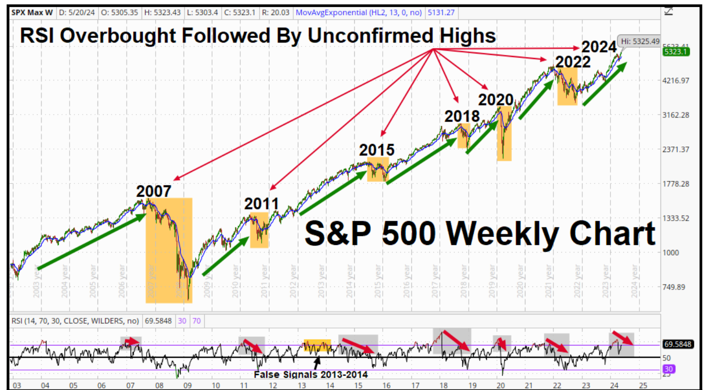
SEVENS REPORT

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

May 21, 2024



The current technical setup of the S&P 500 on the longer-term charts is one historically associated with an increased threat of a sudden rise in volatility as the Relative Strength Indicator, a widely-followed momentum gauge, has failed to offer "confirmation" of the latest advance to record highs.

Pre 7:00 Look

- Futures are flat this morning as economic data was mixed in Europe and global traders await NVDA earnings (tomorrow) to gauge the outlook for AI industry growth.
- In Europe, German PPI fell -3.3% vs. (E) -3.1% underscoring that disinflation trends remain underway in the EU while the UK's CBI Industrial Trends Order Balance dropped -33% vs. (E) -20% adding to global factory sector worries.
- There are no economic reports today.
- Fed: Barkin (9:00 a.m. ET), Waller (9:00 a.m. ET), Williams (9:05 a.m. ET), Bostic (9:10 a.m. ET), Barr (11:45 a.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5331.25	-.50	-0.01%
U.S. Dollar (DXY)	104.51	-.114	-0.11%
Gold	2420.20	-18.30	-0.75%
WTI	78.39	-.91	-1.15%
10 Year Yield	4.424	-.010	-0.23%

Equities

Market Recap

Stocks tested recently established all-time highs to start the week as AI enthusiasm offset hawkish Fed chatter amid otherwise quiet market newswires. The S&P 500 edged up 0.09% on the day, ending at a record.

The stock market gapped higher to start the trading week with the S&P 500 quickly advancing towards its intraday record high set on Thursday with mega-cap tech leading the way as NVDA rallied amid pre-earnings optimism with tomorrow's Q1 corporate results looming. The early gains came despite the Fed's Barkin and Barr both reiterating a higher-for-longer rate stance, but they importantly avoided the mention of rate hikes.

The S&P 500 stalled out just shy of Thursday's intraday high of just over 5,325 and began to churn lower through the European close in afternoon trade yesterday as a steady flow of hawkish-leaning Fed speak continued over the course of the day with Daly noting that she is "not yet confident" that inflation is coming down to 2% while Mester said inflation risks are skewed to the upside and pushed back on her own prior forecast that there would be three rate cuts in 2024. The market stabilized in mid-afternoon trade despite the hawkish tone from Fed speakers with the S&P 500 holding above 5,300 as MSFT announced an entire new category of AI-focused computers, bolstering the broader "AI trade."

Trading Color

Stocks largely digested last week's rally and new highs on Monday although the default direction for this market right now is higher and unless there's a reason for stocks not to rally, we should expect it to at least drift slightly higher. And given there was no notable macro

Market	Level	Change	% Change
Dow	39,806.77	-196.82	-0.49%
TSX	22,465.37	165.55	0.74%
Stoxx 50	5,034.71	-39.63	-0.78%
FTSE	8,388.38	-35.82	-0.43%
Nikkei	38,946.93	-122.75	-0.31%
Hang Seng	19,220.62	-415.60	-2.12%
ASX	7,851.68	-11.98	-0.15%

Prices taken at previous day market close.

news on Monday, stocks did the default and drifted slightly higher.

Market	Level	Change	% Change
DBC	23.92	.21	0.89%
Gold	2,433.80	16.40	0.68%
Silver	32.19	.94	2.99%
Copper	5.105	.055	1.09%
WTI	79.61	-.45	-0.56%
Brent	83.59	-.39	-0.46%
Nat Gas	2.746	.120	4.57%
RBOB	2.5380	-.0362	-1.41%
DBA (Grains)	23.75	.26	1.09%
Prices taken at previous day market close.			

Earnings and corporate announcements were the main drivers of index and sector trade, and we did not see the “chasing” behavior we witnessed last week, when some of the laggard indices and sectors (Russell 2000, Real Estate) outperformed as investors looked to add long exposure via some of the laggards.

