SEVENS REPORT

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

February 23, 2024

Pre 7:00 Look

- Futures are flat following a quiet night of news as markets digest Thursday's NVDA driven rally to new highs.
- Economic data largely met expectations overnight as German GDP declined modestly (-0.3% q/q) confirming economic weakness, while IFO Business Expectations were slightly better than expected (84.1 vs. (E) 83.9.
- Geo-politically, cease-fire negotiations between Israel and Hamas will occur in Paris on Sunday and any progress will be a mild positive for markets.
- Econ Today: No reports today.

Market	Level	Change	% Change
S&P 500 Futures	5,098.75	0.75	0.01%
U.S. Dollar (DXY)	103.89	-0.07	-0.07%
Gold	2,033.00	2.30	0.11%
WTI	77.37	-1.22	-1.55%
10 Year Yield	4.34%	0.01	0.25%

Equities

Market Recap

Stocks ripped to new all-time highs Thursday as blowout NVIDIA (NVDA) earnings reignited the AI optimism that has fueled the majority of the rally in equities since late 2022. Mostly favorable economic data was also supportive of the gains and the S&P 500 hit a new record high, ending the day up a solid 2.11%.

Stocks gapped higher at the open yesterday as the biggest catalyst of the week turned out to be decidedly bullish for equities, particularly growth-oriented, tech and AI-related names, as NVDA blew away all estimates on earnings, revenue, guidance, and margins in the fourth quarter. NVDA also reported that their biggest customers are fellow members of the Magnificent Seven, including META, MSFT, and GOOGL, which bolstered the entire mega-cap tech complex with NVDA shares leading the way higher with a daily gain of 16.4%.

Outside of NVDA earnings, economic data was also market favorable with the February Flash PMI report showing solid improvement in the recently struggling manufacturing sector, a slowdown in services demand that has been propping up inflation pressures, and a measurable decline in price sub-indices which reached lows not seen since 2020. New Home Sales in January were also solid, well above estimates with positive revisions to December's data. All of those influences helped stocks grind higher over the course of the morning with the S&P 500 approaching the 5,100 mark midafternoon. The market didn't quite have the momentum to break beyond 5,100, however, and stocks tuned sideways to close just shy of the session highs.

Is This A "Platinumlocks" Market? Sentiment Update

Blowout NVDA earnings carried the S&P 500 to another all-time high and as we consider the relentless rally and current valuations of stocks, the reality is that the market is passing what one would consider a Goldilocks environment and is now entering another realm of justification, something referred to as "Platinumlocks" (a step above Goldilocks).

And, frankly, a new justification for this market is becoming necessary if we look at valuation, sentiment and what's priced in. Starting with valuation, the S&P 500 is now trading at 21X 2024 S&P 500 EPS of $243/share. A 21X multiple isn't just high, it's largely unheard of unless there's ongoing Quantitative Easing (QE) and 0% rates. Only then has a 21X multiple been sustainable for any

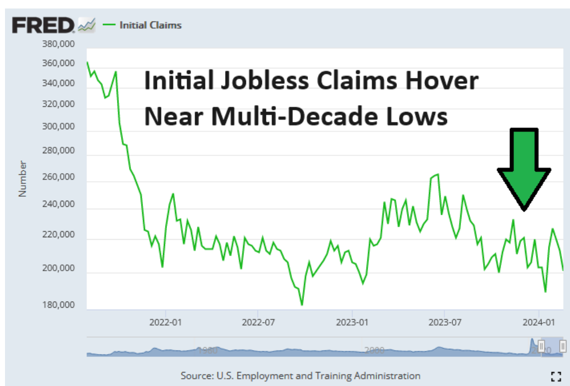
Market	Level	Change	% Change
Dow	39,069.11	456.87	1.18%
TSX	21,318.08	145.70	0.69%
Stoxx 50	4,865.86	10.50	0.22%
FTSE	7,684.97	0.48	0.01%
Nikkei	39,098.68	836.52	2.19%
Hang Seng	16,725.86	-17.09	-0.10%
ASX	7,643.59	32.34	0.42%
Prices taken at previous day market close.			

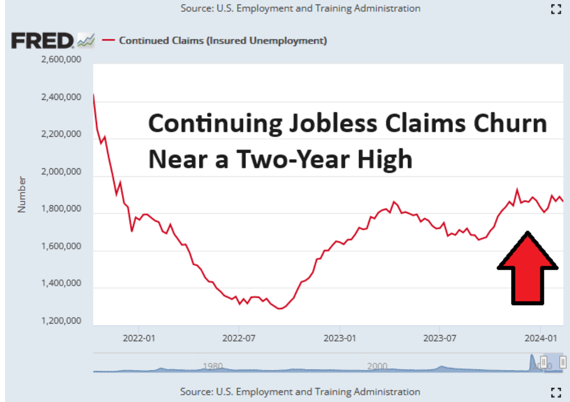
decent period of time and obviously, right now, we have the opposite of QE and 0% rates, as Quantitative Tightening is ongoing while rates are at multi-decade highs. Nonetheless, the S&P 500 is trading 21X earnings. That's beyond Goldilocks (which could be argued for 19X-20X), it's something more Platinumlocks.

