SEVENS REPORT

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

June 10, 2024

Pre 7:00 Look

- Futures are modestly lower as global bond yields rise following surprise political news over the weekend.
- Far right political parties outperformed expectations in EU elections while French President Macron called for surprise snap elections. The results are pushing French and German bond yields higher, which are pulling Treasury yields up in sympathy and weighing slightly on futures.
- Outside of the political results, it was a mostly quiet weekend of news as investors look ahead to an important week of AI catalysts, the FOMC decision and the latest CPI report.

Market	Level	Change	% Change
S&P 500 Futures	5,350.75	-5.25	-0.10%
U.S. Dollar (DXY)	105.36	0.47	0.45%
Gold	2,313.70	-11.30	-0.49%
WTI	75.59	0.06	0.08%
10 Year Yield	4.47%	0.04	0.82%

Equities

Market Recap

Equity markets rallied for most of last week as Treasuries maintained a dovish bid amid the first major central bank rate cuts of the cycle while AI-enthusiasm remained strong. A "hot" jobs report saw volatility pick up into the weekend but the S&P 500 still notched a gain of 1.32% on the week and remains higher by 12.10% YTD.

Stocks began last week with a decisive gap higher Monday thanks to optimistic outlooks and commentary from leading AI company CEOs, including NVDA's Huang and AMD's Su at the start of the Computex conference in Taipei. The early gains were largely unwound after a dismal miss in the May ISM Manufacturing Index, which rekindled slowdown concerns and the S&P 500 pulled back to end with a slight 0.11% gain.

Growth concerns persisted Tuesday after a weak JOLTS headline and downward revision to the Atlanta Fed's GDPNow reading, which fell from 2.7% for Q2 to a tepid 1.7%. A drop in yields eventually acted as a tailwind on stocks, however, as easier Fed policy expectations bolstered risk assets. Stocks caught an additional bid late in the day after Elon Musk said TSLA would spend $3B-$4B with NVDA this year. The S&P 500 rose 0.15%.

The rally continued on Wednesday with the S&P 500 hitting new records as dovish money flows picked up after the Bank of Canada delivered the first G7 rate cut of the cycle adding to the dovish optimism and subsequent risk-on money flows. A much-better-than-feared ISM Services Index did not reverse those dovish money flows but rather eased recession worries and stocks accelerated over the course of the day. NVDA notably topped $3T in market cap, helping the S&P 500 rise 1.18% to its 25th record of 2024.

The rally paused Thursday as investors digested a "hawkish rate cut" by the ECB, primarily due to an upwardly revised inflation outlook. An uptick in weekly Jobless Claims and lower revised Unit Labor Costs were shrugged off in the U.S. while the AI-trade took a breather after news broke that the U.S. had opened antitrust investigations against NVDA and MSFT. The pullback in mega-cap tech saw the S&P 500 dip 0.02%.

On Friday, the jobs report was hot on the headline and an unexpected rise in wages resulted in a knee-jerk spike in yields and selloff in stock futures as traders hawkishly repriced Fed policy expectations. The initial move was faded, however, thanks to an uptick in the unemploy-

Market	Level	Change	% Change
Dow	38,798.99	-87.18	-0.22%
TSX	22,007.00	-222.10	-1.00%
Stoxx 50	4,982.96	-68.35	-1.35%
FTSE	8,212.39	-32.98	-0.40%
Nikkei	39,038.16	354.23	0.92%
Hang Seng	18,366.95	-109.85	-0.59%
ASX	7,860.02	38.62	0.49%

Prices taken at previous day market close.

ment rate. After opening lower, the S&P 500 spent much of the day slightly positive, just above 5,350 before a pullback in the close saw the index end lower by a modest 0.11%.

When Does Bad Economic News Become Bad For Markets?

