SEVENS REPORT

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

June 13, 2024

Pre 7:00 Look

- Futures are little changed despite more positive tech earnings as markets digest Wednesday's CPI driven rally.
- Broadcom (AVGO) became the latest AI-linked tech company (after AAPL and ORCL) to post strong earnings as the stock is up 14% pre-market.
- Economically, it was a mostly quiet night as EU Industrial Production slightly missed estimates (-0.1% vs. (E) 0.1%) but that isn't moving markets.
- Econ Today: Jobless Claims (222k), PPI (E: 0.1% m/m, 2.5% y/y). Fed Speak: Williams (12:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,430.00	2.50	0.06%
U.S. Dollar (DXY)	104.83	0.19	0.18%
Gold	2.334.20	-20.60	-0.87%
WTI	77,85	-0.65	-0.83%
10 Year Yield	4.31%	0.02	0.42%

Equities

Market Recap

Stocks surged and the S&P 500 traded to a another all-time high as CPI rose less than expected and signaled ongoing disinflation, while the Fed statement provided some noise but ultimately investors still expected two rate cuts in 2024. The S&P 500 rose 0.85%.

Stocks exploded out of the gate on Wednesday following the double positives of 1) Strong ORCL earnings and 2) The smaller-than-expected increase in CPI. The S&P 500 rallied 1% shortly after the open and then proceeded to chop sideways at that level for the remainder of the morning and ahead of the Fed decision.

The Fed statement and dot projections injected some small volatility into the markets, as the median dot showed just one rate cut in 2024, which was less than the two-cut expectation. But as we cover in the Econ section, there were several dovish offsets to that hawkish dot plot and the net result was that stocks only declined slightly from the highs and were still solidly positive ahead of Fed Chair Powell's press conference.

Powell's was largely uneventful and the net takeaway was he kept alive the market's expectations for one, or likely two, rate cuts this year and stocks resumed the rally and traded back close to the highs of the day following his remarks. Stocks largely drifted sideways into the close to finish with strong gains and with the S&P 500 at new highs, although off the best levels of the day.

What Yesterday's Good CPI and Mixed Fed Messaging Means for Markets

I stated in Tuesday's Report that the only thing that mattered from a near-term market standpoint was whether the CPI and Fed decision made a September rate cut more likely (bullish) or less likely (bearish), and the net result of yesterday's news was that a September rate cut is more likely. As such, yesterday's events were legitimately positive for stocks and they rallied accordingly.

However, it wasn't the Fed that made a cut more likely, it was the CPI report. Yesterday's market reaction saw the better-than-expected CPI trump a noisy Fed message and demonstrate, once again, that economic data is more important than Fed speak in 2024.

Looking at yesterday more specifically, I believe the biggest takeaway is this: Data is more important than the Fed (at least for the foreseeable future). Throughout

Market	Level	Change	% Change
Dow	38,712.21	-35.21	-0.09%
TSX	21,961.55	74.21	0.34%
Stoxx 50	4,976.65	-57.78	-1.15%
FTSE	8,168.46	-47.02	-0.57%
Nikkei	38,720.47	-156.24	-0.40%
Hang Seng	18,112.63	174.79	0.97%
ASX	7,749.73	34.22	0.44%
Prices taken at previous day market close.			

2024, we and others have stressed that economic data will be more important than Fed speak or even Fed policy and that was proven out yesterday, as a cooler-than-expected CPI report sparked a strong morning rally that was able to withstand some confusing messaging from the Fed on the next rate cut.

Market	Level	Change	% Change
DBC	23.14	.08	0.35%
Gold	2,333.30	6.70	0.28%
Silver	29.61	.38	1.31%
Copper	4.5205	.0105	0.23%
WTI	78.28	.38	0.49%
Brent	82.38	.46	0.56%
Nat Gas	3.044	-.085	-2.72%
RBOB	2.3914	-.0175	-0.72%
DBA (Grains)	25.77	.50	1.98%
Prices taken at previous day market close.			

