SEVENS REPORT

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

April 15, 2024

Pre 7:00 Look

- Stock futures are rebounding modestly from Friday's steep selloff as geopolitical developments from the weekend were not as bad as feared leaving focus on Q1 earnings.
- Geopolitically, Iran attacked Israel with a well-telegraphed drone and missile attack over the weekend but most were intercepted. There were limited casualties and little damage so the situation is seen as "contained" for now.
- Econ Today: Empire State Manufacturing Index (E: -5.1), Retail Sales (E: 0.4%), Housing Market Index (E: 51). Fed Speak: Williams (8:30 a.m. ET), Daly (8:00 p.m. ET). Earnings: GS ($8.54), SCHW ($0.73).

Market	Level	Change	% Change
S&P 500 Futures	5189.50	22.00	0.42%
U.S. Dollar (DXY)	105.901	-.112	-0.11%
Gold	2366.80	-7.30	-0.31%
WTI	84.89	-.77	-0.90%
10 Year Yield	4.564	.067	1.49%

Equities

Market Recap

Volatility gripped markets last week as hot inflation data derailed hopes for summer Fed rate cuts while rising geopolitical tensions amplified risk-off money flows. The S&P 500 fell 1.55% on the week and is up 7.41% YTD.

Stocks were little changed on Monday and Tuesday, and the week really started with the "hot" March CPI report before the bell Wednesday. That number crushed hopes for a summer rate cut, sending odds of a June cut down to just 20%. Treasury yields soared to fresh 2024 highs and the S&P 500 fell to multi-week lows. Iran's threat of an attack on Israel raised geopolitical angst in the markets leaving the S&P 500 to close down by 0.95%.

A not-as-bad-as-feared PPI report helped stocks initially bounce back Thursday and that rally was further fueled by AAPL's AI computer chip roll-out. The S&P 500 rebounded 0.74% and recouped much of Wednesday's declines.

The rebound wouldn't last, however, as stocks gapped lower Friday on the back of ugly export data out of China (down -7.5% vs. E: -1.9%) and renewed threat by Iran of an attack on Israel, while big bank earnings disappointed. The latest UofM Consumer Sentiment Survey disappointed on the headline (77.9 vs. E: 79.0) and 1-Yr ahead inflation expectations jumped to 3.1% from 2.9%, which further weighed on the broader market. After attempting to stabilize midday, a barrage of hawkish Fed speak regarding the possibility for more rate *hikes*, a higher-for-longer rate environment, and far fewer rate cuts in 2024 kept the selling pressure on and the S&P 500 ended down 1.46%.

Initial Thoughts on the Iranian Strikes on Israel

Geopolitical tensions rose even further over the weekend as Iran launched several hundred missiles and drones at Israel, reflecting the biggest increase in tensions in the Middle East in decades. The immediate impact on markets would be as you'd expect given rising geopolitical risks: Higher oil prices, lower stocks, higher risk-off assets (e.g. Treasuries). In the short term, the weekend's events can be filed under the "Things We Don't Need Right Now" category, as a market that's had a quasi-perfect environment for nearly five months must now contend with several disappointments including a hot CPI that pushes back on the idea of declining inflation, reduced Fed rate cut expectations from June to September (which means higher rates for longer) and a

Market	Level	Change	% Change
Dow	37,983.24	-475.84	-1.24%
TSX	21,899.99	-210.12	-0.95%
Stoxx 50	5,000.77	45.76	0.92%
FTSE	7,964.66	-30.92	-0.39%
Nikkei	39,232.80	-290.75	-0.74%
Hang Seng	16,600.46	-121.23	-0.73%
ASX	7,752.53	-35.56	-0.46%
Prices taken at previous day market close.			

dramatic escalation in geopolitical tensions. That will increase volatility near term.

However, there is reason to believe that geopolitical tensions will not become a material negative for markets. First, the Iranian attack on Israel was largely ineffective, as the vast majority of drones and missiles were intercepted by Israeli and U.S. forces. Second, Iranian officials declared after the launches the matter was "concluded," hinting they did not want further conflict. Third, the U.S. has said it will not support any offensive action by Israel against Iran, reducing the chances of a material, retaliatory strike from the Israelis.

Market	Level	Change	% Change
DBC	23.72	.03	0.13%
Gold	2,368.30	-4.40	-0.19%
Silver	28.12	-.14	-0.48%
Copper	4.266	.013	0.31%
WTI	85.40	.38	0.45%
Brent	90.16	.42	0.47%
Nat Gas	1.775	.011	0.62%
RBOB	2.7941	.0200	0.72%
DBA (Grains)	25.42	.22	0.87%
Prices taken at previous day market close.			

