SEVENS REPORT

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

July 17, 2024

Pre 7:00 Look

- Futures are moderately lower thanks to significant weakness in tech stocks.
- Semi-conductor chip stocks are lower this morning on a trifecta of negative news including soft ASML guidance, reports of tighter chip restrictions with China and bellicose rhetoric from Trump on Taiwan in a recent interview.
- Econ Today: Housing Starts (1.305M), Industrial Production (E: 0.3%). Fed Speak: Barkin (9:00 a.m. ET), Waller (9:35 a.m. ET).
- Earnings Today: ASML ($3.87), JNJ ($2.82), UAL ($3.97).

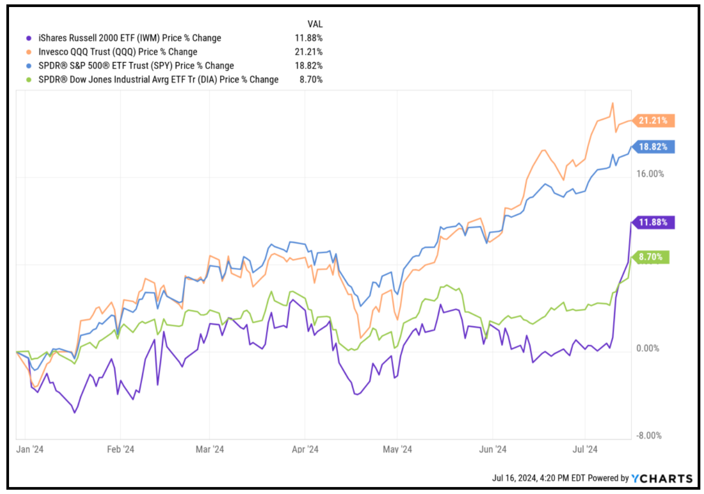
Market	Level	Change	% Change
S&P 500 Futures	5,676.24	-41.00	-0.72%
U.S. Dollar (DXY)	103.70	-0.56	-0.54%
Gold	2,477.60	9.80	0.38%
WTI	81.13	0.38	0.47%
10 Year Yield	4.17%	0.01	0.27%

Equities

Market Recap

Another day, another record high for the S&P 500 as investors continue to focus on looming rate cuts and a potential pro-growth/business-friendly Republican government in November. The S&P 500 rose 0.64%.

Stocks were slightly higher from the outset but a Goldilocks Retail Sales report, which was better than expected but not good enough to push back on rate cut expectations, helped stocks rally pre-market. From there, newsflow quieted, but in this environment no news favors the bulls as investors focused on the idea of looming rate



The Russell 2000 has rallied more than 11% in five trading days (since the CPI report) and materially closed the performance gap with the Nasdaq/tech stocks.

cuts, surging expectations for a Republican sweep in November and falling yields to chase stocks higher throughout the morning and afternoon session.

As mentioned, actual news on Tuesday was minimal as earnings results were mixed but generally fine, economic data was Goldilocks and there weren't any notable geopolitical or domestic political developments. The S&P 500 rallied into the close to finish at session highs.

Trading Color: The Post-CPI Rotation to Cyclicals and RSP Accelerated

The post-CPI outperformance of cyclicals and the "rest" of the market over tech continued Tuesday as markets view the current set up of looming rate cuts and a Republican victory as positive for stocks most leveraged to economic growth. The Russell 2000 surged another 3.5% while the Dow Industrials gained 1.85%, its best day in over a year. The Nasdaq was up fractionally.

Stepping back, the massive performance gap between tech and the rest of the market has closed markedly

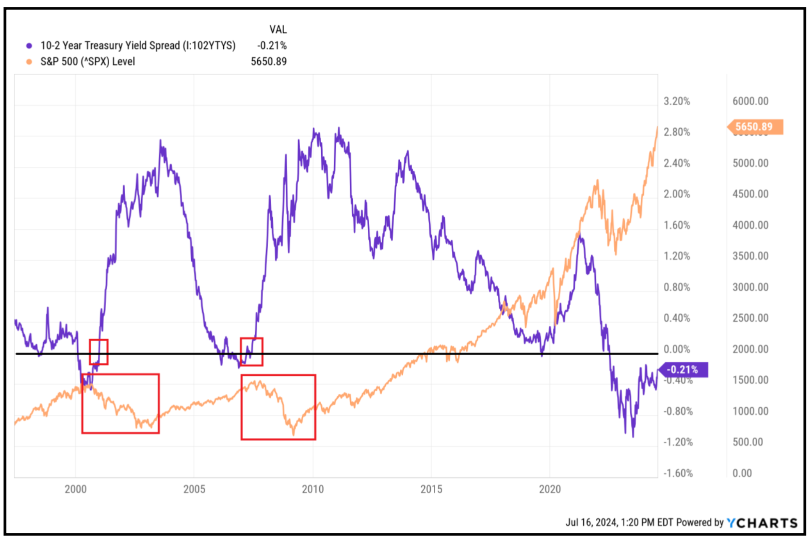
Market	Level	Change	% Change
Dow	40,954.48	742.76	1.85%
TSX	22,995.39	243.71	1.07%
Stoxx 50	4,904.76	-43.07	-0.87%
FTSE	8,164.83	-0.07	0.00%
Nikkei	41,097.69	-177.39	-0.43%
Hang Seng	17,739.41	11.43	0.06%
ASX	8,057.90	58.58	0.73%
Prices taken at previous day market close.			

