SEVENS REPORT

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

May 8, 2024

Pre 7:00 Look

- Futures are flat as disappointing earnings in Asia (Toyota and Nintendo) were largely offset by solid guidance from AB InBev and Siemens Energy in Europe.
- Economically, exports from Taiwan plunged to 4.3% y/y in April from 18.9% in March due to weak Chinese demand but exports to the U.S. hit a record amid strong AI demand.
- There are no notable economic reports today.
- Fed Speak: Jefferson (11:00 a.m. ET), Collins (11:45 a.m. ET), Cook (1:30 p.m. ET).
- There is a 10-Yr Treasury Note auction at 1:00 p.m. ET.

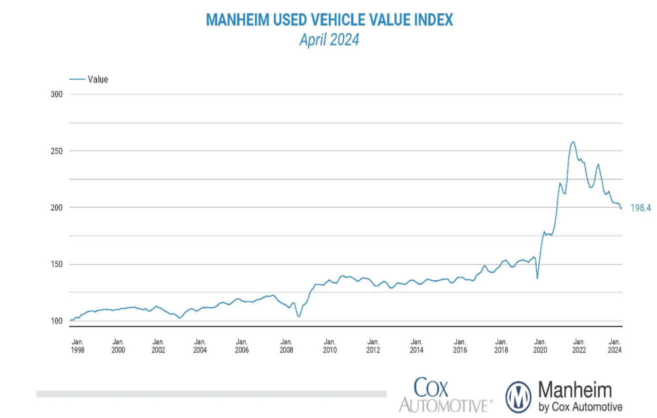
Market	Level	Change	% Change
S&P 500 Futures	5214.00	.25	0.01%
U.S. Dollar (DXY)	105.491	.111	0.11%
Gold	2323.20	-1.00	0.04%
WTI	77.62	-.76	-0.97%
10 Year Yield	4.468	.017	0.38%

Equities

Market Recap

Stocks extended recent gains despite some hawkish Fed speak and negative geopolitical developments as global earnings news remained positive and bond markets maintained a bid. The S&P 500 gained 0.13%.

Stocks gapped higher at the open yesterday for the fourth consecutive session as solid bank earnings out of Europe (UBS and UniCredit) and better-than-expected Eurozone Retail Sales helped offset escalating tensions in the Middle East. The market held early gains through midmorning amid mostly quiet newswires.



The Manheim Used Vehicle Value Index (UVVI) dropped below 200 for the first time since March 2021 as used car prices move closer to pre-pandemic normal, in what is an anecdotal sign that inflation pressures (and potentially economic growth) are easing.

Some hawkish Fed commentary by the Fed's Kashkari, who refused to rule out a potential rate hike and questioned whether the current policy rate was restrictive, was largely shrugged off and stocks were able to grind higher with the S&P 500 testing 5,200 early afternoon. The market continued to disregard negative news flow including a further deterioration in ceasefire negotiations between Israel and Hamas and instead welcomed the largely uneventful outcome of the 3-Yr Treasury Note auction (there were concerns that weak demand could spark a rise in rates).

The S&P 500 touched 5,200 momentarily early afternoon before the market turned lower and filled a gap back to Monday's closing level. It was unclear what the catalyst was for the reversal, but it was abrupt and that saw stocks end off their best levels of the day.

May MMT Chart: An S&P 500 Priced for Perfection

There was one change to the May Market Multiple Table and it was bullish as the better-if scenario target was

