SEVENS REPORT

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

July 10, 2024

Pre 7:00 Look

- Futures are higher again this morning amid firming Fed rate cut bets after Powell's first day of semiannual testimony on Capitol Hill while inflation data was mixed overnight.
- Economically, inflation data in Asia was mixed as Chinese CPI fell to 0.2% vs. (E) 0.4% y/y but Japanese PPI rose from an upwardly revised 2.6% in May to 2.9% in June.
- There are no notable economic reports today.
- Fed Speak: Powell (10:00 a.m. ET), Goolsbee & Bowman (2:30 p.m. ET), Cook (7:30 p.m. ET).
- There is a 10-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5640.00	8.75	0.16%
U.S. Dollar (DXY)	105.092	-.030	-0.03%
Gold	2380.30	12.40	0.52%
WTI	81.55	.14	0.17%
10 Year Yield	4.273	-.023	-0.54%

Equities

Market Recap

Stocks inched higher Tuesday as market focus was almost exclusively on Fed Chair Powell's Congressional testimony, which turned out to be largely a non-event. The S&P 500 edged up 0.07%.

In familiar fashion, stocks gapped up to all-time highs at the open with mega-cap tech stocks leading the advance. Newswires were fairly muted yesterday morning with just one economic report, the NFIB Small Business Optimism Index, coming in narrowly above estimates ahead of the Wall Street open.

After the open, the market drifted sideways amid a dearth of early catalysts as all eyes turned to Washington where Powell was poised to deliver his semi-annual testimony to Congress. Powell largely stuck to his recent, less-hawkish and more-dovish-leaning mantra about more balanced risks to the Fed's dual mandate, acknowledging a cooler labor market and soft real estate market.

The S&P 500 lurched up to its high of the day on the back of a strong 3-Yr Treasury Note auction with the yield awarded falling to 4.399%, down significantly from the prior auction's yield awarded of nearly 4.66%. The dovish reaction across asset classes and largely as-expected testimony from Powell saw the S&P 500 hold early gains but notably end towards session lows.

Powell Testimony Takeaways

Fed Chair Powell testified before the Senate Banking Committee on Tuesday as part of his semi-annual testimony and there were two notable takeaways from his comments. First, Powell continued to say that all the Fed needs is some more "good" inflation data to be in a position to cut rates. That is dovish on its face, but it's also the same thing he's been saying for the past month-plus and since a September rate cut currently has an 80% expectation from the market, that comment merely reinforced what is now widely expected, and as such it didn't really move markets.

Second, if you read between the lines of Powell's comments, it's clear the Fed is focusing on slowing growth, while the market still is not. Powell made several small comments to reflect this reality, including some comments on cooling in the labor market and again referencing that risks to the outlook are balanced between inflation and growth. Yet perhaps the most notable comment was that inflation, "is not the only risk we face."

I view Powell's commentary as reinforcing my concern

Market	Level	Change	% Change
Dow	39,291.97	-52.82	-0.13%
TSX	22,042.50	-83.63	-0.38%
Stoxx 50	4,943.68	40.06	0.82%
FTSE	8,187.52	47.71	0.59%
Nikkei	41,831.99	251.82	0.61%
Hang Seng	17,471.67	-51.56	-0.29%
ASX	7,816.81	-12.90	-0.16%

Prices taken at previous day market close.

that the market is complacent to growth risks. That doesn't mean I'm predicting a recession. I am not. But I do think the chances of a growth scare continue to rise, and at this point there is a growing disconnect between what the Fed is worried about (growth) and what the market is worried about (nothing, other than AI earnings).

