SEVENS REPORT

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

August 9, 2024

Pre 7:00 Look

- Futures are modestly higher and are extending Thursday's gains following a mostly quiet night of news.
- Most of the early rally this morning is due to momentum from Thursday's surge in stocks, but Taiwan Semiconductor (TMSC) also gave a positive July revenue update which is boosting tech/AI sentiment and supporting markets.
- Geo-politically, a retaliatory attack from Hezbollah and/or Iran on Israel remains imminent and we shouldn't be shocked if geo-political risks rise over the weekend.
- Econ Today: No reports today.

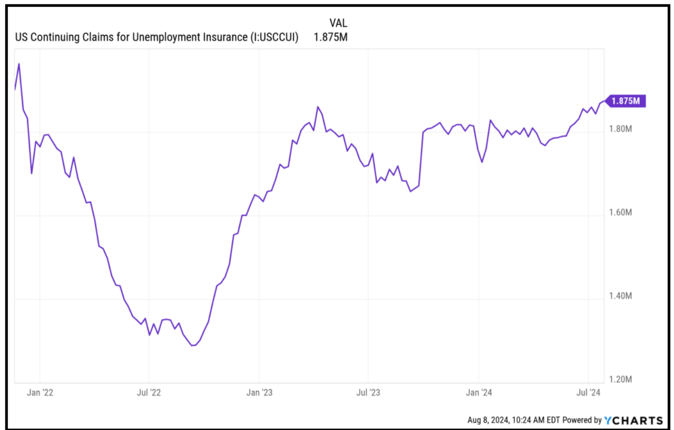
Market	Level	Change	% Change
S&P 500 Futures	5,354.75	6.25	0.12%
U.S. Dollar (DXY)	103.19	-0.02	-0.02%
Gold	2,467.40	4.10	0.17%
WTI	76.38	0.19	0.25%
10 Year Yield	3.96%	-0.04	-0.96%

Equities

Market Recap

Stocks continued to swing wildly yesterday but selling pressure gave way to a robust rally that saw the S&P 500 notch its largest one-day gain since late 2022, ending higher by 2.30% thanks to easing recession fears and stabilizing currency and derivatives markets.

For the third session in a row, stocks gapped higher at the open thanks largely to a sense of relative calm in both the yen and the VIX, two of the major influences that contributed to the huge spike in volatility over the last week. Regarding the yen, the "Summary of Opinions" from last week's BOJ meeting indicated that more rate hikes were discussed; however, that was taken with a grain of salt given the commentary from BOJ officials this week who pledged not to raise rates again until forex markets calmed.



Continuing Jobless Claims rose to the highest level since November 2021, implying the labor market is still losing momentum.

Economic data was thin overseas, however there was one important release in the U.S. as weekly jobless claims have recently been on the rise, contributing to recession concerns and in turn weighing on stocks. But yesterday's headline claims figure retreated from the prior week and solidly undershot expectations, which prompted a "good news is good news" reaction as evidence of a tight labor market contradicts the idea that the economy is already in a recession. The S&P 500 sprinted higher towards the psychological and derivative-sensitive 5,300 level where it leveled off and turned sideways into the early afternoon.

The index maintained a bid through another weak Treasury auction, this one for 30-Yr Bonds, but the lack of strong demand for the longer-dated Treasury securities solidified the view that recession worries were overdone in the panic following the July jobs report and stocks extended already solid gains into the close with the S&P

Market	Level	Change	% Change
Dow	39,446.49	683.04	1.76%
TSX	22,225.62	344.67	1.58%
Stoxx 50	4,687.23	18.49	0.40%
FTSE	8,183.98	39.01	0.48%
Nikkei	35,025.00	193.85	0.56%
Hang Seng	17,090.23	198.40	1.17%
ASX	7,777.70	95.72	1.25%
Prices taken at previous day market close.			

