SEVENS REPORT

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

February 20, 2024

Pre 7:00 Look

- Stock futures are lower to start the week as a rate cut by China's central bank failed to bolster investors' appetite for risk overseas while domestic focus shifts to NVDA earnings.
- The PBOC slashed the 5-Yr Loan Prime Rate by a record 25 bp overnight (E: -5 bp) but the rate cut failed to ease lingering concerns about the health of the property market.
- Econ Today: Leading Economic Indicators (E: -0.1%), Canadian CPI (E: 0.4%). No Fed speakers today.
- The Treasury will hold 3-Month and 6-Month Bill auctions at 11:30 a.m. ET and a 52-Week Bill action at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5000.00	-19.75	-0.39%
U.S. Dollar (DXY)	104.088	-.200	-0.19%
Gold	2037.40	13.30	0.66%
WTI	77.79	-.67	-0.85%
10 Year Yield	4.295	.055	1.30%

Equities

Market Recap

Stocks declined last week following hotter-than-expected inflation data and underwhelming retail sales, although dovish Fed speak helped keep losses modest. The S&P 500 declined 0.42% last week and is up 4.94% YTD.

Stocks were little changed to start last week as there was no notable data last Monday and investors looked ahead to Tuesday's CPI report. Tuesday's CPI report provided some fireworks as it came in hotter than expected on both the headline and core readings. With a very overcrowded long-equity/short-volatility trade in place, yield spiked and stocks dropped sharply throughout the trading day as the S&P 500 was down nearly 2% at the lows. A short-covering rally during the final hour helped make the losses more moderate but the S&P 500 posted a loss of 1.37% on the day while the VIX notably surged to a new high for the year.

The market bounced back to recover roughly half of the post-CPI losses on Wednesday as UK CPI was cooler than feared and Chicago Fed President Goolsbee discounted the impact of the CPI report when he suggested the FOMC is focused on Core PCE not CPI. The influence of options trading remained clear as the S&P rose 0.96% before options traders pinned the index to the crowded 5,000 strike price.

The recovery continued on Thursday as less-hawkish money flows supported a moderate rise in risk appetite across asset classes. Both Japan and the UK fell into technical recessions with back-to-back negative GDP reports while Retail Sales in the U.S. whiffed estimates to come in deeply negative. That further helped rates markets dial back hawkish policy expectations and the S&P closed up 0.58% at a new record high.

Stocks declined again on Friday after PPI and consumer inflation expectations within the latest UofM Consumer Sentiment release came in hot, which resulted in a renewed push higher in Treasury yields that weighed on equities. A sizeable monthly options expiration Friday was a factor as well, especially in the wake of last Tuesday's volatile selloff that was influenced heavily by options trading. The S&P 500 ended down 0.48%.

Why Didn't the Hot Inflation Data Cause a Bigger Drop?

Over the past two weeks I stated that the "burden of proof" lays squarely with the bears and practically that means that actual news needs to not just be disap-

Market	Level	Change	% Change
Dow	38,627.99	-145.13	-0.37%
TSX	21,255.62	32.93	0.16%
Stoxx 50	4,762.35	-.72	-0.02%
FTSE	7,729.67	1.17	0.02%
Nikkei	38,363.61	-106.77	-0.28%
Hang Seng	16,247.51	91.90	0.57%
ASX	7,659.05	-6.05	-0.08%

Prices taken at previous day market close.

pointing, but outright negative and bad because positive momentum in this market is just too strong, so while actual data and Fed speak last week was negative, it simply wasn't negative enough to break that positive momentum and bullish mantra.

Market	Level	Change	% Change
DBC	22.03	.05	0.23%
Gold	2,023.40	8.50	0.42%
Silver	23.47	.52	2.28%
Copper	3.8245	.0665	1.77%
WTI	79.22	1.19	1.53%
Brent	83.38	.52	0.63%
Nat Gas	1.616	.035	2.21%
RBOB	2.3346	.0163	0.70%
DBA (Grains)	21.69	-.11	-0.50%
Prices taken at previous day market close.			

