SEVENS REPORT

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

August 14, 2024

Pre 7:00 Look

- U.S. stock futures are flat as traders digest yesterday's sizeable rally ahead of today's critical CPI release.
- Overseas, the Reserve Bank of New Zealand unexpectedly cut rates overnight citing recession concerns in H2'24 while the EU GDP Flash met estimates at 0.6% y/y.
- Econ Today: CPI (E: 0.2% m/m, 3.0% y/y), Core CPI (E: 0.2% m/m, 3.2% y/y). There are no Fed speakers today.
- There is a 4-Week Treasury Bill auction at 11:30 a.m. ET.
- Earnings: CAH (E: $1.72), UBS (E: $0.12), TCEHY (E: $0.61), CSCO (E: $0.85).

Market	Level	Change	% Change
S&P 500 Futures	5459.25	0.25	0.01%
U.S. Dollar (DXY)	102.479	-.124	-0.12%
Gold	2510.80	3.00	0.12%
WTI	78.37	.02	0.03%
10 Year Yield	3.836	-.011	-0.29%

Equities

Market Recap

After a flat start to the week, the August recovery in the equity markets resumed thanks to a "cool" PPI supporting dovish money flows across asset classes. The S&P 500 jumped 1.68% with today's critical CPI report coming into focus.

Mixed economic data overseas, including a rather disappointing German ZEW Survey release, kept stock futures in check for most of the pre-market session; however, a solid NFIB Small Business Optimism Index headline and a PPI that significantly undershot estimates bolstered risk-on money flows sparking a pre-market rally that saw stocks gap solidly higher. The market churned sideways as the higher open was digested but the rally resumed into the European close with the S&P 500 breaking out through the derivative-sensitive 5,400 mark.

The rally lost momentum in the early afternoon as investors awaited commentary from the Atlanta Fed's Bostic who proceeded to push back on the idea that a September rate cut was a "sure thing" and importantly noted that a recession was "not in his outlook," as the labor market remained historically strong. After a brief pullback towards 5,400, the S&P 500's intraday rally resumed with the index hitting new highs in the final hour, and then closing just off the best levels of the day.

Follow-Up Thoughts on the Yield Curve Reversion Process

In mid-July, we published a special section on the yield curve reversion process and specifically whether a reversion back to positive territory was a positive or negative signal for the economy and markets. After doing some additional, more in depth work on the yield curve given the massive move in bond yields in the wake of the July jobs report in early August (some Notes in the belly of the curve rose 50 basis points that week, a historically unprecedented move), we wanted to provide some follow-up insights on two specific dynamics of the yield curve and its eventual reversion to positive territory.

First, the most popular Treasury yield curve spread discussed by the financial media and most financial strategists is the 10Yr-2Yr yield curve spread as it has always been seen as the benchmark with the 10-Yr sensitive to the outlook for economic growth and inflation while the 2-Yr offers a forward look at Fed policy expectations. Being the most popular and widely followed yield curve spread, we used the 10Y-2Y spread to look at the history of the yield curve flipping back positive after a prolonged

Market	Level	Change	% Change
Dow	39,765.64	408.63	1.04%
TSX	22,618.18	219.25	0.98%
Stoxx 50	4,714.59	19.67	0.42%
FTSE	8,274.74	39.51	0.48%
Nikkei	36,442.43	209.92	0.58%
Hang Seng	17,113.36	-60.70	-0.35%
ASX	7,850.70	23.86	0.30%

Prices taken at previous day market close.

inversion, concluding that the last few times that has occurred, 2000 and 2007, it was not a good time for equity market investors.

Market	Level	Change	% Change
DBC	22.31	-.22	-0.93%
Gold	2,505.60	1.60	0.06%
Silver	27.85	-.15	-0.55%
Copper	4.0590	-.0095	-0.23%
WTI	78.29	-1.77	-2.21%
Brent	80.63	-1.67	-2.03%
Nat Gas	2.157	-.032	-1.46%
RBOB	2.3682	-.0747	-3.05%
DBA (Grains)	23.76	-.22	-0.91%
Prices taken at previous day market close.			

Taking our analysis of the yield curve a step further, it is worth noting that the lesser-followed but historically more timely 10Yr Note Yield-3M Bill Yield spread is another important measure of the yield curve to watch as it can offer additional insight as to where we are in the market cycle and how close we are to the onset of a potential recession. Since the 2-Yr yield is more forward looking with its longer duration, the 3-Month Bill yield tends to hold up much longer ahead of Fed rate cuts and in turn, typically remains inverted longer. For that reason, a reversion in the 10Y-2Y spread followed by a reversion in the 10Y-3M spread is a progression to be mindful of as the latter spread turning positive is typically a more pressing and imminent warning of a looming recession.

