6/21/2024

SEVENS REPORT

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

June 21, 2024

Pre 7:00 Look

- Futures are modestly lower as global economic data missed estimates and further pointed towards a slowing of growth.
- The Euro Zone flash PMI dropped to 50.8 vs. (E) 52.4 and UK Flash PMI fell to 51.7 vs. (E) 53.3 and those soft readings are increasing global growth concerns and that's weighing on futures.
- Econ Today: Flash Composite PMI (E: 51.6), Existing Home Sales (E: 4.10 million), Leading Indicators (E: -0.3%). Today is a Quadruple Witching Options Expiration.

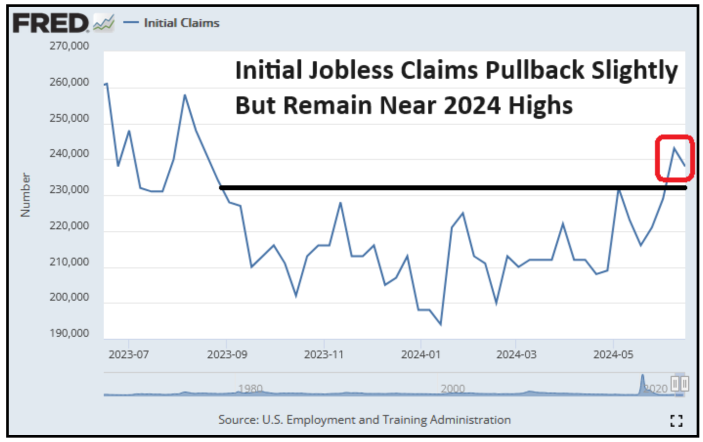
Market	Level	Change	% Change
S&P 500 Futures	5,534.25	-10.25	-0.18%
U.S. Dollar (DXY)	105.80	0.21	0.20%
Gold	2,375.50	6.50	0.27%
WTI	81.28	-0.01	-0.01%
10 Year Yield	4.23%	-0.03	-0.57%

Equities

Market Recap

Equities retreated from fresh record highs to end slightly lower amid a wave of profit taking in mega-cap tech and a resurgence in recession fears after fresh economic data in the U.S. The S&P 500 dipped 0.25%.

Stocks gapped higher at the open yesterday with the S&P 500 briefly breaking beyond 5,500 as traders embraced a less-hawkish tone by BoE policymakers after their latest meeting, while the Swiss National Bank cut interest rates by 25 basis points, double the consensus estimate calling for a 12.5-bps cut. The market was also getting a boost from mega-cap tech as NVDA continued its relentless rally to new record highs in early trade touching a YTD gain of 185% in the first hour before a wave of profit taking began to weigh on the stock and the rest of the mega-cap/AI space.



Investors were also digesting soft economic data, although most of it was released ahead of the bell including a stagflationary Philly Fed Manufacturing Survey, Housing Starts data that fell to the lowest since June 2020, and jobless claims that held near multi-quarter highs. Investors seemed to have mixed emotions about the data as growth worries should support sooner-than-later rate cuts, but also stoked recession worries.

Stocks drifted lower into the afternoon with the S&P 500 taking out Tuesday's intraday lows before the index bottomed near 5,450 and turned sideways, chopping in a tight range through the close as traders turned their focus to a sizeable Quad-Witching Options Expiry today.

Summer is Here: Investing in the Kids

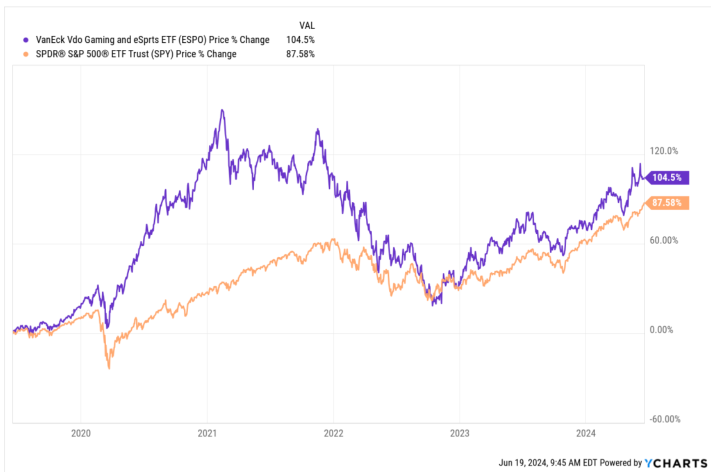
Thursday was the official start of summer, and that brings back memories of my childhood summers that were filled with outdoor activities such as wiffle ball, kick the can, and fort building. But I must confess, those outdoor adventures seem so ancient nowadays, as times have certainly changed.

