SEVENS REPORT

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

August 2, 2024

Pre 7:00 Look

- Futures are sharply lower and are extending Thursday's losses following more disappointing tech earnings and as worries about economic growth grow.
- Tech earnings disappointed last night as AMZN (down 8%), MCHP (down 5%) and INTC (down 20%, not a typo) all posted disappointing earnings or guidance.
- Geo-politically, concerns are rising about a direct Israel/Iran conflict and that's boosting oil prices.
- Econ Today: Employment Situation Report (E: 180K Job-Adds, 4.1% Unemployment Rate, 3.7% y/y Wage Growth).

Market	Level	Change	% Change
S&P 500 Futures	5,420.25	-60.00	-1.09%
U.S. Dollar (DXY)	104.13	-0.29	-0.27%
Gold	2,508.20	27.90	1.12%
WTI	76.44	0.13	0.17%
10 Year Yield	3.94%	-0.04	-0.91%

Equities

Market Recap

Stocks were volatile yesterday as an initial gap higher at the open thanks to solid big-cap tech earnings gave way to heavy selling pressure midmorning as U.S. economic data disappointed, which increased slowdown worries. The S&P 500 dropped a sharp 1.37% on the day.

Stocks caught a bid at the open thanks to solid earnings and guidance from Mag 7 member META from after the close on Wednesday, which were bolstered by good quarterly results from QCOM. The early gains were short-lived, however, as a weak ISM report hit the wires at the top of the 10 a.m. hour. The contractionary ISM data followed a rise in both Initial and Continuing Jobless Claims, which saw rates traders add to bets in favor of three rate cuts before year-end. This time around, "bad economic news was not good news for markets" and equities rolled over as the weak economic data stoked recession worries after Fed Chair Powell noted that risks to growth were becoming more of a focus for the FOMC.

The S&P 500 gave back all of Wednesday's gains in a steady selloff that lasted most of the day before the index filled a technical gap back to Tuesday's close and stabilized at recently established support between 5,400 and 5,425, a level the market has tested repeatedly over the last week. There was a modest bounce back into the close amid dip buyers nibbling and shorts covering into the close as focus turned to today's jobs report.

Trading Color

Weakness was broad across the major averages as the Dow was the relative outperformer, falling just 1.2%. The Nasdaq 100 dropped 2.4% and the Russell 2000 collapsed 3%.

On a sector level, defensives shined as economic growth concerns drove trading. Five of the 11 sector SPDRs were higher on the day and four of the five were defensive/income oriented. Utilities (XLU) gained 1.8%, Real Estate (XLRE) rose 1.6% and Healthcare and Consumer Staples (XLV/XLP) rose 1% each. Communications (XLC) gained 0.4% thanks mostly to good META earnings.

Laggards were cyclical sectors and tech as investors continued to rotate out of tech and into other parts of the market. XLK fell 3.7% ahead of AAPL and AMZN earnings while Energy, Consumer Discretionary, Industrials and Financials all fell 1% as clearly investors positioned for potentially slowing growth.

Market	Level	Change	% Change
Dow	40,347.97	-494.82	-1.21%
TSX	22,723.21	387.60	-1.68%
Stoxx 50	4,680.63	-85.09	-1.79%
FTSE	8,233.79	-49.57	-0.60%
Nikkei	35,909.70	-2,216.63	-5.81%
Hang Seng	16,945.51	-359.45	-2.08%
ASX	7,943.24	-171.43	-2.11%
Prices taken at previous day market close.			

Updated Jobs Report Preview

Market	Level	Change	% Change
DBC	22.31	-.27	-1.20%
Gold	2,484.40	11.40	0.46%
Silver	28.50	-.43	-1.50%
Copper	4.0650	-.1115	-2.67%
WTI	76.61	-1.30	-1.67%
Brent	79.80	-1.04	-1.29%
Nat Gas	1.975	-.061	-2.99%
RBOB	2.4072	-.0353	-1.44%
DBA (Grains)	23.25	-.49	-2.04%
Prices taken at previous day market close.			

