SEVENS REPORT

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

March 6, 2024

Pre 7:00 Look

- Futures are rebounding with global shares amid positive stimulus news out of China and mostly better-than-feared economic data overseas ahead of several catalysts today.
- Overnight, China's State Planner and the head of the PBOC both reiterated their commitment to achieving 5% growth in 2024 which is supporting a rebound in risk assets.
- Eurozone Retail Sales fell -1.0% vs. (E) -1.4% helping ease concerns of a sharp slowdown in the EU economy.
- Econ Today: ADP Employment Report (E: +150K job adds), JOLTS (E: 8.9 million job openings). Fed: Powell (10:00 a.m. ET), Daly (12:00 p.m. ET), Kashkari (4:15 p.m. ET).

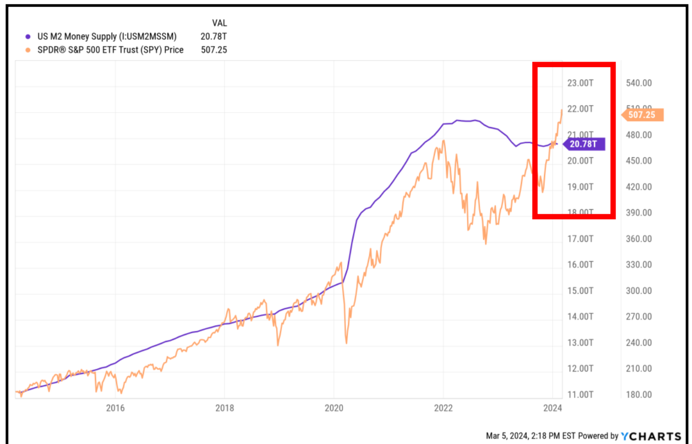
Market	Level	Change	% Change
S&P 500 Futures	5103.25	17.50	0.34%
U.S. Dollar (DXY)	103.608	-.190	-0.18%
Gold	2136.50	-5.40	-0.25%
WTI	78.91	.76	0.91%
10 Year Yield	4.137	-.082	-1.94%

Equities

Market Recap

Stocks dropped sharply Tuesday thanks to disappointing global and U.S. economic data as well as more disappointing tech headlines. The S&P 500 sank 1.02%.

The major indices dropped at the opening bell yesterday, led lower by Magnificent Seven members AAPL and TSLA, as both companies sales in China are struggling amid ongoing economic turmoil stemming from that nation's real estate and property development sectors. Additionally, AMD shares were hit hard as the U.S. prohibited the sale of the company's AI chip to China.



M2 Money Supply & the S&P 500: Stocks have exploded higher since April 2023 despite the money supply largely chopping sideways, creating a potentially significant divergence.

Announcements of fresh and relatively robust stimulus measures by the Chinese government early Tuesday failed to quell investor concerns and tech continued to lead markets lower in midmorning trade.

The key report yesterday, the ISM Services PMI, missed expectations but showed solid internals (more on that later). And while the ISM print did trigger a modest mid-morning pop in stocks, it was short-lived as "market plumbing" returned as a major influence on equities.

For one, the short-volatility trade we covered extensively in this report a few weeks ago remains a very crowded position in this market, and the risks of a short squeeze in VIX-related products remains high. Furthermore, the long position in Nasdaq 100 futures just hit a three-year high. And yesterday we saw evidence of squeezes in both the short-volatility trade and the crowded long Nasdaq 100 trade, despite quiet newswires as traders repositioned ahead of Powell's testimony before Congress.

