SEVENS REPORT

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

February 29, 2024

Pre 7:00 Look

- Futures are modestly lower as EU inflation data disappointed overnight while tech earnings underwhelmed.
- Economically, French and Spanish CPIs showed on going disinflation but it was slower than expected (mirroring what we've seen recently in the U.S.).
- On earnings, CRM and SNOW posted underwhelming earnings and that's modestly weighting on tech shares.
- Econ Today: Core PCE Price Index (E: 0.4% m/m, 2.8% y/y), Jobless Claims (E: 210K), Pending Home Sales (E: 0.8%). Fed Speak: Bostic, Goolsbee, Mester.

Market	Level	Change	% Change
S&P 500 Futures	5,069.75	-11.25	-0.22%
U.S. Dollar (DXY)	103.93	-0.05	-0.04%
Gold	2,037.50	-5.20	-0.25%
WTI	78.19	-0.35	-0.45%
10 Year Yield	4.31%	0.04	0.73%

Equities

Market Recap

Stocks remained in the familiar holding pattern that has seen the major indexes drift lower from recent highs as a mildly disappointing GDP revision was digested ahead of today's all-important PCE inflation print. The S&P 500 dipped 0.17%.

There was a modest risk-off move in the equity market yesterday morning as a downward revision to the Q4 GDP report (3.2% vs. E: 3.3%) weighed on sentiment early despite the fact that it was a largely misleading number based on the way the headline is calculated. Regardless, with such low conviction ahead of today's Core PCE release, stocks declined at the open while Treasuries rallied.

Fed officials including Bostic and Williams, both voting members of the FOMC, reiterated their view that there is still work to do on getting inflation back to its target but that they do expect their preferred measure of inflation to approach 2% later this year and settle there into 2025. News wires were muted in the afternoon and positioning money flows dominated trade into the close with the S&P 500 ending the session towards the middle of the day's tight trading range between 5,060 and 5,075.

Trading Color

Trading was generally quiet for a third straight day this week as investors and traders await this morning's inflation data. Earnings largely drove what market movements there were (and there weren't much), and while all four major indices were lower on the day, internals were much more mixed and positive. On an index level, the Russell 2000 fell 0.77% while the Nasdaq dipped 0.55% on soft earnings. The S&P 500 and Dow Industrials were both slightly lower.

On a sector level, trade was similarly quite as the only sector to move more than 1% was Real Estate (XLRE), which gained 1.3% thanks mostly to American Tower Corp (AMT) guidance, which was better than expected and helped that stock rally 3.8%. That, in turn, boosted more of the infrastructure REITs and combined with a dip in yields led to XLRE rising%.

The remaining sectors were largely mixed as six sectors were slightly higher on the day (between 0.1% and 0.4%) while four saw modest declines (down 0.2% and 0.7%). There were some notable earnings out of Wednesday including results from TJX, AAP, EBAY (so mostly in the consumer space) but there weren't any surprises and

Market	Level	Change	% Change
Dow	38,949.02	-23.39	-0.06%
TSX	21,243.77	-75.13	-0.35%
Stoxx 50	4,887.87	4.10	0.08%
FTSE	7,646.64	21.66	0.28%
Nikkei	39,166.19	-41.84	-0.11%
Hang Seng	16,511.44	-25.41	-0.15%
ASX	7,698.70	38.28	0.50%

Prices taken at previous day market close.

the market largely ignored the results. XLY rose 0.39%.

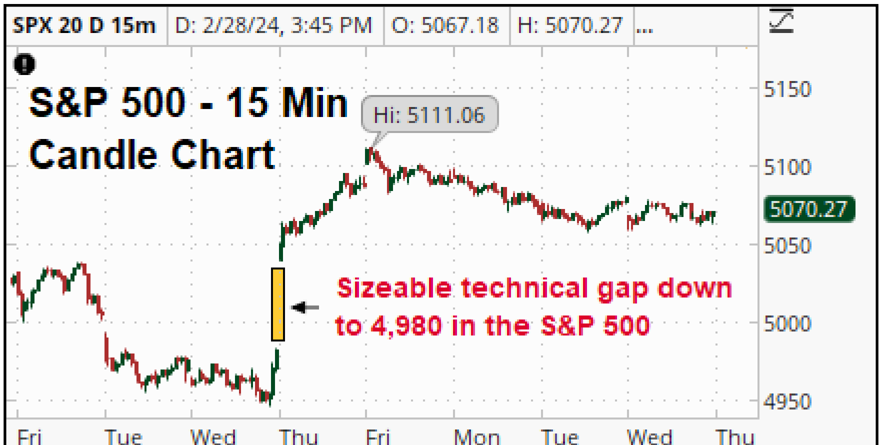
Bottom line, it was an earnings-driven day absent any macroeconomic catalysts and except for some solid REIT guidance, most of the sectors and factors largely drifted sideways as they await the next potential catalyst (coming later this morning).

