SEVENS REPORT

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

May 17, 2024

Pre 7:00 Look

- Futures are little changed as markets again digested the post CPI rally amidst more in-line inflation data and additional Chinese economic stimulus.
- Core EU HICP (their CPI) met expectations, rising 0.7% m/m and 2.7% y/y, and kept a June rate cut on track.
- In China, the government announced a sweeping program to support the property industry, potentially adding more critical stimulus to the Chinese economy.
- Econ Today: Leading Indicators (E: -0.3%). Fed Speak: Waller (10:15 a.m. ET), Daly (12:15 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,318.25	-2.00	-0.04%
U.S. Dollar (DXY)	104.75	0.28	0.27%
Gold	2,389.70	4.20	0.18%
WTI	79.40	0.17	0.21%
10 Year Yield	4.39%	0.02	0.37%

Equities

Market Recap

Stocks were mostly sideways before ending lower yesterday as the fresh record highs from Wednesday were digested amidst more evidence of a stagflation trend emerging in the U.S. economy as well as some hawkish Fed speak. The S&P 500 fell 0.21%.

The market gapped up to new record highs at the opening bell yesterday as investors cheered solid earnings and guidance from WMT while bad economic data continued to see Fed rate cut expectations pulled forward with more confidence following Wednesday's well-received, cooler-than-feared CPI report. The Philly Fed Survey, Housing Starts, and Industrial Production all badly disappointed versus estimates yesterday suggesting more convicted risks of an economic downturn are emerging. Meanwhile, Import & Export price data was much higher than expected while jobless claims retreated, which both support a higher-for-longer Fed policy rate stance despite softening economic data.

The rally began to fizzle out in late-morning trade as the Fed's Barkin reiterated inflation is not near target levels yet, which was followed up by comments from the Fed's Mester who noted that the "inflation side" of the Fed's mandate have seen risks rise and also that the path of fiscal policy is unsustainable. In the wake of those comments, steady but modest selling off the highs began to pick up in the afternoon and stocks declined into the close, ending near the day's worst levels after reaching a fresh record high (which is a near-term technical signal of potential exhaustion in the latest leg higher in stocks).

Hard Landing/Soft Landing Scoreboard: Still A Soft Landing, But Growth Is Slowing

For the first time in well over a year, economic data has started to show clear and consistent signs of a loss of economic momentum. And while data is still pointing towards a soft economic landing, hard landing risks did rise last month. That's important for investors because an economic hard landing is one of the few "rally killing" threats out there right now. With inflation stickier than expected, the Fed cannot cut rates pre-emptively to support slowing growth. That means dramatic Fed rate cuts will occur only after growth has slowed and at that point, it's too late.

Practically, that means 1) A "growth scare" (which means data rolls over and investors acknowledge an increased chance of a hard landing) would likely result in a

Market	Level	Change	% Change
Dow	39,869.38	-38.62	-0.10%
TSX	22,299.82	15.06	0.07%
Stoxx 50	5,5051.95	-20.50	-0.40%
FTSE	8,405.54	-33.11	-0.39%
Nikkei	38,787.38	-132.88	-0.34%
Hang Seng	19,553.61	177.08	0.91%
ASX	7,814.37	-66.92	-0.85%

Prices taken at previous day market close.

solid pullback (close to 10%-ish) and 2) If a hard landing becomes the most likely expectation, a much larger correction would likely ensue (10%-20%). <u>Bottom line, the biggest risk to this entire rally is a sudden roll over in growth, mainly because it'd be a total shock (virtually no one expects it) and because there's no easy fix.</u> As such, we must remain vigilant to this risk because it is something that could erase the majority of the recent rally.

Market	Level	Change	% Change
DBC	23.47	.06	0.26%
Gold	2,383.90	-11.00	-0.46%
Silver	29.87	.14	0.47%
Copper	4.8875	-.0370	-0.75%
WTI	79.34	.71	0.90%
Brent	83.40	.65	0.79%
Nat Gas	2.489	.073	3.02%
RBOB	2.5401	.0433	1.73%
DBA (Grains)	23.52	-.34	-1.43%

Prices taken at previous day market close.