Market	Level	Change	% Change
DBC	22.06	.06	0.25%
Gold	2,033.50	-.80	-0.04%
Silver	22.78	-.09	-0.39%
Copper	3.895	.020	0.52%
WTI	78.19	-.42	-0.53%
Brent	83.26	-.41	-0.49%
Nat Gas	1.724	-.049	-2.76%
RBOB	2.3221	.0361	1.58%
DBA (Grains)	22.08	-.07	-0.32%

Prices taken at previous day market close.

And that's largely confirmed by the fact that despite several pieces of negative news over the past few weeks, including 1) A rebound in important inflation metrics, 2) The Fed pushing rate cut expectations out to June from March and the total number of rate cuts from five or six to three or four and 3) Some soft consumer spending data via Retail Sales and corporate commentary, market sentiment has barely taken a dent, reflecting the fact that investors believe a Platinumlocks environment can continue and propel stocks higher.





- **The CNN Fear/Greed Indicator currently sits at 78 (on a scale of 0-100). That's squarely in the "Extreme Greed" zone.** Comparatively, in early October this indictor was at 20, or an "Extreme Fear" reading. The Fear/Greed Index has become more widely followed on the Street because it incorporates seven different momentum and sentiment indicators and, as such, provides a wide view of current investor and market sentiment. And the message is clear: <u>Investors are greedy and do not see material risks near term.</u>

- **AAII Investor Sentiment Survey shows 44% bulls. That's "Extremely Bullish" territory.** This survey asks respondents (individual investors) whether their outlook is bullish or bearish and the percentage of respondents that say they're bullish, bearish or neutral is tracked over time. Anything over 37.5% bulls is considered extremely bullish so this recent reading of 44% is solidly in that range! Conversely, the percentage of bears is just 26%, well below the historical average of 31%. Comparatively, the percentage of bulls at the October lows was just 30% (below the long-term average of 37.5%) and the number of bears was 41.6%, well above the historical average of 31%. Again, the message is clear: <u>Investors are extremely bullish about the outlook and not overly concerned about risks.</u>

- **Investors Intelligence Advisor Sentiment Survey has a Bulls/Bears spread of 41.1%, the most bullish spread since July 2021.** The Investors Intelligence Advisor Sentiment Index is similar to the AAII survey, but it polls financial advisors, not individual investors. It's also referenced slightly differently as a spread of bulls/bears as opposed to percentages of each vs. a benchmark. Regardless of the methodology, however, the message is the same: Advisors are very bullish. At 41%, that difference between bullish respondents and bearish respondents shows financial advisors are strongly bullish as it's solidly over the 30% historical average. Additionally, a Bull/Bear spread between 35%-45% is considered to signal elevated chances for a correction, and at 41%, it's at the higher end of that range. Comparatively, at the October lows the Bulls/Bears spread hit a low of 18.4%, an extremely bearish reading. So, the message is clear: <u>Financial advisors and individual investors are very bullish near term and are not concerned about outlook risks.</u>

What Does This Mean to You?

At the risk of sounding like a grizzled old skeptic, never-ending optimism towards this market, as it surges past reasonable valuation level after valuation level, does make me increasingly more nervous about air-pockets and violent, surprise reversals. To put things simply, I do not agree that the current environment, with 5.3% fed funds (and no rate cuts coming in the near term), core inflation above 3%, economic growth solid but showing signs of slowing, commercial real estate risks and two major global conflicts that have the potential to turn into regional conflicts, is one of the "best" market environment I have seen in my entire career and warrants one of the highest multiple I've seen in my career.

To be clear, I'm not saying extreme valuation or very bullish sentiment will end this rally in the near term—they won't. There has to be a negative event that occurs and so far, that event hasn't appeared. And I'm not saying to sell a market making new highs (in the short term that's ill-advised).

What I am saying is that this is literally a market that's starting to invent words for how great stocks are performing and how amazing stocks imply the current environment is for corporate profits—and I'm becoming very concerned that what stocks are saying via their performance is detracting more and more from the actual reality on the ground. It's a good set up for stocks right now, but I don't think it's Platinumlocks nor the best macroeconomic environment I've ever seen.

