SEVENS REPORT

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

April 2, 2024

Pre 7:00 Look

- Stock futures are modestly lower and Treasury yields are testing YTD highs this morning amid new multi-month highs in oil and better-than-feared EU economic data.
- Economically, the final EU Manufacturing PMI for March was revised up from 45.7 to 46.1 which is still in contraction territory but adding pressure to global bond markets.
- Econ Today: Motor Vehicle Sales (E: 16.0 million), Factory Orders (E: 1.0%), JOLTS (E: 8.8 million).
- Fed Speak: Bowman (10:10 a.m. ET, Williams (12:00 p.m. ET), Mester (12:05 p.m. ET), Daly (1:30 p.m. ET).

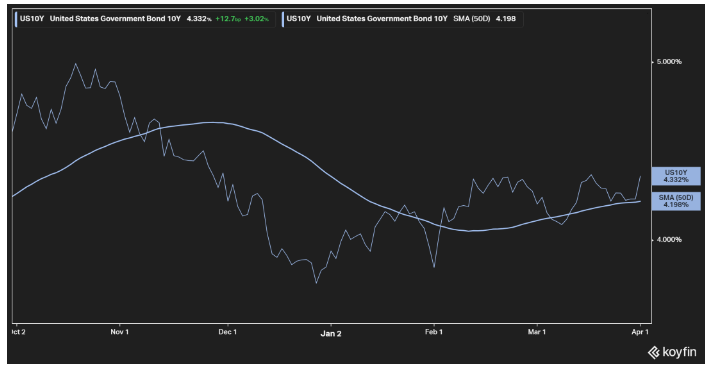
Market	Level	Change	% Change
S&P 500 Futures	5285.75	-9.50	-0.18%
U.S. Dollar (DXY)	104.974	-.050	-0.04%
Gold	2279.50	22.40	0.99%
WTI	85.42	1.71	2.04%
10 Year Yield	4.329	.123	2.92%

Equities

Market Recap

Stocks retreated from last week's record highs to start the second quarter as "hot" domestic economic data saw Fed policy expectations take a hawkish shift with bond yields spiking towards the 2024 highs. The S&P 500 declined 0.20%.

The calendar continued to play a major role in trading yesterday as rebalancing into the new quarter continued after book squaring and window dressing saw the major indexes melt higher into the end of the holiday-shortened trading week last Thursday. The main influence on the markets yesterday was the release of the March ISM Manufacturing Index, which unexpectedly indicated the factory sector expanded for the first time in 16 months. Additionally, the prices index jumped to a near-two-year high sparking renewed concerns about a resurgence in inflation pressures as we continue further into 2024 and that caused a sharp selloff in Treasuries (higher yields) and a decent wave of selling pressure in equities. Furthermore, interest rate swaps meaningfully dialed back June rate cut odds.



The 10-year yield jumped on the hot ISM Manufacturing PMI and that pressured stocks. If that yield breaks above 4.34% it will increase the headwind on stocks.

The S&P 500 fell about 0.50% in late-morning trade before the index began to find support near 5,230, which was a key "pivot area" for the index in the final week of the first quarter. Stocks attempted to rebound in the afternoon but markets were never able to gain bullish momentum and ended the day lower.

Trading Color

Higher rates drove market internals on the first day of the new quarter and that was mostly evident from an index and sector standpoint. The Nasdaq was the best performer on the day thanks to strength in mega-cap tech (there wasn't any specific reason for other than start of quarter money flows). The Nasdaq finished the day slightly positive, while the strength in tech support-

Market	Level	Change	% Change
Dow	39,566.85	-240.52	-0.60%
TSX	22,185.25	18.22	0.08%
Stoxx 50	5,102.87	19.45	0.38%
FTSE	7,980.90	28.28	0.36%
Nikkei	39,838.91	35.82	0.09%
Hang Seng	16,931.52	390.10	2.36%
ASX	7,887.87	-8.99	-0.11%
Prices taken at previous day market close.			

ed the S&P 500. The Dow and Russell 2000 fell 0.60% and 1.02%, respectively. The Russell was weighed down by higher rates specifically as that's a negative for small caps.

