SEVENS REPORT

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

May 3, 2024

Pre 7:00 Look

- Futures are modestly higher ahead of the jobs report thanks to good AAPL earnings and solid economic data.
- AAPL posted better than expected earnings and boosted its buyback. The stock is rallying 6% pre-open and that's helping to push futures higher.
- Economically, the UK Services PMI was better than expected (55.0 vs. (E) 54.9) implying solid growth.
- Econ Today: Employment Situation (E: 243K Job Adds, 3.8% Unemployment Rate, 4.0% Wage Growth). Fed Speak: Williams & Goolsbee (7:45 a.m. ET).

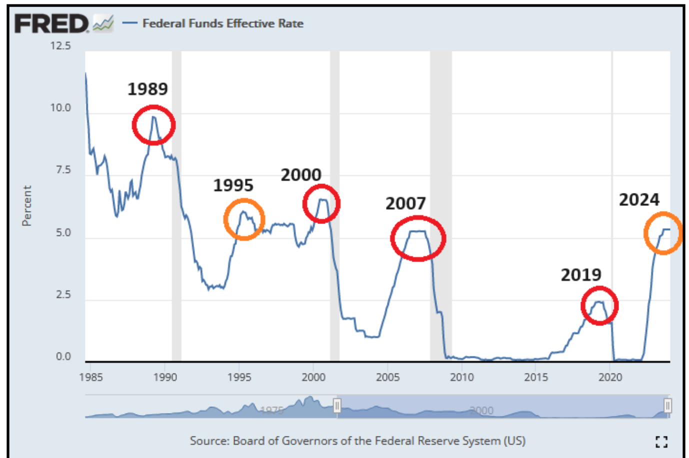
Market	Level	Change	% Change
S&P 500 Futures	5,111.25	19.75	0.39%
U.S. Dollar (DXY)	105.21	-0.09	-0.09%
Gold	2,308.20	-1.40	-0.05%
WTI	79.07	0.12	0.15%
10 Year Yield	4.56%	-0.01	-0.13%

Equities

Market Recap

Markets took a second look at Wednesday's Fed decision and decided it was more dovish than initially expected and that helped investors ignore more hot inflation data and powered a solid rally in stocks. The S&P 500 jumped 0.91%.

Stocks started Thursday modestly higher thanks mostly to decent earnings overnight (QCOM helped push tech higher) and despite a hotter-than-expected Swiss CPI report. Pre-open, U.S. economic data was also "hot" as jobless claims were lower than expected (implying a still-tight labor market) while Unit Labor Costs beat estimates. But that only caused a mild dip in futures and stocks opened modestly positive.



Is the peak fed funds rate good for the economy? Statistically, four of the last five fed funds peaks have preceded recessions. The exception was the "soft landing" of 1995, a time when the yield curve was notably <u>not</u> inverted.

From there, stocks began a slow and steady drift higher, although it wasn't powered by any actual event. Instead, "chatter" around trading desks was that the Fed was more dovish than it seemed and between the reduction in QT and Powell pushing back hard on rate hike expectations, investors increased September rate cut assumptions above 70%.

Stocks drifted higher in generally quiet trade through the late afternoon and peaked at the start of the final hour before giving back some of the gains into the close and ahead of today's jobs report.

Trading Color

Lower yields were the driving factor of market internals on Thursday as investors convinced themselves the Fed was more dovish than initially thought on Wednesday. That was evident in both the index and sector perfor-

Market	Level	Change	% Change
Dow	38,225.66	322.37	0.85%
TSX	21,823.22	94.68	0.44%
Stoxx 50	4,923.96	33.35	0.68%
FTSE	8,211.75	39.60	0.48%
Nikkei	38,236.07	-37.98	-0.10%
Hang Seng	18,475.92	268.79	1.48%
ASX	7,628.97	42.00	0.55%

Prices taken at previous day market close.

mance. The Russel 2000 and Nasdaq, the two indices that benefit most from lower rates, outperformed and gained 1.8% and 1.5%, respectively. The Dow Industrials rose 0.85%.