And while it'll frustrate the bears, the bulls were right, the news wasn't bad enough to break this bullish momentum. Yes, CPI and PPI were "hot" and that joins a growing list of economic data points (Jan. jobs number, flash PMIs, jobless claims) that implies the economy is too strong for near-term rate cuts. But the Fed will still cut in the coming months (so now June vs. May). The key distinction with last week's CPI and PPI was this: The data showed inflation was still falling, but more slowly than expected. For inflation data to be strong enough to challenge the bullish momentum, it has to imply inflation has stopped falling and is rising again, because that will challenge the idea of any rate cuts in the near term. That didn't happen last week.

However, just because the data wasn't bad enough to cause a market decline, it doesn't mean it won't have an impact. The 10-year yield is threatening to break out above 4.25%. **If that occurs and it moves towards 4.35% and 4.50%, that will increase stock market volatility just like it did in August and the biggest takeaway from last week's data is that it's increasing the chance of a "bumpier ride" in the market over the coming weeks—one where volatility becomes more elevated and gains are harder to come by, but not something that would cause an outright 5-10% pullback. And that is why I continue to favor tactical equity exposure to minimum volatility ETFs, value and more defensive sector exposure, because I do think volatility will increase if that 10-year yield breaks out.**

However, that uptick in volatility does not mean the Oct.-to-present rally is in danger of being substantially reversed. For that to become a legitimate concern, we would need to see economic growth begin to roll over and increase hard landing fears. **A surprise slowing of economic growth remains the single largest risk to the Oct.-present rally. Last week's retail sales was a soft number but it will take a lot more negative data to increase growth worries. But make no mistake, rising fear of an economic slowdown is absolutely something that wouldn't just break this bullish momentum, it could end the rally altogether (and require defensive positioning).**

Thankfully, we're not close to that level yet, but rest assured we'll continue to remain vigilant to that risk.

Economics

Last Week

Economic data was more mixed and, frankly, negative than it has been in months last week as every inflation indicator pointed towards sticky price pressures while growth data hinted at a slowing of consumer spending. Although in the end the soft data partially offset the hot inflation readings and, for now, the mixed data didn't materially hit stocks.

However, I say "for now" because let's be clear: Last week's data hinted at stagflation. And while it's not enough to cause a market reaction, stagflation risks are basically zero in this market and as such, worries about stagflation have the potential to hit markets hard, if more data confirms it is a rising risk.

CPI and PPI were the most important reports and both pointed to a rebound in inflation. January CPI rose 3.1% vs. (E) 3.0% and, more importantly, core CPI was unchanged from December at 3.9% y/y vs. (E) 3.7%. More to that point, "super core," which is core services inflation minus housing, rose 0.8%, its fastest pace in several months. That hot CPI was confirmed by Friday's PPI, which rose 0.9% vs. (E) 0.6% y/y.

The market reaction to the CPI report was significant, as stocks dropped sharply last Tuesday as investors moved the data of the first expected rate cut to June, resulting in the S&P 500 having its worst day since March 2023 and the 10-year trading to a multi-month high of 4.25%.

However, that hot inflation data was countered by underwhelming retail sales on Thursday, which was the next most important report last week. Headline retail sales fell -0.8% vs. (E) -0.1% while the more important control retail sales (which is our best look at discretionary consumer spending) fell -0.4% vs. (E) 0.2%.

However, instead of spiking stagflation concerns, the soft retail sales number was viewed in a "bad is good" light as there is legitimate reason to think the January number was negatively skewed by winter weather and other factors. But let's be clear, if this weak report is echoed by similar reports in coming months (or corporate commentary) "bad" data won't be "good" for long.

