SEVENS REPORT

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

May 10, 2024

Pre 7:00 Look

- Futures are solidly higher thanks to continued momentum from Thursday's rally following a quiet night of news.
- Economically, UK data was stronger than expected (GDP and Industrial Production beat estimates) but it's not changing BOE June rate cut assumptions.
- Econ Today: Univ. of Michigan Consumer Sentiment (E: 77.0), 1-Yr Inflation Expectations (E: 3.2%), 5-Yr. Inflation Expectations (E: 3.0%). Fed Speak: Bowman (9:00 a.m. ET), Logan (10:00 a.m. ET), Kashkari (10:00 a.m. ET), Goolsbee (12:45 p.m. ET), Barr (1:30 p.m. ET).

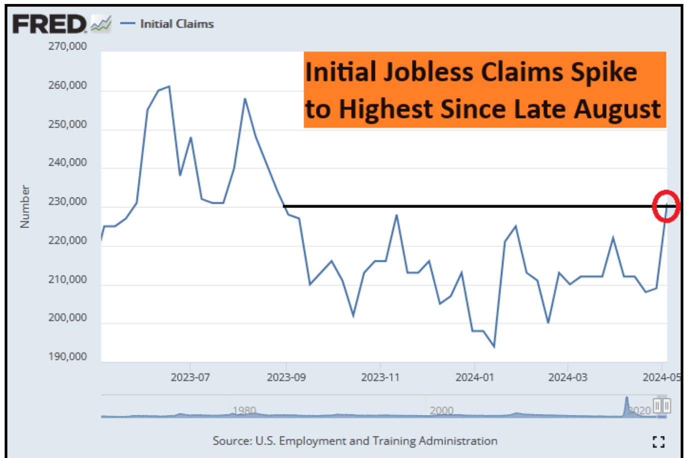
Market	Level	Change	% Change
S&P 500 Futures	5,258.25	19.25	0.385
U.S. Dollar (DXY)	105.26	0.03	0.03%
Gold	2,383.60	43.30	1.85%
WTI	79.89	0.63	0.79%
10 Year Yield	4.46%	0.01	0.11%

Equities

Market Recap

Stocks rallied to one-month highs as signs of a loosening labor market helped rekindle some dovish money flows that saw yields decline and hopes for a sooner-than-later Fed rate cut improve. The S&P 500 climbed 0.51%.

Stocks opened little changed yesterday as investors weighed moderately better-than-expected Chinese import and export data against disappointing guidance out of semiconductor company ARM Holdings. The market was quick to stabilize after a modest early session pullback though as an unexpectedly soft initial jobless claims print, which jumped to the highest level since August, was received as dovish and supported a bid in the Treasury market. Stocks steadily rallied over the course of the morning amid quiet newswires as traders embraced the continued pullback in yields.



Initial Jobless Claims rose to near-nine-month high last week in a potential early warning that the labor market is beginning to weaken.

There was a modest pullback into the lunch hour amid cautious commentary out of officials from the Bank of Canada about the impact of high interest rates on consumers. Then Bank of England officials said inflation remains "sticky." But once the intraday dip was bought and stocks revisited the intraday highs. The S&P 500 hit new session highs after a 30-Yr Treasury auction totaling $25B stopped through with a high yield of 4.635% (when-issued was 4.642%), underscoring strong demand. Around the same time AAPL announced that they will ramp up server chip production plans after deciding to use their own chips to power AI features, which helped the market push to session highs in the final hour before the S&P 500 ended just above 5,200.

Did Earnings Season Change the Market Outlook?

I received a question from a subscriber (thank you,

Market	Level	Change	% Change
Dow	39,387.76	331.37	0.85%
TSX	22,375.83	116.67	0.52%
Stoxx 50	5,096.03	41.62	0.82%
FTSE	8,453.53	71.18	0.86%
Nikkei	38,229.11	155.12	0.41%
Hang Seng	18,963.68	425.87	2.30%
ASX	7,748.96	27.33	0.35%
Prices taken at previous day market close.			

