SEVENS REPORT

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

May 28, 2024

Pre 7:00 Look

- Futures are modestly higher, led by mega-cap tech, as traders return from the long weekend to mixed headlines.
- Economically, an ECB survey showed a favorable dip in medium term (3-year) consumer inflation expectations.
- Geopolitically, Israel's military actions in Rafah left an Egyptian soldier and dozens of civilians dead over the weekend.
- Econ Today: S&P Case-Shiller Home Price Index (E: 0.3%), Consumer Confidence (E: 95.3). Fed Speak: Kashkari (9:55 a.m. ET), Cook (1:05 p.m. ET), Daly (1:00 p.m. ET).
- There are auctions for 2-Yr and 5-Yr Treasury Notes today.

Market	Level	Change	% Change
S&P 500 Futures	5336.00	14.50	0.27%
U.S. Dollar (DXY)	104.355	-.165	-0.16%
Gold	2345.50	11.00	0.47%
WTI	78.98	1.26	1.62%
10 Year Yield	4.456	-.014	-0.31%

Equities

Market Recap

Stocks extended the 2024 rally last week as AI enthusiasm leading up to NVDA managed to more than offset more hawkish Fed developments and rising Treasury yields. The S&P 500 ended the week with a slight gain of 0.03%, which left the index up 11.21% YTD.

The stock market tested all-time highs at the start of last week with mega-cap tech powering the major indexes higher as MSFT announced a new line of AI-focused computers. The gains came in spite of multiple Fed speakers, including Daly and Mester, delivering hawkish comments. The S&P 500 edged up 0.09% to a record.

On Tuesday, stocks recovered from early losses amid quiet newswires and no economic data with several Fed speakers being the only potential catalyst for the session. The Fed chatter was "more of the same" reiterating a higher-for-longer outlook. But critically, there was no mention of rate hikes and the S&P 500 churned higher by 0.25% on the day to end at a record high.

Stocks were sideways for most of Wednesday's session as traders awaited NVDA earnings, widely viewed as the "catalyst of the week," while a soft 20-Yr T-Bond auction and the mention of rate hikes in the latest Fed minutes release were both seen as hawkish. With yields rising in the afternoon stocks declined modestly despite the NVDA hype and the S&P 500 closed down 0.27%.

Stocks gapped up to fresh intraday record highs on Thursday as NVDA's Q1 results topped estimates across the board while leadership offered solid guidance. NVDA's stock topped $1,000/share amid a rejuvenated bid in AI and mega-cap tech. The broader market began to retreat shortly after the open however, as jobless claims pointed to a tight labor market, while the May Composite Flash PMI was outright "hot" with accelerating price measures. With the first rate cut being priced back from September to December, steady selling pressure saw the S&P 500 end down 0.74%.

The market gapped higher at the open Friday amid a relief rally after Thursday's outside-reversal. The tentative early rally gained traction after the final U of M Consumer Sentiment release had a better headline and lower inflation figures (opposite of stagflation), which saw the rally accelerate to the recently magnetic 5,300 level by late morning. The S&P 500 drifted sideways into the close ending higher by 0.70% pinned to 5,300.

Market	Level	Change	% Change
Dow	39,069.59	4.33	0.01%
TSX	22,373.38	52.51	0.24%
Stoxx 50	5,064.84	5.64	0.11%
FTSE	8,305.41	-12.18	-0.15%
Nikkei	38,855.37	-44.65	-0.11%
Hang Seng	18,821.16	-6.19	-0.03%
ASX	7,766.71	-21.59	-0.28%
Prices taken at previous day market close.			

Explaining This Market To Clients (Summer Edition)

Summer is upon us now, and if you're like me that means more social gatherings and conversations with neighbors, people on trips, etc. I view each of those conversations as an opportunity for an advisor to impress someone, and have him or her leave the conversation saying: "That person knows the markets."

Market	Level	Change	% Change
DBC	23.52	.16	0.68%
Gold	2,333.60	-3.60	-0.15%
Silver	30.52	.06	0.21%
Copper	4.7575	-.0350	-0.73%
WTI	77.74	.87	1.13%
Brent	82.13	.77	0.95%
Nat Gas	2.544	-.113	-4.25%
RBOB	2.4883	.0189	0.76%
DBA (Grains)	24.69	.06	0.24%
Prices taken at previous day market close.			

