SEVENS REPORT

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

June 18, 2024

Pre 7:00 Look

- Futures are little changed as ongoing strength in tech offsets weakness in small caps amid mixed economic data.
- Economically, the German ZEW Survey missed estimates while the EU's Narrow Core HICP (Core CPI equivalent) was inline with the May Flash of 2.9%, up from 2.7% in April.
- Econ Today: Retail Sales (E: 0.3%), Industrial Production (E: 0.3%), Fed Speak: Barkin (10:00 a.m. ET), Collins (11:40 a.m. ET), Musalem (1:00 p.m. ET), Logan (1:00 p.m. ET). Goolsbee (2:00 p.m. ET).
- There is a 20-Yr Treasury Bond auction at 1:00 p.m. ET.

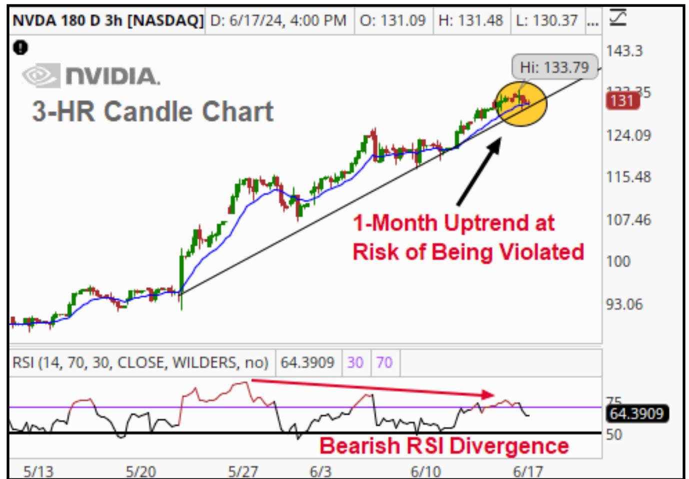
Market	Level	Change	% Change
S&P 500 Futures	5548.75	2.50	0.05%
U.S. Dollar (DXY)	105.498	.167	0.16%
Gold	2323.60	-5.40	-0.23%
WTI	79.57	-.15	-0.19%
10 Year Yield	4.291	.016	0.37%

Equities

Market Recap

Stocks began the week with a familiar advance to new record highs yesterday as economic data was better than feared and AI enthusiasm continued to support leadership from mega-cap tech stocks. The S&P 500 gained 0.77% to notch its 30th record close of the year.

Equity markets opened largely unchanged yesterday as French stocks stabilized following political-induced volatility from late last week and the relentless rally in mega-cap tech continued to lift the broader index towards new highs with the S&P 500 closing in on 5,500.



The latest leg of the equity market rally has been almost entirely driven by gains in mega-cap tech/AI stocks as most other major market sectors have begun to trend lower relative to the S&P 500. If NVDA and other top YTD performers rollover here, the major indices could pullback hard.

Several upward revisions to year-end targets for the S&P 500 by big banks including Citi and Goldman were well received while a better-than-feared Empire State Manufacturing Index release triggered a moderate rise in Treasury yields but not so much so that it was seen as meaningfully impacting the path for Fed policy. As such, the economic data was taken in stride.

Stocks continued higher over the course of the day amid mostly quiet newswires as traders looked ahead to today's Retail Sales release and long list of Fed speakers. There was a brief flurry of profit taking into the close leaving the S&P 500 to close at a fresh record, just shy of its intraday high of 5,488.

Market Multiple Table: Pushing the Edge of Justifiable Valuations

The June update for the Market Multiple Table reflects this simple fact: While risks to this rally continue to build in the distance, mostly in the form of a potential economic slowdown, the current environment for stocks got

Market	Level	Change	% Change
Dow	38,778.10	188.94	0.49%
TSX	21,587.88	-51.22	-0.24%
Stoxx 50	4,904.15	23.73	0.49%
FTSE	8,173.41	31.26	0.38%
Nikkei	38,482.11	379.67	1.00%
Hang Seng	17,915.55	-20.57	-0.11%
ASX	7,778.08	77.82	1.01%

Prices taken at previous day market close.

Market	Level	Change	% Change
DBC	23.15	.08	0.35%
Gold	2,333.80	-15.30	-0.65%
Silver	29.53	.06	0.19%
Copper	4.462	-.033	-0.73%
WTI	80.52	2.07	2.64%
Brent	84.46	1.84	2.23%
Nat Gas	2.790	-.091	-3.15%
RBOB	2.4478	.0482	2.00%
DBA (Grains)	25.25	-.36	-1.43%
Prices taken at previous day market close.			

better over the past month as 1) Inflation resumed its decline, 2) AI-related tech earnings were very strong and 3) Fed rate cut expectations rose. Because of these events, there are several changes to the June Market Multiple Table.

