SEVENS REPORT

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

March 26, 2024

Pre 7:00 Look

- Equity futures are higher this morning as traders position into a fairly busy morning of U.S. economic data while Chinese authorities intervened in the currency market to support the yuan which is helping general investor sentiment.
- Economically, the German GfK Consumer Climate index was slightly better than feared at -27.4 vs. (E) -27.9.
- Econ Today: Durable Goods Orders (E: 1.3%), Case-Shiller Home Price Index (E: 0.2%), Consumer Confidence (E: 106.7). There are no Fed officials scheduled to speak today.
- There is a 5-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5298.75	20.50	0.39%
U.S. Dollar (DXY)	104.053	-.170	-0.16%
Gold	2216.20	18.00	0.82%
WTI	81.89	-.06	-0.07%
10 Year Yield	4.234	-.019	-0.44%

Equities

Market Recap

Stocks churned lower to start the week as investors continued to digest last week's Fed decision and the subsequent rally that saw the S&P 500 notch its best week of 2024. The S&P 500 pulled back a modest 0.31%.

The market gapped lower at the opening bell yesterday with tech leading declines after China announced restrictions on the use of foreign produced chips, including those produced by INTC, which saw the company's shares decline by 4% at the open. Hawkish Fed speak out of the Atlanta Fed's Bostic also poured some cold water on risk assets as some of the dovish reaction to last week's Fed decision was dialed back.

Geopolitical tensions between Russia and Ukraine over the weekend did not help as the two nations continue to trade blows to each other's energy infrastructure, which in turn sent oil prices higher to start the week. All of the less-encouraging headlines from the weekend kept stocks in modestly negative territory after the open but the Fed's Goolsbee reiterated his view that the Fed will cut rates three times this year which saw the S&P 500 come off the lows in midmorning trade.

In the afternoon, Treasury held a sizeable $66 billion 2-Yr Note auction but the Notes were well absorbed by the market. Despite a slight tail in the high-yield awarded of 4.595% vs. the when-issued yield of 4.590%, there was record demand by international investors, underscoring a solid bid. That helps to reiterate the market's dovish reaction to the Fed last week. The S&P 500 notably failed to close a technical gap back to Friday's lows, but ended with only an incremental loss, holding still well above the pre-Fed levels from early last week.

Trading Color

There were no notable catalysts on Monday so trading was largely driven by sector-specific headlines and month/quarter-end positioning. On an index level, that end-of-quarter positioning was evident as the QTD laggard, the Russell 2000, was higher all day and closed 0.10% higher while the Dow Industrials dipped 0.41% and Nasdaq declined 0.27%. The S&P 500 hovered around unchanged all day and dipped into the close to finish with a slight loss.

Looking at sector trade, there was clearly some digestion of last week's big rally as eight of the 11 sector SPDRs we follow were lower on the day, although notably none of these sector SPDRs moved more than 1%.

Market	Level	Change	% Change
Dow	39,313.64	-162.26	-0.41%
TSX	21,942.28	-41.80	-0.19%
Stoxx 50	5,054.67	10.48	0.21%
FTSE	7,914.43	-3.14	-0.04%
Nikkei	40,398.03	-16.09	-0.04%
Hang Seng	16,618.32	144.68	0.88%
ASX	7,780.23	-31.71	-0.41%
Prices taken at previous day market close.			

Energy (XLE) was the best performer and biggest mover on the day as it rallied 0.9% on a 1.3% rally in oil. Oil continued to rally on a geopolitical risk bid as Ukraine is targeting Russia's energy infrastructure and Russia, in turn, is retaliating and the whole situation risks reduced output to Europe, and that's helping oil to rally towards five-month highs.

Market	Level	Change	% Change
DBC	22.90	.19	0.84%
Gold	2,173.30	13.30	0.62%
Silver	24.83	-.01	-0.05%
Copper	4.0130	.0055	0.14%
WTI	82.06	1.43	1.77%
Brent	86.81	1.38	1.62%
Nat Gas	1.617	-.042	-2.53%
RBOB	2.7499	.0101	0.37%
DBA (Grains)	24.65	.57	2.37%

Prices taken at previous day market close.

The other two sectors that saw positive performance on Monday were utilities (XLU up 0.5%) and materials (XLB up fractionally). XLU benefitted from a near-5% rally in Constellation Energy (CEG), which has been upgraded recently and announced a bond offering to invest in nuclear energy.