More broadly, the bullish mantra for stocks in 2024 has been 1) Stable growth, 2) Ongoing disinflation, 3) Sooner-than-later Fed rate cuts and 4) AI enthusiasm, and three of those four were reinforced yesterday and the S&P 500 rallied as a result.

So, despite some mixed messaging around the Fed decision (the dots specifically) make no mistake: Yesterday was a fundamentally good day for markets and while it doesn't mean stocks will scream higher from here, it does support the recent move.

Are Bonds Showing Signs of Life? With inflation falling, growth slowing and Fed cuts looming, the outlook for bonds is improving, evidenced by the 50-day MA crossing the 200-day MA in AGG for the first time in months.

That said, yesterday's news was not a bullish gamechanger. It will support the recent rally and keep the path of least resistance higher, but it's not a new reason to add exposure and here's why: It's just raising the stakes on the ultimate decider of whether this bull market lasts, and that's economic growth.

Very subtly yesterday, there were hints the Fed is acknowledging that growth is slowing. Powell mentioned it several times and while the data is still showing solid activity, the bottom line is that the Fed is no longer just focused on inflation but on inflation and growth, and if the Fed is going to cut rates sooner rather than later, it likely will be in response to slowing growth—and that's usually not a good sign for stocks.

Bottom line, inflation is continuing to cool and the Fed will likely cut rates in the coming months. That's been assumed all year and that assumption has powered stocks to current new highs.

But it's also becoming clear that growth is starting to slow and I've said this before and will keep saying it: The biggest question for this market isn't "When will the Fed cut?" or "Is inflation falling?" We've known the answers to those questions are "sooner than later" and "yes, it's just a question of how quickly."

The bigger question at this point is: "Does growth meaningfully slow?"

That's not the short-term variable markets are focused on right now, but it is the variable that will determine the medium-term direction of this market and we will continue to watch the economic data closely. If it holds up, the S&P 500 can move even higher from here (towards 5,700 perhaps). If it does not, this market has a major problem. We will be watching.

Economics

FOMC Decision

- The FOMC made no change to rates, as expected.
- The FOMC "dots" showed just one rate cut in 2024 vs. (E) two cuts in 2024.

Takeaway

The Fed statement and rate decision provided both dovish and hawkish signals but in the end, it didn't materially change the expectation for markets, namely that investors still expect between one and two rate cuts in 2024.

The key event in the Fed statement was the "dots" and it was an initial hawkish surprise as the 2024 median dot showed just one rate cut in 2024, down from the three cuts expected in March and below the expectation of two cuts. That was a mild hawkish surprise and it did push Treasury yields slightly higher and off the post-CPI lows and it weighed slightly on stocks (they declined off the post CPI highs).

However, there were several other events that offset the more-hawkish-than-expected 2024 dot. First, the Fed made a small change in the statement that implied progress on inflation, stating that "modest further progress" on bringing down inflation has occurred. Second, while the 2024 median dot showed just one rate cut, eight of the 19 Fed officials saw two cuts so clearly there are those on the Fed that think multiple cuts are appropriate. Third, the 2025 dots showed four rate cuts vs. the three previous. That's important, because if we look at 2024 and 2025 together, all the dots showed was one less cut than previously expected and that's the main reason the market reaction to the meeting wasn't as intense as you'd expect, given the 2024 dot showed just one rate cut.

From a market standpoint, as mentioned, the S&P 500 pulled back slightly from the post-CPI highs but still was up 1% into Powell's press conference, while the 10-year yield and the dollar both bounced slightly from the earlier lows but were still solidly lower. Bottom line, while the median dot showing one cut was a hawkish surprise, it was largely offset by the other factors mentioned above and the net result was markets still expect two cuts in 2024.

Market	Level	Change	% Change
Dollar Index	104.63	-.57	-0.54%
EUR/USD	1.0805	.0064	0.60%
GBP/USD	1.2794	.0054	0.42%
USD/JPY	156.80	-.33	-0.21%
USD/CAD	1.3727	-.0031	-0.23%
AUD/USD	.6661	.0055	0.83%
USD/BRL	5.4055	.0395	0.74%
Bitcoin	68,249.74	1,008.12	1.50%
10 Year Yield	4.295	-.105	-2.48%
30 Year Yield	4.450	-.087	-1.92%
10's-2's	-44 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.99%		
Prices taken at previous day market close.			

