SEVENS REPORT

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

July 8, 2024

Pre 7:00 Look

- Futures are little changed despite positive geo-political news over the weekend.
- In France, the "far-right" National Rally party underperformed expectations and will not be the majority party, reducing the chances of radical French policy changes.
- In the Middle East, chatter surrounding a cease-fire between Israel and Hamas continues to get louder and a deal could be announced soon. That news is weighing on oil this morning.
- Econ Today: No reports today.

Market	Level	Change	% Change
S&P 500 Futures	5,619.25	-2.25	-0.04%
U.S. Dollar (DXY)	104.94	0.07	0.06%
Gold	2,380.10	-17.60	-0.73%
WTI	82.35	-0.81	-0.97%
10 Year Yield	4.30%	0.03	0.75%

Equities

Market Recap

Stocks extended the momentous 2024 rally to new highs last week as several disappointing economic reports bolstered Fed rate cut expectations. The S&P 500 gained another 1.08% on the week and is up 16.08% YTD.

Equities began last week with modest gains thanks to easing European political worries after the first round of the French elections and a Goldilocks ISM Manufacturing print in the U.S. as traders awaited comments from Fed Chair Powell on Tuesday. The S&P 500 added 0.27%.

The rally accelerated Tuesday on the back of dovish commentary from Powell while speaking in Europe with ECB President Lagarde as he highlighted more balanced risks to the Fed's dual mandate amid cooling inflation pressures and a still-resilient labor market. Those comments kept a surprise increase in job openings in the May JOLTS report from being seen as hawkish and the S&P 500 closed with a gain of 0.62% on the day.

On Wednesday, a meaningful headline miss in the June ISM Services Index was accompanied by weak details but instead of triggering hard landing fears, the data point only served to further support dovish money flows and Fed rate cut optimism, sending the S&P 500 to new records into end of the holiday-shortened session. The index settled higher by 0.51%.

Markets were closed Thursday but reopened Friday morning only to see stocks extend the week's extremely methodical, straight-line rally further into record territory after the June jobs report was digested as another supporting factor for Fed rate cuts to begin in September, as the Unemployment Rate ticked up to the highest since late 2021 despite a solid headline job-adds figure while wages fell in line with estimates in a truly Goldilocks release. The S&P 500 rallied 0.54%.

The Economy: Landing or Crashing?

Last week was a disjointed holiday week that resulted in many people more focused on enjoying a four-day

Market	Level	Change	% Change
Dow	39,375.87	67.87	0.17%
TSX	22,069.03	-184.99	-0.83%
Stoxx 50	5,008.20	28.81	0.56%
FTSE	8,226.79	22.86	0.28%
Nikkei	40,780.70	-31.67	-0.32%
Hang Seng	17,524.06	-275.55	-1.55%
ASX	7,763.17	-59.09	-0.76%
Prices taken at previous day market close.			

weekend rather than following economic data. But, last week was very important in the story of this market and I want to make sure the holiday doesn't mean people miss the message, namely that economic growth is now clearly losing momentum, the question is how much does it lose?

Market	Level	Change	% Change
DBC	23.78	.09	0.38%
Gold	2,400.50	31.10	1.31%
Silver	31.67	.83	2.70%
Copper	4.6710	.1375	3.03%
WTI	83.23	-.65	-0.77%
Brent	86.68	-.75	-0.86%
Nat Gas	2.327	-.091	-3.76%
RBOB	2.5694	-.0319	-1.23%
DBA (Grains)	24.22	.18	0.77%
Prices taken at previous day market close.			

Throughout 2024, there have been anecdotal reports of the economy losing momentum, whether it's from sporadically soft economic data or corporate earnings results or commentary. But in recent weeks, those occurrences have been much more frequent on both a micro and macroeconomic front. Numerous earnings updates from consumer-related companies have cited reduced consumer demand and spending (NKE and WBA the most-recent examples). Last week, the "big three" monthly economic reports all signaled varying degrees of economic weakness.

The ISM Manufacturing and Services PMI fell back below 50 and the Services PMI dropped to the lowest level since late-2021. Both PMIs dropping below 50 hardly even happens, and when it does for several months in a row it is a clear warning of a looming economic slowdown. Put differently, it's a hard landing warning, not a soft landing confirmation. That hasn't happened yet (both PMIs have been in contraction two of the past three months so we need another month or two below 50 to truly confirm the weakness) but the bottom line is these numbers are not going in a good direction. Additionally, while the job adds number was fine, unemployment now is at 4.1%. That's a near-three-year high. Again, it's not a disastrous number, but it's not going in a good direction.

