SEVENS REPORT

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

August 12, 2024

Pre 7:00 Look

- Futures are slightly higher following a quiet weekend of news as investors digested last week's early swoon and strong rebound, ahead of important updates this week on inflation and economic growth.
- Geo-political tensions remained elevated as the world waits for the Iran/Hezbollah retaliation on Israel and expectations for an attack any day remain high.
- There was no notable economic overnight and investors' focus is on Wednesday's CPI and Thursday's Retail Sales.
- Econ Today: No reports today.

Market	Level	Change	% Change
S&P 500 Futures	5,380.75	10.50	0.19%
U.S. Dollar (DXY)	103.20	0.06	0.06%
Gold	2,482.20	8.80	0.36%
WTI	77.70	0.86	1.12%
10 Year Yield	3.96%	0.01	0.25%

Equities

Market Recap

Volatility surged early last week thanks to rising concern about the economy, worries about a disorderly unwind of the yen carry trade and technical factors (spike in the VIX), although stocks recovered most of the early week losses thanks to better-than-expected data and reassuring rhetoric from BOJ officials. The S&P 500 dipped 0.04% on the week and is now up 12.04% YTD.

The stock market plunged last Monday as a 12% drop in the Japanese Nikkei index, the largest one-day decline since 1987, sparked a moderate sense of panic across global markets. The S&P 500 gapped down to a three-month low before a solid ISM Service Index release helped ease recession concerns allowing the S&P 500 to end off the worst levels of the day, but still down 3%.

Stocks began to stabilize Tuesday as solid economic data overseas and a 10% rally back in the Nikkei helped volatility subside. A solid 3-Yr Treasury Note auction, despite the massive drop in yields, added conviction to bets that the Fed is poised to embark on an aggressive policy easing campaign. The S&P 500 bounced 1.04%.

The tentative rebound continued early on Wednesday as investors shrugged off bad earnings from AI-proxy company SMCI and instead embraced a pullback in the Japanese yen (easing pressure on the carry-trade unwind) and sharply falling VIX. The weakening of the yen was driven by reassuring commentary from BOJ officials that they would not continue to hike interest rates amidst extreme volatility. Buyers were tentative, however, and a weak 10-Yr Treasury auction saw longer-duration yields rise considerably, which weighed on the market and ultimately saw the S&P 500 fall 0.77% on the day.

The relief rally resumed in a big way Thursday as the other meaningful economic release of the week, weekly jobless claims, came in better than feared, easing worries about the labor market falling off a cliff into an imminent recession (which initially sparked the selloff on August 2 in the wake of the jobs report). That, combined with the previous dovish rhetoric from BOJ officials, spurred a big rally in the S&P 500 and the index closed with a 2.3% gain.

Stocks extended Thursday's rally on Friday as a solid July revenue report from TSMC supported the tech sector which, in turn, helped the broader market rally initially. Geopolitical concerns about a likely retaliatory attack on Israel by Hezbollah/Iran kept the rally in check and the

Market	Level	Change	% Change
Dow	39,497.54	51.05	0.13%
TSX	22,311.30	85.69	0.39%
Stoxx 50	4,671.29	-3.99	-0.09%
FTSE	8,203.97	35.87	0.44%
Nikkei	35,025.00	193.85	0.56%
Hang Seng	17,111.65	21.42	0.13%
ASX	7,813.67	35.97	0.46%
Prices taken at previous day market close.			

S&P 500 stalled near 5,350 ending the day with a gain of 0.47%, leaving the index little changed for the week.

Market	Level	Change	% Change
DBC	22.21	.13	0.59%
Gold	2,468.70	5.40	0.22%
Silver	27.56	-.05	-0.18%
Copper	3.988	.029	0.73%
WTI	76.78	.59	0.77%
Brent	79.54	.38	0.48%
Nat Gas	2.149	.022	1.03%
RBOB	2.3856	-.0136	-0.57%
DBA (Grains)	24.17	.39	1.66%
Prices taken at previous day market close.			

