SEVENS REPORT

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

August 13, 2024

Pre 7:00 Look

- Futures are flat this morning while overseas markets were mixed overnight with Europe underperforming amid soft economic data while Asian shares were mostly higher.
- Economically, the August German ZEW Survey saw Current Conditions fall to -77.3 vs. (E) -74.5 and Economic Sentiment drop to 19.2 vs. (E) 34.5. Domestically, the NFIB Small Business Optimism Index rose to 93.7 vs. (E) 91.7.
- Econ Today: PPI (E: 0.2% m/m, 2.6% y/y), Core PPI (E: 0.2% m/m, 3.0% y/y). Fed Speak: Bostic (1:15 p.m. ET).
- Earnings Today: HD (E: $4.55).

Market	Level	Change	% Change
S&P 500 Futures	5372.25	2.50	0.05%
U.S. Dollar (DXY)	103.208	.079	0.08%
Gold	2500.50	-3.50	-0.14%
WTI	79.84	-.22	-0.27%
10 Year Yield	3.909	-.033	-0.84%

Equities

Market Recap

Stocks traded sideways amid mostly quiet newswires Monday as traders digested last week's historic volatility spike and looked ahead to the important economic reports due out in the sessions ahead. The S&P 500 edged up 0.23 points which rounded down to 0.00%.

The major indexes gapped cautiously higher at the open yesterday with the S&P 500 hitting a one-week high, but there was no follow-through bid and the market pulled back to options-sensitive support at 5,325 in the first half hour. Support at 5,325 proved to be the lows for the

The 10-Year Treasury Note yield fell to a 52-week low for the first time since the onset of the Covid-19 pandemic last week, which added technical conviction to the longer-term bullish outlook for the Treasury market.

day as the S&P 500 rebounded back to new, one-week highs into the European close.

However, as was the case in the opening minutes, there was no real bullish momentum and the lack of a meaningful catalyst to support continued gains saw the advance in the broader market stall and stocks began to drift lower into the afternoon as traders positioned into today's PPI report and tomorrow's CPI report.

With those two important inflation releases looming, and other key economic reports due out before the end of the week, trader conviction was rather low and the S&P 500 chopped sideways to end the day quietly towards the middle of the session's trading range, effectively unchanged from Friday's settlement.

Trading Color

The S&P 500 was little changed, but internals were weaker than that headline reading implied, as tech stocks largely supported the SPY. To that point, the Nasdaq rose slightly (up 0.21%) but was the best per-

Market	Level	Change	% Change
Dow	39,357.01	-140.53	-0.36%
TSX	22,398.93	87.63	0.39%
Stoxx 50	4,664.33	-7.55	-0.16%
FTSE	8,192.53	-17.72	-0.22%
Nikkei	36,232.51	1,207.51	3.45%
Hang Seng	17,174.06	62.41	0.36%
ASX	7,826.84	13.17	0.17%
Prices taken at previous day market close.			

former on the day while the Dow Industrials lost 0.36% and the Russell 2000 fell 0.91%.

Market	Level	Change	% Change
DBC	22.52	.31	1.40%
Gold	2,510.80	37.40	1.51%
Silver	28.05	.46	1.69%
Copper	4.077	.084	2.10%
WTI	79.78	2.94	3.83%
Brent	82.05	2.39	3.00%
Nat Gas	2.171	.028	1.30%
RBOB	2.4382	.0479	2.00%
DBA (Grains)	23.94	-.26	-1.09%
Prices taken at previous day market close.			

On a sector level, Monday's results were similar as only three of the sector SPDRs we track were positive on the day. Tech led all sectors with a 0.8% gain thanks mostly to a 4% rally in NVDA on a combination of dip buying, earnings anticipation and some late-week optimism on AI revenues. Energy (XLE up 0.4%) was the next best performer, thanks to the rally in oil that came as commodity markets await the Iranian/Hezbollah retaliation on Israel. Utilities (XLU up 0.2%) was the only other sector positive on the day and that rallied thanks to lower yields and on some defensive stock buying.

