SEVENS REPORT

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

May 29, 2024

Pre 7:00 Look

- Stock futures are moderately lower this morning as the rally in mega-cap tech stocks is taking a breather amid a 10 basis point rise in the 10-Yr yield so far this week.
- Economically, regional German CPI figures have come in mixed so far this morning ahead of the official German estimate due to be released at 8:00 a.m. ET while Germany's GfK Consumer Climate Index rose to -20.9 vs. (E) -24.0.
- Econ Today: Richmond Fed Manufacturing Index (E: -6.0). Fed Speak: Williams (1:45 p.m. ET), Bostic (7:00 p.m. ET).
- The Treasury will hold a 7-Yr Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5293.25	-31.50	-0.59%
U.S. Dollar (DXY)	104.739	.126	0.12%
Gold	2366.60	-12.70	-0.53%
WTI	80.47	.64	0.80%
10 Year Yield	4.563	.025	0.55%

Mexico Takes the Trade Title Courtesy of "Friendshoring" and "Nearshoring"

Equities

Market Recap

Stock indexes oscillated between morning gains and afternoon losses as resilient strength in large-cap tech stocks was largely offset by hawkish money flows in the wake of solid economic data and weak Treasury auctions. The S&P 500 closed effectively flat, up 0.02%.

The broader U.S. equity market gapped higher at the opening bell yesterday led by several large-cap tech names thanks to individual, company-specific headlines. Most notably, NVDA surged another 7% to reach fresh records yesterday after Elon Musk's AI project announced that it will use NVDA's artificial intelligence chips after raising some $6B so far for the AI project aimed at rivaling ChatGPT.

The S&P 500 failed to maintain early gains, as a solid Consumer Confidence report in the U.S. had a hawkish impact on markets and began to put upward pressure on yields in the first hour. Yields were notably already trending higher amid rising oil prices thanks to escalating tensions in the Middle East over the weekend and hawkish Fed speak from multiple officials who spoke yesterday, including Kashkari who alluded to the possibility of another rate hike if data is hot.

The rise in yields continued to pick up over the course of the session as a 2-Yr Treasury auction at 11:30 a.m. and a 5-Yr Treasury auction at 1:00 p.m. both saw weak demand, sending yields to respective new intraday highs, bolstering the headwinds on the broader equity market.

The 10-Yr yield notably approached 4.55% yesterday, just shy of the early May highs, which saw the equal-weight S&P 500 ETF (RSP) drop 0.69% while mega-cap tech propped up the cap-weighted S&P 500 benchmark to end with an incremental gain.

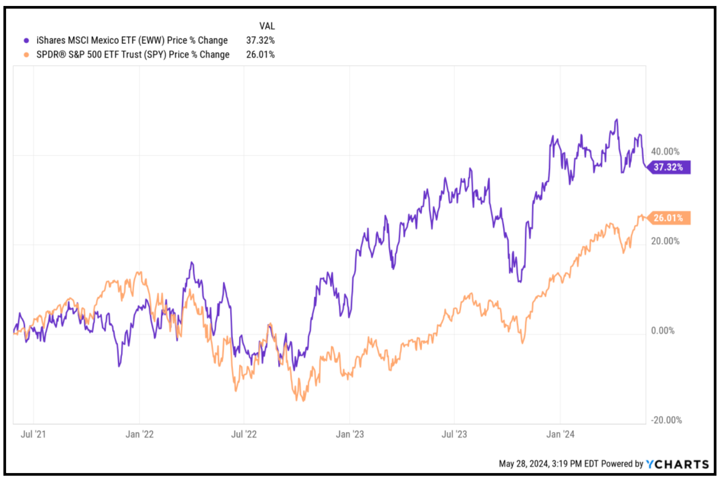
Market	Level	Change	% Change
Dow	38,852.86	-216.73	-0.55%
TSX	22,265.05	-108.33	-0.48%
Stoxx 50	4,996.08	-34.27	-0.68%
FTSE	8,224.52	-29.66	-0.36%
Nikkei	38,556.87	-298.50	-0.77%
Hang Seng	18,477.01	-344.15	-1.83%
ASX	7,665.63	-101.08	-1.30%
Prices taken at previous day market close.			