Market	Level	Change	% Change
DBC	22.76	-.33	-1.43%
Gold	2,312.10	-78.79	-3.29%
Silver	29.26	-2.10	-6.70%
Copper	4.4635	-.2145	-4.58%
WTI	75.24	-.31	-0.41%
Brent	79.34	-.53	-0.66%
Nat Gas	2.931	.110	3.89%
RBOB	2.3754	-.0221	-0.92%
DBA (Grains)	25.37	-.16	-0.63%
Prices taken at previous day market close.			

Markets were volatile last week thanks to conflicting economic data, as initially soft data increased rate cut expectations and that, combined with surging AI enthusiasm, pushed the S&P 500 to new all-time highs. But those gains were partially reversed later in the week as strong economic data (ISM Services and the jobs report) pushed back on rate cut expectations.

For now, bad economic data remains good for stocks and bonds while good economic data is a negative for stocks and bonds, again because markets are trading off shifting rate cut expectations. But before Thursday's solid ISM Services PMI, there was some chatter in markets that bad economic data might start to be bad for markets. That didn't happen last week, but it begs an important question: *When will bad economic data become a negative for stocks?*

The answer is: Bad economic data will become negative for stocks when the data is so bad that it sparks legitimate growth worries. To be clear, that didn't happen last week (it may have happened if Thursday's ISM Services PMI and jobs report were soft). But it's important to realize what while data is not at that point yet, it is moving in that direction and as a result, slowing growth remains the biggest risk to this market (and it's not as insignificant a risk as the new highs in stocks imply).

Reasonably, one might think, "If growth risks are building, why are stocks at new highs?" There are two reasons for this. First, AI. AI mania continues unabated and the truth is that generic product updates from AI-focused companies (the next one is AAPL this week) still are effective at pushing the tech sector and the entire S&P 500 higher.

Second, rate cut expectations. The market is still primarily driven by Fed rate expectations and if rate cut expectations increase (as they did last week) that more than offsets any concerns about growth. Until those factors are eliminated (by AI hype finally getting overdone or data turning decidedly worse) stocks can rally despite the totality of economic data pointing towards a slowing of growth.

But because our focus is beyond the short term, we continue to believe that maintaining long exposure while also actively trying to reduce volatility in portfolios remains appropriate and that continues to be best done via defensive sectors (XLU/XLP/XLV), quality factor ETFs (QUAL) and lower-volatility styles (USMV/SPLV and similar).

This week, the Fed and CPI will be in focus and lower yields will equal higher stocks. But again, amidst that potential enthusiasm, the outlook for growth is deteriorating and we will continue to point out that reality.

Economics

Last Week

Economic data took investors on a volatile ride last week but in the end, we ended the week much as we started, with economic data showing hints of weakness in the economy. But in aggregate, the data showing the U.S. economy remains, for now, on solid footing. Last week contained the three most important economic growth reports of each month and they largely provided a similar message to what we've seen all year: Manufacturing is struggling but the service sector and employment remain, generally speaking, on solid footing.

The jobs report was the most important report of the week and it did run a bit "Too Hot" on the headline, but the details were more mixed and that's why we saw a modest, but not extreme, decline in stocks and rise in yields in response to the report. The headline was strong at 272k vs. (E) 180k and there were minimal revisions to the past few week's data, but the unemployment rate rose to 4.0% for the first time since January 2022 (so a two-and-a-half-year high) on a combination of a big jobs drop in the Household Survey (-400k) and a small decline in the Labor Participation rate. Wages were also a bit “hot” as they rose 0.4% vs. (E) 0.3% m/m and 4.1% vs. (E) 4.0% y/y.

The net takeaway from the jobs report (and all of last week’s labor data) is the labor market remains “fine” and it’s not a source of economic weakness. However, there are signs that activity is cooling. We saw it in JOLTS (which dropped to 8.059 million, a multi-year low and close to the pre-pandemic levels), we saw it in claims (which rose to 229k and appear to be slowing trending higher) and we saw it in the unemployment rate. The bottom line is that while there’s no alarm in the labor market yet, it is reasonable to expect more cooling of activity in the coming months and while that’s Goldilocks for now, we have to continue to watch this closely because if the labor market starts to deteriorate meaningfully that will increase hard landing chances (and that’s not priced into stocks).

