SEVENS REPORT

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

June 4, 2024

Pre 7:00 Look

- Markets are trading with a risk-off tone globally as U.S. stock futures are tracking overseas equities lower while Treasuries maintain a strong safe-haven bid amid worries about global growth ahead of more economic data today.
- Economically, Korean CPI fell to 2.7% vs. (E) 2.8% and Swiss CPI was unchanged at 1.4% vs. (E) 1.6%. German Unemployment was also steady at 5.9%, meeting estimates.
- Econ Today: JOLTS (E: 8.4 million), Factory Orders (E: 0.7%), Motor Vehicle Sales (E: 15.8 million).
- There are no Fed speakers today.

Market	Level	Change	% Change
S&P 500 Futures	5268.00	-29.25	-0.55%
U.S. Dollar (DXY)	104.278	.233	0.22%
Gold	2352.7	-16.60	-0.70%
WTI	72.57	-1.65	-2.22%
10 Year Yield	4.379	-.022	-0.50%

Equities

Market Recap

After volatility picked up last Friday, stocks continued to whipsaw as the market reversed early gains driven by AI optimism after soft economic data rekindled recession worries. Still, the market ended the day little changed with the S&P 500 higher by 0.11%.

Stocks gapped higher at the open yesterday with AI-exposed, mega-cap tech leading the advance after CEOs from NVDA and AMD offered up some insight to the respective companies' plans including new higher-powered chips and new partnerships in the sector.

The early gains failed to hold thanks to a disappointing ISM Manufacturing report that led investors to question the base case that the economy will achieve a soft landing and reintroduced recession worries. Oil prices were already lower in morning trade as the OPEC+ decision was digested but an acceleration lower after the ISM release dragged stocks to new session lows.

The Monday selloff became exhausted shortly after the lunch hour thanks to dovish money flows resuscitating soft-landing hopes with the 10-Yr yield falling a steep 10 basis points while market expectations of a September rate cut rose from 55% to a more certain 65% in the wake of the ISM data. The S&P 500 failed to recover to the opening highs but a late-session sprint higher saw the index eke out a modest gain.

There were significant performance divergences among the major indexes yesterday with the economically sensitive Dow Transports and Russell 2000 underperforming while the Nasdaq Composite jumped a solid 0.56% on the session thanks to more AI-hype. Within sectors, energy got hit hard given the losses in crude oil, leaving XLE to close down 2.6% while industrials and utilities both suffered losses of more than 1% due to the combination of economic worries (industrials) and likely portfolio rebalancing (utilities). Ultimately, it was the modest gains in communication services, technology, and a more-pronounced rally in health care that offset the other eight sectors' losses.

What Is the Smart Market Telling Us? (Part I)

Yesterday, we covered my growing fear that an unexpected economic slowdown has the potential to trigger a material correction of 20% or more as investors remain complacent to growth risks, remaining convinced that the Fed will effectively pull off a soft economic landing, which is far from guaranteed.

Market	Level	Change	% Change
Dow	38,571.03	-115.29	-0.30%
TSX	22,116.69	-152.43	-0.68%
Stoxx 50	4,943.53	-60.01	-1.20%
FTSE	8,212.25	-50.50	-0.61%
Nikkei	38,837.46	-85.57	-0.22%
Hang Seng	18,444.11	41.07	0.22%
ASX	7,737.06	-23.97	-0.31%
Prices taken at previous day market close.			

There was a potential sea change last week, however, as stocks initially sold off with Treasuries in the front half of the week as several soft T-Note auctions pushed yields higher and hawkish money flows influenced equity trading. However, that changed on Thursday as the combination of the unexpected downward revisions to Q1 GDP, a dismal, 7%-plus drop in Pending Home Sales, and still-hawkish Fed speak saw bonds reverse to the upside and stocks continue lower. This dynamic continued on Friday as well after the Core PCE print, and lasted until the late-day rally saw the major indexes end with gains. The respective moves in stocks and bonds into the end of last week prompted a closer look at the "smart market," since the threat of an unforeseen slowdown in economic growth is officially one of the biggest threats to the 2024 stock market rally.

