SEVENS REPORT

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

May 9, 2024

Pre 7:00 Look

- Futures are modestly weaker following a quiet night of news as investors digest the last weeks' gains.
- Economically, Chinese exports (1.5% vs. (E) 1.3%) and imports (8.4% vs. (E) 4.7%) were stronger than expected, offering some optimism for that economy.
- Tech earnings continued to be mixed as semiconductor company ARM Holdings (ARM) posted soft guidance and the stock is down 8% pre-market.
- Econ Today: BOE Rate Decision (E: No Change to Rates), Jobless Claims (E: 212K). Fed Speak: Daly (2:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,205.00	-7.75	-0.15%
U.S. Dollar (DXY)	105.62	0.08	0.07%
Gold	2,317.50	-4.80	-0.21%
WTI	79.72	0.73	0.92%
10 Year Yield	4.51%	0.03	0.56%

Equities

Market Recap

Trading continued to be quiet amidst a lack of material market catalysts and as such, some mildly disappointing earnings and economic data combined with some AI-related trade headlines stopped the upward drift in stocks. The S&P 500 was flat on the day.

After gapping higher four sessions in a row, the S&P 500 gapped lower at the open yesterday as investors digested weak earnings and guidance from Toyota and Nintendo as well as a revenue warning from INTC after the government issued a ban on chip exports to Chinese mega-cap Huawei. On the economic front, soft export numbers from Taiwan due to weak demand out of China rekindled worries about the health of the world's second largest economy while European manufacturing data was not-as-bad as feared but still pointed to contraction in the factory sector.

There were no economic reports in the U.S. and newswires were fairly quiet which allowed the S&P 500 to drift back higher through midmorning, closing a gap back to Tuesday's close with better demand metrics in the latest EIA report helping fuel some modest risk-on money flows into the European close. There was no follow through bid, however, and the market rolled over to churn sideways in slightly negative territory into the afternoon as several Fed speakers stuck to the recent narrative, threatening of higher-for-longer rate policy amid economic resilience and sticky inflation.

What Are The GRANOLAS and Why Are They Attractive?

In the U.S., we're all familiar with the "Magnificent 7": Alphabet (GOOGL), Amazon (AMZN), Apple (AAPL), Meta Platforms (META), Microsoft (MSFT), Nvidia (NVDA), and Tesla (TSLA). These tech-related juggernauts have largely driven the US market's returns over the past year.

But recently the "Mag 7" have shown signs of exhaustion as only three (NVDA, GOOGL and AMZN) are solidly positive over the past three months. Given their weight in the S&P 500, that's led to stagnant performance in the S&P 500 and a broadening of the rally in the U.S. But it's not just U.S. sectors that have played catch up to the Mag 7 and the S&P 500.

The STOXX 600, Europe's equivalent to the S&P 500, hit a new all-time high yesterday and has returned over 12% YTD, outperforming the S&P 500. And just like the S&P 500 has been powered by the Mag 7, the STOXX 600 has been pushed higher by its own superstar stocks, which

Market	Level	Change	% Change
Dow	39,056.39	172.13	0.44%
TSX	22,259.16	-31.47	-0.14%
Stoxx 50	5,021.74	-16.43	-0.33%
FTSE	8,356.69	2.64	0.03%
Nikkei	38,073.98	-129.39	-0.34%
Hang Seng	18,537.81	223.95	1.22%
ASX	7,721.64	-82.85	-1.06%

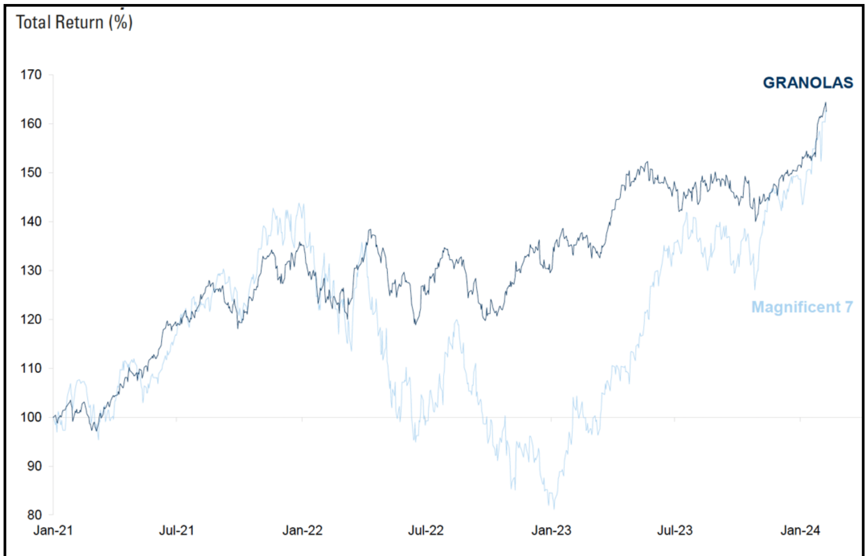
Prices taken at previous day market close.

investors have nicknamed the “GRANOLAS.”

