SEVENS REPORT

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

June 11, 2024

Pre 7:00 Look

- Futures are modestly lower again following a quiet night of news as investors focus on tomorrow's CPI report and Fed rate decision.
- Economically, the UK Labour Market Report showed higher than expected average earnings (5.9% vs. (E) 5.7%) and that's pushing back slightly on expectations for a rate cut this summer.
- European bond yields remained elevated as polling suggests France's far-right party should win the election.
- Econ Today: NFIB Small Business Optimism Index (E: 89.7).

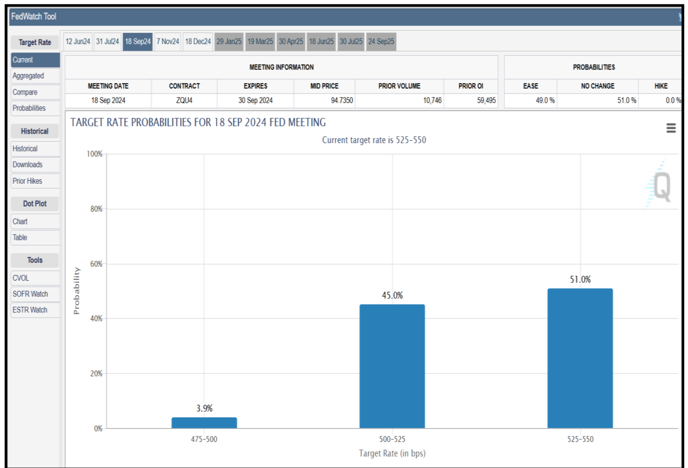
Market	Level	Change	% Change
S&P 500 Futures	5,358.50	-12.75	-0.24%
U.S. Dollar (DXY)	105.26	0.11	0.11%
Gold	2,324.80	-2.20	-0.09%
WTI	77,35	-0.39	-0.50%
10 Year Yield	4.43%	-0.04	-0.92%

Equities

Market Recap

Stocks spent the first day of an important week largely treading water before rallying modestly in to the close to hit a new record high amidst surprise political headlines and a generally uninspiring AI update from AAPL. The S&P 500 rose 0.26%.

Stocks started the week mildly lower thanks to an uptick in political uncertainty in the EU. Far right political parties made stronger-than-expected gains in the EU parliamentary elections and that surprise was compounded by French President Macron calling for snap elections, elections that could see the far right gain more power in France. That uptick in uncertainty pushed bond yields higher across Europe and since it's a global bond market, it pulled U.S. Treasury yields higher as well and that weighed on futures early on Monday.



Fed Rate Cut Expectations: Ahead of the Fed decision tomorrow, it's important to note that September rate cut expectations are about 50/50 and anything that decreases those chances is a negative for stocks and anything that increases them is a positive.

But once the surprise of the headlines wore off, investors began to focus on the only notable event yesterday, AAPL's Worldwide Developer Conference and the expected integration of AI technology into AAPL products. Anticipation of that event saw stocks drift back into positive territory by lunchtime and the S&P 500 had a small gain before the AAPL event began.

Unlike recent AI chip announcements (which have only increased AI hype and enthusiasm) the details of the AAPL release were mildly underwhelming (the announcement of "Apple Intelligence" met expectations) and AAPL fell 1.9% as the release failed to spur a broader rally.

Market	Level	Change	% Change
Dow	38,868.04	69.05	0.18%
TSX	22,069.76	62.76	0.29%
Stoxx 50	4,979.16	-37.32	-0.74%
FTSE	8,169.41	-59.07	-0.72%
Nikkei	39,134.79	96.63	0.25%
Hang Seng	18,176.34	-190.61	-1.04%
ASX	7,756.38	-104.65	-1.33%
Prices taken at previous day market close.			

The net result was the S&P 500 never strayed too far from unchanged until the final hour as stocks rallied modestly into the close to finish with small gains ahead of Wednesday's CPI report and FOMC decision, but still at a record high.

Market	Level	Change	% Change
DBC	23.09	.33	1.45%
Gold	2,329.20	4.20	0.18%
Silver	29.83	.39	1.32%
Copper	4.5475	.0640	1.43%
WTI	77.93	2.40	3.18%
Brent	81.82	2.20	2.76%
Nat Gas	2.923	.005	0.17%
RBOB	2.4130	.0304	1.28%
DBA (Grains)	24.89	-.49	-1.91%
Prices taken at previous day market close.			

