SEVENS REPORT

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

April 1, 2024

Pre 7:00 Look

- Futures are solidly higher to start Q2 as expectations for a June rate cut remain high after the Core PCE Price Index met expectations and Powell provided no surprises in his comments (both last Friday).
- Friday's Core PCE Price Index met expectations, rising 2.8% y/y and keeping June rate cut expectations in place.
- The Chinese March Manufacturing PMI rose to 50.8 vs. (E) 50.1 increasing hopes for an economic rebound.
- Econ Today: ISM Manufacturing PMI (E: 48.3). Fed Speak: Cook (6:50 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,329.25	20.75	0.39%
U.S. Dollar (DXY)	104.58	0.03	0.03%
Gold	2,269.70	31.30	1.40%
WTI	82.86	-0.31	-0.37%
10 Year Yield	4.21%	0.02	0.43%

Equities

Market Recap

Stocks were initially quiet last week with markets churning lower amid more Fed digestion and as the end of the first quarter came into view. Volatility picked up measurably in the back half of the week, however, as portfolio rebalancing began to impact markets, triggering sizeable late-session moves. The S&P 500 ended the week with a gain of 0.39% and is now up 10.79% YTD.

Equities began last week with a modest decline as the dovish March Fed decision and subsequent rally to new record highs continued to be digested. International news was negative to start the week as China issued restrictions on the use of INTC chips, which weighed on tech and semiconductor stocks while renewed tensions between Russia and Ukraine rekindled simmering geopolitical angst. The S&P 500 dipped 0.31%.

The churn lower in stocks continued Tuesday as a stabilizing Chinese yuan following government intervention in the currency market was overshadowed by disappointing U.S. economic data including negative revisions to January Durable Goods, weak Consumer Confidence data, and a stagflationary Philly Fed Non-Manufacturing Index. The calendar came into play late in the day as end-of-quarter portfolio rebalancing money flows hit stocks relatively hard in an otherwise quiet day and the S&P 500 fell another 0.28%.

Stocks gapped higher on Wednesday after strong Chinese Industrial Profits data (up 10.2% y/y) and better-than-anticipated Eurozone Economic Sentiment helped support risk-on money flows early. A strong 7-Yr Treasury auction kept a solid bid in the bond market until portfolio rebalancing once again influenced equity markets. This time it was buying in the final hour that saw the S&P 500 squeeze up to the important options strike of 5,250. The index ended higher by 0.86% on the day.

Stocks held Wednesday's gains at the open Thursday as

Market	Level	Change	% Change
Dow	39,807.37	47.29	0.12%
TSX	22,167.03	59.95	0.27%
Stoxx 50	5,083.42	1.68	0.03%
FTSE	7,952.62	20.64	0.26%
Nikkei	39,803.09	-566.35	-1.40%
Hang Seng	16,541.42	148.58	0.91%
ASX	7,896.86	77.25	0.99%

Prices taken at previous day market close.

jobless claims remained historically low and Q4 GDP was revised up to 3.4% from 3.2% in the initial release. The good economic data continued as consumer Sentiment rose to 79.4 vs. (E) 76.5 while year-ahead inflation expectations favorably edged down to 2.9% from 3.0%. Stocks churned sideways from there into the afternoon until dovish ECB comments regarding "spring rate cuts" saw the S&P 500 sprint to a record close, up 0.11%.

Market	Level	Change	% Change
DBC	22.97	0.27	1.19%
Gold	2,254.80	42.10	1.90%
Silver	25.10	0.35	1.41%
Copper	4.02	0.01	0.29%
WTI	83.11	1.76	2.16%
Brent	87.00	0.00	0.00%
Nat Gas	1.75	0.03	1.98%
RBOB	2.72	0.05	1.83%
DBA (Grains)	24.76	0.09	0.36%
Prices taken at previous day market close.			

Assessing (and Ranking) Market Risks as We Start Q2

The S&P 500 rallied more than 10% in Q1 and has gained more than 28% since the Oct. 27 low. That's a 28% return in five months, or an annualized return of nearly 60%. One doesn't have to have a lot of experience in the markets to think that type of pace is unsustainable and it's reasonable for all of us to expect an uptick in volatility sometime over the coming months. That doesn't mean the rally will end, but it does mean more volatility.

So, at the start of this quarter I wanted to provide a brief analysis of the current risks facing the market. To make this as practical as possible, I'm going to rank these risks by 1) Probability and 2) How much damage it could do to the bull market, so we have a reference of what is most likely to happen and how much damage they could do.

Most likely but with a marginal impact: Rate cut disappointment (the market expects fewer than three cuts). The Fed will likely cut in June, but if growth stays resilient and price pressures buoyant, they may guide to less than three cuts in 2024. So far, markets have handled rate cut disappointment very well and that likely will continue as long as economic growth stays solid. *Likely Market Reaction:* A mild pullback (1%-3%).

