SEVENS REPORT

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

August 1, 2024

Pre 7:00 Look

- Futures are modestly higher on momentum from Wednesday's rally and following decent tech earnings overnight.
- META and QCOM posted solid earnings and guidance and that's helping support the tech rebound.
- Economically, the Caixin Chinese manufacturing PMI dropped to 49.8 vs. (E) 51.5, offsetting slightly better than expected numbers from the EU and UK.
- Econ Today: Jobless Claims (E: 236K), ISM Manufacturing PMI (E: 48.8), Unit Labor Costs (E: 1.9%).
- Earnings: AMZN (E: $1.03), AAPL (E: $1.24), INTC (E: $0.10).

Market	Level	Change	% Change
S&P 500 Futures	5,575.75	18.00	0.33%
U.S. Dollar (DXY)	104.34	0.25	0.24%
Gold	2,479.90	6.40	0.26%
WTI	78.44	0.53	0.68%
10 Year Yield	4.05%	-0.06	-1.37%

Equities

Market Recap

The equity market roared higher yesterday led by recently beat down tech stocks thanks to the combination of strong semiconductor earnings, solid global economic data and a largely as-expected Fed decision. The S&P 500 ended the day higher by 1.58%.

Stocks gapped higher at the open yesterday as better-than-expected corporate earnings from domestic chip giant AMD helped rekindle a bid in the AI-trade as well as offset quarterly earnings from MSFT that were initially not well-received by investors.

Beyond earnings, economic data in Asia was at a minimum as-expected if not better than estimates from the latest Chinese Composite PMI report to the Japanese Retail Sales data. A solid GDP print out of Taiwan was also well-received as the nation is seen as a proxy for global tech shares and the "AI trade."

European economic data was also in-line to better-than-expected withholding a slightly hotter-than-expected Eurozone HICP headline (their CPI equivalent). Domestically, the ADP report showed a further softening in the labor market while the Employment Cost Index was slightly cooler than expected, and Pending Home Sales unexpectedly jumped, all of which supported the case for a soft economic landing amid a September start to the Fed's widely anticipated rate-cutting cycle.

Momentum carried the market higher into mid-morning before reports that a political leader from Hezbollah was assassinated in Iran rattled investors briefly into the European close. From there, stocks churned sideways into the release of the Fed statement at 2:00 p.m., which was initially seen as less-hawkish than feared and allowed stocks to grind higher into Powell's press conference. Powell did not reveal any specifics and left a broad range of possibilities on the table for the policy rate in the months ahead, but rates traders maintained relatively high conviction that the first cut will come in September and the S&P 500 ended with solid gains, towards the middle of the July trading range.

What the Fed Decision Means (Tailwind, for Now)

The Fed met dovish expectations and reinforced one of the key supports for the 2024 rally: The idea of looming rate cuts. Powell all but said a September rate cut was coming and also (and importantly) floated the idea that the Fed could cut "several" times in 2024 and the market has reacted accordingly (strong rally). Fed fund fu-

Market	Level	Change	% Change
Dow	40,842.79	99.46	0.24%
TSX	23,110.81	286.13	1.25%
Stoxx 50	4,833.78	-39.16	-0.80%
FTSE	8,357.89	-10.09	-0.12%
Nikkei	38,126.33	-975.49	-2.49%
Hang Seng	17,304.96	-39.64	-0.23%
ASX	8,114.67	22.33	0.28%

Prices taken at previous day market close.

tures now are pricing in three rate cuts in 2024: 25 bps cuts in September, November and December.

Market	Level	Change	% Change
DBC	22.58	.51	2.31%
Gold	2,482.80	30.90	1.26%
Silver	29.00	.48	1.68%
Copper	4.1965	.1125	2.75%
WTI	78.23	3.50	4.68%
Brent	80.72	2.09	2.66%
Nat Gas	2.043	-.083	-3.90%
RBOB	2.4867	.0996	4.17%
DBA (Grains)	23.75	-.08	-0.36%
Prices taken at previous day market close.			

As often happens with market reactions to Fed utterances, the Fed gives investors an inch and they immediately take a proverbial yard, and that's what's happening now as investors embrace the idea of a Fed Funds rate that is solidly below 5% by year-end. The market implication of this, short term, is positive.

Expectations for more rate cuts elicit a Pavlovian response in investors to buy stocks and that clearly happened yesterday as RSP, the equal weight S&P 500 ETF, hit a new all-time high while the S&P 500 rallied hard. And if economic data and earnings are "fine" throughout the week, it'd not shock me at all to see SPY move to new, all-time highs late this week or early next week.

