SEVENS REPORT

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

April 19, 2024

Pre 7:00 Look

- Futures are moderately lower as Israel conducted a limited strike in Iran while NFLX guidance disappointed.
- Israel struck an Iranian military base in response to the weekends' drone attack, but the operation was small and viewed as an effort to de-escalate the situation.
- NFLX posted strong earnings but mixed guidance and the stock is down 6% pre-market.
- Econ Today: No reports today. Fed Speak: Goolsbee (10:30 a.m. ET).
- Earnings Today: AXP ($2.97), PG ($1.42), SLB ($0.74).

Market	Level	Change	% Change
S&P 500 Futures	5,028.25	-20.75	-0.41%
U.S. Dollar (DXY)	106.05	-0.10	-0.09%
Gold	2,396.70	-1.60	-0.07%
WTI	82.22	-0.51	-0.62%
10 Year Yield	4.58%	-0.08	-1.60%

Equities

Brief Thoughts on the Israeli Attack on the Iranian Military Base.

The headlines on this are worrisome but we've always stressed that oil prices are the best way to view the market's opinion of geo-politics, and oil prices are lower following the Israeli strike. Much like the Iranian attack, the Israeli response was largely ineffectual and appears to be designed to save face, not further escalate the situation. Importantly, Iran said it has no plans to respond and we could see geo-political risks ease slightly going forward.

Market Recap

In what has become a familiar pattern, stocks tentatively rallied in morning trade before reversing lower in the afternoon amid strong domestic economic data, hawkish Fed chatter, and weak semiconductor earnings weighing on AI hype. The S&P 500 ended down a slight 0.22%.

The stock market was little changed at the opening bell yesterday with tech shares underperforming after TSM posted solid earnings and sales metrics but offered cautious guidance on the broader chip industry, specifically for high-dollar, AI-focused hardware.

The market was able to shrug off the AI-related news and rally amid some better-than-feared economic data helping counteract recent stagflation fears, but hawkish commentary by officials from not just the Fed but also the BoE and ECB saw the rally stall when the S&P 500 approached Wednesday afternoon's highs. Most notably, NY Fed President Williams said that if data called for higher rates, the Fed would hike rates from here while the ECB's Holzmann noted that if the Fed didn't start to cut rates later this year, then the ECB would have a hard time cutting three-to-four times as markets are currently pricing in. Additionally, the BoE's Greene pushed back on the idea of imminent rate cuts.

Between the solid economic data and hawkish central bank speak, yields began to grind towards recent highs and stocks reversed course to turn negative in the early afternoon. As the S&P 500 approached the psychologically important and derivatives-critical 5,000 mark, dip buyers stepped in and the index bounced modestly into the close but notably ended at a two-month low.

Bottom Line: What Has Really Changed?

Stocks dropped to two-plus-month lows on higher yields, hawkish Fed rhetoric and mixed earnings results

Market	Level	Change	% Change
Dow	37,775.38	22.07	0.06%
TSX	21,708.44	52.39	0.24%
Stoxx 50	4,916.01	-20.56	-0.42%
FTSE	7,839.84	-37.21	-0.47%
Nikkei	37,068.35	-1.011.35	-2.66%
Hang Seng	16,224.14	-161.73	-0.99%
ASX	7,567.28	-74.83	-0.98%

Prices taken at previous day market close.

(especially in tech) and that's leading nervous investors to turn not just cautious, but potentially negative. Despite the pullback in stocks, however, the outlook for stocks hasn't really changed that much over the past two weeks. What has changed is that investors no longer have unrealistic expectations about steadily falling inflation, near-term Fed rate cuts and, to a much lesser extent, impervious earnings.

Market	Level	Change	% Change
DBC	23.33	-.01	-0.04%
Gold	2,397.50	9.10	0.38%
Silver	28.36	-.04	-0.14%
Copper	4.4275	.0880	2.03%
WTI	82.71	.02	0.02%
Brent	87.06	-.23	-0.26%
Nat Gas	1.732	.020	1.17%
RBOB	2.7135	-.0152	-0.56%
DBA (Grains)	25.92	.51	2.01%
Prices taken at previous day market close.			

