SEVENS REPORT

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

April 3, 2024

Pre 7:00 Look

- Stock futures are lower again this morning as the hawkish money flows of early Q2 continue with the 10-Yr yield at YTD highs ahead of Powell's speech on the economy today.
- Economically, China's Composite PMI met estimates at 52.7 while the EU's "Narrow Core HICP" (their Core-CPI equivalent) favorably fell from 3.1% to 2.9% vs. (E) 3.0%.
- Econ Today: ADP Employment Report (E: 150K), ISM Services Index (E: 52.7).
- Fed Speak: Bowman (9:45 a.m. ET), Goolsbee (12:00 p.m. ET), Powell (12:10 p.m. ET), Barr (1:10 p.m. ET).

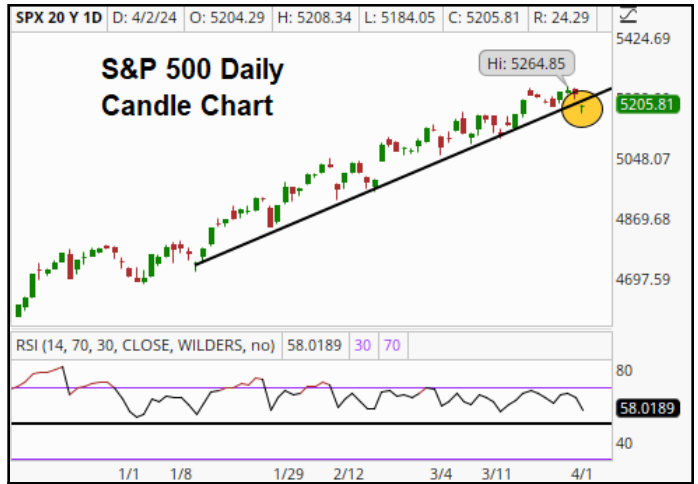
Market	Level	Change	% Change
S&P 500 Futures	5249.75	-10.75	-0.20%
U.S. Dollar (DXY)	104.816	.064	0.06%
Gold	2291.90	10.10	0.44%
WTI	85.44	.29	0.34%
10 Year Yield	4.367	.002	0.05%

Equities

Market Recap

Stocks remained volatile yesterday as better-than-feared economic data led to more hawkish money flows with the 10-year yield closing at a new 2024 high. The S&P 500 ended off the lows but still down 0.72%.

U.S. equity markets were lower from the start Tuesday as solid economic data overseas between good manufacturing data in China and Europe saw global bond yields rise, which pressured the richly valued U.S. stock market. Economic data in the U.S. was seen as modestly hawkish, sending yields to multi-month highs as Factory



The S&P 500 violated the 2024 uptrend yesterday as rising volatility is emerging as a significant market theme at the start of the second quarter.

Orders were better than expected at 1.4% vs. (E) 1.0% while JOLTS were as expected with the number of job openings holding up just shy of 9 million. Stocks hit session lows immediately after those data points were released at the top of the 10 a.m. hour.

Rising geopolitical tensions and the resulting rally in U.S. oil prices beyond $85/barrel did not help to ease worries about inflation and the path of Fed policy this year, which kept selling pressure on equities into the late morning. Additionally, there were several Fed speakers yesterday, including Mester and Daly, who largely reiterated the takeaways from the March FOMC decision (June cut possible, three rate cuts in 2024 reasonable) but also noted that it is a bigger risk to cut rates too soon than to hold them too long, which supports a possible higher-for-longer policy rate from the Fed.

Ultimately, the 10-year yield pulled back from session highs into the afternoon, allowing stocks to rebound modestly as Fed Chair Powell's speech today came into view. The S&P 500 recovered the 5,200 level into the close, ending the day at a two-week low.