The GRANOLAS are: **G**SK (GSK), **R**oche, **A**SML Holding (ASML), **N**estle, **N**ovartis (NVS), **N**ovo **N**ordisk (NVO), **L**'Oréal, **L**VMH, **A**straZeneca (AZN), **S**AP (SAP), and **S**anofi (SNY).

Market	Level	Change	% Change
DBC	23.23	-.12	-0.51%
Gold	2,319.10	-5.10	-0.22%
Silver	27.58	.04	0.15%
Copper	4.5440	-.0615	-1.34%
WTI	79.09	.71	0.91%
Brent	83.70	.54	0.65%
Nat Gas	2.188	-.019	-0.86%
RBOB	2.5376	-.0058	-0.23%
DBA (Grains)	24.43	-.07	-0.27%
Prices taken at previous day market close.			

Like the Mag 7 did for the S&P 500, these 11 stocks have been driving European equity performance as they account for a combined ~21% of the STOXX Europe 600 and were responsible for ~60% of the benchmark’s gains in the past year.



Source: Goldman Sachs, “The Magnificent GRANOLAS,” February 2024.

MAG 7				
TICKER	SECTOR	P/E	DIV YIELD	HQ
GOOGL	Communications	26.50	0.00	US
AMZN	Cons Cyclical	65.43	0.00	US
AAPL	Technology	26.13	0.57	US
META	Communications	32.41	0.38	US
MSFT	Technology	38.27	0.70	US
NVDA	Technology	98.22	0.02	US
TSLA	Cons Cyclical	54.88	0.00	US
	AVG:	**48.83**	**0.24**	

GRANOLAS				
TICKER	SECTOR	P/E	DIV YIELD	HQ
GSK	Healthcare	10.60	3.61	UK
RHHBY	Healthcare	11.23	4.54	Switzerland
ASML	Technology	45.82	0.67	Netherlands
NSRGY	Cons Defensive	19.60	3.29	Switzerland
NVO	Healthcare	46.22	1.10	Denmark
NVS	Healthcare	14.07	3.94	Switzerland
LRLCY	Cons Defensive	32.52	1.58	France
LVMHF	Cons Cyclical	26.32	1.49	France
AZN	Healthcare	18.79	2.12	UK
SAP	Technology	34.02	1.21	Germany
SNY	Healthcare	10.00	4.32	France
	AVG:	**24.47**	**2.53**	

* DATA FROM MORNINGSTAR.COM

Given our view that U.S. growth is set to slow (the only question is by how much), U.S. rates will remain high and the S&P 500 is still trading above a 20X multiple (historically unsustainable) we think the GRANOLAs, and large-cap European equities, are worth a look.

Consider:

- In-line performance: The GRANOLAS have surged around 60% as a group since January 2021, basically matching the performance of the Mag 7.
- Cheaper valuations: The GRANOLAs currently trade around an average P/E ratio of 24. Conversely, the Magnificent 7 currently trade around an average P/E ratio of 49. More broadly, VGK trades at a 14X forward multiple compared to the >20X SPY.
- Higher dividend yields: Each of the 11 GRANOLAS pays a dividend, averaging a 2.5% yield. On the other hand, only four of the Magnificent 7 pay a dividend, resulting in a seven-stock average yield of 0.2%.
- Lower volatility: The realized volatility of the GRANOLAS is, on average, twice lower than that of the Magnificent 7.
- More diversification: The GRANOLAS are headquartered across Denmark, France, Germany, the Netherlands, Switzerland, and the UK. They cover four sectors: healthcare, consumer discretionary, consumer staples, and technology (but are leaders in cosmetics, disease care, food, luxury, pharmaceutical drugs, semiconductors, vaccines). Contrarily, the Magnificent 7 are all headquartered in the U.S. They cover three sectors: technology, communications, and consumer discretionary (with a heavy tech bent).

Additionally, the GRANOLAS and European stocks have other potential catalysts working in their favor. First, the ECB is about to cut rates, relaxing the headwind on the EU economy from higher interest rates. Second, European stock indices don’t have the valuation concerns in the U.S. VGK, the Vanguard FTSE Europe ETF, trades around 14X forward earnings compared to more than 20X for the S&P 500.

Third, the EU economy no longer faces the energy supply shock at the outbreak of the Russia/Ukraine war.

