SEVENS REPORT

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

March 15, 2024

Pre 7:00 Look

- Futures are seeing a mild bounce despite mixed inflation data and disappointing tech earnings overnight.
- The global decline in inflation was again challenged overnight as French HICP was slightly hotter than expected.
- ADBE posted solid earnings but underwhelming guidance and the stock is down 12% pre-market, weighing on the tech sector.
- Econ Today: Empire State Manufacturing Index (E: -8.0), Industrial Production (E: 0.0%), Consumer Sentiment (E: 77.3), 1-Yr/5 yr Inflation Expectations (E: 3.0%/2.9%).

Market	Level	Change	% Change
S&P 500 Futures	5,229.25	11.25	0.22%
U.S. Dollar (DXY)	103.36	0.00	0.00%
Gold	2,173.50	6.00	0.28%
WTI	80.66	-0.60	-0.74%
10 Year Yield	4.28%	-0.02	-0.42%

Equities

Market Recap

Volatility picked up yesterday as there was a whiff of stagflation in domestic economic data that sent Treasury yields surging. The S&P 500 ended the day off of the worst levels but still down 0.29%.

Stocks initially gapped higher at the opening bell yesterday as investors were digesting the hot PPI data in the same way they received the hot CPI release on Tuesday, i.e., not enough to jeopardize a June rate cut. Based on fed funds futures, that appeared to be true; however, the hawkish selloff in the Treasury market quickly began to weigh on the stock market as the 10-Yr yield rapidly approached recent highs near 4.30%.

The market stabilized midmorning and held the opening lows through the lunch hour as newswires were relatively quiet as the economic data was digested. But the selloff in the Treasury market remained relentless and steady with yields grinding higher into the close. The S&P 500 fell to new lows for the day at the start of the final hour before recovering to close near the middle of the day's trading range, and still within reach of the recently established record highs.

Why Yesterday's Data Was Worse Than the Market Reaction

Thursday's economic data pointed towards stagflation and decreased the expectation for a June rate cut and stocks dropped accordingly, although the news wasn't enough to cause significant damage to the bullish mantra of stable growth, falling inflation, imminent Fed rate cuts and AI enthusiasm. As such, losses were modest.

But don't let the modest decline in stocks fool you: Economic data this week has not been positive for stocks and while it hasn't invalidated any of that bullish mantra, it has weakened it. Thursday's PPI reinforced that the decline in inflation has slowed to an apparent crawl, although bulls will hold on to the belief that a drop in housing prices over the past year will soon hit the CPI data and push that number lower. Retail sales, meanwhile, posted a second straight underwhelming number, although that's not enough, by itself, to become concerned about growth yet.

Put simply, the data over the past week (starting with last Friday's jobs report) has pointed towards a potential slowing of economic momentum and buoyant price pressures (i.e. not falling inflation). That is the market reality.

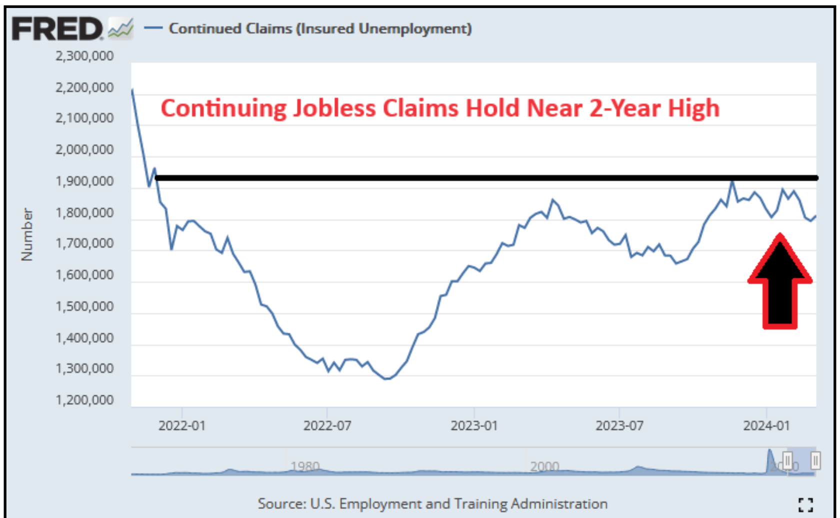
Market	Level	Change	% Change
Dow	38,905.66	-137.66	-0.35%
TSX	21,829.86	-140.25	-0.64%
Stoxx 50	5,1010.06	16.94	0.34%
FTSE	7,747.55	4.40	0.06%
Nikkei	38,707.64	-99.74	-0.26%
Hang Seng	16,720.89	-240.77	-1.42%
ASX	7,670.28	-43.35	-0.56%

Prices taken at previous day market close.

