SEVENS REPORT

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

March 11, 2024

Pre 7:00 Look

- Futures are slightly lower mostly on momentum from Friday's declines following a very quiet weekend of news.
- Economically, the only notable number over the weekend was Chinese CPI, which rose more than expected (0.7% vs. (E) 0.3%) and that's being seen as a positive as deflation was a growing risk in the Chinese economy.
- Focus this week will remain on economic data and tomorrow's CPI report is the key report for the week.
- Econ Today: New York Fed Inflation Expectations (E: 3.00%).

Market	Level	Change	% Change
S&P 500 Futures	5,187.50	-5.00	-0.10%
U.S. Dollar (DXY)	102.70	-0.01	-0.01%
Gold	2,184.10	-1.40	-0.06%
WTI	78.04	0.03	0.04%
10 Year Yield	4.08%	-0.01	-0.25%

Equities

Market Recap

Stocks advanced to new record highs last week as economic data and less-hawkish Fed commentary helped offset worries about the Chinese economy and reinforce soft landing optimism. Profit taking in mega-cap tech shares saw the S&P 500 post a weekly loss of 0.26%, however, which leaves the index up 7.42% YTD.

The stock market had a quiet start to last week as news flow was limited with no economic reports and only a couple notable Fed speakers (Bostic and Harker) who simply reiterated the recent "higher for longer" rhetoric and didn't offer any new insight to the outlook for Fed policy. The S&P 500 dipped 0.12%.

Tech shares led stocks lower on Tuesday due to negative news out of China as sales metric for both AAPL products and TSLA vehicles weighed on the two Mag 7 names. AMD was hit hard as the U.S. prohibited the sale of AI chips to China. A Goldilocks ISM Services release triggered a short-lived rally, but crowded positioning in the long mega-cap tech/short-volatility trade saw the S&P 500 drop 1.02% to close below 5,100.

The market reclaimed a good portion of Tuesday's losses on Wednesday. The bid started to come into equities overnight as several influential officials from the Chinese government reiterated their commitment to reaching the 5% growth target this year. In the U.S., the February ADP report and January JOLTS data were market friendly and importantly not "hot," while Powell's Congressional testimony was less hawkish than feared as he reaffirmed that policy rates had peaked for the cycle, in his view. The S&P 500 rebounded 0.51%.

The rally continued Thursday amid a dovishly received ECB decision as they lowered inflation expectations and their growth outlook rekindling hopes for a June rate cut. In the U.S. an unexpected decline in Unit Labor Costs and as-expected jobless claims matched the theme of cooling growth and inflation domestically while Powell reiterated that the FOMC believes rate cuts will begin this year. The S&P 500 rose another 1.03% to close at yet another record high.

Stocks rallied at the open Friday as dovish ECB commentary regarding an April or June rate cut helped offset underwhelming earnings from tech/AI-related stocks AVGO and MRVL while the U.S. jobs report showed strong jobs growth on the headline along with easing wage inflation, a scenario that supports the case for a sooner-than-later

Market	Level	Change	% Change
Dow	38,722.69	-68.66	-0.18%
TSX	21,737.53	-57.03	-0.26%
Stoxx 50	4,929.91	-31.20	-0.63%
FTSE	7,634.98	-24.76	-0.32%
Nikkei	38,820.49	-868.45	-2.19%
Hang Seng	16,587.57	234.18	1.43%
ASX	7,704.22	-142.76	-1.82%

Prices taken at previous day market close.

rate cut from the Fed. After hitting record highs early, the S&P 500 rolled over, closing down 0.65% as traders booked profits in mega-cap tech names (NVDA fell 5.55% Friday).

