SEVENS REPORT

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

August 29, 2024

Pre 7:00 Look

- Futures are slightly higher as better than expected EU inflation metrics offset slightly underwhelming NVDA earnings.
- Spanish and German regional CPIs declined more than expected and that's increasing ECB rate cut expectations and reminding investors of the global rate cutting cycle.
- Econ Today: Final Q2 GDP (E: 2.8% y/y saar), Jobless Claims (E: 232K), Pending Home Sales (E: 1.0%). Fed Speak: Bostic (3:30 p.m. ET).
- Earnings: DELL (E: $1.68), MRVL (E: $0.30), BBY (E: $1.15), DG (E: $1.79), , LULU (E: $2.93), ULTA (E: $5.49).

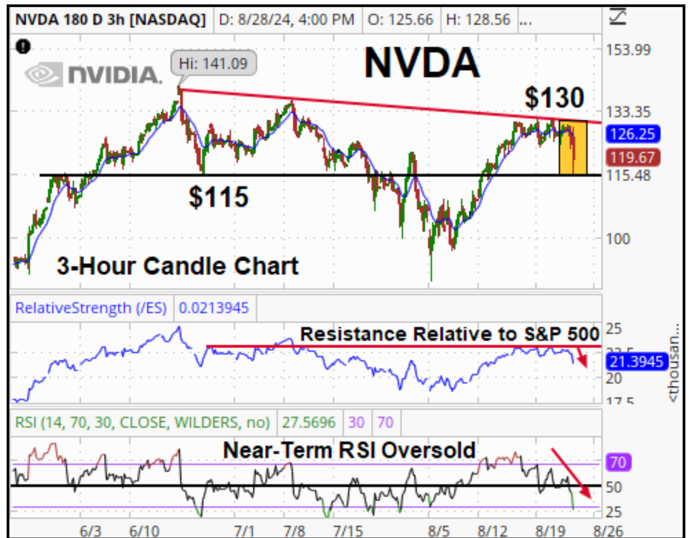
Market	Level	Change	% Change
S&P 500 Futures	5,622.25	12.00	0.21%
U.S. Dollar (DXY)	101.20	-0.11	-0.11%
Gold	2,556.00	18.20	0.72%
WTI	74.67	0.14	0.19%
10 Year Yield	3.84%	-0.01	-0.13%

Equities

Market Recap

Volatility picked up and stocks came for sale yesterday as traders positioned into one of the biggest potential catalysts of the week, NVDA earnings, while growth concerns simmered ahead of more key economic reports before the weekend. The S&P 500 fell more than 1% before halving the losses to end down 0.60%.

Stocks were heavy from the start yesterday as the major indexes gapped lower despite the lack of any material negative headlines ahead of the bell. Still-elevated geopolitical tensions in the Middle East and ratings agency



NVDA shares fell nearly 7% in afterhours following the release of the company's latest quarterly earnings report. The stock price found support at $115 in extended trade, which will be a key level to watch today as NVDA is widely viewed as a bellwether for the crowded "long AI trade."

Fitch's cautious comments on China didn't help the mood on Wall Street, but they also were not meaningful enough headlines to spark a steep selloff in mega-cap tech stocks, which in hindsight proved to be more of a function of trader positioning ahead of NVDA earnings.

There was a 5-Yr Treasury Note auction at the top of the 1 p.m. hour and in contrast to the solid 2-Yr auction on Tuesday, demand was weak and yields pushed to session highs in the aftermath, pressuring stocks, especially mega-cap tech, to new lows for the day. Moving into the final hour, a headline crossed the wires that ChatGPT's parent company, OpenAI, has initiated a new fundraising round that values the company at more than $100B, which sparked a wave of profit taking in mega-cap tech.

Is Market Momentum Faltering?

