SEVENS REPORT

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

July 26, 2024

Dollar/Yen: The yen has strengthened vs. the dollar over the past month and if it drops below the 200-day MA for the first time since January, it could cause an unwind of the yen carry trade and further pressure U.S. risk assets.

Pre 7:00 Look

- Futures are seeing a solid bounce following a mostly quiet night of news as investors look ahead to (hopefully) another good inflation report.
- Earnings remained broadly mixed overnight (some good, some bad) but none of the results are impacting markets.
- There was no notable economic data or geo-political events overnight.
- Econ Today: Core PCE Price Index (E: 0.1% m/m, 2.5% y/y).
- Earnings Today: BMY (E: $1.64), MMM (E: $1.66), CNC (E: $2.42).

Market	Level	Change	% Change
S&P 500 Futures	5,483.75	42.50	0.78%
U.S. Dollar (DXY)	104.34	-0.01	-0.01%
Gold	2,372.90	19.40	0.82%
WTI	77.99	-0.28	-0.36%
10 Year Yield	4.25%	-0.01	-0.33%

Equities

Market Recap

Stocks attempted to rebound from Wednesday's declines in the first half of the session yesterday thanks to solid domestic economic data and some "ok" tech earnings. The S&P 500 faded in the afternoon, however, and ended the day down another 0.51% to a six-week low.

Equity markets began the day little changed before quickly selling off on some follow-through momentum from Wednesday's steep selloff as investors digested fresh earnings news and better domestic economic data.

The S&P 500 was able to hold support at 5,400 in early trade and a relief rally began to form in the first hour as ok earnings from IBM and NOW were helping offset dismal earnings from Ford. At the same time, better-than-expected economic data in the U.S. including a solid headline GDP print, strong details to the Durable Goods report, and a stabilizing Jobless Claims headline all helped ease recession worries and stocks were able to grind higher into the middle of the day with the S&P 500 approaching 5,500 over the lunch hour.

At the top of the 1 p.m. hour, a solid 7-Yr Treasury Note auction saw stocks roll over as the strong demand suggested to equity traders that smart-market traders were still more urgently seeking safe havens despite the perception that recession risks were easing. The S&P 500 fell back to Wednesday's closing levels by the start of the final hour before the index bled lower in the final 15 minutes to close within a point of 5,400 as today's Core PCE Price Index release came into focus.

Is the Yen Carry Trade Unwinding?

The increase in stock market volatility has dominate the financial media coverage, and rightly so, but there's an-

Market	Level	Change	% Change
Dow	39,935.07	81.20	0.20%
TSX	22,608.03	-31.54	-0.14%
Stoxx 50	4,850.15	38.87	0.81%
FTSE	8,242.01	55.66	0.68%
Nikkei	37,667.41	-202.10	-0.53%
Hang Seng	17,021.31	16.34	0.10%
ASX	7,921.27	60.06	0.76%
Prices taken at previous day market close.			

other important global asset that's also seen volatility surge over the past month: The Japanese yen.

We've detailed what the yen is doing and why it's rallied about 5% in a month, from a low of 162ish vs. the dollar to a high of about 154. It's rising because the Bank of Japan has either explicitly or implicitly been intervening in the markets. Practically, that means they are buying yen in the open market to support it and have it increase in value.

Market	Level	Change	% Change
DBC	22.47	.05	0.22%
Gold	2,356.90	-58.80	-2.43%
Silver	27.93	-1.39	-4.73%
Copper	4.1165	.0075	0.18%
WTI	78.25	.66	0.85%
Brent	82.31	.60	0.73%
Nat Gas	2.045	-.072	-3.40%
RBOB	2.4654	.0139	0.57%
DBA (Grains)	23.97	-.12	-0.52%
Prices taken at previous day market close.			

Now, I want to explain how this could impact markets, because if the yen carry trade is starting to reverse, it has negative implications for stocks and other risk assets.

First, as a refresher, the yen carry trade is a term given to this trade: Sell short Japanese government bonds and take the proceeds and use them to buy risk assets: Stocks, emerging market debt, commodities, crypto, and even U.S. corporate and government bonds. This trade has been utilized for more than two decades thanks, mostly, to the fact that the Bank of Japan keeps interest rates artificially low (and much lower than the rest of the world).

