SEVENS REPORT

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

March 12, 2024

Pre 7:00 Look

- Futures are cautiously higher thanks to market-friendly economic data o/n as traders await the U.S. CPI report.
- German CPI met estimates in February (+0.4% m/m) while the U.K. jobs report showed an uptick in unemployment and easing wage pressures.
- Domestically, the NFIB Small Business Optimism Index was slightly disappointing as it edged down to 89.4 vs. (E: 89.9).
- Econ Today: CPI (E: 0.4% m/m, 3.1% y/y), Core CPI (E: 0.3% m/m, 3.7% y/y). No Fed officials are scheduled to speak.
- There is a 10-Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5198.50	12.75	0.25%
U.S. Dollar (DXY)	102.871	.000	0.00%
Gold	2182.30	-6.30	-0.29%
WTI	78.44	.51	0.65%
10 Year Yield	4.090	-.014	-2.53%

The non-typical positive correlation between the S&P 500 and VIX, which are both decidedly positive YTD, could come to a head today as one of the two uptrends is unsustainable in the long run. Either we see the VIX rollover and equities continue higher, or stocks rollover amid an acceleration in the VIX.

Equities

Market Recap

Stocks recovered from early losses to end yesterday with only modest losses as today's widely anticipated February CPI report came into focus amid mostly quiet newswires. The S&P 500 slipped 0.11%.

Equities declined modestly at the open yesterday as momentum from Friday's intraday reversal from record highs continued into the new trading week. Chinese CPI was the only economic report from the weekend and it was hot at 0.7% vs. (E) 0.3%, but that was actually fairly well received by the market as it helped to quell fears of deflation gripping the Chinese economy. The S&P 500 tested 5,100 in the first hour before a slow churn higher, driven by positioning began.

In the U.S., the NY Fed's Consumer Survey, which included inflation expectations was released at 11 a.m., as 1-yr inflation expectations met estimates of 3%; however, the 3-Yr and 5-Yr figures climbed from 2.4% to 2.7%, and 2.5% to 2.9%, respectfully, in February, which bolstered concerns about another hot CPI report today. The pullback in the wake of the release was another short-lived dip and the market continued to grind higher into the early afternoon.

The final catalyst for the otherwise very quiet trading day was a 3-Yr Treasury Note auction which saw strong demand and helped stocks drift higher. The S&P 500 turned sideways to end comfortably above psychological support at the 5,100 mark as focus shifted ahead to today's U.S. CPI report.

Market	Level	Change	% Change
Dow	38,769.66	46.97	0.12%
TSX	21,769.21	31.68	0.15%
Stoxx 50	4,935.98	5.56	0.11%
FTSE	7,744.46	75.23	0.98%
Nikkei	38,797.51	-22.98	-0.06%
Hang Seng	17,093.50	505.93	3.05%
ASX	7,712.53	8.31	0.11%
Prices taken at previous day market close.			

Trading Color

There were hints of a small uptick in growth concerns in the markets on Monday both on an index and sector level. The Russell 2000, which is more sensitive to growth, lagged all and declined 0.8% while the less-cyclicals-focused Dow outperformed and finished little changed. The Nasdaq declined 0.4%.

Market	Level	Change	% Change
DBC	22.36	.19	0.86%
Gold	2,189.80	4.30	0.20%
Silver	24.69	0.15	0.59%
Copper	3.9290	.0375	0.96%
WTI	78.13	.12	0.15%
Brent	82.43	.35	0.43%
Nat Gas	1.760	-.045	-2.49%
RBOB	2.5891	.0619	2.45%
DBA (Grains)	22.76	.33	1.47%
Prices taken at previous day market close.			

Looking at sector trade, commodity-linked sectors and defensive sectors outperformed. Materials (XLB) and energy (XLE) rose 1.3% and 1.0%, respectively, thanks to the better-than-expected Chinese inflation data which was again taken as a positive because deflation concerns in the Chinese economy were rising. If Chinese growth is better than expected, it'll likely increase demand for natural resources (that's why Chinese economic data moved XLB and XLE more than other sectors).

