SEVENS REPORT

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

April 24, 2024

Pre 7:00 Look

- Futures are higher on well-received guidance from "Mag-7" member TSLA (+11%) and U.S. semiconductor giant TXN (+7%) while economic data topped estimates overnight.
- Economically, Australian CPI was "warm" at 1.0% vs. (E) 0.8% in Q1 while the German Ifo Survey's Business Expectations Index firmed to 89.9 vs. (E) 88.9.
- Econ Today: Durable Goods Orders (E: 2.3%). The Treasury will hold a 5-Yr Note auction at 1:00 p.m. ET.
- Earnings: BA (-$1.43), T ($0.53), GD ($2.89), META ($4.32), IBM ($1.59), F ($0.42), CMG ($11.63).

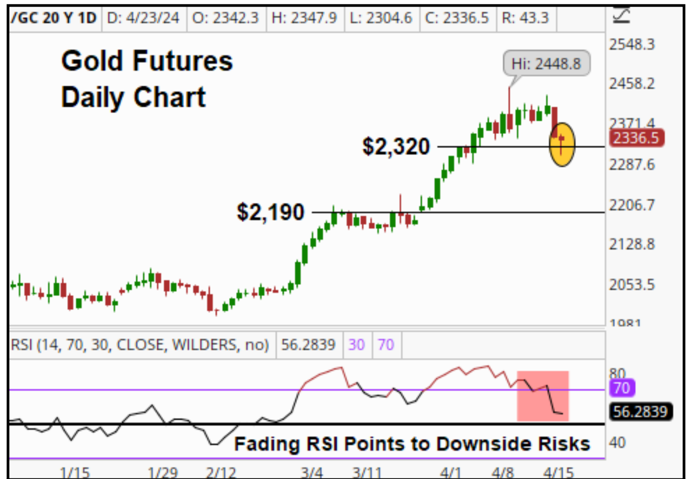
Market	Level	Change	% Change
S&P 500 Futures	5113.50	7.00	0.14%
U.S. Dollar (DXY)	105.811	.126	0.12%
Gold	2330.30	-11.80	-0.50%
WTI	82.97	-.39	-0.47%
10 Year Yield	4.634	.037	0.80%

Equities

Market Recap

This week's relief rally in equities accelerated Tuesday with the S&P 500 rallying another 1.20% thanks to less-hawkish money flows on the back of soft economic data in the U.S. and Europe while traders continued to optimistically look ahead to mega-cap tech earnings.

The major U.S. equity indexes gapped higher yesterday morning led by mega-cap growth names, most of which were the worst performers during the prior week's steep selloff. A general geopolitical calm and lack of any meaningful escalation in tensions between Israel and Iran provided the backdrop for better-than-expected Flash PMI data in Europe to trigger some early risk-on money flows. Pre-market earnings news was also upbeat as UPS, GM and GE all posted favorable quarterly results that sent their stock prices higher before the open.



Gold collapsed to start the week Monday, but yesterday it showed signs of stabilizing as futures held initial technical support at $2,320. The daily RSI indicator fell to a six-week low, however, pointing to risks of a further decline.

Shortly after the U.S. open, the domestic Flash PMI was soft which saw the market dial back some of the hawkish Fed policy bets of late, even in the midst of a moderately "hot" New Home Sales release. Yields retreated and stocks extended early gains to more than 1% in the first hour. JPM CEO Dimon made some cautious comments about the economy and prospects of a soft landing mid-day, but the market shrugged them off and instead focused on the strong 2-Yr Treasury Note auction results that firmed up the less-hawkish mood and saw the S&P 500 close within a few points of its intraday high.

