SEVENS REPORT

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

May 1, 2024

Pre 7:00 Look

- Futures are lower as stagflation fears weigh on risk assets while earnings were mixed with AMZN reporting strong cloud sales but AMD's AI-chip demand forecast missed.
- The U.K. Manufacturing PMI rose to 49.1 vs. (E) 48.7.
- Econ Today: ADP Private Payrolls (E: 175K), ISM Manufacturing Index (E: 50.0), Construction Spending (E: 0.3%), JOLTS (E: 8.7 million). Treasury Refunding (8:30 a.m. ET).
- Fed Events: FOMC Announcement (2:00 p.m. ET), Fed Chair Press Conference (2:30 p.m. ET).
- Earnings: MA ($3.22), CVS ($1.69), QCOM ($2.31).

Market	Level	Change	% Change
S&P 500 Futures	5041.25	-25.75	-0.51%
U.S. Dollar (DXY)	106.318	.011	0.01%
Gold	2301.80	-1.10	-0.05%
WTI	80.70	-1.23	-1.50%
10 Year Yield	4.686	.72	1.56%

Equities

Market Recap

Volatility picked up Tuesday on the back of more data that suggested stagflation is beginning to grip the U.S. economy while global earnings were mixed. The S&P 500 fell 1.57%.

Economic data drove risk-off money flows yesterday morning starting with hot inflation data, including an Employment Cost Index that came in at 1.2% in Q1, up from 0.9% in Q4 and ahead of estimates of no quarter-over-quarter change. Additionally, the Home Price Index published by Case-Shiller jumped to 7.3% from 6.7% in February, handily topping estimates of 6.7%. That hot inflation data was then followed by a downbeat Consumer Confidence headline which fell to 97.0 from a lower-revised 103.1, missing estimates of 104.0. Combined, yesterday's data flashed another warning signal of stagflation trends emerging in the U.S. economy and that hit both equity and bond markets in early trade.

The deeply inverted yield curve suggests that recession risks are still historically elevated, a threat that has come back into focus given high inflation and weakening growth data.

After gapping lower at the open, stocks steadied as the fresh dose of economic data was digested (although consumer confidence wasn't released until 10:00 a.m.) and Fed positioning continued to dominate the morning price action.

The market rolled over more meaningfully during the 11 a.m. hour after Treasury Secretary Yellen said she was growing "concerned" about the direction of the U.S. budget deficit just in time for the Treasury to announce plans to auction $70B in four-week Bills on Thursday, which sent short-duration yields to their session highs and pressured equities. The S&P 500 drifted lower as it fell into a technical gap back to Thursday's close.

Market	Level	Change	% Change
Dow	37,815.92	-570.17	-1.49%
TSX	21,714.54	-297.08	-1.35%
Stoxx 50	4,921.22	-59.87	-1.20%
FTSE	8,152.24	8.11	0.10%
Nikkei	38,274.05	-131.61	-0.34%
Hang Seng	17,763.03	16.12	0.09%
ASX	7,569.95	-94.13	-1.23%
Prices taken at previous day market close.			

FOMC Technical Preview: A Flash of Fear in the Markets

Typically, leading into an important FOMC decision, a sense of "Fed paralysis" falls over the markets with most equity indexes and benchmark Treasury yields settling into respective support and resistance levels amid quiet price action as traders position into the potential monetary policy catalyst. Yesterday was not a typical pre-Fed decision session in markets, however, as there was a measurable uptick in evidence of "investor fear" across asset classes that we have not seen since last fall's 10% correction in the S&P 500 when Treasury yields were pushing to new cycle highs.

