SEVENS REPORT

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

February 12, 2024

Pre 7:00 Look

- Futures are little changed following a mostly quiet weekend of news, although geo-political risks continued to creep higher over the weekend.
- Israel is reportedly planning a ground offensive into the southern Palestinian province of Rafah and that's met with pushback from numerous nations in the region and risks to further reduce any chances for a cease fire.
- Econ Today: NY Fed Consumer Inflation Expectations (E: 3.00%). Fed Speak: Bowman (9:20 a.m. ET), Barkin (12:00 p.m. ET), Kashkari (1:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,044.25	0.25	0.00%
U.S. Dollar (DXY)	104.15	0.04	0.03%
Gold	2,036.30	-2.40	-0.12%
WTI	76.12	-0.72	-0.94%
10 Year Yield	4.16%	-0.03	-0.67%

Equities

Market Recap

Stocks dropped initially last week on hawkish Fed rhetoric but rebounded late week thanks to strong Treasury bond demand as the S&P 500 rose solidly and hit a new all-time high above 5,000. The S&P 500 rose 1.37% on the week and is now up 5.38% YTD.

Stocks started last week with modest losses on hawkish Fed concerns following Powell's *60 Minutes* interview (he pushed back on March rate cuts) and after the price sub index rose to a multi-month high in the January ISM Services PMI. The S&P 500 declined 0.3% on the day.

Stocks opened lower again on Tuesday, this time in reaction to the continued decline of New York Community Bank (NYCB), as investors worried about solvency and potential contagion from commercial real estate stress. However, a strong 3-Yr Treasury Note auction helped pressure Treasury yields in the afternoon and stock recovered the early losses, as the S&P 500 rose 0.23%.

With 5,000 in sight, the S&P 500 extended Tuesday's gains on Wednesday thanks to another strong 10-year auction, which pressured yields. The S&P 500 gained 0.82% and came within a fraction of hitting 5,000.

Stocks largely digested the week's gains on Thursday amidst quiet trading while the S&P 500 traded above 5,000 for the first time, rising 0.06%. The rally resumed on Friday after annual revisions to last year's CPI prints didn't largely met expectations (and didn't hint inflation was worse than the Fed thinks). With the S&P 500 comfortably above 5,000 and momentum clearly higher, the index drifted steadily higher into the close to finish at a record high of 5,030 and up 0.57%.

What Could Interrupt the Rally?

Stocks extended the rally last week, the S&P 500 hit a new all-time high and finally took the 5,000 level and the question that investors should be asking isn't "Why did stocks keep rallying?" and instead "Why wouldn't stocks keep rallying?"

I say that because last week's news and data reinforced the four drivers of this bull market: Fed rate cuts by May, solid economic growth (and no signs of a hard landing), continued disinflation and strong earnings. My broader point is this: The burden of proof lies squarely with the bears and so far, the economic data and Fed speak hasn't done enough to disprove any of those four bullish factors.

Market	Level	Change	% Change
Dow	38,671,69	-54.64	-0.14%
TSX	21,009.60	89.96	0.43%
Stoxx 50	5,026.61	28.70	0.57%
FTSE	7,563.36	-9.22	-0.12%
Nikkei	36,897.42	34.14	0.09%
Hang Seng	15,746.58	-131.49	-0.83%
ASX	7,614.92	-29.92	-0.39%
Prices taken at previous day market close.			

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But while it's true that the burden of proof lies with the bears, and so far, they haven't had any news to derail this rally, the reality is there are still a number of risks emerging that need to be watched, and amidst 5k euphoria, I think that needs to be pointed out. Yes, data has pointed to a sweet spot for growth, inflation and the Fed. But that won't last forever and there will be bad news for this market, there always is.

Market	Level	Change	% Change
DBC	22.26	.06	0.27%
Gold	2,038.70	-9.20	-0.45%
Silver	22.62	-.01	-0.05%
Copper	3.6845	-.0175	-0.47%
WTI	76.57	.35	0.46%
Brent	81.94	.31	0.38%
Nat Gas	1.851	-.066	-3.44%
RBOB	2.3328	-.0092	-0.39%
DBA (Grains)	22.11	.06	0.25%
Prices taken at previous day market close.			

So, I wanted to point out the risks that have quietly grown in the background during this rally. They aren't enough, yet, to cause any disruption, but they need to be watched because they are simmering in the background.

1. *Rate cut disappointment*. The chances of a May rate cut have declined from 100% three weeks ago to just over 70% as of last Friday. If those expectations drop below 50%, Treasury yields will rise and that will be a negative for stocks.

2. *Layoffs*. The jobless numbers (monthly number and claims) are at odds with the long and growing list of companies announcing layoffs. More to that point, the key aspect of the Q4 earnings season was cost cutting by companies (meaning layoffs mostly). For now, that's supporting earnings. But it's inevitable that these start to work their way into employment statistics in the next quarter or two. Bottom line, for now cost cutting is a positive but the number of layoffs is an economic risk going forward.