This is the reason the S&P 500 has declined 5% from the highs. It's not because fundamentals have deteriorated materially (they have not). Instead, it's because the news and data suddenly stopped fueling unrealistic rate cut and falling inflation expectations, and as such, this market has had to come back to Earth. Again, the key supports for the rally off the October lows are still in place:

- *Solid growth*. Economic data this week has been solid, especially Retail Sales, Philly Fed and jobless claims. There are simply no major economic metrics flashing a warning sign on growth. **Importantly, this pullback has nothing to do with growth (more on that in Monday's Report).**
- *Falling inflation*. Data here is mixed to be sure, as the decline in Core CPI has stalled while oil and other commodities risk boosting headline inflation. But at this point, inflation is still declining, it's just declining much more slowly than previously expected.
- *Looming Fed rate cuts*. Again, there's mixed information here, but it's reasonable to assume that the next Fed move will be a rate cut. When that occurs is obviously in flux, as markets don't expect a cut until September. But despite Williams' mention of a hike as a hypothetical, Powell reiterated earlier this week that the Fed would respond to stickier inflation by simply holding rates at current levels, not by hiking. Bottom line, rate cuts may be delayed, but they are still likely the next move by the Fed.
- *AI enthusiasm*. AI darling NVDA has declined recently while ASML threw some "cold water" on semiconductor earnings, but the bottom line is that AI enthusiasm remains largely in place and this is more a moderation of the enthusiasm, not a reversal of it.

When markets decline, investors get nervous, even if it's after such a fantastic run as we've had over the past 15 months. But based on facts, the only thing that's changed in this market is the actual events haven't lived up to unrealistically positive expectations, which is something we and others have warned about for the past several weeks. Positively, this pullback (which likely isn't over yet) has started the process of resetting expectations to something a bit more realistic, and as such we continue to view 5,000 in the S&P 500 as a place to "nibble" on the long side in stocks if you've been looking to put money to work.

Economics

Philadelphia Fed Manufacturing Business Outlook Survey

- The General Business Activity Index rose solidly to 15.5 vs. (E) 0.0.

Philly Fed became the latest "hot" economic report as the headline and details were stronger than expected and it pushed yields higher and stocks lower pre-market on Thursday. The headline General Business Activity Index jumped from a modest and barely positive 3.2 in March to a solid 15.5 reading in April, a two-year high.

Details were equally as strong as New Orders, the leading indicator in the report, rose to 12.2 from 5.4. Inflation metrics were also firm as prices paid accelerated meaningfully to 23.0 from a modest 3.7 in March. That's the highest reading since December. Prices Received edged up by a less-pronounced margin of less than a point, up from 4.6 to 5.5.

The Philly Fed survey added to the hawkish anxiety gripping markets, although these regional surveys have been extraordinarily volatile lately, so it must be taken with a grain of salt. That said, for a market that's worried about less Fed easing, this hot reading didn't help.

Commodities

Commodities were mixed as the 2024 copper rally accelerated on strong economic growth and chatter of a new "super cycle" in industrial metals markets while oil was flat in the low $80s amid ongoing, but not escalating, geopolitical tensions while gold advanced on inflation fears. The commodity ETF, DBC, was flat on the day.

Beginning with the metals, industrials handily outperformed with copper rallying 2.06% to a new two-year high as the perfect storm for supply of reduced ore output, the threat of lower smelting rates in China, and new sanctions on Russian-produced industrial metals met the hopes of a still-resilient economy after upbeat manufacturing data in the U.S. and views that the AI-boom will continue to support surging demand for copper. The new highs in price and strong fundamental thesis for tight supply and strong demand leave the outlook decidedly bullish for copper.

In precious metals, gold recovered most of Wednesday's losses with a modest 0.30% gain. The reason behind the rally was familiar with a rebound in inflation expectations responsible for the renewed bid in the yellow metal. On the charts, the 2024 gold rally has clearly momentum but the path of least resistance remains decidedly higher. If the rise in inflation expectations were to stall and the dollar and bond yields continue to firm, that would be the set up for a correction in gold.