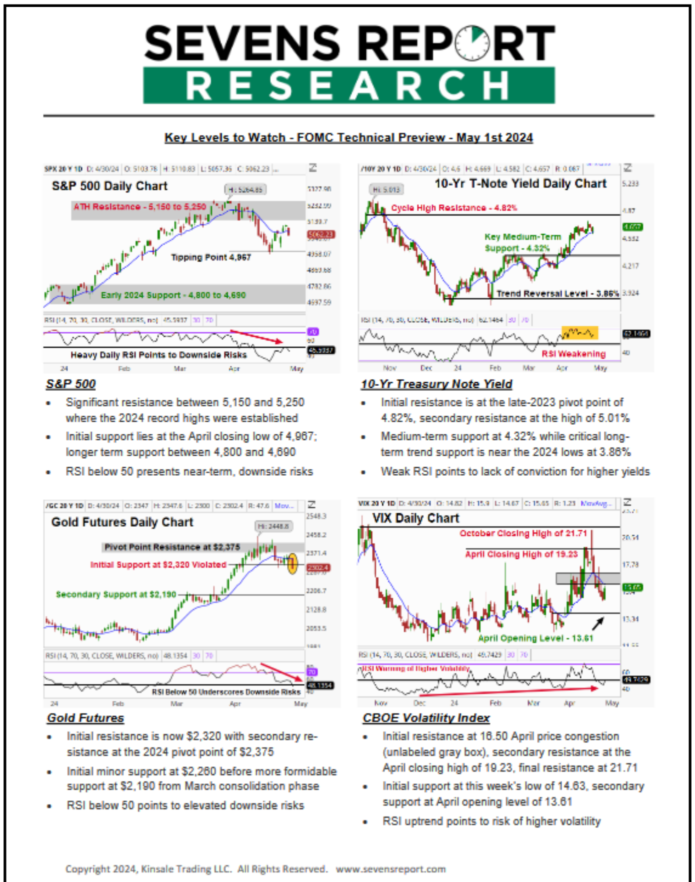
Market	Level	Change	% Change
DBC	23.34	-.30	-1.27%
Gold	2,305.00	-52.70	-2.23%
Silver	26.64	-1.02	-3.69%
Copper	4.5560	-.1205	-2.58%
WTI	81.65	-.98	-1.19%
Brent	87.86	-.54	-0.61%
Nat Gas	1.976	-.054	-2.66%
RBOB	2.7052	-.0435	-1.58%
DBA (Grains)	24.65	-.45	-1.79%

Prices taken at previous day market close.

The familiar money flows across asset classes begs the question: ***Are we in the midst of another 10% correction in the stock market right now?*** It is obviously impossible to tell for sure leading into today's Fed meeting, but looking at what happened across asset classes yesterday does shed some light on what was happening under the market's surface, and it was not encouraging.

First, the S&P 500's break away from the key options strike price of 5,100, which had been acting like a market magnet both Friday and Monday, suggests there was some real selling taking place in stocks yesterday. This was further confirmed by moves in derivatives indexes as the VIX ended higher with both a higher intraday high and higher intraday low than the prior day (Monday) for the first time since April 15, the day that a steady 3% decline in the S&P 500 began.

Additionally, the SKEW, a measure of institutional investors' long exposure that we recently covered more in depth in this report, declined towards a multi-month low suggesting some institutional liquidation took place. In the Treasury market, the 2-Yr Note yield ended at 5.04%, the highest since November, while metals plunged and the dollar surged. All of these same market movements were taking place last fall when the S&P 500 was in the process of falling to what eventually became the lasting October lows.



Email info@sevensreport.com to request this one page "tear sheet" with the key technical levels to watch in the wake of today's Fed decision.

To be clear, we are not saying market history always repeats itself and markets are surely going to continued to decline from current levels. But market history does tend to rhyme and the dynamics we saw across asset classes yesterday strongly resemble those from last August-October when the S&P 500 was in a technical correction. How markets trade into the weekend will depend on the message from the Fed today and the rest of the economic data this week, however, the measurable uptick in investor fear yesterday caught our attention, and as such, we have prepared an updated FOMC Technical Preview with key levels to watch today.

Economics

Employment Cost Index

- The Q2 '24 Employment Cost Index rose 1.2% vs. (E) 0.9%.

Takeaway

Total employment costs (wages plus benefits) ran hotter than expected and hit the highest level since 2022 in what is the latest inflation data point to imply firming price pressures.

Notably, wage increases were pretty uniform across private industry (1.1%) and government jobs (1.3%) and implies there isn't some strange outlier propping up the data. Point being, these wage gains aren't spectacular but they are solid and since a tight labor market and higher wages can fuel inflation, this report will help further solidify the Fed's likely "on hold" policy stance going forward, which means higher yields and stronger headwinds on stocks.

From a market reaction standpoint, the ECI isn't typically a widely followed number but the fact that it ran hotter than expected and futures dropped and yields rose in response is just testament to how sensitive markets are to any hot (or cold) inflation data. Bottom line, this market needs more in-line to soft price data and fast if it's going to hold last week's gains.

Case-Shiller Home Price Index and FHFA Home Price Index

- The February Case-Shiller HPI rose 0.6% n/n vs. (E) 0.1% and 7.3% y/y vs. (E) 6.7%.
- The February FHFA Home Price Index rose 1.2% vs. 0.1% m/m and 7.0% vs. (E) 6.5% y/y.

