SEVENS REPORT

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

February 2, 2024

Pre 7:00 Look

- Futures are solidly higher ahead of today's jobs report thanks to strong earnings overnight.
- META (up 17% pre-market) and AMZN (up 7% pre-market) posted strong earnings while AAPL (down 2% pre-market) underwhelmed, but overall earnings results were good overnight and that's pushing futures higher.
- Econ Today: Employment Situation (E: 187K job adds, 3.8% Unemployment Rate, 0.3%/4.1% wage growth), Consumer Sentiment (E: 78.8, 1-Yr inflation expectations: 2.9%).
- Earnings Today: XOM ($2.21), CVX ($3.29).

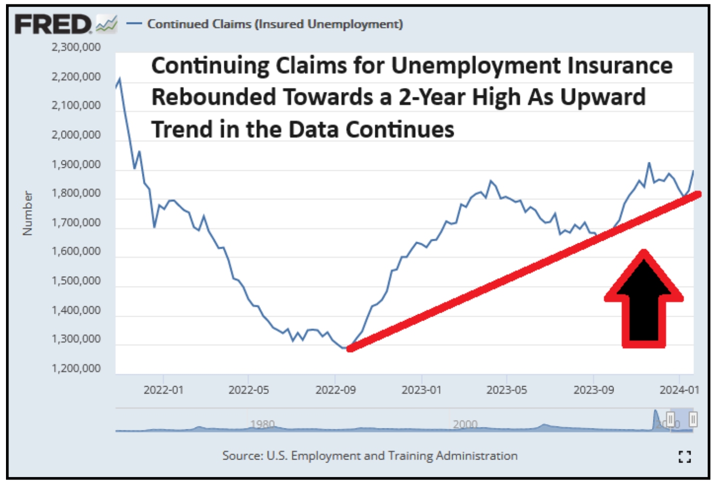
Market	Level	Change	% Change
S&P 500 Futures	4,958.25	29.75	0.60%
U.S. Dollar (DXY)	102.96	-0.09	-0.09%
Gold	2,072.90	1.80	0.09%
WTI	74.26	0.44	0.60%
10 Year Yield	3.88%	0.02	0.55%

Equities

Market Recap

Stocks recovered a solid portion of Wednesday's losses yesterday amid Goldilocks economic data in the U.S., easing geopolitical tensions overseas and positioning ahead of three mega-cap earnings releases as well as the January U.S. jobs report. The S&P 500 rallied 1.25%.

Equities gapped modestly higher at the opening bell yesterday as investors shrugged off a modest uptick in a key European inflation report (Core HICP rose to 3.3% vs. E: 3.2%) and instead focused on some mostly market-friendly economic data in the U.S. Specifically, the latest



Productivity and Costs release indicated better efficiency among workers but lower labor costs than anticipated, which means a more efficient work force and ultimately better corporate margins (at least in theory).

Additionally, both initial and continuing jobless claims figures increased in the latest weekly release which points to easing tightness in the labor market, a key factor the Fed wants to see before cutting rates (so slightly dovish). Shortly after the open the ISM manufacturing report came in on the hot side with a strong headline and rising price readings, but the threat of a rebound in inflation in the factory sector is not a major concern given the Fed is focused on core inflation numbers.

The S&P 500 began to grind towards the pre-Fed levels before a wave of selling hit the broader market thanks to a "tape bomb" from Fitch ratings regarding an expected "rise in default rates in 2024 despite primary market recovery." That triggered a swift panic bid in Treasuries and sent stocks to session lows before the market stabilized into the European close. From there the S&P 500 began to churn higher again helped by favorable geopolitical news about the potential for an imminent ceasefire agreement between Israel and Hamas (although the headlines were rather conflicting).

Market	Level	Change	% Change
Dow	38,519.84	369.54	0.97%
TSX	21,119.21	97.33	0.46%
Stoxx 50	4,672.30	33.70	0.73%
FTSE	7,642.62	20.46	0.27%
Nikkei	36,158.02	146.56	0.41%
Hang Seng	15,533.56	-32.55	-0.21%
ASX	7,699.40	111.21	1.47%
Prices taken at previous day market close.			

Stocks continued higher late in the day as the IMF said the "timing of U.S. rate cuts is likely a matter of months" and AMZN rolled out its generative AI shopping assistant, affectionately named "Rufus," adding to AI optimism ahead of key mega-cap corporate earnings releases.

