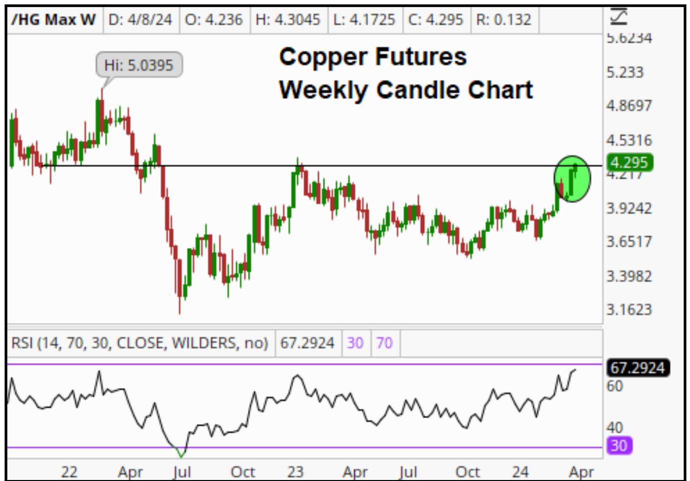
SEVENS REPORT

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

April 9, 2024



Copper futures rallied to a multi-year high yesterday after commodity trading giant Trafigura's chief economist Saad Rahim said AI will "exacerbate the copper supply-demand imbalance" in the next five years.

Pre 7:00 Look

- Stock futures are modestly higher this morning as the bond market steadies ahead of tomorrow's key inflation data while financial newswires were mostly quiet overnight.
- Overseas, Taiwan's headline CPI fell sharply from 3.1% to 2.1% vs (E) 2.5% in March. Domestically, the NFIB Small Business Optimism Index dropped to 88.5 vs. (E) 89.9.
- There are no economic reports today.
- No Fed officials are scheduled to speak.
- There is a 3-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5257.00	3.75	0.07%
U.S. Dollar (DXY)	104.016	-.106	-0.10%
Gold	2378.00	27.00	1.15%
WTI	86.71	.28	0.32%
10 Year Yield	4.394	-.030	-0.68%

Equities

Market Recap

U.S. stocks chopped sideways in a tight trading range yesterday as last week's volatile start to the second quarter was digested amid quiet newswires and no material catalysts. The S&P 500 dipped 0.04%.

Stocks attempted to extend Friday's gains with the S&P rallying towards Friday's highs midmorning. However, the advance stalled short of Friday's highs after the release of the New York Fed's consumer survey report, as the 1-Yr inflation outlook was steady at 3% but the 3-Yr consensus rose to 2.9% from 2.7% in February.

Stocks pulled back into the European close with the S&P 500 falling to new session lows just under 5,200 during the lunch hour as the warmer-than-expected consumer inflation view prompted a modest-but-noticeable hawkish reaction across markets. The 10-Yr yield rebounded towards the morning high but didn't breakout to new highs, which contributed to the S&P 500 holding psychological support at 5,200. From there, the market churned sideways into the final hour with the S&P 500 continuing to hover just above 5,200. Stocks failed to regain any positive momentum in late-afternoon trade and the S&P 500 closed near session lows, just above 5,200.

Trading Color

Monday was a catalyst free and quiet day and the internals largely reflected that as the only index to move was the Russell 2000, which gained 0.5%. The S&P 500, Dow Industrials and Nasdaq were all little changed. Looking at sector trade, it was single stock news that moved markets and not some larger macro theme. To that point, Consumer Discretionary (XLY) was the best performance

Market	Level	Change	% Change
Dow	38,892.80	-11.24	-0.03%
TSX	22,260.30	-4.08	-0.02%
Stoxx 50	5,015.73	-30.32	-0.60%
FTSE	7,952.03	8.56	0.11%
Nikkei	39,773.13	426.09	1.08%
Hang Seng	16,828.07	95.22	0.57%
ASX	7,824.24	35.17	0.45%