A late-day rally back towards 5,100 confirmed the positioning nature of the selling and diminished the case

Market	Level	Change	% Change
Dow	38,585.19	-404.64	-1.04%
TSX	21,525.93	-5.14	-0.02%
Stoxx 50	4,907.34	14.27	0.29%
FTSE	7,663.49	17.33	0.23%
Nikkei	40,090.78	-6.85	-0.02%
Hang Seng	16,438.09	275.45	1.70%
ASX	7,733.54	9.34	0.12%
Prices taken at previous day market close.			

that it was "real selling" as yesterday's declines, while driven by actual news (soft Chinese growth, underwhelming ISM Services PMI, AAPL/TSLA sales news) was driven more by digestion of the recent rally (especially in tech) more than anything substantially negative and there's nothing in the actual news to imply yesterday was the start of a broader, more sustained move lower.

Market	Level	Change	% Change
DBC	22.00	-.17	-0.77%
Gold	2,138.40	12.10	0.57%
Silver	23.91	-.09	-0.36%
Copper	3.8415	-.0155	-0.40%
WTI	78.15	-.59	-0.75%
Brent	82.02	-.78	-0.94%
Nat Gas	1.952	.036	1.88%
RBOB	2.5315	-.0542	-2.10%
DBA (Grains)	22.20	-.25	-1.11%

Prices taken at previous day market close.

Money Supply and Stocks: Is There a Disconnect?

A long-time subscriber, Todd, wrote in on Monday and asked the following:

"Can Tom address US Money Supply, particular the decline in M2 money supply and impact that can have on the stock market?"

Todd brings up an important point that isn't talked about very much in today's tech stock and AI-dominated market. Money supply has declined solidly over the past 18 months, from a peak of over $22.70 trillion in July 2022 to a low of $20.69 trillion in April 2023. Historically speaking, declines in money supply have been negative influences on stock prices (at least until recently).

To provide a bit of context, stock prices (and all asset prices) are positively correlated to the money supply (literally the amount of money in the economy). And if you think about it, that makes sense because money supply is the "tide" for all assets. The more money floating around, the higher asset prices will rise. Conversely, when that money is removed from the economy, broadly speaking, assets will tend to decline—and we've seen that prove true over the past 10 years.

From 2014 through the start of the pandemic, money supply rose steadily, and generally speaking, so did stocks. During that same period, however, we also saw evidence of stocks' sensitivity to the rate of money supply growth, as the growth rate of money supply dipped in late 2018 and stocks did as well. More broadly though, as money supply rose throughout the past decade, so did stocks.

Then the pandemic occurred and, frankly, money supply exploded in a way most never thought possible (including me). Consider this: From 2014 through January 2020, U.S. money supply rose from about $11 trillion to $15.4 trillion. That's about $4.4 trillion over six years. From February 2020 to July 2022, so about 28 months, the money supply rose from $15.4 trillion to $22.7 trillion, an increase of $7.3 trillion (almost 50%) in less than three years.

Not surprisingly, the value of assets over that period exploded higher, and while Fed members would strongly argue that pandemic inflation was supply chain related (and it was, partially) clearly this had an influence, also.

However, since July 2022, courtesy of the end of pandemic stimulus and the Fed's QT program, the money supply has shrunk. At the time, this decline in money supply was met with warnings of financial calamity and rightly so—none of us had seen this type of decline in money supply before. Throughout 2022, these warnings proved correct. Stocks kept their correlation to money supply and the S&P 500 declined as money supply fell.

Since April 2023, however, money supply has largely chopped sideways. And here's where the disconnect comes in, as stocks have kept rallying. Since April 2023, money supply has increased by 0.45% while the S&P 500 has rallied more than 23%.

So, what does this divergence mean for markets in the short and long term?

In the short term, this divergence provides an example of how powerful AI mania has been for stocks and reveals stocks vulnerability to a tech-driven decline. Stocks and money supply don't diverge like this typically. However, AI mania has sent stocks sharply higher since April of last year despite stagnant money supply and the net takeaway is this reinforces that AI better substantially increase the profitability of companies in the S&P 500, otherwise much of this 20%-plus rally since October can be given back. Put more directly, AI enthusiasm has temporarily detached stocks from fundamental reality (including interest rates and money supply) and if AI isn't a profit-enhancing gamechanger, stocks will need to come back to that reality (meaning a decline of 10%-20%).

