SEVENS REPORT

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

May 30, 2024

Pre 7:00 Look

- Futures are moderately lower again following more disappointing tech earnings and another hot inflation print.
- Salesforce (CRM) missed earnings and joined a growing list of non-AI tech companies to post disappointing result (WDAY last week) and that's weighing on futures.
- Economically, Spanish CPI was hotter than expected as it rose 3.8% y/y vs. (E) 3.7%, up from last month's 3.4%.
- Econ Today: Revised Q1 GDP (E: 1.5%), Jobless Claims (E: 217K), Pending Home Sales (E: 0.3%). Fed Speak: Williams (12:05 p.m. ET), Logan (5:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,262.75	-21.25	-0.84%
U.S. Dollar (DXY)	104.91	0.29	0.28%
Gold	2,333.10	-8.10	-0.35%
WTI	78.88	-0.36	-0.45%
10 Year Yield	4.60%	-0.03	-0.60%

Equities

Market Recap

The market remained volatile yesterday as bond yields continued to rise after the third-straight disappointing Treasury auction this week while the mega-cap tech rally took a breather. The S&P 500 fell 0.74%.

Stocks gapped lower at the open as Treasury yields extended the week's move higher in the wake of an as-expected-but-notable rise to 2.4% in German CPI, up from 2.2% in April (regional reports from the country were mixed leading up to the national print leaving some investors hopeful for a cooler-than-anticipated

The S&P 500 printed a bearish "outside reversal" last Thursday, a one-day price pattern that often coincides with trend reversals. Since Thursday, the S&P 500 has traded within the outside reversal's intraday extremes indicating a sense of investor indecision and the threat of volatility.

print). The move towards the 2024 highs in benchmark Treasury yields across durations started to weigh on the higher-valued corners of the market, including the recently resilient group of mega-cap tech names that have led the major indexes to the latest set of record highs.

The only economic report was the lesser-followed Richmond Fed Manufacturing Index, which was significantly better than anticipated, up to a flat "0" reading from -7 in April, well ahead of estimates of -6. That only seemed to ramp up the pressure on Treasuries and the new intraday highs in yields kept a lid on equities, which had stabilized since the open but remained in the red with the S&P 500 oscillating within a few points of 5,275.

The main catalyst of the day hit just after 1:00 p.m. when the Treasury held its third major auction of the week, this one for 7-Year Notes. Demand was weak with the high yield coming in at 4.65%, tailing the when-issued yield by 1.3 basis points. Treasuries and stocks both declined in the wake of the auction but the S&P 500 hovered near the middle of the session's range until

Market	Level	Change	% Change
Dow	38,441.54	-411.32	-1.06%
TSX	21,897.98	-367.07	-1.65%
Stoxx 50	4,968.50	5.39	0.11%
FTSE	8,207.13	24.06	0.29%
Nikkei	38,054.13	-502.74	-1.30%
Hang Seng	18,230.19	-246.82	-1.34%
ASX	7,628.20	-37.43	-0.49%

Prices taken at previous day market close.

the final 15 minutes of the day saw the index roll over to end within a few points of the opening lows.

When Will Higher Yields Pressure Stocks?

Market	Level	Change	% Change
DBC	23.69	-.25	-1.04%
Gold	2,338.50	-18.00	-0.76%
Silver	32.26	.12	0.37%
Copper	4.7825	-.0725	-1.49%
WTI	79.08	-.75	-0.94%
Brent	83.42	-.80	-0.95%
Nat Gas	2.457	-.133	-5.14%
RBOB	2.4623	-.0467	-1.86%
DBA (Grains)	25.46	.25	0.99%
Prices taken at previous day market close.			

The 10-year yield rose above 4.60% for the first time since May 1, and is now just 10 basis points off the 2024 high. On May 1, the same day the 10 year was above 5.60%, the S&P 500 closed at 5,018 or more than 5% lower than current levels. So, if higher yields are a headwind on stocks and the 10-year yield is back at May 1 levels, why isn't the S&P 500 at May 1 levels?

The answer is rate hike expectations.

