SEVENS REPORT

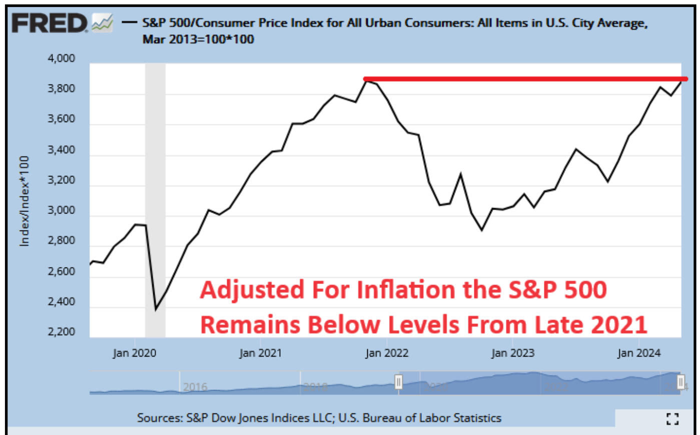
EVERYTHING YOU NEED TO KNOW ABOUT THE MARKETS
BY 7AM EACH MORNING IN SEVEN MINUTES OR LESS

July 2, 2024

Pre 7:00 Look

- U.S. equity futures are tracking European markets lower this morning as ECB President Lagarde pushed back on the idea of another summer rate cut amid resilient labor market data and another stubbornly high inflation reading.
- Economically, Eurozone Unemployment held steady at 6.4% vs. (E) 6.5% while the June Core HICP Flash (CPI equivalent) was also unchanged at 2.9% vs. (E) 2.8%.
- Econ Today: JOLTS (E: 7.9 million), Motor Vehicle Sales (E: 15.9 million).
- Fed Speak: Powell (9:30 a.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5511.25	-22.50	-0.41%
U.S. Dollar (DXY)	106.010	.180	0.17%
Gold	2333.10	-5.80	-0.25%
WTI	84.06	.68	0.82%
10 Year Yield	4.452	-.020	-0.45%



It is not a common practice to look at the "real returns" of the S&P 500, or those adjusted for inflation, but this chart of the S&P 500 indexed to CPI produced by the St. Louis Fed is attention grabbing as it shows the significant impact that inflation has had on stock market returns in recent years.

Equities

Market Recap

Stocks wavered between gains and losses to start the second half of 2024 as the first wave of French elections were not as negative for markets as some feared, while global economic data was largely Goldilocks. The S&P 500 gained 0.27%.

Equity markets were modestly higher at the open yesterday as the French elections revealed that support for the National Rally party was not as strong as initially anticipated while other political parties came to an agreement to prevent the new conservative party from gaining an outright majority, which reduces uncertainty about future policy changes and the sense of clarity was embraced by global investors in early trade.

Economically, there were no surprises in the European PMIs, which remained broadly in contraction but stable and in line with estimates while the U.S. ISM Manufacturing Index was slightly weak on the headline, which sparked a knee-jerk selloff in the S&P 500 in the immediate wake of the release. However, the details revealed a sharp drop in the prices subindices, which traders viewed as supportive of a Fed rate cut in September and bolstered hopes for a soft economic landing this year, which saw the S&P 500 stabilize near 5,450 and rally back to the early session highs near 5,475 (both of which are derivative-sensitive levels as options strikes with crowded positioning).

The S&P churned sideways for the balance of the session, testing the opening highs but failing to push to new intraday extremes in the final minutes as focus turned ahead to Powell's commentary today.

Market	Level	Change	% Change
Dow	39,169.52	50.66	0.13%
TSX	21,875.79	-66.37	-0.30%
Stoxx 50	4,888.86	-41.13	-0.83%
FTSE	8,146.55	-20.21	-0.25%
Nikkei	40,074.69	443.63	1.12%
Hang Seng	17,769.14	50.53	0.29%
ASX	7,718.17	-32.58	-0.42%
Prices taken at previous day market close.			

