SEVENS REPORT

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

August 5, 2024

Pre 7:00 Look

- Futures are plunging globally on snowballing concerns about economic growth following Friday's soft jobs report.
- Global growth concerns are the main reason behind the stock weakness but technical factors are majorly at play, as the Nikkei fell 12% on Monday (not a typo) despite no real, negative news (other than a continued yen rally).
- Economically, actual data was solid overnight as both the EU and UK Composite PMIs slightly best estimates.
- Econ Today: ISM Services PMI (E: 51.0). Fed Speak: Daly (5:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,213.00	-163.00	-3.02%
U.S. Dollar (DXY)	102.60	-0.60	-0.58%
Gold	2,459.10	-10.70	-0.43%
WTI	72.31	-1.21	-1.66%
10 Year Yield	3.72%	-0.06	-1.62%

Equities

Market Recap

Stocks attempted to stabilize into the middle of last week as tech earnings suggested AI-driven growth prospects were still intact; however, bad economic data Thursday and Friday led to a resurgence in recession concerns that saw the S&P 500 roll over to end the week down 2.06%. The index is now up 12.09% YTD.

It was a slow start to the week last Monday as the massive rotation away from tech and into the "rest of the market" paused after dominating the price action for most of July. Quiet headlines ahead of a critical week of earnings, central bank decisions, and economic data saw the S&P 500 edge up 0.08%.

Volatility began to pick up on Tuesday as the June JOLTS report was slightly better than anticipated but the July Consumer Confidence report disappointed. News that the BOJ was considering a 25-bps rate hike at the start of their July meeting restarted an unwind of the carry trade, which pressured mega-cap tech and that dragged the S&P 500 down for a 0.50% daily decline.

The market gapped solidly higher Wednesday as solid earnings from U.S. chip giant AMD offset less-positive earnings out of tech behemoth MSFT ahead of the Fed. The FOMC announcement was largely in line with expectations and Powell's mention of growing worries about the health of economic growth helped solidify September rate cut expectations. The S&P 500 held morning gains through the Fed events and ended up 1.58%.

Stocks maintained gains early on Thursday thanks to solid earnings from Mag 7 member META after the close Wednesday, which were supplemented by solid earnings and guidance from QCOM. The gains were short-lived, however, as an ugly ISM Manufacturing Print rekindled hard-landing fears when the data crossed the wires 30 minutes into the Wall Street session. News flow quieted after the ISM print and a steady selloff that lasted the entire day saw the S&P 500 close down 1.37%, essentially giving back all of Wednesday's gains.

On Friday, stocks gapped lower at the open amid broad risk-off money flows and heavy selling pressure following the July jobs report as, not only did the headline job-adds figure badly undershoot estimates, the unemployment rate unexpectedly jumped 0.2% to 4.3%, which elected the Sahm rule recession warning, which has a 100% success rate in predicting the onset of a recession. The S&P 500 bottomed into the European close near

Market	Level	Change	% Change
Dow	39,737.26	-610.71	-1.51%
TSX	22,227.63	-495.58	-2.18%
Stoxx 50	4,523.64	-115.06	-2.48%
FTSE	7,981.54	-193.17	-2.36%
Nikkei	31,458.42	-4,451.28	-12.40%
Hang Seng	16,698.36	-247.15	-1.46%
ASX	7,649.56	-293.68	-3.70%

Prices taken at previous day market close.

5,300 before drifting sideways, ending off the lows but still down a steep 1.84%.

The Growth Scare is Here

Market	Level	Change	% Change
DBC	21.90	-.41	-1.84%
Gold	2,428.10	-6.90	-0.28%
Silver	28.52	.04	0.15%
Copper	4.1175	.0350	0.86%
WTI	73.73	-2.58	-3.38%
Brent	77.00	-2.52	-3.17%
Nat Gas	1.972	.004	0.20%
RBOB	2.3162	-.0818	-3.14%
DBA (Grains)	23.29	.03	0.13%
Prices taken at previous day market close.			

