SEVENS REPORT

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

September 9, 2024

Pre 7:00 Look

- Futures are seeing a strong bounce following a generally quiet weekend of news.
- There was no specific positive headline that's rallying futures and instead we're seeing mostly technical dip buying.
- Economically, Japanese Q2 GDP missed estimates (2.9% vs. (E) 3.1% and that's pushing back on BOJ rate hike expectations, which is a mild positive (the yen is down 1%).
- Econ Today: NY Fed Inflation Expectations (E: 3.0%), Consumer Credit (E: $12.5B).
- Earnings: ORCL (E: $1.33).

Market	Level	Change	% Change
S&P 500 Futures	5,459.25	36.75	0.67%
U.S. Dollar (DXY)	101.69	0.51	0.51%
Gold	2,522.90	-1.70	-0.07%
WTI	68.08	0.42	0.62%
10 Year Yield	3.75%	0.05	1.23%

Equities

Market Recap

Equities weathered 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.

The S&P 500 began the Labor Day-shortened trading week with sharp declines last Tuesday as a soft Chinese manufacturing report was followed by better-than-feared but still-contractionary European PMI data and an underwhelming ISM manufacturing release in the U.S. A methodical sell-off lasted the entire session leaving the S&P 500 to close down 2.12% on the day.

It was more of the same to start Wednesday as the Chinese services PMI and EU Composite PMIs both missed estimates while discount retailer DLTR warned of negative spending trends even among wealthier consumers. A weak JOLTS report shortly after the open triggered dovish money flows (bad data was good for markets) and the S&P 500 recovered most of the losses amid a relief rally, but the index still fell 0.16%.

Stocks attempted to stabilize on Thursday as a disappointing ADP report was only partially offset by better-than-expected jobless claims data, which supported more dovish money flows in early trade. A good ISM Services headline initially saw the gains continue, but the advance was short-lived and stocks rolled over hard as the details of the latest ISM data carried a whiff of stagflation with a weak employment index and rising prices index. The S&P 500 tested critical technical support at 5,500 and briefly fell below it before a late-day rally saw the index end just above the important level, still closing down 0.30% as focus turned to the August BLS report.

On Friday, the August jobs report disappointed as the headline missed estimates, July job-adds were revised lower, and a key measure of wage inflation was hotter than expected. The market took the bad report in stride though and the S&P 500 opened flat as traders awaited comments from multiple Fed officials scheduled to speak. Williams was first and he failed to offer the dovish tone traders were looking for and stocks broke down to new lows for the week in early trade. There was a short relief rally after Waller mentioned "front loading" rate cuts (50 bps in September) but the bids ran out by the lunch hour and the S&P 500 steadily sold off into the afternoon, closing with an ugly loss of 1.73% Friday.

Market	Level	Change	% Change
Dow	40,345.41	-410.34	-1.01%
TSX	22,781.43	-206.85	-0.90%
Stoxx 50	4,777.17	39.11	0.83%
FTSE	8,243.53	62.06	0.76%
Nikkei	36,215.75	-175.72	-0.48%
Hang Seng	17,196.96	-247.34	-1.42%
ASX	7,968.09	-25.29	-0.32%

Prices taken at previous day market close.

The Real Problem for this Market

Stocks dropped last week thanks to disappointing economic data and not-as-good-as-expected guidance from AI-related tech firms and as a result the S&P 500 has backed away solidly from the July 16 highs. Additionally, the "mood" on Wall Street has turned a bit more somber as even the most buoyant economic optimists have to admit growth is clearly slowing.

Market	Level	Change	% Change
DBC	21.27	-.29	-1.35%
Gold	2,523.80	-19.30	-0.76%
Silver	28.21	-.88	-3.03%
Copper	4.0685	-.0690	-1.66%
WTI	68.08	-1.07	-1.55%
Brent	71.41	-1.28	-1.76%
Nat Gas	2.287	.033	1.46%
RBOB	1.9011	-.0247	-1.28%
DBA (Grains)	24.21	-.28	-1.13%

Prices taken at previous day market close.