The events of the past 48 hours in the market (Fed pointing to a September rate cut and Thursday's bad economic data popping growth worries) have changed the outlook for this jobs report and the net impact is this: The market will be less sensitive to a really strong number (so a "Too Hot" number won't be so bad for stocks because it'll reinforce that growth is "ok") while a soft or weak number will elicit more selling (so investors will be more sensitive to any part of the jobs report that implies the economy is slowing). Here's what that looks like from a range standpoint (slight changes from Wednesday).

"Too Hot" (A September Rate Cut Becomes In Doubt) **> 250k Jobs Adds (previous >225k) UE Rate <4.0%, Wages >4.0% yoy.** A number this strong would push back on expectations for a September rate cut. Importantly, it wouldn't make a September cut unlikely but it would make it substantially less likely. *Likely Market Reaction:* Given the pop in growth anxiety yesterday and growth driven sell-off, a number this strong would provide some relief and as such I do not think stocks would drop hard, even if rate cut expectations were dialed back. Stocks should enjoy a relief rally led by cyclical sectors while Treasury yields should bounce hard (close to 15 bps). The Dollar Index should rally moderately (more than 0.50%) as investors breathe a sigh of relief on growth.

"Just Right" (Expectations for a September Rate Cut Stay at 110% and Growth Concerns Ease) **100k-250k Job adds (previously 50k-225k), UE Rate ≤4.1%, Wages: ≤ 4.2%.** Given yesterday's selling a job adds number of 150k or higher would cause relief amongst investors that the Fed will cut and growth is still solid and a strong relief rally in stocks should ensure, led by cyclical sectors. I'd expect Treasury yields to rise moderately (10 basis points or more) while the Dollar Index should also rally, but not materially. Gold and other commodities could see some mild selling but it should not be substantial. A number between 150k-175k is likely the best-case scenario.

"Too Cold" (Hard Landing Concerns Grow) **UE Rate ≥ 4.2% y/y, Job Adds <100k Job adds (previously <50k).** A number this low would solidify that a September rate cut is coming, but it will just add to yesterday's growth anxiety and likely cause another round of selling in stocks, as defensive sectors (utilities, staples, healthcare, mega-cap tech) relatively outperform while cyclical sectors lag. Treasury yields should drop further (another 5-10-bps decline in the 10-year Treasury shouldn't be a shock) while the Dollar Index should also fall below 94.00 (closed yesterday at 104.40). Gold should be the biggest winner in this scenario (gold hit an new all-time high yesterday and I'd expect that rally to continue).

Economics

ISM Manufacturing Index

- The July ISM Manufacturing PMI declined to 46.8 vs. (E) 48.8.

Bad economic data was bad on Thursday as the July manufacturing PMI dropped to the lowest level since August 2023 and spiked growth worries, which weighed on stocks broadly. What made this report so bad was that the details were as ugly as the headline.

The forward-looking New Orders index fell 1.9 points to a contractionary 47.4, its fourth consecutive month below 50 while Production fell 2.6 points to 45.9. The Employment index, however, was one of the most notable decliners, falling 5.9 points to a dismal 43.4 in July. That's the lowest level since June 2020 (height of the pandemic).

Bottom line, yesterday's ISM report was an outright bad report. Given the recent decline in inflation towards the Fed's 2% target, we had been in a "bad economic news is good news for markets" mode, as weak growth numbers served to bolster the case for sooner-than-later Fed rate cuts. However, after the Fed explicitly noted that risks to economic growth are becoming more prominent at this week's Fed meeting, bad economic news was bad news for markets as recession concerns are back.

Jobless Claims and Productivity & Costs Report

- Initial Jobless Claims rose to 249K vs. (E) 236K
- Continuing Claims rose to 1.877M from 1.844M
- Unit Labor Costs fell to 0.9% vs. (E) 1.9%

After a soft ADP print on Wednesday, jobs week continued with jobless claims data and the Q2 Productivity and Costs report, both of which pointed to more weakness emerging in the labor market but also evidence of easing wage inflation which add support to the case for a September rate cut.