The growth scare that we and others have been worried about finally appeared last week courtesy of the soft ISM Manufacturing PMI and jobs report and the result was a sharp drop in the S&P 500 and a collapse in Treasury yields (to nearly six-months lows). Additionally, on Friday I heard countless mentions across the financial media of recession risks and possibilities.

However, it's important to push back on the emotional anxiety that naturally occurs when stocks drop and the financial media screams trouble. But here is the reality from last week's data. First, for anyone paying attention (as we all have been) last week's data was not a surprise. There have been signs of a loss of economic momentum in various data points for months via economic reports and corporate commentary.

Second, last week's data really wasn't that bad in aggregate. Yes, the ISM Manufacturing PMI was ugly but it's been weak for months and wasn't that much worse than before. Jobless claims and the jobs report, meanwhile, were worse than expected but on an absolute basis, 249k jobless claims is still very low and while July only added 114k jobs, the three- and six-month averages are still very healthy in the high-100k range.

Third, and most importantly, last week's declines are more about the complacency we and others have warned about, not about a sudden, serious deterioration in the data. Two weeks ago, the S&P 500 was trading near 5,600 on a 2024 EPS of $245ish and 2025 EPS of $270ish. That's a 22.8X multiple and a 20.8X multiple, respectively. Those are multiples for perfect environments, i.e. solid (and not slowing growth), explosive earnings growth, no existential risks (geopolitics, etc.). **That's not the environment the market has been in for months and last week the data was bad enough to make the market finally admit it and that's why stocks dropped hard, not because the actual fundamentals turned materially worse (they just weren't as good as hoped for and investors finally had to admit it Friday).**

Here's why I can confidently say this: If the data was as worrisome as the market implied on Friday, nothing would have been up last week. But plenty in the market was: USMV (up 0.31%), SPLV (up 1.04%), XLU (up 3.47%), XLP (up 0.56%) XLV (up 0.15%) all were positive. **If the data was screaming recession, those sectors would not be positive, they'd just be down a lot less than everything else. Additionally, all of those sectors are positive since July 16 (the peak in the S&P 500).**

Looking forward, is a recession that hits stocks hard possible? Absolutely. And that's a risk we are <u>continuing</u> to watch closely. But suddenly saying a recession is a real risk is about as appropriate as previously thinking one wasn't possible at all.

Bottom line, the growth scare is here. We continue to advocate for reduced volatility in portfolios via defensive sectors and lower volatility ETFs (e.g. USMV/SPLV) because we doubt it's over yet. But last week's data just told us, unequivocally, that growth is slowing and the market finally had to listen. That does not mean a contraction or recession is imminent and as such we do not think de-risking via raising cash is appropriate unless you are <u>sure</u> you can get back in appropriately, because the outlook for this market hasn't significantly changed as much as the price action implies.

Economics

Last Week

Economic data was almost universally disappointing last week and two of the three major monthly economic reports pointed to an economy now losing momentum and those weak readings spiked economic growth concerns and sent stocks lower and Treasuries higher. The big report last week was July jobs, and it was the weakest report in a long time. Job adds were 114k, far below the 170k estimate and the lowest number in several years. The unemployment rate, meanwhile, rose to

4.3%, above the 4.1% expectation and the highest reading since October 2021. Perhaps most disconcertingly, the U-6 under-employment rate rose to 7.8% from 7.4%, the highest level in several years. Bottom line, labor market indicators have been consistently, albeit slowly, softening for months and it finally showed up in the monthly labor market data as the labor market is clearly slowing in the U.S.

Looking at other data last week, there was only one notable growth report last week but it was one of the biggest disappointments of the week, as the ISM Manufacturing PMI declined to 46.8 vs. (E) 48.8, the lowest level since last August. That drop caused slowdown concerns to pop and majorly contributed to Thursday's steep selloff. What made the ISM Manufacturing PMI such a bad number wasn't just the headline, but also the details of the report (which were equally as bad as the headline, if not worse). New Orders, the leading indicator in the report, fell to 47.4 vs. 49.3 previously while the Employment Index declined to 43.4 vs. (E) 49.3.

