SEVENS REPORT

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

April 17, 2024

Pre 7:00 Look

- Futures are higher this morning as the geopolitical situation in the Middle East is tense but stable, inflation data was largely as-expected, and good consumer-focused earnings are helping offset soft sales from chip-maker ASML.
- Economically, EU Core CPI met estimates at 2.9% while the U.K.'s Core CPI figure was "warm" at 4.2% vs. (E) 4.1%.
- There is no economic data today and just two late Fed speakers: Mester (5:30 p.m. ET), Bowman (7:15 p.m. ET).
- The Treasury will hold a 20-Yr Bond auction at 1:00 p.m. ET
- Earnings: TRV ($4.75), CFG ($0.75), CSX ($0.45), DFS ($2.98)

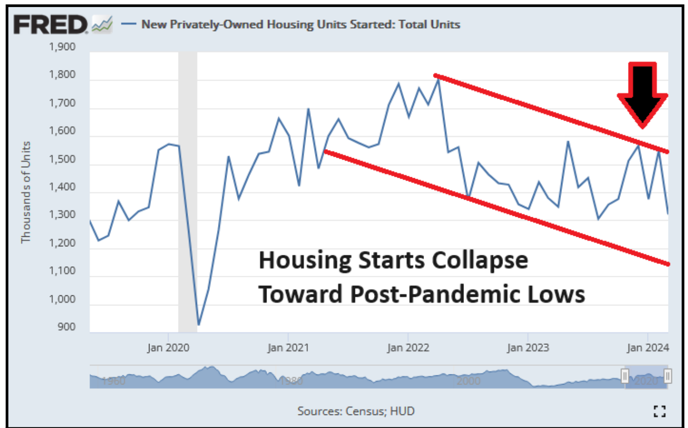
Market	Level	Change	% Change
S&P 500 Futures	5111.25	18.75	0.37%
U.S. Dollar (DXY)	106.229	-.145	-0.14%
Gold	2405.90	-1.90	-0.08%
WTI	84.63	-.73	-0.86%
10 Year Yield	4.634	-.020	-0.43%

Equities

Market Recap

Stocks traded sideways Tuesday with some limited but noticeable intraday swings in response to more hawkish Fed speak and steadily rising Treasury yields. The S&P 500 ended down 0.21%.

Stocks gapped modestly lower at the open yesterday amid ongoing geopolitical angst as traders awaited a pledged retaliation by Israel on Iran for the massive air assault last weekend. On the earnings front, big bank results remained mixed with MS beating estimates while BAC missed due to loan defaults.



Housing Starts plunged -14.7% vs. (E) -2.4% in March, a sharp reversal from February's rise of 10.7%. Housing Starts have been trending lower since early 2022 and are threatening to drop to a post-pandemic low. Yesterday's Housing Starts data was not good for the outlook of the real estate market or consumer confidence.

Economically, worries about the health of the Chinese consumer were rekindled by a batch of data releases as a solid GDP print was offset by weak Retail Sales and a Home Price gauge that accelerated to the downside. Looking at the domestic economic data, "bad news was good news" as a terrible miss in March Housing Starts invited a modest bid into Treasuries which saw stocks edge cautiously higher out of the gate.

The market turned lower in the first hour, however, thanks to IMF commentary about the risks of central banks cutting rates too soon, which saw the dovish money flows from earlier in the day unwind and hawkish price action take over with Treasury yields moving to new 2024 highs as Powell's afternoon speech came into focus. Powell roiled markets around 1:30 p.m. as he said, "recent data show lack of further progress on inflation" and suggested that the Fed will need more time to gain confidence that inflation is trending towards 2%.

Put differently, Powell confirmed higher-for-longer Fed policy has become not only a possibility but the most

Market	Level	Change	% Change
Dow	37,798.97	63.86	0.17%
TSX	21,642.87	-97.33	-0.45%
Stoxx 50	4,959.57	42.58	0.87%
FTSE	7,858.45	38.09	0.49%
Nikkei	37,961.80	-509.40	-1.32%
Hang Seng	16,251.84	2.87	0.02%
ASX	7,605.59	-6.90	-0.09%
Prices taken at previous day market close.			

