SEVENS REPORT

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

August 20, 2024

Pre 7:00 Look

- Futures are slightly higher on better than feared tech earnings and more global central bank rate cuts.
- Palo Alto Networks (PANW) posted solid guidance and that, along with CSCO results last week, is helping to bolster the outlook for tech and that's supporting futures.
- Sweden's Riksbank (their central bank) cut rates 25 bps, as expected, and that reminded investors we are in the midst of a global rate cutting campaign (which is a positive).
- Econ Today: No reports today. Fed Speak: Bostic (1:35 p.m. ET), Barr (2:45 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,635.25	5.50	0.10%
U.S. Dollar (DXY)	101.81	-0.07	-0.07%
Gold	2,560.80	19.50	0.76%
WTI	74.42	0.05	0.07%
10 Year Yield	3.88%	0.01	0.31%

Equities

Market Recap

The methodical rally off the early August lows continued in straight-line fashion to start the new trading week yesterday, thanks to a combination of bullish momentum, speculative shorts getting squeezed, and traders chasing the relentless rally. The S&P 500 added 0.97%.

Market-moving news flow was slow to start the week as there were no major economic reports overseas and just two lesser-followed and largely ignored data points domestically between the modest +1.3% rise in E-Commerce Retail Sales (E: +1.6%) and the Leading Indicators Index, which fell -0.6% vs. (E) -0.3% in July.

Semiconductor stocks tend to lead the S&P 500 and also have a habit of peaking before the S&P 500. As such, it is worth noting that the S&P 500 is back within 1% of its record highs while the SOX is still 10% below its own ATH.

The market barely skipped a beat when the pair of reports were released at the top of the 10 a.m. hour and a melt-up rally carried the S&P 500 from the derivatives-sensitive strike price of 5,550, where the market opened, to the next major strike of 5,600 by the close. Yesterday's daily gain marked the eighth consecutive rally in the broader U.S. stock market, the best winning streak for 2024, bringing the S&P 500 back to within about 1% of the mid-July record closing high.

Why Powell May Not Be the Most Important Central Banker This Week

What if I told you Fed Chair Powell may not be the most important central bank speaker on Friday?

I say that because hours before Powell will make his speech in Jackson Hole (a speech where he's expected to express openness to a September rate cut), Bank of Japan Governor Ueda will speak before the Japanese Diet

Market	Level	Change	% Change
Dow	40,896.53	236.77	0.56%
TSX	23,116.39	61.78	0.27%
Stoxx 50	4,874.51	3.10	0.06%
FTSE	8,300.86	-56.08	-0.67%
Nikkei	38,062.92	674.30	1.80%
Hang Seng	17,511.08	-58.49	-0.33%
ASX	7,997.73	17.29	0.22%

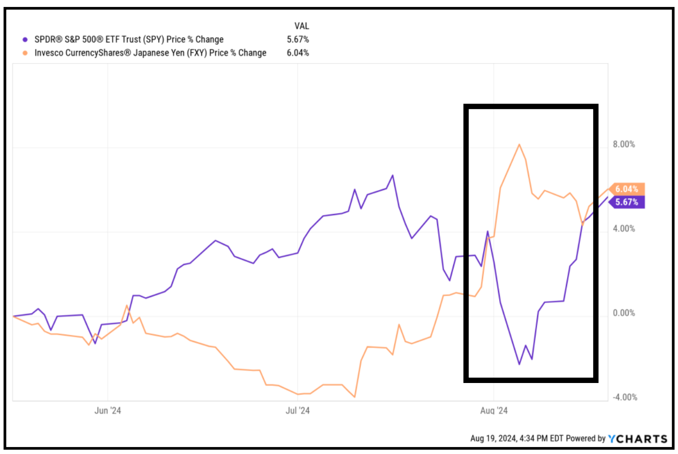
Prices taken at previous day market close.

(their Parliament) and as we saw in late July and early August, if he's more hawkish than expected it could cause global market volatility.

