SEVENS REPORT

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

July 3, 2024

Pre 7:00 Look

- Futures are slightly higher as Powell's dovish comments continue to be digested amid more Goldilocks global data.
- In Asia, Australian Retail Sales rose 0.6% vs. (E) 0.3% but China's Services PMI dropped to 51.2 vs. (E) 53.4. In Europe, the Eurozone Composite PMI fell to 50.9 vs. (E) 50.8 while the EU PPI fell -4.2% y/y vs. (E) -4.1%.
- Econ Today: ADP Report (E: 161K), Jobless Claims (E: 233K), ISM Services Index (E: 53.0), Factory Orders (E: 0.2%).
- Fed: Williams (7:00 a.m. ET), FOMC Minutes (2:00 p.m. ET).
- The NYSE will close at 1:00 p.m. ET today.

Market	Level	Change	% Change
S&P 500 Futures	5571.00	2.25	0.04%
U.S. Dollar (DXY)	105.631	-.040	-0.04%
Gold	2356.60	22.20	0.95%
WTI	82.77	-.04	-0.05%
10 Year Yield	4.419	-.010	-0.23%

Equities

Market Recap

Stocks rallied to close at new record highs as dovish comments from Fed Chair Powell and an uneventful JOLTS report sparked a strong and steady wave of risk-on money flows that lasted through the close. The S&P 500 gained 0.62% to close at a new high.

The major indexes gapped lower at the open yesterday as investors digested less-dovish commentary from ECB officials including President Lagarde while awaiting comments from Powell shortly after the open. As he began to discuss the economy, Powell noted that the labor market has become "substantially more balanced" reiterating a still "strong but cooling" jobs market. Regarding the other half of the dual-mandate, Powell said that "quite a bit of progress" has been made on inflation and the disinflation trend is showing signs of resuming. Those highlights were well received by investors, spurring dovish money flows into both Treasuries and the stock market with mega-cap tech/AI growth stocks leading the way higher. In corporate news, TSLA shares were notable upside standouts yesterday as quarterly data revealed that deliveries of new Tesla cars topped the consensus estimate by roughly 10%, sending shares higher by nearly as much.

The broad market's advance briefly paused after the May JOLTS report revealed an unexpected rise in job openings, but investors remained focused on the dovish-leaning comments from Powell earlier and recovered to new session highs shortly after JOLTS hit the wires.

Later in the morning, the Fed's Goolsbee said that he was not buying into the idea that the "last mile on inflation could take longer," which added to the optimistic mood in the thin holiday-week trade and supported further risk-on money flows into the afternoon with the S&P 500 lining up for a test of the psychological 5,500 before the close. The S&P 500 broke through that threshold in the final hour and closed at a new record high; however, Friday's intraday high remained more than 10 points higher than yesterday's settlement.

Jobs Report Preview

Expectations for a September rate cut are about as high as they've ever been and that's largely thanks to 1) Falling inflation data and 2) The Fed tacitly guiding towards a September rate cut (to be more precise, they aren't guiding towards a September rate cut, but they aren't pushing back on that market expectation, either). Be-

Market	Level	Change	% Change
Dow	39,331.85	162.33	0.41%
TSX	21,953.80	78.01	0.36%
Stoxx 50	4,972.48	66.15	1.35%
FTSE	8,168.37	47.17	0.58%
Nikkei	40,580.76	506.07	1.26%
Hang Seng	17,978.57	209.43	1.18%
ASX	7,739.88	21.71	0.28%

Prices taken at previous day market close.

cause rate cut expectations are very high, it's going to take a really "Too Hot" jobs report number to put a September rate cut in jeopardy, especially considering that other labor metrics are showing a loss of momentum.

