SEVENS REPORT

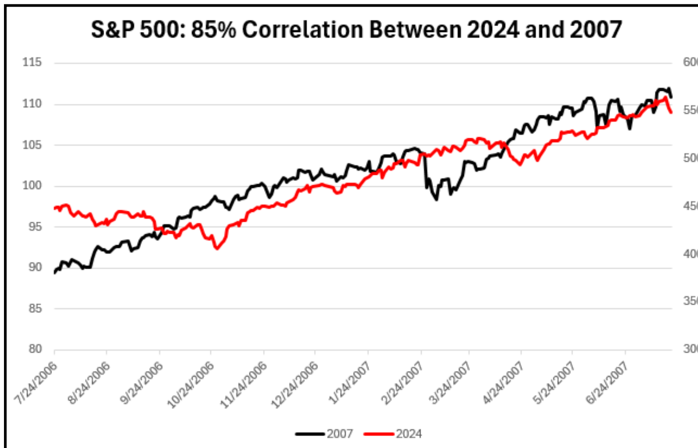
EVERYTHING YOU NEED TO KNOW ABOUT THE MARKETS
BY 7AM EACH MORNING IN SEVEN MINUTES OR LESS

July 30, 2024

Pre 7:00 Look

- Futures are higher with EU stocks as traders look ahead to the Fed, big-tech earnings, and more key economic data.
- Economically, Japan's Unemployment Rate fell to 2.5% vs. (E) 2.6% while the EU's GDP Flash rose to 0.6% vs. (E) 0.5%.
- Econ Today: Case-Shiller Home Price Index (E: 7.2%), FHFA House Price Index (E: 6.3%), Consumer Confidence (E: 99.5), and JOLTS (E: 8.0 million).
- The July FOMC meeting begins today (no Fed speakers).
- Earnings: BP ($0.92), PG ($1.37), PYPL ($0.97), AMD ($0.67), MSFT ($2.90), SBUX ($0.93).

Market	Level	Change	% Change
S&P 500 Futures	5514.25	11.25	0.20%
U.S. Dollar (DXY)	104.547	-.022	-0.02%
Gold	2433.40	7.90	0.33%
WTI	75.67	-.14	-0.18%
10 Year Yield	4.168	-.007	-0.17%



While obviously two different markets, there is currently an 85% correlation between the daily price action in the S&P 500 this year to that of the year 2007.

Equities

Market Recap

Stocks began one of the most critical weeks of the year with largely sideways trade as investors looked ahead to a slew of critical catalysts on deck, including four Mag 7 earnings reports, the July Fed decision, and the July jobs report. The S&P 500 edged up 0.08% in cautious trade.

Equity markets gapped modestly higher at the open yesterday as the big rotation away from mega-cap tech into the "rest of the market" that commenced in mid-July took a breather and left the market to drift sideways as some of the recent laggards bounced while recent leaders pulled back modestly.

Digestion of the recent uptick in broad market volatility and the significant rotation that has taken place under the market's surface since July 10 was the key reason for the sideways price action as there were no notable catalyst or meaningful market moving headlines to cross the wires.

The price action remained subdued and largely sideways over the course of the day as traders looked ahead to quarterly results from tech giants AAPL, AMZN, META, and MSFT, today's start of the July Fed meeting and the July jobs report on Friday all looming in the coming sessions. The only notable intraday move in the S&P 500 was a slight pullback to technical support at 5,450 into the European close but the market was quick to stabilize and rebound back to end the day near the middle of the session's trading range.

Trading Color

Pre-Fed and earnings position largely dominated market internals ahead of the key events of the week. On an

Market	Level	Change	% Change
Dow	40,539.93	-49.41	-0.12%
TSX	22,779.56	-35.25	-0.15%
Stoxx 50	4,843.63	28.24	0.59%
FTSE	8,267.62	-24.73	-0.30%
Nikkei	38,525.95	57.32	0.15%
Hang Seng	17,002.91	-235.43	-1.37%
ASX	7,953.18	-36.46	-0.46%

Prices taken at previous day market close.

index level, the only notable mover was the Russell 2000, which declined 1.1% despite the lack of any actual bad news. Instead, it was just some profit taking in case the Fed isn't quite as dovish as expected. The remaining three major indices (Nasdaq, S&P 500 and Dow Industrials) were little changed.

