SEVENS REPORT

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

August 26, 2024

Pre 7:00 Look

- Futures are slightly higher following a quiet weekend thanks to momentum from Friday's rally as investors digest Powell's promise of coming rate cuts.
- Economically, the only notable number overnight was the German Ifo Business Expectations and it slightly beat estimates (86.8 vs. (E) 86.5).
- Geo-politically, a cease fire was not reached this weekend on a Israel/Hamas ceasefire although investors remain optimistic that a deal is close.
- Econ Today: July Durable Goods (E: 4.0%).

Market	Level	Change	% Change
S&P 500 Futures	5,660.00	7.50	0.13%
U.S. Dollar (DXY)	100.77	0.06	0.06%
Gold	2,559.70	13.40	0.53%
WTI	76.42	1.59	2.12%
10 Year Yield	3.79%	-0.02	-0.39%

Equities

Market Recap

Stocks rallied last week amid an uptick in volatility as investors digested fresh economic data that pointed to a mixed economic picture before Fed Chair Powell stated that "the time has come" to begin cutting interest rates. The S&P 500 gained 1.45% on the week and ended Friday up 18.13% YTD.

U.S. equities rallied to start last week as financial news was limited to two lesser-followed economic reports, E-Commerce Sales and the Leading Indicators Index, which were both mildly underwhelming and supported the case for a September cut. The S&P 500 gained 0.97%.

An eight-day winning streak for the S&P 500 came to an end on Tuesday as upbeat earnings from PANW failed to keep a bid in the market as the VIX and yen both strengthened, weighing on the global carry trade and short volatility positions amid otherwise quiet newswires. The S&P 500 slipped back 0.20%.

Stocks stabilized Wednesday as upbeat earnings from TGT offset less-encouraging numbers from TJX and M before a larger-than-expected downside revision to the BLS job data in the 12 months through March of this year bolstered bets for a 50-bps rate cut next month. In the afternoon, the Fed minutes carried a dovish tone reiterated by solid demand for 20-Yr Bonds in the latest Treasury auction. The S&P 500 rebounded 0.42%.

Volatility picked up on Thursday as early gains due to favorable jobless claims data and good Composite PMI figures overseas gave way to losses in the wake of a very mixed U.S. Composite PMI with solid service numbers but weak manufacturing data. A cautious tone from S&P Global added to investor angst about growth and the labor market and the S&P 500 ended down 0.89%.

Stocks remained volatile on Friday morning as the market digested Powell's comments from Jackson Hole that the "time has come" to adjust policy rates, shoring up expectations for an already priced in 25-bps rate cut in September while his cautious tone about the health of the labor market left the prospects of 50 bps on the table. Bonds rallied and yields declined and the S&P 500 ended the day up 1.15%, within 1% of the July highs.

What Powell and Ueda's Friday Comments Mean for Markets

Friday was a very good day for investors (at least near term). I say that, because Fed Chair Powell and Bank of

Market	Level	Change	% Change
Dow	41,175.08	462.30	1.14%
TSX	23,286.08	248.61	1.08%
Stoxx 50	4,905.11	-4.09	-0.08%
FTSE	8,237.78	39.78	0.48%
Nikkei	38,110.22	-254.05	-0.66%
Hang Seng	17,798.73	186.63	1.06%
ASX	8,084.52	60.60	0.76%
Prices taken at previous day market close.			

Japan Governor Ueda provided the market with bullish commentary that legitimately powered stocks higher. First, Ueda told the Japanese Parliament that while rates were going to trend higher over time, he'd consider market reaction to rate hikes in setting policy. **Put in plain English, that means that if rate hikes cause Japanese (and global stocks) to drop, they'll backtrack.** Longer term, that may not be the best idea, but in the shorter term it significantly removes the possibility of a disorderly unwind of the yen carry trade (like we saw a whiff of in early August) and that removes market risk.

Market	Level	Change	% Change
DBC	22.26	.39	1.78%
Gold	2,546.90	30.20	1.20%
Silver	29.88	.83	2.88%
Copper	4.204	.056	1.35%
WTI	74.93	1.92	2.63%
Brent	79.08	1.86	2.41%
Nat Gas	2.032	-.021	-1.02%
RBOB	2.2863	.0426	1.89%
DBA (Grains)	24.70	.22	0.90%
Prices taken at previous day market close.			

Second, Powell was more dovish than expected because he 1) Promised rate cuts in September and 2) Left the door open to a 50-bps cut in September or aggressive cuts afterwards via his stating the Fed would not "welcome" any further increases in the unemployment rate. Short of Powell promising 50 bps or actually cutting rates, this was the next best thing.

