SEVENS REPORT

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

June 28, 2024

Pre 7:00 Look

- Futures are modestly higher despite more weak earnings (NKE), as last night's debate is seen as boosting Trump's chances to win the election.
- President Biden's performance at last night's debate raised further concerns about his mental and physical stamina and hurt his re-election chances. The net result is markets are rallying on Trump's improved chances to win, as markets generally prefer Republican candidates due to pro-business policies (although actual results are mixed).
- Econ Today: Core PCE Price Index (E: 0.1% m/m, 2.6% y/y). Fed Speak: Bowman (12:00 p.m. ET), Daly (12:40 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,565.50	19.50	0.35%
U.S. Dollar (DXY)	105.89	-0.02	-0.02%
Gold	2,346.70	10.20	0.44%
WTI	82.37	0.63	0.77%
10 Year Yield	4.32%	0.03	0.63%

Equities

Market Recap

It was another choppy session in the equity markets yesterday as the S&P edged up to a new high for the week before disappointing economic data and hawkish Fed speak saw stocks pullback. Strength in a handful of mega-cap tech stocks saw the S&P 500 rebound late in the day to end with a modest gain of 0.09%.

The stock market opened little changed yesterday but a pullback in bond yields after mostly weak domestic economic data saw the broad indexes turn higher as dovish Fed policy bets and hopes for a soft landing drove tentative risk-on money flows early in the day. On the data front, continuing jobless claims (a proxy for unemployment, more on that in the economics section) hit the highest level since late 2021 suggesting an unforeseen slowdown in the labor market may be developing. Meanwhile, there were negative revisions to the previous Durable Goods headline and a proxy for business investment plunged unexpectedly.

Mega-cap tech stocks shrugged off a soft quarterly report from MU and MSFT, AMZN, GOOGL, and META all gained more than 1% in early trade while NVDA continued to struggle after its recent correction from a record high. The market pulled back into the European close after the Fed's Bostic mentioned the first rate cut is likely in Q4 (not September as markets are currently pricing for), but the S&P 500 stabilized at the opening lows and rebounded into the afternoon. There was another solid Treasury auction in the early afternoon, this one for 7-Yr Notes, which kept bond yields near their lows of the day and stocks revisited the highs into the mid-afternoon.

The choppy market conditions continued later in the session with stocks rolling back over after the Fed's Bowman mentioned the possibility of rate hikes if inflation does not ease and stated that the Fed is not yet at a point where rate cuts could even be considered. Late-day strength in mega-cap tech once again saw the S&P 500 close higher, but off the best levels of the day.

How and Why the French Election Could Impact Markets

Normally, U.S. markets don't pay attention to French politics, but this remains an abnormal time in markets and as a result, markets will be paying attention to the first round of voting Sunday in the French Assembly election. The reason markets will be paying attention to the results is because the election has the potential to affect U.S. stock and bond markets, so I wanted to cover 1)

Market	Level	Change	% Change
Dow	39,164.06	36.26	0.09%
TSX	21,942.16	148.26	0.68%
Stoxx 50	4,912.64	10.04	0.20%
FTSE	8,221.37	41.69	0.51%
Nikkei	39,583.08	241.54	0.61%
Hang Seng	17,718.61	2.14	0.01%
ASX	7,767.47	7.88	0.10%
Prices taken at previous day market close.			

What's happening, 2) Why it's important and 3) What would make it a market moving event.

Market	Level	Change	% Change
DBC	23.33	.12	0.52%
Gold	2,338.10	24.90	1.08%
Silver	29.26	.01	0.01%
Copper	4.3395	-.0275	-0.63%
WTI	81.95	1.05	1.30%
Brent	86.49	1.24	1.45%
Nat Gas	2.685	-.060	-2.19%
RBOB	2.5434	-.0012	-0.05%
DBA (Grains)	23.65	-.26	-1.07%
Prices taken at previous day market close.			

What's Happening? Put simply, France is electing a new parliament (called the Assembly) and investors are nervous a "far-right" party may become the majority party and change policy towards Europe, injecting geopolitical uncertainty into markets. For background, earlier in June the far-right National Rally party shocked political analysts by winning numerous seats in the European Parliament. In doing so, it made the case that the party, once viewed as fringe, is now the strongest party in France. This is concerning for markets because the National Rally party is a nationalist political party. While the platform and policies have wavered over the years (and even in the past month), generally speaking, National Rally has favored reduced immigration, "France for the French," and, generally speaking, less integration with the EU. What exactly that would mean if National Rally wins the election is unclear, but at a minimum, it will inject political uncertainty into the EU.