Market	Level	Change	% Change
DBC	22.14	-.10	-0.45%
Gold	2,377.60	-3.40	-0.14%
Silver	27.92	-.10	-0.37%
Copper	4.0865	-.0375	-0.91%
WTI	75.84	-1.32	-1.71%
Brent	79.71	-1.42	-1.75%
Nat Gas	1.860	-.146	-7.28%
RBOB	2.4140	-.0465	-1.89%
DBA (Grains)	23.66	-.24	-1.03%
Prices taken at previous day market close.			

On a sector basis, seven sectors were higher while four were lower, but only Consumer Discretionary moved more than 1% on the day (XLY rose 1.7%). But that was single-stock driven as TSLA received an upgrade from Piper Sandler (and rallied 5%) while McDonald's (MCD) rose 8% despite disappointing earnings and warning on consumer spending (the results weren't as bad as feared).

The only material laggard was Energy (XLE) which fell 0.9% on the decline in oil. The other sectors were mostly little changed and largely drifted ahead of the key events of the week (including earnings).

FOMC Preview

The key question for tomorrow's FOMC decision, and what will make it positive or negative for stocks and bonds, is "How strongly does the Fed signal a September rate cut?" The market expectation is that the Fed will very strongly signal a September rate cut is coming and we know that because expectations for a September rate cut are, effectively, 100% according to Fed fund futures.

The way the Fed will signal that coming cut (or not) is via the "Forward Guidance" portion of the FOMC statement (out at 2:00 p.m. ET). The forward guidance portion of the statement is contained midway through the third paragraph and this is the key sentence we (and others) will be looking at first when the statement is released:

"The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

If the Fed is going to strongly signal a rate cut is coming in September, it will change that statement to reflect the fact that the decline in inflation has given the Fed confidence that inflation is going to hit 2% and as long as nothing changes, they can cut.

Practically, that might look something like this: *"The Committee does not expect it will be appropriate to reduce the target range until it is more confident (or fully confident) that inflation is moving sustainably toward 2 percent."*

Here's the point. If they're going to cut in September, they basically have to say they're almost confident inflation is back under control and they'll do it via altering that sentence in the third paragraph.

Finally, there are some that believe the Fed could cut rates at tomorrow's meeting. That's not impossible, but it is very unlikely because no one on the Fed has hinted at that, and the Fed does not like to surprise markets. So, do not expect a rate cut tomorrow. Given this backdrop, here are the "What's Expected," "Dovish If" and "Hawkish If" scenario analysis.

What's Expected: The Fed does alter forward guidance to reflect it's more confident inflation is coming under control. Likely Market Reaction: A continuation of the rebound that started on Friday. While investors already expect a September rate cut, this will be forceful confirmation that it is coming and we should see a broad rally in stocks. That said, this should also cause a continuation of the rotation out of tech and into the "rest" of the market so we'd expect RSP to outperform SPY and value to outperform growth, although all of those sectors should be at least slightly higher. Treasury yields should fall modestly on this news (it's mostly priced into Treasuries) while the Dollar Index should also drop modestly (but not substantially, because again, it's already priced in). Commodities should also see a modest rally on the slightly weaker U.S. dollar (but nothing substantial).

Dovish If: The Fed Cuts Rates 25 bps. Likely Market Reaction: To be clear, this is not likely, but it's not impossible, either. Markets would embrace this surprise cut and stocks should rally, hard. The S&P 500 should rise more than 1% (unless the tech rotation is extreme) while the “rest” of the market (RSP, value ETFs) should rally even harder and outperform tech/growth. The Dollar Index should drop solidly (perhaps close to 1%) while the 2- and 10-year yield should fall more than 10 basis points each. Commodities should rally hard with gold likely out-performing. This should result in a new YTD high for RSP (aka, “the rest of the market”).

Hawkish If: The Fed does not alter forward guidance (or doesn’t alter it enough). Likely Market Reaction: A sharp decline. Investors have aggressively priced in a September rate cut and this would put that expectation in doubt and we could easily see something similar to last Wednesday (where the S&P 500 falls more than 1% and perhaps close to 2%). Tech and growth should relatively outperform as yields would spike, but I’d expect all 11 sector SPDRs to be lower on the day. Treasury yields would rise sharply with the 2- and 10-year yields rising more than 10 bps. The Dollar Index should rally hard as rate cut expectations get scrambled and a rally into the mid-105 level shouldn’t be a surprise. Finally, gold and commodities should be hit hard, with gold likely falling more than 1%.

Bottom Line

Looming Fed rate cuts has been an important driver of this 2024 bull market and tomorrow’s meeting will either reinforce that positive tailwind, or refute it. It’s likely the Fed does signal that looming cut and given the recent pullback, that should help this rebound continue.