Instead, corporate news (and anticipation of corporate news) drove sector trade. To that point, Nasdaq outperformed and rose 0.7% while the tech sector (XLK) rose 1% and was the best-performing S&P 500 sector. Anticipation ahead of tomorrow’s VNDA earnings and broad semiconductor strength following some updates (SOXX rose 2%) powered the tech sector higher.

On the opposite end of the spectrum, financials (XLF) was the only sector to decline by more than 1% (XLF fell -1.2%) despite JPMorgan upping Net Interest Margin forecasts at its analyst day, as investors booked profits in the insurance names following a solid run last week. However, there was no significant negative news yesterday across the financials space.

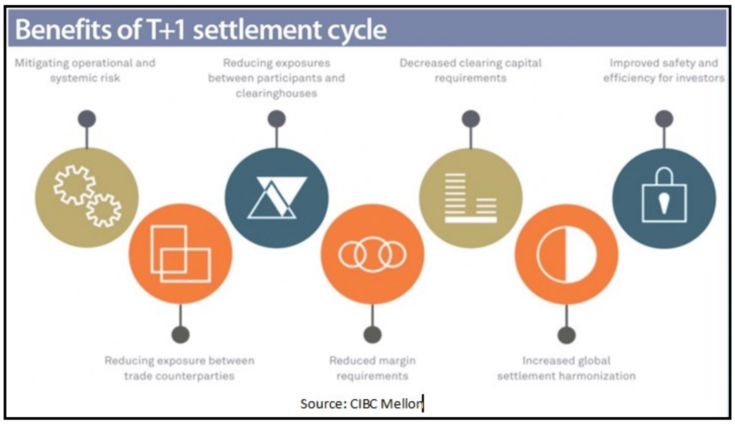
Six of the remaining nine S&P 500 sectors saw modest declines (but not close to 1%) while communications (tech strength), industrials and materials eked out small gains. The performance of those sectors further underscored the quiet trade yesterday as the markets await this week’s catalysts (NVDA Wednesday and important economic data Thursday).

Practice Management Update: Examining the Upcoming Move to T+1 Settlement

When I created *Sevens Report* more than 12 years ago, I envisioned it to be a total research solution for today’s overworked, under-supported advisors. And while most of my focus on accomplishing that goal centers on market and economic research, I’ve also always kept an eye on important practice management aspects of running an advisory business.

It’s with that in mind that I’ve followed the looming switch to T+1 settlement and I wanted to cover 1) What’s happening and 2) How it could impact the operations side of running an advisory.

On May 28 (so one week from today) the trade settlement period for most U.S. securities that trade on domestic exchanges will be reduced from two business days (“T+2”) to one (“T+1”). The list of securities involved includes stocks, bonds, REITs, MLPs, ETPs, UITs, specific mutual funds, and municipals. (Canada and Mexico are making the same change one day earlier on May 27.)



Source: CIBC Mellon

[Note: Some securities already trade T+1, like options, futures, Treasuries, and certain mutual funds. And some countries, such as India, have already made the switch to T+1.]

Why is this a potentially big deal?

Due to advancements in technology and industry preference, the time it takes for the official transfer of securities to the buyer’s account and cash to the seller’s account will be cut in half. Importantly, the newly shortened settlement lowers counterparty risks, liquidity risks, operational risks, and systemic risks in the financial markets.

In may ways, this is coming full circle in markets as we can see from this bit of market history below, courtesy of FTSE Russell. I wanted to include it so you can share it with any clients should the topic come up in discussions:

The New York Stock Exchange used T+1 settle-

ment in the 1920s, and the American Stoc Exchange used T+2 prior to 1953. These settlement periods were gradually extended as equity market activity levels rose and dealers, operational teams and custodians struggled with the manual form-filling associated with equity settlement. For example, there was a famous 'paperwork crisis' in the U.S. securities markets in the late 1960s, which raised concerns about the solvency of some broker/dealers.

However, during the last 30 years there has been a reversal of the trend to allow longer settlement periods, which is partly down to the dematerialization of share certificates (the movement from paper-based to computerized share ownership records).

The first real attempt to shorten equity market settlement cycles came in recognition of the market risks emanating from the 1987 stock market crash. The Bachmann Report, issued in 1992, recommended that the US move swiftly to reduce the equity settlement cycle from T+5 to T+3 [1993].

Fast forward to the last 10 years and the previous "gold standard" of a T+3 settlement cycle has shortened to T+2 [2017] in many, though not all equity markets.

In summary, the U.S. settlement cycle has come full circle over the last century – from T+1 in the 1920s to T+1 in the 2020s.