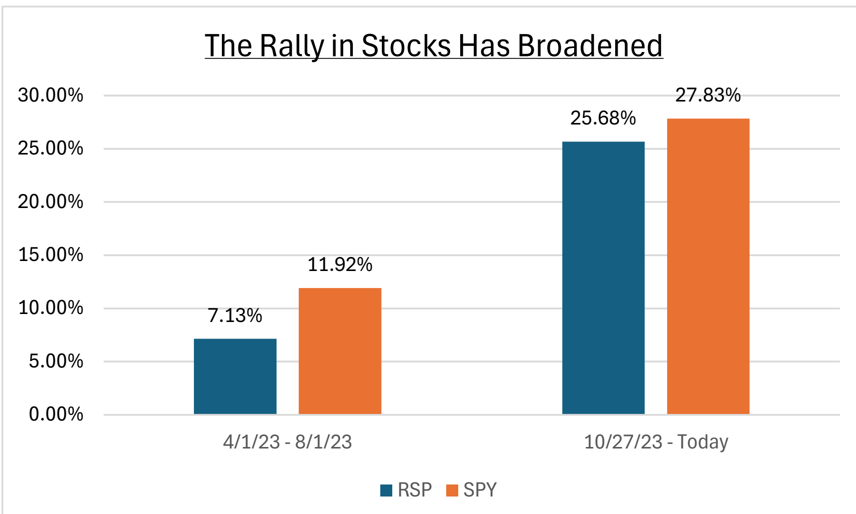
Looking at sector laggards, tech and industrials both declined 0.7% each. Tech (XLK) was weighed down by the news that AAPL, GOOGL and META are targets of an EU probe and between that news and digestion of the latest AI-driven ramp up, XLK declined moderately. Industrials, meanwhile, drifted lower on what appeared to be some light quarter-end profit taking as stocks in that sector were broadly, if unspectacularly, lower on the day. Bottom line, yesterday was a day of digestion following the biggest weekly rally of the year and amidst a barren calendar and looming economic data later this week.

The Rally Is Broadening

The 2023 rally in stocks was driven by the tech sector, as the financial media coined the AI-linked tech stocks the "Magnificent Seven" and the tech and tech-linked sectors handily outperformed the "rest" of the market.

However, since late in 2023, we and others have advocated for diversifying into the rest of the market based on the idea that if the rally was going to keep going, it would broaden out and include non-tech sectors and that's exactly what's occurred. And if the rally continues into Q2, we expect that broadening to also continue.

From April 2023 through August 2023, a period when AI enthusiasm pushed tech stocks sharply higher, the average return of the tech sector SPDR (XLK) and the "tech aligned sectors" communication services (XLC) and consumer discretionary (XLY) was 17.4%, in three months!



SPY handily outperformed RSP in 2023 as AI driven tech stocks led the rally. But, since the lows in October the performance between the two ETFs has been nearly even, reflecting a broadening of the rally that should continue.

Over that same time frame, RSP, the equal weight S&P 500 ETF, gained just 7% and that highlights just how powerful tech outperformance was during that period.

However, since the October low (Oct.27), performance has been remarkably more balanced. Since that low, financials are the best performing sector SPDR (up 32%). And while tech and communication services have rallied hard (30% each) so too have industrials (XLI up 31%) and materials (XLB up 23%).

The net result is this: Since Oct. 27 RSP has gained 25.6% while SPY has returned 27.8%, or minimal outperformance even with the latest surge in AI enthusiasm boosting the mega-cap tech names. Bottom line, while AI remains a powerful force in this market, if the rally is going to continue, we'd continue to expect it to broaden out with the "rest" of the market benefitting from the Goldilocks environment of solid growth, falling inflation and rate cuts. And we think that allocating to RSP continues to be the easiest way to get more exposure to the rest of the market and that remains our preference for large-cap U.S. stock exposure.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mostly higher as the oil market outperformed amid renewed geopolitical tensions in oil producing regions overseas while the metals benefitted from a pullback in the Dollar Index. The commodity ETF, DBC, jumped 0.84% to test the 2024 highs.

Beginning in the energy complex, WTI crude oil futures pushed back above $82/barrel yesterday as Russia and Ukraine have been trading attacks on each other's energy infrastructure including oil refineries and fuel export facilities. The attacks and subsequent outages are beginning to impact supply dynamics regionally and the latest attacks over the weekend added upward pressure on global prices to start the week.

WTI crude oil futures ended yesterday with a solid gain of 1.61%, just off the 2024 highs established last week. The U.N. advanced a resolution for an immediate ceasefire between Israel and Hamas in Gaza but the U.S. critically did not participate in the vote weighing on the prospects of its success. Outside of geopolitics, soft-landing hopes are helping bolster demand expectations and the timely demand metrics in the weekly EIA data of late have also been bullish, which leaves the fundamental and technical cases for the oil market aligned in favor of the bulls.

