SEVENS REPORT

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

August 21, 2024

Pre 7:00 Look

- Futures are slightly higher as traders await job growth revisions from the BLS after a mostly quiet night of news.
- Japanese Trade data revealed a deeper than anticipated deficit in July but amid solid import/export growth numbers which importantly helped pause a rally in the yen.
- The BLS Revisions to Net Payroll Growth for the 12-months through March 2024 will be released at 10:00 a.m. ET.
- There is a 20-Yr Bond auction at 1:00 p.m. ET and the July FOMC Meeting Minutes will be released at 2:00 p.m. ET.
- Earnings: TGT ($2.17), TJX $0.92), ZM ($1.21).

Market	Level	Change	% Change
S&P 500 Futures	5623.00	3.25	0.06%
U.S. Dollar (DXY)	101.527	.148	0.15%
Gold	2544.20	-6.40	-0.25%
WTI	73.58	.41	0.56%
10 Year Yield	3.811	-.003	-0.08%

Equities

Market Recap

This year's best stretch of consecutive daily stock market gains came to an end yesterday as stocks pulled back modestly, led by big tech, as traders digested the stretched relief rally off the early August pullback lows. The S&P 500 dipped a modest 0.20%.

Stocks attempted to extend the relief rally off the August lows at the open yesterday as mega-cap tech bulls cheered solid earnings and guidance from PANW, but there was no follow-through bid and the market pulled back as traders digested the S&P's eight-session winning streak. There were no notable economic reports or market-moving Fed comments, but instead some familiar "market mechanics" in play that poured some cold water on the solid-but-stretched gains since August 5.

The late-July/early-August selloff started upon the expiration of the July VIX futures contract. The August contract expires this morning just after 8 a.m., which could spark another wave of volatility fueled by "market plumbing" as short-volatility remains a crowded hedge-fund position.

First the yen began to strengthen again with the USD/JPY currency pair falling towards the early August lows, which pressured the global carry trade, characterized by yen short covering and a coincident drop in long equity exposure. Additionally, in derivatives markets, VIX futures expiration had an impact on the "Short-Volatility Trade" as speculators betting against volatility covered positions ahead of expiration resulting in a higher VIX and general pressure on the S&P 500.

Stocks continued to chop sideways through the European close and into the afternoon as news flow remained rather quiet with only some slightly hawkish comments about inflation still being too high from the Fed's Bowman hitting the wires around 2 p.m., which ended an attempted market rebound into the close.

Market	Level	Change	% Change
Dow	40,834.97	-61.56	-0.15%
TSX	23,037.44	-78.96	-0.34%
Stoxx 50	4,874.01	16.43	0.34%
FTSE	8,289.19	15.87	0.19%
Nikkei	37,951.80	-111.12	-0.29%
Hang Seng	17,391.01	-120.07	-0.69%
ASX	8,010.50	12.77	0.16%
Prices taken at previous day market close.			

Trading Color

Internals revealed some mild caution on growth yesterday (more on that below) as on an index level the Russell 2000 badly lagged, down 1.17%, while the other three major indices saw smaller declines. It was similar on a sector level as only three of the 11 sector SPDRs were higher on the day. Consumer staples (XLP) rose 0.5% while healthcare (XLV) gained 0.4% and real estate (XLRE) rose 0.1%.

Market	Level	Change	% Change
DBC	22.00	-.09	-0.41%
Gold	2,551.70	10.40	0.41%
Silver	29.49	.19	0.63%
Copper	4.1560	-.0245	-0.59%
WTI	74.04	-.33	-0.44%
Brent	77.32	-.34	-0.44%
Nat Gas	2.206	-.029	-1.30%
RBOB	2.2592	-.0046	-0.20%
DBA (Grains)	24.42	.14	0.57%
Prices taken at previous day market close.			

The next seven sector SPDRs all saw small declines but cyclicals were the small laggards, with materials, financials and industrials falling 0.3%. Energy (XLE) was the only significant decliner on the day as it plunged 2.6% as those stocks reflected the recent dip in oil prices. Bottom line, the first two days of the week have been quiet and rightly so, as there were no significant updates on growth or the Fed while earnings have been mixed (tech ok, retail not so much).