How Worried Should We Be About This Market?

Last week saw the biggest surge in volatility in months (and really for 2024) as investors were confronted by a triple header of potential negatives from 1) Economic growth concerns, 2) An unwind of the yen carry trade and 3) Reversal of extreme overweights in tech/AI names. But for all the volatility, the S&P 500 ended the week just fractionally lower and is still only off 5.7% from the recent highs.

Given the strong finish for stocks and the ability to bounce back from early week declines, much of what I read over the weekend characterized this recent volatility as just a typical pullback in an upward-trending market. Put differently, it was almost dismissive of the recent volatility.

While I do not think fundamentals have deteriorated enough to warrant de-risking and reducing equity or risk exposure, I do want to reinforce this point: There are serious changes potentially happening to the U.S. economy and markets, and if they go bad, they will end this 2024 bull market and as such I want to caution against dismissing this uptick in volatility, even if stocks are still resilient. Here's why I say that.

1. The number of economic indicators pointing towards slowing growth or outright contraction is growing at a faster pace and a slowdown that ends this bull market, while not the likely scenario, is becoming a bigger risk. So, do not be dismissive of soft economic data as it's a potential major problem.
2. The surge in the yen has revealed dangerous overcrowding in the yen carry trade that has, in the past, led to prolonged bouts of market volatility and liquidity stresses. Put simply, the yen should not be able to strengthen more than 10% vs. the dollar in less than a month. That is not a sign of a healthy or orderly market, and the currency markets are very big. Perhaps this bout of volatility in the yen has "wrung out" the weak hands in the yen carry trade and it's more stable now. But these unwinds seem to occur in waves and despite the late-week stability, it's not at all clear this is over and it'd be a mistake to assume so.
3. Overweights in tech and AI names have absolutely been reduced and there's better balance in the markets, but much of this 2024 rally has still been driven by the Mag 7 gains. If more AI/tech firms offer mixed guidance (specifically NVDA on Aug. 28) we will see tech decline further and it'll drag this market down with it.
4. The recent pullback has improved the valuation picture for this market, as the S&P 500 is trading around 19.4X 2025 S&P 500 EPS (5,344 divided by $275). While that's down from the 21X-22X valuation peaks, it's still historically high and if we are in a slowing economy, the "right" multiple is more like 17X-18X (which is 4,675-4,950).

Stocks are impressively resilient, but the risks facing this market are substantial (like, end-of-the-bull market substantial). And while they are not likely, **they are becoming more likely with each passing week.**

Because of that, I continue to advocate for defensive sector exposure (XLU/XLV/XLP) and minimum volatility funds (USMV). If you want to buy this dip, I'd buy those, and if you want to use the Wednesday-Friday bounce to lighten up on higher-vol sectors such as tech, etc., I'd reallocate those to the lower-vol names. Again, the reasoning here is simple: Significant risks are rising for this market. They aren't that bad yet, but they're getting incrementally worse and as such, I believe that warrants staying long but also reducing volatility in case those risks turn into bearish gamechangers.

Economics

Last Week

There were only two notable economic reports last week, but importantly, they both pushed back against the idea that U.S. economic was dramatically slowing and that recession risks were surging and that solid data was very important in helping stocks bounce.

The July ISM Service PMI rose back above 50 to hit 51.4 vs. (E) 51.0. This was an important number because if this PMI had fallen further into the 40s, that would mark the third month out of four both the Services and Manufacturing PMI would be below 50 and at that point it'd be giving a pretty clear signal of looming, substantial economic weakness. Happily, the Service PMI did not give us that signal.

The other notable report was the weekly jobless claims and they declined to 233k vs. (E) 240k, and in doing so, somewhat offset the underwhelming July jobs report. However, while that number helped stocks extend the rebound Thursday, it was a decidedly mixed report. Specifically, Continuing Claims rose to the highest levels since November 2021 and that underscores that while layoffs aren't spiking, it is getting more difficult for unemployed people to find a new job (which is symptomatic of a weakening labor market).