Oil Market: Technicals vs. Fundamentals

There wasn't any single catalyst or headline that helped oil turn higher on the session yesterday, which led us to do a deep dive of the recent price action in the oil market as well as a breakdown of the fundamental situation in oil here. The active month futures contract rolled ahead to the May contract from April and both contracts were little changed on the day.

Technically Speaking: WTI crude oil futures had become overbought at the start of Q2 according to the daily RSI indicator, which approached 75, nearly five full points beyond the overbought threshold of 70 in the oscillating indicator that offers a read of price action and trend strength. In outright price, WTI futures pulled back into the $80-$82.50 range where the 2024 rally paused for several days in mid-March, and that congestion on the daily chart proved to be tradable support for oil.

Looking at market mechanics, the May futures contract is set to go off the board Monday, so position rolling is having an effect on the price action into the end of the week. While on the topic of different expirations, the term structure of the futures market has firmed meaningfully from session lows yesterday with the December24-December25 calendar spread rebounding to positive on the day at just over $5.50 after being down as much as 50 cents. In the process of that reversal the Dec-Dec spread held an uptrend dating back to late 2023, which favors the bulls and leaves the path of least resistance higher.

Bottom line, the technicals suggest recent weakness has been a healthy correction after oil had become overextended in what is an otherwise still upwards trending oil market. Looking ahead, there is a good deal of price resistance from last fall between $87 and $93 that will challenge the 2024 rally and a turn sideways or a more pronounced pullback is not out of the question. If yesterday's positive reversal holds and oil retests recent highs then this week's lows near $81/barrel will be a critical line in the sand for the bulls that, if violated, would put a meaningful dent in the near-term bull case for oil.

Market	Level	Change	% Change
Dollar Index	105.96	.20	0.19%
EUR/USD	1.06644	-.0029	-0.27%
GBP/USD	1.2439	-.0015	-0.12%
USD/JPY	154.58	.19	0.12%
USD/CAD	1.3770	-.0003	-0.02%
AUD/USD	.6422	-.0013	-0.20%
USD/BRL	5.2466	.0042	0.08%
Bitcoin	63,363.40	2,291.38	3.75%
10 Year Yield	4.647	.062	1.35%
30 Year Yield	4.745	.046	0.98%
10's-2's	-35 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.01%		

Prices taken at previous day market close.

Fundamental Considerations: Fundamental influences are conflicted right now as higher-for-longer central bank policy expectations, a strengthening dollar, and subsequent worries about the sustainability of economic growth in a high-rate/strong-dollar environment, are acting as headwinds on global oil prices while the simmering geopolitical situation between

Israel and Iran is simultaneously keeping a fear bid in the market.

Additionally, we are about six weeks away from the next OPEC+ meeting, which will be critical as the current production cuts are poised to expire at the end of June. An extension of unknown terms is likely, but if the current cuts in place are reduced that would be bearish for oil prices as the tight physical market conditions are being greatly influenced by OPEC+'s choice to withhold several million barrels of spare capacity in order to artificially keep supply low and prices "stable," which to OPEC+ really means high. A decision to keep the full amount of H1 '24 cuts in place would add upward pressure on oil near-to-medium term but would be unlikely to keep prices at current levels in the still very realistic and possible scenario the economy falls into recession as demand would be crippled and prices would likely fall by half.

Bottom line: The path of least resistance is still higher for oil but that could change on a surprise revision to OPEC+ output target policy or unexpected progress towards a ceasefire between Israel and both Hamas and now Iran, the latter of which is a much more pressing issue for the oil market. Furthermore, if recession fears do materialize that is a risk to the 2024 oil rally.

Currencies & Bonds

After a one-day respite, currency and bond markets were again hit by hawkish headlines and interpretation from economic data and Fed speak, and the result was as you'd expect: A stronger dollar and higher Treasury yields. The Dollar Index rose 0.2% and the 10-year Treasury yield gained 6 basis points.

In Thursday's pre-7:00 look, I stated that New York Fed President Williams was the most important Fed speaker yesterday and that proved true, as he made comments that were hawkishly interpreted by the markets. Specifically, Williams reiterated the recent Fed communication that they are in "no rush" to cut rates (this wasn't new, just another reiteration). However, in response to a question about rate *hikes* (not a typo), Williams said that wasn't his "base case," but also that if the economy required higher rates the Fed would raise them.

