# SEVENS REPORT

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

*April 5, 2024*

## Pre 7:00 Look

- Futures are bouncing modestly from Thursday's afternoon selloff, following a quiet night of news and as investor look ahead to today's jobs report.
- Economic data overnight (German Manufacturers' Orders and Euro Zone retail sales) slightly missed expectations but the numbers aren't increasing growth worries.
- Econ Today: Jobs Report (E: 200K Job Adds, 3.9% Unemployment Rate, 4.1% y/y Wage Growth), Consumer Credit (E: $17.3B). Fed Speak: Collins (8:30 a.m. ET), Barkin (9:15 a.m. ET), Logan (11:00 a.m. ET), Bowman (12:15 p.m. ET).

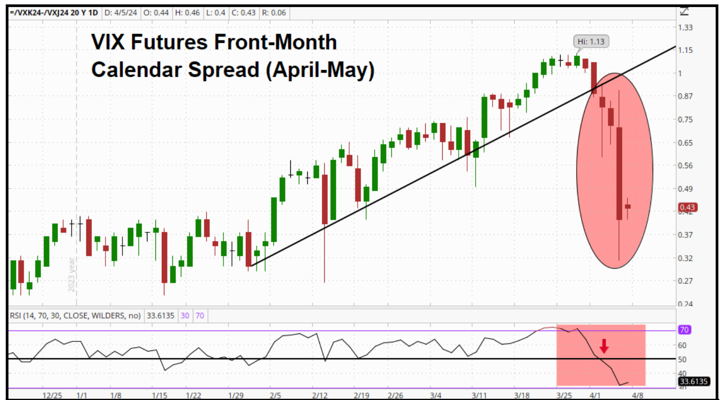
| Market | Level | Change | % Change |
|---|---|---|---|
| S&P 500 Futures | 5,211.75 | 14.50 | 0.27% |
| U.S. Dollar (DXY) | 104.25 | 0.13 | 0.13% |
| Gold | 2,313.80 | 5.30 | 0.23% |
| WTI | 86.74 | 0.16 | 0.18% |
| 10 Year Yield | 4.33% | 0.02 | 0.56% |

## Equities

*Market Recap*

Stocks went from enjoying a solid morning advance to suffering a sudden reversal in early afternoon trade amid hawkish Fed commentary combined with escalating tensions in the Middle East. The S&P 500 was up nearly 1% before reversing to close with a decline of 1.23%.

The market gapped handily higher at the open yesterday as expansionary Composite PMI readings in Europe helped ease recession fears while solid earnings from LEVI helped soothe worries about a potential slowdown in consumer spending (the stock rallied as much as 20%




***The unravelling "short-volatility trade" we have been covering in the report recently amplified yesterday's selloff***

in intraday trade).

U.S. economic data was also market friendly given the delicate balance between Fed policy expectations and soft landing hopes as continuing jobless claims (a proxy for the unemployment rate) were down slightly while initial claims (widely followed as a high-frequency read on the current health of the labor market) rose more than expected. The data effectively left the outlook for a summer rate cut and three 2024 cuts intact, which allowed stocks to extend early gains into late morning.

Yesterday's rally started to lose steam midday as the S&P 500 began to approach the 5,250 level, key technical resistance from last week's all-time highs. After churning sideways into early afternoon stocks began to decline amid multiple hawkish

***Sevens Report Quarterly Letter***

Our Q1 '24 Quarterly Letter was delivered to subscribers last Monday, complete with compliance backup and citations. **We're already receiving feedback about how it is saving advisors time and helping them communicate with their clients in this environment!**

You can view our Q4 '23 Quarterly Letter here.

To learn more about the product (including price) please click this link.

**If you're interested in subscribing, please email info@sevensreport.com.**

| Market | Level | Change | % Change |
|---|---|---|---|
| Dow | 38,596.98 | -530.16 | -1.36% |
| TSX | 22,051.79 | -60.67 | -0.27% |
| Stoxx 50 | 4,995.56 | -75.20 | -1.48% |
| FTSE | 7,901.66 | -74.23 | -0.93% |
| Nikkei | 38,992.08 | -78106 | -1.96% |
| Hang Seng | 16,723.92 | -1.18 | -0.01% |
| ASX | 7,773.27 | -44.07 | -0.56% |

Prices taken at previous day market close.

