5/22/2024

SEVENS REPORT

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

May 22, 2024

Pre 7:00 Look

- Futures are mildly lower as UK core inflation failed to decline as much as hoped in April while NVDA earnings loom.
- Economically, the UK's Core CPI figure was 3.9% vs. (E) 3.7% y/y in April, down from 4.3% in March.
- Econ Today: Existing Home Sales (E: 4.195 million).
- Fed Catalysts: Goolsbee speaks (9:40 a.m. ET), FOMC Minutes Release (2:00 p.m. ET).
- There is a 20-Yr Treasury Bond auction at 1:00 p.m. ET.
- Earnings: TGT ($2.05), TJX ($0.87), NVDA ($5.55).

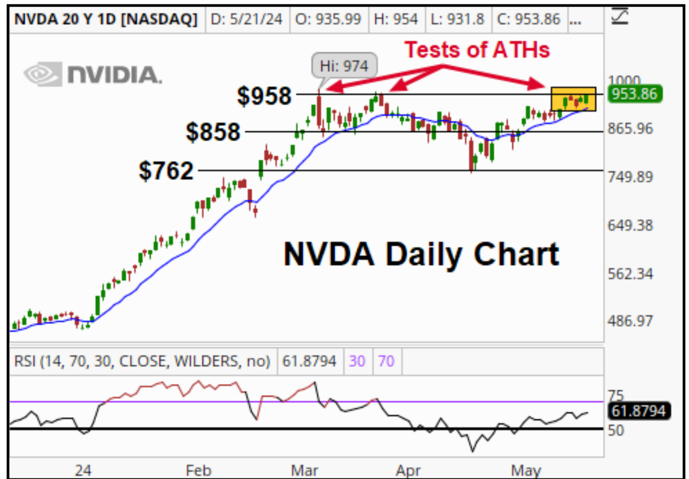
Market	Level	Change	% Change
S&P 500 Futures	5335.25	-10.00	-0.19%
U.S. Dollar (DXY)	104.726	.104	0.10%
Gold	2418.80	-7.10	-0.29%
WTI	78.26	-.40	-0.51%
10 Year Yield	4.436	.024	0.54%

Equities

Market Recap

Stocks recovered from morning losses to close at fresh record highs as traders positioned into today's widely anticipated NVDA earnings amid otherwise quiet newswires. The S&P 500 rallied 0.25%.

Equities gapped lower at the open yesterday but the index was quick to stabilize and reclaimed the critical 5,300 level in the opening minutes. As far as catalysts go, there were no economic reports in the U.S. and only some lesser-followed data points overseas leaving markets adrift in early trade as several Fed speakers were scheduled to speak while the main catalyst for the week, NVDA earnings, loomed large.



Catalyst of the Week: NVDA closed at a record high yesterday as traders positioned into today's Q1 earnings report. Positive results could easily send the stock beyond $1,000/share while a negative release could just as easily see the AI bellwether drop $100 or more. Key levels to watch include the ATH of $974 and 2024 pivot-point of $858.

Fed speakers largely maintained the same hawkish-leaning tone from recent weeks reiterating a likely higher-for-longer policy outlook with cuts likely beginning late in the year. But importantly, there was no mention of any additional hikes in the cycle, which allowed stocks to grind towards Monday's highs in early trade.

On a technical note, the outlook for the S&P 500 remains bullish with the index having just hit a fresh set of all-time highs; however, yesterday was a standard pre-catalyst positioning day that saw the index break below Monday's intraday low while holding below Monday's intraday high.

Put differently, the S&P 500 made a set of lower lows and lower highs in intraday terms, which is a cautious near-term set up for the broader equity market and if Tuesday's lows are violated.

Market	Level	Change	% Change
Dow	39,872.99	66.22	0.17%
TSX	22,468.16	2.79	0.01%
Stoxx 50	5,032.03	-14.96	-0.30%
FTSE	8,394.66	-21.79	-0.26%
Nikkei	38,617.10	-329.83	-0.85%
Hang Seng	19,195.60	-25.02	-0.13%
ASX	7,848.14	-3.54	-0.05%

Prices taken at previous day market close.

