SEVENS REPORT

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

April 23, 2024

Pre 7:00 Look

- U.S. equity futures are tracking global markets higher after European economic data came in better than expected and traders optimistically look ahead to big-tech earnings.
- The EU's April PMI Composite Flash rose 1.1 points to 51.4 vs. (E) 50.8 thanks to a solid 52.9 Services sub-index print.
- Econ Today: PMI Composite Flash (E:51.9), New Home Sales (E: 670K). There are no Fed speakers today.
- The Treasury will hold a 2-Yr Note auction at 1:00 p.m. ET.
- Earnings: UPS ($1.33), GM ($2.06), LMT ($5.80), GE ($0.67), PEP ($1.52), SHW ($2.25), TSLA ($0.49), V ($2.43).

Market	Level	Change	% Change
S&P 500 Futures	5059.25	11.75	0.23%
U.S. Dollar (DXY)	105.915	-.045	-0.04%
Gold	2313.50	32.90	1.40%
WTI	81.79	-.11	-0.13%
10 Year Yield	4.615	-.005	-0.11%

***A Timely Call**: In last Thursday's issue of this report, we included an NVDA chart pointing out that the stock's technical setup was bearish and shares were threatening to break down to a target of $758. NVDA dropped below that target by $2/share Friday before stabilizing yesterday.*

Equities

Market Recap

Stocks roared higher to start the week with the S&P 500 reclaiming roughly half of last week's rout in intraday trade thanks to a relatively stable geopolitical backdrop, a dip in bond yields, and a rebound in mega-cap tech ahead of earnings. The S&P 500 ended off the highs, however, closing with a gain of 0.87%.

Equities began the week with a solid bid which saw the S&P 500 gap higher at the opening bell. One of the primary reasons for the strong open was the lack of any materially negative developments regarding the tensions between Israel and Iran over the weekend as there were no further attacks by either side following the minor Israeli drone strikes in central Iran last Thursday.

There were no economic reports yesterday and no notable Fed commentary to move markets over the course of the morning and newswires remained quiet into the afternoon. There was a clear sense of short-covering helping the market rally into the afternoon as some of the worst performing names from last week were leading the advance into mid-afternoon, specifically NVDA. Once NVDA stalled at $800/share, the broader market advance stalled and the S&P 500 began to pull back into the close, giving back nearly half of the session's peak gains.

Trading Color

The price action was healthier to start a week that's full of potential catalysts as the S&P 500 initially gave back the early bounce but then stabilized and drifted higher throughout the afternoon to finish with solid gains, in

Market	Level	Change	% Change
Dow	38,239.98	253.58	0.67%
TSX	21,871.96	64.58	0.30%
Stoxx 50	4,977.93	41.08	0.83%
FTSE	8,052.89	29.02	0.36%
Nikkei	37,552.16	113.55	0.30%
Hang Seng	16,828.93	317.24	1.92%
ASX	7,683.51	34.35	0.45%
Prices taken at previous day market close.			

what's the first encouraging intraday price action in several trading sessions.

On an index level, small caps slightly outperformed as the Russell 2000 rose 1.02% while the Nasdaq gained 1.11%. The Dow relatively lagged, gaining 0.67%. Looking at sector trade, all 11 S&P 500 sectors were higher on the day, so buying was pretty broad. Financials were the leader as XLF gained 1.2% thanks to buoyant yields and solid regional bank earnings (TFC rose 3.4%).

Market	Level	Change	% Change
DBC	23.44	-.00	-0.00%
Gold	2,343.40	-70.40	-2.92%
Silver	27.29	-1.55	-5.37%
Copper	4.4855	-.0120	-0.27%
WTI	82.85	-.29	-0.35%
Brent	87.08	-.21	-0.24%
Nat Gas	1.789	.037	2.11%
RBOB	2.6870	-.0233	-0.86%
DBA (Grains)	26.17	-.34	-1.30%
Prices taken at previous day market close.			

Consumer staples (XLP) also logged a solid rally (up 0.95%) while tech (XLK) also rose 0.89% on dip buying in mega-cap tech names and ahead of some important earnings this week. The remaining eight sectors saw modest gains as investors did nibble on the long side ahead of a critical week of earnings reports and inflation data (the Core PCE Price Index) although we'll need those market catalysts to be positive events if yesterday's rally is going to turn into a broader rebound.