Beginning with jobless claims, initial claims for unemployment, one of the best high-frequency looks at the health of the labor market, jumped 14K to 249K last week, the highest since the first week of August last year. Continuing claims, which offer a proxy for the unemployment rate, rose to a fresh three-year high of 1.877 million, up from 1.844 million the prior week, the highest since November 2021. Both claims figures point to a weakening labor market in H2'24.

Looking to the Productivity and Costs data, the labor force became increasingly efficient in the second quarter as Unit Labor Costs notably dropped nearly 3% to just 0.9%, which is important because wage growth typically leads broader inflation in the economy, and if it is moderating, it supports the view that inflation has peaked and is on its way to the Fed's 2% target. The Productivity figure, meanwhile, rose from 0.4% to 2.3%, a larger gain than the expected rise to 1.6%. The rise in productivity helped ease some of the recent worries about economic growth and also points to better corporate profitability as the workforce became more efficient in the second quarter.

Market	Level	Change	% Change
Dollar Index	104.18	.32	0.31%
EUR/USD	1.0791	-.0035	-0.32%
GBP/USD	1.2740	-.0116	-0.90%
USD/JPY	149.58	-.40	-0.27%
USD/CAD	1.3876	.0068	0.49%
AUD/USD	.6499	-.0043	-0.66%
USD/BRL	5.7370	.0865	1.53%
Bitcoin	63,238.63	-2,422.40	-3.68%
10 Year Yield	3.976	-.133	-3.24%
30 Year Yield	4.271	-.098	-2.24%
10's-2's	-19 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.64%		
Prices taken at previous day market close.			

With the official BLS report coming into focus this morning, labor market data so far this week has been consistent with a cooling labor market, which has helped solidify expectations of a September start to the Fed's widely anticipated rate-cutting cycle as well as bolstered the odds that the Fed cuts three times before year-end. Today's market risks related to the BLS report are two-fold, as the path to a soft landing is becoming increasingly narrow, but it is importantly still the consensus among investors right now. A jobs number too hot that challenges the case for an initial rate cut in September could spark volatility, as could a number that is too weak and suggests recession risks are not properly priced into the market at current levels.

Commodities

Commodities traded with a clear risk-off tone after the latest economic data spurred a significant rise in recession worries. Copper led the way lower as oil relatively outperformed thanks to a fresh geopolitical fear bid in the market, which limited losses, while gold bucked the trend and hit new all-time highs. The commodity ETF, DBC, dropped 1.20%.

Beginning with the metals, industrials were very heavy yesterday with copper rolling over hard in late-morning trade to end the day down 2.77% at a new multi-month closing low, just above critical support at $4.00. The copper market first came for sale overnight in the wake of the Final Eurozone Manufacturing PMI release, which was more-or-less in line with estimates but notably deep into contraction territory in the mid-40s.

Industrial metals stabilized into the beginning of the U.S. session but the weak U.S. ISM manufacturing report released shortly after the bell sent copper futures sliding to new session lows into key intermediate-term support between $4.03 and $4.10. On the daily chart, copper did not make new intraday lows yesterday but futures did close at a multi-month low, which is bearish for the near-term outlook for industrial metals, risk assets more broadly, and the economy itself as well. Equity bulls will want to see copper stabilize here and hold the $4.00 area, otherwise more weakness is all but a certainty in the stock market.

Gold futures surpassed $2,500/oz. for the first time ever as a surge in bond yields thanks to the weak ISM report and other soft economic data in the U.S. offset a slightly firmer dollar. Gold futures dropped back below the $2,500 mark into the close but still notched a gain of 0.56%. As we have continued to say recently, the new highs are inherently bullish for gold as traders price in likely Fed rate cuts beginning in September and a falling real yield environment in the months ahead. The volatility in stocks also prompted a flight-to-safety trade, which benefited gold. If the volatility keeps up, expect there to remain a bid in precious metals.

Rounding things out with the energy market, oil futures dropped 1.08%, relatively outperforming the rest of the complex thanks to a lingering geopolitical fear bid stemming from the escalated tensions between Israel and Iran in recent days, which helped offset some of the recession worries triggered by the weak economic data released around the globe.

