SEVENS REPORT

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

June 25, 2024

Pre 7:00 Look

- Futures are modestly higher this morning as mega-cap tech recovers some of yesterday's losses in the pre-market with NVDA up over 3% amid an otherwise quiet night of news.
- There were no notable economic reports overnight.
- Econ Today: Case-Shiller Home Price Index (E: 7.0%), FHFA House Price Index (E: 6.7%), Consumer Confidence (E: 100.0).
- Fed Speak: Bowman (7:00 a.m. & 2:15 p.m. ET), Cook (12:00 p.m. ET).
- There is a 2-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5526.25	9.25	0.17%
U.S. Dollar (DXY)	105.491	.009	0.01%
Gold	2349.50	5.10	0.22%
WTI	81.24	-.39	-0.48%
10 Year Yield	4.229	-.016	-0.38%

Equities

Market Recap

Stocks were mostly higher to start the week thanks to some optimistic Fed commentary and renewed soft landing hopes; however, heavy selling pressure in technology stocks more than offset the broader market gains and the S&P 500 closed with a loss of 0.31%.

The market was volatile early Monday as the S&P 500 gapped lower at the open thanks to the strong selling pressure in some of the largest mega-cap tech names including AI-darling NVDA, which was impacted by portfolio rebalancing in the SPDR Technology ETF (XLK)

The equal-weight S&P 500 ETF, RSP, is unchanged from early March, which underscores that the strong performance by a few AI-focused tech stocks have accounted for all of the latest leg higher in the cap-weighted S&P 500.

and S&P 500 late last week.

Not long after the open, both the Nasdaq 100 and S&P 500 rallied back to positive territory amid a renewed sense of investor optimism for a soft economic landing on the back of upbeat comments from the Fed's Goolsbee, who reiterated more soft inflation data would support the case for easier monetary policy (not earth-shattering news, but a pleasant reminder for investors).

The broad market advance stalled when the equal-weight S&P 500 (RSP) approached resistance at the early June highs, leaving the benchmark, cap-weighted S&P 500 to turn sideways into the afternoon. The Fed's Daly made some less-dovish comments noting that strong data would warrant "higher for longer" policy, which saw the broader market begin to roll over mid-afternoon. The heavy selling in mega-cap tech, led by NVDA, which dropped 6.68% on the day, saw the S&P 500 fall to new sessions lows in the final hour before it closed just shy of the low ticks near 5,450.

Market	Level	Change	% Change
Dow	39,411.21	260.88	0.67%
TSX	21,848.59	293.73	1.36%
Stoxx 50	4,928.38	-22.60	-0.46%
FTSE	8,269.11	-12.44	-0.15%
Nikkei	39,173.15	368.50	0.95%
Hang Seng	18,072.90	45.19	0.25%
ASX	7,838.79	105.10	1.36%
Prices taken at previous day market close.			

Trading Color

The 0.31% decline in the S&P 500 was somewhat misleading yesterday as the negative performance in the benchmark index was almost entirely the function of heavy selling pressure in a handful of mega-cap tech names. The most notable of which was NVDA, leaving the stock officially in a correction now that its price is nearly 15% off its recent high.

Market	Level	Change	% Change
DBC	23.39	.19	0.82%
Gold	2,344.70	13.50	0.57%
Silver	29.59	-.02	-0.08%
Copper	4.4315	-.0105	-0.24%
WTI	81.65	.92	1.14%
Brent	86.04	.80	0.94%
Nat Gas	2.820	.115	4.25%
RBOB	2.5136	-.0001	-0.01%
DBA (Grains)	24.27	-.32	-1.30%
Prices taken at previous day market close.			

In market capitalization terms, NVDA has lost roughly $550B in market value since last Thursday. For context, only 15 names in the entire S&P 500 have a market cap of over $500B and NVDA has lost more than that in market value in less than a week, yet it still remains the third most valuable company in the index.

Outside of pain in NVDA and the selloff in mega-cap tech, which dragged the Technology sector, XLK, down by 2.45% yesterday, there was broad strength in the stock market with nine of the 11 sectors closing with gains.

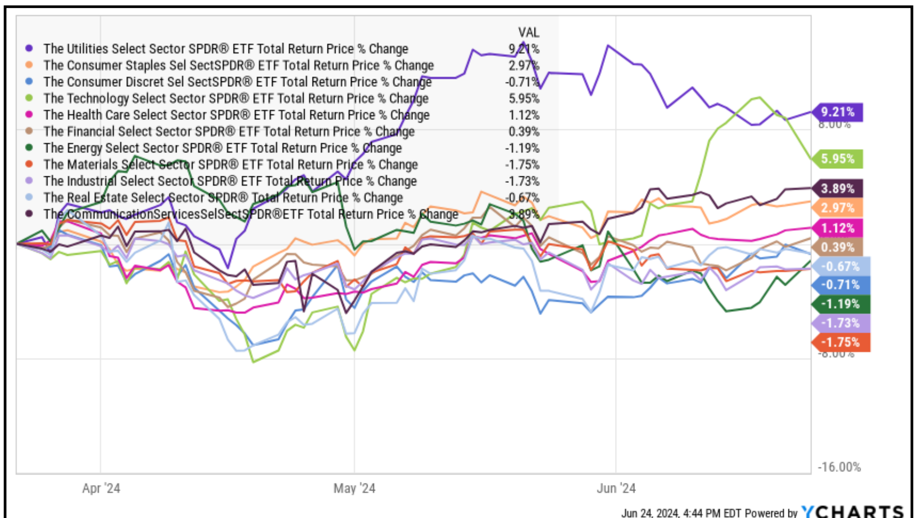
Energy led the way higher, up 2.52% while Utilities and Consumer Staples were other upside standouts with respective gains of 1.31% and 1.07%. Consumer Discretionary was the only sector to join Tech in the red as it fell 0.43%.