Stocks declined moderately on Wednesday despite the fact that there wasn't any real "bad" news, and if I had to point to a single "reason" for the declines, it'd be

Market	Level	Change	% Change
Dow			%
TSX			%
Stoxx 50			%
FTSE			%
Nikkei			%
Hang Seng			%
ASX			%
Prices taken at previous day market close.			

weakness (and fears of weakness) in recent momentum names.

Abercrombie & Fitch (ANF) has been one of the "hottest" stocks in the market and yesterday's earnings results and guidance were strong. However, despite the beat and guidance raise, it wasn't enough and ANF declined 17% as momentum investors exited the name, as the company's results simply couldn't match the intense expectations built into the stock.

Market	Level	Change	% Change
DBC	22.11	-.27	-1.21%
Gold	2,543.70	-9.20	-0.36%
Silver	29.28	-.69	-2.32%
Copper	4.1460	-.0915	-2.16%
WTI	74.67	-.86	-1.14%
Brent	78.77	-.78	-0.98%
Nat Gas	1.980	.076	3.99%
RBOB	2.2143	-.0326	-1.45%
DBA (Grains)	24.87	-.15	-0.60%

Prices taken at previous day market close.

There were similar fears in NVDA, which have weighed on tech and the S&P 500 throughout the week. And to a point, we saw those fears realized with NVDA earnings. To be clear, on a headline basis, the numbers were good: Earnings beat estimates, revenues beat estimates and the Q3 guidance beat estimates. But the stock declined 3% after the print and continued lower into the conference call.

The reason why is because over the past six quarters, NVDA has beaten earnings estimates by a minimum of 9%. Yesterday, NVDA beat earnings estimates by less than 5%. That's still good in an absolute sense, but for a stock where so much is expected, it may not be enough (the size of the earnings beats is falling).

Among investment styles, growth stocks have led the market higher all year, but there is evidence that dynamic is coming to an end.

Bottom line, as we covered in Wednesday's Report, super-cap/AI tech has not led this market higher. They've rallied, but not to the extent we saw in early 2024. And that raises the question: Can this market continue to rally if the momentum names can't carry the S&P 500?

I'm not saying that's happening yet, but it's starting to. And the truth is it's unclear where the leadership will come from to carry this market higher in a slowing growth, falling-yield environment (which usually benefits defensive sectors and value).

If this market is going to move substantially higher (like S&P 500 towards 5,800) it needs to have the momentum names trading well, and recently, that simply hasn't been the case. If that continues, it is an incremental negative we shouldn't ignore.

Economics

There were no material economic reports yesterday.

Commodities

Commodities were broadly lower yesterday amid the headwinds of a stronger dollar, which hit fresh highs for the week. Risk-off money flows in stocks and concerns about the health of the global economy saw industrial metals and energy futures underperform despite a solid EIA inventory report, while gold relatively outperformed on firming safe-haven demand. The commodity ETF, DBC, dropped 1.21%.

Copper rolled over hard yesterday with futures ending down 2.09% thanks to simmering growth concerns as futures have been testing the downtrend line off the May records this week. The heavy trade in other risk assets and active-month contract roll both impacted prices, but futures ended on the lows in a heavy manner. If yesterday's heavy trade in copper continues, that will be a negative signal and suggest there is more weakness to come for stocks and other risk assets.

Gold was the relative outperformer as futures fell a more modest 0.50%. The dollar strength was a notable headwind for gold but it was partially offset by largely steady and slightly firming Bill and Note prices in the short-duration corner of the fixed income markets. Bottom line, gold is still trending higher but as we have been saying for weeks, the pace of the advance has lost momentum and a sharp pullback could come at any time.

EIA Data Takeaways and Oil Update

Oil prices fell back to flat for the week yesterday as traders weighed mostly upbeat weekly inventory and demand data against some degree of cooperation among adversaries in the Middle East offering prospects for easing regional tensions while global growth concerns persisted. WTI crude oil futures fell by 0.99% including after-hours trade.

Starting with the EIA data, it was net bullish as evidence of strong demand offset a smaller-than-expected drawdown in supply while domestic production pulled back and gasoline demand metrics increased at a solid clip.

