SEVENS REPORT

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

August 27, 2024

Pre 7:00 Look

- U.S. stock futures are little changed this morning after a mostly quiet night of news as investors look ahead to NVDA earnings tomorrow.
- Economically, German GDP rose to 0.0% vs. (E) -0.1% while the GfK Consumer Climate Index fell to -22.0 vs. (E) -17.9.
- Econ Today: Case-Shiller Home Price Index (E: 6.9%), FHFA House Price Index (E: 5.7%), Consumer Confidence (E: 100.1), Richmond Fed Manufacturing Index (E: -14.0). There are no Fed officials scheduled to speak today.
- There is a 2-Yr Treasury Note auction at 1:00 p.m. ET.

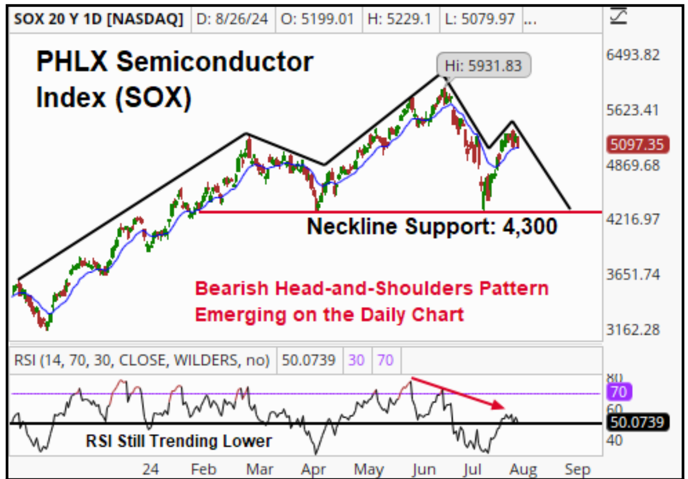
Market	Level	Change	% Change
S&P 500 Futures	5633.25	-3.75	-0.07%
U.S. Dollar (DXY)	100.803	-.056	-0.06%
Gold	2544.4	-0.80	-0.42%
WTI	76.84	-.58	-0.75%
10 Year Yield	3.834	.022	0.58%

Equities

Market Recap

Volatility remained elevated at the start of the new week as traders digested the latest Durable Goods data and looked ahead to chip-behemoth NVDA's earnings release later in the week. The S&P 500 declined 0.32%.

Stocks gapped higher at the open yesterday as traders digested the July Durable Goods report, which had a strong headline but weak details, bolstering the prospects for a minimum of a 25-basis-point rate cut from the Fed next month. The early rally saw the S&P 500 approach the record highs, with the index coming within 20 points of the high tick from July. However, the gains proved to be short-lived as profit-taking declines in mega-cap tech weighed on the indexes and dragged the S&P 500 back into the red as trader focus shifted ahead to the widely anticipated earnings release from NVDA later in the week.



The PHLX Semiconductors Index (SOX) fell 2.51% to start the week. The SOX is in the midst of establishing a bearish head-and-shoulders pattern with a neckline at 4,300. A break below that would be a very negative development for tech, and for markets more broadly.

Stocks continued to decline over the course of the morning after the Fed's Barkin noted that layoffs are a real risk to the economy if growth continues to slow. Meanwhile, geopolitical news flow was negative from the weekend with Israel failing to reach a ceasefire agreement with Hamas while also preemptively striking Hezbollah, citing imminent plans of an attack.

Stocks continued to churn lower through the lunch hour amid cautious investor sentiment until the Fed's Daly spoke mid-afternoon, echoing Powell's comments from Jackson Hole about it being time to cut policy rates while also clearly stating that she does not want to see any further weakness in the labor market. The S&P 500 held support at 5,600 and ended comfortably off the lows,

Market	Level	Change	% Change
Dow	41,240.52	65.44	0.16%
TSX	23,348.97	62.89	0.27%
Stoxx 50	4,900.35	3.66	0.07%
FTSE	8,339.50	11.72	0.14%
Nikkei	38,288.62	178.40	0.47%
Hang Seng	17,874.67	75.94	0.43%
ASX	8,071.16	-13.36	-0.17%

Prices taken at previous day market close.

but still in the lower half of the day's trading range.

Why Was Tech So Weak?