Market	Level	Change	% Change
DBC	23.08	.11	0.48%
Gold	2,261.80	23.40	1.05%
Silver	25.09	.17	0.70%
Copper	4.052	.045	1.12%
WTI	83.94	.77	0.93%
Brent	87.59	.59	0.68%
Nat Gas	1.840	.077	4.37%
RBOB	2.7126	-.0080	-0.29%
DBA (Grains)	25.05	.29	1.17%

Prices taken at previous day market close.

On a sector level, eight of the 11 sector SPDRs were lower on the day with real estate falling 1.75%, as that sector was hit on higher rates as they are a negative not just for the relative yield paid by REITs, but that will also potentially exacerbate commercial real estate issues. XLRE was the only sector SPDR that moved more than 1% on Monday.

The majority of other sectors saw modest declines in generally quiet trade, while energy (XLE), communications (XLC) and tech (XLK) logged modest gains (0.74%, 0.77% and 0.28%, respectively). Energy was boosted by the rally in oil (geopolitical tensions remain high) while XLC and XLK benefitted from new quarter money flows into AI-related tech.

Bottom line, stocks were set to start the new quarter with solid gains but the spike in yields reversed the early gains and reminded investors that if yields break out, it will become a headwind on the broader market. The net impact was to increase the importance of this week's economic data, specifically Wednesday's ISM Services PMI and Friday's jobs report. If both are "hot" rising yields will pressure stocks.

Why The Falling Yen Matters to Your Clients

Why would advisors (or clients) care about the Japanese yen? Because if it starts to strengthen, that could cause unexpected market volatility in both stocks and bonds.

Last week, the yen fell to a 34-year low against the dollar and that multi-decade low occurred for the same reasons the yen has been declining for well over a year, namely the interest rate differential between Japanese government bonds (1%-ish) and U.S. Treasuries (4.25%-ish). While the Fed, ECB and Bank of England have spent the last two years raising interest rates to multi-decade highs, the Bank of Japan had kept rates pegged to (essentially) 0%, creating a massive interest rate differential that resulted in global investors selling then yen and buying the higher yielding dollar, euro and pound.

That trade (sell dollars/buy dollar, euro and pound) intensified in March, as the Bank of Japan announced its first interest rate hike in over a decade but also signaled that it wouldn't be hiking aggressively, which markets took as a dovish surprise and that further weighed on the yen.

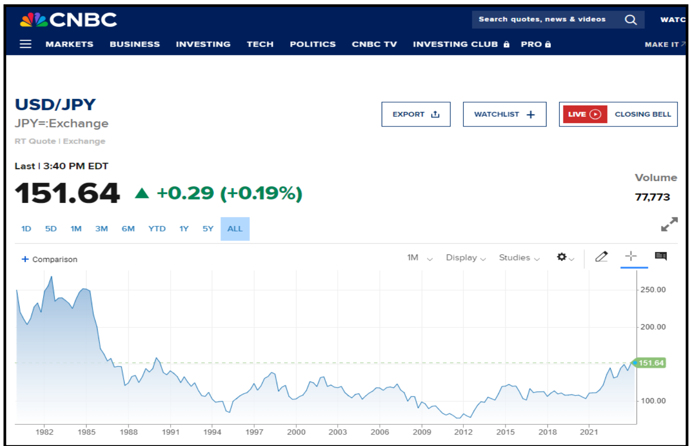
A falling yen is a positive for the global markets, mainly because of the "yen carry trade." The yen carry trade is a trade that hedge funds (and some HNW individuals) will execute to get a low-risk return. Essentially, investors "borrow" yen at around 1% (they do this by selling Japanese government bonds short) and buying Treasury bonds (or other fixed income instruments like emerging market debt, junk bonds, etc.) and between 4%-10%+ yields, thereby making an leveraged interest rate spread. It's a great trade, until the yen starts to strengthen.

And that's why this all matters to us. Last week, in response to the yen hitting 34-year lows, Japanese authorities warned markets against speculative moves, which is code for saying Japanese authorities will start buying the yen to prop it up if the selling continues.

