SEVENS REPORT

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

April 16, 2024

Pre 7:00 Look

- Futures are slightly lower amid Chinese growth worries, hawkish Fed expectations and simmering geopolitical risks.
- Economically, Chinese GDP was solid (5.3% vs. E: 4.9%) but Retail Sales were soft at 3.1% vs. (E) 5.0% and Home Prices dropped 2.2% y/y which weighed on Asian markets o/n.
- Econ Today: Housing Starts (E: 1.48 million), Industrial Production (E: 0.4%). Fed Speak: Jefferson (9:00 a.m. ET), Williams (12:30 p.m. ET), Barkin (1:00 p.m. ET), Powell (1:15 p.m. ET).
- Earnings: BAC ($0.77), MS ($1.69), UNH ($6.65), JNJ ($2.64), UAL (-$0.53), JBHT ($1.53).

Market	Level	Change	% Change
S&P 500 Futures	5091.25	-12.75	-0.25%
U.S. Dollar (DXY)	106.264	.082	0.08%
Gold	2386.80	3.80	0.16%
WTI	85.15	-.26	-0.30%
10 Year Yield	4.645	.021	0.45%

Equities

Market Recap

Stocks extended Friday's sharp declines with mega-cap tech names leading the way lower as "hot" economic data shored up expectations for higher-for-longer Fed rate policy and geopolitical tensions remained elevated. The S&P 500 dropped 1.20%.

Equities initially traded with a risk-on tone to start the day as the S&P 500 gapped higher and tested Friday's morning highs after a much-better-than-expected Retail Sales report reduced worries about the state of the U.S. consumer and ultimately the threat of stagflation gripping the economy (although the Empire Fed's Manufacturing release was less encouraging). In corporate news, earnings from GS topped estimates helping offset some of the fallout from JPMs disappointing results on Friday.

ECONOMIST COMMENTARY

"Manufacturing activity continued to contract in New York State in April, and employment continued to decline. Optimism about the outlook for future business conditions remained subdued."

~Richard Deitz, Economic Research Advisor at the New York Fed

Richard Deitz summed up yesterday's April release of the Empire State Manufacturing Index pretty well as New Orders were flat, Shipments fell, Inventories increased, Prices Paid went up, Prices Received went down, and Employment fell. ***Bottom line, the first look at April economic data via the NY Fed's Manufacturing release was negative.***

Weakness in Treasuries saw yields rise to new 2024 highs in midmorning trade and that started to weigh on mega-cap tech shares, which quickly started to drag the broader market lower. The geopolitical backdrop initially appeared to be stabilizing given the lack of material damage caused by the Iran air assault on Israel Saturday, but that changed midday thanks to two headlines that crossed the wires. The first was out of China, as the foreign minister vowed to "boost cooperation" with Iran, which effectively positions China against Western allies. The second was from Israel's Military Chief of Staff who reiterated that there will be a response to Iran's massive air assault. Risk-off money flows dominated the balance of the session and the S&P fell to its lowest level since February 21.

Market Multiple Table April Update

The April Market Multiple Table showed that, broadly speaking, the macro environment deteriorated on numerous fronts over the past month and demonstrated that this decline in stocks is 1) Appropriate and 2) Likely not over unless news turns more positive.

Market	Level	Change	% Change
Dow	37,735.11	-248.13	-0.65%
TSX	21,740.20	-159.79	-0.73%
Stoxx 50	4,910.62	-73.86	-1.48%
FTSE	7,843.18	-122.35	-1.54%
Nikkei	38,471.20	-761.60	-1.94%
Hang Seng	16,248.97	-351.49	-2.12%
ASX	7,612.49	-140.03	-1.81%
Prices taken at previous day market close.			

Three of the now five markets influences saw deterioration last month. Fed Expectations has hopes for a June rate cut dashed by the hot CPI report and now the market must deal with the possibility of just two (or even fewer) rates cuts in 2024 (remember the market started the year expecting seven cuts). Inflation, meanwhile, proved stickier than hoped via the Core CPI and at least via that metric, the decline in inflation has stalled. Finally, we re-introduced Geopolitics as a current market influence due to the escalating conflict between Israel and Iran, as that rising tension is pushing oil and other commodity prices higher and weighing on sentiment. Importantly, this deterioration didn't result in a change in what I believe is "fair" value for this market given the current set up: A 19X-20X multiple. The fact that news was negative over the past month but the multiple didn't decline underscores that solidly above 5,000 in the S&P 500, the index isn't reflecting current reality, it's reflecting a near-perfect reality of 1) Solid growth, 2) Looming rate cuts, 3) Falling inflation and 4) AI enthusiasm.