Market	Level	Change	% Change
DBC	22.06	-.27	-1.21%
Gold	2,070.90	3.50	0.17%
Silver	23.29	.12	0.52%
Copper	3.8525	-.0535	-1.37%
WTI	74.21	-1.64	-2.16%
Brent	79.02	-1.53	-1.90%
Nat Gas	2.054	-.046	-2.19%
RBOB	2.1946	-.0366	-1.64%
DBA (Grains)	21.69	.07	0.30%

Prices taken at previous day market close.

Jobs Report Preview (Abbreviated Version)

The Fed decision didn't materially alter the outlook for today's jobs report, although it did make the "bar" for a "Too Hot" number slightly higher—namely because Powell pushed back on a March cut (probability less than 40%) but at the same time confirmed the Fed is committed to cutting later this year. That said, if there is a very hot jobs number, expect a drop in stocks as markets are fully expecting five or six rate cuts in 2024 and a very strong jobs number may push back on that expectation. Bottom line, I increased the threshold for the "Too Hot" metrics, but if they are breached, don't be surprise if there's a solid drop in stocks.

"Too Hot" (A March Rate Cut Becomes Unlikely and a May Cut Comes into Doubt) **> 225k Jobs Adds, UE Rate ≤ 3.7%, Wages > 4.2% yoy.** Numbers this strong (so not just the headline job adds but all three metrics) would likely push back on the idea of six rate cuts in 2024 and that could easily cause a solid pullback given the expectation for six (or more) cuts is one of the main forces that pushed stocks higher over the past three months. *Likely Market Reaction:* A sharp decline in stocks and bonds. Treasury yields should rise sharply (the 2- and 10-year yields could easily rally 15 basis points or more) and that would hit stocks and a decline in the S&P 500 of more than 1% shouldn't be a surprise. Defensive sectors (utilities, healthcare, staples) should relatively outperform but we'd expect all 11 S&P 500 sectors to be lower. The Dollar Index should rally through 104 and towards 105 while commodities (and especially gold) should drop hard on the dollar strength. A pullback of 5% or more on this outcome in the coming weeks would be possible.

"Just Right" (Expectation for a March Rate Cut Stay 50/50 and A May Cut Remains Certain) **0k-225k Job adds, UE Rate ≥ 3.8%, Wages: ≤ 4.2%.** The best-case scenario for markets is a slightly underwhelming number as that will 1) Keep a March rate cut possible and 2) Not imply the labor market is suddenly losing momentum. *Likely Market Reaction:* A continued grind higher. Momentum in this market is higher and as long as there are no negative surprises from the Fed or earnings, a number in this range will keep May rate cuts fully expected. I'd expect outperformance from cyclical and value sectors, so a continued broadening of the rally, although I think most of the market would be broadly higher. Treasury yields should decline modestly and if this number is close to 100k, don't be shocked if the 10-year yield drops below 3.80%. The Dollar Index should also drop moderately (but not more than 1%) on a number in this range while commodities, including gold, should see a modest rally. **A number in the low-100k range remains the "best case" for this market as it essentially keeps the recent "status quo" intact.**

"Too Cold" (Hard Landing Concerns Grow) **<0 Job adds.** In the immediate reaction, a very soft number will pressure Treasury yields further and could result in a knee-jerk rally in stocks. But a sudden collapse in job adds would increase concerns the economy may be slowing more than anticipated and that would, in time, start to weigh on risk assets. *Likely Market Reaction:* There could be an initial rally in stocks based on a "bad is good" mentality. Yields should decline and the drop in yields should provide an initial boost to stocks, with super-cap tech, defensive sectors and higher-yield sectors (e.g. REITs) rallying. The Dollar Index should drop moderately (below 103) while commodities and gold should rally hard (gold should move further above $2000/oz). However, while an initial "bad is good" rally might ensue, I'd be shocked if it lasted more than a day or so, because slowing growth into Fed rate cuts is not what's priced into stocks at these levels and a pullback on hard landing concerns would become more likely.

Economics

There were six economic releases yesterday, four of which were more widely followed reports that had notable implications regarding the outlook for the economy, Fed policy, and financial markets.

Broadly speaking, the economic data in totality showed an economy that remains resilient but that also is increasingly showing signs of plateauing. That, on its own, isn't a bad thing for markets and the lackluster data helped push yields lower. But it also means that we need to stay vigilant for any signs that growth starts to outright slow.

