# SEVENS REPORT

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

***September 3, 2024***

## Pre 7:00 Look

- Futures are lower in sympathy with most global equity markets this morning as investors digest fresh economic data at the start of a historically volatile calendar month.
- The Eurozone Manufacturing PMI was better than feared at 45.8 vs. (E) 45.6, but the sub-50 reading reminded investors the global factory sector remains deep in contraction.
- Econ Today: ISM Manufacturing PMI (E: 47.8). There are no Fed officials scheduled to speak today.
- The Treasury will hold 3-Month and 6-Month Bill auctions at 11:30 a.m. ET.

| Market | Level | Change | % Change |
|---|---|---|---|
| S&P 500 Futures | 5631.00 | -30.00 | -0.51% |
| U.S. Dollar (DXY) | 101.800 | .156 | 0.15% |
| Gold | 2530.20 | 2.60 | 0.10% |
| WTI | 72.35 | -1.20 | -1.63% |
| 10 Year Yield | 3.897 | -.003 | -0.08% |

## Equities

*Market Recap*

Stocks were mixed last week with the major indexes oscillating between gains and losses as traders digested mostly encouraging economic data and the last of the major earnings reports of the season. Weakness in tech was offset by strength in the "rest of the market" and the S&P 500 added 0.56% on the week, leaving the index sitting on a healthy YTD gain of 18.42%.

Stocks started the week with modest gains last Monday as weak details to the latest Durable Goods report bolstered Fed rate cut hopes and soft-landing optimism. Selling pressure in mega-cap tech with NVDA earnings looming, however, pulled the S&P 500 down 0.32%.

Equities continued lower to start Tuesday's session amid further profit taking in large-cap tech stocks; however, the S&P 500 stabilized at technical support near 5,600 thanks to a solid Consumer Confidence release. A strong 2-Yr Treasury Note auction was well received and the rally continued through the afternoon with the S&P 500 gaining 0.16%.

Volatility picked up Wednesday as trader conviction was low ahead of NVDA earnings due after the close and headlines were mostly negative over the course of the day. Elevated geopolitical tensions, rating agency Fitch's cautious comets on China, and a soft 5-Yr Treasury Note auction all weighed on stocks over the course of the day. The S&P 500 dropped another 0.60%.

The volatility persisted into Thursday's session as unwarranted weakness in NVDA shares following a mostly solid quarterly earnings report initially weighed on the broader tech sector. However, a pair of "cool" inflation reports out of Germany and Spain paired with a solid domestic GDP print and as-expected jobless claims data helped stocks stabilize in early trade. Some hawkish commentary from the Fed's Barkin and a soft 7-Yr Treasury auction saw the early advance stall and the market rolled over in the afternoon with the S&P 500 closing almost perfectly flat.

Equities gapped higher at the open Friday thanks to a slightly cooler-than-expected Core PCE print (2.6% vs. E: 2.7%), which is the Fed's preferred measure of inflation. Good AI-related earnings from DELL and MRVL also helped drive early gains but month-end profit taking and positioning took over and saw the market oscillate between gains and losses over the course of the session before a squeezy rally saw the S&P 500 end up 1.01%.

| Market | Level | Change | % Change |
|---|---|---|---|
| Dow | 41,563.08 | 228.03 | 0.55% |
| TSX | 23,346.18 | 118.69 | 0.51% |
| Stoxx 50 | 4,956.67 | -16.40 | -0.33% |
| FTSE | 8,330.70 | -33.14 | -0.40% |
| Nikkei | 38,686.31 | -14.56 | -0.04% |
| Hang Seng | 17,651.49 | -40.48 | -0.23% |
| ASX | 8,103.23 | -6.69 | -0.08% |
| Prices taken at previous day market close. | | | |

*Why This Market Is So Resilient (Again)*

| Market | Level | Change | % Change |
|---|---|---|---|
| DBC | 22.11 | -.25 | -1.12% |
| Gold | 2,534.30 | -26.00 | -1.01% |
| Silver | 29.20 | -.78 | -2.61% |
| Copper | 4.2150 | -.0075 | -0.17% |
| WTI | 73.39 | -2.52 | -3.32% |
| Brent | 78.80 | -1.14 | -1.43% |
| Nat Gas | 2.132 | -.005 | -0.23% |
| RBOB | 2.2052 | -.0425 | -1.89% |
| DBA (Grains) | 24.87 | .00 | 0.00% |

Prices taken at previous day market close.