Looking at the other two important economic reports last week, the ISM Manufacturing and Services PMIs, they gave a mixed signal but importantly, they did not provide a second straight month of sub-50 readings (that would have been the first materially negative economic signal in years). The ISM Manufacturing PMI declined to 48.7 vs. (E) 49.8 and New Orders, the leading indicator in the report, also dropped to 45.4 from 49.1, signaling further weakness ahead. After a brief pop above 50, manufacturing activity has rolled over again in the past two months. The Services PMI, however, rebounded back above 50 and jumped to 53.8 vs. (E) 50.7. New Orders, again the leading indicator in the report, rose to 54.1 from 52.2 and signaled more strength ahead.

The net result from the two ISM PMIs was a Goldilocks outcome, as the ISM PMIs largely repeated what they’ve been saying for over a year: Manufacturing remains weak (which makes sense given the overbuying of the pandemic) while services remain solid. And that points to solid, but not strong, growth going forward and these reports were positive for stocks.

While last week’s data did cause volatility in stocks and Treasury yields but the net result was a consistent message: Growth is solid but there remain signs that slowdown risks are building and with stocks at elevated valuations, it is prudent to continue to closely watch the data for more evidence a slowdown is occurring because if it happens, that will be a material negative for stocks.

This Week

Last week gave us the three most important economic growth reports of each month and this week we’ll give us the most important inflation reports of each month and a Fed decision with updated dots. Both events occur on Wednesday and both could substantially move markets if there are any significant surprises. Since Fed expectations are the influence over this market, Wednesday’s Fed decision is the most important event of the week. We’ll have our full FOMC preview in Wednesday’s Report but the bottom line is there is no chance of a rate cut and the focus will be on the updated dots (specifically if they still show three rate cuts, two or just one). Obviously, the Fed decision has the potential to substantially move yields, which in turn will move stocks.

Market	Level	Change	% Change
Dollar Index	104.87	.81	0.78%
EUR/USD	1.0800	-.0090	-0.83%
GBP/USD	1.2720	-.0071	-0.56%
USD/JPY	156.64	1.03	0.66%
USD/CAD	1.3754	.0084	0.61%
AUD/USD	.6582	-.0084	-1.26%
USD/BRL	5.3145	.0598	1.14%
Bitcoin	69,254.38	-1,619.03	-2.28%
10 Year Yield	4.430	.149	3.48%
30 Year Yield	4.548	.118	2.66%
10’s-2’s	-45 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.05%		
Prices taken at previous day market close.			

Turning to CPI, to a point it’s overshadowed by the Fed decision that will come just five and a half hours after its release, but it still matters. The bottom line is at these levels, markets are pricing in a continued decline in inflation and even with last month’s small drop, the reality is the decline in inflation has largely stalled. That has to resume in earnest, if we’re going to see yields meaningfully decline and current valuations in stocks become more reinforced.

Finally this week, Thursday’s jobless claims will continue to be more closely watched as they continue to slowly drift higher. Again, they aren’t close to levels we’d consider negative for the economy, but they are trending higher and if that continues it'll be another signal that the economy is truly losing momentum. Bottom line, Wednesday is the critical day this week and for stocks to hold last week's gains we need to see the Fed and CPI confirm that 1) Rate cuts are coming sooner than later and 2) Inflation is once again meaningfully declining.

Commodities

Commodities started last week with a surge in volatility as oil traders reacted to OPEC+'s June production policy meeting in a bearish manner (a 4%-plus selloff) while a plunging dollar supported metals. Early week moves were digested and largely retraced into the jobs report Friday before commodities sold off on the hot/hawkish jobs report. The commodity ETF, DBC, was down 2.19% on the week.