Market	Level	Change	% Change
DBC	23.08	.08	0.35%
Gold	2,312.70	1.70	0.07%
Silver	26.89	.14	0.53%
Copper	4.507	-.039	-0.86%
WTI	79.06	.06	0.08%
Brent	83.73	.29	0.35%
Nat Gas	2.069	.107	5.54%
RBOB	2.5969	.0195	0.76%
DBA (Grains)	23.48	-.36	-1.53%
Prices taken at previous day market close.			

On a sector level, buying was broad as nine of the 11 sector SPDRs were higher on the day, led by technology (XLK), real estate (XLRE) and consumer discretionary (XLY), all of which rose more than 1%. Those sectors would be some of the biggest beneficiaries of lower rates.

Conversely, the laggards on the day were the cyclical sectors that typically outperform when yields are rising, e.g. materials and financials (materials were slightly negative on the day while financials were slightly positive).

Earnings also impacted sector trade although now that AAPL has reported, earnings season is essentially over from a broader market standpoint. But soft LLY earnings did weigh on healthcare (XLV) as that sector was little changed on the day.

Bottom line, the internals largely confirm that yesterday's rally was the product of the market talking itself into the idea the Fed was more dovish than expected. Now, economic data needs to help support that view, starting with today's jobs report, otherwise yesterday's gains will be given back quickly.

Jobs Report Preview

There is one key factor that will make today's jobs report positive or negative for stocks and that is: Does it make a September rate cut more likely, or less likely.

That's the key question for this jobs report and the bottom line is if it runs "Too Hot" it'll make a September rate cut even less likely and presumably hit stocks and bonds, while if the jobs report is "Just Right" or even "Too Cold" it'll make a September rate cut more likely. Importantly, there's little risk of markets worrying about slowing growth even if this jobs report is "Too Cold," simply because most of the other economic data is solid. So, while a "Too Cold" number that hits stocks is possible, it's very unlikely given the market is in a "bad data is good for September rate cuts" mode.

The market needs an in-line (and ideally slightly soft) job adds number to help ease hawkish Fed concerns and boost confidence that markets will get a rate cut this year. If the jobs number is Goldilocks, it should fuel a continued rebound in the S&P 500.

"Too Hot" (Expectations for A September Rate Cut Fall Far Below 50%) **> 250k Jobs Adds, UE Rate ≤ 3.7%, Wages > 4.1% yoy.** A number this strong would push September rate cut expectations well below 50% and push December rate cut expectations towards 50%, raising the idea of no rate cuts in 2024. *Likely Market Reaction:* A resumption and potential acceleration of the yield-driven declines in stocks and bonds that started with last month's CPI report. Treasury yields should rise sharply (the 10-year yield could rally 15 basis points or more) and the 10-year yield could push to new multi-month highs above 4.75%. That would hit stocks and a decline in the S&P 500 of more than 1% should be expected and, barring any surprises, an eventual test of support at 5,000. Defensive sectors (utilities, healthcare, staples) should relatively outperform, but we'd expect all 11 S&P 500 sectors to be lower. The Dollar Index should rally through 106 and towards 107 while commodities (and especially gold) should drop hard on dollar strength. New multi-month lows in the S&P 500 would be possible on this outcome.