Bottom line, last week's data did help calm recession worries and that helped stocks to lift (along with a decline in the yen). However, the data did still show that the U.S. economy is losing momentum so while the outlook isn't as bad as investors acted last Monday, it is still losing momentum and as such this market is still vulnerable to continued negative economic data.

Market	Level	Change	% Change
Dollar Index	102.97	-.05	-0.05%
EUR/USD	1.0919	.0000	0.00%
GBP/USD	1.2756	.0008	0.06%
USD/JPY	146.61	-.62	-0.42%
USD/CAD	1.3734	.0001	0.01%
AUD/USD	.6573	-.0020	-0.30%
USD/BRL	5.5090	-.0380	-0.69%
Bitcoin	60,267.48	841.41	1.42%
10 Year Yield	3.944	-.053	-1.32%
30 Year Yield	4.226	-.061	-1.42%
10's-2's	-11 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.48%		
Prices taken at previous day market close.			

This Week

The most important report this week is the July CPI, which comes Wednesday. Investors already assume inflation is declining back towards the Fed's target so a further decline in CPI will reinforce that positive and, most importantly, further entrench the idea in investors' minds that 50 bps of rate cuts in September and 100+ bps of rate cuts in 2024 is likely.

The danger for markets, and this is a real danger, is that CPI bounces back. If that happens, markets have a stagflation problem. I say that, because clearly economic data is losing momentum and now it's just a question of how much momentum it's lost, a lot (hard landing) or a little (soft landing). The only thing that's keeping markets from totally freaking out about that is the idea of a lot of Fed rate cuts coming, starting in September. But if CPI jumps Wednesday, markets will dial back those expected rate cuts and that will leave the U.S. economy more vulnerable to a slowdown because the Fed won't cut rates aggressively.

Bottom line, markets need CPI to continue to decline and show inflation is still trending lower. An unexpected bounce back in inflation would be a new, likely significant, headwind on stocks. Economic data remains extremely important for markets and don't let last Thursday's rebound fool you. There's real uncertainty regarding the outlook for the future of the U.S. economy and while a hard landing isn't likely, it's entirely possible, and as such, growth data remains very important.

That makes Thursday a very important day this week as we get four important growth reports. They are (in order of importance): July Retail Sales, Weekly Jobless Claims, Empire Manufacturing Index and Philly Fed. Retail sales are the key growth number this week because there are now numerous anecdotal warnings from various companies on consumer spending and if that shows up in the aggregate retail sales data (via a big decline) then we will see economic anxiety rise again because if the U.S. consumer is pulling back, a hard landing will be more likely.

Weekly jobless claims remain in focus given consistent warnings from the Fed on the labor market and if claims jump back towards, or above, 250k, that will be a solid negative (and it'll offset the good feelings from Thursday's data). Finally, we get the first looks at August economic data via the Empire and Philly Fed indices. These metrics are always volatile and they've been even more so lately. But nonetheless, they're still the first looks at August activity and if they're both very bad or very good, they'll increase or decrease recession worries and weigh on/boost stocks.

Commodities

Commodities were mixed as oil rallied on geopolitical tensions in the Middle East and less-dire worries about an imminent recession, while industrial metals pulled back on still-present growth concerns and gold fell on profit taking. The commodity ETF, DBC, rose 1.42%.

WTI crude oil futures rallied 3.83% last week with most of the gains coming in the back half of the week after futures tested key technical support and multi-month lows in the low $70s earlier in the week. Economic data was a net positive influence on oil as some strong manufacturing data out of Germany and better-than-feared jobless claims data in the U.S. saw recession worries ease from quasi-panic levels on Monday.

Additionally, escalating tensions between Israel and Hamas/Hezbollah and the global state that backs both, Iran, saw a big geopolitical influence come into the market with shorts covering positions into the weekend (recall the April drone attack by Iran on Israel took place on a Saturday) while day traders chased the squeeze. Bottom line, geopolitical concerns were the driving force behind last week's gains in oil but based on the last year of tensions in the Middle East, it is unlikely that current tensions translate to any real changes in global oil supply and they are, for now, not a long-term bullish influence. Market fundamentals have deteriorated considerably since earlier in the summer with more imminent recession fears weighing on consumer demand expectations. Between now and the end of the year, the most likely path for the oil market is lower, potentially into the mid-to-low $60/barrel range.

