SEVENS REPORT

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

February 27, 2024

***Short-Volatility Trade Follow Up:** So far in 2024, every "pop" in volatility been quickly sold as dip buyers step in to defend equity markets, which is reminiscent of the slow-and-steady bull market of 2017. But risks of a derivatives-based bout of volatile price action are on the rise.*

Pre 7:00 Look

- Futures are little changed this morning as investors digest a hotter than expected inflation print out of Japan and still cautious gauge of consumer sentiment in Europe.
- Economically, Japanese Core CPI fell to 3.5% vs. (E) 3.3% while the German GfK Consumer Climate Index edged up by a modest 0.7 points to -29.0 vs. (E) -29.6.
- Econ Today: Durable Goods Orders (E: -4.5%), Case-Shiller Home Price Index (E: 0.2%), FHFA House Price Index (E: 0.1%), Consumer Confidence (E: 115.0).
- There is a 7-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5083.50	3.25	0.06%
U.S. Dollar (DXY)	103.733	-.090	-0.09%
Gold	2046.00	7.10	0.35%
WTI	77.23	.35	0.45%
10 Year Yield	4.270	-.029	-0.67%

Equities

Market Recap

Stocks suffered modest declines to start the week as traders digested the melt-up rally from the prior week following NVDA earnings and assessed the threat of a potential government shutdown looming. The S&P 500 slipped 0.38%.

The broader market opened flat Monday but began a slow and steady grind lower as traders assessed the renewed threat of a government shutdown as soon as this Friday amid otherwise quiet newswires. There was only one economic report, New Home Sales, and it mildly missed estimates, but did not impact Fed policy expectations or prospects for a no/soft landing, which has become the consensus view.

The S&P 500 fell to session lows in late-morning trade after a 2-Yr Treasury Note auction was modestly disappointing with a yield awarded of 4.691% that slightly tailed the when-issued yield of 4.689%. The market continued to drift lower as JPM CEO Dimon mentioned having some concerns about the future noting risks for real estate and too much optimism for a soft landing.

A 5-Yr Treasury Note auction saw a larger tail in the yield awarded of 4.32% vs. the when-issued yield of 4.312% (the tailing yield points to soft demand). That sent the 10-Yr yield beyond 4.30% and the S&P 500 to the lows of the day. The S&P 500 attempted to stabilize in the final hour but a negative geopolitical headline regarding disappointment with the proposed Israel-Hamas ceasefire deal weighed modestly on sentiment and stocks fell to new lows into the close.

Market	Level	Change	% Change
Dow	39,069.23	-62.30	-0.16%
TSX	21,324.31	-88.84	-0.41%
Stoxx 50	4,880.42	16.13	0.33%
FTSE	7,684.76	.46	0.01%
Nikkei	39,239.52	5.81	0.01%
Hang Seng	16,790.80	156.06	0.94%
ASX	7,663.01	10.16	0.13%
Prices taken at previous day market close.			

Government Shutdown Update

There is the rising probability that the U.S. government will enter a partial shutdown on Friday if a new "Continuing Resolution" isn't passed and as we get closer to that date, it could cause some mild volatility.

Market	Level	Change	% Change
DBC	21.94	.20	0.92%
Gold	2,042.80	-6.60	-0.32%
Silver	22.56	-.43	-1.86%
Copper	3.8195	-.0605	-1.56%
WTI	77.79	1.30	1.70%
Brent	82.74	1.12	1.37%
Nat Gas	1.629	.026	1.60%
RBOB	2.3096	.0329	1.45%
DBA (Grains)	22.39	.23	1.04%
Prices taken at previous day market close.			

But a partial government shutdown won't materially impact the economy (although it could impact some economic releases) and it shouldn't be something that negatively impacts stocks beyond the very short term unless the shutdown is met with another ratings agency downgrade of U.S. debt. If that occurs, expect Treasury yields to rise further and for that to create a headwind on stocks. Barring that, the government shutdown should not sustainably impact markets (and it won't derail the rally).

