SEVENS REPORT

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

February 22, 2024

Pre 7:00 Look

- Futures are sharply higher thanks to stronger than expected NVDA earnings (stock up 14% pre-market) as Nasdaq futures surge by more than 2%.
- NVDA results beat on revenue, earnings and guidance and global markets are higher on renewed AI enthusiasm.
- Economically, EU and UK flash PMIs were very slightly better than expected but aren't moving markets.
- Econ Today: Jobless Claims (E: 216K), Flash PMIs (E: 51.4), Existing Home Sales (E: 3.98 M). Fed Speak: Jefferson, Harker, Kashkari, Cook & Waller.

Market	Level	Change	% Change
S&P 500 Futures	5,063.50	67.25	1.35%
U.S. Dollar (DXY)	103.74	-0.27	-0.26%
Gold	2,038.00	3.70	0.18%
WTI	77.92	0.01	0.01%
10 Year Yield	4.31%	-0.02	-0.41%

***NVDA Post-Earnings Price Targets**: NDVA is at a new all-time high pre-market and if it can hold those gains throughout the regular session, then the next upside target is $826 (and a move higher towards that resistance will be positive for the broad market).*

Equities

Market Recap

Stocks remained volatile and under pressure yesterday as traders digested more hawkish Fed language, a soft Treasury auction and awaited earnings from NVDA. The S&P 500 was up 0.13% on the day.

Stocks once again gapped lower at the opening bell yesterday led by weakness in mega-cap tech shares as traders positioned into last night's earnings release from AI darling and chip behemoth NVDA. News flow early in the day was fairly light as there were no notable U.S. economic reports although a slightly warmer-than-anticipated Australian wage growth figure didn't help to soothe the recent worries about higher-for-longer rate policy supporting hawkish money flows. A fairly muted market response to more regulatory measures on equity trading by the Chinese government didn't help shore up sentiment either. Domestically, the Fed's Barkin said that the FOMC is on the "backend of the inflation problem," but it is unclear how much longer it will take to get to target while also noting that the economy has a "ways to go" towards achieving a soft landing.

After the lower open, stocks churned sideways in negative territory amid mostly quiet news flow as the only potential catalyst into the early afternoon was a 20-Yr Treasury auction which was ugly, but taken in stride by the market. The Fed minutes were seen as hawkish and that did pressure the S&P 500 to new lows in afternoon trade, however, a relief rally ensued in the final hour leaving the S&P 500 pinned to the 4,975 mark into the

Market	Level	Change	% Change
Dow	38,612.24	48.44	0.13%
TSX	21,172.38	-45.15	-0.21%
Stoxx 50	4,833.07	57.76	1.21%
FTSE	7,679.12	16.61	0.22%
Nikkei	39,098.68	836.52	2.19%
Hang Seng	16,742.95	239.85	1.45%
ASX	7,611.20	2.84	0.04%
Prices taken at previous day market close.			

closing bell as traders awaited the all-important earnings report from NVDA.

Trading Color

Market	Level	Change	% Change
DBC	22.00	.09	0.41%
Gold	2,037.20	-2.60	-0.13%
Silver	22.96	-.18	-0.76%
Copper	3.8755	.0080	0.21%
WTI	77.83	.79	1.03%
Brent	82.96	.62	0.75%
Nat Gas	1.758	.182	11.55%
RBOB	2.2825	.0051	0.22%
DBA (Grains)	22.17	.17	0.80%
Prices taken at previous day market close.			

For the second-straight day tech and AI-affiliated sectors lagged while the "rest" of the market traded well.

On an index level, the Nasdaq and Russell 2000 declined moderately (both down 0.4%) while the S&P 500 and Dow Industrials spent most of the day in negative territory before a rally in the last hour pushed both into slightly positive territory (they both gained 0.13%).

On a sector level, performance was mixed for most of the day, but tech (XLK) again lagged on pre-NVDA positioning and after cybersecurity firm Palo Alto Networks (PANW) posted horrific guidance, and their explanation that it was the result of shifting payment plans for customers wasn't accepted. PANW dropped 28% at the lows and combined with continued pre-NVDA earnings weighed on tech and, by proxy, communication services as XLK and XLC fell 0.6% and 0.1%, respectively.