The reason the S&P 500 dropped to 5,000 in early May wasn't just because the 10-year yield rose above 4.60% (although that was part of it). The bigger reason was because the market was busy convincing itself that rate hikes may be a possibility. Fed Chair Powell largely shot that down at the early May Fed meeting and because investors can't be in the "middle" of Fed expectations and instead can only careen from "Very Dovish to Very Hawkish," the removal of the rate hikes as a risk pushed yields much lower than they should have been.

As yields bounced back over the past 10 days or so, it's been driven by solid economic data and we've seen rate cut expectations get dialed back (September rate cut probabilities have dropped from nearly 90% to just 50%). But we haven't seen rate hike expectations rise meaningfully (thanks mainly to Powell and other Fed leadership commentary over the past few weeks).

Right now, rising yields are a headwind on stocks and that can continue and the S&P 500 could see a further pullback (albeit a likely modest one).

However, for this pullback to become something larger (and push the S&P 500 towards 5,000) we'll need to see expectations for rate hikes rise further. Low rate hike expectations are why the S&P 500 isn't at 5,000 despite the 10-year yield being at 4.6% (like on May 1). But, if rate hike expectations rise, then a drop towards 5,000 isn't just possible, it should be expected.

Will the Trump Verdict Impact Markets?

As early as today, a verdict could be delivered in former President Trump's trial over falsifying business records. And given the broad interest in this subject, I wanted to cover it from a market standpoint. As I always do when discussing politics, I appreciate there are very convicted opinions on both ends of the political spectrum and even more so when it comes to Donald Trump. My job, as always, is to cover it from purely a market standpoint. My commentary is only focused on how it will impact asset classes. Also as always, I encourage everyone to support the party and candidate that best reflects their economic and social priorities and to respect others' choices.

While this will receive intense media scrutiny, the Trump verdict (guilty or not guilty) is unlikely to materially impact markets.

First, a guilty verdict will not bar Mr. Trump from running for president. That said, a guilty verdict could impact the election. Several polls (including Bloomberg and Quinnipiac) have shown that a felony conviction could sway undecided voters in critical swing states. Since the election is expected to be very tight in critical swing states Pennsylvania, Ohio, Arizona, Georgia, Michigan and others, any impact is notable.

That said, none of the polls I've seen have segmented out convictions on the various charges he's facing. Point being, Trump being found guilty of falsifying business records in New York may not impact an undecided voter in Georgia. That's important because it's very unlikely any of the other, potentially more substantial, charges Trump is facing (including charges related to January 6th and the classified document issues) will be decided by the election. Point being, if this is the only conviction for Trump before the election, it's unclear how much it'll matter. Bottom line, the verdict itself is unlikely to impact the broader markets (stocks or bonds) because it's unlikely to materially change election expectations.

Looking on a more microeconomic level, we could see some mild movement in "Trump favorable" sectors depending on the outcome. Those sectors include familiar suspects such as energy (more oil and gas drilling), industrials (more focus on manufacturing/protectionism), defense and financials (less regulation). If Trump is not guilty, we could see a mild bump in each of those, although again it shouldn't be anything material. Conversely, if Trump is found guilty, we could see some mild selling in those sectors on the perception Biden may have a better chance of winning, but again, that's likely not sustainable.

Bottom line, the Trump verdict could create some sector-oriented, short-term trading opportunities, but it's unlikely to impact the broader market.

Looking forward, politics will start to become a progressively stronger influence on the markets as we approach the June 27 Presidential debate and as we move into the fall. From a broader market standpoint, the two macro topics markets will be focused on are 1) Trade and 2) Debt/deficit.

Both candidates have similar policies towards these issues (they vary by degrees but they're aimed in the same direction). Both are trying to be tough on China and promote U.S. protectionism (albeit with different tactics/degrees) and both are not adequately addressing U.S. fiscal challenges (from a market standpoint). Those are the major macroeconomic topics markets will be most focused on this fall, but the Trump verdict won't touch on either, and I do not expect it to be a sustainable market-moving event regardless of the outcome.

