SEVENS REPORT

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

August 19, 2024

Pre 7:00 Look

- Futures are little changed following a very quiet weekend of news as investors look ahead to more growth data this week and Powell's speech on Friday.
- There was no notable economic data over the weekend or overnight.
- Geopolitically, optimism is continuing to build towards a ceasefire between Israel and Hamas and that's weighing on oil prices, although nothing formal has been announced.
- Econ Today: Leading Indicators (E: -0.3%). Fed Speak: Waller (9:15 a.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,579.00	0.75	0.01%
U.S. Dollar (DXY)	102.24	-0.22	-0.21%
Gold	2,533.10	4.70	0.19%
WTI	75.72	-0.93	-1.21%
10 Year Yield	3.88%	-0.02	-0.46%

Equities

Market Recap

Stocks extended the robust rebound off the August lows last week, recovering most of the near-10%, peak-to-trough pullback as economic data supported a September start to Fed rate cuts and a soft landing. The S&P 500 surged 3.93% last week and is now up 16.45% YTD.

Trading was very quiet last Monday as there were no notable economic reports or catalysts on the calendar leaving investors to digest the previous week's solid rebound off the early August lows and position into several key economic releases later in the week. The S&P 500 ended perfectly flat on Monday.

After the quiet start, markets came to life in a big way on Tuesday as a cooler-than-expected PPI report sparked broad risk-on money flows that saw stocks gap higher at the open and continue to sprint through resistance at 5,400 into the European close. Comments from the Fed's Bostic did not alter expectations for a September rate cut and reinforced hopes for a soft landing. The S&P 500 rallied 1.68%.

The rally continued on Wednesday but the pace of the gains moderated as the CPI headline was cooler-than-expected like the PPI report but the Core figure was still above 3%, as-expected. With stocks already up nearly 2% on the week, the largely in-line CPI report was already fairly priced in and quiet news wires saw the S&P 500 reclaim 5,450, closing up 0.38%.

Bullish momentum returned to the market Thursday thanks to solid earnings from CSCO (rekindling big-tech bid) and WMT (easing worries about the U.S. consumer) and favorable economic data. Specifically, Retail Sales rebounded much more than expected, underscoring still-healthy consumer spending while weekly jobless claims retreated pointing to a still resilient and healthy labor market. Comments from the Fed's Musalem reiterated a likely September start to rate cuts and a soft economic landing as a "base case." The S&P 500 jumped 1.61%.

Stock futures were modestly lower ahead of the bell Friday as investors digested the rapid rebound after the volatile pullback that hit stocks at the start of August, which saw the S&P 500 fall nearly 10% from record highs. A cool housing starts number and solid Consumer Sentiment Index that carried a solid headline and relatively cool inflation expectations paired with some cautious comments from the Fed's Goolsbee saw stocks extend gains with the S&P 500 ending Friday up 0.20%.

Market	Level	Change	% Change
Dow	40,659.76	96.70	0.24%
TSX	23,054.61	21.89	0.09%
Stoxx 50	4,856.49	15.67	0.33%
FTSE	8,298.56	-12.85	-0.15%
Nikkei	37,388.62	-674.05	-1.77%
Hang Seng	17,569.57	139.41	0.80%
ASX	7,980.45	9.40	0.12%
Prices taken at previous day market close.			

What to Make of This Market

Stocks staged an impressive rebound last week, rallying solidly on Goldilocks economic data and chasing/momentum as the index has now rallied more than 6% off the early August spike lows, retraced 80% of the declines since mid-July, and all of the post-July-jobs report declines.

Market	Level	Change	% Change
DBC	22.21	-.14	-0.63%
Gold	2,541.50	49.10	1.97%
Silver	28.95	.53	1.87%
Copper	4.1545	.0035	0.08%
WTI	76.59	-1.57	-2.01%
Brent	79.60	-1.44	-1.78%
Nat Gas	2.114	-.083	-3.77%
RBOB	2.3084	-.0496	-2.10%
DBA (Grains)	23.88	.14	0.57%
Prices taken at previous day market close.			