What Sectors Benefit from Trump's Policies

Donald Trump soundly defeated Nikki Haley in the South Carolina primary over the weekend, securing 59.8% of the vote in Haley's home state and, in doing so, solidified the reality that Trump will be the Republican nominee barring some unforeseen medical event or conviction in one of his numerous legal proceedings that would disqualify him as a candidate (both of those outcomes are very unlikely).

So, given he is now the presumptive nominee, I wanted to provide a refresher on Trump's main economic and trade policies and what sectors could benefit or face headwinds in the markets, should Trump win another term in November. Luckily, we have a blueprint for the types of policies that would be implemented via his first term, and we could expect (broadly) more of the same. Importantly, the S&P 500 posted a 37% total return during the first three years of Trump's presidency, so the first three years were favorable for investors.

More specifically, I wanted to cover some of the potential sector (and region) winners and losers from Trump's stated policies, so we can be aware of them as the primary process wraps up and the general election heats up.

Importantly, for performance data I included a range between January 2017 (when Trump took office) until January 2020 (the month before the pandemic, as that event skewed markets and overshadowed policies) as I feel that range gives us the best "true" look at the impact of those policies without factoring in pandemic interference.

Potential Policy 1: Tariffs on China. Trump has threatened 60% tariffs on Chinese goods and to revoke China's "most favored nation" trading status. Obviously, those policies would be negative for Chinese shares and emerging markets more broadly, as they would increase trade tensions. So, that's presumably negative for FXI, EEM and even EMXC (the iShares MSCI Emerging Markets ex China ETF). **How did they trade during the last Trump presidency?** From Jan. '17-Jan. '20 FXI returned 12.62%, EEM returned 10.48% and EMXC rose 7.85% compared to a 37% gain for the S&P 500, so Trump's policies did likely influence China and EM underperformance vs. U.S. stocks.

Potential Policy 2: Pushing "reciprocal" trade. Trump has stated he wants to reduce the U.S. trade deficit to $0 and would aim to accomplish that via tariffs (10% was floated by Trump last summer) across virtually all nations that export to the U.S. Additionally, Trump has stated he would push "reciprocal" trade to try and eliminate tariffs on U.S. goods via threatening additional tariffs on those nations. This would likely be negative for global markets (excluding U.S.) and ETFs like ACWX (the iShares MSCI ACWI ex U.S. ETF). **How did they trade during the last Trump presidency?** From Jan. '17-Jan. '20 ACWX rose 12.6%, so global markets did lag the S&P 500 during Trump's presidency.

Potential Policy 3: Dismantle the Inflation Reduction Act, Reduce Priority for EVs/green tech. Trump has stated that he wants to dismantle the Inflation Reduction Act via executive orders and Department of Justice actions. This would potentially be negative for sustainable investing funds (think ESGV and similar ETFs) and clean energy and green ETFs (PBW). **How did they trade during the last Trump presidency?** From Jan. '17-Jan. '20, PBW rose 53.12% as clean energy stocks outperformed during Trump's presidency, as fears of punitive ESG and green investing policies never materialized.

Potential Policy 4: Boosting oil and gas production. Through reduced regulation, Trump wants to increase domestic oil and gas production. Production did rise during his presidency; however, the results were mixed from a performance standpoint as foreign oil entities (including OPEC) altered production while other forces (the ESG movement) impacted share price performance. This has mixed implications for energy ETFs XLE and XOP. **How did they trade during the Trump presidency?** From Jan. '17-Jan. '20 XLE gained just 3.6% as oil prices were contained while climate focus challenged the long-term investment thesis of many oil and gas companies.

Potential Policy 5: Increased defense spending. Trump wants to increase defense spending and it did rise during his presidency via initiatives such as Space Force and other programs. **How did they trade during the last Trump presidency?** From Jan. '17-Jan. '20 the iShares U.S. Aerospace and Defense ETF (ITA) rose 41%, outperforming the S&P 500.

