SEVENS REPORT

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

August 22, 2024

Pre 7:00 Look

- Futures are slightly higher on more Goldilocks economic data.
- The EU and UK August flash composite PMIs were better than expected (51.2 vs. (E) 50.7 in the EU and 53.4 vs. (E) 52.9 in the UK) and that's supporting the global soft landing narrative.
- On inflation, EU wages rose less than expected in Q2, reinforcing expectations for a Sept. rate cut from the ECB.
- Econ Today: Jobless Claims (E: 234K), August Flash Composite PMI (E: 53.3), Existing Home Sales (E: 3.90 million).

Market	Level	Change	% Change
S&P 500 Futures	5,648.75	7.25	0.13%
U.S. Dollar (DXY)	101.29	0.21	0.21%
Gold	2,543.80	-3.70	-0.15%
WTI	72.14	0.21	0.29%
10 Year Yield	3.83%	0.05	1.33%

Equities

Market Recap

Stocks rallied as investors sorted through BLS labor market data revisions and the minutes from the July FOMC meeting, as odds of a 50-bps rate cut next month improved. The S&P 500 ended the day up 0.42%.

U.S. equities were tentatively higher in early trade yesterday as solid earnings and guidance out of TGT offset weaker results from TJX and M. Stocks rallied in early trade ahead of the BLS jobs revisions, which was delayed roughly 30 minutes. The revisions were not as bad as feared, but still worse than the consensus estimate of -600, as the revisions showed 818K less job adds, which saw the S&P 500 retreat to 5,600 late morning.

S&P 500, 10-Year Yield and Japanese Yen: The 10-year Treasury and Japanese yen have seen their post-August 5th bounces largely erased and are both signaling slower growth and tighter liquidity. The S&P 500, however, has surged near new, all-time highs. Either the 10 year & yen are right (slowing growth) or stocks are right (Goldilocks forever), but this gap can't exist in perpetuity.

Newswires were otherwise quiet with no typical economic reports due out and no Fed speakers on the schedule. And with focus turning to the release of the July Fed meeting minutes, the S&P 500 was able to stabilize at support near 5,600. Healthy demand for 20-Yr Bonds in the Treasury's latest auction helped keep a moderate risk-on bid in the equity market that persisted into the closing bell, as the Fed minutes were seen as slightly dovish. The S&P 500 notably settled within 1% of its record highs after the near-10% correction in late July and early August.

The Gap Between Stocks, Treasuries and the Yen is Widening (and Concerning)

Leading up to the washout in stocks on August 5th, we had the S&P 500 and the 10-year Treasury yield and Dollar/yen all moving in the same direction—lower.

Market	Level	Change	% Change
Dow	40,890.49	55.52	0.14%
TSX	23,121.73	84.29	0.37%
Stoxx 50	4,900.54	15.26	0.31%
FTSE	8,304.40	20.97	0.25%
Nikkei	38,211.01	259.21	0.68%
Hang Seng	17,641.00	249.99	1.44%
ASX	8,026.96	16.47	0.21%
Prices taken at previous day market close.			

From July 16th (the last high in the S&P 500) through August 5th (the recent low):

- The S&P 500 fell from 5,631 to 5,186.
- The 10-year Treasury yield fell from 4.20% to 3.79%.
- Dollar/yen fell from 161 to 141.80.

Since August 5th, the S&P 500 has rocketed back and now essentially sits at that July 16th level (or close enough). However, the 10-year yield and Japanese yen have seen both bounces stall and now remain at or near those August 5th lows:

- The S&P 500 has rallied back above 5,600, less than 1% from new all time highs.
- The 10-year yield rallied back to 4.00% by August 8th but has since rolled over hard and hit a new low yesterday, closing at 3.78%, totally retracing the bounce.
- Dollar/yen surged to a high near 150 by August 16th but since then, it's dropped and closed yesterday below 145, much closer to the 141.80 low.

Why is this happening?

First, the positive case. Essentially, the stock market is pricing in a perfectly executed soft landing by the Fed, whereby they cut aggressively enough to push the entire yield curve and dollar lower, relieving stress on consumers and corporations and boosting profits for U.S. companies producing overseas, supporting margins. The stock market is viewing falling yields and the weakening dollar as virtuous for earnings and growth.

