SEVENS REPORT

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

March 7, 2024

Pre 7:00 Look

- Futures are slightly higher following a generally quiet night of news as markets look ahead to tomorrow's jobs report.
- Economically, the only notable number overnight was German Manufacturers' Orders and it badly missed expectations (-11.3% vs. (E) -6.0%) but it isn't impacting markets.
- Japanese stocks fell sharply (Nikkei down more than 1%) as "chatter" grew louder the BOJ may hike rates in March.
- Econ Today: ECB Rate Decision (E: No change), Jobless Claims (E: 215K), Unit Labor Costs (E: 0.7%). Fed Speak: Powell (10:00 a.m. ET), Mester (11:30 a.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,121.75	10.00	0.19%
U.S. Dollar (DXY)	103.18	-0.19	-0.19%
Gold	2,162.80	4.60	0.21%
WTI	78.55	-0.58	-0.76%
10 Year Yield	4.10%	0.00	0.00%

Equities

Market Recap

Stocks rebounded and bond yields tested one-month lows Wednesday as Fed Chair Powell's Congressional testimony did not meaningfully alter current policy expectations while economic data was largely in line with estimates. The S&P 500 gained 0.51%.

Major U.S. equity indexes gapped higher at the open yesterday morning after several Chinese government officials, including the State Planner and head of the PBOC reiterated their commitment to achieving the 5% GDP growth target in 2024 with a wide variety of stimulus tools available. That positive news out of China paired with better-than-feared retail sales in the Eurozone in January (-1.0% vs. E: -1.4% y/y) and as-expected labor market data in the U.S. (the ADP and JOLTS were both close to expectations) influenced a cautious rally in early trade.

Focus turned to Capitol Hill by midmorning as Powell began to deliver his semi-annual testimony on the economy and monetary policy to Congress. Stocks pulled back modestly as traders awaited the Fed Chair's remarks. For the most part, Powell was able to "thread the needle" as he avoided providing any specifics on when rate cuts would commence but noted satisfaction with the trajectory of inflation and suggested the policy rate had indeed reached its cycle peak, which was well received by investors and that helped the S&P 500 close back above the psychological 5,100 level.

Powell Testimony Takeaways

The first day of Powell's testimony before the House Financial Services Committee provided no major surprises and Powell largely repeated what has been consistent Fed messaging: Rates have peaked, they will be cut, but it's not happening soon because the Fed needs more proof inflation is going to get to 2%.

The net result of that theme/tone was positive as it reinforced the "impending rate cuts" part of the current bullish market mantra of "Stable growth, falling inflation, impending rates cuts and AI promise." As such, Powell's comments contributed to the bounce in stocks and it helped slightly pressure longer-dated Treasury yields.

From a market standpoint, rate cut expectations for June remained about 90% and it'll take a material reduction in those expectations for hawkish fears to hit stocks (more on that possibility in Jobs Report Preview).

Market	Level	Change	% Change
Dow	38,661.05	75.86	0.20%
TSX	21,593.96	68.03	0.32%
Stoxx 50	4,930.35	14.86	0.30%
FTSE	7,660.54	-18.77	-0.24%
Nikkei	39,598.71	-492.07	-1.23%
Hang Seng	16,229.78	-208.31	-1.27%
ASX	7,763.71	30.18	0.39%

Prices taken at previous day market close.

Bottom line, the expectation for sooner-than-later Fed rate cuts (meaning June) is an important support for this rally and Powell's testimony reinforced that expectation. That helped support stocks on Thursday and also supported the continued broadening of the rally, as an environment of lower rates, falling inflation and stable growth is positive for most market sectors and they continued to play catch up to tech on Wednesday.

Looking forward, Powell testifies before the Senate Banking Committee today but his prepared remarks are just a repeat of yesterday, so barring a surprise answer to a question on policy, his testimony should be relatively uneventful (although expect some fireworks between he and Sen. Warren, as usual).

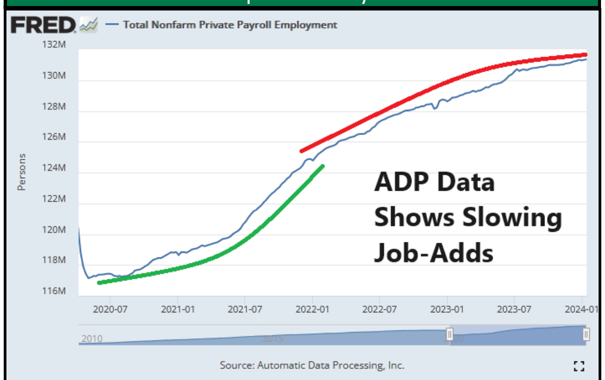
Jobs Report Preview

Markets have digested investors reducing Fed rate cut expectations remarkably well so far in 2023 but that's mainly because, while rate cuts aren't coming in March or May, investors expect them sooner rather than later and if that idea is challenged, we could see Treasury yields rise and a new, more powerful headwind on stocks.

