SEVENS REPORT

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

February 6, 2024

Pre 7:00 Look

- U.S. equity futures are little changed as Treasuries stabilize following a 30 basis point spike in yields over the last two sessions while global markets were mixed overnight.
- Chinese stocks rallied 4% overnight amid government intervention to stem recent losses while European shares edged up on better than feared Retail Sales and a very strong German Manufacturing Orders Report (+ 8.9%).
- No economic reports today. Fed Speak: Mester (12:00 p.m. ET), Kashkari (1:00 p.m. ET), Collin (2:00 p.m. ET), Harker (7:00 p.m. ET). There is a 3-Yr Note auction at 1:00 p.m. ET.
- Earnings: SNAP ($0.06), F ($0.13), CMG ($9.73).

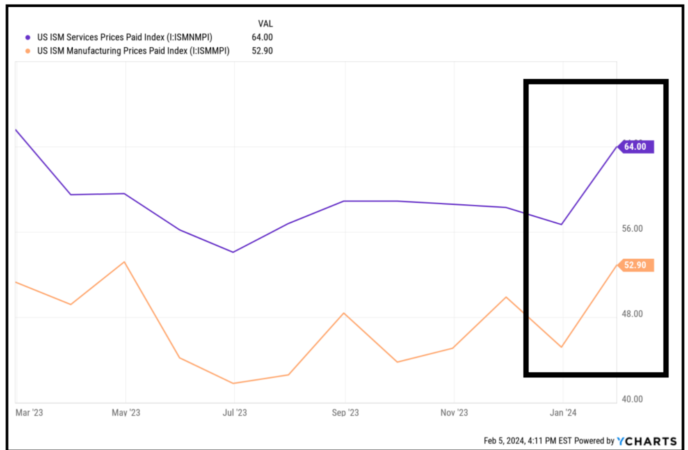
Market	Level	Change	% Change
S&P 500 Futures	4959.75	-2.25	-0.05%
U.S. Dollar (DXY)	104.552	.100	0.10%
Gold	2040.70	-2.20	-0.11%
WTI	72.84	.06	0.08%
10 Year Yield	4.164	.000	0.00%

Equities

Market Recap

Stocks churned sideways in negative territory for most of Monday's session as last week's slew of market catalysts continued to be digested amid an ongoing rise in Treasury yields. The S&P 500 declined 0.32%.

Equities traded lower at the open yesterday as comments from an interview that Fed Chair Powell did over the weekend were seen as hawkish, but in reality he was no more hawkish than he was on Wednesday at the conclusion of the FOMC meeting. Treasury yields extended Friday's rise and that weighed on equities, particularly small caps in early trade.



The ISM Manufacturing and Services Prices Indices rose to multi-month highs in January and that's increasing concern that inflation may bounce back and dash May rate cut hopes.

At the top of the 10 a.m. hour the January ISM Services PMI was released with a stronger-than-anticipated headline and a market-negative rebound in inflation metrics. The report added to the hawkish money flows, lowering the odds of a March and May rate cut further than already occurred last week, which pressured both stock and bond prices with yields pushing towards two-month highs.

The market stabilized ahead of the lunch hour as several Fed officials spoke over the course of the morning. Goolsbee notably said he did not want to "rule out" a March rate cut, which was favorably received by equity investors, and the S&P began to churn back higher in the early afternoon. The benchmark index failed to break above the opening highs, however, which left derivatives traders to pin the S&P near 4,950 into the close.

Market Multiple Table Update

The February update of the Market Multiple Table clearly and efficiently delivers this message: The current driv-

Market	Level	Change	% Change
Dow	38,380.12	-274.30	-0.71%
TSX	20,871.89	-213.20	-1.01%
Stoxx 50	4,660.98	5.71	0.12%
FTSE	7,643.11	30.25	0.40%
Nikkei	36,160.66	-193.50	-0.53%
Hang Seng	16,136.87	626.86	4.04%
ASX	7,581.58	-44.27	-0.58%
Prices taken at previous day market close.			

ers of stocks and bonds are positive, but at these levels the market has priced in essentially zero chance of disappointment. And if we do get negative news from any of these drivers, a 10% correction isn't just warranted, it's likely.

