SEVENS REPORT

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

July 1, 2024

Pre 7:00 Look

- Futures are slightly higher ahead of a busy and holiday-shortened week of data, as French election results weren't as bad as feared while global economic data was mixed.
- National Rally slightly underperformed in the first round of voting in the French election and the other major parties have agreed to form a coalition to prevent it from becoming an outright majority, reducing French political risks.
- Economically, EU and UK May Manufacturing PMIs were mixed but importantly didn't raise any growth concerns.
- Econ Today: ISM Manufacturing PMI (E: 49.1).

Market	Level	Change	% Change
S&P 500 Futures	5,527.00	5.50	0.10%
U.S. Dollar (DXY)	105.62	-0.25	-0.25%
Gold	2,340.90	1.30	0.06%
WTI	81.96	0.42	0.52%
10 Year Yield	4.41%	0.07	1.67%

Equities

Market Recap

Markets churned sideways for much of last week in quiet trade before stocks rallied to new record highs on Friday before pulling back, as the Fed's preferred inflation gauge declined as expected, bolstering rate cut expectations and soft landing hopes. The S&P 500 edged lower by 0.08% last week and is now up 14.48% YTD.

Stocks began last week mixed as a wave of profit taking after the Q2 quadruple witching options expiration weighed on mega-cap tech (especially NVDA, which dropped nearly 7%) while the "rest of the market" was mostly higher as rate cut hopes and soft landing optimism buoyed risk assets. The S&P 500 fell 0.31%.

Most of Monday's moves were reversed on Tuesday as investors bought the dip in large-cap tech. NVDA notably recovered all of the early week losses to close higher by 7% while a "hot" Canadian CPI report poured some cold water on dovish, risk-on money flows and saw most of Monday's gains in "the rest of the market" unwind. The strength in tech saw the S&P 500 gain 0.39%.

The modest rise in stocks continued Wednesday in quiet trade but Thursday proved to be more choppy as stocks declined initially following disappointing Micron (MU) earnings. Markets rebounded following disappointing economic data.

Stocks rallied on Friday as Core PCE was in line with estimates while odds that former President Trump would win the 2024 election rose following the debate, a perceived positive for markets thanks to Republicans' typically pro-business policies. Stocks rallied throughout the morning and hit their highs around lunch time. However, the S&P 500 reversed and drifted lower in the afternoon amid profit taking and month- and quarter-end positioning. The S&P 500 dipped 0.41%.

Examining the Market Impacts of Thursday's Debate (What Happens If Biden's Replaced?)

Thursday's debate has shaken up the presidential race,

Market	Level	Change	% Change
Dow	39,118.86	-45.20	-0.12%
TSX	21,875.79	-66.37	-0.30%
Stoxx 50	4,940.39	46.37	0.95%
FTSE	8,190.52	26.40	0.32%
Nikkei	39,631.06	47.98	0.12%
Hang Seng	17,718.61	2.14	0.01%
ASX	7,750.74	-16.73	-0.22%
Prices taken at previous day market close.			

as President Biden's struggles have resulted in calls from Democrats to have him replaced as the nominee, while the night's events have moved the polls. While the November election is still a ways away, I did want to briefly cover the new political landscape following the debate so that we can 1) Confidently explain this to clients and prospects and 2) Understand what this means for markets and policies.

Market	Level	Change	% Change
DBC	23.23	-.10	-0.43%
Gold	2,334.40	-2.20	-0.09%
Silver	29.42	.16	0.56%
Copper	4.3705	.0220	0.50%
WTI	81.34	-.40	-0.49%
Brent	86.41	.02	0.02%
Nat Gas	2.602	-.083	-3.09%
RBOB	2.5267	-.0189	-0.74%
DBA (Grains)	23.78	.14	0.59%
Prices taken at previous day market close.			

Before getting into the consequences emanating from Thursday night, I did want to first update everyone on where things stood in the polls prior to the debate. According to RealClearPolitics.com, on Wednesday and Thursday Trump held a three-point and four-point lead according to the latest NY Times/ Sienna poll, and a four- and six-point lead according to the latest Quinnipiac poll. Those are national polls, and it's reasonable to assume those leads will increase following the debate. So, while there is still a lot of time left, Trump's chances of winning in November have increased following the debate.

In response to the debate performance and setback in Biden's re-election chances, there have been calls to replace the president as the Democratic nominee, not just by fringe party members but by current Democratic lawmakers. However, while that's possible, it is unlikely. And if it were to happen, here's how it would go.

