SEVENS REPORT

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

May 16, 2024

Pre 7:00 Look

- Futures are little changed as market digest Wednesday's new high amidst more dovish global data.
- Japanese GDP (-0.5% vs. (E) -0.4%), Aussie Unemployment (4.1% vs. (E) 3.9%) and Italian HICP (their CPI, 0.9% vs. (E) 1.0% y/y) all pointed towards falling inflation and slowing global growth, which investors welcome (for now).
- Econ Today: Jobless Claims (E: 219K), Housing Starts (E: 1.435MM), Philly Fed (E: 7.8), Industrial Production (E: 0.1%). Fed Speak: Barr (10:00 a.m. ET), Barkin (10:00 a.m. ET), Harker (10:30 a.m. ET), Mester (12:00 p.m. ET), Bostic (3:50 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,334.50	1.50	0.03%
U.S. Dollar (DXY)	104.42	0.07	0.07%
Gold	2,386.20	-8.70	-0.35%
WTI	78.26	-0.36	-0.46%
10 Year Yield	4.34%	-0.02	-0.40%

Equities

Market Recap

The S&P 500 rose to new record highs in morning trade yesterday as an in-line CPI report and soft economic data reinforced expectations for a September rate cut. The S&P 500 rallied 1.17% to end at a record high.

Stocks were decidedly higher at the opening bell yesterday as a slew of fresh economic data supported the case for sooner-than-later rate cuts by the Fed, most notably the April CPI report. Beginning with the inflation numbers, both headline and Core CPI figures declined in line with expectations last month, easing concerns that disinflation had stalled, which was largely the reason for the 5% April pullback.

Other economic data was equally supportive of rate cuts as Retail Sales were flat in April, missing expectations for a 0.4% rise and well below the March print of 0.6% while the Empire State Manufacturing Index unexpectedly fell deeper into negative territory. Once all the data was digested, traders increased the odds for a July cut from 25% to 35% while expectations for a September cut jumped from 65% to more than 75%.

The rally continued into the afternoon as the market shrugged off some hawkish comments by Minneapolis Fed President Kashkari (not a voting member of the FOMC right now), who suggested that "borrowing costs may need to be higher" to achieve 2% inflation. The rally continued into the afternoon with the S&P 500 topping 5,300 for the first time before turning sideways into the final hour. A final push into the closing bell saw the S&P 500 end comfortably above the 5,300 mark.

Short Term vs. Long Term Outlook: Is Falling Inflation and Slowing Growth Good for Stocks?

The S&P 500 hit a new all-time high, eclipsing the levels seen in late March and over that time period, the following has occurred:

- The first Fed rate cut is now expected in September, not June (as it was in late March).
- The Fed is only expected to cut once or twice, not three or four times (as it was in late March).
- The ISM PMIs both printed below 50, the first time that's occurred since December 2022.
- The unemployment rate rose to 3.9%, tying the highest level in months.
- CPI is rising at 3.4% y/y, up from 3.15% in February.

Market	Level	Change	% Change
Dow	39,908.00	349.89	0.88%
TSX	22,284.76	41.42	0.19%
Stoxx 50	5,083.21	-17.69	-0.35%
FTSE	8,420.09	-25.71	-0.30%
Nikkei	38,920.26	534.53	1.39%
Hang Seng	19,376.53	302.82	1.59%
ASX	7,881.29	127.59	1.65%

Prices taken at previous day market close.

- Earnings expectations for 2023 remain in the $240-$245 range.

Put simply, none of these fundamental factors are better than they were in March and all except one of them is worse! So, why are stocks higher today than they were in late March? There are two reasons for this.

Market	Level	Change	% Change
DBC	23.41	.08	0.34%
Gold	2,392.00	32.10	1.36%
Silver	29.95	1.25	4.35%
Copper	4.9175	.0225	0.46%
WTI	78.80	.78	1.00%
Brent	82.90	.52	0.63%
Nat Gas	2.421	.077	3.28%
RBOB	2.5010	.0414	1.68%
DBA (Grains)	23.86	.16	0.68%
Prices taken at previous day market close.			