Now, the negative side. The declines in Treasury yields and the dollar are forecasting a much more aggressive rate cut stance by the Fed, but the only reason that would happen is if growth is suddenly dramatically slower than appreciated. That doesn't mean an automatic recession, but with the S&P 500 back at new highs, it does mean that stocks are grossly exposed to another, more long-lasting growth scare. Put simply, stocks are ignoring economic warning signs and instead and solely focused on the Fed sticking the soft landing, while other financial assets are telling us growth is much slower than we think.

Market	Level	Change	% Change
DBC	21.89	-.11	-0.50%
Gold	2,550.30	-.30	-0.01%
Silver	29.57	.05	0.17%
Copper	4.1995	.0410	0.99%
WTI	71.96	-1.21	-1.65%
Brent	76.07	-1.13	-1.46%
Nat Gas	2.191	-.007	-0.32%
RBOB	2.2037	-.0526	-2.33%
DBA (Grains)	24.47	.01	0.02%

Prices taken at previous day market close.

Time will tell which one is right but it's very unlikely that this discrepancy will be able to last. In my experience, it's the bond market that's right and the decline in Treasury yields, combined with an honest assessment of the economy, not in the light of recession fears but instead through the lens of what investors are pricing in, is reinforcing my belief that investors do not appreciate the economic risks building in the distance.

I hope I am wrong and the Fed does stick the soft landing. But my experience over the past two-plus decades is telling me to prepare as though I'm not.

Economics

Jobs Report Revisions

- The 12 months jobs reports from March 2023-March 2024 was reduced -818k jobs, or 68k/month.

Takeaway

The negative revisions to the annual jobs data from March to March were larger than the approximately 600k-ish expectation and reflected the largest negative revision since 2009. Notably, this reduced the monthly job gains from March 2023-March 2024 to 174k from 221k.

The reductions did push Treasury yields and the dollar lower as they do signal less-impressive jobs growth than was previously thought and that does make a 25-basis-point rate cut more likely in September (and possibly raises the chances of a 50-bps cut, although that remains low). However, despite the negative revisions being to biggest in 15 years, they didn't increase "Hard Landing" concerns for the simple fact that even the revised 175k monthly job adds is still very respectable and impressive and that's not the type of number that implies a looming recession.

However, these negative revisions do reinforce an important point: The economy is clearly losing momentum and these negative revisions mean the margin for error in the economy is smaller than previously thought. That's the key takeaway from the data: Not that it means a slowdown in imminent (it's not) but instead that a slowdown is more likely than it was before because the labor market isn't as strong as we initially thought.

For now, markets are ignoring that risk. But, this reinforces that growth is slowing and slowdown risks are rising and stocks are not at all priced for a real growth scare and remain vulnerable to another August-like drop, should data roll over.

FOMC Minutes

The minutes from the July FOMC meeting were slightly more dovish than expected and reinforced the expectation that the Fed will cut rates in September (and it'll likely be a 25-bps rate cut). The dovish emphasis from the minutes emanated from two particular statements. First, there were some Fed officials that supported a July rate cut (25 bps) even though the decision to keep rate flat was unanimous (supporting something doesn't always mean voting for it, of perhaps some of those Fed officials didn't have a vote this year). Second, the "vast majority" of Fed officials supported a September rate cut assuming economic data unfolded as they expected between now and then.

The market impact of the minutes, as stated, was to weigh on yields and the dollar and boost stocks as investors became ever more sure that the Fed will cut rates in September, it's just a question of whether that cut is 25 or 50 bps (and it's more than likely a 25 bps cut, although that ultimately will depend on the August jobs report (out September 6th) and the August CPI (out September 11th).

Market	Level	Change	% Change
Dollar Index	100.95	-.34	-0.34%
EUR/USD	1.1152	.0022	0.20%
GBP/USD	1.3090	.0056	0.43%
USD/JPY	144.98	-.28	-0.19%
USD/CAD	1.3596	-.0025	-0.18%
AUD/USD	.6744	-.0001	-0.01%
USD/BRL	5.4799	.0030	0.05%
Bitcoin	61,071.97	1,652.18	2.78%
10 Year Yield	3.778	-.040	-1.05%
30 Year Yield	4.051	-.019	-0.47%
10's-2's	-14 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.48%		

Prices taken at previous day market close.