What is the 10Y-3M doing right now? Interestingly enough, as the 10Yr-2Yr yield approached positive territory at the start of August, the 10Y-3M yield declined deeper into inversion in the wake of the July jobs report, and decidedly so (down 31 bps the first week of August) as the 3M yield did not move nearly as much as the rest of the curve in reaction to the soft jobs print and unexpected jump in the unemployment rate. Going forward, we will continue to look for a convicted reversion in the still slightly negative 10Y-2Y spread, but importantly a "confirming" signal from the 10Y-3M turning positive as well. Once the 10Y-3M turned positive in 2000 and 2007, the stock market was on the brink of peaking into economic weakness.

Second, the direction a yield curve spread is moving is an important dynamic to watch, but what is arguably more important is what is driving the move one way or another. Using the spike in the 10Y-2Y spread on Friday, Aug. 2, when the jobs report was released as an example, the move higher was driven by a more rapidly falling 2-Yr yield than declining 10-Yr yield. This dynamic is referred to as Bull Steepening and signals that economic concerns are driving dovish Fed policy expectations, the type of movement in the yield curve that precedes Fed rate cuts. Conversely, if we were to see the yield curve turn positive but amid yields rising, across the curve, that would be a Bear Steepening dynamic (the rise in 2-Yr yields lags the rise in the 10-Yr yield) and this would be an important dynamic to look for as a gradual Bear Steepening dynamic would be more consistent with a soft landing being achieved by the Fed as growth would be seen stabilizing and accelerating in the years ahead while the economy would simultaneously be viewed as capable of weathering the current policy rate and only require modest reductions near-term (say to 4.5%).

Bottom line, there are a lot of moving parts to the yield curve and the way each piece of the Treasury market puzzle is acting can offer valuable insight as to whether we are on the brink of an imminent recession, or if a soft landing remains more likely. So, as we continue to navigate a very uncertain market landscape in H2'24, Bull Steepening trends across the yield curve and the 10Y-3M yield curve spread turning positive are two recession warnings signals from the "smart market" that warrant monitoring in the weeks and months ahead.

Economics

PPI

- July PPI rose 0.1% vs. (E) 0.2% m/m and 2.2% vs. (E) 2.7% y/y

July PPI came in solidly below expectations and further confirmed in investors' minds that disinflation is ongoing and that did fuel the stock rally on Tuesday. From a Fed standpoint, PPI also increased expectations for a 50-bps rate cut and further solidified expectations for 100 basis points of cuts between now and year-end. Rising rate cut expectations and declines in the dollar and Treasury yields helped boost stocks, as investors were reminded that inflation is consistently declining.

However, before we get too excited about this report, I just want to point out that falling inflation isn't really a debatable topic at this point. We know that inflation is consistently falling because pretty much every inflation indicator (both anecdotal and macroeconomic) has been showing easing price gains for the past several months. Put more bluntly, the fact that PPI rose much less than expected is a good thing, but it's hardly a surprise.

The bigger question facing markets right now isn't "If" inflation is falling, it's "Why" inflation is falling. Inflation always falls during periods of slowing growth (at least it always has during my two-plus decade career). So, if inflation is slowing more than expected because growth is worse than expected, that's not a medium- nor long-term positive for stocks (although it would be a positive for longer-dated Treasuries).

Here's the point: Inflation is falling, we know that and PPI just continues to confirm that point (and even if today's CPI is higher than expectations, the other inflation data is still pointing towards disinflation). The bigger question is whether inflation is falling because growth is stalling. If that is true, then falling inflation will turn from a tailwind to a headwind in the coming months and you'll likely hear a term from the past: Deflation. If we do hear that term, prep for more volatility.

NFIB Small Business Optimism

- The headline index rose to 93.7 vs. (E) 91.7 in July

The headline NFIB Small Business Optimism Index increased 2.2 points in July to the highest level since February 2022, but notably remained below the long-run average of 98 for a 31st consecutive month. The main reason for the better-than-anticipated headline was an uptick in Expected Business Conditions, which, on the surface, is encouraging. However, other details pointed to a less-positive environment for small business owners right now.

