SEVENS REPORT

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

February 5, 2024

Pre 7:00 Look

- Futures are modestly lower as Fed Chair Powell's 60 Minutes interview is being taken as slightly hawkish.
- Powell's 60 Minutes interview is being framed as hawkish but in reality, Powell didn't say anything new as this was his main message: Rates cuts are coming sooner than later, but a March cut is unlikely.
- Economically, China's January services PMI missed estimates (52.7 vs. (E) 53.0), reinforcing economic concerns.
- Econ Today: ISM Services PMI (E: 52.1). Fed Speak: Bostic (2:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	4,972.00	8.25	0.17%
U.S. Dollar (DXY)	104.28	0.35	0.36%
Gold	2,042.00	-11.70	-0.57%
WTI	71.89	-0.39	-0.54%
10 Year Yield	4.08%	0.05	1.19%

Equities

Market Recap

Stocks extended their rally last week despite a very strong jobs report and pushback on a March rate cut by Fed Chair Powell, as markets still expect five or six rate cuts in 2024. The S&P 500 advanced 1.38% on the week and is now up 3.96% YTD.

Last week started with a modest rally in stocks as the Treasury Department forecasted a smaller-than-expected amount of debt issuance this year, pushing yields lower and stocks higher.

On Tuesday, stocks largely drifted sideways amidst some notable earnings and economic data, but nothing that shifted the current market narrative.

Volatility rose on Wednesday as stocks dropped early following disappointing earnings from MSFT, GOOGL, and AMD while a disastrous earnings report from New York Community Bank spiked regional bank concerns. The FOMC announcement and Powell's press conference were largely as expected but the Chair's pushback on prospects for a March rate cut prevented a post-meeting rally and the S&P 500 dropped 1.61%.

Stocks rebounded Thursday as investors focused on several solid economic reports in the U.S. (jobless claims edged higher, ISM beat, and Unit Labor Costs dropped considerably). The S&P 500 jumped 1.25% on Thursday.

The market gapped modestly higher on Friday as very strong and well-received earnings from AMZN and most notably META, sparked a renewed bid in mega-cap tech despite the U.S. jobs report exceeding our (and everyone else's) "hottest" scenario expectations. The unprecedented "beat" in the jobs data refurbished the case for an economic "no landing" and stocks powered to new highs, led by tech. The S&P 500 added 1.07%.

This Market Is Getting Noisier, But Focus on the Four Core Drivers

This past week is one of the most conflicted and contradictory I've seen in markets in my nearly three decades in this business. Is the economy moderating and inflation declining like last week's ADP, Unit Labor Costs and ISM Manufacturing PMI pointed to? Or is growth and inflation ramping up like the jobs report implied? Is the Fed really dovish like Powell sounded in his press conference despite a March cut not likely, or are they actually serious about two or three hikes this year? Is the tech-led rally running out of steam like the disappointment over MSFT and GOOGL results implied or is it going to keep

Market	Level	Change	% Change
Dow	38,654.42	134.58	0.35%
TSX	21,085.09	-34.12	-0.16%
Stoxx 50	4,662.95	8.40	0.18%
FTSE	7,644.44	28.90	0.38%
Nikkei	36,354.16	196.14	0.54%
Hang Seng	15,510.01	-23.55	-0.15%
ASX	7,625.85	-73.55	-0.96%

Prices taken at previous day market close.

going seemingly forever (as the reaction to AMZN and META results implied?).

All of these are legitimate questions and they were all made less clear by the data, Fed speak and earnings last week. In the end, the answers to these questions don't really matter right now, and here's why: The burden of proof lies wholly with the bears, and they're not close to having enough evidence to stop this rally.

Market	Level	Change	% Change
DBC	22.81	-.25	-1.13%
Gold	2,054.00	-17.10	-0.83%
Silver	22.76	-.48	-2.05%
Copper	3.8235	-.0300	-0.78%
WTI	72.09	-1.73	-2.34%
Brent	77.14	-1.56	-1.98%
Nat Gas	2.086	.036	1.76%
RBOB	2.1418	-.0530	-2.41%
DBA (Grains)	21.70	.01	0.05%
Prices taken at previous day market close.			