The tech sector (XLK) declined 1.3% on Monday and weighed down the S&P 500, causing most of the 0.3% decline. Outside of tech, the "rest" of the market traded better, with RSP (equal weight S&P 500) flat on the day (it was positive for much of the day).

Market	Level	Change	% Change
DBC	22.49	.23	1.03%
Gold	2,555.90	9.60	0.37%
Silver	30.00	.18	0.62%
Copper	4.217	.016	0.38%
WTI	77.25	2.42	3.23%
Brent	81.33	2.31	2.92%
Nat Gas	1.957	-.065	-3.21%
RBOB	2.2811	-.0040	-0.17%
DBA (Grains)	24.97	.28	1.15%
Prices taken at previous day market close.			

The very weak PDD earnings (PDD dropped 30% at the lows on Monday) hit tech (even though it's a Chinese company) but there was also hedging ahead of an important week of earnings (NVDA reports on Wednesday and that's still the most important stock in the market). But there are a lot of other important tech companies reporting this week including DELL, CRM, MRVL and NTAP.

Bottom line, this rally has broadened since May but tech is still, by far, the most important sector of the market and for this rally to keep going, we need to see solid earnings from not just NVDA on Wednesday, but from other important tech companies this week.

How Bullish Is Investor Sentiment? Very Bullish

The rebound in stocks from the August 5 lows has been extremely impressive, as the Dow Industrials hit a new all-time high on Monday while the S&P 500 remains within striking distance of its own new high, and as recent sentiment data has shown that rebound has coincided with an explosion of bullish sentiment amongst investors, while notably financial advisors remain a bit more reserved about the outlook for markets.

This matters because extremely bullish sentiment equals complacent markets, and complacent markets are vulnerable to air pockets like we saw in early August. This is particularly important because September is shaking up to be very important. Not only will the Fed decided to cut 25 or 50 bps, but they will also give us color on how quickly they will cut rates. Additionally, we'll learn just how much the labor market is slowing (remember, the Fed seems legitimately worried about the labor market). Because investors are so "bulled up" right now, the markets are legitimately vulnerable to a negative surprise from either event that could cause a repeat of early August, or worse.

Bearish sentiment, investor positioning and "chasing" as the market rebounded have been powerful tailwinds behind this impressive rebound in stocks. But much of that is now exhausted and as the sentiment indicators below show, investors are complacent and that makes this market vulnerable to a negative surprise.

- **AAII Investor Sentiment Survey shows 51.6% bulls. That's the second highest level in over a year.** This survey asks respondents (individual investors) whether their outlook is bullish or bearish and the percentage of respondents that say they're bullish, bearish or neutral is tracked over time. The historical average for bulls is 37.5%, so at the 51% reading last week, that's extremely bullish. The more interesting number is the bearish reading, which is at a very low 23%, well below the 31% historical average and only slightly above the 22% low we saw in late March. This speaks to the "complacency" that I believe leaves this market vulnerable to another negative surprise (either from the labor market or the Fed). To be clear, AAII readings this high are not a reason by themselves to expect volatility, but they do tell us that if there's a negative surprise markets could drop more than you'd think as bullish investors rush to the sidelines.
- **The CNN Fear/Greed Indicator currently sits at 54 (on a scale of 0-100). That's just below the "Greed" zone.** The Fear/Greed Index has become more widely followed on the Street because it incorporates seven different momentum and sentiment indicators and, as such, provides a wide view of current investor and market sentiment. The 54 reading puts this indicator just below the "Greed" zone as the "Neutral" range is from 50-59. So, while regular investors may be very bullish, the combined look of sentiment and technicals isn't greedy, yet.

- **Investors Intelligence Advisor Sentiment Survey has a Bulls/Bears spread of 28.1%, a neutral reading.** The Investors Intelligence Advisor Sentiment Index is similar to the AAII survey, but it polls financial advisors, not individual investors. It's also referenced slightly differently as a spread of bulls/bears as opposed to percentages of each vs. a benchmark. Regardless of the methodology, the message is the same: Advisors remain very bullish. At 42%, that difference between bullish respondents and bearish respondents shows financial advisors are more neutral on this market, as a 30% spread is the historical average. A Bull/Bear spread between 35%-45% is considered to signal elevated chances for a correction. Interestingly, advisors are much more reserved with regards to this market compared to regular investors, who are enthusiastically bullish.