In the longer term, however, I don't view the decline in money supply as a material bearish threat (and I'm a monetarist at heart so this goes against my typical thinking). Here's why.

First, the decline in money supply is small compared to the explosion that we've seen post pandemic. Money supply declined $2 trillion since the peak in 2022, but it's still more than $5 trillion above levels of January 2020, reflecting a massive increase in a short period. Even considering the reduction in supply, money supply is substantially higher than it was just a few years ago.

Second, the decline in money supply is likely much closer to an end than a beginning. One of the main influences of the reduction in money supply has been the Fed's QT program. It's very likely the Fed will announce a plan to slowly end QT and stop it before year-end. Point being, money supply shouldn't decline by that much from current levels, so I don't see it as a materially negative influence on stocks going forward.

But while I don't think the drop in money supply is a material negative for stocks, I do think it'll impact markets because consistent money supply growth likely won't occur in the coming years and as such, it won't be a positive catalyst for stocks going forward and that removes a powerful structural tailwind for equities over the coming years.

I can confidently say there won't be any QE or additional stimulus coming from the Fed or Washington any time soon and money supply will likely stay flat or decline slightly as the economy digests the 2020-2022 explosion in supply. That removes a longer-term positive catalyst and it leaves asset prices largely at the mercy of economic growth and it just underscores my belief that the key influence for the market over the coming quarters will be economic growth. If a soft landing is truly achieved the S&P 500 can digest these gains and keep going. If growth rolls over, a 20%-plus decline wouldn't seem unreasonable.

Market	Level	Change	% Change
Dollar Index	103.77	-.01	-0.01%
EUR/USD	1.0852	-.0004	-0.04%
GBP/USD	1.2699	.0007	0.06%
USD/JPY	149.87	-.66	-0.44%
USD/CAD	1.3600	.0026	0.19%
AUD/USD	.6501	-.0009	-0.14%
USD/BRL	4.9568	.0092	0.19%
Bitcoin	62,787.38	-4,792.29	-7.09%
10 Year Yield	4.137	-.082	-1.94%
30 Year Yield	4.275	-.080	-1.84%
10's-2's	-41 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.55%		
Prices taken at previous day market close.			

Economics

ISM Services Index

- The Services Index fell to 52.6 vs. (E) 53.0 in February

Takeaway

The February ISM Service PMI missed estimates on the headline but the details of the report were solid and as such it helped pressure yields, but that wasn't the reason stocks dropped (it didn't increase hard landing concerns). The 50 level remains the key in this economic report as the ISM Services PMI doesn't fall below that level often and when it does, it's an economic negative. Positively, at 52.6, the headline remains solidly above that level.

Looking at the details, New Orders, the leading indicator in the report, rose 1.1 points to 56.1 from 55.0, implying solid future activity. The inflation component, meanwhile, dropped a sizeable 5.4 points, which was a favorable development in the release, especially considering the January CPI data roiled markets briefly in mid-February. The decline in service sector prices is a good sign that inflation pressures eased back in February after a short-lived pop in January.

Bottom line, both stocks and bonds rallied upon the release of the ISM data yesterday as the easing pace of growth and demand in the service sector, paired with the declining price pressures, were viewed as a positive for markets as they support a sooner-than-later start to the Fed's rate-cutting cycle.

Commodities

Precious metals extended this week's gains amid risk-off money flows across asset classes while energy and the industrial metals declined modestly on simmering concerns about the health of the Chinese economy. The commodity ETF, DBC, dropped 0.77%.

Starting with the industrial metals market, copper futures declined on the numerous growth headwinds yesterday (China's uninspiring GDP target, underwhelming ISM Services PMI) did not break down meaningfully, which notably suggests that the painful selloff in equity markets was less about Chinese growth fears and more about derivatives money flows and overcrowded bullish equity positions. If China does become a meaningful concern, we would expect to see copper drop to new 2024 lows.