Market	Level	Change	% Change
DBC	23.30	-.16	-0.68%
Gold	2,370.60	7.10	0.30%
Silver	31.08	.17	0.54%
Copper	4.586	-.032	-0.69%
WTI	81.54	-.79	-0.96%
Brent	84.77	-.98	-1.14%
Nat Gas	2.342	-.024	-1.01%
RBOB	2.5241	-.0138	-0.54%
DBA (Grains)	24.37	.36	1.50%

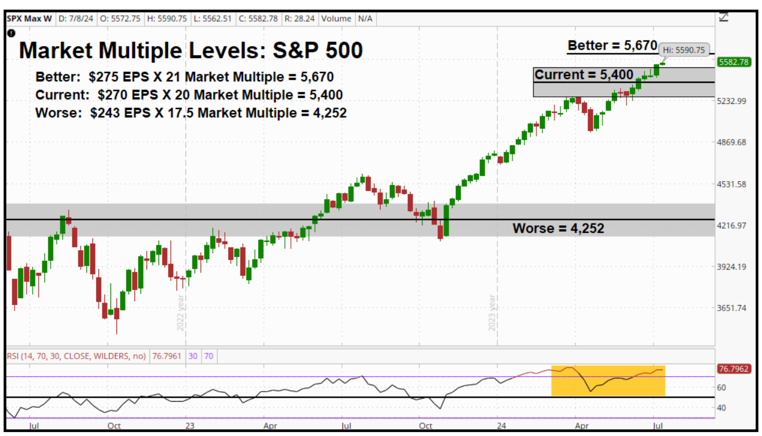
Prices taken at previous day market close.

From a market standpoint, this reinforces our preference for lower-beta sectors and factors, such as TDIV in tech and XLU/XLP/XLV/USMV/SPLV sector and broad market ETFs. Finally, if growth does slow more than expected, we continue to think longer-duration bonds could be one of the biggest beneficiaries (longer-duration bond ETFs was the focus of the most-recent Alpha issue. Click here to learn more).

MMT Chart: Scenario Targets Hit New Highs

There were significant upside revisions to all three Market Multiple Table scenario targets for the S&P 500 in July as the earnings estimate inputs rolled forward to calendar year 2025 figures, which are higher than the previously utilized 2024 earnings estimates by between $8 and $29/share. While the new 2025 earnings estimates are higher than the 2024 ones used in June, the market multiples were reduced for both the current situation and better-if scenarios, moderately limiting the upward revisions to the S&P 500 targets themselves. The net result of these new MMT inputs was new record high targets for all three scenarios and consequently the S&P 500 began the week trading below the better-if scenario target for the first time in months. Although it is worth noting that the index is still closer to the better-if target (within 2%) than the current situation target (3% below), which underscores persistently optimistic investor sentiment as we begin H2'24, most notably surrounding AI-exposed corners of the market. Meanwhile, the worse-if situation is a staggering 30% below where the S&P 500 began the week, near last October's lows, which serves as a stark reminder that markets don't go up forever and a pullback, depending on the severity, could wipe out a good portion or even all of the YTD gains in the S&P 500.

Current Situation: The current situation price target in the July Market Multiple Table rose considerably in July with the new 2025 S&P 500 expected EPS figure of $270 being handily above the 2024 figure of $243 used in June. The multiple range, meanwhile, was lowered from 21X to 19.5X-20.5X with a midpoint of 20X. Those numbers provide a target range for the S&P 500 of 5,265-5,535 with a midpoint of 5,400, which is up from the June midpoint of 5,103. That was notably a near-6% increase to the midpoint target between June and July, one of the largest one-month increases ever in a Market Multiple Table update.



On the charts, the first thing that jumps out is the market's interaction with the lower bound of the current situation target range at 5,265. The S&P 500 peaked within one point of that figure on an intraday basis in late March prior to the 6% pullback to start Q2. Once the market broke out to new highs again in mid-May, the market retraced back to the 5,265 area before resuming to new records in June, which resulted in the lower bound of the current situation range becoming a pivot point within a continuation pattern higher. The second technical observation regarding the current-situation target range is that the S&P 500 never "traded through" the midpoint of 5,400 but instead gapped up above it in mid-June. The index proceeded to pull back and test 5,400 the two days following the break higher but the level was defended both times prior to the market continuing to new records. Finally, the upper bound of the current-situation target range is where the market closed before the July 4th and opened after. As such it should offer some degree of price support but it is not a formidable level that would be defended in the event of a real negative catalyst. The midpoint is incrementally more "sturdy" from a technical standpoint; however, the lower bound of the current situation target range is by far the most formidable support level to watch in the event of a potential pullback in this market.