Those were the only two S&P 500 sectors to trade lower on the day, however, as the remaining nine sectors posted gains. Energy (XLE) was the leader, rallying more than 1.8% on a 12% natural gas rally and on oil strength.

Utilities (XLU) rallied more than 1.3% despite higher yields thanks to some positive articles citing value while the remaining seven sector SPDRs rose modestly (less than 1%).

Bottom line, earnings-related angst again weighed on the tech sector, but the rest of the market was able to overcome it in another encouraging sign for a broadening of the rally (meaning sectors other than tech can move sustainably higher).

What NVDA Earnings Mean for Markets

Hedging and positioning ahead of NVDA earnings dominated trading over the past few days as traders and investors lightened up on the tech stock for fear that the financial results, while guaranteed to be fantastic, wouldn't match equally fantastic expectations.

Those fears were wrong.

NVDA met lofty expectations and 1) Beat on revenue ($22.1B vs. (E) $20.4B), 2) Beat on earnings ($5.16 vs. (E) 4.60), 3) Margins (76.7% vs. (E) 75.6% and 4) Guidance $24B vs. (E) $21.9B. Put simply, it beat on pretty much every important metric and the stock rallied 9% in after hours.

For those analysts looking for a negative, purchase commitments were down in a sign of potentially weakening future demand, but that's like complaining that the winning teams didn't have a perfect game—they still won handily!

So, for now, NVDA has met lofty expectations and that will keep general AI enthusiasm intact and that is a positive for the market, broadly speaking.

But, over the past year, these blowout earnings results from NVDA have served as a positive catalyst for markets and that's the question going forward: Can NVDA provide a spark to keep this rally going.

The answer here will depend on NVDA. The stock is at an all-time high pre-market and if it can hold (or extend) this rally throughout the regular session, it'll imply that tech can help lead this market higher. However, if we see any type of reversal in NVDA, that will be a sign of exhaustion in the "AI" tech space.

Bottom line, fears of disappointment from NVDA didn't materialize and that should help support markets in the near term. The question now is whether AI enthusiasm can continue to pull the market higher or if we're now in need of new leadership to send the S&P 500 towards 5,100 and higher (and the replacement for AI leadership isn't evident on the surface).

Economics

FOMC Minutes

The minutes of the February FOMC decision nor any of the Fed speak from Wednesday shifted the current market expectations for the Fed, namely that it's confident that inflation is subsiding but needs evidence that it won't bounce back before cutting rates. Practically, that means a June rate cut is the nearest possibility and if there's risk to that expectation, it's that rate cuts come later than June, not earlier.

Looking at the minutes specifically, there seemed to be wide agreement amongst Fed members that inflation was declining and that's a good thing as it does mean we will get rate cuts this year. There were smaller factions of the Fed (referred to in the minutes as "some" or "a couple" that were concerned that 1) Inflation could bounce back if goods prices rebound or 2) That growth could slow more than expected, but on balance the Fed still views the risk of cutting too early as greater than the risk of cutting too late. Until that changes, the Fed will remain more hawkish than was previously expected.

Regarding Fed speak yesterday, Barkin was perhaps the most "hawkish" when he warned of potentially persistent price pressures (which essentially acknowledges last week's CPI and PPI) but the bottom line is it didn't alter the outlook for Fed rate cuts.

Bottom line, the market has withstood the delay of Fed rate cuts from March (expected at the start of the year) to June, but a further delay into July or later will put in jeopardy the idea of four or five rate cuts in 2024 and if that occurs, expect yields to rise and the headwind on stocks to gain strength. For now, though, a June hike remains a 100% expectation and that's enough for investors, for now.

Looking forward, the key notable Fed catalyst will come next week via the Core PCE Price Index (if it is hotter than expected like CPI and PPI were, expect volatility) and Powell's semi-annual monetary policy testimony before Congress (March 6-7), as that will act like an interim update before the March Fed decision.