Market	Level	Change	% Change
Dollar Index	103.92	-.26	-0.25%
EUR/USD	1.0839	.0031	0.29%
GBP/USD	1.2638	.0037	0.29%
USD/JPY	151.44	.03	0.02%
USD/CAD	1.3584	-.0020	-0.15%
AUD/USD	.6539	.0024	0.37%
USD/BRL	4.9763	-.0249	-0.50%
Bitcoin	70,774.52	4,937.50	7.50%
10 Year Yield	4.253	.035	0.83%
30 Year Yield	4.426	.034	0.77%
10's-2's	-38 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.63%		
Prices taken at previous day market close.			

Turning to metals, gold rallied 0.60% thanks to the combination of a pullback in the dollar and a bid in short-duration Treasuries (lower Bill and Note yields). Last week's dovish-leaning Fed decision was good for gold as easier monetary policy is a historically bullish dynamic for gold (weaker dollar, lower real yield environment). Any hawkish headlines or "hot" economic data this week has the potential to see gold pullback to key support at the previous record highs near $2,090/oz. Such a dip would likely be a buying opportunity though for the longer term.

Rounding things out with the industrial metals, copper was the laggard among commodities as futures edged up an incremental 0.09%, giving back most of an early session advance. News that copper inventories have surged by the most for this time of year since 2020 poured some cold water on optimism that the Chinese economy may fare better than feared in 2024 thanks to government stimulus initiatives. Copper is quickly retreating back to the key technical resistance level that kept a lid on prices for much of 2023 and early 2024, which lies at $3.95. It will be critical for that $3.95 level to hold as support in the weeks ahead in order for the bull case to remain intact into the second quarter.

Currencies & Bonds

The dollar declined marginally Monday in quiet trade and amidst mixed Fed commentary. The Dollar Index declined 0.2%.

There was no substantial economic data in any region on Monday so currency movements were left to reaction to Fed speak and positioning ahead of the notable economic data later this week (especially the Core PCE Price Index). Regarding the Fed, the commentary was mixed. Atlanta Fed President Bostic and Fed Governor Cook both were slightly hawkish, as Bostic said he only envisioned one rate cut this year while Cook stated she wanted to take a "cautious" approach to rate cuts. However, those comments were countered by Chicago Fed President Goolsbee, who stated he was in favor of three rate cuts this year.

The net impact of the commentary was largely to reinforce the slightly dovish messaging from last week's FOMC decision and that, in turn, weighed modestly on the dollar.

Bottom line, recent firm inflation data and dovish commentary from ECB and BOE officials have pushed the dollar modestly higher and off recent lows. But for the dollar to meaningfully break out of this low-to-mid 100s trading range, we'll have to have a significant change to the expectation that the Fed, ECB and BOE will all cut rates in June or July. Until that happens, expect the dollar to remain in the 102-105ish range, and that's generally neutral for stocks.

Looking internationally, the pound and euro traded inverse to the dollar, but there wasn't any specific news from those regions (instead it's just a rally in reaction to the dollar weakness). The yen, meanwhile, was flat on the day.

Turning to Treasuries, yields rose slightly despite a strong 2-Yr Treasury auction but, like currency markets, Treasury markets were largely dominated by digestion of last week's dovish moves and in anticipation of the Core PCE Price Index. The 10-Yr yield rose 4 basis points.

There's not much point in getting into the minutia of yesterday's trading session because, frankly, it doesn't matter much. The key for Treasuries remains that 3.75%-4.25% trading range in the 10 year and despite numerous attempts to break out, the 10 year finds itself still (basically) in that range following the Fed's dovish reiteration last week.

Yesterday's rally in yields was driven more by positioning around the post-Fed yield decline, rather than in reaction to any material news. Speaking of which, the only notable event yesterday was a $66 billion 2-Yr Treasury note auction and results were solid, as the Bid to Cover, a measure of demand, was 2.62X and above the 2.6X six month average. Additionally, and most importantly, foreign demand was strong as 65.8% of buyers of the debt were "indirect" buyers, or foreign buyers.

That stat matters because the biggest fear in the Treasury market is that foreign buyers will reduce purchases of U.S., debt and that, in turn, will send Treasury yields higher and hit stocks. There is absolutely zero evidence that's happening right now and that's a broader positive for stocks as it is helping keep Treasury yields lower (continued foreign demand is a long-term worry given the U.S. fiscal trajectory, but that's a topic for another day).

Bottom line, the next notable catalyst in the bond market is this week's economic data (especially the Core PCE Price Index) but as long as the 10-Yr yield remains in the 3.75%-4.25% trading range, yields will remain broadly supportive of stocks.