Market	Level	Change	% Change
Dow	39,170.24	-396.61	-1.00%
TSX	22,075.10	-110.15	-0.50%
Stoxx 50	5,062.83	20.83	0.41%
FTSE	7,903.05	-32.04	-0.40%
Nikkei	39,451.85	-387.06	-0.97%
Hang Seng	16,725.10	-206.42	-1.22%
ASX	7,782.54	-105.33	-1.34%

Prices taken at previous day market close.

Market	Level	Change	% Change
DBC	23.29	.21	0.91%
Gold	2,294.10	37.00	1.64%
Silver	26.14	1.07	4.26%
Copper	4.0785	.0300	0.74%
WTI	85.12	1.41	1.68%
Brent	88.89	1.47	1.68%
Nat Gas	1.849	.012	0.65%
RBOB	2.7609	.0509	1.88%
DBA (Grains)	24.74	-.33	-1.31%
Prices taken at previous day market close.			

Why Did Stocks Drop and What's It Mean for Markets?

All the major indices dropped hard on Tuesday, and while the most cited reason was higher yields, that's not the real reason the S&P 500 declined by more than 1% at the lows.

Instead, the declines were driven by a four-way assault on the "bullish mantra" that's pushed stocks higher since late October. Specifically, here are the four reasons stocks declined yesterday.

- Higher rates: This absolutely contributed as the 10-year yield hit a multi-month high of 4.40% and appears to be trying to break out of the "stock positive" 3.75%-4.25% trading range. The higher rates were driven by markets reducing expectations for a June rate cut (now just above 60%).
- Warning Signs from the Consumer: PVH (formerly Phillips-Van Heusen) is a clothing company that owns brands such as Tommy Hilfiger, Calvin Klein and others. Their guidance was not good (in fact, it was bad) and the primary reason for the soft guidance was concerns about the consumer (and if the consumer restrains spending, hard landing concerns will rise, sharply).
- Oil: Very quietly, oil has risen to multi-month highs on a combination of optimism towards Chinese growth and rising geopolitical tensions (Iran may execute a retaliatory strike on Israel following the Israeli strike in Syria, which killed a high-ranking Iranian official). Rising oil isn't necessarily an inflation issue (the Fed will look past it) but it is a growth issue if oil prices stay elevated.
- Tech and health care weakness: Tesla posted horrible deliveries (worst in years) and while TSLA isn't an AI company, it is a tangential tech company, and the weakness in EVs weighed on tech. Meanwhile, Medicare Advantage pricing didn't increase, so managed care insurance companies such as Humana (a big and widely owned stock) got hit hard as that's a problem for margins.

The "short-volatility trade" is beginning to come unraveled and that is a significant near-term risk to the 2024 equity market rally. We will provide a more detailed update on the potential impact of the "short-vol" trade tomorrow.

Each of these is an attack on a certain part of the bullish argument. Higher rates challenge the idea of looming Fed rate cuts, the horrid PVH guidance challenges the idea of a resilient economy, higher oil challenges the idea of falling inflation and solid growth, and the TSLA/EV results attack tech more broadly.

So, what does this mean for markets?

Importantly, none of these items materially alter the market narrative and none of them are bearish gamechangers. But with the S&P 500 trading above 21X earnings, none of them have to be gamechangers to cause a correction.

The S&P 500 has risen more than 25% in five months, and it is trading at 21X earnings. It is entirely reasonable to expect a pullback, and if we get more headlines like we saw yesterday, we will absolutely get a 5%-ish pullback—although that's a pullback that we'd likely look to buy as long as the four bullish factors are still in place.

Moreover, this type of volatility is why we continue to advocate for lower-beta equity allocations, because the chances of a 5%-10% pullback remain greater in the near term (in my opinion) than the chances of a 5%-10% rally. So, staying tactically overweight lower-beta sectors such as USMV/SLPV and defensive sectors (utilities/staples/healthcare) and focused on quality factors is a good way to weather any correction and take advantage of any pullback.