To that point, the Actual Earnings component edged back down to -30 from -29 in July, matching the 2024 low due to a combination of reported declines in Sales Volume, down to -16, a 2024 low, amid rising costs. The NFIB data largely echoed what Home Depot (HD) said in it's earnings reports, i.e., customers are pulling back and while earnings are holding up because of cost controls, concerns are rising on the revenue front.

Market	Level	Change	% Change
Dollar Index	102.37	-.59	-0.57%
EUR/USD	1.0997	.0066	0.60%
GBP/USD	1.2866	.0096	0.75%
USD/JPY	146.65	-.56	-0.38%
USD/CAD	1.3711	-.0033	-0.24%
AUD/USD	.6635	.0049	0.74%
USD/BRL	5.4542	-.0421	-0.77%
Bitcoin	60,793.83	1,587.73	2.68%
10 Year Yield	3.852	-.057	-1.46%
30 Year Yield	4.165	-.032	-0.76%
10's-2's	-8 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.44%		
Prices taken at previous day market close.			

Commodities

Commodities traded with a risk-off despite the solid rally in equities. A weaker dollar and continued bid in the bond market helped gold notch a modest gain; however, industrial metals and oil futures both declined with the latter underperforming on concerns about oversupply following a cautious industry report. The commodity tracking ETF, DBC, dropped 0.93% on the day.

WTI crude oil futures fell back 2.07%, which was roughly half of Monday's solid 4%+ trough-to-peak gain. While geopolitics were driving the price action at the start of the week due to still-elevated tensions between Israel and Iran, the primary influence on the market yesterday was the International Energy Agency's latest monthly market outlook report as they effectively revised their forecasts to reflect lower demand growth resulting in a surplus of nearly 1 million b/d emerging next year.

The IEA went as far as saying that even if voluntary production cuts by OPEC+ leadership countries, including Russia and Saudi Arabia, were extended, demand would still fall behind supply at current levels leaving the physical market poised to flip to a surplus. Recession concerns remain a simmering bearish threat to the oil market as hopes for a soft landing are beginning to fade. Looking ahead, WTI crude futures are still rangebound between support in the low $70s and resistance in the low $80s, and even if futures were to revisit the YTD highs in the mid $80s, a rally would unlikely be sustainable because of the threat of sharply falling consumer demand in the midst of a potential economic slowdown. Bottom line, regardless of the near-term strength, risks to the price of oil are to the downside.

Turning to metals, copper also posted declines with futures falling 0.43% as the August German ZEW survey badly missed estimates on both the headline Current Conditions Index and the Economic Sentiment Index rekindling worries about the health of Europe's largest economy. Futures were able to hold above psychological support at $4.00, which is an incremental positive, but the downtrend off the May highs remains in place for now and the path of least resistance is still lower. From a macroeconomic standpoint, if copper does not stabilize and recoup some recent losses, the sluggish price action will remain an anecdotal caution signal for global growth.

Switching gears to the precious metals market, gold bucked the otherwise heavy trend in the commodities complex and eked out a gain of 0.12%, holding above $2,500/oz. for the second day in a row. Gold benefitted from the weaker dollar and a continued bid in the Treasury market pressuring yields. The new highs in gold remain inherently bullish and leave the path of least resistance higher in the near to medium term, but a loss of momentum does continue to suggest risks of a sharp, profit-taking pullback exists with focus on multi-month support at $2,300/oz.

Currencies & Bonds

The better-than-expected PPI boosted dovish expectations for today's CPI, and that, in turn, pressured the dollar and Treasury yields. The Dollar Index fell 0.4%.

PPI was the main catalyst for markets on Tuesday as the much-smaller-than-expected increase in PPI caused a modest uptick in expectations for a 50-bps rate cut in September (now solidly over 50% ahead of the CPI report) and for 100 basis points of easing by year end (now an 86% probability according to the fed fund futures). Both of those probabilities rose following the PPI report.

As a result, the dollar declined sharply after dropping initially on the PPI release and then bleeding lower throughout the trading day. Notably, the dollar fell below last Monday's low and hit the lowest level since January as global investors positioned for a more dovish Fed following the encouraging inflation print.

Internationally, all the major currencies (yen, pound and euro) were higher vs. the dollar but importantly, the yen only rose by 0.3%, a modest amount and importantly not enough to pressure stocks and squeeze the yen carry trade. However, and I want to be clear, if the yen had risen sharply vs. the dollar, that likely would have been a headwind on stocks and yen strength is something we need to closely monitor going forward. The pound and euro rose 0.8% and 0.6%, respectively, vs. the dollar as the global currency markets anticipate a more dovish Fed. The euro closed very close to a new, year-to-date high vs. the dollar while the pound was close to hitting a five-month high vs. the greenback.