Market	Level	Change	% Change
DBC	22.17	-.07	-0.31%
Gold	2,183.30	18.10	0.84%
Silver	24.53	-.05	-0.22%
Copper	3.8895	-.0365	-0.93%
WTI	77.90	-1.03	-1.30%
Brent	81.95	-1.01	-1.22%
Nat Gas	1.802	-.016	-0.88%
RBOB	2.5276	-.0272	-1.06%
DBA (Grains)	22.42	-.03	-0.16%
Prices taken at previous day market close.			

Data Was Goldilocks and Powell Pointed Towards June Rate Hikes, So Why Didn't Stocks Rally?

The S&P 500 was flat last week which is a bit of a surprise given recent history (where the market seems to rally almost by default) and considering that 1) The jobs report was mostly Goldilocks, 2) Powell pointed towards a June rate cut and 3) What inflation data we received pointed to a continued easing of price pressures.

Indeed, all those events are positive. The reason they didn't help stocks rally last week, however, is because they're nothing new. Put differently, at 5,140-ish in the S&P 500, all those positives (Goldilocks data, June cuts, falling inflation) are already priced in. So, while reinforcing those concepts helps support the market, it's not going to drive it materially higher from here.

Meanwhile, there is virtually nothing bad priced into this market, not even a hint, and that's why Friday's jobs report, while it fell into the "Just Right" category, also showed an unemployment rate that had risen to 3.9%, the highest level since January 2022! That now joins a growing list of indicators that aren't signaling weakness, but that are hinting at a loss of momentum: Continuing claims (near November highs), ISM Service PMI (not far above 50), ISM Manufacturing PMI (can't get above 50), Retail Sales (lackluster in January), retail/discretionary corporate commentary (boats, car, RVs, all seeing demand slowdown).

To be crystal clear, none of those mean the economy is slowing. Nor do they mean a recession is becoming more likely (it is not at this point). But they do mean that the economy could lose forward momentum and that is simply not priced into stocks at these levels, so that is something new and that's why markets didn't rally on Friday.

Bottom line, I continue to think that slowing growth is the single biggest vulnerability for this market and while overall the economy remains strong and chances of a meaningful slowdown in the near term are low. However, chances of a slowing of growth that catches investors by surprise are not low, mainly because there is zero allowance for it with the S&P 500 at 5,100. And if data points towards a slowing of growth, then a decline of 5%-10% can happen easily due to overextended sentiment and valuations—and that doesn't even mean we actually get a slowdown, just that investors must acknowledge one may be more likely than expected.

This is why I continue to remain in favor of lower volatility (USMV/SPLV), value (VTV) and defensive sectors (XLU/XLP/XLV) along with the rest of the market (RSP). If we do get any hint of a slowing, these styles and sectors should outperform. Conversely, if the rally stalls and churns, there's room for these sectors to play "catch up" in a generally rising macroeconomic environment. Finally, even if AI tech continues to push the market higher, these sectors and ETFs will go along for the ride and while they won't outperform tech, investors won't be left behind, either.

Economics

Last Week

Economic data last week was generally Goldilocks and while it wasn't perfect, it did largely support the idea of stable growth, falling inflation and rate cuts in June and that includes Friday's jobs report.

The headline job adds number was "hot" at 275k vs. (E) 190k, but everything else was Goldilocks and that includes revisions to the January number, which saw that job adds number reduced from the blazing hot 355k to a much more in-line 229k. Point being, it we take both the January and February numbers together, job adds averaged just over 250k and considering the other details in the report, that simply isn't "Too Hot." Those other details included an unemployment rate that was in the "Just Right" range at 3.9% vs. (E) 3.6% while wages rose less than expected (up 0.1% vs. (E) 0.2% and 4.3% y/y vs. (E) 4.4%. Bottom line, the jobs report was Goldilocks enough when one looks past just the headline job adds and that's why we saw futures rally following its release on Friday.

Looking at the remainder of last week's data, it was also Goldilocks enough. The ISM Services PMI declined to 52.6 vs. (E) 53.0 but New Orders were higher (56.1 vs. (E) 55.0) while Prices declined to 58.4 vs. (E) 64.0. Bottom line, the number stayed above the important 50 level (a drop below is an economic warning) but wasn't too strong either and the details were good enough.