Market	Level	Change	% Change
DBC	22.94	-.33	-1.42%
Gold	2,366.60	20.80	0.88%
Silver	30.69	.25	0.83%
Copper	4.6665	.0645	1.40%
WTI	74.15	-2.84	-3.69%
Brent	78.27	-2.84	-3.50%
Nat Gas	2.770	.183	7.07%
RBOB	2.3357	-.0817	-3.37%
DBA (Grains)	25.24	.11	0.44%
Prices taken at previous day market close.			

Looking at the Treasury market, the elephant in the financial room remains the deeply inverted yield curve, a dynamic that has an unmatched track record in predicting recessions. The current yield curve inversion is notably the longest on record, which is one thing that actually is officially "different" about this economic cycle. It is important to point out that stocks tend to continue rallying through yield curve inversions and it is not until we see yield curve spreads begin to rise back to positive territory that recession concerns become a harsh reality and negative earnings revisions paired with multiple compression set the stock market up for a painful bear market.

What Has the Yield Curve Been Doing Lately?

In 2024, the spread between the 10-Year Note yield and the 2-Year Note yield (the 10s-2s) has steadily declined, hitting a fresh 2024 low of -47 basis points in late May thanks to hawkish money flows driving shorter-duration yields (those sensitive to policy rates) towards cycle highs while longer-duration yields (those more sensitive to economic growth and inflation) remain a comfortable distance from their respective cycle highs.

So What Does That Tell Us?

This exercise of diving into the intricacies of the fixed income market, which is inherently more sophisticated than the equity market (note that there are no "meme bonds" only "meme stocks") and subsequently has market-leading tendencies reveals that the bond market is steadily growing more concerned about two things. The first is that a higher-for-longer Fed policy, which was once just a widely held fear, is actually coming to fruition underscored by the 2-Yr yield revisiting the 5% mark last month. Second, that the risk of a slowdown or recession that could send the stock market down into an official correction (20% or more or worse) is beginning to rise materially given the significant distance between where the 30-Yr Bond is trading right now (4.40%) and its October 2023 peak of 5.11%.

A lot of stock market insight can be gleaned from movements in the bond market. And looking at the latest developments in outright yields and yield curve spreads suggests that Fed policy is still rather restrictive and the risks to economic growth are rising significantly, a dynamic that threatens the 2024 bull market in stocks.

Economics

May ISM Manufacturing Index

- The ISM Manufacturing PMI fell to 48.7 vs. (E) 49.8

The May ISM Manufacturing Index missed expectations on the headline, and including the details, was "too cool" for the market's liking as recession fears have become a more-prevalent influence on the market in recent weeks. As such, the S&P 500 gave up early gains and sold off in the wake of the release.

On the headline, the ISM Manufacturing Index was a negative surprise for May as the PMI reading fell from 49.2 to 48.7 versus estimates of a rise to 49.8. Forward-looking New Orders fell deeper into contraction territory with a more-pronounced decline of 3.7 points to a meek reading of 45.4. Production effectively ground to a halt, dropping 1.1 points to 50.2 while Supplier Deliveries were unchanged at 0.0.

There were some bright points in the release, however, as Employment firmed from contraction at 48.6 to growth with a May reading of 51.5 while the Prices Index dropped a solid 3.9 points to a much more reasonable 57.0 print after April's spike to 60.9. While the May Prices Index of 57.0 was favorably below the high April print, 57.0 is still higher than the February and March readings of 52.5 and 55.8, which suggests there are still upside risks to inflation within the factory sector right now.

Bottom line, yesterday's ISM report pointed to a modest slowdown in the factory sector with more weakness likely looming ahead given the softness in the sub-indices that tend to lead the headline such as New Orders. At the same time, price pressures are evidently beginning to roll over after a steady rise in the first four months of the year and employment appears to be stabilizing. All of those developments would typically be favorable for the outlook for stocks and bonds. However, with Fed chatter remaining hawkish and a higher-for-longer policy rate stance likely well into the second half of the year, investors are growing more concerned with the threat of recession than sticky high inflation, even though the former is largely a function of the latter in this current economic situation. Looking ahead, markets will want to see signs of stability in the remaining reports on economic growth and labor this week, as well as signs of easing inflation, otherwise the case for a soft economic landing is much harder to support.

