# SEVENS REPORT

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

*May 23, 2024*

## Pre 7:00 Look

- Futures are solidly higher following stronger than expected NVDA earnings and guidance.
- NVDA results beat across the board as earnings, revenue and guidance all beat estimates while the company announced a 10:1 stock spilt and increased the dividend. NVDA is up 6% pre-open and pushing futures higher.
- Economically, EU and UK May flash PMIs were mixed but both above 50, importantly signaling economic expansion.
- Econ Today: Jobless Claims (E: 220K), May Flash PMI (E: 51.0), Fed Speak: Bostic (3:00 p.m. ET).

| Market | Level | Change | % Change |
|---|---|---|---|
| S&P 500 Futures | 5,356.25 | 28.25 | 0.53% |
| U.S. Dollar (DXY) | 104.73 | -0.20 | -0.20% |
| Gold | 2,366.60 | -26.30 | -1.10% |
| WTI | 78.23 | 0.66 | 0.85% |
| 10 Year Yield | 4.43% | -0.01 | -0.20% |

## Equities

*Market Recap*

Stocks were sideways for most of Wednesday as traders awaited NVDA earnings; however, volatility picked up meaningfully in the afternoon amid a rise in interest rates and the more-hawkish-than-expected Fed meeting minutes release. The S&P 500 ended down 0.27%.

The equity market was initially steady yesterday with the S&P 500 trading just shy of record highs after a smaller-than-hoped decline in the UK's latest CPI report rekindled worries about the global disinflation trend while soft earnings from TGT indicated inflation pressures are weighing on discretionary consumer spending habits. The only U.S. economic report was Existing Home Sales which disappointed for the second month in a row, but that added to the list of reasons that support Fed rate cuts to come sooner rather than later.

A modest selloff began in the early afternoon following a slightly disappointing 20-Yr Treasury Bond auction put upward pressure on yields. The selling pressure picked up meaningfully after the release of the latest Fed meeting minutes, which revealed policy makers willingness to raise rates amid uncertainty about whether the current policy rate is restrictive. Additionally, officials noted that gaining confidence that inflation was on its way back to target would take more time (higher-for-longer policy rates), which saw stocks and other risk assets come for sale meaningfully in afternoon trade as NVDA earnings came into focus.

*Is Sentiment Getting Too Bullish?*

Investor sentiment and bullish "chasing" has been a notable part of the 2024 rally (we've seen chasing over the past 10 days) but despite an almost universally bullish outlook from analysts and investors, sentiment, while bullish, is not yet at levels that would imply the rally is almost exhausted.

Clearly sentiment has improved since late April as stocks have rebounded to new all-time highs and expectations for inflation (declining again) and the Fed (September rate cut) have improved. But bullish sentiment remains below the highs of the year and while investors and advisors are optimistic and bullish, they are not so wildly bullish that it's a major, short-term red flag.

Bottom line, sentiment is optimistic and bullish and it's not going to be a new, positive tailwind on stocks and it does leave markets somewhat vulnerable to any real disappointment. That said, despite new highs sentiment

| Market | Level | Change | % Change |
|---|---|---|---|
| Dow | 39,671.04 | -201.95 | -0.51% |
| TSX | 22,346.76 | -121.40 | -0.54% |
| Stoxx 50 | 5,039.59 | 14.42 | 0.29% |
| FTSE | 8,372.96 | 2.63 | 0.03% |
| Nikkei | 39,103.22 | 486.12 | 1.26% |
| Hang Seng | 18,868.71 | -326.89 | -1.70% |
| ASX | 7,811.80 | -36.33 | -0.46% |
| Prices taken at previous day market close. | | | |

can get even more positive before it becomes a major red flag on the rally.

| Market | Level | Change | % Change |
|---|---|---|---|
| DBC | 23.48 | -.34 | -1.43% |
| Gold | 2,382.60 | -43.30 | -1.78% |
| Silver | 31.11 | -.97 | -3.02% |
| Copper | 4.8125 | -.2935 | -5.75% |
| WTI | 77.30 | -1.36 | -1.73% |
| Brent | 81.67 | -1.21 | -1.46% |
| Nat Gas | 2.789 | .118 | 4.42% |
| RBOB | 2.4629 | -.0471 | -1.88% |
| DBA (Grains) | 24.12 | .11 | 0.46% |
| Prices taken at previous day market close. | | | |