As such, the market has stayed in a holding pattern ahead of Thursday's flash PMIs and Powell's commentary, which will give us the next key data points on whether this market can grind higher towards new highs or roll back over. To continue the rally, markets need: Goldilocks data, the promise of numerous Fed rate cuts in the coming quarters, solid tech earnings and AI commentary (NVDA next Wednesday is important).

If data shows weakness and Powell is opaque on a September cut and/or NVDA/AI tech earnings disappoint, brace for "give back" of this impressive, nearly 10% two-week rally.

Something to Watch Today: BLS Revisions

One of the reasons stocks dipped midday on Tuesday was growing concern that today's Bureau of Labor Statistics' annual revisions may reveal a much weaker labor market than initially expected.

As long-term readers of this Report know, the monthly jobs report is a wildly inaccurate estimation that's prone to large monthly revisions. But it's the best measure of national jobs growth we have, so we all just deal with it. Well, the BLS knows how inaccurate it is, so not only do they revise it monthly, but once annually they revise a previous 12 months of data and tomorrow the BLS will revise the data from March 2023-March 2024. Now. normally, this isn't a big deal, but these aren't normal times.

Wall Street estimates for today's revisions range from just 380k (JPMorgan) to possibly close to a million (Goldman Sachs). The reason this is important is because the 12-month average for job adds from March 2023 to March 2024 was 241k. That's very strong and it implies the labor market is solid and as long as the labor market is solid, a recession is unlikely.

However, if the BLS revises the data by -600k, that will drop the 12-month average job adds from March 2023-March 2024 to just 191k. If Goldman is right and the revisions are close to -1 million jobs, it takes a strong jobs report and makes it decidedly more middling.

This matters because the market is very sensitive to soft labor market data and we know that from the recent pop in jobless claims and July jobs report. So, while investors are ok ignoring most disappointing data, they aren't ignoring soft labor market data and if these revisions are worse than expected, look for it to weigh on stocks today.

Bottom line, focus is on the Fed right now but ultimately, it's the data that will determine the next 10% in this market and today's BLS revisions will remind us that growth is slowing, it's just a question of by how much.

Economics

There were no material economic reports yesterday.

Commodities

Commodities traded with a risk-off tone as economically sensitive energy and industrial metals futures declined moderately but notably held above recent lows while gold extended its latest advance to record highs amid a weaker dollar and strong bid in Treasuries pressuring yields. The commodity ETF, DBC, fell 0.41%.

Starting with energy, WTI crude oil futures sold off to test key technical support at $72.50 overnight Monday thanks to reported progress towards a ceasefire deal between Israel and Hamas, which dented the already-less-pronounced geopolitical fear bid in energy. WTI ended the session down 0.57%, back above $73/barrel.

Looking at other influences on the oil market, while economic data has been limited so far this week, risk-on money flows began to ebb yesterday amid simmering demand worries linked to the threat of a global recession. And the more risk-off mood on Wall Street yesterday spilled over to Nymex trading with all major energy futures contracts ending lower. The threat of another wave of carry trade selling in risk assets amid yen strength and/or another squeeze in the VIX didn't help the oil market either.

Bottom line, oil remains rangebound for the time being between support in the low $70s and resistance in the low $80s with near-term focus falling on today's weekly inventory data from the EIA. Bearish data will likely spur another test of key support at $72.50 while evidence of resilient consumer spending for fuel at the pump could spark a rally back towards the middle of the recent trading range centered around the $76/barrel area.

Turning to metals, the risk-off tone in markets was crystal clear yesterday with gold advancing to fresh record highs while copper pulled back after approaching some important technical resistance. Looking ahead, gold remains the upside standout in the commodity space as it is the only major commodity hitting new highs right now. The uptrend in gold was bolstered by a weaker dollar and solid bid in Treasuries that saw most of the yield curve fall back below or further below 4% with Jackson Hole coming into focus. Copper is still in a well-defined downtrend off its record highs reached earlier this year. Copper futures are notably just 6% above where they ended 2023 and nearly 20% below the May record highs, which underscores how heavy the price action has become.