Trading Color

Trading Monday was quiet and largely uneventful in the grand scheme of things, but we did see some existing market trends continue. On an index level, the Nasdaq again slightly outperformed thanks to strength in semiconductors and despite the AAPL decline, although all four major indices (S&P 500, Dow Industrials and Russell 2000) saw gains.

On a sector level, stocks were better to buy as only three of the 11 sector SPDRs were lower on the day and the worst performer, financials (XLF), declined just 0.39% on regional bank weakness following an industry downgrade. The other two sectors that dipped yesterday (consumer staples and materials) declined less than 0.2%.

While the majority of sectors were higher yesterday, only utilities (XLU) rose by more than 1%, thanks to an 8% rally in Constellation Energy Group (CEG) and broad strength in the utilities. XLU rose 1.3% and continues its stellar Q2 run. The remaining seven sector SPDRs saw modest rallies in quiet trade.

Put simply, there wasn't anything really "good" that happened yesterday in markets but the burden of proof lies with the bears so in the event of no real news, the default direction for stocks is higher, and that's exactly what happened Monday. However, while it was a quiet start to the week (and we may see more of the same today) that will likely change on Wednesday with CPI and the Fed looming.

Economics

CPI Preview: Good, Bad, Ugly

Wednesday is a potentially pivotal day in the markets (positive or negative) because arguably the two most important events of the month for markets occur. First with CPI at 8:30 a.m. and then, in the afternoon, the Fed rate decision (along with updated dot projections and Powell's press conference). Those events could increase September rate cut expectations (positive for stocks/bond) or decrease them (negative for stocks/bonds).

I'll be previewing each of them in today and tomorrow's issue so you know whether the numbers and decisions are positive, neutral or negative for markets, and how we should expect various assets to react.

Starting with Wednesday's CPI report, while it's still one of the most important monthly economic reports because the Fed can't cut until there's more progress on falling inflation, it's impact will be lessened by the fact the Fed meeting is just a few hours later. Here's why.

Let's say CPI is higher than expectations and challenges the idea that inflation is falling. That would normally push back against September rate cut expectations, send yields higher and pressure stocks. However, just a few hours later, Powell could push back on that idea and say that inflation is still headed in the right direction, which would reverse the negative fallout from the hot CPI. Conversely, if CPI is lower than expected, stocks should rally on greater expectations for a September rate cut. But a few hours later Powell could state that the Fed still needs "several" more months of encouraging inflation data to cut rates, thereby negating the positive implications of CPI.

So, CPI is only important to markets because it influences when the Fed will cut rates. And regardless of what CPI is tomorrow, we will learn just a few hours later whether it impacted the Fed decision, and as such, the impact of CPI will likely be 1) Less intense than usual and 2) Relatively short-lived.

That said, it's still an important medium-term indicator because regardless of the short-term influence tomorrow, the reality is the Fed can't cut rates in earnest until core CPI is much closer to its 2% target, so any evidence that the decline has resumed will be positive while still-stick inflation will be a medium-term negative.

A "Good" CPI Report: Core CPI ≤ 3.4% y/y. *Likely Market Reaction:* This outcome would strengthen the idea that the decline in core inflation has resumed after a few month stall and new highs in the S&P 500 ahead of the Fed shouldn't be a surprise. We'd expect a continuation of last week's rally ahead of the Fed decision, led by the "rest" of the market (so super-cap tech doesn't massively outperform). Defensive sectors and value should lead markets higher although a broad gain with all 11 sectors solidly higher on the day should be expected. Treasury yields should drop hard on this outcome with the 10-year possibly falling back below 4.40% and maybe below 4.30% (and close to the stock-positive 3.75%-4.25% range it inhabited earlier this year). The Dollar Index should also drop sharply as investors more fully expect two rate cuts this year and a decline below 105 should be expected.

