SEVENS REPORT

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

July 22, 2024

Pre 7:00 Look

- Futures are solidly higher on surprise rate cuts from China and as President Biden dropped out of the Presidential election.
- President Biden dropped out of the election this weekend and endorsed VP Harris as the new nominee and this should see a mild tightening of the polls.
- Economically, China announced a surprise 10 bps interest rate cut and that's helping to boost the economic outlook.
- Econ Today: Chicago Fed National Activity (E: 0.18).
- Earnings Today: VZ ($1.15), TFC ($0.78)

Market	Level	Change	% Change
S&P 500 Futures	5,582.25	28.50	0.51%
U.S. Dollar (DXY)	104.23	-0.16	-0.16%
Gold	2,408.50	9.40	0.39%
WTI	79.95	-0.18	-0.22%
10 Year Yield	4.23%	-0.01	-0.33%

Equities

Market Impact of Biden Dropping Out of the Race

President Biden dropped out of the Presidential election on Sunday, confirming weeks of speculation that he would do so. Biden endorsed Vice President Harris and the Democrat party is quickly coalescing around her as their candidate to face Trump.

Politically, Trump will remain the front runner as he has a polling advantage over Harris (47 to 45 percent in an aggregate of national polls) but that is an improvement for Democrats compared to recent Trump vs. Biden polls.

From a market standpoint, this shouldn't be a material influence. The tightening of the race should see some unwind of the recent "Republican sweep" enthusiasm that helped stocks rally in early/mid July, but part of that unwind already happened last week via the tech weakness. Industrials, materials and energy could see additional short term pressure.

Beyond the very short term, however, this political shake up shouldn't materially alter the direction of the markets (the ultimate direction of the S&P 500 will still be determined by economic growth).

Market Recap

The S&P 500 dropped sharply last week despite the lack of any significant macroeconomic negative, as extreme weakness in tech stocks pulled the entire market lower by the end of the week. The S&P 500 declined 1.97% last week and is up 15.41% YTD.

Last week started solidly as the S&P 500 rallied almost 1% on Monday and Tuesday in generally quiet trade. Markets viewed the assassination attempt on former President Trump's life as increasing the chances of a Republican sweep (and pro-growth policies) while economic data was mostly Goldilocks, implying a soft landing and keeping two rate cut expectations in place.

Importantly, this generally positive news helped to further the rotation that started two weeks ago where small caps and the "rest" of the market rallied while tech stocks declined (but didn't pull the entire market lower).

However, that changed starting on Wednesday. Disappointing semiconductor earnings from ASML further intensified the weakness in the tech sector while a focus on tariffs by Trump in a Businessweek interview reminded investors that while Trump is the Republican candidate, he does not subscribe to historically typically Re-

Market	Level	Change	% Change
Dow	40,287.53	-377.49	-0.93%
TSX	22,690.39	-36.37	-0.16%
Stoxx 50	4,892.14	64.90	1.34%
FTSE	8,216.92	61.20	0.75%
Nikkei	39,599.00	-464.79	-1.16%
Hang Seng	17,635.88	218.20	1.25%
ASX	7,931.74	-39.85	-0.50%

Prices taken at previous day market close.

publican trade policies. Weighed down by semiconductor stocks, the Nasdaq dropped more than 2% on the day and pulled the S&P 500 lower and it finished with a loss of -1.40%.

The selling continued on Thursday and Friday not because of any specifically bad news. Instead, it was mostly due to momentum as tech continued lower with such force that it dragged the S&P 500 with it, while other more value and industrial sectors relatively outperformed but still faced headwinds.

Market	Level	Change	% Change
DBC	22.58	-.31	-1.35%
Gold	2,400.10	-56.30	-2.29%
Silver	29.39	-.84	-2.78%
Copper	4.2365	-.0430	-1.00%
WTI	80.14	-2.68	-3.24%
Brent	82.70	-2.41	-2.83%
Nat Gas	2.124	-.001	-0.05%
RBOB	2.4553	-.0611	-2.43%
DBA (Grains)	23.66	-.30	-1.23%
Prices taken at previous day market close.			

The S&P 500 closed Friday with a moderate loss although, again, the selling wasn't due to any specifically negative macro event and instead more a function of selling in the extended tech sector bleeding into the broader market. The S&P 500 finished with the worst weekly loss since April.

Putting Last Week's Declines in Proper Context

The S&P 500 suffered its worst weekly performance since April, but it's important to put that decline in proper context, because last week's losses were almost entirely due to tech weakness and, importantly, not due to some significant worsening of the current market environment. As we have been saying for months, the historic 2024 rally has been driven by this bullish mantra: Stable growth, looming Fed rate cuts, falling inflation and AI enthusiasm.