The remaining eight sectors were all lower but only modestly so, as the worst performer, communications, only fell moderately (XLC down 0.8%). The remaining sectors all drifted lower in what felt like some short-term profit taking following last week's late rebound, as investors position for the next series of potentially market-moving catalysts (earnings today, CPI Wednesday, Retail Sales and more growth data on Thursday).

CPI Preview: Good, Bad, Ugly

Last month's CPI underscored the importance of this number as the better than expected reading solidified, in the mind of investors, that the Fed will cut rates in September. That, in turn, ignited the rotation from tech to the 'rest' of the market that ultimately has seen the Nasdaq drop more than 10% from the highs and contribute, in part, to the volatility across the markets over the past two weeks.

Now, for tomorrow's CPI, the stakes remain high but for a different reason: The only reason stocks aren't down given mixed economic data and a strengthening yen is because investors expect a 50 bps rate cut in September and, at a minimum, 100 basis points of easing from the Fed between now and year-end. If tomorrow's CPI confirms that expectation (and strengthens it) it'll be an important positive to help markets stomach any more underwhelming economic data.

However, if inflation is slightly firmer than expected, it'll leave a 50 basis point rate cut somewhat in doubt and, more importantly, imply that inflation may be turning "sticky" again like it was earlier in 2024. If that happens, we should expect more volatility and some "give back" of the recent bounce.

Finally, if inflation is surprisingly hot, brace yourselves because that wouldn't just significantly reduce expectations for a 50 basis point rate cut, but it would also increase real stagflation concerns as inflation may be bouncing while growth slows. That's pretty much a worst case scenario for markets and we should expect decline in stocks and bonds (and for stocks, an eventual re-test of last week's lows).

Bottom line, focus is now more on growth than it is on inflation (a switch from the past year-plus) but inflation still matters, a lot and for this recovery to continue, markets need a benign CPI report tomorrow.

A "Good" CPI Report: Core CPI < 3.2% y/y, Headline CPI < 3.0%. *Likely Market Reaction:* This data would reinforce that inflation is moving quickly towards the Fed's target and make a 50 bps cut almost a guarantee. We'd expect the rebound in stocks to continue; led by growth and defensive sectors, but all 11 sectors SPDRs should be positive on this news. The 10-year Treasury yield should decline modestly but not likely below 3.80%. The Dollar Index should decline slightly, but not materially as a 50 bps rate cut is already mostly priced in. Commodities (especially gold) should see continue to see strong rallies on the weaker dollar (gold might be the biggest winner).

A "Bad" CPI Report: **Core CPI 3.2% - 3.3% y/y, Headline CPI 3.0%.** *Likely Market Reaction:* This outcome would show a minimal decline in inflation and it would push back against the idea that the Fed will cut 50 bps in September (it wouldn't refute the idea but it'd leave it in some doubt). And because markets widely expect the Fed to cut 50 bps in September, this likely would create a modestly negative reaction. Stocks should drop, although the declines shouldn't be too intense. We'd expect cyclicals to lag while defensives and mega-cap tech relatively outperform (and perhaps are outright positive). Treasury yields should ride moderately with the 10-year yield rising back towards 4.00% while the Dollar Index should rally back in to the mid-103 range. Commodities should see moderate declines on the stronger dollar. Bottom line, this outcome wouldn't make a 50 bps September rate cut unlikely, but it would reduce its chances and that should hit stocks (but not substantially).

An "Ugly" CPI Report: **Core CPI > 3.3% y/y, Headline CPI > 3.1%.** *Likely Market Reaction:* Another big selloff. Markets fully have priced in disinflation and 50 bps September rate cut. This outcome would challenge both assumptions, which have been integral to last week's rebound from the collapse last Monday. We'd expect the SPY to drop more than 1% with all 11 sectors SPDRs solidly lower on the day. Treasury yields should rise sharply with the 10 year Treasury yield rising back through 4.00% (which would add pressure to stocks). The Dollar Index should rally to, and perhaps through, 104. Bottom line, this would undermine last week's bounce, raise stagflation risks significantly and a give back of all of last week's gains wouldn't be out of the question (over the coming few trading days).