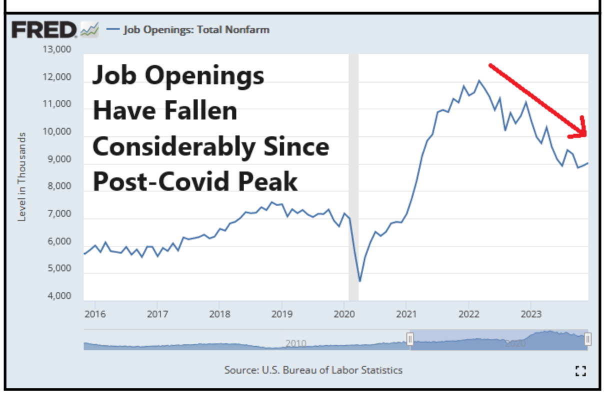
That's why these jobs reports remain important, because they are the most important monthly economic indicator and if they continue to run "Too Hot" then we will see June rate cut expectations begin to fall and the idea of no rate cuts until late 2024 will hit markets and likely increase volatility.

Again, here's the reasoning. If the Fed isn't seeing any negative impact from high rates on the labor market and inflation metrics are continuing to decline, then there's simply no urgency to cut rates preemptively and risk a rebound in inflation. Put differently, the Fed doesn't want to see employment decline before cutting rates but if employment isn't declining and growth is generally stable, then there's little motivation to cut rates. So, there has to be some evidence higher rates are hurting the economy to be the catalyst for rate cuts, otherwise the Fed can keep rates high, beat inflation into submission and get it to target, and wait for hints higher rates are a negative.

Market	Level	Change	% Change
DBC	22.18	.18	0.82%
Gold	2,152.60	10.70	0.50%
Silver	24.38	.40	1.65%
Copper	3.8685	.0215	0.56%
WTI	78.95	.80	1.02%
Brent	82.81	.77	0.94%
Nat Gas	1.931	-.026	-1.33%
RBOB	2.5467	.0139	0.55%
DBA (Grains)	22.36	.17	0.76%
Prices taken at previous day market close.			



The start to jobs week was largely market friendly yesterday, as the ADP report showed a continued trend of slowing job adds since the initial post-Covid surge in the labor market while JOLTS point to a measurable decline in available jobs, which is exactly the "cooling" combination the Fed wants.



Bottom line, markets have looked past "Too Hot" readings so far this year but if a June rate cut comes into doubt, expect that to push yields higher and increase headwinds on stocks. Tomorrow's jobs report won't likely drop rate cut expectations below 50%, but they could push them solidly below 90% and that should pressure stocks and boost yields.

Finally, a "Just Right" number that shows solid, but not spectacular, job growth will provide continued support for this market as it'll imply the Goldilocks economy and macro set up remains intact and keep the bullish mantra of "Stable growth, falling inflation, impending rates cuts and AI promise" going.

"Too Hot" (A June Rate Cut Probability Drops Below 50%)

> 225k Jobs Adds, UE Rate ≤ 3.6%, Wages > 4.4% yoy. Numbers this strong would likely push expectations for a June rate hike towards 50%, pushing back against Fed rate cut expectations. *Likely Market Reaction:* A sharp decline in stocks and bonds. Treasury yields should rise sharply (the 2- and 10-year yields could easily rally 15 basis points or more) and that would hit stocks and a decline in the S&P 500 of more than 1% shouldn't be a surprise. Defensive sectors (utilities, healthcare, staples) should relatively outperform but we'd expect all 11 S&P 500 sectors to be lower. The Dollar Index should rally back through 104 while commodities (and especially gold) should drop hard on the dollar strength. A pullback of 5% or more on this outcome in the coming weeks would be possible.