Last week, economic growth was better than expected and pushed back against the narrative of a slowing U.S. economy. So, growth was solid. Also last week, Fed officials reinforced that the U.S. economy was close to a place where the Fed could cut interest rate. Those comments came from important Fed officials (Powell and Williams). So, there are still looming Fed rate cuts. Inflation data (if we consider earnings commentary and macroeconomic data) showed a continued (albeit modest) decline. So, inflation is still falling. Point being, three of the four parts of the bullish argument for this market saw their cases strengthened, not undermined.

The exception, of course, was AI enthusiasm, as the Nasdaq suffered the worst week since April as it was dragged down by the previously high-flying semiconductor stocks (the semiconductor ETF, SOXX, dropped 9% last week).

Importantly, it wasn't because of any real, significantly negative news. Yes, earnings were mixed in the semi-space last week as ASML posted underwhelming guidance. But Taiwan Semi (TSM) posted strong earnings and guidance, so it's not that there were major negatives. Additionally, markets did have to consider future trade volatility if there is a Trump presidency next year. But we also have to remember that many of the fears of Trump's unorthodox economic policies in his first administration never actually materialized.

So, here's the net result of last week's news: Yes, the S&P 500 declined moderately but it was due to tech weakness, not some major, negative macroeconomic shift. To reinforce that point, consider that RSP, the equal weight S&P 500 ETF, declined just 0.20%. VTV, our preferred value ETF, rose 0.20%. SPLV, a minimum volatility ETF, rose 0.51% over the past five days!

The point here is what's happening now is the partial unwinding of the tech melt up that carried the S&P 500 higher and it's not that surprising. The tech melt-up was always unsustainable. That doesn't mean AI isn't amazing but it was the pace of the acceleration—it just can't last. And now it's reversing itself and we are seeing that extended part of the market come in, while more traditional sectors (those contained in VTV and SPLV) are narrowing the unsustainably large performance gap.

What happened in the market last week was not some material, negative shift. It was, instead, the natural (and appropriate) unwinding of a tech sector that was always unsustainable.

That said, if the decline in tech accelerates, it can become such a strong vortex that it pulls down other, healthy parts of the market. **But that's likely a short-term phenomenon (and not one that requires whole-**

sale de-risking) as long as this statement remains true: Economic growth is stable; the Fed is about to cut rates and inflation is declining. If more parts of that statement become false, that's a bigger problem, but we aren't there yet.

In the very near term, the tech selling likely isn't over and it could continue to weigh on the S&P 500 while other parts of the market (RSP/VTV/SPLV/USMV) outperform (relatively or on an absolute basis). In the near term the sooner tech (and specifically SOXX) stabilizes, the better (SOXX is now the most important symbol for the broader market, it must stabilize before the S&P 500 can do the same). But even if this pullback continues for another few percentage points, it's unlikely to derail this rally unless we see growth suddenly slow, inflation bounce back or the Fed push back against rate cuts.

Economics

Last Week

Economic data last week pushed back against the "slowdown" narrative and while that didn't help stocks rally in the short term, the more stable economic data, the better chances stocks have to keep these strong YTD gains in the future.

The key report last week was retail sales and it was better than expected, coming in flat vs. (E) -0.3%. More importantly, the "Control" group (retail sales minus gas, autos and building materials) rose 0.9% vs. (E) 0.2% and implies that discretionary consumer spending remains solid. As long as that discretionary spending remains solid, it's hard to get too concerned about a near term slowdown.

Market	Level	Change	% Change
Dollar Index	104.10	.21	0.21%
EUR/USD	1.0879	-.0019	-0.17%
GBP/USD	1.2912	-.0032	-0.25%
USD/JPY	157.48	.11	0.07%
USD/CAD	1.3733	.0027	0.20%
AUD/USD	.6684	-.0022	-0.33%
USD/BRL	5.6026	.0570	1.03%
Bitcoin	67,278.16	3,636.07	5.71%
10 Year Yield	4.239	.050	1.19%
30 Year Yield	4.450	.044	1.00%
10's-2's	-27 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.83%		
Prices taken at previous day market close.			

The first two looks at July economic activity via the Empire Manufacturing Survey and Philly Fed Survey were, in aggregate, solid. Empire slightly missed estimates (-6.0 vs. (E) -5.5) but Philly was much stronger than expected at 13 vs. (E) 3.0. Additionally, there was positive progress in the New Orders indices in both (New Orders are the leading indicators of each report). Bottom line, neither report is pointing to a sudden slowing of activity in July.

This Week

Economic data was mostly Goldilocks last week and that helped to push back against slowdown concerns, and while it didn't help stock rally last week data that reinforces a solid (but not too strong) economy will make the YTD gains in stocks more durable. The focus this week stays on growth and the most important report this week is Wednesday's flash PMIs. This is the first big, national number of the month and markets will want to see in-line numbers (the composite expectation is 54.8, and anything at or slightly below that number will be welcomed). Bottom line, Goldilocks data is the best outcome for stocks over the medium term.

