SEVENS REPORT

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

August 28, 2024

Pre 7:00 Look

- U.S. equity futures are slightly higher after a mostly quiet night of news as traders look ahead to NVDA earnings.
- There was no economic data overnight but the BOJ's Deputy Governor, Himino, reiterated that policy makers would proceed with the "utmost vigilance," which added a modest bid to equity markets and other risk assets overnight.
- There are no notable economic reports today. Fed Speak: Bostic (6:00 p.m. ET). There is a 5-Yr Treasury Note auction at 1:00 p.m. ET.
- Earnings: NVDA ($0.65), CRM ($2.35), HPQ ($0.86).

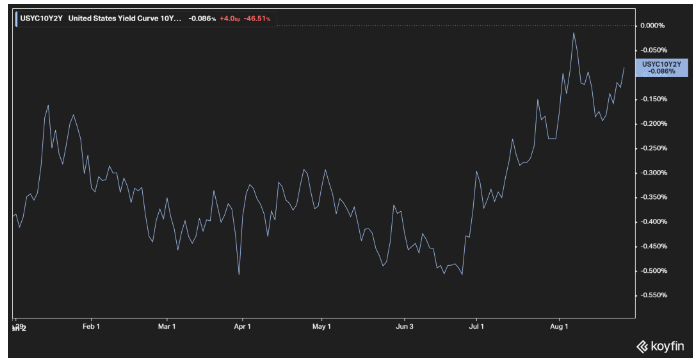
Market	Level	Change	% Change
S&P 500 Futures	5647.00	2.25	0.04%
U.S. Dollar (DXY)	100.977	.426	0.42%
Gold	2542.60	-10.30	-0.40%
WTI	74.54	-.99	-1.31%
10 Year Yield	3.815	-.014	-0.37%

Equities

Market Recap

Stocks recovered from early losses and turned positive early in the day as traders digested unexpectedly strong Consumer Confidence data but largely remained focused on today's NVDA earnings. The S&P 500 rose 0.16%.

In a change of pace from the last week of market opens, stocks gapped lower at the bell yesterday with the S&P 500 falling back to test near-term support at 5,600 as large-cap tech stocks pulled back due to positioning ahead of the all-important earnings release from NVDA after the close today. International news was fairly light



The 10s-2s spread has steadily risen over the past two weeks and once again sits within striking distance of turning positive (an event that, historically speaking, has been negative for stocks).

with just two economic reports out of Germany worth noting before the U.S. session began, both of which were on the light side and added to a slightly cautious sense of investor sentiment.

The stock market was quick to stabilize in the first hour, however, as housing market data was mixed but showed further moderation in the pace of rising prices versus levels from earlier in the year while the Conference Board's Consumer Confidence report was solidly better than expected thanks to favorable upward revisions to the July data and strength in both the Present Situation and Expectations Indexes.

The market advance stalled into the middle of the day until the rally resumed thanks to the combination of a confident tone from former Fed President Mester who said she did not believe the Fed was "behind the curve," and a strong 2-Yr Treasury Note auction that saw the high yield awarded stop-through the when-issued yield by 6/10ths of a basis point despite the fact the fact that the yield awarded was nearly 60 basis points lower than the previous 2-Yr auction.

The S&P 500 hit new session highs by a fraction of a

Market	Level	Change	% Change
Dow	41,250.50	9.98	0.02%
TSX	23,259.96	-89.01	-0.38%
Stoxx 50	4,923.51	24.73	0.50%
FTSE	8,345.76	.30	0.01%
Nikkei	38,371.76	83.14	0.22%
Hang Seng	17,692.45	-182.22	-1.02%
ASX	8,071.44	.28	0.01%
Prices taken at previous day market close.			

point leading into the final hour but there was no follow-through, leaving the S&P 500 to end the day pinned to the 5,625 mark.

Market	Level	Change	% Change
DBC	22.38	-.11	-0.49%
Gold	2,560.40	5.20	0.20%
Silver	30.06	.05	0.17%
Copper	4.2345	.0160	0.38%
WTI	75.62	-1.80	-2.33%
Brent	79.63	-1.80	-2.21%
Nat Gas	1.910	-.046	-2.35%
RBOB	2.2459	-.0340	-1.49%
DBA (Grains)	25.03	.06	0.24%
Prices taken at previous day market close.			