Politics in Focus: One Emerging Market Winner (Regardless of the President)

Market	Level	Change	% Change
DBC	23.94	.42	1.79%
Gold	2,357.60	23.10	0.99%
Silver	32.15	1.65	5.40%
Copper	4.8525	.0990	2.08%
WTI	80.20	2.48	3.19%
Brent	84.47	1.37	1.65%
Nat Gas	2.582	.062	2.46%
RBOB	2.5177	.0335	1.35%
DBA (Grains)	25.22	.55	2.23%
Prices taken at previous day market close.			

So far in 2024, investors have largely ignored politics. But that will gradually start to change in June with the presidential debate, and as the two candidates come more into investor focus, we can expect lengthy discussions of the policy implications for markets. Most of the policies between the two candidates are starkly different. But one area they are in agreement is being tough on trade with China.

That tough on trade with China has filtered down to concerns about the emerging markets more broadly. But there is one emerging market that usually flies under the radar that's in good standing in trade terms with the U.S., and that has outperformed and could be the beneficiary of U.S. companies diversifying away from China and other Asian countries.



The iShares Mexico ETF (EWW) has solidly outperformed the S&P 500 on a one- and three-year time frame.

That beneficiary is Mexico.

When most investors think of emerging markets, countries such as China, Taiwan, India, and Korea are top of mind. That makes sense, as these countries account for over 70% of emerging market indices (MSCI EM Index: 31.4%, 14.8%, 13.7%, and 12%, respectively) and they're also far away (between 6,000 and 9,000 miles) from the U.S. But Mexico is just 2.7% in the MSCI EM Index, and we think it stands to benefit from the ongoing trends of "friendshoring" and "nearshoring."

Friendshoring is a deliberate policy decision to encourage trade with friendly neighbors at a time when geopolitical tensions are high. The U.S.-Mexico economic partnership has strengthened due to Covid-19 and the United States-Mexico-Canada Agreement (USMCA, formerly NAFTA), which offers mostly duty-free trade zones.

Nearshoring is the practice of outsourcing a service to a third-party provider in a nearby country. This is obvious with Mexico's close proximity to the U.S. and a nearly 2,000-mile U.S.-Mexico border. Goods from Mexico can often reach their U.S. destinations in a day or two by truck or rail. (Additionally, Mexico has sea access to Asian and European export markets via the Pacific Ocean and Gulf of Mexico, providing another way for foreign goods to get to the U.S. And Mexico has free trade agreements with roughly 50 other countries).

In fact, Mexico became the No. 1 trade partner of the U.S. in 2023. It took the spot from China, which was the leader for about a decade. Mexico offers numerous advantages that should allow the continued diversification of global supply chains by multinational companies (nicknamed "China plus one") to make a sustained impact in the years ahead.

Advantages include a skilled and young labor force, cheaper labor, government incentives (discounts, grants, training, tax incentives, etc.), solid infrastructure in the north, and easy access to the U.S. (beneficial to foreign countries, too). Some manufacturers estimate up to 25% production cost savings in Mexico versus equivalent U.S. facilities and hundreds of U.S. companies are taking advantage.

Here's a sampling of U.S. companies with headquarters, R&D, operations, outsourcing and/or investments in Mexico: Ford, Procter & Gamble, American Express, GM, Microsoft, John Deere, Amazon, FedEx, AT&T, Facebook, Coca-Cola, McDonald's, Walmart, Pfizer, IBM, Exxon Mobil, General Mills and Nike. Notice the diversification, with companies from many sectors and industries.

As Bradford Freer (PM, American Funds New World Fund) said on a recent visit to Mexico, "I was shocked to see the magnitude of what's happening. It reminded me of the cities I visited in China during the 1990s and early 2000s, with these bustling multi-million square foot facilities and thousands of workers building at scale. That's now happening in northern Mexico at a rate I think is surprising to a lot of people."

Beyond the friendshoring and nearshoring catalysts, Mexico has other solid growth and value characteristics in play. The country has momentum, as the MSCI Mexico Index was up 41.5% in 2023, strongly outperforming the S&P 500 Index's 26.3%. (Mexico also outperformed 19 of the other 23 emerging market countries last year.) The iShares MSCI Mexico ETF has a 2.4% dividend yield, which is double SPY's 1.2%. And it's considerably cheaper in terms of P/E ratio, 11.4 (EWW) vs. 22 (SPY).