Tom!) asking about the outlook for earnings now that the Q1 earnings season has concluded, so I wanted to briefly cover it here. First, from a broad market sense, the Q1 earnings season was "fine." The 2024 S&P 500 EPS remained around $243/share (about where we were before Q1) and importantly, 2025 S&P 500 EPS expectations remain around $270/share. So, earnings season was not a negative for the market from a valuation standpoint (nor was it a materially positive, either).

Market	Level	Change	% Change
DBC	23.32	.09	0.39%
Gold	2,343.60	21.30	0.92%
Silver	28.43	.83	3.00%
Copper	4.5985	.0560	1.23%
WTI	79.47	.48	0.61%
Brent	84.08	.50	0.60%
Nat Gas	2.308	.121	5.53%
RBOB	2.5468	.0150	0.59%
DBA (Grains)	24.42	-.01	-0.04%
Prices taken at previous day market close.			

Getting more specific, the biggest concerns going into earnings were 1) Margins and 2) Revenues. Broadly speaking, both metrics were also "fine" in a broad sense and neither were bad enough to cause material concern. That said, they will be areas of focus in upcoming reports simply because while the results weren't bad, there were pockets of weakness in several areas.

First, there are absolute consumer red flags, highlighted by SBUX, SHOP and other retailer results (this was one of the weakest industries for earnings). This is especially true on the lower end of the consumer spectrum. So, based on consumer earnings, spending is something we will monitor closely in the coming weeks/months.

Second, there was AI disappointment last quarter, not because the results were bad but more because the expectations appear to have finally become too good to be true. Numerous chip firms and some large-cap tech names posted disappointing results (META was one of the worst Mag 7 reports) and that implies that "AI Enthusiasm" may have finally exhausted itself and that means it won't be the powerful catalyst it was the past several months (although it's still a positive). However, NVDA earnings (out later on May 22) will provide an important AI update. Bottom line, Q1 earnings season was "fine" although like recent economic data, there are hints to weakness that need to be monitored. But there was nothing in there that makes us more bearish.

Economics

Weekly Jobless Claims

- Jobless claims rose to 231k vs. (E) 212k.

The list of employment indicators that have signaled a potential slowing in the labor market has grown consistently over the past several weeks and yesterday, weekly jobless claims, which had been one of the few labor market indicators to stay very strong, joined that party.

Weekly jobless claims rose to 231k, the higher level since late August and well above the 212k estimate (and 209k from last week). Claims now joins the employment indices in the ISM Manufacturing and Services PMIs, JOLTS and last the April Employment Situation report in signaling a deterioration in the labor market.

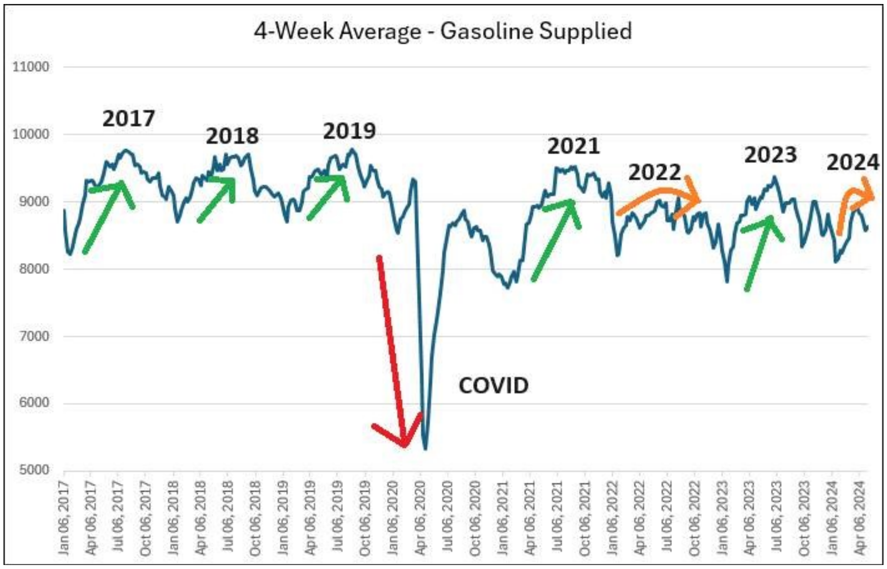
Now, and this is important, jobless claims at 231k is not a number that makes a recession more likely. The 231k jobless claims is still historically a solid number and most of the other labor market indicators mentioned previously are also in "solid" territory. But they are also showing deterioration from previous levels and that adds to the idea that the U.S. economy is losing momentum.

