# SEVENS REPORT

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

*April 22, 2024*

## Pre 7:00 Look

- Futures are enjoying a modest rebound following a quiet weekend of news and ahead of an important week of earnings (especially in tech).
- There are major tech earnings this week (TSLA, META, GOOG, MSFT) and tech stocks are bouncing this morning ahead of those reports.
- There was no notable economic or geo-political news over the weekend.
- Econ Today: Chicago Fed National Activity Index (E: 0.05).
- Earnings today: VZ ($1.12), TFC ($0.78), NUE ($3.62).

| Market | Level | Change | % Change |
|---|---|---|---|
| S&P 500 Futures | 5,031.25 | 27.50 | 0.55% |
| U.S. Dollar (DXY) | 106.13 | -0.02 | -0.02% |
| Gold | 2,372.20 | -41.60 | -1.72% |
| WTI | 82.81 | -0.33 | -0.40% |
| 10 Year Yield | 4.66% | 0.04 | 0.93% |

# Equities

*Market Recap*

The pullback continued last week as the S&P 500 dropped to a near two-month low below 5,000 due to strong economic data and further delays in rate cut expectations while earnings were mixed. The S&P 500 fell a steep 3.05% last week and is now up just 4.14% YTD.

Equities extended the Q2 selloff last Monday as investors digested the brazen escalation in geopolitical tensions in the Middle East following Iran's massive, direct aerial assault on Israel, despite the fact that damage was limited. China vowing to "boost cooperation" with Iran didn't help sentiment, nor did Israel's pledged retaliation and the S&P 500 fell 1.20% on the day.

The selling pressure let up moderately on Tuesday as a downbeat March Housing Starts release prompted a "bad-news-is-good-news" reaction from traders while bank earnings were mixed with MS topping estimates and BAC disappointing on loan write-offs. Powell's afternoon speech was hawkish, however, and tentative midday gains were reversed leaving the S&P 500 down 0.21% at the closing bell.

On Wednesday, a rally driven by strong luxury and consumer focused brands in Europe offset weakness in the AI trade due to soft ASML sales. A strong 20-Yr Bond auction helped markets attempt to stabilize before heavy pressure on mega-cap tech names including NVDA (down nearly 4% Wednesday) dented sentiment and dragged the entire market lower into the settlement, leaving the S&P 500 down 0.58% at the close.

On Thursday stocks rallied early in the day thanks to resilient economic data easing concerns about stagflation emerging in the economy but cautious guidance out of chip-giant TSM was the latest negative catalyst for the AI trade, pressuring mega-cap tech while officials from the ECB, BoE, and Fed all struck hawkish tones about higher-for-longer rates. The S&P fell to a two-month low Thursday, closing down another 0.22%, barely above 5,000.

Stocks opened flat on Friday as futures recovered from steep overnight losses following conflicting reports of an Israeli retaliatory strike on Iran. Importantly there was no material escalation, which left stocks little changed. In corporate news, NFLX offered cautious guidance, which weighed on the tech sector early while AAPL shares approached a 52-week low and NVDA plunged 10%, which saw mega-cap tech drag the S&P 500 lower by 0.88%.

| Market | Level | Change | % Change |
|---|---|---|---|
| Dow | 37,986.40 | 211.02 | 0.56% |
| TSX | 21,807.38 | 98.94 | 0.46% |
| Stoxx 50 | 4,940.42 | 22.33 | 0.45% |
| FTSE | 8,007.05 | 111.20 | 1.41% |
| Nikkei | 37,438.61 | 370.26 | 1.00% |
| Hang Seng | 16,511.69 | 287.55 | 1.77% |
| ASX | 7,649.16 | 81.88 | 1.08% |
| Prices taken at previous day market close. | | | |

*What Makes This Pullback Worse?*

The S&P 500 dropped below 5,000 for the first time since late February as last week's economic data and Fed speak confirmed there will be no near-term rate cuts, while geopolitical risks remained elevated. But despite this uptick in volatility, the decline from the recent highs (which has now reached nearly 5%) still needs to be viewed as a pullback from unsustainably positive expectations, not a sudden and more negative fundamental turn.

| Market | Level | Change | % Change |
|---|---|---|---|
| DBC | 23.44 | .11 | 0.47% |
| Gold | 2,408.90 | 10.90 | 0.45% |
| Silver | 28.82 | .44 | 1.55% |
| Copper | 4.4955 | .0590 | 1.33% |
| WTI | 83.26 | .53 | 0.64% |
| Brent | 87.28 | .17 | 0.20% |
| Nat Gas | 1.756 | -.001 | -0.06% |
| RBOB | 2.7137 | .0000 | 0.00% |
| DBA (Grains) | 26.50 | .57 | 2.22% |

Prices taken at previous day market close.