Market	Level	Change	% Change
DBC	23.56	.03	0.13%
Gold	2,338.20	-.70	-0.02%
Silver	29.83	.22	0.74%
Copper	4.4275	.0095	0.21%
WTI	82.93	-.45	-0.54%
Brent	86.36	-.24	-0.28%
Nat Gas	2.451	-.027	-1.08%
RBOB	2.5732	-.0051	-0.19%
DBA (Grains)	23.99	.36	1.55%

Prices taken at previous day market close.

Bottom line, a "Too Hot" report is possible, but it'll take another big jobs number (and no negative revisions), a sharp drop in the unemployment rate and hot wages. Absent all three of those, it's unlikely the jobs report is "Too Hot" and hits stocks. As such, the "Just Right" outcome for the jobs report is the most likely outcome and as long as the report doesn't provide any surprises, it should be a relative non-event.

Finally, while I'm not predicting a soft number, for the first time in well over a year, a "Too Cold" jobs report is now coming back into the universe of risks. To be clear, the labor market isn't bad yet. But it's certainly softened and all it takes is one bad number to get people concerned about unemployment. To that point, the unemployment rate has quietly risen from 3.4% to 4.0%. That's gone somewhat unnoticed by investors amidst the focus on September rate cuts, but the reality is the last time the unemployment rate was 4.00% was in January 2022 (so it's at a two-and-a-half-year high). The last time the unemployment rate was above 4.00% was in November 2021, when pandemic shutdowns were still impacting the economy.

Labor market weakness is something we need to pay attention to and there is the chance of a surprise, not so much at Friday's jobs report, but as we move through the summer. As such, we will continue to watch labor dynamics closely because, as I said last week, a hard landing is very unlikely as long as the labor market is strong. A hard landing becomes much more possible if the labor market is weakening and while we're not there yet, we're getting closer. If hard landing concerns become real, the S&P 500 will not be trading at 5,500, I don't care how exciting AI could be.

"Too Hot" (Expectations for A September Rate Cut Falls Back Below 50%) **> 250k Jobs Adds, UE Rate ≤ 3.8%, Wages > 4.2% yoy.** A number this strong would push September rate cut expectations back to (or below) 50% and push December rate cut expectations lower as well, raising the idea of no rate cuts in 2024. *Likely Market Reaction:* A return of the higher-rate driven declines that pressured stocks in April and late May. Treasury yields should rise sharply (the 10-year yield could rally 15 basis points or more). That would hit stocks and a decline in the S&P 500 of more than 1% should be expected. Defensive sectors (utilities, healthcare, staples) should relatively outperform, but we'd expect all 11 S&P 500 sectors to be lower. The Dollar Index should also rally hard (through 106 and towards 107) while commodities (and especially gold) should drop more than 1% on dollar strength.

"Just Right" (Expectations for a September Rate Cut Move Closer To 90%) **50k-250k Job adds, UE Rate ≥ 3.9%, Wages: ≤ 4.1%.** A number in this range would reinforce September rate cut expectations and further imply a December rate cut is a done deal. *Likely Market Reaction:* Because the default direction of stocks right now is higher, a number in this range (and especially at the lower end of the range) should spark a Goldilocks extension of the recent rally. A drop in the 10-year Treasury yield of 10 bps wouldn't be a shock, especially if this number is near the low end of the range. Stocks should see a solid rally with tech and cyclical sectors outperforming while defensive sectors will likely modestly lag. The Dollar Index should decline modestly and that likely would boost commodities (although the moves likely wouldn't be too substantial). **This would help reinforce the idea that the Fed will cut twice in 2024, which should support stocks and spark a modest rally (although this wouldn't be a new, bullish catalyst).**

"Too Cold" (Hard Landing Concerns Grow) **<50k Job adds.** This would raise questions about the health of the economy and potentially result in bad economic data being viewed as bad for the markets. The 10-year yield could fall 20 bps on this number and while it's possible we see a knee-jerk "bad is good" reaction, I am skeptical

a number in this range would create a sustainable rally (and even if it did, it's likely one we'd want to fade). This number would raise concerns about the strength of the economy given other economic data is pointing to a loss of momentum. And while that might not hit stocks immediately following the release, it would challenge the idea of a soft landing. I would not be a buyer of stocks on this weak a number, regardless of the stock rally (if anything, this would make me more interested in long-duration Treasuries).

