SEVENS REPORT

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

September 16, 2024

Pre 7:00 Look

- Futures are little changed despite more negative Chinese economic data as investors look ahead to the Fed decision on Wednesday.
- August Chinese economic data disappointed as Industrial Production (4.5% vs. (E) 4.7% and Retail Sales (2.1% vs. (E) 2.7%) both missed estimates, raising more concerns about Chinese growth (and global growth more broadly).
- Politically, there was another assassination attempt on Trump, although the event shouldn't alter the current race.
- Econ Today: September Empire Manufacturing (-4.1).

Market	Level	Change	% Change
S&P 500 Futures	5,690.25	-0.50	-0.01%
U.S. Dollar (DXY)	100.67	-0.44	-0.43%
Gold	2,606.90	-3.80	-0.14%
WTI	69.18	0.53	0.77%
10 Year Yield	3.65%	0.00	0.00%

Equities

Market Recap

After a choppy start to the week, stocks enjoyed another V-shaped recovery following the latest CPI data as the cooler inflation data supported dovish money flows and rekindled hopes for a soft economic landing. The S&P 500 rallied 4.02% last week and is now up 17.95% YTD.

Stocks enjoyed an oversold bounce to start last week as investors digested the volatile 4%-plus declines from the prior week. A weaker yen thanks to a soft Japanese GDP report and the return-of-volatility sellers helped the S&P 500 notch a 1.16% gain on the session.

Volatility picked up Tuesday as cautious comments about the banking sector by JPM and GS sparked a broad sell-off that saw the major indexes test the prior-week lows, but the market reversed and the S&P 500 began to rally back to flat by midday, accelerating into positive territory on the back of a solid 3-Yr Treasury Note auction. The S&P 500 gained 0.45%.

Stocks initially came for sale early Wednesday as investors digested a favorable headline to the August CPI report but some mixed details with a still-elevated Core CPI number that weighed on optimism for a 50-bps rate cut from the Fed this week. Solid news regarding the tech sector including good earnings from ORCL and an upbeat tone about the outlook for growth from NVDA CEO Huang sparked a tech-led rally that lasted through the close. The S&P 500 rose 1.07%.

The mid-week rally continued Thursday as traders digested a cautious tone from the ECB following their second rate cut in three months and market-friendly economic data including a cooler-than-anticipated PPI headline and steady jobless claims data. A dovish article from the WSJ's Timiraos pushed up the odds for 50 bps this week, and that paired with a solid 30-Yr Treasury Bond auction saw the S&P 500 gain another 0.75% to end near 5,600.

Stocks gapped modestly higher at the open on Friday with the straight-line rally off Wednesday's early pullback lows continuing amid increasingly dovish Fed policy expectations with odds of a 50-bps rate cut from the Fed this week trending towards 50% up from 30% at the start of the week. A slightly better-than-expected Consumer Sentiment report that saw 1-yr inflation expectations tick down from 2.8% to 2.7% helped keep a risk-on bid in the market. The S&P 500 added 0.54% on the day and closed above 5,600 for the first time in September.

Market	Level	Change	% Change
Dow	41,393.78	297.01	0.72%
TSX	23,568.65	93.51	0.40%
Stoxx 50	4,844.32	0.33	0.01%
FTSE	8,266.31	-6.78	-0.08%
Nikkei	36,581.76	-251.51	-0.68%
Hang Seng	17,422.12	53.03	0.31%
ASX	8,121.60	21.65	0.27%
Prices taken at previous day market close.			

How to Explain This Market to Clients

Over the weekend I spoke to several investors who were in somewhat disbelief that stocks remained so resilient in the face of political uncertainty and, what is to them a clearly slowing economy. And in my discussions, I pushed back on some of their negative expectations, and it was very well received, so I'm sharing my points with you below.

Market	Level	Change	% Change
DBC	21.66	.04	0.19%
Gold	2,609.90	29.30	1.13%
Silver	30.95	.84	2.80%
Copper	4.2210	.0255	0.60%
WTI	69.01	.04	0.06%
Brent	71.91	-.06	-0.08%
Nat Gas	2.302	-.055	-2.33%
RBOB	1.9376	.0106	0.55%
DBA (Grains)	25.25	.30	1.22%
Prices taken at previous day market close.			

First, and importantly, the burden of proof remains with the bears. Put simply, the news isn't bad enough yet to cause a sustainable decline in stocks. Yes, there are anecdotal economic and earnings warning signs including the rising unemployment rate, the very weak ISM Manufacturing PMI, negative bank guidance, and an uncertain retail environment. And yes, there are negative macro risks out there: Political uncertainty (Harris or Trump?), economic uncertainty (soft or hard landing) and geopolitical turmoil (Russia/Ukraine, Israel/Hamas, Taiwan). But those potential risks and anecdotal negatives, while all legitimate, and not yet enough to distract investors from positive factors in this market.

