SEVENS REPORT

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

June 24, 2024

Pre 7:00 Look

- Futures are little changed following a mostly quiet weekend of news.
- Economically, the only notable report overnight was the German IFO Business Expectations and that slightly missed estimates (89.0 vs. 90.4).
- Political risks in France eased over the weekend as Marine Le Pen's National Rally party, which still leads in the polls, committed to fiscal restraint and pro-business policies.
- Econ Today: No reports today. Fed Speak: Daly (2:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,538.75	4.50	0.08%
U.S. Dollar (DXY)	105.58	-0.21	-0.20%
Gold	2,338.50	7.30	0.31%
WTI	80.90	0.16	0.20%
10 Year Yield	4.26%	0.01	0.17%

Equities

Market Recap

Stocks rallied to new records in the front half of last week thanks to continued AI-enthusiasm with the Mag 7 and more specifically NVDA leading the way. But the rally lost steam in the wake of the Juneteenth holiday and the market pulled back into the weekend amid a high-volume options expiration. The S&P 500 rose 0.61% on the week and is now up 14.57% YTD.

Equity markets began last week with solid gains as the modest bout of volatility related to French politics the prior week eased and traders cheered upward revisions to year-end targets for the S&P 500, most notably from Citi and Goldman Sachs. The S&P 500 advanced 0.77%.

The rally lost some momentum on Tuesday as traders digested mixed economic data with a soft Retail Sales print, but strong Industrial Production release leaving soft landing hopes intact. There was a slew of Fed speakers but none of them deviated from the recent narrative that more data is needed, but H2'24 rate hikes are all but guaranteed. The S&P 500 rose 0.25%.

Markets were closed on Wednesday in observance of Juneteenth, but the S&P 500 gapped up beyond 5,500 at a fresh record high on Thursday morning with tech continuing to lead the way following several less-hawkish-than-feared central bank decisions overseas. But soft economic data in the U.S. and the massive looming options expiration Friday saw stocks pullback steadily into the afternoon before turning sideways into the close with the S&P 500 settling down 0.25% on the session.

Friday was a quiet session despite heavy volumes as a result of "Quadruple Witching" options expiration and index and sector portfolio rebalancing. Economically, the PMI Composite Flash was the key release and it was "hot," especially the more important Services figure, while price sub-indices also remained elevated. Heavy selling pressure in mega-cap tech shares was amplified by the options expirations and index rebalancing and the S&P 500 ended the day down 0.16%.

Is the Bullish Mantra Still Working?

Earlier in 2024, we identified a "bullish mantra" that investors were repeating that was the driving force behind the substantial 2024 rally and new highs, and the four parts of that bullish mantra were: Solid economic growth, declining inflation, sooner-than-later Fed rate cuts and AI enthusiasm. So, let's update these parts to see if they are all still valid (because if they are, the rally

Market	Level	Change	% Change
Dow	39,150.33	15.57	0.04%
TSX	21,554.86	-26.49	-0.12%
Stoxx 50	4,940.90	33.60	0.68%
FTSE	8,272.84	35.12	0.43%
Nikkei	38,804.65	208.18	0.54%
Hang Seng	18,027.71	-0.81	0.00%
ASX	7,733.69	-62.29	-0.80%
Prices taken at previous day market close.			

can continue and downside risks are limited for now.

Bullish Mantra 1: Solid Growth. Markets expect the Fed to cut rates once or twice this year but the truth is that "higher-for-longer" rates (especially compared to the 2010s) are here to stay. The only reason that hasn't hit stocks is because growth remains solid, so in many ways this is the most important part of the bullish mantra. ***Still Valid? Yes.*** Clearly there's been some loss of growth momentum. But the economy was so strong that even that moderation of growth isn't enough to spook investors, yet, although this is something that must be watched closely (and we will).

Market	Level	Change	% Change
DBC	23.20	-.19	-0.81%
Gold	2,334.30	-34.70	-1.46%
Silver	29.57	-1.24	-4.04%
Copper	4.434	-.128	-2.81%
WTI	80.70	-.59	-0.73%
Brent	85.22	-.49	-0.57%
Nat Gas	2.713	-.028	-1.02%
RBOB	2.5100	.0092	0.37%
DBA (Grains)	24.56	-.26	-1.05%
Prices taken at previous day market close.			

Bullish Mantra 2: Falling Inflation. Inflation has declined considerably from the highs of two years ago and that drop in inflation has increased expectations for Fed rate cuts, which has pressured Treasury yields and helped stocks rally. ***Still Valid? Yes.*** The latest inflation data showed clearly that disinflation (the decline in inflation) has resumed and that's increasing expectations for September rate cuts.