Market	Level	Change	% Change
Dollar Index	103.92	-.06	-0.06%
EUR/USD	1.0819	.0011	0.10%
GBP/USD	1.2635	.0012	0.10%
USD/JPY	150.19	.18	0.12%
USD/CAD	1.3508	-.0015	-0.11%
AUD/USD	.6547	-.0002	-0.03%
USD/BRL	4.9385	.0111	0.23%
Bitcoin	51,101.51	-988.33	-1.90%
10 Year Yield	4.325	.050	1.17%
30 Year Yield	4.492	.043	0.97%
10's-2's	-34 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.54%		
Prices taken at previous day market close.			

Commodities

Commodities were mixed as oil continued to rise on evidence of a tight physical market and no relief in the geopolitical tensions in the Middle East. In metals, copper edged up after Chinese authorities intervened again to stabilize markets while gold slipped modestly but ended in the middle of its 2024 trading range. The commodity tracking index ETF, DBC, added 0.41%.

Oil rallied with futures notching a gain of 1.05% on the day. Ongoing geopolitical angst surrounding the Israel-Hamas war including more attacks this week on merchant ships in the Red Sea by Iran-backed Houthi rebels who sympathize with Palestinians, have been an increasingly bullish influence on the market. Additionally, a potentially significant rebound in refinery runs by U.S. energy companies after weeks of a maintenance and repair work appears to be driving very strong demand for physical crude sending the term structure of the futures market deep into backwardation with front month futures trading at sizeable premiums to back month deliveries.

Looking ahead, the signs of a tight physical market and strong demand for crude paired with the simmering geopolitical fear bid in the market offer fundamental support for the technical breakout in oil prices we saw last week. In the near term, a break above last week's closing high of $78.24 would likely see oil make a run at $80.50/barrel which is both a measured move target and technical resistance from late 2023.

Gold drifted lower falling 0.14% on the session thanks to a renewed push higher in Treasury yields although real yields were little changed and the dollar was flat. Yesterday's nominal dip left gold futures trading almost perfectly centered in the 2024 trading range between resistance at $2,075 and support at $2,000/oz. While the outlook for gold remains technically favorable based on the new records reached in late 2023, the fundamental outlook has become a bit more cloudy given the strength in the greenback so far in 2024 and a measurable rise in real interest rates. If gold is going to resume its rally we need to see moderation in one, if not both, of those headwinds on gold.

Copper eked out a gain of 0.25% as the continued efforts by the Chinese government to stabilize the property sector and financial markets seemed to help bolster industrial metals. However, copper ended off the session highs as the Fed meeting minutes were seen as slightly hawkish. Bottom line for copper, a higher-for-longer policy rate outlook is a decidedly negative headwind for industrial metals and until we see less-hawkish money flows, or even better, a dovish pivot, copper will have a hard time rallying back towards $4.00.

Currencies & Bonds

Most of the market's focus was on the tech sector on Wednesday but the bond market provided some volatility as an underwhelming Treasury auction pushed yields higher and moved the 10-year yield farther above resistance at 4.25%, and while NVDA anticipation helped support non-tech stocks, the bottom line is that if yields keep rising headwinds on the markets will build.

Treasury yields were slightly higher to start trading on Tuesday, essentially recouping Tuesday's losses as the 2-year and 10-year yield drifted higher by 4 basis points each. But the soft 20-year Treasury auction pushed yields slightly higher and the reason was clear: Demand for the debt was underwhelming. The bid to cover, a measure of demand, fell to the lowest level since August of 2022 while indirect bidders, a gauge of foreign investor demand, bought just 59% of the offering, the lowest level since May 2021.

Bottom line, this was a soft auction and it did push yields higher on the day. I always caution that one shouldn't read too much into a single auction but "calm" in the Treasury market remains an important ingredient for a continued stock rally and if yields continue to rise, that will increase headwinds on stocks.

Turning to currencies, the dollar was little changed on the day and rightly so as there was no notable economic data to move markets and the FOMC minutes didn't alter the market's expectation for a rate cut in June. The Dollar Index rose 0.1%.

