SEVENS REPORT

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

August 8, 2024

Pre 7:00 Look

- Futures are slightly lower following a generally quiet night of news as markets digest Wednesday's failed rally.
- Japan remains at the center of global markets and the "Summary of Opinions" (think of it as the BOJ minutes) showed officials discussed further rate hikes but also that the BOJ is, for now, on hold (and that's a mild positive).
- Geo-politically, tensions between Israel and Iran/Hezbollah remain elevated and a retaliation is expected any day.
- Econ Today: Weekly Jobless Claims (E: 240K). Fed Speak: Barkin (3:00 p.m. ET).

Market	Level	Change	% Change
S&P 500 Futures	5,216.00	-9.50	-0.18%
U.S. Dollar (DXY)	103.14	-0.06	-0.06%
Gold	2,439.00	6.60	0.27%
WTI	75.10	-0.13	-0.19%
10 Year Yield	3.92%	-0.04	-1.09%

Equities

Market Recap

Stocks attempted to rebound again on Wednesday but a soft Treasury auction and mixed earnings weighed on markets throughout the day and the S&P 500 turned negative in the afternoon and finished well off the highs and with moderate losses. The S&P 500 declined 0.77%.

The market rebound that started on Tuesday continued on Wednesday morning thanks mostly to reassuring commentary from Bank of Japan officials that they would not be tightening policy in the near future (this took pressure off the unwind of the yen carry trade). That positive BOJ commentary helped offset another underwhelming day of earnings as Airbnb (ABNB) and Disney (DIS) both warned on travel trends (ABNB posted bad earnings while DIS beat estimates but warned on theme park attendance). Additionally, semiconductor company Super Micro Comp (SMCI) had mixed guidance.

However, after a solid rally at the start of the day, stocks chopped sideways as there was no additional positive catalyst in the morning. After lunch, a very poor 10-year Treasury auction reminded investors of the uncertain outlook for Treasuries and that began to weigh on stocks. And as the morning's gains were eroded, selling pressure increased and the major averages turned negative by the mid-afternoon. Outside of the soft Treasury auction, however, there wasn't any specific negative catalyst. Instead, it's just that the market needed a steady feed of positive news to hold the bounce and the Treasury auction interrupted it and, as such, stocks declined.

The S&P 500 declined into the close and especially during the last 20 minutes of trading as a large sell imbalance at the close pushed the S&P 500 to close at the lows of the day and in disappointing fashion.

Most Important Financial Asset in the World (Right Now)

Strength in the Japanese yen has been a major driver of the equity market weakness; however, yesterday the yen provided some needed relief as it fell sharply (down 1.7%) thanks to re-assuring comments from Bank of Japan officials. For context, the strengthening yen is still a major negative on global stock markets due to the unwind of the yen carry trade. Conversely, a declining yen is now a positive for stocks and we saw that yesterday, albeit temporarily, thanks to dovish commentary by Bank of Japan Deputy Governor Shinichi Uchida.

Specifically, Uchida stated that due to the increase in

Market	Level	Change	% Change
Dow	38,763.45	-234.21	-0.60%
TSX	21,880.95	-98.41	-0.45%
Stoxx 50	4,625.66	-42.40	-0.91%
FTSE	8,090.36	-76.52	-0.94%
Nikkei	34,831.15	-258.47	-0.74%
Hang Seng	16,891.83	13.97	0.08%
ASX	7,681.98	-17.85	-0.23%

Prices taken at previous day market close.

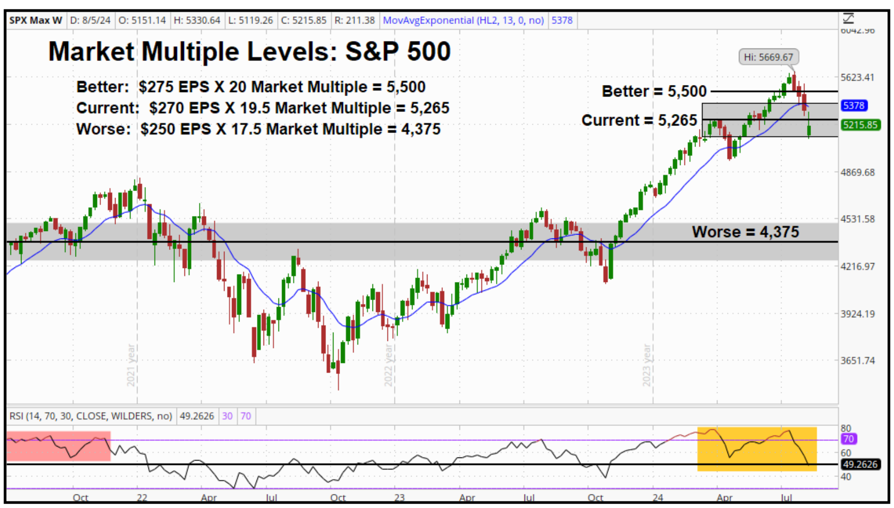
volatility in Japanese markets (remember the Nikkei dove 12% then rallied 10%) and international markets, the BOJ would "maintain current levels of monetary easing for the time being." That comment essentially told markets there would be no more near-term hawkish surprises from the BOJ and as such, that helped markets breathe an early sigh of relief and rally solidly, but the soft Treasury auction reversed those gains.