In metals, the breakdown below support at $4.00 in copper was the most notable development last week. Copper futures ended the week down 3.49% but the drop to multi-month lows during the week highlighted still-elevated and real concerns about the global economy evident in the commodities complex. Gold, meanwhile, slipped 0.62% on the week as traders booked profits after the latest run to new all-time highs. The outlook for gold remains bullish, but it has notably lost momentum and is at risk of a more pronounced pullback if we see the dollar strengthen or yields begin to reverse back higher in a meaningful way. Gold is still the preferred destination for capital within the commodity complex.

Currencies & Bonds

Currency and bond markets, like stocks, were volatile to start the week but ended with relatively modest changes as Tuesday-Friday largely reversed Monday's moves. The most important financial asset in the world right now remains the Japanese yen, and while it strengthened on Monday (and contributed to the stock market drop) it spent the remainder of the week bleeding lower and finished the week with just a 0.05% gain. Dovish commentary by BOJ officials helped soothe nervous markets.

The Dollar Index dropped to a multi-month low on Monday as investors priced in more aggressive Fed rate cuts. But solid economic data (ISM Services PMI and Jobless Claims) saw the dollar drift steadily higher throughout the week and close with a minimal loss (down 0.05%). Bottom line, dollar/yen remains the most important currency pair in the world for markets and a drift higher (back towards 150 yen/dollar) will further ease investor anxiety about the yen carry trade while a decline (strengthening) back towards 142 yen/dollar will be a new negative.

Turning to bonds, Treasuries dropped sharply on Monday but spent the rest of the week recovering those losses thanks, mostly, to the better-than-expected U.S. data. The 2- and 10-year Treasury yields rose 7 basis points each while the 10s-2s spread got as high as -4 bps but closed at -11 bps.

Going forward, stability in yields will help stocks further recover and stabilize so investors should be rooting for a quiet trading week in the bond markets.

Have a good week,

Tom

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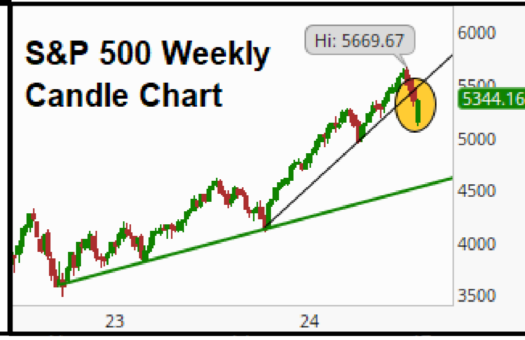
Technical Perspectives (Updated 8/11/2024)

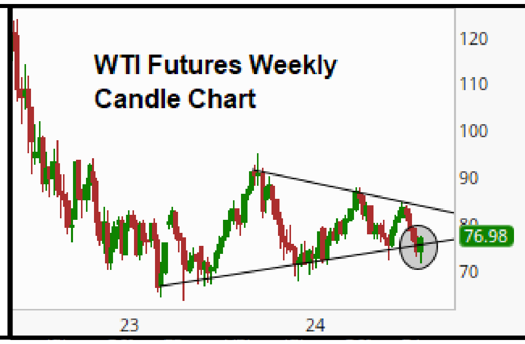
S&P 500

- Technical View: **The medium-term trend in the S&P 500 has shifted from bullish to neutral** as the uptrend line off the October 2023 lows was violated last week.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5377, 5436, 5537
- Key Support Levels: 5293, 5186, 5064