Possible with a moderate impact: AI earnings disappointment. AI Isn't responsible for this rally (it would have happened anyway) but it is responsible for part of the intensity. AI-related tech company earnings expectations are through the roof. If they prove too good to be true, we will see selling in mega-cap tech and tech-aligned sectors and that will hit markets. It won't end the bull market or the rally, but it would easily give back a large portion of the YTD gains. *Likely Market Reaction:* A moderate pullback (5%-10% ish).

Unlikely but with a significant impact: Inflation rebounds. If the Fed is wrong and inflation rebounds it will eliminate a major reason for the October-to-present rally, because not only will it destroy rate cut expectations, it'll put rate hikes back on the table and now we have a repeat of the mid-1970s. Higher-for-longer rates will dramatically increase the chances of an eventual recession. Higher-for-longer rates and rising hard landing chances will make this market extremely overvalued and a substantial decline is possible. *Likely Market Reaction:* 10%-15% decline in the S&P 500.

Least likely but with the biggest impact: An economic slowdown. I've said this consistently and I'm going to keep saying it because a sudden, unexpected slowing of growth is the potential rally killer because it negates any benefit from looming rate cuts, will result in a 4X-5X reduction in the market multiple and hit some of the most overvalued sectors. Positively, economic data remains resilient and that's no real signal of a looming slowdown. But, if it starts to show up, that is a potentially major problem for markets. *Likely Market Reaction:* 15%-20% decline or more.

The outlook for markets remains positive as we start the second quarter as the bullish mantra of 1) Stable growth, 2) Falling inflation, 3) Impending Fed rate cuts and 4) AI enthusiasm remains in place. But it is important to monitor potential risks because with valuations stretched and sentiment complacent, this market remains vulnerable to a negative shock.

Economics

Last Week

Economic data early last week was mostly Goldilocks and was supportive of stock prices as the few reports we received showed generally solid economic activity and easing price pressures. The key report of the week came on Friday via the Core PCE Price Index and it met expectations, with the Core PCE Price Index rising 2.8%, which is the same as the initial reading from last month (the January data was revised to 2.9% from 2.8%). The Fed's preferred measure of inflation met expectations and that will keep June rate cut expectations high and that will generally support stocks. That won't put to rest the idea inflation is sticky or that the Fed may cut less than three times this year, but for now those fears are not enough to cause a decline in this market (bullish momentum is too strong).

Looking at the growth data, durable goods was stronger than expected on the headline (1.4% vs. (E) 1.3%) and, more importantly, in the details, as New Orders for Non-Defense Capital Goods ex-Aircraft rose 0.7% vs. (E) 0.1% and that implies that business spending and investment was solid in February. However, those strong readings came with some solidly negative revisions to last month's data as NDCGXA was revised to -0.4% vs. (E) 0.1%. Bottom line, the two months' worth of data implied solid, but not spectacular, business spending and investment and that is an anecdotal positive as it reinforces the stable growth narrative.

Turning to other data last week, jobless claims remained low at 210k while Continuing Claims backed further away from the 1.925 million level (a positive as it implies strength in the labor market). And the weekly unemployment data continues to show that the labor market remains strong. The one inflation metric last week eased as the University of Michigan Inflation Expectations Index for one year declined to 2.9% vs. (E) 3.0% and, more importantly, to 2.8% from 2.9% for five years and the Fed will take that as another signal that inflation is not a long-term threat and that will reinforce the case for a June rate cut.

Market	Level	Change	% Change
Dollar Index	104.49	-0.06	-0.06%
EUR/USD	1.0791	0.00	0.00%
GBP/USD	1.2622	0.0001	0.01%
USD/JPY	151.35	-0.02	-0.013%
USD/CAD	1.3537	-0.0002	-0.015%
AUD/USD	0.6521	0.0007	0.11%
USD/BRL	5.015	0.00	0.00%
Bitcoin	70,431.90	519.25	0.74%
10 Year Yield	4.21%	0.01	0.29%
30 Year Yield	4.35%	0.01	0.28%
10's-2's	-42 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.725%		
Prices taken at previous day market close.			

This Week

The second quarter starts with a bang as this will be a busy week of economic data highlighted by Friday's jobs report, and the question for economic data not just this week but throughout the second quarter is this: *How stable is economic growth?*

The answer during the first quarter was, for the most part, "very stable" and that was an important reason the S&P 500 was able to rally so much. However, at the end of the quarter there were some small warnings signs on growth, starting with the February unemployment rate (which jumped to a near-two-year high at 3.9%), retail sales (missed estimates in January and February) and the ISM PMIs (both falling below 50).

So, economic activity remains solid but we can't dismiss the possibility it shows a loss of momentum because if that happens, it could cause a significant pullback as investors re-assess the chances of a recession or slowdown. That's why this week matters because we will get important updates on the three most important reports of the month.

