

■ First to Market

July 9, 2024

Contrarian Utilitarian

A daily market update from FS Insight – what you need to know ahead of opening bell

“Many [doctors] end up dropping out because of financial pressures... those who graduate often choose to work in the most lucrative specialties... to repay their debts, rather than in fields and communities that are most in need.” – Michael Bloomberg

Overnight

President Joe Biden is set to host a crucial NATO summit in Washington where new announcements over the alliance’s military, political, and financial support for Ukraine are expected [AOL](#)

Russia launched a series of rare daylight strikes on Ukraine Monday that partially flattened the country’s largest children’s hospital [AOL](#)

Bloomberg Philanthropies is giving \$1 billion to make medical school free for most students at Johns Hopkins [CNN](#)

France’s centrist limbo serves to lower the key risks that concerned financial markets [WSJ](#)

Boeing agrees to plead guilty to defrauding the FAA, but escapes punishment sought by victims’ families [CNN](#)

A sizzling earnings season looms [Sherwood](#)

The beginning of the end of market price targets [Axios](#)



Vanguard's die-hard customers have a message for new CEO: 'The service is abysmal' [WSJ](#)

SEC to rethink proposed 'swing pricing' rules for mutual funds in reprieve for asset managers [FT](#)

Sequoia Capital's former China unit raises new \$2.5bn start-up fund [FT](#)

BYD agrees \$1bn deal to build electric vehicle plant in Turkey [FT](#)

Judge who voided Musk's pay package faces tough call on \$7 billion legal fee [BBG](#)

Property-fraud allegations snowball as commercial real-estate values fall [WSJ](#)

'Nuclear' jury verdicts rise alongside American anger [WSJ](#)

Wind is quietly blowing away coal, when it comes to supplying electricity in the U.S. [Sherwood](#)

Devon Energy nabs Williston Basin driller Grayson Mill Energy in \$5 billion deal [WSJ](#)

China allows robotaxis without operators in Shanghai [WSJ](#)

Artificial-intelligence boom lifts paychecks for CIOs [WSJ](#)

Foreign carmakers fight to survive in China as market share dwindles [WSJ](#)

Paramount's third act will still offer plenty of drama [WSJ](#)

Paramount stock falls after Skydance deal announced [WSJ](#)

Japan's base pay rises by most in 31-years, but wages see decline for a record 26th month in a row when adjusted for inflation [RT](#)

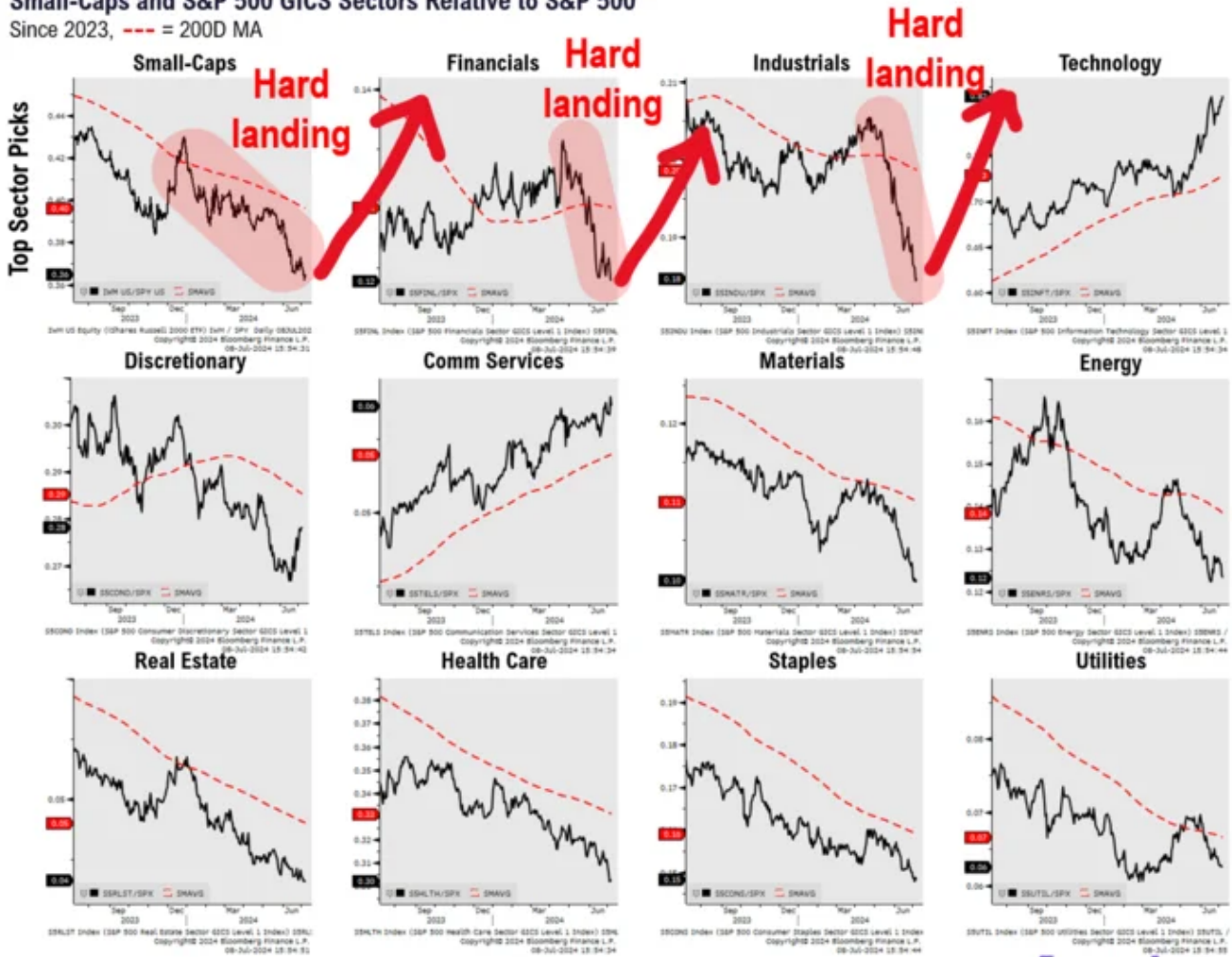
Thirty-six percent of Americans have confidence in higher education, per a new poll [Forbes](#)