Market	Level	Change	% Change
Dollar Index	104.06	-.57	-0.54%
EUR/USD	1.0897	.0049	0.45%
GBP/USD	1.2798	.0056	0.44%
USD/JPY	156.25	-1.06	-0.67%
USD/CAD	1.3639	.0011	0.08%
AUD/USD	.6677	.0024	0.36%
USD/BRL	5.2325	-.0134	-0.26%
Bitcoin	69,095.84	1,430.70	2.11%
10 Year Yield	4.402	-.112	-2.48%
30 Year Yield	4.551	-.101	-2.17%
10's-2's	-41 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	5.01%		
Prices taken at previous day market close.			

Commodities

Commodities were split with oil suffering a major selloff as OPEC+'s policy meeting decision was assessed against a backdrop of a weak domestic manufacturing report. The soft data invited a bid into Treasuries, bolstering gold while the dovish money flows helped copper extend early gains driven by better-than-expected Chinese data. The commodity ETF, DBC, fell 1.50%.

Copper traded higher overnight Sunday and early yesterday as China's May Caixin Manufacturing PMI topped estimates at 51.7 (E: 51.5) up from 51.4 in April. Then the soft ISM report in the U.S. supported dovish money flows with a weaker dollar and falling yields offering tailwinds to copper despite the negative demand implications surrounding the soft manufacturing report. Copper futures continue to test the $4.50 to $4.70 support zone and the 2024 uptrend remains intact.

Gold rallied a more modest 0.85% as the soft ISM print and subsequent dovish money flows (weaker dollar, lower yields) both supported gold at the start of the week. Like copper, gold futures are testing an initial support band between $2,300 and $2,355, but has recently been overbought and the risks of a deeper pullback through aforementioned support are elevated.

OPEC+ Decision Takeaways and Oil Market Outlook

Energy was the main focus of the commodity complex yesterday as WTI crude oil futures came for sale along with Brent futures early in the day. The primary driver behind the early weakness was a sense of disappointment among oil bulls following the announcement of OPEC+'s policy meeting from the weekend.

The group of oil producers decided to extend collective output curbs of 3.66 million barrels/day through the end of 2025, which was welcomed news at first as it offers 18 months of certainty for supply expectations. However, the shorter extension of the 2.2 million b/d voluntary cuts that Saudi Arabia and Russia are bearing the brunt of, through just September of this year, was a source of bearish concern for oil producers yesterday as there were no specifics provided regarding reducing the voluntary cuts that could begin in as soon as three months.

The market was ok with the clarity on the extension to the official collective cuts through the end of 2025, but the lack of clarity on the future of the voluntary cuts, which have been a critical factor in keeping physical markets balanced and not in a surplus in recent years, proved to be a bearish catalyst. WTI crude oil futures ended the day with a 2.77% loss while Brent crude futures dropped a more pronounced 3.39%.

The market has gained some clarity on the future of a significant portion of the OPEC+ production cuts following this weekend's policy meeting. But the uncertainty surrounding the potential reduction of the voluntary cuts was a bearish surprise and could tip the global market into a surplus, especially if demand begins to falter amid an unexpected economic slowdown. Calendar spreads offer good insight into what commercial, physical traders are seeing on their end and expect in prices, and yesterday the December24-December25 spread collapsed to the early 2024 lows, suggesting the market views the latest OPEC+ decision as a significant bearish catalyst for the oil market going forward.

Currencies & Bonds

The theme in both foreign exchange markets and the fixed income space was "dovish money flows," and the reason was soft domestic manufacturing data. The Dollar Index declined 0.52%, notably ending the day at the lowest level since mid-March.

The gains against the dollar were broad with all major global currencies outperforming the greenback. The euro and pound rose 0.49% and 0.50%, respectively, against the dollar as the odds of a Fed rate cut in H2'24 rose in the wake of the soft ISM report while PMI releases in both Europe and the U.K. were in line with estimates. The dollar fell a more-pronounced 0.72% against the yen as the weak U.S. economic data and subsequent dovish money flows combined with news from late last week that the Japanese Ministry of Finance had intervened to defend the yen for the first time since 2022, spending more than $60 billion after the yen fell to a 34 year low against the greenback. Risks of a weaker yen remain, but just as the saying "don't fight the Fed" goes, traders should not "fight the Japanese government" either, and a stable yen is becoming more likely.