Bullish Mantra 3: Sooner-Than-Later Fed Rate Cuts. When we started 2024, markets expected a March rate cut and numerous rate cuts in 2024. Now, they expect one and maybe two cuts in 2024. The reason that hasn't hit stocks is partly because the exact date of the first cut isn't that important. What's important is that markets believe the Fed will cut sooner than later (meaning they aren't on hold for quarters or years and that there's no chance of a rate hike). ***Still Valid? Yes.*** Fed officials have all but removed a rate hike as a possibility for policy and they aren't openly pushing back against the market's outlook for one or two hikes in 2024.

Bullish Mantra 4: AI Enthusiasm. The earnings and psychological impact of the AI explosion, which really began in earnest just over a year ago, has been an integral part of the rally in stocks as the current levels of the S&P 500 aren't justifiable via more traditional valuation metrics. It's AI enthusiasm that's powered the markets higher and ignited some "animal spirits" amongst investors and despite concerns about an AI bubble, the bottom line is that earnings growth is largely matching high expectations. ***Still Valid? Yes.*** NVDA just became the most valuable company in the world (surpassing MSFT) and that underscores that AI enthusiasm remains alive, well and raging! Beyond that one example, recent AI-related tech company earnings have been strong and despite concerns, the actual earnings growth around AI companies (especially chip and cloud companies) remains extremely strong.

Bottom Line

There remains a lot of noise in this market about economic growth, inflation, earnings, the Fed, geopolitics and soon, the election. But, for all the noise, the facts remain as such: The bullish mantra that has powered stocks higher since the start of the year (and really since November of last year) remains intact. And as long as that's the case, then the downside risks for this market will remain limited.

That said, we do continue to worry about growth, not so much because I think the economy is going to suffer a material recession, but instead because, at these valuations, investors aren't even accounting for a true moderation in growth. And the recent data clearly implies that's a real possibility in the coming months and quarters. That's why I continue to favor maintaining long exposure in stocks but, at the same time, reducing beta to lower volatility sectors like defensives (XLU/XLV/XLP), minimum volatility funds and "quality" factor focused ETFs (QUAL) along with adding longer-term Treasury exposure (this environment of falling inflation, stable but cooling growth and imminent Fed rate cut is favorable for long-dated bonds).

Economics

Last Week

Economic data was mixed last week but, on balance, continued to point towards the U.S. economy is losing forward momentum. And while that's not enough to bother stocks yet, the fact that the majority of data is pointing towards a slowdown is something we should all be aware of while celebrating new highs in stocks (the two usually don't last together).

June economic data was in focus last week and the data was mixed. The June Composite Flash PMI, the first "big" report of each month, rose solidly as the manufacturing PMI increased to 51.7 vs. (E) 51.3 while the Services flash PMI jumped to 55.1 vs. (54.0). Those positive numbers were in contrast to "misses" by the Empire Manufacturing Survey (-6.0 vs. (-12.5) and the Philly Fed Survey (1.3 vs. (E) 5.2). Price data was mixed across the board as were New Orders (the leading indicators in the reports) but the bottom line is economic activity in June remains generally solid, although there remain signs of a slowing of momentum.

The other notable economic reports last week did, like the totality of the June data, hint that economic growth remains generally solid but there is a loss of momentum occurring. Specifically, May Retail Sales missed expectations, rising 0.1% vs. (E) 0.3% on the headline while the "control" group (which gives us our best look at truly discretionary consumer spending) rose 0.4% vs. (E) 0.5%. Finally, May Industrial Production joined the composite PMIs in being one of the strongest data points of the week, rising 0.9% vs. (E) 0.3%.

Economic growth over the past several weeks has become mixed and that is raising concerns about a slowing of growth or even a stall. And I share in those concerns. That said, while there are clearly numerous (and growing) signs of slowing growth, the economy remains on solid footing. So, growth is something that must be monitored closely, but for now, despite some "misses" in the data, the totality implies growth remains solid and that's helping to support stocks.

This Week

While the following week contains the "big three" monthly economic reports of the ISM Manufacturing and Services PMIs and the Jobs Report, this week also has some important growth and inflation updates, including Friday's PCE Price Index and updated Durable Goods and jobless claims.

The most important report of this week is Friday's Core PCE Price Index, because that is the Fed's preferred measure of inflation. If it shows a similar decline to what we saw in CPI, it'll increase expectations for a September rate cut which will help support markets, especially if growth data underwhelms this week.