Why It's Important. Because markets don't like uncertainty. The market is craving political certainty and if National Rally becomes the majority party in France, it'll just inject more uncertainty into the European political outlook, one that's still dealing with the Russia/Ukraine war. Again, the policy specifics of National Rally have shifted a bit, but broadly they are a nationalist party which means less immigration, less international cooperation and integration. And since that's been the dominant model for Europe over the past 20+ years, a National Rally party victory in the third-largest country in the EU injects some level of uncertainty, and market's hate uncertainty.

What Would Make It a Market-Moving Event? If National Rally becomes the majority party. There are 577 seats in the French Assembly, so for National Rally to become the majority party, it would need to win 289 seats. Importantly, National Rally can be the largest party in the Assembly but not become the majority party, if it doesn't get more than 288 seats. The key difference is that if National Rally is just the largest party but not a majority, it will have to form a coalition government to get anything done. That will substantially reduce any chances that France deviates from normal operation with regards to the EU and international organizations. So, while their coalition will likely be more conservative than any previous French Assembly, it's likely not going to inject enough uncertainty into the markets to cause any significant volatility.

When Will We Know? French elections, like many French things, are complicated. The first round of voting is Sunday and the runoff round will be July 7. So, we won't know the make up of the French Assembly until after July 7.

What Can We Expect from The Markets In Response? If National Rally underperforms (it is expected to get between 180-280 seats by various news outlets) then we should see a rally in the euro and decline in the dollar (this could be a mild positive for U.S. stocks). But if National Rally outperforms and it looks like it will be a majority party, expect a moderate drop in the euro/rally in the dollar, global equity market weakness (but nothing too intense, not more than 1% I don't think) and strength in Treasuries/yields lower on a safety bid. Bottom line, National Rally outperformance would lead to more equity market volatility and likely a bid in Treasuries. And while it wouldn't be a bearish gamechanger, some short-term volatility should be expected.

Economics

Durable Goods Orders

- New Orders rose +0.1% vs. (E) 0.0% in May
- Core Capital Goods Orders fell -0.6% vs. (E) +0.1%

Takeaway

Headline New Orders for Durable Goods rose 0.1% in May, which was incrementally better than the expectation for no change. Revisions to the April data, however, were decidedly negative as New Orders were lowered from 0.2% in the initial release to just 0.2% in yesterday's release. Put differently, analysts were expecting no change in New Orders in May from April, which would leave the two-month total increase at 0.7%; however, between the slight headline beat for May and steep downward revisions to the April headline, the combined increase in New Orders for April and May were a far less impressive 0.3%. From May 2023, headline Durable Goods are barely positive, only up 0.1%.

Core Capital Goods orders (Non-Defense Capital Goods Ex-Aircraft), which offer a proxy for business investment, fell by 0.6% in May after a 0.3% rise in April and a -0.2% decline in March. Year over year, Core Capital Goods orders are up just 0.9%.

Bottom line, Durable Goods pointed to weaker business spending outside of the Transportation sector than economists had anticipated in H1'24 with tepid year-over-year growth figures in headline New Orders and the key subset Core Capital Goods, the latter of which indicates a significant slowdown in business spending plans, which is a leading indicator for economic growth.

From a market standpoint, the soft report was well-received as it bolstered the case for Fed policy rate cuts in the months ahead, and potentially more cuts in less time. But the weak report also suggests that slowdown risks may be higher than most investors expect right now as a hard-landing and economic recession are not priced into stocks with the S&P 500 just barely off a record high.

Market	Level	Change	% Change
Dollar Index	105.57	-.14	-0.14%
EUR/USD	1.0704	.0023	0.22%
GBP/USD	1.2643	.0021	0.17%
USD/JPY	160.78	-.03	-0.02%
USD/CAD	1.3693	-.0009	-0.07%
AUD/USD	.6648	.0000	0.00%
USD/BRL	5.5050	-.0160	-0.29%
Bitcoin	61,483.24	565.58	0.93%
10 Year Yield	4.288	-.028	-0.65%
30 Year Yield	4.427	-.020	-0.45%
10's-2's	-43 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.98%		
Prices taken at previous day market close.			