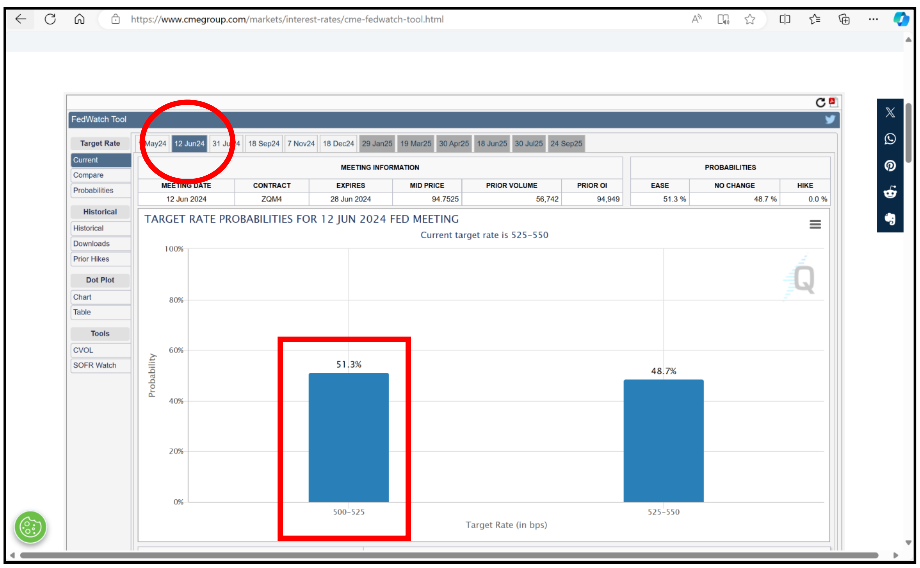
Prices taken at previous day market close.

and gained 0.95% on the "Robo Taxi" headlines from TSLA (they resulted in a 4.9% rally for the stock). The next best performer was Real Estate (XLRE up 0.86%) thanks to strength in the apartment REITs after Blackstone purchased AIRC (AIRC up 22.4% on the news). The remaining nine sector SPDRs saw either modest gains or modest losses in generally quiet trade.

Market	Level	Change	% Change
DBC	23.74	-.01	-0.04%
Gold	2,358.90	13.50	0.58%
Silver	27.97	.46	1.68%
Copper	4.293	.057	1.35%
WTI	86.61	-.30	-0.35%
Brent	90.60	-.57	-0.63%
Nat Gas	1.841	.056	3.14%
RBOB	2.7553	-.0333	-1.19%
DBA (Grains)	24.88	-.20	-0.82%

Prices taken at previous day market close.

The latter half of the week likely will be anything but quiet, as we get several potentially market-moving catalysts including the CPI report, the ECB rate decision (will they point towards a June cut?) and the start of earnings (the big banks report results on Friday). So, enjoy the quiet trade because it may not last much longer.



__Where to Find Rate Cut Probabilities__

I was asked by several subscribers yesterday where to find Fed rate cut probabilities so I wanted to include a more comprehensive answer to that question.

Fed rate cut probabilities can be found via the CME's "Fed Watch" tool located here: [CME FedWatch Tool - CME Group](https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html).

Once on that screen, you have to select the month that coincides with the desired Fed meeting and from there, you can see the distribution of expectations for the fed funds rate at the end of that month.

Looking at June (image above) we can see that fed funds futures prices reflect a 51.4% expectation the Fed will cut rates at the June meeting, because it shows a fed funds rate 25 bps below the current rate.

This is what we (and others) refer to consistently to judge rate cut expectations and this site is something to keep bookmarked on your browser for the next several months.

__CPI Preview: Good, Bad, Ugly__

We explained in Monday's issue that June rate cut probability is the most important short-term indicator for this market and because CPI will be a major influence on whether markets expect a June rate cut, that makes tomorrow's CPI very important.

Specifically for tomorrow's CPI, the Core CPI is the only thing that matters to the Fed at this point and for this CPI report to be a positive (and increase rate cut chances) markets will want to see a continued decline from last month, which means lower than 3.8% y/y. Even if it's by just 0.1% that will reinforce that inflation pressures are still easing and make a June rate cut more likely.