In order of importance, the four notable reports were:

- ISM Manufacturing PMI rising to 49.1 vs. (E) 47.4.
- Jobless Claims jumping to 224K, near a six-month high, while Continuing Claims continue to trend towards a two-year high, hitting 1.898 million.
- Unit Labor Costs rose just 0.5% vs. (E) 2.1%.
- The Challenger Job-Cut report revealed a 136% surge in layoffs in January from December.

Takeaways

Starting with the ISM Manufacturing PMI, the reading was better than expected and the PMI rose just under 50 but remained (barely) in contraction territory. The New Orders Index rose a strong 5.5 points, comfortably returning to growth territory for just the second time in nearly two years. However, that uptick in activity came with an increase in prices as the prices index rose 7.7 points to 52.9, marking the first increase in prices in nine months. Bottom line, the ISM report showed an uptick in growth but also a bounce back in inflation and as such it wasn't a material positive for markets.

Switching to the Jobless Claims data, initial claims rebounded to a three-month high of 224K, a bit above the estimate for no change from the 214K reported the prior week. Continuous Claims, which reflect the number of insured unemployed, rose by 70K to 1.898 million in the latest report which was the second highest reading since November 2021. Claims are still low on an absolute basis, but so far this week there's been some deterioration in the labor market (claims, ADP and Challenger). To be clear, the labor market is still strong, but if claims start to move towards 250k (and above) that will be a notable deterioration. Finally, Unit labor costs rose a modest 0.5% vs. (E) 2.1%, which was the latest inflation reading to signal easing price pressures, and that was another welcome positive for markets.

Bottom Line

Yesterday's economic data was mostly favorable for the prospects of a soft economic landing in 2024, withholding the uptick in price readings in the ISM Manufacturing Index. But that was largely offset by the drop in unit labor costs which contributed to a better outlook for corporate profitability thanks to some unwinding of the margin compression seen in 2023 due to high input prices for businesses with the lack of ability to pass all of the higher costs through to the consumer. The labor market data also pointed to a measurable "cooling" of the jobs market, something the Fed has been actively pursuing since their rate hiking campaign began in early 2022.

Bottom line, yesterday's data both supports the case for a soft economic landing and a steady path lower for Fed policy rates into the end of 2024, both of which are favorable for stocks and bonds in the medium term as long as the economic trends continue the way they are.

Market	Level	Change	% Change
Dollar Index	102.86	-.23	-0.22%
EUR/USD	1.0872	.0054	0.50%
GBP/USD	1.2746	.0058	0.46%
USD/JPY	146.30	-.62	-0.42%
USD/CAD	1.3391	-.0044	-0.33%
AUD/USD	.6572	.0004	0.06%
USD/BRL	4.9148	-.0406	-0.82%
Bitcoin	43,128.73	169.60	0.39%
10 Year Yield	3.863	-.104	-2.62%
30 Year Yield	4.103	-.112	-2.66%
10's-2's	-34 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	3.96%		
Prices taken at previous day market close.			

Commodities

Commodities were volatile as investors continued to digest this week's Fed decision amid a fresh set of global economic data. The commodity ETF, DBC, fell 1.21%.

The oil market was steady, churning sideways in early trade yesterday as mostly Goldilocks economic data was seen as supportive of consumer demand for the foreseeable future. But over the lunch hour, futures came for sale in a big way as the government of Qatar announced that Israel had agreed to a ceasefire proposal with Hamas. The market then proceeded to rebound when Qatar revised their announcement to say that Hamas had received the ceasefire proposal but had not yet responded. The whipsaw moves continued when Middle Eastern news agency Al Jazeera tweeted that Israel agreed to pause the fighting. When the dust settled from the rollercoaster ride, WTI was down 2.68%.

Looking ahead, it is clear that the prospects of a ceasefire deal being reached in the very near term are viewed as both a positive from a humanitarian standpoint and reason for an easing geopolitical fear bid in the oil market that would likely see oil prices revisit recent lows near the $70/barrel area. Any news that contradicts a looming ceasefire into the weekend will likely spark a significant short-covering rally, which is a risk to watch for today.

Copper badly underperformed with futures falling back 1.41% on the session to test the lows of the week following a slightly underwhelming and barely expansionary Chinese Manufacturing PMI release. The more Goldilocks economic data in the U.S. helped curb the declines and saw copper prices largely churn sideways into the afternoon with the jobs data on deck. Today, $3.83 is the low of the week to keep an eye on as a drop below would probably see downside momentum pick up while $3.95 is still the key level to beat for the copper (and economic) bulls.