Things Get Better If: The better-if scenario price target in the July Market Multiple rose to levels beyond where the S&P 500 started the month for the first time all year. Expected EPS for the S&P 500 in 2025 jumped to $275 from the 2024 figure of $246. Like the current situation, the multiple was reduced from 22X in June to 21X in July. Those new figures provide a better-if scenario target of 5,670, which is up from 5,412 in June.

Looking to the charts, the fact that the better-if target is above the S&P's record highs means that there is obviously no price history to analyze. However, some levels to watch beyond just the round number, better-if scenario target of 5,670 would be 5,650, 5,675 and 5,700 as those 25-point interval levels tend to attract higher volumes and open interest in the options market and therefore begin to act "magnetic" the index.

Things Get Worse If: The worse-if scenario price target also improved in July but only modestly. S&P 500 earnings expectations for 2025 rose modestly from the 2024 figure of $235/share to $243/share in this month's MMT update. With the market multiple target range unchanged at 17X-18X, those new EPS figures provide a target range of 4,131-4,374 with a midpoint of 4,252, up from 4,113 in June. The increase to the worse-if scenario target was by far the smallest this month.

On the charts, the S&P 500 has had a significant amount of price interaction with the worse-if target range of 4,131-4,374 in recent history beginning in May 2021 and lasting through November 2023. The most recent interactions are always the most technically valuable so we will focus on H2'23 when the S&P 500 was beginning to pullback from the late-July all-time highs. The S&P defended the upper bound of the worse-if range at 4,374 in August and bounced back towards the highs before falling to the midpoint at 4,252 in late September, then revisited the upper bound, before ultimately fell to the lower bound at 4,131, which was within 15 points of where the index bottomed in late October. Point being the entire worse-if target range is a critically important technical area with both the upper and lower bounds as well as the midpoint all likely to offer solid support in the event of a sharp pullback in the S&P 500.

2025 Earnings Estimates Raise Margin of Error Risks

For most of 2024, earnings expectations have been pretty steady moving by a few dollars/share here and there leaving the market multiple to be the only moving piece to the fundamental valuation puzzle in the stock market. However, with earnings expectations rolling forward to 2025 from 2024, the level of certainty that earnings expectations are in line with reality plunges as a lot can happen over the next seven quarters when final 2025 earnings will be known. And while 2025 earnings expectations are favorably higher and resulted in higher MMT targets this month, the margin for error in next year's estimates is also higher meaning that in addition to all of the fundamental risks outlined in yesterday's MMT update, the risk that the 2025 earnings outlook changes meaningfully, higher or lower, adds to the possibility that markets could move from current levels in a big way starting in the coming weeks as Q2 earnings season gets underway.

Market	Level	Change	% Change
Dollar Index	104.81	.14	0.14%
EUR/USD	1.0813	-.0011	-0.10%
GBP/USD	1.2787	-.0020	-0.16%
USD/JPY	161.28	.45	0.28%
USD/CAD	1.3632	-.0003	-0.02%
AUD/USD	.6740	.0003	0.04%
USD/BRL	5.4178	-.0526	-0.96%
Bitcoin	57,763.9	1,459.36	2.59%
10 Year Yield	4.300	.031	0.73%
30 Year Yield	4.495	.037	0.83%
10's-2's	-33 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.94%		
Prices taken at previous day market close.			

For a higher-resolution, unbranded version of the latest MMT chart please email info@sevensreport.com.

Commodities

Commodities traded with a clear risk-off tone as oil and industrial metals pulled back while gold rallied as traders were focused on Powell's testimony, which the Fed chair struck a somewhat cautious tone on the economy while remaining optimistic that inflation is moving down towards 2%. The commodity ETF, DBC, fell 0.68%.