The most common 4-digit PIN codes [IIB](#)

Chart of the Day



Small-Caps and S&P 500 GICS Sectors Relative to S&P 500
Since 2023, --- = 200D MA



Source: Fundstrat, Bloomberg

For Exclusive Use of Fundstrat Clients Only



MARKET LEVELS

Overnight

S&P Futures +14 ▲ point(s) (+0.3% ▲)
 Overnight range: +1 ▲ to +15 ▲ point(s)

APAC



Nikkei +1.96% ▲
Topix +0.97% ▲
China SHCOMP +1.26% ▲
Hang Seng -0.0% ▼
Korea +0.34% ▲
Singapore +0.64% ▲
Australia +0.86% ▲
India +0.47% ▲
Taiwan +0.09% ▲

Europe

Stoxx 50 -0.34% ▼
Stoxx 600 -0.07% ▼
FTSE 100 +0.14% ▲
DAX -0.18% ▼
CAC 40 -0.59% ▼
Italy +0.15% ▲
IBEX -0.45% ▼

FX

Dollar Index (DXY) +0.02% ▲ to 105.02
EUR/USD -0.01% ▼ to 1.0823
GBP/USD +0.02% ▲ to 1.281
USD/JPY +0.12% ▲ to 161.02
USD/CNY +0.05% ▲ to 7.2719
USD/CNH +0.05% ▲ to 7.2892
USD/CHF -0.01% ▼ to 0.8976
USD/CAD +0.04% ▲ to 1.3641
AUD/USD +0.01% ▲ to 0.6738

Crypto



BTC +2.46% ▲ to 57640.61
ETH +3.3% ▲ to 3096.9
XRP +1.31% ▲ to 0.434
Cardano +1.74% ▲ to 0.3739
Solana +1.77% ▲ to 142.33
Avalanche +2.2% ▲ to 25.76
Dogecoin +1.68% ▲ to 0.1087
Chainlink +2.1% ▲ to 13.14

Commodities and Others

VIX +0.89% ▲ to 12.48
WTI Crude -0.74% ▼ to 81.72
Brent Crude -0.68% ▼ to 85.17
Nat Gas +0.13% ▲ to 2.37
RBOB Gas -0.34% ▼ to 2.529
Heating Oil -0.86% ▼ to 2.557
Gold +0.21% ▲ to 2364.15
Silver +0.98% ▲ to 31.07
Copper +0.54% ▲ to 4.647

US Treasuries

1M -1.3bps ▼ to 5.344%
3M -5.4bps ▼ to 5.3172%
6M -1.2bps ▼ to 5.273%
12M -1.7bps ▼ to 4.9913%
2Y -0.4bps ▼ to 4.6243%
5Y -0.2bps ▼ to 4.2374%
7Y +0.3bps ▲ to 4.2394%
10Y +0.6bps ▲ to 4.2842%
20Y +0.7bps ▲ to 4.5787%
30Y +0.6bps ▲ to 4.4702%