I realize I've been beating the drum cautioning about complacency regarding an economic slowdown but again there's a simple reason for me to do it: An economic contraction will end this bull market and could reverse it. First, stocks are trading at 20.4X 2025 S&P 500 EPS of $270. A stagnant economy warrants a multiple lower than that, and if I want to be generous, it's between 17X and 18X. That's 4,590-4,860 in the S&P 500! If it's a contracting economy, it's a 15X-16X multiple (4,050-4,320). But stagnant economies aren't theoretical events. They hurt earnings. So, if the economy is worse than currently expected, it will reduce the $270 2025 expectation and put even further downward pressure on stocks.

To be very clear, I am not saying this is going to happen. Right now, it is not happening. But what I am saying is the market, at current valuations, is not acknowledging the possibility it can happen, and that's what makes me nervous because I've seen this movie twice before, and both times it didn't end well.

To return to the "Hard Landing/Soft Landing" analogy of our economic airplane, data last week shows that we are clearly descending, the question is whether we're descending to a soft landing or is this the start of a crash/hard landing. We won't know for several more months, but the fact that markets seem to be pricing in virtually zero chance of a hard landing exposes a real vulnerability in this historic and impressive bull market.

Broadly, I am not saying to raise cash here. I am, however, saying to continue to monitor your volatility and be aware there are economic storm clouds gathering on the horizon. That doesn't mean a storm will hit, but it does warrant monitoring. Tactically, it's hard to argue with the impervious rally in large-cap tech but given my still-defensive tilt, I continue to prefer tech exposure via TDIV along with defensive sectors (XLU/XLP/XLV) and I continue to like long-term Treasuries as a hedge against a growth scare (yes, they face longer-term fiscal challenges but I think any growth worries offset them near term).

Bottom line, I want to make sure that all of us are aware the economic plane has started its descent and while sentiment and spirits are running high (along with the S&P 500) we are entering perhaps the most important several months for this bull market. And while a hard landing is not the most likely outcome, it is possible and we will be watching economic data very closely in the coming months to make sure we are not blindsided by sudden weakness.

Economics

Last Week

Last week was full of important growth data and the universal message from this data was that economic growth is clearly slowing. While Friday's jobs report received the most attention from the financial media last week (as usual), it was not the most important economic report. That title goes to the ISM Services PMI, which unexpected dropped to 48.8 vs. (E) 52.7, marking the second sub-50 reading in past three months (a reading below 50 signals contraction). Details of the Services PMI were just as bad as the headline, with New Orders falling 6.8 points to 47.3 while other metrics were similarly weak.

The sub-50 Services PMI was joined by a sub-50 ISM Manufacturing PMI, as the June manufacturing PMI declined to 48.5 vs. (E) 48.7, although the details of the report were a better (New Orders rose modestly to 49.3 from 45.4 but still remained in contraction territory).

As I have mentioned in the past, it is very rare for both the ISM Services and Manufacturing PMIs to both move below 50 and when that happens for several months, it almost always signals a coming economic slowdown (not a slowing of growth, but a slowdown). The ISM Manufacturing and Services PMIs have now been under 50 for two of the past three months and if this trend continues through July and August, that will be a very strong signal a slowdown is coming.

Turning to the jobs report, it was a mixed report but generally fell into the "Just Right" range. Job adds of 203k were a bit higher than estimates, but that was countered by a -110k revision to the April and May data. Most importantly in the jobs report was that the unemployment rate rose to 4.1% from 4.0%. The unemployment rate has quietly crept from 3.4% to 4.1%, a level that was last seen in November 2021. And while job adds may still be strong, the higher unemployment rate does reflect some deterioration.

That theme of deterioration in the labor market was confirmed by other employment metrics last week as jobless claims rose modestly to 238k vs. (E) 233k, while Continuing Claims continued to hit multi-year highs, implying it's getting harder for people to find a new job.

Bottom line, the economy is not weak, but the message from last week's data was that it is weakening. For now, markets welcome that as a realization of the soft landing. However, I will again caution that with one exception (due to the pandemic) every soft landing I was supposed to have lived through ultimately turned into a hard landing. I hope this time is different.

This Week

Fed policy and inflation come back into focus this week following last week's growth-oriented economic data, and this week matters for a simple reason: If Powell is dovish and the inflation data is lower than expectations, it will all but guarantee a September rate cut.

