SEVENS REPORT

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

July 25, 2024

Pre 7:00 Look

- Futures are modestly lower as more mixed earnings are preventing a bounce in stocks.
- Tech earnings were "ok" overnight (IBM and NOW posted good results) but other sectors' results were weak, especially in the auto sector (Ford (F) is down 13% pre-market) and that's weighing on futures.
- Econ Today: Jobless Claims (E: 235K), Final Q2 GDP (E: 2.1%), Durable Goods (E: 0.3%).
- Earnings Today: AAL (E: $1.04), ABBV (E: $2.56), VLO (E: $2.61), LHX (E: $3.18), BKR (E: $0.49).

Market	Level	Change	% Change
S&P 500 Futures	5,457.25	-14.75	-0.27%
U.S. Dollar (DXY)	104.19	-0.20	-0.19%
Gold	2,376.40	-39.30	-1.62%
WTI	76.18	-1.41	-1.82%
10 Year Yield	4.22%	-0.07	-1.64%

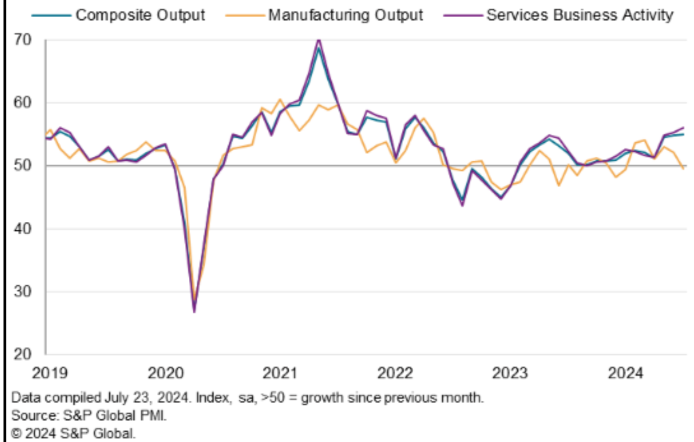
Equities

Market Recap

Stocks plunged Wednesday thanks to the combination of a weak start to mega-cap tech earnings and downbeat global manufacturing data. The S&P 500 dropped 2.31% on the day to end at a one-month-plus low.

Equity markets gapped decidedly lower to start the session yesterday, in large part due to disappointing earnings from TSLA, which was down 7% pre-market, as well as underwhelming results from GOOGL and V, which were both down more than 3% before the bell. Furthermore, economic data in Europe was weak as the Flash

S&P Global Flash US PMI



The chart above illustrates the fact that the manufacturing sector (yellow line) typically leads the service sector (purple line) into both periods of expansion and contraction in the economy. Yesterday's decline into contraction is another signal that economy is facing building headwinds.

Eurozone Composite PMI missed estimates and nearly fell into contraction due to weakness in German manufacturing activity, an important part of the EU economy.

The final notable and also negative influence on stocks leading up to the bell yesterday was an op-ed piece by former NY Fed President Bill Dudley calling for Fed rate cuts as soon as next week due to labor market worries, a stark contrast to his prior higher-for-longer stance (here's a link to his Bloomberg op-ed).

After gapping lower at the open, the S&P 500 continued to decline on momentum with heavyweight tech stocks dragging the market lower. The selling pressure was continuous through mid-morning trade as investors digested a mixed U.S. Composite PMI Flash that contained some worrisome details and an underwhelming New Home Sales print.

The S&P 500 attempted to steady into the early afternoon as the index approached the options strike sensitive 5,450 level and was supported briefly by a weak 5-Yr

Market	Level	Change	% Change
Dow	39,853.87	-504.22	-1.25%
TSX	22,639.57	-174.18	-0.76%
Stoxx 50	4,776.40	-85.47	-1.76%
FTSE	8,803.51	-70.18	-0.86%
Nikkei	37,869.51	-1,285.34	-3.28%
Hang Seng	17,004.97	-306.08	-1.77%
ASX	7,861.21	-102.51	-1.29%
Prices taken at previous day market close.			

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Treasury Note auction (investors would think safe-haven demand for bonds would be stronger given how heavy the price action in stocks). But the market rolled over as the relentless selloff resumed into the close and the S&P 500 ended at a one-month low, 1 point below the 50-day moving average.

Market	Level	Change	% Change
DBC	22.42	-.01	-0.04%
Gold	2,408.10	.80	0.03%
Silver	29.17	-.16	-0.55%
Copper	4.0860	-.0745	-1.79%
WTI	77.54	.58	0.75%
Brent	81.59	.58	0.72%
Nat Gas	2.119	-.068	-3.11%
RBOB	2.4474	.0333	1.38%
DBA (Grains)	24.07	-.20	-0.82%

Prices taken at previous day market close.