How Important Is AI To This Market?

The most important market event of this week comes this afternoon and it's not an economic release or a Fed speech, it's NVDA earnings. To underscore the potential impact on the markets, it's reasonable to say that if NVDA posts strong earnings we can expect the S&P 500 to rally early on Thursday, and if NVDA posts disappointing earnings, we can expect the S&P 500 to decline early Thursday.

Market	Level	Change	% Change
DBC	23.37	-.10	-0.42%
Gold	2,425.80	-12.70	-0.52%
Silver	32.24	-.18	-0.56%
Copper	5.10	.03	0.50%
WTI	79.26	-.54	-0.68%
Brent	82.90	-.81	-0.97%
Nat Gas	2.674	-.077	-2.80%
RBOB	2.5130	-.0269	-1.06%
DBA (Grains)	24.04	.30	1.26%

Prices taken at previous day market close.

I assign that type of impact to NVDA because it's the "poster child" for AI enthusiasm, which I use to describe the upward force AI excitement has had on the tech sector and, given the tech sector's weight on the S&P 500, the broader market. AI enthusiasm has been one of the four parts of the "bullish mantra" that's pushed stocks higher since November. To that point, AI enthusiasm gave birth to the "Magnificent 7" stocks that accounted for a big portion of the gains in the S&P 500 last year. Put simply, AI enthusiasm was a critical factor for much of the November-present rally. But is it still?

Sector Performance in 2024			
	3 month		YTD
XLU	18.64%	XLU	14.62%
XLE	10.99%	XLC	13.85%
XLB	8.31%	XLE	12.23%
XLK	7.06%	XLF	12.07%
XLF	6.63%	XLK	11.52%
XLI	6.31%	XLI	9.76%
XLP	5.21%	XLP	8.18%
XLC	4.93%	XLB	7.61%
XLV	0.59%	XLV	7.06%
XLRE	0.34%	XLY	-0.63%
XLY	0.20%	XLRE	-4.09%

The answer is "yes," but it's impact on the market has definitely lessened so far in 2024. Consider this:

- In 2023, the Tech, Communications Services and Consumer Discretionary sectors surged by 56%, 53% and 40%, respectively, powered by tech stocks and AI enthusiasm. They more than doubled the performance of the next closest sector.
- However, in 2024, the rally has been much more balanced. Utilities are the best-performing sector YTD and Communications Services and Tech are just two of the top five performers. Consumer Discretionary, meanwhile, is negative YTD.
- In 2023, the Magnificent 7 was responsible for 60% of the rally in the S&P 500.
- In 2024, NVDA, MSFT, AMZN, META and GOOGL are responsible for less than half of the 11% YTD rally (and most of that 5% is courtesy of NVDA).That's still a significant amount, but it's down substantially from 2023. So, ahead of NVDA earnings today, it's true that it's still a very important report for the tech sector and for the SPY, as tech remains, by far, the largest sector in the market.

But I would argue it's *more important* to realize that this rally has been broadening materially over the past four months and the reason, I think, that's more important than today's NVDA results is I believe the next several months in the market will look more like the past few months than it will the market in 2023, and as such we should continue to expect (and be prepared for) an ongoing broadening of the rally.

Put bluntly, being massively overweight tech and the Mag 7 worked great in 2023. It is not working this year and unless something materially changes from a macro standpoint, I doubt it'll work between now and year-end. Again, one of the easiest ways to gain balanced exposure to a continued broadening of the rally is via RSP, although I'll note that RSP is still lagging the S&P 500 on a YTD basis. While RSP is useful in core equity holdings (and I think replacing some large-cap equity exposure with RSP is warranted) we continue to prefer allocating towards value, defensive sectors and the quality factor as ways to help balance tech-heavy core U.S. large-cap equity exposure and have some relative protection if growth continues to slow and yields continue to decline. VTV, USMV and QUAL (iShares MSCI USA Quality Factor ETF) remain cheap, easy and liquid ways to gain exposure to the broadening rally in addition to targeted defensive and value holdings (XLU/XLP/XLE/XLB).