Trading Color

Monday was a quiet day in markets, although most of what we saw in the second quarter continued on the first day of the third quarter, at least from a sector standpoint.

Market	Level	Change	% Change
DBC	23.53	.30	1.29%
Gold	2,340.60	1.00	0.04%
Silver	29.69	.13	0.44%
Copper	4.4115	.0200	0.45%
WTI	83.44	1.90	2.33%
Brent	86.74	1.74	2.05%
Nat Gas	2.481	-.120	-4.61%
RBOB	2.5780	.0765	3.06%
DBA (Grains)	23.61	-.19	-0.80%
Prices taken at previous day market close.			

Specifically, tech again outperformed on AI enthusiasm. Nothing specific happened yesterday, just start of quarter allocations, while anything particularly sensitive to economic growth lagged. To that point, materials (XLB) and industrials (XLI) dropped 1.5% and 1.1%, respectively and in reaction to the ISM Manufacturing PMIs. Similarly, small caps (Russell 2000) also lagged, falling 0.9% while the large-cap indices were higher on the day.

Bottom line, we are seeing bifurcation in how the market reacts to soft data (yesterday the ISM Manufacturing PMI). On the headline (think S&P 500) it's a positive as it increases expectations for a September rate cut. But beneath the surface, it's really a headwind on important sectors and while the S&P 500 is welcoming soft data, there are sectors of that market that are absolutely getting hurt by it and if the data continues to moderate, the number of sectors that are hurt by it will continue to grow in the third quarter.

Slowing growth may be good for tech and S&P 500 (for now) but it's starting to be bad for more and more of the market.

French Election Takeaways

As often (but not always) happens with elections, worries proved a bit overblown about the National Rally party taking majority control of the French Assembly, as National Rally did garner the majority of votes in the first round (33%) but it also slightly underperformed expectations.

Additionally, and perhaps most importantly, the centrist and left-wing parties (there are several in France) have agreed to form a coalition to essentially block National Rally from becoming a majority party. Barring a major surprise next Sunday (the second round of voting) National Rally will be the largest party in France (and be a political force) but they won't be the majority party nor have enough power to materially change policy (which is all the market really cared about).

From a market standpoint, we did see Treasury yields rise as investors who moved to Treasuries in the wake of the increased political risks reverse those purchases and the net result was a rise in Treasury yields. However, the reduction of French political risks isn't going to be a sustainable upward force on Treasuries going forward.

Turning to stocks, the news from France shouldn't impact the S&P 500 and while European stocks did enjoy a solid bounce yesterday, the reduction of the possibility of National Rally becoming the majority party isn't a bullish catalyst, especially given headwinds on slow growth and uncertainty over ECB rate cuts. Bottom line, the removal of the worst-case political scenario in France is not a bullish catalyst for European stocks.

Economics

ISM Manufacturing PMI

- The June ISM Manufacturing PMI declined to 48.5 vs. (E) 49.2

Takeaway

The ISM Manufacturing PMI missed expectations and stayed below 50 (signaling contraction) but the details of the report were better than the headline and they combined to make this a Goldilocks report that did further reinforce September rate cut expectations and stocks drifted higher as a result.

New Orders, the leading indicator in the PMI, rose solidly to 49.3 from 45.4. And while that's not above 50 (so it's still signaling contraction), it's a solid improvement and hints of better activity in the future. Additionally, Prices declined solidly, falling to 52.1 from 57.0, further implying that disinflation is well in place and inflation is slowing.

The net result of the data was to reinforce expectations for a September rate cut and again, because markets are short-term focused on a September cut, that helped stocks lift mid-morning and this report can be fairly characterized as Goldilocks in the short term. However, beyond the short term and September rate cut expectations, this report remains below 50 and that makes the ISM Services PMI tomorrow more important, because if it drops below 50 again that will be another substantial economic signal that growth is slowing. More to that point, if we see the Manufacturing and Services PMIs below 50 for several months, it's an extremely negative economic signal.

Bottom line, because markets are so focused on September rate cuts, the slightly underwhelming ISM Manufacturing PMI did help stocks lift yesterday morning. But beyond the near term, this does reinforce the idea that the U.S. economy is losing momentum and that remains a much longer-term risk that we'll continue to monitor.