Those positive factors are: 1) Still generally "ok" economic data (yes, it's clearly slowing, but as of right now it's still "ok. 2) Looming Fed rate cuts (investors often ignore the reality that Fed rate cuts don't always extend market rallies, so they initially welcome cuts as a bullish positive) 3) Expected earnings growth (still more than 10% y/y) and 4) AI enthusiasm (it's been reduced but is still alive as last week's price action showed us).

Second, a "Wall of Worry" still exists and that's helping stocks be resilient. Those risks I just described (economic, geopolitical, earnings) are negatives that could indeed happen (and if they do, they would be bearish game changers). But right now, they are not happening. So, as data points and news fail to reinforce those concerns, we are seeing stocks grind higher.

Third, that leaves a market dynamic where the S&P 500 could easily hit a new high this week. If economic data this week doesn't confirm growth fears and the Fed cuts 50 bps (or cuts 25 bps and promises aggressive rate cuts) we should not be shocked if the S&P 500 moves to a new, all-time high. But new highs this week wouldn't mean this market isn't still facing serious risks. While the S&P 500 can grind higher in the short term, the reality is that 1) Growth is slowing, 2) Rates are falling, 3) Earnings growth is facing headwinds and 4) Political and geopolitical risks remain high.

The combination of these looming risks and the very elevated valuations make this market very exposed to 1) Dramatic negative shocks that could cause a sharp "air pocket" in stocks similar (or worse) to what we saw in early August and 2) A growth scare that would easily open up a 10%-20% sustainable and long-lasting decline in stocks.

Bottom line, the risks currently facing this market (economic growth, earnings, geopolitics) are tectonic risks. They don't present themselves all at once or in a flash, they evolve over time until they become sustainable and that's when bear markets occur. This market is facing those risks but facing them doesn't mean they'll happen. That's why closely monitoring these risks while not prematurely abandoning the long side is the right way to navigate this market. That's what we've advocated throughout 2024 and it's working, and it's what I continue to believe is the right way to successfully navigate this current market. And if and when the facts change, my outlook will change and you will hear it first, loudly and clearly.

Economics

Last Week

Inflation was the focus of last week's data, and the message was remarkably consistent: The decline in inflation slowed, not to the point where it'd be a problem for markets or the economy, but it could push back on any Fed member's desire to very aggressively cut rates (they're still going to cut this week, but maybe not as much as before).

The key inflation report last week was CPI and it was firmer than expected. Headline CPI dropped sharply to 2.5% y/y (down from 2.9%) but most of that drop was energy related (lower oil prices). The more important Core CPI was flat vs. July, rising 3.2% y/y. The monthly increase was a touch high, rising 0.3% vs. (E) 0.2%. These inflation numbers aren't bad in the broad sense, and they don't imply inflation is bouncing back (it's not) but for those hoping for very aggressive rate cuts, the firm CPI does push back on that and it did reduce the chance of a 50 bps cut this week.

Similarly, the other two notable inflation metrics last week, PPI and the Manheim Used Vehicle Value Index, also showed a firming up of prices after months of declines. PPI ex food and energy rose 0.3% vs. 0.2% in August while the MUVVI increased 1.2% in August, the first monthly increase in 2024. Bottom line, inflation is still declining and it's fair to say that inflation is still moving steadily towards the Fed's 2.0% target, and that's a broad positive for the market.

However, part of what's supporting stocks is investor expectations for aggressive interest rate cuts and last week's inflation data does legitimately reduce the case for 50-bps Wednesday. It may still happen but the hawks on the FOMC do have some fresh data to point to if they want to advocate "going slowly." The question "Is the Fed behind the curve" is becoming the most important question in this market. The freer the Fed is to cut rates aggressively, the smaller the chances it falls behind the curve and we get a deeper-than-expected slowdown. The firm CPI reduces some of the Fed's flexibility to be aggressive and while that's not a near-term negative, it reduces the margin of error for the Fed and that's something we need to keep in mind as we move towards the end of the year.

Market	Level	Change	% Change
Dollar Index	100.77	-.23	-0.23%
EUR/USD	1.1081	.0007	0.06%
GBP/USD	1.3126	.0002	0.02%
USD/JPY	140.92	-.90	-0.63%
USD/CAD	1.3591	.0011	0.08%
AUD/USD	.6707	-.0015	-0.22%
USD/BRL	5.5625	-.0637	-1.13%
Bitcoin	59,951.73	1,739.84	2.99%
10 Year Yield	3.650	-.030	-0.82%
30 Year Yield	3.977	-.018	-0.45%
10's-2's	9 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.40%		
Prices taken at previous day market close.			