- **The CNN Fear/Greed Indicator currently sits at 61 (on a scale of 0-100). That's slightly in the "Greed" zone.** The Fear/Greed Index has become more widely followed on the Street because it incorporates seven different momentum and sentiment indicators and, as such, provides a wide view of current investor and market sentiment. The 61 reading puts this indicator slightly in the "Greed" zone but not at a level that would make us nervous for the rally. The "Neutral" range is from 50-59 so while sentiment is technically bullish, it's barely so and far from the 78 "Extreme Greed" reading we saw back in February.

- **AAII Investor Sentiment Survey shows 41% bulls. That's just slightly higher than historical averages.** This survey asks respondents (individual investors) whether their outlook is bullish or bearish and the percentage of respondents that say they're bullish, bearish or neutral is tracked over time. The historical average for bulls is 37.5%, so at the 41% reading last week, we're close to that level and only slightly bullish. The more interesting number is the bearish reading, which is at a very low 23%, well below the 31% historical average and only slightly above the 22% low we saw in late March. This speaks to the "complacency" that I believe leaves this market vulnerable to negative surprise. The AAII survey shows that investors aren't wildly bullish, but they aren't really worried about anything bad happening, either. That tells me this rally can continue as long as data is good, but the bigger risk is for disappointment if we get really bad news on growth, Fed rate cuts or inflation.

- **Investors Intelligence Advisor Sentiment Survey has a Bulls/Bears spread of 42%, a Bullish reading.** The Investors Intelligence Advisor Sentiment Index is similar to the AAII survey, but it polls financial advisors, not individual investors. It's also referenced slightly differently as a spread of bulls/bears as opposed to percentages of each vs. a benchmark. Regardless of the methodology, the message is the same: Advisors remain very bullish. At 42%, that difference between bullish respondents and bearish respondents shows financial advisors are strongly bullish compared to the 30% historical average. Additionally, a Bull/Bear spread between 35%-45% is considered to signal elevated chances for a correction. So, at 42%, it's still at the higher end of that range! Comparatively, at the October lows the Bulls/Bears spread hit a low of 18.4%, an extremely bearish reading. So, the message is clear: <u>Financial advisors remain decidedly bullish (although not levels that would imply a correction is imminent).</u>

Bottom line, investor and advisor sentiment shows they are complacent about the path higher for stocks. But they are not so overtly bullish that it warns of a negative tipping point. Instead, there is some additional room for this rally if news stays positive near term before sentiment gets so bullish it's a warning sign. That said, the decline in stocks given complacent sentiment if there's real negative news is higher than the near-term upside. I think that's something we all expected is true but that is confirmed by this sentiment data. Investors aren't irrationally exuberant, but they are complacent about a continued rise in stocks.

## Economics

*FOMC Minutes*

- The FOMC minutes were taken as slightly hawkish due to the commentary that "various" members were open to a rate hike if needed.

Markets reacted hawkishly to the minutes from the early May Fed meeting and it was because of this sentence: "Various participants mentioned a willingness to tighten policy further should risks to inflation materialize in a way that such an action becomes appropriate."

Essentially, investors and traders took that as a comment that meant rate hikes are possible and as such, we saw the dollar and 10-year yields rise slightly to the highs of the day while stocks dropped. But let me be perfectly clear, that is not a hawkish comment and it makes rate hikes no more likely than they were before. Fed officials will always say they are ready to hike (or cut) rates if economic conditions warrant. That statement is always going to be true, otherwise the Fed would be guilty of dereliction of duty as it'd be unwilling to confront inflation.

The key has always been what the data makes the Fed do and the reality is this: With growth clearly slowing and inflation apparently declining, the bar for the Fed to hike rates is extremely high and that did not change with yesterday's minutes.

Bottom line, the Fed minutes do not make the outlook more hawkish and given my primary concern is about slowing growth, if we see Treasuries decline moderately on a "hawkish Fed" move following these minutes, I'd look to be a buyer of intermedia and longer-term bonds on this weakness because the Fed did not get more hawkish yesterday despite the market's reaction.

