SEVENS REPORT

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

July 24, 2024

Pre 7:00 Look

- Futures are lower thanks to soft earnings from Mag-7 members TSLA (down 7% premarket) and GOOGL (down 3% premarket) as well as soft economic data in Europe.
- The Eurozone's July Composite Flash PMI fell to 50.1 vs. (E) 51.0 with both the manufacturing and services components missing estimates (German data was notably weak).
- Econ Today: Flash Composite PMI (E: 51.6), New Home Sales (E: 644K). Fed Speak: Bowman (4:05 p.m. ET).
- There is a 5-Yr Treasury Note auction at 1:00 p.m. ET.
- Earnings: F (E: $0.64), CMG (E: $0.31), IBM (E: $2.16).

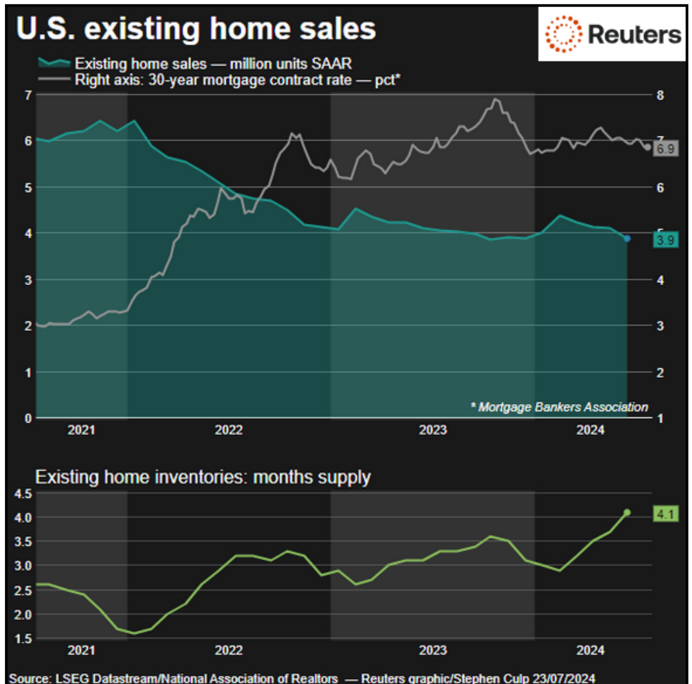
Market	Level	Change	% Change
S&P 500 Futures	5562.00	-37.25	-0.67%
U.S. Dollar (DXY)	104.427	-.040	-0.04%
Gold	2415.30	8.00	0.33%
WTI	77.54	.58	0.76%
10 Year Yield	4.248	.011	0.26%

Equities

Market Recap

Stocks churned sideways Tuesday as mixed earnings and downbeat housing market data were digested ahead of two earnings reports from Mag 7 companies. The S&P 500 ended with a modest loss of 0.16%.

U.S. equities were little changed in the pre-market as global shipping and logistics giant UPS reported soft earnings and underwhelming revenue as well as lowered guidance for 2024. However, that corporate news was largely offset by solid numbers from KO and GM, both of which topped estimates on earnings and revenue.



The visual above shows multiple dynamics of the housing market including 1) High mortgage rates (gray), 2) Declining existing home sales (turquoise), and 3) Rising inventories (green), all of which are characteristic of a weakening housing market.

The only economic report yesterday was Existing Home Sales and the headline missed badly, falling 5.4% m/m amid rising home prices and still-elevated mortgage rates. The market rolled over on the weak report into the late morning but stabilized with the S&P 500 rallying to new session highs into the European close as traders across the pond positioned into the first of the Mag 7 earnings reports due after the close.

Stocks caught a modest bid in the afternoon following a very solid 2-Yr Treasury Note auction, which saw yields favorably decline but another wave of rotation away from large-cap tech and into "the rest of the market" ahead of TSLA and GOOGL earnings saw the S&P 500 drop to new session lows into the close.