This Week

"Is the Fed Behind the Curve?" is the key question in markets and we'll get a lot more insight into that answer this week via the Fed decision and important growth data. If the answer leans towards "yes" the Fed is behind the curve, that's a negative. If the answer leans towards "no" the Fed isn't behind the curve, that's a positive.

The key event this week is Wednesday's FOMC decision. We'll have our full FOMC Preview in tomorrow's Report, but the Fed is going to cut rates and the only question is whether it's a 25 or 50 bps. Powell's commentary and tone surrounding subsequent cuts will also be important here, because the market has priced in 100 bps of cuts between now and year-end (and with just three Fed meetings left, that's a lot). Powell will need to confirm those expectations for this meeting to be a truly dovish and positive catalyst for markets.

Looking at actual hard data, we have a lot of potentially important economic reports this week that will give us greater insight into the state of the economy. First, Retail Sales comes tomorrow and this number has been plateauing for several months. If it suddenly drops and implies the consumer is no longer just being discerning but not outright pulling back, that will be a negative and increase fears the Fed is behind the curve.

Next in importance this week are the first looks at September economic activity via the Empire and Philly Fed manufacturing indices (today and Thursday). These have been especially volatile but big moves still matter and the markets will want to see stability in both of these data points to imply that growth isn't dramatically slowing.

Finally, jobless claims on Thursday will remain important. As we and others have said, the current state of the labor market is that companies have largely ceased hiring but they aren't laying off, either. That's indicative of a soft landing. But if they do start layoffs and we see claims move higher, again towards and above 250k, that's a clear negative labor market signal and that will increase hard landing concerns.

We're going to learn a lot this week about actual Fed rate cuts vs. expectations and the current state of economic growth. A dovish Fed and solid data will increase soft landing hopes and imply the Fed is not behind the curve, at least for now, and stocks should rally.

Commodities

Commodities ended last week mostly higher after a volatile start as ultimately the more dovish outlook for this week's Fed meeting supported soft-landing hopes and bolstered demand expectations. The commodity ETF, DBC, bounced off multi-year lows to end the week with a gain of 1.83%.

WTI crude oil futures collapsed by as much as 5% on Tuesday after OPEC's Monthly Oil Market Report revealed a second consecutive downward revision to 2024 global demand estimates. The oil market was able to stabilize and turn higher starting Wednesday, however, as the cooler-than-expected CPI and increasingly dovish money flows helped ease some of the demand concerns and WTI futures ended the week with a gain of 1.58%.

Bottom line, the outlook for oil remains bearish despite a mid-September relief rally beginning last week. Fundamentals are pointing to an increased likely surplus emerging in the physical markets in the months or quarters ahead and recession fears continue to simmer despite a resurgence in soft-landing hopes. On the charts, last week's low close of $66.31 will be looked to for initial support while previous support at $72.50 will present initial resistance.

Turning to the metals, the big development last week was the renewed push higher by gold, which launched to new record highs on Thursday thanks to the dovish money flows resulting from the combination of the WSJ's Timiraos regarding a potential 50-bps cut this week and mostly cooler-than-anticipated inflation metrics released over the course of the week. Gold ended with a gain of 3.14%. Bottom line for gold, the trend is decidedly bullish, and it would take a materially hawkish reversal in broad market money flows to derail this advance.

Looking to the industrial metals, copper outperformed last week as it has been beaten up the most and had the most to recover during the relief rally. Copper ended the week higher by 3.84%. Futures remain rangebound between $4.05 and $4.30 for now.

Currencies & Bonds

Hopes for a 50-bps cut offset the firm CPI and PPI last week as the Dollar Index declined 0.25%. The dollar was initially flat-to-slightly higher through the middle of last week but the WSJ article by Timiraos and the Bill Dudley article on Friday (one hinting at 50 bps, the other calling for it) weighed on the dollar as expectations for 50 bps rose.

Those rising rate cut expectations from the Fed combined with an ECB rate cut that just met expectation (it wasn't forcefully dovish) boosted the euro and it finished the week flat vs. the dollar, despite the rate cut. The pound traded similarly, as it was flat on the week absent any major news.

The one notable mover vs. the dollar was the yen, which rose 1.3% vs. the dollar and dropped to a six-month low vs. the greenback (which means the yen got stronger vs. the dollar). Bottom line, this was largely ignored by the financial media last week but the yen hitting a new one-year "high" (meaning it's the strongest it's been vs. the dollar in a year) will pressure the yen carry trade and just like in early August, this could become a source of volatility in the coming weeks.

Turning to Treasuries, yields hit fresh 52-week lows, again, but the 10-year yield stabilized in the mid-3.60% range and that helped stocks lift late in the week. The firm CPI/PPI data and low claims offset the dovish articles by Timiraos and Dudley (among others).