The S&P 500 traded to within striking distance of the previous all-time highs, all but erasing the soft jobs report and yen carry trade unwind declines of late July and early August, and this rebound has been fueled by three factors.

First, solid economic data that has pushed back against the growth fears emanating from the soft July jobs report. Second, The Fed declaring it is going to start a rate cut cycle at the September meeting, finally fulfilling market expectations. Third, generally "fine" earnings/corporate commentary.

Each factor has helped to push stocks higher over the past three weeks and if they continue this week, via a solid jobs report and dovish Fed speak, then the S&P 500 can (and likely will) trade to a new all-time high. And, if this continues and the Fed "sticks" a soft landing (something we won't know for a few more months) the S&P 500 could trade as high as 5,900-6,000, based on a 22 multiple and $270-$275 S&P 500 earnings.

If economic data stays solid (but not great) the Fed is aggressive on its rate-cutting cycle (100 bps in '24) and corporate earnings remain strong (boosting expectations to $275/share), the S&P 500 at 6,000 shouldn't be a shock. However, amidst all this optimism the reality is the market wants to go higher and it is ignoring any news that doesn't force it to consider negative alternatives. Case in point, last week, we saw the most important stocks in the market, including NVDA, fail to rally on earnings for the first time in several quarters and if this market loses AI leadership, the path higher will get difficult even in a solid macroeconomic environment.

Additionally, Japanese CPI was hotter than expected and BOJ officials said they'd need to continue to hike rates (albeit it gradually). Finally, corporate earnings were fine on the actual EPS measurement but there were more retail and consumer spending red flags, as Dollar General (DG) essentially warned the lower end consumer is tapped out.

Companies have been fighting revenue headwinds over the past few months but beating earnings via cost controls and margins. However, if that falters, or revenue headwinds become more powerful, that will be a material negative. Here's the bottom line: The news of the past three weeks has been positive, but the market is priced as though a soft landing, aggressive Fed rate cuts and extraordinary earnings growth are guaranteed.

They are not guaranteed, and the totality of the actual news isn't as good as the equity market would imply. And it's important to keep that context because if the market is forced to realize that (like the July jobs report forced it to back in early August) then another 5%-ish air pocket in the S&P 500 shouldn't be a surprise.

# Economics

*Last Week*

There were not many notable economic reports last week but what was released continued to point towards a soft landing and that helped stocks rally. The most notable economic report last week was jobless claims and they were in line at 231k (vs. (E) 232k). Claims have absolutely ticked higher than we're used to but with the four-week moving average around 230k, that's still a number that implies a soft economic landing. For claims to begin to flash more of a warning sign on the labor market, we'd need to see claims rise through 250k consistently and that simply isn't happening yet.

The other notable economic report last week was revised Q2 GDP, which was better than expected. GDP rose 3.0% saar vs. (E) 2.8% and the details of the report were solid as well, confirming strong growth for the U.S. economy in the second quarter. Normally, this number wouldn't move markets as it's very stale data at this point (measuring activity between April and June) but this is a market that seizes on any information that will reinforce the belief in a soft landing and, as such, the better-than-expected GDP report also helped boost stocks last week. Bottom line, the economy is losing momentum but for now, economic data is pointing towards a soft landing and that's absolutely fueling this rebound in stocks and that will need to continue if the S&P 500 is going to move to substantial, new highs.

*This Week*

The week after Labor Day usually sees market volumes and activity rebound from summer doldrums and that's likely to be the case this week as well as we get the "Big Three" monthly economic reports, including one that will be a major factor in determining if the Fed cuts 25 bps or 50 bps.

