SEVENS REPORT

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

February 1, 2024

Pre 7:00 Look

- Futures are bouncing modestly following Wednesday's declines as investors digest the Fed decision and look ahead to important earnings after the close.
- Economically, EU Core HICP (their CPI) rose 3.3% vs. (E) 3.2% and that's slightly reducing rate cut expectations.
- Econ Today: Bank of England Rate Decision (E: No Change), Jobless Claims (E: 214K), Unit Labor Costs (E: 2.1%), ISM Manufacturing PMI (E: 47.4).
- Earnings: AMZN ($0.81), AAPL ($2.09), META ($4.82), MO ($1.17), MRK (-$0.10), HON ($2.60), X ($0.29).

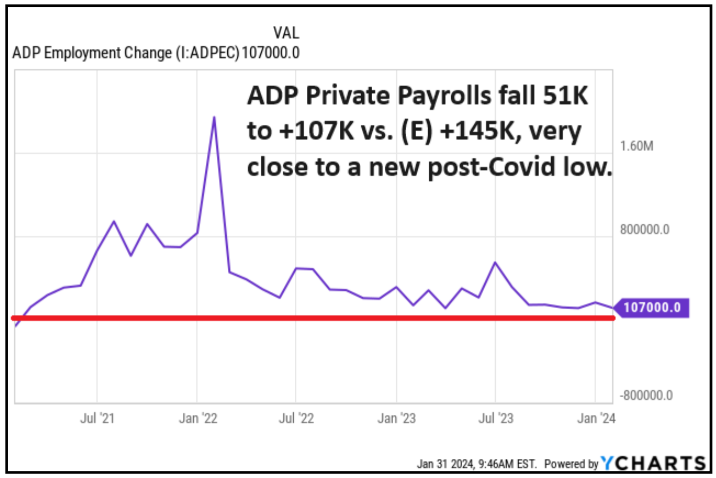
Market	Level	Change	% Change
S&P 500 Futures	4,887.75	17.25	0.35%
U.S. Dollar (DXY)	103.67	0.40	0.38%
Gold	2,048.30	-19.30	-0.93%
WTI	76.52	0.67	0.88%
10 Year Yield	3,94%	-0.03	-0.63%

Equities

Market Recap

Stocks suffered some of their biggest losses this year on Wednesday, as disappointing earnings, lackluster jobs data, a spike in bank anxiety and a "not dovish" Fed decision weighed on markets. The S&P 500 sank 1.61%.

U.S. equity indexes were mixed at the open yesterday with the Nasdaq down more than 1% while the Dow was slightly lower. The Nasdaq was weighed down by disappointing earnings from MSFT, GOOGL, and AMD while banking concerns were rekindled when New York Community Bank (NYCB) reported an unexpected $252 mil-



lion loss in Q4, sending shares down nearly 50% in early trade, which was a drag on investor sentiment.

Stocks spent the morning and early afternoon largely chopping sideways with modest losses until the Fed decision, which increased volatility.

In fact, stocks caught a case of Fed-induced whiplash as stocks declined following an initially taken hawkish FOMC statement, but then reversed and cut losses to trade near the highs of the day following a dovish start to Powell's press conference. Ultimately, Powell's pushback on a March rate cut (saying it was unlikely) weighed on stocks and markets declined into the close to finish near session lows.

Was the Fed Hawkish? No, and Here's Why

Stocks suffered their biggest declines since the start of the year on Wednesday and while the most popular explanation was "The Fed won't cut rates in March," that's not the real reason stocks dropped. We know that because markets were broadly lower before the Fed statement or the Powell press conference.

Instead, stocks dropped due to several factors. First, disappointing earnings (MSFT/GOOGL most notably). Second, regional banking worries courtesy of NYCB. Third,

Market	Level	Change	% Change
Dow	38,150.30	-317.01	-0.82%
TSX	21,021.88	-205.99	-0.97%
Stoxx 50	4,639.31	-9.09	-0.20%
FTSE	7,667.93	37.36	0.49%
Nikkei	36,011.46	-275.25	-0.76%
Hang Seng	15,566.21	81.14	0.52%
ASX	7,588.19	-92.53	-1.20%
Prices taken at previous day market close.			

underwhelming economic data, and fourth, that the Fed wasn't as dovish as markets had hoped.