Put in plain English, stocks aren't dropping because things are suddenly "bad." They're dropping because they aren't as good as people were hoping they would be (and those hopes were very, very aggressive). Given that, I want to clearly identify the events that would turn this pullback into something more (meaning something that could put much of the Oct.-March rally in jeopardy).

*Negative Event 1: Growth slows*. This likely doesn't come as a surprise because even since the hot CPI report two weeks ago, I've said growth now must hold up to support these markets. The reason is simple: If growth rolls over, we're looking at stagflation. In stagflation, the market can trade with a 15X or lower multiple. That means a decline in the S&P 500 of over 1,000 points from here (yes, 4,000 would likely be tested). Growth is the single most important influence on the economy and if it shows signs of slowing, look out. *Key Indicators to Watch:* Unemployment rate, jobless claims.

*Negative Event 2: Rate hikes back on the table*. Last Thursday stocks dropped when New York Fed President Williams stated that while rate hikes weren't his "base case" the Fed would hike if the economy warranted it. That's not a controversial statement in reality, but just the mere mention of rate hikes spooked markets and rightly so, as the lion's share of the Oct.-March rally has been driven by markets assuming rate hikes were over. If they are not, it'll create a major valuation reset and a give back of the entire rally is reasonable. Finally, the Fed flip-flopping on cuts vs. hikes isn't unheard of. For those of us in the business back in the 1990s, it was a relatively routine occurrence. It's only been since the early 2000s that the Fed has shifted to this longer, drawn out cut/hike cycle. Point being, it's not impossible the Fed flip-flops of the data warrants it. *Key Indicator to Watch:* Fed Watch and rate cut expectations.

*Negative Event 3: Oil spikes*. The most likely reason for rising oil prices would be if we see the conflicts in Russia/Ukraine and Israel/Hamas spread regionally, but there are other possibilities including disruption of global shipping, OPEC supply cuts and other possibilities. Rising oil would increase headline inflation and while the Fed largely looks past short-term energy price increases, the optics and politics of high oil and higher inflation would likely eliminate the possibility of a rate cut. Meanwhile, higher oil costs would essentially present a "tax" on the economy, increasing slowdown changes. *Key Indicator to Watch:* WTI crude oil prices, especially if they move towards $100/bbl.

*Negative Event 4: AI Enthusiasm Wanes*. AI enthusiasm hasn't been the reason stocks have rallied, but it has contributed to the size of the gains and that's why AI enthusiasm matters. If investors begin to doubt the transformative power of AI, that will add downward pressure to tech which will not only weigh on the S&P 500 due to tech losses but also create downward valuation pressure as earnings growth prospects will dim. This would increase the intensity of any ongoing decline in stocks. *Key Indicator to Watch:* NVDA. It's the darling of AI enthusiasm and earnings on May 22 will be watched closely (they need to continue to beat expectations).

Bottom line, while the pullback in stocks likely isn't over, it's important to realize that all the decline has achieved so far is to remove some market excess and put the S&P 500 closer to more fundamentally supported valuations. But the general macroeconomic set up is still positive. However, that can change and these four events are ones we'll be watching for, because if they start to occur it will require more defensive positioning.

# Economics

*Last Week*

Economic data was hot and Fed speak was hawkish last week and as a result, Treasury yields rose and stocks declined as investors continued to push out the date of the first rate cut.

Retail Sales, the most important report of last week, bounced back and rose 0.7% vs. (E) 0.4% and saw positive revisions to last month's underwhelming reading (to 0.9% from 0.6%). More importantly, the Control group within retail sales, which is our best look at truly discretionary consumer spending, rose 1.1% vs. (E) 0.4% and strongly pushed back against the idea that the consumer was slowing down (although retailers are telling a different story). Bottom line, the strong retail sales helped reverse some underwhelming spending data from the first two months and on an aggregate basis, consumer spending remains solid and that means a hard landing remains unlikely.