Market	Level	Change	% Change
DBC	22.02	-.09	-0.41%
Gold	2,043.30	-.80	-0.04%
Silver	22.65	-.11	-0.49%
Copper	3.8385	-.0120	-0.31%
WTI	78.43	-.44	-0.56%
Brent	83.46	-.19	-0.23%
Nat Gas	1.875	.067	3.71%
RBOB	2.2674	-.0770	-3.28%
DBA (Grains)	22.18	-.26	-1.16%
Prices taken at previous day market close.			

What Number Would Make Core PCE Negative for Stocks?

The consensus expectation for today's Core PCE Price Index is a 2.8% increase y/y, down 0.1% from the 2.9% gain in last month's release.

However, given the recent "hot" inflation data, the expectation from markets is that the data does run a touch hot and as a result, don't be shocked if a 2.9% number, or even a 3.0% number, doesn't cause too much market volatility. Because to a point, that's what's expected (remember the market is now pricing in a June rate cut and the 10-year yield is at 4.27%).



The strong after-hours rally in response to NVDA's blowout earnings resulted in a sizeable technical gap in the S&P 500. A hot Core PCE Price Index print today could trigger a selloff that fills that technical gap down to 4,980.

Point being, markets may be able to look past a slightly "hot" number. Practically, it may take a 3.1% or higher year-over-year reading to elicit a "hawkish" reaction to today's Core PCE Price Index.

Conversely, because markets expect a slightly hot number (due to recent inflation data) an in-line reading of 2.8% will likely elicit a dovish reaction and could easily spur a rally in stocks, given the Core PCE Price Index is the most important Fed statistic.

Bottom line, because of recent hot inflation data expectations are for a hot number and that leaves the risk/reward skewed positively into this number, because an in-line number will help alleviate "high inflation" fears while a slightly hot number is already priced in.

Economics

Revised Q4 GDP

- Revised Q4 GDP rose 3.2% vs. (E) 3.3%.

Takeaway

Earlier this week, a soft Durable Goods headline reading was a reminder that headlines can be deceiving in economic data and that was true as well yesterday as headlines that "GDP was weaker than expected in Q4" weren't accurate, despite the reduction in growth in Q4 GDP following revisions.

Headline GDP can be heavily influenced by inventory adjustments and trade balance, which is why we (and others) look at important internal numbers, including Final Sales of Domestic Product (the amount of U.S. goods sold regardless of the final destination) and Final Sales to Domestic Purchasers (the amount of "stuff" Americans bought in the quarter regardless of where it came from). In a consumer-driven economy, those are the best metrics for broad quarterly economic growth and they were both revised higher in this latest GDP reading. Final Sales of Domestic Product rose 3.5% saar from 3.2% saar while Final Sales to Domestic Purchasers rose 3.1% from 2.7% saar.

Bottom line, economic growth in the fourth quarter was solid, although it's important to note that this number is now very stale (it's from Oct-Dec) and it won't impact Fed policy. However, in light of some of the commentary on "soft" GDP in the financial media yesterday, I wanted to push back against that notion because true economic activity was actually slightly better than expected in Q4.

Commodities

Commodities traded with a bias to the downside as mixed oil inventory data failed to offer the energy complex an additional boost to hit new 2024 highs while strength in the Dollar Index offset a bid in Treasuries to push metals prices lower. The commodity ETF, DBC, fell 0.41%.

Trade in the metals was quiet yesterday as all eyes were shifting ahead to today's critical inflation data. Copper led to the downside with a daily loss of 0.32% but futures did manage to bounce off the week's lows from Monday. Copper remains in a relatively tight trading range between support at $3.65 and $3.95, leaving us waiting for a break one way or another.