Broad Market Insights from Recent Sector Performance

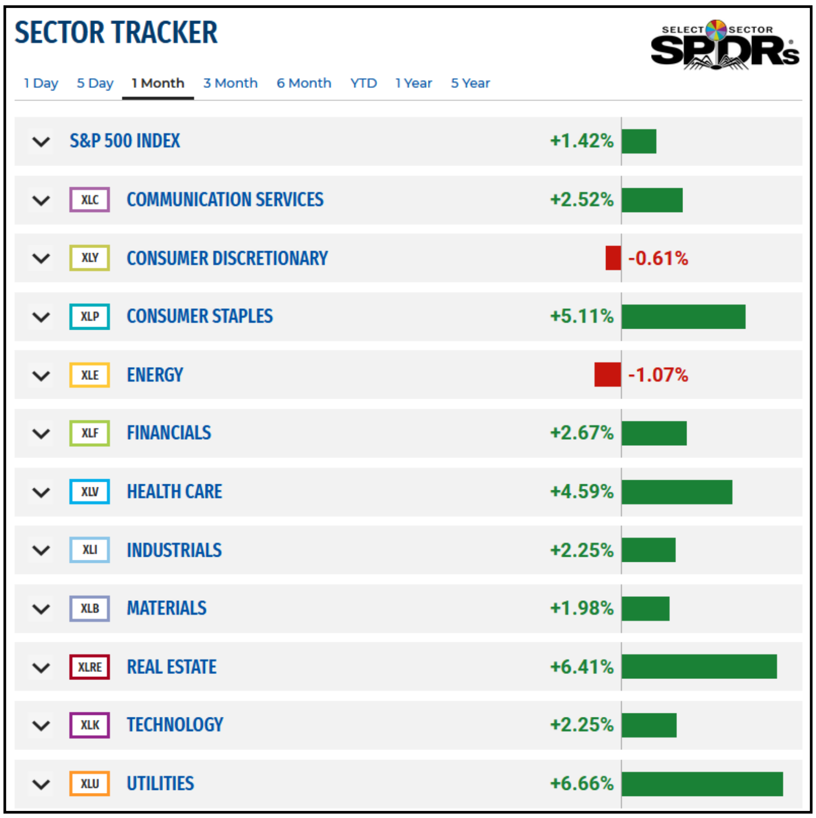
Since the late-2022 lows, the stock market has steadily rallied with mega-cap, growth-focused tech stocks leading the broader S&P 500 higher with only short-lived and moderate pullbacks of no more than 10% along the way. Each time a pullback has occurred, some profits were taken off the table with the Mag 7 names leading the way lower, but they would also lead the subsequent recovery once the market stabilized and the rally resumed to fresh record highs with dip buyers quick to re-add exposure to tech darlings such as NVDA, MSFT, and AAPL.

The selloff that occurred between the mid-July record highs and August 5 lows was more of the same with large-cap tech taking the brunt of the losses on the way down. The stabilization process this time around, however, was different from others since the 2022 bear market ended and this new leg of the cyclical bull market began.

This time, the dip buyers did not pour into the Mag 7, tech-dominated Nasdaq 100, and/or growth-focused semiconductor index, SOX. Instead, the best performing sectors over the last month (so in the midst of the summer pullback but prior to the volatile establishment of the Monday, August 5 lows) were some of the worst performing sectors relative to the broad S&P 500 index since the 2022 lows.

<u>Which Sectors Have Outperformed Over the Last Month?</u>

As the graphic here from the Sector SPDR website on shows, Utilities (XLU) and Real Estate (XLRE) handily outperformed through the early August declines and rapid rebound in recent weeks, notching gains of 6.66% and 6.41%, respectively. That compares to a relatively meager 1.42% return in the S&P 500 over the same time frame. Other notable outperformers included Consumer Staples (XLP), which are up a solid 5.11% over the last month, and Healthcare (XLV), which has gained 4.59% over the same timeframe. It is worth noting that most other sectors did modestly outperform the S&P 500 over the course of the last month amid elevated volatility but at a fraction of the magnitude of XLU, XLRE, XLP, and XLV.



Sector Outperformer Takeaways. The strong outperformance by Utilities and Real Estate over the last month offers measurable evidence that equity investors are pricing in peak interest rates as both sectors are historically sensitive to market interest rates as Utilities offer a relatively safe alternative yield to corporate and government bonds while the Real Estate industry generally maintains an inverse correlation to the primary trend in rates (evidenced further by the very sluggish performance of XLRE since the Fed began raising rates in 2022).

