SEVENS REPORT

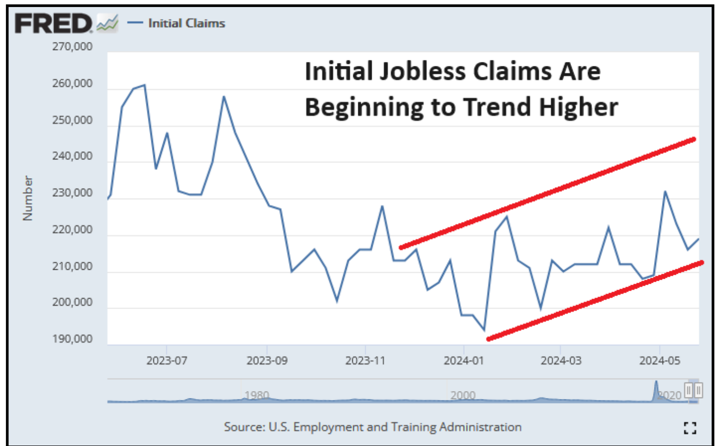
EVERYTHING YOU NEED TO KNOW ABOUT THE MARKETS
BY 7AM EACH MORNING IN SEVEN MINUTES OR LESS

May 31, 2024

Pre 7:00 Look

- Futures are modestly lower again following more disappointing earnings and another hot global inflation print.
- DELL (down 15% pre-market) became the latest non-AI tech company to post disappointing results and that's weighing on futures.
- Economically, the EU flash HICP (their CPI) rose more than expected at 2.9% vs. (E) 2.7% y/y and that's pushing back on expectations for multiple ECB rate cuts this year.
- Econ Today: Core PCE Price Index (E: 0.2% m/m, 2.8% y/y), Chicago PMI (E: 40.8). Fed Speak: Bostic (6:15 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,237.50	-15.50	-0.30%
U.S. Dollar (DXY)	104.68	-0.04	-0.04%
Gold	2,363.40	-3.10	-0.13%
WTI	77.86	-0.06	-0.09%
10 Year Yield	4.56%	0.01	0.27%



Initial Jobless Claims were little changed last week, but zooming out, claims are beginning to trend to the upside after recently hitting an eight-month high. A move beyond the 2024 high of 232K would signal deterioration in the labor market.

Equities

Market Recap

Stocks were heavy from the start Thursday as investors digested more disappointing tech earnings, a hot EU inflation print and weak revisions to Q1 U.S GDP. The S&P 500 fell 0.60%.

Global markets were trading with a cautious tone beginning late on Wednesday after Salesforce (CRM) was the latest "non-AI" tech company to miss on earnings after the bell, which presented an early headwind on equity futures coming into yesterday's session. Then, Spanish CPI came in hotter than anticipated, up from 3.4% to 3.8%, more than the expected rise to 3.7% which rekindled worries that inflation could be rebounding globally.

Equity futures came off the lows ahead of the opening bell thanks to lower-than-expected revisions to Q1 GDP. The "bad news" saw bonds catch a bid and seeing as the weak Treasury auctions and subsequent rise in yields were the main reason stocks were down through the middle of the week, equity futures came off the pre-market lows.

After gapping lower at the open the S&P 500 stabilized briefly but ultimately failed to hold support at 5,250 and declined to new lows after a downright ugly -7.7% drop in the Pending Home Sales Index was far worse than the +0.3% rise expected, reintroducing worries of a hard landing. The S&P 500 recovered back above 5,250 as the latest market developments were digested through the European close, but the selling pressure picked up again in the afternoon as Fed speak over the course of the day failed to alleviate worries that the FOMC will maintain a higher-for-longer policy stance despite growing recession risks. The benchmark index rose in the lower half of

Market	Level	Change	% Change
Dow	38,111.48	-330.06	-0.86%
TSX	22,071.71	173.73	0.79%
Stoxx 50	4,977.62	-4.56	-0.09%
FTSE	8,252.13	21.08	0.26%
Nikkei	38,487.90	433.77	1.14%
Hang Seng	18,079.61	-150.58	-0.83%
ASX	7,704.74	73.54	0.96%
Prices taken at previous day market close.			