Energy was front and center Monday as the OPEC+ decision to extend collective mandated production cuts through the end of 2025 largely met expectations. However, their decision to open the door to curbing some of the voluntary cuts that have been critical in keeping the physical oil market balanced and prices elevated in recent years was met with skepticism and traders sold futures first and asked questions later.

Over the course of the week, EIA data pointed to a pullback in consumer demand but a still-upward trend in the four-week MA of the implied gasoline demand while refining activity was up more than expected. That combined with several heavyweight officials within OPEC+, including those from Saudi Arabia and Russia, saying that the market reaction to their June meeting decision was "overdone," helped oil recover into the jobs report. WTI ended the week lower by 3.11%. The trend in oil has effectively turned sideways in the early summer but if the downtrend off the April highs is violated, the benefit of the doubt will return to the bulls.

Gold ended the week down 1.56%, plunging 3.34% on Friday in the wake of the jobs report. Gold was higher coming into Friday thanks to the weaker dollar and new multi-month lows in bond yields, which acted as a familiar dual tailwind. Money flows reversed on the jobs report, however, and gold ended the week just above a key technical tipping point at $2,300/oz., and a close below there will shift the outlook for gold to bearish.

Currencies & Bonds

Currency and bond markets were volatile last week on the whipsaw economic data but in the end the moves in the dollar and 10-year yield were modest. The Dollar Index was little changed last week while the 10-year Treasury yield rose 3 basis points.

Until Friday's jobs report, both the dollar and yields were reflecting dovish expectations as the mixed U.S. economic data and rising rate cut expectations (September rate cut expectations peaked above 70% last week) pushed the dollar and the 10-year Treasury yield lower. To that point, the 10-year yield broke below 4.30% for the first time in weeks as investors again stampeded to the "dovish" side of the proverbial boat.

Those moves were largely undone by Friday's hot jobs report (and to a lesser extent, Thursday's solid ISM Services PMI). The Dollar Index rose 0.6% on Friday to effectively erase the week's losses, while the 10-year yield surged more than 10 bps Friday to finish the week slightly higher, even after temporarily breaking below 4.30%.

For all the volatility, the outlook for the dollar and Treasury yields remains largely stable. The Fed is still viewed as the most hawkish major global central bank and that was again proven last week when the ECB and Bank of Canada cut rates. Until that view of the Fed changes (or the view of other central banks changes) the Dollar Index should remain in the "neutral" level around 105.

Turning to Treasuries, for now the short-term inverse relationship between yields and stocks remains in place. If yields rise that'll be a headwind on stocks and if yields fall, that'll be a tailwind on stocks. And that will remain in place until economic data gets bad enough to spark genuine growth worries, and we're just not there yet.

Have a good week,

Tom

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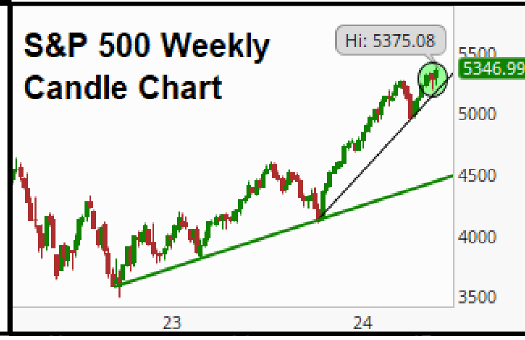
Technical Perspectives (Updated 6/9/2024)

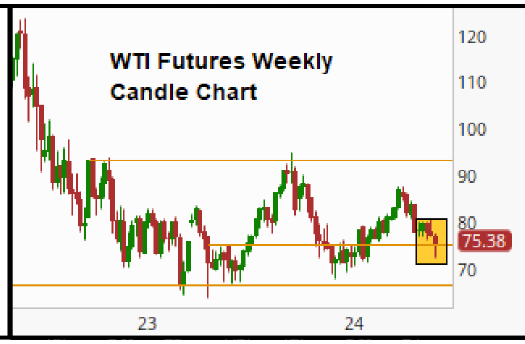
S&P 500

- Technical View: **The medium-term trend in the S&P 500 remains 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: 5353, 5375, 5400
- Key Support Levels: 5306, 5260, 5116