Looking forward, jobless claims are volatile so the focus needs to be on the four-week moving average, which includes yesterday's jump in claims rose to 215k. For there to be real notable deterioration in the job market that would increase anxiety about the strength in the economy, we'd need to see that four-week moving average move above 260k and towards 300k. Barring that, the data is signaling a mild loss of momentum in the jobs market, but nothing that's materially increasing hard landing worries.

Bank of England Rate Decision

- The Bank of England made no change to rates as expected.

The Bank of England held rates steady as was universally expected but, more importantly, it did signal that rate cuts are coming this summer and perhaps as early as June. That was what markets largely expected (there was some hope BOE Governor Bailey would more explicitly signal a June cut) and that keeps the general theme of the ECB and BOE cutting before the Fed intact. The net impact of that should be a stronger dollar (via pressure on the pound and euro) which, if the dollar continues to rally, will be a threat to earnings (although it's not at this point).



Commodities

Commodities were mostly higher as the soft U.S. economic data triggered a pullback in the dollar while strong Chinese economic data bolstered demand expectations. The commodity ETF, DBC, rallied 0.39%.

Copper outperformed as China's latest trade data showed both imports and exports had risen meaningfully, which helped ease some of the ongoing concerns about the health of the Chinese economy. Furthermore, the soft jobless claims data was modestly dovish for markets, easing hawkish positioning in rates markets while sending Treasury yields lower. Copper ended the day higher by 1.27%, just shy of the best levels of 2024 and towards the middle of the May trading range. The trend is still higher for copper but the bullish momentum seems to be fading and the risk of a profit-taking pullback is still elevated.

In precious metals, the weaker dollar and firm bid in Treasuries supported a solid 0.95% gain in gold. On the charts, gold reclaimed recent support at $2,320, which has become more of a "pivot area" the futures market has been oscillating around. $2,320 is acting magnetic for gold right now and we will look for a more definitive break one way or another in the sessions ahead. Today's inflation expectations data within the preliminary May Consumer Sentiment report has the potential to shake up the gold market as a hot print could lead to a resurgence in hawkish money flows (much like we saw in early June 2022).

Oil, meanwhile, rallied 0.76% as futures continued to build out technical support following this week's test of the mid-$70s. WTI ended within 50 cents of the psychological $50/barrel level. Geopolitical tensions continue to simmer in the Middle East and between Russia and Ukraine but better-than expected import data by China and the dovish reaction to yesterday's jobless claims data both bolstered prospects for oil demand in the coming months. Finally, OPEC+ is also beginning to come into focus as the group meets next month to decide on production cut extensions, a meeting that could have a significant impact on the market if they decide to extend and keep markets artificially tight.

Market	Level	Change	% Change
Dollar Index	105.11	-.32	-0.30%
EUR/USD	1.0781	.0033	0.31%
GBP/USD	1.2524	.0026	0.21%
USD/JPY	155.49	-.04	-0.03%
USD/CAD	1.3679	-.0043	-0.31%
AUD/USD	.6618	.0038	0.58%
USD/BRL	5.1437	.0530	1.04%
Bitcoin	62,309.73	148.22	0.24%
10 Year Yield	4.449	-.043	-0.96%
30 Year Yield	4.606	-.026	-0.56%
10's-2's	-36 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.95%		

Prices taken at previous day market close.

Is Gasoline Demand Sending a Warning Signal About the Economy?

On Wednesday, Myra Saefong, Assistant Global Markets Editor with MarketWatch, who we are proud to have worked with for over a decade now, reached out about the latest trends in gasoline demand and the potential insight it could be having on the health of the economy. Summarized, she asked if gasoline was sending a warning signal that consumers are "cracking under the pressure" of inflation and if they had finally reached a "tipping point"?