Market	Level	Change	% Change
Dow	40,357.76	-57.68	-0.14%
TSX	22,813.75	-58.90	-0.26%
Stoxx 50	4,877.23	-39.57	-0.80%
FTSE	8,148.94	-18.43	-0.23%
Nikkei	39,154.85	-439.54	-1.11%
Hang Seng	17,311.05	-158.31	-0.91%
ASX	7,963.72	-7.41	-0.09%
Prices taken at previous day market close.			

Trading Color

As we thought might happen, the rotation from tech to "the rest of the market" resumed on Tuesday although with less intensity than what we saw last week as earnings and lower rates were the dominant drivers Tuesday.

Market	Level	Change	% Change
DBC	22.43	-.21	-0.93%
Gold	2,409.50	14.80	0.62%
Silver	29.39	.07	0.24%
Copper	4.1616	-.0360	-0.86%
WTI	77.29	-1.11	-1.42%
Brent	81.34	-1.06	-1.29%
Nat Gas	2.199	-.052	-2.31%
RBOB	2.4244	-.0462	-1.87%
DBA (Grains)	24.28	.01	0.06%
Prices taken at previous day market close.			

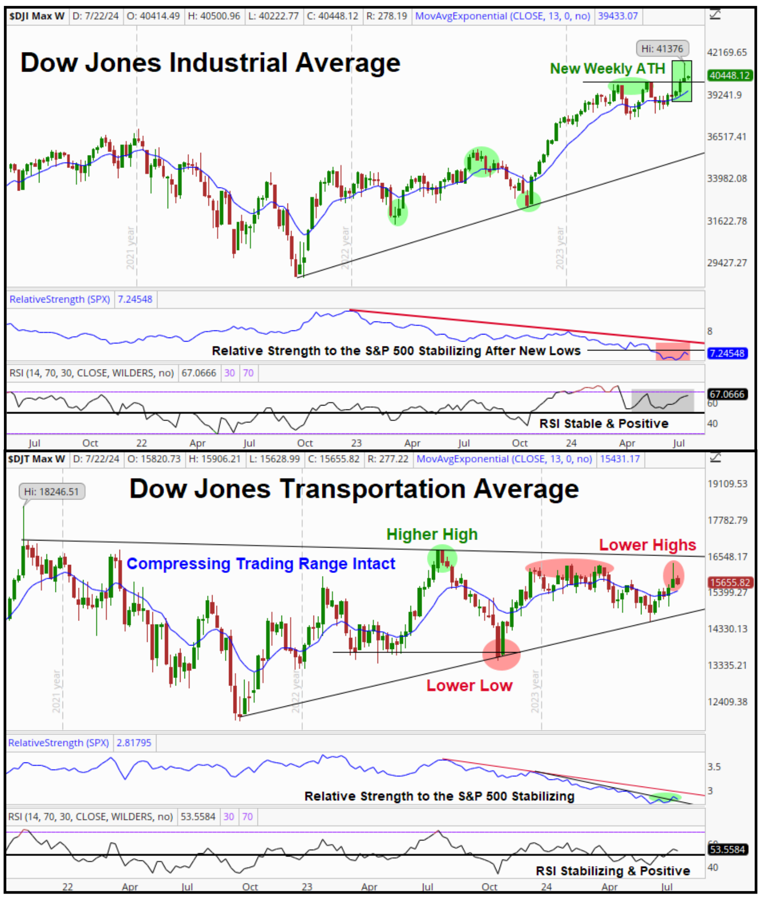
On an index level, the Russell 2000 was the clear outperformer, just like it was much of last week. The Russell 2000 rose 1% on Tuesday while the other three major indices (Dow Industrials, S&P 500 and Nasdaq) all declined modestly. The significant small-cap outperformance came largely from a resumption of that investor rotation combined with a modest decline in yields.

From a sector standpoint, earnings drove trading. Materials (XLB) and financials (XLF) were the two leaders on Tuesday but they rose just 0.4% and 0.2% each. And while those two sectors are cyclical, they both rallied because of solid earnings. For materials, Sherwin-Williams (SHW) rose 7% on earnings and accounted for much of XLB's gains while within XLF, banks traded higher thanks to better-than-expected ZION results.

