SEVENS REPORT

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

September 5, 2024

Pre 7:00 Look

- Futures are little changed following a quiet night of news and ahead of more important economic reports.
- On earnings, HPE became the latest tech company to post solid but "not as good as hoped for" earnings (the stock is down 3% pre-market).
- Economically, the only notable report beat estimates as German Manufacturers' Orders rose 2.9% vs. (E) 1.8%.
- Econ Today: ADP Employment Report (E: 140K), Jobless Claims (E: 230K), Unit Labor Costs (E: 0.8%), ISM Services PMI (E: 51.1).

Market	Level	Change	% Change
S&P 500 Futures	5,533.50	3.50	0.06%
U.S. Dollar (DXY)	101.19	-0.16	-0.16%
Gold	2,543.70	17.70	0.70%
WTI	69.39	0.19	0.27%
10 Year Yield	3.77%	0.00	0.00%

Equities

Market Recap

Stocks attempted to stabilize Wednesday after Tuesday's renewed bout of volatility amid global growth concerns, but ultimately a dovish reaction to a soft JOLTS release failed to rally the market and the S&P 500 fell 0.16%.

U.S. equity futures were lower ahead of the open yesterday as China's Service PMI and the Eurozone Composite PMI both missed estimates while in corporate news, DLTR warned that even wealthier customers were spending less and the upward revision to DKS's sales guidance failed to impress investors and contributed to the cautious mood on Wall Street early.

The S&P 500 was little changed at the open as Tuesday afternoon's lows were tested ahead of the July JOLTS report. The JOLTS data was disappointing amid a lower-than-expected job openings headline and sharp downside revisions to the June numbers. The "bad data" was "good for markets" as an initial selloff in stocks gave way to a relief rally that saw the S&P 500 rally back to 5,550 into the European close. The rally stalled as the S&P 500 tested 5,550 and the market rolled back over towards the opening lows as the session approached the final hour. Stocks bounced off the 5,500 mark for the second day and ended with only an incremental loss after Tuesday's sharp decline.

Trading Color

Markets tried to rally on Wednesday but more disappointing economic data weighed on sentiment and growth concerns were evident in the market internals. The Russell 2000 was the laggard although it only declined modestly, down just 0.19%. The Nasdaq and Dow Industrials ended little changed.

Looking at sector trade, there was again a clear preference for higher-yielding and defensive sectors and that makes sense given the drop in Treasury yields and the lackluster growth data. Utilities were the best performer on the day as XLU rose 0.85% while consumer staples (XLP) rose 0.47% and real estate (XLRE) rose 0.23%. Consumer Discretionary (XLY) was another solid performer and rose 0.26% thanks mostly to a 4% rally in TSLA following better-than-expected Chinese sales.

Most of the remaining seven sector SPDRs were little changed with the exception of energy (XLE), which declined 1.38% and was the clear sector laggard. Energy was again pressured by a drop in oil prices as WTI crude sank 2% on continued demand concerns thanks to yes-

Market	Level	Change	% Change
Dow	40,974.97	38.04	0.09%
TSX	23,040.76	-1.69	-0.01%
Stoxx 50	4,832.99	-15.19	-0.31%
FTSE	8,274.48	4.88	0.06%
Nikkei	36,657.09	-390.52	-1.05%
Hang Seng	17,444.30	-13.04	-0.07%
ASX	7,982.38	31.90	0.40%

Prices taken at previous day market close.

terday's soft economic data. Bottom line, markets are reacting to economic data and sector trading proves that, and so far this week, the economic data has pointed towards slower growth and defensive sectors and outperforming as a result, just as they should be.

Market	Level	Change	% Change
DBC	21.51	-.16	-0.74%
Gold	2,524.80	1.80	0.07%
Silver	28.48	.14	0.49%
Copper	4.077	-.015	-0.36%
WTI	69.03	-1.31	-1.86%
Brent	72.59	-1.16	-1.57%
Nat Gas	2.149	-.054	-2.45%
RBOB	1.9559	-.0218	-1.10%
DBA (Grains)	24.30	-.39	-1.56%
Prices taken at previous day market close.			

Jobs Report Preview (A Significant Change)

For the first time in nearly three years, a "Too Cold" jobs report poses the bigger risk to stocks as the growth implications of Friday's jobs report are more important to investors than whether the jobs report makes the Fed cut 25 bps or 50 bps.

I say that because the market would prefer gradual but consistent rate cuts and stable economic growth over dramatic rate cuts and collapsing growth. Put differently, investors are worried the Fed is behind the curve on rate cuts and Friday's jobs report will either 1) Calm or 2) Exacerbate those fears.