But while we have been in the "growth is slowing more than expected" camp for a while, it's very important to maintain context as it happens and not get presumptively bearish. **Economic growth is undoubtedly and clearly losing momentum, but a soft landing remains more likely than a hard landing.**

Friday's jobs report wasn't good and the revisions were worse. But we're still talking about 116k three-month average job adds. That's not recessionary. Additionally, claims remain low (in any other era, 228k claims would be considered fantastic!). Finally, other growth metrics (ISM Services PMI, retail sales, durable goods) have plateaued but aren't declining yet. Point being, if we're looking at the data, this is what a soft landing looks like.

Now, could all this tumble into a hard landing? Of course! That's the worry, but we must wait for actual evidence that's happening and it's not there, yet (and if it gets there, we are committed to tell you first). This matters because the problem with this market isn't growth (it's slowing but still pointing to a soft landing). The problem is valuations.

At these levels the S&P 500 is trading at 20X next year's earnings. That's not a soft landing multiple (it's more like 18-19 if we're being generous). A 20X multiple is a "no landing" multiple and I get the impression investors are rooting for a soft landing, but their definition of a soft landing is basically stable growth. I'm afraid it doesn't work that way.

This market remains susceptible to more disappointing economic or earnings news. And I think that means the S&P 500 could drop 200-400 points from here before it more accurately reflects the economic risks and prices in an actual soft landing (not a no landing that it's calling a soft landing). If economic data stays about where it is now, the S&P 500 will be more appropriately priced and at that point, risks will skew to the upside.

For now, this market remains too optimistic for the growth reality, not because that reality is so bad, but instead because valuations are so stretched and as such, I continue to prefer defensive sectors and the "rest" of the market over tech and growth. That's been working since the August drop and I think it'll continue to work in until growth troughs or the market declines to better reflect actual fundamentals.

Economics

Last Week

Economic data last week further confirmed that the economy is losing momentum and more strongly implied the labor market is softening and that weighed on stocks and boosted bonds last week. There was a lot of labor data last week and the conclusion from all of it was very clear: Firms are no longer hiring workers and expanding, but they haven't started aggressive layoffs yet, either. This matters because in the progression of a weakening labor market, "stopping hiring" usually (and consistently) comes before layoffs. When layoffs happen, recession chances rise, sharply. So, while we are not there yet, we're disconcertingly moving in that direction.

The key labor market report last week was Friday's jobs number and taken in totality, it wasn't a "Too Cold" number but it did further imply labor market softening. The headline reading was a modest miss, 142k vs. (E) 161k while the unemployment rate did move down slightly to 4.2% from 4.3%. But the revisions to the data were bad. July jobs were revised lower by a total of 81k jobs to 89k from the initial 114k.

Friday's jobs report wasn't "bad" but it did confirm the labor market is weakening and that was largely confirmed by the other labor market data last week. To that point, the ADP jobs report showed just 99k jobs added in August (lowest since January 2021) while JOLTS fell to 7.67 million (also the lowest reading since January 2021). The lone bright spot last week was weekly jobless claims, which remain low at 228k.

Bottom line, firms are no longer hiring but they aren't firing. That's good in an absolute sense but it usually leads to layoffs and increased recession chances. And while that's not an absolute given, it will keep investors anxious about a slowdown (and at these levels, that keeps stocks vulnerable to growth scares).

Looking at the other data from last week, it provided a mixed picture. The ISM Manufacturing PMI rose slightly but still missed estimates (47.2 vs. (E) 47.5) and importantly remained below 50 and in contraction territory. Additionally, New Orders, the leading indicator in the report, fell to 44.6 from 47.4. Bottom line, manufacturing remains weak and it doesn't appear to be getting much better. The Services PMI, however, was a bit better than expected at 51.5 vs. (E) 51.1. Importantly, that implied some stability in the service sector of the economy (which is the key sector in the economy) and prevented the dreaded double "below 50" reading for both manufacturing and services PMIs. Bottom line, the August ISM PMIs largely confirmed what we're seeing in other economic data: The economy is contracting and activity is clearly moderating (although importantly it's still positive).

Market	Level	Change	% Change
Dollar Index	101.16	.09	0.09%
EUR/USD	1.1086	-.0025	-0.22%
GBP/USD	1.3133	-.0047	-0.36%
USD/JPY	142.39	-1.06	-0.74%
USD/CAD	1.3562	.0059	0.44%
AUD/USD	.6671	-.0070	-1.04%
USD/BRL	5.5935	.0200	0.36%
Bitcoin	53,602.70	-2,489.52	-4.44%
10 Year Yield	3.710	-.021	-0.56%
30 Year Yield	4.020	-.003	-0.07%
10's-2's	6 bps		
Date of Rate Cut	September 2024		
2024 YE Fed Funds	4.44%		
Prices taken at previous day market close.			