Takeaway

National home price indices are far from perfect measures of home prices, but they're the best indices we have and the bottom line from both was clear: Home price gains re-accelerated in February and that's yet another small, but notable, number that implies stickier inflation.

Markets didn't trade off these numbers (they usually don't) as they were overshadowed by the Employment Cost Index, but I wanted to point them out for a simple reason: Much of the bulls' belief that inflation stats will resume comes from the expectation lower rents and housing prices will pressure CPI. If housing prices aren't falling as much as investors think, then CPI could be much stickier around 3% than the market thinks.

That matters because it will reinforce 1) That inflation isn't falling anymore, 2) The Fed is on hold and no rate cuts are coming in the near future and 3) That yields will stay elevated and remain a strong headwind on stocks.

Bottom line, this is another unwelcomed metric that implies inflation (as measured by CPI and other statistics) isn't falling as quickly as previously hoped, and that rate cuts anytime soon remain unlikely.

Commodities

Commodities were mostly lower as stagflationary economic data weighed on general economic growth expectations while solidifying a higher-for-longer Fed policy rate outlook. The metals led the way lower amid a strong push higher by the dollar, leaving the commodity ETF, DBC, to end lower by 1.27%.

Copper has been the upside standout in the commodity complex in recent sessions as it extends its 2024 rally amidst a pause in the gold rally, which was previously leading the asset class higher. Copper dropped 2.38% yesterday, pulling back from 2-year highs as an upbeat manufacturing PMI report out of China was received with limited enthusiasm due to an unexpectedly soft service PMI print. Then the stagflationary economic data in the U.S. poured more cold water on the industrial metals market as the high-inflation-slow-growth dynamic is a terrible one for risk-sensitive assets like copper.

Market	Level	Change	% Change
Dollar Index	106.13	.68	0.65%
EUR/USD	1.0676	-.0045	-0.42%
GBP/USD	1.2500	-.0063	-0.50%
USD/JPY	157.73	1.38	0.88%
USD/CAD	1.3760	.0099	0.72%
AUD/USD	.6481	-.0086	-1.31%
USD/BRL	5.1881	.0682	1.33%
Bitcoin	60,153.62	-2,568.84	-4.10%
10 Year Yield	4.686	.072	1.56%
30 Year Yield	4.790	.052	1.10%
10's-2's	-36 bps		
Date of Rate Cut	November 2024		
2024 YE Fed Funds	5.09%		
Prices taken at previous day market close.			

On the charts, copper futures made new highs early before reversing to close below Monday's intraday low resulting in an "outside reversal" on the daily chart (also known as a "one-day-reversal" pattern), which is a bearish technical development suggesting the copper market may have just put in a near-term top. Looking ahead to the Fed today, if Powell and company deliver a hawkish message, expect more profit taking in copper as futures had become significantly overbought on the daily time frame with a more-than-20% YTD gain through Monday's close. There are multiple influences on copper between the uncertainties surrounding the threat of Chinese smelter cuts and optimism that AI will drive massive demand in the years ahead. Those bullish factors aside, a downside reversal in copper would be a caution signal for the global economy as well as risk assets ranging from stocks to other demand-sensitive commodities such as oil. Breakout support at $4.30 will be critical to watch into the end of the week in the event the pullback gains momentum.

Spiking real yields and a firming dollar combined to spark another heavy wave of profit taking in the gold market as futures dropped a steep 2.32% yesterday, only modestly trailing the decline in copper. Inflation expectations were a critical factor supporting the latest leg in the gold rally to fresh record highs near $2,450/oz., but in recent sessions the rise in market -based inflation expectations have stalled. Looking at the key fundamental influences, if inflation expectations don't resume their rise, and barring a reversal in the uptrends in yields and the dollar, gold will likely continue to pullback on profit taking with mid-March support at $2,170/oz. in focus.

Oil futures dropped 1.10% but ended off the lows as dip buyers stepped back into the market when futures tested $81/barrel. Tentative optimism regarding progress towards a ceasefire deal between Israel and Hamas weighed on the oil market as did the new whiff of stagflation in the economic data.

Today, focus will be on the weekly EIA data with traders specifically watching the proxy for consumer gasoline demand (gasoline supplied) as it has been faltering in recent weeks, consistent with a slowdown in spending at the pump as we approach the summer driving season. From there, oil is likely to trade alongside stocks and other risk assets in the wake of the Fed decision and Powell's press conference, unless there are some negative geopolitical developments in the Middle East.