President Biden has already secured 99% of the delegates through the primary elections. But these delegates have just pledged to vote for Biden to be the nominee, the actual vote hasn't happened yet. If Biden were to step down (or be removed) the Democratic Party would need to 1) Choose a successor and 2) Have the pledged Biden delegates vote for this successor before either August 7 (that's a tentative ballot deadline in Ohio) or at the Democratic convention on August 19 (if Ohio extends the ballot deadline).

Importantly, if the Democrats are going to make a change, they need to do it before August 19. After the convention, presidential ballots may already be printed in several states, making the chances of victory for any successor much more difficult.

If the Democrats do make a change, there are four potential replacements that appear to be in the running: Vice President Harris, Illinois Governor Pritzker, Michigan Governor Whitmer and California Governor Newsom. Notably, the limited polling that was done on a theoretical match up between those candidates vs. former President Trump also result in a close election. Point being, while the polls are dated and need to be refreshed, these replacement candidates did not materially alter the outlook for the election (although that may change).

For all the concern emanating from the Democratic camp, as of now, it's unlikely Biden is replaced. Prior to the debate, betting sites Bet365 and Sky Bet had Newsom (who seems to be the favorite if there is a change) at just a 4% chance of winning. On Friday, that rose to around 15%, a notable increase but far from substantial. Predict-It, meanwhile, had Biden at an 86% chance to be the Democratic nominee before the debate, but that had fallen to 58% on Sunday. Harris was given a 20% chance, while Newsom had a 17% chance.

Bottom line, the debate performance did alter the election outlook positively for Trump and the calls for Biden to step down as nominee are real and substantial. That said, it remains unlikely Biden will do that for several reasons, including 1) The replacement candidates don't poll substantially better vs. Trump, so it doesn't increase chances of Democrats winning in November and 2) It's a complicated logistical and procedural process that can be done, but not easily.

From a market standpoint, this turn of events is being viewed favorably, for now, as Republicans are generally considered "better" for the markets given their pro-business, pro-growth platform. However, I would caution against getting too bulled up on the idea of a Trump victory.

First, it's a long way until November and a lot of strange things can happen. Second, Trump is not a typical Republican. While markets performed well during his first term, he is touting substantial tariffs and trade restrictions that will inject uncertainty back into markets. Bottom line, Trump may be president and he may be positive for the markets, but it's much too early to implement an investing strategy based on the expectation of a Trump victory. There's simply too much time and too many unknowns. Bottom line, I would not chase a "Trump will win" market rally. What happens with growth and Fed rate cuts is much more important near term than who wins (or even runs) in November.

Economics

Last Week

The growth data last week furthered the idea that the economy is losing momentum, and while that's still being welcomed by investors because it makes a September rate cut more likely, the truth is that can change quickly, so we must continue to watch economic data closely and not get blindsided by slowdown fears.

The two notable growth reports this week were Durable Goods and jobless claims and they both signaled a loss of momentum. Durable Goods was a downright bad report, as the key metric in it, New Orders for Non-Defense Capital Goods ex-Aircraft (NDCGXA), a proxy for business investment, declined 0.6% vs. (E) 0.1%. That implies the previous "plateau" in business spending may be turning into a contraction (which would be negative for the overall economy). To be clear, we'll need to see a few more months of weakness before this risk becomes more substantial, but the drop in business spending is notable.

Bottom line, neither one of these numbers will cause slowdown concerns to rise materially, but they do add to a growing list of indicators that clearly point to a loss of economic momentum, and while that's viewed as positive now because it makes a September rate cut more likely, it can turn very, very quickly (and create a sudden and intense headwind on stocks).

Turning to inflation, the key report from last week was the Core PCE Price Index and it met expectations, rising just 0.1% m/m and declining to 2.6% y/y. That wasn't an incremental positive (it perfectly met expectations) but it did reinforce the idea that the Fed will cut rates in September and twice this year and as a result, it helped to solidify the early gains in futures and push the 10-year yield slightly lower.

This Week

This week is important from a data standpoint as we'll get the "Big Three" monthly reports on economic growth. And given the wavering in the data, these numbers will need to be solid, otherwise some hard landing fears will start to grow (a potential headwind on stocks).

If this were a regular week, it'd be considered busy from a data standpoint but it's even more so given the July 4th holiday, which will see markets close at 1:00 p.m. on Wednesday and remain closed on Thursday. Point being, we're getting a lot of potentially important data and just three and a half days of open markets to digest it, so volatility could be elevated in response.