UST Term Structure

2Y-3 ▼M Spread widened 1.8bps to -73.5 ▼ bps
10Y-2 ▼Y Spread widened 1.2bps to -34.2 ▼ bps
30Y-10 ▼Y Spread widened 0.2bps to 18.4 bps

Yesterday's Recap

SPX +0.1% ▲
SPX Eq Wt +0.2% ▲
NASDAQ 100 +0.23% ▲
NASDAQ Comp +0.28% ▲
Russell Midcap +0.25% ▲
R2k +0.59% ▲
R1k Value +0.1% ▲
R1k Growth +0.1% ▲
R2k Value +0.61% ▲
R2k Growth +0.57% ▲
FANG+ +0.0% ▲
Semis +1.66% ▲
Software -0.96% ▼
Biotech +1.66% ▲
Regional Banks +0.02% ▲ SPX GICS1 Sorted: Tech +0.72% ▲
Materials +0.28% ▲
REITs +0.17% ▲
Indu +0.13% ▲
SPX +0.1% ▲
Utes +0.07% ▲
Cons Disc -0.01% ▼
Healthcare -0.1% ▼
Fin -0.15% ▼
Cons Staples -0.21% ▼



Energy -0.59% ▼

Comm Srvcs -1.01% ▼

USD HY OaS

All Sectors -3.6bp ▼ to 357bp

All Sectors ex-Energy -4.1bp ▼ to 336bp

Cons Disc -2.8bp ▼ to 292bp

Indu -7.4bp ▼ to 212bp

Tech -4.3bp ▼ to 395bp

Comm Srvcs -5.5bp ▼ to 672bp

Materials -2.6bp ▼ to 319bp

Energy -1.5bp ▼ to 275bp

Fin Snr -2.9bp ▼ to 327bp

Fin Sub -1.5bp ▼ to 229bp

Cons Staples -5.1bp ▼ to 294bp

Healthcare -5.2bp ▼ to 398bp

Utes -3.3bp ▼ to 220bp *

| DATE | TIME | DESCRIPTION | ESTIMATE | LAST |
|------|--------|-------------------------|----------|------|
| 7/9 | 6AM | Jun Small Biz Optimisum | 90.2 | 90.5 |
| 7/11 | 8:30AM | Jun CPI m/m | 0.1 | 0.0 |
| 7/11 | 8:30AM | Jun Core CPI m/m | 0.2 | 0.2 |
| 7/11 | 8:30AM | Jun CPI y/y | 3.1 | 3.3 |
| 7/11 | 8:30AM | Jun Core CPI y/y | 3.4 | 3.4 |
| 7/12 | 8:30AM | Jun PPI m/m | 0.1 | -0.2 |
| 7/12 | 8:30AM | Jun Core PPI m/m | 0.2 | 0.0 |
| 7/12 | 10AM | Jul P UMich 1yr Inf Exp | 3.0 | 3.0 |
| 7/12 | 10AM | Jul P UMich Sentiment | 68.5 | 68.2 |



MORNING INSIGHT

Good morning!

The majority of clients are some combination of negative due to the inflation's second wave, due to the Fed cutting hawkishly, and/or due to a hard landing. This is why this week is a week of reckoning for those hawkish on inflation and the Fed.

More in today's Macro Minute video, linked [here](#).

TECHNICAL

Similar to last week, no meaningful challenge has resurfaced to the thinking that stock indices have a bit more to go on the upside before some consolidation gets underway. At present, trends and momentum are bullish, and higher prices are likely, up to 5650 as a minimum upside resistance target to the current rally.

Sector rotation into Industrials, Materials, and Consumer Discretionary seems to be happening, with Healthcare the only major technical overweight that is disappointing versus expectations.

Meanwhile, Emerging Market equity indices appear to be trying to stabilize after an initial difficult period from mid-May, when the U.S. Dollar rose into June highs. (We'll discuss this in greater detail later in today's report.)

Given that CPI swaps show a possible 3.07% print for June CPI vs. consensus expectations of 3.10%, it's thought that the recent economic cooldown which produced lower U.S. Dollar and Yield trends may very well continue.

Overall, it's hard growing too negative, given the ongoing trend of higher highs and higher lows, and an absence of meaningful DeMark-based exhaustion signals, during a time when cycles are pushing higher and investors' level of bullishness seems constrained.

Click [HERE](#) for more.