Bottom line, NVDA is still the most important single stock in the market. But more importantly, the market broadening is an ongoing phenomenon and one we think can continue as long as Goldilocks is here and ensuring balanced exposure to that broadening is one way we think investors can continue to outperform in 2024.

Economics

Fed's Economic Well-Being of U.S. Households 2023

Results of the 2023 Survey of Household Economics and Decision making release, or "SHED," showed limited changes from the 2022 report, but there was some mild deterioration in some readings.

Notably, the percentage of households to respond that they were financially "ok or comfortable" declined a modest 1% in 2023 to 72%, but that was notably the lowest print since 2016. Unsurprisingly, inflation was cited as the biggest concern among respondents with 65% of saying "higher prices had made their financial condition worse" as of October. Finally, a measure of rent delinquencies in the release deteriorated with the percentage of respondents experiencing rent challenges rising from 17% to 19% last year.

Bottom line, this is a light week for economic data and market catalysts and while the reaction to the SHED release was limited and it didn't get much media attention, the largely steady survey responses relative to 2022 suggest the economy remained resilient through the end of last year despite lingering inflation pressures. And while there were some areas of weakness and deterioration in the survey, it was largely in line with a soft economic landing.

Market	Level	Change	% Change
Dollar Index	104.56	.10	0.09%
EUR/USD	1.0855	-.0002	-0.02%
GBP/USD	1.2714	.0008	0.06%
USD/JPY	156.15	-.11	-0.07%
USD/CAD	1.3653	.0028	0.21%
AUD/USD	.6666	-.0001	-0.01%
USD/BRL	5.1147	.0106	0.21%
Bitcoin	69,885.92	1,159.30	1.69%
10 Year Yield	4.414	-.023	-0.52%
30 Year Yield	4.554	-.019	-0.42%
10's-2's	-42 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.99%		
Prices taken at previous day market close.			

Commodities

Commodities traded with a bias to the downside as both oil and gold posted daily declines while copper rallied modestly. It was a quiet day across markets, however, and none of the major commodity futures contracts moved more than 1%. The commodity tracking index ETF, DBC, fell 0.42% on the session.

Starting with industrial metals, copper bucked the otherwise heavy trend in the commodity complex and posted a gain of 0.51% on the session to end at a new record high. The pace of the rally began to moderate yesterday, however, as futures failed to break beyond Monday's intraday highs and closed the day out about 10 cents off this week's peak of $5.20/lb.

Looking ahead, the new record highs are bullish and the trend is still higher; however, the risks of a corrective pullback are rather high as the RSI reading on the weekly timeframe chart is as "overbought" as it has been since the timeframe leading up to the near-40% selloff in 2022. Prior resistance at $4.70 will offer the first level of meaningful support in the event of a pullback but such decline should be viewed as a buying opportunity.

Gold pulled back modestly from this week's new all-time highs with futures closing lower by 0.45%. The latest run at record highs seemed to be a less-convicted rally based on the tentative price action and potentially forced by short-covering rather than new longs entering the market. In any event, the path of least resistance remains higher for gold and, as is the case with copper, any meaningful pullbacks should be viewed as buying opportunity.

In the energy complex, WTI crude oil futures sold off overnight Monday as the active-month rolled forward from June delivery to July delivery. A morning recovery was largely given back in late-morning trade after the Fed's Survey of Household Economics and Decision-Making release as there were some incremental negatives in the release, especially about discretionary spending.

Attention began to shift to the API report after the close yesterday ahead of today's weekly EIA report in which traders will be looking for evidence that the rebound in consumer demand for fuel at the pump is continuing through the month of May and ahead of the peak driving season. Bearish headlines or a soft demand number could easily send WTI futures down for another test of the recent lows near $76.50 while bullish figures in the report could just as easily send the market back to and through the $80/barrel mark today. On the charts, $78 will be key intraday support to watch today while this week's high of $80 will present initial resistance.

Currencies & Bonds

Currency and bond markets were quiet Tuesday as they continued to digest the declines in Treasury yields and the dollar of the past few weeks while there were again no market-moving catalysts. The Dollar Index rose 0.1% while the 10-year yield declined 1 basis point.