In sum, this was the worst week for economic data in a long time. To be clear, these numbers do not point to a recession. A 4.3% unemployment is hardly awful and jobless claims of 249k would, historically, still be considered good. But the trend in this data is concerning from a growth standpoint and because the market has priced in virtually zero chance of a slower-than-expected economy, the data did spike slowdown worries and hit stocks and boosted Treasuries.

Next Week

After the data deluge last week, there are only two notable economic reports this week but they are both potentially important for a simple reason: They will either increase economic anxiety (and pressure stocks and boost Treasuries) or they will ease that anxiety and provide some relief for equities.

The first important report of this week is the ISM Services PMI (out today). Both the ISM Services and ISM Manufacturing PMIs have been under 50 (in contraction) for two of the past three months. If that stretches to three of the past four months that will be a stronger signal that growth is slowing more than the market currently anticipates. The ISM Services PMI needs to get back above 50 to push back on slowdown concerns.

The other notable economic report this week is weekly jobless claims, which rose to 249k last week, nearly a one-year high. Claims are consistently ticking higher for the first time in well over a year and if that trend continues, and claims rise above 250k and move towards 300k, that will further the idea that the labor market is weakening and that will increase economic slowdown concerns (and again, hit stocks and boost Treasuries).

Commodities

Commodities traded with a clear risk-off tone last week as bad economic data stoked recession fears which weighed on demand prospects for energy and industrial metals markets while gold rallied to new record highs on safe-haven money flows. The commodity ETF, DBC, fell 1.53% on the week.

Oil prices notched their fourth weekly loss in a row last week, ending Friday with a weekly decline of 3.01%. The declines occurred as geopolitics and supply concerns took a backseat to recession worries and subsequently declining demand expectations after a string of bad economic data in the U.S. and abroad. Geopolitical tensions picked up but the market impact was limited as the demand risks related to a looming recession more than offset the uptick in risks to supply given the Israel-Iran conflict as there has been no meaningful impact on global oil supply tensions first picked up last fall. That leaves the current fundamental "scale" tipped in favor of the bears. The broad risk-off money flows across asset classes last week saw WTI futures fall into a key 2024 support band between $72.50 and $74.50. On the charts, the trend is still neutral with futures in a compressing

Market	Level	Change	% Change
Dollar Index	103.01	-1.19	-1.14%
EUR/USD	1.0913	.0122	1.13%
GBP/USD	1.2808	.0069	0.54%
USD/JPY	146.62	-2.74	-1.83%
USD/CAD	1.3864	-.0010	-0.07%
AUD/USD	.6517	.0016	0.25%
USD/BRL	5.7156	-.0307	-0.53%
Bitcoin	62,786.27	-452.37	-0.72%
10 Year Yield	3.792	-.184	-4.63%
30 Year Yield	4.109	-.162	-3.79%
10's-2's	-8 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.32%		
Prices taken at previous day market close.			

range, but the technicals are deteriorating with weekly RSI at a YTD low but not yet oversold. That suggests more downside is increasingly likely moving forward.

Copper was heavy for most of last week but futures notably held support just above $4.00 and eked out a 0.45% gain on the week. The reason for the early weakness in copper was largely the same as the reason for the weakness in energy as economic data suddenly began to project a more pronounced threat of an imminent recession. Copper was able to hold support at $4.00, amid firming hopes of imminent rate cuts, and the prospects for a relief rally improved. But the trend in copper remains bearish in H2'24.

Gold rallied beyond $2,500/oz. for the first time ever last week as demand for safe-haven assets and the prospect of imminent rate cuts sent yields sharply lower and supported solid gains for gold into the weekend. Gold ended the week up 2.19% at all-time highs and the path of least resistance remains decidedly higher.

Currencies & Bonds

In many ways, the most important movements last week came from the bond markets, specifically in Treasuries as yields absolutely collapsed from disappointing growth while the 10s-2s spread hit a multi-year high and is now one more bad economic report from turning positive.