Turning to the Fed, Powell's testimony before the House Financial Services and Senate Banking Committees provided nothing new and to be clear, it wasn't incrementally dovish. However, it did serve to clearly reinforce the idea that the Fed will cut rates in the coming months barring a surprise bounce back in inflation and the practical result was that expectations for a June cut did increase and that helped stocks broadly last week.

Bottom line, last week's data was positive for stocks and bonds (stocks higher/yields lower) and reinforced the bullish mantra of stable growth, falling inflation and impending Fed rate cuts, as a June cut is virtually 100% priced in (and it wouldn't shock me if expectations for a May cut rise too).

This Week

Normally the week following a jobs report is quiet from a data standpoint, but that is not the case this week as we get arguably the most important economic number each month (CPI) as well as important updates on consumer spending (retail sales) and economic activity in March (Empire manufacturing).

Tomorrow's CPI looms large as markets expect a solid decline in Core CPI, to 3.7% from 3.9%, and that type of drop will solidify the idea that inflation is still declining and further reinforce the idea of rate cuts June. However, the report also has to potential to more forcefully push back on falling inflation and if that occurs, don't be shocked by an "air pocket" as yields rise, because despite some wavering on inflation data, the idea of continued falling inflation is still priced into stocks.

CPI is the most important overall report this week, but Thursday's Retail Sales is the key growth report for a simple reason: Retail sales were surprisingly soft last month and if that trend continues (or gets worse) it will push back on the assumed idea of "no landing" or "soft landing." Similarly, Empire manufacturing on Friday will give us the first look at March economic data and the bottom line there is markets will want to see stability especially if retail sales is weaker than expected. Finally, jobless claims (Thursday) will be watched to see if Continuing Claims does rise above 1.925M and, in doing so, hint the U.S. labor market is finally starting to see some softening on the margin.

Bottom line, economic data will directly reinforce or challenge the bullish mantra of "stable growth, declining inflation and impending rate cuts" this week. If CPI and retail sales meet expectations, that mantra will be repeated by investors and stocks can extend the rally. If CPI and retail sales miss expectations, they will push back on that bullish refrain and given how short-term stretched sentiment and technicals are right now, the possibility of a solid pullback will be real.

Market	Level	Change	% Change
Dollar Index	102.71	-.06	-0.06%
EUR/USD	1.0936	-.0012	-0.11%
GBP/USD	1.2849	.0040	0.31%
USD/JPY	147.10	-.95	-0.64%
USD/CAD	1.3497	.0038	0.28%
AUD/USD	.6618	-.0002	-0.03%
USD/BRL	4.9856	.0506	1.03%
Bitcoin	69,321.28	1,326.63	1.95%
10 Year Yield	4.089	-.003	-0.07%
30 Year Yield	4.262	.014	0.33%
10's-2's	-40 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.50%		
Prices taken at previous day market close.			

Commodities

Commodities were mixed last week as traders digested a slew of economic data including several labor market reports in the U.S. as well as central bank decision overseas and commentary from Powell midweek. Ultimately, metals rallied on a weak dollar, led by gold, while oil declined on the week on demand worries. The commodity ETF, DBC, rose 0.32% on the week thanks to the gains in gold.

Precious metals were the upside standouts in commodities last week as gold futures surged 4.52% to new intraday and closing records. The price of front month gold futures briefly surpassed $2,200/oz. on Friday before pulling back modestly into the weekend.

A recent rise in market-based inflation expectations (5-yr breakevens) which hit the highest since October paired with declining benchmark Treasury yields and a sharp drop in the dollar created a perfect environment to support last week's surge to fresh all-time highs. Looking ahead, the new highs are a positive signal for more strength to come; however, prices have become quite overbought near-term and a pullback to the previous highs closer to $2,100/oz. at some point should not come as a big surprise but should be viewed as an opportunity to add long exposure to gold.

