SEVENS REPORT

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

July 9, 2024

Pre 7:00 Look

- Stock futures are trading higher this morning with tech stocks continuing to outperform as traders look ahead to Fed Chair Powell's Congressional testimony today.
- Economically, the NFIB Small Business Optimism Index rose 1 point to 91.5 vs. (E) 90.3 in June.
- There are no additional economic reports today.
- Fed Speak: Barr (9:15 a.m. ET), Powell (10:00 a.m. ET), Bowman (1:30 p.m. ET).
- There is a 3-Yr Treasury Note auction at 1:00 p.m. ET.

Market	Level	Change	% Change
S&P 500 Futures	5639.25	14.00	0.25%
U.S. Dollar (DXY)	104.992	-.022	-0.02%
Gold	2369.80	6.30	0.27%
WTI	81.93	-.40	-0.49%
10 Year Yield	4.283	.020	0.47%

Equities

Market Recap

Stocks hit new record highs to start the week thanks to easing geopolitical tensions overseas, a decline in consumer inflation expectations and reduced angst surrounding French elections following the latest round of voting. The S&P 500 edged up 0.10%.

The stock market advanced to new record highs out of the gate yesterday morning amid quiet financial newswires and market-positive geopolitical developments over the weekend. First, Israel reportedly restarted the conversation about a ceasefire deal with Hamas, which eases a degree of the uncertainty that the regional conflict has had on markets since last fall including lower oil prices easing inflation pressures. Second, the "far right" National Rally party in France disappointed in the second phase of the snap elections, which leave the threat of major policy change rather low (markets like clarity).

After gapping higher at the open and sprinting beyond 5,580 in the first hour, the S&P 500 started to pullback as focus shifted to Powell's testimony beginning today and Thursday's CPI report. The index stabilized briefly mid-morning as the NY Fed's latest consumer survey results showed a drop in year-ahead inflation expectations from 3.2% to 3.0%. That news only supported a modest bounce in the broader market before the S&P 500 resumed its intraday pullback to fill the gap back to Friday's close by the lunch hour. From there the market drifted sideways in modestly positive territory for the balance of the session, ending with a slight gain.

Trading Color

Trading was quiet Monday given the lack of catalysts, but don't let the slow start fool you. Powell's testimony today/tomorrow, CPI Thursday and late-week bank earnings could all inject some volatility into the markets. Small caps saw a modest bounce and the Russell 2000 outperformed on Monday, although that seems more like dip buying than any specifically positive catalyst. The Nasdaq saw small gains while the Dow lagged.

From a single-stock standpoint, Corning's (GLW) positive pre-announcement helped tech (XLK) outperform and that sector rose 0.7%. The remaining 10 sectors were split evenly between winners and losers but the gains and losses were small (less than 0.3%) with the exception of energy (lower on the drop in oil) and communications (XLC), which dropped 0.9%. Other than some noise around the Paramount merger, there wasn't any specific

Market	Level	Change	% Change
Dow	39,344.79	-31.08	-0.08%
TSX	22,126.13	67.10	0.30%
Stoxx 50	4,950.62	-19.21	-0.39%
FTSE	8,196.55	3.06	0.04%
Nikkei	41,580.17	799.47	1.96%
Hang Seng	17,523.23	-0.83	-0.01%
ASX	7,829.71	66.54	0.86%
Prices taken at previous day market close.			

reason for the XLC weakness and it again seemed more like early quarter rotation than anything substantial.

Market	Level	Change	% Change
DBC	23.46	-.32	-1.35%
Gold	2,364.60	-33.10	-1.38%
Silver	30.98	-.71	-2.23%
Copper	4.603	-.049	-1.05%
WTI	82.19	-.97	-1.17%
Brent	85.63	-.91	-1.05%
Nat Gas	2.369	.050	2.15%
RBOB	2.5538	-.0253	-0.99%
DBA (Grains)	24.03	-.16	-0.64%
Prices taken at previous day market close.			

Market Multiple Table: An Important Change

For much of 2024 the S&P 500 has been trading solidly above any fundamental justified valuations, as a combination of rate cut hopes and AI earnings pushed the S&P 500 to the very limits of forward valuations. But the "market multiple" math just got a bit easier for the bulls, because around July of each year, analysts switch their earnings expectations from the current year to next year, and in doing so the July Market Multiple Table now shows this market, at these levels, is reasonably valued as long as 2025 earnings estimates are correct!

