SEVENS REPORT

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

August 30, 2024

Pre 7:00 Look

- Futures are modestly higher thanks to solid tech earnings and better than expected inflation data from Europe.
- DELL and MRVL, both AI linked tech companies, posted solid earnings and guidance and that's supporting futures.
- Economically, EU HICP (their CPI) declined further to 2.8% y/y vs. (E) 2.9%, giving the ECB more room to cut rates.
- Econ Today: Core PCE Price Index (E: 0.2% m/m, 2.7% y/y), Chicago PMI (E: 46.4), Consumer Sentiment (E: 67.9, 1-Yr Inflation Expectations: 2.9%, 5-Yr. Inflation Expectations: 3.0%).

Market	Level	Change	% Change
S&P 500 Futures	5,630.00	20.00	0.36%
U.S. Dollar (DXY)	101.37	0.02	0.02%
Gold	2,552.40	7.80	-0.30%
WTI	75.98	0.07	0.09%
10 Year Yield	3.85%	-0.01	-0.24%

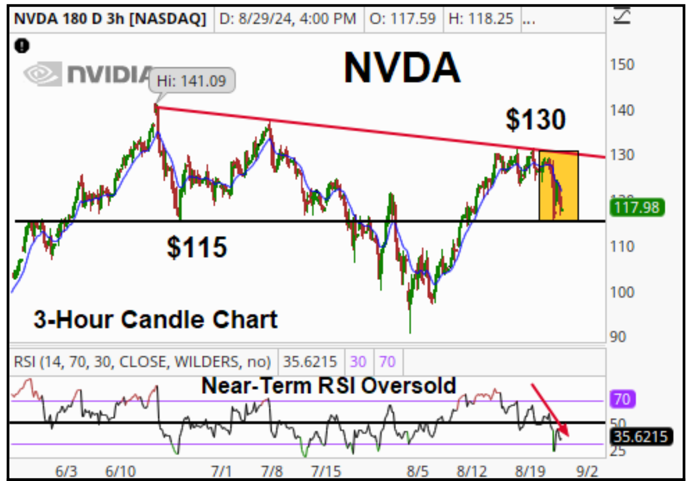
Equities

Market Recap

Stocks remained volatile yesterday as traders digested NVDA earnings, sorted through mostly upbeat economic data, and reacted to a late-day rise in Treasury yields. The S&P 500 closed effectively flat on the session.

U.S. equity futures were trading higher ahead of the open yesterday as a relatively modest, 3%-5% post-earnings decline in NVDA failed to prompt selling pressure across the rest of the mega-cap tech complex. Meanwhile, global economic news was encouraging.

First, inflation data out of Spain and Germany came in cooler than expected, which supported dovish money flows across global markets while a solid 3.0% print in headline GDP and even better consumer spending metrics within the release eased recession concerns. An in-line initial jobless claims print and stabilizing continuing claims data (unemployment rate proxy) added to the economic optimism and stocks gapped to the upside at the open and sprinted back towards the August highs in the first hour.



Reaction to NVDA's mostly solid earnings during the primary NYSE session yesterday was largely muted as the stock traded within the high and low extremes of Wednesday's after-hours trade. Support at $115 and resistance at $130 remain critical levels to watch.

The morning rally lost momentum coming into the European close as the Fed's Barkin noted that "we're not there yet" referencing the FOMC's mandated 2% inflation target and the S&P 500 stalled at 5,650 into the lunch hour. The market churned sideways until the results of the latest 7-Yr Treasury auction were disappointing and sent bond yields higher. At first, the selling pressure was mild, but the declines gained momentum leading into the final hour before stabilizing at Wednesday's settlement and the S&P oscillated around 5,600 into the closing bell.

Market	Level	Change	% Change
Dow	41,335.05	243.63	0.59%
TSX	23,227.49	100.51	0.43%
Stoxx 50	4,975.08	8.81	0.18%
FTSE	8,407.61	27.97	0.33%
Nikkei	38,647.75	285.22	0.74%
Hang Seng	17,989.07	202.75	1.14%
ASX	8,091.85	46.73	0.58%
Prices taken at previous day market close.			