Speaking of growth data, next week is the really important week, but there are three important numbers this week that could add to concerns about a loss of momentum (or help reduce them). The most important is Durable Goods (Wednesday). Business spending and investment, much like Retail Sales, has largely plateaued over the coming months. Plateauing is not necessarily a bad thing but if that plateau begins to turn into the data rolling over, that will be negative for growth and an additional indicator that's pointing towards slowing growth (and that would be negative for markets).

Weekly jobless claims (Thursday) are also important following the recent uptick in claims. Claims are especially important now for a simple reason: It's very unlikely that the economy slows more than expected as long as the labor market is strong. But if the labor market begins to weaken, then that makes the ultimate possibility of a hard landing much higher than previously thought and given the market has priced in virtually a 0% chance of a hard landing, that's a risk. Bottom line, stability in claims would be welcomed by investors (i.e. no more increases or, ideally, a decline).

Market	Level	Change	% Change
Dollar Index	105.45	.22	0.21%
EUR/USD	1.0694	-.0008	-0.07%
GBP/USD	1.2648	-.0009	-0.07%
USD/JPY	159.56	.63	0.40%
USD/CAD	1.3699	.0010	0.07%
AUD/USD	.6643	-.0013	-0.20%
USD/BRL	5.4437	-.0062	-0.11%
Bitcoin	64,069.59	-900.81	-1.39%
10 Year Yield	4.257	.003	0.07%
30 Year Yield	4.398	.006	0.14%
10's-2's	-47 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.97%		
Prices taken at previous day market close.			

While next week is the next really significant week from an economic standpoint, the Core PCE Price Index and Durable Goods and Jobless Claims report can help 1) Confirm that inflation is falling (positive) and 2) Push back on some growing concerns about economic growth (or, negatively, increase them).

Commodities

Commodities were mixed last week as oil and the refined products rallied amid solid consumer demand data and a resurgence in geopolitical tensions overseas while the stronger dollar weighed on both precious and industrial metals. The commodity ETF, DBC, gained 0.56%.

Starting with the upside standout, WTI crude oil futures rallied 2.68% last week, hitting a seven-week high in the back half of the week before ending Friday modestly lower. Strong consumer demand figures in the weekly EIA inventory report paired with rising geopolitical angst supported the gains over the course of the week.

Specifically, gasoline supplied, the widely followed, high-frequence gauge of consumer demand for fuel at the pump, jumped to the highest in nearly a year according to the latest data from the EIA as the measure held comfortably above 9 million b/d. Meanwhile, there were more attacks on ships in the Red Sea and Ukrainian drone strikes targeted Russian oil and refined product facilities over the course of the week, rekindling supply-side concerns that had recently eased. On the charts, WTI futures broke above the late-May high close of $80.28 and are once again trending higher with a test of the broad 2024 resistance band between $83 and $87/barrel becoming increasingly likely. To the downside, $79.50 will offer initial support while $76.50 should be considered more formidable price support.

Turning to metals, copper was the notable laggard last week as futures fell 1.53% through Friday's close. Copper was actually higher through the middle of the holiday-shortened week amid risk-on money flows, largely well-received economic data bolstering hopes of a soft landing, and Fed rate cut optimism. However, copper came for sale in a big way on Friday and closed at a two-month low leaving the near-term path of least resistance lower. Looking ahead, if copper remains heavy, it will become an increasingly notable warning signal for the health of the global economy.

Gold fell a more modest 0.58% and importantly, futures held above key support at $2,300/oz. The stronger dollar, which approached a two-month high Friday, paired with an uptick in Treasury yields were the primary headwinds on gold. However, a rise in market-based inflation expectations limited the losses and gold remain in a consolatory sideways range in the low-to-mid $2,300 area. If support at $2,300 is violated expect a more-pronounced wave of profit taking in the near term.

Currencies & Bonds

After several weeks of significant volatility, currency and bond markets were quiet during the holiday-shortened week as the Dollar Index rose 0.27% while the 10-year Treasury yield fell 2 basis points.

The reason for the relative lack of volatility in the currency and bond markets last week (other than the mid-week holiday) was the fact that none of the data nor Fed/central bank speak altered the outlook for the Fed. Economic data was mixed, but it didn't change the outlook for U.S. economy growth and didn't significantly increase hard landing concerns. As a result, none of the data moved expectations for Fed rate cuts (which remain around 70%-ish for September and nearly 100% for December).

In Treasuries, the aforementioned mixed economic data and strong long-term Treasury auctions helped to push yields slightly lower on the week as the 10-year yield remained near a multi-month low in the mid 4.20%. For now, the decline in the 10-year yield is a virtuous one for stocks, as moderation in growth is increasing hopes for a September rate cut, yet data hasn't become so bad that it's really compounding growth worries.