Bottom line, this is clearly a further deterioration in the geopolitical landscape and it will increase market volatility. But I'd be hesitant to extrapolate this out to a bearish game-changing event. Yes, tensions remain high and the chances of a broader conflict in the region are present, but there remains a path to de-escalation.

From a market standpoint, I view this as making a pullback towards 5,000 in the S&P 500 more likely but do not view it as a fundamental negative shift that requires materially more defensive positioning for anyone other than a very short-term trader.

How Bad Was Last Week for the Rally?

The S&P 500 dropped to a one-month low and experienced the strongest selling we've seen since the first two weeks of the year as inflation ran hot, markets abandoned the idea of a June rate cut and the two ongoing geopolitical crisis (Russia/Ukraine and Israel/Gaza) threatened to escalate.

Looking at the events of last week, there were some clear negatives and the market reaction was legitimate. First, CPI showed the decline in inflation, which had slowed to a crawl in recent months, fully stalled and that challenged the idea of falling inflation which been one of the keys to this rally. Second, rate cut expectations for June were dramatically reduced and the first rate cut is now expected in September. That challenged the idea of looming rate cuts, which had also been one of the keys to this rally. But were these events material negatives that should make us suspect of this rally? No, not at this point.

As I said in Thursday's Report covering what CPI meant for markets, the key impact of the stall in declining inflation and delayed rate cuts is that it shattered the unrealistically optimistic view/valuation but it did not change the medium-term outlook. Put in more regular terms, I and others have called this a "Teflon" market, in that no bad news would "stick" and stop the rally. Well, last week, the hot CPI delayed Fed rate cuts and geopolitical tension "stuck" and stocks dropped accordingly.

But there's a difference between not perfect and bad, and that's the key takeaway from last week. Inflation has stopped falling (not perfect) but it isn't rebounding (that would be very bad). The Fed won't cut in June (not perfect) but the Fed isn't thinking about hiking rates (that would be very bad).

Bottom line, the market was priced for perfection at 5,200 in the S&P 500 but it was forcefully reminded this week that the environment is not perfect and stocks are declining accordingly. And given that sentiment and positioning were extended on the bullish side of the ledger, a continued decline towards 5,000 shouldn't shock anyone.

Unless we see more bullish factors deteriorate (meaning growth underwhelms or AI enthusiasm begins to disappoint) or the Fed talks about hikes or inflation rebounds, then any decline towards (or through) 5,000 in the S&P 500 is likely an opportunity to add long exposure at more reasonable valuations. Bottom line, last week's news was bad, but the four parts of this rally remain largely intact (solid growth, inflation declining, Fed cutting rates and AI enthusiasm) and it'll take further deterioration to challenge the validity of the rally (although again, a further pullback near term shouldn't surprise anyone).

Economics

Last Week

Inflation was the focus of economic data last week and the data sent a clear message that caused stocks and bonds to drop: The decline in inflation has stalled.

The key report last week was Wednesday's CPI and it came in hotter than expected as headline CPI rose 0.4% vs. (E) 0.3% m/m and 3.5% y/y (up from 3.2%). More importantly, Core CPI rose 0.4% vs. (E) 0.3% and 3.8% vs. (E) 3.7%. The market impact was immediate as the S&P 500 and Treasury bonds both fell sharply on Wednesday. The biggest practical impact of the hot CPI report was the drastically reduced June rate cut chances, which ended the week at just 25% (down from 65% pre-CPI).

Looking at the actual CPI print, it clearly wasn't what the market wanted and the decline in stocks and bonds was appropriate given the market's aggressive expectation of near-term rate cuts. But importantly, the CPI number did not imply that inflation was bouncing back. Instead, it just implied the decline in inflation had stalled and that's an important difference as a stall in the decline in inflation isn't a material negative. A bounce back in inflation would be a material negative, as it would put the idea of rate hikes back on the table. Bottom line, markets need inflation to continue to decline to fuel a further rally and inflation stats will remain in sharp focus over the coming weeks.

Market	Level	Change	% Change
Dollar Index	105.85	.78	0.74%
EUR/USD	1.0642	-.0084	-0.78%
GBP/USD	1.2449	-.0104	-0.83%
USD/JPY	153.20	-.07	-0.05%
USD/CAD	1.3777	.0088	0.64%
AUD/USD	.6460	-.0078	-1.19%
USD/BRL	5.1241	.0321	0.63%
Bitcoin	67,062.27	-3,266.77	-4.64%
10 Year Yield	4.499	-.077	-1.68%
30 Year Yield	4.602	-.058	-1.24%
10's-2's	-38 bps		
Date of Rate Cut	July 2024		
2024 YE Fed Funds	4.92%		
Prices taken at previous day market close.			

