SEVENS REPORT

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

February 16, 2024

RSP vs. SPY: SPY has handily outperformed RSP YTD on tech strength. But amidst an uptick in volatility this week, RSP has closed the gap over the past five trading days and if data becomes more mixed that trend can continue.

Pre 7:00 Look

- Futures are slightly higher mostly on momentum from Thursday's rally and despite hotter than expected economic data and hawkish Fed commentary.
- UK Retail Sales rose 3.4% vs. (E) 1.5% and that hot reading is pushing back on yesterday's dovish expectations.
- Atlanta Fed President Bostic pushed back on near term rate cut expectations during a speech Thursday night.
- Econ Today: PPI (E: 0.1% m/m, 0.7% y/y), Housing Starts (E: 1.47 million), Consumer Sentiment (E: 80). Fed Speak: Barr (9:10 a.m. ET), Daly (12:10 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,057.25	10.75	0.21%
U.S. Dollar (DXY)	104.26	-0.04	-0.04%
Gold	2,019.10	4.20	0.21%
WTI	77.38	-0.65	-0.83%
10 Year Yield	4.26%	0.02	0.54%

Equities

Market Recap

Stocks recovered more of Tuesday's post-CPI losses and hit a new closing record high thanks to mixed economic data that pressured yields and pushed back on the idea of a less-hawkish Fed. The S&P 500 rose 0.58%.

Markets rallied out of the gate yesterday morning as less-hawkish money flows supported risk assets and safe-haven bonds alike after a disappointing 24 hours of economic news flow. Overseas, both the UK and Japan fell into technical recessions with back-to-back quarterly declines in GDP reported overnight Wednesday and early yesterday. That soft data pressured global yields and helped futures rally slightly, but those gains were added too following disappointing U.S. January retail sales, which saw the biggest decline since March 2023.

That soft spending data weighed on Treasury yields and stocks opened higher, and aided by more mixed economic data (more on that later), chopped sideways for most of the morning and early afternoon before grinding steadily into the close. The S&P 500 closed about 20 points off the intraday high, but at a new all-time high.

Why Have Stocks Already Recouped Most of Tuesday's Losses?

Stocks have now recouped the vast majority of the hot-CPI inspired declines and the reason is simple: The market doesn't think Tuesday's hot CPI really changes anything. Put differently, the hot CPI report left the market vulnerable to a drastic repricing of Fed expectations and a potential breakout of Treasury yields (both negative for stocks). But the past two days failed to generate any

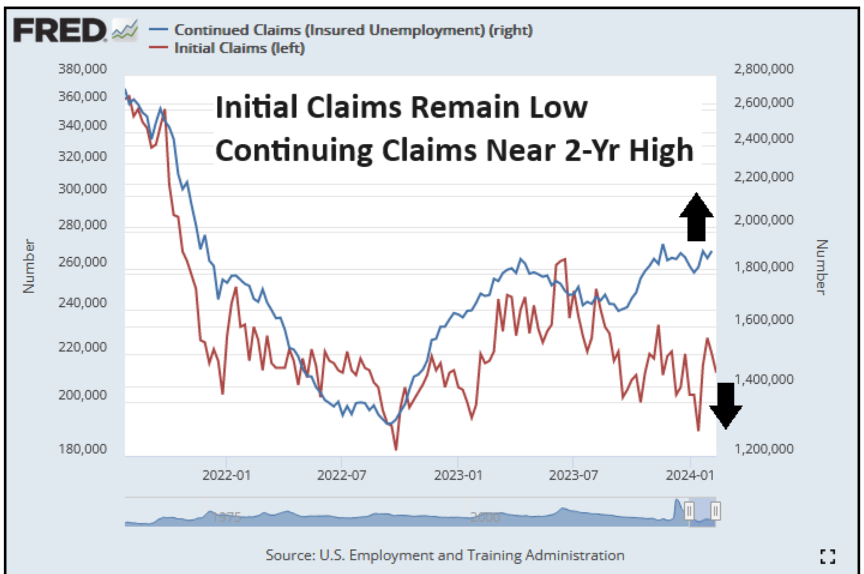
Market	Level	Change	% Change
Dow	38,773.12	348.85	0.91%
TSX	21,222.69	333.29	1.60%
Stoxx 50	4,773.46	30.29	0.64%
FTSE	7,670.84	73.31	0.96%
Nikkei	38,487.24	329.30	0.86%
Hang Seng	16,339.96	395.33	2.48%
ASX	7,658.32	52.60	0.69%
Prices taken at previous day market close.			

follow through thanks to dovish Fed speak and economic data.