It's also important, however, to realize that a 3.8% y/y reading (which is the same as last month) won't be a substantial negative and here's why. The Fed (including Powell) said they don't need inflation stats to get better in the near term. Instead, they just need more data that shows the previous declines are holding. Bottom line, a flat number on core CPI y/y may elicit some immediate disappointment, but that won't be a material negative for markets.

To that point, the material negative would be if Core CPI rises above 3.8% as that would increase "bounce back inflation" worries and substantially reduce June rate cut probabilities (likely well below 50%) and that would exacerbate last week's volatility.

A "Good" CPI Report: Core CPI < 3.8% y/y. *Likely Market Reaction:* An extension of rally. A drop in Core CPI, even a small one, would reinforce the idea of falling inflation and increase June rate cut probabilities. *Likely Market Reaction:* A solid rally led by cyclicals and value 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 4.25% and, in the next few days, back into the "stock positive" 3.75%-4.25% range. The Dollar Index should drop moderately (towards 104 and perhaps to the high 103s) while commodities, especially gold, should rally. This is the best outcome for markets and likely would spark a run towards new all-time highs as it keeps the bullish mantra in place.

A "Bad" CPI Report: **Core CPI 3.8% y/y.** *Likely Market Reaction:* Mild disappointment. A flat Core CPI number will keep a June rate cut uncertain, but it won't materially reduce its likelihood. *Likely Market Reaction:* A mild decline where I'd expect defensive sectors to relatively outperform, but overall, market movements should be mostly muted. Treasury yields could rise modestly but likely not more than 10 basis points while the Dollar Index should rally but not above 105.00. Commodities could see a mild dip on the stronger dollar but it wouldn't interrupt the recent rally in oil or gold. This is mostly an "as expected" outcome and while it wouldn't push stocks higher, it shouldn't cause too much of a decline, either.

An "Ugly" CPI Report: **Core CPI ≥ 3.9% y/y.** *Likely Market Reaction:* A solid selloff. A hotter-than-expected CPI report that shows core inflation rose would push back hard on June rate cut expectations and we should see stocks and bonds drop moderately as a result. Treasury yields should rise solidly (10-20 bps) and that rise in yields would, in turn, pressure stocks the same way it did last week. 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, 105, as the market dials back expectations for a June rate cut (it will drop solidly below 50% on this number). Commodities would likely be hit very hard on the surging dollar and worries about further growth given higher yields.

Market	Level	Change	% Change
Dollar Index	103.91	-.16	-0.15%
EUR/USD	1.0858	.0021	0.19%
GBP/USD	1.2658	.0020	0.16%
USD/JPY	151.80	.18	0.12%
USD/CAD	1.3574	-.0016	-0.12%
AUD/USD	.6606	.0027	0.41%
USD/BRL	5.0289	-.0376	-0.74%
Bitcoin	71,839.02	2,532.15	3.65%
10 Year Yield	4.424	.046	1.05%
30 Year Yield	4.553	.021	0.46%
10's-2's	-37 bps		
Date of Rate Cut	July 2024		
2024 YE Fed Funds	4.80%		
Prices taken at previous day market close.			

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mixed to start the week as oil declined amid easing tensions in the Middle East over the weekend while metals extended gains amid a weaker dollar with inflation worries fueling a continued rally in gold and optimism about a Chinese economic recovery bolstering copper and the industrial metals. The commodity ETF, DBC, was little changed, down 0.01% due to the losses in oil.

Starting with energy, geopolitics remain the primary influence on the oil market and news over the weekend that Israel was withdrawing some troops from parts of Gaza was seen as a step towards de-escalation in the conflict between Israel and Hamas. Furthermore, Iran's pledge not to retaliate for the alleged airstrike on the Iranian Consulate in Syria was seen as a positive for the situation and saw more of the geopolitical fear bid unwind to start the new trading week. WTI futures fell as much as 2.5% in overnight trade.

However, news flow surrounding Israel and Hamas deteriorated over the course of the session yesterday as Hamas reportedly rejected the latest proposed ceasefire agreement and Israeli PM Netanyahu announced that "a date has been set" for an invasion of Rafah, which has been a hotly contested issue in the ongoing talks between Israel and Hamas.