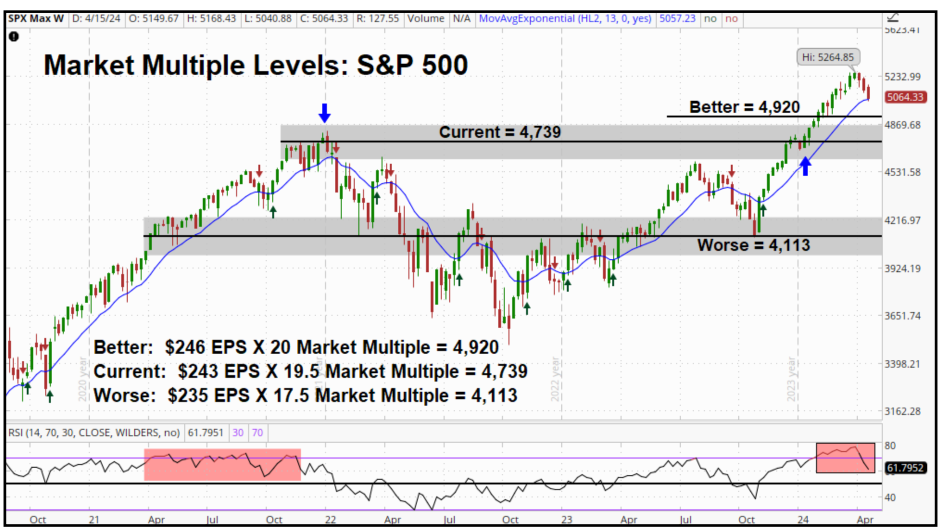
likely path forward. That saw yields hit session highs and stocks fall to session lows. The market stabilized in still relatively volatile trade after Powell's discussion concluded with the S&P spiking to a session high during the 2 p.m. hour, only to reverse back in the final hour and close near the lows.

Market	Level	Change	% Change
DBC	23.71	-.04	-0.17%
Gold	2,408.50	25.50	1.07%
Silver	28.39	-.33	-1.16%
Copper	4.308	-.071	-1.62%
WTI	85.51	.10	0.12%
Brent	90.17	.07	0.08%
Nat Gas	1.729	.038	2.25%
RBOB	2.8173	.0334	1.20%
DBA (Grains)	25.03	-.62	-2.44%
Prices taken at previous day market close.			

A Return to Reasonable Valuations? April MMT Chart

There were no changes to the fundamental valuation target levels in the April update of our Market Multiple Table as all of the 2024 S&P 500 earnings expectations and target multiple ranges were unchanged from March. For the third consecutive month, the S&P 500 began the week several percentage points above the better-if scenario MMT target of 4,920, but unlike January and February updates the index was not sitting on an all-time high, which illustrates the loss of bullish momentum in the 2024 rally and increased potential for a pullback to reasonable valuation levels.

Current Situation: The current situation MMT target range was unchanged in April with a 19X-20X multiple of 2024 S&P 500 earnings expectations of $243/share providing a familiar target range of 4,617 to 4,860 with a midpoint of 4,739 for the S&P 500. The midpoint remains a still-distant 7.5% below where the index began this week.



As we noted last month, the familiar midpoint of the current situation target range at 4,739 coincides with arguably the most important technical level in play for the S&P 500 right now, the "pivot point" of the transition between the 2021 rally and the 2022 bear market (marked by the blue down arrow on the chart). As the market recovered in late 2023 to revisit the old record highs, the rally stalled short and spent an entire four weeks consolidating in the 4,740 area until finally the market broke out and began to sprint higher in Q1. <u>The fact that the current situation midpoint acted as a "pivot point" not once, but twice, when the S&P 500 was at all-time highs (late 2021/early 2022 and late 2023/ early 2024) underscores it is a very significant technical area</u> that is likely to offer strong support in the event we get a more meaningful pullback in stocks in the weeks ahead.

Things Get Better If: The better-if scenario target held steady in the April MMT update with a lofty 20X multiple on optimistic 2024 S&P 500 earnings expectations of $246/share. Those numbers give us another familiar target of 4,920 for the better-if scenario. The S&P 500 has notably been trading above the better-if target since bouncing off it on Feb. 13th over two months ago.

On the charts, the S&P 500 gyrated around the better-if target for several weeks in early 2024. Those interactions included opens, closes, highs, and lows (all only visible on the daily time frame chart, not the weekly chart included in this issue). But those price interactions underscore the better-if target does have technical significance and will be a key level to watch if the early Q2 pullback intensifies. Adding to that technical significance is the fact that the 100-day moving average ended within 2 points of the better-if target yesterday.

Things Get Worse If: The worse-if target was also unchanged with a multiple range of 17X-18X expected S&P 500 earnings of $235/share, which provides a target range of 3,995-4,230 with a midpoint of 4,113. <u>The</u>

worse-if midpoint target is roughly 20% below where the S&P 500 began the week, which continues to reflect the unfavorable risk-reward dynamics in equity markets right now based on fundamental valuation analysis of a deteriorating market scenario.