CPI

- March CPI was flat vs. (E) 0.1% m/m and rose 3.3% vs. (E) 3.4% y/y.
- March Core CPI rose 0.2% vs. (E) 0.3% m/m and 3.4% vs. (E) 3.5% y/y.

Takeaway

Headline and core inflation declined more than expected and the numbers met our "Good" scenario, and stocks and bonds rallied accordingly as the S&P 500 rose 1% and the 10-year yield fell more than 10 basis points ahead of the Fed decision.

Put simply, this was the best inflation number we've received in a few months. Not only did Core CPI beat estimates and decline solidly from the April reading, but it was a "high quality" decline in CPI.

I say that because "Super Core" CPI, which is core services CPI, was flat month over month. Super core measures services inflation, which is the stickiest part of inflation and the fact it was flat month over month will bolster Fed confidence that inflation is returning to target. Additionally, housing metrics (Owners Equivalent Rent and Tenants Rent) were the main upwards forces on this month's CPI and analysts widely view those numbers as lagging. Point being, if they reflected the reality in real estate and rental price trends, CPI could have been even lower.

Bottom line, this was a legitimately encouraging inflation reading and it rightly increased September rate cut chances ahead of the Fed. However, amidst all the bullish euphoria following the report, I'll just point this out: Core services CPI could finally be cooling because economic growth is finally slowing. So while the CPI was a clear positive catalyst, it also potentially reflects the fact that growth may be slowing in earnest.

Commodities

Commodities were higher on Wednesday but only modestly so, despite a steep drop in the dollar, as surging energy supplies muted the broader commodity complex's gains. The widely held commodity ETF, DBC, rose 0.35%.

Commodities were higher to start trading on Wednesday thanks to a sharply lower U.S. dollar, which fell materially following the smaller-than-expected rise in CPI. Gold rose by more than 1% off the weaker dollar, as that decline in the greenback ahead of the Fed offset the lower inflation numbers and gold rallied along with most hard assets on dollar weakness ahead of the Fed. However, gold gave back some of those gains following the 2024 median dots only showing one rate cut and gold ended higher, but only by 0.55%.

Oil prices, meanwhile, started trading on Wednesday sharply higher, riding the risk-on tide that pushed most risk assets higher on Wednesday following the better-than-expected CPI report. WTI crude rose 1.8% in morning trade ahead of the EIA weekly inventory report.

However, oil gave back much of those gains after the numbers were released as there were larger builds than expected. Oil inventories rose 3.7 million barrels vs. an estimate of a 1.2-million-barrel drop, while gasoline inventories gained 2.6 million barrels vs. (E) -500k bbls. The net result of the higher supply was what you'd expect: Lower prices, as they declined from the highs but were still positive as markets headed into lunchtime.

Oil showed some short-term volatility along with other assets around the Fed statement, but in the end oil closed the day with a moderate gains, up 0.65%, but well off the early highs courtesy of the bearish supply data.

Bottom line, the falling dollar was a tailwind for commodities on Wednesday and if the dollar is starting a new downtrend, that will help support commodities broadly. But growth remains important and if the commodity complex is going to rally, then the outlook for energy must change because right now it's looking at uncertain demand and higher supply.

Currencies & Bonds

The Dollar Index dropped moderately on Wednesday following the better-than-expected CPI report, but it cut those losses in half following the 2024 median dot showing just one rate cut in 2024. The Dollar Index declined 0.55%.

The Dollar Index and Treasury yields fell sharply initially on Wednesday following the better-than-expected CPI report as investors aggressively priced in a September rate cut ahead of the Fed meeting.

The Dollar Index fell 1% and dropped solidly below 105 immediately following the release and it largely stayed there throughout the morning and early afternoon ahead of the Fed. The 10-year yield, meanwhile, plunged 15 basis points back below 2.30% and into the "stock positive" 3.75%-4.25% trading range. Like the dollar, the 10-year yield largely chopped sideways following that immediate drop after CPI ahead of the Fed decision.