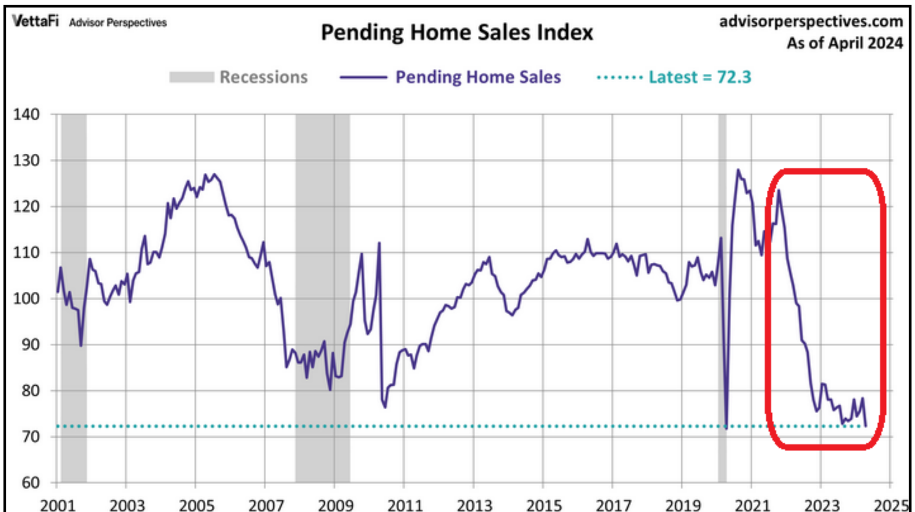
the day's trading range, but more than 10 points from the afternoon lows.

Bad Data May Be Good for Stocks, But Is it Starting to be Bad for Earnings?

The S&P 500 was unable to rally on Thursday despite a drop in yields and the reason was clear: Disappointing earnings. Specifically, soft CRM results weighed on non-AI tech stocks and that, in turn, pressured the S&P 500.

Market	Level	Change	% Change
DBC	23.38	-.31	-1.31%
Gold	2,362.60	-1.50	-0.06%
Silver	31.30	-1.07	-3.31%
Copper	4.6545	-.1365	-2.85%
WTI	77.96	-1.27	-1.60%
Brent	82.04	-1.56	-1.87%
Nat Gas	2.564	-.102	-3.83%
RBOB	2.4070	-.0574	-2.33%
DBA (Grains)	25.33	-.13	-0.51%
Prices taken at previous day market close.			

But it wasn't just CRM that posted disappointing results this week. AAL (American Airlines) cut guidance earlier this week on margin compression (having to cut prices) while last week, Workday (WDAY) cautioned on disappointing business spending. Those names joined a growing list of companies (including retailers like DG, KSS and others) that are noting increased downward price pressures and consumer "retrenching."



The National Association of Realtors Pending Home Sales Index dropped a steep 7.7% in April to the lowest level on record outside of the pandemic spike lows. Yesterday's NAR release was the latest sign that the housing market has cooled-off considerably since its post-pandemic peak in 2020 and 2021.

One week of soft earnings doesn't make a trend, but I wanted to point out that while from a macroeconomic standpoint investors welcome "bad" data and pricing declines pushing yields lower, there is some evidence it's starting to negatively impact earnings. To be clear, it's not a major problem yet, but with a market that's aggressively valued above 20X earnings, it does leave it vulnerable to an uptick in volatility (which is what we saw Thursday).

We and others have cautioned about this idea that bad data that shows slowing growth and potential outright price declines (not just slowing increases) will, at some point, become a negative force on markets. I'm not saying that's happening yet (it isn't), but the soft earnings this week are validation that it's a very fine line between bad data being good for markets or not.

Economics

Q1 Revised GDP

- GDP was revised down to 1.3% vs. (E) 1.5%
- Personal Consumption Expenditures were revised down to 2.0% vs. (E) 2.2%

The first set of revisions to Q1 GDP were worse than expected, but the "bad data" was "good" for markets as it invited a bid into the Treasury market following two days of steep losses. The subsequent relief from yields saw stock futures reverse from steep morning losses.

On the headline, GDP was revised down from the advanced print of 1.6% to 1.3%, quite a bit lower than the only modest downward revision to 1.5% that the market was anticipating. Looking at the key consumer spending metric, Personal Consumption Expenditures fell from the advanced print of 2.5% to just 2.0%, which was another deeper downside revision than the consensus estimate of 2.2%, and pointed to weaker demand and less inflation pressures than initially thought in Q1.

Quarterly GDP data doesn't typically move markets these days as it is released with such a lag. And investors are more concerned with inflation given the Fed's clear commitment to getting core inflation back to 2%, especially considering the resilience in economic growth metrics in spite of the Fed's rate hiking campaign through the end of last summer. However, stocks gapped down sharply lower at the open on April 25 when the advanced release of Q1 GDP was released and showed a much-stronger-than-anticipated headline and a "hot" PCE number.

