SEVENS REPORT

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

June 12, 2024

Pre 7:00 Look

- Futures are slightly higher following more solid tech earnings and despite some stagflationary economic data.
- ORCL earnings beat estimates and the stock is up 9% pre-market helping to support stock futures.
- Economically, Chinese inflation ran slightly hot while UK Industrial Production badly missed estimates.
- Econ Today: CPI (E: 0.1% m/m, 3.4% y/y), Core CPI (0.3% m/m, 3.5% y/y). FOMC Decision (E: No Change to Rates), Updated Fed Dots (2:00 p.m. ET), Fed Chair Powell Press Conference (2:30 p.m. ET).

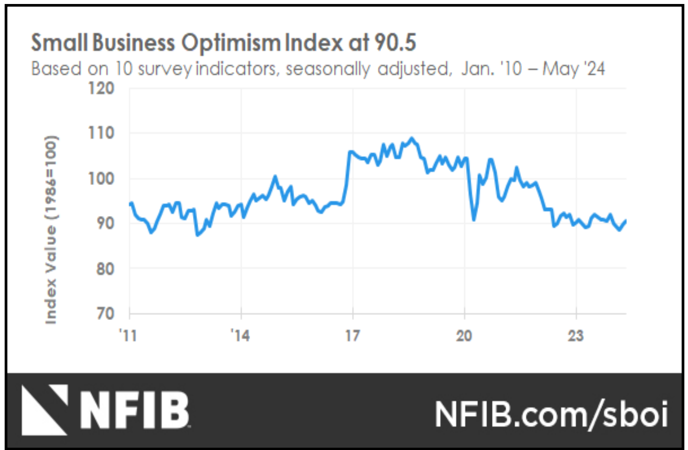
Market	Level	Change	% Change
S&P 500 Futures	5,390.25	6.25	0.12%
U.S. Dollar (DXY)	105.16	-0.07	-0.06%
Gold	2,330.20	3.60	0.15%
WTI	78.83	0.93	1.19%
10 Year Yield	4.40%	0.00	0.00%

Equities

Market Recap

The S&P 500 staged an impressive rebound and hit a new record high on Tuesday ahead of the Fed meeting and thanks mostly to a surge in AAPL, which powered the index higher. The S&P 500 rose 0.27%.

Stocks started Tuesday like Monday, i.e. with losses. And unlike Monday, they didn't bounce at the open and instead kept falling on rumors of more political instability in Europe (there were rumors French President Macron would resign, as would German PM Schultz). Both rumors were untrue, however, and stocks started to drift higher by midmorning.



Small Business Optimism rose slightly on Tuesday, but uncertainty rose to the highest level since November 2022, as economic data continues to imply still-solid growth but growing headwinds.

Also aiding in the rally in stocks was a delayed AI surge in Apple. AAPL rallied 7.26% on the day as investors and analysts had a delay in the Pavlovian bullish response to any announcement with "AI" in it. And given AAPL's weight in the index, it carried the S&P 500 higher throughout the day.

News flow in the afternoon quieted substantially and stocks largely drifted sideways as focus turned towards the next AI data point (ORCL earnings overnight) and the looming CPI and Fed meeting. The S&P 500 closed with a modest gain but far off the lows.

Trading Color

The rebound in stocks Tuesday was impressive on the headline but it was mostly an AAPL-driven phenomenon and that's evident in the index and sector trade. First, the Nasdaq handily outperformed and rose 0.88% while the S&P 500 (which is also tech heavy) gained 0.27%). The less-tech-inclined Dow Industrials and Russell 2000 fell 0.31% and 0.36%, respectively.

Market	Level	Change	% Change
Dow	38,747.42	-120.62	-0.31%
TSX	21,887.34	-182.42	-0.83%
Stoxx 50	4,994.08	28.99	0.58%
FTSE	8,201.31	53.50	0.66%
Nikkei	38,876.71	-258.08	-0.66%
Hang Seng	17,937.84	-238.50	-1.31%
ASX	7,715.51	-39.86	-0.51%
Prices taken at previous day market close.			