From a Fed standpoint, the jobs report is important because it's likely the single most important number that will determine if the Fed cuts 25 or 50 bps in September. From a growth standpoint, as we saw with the underwhelming July jobs report (out in early August) a disappointing number will increase hard landing worries and with the S&P 500 still trading well above 21X forward earnings, that's simply not priced into the markets.

The positive side of this is that the range for a "Just Right" jobs report is now quite wide, because it'd take a massive job adds number to be considered "Too Hot" while a "Too Cold" number remains quite low. So, while there are new and different risks for the market into this jobs report, the "Just Right" range is quite wide. Bottom line, a bad jobs report is bad for markets for the first time since 2022, although the range of "Just Right" numbers has also widened (which is a positive offset).

"Too Hot" (A September Rate Cut Is In Doubt) **> 300k Jobs Adds, Wages >4.0% yoy**. I won't say a "Too Hot" jobs report is impossible because nothing is impossible in markets. But for this jobs report to make the Fed reconsider a September rate cut, we'd have to see a simply massive job gain or a spike in wage costs and, in reality, both are unlikely. *Likely Market Reaction:* A higher-rate driven decline. We'd expect stocks to drop on higher rates with tech and cyclical sectors outperforming while defensive sectors lag. The 10-year yield should surge and a rally of more than 20 bps would not be a shock. The Dollar Index, similarly, should rally hard and a gain of at least 1% should be expected. Finally, commodities should be mixed as gold should decline on the stronger dollar while oil and other cyclically oriented commodities rally on demand expectations.

"Just Right" (A 25-bps Sept. Cut Is Likely But Growth Is Still Solid) **125k-300k Job adds, UE Rate ≤4.3%, Wages: ≤ 3.9%**. A number in this range would reinforce that the labor market is still on generally solid footing but would allow the Fed to cut rates in September. This would essentially satisfy the "stable" growth with gradual rate cutting path. *Likely Market Reaction:* A solid rebound. A number in this range would reinforce that growth is solid and the Fed is cutting rates and a 1% or more rally in the S&P 500 should be expected. Sector wise, we'd expect to see a continued broadening of the rally with tech relatively underperforming while cyclical sectors (small caps, industrials, materials, energy, financials) outperform. Treasury yields should be little changed as this number wouldn't impact Fed expectations while the Dollar Index should also be mostly stable. **A number somewhere between 150k-200k with a decline in the unemployment rate is likely the best-case scenario for this market.**

"Too Cold" (A 50-bps Sept. Rate Cut Becomes Likely But Hard Landing Concerns Grow) **UE Rate ≥ 4.4% y/y, Job Adds <125k Job adds**. As we saw from the July jobs report, this market is sensitive to a weak number and a reading in this range would increase labor market and broader economic concerns. Yes, it'd make a 50-bps cut more likely in September, but the market wants stable growth more than dramatic rate cuts right now. *Likely Market Reaction:* A steep selloff. This would spike hard landing concerns and we'd expect a repeat of what we

saw Tuesday, i.e. weakness from high-valuation tech and cyclical sectors (tech, industrials, materials, financials) and outperformance (either relative or absolute) from defensive sectors such as utilities, healthcare, REITs, consumer staples.

The 10-year yield should fall sharply on growth concerns (a drop of more than 10 bps should be expected) while the Dollar Index should also fall (a decline of 1% wouldn't be a shock). In commodities, gold should rally on the weaker dollar but more cyclically oriented commodities such as oil should see selling pressure on demand concerns. Bottom line, a number in this range would increase hard landing concerns and we'd expect that to accelerate the rotation to defensives.

Economics

July JOLTS

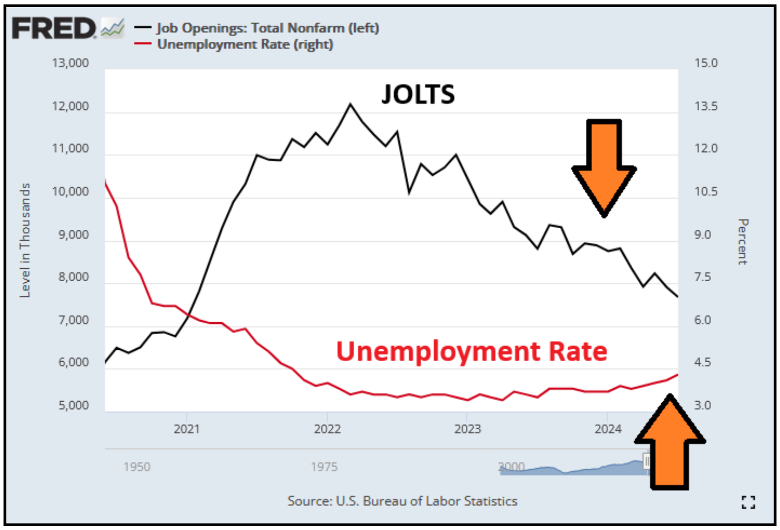
- Job Openings fell to 7.673 million vs. (E) 8.10 million

Takeaway

The July JOLTS data proved to be a negative surprise yesterday morning and markets reacted accordingly with a safe-haven bid coming into Treasuries while stocks declined and gave back early gains.