Our answer: Absolutely gasoline demand is being closely watched as a high-frequency proxy for consumer spending. That was underscored in April, specifically on 4/24 when gasoline supplied unexpectedly dropped sharply to a two-month low. In late April economic data had been coming in with a whiff of stagflation and the plunge in consumer demand for fuel amplified those worries and weighed on stocks in intraday trade.

The chart on Page 3 shows the seasonal tendencies for gasoline demand to rise throughout the spring and into the peak summer driving season. Withholding the obvious outlier year of 2020, we saw the spring rise in gasoline demand stall in 2022 as oil prices were ripping, the Fed had begun their aggressive rate hiking campaign, and consumer sentiment was in rapid decline along with the stock market.

Worries that we could see a similar drop off in economic activity amid the onset of the long-discussed, post-Covid stimulus were recently reignited by the combination of stagflationary economic data and the high frequency drop off in gasoline demand. However, this week's rebound in gasoline supplied (8.8MM b/d) above the four-week moving average (8.63MM b/d) and above the 2024 average weekly rate (8.57 MM b/d) was well received, helping oil futures stabilize above critical technical support between $76.50 and $78.50, a price zone that will remain in close focus in the weeks ahead.

Going forward, keeping an eye on the weekly gasoline supplied figure as a proxy for consumer demand for gasoline will be critical, especially relative to its four-week moving average to gauge the underlying trend in fuel demand, and compared to prior year's levels for the corresponding reporting week. If we see demand roll over again, expect recession fears to rise and volatility across asset classes pick up.

Currencies & Bonds

Unlike most of this week, there were some market-moving events on Thursday as U.S. economic data was soft while the Bank of England did point towards a summer rate cut. The Dollar Index fell 0.3%.

The Bank of England rate decision largely met expectations as the BOE did not cut rates (that would have been a shock) although the bank did signal that rate cuts will come this summer and perhaps in June. To that point, two of the nine members voted to cut rates at yesterday's meeting while BOE Governor Bailey admitted that rate cuts are coming and that July is a possibility. The pound rose 0.2%.

The next market-moving event proved to be the more important one yesterday and it was the surprise jump in Jobless claims. Markets are still in a "bad-data-is-good" mindset, and as such, it welcomed the jump in claims and that pushed the dollar moderately lower and 10-year Treasury yields slightly lower. Those declines allowed futures to rally and turn positive pre-open.

The dollar weakness helped fuel the aforementioned gain in the pound and a similar 0.2% gained in the euro. The only major currency to decline vs. the dollar Thursday was the yen, which fell 0.1% as the market continues to call the Bank of Japan's "bluff" on large-scale currency intervention.

In Treasuries, the 10-year yield declined 3 basis points thanks to the jump in claims and after a very strong 30-Year auction. The Treasury sold $25 billion worth of 30-year bonds where the actual yield was 0.7 bps below the "When Issued" yield, signaling aggressive bidding. The bid to cover was also solid at 2.40X, above the six-month average of 2.38X. Finally, foreign demand was strong as indirect bidders bought 64.9% of the auction, which was slightly below the 66.8% recent average but still a strong number. Yields slid another basis point after the auction and that helped stocks rise to their highs of the day as yields continue to slide back.

Bottom line, the dollar and yields have declined this week as there have been no major updates on inflation. However, until there's evidence that inflation is resuming its decline the currency and bond markets will remain vulnerable to inflation surprises. And if next week's CPI is hot, don't be shocked if the 10-year yield recoups all of this week's losses and again moves towards the recent high near 4.75% (if that happens, stocks will drop).

