SEVENS REPORT

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

April 26, 2024

Pre 7:00 Look

- Futures are solidly higher following better than expected tech earnings overnight.
- GOOGL (up 12% pre-open) and MSFT (up 4% pre-open) posted strong earnings results and that's leading a rebound in tech stocks and pushing futures higher.
- Economically, the Bank of Japan rate decision was slightly dovish as it kept rate unchanged and didn't reduce QE.
- Econ Today: Core PCE Price Index (E: 0.3% m/m, 2.6% y/y), Consumer Sentiment Index (E: 77.9, 1-Yr Inflation Expectations: 3.1%).

Market	Level	Change	% Change
S&P 500 Futures	5,117.25	35.25	0.69%
U.S. Dollar (DXY)	105.70	0.10	0.10%
Gold	2,359.40	16.90	0.72%
WTI	84.08	0.51	0.61%
10 Year Yield	4.69%	-0.01	-0.36%

Equities

Market Recap

Stocks gapped lower at the open yesterday thanks to negative market reaction to not-so-terrible earnings from several big-tech names (including META) as well as a whiff of stagflation from the latest GDP report. The S&P 500 opened near 5,000 but recovered to end down a modest 0.46% near 5,050.

Stocks were meaningfully lower at the open Thursday with the S&P 500 down more than 1% as a very disappointing Q1 GDP report sparked stagflation concerns. As Bloomberg put it, that's the "worst of both worlds" right now, as an economic slowdown amid sticky high inflation would leave the Fed handcuffed with regard to rate policy, unable to ease the economic pain that would ultimately result in a potentially deep recession.

***S&P 500 Levels to Watch Today** - In typical positioning fashion, the S&P 500 has coiled up into a tight range between 4,965 and at 5,085 ahead of the Core PCE print. An upside break would elect a measured move to 5,205 while a downside break would elect a MM target of 4,865.*

Equity futures were already trading in the red ahead of the GDP release as META earnings failed to impress, leaving the stock down 15% in pre-market trade while IBM was down over 9% on a revenue miss reported after the close Wednesday. Those negative individual corporate developments had dragged the rest of the mega-cap tech complex lower.

The S&P quickly approached the critical 5,000 level in the first half hour, but the market reversed sharply off that support as the March Pending Home Sales Index jumped to 3.4% vs. (E) 1.0%, sparking an initial wave of short covering in midmorning trade. Headlines continued to drive money flows in morning trade as Treasury Secretary Yellen threatened sanctions on Chinese banks, which saw the S&P 500 revisit the morning lows. There was no follow-through selling, however, and stocks held

Market	Level	Change	% Change
Dow	38,085.80	-375.12	-0.98%
TSX	21,885.38	11.66	0.05%
Stoxx 50	4,972.77	33.76	0.68%
FTSE	8,111.28	32.42	0.40%
Nikkei	37,934.76	306.28	0.81%
Hang Seng	17,651.15	366.61	2.12%
ASX	7,575.91	-107.09	-1.39%
Prices taken at previous day market close.			

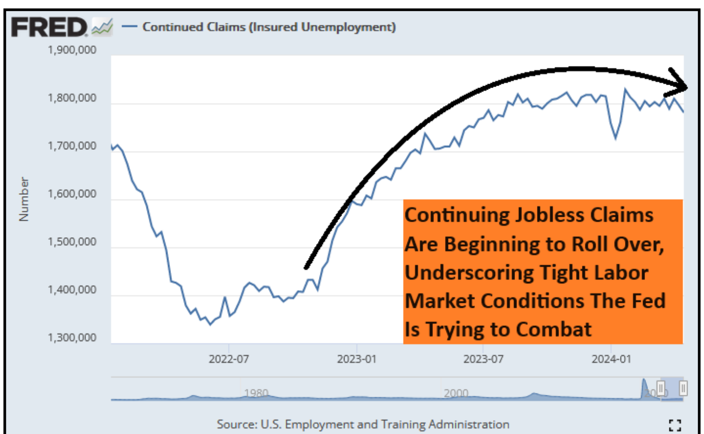
session lows before resuming the earlier rally fueled by short covering and positioning into today's PCE inflation data. A no-worse-than-feared outcome to the Treasury's 7-Yr Note auction saw the S&P 500 continue to rally into the final hour before the index stalled at Wednesday's low of 5,050 ahead of GOOGL and MSFT earnings as well as today's inflation print.

