiling on this market towards 4,900 in the S&P 500. This would essentially reflect a "perfect" environment for stocks of 1) Dovish Fed (meaning the Fed put is back on), 2) Strong growth and 3) Falling inflation and the S&P 500 trading to a new all-time high above 4,800 wouldn't be unreasonable (or unjustified).

Things Get Worse If: The Fed materially pushes back on the idea of rate cuts in March (and for much of 2024), economic growth suddenly rolls over or materially accelerates, and inflation metrics (CPI/Core PCE Price Index) bounce back. This scenario would essentially undermine the assumptions behind much of the Q4 rally. The net result would be substantial declines in stocks and give back of much of the October-to-December rally would not be out of the question. And while it seems like this outcome isn't possible given how hard investors have bought into the aforementioned assumptions, this is a legitimate scenario we need to be mindful of, because it is possible if data breaks the wrong way. **Email info@sevensreport.com for an unbranded copy of the Market Multiple Table.**

Market	Level	Change	% Change
Dollar Index	101.92	-.21	-0.20%
EUR/USD	1.0957	.0014	0.13%
GBP/USD	1.2754	.0034	0.27%
USD/JPY	144.15	-.48	-0.33%
USD/CAD	1.3353	-.0010	-0.07%
AUD/USD	.6719	.0006	0.09%
USD/BRL	4.8731	-.0025	-0.05%
10 Year Yield	3.998	-.044	-1.09%
30 Year Yield	4.169	-.031	-0.74%
10's-2's	-35 bps		
Date of Rate Cut	March 2024		
2024 YE Fed Funds	4.03%		

Prices taken at previous day market close.

Economics

There were no material economic reports yesterday.

Commodities

Commodities traded with a bias to the downside with oil leading the way lower after Saudi Arabia broadly slashed prices pointing weak demand in the physical market at the start of 2024. The metals were mixed with gold falling 0.82% thanks to hawkish Fed commentary from over the weekend while copper rallied on the positive stimulus news out of China. The commodity ETF, DBC, fell 1.45% as the heavy losses in oil futures more than offset the modest gains in the industrial metals.

Beginning with oil, which has been by far the most closely followed commodity over the last year due to its massive price swings and historically elevated volatility, WTI futures plunged steadily beginning almost immediately after the electronic open on Sunday night. The primary catalyst for the selling was an announcement out of Saudi Arabia of deep and broad price cuts to global customers taking delivery of physical oil in February. The hawkish Fed commentary from the weekend (more on that in the gold coverage) did not help the oil bulls' cause, leaving futures effectively in freefall well into the primary session.

Oil began to stabilize at the top of the 10 a.m. hour when the NY Fed's consumer survey report was released, revealing declining inflation expectations across all time horizons. Most notably, the 1-yr consumer inflation expectations dropped form 3.4% in November to 3.0% in December, the lowest reading since January 2021. That invited a bid into the bond market, shored up dovish hopes for a March rate hike, and supported a broad risk-on rally across asset classes. While oil didn't finish the day higher, it did close almost a dollar off the intraday lows in a favorable sign of a potentially stabilizing market. This week, the market will want to see more cooling inflation data and a resurgence in soft landing hopes as well as evidence that the plunge in domestic demand at the turn of the year was a "one off." On the charts, the $66-$70/barrel area remains critical support.

Gold futures declined in overnight trade Sunday to test key technical support at $2,020/oz. largely due to the Dallas Fed's Logan noting that the significant easing in financial conditions in recent months has made the prospects of a rate cut in early 2024 more difficult. The more optimistic shift in mood on Wall Street at the open helped the yellow metal stabilize in early trade before the NY Fed inflation data sparked a rally in bonds that buoyed gold to end the day well off the worst levels. Aforementioned support at $2,020/oz. will be a key level to watch near term. On a longer time horizon the outlook for gold remains favorable in the wake of the December all time highs.

Currencies & Bonds

The Dollar Index declined modestly Monday as markets have employed selective hearing to focus on dovish utterances from Fed speakers (and ignore the not-dovish parts). The Dollar Index fell 0.2%.

There was no materially market moving economic data out Monday in the U.S. and while EU economic data was soft (German Manufacturers Orders and Eurozone Retail Sales) it didn't alter the outlook for rate cuts in the EU. So, the dollar was left to trade off Fed commentary from the weekend and Monday and, as mentioned, markets employed selective hearing to focus on the dovish parts of the commentary.

Specifically, Dallas Fed President Logan warned that easing financial conditions (which just means the 10-year Treasury yield has fallen from 5% to 4%) risks a bounce back in inflation and, as such, more rate hikes shouldn't be ruled out. However, that commentary, while clearly not dovish, was eventually ignored by markets because A) Logan isn't a voting member of the FOMC and B) Is likely more hawkish than the FOMC consensus, who was ok with ruling out further rate hikes via the December FOMC statement.