3. *Commercial real estate*. I profiled this risk last week, and what's notable is it's not just NYCB that's been hurt by bad commercial real estate loans. KREF (KKR Real Estate Finance Trust) cut its dividend on bad CRE loans, and this week Treasury Secretary Yellen acknowledged risks in the CRE market, especially to non-bank lenders. Point being, this doesn't have to the be a financial crisis to hit stocks and the likelihood of this being a non-event seems low to me.

4. *Valuations, enthusiasm, etc.* I have always maintained that valuations, by themselves, are not something that causes a reversal in stocks. And that's the case again this time. Something bad will have to happen to disrupt this momentum higher. But valuations and enthusiasm do make any reversal more painful and intense and at this point the S&P 500 is priced for perfection and could easily give back 10% if we see one of the four positive drivers of this market materially contradicted.

Bottom line, it's important to acknowledge that this rally has been driven by actual good news and bullish expectations being reinforced by actual data. At the same time, the risks that kept investors worried in October (and even throughout 2023) haven't been vanquished—they simply haven't shown up, yet.

From a positioning and tactical standpoint, I continue to prefer the minimum and lower volatility ETFs including USMV and value over growth (VTV). They outperformed through January but have lagged the past two weeks as tech has rallied after earnings, but the risk-reward here continues to imply we should be focused on limiting downside exposure in the event of disappointment, not reaching for upside in a market that's trading at an unsustainable valuations (above 20X earnings) and has priced in essentially a financial version of Nirvana (low inflation, dovish Fed, solid growth, resilient earnings and no negative surprises). I suppose that can happen, but in my 20+ years in this business, I haven't seen it yet.

Economics

Last Week

There were only two notable economic reports last week but both supported the "No Landing" economic thesis and as such, helped the S&P 500 to touch 5,000 on Thursday. However, one of the reports also echoed a potential rebound in inflation and as such, this week's CPI will be closely watched as a rebound in inflation is not at all priced into stocks (or bonds) at these levels and would cause immediately volatility.

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Looking at last week's data, the key growth report was the ISM Services PMI. In December this number got uncomfortably close to 50 and a drop below that level would be a clear, negative economic signal. However, the January ISM Services PMI bounced back and rose to 53.4 vs. (E) 50.5 and the details were strong as New Orders, the leading indicator in the report, rose to 55 from 52.8, implying future strength.

However, the one negative in this report was a jump in the prices index to 64.0 from 56.7. That's a multi-month high and, disconcertingly, it matches the jump we saw in prices from the January ISM Manufacturing PMI two weeks ago. Now, those numbers don't mean inflation is rebounding. But they can't be discounted either so we will need to watch inflation metrics (including this week's CPI) because a surprise rebound in inflation would push yields higher, stocks lower and jeopardize a May rate cut and the idea of five-six rate cuts in 2024.

For now, they are just two numbers, and for a rebound in inflation to pressure stocks we'll need to see higher-than-expected readings from CPI and the Core PCE Price Index.

The other notable number last week was weekly jobless claims, which declined slightly to 218k vs. (E) 227k. The weekly claims data continues to confirm other labor market readings that the jobs market remains strong. For me to become worried about the economy, we'd need to see weekly claims move through 250k towards 300k and there's simply no evidence of that happening now and as such, the economy remains remarkably strong.

Market	Level	Change	% Change
Dollar Index	104.00	-.03	-0.03%
EUR/USD	1.0784	.0006	0.06%
GBP/USD	1.2631	.0014	0.11%
USD/JPY	149.29	-.03	-0.02%
USD/CAD	1.3461	.0003	0.02%
AUD/USD	.6523	.0031	0.48%
USD/BRL	4.9614	-.0350	-0.70%
Bitcoin	47,635.13	2,248.16	4.95%
10 Year Yield	4.187	.017	0.41%
30 Year Yield	4.381	.005	0.11%
10's-2's	-30 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.31%		
Prices taken at previous day market close.			

This Week

Last week was a quiet one from a data standpoint but that is not the case this week as we get the latest important inflation reading and updates on economic growth. As has been the case for the past three months, to support the rally in stocks we need to see in-line or lower-than-expected inflation readings and Goldilocks growth data, meaning right around market expectations. Both "Too Hot" growth/inflation readings or "Too Cold" growth data would be a negative for markets.

The key report this week is tomorrow's CPI report. There will be a little extra anxiety surrounding the CPI report following the pops in the ISM Manufacturing and Services price indices, but as long as Core CPI is in line with expectations then May rate cut expectations (currently around 75%) shouldn't be impacted and the idea of continued disinflation will remain in place (which is supportive of the rally in stocks). A rebound in Core CPI, however, will combine with the hot ISM Services/ Manufacturing prices indices to increase worries inflation is rebounding, and that would likely hit stocks (potentially hard). Bottom line, continued disinflation is priced into this market and the data needs to continue to show that to support these gains.