Market	Level	Change	% Change
DBC	23.64	.13	0.55%
Gold	2,347.40	9.00	0.38%
Silver	27.47	.12	0.45%
Copper	4.5440	.0865	1.94%
WTI	83.73	.92	1.11%
Brent	89.16	1.14	1.30%
Nat Gas	1.605	-.048	-2.90%
RBOB	2.7654	.0311	1.14%
DBA (Grains)	26.17	-.37	-1.38%
Prices taken at previous day market close.			

Core PCE Price Index Preview

A hotter-than-expected CPI report two weeks ago ignited the first pullback in stocks since October, underscoring that inflation metrics are some of the most important in the market right now and making today's Core PCE Price Index, which is the Fed's preferred measure of inflation, dramatically more important for this simple reason: If it's better than expected it'll likely cue a strong rebound in stocks and ease higher rate anxiety. If it's worse than expected, it'll compound that higher rate anxiety and likely push the S&P 500 back below 5,000 and perhaps below Friday's low of 4,954.

Bottom line, markets need an encouraging inflation number to ease higher rate anxiety and today's Core PCE Price Index is the next major inflation indicator capable of that change.



Continuing Jobless Claims, which offer a proxy for the official unemployment rate, fell to a three-month low of 1.781 million in mid-April and that is NOT what the Fed wants to see.

A "Good" Outcome: Core PCE Price Index ≤2.6% y/y. *Likely Market Reaction:* A solid rebound. A smaller-than-expected increase in the Core PCE Price Index would refloat the idea of falling inflation and increase July rate cut probabilities. We should see a solid rebound led by tech (it's been beaten up in recent days) although it would not surprise us if all 11 sectors were higher. Treasury yields should fall, potentially sharply, and the 10-year yield may drop towards 4.50% (although that's still a ways from the "stock positive" 3.75%-4.25% range). The Dollar Index should drop moderately (towards and possibly through 105) while commodities, especially gold, should rally. This is the best outcome for markets as it'd help break the trend of delays in rate cut timing and likely cause a bounce in stocks.

A "Bad" Outcome: Core PCE Price Index 2.7%-2.8%. *Likely Market Reaction:* Disappointment. A flat-ish Core PCE Price Index will keep a July rate cut unlikely and keep full-year rate cut expectations at one-to-two. We would likely see a mild decline where I'd expect defensive sectors to continue to relatively outperform, but overall, market movements should be mostly muted given recent declines and ahead of the Fed next week. Put plainly, a number in this range largely confirms what markets have priced in, namely that the decline in inflation has stalled and, as such, rate cuts will be delayed. Treasury yields could rise modestly but likely not more than 10 basis points while the Dollar Index should rally but not above 106.00. Commodities could see a mild dip on the stronger dollar but it shouldn't be material. This would largely reinforce current market expectations and as such the market move shouldn't be material.

An "Ugly" Outcome: Core PCE Price Index >2.8%. *Likely Market Reaction:* A continued drop. A rise in the Core PCE Price Index would compound fears of sticky inflation and no rate cuts, further validating the main reason behind this selloff. The 10-year yield should rise solidly (10-20 bps and towards 5.00%) and that rise in yields would continue to pressure stocks. We'd expect defensive sectors to relatively outperform, but all 11 SPDRs would likely be solidly lower. The Dollar Index should jump towards, and above, 106, as the market removes any chance for a July cut and a September cut becomes a 50/50 proposition. Commodities would likely be hit very hard on the surging dollar and worries about further growth given higher yields.

Bottom line, inflation metrics are the most important economic indicators right now and the more they point towards sticky inflation, the higher the 10-year yield will rise and the stronger the headwind on stocks.

Economics

Advanced Q1 GDP

- Q1 GDP rose 1.6% vs. (E) 2.3%
- Personal Consumption Expenditures rose 2.5% vs. (E) 2.8%

For the first time in several quarters, GDP disappointed vs. expectations and pointed to slower-than-expected growth, while the price indices in the GDP report ran hotter than expected. That disappointing growth with hot price pressures caused cries of stagflation (that isn't exactly correct) so while one GDP report doesn't mean stagflation is here, it does alert investors to that possibility and stocks and bonds dropped as a result.

Looking at the details of the GDP report, growth was generally underwhelming although, in an absolute sense, it was still decent. Personal Consumption Expenditures, which is basically consumer spending, rose 2.5% q/q saar in the first quarter but that was below the 2.8% expectation and the lowest level since the second quarter of 2023.