For now, though, these reports aren't enough to overcome the wall of bullish enthusiasm still dominating markets, in part because broadly economic data remains solid and inflation is still declining (slightly) and, in larger part, because AI enthusiasm remains alive and well and tech is helping to offset the slightly negative shift in fundamentals (the "rest" of the market ex-tech was much weaker than the S&P 500 yesterday and the Russell 2000 declined nearly 2%, underscoring that for much of the market yesterday was bad).

Market	Level	Change	% Change
DBC	22.68	.07	0.31%
Gold	2,166.50	-14.30	-0.66%
Silver	25.03	-.13	-0.50%
Copper	4.0485	-.0115	-0.28%
WTI	81.11	1.39	1.74%
Brent	85.20	1.17	1.39%
Nat Gas	1.752	.094	5.67%
RBOB	2.6969	.0354	1.33%
DBA (Grains)	23.09	.14	0.59%
Prices taken at previous day market close.			

While the reports over the past week haven't been enough to cause much of a decline, it is important to acknowledge them because if the evidence becomes strong that inflation isn't slowing anymore, growth is moderating or the Fed won't cut in June (June rate cut odds have declined to 65% from 90% this week), then we're just left with AI enthusiasm to hold up the market and that won't be good enough—I don't care how much money Nvidia can make selling chips.



Continuing jobless claims have moderated from the late-2023 peak but remain just shy of a 2-Yr high and are trending higher, which has historically preceded a rise in the official BLS unemployment rate.

For now, the market positives still solidly outweigh market negatives. But the negatives have grown over the past week and that's important to note because it'll prevent us from being surprised should more data (or Fed speak) add to the list of disappointments and make it large enough that investors finally have to notice.

Economics

Economic data was stagflationary on Thursday and as you'd expect, that weighed on stocks and bonds and reversed the early gains in stocks and caused markets to decline modestly, as the data showed another underwhelming retail sales report and firmer-than-expected inflation and labor market readings (so slow growth and firm inflation, which is stagflationary and not positive for stocks or bonds).

Bottom line, yesterday's economic data didn't make a June rate cut unlikely but it did reduce any expectation for a May cut and reduced expectations for a June cut. If economic data stays like this over the coming weeks, investors will further dial back June rate cut expectations and that would be a headwind on stocks.

PPI

- PPI rose 0.6% vs. (E) 0.3% m/m and 1.6% vs. (E) 1.1% y/y
- Core PPI rose 0.3% vs. (E) 0.2% m/m and 2.0% vs. (E) 1.9% y/y

Takeaway

I stated in Thursday's "Pre 7:00 look" that PPI would have to be much higher than expected to weigh on stocks and that's exactly what happened as the headline reading for PPI spiked sharply, pushed yields higher and weighed on stocks. Headline PPI rose to the highest level since September and core PPI was also hotter than expected and importantly rose slightly (just 4 basis points, but still) from the previous month, underscoring that inflation may be stickier than markets had assumed.

PPI is loosely seen as a leading indicator for CPI and as such this reading will keep concerns alive that the decline in inflation has stalled. More directly, PPI is a component in the Core PCE Price Index and as such, this will put some upward risk to the Fed's preferred inflation report and that's why yields rose immediately following the release.

Jobless Claims

- Weekly jobless claims fell to 209k vs. (E) 218k
- Continuing Claims declined to 1.81 million from 1.90 million

Takeaway

By itself, this employment data would not have weighed on stocks and pushed yields higher. But taken in the context of the hot PPI report, the weekly claims data was viewed as "hot" and contributed to the slight reduction in rate cut expectations for June, as claims remained extremely low. More importantly, however, Continuing Jobless Claims declined solidly back under 1.90 million and away from that 19.25 November high, implying some legitimate improvement in the labor market.

Bottom line, the labor market data, combined with this week's "hot" inflation data, does make a June rate cut less likely than before, although at this point it is still expected by markets.

Retail Sales

- February Retail Sales rose 0.6% vs. (E) 0.8%

Takeaway

Economists expected a big bounce back in retail sales in February following the weakness in January, especially considering that seasonal adjustments for February in leap years are positive for the data, but that failed to materialize as retail sales disappointed for the second straight month. Notably, not only did the February number come in below expectations, but the January data was revised even lower to -1.1% vs. (E) -0.8%.