Turning to precious metals, gold extended its sizeable three-day rally to an all-time closing high yesterday. Gold futures added another 0.58% and that brought the three-day rally's total gain to over 4%. A modestly weaker dollar, solid bid in Treasuries amid growing economic concerns both domestically and abroad (namely regarding China), and still-elevated real interest rates all combined to bolster the gold market yesterday.

On the charts, gold futures did notable fall short of the early December intraday high of $2,152/oz. by just $2/oz. yesterday, and the failed attempt at new highs may cause a profit-taking pullback if Powell's comments before Congress are not market friendly or if economic data comes in hotter than expected. If gold does pullback, look for technical support at the old closing high just above $2,090/oz. to be defended.

WTI crude oil futures continued to unwind a portion of last week's breakout gains and Friday's test of the $80/barrel level as the underwhelming clarity about China's plans to stimulate the economy and soft economic data in Europe and the U.S. all weighed modestly on demand expectations. WTI crude oil futures did hold the upper bound of the key support area between $76.50 and $78/barrel, however, as today's weekly EIA data came into focus. Today, traders will be watching for a further rebound in consumer gasoline demand and evidence of continued tight physical market conditions in order for the rally to continue. Also, if Powell's comments are well received, the general risk-on money flows should be supportive of oil.

Currencies & Bonds

Treasury yields fell moderately on Tuesday following the slightly soft ISM Services PMI and on a mild risk-off bid as stocks dropped. The 10-year yield declined 8 basis points and further faded away from resistance at 4.25%.

Yields were drifting lower to start Tuesday thanks mostly to disappointment on Chinese growth projections, as that's a negative for global growth and boosted demand for "safe haven" bonds such as Treasuries and bunds. However, the decline in the 10 year accelerated and it hit a low for the day immediately following the release of the ISM Services PMI. To be clear, the PMI wasn't a warning shot on growth (it would need to drop below 50 for that to happen). But it did imply we're seeing a loss of economic momentum and it did reinforce expectations for rate cuts in June.

Stepping back, two of the three most important economic reports of the month (ISM Manufacturing PMI and ISM Services PMI) disappointed since Friday, and that's cooled the growth and inflation outlook—and the 10-year yield has fallen as a result. For now, the 10-year yield remains comfortably in the 3.75%-4.25% range and will be supportive for stocks near term (although it's not enough to spark a rally).

In currencies, the dollar, euro and pound were all little changed as none of the economic data yesterday altered the outlook for summer rate cuts from all three central banks.

Have a good day,

Tom

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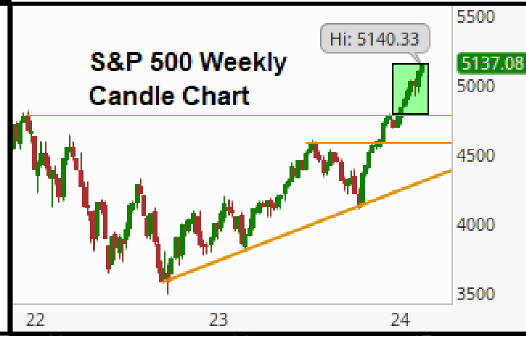
Technical Perspectives (Updated 3/3/2024)

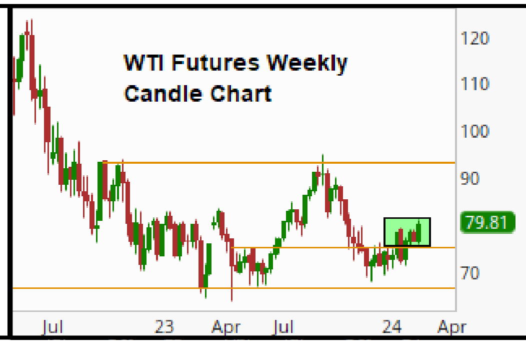
S&P 500

- 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: 5150, 5183, 5200
- Key Support Levels: 5088, 5030, 4976



