SEVENS REPORT

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

February 7, 2024

Pre 7:00 Look

- Stock futures are little changed amid a stable bond market as investors await another busy day of Fed commentary and another key Treasury auction.
- Economically, German Industrial Production was better than feared at -3.1% vs. (E) -3.9% Y/Y in December.
- Economic Data Today: International Trade in Goods and Services (E: -$62.2B), Consumer Credit (E: $16.2B).
- Fed Speak: Kugler (11:00 a.m. ET), Collins (11:30 a.m. ET), Barkin (12:00 p.m. ET), Bowman (2:00 p.m. ET).
- There is a 10-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	4973.25	-1.50	-0.03%
U.S. Dollar (DXY)	104.094	-.120	-0.11%
Gold	2050.70	-.50	-0.02%
WTI	73.77	.46	0.63%
10 Year Yield	4.117	.025	0.61%

Equities

Market Recap

Stocks limped higher in what turned out to be a rather quiet session for equities and bonds as a strong Treasury auction offset more hawkish Fed rhetoric. The S&P 500 gained 0.23%.

Stocks opened flat yesterday amid a stable bond market and mostly quiet news wires as investors digested an as-expected RBA decision amidst a better-than-feared Euro-zone Retail Sales report and a considerably strong German Manufacturers Orders report (up +8.9% vs. E: -0.1%) overnight. The NY Fed's latest data release on consumer loans showed a mild uptick in delinquencies but nothing alarming as most consumer credit measures remain near historic lows.

Strong demand for 3-Yr Treasury Notes in the latest auction early yesterday afternoon helped shore up a bid in bonds and stocks made a run towards the morning highs before pulling back amid mixed messages and a generally hawkish tone out of the slew of Fed speaker. A late-session rally in equities saw the S&P 500 come within 5 points of last Friday's record closing high, but the index failed to notch a new record into the close, ending the day just above the derivative-sensitive and psychologically important 4,950 level.

S&P 500 Market Multiple Targets: February Update

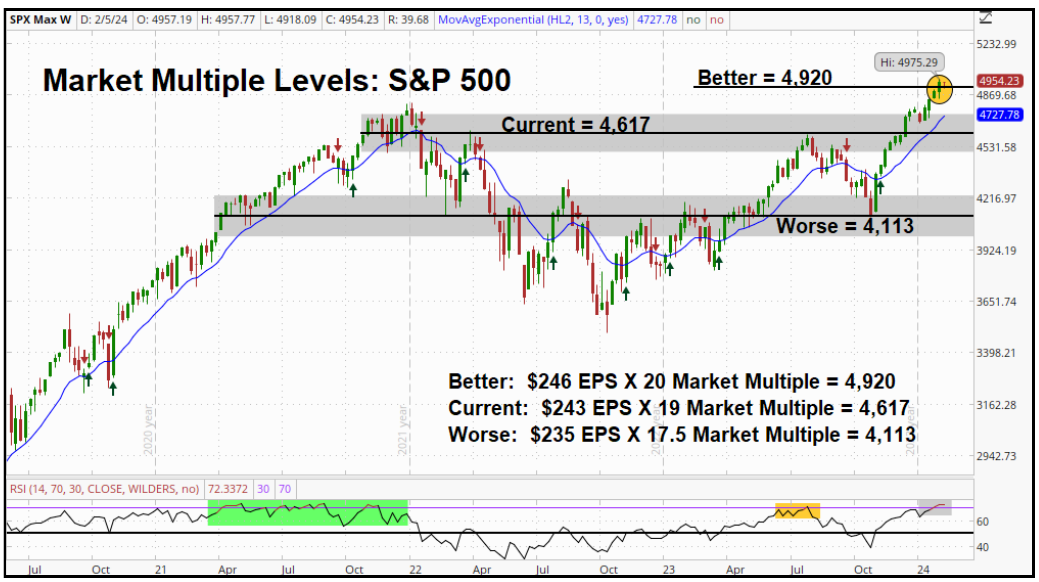
The current situation, better-if, and worse-if scenario price ranges and midpoint targets were all revised higher in the February update of the Market Multiple Table. The worse-if scenario target increased due to a slight increase in expected 2024 earnings for the S&P 500 while the other two scenario targets were increased thanks to a higher multiple offsetting modest reductions in S&P 500 earnings expectations for this year. In a show of just how optimistic investors are right now, the S&P 500 began this week nearly 1% above the better-if scenario target of 4,920.