Dow Theory Update: Bearish Divergence in Transports

One of the six tenets of Dow Theory is that "All News Is Discounted in the Stock Market," which in and of itself is

Market	Level	Change	% Change
Dow	38,503.69	263.71	0.69%
TSX	22,011.72	139.76	0.64%
Stoxx 50	5,024.86	16.69	0.33%
FTSE	8,029.10	47.29	0.59%
Nikkei	38,460.08	907.92	2.42%
Hang Seng	17,201.27	372.34	2.21%
ASX	7,683.00	-0.51	-0.01%

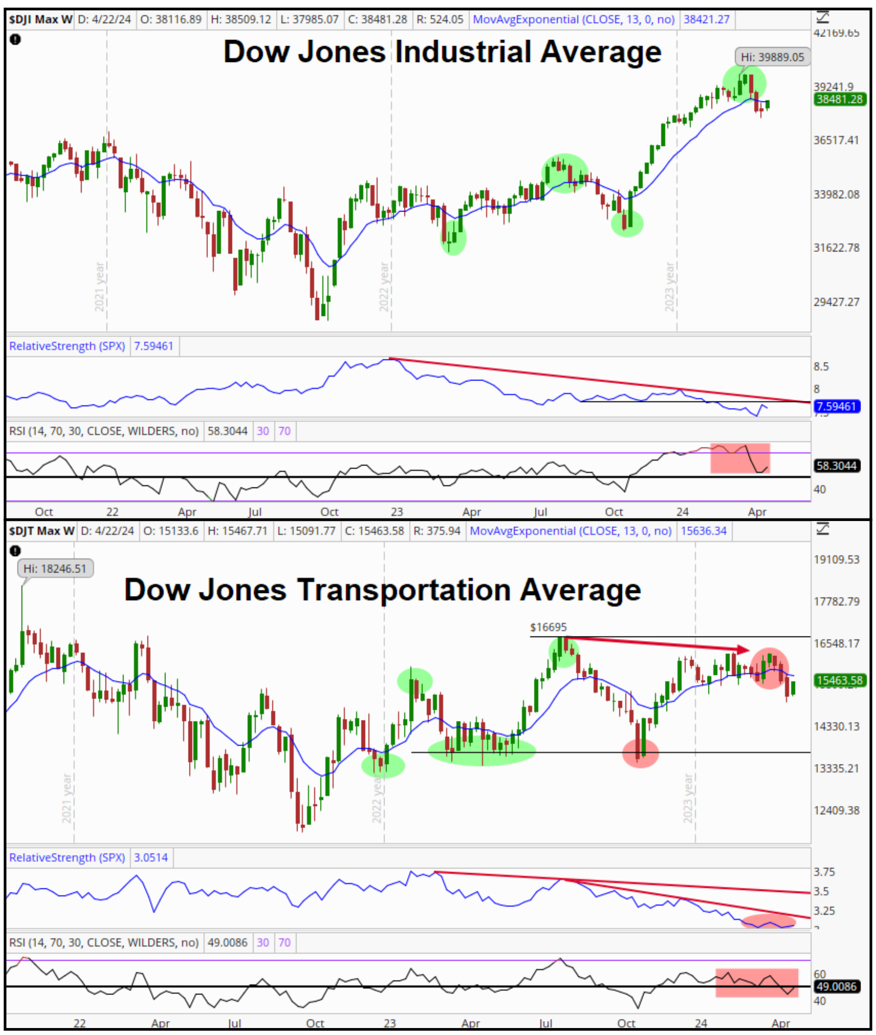
Prices taken at previous day market close.

an interesting concept because Charles Dow developed the investment positioning strategy in the late 1800s long before the internet, well before TV, and even before radio. Point being, if there was an era when you could say that all news may *not* be priced into markets, it was the late 1800s.

Market	Level	Change	% Change
DBC	23.54	.10	0.43%
Gold	2,338.40	-8.00	-0.34%
Silver	27.36	.11	0.42%
Copper	4.4315	-.0445	-0.99%
WTI	83.39	1.49	1.82%
Brent	88.45	1.45	1.67%
Nat Gas	1.833	.042	2.34%
RBOB	2.7225	.0371	1.38%
DBA (Grains)	25.96	-.23	-0.88%
Prices taken at previous day market close.			