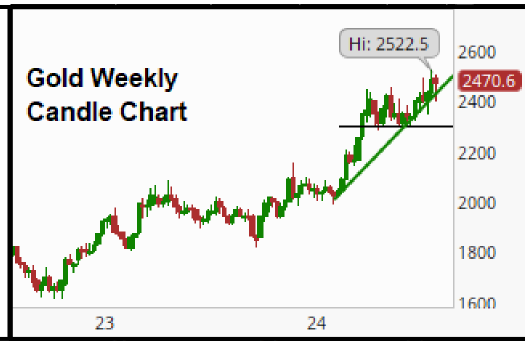
WTI Crude Oil

- Technical View: The price action in the oil market has become heavy late in the summer as the uptrend off the early 2023 lows was violated to start August.
- Primary Trend: **Neutral (since the week of July 15, 2024)**
- Key Resistance Levels: $77.45, $78.59, $80.45
- Key Support Levels: $75.47, $74.21, $72.96



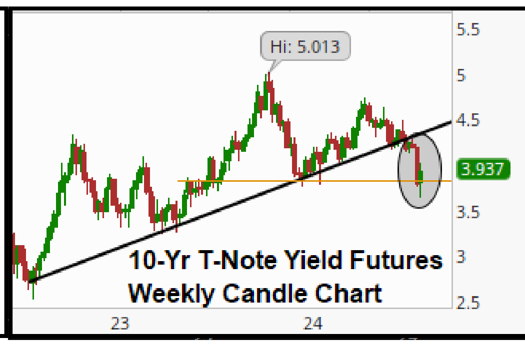
Gold

- Technical View: Gold hit new record highs to start August reaffirming the long-term uptrend remains in place with the path of least resistance still higher.
- Primary Trend: **Bullish (since the week of November 27, 2023)**
- Key Resistance Levels: $2477, $2491, $2523
- Key Support Levels: $2424, $2398, $2363



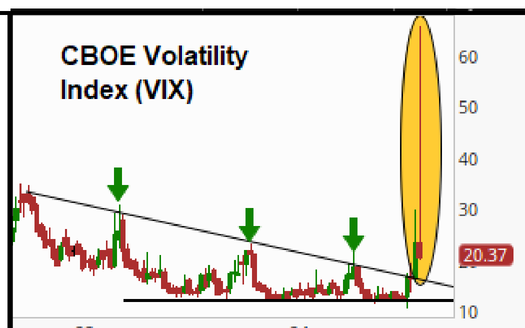
10-Year T-Note Yield Futures

- Technical View: The 10-year yield fell below the uptrend line off the late-2022 lows and fell to a fresh 52-week low last week, notably reversing the trend to bearish.
- Primary Trend: **Bearish (since the week of July 29, 2024)**
- Key Resistance Levels: 3.987, 4.023, 4.156
- Key Support Levels: 3.888, 3.802, 3.730



CBOE Volatility Index (VIX)

- Technical View: The VIX surged to new 52-week highs last week shifting the technical outlook from neutral to bullish suggesting elevated risks of more volatility ahead.
- Primary Trend: **Bullish (since the week of July 29, 2024)**
- Key Resistance Levels: 23.79, 27.85, 33.71
- Key Support Levels: 20.52, 18.59, 16.74



SEVENS REPORT	Fundamental Market View (Updated 8/11/2024)

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 showed extreme volatility last week on a Monday collapse due to growth concerns and an unwind of the yen carry trade. Those Monday losses were gradually reversed throughout the week, however, thanks to better-than-expected economic data and BOJ officials reassuring markets.*

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 mixed last week as oil rebounded on geopolitical tensions while copper fell to multi-month lows, highlighting real fears of a global economic slowdown present in the commodity complex. Gold relatively outperformed but still declined on the week thanks to modest profit taking and easing safe-haven money flows.*
US Dollar	**Neutral**	*The Dollar Index dropped sharply initially last week as the market volatility boosted rate cut expectations. However, better-than-expected data pushed the dollar higher throughout the week and it finished with just a fractional loss.*
Treasuries	**Turning Positive**	*Treasury yields were also volatile as they fell hard on Monday, but better-than-expected data helped yields recover the initial losses and finish the week essentially flat.*

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.