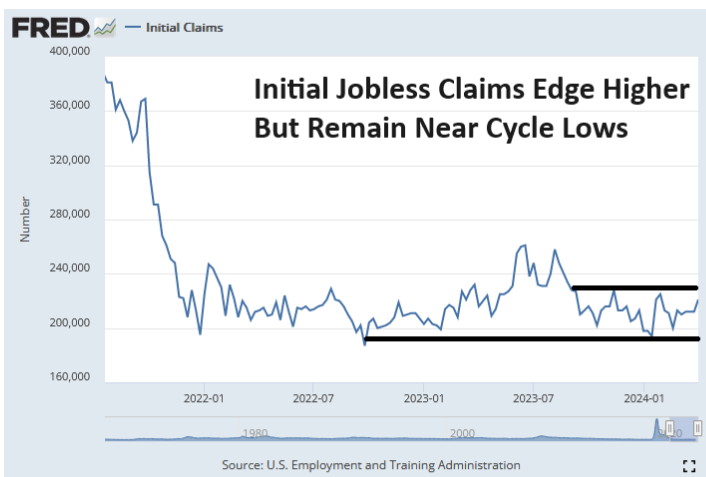
Fed comments from the Barkin, Mester, Kashkari, and Goolsbee, the first two of which are voting members of the FOMC, who indicated a higher-for-longer policy stance may be in the cards.

| Market | Level | Change | % Change |
|---|---|---|---|
| DBC | 23.63 | .06 | 0.25% |
| Gold | 2,320.40 | 5.40 | 0.23% |
| Silver | 27.37 | .31 | 1.16% |
| Copper | 4.231 | .037 | 0.88% |
| WTI | 86.63 | 1.20 | 1.40% |
| Brent | 90.84 | 1.49 | 1.67% |
| Nat Gas | 1.772 | -.069 | -3.75% |
| RBOB | 2.7950 | .0341 | 1.24% |
| DBA (Grains) | 24.80 | .10 | 0.40% |
| Prices taken at previous day market close. | | | |

Shortly thereafter, Secretary of State Blinken said U.S. policy will change if Israel doesn't change course. Meanwhile, Israel's military warned that there were indications that Iran was poised to initiate a retaliatory attack for the Iranian consulate strike Israel allegedly carried out earlier in the week. Those headlines amplified an already-elevated sense of market uncertainty among investors ahead of the jobs report and saw the S&P 500 trade down 2% from the morning highs in the final hour.

*Why Did Stocks Drop?*

The price action of the past two days reflects a departure from much of 2024, as both days saw solid rallies reverse during the afternoon as markets gave back early gains and closed near (or at) the lows of the day.




Typically, that's not what you want to see from markets as it implies sellers are starting to get the upper hand and bulls are looking to lighten up. Furthering that point, unlike Tuesday, where there were four specific negative events that pushed stocks lower, yesterday's "reasons" for the decline weren't nearly strong enough to warrant the type of reversal we saw.

The two most-cited reasons for the reversal in stocks were 1) Kashkari's idea of no rate cuts and 2) The headline of Israel prepping for an Iranian retaliation. However, neither event was a new negative.

Kashkari made that comment after saying he still favored two cuts this year and, importantly, the totality of Fed rhetoric this week has been "status quo" and there's no reason to think the Fed is turning more hawkish (Powell, by far the most important Fed speaker, kept his message consistent). The fact that the 10-year yield declined tells us the market didn't think Kashkari was hawkish (if it did, yields would have risen). The uptick in geopolitical risks is concerning, but it's not like that situation changed dramatically. And oil, while still in the midst of a somewhat stealth rally, only gained 1%.