But while investors are focused on Powell's dovish message, I do want to bring us back to the "why" the Fed is now telegraphing rate cuts. Lost in the euphoria yesterday was commentary that shows the Fed is getting more nervous about economic growth. Specifically, Powell said the labor market is facing real risks now and if the labor market goes south, that means we will get a growth scare.

Bottom line: The Fed is clearly telling us they are going to cut in September. Powell also hinted at several rate cuts in 2024. Why? It's not because inflation is so low they can cut aggressively. It's because they are getting worried about growth and this just reinforces what is the key question for markets for the second half of 2024: *We know that Fed is going to cut rates, but will they cut rates in time to avoid a slowdown?* The answer to that question will ultimately determine which direction the next 15% (or more) lies in the S&P 500.

From a tactical standpoint, in the short term (meaning the next few weeks) the economy remains in a Goldilocks state of solid growth and looming Fed rate cuts and that should support a more mild, but ongoing, rotation to value (VTV), the "rest" of the market (RSP) and cyclical sectors (small caps, industrials, energy, financials). So, this rotation from tech to the value/cyclicals/small caps/RSP can continue given yesterday's news and if you're looking to ride that trade, I'd say stay on it.

However, if you're looking beyond the next several weeks, the Fed's increased urgency regarding rate cuts just reinforces my preference for reducing volatility in portfolios via lowering beta. Specifically, that means ETFs such as USMV and SPLV and sector ETFs XLU, XLP, XLV and similar. To be clear, the Fed could still stick the soft landing and that's why I don't advocate raising cash. But the Fed is going to cut rates because they're worried about growth. Meanwhile, the market is not worried about growth at all. That set up doesn't usually end well in my experience and as such, I do think it's best to continue to gradually and systematically reduce volatility in tactical holdings while maintaining long exposure, because if we get a growth scare, Fed rate cuts won't be able to stop the correction and high-beta and cyclicals will get hit hard.

Economics

FOMC Decision

- The FOMC made no change to interest rates, as expected.

The Fed was expected to dovishly tweak the statement to hint at looming rate cuts and they largely did that, although not quite as forcefully as some had anticipated. As such, the FOMC decision largely met our "What's Expected" scenario analysis.

Looking at the statement specifically, the Fed made several small dovish tweaks that, in aggregate, point to a September rate cut. Most importantly, in the second paragraph the Fed announced that it's no longer just focused on inflation. Instead, it is now attentive to "both sides of its dual mandate," which, in plain English, means that the Fed is now just as worried about supporting economic growth as it is about vanquishing inflation. That's an important change because it means the Fed could cut rates at any meeting going forward and that was the most notable dovish change in yesterday's statement.

Other changes occurred in the opening paragraph and included some mild downgrades to growth including saying job gains have "moderated" (a change from "remained strong") and that inflation now is "somewhat elevated" (a change from just elevated). Here's the bottom line: The FOMC statement does not guarantee a September rate cut. It did, however, contain enough dovish changes to keep investors believing that a September rate cut is guaranteed. As such, it helped stocks keep the strong gains they enjoyed prior to the Fed statement release.

Turning to Powell's press conference, it reinforced that the July FOMC decision was dovish. Powell highlighted the "dual mandate," which again means they're as worried about growth as they are about inflation (and that gives them cover to cut at any time). Additionally, Powell said the Fed could cut in September and, perhaps most notably, said he could envision "several" rate cuts this year or "none" (the notable part of it was that Powell admitted several rate cuts are possible).

The market expected the Fed to be dovish and point convincingly towards a September rate cut and it did just that and markets reacted as you'd expect. The S&P 500 held the big gains on the day while the dollar declined modestly and the 10-year yield fell 4 basis points.

Market	Level	Change	% Change
Dollar Index	103.78	-.53	-0.51%
EUR/USD	1.0828	.0013	0.12%
GBP/USD	1.2858	.0022	0.17%
USD/JPY	149.83	-2.94	-1.94%
USD/CAD	1.3804	-.0045	-0.32%
AUD/USD	.6540	.0002	0.03%
USD/BRL	5.6603	.0464	0.83%
Bitcoin	65,694.75	-10.29	-0.02%
10 Year Yield	4.109	-.034	-0.82%
30 Year Yield	4.369	-.031	-0.71%
10's-2's	-22 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.77%		
Prices taken at previous day market close.			