There are two other notable growth reports this week and they both come on Thursday via the first look (preliminary) Q2 GDP report and June Durable Goods. GDP will be in focus because it's the most comprehensive measure we have of economic activity and growth is expected to rebound to 2.0% from 1.4% in Q1. Again, a solid, but not too strong, number is the best case as we start the week.

Durable goods gives us our best look at business spending and since economic growth is basically made up of 1) Consumer spending, 2) Business spending/ investment and 3) Government spending, this is an important report. Business spending and investment has been plateauing lately, and that's "ok" from a market standpoint. What we don't want to see is a jump higher or collapse lower in Thursday's print.

Finally, weekly jobless claims remain in focus. The truth is that it's very hard to imagine a legitimate economic slowdown unless we see deterioration in the labor market and that's why the jobs data remains so important. If claims rise above 250k, that will absolutely get people's attention about a weakening labor market and while that's not bad enough to cause a big rise in slowdown concerns, it will clearly get more of the attention of Fed officials, who are consistently cautioning on trends in the labor market. Bottom line, Goldilocks growth data is the best outcome for markets this week, as investors want evidence of stable, but not spectacular, growth.

Commodities

Commodities dropped sharply last week thanks to a solid decline in oil and a modest dip in gold. The commodity ETF, DBC, fell 3% last week.

Oil dropped sharply last week, falling 2.5%, despite better-than-expected inventory number as concerns about global demand and a general risk-off move across markets late in the week pressured oil. Specifically, Chinese economic data underwhelmed again last week and as Chinese economic growth is viewed as the marginal demand in the market

The outlook for oil remains largely tied to global economic growth, which controls demand. OPEC+ is not exhibiting the supply discipline that can lead to sustainably higher prices, so where oil goes from here will be driven by whether the global economy can achieve the soft landing investors currently expect (neutral to positive for oil prices) or if the global economy slows more than expected (which would see oil drop below $80/bbl).

Gold hit a new all-time high last week and rightly so, as it keyed off an initially weak U.S. dollar and generally still-elevated geopolitical risk and uncertainty. While gold did decline 0.55% last week, the fundamentals continue to support a continued uptrend due to the expectation for Fed rate cuts, at a minimum a stable to potentially declining dollar and elevated geopolitical uncertainty. Bottom line, the outlook for gold remains generally positive as we move forward in the current environment and barring a major hawkish surprise, gold should continue to make new highs.

Commodities continue to face a mixed outlook as the current set up is positive for gold, but other industrial commodities (energy) face uncertain demand pictures. Until they are more fully resolved, commodity ETFs (dominated by energy) should continue to be volatile.

Currencies & Bonds

The dollar rose modestly last week thanks mostly to better-than-expected U.S. economic data. The Dollar Index rose 0.26%. The better-than-expected Empire Manufacturing, Philly Fed and Retail Sales reports supported the dollar and pushed back against the idea that U.S. economy was losing significant momentum. That supported the dollar as it kept rate cut expectations at around two cuts for 2024.

The euro and pound both declined modestly on the week after starting last week solidly higher. To that point, the pound traded above 1.30 vs. the dollar for the first time in over a year before falling back later in the week. Looking at those two regions specifically, economic data was mixed in the UK, which keeps a September rate cut uncertain (although more likely than not) while the ECB didn't cut rates at last week's meeting (as expected) and didn't overtly signal a September cut.

The Dollar Index remains appropriately priced in the 103-106 range given markets expect September rate cuts by the Fed, ECB and BOE and two rate cuts from the Fed in 2024. However, if that changes due to suddenly too-strong or too-weak economic data, expect the dollar to test the two extremes of that 103-106 range. For now, the dollar is neither a positive nor a negative for stocks.

Turning to Treasuries, the 10-year yield rose slightly last week. Interestingly, the 10-year yield hit a multi-month low of 4.14% midweek thanks mostly to commentary from Fed officials that strongly implied a September rate cut (New York Fed President Williams in particular stated the Fed was not there yet but close and could cut soon). However, better-than-expected economic data helped yields to rebound and the 10-year yield closed the week with a small gain, up 3 basis points.

The 10 year remains comfortably in the 3.75%-4.25% stock positive range and as a such, yields aren't a direct headwind or tailwind on the S&P 500.