For all the noise and nuance in the market, this bullish mantra is still intact: No hard landing, Fed cutting rates sooner than later (by May), inflation declining, earnings growth holding up. For this rally to end, one of those four statements must be false and despite the nuance in last week's data, none of it was enough to prove any of those statements false, and as such, the S&P 500 rallied to fresh all-time highs.

That said, it is also true that the data is starting to hint at an inflection point. Here's what I mean: There is a growing list of indicators that's implying economic growth is starting to moderate, so while a hard landing isn't likely, momentum is slowing. On the Fed, yes it will cut rates, but the market remains (likely) too aggressive on its expectation barring a sudden growth slowdown. So, the Fed is dovish, but it's not clear just how dovish. On the earnings front, on aggregate the Q4 season is keeping 2024 S&P 500 estimates between $240-$245/share, but corporate America is facing headwinds on margins and revenues they haven't seen since before the pandemic.

So, how does one allocate to a market like this? Watch for more evidence of an inflection (that's our job) but until then, enjoy the ride and stay focused on the four bullish factors fueling this rally: Solid growth, a turning-dovish Fed, falling inflation, growing earnings. Again, until one of those are disproven (and they will be at some point, they always are) then momentum can carry this market higher. Yes, valuations are absolutely beyond justifiable terms. And yes, this market is ripe for a 10% or more correction when one of those four factors are disproven. For now, these hints of inflection are not enough to break the bullish mantra or momentum.

Our job is to keep watching these risks and tell you, as soon as possible, when one of those bullish factors is disproven, because at that point this market will be ripe for a pullback, and possibly a sizeable one.

From an allocation standpoint, this week was very similar to 2023 where AI-linked, mega-cap tech drove the S&P 500 higher Friday while the rest of the market traded off the jobs number and higher yields (the equal-weight RSP was down on Friday). I do not think, however, that's a sustainable trend. Prior to Friday, lower volatility ETFs and value sectors/factors (specifically USMV & VTV) were trading in line and even slightly outperforming the S&P 500. I think that can continue because the totality of the data tells me that Friday's jobs report was an outlier, that economic growth is plateauing and the economy isn't set to reaccelerate. So, in that slow glide lower on growth, lower volatility, and more value-based sectors (VTV) should outperform over the medium term. And that's still where I'd continue to allocate new capital.

Economics

Why Did Stocks Rally Despite Friday's Hot Jobs Report?

I'm separating out Friday's jobs report from the rest of last week's economic data because the number was so detached from expectations and virtually all other economic data that I want to focus on it alone and leave the rest of last week's data separate.

To review, it was an absolute blow out report. Job adds rose 353k vs. (E) 187k, the unemployment rate was 3.7% vs. (E) 3.8% and wages rose 4.5% y/y vs. (E) 4.1%. Those metrics put it in the "Too Hot" category. But the S&P 500 didn't react in a typical way to "Too Hot" data, although the rest of the market did. I say that because while SPY rallied 1%, RSP, the equal weight S&P 500, declined 0.1%. So, that reveals that much of Friday's rally was tech driven (AMZN/META/AI stocks).

But there's another reason the "Too Hot" reading didn't cause a wider pullback: No one believes that report. The jobs report has always been a statistical mess full of seasonal adjustments and revisions, but Friday took it to a new level. For reference, the total jobs adds was more than 100k above the most aggressive analyst estimate! I won't bore you with the details, but complicating factors for the jobs report include: Massive seasonal and annual adjustments (happens every January), divergence between the Establishment Survey (+353k) and the Household Survey (-31k), a dramatically shortened work week (43.1 vs. 43.3) that was mostly responsible for the hot wage data, along with internals (from a sector adds standpoint) that don't match this type of increase. Bottom line, the number was so detached from expectations that it was pretty much immediately discounted and ignored.

