SEVENS REPORT

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

April 18, 2024

Pre 7:00 Look

- Futures are slightly higher on better than expected earnings and following a generally quiet night of news.
- Taiwan Semi-Conductor posted solid earnings and that's helping to offset yesterday's disappointing ASML report and giving tech stocks (and global stocks) a mild boost.
- Econ Today: Jobless Claims (E: 215K), Philly Fed (E: 0.0), Existing Home Sales (E: 4.18 M). Fed Speak: Bowman (9:05 a.m. ET), Williams (9:15 a.m. ET), Bostic (11:00 a.m. ET).
- Earnings Today: TSMC ($1.29), NFLX ($4.51), PPG ($1.86), WAL ($1.70).

Market	Level	Change	% Change
S&P 500 Futures	5,075.50	13.25	0.26%
U.S. Dollar (DXY)	105.90	-0.05	-0.05%
Gold	2,397.60	9.40	0.39%
WTI	81.78	-0.91	-1.10%
10 Year Yield	4.57%	-0.01	-0.20%

Equities

Market Recap

Stocks extended their recent decline to a fourth consecutive session Wednesday thanks to soft chipmaker earnings overseas dragging domestic tech shares lower before a solid Treasury auction sparked an early afternoon rally. The market rolled back over into the close, however, with the S&P 500 ending with a loss of 0.58%.

U.S. equities initially gapped higher to start the session yesterday as solid consumer goods earnings in Europe helped offset a bad miss on top-line sales by chip equipment giant ASML. Additionally, inflation data out of Europe was not as bad as some had feared with Eurozone CPI metrics all meeting estimates while U.K. CPI data was a touch warmer than anticipated, but largely "acceptable" by investors relative to the outright "hot" March inflation data in the U.S.

NVDA fell nearly 4% yesterday after the world's largest chipmaker equipment firm ASML's Q1 earnings revealed a miss in sales, which raised concerns about demand for both AI hardware and AI technology in the first quarter.

After the stronger open, stocks methodically sold off over the course of the morning with tech and semiconductors leading the way lower. The selling pressure was also influenced by the expiration of the April VIX futures contract, which occurred just ahead of the open. The S&P 500 approached 5,000 during the lunch hour but was able to rebound in the early afternoon thanks to a strong 20-Yr Treasury Bond auction (the yield awarded stopped through the when-issued yield by 2.5 basis points) which saw yields retreat from YTD highs.

Follow through was limited into the close, however, and renewed selling pressure on the semiconductors, notably market darling NVDA (-3.87%), saw the major indexes roll over and end the day towards the worst levels.

Market	Level	Change	% Change
Dow	37,753.31	-45.66	-0.12%
TSX	21,656.05	13.17	0.06%
Stoxx 50	4,933.52	19.39	0.39%
FTSE	7,866.67	18.68	0.24%
Nikkei	38,079.70	117.90	0.31%
Hang Seng	16,385.87	134.03	0.82%
ASX	7,642.11	36.52	0.46%

Prices taken at previous day market close.

Did Powell Really Get More Hawkish on Tuesday?

Comments by Fed Chair Powell on Tuesday that acknowledged the lack of further progress in falling inflation added downward pressure to stocks and bonds and contributed to the S&P 500 trading to a two-month low.

Market	Level	Change	% Change
DBC	23.34	-.37	-1.56%
Gold	2,387.30	-20.50	-0.85%
Silver	28.38	.01	0.01%
Copper	4.3145	.0380	0.88%
WTI	82.78	-2.58	-3.02%
Brent	87.41	-2.61	-2.90%
Nat Gas	1.705	-.027	-1.56%
RBOB	2.7310	-.0913	-3.23%
DBA (Grains)	25.42	.35	1.40%
Prices taken at previous day market close.			

But was Powell really hawkish?

Despite the market reaction, the answer is... "no," not really (at least not compared to current market expectations).

The 10-year yield has risen to levels last seen in early November and, in doing so, largely retraced the entire November-March "multiple Fed rate cuts in 2024" decline in yields. Looking at rate cut expectations, the market now assumes just one or two rate cuts in 2024, down from seven at the start of the year!