Market	Level	Change	% Change
Dow	39,134.76	299.90	0.77%
TSX	21,581.35	64.45	0.30%
Stoxx 50	4,903	-44.03	-0.89%
FTSE	8192.55	-79.91	-0.97%
Nikkei	38,597.47	-36.55	-0.09%
Hang Seng	18,028.52	-306.80	-0.22%
ASX	7,795.97	26.54	0.34%
Prices taken at previous day market close.			

Today, the activity of choice for kids is overwhelmingly their smartphone, tablet, computer, or gaming console (I know firsthand with two kids in the pre-teen age group who crave "screen time."). And, statistics back this up more broadly...

Market	Level	Change	% Change
DBC	23.39	.05	0.21%
Gold	2,372.40	25.50	1.08%
Silver	30.74	1.17	3.97%
Copper	4.5585	.0680	1.51%
WTI	82.17	.60	0.74%
Brent	85.79	.72	0.85%
Nat Gas	2.733	-.176	-6.05%
RBOB	2.4997	.0165	0.66%
DBA (Grains)	24.83	-.47	-1.82%
Prices taken at previous day market close.			

- 24% of 5-to-7-year-olds own a smartphone, while 76% use a tablet (Ofcom)
- 42% of U.S. kids have a phone by age 10, and by age 14, smartphone ownership climbs to 91% (Forbes Health)
- 66% of children spend four hours or more per day on their smartphones (Exploding Topics)
- Tweens (ages 8-12) spend an average of 5.5 hours on screens per day, while teens spend 8.5 hours daily (Common Sense)
- 85% of teens claim it can be difficult to stop using technology, such as the internet and smartphones, once they've started using it (SlickText).



While some of these stats are alarming, I'm not here to give any parental advice. (On a positive note, they're also educating themselves and doing their homework on these devices.) The fact is kids are getting in their screen time one way or another. And there is an investment angle to watching, inquiring, learning, and potentially acting on what our kids are doing.

Here are two real-life examples:

1) I recall one of my children talking about Nintendo's Pokémon several years ago. The location-based, augmented reality game swiftly became a global phenomenon. In the game, players use their avatar to travel in the virtual and real world (by GPS) while they locate, capture, battle, and train virtual creatures, called Pokémon. Pokémon Go's instant success also resulted in a meteoric rise in Nintendo's stock price. Nintendo shares skyrocketed over 100% in less than two weeks, and on a longer time frame, Nintendo stock has outperformed the S&P 500 four of the last five years!

2) I also remember one of my analysts telling me about his daughter's Secret Santa exchange a few years ago. In her fourth-grade class, each student could spend up to $10 on another student. The teacher, after consulting with the students, provided a list of what each student desired by color, candy, and toy. Out of the 20 students in her class, over half received the same gift: a $10 Roblox gift card. The story goes that these kids were raking in hundreds of dollars in Roblox gift cards from parents and other family members during the holidays. Months later, Roblox stock launched as an IPO. Eight months later, shares had more than doubled!

Via their smartphones and other online devices, kids are playing video games, engaging in social media, streaming content, etc. And parents are paying hefty wireless bills and funding a lot of their online purchases. Both as an analyst and as a parent of a 9- and 12-year-old, I don't foresee how this trend will end anytime soon.

Given that, I wanted to identify a few ways to play this theme:

1. Broad Sector Play: Communication Services Select Sector SPDR Fund (XLC). XLC provides exposure to Magnificent 7 stocks (Meta and Alphabet), smartphone distributors (AT&T, Verizon, etc.), streaming platforms (Netflix, Disney, Google's YouTube, etc.), and more. Over the last five years, the Communications sector has been the second-best performer out of the S&P 500's 11 sectors (only outperformed by Technology).
2. Industry Specific ETFs: Gaming ETFs such as VanEck

Video Gaming and eSports ETF (ESPO), Global X Video Games & Esports ETF (HERO), or Roundhill Video Games ETF (NERD). These ETFs provide exposure to the aforementioned Nintendo and Roblox, along with other top 10 shared holdings Electronic Arts, Take-Two Interactive, and AppLovin. (Note: "eSports" is in the name of the first two ETFs.) In terms of performance, ESPO – the largest ETF in this space by AUM at $260 million – has outperformed SPY over the last five years.

Bottom line, these are more thematic strategies but the way kids "play" isn't just changing from most of our youths, it's become big business, and these ETFs offer exposure to a trend that likely isn't slowing down anytime soon.