Additionally, the more "pure" looks on economic activity in the GDP report (metrics that aren't skewed by inventories or trade balance), Final Sales of Domestic Product and Final Sales to Domestic Purchasers, rose 2.0% and 2.8%, respectively, the lowest levels since Q4 2022.

But as stated, that's still solid growth, and that's why the "stagflation" cries were a bit off. Stagflation would be GDP growth sub 1% (or even negative) and hot price indices. Yesterday's GDP just implied an economy that's still running "hot" on growth and prices.

Turning to prices, the PCE Price Index rose 3.1% (above the 3.0%), confirming the buoyant Q1 inflation pressure. The market impact of this report was immediate as yields rose, stocks dropped and investors pushed the date of the first expected rate cut to November (it settled in September, but just barely).

Bottom line, Q1 GDP was another data point that indicates stickier-than-expected inflation, only this also implied underwhelming growth. Again, the GDP report doesn't mean stagflation is here, but as I said in recent Reports, the market has assigned zero chance to stagflation so even a whiff of it is a negative for stocks and bonds, and that's exactly what happened yesterday.

Commodities

Commodities were volatile with most of the complex oscillating between gains and losses in response to economic data in early trade before geopolitical tensions and risk-on money flows fueled by positioning into today's key inflation data saw most of the space end higher. The commodity ETF, DBC, rallied 0.55%.

Industrial metals led the broader complex higher with copper futures notably gaining 1.64% to close at a new 52-week high. The initial bullish catalyst for the renewed push higher in copper futures was the not-as-bad-as-feared GfK Consumer Climate Index in Germany. The soft GDP report in the U.S. proved to be "cause for a pause" in copper, but the solid Pending Home Sales data helped the market stabilize.

Market	Level	Change	% Change
Dollar Index	105.40	-.30	-0.28%
EUR/USD	1.0733	.0034	0.32%
GBP/USD	1.2518	.0054	0.43%
USD/JPY	155.58	.23	0.15%
USD/CAD	1.3658	-.0045	-0.33%
AUD/USD	.6518	.0020	0.31%
USD/BRL	5.1653	.0173	0.34%
Bitcoin	64,592.77	221.84	0.34%
10 Year Yield	4.706	.054	1.16%
30 Year Yield	4.820	.036	0.75%
10's-2's	-29 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.04%		
Prices taken at previous day market close.			

Bottom line, there is a building consensus that the copper market is on the brink of a new super-cycle due to the threat of Chinese smelters cutting production paired with huge demand potential from the booming AI industry. There are skeptics of this rally, however, most of whom cite recession risks as a major threat to industrial metals demand. The price action is bullish with futures at 52-week highs, and until price weakness emerges the path of least resistance will remain higher for copper.

Gold futures edged up 0.32% despite the familiar dual headwind of a stronger dollar and rising interest rates that gold has faced for most of 2024. A rebound in inflation expectations back to a one-week high (5-Yr breakevens rose to 2.45%) helped offset that aforementioned dual headwind and gold futures held $2,320/oz. for a third consecutive session.

The potential reaction from the gold market to today's inflation data will be more complicated than normal and the reason is the three fluid influences on gold right now. Typically, inflation expectations are fairly well anchored and gold moves off fluctuations in the dollar index and bond yields. But so far this year, a sharp and steady rise in inflation expectations, a bullish influence on the gold market, has more than offset the pressures of a firming dollar and higher yields. So, in addition to watching how bonds and the dollar react to today's Core PCE data, we will need to look for a break higher in 5-Yr Breakeven (2024 high is currently 2.52%) as well, because new highs in inflation expectations could once again overpower the conventional influences of currency and bond markets on gold.

Oil was lower for almost the entire session before a sprint higher into the close saw WTI futures end with a gain of 1.05%. The ugly miss on headline GDP raised concerns about stagflation, which ultimately weighed on the demand outlook for refined products and caused oil to test support in the low $80s again. However, geopolitical tensions are on the rise again after a quiet week and with Israel playing hardball in ceasefire negotiations with Hamas, and also threatening an imminent invasion of Rafah. Oil rallied late in the day on a combination of short covering and new fear bids. Looking ahead, $80.50 is critical technical support to watch. If it holds, a run at $93 is in play, if it fails, $75-$77 in WTI is on the table.

Currencies & Bonds

The hot price index in the GDP report pushed the 10-year yield higher on Thursday as it rose above 4.70% for the first time since the first few days of November. The 10-year yield rose 5 basis points.