How a "Fed Mistake" Would Impact Commodities

Jackson Hole is already coming into focus this week as we have reached a point in the economic cycle where the risks of a "Fed mistake" rise exponentially as policy makers balance risks of keeping rates too restrictive for too long, causing a recession, versus easing too early and causing a resurgence in inflation pressures.

The Fed's current dilemma brings the old saying, "*bull markets don't die of old age, the Fed kills them*" to mind. While that saying refers to equity bull markets, ceteris paribus, an economic downturn resulting from a Fed mistake would lead to a bear market in the global energy and industrial metals markets as well. Meanwhile, gold would likely outperform depending on the strength of the dollar, but if the greenback sees safe-haven capital from overseas pour in and that sends the dollar considerably higher, gold would ultimately fall as a result.

Bottom line, if we start to see economic data deteriorate in the coming weeks or months, demand estimates penciled in based on the optimistic hope of a soft landing will fall considerably amid an emerging recessionary reality that will hit most commodities, and hard.

Market	Level	Change	% Change
Dollar Index	101.26	-.47	-0.46%
EUR/USD	1.1126	.0041	0.37%
GBP/USD	1.3033	.0042	0.32%
USD/JPY	145.34	-1.25	-0.85%
USD/CAD	1.3621	-.0013	-0.10%
AUD/USD	.6747	.0016	0.24%
USD/BRL	5.4681	.0561	1.04%
Bitcoin	59,444.90	447.79	0.76%
10 Year Yield	3.818	-.049	-1.27%
30 Year Yield	4.070	-.045	-1.09%
10's-2's	-17 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.54%		

Prices taken at previous day market close.

Currencies & Bonds

The Dollar Index and Treasury yields fell again on Tuesday mostly on anticipation of dovish Fed speak and a negative revision to the monthly jobs data that would show a softer-than-expected labor market (making a rate cut more likely in September). The Dollar Index fell 0.4% while the 10-year yield dipped 0.4%.

There was no notable U.S. economic data on Tuesday although dovish Fed speak, the anticipation of more dovish Fed speak and moderation of data all weighed on the dollar and helped investors ignore dovish ECB commentary. Specifically, Atlanta Fed President Bostic said that if the economy evolves as he expects, there should be rate cuts by year-end (and since there are only three more opportunities and one is the Wednesday after Election Day, it's reasonable to assume Bostic meant September and possibly December).

Additionally, anticipation of a possibly dovish FOMC minutes later today and the aforementioned BLS revisions to the jobs data also weighed on the dollar, which fell further towards 101 and to fresh YTD lows (lowest since December). Bottom line, the currency market is pricing in a more dovish Fed despite the fact that facts don't support it (neither the data nor Fed speak). So, either data is going to roll over or Powell is going to be more dovish than expected. If not, this this dollar decline is seriously offsides (and a bounce back should be expected).

Internationally, the euro rose 0.4% despite a prominent ECB official, Ollie Rehn, stating that the recent data strengthens the case for a September rate cut from the Fed. But because that was largely expected, it didn't weigh on the euro. The pound, meanwhile, rose 0.3% largely in response to the dollar weakness.

Bottom line, this dollar decline that has seen the greenback fall to levels not seen since last December is not coming because of actual data or Fed speak (neither point towards aggressive rate cuts). Instead, it's because currency investors think the Fed will alter course and get more dovish. If they are not right, the dollar will bounce, hard.

Don't Sleep on the Yen

The Japanese yen rose another 0.9% vs. the dollar and has rallied more than 2% vs. the dollar over the past several trading days as Tuesday brought a potentially hawkish BOJ headline while investors position ahead of Ueda's testimony on Friday (where he may allude to more rate hikes). On Tuesday, the BOJ released a study that cited the shifting demographics in the Japanese labor market as an inflationary risk.