The first is that "Hard Landing vs. Soft Landing" is now the most important market influence. Additionally, "Inflation" has been removed as a market influence. Those changes have been made because the June CPI report and Fed meeting have basically proven that 1) Inflation is once again declining and 2) The Fed is going to cut rates in 2024, it's just a question of whether it's September vs. December (and the difference really isn't that important beyond the short term).

The market now assumes falling inflation and Fed rate cuts, which means they aren't real, substantial market influences anymore (they are already assumed to be occurring). The bigger questions are whether 1) Inflation is falling because growth is really slowing (if so, that's bad) and 2) If Fed rate cuts will be enough to stop a loss of economic momentum. Point being, it's now all about growth, which is why it's the most important market influence going forward.

I have also reintroduced "AI enthusiasm" as a market influence because, frankly, the strong earnings from APPL, ORCL, AVGO and others last week largely prevented the S&P 500 from declining. Additionally, the return of AI enthusiasm is helping to make this historically high S&P 500 valuation more "justifiable" to investors.

Finally, because of the positive events of the past month and reintroduction of AI enthusiasm, I've increased the "Market Multiple" for the current situation to 21X and for the "Best Case" to 22X to reflect the fact that the market is in a sweet spot.

Current Situation: A soft landing is still more likely than a hard landing, the Fed will likely cut rates once or twice this year, AI enthusiasm remains as strong as ever and geopolitical risks remain elevated. The current situation reflects an environment that is still broadly supportive of

A Game of Multiples (Updated 6/17/2024)

Market Influence	Current Situation	Things Get Better If...	Things Get Worse If...
Hard Landing vs. Soft Landing	Important economic indicators like jobless claims, ISM PMIs and the unemployment rate have pointed towards a loss of economic momentum.	Economic data rebounds and shows solid, but not spectacular, economic activity.	Economic data deteriorates further and makes investors consider that a Hard Landing is becoming more likely.
AI Enthusiasm	AI-driven tech earnings have again powered the S&P 500 higher and fueled the run to recent new all-time highs.	AI-related tech earnings remain strong and AI bellweathers continue the constant drip of more advanced chips.	AI-related tech companies miss earnings, increasing worries that the AI mania may be overblown.
Fed Policy Expectations	Fed rate cut expectations remain volatile but the market expects one cut in December and probably a cut in September.	The Fed confirms a September rate cut is coming.	Fed members push back against the idea of a September cut and/or openly discuss a rate hike.
Geopolitics	Geopolitics remains unsettled with rising risks of an Israel/Hezbollah war, the ongoing Ukraine war and political uncertainty in Europe.	A ceasefire between Israel and Hamas is achieved and there are no major political shake ups in upcoming French or UK elections.	Hezbollah joins the Israeli/Hamas war and/or there are major political disruptions in the EU.
Expected 2024 S&P 500 EPS	**$243**	**$246**	**$235**
Multiple	21X	22X	17X-18X
S&P 500 Range	5,103	5,412	3,995-4,230
S&P 500 Target (Midpoint)	5,103	5,412	4,113
Change from today	**-6.7%**	**-1.1%**	**-25%**

stocks (and deserves a high multiple). That said, the current valuation of the market reflects an environment where there are essentially no risks, and the reality is there remain numerous risks to this rally over the medium and longer term. Point being, while the outlook for stocks is positive (and got more so over the past month) this market is still very aggressively valued given the current macroeconomic reality and at risk of a sudden, sharp pullback.

Things Get Better If: Economic data stays firm, the Fed confirms a September rate cut, AI tech companies continue to beat earnings, and geopolitical risks decline. This would essentially reflect a "perfect" environment for stocks of 1) Solid economic growth (so no slowdown), 2) Continued upward pressure on earnings expectations thanks to AI stocks, 3) Near-term rate cuts and 4) Declining geopolitical risks. The problem, of course, is that even if this environment justifies a 22X multiple (which is more than debatable) it's still already priced into the market based on current valuation and that reflects the rampant optimism that is inherent in the S&P 500 at these levels.