Commodities

Commodities traded with an upside bias to start the shortened July 4th trading week as well as the new quarter. Oil led the way higher with a 2%-plus gain on the day amid optimism for continued strength in consumer demand in the summer driving season paired with better prospects of a soft economic landing after the latest ISM manufacturing data. The commodity ETF, DBC, rose 1.29%.

Beginning with the top performer in the complex, WTI crude oil futures allied a solid 2.32% to start the week, month and quarter. The bulk of the day's gains came in the wake of the June ISM Manufacturing Index release, which showed stable but slightly contracting activity in the factory sector but a sizeable drop in the inflation readings within the report, which was favorably received as supportive of Fed rate cuts coming sooner than later (and that is conducive to a soft landing).

Looking ahead through the rest of the week, a dovish tone from Powell today will be critical for oil to extend gains as the Goldilocks data released yesterday proved to be a key catalyst for the latest leg higher in prices while consumer demand figures in tomorrow's EIA report will be important to watch as well to see if there was a rebound after last week's reported decline. Then, the June jobs report will also be critical for oil as weakness will rekindle recession/hard-landing worries, which would be a very bad scenario for oil due to the threat of collapsing demand.

In metals, gold was little changed yesterday as early weakness due to sharply rising bond yields was reversed amid a largely unnoticed increase in market-based inflation expectations, which hit a one-month high of 2.30% yesterday despite the "cool" number in the ISM report. The calendar had an impact on trading yesterday with portfolios being rebalanced into the new month and quarter, but gold futures importantly ended the session comfortably above H1'24 support at $2,300/oz. leaving the market rangebound between aforementioned support and resistance at $2,400.

Copper rallied 0.44% yesterday amid the increasing hopes for a soft landing in the wake of the ISM Manufacturing report. The near-term trend in copper remains lower after support at $4.50 was violated earlier in the summer and futures have been in rapid retreat since the fresh record highs were established in May. Looking ahead, copper prices should stabilize if soft landing hopes are truly being embraced across all asset classes, as a steady downtrend in copper is not typical during periods of economic stabilization and the expectations of renewed expansion on the horizon.

Market	Level	Change	% Change
Dollar Index	105.55	.01	0.01%
EUR/USD	1.0736	.0023	0.21%
GBP/USD	1.2642	-.0003	-0.02%
USD/JPY	161.49	.61	0.38%
USD/CAD	1.3739	.0060	0.44%
AUD/USD	.6653	-.0017	-0.25%
USD/BRL	5.6375	.0434	0.78%
Bitcoin	63,318.77	1,420.96	2.30%
10 Year Yield	4.479	.136	3.13%
30 Year Yield	4.643	.141	3.13%
10's-2's	-29 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.98%		
Prices taken at previous day market close.			

Currencies & Bonds

The 10-year Treasury yield rose sharply on Monday despite the slightly underwhelming ISM Manufacturing PMI, as a bounce in German yields following the French election pushed Treasury yields higher in sympathy. The

10-year yield rose 14 basis points and traded back into the 4.40% range.

Yields were higher from the outset but the reasons for the rally were political, not economic. Specifically, National Rally slightly underperformed in the first round of the French elections and the chances of that party taking power and making meaningful policy changes in France is lower than previously feared. The net result was a 12-basis-point jump in the 10-year German Bund yield and the 10-year Treasury yield also rose in sympathy, as the money that flowed into Treasuries in the wake of the EU Parliament results is now exiting Treasuries.

But while this will cause volatility, I do not think the improvement in the EU political sphere will push Treasuries up materially from here. Yes, EU political dysfunction did push the 10-year yield lower than it likely should be based on fundamentals, but the ultimate direction of yields will be driven by U.S. growth and inflation data, not French politics. Unless economic data is very strong this week, I'd expect the 10-year yield to drift back down towards 2.30% in the coming days.