The key report this week is Friday's jobs report and markets are still wary of a "Too Hot" number that could delay a September rate hike, for the first time in a long time, there is real risk of a "Too Cold" number increasing economic concerns. While none of the labor market indicators are signaling trouble in the labor market, they are mostly signaling moderation and a loss of momentum, and that can turn into trouble if it doesn't stop. The monthly jobs report has been the standout number and markets will want to see solid (but not spectacular) job adds on Friday to help keep labor market concerns at bay.

The two next most important reports this week are the ISM Manufacturing PMI (today) and the ISM Services

Market	Level	Change	% Change
Dollar Index	105.55	-.02	-0.02%
EUR/USD	1.0711	.0007	0.07%
GBP/USD	1.2636	-.0003	-0.02%
USD/JPY	160.82	.06	0.04%
USD/CAD	1.3688	-.0013	-0.09%
AUD/USD	.6667	.0020	0.30%
USD/BRL	5.5850	.0849	1.54%
Bitcoin	60,294.74	-1,199.94	-1.95%
10 Year Yield	4.343	.055	1.28%
30 Year Yield	4.502	.075	1.69%
10's-2's	-38 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.98%		

Prices taken at previous day market close.

PMI (Wednesday). Both PMIs dropped below 50 in April but the ISM Services PMI rebounded in May, positively not confirming broader weakness in the economy. At this point, the farther away from 50 the ISM Services PMI moves (and the closer to 50 the ISM Manufacturing PMI can get) the better for markets, as that will push back against the slowdown narrative. Conversely, if the manufacturing PMI drops below 50 and the ISM Services PMI falls back below 50, that will be an incrementally negative signal on economic growth and if it continues for a few more months, will set off growth alarm bells.

Commodities

Commodities were mixed last week as geopolitical tensions supported a rally to new multi-month highs in oil despite a sharp drop in domestic consumer demand, while gold held above support and copper made new lows on largely disappointing economic data, but both precious and industrial metals ended the week only little changed. The commodity ETF, DBC, gained 0.13% on the week.

Beginning with the noteworthy outperformer, WTI crude oil futures topped $82/barrel for the first time since late April last Thursday amid intensifying Israeli offensives in both Rafah to the south (Hamas) and into Lebanon to the north (Hezbollah), the latter raised concerns among global leaders including NATO member Turkey who affirmed support of Lebanon. WTI futures ended the week up 1.08%.

Those geopolitical concerns more than offset a decidedly bearish weekly EIA inventory report which revealed a sharp drop in consumer demand for refined products, a key factor that has been supporting recent gains in oil prices, while there were sizeable inventory builds in both commercial crude oil and gasoline supply. For now, supply concerns seem to be driving the market but the upside in oil prices will be limited by the latest signs of weakness in demand. Resistance between $83 and $84/barrel and near-term support has formed at $80.00.

Gold futures have so far held price support at $2,300/oz. as its new set of record highs continues to be digested. Gold benefitted from the Thursday bounce in bonds (yields lower) and a late-week pullback in the dollar and futures ended the week with a gain of 0.09%. The dollar has been appreciating in 2024 and further strength and/or higher yields are a risk to the YTD gains. If gold futures drop below support at $2,300/oz. expect follow through selling down towards support near $2,200/oz.

Currencies & Bonds

The Dollar Index was little changed last week despite some intra-week volatility, as concerns about European politics were largely offset by underwhelming U.S. economic data later in the week. The Dollar Index was essentially flat on the week.

The dollar started the week higher, but not because of anything dollar specific. Instead, anxiety about the looming French election, and the potential policies of the National Rally party should it become the majority party, weighed on the euro and, by association, the pound (the UK election is on July 4). Weakness in those two currencies pushed the Dollar Index above 106 by midweek. Those gains were reversed on Thursday and Friday as U.S. growth data (Durable Goods and Jobless Claims) missed expectations while corporate earnings results also pointed towards softening consumer spending.

In Treasuries, the 10-year yield fell 2 bps on the week in generally quiet trade. A combination of the underwhelming U.S. economic data and continued strong international demand for U.S. Treasuries at last week's auctions helped to push yields modestly lower. That said, it does feel like the 10 year wants to consolidate the declines of the past few weeks in the 4.20%-4.30% range.

Falling yields should still be a positive for stocks but there's also not a lot of room for error, as a drop in the 10 year below 4.00% would likely signal growth worries and at that point, it might not be a positive for stocks. Bottom line, falling yields are a tailwind on stocks for now, but there's not a ton of room left.

