SEVENS REPORT

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

April 25, 2024

Pre 7:00 Look

- Futures are moderately lower following disappointing tech earnings overnight.
- META (down 13% pre-open), IBM (down 10% pre-open) and NOW (down 5% pre-open) all posted disappointing results and tech stock weakness is weighing on futures.
- Economically there was no notable data overnight.
- Econ Today: Advanced Q1 GDP (E: 2.3%), Jobless Claims (E: 215K), Pending Home Sales (E: 1.0%).
- Earnings: AAL (-$0.28), RCL ($1.30), CAT ($5.12), MSFT ($2.81), GOOGL ($1.49), INTC ($0.11), TMUS ($1.89).

Market	Level	Change	% Change
S&P 500 Futures	5,079.00	-28.50	-0.56%
U.S. Dollar (DXY)	105.60	-0.26	-0.25%
Gold	2,337.80	-0.60	-0.03%
WTI	82.83	0.02	0.02%
10 Year Yield	4.65%	-0.01	-0.21%

Equities

Market Recap

This week's relief rally stalled yesterday as strong earnings from TSLA and TXM failed to generate more upside momentum amid rising Treasury yields and trader positioning into more tech earnings today, and tomorrow's critical PCE inflation data. The S&P 500 inched up 0.02%.

The market opened with a bid yesterday as well-received earnings reports out of Magnificent 7 member TSLA, and semiconductor giant TXN, helped the beaten-down, big-cap tech sector recover more of last week's losses early. Stocks were quick to stall and turn sideways, however, as the 10-Yr Treasury Note yield tested its 2024 highs in the mid-4.60% range, which acted as a headwind on risks assets, especially highly valued growth stocks. Soft consumer demand numbers in the EIA's weekly inventory report were also a source of risk-off money flows as the data renewed worries about the health of the U.S. consumer at a time when inflation remains elevated and sticky with tomorrow's Core PCE report (the Fed's preferred inflation metric) looming.

Investor sentiment has reversed rapidly from being dominated by "greed" for all of Q1 to "fear" so far in Q2, which continues to put pressure on the still very crowded "short volatility" trade. Another squeeze of volatility shorts would likely see the S&P 500 test the Q2 lows under 5,000.

The S&P 500 methodically declined back towards the derivative-sensitive 5,050 level over the course of the lunch hour before a decent, barely tailing 5-Yr Treasury Note auction helped stocks rebound back to flat for in the early afternoon.

News flow quieted considerably in the afternoon as focus turned to the next Magnificent-7 earnings release after the close, with META's quarterly results due just after the bell. The anticipation of the big-tech earnings saw the S&P 500 close effectively flat for the day.

Market	Level	Change	% Change
Dow	38,460.92	-42.77	-0.11%
TSX	21,873.72	-138.00	-0.63%
Stoxx 50	4,959.89	-29.99	-0.60%
FTSE	8,090.47	50.09	0.62%
Nikkei	37,628.48	-831.60	-2.16%
Hang Seng	17,284.54	83.27	0.48%
ASX	7,683.00	-0.51	-0.01%

Prices taken at previous day market close.

Understanding Economic Data's Near- and Longer-Term Impacts (Important)

Market	Level	Change	% Change
DBC	23.51	-.03	-0.13%
Gold	2,334.70	-7.40	-0.32%
Silver	27.28	-.08	-0.28%
Copper	4.4580	.0235	0.53%
WTI	82.99	-.37	-0.44%
Brent	88.21	-.21	-0.24%
Nat Gas	1.649	-.163	-9.00%
RBOB	2.7354	.0101	0.37%
DBA (Grains)	26.52	.57	2.22%
Prices taken at previous day market close.			

Tuesday's soft flash composite PMIs caused a textbook "bad-is-good" market reaction to economic data, as the underwhelming reading was seen as making the Fed slightly more dovish. That, in turn, pushed Treasury yields slightly lower (10-year yield down 3 basis points) and because rising Treasury yields and delayed expectations for Fed rate cuts are the primary cause of this pullback, stocks rallied as the soft flash PMI does slightly reverse those two events (although only slightly).