Looking at the growth data this week, all the important reports come on Thursday. The key growth report this week is retail sales for the simple reason that the U.S. economy is consumer driven and as long as retail spending is solid, it's very hard to envision a real economic slowdown.

We also get the first looks at February economic activity via the Empire and Philly Fed manufacturing indices (both out Thursday morning). These regional indices have been especially volatile lately and not correlated to the more important ISM Manufacturing PMIs, but they still matter and if both show significant weakness that'll be an incremental negative, while coordinated strength will be a positive for markets. Additionally, the price indices will be watched closely to see if the rebound in prices continued in February and if it did (or accelerated) that will increase some inflation anxiety and could cause a modest uptick in volatility.

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Bottom line, this market has rallied on the ideas of 1) Fed rate cuts (meaning May or earlier), 2) Stable growth and 3) Continued falling inflation. The data this week has the opportunity to continue to reinforce those expectations (and support S&P 500 5,000) or refute them (and pressure stocks) so this is an important week for investors.

Commodities

Commodities were mixed last week as a stronger dollar, fading hopes for economic growth overseas and easing inflation worries combined to weigh on the metals while escalating geopolitical tensions resulted in energy bucking the otherwise heavy trend with oil posting a solid gain on the week. The commodity ETF, DBC, rallied 2.06% on the week thanks to the big gains in oil.

Beginning with the metals, copper broke down to new 2024 lows. Some "cold" inflation data out of China emphasized the weakness of the Chinese consumer and mounting headwinds facing the world's second largest economy. The lack of positive news about the progress of the Chinese government's efforts to stabilize the property market also prevented any dip buyers from coming into the copper futures market, which ended the week down 3,48% at a four-month low. Bottom line for industrials, the divergence between copper and the stock market is a caution signal for the sustainability of the rally in equities and if we don't see stabilization, economic worries will emerge as a growing headwind for the rally.

Trading in gold remained quiet last week as futures remained pretty well pinned to the $2,050 level, oscillating on either side before revisiting the key technical level. The modest rise in the dollar and rebound in Treasury yields were negative fundamental influences on gold; however, and there was some meaningful technical weakness in the price action into the weekend leaving risks of a near-term pullback in gold elevated. Gold fell 0.89% last week. Look for initial support at $2,000/oz. as the long-term outlook remains bullish given the new record highs in late 2023.

Oil futures recovered last week from a steep selloff the prior week as oversupply risks subsided. WTI jumped 5.79% on the week but fell short of breaking beyond the 2024 highs established in late January. The real reason for last week's rally was escalating tensions in the Middle East as attempts to strike a ceasefire deal between Israel and Hamas failed again.

For now the outlook for the oil market remains cautiously bullish supported by the fact that the term structure of the futures market reverted to backwardation, indicating a bullish imbalance in supply and demand in the physical market. Bottom line, the best case scenario for the Israel-Hamas conflict, a ceasefire, is the worst case for the oil market right now.

Currencies & Bonds

The 10-year yield rose modestly last week, gaining 8 basis points, as markets recouped some of the NYCB-related decline in yields and economic and inflation data was solid. The 10-year yield closed near the highs for 2024 and close to the recent multi-month high of 4.25%.

Rising yields did not negatively impact stocks last week mostly because the rally was just recouping the aforementioned NYCB related yield declines. Going forward, if CPI or economic data next week is hot, expect the 10 year to trade through 4.25% and towards 4.30% and then rising yields should become a stronger headwind on stocks, just as they did last summer. Bottom line, "calm" in Treasury yields (which we've had for most of 2024 considering the broad trading range) remains the best case for stocks going forward.

Turning to currencies, last week was quiet as the Dollar Index rose 0.1% while the euro and pound declined 0.1%. That lack of volatility is warranted as there simply wasn't any economic data or central bank speak that dramatically altered the current market views on when we get the first rate hikes from major central banks. Those expectations are: A May rate cut for the Fed, summer rate cuts for the ECB and BOE. Until those expectations change, we should expect general continued calm in the currency and at these levels, the dollar simply isn't interfering with the melt-up in stocks.