CRYPTO

The German government accelerated its disbursement of seized #BTC over the weekend, sending large amounts to various market makers and crypto exchanges, including Cumberland DRW, Kraken, B2C2 Group, Coinbase, Bitstamp, and Flow Traders. In total, they have moved approximately 26k #BTC from their cold wallets, putting them just over halfway through their entire holdings, with about 24k #BTC left to offload. This selling pressure, coupled with less liquid market conditions, has weighed on crypto prices since around last Wednesday. [You can track the German government wallet activity here.](#)

The defunct crypto exchange Mt. Gox also began repaying creditors in #BTC and #BCH as part of its rehabilitation plan on July 5th. The trustee announced that repayments will be made promptly to eligible creditors through designated crypto exchanges, provided certain conditions are met. Last week, Mt. Gox moved 1,545 #BTC to a hot wallet on Bitbank, the first of the disbursements to partner exchanges. Unlike the German #BTC, which is essentially guaranteed to be sold within a short timeframe, Mt. Gox distributions have more uncertainty over how much will actually be sold and the timing of the distributions. Repayments are being handled by five exchanges with varying distribution timelines: Kraken (90 days), Bitstamp (60 days), BitGo (20 days), and both SBI VC Trade and Bitbank (14 days). These are the maximum timelines each party has agreed to meet and not necessarily the projected timeframe for distribution to customers. [You can track Mt. Gox wallet activity here.](#)

Click [HERE](#) for more.

First News

Useful to Consider. Once seen as staid investments, electric utility stocks are now Wall Street darlings, buoyed by the seemingly ubiquitous – and certainly ubiquitously discussed – AI boom. Traditionally known for steady dividends and regulated growth, utilities are attracting investors who suddenly see untapped potential in a sector seen as being poised to benefit from surging data-center demand and the electrification of vehicles and buildings.

Fair enough. One thing that was not seem coming down the pike is that the *utilities sector outperformed the S&P 500 in Q2, with several utility companies ranking among the year's top performers.* Vistra and Constellation Energy joined tech giants like Nvidia and industrial players like GE in the top five, while NRG Energy secured the number 11 spot. The market is increasingly recognizing energy infrastructure, including electricity networks and pipelines, as crucial components of AI's future.

Traditionally viewed as a sleepy sector of the stock market, utilities are experiencing a, dare we say it, electrifying resurgence. After a challenging 2023 marked by high interest rates that poured water on their debt-dependent business models, these companies are deservedly drawing attention from investors seeking exposure to the AI boom without the premium price tag of tech giants like Nvidia.

The shift in investor sentiment may be surprising at first, but a closer look reveals an undervalued sector with significant potential, and thus utilities are now a growth play.

Several factors suggest this utility rally may have staying power: 1. rising power demand is driving electricity rates higher, 2. equipment costs are beginning to fall, and 3. potential interest-rate reductions could further lower project costs. These trends point to improved profit margins, particularly for power producers in deregulated markets who can negotiate directly with data-center operators.

In essence, utilities are offering investors a more affordable entry point into the AI-driven market expansion, transforming from safe, dividend-focused stocks into growth opportunities that are more and more attractive to a broader range of investors, especially those late to the Nvidia rally.

Many utilities are still priced as if the years-long observable trend of power demand remaining stagnant will continue. The valuations suggests these stocks are underpriced relative to their growth potential, especially when compared to the inflated tech sector. Private-equity's on it, though, as surging interest from PE firms is starting to drive up competition and prices for utility stocks.

Utilities continue to offer their traditional benefits in the form of attractive dividend yields and a defensive position for investors anticipating economic slowdown. It's also true that among some recent headwinds for utility stocks there are the resilient Treasury yields, which compete for investor attention, and – following President Biden's recent debate performance – concerns about a potential incoming administration less favorable to renewables. Despite these challenges, Goldman Sachs analysts project an average 16% total return for utilities over the next year, with top-rated stocks potentially reaching 23%.

Still, utility bulls will have to contend with two big risks: 1. that power demand growth turns out to be weaker than anticipated, as each new generation of Nvidia chips is far more energy-efficient than the last, and 2. that AI itself will help utilities operate more efficiently, obviating the big capital-spending projects usually used to justify higher rates. Alternatively, utilities may build new generating capacity for demand that never materializes, leaving them stuck with stranded assets bad for the balance sheet and (if they're gas-burning plants) bad for the climate. Then there's the risk of earnings misses from AI leaders leading spooked investors to reduce the valuations of perceived AI beneficiaries.

Speaking of those, Google's experience shows how difficult it can be for tech companies to reconcile their data and climate ambitions. Never mind that Google is at the forefront of sourcing clean energy for its data centers – *the company's total CO2 emissions are still up 48% compared to five years ago; up 13% over last year*, largely on account of AI development. The dynamic casts doubt on whether Google can meet its 2030 net zero goal. In characteristic don't-don't-be-evil corporate-speak, Google writes "as we further integrate AI into our products, reducing emissions may be challenging." Semafor, Axios

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