SEVENS REPORT

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

May 13, 2024

Pre 7:00 Look

- Futures are slightly higher following a very quiet weekend of news as investors look ahead to a potentially very important week that includes Wednesday's CPI report.
- China announced plans to sell $140 billion in long term bonds to fund more economic stimulus, which will help combat recession fears in that economy.
- There was no notable economic data out over the weekend.
- Econ Today: New York Fed One Year Inflation Expectations (3.0%). Fed Speak: Jefferson & Mester (9:00 a.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,253.00	6.75	0.13%
U.S. Dollar (DXY)	105.28	-0.02	-0.02%
Gold	2,349.10	-25.90	-1.09%
WTI	78.66	0.40	0.51%
10 Year Yield	4.48%	-0.02	-0.44%

Equities

Market Recap

Stocks extended the rebound off the Q2 lows last week amid mostly quiet news flow, mixed earnings and despite economic data that continued to point to stagflation. The S&P 500 rose 1.85% on the week and is now up 9.49% YTD.

The market began last week with a solid rally as European economic data was better than feared while Hamas reportedly agreed to a ceasefire deal with Israel, offering some relief to the recently elevated geopolitical tensions in the Middle East. In the afternoon, the Fed's Williams noted risks of "economic volatility," which was seen as dovish and the S&P 500 ended higher by 1.03%.

On Tuesday, stocks gapped higher on strong EU bank earnings (UBS and UniCredit specifically) despite the ceasefire news between Israel and Hamas proving to be a "false start" towards a peace deal with Israeli forces continuing to move forward with their advance on Rafah. The S&P 500 tested the psychological 5,200 level in afternoon trade before abruptly reversing to end with only a modest gain of 0.13%.

The market was quiet and the S&P 500 ended flat on Wednesday as weak earnings from Toyota and Nintendo along with disappointing guidance from INTC following a ban on exports to Huawei. Better fuel demand metrics in the weekly EIA report helped spur some modest risk-on money flows but the rally effectively paused midweek.

The Q2 relief rally resumed on Thursday as soft guidance from semiconductor maker ARM Holdings was more than offset by initial jobless claims spiking to a near nine-month high which saw more hawkish money flows dialed back. There was a midday pause amid some cautious commentary from global central bankers; however, AAPL announced plans to ramp up chip production plans after deciding to use their own chips to power AI features. The S&P 500 gained another 0.51%.

Momentum carried stocks higher into the opening bell on Friday as strong economic data out of the U.K. (both GDP and Industrial Production beat estimates) helped ease worries about recession odds in Europe. The gains didn't last long though as higher-than-anticipated inflation expectations and a soft headline to the final April Consumer Sentiment report weighed on both stocks and bonds. The market absorbed the latest signs of stagflation well, however, and the S&P 500 regained positive territory in the afternoon, closing up 0.16%.

Market	Level	Change	% Change
Dow	39,512.84	125.08	0.32%
TSX	22,308.93	-66.90	-0.30%
Stoxx 50	5,073.45	-11.63	0.23%
FTSE	8,437.73	3.97	0.05%
Nikkei	38,179.46	-49.65	-0.13%
Hang Seng	19,115.06	151.38	0.80%
ASX	7,750.03	1.06	0.01%
Prices taken at previous day market close.			

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Are Stagflation Risks Real?

Stagflation has become a somewhat popular topic amongst investors ever since the March CPI report ran hotter than expected and because stagflation is one of the worst possible investing environments for stocks and bond holders. So, I wanted to review the recent data and examine if stagflation risks really are rising.

Market	Level	Change	% Change
DBC	23.28	-.04	-0.17%
Gold	2,371.60	31.30	1.33%
Silver	28.47	.11	0.38%
Copper	4.6585	.0735	1.60%
WTI	78.38	-.88	-1.11%
Brent	82.90	-.98	-1.17%
Nat Gas	2.259	-.042	-1.83%
RBOB	2.5036	-.0382	-1.50%
DBA (Grains)	24.67	.27	1.13%
Prices taken at previous day market close.			

Importantly, most economists are dismissive of this idea of stagflation. Chief among them is Fed Chair Powell, who said in the April FOMC press conference that he didn't understand stagflation concerns and saw neither the "stag" (meaning stalled growth) nor the "flation" (meaning high inflation). Of course, comparing this period to the 1970s, where GDP growth was flat or negative and CPI was running more than 10%, he's absolutely right, there is no stagflation.