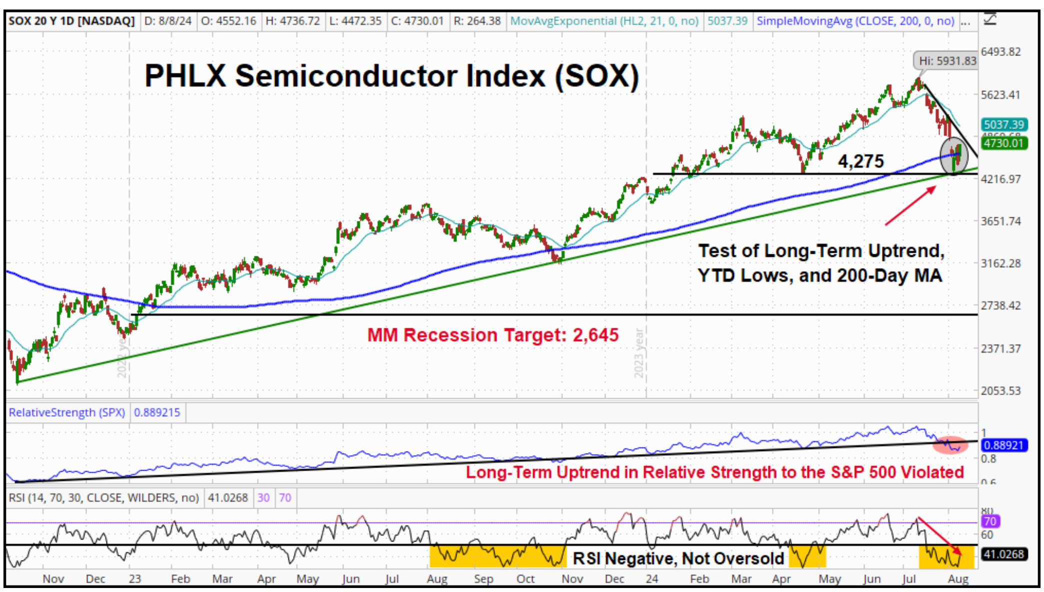
500 ending at a high for the week.

Market	Level	Change	% Change
DBC	22.08	.20	0.91%
Gold	2,462.90	30.50	1.25%
Silver	27.57	.63	2.34%
Copper	3.9765	.0245	0.62%
WTI	76.10	.87	1.16%
Brent	79.10	.77	0.98%
Nat Gas	2.132	.020	0.94%
RBOB	2.3958	.0385	1.63%
DBA (Grains)	23.79	-.28	-1.16%
Prices taken at previous day market close.			

__Semiconductors (SOX): Bull vs. Bear Case__

Semiconductor stocks have received a lot of attention over the last year or two, largely thanks to the emergence of NVDA as an increasingly dominant company in the broader market. NVDA even became the most valuable stock in the world for a brief stint earlier this year amid the peak of the AI-euphoria, which was a big factor supporting the market's strength in H1'24.

Historically speaking, semiconductor stocks are known to be "high beta" in that they move further and faster when the market is both rising and falling. To that point, the Philadelphia Stock Exchange Semiconductor Index, SOX, rallied a very impressive 85% since the October 2023 lows. That compares to a 38% gain in the S&P 500 and 49% gain in the tech ETF XLK over the same period. Beta works both ways, though, and the SOX pulled back 27% peak to trough from the July highs through Monday's lows before attempting to stabilize earlier this week. Whether investors have exposure to the SOX, the sub-index of the tech sector matters for one key reason, *semiconductors tend to lead the market.*



And given the current high degree of market uncertainty with the yield curve inverted, recession bells sounding, and the broader stock market just off record highs, one of the most important questions facing this market is: *What's next for the SOX?*

Looking at the first half of 2024, the SOX were leading the market higher, even within tech through mid-July, but since volatility picked up, semiconductors have collectively dropped considerably and remain roughly 20% off their recent record highs. The selling in the SOX started July 10-11 when the Global Carry Trade first cracked. Then the selling pressure picked up measurably late last week and early this week as high valuations were compressed as soft-landing hopes gave way to a potential hard-landing reality. Optimistic earnings expectations for the semiconductor space were also challenged by the threat of a recessionary economic environment. In hindsight, the post-jobs report recession fears were overdone and we have seen the market stabilize as this week has progressed.

Looking at the chart, which will be updated and included in this coming week's Sevens Report Technicals issue, SOX is still in a near-term pullback within a long-term uptrend. However, SOX have been in the process of testing three critical coinciding technical levels this week, all very close to 4,275, including the YTD intraday lows (which held by a mere 3 points Monday), the 200-day MA (which the index closed below three times this week before reclaiming yesterday), and the uptrend line dating back to the October 2022 lows, which notably crosses through the October 2023 pullback lows (tested to the tick at the intraday lows Monday).

Diving deeper into the technicals, the uptrend line in relative strength to the S&P 500 dating back to October 2022 was violated last Friday. This suggests semis may be forfeiting the leadership role here, but that doesn't necessarily mean long-term bull market is over. The daily RSI reading is negative but not yet oversold, which means there is potentially still room to run lower while the weekly RSI reading has also turned negative, which is consistent with sellers taking control of the market. Considering all of these technical developments the outlook for the SOX depends on time horizon and what the semis do in the weeks ahead.

Bottom line for SOX Bulls: Look for the steep downtrend line off the current record highs to be violated before gaining conviction about adding to or opening new speculative long positions, and for those who do "buy the dip," be ready to "jump ship" if the SOX fails to make new all-time highs in the weeks ahead.