A Game of Multiples (Updated 4/14/2024)

Market Influence	Current Situation	Things Get Better If...	Things Get Worse If...
Fed Policy Expectations	Due to sticky inflation readings, Fed officials are pushing back on near-term rate cuts and the market expects just two cuts in 2024.	The Fed dismisses recent sticky inflation data and keeps hopes for a June cut alive.	The Fed pushes back against summer rate cuts (meaning July) and floats the possibility of just one rate cut (or none).
Hard Landing vs. Soft Landing	Economic data remains resilient and that's helping to counter delayed rate cut expectations.	Economic data remains Goldilocks and points to solid but not too strong growth.	Economic data begins to point to a loss of momentum or, worse, a slowdown, which is not at all priced into markets.
Inflation	March CPI was hotter than expected and is stoking fears that the decline in inflation has stalled.	The Core PCE Price Index continue to decline towards the Fed's 2% target, offsetting the hot CPI.	Core PCE Price Index is hot like Core CPI, further delaying rate cuts.
AI Enthusiasm	AI enthusiasm continues to support the rally, most recently with AAPL headlines about a re-tooled, AI-focused Mac lineup.	AI enthusiasm remains high as more companies implement the technology, helping to support the tech sector and broad market.	AI-related excitement begins to wane and market leaders NVDA, MSFT, AMZN and other tech begins to decline, weighing on markets.
Geopolitics	Israel and Iran have exchanged direct strikes and that's increasing geopolitical tensions.	No further clashes between Iran and Israel and an Israel/Hamas ceasefire is reached.	The conflict between Israel and Hamas expands and threatens a regional war.
Expected 2024 S&P 500 EPS	**$243**	**$246**	**$235**
Multiple	19X-20X	20X	17X-18X
S&P 500 Range	4,617-4,860	4,920	3,995-4,230
S&P 500 Target (Midpoint)	4,739	4,920	4,113
Change from today	**-5.8%**	**-2.2%**	**-18.3%**

Put differently, the fact that fair value didn't decline despite a month of bad news on multiple fronts just underscores that above 5,000 the S&P is not fundamentally supported and as such it will remain vulnerable to a further decline if the news gets worse. Essentially, the recent negative news on inflation, the Fed and geopolitics is making investors realize the actual macro environment may not turn out as well as hoped and that's pressuring stocks and bringing them closer, but not yet to, fundamentally supported valuations.

The MMT shows that the pullback in markets is justified and it's not yet to the point where we can say markets are fundamentally attractive. As such, a further decline is entirely possible and not unreasonable nor reflective of a major trend shift—it's just the market coming back down to Earth.

Current Situation: The Fed is pushing back on a June rate cut, economic growth remains solidly positive but not "Too Hot," the decline in inflation has stalled, AI enthusiasm remains strong and geopolitical risks are rising. The current situation reflects a still generally positive set up of solid growth, likely falling inflation, future Fed rate cuts and AI enthusiasm, but that isn't as perfect an environment as we've seen for most of 2024 and as a result, stocks are under pressure. Near term, a further pullback could occur as markets remain fundamentally overvalued but the set up remains positive.

Market	Level	Change	% Change
DBC	23.75	.03	0.13%
Gold	2,401.60	27.50	1.16%
Silver	28.97	.64	2.27%
Copper	4.3650	.1065	2.50%
WTI	85.61	-.05	-0.06%
Brent	90.33	-.12	-0.13%
Nat Gas	1.693	-.077	-4.35%
RBOB	2.7904	-.0125	-0.45%
DBA (Grains)	25.69	.26	1.02%

Prices taken at previous day market close.

Things Get Better If: The Fed points to a June rate cut again, economic data stays Goldilocks, the Core PCE Price Index shows a faster decline in inflation than expected, AI-related earnings remain strong and geopolitical risks decline. This would mark a return to a near-perfect macro set up and a rebound towards, and through, the old highs should be expected. This would essentially reflect a "perfect" environment for stocks of 1) Imminent rate cuts (so a higher market multiple), 2) Strong but not "Too Hot" growth, 3) Falling inflation, AI enthusiasm and declining geopolitical risks (which would mean falling oil prices). This outcome should push the S&P back towards and through 5,200.