"Just Right" (Expectations for a June Rate Cut Stay Near 90%) **50k-225k Job adds, UE Rate ≥ 3.7%, Wages: ≤ 4.3%.** A number in this range would solidify expectations for June rate cuts and it's the best-case scenario for markets. A slightly underwhelming number will 1) Keep a June rate cut fully expected and 2) Not imply the labor market is suddenly losing momentum. *Likely Market Reaction:* A continued grind higher. Momentum in this market is still higher and a number in this range will keep June rate cuts fully expected. I'd expect outperformance from cyclical and value sectors, so a continued broadening of the rally, although I think most of the market would be higher. Treasury yields should decline modestly and if this number is close to 100k, don't be shocked if the 10-year yield drops below 4.05%. The Dollar Index should also drop moderately (perhaps below 103) on a number in this range while commodities, including gold, should see a modest rally. **A number in the low-100k range remains the "best case" for this market as it essentially keeps the recent "status quo" intact.**

Market	Level	Change	% Change
Dollar Index	103.34	-.41	-0.40%
EUR/USD	1.0894	.0037	0.34%
GBP/USD	1.2736	.0031	0.24%
USD/JPY	149.42	-.63	-0.42%
USD/CAD	1.3521	-.0072	-0.53%
AUD/USD	.6563	.0060	0.92%
USD/BRL	4.9462	-.0121	-0.24%
Bitcoin	66,931.39	5,019.14	8.11%
10 Year Yield	4.104	-.033	-0.80%
30 Year Yield	4.240	-.035	-0.82%
10's-2's	-45 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.56%		
Prices taken at previous day market close.			

"Too Cold" (Hard Landing Concerns Grow) **<50k Job adds.** In the immediate reaction, a very soft number will pressure Treasury yields further and could result in a knee-jerk rally in stocks (i.e. bad data is good for stocks because it makes the Fed more likely to cut). But a sudden collapse in job adds would increase concerns the economy may be slowing more than anticipated and that would, in time, start to weigh on risk assets. *Likely Market Reaction:* There could be an initial rally in stocks based on a "bad is good" mentality. Yields should decline (don't be shocked if the 10-year yield falls below 4.00%) and the drop in yields should provide an initial boost to stocks, with super-cap tech, defensive sectors and higher-yield sectors (e.g. REITs) rallying. The Dollar Index should drop moderately (below 103) while commodities and gold should rally hard (gold should move further above $2000/oz). However, while an initial "bad is good" rally might ensue, I'd be shocked if it lasted more than a day or so, because slowing growth into Fed rate cuts is not what's priced into stocks at these levels and a pullback on hard landing concerns would become more likely.

Economics

There were no material economic reports.

Commodities

Precious metals extended higher with gold hitting another record high as both bond yields and the dollar declined. The weaker dollar also supported gains in industrial metals and the energy complex which was supported by a largely bullish weekly EIA release. The commodity ETF, DBC, rallied 0.82%.

Copper caught a bid overnight Tuesday thanks to the positive reinforcement of stimulus plans by the Chinese government aimed at helping the economy achieve an optimistic growth target of 5% in 2024. Copper futures, however, remain rangebound between support at $3.65 and resistance at $3.95.

As for gold, the rally powered on to new all-time intraday and closing highs yesterday. The April contract closed higher by another 0.58%. The gold-favorable dynamics of a weakening dollar and falling interest rates have combined to support the latest rally in precious metals and while the pace of the rally is likely unsustainable, the path of least resistance remains decidedly higher for gold.

EIA Data Takeaways: Improving Consumer Demand

Yesterday's weekly EIA inventory report was bullish, sending oil and refined product futures towards their 2024 highs midmorning. However, the rally suddenly stalled and turned lower shortly after 11:00 a.m. as calendar spreads reversed from session highs and gave up all the day's gains. WTI was able to end the day up 1.20% near $79/barrel but that was well off the intraday highs of over $80.50/barrel.

The headline commercial crude oil stockpile figure edged up by 1.4MM bbls vs. (E) +1.3M (API: +423K) but refined product stockpiles fell by more than expected with gasoline supply declined -4.5MM vs. (E) -1.4MM (API: -2.8MM), and distillate inventories declined -4.1MM bbls vs. (E) -400K (API: -1.8MM). It was also noteworthy that domestic production edged down -100K b/d from a record high of 13.3MM b/d last week.

The sizeable product draws were driven by a strong resurgence in demand for fuel at the pump as gasoline supplied, a key implied measure of consumer demand, jumped 547K b/d to 9.01 million b/d, the highest level since mid December. Additionally, the larger-than-anticipated product draws occurred in spite of a big rebound in the refinery utilization rate which rose 3.4% to 84.9%. That was still below typical levels for this time of year, however, and the longer refinery use remains suppressed, the greater the risk that physical product markets fall into a deficit.

Other influences on oil yesterday included Saudi Arabia's unexpected price hikes on future oil cargoes being sent to Asia and general risk-on money flows across other asset classes including stocks as Powell did not deliver a hawkish surprise to the markets that would have pressured oil along with other risk assets. As we look ahead to the end of the trading week with $80/barrel still in reach for WTI, we will need to see calendar spreads firm to underscore tight physical market conditions in order for the American crude oil benchmark to notch a close beyond the $80 mark.

