SEVENS REPORT

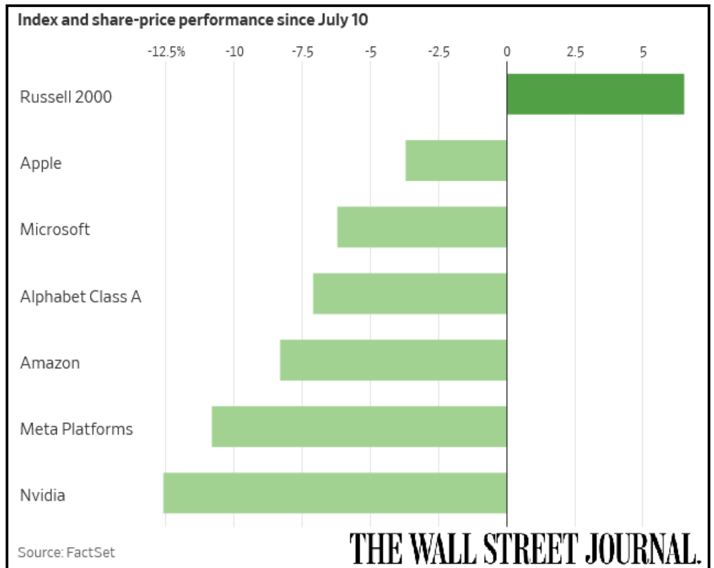
EVERYTHING YOU NEED TO KNOW ABOUT THE MARKETS
BY 7AM EACH MORNING IN SEVEN MINUTES OR LESS

July 23, 2024

Pre 7:00 Look

- Futures are flat while overseas markets were mixed overnight with European shares trading higher on tech earnings optimism but Chinese markets fell on growth concerns.
- There were no market moving economic reports overnight.
- Econ Today: Existing Home Sales (E: 3.99M). There are no Fed officials scheduled to speak today.
- There is a 2-Yr Treasury Note auction at 1:00 p.m. ET.
- Earnings: UPS ($1.98), GM ($2.64), KO ($0.80), TSLA ($0.59), GOOGL ($1.84), V ($2.41), COF ($3.28).

Market	Level	Change	% Change
S&P 500 Futures	5613.00	2.25	0.04%
U.S. Dollar (DXY)	104.460	.179	0.17%
Gold	2408.10	13.40	0.56%
WTI	78.23	-.17	-0.22%
10 Year Yield	4.230	-.027	-0.63%



The WSJ visual above helps show how significant the rotation away from mega-cap tech and into "the rest of the market" has been recently, as NVDA is down 12.5% while the Russell 2000 is up over 5% in less than two weeks.

Equities

Market Recap

The stock market bounced back yesterday following the worst trading week since early April as investors digested unexpected stimulus efforts from the Chinese government and more U.S. political developments from the weekend. The S&P 500 jumped 1.08%.

Stocks gapped higher at the open yesterday, led by tech shares hit hardest the prior week. Unexpected rate cuts from the People's Bank of China in an effort to stimulate economic growth were met with a mixed reaction as accommodation is favorable for risk assets, but the unforeseen need for it raised questions about the health of the second largest economy in the world.

Any concerns about China seemed to be overshadowed by an improving domestic economic outlook as Biden's decision to end his reelection campaign bolstered the odds of a Trump victory in November, and as the Republican party nominee, Trump is widely viewed as the more pro-growth and market-friendly candidate, which supported early gains in equity markets.

There was a modest pullback into the European close despite the lack of a negative catalyst but the market was quick to recover amid quiet newswires in the early afternoon and the S&P 500 hit new session highs leading into the final hour. Today's earnings calendar, which includes quarterly results from TSLA and GOOGL, started to come into focus and the market chopped sideways amid positioning money flows into the close.

Trading Color

Market	Level	Change	% Change
Dow	40,415.44	127.91	0.32%
TSX	22,872.65	182.26	0.80%
Stoxx 50	4,935.98	38.54	0.79%
FTSE	8,206.78	8.00	0.10%
Nikkei	39,594.39	-4.61	-0.01%
Hang Seng	17,469.36	-166.52	-0.94%
ASX	7,971.13	39.39	0.50%
Prices taken at previous day market close.			

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From an internals standpoint, Monday saw a mild reversal of the tech underperformance/rest of the market outperformance of the past two weeks, although that reversal came more in the form of tech outperformance and a broad rally rather than one part of the market rising while the other declined.

