SEVENS REPORT

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

September 10, 2024

Pre 7:00 Look

- Futures are modestly lower this morning as last week's volatility and yesterday's relief rally are digested by investors while focus is shifting to tomorrow's CPI release.
- Economically, the NFIB Small Business Optimism Index whiffed estimates of 93.6 and fell 2.5 points to 91.2 in August while German CPI met estimates at 1.9% y/y.
- There are no notable economic reports today.
- Fed Speak: Barr (10:00 a.m. ET).
- The Treasury will hold a 3-Yr Note auction at 1:00 p.m. ET.

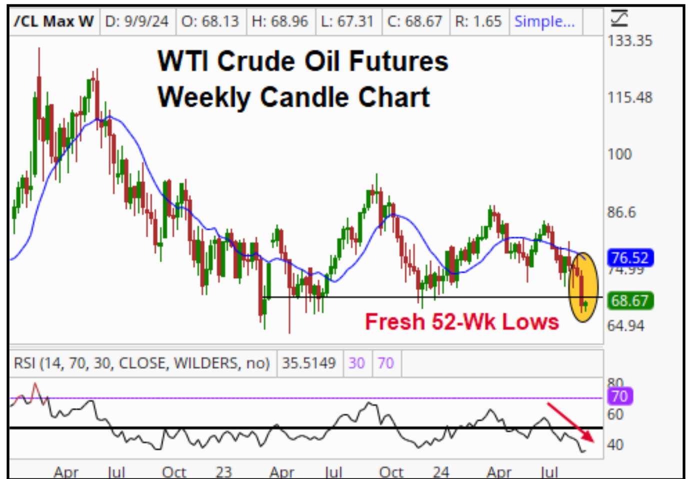
Market	Level	Change	% Change
S&P 500 Futures	5476.50	-3.00	-0.05%
U.S. Dollar (DXY)	101.598	-.009	-0.01%
Gold	2535.40	2.70	0.11%
WTI	67.98	-.73	-1.06%
10 Year Yield	3.706	.014	0.38%

Equities

Market Recap

Stocks enjoyed an oversold bounce to start the week amidst quiet newswires and ahead of tomorrow's CPI report. The S&P 500 rallied 1.16%.

U.S. equity indexes rallied at the open yesterday after a mostly quiet weekend. The only notable headline ahead of the bell was a weak Japanese GDP print, which put some pressure on the yen and offered some relief to traders fighting the unwind of the Yen carry trade that roiled markets in late July and into the early August lows. A downturn in the VIX was also well-received as



Crude oil futures have declined to 52-week lows shifting the neutral technical outlook to bearish amid growing concerns about the health of the global economy.

traders began to hope for a similar start to August when volatility rapidly receded and stocks enjoyed a V-shaped recovery into the middle of the month. Fundamental chatter was centered around renewed hopes for aggressive Fed policy easing in the months ahead resulting in a soft economic landing in H2'24 and into 2025.

Volatility picked up modestly mid-morning as the latest NY Fed Consumer Survey saw 1- and 5-year inflation expectations hold steady at 3% and 2.8%, respectively, but the 3-year inflation expectations figure rose from 2.3% to 2.5%. The pullback in the S&P 500 was short-lived, however, and the rally resumed into the afternoon with the index zig-zagging its way higher into the close, taking a sizeable uptick in Consumer Credit outstanding, which rose to $25.5B vs. (E) $11.2B, in stride as traders looked ahead to this week's critical inflation data.

Market Multiple Table: Still Overvalued

For months, the Market Multiple Table has been warning the S&P 500 was too optimistically priced given the current fundamental reality. And after a brief early-August decline that brought the S&P 500 back into fun-

Market	Level	Change	% Change
Dow	40,829.59	484.18	1.20%
TSX	23,027.15	245.72	1.08%
Stoxx 50	4,785.68	7.02	0.15%
FTSE	8,233.98	-36.86	-0.45%
Nikkei	36,159.16	-56.59	-0.16%
Hang Seng	17,234.09	37.13	0.22%
ASX	8,011.94	23.85	0.30%

Prices taken at previous day market close.

damental "fair" values, the index has once again risen to levels that simply are not reflective of the actual reality. Practically, that means this market remains vulnerable to negative shocks on growth, Fed rate cuts, inflation and earnings.