Economics

Powell Commentary Takeaways

Fed Chair Powell provided a somewhat lengthy interview at the ECB's Sintra Conference (the ECB's version of Jackson Hole) and his comments were taken as mildly dovish, mainly because he stated that the process of disinflation has resumed (something that's been confirmed by the data and isn't new news). However, while his tone was dovish and his commentary should rightly reinforce that the Fed will probably cut rates in September, he didn't say anything new. So, if you read that Powell was especially dovish, it's not exactly accurate.

Markets have a June rate cut around a 75% probability and that's likely appropriate given recent data and Fed speak. However, a rate cut is not a done deal and if inflation data bounces back, then rate cuts hope will drop, Treasury yields will rise and stocks will get volatile again, so we must continue to watch the data over the next two months because while a September rate cut is more likely than not, it's far from a guarantee.

Market	Level	Change	% Change
Dollar Index	105.39	-.19	-0.18%
EUR/USD	1.0746	.0006	0.06%
GBP/USD	1.2686	.0036	0.28%
USD/JPY	164.45	-.01	-0.01%
USD/CAD	1.3673	-.0063	-0.46%
AUD/USD	.6671	.0011	0.17%
USD/BRL	5.6539	-.0056	-0.10%
Bitcoin	61,964.63	-1,352.71	-2.13%
10 Year Yield	4.436	-.043	-0.96%
30 Year Yield	4.609	-.034	-0.73%
10's-2's	-31 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.98%		
Prices taken at previous day market close.			

JOLTS

- Job Openings rose to 8.14 million vs. (E) 7.90 million

The labor market was moderately stronger than initially thought in May according to yesterday's Job Openings and Labor Turnover Survey report as headline Job Openings rose to 8.14 million, well above the consensus estimate of 7.90 million and a solid bounce back from the lower-revised April headline of 7.919 million. The rebound back above 8 million was against the trend in the data, however, as job openings have been steadily declining since their peak above 12 million in March 2022, interestingly the month the Fed first raised policy rates.

Bottom line, the May JOLTS report was moderately stronger than expected on the headline, and while it is a largely "stale" report being a May data point, the solid headline underscores that the labor market remains healthy as we begin the second half of 2024. The ADP report and Jobless Claims release this morning could challenge that narrative, while the BLS report Friday remains the most important catalyst of the week.

Commodities

Commodities were mixed as oil pulled back after Monday's strong rally as focus turned to today's critical EIA inventory report while copper notched a daily gain amid the risk-on money flows and gold was little changed as traders digested the latest Fed speak and jobs market data. The commodity ETF, DBC, edged lower by 0.13%.

Beginning in the energy complex, WTI crude oil futures pulled back 0.54% after breaking out to fresh multi-month highs above $84/barrel at the start of the primary trading session's open in New York. Concerns that Hurricane Beryl could disrupt oil production in the Gulf of Mexico contributed to the early week gains, but revised forecasts showed lower odds that the massive, early season hurricane will have an impact on U.S. oil production as the storm is seen staying in the southern Caribbean.

That resulted in some of the hurricane-fueled fear bid in oil to unwind and oil futures turned negative in mid-morning trade. Beryl's influence on energy markets was notably also apparent in natural gas futures, which fell by a more pronounced 2%.

Another tailwind for oil in early trade was the general risk-on tone to money flows following Powell's largely dovish commentary about the more balanced labor market and disinflation trends. The gasoline supplied number in today's EIA report will once again be a key focus for traders as strong consumer demand has been supportive of oil prices since the summer driving season kicked off with Memorial Day in late May.