Market	Level	Change	% Change
DBC	22.64	.06	0.27%
Gold	2,398.20	-.90	-0.04%
Silver	29.29	-.01	-0.03%
Copper	4.1980	-.0385	-0.91%
WTI	79.78	-.35	-0.44%
Brent	82.37	-.26	-0.31%
Nat Gas	2.233	.105	4.93%
RBOB	2.4679	.0175	0.71%
DBA (Grains)	24..31	.67	2.84%

Prices taken at previous day market close.

On an index level, the Russell 2000 and Nasdaq rose 1.66% and 1.58%, respectively, while the Dow Industrials was the laggard, rising just 0.32% (although the Dow was held back by continued weakness in UNH and VZ, which fell due to underwhelming earnings).

On a sector level, there was broad strength as 10 of the 11 sector SPDRs were higher on the day, with energy (XLE) the lone laggard following a large drop in oil prices. Technology (XLK) was the large outperformer on Monday as XLK bounced and gained 2.4%. But importantly, there was no significantly positive headline that spurred that rally and it was really just an oversold bounce (and as such, may not hold today). Seven of the remaining eight sector SPDRs saw mild-to-moderate gains with consumer staples (XLP) lagging slightly, rising 0.1%.

Bottom line, for the S&P 500 to stabilize we first need SOXX and the tech sector to stabilize and while yesterday's bounce in SOXX and tech was enjoyable, there was no actual event to make us think it's the start of stabilization. So, don't be surprised if yesterday's gains are reversed if earnings and economic data this week aren't better than market expectations.

Explaining My View More Clearly

Yesterday, I received a comment from long-time subscriber, Jay, about some possibly conflicting tones/analysis in the *Sevens Report*. And since I learned a long time ago that if one subscriber has a question it's a good bet that others will also, I wanted to feature Jay's comment to clear up any potential confusion on my market outlook in the short and longer term.

"I feel as though the 7s reports are becoming somewhat conflicting.

On one had you had warning signs flashing last week especially related to the yield curve and the statistics related to what an 'un-inverted' yield curve means.

Today the report is discussing how this 'rally should continue'."

- Jay G.

So, I think the source of confusion comes from the difference between where things are right now vs. where I worry they might be in the coming months. Right now, I believe the rally can continue (possibly after a mild/short pullback) because these three statements are currently accurate: Growth is solid, the Fed is about to cut rates and inflation is falling. That's a positive setup for stocks and given the current upward momentum in markets, a rally in the S&P 500 can continue.

However, what concerns me is that sentiment and anecdotal data implies investors are complacent to future risks, risks that lurk several months down the road. That's where last week's analysis on the yield curve comes in (if you missed that issue please email info@sevensreport.com and we can send it to you).

The 10s-2s piece specifically lays out what happens to markets *after* the 10s-2s yield spread turns back positive. But that has not happened yet, as 10s-2s is still around -25 bps. And because I have never been a big fan of proactively selling an upwardly trending market, the bottom line is that the current market set up is still positive in the immediate term and it shouldn't shock any of us if the S&P 500 hits a new all-time high, as long as the current environment continues without any surprises.

However, that upward momentum and currently calm environment may be setting up for major disappointment if economic growth slows more than expected. Essentially, I am acknowledging that in the immediate term the macro set up is still positive and stocks have upward momentum. But beyond the short term, the market is complacent to an economic slowdown and earnings risks and I'm consistently trying to make all of us aware of that risk.

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Essentially, I view the current market like a game of musical chairs. At some point, the music will stop. But you have to run until it does. The key is making sure you have a seat when the music stops (and that's why I'm consistently pointing out historical realities and market performance during similar periods, which isn't very good).

For now, the music is still playing so we have to run (i.e. not proactively raise cash). The way I've accounted for future risk is to advocate reducing volatility in portfolios by allocating to lower-vol ETFs (USMV/SPLV), defensive sectors (XLU/XLP/XLV) and the long end of the Treasury curve. So, we're maintaining long exposure (running while the music plays) while at the same time reducing volatility and keeping our eyes out for a place to sit when the music stops.

Bottom line, the current outlook is positive but there are risks building on the horizon. Maybe they never materialize, but that's not the way these types of markets usually work out.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were mixed to start the week with industrial metals and oil leading the way lower thanks to worries about Chinese economic growth while gold relatively outperformed, ending the day flat amid an uptick in demand for safe-haven assets. The commodity ETF, DBC, gained 0.27%.