Things Get Worse If: Economic growth points towards an unexpected slowdown, AI-related tech companies miss earnings, the Fed pushes back on a September rate cut and geopolitical risks rise. This scenario would essentially undermine the assumptions behind much of the October-present rally and given how markets are still priced extremely optimistically, the net result would be substantial declines in stocks. A giveback of much of the October-to-present rally would not be out of the question (that means a decline into the mid 4,000s in the S&P). And while it seems like this outcome isn't possible given still-elevated valuations, none of this is set in stone and this is a legitimate scenario we need to be mindful of, because it is possible if data breaks the wrong way. **Email info@sevensreport.com for an unbranded copy of the Market Multiple Table.**

Market	Level	Change	% Change
Dollar Index	104.96	-.21	-0.20%
EUR/USD	1.0731	.0028	0.26%
GBP/USD	1.2701	.0014	0.11%
USD/JPY	157.75	.35	0.22%
USD/CAD	1.3726	-.0008	-0.06%
AUD/USD	.6612	-.0003	-0.05%
USD/BRL	5.4233	.0466	0.87%
Bitcoin	66,778.91	241.26	0.36%
10 Year Yield	4.279	.066	1.57%
30 Year Yield	4.410	.059	1.36%
10's-2's	-49 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.99%		
Prices taken at previous day market close.			

Economics

Empire Manufacturing Survey

- The June Empire Manufacturing Survey rose to -6.0 vs. (E) -12.5.

Takeaway

The first economic data point for June showed the manufacturing sector in the New York area was still in contraction, but activity improved from May and given markets wants some solid data right now to push back against slowdown fears, this number was welcomed by markets. Notably, the details of the report were even better than the headline improvement as New Orders, the leading indicator in the report, rose to -1.0 from the previous -16.5 while Shipments (a measure of current activity) turned back positive to 3.3 from -1.2.

Bottom line, Empire wasn't a "good" report in that it still showed overall contraction and negative New Orders, but it didn't get worse from May and this data series has been volatile for months. That said, it didn't show further deterioration and as such, it did not increase "hard landing" worries and even provided some relief to investors anxious about growth, and while it didn't cause yesterday's rally, it did help.

Looking forward, data like this, that's better than last month but not very strong, is exactly what markets need to help ease hard landing fears yet not increase hawkish Fed concerns (so it was Goldilocks and more is needed this week to extend the rally).

Commodities

Commodities were mixed to start the week as solid economic data and rising geopolitical angst supported gains in oil while less-dovish money flows bolstered yields and pressured both the industrial and precious metals markets. The commodity ETF, DBC, gained 0.37% thanks to the outperformance of energy futures which hold a large weight in the ETF's index.

Oil began to rally before the open yesterday thanks to the combination of mixed economic news out of China, a solid Empire State Manufacturing report in the U.S. and a rise in geopolitical tensions in the Middle East. WTI crude oil futures ended the day higher by 2.31%, just a few ticks away from the psychological $80 mark.

A solid 3.7% rise in Chinese Retail Sales (E: 2.3%) and solid manufacturing investment numbers offset negative property sector readings and a slowing industrial output number. The good consumer figure, in particular, served as a bullish catalyst, firming up demand expectations from the world's largest oil importer. Then the better-than-feared Empire State Manufacturing Survey was well received in the U.S. adding to better demand expectations despite slightly hawkish money flows.

Geopolitically, reports of intensifying fighting between the Israeli military and Lebanese based Hezbollah fighters, as well as news that a dry bulk ship in the Red Sea had to be abandoned by the crew due to an attack by Iran-backed Houthi rebels, rekindled the recently dormant geopolitical fear bid in the energy markets. Bottom line, news flow has been bullish for energy so far this week and oil has broken out through the downtrend line off the April high suggesting price action could continue to favor the bulls in the near term. The increasingly optimistic gains in the equity markets also spilled over into oil; however, economic uncertainty remains elevated and recession fears or higher-for-longer money flows have the potential to derail the emerging rally in oil.

Turning to the metals, copper modestly underperformed as futures lost 0.79% on the day thanks to the rise in Treasury yields and as traders seemed more focused on the weak spots in the Chinese economic data, which included soft construction industry data, a major source of demand for industrial metals. Copper futures fell to a fresh two-month low and held below key support at $4.50 leaving the near-term path of least resistance lower. The decline is set up to accelerate this week if economic data is "unfriendly" to the risk assets, coming in either "too hot" or "too cold."

In the precious metals, gold fell 0.62% on the session but unlike copper, futures held above key support at $2,300/oz. leaving the technical outlook still neutral to bullish. The 2024 rally in the dollar and yesterday's rebound in bond yields suggest the threat of a profit-taking pullback after the solid YTD gains is elevated and a drop down towards $2,200 or below is possible in the sessions/weeks ahead.

Currencies & Bonds

Treasury yields popped solidly on Monday as the 10-year yield rose 6 basis points, although like the rally in stocks, there wasn't a materially significant reason for the gains. Yes, Empire Manufacturing was better than expected but that's not enough to drive a 6-bps rally in yields. In reality, Treasuries declined/yields rose mainly because they needed to give back some of last week's gains in bonds/decline in yields, as the world didn't change that much last week.