Here's how the trade works: I'm a big investment fund. I place a trade to sell the 10-year JGB. I don't have any 10-year JGBs so I borrow them to deliver. My "cost" on the borrow is the yield (more or less) and right now, the yield on a 10-year JGB is 1.08% and it's being controlled by the BOJ, so I don't have to worry about the bond moving too much. I then take the proceeds from my short sale and I buy something: Stocks, bonds, commodities, crypto. Since it only costs me 1% per year to borrow the money, any gain above that is profit (ignoring any currency movements). But if I'm risk averse, maybe I just sell short JGBs at 1.08% interest and buy a U.S. Treasury yielding 4.20%. So, I make a 3.20% spread on the trade and as long as the yen doesn't strengthen more than 3% vs. the dollar, I'm money good.

The yen carry trade has been used to fund bull markets in virtually every asset over the years and for leveraged funds that know how to do it, it's been a great thing for returns.

However, there is always the risk this trade unwinds. In that instance, the yen *does* rally a lot and blows up the trade. And because they are done on a lot of leverage, it doesn't take that big of a move to pressure the carry trade. If it goes on long enough (like it did in 2006/2007) then the unwind can contribute to painful declines in stocks, bonds and other assets (commodities/cryptos).

Back to the present, is the yen carry trade unwinding?

No, not yet, but it's something we need to watch. The yen has strengthened more than 5% vs the dollar in a month. Most of that is due to BOJ intervention but undoubtedly this move has caught some late-to-the-party carry traders off guard and that's likely impacting other risk assets (albeit mildly).

As I look forward, there are some candidates looming that could cause a more intense unwind of the yen carry trade and add further pressure to risk assets.

The first candidate is the Fed is more dovish than expected. The carry trade has worked brilliantly so far this year because the dollar is materially strengthening against the yen. The basis for that strengthening has been the policy gap between the Fed (no rate cuts) and the BOJ (which is still very dovish). However, if the Fed becomes surprisingly dovish (and even cuts rates in July) that will cause the yen to strengthen vs. the dollar and that could trigger an unwind of the yen carry trade.

Second, given it's an election year, there's the possibility that markets become more worried about the fiscal trajectory of the U.S., regardless of who is President (Harris or Trump). If that occurs, you'll see JGBs rally and the U.S. dollar decline, and that could also cause an unwind of the yen carry trade. Finally, if the BOJ surprises markets and becomes more hawkish, that would boost the yen and likely cause an unwind of the yen carry trade.

On the charts, the 200-day moving average for the yen is sitting around 151.60. The yen closed yesterday just under 154. If that 200 day is broken that could trigger some partial unwind and increase market volatility, so I've put alerts on the 200-day MA. And if the yen breaks below that, you'll know.

I know the financial media is focused mostly on domestic stocks and the Mag 7, but global markets do matter and we'll continue to watch the yen carry trade for signs of stress—and we will tell if that stress materializes, because that would be a negative for markets.

Economics

Preliminary Q2 GDP

- Q2 GDP rose 2.8% saar vs. (E) 2.0%.

The message from the first look at economic activity in the second quarter (April-June) was clear: Growth was solid. Headline GDP was better than expected at 2.8% and a solid (but not too hot) number, especially given recent rumblings of an economic slowdown.

Sometimes, the headline GDP reading is misleading when talking about real growth (it can be skewed by inventories and trade balance) but that was not the case yesterday, as the details of the report were also solid. Specifically, Personal Consumption Expenditures (a proxy for consumer spending) rose 2.3% vs. (E) 1.9%. Final Sales to Domestic Purchasers (the total of all the "stuff" purchased by people in the U.S) rose 2.7% (up from 2.4%) while Final Sales of Domestic Product (all the sales of stuff created in the U.S. regardless of where it was purchased) rose 2.0%, better than the 1.8% in Q1.

From a market standpoint, this report was positive as it pushed back on slowdown concerns. However, while GDP reports get a lot of headlines, it's much more important where we're going than where we've been. I don't know anyone who legitimately thought the economy was weak in April, May or June, so this report isn't a real surprise. The bigger question is where the economy will be in December, and the GDP report only tells us the economy was fine in Q2, not that it's going to be fine in Q4.

Bottom line, it was a good report and helped stocks rally, but don't confuse it with something that reduces future slowdown chances.

Durable Goods

- June Durable Goods declined -6.6% vs. (E) 0.3%.