So, are stocks signaling an "All Clear" on the technical and economic factors that led to this pullback? In the short term, yes. In the long term, absolutely not.

First, look at what's happened short term. Due to the relentless rally in AI-driven tech and the consistent decline in the yen, institutional investors, always in search of alpha, became very overweight tech and the yen carry trade. Then, two events in mid-July caused a painful unwind of those positions: The better-than-expected U.S. CPI report and the surprise Bank of Japan rate hike. That was the first wave of the pullback.

Then, in early August, the July jobs report was much worse than expected (although not actually bad) and that shattered, momentarily it would seem, investor complacency on the economy (namely that a no/soft landing was inevitable).

Over the past two weeks, we've seen all of these factors partially reversed. First, the yen has declined moderately as Japanese officials "talk down" the yen and the idea of more rate hikes. Second, AI earnings have been a bit better lately. Third, economic data has pushed back against the idea of an imminent economic decline. Those events, combined with chasing from investors who wanted to buy the dip and think they've missed it, has underwritten this bounce in stocks.

The net result is the many of the factors that caused this pullback in stocks have been reversed, at least temporarily, **and as long as economic data stays Goldilocks this week, Powell points to a September rate cut, and we don't get anything hawkish from the Bank of Japan, stocks can extend this rally.**

However, do not confuse the near-term path with longer-term issues that must be considered. First, the Bank of Japan is still doing the opposite of every major central bank in the world, i.e. they are still tightening policy. Yes, the market reaction slapped them back, but it's not over. **BOJ policy will continue to tighten while in the rest of the world, policy is getting easier. That means we should expect more bouts of yen carry trade unwinds, because the yen is still extremely low vs. the dollar and other trading peers and that likely will not be allowed to exist deep into the future (the weak yen is inflationary for the Japanese economy which is what the BOJ is trying to fix).**

Second, U.S. economic data has been better than feared, but those fears were irrational and they are obscuring the fact that the U.S. economy is slowing. The only question is when does it stop? Investors piled into Treasuries and dumped stocks after a disappointing jobs report and "recession" became a buzz word, but as we and others said, that was quasi-ridiculous. None of the economic data out there (and we watch about as much as anyone) is pointing towards a recession. To think that's imminent isn't factually backed. So, the removal of that possibility doesn't actually mean the situation is any better, it's just not as bad as was irrationally feared. **The truth in the data is that U.S. growth is slowing and the only question is by how much. That's usually not a great environment for risk assets (e.g. stocks) over the longer term.**

So, what does this all mean for portfolios? It continues to reinforce our preferred tactical strategy of 1) Maintaining long exposure but 2) Doing so via allocations to sectors and factors with lower volatility because the bounce of the past two weeks hasn't solved any of the issues that caused the pullbacks. That means: USMV/SPLV (or any other minimum/reduced volatility ETF you like) and defensive sectors (XLU/XLP/XLV/XLRE). It also means longer-term bonds (especially higher-quality bonds) like long-term Treasuries and quality corporates.

Bottom line, that strategy has been working for the past several weeks and while investors chasing stocks in the near term may boost performance of cyclicals and high-multiple tech, the fact remains that: 1) Growth is slowing, 2) Earnings growth is facing some pressure, 3) The BOJ is still in a tightening phase while everyone else is cutting. That's an environment for maintaining exposure, but minding volatility. It's worked the past several weeks and we think it will continue to work.

Economics

Last Week

Markets needed Goldilocks data to fuel a further bounce and that's exactly what they got, and the economic data was the main factor in the strong weekly rally. However, while the data did push back against the idea of a dramatic and imminent slowdown in the economy, that expectation was never backed by any actual facts (it was more an emotional fear from investors) and it's important to also note that last week's data wasn't very good, and the trend in is towards slowing growth.