If there was one move I would be making today it'd be to examine my longer-duration Treasury holdings and potentially increase them if they are underweight compared to my target and equity slice due to 1) Impending rate cuts and 2) My concerns about slower growth, as this increase in yields presents that opportunity to leg in. But again, that's only if equity allocations or volatility are too high for comfort. TLT remains one of the easiest ways to quickly add duration to portfolios.

Bottom line, yesterday's negative news wasn't a bearish gamechanger but it is a reminder that there is ample room for disappointment in this market. More broadly, slowing growth and disappointing earnings remain the No. 1 risks I believe we need to monitor (and we are doing just that for you) and yesterday's headlines only reinforced our vigilance.

Economics

JOLTS

- February JOLTS rose slightly to 8.756M vs. (E) 8.8M

Takeaway

February JOLTS (Job Opening and Labor Turnover Survey) largely met expectations on Tuesday and the number implies a still-strong labor market. From a market standpoint, it didn't impact the outlook for rate cuts in June (about 60% probability) and rightly so as the number implies a solid labor market, but not one that is so strong it'd make the Fed more hawkish. Conversely, for this number to send a warning sign on the labor market, we'd look for a drop below 8 million towards 7 million in the coming months.

Market	Level	Change	% Change
Dollar Index	104.57	-.19	-0.19%
EUR/USD	1.0762	.0019	0.18%
GBP/USD	1.2569	.0017	0.14%
USD/JPY	151.60	-.05	-0.03%
USD/CAD	1.3573	.0003	0.02%
AUD/USD	.6513	.0024	0.37%
USD/BRL	5.0597	.0049	0.10%
Bitcoin	66,166.82	-3,217.02	-4.64%
10 Year Yield	4.365	.036	0.83%
30 Year Yield	4.509	.041	0.92%
10's-2's	-34 bps		
Date of Rate Cut	June 2024		
2024 YE Fed Funds	4.74%		
Prices taken at previous day market close.			

Bottom line, the data was solid enough to keep a June rate cut now in doubt. But importantly, it also signals a solid labor market and beyond the short-term rate cut anxiety, a solid labor market means an economic slowdown remains unlikely (and that's a much bigger positive for markets over the medium and longer term than a delayed rate cut is a negative).

Commodities

Commodities continued higher yesterday with the geopolitically driven rally in oil accelerating on fresh headlines out of Russia and the Middle East, while a pullback in the dollar and rising inflation expectations fueled a rise in gold. Industrial metals lagged but still notched a decent gain. The commodity ETF, DBC, advanced 0.91%.

Oil has been top of commodity news since breaking out to multi-month highs late in the first quarter as geopolitical situations in Eastern Europe and the Middle East continue to deteriorate meaningfully amid a rising number of more intense attacks in the two regional conflicts (Russia-Ukraine and Israel-Hamas).

So far this week, we have seen an alleged Israeli attack on the Iranian Consulate in Syria that killed seven military officers, which Iran vowed to retaliate for, and a drone attack by Ukraine on one of Russia's largest refineries. WTI gained another 1.68% to close above $85/barrel for the first time since October.

Outside geopolitics, the positives of resilient economic data are largely being offset by the negative impact of higher-for-longer central bank policy worries. Bottom line, geopolitics are driving the energy markets right now and until tensions begin to ease and the attacks stop (or at least slow down) there will be a fear bid in oil. Today, focus will be on the weekly EIA data as traders look for signs consumer demand is continuing to improve in 2024.

Gold traded higher despite the modest rise in Treasury yields as the combination of a slightly weaker dollar and rise to new highs in market-based inflation expectations (5-Yr breakevens) drove the precious metal to new record highs. Gold futures added another 1.67%, but are becoming overextended amid a 10% gain since March 1, and a consolidative or profit-taking pullback is increasingly likely in the sessions ahead.

Copper rallied on the better-than-expected Chinese manufacturing data yesterday as well as the lingering uncertainties surrounding the unanticipated decision by Chinese smelters to group together and announce a production cut of as much as 10% in Q2. The price action in copper remains bullish and the path of least resistance is higher but it is important to keep in mind that the breakout in Q1 was due to supply concerns and not strong demand, which means copper has lost some of its appeal as a macroeconomic leading indicator and may rally despite growth/Fed policy worries.