What is Causing This Pullback?

The decline in stocks broadened and intensified on Wednesday and the S&P 500 has now declined 4.14% from the all-time high hit last Tuesday. But while many analysts are viewing this current pullback as a warning on future economic growth or extrapolating some political commentary by the markets, the reality is that this pullback is being caused by something much less exciting (yet still important): Positioning and earnings.

The good CPI report from two weeks ago made a September rate cut a guarantee in the mind of investors, and falling yields and the hope for resilient growth saw investors rotate out of mega-cap tech and into "left behind" parts of the market that were more cyclically oriented (small caps, industrials, financials, value and RSP over SPY).

That rotation, while negative for the S&P 500 due to the tech overweight, was at worst neutral and at best positive for the rest of the markets, as underperforming sectors played a large game of "catch up," best exemplified by the 11% surge in the Russell 2000 over five trading days.

On Monday of this week, after six intense days of rotation, markets tried to bounce and stabilize. But that didn't last, thanks to earnings (specifically tech earnings). ASML missed estimates and that was followed by GOOGL and TSLA misses and that simply added more selling pressure to a portion of the market that was already under pressure. And, with tech down so much and the "rest of the market" earnings at best neutral, it's simply too much selling pressure and markets showed that with yesterday's declines.

Here's the point: This current pullback in stocks isn't being driven by any major macroeconomic concern, it's being driven by the correction of an overextended tech sector and disappointing earnings.

That doesn't make it any less painful in our accounts, but what we're seeing now is different from a larger, more negative macro shift (like slowing growth, no Fed rate cuts or rebound in inflation). This matters for two reasons:

First, in the short term, solid earnings can help end this pullback and keep it relatively tame. And as has been the case, the key index in the market right now is SOXX, as that has to stabilize before the rest of the market can.

Second, none of this pullback includes growth worries, and that's what we have to watch for to make this go from a pullback to something worse. I am still concerned about growth (and Dudley's comments only make me more nervous) but the data over the past week has been "ok." That said, we still need to watch growth very closely, especially because 10s-2s keeps rising (more on that below).

Bottom line, this is a positioning and earnings driven pullback and good earnings (especially in tech) can end it. But if we get growth worries on top of it, then we need to brace for something more—and you'll hear from us first if those growth worries materialize.

The 10s-2s Spread Just Hit a Two-Year High and It's Close to Turning Positive

The 10-year Treasury yield rose modestly on Wednesday as economic data was more mixed than bad and that helped to push the 10s-2s yield spread to -15 basis points, the highest level since July 2022. In doing so, the 10s-2s spread inched closer to turning back positive, an event that we pointed out last Wednesday creates a bit of a scary precedent for stock market performance (the last two times a yield curve inverted for this long and turned back positive, the S&P 500 fell more than 30% and took more than five years to reach new highs).

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Looking at yesterday's price action, the 10s-2s yield spread rose because the 2-year yield was flat (remember the 2-year yield is the proxy for Fed rate cuts and there's no change in that opinion, namely that we'll get a September cut). However, the 10-year Treasury yield rose 3 basis points despite the weak stock prices and the reason for the bounce in yields is clear: Economic data simply wasn't that bad yesterday.

As mentioned, the flash PMIs were mixed but the all-important Services PMI was solid. Inflation pressures, meanwhile, were also mixed. But neither signaled material and surprise slowing in economic growth or inflation and as such, they simply weren't a headwind on Treasury yields.

The 10s-2s yield spread has shot to 2-year highs and is within striking distance of turning positive. That event, by itself, isn't a reason to sell stocks. But given the history we detailed last week, it's absolutely a reason to be more vigilant and to again audit portfolio volatility.

Defensive sectors and minimum volatility ETFs (and even hedged equity ETFs) remain potential solutions for investors given the environment (as they maintain long exposure but will also outperform if growth worries spike, earnings disappoint or some other significant negative appears).

Economics

Flash U.S. Composite PMI

- The Flash Manufacturing PMI fell to 49.5 vs. (E) 51.6
- The Services PMI rose to 56.0 vs. (E) 55.0

The July PMI Composite Flash was mixed as the Services subindex was unexpectedly strong and the Manufacturing Index was surprisingly weak. The heavier weight the services sector holds within the U.S. economy, and therefore the Composite index, resulted in the modest and widely unforeseen uptick from 54.8 to 55.0 on the headline in July, which was a 27-month high.