Trading Color

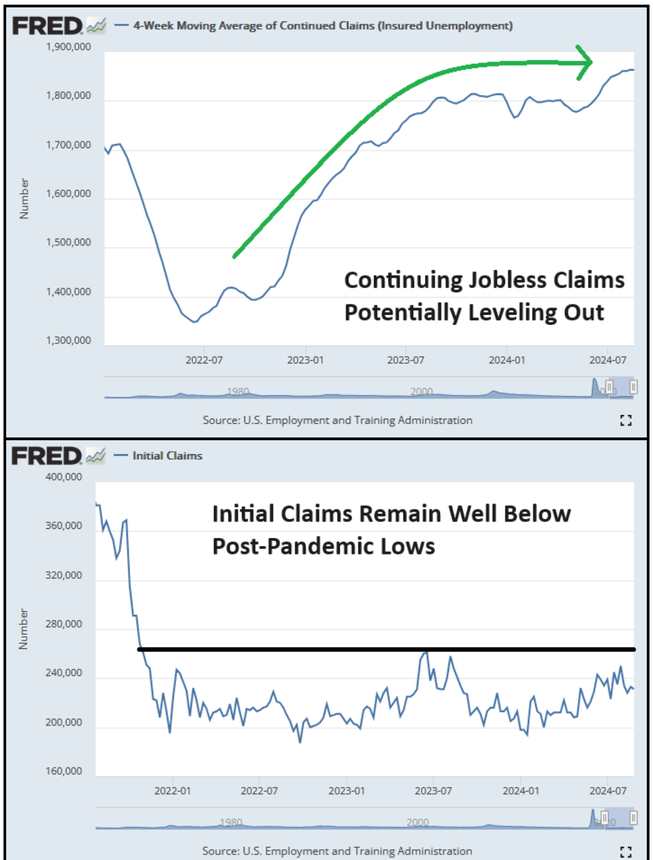
The rotation from tech to the "rest" of the market continued apace on Thursday as traders used initial tech weakness as a profit-taking opportunity. On an index level, small caps outperformed as the Russell 2000 rose 0.66%, courtesy of the solid GDP and jobless claims reports. The Dow Industrials rose 0.59%. The Nasdaq, which was 1% higher early, completed an ugly reversal and closed with a modest loss of 0.23%.

Market	Level	Change	% Change
DBC	22.36	.25	1.13%
Gold	2,556.80	19.00	0.74%
Silver	29.83	.20	0.66%
Copper	4.211	-.007	-0.17%
WTI	76.03	1.51	2.03%
Brent	79.95	1.30	1.65%
Nat Gas	2.145	.048	2.29%
RBOB	2.2520	.0372	1.68%
DBA (Grains)	24.87	-.06	-0.24%
Prices taken at previous day market close.			

On a sector level, there was a clear cyclical preference as the solid data and "not as good as hoped for" tech earnings fueled the rotation into cyclicals, and, to a lesser extent, defensive sectors. Those gains came at the expense of tech and related sectors. Energy (XLE) was the leader, rallying 1.3% on a nearly 2% gain in oil (which was driven mostly by the solid data boosting demand optimism). Industrials (XLI), Financials (XLF) and Materials (XLB) all rose 0.7% to 1.0% on those pro-cyclical money flows.

Conversely, Tech (XLK) was the clear laggard as it declined 0.9% thanks to the not-as-good-as-hoped-for NVDA earnings. NVDA declined 6.4%, which accounted for basically all of the decline in XLK (the balance of names in the sector were higher on the day).

Consumer Staples (XLP) also lagged on Thursday and declined 0.5% thanks to awful earnings and guidance from Dollar General (DG). DG dropped 32% on the day and the message from the call was clear: Consumers in that cohort (so low/lower income) aren't just cutting back anymore, they've stopped spending. For now, that's viewed as a "lower end" retailer problem, but these problems have a history of working their way up the income chain so I'm not going to be dismissive of DG's commentary (or the stock's implosion). Many of the discount retailers were weaker on the commentary on Thursday (including DLTR, and TGT).



Initial Jobless Claims edged lower last week, and are importantly still well below the post-pandemic cycle peak while the rise in Continuous Jobless Claims is beginning to slow, a favorable sign for the labor market.

Bottom line, the solid economic data drove market internals on Thursday and the rotation from tech and into cyclicals continued. As long as the path of least resistance for this market remains higher, we'd expect the "rest" of the market to continue to outperform tech.

Economics

Revised Q2 GDP

- Q2 GDP rose 3.0% saar vs. (E) 2.8% saar.

Takeaway

The second look at Q2 growth was revised higher and while this is now a very "stale" economic report (encompassing April-June) the bottom line is the market right now is seizing on any data that reinforces the soft landing narrative and this report did that, and that helped stocks rally on Thursday.

