SEVENS REPORT

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

July 29, 2024

Pre 7:00 Look

- Futures are solidly higher on momentum from Friday's rally and following a mostly quiet weekend of news, as investors look ahead to an important week for economic growth, rate cut expectations and mega cap tech earnings.
- Geopolitically, tensions increased between Israel and Hezbollah following an attack in the Golan Heights and subsequent Israeli retaliation, but for now it's not moving oil markets.
- Econ Today: No reports today.
- Earnings: MCD (E: $3.08), ON (E: $0.92), SFM (E: $0.77).

Market	Level	Change	% Change
S&P 500 Futures	5,521.00	22.00	0.40%
U.S. Dollar (DXY)	104.42	0.11	0.10%
Gold	2,392.30	11.30	0.47%
WTI	76.97	-0.19	0.25%
10 Year Yield	4.16%	-0.04	-0.93%

Equities

Market Recap

Stocks remained volatile amid a continued rotation away from mega-cap tech stocks and into "the rest of the market" as Goldilocks economic data bolstered soft-landing hopes and mega-cap earnings disappointed. The S&P 500 fell 0.83% on the week and is now up 14.45% YTD.

Stocks began last week with a moderate rebound from the worst trading week in months as investors digested some unexpected stimulus measures from the PBOC, which initially eased growth concerns (but later rekindled them), and President Biden's decision to suspend his reelection campaign, a move that saw odds of another business-friendly Trump Presidency rise. The S&P 500 added 1.08%.

The rebound ran out of steam on Tuesday as bad earnings from global logistics giant UPS were largely offset by solid quarterly results from KO and GM. The market pulled back mid-morning on an ugly Existing Home Sales report but rebounded on the back of a strong 2-Yr Note auction with the S&P 500 ending down a modest 0.16%.

Volatility picked up in a big way on Wednesday as the first mega-cap tech earnings, which included results from TSLA and GOOGL disappointed high expectations, which restarted the rotation trade away from big tech and into the "rest of the market" (as well as the unwind of the carry trade). Some quasi-alarming commentary from former NY Fed President Dudley calling for immediate rate cuts due to deteriorating labor market conditions alongside negative details in the latest Composite PMI further weighed on the market and the S&P 500 fell another 2.31% to a six-week-low.

The market attempted to rebound on Thursday after some solid domestic economic data including GDP, details in the Durable Goods report, and initial Jobless Claims. "Ok" earnings from IBM and NOW offset bad earnings from Ford before a strong 7-Yr Treasury Note auction rekindled recessions worries among equity traders. The S&P 500 rolled over to end the day down 0.51%.

Stocks gapped higher at the open Friday as mixed earnings from Thursday evening and quiet newswires overnight left focus on the PCE Price Index report, which had an in-line headline but slightly warmer Core figure. Investors were "ok" with the modest uptick in the core print and the S&P 500 rallied through the latest Consumer Sentiment report, which saw 1-Yr inflation expectations hold steady. The Index failed to gain momentum

Market	Level	Change	% Change
Dow	40,589.34	654.27	1.64%
TSX	22,814.81	206.78	0.91%
Stoxx 50	4,867.62	5.12	0.11%
FTSE	8,365.71	80.00	0.97%
Nikkei	38,468.63	801.22	2.13%
Hang Seng	17,238.34	217.03	1.27%
ASX	7,989.64	68.38	0.86%

Prices taken at previous day market close.

into the afternoon, however, and ended off the session highs, up 1.11 but notably in the lower half of the week's trading range.

Market	Level	Change	% Change
DBC	22.24	-.23	-1.02%
Gold	2,385.40	31.90	1.35%
Silver	27.98	.01	0.01%
Copper	4.1080	-.0175	-0.42%
WTI	76.70	-1.58	-2.02%
Brent	80.70	-1.67	-2.03%
Nat Gas	2.001	-.040	-1.96%
RBOB	2.4522	-.0154	-0.62%
DBA (Grains)	23.88	-.05	-0.20%
Prices taken at previous day market close.			

An Important Week for the Bullish Mantra

Throughout 2024 we've cited four factors that have propelled the S&P 500 higher: Solid economic data, impending Fed rate cuts, falling inflation and AI enthusiasm. And this upcoming week will provide tests for each of them, but especially AI enthusiasm.

The reason the S&P 500 has pulled back is tech related, specifically the rotation out of tech that started as investors re-balanced ahead of September rate cuts. But it intensified last week as AI-related tech earnings (ASML and GOOGL in particular) disappointed and that caused the sharp Nasdaq decline on Wednesday and weighed on the S&P 500.

Put simply, last week's soft earnings are challenging the AI enthusiasm that has been responsible for the S&P 500 rallying into the mid 5,000's. That makes this week very important for AI and tech because MSFT, AAPL, AMZN and META, all AI darlings, report earnings and if they post disappointing guidance, it will further erode AI enthusiasm and we could see this pullback continue.