Currencies & Bonds

There was finally some volatility in the currency markets on Wednesday as better-than-feared EU economic data and mixed U.S. data weighed on the dollar. The Dollar Index declined 0.4%.

The main catalysts Wednesday weren't from the U.S. but instead were from Europe, as German Exports beat estimates (up 6.3% m/m) as did the UK Construction PMI (49.7 vs. (E) 49.2) and Eurozone Retail Sales (0.1% vs. (E) 0.0%. The trio of better-than-feared data boosted the euro and pound as the commentary was positive for the EU/UK economy and very slightly pushed back against the idea of early summer rate cuts by the ECB or BOE. That boosted the euro by 0.3% and the pound by 0.2%.

The dollar was pressured by the better-than-expected foreign economic data and as employment metrics met expectations but showed continuing easing from recent levels. The ADP jobs report was slightly underwhelming (140k vs. (E) 150k) while the JOLTS report also dropped back to 8.86 million vs. (E) 8.8 million. Neither of those numbers were bad but given the better-than-expected EU data the combination did weigh modestly on the buck. Finally, Powell wasn't dovish but he did reiterate the Fed's message that rate cuts are coming, just not right away and that strengthened the idea of a June rate cut, which also incrementally weighed on the greenback. Looking forward, the Dollar Index hit a one-month low but it'll take a break down below 103 to generate more downward momentum, and that's only likely to come via soft data or surprisingly dovish Fed speak, both of which would increase expectations for a June rate cut.

Turning to Treasuries, yields were mixed as the 2-year yield rose 1 basis point while the 10-year yield dipped 2 basis points, reflecting the fact that none of yesterday's data changed the outlook for the Fed (June rate cuts still a 90% probability). Similarly, Powell's speech also didn't move the needle on rate cut expectations and as such, it wasn't an influence on yields.

Bottom line, the 10-year yield remains in the middle of the 3.75%-4.25% virtuous trading range and as long as it stays near 4%, yields will remain, at worst, neutral on the markets (and in reality, a small tailwind).

Have a good day,

Tom

3/7/2024

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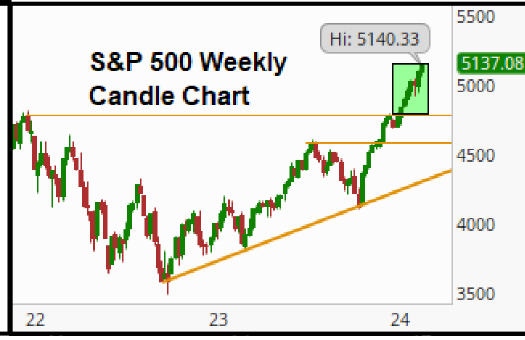
Technical Perspectives (Updated 3/3/2024)

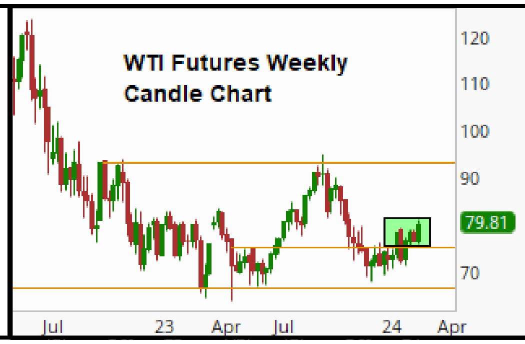
S&P 500

- 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



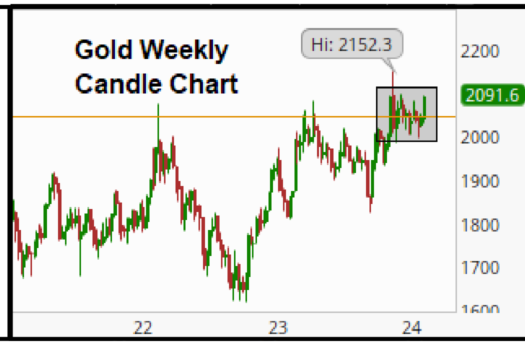
WTI Crude Oil

- 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



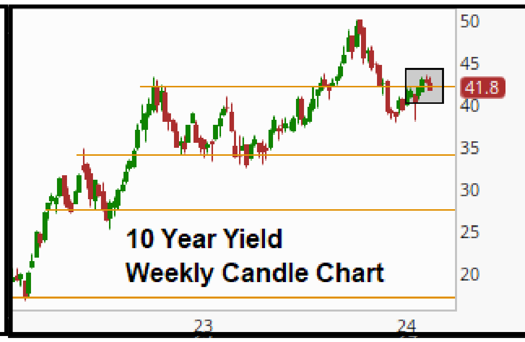
Gold

- 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

SEVENS REPORT

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.