Market	Level	Change	% Change
DBC	21.33	.06	0.28%
Gold	2,532.60	8.00	0.31%
Silver	28.64	.46	1.64%
Copper	4.1320	.0585	1.43%
WTI	68.79	1.12	1.66%
Brent	71.92	.86	1.21%
Nat Gas	2.151	-.124	-5.45%
RBOB	1.9255	.0295	1.55%
DBA (Grains)	24.72	.50	2.06%
Prices taken at previous day market close.			

To that point, the two major influences on this market are 1) Whether a soft or hard landing looks more likely and 2) How aggressively the Fed cuts rates. Over the past month, economic readings, especially in the labor market, have been more disappointing and are showing a clear deterioration in the labor market. And appropriately so, as concerns about a hard landing have increased. So, while data is still pointing towards a soft landing, the economy is notably losing momentum and that's simply not an environment that warrants a 20X multiple (and the S&P 500 is trading at nearly 21X next year's earnings).

Regarding Fed rate cuts, the Fed has signaled it is going to cut rates and that's a good thing. But it's unclear how aggressive the Fed rate cutting cycle will be. Yes, we're going to get 25 or 50 bps of cuts in September but it's unclear if the expectation for 100 bps of cuts by year-end is realistic and a lot of that will depend on how quickly inflation falls.

A Game of Multiples (Updated 9/9/2024)			
Market Influence	**Current Situation**	**Things Get Better If…**	**Things Get Worse If…**
Hard Landing vs. Soft Landing	August economic data, especially labor market data, was weaker than expected and while a soft landing is still the most likely outcome, growth anxiety is rising.	Economic data stabilizes and pushes back against rising slowdown worries.	More economic data misses expectations (especially labor market data) and hard landing concerns rise.
Fed Policy Expectations	The Fed told markets they'll cut rates in September and start a rate-cutting cycle.	The Fed cuts rates 50 basis points and signals it's front loading rate cuts.	The Fed cuts rates 25 bps and signals "slow-and-steady" cuts ahead.
AI Earnings and Guidance	AI-linked tech companies (NVDA, etc.) have posted underwhelming guidance and that's weighing on the tech sector and broad market.	AI-linked tech companies' (NVDA, MSFT, AMZN, etc.) earnings and guidance beat estimates, reinvigorating investor enthusiasm.	AI tech companies post more underwhelming guidance, undermining the bullish thesis behind AI and threatening the broader market multiple.
Expected 2025 S&P 500 EPS	**$270**	**$275**	**$250**
Multiple	19X-20X	20X	17X-18X
S&P 500 Range	5,130-5,400	5,500	4,250-4,500
S&P 500 Target (Midpoint)	5,265	5,500	4,375
Change from today	**-3.7%**	**0.51%**	**-20.0%**

Bottom line, the September Market Multiple Table perfectly illustrates my point about valuation being this market's main problem, not actual fundamentals. An environment of 1) Slowing but still positive growth and 2) The Fed starting to cut rates isn't a bad environment. But it's not worth a 20X multiple on next year's earnings (and remember, the S&P 500 is trading close to 21X). Additionally, while investors are hopeful for a soft landing, a hard landing is still possible and that leaves the market very exposed. And if a recession becomes more likely, the S&P 500 giving back all of the 2024 gains is not out of the question.

Finally, tech stock earnings have replaced "Geopolitics" as an ancillary market influence in this month's MMT. AI tech stock guidance has been consistently disappointing over the past several weeks. While AI tech earnings won't determine the ultimate direction of the market (growth will decide that) the AI tech earnings will provide an incremental tailwind or headwind to the S&P 500 simply because tech is such a huge weight in the index. Think about this: AAPL, MSFT, NVDA, AMZN, META and GOOGL account for about 25% of the S&P 500. If AI-linked tech earnings disappoint, that will be a consistent headwind on the index regardless of the performance of utilities, defensives, real estate and healthcare because of the weightings (those sectors combined aren't close to the 25% of the S&P 500). Bottom line, the S&P 500's stretched valuation is due, in part, to the AI rally in tech. If that reverses, it's going to be a consistent headwind on the S&P 500 whether it's a soft landing or not.