Market	Level	Change	% Change
DBC	22.33	-.24	-1.06%
Gold	2,051.10	.20	0.01%
Silver	22.94	-.29	-1.23%
Copper	3.889	-.022	-0.56%
WTI	75.85	-1.97	-2.53%
Brent	81.71	-1.16	-1.40%
Nat Gas	2.122	.045	2.17%
RBOB	2.1855	-.0752	-3.33%
DBA (Grains)	21.61	-.06	-0.28%
Prices taken at previous day market close.			

Starting with the Fed, I go more in-depth in the Econ section, but here's the bottom line: Powell did push back on a March rate cut (which the financial media is keying on) but 1) Expectations for a March rate cut went from around 50% yesterday morning to 40% (so not a huge move) and 2) May rate cut expectations are still basically 100%. <u>Bottom line, the Fed met realistic expectations, it did not meet dovish expectations, and that's why markets were disappointed. But the Fed decision is not a larger negative for markets.</u>

Second, regarding other factors, the S&P 500 was just under 5,000 and largely priced for perfection, and yesterday was anything but (e.g. bad earnings, soft data, banking worries). Now, none of those events were *that* negative. But given how stretched markets are, they did cause a modest pullback and one that can continue if earnings disappoint further today and the jobs report on Friday is "Too Hot" or "Too Cold." But expectations for Fed rate cuts remain high, the data is still pointing to a soft landing, and inflation is still declining. So any further pullback is more a function of normalizing unrealistically bullish expectations, and not the start of something more significantly negative.

<u>Is New York Community Bank Something We Need to Watch?</u>

In what was an unwelcome reminder of the regional banking stress of last March, yesterday, New York Community Bank (NYCB—the bank who last March absorbed the assets and liabilities of failed Signature Bank) plunged nearly 50% at the lows after it reported disastrous quarterly earnings that included a dividend cut (from 17 cents to 5 cents) and an explosion in loan loss provisions and delinquent accounts.

Given the events of last March, the very poor earnings of NYCB begged this question: Do we need to start to worry about regional bank stress again? So far, that answer is "no," and here's why.

First, the nexus of regional bank stress last year stemmed, essentially, from the mismanagement of interest rate exposure that caused massive mark-to-market losses on the balance sheets of Silicon Valley Bank and Signature Bank. Those banks heavily invested in long-dated Treasuries over the past several years and when the Fed hiked rates, the notional value of those bonds collapsed. That, in turn, left the banks undercapitalized so when there was demand for cash, they were insolvent (I am oversimplifying, but essentially that's what happened).

That is not why NYCB plunged yesterday. NYCB declined for several company-specific reasons. First, the acquisition of Signature Bank made NYCB large enough that it was subject to significantly higher capital ratios and that was the primary factor behind the dividend cut and the dramatic increase of the loan loss provision from $45 million to $552 million!

Second, the bank logged $185 million in net charge offs for the fourth quarter (which is more than 10X net charge offs for the past 10 years), the bulk of which came from two large loans. So, while these results are a quasi-disaster for NYCB shareholders, there's not a lot there that implies it's facing some broader problem. Instead, it seems to be a case of a bank expanding rapidly over the past year and 1) Not adequately communicating (or understanding) the financial implications from a capital standpoint and 2) Poor loan decisions.

If there is anything more "systemic" in the results yesterday that needs to be watched, it's that the bank said it thinks credit deterioration could occur in the office and multi-family property markets (commercial real estate). But that sentiment hasn't been echoed by any of NYCB's peers such as Regions Financial or KeyCorp, so gain this may be a function of bank-specific poor loans.

Bottom line, we'll remain vigilant for any flare ups in the banking space but in the case of New York Community Bank, that appears to be more stock specific than anything broader, although the results were bad enough to weigh on markets yesterday (although given the totality of bank earnings we don't think this is a sustainable, negative issue).

Economics

FOMC Rate Decision

- The FOMC made no changes to interest rates, as expected.

Takeaway

The Fed decision contained parts of our "Hawkish If" scenario and parts of our "Dovish If" scenario, but the major changes the Fed made largely balanced out and, in the end, the Fed statement met the "What's Expected" scenario once all the changes were considered.