Long time readers know that the headline reading in Durable Goods must be taken with a grain of salt as it can be disproportionately impacted by aircraft orders and that was the case in June, as headline Durable Goods fell 6.6%, but that was due to the timing of aircraft orders, not because of sudden extreme weakness in spending. That headline volatility is why we instead focus on New Orders for Non-Defense Capital Goods ex. Aircraft (NDCGXA) and the results there were better than expected, as NDCGXA rose 1.0% vs. (E) 0.2%. However, the May data was revised lower to -0.9% from -0.6%.

If we step back, NDCGXA is basically flat over the past several months, or, as we have said, is showing signs of plateauing. Practically, that means that businesses are more cautious on large-scale purchases and investment. Much like the broader economy, this isn't a problem yet. However, if business spending begins to contract in the coming months that will increase the chances the broader economy slows more than expected. We'll continue to watch business spending because it is flat, and if that turns into a decline it'll be a negative for the economy.

Market	Level	Change	% Change
Dollar Index	104.13	.01	0.01%
EUR/USD	1.0847	.0007	0.06%
GBP/USD	1.2854	-.0053	-0.41%
USD/JPY	153.87	-.02	-0.01%
USD/CAD	1.3821	.0013	0.09%
AUD/USD	.6542	-.0039	-0.59%
USD/BRL	5.6422	-.0124	-0.22%
Bitcoin	64,920.21	-946.05	-1.44%
10 Year Yield	4.256	-.030	-0.70%
30 Year Yield	4.500	-.048	-1.06%
10's-2's	-19 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.80%		
Prices taken at previous day market close.			

Commodities

Commodities traded with a risk-on bias, which was a reversal from money flows earlier in the week. Oil outperformed but only with modest gains of less than 1% while copper also posted a small gain. Gold lagged badly, falling more than 2%. The commodity ETF, DBC, edged up 0.22%.

Beginning with the big laggard, gold prices came for sale hard yesterday with futures breaking away from the recently supportive $2,400/oz. level to end down 2.51% near the next key support level of $2,350/oz. Gold futures were already pulling back in early trade on profit taking but the decline accelerated on the back of the stronger-than-anticipated GDP report, solid details in the Durable Goods release, and stabilizing jobless claims data. Those data points saw the odds of a September rate cut pullback from a near certainty to just 90%, which saw short-duration Treasury yields spike and precious metals collectively sell-off hard amid the repricing of Fed policy expectations. For now, the weakness should only be viewed as a profit-taking pullback in a still-upward-trending market. However, gold is getting ripe for a more pronounced pullback after strong price action and a resilient push to new records so far in 2024, so support between $2,350 and $2,300 should be watched closely in the sessions ahead.

The strong GDP, Durables Goods, and Jobless Claims supported a modest relief rally in copper, which ended the day higher by 0.27%. Earlier in the session, copper futures had tested lows not seen since March, towards psychological and technical support at $4.00. Despite ending higher, copper is still in a near-term downtrend and we will need to see a bottom form in order to ease growing concerns about the health of the global economy. More weakness will warrant more caution from global investors regarding recession risks.

Switching to the energy markets, the solid economic data was also a key factor in supporting a 0.89% rally in WTI futures. Similar to copper, oil had been testing an important support level at $76.50 midweek, including early yesterday morning before reversing direction in morning trade as risk-on money flows, in reaction to the solid economic data, gained traction. The combination of solid consumer demand figures based on the big rebound in the gasoline supplied number in the weekly EIA data and improving economic data are helping keep oil from rolling over through support in the mid-$70s and testing the early summer lows near $72.50. If odds of a September rate cut fall, or recession fears return meaningfully, it will be hard for oil to hold up in the recently established trading range centered around $80/barrel leaving downside price risks elevated.

Currencies & Bonds

The 10s-2s yield spread declined 5 basis points on Thursday to end the day at -18 bps as solid economic data pushed back slightly on rate cut hopes while the 10-year yield declined slightly, offsetting some of Wednesday's rise (the data wasn't so good that it improved the medium-term economic outlook).

To be clear, GDP, claims and Durable Goods didn't reduce any expectation for a September cut (that's still 100%), but it did push back on low, but growing, hopes of a surprise cut at the meeting next week (that's very unlikely but some in the market are trying to talk themselves into it). The net result was a slight rise in the 2-year yield (up 2 bps). The 10-year yield declined slightly mostly on digestion of Wednesday's rally and on the fact that data didn't alter the outlook for growth or inflation.