However, AI Enthusiasm isn't the only challenge to the bullish mantra this week. Starting with economic growth, the three big monthly economic reports will either re-affirm a Goldilocks environment (which we've seen over the past two weeks) or spike slowdown concerns, while the Fed decision on Wednesday can confirm (or not) that September rate cuts are coming (the only question will be 25 bps of 50 bps). Bottom line, this week has the potential to alter the year-to-date bullish set up for stocks (that doesn't mean it becomes bearish, but it easily could become less bullish).

Realistically, it's unlikely economic data provides a material surprise or that the Fed doesn't point to a September rate cut. So, barring any major surprises, we should exit the week still expecting 1) Solid growth and 2) September Fed rate cuts.

However, whether the market exits the week with strong AI enthusiasm is much more up for debate. The recent disappointing guidance and rumblings of exactly how much profit growth AI integration will provide are new headwinds on this space and if we see underwhelming guidance from the big four tech firms reporting this week, worries about the viability of AI as a profit optimizer will grow. The practical impact of that will be to keep the "out of tech" and "into the rest of the market" unwind going and as we saw last week, that can pull the S&P 500 solidly lower.

Bottom line, the outlook for tech remains somewhat uncertain, even with the pullback. If MSFT, AMZN, AAPL and META guidance are solid, we can see a solid, stock positive rebound. But if they are not, expect more intense tech weakness and the outperformance of the "rest" of the market including defensive sectors, value and minimum volatility ETFs.

Economics

Last Week

Economic data last week, like the week before it, was mostly Goldilocks and importantly did not raise concerns about an economic slowdown (although the economy is still losing momentum, just not more than anyone thought).

The key report from a financial media standpoint was the preliminary Q2 GDP report, which beat estimates, rising 2.8% vs. 2.0%. And the details of the report were strong with PCE (consumer spending) rising 2.3% vs. (E) 1.9%. But while that was heralded as a positive last Thursday, it's important to note that this is data from April-June, and I don't know a lot of people who didn't think the U.S. economy was solid during that period. Point being, this largely confirms what we knew but it doesn't really tell us much about what's happening next (which is the most important question).

Looking at more recent data from last week, it was mixed but mostly Goldilocks. The first big national number of the month, the flash PMIs for July, saw weakness in manufacturing (49.5 vs. (E) 51.6) but strength in services (56.0 vs. (E) 55.0). Similarly, business spending, represented by New Orders for Non-Defense Capital Goods Ex-Aircraft, rose 1.0% but the previous month's data was revised to -0.9%. So, business spending continues to largely plateau. Finally, jobless claims were better than expected, but only barely so at 235k vs. (E) 238k.

Finally, on the inflation front, the Core PCE Price Index met expectations on a monthly reading (0.2% m/m) but was just a touch higher on a year-over-year basis (2.6% y/y vs. (E) 2.5%). But that slightly higher-than-expected y/y reading wasn't enough to alter the outlook on inflation, namely that it's clearly declining.

Bottom line, economic data wasn't worse than feared last week (which is a positive) but it wasn't that good either so while the U.S. economy remains mostly solid right now, the trend in the data continues to point towards softer growth ahead (something that is not being reflected in stock prices).

This Week

This week in the markets has so many potentially important events that it's not an exaggeration to say could definitively end this pullback or, more negatively, turn it into something much more significant. I say that because we get important updates on all four parts of the "bullish mantra" that has underpinned the entire 2024 rally and if the data and events reinforce those points, stocks can rebound. If they undermine them, lookout.

Market	Level	Change	% Change
Dollar Index	104.04	-.06	-0.06%
EUR/USD	1.0857	.0111	0.10%
GBP/USD	1.2873	.0022	0.17%
USD/JPY	153.73	-.21	-0.14%
USD/CAD	1.3835	.0010	0.07%
AUD/USD	.6553	.0015	0.23%
USD/BRL	5.6622	.0176	0.31%
Bitcoin	67,854.16	3,048.50	4.70%
10 Year Yield	4.200	-.056	-1.32%
30 Year Yield	4.456	-.044	-0.98%
10's-2's	-16 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.78%		
Prices taken at previous day market close.			

The most important event of this week is Wednesday's FOMC Decision. We'll have our regular FOMC Preview in tomorrow's Report, but while some are hinting the Fed could cut rates on Wednesday, that remains extremely unlikely. So, what will determine if this event is positive or negative for markets is how forcefully Powell telegraphs a September rate cut. If he directs markets to expect one, that's positive. If he doesn't, that's negative, because it'll jeopardize the idea of imminent rate cuts.