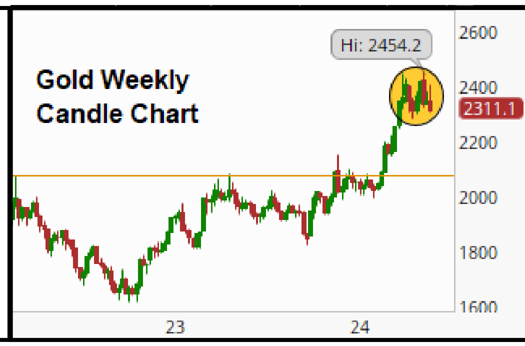
WTI Crude Oil

- Technical View: Oil prices have retreated sharply from the 2024 highs reached in early April and the technical outlook is shifting to more neutral than bullish.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $76.94, $78.51, $80.24
- Key Support Levels: $74.77, $73.69, $72.61



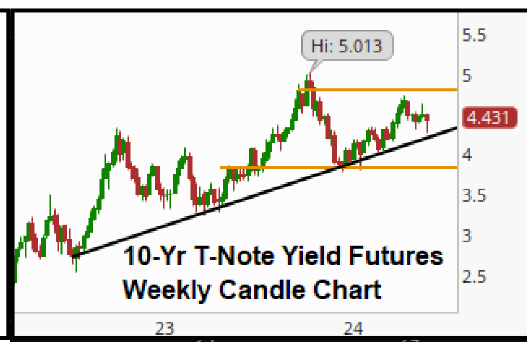
Gold

- Technical View: Gold has pulled back from record highs and begun to trend side-ways, like oil, and risks of a more pronounced pullback are building.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2385, $2407, $2430
- Key Support Levels: $2297, $2257, $2201



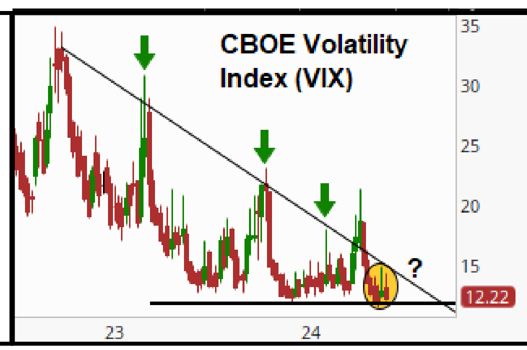
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs but the long-term uptrend remains intact for now.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.453, 4.547, 4.611
- Key Support Levels: 4356, 4.276, 4.184



CBOE Volatility Index (VIX)

- Technical View: The VIX came to life into the end of May but the fear gauge remains below its long-standing downtrend line dating back to late 2022.
- Primary Trend: **Neutral (since the week of May 6, 2024)**
- Key Resistance Levels: 12.77, 13.37, 14.67
- Key Support Levels: 12.11, 11.86, 11.53



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Fundamental Market View
(Updated 6/9/2024)

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 hit a new all-time high last week thanks to more AI enthusiasm and mostly Goldilocks economic data.*

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 declined sharply last week after OPEC+ failed to impress markets at its recent meeting while global economic growth continues to show signs of cooling off.*
US Dollar	**Neutral**	*The Dollar Index was volatile last week but ended little change as initially weak economic data was offset by a hot jobs report and Fed rate cut expectations remained mostly consistent (a September cut is possible but not likely).*
Treasuries	**Turning Positive**	*The 10-year Treasury yield rose 4 basis points last week but finished well off the lows of the week (below 4.30%) courtesy of the hot jobs report on Friday.*

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.