Bottom line, yesterday's data helped ease worries that the economy was maintaining strong momentum out of Q4 '23, potentially requiring more rate *hikes* to slow growth, and in turn, get inflation back to the FOMC's 2% target. In late April, stocks were able to recover from the Q1 GDP-induced losses as the upside surprises in the inflation data were accompanied by strong growth data. As mentioned, yesterday's weaker growth data was well received by markets, bringing both stocks and bonds off their lows of the week. However, the deeper-than-anticipated downside revisions to Q1 GDP present a material risk to markets today as a hot Core PCE print, the Fed's preferred inflation gauge, would reignite worries of stagflation (think 1970s-style sluggish growth and sticky high inflation). So, while a cooler inflation print today could easily send stocks to new record highs, the downside risks of a hot print became more intense.

Commodities

Commodities were mostly lower yesterday despite a sharp pullback in the dollar as economic growth data disappointed ahead of today's widely anticipated Core PCE release. Economically sensitive commodities including energy and industrial metals led the way. The commodity ETF, DBC, fell 1.31%.

Market	Level	Change	% Change
Dollar Index	104.67	-.35	-0.34%
EUR/USD	1.0835	.0034	0.31%
GBP/USD	1.2735	.0034	0.27%
USD/JPY	156.82	-.82	-0.52%
USD/CAD	1.3678	-.0040	-0.29%
AUD/USD	.6636	.0026	0.39%
USD/BRL	5.2046	.0439	0.85%
Bitcoin	68,690.83	1,198.92	1.78%
10 Year Yield	4.554	-.070	-1.51%
30 Year Yield	4.685	-.059	-1.24%
10's-2's	-38 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.06%		
Prices taken at previous day market close.			

Starting with the relative outperformer, gold futures were effectively unchanged, oscillating on either side of the flat mark in afternoon trade. The sharp pullback in the dollar and strong bid in Treasuries following the deeper-than-anticipated revisions to Q1 GDP were the main supporting factors behind gold's relative resilience. Looking ahead, the path of least resistance remains higher for gold on a longer time frame but near-term risks of another leg lower through support in the low $2,300s still exist, especially if we see another pronounced bout of hawkish money flows.

Copper futures dropped sharply yesterday, ending the session down 2.79% largely thanks to the negative revisions to Q1 GDP. Part of the reason behind copper's strong run to record highs in May was the better-than-anticipated advanced look at Q1 GDP as economic resilience theoretically translates to strong demand for industrial metals, especially given the hype about a super-cycle in copper due to AI and EV demand and the threat of supply shortages. Bottom line, the new all-time highs are bullish for copper but profit taking is the main influence on the market right now and support between $4.50 and $4.60 is coming into focus.

EIA Data Takeaways and Oil Update

This release of the weekly EIA data was mixed with a bullish headline oil draw, but bearish product builds due to a huge spike in refinery runs. Meanwhile consumer demand eased but remained near the best levels of the year. WTI crude oil futures were lower ahead of the release and failed to buck the heavy trend across asset classes and recover the early losses, ending the day down 1.51%.

Looking into the data, a much-larger-than-anticipated spike in the refinery utilization rate of 2.5% to 94.3% vs. (E) 92.2% helps provide context for the headline inventory changes in the latest EIA release as the increase input demand resulted in a -4.2MM bbl decline in commercial crude oil stockpiles, well above the expected -1.4MM. Meanwhile, the higher rate of refinery runs resulted in builds of 2.0MM and 2.5MM bbls in gasoline and distillates, respectively, a surprise relative to expectations calling for modest drawdowns in each.

The key number we have been watching in the EIA data recently has been gasoline supplied the implied measure of consumer demand for fuel at the pump, and it moderated slightly, down 167K to 9.15MM b/d. Importantly, last week's gasoline supplied figure held above the psychological 9 million b/d level and above the smoother four-week moving average, which rose 132.5K b/d to 9.03MM b/d, the highest since mid-July.

Bottom line, a surge in refinery runs resulted in a bullish draw in oil stockpiles but bearish builds in refined products. But importantly, the trend in the implied measure of gasoline demand remains to the upside with the latest weekly gasoline supplied figure holding comfortably above its four-week moving average. That is key right now as demand worries ahead of the summer driving season were weighing on investor sentiment. Oil bulls will want to see more above-trend gasoline demand metrics in the week's ahead, otherwise another pullback into the mid-$70s will become increasingly likely. Looking ahead, trader focus will shift from demand to supply this weekend with the OPEC+ meeting looming. If OPEC+ disappoints, either via guidance about production cut extensions or talks of raising collective output targets, the threat of a pullback will also grow significantly.

Currencies & Bonds

Soft economic data saw Treasury yields reverse some of the recent declines although that failed to cause a bounce in U.S. stocks. The 10-year Treasury yield fell 6 basis points.

