SEVENS REPORT

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

August 16, 2024

Pre 7:00 Look

- Futures are slightly lower following a mostly quiet night of news as markets digest Thursday's strong rally.
- The only notable economic report overnight was UK retail sales, which rose 0.8% vs. (E) 0.5% and added to Thursday's haul of solid global data.
- Geo-politically, Israel/Hamas ceasefire talks continued and any breakthrough would be a surprise market positive.
- Econ Today: Housing Starts (1.342M), Consumer Sentiment (E: 67.0, 1-Yr Inflation Expectations: 2.9%, 5-Yr. Inflation Expectations: 3.0%). Fed Speak: Goolsbee (1:25 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,562.75	-4.75	-0.09%
U.S. Dollar (DXY)	102.80	-0.17	-0.18%
Gold	2,503.20	10.80	0.43%
WTI	76.28	-1.88	-2.41%
10 Year Yield	3.89%	-0.05	-1.23%

Equities

Market Recap

Stocks enjoyed broad gains Thursday with most major U.S. equity indexes gaining more than 2% as economic data continued to support the case for a September Fed rate cut while simultaneously easing recession fears. The S&P 500 jumped 1.61%.

U.S. equities gapped higher at the open yesterday as earnings were solid and investors digested market-friendly economic data. On the earnings front, both CSCO and WMT results, released between Wednesday's close and yesterday's open, were better than expected and supported risk-on money flows in equity futures overnight and in the pre-market Thursday.

Economically, the data came in solid before the bell including a lower-than-anticipated drop in initial jobless claims (suggesting the labor market is not suddenly faltering) and a solid Retail Sales headline that came in well -above estimates (suggesting consumer spending remains healthy). Additionally, the continued weakness in the survey-based Empire and Philly Fed surveys were more forward looking and added conviction to rate cut hopes for the coming months and quarters. The main takeaway from the economic data was that a rate cut next month remains likely and there is no evidence that the economy has fallen off a cliff like investors briefly feared in the wake of the July jobs report.

The only other potentially market-moving catalyst yesterday was the Fed's Alberto Musalem speaking about the economy, but he stuck to the narrative, reiterating that disinflation trends have been favorable and a September rate cut is seen as the "base case." After the strong open, the bulls didn't look back and the market rallied through the close, ending just off session highs at the best levels since mid-July.

Hard Landing/Soft Landing Scoreboard

The updated reading from the Hard Landing/Soft Landing Scoreboard still shows that Soft Landing the likely outcome of data (and that's a good thing). But the intensity of that message is waning and the message from the Scoreboard can be best summed up as this: It's still pointing towards a Soft Landing, but that signal is not as strong as it has been in recent months.

It may seem off to read that given better-than-expected economic data on Thursday (retail sales and jobless claims) that boosted stocks and yields. But the reality is most metrics in the Scoreboard have been plateauing for

Market	Level	Change	% Change
Dow	40,563.06	554.67	1.39%
TSX	23,032.72	272.71	1.20%
Stoxx 50	4,837.03	29.26	0.61%
FTSE	6,310.65	-36.70	-0.44%
Nikkei	38,062.67	1,336.03	3.64%
Hang Seng	17,430.16	321.02	1.88%
ASX	7,971.05	105.53	1.34%
Prices taken at previous day market close.			

months and that includes retail sales. Yes, the monthly data did beat expectations yesterday, but if you stretch out the data over the past year, not going anywhere. And the same can be said for Durable Goods (down slightly over the past year) and other economic metrics (ISM Services PMI and jobless claims).

Market	Level	Change	% Change
DBC	22.35	.18	0.81%
Gold	2,498.70	19.00	0.76%
Silver	28.48	1.14	4.19%
Copper	4.146	.106	2.62%
WTI	77.95	.97	1.26%
Brent	80.86	1.10	1.38%
Nat Gas	2.197	-.022	-0.99%
RBOB	2.3533	.0322	1.38%
DBA (Grains)	23.77	.01	0.02%
Prices taken at previous day market close.			

The bottom line with the August update of the Scoreboard is this: A Soft Landing is still the most likely outcome for the economy and that's a good thing. But that signal is not nearly as strong as it was and it'd be a mistake to dismiss the chance of a Hard Landing, despite yesterday's economic enthusiasm.