Bottom line, oil remains in an uptrend but a period of consolidation has gripped the market since early April leaving the futures market rangebound in the low $80s.

Currencies & Bonds

U.S. economic data reminded global currency and bond markets that the Fed is likely the least-dovish major global central bank, and as a result, the dollar and Treasury yields rose moderately Tuesday. The Dollar Index gained 0.6% while the 10-year yield rose 5 basis points.

The main catalyst in the currency and bond markets on Tuesday was the hotter-than-expected Employment Cost Index, which further implied inflation pressures were again building in the U.S. That hot report, along with the stronger-than-expected housing indices, further pushed back on the idea of near-term rate cuts and further reduced the chances of a rate cut at all in 2024 (a December rate cut is now just a 75% probability, down from over 80% pre-ECI). That slight reduction in rate cut expectations pushed the dollar and yields higher despite generally solid EU and UK economic data, as the inflation rebound in the U.S. is simply stronger than what we're seeing in Europe.

Amidst this data, currency traders were reminded that while the ECB and, most likely, the BOE will cut rates in June or early this summer, it's not expected the Fed will cut rates until very late in 2024 and that pushed the Dollar Index back above 106 on the eve of the FOMC decision. If the Fed is hawkish, look for the greenback to move towards, and possibly through, 107 and for that to become a stronger headwind on stocks.

Turning to yields, the 10-year yield rose 6 basis points in response to the higher data and closed in the upper/mid 4.60% range and remains very close to last week's spike high of 4.75%. If today's Fed decision is hawkish, then the 10-year Treasury yield is within striking distance of potentially moving through 4.80%. If that happens, I'd expect stocks to drop and for the S&P 500 to test 5,000.

Have a good day,

Tom

5/1/2024

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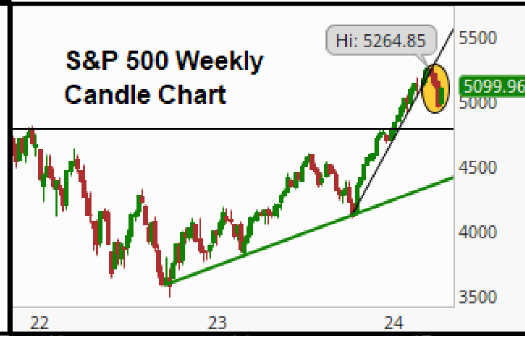
Technical Perspectives (Updated 4/28/2024)

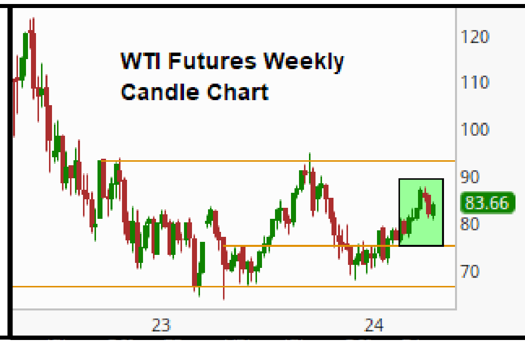
S&P 500

- 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

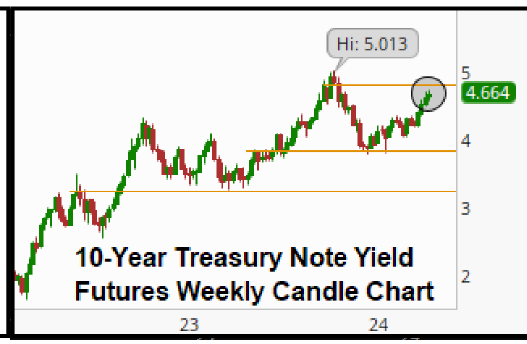


Gold

- 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

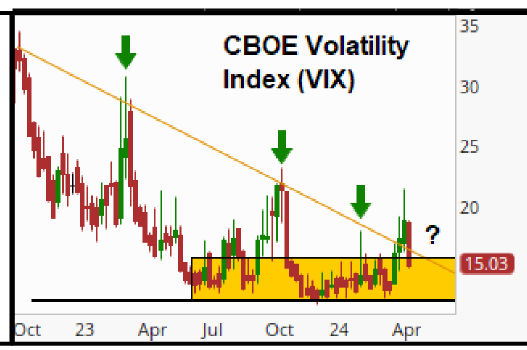
10-Year T-Note Yield Futures

- 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.