Have a good week,

Tom

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2/12/2024

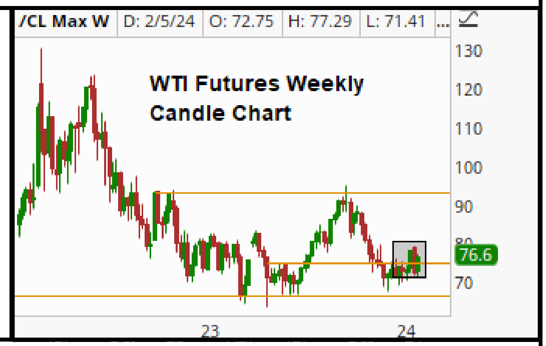
SEVENS REPORT

Technical Perspectives (Updated 2/11/2024)

S&P 500

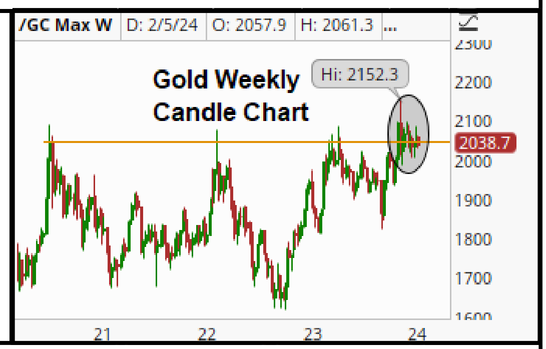
- Technical View: **The medium-term trend in equities remains bullish** confirmed by the latest run to all-time highs in the benchmark equity index.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5050, 5100, 5135
- Key Support Levels: 4959, 4899, 4792

WTI Crude Oil



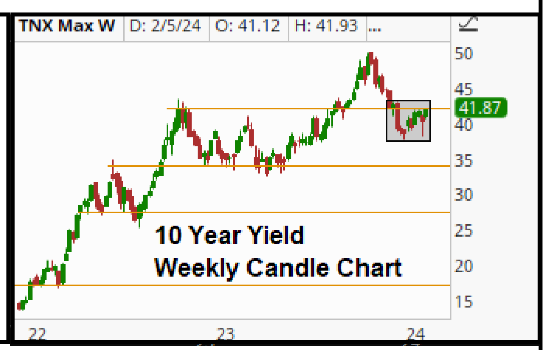
- Technical View: The oil market has stabilized and begun to rally in early 2024, but futures remain well off the 2023 highs above $90/barrel.
- Proprietary Model: **Neutral (since the week of November 6, 2023)**
- Key Resistance Levels: $77.79, $78.90, $80.82
- Key Support Levels: $76.04, $74.20, $73.00

Gold



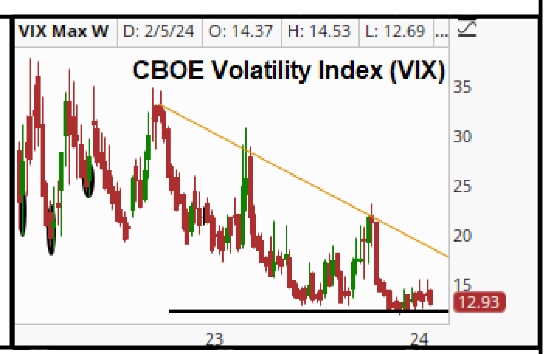
- Technical View: Gold futures broke out to fresh all-time in late 2023, shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2072, $2094, $2152
- Key Support Levels: $2032, $1995, $1950

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: 4.239, 4.352, 4.472
- Key Support Levels: 4.125, 4.033, 3.927

CBOE Volatility Index (VIX)



- Technical View: The VIX is in a tight, uptrend channel pointing to upside risks but in absolute terms the index remains well off Q3’24 highs and has a neutral outlook
- Proprietary Model: **Neutral (since the week of February 5th, 2024)**
- Key Resistance Levels: 13.31, 13.85, 14.35
- Key Support Levels: 12.55, 12.07, 11.84

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Fundamental Market View
(Updated 2/11/2024)

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 traded above 5,000 last week thanks to strong Treasury auctions reducing concerns about demand for U.S. debt and on generally solid economic data.*

Tactical Allocation Ideas:

- **What's Outperforming: Growth factors, tech, consumer discretionary and communication services have outperformed thanks to strong earnings and continued "AI" enthusiasm.**
- **What's Underperforming: Defensive sectors and value have underperformed recently mostly as Treasury yields have risen, although they are poised to rebound substantially if there is a surprise slowing of growth.**

Long Term Fundamental Outlook for Other Asset Classes

	Fundamental Outlook	Market Intelligence
Commodities	**Neutral**	*Commodities rallied moderately last week thanks mostly to gains in oil, as a lack of a ceasefire in Gaza increased geopolitical tensions and sent oil sharply higher on the week.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as there was minimal economic data while central bank speak didn't alter the expectation for a May rate cut from the Fed and summer rate cuts from the ECB/BOE.*
Treasuries	**Turning Positive**	*Treasury yields rose last week but the gains were generally muted and it wasn't enough to weigh on stocks. Hotter-than-expected price data in the ISM Services PMI combined with more pushback on March rate cuts pushed yields higher.*

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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