<u>Jobless Claims</u>

- Initial Claims fell to 233K vs. (E) 236K
- Continuing Claims rose 18K to 1.839 million

<u>Takeaway</u>

Initial claims for unemployment pulled back for the second week in a row, dipping from 239K to 233K last week. The back-to-back declines in initial claims points to a still-healthy and tight labor market especially after the early June rise to 243K, which was the highest level since August of last year. For now, initial claims are showing no real "cracks" emerging in the labor market.

The same cannot be said for continuing claims, which rose 18K to 1.839 million, the highest reading since November 2021 when the economy was still booming in the midst of the stimulus-fueled post-pandemic recovery. In contrast to the initial jobless claims number which remains historically low and consistent with a still-healthy labor market, the continuing claims figure breaking out to a multi-year high is concerning as there is a strong correlation between continuing claims and the official BLS unemployment rate.

And as the Hard Landing/Soft Landing Scoreboard noted earlier this week, a Hard Landing becomes a possibility if the labor market starts to rollover. Continuing claims data is beginning to suggest just that, which means incoming labor market data will need to be watched closely for additional evidence of a weakening jobs market.

Commodities

Commodities were mixed as escalating geopolitical tensions sent oil to fresh multi-month highs despite renewed demand concerns while gold rallied with bonds as yields retreated and copper extended losses on more weak economic data. The commodity ETF, DBC, climbed 0.52% on the day.

Oil futures posted big gains overnight Wednesday, gapping higher at the opening bell yesterday. The combination of intensifying military offensives between Israel with both Hamas to the south and Hezbollah to the north, and aggressive comments by Russia about relations with Western nations sent global oil benchmarks higher in early trade with WTI futures gapping higher at the primary session open to top $82/barrel for the first time since late April.

Oil pulled back midday as the disappointing Durable Goods report and multi-year highs in Continuing Jobless Claims (a proxy for the unemployment rate) raised concerns about the health of the economy while Fed speak was hawkish-leaning with one policymaker (Bowman) mentioning the possibility of more rate hikes in this cycle. Towards the end of the session, the geopolitical risks outweighed the demand worries and WTI revisited the morning highs, up 1.04% to just shy of $82/barrel.

Gold rallied solidly, ending the day higher by 1.08% after Wednesday's test of key support at $2,300/oz, a level that was defended into the back half of the week. Gold ended the day towards the middle of the June trading range bookended by aforementioned support at $2,300/oz. and resistance at $2,400/oz. leaving the yellow metal stuck in a sideways churn with currently neutral fundamental and technical backdrops.

A hot inflation report today could see support violated, which would open the door to a $100/oz drop towards the next support level just under $2,200 while a cool print would likely warrant a dovish market reaction and send gold back towards the upper end of the Q2 trading range near $2,400.

Switching to industrial metals, the slow bleed in copper continued with futures falling to fresh multi-month lows, ending the day down 0.60%. The combination of weak economic data and hawkish Fed speak proved to be dual headwinds for copper yesterday. The near-term path of least resistance remains lower for copper with support from early 2024 between $4.20 and $4.30 coming into focus as economic worries continue to mount.

Meanwhile, the recently established record highs are technically bullish for copper, but copper is also known for throwing "head fakes" even from fresh record highs like we saw in 2022 when copper futures hit all-time highs in March only to fall 37%+ over the course of the next four months.

For now, the near-term trend is more relevant to our research as it indicates a growing sense of uncertainty regarding global economic growth and is not supportive of the soft landing narrative.

Currencies & Bonds

The U.S. dollar fell slightly on Thursday thanks to lackluster economic data, although it finished off the worst levels of the day. The Dollar Index declined 0.11%.

The soft U.S. economic data pressured the dollar initially on Thursday and rightly so, as the economic reports did add to evidence implying the economy is moderating. That, in turn, is increasing expectations for a September rate cut and as such, the dollar declined albeit only modestly.

Part of the reason for that modest decline is the EU political uncertainty, as the euro and pound were only able to rally 0.2% yesterday despite the soft economic data and until there's more political clarity in France and UK, it'll be hard for the Dollar Index to meaningfully decline.