Crude oil futures were little changed in morning trade yesterday but began to meaningfully roll over as markets were focused on Powell's commentary. Powell's acknowledgment that the housing sector has begun to suffer because of high interest rates while noting that the labor market has cooled "considerably" sparked demand worries. Additionally, any "weather bids" related to Hurricane Beryl appeared to continue to unwind as the impact of the less-severe-than-feared storm on the Texas energy industry was proving to be limited. WTI ended the day down 0.90%.

The EIA's Short Term Energy Outlook Survey favored the bulls as production forecast were lowered for 2024 and 2025 while price estimates were raised by $2-$3 for both WTI and Brent futures contracts this year but the news was largely shrugged off by the market. Looking ahead, the summer oil rally appears to be losing steam after last week's test of technical resistance above $84/barrel and the possibility that oil falls rangebound in the low $80s is becoming increasingly likely. Two risks to oil falling below $80 this week are a "hot" CPI print or a reversal in the huge spike we saw in gasoline supplied in last week's EIA report. If the EIA and CPI reports are as-expected, then oil is likely to continue to consolidate in the low $80s in the near term.

In metals, it was clear that traders were focused on Powell as the cautious economic commentary sparked a simultaneous risk-off move in copper with futures falling to session lows while gold reversed from negative territory to end the day positive. Copper futures ended lower by 0.71% but are within striking distance of a multi-week high at $4.70 while gold gained 0.34% on the day after holding above support at $2,355.

Going forward , the outlook for gold remains better than copper amid simmering risks of volatility in equity markets spurring safe-haven demand while economic uncertainty is a growing headwind on copper and the industrial metals.

Currencies & Bonds

Trading was quiet for the second straight day in the currency and bond markets as Powell's testimony largely confirmed expectations for a September rate cut while a Treasury auction failed to materially move markets. The Dollar Index rose 0.15% while the 10-year yield gained 3 basis points (closing at essentially 4.30%).

Fed Chair Powell wasn't overtly dovish but he did point towards a September rate cut as long as the Fed received good news on inflation between now and then. And since that's exactly what the market had priced in before he spoke, it caused little market reaction in currencies or bonds (the dollar was up slightly before hand and didn't really move after his speech). Looking internationally, the euro and pound both dipped slightly in similarly quiet trade there was no notable foreign economic data nor any notable BOE or ECB central-banker speak.

For the dollar to move sustainably below 105 given the expected rate cuts from the ECB and BOE, we will need to see U.S. data roll over, likely hard. And while U.S. data is softening, it's not nearly bad enough to make markets think the Fed is about to become more dovish than the ECB or BOE.

In Treasuries, the 10-year yield rose slightly, mostly in a mild bounce as the 10-year yield seems to be digesting recent news around the 4.20%-4.30% range. Initially, the 10-year yield was 4 basis points higher but it cut that gain in half following another strong Treasury auction.

Bottom line, with Powell pointing towards a September cut and inflation falling and growth slowing, it's hard to see a scenario where yields rise sharply, and the path of least resistance remains lower for Treasury yields. The question now is just how quickly they fall (and growth, more than anything else, will decide that).

Have a good day,

Tom

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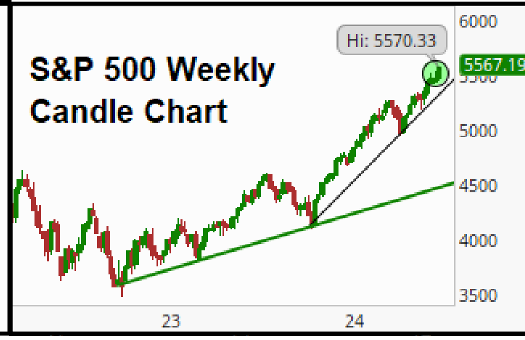
Technical Perspectives (Updated 7/7/2024)