Turning to currencies, while the French election results resulted in a big movement in European bonds, the euro didn't move that much and as a result, neither did the dollar. The Dollar Index fell 0.20%.

There are a few reasons the French election results moved global bond markets but not the euro. First, after some initial volatility, the euro really didn't decline that much following the EU Parliamentary elections and what declines occurred were partially reversed last week as anxiety around National Rally declined (some). Second, the euro is still largely being driven by the outlook for ECB rate cuts, and right now the outlook isn't any more dovish than it's been previously.

Bottom line, currency markets remain largely driven by central bank policy expectations and they aren't changing for the Fed, ECB or BOE. The net result is less volatile currency markets for the time being, although that's likely to change as we move closer towards the end of the summer (and expected Fed rate cuts become imminent).

Have a good day,

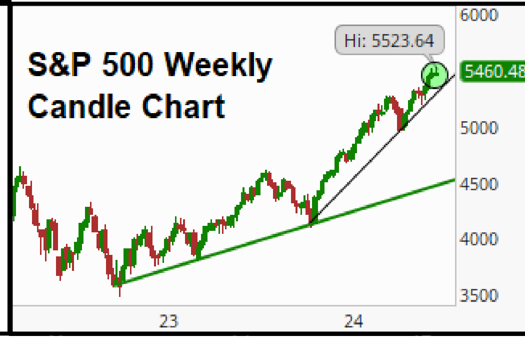
Tom

SEVENS REPORT

Technical Perspectives (Updated 6/30/2024)

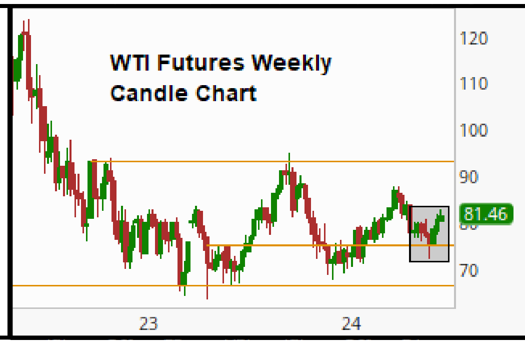
S&P 500

- 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



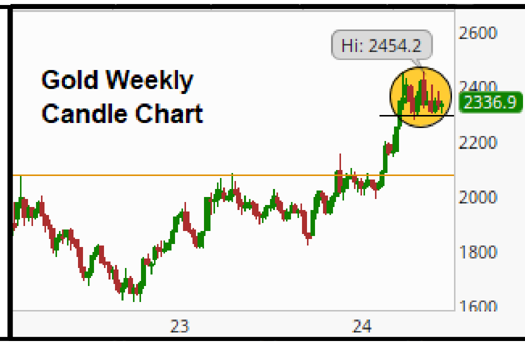
WTI Crude Oil

- 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



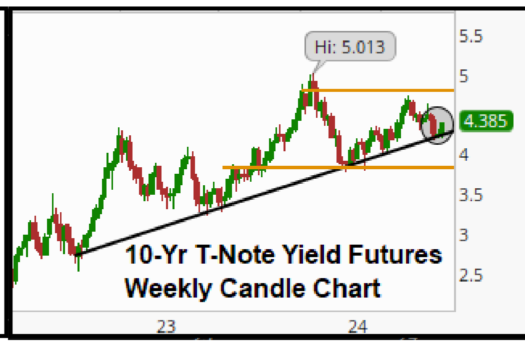
Gold

- 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



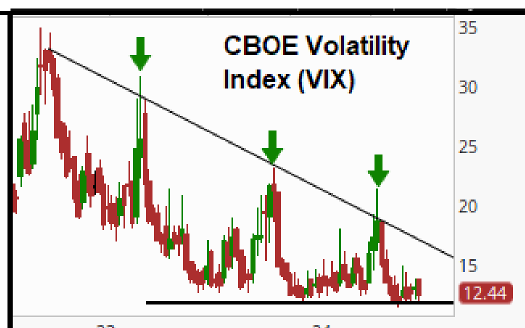
10-Year T-Note Yield Futures

- 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.