The key economic report this week is Friday's jobs report and it will be a major influence over how much the Fed will cut rates. Last month's jobs report, out in early August, was much weaker than expected and that was a major contributor to the early month volatility. We will produce our Jobs Report Preview in Thursday's Report but the bottom line is this jobs report has the potential to either spike hard landing worries via another soft reading, or further reinforce that a soft landing is looking likely (which would be a positive).

While the jobs report is the headline report this week, we get numerous additional labor market reports that are also important for this simple reason: The Fed is getting worried about the labor market. That's why they're cutting rates.

If the labor market begins to deteriorate more than expected, hard landing worries will rise a lot. Bottom line, all the labor data is important right now because getting a total, accurate picture of the labor market is key to measuring hard landing risks. Other important labor market reports this week include JOLTS and the ADP employment report on Wednesday (which may be a more accurate gauge of the labor market than the monthly jobs report at this point, but that's a discussion for another day) and, finally, jobless claims on Thursday. Bottom line, anything that points to a stable labor market will increase soft landing hopes and data that shows weakness in the labor market will boost hard-landing concerns.

In addition to the jobs report, the August ISM Manufacturing and Service PMIs will be released today and Thursday, respectively. The key for these data sets remains 50. For the ISM Manufacturing PMI, rebounding towards 50 will be a welcomed positive and further boost soft landing worries. A decline farther from 50 will increase slowdown concerns. For the service PMI, staying above 50 is very important as markets will not want to see both of these PMIs drop below 50 for the third time this year (that's usually a very negative signal).

Bottom line, at these levels, stocks have fully priced in a soft economic landing and for markets to hold the gains of the past few weeks, this week's data needs to reinforce those soft landing hopes. If it does not, August-like volatility shouldn't be a shock, as concerns that the Fed is "behind the curve" on rate cuts will rise.

## Commodities

Commodities were mixed last week but the general theme in the complex was heavy as early gains in oil thanks to geopolitics gave way to declines with WTI futures closing the week at the lowest level since January. Gold was effectively flat for a second week in a row as the dollar stabilized and rates crept higher while copper bucked the trend and notched a gain amid soft-landing hopes. The commodity ETF, DBC, fell 0.67% on the week.

| Market | Level | Change | % Change |
|---|---|---|---|
| Dollar Index | 101.64 | .37 | 0.37% |
| EUR/USD | 1.1051 | -.0026 | -0.23% |
| GBP/USD | 1.3123 | -.0045 | -0.34% |
| USD/JPY | 146.11 | 1.12 | 0.77% |
| USD/CAD | 1.3486 | .0001 | 0.01% |
| AUD/USD | .6765 | -.0033 | -0.49% |
| USD/BRL | 5.6461 | .0189 | 0.34% |
| Bitcoin | 58,849.92 | -564.15 | -0.95% |
| 10 Year Yield | 3.911 | .044 | 1.13% |
| 30 Year Yield | 4.196 | .045 | 1.08% |
| 10's-2's | 0 bps | | |
| Date of Rate Cut | September 2024 | | |
| 2024 YE Fed Funds | 4.53% | | |
| Prices taken at previous day market close. | | | |

Beginning with the upside standout, copper futures gained 0.33% last week but the active month futures contract rolling to the higher priced December expiration contract skewed the price action in favor of the bulls. Copper has stabilized above $4.00 recently and that has been a positive macroeconomic signal, specifically helping to shore up the prospects of a soft economic-landing. Looking ahead, we will want to see the stabilization and strength in copper continue in the weeks ahead to help further ease growth concerns that have been a significant source of volatility recently.

Gold futures were effectively flat for a second consecutive week through Friday's close. Futures ended Friday with a modest weekly loss of 0.50% but futures importantly held above support at $2,500/oz., which will be in focus this week as traders look to see if the two bearish fundamental influences from last week, an upside reversal in the dollar and rising bond yields, continue or run out of steam. If the former proves to be the case, then expect more pronounced profit taking in gold as the rally has lost bullish momentum this summer.