However, if the Fed does not signal a September rate cut, markets could get a bit ugly given recent tech weakness, especially if earnings underwhelm. Bottom line, this is an important event for markets and we’ll be watching closely, and we’ll all know, right away, if the Fed met that expectation (positive) or didn’t (negative).

Economics

There were no material economic reports yesterday.

Market	Level	Change	% Change
Dollar Index	104.30	.24	0.23%
EUR/USD	1.0824	-.0032	-0.29%
GBP/USD	1.2866	-.0001	-0.01%
USD/JPY	153.98	.22	0.14%
USD/CAD	1.3850	.0014	0.10%
AUD/USD	.6549	.0001	0.02%
USD/BRL	5.6284	-.0279	-0.49%
Bitcoin	67,435.25	-768.00	-1.13%
10 Year Yield	4.178	-.022	-0.52%
30 Year Yield	4.433	-.023	-0.52%
10’s-2’s	-22 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.79%		
Prices taken at previous day market close.			

Commodities

Commodities traded with a bias to the downside coming into the final week of July with oil leading the way lower amid less-tense-than-feared geopolitical tensions in the Middle East. Meanwhile, a stronger dollar weighed on the metals with copper underperforming amid lingering growth worries while gold was only slightly lower with the Fed meeting coming into view. The commodity ETF, DBC, fell 0.45% on the day, closing at the lowest level since early March.

Starting with energy, the oil market was in focus at the start of the trading week as both WTI and Brent crude oil futures contracts gapped higher at the electronic open following a rise in geopolitical tensions in the Middle East over the weekend. Specifically, Israel blamed the Lebanon-based Hezbollah terror organization for an attack in Israel’s Golan Heights that killed 12 civilians and pledged to retaliate.

The early gains proved to be short-lived, however, as Israeli leadership exercised restraint as they assessed the damage and casualties of the attack. There was no immediate impact or increased risk to global oil supply as a result of the latest attack and WTI futures ultimately rolled over to close down by 1.67%, below key technical support at $76.50.

Looking ahead, oil is trading with an increasingly heavy tone, especially after yesterday’s violation of technical support, which leaves the path of least resistance lower in the near-term with the next key support zone between $72.50 and $74.00 for WTI. Fundamentally, worries about economic growth are beginning to have a more pronounced negative impact on the market and traders will want to see evidence that growth remains solid and consumer demand at the pump is strong in the weekly EIA report as we enter the final stretch of the summer driving season.

Turning to the metals, copper was the laggard thanks to the same general global economic growth worries that ultimately weighed oil down despite the uptick in geopolitical tensions. Copper futures dropped 0.92% on the day. Worries about why the PBOC chose to cut interest rates unexpectedly last week paired with mixed economic data in the U.S. recently are the primary negative influences on the industrial metals markets. On the charts, initial support at $4.00 is now in focus and a violation of that level would mark a clear deterioration in the market's outlook for global growth and a soft-economic landing due to copper's sensitivity to growth expectations.

Gold fell a more modest 0.16% yesterday, holding comfortably above renewed support at $2,400/oz. The firming dollar was a noteworthy headwind on the market amid the backdrop of mostly stable global bond markets. Looking ahead, volatility in the gold market has the potential to rise in a big way this week if the Fed offers any surprises or if there are any economic data developments that are meaningfully outside of their respective consensus estimate ranges.

Hot data or a hawkish Fed will spark a big wave of profit taking in gold while the opposite dynamics (cool data/dovish Fed) would likely initiate a retest of the all-time highs. Bottom line, gold remains the most appealing destination for capital in the commodity complex right now as it remains near its all-time highs while copper and oil have both retreated considerably from their 2024 highs.

Currencies & Bonds

Currency and bond markets were quiet to start the week and rightly so given this week is packed with potential market-moving catalysts, but none of them came on Monday. The Dollar Index rose 0.3% while the 10-year yield fell 2 basis points.

The dollar was modestly higher Monday but in quiet trading, as there was no U.S. or EU economic data, nor any Fed, ECB or BOE Fed speak. So, pre-Fed positioning was left to drive the greenback and since markets have aggressively priced in the Fed signaling a September rate cut, we saw some hedging of that trade in the currency markets via a mild dollar rally.

Stepping back, as we approach the Fed decision and important economic data this week (ISM Manufacturing Thursday, Jobs Report Friday) the Dollar Index remains almost dead in the center of the 103-106 broad trading range and that makes sense based on fundamentals.