In reality, that isn't a surprising comment. Fed members will always say they'll raise rates if the economy and inflation warrant it. But investors wanted Williams to dismiss the idea of rate hikes and he didn't do that, but again that's just hawkish compared to unrealistically dovish expectations, not actual reality. Regardless, it just piled onto the hawkish concerns from investors and yields rose following the comments while stocks continued their drift lower from the early highs of the year. Other Fed commentary yesterday largely reinforced that the Fed will not cut rates anytime soon, as Atlanta Fed President Bostic said he didn't expect rate cuts until the "end" of the year. However, Bostic has been on the more hawkish side of the spectrum yesterday, so that isn't exactly news.

Despite the headlines, the outlook for the Fed didn't get any more hawkish on Thursday as Williams only said what any Fed official would say given the question, while Bostic and Williams forecasts for no rate cuts near term already match expectations. But this is a market suddenly in need of positive reassurance, and it didn't get any yesterday. As such, Fed speak did contribute to the higher dollar, higher yields and lower stocks.

The other hawkish influence on markets was economic data, as the hot Philly Fed and low jobless claims data only further reinforced that the economy remains resilient and that inflation pressures are not easing. Again, that doesn't change the outlook for markets, but it does reinforce that the decline in stocks on falling rate cut hopes is legitimate and backed by actual economic data. Beyond the short term, solid growth is better than rate cuts, but markets don't care about that right now so the solid data also contributed to the decline in stocks (although not nearly as much as Fed speak).

Bottom line, the trends in the dollar and Treasury yields are higher due to the fact that the market now views the Fed as the most hawkish of the major central banks, as the Fed isn't forecasted to cut until September, while the ECB and BOE will likely cut rates in June. Until U.S. inflation or growth data begins to moderate, the question isn't if the dollar and yields move higher, it's by how much—and more they rise, the stronger the headwind on stocks.

Have a good weekend—Tom.

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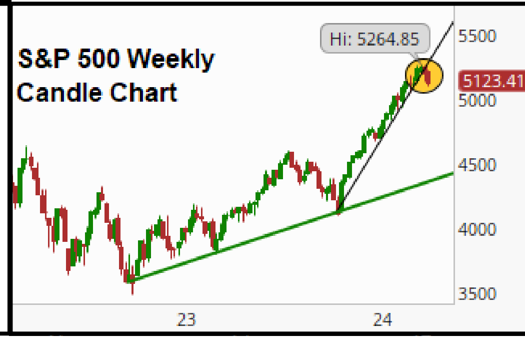
Technical Perspectives (Updated 4/14/2024)

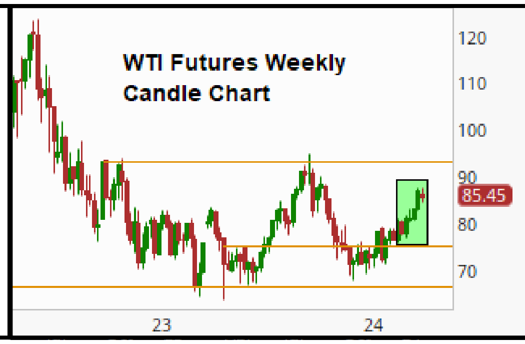
S&P 500

- 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

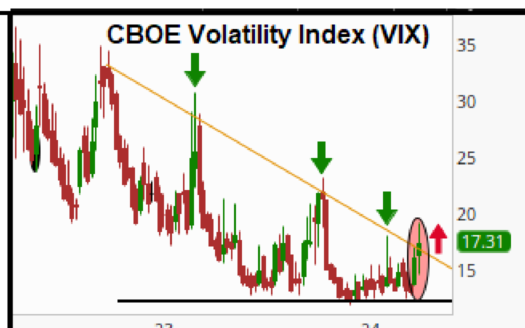
- Technical View: Gold hit fresh record highs last week as the strong push higher in early 2024 continues with the path of least resistance still decidedly higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2386, $2415, $2448
- Key Support Levels: $2348,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