Looking at the two subindexes, the Services PMI topped estimates calling for a moderation to a still-solid 55.0 reading (from 55.3 in June) and instead rose to a 28-month high of 56.0. The Manufacturing PMI, meanwhile, fell more than 2 points to 49.5, a 7-month low and the first contractionary print since January.

Finally, looking at inflation, prices charged for goods and services increased at the second slowest pace since October 2020, although input costs rose, providing another mixed picture on inflation. Bottom line, this was the first major report for July and it was "fine" and implied a stable economy, albeit one that is facing headwinds (which is in-line with expectations).

Commodities

Commodities were mixed as oil rallied on solid demand figures within the weekly inventory while industrial metals came for sale hard amid weak global manufacturing PMI and recession fears. Gold was flat as a rise in the 10-yr yield was offset by safe-haven demand. The commodity ETF, DBC, was down a slight 0.04%.

Copper futures declined a steep 1.73% on the session. Most of the selling pressure was concentrated around the releases of the EU Flash Composite PMI (4:00 a.m. ET), and the U.S. Flash Composite PMI release (9:45 a.m. ET) as both reports revealed significant weakness in the manufacturing sectors in Europe and the U.S., which is a clear negative for the demand outlook for industrial metals. Looking ahead, futures seem poised to test key support at $4.00 in the sessions ahead and a violation would suggest the global economic situation is more dire than markets believed just two weeks ago.

Market	Level	Change	% Change
Dollar Index	104.12	-.05	-0.04%
EUR/USD	1.0842	-.0012	-0.11%
GBP/USD	1.2906	-.0002	-0.02%
USD/JPY	153.92	-1.67	-1.07%
USD/CAD	1.3807	.022	0.16%
AUD/USD	.6585	-.0030	-0.45%
USD/BRL	5.6570	.0712	1.27%
Bitcoin	66,049.52	214.98	0.33%
10 Year Yield	4.286	.047	1.11%
30 Year Yield	4.548	.077	1.72%
10's-2's	-14 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.81%		
Prices taken at previous day market close.			

Elsewhere in metals, gold's safe-haven appeal kept it from declining materially with rising bond yields and a steady dollar. Gold ended with a modest loss of 0.20%. For now, futures are holding onto psychological support at $2,400/oz. but a drop to $2,350 should not come as a surprise if we see yields or the dol-

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lar continue to rise. The long-term trend, however, remains decidedly bullish for gold.

EIA Data Takeaways and Oil Update

The weekly EIA report was bullish, as there was a sizeable -3.7MM bbl drawdown in crude oil stockpiles which was only slightly less than the API's reported draw of -3.9MM bbl. In the products, gasoline supply fell -5.6MM bbls (API: -2.8MM) and distillates fell -2.8MM (API: -1.5MM), both roughly doubling the respective draws reported by the API late on Tuesday. WTI ended the day higher by 0.91%.

Beyond the headlines, gasoline supplied, the key measure of implied demand that we monitor closely each week, rebounded in a big way, rising 673K b/d to a one-year high of 9.5MM b/d. That brought the smoother look at the data via the four-week MA up 122K b/d to a solid 9.265MM b/d, which was just shy of the 2024 high reached earlier in July and close to last summer's peak, which underscores still-strong consumer demand at the pump after a lull in mid-July.

Bottom line, this week's EIA report was solid and oil futures appropriately popped in the wake of the release; however, the trend of strong consumer demand has faltered in July, underscored by the fact the four-week moving average of gasoline supplied remains about 30K b/d off the early July YTD highs. Going forward, the energy bulls will want to see more evidence of strong and persistent consumer demand in order for oil to hold above key technical support at $76.50, because recession worries are on the rise and volatility is picking up, both of which are typically headwinds for the oil market. On the charts, $76.50 is the key support level to watch in the near term and to the upside we are eyeing the 50-day moving average at $79.50 and the 21-day moving average at $80.40, as key near-term resistance levels.

Currencies & Bonds

Despite the volatility in the equity markets, the dollar was again little changed on Wednesday and even at the lows yesterday, the losses were modest. The Dollar Index fell 0.10%.

The dollar started Wednesday falling modestly, thanks mostly to a dovish Op-Ed by former New York Fed President William Dudley. Dudley announced he "changed his mind" and advocated for the Fed to cut rates immediately, noting that it may not even be possible to avoid recession at this point.

Dudley's comments were a surprise as he previously was not in favor of immediately cutting rates and his caution did weigh on the dollar even though he's not a member of the Fed anymore (although he is a well-respected former Fed official).

