SEVENS REPORT

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

February 28, 2024

Pre 7:00 Look

- Futures are lower as traders continue to reposition following last week's sprint to record highs while focus shifts ahead to tomorrow's critical inflation data.
- Economically, the headline of the Eurozone Economic Sentiment report fell to 95.4 vs. (E) 96.7 which didn't help risk assets in pre-market trade.
- Econ Today: Q4 GDP (E: 3.3%), International Trade in Goods (E: -$88.1B).
- Fed Speak: Bostic (12:00 p.m. ET), Collins (12:15 p.m. ET), Williams (12:45 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5073.50	-16.50	-0.32%
U.S. Dollar (DXY)	104.11	.28	0.27%
Gold	2036.00	-8.10	-0.40%
WTI	78.12	-.75	-0.95%
10 Year Yield	4.315	.016	0.37%

Equities

Market Recap

Stocks wavered between early losses and afternoon gains Tuesday as investors digested some soft domestic economic data, hawkish Fed chatter and a better Treasury auction outcome than those on Monday. The S&P 500 gained 0.17%.

Equities opened flat yesterday as investors digested a downright bad Durable Goods Orders report that badly missed on the headline (-6.1%) as well as the widely followed Core Capital Goods figure (+0.1%), while revisions to the December data were meaningfully negative. Housing data was largely in line with expectations; however, the latest Consumer Confidence report missed even the worst estimates and GS CEO Solomon pushed back on soft landing hopes, which further weighed on sentiment and saw stocks churn lower in morning trade.

Fed officials maintained a largely hawkish tone with the Fed's Bowman noting her concern with "upside inflation risks," which saw stocks fall to new session lows over the lunch hour. But it was a solid 7-Yr Treasury Note auction at the top of the 1 p.m. hour that helped the market reverse as a bid came into bonds and the 10-year yield held below last week's highs in the low 4.30% area. From there, the S&P 500 methodically rallied over the course of the afternoon as traders positioned ahead of the long list of economic data still due to be released this week with focus on tomorrow's Core PCE Price release.

Hard vs. Soft Landing Scoreboard: Still A Soft Landing, But More Signs of Slowing Growth

The hard landing vs. soft landing debate remains very important for investors for one main reason: An economic slowdown is one of the few events that could erase all of the October-present gains in stocks.

The reason a hard landing would be so damaging to markets in the near term is the Fed can't really help the market out because it's already dovishly pivoted and the market already expects aggressive rate cuts. So, while more aggressive rate cuts will provide temporary relief, it won't stop a decline in stocks because the economic benefit of rate cuts will take too long to hit the economy to prevent a slowdown. And at current valuations of 21X forward earnings, the S&P 500 could easily fall 800 points or more if just fears of a hard landing rise materially while the S&P 500 could tumble 1,200 points if a hard handing actually occurs.

Practically, that means 1) A "growth scare" (which

Market	Level	Change	% Change
Dow	38,972.41	-96.82	-0.25%
TSX	21,318.90	-5.41	-0.03%
Stoxx 50	4,880.18	-5.56	-0.11%
FTSE	7,630.07	-52.95	-0.69%
Nikkei	39,208.03	-31.49	-0.08%
Hang Seng	16,536.85	-253.95	-1.51%
ASX	7,660.42	-2.59	-0.03%
Prices taken at previous day market close.			

means data rolls over and investors acknowledge an increased chance of a hard landing) will likely result in a solid pullback (5%-ish) and 2) If a hard landing becomes the most likely expectation, a much larger correction would likely ensue (10%-20%). Bottom line, investors may have this issue decided in their minds, but the biggest risk to this entire rally is a sudden roll over in growth, mainly because it'd be a total shock (virtually no one expects it) and because there's no easy fix. As such, we must remain vigilant to this risk because it is something that could erase the majority of the recent rally.

Market	Level	Change	% Change
DBC	22.11	.17	0.77%
Gold	2,039.40	.50	0.02%
Silver	22.46	-.07	-0.29%
Copper	3.8315	.0115	0.30%
WTI	78.66	1.08	1.39%
Brent	83.40	.87	1.05%
Nat Gas	1.720	.061	3.68%
RBOB	2.3375	.0319	1.38%
DBA (Grains)	22.44	.06	0.27%

Prices taken at previous day market close.