That's why the message from the Hard Landing/Soft Landing Scorecard this month is important, because for the first time in months it's showing a conclusive loss of momentum. For now, investors are cheering this cooling of growth as making the Fed more likely to cut rates and indicative of a soft landing. However, I will caution that every single economic slowdown I've seen in my three-decade-plus career began with investors cheering slowing growth, looming Fed rate cuts and a soft landing—yet none of them actually worked out that way.

Hard Landing vs. Soft Landing

	Current	One Month Ago	Three Months Ago	Hard Landing/Soft Landing
ISM Manufacturing PMI	49.2	50.3	49.1	Hard Landing
ISM Services PMI	49.4	51.4	53.4	Soft Landing
Job Adds (Non-Farm Payrolls)	175K	315K	256K	Soft Landing
Retail Sales	$611.30B	$611.38B	$601.92B	Soft Landing
NDCGXA	73.76B	73.68B	73.62B	Soft Landing
Jobless Claims	231K	212K	213K	Soft Landing

That said, while the data is showing a loss of positive momentum, growth is still positive and as such, a soft landing is currently more likely than a hard landing. While that's not enough yet to significantly increase hard landing worries, data is worsening and I did want to point out that more growth metrics are losing momentum and as such we need to continue to closely monitor economic data because if there is a growth scare that will be negative for stocks.

- **Of the "Big Three" monthly economic reports, two have dropped to multi-month lows.** The deterioration in this data set is notable. Starting with the ISM Manufacturing PMI, while it rose above 50 two months ago, it dropped back below that level in April and the ISM Manufacturing PMI has now spent 15 of the past 16 months in contraction territory. Disconcertingly, the ISM Services PMI joined the manufacturing PMI in contraction territory and that's the first time since December 2022 that both ISM PMIs have been below 50. *What signals hard landing going forward? ISM Manufacturing and Services PMIs stay below 50 for several months.*

- **There are no conclusive signs that U.S. consumer spending is materially slowing.** Retail sales, which is the most comprehensive measure of consumer spending each month, declined more than expected in January and February and that caught some analysts by surprise, as the official data is starting to match anecdotal commentary from consumer companies about consumers "pulling back." Additionally, credit metrics such as delinquency rates for credit cards and auto loans have risen considerably in the past several months. However, Retail Sales bounced back in March and at this point, the weakness in consumer spending seems concentrated on the low end of the economy. So, that's not enough to imply we are seeing a potentially significant slowing of consumer spending and, for now, consumer spending remains resilient. *What signals a hard landing? Retail sales roll over and begin to drop sharply, falling to multi-month lows within the next three months.*

- **Business spending appears to be plateauing but not contracting.** New orders for non-defense capital goods excluding aircraft (NDCGXA) is the best metric we have for national business spending and investment, and like retail sales, there's been some volatility in the data. However, on an absolute basis, the number remains generally solid and while it's largely plateaued (meaning it's not rising quickly) that isn't enough to materially worry about corporate spending and investment. Bottom line, there may be some corporate anxiety about future economic growth, but it's not impacting business spending or investment at this point. *What signals a hard landing? NDCGXA falling to multi-month lows in the next three months.*

- **Employment indicators are not softening and overall the job market remains both strong and tight.** For the first time in well over a year, employment indicators are starting to show some mild deterioration. Job adds are still solidly positive but they dropped to the lowest level since October. Meanwhile, weekly jobless claims leapt higher last week to the highest level since August. Bottom line, while none of these numbers are alarming, if this trend continues, they will become so. *What signals a hard landing? Monthly job adds drop below 100k and/or jobless claims moving above 300k.*

Bottom line, for the first time in a long time there are multiple economic indicators signaling a loss of momentum and the major takeaway from this month's Scoreboard is the economy needs to be monitored very closely because if hard landing fears rise, stocks will drop. For now, the data is still pointing towards a soft landing (which is still stock supportive).