Last week also gave us the first economic data points for February and the results were again mixed. Positively, both Empire and Philly manufacturing surveys showed big improvements over the January data, with Empire rising to -2.4 from -43.7 while Philly Fed turned positive for the first time since August, rising to 5.2 vs. (E) 8.2. But those improvements came with an increase in price pressures as three of the four price indices in the reports showed solid gains. That means that basically every inflation indicator last week said the same thing: Price pressures are firming up (and that echoes what we saw from price indices last month). Bottom line, in aggregate the reports were "fine" but they underscore the need to watch inflation data closely over the coming weeks.

Finally, to cap the week of divergent data, initial jobless claims declined to 218k vs. (E) 220k but continuing jobless claims rose to 1.895 million and are within striking distance of a two-year high. So, initial layoffs are low but people appear to be having a harder time finding work. In the end, the momentum in the market helped investors look past data that, in an absolute sense, hinted at stagflation.

This Week

This is a short week and there aren't many notable releases, but the ones we get have the potential to move markets as they'll give notable updates on Fed policy and economic growth.

The key event is Thursday's flash composite PMI as that's the first "big" economic report of each month so it'll give us our first national look at the economy in February. There's been some mixed data lately between soft retail sales and some cautious corporate commentary on spending, so investors will want to see if both the manufacturing and services PMIs can maintain positive momentum (and stay comfortably above the 50 level). An in-line report remains the best-case scenario for stocks and bonds as it implies solid growth but won't make the Fed less dovish.

Speaking of the Fed, we get the minutes from the January FOMC meeting tomorrow and markets will want to see the level of discussion and agreement on looming rate cuts. Investors will parse the minutes for any hints on just how eager the Fed is to ease policy, so they're not just going to be looking for hints on the timing of rate cuts (May/June/later) but also, they'll be looking for insights on a discussion of when to start to taper Quantitative Tightening. Any extensive discussion about QT will be viewed as dovish, while any hints the Fed is more eager to cut policy than expected will be a positive.

Market	Level	Change	% Change
Dollar Index	104.20	.01	0.01%
EUR/USD	1.0776	.0004	0.04%
GBP/USD	1.2602	.0002	0.02%
USD/JPY	150.27	.34	0.23%
USD/CAD	1.3484	.0019	0.14%
AUD/USD	.6533	.0008	0.12%
USD/BRL	4.9672	-.0069	-0.14%
Bitcoin	51,843.52	35.56	.07%
10 Year Yield	4.295	.055	1.30%
30 Year Yield	4.448	.027	0.61%
10's-2's	-36 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.54%		
Prices taken at previous day market close.			

Weekly jobless claims come on Thursday and while initial claims remain low, the widening divergence between initial claims (people who just got laid off) and continuing claims (people who got laid off weeks ago and haven't found a new job) is notable. If it continues to grow, essentially that implies deterioration in the labor market, although at this point it's not near enough to imply a slowing of growth. Nonetheless, it's something to watch.

Bottom line, Goldilocks economic data that implies ongoing growth but leaves a June rate cut as fully expected remains the best path for higher stock prices. Data that deviates too far from expectations (either too hot or too cold) will be a negative as it'll either imply hot growth and reduce June rate cut chances or hint at a more dramatic slowing of growth.

Commodities

Trading in the commodity complex was a bit confusing last week as economically sensitive energy products and industrial metals futures rallied despite hot inflation data sparking hawkish money flows. The commodity ETF, DBC, dropped 1.03% last week.

WTI crude oil futures rose 2.14% last week, ending Friday at a fresh 2024 high. The gains in oil occurred despite a largely bearish weekly EIA report that showed a big drop in consumer demand for refined products and a sizeable build in crude oil stockpiles. Instead, traders were focused on geopolitical tensions in the Middle East as well as Eastern Europe, which have returned to being key influences on the global energy markets. That was underscored as the latest "roll" of the active month crude oil futures contract saw the near-term contract (March) trade with a premium of well over $1/barrel relative to the April contract into today's expiration. Bottom line, there are signs of tightness emerging in the physical energy markets and that paired with the new highs has helped shift our outlook for oil in favor of the bulls. The risks to the emerging rally remain the most favorable humanitarian outcomes to the conflicts between Israel and Hamas, and Russia and Ukraine as the geopolitical fear bid in the market is likely worth up to $10/barrel right now.