That said, I do still believe the "stock positive" range of 3.75%-4.25% in the 10 year remains in place, although the closer the 10 year gets to 3.75%, the less of a tailwind falling yields will be on stocks as a decline of that magnitude will signal real concerns about growth. Bottom line, we're back to a level where Treasury yields largely trending sideways is now the best-case scenario for stocks.

Have a good week,

Tom

6/24/2024

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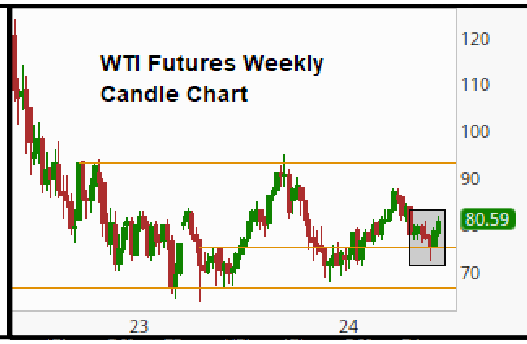
Technical Perspectives (Updated 6/23/2024)

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: 5478, 5505, 5550
- Key Support Levels: 5434, 5375, 5278

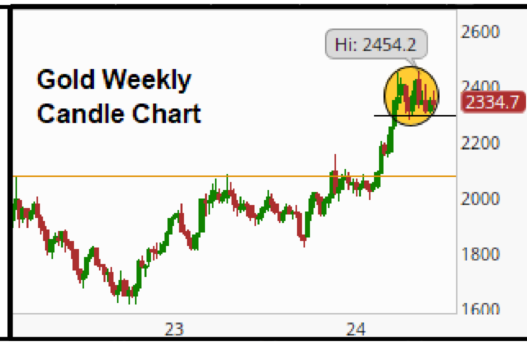
WTI Crude Oil

- 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: $81.24, $82.73, $83.81
- Key Support Levels: $76.50, $75.38, $74.02



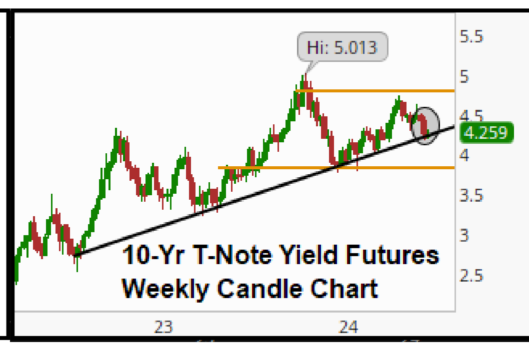
Gold

- 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: $2311, $2257, $2201



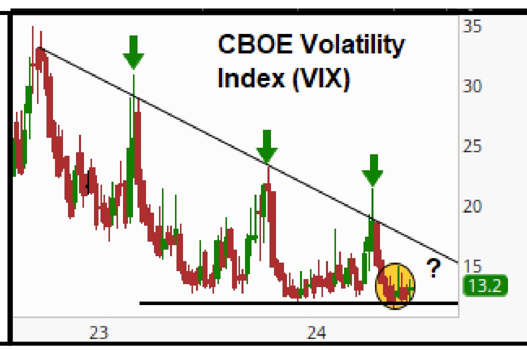
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs and has begun to test the long-term uptrend dating back to late 2022.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.281, 4.340, 4.476
- Key Support Levels: 4.218, 4.088, 3.932



CBOE Volatility Index (VIX)

- Technical View: The VIX has stabilized after a sharp decline in late-April and early May and the "fear gauge" is threatening to breakout to the upside.
- Primary Trend: **Neutral (since the week of May 6, 2024)**
- Key Resistance Levels: 13.78, 14.31, 14.88
- Key Support Levels: 12.70, 12.11, 11.86



SEVENS REPORT

Fundamental Market View
(Updated 6/23/2024)

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 yet another all-time high last week despite mixed economic data, as the decline in Treasury yields and rising expectations for a September rate cut (along with bullish momentum) pushed stocks higher.*

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 were mixed last week as oil and the refined products rallied amid solid consumer demand data and a resurgence in geopolitical tensions overseas while the stronger dollar weighed on both precious and industrial metals.*
US Dollar	**Neutral**	*The Dollar Index rallied slightly last week thanks to generally "fine" economic data and following more mixed signals on global growth.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield declined just 2 basis points last week as it largely digested the big decline from two weeks ago, following the most important data points of the week beating expectations (although economic data in aggregate was mixed and there are still growing signs of moderating growth).*

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.