Switching to industrial metals, copper rallied 0.84% last week mostly thanks to the weaker dollar and less-hawkish central bank policy expectations easing recession worries. The path to a soft landing remains a narrow and challenged one though and until we see copper break out through resistance at $3.95, the macroeconomic outlook will remain weak.

WTI crude oil futures flirted with the 2024 highs above $80/barrel on Wednesday thanks to strong consumer demand expectations in the weekly EIA report that came out after Saudi Arabia unexpectedly hiked prices for oil cargo deliveries later in the spring and OPEC+ extended current supply cuts through the middle of the year. However, a significantly backwardated term structure of the oil market has been a key driver behind the early 2024 rally and we saw calendar spreads breakdown to end Friday at a new March low, which took some wind out of the oil rally's sails into the weekend. WTI futures ultimately closed down 2.46% for the week. Looking ahead, the main factors that will be in focus this week are Chinese growth expectations (the better, the more bullish for oil), U.S. consumer demand in the weekly EIA data (stronger the better), and Fed policy expectations (more dovish, the better for oil).

Currencies & Bonds

The Dollar Index and Treasury yields fell moderately last week thanks to investors more fully expecting rate cuts in June (and maybe May) and Goldilocks economic data. The Dollar Index declined 1.4% while the 10-year Treasury yield fell 10 basis points.

Much of the dollar's decline came on Thursday and Friday thanks to Powell and the jobs report. The Fed chair wasn't incrementally dovish in his two-day testimony before Congress last week but he did clearly continue to steer market expectations to a June rate cut and that, in turn, increased those expectations to nearly 100%. Notably, the dollar declined despite similar language from the ECB, as ECB President Lagarde also wasn't dovish but did point investors towards a summer rate cut (also likely in June). The euro rose 1.11% vs. the dollar while the pound gained a more formidable 1.7%.

Bottom line, it's not that Powell was more dovish last week. He wasn't. Instead, he removed doubts that the Fed will cut in June and that's the reason the dollar and Treasury yields dropped, along with the mixed jobs report (which only further solidifies a June rate cut and even slightly increased the odds of a May cut). As mentioned, the dollar dropped to a six-week low but for the greenback to decline towards 100 (and in doing so become a tailwind for stocks) economic data will need to either roll over (not positive for stocks) or expectations for a May rate cut increase (something to watch for this week especially if CPI is in line or better than expected).

Turning to Treasury yields, the 2 year fell 13 basis points as Powell removed doubts that the Fed will be cutting rates sooner than later (meaning June practically). The 10 year fell 10 basis points and closed just above 4.00% and almost perfectly in the middle of the virtuous 3.75%-4.25% trading range that's supportive for stocks.

Bottom line, the decline in yields is a positive for stocks but only for so long. A decline through 3.75% likely signals worse-than-anticipated economic growth and as such, it won't be a positive for stocks. The best case for stocks remains a calm Treasury market with the 10 year in the 3.75%-4.25% trading range.

Have a good week,

Tom

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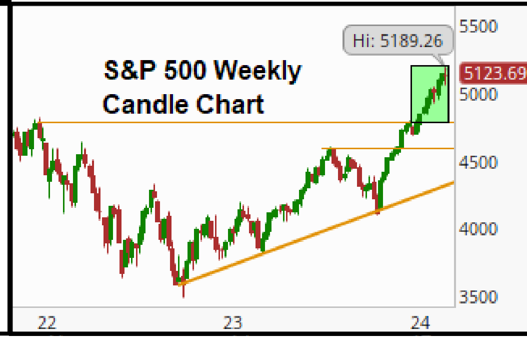
Technical Perspectives (Updated 3/10/2024)