Copper outperformed last week with futures jumping 3.69% through Friday's close. Interestingly most fundamental news last week was negative for copper as economic data was largely disappointing globally. That did help add to hopes of Chinese stimulus and there was chatter of a short-squeeze developing but we will want to see further stabilization in the industrial metals market to help support the case for the rally in risk assets.

Gold declined 0.65% last week amid the dual headwinds of a strengthening dollar and rising Treasury yields. Most notably, real rates approached 2%, which is a key bearish threshold for risk assets, but also gold, as the appeal of yield-less precious metals as a safe haven declines relative to the solidly positive and effectively "riskless" yield on government debt. The long-term outlook for gold remains bullish after the new records were hit late last year, however, until we see the rise in the dollar and real rates subside, gold will have a hard time revisiting those records.

Currencies & Bonds

Last week was potentially important for the 10-year yield, as the hot CPI and PPI reports helped the 10 year trade to a two-month high and potentially break out of the previous 3.75%-4.25% trading range, a range that had been very supportive of stocks.

The 10 year leapt higher by 15 basis points last Tuesday and traded to 4.30% before drifting lower on Thursday following the soft retail sales report. However, it bounced back to 4.30% after Friday's PPI and closed above resistance at 4.25%. If it can hold this breakout and move towards and above 4.35% that will likely begin to increase pressure on stocks and I continue to believe that the most important financial indicator in the markets right now is the 10-year yield. The higher (and faster) it goes, the more it'll pressure stocks (just like it did from August-October).

The dollar rallied modestly last week, up 0.4%, thanks to the hot CPI and PPI reports as well as some underwhelming growth reports from the UK and Japan. The Dollar Index rose 0.4% last week. The dollar rallied last week because economic data showed that both growth and inflation in the U.S. are higher than its global peers (EU/UK/Japan) and as such, that's positive for the buck.

To that point, last week's data showed that Japan and the UK are in technical recession (two consecutive negative GDP readings). However, the soft U.S. retail sales report pressured the dollar Thursday and kept the rally modest. Going forward, if the Dollar Index trades through 105 and towards 106, it will become a stronger headwind on stocks. And much like Treasury yields, a flat-to-lower dollar is what stock bulls need to help extend the rally.

Have a good day,

Tom

2/20/2024

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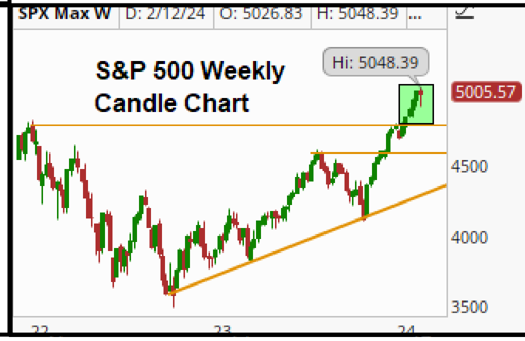
Technical Perspectives (Updated 2/18/2024)