Interestingly, yesterday's sector performance reiterated an under-discussed theme in markets in Q2, which has been money flowing into defensive sectors such as Utilities and Consumer Staples and shying away from cyclical sectors such as Consumer Discretionary.

Is the Second Quarter Market Performance Warning About Economic Growth?

The Q2 Sevens Report Quarterly Letter will be released next Monday (July 1), and I'm in the midst of the prep work for it, and in examining the sector performance for Q2, it revealed that, while the S&P 500 seems to hit a new high every day, the quarter hasn't been that positive for most stocks, and the sector performance may be revealing investor concerns on future economic growth.

I say that, because while the S&P 500 has surged to substantial new highs this quarter, sector trade on a quarterly basis is mixed, as six S&P 500 sectors are higher QTD while five are lower. And, if we exclude Utilities (the best-performing sector QTD), Tech and Communication Services (which is tech stock heavy) the other two sectors that are higher have traded only slightly higher. It's similar on an index basis, as the Nasdaq and S&P 500 have strong gains, but the Dow Industrials are only slightly positive and the Russell 2000 is negative QTD.



Five of the 11 sector SPDRs are negative for the second quarter, underscoring that while the S&P 500 has had a great quarter, the "rest" of the market has not.

While the dominance of tech isn't anything new or surprising, in past quarters it's been that tech and tech-related sectors simply rose more than other sectors, but the vast majority of S&P 500 sectors traded higher, just not as high as tech. The second quarter is different, not just because this time half the S&P 500 sectors are negative QTD, but also because the other sectors that have posted positive returns are largely defensive in nature

(Utilities and Consumer Staples).

Point being, the market internals in the second quarter seem to be underscoring the fact that economic growth is slowing.

Consider that the four best performing sectors in Q2 are Utilities, Tech, Communication Services and Consumer Staples. Two of those sectors are defensive in nature and the other two are direct AI plays, a technology and trend that's not linked to broader economic growth.

Conversely, the quarter-to-date laggards are Energy, Materials and Industrials. Those are the typical cyclical sectors we'd expect to underperform if, under the surface, growth concerns are bubbling up.

Bottom line, if we just focus on the performance of the S&P 500, the second quarter was a fantastic one for markets and positively, many investors saw solidly positive returns. But if we look past SPY, market internals are confirming my (and others) concerns about future growth.

I'm not saying a growth collapse is imminent, but I am saying that I believe growth concerns will become a more dominant market topic in the third quarter, and the quarterly performance of most sectors further reinforces that belief.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mostly higher to start the week with the energy complex leading the way while industrial metals lagged, failing to participate in the sector gains. The commodity ETF, DBC, rose a solid 0.82%.

Beginning in energy, WTI crude oil futures rallied a solid 1.19% to move further beyond the $80/barrel threshold yesterday. Soft landing hopes bolstering consumer demand expectations and the general risk-on money flows under the market surface that saw nine of the 11 stock market sectors close higher helped oil start the week with solid gains.

Additionally, geopolitical tensions overseas added to supply side markets concerns as Ukraine ramped up drone attacks on Russian oil and refined product infrastructure while tensions in the Middle East remain high. Looking ahead, the path of least resistance is higher for oil right now as futures closed yesterday at the highest level since late April. This week, the implied consumer demand numbers in the weekly EIA report will once again be in focus as traders look for more evidence that consumer demand at the pump is as strong as it is currently perceived.

Switching to metals, the recent trend of precious metals outperforming and industrial metals underperforming continued, as gold futures jumped 0.69% to end comfortably in the middle of the recent trading range between $2,300 and $2,400, while copper declined another 0.36% to close at a fresh two-month low.

Looking ahead, copper is poised to continue to retreat on further profit taking and the heavy price action in copper remains a warning sign for the global economic outlook as recession worries continue to simmer. Gold, meanwhile, caught a bid thanks to the dollar weakness and strength in Treasuries pushing yields lower.

Gold is for now holding up above critical price support at $2,300/oz., but it is susceptible to a profit-taking pullback similar to that which copper is suffering right now, and that could be triggered by either strength in the dollar or renewed weakness and higher bond yields.