So, what does it mean for markets? It reduced the chances of a March rate cut further (down towards 20% probability) and also a May cut, although there's so much data between now and the May Fed meeting this one report won't make a difference. But again, because it was so far off base, it didn't have the impact it would have had if, say, job adds were 250k, unemployment was 3.7% and wages were 4.3%, because those numbers would be more believable.

Stepping back, the totality of the data reveals a still-solid labor market but not one that's so hot that it's going to make the Fed rethink rates cut. But at the same time it is strong enough that it's not hinting at any sort of a hard landing—and that's Goldilocks enough for markets right now.

Last Week

Looking at the rest of last week's data, it was broadly Goldilocks as it showed stable but not spectacular growth and easing inflation pressures. The ISM Manufacturing PMI rose to 49.1 vs. (E) 47.4, near a multi-month high and the key 50 level, which separates contraction from expansion. Bottom line, the January ISM Manufacturing PMI does point to 1) A soft landing and 2) Warrants rate cuts by May.

Market	Level	Change	% Change
Dollar Index	103.78	.91	0.88%
EUR/USD	1.0794	-.0078	-0.72%
GBP/USD	1.2639	-.0105	-0.82%
USD/JPY	148.28	1.85	1.26%
USD/CAD	1.3461	.0075	0.56%
AUD/USD	.6517	-.0055	-0.84%
USD/BRL	4.9681	.0556	1.13%
Bitcoin	42,980.63	-128.10	-0.30%
10 Year Yield	4.028	.165	4.27%
30 Year Yield	4.224	.121	2.95%
10's-2's	-34 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.18%		
Prices taken at previous day market close.			

Looking at the rest of the inflation data, it was positive and showed a continued cooling of price pressures. The Employment Cost Index (a broader measure of wages and benefits) rose 0.9% in Q4 vs. (E) 1.0% and the previous 1.1%. That's clearly moving in the right direction and at a level that will not make the Fed nervous about wage-based inflation.

This Week

The week following the jobs report is usually quiet from a data perspective and that's mostly true of this week, as there are only two notable reports, ISM Services PMI and weekly jobless claims (although if both are weak, they have the potential to move hard landing fears higher). Point being, there's not a lot of data this week, but if these two reports are soft, they'll move markets.

Starting with the ISM Services PMI (today), the key here remains 50. The December ISM Services PMI got uncomfortably close to the 50 level at 50.6 and if the January reading drops below 50, that will be a negative signal for the economy. Put simply, the ISM Services PMI doesn't drop below 50 often and when it does for a few months in a row, that's a very good predictor of a coming economic slowdown. This number needs to stay above 50, otherwise we'll see hard landing concerns rise (and that's not at all priced into the S&P 500 at these levels).

Turning to jobless claims, they popped last week to a multi-month high while Continuing Claims jumped back towards 1.90 million. If we see claims steadily rise above 250k in the coming weeks that will be a sign of deterioration in the labor market. Bottom line, the S&P near 5,000 assumes no economic slowdown, so that means the market is vulnerable to disappointing economic data. So, while there are only two reports that can move markets this week, the bottom line is both can cause volatility if they hint at looming economic weakness, because right now there's none priced into stocks.

Finally, while it's not an economic release, we will get annual statistical adjustments to previous CPI reports on Friday and this is notable for one reason: The adjustments could lower the past year's CPI readings and if that happens, it'll make rate cuts more likely (and be potentially positive for stocks and bonds).

Commodities

Commodities diverged from equities and other risk assets last week and that is notable because commodities are very dependent on real, physical supply and demand. And while stocks surged on good earnings and hopes for a no landing, the lack of participation by growth-sensitive commodities such as oil and industrial metals suggests the global economy is not quite as strong as investors currently believe. The commodity ETF, DBC, dropped 3.54% on the week.