Market	Level	Change	% Change
DBC	21.90	.09	0.41%
Gold	2,040.70	-13.00	-0.63%
Silver	22.41	-.38	-1.67%
Copper	3.7710	-.0505	-1.32%
WTI	72.71	.43	0.59%
Brent	77.97	.64	0.83%
Nat Gas	2.082	.003	0.14%
RBOB	2.2074	.0599	2.79%
DBA (Grains)	21.70	.01	0.01%
Prices taken at previous day market close.			

Looking at the changes in this month's Market Multiple Table, there were several, and on balance, they were positive. Starting with Fed policy expectations, the biggest point is that the Fed formally acknowledged that rate cuts are coming and as such, that's a positive as it increases the market multiple (which rose to 18.5X-19.5X). Now, Powell did push back against a March rate cut. But as we've pointed out, March vs. May doesn't really matter and markets do still expect five or six rate cuts in 2024, so the outlook for the Fed remains dovish.

A Game of Multiples (Updated 2/5/2024)			
Market Influence	**Current Situation**	**Things Get Better If...**	**Things Get Worse If...**
Fed Policy Expectations	Fed Chair Powell has directly pushed back on the idea of a March rate cut; however, a May cut is still expected by markets.	The Fed hints a March cut may happen and more forcefully points towards a May rate cut.	The Fed pushes back against a May rate cut, putting the idea of five or six cuts in 2024 in jeopardy.
Hard Landing vs. Soft Landing	Economic data broadly remains resilient although there remain signs that the economy is losing some forward momentum.	Economic data remains Goldilocks and isn't so strong that it decreases the chances of rate cuts, nor so weak it sparks slowdown concerns.	Economic data begins to point towards a slowdown or re-accelerates and jeopardizes rate cuts.
Inflation	Major inflation metrics have continued to decline and recent measures of inflation have shown it below the 2% target.	Core inflation metrics decline towards 2% making a May rate cut more certain.	Inflation metrics rebound and make both a May rate cut and five or six rate cuts in 2024 unlikely.
Expected 2024 S&P 500 EPS	**$243**	**$246**	**$235**
Multiple	18.5X-19.5X	20X	17X-18X
S&P 500 Range	4,496-4,739	4,920	3,995-4,230
S&P 500 Target (Midpoint)	4,617	4,920	4,113
Change from today	**-6.6%**	**-0.45%**	**-16.7%**

Turning to growth and inflation, the news for the month was also positive. Economic data is showing some signs that momentum may be plateauing, but at the same time there are no hints of a soft landing. On inflation, metrics have largely continued to decline and most importantly, the past six month's core inflation readings annualized have been below 2.0% y/y, meaning that the Fed has reason to think inflation has returned to target.

Finally, on earnings, the important takeaway from the Q4 earnings season (which just ended) was that the $240-$245 2024 S&P 500 earnings range remains intact. But we have seen mild deterioration as the consensus is now around $243, down from the previous $245.

Comparing the market performance to the previous Market Multiple Table, over January the market has more than priced in the "Gets Better If" scenario from last month, as the S&P 500 traded above that estimate. The problem, of course, is that while the current drivers of the market are positive, all of them still have the potential to reverse. None of them are a "done deal" and as such, pricing in the "Better If" scenario is aggressive and it's why these levels are not supported by fundamentals (but they are supported by momentum).

Bottom line, the net takeaway is that the outlook for stocks remains positive but this market also remains "over its skis" from a valuation standpoint. That doesn't mean the rally can't continue on momentum, but it is a clear signal that a sudden, sharp pullback on real disappointment shouldn't be a surprise.

Current Situation: The Fed has pushed back on March rate cuts but May is still likely and markets expect five or six cuts in 2024, economic growth remains solidly positive but not "Too Hot," inflation continues to trend lower towards the Fed's 2% target making a rate cute likely sooner than later (May). The current situation reflects the positive drivers that have powered stocks higher since the start of the year, as the Fed has acknowledged rate cuts are coming, economic growth has remained resilient but hasn't been "Too Hot" while inflation metrics, including the most recent data, are pointing towards a continued decline in inflation. This generally positive set up has underwritten the gains in stocks YTD.