Market	Level	Change	% Change
DBC	21.88	.20	0.92%
Gold	2,430.30	-1.30	-0.05%
Silver	26.87	-.34	-1.25%
Copper	3.9425	-.0845	-2.10%
WTI	75.32	2.12	2.90%
Brent	78.42	1.94	2.54%
Nat Gas	2.101	.091	4.52%
RBOB	2.3613	.0351	1.50%
DBA (Grains)	24.10	.38	1.60%
Prices taken at previous day market close.			

Regardless, this market remains linked with the yen and broadly speaking, if the yen can weaken vs. the dollar (so dollar/yen rises back towards 145 or 150) that will help global stock markets stabilize. Conversely, if the yen strengthens and moves back towards the recent lows at 141 yen/dollar, expect renewed pressure on stocks. We must watch the yen daily until this situation calms down, and that's exactly what we will be doing for you.

MMT Chart: Scenario Targets Compress

All three scenario price targets for the S&P 500 changed in the August Market Multiple Table update, the second month in a row that was the case. The current situation and better-if scenario targets were both lowered from all-time highs due to lower multiple target ranges amid steady respective earnings expectations for the S&P 500 in 2025. Meanwhile, the worse-if range was raised moderately thanks to an increase in earnings expectations amid a steady multiple target range. The increase in the worse-if scenario target and decreases to both the current situation and better-if scenario resulted in the MMT targets compressing from previously wider levels. The compression in the MMT targets is consistent with three things 1) Some of the H1'24 froth coming out of the market (lower current and better scenario targets), 2) A modest improvement in underlying fundamentals (lifted worse-if target), and 3) A modestly less uncertain market landscape (tighter spread between the worse-if target and better-if targets).



Current Situation: The current situation market multiple target range for the S&P 500 was lowered in August as expected 2025 EPS for the S&P 500 held steady at $270 while the multiple range was reduced from 19.5X-20.5X down to 19X-20X providing a target range of 5,130 to 5,400 with a midpoint of 5,265. The S&P 500 notably opened above and declined through the current situation midpoint price target over the course of yesterday's session suggesting the broader stock market is trading near fair value this week.

On the charts, the technical significance of the current situation fundamental valuation target is immediately apparent as the midpoint of the current situation trading range at 5,265 is almost exactly where the S&P 500 topped out in late March before the early April pullback. Once the S&P 500 stabilized just under 5,000, and revisited the record highs in the second quarter, the index spent an entire four weeks oscillating around the 5,265 area. When a security spends that much time near one price point, which means a lot of volume is changing hands in the vicinity, it will almost always be revisited and remain significant in the future. Case in point, the S&P 500 gapped below the current situation midpoint of 5,265 on Monday but recovered back above it in intraday trade on Tuesday. The current situation midpoint of 5,265 is an important level for this market right now as traders attempt to better assess the fundamental backdrop. And it would not be surprising to see the S&P 500 revisit 5,265 area several times in the weeks ahead.

Things Get Better If: The better-if scenario market multiple target range for the S&P 500 was also lowered in August as expected 2025 EPS for the S&P 500 held steady at $275 while the multiple target was reduced from 21X to 20X, providing a target of 5,500.

On the charts, the better-if target of 5,500 also acted as a pivot point for the S&P 500, but more recently as the level first capped the late-June advance before the index lurched to new record highs in July. Once the S&P peaked and started to pullback amid the unwind of the global carry trade and squeeze in the yen, the previous resistance level of 5,500 "caught" the index and saw it churn sideways on either side of the better-if target from July 19 to Aug. 2, when stocks came for sale hard amid the violent unwind of the short-volatility trade (VIX squeeze). If the broader stock market is poised to stabilize and make another run at all-time highs, which most strategists see a strong likelihood for, then the technical and fundamental significance of 5,500 will likely offer "cause for a pause" in such a rally. Importantly, given recession risks and the growing threat that the market may put in a longer-term top here, a failed rally at 5,500 would mark a rather negative development regarding the price action, one that is typical of bear market tops like we saw in the early days of 2022, October 2007, and early in 2000. Bottom line, we don't want to see the S&P 500 fail at 5,500 in the weeks or months ahead as that would "rhyme" closely with price action and price patterns from late-cycle environments in years past that market lasting tops in the stock market. To be clear, we are not saying that is the most likely scenario, but just one to be aware of and watching.