The second most important series of events has to do with economic growth. This is jobs week, so we get the monthly Jobs Report on Friday (our Jobs Report Preview will be in Wednesday's Report, a day earlier due to the Fed) and the key number here will be the unemployment rate. It's moving towards multi-year highs and this is the single-biggest source of economic concern for the Fed. If it keeps rising, look for rate cut expectations to rise (and also slowdown fears to grow).

We also get the ISM Manufacturing PMI on Thursday, and if that drops further below 50 that will be an additional negative signal on growth. Finally, I did say it's "Jobs Week" so we will also get the JOLTS report (Tuesday), ADP (Wednesday) and jobless claims (Thursday). If we're seeing real softening in the labor market, we should know it by the end of this week.

Turning to inflation, it's also an important week for prices. The wage data in the jobs report will be important (it needs to keep trending down) but there are also two important anecdotal inflation reports this week: Employment Cost Index (Wednesday) and Unit Labor Costs (Thursday). Wage inflation is the Fed's biggest concern as that must moderate if the Fed is going to be confident enough to cut rates. By the end of this week, between these three reports, we should have a good idea of the direction of wage inflation and that will matter for September rate cut expectations.

Finally, this isn't an economic report but I wanted to mention it to complete my point that all four parts of the "Bullish Mantra" will be challenged this week. This is the most important week for tech earnings with MSFT (Tues), META (Wed) and AAPL & AMZN (Thurs). Bottom line, the data and events this week have the opportunity to reinforce the bullish mantra of 1) Solid growth, 2) Imminent Fed rate cuts, 3) Falling inflation and 4) AI enthusiasm. If they do, look for a strong rebound in stocks. If they don't, be prepared for a continued selloff.

Commodities

Commodities traded with a clear risk-off tone last week as industrial metals and energy futures declined moderately while precious metals outperformed thanks to safe-haven money flows. The commodity ETF, DBC, fell 1.51% to a near-five-month low.

Gold futures rallied 1.25% last week as recession fears continued to simmer, prompting some safe-haven money flows while the latest PCE data revealed a slight uptick in core inflation numbers. Those underlying stagflationary trends triggered a late-week rebound back towards the record highs established earlier this month. Looking ahead, the gold rally is showing signs of losing momentum but the path of least resistance remains higher and gold remains the preferred destination for capital within commodities.

Switching to energy, WTI crude oil futures fell to a six-week low midweek before attempting to stabilize with a big rally on Thursday. WTI futures failed to bounce, however, and ended the week down 2.75%, testing critical support at $76.50 into the weekend.

There were two catalysts that helped oil bounce Thursday. First, the EIA reported a sizable rebound in the implied measure of consumer demand for gasoline, which eased worries that demand was suddenly falling off. Second, the solid economic data released Thursday further quelled concerns about the economy falling into recession this summer, bolstering future demand expectations into the months ahead. Bottom line, oil futures have become corralled in a tight trading range between support at $76/barrel and resistance from $82 to $83/barrel. The price action has become heavy with futures testing crucial support in the mid-$70s and a potential drop towards support at $72.50/barrel has become increasingly likely.

Copper declined steadily over the course of the week, first on uncertainty surrounding the reason for unexpected stimulus measures by the PBOC and later because of downbeat domestic housing data and weak manufacturing PMI figures in the U.S. and Europe. Copper fell 3.00% on the week. The weakness in copper has caught our attention recently as it has become more pronounced and warned of a potential economic slowdown underway. The weakness in commodities more broadly is also becoming an increasingly noted phenomena that will remain a source of macroeconomic caution until we see some stabilization.

Currencies & Bonds

The most important parts of the currency and bond markets last week were the Treasury yield curve and Japanese yen, as both moved in directions that could become headwinds for stocks in the coming months.

Starting with the 10s-2s yield spread, it rose to a two-year high and closed at -17 basis points as 10s-2s gets closer to turning positive and, potentially, sending a historically negative signal for markets. The reason the 10s-2s spread declined was because of a drop in the 2-year Treasury yield, which fell 12 basis points last week as markets further priced in Fed rate cuts in 2024. The main catalyst for this move was Dudley's Bloomberg op-ed that called for Fed rate cuts this week. The 10-year yield was largely flat last week as none of the data altered the outlook for growth or inflation.

Bottom line, history shows us that when the 10s-2s spread is inverted for a long time, its turning back positive has meant periods of extended equity market declines. We hope that isn't the case this time, but we need to be watching closely for those signs (and we will).

In currencies, the only notable mover was the yen, which surged 2.1% vs. the dollar last week thanks to actual or perceived intervention by the Bank of Japan. The yen strengthened and got close to its 200-day moving average and if that level is broken in the coming days/weeks, it could trigger an unwind of the yen carry trade, which would be an additional headwind on stocks. Point being, we need to be watching the yen (and we are).

