SEVENS REPORT

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

June 3, 2024

Pre 7:00 Look

- Futures are higher on momentum from Friday's late day rally while news wires were mostly quiet this weekend.
- Economically, the Eurozone Manufacturing PMI rose from 45.7 to 47.3 vs. (E) 47.4 in May while the UK's Manufacturing PMI headline rose from 49.1 to 51.2 vs. (E) 51.3.
- Econ Today: ISM Manufacturing Index (E: 49.8), Construction Spending (E: 0.2%). There are no Fed officials scheduled to speak today.
- The Treasury will hold 3-Month and 6-Month Bill auctions at 11:30 a.m. ET.

Market	Level	Change	% Change
S&P 500 Futures			%
U.S. Dollar (DXY)	104.758	.133	0.13%
Gold			%
WTI			%
10 Year Yield	4.474	-.035	-0.78%

Equities

Market Recap

Stocks pulled back on rising Treasury yields last week before soft economic data saw a bid come into the bond market later in the week, helping most of the equity market stabilize. Large-cap tech continued to decline, especially "non-AI" names after multiple weak earnings releases and the S&P ended the holiday-shortened week down 0.51%, leaving the index up 10.64% YTD.

Stocks were flat to start the week last Tuesday as a significant rise in bond yields weighed on the broader market after a strong Consumer Confidence report sparked hawkish money flows and both the 2-Yr and 5-Yr Treasury auction were disappointing with soft demand. Another solid rally in NVDA (up 7%+) helped offset the rise in yields and negative geopolitical headlines out of the Middle East leaving the S&P 500 to close little changed, up 0.02%.

Volatility started to pick up more meaningfully on Wednesday as another soft Treasury auction, this one for 7-Yr Notes, added upside pressure to yields which weighed further on the broader stock market. A rise in German CPI and stronger-than-anticipated outcome to the Richmond Fed's Manufacturing Index didn't help either and the S&P 500 closed lower by 0.74%.

The selling pressure continued on Thursday as the major indexes gapped lower at the opening bell with large-cap tech names leading to the downside after Salesforce (CRM) was the latest "non-AI" tech company to badly miss on earnings and guidance (results were released on Wednesday after the close). Economically, revisions to U.S. Q1 GDP were lower than expected, which invited a bid into Treasuries that alleviated some of the selling pressure on stocks while Spanish CPI was "hot" and domestic Pending Home Sales were downright ugly. The S&P 500 fell another 0.60%.

On Friday, stocks gapped higher at the opening bell as investors welcomed in-line PCE and Core PCE inflation figures in the latest Personal Incomes and Outlays release. However, crowded long positioning in mega-cap tech started to get squeezed as traders squared books into the end of the month and a 2%-plus pullback in the tech sector dragged the major indexes lower into the afternoon before there was a massive repositioning rally in everything but tech and consumer discretionary stocks in the final hour, leaving the S&P 500 higher by 0.80%.

Market	Level	Change	% Change
Dow	38,686.32	574.84	1.51%
TSX	22,269.12	197.41	0.89%
Stoxx 50	5,019.23	35.56	0.71%
FTSE	8,293.02	17.64	0.21%
Nikkei	38,923.03	435.13	1.13%
Hang Seng	18,403.04	323.43	1.79%
ASX	7,761.03	59.29	0.77%

Prices taken at previous day market close.

Why I'm Getting More Concerned About an Economic Slowdown

Market	Level	Change	% Change
DBC	23.27	-.11	-0.47%
Gold	2,343.00	-23.50	-0.99%
Silver	30.41	-1.12	-3.56%
Copper	4.6085	-.0500	-1.07%
WTI	77.05	-.86	-1.10%
Brent	81.62	-.24	-0.29%
Nat Gas	2.592	.020	0.78%
RBOB	2.4275	.0229	0.95%
DBA (Grains)	25.14	-.18	-0.73%
Prices taken at previous day market close.			

My biggest concern for this market remains that we get an unexpected economic slowdown because that's one of the few events that can legitimately cause a material correction in stocks (meaning 20% or more) and my concern about that slowdown became stronger last week.

However, that increase in my concern wasn't because of last week's economic data. The Q1 GDP revision implied slower growth but the details of the GDP report were still solid. Additionally, weekly jobless claims appear to be entering an uptrend (the first in years, perhaps) but they're still extremely low in an absolute sense.