The 2-year yield dropped 40 basis points (it started last week at 4.37%) while the 10-year yield fell 30 basis points (it started last week at 4.17% but dropped below 4% for the first time since February) and the 10s-2s spread hit a high of 7 basis points before closing around 8 basis points.

The reason for the drop in yields is clear: U.S. economic data was much worse than expected. That spiked slowdown worries and yields tumbled as a result. From a Fed standpoint, markets aggressively priced in more dramatic rate cuts and the expectation for a 50-bps cut in September rose to 75%.

The bond market is now signaling a real chance of a greater-than-expected economic slowdown and falling yields are no longer a positive for markets. Going forward, the sooner Treasury yields can stabilize (ideally with the 10 year close to 4%) the better for markets.

Looking at the 10s-2s yield spread, it's going to turn positive, probably in the next week or two (and almost definitely if today's ISM Services PMI is weak). Market history never perfectly repeats itself, but I will again point out the un-inversion of the 10s-2s yield spread has been, historically, a negative event for stock prices and I just want us to be aware this is going to happen soon and at that point, investors will have historical justification to get much more defensive in their positioning. These are historically not good signals we are receiving from the bond market on growth and they are getting louder.

Turning to currencies, the Dollar Index fell 0.8% last week with all of the weekly losses coming on Friday (the Dollar Index dropped 1% on Friday). The reason for the decline was clear: The market is now pricing in a better-than-average chance of a 50-bps rate cut by the Fed in September. That's more than was previously expected and as such, the Dollar Index dropped sharply as U.S. growth appears to be slowing more than expected.

Global currencies rose vs. the dollar, with the yen the best performer as the BOJ gave markets a surprise rate hike and a promised reduction of QE. The yen surged 4% vs. the dollar and the unwind of the yen carry trade is almost certainly putting more pressure on stocks. The euro also rose vs. the dollar but only because of Friday's dollar drop (the euro rose 0.35%) while the pound declined modestly on the week (-0.35%) as the BOJ mildly surprised markets by cutting rates in a 5-4 vote (making the BOE slightly more dovish than expected).

Bottom line, the currency and bond markets are confirming what we're now seeing from U.S. economic data and hearing from corporate management, namely that the U.S. economy is clearly losing momentum and slowdown risks may well be higher than investors had thought (something we and others have been warning about for months).

Have a good week,

Tom

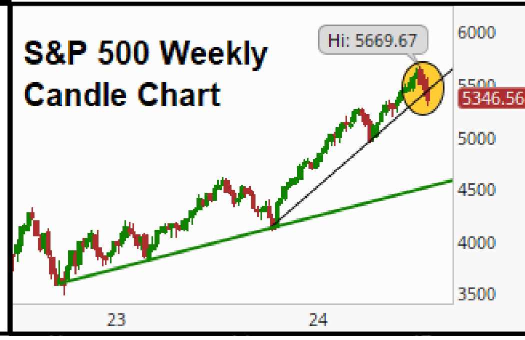
8/5/2024

SEVENS REPORT

Technical Perspectives (Updated 8/4/2024)

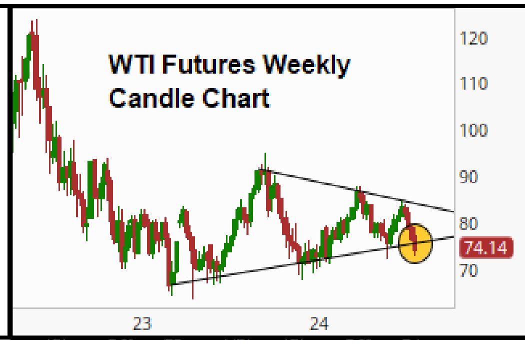
S&P 500

- Technical View: **The medium-term trend in the S&P 500 has shifted from bullish to neutral** as the uptrend line off the October 2023 lows was violated last week.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5399, 5479, 5537
- Key Support Levels: 5302, 5235, 5116