In short, the initial perception of improving geopolitical dynamics between Israel and Hamas weighed on oil prices yesterday, but renewed uncertainties about the potential for the military conflict to intensify saw much of the early losses recovered over the course of the day and WTI ended down a modest 0.40%.

Outside of geopolitics, "higher for longer" Fed policy fears are being offset by resilience in economic data and ongoing hopes for a soft economic landing in 2024 that would keep consumer demand at strong levels and leave physical markets historically tight. That idea has been underscored by the strong bid in calendar spreads in recent weeks and until spreads start to roll over, the path of least resistance for the oil market will remain higher.

Switching to the metals, dollar weakness provided broad support for precious and industrial metals alike yesterday but copper outperformed with a solid 1.37% gain thanks to speculation that AI could materially bolster demand for copper over the next five or so years according the commodities trading giant Trafigura's chief economist, who was speaking at the Financial Times's global commodity summit in Switzerland yesterday. On the charts, copper futures closed at the highest levels since June 2022, which is bullish and leaves the path of least resistance higher from here.

Gold also rallied yesterday reaching new all-time highs with a gain of 0.52% amid a further uptick in inflation worries following the NY Fed's consumer inflation data from March, which came in hotter than February. Gold remains overbought on multiple time frames leaving futures susceptible to a pullback but momentum continues to favor the bulls for the time being.

Currencies & Bonds

Currency and bond markets were quiet due to three primary factors, including 1) The lack of any notable economic data, 2) The looming key events later this week (CPI on Wednesday and ECB rate decision on Thursday) and 3) Digestion of last week's volatility. The Dollar Index fell 0.15% while the 10-year yield rose 4 basis points.

Yesterday was a largely uneventful day in the currency and bond markets and because of that I'm not going to take any of your morning providing analysis that frankly doesn't matter much to this market. Yes, the 10-year yield did rise back above 4.40% and is moving towards 4.50%, but tomorrow's CPI report is the next major catalyst and that's why the modest rise in yields didn't weigh on stocks yesterday. No one cares if the 10 year hit 4.45% yesterday. They care where the next 15 basis points of move will be and it's CPI that'll determine that, which is why yesterday's yield rise was largely discounted. However, if CPI is firm (or hot) the 10-year yield will likely rise through 4.50% and if it does, expect increased headwinds on stocks.

Turning to currencies, the dollar, euro, pound and yen were all little changed and rightly so given the aforementioned lack of catalysts and looming potential catalysts 24 and 36 hours in the future. That said, the economic data in the U.S. (borderline "Too Hot") is pointing towards the fact that the ECB is still very much on schedule to cut rates in June (something they may more directly hint at on Thursday) while the expectations for the Fed to cut in June are falling. If that continues, we should expect 1) A stronger dollar and 2) Weaker euro and pound, and if that sends the dollar through 105 towards 106 sustainably, that will also be a new headwind on stocks.

Bottom line, this week's events (CPI and ECB meeting) could accelerate the dollar rally/euro decline along with rising yields (if the CPI is hot) and those would be new headwinds on stocks and likely extend last week's uptick in volatility.

Have a good day,

Tom

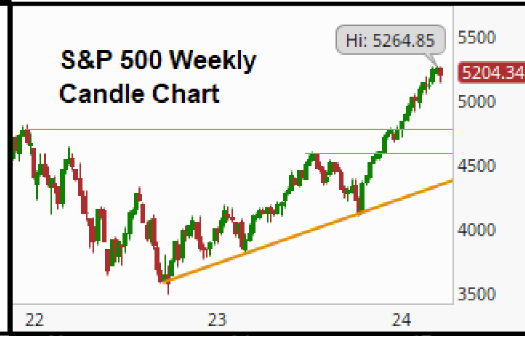
4/9/2024

SEVENS REPORT

Technical Perspectives (Updated 4/7/2024)