Commodities

Commodities were split yesterday as energy futures broke down to multi-quarter lows despite a solid EIA report as the downward BLS jobs revisions rekindled concerns about the health of the labor market. The BLS revisions sent the dollar to fresh 2024 lows, however, and bolstered rate-cut bets, which served the metals well with industrials actually outperforming on the day while precious varieties were little changed. The commodity ETF, DBC, fell 0.50%.

Gold was trading near the lows of the week in early trade yesterday before the BLS revisions bolstered a bid in the bond market and triggered a meaningful selloff in the dollar. Gold futures ended the day effectively flat, up 0.03% right at $2,550/oz., right at the recently established record highs. The new highs leave the path of least resistance higher, but the fact that the post-BLS data drop in the dollar and rally in bonds failed to spark a new intraday record high in gold was noteworthy as it may be signaling a looming pause or profit taking pullback in gold.

Copper rallied 1.06% with the bulk of the gains occurring after the BLS revisions which importantly bolstered bets on a 50-bps rate cut next month, something industrial metals have been rather sensitive to as fears of a "Fed mistake" have weighed on copper. The trend is still lower but decent technical support has been built between $4.00 and $4.15 that copper bulls will look to defend in the weeks ahead.

Oil Update: Labor Worries Send Oil to 7-Month Low

An almost universally bullish weekly inventory report from the EIA initially triggered a rally in oil mid-morning before the physical supply and demand snapshot was overshadowed by the larger-than-expected revision to the BLS data, which was released moments after the EIA release. WTI ultimately rolled over on recession-linked demand fears and ended down 1.56% at a seven-month low.

Starting with the EIA, the inventory data was bullish as commercial crude oil inventories fell -4.6MM bbls vs. (E) -1.5MM bbls (API: +350K). The product inventory changes were also bullish with gasoline stocks drawing down -

1.6MM bbls vs. (E) -1.3MM (API: -1.04MM) and distillate supply falling -3.3MM bbls vs. (E) -500K (API: -2.24MM).

The proxy for consumer demand, gasoline supplied, rebounded by +147K b/d to 9.19 million b/d. The smoother look at the data via the four-week average dropped -65.75K b/d to a still-respectable 9.11MM b/d as the strongest week of gasoline demand in 2024 (which was nearly 9.5MM b/d in the week ending July 19th) rolled out of the calculation. Refinery use also picked up more than expected, rising +0.8% vs. (E) +0.3% to 92.3% underscoring a still-optimistic, near-term demand outlook by downstream decision makers. The only bearish aspect of the report was the +100K b/d uptick in domestic production, back to a record high of 13.4MM b/d. Oil caught a bid on the EIA release, but it was short-lived as the negative BLS jobs revisions hit the wires moments later.

Bottom line, geopolitical tensions still have the potential to move markets on a day-to-day basis; however, it has become increasingly clear that growth concerns and fading demand expectations are becoming the most important influence on energy markets right now. On the charts, WTI crude oil futures closed at a seven-month low, below key support at $72.50, which tips the technical outlook in favor of the bears near-term. Notably, the term structure of the oil futures market did not show the same weakness as outright prices did as the December24-December25 calendar spread held comfortably above summer support at $3.00/barrel.

Currencies & Bonds

The downward revision to the jobs data and the FOMC minutes weighed on the dollar and Treasury yields on Wednesday as investors increased expectations for a rate cut in September. The Dollar Index fell 0.4%.

The Dollar Index was little changed to start trading and was volatile around the release of the revised jobs report data. After some digestion, however, the enormity of the negative jobs revisions, and the reality that the labor market probably hasn't been as strong as investors (or the Fed) have assumed, weighed gradually on the dollar as investors digested the increased probability of a September rate cut (and specifically a 50-bps cut) and the dollar drifted gradually lower throughout the late morning and early afternoon.

The FOMC minutes, released at 2:00 p.m. yesterday, caused another leg lower and the Dollar Index dropped below 101 for the first time since last December as global currency markets continue to aggressively price in a more-dovish-than-expected Fed.

With the dollar under consistent pressure, the euro and pound continued to rally. The single currency rose 0.2% while the pound rose 0.5%. The yen, meanwhile, was initially weaker vs. the dollar mostly on digestion of the rally this week. But the steady decline in the Dollar Index on Tuesday resulted in the yen strengthening vs. the dollar and it traded below 145 vs. the dollar for the first time since August 7th. Yen strength remains something to watch and I continue to worry that a hawkish surprise from Ueda tomorrow could hit futures.

