SEVENS REPORT

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

April 29, 2024

Pre 7:00 Look

- Futures are slightly higher following a mostly quiet week-end of news as markets digest last weeks' gains ahead of a busy and important week of catalysts.
- Economically, Spanish Core HICP (their CPI) rose 2.9% vs. (E) 3.3% y/y, offering a positive note on inflation.
- Geo-politically, Secretary of State Blinken is in the Mid-East to push for another Gaza ceasefire and oil is down slightly in response.
- Econ Today: No reports today.
- Earnings Today: ON ($1.04), NXPI ($3.16), SOFI ($0.01).

Market	Level	Change	% Change
S&P 500 Futures	5,140.75	9.25	0.18%
U.S. Dollar (DXY)	105.63	-0.31	-0.29%
Gold	2,352.50	5.20	0.20%
WTI	83.70	-0.15	-0.18%
10 Year Yield	4.63%	-0.01	-0.88%

Equities

Market Recap

Stocks enjoyed a relief rally last week as easing tensions in the Middle East paired with not-as-bad-as-feared earnings helped stocks bounce despite mostly market-negative economic data. The S&P 500 rose 2.67% last week and is up 6.92% YTD.

The stock market showed signs of stabilizing from the start last Monday as risk-off money flows and cautious sentiment proved to be overdone when markets opened as there were no further escalations in the conflict between Israel and Iran. With several of the prior week's worst-performing stocks and sectors leading the way higher, short covering was a notable factor behind the S&P 500's 0.87% rally on Monday.

The relief rally accelerated Tuesday thanks to upbeat quarterly earnings from UPS, GM, and GE. Shortly after the open, a weak Flash PMI print pushed yields lower and the S&P 500 rose 1.20% on the session. The upside momentum dissipated Wednesday as positive earnings from TSLA and TXM failed to stoke additional optimism about the long-AI trade while benchmark Treasury yields tested their 2024 highs. The S&P 500 ended effectively flat, up an incremental 0.02%.

The market pulled back Thursday initially on disappointing tech earnings (META/IBM) but that was amplified by an ugly GDP report that offered a whiff of stagflation. However, with the big catalyst of the week, the Core PCE release, looming on Friday stocks rebounded to end well off the lows with the S&P down just 0.46%. Friday's not-as-hot-as-feared Core PCE print and rallies in Mag 7 members GOOGL and MSFT following earnings helped push stocks solidly higher on Friday to end the day with a gain of 1.02%.

Why Stocks Have Really Pulled Back

Stocks rallied last week despite more evidence that inflation has become sticky and some underwhelming economic data reminding investors of stagflation risks, as strong corporate earnings and a not-as-bad-as-feared Core PCE Price Index led to a solid bounce in the S&P. And this reveals an important point: None of the data last week was really positive.

The inflation metrics were hotter than expected and growth was slower than expected, and Fed rate cut expectations were further delayed, moving from September to December (a November cut in an election year is unlikely due to any perceived political interference).

Market	Level	Change	% Change
Dow	38,239.66	153.86	0.40%
TSX	21,969.24	83.86	0.38%
Stoxx 50	4,998.07	-8.78	-0.18%
FTSE	8,184.41	44.58	0.55%
Nikkei	37,934.76	304.28	0.81%
Hang Seng	17,746.91	95.76	0.54%
ASX	7,637.38	61.46	0.81%
Prices taken at previous day market close.			

But that didn't cause stocks to drop, and not because the news was good (it wasn't). *Instead it was because investors expected something even worse on the inflation front and when that didn't happen, stocks rallied.*

Market	Level	Change	% Change
DBC	23.66	.02	0.08%
Gold	2,349.10	6.60	0.28%
Silver	27.26	-.09	-0.34%
Copper	4.7535	.056	1.24%
WTI	83.74	.17	0.20%
Brent	89.38	.37	0.42%
Nat Gas	1.619	-.019	-1.16%
RBOB	2.7632	.0050	0.18%
DBA (Grains)	26.06	-.11	-0.44%
Prices taken at previous day market close.			

I think that underscores an important point: Clearly, the outlook for stocks and bonds is not as positive as it was in March, and stocks have legitimately pulled back. But the outlook isn't suddenly horrible, either.

Consider that Fed rate cuts are still a matter of "when" and not "if," and Powell will likely reiterate that message on Wednesday (if he doesn't, look out!). Economic growth remains solid and while there was some disappointment with Q1 GDP and other metrics, 1.6% growth (and nearly 3% growth if we ignore inventories and trade balance) is still solid. So, we're not talking about an economy that's at risk of a slowdown, we're talking about an economy with solid momentum that is, if anything, a bit too good still.