Current Situation: The current situation target price range was revised higher for the third consecutive month in February as an increase in the market multiple target range to 18.5X-19.5X more than offset a modest reduction in 2024 earnings expectations for the S&P 500, which were lowered from $245/share to $243/share. Those new figures provide a current situation target range of 4,496 to 4,873 with a midpoint of 4,617 for the S&P 500. The benchmark index began this week just shy of 7% above the current situation midpoint target.

Market	Level	Change	% Change
Dow	38,521.36	141.24	0.37%
TSX	20,957.74	85.85	0.41%
Stoxx 50	4,679.23	-11.64	-0.25%
FTSE	7,645.45	-35.56	-0.46%
Nikkei	36,119.92	-40.74	-0.11%
Hang Seng	16,081.89	-54.98	-0.34%
ASX	7,615.84	34.26	0.45%
Prices taken at previous day market close.			

Market	Level	Change	% Change
DBC	21.98	.08	0.37%
Gold	2,052.60	9.70	0.47%
Silver	22.51	.09	0.41%
Copper	3.7815	.0100	0.27%
WTI	73.59	.81	1.11%
Brent	78.81	.82	1.05%
Nat Gas	2.008	-.074	-3.55%
RBOB	2.2200	.0108	0.49%
DBA (Grains)	21.73	.02	0.11%
Prices taken at previous day market close.			

On the charts, the upper bound of the current situation target price range, 4,739 closely corresponds with the early 2022 highs that held for two years as well as a brief consolidation period that began in the final two weeks of 2023 and lasted into the second week of 2024. Those market interactions with the 4,700-4,750 area add technical significance to the fundamental support that the earnings and market multiple math provide. Moving to the current situation midpoint of 4,617, the level cuts through the "pivot point" of late 2021 before stocks put in the lasting highs of early 2022 as well as the July highs from last year (just 10 points away), which leaves the price level an important secondary support level to watch if initial support at 4,700ish is violated. The same is true for the lower bound of the current situation target range as the 4,496 level switched from acting as support in late 2021 to resistance in early 2022 and again mid-2023.



Things Get Better If: The better-if scenario target was revised higher for the second consecutive month in February as a downward revision from $250/share in 2024 S&P 500 earnings expectations to $246/share was more than offset by a 0.5-point rise in the market multiple which was increased from 19.5X to 20X. The updated figures provide a target of 4,920, up from January's target of 5,875. The S&P 500 notably stalled within 8 points of the new better-if target last week ahead of the Fed-day pullback before the market pushed back to new records on Friday.

While there is only limited interaction between the S&P 500 and the new better-if scenario target of 4,920, the interactions that have occurred are noteworthy and add technical significance to the fundamental price target. As mentioned previously, the S&P 500 settled within 8 points of 4,920 on Jan. 29 and within 5 points of the target on Jan. 30 leading into the Fed decision. The index then opened 4 points below 4,920 on Feb. 2 and bottomed within 2 points of the mark on Monday of this week. The fact that the market has gyrated around the better-if target and opened, closed, peaked or bottomed at the 4,920 level underscores its significance as a key level to watch going forward.

Things Get Worse If: The worse-if target range was revised higher again in February but unlike the other two scenario targets, S&P 500 earnings expectations were actually revised higher from $230/share in January to $235/share this month. With the market multiple holding steady at 17X-18X the new numbers provide a target range of 3,995 to 4,230 with the midpoint rising from 4,025 to 4,113, which is 17% below where the S&P 500 began the week.

Interestingly, the S&P 500 has a lot of history with the worse-if midpoint of 4,113 as the index first broke above it in H1'23, rallied to the upper bound of this month's worse-if range at 4,230 before pulling back to hold the general 4,100 area as support. Then during the downturn of 2022 and the recovery of 2023, the S&P 500 interacted with the worse-if midpoint target a total of 26 weeks out of 104 (two years), or a quarter of the time, underscoring that it is a very significant technical price level for the S&P 500. The same can be said for the upper and lower bounds of the worse-if target range (3,995 -4,230), but the midpoint would be a critical level to watch if we see a significant downturn in stocks.