The key data point this week is Thursday's CPI report and it's expected to show a continued decline in inflation. Powell said last week at the Sintra conference that disinflation had restarted, the Fed just needed more proof it was in place and this report will give them more of that needed proof. Conversely, if the CPI report is hotter than expected, that will be a material surprise to markets (and a negative one) as there are few on the street who don't think inflation isn't consistently declining and if we get a surprisingly hot inflation number, expect market volatility.

Market	Level	Change	% Change
Dollar Index	104.54	-.54	-0.51%
EUR/USD	1.0842	.0030	0.28%
GBP/USD	1.2815	.0055	0.43%
USD/JPY	160.72	-.56	-0.35%
USD/CAD	1.3632	.0018	0.13%
AUD/USD	.6751	.0025	0.37%
USD/BRL	5.4657	-.0200	-0.36%
Bitcoin	56,649.20	-1,918.63	-3.28%
10 Year Yield	4.272	-.083	-1.91%
30 Year Yield	4.468	-.055	-1.22%
10's-2's	-33 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.93%		
Prices taken at previous day market close.			

Turning to growth, the only notable report this week is Thursday's jobless claims. At this point, the market is still welcoming the lift in claims as a positive as it signals a labor market in better balance (meaning the Fed can cut) but not a labor market that is weak. If claims continue to move into the higher 200k and towards 300k, that sentiment will change from welcoming the easing of the labor market, to fearing it.

Finally, Powell will give his semi-annual testimony to Congress on Tuesday and Wednesday (Humphrey-Hawkins testimony to those of us who have been at this for multiple decades). Powell isn't likely to reveal anything new, but his tone has been distinctly dovish over the past couple of speaking sessions and that's likely to continue during his testimony and that will further reinforce the market's expectation that there will be both a September and December rate cut (although this is priced in already, so it's not a new bullish catalyst).

Bottom line, this week's inflation data and Powell testimony can solidify September rate cut expectations, which will help reinforce the rally. If that happens, the only question then is will the economy continue to slow, and if so, is the rate cut too late? That will be the major question heading into the stretch run of the year.

Commodities

Commodities rallied last week as traders digested mixed but increasingly weak economic data as dovish for Fed policy and supportive of a soft economic landing, which should theoretically keep demand solid. Copper outperformed thanks to a short-squeeze dynamic while gold and oil both gained more than 2%. The commodity tracking ETF, DBC, rose 2.37% on the week.

Gold rallied a more modest but still-solid 2.69% last week thanks to dovish money flows providing dual tailwinds of a falling dollar and declining Treasury yields. Most of the gains were notched on Wednesday and Friday amid the strong rally in the Treasury market that saw the 10-Yr yield fall back below 4.30%. On the charts, gold closed at a six-week high Friday, a moderately bullish development but until we see new record highs or a breakdown through support at $2,300/oz. the trend will remain sideways with a bias in favor of the bulls.

WTI crude oil futures rallied to multi-month highs last week, ending with a weekly gain of 2.43%. Weather worries linked to the unseasonably early and massive Hurricane Beryl had an impact on downstream decision making in the physical markets that resulted in big drawdowns in commercial crude stockpiles. However, evidence of a big spike in consumer demand despite higher prices at the pump also was bullish. But futures gains were limited because the supply side impact of Hurricane Beryl was unclear while demand was potentially pulled forward amid pre-holiday travel ahead of the July 4th, meaning we could see a reversal in demand and huge stockpile builds this week that would be negative for the futures market. Resistance at $84/barrel will be in focus this week while there is initial support at $81.75.

Currencies & Bonds

Soft U.S. growth and political stabilization in Europe pushed the dollar and Treasury yields lower last week. The Dollar Index fell 0.85% while the 10-year yield dropped 12 basis points to close just above 4.30%.

The dollar was hit by a "double whammy" of soft U.S. data and not-as-bad-as-feared political outcomes in Europe. Specifically, the Labour Party crushed the Conservatives in the UK election, as expected, but that isn't materially changing the outlook for UK growth or policy. In France, centrist and left-wing political parties united and all but eliminated the chances that National Rally would become the majority party and, in doing so, limited the amount of change the party can affect. The net result was a 1.2% rally in the euro and a 1.3% rally in the pound. The Dollar Index slipped below 105.