That's not to say there aren't risks, which include: 1) Mexico's electricity grid needs to be strengthened, 2) Southern Mexico is underdeveloped compared to northern Mexico, 3) Corruption, 4) Presidential elections are coming for both Mexico (early June) and the U.S. (early November) in 2024, 5) U.S. recession (the biggest risk).

According to ETF Database, there are three Mexico ETFs to choose from: iShares MSCI Mexico ETF (EWW), Franklin FTSE Mexico ETF (FLMX), and Direxion Daily MSCI Mexico Bull 3X Shares ETF (MEXX). EWW is likely the best option if you're inclined to make a direct bet. It has the highest AUM ($2.1B), most liquidity (trades 2M shares/day), and longest history (1996 inception) by a long shot. Otherwise, FLMX is the cheapest option (0.19% expense ratio). And MEXX, although very risky with its leverage, provides the most bang for your buck. EWW also has a 0% weight in the technology sector. So, if you're overweight technology, it can serve as an offset.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were broadly higher yesterday led by energy and industrial metals as economic data was more market-friendly than anticipated while geopolitical tensions heated up once again in the Middle East, which helped oil outperform. The commodity ETF, DBC, jumped 1.79% to close at a YTD high.

WTI crude oil futures rallied a solid 2.71%, closing above $80/barrel for the first time since late April. There were several bullish catalysts in play supporting the rally in oil yesterday. First, geopolitical tensions picked up meaningfully over the holiday weekend as Israel's advance against Hamas forces in Rafah heated up after a firefight with Egyptian military forces left one Egyptian soldier dead while dozens of civilians were killed by an Israeli airstrike just to the north. Then yesterday, another ship was attacked, allegedly by Iran-backed Houthi rebels in the Red Sea, rekindling worries about oil shipments and infrastructure being targeted.

Second, the stronger than expected Consumer Confidence data helped support the case for firming demand at the start of the U.S. summer driving season after EIA data was strong last week.

Market	Level	Change	% Change
Dollar Index	104.55	-.08	-0.08%
EUR/USD	1.0860	.0001	0.01%
GBP/USD	1.2761	-.0008	-0.06%
USD/JPY	157.12	.24	0.15%
USD/CAD	1.3648	.0015	0.11%
AUD/USD	.6648	-.0006	-0.09%
USD/BRL	5.1590	-.0124	-0.24%
Bitcoin	68,231.71	-1,677.40	-2.40%
10 Year Yield	4.542	.075	1.68%
30 Year Yield	4.656	.083	1.82%
10's-2's	-43 bps		
Date of Rate Cut	November 2024		
2024 YE Fed Funds	5.09%		
Prices taken at previous day market close.			

Finally, OPEC+ is set to meet this coming weekend to discuss an extension to current production cuts and the consensus is that cuts will be extended through the end of the year, which is net bullish for oil amid the latest indications of better demand.

Bottom line, WTI crude oil futures broke out through a two-month downtrend line yesterday thanks to supply concerns and firming demand expectations realigning the near-term price trend with the longer-term bullish trend in oil, which has been chopping higher all year. OPEC+ and geopolitics appear to be the key influences to watch again as rising yields failed to derail the rally in oil yesterday.

Switching to the metals, copper gained 2.68% on the session mostly thanks to the solid economic data in the U.S. and cooler-than-feared inflation expectations released by the ECB in Europe, which has pushed back on concerns about stagflation that emerged in earlier in Q2. Copper is attempting to stabilize above breakout support neat $4.75 but there remain risks of a deeper pullback if economic/central bank policy fears pick up again.

Looking to the precious metals, gold has also rebounded off key initial price support in the mid-$2,300/oz. area and futures extended a recent rebound to start the week yesterday with a daily gain of 1.08%. Like copper, the path of least resistance remains higher for gold, however, there are risks of a more pronounced pullback during the stabilization process following recent weakness and $2,300 is a key tipping point to watch as a break below would open the door to a pullback towards $2,170 where gold spent most of March.

Currencies & Bonds

The 10-year Treasury yield rose moderately to start the short week thanks to data and slightly hawkish Fed speak. The 10-year yield rose 6 basis points.

There were two reasons yields rose on Monday. First, Consumer Confidence rose for the first time in four months, rising to 102 from 97.0. That added to the data from last week that was stronger than expected (flash PMIs, jobless claims and Durable Goods) and it helped push longer-dated yields higher and that weighed on stocks, just like it did at the end of last week. Again, markets are in a "bad data is good" and "good data is bad" mode because markets are primarily focused on interest rates. And because yesterday's strong Consumer Confidence data pushed yields higher, stocks declined.