Potential Policy 6: Decreased bank regulation. Trump has stated he wants to ease regulation on banks including not supporting Basel III increased global bank capital requirements. Additionally, he has openly said he wants to replace Fed Chair Powell and that could potentially be negative for interest rates, possibly increasing borrowing demand. **How did they trade during the last Trump presidency?** From Jan. '17-Jan. '20 KBE rose 13.99% while KRE gained 11.7%, so both sectors lagged the S&P 500.

Barring a major surprise, the general election matchup will likely be Trump vs. Biden, so familiarizing ourselves with potential policies (and possible sector winners and losers) is important. We'll continue to refresh this research throughout the campaign as needed, so regardless of who wins the White House, we know what sectors stand to benefit or suffer depending on the new president's agenda.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mixed to start the final week of February as oil rebounded from Friday's sharp selloff while the metals were lower with industrial varieties badly underperforming. The commodity ETF, DBC, gained 0.92% thanks to the heavy weight that oil carries in the index.

A critical driver behind Friday's sizeable pullback in the oil market were the hopes and improving prospects for a ceasefire deal to be reached between the leadership of Israel and Hamas over the weekend. There was progress on a deal but it was for a hostage exchange and not an all-out ceasefire, so the fear bids that left the market on Friday returned to the market to start the week yesterday. In that same vein, Iran-backed Houthi rebels who sympathize with Palestinians in Gaza reportedly just missed hitting a U.S. oil tanker in the Red Sea over the weekend, which added to the validity of the ongoing conflict's threat to global oil supply.

Domestically, refinery utilization has been unseasonably subdued in recent weeks and that has left oil demand lower than normal but that is widely expected to change this week and the renewed demand for crude for refinery inputs should support prices in the coming weeks. The term structure of the oil market also is still in backwardation, indicating tight physical market conditions that should support active month futures prices as oil continues its attempt at establishing an early 2024 uptrend.

sMarket	Level	Change	% Change
Dollar Index	103.71	-.14	-0.14%
EUR/USD	1.0851	.0030	0.28%
GBP/USD	1.2686	.0014	0.11%
USD/JPY	150.69	.18	0.12%
USD/CAD	1.3503	-.0002	-0.01%
AUD/USD	.6542	-.0020	-0.30%
USD/BRL	4.9797	-.0145	-0.29%
Bitcoin	54,423.13	2,649.59	5.12%
10 Year Yield	4.299	.039	0.92%
30 Year Yield	4.418	.038	0.87%
10's-2's	-44 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.64%		
Prices taken at previous day market close.			

Turning to metals, copper was the notable laggard as futures dropped 1.60% to give back all of last week's advance. Copper has made lower lows and lower highs so far this year leaving the industrial metal in a near-term downtrend within a broader trading range between $3.95 and $3.55. Copper has been struggling due to "higher for longer" Fed policy rate expectations weighing on prospects for global economic growth. And if we see a break below the lower bound of the aforementioned trading range at $3.55, it will be a increasingly concerning signal for the outlook of the economy.

Rounding things out with gold, futures dipped a more modest 0.31%, pressured by the rise in Treasury yields in the wake of the two soft auctions yesterday, but the modestly weakener dollar dented the blow of rising rates. Like copper, gold has been stuck in a trading range for months now but futures did squeeze up to a new record high in late 2023 so we continue to like the set up for long-term bullish gold exposure here.

Currencies & Bonds

Monday was another quiet day in the currency and bond markets as traders await important updates on inflation and growth later this week. Both the dollar and Treasury yields were little changed on the day.

Starting with Treasury yields, the 10-year yield dipped below 4.25% thanks to a unexpected Friday decline but the 10-year yield drifted slightly higher on Monday to recoup that level and finish at 4.27%. News flow and central bank speak was quiet Monday, so the move higher can be considered a "drift" as bond traders await the Core PCE Price Index on Thursday (and, to a lesser extent, the growth data coming later this week). The 4.25% level remains important to watch and it's fair to say that, so far, the 10-year yield has failed to break out above that level, although obviously it's threatening to do so. If we see a conclusive break out through resistance at 4.25%, that will be a headwind on stocks the higher the 10-year yield goes.