Positively, the conclusion of the Hard Landing/Soft Landing Scoreboard hasn't changed: **A soft landing is currently more likely than a hard landing.** It is true that over the past three months we have seen some slowing in activity across the economy. While that's not enough to increase hard landing worries, I did want to point out that more growth metrics are losing momentum and as such we need to continue to closely monitor economic data because if there is a "growth scare" in the coming months, that will be negative for stocks.

Hard Landing vs. Soft Landing Scoreboard

	Current	One Month Ago	Three Months Ago	Hard Landing/Soft Landing
ISM Manufacturing PMI	49.1	46.7	49.0	Hard Landing
ISM Services PMI	53.4	50.5	51.8	Soft Landing
Job Adds (Non-Farm Payrolls)	353K	333K	165K	Soft Landing
Retail Sales	$605.20B	$611.73B	$610.56B	Soft Landing
NDCGXA	$73.72B	$73.62B	$73.38B	Soft Landing
Jobless Claims	201K	189K	233K	Soft Landing

- **Of the "Big Three" monthly economic reports, only one is flashing hard landing, and barely.** It's not strange for the ISM Manufacturing PMI to drop below 50 and signal contraction when interest rates rise sharply. Even when that happens, as it has for more than a year, it doesn't mean a broad economic slowdown is imminent because manufacturing is a smaller part of the economy. However, it is not normal for the ISM Services PMI to drop below 50 (just once since the depths of the pandemic). However, the latest reading for the ISM Services PMI shows it remains comfortably above 50, while the manufacturing PMI is threatening to break back above 50 for the first time in over a year. Bottom line, the PMIs are not warning of a hard landing. That said, if the Service PMI drops below 50 for a few months, it'll be a clear negative economic signal. *What signals hard landing going forward? ISM Manufacturing PMI declining further, ISM Services PMI dropping below 50 in the next month or two.*

- **There are no conclusive signs that U.S. consumer spending is materially slowing.** Retail sales, which is the most comprehensive measure of consumer spending each month, declined more than expected in January and that caught some analysts by surprise, as the official data is starting to match anecdotal commentary from consumer companies about consumers "pulling back." Additionally, credit metrics such as delinquency rates for credit cards and auto loans have risen considerably in the past several months. However, at this point, that's not enough to imply we are seeing a potentially significant slowing of consumer spending and, for now, consumer spending remains resilient and simply is not indicative of an economy that's about to meaningfully slow. *What signals a hard landing? Retail sales roll over and begin to drop sharply, falling to multi-month lows within the next three months.*

- **Business spending remains stable.** New orders for non-defense capital goods excluding aircraft

(NDCGXA) is the best metric we have for national business spending and investment, and like retail sales, it has taken a dip in recent months. However, on an absolute basis the number remains strong and one report simply isn't enough to start to materially worry about corporate spending and investment. Bottom line, there may be some corporate anxiety about future economic growth, but it's not impacting business spending or investment at this point. *What signals a hard landing? NDCGXA falling to multi-month lows in the next three months.*

Consumer Confidence: There remains a massive disconnect between the Present Situation and Future Expectations Index as the latter tends to lead the former on a longer timeframe.

- **Employment indicators are not softening and overall the job market remains both strong and tight.** Employment is a lagging economic indicator, which means it only deteriorates after the economy has slowed materially and there is little evidence that's occurring right now. Jobless claims remain near multi-month lows and the monthly job adds are very strong. Even Continuing Claims, which was the only major employment indicator that was softening, hasn't moved sharply higher and still implies a strong labor market. So, the labor market remains strong and unemployment remains low. *What signals a hard landing? Claims moving above 300k within six weeks or job adds falling towards 0 in the next three months.*

Market	Level	Change	% Change
Dollar Index	103.74	-.01	-0.01%
EUR/USD	1.0846	-.0005	-0.05%
GBP/USD	1.2685	.0000	0.00%
USD/JPY	150.49	-.21	-0.14%
USD/CAD	1.3529	.0024	0.18%
AUD/USD	.6543	.0003	0.05%
USD/BRL	4.9342	-.0463	-0.93%
Bitcoin	56,805.04	2,326.65	4.27%
10 Year Yield	4.315	.016	0.37%
30 Year Yield	4.441	.023	0.52%
10's-2's	-39 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.65%		
Prices taken at previous day market close.			