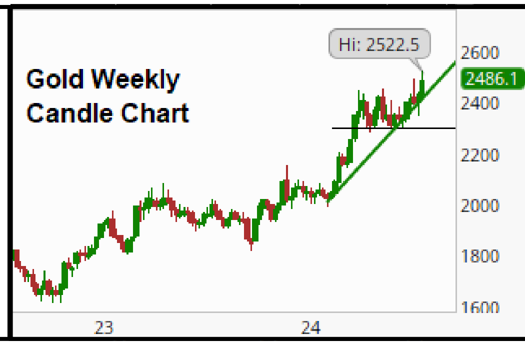
WTI Crude Oil

- Technical View: The price action in the oil market has become heavy late in the sum-mer as the uptrend off the early 2023 lows was violated to start August.
- Primary Trend: **Neutral (since the week of July 15, 2024)**
- Key Resistance Levels: $75.28, $76.93, $78.64
- Key Support Levels: $72.92, $71.32, $$69.87



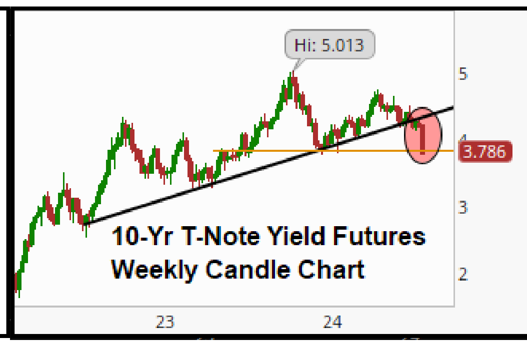
Gold

- Technical View: Gold hit new record highs to start 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: $2493, $2523, $2,590
- Key Support Levels: $2474, $2433, $2363



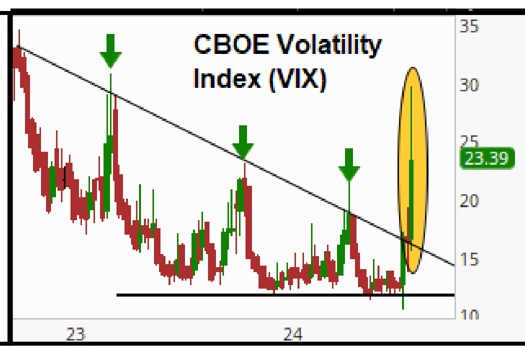
10-Year T-Note Yield Futures

- Technical View: The 10-year yield collapsed further below the uptrend line off the late-2022 lows and fell to a fresh 52-week low last week, notably reversing the trend.
- Primary Trend: **Bearish (since the week of July 29, 2024)**
- Key Resistance Levels: 3.84, 3.931, 3.98



CBOE Volatility Index (VIX)

- Technical View: The VIX surged to new 52-week highs last week shifting the technical outlook from neutral to bullish suggesting elevated risks of more volatility ahead.
- Primary Trend: **Bullish (since the week of July 29, 2024)**
- Key Resistance Levels: 25.97, 28.56, 9.66
- Key Support Levels: 20.52, 18.59, 16.74



SEVENS REPORT

Fundamental Market View (Updated 8/4/2024)

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 fell sharply last week thanks to disappointing economic data as the economic growth scare finally arrived and pushed the S&P 500 to multi-week lows.*

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 continued to trade with a clear risk-off tone last week with oil leading declines into Friday's jobs report. The sharp drop in the dollar paired with safe-haven money flows helped drive gold to record highs while copper recovered to end the week with a slight gain.*
US Dollar	**Neutral**	*The Dollar Index dropped sharply thanks almost entirely to Friday's soft jobs report, as that spiked slowdown worries and increased expectations for a 50-basis-point rate cut in September.*
Treasuries	**Turning Positive**	*Treasury yields collapsed last week in the face of disappointing economic data and they are signaling an economic slowdown. The 10-year yield plunged below 4% while the 10s-2s yield spread rose to –8 basis points, all worrisome signals from a growth standpoint.*

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.