For a practical take, I reached out to a local RIA firm to see how it will affect them. Basically, it's mostly business as usual. But their operations director gave me three situations that are worth pointing out: 1) If you're raising money for a client withdrawal by selling securities, it will be available in one day instead of two days. 2) If you're raising money for fees by selling securities, your firm can collect the money one day faster. 3) In the rare case where a client wants to sell stock and they possess the physical certificates, they'll need to make good on delivery by the next business day. (The same goes for paying for a transaction one day earlier, as well.)

Furthermore, I'd add that the change should also alleviate issues with prior settlement mismatches (e.g., previously ETFs settled T+2, while many mutual funds settled T+1), which should lessen the number of settlement violations (freeriding, good faith, liquidation, etc.).

Bottom line: While much of the heavy lifting on the shift to T+1 settlement may fall on your broker/dealer, online brokerage firm, or custodian, there are important things for you to consider as a financial advisor. For instance, the new settlement timetable can impact investment decisions around trading, cash management, margin accounts, proxy voting, and tax planning. If you have any questions about the transition, be sure to consult your operations department or reach out to your B/D, online broker, or custodian before May 28. The next time I write to you about settlement will likely be "T+0." And it will probably be sooner than we all think!

Market	Level	Change	% Change
Dollar Index	104.47	.14	0.13%
EUR/USD	1.0863	-.0006	-0.06%
GBP/USD	1.2708	.0007	0.06%
USD/JPY	156.26	.61	0.39%
USD/CAD	1.3622	.0010	0.07%
AUD/USD	.6671	-.0022	-0.33%
USD/BRL	5.1080	.0039	0.08%
Bitcoin	69,889.18	3,526.93	5.31%
10 Year Yield	4.437	.017	0.38%
30 Year Yield	4.573	.013	0.29%
10's-2's	-40 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.00%		
Prices taken at previous day market close.			

Economics

There were no material economic reports yesterday.

Commodities

Commodities had a mixed start to the week yesterday as the metals posted solid gains with industrial varieties continuing to lead the way higher while energy failed to participate in the rally as futures posted modest losses on the session. The commodity ETF, DBC, gained 0.89%.

Starting with the laggard, WTI crude oil fell by 0.32% after futures topped $80/barrel for the first time since May 1. The helicopter crash that resulted in the death of Iranian President Raisi over the weekend was deemed to be an accident and had no relation to the recent geopolitical tensions between Iran and Israel, which allowed for some of the fear bids added on Friday ahead of the weekend to come unwound at the start of trading yesterday.

Oil traders also shrugged off the news of a Ukrainian drone attack on a Russian refinery in Krasnodar over the weekend as the Russian government paused a ban on gasoline exports from now through the July 1. Bottom line, oil edging up to test the best levels of May to start the week yesterday was bullish from a technical standpoint and the market seems setup to test the downtrend line off the 2024 highs this week with near-term resistance between $81 and $83/barrel in focus.

Moving to the metals, gold rallied another 0.85% to hit a new intraday record high while also closing at a fresh all-time high. The renewed push higher was helped by a steady dollar after last week's decline while an uptick in Treasury yields was largely offset by rising market-based inflation expectations, which was one of the key factors that powered gold to new record highs in the first place this year. Looking ahead, gold is near-term overextended at new highs here but the long-term trend remains bullish so any meaningful pullback should be looked at as buying opportunities.

Switching to the industrial metals, copper moderately outperformed to lead the commodity complex higher yesterday with a gain of 1.15% to start the week, ending the day at a fresh all-time highs comfortably above $5.00/lb. while LME futures topped $11,000/ton for the first time yesterday. The prospects of strong demand from the AI industry and electric car manufacturers amid a global supply crunch continue to support the case for a copper "super cycle" that is squeezing short-sellers and inviting speculative bids to the market, keeping futures prices in a steady grind to new record highs.

Currencies & Bonds

For the third Monday in a row, the currency and bond markets were quiet as they digested last week's news amidst a lack of notable catalysts (economic data or market moving Fed speak). The Dollar Index rose 0.15% while the 10-year yield gained 1 basis point.

There was no notable U.S. or foreign economic data although there were numerous Fed speakers (and even some ECB speakers). But for all the commentary, nothing from them changed the current market outlook which is: ECB cutting rates in June, BOE cutting in June or July and the Fed cutting in September. All the central bank speak largely reinforced those expectations and as such, there was little-to-no movement in the currency and bond space. To that point, the euro and pound were flat and up 0.1%, respectively.

Looking at Treasury yields, the 10-year yield rose 1 basis points as again, none of the Fed commentary altered the outlook for rate cuts or monetary policy while there was no notable U.S. economic or inflation data.