Market	Level	Change	% Change
DBC	22.09	-.12	-0.54%
Gold	2,543.60	5.80	0.22%
Silver	29.39	.51	1.77%
Copper	4.1895	.0460	1.11%
WTI	74.37	-2.28	-2.97%
Brent	77.63	-2.05	-2.57%
Nat Gas	2.230	.107	5.04%
RBOB	2.2645	-.0457	-1.97%
DBA (Grains)	24.26	.41	1.72%
Prices taken at previous day market close.			

This, as you've likely guessed, all comes back to the yen carry trade. Put simply, as long as the yen weakens vs. the dollar, the carry trade is "on" and it's good for risk assets (i.e. stocks). Conversely, when the yen strengthens, the yen carry trade is at risk of coming "off" and that will cause global market volatility by forcing sales of leveraged long trades that are funded by the carry trade. The real-world example of this can be seen over the past month.

On July 31, the BOJ surprised markets and hiked rates and warned of future hikes. From July 31 to August 5, the yen strengthened vs. the dollar from about 152 vs. the dollar on 7/31 to a low of almost 141 vs. the dollar on 8/5. That's a nearly 10% move in six trading days.



Yen/S&P 500: When the yen (yellow) spiked higher the S&P 500 (purple) dropped sharply and when the yen backed off, stocks bounced. For this rally to continue, we need to see a consistently weaker yen.

Now, currencies are not nearly as volatile as stocks and bonds. For a currency to move 1% in a day, something majorly surprising must happen. The yen plunging nearly 10% in six trading days is akin to the S&P 500 falling 20% or more in the same time frame. Point being, it's just a massive move, and that spike in yen caused the yen carry trade to come "off" in a big way and stocks suffered. The S&P 500 dropped nearly 10% during those days (from 5,550-ish to 5,150ish).

Then, on August 6, the BOJ trotted out Deputy Governor Uchida, who said the BOJ wasn't planning on raising rates anytime soon and pushed back against a hawkish bias. Since August 6, the yen has weakened more than 5% vs. the dollar (from around 141.70 to 149.50-ish and that weakening has supported stocks as the yen carry trade went back on). Since August 6, the S&P 500 has risen from about 5,200 to just under 5,600 (about 8%).

Here's the point: The yen matters to this market. Arguably, it was the biggest cause of that spike lower and the biggest reason stocks bounced. Yesterday, the yen strengthened 0.7% vs. the dollar, the biggest move higher in over two weeks. Most of that was driven by pre-Ueda hedging (covering shorts in case he's hawkish). If he is hawkish on Friday, look for the yen carry trade to come back "off" and stocks to get hit, almost regardless of what Powell says (unless he says 50 bps is possible—which is very unlikely).

Bottom line, stocks have stabilized but it's entirely possible this is a bounce in a still-volatile market. And the yen is one of those influences that caused the recent volatility. **We will be watching the yen closely and if it looks like it's starting to strengthen again, we will let you know because that means volatility will likely return to stocks.**

Economics

Leading Indicators

- July Leading Indicators declined -0.6% vs. (E) -0.3%.

Takeaway

Leading indicators is a composite of other economic readings (many of which we follow here) and the message has been consistent for months: U.S. economic growth should slow in the coming months. Leading indicators declined more than expected and that marked the four straight month of a negative reading. Importantly, Leading Indicators isn't giving a blaring recession signal like it was earlier in the year (that signal proved to be premature or inaccurate) but it is signaling consistent slowing growth.

From a market reaction standpoint, stocks and bonds mostly ignored it because this isn't typically a market-moving release. But I did want to bring it up because with the S&P 500 back above 4,600, the market is no longer pricing in any sort of significant economic slowdown. Yet, Leading Indicators, like most other economic metrics, is pointing towards slowing growth. That discrepancy will not last forever.

Commodities

Commodities were split to start the week as the prospects for easing geopolitical tensions in the Middle East saw oil prices roll over relatively hard while a weaker dollar supported gains in the metals. The commodity ETF, DBC, fell 0.54%.

Gold rallied on to new record highs with a gain of 0.21% as short-duration Treasuries were little changed on the day with the 2-Yr yield holding close to the 4% mark while a weaker dollar supported a continued rally to new record highs in the mid $2,500s. The outlook for gold has not changed much all year as multiple uptrends across time frames are very well in place despite a loss of upside momentum early in Q2 saw the pace of the gold rally slow. Within commodities, gold trading at all-time highs leaves the yellow metal the preferred designation for long commodity exposure right now.

