SEVENS REPORT

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

May 15, 2024

Pre 7:00 Look

- Futures are flat while EU stocks are modestly higher thanks to market-friendly economic data o/n ahead of today's U.S. CPI report. GME and AMC are both notably up another 10%+ in pre-market trading.
- Economically, French CPI met estimates at 2.2% y/y while Eurozone Industrial Production was up 0.6% vs. (E) -0.5%.
- Econ Today: CPI (E: 0.3% m/m, 3.4% y/y), Core CPI (E: 0.3% m/m, 3.6% y/y), Retail Sales (E: 0.4%), Empire State Manufacturing Index (E: -10.0), Housing Market Index (E: 51.0).
- Fed: Kashkari (12:00 p.m. ET), Bowman (3:20 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5271.25	1.75	0.75%
U.S. Dollar (DXY)	104.855	-.166	-0.16%
Gold	2376.10	16.20	0.69%
WTI	78.13	.11	0.14%
10 Year Yield	4.417	-.024	-0.54%

Equities

Market Recap

Stocks were volatile yesterday as renewed AI optimism after an announcement from GOOGL more than offset the net negative market influences of a mixed PPI report and new tariffs on China. The S&P 500 jumped 0.48% to close within 10 points of the all-time high.

Stock futures were volatile in pre-market trade yesterday as "meme stocks" GME and AMC were both up well over 50% before the bell following 70%-plus gains Monday, which fueled a resurgence in speculation particularly in heavily shorted U.S. stocks. Economic data overseas was mostly market friendly as German CPI met estimates, the ZEW Survey had a better-than-expected Economic Sentiment number, and the U.S. NFIB Small Business Optimism Index was better than feared.

Outside of the meme names, market moves in U.S. equity index futures and the Treasury market were limited, however, as traders awaited the April PPI report. Both stocks and bonds initially dropped on the PPI release as the headlines all topped estimates by several tenths of a percentage point, but the losses were quickly reversed as favorable downside revisions to the March data largely offset the hot April headlines and made the release much more palatable.

Markets were trading with a tentative risk-on tone after the opening bell with focus turning to Powell's speech/ Q&A session with ECB officials during which he reiterated a higher-for-longer, restrictive policy stance is likely going to be needed amid the unforeseen stickiness to inflation so far in 2024. The market fluctuated on those headlines but that was nothing new and the S&P 500 recovered towards session highs in late-morning trade.

President Biden's announcement of new tariffs on China poured some cold water on the tentative midday gains and the S&P 500 fell to fresh session lows in the early afternoon. There was no follow through to the declines as the volatile session continued with a squeeze up through the morning highs as the S&P 500 charged towards record highs thanks to strength in mega-cap tech names after GOOGL announced the integration of AI into its search engine functions, which saw the major indexes power higher ahead of today's all-important CPI report.

Trading Color

Tuesday was similar to Monday as there was continued evidence of investors "chasing" markets higher as the S&P 500 approaches new all-time highs. That was evi-

Market	Level	Change	% Change
Dow	39,558.11	126.60	0.32%
TSX	22,243.34	-15.83	-0.07%
Stoxx 50	5,081.89	1.60	0.03%
FTSE	8,451.43	23.30	0.28%
Nikkei	38,385.73	29.67	0.08%
Hang Seng	19,073.71	-41.35	-0.22%
ASX	7,753.70	26.94	0.35%
Prices taken at previous day market close.			

dent on an index level, as the Russell 2000 spent the entire day in solidly positive territory and handily outperformed the other three major indices once again.

Market	Level	Change	% Change
DBC	23.33	-.10	-0.43%
Gold	2,362.60	19.60	0.84%
Silver	28.86	.42	1.47%
Copper	4.8985	.1325	2.78%
WTI	78.05	-1.07	-1.35%
Brent	82.39	-.97	-1.16%
Nat Gas	2.334	-.037	-1.55%
RBOB	2.4638	-.0467	-1.86%
DBA (Grains)	23.69	.23	0.96%
Prices taken at previous day market close.			

On a sector level, performance was similar to Monday as tech (XLK) and real estate (XLRE) again led markets higher, rallying 0.89% and 0.71%, respectively. GOOGL's AI announcement (they seem to make one, positively or negatively, pretty frequently) elicited the Pavlovian bullish reaction and that helped tech rally while real estate benefitted from yields hitting a one-month low.