Looking at last week's data, Retail Sales was the most important report and it was stronger than expected, rising 1.0% vs. (E) 0.4%. Additionally, the Control group, which is retail sales less home, autos and building materials, rose 0.3% vs. (E) 0.1%. However, while the aggregate numbers were better than expected, the details were more mixed as the June data was revised lower (to -0.2% from 0.0%) while the composition of the data wasn't great (it was mostly growth in necessities such as auto parts and staples that drove the increase, not "extra cash" type purchases). Still, the data did show consumer spending isn't collapsing and that was the main market positive last week.

Market	Level	Change	% Change
Dollar Index	102.32	-.48	-0.47%
EUR/USD	1.1020	.0048	0.44%
GBP/USD	1.2940	.0085	0.66%
USD/JPY	147.68	-1.60	-1.07%
USD/CAD	1.3689	-.0041	-0.30%
AUD/USD	.6668	.0056	0.85%
USD/BRL	5.4686	-.0152	-0.28%
Bitcoin	59,791.70	2,628.50	4.60%
10 Year Yield	3.892	-.034	-0.87%
30 Year Yield	4.149	-.031	-0.74%
10's-2's	-17 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.57%		
Prices taken at previous day market close.			

Other growth data last week was more mixed but again pushed back on the (unfounded) idea that the economy was dramatically slowing. Jobless claims declined to 227k vs. (E) 234k and it retraced the early August jump. Meanwhile, the first look at August data via the Philly Fed and Empire Manufacturing were mild disappointments. So, growth data was "ok" in an absolute sense but better than feared and that fueled the bounce in stocks.

Also contributing to the rally was an in-line inflation reading that largely guaranteed a rate cut in September (we just don't know if it's going to be 25 or 50 bps). July CPI rose 2.9% vs. (E) 3.0%, dropping below 3.0% for the first time since 2021. Core CPI was a bit hotter at 3.2% but the net takeaway from the data is the Fed has largely "won" the battle with inflation, and going forward, inflation is going to fade as a major market influence. That leaves growth and Fed cuts as the major drivers of stocks and that's the big takeaway from last week.

Bottom line, last week's data showed the U.S. economy isn't falling off a cliff and investors welcomed that message and chased stocks higher, as the imminent growth fears post July jobs report appear unfounded. However, growth is still moderating and the answer to the ultimate question, *how bad does the slowing get?* still hasn't been answered and it's that answer that will determine where markets go from here.

This Week

This week there are two potentially market-moving events: The August Flash PMIs (Thursday) and Fed Chair Powell's Jackson Hole speech (Friday). For this rally to continue, markets will need to see more Goldilocks data and have Powell confirm a rate cut is coming in September (although he won't say whether it's 25 or 50 bps). Looking at the August flash PMIs, this is the first important, national data point for August and it needs to show stability, otherwise we will see fears of a deterioration in the U.S. economy grow. The July number was 54.3 so a reading around that level (and solidly higher than 50) will be welcomed as Goldilocks.

Turning to Powell, several Fed speakers last week directly hinted at a September rate cut and markets fully expect at least a 25-bps cut in September. They also expect Powell to essentially foreshadow that event and if he does (and leaves the door open to 50 bps) that'll be an incremental positive. If he does not, it'll hit markets.

Commodities

Commodities were mixed as metals caught a bid with gold notably grinding to yet another set of new highs while copper held above key support and oil futures ended well off the highs after a failed test of the important $80/barrel level. The commodity ETF, DBC, advanced 1.42% on the week.

Beginning with gold, the cooler-than-expected inflation data released over the course of the week (PPI then CPI both declining on the headline) and not-as-bad-as-feared data on the labor market and consumer spending between the solid Retail Sales report and low jobless claims print rekindled hopes for a soft landing but also supported the case for a September start to the Fed's imminent rate cutting cycle. Gold ended the week up 2.42% at fresh all-time highs well beyond $2,500/oz.