Economics

There were no material economic reports yesterday.

Market	Level	Change	% Change
Dollar Index	102.93	-.02	-0.02%
EUR/USD	1.0932	.0015	0.14%
GBP/USD	1.2768	.0007	0.05%
USD/JPY	147.18	.57	0.39%
USD/CAD	1.3740	.0010	0.07%
AUD/USD	.6587	.0009	0.14%
USD/BRL	5.5058	-.0026	-0.05%
Bitcoin	59,289.30	-436.11	-0.73%
10 Year Yield	3.909	-.033	-0.84%
30 Year Yield	4.197	-.028	-0.66%
10's-2's	-11 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.49%		
Prices taken at previous day market close.			

Commodities

Commodities began the week solidly higher with energy leading the advance thanks to further escalations in geopolitical tensions in the Middle East while copper rallied amid a continued sense of easing recession worries and gold closed at a new record high amid bond market strength. The commodity ETF, DBC, gained 1.40% on the day.

Starting with the upside standout, WTI crude oil futures rose 3.64%, as simmering worries about a retaliatory attack on Israel by Iran or one of its regional proxy groups, Hezbollah or Hamas, kept a supply-side fear bid in the market. News that the U.S. and other allies were strategically moving military assets including attack submarines to Middle Eastern waters added a degree of seriousness to the threat that tensions could explode into a full-blown regional war.

On the charts, WTI futures topped $80/barrel in intraday trade for the first time since mid-July but futures ended the day slightly below the $80 mark, still at a three-week high. Looking ahead, oil is likely to maintain a geopolitical fear bid as long as tensions between Israel and Iran remain high; however, risks to this August advance include "hot" inflation data this week or underwhelming growth data out of the U.S. (most data Thursday) or China (most data Wednesday night) as the former would trigger hawkish, risk-off money flows and the latter would weigh on demand expectations.

Turning to metals, copper jumped 2.03% to close comfortably back above prior support at $4.00 as recession worries continued to abate after they were seen as "overdone" in the wake of the July jobs report. Looking at the charts, copper remains in a multi-month downtrend off the record highs reached in May but support has emerged at $3.93 while resistance remains well above current levels at $4.33. How copper reacts to this week's critical inflation and growth reports will shed light on whether a soft landing is once again becoming the consensus (copper prices higher) or if hard-landing fears are gaining momentum (copper prices lower).

Gold advanced to a new record closing high with futures settling above $2,500/oz. Falling Treasury yields amid a stable dollar set gold up for a run to new records and after yesterday's new highs were established, the path of least resistance remains higher with the intraday record highs of $2,523, the new level to beat for the bulls. Within the commodity complex gold remains the best destination for capital although there are signs of fading bullish momentum in price strength indicators such as RSI that typically precede periods of consolidation or pullbacks.

Currencies & Bonds

The yen remains the key currency in the global markets and it weakened modestly on Monday in quiet trade as it continues to retrace part of the stunning month's long rally. The yen fell 0.4% on Monday.

The Dollar Index, meanwhile, was little changed and rightly so as there was no notable economic data or Fed speak to move markets (and there are numerous potential catalysts looming with CPI on Wednesday and growth data on Thursday).

Internationally, the euro and pound were also little changed as there was no notable data from those regions. Bottom line, currencies continue to digest the volatility of the past few weeks as they wait for clarity on the number and intensity of Fed rate cuts. We will get more insight into that via Wednesday's CPI and that (along with growth data) will determine if this rebound in the Dollar Index keeps going or stalls.

From a stock standpoint, the keys remain a stable to declining yen and stable U.S. dollar. As long as those two things exist, this rebound in stocks can continue.