Have a good week,

Tom

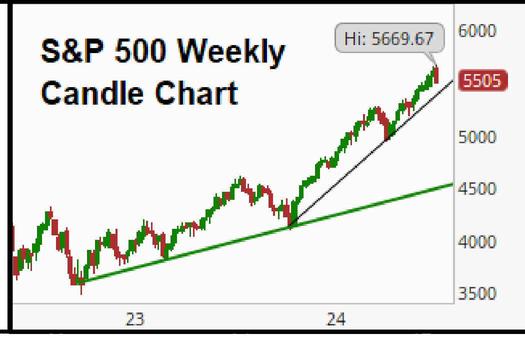
7/22/2024

SEVENS REPORT

Technical Perspectives (Updated 7/21/2024)

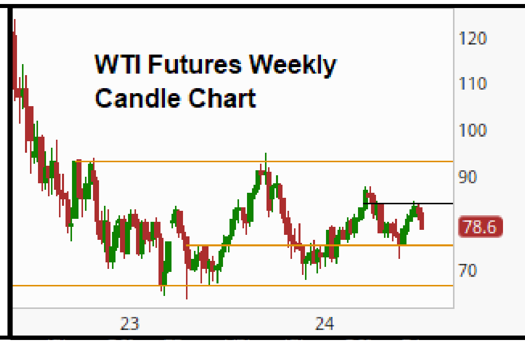
S&P 500

- 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: 5568, 5610, 5667
- Key Support Levels: 5488, 5375, 5291



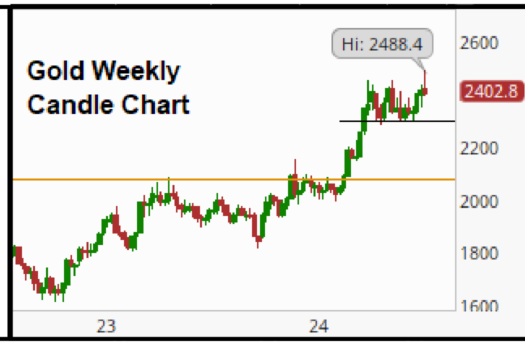
WTI Crude Oil

- Technical View: The trend in oil has turned sideways since late 2023 with futures in an increasingly tight and compressing trading range.
- Primary Trend: **Neutral (since the week of July 15, 2024)**
- Key Resistance Levels: $80.82, $82.27, $83.60
- Key Support Levels: $77.93, $75.67, $74.02



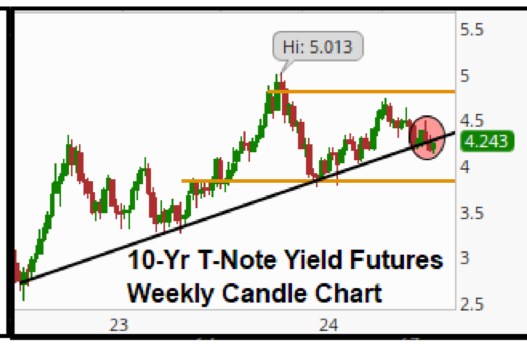
Gold

- Technical View: Gold hit new record highs in mid-July reaffirming the long-term uptrend remains in place with the path of least resistance still higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2448, $2474, $2488
- Key Support Levels: $2371, $2339, $2310



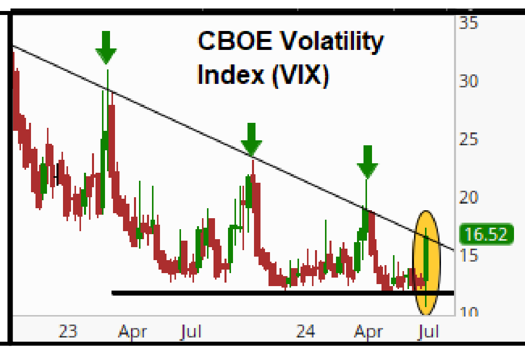
10-Year T-Note Yield Futures

- Technical View: The 10-year yield violated a multi-year uptrend line in mid-July, 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 spiked higher in mid-July to test a longstanding downtrend line dating back to late 2022. A break above would be bullish for the VIX.
- Primary Trend: **Neutral (since the week of May 6, 2024)**
- Key Resistance Levels: 17.19, 18.00, 19.23
- Key Support Levels: 15.93, 14.48, 13.85



SEVENS REPORT

Fundamental Market View
(Updated 7/21/2024)

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 dropped moderately as it was weighed down by tech stocks as semiconductor names got hit very hard on earnings uncertainty, profit taking and geopolitical angst. The S&P 500 suffered its worst week since April.*

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 sharply last week thanks mostly to weakness in energy, as worries about Chinese (and global) consumption pressured industrial commodities.*
US Dollar	**Neutral**	*The Dollar Index rose slightly last week thanks mostly to better-than-expected U.S. economic data, although it remains in the middle of the 103-106 trading range.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield hit a multi-week low of 4.14% midweek, but rebounded to finish the week up 3 basis points as stronger-than-expected U.S. economic data offset Fed officials pointing towards a September rate cut.*

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.