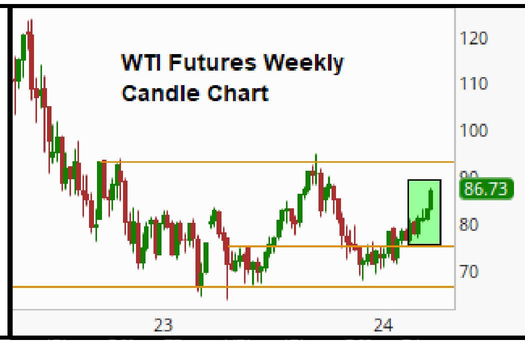
S&P 500

- Technical View: **The medium-term trend remains bullish,** with the S&P 500 near record highs; however, there was a loss of upside momentum at the start of Q2.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5229, 5258, 5300
- Key Support Levels: 5147, 5039, 4959



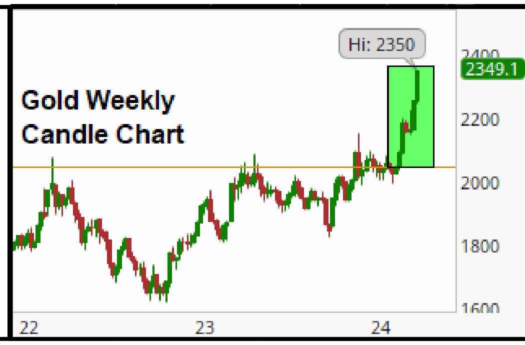
WTI Crude Oil

- Technical View: Oil prices jumped to new multi-month highs last week leaving the path of least resistance still higher with the prospects of new 52-week highs rising.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $88.30, $90.55, $92.25
- Key Support Levels: $85.65, $84.40, $82.96



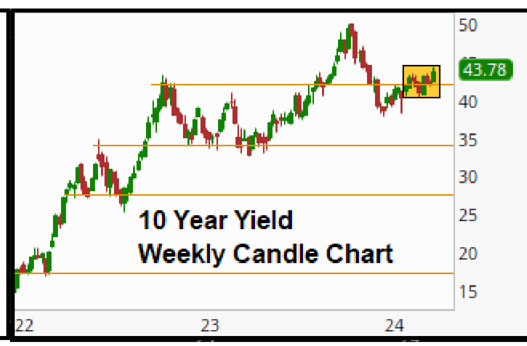
Gold

- 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: $2355, $2386, $2400
- Key Support Levels: $2297, $2259, $2199



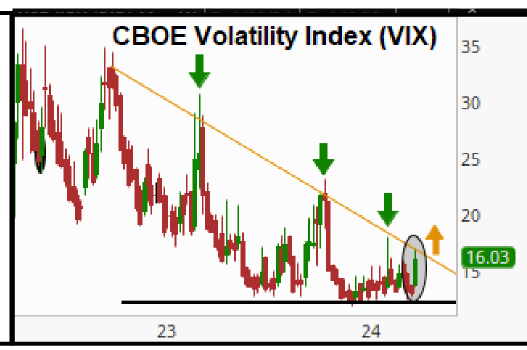
10-Year T-Note Yield

- 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: 4.410, 4.480, 4.632
- Key Support Levels: 4.234, 4.155, 4.089



CBOE Volatility Index (VIX)

- Technical View: The VIX surged to start the second quarter notching a five-month closing high and shifting the near-term trend in favor of the volatility bulls.
- Primary Trend: **Bullish (since the week of April 1, 2024)**
- Key Resistance Levels: 16.92, 17.94, 18.97
- Key Support Levels: 15.85, 15.13, 13.99



SEVENS REPORT

Fundamental Market View (Updated 4/7/2024)

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 declined last week as June rate cut expectations declined modestly thanks to borderline "Too Hot" economic data and some not dovish Fed speak, although the market does still expect a June hike (although it's not a strong expectation).*

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 surged last week thanks mainly to a rally in oil, which was driven by geopolitical fears as tensions between Israel and Iran increased.*
US Dollar	**Neutral**	*The Dollar Index was little changed but it was volatile throughout the week as it rose to 105 early in the week on strong data and then dropped below 104 on Powell's comments that boosted June rate cut expectations.*
Treasuries	**Turning Positive**	*Treasury yields rose last week and the 10-year yield hit a multi-month high following stronger-than-expected economic data and not-dovish Fed speak. The 10-year yield appears to be trying to break out of the 3.75%-4.25% "stock positive" range.*

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.