Instead, my elevated concern came from corporate commentary. While Q1 earnings were "fine," they were mostly fine because U.S. companies are extremely adept at controlling costs and maintaining margins. They were not fine because of solid aggregate demand and over the past few weeks, we've seen numerous companies from multiple industries post disappointing results on a combination of underwhelming gross sales and the inability to maintain margins.

Put plainly, the number of companies citing reduced demand or a more discerning customer is growing quickly and it's stretching across industries. This behavior is being called "retrenching" in the financial media and it's another signal that the economy is seeing slowing growth. Examples of companies reporting this type of behavior include (but are not limited to): WDAY, CRM, AAL, KSS, WBA, LULU, HUM and others.

Twice in my career I have seen investors cheer a slowdown and both times the Fed was not able to cut rates at the right time to prevent the slowing from becoming a broader economic contraction. That doesn't mean they can't do it this time, but catching a falling knife doesn't work in real life, it doesn't work in stock trading, and I've never seen it work in monetary policy. So, while I hope it does, I do want to push back more firmly on this "bad is good" idea.

Looking forward, bad data may stay good for markets for a piece longer and I'm not one to argue against price action. And this doesn't mean the S&P 500 can't run to 5,700 (or higher) if we see a sharp drop in yields and investors roll their earnings estimates at 2025 (which are $270/share).

But I want to distinctly and clearly point out that the evidence of slowing growth is growing on the macroeconomic and microeconomic fronts and that's increasing my medium-term fear that investors are complacent to economic slowdown risks. If I'm right about that, the second half of the year could be much more volatile than the first half.

Our job will be to watch macroeconomic data and microeconomic results to tell us if (and when) the slowdown appears imminent, because at that point it will be time to get defensive (and we will have time to do so). For now, bad is still good so it makes no sense to materially de-risk, but we will continue to gradually move to reduce volatility in portfolios (while still maintaining long exposure) so that if we're wrong, our investments rise with the tide—and if we're right, we're insulated from the coming volatility.

Economics

Last Week

There wasn't much economic data last week but what data we received pushed back slightly on the "hot" data from two weeks ago, although disappointing earnings largely offset the positives of lower yields.

The key report last week was the Core PCE Price Index, which met expectations, rising 2.8% y/y and that was met with some relief from investors who were nervous about a hotter-than-expected print. That report won't change market expectations for Fed rate cuts (September currently 50/50 and one or two cuts in 2024) but it will prevent markets from thinking the Fed will get more hawkish. Bottom line, it appears the decline in inflation did resume in May although barely, and we'll need to see more solid inflation data before markets can more fully expect a hike.

The only other notable economic data last week was revised Q1 GDP, which showed slightly slower growth than previously expected (1.3% in Q1 vs. the initial 1.5%). But the data is clear: Growth was solid in Q1 and there was nothing in the report that would make the Fed more inclined to cut rates.

Finally, weekly jobless claims ticked up to 219k and while they remain very low historically, there does appear to be a mild uptrend forming in claims and that'll be something to watch going forward, as a rise in claims into the mid-to-higher 200k range likely would represent a legitimate deterioration in the labor market (and increase the chances of an ultimate slowdown).

Bottom line, last week's data mildly pushed back against the "Too Hot" data from two weeks ago that pressured stocks and pushed yields higher, although the reports weren't important enough to help stocks rally last week.

This Week

This week brings the most important economic reports of the month via the jobs report on Friday and the ISM Manufacturing PMI (today) and ISM Services PMI (Wednesday) and for now, "bad" data will remain good for stocks and if the numbers are in line to slightly under expectations, that should pressure Treasury yields and help stocks lift.

Friday's jobs report is the most important report of the week because until we see real deterioration in the labor market, it's hard to get too worried about an economic slowdown. We'll have our regular Jobs Report Preview in Thursday's Report, but the bottom line is this market needs a slightly underwhelming report to push back on the idea that there won't be any Fed rate cuts in 2024.

The ISM Manufacturing and Services PMIs are the next most important reports this week and the key here is clear: Last month, both the Services and Manufacturing PMIs dropped below 50 for the first time since late 2023. If both PMIs print under 50 again that will officially make us more concerned the economy may be set to slow more than expected. If both PMIs are solidly below 50 and decline further from last month, we may see investors start to worry that bad data may be becoming bad for stocks.

Other notable economic data this week includes jobless claims on Thursday (does the slight trend higher continue?), JOLTS on Tuesday (do we see evidence of further softening in the labor market?) and Unit Labor Costs on Thursday (they'll give us insight into inflation trends especially in the labor market).