Elsewhere in metals, industrial varieties outperformed with copper rising 1.12%. Most of the gains occurred overnight, likely on firming expectations for central bank accommodation because economic data has recently been trending in an unfavorable direction overseas.

Once the U.S. session began, copper turned sideways, holding overnight gains amid risk-on money flows in equity markets as the stock market rebound carried the major indexes back towards the July records. On the daily chart, copper futures remain in a well-defined downtrend off the May records but prices are lining up to test downtrend resistance as it is set to fall towards $4.20 by the end of the week and futures settled yesterday at $4.19.

Rounding things out with the energy complex, WTI crude oil futures dropped a hefty 2.49% to start the week, settling towards multi-month lows with a $73/barrel handle. Comments from U.S. Secretary of State Blinken that the current efforts to secure a ceasefire between Israel and Hamas were the "best and maybe the last opportunity" to get a deal done. A ceasefire agreement would remove the already less-pronounced geopolitical fear bid that has been in the oil market for months now.

Looking ahead, geopolitics are likely to remain an influence on energy markets as a ceasefire deal with Hamas does not guarantee fully reduced tensions between Israel and other regional adversaries including Hezbollah, as well as other regional proxy groups backed by Iran.

Additionally, the Russia/Ukraine war is still ongoing and Ukraine continues to target Russian oil assets, which will be another source of geopolitical uncertainty going forward. Finally, on the economic front, better-than-feared growth and consumer spending data recently has been helpful to oil prices stabilizing, but if that welcomed trend of pleasant surprises does not continue in the U.S., expect WTI to retest key support in the low $70s that has underpinned the American oil benchmark all year.

Overseas economic data has not been so helpful for oil as fading demand metrics out of China have been weighing heavily on global benchmarks in recent weeks. Better Chinese data would be another welcomed development for oil.

Market	Level	Change	% Change
Dollar Index	101.72	-.58	-0.57%
EUR/USD	1.1085	.0058	0.53%
GBP/USD	1.2992	.0048	0.37%
USD/JPY	146.59	-1.04	-0.70%
USD/CAD	1.3639	-.0041	-0.30%
AUD/USD	.6730	.0061	0.91%
USD/BRL	5.4100	-.0626	-1.14%
Bitcoin	58,955.11	-751.53	-1.25%
10 Year Yield	3.867	-.025	-0.64%
30 Year Yield	4.115	-.034	-0.82%
10's-2's	-20 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.58%		
Prices taken at previous day market close.			

Currencies & Bonds

Dovish Fed speak and disappointing economic data pushed the dollar moderately lower and weighed slightly on yields. The Dollar Index fell 0.5% and broke below 102 for the first time since late 2023. Put differently, the Dollar Index made a new 2024 low yesterday. There were two main reasons for this new low in the dollar.

First, Leading Indicators, the only economic report out yesterday, declined more than expected and logged the fourth consecutive month of declines. That's not a major economic number and it won't materially raise recession fears, but absent any other news yesterday, it was noted by markets.

Second, and more importantly, the list of Fed officials that are openly discussing a rate cut in September is getting longer and while a rate cut is all but guaranteed in September, this constant reinforcement is helping stocks rally amidst otherwise quiet news flow. Specifically, Fed officials Daly, Goolsbee and Kashkari all expressed openness to cutting rates in September and that only increased expectations that Powell will do the same on Friday. Those dovish tones were the main reason the dollar dropped moderately on Monday and why it hit a new low for 2024.

Bottom line, markets are once again aggressively pricing in rate cut expectations. It is likely the Fed cuts rates in September, however, it's not yet likely that is the start of an aggressive rate cutting program (unless growth suddenly slows). With the dollar dropping below 102 and moving towards 100, that's what's starting to be priced in. This matters because the market is going to become vulnerable to Fed disappointment again if this keeps going, not because the Fed won't cut in September (they will) but instead because it may be much more gradual after that than investors are currently expecting.