The revised GDP report was the notable market mover Thursday and it missed expectations and implied lower growth and inflation in Q1. The soft GDP report resulted in yields dropping, not because it implied a weaker economy than previously expected but instead because the 10-year yield had risen sharply and was stretched in the very near term and yesterday's soft GDP caused a modest reversal of that move. Put more plainly, the revised Q1 GDP wasn't bad enough to warrant a 6-bps drop in the 10-year yield, but in part because it was stretched to the upside, that's what we got.

Notably, the decline in the 10 year didn't result in a rally in stocks and that was because of soft earnings, as they were bad enough to offset the drop in yields. That said, the relationship between yields and stocks remains in place, namely that higher yields are a headwind on stocks while falling yields will generally be a tailwind.

Looking ahead to today's Core PCE Price Index, if the 10-year yield moves close to 4.70%, expect an increased headwind on stocks while a drop in the 10-year toward 4.40% (and below) should provide a solid tailwind.

Turning to currencies, the dollar rose slightly despite the soft GDP report as the currency markets remain largely stagnant as global central bank rate cut expectations remain largely unchanged. The Dollar Index rose 0.1%.

The euro and pound both rose 0.3% thanks to hot inflation data, this time via Spanish HICP (which joined German CPI as being hotter than expectations). Again, that's not going to delay the ECB from rate cuts in June but it does further reduce the chances the ECB cuts again in July. The pound didn't have any notable economic data but the price trends in both economies generally follow each other and it's very unlikely (if not totally unlikely) the BOE cuts in June also.

Despite the hot Spanish CPI and negative GDP revisions in the U.S., the Dollar Index didn't decline in part due to New York Fed President Williams' commentary where he stated that policy was restrictive and it's working and he sees no need to cut rates anytime soon. That was yet another reminder of the higher-for-longer policy in place from the Fed and as long as that's in place, the Dollar Index will have a very hard time declining from around the 105 level. As such, stock investors should not count on the dollar to deliver any support for equities anytime soon (a drop below 103 would likely put a small tailwind on stocks via better earnings while a rally above 107 likely increases pressure on foreign earnings by U.S. companies).

Have a good weekend,

Tom

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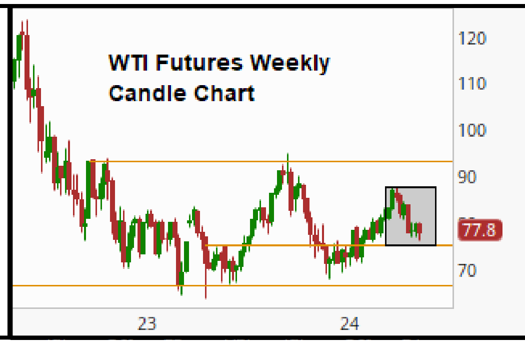
Technical Perspectives (Updated 5/26/2024)

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

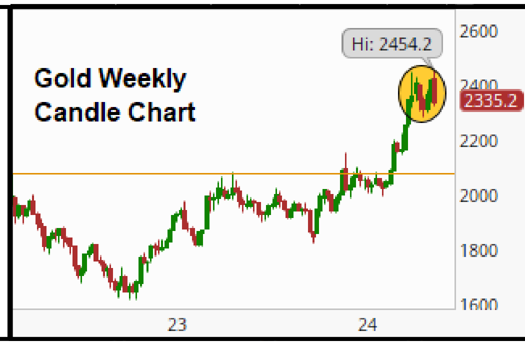
WTI Crude Oil

- 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



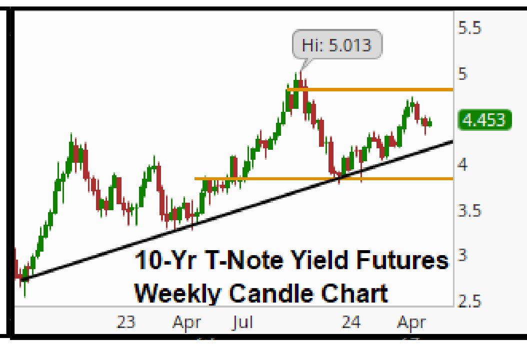
Gold

- 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



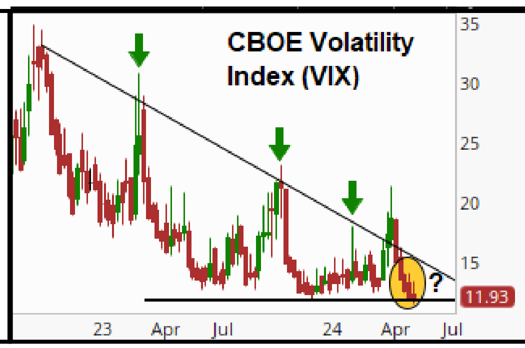
10-Year T-Note Yield Futures

- 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



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.