The decline in the dollar and yields, driven by surging September rate cut expectations, pushed stocks higher. Both the dollar and the 10-year yield rose slightly following the Fed statement, as the dots showing just one cut in 2024 was a hawkish surprise. But as covered, there was plenty in the Fed statement to offset that hawkishness and the net result was a small rally in the dollar and the 10-year Treasury yield rose 2 basis points ahead of Fed Chair Powell's press conference.

The 10-year Treasury yield drifted higher during Powell's press conference and closed with moderate losses, down 10 basis points, but well off the lows of the day and just above the "stock positive" 3.75%-4.25%.

Have a good day,

Tom

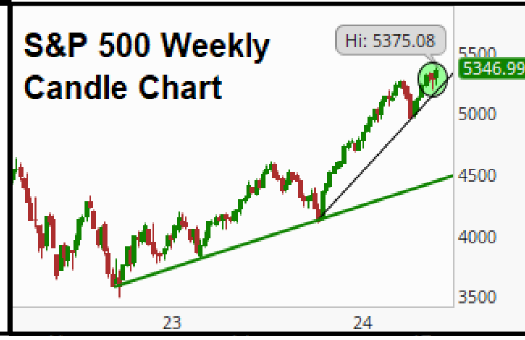
6/13/2024

SEVENS REPORT

Technical Perspectives (Updated 6/9/2024)

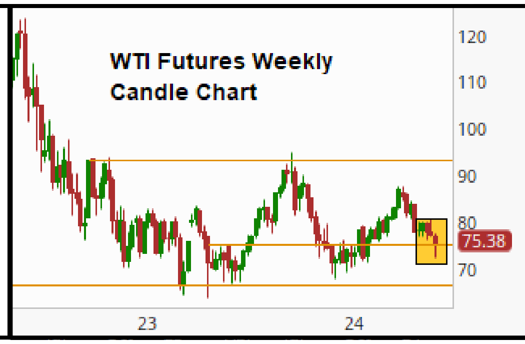
S&P 500

- 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



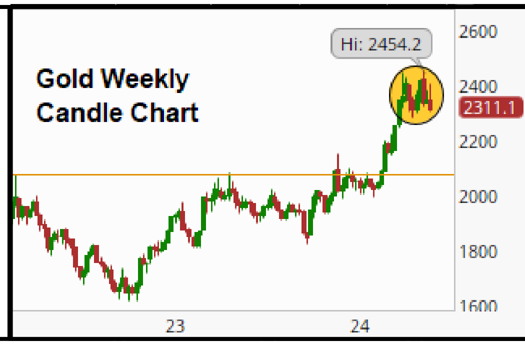
WTI Crude Oil

- 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



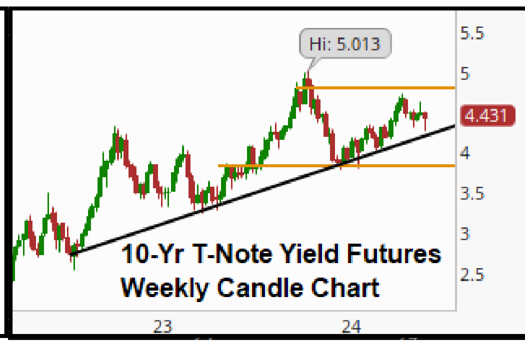
Gold

- 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



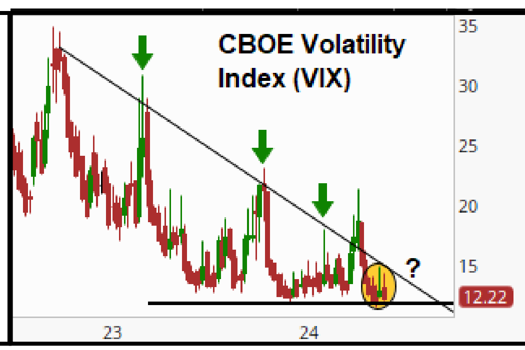
10-Year T-Note Yield Futures

- 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.