Bottom line, stability is needed in the Treasury markets for stocks to lift and that's what we got in the back half of last week. Looking forward, more stability is needed in yields if the S&P 500 is going to test those old highs, because a continued decline in yields will just be a louder warning on growth and increase concerns the Fed is behind the curve.

Have a good week,

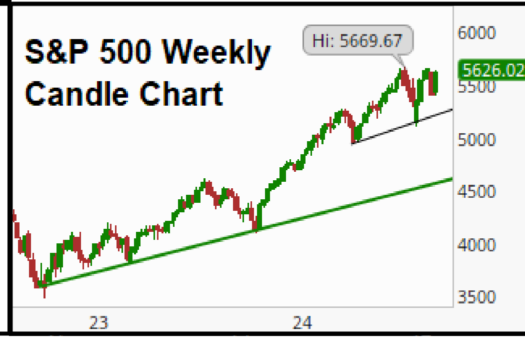
Tom

SEVENS REPORT

Technical Perspectives (Updated 9/15/2024)

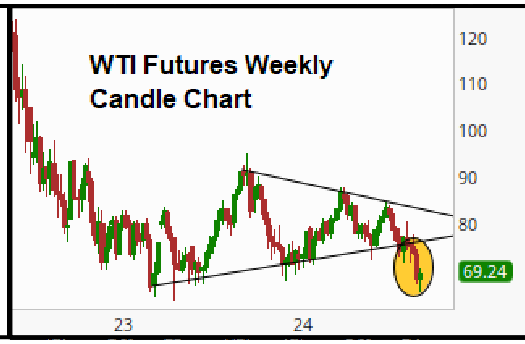
S&P 500

- 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: 5648, 5670, 5,700
- Key Support Levels: 5554, 5408, 5293



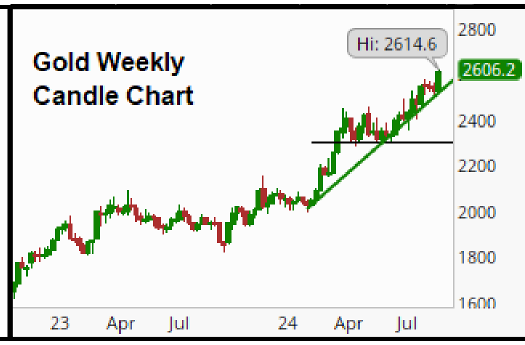
WTI Crude Oil

- 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: **Bearish (since the week of August 19, 2024)**
- Key Resistance Levels: $70.32, $71.94, $73.65
- Key Support Levels: $68.80, $66.31, $65.65



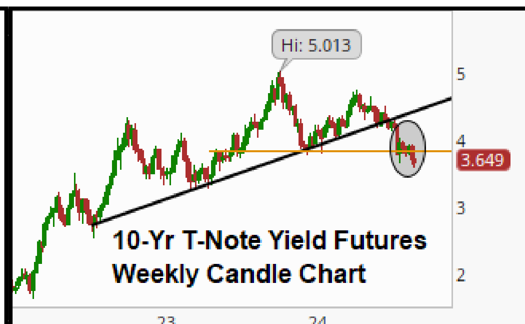
Gold

- 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: $2620, $2660, $2700
- Key Support Levels: $2587, $2547, $2495



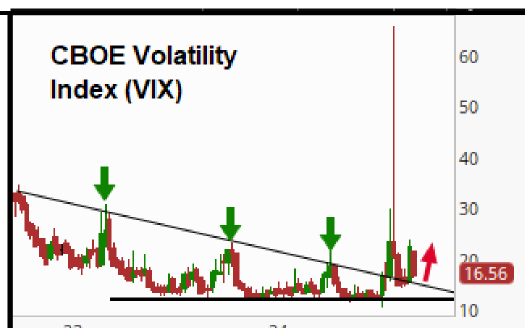
10-Year T-Note Yield Futures

- 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: 17.69, 19.45, 22.38
- Key Support Levels: 15.67, 15.00, 14.65



SEVENS REPORT	**Fundamental Market View (Updated 9/15/2024)**

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 rallied and the S&P 500 climbed close to previous all time highs thanks to solid tech earnings from ORCL and increased expectations for a 50 bps rate cut from the Fed.*

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 mixed to start last week as demand fears persisted in the wake of several weak industry reports. However, dovish bets for a 50-bps cut from the Fed this week rekindled soft landing hopes and shored-up demand expectations, driving the complex higher into the weekend with metals and energy all notching weekly gains.*
US Dollar	**Neutral**	*The Dollar Index declined modestly last week despite the slightly more firm CPI report as the ECB cut rates, but wasn't any more dovish than expected and as expectations for a 50-bps cut rose.*
Treasuries	**Turning Positive**	*The 10-year yield stabilized last week thanks to the firm CPI report but it remains just above recent 52-week lows.*

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.