A "Bad" CPI Report: **Core CPI 3.5% - 3.6% y/y.** *Likely Market Reaction:* This outcome would show another minimal decline in inflation and while that would technically be a positive, given the Fed needs a lot more evidence of a decline in inflation to cut rates. But given the recent run in stocks it'd not be surprising to see this number cause a short-term digestion of last week's gains. Super-cap tech and cyclicals should outperform while defensives likely lag. We'd expect mixed sector performance but not extreme declines. The 10-year Treasury yield should rise slightly on this news as inflation stays sticky, although we'd expect a move of less than 10 basis points. Similarly, the Dollar Index should rise modestly but not through 106. This outcome would keep a September rate cut expectation slightly more likely than not but still very much in doubt. We'd expect a mild pullback in stocks ahead of the Fed.

Market	Level	Change	% Change
Dollar Index	105.11	.25	0.24%
EUR/USD	1.0763	-.0038	-0.35%
GBP/USD	1.2734	.0015	0.12%
USD/JPY	157.07	.32	0.20%
USD/CAD	1.3761	-.0003	-0.02%
AUD/USD	.6608	.0026	0.40%
USD/BRL	5.3571	.0125	0.23%
Bitcoin	69,586.95	-190.43	-0.27%
10 Year Yield	4.469	.039	0.88%
30 Year Yield	4.595	.047	1.03%
10's-2's	-42 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.05%		
Prices taken at previous day market close.			

An "Ugly" CPI Report: **Core CPI ≥ 3.7% y/y.** *Likely Market Reaction:* A solid selloff ahead of the Fed. A hot inflation report would further entrench the idea that inflation is stickier than the market expects and that we're still a ways away from rate cuts. We'd expect all 11 sectors in the S&P 500 to decline although defensive sectors should relatively outperform ahead of the Fed decision. While the looming Fed meeting will keep the market reaction more muted than normal, a drop in the S&P 500 of 1% or more wouldn't surprise. The 10-year Treasury yield should rise sharply, likely 10-15 basis points and back through 4.50% while the Dollar Index should trade back through 106. This outcome would make a September rate cut less likely than before and push markets towards expecting just one cut in 2024 (in December), although that will be clarified by the Fed just a few hours later.

Bottom Line

In the short term, this market is trading off September rate cut expectations so CPI matters because it will influence that expectation. Over the medium term, however, CPI also matters because the market expects Fed rate cuts sooner rather than later, and if CPI doesn't show a continued decline in Core CPI, then expectations for those rates cuts will drop. And as we saw in April, if they decline, so will stocks.

Commodities

Commodities rose solidly thanks mostly to strength in oil. The widely held commodity ETF, DBC, rose 1.45%.

Oil was the star performer on Monday as WTI crude oil gained 2.9% on the day. Notably, however, that rally wasn't driven by any single event. Instead, most of that was a bounce from the prior week's declines in the wake of the OPEC+ decision to slightly (and gradually) increase supply. That announcement, combined with recent lackluster economic data, pushed oil prices to a four-month low last week.

Part of Monday's rally was a needed oversold bounce from those declines. That said, there were some other anecdotal positives including some economic optimism (so increased energy demand) following Friday's jobs report and an uptick in peripheral geopolitical tensions.

Specifically, a Ukrainian drone destroyed a Russian stealth fighter deep in Russia, as there remain threats of continued escalation in that conflict. But while those were peripheral positives, they're not worth a nearly 3$ rally in oil, and again, this is mostly an overdue oversold bounce.

Gold enjoyed a modest rally (up 0.8%) despite the slightly stronger dollar. The reason for Monday's rally was a mild uptick in uncertainty. Political uncertainty in the EU following the far-right party gains, uncertainty in the Middle East with a major Israeli cabinet shakeup and uncertainty in Russia/Ukraine with the destruction of the stealth fighter. But again, that's not a significant escalation and as such, the gains in gold were modest. Bottom line, most of the commodity complex was calm on Monday but oil did enjoy that oversold bounce and it helped the commodity complex start the week with solid gains.

Currencies & Bonds

The dollar rose modestly on Monday but that was mostly due to a weaker euro following the surprise election results over the weekend. The Dollar Index rose 0.30%.

The euro was the main mover in the currency markets Monday thanks to the surprise gains by far-right parties in the EU elections. That, combined with French President Macron's choice to call for elections his party may well lose, injected some uncertainty into the EU political realm and that weighed on the euro. The euro dropped 0.7% at the lows early on Monday but it bounced to close with a more modest 0.4% decline.