If the gasoline supplied figure disappoints for a second consecutive week that is likely to spark concerns about the return of an invisible and unspoken demand-destructive price limit in the oil and refined products markets that consumers simply aren't willing to go beyond when it comes to discretionary fuel consumption (i.e. boat and RV use, spur of the moment road trips, etc.) this summer. If that appears to be the case due to another weak gasoline supplied number in the weekly EIA data today, then expect a further reversal of the recent gains that have carried WTI into the mid-$80s. Conversely, renewed strength in the implied demand numbers could help drive oil to new multi-month highs this holiday-shortened week.

Turning to the metals market, both industrials and precious varieties were little change as the impact of stronger-than-expected jobs data was largely offset by a dovish tone by Powell. Copper gained 0.22% while gold pulled back 0.11%.

Copper is potentially stabilizing after bouncing off a relatively weak technical support level dating back a brief period of price consolidation in April before this year's record highs were reached. A near-term bottom forming in copper would be a positive sign for the macroeconomic outlook in the months ahead while a continuation to the pullback from the May records would be a negative signal for risk assets and the outlook for global growth.

Gold, meanwhile, remains in a sideways holding pattern as futures have churned since pulling back from their respective May record highs. Key technical support lies at the $2,300 mark while there is a band of price resistance between $2,375 and $2,395. A break in either direction has a strong likelihood of seeing a follow-through move of $100/oz. or more based on measured-move math using the latest trading range support and resistance levels ($2,200 to the downside and $2,475+ to the upside, which would be a new record).

Currencies & Bonds

Some slightly hot EU inflation data and central bank speak drove the currency and bond markets on Tuesday although the moves were generally small. The Dollar Index fell 0.18%.

The dollar decline started early Tuesday thanks to a slightly hotter-than-expected EU Core HICP (their CPI), which rose 2.9% vs. (E) 2.8%. That, combined with ECB President Lagarde stating at the Sintra conference that the ECB won't cut rates again in July (something expected but not yet confirmed) helped to push the euro modestly higher and it rose 0.2%.

Then, Powell stated that risks to the U.S. outlook were becoming more balanced with regards to inflation and growth (this usually telegraphs coming rate cuts if it's in the FOMC statement) and that the disinflation process had resumed. Neither of those comments are new, the data has been pointing to both for the last month, but his reiteration that data is moving in the right direction for future rate cuts did reinforce that a September rate cut is reasonable.

Given Powell's commentary, the dollar dipped slightly more vs. the euro while Treasury yields declined a few basis points across the curve. The 10-year yield fell 5 basis points to close just above 4.40% and if Friday's jobs report is on the lower side of the "Just Right" range, a drop in the 10-year yield back towards 4.30% shouldn't be a surprise (and that'd likely be a tailwind on stocks).

Have a good day and a happy and safe Fourth of July!

Tom

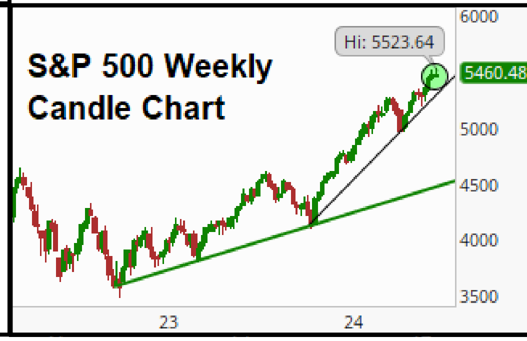
7/3/2024

SEVENS REPORT

Technical Perspectives (Updated 6/30/2024)

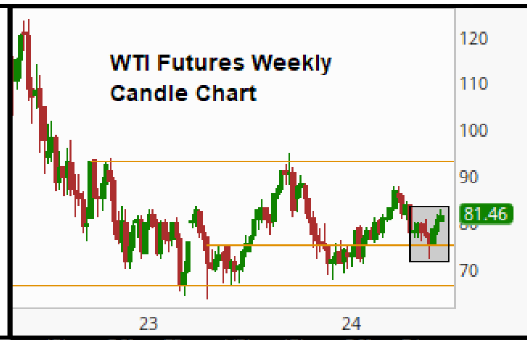
S&P 500

- Technical View: **The medium-term trend in the S&P 500 remains bullish** as stocks have recovered to fresh record highs in the second quarter.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5488, 5505, 5550
- Key Support Levels: 5448, 5403, 5278