The 10-year yield reacted appropriately to the GDP report because while much of the analysis is focused on stagflation, the reality is that the growth part of GDP was still solid (not really stagflation in absolute sense) while the price data was again hot. The result was an immediate and legitimate boost in yields not because the GDP report is going to make the Fed more hawkish (it won't, at least not by itself). Instead, yields rose because we received more evidence that inflation is proving stickier than expected and that will boost yields for the foreseeable future. Ahead of today's Core PCE Price Index, the 10-year yield is at a six-month high and if it moves through 4.75% and towards 5.00% in the coming trading days, do not expect the S&P 500 to hold 5,000.

Looking at currencies, given the hot inflation data and further reduced rate cut expectations, one would expect the dollar to be higher, but that wasn't the case on Thursday as the Dollar Index declined 0.25%.

The reason for the decline wasn't because of anything U.S. based (data was "hot" yesterday and did further delay expected rate cuts), but instead because of foreign news. Remember, the dollar rallied on the idea the Fed wouldn't cut rates in June but the BOE and ECB would cut rates in June. Well, throughout this week we've seen some mild pushback on the idea that the BOE cuts in June and that a rate cut in June by the ECB means the start of a rate cut cycle.

Broadly, anecdotal economic data this week has shown a bit more buoyant inflation and growth in the UK and the EU. And while none of those reports are causing a major reversal of expectations that the BOE and ECB will cut before the Fed, it is altering it at the margin and that's why we saw the dollar dip modestly yesterday.

However, none of this should be viewed as the dollar uptrend ending. For that to occur, we'd need to see more hawkish commentary or data from the EU or UK or a sudden drop in U.S. growth or metrics. Until one of those (or both) occur, the trend in the dollar will be higher and the higher it goes, the stronger the headwind on U.S. stocks.

Have a good weekend,

Tom

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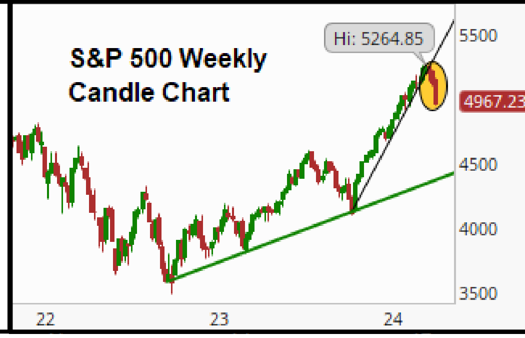
Technical Perspectives (Updated 4/21/2024)

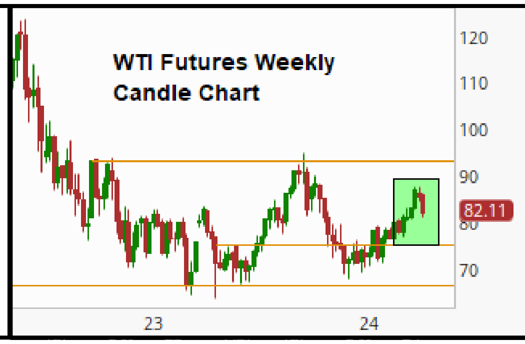
S&P 500

- 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



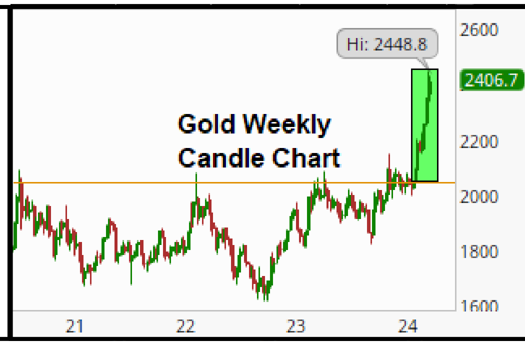
WTI Crude Oil

- 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

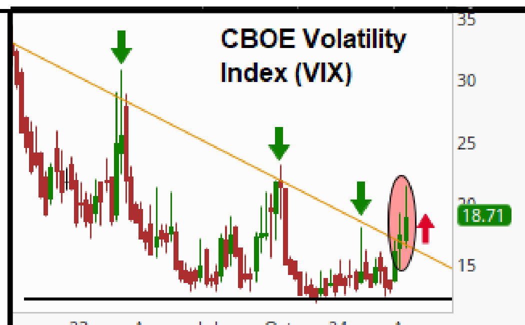


10-Year T-Note Yield Futures

- 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



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.