On the charts, WTI futures revisited recent support at $76.50, which is now acting as a "pivot point" for the market as futures oscillate in the mid-$70/barrel range. The $75/barrel mark is offering initial support while $78.50 is key near-term resistance to watch given the uptick in geopolitical tensions.

Looking ahead, the oil market managed to avoid breaking down meaningfully through support in the lower $70s this week, which leaves the technical outlook neutral. However, recession risks are a building headwind on the broader space and if we see the recent geopolitical tensions ease, expect another test of support at $75.

Currencies & Bonds

After several weeks of generally sleepy trade in the global currency and bond markets, volatility has returned and that continued Thursday as the dollar rallied despite bad economic data while the 10-year Treasury yield fell to the lowest level since February, below 4.00%.

Starting with the 10-year Treasury yield, it plunged 12 basis points and dropped below 4.00% for the first time since February and the reason was crystal clear: Bad economic data. The pop in jobless claims, and especially, the ugly ISM Manufacturing PMI, weighed on longer-dated bonds as it caused an uptick in anxiety about economic growth. And as we and others have been saying, that bad economic data pushed Treasury yields lower but it was not a positive for stocks, as a 10-year yield below 4% reflects small (but growing) growth worries and the closer the 10-year yield gets to 3.75% (and below) the more of a negative falling yields will be for risk assets.

At these levels and below, sharply falling yields are not a positive for stocks anymore and the best outcome for yields (from a stock standpoint) is for them to stabilize on better data in the low-4% range, a level that implies slowing, but not collapsing, growth.

Turning to the dollar, it rallied on Thursday despite bad U.S. economic data as the dollar continues to be driven by moves from foreign central banks. Earlier this week, a surprise BOJ rate hike pushed the dollar lower despite the lack of any negative news. Then yesterday, the Bank of England cut rates 25 basis points in a close decision (5-4 for a cut) and that, in turn, pushed the pound lower by 1% as the BOE embarks on its own rate cut cycle (the next cut is expected in November).

That dollar weakness boosted the dollar despite the bad U.S. data and that underscores why it's going to be difficult for the Dollar Index to break down out of the current 103-106 range, because while U.S. data may be turning south and the Fed may be getting ready to cut rates, so too are the BOE and ECB, which will mitigate the dollar declines.

Bottom line, despite soft data and the Fed pointing towards a September rate cut, the dollar remains comfortably in the 103-106 trading range and that will keep the dollar neutral with regards to stocks (so not a positive, but not a negative, either).

Have a good weekend,

Tom

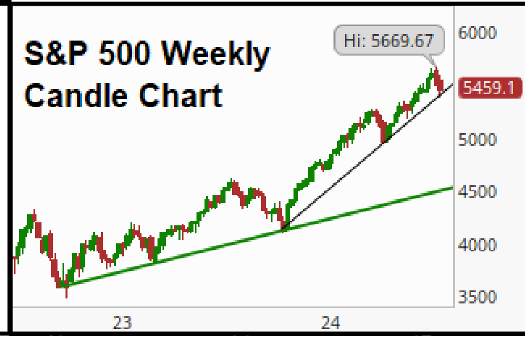
8/2/2024

SEVENS REPORT

Technical Perspectives (Updated 7/28/2024)

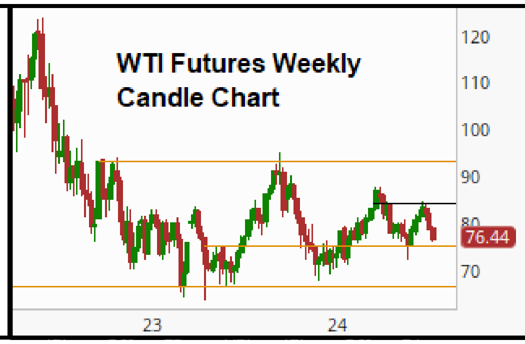
S&P 500

- Technical View: **The medium-term trend in the S&P 500 remains bullish** as stocks have consistently rallied to fresh record highs in mid-2024.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5556, 5610, 5667
- Key Support Levels: 5429, 5375, 5291