There were three major changes to the statement that are worth noting. First, as expected, the Fed removed its hawkish bias in the forward guidance section and, in doing so, clearly told markets that there are no more rate hikes and the Fed is now on hold. Second, the Fed made a dovish change by stating that risks to growth and inflation were "coming into better balance." Notably, we warned the Fed could use the word "balanced" to describe risks and that would be a dovish signal. The Fed stopped just short of that, however, although it was still a mildly dovish move.

Third, the Fed made a hawkish change when it explicitly pushed back on the idea of a March rate cut by stating that: "The committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent." So, in the end we had one expected change, one slightly dovish change and one slightly hawkish change. The net result is, essentially, a wash, and that's the reaction we ultimately saw in markets after some initial volatility.

Powell's press conference provided some whiplash, however, as Powell started his Q&A by strongly hinting the Fed was ready to cut rates but just wanted to wait, but then that was contradicted later when he said a March rate cut was unlikely.

Bottom line: For all the noise surrounding the FOMC decision and Powell's comments, markets largely exited Wednesday the same way they entered it, with a March rate cut possible, but not certain, and a May rate cut fully expected. So, the Fed wasn't notably hawkish and as such, the Fed meeting was not a material negative for markets.

Market	Level	Change	% Change
Dollar Index	103.37	.15	0.15%
EUR/USD	1.0796	-.0049	-0.45%
GBP/USD	1.2660	-.0040	-0.31%
USD/JPY	147.37	-.24	-0.16%
USD/CAD	1.3440	.0042	0.31%
AUD/USD	.6555	-.0047	-0.71%
USD/BRL	4.9566	.0064	0.13%
Bitcoin	42,783.60	-924.89	-2.12%
10 Year Yield	3.967	-.092	-2.27%
30 Year Yield	4.215	-.063	-1.47%
10's-2's	-28 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.02%		
Prices taken at previous day market close.			

Commodities

Gold was in focus given the Fed decision, and futures were solidly higher leading up to the FOMC announcement as CPI in Europe and a cooler-than-expected Employment Cost Index and soft ADP report were all slightly dovish. Additionally, the collapse in NYCB shares spurred a bid in bonds that offered gold an additional lift. But between the time of the Fed announcement and the conclusion of Powell's presser, gold had rolled over and ended effectively flat on the day, right near the recently magnetic $2,050/oz. level. That leaves the outlook the same, near-term, and we can expect more chop and noise in gold, but the long-term outlook is bullish based on the new highs in December. The commodity ETF, DBC, fell 1.06%.

EIA Data and Oil Update

Oil sold off in early trade yesterday morning as part of the broader risk-off money flows across asset classes with the Fed and EIA. WTI futures steadily chopped lower into the Fed and ultimately had a limited reaction to the decision, ending near the worst levels of the day, down 2.52% with a $75 handle.

The headlines of the EIA report were a mixed bag as oil inventories unexpectedly rose +1.2MM bbls on the week vs. an expected -800K bbl decline (API: -2.5MM). Gasoline stockpiles also rose +1.2MM bbls, which was slightly less than estimates of a +1.4MM bbl build, but more than the API's +600K bbl increase. Distillates supply, meanwhile, fell -2.5MM bbls vs. (E) -800K and the API's reported -2.1MM bbl draw. The surprise oil build was offset by the combination of the smaller-than-anticipated gasoline build and sizeable distillate draw.

In the details, the solid 700K b/d rebound in domestic oil production to a square 13.0 million barrels/day was the most notable development in the entire data set as the outages in North Dakota earlier in January were a major factor supporting the rally to fresh 2023 highs. Total output does remain 300K b/d from the record though, and if we don't see the rest of that production restored in the next few weeks, that will mean a 2.1 million barrel weekly deficit relative to the early year levels. The longer that persists, the more bullish it becomes.

Elsewhere in the details there was a favorable rebound in consumer demand for vehicle fuel as gasoline supplied jumped 264K b/d to a multi-week high of 8.14 million b/d. The smoother look at the data in the form of the four-week moving average rose 48K b/d to 8.16 million b/d. The rebound in consumer demand is a move in the right direction but not nearly enough to support continued gains in the oil space, in and of itself.