Have a good (short) week,

Tom

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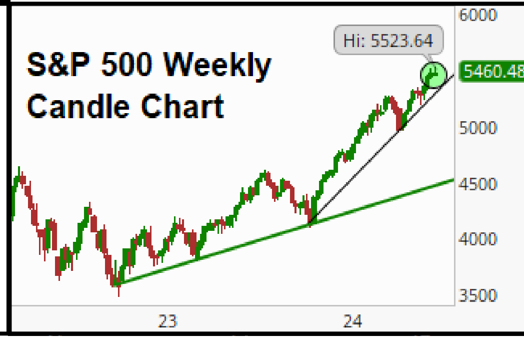
Technical Perspectives (Updated 6/30/2024)

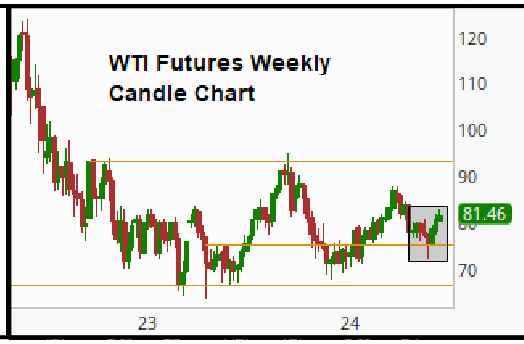
S&P 500

- 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: 5488, 5505, 5550
- Key Support Levels: 5448, 5403, 5278



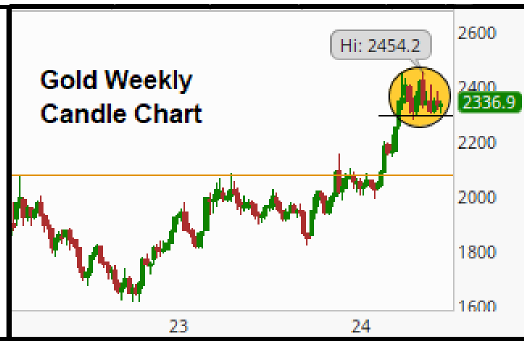
WTI Crude Oil

- 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: $81.81, $82.73, $83.81
- Key Support Levels: $80.45, $79.95, $78.49



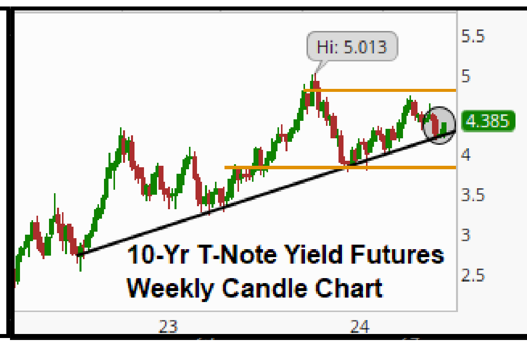
Gold

- Technical View: Gold has pulled back from record highs and begun to trend sideways with risks of a more-pronounced pullback building.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2374, $2407, $2430
- Key Support Levels: $2310, $2257, $2201



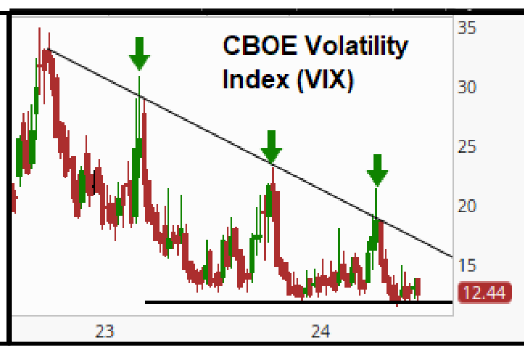
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs but so far is continuing to hold above the uptrend line dating back to late 2022.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.399, 4.476, 4.611
- Key Support Levels: 4.281, 4.218, 4.088



CBOE Volatility Index (VIX)

- Technical View: The VIX has stabilized after a sharp decline in late-April and early May and the "fear gauge" has been sideways since, despite new highs in the S&P.
- Primary Trend: **Neutral (since the week of May 6, 2024)**
- Key Resistance Levels: 12.76, 13.33, 14.47
- Key Support Levels: 12.24, 12.05, 11.86



SEVENS REPORT

Fundamental Market View
(Updated 6/30/2024)

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 fractional all-time high last week despite more mixed economic data, as markets remain in a "bad data is good for stocks" mode.*

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 also little changed last week as the dollar and global economic growth expectations didn't change materially last week.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as it was driven more by the European political outlook than anything else, as dysfunction in France pushed the dollar higher, while underwhelming data weighed on the greenback later in the week.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield declined another 2 basis points last week as it largely digested the big decline from two weeks ago.*

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.