"Just Right" (Expectations for a September Rate Cut Move Towards 80%) **50k-250k Job adds, UE Rate ≥ 3.8%, Wages: ≤ 4.1%.** A number in this range would boost September rate cut probability towards 80% and December rate cut probability towards 100%, reinforcing the Fed will cut rates this year. *Likely Market Reaction:* A mild relief rally that gets stronger the lower the job adds number is. Broadly, a number in this range would boost September rate cut expectations and should push Treasury yields modestly lower and that could extend a solid rebound in stocks. A drop in the 10-year Treasury yield of 10 bps wouldn't be a shock, especially if this number

is near the lower end of the range. Stocks should see a continued rebound, with tech and cyclical sectors outperforming while defensive sectors likely modestly lag. The Dollar Index should decline modestly (down through 105) and that likely would boost commodities (although the moves likely wouldn't be too substantial). **This outcome would help reinforce the idea that the Fed will cut rates in 2024, which should support stocks.**

"Too Cold" (Hard Landing Concerns Grow) **<50k Job adds.** This would raise questions about the health of the economy but it's likely those are ignored near term as investors would celebrate a likely sharp decline in yields (the 10-year yield could fall 20 bps on this number). Essentially, we would expect a short-term "bad is good" reaction from markets as a soft number sparks a declining yield-driven rally in stocks. However, this number would raise concerns about the strength of the economy and while that might not hit stocks today, it would challenge the idea of a soft landing and that would be a larger negative over the coming weeks and months. I would not be a buyer of stocks on this weak of a number, regardless of the stock rally (if anything, this would make me more interested in long duration Treasuries).

Economics

Unit Labor Costs

- Q1 Unit Labor Costs rose 4.7% vs. (E) 3.3% annual rate

Takeaway

Another day, another inflation indicator that's pointing to a potential re-acceleration of price pressures. Unit Labor Costs are a broader measure of wages and benefits and while it's considered an anecdotal inflation indicator and can be volatile, the bottom line is that it's another inflation indicator that's pointing towards a bounce in wage pressures in the first quarter.

From a market standpoint, this weighed very slightly on futures but it wasn't enough to push them into negative territory and it won't impact Fed rate cut expectations. However, I did want to point it out because the list of inflation metrics pointing towards a rebound in price/wage pressures is suddenly long, and that will have to change, and fast, if the market hopes to get any near-term relief on interest rates.

Commodities

Commodities traded with a modest but clear risk-off tone yesterday, as oil dipped to new multi-week lows before closing little changed while copper declined to new lows for the week on simmering economic worries. Gold eked out a slight gain thanks to the pullback in the Dollar Index and a continued post-Fed bid in Treasuries. The commodity ETF, DBC, edged up 0.35%.

WTI crude oil futures were in focus yesterday after prices fell to seven-week lows on Wednesday in the wake of the bearish EIA report with surging oil stockpiles and soft consumer demand for refined products. Yesterday the market steadied, ending down an incremental 0.06% on the session as investors weighed more stagflationary economic data against reports that OPEC+ is considering production cut extensions beyond June (when the group of global oil producers is next scheduled to meet) due to sluggish global demand.

Bottom line, the lack of material impact of geopolitical tensions in the Middle East on global oil supply and production has seen a fair bit of the "fear bid" in the oil market unwind in recent weeks. However, the possibility of new action by OPEC+ and still-lingering threat of escalating conflict in the Middle East are, for now, preventing a more pronounced pullback towards the 2024 lows in the upper $60s as demand concerns are mounting.

Copper futures dropped to fresh lows for the week yesterday as European Manufacturing PMI data remained relatively deep in contraction territory, several points below the 50 mark, leaving worries of a recession in the

Market	Level	Change	% Change
Dollar Index	105.22	-.41	-0.39%
EUR/USD	1.0725	.0013	0.12%
GBP/USD	1.2534	.0007	0.06%
USD/JPY	153.21	-1.36	-0.88%
USD/CAD	1.3680	-.0059	-0.43%
AUD/USD	.6565	.0042	0.64%
USD/BRL	5.1135	-.0801	-1.54%
Bitcoin	59,129.23	1,842.26	3.22%
10 Year Yield	4.571	-.024	-0.52%
30 Year Yield	4.718	.005	0.11%
10's-2's	-30 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.01%		

Prices taken at previous day market close.