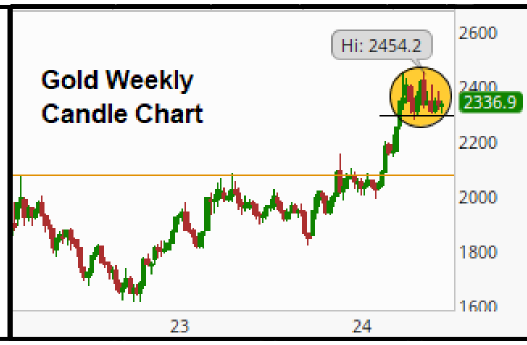
WTI Crude Oil

- Technical View: Oil prices have retreated sharply from the 2024 highs reached in early April and the technical outlook is shifting to more neutral than bullish.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $81.81, $82.73, $83.81
- Key Support Levels: $80.45, $79.95, $78.49



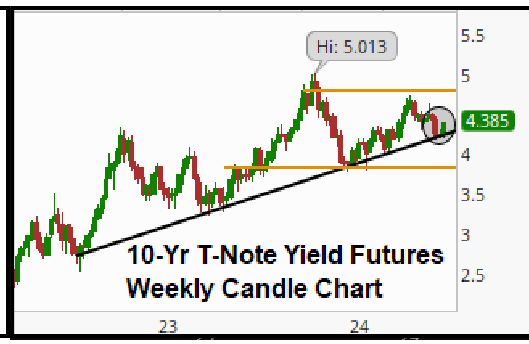
Gold

- Technical View: Gold has pulled back from record highs and begun to trend sideways with risks of a more-pronounced pullback building.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2374, $2407, $2430
- Key Support Levels: $2310, $2257, $2201



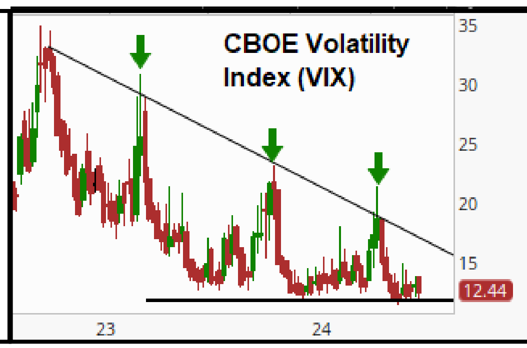
10-Year T-Note Yield Futures

- Technical View: The 10-year yield has pulled back from the 2024 highs but so far is continuing to hold above the uptrend line dating back to late 2022.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.399, 4.476, 4.611
- Key Support Levels: 4.281, 4.218, 4.088



CBOE Volatility Index (VIX)

- Technical View: The VIX has stabilized after a sharp decline in late-April and early May and the "fear gauge" has been sideways since, despite new highs in the S&P.
- Primary Trend: **Neutral (since the week of May 6, 2024)**
- Key Resistance Levels: 12.76, 13.33, 14.47
- Key Support Levels: 12.24, 12.05, 11.86



SEVENS REPORT	Fundamental Market View (Updated 6/30/2024)

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 hit yet another fractional all-time high last week despite more mixed economic data, as markets remain in a "bad data is good for stocks" mode.*

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 were also little changed last week as the dollar and global economic growth expectations didn't change materially last week.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as it was driven more by the European political outlook than anything else, as dysfunction in France pushed the dollar higher, while underwhelming data weighed on the greenback later in the week.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield declined another 2 basis points last week as it largely digested the big decline from two weeks ago.*

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.