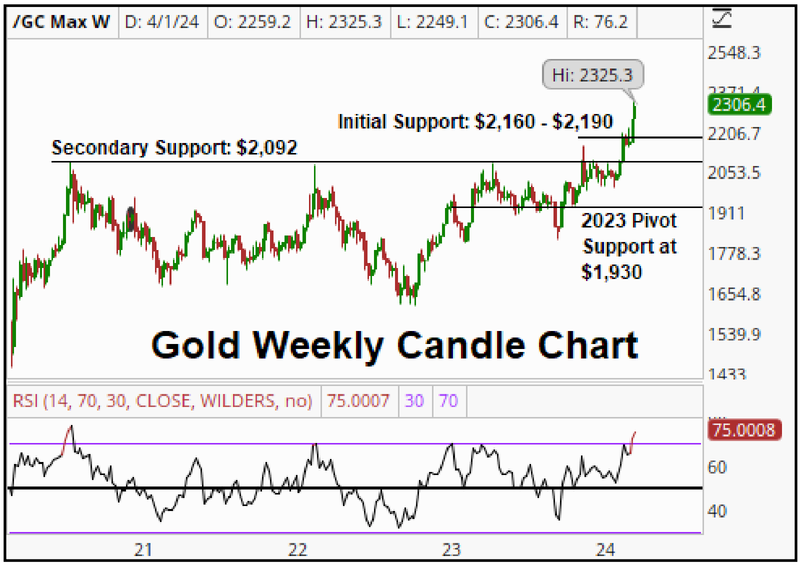
Bottom line, we and others have warned stocks are priced for perfection and vulnerable to any disappointment and that's what's occurred this week. It's not that the news has been "bad," it just hasn't reinforced lofty valuations and bullish sentiment.

As such, I view this dip in stocks as more a function of overtly bullish sentiment and positioning leaving markets vulnerable to any disappointment. And if the jobs report today, or next week's CPI, are "hot," this decline will continue and a further drop towards 5,000 in the S&P 500 shouldn't shock anyone. But nothing this week implies we've seen a sudden, bearish shift in underlying fundamentals that requires medium-term concern. Again, this dip seems more sentiment and positioning driven than anything else.

*How High Can Gold Go?*

The technical outlook for gold went from neutral to bullish in December as futures prices broke out of a multi-year trading range between $2,046 and $1,648 (using weekly closing levels). We noted that upside breakout in early December and changed the "Primary Trend" for gold from Neutral to Bullish on Page 5 of the Report. Since then, gold has rallied more than 11% and a lot of investors are starting to ask just how high gold can go.

*Fundamental View:* There are several plausible reasons for gold's breakout. Our take is that gold initially broke out to new highs thanks to the dual tailwinds of a rapidly declining dollar in Q4 '23 and the near-100-basis-point drop in real interest rates between October and January. Since early 2024, the dollar has stabilized and real rates have recovered so neither is still supporting gold. Inflation expectations, however, have moved meaningfully higher, up about 32 basis points to 2.44% since the end of 2023.




*So what could cause a pullback?* If we see any combination of the following: 1) Inflation expectations stop rising, 2) The dollar breaks out to new highs, and/or 3) Real interest rates move beyond 2% and steadily advance, the gold rally would likely be, at least temporarily, derailed.

*Measured move targets:* Using the longer-term, weekly time frame chart, gold closed at a high of $2,046/oz. in early August 2020 then bottomed out in October 2022 at a low weekly close of $1,648/oz. Adding the difference between those two trading range extremes of $398 to the upper bound of $2,046 provides us with an initial measured move target of $2,444/oz., which is another 5% from this week's highs.

Using some older and longer-term market extremes provides us with an even more aggressive, but admittedly much longer term, upside target as the August 2011 weekly closing high of $1,887 and November 2015 weekly closing low of $1,056 provide us with a measured move target of $2,718/oz., which is 17% higher than this week's highs in gold.

When gold trends, it trends well. And the latest new highs offer fresh evidence that supports the bull case for gold. Within gold trends, reactionary pullbacks are common. Those are not ideal for portfolio volatility; however, they do offer good opportunities to get into or add to long positions.

*Pullback targets to buy:* The first level of support to watch as a potential buying opportunity for gold is the area where the gold rally paused in early 2024 between $2,160 and $2,190/oz. Below there, look for secondary support at $2,092, the December 2023 weekly breakout level. The final support zone to watch is the 2023 pivot area between $1,915 and $1,945/oz. where gold reversed a countertrend pullback in early October prior to rallying to new records late in the year.