Bottom line, bad data should stay good for stocks this week but the jobs report and ISM PMIs are important, because if they bounce back that will reduce rate cut expectations and hit stocks and if they are extraordinarily weak, it may stoke growth worries. For stocks to rebound, investors need Goldilocks data this month.

Commodities

Commodities were mixed last week as industrial metals continued to pull back on profit taking after several disappointing data points raised questions about the health of the economy, a dynamic that also capped gains in oil ahead of the OPEC+ meeting that took place over the weekend. Gold eked out a gain, however, thanks to safe-haven demand and some less-hawkish cross-asset money flows into the weekend. The commodity ETF, DBC, fell 1.86% on the week.

Market	Level	Change	% Change
Dollar Index	104.63	-.03	-0.02%
EUR/USD	1.0845	.0013	0.12%
GBP/USD	1.2735	.0003	0.02%
USD/JPY	157.24	.42	0.27%
USD/CAD	1.3629	-.0052	-0.38%
AUD/USD	.6647	.0014	0.21%
USD/BRL	5.2521	.0475	0.91%
Bitcoin	67,323.31	-1,959.24	-2.82%
10 Year Yield	4.512	-.042	-0.92%
30 Year Yield	4.653	-.032	-0.68%
10's-2's	-38 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.05%		
Prices taken at previous day market close.			

Beginning with laggard, copper futures had ripped to fresh record highs in May as a crowded speculative short position was squeezed, forcing exit bids while other investors who were latching on to the "super-cycle" narrative based on low supply and the potential for surging demand due to AI and EV industries, chased the market higher through the middle of the month. Weak economic data over the course of last week saw traders begin to book profits and convicted shorts reopen positions last week, resulting in another weekly loss of 2.76%. Looking ahead, the trend in copper remains bullish with more upside likely but a continued consolidation period after the May volatility is likely here.

Gold rallied as weakness in the front half of the week gave way to strength in the back half of the week thanks to a stabilizing bond market and pullback in the dollar. Gold ended the week with a gain of 0.54% and futures are so far holding support between $2,300 and $2,350/oz. But the threat of a deeper pullback remains if the Fed continues to reiterate a "higher for longer" stance.

Turning to oil, futures traded with a heavy tone last week, falling 2.16% as longer-term growth and recession fears largely offset bullish weekly EIA data released on Thursday, which showed upward-trending consumer demand for gasoline and a big jump in refinery runs into the end of May. The longer-term economic growth concerns combined with trader positioning into the weekend's OPEC+ meeting saw WTI end towards support in the mid-to-upper $70/barrel area.

At the conclusion of their weekend meeting, OPEC+ decided to extend collective production cuts of 3.6 million b/d through the end of 2025 while voluntary cuts of 2.2 million by some of the most influential producers including Russia and Saudi Arabia will be extended through September of this year before they are planned to be gradually phased out dependent on market conditions. As far as markets are concerned, the OPEC+ decision was largely in-line with expectations and is near-term bullish for prices as, if demand is strong this summer, a supply deficit is almost certain in the months ahead. Conversely, with recession fears still lingering, leaving growth expectations and subsequent demand estimates very uncertain, the plans to start unwinding voluntary cuts later this year leaves longer-term price risks skewed to the downside. Looking ahead, its all about demand.

Currencies & Bonds

Treasury yields were volatile last week on conflicting economic data but in the end the 10-year yield rose a marginal 4 basis points.

The 10-year yield was solidly higher to start last week thanks mostly to upward momentum from the recent hot economic data. The 10-year yield rose to the highest level in a month and back above 4.60% midweek before the slight reduction in Q1 GDP, dovish commentary by Fed President Williams and in-line Core PCE Price Index pushed yields lower on Thursday and Friday.

The 10-year yield closed in the 4.40%-4.50% range, and that range remains broadly neutral for stocks. Ahead of this week's data, a breakout in the 10 year back above 4.60% will increase headwinds on stocks while a decline toward 4.30% on Goldilocks data will create a mild tailwind on stocks.

Currencies were less volatile as none of the economic data last week materially altered the outlook for the Fed, ECB or BOE. The Dollar Index ended the week down just 0.1%. Despite the lack of volatility, inflation data in the EU did run hotter than expected and the euro rallied 0.2% last off that data. The net result of that isn't to diminish expectations for a June rate cut (that's happening) but it did cast further doubt on whether the ECB will cut again in July. The pound was little changed last week (no rate cut is expected in June from the BOE).