Employment Cost Index

- The Q2 Employment Cost Index rose 0.9% vs. (E) 1.0%

Wages and employment costs have been a major driver of inflation so the Fed will be happy with Wednesday's Employment Cost Index as it showed continued easing of employment cost inflation.

The Q2 ECI rose 0.9% vs. (E) 1.0% and, importantly, declined from 1.2% in Q1 back to typically normal levels. This number continues to add to the growing chorus of inflation indicators that implies inflation is returning to historically "normal" year-over-year increases and that solidifies that the Fed will likely cut rates in September.

Commodities

Commodities were mostly higher as global economic data was largely Goldilocks and supportive of a soft economic landing while the Fed decision was largely as-expected. Short-covering seemed the be an influence as the most beaten down corners of the commodity complex, oil and copper, were the best performers while gold relatively underperformed with a gain of over 1%.

Copper gained 2.82% as futures were dragged higher amid the broad risk-on money flows across markets. Copper futures had recently been flirting with support just above $4.00, but yesterday's rebound appears to be the start of a relief rally. The near-term trend in price remains lower with downtrend resistance falling to between $4.35 and $4.40 in the sessions ahead. From a macro standpoint, bulls and those in the soft landing camp will want to see further stabilization in the coming days, otherwise renewed weakness will suggest hard landing risks are still higher than market's are pricing in.

Switching to the precious metals, gold was the laggard in the broader commodity complex, but futures still gained 1.06% to close at a record high just under $2,480/oz. The new highs in gold are inherently bullish for the precious metal and leave the path of least resistance higher despite a clear loss of momentum in the rally since April. On the charts, $2,363, last week's closing low, is now a key support level.

EIA Data and Oil Update

Crude oil futures surged by as much as 4%, as part of a massive risk-on move across asset classes. The oil market pulled back modestly as traders digested a mixed weekly inventory report from the EIA; however, escalating geopolitical tensions and more risk-on money flows in the wake of the Fed saw oil end the day solidly higher. WTI rallied 4.25%.

On the headlines, the -3.4MM barrel draw in crude oil stockpiles was much more than the consensus analyst estimate of -200K but below the API's reported draw-down of -4.5MM, which left the oil supply change still bullish but not as much as the API figure suggested it might be. Gasoline stocks fell -3.7MM bbls vs. (E) -1.3MM (API: -1.9MM), which was a bullish print while distillates posted the only notable build, rising 1.5MM bbls vs. (E) -400K (API: -322K). On the margin, the headlines were moderately bullish thanks to the larger-than-anticipated oil and gasoline drawdowns.

In the details, refinery use unexpectedly declined -1.5% to 90.1% vs. (E) +0.6% to 92.2%. Meanwhile, the key demand figure, gasoline supplied, fell 206K b/d to 9.25MM b/d, a slightly less bullish number but still comfortably above the psychological 9 million b/d threshold that energy analysts associate with healthy consumer demand in the summer driving season. The rolling four-week average fell 435K b/d to 9.22MM b/d, which is still strong and near the 2024 highs. The unexpected dip in refinery runs does help explain the larger-than-expected gasoline draw despite the dip in implied demand, but it also could be warning of an anticipated decline in demand by downstream operators.

Bottom line, global economic growth concerns had become the dominant influence on oil in recent weeks, which saw WTI futures fall three weeks in a row to test the June lows. That selling pressure subsided and there was a big push to the upside yesterday thanks to broad risk-on money flows, an as-expected Fed decision, strong global economic data that helped rekindle soft-landing hopes and rising geopolitical tensions in the Middle East. On the charts, WTI is still rangebound between support at $75.50 and the phycological $80/barrel level.

Currencies & Bonds

The Dollar Index and Treasury yields both declined moderately Wednesday thanks to dovish economic data, the surprise BOJ rate hike and the Fed's dovish confirmation of rate cut expectations. The Dollar Index fell 50 bps while the 10-year Treasury yield fell to the lowest level since March, down 7 bps.

The dollar was down initially on the surprise BOJ rate cut as the yen rose 1.5% vs. the dollar. That initial decline was compounded by underwhelming labor data (ADP missed estimates) and on a smaller-than-expected Unit Labor Costs reading. The Fed confirming dovish expectations pushed the dollar slightly lower in the afternoon. The Dollar Index closed just above 104.

Turning to Treasuries, yields were down solidly as the 10-year yield fell 7 bps as investors priced in falling inflation and underwhelming job adds along with the dovish confirmation by the Fed. The 10-year closed at 4.03%. The decline in yields was a positive for markets and that will continue even if the 10-year yield falls below 4.00% (which it will, if tomorrow's jobs report is soft). But below 4.00% falling yields should become a smaller and smaller tailwind on equities as a decline towards, and through, 3.75%-ish in the 10 year will more signal slowing growth than interest rate relief. For now, falling yields remain a positive for stocks and we saw that again on Wednesday (although again, it won't last forever).