Turning to Treasuries, yields fell modestly on a combination of an in-line New York Fed Inflation Expectations reading (3.0%) and as markets positioned for slightly elevated geopolitical risk (Treasuries remain an asset of last resort amidst geopolitical tensions).

The looming CPI and growth data will determine if the 10-year yield continues to gradually claw back the declines of the past two weeks (that's the best-case scenario for stocks) or if the 10-year yield re-tests the lows below 3.80% (that would be a negative, as yields that low more reflect growth concerns than they do virtuous Fed rate cuts). A slow, gradual drift back towards (or slightly above) 4.00% remains the best-case scenario for stocks.

Have a good day,

Tom

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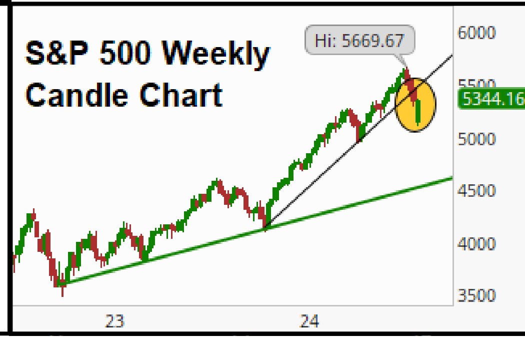
Technical Perspectives (Updated 8/11/2024)

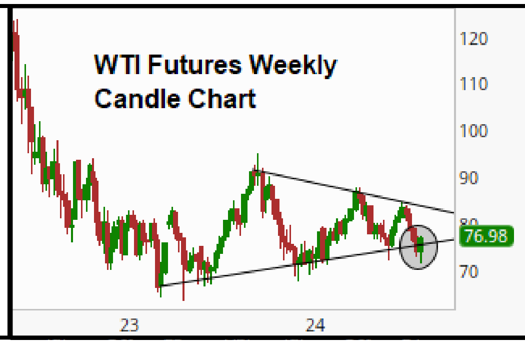
S&P 500

- 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



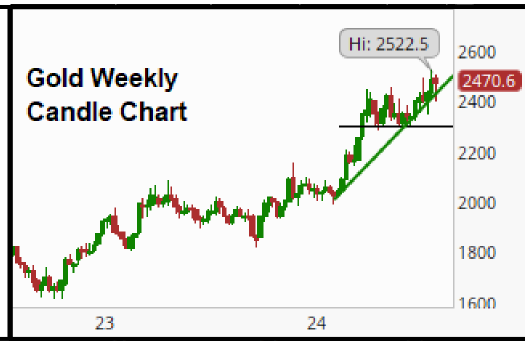
WTI Crude Oil

- 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



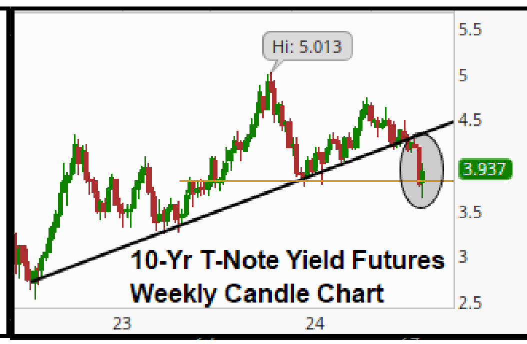
Gold

- 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



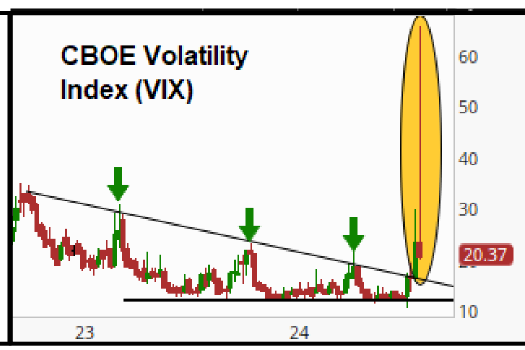
10-Year T-Note Yield Futures

- 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



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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.