First, sentiment. Investors have convinced themselves that we are in the midst of a near-stock-perfect Goldilocks environment that's still characterized by 1) Stable growth, 2) Falling inflation, 3) Fed rate cuts and 4) AI enthusiasm. Yes, all four of those aspects of this market are worse today than they were in March. But they're not "worse enough" to force investors to think they aren't happening. Put differently, the environment may not be as good as it was in late March, but it's still good enough to push stocks higher.

Second, a sudden disregard for "linearity." Linearity is a concept used in economics and finance to describe trends. For instance, if on an earnings call, executives say March business was better than February and February was better than January, that's positive linearity (it's getting better as time passes). Conversely, if business was worse in March than in January, it's negative linearity. For whatever reason, investors seem to be ignoring the linearity in the macro economy. Growth and disinflation are getting worse. Yes, they're both still occurring, but they're getting worse. So, investors must believe that these trends towards worse will eventually (and in the near future) stop and we will have a stabilization of growth, a resumption of disinflation and the rate cut cycle will commence.

Here's why this is strange. Normally, markets don't care how things are now, they only care about the direction they're going (linearity). In this market, it's the opposite. Investors don't seem too concerned about where things are going beyond the shorter term and I do believe that continues to make this market extremely vulnerable to any negative news that makes investors confront a macroeconomic reality that isn't as good as hoped.

What Does This Mean for Markets?

It means that, for now, the trend is higher and anyone outright raising cash is likely overly cautious. However, anyone who is maintaining long risk exposure (still owning stocks, bonds, etc.) but continuing to reduce and manage volatility is, in my opinion, prudent. I think the stats back that up as over the past three months utilities is, by far, the best-performing sector in the S&P 500, rising 21%. Consumer staples, meanwhile, has gained 7%. More broadly, value has gained 8% vs. 5% for growth. And given the linearity in the data, I think that outperformance can continue.

Lost amidst yesterday's cheering of the CPI report was a decidedly soft Retail Sales report and a worse-than-expected Empire Manufacturing Report. Economic data is very clearly showing a loss of momentum and while, for now, that's reinforcing the "soft landing" narrative, it's important to point out (and I will) that every hard landing started out a hope for a soft landing.

Because of that, I will continue to advocate for more defensive positioning via the aforementioned sectors and factors and even some intermediate and longer-duration bond holdings, because if the slowing of growth doesn't stop and we do get a growth scare, those sectors and bonds will handily outperform. Meanwhile, if inflation and growth just drifts lower, they'll still rally along with the market. Bottom line, markets are in a sweet spot right now as growth is slowing but positive, and disinflation has slowed but not stalled. However, I've never seen that last in my three-plus decade career and as always, my focus on what's next and the facts are clear: The outlook for "what's next" on growth isn't terrible, but it's about as bad as it's been since 2022. That doesn't mean a slowdown is coming, but it does mean we can't ignore that possibility.

Economics

Yesterday's economic data was remarkably consistent in its message: Declining inflation but also clearly slowing growth. For now, markets embraced that as it means greater likelihood of a September rate cut. But I will maintain we should not cheer for slowing growth as the Fed has a bad history of sticking that soft landing once growth starts to slow.

Consumer Price Index (CPI)

- April CPI rose 0.3% m/m and 3.4% y/y, meeting expectations
- April Core CPI rose 0.3% m/m and 3.6% y/y, meeting expectations

Core CPI declined modestly to 3.6% from 3.8% and that met our “Good” scenario analysis and stocks and bonds behaved as expected. The S&P 500 saw a continuation of the post-Fed rally and rose to new all-time highs while the 10-year Treasury yield dropped sharply, below 2.40% and closing at 4.36%, a one-month-plus low.

CPI only met expectations but that wasn’t the important part. Instead, this was important because it reminded investors that inflation is still declining and, most importantly, it’s not rebounding. So, while it’s true CPI is higher than it was a few months ago, the fact is that it declined from March to April and for a market that grasps firmly to any positive news, that was enough to send stocks and bonds higher.

Looking at the data more closely, the important “Super Core” CPI, which is core services inflation, rose 0.4% m/m (down slightly from 0.5% m/m last month). And while that’s still high, it is an improvement and investors seized on that positivity. Bottom line, CPI wasn’t a great number but it did show disinflation (the decline in inflation) resumed in April and for a market that wants to go higher, that was enough.