Getting more specific, consensus S&P 500 earnings for 2025 are around $270/share, solidly higher than the $243 estimate for 2024. And while this upcoming earnings season can change those numbers, for now they are intact and as a result, the "fair value" of the S&P 500 using next year's earnings has now leapt to the mid-5,000 range.

Importantly, this isn't just a bookkeeping formality. Analysts value the market based on next year's earnings and "next year" is now (or soon will be) 2025 earnings and based on those metrics, while the market isn't cheap, it is no longer wildly above fundamental valuations (as it was before).

This change impacts investors in two ways. First, it does not remove the risk of a correction or pullback. Markets are still aggressively optimistic on a soft landing, aggressive Fed rate cuts and resilient earnings. The net result is a high multiple (still around 20X). If growth slows more than expected or earnings fall, this market will drop.

Second, this earnings shift does make the YTD gains "stickier" in the event of a mild pullback. Put differently, current S&P 500 levels are a lot more justifiable using 2025 EPS (which is legitimate now). So, it's going to take real, negative news to cause a meaningful pullback in

A Game of Multiples (Updated 7/8/2024)

Market Influence	Current Situation	Things Get Better If...	Things Get Worse If...
Hard Landing vs. Soft Landing	Important U.S. economic data is showing that U.S. growth is clearly slowing, but it has not yet stalled.	Economic data stabilizes and pushes back on and growing hard landing worries.	Economic data deteriorates further and makes investors consider that a hard landing is becoming more likely.
Fed Policy Expectations	Recent soft U.S. economic data and a dovish tone from Powell has made a September rate cut widely expected (80% probability).	A September rate cut becomes a certainty (100% probability).	Fed members push back against the idea of a September cut and the probability drops towards and below 50%.
AI Enthusiasm	AI-driven tech earnings have powered the S&P 500 higher and fueled the run to recent new all-time highs.	AI-related tech earnings remain strong and AI bellweathers continue the constant drip of more advanced chips.	AI-related tech companies miss earnings, increasing worries that the AI mania may be overblown.
Geopolitics	Geopolitical risks spiked in June but seem to be receding as there is a potential ceasefire in Gaza and French and UK elections provided no negative surprises.	A ceasefire between Israel and Hamas is declared and tensions with Hezbollah recede.	Hezbollah joins the Israeli/Hamas war or there is further escalation in the Russia/Ukraine conflict.
Expected 2025 S&P 500 EPS	**$270**	**$275**	**$243**
Multiple	19.5X-20.5X	21X	17X-18X
S&P 500 Range	5,265-5,535	5670	4,131-4,374
S&P 500 Target (Midpoint)	5,400	5,670	4,252
Change from today	**-3.1%**	**1.8%**	**-24%**

stocks (like a growth scare, fewer Fed rate cuts, geopolitical surprise or AI disappointment).

Bottom line, the stock market has been trading at very aggressive valuations for much of 2024 and the change in earnings makes current market levels more justifiable. Additionally, it opens a credible path to another 5%-10% rally. However, the facts have not changed on the risks facing this market and if there is legitimate negative news on one of the four market influences, a drop of 5% is possible. If there's a negative turn in multiple market influences, a drop of 10% or more isn't just possible, it's likely.

Current Situation: Growth is slowing but not too slow and a soft landing is still expected, Markets widely expect the Fed to cut in September and twice in 2024, AI enthusiasm remains high and geopolitical risks have eased slightly over the past month. The current situation reflects an environment that is still broadly supportive of stocks (and deserves a high multiple) but it's also leaving investors extremely vulnerable to a growth scare given that high multiple and recently soft economic data. And while the outlook for stocks is positive this market is still very aggressively valued given the current macroeconomic reality and at risk of a sudden, sharp pullback.

Things Get Better If: Economic data stabilizes, the Fed confirms a September rate cut, AI tech companies continue to beat earnings, and geopolitical risks decline. This would reflect a "perfect" environment for stocks of 1) Solid economic growth (so no slowdown), 2) Continued upward pressure on earnings expectations thanks to AI stocks, 3) Near-term rate cuts and 4) Declining geopolitical risks. This environment could justify a 22X multiple in the markets (and 21X at least), which means "fair value" for the S&P 500 in this scenario is in the upper 5,000s.