Eurozone elevated. Meanwhile in the U.S., the plunging productivity levels and rising labor costs in the latest Productivity and Costs report stoked the recently rising fears of stagflation. On the charts, copper held near-term support at $4.50 and the trend continues to favor the bulls with futures near two-year highs while fundamental chatter of a "super cycle" in copper due to Chinese production cuts and the prospects of a surge in demand from various AI applications are constructive.

Gold edged up 0.07% as the bearish influence of fading market-based inflation expectations were offset by the drop in both the dollar and Treasury yields. The market digesting Powell's dismissal of the possibility of more rate hikes helped support the modest gains in gold yesterday. For now, gold is attempting to stabilize and establish support at $2,300/oz.; however, prices are still in a near-term pullback as we approach the end of the week. On a longer timeframe the trend in gold is still higher, with gold trading just off record highs so more pronounced weakness in futures prices should present an opportunity to add exposure in the weeks and months ahead.

Currencies & Bonds

Economic data was again "hot" on Thursday and continued the recent trend but both the dollar and Treasury yields declined on Thursday as markets talked themselves into believing the Fed decision was more dovish than initially expected. The Dollar Index fell 0.4% while the 10-year yield declined 1 basis point.

As mentioned, economic date in the U.S. was hot as jobless claims were lower than expected (and continue to signal a tight labor market) while Unit Labor Costs were higher than expected (the second wage metric this week to print hot). But that hot data didn't have the expected impact on the dollar, which dropped, or Treasuries, which declined modestly, not because of any specific event but instead because the market seems to be doing what it does.

Investors who had stampeded to the hawkish spectrum on the Fed until Wednesday's decision are now busy stampeding to the dovish side of the spectrum, and they are now convincing themselves that Powell was dovish and a rate cut in September is becoming more likely (probability of a September cut rose above 70%).

It's likely this will continue until a data point confirms or disputes this dovish outlook (the next major data point is the April CPI report two weeks from now). So, with investors in a dovish feedback loop yesterday, and considering there was a hot Swiss CPI print that boosted the euro, the Dollar Index declined moderately to the mid-to-low 105 range while the euro and pound both gained 0.1% vs. the dollar. In Treasuries, the 2-year yield fell 6 basis points (this is how we know markets viewed the Fed as dovish) while the 10-year yield dipped 1 bps.

Bottom line, the actual data on Thursday (and this entire week) has pointed towards "higher for longer" and that does imply buoyant Treasury yields and a stronger U.S. dollar. So, while there will be temporary declines in both as investors convince themselves the Fed is more hawkish or dovish than the Fed speak or data points to, the reality is that we're approaching the end to this week much as we started it: The Fed is in a higher-for-longer policy phase, no rate cuts are coming anytime soon and the trends in the dollar and Treasury yields are solidly higher.

Have a good day,

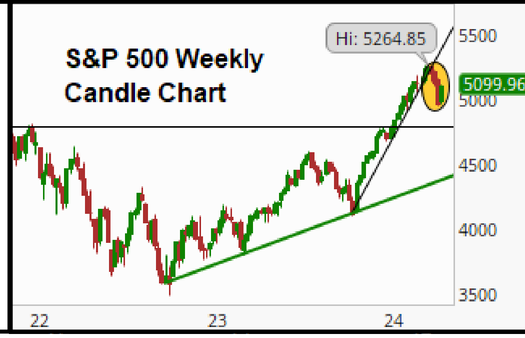
Tom

SEVENS REPORT

Technical Perspectives (Updated 4/28/2024)