Looking at sectors, the only two SPDRs higher on the day were tech (XLK), which surged 1.86%, and communications (XLC) which gained 0.19%. The remaining nine sector SPDRs were modestly lower, as 10 of them declined between 0.1% and 0.6%. The one true laggard was financials, which dropped 1.14% on weakness in the bank stocks (it was regionals on Monday and some of the money centers on Tuesday).

Market	Level	Change	% Change
DBC	23.06	-0.03	-0.13%
Gold	2,331.10	4.10	0.17%
Silver	29.32	-.55	-1.85%
Copper	4.5160	-.0275	-0.60%
WTI	77.85	.11	0.14%
Brent	81.84	.21	0.26%
Nat Gas	3.127	.221	7.60%
RBOB	2.4131	.0022	0.09%
DBA (Grains)	25.26	.37	1.49%
Prices taken at previous day market close.			

Bottom line, yesterday's rebound in stocks is reflective of just how resilient this market is, but keep in mind the move higher was also due largely to the AI-driven rebound in AAPL. And while it doesn't matter, I'll point out that there was no new news on the AAPL/AI front—it was just some digestion and dip buying following the initial disappointment after Monday's announcement.

Economics

FOMC Preview

There is virtually zero chance there will be any change to rates at today's FOMC decision and there are no significant changes to the statement expected, so what will determine if today's meeting is hawkish, dovish or meets expectations will be the "dots" that show how many rate cuts Fed officials expect in 2024 and beyond.

For reference, the last dots were produced in March and the median dot showed the Fed expected three rate cuts in 2024. It's unlikely that the median dot will stay at three cuts for 2024 so how much that changes will likely determine if the FOMC statement is hawkish or dovish.

As a reminder, this matters because the biggest short-term influence in markets is whether we get a September rate cut, and that expectation will be directly influenced by the dots. That said, while a surprise from the dots will move markets short term, it's important to realize that despite the updated dots, the Fed really doesn't know what it's going to do in September because in the end, it'll be up to the data.

Point being, the dots will move markets today and perhaps beyond if it's a major surprise. But don't take the median dot as a guarantee. Ultimately, it's the data that will determine if we get two rates cuts in 2024, one cut, or none.

What's Expected: The 2024 Median Dot Shows Two Rate Cuts in 2024. The median dot for 2024 moves to two rate cuts in 2024 from the previous three cuts. *Likely Market Reaction:* Not much. This is already mostly assumed by markets so while we might see some volatility around the announcement, the median dot moving to two is in-line with market expectations for a cut in September and December. I'd expect a mild rally in stocks led by defensive sectors and tech but nothing substantial. The Dollar Index and 10-year Treasury yield should also be little changed as the Dollar Index around 105 and the 10-year yield around 4.40% largely reflects the expectation for two rate cuts in 2024. Finally, given the lack of movement in gold and yields, commodities should also be little changed. Bottom line, the default direction for stocks is higher so this outcome could see stocks rally by default, but it's not a materially positive event.

Hawkish If: The 2024 Median Dot Shows One or No Rate Cuts in 2024. The median dots could easily show just one rate cut in 2024 and that would be a mild hawkish surprise. If the median dot shows no rate cuts in 2024 that would be a substantial hawkish surprise. *Likely Market Reaction:* If the median dot shows just one cut, I'd expect a modest decline in stocks. Remember, a September rate cut is only a 50/50 probability so the Fed dots showing just one cut wouldn't be a material shock, although it would be a mild negative. I'd expect a modest decline in stocks led by cyclicals and small caps while defensives and large-cap tech should outperform. The Dollar Index should rally modestly on this news and possibly challenge 106 while the 10-year yield should also rally but moderately (likely around 10 basis points). Gold and other commodities would likely see mild declines on the stronger dollar.

However, if the dots show no rate cuts, we'd expect a substantial pullback of more than 1% in stocks because markets do fully expect at least one rate cut in 2024. We'd expect all 11 sectors in the S&P 500 to be sharply lower with defensive sectors relatively outperforming but still declining. The Dollar Index would surge, easily through 106 and perhaps towards 107 while the 10-year yield could rise by 15-20 basis points and move towards 4.70%. Commodities, including oil and gold, should drop hard (more than 1%) on the surprise. Bottom line, this would be a material negative surprise for markets and while it wouldn't cause a correction (we'd need the idea of rate hikes to make that happen) it could easily cause a pullback of 5% or more.