While there are hints of a loss of economic momentum in the Scoreboard (retail sales and NDCGXA both dipped in the past few months), at this point economic momentum must be respected and those metrics are not enough to increase worries about a sudden economic slowdown. And the data is clear: A hard landing remains unlikely and that's good for stocks.

To be clear, this analysis does not mean a hard landing *won't* happen as the longer rates stay high, the more of a headwind they'll place on growth (remember it took years of high rates to create the last two recessions). But so far, it isn't happening and that's keeping the "soft/no landing" pillar of the rally intact, which should continue to keep any pullbacks in check.

Economics

Durable Goods

- January Durable Goods declined -6.1% vs. (E: -4.5%).

The durable goods report provides some of the most misleading headline readings and that was the case yesterday, as a drop in aircraft orders skewed the headline data, meaning business spending wasn't quite as bad as it seemed. Yet it was still underwhelming, and that's the important takeaway from the Durable Goods report.

Specifically, we watch New Orders for Non-Defense Capital Good ex-Aircraft (NDCGXA) and the reading there for January met expectations, rising 0.1%. That number was the basis for analysts saying the headline durable goods report wasn't as weak as the headline implied. However, the December NDCGXA was revised to -0.6% from 0.1%, so taken over two months business spending and investment did decline more than expected. Now, business spending is still solid and one report doesn't make a trend, but the reality is that there have been a few disappointing economic reports lately so while it's much too early to worry about economic growth, I do want to point out this recent soft data because a sudden slowing of growth is one of the biggest risks to this rally and it's something we need to continue to watch.

Commodities

Commodities enjoyed broad gains with energy leading to the upside as OPEC+ officials leaked plans to potentially extend output cuts well into the future at next week's meeting while industrial metals rallied with risk assets in the wake of the strong Treasury auction. The commodity ETF, DBC, rose 0.77%.

Starting with the big mover, WTI crude oil futures jumped 1.35% to close at a fresh 2024 high as an early year uptrend continues to emerge in the energy complex. There were several market-moving headlines for oil yesterday but the most important was a Reuters report that OPEC+ was planning to extend output cuts out as far as the end of the year when the group of global oil producers meets next week. Prospects for a ceasefire deal between Israel and Hamas remained relatively low keeping the geopolitical fear bid in place while Russia announced a ban on gasoline exports for the next six months due to strong domestic demand. Bottom line, oil closed at another new high yesterday, adding conviction to the bullish near-term technical case that is increasingly supported by fundamental news flow.

Copper lagged energy futures but still notched a solid gain of 0.52% as traders received the "bad news" in the Durable Goods Orders report as "good news" for industrial metals demand due to potentially less-aggressive Fed policy. That was underscored by the early afternoon extension to the copper rally after the strong 7-Yr Treasury auction. Additionally, the stable housing price data released yesterday bolstered the case that new home construction would remain a positive source of demand for copper and other industrial metals in the months ahead. On the charts, copper remains off the 2024 lows but still facing technical resistance between $3.89 and $3.91.

Gold was the notable laggard with futures ending the day effectively unchanged, up an incremental 0.02%. Since gold hit new record highs late last year, the gold futures market has been drifting sideways, oscillating around the $2,050/oz. level for the better part of three months. The new highs are bullish but a stronger dollar and rise in real rates have both been headwinds for gold in 2024. If real rates roll over and the dollar pulls back, new record highs in gold will be in play. Otherwise, more sideways to lower trading in the $2,000-$2,075/oz. area will be likely.

Currencies & Bonds

Currency and bonds were again quiet as investors and traders continue to look ahead to the global inflation data out tomorrow. The Dollar Index was little changed as were the 2- and 10-year Treasury yields.