Things Get Worse If: Economic data gets worse and points to a slowdown, AI-related tech companies miss earnings, the Fed pushes back on a September rate cut and geopolitical risks rise. This scenario would essentially undermine the assumptions behind much of the October-present rally and a giveback of much of the October-to-present rally would not be out of the question (that means a decline into the low 4,000s in the S&P). And while it seems like this outcome isn't possible given still-elevated valuations, none of this is set in stone and this is a legitimate scenario we need to be mindful of, because it is possible if data breaks the wrong way. **Email info@sevensreport.com for an unbranded copy of the Market Multiple Table.**

Economics

There were no material economic reports yesterday.

Commodities

Commodities began the week lower as the dollar stabilized following steady losses last week. With the tailwind of the weakening dollar removed, oil and the broader metals complex declined while natural gas futures bucked the trend and rallied amid weather developments. The commodity ETF, DBC, fell 1.35%.

Starting with energy, WTI crude oil futures dropped back 1.14%, retreating further from last week's test of key technical resistance in the mid-$80/barrel range. Newswise, easing geopolitical tensions amid renewed ceasefire talks between Israel and Hamas, paired with a less-intense landfall by Hurricane Beryl than some had feared saw "fear bids" (both geopolitical and weather-based) unwind from the market.

Market	Level	Change	% Change
Dollar Index	104.68	.13	0.12%
EUR/USD	1.0823	-.0017	-0.16%
GBP/USD	1.2809	-.0006	-0.05%
USD/JPY	160.78	.03	0.02%
USD/CAD	1.3641	.0001	0.01%
AUD/USD	.6734	-.0015	-0.22%
USD/BRL	5.4751	.0147	0.27%
Bitcoin	56,293.77	-774.65	-1.36%
10 Year Yield	4.269	-.003	-0.07%
30 Year Yield	4.458	-.010	-0.22%
10's-2's	-35 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.94%		
Prices taken at previous day market close.			

Some soft trade data out of Germany was largely offset by the easing consumer inflation expectations reported by the NY Fed mid-morning, which helped oil stabilize, but the sideways trend into the afternoon failed to hold and oil futures rolled over to fresh session lows late in the day. This week, risk to oil include hawkish testimony by Fed Chair Powell as high rates threaten the currently solid outlook for demand, a "hot" CPI print, or a soft consumer demand figure in this week's EIA inventory release. Last week's high of $84.50 is initial resistance to watch while $81.75 is initial support to watch.

Switching to natural gas, futures rallied 2.11% but remain fairly centered within the 2024 trading range. Yesterday's rally was attributed to a faster-than-expected return to normal operations anticipated in Texas, which would bolster demand for LNG exports paired with upwardly revised temperatures across much of the U.S. in the extended weather forecast bolstering demand amid higher AC use. Until we see nat gas futures break beyond the $3.15 resistance area, futures are likely to remain rangebound in the mid-to-upper $2.00 level.

Turning to the metals, gold traded lower along with most other commodities to start the week thanks to the steady strength in the dollar and positioning money flows ahead of Powell's testimony and the looming CPI report. On the charts, gold hit a multi-month high on Friday leaving the prospects for a continued rally towards record highs above $2,400/oz., on the rise. If Powell does not maintain a dovish tone or the CPI report runs hot, odds of gold making new highs will decline significantly.

Elsewhere in the metals, copper fell 1.16%, reversing some of last week's sizeable gains. The selling pressure on copper was steady in overnight trade until "bad news was good news" with regard to economic data as a soft German international trade report showed sharp declines in both imports and exports consistent with slowing economic activity. Counterintuitively, that supports the case for more rate cuts sooner than later from the ECB, which results in a less-negative outlook for copper demand. The copper rally stalled at the overnight highs just above $4.65 and futures proceeded to retreat toward session lows in the afternoon, ending near $4.60 after Fitch Ratings noted a significant slowdown in global growth is still expected in H2 '24 citing China's property sector as one of the main sources of uncertainty.

Currencies & Bonds

There was no notable economic data or Fed speak on Monday and the political events in Europe over the weekend didn't impact markets. As a result currency and bond markets were quiet. The Dollar Index rose 0.1% while the 10-year Treasury yield rose 2 basis points.

The global economic calendar was sparse on Monday and the only notable report (and it's a stretch to call it notable) was the New York Fed's one-year inflation expectations, which rose 3.0%, a decline from the 3.2% last month. In an absolute sense, that's another indication that inflation is declining and as such, it reinforces expectations for a September rate cut. From a practical standpoint, no one really paid attention to this number and as such, it didn't move markets.