## Economics

There were no material economic reports yesterday.

| Market | Level | Change | % Change |
|---|---|---|---|
| Dollar Index | 103.93 | -.07 | -0.06% |
| EUR/USD | 1.0839 | .0003 | 0.03% |
| GBP/USD | 1.2642 | -.0010 | -0.08% |
| USD/JPY | 151.25 | -.45 | -0.30% |
| USD/CAD | 1.3552 | .0025 | 0.18% |
| AUD/USD | .6585 | .0020 | 0.30% |
| USD/BRL | 5.0468 | .0083 | 0.16% |
| Bitcoin | 69,099.39 | 3,214.87 | 4.88% |
| 10 Year Yield | 4.335 | -.020 | -0.46% |
| 30 Year Yield | 4.487 | -.022 | -0.49% |
| 10's-2's | -34 bps | | |
| Date of Rate Cut | June 2024 | | |
| 2024 YE Fed Funds | 4.69% | | |
| Prices taken at previous day market close. | | | |

## Commodities

Commodities continued to trade with an upside bias as copper advanced to new multi-month highs amid a wave of strong risk-on money flows early in the day before geopolitical tensions saw oil reverse morning losses to close higher and gold underperformed but notched a gain on the day. The commodity ETF, DBC, gained 0.25%.

Copper extended its recent advance to fresh 52-week highs with futures closing the day higher by 1.28%. This week's solid manufacturing PMI data from around the globe has been a key supporting factor for the latest push higher in industrial metals prices. Additionally, the simmering threat of a likely Chinese smelter production cut paired with reports of fading output at several major global copper mines added to supply concerns and supported prices.

Bottom line, 52-week highs are bullish for copper but futures are overbought leaving the risk of a pullback to the previous highs at $4.13, which will now act as price support. Such a pullback would not change the bullish narrative, however, and the path of least resistance remains higher.

Gold was little changed at the COMEX close but proceeded to pullback and decline modestly in afterhours trade before the Wall Street close. Futures ended the day down 0.44% after making a new intraday high earlier in the day.

Turning to energy, oil was initially lower in morning trade, down nearly 1%, as traders booked profits from the recent run to multi-month highs, as focus turned to the jobs report with elevated anxiety about the impact of potentially higher-for-longer rates.

Geopolitical tensions reemerged as the primary influence on the oil market, as futures surged to new highs in afternoon trade. Reports that an Iranian attack on Israel in response to the Iranian consulate in Syria being bombed earlier in the week was the key headline, although U.S. demands for a ceasefire appeared to be ignored by Israeli leadership, adding to the level of uncertainty surrounding the conflict. Bottom line for oil, the increasingly tense geopolitical situation in the Middle East, paired with OPEC+'s steady hand with production cuts and global economic resilience are all supporting the oil rally. And while prices are expected to remain volatile, the path of least resistance remains higher.

## Currencies & Bonds

For the first time all week, currency and bond markets were not volatile on Thursday, in contrast to the uptick in volatility in the equity markets. The Dollar Index declined temporarily below 104 but closed down just 0.1% while the 10-year yield fell 4 basis points, mostly on pre-jobs report positioning.

There were several events that could have caused movement in the currency and bond markets yesterday, including some notable economic data (EU and UK composite PMIs) and a lot of Fed speak (which was spun hawkish but in reality was largely unchanged). However, none of the data altered the narrative for rate cuts or growth and as such, there wasn't much of an impact across currency and bond markets.

Looking at the data, EU and UK composite PMIs were largely in line with expectations while U.S. jobless claims saw a mild increase above 220k, but remained well below levels that would increase economic concerns. Bottom line, the data didn't change the outlook for Fed, ECB or BOE rate cuts.

Turning to Fed speakers, there was a veritable parade of commentary yesterday (as mentioned) but in the end, the hawkish utterances were offset by dovish ones and for all the noise, Powell's message stayed stable this week: The Fed will cut rates but it wants to see a bit more inflation data before doing so.