So, while Powell's comments yesterday were a hawkish shift compared to his previous hints towards a June rate cut, the fact is they merely confirmed what the market has priced in over the past two weeks. Point being, that was not, in reality, a new hawkish negative for stocks. It merely confirmed that the rise in yields back to November levels is appropriate.

Stepping back, especially since September, markets have stampeded from one end of the Fed spectrum to the other, and each time they've run past fact-based reality. Here's what I mean. Following the September FOMC decision last year, fed fund futures became much more hawkish and some analysts predicted two more rate hikes in 2023. That expectation pushed the 10-year yield above 5% and contributed to the S&P 500 testing the 4,000 level.

Then, as Fed commentary turned more positive on inflation, investors stampeded from "Too Hawkish" to "Too Dovish," and caught in their own dovish feedback loop, convinced themselves that the Fed would cut rates seven times in 2024 and that those cuts would start in March. Now, with inflation metrics proving stickier than expected, investors are again stampeding towards the hawkish end of the spectrum, and if we get another hot economic report, don't be shocked if some analysts price in zero rate cuts for 2024.

Seven rate cuts was not the right answer. Zero rate cuts also is likely not the right answer. One-to-two rate cuts probably is the right answer for several reasons.

First, inflation metrics will continue to decline over time as the statistical reality of lower housing costs moves through the economic data. The decline in inflation has likely stalled, not stopped. That means that real interest rates will continue to move higher as inflation declines, putting incrementally more pressure on the economy. The Fed doesn't want more pressure on the economy, it wants constant pressure, so even slightly falling inflation and rising real rates will likely result in a cut or two even if growth stays stable.

Second, as we covered last week, to drive the next leg lower in broad inflation (beyond housing) the Fed needs to cool demand. There's growing anecdotal evidence that's already happening, not so much from broad economic data, but more importantly from corporate commentary. The reality is earnings over the past month, especially from retailers, have floated caution signs on the consumer (LULU, NKE, PVH, ULTA, PLAY and others have posted underwhelming results). I may be in the minority with this opinion, but I continue to think growth will begin to slow in the coming months and that will prompt rate cuts by the Fed (not aggressive cuts, but some).

Now, from a market standpoint, as the Market Multiple Table showed the S&P 500 priced at 5,000 is still very optimistically priced. And if inflation metrics or growth metrics push yields higher, then there is more room for markets to decline. However, at 5,000 the S&P 500 is starting to more appropriately reflect the fact that 1) The outlook isn't as good as markets previously thought but 2) Is still broadly positive, because the following statements remain generally true: Growth is solid, inflation is still declining (slowly, but it's happening), the next move on rates is likely a cut, and AI enthusiasm is still strong. Until those four statements aren't true, dips like this should look to be bought. And while picking bottoms is a fool's errand, if you've been looking for an entry point, I'd consider starting to nibble here or lower (including below 5,000).

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mixed as a pullback in the dollar supported a gain in the industrial metals while oil pulled back hard amid the perception of easing geopolitical tensions. Gold continued to ignore moves in the dollar and Treasuries and instead traded off inflation expectations, falling moderately with 5-Yr breakeven rates. The commodity ETF, DBC, dropped a steep 3.56% with the sharp selloff in oil.

Copper continues to trade well with futures holding above support at $4.30, which was previously a key resistance level. The not-as-hot-as-feared inflation data out of Europe yesterday proved to be an early catalyst for the copper rally before the moderate pullback in the dollar paired with ongoing concerns about Chinese supply production cuts saw copper end the day higher by an even 1.00%, just shy of its recent 52-week high. For now, the outlook remains bullish for copper based on supply uncertainties and the new longer-term uptrend that has been established. However, recession worries remain a risk to the rally as demand would be hit hard in that scenario.

Gold declined 0.83%, which was a surprise considering the 10-Yr yield retreated by 6 bps and the Dollar Index was down 0.17%. The 5 bps retreat in market-based inflation expectations, which pulled back from 2.52% to 2.47%, was the key reason for the dip in gold yesterday. Looking ahead, inflation worries and to some lesser extent, geopolitical tensions, are the main drivers of gold right now and both eased yesterday resulting in gold taking a breather from the recent sprint to record highs.