Turning to French politics, it was a legitimate surprise that National Rally didn't become the largest or majority party in the French Assembly, but headlines last week hinted that National Rally couldn't command the majority party and as such, this really wasn't a market-moving event. The net result of the French election was political gridlock in France and that means no major policy changes from the French government. The euro was flat in response, as was the pound.

Turning to Treasuries, as mentioned, the 10-year yield rose 2 basis points and continues to hover around 4.30%. The inverse relationship between stocks and yields (lower yields/higher stocks and vice versa) remains in place but again, the lower yields go past 4.00%, the less of a tailwind they'll become on stocks (because yields that low will be warning on growth).

Bottom line, yesterday was a quiet start to the week but don't let that fool you. Between Powell's testimony today and the CPI report Thursday, there exists the possibility of volatility this week in both the currency and bond markets. As a guide, at these levels, declines in the dollar and 10-year Treasury yield should remain tailwinds on stocks, at least for now.

Have a good day,

Tom

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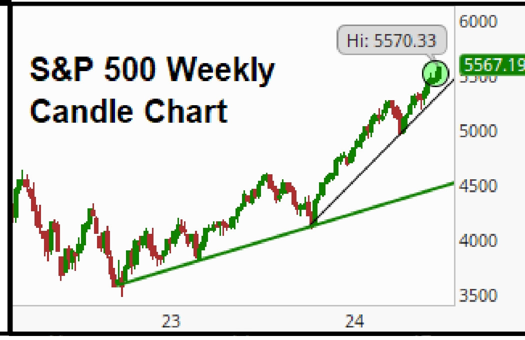
Technical Perspectives (Updated 7/7/2024)

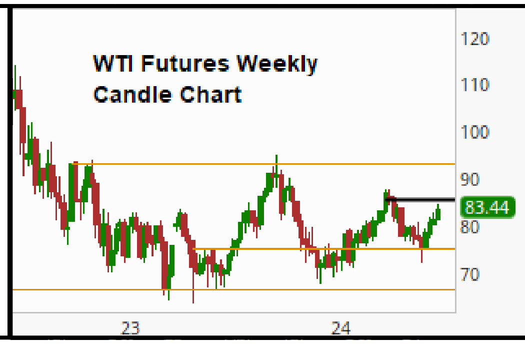
S&P 500

- 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



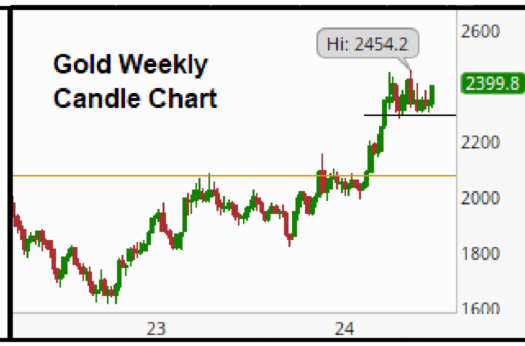
WTI Crude Oil

- 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



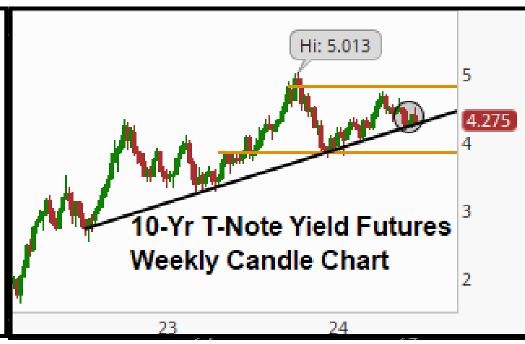
Gold

- 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



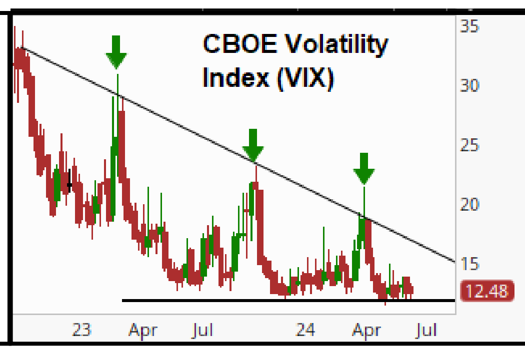
10-Year T-Note Yield Futures

- 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



SEVENS REPORT	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.