Clearly the short-term trend in 10s-2s is higher but the major question is when it turns positive (it'll happen eventually, but several months from now would be better for stocks then next week, based on market history). We'll continue to watch 10s-2s closely and you'll know if, and when, it breaks positive.

Currencies were little changed again as none of the data or news altered the outlook for Fed rate cuts (still September and December), ECB rate cuts (September and once more in 2024) and BOE rate cuts (September and probably once more in 2024). As such, there was little movement in the currency space. The Dollar Index was virtually unchanged while the euro rose 0.1% and the pound declined 0.3%.

The Dollar Index remains comfortably in the 103-106 trading range and until something changes the outlook for Fed, ECB or BOE cuts, we can expect the dollar to remain in that range (which is neither positive nor negative for stocks). Finally, turning to the yen, it was also flat yesterday as markets digested the recent volatility, but as stated earlier, we'll continue to watch closely and if it approaches that 200-day MA, we will alert you to it.

Have a good weekend,

Tom

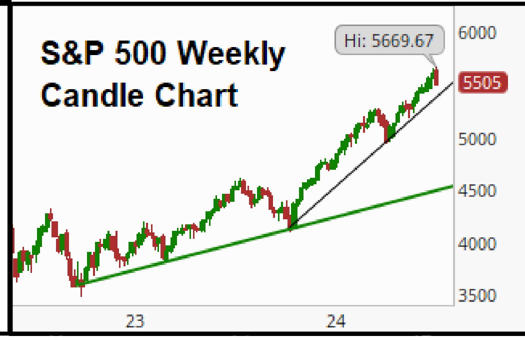
7/26/2024

SEVENS REPORT

Technical Perspectives (Updated 7/21/2024)

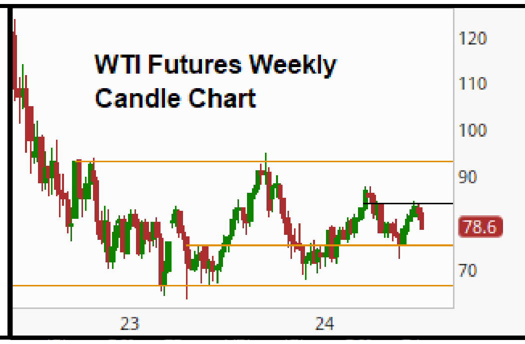
S&P 500

- 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



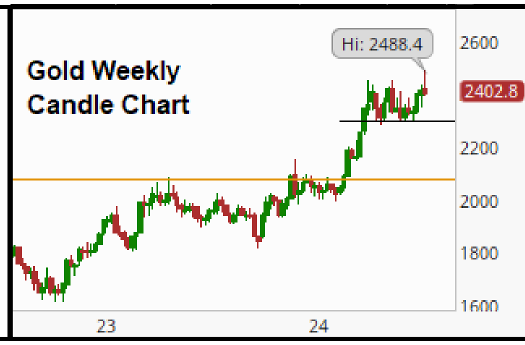
WTI Crude Oil

- 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



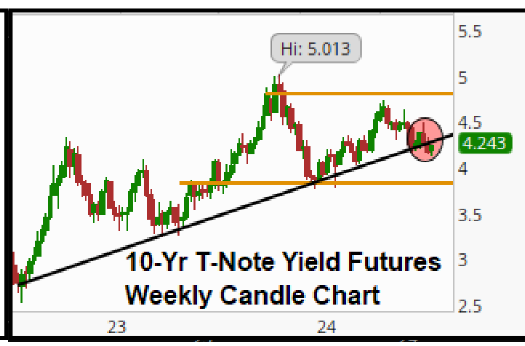
Gold

- 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



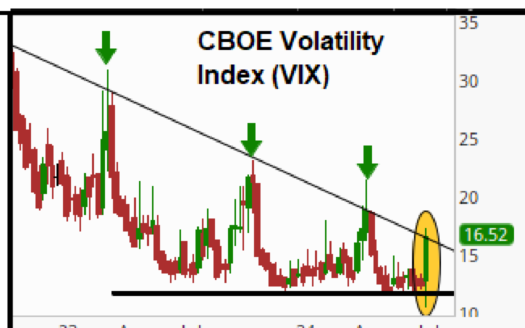
10-Year T-Note Yield Futures

- 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.