As mentioned, the highlight this week is Friday's jobs report and we'll provide our "Too Hot/Too Cold/Just Right" preview in Wednesday's report, but an important metric in this report will be the unemployment rate. Remember, it jumped to levels last seen in 2022 and if that continues, it'll increase growth concerns.

The ISM Manufacturing PMI (today) and the ISM Services PMI (Wednesday) are the next most important economic reports this week and the key here remains 50. The ISM Manufacturing PMI has been below 50 for over a year. The sooner it gets above 50, the better. Conversely, the ISM Services PMI has been above 50 since the pandemic. The Services PMI doesn't drop below 50 very often and if it happens for a few months in a row, that's a very reliable signal the economy is going to slow. So, markets will want to see if it can get above 50 to signal economic stability.

Finally, in addition to the jobs report, we will also get the JOLTS report (Tuesday) and weekly jobless claims

(Thursday) although the latter may be impacted by the Key bridge collapse. Regardless, by the end of this week we'll have a good idea of the state of the labor market and the closer the data is to expectations, the better for markets as it'll reinforce that economic activity remains stable, and that's a positive for stocks.

Commodities

Commodities traded with an upside bias last week as traders continued to price in a soft landing amid easing Fed policy while geopolitical tensions remained elevated, which led energy to outperform into quarter-end. The commodity ETF, DBC, rose 1.19% on the week.

Oil was the standout last week and the rally continued with WTI notching a close above $83/barrel to end out the week higher by 2.77%. News that Russia and Ukraine had traded airborne strikes on each other's energy infrastructure including refineries and fuel export facilities rejuvenated an already-simmering supply side fear bid. U.S. inventory data was mixed Wednesday but smoothed out measures of domestic consumer demand for refined products hit YTD highs helping oil extend gains into the end of the short week.

The ongoing geopolitical tensions (Russia-Ukraine/Israel-Gaza), strong domestic demand, and OPEC+ reiterating its commitment to supply cut policies currently in place from now through the early summer all support the fundamental bull case for oil near-to-medium term. On the charts, the trend is solidly positive with futures ending Q1 at the highest point since late October.

Gold outperformed last week with a gain of 2.38% amid a mostly steady dollar and a solid bid in the bond markets pressuring yields, which added appeal to gold as an inflation hedge and safe-haven asset. Gold hit another record high last week underscoring the strong uptrend in place right now amid lower policy rate expectations and hopes for a soft landing (renewed disinflation trends). Risks to the gold rally include hot inflation data, hawkish Fed speak, and a dollar breakout.

Copper underperformed but gained 0.31% to end a comfortable distance off the worst levels of the week as details emerged surrounding the proposed 5%-10% production cut by Chinese smelters (supported by the government) for the second quarter. This new "OPEC-like" influence on the supply of copper is a gamechanger from a fundamental analysis standpoint and will leave the industrial metal a less-effective real-time indicator of global economic health.

Currencies & Bonds

Currency and bond markets were quiet last week due mostly to the lack of any economic data that changed the outlook for rate cuts (we started last week with markets overwhelmingly expecting a June cut from the Fed and early summer cuts from the ECB and BOE and that's where we ended the week). Until we get some movement on those expectations, volatility will likely remain low barring some geopolitical surprise.

The one exception was the Japanese yen, which declined to a 34-year low vs. the dollar before Japanese authorities rhetorically intervened to reverse some of that decline, but the yen still finished the week little changed vs. the dollar. The yen weakness is a potentially more important issue for this market than is being portrayed and we're going to cover that more this week, but as a sneak peek here's the point: Violent moves in the yen (higher or lower) would be a surprise negative for markets and absolutely cause unexpected volatility.

In Treasuries, the 10-year yield failed, again, to break above the 4.25% resistance line as three strong Treasury auctions showed investor appetite for U.S. Treasury debt remains very strong and that, in turn, saw Treasuries rally and yields fall modestly. The 10-year yield declined 5 basis points and remains modestly under 4.25%.

Bottom line, the 3.75%-4.25% "stock positive" trading range for the 10-year yield remains intact and until it breaks out one way or the other (higher or lower) yields will not interrupt the stock rally (and it'll take very strong or weak economic data or surprisingly hawkish or dovish commentary to push the 10 year out of that range).