Turning to the first looks at April economic activity, results from the Empire and Philly Fed Surveys were mixed but, generally speaking, both showed an uptick in price pressures which contributed to higher yields. Looking at the growth data first, Empire disappointed and declined to -14.3 vs. (E) -5.1 while Philly was the opposite, rising to 15.5 vs. (E) 1.5. What wasn't in disagreement was an increase in the Prices Paid Index for Empire (rising 5 points) and Philly (rising to 23 from 3.7, a two-year high). Again, these metrics have been extraordinarily volatile over the past several weeks so they have to be taken with a grain of salt, but for a market that's nervous about inflation, the increase in both Prices Paid indices added to that inflation-related anxiety and weighed on stocks and bonds.

| Market | Level | Change | % Change |
|---|---|---|---|
| Dollar Index | 105.97 | -.01 | -0.01% |
| EUR/USD | 1.0653 | .0010 | 0.09% |
| GBP/USD | 1.2372 | -.0064 | -0.51% |
| USD/JPY | 154.59 | -.0500 | -0.03% |
| USD/CAD | 1.3749 | -.0018 | -0.13% |
| AUD/USD | .6420 | -.0001 | -0.02% |
| USD/BRL | 5.1981 | -.0509 | -0.97% |
| Bitcoin | 64,334.66 | 996.02 | 1.57% |
| 10 Year Yield | 4.615 | -.032 | -0.69% |
| 30 Year Yield | 4.711 | -.034 | -0.72% |
| 10's-2's | -35 bps | | |
| Date of Rate Cut | September 2024 | | |
| 2024 YE Fed Funds | 4.99% | | |
| Prices taken at previous day market close. | | | |

Looking at the Fed, there were numerous speakers last week including the two most important, Powell and Williams, and the message was extremely consistent: Inflation hasn't made the progress needed to cut in the near term so the Fed will likely wait for that additional progress before cutting rates. Markets have reacted to that commentary and data by pushing the first expected rate cut to September (July is a 50/50 right now) and the market is pricing in one-to-two rate cuts for 2024.

Bottom line, for several weeks the data and Fed speak have been reducing rate cut chances and that continued last week, pushing bond yields higher and stocks lower, just as it should given the market's stretched valuations.

*This Week*

The most important economic report this week, at least for the short-term stabilization of this market, is Friday's Core PCE Price Index and that's for a simple reason: If the Core PCE Price Index is hotter than expected, selling will intensify in both stocks and bonds as investors price in one rate cut (or none) in 2024. Conversely, if the Core PCE Price Index meets expectations or offers a positive surprise on inflation (that it declined more than expected) it's going to fuel a drop in yields and solid rebound in stocks. Again, for short-term stabilization in this market, the Core PCE Price Index is key.

Beyond the short term and with inflation now stickier than expected and fewer rate cuts coming than expected, growth is a major medium- and long-term issue. As such, that makes tomorrow's Flash Composite PMI the key report this week and for a simple reason: If growth suddenly begins to rollover, then this market is staring at real stagflation risks and that means the 5% decline we've seen in the S&P 500 is just the beginning of something bigger.

I can't say this clearly enough: With inflation sticky and no rate cuts coming, stable growth is extremely important, because if growth begins to slow with inflation at current levels, we will be staring at real stagflation risks and stocks are not prepared for that, and a 10% decline from here would be a base case, not a surprise.

## Commodities

Commodities were mixed last week as talks of a "super cycle" in industrial metals saw copper futures rise to new 52-week highs while inflation worries kept a big in the gold market and oil whipsawed between losses of as much as 5% and being flat on the week amid geopolitical developments. The commodity ETF, DBC, fell 1.18% on the week.

Oil was very volatile last week as there was a modest rally when futures opened for the week following the massive, but largely benign, Iranian air assault on Israel from the prior weekend. The lack of immediate response and widespread calls for de-escalation in the conflict by influential world powers helped initiate a sell-the-news reaction to the attack early in the week. Weekly EIA data was net bearish as consumer demand metrics fell moderately while there was a larger-than-expected inventory build in commercial crude oil stockpiles. Oil fell 3.91%.