Market	Level	Change	% Change
Dollar Index	104.06	-.06	-0.05%
EUR/USD	1.0887	.0005	0.05%
GBP/USD	1.2923	.0009	0.07%
USD/JPY	157.10	-.38	-0.24%
USD/CAD	1.3754	.0024	0.17%
AUD/USD	.6641	-.0044	-0.66%
USD/BRL	5.5714	-.0263	-0.47%
Bitcoin	67,682.46	10.11	0.01%
10 Year Yield	4.260	.021	0.50%
30 Year Yield	4.478	.028	0.63%
10's-2's	-27 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.85%		
Prices taken at previous day market close.			

Starting in the energy patch, oil began the trading week with a thud yesterday as futures failed to stabilize after the sharp losses in the back half of last week and the residual bearish momentum saw WTI crude oil futures end the day down 0.42% at a one-month low, notably below $80/barrel.

As far as catalysts go, the PBOC's unexpected rate cut overnight Sunday raised concerns about a weaker economy than previously thought, which weighed on demand expectations out of the world's largest importer of crude oil. Additionally, the Ukrainian drone attacks on one of Russia's largest refineries was counterintuitively bearish for oil prices yesterday, as instead of rekindling a geopolitical fear bid, the news weighed on near-term oil demand expectations as refinery inputs would decrease given the outage (this dynamic was underscored by the fact that gasoline and diesel futures were higher yesterday).

Bottom line, news flow has been steadily bearish for oil over the past week starting with the unexpected plunge in the EIA's implied measure of consumer gasoline demand in last week's regular Petroleum Status Report, which were compounded by worries about the health of the Chinese economy yesterday. The improving odds of a Trump win in November have also been negative for oil from a supply standpoint as he has a clear position on supporting an increase in domestic oil production. On the charts, the outlook for oil is becoming increasingly neutral with futures in a compressing trading range between support at $78 and resistance at $81/barrel.

Switching to metals, industrial varieties were heavy to start the week with copper falling 0.86% to a near-four-month low. Uncertainty about the health of China's economy following the surprise PBOC policy rate cuts kept copper from participating in the broader risk-on money flows that powered stocks higher yesterday. Peak to trough, copper is now down nearly 20% from the record highs established earlier this year and the latest set of new lows leave the path of least resistance lower still from here.

Turning to the precious metals, gold was flat on the day as overnight gains linked to the aforementioned global growth uncertainties were offset by a rise in Treasury yields over the course of the day. Last week's new all-

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time highs in gold are inherently bullish, but after three separate pushes into new record territory so far this year, gold may be lining up to consolidate the YTD gains and churn sideways as traders digest the uncertain fundamental outlook given shifting political and economic expectations.

Currencies & Bonds

Currency and bond markets were quiet to start the week as there was no market-moving economic data or central bank speak, while the political shake up in the U.S. didn't impact the currency and bond markets. The Dollar Index declined 0.05%.

Never before in U.S. history have we had such a major shakeup this late in a Presidential election, so it was unclear how currency and bond markets would react. But currency and debt traders looked past Biden's removal from the race and instead focused on future policies, and as far as markets can tell right now, Harris' policies won't differ materially from Biden's (or, if they will, markets don't know it yet). As such, the election shake up had virtually no impact on the dollar or Treasury yields, and it's unlikely to have one until there's a change in the expected policies from the two candidates.

Turning to economic data, the only notable economic report on Monday was the Chicago PMI, which is a national number although it's not widely followed. Unlike the regional PMIs from last week (Empire and Philly) Chicago was a bit soft at 0.5 vs. (E) 0.10. But that's not bad enough for a number like this to move markets, and as such it didn't. Looking internationally, the euro and pound both rose 0.1% in equal-but-opposite moves to the dollar. There was quiet trade in both currencies as there was no notable economic data or central bank speak in those regions.

Bottom line, the Dollar Index remains comfortably in the 103-106 trading range and that remains appropriate given current economic fundamentals and rate cut expectations for the Fed, ECB and BOE.

Turning to Treasuries, there was some anxiety that Treasuries could be volatile following Biden exiting the race, but as stated that wasn't the case on Monday as the 10-year yield rose 2 basis points. The reason the news didn't move Treasuries is because when it comes to the Federal government (not the Federal Reserve) the only thing bond investors care about is whether anyone in Washington has serious plans to address the long-term fiscal challenges facing the U.S. (massive debt and deficits). Neither Trump nor Biden nor Harris (nor anyone else in party leadership on either side of the aisle) has any serious plans to address the fiscal challenges of the nation, so from a bond market standpoint there was no significant change.