The other notable inflation report last week was Thursday's PPI and the headline was encouraging as PPI rose just 0.2% vs. (E) 0.3% and 2.1% vs. (E) 2.3%. That caused a knee-jerk market rally Thursday morning although the details of PPI were less favorable and once they were reviewed by actual people (not algorithms) the market gave back those initial gains as PPI showed sticky services inflation (which is the issue with broader inflation right now).

Bottom line, last week's inflation data pointed to a stall in the decline in inflation and while that won't undo the five-month long rally in stocks, it will increase near-term volatility and the sooner that decline in inflation resumes, the better for markets.

This Week

Focus of economic data this week turns to economic growth and as we stated last week, sticky inflation by itself isn't a bearish gamechanger for markets as long as economic growth stays solid. However, if growth starts to roll over, look out. Here's the point: Growth is now more important than ever and the numbers need to stay Goldilocks to dismiss stagflation concerns and simultaneously not encourage the Fed to get even more hawkish.

The key report this week will be today's Retail Sales report. This report has missed expectations for two straight months and during that time, numerous retailers have come out with cautious guidance, disappointing earnings on both and the chorus of retailers warning on consumer spending is growing louder. If retail sales misses again and fires a warning shot on the consumer, brace for more volatility (potentially a lot more) because if the consumer slows spending, then hard landing risks will rise and you'll start to hear "stagflation" a lot more (and that's not good for stocks or bonds).

Also this week we get the first look at April economic activity via 1) Empire manufacturing (later this morning) and 2) Philly Fed (Thursday). These readings have been extraordinarily volatile recently so we need to take them with a grain of trading salt, but the bottom line is they are still the first looks at April activity and markets will want to see 1) Stable headline readings and 2) Subdued price indices. In some ways, the price indices will be more important than the headline readings given last week's CPI and bubbling inflation worries.

Bottom line, with inflation sticky, growth is now very important to holding up this market and as such, this market needs Goldilocks data from the readings this week. If we get Goldilocks results (meaning at or near expectations with tame price indices) then stocks can hold recent gains and even rebound. If growth is “Too Hot” or “Too Cold” brace for more volatility (that’s likely intensified).

Commodities

Commodities were mixed and price action was volatile last week as geopolitical headlines saw oil whipsaw between gains and losses before ending the week lower while inflation worries powered gold to new records and copper continued to rally on expectations for a bullish supply-demand imbalance in 2024. The commodity ETF, DBC, ended the week little changed, down 0.13%.

The oil market was closely watching by investors last week as a proxy for geopolitical risks stemming from the escalating conflict between Israel and Hamas. Specifically, Iran’s threats to revenge an alleged Israeli attack on their consulate in Syria that killed seven officers kept oil markets on edge for most of last week. Ultimately, WTI futures hit new intraday highs for 2024 on Friday but ended more than $2/barrel from those highs in the mid-$80 range, falling 1.48% on the week.

Bearish weekly EIA inventory data and a higher-for-longer Fed policy outlook were additional headwinds on the oil market last week and were fundamental reasons supporting a “pause” or pullback in the 2024 rally. Bottom line for oil, futures ended with a loss last week as the imminent attack on Israel did not materialize before Friday’s close. But Iran’s decision to directly engage Israel with drone and missile strikes beginning Saturday was a material escalation in the conflict that was previously only officially between Israel and Hamas and largely contained to the immediate surrounding areas of Israel in the Middle East.

The acts of war by Iran, an OPEC member and major global oil producer, brings the geopolitical seriousness of the conflict/emerging war to the next level and should send oil prices meaningfully higher near term as traders assess the developments overseas and the impact they will have on oil supply and demand dynamics.

Switching to metals, gold was up as much as 4% last week as market-based inflation expectations continued to offset a steadily strengthening dollar and sharply rising yields. Inflation expectations via 5-Yr breakevens moderated into the weekend though, and gold ended up just 0.47%. Gold futures may pullback on profit taking here but the trend remains decidedly in favor of the bulls with prices in reach of $2,500/oz.

Currencies & Bonds

The hot CPI report pushed the dollar and 10-year Treasury yields to multi-month highs. That, in turn, weighed on stocks as markets reduced expectations for Fed rate cuts. The Dollar Index surged 1.7% and traded above 106 for the first time since late 2023 while the 10-year yield rose temporarily above 4.50% for the first time since early November.

For months, expectations for June rate cuts have driven currency markets as investors expected that the Fed, ECB and BOE would all cut rates in June. Well, that changed this week as investors reduced June rate cut chances to just 20% for the Fed while boosting June rate cut chances to basically 100% for the ECB, after they provided dovish forward guidance.