Hard Landing vs. Soft Landing Scoreboard

	Current	One Month Ago	Three Months Ago	Hard Landing/Soft Landing
ISM Manufacturing PMI	46.8	48.5	49.2	Hard Landing
ISM Services PMI	51.4	48.8	49.4	Soft Landing
Job Adds (Non-Farm Payrolls)	114K	179K	108K	Soft Landing
Retail Sales	$615.00B	$608.46B	$608.46B	Soft Landing
NDCGXA	73.99B	73.30B	73.83B	Soft Landing
Jobless Claims	227K	245K	223K	Soft Landing

- **Of the Big Three monthly economic reports, one remains weak while the others are wavering.** The ISM Services PMI bounced back above 50 in July, but the fact remains it's spent two of the past three months below 50. Meanwhile, the manufacturing PMI dropped even further below 50, implying worsening manufacturing conditions. Both numbers imply moderation of growth at a minimum. *What signals hard landing going forward? ISM Manufacturing and Services PMIs stay below 50 for two more months.*
- **Consumer spending has totally plateaued (but positively isn't contracting materially).** Retail sales, which is the most comprehensive measure of consumer spending each month, declined earlier this year and have essentially plateaued in recent months. That doesn't mean a slowdown is coming, but there is a large number of companies that are warning on consumer spending (WMT's good earnings have been the exception, not the rule). Bottom line, consumer spending isn't contracting but it's not moving decidedly higher, either. *What signals a Hard Landing? Retail sales roll over and begin to drop sharply, falling to multi-month lows within the next three months.*
- **Business spending is plateauing but not contracting.** New orders for non-defense capital goods excluding aircraft (NDCGXA) is the best metric we have for national business spending and investment, and like retail sales, it has largely plateaued. That's good in that it's not contracting, but it's also worrisome because it's not expanding. There may be some corporate anxiety about future economic growth, but it's not leading to material reductions in corporate spending or investment. *What signals a Hard Landing? NDCGXA falling to multi-month lows in the next three months.*
- **Some employment indicators are starting to show signs of softening, although in aggregate the labor market remains healthy.** Employment indicators are showing some mild deterioration. Monthly job adds are still positive, but the unemployment rate has risen to a multi-year high, job adds appear to be slowing, continuing jobless claims are at a multi-year high and jobless claims have been elevated recently. In aggregate, the labor market is still solid but there's been undeniable deterioration in some labor metrics. *What signals a Hard Landing? Monthly job adds drop below 100k and/or claims above 300k.*

Here's how I explained the message from the Breaker Panel during yesterday's Alpha webinar (where I provided a more comprehensive overview of the economy to Alpha subscribers) … The message of a Soft Landing from the Hard Landing/Soft Landing Scoreboard is weakening, but it's still signaling a Soft Landing. <u>It's like being at a football game and your team is leading by three touchdowns. You go to get some concessions and when you</u>

get back to your seat, your team is only up by one touchdown. Yes, they're still winning, but the trend is worrisome. That's the right way to think about economic data right now.

Economics

There was a lot of growth-oriented economic data on Thursday and the message was mostly consistent: Growth is moderating, but so far, it's not collapsing and that made the data Goldilocks enough to push stocks higher and the data was the main reason for the rally. From a Fed standpoint, the data pushed back against the idea of a 50-bps cut but reinforced a 25-bps cut in September (and taken in the context of the solid growth that reduced expectation didn't hit stocks).

Retail Sales

- July Retail Sales rose 1.0% vs. (E) 0.4%.

The U.S. consumer remained resilient in July as headline retail sales solidly beat expectations, although that was in part because the June data was revised to -0.2% from 0.0%. Still, the headline retail sales was a reassuring data point that consumer spending is not falling off a cliff.

The details weren't as positive as the headline reading but they were decent. "Control" retail sales, which is retail sales minus gas, autos and building materials (this gives us the best macro look at discretionary spending) rose just 0.3% but that was better than the 0.1% expectation.

Finally, from a composition standpoint, motor vehicle parts and electronics/appliances drove the gains in retail sales. Those categories are more "needs" than "wants" from the consumer and as such, the details of the report weren't that strong, but they also weren't bad enough to undermine the positive headline reading. Bottom line, the consumer is not collapsing; however, consumer spending is clearly moderating so we need to watch this closely.