Market	Level	Change	% Change
Dollar Index	105.78	-.29	-0.27%
EUR/USD	1.0666	.0047	0.44%
GBP/USD	1.2450	.0024	0.19%
USD/JPY	154.35	-.37	-0.24%
USD/CAD	1.3779	-.0053	-0.38%
AUD/USD	.6433	.0031	0.48%
USD/BRL	5.2331	-.0488	-0.92%
Bitcoin	60,941.05	-2,085.05	-3.31%
10 Year Yield	4.585	-.074	-1.59%
30 Year Yield	4.699	-.059	-1.24%
10's-2's	-35 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.96%		
Prices taken at previous day market close.			

EIA Data Takeaways and Oil Update

Crude oil futures collapsed 3.00% to fresh April lows as the lack of Israeli military response to Iran's massive air assault last weekend has seen some of the geopolitical fear bid unwind while weekly EIA data showed still-subdued gasoline demand and a bearish build in crude oil stockpiles.

On the headlines, the EIA reported a +2.7 million bbl build in commercial crude stockpiles last week, considerably more than the consensus estimate of +600K but over 1MM bbls less than the API's reported build of +4.1MM bbls. Gasoline inventories fell by -1.2 million bbls (E: -1.0MM, API: -2.5MM bbls), and Distillates fell -2.8 million (E: -400K, API: -430K). Those slightly larger-than-expected draws in refined product supply and the crude build could both be explained by a still-subdued refinery utilization rate of just 88%, which is 2-3% below normal for this time of year.

Elsewhere in the details, the key proxy for consumer demand, gasoline supplied, bumped up 50K b/d to 8.7 million b/d last week while the smoother look at the data via the four-week MA dipped a modest 37K b/d to 8.8M. During March, an implied gasoline figure of over 9MM b/d was seen as bullish and helped prices rally to fresh YTD highs, especially with the tight global supply dynamics and subdued refinery utilization so far in 2024. So, the easing consumer demand proxy was an added headwind on oil yesterday.

Between month- and quarter-end money flows and a "buy-the-rumor" bid thanks to rising tensions in the Middle East, oil sprinted to new multi-month highs in early April. Since Iran's attack on Israel last weekend that did not cause significant damage or casualties, the situation is seen as less dire than originally thought and there has been a "sell-the-news" reaction over the course of this week, amplified by higher-for-longer rate concerns and less certainty that the U.S. and global economies will be able to avoid a recession in the quarters ahead. So the rally is considered “on pause” right now, with near-term risks to the upside given the still-simmering geopolitical tensions. However, longer-term risks are skewed to the downside due to slowing growth and a subsequent downturn in consumer demand.

Currencies & Bonds

Currency and bond markets have, over the past two weeks, aggressively priced in a much more hawkish Fed and dovish ECB. And while neither of those assumptions was contradicted Wednesday, they were modestly challenged and that resulted in a modest decline in yields and the dollar. The Dollar Index fell 0.34%.

Starting with Treasury yields, the 10-year yield fell 8 basis points on Wednesday despite starting the day modestly higher and there were two reasons for the reversal. First, Atlanta Fed Inflation Expectations were slightly better than expected (2.3% vs. (E) 2.4%). Second, and much more importantly, the recent surge in yields attracted numerous and aggressive buyers for a 20-year Treasury auction that reinforced there’s still a lot of demand for higher-yielding U.S. Treasuries. For reference, the 4.825% yield on yesterday’s 20-Yr auction was nearly 30 bps higher than last month’s offering and that increased yield resulted in a bid to cover of 2.82X (the highest June) and very aggressive bidding (the actual yield was 2.5 basis points under the ’When Issued” yield, which is the largest margin in months). Additionally, there was very strong international demand for the higher yielding paper as “Indirect” bidders bought 74.7% of the auction, the highest level since February 2023.