Market	Level	Change	% Change
Dollar Index	105.49	-.34	-0.32%
EUR/USD	1.0736	.0043	0.40%
GBP/USD	1.2690	.0045	0.36%
USD/JPY	159.65	-.15	-0.09%
USD/CAD	1.3655	-.0037	-0.27%
AUD/USD	.6659	.0018	0.27%
USD/BRL	5.3927	-.0395	-0.73%
Bitcoin	59,953.95	-4,156.52	-6.48%
10 Year Yield	4.248	-.009	-0.21%
30 Year Yield	4.378	-.020	-0.45%
10's-2's	-49 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.96%		
Prices taken at previous day market close.			

Currencies & Bonds

Currency and bond markets were quiet to start the week and rightly so as there was no notable economic data or central bank speak on Monday. The Dollar Index fell 0.32%.

The euro experienced a solid bounce on Monday, rising 0.4% thanks to reassuring comments from the Nation Rally political party in France. Known in Europe as "Far Right" party, National Rally helped to ease market concerns about its policies by promising to pursue fiscal restraint and pro-business policies. This matters because National Rally is leading in the French polls and it's expected to be the majority party in the French parliament. Those reassuring comments helped to push the euro and the pound modestly higher (the pound rose 0.4%) and ease, for now, political concerns in Europe and that boosted the single currency on Monday.

Elsewhere in the currency markets trading was quiet as the dollar dipped in reaction to the euro strength while the yen was little changed. Stepping back, the Dollar Index remains largely fairly valued around 105 as that reflects the reality that the world is entering a rate cutting cycle, but it will be a gradual one and the Fed remains the least dovish of any of the major central banks. And until that perception changes, it'll be very difficult for the dollar to decline meaningfully (so expecting it to stay around 105 remains a reasonable outlook, which makes the dollar neither a tailwind nor headwind on stocks).

Turning to Treasuries, they were little changed on the day as the 10-year Treasury yield fell 1 basis points to 4.25%. The EU political news didn't impact Treasuries and instead we just saw a slight drift lower ahead of some important economic and inflation data later this week, but the 10-year yield remains essentially at the upper end of the stock positive 3.75%-4.25% and as such, yields are supportive of a continued rally in stocks.

Have a good day,

Tom

6/25/2024

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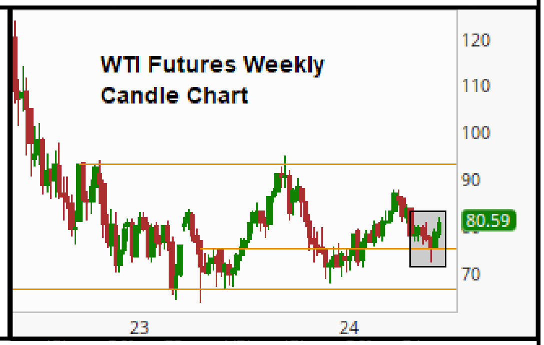
Technical Perspectives (Updated 6/23/2024)

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

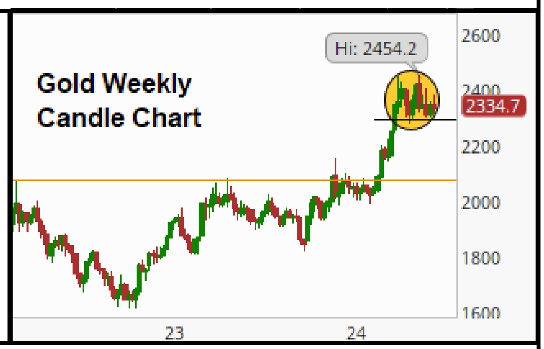
WTI Crude Oil

- 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



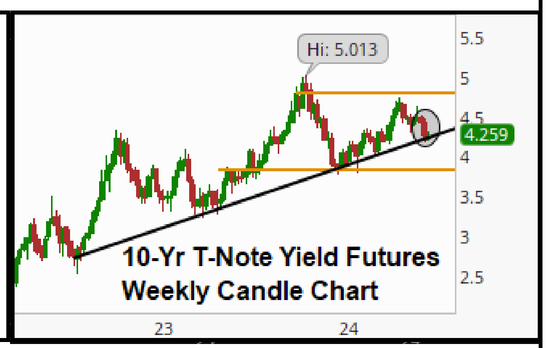
Gold

- 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



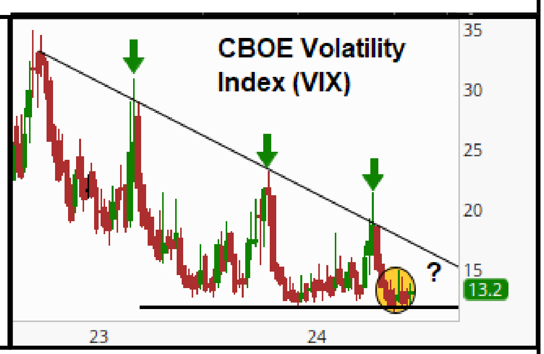
10-Year T-Note Yield Futures

- 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



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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.