Regardless, news being discounted by market prices was one of Dow's foundational tenants upon which Dow Theory was derived. And assuming that price does discount everything, **the Dow Jones Transportation Average is offering investors a warning sign about the sustainability of the latest run to record highs in the broader S&P 500 so far in 2024.**

The reason we say the Dow Transports are flashing a warning sign right now is based on another of the six tenets of Dow Theory: "The Averages Must Confirm Each Other." Simply put, Dow stated that the economy could largely be split into two primary categories: Industrials (companies who produce goods) and Transports, companies who move goods.



Dow found that during times of strong economic expansion stock prices of both industrial companies and transport companies rose in lockstep, "confirming" each other's bullish advances in stock price and at the same time, underscoring the underlying strength in the economy. The same was true when both prices were falling as that would suggest a clear lack of demand in the economy consistent with a slowdown or recession.

As far as official Dow Theory rules go, a set of higher highs and higher lows in one of the two stock averages (Industrials or Transports) confirmed by a set of higher highs and higher lows resulted in Dow Theory being bullish and supported a favorable outlook for the broader stock market with the primary trend being to the upside. Conversely, a set of lower lows and lower highs in one average, confirmed by lower lows and lower highs in the other average, would cause Dow Theory to flip bearish and suggest the trend had reversed to the downside.

With that in mind, it is rare that both averages would suddenly reverse direction at the same time, so when one average began to diverge from the primary trend it was seen as a warning sign for the stock market and economy. Assuming the initial trend in this example was bullish, Dow Theory followers would then look for one of two things: 1) The divergent average that rolled over to stabilize and resume its rally, or 2) The still-upward-trending average to rollover.

In the first scenario, the bullish Dow Theory would be left unaffected due to the tenet that averages need to confirm each other's moves and the bull market would continue. In the latter scenario, the second average rolling over to confirm the initial weakness in the first would trigger a bearish reversal in Dow Theory suggesting that the primary trend in the broader market had shifted to the downside.

So far in 2024, the Dow Jones Industrial Average has rallied to new record highs alongside the S&P 500 and Nasdaq Composite Index, albeit at a slower pace than the latter two. The Dow Transports, however, have not rallied to new records and remain measurably below the highs from late July of last year. Critically, this "lower high" is occurring after the Transports already fell to a "lower low" in October as the lows from late April 2023 were violated on a weekly time frame. Both of these technical dynamics are respectively marked on the charts of the Dow Industrials (green circles identify significant higher highs and higher lows) and Dow Transports (red circles identify significant lower lows and lower highs) on Pg. 2 that we borrowed from Sevens Report Technicals where we offer a weekly Dow Theory update.

This development means there is an elevated risk of a reversal of the bullish Dow Theory call that was confirmed in early July 2023. Admittedly, in October of last year we even questioned the validity of the July Dow Theory call as stocks fell basically from the time of the bullish call through the end of October by nearly 10%. Not exactly ideal or appealing timing. However, the numbers ultimately turned out to be favorable as the drawdown in the S&P 500 from the time of the bullish Dow Theory call the week of July 10 to the October lows was roughly 8% while the gain between the week of July 10 through the end of the first quarter of this year was over 16%. A still positive, but not ideal risk-reward ratio of 1-2.

Bottom line, the latest set of lower lows in the Dow Jones Transportation Average from late last year, followed by the emergence of lower highs in the Transports so far in 2024 is a divergence of the stock average from the primary bull trend that has been in place with a bullish Dow Theory call since early July. From here, Dow Theory followers will look for either new record highs from the Transports, which will negate the bearish set of lower lows and lower highs from the last 12 months and leave Dow Theory bullish, or a set of lower lows and lower highs in the Dow Industrials, which would confirm the bearish price action in the Transports and reverse the Dow Theory call from bullish to bearish. It is worth noting the last time Dow Theory reversed from bullish to bearish was in early May 2022, which helped Dow Theory followers avoid 15%+ of the selloff into the October lows of that painful year.