Not only did the headline show a positive revision, but more of the internals saw small, positive revisions as well. Personal Consumption Expenditures, otherwise known as consumer spending, rose 2.9% vs. (E) 2.3%, a very solid pace. Final sales of domestic product (which is a measure of the sale of all the "stuff" created in the U.S. regardless of where it went) rose 2.9% vs. the initial 2.8%. For reference, that number excludes "Net Exports," which can artificially skew parts of the GDP readings. Additionally, final sales to domestic purchasers, the measure of all the "stuff" purchased in the U.S. by U.S. consumer regardless of where it came from, also rose 2.9% vs. the initial 2.7%. This metric strips out inventory influences on the data.

Bottom line, the data is conclusive: Growth in the U.S. was very solid in Q2. That likely isn't a big surprise to anyone, but this data further confirms it and for a market that wants to believe in a soft landing and wants an excuse to go higher, this was helpful on Thursday and fueled the initial rally in stocks.

Commodities

Commodities were mostly higher despite continued strength in the dollar as global economic data was more favorable than anticipated amid solid labor market and consumer spending data and low inflation readings. Energy outperformed on easing growth worries and bullish production headlines out of a key OPEC+ member. The commodity ETF, DBC, rose 1.13%.

Beginning in the energy complex, WTI crude oil futures were little changed overnight until positive news flow began to hit the wires during the European session. First, the "cool" inflation data in Europe prompted dovish, risk-on money flows supporting oil prices. Then the rally accelerated when the market-friendly U.S. jobless claims data and GDP report were released, bolstering soft landing hopes and quelling recession fears. Finally, news that Iraq planned to cut crude oil production by upwards of 400K b/d added to the bullish momentum.

Market	Level	Change	% Change
Dollar Index	101.28	.29	0.28%
EUR/USD	1.1081	-.0039	-0.35%
GBP/USD	1.3174	-.0017	-0.13%
USD/JPY	144.84	.25	0.17%
USD/CAD	1.3477	-.0004	-0.03%
AUD/USD	.6802	.0017	0.25%
USD/BRL	5.6220	.0547	0.98%
Bitcoin	59,473.72	197.52	0.33%
10 Year Yield	3.867	.026	0.68%
30 Year Yield	4.151	.020	0.48%
10's-2's	0.00 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.53%		
Prices taken at previous day market close.			

WTI approached the highs of the week midmorning before futures reversed direction and began to pullback after the much-softer-than-anticipated Pending Home Sales release, which served as a reminder that recession risks are still very real. WTI futures ended the day towards the middle of the session's trading range, up 1.91%.

Looking ahead, the outlook for oil has deteriorated in recent weeks mostly due to demand worries related to an uncertain outlook for the global economy. The Iraq production news was misleading as there was a huge one-off spike in output in July and the announced "production cuts" would really just bring production back to the spring 2024 average. Technically speaking, the recent drop to seven-month lows is bearish and while geopolitical headlines could continue to trigger squeezy rallies, the path of least resistance has turned lower after spending the better part of the year in a roughly $10/barrel trading range.

Copper was volatile over the course of the session as futures initially dropped on an unexpectedly negative Australian Capital Expenditures report, which weighed on sentiment regarding the health of the broader Asian-Pacific economy (i.e., China) before recovering to positive territory with risk-on money flows in global equity markets. Then the "cool" CPI reports in Europe overnight saw futures reverse back lower thanks to a spike in the dollar.

Copper once again stabilized amidst the early rally in the U.S. stock market and futures recovered back to flat by the middle of the day. On the charts, copper futures are holding above the downtrend line that was violated earlier in the week but not extending the recent gains off the $4.00 support level. Copper ended down 0.24%.

Looking ahead, that support zone will remain in focus while $4.33 is initial resistance to the upside. Bottom line for copper, the market has stabilized after a bout of summer weakness off the May record highs and where futures go from here will offer insight as to how global investors view the growth backdrop in the current environment. A copper selloff would be a caution sign to note.

Gold rebounded in the face of a stronger dollar yesterday thanks to strength in short-duration Treasuries after the "cool" inflation data overseas bolstered bets for dovish global central bank policy including from the Fed. Counterintuitively, that saw market-based inflation expectations pop back towards the August highs, back above 2% and triggered an inflation-hedge bid in gold yesterday. Gold futures ended higher by 0.66% and remain in a well-defined uptrend. Looking ahead, rising inflation expectations should continue to support the 2024 gold rally unless inflation begins to shift monetary policy expectations back hawkish, which would pour cold water on the rally.

Currencies & Bonds

The Dollar Index rallied modestly Thursday and moved further above 101 thanks to better-than-expected inflation data in Europe. The Dollar Index rose 0.25%.