The meme stocks, meanwhile, continued their wild rise in yet another sign that investors remain confident and, potentially, complacent to risks that include, but aren't limited too, slowing growth, higher-for-longer rates and sticky inflation.

CPI Technical Preview: S&P 500, 10Yr, Gold, VIX

Due to the overwhelmingly encouraging response we had to our recent *FOMC Meeting Technical Preview* sent out on May 1 (the day of the Fed decision), we wanted to provide another chart-focused visual preview for today's CPI report as the release could prove to be a major catalyst for markets across asset classes.

S&P 500

- Resistance: 5,200 to 5,250, the range where the late Q1 record highs were established.
- Support: 5,117 at the late April closing high, 4,967 at the Q2 lows, 4,800-4.690 at early 2024 congestion.
- Technical Take: Fading RSI and stalling price action leave risk-reward skewed in bears favor (1:5)

10-Yr Treasury Note Yield

- Resistance: 4.70% at the Q2 highs, 4.82% at the pivot point of the cycle highs from October.
- Support: 4.44% at the Q2 congestion lows, 4.17% at the late-March lows, 3.86% trend reversal level.
- Technical Take: Trend remains higher for the 10Y but risk of a pullback (like late-Jan and early March).

Gold Futures

- Resistance: $2,375 at the low-end of the April pivot point, $2,415 near the record closing highs.
- Support: $2,297 at the late-April low close, $2,190 at the top end of the March congestion area.
- Technical Take: Balanced technical risks; above $2,415 = bullish, below $2,297 = bearish.

CBOE Volatility Index

- Resistance: 14.03 at this week's intraday high, 16.22 at the May 1st intraday high.
- Support: 12.50 at the May intraday low, 12.40 at the March intraday low, 12.35 at the 2024 intraday low.
- Technical Take: Unconfirmed lows in late 2023 and upward trending RSI point to upside volatility risks.

Email info@sevensreport.com to request this one page "tear sheet" with the key technical levels to watch after the CPI report.

The primary technical takeaway for markets leading into the CPI report is that, in the wake of the early Q2 bout of volatility, traders have positioned the market into an almost certainly binary tipping point here with the S&P 500 just off the record highs, the 10-Yr yield pinned in the mid-4.40% area, gold in a broad trading range and the VIX back near the 2024 lows. This "positioning dynamic" is typical ahead of major catalysts like today's CPI report, which could measurably impact the outlook for the Fed's policy stance in the months and quarters ahead.

But with a still deeply inverted yield curve that continues to get less and less attention from the financial media, decidedly positive real interest rates (above 2%), evidence in recent economic data that stagflation fears could become reality, and growing concerns about the health of the U.S. fiscal situation, the stakes are extremely high for the Fed to "thread the needle" here and pull off the historically challenging feat of a soft economic landing in what otherwise appears to be a slowing growth and potentially late-cycle market environment.

Stocks: The S&P 500 has rallied back into critical 2024 resistance between 5,200 and 5,250 where the index peaked late in Q1 prior to pulling back 5% in early April. New highs would be bullish (closing level to beat 5,254 for the S&P)

while a reversal out of the current resistance area would greatly raise the risk that the April lows are taken out and the YTD gains be entirely given back.

10-Yr Yield: The 10-Yr yield has pulled back from the 2024 highs near 4.70%, which should be looked at as initial resistance today and have been pinned in the mid-4.40% zone for all of May. A drop below 4.44% would open the door to a test of medium-term support at 4.17 while a distant 3.86% YTD low would mark a long-term trend reversal.

Gold: Precious metals have been on a tear in 2024 but gold has pulled back from the highs only to recover back to test pivot-area resistance this week in a very similar fashion to the S&P 500. New highs should be viewed as confirmation of the rally while a break below recently established support at $2,297 would be near-term bearish and leave the path of least resistance lower towards support at the March congestion area of $2,190/oz.

VIX: Volatility has been absolutely crushed recently with the VIX reversing from a 2024 high of over 20 back towards the 2024 lows in the mid-12 area. The May intraday low of 12.50 should be viewed as a key level to watch as a break below would suggest the short-volatility/long-equity trade is back on like it was in Q1. To the upside, a rise beyond 14.03 (yesterday's intraday high) would be a step in the direction of a renewed spike in volatility and pullback in stocks, potentially back to the early April lows. Beyond there the May 1 intraday high of 16.22 would be in focus as a push beyond that would be consistent with a short squeeze on short volatility traders that would present the risk of a massive unwind of long-equity derivatives trades ultimately resulting in forced selling.