However, I believe it's somewhat dismissive to say that just because things aren't as bad as they were in the 1970s that any talk of stagflation isn't warranted. Point being, stagflation doesn't have to be as bad as it was in the 1970s, but for a stock market that's trading above 21X earnings, the truth is that even a small bout of stagflation could result in a 10%-20% decline in stocks (because a stagflation multiple is somewhere below 18X, or more than 600 S&P 500 points lower from here). So, with all due respect to Powell and other economists, I do think it's worth taking a look to see if stagflation risks are rising and, if so, what it could mean for stocks.

First, is the "stag" occurring? In an absolute sense, no it's not. Q1 GDP growth was solidly positive (even at 1.6% that's a long way from 0.0% and underlying growth was even stronger). That said, there are several more timely economic indicators that are pointing towards a loss of momentum. The ISM Manufacturing and Services PMIs are now below 50, something that doesn't happen often. Durable goods, a proxy for business investment, has been essentially flat for over a year. The unemployment rate, while still low, is threatening to move above 4% for the first time in years. *What's It Mean to Me:* None of these metrics imply that economic growth has stalled, so Powell is right, there isn't any hard evidence of an economic stagnation. However, it's also accurate to say that the data is becoming more conclusive that economic momentum is slowing and that must happen first if any stagnation is going to occur. **The bottom line is economic growth is still solidly positive but clearly the momentum is slowing, so while stagnation isn't here yet, the data is showing a greater chance of it occurring than any time in the last year and a half.**

Second, is the "flation" occurring? In an absolute sense, no, it's not. CPI has rebounded to 3.5% y/y, University of Michigan Inflation Expectations are rising to multi-month highs at 3.5% for one year and 3.1% for five years while price indices in the ISM Manufacturing and Services PMIs have also jumped to multi-month highs. But if our measuring stick is 1970's style inflation (or even pandemic-era inflation) then no, we aren't seeing that type of inflation. *What's It Mean to Me:* In an absolute sense, inflation isn't at levels that would imply historical stagflation. But it's also clear that inflation has stopped declining and at this point appears to be trying to bounce. No one thinks inflation is going to surge back towards 7% or 8% again, but for a market that's priced at over 21X earnings and counting on lower yields to justify that valuation, the bounce in inflation metrics is a problem.

Bottom line, inflation has declined and isn't at 1970's levels, but it's undeniable that the decline in inflation has stopped and the longer inflation stays higher, the more it will become entrenched in the economy—and that means higher inflation risks. In sum, stagflation is not here, especially if we think about it in 1970's terms. But the data is moving in a stagflationary direction of 1) Slowing growth and 2) Buoyant prices and with the S&P 500 trading above 21X earnings, we don't need 1970's style stagflation to cause a correction—we just need the data to keep going in the current direction because the stagflationary drift in the data is absolutely a worry for anyone owning stocks and bonds, and that's a critical difference to be aware of (and we are).

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Economics

Last Week

Economic data was minimal last week although the numbers we received did further stagflation concerns as there were only two notable reports last week but they pointed to firmer prices and weaker growth.

On Friday, the University of Michigan Inflation Expectations jumped as the one-year expectation rose to 3.5%, the highest level since November, while the five year rose to 3.1% (above the 3.0% expectation and solidly higher than the 2.8% reading in March).

One day earlier, on Thursday, weekly jobless claims jumped to the highest level since late August and finally joined numerous other labor market indicators that showed the job market was cooling. To be clear, claims rising to 231k vs. (E) 212k is not a bad number in an absolute sense and doesn't imply a looming economic slowdown. But it does join several other metrics (labor market related and not) to point towards a slowing of momentum. For now, markets largely embraced last week's data as "bad is good" because it means sooner-than-expected rate cuts. But that's a very tricky needle to thread. A truly slowing/contracting economy is one of the few events that can end this bull market so we will continue to watch data closely to ensure we're not blindsided.

This Week

For the past month economic data has pointed towards stickier inflation and potentially slowing growth and this week brings a lot of important data that will either 1) Reinforce that message and increase stagflation concerns or 2) Refute that data and provide a more Goldilocks picture of the economy (and potentially push the S&P 500 to new all-time highs).

The key report this week is Wednesday's CPI and while we'll provide a CPI preview in tomorrow's Report, the bottom line is markets are expecting a solid decline in the annual increase from last month's 3.5% and that needs to happen, otherwise concerns about sticky inflation and higher for even longer rates will rise (and that will likely reverse some of the past 10 day's gains). Notably this week, PPI actually is released before CPI (PPI is out on Tuesday) but while that may provide a short bit of volatility, it'll quickly be overshadowed by CPI the next day.