Stepping back, we've seen pretty significant moves in the dollar and Treasury yields ever since the Fed decision in early May. Since then, the 10-year yield has declined from 4.75% to the low of 4.34%. It's unlikely the real outlook for Fed rate cuts (so what the Fed plans to do, not what the market thinks in the short term) has changed that much so it's reasonable we see some digestion of those declines and that's what's occurring.

Looking forward, the inverse relationships between Treasury yields (and to a lesser extent the dollar) and stocks remains in place: The higher Treasury yields and the dollar go, the greater than headwind on stocks.

Conversely, the more Treasury yields fall, the more of a tailwind will be on stocks, especially if the 10-year yield falls back into the "stock positive" 3.75%-4.25% range it inhabited in January-March. At some point, if growth continues to slow, that inverse relationship will change and falling yields will become a headwind on stocks, but as I said in yesterday's Report, barring an utter growth collapse that's at least a few months away.

Have a good day,

Tom

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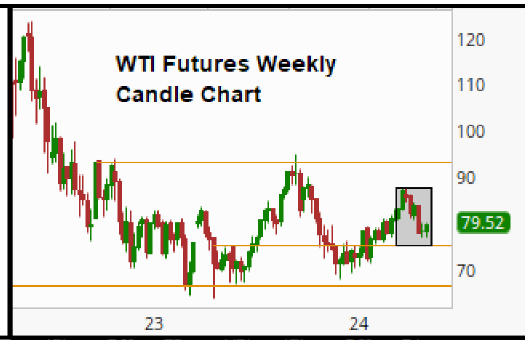
Technical Perspectives (Updated 5/19/2024)

S&P 500

- Technical View: **The medium-term trend in the S&P 500 flipped back to bullish** as stocks have recovered to fresh record highs in the second quarter.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5325, 5360, 5400
- Key Support Levels: 5247, 5169, 5064

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: $79.96, $80.82, $81.90
- Key Support Levels: $77.99, $$76.57, $75.96

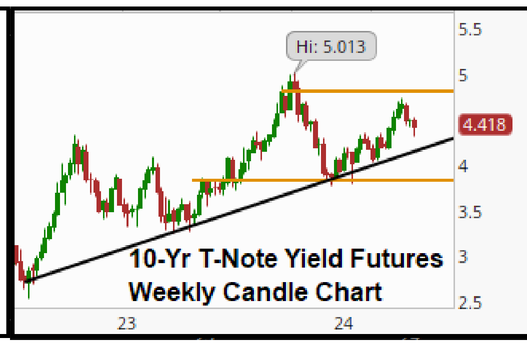


Gold

- Technical View: Gold resumed its march higher in mid-May with futures rallying to fresh record closing highs leaving the path of least resistance higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2435, $2449, $2500
- Key Support Levels: $2364, 2322, $2257

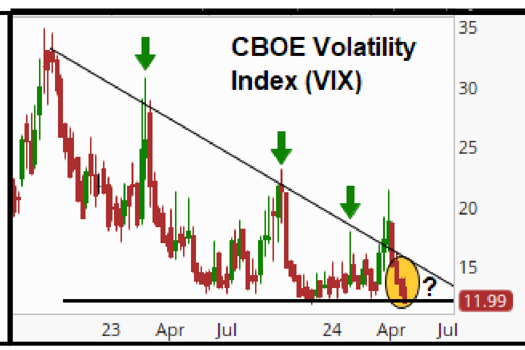
10-Year T-Note Yield Futures

- 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: 4.484, 4.565, 4.661
- Key Support Levels: 4.343, 4.209, 4.088



CBOE Volatility Index (VIX)

- Technical View: The VIX has collapsed to fresh YTD lows since the early Q2 peak in mid-April but the fear gauge is at historically low levels consistent with reversals.
- Primary Trend: **Neutral (since the week of May 6th, 2024)**
- Key Resistance Levels: 13.49, 14.67, 15.75, 16.94
- Key Support Levels: 11.91, 11.81, 11.50



SEVENS REPORT

Fundamental Market View
(Updated 5/19/2024)

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 rose to a new all-time high last week as Treasury yields dropped following an in-line CPI report and as economic data is more clearly showing growth is slowing in the U.S.*

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 rebounded last week thanks to more Chinese economic stimulus (especially in the property sector) and as the Dollar Index dropped to one-month lows.*
US Dollar	**Neutral**	*The Dollar Index dropped moderately last week following the in-line CPI report and as economic data pointed towards slowing U.S. growth.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield dropped to a fresh one-month low as CPI met expectations and importantly showed disinflation had resumed while Fed officials reiterated rate hikes are not coming anytime soon.*

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.