SEVENS REPORT

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

March 22, 2024

Pre 7:00 Look

- Futures are tentatively higher this morning as mostly favorable economic data overnight is helping offset a sharp drop in the yuan and subsequent volatility in Chinese markets.
- Economically, Japanese Core CPI cooled down to 3.2% y/y vs. (E) 3.3% while the German Ifo Survey came in stronger than expected at 87.8 vs. (E) 86.0. U.K Retail Sales were flat vs. (E) -0.5% in February after a 3.6% rise in January.
- There are no notable economic reports today.
- Fed Speak: Powell (9:00 a.m. ET), Jefferson (10:00 a.m. ET), Barr (12:15 p.m. ET), Bostic (4:00 p.m. ET).

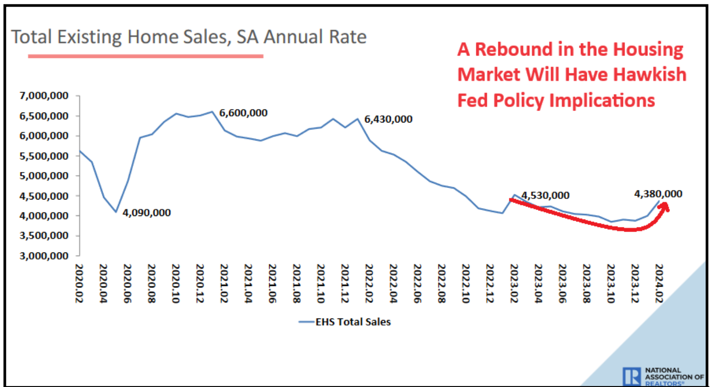
Market	Level	Change	% Change
S&P 500 Futures	5309.00	6.75	0.13%
U.S. Dollar (DXY)	104.40	.39	0.38%
Gold	2167.60	-17.10	-0.78%
WTI	81.03	-.04	-0.05%
10 Year Yield	4.241	-.030	-0.70%

Equities

Market Recap

Stocks extended Wednesday's post-Fed surge into record territory yesterday as the Swiss National Bank unexpectedly cut rates, adding to dovish money flows, while economic data was largely supportive of the soft-landing narrative. The S&P 500 rose 0.32%.

The stock market gapped higher at the open yesterday with the AI trade and mega-cap tech leading the advance after MU topped revenue forecasts and said the company was already sold out of its high-bandwidth memory chips (a key piece of hardware for generative AI



Existing Home Sales jumped 9.5% m/m in February, hitting a near-one-year high of 4.38 million, well above estimates calling for 3.92 million.

applications) for the entire calendar year. From a macro standpoint, a continued drop in the Japanese Yen, a surprise rate cut from the Swiss National Bank, and the BoE effectively taking further rate hikes off the table all combined to bolster dovish money flows that offered a firm tailwind for global markets early.

Economically, domestic data released before the bell was largely supportive of a soft landing as continuing jobless claims did not make new highs and initial claims were steady in the low-200K range while the Philadelphia Fed's Manufacturing Index topped estimates and had encouraging forward-looking details. The data after the bell was not so market-friendly, however, as there were hot inflation readings in the S&P Composite PMI and Existing Home Sales unexpectedly surged in February.

Those two reports triggered some modestly hawkish money flows which saw the dollar surge and yields reverse off of fresh lows for the week. Those hawkish money flows saw the S&P 500's rally stall and the market began a slow churn sideways near 5,250 through midday. News flow quieted aside from the U.S. announcing a lawsuit against AAPL for antitrust violations surrounding the iPhone, but the market took the pullback in

Market	Level	Change	% Change
Dow	39,781.37	269.24	0.68%
TSX	22,087.26	41.55	0.19%
Stoxx 50	5,035.66	-16.65	-0.33%
FTSE	7,953.72	71.17	0.90%
Nikkei	40,888.43	72.77	0.18%
Hang Seng	16,499.47	-363.63	-2.16%
ASX	7,770.55	-11.14	-0.15%
Prices taken at previous day market close.			

AAPL shares in stride and the S&P 500 closed at a new all-time high.

The Fed's "Dovish Upgrade" Dilemma

Market	Level	Change	% Change
DBC	22.87	-.03	-0.13%
Gold	2,184.70	23.70	1.10%
Silver	25.00	-.10	-0.39%
Copper	4.0580	.0065	0.16%
WTI	81.04	-.23	-0.28%
Brent	85.74	-.21	-0.24%
Nat Gas	1.677	-.022	-1.29%
RBOB	2.7146	-.0186	-0.68%
DBA (Grains)	23.90	.11	0.45%
Prices taken at previous day market close.			