## Commodities

Commodities came under heavy selling pressure yesterday as economic data once again leaned towards stagflation while hawkish FOMC meeting minutes weighed heavily on the complex amid a broadly stronger dollar. The commodity ETF, DBC, dropped 1.43%.

| Market | Level | Change | % Change |
|---|---|---|---|
| Dollar Index | 104.87 | .31 | 0.30% |
| EUR/USD | 1.0821 | -.0033 | -0.30% |
| GBP/USD | 1.2715 | .0006 | 0.05% |
| USD/JPY | 156.67 | .50 | 0.32% |
| USD/CAD | 1.3694 | .0040 | 0.29% |
| AUD/USD | .6611 | -.0055 | -0.83% |
| USD/BRL | 5.1537 | .0304 | 0.59% |
| Bitcoin | 69,674.28 | 444.60 | 0.64% |
| 10 Year Yield | 4.434 | .020 | 0.45% |
| 30 Year Yield | 4.551 | -.003 | -0.07% |
| 10's-2's | -45 bps | | |
| Date of Rate Cut | September 2024 | | |
| 2024 YE Fed Funds | 5.02% | | |
| Prices taken at previous day market close. | | | |

Copper has been in focus lately as futures rallied to record highs amid optimism that a "super cycle" is developing amid rising demand from growth-oriented industries such as electric vehicles and AI, and uncertain global supply. But as other analysts have pointed out, none of this information was necessarily new in 2023 and that left the reason behind copper's latest run to record highs in question and the tentative latest leg to new highs, at risk. Copper retreated by 5.77%, giving back more than half of he May breakout rally through previous resistance at $4.70, which will remain a key technical level to watch going forward.

Gold's decline of 1.84% paled in comparison to copper's one-day plunge but it was still meaningful with futures retreating towards the middle of their Q2 trading range. The strength in the dollar and rise in Treasury yields both pressured gold. Gold's uptrend remains intact but the risk of a more-pronounced pullback near term have risen given the uptick in volatility in the yellow metal.

*EIA Data Takeaways and Oil Update*

Despite mildly disappointing headlines, yesterday's EIA report was bullish for oil as there was evidence of a resurgence in consumer gasoline demand. The strong details failed to rally the market though, as recession worries amid disappointing economic data and renewed worries about Fed policy saw WTI futures end lower by 1.72%.

Starting with the EIA data, the headline commercial crude oil build of a +1.8MM bbls was bearish relative to expectations of a -2.0MM bbl draw, but better-than-feared relative to the API's +2.49MM bbl build. The small changes in refined product inventories, meanwhile, had a limited impact on the market.

Gasoline supplied, the key measure of consumer demand for fuel at the pump surged by 439K b/d to 9.315 million b/d last week, a fresh YTD high and the highest reading since early November of last year. The spike in implied demand brought the four-week moving average, a smoother look at the data, up to 8.9 million b/d, the second highest of 2024 and importantly above the corresponding week in 2021 when the economy was rapidly recovering from the pandemic.

Refining activity also jumped a more-than-expected 1.3% to 91.7% of capacity (E: 90.9). Refiners ramping up activity suggests they anticipate strong demand in the weeks ahead and likely for the summer driving season, which was underscored by the fact the surge in supply was almost entirely absorbed by the market last week.

Bottom line, the oil market failed to rally on the solid demand data in the EIA data and instead declined to settle at the lowest level in three months due to Fed policy concerns and subsequent worries of a looming recession. Weakness in the term structure of the futures market confirmed the heavy trade in active month futures prices and ultimately conviction behind the 2024 bull market in oil is deteriorating this week. That leaves trader focus on key support at $76.50 in the session ahead while $80/barrel remains the key level to beat.

## Currencies & Bonds

The Dollar Index and Treasury yields both rose modestly on Thursday thanks to the hawkish reaction to the FOMC minutes (although as we said earlier, we do not agree that the minutes were actually hawkish). The Dollar Index rose 0.3% and closed just under 105 while the 10-year yield gained 2 basis points.