Market	Level	Change	% Change
Dollar Index	104.20	-.69	-0.66%
EUR/USD	1.0880	.0061	0.56%
GBP/USD	1.2678	.0086	0.68%
USD/JPY	155.01	-1.41	-0.90%
USD/CAD	1.3605	-.0046	-0.34%
AUD/USD	.6687	.0060	0.91%
USD/BRL	5.1366	.0073	0.14%
Bitcoin	66,057.55	4,476.21	7.27%
10 Year Yield	4.356	-.089	-2.00%
30 Year Yield	4.516	-.078	-1.70%
10’s-2’s	-38 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.91%		
Prices taken at previous day market close.			

Retail Sales

- April Retail Sales was flat vs. (E) 0.4%
- Control Retail Sales declined -0.3% vs. (E) 0.1%

There are legitimate signals of a slowing of consumer spending both from corporate earnings and macroeconomic data so far in 2024 and that continued with retail sales.

There wasn’t much positive in yesterday’s retail sales report as the headline reading missed, there were slightly negative revisions to the March data (to 0.6% from 0.7%) and the most important “control” group (which is retail sales less gas, autos and building materials) declined -0.3% vs. (E) 0.1%. That weakness in the control group is notable because that’s the best macroeconomic measure we have of discretionary consumer spending (the growth engine of the economy). Bottom line, retail sales have been, at best, mixed so far in 2024 and April’s reading will keep concerns alive that the consumer is pulling back spending.

From a market standpoint, this would normally be bad news but markets are in a “bad is good” mindset so this was welcomed by investors as making a September rate cut more likely and as such, it contributed to the rally in stocks and bonds (but don’t be fooled, this was not a good report).

Empire State Manufacturing Index

- The May Empire Manufacturing Index fell to -15.6 vs. (E) -10.0

The first economic reading for May was a disappointment that showed a deeper contraction in manufacturing activity in the Tri-State area.

Looking at the details of the report, the leading indicator remained solidly negative at -16.5 implying further weakness ahead. Positively, prices received and paid both declined slightly, reinforcing the general trend of slowing inflation and growth in yesterday’s economic data.

Commodities

Commodities enjoyed broad gains as the cool CPI report and weak economic data prompted refreshed bets for Fed rate cut expectations sending the dollar lower by 0.7%. Gold was the upside standout thanks to the added tailwind from plunging bond yields but industrial metals and energy also enjoyed solid gains. The commodity ETF, DBC, rallied 0.34%.

Gold futures ripped higher by 1.49% yesterday as falling real and nominal bond yields and a sharp drop to a more-than-one-month low propelled the yellow metal back toward record highs near $2,400/oz. Looking ahead, the sustainability of this new leg in the gold rally will depend on whether or not the Fed rate cut expectations hold, but new highs on a closing and intraday basis would both add to the bullish technical case with support having now formed between $2,300 and $2,350/oz.

EIA Data Takeaways and Oil Update

This week's EIA report was largely bullish as the headline draws in oil and gasoline were larger than anticipated, refinery use picked up and gasoline demand firmed. Oil recovered from multi-month lows leading up to the report to close higher by 0.86%.

On the headline, commercial crude oil stockpiles fell -2.5MM bbls vs. (E) -1.1MM while gasoline inventories fell a modest -200K bbls vs. (E) +/-0. The API report showed a -3.1MM bbl draw and a -1.27MM bbl draw for oil and gasoline, respectively, which took some of the bullishness away from the headline draws. Distillate inventories were unchanged vs. (E) +300K (API: +347K), which was an incremental added bullish data point.

Domestic production continued to hold steady at 13.1MM b/d while refinery runs picked up with the utilization rate rising 1.9% to 90.4%, above the expected rise to 89.0%. The most important detail in the EIA's dataset recently has been gasoline supplied, the implied measure of consumer demand at the pump, and it was also bullish as the measure rose 78K b/d to 8.875MM b/d, the highest since late March. The smoother look at the data via the four-week moving average, meanwhile, rebounded for a second week to a one-month high, indicating a renewed trend higher in the demand metrics.