Market	Level	Change	% Change
Dollar Index	105.04	.50	0.48%
EUR/USD	1.0803	-.0054	-0.50%
GBP/USD	1.2702	-.0060	-0.47%
USD/JPY	157.66	.49	0.31%
USD/CAD	1.3712	.0066	0.48%
AUD/USD	.6617	-.0033	-0.50%
USD/BRL	5.2030	.0423	0.82%
Bitcoin	67,576.45	-655.27	-0.96%
10 Year Yield	4.624	.082	1.81%
30 Year Yield	4.744	.088	1.89%
10's-2's	-36 bps		
Date of Rate Cut	November 2024		
2024 YE Fed Funds	5.09%		
Prices taken at previous day market close.			

Economics

There were no material economic reports yesterday.

Commodities

A solid rally in the dollar yesterday saw the broader commodity complex give back a good chunk of Tuesday's gains. Copper underperformed as a short-squeeze continued to dissipate while gold fell on the rise in real interest rates and oil pulled back on profit taking ahead of today's delayed release of the weekly EIA inventory report. The commodity ETF, DBC, pulled back 1.04% yesterday from a fresh 2024 high on Tuesday.

Copper has been top of news in the space recently as prices ripped higher to fresh records in May with increasingly frequent chatter of a "super-cycle" developing given strong demand from the rapidly growing AI and electric vehicle industries amid tight physical supply and lingering uncertainty surrounding a threat by Chinese smelters to cut production by 10% or more this year.

Speculation, both bullish and bearish, resulted in non-typical volatility earlier in May sending a key futures calendar spread blowing out to a record 30 cents as a short squeeze ensued. That aforementioned spread between the July and September U.S. futures contracts has since reversed as physical traders capitalized on the geographic arbitrage opportunity with other international futures markets, which has seen the copper market cool as recent record highs are digested. Looking ahead, the path of least resistance in copper prices remain higher but the squeezy gains of mid-May could require more time to be digested and consolidated before the rally resumes. $4.70 remains key support to watch.

Gold pulled back a modest 0.78% as the active month contract rolled ahead to August delivery. The combination of the solid dollar rally and rebound towards the YTD highs in real interest rates were the primary headwinds for precious metals yesterday. Gold still ended the day comfortably above the increasingly important support band between $2,300 $2,350, which leaves the path of least resistance higher. A renewed uptrend in the dollar and new YTD highs in real interest rates are both risks to the 2024 gold rally.

Oil gave back roughly half of Tuesday's sizeable rally yesterday with WTI futures falling by 0.91% on the session. The uptick in German inflation and better-than-feared Richmond Fed release both reinforced a likely higher-for-longer policy rate stance by global central banks, which weighed on expectations for consumer demand in the months ahead. The weak Treasury auction later in the day didn't help oil either.

Today, focus will be keenly on the delayed weekly EIA report which could either reinforce the thesis that U.S. demand for fuel at the pump is rebounding into the summer driving season, a trend in line with those from 2021 and 2023 that both matched annual trends of pre-Covid years when demand would peak in the summer, or if we are going to see "demand destruction" due to inflation and elevated prices at the pump like we did in 2022. Barring any major surprises on the headlines, another solid implied gasoline demand figure of 9 million barrels/day or more should support prices into the OPEC+ meeting this weekend while a big drop back would likely see more of Tuesday's gains unwind today.

Currencies & Bonds

The rise in Treasury yields continued on Wednesday thanks to hot global inflation data and a disappointing Treasury auction as the 10-year yield rose 6 basis points.

There was upward pressure on yields from the outset on Wednesday thanks to hot global inflation data. German CPI met expectations at 2.8% but rose from last month's 2.4% and while that reading won't prevent an ECB rate cut in June, it does reduce the chances for a follow up cut in July. That reading, combined with upward momentum in yields that has existed over the past few days, sent the 10 year solidly higher early on Wednesday and that weighed on stock futures.