Turning to Treasuries, yield also fell modestly on the soft U.S. economic data. The 10-year yield declined 3 basis points and moved back below 4.30%. Again, the soft economic data pushed yields lower as markets more fully priced in a September rate cut, as data is showing clear moderation in economic activity. Also adding downward pressure to Treasury yields was another very strong Treasury auction, this time for $44 billion worth of 7-year Treasury debt. Overall demand was very strong for the auction (especially foreign demand) and that caps three strong auctions this week (2-year, 5-year and 7-year) and those results also pushed yields lower.

Stepping back, the 10-year yield is consolidating the recent declines between the 4.20%-4.30% range and that likely will continue until the next major update on growth and inflation (which really comes next week, although if today's Core PCE Price Index is a major surprise, it could move markets).

Have a good weekend,

Tom

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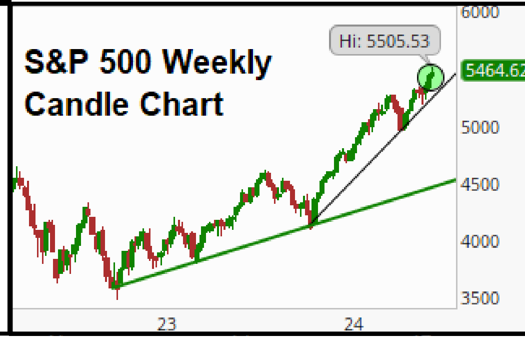
Technical Perspectives (Updated 6/23/2024)

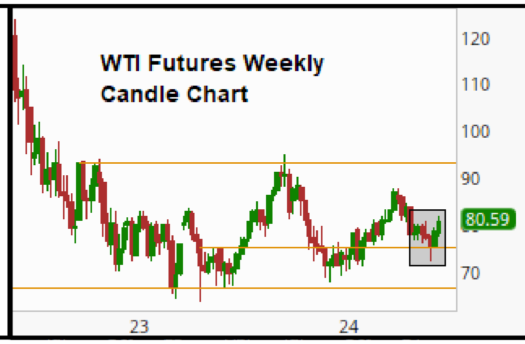
S&P 500

- 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



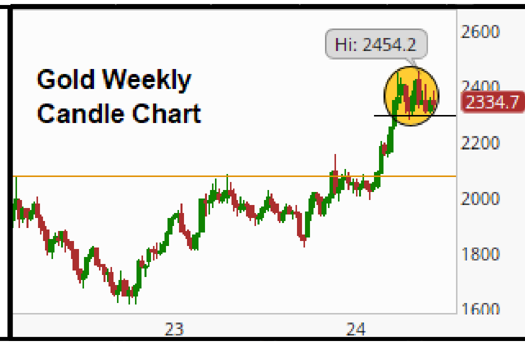
WTI Crude Oil

- 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



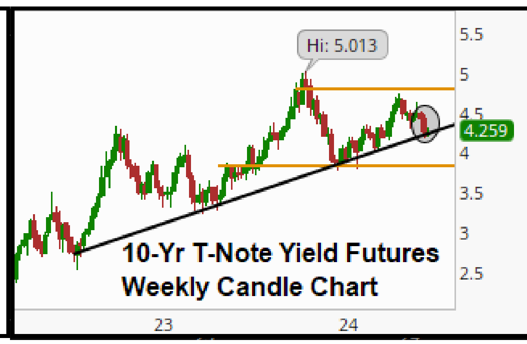
Gold

- 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



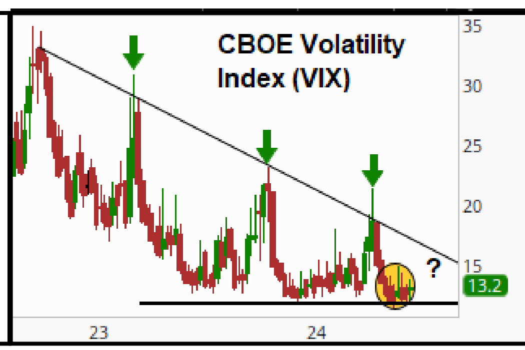
10-Year T-Note Yield Futures

- 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.