Looking to the other notable gainers, Consumer Staples and Health Care are two traditionally defensive sectors, and their solid outperformance is consistent with investors rotation into safer, more value-oriented corners of the market as growth-oriented tech stocks with high valuations are being shunned. These money flows are consistent with both peak interest rates being priced in as well as imminent Fed rate cuts amid a slowdown in growth that is expected to limit consumer spending on discretionary items. It is important to note that these money flows are defensive and cautious but not necessarily pointing to a hard landing scenario, just the acknowledgment that consumer spending is expected to slow to some degree.

Which Sectors Have Underperformed Over the Last Month?

The two worst performing sectors and only ones to notch negative returns over the last month were Energy (XLE), down 1.07% and Consumer Discretionary (XLY), down 0.61%. Two other notables include Communication Services (XLC) and Technology (XLK), neither of which underperformed the S&P 500 index itself with respective gains of 2.52% and 2.25%, over the last month, but both of which fell into the bottom half of the list of sectors that were positive over the last month, a marked shift from those two sectors maintaining strong leadership positions through the first half of 2024, and really since the near-correction in the broader market off the October 2023 lows.

Sector Underperformer Takeaways. The negative one-month returns by Consumer Discretionary (XLY) and Energy (XLE) stocks are attention grabbing because both of those sectors are sensitive to the health of the economy and their declines indicate investors are expecting weakening growth trends as the Fed approaches the start of its rate cutting campaign after a prolonged period of elevated and restrictive policy rates. The weakness in XLY and XLE is consistent with the market pricing in slowing growth with a base case still for a soft landing, but risks of a hard landing still in play for H2'24.

Cross Asset Consideration - Smart Money on Defensive

One thing that we have noticed in the derivatives market recently has been the collapse in the VIX and surge in its lesser-known cousin, the SKEW index. As a refresher, the SKEW is supposed to be a "Black Swan" indicator but in practice it is much better at offering a read on positioning among more sophisticated, institutional investors as "smart money" typically hedges new long equity exposure with out-of-the-money put options, which is the type of options trading the SKEW is most sensitive to (rising put demand puts upward pressure on the SKEW).

During the rebound off the early August lows, the SKEW surged back beyond the widely followed 150 threshold to indicate strong risk-on money flows out of institutional investors, and based on the performance among the major market sectors over the last month, those money flows have strongly favored defensive stocks positions, which means that retail traders who have been buying the recent tech "dip" are susceptible to meaningful downside in those new holdings.

Economics

Market	Level	Change	% Change
Dollar Index	100.45	-.29	-0.29%
EUR/USD	1.1183	.0022	0.20%
GBP/USD	1.3254	.0066	0.50%
USD/JPY	144.05	-.48	-0.33%
USD/CAD	1.3452	-.0035	-0.26%
AUD/USD	.6790	.0018	0.27%
USD/BRL	5.5023	.0067	0.12%
Bitcoin	62,180.44	-1,428.43	-2.25%
10 Year Yield	3.833	.015	0.39%
30 Year Yield	4.128	.020	0.49%
10's-2's	-7 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.50%		
Prices taken at previous day market close.			

There were no material economic reports yesterday.

Commodities

Commodities were mixed yesterday as a short-squeeze in the oil market subsided amid several negative headlines and economic developments while a weaker dollar and dovish money flows supported gains in metals. The commodity ETF, DBC, fell 0.49%.

Oil was the notable laggard in the commodity complex as WTI crude oil futures fell back 2.18% after a squeezy rally off last week's seven-month lows, back towards resistance in the upper-$70s. The early week rally was sparked by renewed geopolitical tensions in the Middle

East over the last week but a stabilizing situation in the region paired with a soft outlook on the labor market within the details of the latest Consumer Confidence release poured some cold water on the market. Looking ahead, the technical outlook turned bearish last week with the breakdown to multi-month lows and the fundamentals are less encouraging with slowing economic growth expected in the coming months. As such, any meaningful rallies are likely to be capped by demand worries while downside risks have risen considerably over the last month, both fundamentally and technically.

Gold futures lagged copper futures as the former advanced 0.20% while the latter rallied a more-pronounced 0.43%. The moves in both metals were notable as the gain in gold carried futures to a fresh record closing high, reiterating that the path of least resistance is still decidedly higher right now while the gain in copper saw futures push through the key downtrend line off the May record highs and leaves the technical outlook more neutral than bearish. From a macro standpoint, that is important because it points to better investor conviction in favor of a soft economic landing likely attributable to the solid Consumer Confidence report yesterday.

Looking ahead, long gold remains the most appealing position in the commodities market as, in aggregate, the trend in raw materials prices is beginning to rollover globally, with oil at increased risk of breaking down both based on deteriorating technicals and fundamentals and that is not a positive anecdotal signal for global growth.