As we have covered in recent months, the S&P 500 has a lot of history with the worse-if midpoint of 4,113 as the index stalled in the upper half of the price range in late 2021, retreated back to the level in Q1 '22, broke down through the entire target zone in the second half of 2022 (including a "bull-trap" rally that pivoted and reversed lower right at the upper bound of 4,230 in August 2022), before eventually holding the 4,130 area almost to the tick (4,117) into the October 2023 lows. Out of the 104 weeks that 2023 and 2024 were comprised of, the S&P 500 interacted with the worse-if scenario midpoint 26 different weeks, a full 25% of the time. Bottom line, the market has a history with 4,113 and it would be a very important level to watch in the event a bear market gripped markets unexpectedly.

Bottom Line: Stocks have been trading well above fundamental fair value for months now, and technically still are, as the S&P 500 remains above the latest better-if scenario price target. But the pullback to start Q2 has seen the S&P 500 favorably dip back towards more reasonable and rational valuation levels. That has many investors champing at the bit to buy this dip, however, there are a slew of reasons to do so with caution, including evidence of near-term trend reversals in the broader equity market, deteriorating investor sentiment readings, fading market breadth, volatility readings hitting new YTD highs and a loss of leadership from big tech, all of which have occurred since the end of Q1. Additionally, there have been several cross-asset correlations breaking down or flashing warnings signs, including movements in the yield curve (many financial professionals seem to have forgotten that the yield curve is in a historically deep and prolonged inversion) and developments within credit markets (which remain tight but for the wrong reasons). Bottom line, this is not a bearish opinion, as the path of least resistance does remain higher for stocks; however, buying dips becomes increasingly risky in late-cycle environments, which the yield curve still clearly suggests is the case right now. **For a higher-resolution, unbranded version of the March MMT target levels overlaid on a weekly S&P 500 chart, please email info@sevensreport.com.**

Market	Level	Change	% Change
Dollar Index	106.13	.13	0.12%
EUR/USD	1.0621	-.0003	-0.03%
GBP/USD	1.2431	-.0015	-0.12%
USD/JPY	154.68	.40	0.26%
USD/CAD	1.3820	.0032	0.23%
AUD/USD	.6408	-.0034	-0.53%
USD/BRL	5.2646	.0793	1.53%
Bitcoin	62,803.44	-318.92	-0.98%
10 Year Yield	4.659	.031	0.67%
30 Year Yield	4.758	.017	0.36%
10's-2's	-30 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		
Prices taken at previous day market close.			

Economics

There were no material economic reports yesterday.

Commodities

Commodities were split as industrial metals fell sharply on disappointing Chinese economic data while gold extended the week's rebound towards Friday's records amid rising inflation worries. Oil was little changed in the mid-$80s for a second day as the threat of a material geopolitical escalation between Israel and Iran continued to simmer. The commodity ETF DBC dipped 0.17%.

Gold notched another gain of 1.15% as traders continued to price in higher inflation based on the difference between Treasury yields and TIPS yields (5-Yr breakevens), which forecasted an inflation rate of 2.54%, a fresh 52-week high. Gold is also benefitting from the flight-to-safety trade stemming from the high geopolitical tensions in the Middle East after Iran's attack on Israel this past weekend, and the promised retaliation Israel has told the world it is planning. The gold rally has notably lost momentum, likely due to the relentless advance in nominal yields and the dollar, leaving $2,340/oz. a key support level to watch as a break below would open the door to a decline towards $2,220.

Copper dropped a sizeable 1.62% as Chinese economic data pointed to stronger-than-expected top-line growth but a weaker consumer and ongoing troubles in the real estate market. Copper futures did notably hold an initial test of support at the previous resistance level of $4.28 in intraday trade, closing near $4.30. Tight physical supply, the threat of significant production cuts by smelters in China, and the potentially huge demand prospects AI will drive for copper all are fundamental positives supportive of continued upside. However, the lingering threat of a recession due to higher-for-longer Fed policy and stubborn inflation are a major risk to copper.

Crude oil futures were effectively flat for a second consecutive session as all eyes remained on the Middle East with Israel convening its "war cabinet" for the third meeting in as many days. After oil's primary trading session closed at 2:30 ET yesterday, Israel announced that plans had been finalized for the counter-attack, but no specific details had been released.

Economic data was net negative for oil with the health of the Chinese consumer coming into question while plunging Housing Starts in the U.S. point to a potential pullback in consumer confidence. The hawkish Fed speak, first by Fed Vice Chair Jefferson followed up by more hawkish, higher-for-longer chatter by Powell did not help the demand outlook for oil. However, at the end of the day, geopolitical worries kept oil trading north of $85/barrel and that is likely to continue until there is clarity on the Israel-Iran situation.