The remainder of the important data this week is all focused on growth. The key report this week also comes Wednesday via the Retail Sales report. Numerous companies have voiced some caution on consumer spending trends but Retail Sales have generally held up. That needs to continue because if retail sales begin to roll over, then that will lead to increased concerns about an economic hard landing.

We also get the first look at May economic activity via the Empire Manufacturing Survey (Wednesday) and Philly Fed (Thursday). These reports have been extraordinarily volatile lately, but last month they pointed towards stagflation via negative headlines and higher prices. If that happens again, look for investors to pay a bit more attention as it'll start to become a trend. Staying with growth, we'll also be watching Thursday's weekly jobless claims to see if they reverse last week's jump to six-month-plus highs or stay at those levels.

Market	Level	Change	% Change
Dollar Index	105.17	.06	0.06%
EUR/USD	1.0774	-.0008	-0.07%
GBP/USD	1.2530	.0006	0.05%
USD/JPY	155.80	.32	0.21%
USD/CAD	1.3668	-.0009	-0.07%
AUD/USD	.6609	-.0011	-0.17%
USD/BRL	5.1561	.0148	0.29%
Bitcoin	60,645.28	-1,691.13	-2.71%
10 Year Yield	4.504	.055	1.24%
30 Year Yield	4.646	.040	0.87%
10's-2's	-36 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.99%		

Prices taken at previous day market close.

Bottom line, data that points towards stagflation should be a negative for markets as it implies slowing growth, sticky inflation and higher-for-even-longer rates. Conversely, for now, markets are still in a "bad data is good" mindset so if data this week is soft and CPI is better than expected and pushes Treasury yields lower, don't be surprised if markets rally on the hopes of sooner-than-expected rate cuts. But I've been through three of these types of cycles in my career and I will continue to offer a word of warning: Data that shows slowing growth in the U.S. economy is not a reason to buy stocks. Every economic slowdown or contrac-

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tion started out with investors and the Fed believing a soft landing was happening, and that is simply very rarely the case, despite the optimism that initially accompanies that slowing data.

Commodities

Commodities were mostly higher last week led by rebounds in the metals amid a late-week reversal from the highs in the dollar. Industrials led thanks to continued AI optimism while gold gained on stagflation worries. Energy lagged but oil eked out a gain as a midweek rebound thanks to bullish EIA data was reversed Friday on high inflation worries and a waning economic growth outlook. The commodity tracking index ETF, DBC, gained 0.74% on the week.

The oil market largely stabilized amid the continued relief rally in the equity markets last week. WTI crude oil futures ended the week with a slight loss of 0.26%. Looking at the fundamental influences on the market, stagflationary economic data, specifically Friday's Consumer Sentiment release, continued to act as a headwind on the energy complex but a reversal higher in a widely followed consumer demand proxy within the weekly EIA inventory report was seen as a solidly positive catalyst. Traders will want to see that trend of demand improvement continue in the weeks ahead to contradict the idea that we are facing another 2022 scenario where inflation-gripped consumers chose against paying up for high fuel prices. The term "demand destruction" has not been widely used since 2022 and is once again a threat to oil and refined products markets as we approach the summer driving season.

Overseas, the geopolitical fear bid in oil prices has largely gone stale since the *realized* impact of the ongoing Israel-Hamas war has been nominal compared to the *implied* threat to global oil supply when the conflict began last fall, it is still a simmering influence on the oil market and contributed to oil's price stabilization last week as tensions, specifically in Rafah, have picked up meaningfully. On the charts, support between $76.50 and $78.50 will be critical to watch in the weeks ahead while initial resistance is now between $81.50 and $82.50.

Gold rebounded 1.84% last week, ending above the key technical level of $2,320/oz. in the back half of the week and futures look poised to make another run at the all-time highs. Having said that the market remains overextended and we will need to see some degree of consolidation of a more pronounced profit-taking pullback before we see the gold rally resume in a sustainable manner.

Currencies & Bonds

Currency and bond markets were quiet last week until the pop in jobless claims on Thursday and the rise in inflation expectations on Friday caused some modest volatility. The Dollar Index rose 0.3% on the week while the 10-year Treasury yield gained 6 basis points with most of those moves coming on Friday.

There was no significant market-moving events Monday-Wednesday so currency and bond markets were quiet. Thursday's pop in jobless claims pressured the dollar along with a Bank of England rate decision that largely met expectations (the BOE said a June rate cut was possible but not guaranteed and ideally the market would have liked a bit more commitment to a cut). But the dollar weakness reversed partially on Friday, and Treasury yields, which were flattish for most of the week, rose following the higher-than-expected inflation expectations. The 10-year closed the week at 4.50%.