Fourth, European stocks offer a lower-volatility, lower-valuation, large-cap alternative to tech-dominated U.S.

large-cap indices such as the S&P 500. So investors can increase equity diversification while still being broadly correlated to the global risk assets.

While it's possible to allocate directly to the GRANOLAS (most are listed on U.S. exchanges) there are several European ETFs that offer substantial exposure to the GRANOLAS including:

JPMorgan BetaBuilders Europe ETF (BBEU) (23% GRANOLAS), Shares Core MSCI Europe ETF (IEUR) (20% GRANOLAS exposure), Vanguard FTSE Europe ETF (VGK) and the SPDR Portfolio Europe ETF (SPEU), (both with 19% GRANOLAS exposure).

Meanwhile, if you have access to UCITS ETFs, you can get direct ETF exposure to the STOXX 600. Finally, for those worried about exchange rate risk (the risk the dollar declines vs. the euro while you own European equities) the Wisdom Tree Europe Hedged Equity Fund (HEDJ) remains an attractive choice with solid GRANOLAS exposure.

Bottom line, if you or your clients are looking to reduce exposure to U.S. indices or the tech/consumer discretionary/communications sectors, which make up a large part of most U.S. large-cap indices, the GRANOLAS and European markets provide an attractive large-cap alternative that offers diversification (tech is not nearly as heavy in European indices), lower valuations and a more compelling macroeconomic set up.

Market	Level	Change	% Change
Dollar Index	105.43	.12	0.12%
EUR/USD	1.0744	-.0011	-0.10%
GBP/USD	1.2496	-.0013	-0.10%
USD/JPY	155.64	.95	0.61%
USD/CAD	1.3732	.0006	0.04%
AUD/USD	.6576	-.0022	-0.33%
USD/BRL	5.0939	.0225	0.44%
Bitcoin	62,166.73	-958.49	-1.52%
10 Year Yield	4.492	.029	0.65%
30 Year Yield	4.632	.025	0.54%
10's-2's	-35 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		

Prices taken at previous day market close.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mixed as oil recovered from steep overnight losses to end higher thanks to the first bullish EIA report in weeks while a firmer dollar, rising yields, and soft economic data overseas all combined to weigh on the metals market. The commodity ETF, DBC, dropped back 0.51%.

Beginning with the metals, gold dipped a modest 0.15% as inflation expectations have eased back to a two-month low (bearish) but retreating Treasury yields and a pullback in the dollar since the Fed decision have been sources of price support. However, the bid in Treasuries and pullback in the dollar both appear to be losing momentum and that could mean renewed pressure on gold near term with focus on the next level of meaningful price support at $2,170/oz.

Copper pulled back a more pronounced 1.31% partially thanks to another report that showed the European manufacturing sector is in contraction as well as a downbeat Taiwan export figure that collapsed in April due to soft demand from China (although the record demand from the U.S. for AI-related hardware eased the blow of the release). Bottom line, the 2024 copper rally is losing momentum and there is an increasing threat of a profit-taking pullback near-term as both the supply (China production cuts) and demand (AI driven) outlooks remain uncertain and futures had become overbought in early Q2. The primary trend remains bullish with prices near 52-week highs.

EIA Data Takeaways and Oil Update

After a string of bearish reports with steadily rising inventory figures and lackluster demand metrics, yesterday's EIA data offered the bulls something to be less pessimistic about regarding the price of oil as there was a larger-than-expected drop in oil supply and evidence of a rebound in demand.

On the headlines, commercial crude oil stockpiles fell by 1.4MM barrels last week, more than the modest -500K bbl consensus estimate and a surprise relative to the API's reported build of 509K bbls. The decent draw after a string of oil supply builds was seen as a bullish catalyst. Products supply changes were less bullish, however, as gasoline inventories rose +900K bbls vs. (E) -900K bbl (API: +1.46MM) and distillate supply rose +600K vs. (E) -700K bbls (API +1.7MM).

The details also favored the bulls, as domestic production was unchanged (importantly no increase) while refinery use rose 1% to 88.5%, closer to the 90%-91% levels seen this time of year since Covid. Gasoline supplied was potentially the most important data point in the release as the implied measure of consumer demand continued to rebound with a weekly increase of 179K b/d to 8.80MM b/d, which was a six-week high. The smoother look at the data via the four-week moving average also came off a near-two-month low, rising to 8.63MM b/d, which was importantly back above the 2024 average of 8.55MM b/d and suggests demand is on the rise again.