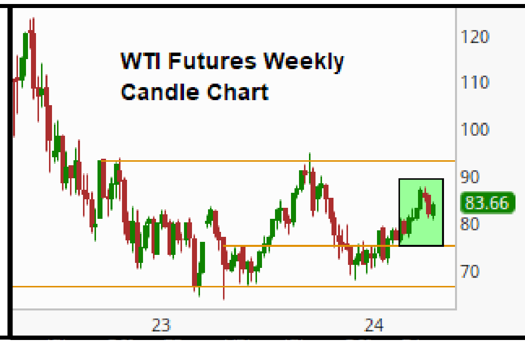
S&P 500

- Technical View: **The medium-term trend in the S&P 500 is shifting neutral from bullish** as the Q1 advance has stalled in Q2.
- Dow Theory: Bullish (since the week of July 10, 2023)
- Key Resistance Levels: 5123, 5199, 5254
- Key Support Levels: 5011, 4967, 4846



WTI Crude Oil

- Technical View: Oil pulled back into support in the low-$80/barrel range in early Q2 but futures remain in a medium-term uptrend within a longer-term trading range.
- Primary Trend: Bullish (since the week of February 12, 2024)
- Key Resistance Levels: $84.38, $85.92, $87.32
- Key Support Levels: $81.90, $80.70, $78.14

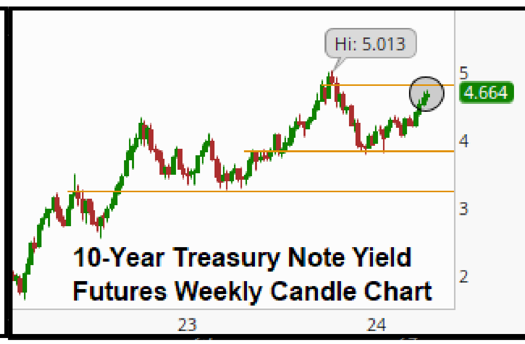


Gold

- Technical View: Gold pulled back from fresh record highs last week but the primary trend remains decidedly bullish amid recently established record highs.
- Primary Trend: Bullish (since the week of November 27, 2023)
- Key Resistance Levels: $2360, $2400, $2449
- Key Support Levels: $2310, $2267, $2190

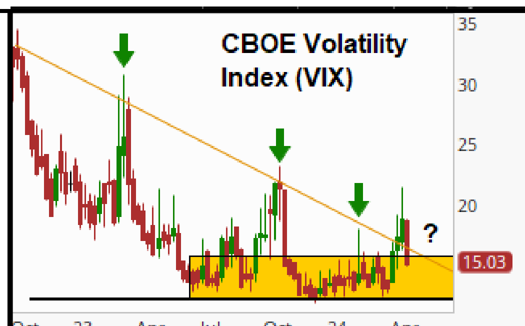
10-Year T-Note Yield Futures

- Technical View: The 10-year yield rose to new multi-month highs in early Q2 leaving the path of least resistance higher.
- Primary Trend: Bullish (since the week of August 21, 2023)
- Key Resistance Levels: 4.74, 4.822, 4.910
- Key Support Levels: 4.520, 4.476, 4.419



CBOE Volatility Index (VIX)

- Technical View: The VIX retreated sharply last week falling back below the trendline dating back to early 2023 but ended the week in a key support zone near 15.00.
- Primary Trend: Bullish (since the week of April 1, 2024)
- Key Resistance Levels: 16.00, 16.94, 18.00
- Key Support Levels: 14.59, 13.74, 13.01



SEVENS REPORT

Fundamental Market View (Updated 4/28/2024)

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 bounced back last week thanks to better-than-expected earnings and a not-as-bad-as-feared Core PCE Price Index and despite economic data that largely hinted at stagflation.*

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 bounced nearly 1% last week as the weaker dollar and elevated price data boosted demand for real assets.*
US Dollar	**Neutral**	*The Dollar Index declined last week despite more hot U.S. inflation data as expectations for a near-term rate cut from the BOE declined while a June cut from the ECB may be "one and done."*
Treasuries	**Turning Positive**	*The 10-year Treasury yield hit a multi-month high last week but closed only slightly higher following the not-as-bad-as-feared Core PCE Price Index. Regardless, the trend in yields remains solidly higher.*

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.