Economic data was dollar positive and euro negative on Thursday and that's the way the currency markets traded. Both Spanish and German inflation metrics dropped sharply and that weighed on the euro as it boosts the case for more ECB rate cuts. Spanish CPI rose 2.4% y/y vs. (E) 2.5% and down from last month's 2.9% increase.

German CPI, meanwhile, rose 2.0% y/y, down sharply from 2.6% y/y in June. Bottom line, inflation appears to be declining rapidly in the EU and that's going to 1) Make ECB rate cuts even more expected and 2) Encourage the ECB to cut even more and that's why the euro declined 0.4% on Thursday.

The economic data from the U.S. was in line to better than expected. The most important report of the day, jobless claims, was basically in line at 231k vs. (E) 232k, reflecting a still generally solid labor market. Q2 GDP, meanwhile, was revised positively and showed even better growth and while this is old data (from April to June) it's still a positive economic report. Bottom line, the in-line data combined with the smaller-than-expected inflation numbers in the EU boosted the dollar at the expense of the euro. Looking elsewhere, the pound and yen were little changed. Both fell 0.2% in quiet trade as there was no notable data nor central bank speak on the day.

Turning to Treasuries, the 2- and 10-year yields both rose 3 basis points each thanks to the generally better-than-expected economic data. Most of the movement yesterday can be considered a "drift" in the 10-year yield.

More importantly, the 10s-2s yield spread now is at zero. We'll talk about this more soon, but as we pointed out several weeks ago, historically speaking, "un-inversions" after lengthy 10s-2s inversions have been a negative signal for stocks.

Again, that's something I'm going to point out and review again soon, because market history doesn't repeat but it often rhymes. And amidst this loud chorus of optimism, I want everyone to be aware of this historical precedent (which really is not good).

Have a relaxing and safe Labor Day weekend,

Tom

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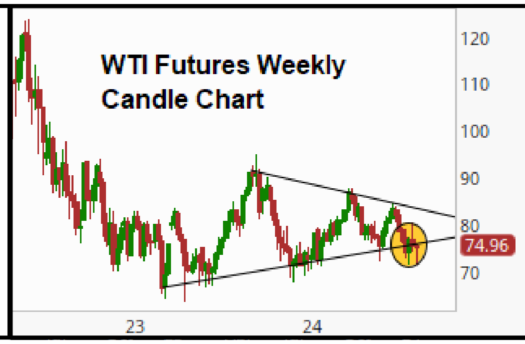
Technical Perspectives (Updated 8/25/2024)

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

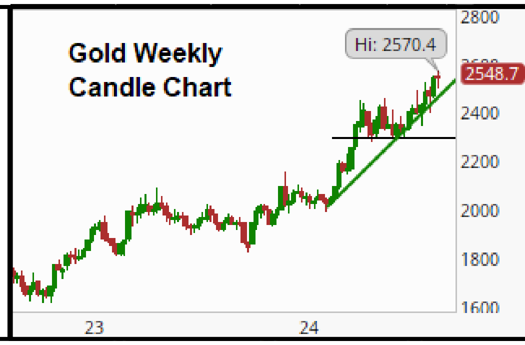
WTI Crude Oil

- 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



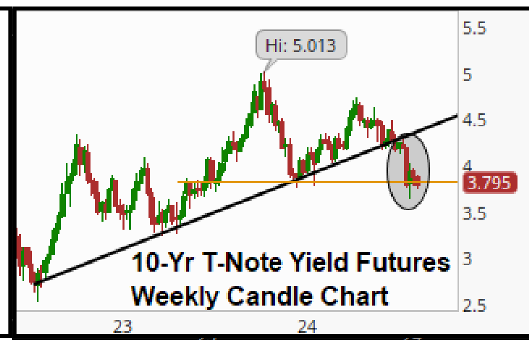
Gold

- 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



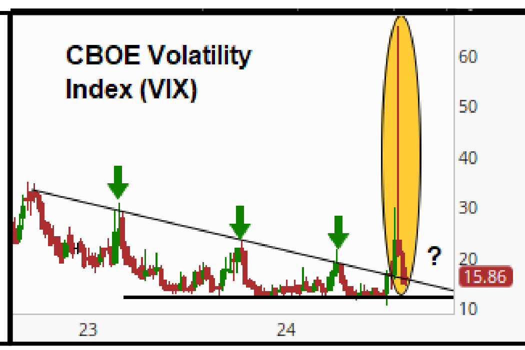
10-Year T-Note Yield Futures

- 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



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.