So, while I'm happy the S&P 500 is at new highs, I do want to continue to point out that we have now moved beyond even "stretched" justification for valuation and that while the environment for stocks is positive, if we look at actual facts, I'm not sure it's worth 21X forward earnings nor the introduction of a Platinumlocks level of perfection.

Economics

PMI Composite Flash

- The Manufacturing Index rose to 51.5 vs. (E) 50.1
- The Services Index fell to 51.3 vs. (E) 52.0

Yesterday's Flash Composite PMI release from S&P Global was about as Goldilocks and market friendly of an economic data point as investors could have asked for and it absolutely added to NVDA bullish momentum.

While the services PMI declined slightly, it was still solidly above the 50 level and, more importantly, manufacturing (which had been weak for over a year) rose further above 50 and hit the highest level since mid-2022. So, at 51 and change, both numbers implied stable but slow growth, while important prices measures declined, and that's exactly what markets want from the data to keep June rate cut expectations in place.

Commodities

Commodities traded with a clear, risk-on bias yesterday as optimism surrounding the growth potential of AI technology across industries in the wake of NVDA's blockbuster earnings release, paired with mostly upbeat economic data, bolstered energy and industrial metals. Gold lagged as safe-haven demand was limited and real interest rates remained modestly positive for the week. The commodity ETF, DBC, advanced 0.27%.

Market	Level	Change	% Change
Dollar Index	103.88	-.03	-0.03%
EUR/USD	1.0820	.0001	0.01%
GBP/USD	1.2658	.0020	0.16%
USD/JPY	150.56	.26	0.17%
USD/CAD	1.3485	-.0021	-0.16%
AUD/USD	.6554	.0003	0.05%
USD/BRL	4.9604	.0225	0.46%
Bitcoin	51,941.48	891.20	1.75%
10 Year Yield	4.327	.002	0.05%
30 Year Yield	4.462	-.030	-0.67%
10's-2's	-38 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.61%		
Prices taken at previous day market close.			

Beginning with the metals, European inflation data was in line with estimates and importantly didn't surprise to the upside like the January CPI report, which roiled global markets while the U.S. Composite PMI Flash came in just about as good as it gets for markets in the current environment, which saw copper rally. Solid Existing Home Sales offered an additional tailwind as expected demand for materials firmed. Copper ended the day with a gain of 0.52% with futures quickly approaching key resistance at the January closing high of $3.91. A break beyond that level would be a welcome sign of anecdotal support in favor of the economic resilience right now being led by the U.S. and its AI industry.

Gold was little changed as the dollar edged lower while Treasury yields were mixed across the duration curve. Gold futures ended lower by 0.05% partially because real yields remain higher for the week and the broad risk-on optimism across asset classes left demand for safe havens subdued. On the charts, gold remains almost perfectly centered between 2024 support near $2,000/oz. and 2024 resistance near $2,075/oz, but the long-term trend is bullish thanks to the late-2023 highs.

EIA Data Takeaways and Oil Update

The weekly EIA report was mixed but a smaller-than-feared crude build and big distillate draw were received as bullish. WTI crude oil futures gained 0.73% while the refined product outperformed with gasoline futures up 1.54% and distillate futures rising 1.70%.

Commercial crude oil stockpiles rose +3.5 million barrels last week, slightly above estimates calling for a +3.2MM increase but well below the API's reported build of +7.2MM. That smaller-than-feared build paired with a modest -300K barrel draw in gasoline (E: -2.1MM, API: +415K) but much larger -4.0MM drawdown in distillate stockpiles (E: -1.4MM, API: -2.91MM) supported a rally in the wake of the release of the data.

The refinery utilization rate was unchanged at a subdued 80.6% relative to last year's 85.9% and 2022's 87.4%, which helps explain the continued dynamic of repeated oil builds (low input demand) and product inventory drawdowns. It also contributed to the bid in energy yesterday as worries are rising that product supply could become crunched if refinery use doesn't pick up meaningfully in the weeks ahead.

Elsewhere in the details, the critical "product supplied" figure, which offers a glimpse at consumer demand showed a modest rise in gasoline supplied, up to 8.2 million b/d which saw the rolling four-week average rise to 8.33 million b/d which is near where it was this time last year and "acceptable" by the bulls, but not necessarily encouraging. Distillates supplied (think diesel fuel) surged by more than 10% last week, up 426K b/d to 3.94MM b/d the highest since mid-December, which helps explain the sizeable draw in distillate stockpiles. So, demand is steady, but not as strong as some energy bulls would like to see in order to support a rally beyond $80/barrel in WTI.

