SEVENS REPORT

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

March 19, 2024

Pre 7:00 Look

- U.S. equity futures are giving back some of yesterday's tech-led rally as there was a modest "sell the news" reaction to NVDA's new AI chip (Blackwell) release while central bank decisions overnight favored policy doves.
- Overnight, the BOJ delivered a dovish hike and the RBA signaled an end to rate hikes which sent both currencies lower and bolstered the dollar as the Fed comes into focus.
- Econ: Housing Starts (E: 1.449 million). There is a 20-Yr Bond auction at 1:00 p.m. ET.
- The March FOMC meeting begins.

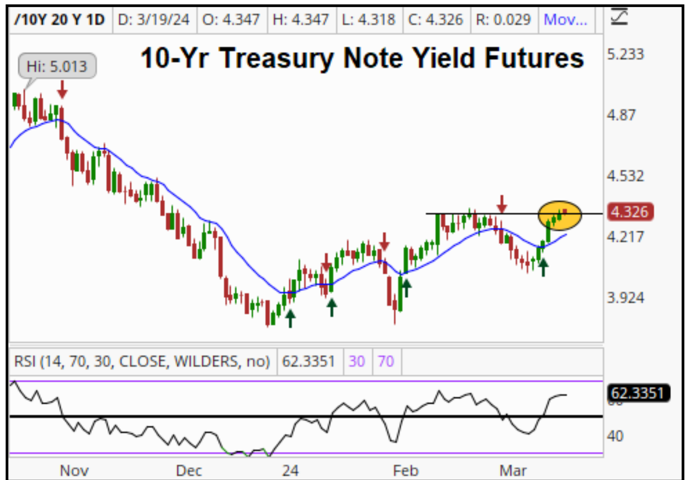
Market	Level	Change	% Change
S&P 500 Futures	5205.75	-9.00	-0.17%
U.S. Dollar (DXY)	103.982	.401	0.39%
Gold	2158.60	-5.70	-0.26%
WTI	81.89	-.27	-0.33%
10 Year Yield	4.340	.036	0.84%

Equities

Market Recap

Stocks were mixed to start the week but outsized gains in mega-cap tech amid news that two "Magnificent Seven" members were in talks to join forces on an AI project saw the S&P 500 notch a gain of 0.63% on the day, ending just shy of a record.

The major U.S. equity indexes were mixed at the open yesterday as there was a strong bid in mega-cap tech shares after Bloomberg reported that AAPL was in talks with GOOGL to utilize the latter's Gemini AI technology in the iPhone. The news that two Mag 7 behemoths were discussing a joint venture rekindled the AI frenzy and saw all seven members end the day higher with GOOGL notably rising 4.60%.



The 10-Year Treasury Yield rose to a new 2024 high yesterday as an increasingly hawkish Fed policy stance is priced in ahead of this week's meeting announcement and Powell's press conference. "Higher for longer" is bad for stocks.

The only economic report on the day was the March release of the Housing Market Index, which rose 3 points to 51, topping estimates of 48. The uptick in real estate optimism saw yields rise to new session highs as the data pointed to a still-resilient economy and solid consumer demand, which saw the S&P 500 roll over after the first hour. Leading into the lunch hour, the pullback in stocks gained some downside momentum as a strong 3-Month Treasury Bill auction was offset by a weaker 6-Month Bill auction as the two auctions were consistent with constrictive higher-for-longer Fed policy in the months ahead (the yield issued on 3-Month Bills fell modestly month over month while the 6-Month Bill yield rose 3 basis points).

Rates markets priced in a less-than-50% chance of a June rate cut in midday trade, which kept the selling pressure on the S&P 500 into the afternoon. Newswires were qui-

Market	Level	Change	% Change
Dow	38,790.43	75.66	0.20%
TSX	21,837.18	-11.97	-0.05%
Stoxx 50	4,991.93	9.17	0.18%
FTSE	7,721.15	-1.40	-0.02%
Nikkei	40,003.60	263.16	0.66%
Hang Seng	16,529.48	-207.64	-1.24%
ASX	7,703.23	27.38	0.36%
Prices taken at previous day market close.			

et over the course of the afternoon leaving the S&P 500 to drift down and pin the heavily traded options strike of 5,150 into the closing bell.