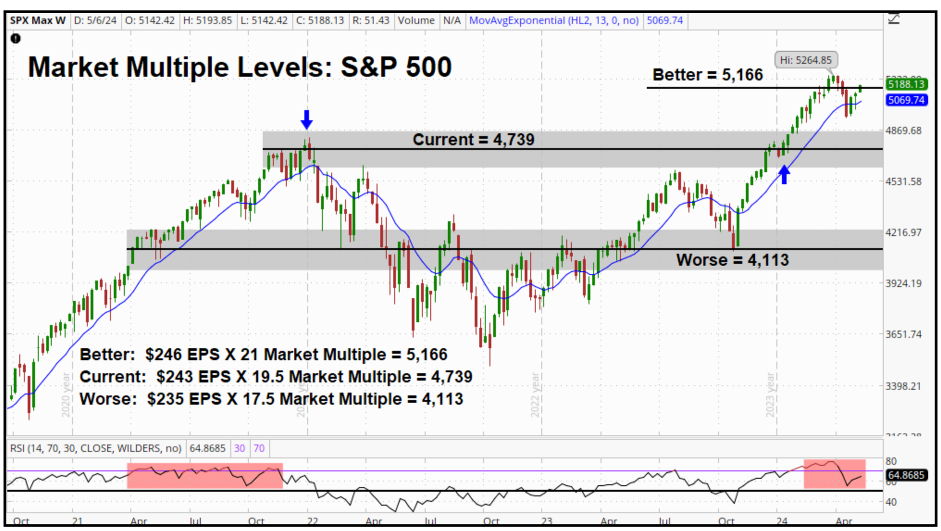
Market	Level	Change	% Change
Dow	38,884.26	31.99	0.08%
TSX	22,290.63	31.16	0.14%
Stoxx 50	5,044.22	28.12	0.56%
FTSE	8,361.16	47.49	0.57%
Nikkei	38,202.37	-632.73	-1.63%
Hang Seng	18,313.86	-165.51	-0.90%
ASX	7,804.49	11.16	0.14%
Prices taken at previous day market close.			

revised up from 4,920 in April to 5,166 this month thanks to the target multiple rising from 20X to 21X expected 2024 earnings for the S&P 500. That upward revision to the better-if target means that stocks were "priced to perfection" coming into this week with the S&P 500 opening 20 points below the target of 5,166 on Monday and closing that session just over 20 points above the target. The current situation and worse-if situation target ranges, meanwhile, were unchanged in May with midpoints holding at 4,739 (-8.5% from Monday) and 4,113 (-20.5% from Monday), respectively.

Market	Level	Change	% Change
DBC	23.35	-.02	-0.09%
Gold	2,322.20	-9.00	-0.39%
Silver	27.50	-.11	-0.41%
Copper	4.592	-.023	-0.50%
WTI	78.46	-.02	-0.03%
Brent	83.21	-.12	-0.14%
Nat Gas	2.209	.014	0.64%
RBOB	2.5463	-.0419	-1.62%
DBA (Grains)	24.51	.73	3.07%
Prices taken at previous day market close.			

Current Situation: The current situation MMT target range was unchanged in May with a 19X-20X multiple of 2024 S&P 500 earnings expectations of $243/share providing a familiar target range of 4,617 to 4,860 with a midpoint of 4,739 for the S&P 500. The midpoint remains a still-distant 8.5% below where the index began this week.

Looking at the chart, there have been no new interactions with the current situation MMT target range since last month's update, which leaves the analysis unchanged. The main takeaway regarding the current situation target range is that the upper bound, midpoint, and lower bound all have technical importance. The upper bound of 4,860 is where the S&P 500 pulled back to after breaking out to new record highs in early 2024, finally surpassing the early 2022 records that stood for two years. The midpoint of 4,739 slices through the pivot point of the topping pattern of the old record highs that were established between late 2021 and early 2022.



Finally, the lower bound of 4,617 is where the first snapback rebound of the 2022 bear market failed and also within a few points of where the 2023 rally stalled ahead of the H2'23 correction of 10% in the S&P 500 began. Bottom line, the upper and lower bounds, and the midpoint of the current situation trading range will each offer varying degrees of support with the midpoint being the most formidable support level to watch in the event of a meaningful pullback in the weeks or months ahead.

Things Get Better If: The better-if scenario target was increased in the latest update of the MMT table thanks to the already historically lofty multiple target of 20X being raised to a 21X multiple on 2024 S&P 500 earnings expectations of $246/share. Those numbers provide us with an upwardly revised better-if scenario target of 5,166 for the S&P 500, up from April's better-if target of 4,920. The S&P 500 has notably traded on either side of the better-if target this week underscoring an optimistic fundamental outlook from investors in early May.