For the dollar to move in a way that impacts stocks, we'll need to see Fed rate cut expectations shift materially, from the current two cut expectation to one/no cuts (that'd spike the dollar and be a headwind on stocks) or three cuts or more (that'd send the dollar lower and be a short-term positive for stocks, although it'd also stoke growth concerns). Until one of those two things happens, the dollar will remain in the 103-106 trading range and remain neutral for stocks.

Turning to Treasuries, the 2-year yield was flat on the day while the 10-year yield declined 2 basis points. With no notable economic data yesterday, the move in Treasuries can best be described as a "drift" ahead of the Fed and important economic data.

For now, the inverse relationship between stocks and Treasury yields remains in place, as falling Treasury yields will support stocks while an increase in yields will weigh on them. That's largely going to stay true until the 10-year yield moves through 4.00%, at which point I'd expect falling yields to become a smaller tailwind on stocks until they drop below 3.75%, as at that point they'll be a bigger warning on growth rather than an easing of economic headwinds.

Have a good day,

Tom

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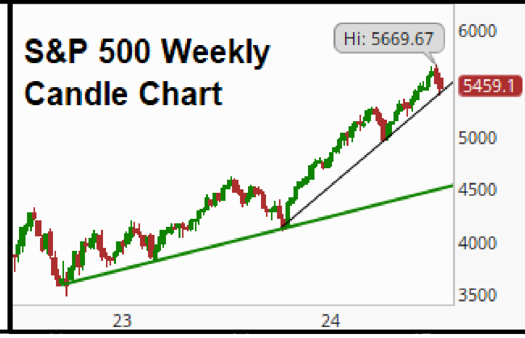
Technical Perspectives (Updated 7/28/2024)

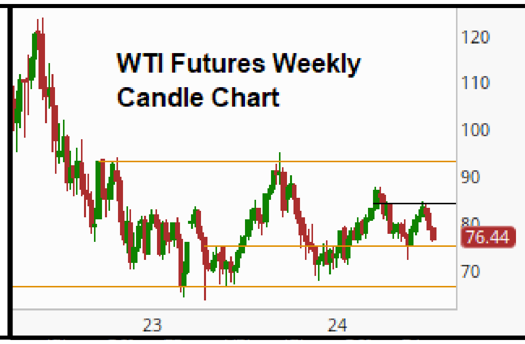
S&P 500

- 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



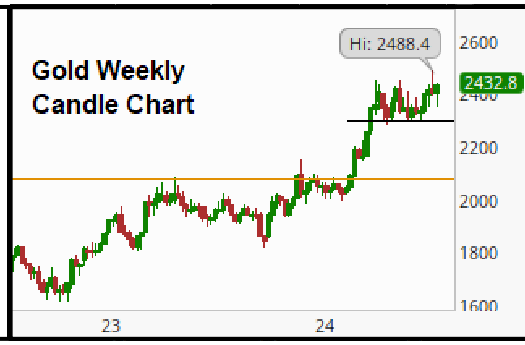
WTI Crude Oil

- 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



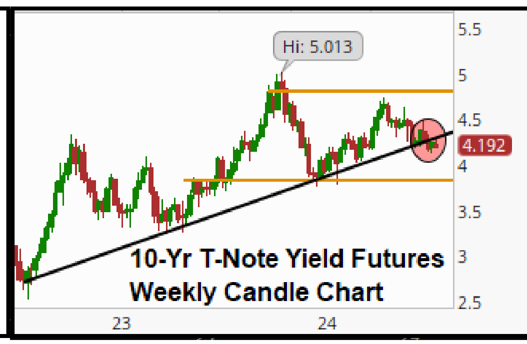
Gold

- 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



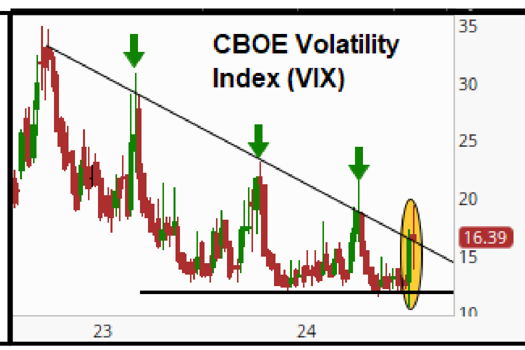
10-Year T-Note Yield Futures

- 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



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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.