In energy, it became apparent last week that traders are much more concerned about oversupply and a demand-driven deficit emerging in the physical markets. I say that because WTI crude futures spiked towards $80/barrel and hit a new 2024 high in early trade Monday following potentially the biggest escalation in the Middle East since the Israel-Hamas conflict erupted as three U.S. Army soldiers were killed by an Iranian-orchestrated drone strike on a U.S. military base in Jordan. The lack of clarity on how the U.S. government would retaliate, which failed to materialize last week, and reports that most of the idled North Dakota oil production was coming back online saw oil prices steadily decline over the course of the week. WTI ended the week down a steep 7.44% towards the lower end of the YTD trading range. Looking ahead, there was a glimpse of bullish price action in late January, but oil prices are back to trading with a heavy tone in a tight range and critical support in the upper $60s/low $70s will be in focus moving ahead.

Gold was able to buck the heavy trend in commodities as futures eked out a modest gain of 0.98%. A lot of the gains were given back Friday as real interest rates and the dollar both surged on the back of the hot jobs report, but gold held emerging support at $2,050 and the longer-term path of least resistance remains higher.

Currencies & Bonds

The majority of the data, news and Fed speak from last week pressured the dollar and Treasury yields, although the blowout jobs report on Friday reversed much of those losses. As such, the weekly moves in the dollar and yields are deceiving, as the greenback and yields spent the week with greater losses than the data implies. That said, the 2-year yield rose 2 basis points thanks to a 16-bps jobs report rally while the 10-year yield still declined 10 bps last week despite a 13-bps rally.

There were several reasons for the declines in yields last week, yet for all the noise, here's what we need to know about Treasuries: Yields have lost consistent upward momentum and that's been a positive for stocks. For that to change, we'll need to see either a bounce back in inflation or a reduction in the expected five or six rate cuts for 2024. As long as Treasury yields are stable (so no dramatic increase or decline) they will remain generally positive for stocks. For the next several weeks, expect economic and inflation data to move yields, and the more Goldilocks the data, the calmer yields will be and the more positive that is for stocks.

The dollar spent much of last week solidly lower before a 0.6% rally Friday (post jobs report) sent the greenback higher by 0.25% last week. The Dollar Index in the mid-to-lower 100 range reflects the expectation that the Fed will cut rates relatively soon (by May) and multiple times (five or six) in 2024. It also assumes rate cuts by the ECB/BOE in the summer.

If the expectations for the Fed get more hawkish (so delayed or fewer rate cuts) or expectations for the ECB/BOE get more dovish (rate cuts sooner than the summer) we'll see the dollar rally through 105 and that will start to be a headwind on stocks. Conversely, if the Fed expectations get more dovish (so March cut) or ECB/BOE expectations get more hawkish (no cuts this summer) the Dollar Index will trade down towards 100 and that will become a tailwind on earnings. For now, the dollar is a neutral influence on stocks and will remain that way until one of the aforementioned scenarios occur.

Have a good week—Tom.

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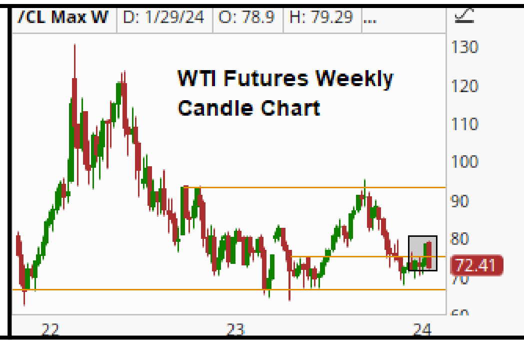
Technical Perspectives (Updated 2/4/2024)

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: 4969, 5011, 5100
- Key Support Levels: 4928, 4846, 4792