Looking at the daily chart, the technical sensitivity of the S&P 500 to the better-if target is immediately clear as the index advanced up to the 5,166 area in early March but struggled to break beyond, churning below for a full two weeks before there was finally a push beyond the emerging resistance level to new record highs. On April 4, the S&P collapsed back to and through the better-if target by 20 points preceding a six-session period of price oscillation on either side of the 5,166 target. Fast forward to this week and the better-if target is back in play as a key level with stocks rallying through 5,166.

Things Get Worse If: The worse-if MMT target was also unchanged in May with a multiple range of 17X-18X expected S&P 500 earnings of $235/share, which provides a target range of 3,995-4,230 with a midpoint of 4,113. The worse-if midpoint target is more than 20% below where the S&P 500 began the week and the index has notably not interacted with even the top end of the worse-if range in over six months. A drop to the worse-if range would mean a significant spike in volatility and a real sense of fear gripping markets to see the S&P 500 reverse all of the gains off of last October's lows.

On the charts, the upper bound of the worse-if scenario target range, 4,230, is where the S&P 500's H2'23 correction stopped in late September before the market found support very close to the midpoint target of 4,113 (the low close was 4,117). As such, both those levels would be important to watch in the event stocks were to suddenly fall into a bear market. The lower bound of the worse-if target saw a lot of interaction during the market's bottoming process coming off the 2022 lows as there were two failed attempts by the S&P 500 to break beyond the August highs that saw the S&P 500 trade into the worse-if target range.

Bottom Line: The long-term trend in stocks remains bullish with the S&P 500 trading within a few percentage points of the all-time highs and very close to the better-if scenario target. The lofty valuation of 21X earnings is historically unsustainable, however, and the market is pricing in "fundamental perfection" right now which leaves the risk of a continuation of the April pullback elevated in the weeks ahead. That means the MMT targets, specifically those in the current situation, must be closely watched. **For a higher-resolution, unbranded version of the March MMT target chart please email info@sevensreport.com.**

Market	Level	Change	% Change
Dollar Index	105.26	.34	0.33%
EUR/USD	1.0754	-.0015	-0.14%
GBP/USD	1.2508	-.0054	-0.43%
USD/JPY	154.70	.78	0.51%
USD/CAD	1.3728	.0062	0.45%
AUD/USD	.6596	-.0029	-0.44%
USD/BRL	5.0691	-.0074	-0.15%
Bitcoin	63,116.63	207.08	0.33%
10 Year Yield	4.463	-.026	-0.58%
30 Year Yield	4.607	-.035	-0.75%
10's-2's	-37 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		
Prices taken at previous day market close.			

Economics

Manheim Used Vehicle Value Index

- The April Used Vehicle Value Index fell 12% yoy.

Takeaway

The Manheim Used Vehicle Value Index (UVVI) saw the decline in used car prices accelerate in April and the index dropped to the lowest level since March 2021 in what is an anecdotally positive indicator for inflation. Car prices became the poster children for pandemic-era inflation as used prices appreciated in value while new cars traded over MSRP. But those trends have reversed and the UVVI has now declined back to early 2021 levels in what is an anecdotal signal that inflation continues to decline in parts of the economy (including those most impacted by the pandemic).

Here's why this matters. We continue to believe that inflation is not the biggest threat to this market—growth is. While anecdotal, the UVVI reinforces that point, as used car prices are close to returning to pre-pandemic trend (that'd be around 175 in the UVVI). What isn't clear, however, is how much a slowing economy is beginning to pressure used car prices as the decline appears to be accelerating. Going forward, we continue to think that inflation will gradually continue to decline. The big question is how much does growth decline (the bigger growth decline, the bigger headwind on stocks).

Commodities

A firming dollar reasserted itself as a headwind on the broader commodity markets while energy continued to whipsaw on geopolitical headlines related to the Israel-Hamas war. The commodity ETF, DBC, fell 0.09%.