Market	Level	Change	% Change
DBC	22.97	.21	0.92%
Gold	2,163.90	2.40	0.11%
Silver	25.25	-.13	-0.50%
Copper	4.1325	.0080	0.19%
WTI	82.99	1.95	2.41%
Brent	87.11	1.77	2.07%
Nat Gas	1.711	.056	3.38%
RBOB	2.7526	.0318	1.17%
DBA (Grains)	23.72	.12	0.53%
Prices taken at previous day market close.			

FOMC Preview

There will be no change to interest rates at tomorrow's meeting so what will determine if the Fed decision is dovish (and positive for stocks/bonds) or hawkish (negative for stocks/bonds) will be 1) How many rate cuts the updated "dots" show for 2024 and 2) Whether the Fed hints at a rate cut via the forward guidance.

Starting with the dots, in December the FOMC median dot for year-end 2024 was 4.625%, reflecting three rate cuts from the current fed funds rate of 5.375%. The major question for tomorrow's FOMC decision will be whether the Fed median dot shows the same three cuts expected for 2024 (so 4.625%) or if the Fed reduces the number of expected rate cuts to two, thereby making the year-end median Fed dot 4.875%. If that does happen (the Fed reduces the number of expected rate cuts) that will make the decision more hawkish than expected and the market reaction will likely be negative (how negative will depend on how much the market believes the Fed dots).

The other factor to watch is the "forward guidance," which is a sentence contained in the third paragraph of the statement and is the Fed's way of telling investors what to expect. Forward guidance changed in January to push back on imminent rate cut expectations by stating it "*does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.*" The Fed is unlikely to change that wording until the meeting before it plans to cut rates. So, if that statement is removed or altered, that's a big sign a rate cut is coming at the next meeting. If that happens, it'll be dovish.

Bottom line, Fed rate cut expectations have declined sharply to start the year, but so far, stocks have weathered the disappointment thanks to solid growth and AI enthusiasm. However, if the market believes the Fed that it could only cut twice in 2024, that would likely reflect a new, negative headwind on stocks and as such, this meeting is important for the rally.

<u>**What's Expected:**</u> **Year-end 2024 median dot shows three cuts (4.625%), no change to rates or forward guidance.** *Likely Market Reaction:* This outcome will keep markets expecting a June rate cut and three-four rate cuts for 2024 and while it's mostly priced into markets, it could spark a modest "relief rally" as the recent firm inflation data wouldn't have made the Fed any more hawkish. We'd expect a modest rally in stocks led by the "rest" of the market (so RSP over SPY) while tech modestly lags as this would keep the "imminent Fed rate cuts" part of the bullish mantra intact and help to broaden the rally. Treasury yields should drop given the recent rally as the Fed doesn't get more hawkish while the dollar should decline modestly and commodities should rally. Overall, this should keep the bullish momentum going in the market and again potentially spark a relief rally, but it won't be a new, bullish catalyst.

<u>**Hawkish If:**</u> **Year-end 2024 median dot shows two rate cuts (4.875%), no change to rates or forward guidance.** *Likely Market Reaction:* A solid decline, as long as the market believes the Fed is serious. Assuming it does, this should push the 10-year yield higher towards 4.35% and beyond and that, in turn, should push stocks moderately lower. I'd expect all 11 S&P 500 sector SPDRs to be lower with defensive sectors relatively outperforming. The Dollar Index should rally hard, likely above 104 and toward 105, while commodities, especially gold, should get hit potentially hard on the stronger dollar. This would jeopardize the "impending rate cut" part of the bullish mantra and that would be a new headwind on stocks. However, there is a chance the market simply doesn't believe the Fed "dots" as the market has had a habit over the past two years of ignoring what the Fed says initially, only to slowly adopt it over the coming weeks. If that's the case, we should see a more modest decline in stocks and bonds, but it should still pose a headwind over the coming weeks.