The MMT clearly demonstrates two important facts for this market. First, fundamentals are deteriorating but not yet "bad." Second, the market isn't priced for "ok" fundamentals, it's priced for "great" fundamentals and that disconnect remains a near-term risk for investors.

Current Situation: Growth clearly slowing but a soft landing still more likely (for now), markets expecting 25 or 50 bps of cuts in September and 100 bps of cuts in 2024, AI-linked earnings posting disappointing guidance. The fundamental outlook for the S&P 500 has deteriorated over the past month as data has been underwhelming and tech company guidance has disappointed. However, hope for Fed rate cuts has fueled the rebound from the August decline and despite softening data, the S&P 500 is once again trading above fundamental "fair value."

Things Get Better If: Economic data stabilizes, the Fed confirms 50 bps in September and AI-linked tech guidance beats estimates. This would reflect a move back towards the very positive market set up of early summer and imply: Stable growth, aggressive Fed rate cuts and rising AI enthusiasm. However, growth would be stable at presumably a lower level and as such, the summer multiple of 21X wouldn't be valid here. Instead, a more historically optimistic multiple of 20X would make sense.

Things Get Worse If: Economic data deteriorates further and increases recession concerns, the Fed pushes back on 50 bps in September and AI-linked guidance continues to disappoint. This scenario would essentially undermine the assumptions behind the October-July rally and a giveback of much of that rally would not be out of the question (that means a decline into the low 4,000s in the S&P). This scenario may seem a bit extreme given still-high equity valuations, but it remains entirely possible (what if we actually get a hard landing?) and must be considered as a "worst case" scenario. **Email info@sevensreport.com for an unbranded copy of the Market Multiple Table.**

Economics

There were no material economic reports yesterday.

Commodities

Commodities were broadly higher to start the week with oil and industrial metals leading the advance amid risk-on money flows in equity markets and renewed soft landing hopes while gold lagged but still notched a solid gain on the day. The commodity ETF, DBC, bounced off of fresh 52-week lows to end the day higher by 0.28%.

Industrial metals were the upside standouts to start the week with copper gaining 1.56% to end the session near $4.15, which has been magnetic for futures since mid-August with prices oscillating on either side of that level.

Renewed optimism for a soft landing after investors had the weekend to digest the August jobs report and subsequent risk-on money flows in equity markets and other risk assets supported the bounce in copper yesterday. On the charts, copper has gone from trending lower to potentially falling into a sideways trading range between support at $3.95 and resistance at $4.30; however, risks remain skewed in favor of the copper bears as global growth worries continue to be a dominant influence on risk assets right now.

Market	Level	Change	% Change
Dollar Index	101.52	.38	0.37%
EUR/USD	1.1040	-.0044	-0.40%
GBP/USD	1.3075	-.0054	-0.41%
USD/JPY	142.84	.54	0.38%
USD/CAD	1.3561	-.0012	-0.09%
AUD/USD	.6657	-.0014	-0.21%
USD/BRL	5.5855	-.0135	-0.24%
Bitcoin	57,004.98	2,645.45	4.87%
10 Year Yield	3.697	-.013	-0.35%
30 Year Yield	3.999	-.021	-0.52%
10's-2's	2 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.45%		
Prices taken at previous day market close.			

Precious metals underperformed the other major commodity groups yesterday with gold gaining a more modest 0.37% on the day as traders appeared hesitant to make any big moves ahead of multiple inflation reports, the most notable and important of which is tomorrow's CPI print. Like copper, gold has turned sideways but remains in a long-term uptrend after most recently hitting record highs in mid-August. To the upside, $2,560/oz will be initial resistance to watch while $2,500 remains critical near-term support that, if violated, could trigger a larger wave of profit taking given the yellow metals YTD resilience.

Rounding things out with the energy complex, oil and the refined products caught an early week bid to start the new trading week with WTI futures clawing back 1.40% of last week's heavy selloff. WTI closed with a $68 handle for the second day in a row but notably did not make new 52-week lows on an intraday or closing basis.