That's a potential problem because, according to CFTC data and other metrics, short positions on JGBs are extremely high. So, if investors start to worry Japanese authorities are about to defend the yen, they could "unwind" their yen carry trades and, in doing so, cause a mini-stampeded towards the door and, in turn, a lot of volatility in seemingly uncorrelated markets (U.S. Treasuries, junk debt, emerging market debt and equities).

Bottom line, the yen hitting a 34-year low may seem like it's disconnected from U.S.-centric investors, but it's all connected and if the yen starts to rally materially (say greater than 5%) in the coming weeks, don't be surprised if that causes some increased volatility in currencies, bonds and stocks.

In the near term, the yen is sitting at 151.62 vs. the dollar. If it rises above 152.00 that's a level most analysts think the Japanese authorities will become involved, so that's the level to watch. More broadly, the best outcome for global markets over the next few months is that the yen "settles" around 145-150 vs. the dollar, which is weak enough to fuel the asset positive yen carry trade but not so weak that it would invite Japanese authorities to defend the yen. As is almost always the case in bull markets, "calm" in the currency and bond space is a positive and the calmer, the better.



The yen hit a 34-year low and that's increasing the risk of intervention by Japanese authorities, a move that could increase global market volatility.

Economics

<u>ISM Manufacturing Index</u>

- The index jumped to 50.3 vs. (E) 48.3 in March

The U.S. manufacturing sector unexpectedly expanded in March after spending the prior 16 months in contraction. The headline Manufacturing PMI rose 2.5 points to 50.3 last month, handily topping the consensus estimate of 48.3, which would have been a very slight gain from January's 47.8 and still would have been indicative of contraction in the sector.

The details of the release were mixed. The New Order Index rose 2 points to a comfortably expansionary 51.4 reading and Production jumped a more pronounced 6.2 points to a solid 54.6, both of which were notable contributors to the headline gain. The Employment subindex improved with a 1.5-point gain in March but the subindex remained in contraction at 47.4, which remains a concern. The labor figure was not as concerning as the inflation component of the ISM report as the Prices subindex jumped 3.3 points to 55.8, which was the highest reading since July 2022. The rise in prices was the third in a row after eight straight prior declines into late 2023. Finally, sentiment among manufacturing business owners was fairly optimistic, as the resilience of the economy, strong demand expectations and rising business activity were all noted by respondents in the comments section.

Yesterday's ISM report was a "hot" economic surprise between the unexpected expansion in the manufacturing sector and the spike to near-two-year highs in the price component of the release. Markets responded accordingly with Treasury yields surging higher as investors dumped bonds while stocks came for sale, retreating from last Thursday's record closing high. The March ISM report was just one data point; however, concerns about a resurgence in inflation have been on the rise and the potential for a higher-for-longer Fed policy stance has been increasingly weighing on risk assets in recent weeks. And the latest ISM report unfortunately did not help ease those worries to start the second quarter.

Market	Level	Change	% Change
Dollar Index	104.73	.46	0.44%
EUR/USD	1.0740	-.0050	-0.46%
GBP/USD	1.2546	-.0077	-0.61%
USD/JPY	151.65	.30	0.20%
USD/CAD	1.3581	.0041	0.30%
AUD/USD	.6485	-.0036	-0.55%
USD/BRL	5.0635	.0490	0.98%
Bitcoin	69,292.39	-1,630.78	-2.30%
10 Year Yield	4.329	.123	2.92%
30 Year Yield	4.468	.119	2.74%
10's-2's	-38 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.76%		
Prices taken at previous day market close.			

Commodities

Commodities were mostly higher to start the quarter. Metals outperformed as industrial varieties benefited from good Chinese economic data while an uptick in inflation worries supported new record highs in gold. Oil also posted a solid gain on the day thanks to more negative geopolitical headlines, strong data, and bullish supply news. The commodity ETF, DBC, gained 0.48%.

Gold posted a solid 1.03% gain as traders largely shrugged off the dual headwinds of a broadly stronger dollar and big spike in Treasury yields and instead looked to precious metals as both a safe haven destination for capital and an inflation hedge.