Have a good weekend,

Tom

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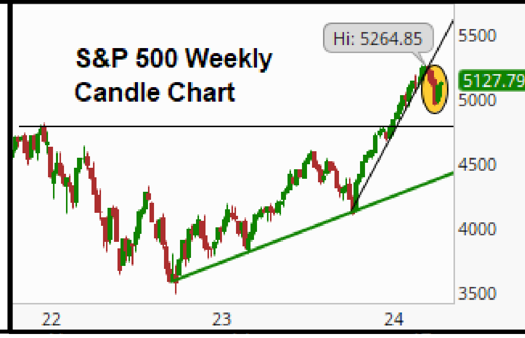
Technical Perspectives (Updated 5/05/2024)

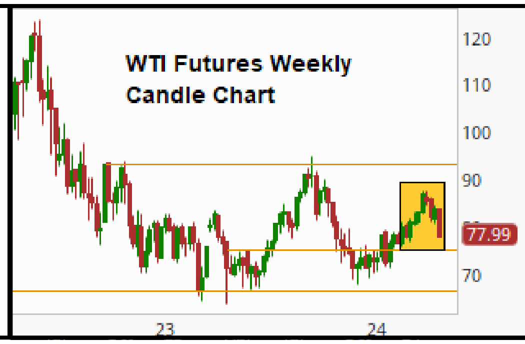
S&P 500

- Technical View: **The medium-term trend in the S&P 500 shifted to neutral from bullish** as the early 2024 advance turned sideways in early Q2.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5147, 5199, 5254
- Key Support Levels: 5029, 4967, 4846



WTI Crude Oil

- Technical View: Oil broke down through $80 last week but due to the straight line nature of the late-Q1/early Q2 rally, no notable support has been violated yet.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $79.81, $80.82, $81.90
- Key Support Levels: $77.80, $$76.57, $75.96

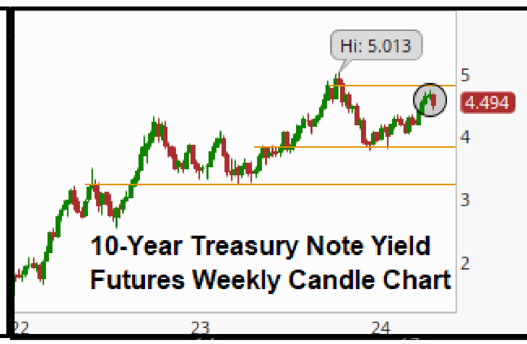


Gold

- Technical View: Gold pulled back further from 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: $2350, $2377, $2407
- Key Support Levels: $2267, $2190, $2152

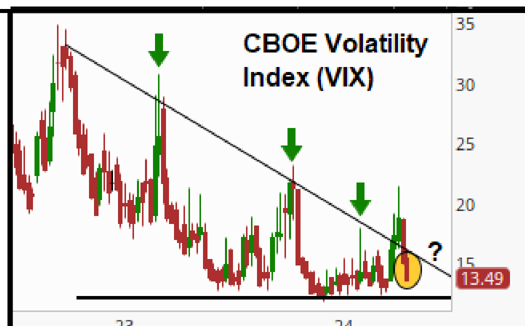
10-Year T-Note Yield Futures

- Technical View: The 10-year yield pulled back steeply to end last week close to a one-month low; however, the 2024 uptrend remains intact for the time being.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.600, 4.704, 4.822
- Key Support Levels: 4.419, 4.343, 4.209



CBOE Volatility Index (VIX)

- Technical View: The VIX continued to collapse last week ending Friday at a more-than-one-month low, back below the briefly violated uptrend line off the 2022 highs.
- Primary Trend: **Neutral (since the week of May 6th, 2024)**
- Key Resistance Levels: 14.68, 15.75, 16.94
- Key Support Levels: 13.01, 12.44, 11.81



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Fundamental Market View
(Updated 5/05/2024)

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 logged a small gain in somewhat volatile trade last week as more stagflationary economic data was offset by a not-as-hawkish-as-feared Fed meeting and Goldilocks jobs report.*

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 dropped moderately despite the weaker U.S. dollar on more underwhelming U.S. economic data.*
US Dollar	**Neutral**	*The Dollar Index fell 1% last week as the Fed wasn't as hawkish as feared and Chair Powell took rate hikes off the table, narrowing the policy gap between the Fed and the ECB/BOE.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield dropped sharply (16 basis points) on the soft economic data and on Powell pushing back against the idea of rate hikes.*

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.