In addition to the risk-on money flows and soft-landing hopes that buoyed the equity and industrial metals market yesterday, energy futures caught a "weather bid" as Tropical Strom Francine is forecasted to strengthen into a hurricane today prior to making landfall on the Gulf Coast, which is where roughly half of the nation's refined products are produced and a good portion of crude is lifted from the ground.

It wasn't all good news for oil, however, as MS analysts lowered their Q4 target for Brent prices from $80 to $75/barrel while commodity giants including Trafigura have lowered price outlooks to between $60 and $70 in recent days citing demand concerns, largely linked to the Chinese economy. Bottom line, there is not much for oil bulls to be excited about right now as the fundamentals are pointing to risks of a surplus in the months ahead while technicals have been in agreement falling to fresh 52-week lows to start September. There is initial support between $67 and $68/barrel while previous support at $72.50 will offer initial resistance in the event we see a continued rebound this week.

Currencies & Bonds

Monday was a "bounce back" day across all assets and as such, we saw the dollar rise modestly following last week's moderate declines. The Dollar Index rose 0.4%.

In reality, there were some anecdotally dollar-positive events in the markets on Monday. First, Japanese GDP was a bit light and that, theoretically, could make the BOJ less aggressive hiking rates. The yen fell 0.4% on that notion, although that's likely far from reality (one GDP report isn't going to change policy). Second, U.S. inflation data was "firm" as the Manheim Used Vehicle Value Index rose 1.2%, its first monthly increase this year (although the index is still down 3.9% y/y) while New York Fed Expectations med expectations at 3.0%. Both reports imply the consistent decline we're seen in inflation this year may be leveling out (and that's not necessarily a bad thing because we don't want to see deflation risks rise).

For a dollar that was oversold following last week's declines, these anecdotal reports gave an excuse for the dollar to rally and so it did, modestly, on Monday. But nothing in yesterday's trading makes us think the dollar is about to reverse materially higher and for that to happen this week we'd need to see either 1) A hotter-than-expected CPI report on Wednesday or 2) A much more dovish ECB on Thursday.

Internationally, the yen, euro and pound all declined 0.4% vs. the dollar, clearly demonstrating that yesterday's bounce was mostly money-flow driven as traders shifted positions ahead of an important week of potential catalysts.

In Treasuries, they digested last week's decline and new one-year low as the 10-year yield was unchanged on the day while the 10s-2s yield spread rose to 2 basis points (again, basically the highest in two years). The lack of movement in the 10 year was appropriate given the lack of any notable economic data.

Looking ahead to this week's potential catalysts (CPI and ECB rate decision) the key here remains stable Treasury yields. If they just chop sideways (or rise slightly) that will be the best case for stocks as a further decline will only increase growth concerns.

Have a good day,

Tom

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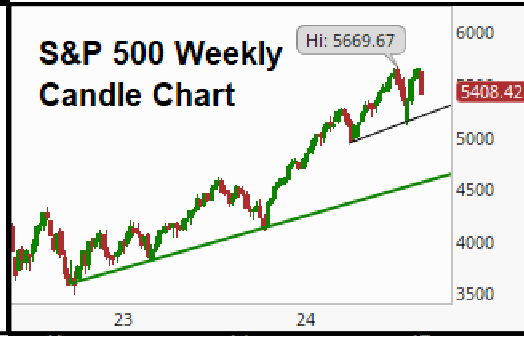
Technical Perspectives
(Updated 9/8/2024)

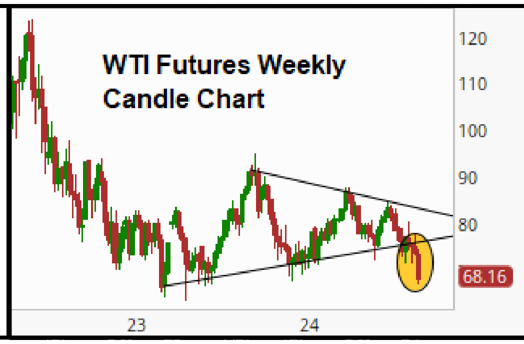
S&P 500

- Technical View: **The medium-term trend in the S&P 500 remains neutral** as the broad market index has so far failed to breakout beyond the July record highs.
- Dow Theory: **Bullish (since the week of July 10, 2023)**
- Key Resistance Levels: 5503, 5571, 5648
- Key Support Levels: 5352, 5186, 5018