Market	Level	Change	% Change
Dollar Index	102.82	.43	0.42%
EUR/USD	1.0977	-.0035	-0.32%
GBP/USD	1.2861	.0032	0.25%
USD/JPY	148.99	1.66	1.13%
USD/CAD	1.3726	.0010	0.07%
AUD/USD	.6614	.0016	0.24%
USD/BRL	5.4823	.0089	0.16%
Bitcoin	57,128.11	-1,806.10	-3.06%
10 Year Yield	3.926	.106	2.77%
30 Year Yield	4.180	.072	1.75%
10's-2's	-16 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.58%		
Prices taken at previous day market close.			

Weekly Jobless Claims

- Weekly Jobless Claims declined to 227k vs. (E) 234k.

Claims dropped again this week and moved further away from the 250k level, which is a level that makes investors nervous about a slowdown, even though it's still historically low. The drop back into the 220k level shows that the labor market is not dramatically weakening, although the totality of labor market data does clearly show deterioration, albeit modestly so far. Bottom line, this was the second report yesterday that pushed back on fears U.S. growth was slowing dramatically.

Empire & Philly Fed Indices

- Aug. Empire Manufacturing rose to -4.7 vs. (E) -5.9.
- Aug. Philly Fed declined to -7.0 vs. (E) 13.9.

The first look at August economic data was more mixed than July Retail Sales or jobless claims and the Empire and Philly readings continued to show the manufacturing sector remains under pressure. Both readings were negative again (Philly was positive in July) while details of the reports were also mixed. Empire New Orders, the leading indicator in the report, dropped sharply to -7.9 from -0.6 while Philly New Orders also declined but remained in positive territory (to 14.6 from 20.7).

Bottom line, these indicators have been especially volatile throughout 2024 so don't read too much into them. That said, they are consistently showing that manufacturing activity in the Northeast is still facing tough headwinds and that's been confirmed by the national manufacturing PMIs (under 50). So far, that hasn't weighed on the broader economy but the longer it lasts, the greater the chances it does begin to weigh on growth more broadly. Like most of the data, it is "ok," but trending in the wrong direction.

Commodities

Commodities were mostly higher as "good economic data was good for markets." Industrial metals led the way higher closely followed by the oil market while gold lagged amid weakness in the bond markets, pushing yields higher. The commodity ETF, DBC, rose 0.81%.

Copper futures jumped 2.65% to add distance from the key psychological support level at $4.00 tested earlier in the summer. Yesterday's rally began overnight Wednesday as Chinese economic data was not as bad as feared with Retail Sales importantly topping estimates, easing worries of a more sudden slowdown in the health of the Chinese consumer.

The solid U.S. economic data that followed the international data added to the bullish sentiment in the industrial metals, as well as other risk-assets, and copper tracked equity markets higher over the course of the session. On the charts, copper is still below resistance at $4.25 associated with the downtrend line off the record highs established in May, but importantly off the lows.

Gold rose a more modest 0.48% as economic data was not as hawkish as it could have been but did notably pressure longer-dated Treasury Notes and Bonds, pushing yields higher, which kept a lid on the gold recovery. Looking ahead, the bullish trend in gold continues to see a loss of momentum and the rally is barely eking out new highs suggesting that a profit-taking pullback is increasingly likely near-term, especially if we see any meaningful strength in the dollar or yields.

WTI crude oil futures rallied a solid 1.33% thanks to the combination of easing recession fears and more solid growth expectations bringing soft landing hopes back to life while geopolitical tensions between Israel and Iran continued to simmer at elevated levels. Yesterday's rally followed back-to-back declines after WTI futures tested the $80/barrel mark, which is proving to be new resistance slightly below prior resistance near $83/barrel. Key 2024 support remains intact at $72.50, leaving oil futures rangebound for the time being. In the near-term the market will remain sensitive to geopolitical headlines, and good economic data will be well received, but the prospects of a sustainable rally beyond the low $80s for WTI given still-lofty recession risks are slim.

Currencies & Bonds

The better-than-expected retail sales and jobless claims reports was the main driver of the currency and bond markets and they reacted as you'd expect, with rallies in the dollar and yields. The Dollar Index gained 0.4% to close just under 103 while the 10-year Treasury yield jumped 10 basis points.

Looking first at the dollar, it was flat until the 8:30 a.m. data when it immediately jumped by about 0.5%. From there, it chopped sideways for the remainder of the session to close just under 103. The biggest decliner vs. the dollar was the yen, which fell 1.1% on dollar strength. That sharp decline in the yen absolutely helped stocks rally yesterday, as the yen remains a very important global asset right now. In Europe, the pound rallied modestly vs. the dollar (up 0.3%) on better-than-expected GDP data while the euro declined slightly (-0.3%).