Dovish If: Year-end 2024 median dot shows three cuts (4.625%) and forward guidance is changed to hint at a rate cut next meeting. *Likely Market Reaction:* A resumption of the rally. This outcome would likely increase expectations for a May rate cut and that would push stocks broadly higher. We'd expect tech and cyclicals to outperform although all 11 sector SPDRs should be higher. The Dollar Index should drop moderately, back below 103 while the 10-year yield should decline 10-20 bps and back into the middle of the "stock positive" 3.75%-4.25% range. Commodities, especially gold, should rally hard on the weaker dollar. Bottom line, this would confirm rate cuts are imminent and that should help power stocks potentially sharply higher.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mostly higher with oil leading the way higher on rising geopolitical tensions and bullish supply news while metals were little changed with the Fed coming into focus. The commodity ETF, DBC, jumped 0.92% thanks to the big rally in oil as energy products hold a large weighting in the index.

Oil remained in the commodity spotlight yesterday as futures jumped a solid 2.07% to close at fresh 2024 highs above $82/barrel. There were multiple market-moving catalysts for the oil market yesterday and just about all of them were bullish.

Market	Level	Change	% Change
Dollar Index	103.23	.17	0.16%
EUR/USD	1.0872	-.0017	-0.16%
GBP/USD	1.2731	-.0005	-0.04%
USD/JPY	149.13	.09	0.06%
USD/CAD	1.3530	-.0012	-0.09%
AUD/USD	.6558	-.0002	-0.03%
USD/BRL	5.0255	.0296	0.59%
Bitcoin	67,347.52	-823.13	-1.21%
10 Year Yield	4.340	.036	0.84%
30 Year Yield	4.466	.038	0.86%
10's-2's	-42 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.72%		
Prices taken at previous day market close.			

First, on the supply side, OPEC member Iraq announced new production cuts of 130K b/d to compensate for overproducing earlier this year while Saudi Arabian oil exports declined for a second month (both of those headlines mean less oil on the global market). Geopolitically, tensions in the Middle East remained high but it was Ukrainian attacks on Russian oil refineries owned by Gunvor that knocked out roughly 600K b/d in refining capacity that really helped support oil.

On the demand side, the solid Housing Market Index in the U.S. paired with the strong Chinese Industrial Output data and Retails Sales data released over the weekend helped shore up the outlook for consumer demand and added another tailwind to the market in early week trade. Additionally, the Department of Energy announced plans to replenish the Strategic Petroleum Reserve by the end of the year, which introduces a new source of demand to the market.

Bottom line, a new uptrend has emerged in early 2024 and the path of least resistance remains higher from here based on both a bullish fundamental backdrop and a solid technical setup in play. On a longer time frame restrictive Fed policy and recession concerns are the single biggest threat to the oil rally as collapsing demand would eliminate the threat of a supply deficit.

Turning to metals, copper was effectively flat with futures rising 0.05% as optimism for a stabilizing Chinese economy, which initially supported a rally to new multi-month highs in overnight trade was mostly reversed as hawkish Fed policy was priced into swaps and futures markets, weighing on the outlook for demand. The outlook for copper remains bullish with futures near 52-week highs.

Gold pulled back early in the day amid the pressure of rising Treasury yields, but futures ended with a modest gain of 0.30% as traders bought into last week's dip and this week's Fed decision, which is the biggest potential catalysts for all markets but particularly precious metals.

Currencies & Bonds

The dollar edged higher to start the busy week of central bank decisions as stronger-than-anticipated economic data in the U.S. bolstered the case for "higher-for-longer" Fed policy expectations. The Dollar Index rose a modest 0.08% towards a two-week high.

The yen has been in the currency spotlight recently as the Japanese currency remains near the weakest level against the dollar since late 2022 but BOJ policy makers are poised to lift benchmark interest rates out of negative territory with the first rate hike in 17 years. For now, there is no definitive evidence of a reversal higher in the yen, but the pieces are falling into place for it to at least find a bottom and hold the 150 area in the USD/JPY.