As discussed in yesterday's report, the Fed raised its forecasts for domestic growth and inflation on Wednesday, but also left the outlook for three rate cuts in place for 2024. That effectively resulted in a "dovish upgrade" of the U.S. economy by the Fed, which is a bit counterintuitive.

This dovish upgrade left some economists a bit perplexed but investors bought up the optimistic soft-landing narrative into the close Wednesday, and again yesterday at the opening bell, regardless. But when the S&P Composite PMI (which had hot inflation numbers and a strong headline) and the Existing Home Sales report (which unexpectedly surged nearly 10% m/m) were released yesterday, the market's advance was quick to stall and turn sideways. The 2024 rally was admittedly already stretched in technical terms across most time frames and in fundamental valuation terms with the S&P 500 trading with a lofty and historically unsustainable 21.5X multiple of expected 2024 earnings ($243/share), but it still lost all momentum by midmorning after those two strong/hot reports.

Bottom line, investors appear to already be reconsidering how three rate cuts in the next eight months are still warranted if growth is seen firming and inflation is going to be higher than previously thought. It presents a dilemma between theory and practice and underscores that the Fed is "stuck between a rock and a hard place" here as there are two major policy risks in play. If the Fed cuts too early, the risk reigniting inflation. If the Fed keeps too rates high for too long they risk sending the economy into likely painful recession. A soft landing is still possible and markets are currently pricing in that outcome, however, we need to stay keenly aware of the two aforementioned policy risks as they are both major threats to the long-term outlook for the rally in stocks.

Economics

Philadelphia Fed Manufacturing Business Outlook Survey

- The General Activity Index fell to 3.2 vs. (E) -5.0

The March Manufacturing Business Outlook Survey from the Philadelphia Fed came in better than feared on the headline, contained generally positive details, and showed respondents were very optimistic about the economy and general demand for the months ahead.

The headline General Business Activity Index edged lower from 5.2 in February to 3.2 this month but topped estimates of -5.0. The subindices were solid with New Orders rising more than 10 points to 5.4 in March while Shipments edged up from 10.7 to a healthy reading of 11.4. Furthermore, Prices Paid dropped sharply from 16.6 to just 3.7 while Prices Received dropped from an already-subdued 6.2 to 4.6, both well below their long run averages. The price indexes supported the case that the trend of disinflation is largely still intact across the U.S. economy. The one sour point in yesterday's Philly Fed report was another negative Number of Employees Index print, which remained decidedly negative at -9.6 vs. (E) -10.3 in February while the Average Employee Workweek index slipped from 1.4 to -0.2.

There is usually not a whole lot of weight given to the six-month ahead outlook portion of the Fed survey reports because the data set is persistently volatile with swings in business sentiment. However, yesterday's extremely strong forward-looking diffusion index numbers were too optimistic not to cover. The six-month ahead outlook for the headline General Business Activity Index surged from 7.2 to 38.6, the highest since July 2021, while the New Orders index for six-months ahead spiked from an already-solid 24.2 to 49.9. Even the prices indices were market positive as the six-month ahead Prices Paid Index declined modestly, from 41.4 to 38.0 while the Prices Received Index rose solidly from 29.9 to 37.1. While the uptick in Prices Received may be viewed by some as inflationary, paired with the lower Prices Paid index, it suggests better corporate margins for the factory sector, which has been struggling for several quarters.

Bottom line, there was very little to complain about in yesterday's Philadelphia Fed release on the manufacturing sector as the headline was neither "too hot" nor "too cold" and the details were solid across the board with broad optimism for economic activity in the next six months. The one negative component, employment weakness, was actually good in the midst of Wednesday's Fed decision as it suggests that one of the three anticipated rate hikes in 2024 could come as soon as June (and not H2'24). Stock futures rallied on the report as fears of "higher for longer" gave way to renewed soft-landing optimism.

Jobless Claims

- Initial Jobless Claims fell to 210K vs. (E) 209K
- Continuing Jobless Claims rose 4K to 1.802 million

The divergence between initial jobless claims, which have been historically low pointing to tight labor market conditions and elevated continuing jobless claims, which are consistent with a rising unemployment rate, continued with yesterday's release.