The laggard yesterday was energy as oil dropped sharply, again. The losses were broad as oil has declined more than 3% so far this week and between that and the reduced expectations for a Trump win, there's some new policy risk being reintroduced for energy stocks (if Harris wins, we likely won't see any easing of regulations on energy companies). XLE fell 1.6% on the day and was, by far, the worst performer. The remaining eight sector SPDRs were little changed on the day as earnings didn't create any material moves.

Bottom line, "out of tech and into the rest of the market" somewhat resumed, but it was a more tentative than last week as earnings have taken a more dominant role in market internals this week and that's something that will likely last for the next week and a half (which is peak earnings season).

Dow Theory: Transports Sputter, Industrials Power On



Between July and late October 2023, a lot of subscribers probably questioned the efficacy of Dow Theory considering the stock market peaked just a few weeks after it flashed a bullish reversal signal on July 10, 2023, and proceeded to decline for almost three months straight with the S&P falling 10% peak to trough. However, fast forward to the present day and the short-lived 10% drawdown was not so bad considering the SPX is up roughly 25% from the time of that bullish signal in mid-July of last year.

Because it has been a year almost to the week since Dow Theory flipped to bullish from bearish, which it had been since H1'22, we figured it would be a good time to offer an update on the latest dynamics and developments of Dow Theory and dive into what the more-than-century-old investment system is saying about the outlook for this market that has enjoyed relentless, low-volatility gains for most of the year.

To recap quickly, Dow Theory is based on the idea that the two Dow stock averages, the Industrials (DJIA) and the Transports (DJT), represent the health of two different but equally important parts of the economy. Dow theorized that if both of his namesake averages were trending higher in unison, it suggested there was broad-based growth in both major subsectors of the economy and that growth would support a further rise in the stock market. However, if one of the averages begins to lag and rollover, *and* the other later follows, then the broad-based weakening in the price dynamics would be signaling a weakening economy and a likely top having already been established in the broader stock market ahead of a sustained recessionary bear market downturn. It is important to understand that Dow Theory was never meant to "call tops and bottoms" but rather to identify major trend changes *after* new extremes have been established.

In technical terms, a series of higher highs and higher lows in the DJIA accompanied by higher highs and higher lows in the DJT results in a bullish Dow Theory signal and a bull market can be expected in the equity markets with only modest drawdowns outside of unforeseen Black Swan events. Speaking of the Black Swan events in recent history, those following Dow Theory during the pandemic in 2020 did admittedly experience a sizeable drawdown in their equity holdings between the February record highs and March lows of that year, but importantly they were never given a bearish reversal signal by Dow Theory and therefore would have theoretically stayed invested and enjoyed the strong rally in stocks in the early stages of the recovery.

Market	Level	Change	% Change
Dollar Index	104.18	.15	0.14%
EUR/USD	1.0850	-.0041	-0.38%
GBP/USD	1.2901	-.0032	-0.25%
USD/JPY	155.62	-1.42	-0.90%
USD/CAD	1.3773	.0016	0.12%
AUD/USD	.6614	-.0029	-0.44%
USD/BRL	5.5914	.0153	0.27%
Bitcoin	65,834.55	-2,011.27	-2.96%
10 Year Yield	4.239	-.021	-0.49%
30 Year Yield	4.471	-.007	-0.16%
10's-2's	-24 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.84%		
Prices taken at previous day market close.			

Other recent examples of Dow Theory's effectiveness include avoiding the worst of the 2022 bear market, avoiding much of the 2018 market declines, and looking further back, much of the tech bubble and GFC bear markets could also have been avoided or at least limited through hedging strategies or portfolio repositioning. The takeaway from recent history is that Dow Theory is still a viable tool that can be an asset to financial advisors and investors who incorporate the signals into their strategy process.