Yesterday's 7-year Treasury auction then saw lackluster demand and that added to the upward pressure on yields (although only modestly). The $44 billion auction saw unaggressive bidding as the actual yield was 1.3 basis points above the "When Issued" yield while overall demand was tepid according to the 2.43 bid to cover (down from last month's 2.48). The only silver lining was solid foreign demand ("indirect bidders," a proxy for foreign buying, took down 66.9% of the auction, in line with the 66.8% average).

Following the auction results, the 10-year yield chopped sideways but finished the day above 4.60% for the first time since May 1 as the 10-year yield has now recouped all of the "dovish Fed" declines from early and mid-May.

Turning to currencies, the Dollar Index rallied modestly thanks to higher yields as investors continued to reduce Fed rate cut expectations. Remember, three weeks ago markets expected the following: ECB rate cut in June, BOE rate cut in June and Fed rate cut in September. These were widely held expectations. Today, this is the expectation: ECB rate cut in June (but not one after), no BOE rate cut in June (but maybe in July) and maybe a Fed rate cut in September.

The net result is the Fed remains the most hawkish of the major global central banks but there's also been a hawkish shift across the board and that's why, while the Dollar Index has rallied, it hasn't surged. The Dollar Index closed back above 105, an area that remains broadly "neutral" for stocks and bonds.

Bottom line, the dollar and Treasury yields are rising and those are headwinds on equities and the sooner the increase in both subsides, the sooner this mild pullback in stocks (which is now a week old) will stop. Higher yields and a stronger dollar remain direct negatives on equity prices until further notice!

Have a good day,

Tom

5/30/2024

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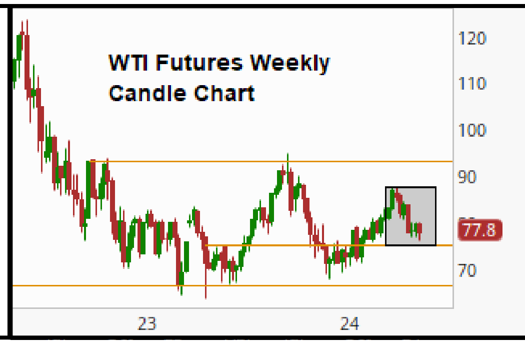
Technical Perspectives (Updated 5/26/2024)

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

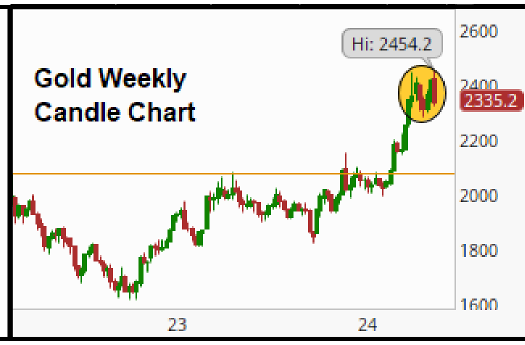
WTI Crude Oil

- 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



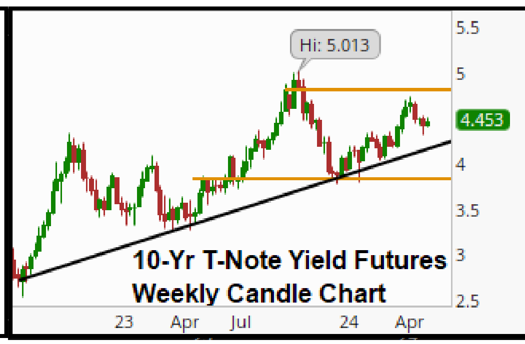
Gold

- 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



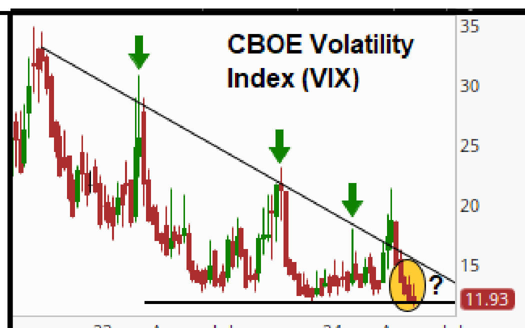
10-Year T-Note Yield Futures

- 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.