That points to a June cut but leaves the possibility open that a cut won't occur if data doesn't match expectations (which has been the case all along). Bottom line, there were a lot of events yesterday but none of them altered the outlook for rates or growth. As such, currency and bond markets looked past the headlines and volatility and were little changed, just as they should have been.

Looking to today's jobs report, the 10-year yield remains key. The recent high is 4.41%, and if that level is broken, especially on a closing basis, higher yields will likely weigh on stocks and this would be a new headwind on markets (and increase chances for a pullback). Conversely, if we see a "Just Right" number, look for the 10-year yield to drop back below 4.25% and, in doing so, re-enter that "stock positive" 3.75%-4.25% trading range.

Have a good weekend,

Tom

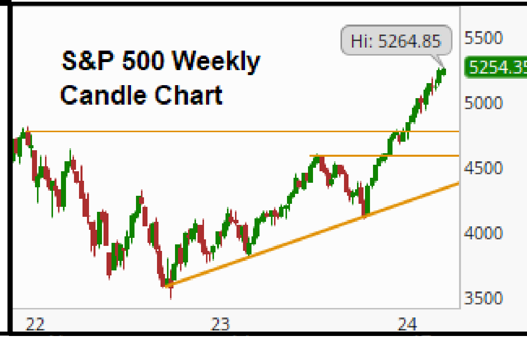
4/5/2024

# SEVENS REPORT

## Technical Perspectives (Updated 3/31/2024)

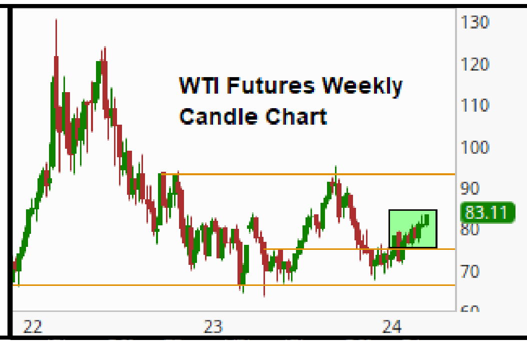
### S&P 500

- 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



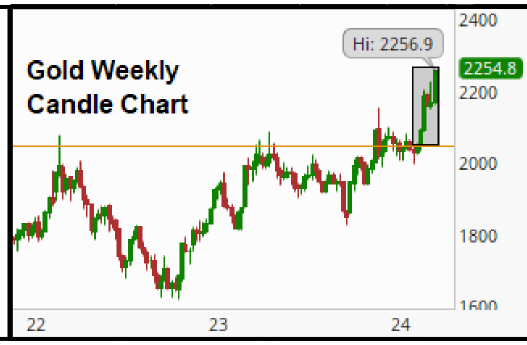

### WTI Crude Oil

- 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



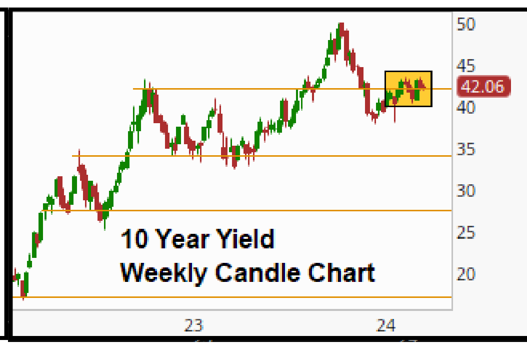

### Gold

- 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



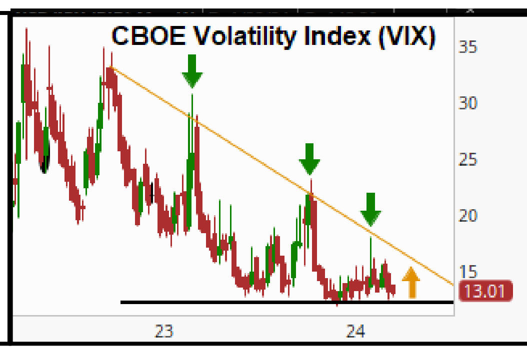

### 10-Year T-Note Yield

- 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



| SEVENS REPORT | 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:**<br>**Cautious**<br>**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.