A Surprise Move By the BOJ

The Bank of Japan announced a surprise rate increase on Wednesday morning to 0.25% from 0.10% and agreed to very gradually reduce its QE purchases between now and early 2026 from about 6 trillion yen/month or 3 trillion yen per month. The move surprised investors and pushed the yen 1.5% higher vs. the dollar and the yen plunged through the 200-day moving average for the first time since very early 2024.

This matters because it's going to put more pressure on the unwind of the yen carry trade. If we see a sustained rally in the yen it could easily add to macroeconomic volatility and this is an incremental negative for investors that needs to be acknowledged. To be clear, I'm not saying this will cause a market decline by itself, but if the yen is not on a sustained uptrend vs. the dollar, then that's removing another tailwind from this market and I just want to make sure we're all aware of that. Practically, this move reinforces my desire to reduce volatility in my portfolios, but still remain long.

Have a good day,

Tom

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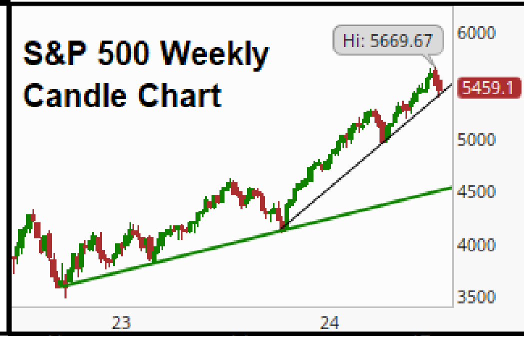
Technical Perspectives (Updated 7/28/2024)

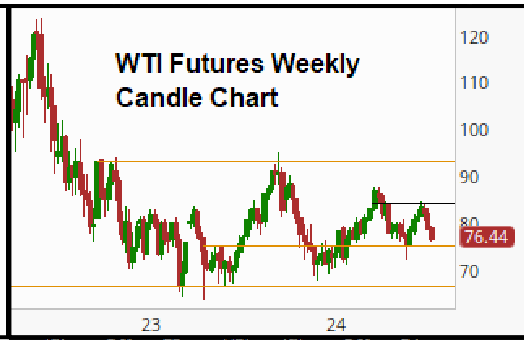
S&P 500

- 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



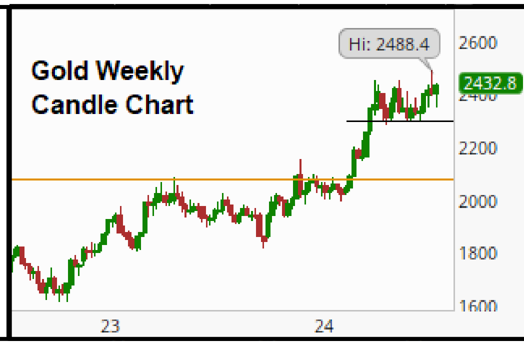
WTI Crude Oil

- 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



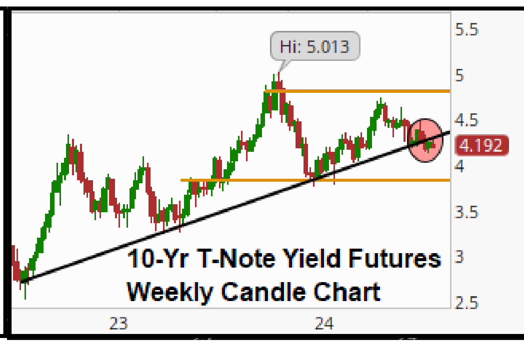
Gold

- 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



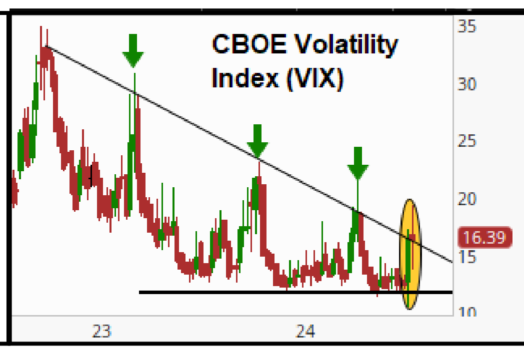
10-Year T-Note Yield Futures

- 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



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.