So, to aid in that, I'm including an explanation I gave over the weekend to a neighbor at a barbecue we had at our house. It was very well received and his response was: "Well, now I feel like I understand the market." So, here it is.

First, the economy and the market are "fine" for now, regardless of scary headlines. There have been four drivers of the market since October: Solid growth, falling inflation, expectations for Fed rate cuts and tech stock strength. All of those are still comfortably in place. So, until that changes, it's not reasonable to worry about a major decline in the markets.

Second, there will be some short-term volatility. Markets can't go up every single day and we should expect some volatility short term. The number one cause of short-term market volatility is investors' expectations for when the Fed will cut rates. In April, stocks dropped because markets thought the Fed might not cut rates at all in 2024. Since then, markets have rebounded and now markets think the Fed could cut rates twice in 2024 (with the first cut in September). Those shifting expectations will create short-term volatility but we're not short-term focused, and whether the Fed cuts rates in September or December doesn't really matter as long as the market knows the next move will be a cut. So, if the market drops in the next few weeks on rate cut worries, that's likely an opportunity to add exposure because it's not a major, long-term negative.

Speaking of the long term, the number one worry is economic growth. It's good right now but we must stay vigilant to any signs it's really falling off, because that's the type of event that could end this bull market. We don't need to worry that much about rates. If rates stay high and economic growth is solid, markets can continue to do well in that environment (remember the whole October-to-present rally has occurred with rates near 5.5%). Bottom line, an economic slowdown is what we have to watch for and that's exactly what we're doing.

Practically, that means stay invested and stick to the plan. Short-term volatility is going to come but unless something major changes, it'll present opportunities. Because slowing growth is the risk and given the markets had a big run, lowering volatility in our holdings makes some sense and that's what's been outperforming lately and we think it'll continue to do so over the summer.

On the election and politics, the debate at the end of June will create headlines. But markets shouldn't really begin to focus on the election (and potential impacts) until after Labor Day (and there are a lot of unknowns that'll be resolved between now and then including Trump's court cases and whether he's immune from any January 6th charges).

Bottom line, the medium- and longer-term outlook remains generally positive. Don't get too worried over scary headlines about rates and rate cuts. Rates aren't going to end this bull market. But a slowing economy would, so that's the major risk we're monitoring right now.

Economics

Last Week

After several weeks of data pointing towards slowing growth, economic data last week was universally stronger than expected and the net result was higher yields, a reduced expectation for September rate hikes and late-week market volatility.

The key report last week was the May flash PMIs, which came in much stronger than expected at 54.4 vs. (E) 51.3. That's a 25-month high and the details of the report were also strong, as the flash manufacturing PMI rose back above 50 and the services PMI surged as well. Bottom line, it was a strong report and while it's just one, it implies that economic activity rebounded in May.

That message was largely supported by the other data last week. Jobless claims dropped again to 215k vs. (E) 220k and have pulled back solidly from the 231k print from a few weeks ago and continues to imply a strong labor market.

Finally, Durable Goods also printed stronger than expected although the revisions were significantly negative and made the headline readings appear stronger than they actually were. The headline rose 0.7% vs. (E) -0.5% (so a beat of 1.2%) but the March data was revised from 2.6% to 0.8% (a reduction of -1.8%). So while the headline looks good, the two months data is still a bit mixed.

Market	Level	Change	% Change
Dollar Index	104.64	-.39	-0.37%
EUR/USD	1.0850	.0035	0.32%
GBP/USD	1.2738	.0039	0.31%
USD/JPY	156.95	.02	0.01%
USD/CAD	1.3665	-.0064	-0.47%
AUD/USD	.6630	.0024	0.36%
USD/BRL	5.1702	.0252	0.49%
Bitcoin	68,911.13	1,472.86	2.18%
10 Year Yield	4.467	-.008	-0.18%
30 Year Yield	4.573	-.007	-0.15%
10's-2's	-48 bps		
Date of Rate Cut	November 2024		
2024 YE Fed Funds	5.07%		
Prices taken at previous day market close.			