Things Get Better If: The Fed confirms a May rate cut, economic data stays Goldilocks and inflation continues to decline towards the Fed's 2% target. This environment would solidify the positive macro environment for stocks and bonds and extend the reasonable valuation for this market above 4,900. This would essentially reflect a "perfect" environment for stocks of 1) Imminent rate cuts (so a higher market multiple), 2) Strong but not "Too Hot" growth and 3) Falling inflation. While not totally justified by valuations, given momentum, in this environment a run in the S&P 500 towards 5,000 would be reasonable.

Things Get Worse If: The Fed materially pushes back on the idea of rate cuts in May and the expectation for five or six cuts this year, economic growth suddenly rolls over or materially accelerates, and inflation metrics (CPI/Core PCE Price Index) rebound. This scenario would essentially undermine the assumptions behind much of the Q4 and January rally and given how stretched markets are, the net result would be substantial declines in stocks and a give back of much of the October-to-January rally would not be out of the question. And while it seems like this outcome isn't possible given the current positive outlook, none of this is set in stone and this is a legitimate scenario we need to be mindful of, because it is possible if data breaks the wrong way. **Email info@sevensreport.com for an unbranded copy of the Market Multiple Table.**

Market	Level	Change	% Change
Dollar Index	104.34	.56	0.54%
EUR/USD	1.0739	-.0049	-0.45%
GBP/USD	1.2530	-.0101	-0.80%
USD/JPY	148.73	.35	0.24%
USD/CAD	1.3538	.0075	0.56%
AUD/USD	.6480	-.0032	-0.49%
USD/BRL	4.9818	.0126	0.25%
Bitcoin	42,322.47	-270.23	-0.63%
10 Year Yield	4.164	.131	3.25%
30 Year Yield	4.345	.118	2.79%
10's-2's	-31 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.29%		
Prices taken at previous day market close.			

Economics

ISM Services PMI

- The January ISM Services PMI rose to 53.4 vs. (E) 50.5.

Takeaway

The ISM Services PMI was stronger than expected and, disconcertingly for the bulls, made it so that all of the major monthly economic reports (ISM Manufacturing PMI, Jobs Report and ISM Services PMI) implied a bounce back in inflation and as such the ISM Services PMI was borderline "Too Hot" and pushed stocks and bonds lower on Monday.

Starting with the headline, importantly the Services PMI rose solidly from the December 50.5 reading and moved to a four-month high, removing (for now) the risk of dropping below 50 and signaling an economic slowing. Additionally, the details of the report were strong as New Orders rose to 55.0 from 52.8. Bottom line, from a growth standpoint, this was a solid report that continues to push back on any "hard landing" concerns.

However, like we saw in the ISM Manufacturing PMI last week, the price index in the services PMI jumped, rising to 64 from 56.7. That combined with the aforementioned ISM Services PMI and the very hot wage data in the jobs report so that all three of these major monthly reports pointed to a potential rebound in price pressures. That's the main reason stocks dropped yesterday, because if inflation does rebound a May rate cut will be out of the question.

Bottom line, these reports aren't enough to contradict the idea that inflation has largely returned to target. But they will push back on the idea of imminent rate cuts and if this data is reinforced by more "hot" inflation metrics this month, we will likely see May rate cut expectations drop and that will be a negative for stocks and bonds.

Commodities

Commodities were mostly lower to start the week, but a late-morning rally in oil futures on the back of a solid ISM Services report helped oil buck the trend and end higher. Copper and gold both registered losses on the day but held key respective support levels into the close. The commodity ETF, DBC, edged up 0.41%.

Looking at oil, last week's price action suggested that traders are growing increasingly numb to the geopolitical headlines out of the Middle East as there has been a very limited impact on global oil supply and logistics since the Israel-Hamas conflict first began back in October. That remained the case yesterday as oil initially moved lower despite a massive air assault by U.S. forces on Iran-backed militants throughout the Middle East over the weekend.

While the oil market has seemed skeptical of the potentially positive demand implications of the recent string of strong economic data, futures did rally in the wake of the better-than-expected ISM report and WTI ended higher by 0.68% on the day. Looking ahead, the technical outlook for oil favors the bulls for the time being based on the late-January rally to two-month highs while there is still solid support in the low $70s, reiterated by yesterday's reversal off the $71.50 area.