over the past few trading days, **as the Russell 2000 has risen 11.5% in the past five trading sessions, and the performance gap between the Russell and the Nasdaq has closed to just 10% (from nearly 20% over a week ago).**

Market	Level	Change	% Change
DBC	23.06	-.06	-0.29%
Gold	2,469.10	40.20	1.66%
Silver	31.51	.58	1.87%
Copper	4.4565	-.0700	-1.55%
WTI	80.80	-1.11	-1.36%
Brent	83.77	-1.08	-1.27%
Nat Gas	2.182	.024	1.11%
RBOB	2.4766	-.0150	-0.60%
DBA (Grains)	23.92	-.32	-1.34%
Prices taken at previous day market close.			

Looking at sectors, cyclicals outperformed. Industrials gained 2.5% while materials and consumer discretionary rose 2% each. Healthcare (on strong UNH earnings) and financials (on strong BAC earnings) also rose more than 1%.

The only sector to finish in the red Tuesday was tech (XLK), which fell a modest 0.33%, as the rotation from tech to the "rest" of the market continued apace and while the market is obviously stretched in the short term and due for some digestion (at a minimum) it's going to take negative news on rate cuts or Trump to stop this momentum, and until that happens the "rest" of the market (cyclicals, value, RSP) should continue to outperform SPY and tech.



The 10s-2s yield spread has risen to multi-month highs and is threatening to turn back positive. However, according to market history, that will not be a good signal for stocks.

__The Yield Curve Is Getting Close to Un-Inverting. Is That a Good Thing?__

If an inverted yield curve is a recession warning signal, does that mean when the yield curve un-inverts (and turns back positive) it's an economic all-clear signal?

That's a reasonable question to ask (and one I've been asked before) and it's especially timely right now because, after more than two years of an inverted yield curve, the 10s-2s spread is near multi-month highs and threatening to turn back positive (un-invert) for the first time since mid-2022.

So, would that be an economic "all clear?" No, it would not, and it would be especially negative for the stock market according to recent market history.

Since 1998 there have been six inversions of the 10s-2s yield spread: June 1998, February 2000, January 2006, June 2006 and, more recently, August 2019 and July 2022.

Three of those inversions, June 1998, January 2006 and August 2019 were extremely limited to around a month in 1998 and January 2006, and just a day or two for the August 2019 inversion. Because the current inversion is over two years old, I don't think analyzing those three instances is particularly useful, as they sent a much different economic signal than the longer inversions.

The inversions of early 2000 and 2006 were much longer (just under a year in both instances) and are more analogous to the current inversion, which again is more than two years old. Because of this, I think the conclusion is notable: **In both prior instances (2000 and 2006) the 10s-2s yield spread un-inverting (so turning back positive) was a decidedly negative signal for stocks.**

Looking at the early 2000's inversion, the 10s-2s spread turned back positive on December 29, 2000, when the S&P 500 was trading 1,320. The S&P 500 declined for the next 22 months, bottoming out around 785 in October 2022. The S&P 500 didn't return to 1,320 until the third quarter of 2006!

Looking at the next example, the 10s-2s spread turned back positive on June 6, 2007, after being inverted for nearly a year. On June 6, the S&P 500 was trading at 1,517. The S&P 500 declined for the next 21 months, bottoming out around 670 in March 2009. The S&P 500 didn't trade back above 1,500 until the first quarter 2013.

I appreciate this is a somewhat simplistic look at things and that this era is not the same as the tech bubble burst of 2000 or the housing bubble burst of 2008. But I do think this is worth pointing out for a simple reason: 10s-2s turning back positive is both logically and practically a warning sign of an imminent economic slowdown. Here's why.

When 10s-2s turns back positive, it's usually because the 2-year Treasury yield is falling quickly as investors price in aggressive rate cuts. Rate cuts usually occur because the Fed is worried about economic growth. That's happening right now, as the market prices in 100% chances for a September and December rate cuts and a growing chance for a third cut this year. The 2-year yield has declined from a high of 5% in April to 4.47% today (and more than half that decline has come in the past month). That's the market pricing in Fed rate cuts and the net result is a rise in 10s-2s as the spread has increased from -50 basis points in June to a high of -24 basis points recently.