Headline initial jobless claims edged down to 210K from 212K the prior week, a figure that was revised up modestly from an original print of 209K. Initial claims in the low-200K range is very comfortably below the historical average of roughly 300K and underscores ongoing reliance in the labor market. Continuing Claims, meanwhile, rose by a modest 4K to 1.81 million. That is below the November high of 1.925 million but considerably elevated relative to the mid-2022 lows under 1.3 million and points to an upward trend in unemployment.

Bottom line, there are no major economic warning signals in the jobless claims data right now and that was seen as a positive for the markets here with stock futures rising to new pre-market highs after the release. Looking ahead, claims data that is "too strong," which would consist of initial and continuing jobless claims falling measurably, would contribute to a higher-for-longer policy outlook and be negative for markets. Conversely, if initial claims begin to rise similar to continuing claims, and/or continuing claims begin to accelerate to the upside that would point to a more rapid increase in the unemployment rate that is historically consistent with a recession as opposed to a soft landing. That would also be bad for markets. "More of the same" in the claims data would be the best-case scenario for stocks here.

Commodities

Commodities traded with a heavy tone as the dollar recouped all of its post-Fed losses and rallied to a fresh March closing high amid the hot economic data released after the close. The stronger dollar pressured the entire complex and the commodity ETF, DBC, fell 0.13%.

Yesterday's performance figures were skewed a bit due to the fact that the primary session for the metals market was already closed for the day when the Fed decision hit on Wednesday. So, gold technically settled higher by 1.03%, but in reality futures ended the electronic session down about 0.30% yesterday from the electronic close on Wednesday. The stronger dollar and rebound in short-duration bond yields more than offset rising breakeven inflation expectations and that paired with overbought conditions on the low-time-frame charts saw gold retreat. The long-term outlook for gold remains decidedly bullish though, with futures establishing new all-time highs this week.

Market	Level	Change	% Change
Dollar Index	103.71	.66	0.64%
EUR/USD	1.0858	-.0064	-0.59%
GBP/USD	1.2655	-.0130	-1.02%
USD/JPY	151.72	.47	0.31%
USD/CAD	1.3535	.0043	0.32%
AUD/USD	.6569	-.0017	-0.26%
USD/BRL	4.9803	.0119	0.24%
Bitcoin	65,482.71	-67.10	-0.10%
10 Year Yield	4.271	-.002	-0.05%
30 Year Yield	4.442	-.013	-0.29%
10's-2's	-37 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.63%		
Prices taken at previous day market close.			

Elsewhere in the metals, settlement values skewed the daily return for copper as well, as technically, futures rose 0.31% from Wednesday's settlement, but effectively, futures declined 0.68% from the electronic close on Wednesday to the electronic close yesterday. The first negative catalyst for copper was the very disappointing manufacturing PMI data out of Europe with the German figure notably missing estimates, falling to just 41.6

which indicates deep contraction. Second, the hotter-than-anticipated economic data out of the U.S. that would theoretically be good for copper in normal conditions weighed further as the stronger dollar and fears of higher-for-longer rates (demand negative) both weighed on copper futures. Copper continues to digest the mid-March breakout, but the new multi-month highs are bullish and leave the path of least resistance higher.

Switching to energy markets, WTI crude oil futures extended their midweek decline with another loss of 0.55% as the latest advance to 2024 highs continues to be digested. News out of the Middle East was good on a humanitarian level, but negative for oil as the U.N. made progress on a ceasefire resolution between Israel and Hamas. If successful, one of the two major sources of geopolitical concern would be removed leaving the Russia-Ukraine war as the primary geopolitical influence on energy markets. The stronger dollar paired with both the "hot" PMI and Existing Home Sales data that rekindled higher-for-longer interest rate worries were additional headwinds on oil. Bottom line, oil remains in a well-defined uptrend supported by solid demand and inventory data in this week's EIA report, as well as lingering global supply worries based on geopolitical unrest.

Currencies & Bonds

The reversal in the dollar after the Fed on Wednesday was more than reversed yesterday as dovish central bank actions and commentary overseas paired with strong domestic economic data supported a solid move higher in the greenback. The Dollar Index ended the day with a gain of 0.62% to close at a new March high.

The conclusions of the Swiss National Bank and Bank of England policy meetings yesterday were the big monetary policy events, and both were dovish. The SNB decision was decidedly dovish as policymakers surprised markets with a rate cut that was not widely anticipated, sending the Swiss franc down 1.30%, a steep one-day move for a major developed currency.