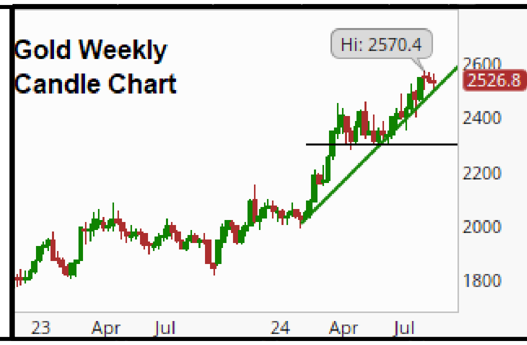
WTI Crude Oil

- Technical View: The price action in the oil market has become heavy late in the summer as the early 2024 lows have been repeatedly tested in recent weeks.
- Primary Trend: **Neutral (since the week of July 15, 2024)**
- Key Resistance Levels: $69.25, $70.13, $71.94
- Key Support Levels: $66.80, $65.65, $64.36



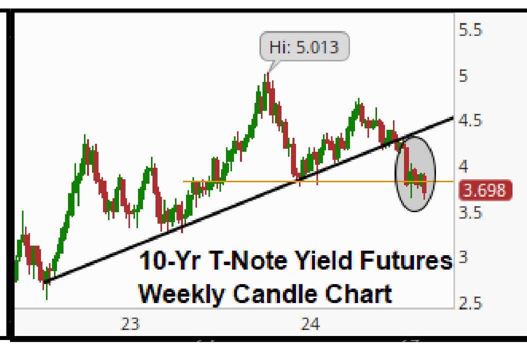
Gold

- 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: $2560, $2570, $2600
- Key Support Levels: $2521, $2495, $2424



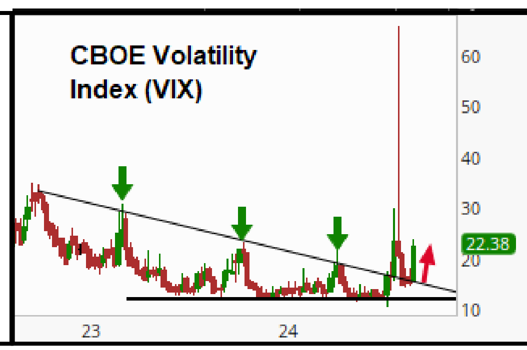
10-Year T-Note Yield Futures

- Technical View: The 10-year yield fell to fresh multi-year lows at the start of September and the path of least resistance remains lower for the benchmark yield.
- Primary Trend: **Bearish (since the week of July 29, 2024)**
- Key Resistance Levels: 3.751, 3.795, 3.857
- Key Support Levels: 3.638, 3.591, 3.507



CBOE Volatility Index (VIX)

- Technical View: The VIX has rapidly retreated from the summer spike to multi-year highs, but has also held above the mid-August lows leaving upside risks elevated.
- Primary Trend: **Bullish (since the week of July 29, 2024)**
- Key Resistance Levels: 24.77, 27.85, 33.71
- Key Support Levels: 19.90, 17.55, 15.00



SEVENS REPORT

Fundamental Market View (Updated 9/8/2024)

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%**	*Stocks saw a volatile start to the month as global economic data largely disappointed, which stoked simmering recession fears and subsequently heavy risk-off money flows. The S&P 500 dropped 4.25% on the week and is now up 13.39% YTD.*

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**	*Global growth concerns were apparent in commodities last week as oil and industrial metals declined while gold relatively outperformed but still declined. The commodity ETF, DBC, fell 3.80% to a 52-week low.*
US Dollar	**Neutral**	*The Dollar Index fell 0.6% last week thanks to lackluster U.S. economic data. Notably, the euro was also under pressure following the soft inflation data of two weeks ago and last week's slightly underwhelming growth data. That euro weakness prevented the Dollar Index from falling more materially.*
Treasuries	**Turning Positive**	*The 10-year yield fell to a new one-year low last week in the low 3.70%, confirming slowing economic growth. Importantly, last week the 10s-2s yield spread un-inverted as the 10-year yield is now higher than the 2-year yield for the first time since 2022.*

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.