Bottom line, Ueda and Powell largely negated two of the reasons for the August pullback (yen/carry unwind and concerns about the Fed not cutting fast enough) and that's a near term positive and makes the path higher for stocks easier. Additionally, it favors cyclical sectors including small caps, value over growth, industrials, discretionary, financials and other sectors more sensitive to economic growth.

What Risks Are Left for Investors?

Given last week's events, there are two primary risks that could undermine this rally (and cause something larger than the pullback we saw in August).

The first, and by far largest, is that growth slows more than expected. Lost in the excitement of Powell promising rate cuts was the sudden urgency behind his promise, i.e. the Fed is getting worried about the labor market. Investors, however, are not. That's a source of potentially significant risk because if the labor market is weaker than expected or growth metrics show a bigger than expected slowdown, then stocks will drop and the looming Fed rate cuts won't be able to stop it. **Slowdown risks remain the biggest threat to this entire bull market and I will urge people not to ignore them just because data is "ok" right now.**

The second, less significant, risk is for disappointment from Fed rate cuts. Investors have priced in 100% probability of 75 basis points of cuts in 2024 and 65% probability of 100 basis points of cuts. Meanwhile, inflation has fallen but still sits far above the Fed's 2% target (Core PCE Price Index is expected to be 2.6% on Friday). If the Fed cuts more gradually than expected, it will likely cause short-term disappointment, especially if data is lackluster (it'll increase fears the Fed is "behind the curve").

Bottom line, the near-term outlook for stocks did improve last week courtesy of Ueda and Powell and new highs shouldn't be a shock. But don't confuse that with the removal of still significant risks lingering in the distance. This bull market is, in reality, more precarious than the price action implies.

Economics

Last Week

Economic data and Fed speak last week initially reinforced and then confirmed the expectations that the Fed will cut rate in September, that the cut will likely be 25 bps and that the economy is losing momentum, but remains solid, at least for now. And those data points and commentary were the primary driver of the stock rally.

Starting with the most important event of last week, Powell's Jackson Hole speech, he was more dovish than expected as he didn't just point to a September rate cut, he told markets it was coming via this line: "The time has come for policy to adjust." You don't need me to translate Fed speak to figure out what he's saying (that the next move will be a cut). Additionally, Powell did somewhat leave the door open to a 50-basis point rate cut when he stated the Fed "does not welcome" a further increase in the unemployment rate. A 25 bps is still the overwhelming expectation, but based on Powell's commentary, 50 bps is possible. Bottom line, Powell was more dovish than expected and a rate cut is coming in September and that confirmed market expectations and drove stocks higher on Friday.

Turning to economic data, the most important data last week was the August flash PMIs and the composite number beat expectations (54.1 vs. (E) 53.3) although the details were more mixed as manufacturing remained very weak (48.0 vs. (E) 49.5) while services were strong (55.2 vs. (E) 54.0). That's a continuation of economic trends we've seen over the past year plus and it doesn't warn of a recession near term, although it's not fully sustainable forever (meaning manufacturing needs to rebound otherwise recession risks will start to rise in the coming months).

Labor market data, meanwhile, pointed to a generally stable situation although the undercurrents of weakness are still very much there. First, Jobless Claims ticked up slightly to 232K but remain broadly at solid levels. Also on the labor front, there was a massive negative revision to the March 2023 to March 2024 monthly job reports that reduced the total number of job adds for that year by -880,000. The net effect of that isn't to imply the job market is weak. It is not. It does, however, show that the Fed has less wiggle room with the economy than previously thought. Point being, the window for the Fed to not make a policy mistake is now smaller than it was before we learned about these revisions.

This Week

The week before the Labor Day holiday is typically slow in markets as many squeeze in their last few days of summer vacation and that's likely to be the case this week as well as the economic calendar is relatively sparse. That said, there are some important updates on growth and inflation this week we need to watch. If those updates confirm falling inflation and stable growth, don't be surprised by a new high in the S&P 500. If they refute those ideas, expect a pop in volatility (meaning a stock decline).

The most important report this week is Friday's PCE price index and this is expected to show a continued drop in inflation. Practically, if this beats expectations (so less than 2.6% y/y) that will increase expectations for a 50-bps rate cut and that's a short-term positive for stocks. If the number is higher than expected, look for some pushback on the idea of 50 bps (and that'd likely be a mild headwind on stocks and bonds).

On the growth front, there are two notable reports this week. First, Durable Goods (out later this morning) will give us the latest insight into business spending and like so many other economic readings, it's plateaued in recent months. Now, a plateau is not a bad thing, necessarily, but plateauing can lead to declines in the data and investors will be looking at durable goods closely to make sure that it is stable and not implying a reduction in business spending (which would be a new incremental negative for the economy).