Turning to currencies, the Dollar Index fell 0.15% in quiet trade. There was not notable economic data or central bank speak, and the only economic report, New Home Sales, didn't move markets. If there was a "reason" for the drift lower in the dollar and higher in foreign currencies, it was UK Distributive Trades declining less than expected at -7 vs. (E) -33, as that lightly boosted the pound and euro.

In reality, though, the currency markets are treading water ahead of an important week of inflation catalysts, not just in the U.S. but globally as France, Germany and Spain all have CPI releases on Thursday (adding to the U.S. Core PCE Price Index).

Bottom line, global currency markets currently reflect expected rate cuts in June from the Fed and summer from the ECB and BOE, and it's going to take a change in one or more of those expectations to break this relative calm in the currency markets.

Have a good day,

Tom

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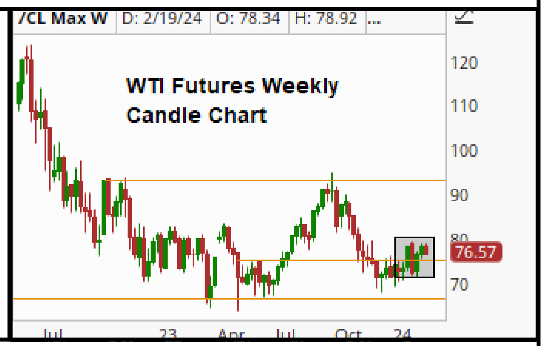
Technical Perspectives (Updated 2/25/2024)

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: 5111, 5150, 5185
- Key Support Levels: 5046, 4976, 4899

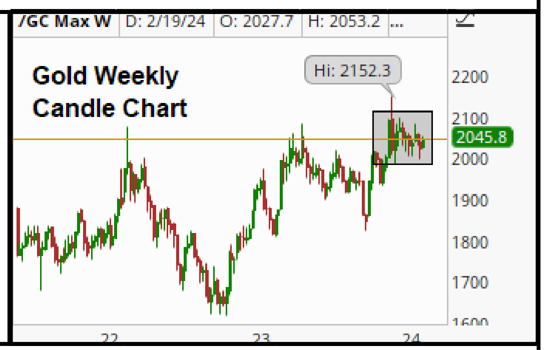
WTI Crude Oil

- 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: $76.33, $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: $2057, $2072, $2094
- Key Support Levels: $2006, $1995, $1950

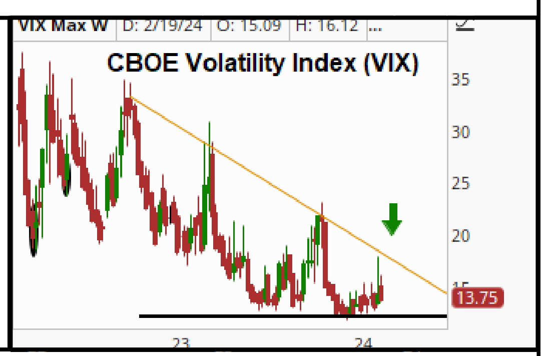


10-Year T-Note Yield

- 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: 4.337, 4.365, 4.472
- Key Support Levels: 4.240, 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 5, 2024)**
- Key Resistance Levels: 14.54, 15.34, 16.12
- Key Support Levels: 13.48, 12.79, 12.07



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Fundamental Market View
(Updated 2/25/2024)

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 surged to a new all-time high last week thanks to blow out NVDA earnings, which reignited AI enthusiasm and powered stocks broadly higher.*

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 declined moderately thanks to weakness in the energy complex as hopes for a ceasefire in Gaza reduced the geopolitical risk bid in the energy markets.*
US Dollar	**Neutral**	*The Dollar Index declined modestly last week on mixed economic data as investors await the next update on inflation (which comes this week).*
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.