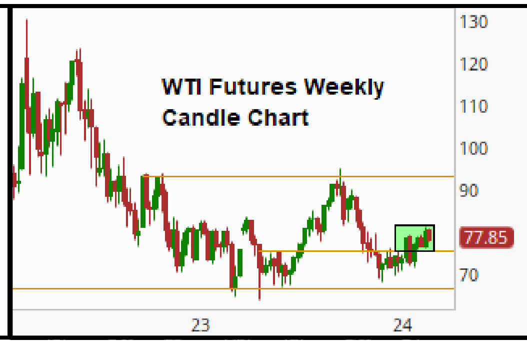
S&P 500

- 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: 5164, 5185, 5200
- Key Support Levels: 5079, 5030, 4976



WTI Crude Oil

- Technical View: Oil took a breather from its 2024 rally last week with signs of exhaustion emerging in the technicals; however, the uptrend is intact.
- Proprietary Model: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $79.46, $80.82, $82.48
- Key Support Levels: $77.60, $75.96, $74.20

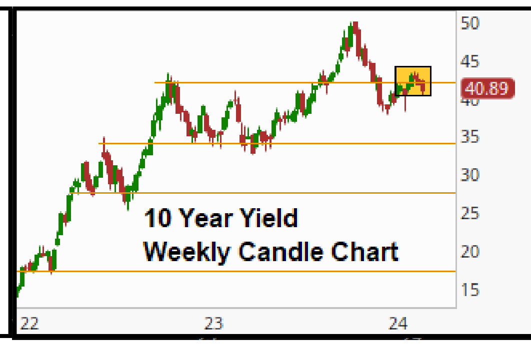


Gold

- Technical View: Gold futures surged to fresh records last week adding conviction to the rally that began with a breakout to new all-time highs in late 2023.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2203, $2231, $2265
- Key Support Levels: $2133, $2092, $2053

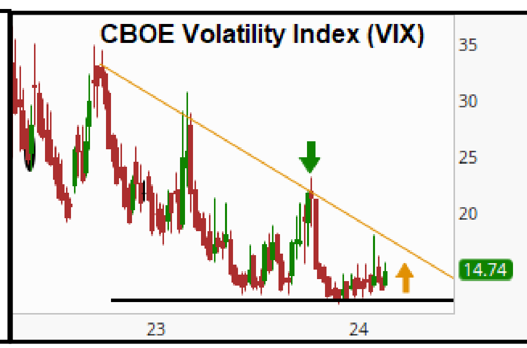
10-Year T-Note Yield

- Technical View: The 10-year yield rebounded to start 2024 but has since started to rollover, bringing the 2024 uptrend in the benchmark yield into focus.
- Proprietary Model: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.180, 4.244, 4.325
- Key Support Levels: 4.033, 3.927, 3.863



CBOE Volatility Index (VIX)

- Technical View: The VIX held its 2024 uptrend last week and the steady churn higher despite new highs in the S&P 500 points to an elevated threat of volatility looming.
- Proprietary Model: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 14.98, 15.42, 16.12
- Key Support Levels: 13.75, 13.34, 12.79



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Fundamental Market View (Updated 3/10/2024)

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 declined modestly last week thanks to a Friday dip as economic data hinted at a possible slowing of momentum while the remaining events of the week just confirmed existing market expectations.*

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 rose slightly last week thanks to strength in gold, which rose above $2,200/oz. on the weaker U.S. dollar while oil declined modestly on global demand concerns following lackluster Chinese economic goals.*
US Dollar	**Neutral**	*The Dollar Index declined to a near-two-month low last week as data slightly underwhelmed while Powell clearly pointed towards a June rate hike (and the possibility of a May hike rose slightly).*
Treasuries	**Turning Positive**	*Treasury yields declined sharply last week on the aforementioned economic data (that was Goldilocks but pointed towards a possible slowing of momentum) while Powell reiterated rate cuts are coming soon (meaning June).*

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.