Bottom line, dollar weakness yesterday was a tailwind on stocks but only because the yen was relatively calm. If the yen had risen like the pound or even euro, I highly doubt stocks would have been able to rally. So, while dollar weakness on anticipated Fed rate cuts may be a general positive for markets, that's not going to be the case if that dollar weakness comes along with yen strength.

In Treasuries, yields fell solidly on the better-than-expected PPI report with the 2- and 10-year yields falling 5 basis points while the 10's-2's spread remains at -8 bps. The decline in yield yesterday was a mild positive for stocks because it was driven by inflation data, not disappointing economic data (the PPI is clearly a positive for the soft landing argument) although falling yields will not be the bullish tailwind investors have previously become used to.

Stepping back, the 10-year yield has largely been "digesting" the big drop in yields from the jobs report and yen/VIX spikes of last Monday and that's helped stocks bounce. Going forward, the 10-year yield further digesting that news and staying "around" 4.00% remains the best-case scenario for investors.

Have a good day,

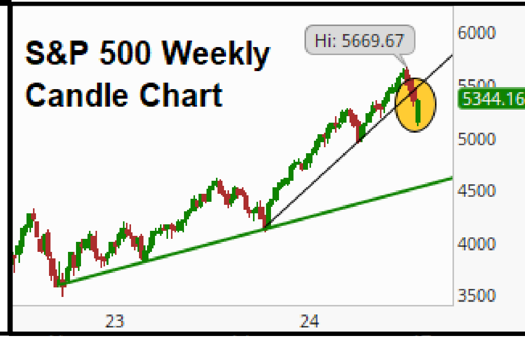
Tom

SEVENS REPORT

Technical Perspectives (Updated 8/11/2024)

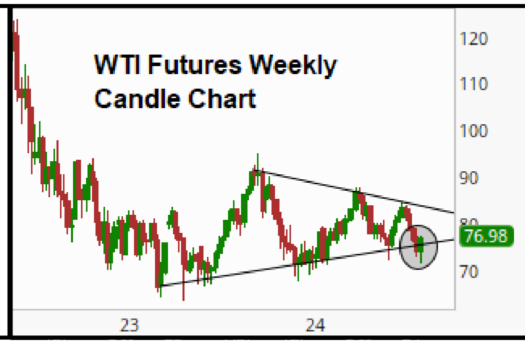
S&P 500

- 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



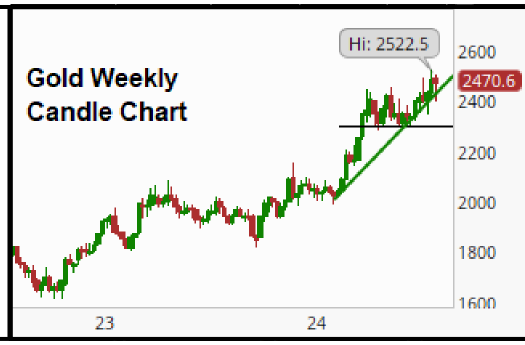
WTI Crude Oil

- 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



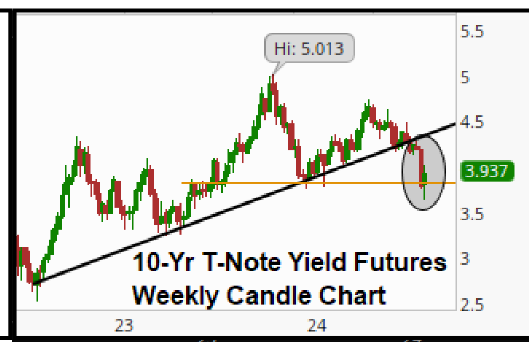
Gold

- 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



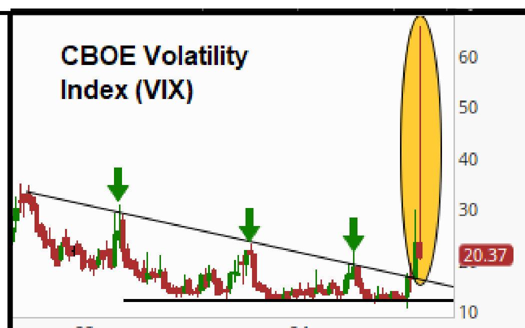
10-Year T-Note Yield Futures

- 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.