There was no market-moving economic data on Tuesday so markets were left to interpret Fed speak but despite the large number of Fed commentators, the message remains consistent and uncontroversial. That was the case Tuesday despite some very short-term volatility around the Fed's Waller's commentary. Specifically, Waller stated it'd take "several more months" of good inflation data before he'd be comfortable cutting interest rates. The market's immediate response to that was hawkish, as yields rose and stock futures fell.

But Waller's comments were not hawkish. First, his "several more months" comment is consistent with a September rate cut (several meaning three or four). Second, while Waller also focused on the fact that Fed policy was working as growth is clearly slowing and as such, further rate hikes likely won't be needed. It took a bit for the market to digest that reality in his comments but it did by midmorning, and Treasury yields gave back the bounce and turned slightly lower while stock futures bounced.

In the end, currency and bond traders accepted that Waller's comments were very much in line with current Fed speak, reinforcing that inflation is likely declining again but it's not low enough to warrant rate cuts. However, because policy is starting to slow growth, hikes aren't necessary, either.

The practical result remains no rate cuts in the near future but a decent chance of one in September, as long as inflation keeps falling.

Looking internationally, Canadian CPI was slightly light (core CPI rose 2.7% y/y vs. (E) 2.9) and that's helping to cement the global rate cut expectations, although the loonie only declined modestly vs. the dollar (down 0.2%). The euro and pound were both flat on the day.

In Treasuries, following some initial volatility around the Waller comments, the 10-year yield declined 3 basis points midmorning as bond investors seemed to eventually focus more on Waller's slowing growth commentary (remember the 10-year yield always reflects expectations for growth and inflation). But that didn't last as the 10-year yield drifted close to flat by the end of the day (again, Waller's comments didn't change anything. Bottom line, we'd expect continued digestion around these levels in the Dollar Index and 10-year Treasury yield until data or central bank speak changes current market assumptions for Fed, ECB or BOE rate cuts.

Have a good day,

Tom

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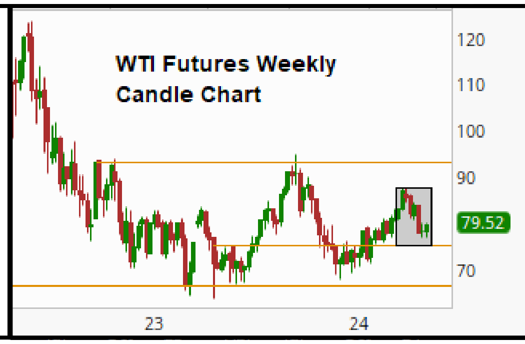
Technical Perspectives
(Updated 5/19/2024)

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

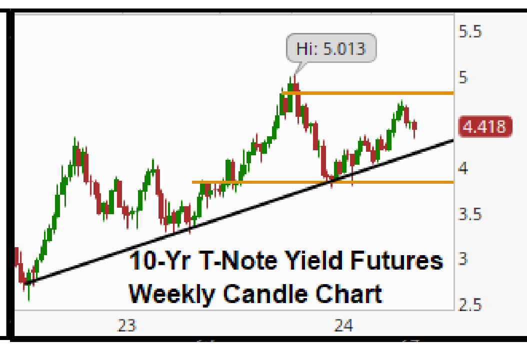


Gold

- 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

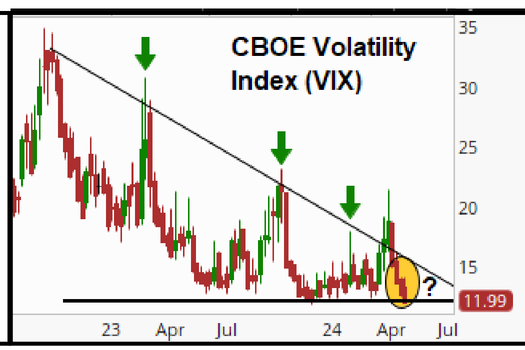
10-Year T-Note Yield Futures

- 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



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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.