Looking at the more important number, the New Orders for Non-Defense Capital Good ex-Aircraft (NDCGXA), it also beat on the headline, rising 0.3% vs. (E) 0.1% but the revisions were negative, from 0.2% to -0.1%. NDCGXA is the best number we have for business spending and investment and the take-away from the data is this: Business spending isn't falling, but it is plateauing (but that's not enough to get the Fed to worry about either growth or inflation, so it adds to the higher-for-longer case).

Bottom line, last week's data, on balance, was good and countered the narrative of slowing growth. In the medium and long term, that's a good thing! But markets are focused on the short term and for now, "good" data is bad for stocks because it pushes rates higher and that's what we saw last week.

This Week

This holiday-shortened week is similar to last week in that there aren't many economic reports; however, the ones that come at the end of this week are important and have the potential to move markets (just like the reports did last week).

The key report this week is Friday's Core PCE Price Index and as last week showed, the market remains very sensitive to any data that might delay rate cuts (or, more realistically, increase the perceived chances of a rate hike). So, markets will want to see the April Core PCE Price Index continue to decline and reinforce that the next move by the Fed will be a cut, it's just "when."

The other two notable economic reports this week come Thursday via jobless claims and the revised Q1 GDP report. Again, markets remain firmly in bad-data-is-good-for-stocks mode, because bad data lowers Treasury yields so investors will want to see a rise in claims and continued "cool" Q1 GDP. While next week is very important for markets as we will get the May PMIs and the jobs report, this week's reports have the potential to add to the Fed rate cut anxiety or relieve it, so we'll be watching.

Commodities

Commodities sold off last week as hawkish Fed speak and several hot economic reports, including the May Composite PMI Flash, supported a higher-for-longer policy stance and pushed both the dollar and Treasury yields higher despite growing recession worries. The commodity ETF, DBC, fell 0.80% on the week.

Copper futures hit all-time highs thanks to continued speculation that a "super-cycle" for the industrial metal was underway amid tight supply and surging demand from AI and electric vehicle industries. Copped reversed from the highs, however, and ended the week down a sharp 6.36% as growth concerns sparked a wave of profit taking that took a good chunk out of the YTD gains. Copper remains up more than 20% in 2024.

Last week seemed to be a bit of a reality check for the euphoric copper bulls as the higher-for-longer rate stance by global central banks sparked concerns of a broad global recession that would derail the "super-cycle" narrative behind the copper rally. $4.70 remains key support to watch while resistance is above at $5.10.

Gold fell 3.50% as real interest rates jumped nearly 10 basis points on the week and the dollar rallied, presenting a dual headwind on the yellow metal. Gold futures ended the week towards the middle of the initial support band between $2,300 and $2,355, leaving the path of least resistance higher. But like copper, the risks of a more pronounced pullback have risen considerably.

WTI fell 2.16% amid the same rate policy worries and recession concerns that hit the copper market so hard. The weekly decline in oil occurred despite solid EIA data that showed a massive resurgence in consumer demand in mid-May as traders seemed to be looking further into the future at recession worries as opposed to the positive near-term demand dynamics. On the charts, futures held important support dating back to the middle of Q1'24 at $76.50, and while bullish conviction has faded considerably, the trend in futures does remain higher with initial resistance at $79.50 and secondary resistance between $81.50 and $82.50.

Currencies & Bonds

Hot economic data pushed the dollar and Treasury yields higher last week as markets dialed back expectations for a September rate cut. The Dollar Index rose 0.3% while the 10-year gained 8 basis points.

There were two main events that pushed the dollar and yields higher last week. The first was the FOMC minutes, which stated that "various" Fed members would be open to a rate hike if inflation risks reemerged. While that statement isn't anything new, it was a bit hawkish on its face and pushed yields and the dollar modestly higher. On Thursday, the May flash PMIs, the first big report of the month, was much hotter than expected and further increased rate cut anxiety. The net result was expectations for a September rate cut declined from about 80% at the start of the week to about 50% at the end of the week.

Internationally, the euro declined 0.3% largely in response to dollar strength while the British pound rose 0.14%. The pound was stronger as UK CPI was hotter than expected and that effectively removed the possibility for a June rate cut from the BOE and that's why the pound was buoyant vs. the dollar.