In the near term, this is something we can expect to continue, but not because soft data will really alter the Fed's outlook (it'd take a lot of soft data for that to happen). Instead, it's because this market continues to stampede from one side of the Fed spectrum to the other, as investor expectations careen from very dovish to not at all dovish, despite little underlying fundamental movement.

Put more plainly, at the start of the year investors unrealistically expected a very dovish Fed. That left the market vulnerable to hawkish disappointment via sticky inflation and that's what has caused this pullback. Now, markets have priced in a dramatically less-dovish Fed (maybe just one rate cut) and that's left this market vulnerable to a dovish surprise, which is exactly what happened with Tuesday's underwhelming flash PMI. If more data underwhelms this week, expect lower yields and higher stock prices.

But let me say this very clearly: **Bad economic data will not be good for stocks beyond the near term.** Slowing growth that forces the Fed to cut earlier than expected is a material negative for equities due mostly to valuations. If investors must price in a legitimate chance of a hard landing, it won't matter what the 10-year yield is doing—stocks will decline.

The intermediate best case for stocks is solid growth with stable rates (or maybe a cut or two in 2024). That's much better than bad data with the Fed chasing the economy lower with rate cuts.

If we start to see underwhelming data, then long-dated Treasuries are the absolute winner and that's the place to run towards if growth begins to slow.

Bottom line, a "bad-is-good" market reaction to data may lead to a 5% rebound, but if data really deteriorates, that opens up the possibility of a 10-20% (or more) decline if there's a hard landing (so not great risk/reward).

Solid growth data and stable yields, however, may result in a further pullback (maybe another few percentage points) but it underwrites a potential run towards 5,700 in the S&P 500 once we move towards the second half of the year, and that's the outcome we should all be pulling for.

Economics

Durable Goods

- March Durable Goods rose 2.6% vs. (E) 2.3%.

Takeaway

The headline reading for Durable Goods is often misleading and that was the case again yesterday, not just because the details of the report weren't as strong as the headline, but also because the revisions to the February data were solidly negative.

The headline Durable Goods reading was strong and implies robust business spending and investment, but as is the case in this report it's been positively skewed by airline orders. The more important metric within the report, New Orders for Non-Defense Capital Goods ex-Aircraft (NDCGXA), rose 0.2% and met expectations (but that gain was much lower than the headline). NDCGXA is important because it gives us the best "pure" look at business spending and investment, which is an important part of economic growth.

Additionally, the February reading for NDCGXA declined to 0.4% from the initial 0.7% reading. So, if we consider the revisions, there was little change in aggregate to business spending and investment over the past two months.

Bottom line, the Durable Goods report wasn't a bad number, but it reversed the stronger-than-expected reading from February and largely reinforced what the data has been saying for nearly a year, i.e., that business spending and investment is largely flat and while it's not declining substantially, it's not really increasing, either.

That's not an economic problem, but it is something to keep an eye on because solid business spending is an important part of this stable economy.

Commodities

Commodities were mixed as oil pulled back modestly amid evidence of easing consumer demand in the weekly EIA report while copper resumed its rally amid Goldilocks domestic economic data and gold continued to fall amid steadying market-based inflation expectations. The commodity ETF, DBC, edged down 0.13%.

Starting with the industrial metals, copper futures rallied 0.51% to test the current 52-week high near $4.50 but failed to notch a new settlement beyond that mark, ending a comfortable distance off session highs. The advance in copper was initially sparked by a hot inflation report in Australia as it dented the dollar and pointed to upward pressure on raw materials prices. Copper continued higher on a fairly solid Durable Goods release in the U.S., but ultimately retreated from the highs as the dollar rebounded midday. The uptrend in copper remains well intact with resistance between $4.50-$4.55 remaining the level to beat while $4.30 should offer firm support if we get a pullback.

Market	Level	Change	% Change
Dollar Index	105.64	.13	0.12%
EUR/USD	1.0705	.0004	0.04%
GBP/USD	1.2468	.0019	0.15%
USD/JPY	155.23	.40	0.26%
USD/CAD	1.3696	.0033	0.24%
AUD/USD	.6503	.0016	0.25%
USD/BRL	5.1460	.0198	0.39%
Bitcoin	64,328.97	-2,271.27	-3.41%
10 Year Yield	4.652	.054	1.17%
30 Year Yield	4.784	.061	1.29%
10's-2's	-28 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		
Prices taken at previous day market close.			