Bottom line, with production in North Dakota coming back online quicker than many traders anticipated, the mixed headlines and still relatively weak consumer demand for refined products figures, the data warranted a "sell the news" reaction. On the charts, the early 2024 uptrend in oil futures is still intact as the market revisits the highs from earlier in the year near $75/barrel, which should now act as support in the sessions ahead.

Currencies & Bonds

Treasury yields declined moderately despite the Fed's mixed messaging as dovish data, the NYCB implosion and the Fed leaving the door open to a March rate cut weighed on yields. The 2-year yield fell 14 basis points while the 10-year yield dropped 13 basis points.

The financial media takeaway from the Fed statement and Powell press conference was slightly hawkish, but in reality it didn't change the market's expectation for rates. March remains possible (but not likely) and May remains certain. So, it wasn't the Fed that drove rates on Wednesday. Instead, it was economic data and NYCB spiking bank fears (temporarily). Starting with the data, European inflation readings declined, most notably the German CPI, which rose 2.9% vs. (E) 3.3%. Additionally, in the U.S., the Employment Cost Index rose 0.9% vs. (E) 1.0% (and down from 1.1%). Finally, the ADP jobs report showed just 107k jobs added. Those factors pressured yields despite the mixed Fed messaging. The 10-year yield closed back below 4% for the first time in several weeks.

Now, because that drop in yields was the function of 1) Slower growth and 2) Banking worries, it wasn't positive for stocks and this underscores the broader point: Calm in Treasury yields remains the best outcome for stocks, not sudden rallies or drops.

Turning to currencies, the Dollar Index was volatile on Wednesday but closed with a slight gain after spending much of the session modestly negative. The reason for the late rally was the Fed, not because the Fed was hawkish (it wasn't) but instead because currency markets viewed the Fed as very dovish and yesterday's statement pushed back on that slightly. As a result, the dollar rallied modestly. Bottom line, the market viewed a March rate cut as unlikely and as such the dollar rose modestly—but that's not going to move the dollar materially.

Have a good day,

Tom

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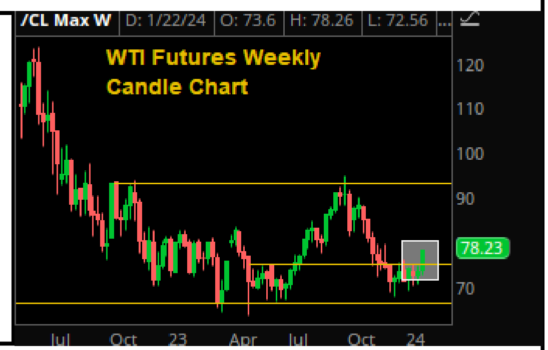
Technical Perspectives (Updated 1/28/2024)

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

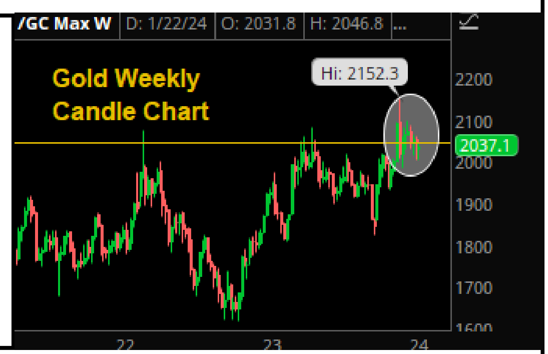
WTI Crude Oil

- 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

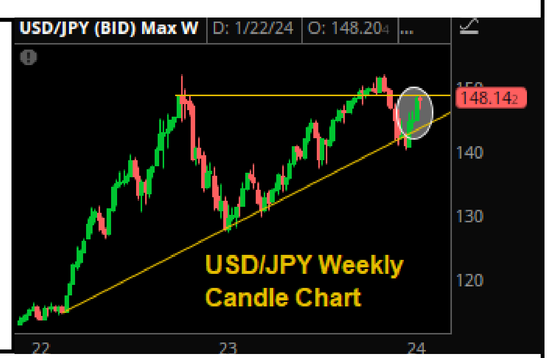


10-Year T-Note Yield

- 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.