Bottom line, the oil market has been hit hard with futures falling by more than $10/barrel since the April highs in recent sessions thanks to the combination of a rapidly diminishing fear bid from the two geopolitical "hot spots" (Middle East and Russia/Ukraine) and demand concerns due to sticky higher inflation and sluggish economic growth data.

The demand story improved in the EIA data though based on the uptick in refinery runs and renewed upward trend in gasoline supplied. Yesterday's lows came close to testing the low end of the technical support band between $76.50 and $78.50, which will remain in close focus as traders look for further stabilization in the energy markets near term.

Currencies & Bonds

Currency and bond markets traded off economic data on Thursday and since the message of data was clear: Lower inflation and slowing growth, that pressured the dollar and yields.

The 10-year Treasury yield declined 9 basis points not just because of the in-line CPI but also because of soft economic data and the 10-year yield is now at a one-plus-month low and threatening to drop back into the "stock positive" 3.75%-4.25% range.

The Dollar Index fell 0.65% as investors extrapolated the CPI and economic data to mean looming Fed rate cuts, as September rate cut probability rose to about 75% while a July rate cut probability remained just under 40%. With the dollar sharply lower, the pound and euro both rose 0.7% as currency traders closed the proverbial gap between when they expect the Fed to cut rates (September) and when the ECB and BOE will cut rates (likely in June).

However, unless the Fed gets much more dovish, I don't expect a protracted decline in the dollar despite yesterday's drop.

Have a good day,

Tom

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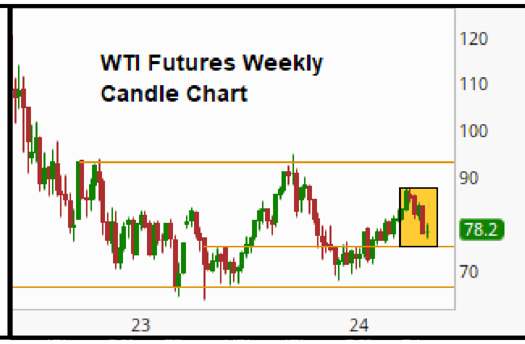
Technical Perspectives (Updated 5/12/2024)

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

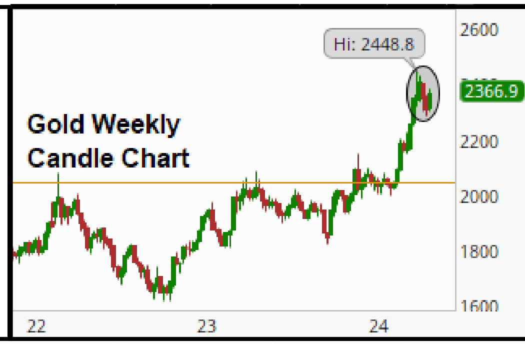
WTI Crude Oil

- 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



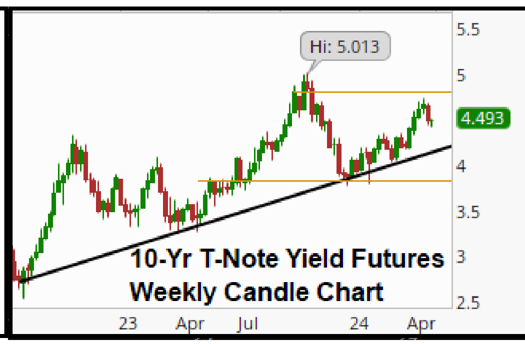
Gold

- 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



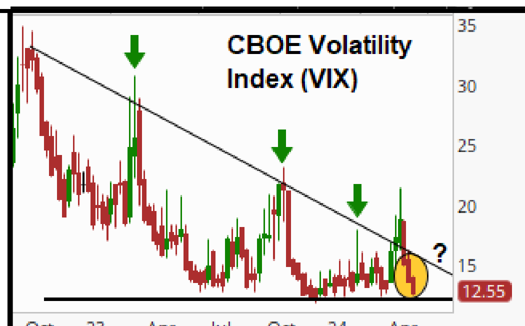
10-Year T-Note Yield Futures

- 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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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.