Bottom line, the Dollar Index around 105 and the 10-year yield near 4.50% are appropriate levels given current readings for growth and inflation. But looking forward, the inverse relationship between Treasury yields and stocks remains in place and if the 10 year rises above 4.50% expect the headwind on stocks to increase, while a decline towards 4.30% will likely support a rally.

Have a good day,

Tom

5/28/2024

SEVENS REPORT

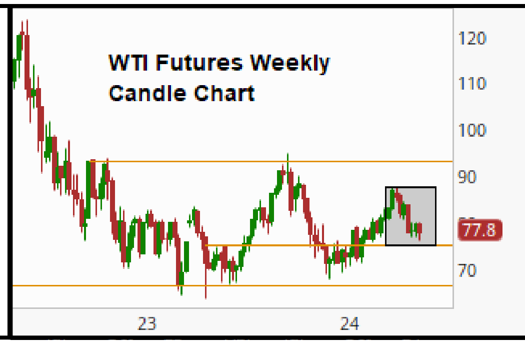
Technical Perspectives (Updated 5/26/2024)

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: 5340, 5375, 5400
- Key Support Levels: 5233, 5169, 5064

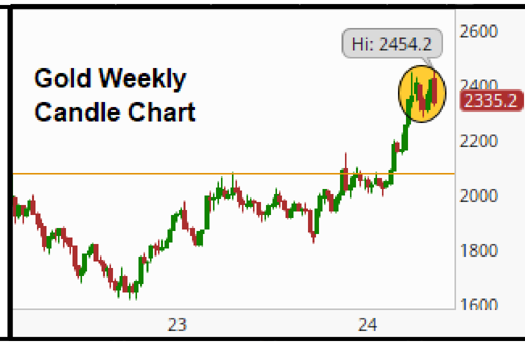
WTI Crude Oil

- Technical View: Oil prices have retreated sharply from the 2024 highs reached in 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: $79.22, $80.82, $81.90
- Key Support Levels: $76.98, $75.96, $74.08



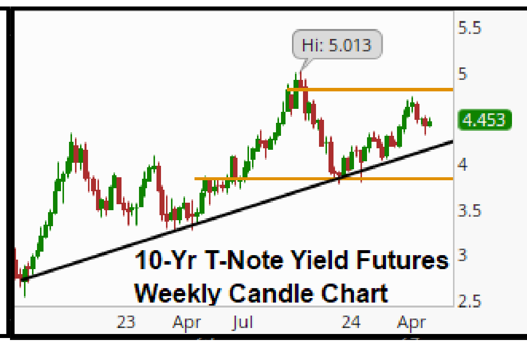
Gold

- 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: $2349, $2381, $2425
- Key Support Levels: $2316, $2257, $2201



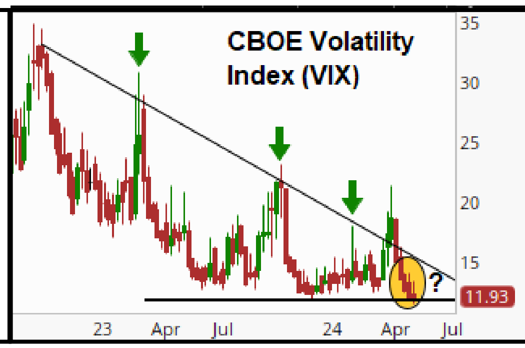
10-Year T-Note Yield Futures

- 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: 4.493, 4.565, 4.661
- Key Support Levels: 4.375, 4.304, 4.209



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 6, 2024)**
- Key Resistance Levels: 12.77, 13.37, 14.67
- Key Support Levels: 11.89, 11.81, 11.52



SEVENS REPORT	Fundamental Market View (Updated 5/26/2024)

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%**	*Stocks extended the 2024 rally last week as AI enthusiasm leading up to NVDA earnings more than offset more hawkish Fed developments and rising Treasury yields. The S&P 500 ended the week with a slight gain.*

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 sold off last week as hawkish Fed speak and several hot economic reports, including the May Composite PMI Flash, supported a higher-for-longer policy stance and pushed the dollar higher despite growing recession worries.*
US Dollar	**Neutral**	*The Dollar Index rose modestly as hot economic data dialed back expectations for a September rate cut.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield gained 8 basis points on the week as the hot economic data threatened to keep the Fed in a higher-for-longer posture.*

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.