Bottom line, regular investor sentiment is very bullish and as a contrarian indicator, that's a bit disconcerting. But positively, outside of the AAII survey we aren't seeing extremely elevated bullishness to the point where it's an outright short-term warning sign. So, if data continues to point to a soft landing and timely Fed rate cuts, the rally in stocks can continue. That said, investor sentiment is bullish enough to be considered complacent and that means if we do get a negative surprise, a 5-10% air pocket in stocks is absolutely possible, as a lot of late longs stampede for cash.

Economics

Durable Goods

- July Durable Goods rose 9.9% vs. (E) 4.5%.

Takeaway

Durable goods often produces a misleading headline reading and that was absolutely the case on Monday, as the Durable Goods report was actually weaker than expected and reinforced that, at best, business spending is plateauing and at worst, starting to decline.

The reason I say that is because the key number in Durable Goods is New Orders for Non-Defense Capital Goods ex-Aircraft (NDCGXA). That number strips out the influence of aircraft orders, which massively skews the headline reading (like it did last month).

NDCGXA gives us the best "pure" look at business spending and investment, and the numbers weren't good. NDCGXA declined -0.1% vs. (E) 0.1% and, more importantly, the June data was revised sharply lower, from 1.0% to 0.5%. Bottom line, business spending and investment has been plateauing for months and while yesterday's data doesn't signal a sudden decline, it does remind us that economic momentum is slowing and while a soft landing is widely assumed, it is not guaranteed.

From a market standpoint, traders largely ignored the number because it wasn't bad enough to increase hard landing worries, especially given excitement about upcoming rate cuts. But again, this number is reinforcing that the U.S. economy is definitely losing momentum.

Commodities

Commodities rallied to start the week led by strong gains in the energy complex thanks to a renewed rise in geopolitical tensions between Israel and neighboring adversaries backed by Iran, while supply risks emerged from Libya unexpectedly. Metals enjoyed modest gains as traders shored up bets for imminent rate cuts from the Fed beginning next month. The commodity ETF, DBC, rallied 1.03%.

Market	Level	Change	% Change
Dollar Index	100.76	.15	0.15%
EUR/USD	1.1162	-.0030	-0.27%
GBP/USD	1.3188	-.0026	-0.20%
USD/JPY	144.56	.19	0.13%
USD/CAD	1.3477	-.0032	-0.24%
AUD/USD	.6777	-.0018	-0.26%
USD/BRL	5.4833	-.0042	-0.08%
Bitcoin	63,537.16	-635.68	-0.99%
10 Year Yield	3.818	.011	0.29%
30 Year Yield	4.108	.006	0.15%
10's-2's	-12 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.53%		
Prices taken at previous day market close.			

WTI crude oil futures rallied back to the upper end of the recent trading range between the lower and upper $70s to start the week thanks to the negative geopolitical developments from the weekend. WTI ended the session higher by 2.93%, just off the session highs.

The catalyst for yesterday's oil rally was geopolitical in nature as ceasefire negotiations between Israel and Hamas failed to yield a deal while Israel launched what they declared a preemptive attack on Hezbollah. Additionally, a power struggle in Libya threatened to remove 1 million b/d in crude supply from the global market as the leader of the Libyan Army challenged the recognized government based in Tripoli.

Looking ahead, the near-term technical outlook is less favorable after last week's drop to multi-month lows, but geopolitical headlines are capable of fending off a new move lower in futures prices, especially if Libyan production does begin to meaningfully go offline in the days ahead. On a longer time horizon, the threat of a global economic slowdown destroying demand and sending the physical market into a surplus is a major fundamental risk to the price of oil and last week's drop to multi-month lows offered an early warning sign of that possibility as the declines occurred despite decently encouraging weekly data from the EIA.

Gold outperformed with a gain of 0.30%, ending the day near the middle of the session's trading range as traders continued to digest Powell's comments from Jackson Hole that shored up bets for a September rate cut. Renewed hopes for a soft landing saw inflation expectations tick higher, which helped gold rally despite a slightly stronger dollar and steady yields. Last week's low near $2,505 is a key level to watch this week as a break below could trigger more-pronounced profit taking while $2,570/oz is the level to beat.