Other notable reports this week include the revised look at Q2 GDP, although at this point that is quite a stale number (that's activity from April through June). Jobless claims will also be in focus this week. It looks like jobless claims is doing the same thing it's done for the past two years: Pop in late summer (likely because of seasonal factors) and then decline back towards 200k-220k. However, if that does not happen, if claims rise back towards 250k and through it, that will be a new, different pattern and it'll underscore why the Fed seems suddenly nervous about the labor market.

Market	Level	Change	% Change
Dollar Index	100.54	-.85	-0.84%
EUR/USD	1.1191	.0079	0.71%
GBP/USD	1.3208	.0117	0.89%
USD/JPY	144.18	-2.11	-1.44%
USD/CAD	1.3513	-.0103	-0.76%
AUD/USD	.6795	.0090	1.34%
USD/BRL	5.4768	-.1080	-1.93%
Bitcoin	63,652.81	3,406.35	5.65%
10 Year Yield	3.807	-.055	-1.42%
30 Year Yield	4.102	-.032	-0.77%
10's-2's	-11 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.50%		
Prices taken at previous day market close.			

Bottom line, investors fully expect 1) Stable growth and 2) Falling inflation. While the reports this week are not the majors that usually move markets, the bottom line is that if they reinforce those expectations, it'll be a tailwind on markets and if they push back on them, they'll be a headwind.

Commodities

Commodities were mixed last week as rate-cut bets supported gains in the industrial metals and the weaker dollar paired with falling interest rates kept a bid in the precious metals. Oil was the laggard, as demand fears and easing geopolitical tensions saw futures hit multi-month lows midweek. The commodity ETF, DBC, rose 0.23%.

Beginning with the laggard, progress on ceasefire negotiations between Israel and Hamas helped ease the geopolitical backdrop which saw some of the fear-bid in the oil futures market ease while the soft manufacturing component of the latest Composite PMI Flash report weighed on demand expectations. WTI futures fell through support at $72.50 midweek and hit their lowest levels since January despite a solidly bullish weekly EIA report before ultimately ending the week with a more modest loss of 0.70%.

Looking ahead, oil traders are less optimistic about the impact of imminent rate cuts from the Fed on the economy and worries about slowing growth and subsequent pullback in consumer demand are becoming the most prominent influence on the market, weighing on prices. Geopolitical headlines will continue to move markets on a day-to-day basis, but the longer-term outlook for the oil market has shifted more in favor of the bears recently as global growth worries ahead of planned production increases by many OPEC+ members leave the likelihood of a surplus emerging in the physical markets elevated.

Turning to the metals, copper was the upside standout last week with futures rallying 1.31% through Friday's close. Increasingly confident Fed rate cut expectations and hopes that overseas central banks, specifically the PBOC, will take a considerably more accommodative policy stance is the main reason copper has been able to stabilize above the $4.00 mark. Copper futures are poised to test a key downtrend line off the early summer record highs at the start of this week and it will be important to see if futures roll over or breakout to fresh one-month highs, which would be a favorable macroeconomic signal for risk assets in the near term.

Turning to gold, the 2024 rally to new records continued last week with futures ending near their best levels on Friday, just shy of $2,550/oz. with a modest weekly gain of 0.10%. The rally in gold has admittedly lost momentum but continues to grind higher and the path of least resistance still favors the bulls. A potentially sharp profit-taking pullback is a risk facing gold bulls but within commodities, gold remains the place to have long exposure.

Currencies & Bonds

Both the Dollar Index and 10-year Treasury yield fell to fresh 2024 lows last week as Fed officials clearly foreshadowed a September rate cut while economic data was in line with expectations and solid, but at the same time mostly lackluster. The Dollar Index fell 1.8% on the week while the 10-year yield declined 7 basis points.

The dollar was under consistent pressure throughout the week thanks to the parade of Fed officials, including Powell, who basically promised a rate cut in September. That pushed the dollar below 101 for the first time since December 2023 as global currency markets continue to price in a more dovish than previously expected Fed.

Turning to the most important global currency right now, the Japanese yen, it rose 2% vs. the dollar in a consistent rally as markets digest the reality that the BOJ is on a rate hiking cycle. BOJ Governor Ueda reinforced that idea on Friday by saying rates will rise, but only as data demands and he'll be paying attention to market stability. Bottom line, the dovish Fed speak and generally "fine," but underwhelming, data pushed the dollar lower as markets price in numerous Fed rate cuts.