Market Sentiment Update: How Nervous Are Investors?

One of the short-term concerns we had with markets at the end of Q1 was the extreme bullishness being displayed by investors and advisors, and we felt that left the markets vulnerable not just to a pullback but also a correction. Well, now the S&P 500 is undergoing its first pullback since October and I wanted to investigate if the 5% decline in the S&P 500 has corrected that bullish enthusiasm amongst investors and returned markets to more balance.

What I found was notable. For investors, the decline in stocks has removed their bullish bias, but it's not yet created enough negativity that it makes me more confident this pullback is over. With financial advisors, interestingly, their bullish enthusiasm hasn't declined at all. So, here's the bottom line: Investor sentiment is no longer a vulnerability in this market, but it's not to the point yet where I'd think the pullback is close to ending. Similarly, advisors remain steadfastly bullish.

So, while data and events will ultimately determine the extent of this pullback, we're not yet at levels where I can consider market sentiment as a potential positive. At best, it's just neutral and as such, if data runs hot this week, earnings disappoint or the Fed is hawkish next week, we should all expect a further decline in the S&P 500.

- **The CNN Fear/Greed Indicator currently sits at 38 (on a scale of 0-100). That's in the "Fear" zone.** The Fear/Greed Index has become more widely followed on the Street because it incorporates seven different momentum and sentiment indicators and, as such, provides a wide view of current investor and market sentiment. The 38 reading puts this indicator in the "Fear" zone, so the "Extreme Greed" reading of a month ago has been removed. But this indicator is still a ways away from the "Extreme Fear" we'd want to see to imply investors are irrationally negative.
- **AAII Investor Sentiment Survey shows 38% bulls. That's in line with historical averages.** This survey asks respondents (individual investors) whether their outlook is bullish or bearish and the percentage of respondents that say they're bullish, bearish or neutral is tracked over time. The historical average for bulls is 37.5, so at the 38% reading last week, we're close to that level. Positively, that's well off the 50% bulls we saw in late March. But it's also just a "normal" reading—nothing that would imply investors have become unrealistically negative. The percentage of bears is now 34%, slightly above the 31% historical average and solidly above the 22% low we saw in late March. Bottom line, the AAII survey shows a clear removal of the extreme bullishness we saw at the end of Q1. But it just implies a return to "normal," and sentiment isn't close to levels that imply an attractive entry point (the percentage of bulls at the October lows was just 30% and the number of bears was 41.6% and we'd look for moves towards those levels to elect a strong "buy" signal).
- **Investors Intelligence Advisor Sentiment Survey has**

a Bulls/Bears spread of 42%, a Bullish reading. The Investors Intelligence Advisor Sentiment Index is similar to the AAII survey, but it polls financial advisors, not individual investors. It's also referenced slightly differently as a spread of bulls/bears as opposed to percentages of each vs. a benchmark. Regardless of the methodology, however, the message is the same: Advisors remain very bullish. At 42%, that difference between bullish respondents and bearish respondents shows financial advisors are strongly bullish compared to the 30% historical average. Additionally, a Bull/Bear spread between 35%-45% is considered to signal elevated chances for a correction! So, at 42%, it's still at the higher end of that range! Comparatively, at the October lows the Bulls/Bears spread hit a low of 18.4%, an extremely bearish reading. So, the message is clear: Financial advisors remain bullish and this pullback hasn't altered sentiment like it has for individual investors.

The pullback from the highs has helped to correct the extremely bullish outlook from investors and that's a good thing, as it removes a vulnerability from this market. At the same time, the data is clear: None of these sentiment indicators are close to levels that would imply a bottom is close or that we're at an extremely attractive buying opportunity. That doesn't mean the pullback won't end (data, earnings and Fed speak will determine that) but it does mean this market could easily fall several more percentage points before we get to sentiment levels that imply we are near a bottom or at an attractive entry point, and I want everyone to be aware of that as we move forward.