Bottom line, the dollar and Treasury yields have declined moderately following the Fed decision and as economic data has been mildly disappointing. But that will be challenged this week via the CPI report and growth data and if that CPI comes in hot, don't be shocked if the 10-year yield recoups most of the recent decline and that will pressure equities again.

Have a good week,

Tom

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5/13/2024

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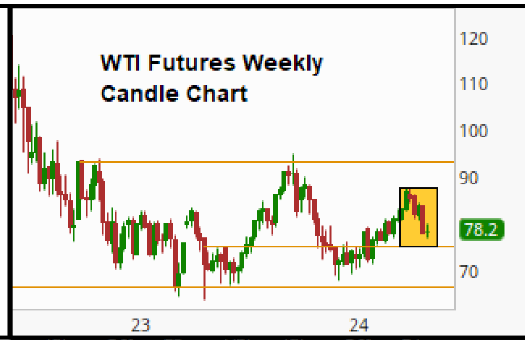
Technical Perspectives (Updated 5/12/2024)

S&P 500

- Technical View: **The medium-term trend in the S&P 500 shifted to neutral from bullish** as the 2024 advance turned sideways in early Q2.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5240, 5265, 5300
- Key Support Levels: 5116, 5029, 4967

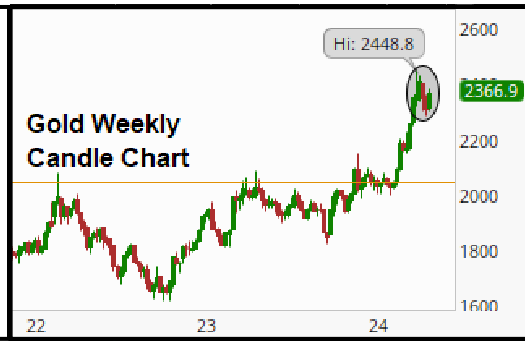
WTI Crude Oil

- Technical View: Oil prices have retreated sharply from the 2024 highs from early April and are now back towards the middle of the 2024 trading range.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $79.57, $80.82, $81.90
- Key Support Levels: $77.99, $$76.57, $75.96



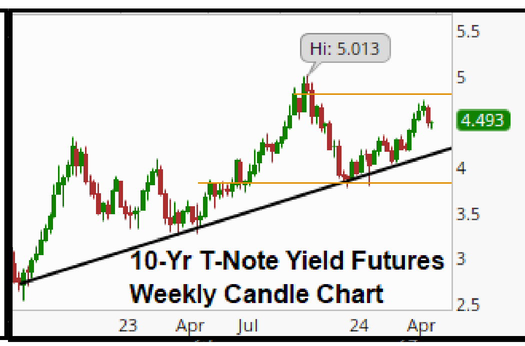
Gold

- Technical View: Gold remains off the 2024 highs but has shown signs of stabilizing above $2,300 in recent weeks with the primary trend remaining bullish.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2385, $2407, $2449
- Key Support Levels: $2322, $2285, $2190



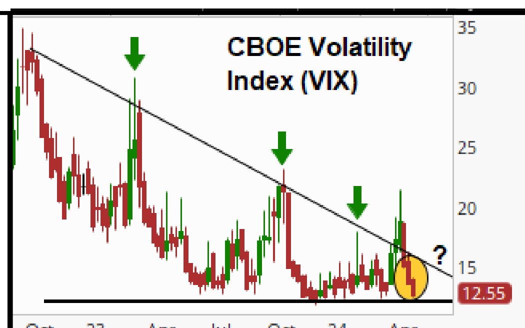
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs in recent weeks but the uptrend off the late-January lows remains intact for now.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.520, 4.600, 4.704
- Key Support Levels: 4.448, 4.343, 4.209



CBOE Volatility Index (VIX)

- Technical View: The VIX has collapsed since the early Q2 peak in mid-April and the 2024 lows are now quickly coming into focus.
- Primary Trend: **Neutral (since the week of May 6th, 2024)**
- Key Resistance Levels: 13.49, 14.67, 15.75, 16.94
- Key Support Levels: 12.44, 12.07, 11.81



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SEVENS REPORT	Fundamental Market View (Updated 5/12/2024)

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 extended the Fed-driven rebound last week amidst quiet trading and despite more economic data that pointed towards rising stagflation risks.*

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 was little changed last week as Fed officials largely repeated the "higher-for-longer" messaging while the Bank of England pointed to, but did not guarantee, a rate cut.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield rose last week thanks mostly to Friday's hotter-than-expected inflation expectations as that's another sign that inflation pressures are sticky or even rebounding.*

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.

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