Utilities (XLU up 0.3%) and consumer staples (XLP up 0.5%) were the other solid performers on Monday and that was again driven by the slight uptick in U.S. growth concerns following the pop in the unemployment rate on Friday. The remaining seven sector SPDRs were either little changed or slightly weaker, with technology (XLK) dropping modestly on some residual tech selling from Friday and ahead of ORCL earnings, while XLRE (real estate) dipped 0.5% on higher yields and industrial fell 0.6% on a 3% drop in Boeing (BA) as investors feared more regulatory scrutiny at the company.

Growth Concerns, Not Fears

Today's CPI kept markets mostly calm on Monday but if we look beneath the surface, as mentioned, there was evidence of a small uptick in growth concerns and that's something we'll be watching for more closely in the coming days.

To be clear, nothing in the markets implies growth is rolling over but markets have also made no allowances for even a mild loss of economic momentum. And if investors must confront that possibility, it will create volatility and likely a modest pullback.

Beyond the CPI report, this week's Retail Sales and Empire Manufacturing reports will be closely watched to see whether they confirm or refute the sprouting of some mild growth concerns. Finally, I use the word concern deliberately. Growth concerns reflect what's appropriate for the current environment, as data is solid and there's nothing pointing to a materially rising risk of a slowdown. And if growth concerns remain in the market, expect a modest pullback but not a real threat to the rally.

Growth fears are something different and much more negative as they imply rising recession chances and that would be a substantial negative for markets if they appear. Happily, we are a long way from that according to the data. Let's hope it stays that way.

Economics

CPI Preview: Good, Bad, Ugly

Declining inflation is one of the biggest reasons for this rally and markets need to see that decline in inflation continue via today's Core CPI, otherwise investors might start to reduce expectations for a June rate cut and that would be a new headwind on stocks.

Inflation is still declining according to the key statistics (CPI and Core PCE Price Index) but the pace of that decline has slowed meaningfully and anecdotal indicators of inflation are keeping alive the possibility of a temporary bounce back in inflation. As such, markets need to see, at a minimum, core CPI continue to decline, because core CPI has essentially been "stuck" around 4.0% y/y for the past several months and investors need to see a decline that implies core CPI is still moving to the mid-3.0% range.

Conversely, if inflation does not decline or, even worse, bounces back, that will be a direct challenge to the "declining inflation" factor that underpins this rally, and we will likely see rate cut expectations fall and, most importantly, yields rise, which will likely hit stocks.

Bottom line, investors don't need a huge drop in inflation for this report to not disrupt the rally. Instead, they just need some proof that the decline in inflation is still occurring and progress towards returning core CPI to the Fed's 2% target is ongoing. That will keep rate cut estimates in place and help support the current rally.

A "Good" CPI Report: Core CPI ≤ 3.7% y/y. *Likely Market Reaction:* This outcome would continue to confirm inflation is still declining and provide more of the evidence the Fed needs to cut rates in June. We'd expect a broad rally with strength in the "rest" of the market (so super-cap tech relatively lags) including rallies in defensive sectors and "bond proxy" sectors such as REITs, utilities and dividend funds. Treasury yields should fall (potentially hard) on this outcome and the 10-year yield should move below 4.00% again. A 1% rally in the S&P 500 on this outcome wouldn't be a surprise. The Dollar Index should drop as rate cuts become more certain and a drop below 102 isn't out of the question, while commodities (especially gold) should see a solid rally.

A "Bad" CPI Report: **Core CPI 3.8%-3.9% y/y.** *Likely Market Reaction:* This outcome essentially tells us that core inflation didn't really move from the January reading and that will at least partially reduce expectations for a June rate cut, which should modestly weigh on stocks as yields rise. I'd expect the broad S&P 500 to decline modestly (but not more than 1%) with more inflation-linked sectors outperforming (financials, industrials, some tech). Treasury yields should rise but nothing too dramatic (less than 15 bps) as this number wouldn't significantly change the expectation for a June rate cut. The Dollar Index should rally modestly towards 103 while gold could see selling on the stronger dollar and given the recent rally. Overall, this number would be a disappointment but it wouldn't be enough to damage the expectation for rate cuts or still-falling inflation, and as such the market reaction should be not be too intense.