Specifically, the BOJ cited the reduced working age labor pool (which is a direct result of Japan's large elderly population) as creating upward wage pressures. **If the BOJ is worried about upward pressure on wages for the first time in decades, that creates the need for more rate hikes. And while that's not something that would cause a rate hike immediately, the study did push the yen higher vs. the dollar and it's now retraced about half of the bounce from August 5.**

Bottom line, the yen is strengthening quietly, just like it did the last time. And just like last time, markets are initially ignoring it. But if Ueda is hawkish on Friday look for the strengthening in the yen to accelerate and if that happens, it could easily cause unexpected equity market volatility, long before Powell says a word.

Have a good day,

Tom

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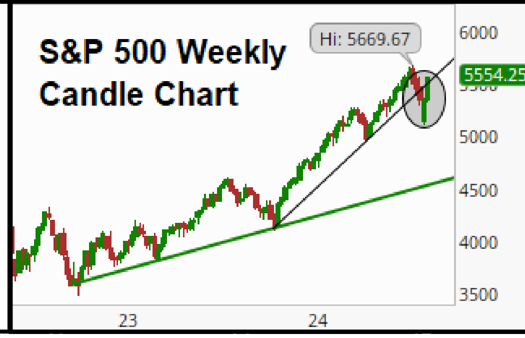
Technical Perspectives
(Updated 8/18/2024)

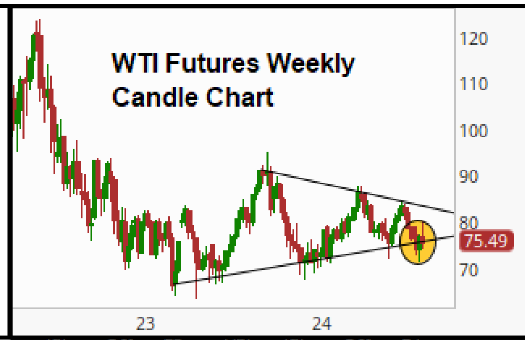
S&P 500

- 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



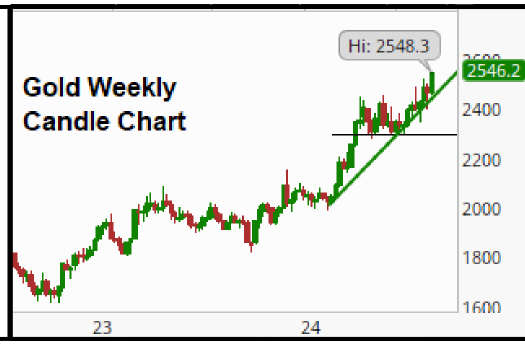
WTI Crude Oil

- 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



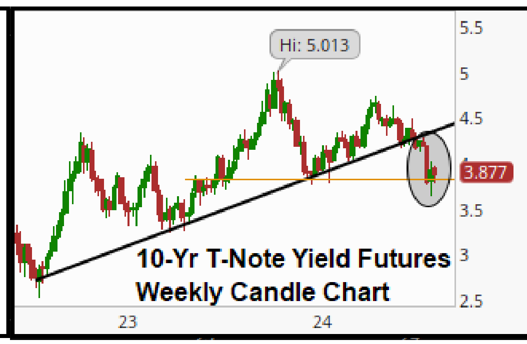
Gold

- 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



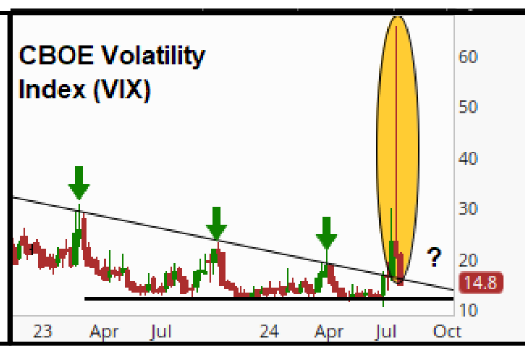
10-Year T-Note Yield Futures

- 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.