On the headlines, commercial crude oil stockpiles fell by -800K bbls vs. (E) -2.1MM (API: -3.4MM) and distillate supply unexpectedly rose +300K bbls vs. (E) -500K (API: -1.4MM). The weekly change in gasoline inventories offset some of those headlines as there was a draw of -2.2MM bbls vs. (E) -2.0MM (API: -1.86MM).

In the details, U.S. oil production edged back -100K bbls from a record high to a still-elevated 13.3 million b/d. The fact that production did not rise to a new high was an incremental positive. Looking to demand metrics, gasoline supplied, the proxy for consumer fuel demand, jumped by +115K b/d to 9.3MM b/d. That was back towards the 2024 highs and saw the smoother four-week average figure rise to 9.13MM b/d. The latest gasoline supplied data underscores still resiliently solid demand as the summer driving season comes to an end and the fact that the latest weekly number was above the four-week average suggests demand is still firming despite growth concerns in the economy.

WTI crude oil futures failed to rally on the back of the mostly upbeat inventory and demand data from the EIA yesterday, and instead, fell under the pressure of the firming dollar, risk-off money flows in stocks and lingering global growth worries. Looking ahead, last week's low close of $71.46 will be the key level in focus as a break below would solidify the bearish oil argument right while this week's high close (Monday) at $77.16 is initial resistance.

Currencies & Bonds

Anticipation of inflation data drove some consolidation in the currency markets Wednesday, as the dollar bounced solidly. The Dollar Index rose 0.61%.

The dollar was solidly higher throughout the session despite the fact that there was no notable U.S. economic data nor any "not dovish" Fed speak. In fact, there wasn't any substantial commentary from ECB or BOE officials nor any notable data from that region. Typically when that's true, global currencies will be little changed.

However, the dollar rose solidly (again up 0.6%) while the euro and pound fell moderately (down 0.7% each) and that was because of positioning ahead of two days of important Eurozone inflation reports. This morning brought the German July inflation readings (Germany is the most-important economy in the EU and if inflation is rising there, it's unlikely the ECB will turn more dovish).

Tomorrow, we get the EU CPI and HICP. The reason we saw positioning ahead of these reports is because the euro has rallied to a one-year high vs. the dollar, as investors have aggressively priced in a dovish Fed and a relatively stable ECB and BOE vs. the initial outlook.

Put more plainly, the global currency markets have decided that the Fed is now turning incrementally more dovish than previously expected, while the ECB and BOE

Market	Level	Change	% Change
Dollar Index	100.99	.53	0.53%
EUR/USD	1.1116	-.0068	-0.61%
GBP/USD	1.3188	-.0073	-0.55%
USD/JPY	144.71	.75	0.52%
USD/CAD	1.3476	.0032	0.24%
AUD/USD	.6781	-.0012	-0.18%
USD/BRL	5.5525	.0434	0.79%
Bitcoin	59,263.24	-2,797.30	-4.51%
10 Year Yield	3.841	.008	0.21%
30 Year Yield	4.131	.003	0.07%
10's-2's	0.01 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.51%		
Prices taken at previous day market close.			

just remain about as dovish as we previously expected. That incremental outlook shift has powered a very strong rally in the euro and pound vs. the dollar over the past month.

Now, with the EU inflation data looming, we saw some hedging against a surprisingly soft number because if EU inflation data is soft, we will see expectations for more rate cuts from the ECB (and likely BOE) rise and that would pressure the euro vs. the dollar as the outlook for European central banks becomes incrementally more dovish (catching up with the Fed).

Bottom line, currencies are relative to one another. The Dollar Index has declined to YTD lows because the market has become convinced that the Fed is incrementally more dovish than previously expected (and practically that means more than the 50 bps of cuts previously expected in 2024) while the ECB and BOE have not. However, if EU and UK inflation or growth data is weak, that will change with the euro and pound falling and the Dollar Index rising. So, it's unlikely the dollar continues to drop methodically unless U.S. economic data is terrible, simply because expectations are already very dovish.