Currencies & Bonds

Global currencies largely ignored economic data on Tuesday and instead reflected the market's view that the Fed will err on the side of being more dovish, not less. The Dollar Index fell 0.12%.

As mentioned, economic data did not drive the currency markets on Tuesday (if it had, the dollar would have been higher and other currencies lower). I say that because the data from Europe (German Gfk Consumer Climate and GDP) was slightly softer than expected (and while that won't impact ECB policy, it does make September rate cuts from the ECB incrementally more likely). Additionally, U.S. data beat expectations, as the Case-Shiller Home Price Index saw a larger year-over-year price increase than expected while Conference board Consumer Confident also rose solidly.

Bottom line, none of these numbers are policy changers for the Fed or ECB but, on balance, they normally would put a mild bid under the dollar and headwind on the euro. However, the opposite happened yesterday because markets aren't trading off incremental economic data, they're trading off of assumptions. Specifically, the assumption that the Fed is going to cut rates more aggressively than it's been saying and that makes it the most relatively dovish major central bank. Until economic data forces the markets to re-assess that, the path of least resistance for the dollar will remain lower.

Turning to Treasuries, the 2-year yield declined slightly (down 2 basis points) while the 10-year yield rose slightly (3 basis points) pushing the 10s-2s yield spread higher.

The reason for the divergence in the two yields was legitimate. The 2 year declined thanks to a strong Treasury auction, as all three metrics (actual yield, bid to cover and indirect bidders) showed strong demand, while the solid housing and confidence data were positive for growth. As such, the 10 year rose slightly. The 10s-2s yield spread closed at just negative 7 basis points and remains within striking distance of turning positive (and as a reminder, that is historically not a positive event for markets).

Have a good day,

Tom

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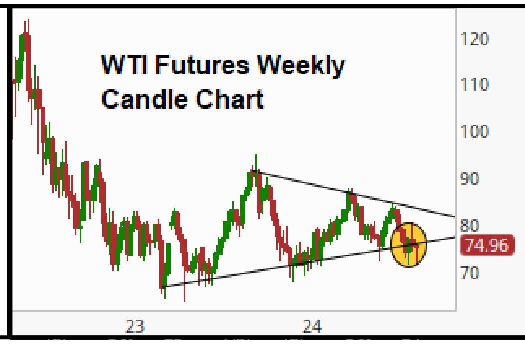
Technical Perspectives (Updated 8/25/2024)

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

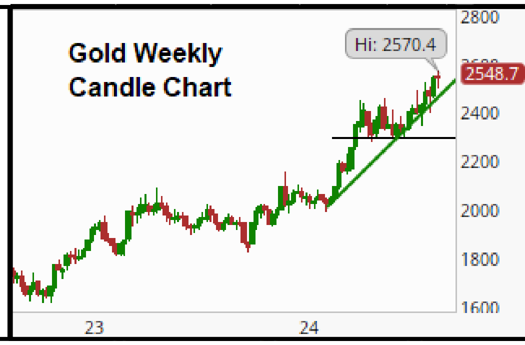
WTI Crude Oil

- 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



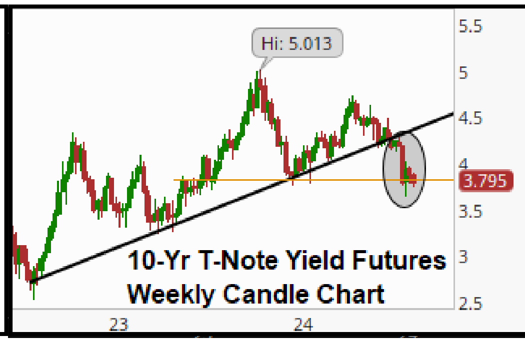
Gold

- 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



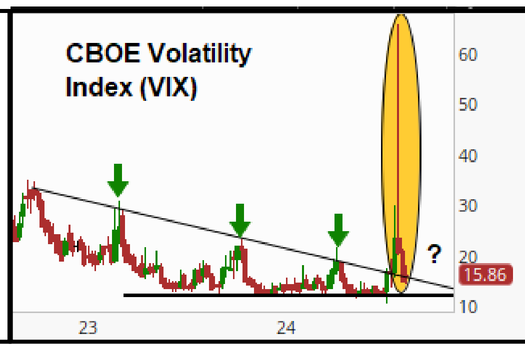
10-Year T-Note Yield Futures

- 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.