In precious metals, price action was similarly quiet as gold ended with an incremental loss of 0.07% amid the mixed influences of dollar strength (bearish gold) and falling bond yields (bullish gold). A hot inflation report is a risk to both gold and copper today as it would support a higher-for-longer rate outlook for the Fed this year, which would be negative for growth prospects (bad for copper) and lower inflation expectations (bad for gold).

EIA Data and Oil Market Update

The oil market was extending this week's rally early yesterday as traders awaited the weekly EIA inventory report. The data was a mixed bag as there was a sizeable, bearish build in commercial crude oil stockpiles (+4.2MM vs. E: +1.5MM) but a larger-than-expected bullish draw in gasoline inventories (-2.8MM vs. E: -1.3MM). Oil rolled over from fresh 2024 highs to end the day lower by 0.61%.

Part of the reason for the build in crude oil stocks was a still suppressed refinery utilization rate, which is hovering around 80%, well below the 85%-88% that is normal for this time of year, which is clearly reducing input demand for crude by refiners. That was underscored by the rise in inventories at Cushing, OK, the delivery point for West Texas Intermediate futures traded in New York. While that dynamic is putting upward pressure on crude inventories, it has led to a series of drawdowns in refined product inventories including six straight weekly draws in heating oil/diesel supply. The refined product drawdowns are a simmering bullish threat for futures prices in the near term.

The term structure of the oil futures market has been getting a lot of attention recently and for good reason as calendar spreads have blown out to multi-month highs pointing to tight physical market conditions consistent with strong demand and a potential near-term supply deficit globally. One potential factor contributing to the considerable backwardation in the term structure of the futures market is the fact that the Biden Administration has added to the Strategic Petroleum Reserve for 12 out of the last 14 weeks, taking barrels out of the commercial market and into government storage. The amount of the SPR adds has been relatively low but it does seem to be contributing to the rally in active month futures and increasingly backward dated futures term structure.

Elsewhere in the report, there was a continued rebound in a key implied consumer demand measure, gasoline supplied, which rose to the second highest level since mid-December at just shy of 8.5 million barrels/day. A better consumer demand outlook is supportive of prices near term. Domestic production, meanwhile, has been holding steady at a record 13.3 million barrels/day since late January. Oil production not rising is not bearish and is easing a previous headwind on the market, setting futures up for more upside.

Market	Level	Change	% Change
Dollar Index	103.89	.14	0.13%
EUR/USD	1.0839	-.0005	-0.05%
GBP/USD	1.2662	-.0023	-0.18%
USD/JPY	150.69	.18	0.12%
USD/CAD	1.3574	.0046	0.34%
AUD/USD	.6497	-.0047	-0.72%
USD/BRL	4.9694	.0352	0.71%
Bitcoin	60,300.03	3,382.73	5.94%
10 Year Yield	4.274	-.041	-0.95%
30 Year Yield	4.410	-.031	-0.70%
10's-2's	-38 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.60%		
Prices taken at previous day market close.			

Aside from the EIA data, geopolitical tensions remain high in the Middle East and Eastern Europe and that is also starting to trickle down into the price of oil as rising shipping costs to transport oil on alternative trade routes. Oil shipments are being rerouted in order to avoid the Red Sea where Iran-backed Houthi rebels continue to attack commercial ships, and those higher transportation costs are being passed through to crude buyers and ultimately to consumers.

Bottom line, there was an old saying on the NYMEX that "spreads don't lie," and so far the calendar spreads and term structure of the oil futures market are supportive of the tentative rally in oil futures that has pushed the market to new multi-month highs. We will be looking for continued strength in the calendar spreads to confirm a move beyond $80 in WTI is in the works, otherwise, a pullback to the mid-$70s would be the most likely next move for WTI.

Currencies & Bonds

Treasury yields declined slightly Wednesday ahead of the week's key inflation data and following some mixed data and Fed speak. The 2-year Treasury yield fell 2 basis points while the 10-year yield declined 3 basis points.

There was finally some notable economic data on Thursday via the revised Q4 GDP and the financial media headline was that it was slightly soft. And while that isn't exactly accurate it combined with some messaging that reinforced coming rate cuts from Fed members Collins and Williams to help push the 2-year yield slightly lower. However, none of those events were worth a 6 basis point drop in the 2 year.