Similarly, as inflation has stayed sticky and Fed officials have now suddenly pushed back on near term rate cut expectations, the 10-year yield surged clearly out of the 3.75%-4.25% “stock positive” trading range and towards (and temporarily above) 4.50%. As a result, it has increased headwinds on stocks, which we saw last week.

Bottom line, with the Dollar Index above 106 and the 10-year yield above 4.25%, both are now headwinds on equity markets and while neither will cause a full-blown correction by themselves (we’d need growth to roll over for that to happen) they will increase volatility and the sooner both decline (the dollar back towards 105 and the 10 year towards 4.25%) the better for markets.

Have a good day,

Tom

4/15/2024

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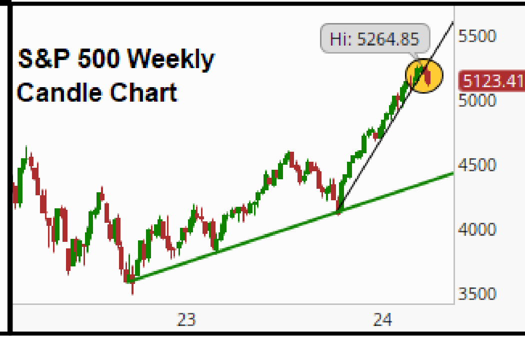
Technical Perspectives (Updated 4/14/2024)

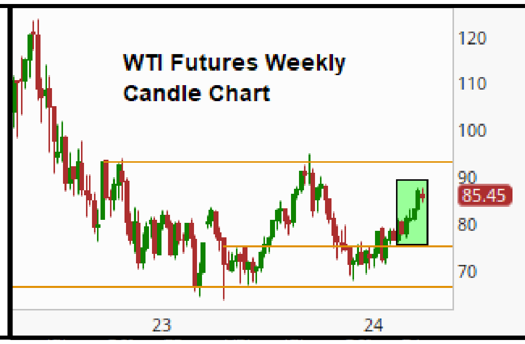
S&P 500

- Technical View: **The medium-term trend in the S&P 500 is shifting neutral from bullish** as the index tested one-month lows last week.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5210, 5244, 5265
- Key Support Levels: 5070, 4968, 4846



WTI Crude Oil

- Technical View: Oil prices jumped to new multi-month highs recently leaving the path of least resistance still higher with the prospects of new 52-week highs rising.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $88.30, $90.55, $92.25
- Key Support Levels: $84.55, $82.96, $81.29



Gold

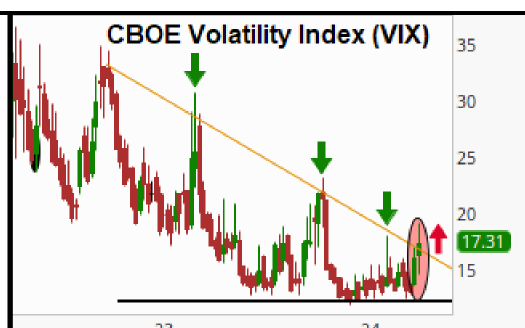
- Technical View: Gold hit fresh record highs last week as the strong push higher in early 2024 continues with the path of least resistance still decidedly higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2386, $2415, $2448
- Key Support Levels: $2348, $2297, $2259

10-Year T-Note Yield Futures

- Technical View: The 10-year yield rose to new multi-month highs to start Q2 leaving the path of least resistance higher.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.588, 4.632, 4.725
- Key Support Levels: 4.419, 4.304, 4.248

CBOE Volatility Index (VIX)

- Technical View: The VIX surged to start the second quarter notching a five-month closing high and shifting the near-term trend in favor of the volatility bulls.
- Primary Trend: **Bullish (since the week of April 1, 2024)**
- Key Resistance Levels: 17.94, 19.20, 21.27
- Key Support Levels: 16.35, 15.34, 14.39



SEVENS REPORT

Fundamental Market View
(Updated 4/14/2024)

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 last week as June rate cut expectations plunged following the hotter-than-expected CPI report and as Treasury yields surged to multi-month highs.*

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 little changed last week as volatile geopolitics were offset by disappointing Chinese economic data, although with geopolitical risks elevated, commodities should remain generally supported.*
US Dollar	**Neutral**	*The Dollar Index rose sharply and above 106 following the hot CPI report, decline in rate cut expectations and surging Treasury yields.*
Treasuries	**Turning Positive**	*Treasury yields rose to multi-month highs last week following a hotter-than-expected CPI report as the 10-year yield has likely broken out of the 3.75%-4.25% "stock positive" 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.