An "Ugly" CPI Report: **Core CPI ≥ 4.0% y/y.** *Likely Market Reaction:* A solid selloff. A hotter-than-expected CPI report that shows core inflation rose from January would push back hard on rate cut expectations and we should see stocks and bonds drop moderately as a result. Treasury yields should rise solidly (10-20 bps) and that rise in yields would, in turn, pressure stocks the same way it did in August-October. We'd expect defensive sectors to relatively outperform, but all 11 SPDRs would likely be solidly lower on the day. The Dollar Index should jump back solidly above 103 as the market dials back expectations for a June rate cut (it may drop close to 50% on this number). Commodities would likely be hit hard on the surging dollar and worries about further growth given higher yields.

Bottom Line

Inflation remains a key component of this relentless rally, but unlike before, the market doesn't need continued evidence of a decline in inflation to support the gains in stocks, namely because the Fed has said the inflation data doesn't have to necessarily get better to justify rate cuts later in 2023. So, to threaten this rally, that means we'll need to see a bounce back in core CPI. Barring that, CPI should not materially disrupt the rally.

Commodities

Market	Level	Change	% Change
Dollar Index	102.85	.16	0.15%
EUR/USD	1.0925	-.0014	-0.13%
GBP/USD	1.2809	-.0049	-0.38%
USD/JPY	146.95	-.11	-0.07%
USD/CAD	1.3485	.0002	0.01%
AUD/USD	.6611	-.0013	-0.20%
USD/BRL	4.9749	-.0089	-0.18%
Bitcoin	72,489.41	3,029.60	4.36%
10 Year Yield	4.104	.015	0.37%
30 Year Yield	4.277	.015	0.35%
10's-2's	-44 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.53%		
Prices taken at previous day market close.			

Commodities were mostly higher to start the week as traders remain hopeful inflation pressures will continue to ease and the Fed will proceed with rate cuts to achieve a soft landing this year, which would be a demand-side positive for the commodity complex. The commodity ETF, DBC, gained 0.86%.

Beginning with energy, WTI crude oil futures were initially lower, falling below $77/barrel partially thanks to bearish momentum from last week's decline and partially due to positioning ahead of today's CPI report. The hawkish implications a "hot" CPI print would have on Fed policy expectations would mean a less-optimistic outlook for consumer demand amid a higher-for-longer policy rate environment.

Oil turned higher midmorning after an industry poll revealed that 72 out of 108 economists expected a Fed rate cut in June, which helped bolster soft landing hopes. The White House's economic forecast showed a mild uptick in unemployment expectations for 2025, which added to the dovish money flows, as did a strong 3-Yr Treasury Note auction. The combination of those headlines and developments saw WTI crude prices recover nearly all of the morning gains as futures ended the day down just 8 cents or 0.10%. Bottom line, the emerging 2024 oil market rally remains intact for now but some weakness in the calendar spreads suggests easing physical market conditions and a potential pause or pullback is looming for energy. Beyond today's CPI report tomorrow's EIA report will be critical to the next direction the oil market moves.

Turning to metals, gold notched yet another all-time record high with a modest gain of 0.16%. Gold futures are very overbought but the path of least resistance remains higher. But a pullback to the previous record high just under $2,100/oz. shouldn't come as a shock. In the industrial metals, copper futures rallied a solid 1.02% to outperform the rest of the complex. Copper benefited from the warmer-than-expected Chinese CPI report as it eased worries of a deflationary downturn in the Chinese economy. Today, the CPI report has the potential to send copper prices through resistance at $3.95 (if it is cool/market-friendly) or reverse the rally off the February lows (if it is hot/hawkish).

Currencies & Bonds

Pre-CPI positioning drove the currency and bond markets on Monday in generally quiet trade as the Dollar Index rose 0.14% while Treasury yields rose modestly.

There was only one notable event in the currency and bond markets on Monday and it was a 3-year Treasury auction and the results were strong. The bid to cover, a measure of demand, was 2.6 vs. 2.58 last month, while bidding was aggressive and there was strong participation from foreign investors (indirect bidders, which represent foreign investors, bought 70% of the auction vs. 66% last year). Normally, that strong auction would have pressured Treasury yields. Instead, yields rose as the 2-year gained 5 basis points while the 10-year yield rose 1 basis point and today's CPI was the main reason. Treasury yields have dropped solidly over the past two weeks and bond traders were clearly doing some "book squaring" in case today's CPI is hot and sends yields higher.

Stepping back, unless the CPI report is shockingly strong, the 10-year yield should remain in the stock-favorable 3.75%-4.25% range and as such, continue to be supportive of markets. Again, a break of that range in either direction would be a new negative signal for stocks and as such the 10-year Treasury yield remains one of the most important indicators in the markets.