Fast forward again to the present day and we are looking at a still-bullish set up from Dow Theory as the Dow Industrials just made a new weekly closing high on Friday following a new higher low established in April, both visible on the charts on Page 2 borrowed from the latest edition of Sevens Report Technicals (which provides Dow Theory updates weekly). The Transports are not doing as well, however, as we saw the average establish a lower low late last year before the late-2023 rally stalled short of the July 2023 highs (marked by red ovals on the Sevens Report Technicals charts on Page 2).

Furthermore, it is worth pointing out that the DJT has not made a new record high since late 2021, indicating the logistics, airline and rail companies that make up the average have begun to struggle and lag the rest of the market, indicating weakness in the transportation portion of the economy. And as Dow originally theorized that means that weakness in the broader economy could be looming in the months or quarters ahead.

Importantly, Dow made it clear that the two averages must confirm each other's trends to officially signal a reversal either bullish or bearish. And with the Dow sitting near all-time highs we are simply watching for any emerging weakness in the Industrials that may wind up electing a bearish reversal signal in the time-tested strategy. So, despite the struggling Transports, Dow Theory remains bullish and the path of least resistance remains higher for stocks despite economic and cyclical warning signs across asset classes (the elephant in the room remains the yield curve).

Economics

There were no material economic reports yesterday.

Commodities

Commodities traded with a risk-off tone as concerns about the health of the Chinese economy continued to simmer, weighing on industrial metals and energy markets while falling Treasury yields helped gold buck the trend and notch a gain on the session. The commodity tracking ETF, DBC, declined 0.93% to end at the lowest levels since early March.

WTI crude oil futures fell to a six-week low in intraday trade before closing off the worst levels but still down a relatively steep 1.48%. Ongoing concerns about the Chinese economy following the unforeseen rate cuts by the PBOC earlier in the week and the disappointing Existing Home Sales report both contributed to the declines as did improving prospects for a ceasefire between Israel and Hamas. On the charts, WTI crude oil futures tested critical near-term support at $76.50 but recovered into the close to end above $77/barrel as today's EIA report came into focus. Bottom line, the price action in oil has gotten heavy in recent weeks and if we do not see futures stabilize in short order, the possibility of a drop towards the low $70s will rise considerably.

Copper also fell to multi-week lows, ending down 0.88% for most of the same reasons that oil was under pressure; Chinese economic concerns and the weak Existing Home Sales data. Copper has now fallen into an important price support area from early 2024 between $4.00 and $4.15, and we will look for some stabilization here because, if we don't see the declines let up that will be an increasingly urgent warning sign about the health of the global economy, particularly China's economy, which would be detrimental to the bull case for risk assets globally.

Switching to precious metals, gold bucked the trend and posted a gain of 0.51%. A strong 2-Yr Treasury Note auction sending shorter-duration yields lower helped buoy the yellow metal and more than offset a strengthening dollar, which hit a more than one-week high. Gold remains the most appealing destination for capital in commodities right now as it just hit a new record high last week, reiterating the trend in gold is still higher.

Currencies & Bonds

Tuesday was another quiet day as there was not significant economic data nor any impactful central bank speak. The Dollar Index rose 0.1% while the 10-year Treasury yield drifted lower, falling 3 basis points.

The calendar becomes busier starting today, but the first two days of the week were devoid of any information that would alter the current outlook for the major central banks (Fed, ECB and Bank of England). As such, the rate cut outlook remains unchanged: Fed certainly cuts in September, ECB most likely cuts in September and BOE probably cuts in September.

We did see a the euro and pound both continue to slide vs. the dollar, but that's more based on positioning than anything else. The euro fell 0.4% while the pound dipped 0.2%. Currency markets continue to wait for the next catalyst to alter the market's expectations for rate cuts from the Fed, BOE or ECB and until that happens we can expect continued generally quiet currency markets with the Dollar Index between 103-106.

In Treasuries, the 10-year yield dipped 3 basis points but that was mostly an unwind of Monday's mild bounce in yields as Treasuries, like the dollar, euro and pound, awaits the next catalyst to potentially alter the market's view on growth or rate cuts. But while the market waits for a new catalyst regarding growth or Fed rate cuts, demand for U.S. Treasuries remains very strong, despite long-term fiscal concerns that are the focus of the financial media.