Notably, this JOLTS reading was the lowest since January 2021, the thick of the pandemic recovery. At this point, JOLTS have totally "round tripped" the pandemic labor shortage.

Bottom line, the Fed is getting worried about the labor market and that's why they'll cut rates in September and the JOLTS report implies that concern is warranted, as it's another indicator showing the labor market is seeing some deterioration. Importantly, these numbers aren't enough to say the labor market is weak, but they do further the notion that it's heading in the wrong direction (and if the labor market weakens, hard landing risks will rise, quickly).



Commodities

Commodities continued to trade with a heavy tone thanks to a continued rise in concerns about the health of the global economy. Oil underperformed while safe-haven gold relatively outperformed, ending flat. The commodity ETF, DBC, fell 0.74% on the day.

Beginning with gold, the precious metal continued to outperform and remained largely shielded from the risk-off selling pressure in most other areas of the commodity complex. Gold futures ended the day up a slight 0.02%, still comfortably above key support at $2,500/oz. as the trend remains decidedly in favor of the bulls.

Market	Level	Change	% Change
Dollar Index	101.29	-.47	-0.46%
EUR/USD	1.1080	.0037	0.34%
GBP/USD	1.3145	.0031	0.24%
USD/JPY	143.81	-1.67	-1.15%
USD/CAD	1.3518	-.0033	-0.24%
AUD/USD	.6718	.0007	0.10%
USD/BRL	5.6356	-.0092	-0.16%
Bitcoin	57,769.24	-451.56	-0.77%
10 Year Yield	3.768	-.076	-1.98%
30 Year Yield	4.067	-.064	-1.55%
10's-2's	0.01 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.44%		
Prices taken at previous day market close.			

Looking ahead, the biggest risk to the strong YTD gains in gold is the emergence of hawkish money flows due to a stronger set of economic data as that would 1) Bolster the dollar, pressuring dollar-denominated safe havens such as gold, 2) Push real yields higher, which would offer a more attractive alternative to yield-less gold, and 3) Dial back rate cut expectations and the dovish money flows that have come with them, likely triggering some profit taking.

Copper suffered additional losses but much less severe than the declines on Tuesday as more big names in the hedge fund and banking world, including former GS commodities head, Jeff Currie (now at Carlyle), was the latest to make negative comments about the price outlook for copper due to weak demand out of China. The soft Chinese Services PMI along with the slight miss in the Eurozone Composite PMI didn't help sentiment either. The dovish money flows in the wake of the weak JOLTS data, however, did help copper recover from session lows and end with a modest loss of 0.23%, above support at $4.00. Looking ahead, the $4.00 level will remain in critical focus as global traders try to gauge the outlook for the global economy.

Turning to the energy complex, WTI crude futures continued to decline sharply, extending the holiday-shortened week's decline to 6.5% and nearly 10% since last Friday's open in the upper $70s. WTI futures notably ended yesterday's session within a dime of a 52-week lows thanks to softening global growth outlooks.

When oil market volatility picks up, we look to the term structure for guidance via the price action in the calendar spreads. And what we found in the Dec24-Dec25 spread yesterday afternoon was ugly as the near premium in the Dec-2024 contract collapsed relative to the Dec-25 contract, signaling physical traders are pricing in loosening market conditions and a potential surplus. Bottom line, oil won't continue to fall at this pace forever, but the trend has decisively shifted in favor of the bears to match clearly weakening market fundamentals.

Currencies & Bonds

Treasury yields fell sharply on Wednesday thanks to more underwhelming U.S. economic data and commentary. The 2-year yield fell 11 basis points while the 10-year yield declined 7 basis points.

Carryover from Tuesday's bad ISM Manufacturing PMI combined with a weaker-than-expected JOLTS report to further pressure Treasury yields on Tuesday. The 2-year dropped sharply as expectations for a 50-bps rate cut in September rose modestly (but still isn't the consensus expectation). The 2-year Treasury yield dropped to a one-year low, falling below 3.78%.

The 10-year yield traded at a similar level and basically matched the recent low of 3.76% as the 10s-2s yield spread spent part of Wednesday "un-inverted." The spread closed at 0.01 bps, and the reality is that the spread is un-inverting and barring a very hot jobs report, the 10s-2s yield spread should un-invert for good in the coming days/weeks.

Bottom line, yields are lower but they are not supporting stocks because drops like this imply weaker-than-expected growth and the "best" path forward for Treasury yields (from the perspective of stocks and other risk assets) is stability and not continued sharp declines.