Turning to currencies, the Dollar Index was little changed in quiet trade. There were no notable economic reports and the mild rally can also be attributed to trader positioning, as the dollar hit a near-two-month low last week and if the CPI report is higher than expected, a sharp rebound rally could ensue.

Foreign currencies were similarly little changed as the euro fell 0.1% while the pound dropped 0.3%. There was little news or commentary to move the markets and again pre-CPI positioning dominated trading.

Stepping back, the dollar has drifted to a near-two-month low as markets are pricing in a slightly more dovish Fed compared to the ECB and BOE expectations, although all three are still expected to cut rates by early summer. For the dollar to decline further we'll need to see either U.S. data roll over more forcefully or expectations for ECB or BOE rate cuts diminish. Otherwise, expect the Dollar Index to remain in the lower-to-mid 100s, which again is basically "neutral" for stocks.

Have a good day,

Tom

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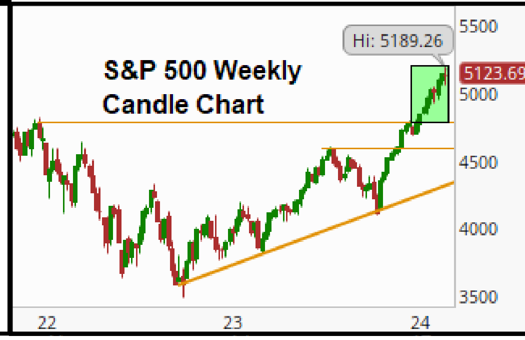
Technical Perspectives (Updated 3/10/2024)

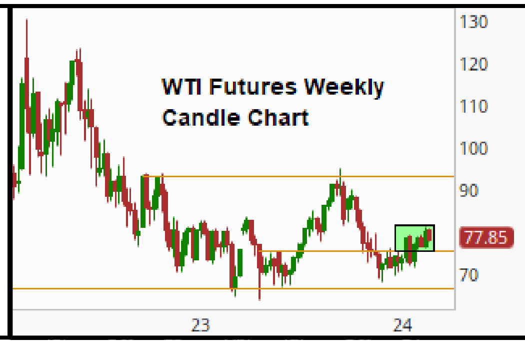
S&P 500

- 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



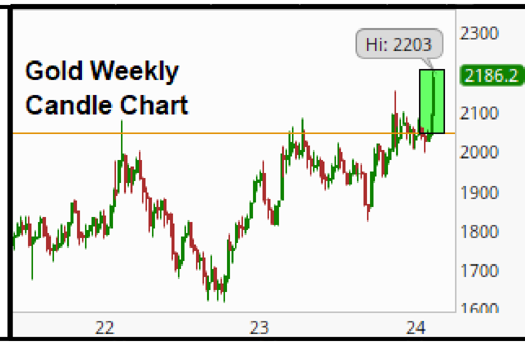
WTI Crude Oil

- 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



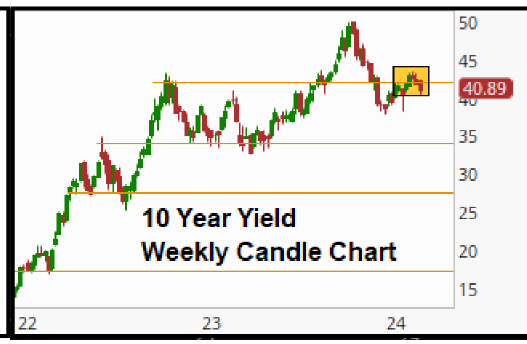
Gold

- 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



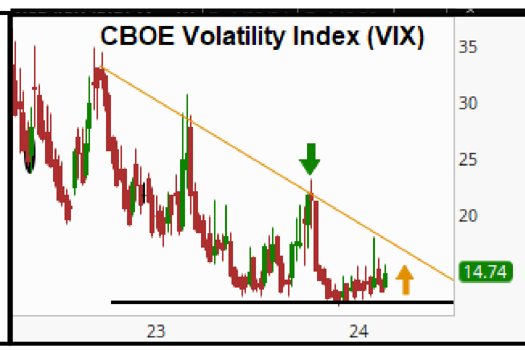
10-Year T-Note Yield

- 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.