Bottom line, the week-old uptrend in oil remains intact but its fragile, supported by signs of tight physical markets via the backwardation term structure of the futures curve while the positive fundamental influences of AI optimism and upbeat economic data in the U.S. yesterday also support the case for higher oil. The next upside target for oil is $80.50/barrel while initial support lies at $76 to $78/barrel.

Currencies & Bonds

Currency and bond markets were again very quiet as they've been for most of the week, so I won't take much of your Friday morning detailing events that aren't impactful. The Dollar Index was flat all day and the 10-year Treasury yield rose 1 basis point but did stay above 4.25%. The 2-year Treasury yield rose 6 basis points.

Essentially, the economic data and Fed speak didn't change the outlook for a June rate cut yesterday while the UK and EU flash PMIs didn't alter the outlook for ECB or BOE rate cuts (expected later in the summer). As such, the dollar, euro and pound were all flat and they'll stay that way until central bank speak or data alters rate cut expectations.

Turning to Treasuries, the 10-year yield largely ignored data as none of it changed the broader expectation for growth (solid but slowing) and inflation (slowly declining). The 2-year yield did rise modestly thanks to the hot jobless claims data but that's not going to make the Fed less hawkish and as such, the move higher in the 2-year yield yesterday can be somewhat discounted.

Bottom line, Treasury yields have been quiet this week but the 10 year remains above 4.25% and if we see it move towards and through 4.35% that will be an increased headwind on stocks, regardless of what NVDA or AI stocks are doing (just like in August, September and October).

Have a good weekend—Tom.

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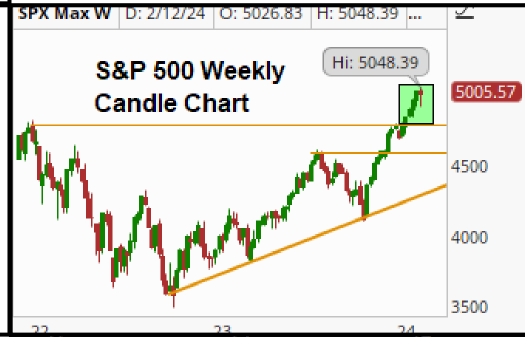
Technical Perspectives (Updated 2/18/2024)

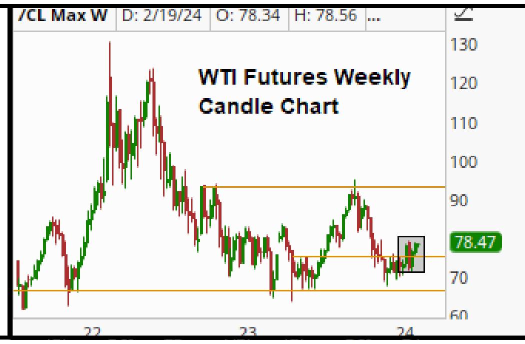
S&P 500

- 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



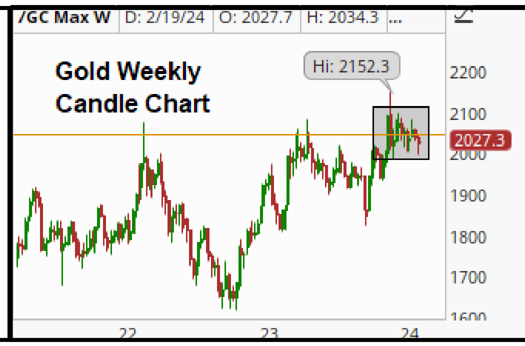
WTI Crude Oil

- 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



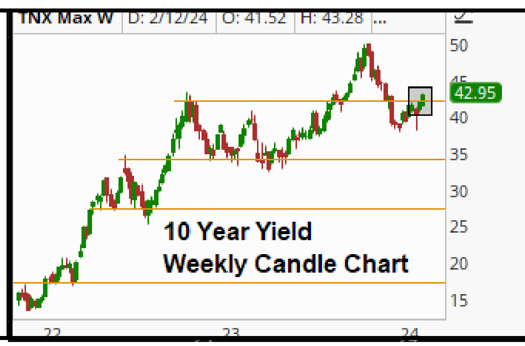
Gold

- 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



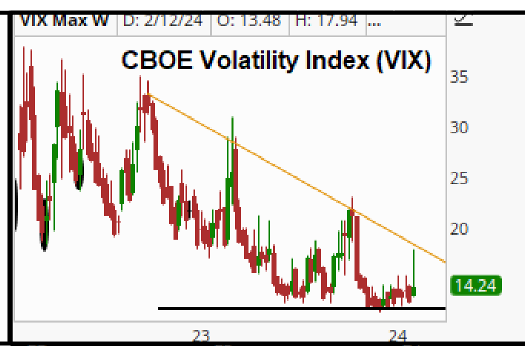
10-Year T-Note Yield

- 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.