The dollar remains near the bottom of the 103-106 range but I'm not ready to say it's definitively broken below it until we get more data that shows the economy is losing momentum. Instead, I'd expect the dollar to bounce on either side of 103 until we get a clearer conclusion on just how much U.S. growth is slowing. For now, the dollar will remain broadly neutral on stocks.

Turning to Treasuries, yields jumped as the strong data dialed back rate cut expectations. The 10-year Treasury yield rose back to 3.90% and we continue to think that the 10 year hovering near 4.00% is the best-case outcome for stocks, as it implies growth isn't collapsing but is still wavering enough to cause the Fed to cut rates. Moves through 4.00% and higher likely will be headwinds on stocks (that'll mean push back on the expected Fed rate cut) while drops towards 3.75% and lower will bring up growth concerns. Yesterday, the 10-year yield moved back up towards 4.00% amidst the solid data and that was another macro tailwind on stocks.

Calm price action from Treasuries and currencies over the coming week is needed for stocks to extend this bounce and for the S&P 500 to mount a run towards new all-time highs.

Have a good weekend,

Tom

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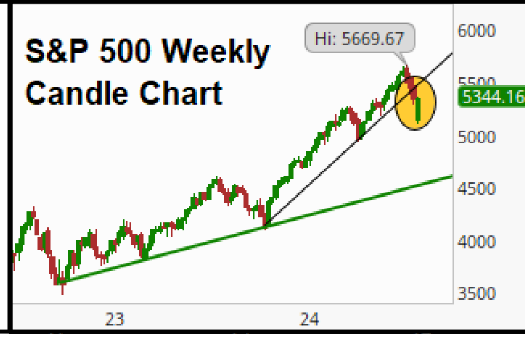
Technical Perspectives (Updated 8/11/2024)

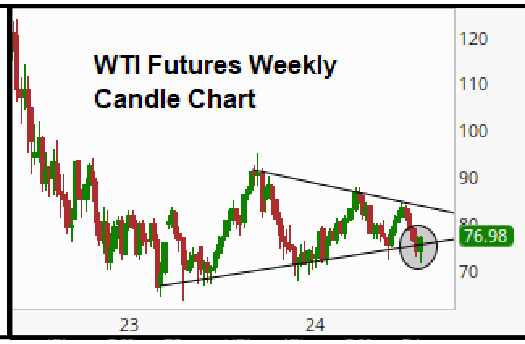
S&P 500

- 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



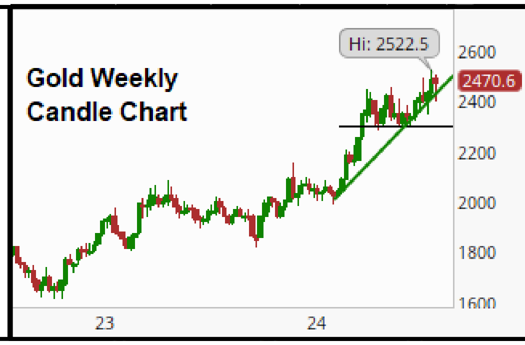
WTI Crude Oil

- 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



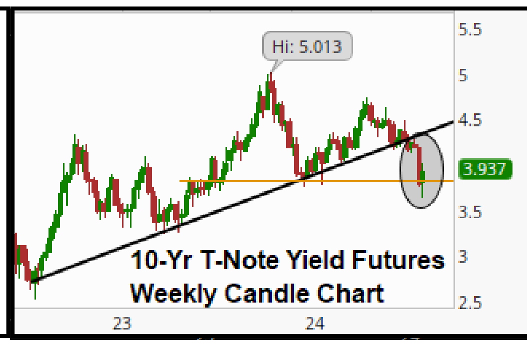
Gold

- 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



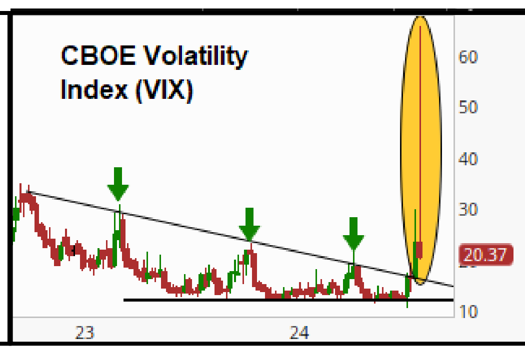
10-Year T-Note Yield Futures

- 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.