The focus of the oil market has been turning away from the geopolitical situation in the Middle East and Russia/Ukraine as the conflicts simply haven't interrupted global oil market logistics or production and the sizeable “fear bid” premium has been unwarranted. Instead, market focus has turned to the growing uncertainty about the outlook for the global economy and the risks facing current demand expectations for the months and quarters ahead if a recession does grip the economy. The latest EIA data helped quell those worries as consumer demand at the pump appears to be rebounding with gasoline supplied back above both the 2024 average and its rolling four-week moving average. This will be the key statistic to watch going forward, as renewed weakness in demand will likely see this week’s lows in the mid-$70s tested or violated in the weeks ahead.

Currencies & Bonds

Currency and bond markets were quiet for a third straight day as there was again a lack of material market-moving catalysts. The Dollar Index drifted slightly lower, falling 0.2% while the 10-year Treasury yield climbed 4 basis points.

There was not notable U.S. economic data on Thursday so currency and bond markets were again guided by Fed speak and a Treasury auction. Starting with Fed speak, Boston Fed President Collins acknowledged that rates will likely need to stay elevated for longer than previously expect to push inflation lower. But she did not talk about any need to further increase rates and as such, she largely repeated the current Fed mantra of higher for longer (but no hikes).

That message resulted in little movement in the dollar as the major Western currencies (dollar, euro, pound) were all little changed ahead of the Bank of England meeting this morning (the key there is whether they strongly telegraph a rate cut in June).

The yen did declined 0.6% vs. the dollar despite a warning from the Japanese finance ministry about intervention, but at this point the BOJs interventions have been limited and clearly traders aren’t scared of a sustainable yen rally. Bottom line, the Dollar Index remains around the 105 range and it’ll likely stay around there until the next set of catalysts, starting with next week’s CPI report, as the market will learn if the Fed is still the most hawkish of the major global central banks.

Turning to Treasuries, the 10-year yield drifted higher by 4 basis points thanks to a combination of Collins’ higher-for-longer reiteration, a 10-year auction that saw mixed demand (although it wasn’t bad) and a general bounce following the sharp declines of the past two weeks (the 10-year yield is down 25 bps from the recent highs). Don’t be shocked to see the 10-year yield recoup some of those losses into the next major catalyst, which is next week’s CPI.

Have a good day,

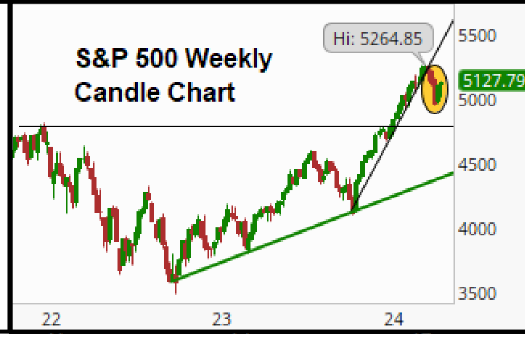
Tom

SEVENS REPORT

Technical Perspectives (Updated 5/05/2024)

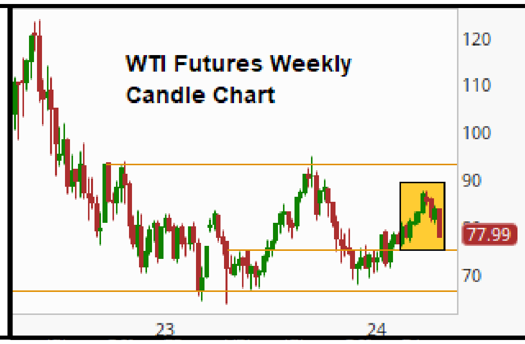
S&P 500

- 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

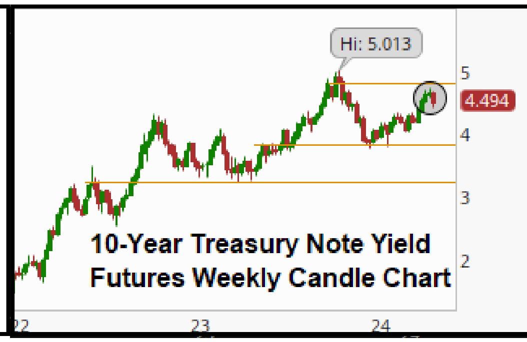


Gold

- 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

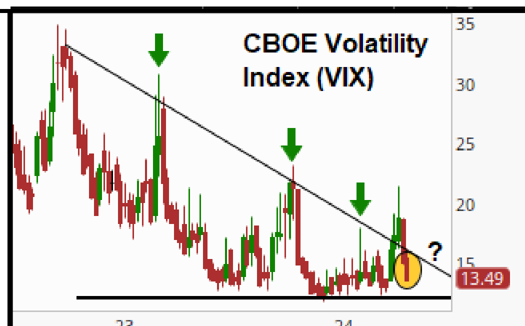
10-Year T-Note Yield Futures

- 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.