Bottom line, markets have aggressively priced in a much-less-dovish Fed for 2024, and based on recent data the expectation of one-to-two rate cuts in 2024 seems appropriate. As such, I’d expect some additional digestion of this back up in yields over the coming days. Whether the rise in yields continues, however, will depend on economic data and inflation results. But for yields to legitimately keep rising, both economic data and inflation will need to be higher/stronger than currently expected.

Turning to the dollar, it also took a breather from the recent rally but for a different reason—slightly hawkish comments from the ECB. Specifically, Bundesbank President Nagel stated Wednesday that a rate cut is likely in June but there remain “some caveats.” To be clear, that means a rate cut is likely but there remains a chance it doesn’t happen. And since the market has priced in basically 100% chance of a cut by the ECB in June, that resulted in a solid rally in the euro (up 0.5%) and modest decline in the Dollar Index (down 0.34%). The pound rose in sympathy with the euro (up 0.25%) not so much because the outlook for BOE rate cuts dropped (it didn’t) but instead because there needs to be some digestion of the market’s very aggressive pricing in of cuts.

Bottom line, nothing in yesterday’s trade implied that the uptrends in Treasury yields or the dollar are about to end. However, investors have now piled into the “dovish ECB and hawkish Fed” trade with a same enthusiasm they previously piled into the “dovish Fed” trade. The truth is likely in the middle, and as such, markets will likely need to digest these moves over the coming days.

Have a good day,

Tom

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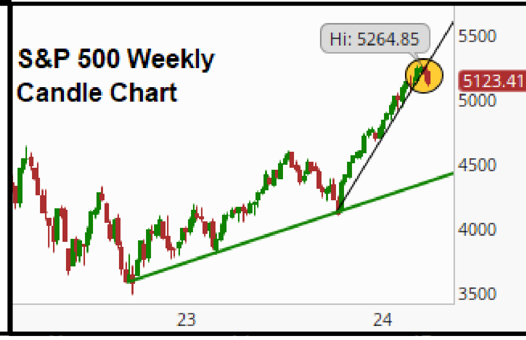
Technical Perspectives (Updated 4/14/2024)

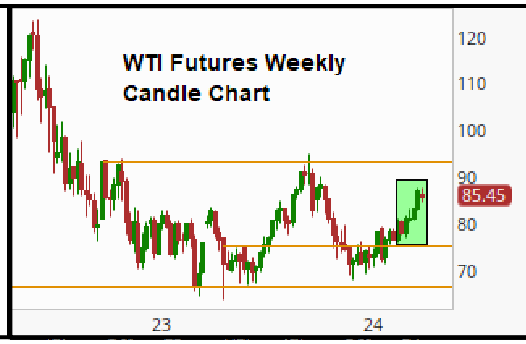
S&P 500

- 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

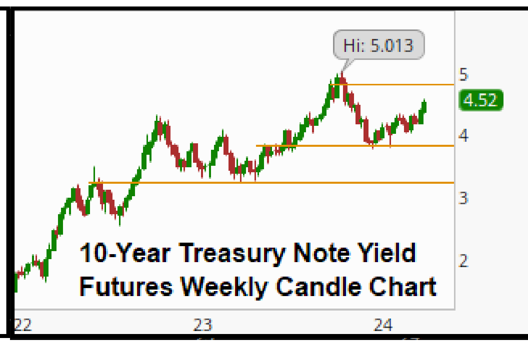


Gold

- 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

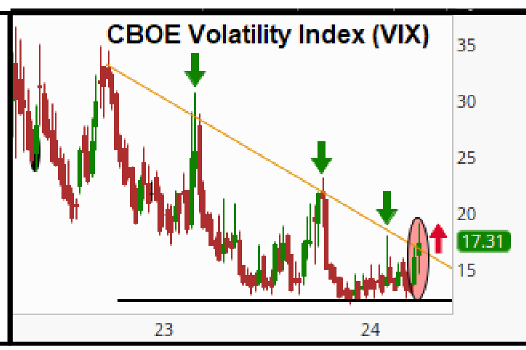
10-Year T-Note Yield Futures

- 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.