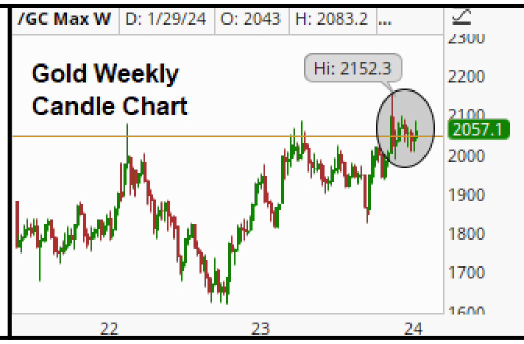
WTI Crude Oil

- Technical View: The oil market has stabilized and begun to rally in early 2024, but futures remain well off the 2023 highs above $90/barrel.
- Proprietary Model: **Neutral (since the week of November 6, 2023)**
- Key Resistance Levels: $73.57, $75.30, $76.98
- Key Support Levels: $70.92, $69.28, $68.03



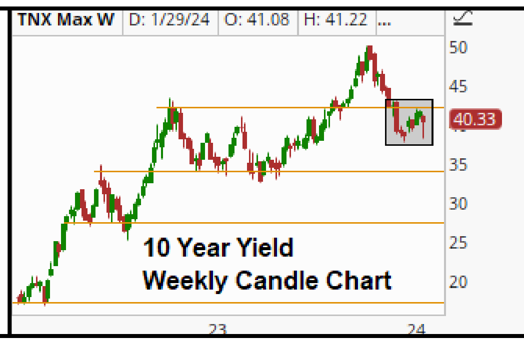
Gold

- Technical View: Gold futures broke out to fresh all-time in late 2023, shifting the technical outlook decidedly in favor of the bulls.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2076, $2094, $2152
- Key Support Levels: $2032, $1995, $1950



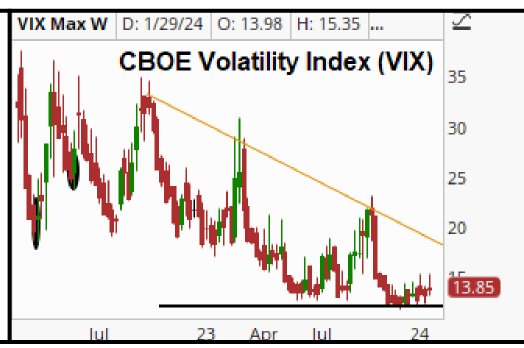
10-Year T-Note Yield

- Technical View: The 10-year yield has pulled back considerably since the October highs, but the "V-shaped" top has not seen a bearish "lower low" established yet.
- Proprietary Model: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.094, 4.178, 4.293
- Key Support Levels: 3.967, 3.863, 3.789



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: 14.35, 14.79, 15.40
- Key Support Levels: 13.31, 12.55, 12.07



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Fundamental Market View (Updated 2/4/2024)

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 hit another all-time high last week despite pushback on a March rate cut and a hot jobs report, as neither were seen as reducing the expected five or six rate cuts in 2024. Meanwhile, economic data was solid.*

Tactical Allocation Ideas:

- **What's Outperforming: Growth factors, tech, consumer discretionary and communication services, the worst performers in 2022, have outperformed YTD. However, higher yields remain a headwind and as such we don't think this outperformance will last over the longer term.**
- **What's Underperforming: Defensive sectors and value have underperformed YTD, but are still massively outperforming since the bear market started in 2022, and since our primary concern in 2023 is economic growth, we think this underperformance will be temporary.**

Long Term Fundamental Outlook for Other Asset Classes

	Fundamental Outlook	Market Intelligence
Commodities	**Neutral**	*Commodities dropped sharply last week in response to the stronger U.S. dollar and on declining geopolitical tensions following reports of a ceasefire in Gaza.*
US Dollar	**Neutral**	*The Dollar Index rose moderately last week as Powell pushed back against a March cut while the Friday's jobs report was very hot.*
Treasuries	**Turning Positive**	*Treasury yields rose last week but that's almost entirely thanks to Friday's jobs report, as prior to the report yields were lower mostly on NYCB-related regional bank anxiety.*

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.