As far as things to watch, a rise in the consumer demand for refined products metrics within the weekly EIA report would be a bullish development as they have been sluggish since the start of 2024, while a return to the record level of U.S. output (13.3MM b/d) would be a negative for prices near-term. Additionally, there is a slew of Fed speak on the agenda this week and any commentary that rekindles more dovish-leaning money flows should be supportive of oil in the sessions ahead.

Turning to metals, the rise in real yield to new 2024 highs was a meaningfully negative influence on both precious and industrial metals. Gold relatively outperformed thanks to safe-haven money flows as futures declined a modest 0.63% compared to the drop in copper futures, which ended the day down 1.30%. Increasingly hawkish Fed policy expectations paired with soft Chinese economic data to start the week weighed heavily on the industrial metals. Copper futures are still trading above key early 2024 support at $3.70-$3.75 leaving the outlook for futures neutral and technically range-bound while gold futures dipped back below $2,050, but held above trend support at $2,030/oz. and bolstering the medium-term bull case from a technical standpoint.

Currencies & Bonds

Powell's "hawkish" *60 Minutes* interview and the stronger-than-expected ISM Services PMI pushed the dollar and yields higher to start the week. The Dollar Index rose 0.50% and traded above 104 for the first time since early December, while the 10-year Treasury yield rose 14 basis points, close to a one-month high.

Powell's *60 Minutes* interview as spun as hawkish and that impacted markets, even though in reality he said nothing different than what he said at last week's press conference. But while that was an upward influence on yields and the dollar, it was really the price index in the ISM Services PMI that pushed the dollar and yields higher for a simple reason: If inflation bounced back, then the idea of five or six rate cuts in 2024 (which is really the key to the recent rally) will be destroyed and if that occurs, we should expect some give back of the recent rally.

Yields and the Dollar Index are starting to acknowledge that's a possibility, as both the dollar and the 10 year are trading at levels very close to before the Fed's December meeting, where markets began to aggressively price in rate cuts. Going forward, if the 10 year trades towards and through 4.30% and the Dollar Index moves towards 105, expect a strengthening headwind on stocks because that will reflect the real possibility the Fed may not cut as much as investors expect—and that's not priced into stocks at these levels.

Have a good day,

Tom

2/6/2024

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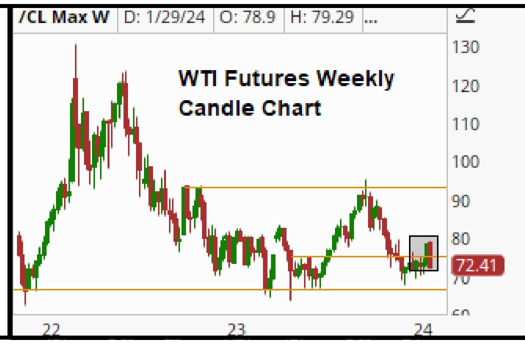
Technical Perspectives (Updated 2/4/2024)

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

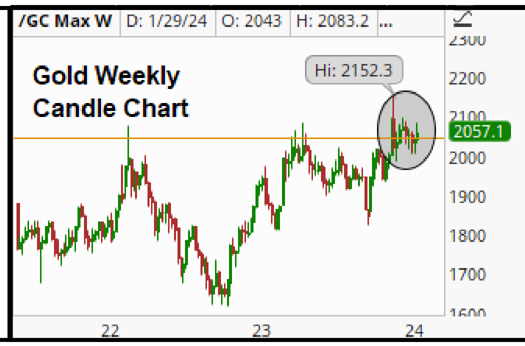
WTI Crude Oil

- 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

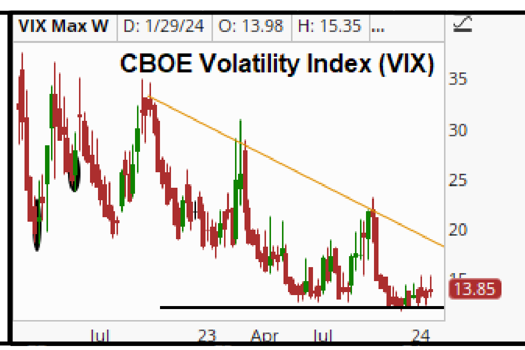


10-Year T-Note Yield

- 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



SEVENS REPORT

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.