Market	Level	Change	% Change
Dollar Index	105.96	-.02	-0.02%
EUR/USD	1.0652	-.0004	-0.04%
GBP/USD	1.2351	-.0019	-0.15%
USD/JPY	154.83	.19	0.12%
USD/CAD	1.3704	-.0047	-0.34%
AUD/USD	.6447	.0029	0.45%
USD/BRL	5.1750	-.0267	-0.51%
Bitcoin	66,321.16	1,566.05	2.42%
10 Year Yield	4.623	.008	0.17%
30 Year Yield	4.724	.013	0.28%
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.			

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mostly lower on Monday with a massive wave of profit taking hitting the gold market hard while copper and oil were down modestly as recent volatility in the asset class was digested amid easing geopolitical tensions but increasingly uncertain investor sentiment. The commodity ETF, DBC, was unchanged.

Gold was the big mover by a significant margin yesterday as futures plunged $70/oz. or 2.92% to forfeit the $2,400/oz. level, ending the session at a two-week-plus low. Gold rallied through the turn of the quarter on a combination of inflation concerns and geopolitical uncertainty surrounding tensions in the Middle East. The latest leg up to new record highs in gold came in spite of two traditional headwinds for gold getting stronger in recent weeks: rising yields and a stronger dollar.

Over the last week, those two headwinds remained intact; however, the bullish influences on gold—steadily rising market-based inflation expectations and geopolitical-based, safe-haven money flows both stalled or dissipated considerably leaving gold to reverse sharply as traders raced to book profits on the 18% trough-to-peak rally to the 2024 intraday highs. Looking ahead, gold could easily pullback another $100-$200/oz. on profit taking depending on how the aforementioned influences evolve; however, the long-term trend remains firmly bullish and eventually gold will stabilize and resume its latest advance into record territory.

Copper caught a modest bid in early trade, rising to a new 52-week high before futures rolled over to end the day down 0.31%. Like gold, copper futures are in a well-defined uptrend, but the market is also near-term overbought like the yellow metal was coming into this week so there are risks for a near-term pullback in copper to develop as well.

Switching over to the energy markets, WTI crude oil futures fell to a fresh April low in overnight trading Sunday amid the lack of any material escalation between Israel and Iran following the recent exchange of drone and missile strikes. The key $80.50/barrel technical support level held in the newly active June futures contract, however, and oil prices rebounded back towards the Friday's settlement by the end of the electronic session.

Bottom line, there is still a simmering geopolitical fear bid in the global oil market here which is keeping futures above $80/barrel. That fear bid will remain in the market until there is some sort of more formal ceasefire agreed upon in the Middle East between Israel, Iran, and Iran's proxy groups such as the Houthis in Yemen, Hamas in Gaza and Hezbollah in Lebanon. Outside geopolitics, higher-for-longer policy rates are a risk to demand down the road but for now most economic data remains robust and supports the case for futures to sustain prices above $80 in the near term.

Currencies & Bonds

Currency and bond markets were quiet on Monday and rightly so given there was no notable economic data nor any Fed speak (the Fed is now in the quiet period ahead of next week's FOMC decision). The Dollar Index was little changed while the 10-year yield rose 1 bp.

The economic calendar wasn't just quiet in the U.S. on Monday, it was quiet globally as there was no market-moving economic data from the EU, Britain or Asia. Given those lack of catalysts, currency markets were predictably little changed as there was nothing to alter the current outlook for rate cuts from the major central banks. And, expectations remained that the ECB and BOE will cut in June (and that's widely expected) while the Fed probably won't cut until September. The net result of the lack of news was little movement across the euro, pound and yen. The pound and yen both declined 0.1% vs. the dollar while the euro fell 0.3% mostly on digestion of the recent dollar rally/euro decline. If there was anything responsible for the euro's modest dip, it was Eurozone Consumer Confidence fell more than expected (-14.7 vs. (E) -14.0), although that just further solidifies that the ECB will almost certainly cut rates in June.

Over the past two weeks currency markets have appropriately priced in the fact that the Fed will not cut rates in June. As such, they are now the least-dovish major global central bank. Because of that, the trend in the dollar is higher, but it's going to take more, less-dovish news (either economic data or hawkish Fed speak) to push the Dollar Index towards 107. If that occurs and it trades through 107 and moves towards 110, expect the headwind on stocks from a stronger dollar to increase.