Bottom line, Treasury yields have declined solidly from recent levels and that's justified, as the two drivers of longer-term yields (inflation and economic growth) have shown some weakness lately. But the drop in yields was very sharp and, at a minimum, some additional digestion of the move and consolidation around 4.25% is expected.

Turning to the currencies, the dollar declined slightly thanks, mostly, to a small bounce in the euro as French political concerns eased slightly over the weekend. The Dollar Index fell 0.2%. Similarly to stocks and Treasuries, there was no specific reason for the euro rally (the euro gained 0.2%) or dollar decline, other than some needed digestion following last week's sharp euro drop and dollar rally.

Bottom line, the moves of last week (decline in Treasury yields, drop in the euro and rally in the dollar) were substantial and consolidation of them is needed and appropriate. Barring any major surprise from the Retail Sales number today, I'd expect that consolidation to continue in the Dollar Index around 105 and the 10-year yield around 4.25%.

Have a good day,

Tom

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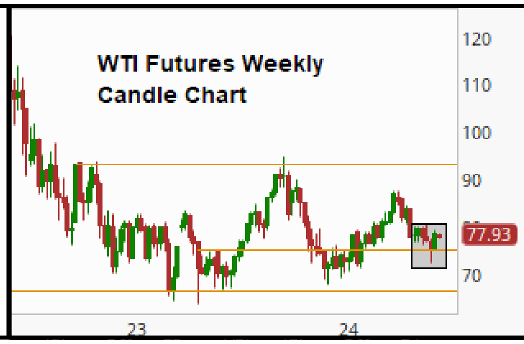
Technical Perspectives
(Updated 6/16/2024)

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: 5442, 5475, 5500
- Key Support Levels: 5375, 5278, 5192

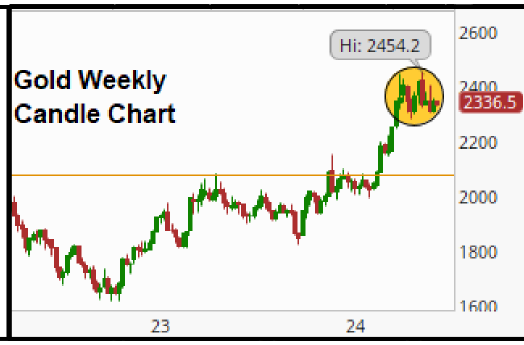
WTI Crude Oil

- 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: $78.99, $80.28, $81.90
- Key Support Levels: $76.50, $75.38, $74.02



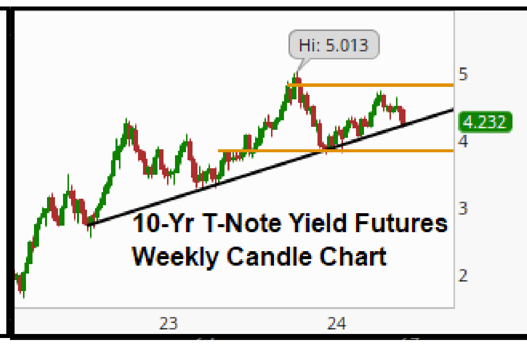
Gold

- 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



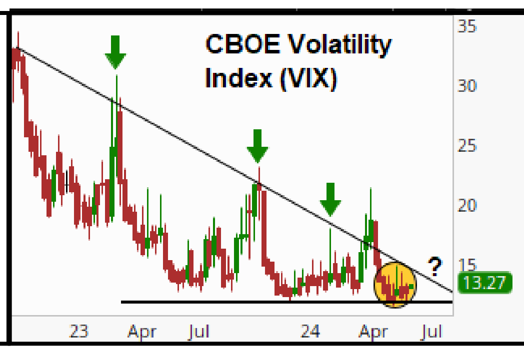
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs but the long-term uptrend remains intact.
- Primary Trend: Bullish (since the week of August 21, 2023)
- Key Resistance Levels: 4.276, 4.340, 4.476
- Key Support Levels: 4.182, 4.088, 3.932



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: 13.45, 14.31, 14.88
- Key Support Levels: 12.11, 11.86, 11.53



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Fundamental Market View (Updated 6/16/2024)

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 rallied last week despite a rise in the U.S. dollar as a solid bounce in oil prices off five-month lows helped push commodity indices higher.*
US Dollar	**Neutral**	*The Dollar Index rallied moderately last week despite a better-than-expected CPI report, as concerns about European political dysfunction weighed on the euro and pushed the dollar higher by default.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield plunged last week to multi-month lows and back into the "stock friendly" 3.75%-4.25% range thanks to the smaller-than-expected increase in CPI and soft economic data.*

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.