Bottom line, the global currency markets are pricing in an aggressively dovish Federal Reserve with the dollar dropping close to par (100). That does not match with the current economic expectations so something will have to give here. Either the dollar decline is ahead of itself, or currency and bond investors are expecting much weaker growth than equity investors.

Turning to Treasuries, the 10-year yield fell 4 basis points thanks to the negative jobs revisions (the dovish Fed minutes weren't really an influence on the 10 year although they were on the 2-year Treasury yield, which dropped 7 basis points).

The 10-year yield hit a new low for the year, falling below the August 5th spike low. That is not because of rate cut expectations. That's because of falling growth expectations. The fact that the 10-year yield is hitting a new low for the year and stocks are close to making new highs is a potential vulnerability, because the 10 year is signaling slowing growth and stocks are ignoring it (or not believing it). Much like the dollar, something will have to give here. Either the 10-year yield will bounce or stocks will have to reassess their growth outlook, because if growth is slowing more than expected, the S&P 500 won't be able to sustain 20X forward earnings.

Have a good day,

Tom

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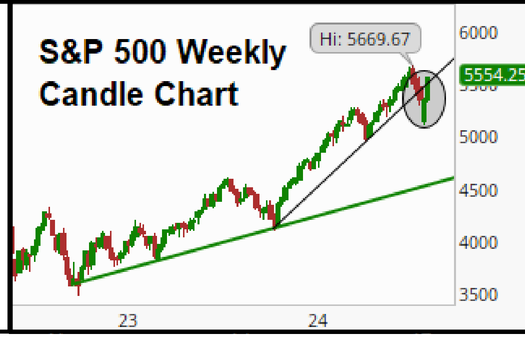
Technical Perspectives (Updated 8/18/2024)

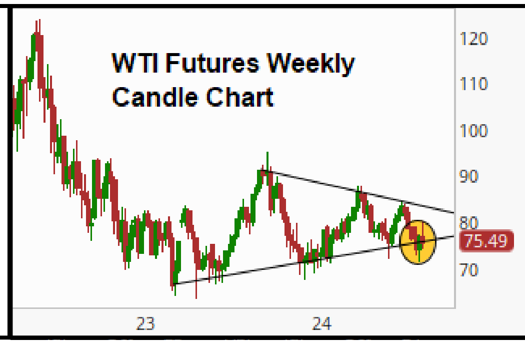
S&P 500

- 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



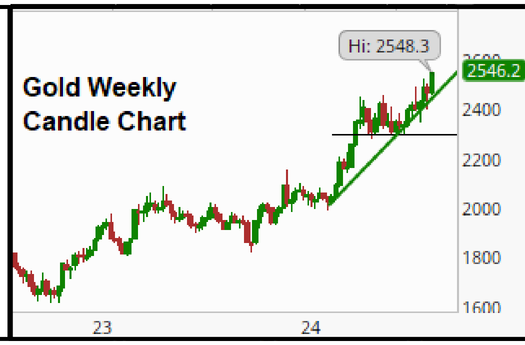
WTI Crude Oil

- 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



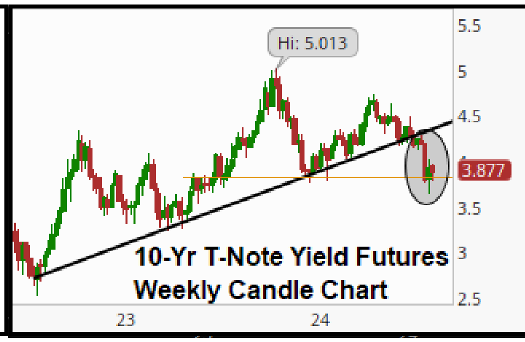
Gold

- 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



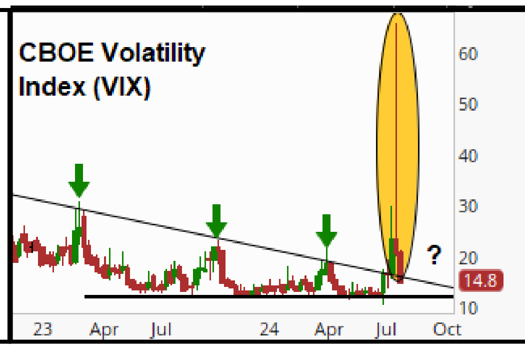
10-Year T-Note Yield Futures

- 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.