Technicals and trader positioning played a big role in trading last week as the active month futures contract rolled from May to June delivery and there was a profit-taking pullback in WTI from overbought levels on the daily chart to key congestion support in the low $80s. Thursday night and early Friday morning, futures ripped back towards the 2024 highs on news of an Israeli counter attack on Iranian, but the details were limited and the two sides offered contradicting stories on what happened and who was responsible. That saw oil reverse back towards the lower bound of the week's trading range between $81 and $87/barrel. Looking ahead, a break below $81 is likely to see follow through to $75/barrel while a break higher would set up WTI futures for a test of the late September highs near $93/barrel. Geopolitical developments are likely going to be the deciding factor in which way oil breaks from here.

Gold rallied 1.97% on the week as we saw inflation remain the primary influence on the precious metals market with gold futures shrugging off higher yields and a stronger dollar, and advancing to new record highs in recent weeks. Copper surged 4.10% last week amid concerns about supply due to China's threats of production cuts in the midst of increasingly widely held views that AI will drive a surge in demand creating a super-cycle dynamic in the metals used for chips and technology focused hardware which includes copper. Like gold, the latest new highs are a bullish development for copper and the path of least resistance is higher for both right now.

## Currencies & Bonds

Both currencies and bonds were surprisingly little changed last week despite the hot economic data and hawkish Fed speak, but that makes sense if we think about it because bond and currency markets essentially priced in that hawkish shift the prior week as the 10-year yield surged to 4.65% while the Dollar Index rose above 106, both multi-month highs.

Looking at last week specifically, the hot economic data and stream of Fed speak pointing to no near-term rate cuts reinforced the breakout in the 10-year yield and the dollar. Meanwhile, economic data was mixed in the EU and UK and rate cut expectations in June have risen for both regions. Notably, after a sharp drop last week the euro did stabilize last week and gained 0.23% as some ECB officials pushed back slightly on the market's near-100% expectation for a June rate cut (although it remains widely expected). The pound declined 0.31%.

The Dollar Index and Treasury yields have risen appropriately as markets have priced in no rate cuts in June for the Fed (and likely none in July, either). The trend in both the dollar and yields is higher near term and if economic data this week is "hot" expect the 10-year yield to move through 4.65% and towards 4.75% and for that to increase the headwinds on stocks.

Turning to the dollar, the higher from here, the larger the problem for corporate earnings, although that wouldn't show up until the Q2 results out in early July. Regardless, the stronger dollar is broadly "unneeded" from a macro standpoint and the best case for yields and the dollar right now is digestion and a sideways chop.

Have a good week,

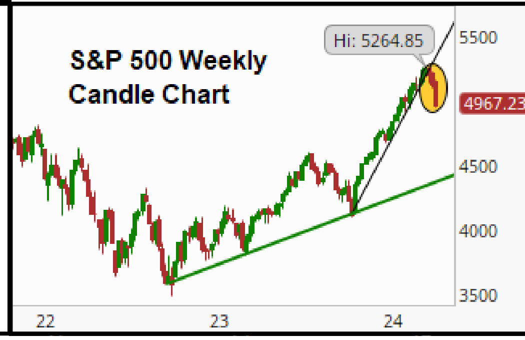
Tom

# SEVENS REPORT

## Technical Perspectives (Updated 4/21/2024)

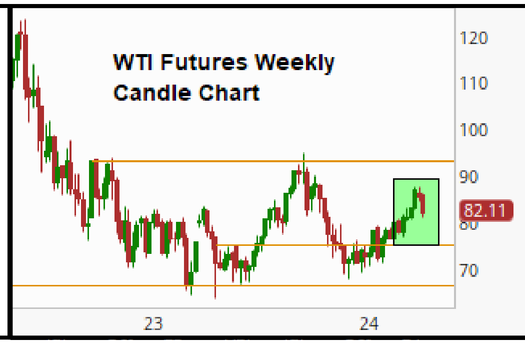
### S&P 500

- 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: 5015, 5106, 5222
- Key Support Levels: 4928, 4846, 4792