Both the euro and the pound were lower against the dollar yesterday as traders positioned into this week's central bank meetings. The biggest supporting factor for the dollar was the higher-for-longer money flows in rates markets, which saw the odds of a June rate hike dip below 50% for part of the day. Relatively speaking that leaves the Fed as the most hawkish of the world's major central banks and that is dollar positive.

As the Fed meeting gets underway today, some key levels to watch in the Dollar Index are support from earlier in March at 102.75 and 2024 resistance at 104.75. A break through either of those levels would mark the start of a new near-term trend. As traders position into the FOMC decision, expect the dollar to hover in the middle of that range; however, from a fundamental standpoint, sticky high inflation is likely to see the Fed favor a higher-for-longer policy stance which is bullish for the dollar and that leaves the longer-term path of least resistance higher.

Treasury yields continued to grind higher yesterday thanks to solid global economic data pouring some cold water on the prospects for imminent rate cuts from the Fed and other major central banks. Specifically, the better-than-feared Retail Sales and Industrial Output data from China helped ease worries of a material economic slowdown underway in China while the solid Housing Market Index in the U.S. bolstered the case of U.S. economic resilience which is hawkish for the policy outlook.

Notably, the 10-year yield climbed more than 3 basis points to close yesterday at a fresh 2024 high of 4.34% while the 2-year yield edged up a single basis point to end the day at a new 2024 high of its own, topping 4.73%.

Rates markets notably priced in a less-than-50% chance of a June rate cut yesterday, which was a near certainty just weeks ago. The hawkish Fed bets were solidified by the difference between the two Treasury auctions yesterday. One was for 3-month Bills, which was stronger than the prior auction suggesting increased confidence in a rate cut in the next 90 days while the 6-Month Bill auction was weaker than the prior auction indicating deteriorating conviction for steady rate cuts through the end of the year once the cutting cycle commences. That is an example of textbook "higher-for-longer" money flows in short-term fixed income markets and was part of the reason stocks steadily drifted lower from the morning highs into the closing bell.

Bottom line, yields have started to trend higher in a meaningful way in recent weeks amid hot inflation data and subsequently hawkish Fed policy expectations. If that continues through the end of this week as the Fed decision is digested, it will become a strengthening headwind on stocks, especially growth-focused, highly valued names.

Have a good day,

Tom

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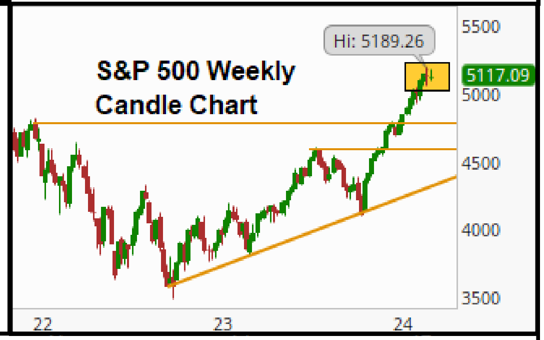
Technical Perspectives (Updated 3/17/2024)

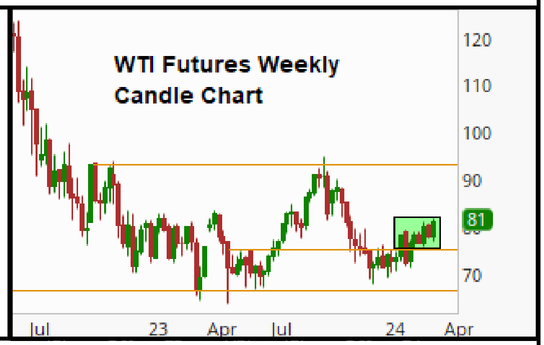
&P 500

- Technical View: The medium-term trend remains bullish, however there were early signs of exhaustion last week as the index failed to make a new intraday high.
- Dow Theory: Bullish (since the week of July 10, 2023)
- Key Resistance Levels: 5151, 5175, 5200
- Key Support Levels: 5096, 5030, 4953