The second event was the Bank of England announcement, and while there was no surprise policy move out of the UK, the language in the minutes was dovish as the last of the holdout hawks on the BoE committee threw in the towel on trying to keep rate hikes on the table. That saw the British pound drop 1.02%.

Economic data was also a bullish influence on the dollar as a surprisingly weak Manufacturing Sub-Index in the European Composite PMI rekindled growth concerns for the broader European economy while U.S. data was broadly better than expected and rather market friendly, supporting hopes for a soft landing (a dollar-positive dynamic amid economic uncertainties overseas).

Looking at the relative outperformers against the dollar yesterday, the Aussie fell a modest 0.27% while the yen was down 0.29% thanks to a strong Australian labor market report and a better-than-anticipated Japanese export number in the latest trade balance report.

For currencies, central bank policy expectations are dominating the market and the Fed is lining up to be the last bank to cut interest rates from the current policy cycle peak as the U.S. economy is showing the most resilience. If that continues, expect the Dollar Index to make a run at the 2024 highs near 105 while any data that contradicts that thesis, such as weak U.S. labor market data or cooling domestic inflation trends, could send the Dollar Index towards the March lows of 102.50.

In Treasuries, shorter-duration Notes pulled back with yields rebounding towards the 4.60% area while longer-duration Notes and Bonds were pretty steady as investors continued to digest the Fed decision amidst mostly Goldilocks economic data in the U.S. The 10-year yield was flat at 4.271% while the 2-year edged up just over 2 basis points to 4.58%, leaving yield curve spreads still decidedly inverted but off of the cycle lows.

The bond markets are so far taking the Fed's dovish upgrade of the economic outlook at face value and largely buying into the idea of a soft landing in 2024. As long as economic data or surprisingly hawkish Fed commentary doesn't roil Treasuries near-term, a steady bond market will be a favorable environment for the bulls and the path of least resistance will remain higher for stocks.

Have a good day,

Tom

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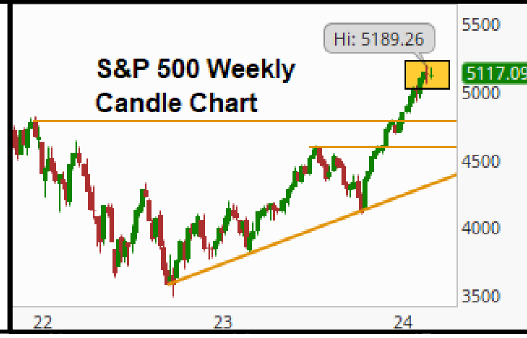
Technical Perspectives (Updated 3/17/2024)

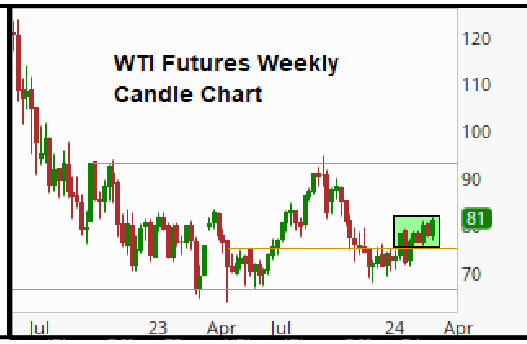
&P 500

- 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



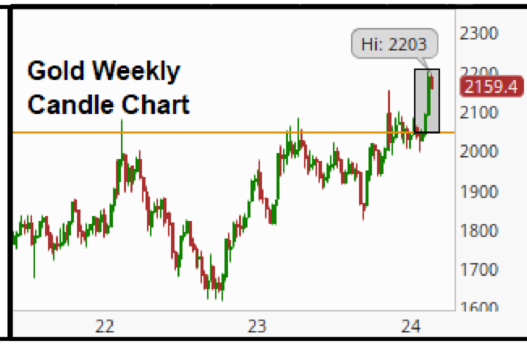
WTI Crude Oil

- 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

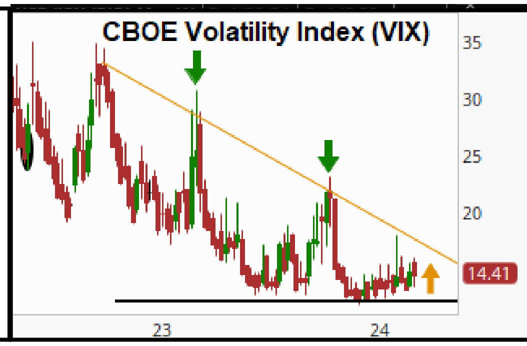


10-10-Year T-Note Yield

- 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.