Market	Level	Change	% Change
Dollar Index	104.88	-.23	-0.22%
EUR/USD	1.0821	.0031	0.29%
GBP/USD	1.2591	.0032	0.25%
USD/JPY	156.45	.23	0.15%
USD/CAD	1.3649	-.0017	-0.12%
AUD/USD	.6627	.0019	0.29%
USD/BRL	5.1305	-.0211	-0.41%
Bitcoin	61,588.24	-1,501.54	-2.34%
10 Year Yield	4.445	-.036	-0.80%
30 Year Yield	4.594	-.029	-0.63%
10's-2's	-37 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.98%		
Prices taken at previous day market close.			

Economics

Producer Price Index (PPI)

- PPI rose 0.5% vs. (E) 0.3% m/m and 2.2% vs. (E) 2.2% y/y
- Core PPI rose 0.5% vs. (E) 0.2% m/m and 2.4% vs. (E) 2.3% y/y

Takeaway

PPI provided a head fake to investors on Tuesday morning as the initial release was "hot," but upon further investigation the details of the report gave investors enough comfort that it didn't interrupt the two-week long post Fed rally. While the April PPI readings were higher than estimates, the March headline and core PPI figures were revised meaningfully lower, each down 0.3% in monthly terms, to -0.1%.

Since it was the March inflation data that was largely behind the April pull back, the strong revisions led optimistic investors to hope we'll see similar downward revisions to the CPI data this morning and that's the reason stocks rebounded so quickly and rallied despite the hot headline PPI.

Bottom line, this is a market that once again is convincing itself the Fed is going to cut in the not-too-distant future and unless inflation data is simply irrefutably hawkish (which PPI was not) then investors will try to ignore it and they did so successfully yesterday (and they'll try again today with CPI).

Commodities

Commodities were mixed as less-hawkish-than-feared inflation data pressured the dollar and bolstered metals while concerns about higher-for-longer Fed policy rates weighed on oil ahead of today's critical inventory data. The commodity ETF, DBC, fell 0.43% due to the heavy weight energy futures carry.

Copper futures continued to rip higher as talks of a new "super cycle" continue to emerge. Futures gained another 2.86%, topping $5.00 for the first time in intraday trade since March 2022 before retreating back below that psychological level into the close. Between falling physical warehouse supply, which is down by 30% in the U.S. and 15% in LME registered warehouses overseas in just the last month alone, paired with the threat of a smelter strike by Chinese copper refiners and exploding demand that is anticipated due to AI and electric vehicle demand, copper is on the brink of breaking out to new all-time highs in the near term. Key resistance levels to watch in the sessions ahead are $4.92, the all-time record closing high and $4.96, the intraday record of $5.04 from 2023. To the downside there is support from $4.55 to $4.70.

The bid in Treasuries thanks to the downside revisions to the March PPI numbers as well as the weaker dollar yesterday both bolstered gold futures, which ended higher by 0.85%. Gold is in a holding pattern leading into today's CPI release with futures pinned between the record highs from earlier in 2024, just shy of $2,450 and support at $2,200. Which way the price of gold breaks from here could largely depend on the broader market reaction to today's CPI report. If the data is hot, expect a more pronounced pullback to or through $2,200/oz. while a dovish release could easily prompt a test of the record highs.

WTI crude oil futures fell by 0.83% as the threat of higher-for-longer Fed policy rates due to the still-rising PPI numbers (despite the favorable downward revisions) and Powell's comments that reiterate the need for a longer-than-anticipated restrictive stance from the Fed weighed on expectations for consumer demand. Speaking of which, today's EIA report will be critical to watch as the gasoline supplied figure could shed light on whether demand is rebounding into the summer driving season as it did last year and prior to Covid, or rolling over amid a sense of demand destruction thanks to high prices at the pump and stubborn, painful pressures from broader inflation. A solid gasoline demand figure and no meaningfully bearish surprises on the headline inventory changes could reignite a rally beyond $80/barrel for WTI while a soft gasoline demand figure or bearish builds could spark a test of recently-established price support in the mid-$70 range.