Bottom line for SOX Bears: 4,275 is now critical medium- to long-term support. A break below would mean multi-month lows, a more decisive break below the 200-day MA, and a violation of the uptrend dating back to late 2023. Additionally, a break below 4,275 would elect a downside measured move target of 2,645. If that target were to be reached, it would mean a retracement of effectively all the 2023 and 2024 gains.

For context, such a loss would still not top the peak-to-trough decline in 2007-2008, which was roughly 70% for the SOX, so that downside target is far from historically unprecedented. Speaking of the GFC era, it is worth noting that the SOX peaked in July 2007 and failed to reach new highs with the S&P 500 in October 2007. Semis also bottomed in November 2008 and held those lows in March 2009 when the S&P 500 fell to cycle lows. In the current dynamic, we should be looking for the SOX to fail to make new highs with the S&P 500 as a warning sign for more volatility as the SOX can be viewed as a leading indicator in both expansionary and recessionary environments.

Market	Level	Change	% Change
Dollar Index	103.05	.05	0.05%
EUR/USD	1.0915	-.0007	-0.06%
GBP/USD	1.2747	.0055	0.43%
USD/JPY	147.23	.55	0.38%
USD/CAD	1.3732	-.0027	-0.20%
AUD/USD	.6589	.0070	1.07%
USD/BRL	5.5731	-.0599	-1.06%
Bitcoin	59,412.30	4,298.78	7.80%
10 Year Yield	3.993	.025	0.63%
30 Year Yield	4.279	.018	0.42%
10's-2's	-4 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.47%		
Prices taken at previous day market close.			

Bottom line, with all of the hype about an economic slowdown and potential recession looming, investors should be keeping tabs on the SOX in the months ahead, whether they have exposure to semis or not, as the SOX's leading qualities could add conviction to concerns about a more pronounced pullback.

Economics

Jobless Claims

- Jobless Claims declined to 233k vs. (E) 240k

The headline jobless claims reading dropped solidly from last week and that provided some relief for investors who are worried about an economic slowdown and the report was the main spark that ignited yesterday's early rally. Taken on the surface, this was a good report and it does push back against the recession narrative (both pieces of data this week pushed back against that narrative, the other being the ISM Services PMI). However, while this report did push back against recession fears it was a more mixed than good report and it does not give any sort of an "all clear" on the labor market. The reason I say that is because of Continuing Claims. Continuing jobless claims rose to 1.875 million. That's a new high for the year and it's the highest level since November 2021.

That matters because it reinforces the message that laid off people are having a harder time finding a new job and that makes sense given all the hiring slowdowns we've been hearing about across industries. Bottom line, the headline on this report was positive and it did spark a rally, but don't let the market's reaction fool you: This report still implies the labor market is losing momentum and as such, downside economic risks remain very real.

Commodities

Commodities were mostly higher as easing recession fears prompted broad risk-on money flows across asset classes driving gains in industrial metals and energy futures while gold outperformed thanks to an uptick in market-based inflation expectations. The commodity ETF, DBC, gained 0.91%.

Gold rallied 1.44% as short-duration Treasuries and the dollar were both steady while market-based inflation expectations jumped back towards 2% after falling sharply in the wake of the July jobs report. Gold's appeal as an inflation hedge combined with dip-buyers on a test of technical support near $2,425/oz. helped the yellow metal find its footing and begin a new run towards the current all-time closing high of $2,494, which will remain the "level to beat" for the bulls.

Elsewhere in metals, copper rallied 0.77% to revisit previous support at $4.00 but futures failed to recover the important psychological support level, which leaves the path of least resistance still lower within the downtrend off the record highs established in mid-May. The solid jobless claims report was the key fundamental factor behind the copper rally yesterday. If copper can't reclaim $4.00 in the sessions ahead, that will be an anecdotal sign from commodities that growth concerns are still alive and well despite the rebound in stocks and other risk assets so far this week.

In the energy complex, WTI crude oil futures advanced 1.14% to recover back above previous near-term support at $75.50, a level that can now be viewed as a "pivot point." The solid jobless claims data was a key catalyst for the oil rally yesterday as was the continued uncertainty about the timing and intensity of a promised retaliatory attack by Iran against Israel for the assassination of leaders within both Hamas and Hezbollah, the two regional militant groups Israel has been fighting for the better part of a year now.

Looking ahead, oil is still in a near-term downtrend within a long-term trading range, but the possibility of a geopolitically fueled fear bid paired with a short-sellers' strike could prompt a squeeze back towards $80/barrel in WTI. The prospects of oil rallying materially beyond there are slim as the threat of a recession gripping the economy is still very real.

Currencies & Bonds

The better-than-expected jobless claims data led to a continued rebound in the 10-year yield and helped the dollar hold the bounce of the past few days. The 10-year yield rose 5 basis points to hit 4.00% again while the Dollar Index finished with a 0.1% gain.