From a data standpoint, Japanese CPI was hotter than expected and rose 2.2% vs. (E) 2.0%, and that helped the yen rise slightly vs. the dollar (up 0.1%). But the Europe and U.S. data didn't alter the current rate cut expectations. German Gfk Consumer Climate essentially met expectations and while the Durable Goods number was soft, it wasn't bad enough to change market expectations for a soft landing. The net result of all the data was essentially nothing, as the euro and dollar were virtual unchanged while the pound declined 0.1% vs. the dollar.

Bottom line, currency markets have priced in rate cuts this summer for all three major global central banks (Fed, ECB, BOE). However, until a central bank comment, economic data or inflation readings surprise us enough to move current rate cut expectations, the Dollar Index will remain comfortably in the low-to-mid-100 range, which is neither positive nor negative for stocks.

Turning to Treasuries, the 10-year Treasury yield continues to sit around the 4.25% level and has not yet decisively broken out of the 3.75%-4.25% trading range. For that breakout to occur, we'll need to see either 1) Hotter-than-expected inflation data or 2) Much-stronger-than-expected growth data (barring a surprise U.S. debt downgrade or other one-off event). So, data remains in the key in yields. It was hot inflation data that sent the 10 year to the upper end of the 3.75%-4.25% range but it's going to take more data to decisively break out. If that happens, it will introduce a new headwind on stocks.

Have a good day,

Tom

2/28/2024

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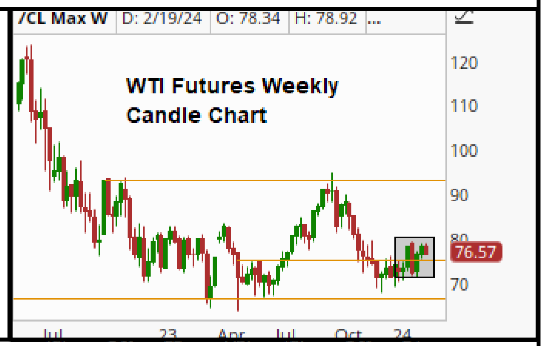
Technical Perspectives
(Updated 2/25/2024)

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

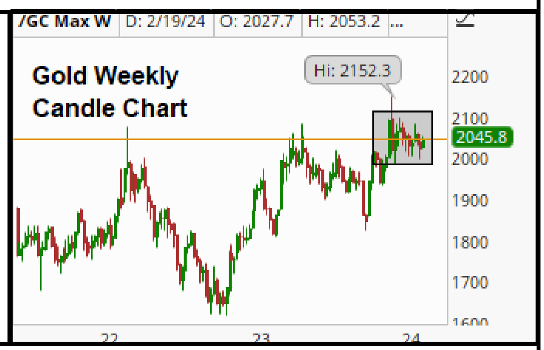
WTI Crude Oil

- 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



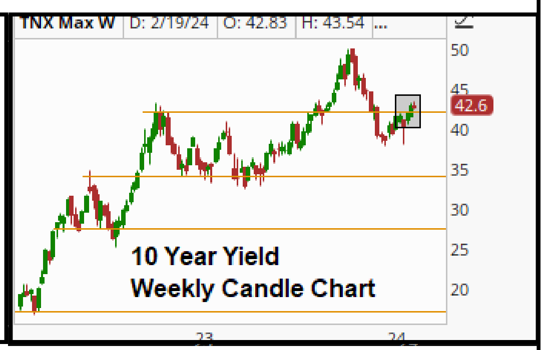
Gold

- 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



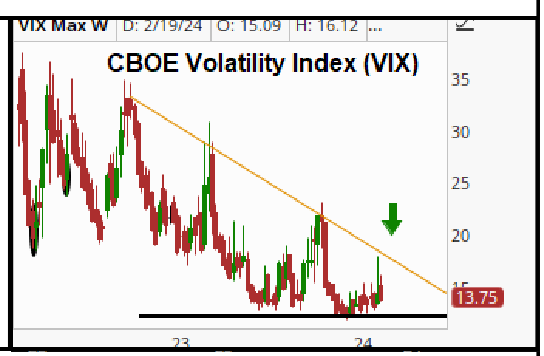
10-Year T-Note Yield

- 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



SEVENS REPORT

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.