For currencies, the bullish outlook for the dollar weakened yesterday both fundamentally and technically. Fundamentally, the timeline gap between when the first rate cuts by the major global central banks narrowed with rising bets that the Fed will move sooner than later, which will leave a smaller and shorter gap in policy rates. Technically, the Dollar Index violated its 2024 uptrend line after failing to break above the late-2023 highs in May. That shifts the outlook to neutral from previously being bullish on the lower timeframes. A "head fake" in the dollar is possible this week, however, as the ISM is just one important report on a long list of potential economic catalysts between now and Friday.

Turning to bonds, yields extended their pullback that began in the middle of last week with the 10-Yr yield dropping another 10 basis points to close the day at 4.41% a full 20 basis points below last week's high while the more policy sensitive 2-Yr yield fell 7 basis points to end the day at 4.82%, down from last week's peak of 4.96%. The reason for the drop in yields was the same reason that the dollar fell, the soft ISM data.

Since the middle of last week's holiday-shortened trade, yields have posted big reversals of 20 basis points or more after approaching or testing their respective 2024 highs in May. As discussed yesterday, "bad news is still good for markets" as it makes Fed policy easing and a soft-landing more likely. However, as we saw yesterday with the stock declines after the ISM report, investors are growing nervous about a more-pronounced economic slowdown and the possibility that the Fed will not be able to stay ahead of the curve with policy easing actions.

The sizeable drop in longer-duration bond yields since last week's spike higher also is a warning sign that growth concerns are becoming more urgent. How yields move between now and the end of the week with several more economic data catalysts looming, most importantly the jobs report on Friday, will be critical in assessing whether the growth concerns of late last week and early this week are warranted or if they're premature and a soft landing is still the base case for the economy in 2024.

Have a good day,

Tom

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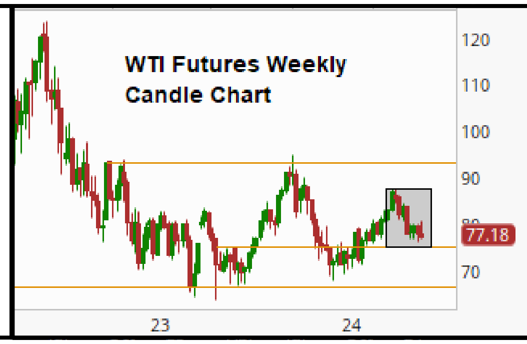
Technical Perspectives (Updated 6/2/2024)

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

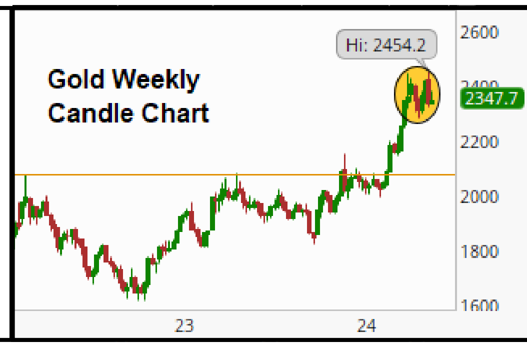
WTI Crude Oil

- 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



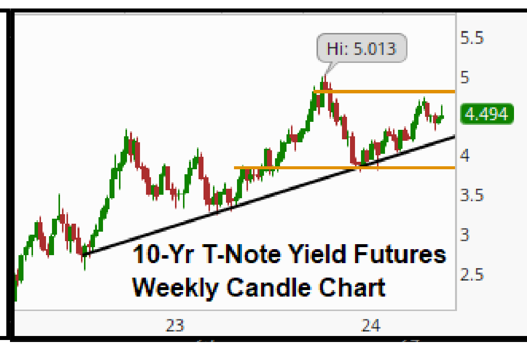
Gold

- 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



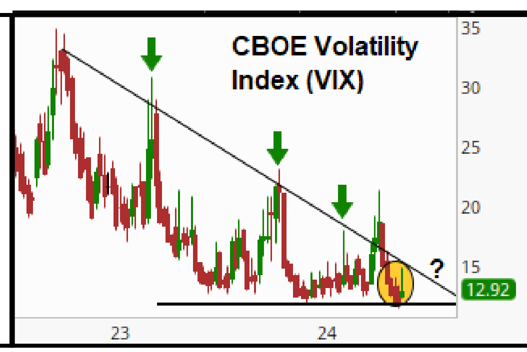
10-Year T-Note Yield Futures

- 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



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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.