However, after hitting the lows of the day right around 10:30, the Dollar Index rose steadily throughout the remainder of the trading session. The key for the reversal was the flash composite PMI as it was more of a mixed than outright bad number and despite Dudley's warnings, the economic data lately hasn't been that bad (and it definitely doesn't imply a sudden collapse in activity but instead a gradual slowing, at least so far). The Dollar Index rallied into the close to finish with a slight loss but still above 104.

Looking internationally, the yen was again the big mover as it rallied another 1% on either the perception or reality of more BOJ intervention (so the BOJ buying yen in the market). BOJ interventions have worked as the yen has appreciated against the dollar from 161 yen/dollar to 154 yen/dollar. However, for the yen to sustainably rally (without BOJ intervention) we'll need to see the BOJ get more hawkish and/or the Fed get more dovish and neither are likely near term. In Europe, the euro and pound were both little changed (pound flat on the day, euro down -0.1%) in quiet trade.

Bottom line, stocks are getting hit but it's not being driven by macroeconomic factors and we know that because no other macro indicators are moving, as the dollar and yields are not implying this selloff is being driven by growth or Fed rate cut worries (if it was, the 10-year Treasury yield and dollar would be much lower).

Have a good day,

Tom

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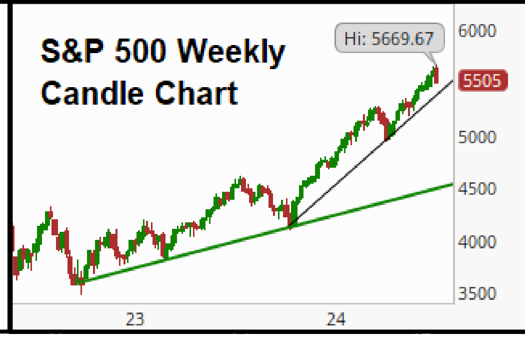
Technical Perspectives (Updated 7/21/2024)

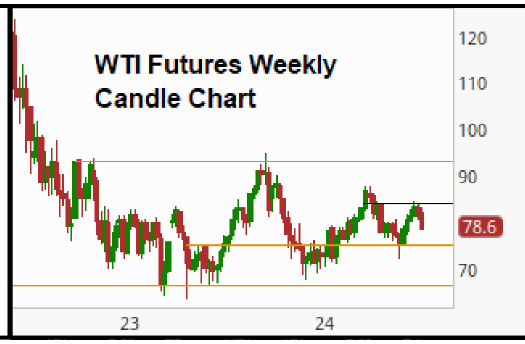
S&P 500

- 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



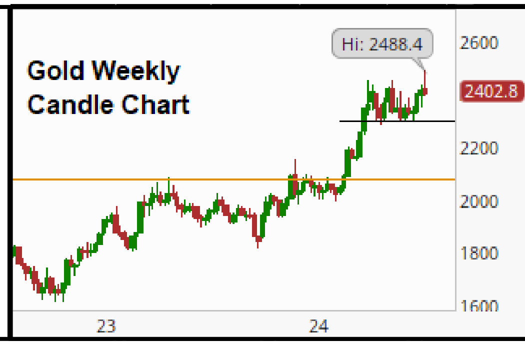
WTI Crude Oil

- 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



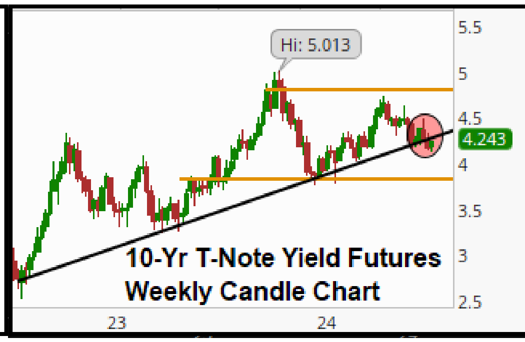
Gold

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



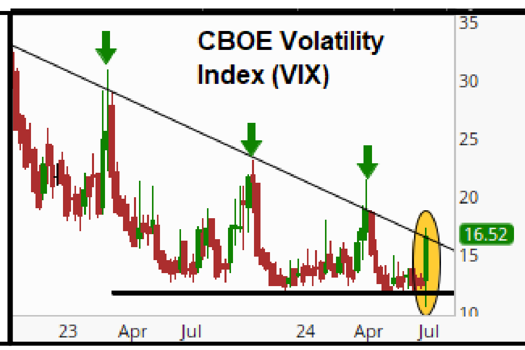
10-Year T-Note Yield Futures

- 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



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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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