Unlike Monday and Tuesday, there were real, legitimate market movers in the currency and bond markets yesterday and it started with UK CPI, which ran hotter than expected. UK Core CPI rose 3.9% vs. (E) 3.7% (although it was down from 4.2%) and that miss on CPI was seen as lowering the chances of a June rate cut by the Bank of England and the pound rallied 0.3% early.

The dollar and euro were flat for most of the day until the second notable catalyst, the FOMC minutes. As discussed, the reaction to the minutes was hawkish due to the "various members" commentary and immediately following the release of the minutes, the Dollar Index rose to the highs of the day (up 0.3%) while the euro dropped to the lows of the day (down 0.3%).

Bottom line, of the two events yesterday (UK CPI and FOMC minutes) the former is more important than the latter because it narrows the policy gap between when the BOE will cut and when the Fed will cut. Prior to yesterday, that gap was between June and September. Now it's between August and September or even September and September and that will support the pound vs. the dollar (and the euro).

We continue to think the Dollar Index around 105 "makes sense" given current expectations for a likely (but not certain) September rate cut from the Fed and solid (albeit slowing) growth. And for the Dollar Index to depart materially from 105 it will take markets changing (materially) the outlook for a Fed rate cut (so pushing it back to December or not in 2024) or U.S. growth materially slowing and neither is happening anytime soon.

Turning to Treasuries, the two year yield popped 5 basis points on the hawkish FOMC minutes but again I don't think that's the start of a broader move. The 10-year yield was initially higher on in sympathy with GILT yields following the UK CPI report and it largely held those gains following the FOMC minutes. Correctly, the long end of the curve didn't really react to the FOMC minutes as it doesn't change the Fed's rate outlook.

Much like the dollar, I view the 10-year Treasury yield around 4.40%-4.50% as appropriate for now but continue to worry about downside risks if growth data continues to disappoint, and 3.75%-4.25% remains a "stock positive" range for yields. However, given valuations don't expect a drop into that range to result in too much more of a stock rally while a plunge through 3.75% on growth concerns (and perhaps even below 4.00%) would likely become a headwind on stocks.

Have a good day,

Tom

5/23/2024

# SEVENS REPORT

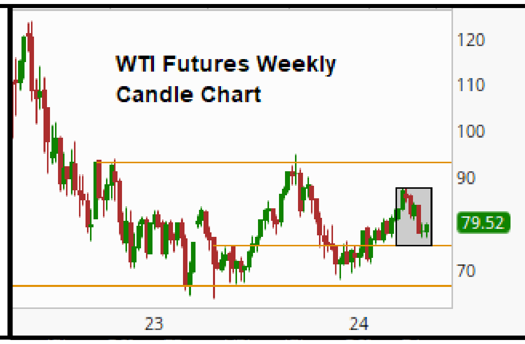
## Technical Perspectives (Updated 5/19/2024)

### 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

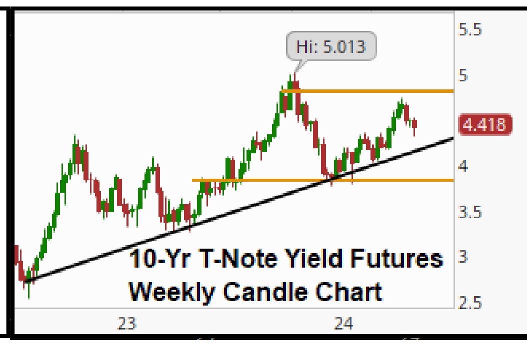



### Gold

- 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

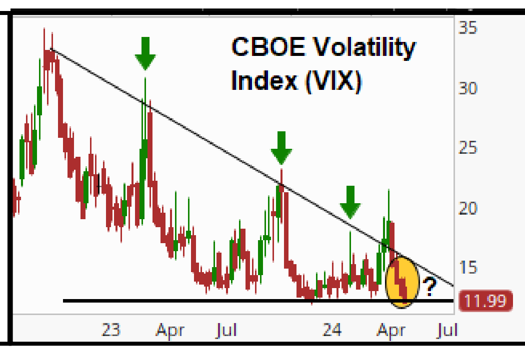

### 10-Year T-Note Yield Futures

- 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:**<br>**Cautious**<br>**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.