Positioning ahead of this morning's Core PCE Price Index was the main reason the 2-year yield fell, simply because, as covered, the outlook in the Core PCE is negative for yields for this simple reason: Markets already expect it to run slightly hot after the hot CPI and PPI reports. So, that's already priced in and for the number to decrease rate cut expectations it'll have to be really hot! Conversely, if it's lower than expected it'll likely elicit a strong dovish reaction as that would be a positive surprise and that's the main reason yields fell yesterday.

Looking at the 10-year yield (what I consider the most important indicator in the markets right now) it still closed above resistance at 4.25%, so it's still technically broken out, although importantly a soft inflation report (like possibly today's Core PCE Price Index) will push it back into the 3.75% to 4.25% trading range. Conversely, if the 10-year yield can move solidly away from 4.25% on a hotter-than-expected Core PCE Price Index, that will likely be at least a mild negative on stocks, especially if the 10-year yield trades above 4.35%.

Turning to currencies, it was another quiet session as the Dollar Index never strayed too far from unchanged and closed up 0.11%. None of the economic data (including U.S. GDP) nor any of the Fed speak changed the outlook for rate cuts and that remains the guiding force in currencies. So, for currency markets to break out of these doldrums, we'll need to see inflation data (or economic data) that changes the current expectation for 25 bps of rate cuts from the Fed in June and the ECB/BOE a bit later in the summer.

Have a good leap day,

Tom

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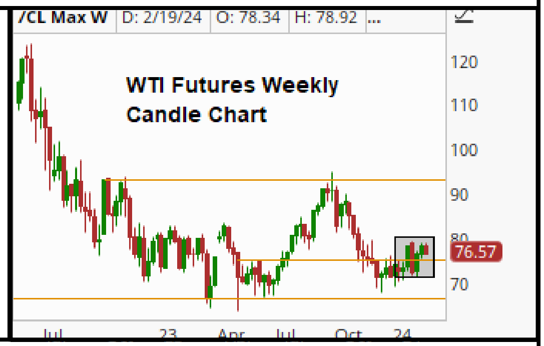
Technical Perspectives (Updated 2/25/2024)

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

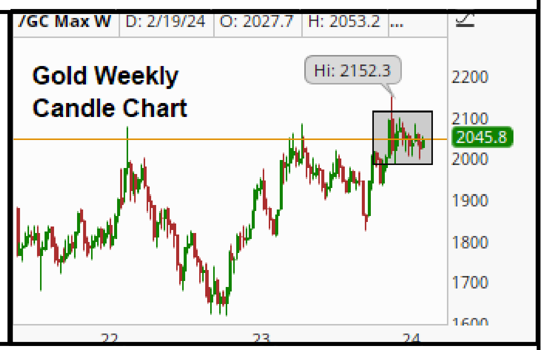
WTI Crude Oil

- 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



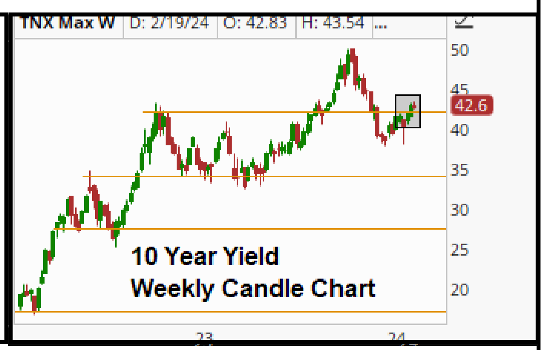
Gold

- 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



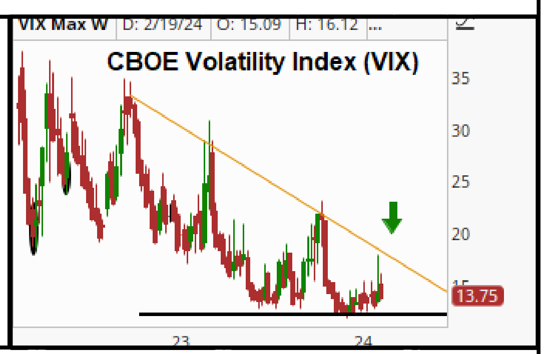
10-Year T-Note Yield

- 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.