Currencies & Bonds

Currency and bond markets were volatile again on Tuesday thanks mostly to momentum from Monday's ISM-inspired rise in yields while the Dollar Index gave back some of Monday's gains following stronger-than-expected EU and UK PMIs. The 10-year yield rose to a multi-month high and finished 3 basis points higher while the Dollar Index declined 0.2%.

Starting with Treasury yields, the 2-year yield was flat as rate cut expectations didn't change yesterday (currently about a 60% probability of a June cut). However, the 10-year yield did keep rallying and midmorning hit a high of 4.41%, which is the highest level since late November. The 10-year yield gave back some of those gains to finish 3 basis points higher.

Here's the bottom line. The 10-year yield appears to be trying to break out of the 3.75%-4.25% trading range. If that happens, it will be a new negative for stocks and, at a minimum, increase volatility. Whether that happens is now largely up to 1) The ISM Services PMI (today) and 2) the Jobs Report (Friday). If we see the 10 year close the week above 4.35% (and even more so above 4.40%) higher yields will be a new headwind on stocks (although not a bearish gamechanger by themselves).

Turning to currencies, normally when Treasury yields rise, the dollar also rises but that was not the case on Tuesday thanks to better-than-expected EU and UK economic data that supported the euro and pound. The Dollar Index declined 0.2% while the euro and pound rose 0.2%. The yen was flat on the day.

Bottom line, weeks of relative calm in the currency markets has been disrupted in the past few days by economic data, as it's shown accelerating disinflation in Europe (French and German inflation stats fell more than expected) that's making a June ECB rate cut a virtual certainty (so weaker euro). Meanwhile, Fed rhetoric and data has reduced the chances of a June cut to 60%. The net result has been a stronger U.S. dollar.

Right now, the Dollar Index around 105 isn't a problem for stocks. However, if it rises through 106 and towards 107 that will increase earnings concerns for multinationals and given stretched valuations, that will be a new incremental headwind on stocks.

Have a good day,

Tom

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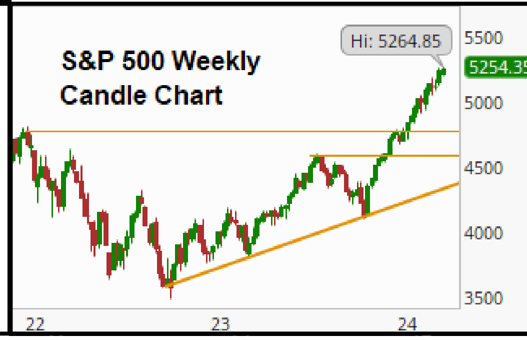
Technical Perspectives (Updated 3/31/2024)

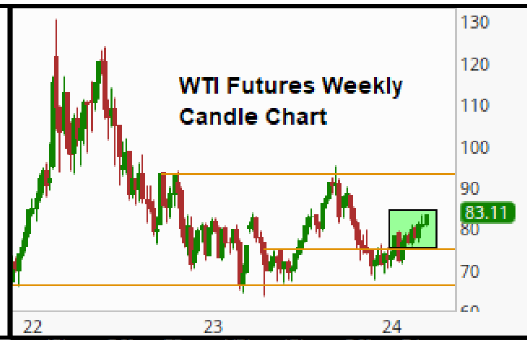
S&P 500

- Technical View: **The medium-term trend remains bullish,** as the S&P 500 ended the first quarter at a fresh record high along with multiple other major indexes.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5265, 5300, 5325
- Key Support Levels: 5225, 5178, 5079