The rest of the currency complex was quiet on Monday and rightly so given there were no notable economic reports or central bank commentary and we have the Fed meeting looming just a day away. The pound rose 0.1% while the yen declined 0.2%.

Bottom line, the increased political uncertainty surrounding the EU is a negative for the single currency, but the bottom line is that rate cut expectations are still the major driving force in the currency markets and I don't view the weekend's results as negative enough to send the euro sharply lower or the dollar sharply higher. As such, the dollar trading in the mid 100s (so around 105) remains largely appropriate until the Fed gets more hawkish or dovish.

Turning to Treasuries, yields rose modestly in sympathy with the increase in German bund yields. The German 10-year Bund yield rose 6 basis points following the gains by far-right parties in the EU Parliament and that, in turn, pulled the 10-year yield higher by 4 basis points early on Monday.

As the day went on, the 10-year yield largely chopped sideways as that was the only influence on it and while that rise in bunds to more political uncertainty makes sense in the short term, it's not going to be a long-term driver of yields.

Bottom line, yields did tick a bit higher as political uncertainty seems to be on the rise still globally, and that is something to consider in regard to Treasuries. But the gains by the far right aren't enough to create a sustainable uptrend in yields without either 1) The Fed getting more hawkish or 2) Inflation bouncing back.

Have a good day,

Tom

6/11/2024

SEVENS REPORT

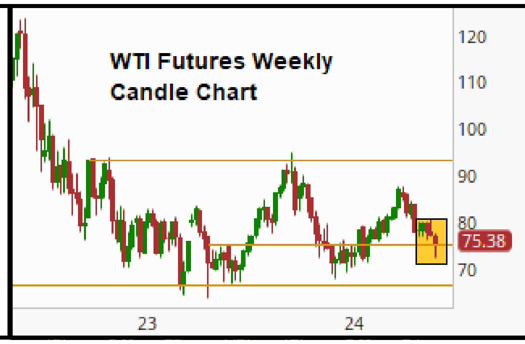
Technical Perspectives (Updated 6/9/2024)

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

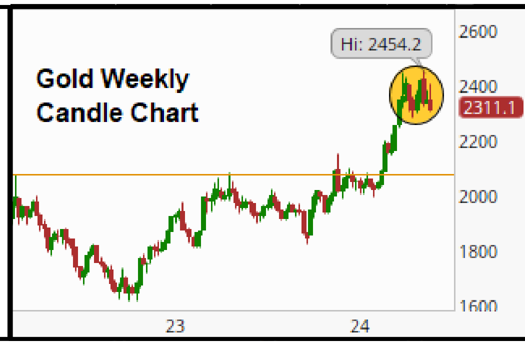
WTI Crude Oil

- 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



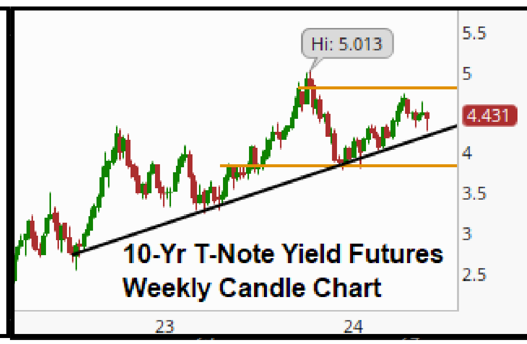
Gold

- Technical View: Gold has pulled back from record highs and begun to trend sideways, 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



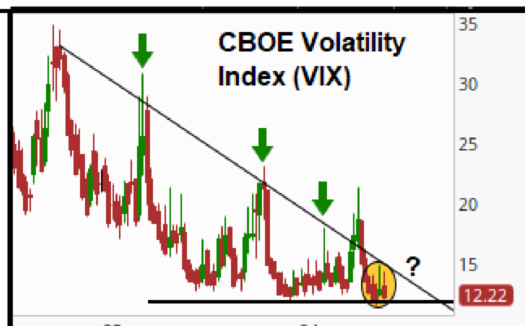
10-Year T-Note Yield Futures

- 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



SEVENS REPORT

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.