Beginning with the laggards, both industrial and precious metals declined as the dollar rebounded off of last week's lows. Copper underperformed with a drop of 0.42% on the day as Asian market gains were reversed during the European session as German Manufacturers Orders missed estimates. Copper rebounded with U.S. equities early in the U.S. session but the bid faded over the course of the day amid hawkish Fed chatter that weighed on the outlook for demand.

Looking ahead, worries about supply cuts in China and strong AI demand have been key drivers of the 2024 copper rally, but the news flow on both topics has quieted in recent weeks leaving copper susceptible to a near-term pullback to support at $4.30.

Gold spent most of the session lower as traders digested hawkish Fed chatter, a midday reversal higher in Treasury yields and a stronger dollar. On the charts, gold is churning along a key technical level at $2,320/oz. with risk of a decline towards the next major support level at $2,170 possible. Longer term, gold remains in a strong uptrend with prices just off record highs leaving the risk-reward of buying deeper dips appealing.

Switching to the energy, oil was able to eke out a gain of 0.10% amid rising tensions and stalling ceasefire negotiations between Israel and Hamas leadership resulting in both the return of a modest geopolitical fear bid as well as some speculative short covering.

In the U.S., the Department of Energy announced plans to buy another 3MM+ bbls of oil to continue refilling the SPR, which has been cut in half over the last two years. That news invited a modest bid as it shows that the Biden administration is willing to buy oil under $80/barrel. However, today's EIA data was also coming into focus and recent reports have been soft on the demand side and shown sizeable builds in oil supply amid unseasonably low refinery inputs.

The geopolitical backdrop has become a less-pressing influence on the oil market and it would take some meaningful disruption to global oil trade, production, or infrastructure in order for the fear bid to come back to the market in the same form it was before Israel and Iran traded direct attacks on one another in early April (which sparked a rally despite no impact on physical oil markets). Instead, worries about economic growth, high monetary policy rates, and inflation are combining to weigh on the demand outlook for oil in the months and quarters ahead. With WTI futures into key support in the mid-to-upper $70s this week, it will take a bullish EIA report to turn the market higher from here.

Currencies & Bonds

Tuesday was another generally quiet day in the currency and bond markets although some pre-Bank of England meeting positioning pushed the dollar modestly higher. The Dollar Index rose 0.34%.

There were a few more catalysts in the markets on Tuesday compared to Monday, but it was still generally quiet as there was no notable economic data while Kashkari largely repeated the Fed line that it expects rate cuts but that inflation remains too high (i.e., higher for longer until further notice).

Absent any material catalyst, positioning among currency traders ahead of the Bank of England meeting tomorrow drove trade as the pound declined 0.5% and was the worst-performing major currency vs. the dollar. There wasn't any negative news for the pound, but instead traders sold in anticipation the BOE will clearly signal a rate cut is coming in June. The euro and yen were both little changed (although the yen is again approaching the 156 level that prompted some intervention from the BOJ two weeks ago). The dollar is awaiting the next major update on inflation or growth and that won't come until next week.

Turning to Treasuries, yields declined as investors continued to convince themselves that rate cuts may happen in July (that probability is inching towards 50%). The 10-year yield fell 4 basis points to below 4.45%. However, the 10-year yield finished off the lows despite a strong 3-year Treasury auction thanks to Kashkari's comments.

Bottom line, the decline in yields is helping stocks hold recent gains, but the outlook on inflation and Fed policy hasn't materially changed over the past several days and as such, the path of least resistance in the 10-year yield remains higher.