Dovish If: The 2024 Median Dot Shows Three Rate Cuts in 2024. This would be a significant dovish surprise as the market is pricing in virtually zero chance of three rate cuts between now and year end. *Likely Market Reaction:* New highs. This would likely send the S&P 500 sharply higher and to new highs as markets price in a more-dovish-than-expected Fed. The 10-year yield would fall sharply, perhaps as much as 20 basis points and back into the "stock positive" 3.75%-4.25% range. The Dollar Index would also fall hard, declining below 105 and perhaps through 104. Finally, gold should be the biggest winner on this outcome thanks to the weaker dollar, and likely rally more than 1%.

Bottom Line

When the Fed issues its first rate cut remains the most important short-term question for markets and that means the Fed decision could move markets today. But regardless of what occurs, keep in mind that whatever the dots say, it's the data that will determine whether a September rate cut occurs. So after the dots are revealed our focus must shift back to the data, because that holds the key to the next 10% in this market, not the dot plot.

Commodities

Commodities were broadly little changed as most energy commodities digested Monday's gains in oil while the metals looked ahead to the Fed decision. The widely held commodity ETF, DBC, dipped 0.13%.

For the second straight day, the big mover in the commodity complex came from the energy patch, but while that was oil in Monday, it was natural gas on Tuesday, which rose more than 7% to hit the highest level since November.

As is usually the case with natural gas, the reason for the large move was weather. Specifically, the National Weather Service is expecting extreme heat across much of the country over the next week (I read about a "Heat Dome" that was in place in the western portion of the country). And with those extreme high temperatures will come increased air conditioning demand, which in turn will increase electricity demand. That means more need for natural gas and that's why the commodity rose to multi-month highs Tuesday.

Oil was little changed and gained just 0.2% as markets largely digested Monday's oversold bounce. Oil has been pressured lately on a combination of OPEC supply discipline potentially slipping and worries about global demand. Now that oil has bounced from oversold levels, we'd expect some additional digestion of the recent volatility barring and big surprise from the inventory data tomorrow.

Gold was little changed on the day and rightly so as there was no real movement in the currency space and today's CPI report and FOMC meeting could move the dollar and commodities, potentially substantially.

Market	Level	Change	% Change
Dollar Index	105.16	.05	0.05%
EUR/USD	1.0749	-.0016	-0.15%
GBP/USD	1.2750	.0019	0.15%
USD/JPY	156.95	-.09	-0.06%
USD/CAD	1.3750	-.0009	-0.07%
AUD/USD	.6613	.0003	0.05%
USD/BRL	5.3569	.0020	0.04%
Bitcoin	67,157.80	-2,581.00	-3.70%
10 Year Yield	4.404	-.065	-1.45%
30 Year Yield	4.537	-.058	-1.26%
10's-2's	-43 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.04%		
Prices taken at previous day market close.			

Currencies & Bonds

For the second straight day the Dollar Index was little changed as an initial rally was given back ahead of today's FOMC decision. The Dollar Index rose 0.09%.

The Dollar Index started the day solidly higher thanks mostly to more EU political concerns. Specifically, rumors swirled that French President Macron might resign ahead of the snap French elections later this month and that weighed on the euro initially Tuesday. Additionally, there was also “chatter” that German PM Scholtz might resign, although by midday both of those rumors were denied and that helped the euro rally back to register just a small decline for the day. The euro fell 0.2%.

Like Monday, the remaining global currencies were little changed as the pound rose 0.1% while the yen was flat in quiet trade as global currency investors await the Fed decision and, to a lesser extent, the CPI report. Any “hot” reports should push the Dollar Index through 106 and potentially towards 107 while any soft reports should weigh on the dollar, possible pushing it towards 104. However, for the dollar to become a direct headwind or tailwind on stocks, we’d need to see moves beyond those levels and that’s unlikely barring a major surprise.