The moderate risk-off money flows to start the week supported the uptick in safe haven demand while the upward revisions to the January Core PCE release (out last Friday), "hot" price data in the ISM report, and rising market-based inflation expectations were all supportive reasons behind the gold rally. Looking ahead, gold is looking stretched and due for a pullback, but the dominant underlying trend remains bullish with initial support at $2,170/oz. and long-term support near $2,100.

The best performer among the most closely watched commodities was in the industrial metals space yesterday, as copper rallied 1.11%. Optimism stemming from strong Manufacturing PMI data out of China and the unexpected return to expansion territory in the U.S. ISM Manufacturing report fueled copper's move. Hawkish Fed worries due to the "hot" data saw copper end off the session highs, falling in sympathy with stocks and other risk assets. However, like gold, the primary trend in copper remains bullish.

Oil enjoyed a solid gain to start the quarter with futures gaining 0.95%. The strong Chinese Manufacturing PMI paired with news that Israeli military forces struck the Iranian consulate in Syria with a missile, killing several members of the Iranian Revolutionary Guard helped drive oil prices higher by roughly 1.5% towards $84.50/barrel in early trade. Then a morning report that OPEC production fell 50K b/d in March and the strong U.S. ISM manufacturing print added separate supply and demand side tailwinds to the market midmorning.

Oil retreated from the highs to end just under $84/barrel as demand-supportive rate cut bets were dialed back amid the hawkish money flows that followed the ISM release. On the charts, WTI futures are into broad technical resistance between the mid-$80s and low $90s, which could cause a pause in the 2024 rally but the trend in oil is still bullish.

Currencies & Bonds

The second quarter started with an intense rally in both Treasury yields and the dollar as the hotter-than-expected ISM Manufacturing PMI sent both sharply higher and that, in turn, weighed on stocks. The 10-year yield rose 13 basis points and the Dollar Index gained 0.5%, rising above 105.

The reason for the yield and dollar strength was clear: The ISM Manufacturing PMI rose above 50 for the first time in months. New Orders were strong, and most importantly, the prices indices showed strong gains. This is the type of report that, if confirmed by the ISM Services PMI tomorrow and the jobs report on Friday, could result in rate cuts being delayed from June to July or even September. Point being, this week's data just became more important.

Looking at the 10-year yield, it surged back above 4.30% and closed at 4.32%, just 2 basis points below the mid-March 4.34%. If that 4.34% level is broken decisively (meaning several closes above that level and a move towards 4.40%) following this week's data, that will absolutely be a new headwind on stocks, so that is an important level to watch.

Turning to currencies, the Dollar Index broke above 105 for the first time since November, as investors are starting to price in the potential that the ECB cuts rates in June (this is becoming more likely following recent underwhelming EU inflation data) and that the Fed does not cut rates in June. That's the reason for the dollar rally and euro and pound decline yesterday (the euro and pound fell 0.5% each).

Bottom line, rising yields and a stronger dollar are headwinds that would likely cause a pullback in stocks, and we know this because that's what caused a decline in markets last August-October. If the Dollar Index breaks materially above 105 and towards 106 and the 10 year moves towards 4.50%, as that will likely increase market volatility and hit stocks (especially small caps, consumer and REITs).

Have a good day,

Tom

4/2/2024

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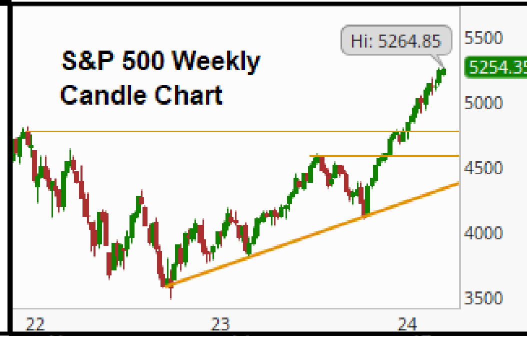
Technical Perspectives (Updated 3/31/2024)