Turning to currencies, on Tuesday the dollar rallied despite bad U.S. data but that was not the case on Wednesday, as the Dollar Index declined 0.4%. The soft JOLTS report combined with the cautious Beige Book commentary weighed moderately on the dollar. Part of the reason the decline wasn't larger is because of soft data from the EU. The Eurozone Composite PMI missed expectations (51.0 vs. (E) 51.2) and that combined with the recent soft EU inflation data to further increase September rate cut expectations. The euro rose a modest 0.2% vs. the dollar, with the pound rising a similar amount in sympathy.

Turning to the yen, don't let the calm of the past few weeks fool you: The yen is still critically important to the rally in global risk assets. The yen rose 1% vs. the dollar on Wednesday thanks to a bounce in rate hike expectations from the BOJ and the yen is threatening to fall below 144 vs. the dollar for the first time in a week. If the yen continues to strengthen towards 140 in the coming days, that will increase yen carry trade unwind anxiety in the markets (and we know from early August how that goes).

Bottom line, the yen is threatening to hit multi-week lows vs. the dollar (which means the yen is strengthening) and if that continues (and accelerates) that will become a new headwind for stocks. Watch 143.50. If the yen drops sustainably below that level, it'll hit the lowest level since the August 5 drop in stocks and I'd expect that to increase the headwind on stocks.

Have a good day,

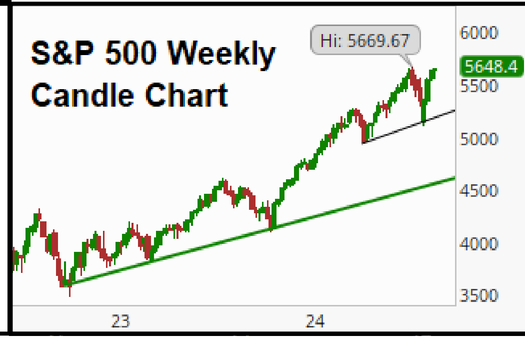
Tom

SEVENS REPORT

Technical Perspectives (Updated 9/1/2024)

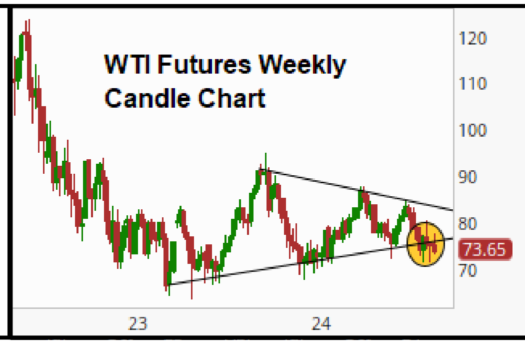
S&P 500

- 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



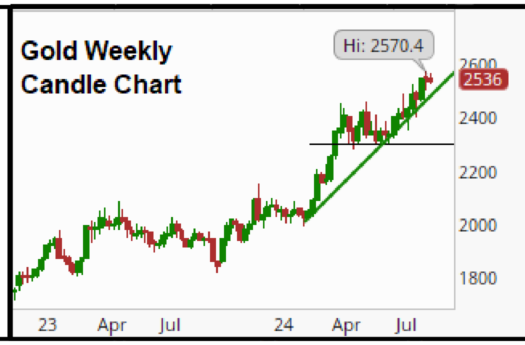
WTI Crude Oil

- 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



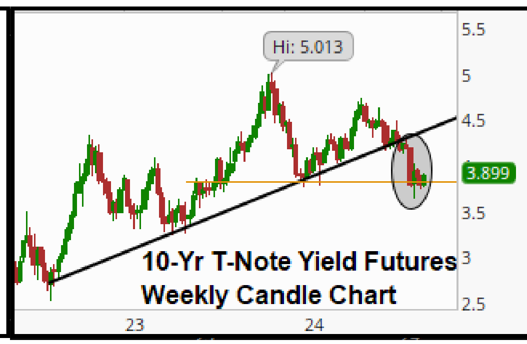
Gold

- 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



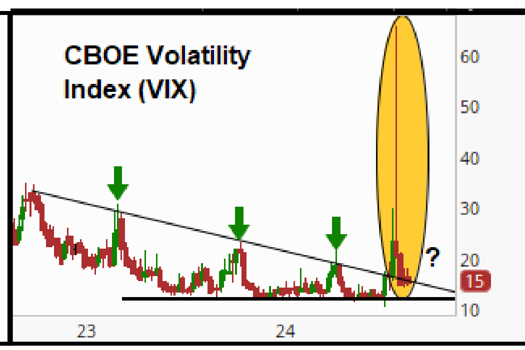
10-Year T-Note Yield Futures

- 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: **Cautious** **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 as yields have risen.**

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.