On inflation, yes, the decline has stalled and growth will likely have to moderate for the decline in inflation to resume. But housing metrics are being overstated in CPI and that will change eventually, and if there's a likely path of least resistance for inflation it is still lower. Finally, tech earnings have admittedly been mixed but they haven't been bad, they've just disappointed vs. very lofty expectations.

Here's the point. We and others warned for much of 2024 the market was too optimistic in its view on growth, rate cuts, inflation and AI, and that's now been proven true. *However, each of those factors are still positive and it's going to take the elimination of one of them (or more) for the S&P 500 to sustainably trade below 5,000.*

Stated differently, it's not that fundamentals for this market have become bad, they haven't, and they're still good. But unreasonably positive expectations have been undone and the S&P 500 pulled back as a result.

For the S&P 500 to resume its rally, we'll need to see either some digestion until markets can value the S&P 500 on a 2025 EPS (that happens around July) or a drop in inflation metrics. From a positioning standpoint, I continue to like more defensive, value and quality ETFs including XLU/XLP/XLV, USMV, SPLV, VTV and quality factor ETFs. The single biggest risk to this bull market is an economic slowdown and that can appear suddenly, and I want to maintain protection against that while still keeping long exposure. That's worked through this pullback and I believe it'll continue to work through a still generally positive, but more uncertain, environment.

Economics

Last week was busy from a data standpoint but the varied reports largely pointed towards the same thing: Buoyant inflation pressures and potentially moderating growth. And that buoyant inflation data did weigh on stocks last week and sent the 10-year yield to a fresh five-month high. Notably, some analysts took last week's data to imply stagflation, although to be clear, the data last week wasn't stagflationary (it's just if growth keeps losing momentum it'll become stagflationary).

Friday's Core PCE Price Index was the most important report last week and while it was disappointing in an absolute sense, the market elicited a not-as-bad-as feared reaction and stocks bounced and yields dipped (although, to be clear, nothing in that number will push yields sustainably lower and that likely was a temporary move). The Core PCE Price rose 2.8% y/y, above the 2.6% expectation and flat compared to February. That's not a good number, but for a market that was expecting something even worse (a bounce back) it did provide some temporary relief, although it's not going to alter the fact that the first rate cut isn't widely expected until November.

The second most impactful report last week was actually a surprise as Thursday's Advanced Q1 GDP report showed underwhelming growth and high prices and that's where the stagflation narrative really came from last week. Q1 GDP rose 1.6% y/y saar vs. (E) 2.5%, Consumer Spending rose 2.5% vs. (E) 3.0% and the PCE Price Index rose over 3% in Q1. Growth metrics were all more than one-year lows while the price metric was higher than expected, confirming the hotter inflation readings we received from January-March.

Other growth data last week showed a similar picture. While the Durable Goods headline was strong, the more important new Orders for Non-Defense Capital Goods ex -Aircraft (NDCGXA) rose just 0.2% and met expectations. More notable was the prior month's data was revised to just 0.4% from 0.7%, and broadly speaking, business investment has largely plateaued over the past year.

Finally, we saw the first major data point for April, the flash manufacturing PMI, drop to 49.9 vs. (E) 51.9, the first sub-50 reading since December. The flash services PMI also declined to 50.9 vs. (E) 51.9, confirming that the first look at April activity showed a loss of momentum.

The biggest takeaway from last week's data was that inflation metrics confirmed the decline in inflation has stalled, and as such, we likely aren't getting rate cuts this summer and that weighed incrementally on stocks. On the growth front, the data also clearly showed a loss of momentum, but still generally solid growth. That's not stagflationary, but if growth goes from losing momentum to outright stalling or contracting, that is stagflation and it would mean much lower equity prices.

Market	Level	Change	% Change
Dollar Index	105.80	.35	0.33%
EUR/USD	1.0700	-.0030	-0.28%
GBP/USD	1.2495	-.0019	-0.15%
USD/JPY	157.76	2.11	1.36%
USD/CAD	1.3663	.0006	0.04%
AUD/USD	.6535	.0017	0.26%
USD/BRL	5.1158	-.0435	-0.84%
Bitcoin	63,896.38	-798.05	-1.23%
10 Year Yield	4.669	-.037	-0.79%
30 Year Yield	4.781	-.039	-0.81%
10's-2's	-33 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.05%		
Prices taken at previous day market close.			

This Week

It's not an exaggeration to say that this week will decide if this pullback continues or ends. I say that because we will get important updates on 1) Fed rate cut expectations (both from the Fed itself and from economic data), 2) The state of the economy (how strong is growth) and 3) Anecdotal updates on inflation.

Put simply, if those events point to delayed rate cuts and "hot" growth and inflation data, yields will likely rise and stocks will likely drop through the 4,950-ish lows of two weeks ago. Conversely, if the events point to an increased chance of a July rate cut and slow, but not collapsing, growth, then we'll see yields fall and stocks likely rebound.