Fed expectations didn't change last week despite the volatility in yields as markets still view a September rate cut as a 50/50 proposition while one or two cuts are still expected in 2024. For Fed policy to become a more significant positive on the dollar and Treasury yields and a negative on stocks, investors will not only have to expect no cuts in 2024 but also begin to legitimately consider another rate hike, and for now that's unlikely. As a result, Fed policy expectations remain broadly neutral for the market.

Have a good week,

Tom

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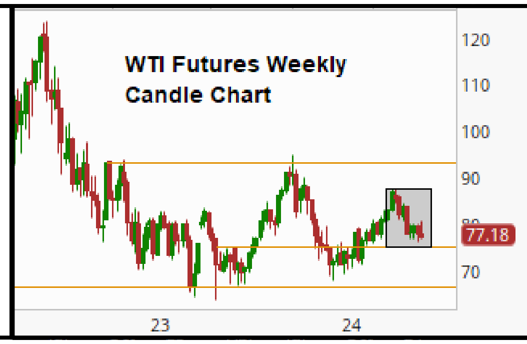
Technical Perspectives (Updated 6/2/2024)

S&P 500

- Technical View: **The medium-term trend in the S&P 500 flipped back to 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: 5280, 5306, 5340
- Key Support Levels: 5221, 5169, 5064

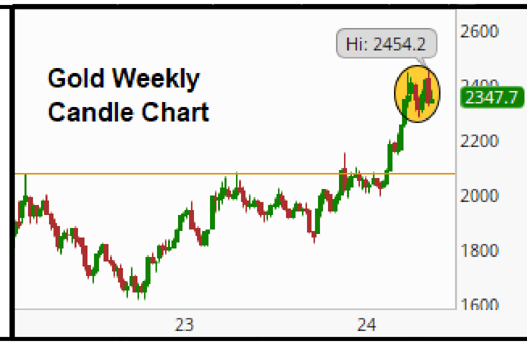
WTI Crude Oil

- Technical View: Oil prices have retreated sharply from the 2024 highs reached in early April and are now back towards the middle of the 2024 trading range.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $79.28, $80.2, $81.90
- Key Support Levels: $76.98, $75.96, $74.08



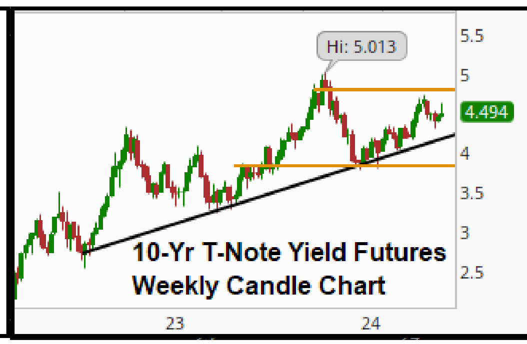
Gold

- Technical View: Gold resumed its march higher in May with futures rallying to fresh record closing highs leaving the path of least resistance higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2385, $2407, $2430
- Key Support Levels: $2335, $2257, $2201



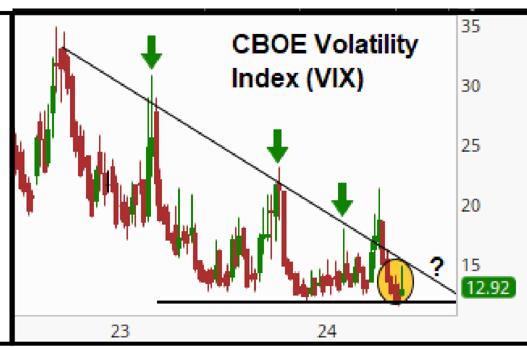
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs but the up-trend off the late-January lows remains intact.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.547, 4.611, 4.704
- Key Support Levels: 4.453, 4.408, 4.337



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: 12.36, 12.15, 11.89



SEVENS REPORT

Fundamental Market View
(Updated 6/2/2024)

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%**	*Stocks declined last week thanks mostly to disappointing non-AI tech earnings and despite some Goldilocks economic data, as more companies are warning about slowing demand and margin pressures.*

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 again last week thanks to underwhelming Chinese economic data and a buoyant U.S. dollar.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as neither the economy data nor Fed speak changed the current expectations for rate cuts (50/50 for September and one or two cuts in 2024).*
Treasuries	**Turning Positive**	*The 10-year Treasury yield rose 4 basis points last week but finished well off the highs (which were above 4.60%) thanks to Goldilocks data late last week. Looking forward, the inverse relationship between stocks and yields (higher yields/lower stocks) remains intact.*

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.