Have a good day,

Tom

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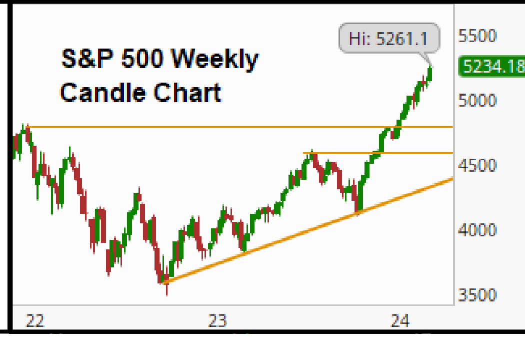
Technical Perspectives (Updated 3/24/2024)

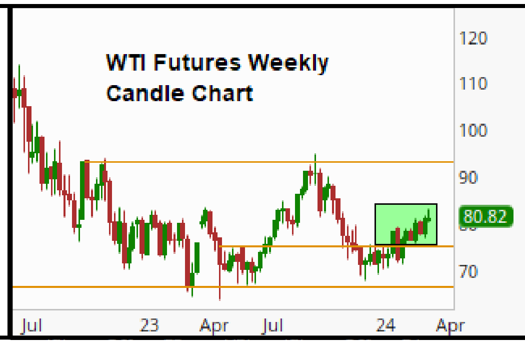
S&P 500

- 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: 5242, 5261, 5300
- Key Support Levels: 5178, 5079, 4963



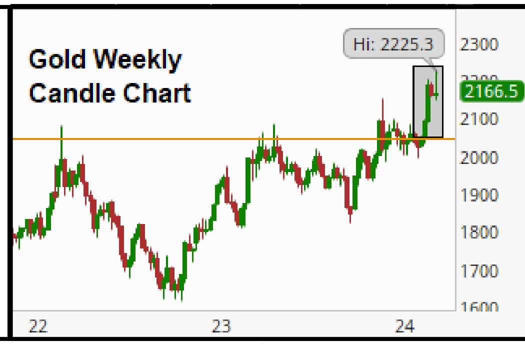
WTI Crude Oil

- 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.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $81.44, $83.12, $85.37
- Key Support Levels: $80.14, $79.12, $77.80



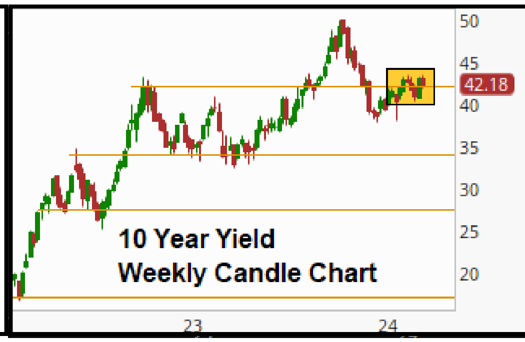
Gold

- 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.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2183, $2203, $2225
- Key Support Levels: $2150, $2092, $2053



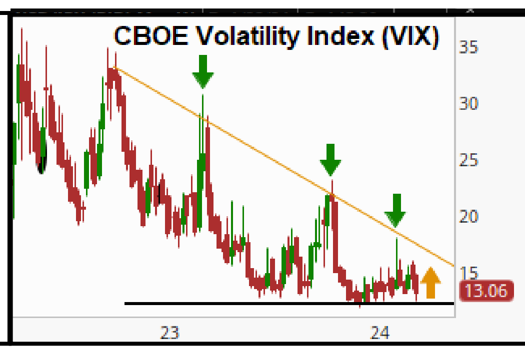
10-Year T-Note Yield

- Technical View: The 10-year yield rose to new 2024 closing highs above 4.30% last week, which introduces the technical risk of a further rise in yields.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.273, 4.340, 4.472
- Key Support Levels: 4.186, 4.129, 4.067



CBOE Volatility Index (VIX)

- Technical View: The VIX tested the 2024 lows in intraday trade last week but a bid showed up late in the week and the fear gauge ended comfortably off the lows.
- Primary Trend: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 13.62, 14.41, 15.22
- Key Support Levels: 12.92, 12.44, 11.96



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Fundamental Market View (Updated 3/24/2024)

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 accelerated to new all-time highs last week thanks to the Fed upgrading its outlook for economic growth this year (and inflation expectations) while critically keeping three rate cuts penciled in for 2024, which reignited soft/no landing hopes in the back half of the week.*

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 traded with a bias to the downside last week with copper the notable laggard with a 3% pullback after previously breaking out to YTD highs. Gold edged higher on dovish money flows while oil retreated from a test of $83/barrel, but the space remains in a long-term uptrend.*
US Dollar	**Neutral**	*The Dollar Index rallied solidly last week as the Fed was dovish, but not as dovish as other global central banks. That dynamic paired with still-stronger economic data in the U.S. vs. other major developed countries supported a weekly gain in the greenback.*
Treasuries	**Turning Positive**	*Treasury yields were mostly lower last week as dovish, post-Fed money saw bids flow into the bond market. But the 10-Yr yield did breakout to a new 2024 high to start the week. If that break higher was not a "head fake," higher yields will become a meaningful negative for stocks in the weeks ahead.*

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.