Market	Level	Change	% Change
Dollar Index	103.00	.24	0.24%
EUR/USD	1.0925	-.0006	-0.05%
GBP/USD	1.2695	.0004	0.03%
USD/JPY	146.87	2.53	1.75%
USD/CAD	1.3745	-.0040	-0.29%
AUD/USD	.6521	.0001	0.02%
USD/BRL	5.6217	-.0411	-0.73%
Bitcoin	54,944.19	-1,750.52	-3.09%
10 Year Yield	3.968	.080	2.05%
30 Year Yield	4.261	.084	2.01%
10's-2's	-4 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.42%		
Prices taken at previous day market close.			

Things Get Worse If: The worse-if scenario market multiple target range for the S&P 500 bucked the trend in August as expected 2025 EPS for the S&P 500 was lifted from $243 to $250 while the multiple range was unchanged at 17X-18X providing a range of 4,250 to 4,500 with a midpoint of 4,375. Even with the increase to the worse-if target range in August, the midpoint was still a steep 18% below where the S&P 500 ended last week and at levels the S&P 500 has not seen since late last year as the latest leg of the mega-cap tech rally was starting to gain steam.

On the charts, the S&P 500 has interacted with the worse-if target range of 4,250 to 4,500 since the index first reached the lower bound as an all-time high. In fall 2021, the S&P 500 edged beyond 4,500 only to reverse all the way back to 4,250 before stabilizing. During the 2022 bear market, the S&P 500 oscillated around the 4,375 area between January and May before breaking lower. A summer relief rally stalled between the lower bound and midpoint of the worse-if range before the S&P 500 rolled over and officially fell into bear market territory in October. Then in 2023, the S&P 500 edged beyond 4,500 briefly in July, only to retrace those gains and fall back below the lower bound at 4,250 prior to the tech-led rally into 2024. A lot of money has traded hands with the S&P 500 within close proximity of the worse-if range between 4,250 and 4,500, and as such, it will be an important technical area if stocks selloff hard.

Relative Strength Index Points to Correction Risks: The Relative Strength Index (plotted on the sub-chart of the S&P 500 MMT chart on Page 2) is a widely followed technical indicator used to measure market momentum (above 50 is positive, below 50 is negative), confirm price strength or weakness (new highs in price should be accompanied by new highs in the RSI), and identify overbought and oversold market conditions (above 70 is considered overbought, below 30 is considered oversold).

It is very important to point out two dynamics in the weekly RSI reading on the S&P 500 MMT chart. First, the new record highs this summer were "unconfirmed highs," in that RSI failed to make new highs with the outright level of the index, a setup that often precedes market corrections. Second, weekly RSI has broken below the April lows and turned negative below 50, suggesting bearish momentum is dominating the stock market right now and more weakness is likely in the months ahead. **For a higher-resolution, unbranded version of the latest MMT chart please email info@sevensreport.com.**

Economics

There were no material economic reports yesterday.

Commodities

Commodities were decidedly mixed as oil rallied on geopolitical tensions despite weak demand figures in the weekly EIA report while copper futures broke down to new multi-month lows and gold ended little changed. The commodity ETF, DBC, gained 1.06% thanks to the strength in energy markets.

Beginning with the metals, gold rallied early in the day before rolling over with bonds over the course of the session. Gold continues to digest its latest rally to record highs, which were reached last Friday, with futures churning above now-important support at the $2,400/oz. level. The new highs are bullish and leave the path of least resistance higher.

Copper quietly broke down to the lowest levels since mid-March, violating recently critical support at the $4.00 mark. With support violated, traders will look to previous support between $4.00 and $4.20 as resistance now and the path of least resistance for copper remains lower near term as futures retreat from the all-time highs reached back in May.

EIA Data Takeaways and Oil Market Update

Global oil prices were on the rise early yesterday thanks to elevated geopolitical tensions between Israel and both Hezbollah and Hamas. WTI futures pulled back modestly in the wake of the EIA report but ended the day with a solid daily gain of 3.05%.