WTI crude oil futures initially rallied back towards resistance in the upper $70/barrel area last week thanks to escalating tensions between Israel and Hezbollah and another round of failed ceasefire talks between Israel and Hamas. The early week squeeze quickly lost momentum and sellers retook control of the market with WTI ending Friday at the lowest weekly closing level since late January, just below $74/barrel. Looking ahead, demand worries linked to the threat of a slowdown in global growth are acting as the biggest influence on the oil market right now and clearly that is a bearish one while geopolitics are having less and less of an impact on the price action outside of intraday headlines. The $72.50 level is the key support zone to watch while last week's highs near $77/barrel will act as initial resistance.

## Currencies & Bonds

The big news in the currency and bond markets last week was that the 10-year Treasury yield rose 8 basis points on the aforementioned solid U.S. economic data and, in doing so, "un-inverted" the 10s-2s yield spread for the first time in two years.

I will cover this event more this week, but the historical reality, which we covered a few weeks ago in this Report, is that the 10s-2s un-inverting after a lengthy inversion is not positive for stocks prices and while that doesn't mean stocks are about to drop, I do want everyone to be aware of this historical precedent because the declines in stocks were extreme.

Turning to currencies, the Dollar Index rose 1.16% and traded back towards 102 thanks to solid U.S. data, but more importantly, better-than-expected inflation data from the EU. Specifically, German and EU inflation metrics (CPI and HICP) both showed smaller increases than expected and that's leading to increased rate cuts hopes from the ECB. The euro declined 0.2% vs. dollar on rate cut hopes.

Staying in Europe, the pound also declined moderately vs. the dollar, falling 0.7% mostly in sympathy with the euro and in reaction to the better U.S. economic data. Finally, the yen, which remains one of the most important global currencies in the market, declined 1.25% and the yen "calming down" and not pressuring the yen carry trade has also allowed risk assets to continue to rebound.

Bottom line, the dollar has bounced back into the low-100 range and the that remains "appropriate" given the Fed is getting more dovish, but so too are its central bank peers. For the Dollar Index to drop sharply from here, we'll need to see U.S. data roll over and Fed rate cut expectations increase—and that's not likely.

Have a good day,

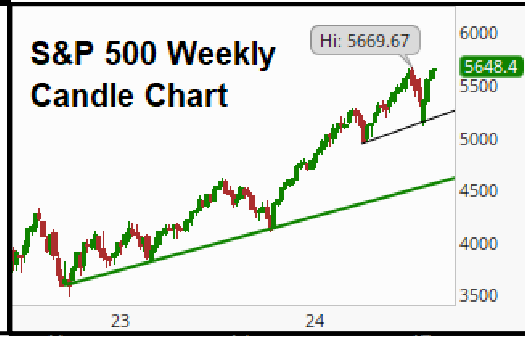
Tom

# SEVENS REPORT

## Technical Perspectives (Updated 9/1/2024)

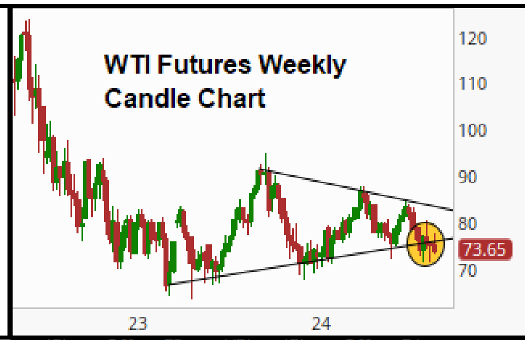
## S&P 500

- Technical View: **The medium-term trend in the S&P 500 is poised to shift back to bullish from neutral** if the rebound off the August lows produces new record highs.
- Dow Theory: Bullish (since the week of July 10, 2023)
- Key Resistance Levels: 5667, 5700, 5750
- Key Support Levels: 5571, 5455, 5352