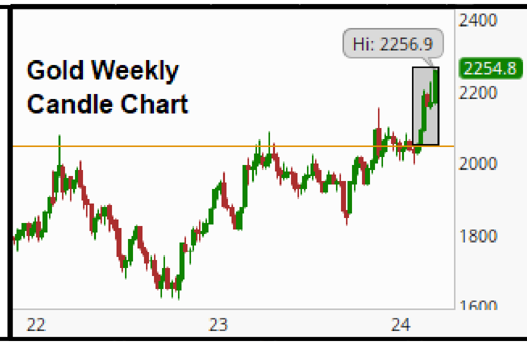
WTI Crude Oil

- Technical View: Oil prices jumped to new multi-month highs last week offering fresh confirmation of the 2024 uptrend, which leaves the path of least resistance higher.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $83.50, $85.29, $87.05
- Key Support Levels: $81.71, $80.14, $79.12



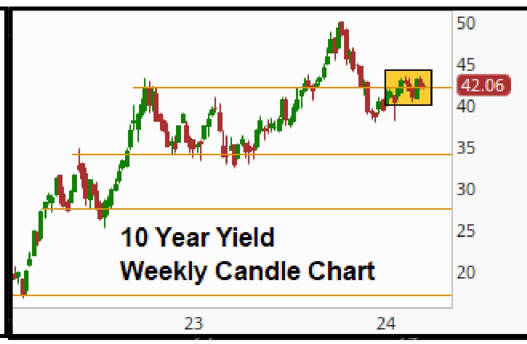
Gold

- Technical View: Gold hit 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: $2275, $2290, $2350
- Key Support Levels: $2222, $2196, $2165



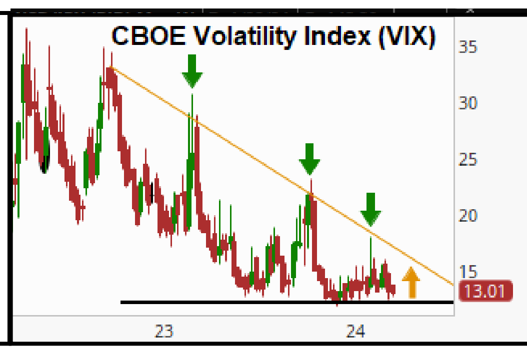
10-Year T-Note Yield

- Technical View: The 10-year yield rose to new 2024 closing highs above 4.30% in March, leaving the threat of higher yields in play given the technicals.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.273, 4.340, 4.472
- Key Support Levels: 4.155, 4.089, 3.967



CBOE Volatility Index (VIX)

- Technical View: The VIX tested the 2024 lows in March but has so far held above which suggests the threat of volatility is on the rise.
- Primary Trend: **Neutral (since the week of February 5, 2024)**
- Key Resistance Levels: 13.67, 14.41, 15.22
- Key Support Levels: 12.78, 12.44, 11.96



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Fundamental Market View (Updated 3/31/2024)

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 rose modestly during the holiday-shortened week as economic data reinforced expectations for 1) Stable growth and 2) Still (slowly) declining inflation. The S&P 500 ended the first quarter with substantial gains.*

Tactical Allocation Ideas:

- **What's Outperforming: Growth factors, tech, consumer discretionary and communication services have outperformed thanks to strong earnings and continued "AI" enthusiasm.**
- **What's Underperforming: Defensive sectors and value have underperformed recently mostly as Treasury yields have risen, although they are poised to rebound substantially if there is a surprise slowing of growth.**

Long Term Fundamental Outlook for Other Asset Classes

	Fundamental Outlook	Market Intelligence
Commodities	**Neutral**	*Commodities rallied last week and finished Q1 with a strong performance as a continued oil rally helped boost the commodity complex.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as none of the economic data or central bank speak altered the outlook for June rate cuts from the Fed, ECB and BOE. The only exception was the yen, which declined to a 34-year low vs. the dollar before rebounding on Japanese rhetorical intervention.*
Treasuries	**Turning Positive**	*Treasury yields fell modestly last week and dropped back below the 4.25% resistance level following in-line economic data, declining inflation expectations and in-line inflation data.*

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.