The Dollar Index, meanwhile, was flat last week while the euro and pound were little changed as none of the economic data altered the current outlook for September rate cuts from all three banks.

Have a good week,

Tom

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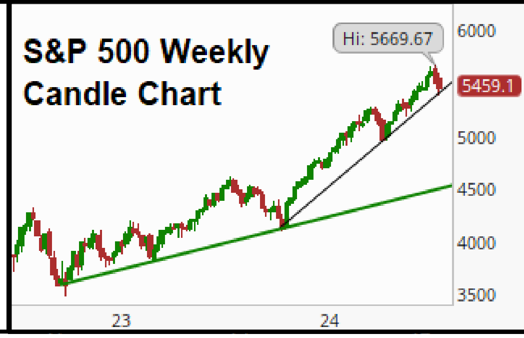
Technical Perspectives (Updated 7/28/2024)

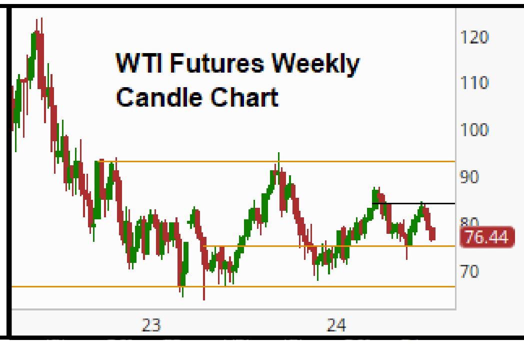
S&P 500

- 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: 5556, 5610, 5667
- Key Support Levels: 5429, 5375, 5291



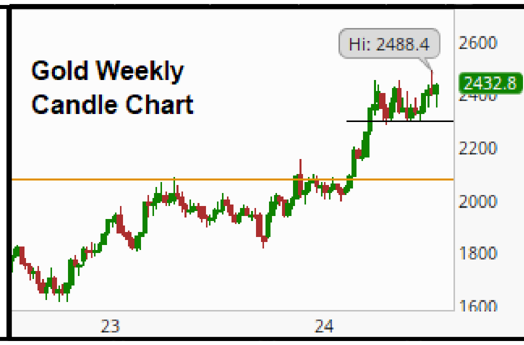
WTI Crude Oil

- 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: $78.60, $80.22, $83.10
- Key Support Levels: $76.04, $75.67, $74.02



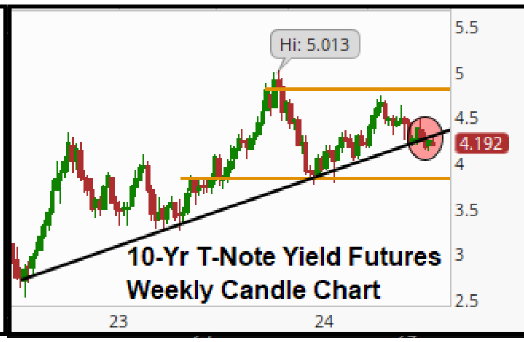
Gold

- 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: $2363, $2339, $2310



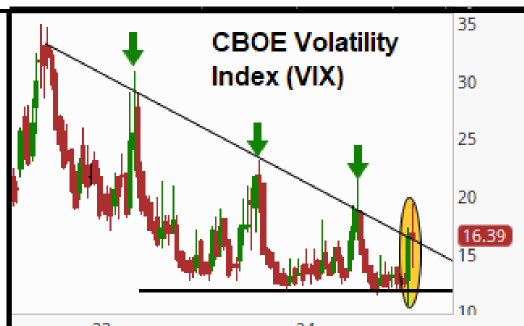
10-Year T-Note Yield Futures

- 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: 4.284, 4.358, 4.454
- Key Support Levels: 4.157, 4.088, 3.935



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: 17.97, 18.46, 19.23
- Key Support Levels: 15.40, 14.72, 13.85



SEVENS REPORT

Fundamental Market View
(Updated 7/28/2024)

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 again last week and the Nasdaq suffered its worst day since 2022 as disappointing earnings offset more Goldilocks data, while the rotation out of tech became extreme, pulling down the major averages.*

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 traded with a risk-off tone last week as growth concerns weighed on oil and industrial metals while gold bucked the heavy trend and posted a weekly gain. Continued risk-off money flows with industrial metals and oil declining and gold rallying will bolster macroeconomic worries in H2'24.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as none of the economic data altered the outlook for Fed, ECB or BOE rate cuts (still expected in September).*
Treasuries	**Turning Positive**	*The biggest move in the Treasury market was the steepening of the yield curve, as 10s-2s rose to the highest level in two years and is getting closer to turning positive, a historically ominous development for stocks. The 10s-2s yield spread ended the week at -16 bps.*

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.