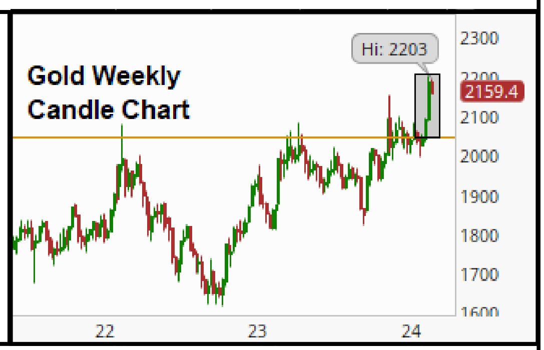
WTI Crude Oil

- Technical View: Oil prices jumped to new multi-month highs last week confirming the emergence of a 2024 uptrend which leaves the path of least resistance higher.
- Proprietary Model: Bullish (since the week of February 12, 2024)
- Key Resistance Levels: $82.48, $83.53, $85.37
- Key Support Levels: $$79.81, $78.14, $76.79



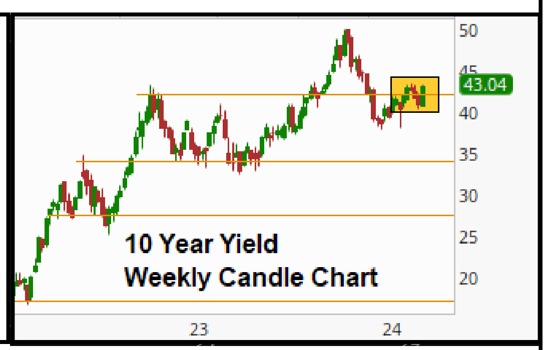
Gold

- Technical View: Gold pulled back from record highs last week in what appeared to be a countertrend pullback in an otherwise still very bullish uptrend.
- Proprietary Model: Bullish (since the week of November 27, 2023)
- Key Resistance Levels: $2171, $2184, $2203
- Key Support Levels: $2141, $2092, $2053



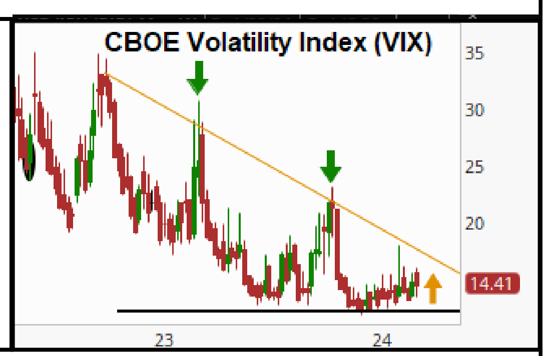
10-10-Year T-Note Yield

- Technical View: The 10-year yield rebounded towards the 2024 highs above 4.30% last week with the benchmark yield threatening to break to new multi-month highs.
- Proprietary Model: Bullish (since the week of August 21, 2023)
- Key Resistance Levels: 4.327, 4.410, 4.523
- Key Support Levels: 4.033, 3.927, 3.863



CBOE Volatility Index (VIX)

- Technical View: The VIX is in a tight, low-angle uptrend dating back to late 2023 that is keeping the risks of a spike in volatility the most elevated since last summer.
- Proprietary Model: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 15.22, 15.85, 17.94
- Key Support Levels: 13.89, 13.34, 12.79



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Fundamental Market View (Updated 3/17/2024)

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 again last week as economic data pointed towards stagflation via hotter-than-expected CPI and PPI combined with underwhelming growth stats (retail sales and Empire manufacturing).*

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 were split last week with industrial metals and oil both breaking out to new multi-month highs but gold pulled back from record highs thanks to a surge in real interest rates and stabilizing dollar. Broader-based commodity indexes notably hit fresh YTD highs underscoring a tentative uptrend in the complex so far in 2024.*
US Dollar	**Neutral**	*The Dollar Index rallied moderately last week following the hotter-than-expected CPI and PPI along with a drop in June rate cut probability.*
Treasuries	**Turning Positive**	*Treasury yields rose sharply last week and recouped the past two weeks losses as the 10-year yield rose above 4.25% and is once again threatening to break out (a potential negative for stocks). Hotter-than-expected CPI/PPI and a drop in Fed rate cut expectations pushed yields across the curve.*

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.