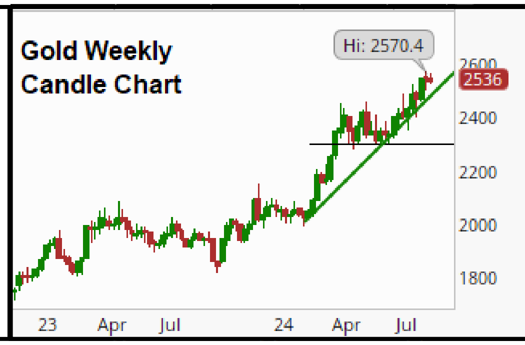

## WTI Crude Oil

- 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: $75.76, $77.22, $78.66
- Key Support Levels: $72.98, $71.94, $70.50



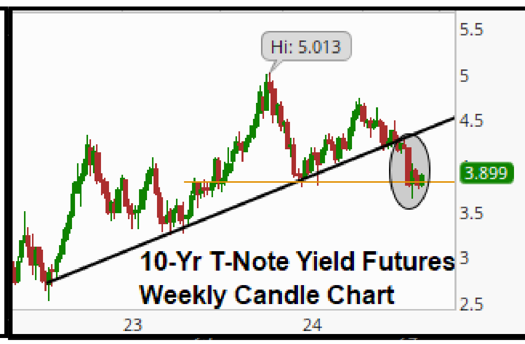

## Gold

- 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: $2555, $2570, $2600
- Key Support Levels: $2521, $2495, $2424



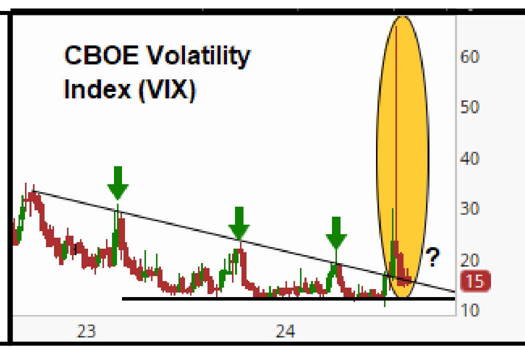

## 10-Year T-Note Yield Futures

- Technical View: The 10-year yield fell to multi-year lows in August but has since stabilized and is threatening to begin a counter-trend rally.
- Primary Trend: Bearish (since the week of July 29, 2024)
- Key Resistance Levels: 3.911, 3.987, 4.156
- Key Support Levels: 3.815, 3.775, 3.657




## 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: 17.11, 20.06, 23.78
- Key Support Levels: 14.65, 13.85, 12.91



# SEVENS REPORT

**Fundamental Market View (Updated 9/1/2024)**

## 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:**<br>**Cautious**<br>**SPHB: 25% SPLV: 75%** | *Stocks wavered between gains and losses last week as traders digested the last of the major Q2 earnings reports, including results from NVDA, which were solid, and more economic data that supported both a September start to the Fed's widely anticipated rate-cutting cycle and ultimately a soft economic landing.* |

### 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 amid a growing sense of market uncertainty.**

## Long Term Fundamental Outlook for Other Asset Classes

| | Fundamental Outlook | Market Intelligence |
|---|---|---|
| **Commodities** | **Neutral** | *Commodities traded with a bias to the downside last week as an upside reversal in the dollar and rising interest rates spurred modest profit taking in gold while simmering recession worries weighed on oil prices and capped slight gains in industrial metals.* |
| **US Dollar** | **Neutral** | *The Dollar Index stabilized last week after its recent drop to 52-week lows as "cool" inflation data overseas and resilient labor market and growth data in the U.S. saw very dovish Fed policy expectations get dialed back while overseas central bank expectations became more dovish.* |
| **Treasuries** | **Turning Positive** | *Treasury yields were mixed last week as short-duration yields fell back towards the multi-year lows established in early August while longer-duration yields rose modestly amid solid economic data.* |

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.