Economics

Philadelphia Fed Manufacturing Index

- The General Business Activity Index fell to 1.3 vs. (E) 5.2 in June.

Takeaway

Yesterday's Philly Fed Survey on the factory sector was the latest economic report to offer signs of stagflation trends emerging in the economy. The headline slowed from an already-meek, but importantly positive, 4.5 to a barely expansionary reading of 1.3 and meaningfully below the expected increase to 5.2.

A notable drop in the Shipments sub-index, from -1.2 to a more deeply negative -7.2, was one of the biggest contributors to the weakness on the headline while New Orders actually improved from -7.9 to a less-negative reading of -2.2. Another noteworthy move in the details of the release were increases to both the Prices Paid index, up from 18.7 to 22.5 and Prices Received index, up from 6.6 to 13.7.

Turning to the forward-looking, "Six-Months from Now vs. June" data, respondents' outlook for the future deteriorated considerably in the latest report. The six-month-ahead headline General Business Activity index dropped to 13.8 from 32.4, also driven largely by plunging Shipments print, which collapsed from a very strong 46.2 to an incrementally negative -0.1. At the same time, there were pronounced spikes in both Price sub-indices as the Prices Paid index jumped from 35.4 to 56.3 while the Prices Received index rose from 31.4 to 58.8.

Bottom line, the soft headline to yesterday's Philly Fed Manufacturing Survey, and surprising collapse in the Six-Months-Ahead data could have been viewed as a positive for markets as it adds support for a sooner-than-later start to the rate cutting cycle by the Fed. However, that was not the case given the sizeable increase in the Prices sub-indexes and more pronounced spike in the Price indices for six months from now, as the Fed has expressed they share a greater concern about a resurgence in inflation than a slowdown in growth, leaving risks of a recession on the rise with the threat of stagflationary also an emerging possibility.

Market	Level	Change	% Change
Dollar Index	105.27	.39	0.38%
EUR/USD	1.0705	-.0039	-0.36%
GBP/USD	1.2662	-.0058	-0.46%
USD/JPY	158.89	.80	0.51%
USD/CAD	1.3685	-.0022	-0.16%
AUD/USD	.6657	-.0016	-0.24%
USD/BRL	5.4632	.0286	0.53%
Bitcoin	64,978.60	120.94	0.19%
10 Year Yield	4.254	.037	0.88%
30 Year Yield	4.392	.038	0.87%
10's-2's	-48 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		
Prices taken at previous day market close.			

Commodities

Commodities were mostly higher as energy posted gains on signs of solid consumer demand in the weekly EIA data while metals rose with easier central bank policy expectations after several major bank meetings this week along with the weak domestic economic data. The commodity ETF, DBC, rose 0.21%.

Starting with metals, copper caught a counter-intuitive bid thanks to dovish money flows in the wake of the central bank decisions despite the very soft economic data in the U.S. Copper gained 1.51% on the session, recovering back above previous support at $4.50 but still in a counter-trend pullback, well off the recent record highs.

Gold gained 1.10%, also thanks to the dovish money flows across asset classes as well as the stagflationary

Philly Fed release and uptick in equity market volatility prompting a flight-to-safety trade into gold. Unlike copper, gold was able to hold previous support and remains in a longer-term uptrend, which should be able to continue barring a meaningful move higher in the dollar or hawkish spike in Treasury yields in the sessions ahead.

EIA Data Takeaways and Oil Market Update

Yesterday's delayed weekly EIA report was bullish and after a brief period of midday digestions, the futures market responded accordingly with crude and refined products posting solid gains on the day. WTI added 0.92%.

On the headline, commercial crude oil stockpiles fell by -2.55MM bbls last week, which was slightly more than the consensus estimate of -2.1MM bbls and a bullish surprise compared to the API's reported weekly build of +2.26MM. The products inventory changes were mixed, however, with gasoline supply coming in slightly bearish at +307K bbls vs. (E) +100K (API: -1.08MM) but distillates supply reportedly fell -1.73MM bbls vs. (E) -100K (API: +538K). The net impact was bullish with the oil and distillate draws being larger than the incremental upside surprise in the gasoline build.

Looking to the details, evidence of strong consumer demand is the most important demand-side factor for the oil and refined product markets right now and despite a high bar given soft economic data, the implied measure of consumer demand in yesterday's report, gasoline supplied, jumped a sizeable 346K b/d to 9.386 million b/d, the highest since late July, and that weekly rise proved to be enough to push the four-week MA to its own high not seen since early July 2023.