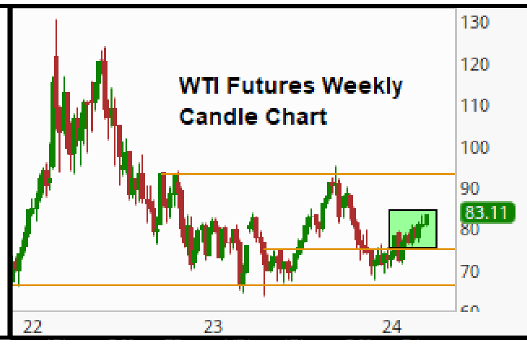
S&P 500

- Technical View: **The medium-term trend remains bullish,** as the S&P 500 ended the first quarter at a fresh record high along with multiple other major indexes.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5265, 5300, 5325
- Key Support Levels: 5225, 5178, 5079



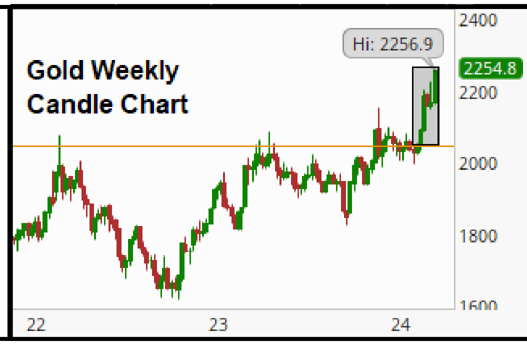
WTI Crude Oil

- Technical View: Oil prices jumped to new multi-month highs last week offering fresh confirmation of the 2024 uptrend, which leaves the path of least resistance higher.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $83.50, $85.29, $87.05
- Key Support Levels: $81.71, $80.14, $79.12



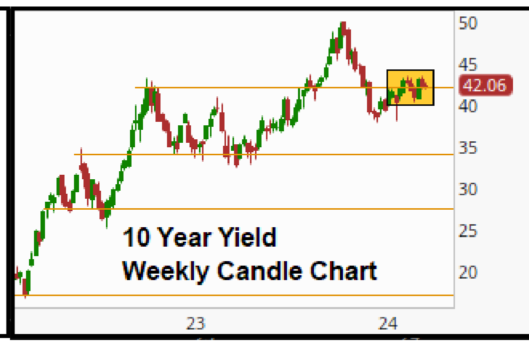
Gold

- 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: $2275, $2290, $2350
- Key Support Levels: $2222, $2196, $2165



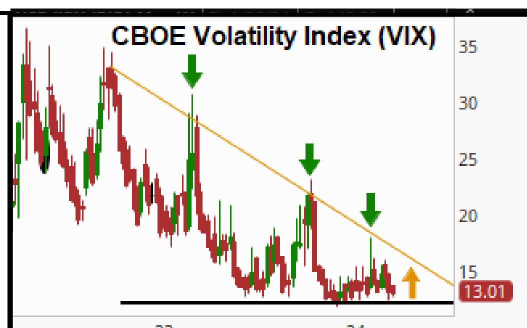
10-Year T-Note Yield

- Technical View: The 10-year yield rose to new 2024 closing highs above 4.30% in March, leaving the threat of higher yields in play given the technicals.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.273, 4.340, 4.472
- Key Support Levels: 4.155, 4.089, 3.967



CBOE Volatility Index (VIX)

- Technical View: The VIX tested the 2024 lows in March but has so far held above which suggests the threat of volatility is on the rise.
- Primary Trend: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 13.67, 14.41, 15.22
- Key Support Levels: 12.78, 12.44, 11.96



SEVENS REPORT

Fundamental Market View (Updated 3/31/2024)

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 rose modestly during the holiday-shortened week as economic data reinforced expectations for 1) Stable growth and 2) Still (slowly) declining inflation. The S&P 500 ended the first quarter with substantial gains.*

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 rallied last week and finished Q1 with a strong performance as a continued oil rally helped boost the commodity complex.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as none of the economic data or central bank speak altered the outlook for June rate cuts from the Fed, ECB and BOE. The only exception was the yen, which declined to a 34-year low vs. the dollar before rebounding on Japanese rhetorical intervention.*
Treasuries	**Turning Positive**	*Treasury yields fell modestly last week and dropped back below the 4.25% resistance level following in-line economic data, declining inflation expectations and in-line inflation data.*

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.