Things Get Worse If: The Fed pushes back on the idea of two rate cuts in 2024, economic growth suddenly rolls over, Core PCE Price Index rebounds and AI-related earnings disappoint. This scenario would essentially undermine the assumptions behind much of the Q4 and YTD rally and given how stretched markets still are, the net result would be substantial declines in stocks. A giveback of much of the October-to-present rally would not be out of the question (that means a decline into the mid 4,000's in the S&P). And while it seems like this outcome isn't possible given still-elevated valuations, none of this is set in stone and this is a legitimate scenario we need to be mindful of, because it is possible if data breaks the wrong way. **Email info@sevensreport.com for an unbranded copy of the Market Multiple Table.**

Economics

Retail Sales

- Retail Sales rose 0.7% vs. (E) 0.4% in March

After back-to-back Retail Sales reports disappointed to start 2024, the March release came in very strong. The report was actually "too strong" as it sparked a sharp selloff in Treasuries sending the 10-year yield to new 2024 highs beyond 4.60%.

Starting with the headline, March Retail Sales jumped by 0.7% vs. (E) 0.4% with the February data being revised up from 0.6% to 0.9%. Those figures resulted in a robust 4.0% year-over-year increase in headline retail sales, which was nearly double the annual rise from February of 2.1%. The widely followed control group, which is looked at as a close proxy for the consumer spending component of GDP, jumped 1.1% in March, the largest increase in 14 months and much more than the expected 0.4% rise. The sharp increase in the control group notably saw several big bank economists, including those at GS, upwardly revise Q1 GDP estimates.

Looking at individual spending trends, big ticket spending appeared to slow meaningfully as furniture and appliance sales as well as sporting goods/hobby sales all declined in monthly and annual terms. Meanwhile, sales at grocery stores, personal care stores and gasoline stations all rose considerably in March. That points to a measurable shift away from discretionary items towards necessary items. Online sales and food and beverage establishment sales (think going out to dinner) all rose solidly, which suggests there is still discretionary spending taking place, it's just more selective.

Bottom line: Retail Sales was solid on the headline and had mostly encouraging details with a strong control group. But there was also evidence that the household budgets are starting to get squeezed by sticky inflation as spending habits are getting more selective. And as far as economic trends go, consumer spending is not going in the right direction. The upward pressure that the strong control group will have on GDP is always a hawkish development, which sent yields sharply higher.

Commodities

Commodities were mixed as a spike in market-based inflation expectations helped gold recover some of Friday's losses while oil continued to drop on a sell-the-news reaction to Iran's attack on Israel. New sanctions on Russian industrial metals saw copper rally to new 52-week highs. The commodity ETF, DBC, edged up 0.13%.

Middle East tensions remain high as Israel has already vowed to "respond" to Iran's attack. The threat of back-and-forth attacks between Israel and Iran is a risk to the critical oil region as Iran's oil infrastructure is a realistic target for Israel to consider. Additionally, the strong retail sales report was the latest data point to show a resilient and strong U.S. consumer, which is solid for the general demand outlook. WTI ended effectively flat.

Gold stabilized after a pullback Friday with futures gaining 1.12%. New highs in market-based inflation expectations, which are approaching 2.60%, up from barely above 2% at the start of the year are the primary driver of the gold rally; however, safe-haven money flows are another likely source of demand for gold right now. The path of least resistance remains higher, but the foundation of this latest advance has been inflation worries. If we see those wane, gold should pullback sharply.

Elsewhere in metals, new sanctions by Western nations including the U.S. and U.K. on Russian-produced industrial metals saw copper rally another 2.62%. Looking ahead, copper futures are establishing above previous resistance at $4.30 and the path of least resistance is higher still from here.

The recent gains across the commodity complex have sent the commodity ETF, DBC, to new 2024 highs, underscoring a general rise in hard assets. That is inherently inflationary and another source of concern about the outlook for price pressures in the months and quarters ahead.