The inventory numbers were slightly bullish as the headline draw of -3.7MM bbls in commercial crude oil stockpiles was much larger than the expected -500K decline and a surprise vs. the API's 180K. Product stockpiles both rose more than anticipated but by less than the API leaving them to be incrementally bullish, complementing the solid oil headline. A 100K b/d uptick in domestic production to a new record of 13.4MM b/d was a slightly bearish development but not enough to turn the market lower given the geopolitical tensions.

Currencies & Bonds

Global currency markets have been major influences on the U.S. stock market lately but yesterday it was the domestic Treasury market's turn, as a disappointing 10-year Treasury auction weighed on stocks and pushed them into negative territory around midday. Specifically, demand for 10-year Treasury auction was soft, as the bid to cover was 2.32X, the worst level since December 2022 while the actual yield was 3 bps above the "When Issued" yield, implying not-aggressive bidding. The only silver lining in the auction was average international demand, as Indirect bidders bought 66.2% of the auction, so it wasn't a foreign "buyers strike."

Instead, it was likely the fact that last month the yields offered on the 10-year Treasury were 20-40 basis points higher and investors (probably correctly) view the spike down over the past two weeks as an overreaction to what's occurring in the economy and with inflation. Point being, this is the market acting properly and unfortunately, it's one of the repercussions of this intense volatility and it'll take some time to work out.

The 10-year yield started the day 5 bps higher and closed 7 bps higher while the 2-year yield was flat. The 10s-2s yield spread rose to -4 bps and we should all expect it to turn positive in the coming days or weeks.

The dollar enjoyed a modest rally and gained 0.21% as it moved further back into the 103-106 trading range. The main reason for the dollar strength was the yen weakness, as the euro and pound were both flat. The Dollar Index largely consolidated the recent volatility into the stock-neutral 103-106 range.

Have a good day,

Tom

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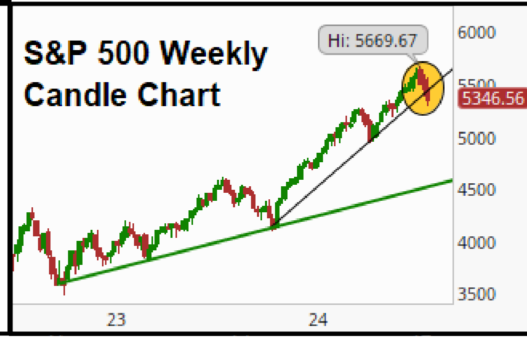
Technical Perspectives (Updated 8/4/2024)

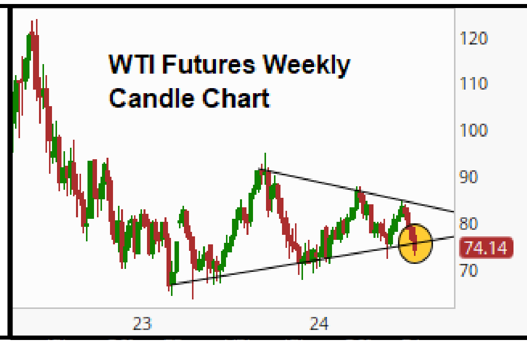
S&P 500

- 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



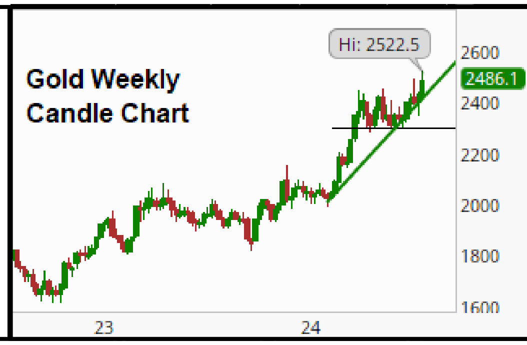
WTI Crude Oil

- Technical View: The price action in the oil market has become heavy late in the summer 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

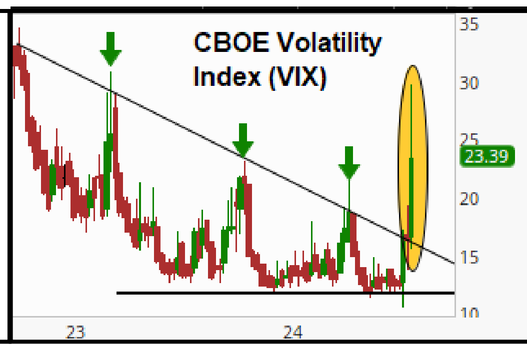


10-Year T-Note Yield Futures

- 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



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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.