Copper rallied into downtrend resistance off the May highs yesterday, ending with a gain of 0.18%, almost perfectly on the downtrend line. That critical trend resistance level will be key to watch this week as a break above will support the case for more risk-on money flows amid soft landing hopes while a turn back lower in the price of copper will be a negative signal that hard landing risks still exist.

Currencies & Bonds

The currency and bond markets were quiet on Monday and rightly so, as there was no notable economic data or central bank speak that altered the outlook for stocks. The Dollar Index rose 0.18% while the 10-year Treasury yield gained 1 basis point.

Durable goods was the only economic report on Monday and the hotter-than-expected headline led to a brief (and small) jump in the Dollar Index and the 10-year Treasury yield. While the headline was strong, the details were lackluster and the net result was that the number didn't move markets and the brief dollar drift higher was largely undone by lunchtime, as was the small increase in the 10-year yield.

The Fed's Daly spoke to Bloomberg in the afternoon and further confirmed that a rate cut is coming in September and stated it's likely that it'll be 25 bps. That pushed back on the 50-bps camp, but 25 bps is the market expectation so the commentary didn't move markets.

The dollar and 10-year Treasury yield drifted sideways for the afternoon as those markets digested the dovish commentary from Powell on Friday and as investors looked ahead towards the inflation data looming on Friday (the core PCE Price Index).

Looking internationally, the euro, pound and yen all fell slightly vs. the dollar (down around 0.2% each) but it was a drift throughout the day and more of a consolidation of the recent strength than anything that was news driven. For now, the decline in yields and the dollar is acting as a short-term tailwind on stocks. However, if those declines are signaling slower-than-expected growth ahead (which is what they historically would be signaling) then these declines will not be tailwinds much longer.

Have a good day,

Tom

SEVENS REPORT

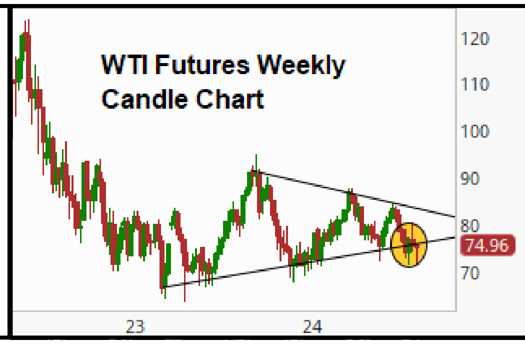
Technical Perspectives (Updated 8/25/2024)

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

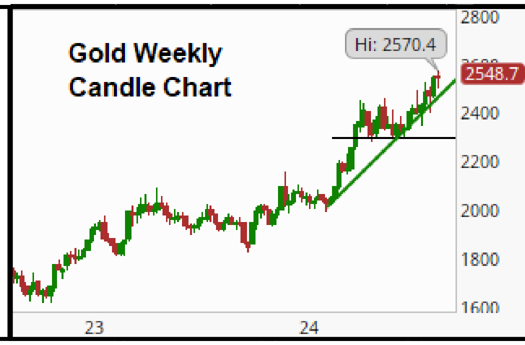
WTI Crude Oil

- 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



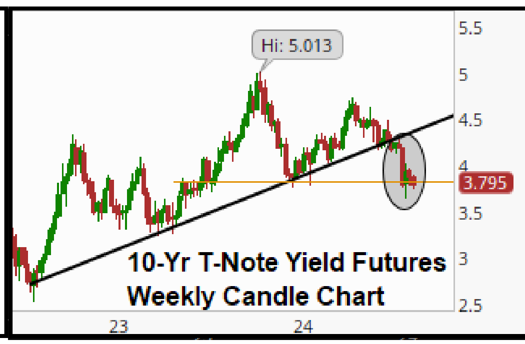
Gold

- 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



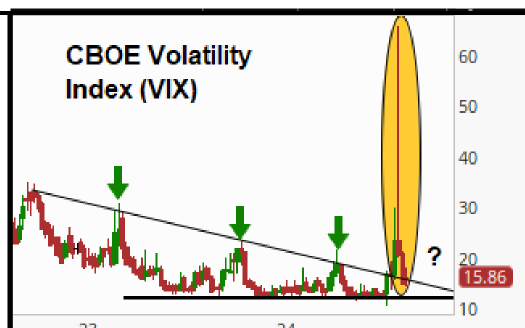
10-Year T-Note Yield Futures

- 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



SEVENS REPORT	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.