Market	Level	Change	% Change
DBC	21.98	.05	0.23%
Gold	2,015.70	11.40	0.57%
Silver	22.95	.57	2.54%
Copper	3.755	.055	1.49%
WTI	78.28	1.64	2.14%
Brent	82.97	1.37	1.68%
Nat Gas	1.591	-.018	-1.12%
RBOB	2.3159	-.0010	-0.04%
DBA (Grains)	21.79	-.10	-0.44%
Prices taken at previous day market close.			

On Wednesday, Chicago Fed President Goolsbee pushed back on the hot CPI and essentially 1) Downplayed it by saying inflation didn't have to fall every month and 2) Dismissed it as CPI isn't referenced by the Fed. Then yesterday, one of the most important economic reports of each month, retail sales, dropped the most in 11 months. But following the hot CPI, "bad" data is "good" for stocks as it lowers yields, and there's enough solid economic data to imply the soft retail sales isn't the start of some bigger slowdown.

In the end, the hot CPI may have made a May rate cut unlikely, but all it did was shift it a month to June and at this point a June cut is about a 100% probability. Bottom line, it's going to take more than one hot CPI report or one bad Retail Sales report to break this bullish momentum and bullish mantra.



Mixed Jobs Data: High-frequency labor market data is diverging with continuing claims (insured unemployed) grinding higher while initial claims (typically a leading indicator) remain historically low.

That said, if the CPI and Retail Sales reports are the start of a trend of data of 1) Sticky inflation (yesterday's price indices in the regional manufacturing surveys were hot—more on that below) and 2) Suddenly soft consumer spending, then Tuesday's decline will have been a warning shot for the bulls.

Regarding price action this week, the "rest" of the market traded better than the SPY, in part because of some tech weakness (including GOOGLs decline yesterday on the news Chat GPT may be launching a search engine).

Case in point, RSP hit a new all-time high yesterday while the SPY is still about 50 bps below the recent high. And, RSP has outperformed SPY over the past five days and that's a trend I think can continue as we enter a potentially more volatile period of not perfectly Goldilocks data. Similarly, USMV also hit a new high yesterday, and again, I continue to think that the best way to gain exposure to this market at these levels is via lower volatility, value, and RSP over SPY, because if the rally is going to continue I do believe it'll continue to broaden out.

Economics

There was a deluge of economic data Thursday and the results were mixed, with some reports hinting at weakness while others reinforced concerns about a rebound in inflation. But for all the back and forth, the net result was the data was taken as Goldilocks in aggregate as soft retail sales pushed back against Tuesday's CPI, while solid jobs data and regional manufacturing indices implied stable growth. So, yesterday's economic data did help stocks rally Thursday.

<u>Retail Sales</u>

- January Retail Sales declined -0.8% vs. (E) -0.1%.

<u>Takeaway</u>

Retail sales badly missed expectations and declined by the largest amount since March of last year, providing the first "bad" economic reading in a long time on Thursday. Notably, not only was the headline retail sales reading soft, but the revisions were negative as the December data showed a 0.4% increase, down from the previous 0.6%. Additionally, the details of the report were also weak as the "control" group (retail sales minus gas, autos and building materials and our best look at discretionary consumer spending) declined -0.4% vs. (E) 0.2% and the December data was also revised lower to 0.6% from 0.8%.

To be clear, this was not a good report. But from a market standpoint, the soft report was taken as Goldilocks and pressured yields modestly lower, which helped stocks rally yesterday. The market took that view because it's just one soft report and bad January weather and a post-holiday spending hangover could easily have skewed January spending.

Bottom line, the market viewed this as a "bad is good" report that hinted at some modest weakness but also increased Fed rate cut expectations for June. However, if this report is followed by another two or three soft Retail Sales reports (or negative consumer commentary from corporations) we will see some rising concern about consumer spending and that will not be a positive for stocks.

Empire and Philly Fed Manufacturing Indices

- The February Empire Manufacturing Survey rose to -2.4 vs. (E) -13.7.
- The February Philly Fed Manufacturing Survey rose to 5.2 vs. (E) -8.0.