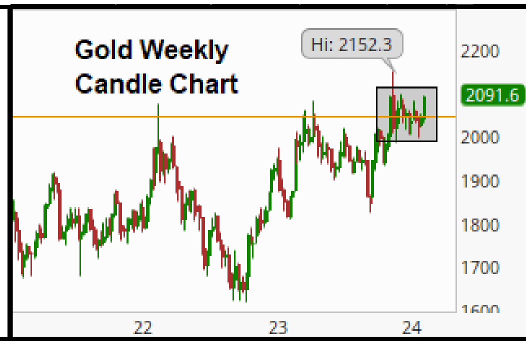
WTI Crude Oil

- Technical View: Oil closed at a fresh 2024 high last week with measurable strength in the term structure of the futures market supporting a bullish outlook for energy.
- Proprietary Model: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $80.85, $82.48, $85.29
- Key Support Levels: $78.52, $76.40, $74.20



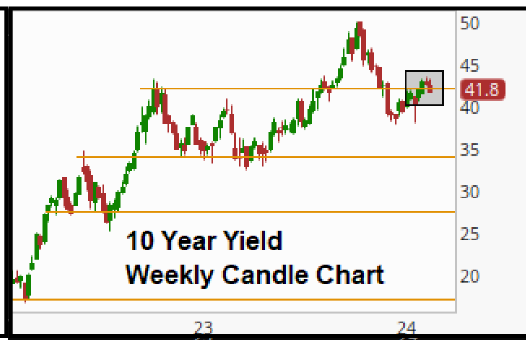
Gold

- Technical View: Gold futures broke out to a fresh all-time in late 2023, shifting the technical outlook decidedly in favor of the bulls but price action has been sideways.
- Proprietary Model: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2094, $2108, $2136
- Key Support Levels: $2072, $2046, $2006



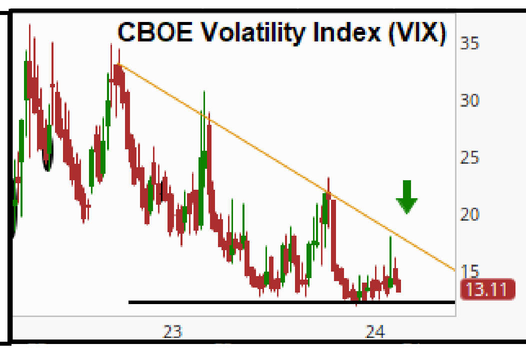
10-Year T-Note Yield

- Technical View: The 10-year yield has stabilized after a steep decline into the end of 2023 and is once again trending higher with the 4.50% area coming into focus.
- Proprietary Model: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.274, 4.327, 4.389
- Key Support Levels: 4.125, 4.020, 3.927



CBOE Volatility Index (VIX)

- Technical View: The VIX pulled back to test the lower bound of the 2024 uptrend channel last week which suggests volatility should stay suppressed in the near-term.
- Proprietary Model: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 14.15, 14.64, 15.42
- Key Support Levels: 12.93, 12.44, 11.81



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Fundamental Market View (Updated 3/3/2024)

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 rose to fresh all-time highs against last week as the Core PCE Price Index met expectations, providing some relief from inflation anxiety for investors as the momentum in the market remains decidedly higher.*

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 mostly higher last week led by energy futures thanks to evidence of tight physical market conditions while a pullback in real interest rates and the dollar supported a rally towards record highs in gold. Industrial metals did not participate in the rally, however, as the outlook for global growth continues to deteriorate.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as none of the U.S. or global data changed the outlook for rate cuts (the Fed, ECB and BOE are all expected to cut rates in the summer).*
Treasuries	**Turning Positive**	*Treasury yields dropped last week with the majority of the losses coming on Friday after the soft ISM Manufacturing PMI, as the 10-year yield has dropped back into the 3.75%-4.25% trading range.*

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.