Market	Level	Change	% Change
Dollar Index	106.01	.18	0.17%
EUR/USD	1.0624	-.0019	-0.18%
GBP/USD	1.2441	-.0011	-0.09%
USD/JPY	154.19	.96	0.63%
USD/CAD	1.3787	.0012	0.09%
AUD/USD	.6442	-.0025	-0.39%
USD/BRL	5.1859	.0675	1.32%
Bitcoin	63,405.67	-776.05	-1.21%
10 Year Yield	4.628	.129	2.87%
30 Year Yield	4.741	.139	3.02%
10's-2's	-31 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.96%		
Prices taken at previous day market close.			

Currencies & Bonds

The dollar rallied to five-month highs to start the week thanks to the combination of a geopolitical fear bid and strong economic data bolstering hawkish Fed policy bets. The Dollar Index rose 0.18%.

The biggest mover in the currencies was the yen, which dropped 0.59% to the weakest level against the dollar since 1990. The yen was already falling in early trade but the hot Retail Sales report saw the dollar strengthen as higher-for-longer Fed policy rates were priced in while no meaningful hawkish action has been telegraphed by the Bank of Japan, nor was there any mention of market intervention to stabilize the plunging currency. Until there is some sort of plan regarding action from the Bank of Japan, the yen will continue to depreciate.

Elsewhere, the euro was down 0.13% while the pound fell a very modest 0.06% as the strong U.S. retail sales figures solidified the idea that Fed policy rates will remain higher than those of the ECB and BoE for the foreseeable future, which is what sent both the euro and pound to new 2024 lows into the end of last week. Within the commodity currencies, the Aussie dollar fell 0.30% while the Canadian loonie dipped 0.10%.

Bottom line for currencies, the dollar is king right now with every other major currency trading at a 2024 low against the greenback, and in the yen's case a 34-year low, as strong economic data and stubbornly high inflation metrics solidify the thesis of higher-for-longer Fed policy rates in 2024. Barring similar dynamics emerging overseas or a sudden pullback in inflation or U.S. growth, the dollar will continue to rally against its peers.

In bonds, yields were higher across the curve yesterday as the 2-Yr was up 5 bps to 4.88%, the 10-Yr rose 12 bps to 4.62% and the 30-Yr jumped an even more pronounced 14 bps to 4.74%. Bottom line, Treasury yields are trending decisively higher, quickly approaching cycle highs, and that will act as a growing headwind on stocks, keeping volatility elevated as long as the trend of higher yields persists.

Have a good day - Tom

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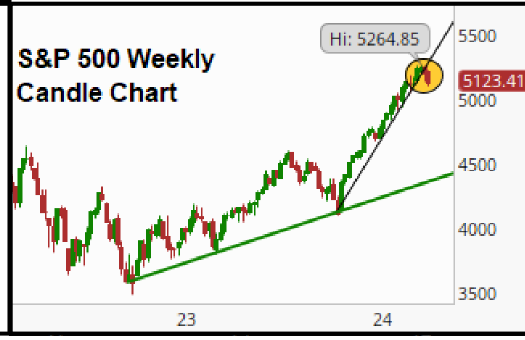
Technical Perspectives (Updated 4/14/2024)

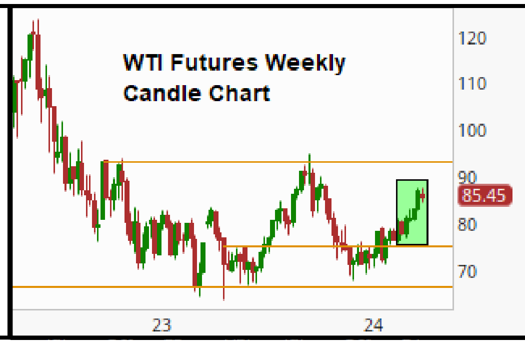
S&P 500

- 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

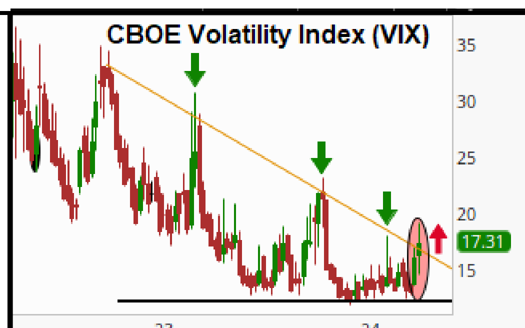
- Technical View: Gold hit fresh record highs last week as the strong push higher in early 2024 continues with the path of least resistance still decidedly higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2386, $2415, $2448
- Key Support Levels: $2348,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



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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.