Currencies & Bonds

The mixed PPI report was the main catalyst in the currency and bond markets as traders keyed on the revisions and not the hot headline and as such it sent the dollar and yields modestly lower. The Dollar Index declined 0.2% while the 10 year yield fell 3 basis points.

The Dollar Index was flat until the PPI report was released and it followed the whiplash other markets experienced, as the dollar and yields popped on the hot headline but then gave back those initial gains and declined as investors focused on the revisions to the previous month's data and extrapolated the hope that we'll see similar revisions to the hot CPI data this morning.

The Dollar Index traded lower by 0.2% once the dust settled on the PPI report and then spent the rest of the day largely chopping sideways. The other notable event on Tuesday, Powell's commentary, didn't provide anything new as he reiterated that rate hikes are unlikely but sticky inflation has been an unwelcomed surprise. And as such, rates will stay higher for longer. The result was a quiet remainder of the day in the currency and bond space as the dollar, foreign currencies and Treasury yields drifted sideways. The euro and pound both rose modestly (0.2% each) while the yen dipped 0.2% as investors looked ahead to today's CPI.

Turning to Treasuries, the 10-year yield dipped 3 basis points as investors keyed on the revisions to PPI and the hope that they are foreshadowing a similar decline in the hot March CPI data. The 10-year yield fell to 4.45% and as we await the CPI report, the 10-year yield is at a one-month low and if CPI declines more than expected, it's not unreasonable to think the 10-year yield could drop below 4.30% (which would be positive for stocks).

Have a good day,

Tom

5/15/2024

SEVENS REPORT

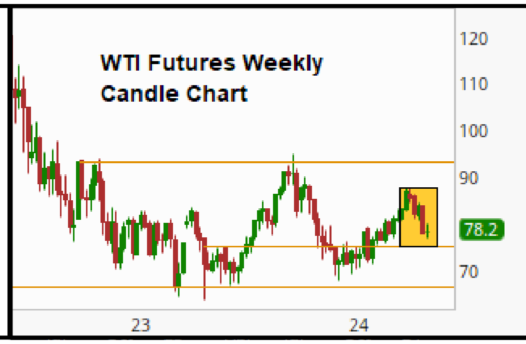
Technical Perspectives (Updated 5/12/2024)

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

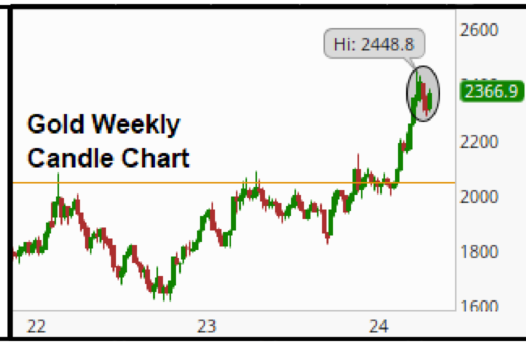
WTI Crude Oil

- 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



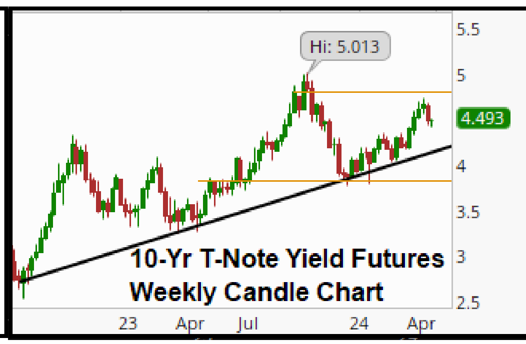
Gold

- 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



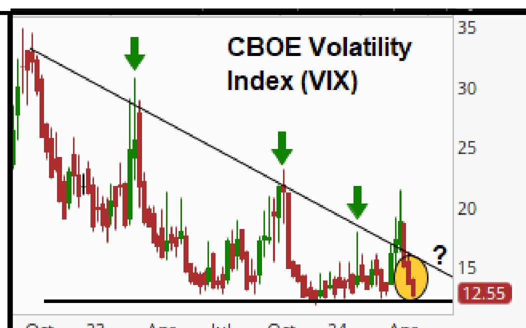
10-Year T-Note Yield Futures

- 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



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.