Currencies & Bonds

In currencies, the dollar advanced for a fifth consecutive day with commodity currencies performing the worst against the buck. The Dollar Index rose 0.14% but the rally stalled at key resistance near 106.50.

The Aussie dollar was the worst-performer as it pulled back 0.56% to a five-month low on the back of the soft Chinese economic data, which was later compounded by the hawkish Fed speak. The Canadian loonie fell a more modest 0.21% as CPI came in cooler than expected at 2.9% vs. (E) 3.0% in March, helping raise the odds of a June rate cut by the Bank of Canada.

In Europe, talks of ECB rate cuts this summer saw the euro ease modestly, down 0.06% while the pound dipped 0.08% after a slightly underwhelming U.K. labor market report that showed unemployment rose from an upward-revised 4.0% in February to 4.2% in March (although wages remained stubbornly high at 5.6% y/y).

Bottom line, all major currencies are currently trending lower against the dollar as fundamentals based on both economic data and subsequent expectations for central bank policy moves support the bull case for the greenback. On the charts, the Dollar Index has approached a critical resistance zone from October between 106.75 and 107 where it peaked and rolled over into year-end. As of this writing there is no reason, fundamental or technical, that suggests the Dollar Index will peak and rollover here, leaving the path of least resistance higher. But things can change quickly with currency markets and there are still plenty of catalysts this week.

Switching gears to the bond market, there was more selling pressure in Treasuries as the 2-Yr yield continued to test the 5% mark before closing higher by 5 bps at 4.97% while the 10-Yr yield ripped to new highs near 4.70% before settling off the highs at 4.66%.

Fundamentally, the combination of the IMF's upgraded global growth forecast for 2024 and the hawkish Fed speak supported the upside move in rates. Looking at the charts, the belly of the duration curve has effectively come full circle with yields trading back near their October highs when markets were much more volatile than they are now with the S&P 500 more than 20% below current levels.

Bottom line, if the persistent rise in yields continues it is hard to imagine that stocks hold current levels, much less recover to new all-time highs. And between the multiple hot inflation reports so far in 2024, and the mostly resilient labor market data of late, it is hard to imagine rates suddenly stalling and rolling over unless there is a material escalation in the powder keg that is the Middle East.

Have a good day,

Tom

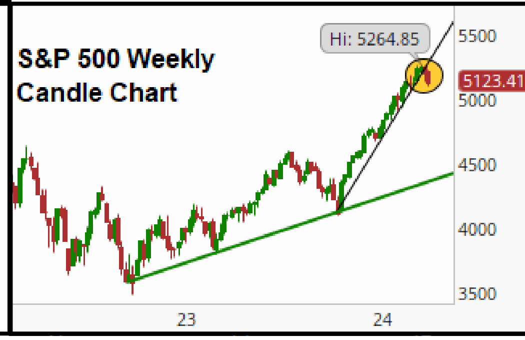
4/17/2024

SEVENS REPORT

Technical Perspectives (Updated 4/14/2024)

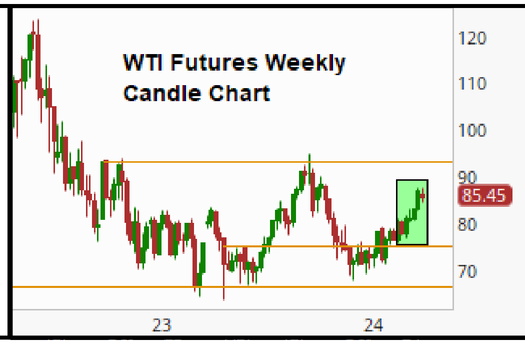
S&P 500

- 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

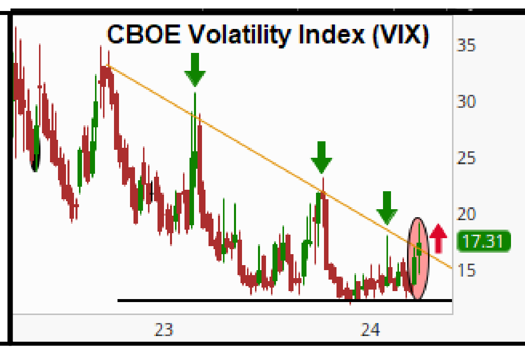
- Technical View: Gold hit fresh record highs last week as the strong push higher in early 2024 continues with the path of least resistance still decidedly higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2386, $2415, $2448
- Key Support Levels: $2348,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