The major economic data from August continued to consolidate around a clear message: Economic growth is very clearly slowing. So far, it's not contracting and it's not spiking recession worries. But it is clearly slowing and that reality needs to be reflected in investors' portfolios and mindsets (and that's where the biggest risk lies now that investors are not prepared for real slowing growth).

This Week

Focus turns back to inflation this week as the key report is Wednesday's CPI. Given the recent lackluster data, Wednesday's CPI could be the deciding factor in whether the Fed decides to cut 50 bps next week or 25 bps. Broadly speaking, the weaker this number, the better for markets and the greater the chance the Fed does cut 50 bps. And regardless of recent growth data, the market will generally welcome the bigger expected rate cut.

Looking at CPI, investors expect inflation to keep falling (if it were to rebound that would be a significant negative and hit stocks and bonds) but the question is will inflation fall far enough to make a 50-bps cut the consensus (if it does, it'll be a general positive for stocks).

The other notable events this week all come on Thursday. First, the ECB will likely announce another rate cut but the key will be how many more cuts they imply between now and year-end. The rate cut and dovish tone should remind investors we are in a global rate cutting environment, which is a general positive (although not enough alone to support stocks given slowing growth).

Second, weekly jobless claims will remain in focus. As last week's labor market data showed, firms haven't stopped hiring. The next step in a slowdown is for firms to start laying off, so if claims move higher that will increase economic anxiety and weigh on stocks. The 250k-260k level remains important to watch. A sustainable move about that level implies firms are starting to more-aggressively lay off workers (an economic negative).

Finally, PPI comes on Thursday and that should give further confirmation that inflation is moving back to target. Again, while not as important as CPI, a soft PPI report would increase the chances of a 50-bps rate cut and that would be, in the short term at least, positive for stocks.

Bottom line, the inflation "boogey man" has largely been vanquished (at least statistically) but inflation still matters, because it has to fall farther if the Fed is going to cut 50 bps in September (what the market really wants).

Commodities

Global growth concerns were apparent in commodities last week as oil and industrial metals futures declined while gold relatively outperformed but still declined. The commodity ETF, DBC, fell 3.80% to a 52-week low.

WTI crude oil futures punched down through $70/barrel last week to trade at new 2024 lows. The negative catalyst was disappointing economic data starting with the headline miss in China's latest Manufacturing PMI which was followed by soft manufacturing PMI data in Europe and the U.S. as well as mixed, but net weakening, domestic employment data. WTI ended the week down a steep 7.45%, below $70/barrel as news that OPEC+ is planning to push the long-planned October production increases to December failed to stabilize the market.

Demand-crippling recession fears have become the biggest influence on the energy markets, leaving the fundamental outlook cautious at best if not outright bearish for oil in the medium to longer term. Geopolitical headlines mill continue to move the market on an intraday and intraweek basis, but the price action has become bearish with a downtrend emerging on the daily chart which matches the bearish fundamentals.

Copper declined at the start of last week thanks to soft Chinese manufacturing data released over the Labor Day weekend. Dovish money flows on more soft data in the U.S. in the middle of the week helped copper stabilize on rate cut hopes and subsequent soft landing optimism but heavy risk-off money flows Friday saw futures end the week down 3.65%, barely above support at $4.00. For now, copper is rangebound with support at $3.90 and resistance at $4.30. Gold futures dipped 0.36% last week as the safe-haven benefitted from recession fears, falling interest rates and dollar weakness. Gold fell short of making new all-time highs but managed to hold critical support at $2,500/oz.

Currencies & Bonds

Both currency and bond markets confirmed the soft U.S. economic data last week and forecasted slower growth ahead (but importantly didn't scream recession risks).

Starting with Treasuries, the most important event from last week was that 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. As we covered again in last Wednesday's *Sevens Report*, that "un-inversion" of the yield curve following a lengthy inversion has spelt trouble for stocks the last two times it occurred. So, while this is a different environment, we do need to be aware of that historical precedent.