Yes, depending on what happens over the next few months, bond investors may view one candidate as more fiscally irresponsible than the other, but barring a major policy change these are largely distinctions without a difference.

Absent any political influence, we saw the 10-year Treasury yield rise slightly yesterday as the bond market digests last week's intraweek volatility and investors position for an important week of economic data, all taken in the context of the recent decline in yields and last week's better-than-expected data. Put more plainly, we saw some mild selling in Treasuries yesterday because they've rallied a lot over the past few weeks and investors are booking gains in case this week's data is like last week's, namely better than expected.

Stepping back, the 10-year yield remains appropriate in the 3.75%-4.25% stock positive range and it'll take a rally towards 4.40% for rising yields to weigh on stocks while a decline towards 4.00% in the 10-year yield would be a tailwind on stocks (although below that, the tailwind would diminish as that would signal growth concerns).

Have a good day,

Tom

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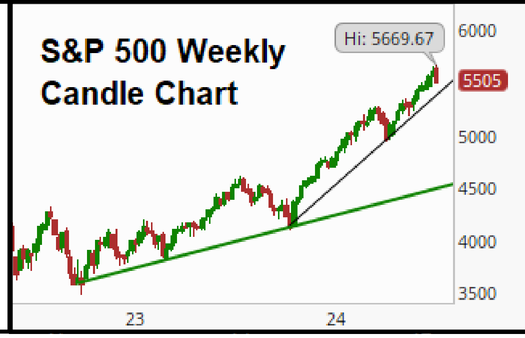
Technical Perspectives (Updated 7/21/2024)

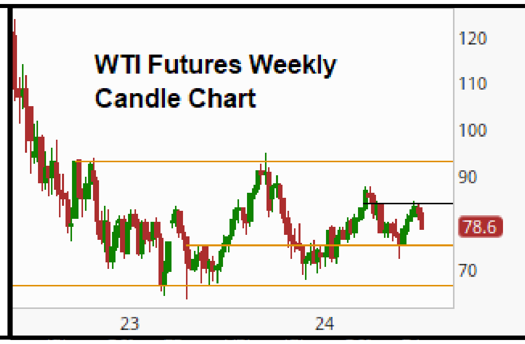
S&P 500

- 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



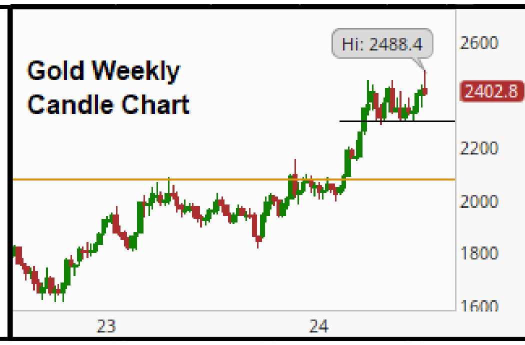
WTI Crude Oil

- 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



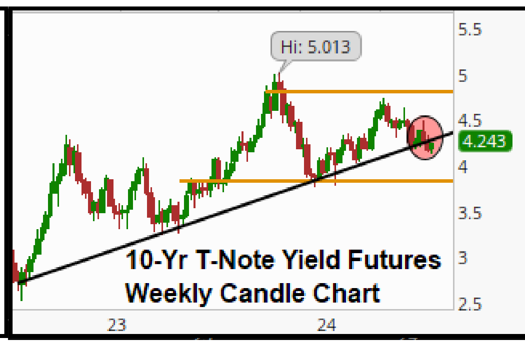
Gold

- Technical View: Gold hit new record highs in mid-July reaffirming the long-term up-trend 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



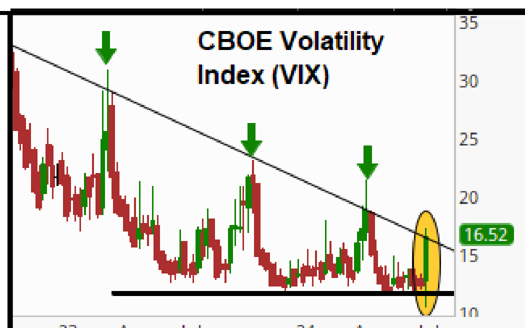
10-Year T-Note Yield Futures

- 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



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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.

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