Market	Level	Change	% Change
Dollar Index	103.37	.60	0.59%
EUR/USD	1.0882	-.0066	-0.60%
GBP/USD	1.2747	-.0050	-0.39%
USD/JPY	148.29	.53	0.36%
USD/CAD	1.3538	.0067	0.50%
AUD/USD	.6575	-.0046	-0.69%
USD/BRL	4.9916	.0199	0.40%
Bitcoin	68,728.21	-4,186.41	-5.57%
10 Year Yield	4.298	.106	2.53%
30 Year Yield	4.443	.094	2.16%
10's-2's	-40 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.67%		
Prices taken at previous day market close.			

Commodities

Commodities were split down the middle as energy outperformed on bullish revisions to the IEA's monthly supply and demand outlook while the stronger dollar and stagflationary economic data weighed on both precious and industrial metals. Strength in oil and natural gas proved enough to send the commodity ETF, DBC, higher by 0.31% to a new 2024 high.

Oil was one of the better performers in the commodity complex yesterday with WTI crude futures jumping by a solid 1.83% to new 2024 highs thanks to several bullish market developments while the headwind of the stronger dollar failed to meaningfully impact the oil market.

The two initial bullish catalysts came early in the European session as the IEA's Monthly Oil Report revealed upward revisions to 2024 oil demand expectations and lower revisions to their 2024 supply estimates. Ultimately the supply and demand revisions resulted in net expectations for tighter physical oil market conditions. That was reflected in the term structure as well with the most widely followed futures calendar spreads rising solidly. The strength in the term structure added some technical/market internal support for yesterday's rally.

The second of the early catalysts was Houthi rebels, backed by Iran, announcing they had secured and tested hypersonic weapons. Whether that's true remains to be seen; however, the threat of a ship in the Red Sea being targeted with a hypersonic missile will certainly deter more ships from choosing to risk navigating the important global trade route. Third, reports that Russia was going to need to increase oil exports because of extensive damage to multiple refineries after attacks from Ukraine reignited geopolitical concerns surrounding the ongoing conflict in Eastern Europe as well as the Middle East.

Bottom line, an early 2024 rally has emerged in the oil market after months of consolidation in the upper \$60s to low \$70s, and yesterday's new closing high above \$81/barrel, a four-month high, help to technically reiterate that the path of least resistance is higher right now. The slew of bullish fundamental news paired with the bullish demand details in Wednesday's weekly EIA report all are supportive of a continued move higher in oil.

Gold was the laggard as the stronger dollar paired with a sizeable 10-bps rise in the 10-year Treasury yield prompted a relatively heavy wave of profit taking after the yellow metal's solid run to new record highs recently. Gold futures ended the day down 0.66% but are only 1% below the all-time closing high from Monday. Part of the reason gold didn't fall further was the stagflationary economic data (hot PPI, weak Retail Sales) as the possibility the Fed needs to cut rates sharply to stave off a deep and painful recession raises the risk of a resurgence in inflation.

Copper futures took a breather from this week's breakout rally, falling a modest 0.30% on the day. Copper ended Wednesday up 3% at an 11-month high amid very high volumes after China announced plans to cut production in order to support prices. It is important to realize that this week's rally in copper is being driven by supply concerns linked to China's production outlook and not because of strong demand prospects based on improving economic expectations. Higher copper prices also add to the stagflation fears yesterday's hot PPI and notably soft Retail Sales data prompted.

Currencies & Bonds

Hotter-than-expected inflation data drove the dollar and Treasury yields higher on Thursday. The Dollar Index rose 0.53% while the 10-year yield gained 9 basis points to trade back above 4.25%.

The 10-year yield surged and has now recouped all of the last two week's declines as CPI and PPI pushed the 10-year yield back above resistance at 4.25%. That boost in yields did weigh modestly on stocks on Thursday although it remains the case that for the 10-year yield to become a substantial headwind on stocks, it'll need to conclusively break higher (so into the mid-to-high 4.30% range) and for that to occur, we'll need 1) Hotter price data or 2) A hawkish surprise from the Fed, likely at next week's FOMC meeting.

The 10-year yield is now slightly out of the 3.75%-4.25% "stock positive" range and the higher it goes, the stronger the headwind it will become on stocks.