The point here is the yield curve is getting close to un-inverting and that may be heralded as a positive by the financial media. However, for inversions that are lengthy (and this one is extremely lengthy) the 10s-2s yield spread turning back positive is not historically a positive event and may, in fact, be a signal for equity market volatility.

As such, the rise in 10s-2s is reinforcing my concern that investors are under appreciating the economic risks facing this market in the coming quarters and instead are viewing the world through positively tinted glasses. I very much hope they are right. I hope this time is different than 2000 and 2006 and given how stretched the S&P 500 is on AI enthusiasm and how the rest of the market is trying to quickly catch up, it better be different this time, otherwise this is not a positive set up for investors.

We'll continue to watch 10s-2s closely and when it un-inverts (turns back positive) we will alert you to it, as historically that's a time to increase vigilance.

Economics

Retail Sales

- June retail sales were unchanged vs. (E) -0.3%

Takeaway

June retail sales were surprisingly strong and pushed back against the idea of rapidly slowing economic growth and that helped support the rally in stocks. More to that point, this was a Goldilocks report as retail sales weren't strong in June, but they didn't decline, either, while we saw small positive revisions to the May data (0.1% to 0.3%).

Importantly, the details of the Retail Sales report were also solid as Control Retail Sales, which is retail sales less gasoline, autos and building materials, rose a solid 0.9% vs. (E) 0.2%. Control Retail Sales is the more "pure" look at discretionary consumer spending and the bounce in it was clearly a positive.

Stepping back, the retail sales report doesn't push back against the idea of slowing growth (U.S. economic growth is still slowing). But it does highlight that growth isn't in a nosedive and that remains an important distinction for investors to consider.

The likelihood of a near-term collapse in economic activity is very low given the unemployment rate is still around 4%. But the idea of a continued loss of momentum that turns into something worse in late '24 or early '25 is still very much real, and that's the big fear—not that growth is imminently about to roll over but instead the ultimate growth risks to this market are being underappreciated, and that remains a concern beyond the short term.

Market	Level	Change	% Change
Dollar Index	103.96	.08	0.08%
EUR/USD	1.0898	.0004	0.04%
GBP/USD	1.2970	.0002	0.02%
USD/JPY	158.39	.33	0.21%
USD/CAD	1.3675	-.0008	-0.06%
AUD/USD	.6733	-.0027	-0.40%
USD/BRL	5.4326	-.0121	-0.22%
Bitcoin	65,133.63	1,756.07	2.77%
10 Year Yield	4.167	-.062	-1.47%
30 Year Yield	4.374	-.080	-1.80%
10's-2's	-27 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.81%		
Prices taken at previous day market close.			

Commodities

Commodities were mixed as a recently familiar pattern of strength in gold and weakness in the energy complex left the commodity ETF, DBC, lower by 0.37%.

Gold hit a new all-time high on Tuesday as it rallied 1.8% and touched the $2,470/oz. level before pulling back lightly to close at 2,465. The reason for the rally in gold is, broadly, the same as the ongoing rally in stocks: Expectations for Fed interest rate cuts, the prospect of a pro-growth and, probably, higher-deficit Republican administration and momentum. Of those three factors, rate cut expectations are the main driver of the gold rally as investors are starting to price in a greater chance of three rate cuts in 2024.

Bottom line, gold is rallying at a time when it should be rallying: A falling dollar, elevated geopolitical unrest, imminent Fed rates cuts and the prospects of higher-for-longer U.S. deficits. Gold will need to digest some of these gains but if this bullish narrative continues, gold rallying through $2,500/oz. towards $2,750/oz. on momentum isn't just possible, it's likely.

Turning to energy, oil was again weak and declined 1.3% thanks, mostly, to the same negative influence from Monday: Worries about Chinese economic growth. While Monday's growth worries emanated from Chinese economic data, Tuesday's concern came from luxury goods retailer Richemont, who sited substantial weakness in Chinese consumer demand as one of the reasons for their disappointing earnings. Due to its top heavy economy, luxury goods demand can be a strong anecdotal indicator of Chinese economic growth and the fact that Richemont saw demand for its goods drop by more than 20% is an clear warning signal on the Chinese economy.

If the Chinese economy fails to more fully recover or even softens, that will sap demand for oil and given OPEC+ seems to be fraying at the edges on its production discipline, a Chinese slowdown would add downward pressure to oil. Support at $80/bbl will be in focus today as we get the weekly inventory numbers and if they are bearish, don't be shocked if WTI crude trades with a "7" handle on it.

Currencies & Bonds

Treasuries were again in focus as both the 2- and 10-year yields declined modestly. The 10-year yield fell 6 basis points.