Takeaway

The first two economic readings of February were stronger than expected and while they have been very volatile, they implied that manufacturing activity in the Northeastern part of the U.S. picked up significantly so far this month. Empire manufacturing rebounded from January's disastrous -43.7 reading and that now looks like a one-off spike low, and instead rose very close to breakeven. Philly, meanwhile, turned in a positive reading for the first time since August.

Details of both reports were also strong as New Orders, the leading indicators in both reports, showed solid gains as Empire New Orders rose to -6.3 vs. (E) -49.4 while Philly New Orders increased to -5.2 from -17.9.

The only "negative" in the reports was an uptick in the price components as Empire saw solid increases in Prices Received and Prices Paid while Philly saw a solid increase in Prices Paid (while Prices Received were little changed).

Bottom line, the headline readings were better on both reports but the pop in prices will keep inflation concerns elevated, although the soft Retail Sales data helped to push back on inflation worries and these higher price readings didn't impact markets. But they do further hint that inflation pressure may be rebounding and that's an important issue to watch going forward (and we will).

Commodities

Commodities traded with a bias to the upside as the dollar was broadly lower against its peers offering a tailwind to the entire complex. Economically sensitive commodities outperformed on the day while precious metals lagged but still posted gains as investors viewed poor economic data as reason for a less-hawkish stance by the world's central banks. The commodity ETF, DBC, rallied 0.23%.

It is a bit counterintuitive, but soft economic data overseas actually helped bolster energy futures and industrial metals yesterday, and the reason was less-hawkish money flows as a result of the fresh evidence of economic weakness. Starting with industrial metals, copper was holding modest gains in early trade before the big miss in Retail Sales sparked a rally in Treasuries (yields lower) and bolstered hopes for an easier Fed in the months ahead. Copper ended higher by 1.47% and at a new high for the week. Despite the solid bounce the trend is still lower in copper and that remains a concern for the global growth outlook, as we have reiterated in recent months. A continued rally in copper would be a very wel-

Market	Level	Change	% Change
Dollar Index	104.20	-.41	-0.39%
EUR/USD	1.0770	.0043	0.40%
GBP/USD	1.2596	.0030	0.24%
USD/JPY	149.97	-.61	-0.41%
USD/CAD	1.3470	-.0074	-0.55%
AUD/USD	.6522	.0031	0.48%
USD/BRL	4.9722	-.0017	-0.03%
Bitcoin	51,779.36	-35.56	-0.07%
10 Year Yield	4.240	-.027	-0.63%
30 Year Yield	4.421	-.027	-0.61%
10's-2's	-33 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.46%		
Prices taken at previous day market close.			

comed development for risk-asset bulls as well as those in the soft-landing camp. The $3.55 levels remains key to watch and a “line in the sand” for the bulls.

Gold underperformed but still rallied 0.59% as traders continued to defend support at $2,000/oz. We have been saying since December that the technical outlook for gold has improved based on the new all-time highs reached in late 2023. That remains the case going forward, especially considering gold has repeatedly defended the $2,000 area despite a rise in real interest rates and the dollar so far in 2024. Looking ahead, if real rates and the Dollar Index retreat from here, those will both act as tailwinds for the yellow metal, likely propelling futures back towards the all-time highs near $2,150/oz.

Oil rallied for the same reason copper did, easier policy expectations for the Fed and other global central banks, and importantly fading conviction for a “higher for longer” policy stance. WTI crude oil futures gained 1.75% to end within $1/barrel of the 2024 highs, just shy of $78.

Looking ahead, the oil market continues to have a bid as we approach the end of the week despite the bad demand metrics and the big build in crude oil stockpiles reported by the EIA on Wednesday. The resilience in yesterday’s session illustrates how concerned traders are with the future outlook for economic growth as the bad data was actually well-received because of its monetary policy implications for central banks globally. So, as long as geopolitical tensions remain elevated in the Middle East and Eastern Europe, and demand doesn’t fall off a cliff, any news, data, or headlines that support a less-hawkish policy stance will be supportive of oil and potentially see a run to new 2024 highs beyond $80/barrel.

Currencies & Bonds

U.S. economic data was mixed and it successfully pushed back on the idea of higher inflation and a less-dovish Fed as the dollar and yields fell on Thursday and retraced virtually all of the post CPI rally. The Dollar Index fell 0.4% while the 10-year yield declined 3 basis points.