Switching to the precious metals, gold futures churned sideways for most of the session, ending lower by 0.42% but notably off the worst levels of the week right near the $2,300/oz mark. Gold futures are attempting to hold up above initial support at that $2,300 level; however, there is a growing threat that we see a punch through there to the next support are at $2,250/oz. based on the heavier price action in recent weeks. A rise in market-based inflation expectations has been a key factor supporting the run to new records in gold so far in 2024, but inflation fears appear to have become contained in recent weeks and that has opened the door to the April wave of profit taking.

EIA Data Takeaways and Oil Market Update

Weekly EIA data has been less supportive of the oil markets 2024 advance in recent weeks and yesterday's report was more of the same as the headlines slightly favored the bears because of disappointing product inventory changes while the details were quite a bit more underwhelming with consumer demand metrics fading to multi-week lows. WTI crude oil futures ended the day off the lows but down by 0.54%, just under $53/barrel.

The most notable takeaway from the EIA report was not on the headlines but in the details as the implied measure of consumer demand for fuel at the pump, gasoline supplied, dropped 239K b/d last week to 8.423K b/d which is the lowest level since mid-February. That indicates a steady and relatively sharp pullback in domestic fuel consumption in recent weeks. It was not a one-off dip either, as the four-week moving average of the often volatile gasoline supplied data fell for a third consecutive week to 8.733MM b/d, the lowest reading since the week of March 8.

Those disappointing implied consumer demand figures paired with the smaller-than-expected gasoline supply draw on the headline (-600K bbls vs. E: -1.5MM bbls) poured some cold water on the oil market yesterday morning as worries of a persistently tight physical fuel market are beginning to subside. The report wasn't all bearish though, as the headline oil drawdown of -6.4MM bbls was a surprise vs. estimates calling for a +500K bbl build and nearly doubled the API's reported draw of -3.2MM bbls. A 0.4% uptick in refinery utilization and rising exports helped explain the oil draw.

Bottom line, yesterday's industry data on oil and refined product inventories was net bearish for oil prices in the medium term, but the market held up decently well, holding near $83/barrel regardless as geopolitical tensions are still simmering in the Middle East and calendar spreads, while declining modestly yesterday, are still in backwardation consistent with strong demand and tight supply conditions globally. With geopolitical uncertainty still rather elevated, another "positioning bounce" into the weekend today and/or tomorrow would not be surprising as oil bears will be hesitant to go home with short positions with the threat of escalating tensions between Israel and Iran (or Iran's proxy groups) still being very real. Conversely, if we see this week's lows taken out on a closing basis that would raise the risk that we see a more meaningful pullback into the mid $70s in the sessions ahead.

Currencies & Bonds

Treasury yields bounced back on Wednesday thanks to a hot headline from Durable Goods and, more importantly, a disappointing 5-Yr Treasury auction. The 10-year yield rose 6 basis points.

The headline Durable Goods report was hotter than expected with a solid absolute increase. And while the details were underwhelming, that was enough to push yields initially higher early on Wednesday. However, the real rise in yields came in the afternoon following an underwhelming 5-Yr Treasury note auction. The Treasury sold $70 billion in five-year paper and while demand wasn't bad, it was underwhelming. The bid to cover was 2.39X, slightly below the 2.41X recent average while bidding wasn't aggressive, as the actual yield was slightly under the "When Issued" yield. But the most disappointing part of the auction came from a drop in foreign buyers, as "indirect bidders" bought just 65.7% of the auction, which is in line with the recent average but was solidly below last month's 70.5%.

Bottom line, the 5-Yr auction wasn't a material negative, but with headline Durable Goods hot, stocks higher on earnings and following Tuesday's modest decline in yields, it was enough to push yields higher on Wednesday and those higher yields did weigh on stocks around midday, although the impact was limited due to the looming Core PCE Price Index out tomorrow. That will be the next potential major catalyst for Treasuries.

Turning to currencies, the dollar was little changed and managed a modest bounce thanks to Durable Goods and on a rebound from Tuesday's declines. The Dollar Index rose 0.15%.