With that in mind, the single most important event of this week is Wednesday's FOMC decision. We'll provide our full FOMC Preview in tomorrow's Report, but there are no updated dots at this meeting so any hints about when the Fed may cut rates will come from either the FOMC statement or Powell's press conference. Anything that makes a July rate cut more likely will help markets rally and anything that makes a July rate cut less likely will push yields higher and hit stocks.

Turning to economic data this week, we get the three most important reports of the month via the Jobs report, the ISM Manufacturing PMI and the ISM Services PMI. Friday's Jobs report is the most important economic release this week and while our Jobs report Preview will come later this week, broadly, markets will want to see an in-line, Goldilocks reading to keep July rate cut hopes alive.

The other two important economic reports this week are the ISM Manufacturing PMI (Wednesday) and the ISM Services PMI (Friday). The flash PMIs were surprisingly soft and dropped to four-month lows so that will bring a bit more anxiety to these reports than usual. The bottom line is this: If both of these PMIs drop below 50, that's a real negative signal on the economy because when that happens for a few months in a row, economic slowdowns almost always follow. So, the closer these numbers get to 50, the more they are hinting at an economic slowdown (and as we said last week, that may elicit a bad-is-good short-term reaction, but beyond the short term it's a negative).

Commodities

Commodities traded with a risk-on tone last week despite economic data being largely underwhelming as energy and industrial metals rallied while gold pulled back amid easing inflation worries and higher-for-longer rate expectations. The commodity ETF, DBC, gained 0.94% on the week and is just shy of the 2024 highs.

Starting with oil, there was a lot of chatter about a fading fear bid last week. But with WTI futures holding support in the low $80s and ending the week with a gain of 1.89%, that bid is still present, maybe just less pronounced than early April. Without the simmering geopolitical concerns, WTI would likely be in the low-to-mid $70/barrel range, at best, as consumer demand for gasoline has been sliding in recent weeks while economic data offered a whiff of stagflation (weak GDP, elevated PCE) and OPEC+ has made no changes to output policy.

The fundamental backdrop of the global oil market remains conflicted as the near-term dynamics favor the bulls with prices at least maintaining current levels due to ongoing geopolitical tensions, economic data showing a loss of momentum but not an all-out collapse, and OPEC+ remaining disciplined in abiding by their individual output quotas. On a longer-time frame, the bull case for oil is much less convicted as geopolitical tensions should eventually ease while the threat of an economic slowdown or recession in the months ahead remains elevated. On the charts, WTI futures have formed a tight trading range between $80 and $87/barrel. An upside break would see the October highs near $93 tested while a break lower would likely see futures fall towards early 2024 support at $73/barrel.

Gold has been the big story this year as futures have pushed to new highs despite headwinds emanating from both the stronger dollar and rising Treasury yields. A steady rise in 5-Yr breakevens (Note yields minus TIPS yields) to match the 52-week high of 2.52% from last fall in April was responsible for the squeezy gold rally. That rise in inflation expectations has stalled, however, and that is the primary reason why gold fell 2.37% last week.

Currencies & Bonds

Last week's sticky inflation data pushed Treasury yields sharply higher midweek, although the not-as-bad-as-feared Core PCE Price Index helped moderate the gains. The 10-year yield rose 5 basis points last week.

That 5-bps gain somewhat disguises the fact that the 10-year yield surged last Thursday above 4.70% (4.73% was the high) following the hot price data in the GDP report. Those higher yields weighed on stock prices, as you'd expect. However, the Core PCE Price Index resulted in a 5-bps slide in the 10-year yield and that helped to make the weekly gains more modest.

But for all the noise, the trend in yields remains clearly higher and the closer the 10-year yield gets towards 5.00%, the more of a headwind it'll be for stocks. For this trend to reverse, we'll need to ideally see inflation data begin to moderate again, otherwise any disappointing growth metrics will just stoke stagflation fears and not cause a reduction in yields (this is what happened on Thursday, when both stocks and bonds dropped following the GDP report).

Turning to currencies, normally when yields are higher the dollar also rallies as investors are pricing in higher inflation or a more hawkish Fed, but that wasn't the case last week as the Dollar Index declined 0.2%. The reason the dollar declined last week wasn't because of U.S. data, but instead because expectations for the BOE and ECB. Specifically, expectations for a June rate cut from the BOE were dialed back due to data and banker speak and the pound rallied nearly 1% as a result. ECB officials, meanwhile, still acknowledged that a rate cut is likely coming in June but that it wasn't the start of a broader, consistent rate cut campaign.

As such, currency markets slightly closed the "hawkish gap" between the Fed and the ECB/BOE and that's why the dollar declined. Going forward, the trend in the dollar is still higher and the closer the dollar gets towards 110, the stronger the downward force on U.S. corporate earnings—so a sharply higher dollar remains a risk to watch.