This short week has been devoid of any notable economic data not just from the U.S. but also from Europe, although that will change today with the flash PMIs and jobless claims. As such, the dollar, euro and pound have had little to trade off of and as such haven't really moved and they'll stay that way until there's some movement on Fed rate cut expectations (currently June) and ECB/BOE rate cut expectations (currently mid summer of 2024).

Until those expectation change (either via central bank speak of economic data) expect the Dollar Index to remain in the mid-100 level, a range that's neither positive nor negative for stocks.

Have a good day,

Tom

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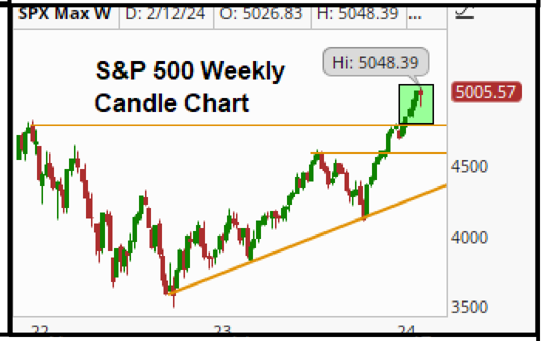
Technical Perspectives (Updated 2/18/2024)

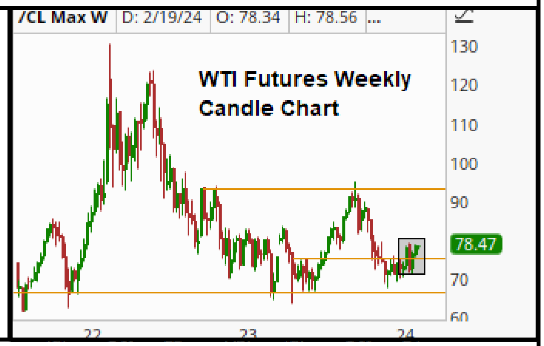
S&P 500

- 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



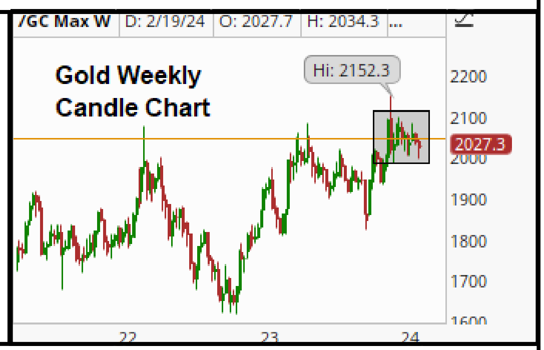
WTI Crude Oil

- 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



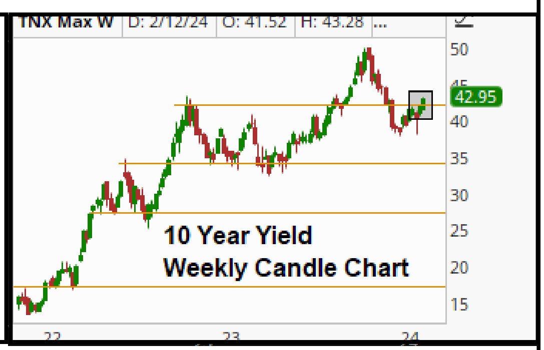
Gold

- 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



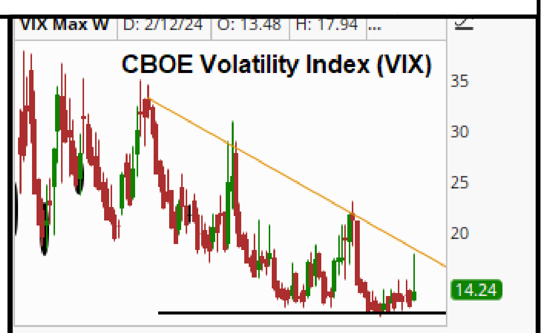
10-Year T-Note Yield

- 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



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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.

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