The 10-year yield fell to a new one-year low. And in the low 3.70%, it's confirming slowing economic growth. Going forward, steep declines in the 10-year yield will be a negative for stocks as it'll imply slower (or non-existent) growth. The "best" path for Treasury yields going forward for stocks is a mild rally back into the 3.80%-4.00% range and then to stay there, reflecting slow-but-stable growth and aggressive rate cuts.

In currencies, 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, because the euro is more than 50% of the Dollar Index. The euro rose just 0.4% vs. the dollar last week and given the disappointing U.S. data, it could have been worse. Unless the ECB is more hawkish than expected this week (unlikely) it'll be difficult for the dollar to decline materially from here, unless the data turns just awful.

Finally, the yen rose 2% vs. the dollar last week on some hot inflation data and on the expectation for more rate hikes, so we're not sleeping on the yen here. If it's falling back into the lower 140s and if it keeps dropping, we will likely see an uptick in global asset volatility and we are watching this closely so we can alert you if it's happening. Much like Treasury yields, a "calm yen" is the best outcome for stocks near term.

Have a good week,

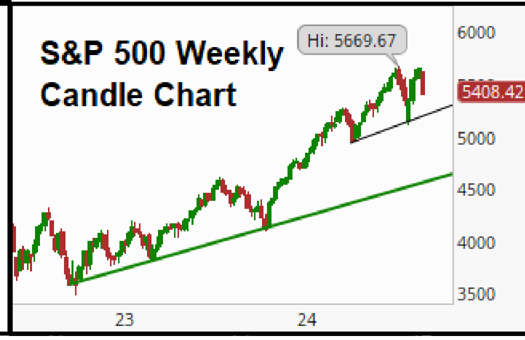
Tom

SEVENS REPORT

Technical Perspectives (Updated 9/8/2024)

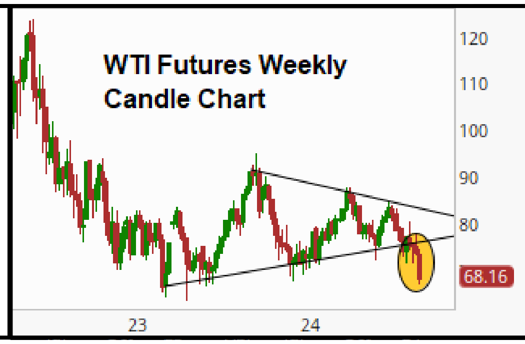
S&P 500

- 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



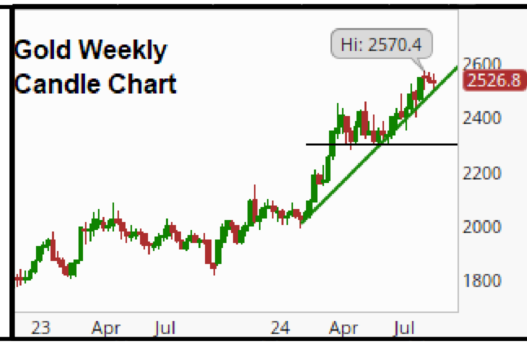
WTI Crude Oil

- 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



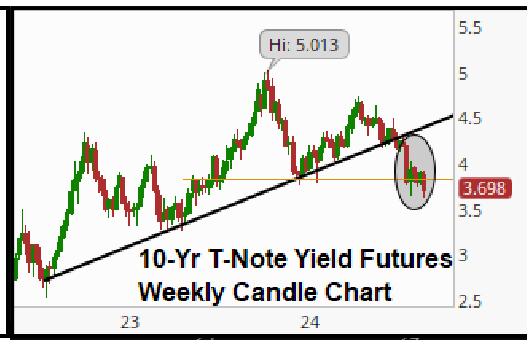
Gold

- 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



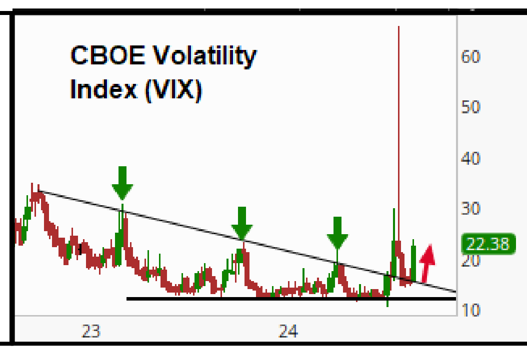
10-Year T-Note Yield Futures

- 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.