Looking internationally (excluding the yen), dollar strength weighed on the euro and the pound, both of which rose about 0.5% (the dollar weakness was the main driver of those rallied). Bottom line, markets are again aggressively pricing in Fed rate cuts (not just in September but also the start of an aggressive cutting cycle) and while that may turn out to be accurate, it's hard to envision that without substantial economic weakness (gradual rate cuts remain the best-case scenario for stocks).

Turning to Treasuries, the 10-year yield fell 3 basis points as the Fed speak and Leading Indicators didn't alter the outlook for growth while the dovish Fed speak didn't materially alter what the bond market expects (the bond market has been pricing in aggressive Fed rate cuts and we know that because the 2-year yield (which is the market's proxy for expected fed funds) is nearly 140 basis points below the current fed funds rate.

Bottom line, the 10-year yield continues to meander around the 3.90% range and that stabilization is helping markets continue to rally (and the longer that stability lasts, the better).

Have a good day,

Tom

8/20/2024

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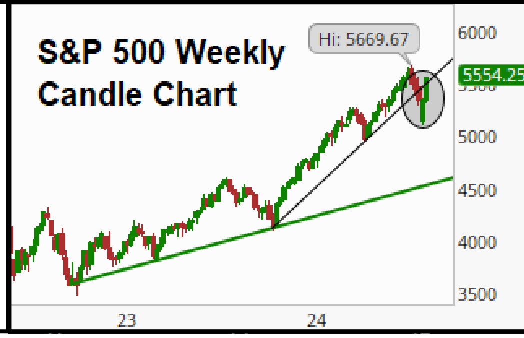
Technical Perspectives (Updated 8/18/2024)

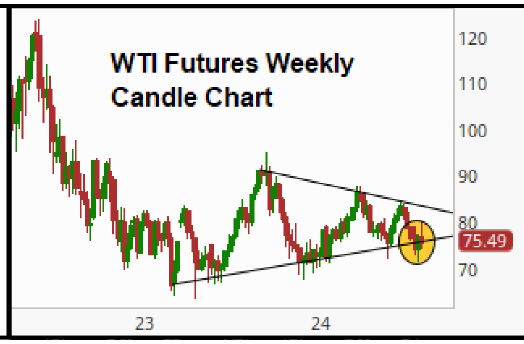
S&P 500

- 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



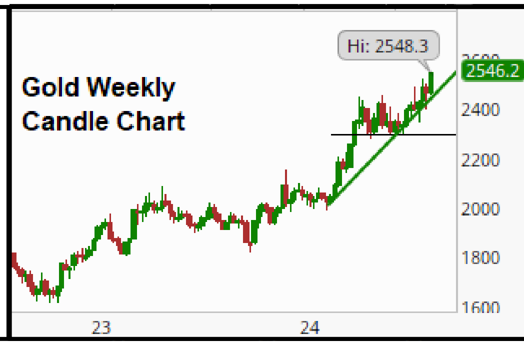
WTI Crude Oil

- 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



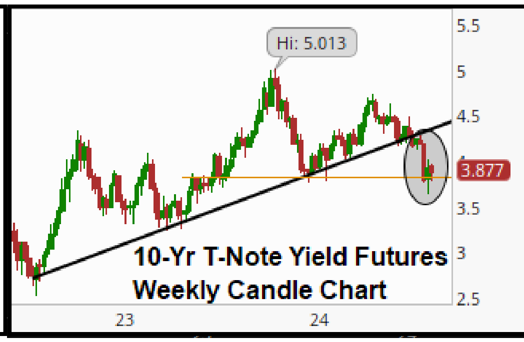
Gold

- 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



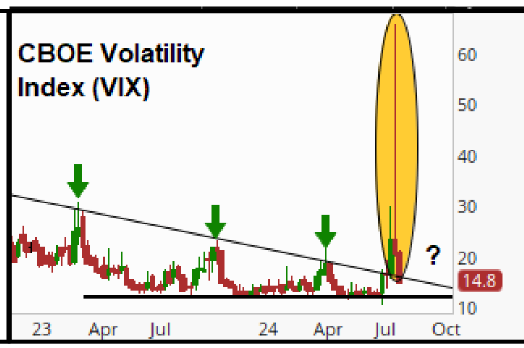
10-Year T-Note Yield Futures

- 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.

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