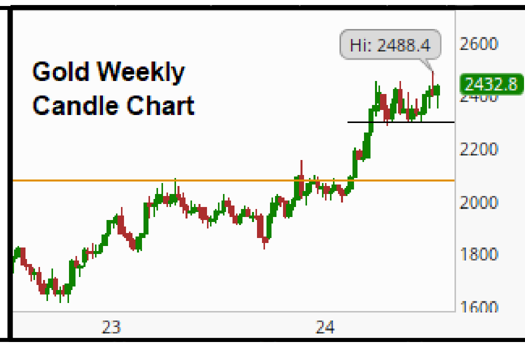
WTI Crude Oil

- Technical View: The trend in oil has turned sideways since late 2023 with futures in an increasingly tight and compressing trading range.
- Primary Trend: **Neutral (since the week of July 15, 2024)**
- Key Resistance Levels: $78.60, $80.22, $83.10
- Key Support Levels: $76.04, $75.67, $74.02



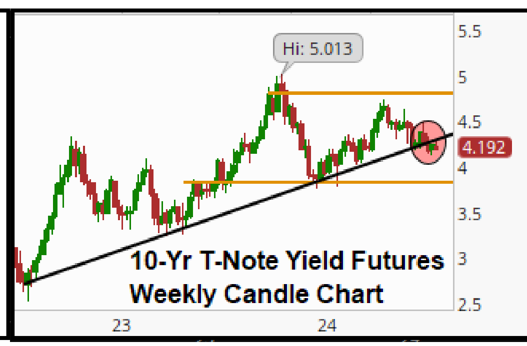
Gold

- Technical View: Gold hit new record highs in mid-July 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: $2448, $2474, $2488
- Key Support Levels: $2363, $2339, $2310



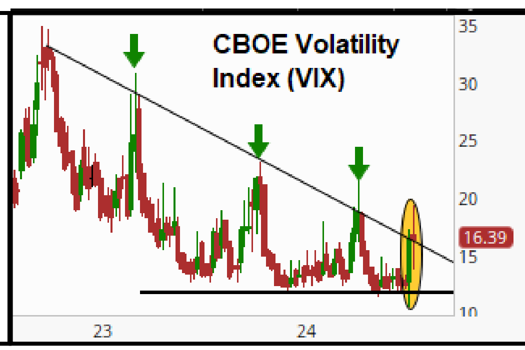
10-Year T-Note Yield Futures

- Technical View: The 10-year yield violated a multi-year uptrend line in mid-July, a step towards a shift in trend from bullish to neutral with the late-2023 lows in focus.
- Primary Trend: **Bullish (since the week of August 21, 2023)**
- Key Resistance Levels: 4.284, 4.358, 4.454
- Key Support Levels: 4.157, 4.088, 3.935



CBOE Volatility Index (VIX)

- Technical View: The VIX spiked higher in mid-July to test a longstanding downtrend line dating back to late 2022. A break above would be bullish for the VIX.
- Primary Trend: **Neutral (since the week of May 6, 2024)**
- Key Resistance Levels: 17.97, 18.46, 19.23
- Key Support Levels: 15.40, 14.72, 13.85



SEVENS REPORT	**Fundamental Market View (Updated 7/28/2024)**

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 dropped again last week and the Nasdaq suffered its worst day since 2022 as disappointing earnings offset more Goldilocks data, while the rotation out of tech became extreme, pulling down the major averages.*

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 traded with a risk-off tone last week as growth concerns weighed on oil and industrial metals while gold bucked the heavy trend and posted a weekly gain. Continued risk-off money flows with industrial metals and oil declining and gold rallying will bolster macroeconomic worries in H2'24.*
US Dollar	**Neutral**	*The Dollar Index was little changed last week as none of the economic data altered the outlook for Fed, ECB or BOE rate cuts (still expected in September).*
Treasuries	**Turning Positive**	*The biggest move in the Treasury market was the steepening of the yield curve, as 10s-2s rose to the highest level in two years and is getting closer to turning positive, a historically ominous development for stocks. The 10s-2s yield spread ended the week at -16 bps.*

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.