Economic data from the UK was soft early on Thursday as GDP declined for a second straight month and that put the UK in a mild recession, which in turn increased BOE rate cut expectations and pressured the pound. But that data was offset by the U.S. retail sales, which was the key market-moving report on Thursday. That soft reading didn’t materially increase growth concerns but it did offset the idea that Fed may get less dovish. As such, it pressured the dollar and Treasury yields immediately upon release Thursday.

The rest of the U.S. data was mixed as the manufacturing surveys were solid and industrial production was soft, but in the end it was retail sales that pressured the dollar and it dropped early on Thursday, rebounded temporarily, but then drifted steadily lower to finish the day in the low-to-mid 104 region and solidly off the Tuesday’s highs of 104.96. Looking internationally, the euro rallied 0.4% vs. the dollar, following the soft U.S. retail sales report while the pound gained 0.3% despite the consecutive decline in GDP.

Bottom line, markets focused on the soft retail sales as an offset to Tuesday’s hot CPI, in that it’ll jeep the Fed from getting less dovish. That, in turn, erased the post-CPI rally in the dollar, which again settled above 104 and in a range that’s neutral for stocks.

Turning to Treasuries, we said yesterday 4.25% is a critical resistance point in the 10-year yield and a multi-day breakout of that range would be a negative for stocks. That didn’t happen, as the soft Retail Sales report pushed the 10-year yield lower and back (barely) within that range and under that resistance.

Looking forward, 3.75%-4.25% remains a “sweet spot” for stocks as it implies solid growth, not-too-high inflation and a dovish Fed. As covered, a break above 4.25% would be a negative for stocks as rising yields would signal either hot inflation or hot growth, and rising yields would pressure the market multiple and weigh on stocks. For now, the 10-year yield remains in that trading range and that remains conducive to a continued rally in stocks.

Have a good long weekend,

Tom

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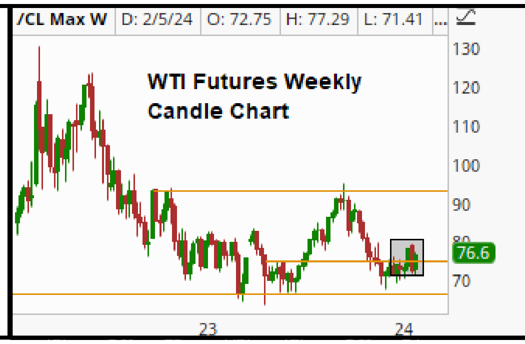
Technical Perspectives (Updated 2/11/2024)

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

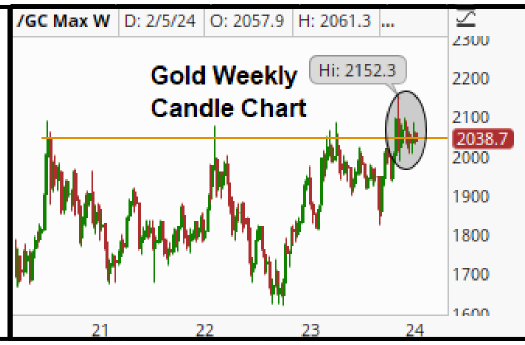
WTI Crude Oil

- 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



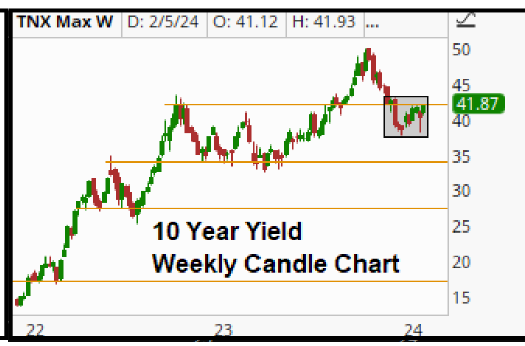
Gold

- 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



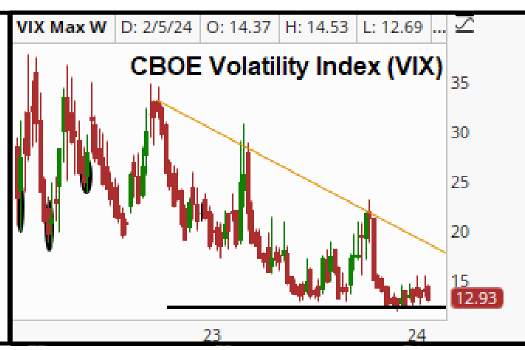
10-Year T-Note Yield

- 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.