Have a good week,

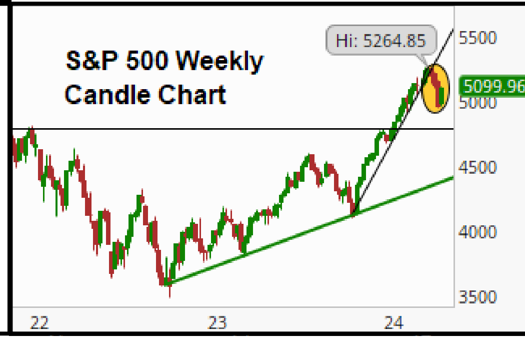
Tom

SEVENS REPORT

Technical Perspectives (Updated 4/28/2024)

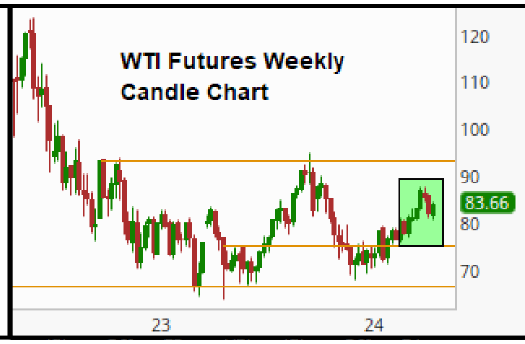
S&P 500

- Technical View: **The medium-term trend in the S&P 500 is shifting neutral from bullish** as the Q1 advance has stalled in Q2.
- Dow Theory: Bullish (since the week of July 10, 2023)
- Key Resistance Levels: 5123, 5199, 5254
- Key Support Levels: 5011, 4967, 4846



WTI Crude Oil

- Technical View: Oil pulled back into support in the low-$80/barrel range in early Q2 but futures remain in a medium-term uptrend within a longer-term trading range.
- Primary Trend: Bullish (since the week of February 12, 2024)
- Key Resistance Levels: $84.38, $85.92, $87.32
- Key Support Levels: $81.90, $80.70, $78.14

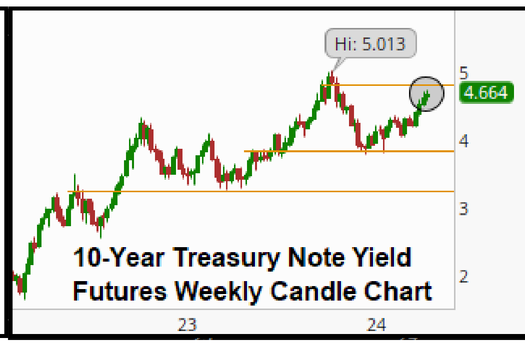


Gold

- Technical View: Gold pulled back from fresh record highs last week but the primary trend remains decidedly bullish amid recently established record highs.
- Primary Trend: Bullish (since the week of November 27, 2023)
- Key Resistance Levels: $2360, $2400, $2449
- Key Support Levels: $2310, $2267, $2190

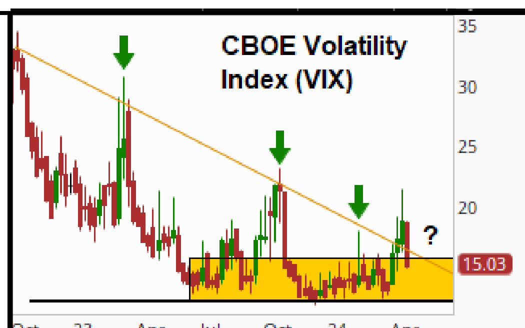
10-Year T-Note Yield Futures

- 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: 4.74, 4.822, 4.910
- Key Support Levels: 4.520, 4.476, 4.419



CBOE Volatility Index (VIX)

- Technical View: The VIX retreated sharply last week falling back below the trendline dating back to early 2023 but ended the week in a key support zone near 15.00.
- Primary Trend: Bullish (since the week of April 1, 2024)
- Key Resistance Levels: 16.00, 16.94, 18.00
- Key Support Levels: 14.59, 13.74, 13.01



SEVENS REPORT

Fundamental Market View
(Updated 4/28/2024)

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 bounced back last week thanks to better-than-expected earnings and a not-as-bad-as-feared Core PCE Price Index and despite economic data that largely hinted at stagflation.*

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 bounced nearly 1% last week as the weaker dollar and elevated price data boosted demand for real assets.*
US Dollar	**Neutral**	*The Dollar Index declined last week despite more hot U.S. inflation data as expectations for a near-term rate cut from the BOE declined while a June cut from the ECB may be "one and done."*
Treasuries	**Turning Positive**	*The 10-year Treasury yield hit a multi-month high last week but closed only slightly higher following the not-as-bad-as-feared Core PCE Price Index. Regardless, the trend in yields remains solidly higher.*

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.