Turning to Treasuries, the 10-year yield hit fresh 2024 lows thanks to dovish Fed speak and the underwhelming data (especially the large negative revisions to the jobs data). For much of last week the decline in Treasuries wasn't a negative for markets but with the 10-year yield near 3.75% (and lower) investors will become concerned about the message that's giving about future economic growth. For now, it's being ignored. However, a big "miss" by an important economic report would change that quickly. Point being, falling Treasury yields will not be a sustainable bullish force on stocks (in fact, it'll become a negative the lower yields fall).

Have a good week,

Tom

8/26/2024

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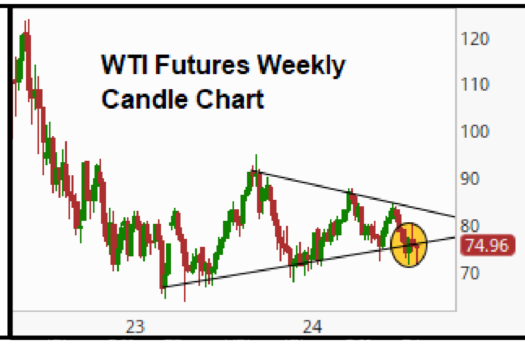
Technical Perspectives (Updated 8/25/2024)

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: 5642, 5670, 5700
- Key Support Levels: 5571, 5455, 5352

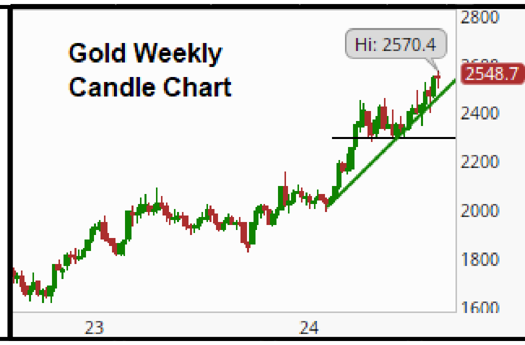
WTI Crude Oil

- 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: $75.49, $77.22, $78.66
- Key Support Levels: $72.98, $71.94, $70.50



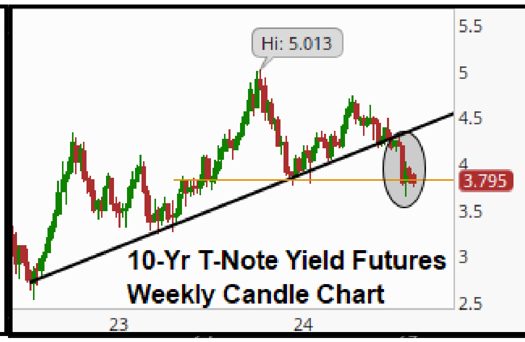
Gold

- 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: $2554, $2570, $2600
- Key Support Levels: $2521, $2495, $2424



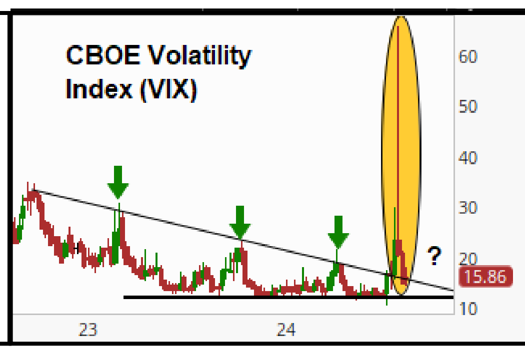
10-Year T-Note Yield Futures

- Technical View: The 10-year yield uptrend off the late-2022 lows and fell to a fresh 52-week low in early August, notably reversing the trend to bearish.
- Primary Trend: Bearish (since the week of July 29, 2024)
- Key Resistance Levels: 3.911, 3.987, 4.156
- Key Support Levels: 3.775, 3.657, 3.591



CBOE Volatility Index (VIX)

- Technical View: The VIX has rapidly retreated from the early August surge to multi-year highs, but for now the trend continues to point to upward trending volatility.
- Primary Trend: Bullish (since the week of July 29, 2024)
- Key Resistance Levels: 17.55, 20.06, 23.78
- Key Support Levels: 15.61, 14.65, 13.85



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Fundamental Market View
(Updated 8/25/2024)

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 extended the rebound last week thanks to dovish Fed speak (including Powell promising a September rate cut) and generally solid economic data (i.e. Goldilocks).*

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 plunged to fresh 2024 lows last week thanks to the dovish Fed speak, as global currency markets priced in a much more dovish Fed than previously expected.*
Treasuries	**Turning Positive**	*Treasury yields fell to fresh 2024 lows last week on a combination of rising expectations for aggressive Fed rate cuts and on underwhelming economic data (including the negative revisions to the labor market data).*

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.