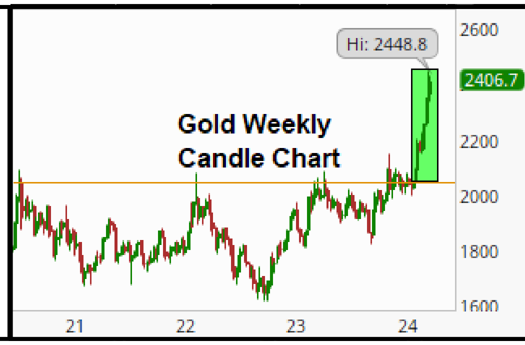

### WTI Crude Oil

- Technical View: Oil prices pulled back into key support in the low $80/barrel range last week lining futures up for a test of the 2024 uptrend line.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $83.84, $85.29, $86.54
- Key Support Levels: $80.82, $78.14, $76.33



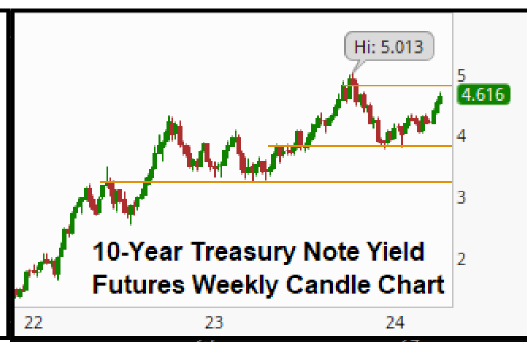

### Gold

- Technical View: Gold closed at 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: $2433, $2449, $2475
- Key Support Levels: $2352, $2273, $2222



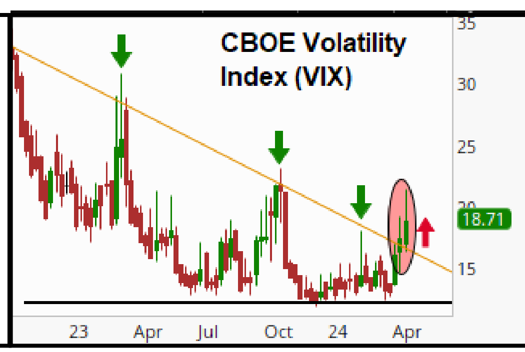

### 10-Year T-Note Yield Futures

- Technical View: The 10-year yield rose to new multi-month highs in early Q2 leaving the path of least resistance higher.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.693, 4.822, 4.910
- Key Support Levels: 4.520, 4.476, 4.419




### CBOE Volatility Index (VIX)

- Technical View: The VIX continued to surge last week as the fear gauge more definitively broke out through a more than one-year downtrend line.
- Primary Trend: **Bullish (since the week of April 1, 2024)**
- Key Resistance Levels: 19.31, 21.36, 23.08
- Key Support Levels: 18.05, 17.12, 15.82



# SEVENS REPORT

**Fundamental Market View**
**(Updated 4/21/2024)**

## 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:**<br>**Cautious**<br>**SPHB: 25% SPLV: 75%** | *The S&P 500 dropped to a near-two-month low on strong economic data that further pushed out rate cut expectations, causing yields to remain elevated. Additionally, the start to Q2 earnings season has been mixed.* |

### Tactical Allocation Ideas:

- **What's Outperforming: Defensive sectors, minimum volatility and sectors linked to higher rates have relatively outperformed recently as markets have become more volatile.**
- **What's Underperforming: Tech/growth and high valuation stocks have lagged as yields have risen.**

## Long Term Fundamental Outlook for Other Asset Classes

| | Fundamental Outlook | Market Intelligence |
|---|---|---|
| **Commodities** | **Neutral** | *Commodities were split last week as oil pulled back sharply on profit taking amid easing geopolitical tensions while the metals continued to scream higher; gold due to inflation worries and copper on chatter of a new "super cycle" in industrial metals.* |
| **US Dollar** | **Neutral** | *The Dollar Index was little changed as investors aggressively priced in delayed Fed rate cuts two weeks ago, so currency and bond markets largely digested those moves.* |
| **Treasuries** | **Turning Positive** | *Treasury yields were similarly little changed as the big rise in yields two weeks ago also reflected delayed rate cut expectations, so bond markets largely digested those moves from the previous week.* |

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.