Turning to Treasuries, the 10-year Treasury yield declined 7 basis points thanks to pre-Fed positioning and a strong Treasury auction. Initially, the 10 year was lower by 4 basis points mostly on positioning ahead of the Fed decision later today. But those declines in yields were compounded by a very strong 10-year Treasury auction, which saw aggressive and broad demand.

The actual yield was 2 basis points below the “When Issued” yield (aggressive bidding), the bid to cover rose to 2.67 from 2.48 (the highest February 2022) while foreign demand was very strong, with indirect bidders (the proxy for foreign buyers) taking 74.5% of the auction, the highest since February.

That strong demand ahead of the Fed decision pressured the 10-year yield, which closed below 4.40% ahead of CPI and the Fed meeting later today.

For now, the inverse relationship between the 10-year yield and stocks remains in place. Higher yields means lower stocks and lower yields means higher stocks and that will remain the case for both CPI and the Fed decision later today.

Have a good day,

Tom

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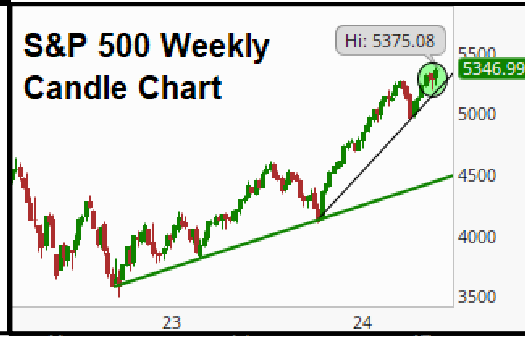
Technical Perspectives (Updated 6/9/2024)

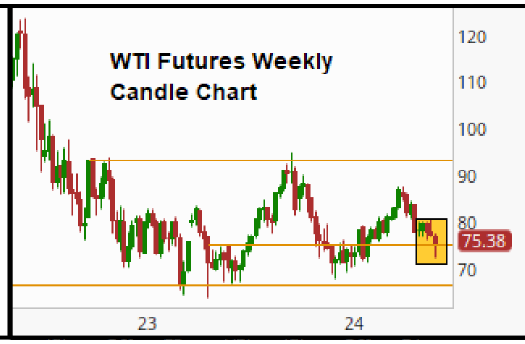
S&P 500

- 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



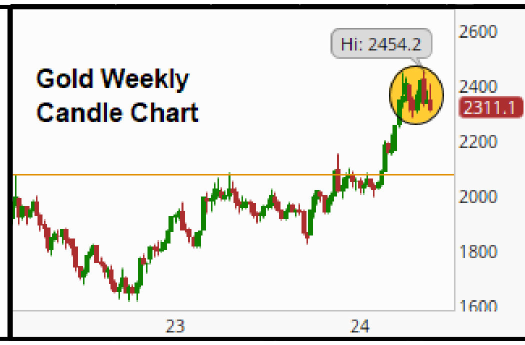
WTI Crude Oil

- 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



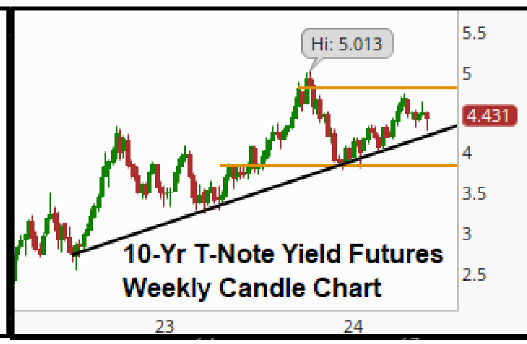
Gold

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



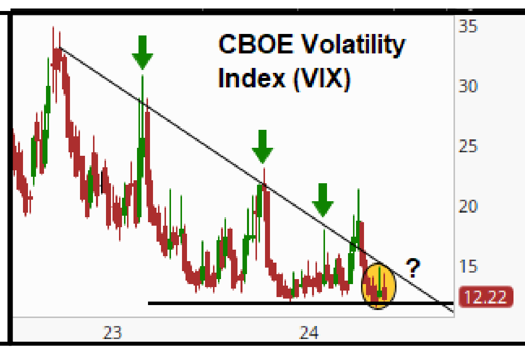
10-Year T-Note Yield Futures

- 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.