Gold futures rallied 0.24% to close at a new 2024 high yesterday, a bullish development for the near and medium-term outlook for the yellow metal. The fact that we have seen real interest rates roll over in the wake of the Fed/Treasury Refunding is a positive for risk assets, the economy, and bull case for gold as elevated real rates dent the appeal of gold as a safe haven. Looking ahead, $2,030 to $2,050/oz. should offer support while the high close of $2,089 from December will be in the bulls' sights.

Currencies & Bonds

Treasury yields continued Wednesday's declines on Thursday thanks mostly to economic data and on continued elevated banking anxiety. The 2-year yield fell 3 basis points while the 10-year yield declined 10 basis points.

Starting with banking anxiety stemming from the NYCB earnings, here is why that has pushed the 10-year yield lower: Essentially some investors are worried NYCB is a warning sign for broader commercial real estate weakness. If that's true, it'll increase hard landing chances. The best way to hedge against a hard landing is to buy longer-dated Treasuries and that's why the 10-year yield is falling. Now, data was also mildly negative for the 10-year yield as Unit Labor Costs (an inflation metric) was lower than expected while the ISM Manufacturing PMI was still under 50 and jobless claims rose. But those reports are worth a few basis points of decline, not 10. Bottom line, as I outlined yesterday, NYCB issues appear to be more individual than systemic, and as such, this drop in the 10-year yield could be unwound in the coming days (depending on economic data and the jobs report) once banking anxiety settles down.

Turning to the Dollar Index, it declined modestly, falling 0.25% thanks to the hotter-than-expected Eurozone HICP and the lackluster U.S. economic data. Eurozone HICP rose 3.3% vs. (E) 3.2% while jobless claims missed estimates, Unit Labor Costs were lower, and the ISM Manufacturing PMI remained below 50 (but did rise). The euro and pound both rose 0.6% on the data.

Bottom line, the dollar remains in the mid-to-low 100 range and that's appropriate until we get more color on 1) U.S. growth (is it plateauing) and 2) EU/UK rate cuts (which may happen this summer, or sooner).

Have a good weekend,

Tom

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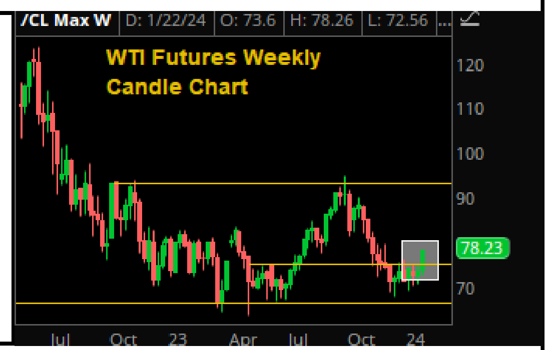
Technical Perspectives (Updated 1/28/2024)

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

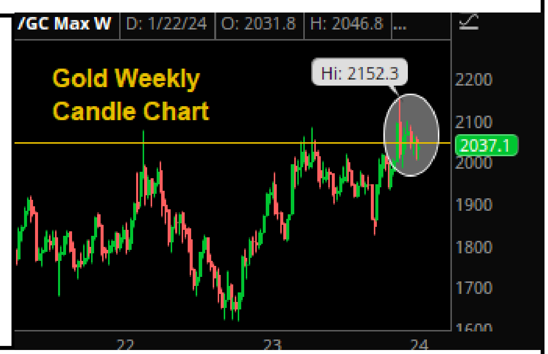
WTI Crude Oil

- 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

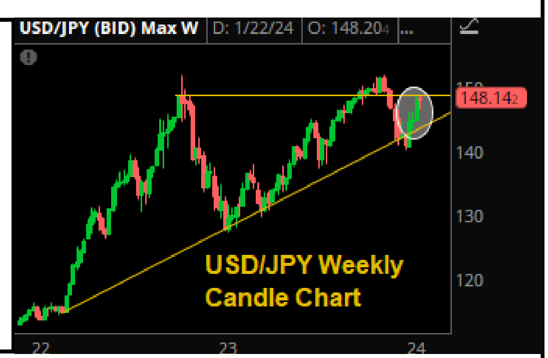


10-Year T-Note Yield

- 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



2/2/2024

SEVENS REPORT	**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.