Market	Level	Change	% Change
Dollar Index	105.50	-.41	-0.39%
EUR/USD	1.0703	.0048	0.45%
GBP/USD	1.2450	.0100	0.81%
USD/JPY	154.80	-.05	-0.03%
USD/CAD	1.3662	-.0039	-0.28%
AUD/USD	.6487	.0037	0.57%
USD/BRL	5.1287	-.0379	-0.73%
Bitcoin	66,524.50	185.30	0.28%
10 Year Yield	4.598	-.025	-0.54%
30 Year Yield	4.723	-.001	-0.02%
10's-2's	-32 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.95%		
Prices taken at previous day market close.			

Economics

Flash Manufacturing PMI

- April Flash Manufacturing PMI fell to 49.9 vs. (E) 51.9.

The first major data point of April underwhelmed vs. expectations and dropped to the lowest level since December, as the manufacturing PMI fell (slightly) back below 50 and into contraction territory. Notably, the flash Services PMI (which isn't as widely followed but still important) also declined to 50.9 vs. (E) 51.9 reflecting broader weakness in both parts of the economy.

Details of the report were also soft with New Orders and Employment declining, although positively inflation metrics were also cited as falling.

Market reaction to this soft report followed a "bad is good" script, as the decline in the flash PMIs caused Treasury yields to fall modestly as investors priced in higher chances of sooner-than-later Fed rate cuts (although in reality, this number isn't changing any of the Fed's rate calculus). That decline in yields boosted stock prices and that combined with solid earnings to push stocks sharply higher by mid-afternoon, as markets ignored the soft economic growth reading and instead focused on the drop in yields.

Commodities

Within commodities, oil handily outperformed to close at a one-week high as dip buyers stepped in to defend $80/barrel support while copper dipped on disappointing manufacturing data in Europe and the U.S. and this week's profit-taking pullback in gold continued. The commodity ETF, DBC, rallied 0.43%.

Starting with the energy complex, WTI crude oil futures rallied a solid 1.77% after traders stepped in to defend dual-pronged technical support for a second consecutive day at the 50-day moving average and price congestion from the back half of March. Fundamentally, the headwind of higher-for-longer Fed policy expectations eased modestly after a softer-than-anticipated Composite PMI Flash release in morning trade. Additionally, there were headlines mid-morning that the Israeli military had ordered new evacuations in Northern Gaza suggesting a rising threat of intensifying tensions in the Middle East and the possibility for more military interaction between Israel and Iran.

Bottom line for oil, WTI futures have started to build out support in the low-$80/barrel range after multiple tests of the area so far this week. Today will be critical in deciding the direction of the next big move in oil as a bearish response to the weekly EIA data could send futures back down towards technical support from February at $77/barrel.

Copper underperformed due to the soft manufacturing PMI data both in Europe and domestically in the Flash releases yesterday morning. Copper futures dropped 0.97% on the session but ended off the worst levels of the day as the prospects of sooner and steadier rate cuts from the Fed due to the soft economic data helped bolster demand expectations. Additionally, the strong rebound in AI names after last week's route added to optimism that new AI technology will contribute to a supercycle in certain metals including copper. On the charts, copper remains in a well defined uptrend off the early February lows with well established near-term support at $4.30.

Gold fell 0.42%, but like copper, futures also ended off the lows thanks to the softer-than-expected PMI Flash data inviting a bid into the bond market. The less-hawkish money flows helped gold bounce back from Monday's steep decline; however, a renewed push higher seems unlikely barring a meaningful catalyst as the gold market became rather overbought recently and was due for some consolidation in the $2,300/oz. area if not a more pronounced profit-taking pullback towards $2,160-$2,190, which was where the market paused in early March.