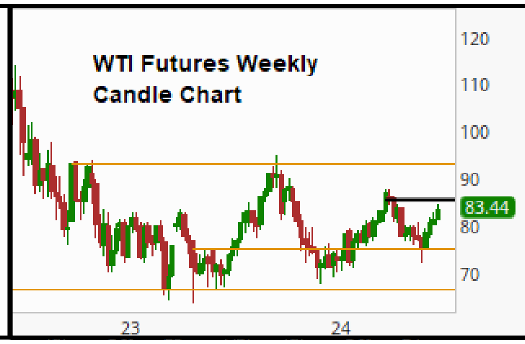
S&P 500

- Technical View: **The medium-term trend in the S&P 500 remains bullish** as stocks have recovered to fresh record highs in mid-2024
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5575, 5610, 5650
- Key Support Levels: 5509, 5448, 5375



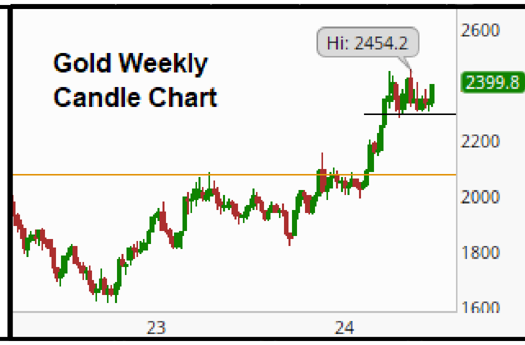
WTI Crude Oil

- Technical View: The trend in oil has begun to turn sideways in mid-2024; however, the higher lows established in H1 '24 leave the benefit of the doubt with the bulls.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $83.60, $84.45, $85.34
- Key Support Levels: $83.17, $82.46, $81.75



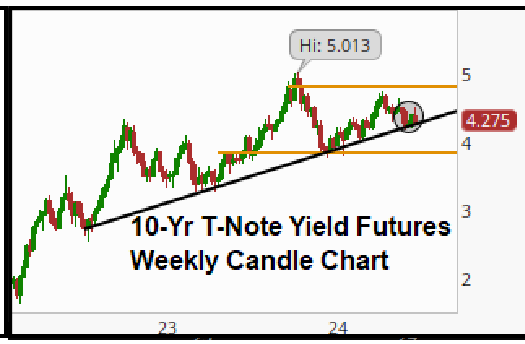
Gold

- Technical View: Gold rallied back towards the 2024 record highs in the mid-$2,400 range to start Q3 leaving the long-term uptrend intact.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2407, $2425, $2454
- Key Support Levels: $2310, $2257, $2201



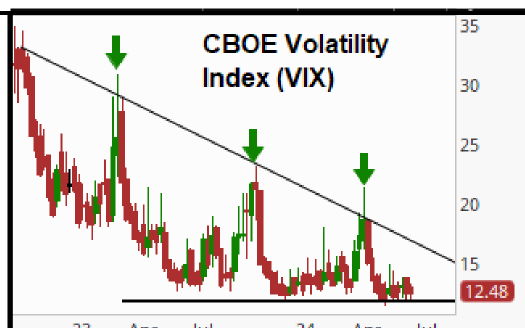
10-Year T-Note Yield Futures

- 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: 4.327, 4.429, 4.547
- Key Support Levels: 4.246, 4.184, 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: 12.98, 13.85, 14.47
- Key Support Levels: 12.37, 12.03, 11.86



SEVENS REPORT	Fundamental Market View (Updated 7/7/2024)

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 record high last week as disappointing economic data further increased expectations for rate cuts while investors are not yet worried about economic growth (although we continue to think that's a vulnerability).*

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 soft U.S. data as a falling dollar boosted hard assets.*
US Dollar	**Neutral**	*The Dollar Index declined moderately last week on a combination of soft U.S. economic data and after some political improvement in Europe. However, for the dollar to continue to decline we'll need to see consistently weaker U.S. data.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield declined modestly last week as soft economic data late in the week offset selling in Treasuries from investors who sought short-term protection from EU political dysfunction earlier in the month.*

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.