Market	Level	Change	% Change
Dollar Index	104.35	.15	0.14%
EUR/USD	1.0868	-.0016	-0.15%
GBP/USD	1.2669	-.0016	-0.13%
USD/JPY	155.38	.50	0.32%
USD/CAD	1.3616	.0014	0.10%
AUD/USD	.6678	-.0016	-0.24%
USD/BRL	5.1287	-.0080	-0.16%
Bitcoin	65,301.72	-755.83	-1.14%
10 Year Yield	4.377	.021	0.48%
30 Year Yield	4.518	.002	0.04%
10's-2's	-41 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		
Prices taken at previous day market close.			

Economics

Weekly Jobless Claims

- Jobless claims fell to 222k vs. (E) 220k

Jobless claims eased back modestly from last week's pop although they still remain slightly elevated compared to the last several months. The reason I'm pointing out claims is to point you towards the four-week moving average, which is currently at 217k. That's the key metric to watch going forward for any evidence of a sustained uptick in claims and if that four-week moving average (again now at 217k) moves above 250k, that will be a solid sign of clear deterioration in the labor market.

Philly Fed

- May Philly Fed declined to 4.5 vs. (E) 7.8

The Philly Fed release joined Wednesday's Empire manufacturing report on the list of growth metrics pointing to a moderation of activity. Like Empire, both the headline and details of the report were soft. New Orders, the leading indicator in the report, dropped back into negative territory at -7.9 from 12.2 and that implies more weakness ahead. Price indices were mixed but didn't get materially worse, as Prices Paid dipped from 23.0 to 18.7 while Prices Received edged up from 5.5 to 6.6.

Bottom line, the Philly Fed Manufacturing Survey joined a long and growing list of indicators showing slowing growth and mixed price trends (which again the market views favorably, for now).

Industrial Production

- Industrials Production was 0.0% vs. (E) 0.1% in April
- Manufacturing Output turned negative, falling -0.3% vs. (E) 0.3%

Industrial production also signaled slowing growth. The headline reading was flat vs. expectations for a small increase but the more important manufacturing subindex turned negative, falling by -0.3% in April, well below estimates for 0.3%. That followed a lower-revised 0.2% March number from the original release when it was solidly positive at 0.5%.

The manufacturing index is important because headline industrial production can be skewed by utility output (e.g. if people run heaters longer because it's a cold spring). Manufacturing is a more "pure" reading on the industry and it was not a positive report.

Commodities

Commodities were mixed as the rebound in energy continued amid more conviction for Fed rate cuts after another flurry of soft economic data hit the wires. An uptick in interest rates and rebound in the dollar weighed on metals, however, limiting gains in the broad-based commodity ETF, DBC, to just 0.26%.

WTI crude oil futures rallied 0.90% to test the May closing highs just shy of $80/barrel. The gains were driven in part by the pullback in weekly jobless claims as that would ease worries about the health of the U.S. consumer deteriorating, which would ding demand for fuel.

The stabilizing high-frequency labor data paired with a renewed push higher in the EIA's proxy for consumer demand for gasoline were enough to see bullish traders step in and defend technical support between $76.50 and $78.50. However, the news flow has not been encouraging enough to send oil futures back beyond the psychological $80/barrel mark, and it will take more soft-landing/rate-cut-optimism but less stagflationary economic data and potentially a bullish catalyst from OPEC+ or one of the geopolitical conflicts overseas for that to occur. Otherwise more rangebound trading in the mid-to-upper $70s is likely in the near-term.

Copper underperformed on profit taking after the prospects of rate cuts failed to be offset by multiple soft economic reports on the manufacturing sector. Additionally, futures failed a test of the critical psychological resistance level of $5.00 for the third session in a row yesterday and closed back below $4.90. Notably, copper did notch a fresh record closing high on Wednesday which is traditionally a bullish development for a security from a technical analysis perspective.

Copper is not a typical security however as the last time futures made a new all-time high was in early 2022 before the industrial metal collapsed by 35% in less than 6-months. It remains to be seen if this record high in copper will play out in a similar manner, but the lack of follow through in the wake of the new highs suggests there are elevated risks that history rhymes with 2022 and copper reverses lower.