The trend remains bullish for gold, but several technical indicators and gauges of price strength are signaling a loss of momentum in H2'24, which leaves the slowing gold rally susceptible to a more pronounced pullback in the event we see any negative catalysts.

WTI crude oil futures made a run at $80/barrel to start last week but the rally failed and futures rolled over, falling back into the mid-$70s by midweek. While geopolitical tensions sparked the early week rally, there were no major escalations and cautious industry reports from both the IEA (monthly) and EIA (weekly) poured some cold water on the oil futures market.

The favorable economic data over the course of the week that supported both rate cuts beginning next month and a soft landing being achieved in the months ahead helped oil stabilize on a less-worrisome demand outlook with futures gaining 1.82% on the week. However, the threat of recession continues to simmer and slower growth will likely keep a lid on any rallies in oil.

Currencies & Bonds

The decline in inflation making a September rate cut all but guaranteed and Goldilocks economic data (good but not great) weighed on the dollar and Treasury yields last week. The Dollar Index fell 0.41% while the 10-year yield dipped 5 basis points.

Currency and bond movements absolutely helped stocks rally last week as the declines in the dollar and Treasury yields were modest and provided the "orderly" currency and bond markets stocks need to move higher. Additionally, the Japanese yen, which is still one of the most important global assets impacting markets, did what investors want it to do: It declined.

The yen fell 0.83% and that helped to further ease pressure off the yen carry trade, also allowing stocks to lift. Looking elsewhere internationally, the euro rose 0.75% while the pound gained 1.1% as economic data overseas was generally "fine." The solidified expectations for a September rate cut of at least 25 bps (possibly 50 bps) are what boosted the euro and pound.

In Treasuries, the 10-year yield dipped 5 basis points but it continued to largely digest the steep losses of two and three weeks ago and that's what it needs to continue to do to let stocks rally. At around 3.90%, the 10-year yield is signaling slower growth ahead, but it's not a loud enough (or strong enough) warning to spook markets, at least not yet. The 10s-2s yield spread, meanwhile, declined to -17 basis points although it's reasonable to expect that it will turn positive in the coming weeks (and that's historically a bad signal for stocks).

Looking forward, the key for stocks to hold these gains will be stability in the currency and bond markets, so the Dollar Index hovering around 102-103 and the 10-year Treasury yield around 3.90%-4.00%. Steep declines in either will increase economic concerns (and likely undo much of the recent bounce in stocks) while spikes in either will mean no Fed rate cuts (which investors desperately want). Stability remains the key for currencies and bonds to support a continued rally in stocks.

Have a good week,

Tom

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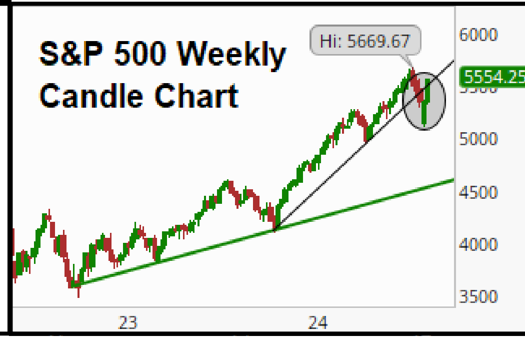
Technical Perspectives (Updated 8/18/2024)

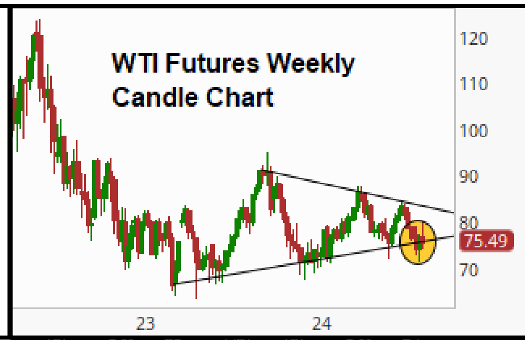
S&P 500

- Technical View: **The medium-term trend in the S&P 500 is poised to shift back to bullish from neutral** if the rebound off the August lows produces new record highs.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5588, 5644, 5670
- Key Support Levels: 5455, 5352, 5186