Turning to Treasuries, they were little changed on the day as both the 2- and 10-year yields were flat on the day and they never strayed too far from unchanged. And that makes sense as there was no notable economic data in the U.S., EU, UK or Japan to alter the inflation outlook.

Looking at the yield curve, the 10s-2s yield curve dipped into "un-inversion" and turned back positive (albeit slightly at just 0.01 bp). That is, historically speaking, a negative event for equities (at least with long inversions like this one) and while market history doesn't always repeat, this is something we think is important to keep in mind.

Have a good day,

Tom

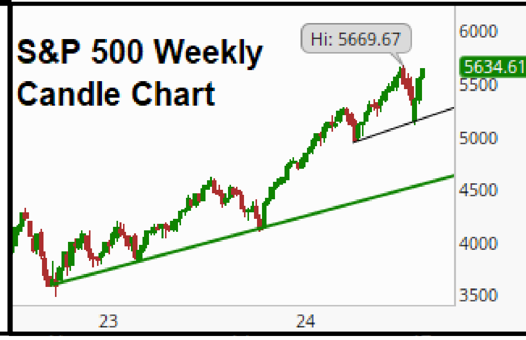
8/29/2024

SEVENS REPORT

Technical Perspectives (Updated 8/25/2024)

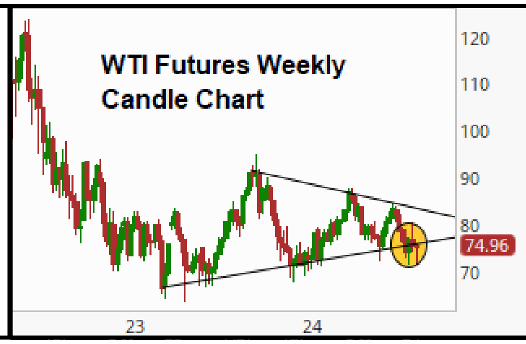
S&P 500

- 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



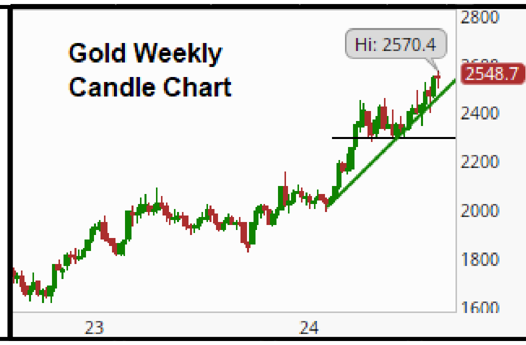
WTI Crude Oil

- 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



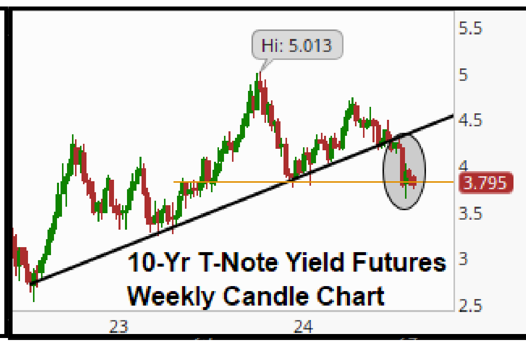
Gold

- 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



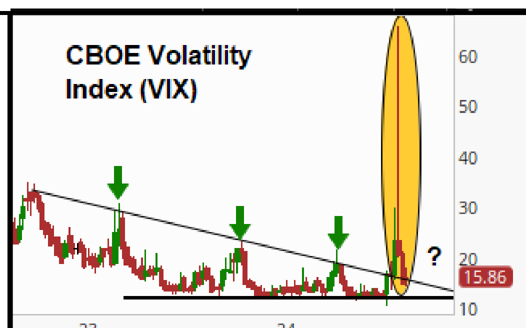
10-Year T-Note Yield Futures

- 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.