Gold pulled back a modest 0.39% after a failed test of its own all-time high. Gold was pressured by the headwinds of a rebound in bond yields and a stabilizing dollar. On the charts, gold has settled into a trading range over the last month with support at $2,300 and resistance at $2,400/oz. Until one of those levels is violated, expect more sideways trade as the latest records are digested.

Currencies & Bonds

There were multiple economic data reports and Fed speakers on Thursday, but for all the potential headlines they largely reinforced what is already priced into currency and bond markets: Namely, that growth is slowing and the Fed isn't hiking rates, but they aren't cutting anytime soon, either. The Dollar Index rose 0.12% while the 10-year Treasury yield bounced 2 basis points.

Numerous economic reports, including Philly Fed, Industrial Production and Housing Starts all echoed previous reports this week in implying a slowing of growth in the economy. But with the 10-year Treasury yield down 40 bps off the highs of just three weeks ago, some slowing of growth is already priced in and the numbers didn't push yields lower (in fact, we saw a mild bounce in yields mostly on digestion).

Turning to the Dollar Index, it also bounced slightly as numerous Fed officials all repeated the same message: Rate hikes are unlikely but rate cuts aren't coming anytime soon (which means not June and not July, and maybe not September). The dollar bounced slightly on the news and given the current short-term oversold condition, while the euro and pound both dipped 0.1%.

Bottom line, currency and bond markets have largely reflected a slowing of growth and late-summer rate cuts. But for yields and the dollar to legitimately decline further, growth will have to deteriorate from here.

Have a good weekend,

Tom

SEVENS REPORT

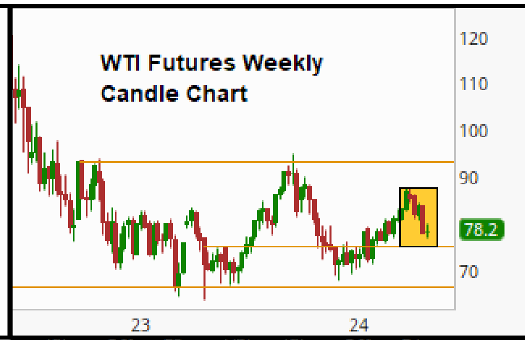
Technical Perspectives (Updated 5/12/2024)

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

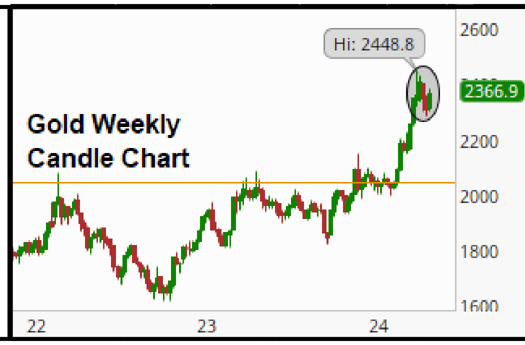
WTI Crude Oil

- 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



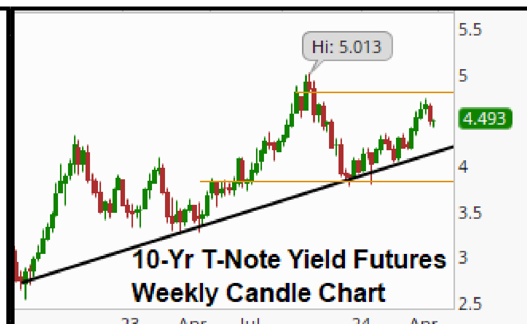
Gold

- 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



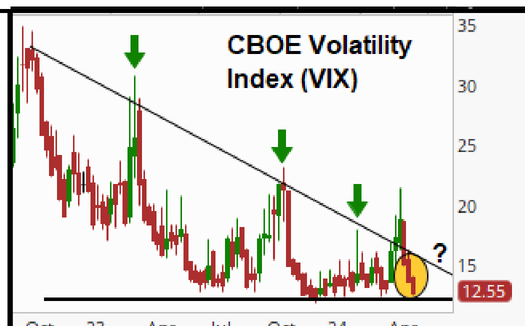
10-Year T-Note Yield Futures

- 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.