U.S. economic data was the major influence on the currency and bond markets on Thursday and the hot PPI report and low jobless claims caused investors to significantly reduce expectations for a June rate cut (although it's still expected) and that, in turn, boosted the dollar.

The higher-than-expected PPI sent the dollar solidly higher for most of the morning before hitting a high of the day around lunchtime and chopping sideways from there. Again, the dollar rose as investor expectations for June rate cuts declined, although the Dollar Index only recouped the last two weeks losses and closed in the mid-103 range.

Foreign currencies traded off the dollar as there was no notable economic data from the EU or UK. The euro dropped 0.6% while the pound fell 0.4%. This week's hotter than expected economic data (both CPI and PPI) has pushed back on the market's expectation that the Fed will be the incrementally most dovish central bank. And that should arrest this recent decline in the dollar and a drift back into the 103-105 trading range shouldn't be a surprise.

From the standpoint of stocks, that's essentially neutral. If the Dollar Index had dropped towards 100, that would have been a positive for earnings and a mild tailwind for stocks. If the Dollar Index rises above 105 towards 106, that's likely a mild headwind on earnings. But in the 103-105 range, the Dollar Index won't be a substantial influence on stocks near term.

Have a good weekend,

Tom

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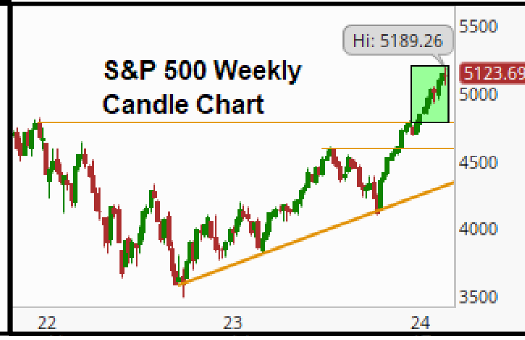
Technical Perspectives (Updated 3/10/2024)

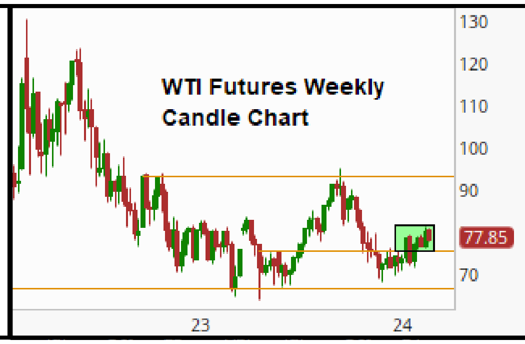
S&P 500

- 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



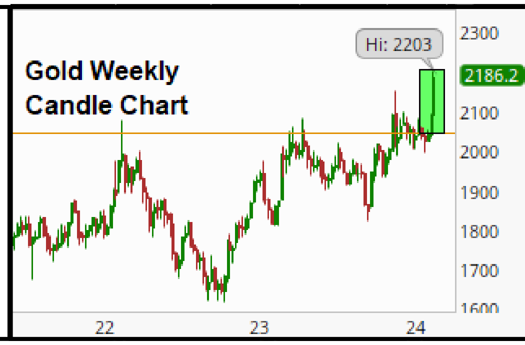
WTI Crude Oil

- 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



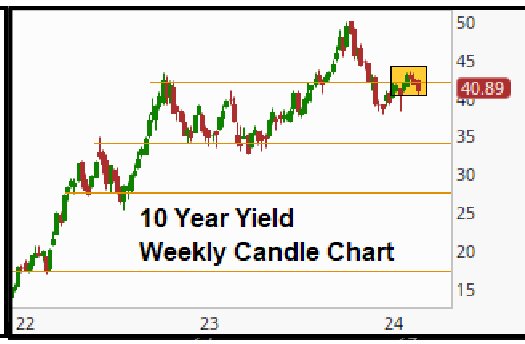
Gold

- 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



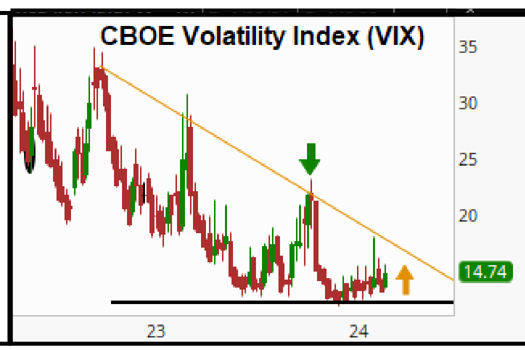
10-Year T-Note Yield

- 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.