The other "hawkish" event yesterday was Minneapolis Fed President Kashkari made slightly hawkish comments as he stated he would need to see "many" more months of positive inflation data before wanting to cut rates (it's only about three months until the September Fed meeting so "many" implies he wouldn't support a cut in September). Additionally, while Kashkari said he believed rates were restrictive, he didn't think Fed members had ruled out the possibility of a rate hike.

Of the two events, the former (strong Consumer Confidence) was the more important influence yesterday and we know that because the 2-year yield was little changed, meaning markets didn't see a major drift in Fed expectations (and that makes sense as Kashkari doesn't really reflect the opinion of Fed leadership). However, the 10-year yield rose as markets priced in potentially better growth following the Consumer Confidence number. Bottom line, higher yields remain a headwind on stocks. The 10-year yield traded back above 4.50% for the first time since the start of May and stocks declined modestly in response. If the 10-year yield rises further on this week's data, expect more pressure on equities.

Currency markets were quiet on Monday as the Dollar Index, euro and pound were essentially flat. The Dollar Index declined 0.1%.

The currency markets largely ignored Kashkari and the Consumer Confidence data yesterday as none of it changed current market expectations for a June ECB rate hike (but not one in July), no BOE rate cut in June but one in July, and possibly a Fed rate cut in September. Until we see those expectations move significantly, we should expect currency markets to remain broadly stable and for the dollar to remain around 105, which is essentially neutral for stocks.

Have a good day,

Tom

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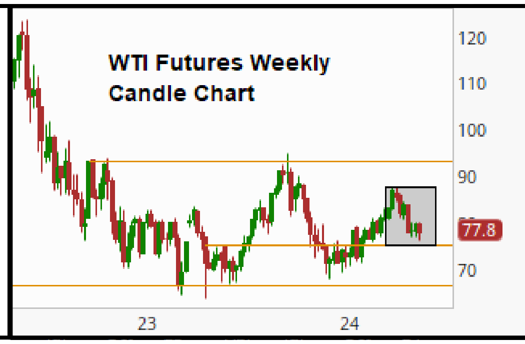
Technical Perspectives (Updated 5/26/2024)

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

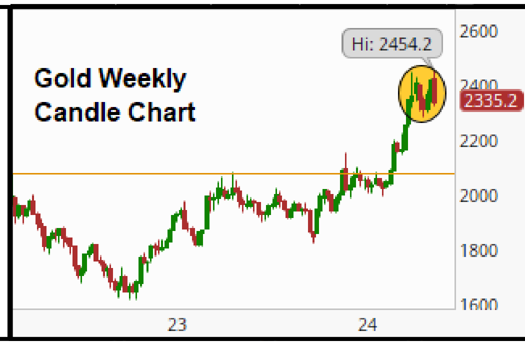
WTI Crude Oil

- 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



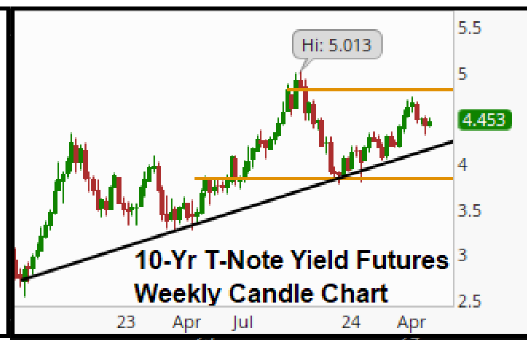
Gold

- 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



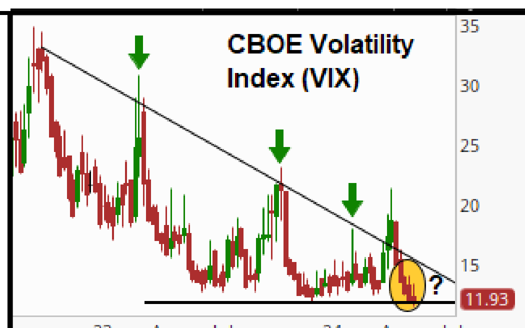
10-Year T-Note Yield Futures

- 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



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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.