Have a good week,

Tom

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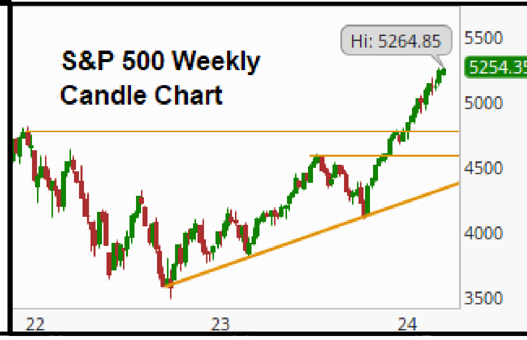
Technical Perspectives (Updated 3/31/2024)

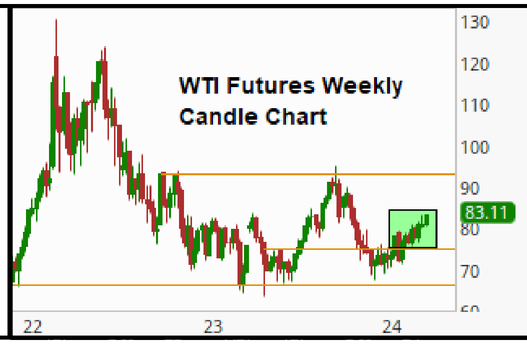
S&P 500

- Technical View: **The medium-term trend remains bullish,** as the S&P 500 ended the first quarter at a fresh record high along with multiple other major indexes.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5265, 5300, 5325
- Key Support Levels: 5225, 5178, 5079



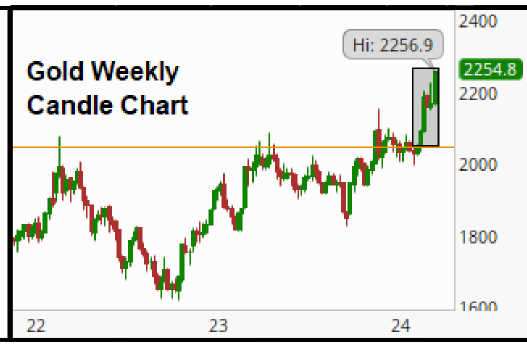
WTI Crude Oil

- Technical View: Oil prices jumped to new multi-month highs last week offering fresh confirmation of the 2024 uptrend, which leaves the path of least resistance higher.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $83.50, $85.29, $87.05
- Key Support Levels: $81.71, $80.14, $79.12



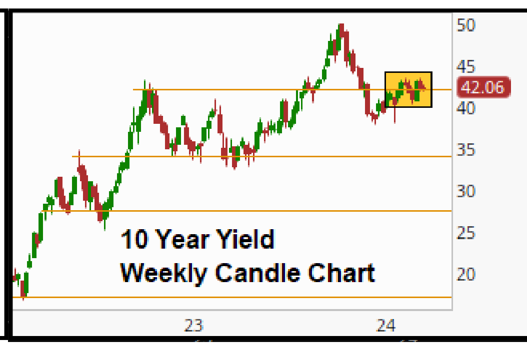
Gold

- Technical View: Gold hit fresh record highs last week as the strong push higher in early 2024 continues with the path of least resistance still decidedly higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2275, $2290, $2350
- Key Support Levels: $2222, $2196, $2165



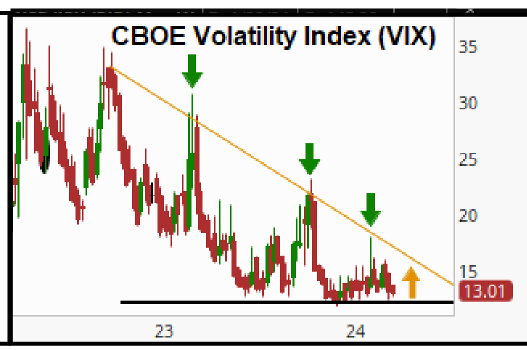
10-Year T-Note Yield

- Technical View: The 10-year yield rose to new 2024 closing highs above 4.30% in March, leaving the threat of higher yields in play given the technicals.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.273, 4.340, 4.472
- Key Support Levels: 4.155, 4.089, 3.967



CBOE Volatility Index (VIX)

- Technical View: The VIX tested the 2024 lows in March but has so far held above which suggests the threat of volatility is on the rise.
- Primary Trend: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 13.67, 14.41, 15.22
- Key Support Levels: 12.78, 12.44, 11.96



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Fundamental Market View (Updated 3/31/2024)

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 modestly during the holiday-shortened week as economic data reinforced expectations for 1) Stable growth and 2) Still (slowly) declining inflation. The S&P 500 ended the first quarter with substantial gains.*

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 rallied last week and finished Q1 with a strong performance as a continued oil rally helped boost the commodity complex.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as none of the economic data or central bank speak altered the outlook for June rate cuts from the Fed, ECB and BOE. The only exception was the yen, which declined to a 34-year low vs. the dollar before rebounding on Japanese rhetorical intervention.*
Treasuries	**Turning Positive**	*Treasury yields fell modestly last week and dropped back below the 4.25% resistance level following in-line economic data, declining inflation expectations and in-line inflation data.*

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.