The only notable economic report Tuesday, Retail Sales, was stronger than expected and in that instance, one would normally expect Treasury yields to rally in response to the better data. However, the retail sales report was more Goldilocks than strong and it certainly wasn't good enough to push back on rising rate cut expectations. Additionally, while the U.S. retail sales was Goldilocks, global data is showing signs of losing momentum, especially in China where there was more downbeat sentiment on that economy.

Bottom line, it's a global bond market and if the global economy is also losing momentum, considering the U.S. economy remains the "best" developed house on the proverbial global block there will be demand for Treasuries and that's why yields fell modestly on Tuesday.

In currencies, markets were again little changed as none of the data or Fed speak altered the outlook for rate cuts (Fed to cut in September, ECB and BOE to cut later in the summer). The Dollar Index rose 0.05%.

The Dollar Index initially popped on the better-than-expected retail sales report, rising 0.2% following the release. But after that knee-jerk reaction, the greenback bled lower throughout the day and closed unchanged and rightly so as the retail sales report wasn't good enough to alter the outlook for rates. The euro and pound were both little changed as there was no notable economic data or central bank speak to move markets. The euro and pound were flat on the day.

Bottom line, the dollar remains appropriately priced around 103-106 based on expectations for moderating (but not collapsing) U.S. growth, a September rate cut and looming rate cuts by the ECB and BOE. For the dollar to recline through 103 toward 100, we'll have to see growth materially weaken and that's simply not likely in the near term.

Have a good day,

Tom

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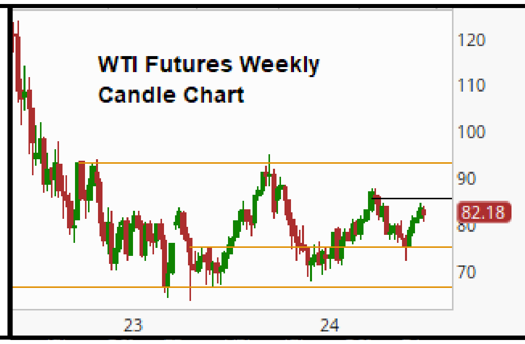
Technical Perspectives (Updated 7/14/2024)

S&P 500

- Technical View: **The medium-term trend in the S&P 500 remains bullish** as stocks have consistently rallied to fresh record highs in mid-2024.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5633, 5656, 5700
- Key Support Levels: 5585, 5509, 5448

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: $83.44, $84.45, $85.34
- Key Support Levels: $81.81, $80.59, $78.49

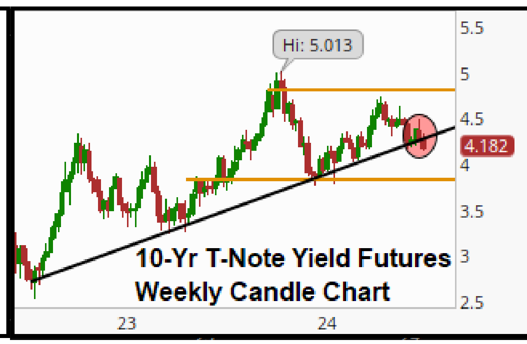


Gold

- 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: $2421, $2438, $2454
- Key Support Levels: $2339, $2310, $2257

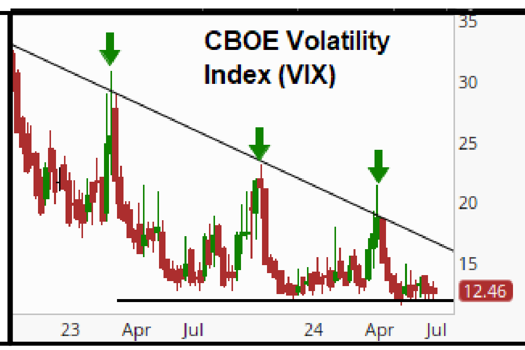
10-Year T-Note Yield Futures

- Technical View: The 10-year yield violated a multi-year uptrend line last week, a step towards a shift in trend from bullish to neutral with the late-2023 lows in focus.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.275, 4.358, 4.454
- Key Support Levels: 4.088, 3.935, 3.798



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: 13.33, 13.85, 14.47
- Key Support Levels: 12.37, 12.03, 11.86



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Fundamental Market View (Updated 7/14/2024)

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 CPI rose less than expected and boosted investor expectations for a September rate cut and two rate cuts in 2024.*

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 declined modestly last week despite a weaker U.S. dollar, as global growth worries weighed on oil while gold saw a modest rally thanks to the lower dollar.*
US Dollar	**Neutral**	*The Dollar Index declined again last week following the better-than-expected CPI report, as markets more fully priced in two rate cuts in 2024.*
Treasuries	**Turning Positive**	*Treasury yields declined moderately last week as the smaller-than-expected increase in CPI pressured yields, and the 10 year fell back into the 3.75%-4.25% "stock positive" range.*

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.