Other Technical Observations: When analyzing the technical set up of any security, looking beyond the price action alone can offer investors tremendous value that would otherwise tend to go unnoticed. Case in point, on the weekly S&P 500 chart with MMT levels overlaid (see Pg. 2) the first thing we notice is not only is the index at a new all-time high, but the 13-week (one calendar quarter) moving average has also pushed comfortably above the early 2022 highs, which adds conviction to the bullish thesis for stocks right now.

Second, the Relative Strength Index (RSI), which is plotted on the "sub chart" below the main price chart, is a momentum oscillator (readings between 0 and 100) that measures the magnitude of the latest changes in outright prices. An RSI above 50 is considered "positive" (bullish) and a reading below 50 is considered negative (bearish). But when RSI gets above 70 the market is viewed as being "overbought" and more likely to pullback or reverse lower. Conversely, when RSI drops below 30 the market is viewed as oversold and overdue for a retracement higher.

There is one important caveat, however, and that is that very strong price trends can maintain overbought or oversold levels on the weekly chart for some time. A prime example is the relentless bull run of 2021 when the S&P 500's weekly RSI oscillated in and out of overbought territory above 70 from early April until mid-November (shaded in green on the sub chart). During this time frame, the S&P 500 rallied more than 16% with just one short-lived pullback of 5% in early October. Fast forward to 2023, and as soon as the S&P 500's weekly RSI became overbought in late July, the market put in a multi-month top as conviction behind the rally was low. Put differently, if weekly RSI readings can sustain above 70 for more than a week or two, there is usually a very strong uptrend in motion and odds of a continued rally are high. Meanwhile a "failure" to hold above 70 for more than a week or two is historically consistent with a medium-term market top building out.

The reason this matters right now is that the S&P 500's weekly RSI is into its third week of being above 70. If it holds above 70 through Friday's close, we can reasonably expect a continuation of the strong rally. Conversely, if RSI drops back below 70 as of Friday's close, then the historical likelihood of a corrective pullback would rise considerably. So, RSI is something to watch closely into the end of the week.

For a higher-resolution, unbranded copy of this chart, please email info@sevensreport.com.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mostly higher with oil leading the way on simmering geopolitical tensions as well as better-than-expected economic data overseas and some mixed, but growth-positive Fed chatter over the course of the day. The commodity ETF, DBC, advanced 0.37%.

Market	Level	Change	% Change
Dollar Index	104.08	-.24	-0.23%
EUR/USD	1.0754	.0011	0.10%
GBP/USD	1.2599	.0063	0.50%
USD/JPY	147.88	-.80	-0.54%
USD/CAD	1.3482	-.0058	-0.43%
AUD/USD	.6523	.0040	0.62%
USD/BRL	4.9620	-.0202	-0.41%
Bitcoin	43,206.18	655.73	1.54%
10 Year Yield	4.090	-.074	-1.78%
30 Year Yield	4.296	-.049	-1.13%
10's-2's	-32 bps		
Date of Rate Cut	May 2024		
2024 YE Fed Funds	4.21%		
Prices taken at previous day market close.			

Beginning with metals, there was a sharp drop in real interest rates yesterday thanks to very strong demand metrics in the Treasury's 3-yr Note auction, which stopped through the when-issued yield of 4.17% by nearly a full basis point while officials from the Treasury reported that with the right funding, revenue gains "could be as high as $851B." The rebound in the bond market and pullback in the dollar both supported the 0.46% rally back to the familiar $2,050/oz. level, which remains a "magnet" for oscillating gold prices.

Copper rallied a slightly less impressive 0.32%. The gains came on the back of the encouraging comments about the U.S. economy by multiple Fed officials, despite maintaining a largely hawkish tone collectively. The strong economic data in the EU and stepped-up measures by the Chinee government to stabilize the nation's financial markets also helped copper notch a rally. The outlook for copper remains cautious, as futures have been rangebound for months. Initial support lies at $3.73 while $3.95 remains a key resistance level to watch.

WTI crude oil futures rallied on the solid economic data out of the EU paired with a weaker dollar early before advancing to new session highs into the lunch hour as expectations for a successful ceasefire deal between Israel and Hamas faded amid deteriorating news flow regarding the well-being of Israeli hostages held by Hamas. WTI ended the day up 0.98% near $73.50/barrel.