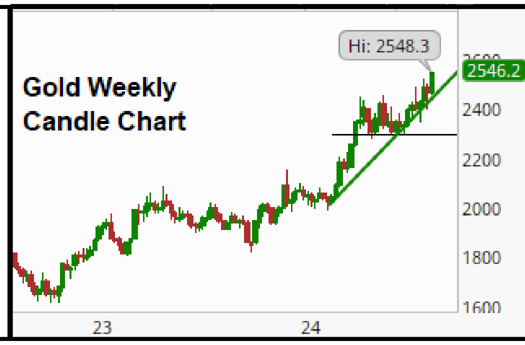
WTI Crude Oil

- Technical View: The price action in the oil market has become heavy late in the summer as the uptrend off the early 2023 lows continues to be tested.
- Primary Trend: **Neutral (since the week of July 15, 2024)**
- Key Resistance Levels: $77.22, $78.66, $79.66
- Key Support Levels: $74.52, $73.86, $72.96



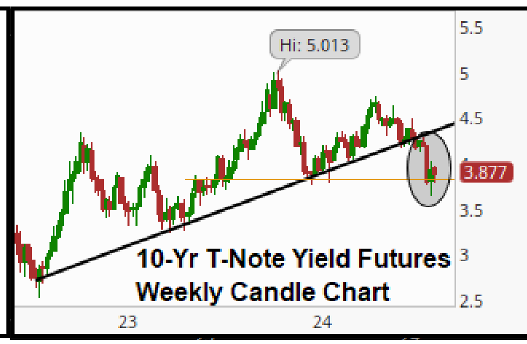
Gold

- Technical View: Gold hit new record highs in 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: $2548, $2580, $2600
- Key Support Levels: $2495, $2424, $2398



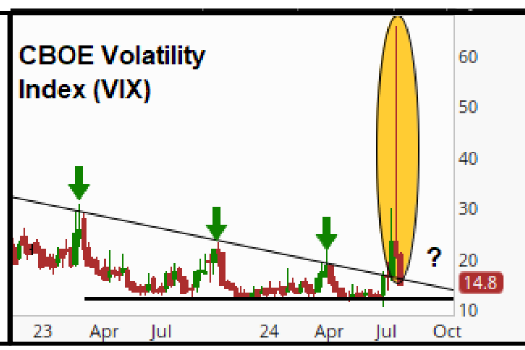
10-Year T-Note Yield Futures

- 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: 3.990, 4.023, 4.156
- Key Support Levels: 3.832, 3.775, 3.657



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: 16.19, 18.12, 20.06
- Key Support Levels: 14.72, 13.85, 12.92



SEVENS REPORT

Fundamental Market View
(Updated 8/18/2024)

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 rallied hard last week as Goldilocks economic data pushed back against growth concerns while the in-line CPI gave the Fed a green light for a rate cut in September.*

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 mostly higher last week as global economic data supported the case for a Fed rate cut next month and shored up the outlook for a soft economic landing. Gold outperformed amid increasingly dovish money flows while prospects of slowing growth even in a soft landing scenario are negative for demand expectations.*
US Dollar	**Neutral**	*The Dollar Index declined modestly last week on the Goldilocks economic data, which, combined with the CPI report, made a September rate cut all but guaranteed.*
Treasuries	**Turning Positive**	*Treasury yields declined slightly last week on the benign CPI report and Goldilocks economic data as yields continue to largely consolidate the declines of the past month (and this recent stability has been positive for markets).*

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.