Turning to Treasuries, as mentioned, the 10-year yield was little changed and again rightly so as there was no economic or Fed-related news to move the bond market. Much like the currency markets, the Treasury market has appropriately priced in the reality that the Fed is not cutting rates as soon as expected. Like the dollar, the trend in yields remains higher. But for the 10-year yield to move towards 4.70% and make a run at 5.00%, we will need to see either hot economic data (Friday's Core PCE Price Index is the next major potential catalyst) or hawkish Fed speak (but that won't come until next week's FOMC decision, if at all). But also like the dollar, the higher yields go, the stronger the headwind on stocks and if the 10-year yield moves towards 5.00% over the coming weeks, don't be shocked if the S&P 500 falls below 4,900.

Bottom line, yields at these levels shouldn't cause a further pullback (it's already happened) but higher yields are absolutely an increasing negative for stocks, and the higher yields go, the lower stocks will go.

Have a good day,

Tom

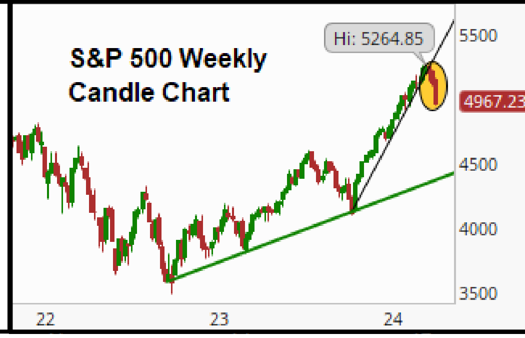
4/23/2024

SEVENS REPORT

Technical Perspectives (Updated 4/21/2024)

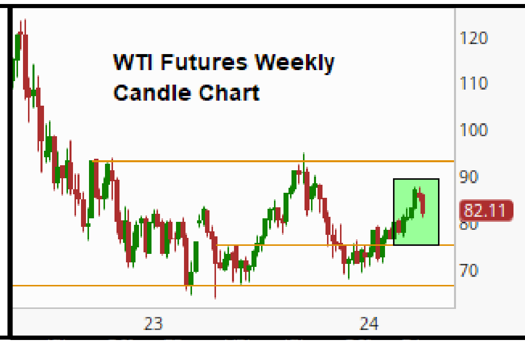
S&P 500

- 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



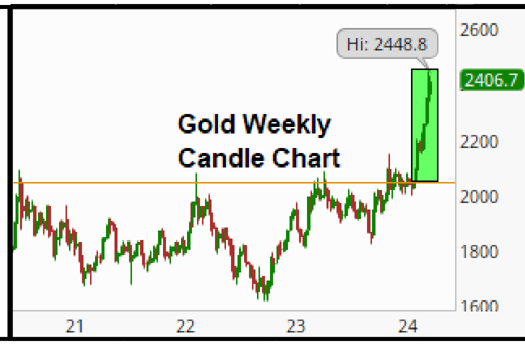
WTI Crude Oil

- 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



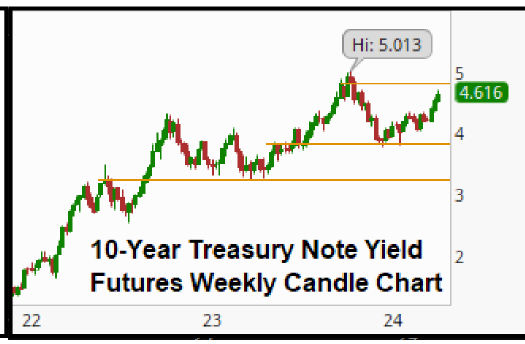
Gold

- 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



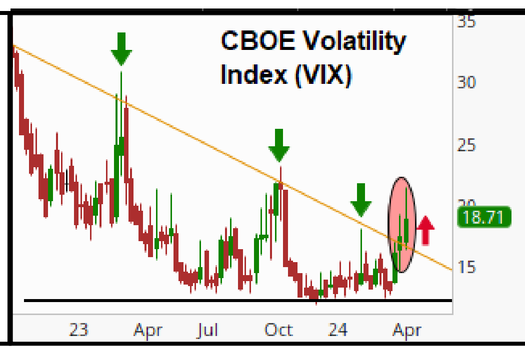
10-Year T-Note Yield Futures

- 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: **Cautious** **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.