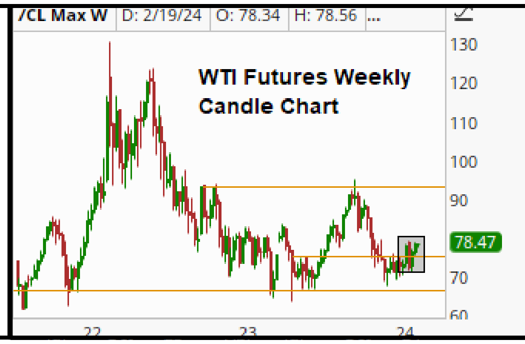
S&P 500

- 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: 4953, 4899, 4792



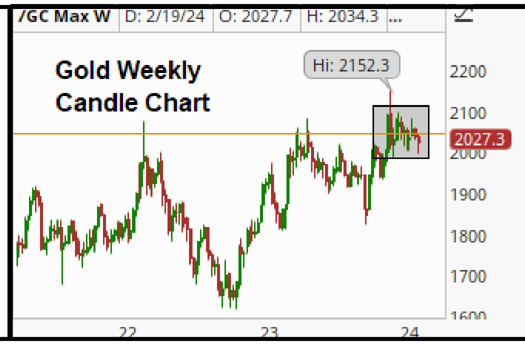
WTI Crude Oil

- Technical View: Oil closed at a fresh 2024 high last week with measurable strength in the term structure of the futures market supporting a bullish outlook for energy.
- Proprietary Model: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $78.90, $80.82, $82.28
- Key Support Levels: $76.56, $74.20, $73.00



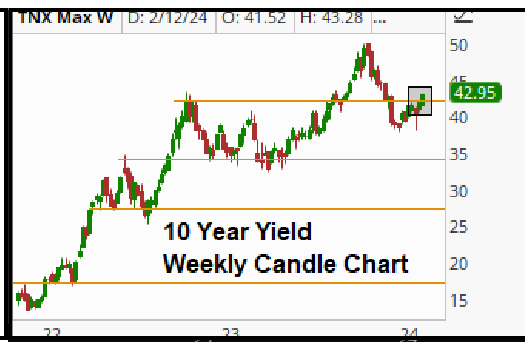
Gold

- Technical View: Gold futures broke out to a fresh all-time in late 2023, shifting the technical outlook decidedly in favor of the bulls but price action has been sideways.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2042, $2072, $2094
- Key Support Levels: $2005, $1995, $1950



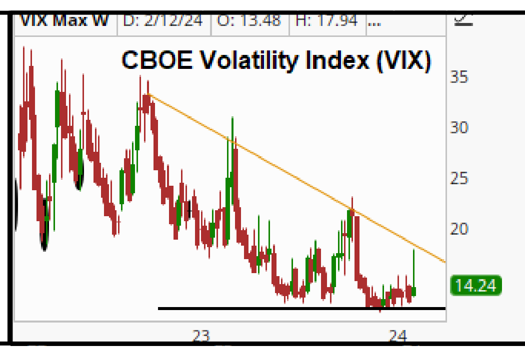
10-Year T-Note Yield

- Technical View: The 10-year yield has stabilized after a steep decline into the end of 2023 and is once again trending higher with the 4.50% area coming into focus.
- Proprietary Model: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.316, 4.365, 4.472
- Key Support Levels: 4.187, 4.125, 4.033



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: 14.71, 15.85, 17.94
- Key Support Levels: 13.93, 12.79, 12.07



SEVENS REPORT

Fundamental Market View (Updated 2/18/2024)

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 declined modestly last week as both CPI and PPI ran hotter than expected and the resulting rise in the 10-year Treasury yield weighed on equities, although the losses were modest.*

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 were mixed last week as simmering geopolitical tensions kept a bid in the energy markets despite weak demand data while short-covering led industrial metals to outperform. Gold was the laggard, falling amid a rise in the dollar and firming real rates.*
US Dollar	**Neutral**	*The Dollar Index hit a multi-month high midweek as the hot CPI report caused a solid rally, although the dovish Fed speak kept the gains modest. However, momentum in the dollar remains clearly higher.*
Treasuries	**Turning Positive**	*Treasury yields rose to multi-month highs last week thanks to the hot CPI and PPI readings, as the 10-year yield is threatening to break out of the 3.75%- 4.25% trading range it has inhabited for the past several months.*

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.