Have a good day,

Tom

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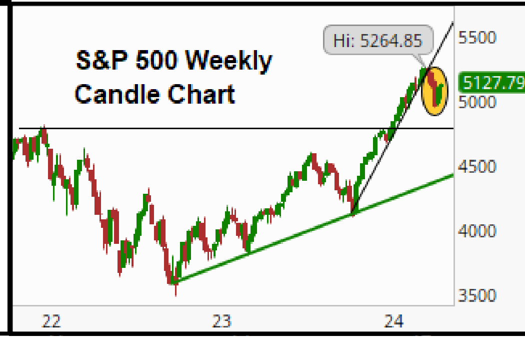
Technical Perspectives (Updated 5/05/2024)

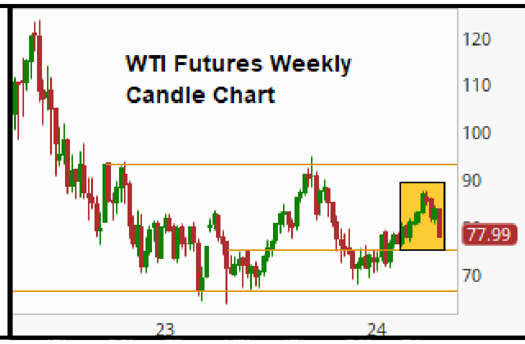
S&P 500

- Technical View: **The medium-term trend in the S&P 500 shifted to neutral from bullish** as the early 2024 advance turned sideways in early Q2.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5147, 5199, 5254
- Key Support Levels: 5029, 4967, 4846



WTI Crude Oil

- Technical View: Oil broke down through $80 last week but due to the straight line nature of the late-Q1/early Q2 rally, no notable support has been violated yet.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $79.81, $80.82, $81.90
- Key Support Levels: $77.80, $$76.57, $75.96

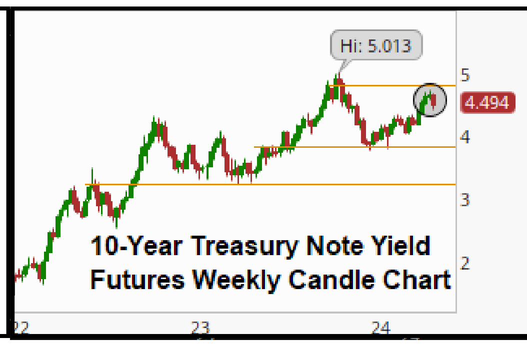


Gold

- Technical View: Gold pulled back further from 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: $2350, $2377, $2407
- Key Support Levels: $2267, $2190, $2152

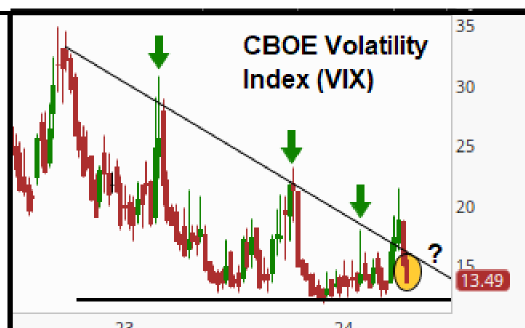
10-Year T-Note Yield Futures

- Technical View: The 10-year yield pulled back steeply to end last week close to a one-month low; however, the 2024 uptrend remains intact for the time being.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.600, 4.704, 4.822
- Key Support Levels: 4.419, 4.343, 4.209



CBOE Volatility Index (VIX)

- Technical View: The VIX continued to collapse last week ending Friday at a more-than-one-month low, back below the briefly violated uptrend line off the 2022 highs.
- Primary Trend: **Neutral (since the week of May 6th, 2024)**
- Key Resistance Levels: 14.68, 15.75, 16.94
- Key Support Levels: 13.01, 12.44, 11.81



SEVENS REPORT	**Fundamental Market View (Updated 5/05/2024)**

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 logged a small gain in somewhat volatile trade last week as more stagflationary economic data was offset by a not-as-hawkish-as-feared Fed meeting and Goldilocks jobs report.*

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 dropped moderately despite the weaker U.S. dollar on more underwhelming U.S. economic data.*
US Dollar	**Neutral**	*The Dollar Index fell 1% last week as the Fed wasn't as hawkish as feared and Chair Powell took rate hikes off the table, narrowing the policy gap between the Fed and the ECB/BOE.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield dropped sharply (16 basis points) on the soft economic data and on Powell pushing back against the idea of rate hikes.*

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.