This week has been largely devoid of economic data but what data there was (ISM Services PMI and jobless claims) pushed back against the idea of an imminent economic slowdown. As such, the dollar moved from modestly negative to solidly positive before it chopped sideways for the remainder of the day as there was no more notable economic data or central bank speak. Looking internationally, this week has been quiet from data standpoint in Europe and the UK and as such, those currencies have largely traded off the dollar. The euro declined 0.1% while the pound rose 0.4%.

The most important global currency right now, the yen, went the "right" direction for stocks as it declined further, falling 0.5% as investors digested the "Summary of Opinions" that showed the BOJ did discuss more rate hikes (that'd be negative for stocks) but also wanted to keep policy accommodative (so it wasn't outright hawkish). After strengthening more than 10% in a few weeks the yen was due for digestion of that move and it continued yesterday, and the more the yen "digests" the recent move and weakens vs. the dollar, the more stocks can rebound.

In Treasuries, the 2- and 10-year yields both rose 5 basis points on the better-than-expected jobless claims data. The 10-year yield has now retraced much of the Friday/Monday swoon that came after the jobs report and that's also helping stocks to rebound. Going forward, a continued small rally back slightly above 4.00% and then stabilization will be the best-case scenario for stocks as it'll imply markets are too nervous about growth, but at the same time, are anticipating a lot of Fed easing.

Have a good weekend,

Tom

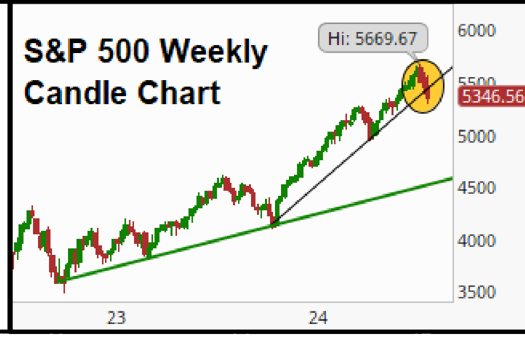
8/9/2024

SEVENS REPORT

Technical Perspectives (Updated 8/4/2024)

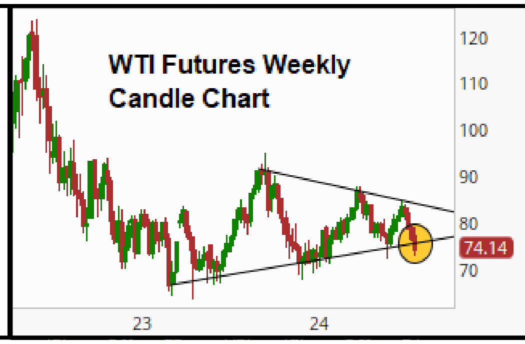
S&P 500

- 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



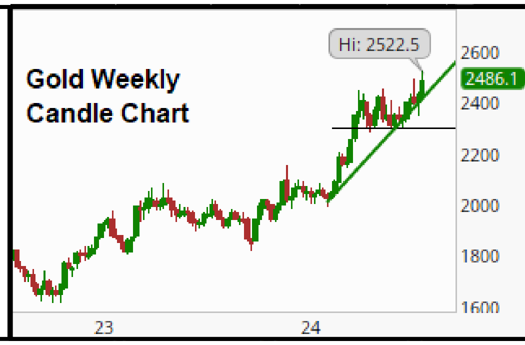
WTI Crude Oil

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



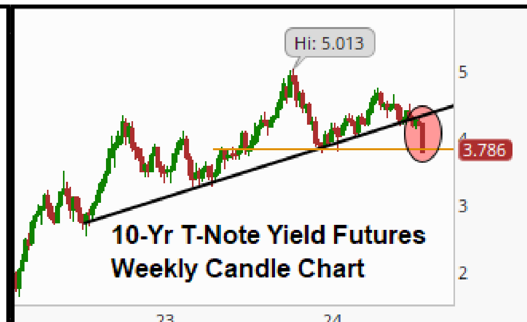
Gold

- 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



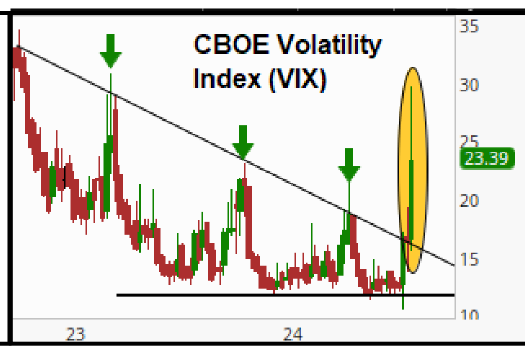
10-Year T-Note Yield Futures

- 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



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.