Elsewhere in the details, domestic production held steady at 13.2 million b/d, within reach of the all-time high but importantly still below it. Meanwhile, looking downstream, the refinery utilization rate pulled back from a robust 95.0% to 93.5%, more than the drop to 94.9 that was expected. Paired with the jump in gasoline demand in yesterday's report, the pullback in refinery runs raises the threat of a near-term supply deficit that would be supportive of prices as the summer driving season gets into full swing.

Bottom line, in order for the recent relief rally to continue beyond $80/bbl this week, we noted that consumer demand would need to come in strong, and it did not disappoint. Furthermore, the headline crude draw and larger-than-expected distillate draw were added fundamental tailwinds for prices. Looking ahead, strong U.S. demand, an uncertain global production outlook given vague OPEC+ commentary of recent, and intensifying geopolitical angst are all supporting oil prices here.

Looking ahead, the biggest risk to oil right now is a resurgence in recession fears as that would hit the outlook for demand hard, despite the recent resilience in the data, but the path of least resistance remains higher for the time being with the next resistance level in focus being the pivot point from the late-April bounce, which lies between $83 and $84/barrel. To the downside, $80.50 should offer initial support while $76.50 is a longer-term support level to watch.

Currencies & Bonds

The dollar and yields rose on Thursday despite the underwhelming economic data. The Dollar Index rose 0.4% while the 10-year Treasury yield, which was up 10 bps, finished higher by 4 basis points.

The dollar strength came despite the continued rise in claims and underwhelming Philly Fed as the price indices were firm, and as the pound dropped following the Bank of England keeping rates unchanged.

Treasury yields were solidly higher to start Thursday, but that was mostly just a bounce from the recent declines. Yields gave back some of those gains on the underwhelming claims and Philly headline, but still finished slightly higher, yet still in the "stock positive" range of 3.75%-4.25%.

Have a good weekend,

Tom

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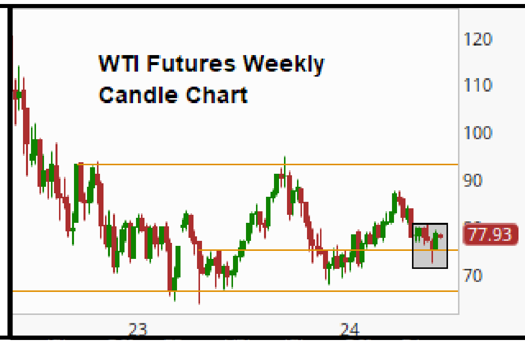
Technical Perspectives (Updated 6/16/2024)

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

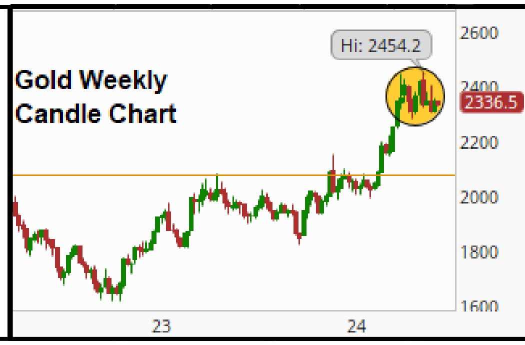
WTI Crude Oil

- 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



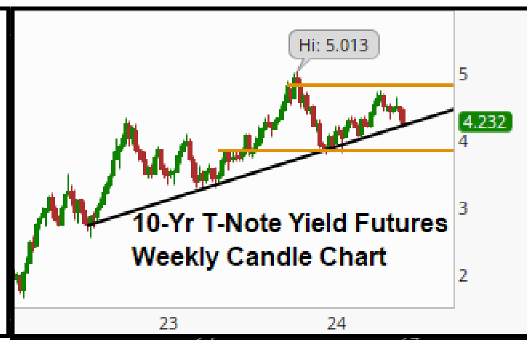
Gold

- 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



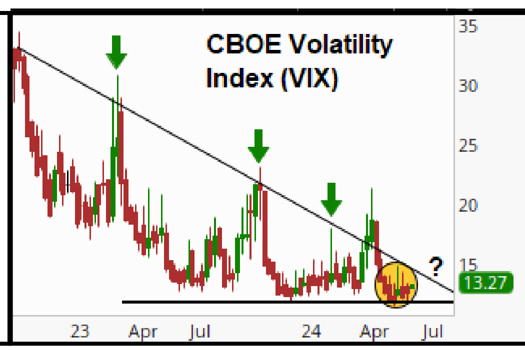
10-Year T-Note Yield Futures

- 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.