Today, focus will be on the weekly EIA data (and of course any new developments regarding Israel-Hamas negotiations). In order for the rally in oil to continue, we will need to see firming consumer demand metrics with gasoline-supplied recovering towards 9 million barrels/day and oil production hold below the recently established record of 13.3MM b/d. Otherwise, the fundamental case for the oil bulls is a tough one to pitch barring more geopolitical tensions.

Currencies & Bonds

Treasury yields remained volatile on Wednesday as the 2- and 10-year yields both dropped modestly, but unlike much of the past week it wasn't Fed speak or data that pushed yields lower. The 2-year yield fell 7 basis points while the 10-year yield dropped 8 basis points.

The key event in the bond markets yesterday was a 3-year Treasury auction and demand was solid and that's why yields fell modestly on Tuesday. The Treasury auctioned $54 billion worth of 3-year debt and bidding was aggressive as the actual yield was 4.169% vs. the 4.178% "When Issued" yield. Additionally, and more importantly, foreign demand for the debt was strong as indirect bidders, which is a proxy for foreign buyers, bought 66% of the auction, the highest level since August. Treasury yields started Tuesday trade slightly lower as markets digested the big rally of the past two days but the strong 3-year auction sent yields to the lows of the day and kept volatility elevated in the bond market.

Stepping back, we have seen a lot of volatility in the 10-year yield over the past several days and that makes sense. Two weeks ago, a March rate cut was guaranteed. A week ago, it was possible. Now, a March cut is unlikely and a May cut is coming into (some) doubt. Throw in a spike in bank anxiety around NYCB's earnings last week, and we have absolutely seen an uptick in bond volatility. However, for now this is mostly just "noise" in a range, largely bordered by 3.90%ish on the low end and 4.30% on the high end. Until we get finality on a May cut (meaning the Fed tells us it's coming) we should expect more volatility in this range. That said, a break of the range in either direction would likely be a negative for stocks as a move through 4.30% in the 10-year yield would represent a hawkish shift while a drop below 3.90% would imply a slowing economy.

Turning to currencies, the Dollar Index was little changed in mostly quiet trade as there was no notable or market-moving economic data from the U.S., EU or UK. The Dollar Index declined 0.21%. There was some data in Europe including German Manufacturers Orders (better than expected) and Eurozone Retail Sales (slightly worse than expected) but none of it moved expectations for rate cuts and as such, the moves in the currency markets yesterday were mostly "noise." The pound drifted lower by 0.3% while the euro declined by 0.4%.

Bottom line, the dollar is rallying as the markets price in a less-dovish Fed than was previously expected and the dollar is at a one-month high. But for the greenback to become a problem for stocks, we'd need to see a move through 105 towards 106 and higher, and for that to happen it'll take either 1) A bounce back in inflation or 2) The Fed pushing back on a May rate cut.

Have a good day,

Tom

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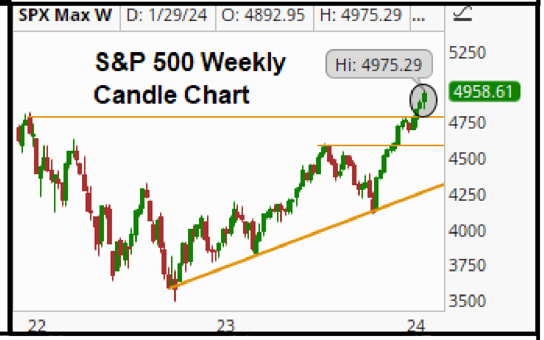
Technical Perspectives (Updated 2/4/2024)

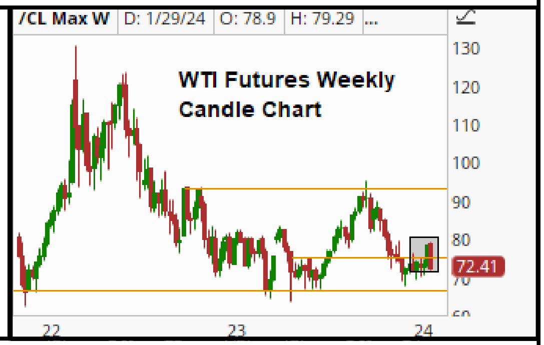
S&P 500

- 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.