That demand was on display as there was record demand for $69 billion worth of 2-Year Notes. Bidding was aggressive as the actual yield was more than 2 basis points below the "When Issued" yield, the second largest stop through ever. Overall demand was also very strong, as the bid to cover was 2.81, the highest since August of last year while Indirect Bidders, a proxy for foreign buyers, bought 76.6% of the auction, the highest on record. The longer-term U.S. fiscal challenges are real but those concerns have yet to reduce demand for U.S. Treasury debt, and as long as that lasts it'll help keep a headwind on yields (which is a positive for stocks).

Have a good day,

Tom

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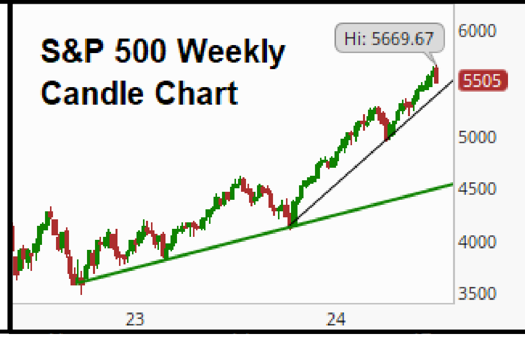
Technical Perspectives (Updated 7/21/2024)

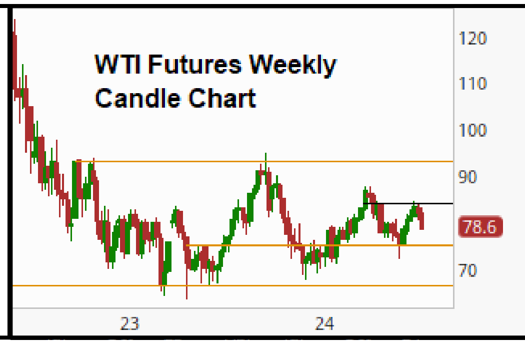
S&P 500

- 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



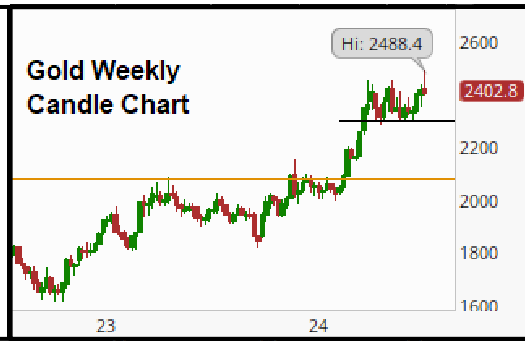
WTI Crude Oil

- 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



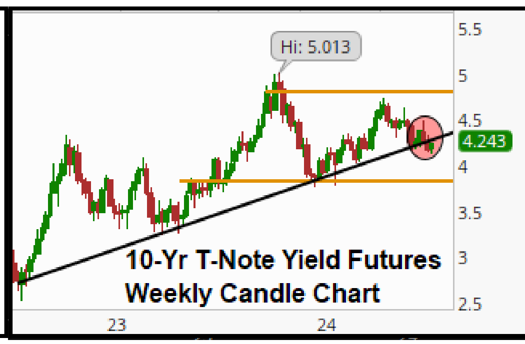
Gold

- 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



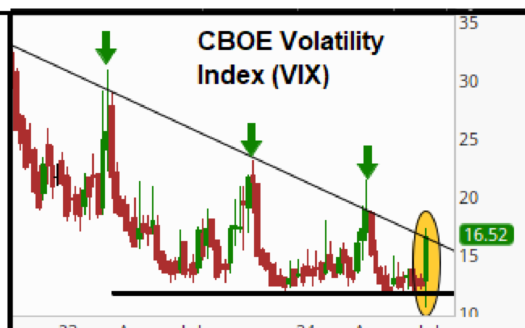
10-Year T-Note Yield Futures

- 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



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.