However, that wasn't the important part of Logan's speech. The important part was when he called for the slowing of Quantitative Tightening, the balance sheet reduction program that's also a form of tighter monetary policy. So, if QT is reduced, it will act like a rate cut.

Between that QT commentary and Atlanta Fed President Bostic saying he thought two rate cuts were appropriate in 2024 (confirming the Fed is focused on cutting rates in 2024), it was enough to push the dollar modestly lower a few days ahead of Thursday's CPI report. The dollar declining was the notable movement in the currency markets and the euro and pound both rose 0.2%, respectively, in response to the dollar weakness.

Looking forward, expect the market to continue to employ selective hearing on Fed commentary and that's why it'll take a bold, clear and direct warning by Fed leadership (specifically Powell) to reduce the market's rate hike expectations (and that doesn't seem to be happening anytime soon).

Treasuries traded off the same data and commentary (Logan's QT comments, Bostic's rate cut comments and the soft EU data) and that combined to push yields modestly lower. The 2-year Treasury yield fell 5 basis points and the 10-year yield dropped 4 basis points.

Bottom line, the market does not believe the Fed's hawkish commentary (and rightly so) and as such we can expect continued selective hearing from the markets with regards to Fed commentary and the net impact of that is it'll be hard for the dollar or yields to rally materially unless growth data or inflation data suddenly reaccelerates. And that current lack of a positive catalyst for the dollar or yields is a positive for stocks (although it's also mostly priced in at current levels).

Have a good day,

Tom

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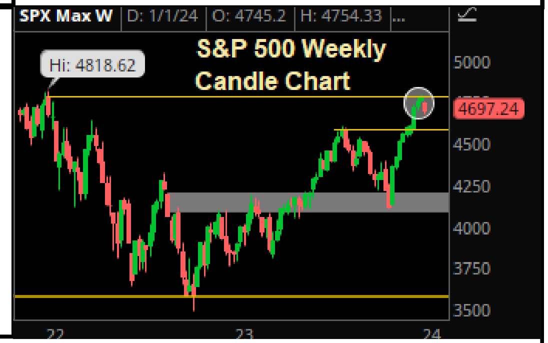
Technical Perspectives (Updated 1/7/2024)

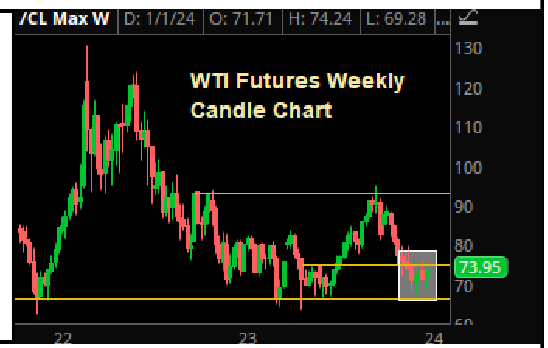
S&P 500

- 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: 4598, 4505, 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: $75.43, $77.72, $79.60
- Key Support Levels: $72.40, $71.15, $69.87



Gold

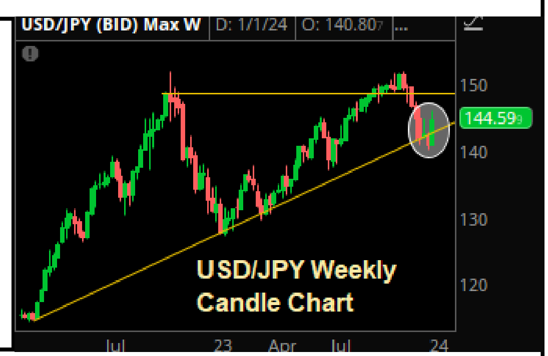
- Technical View: Gold futures broke out to fresh all-time in late 2023 shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2089, $2108, $2152
- Key Support Levels: $2033, $2000, $1967

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: 4.099, 4.121, 4.239
- Key Support Levels: 3.907, 3.789, 3.608

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: 145.46, 146.79, 148.31
- Key Support Levels: 142.37, 140.18, 138.78



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Fundamental Market View
(Updated 1/7/2024)

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%**	*Stocks started 2024 with moderate declines as inflation data bounced back while some growth data disappointed, pushing back on the idea of imminent and aggressive rate cuts.*

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 rallied modestly last week thanks to a bounce back in oil (mainly) and despite a stronger U.S. dollar, as rising geopolitical tensions increased the risk premium in oil.*
US Dollar	**Neutral**	*The Dollar Index rallied hard last week despite a bounce back in EU inflation, as markets dialed back expectations for aggressive Fed rate cuts starting in March (although that's still the consensus expectation).*
Treasuries	**Turning Positive**	*Yields rallied to start 2024 thanks to the aforementioned bounce in European inflation data as both the 2- and 10-year yields are again back above 4.00%.*

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.