Currency markets did move slightly off the Durable Goods report (slight dollar gain), but that was offset by comments from German Bundesbank Chief (and ECB Board Member) Joachim Nagel, as he cautioned markets not to expect a lot of rate cuts from the ECB in the near term, even if the bank does cut once in June. The result of the news on Tuesday was a small gain from the dollar and a small decline in the euro (down 0.1%). And with not-notable news, both the pound and yen were similarly little changed on the day.

Bottom line, the currency markets have priced in a more hawkish Fed and less-hawkish ECB and BOE via the rally in the dollar of the past two weeks. However, with another round of catalysts looming in the next week (Core PCE Price Index, Fed meeting next week, Jobs Report next Friday) some digestion is expected as those events will likely determine if the dollar and yield rally continues or consolidates.

Have a good day,

Tom

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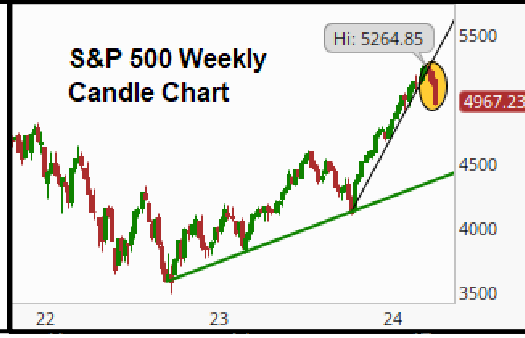
Technical Perspectives (Updated 4/21/2024)

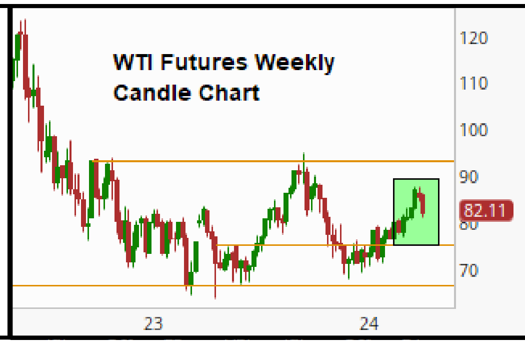
S&P 500

- 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



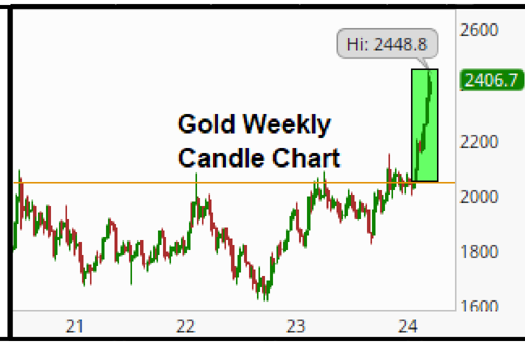
WTI Crude Oil

- 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



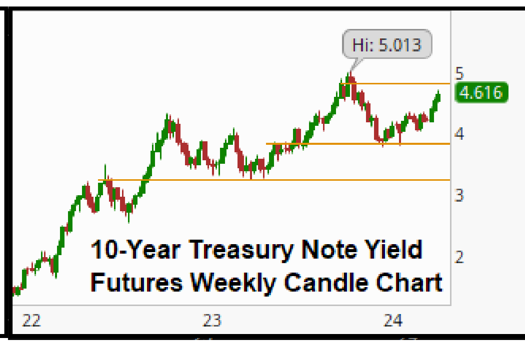
Gold

- 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



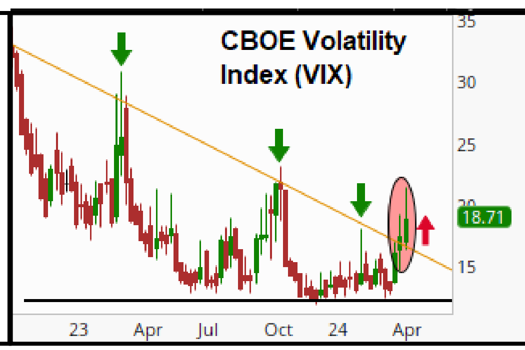
10-Year T-Note Yield Futures

- 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.