Treasuries were volatile as not-as-bad-as-feared French election caused a 10-bps jump in the 10-year yield earlier last week, as nervous investors that ran to Treasuries for short-term protection sold and sent yields higher. However, the soft economic data and rising Fed rate cut expectations pushed yields lower throughout the back half of the week and the 10-year yield closed down 12 basis points, just above 4.30% and close enough to the 3.75%-4.25% "stocks positive" trading range.

Have a good week,

Tom

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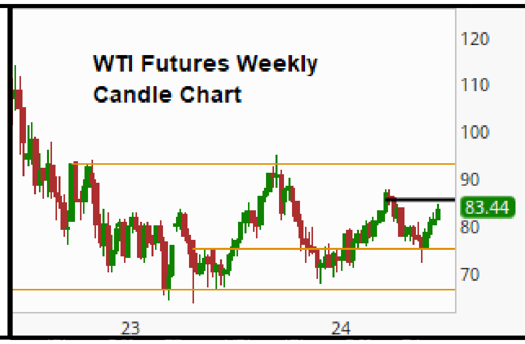
Technical Perspectives (Updated 7/7/2024)

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 mid-2024
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5575, 5610, 5650
- Key Support Levels: 5509, 5448, 5375

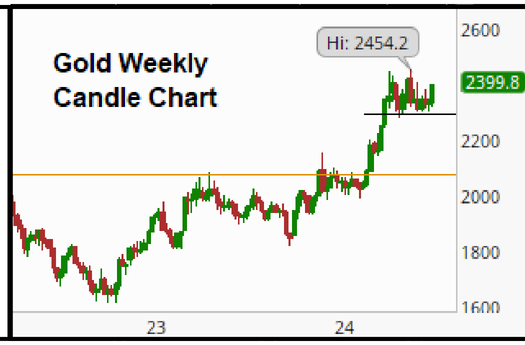
WTI Crude Oil

- Technical View: The trend in oil has begun to turn sideways in mid-2024; however, the higher lows established in H1 ’24 leave the benefit of the doubt with the bulls.
- Primary Trend: **Bullish (since the week of February 12, 2024)**
- Key Resistance Levels: $83.60, $84.45, $85.34
- Key Support Levels: $83.17, $82.46, $81.75



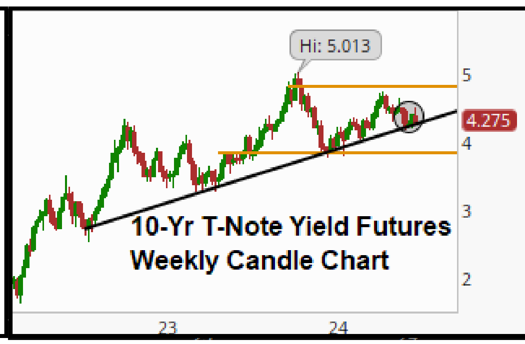
Gold

- Technical View: Gold rallied back towards the 2024 record highs in the mid-$2,400 range to start Q3 leaving the long-term uptrend intact.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2407, $2425, $2454
- Key Support Levels: $2310, $2257, $2201



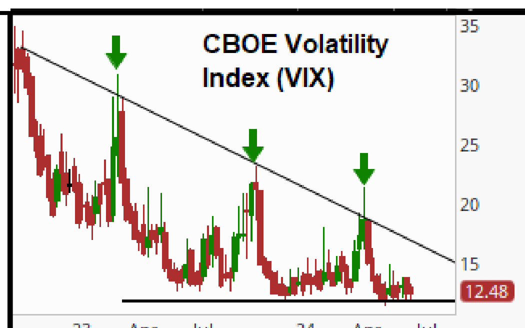
10-Year T-Note Yield Futures

- 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: 4.327, 4.429, 4.547
- Key Support Levels: 4.246, 4.184, 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: 12.98, 13.85, 14.47
- Key Support Levels: 12.37, 12.03, 11.86



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Fundamental Market View (Updated 7/7/2024)

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 record high last week as disappointing economic data further increased expectations for rate cuts while investors are not yet worried about economic growth (although we continue to think that's a vulnerability).*

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 rallied last week despite soft U.S. data as a falling dollar boosted hard assets.*
US Dollar	**Neutral**	*The Dollar Index declined moderately last week on a combination of soft U.S. economic data and after some political improvement in Europe. However, for the dollar to continue to decline we'll need to see consistently weaker U.S. data.*
Treasuries	**Turning Positive**	*The 10-year Treasury yield declined modestly last week as soft economic data late in the week offset selling in Treasuries from investors who sought short-term protection from EU political dysfunction earlier in the month.*

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.