Currencies & Bonds

Tuesday was the opposite of Monday in the currency and bond markets, as there were numerous market-moving events yesterday as opposed to none on Monday and the result was a lower dollar and falling yields. The Dollar Index dropped 0.4% while the 10-year yield fell 3 basis points.

The first catalyst in the currency and bond markets was the underwhelming flash PMIs. As mentioned, they caused a dovish reaction across assets as the 10-year yield declined modestly, the dollar dropped and stocks rallied, as the soft number was seen as slightly increasing the chances of a sooner-than-later rate cut.

The second catalyst in the currency and bond markets was a 2-year Treasury auction, which saw strong demand. The record $69 billion offering saw a bid to cover of 2.66X from 2.62X, the best since December. Foreign demand was also strong as indirect bidders bought 66% of the action, the highest since 2023. Finally, bidding was aggressive with the actual yield six-tenths of a basis point below the when issued.

Bottom line, the past two weeks have seen data and Fed speak push yields and the dollar higher as markets priced in no rate cut till September and just one-to-two cuts in 2024. Yesterday's data and auction pushed back on higher yields, although it'll take more soft data before we can start to say the uptrend in the dollar and yields is ending (for now, it's still very much intact).

Have a good day,

Tom

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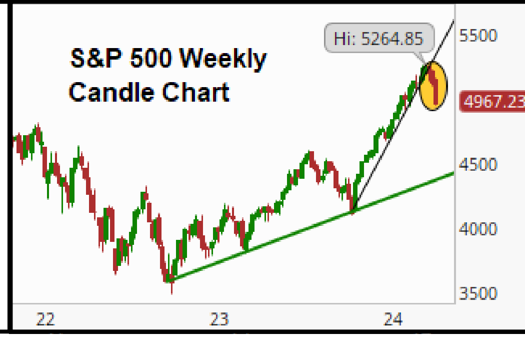
Technical Perspectives (Updated 4/21/2024)

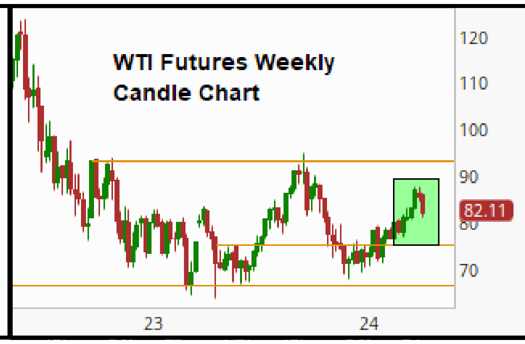
S&P 500

- 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



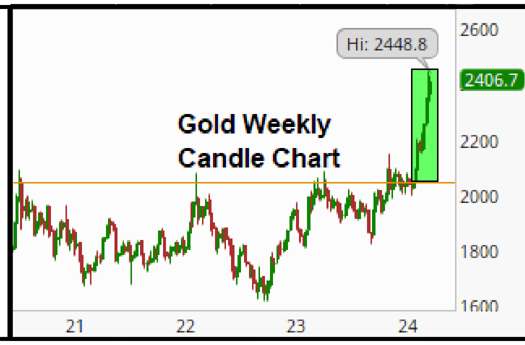
WTI Crude Oil

- 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

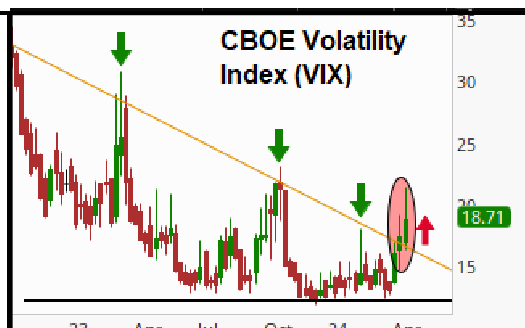


10-Year T-Note Yield Futures

- 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



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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.

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