



Your Weekly Roadmap

July 26, 2024

Small-caps Rise Amidst Large-Tech Selloff

Our Views



Tom Lee, CFA, CFA^{AC}

HEAD OF RESEARCH

- June Core PCE came in at +0.18% MoM. This was slightly higher than consensus, but four items contributed +0.14% to this figure: professional services, food services, other durable goods, and recreational items.
- Do these categories have a sudden surge in inflation? I don't see how. So to me, this is statistical noise.
- U Mich 1-yr-forward inflation expectations remained tame as well, coming in at +2.9%
- The odds of 2 cuts in Sept (50bp) rose incrementally after the June Core PCE report – roughly 20% as of midday Friday. And to us, this makes sense.
- This leaves in place our view that the Fed is going to cut rates in September, starting an easing cycle. This is the “whites of the eyes” moment for small-caps.
- **BOTTOM LINE:** Our “summer of small-cap” thesis remains intact and we continue to see **IWM▲1.75%** potentially reaching \$280-\$300.

[Read the Latest First Word](#)



Mark L. Newton, CMT^{AC}

HEAD OF TECHNICAL STRATEGY

- SPX and QQQ look to be trying to stabilize and rally after a very sharp two-week decline into this week. Trends in DJIA and Equal-weighted S&P 500 look far better in the short run than SPX and QQQ, which remain within two-week downtrends.
- Thus, while Friday's rally was encouraging, it can't be said with confidence that a move back to new highs should happen right away. However, it's expected that next week brings about a rally into FOMC meeting, but sufficient upside progress needs to happen to argue that this move can continue without any further weakness into August.
- The current cycle composite seems to show a larger likelihood of an early to-mid- August bottom vs. late July. Thus, while it's right to be optimistic for an eventual push back to new all-time highs this Fall, I suspect it will prove choppy, and not without some backing and filling.

[Read the Latest Daily Technical Strategy](#)



Sean Farrell ^{AC}

HEAD OF CRYPTO STRATEGY

- A combination of broad degrossing and a resurgence in prediction markets from the Democratic Party has led to a stalling of the July rally.
 - **Catalyst Watch:** The most likely path for the US to adopt BTC as a strategic reserve asset is to siphon the BTC obtained by the DOJ into the Exchange Stabilization Fund. We will be watching to see if this is endorsed by Trump at the BTC Conference this weekend.
 - GBTC bottomed eight trading days post-launch, following a slowdown in outflows. Given the pace of the current ETHE exodus, it is possible that a bottom will be in place within the next few days.
 - A cool PCE will likely cement a dovish Fed at next week's FOMC meeting. This should lead to further weakness in the dollar and rates and help boost risk assets into next week.
 - **Core Strategy:** With inflation continuing to fall, economic data remaining non-recessionary, and political tailwinds intensifying, we remain fully allocated.
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L. Thomas Block

WASHINGTON POLICY STRATEGIST

- Vice President Kamala Harris is now widely seen as the presumptive Democratic nominee for President, and as such, she is expected to select a running mate in the next 10 days.
 - The House of Representatives had hoped have a federal budget passed before the next fiscal year begins on October 1, but with their decision to adjourn early, this no longer seems to be the case.
 - The House will return to DC on September 9, and House Republicans now seem resigned to the necessity of another Continuing Resolution (CR) if a federal government shutdown is to be avoided.
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Wall Street Debrief – Weekly Roundup

Key Takeaways

- The S&P 500 ended the week at 5,459.10, down 0.83%. The Nasdaq slid 2.08% to close the week at 17,357.88, while Bitcoin was at 68,073.80 late Friday afternoon, roughly flat relative to Monday levels.
- Fundstrat's Tom Lee remains constructive on the S&P 500 but views small caps as more compelling.
- This week's macroeconomic data arguably supports continued anticipation for a Fed rate cut in September, but not July.

"Each one of us has a fire in our heart for something. It's our goal in life to find it and keep it lit." — Mary Lou Retton, Olympic gymnast and gold medalist

Good evening,

We saw major indices dip this week as large-cap Technology stocks declined. Much of this took place after Alphabet (\$GOOG) released its quarterly earnings after the close on Tuesday, even though the company beat on both top and bottom lines. To Fundstrat Head of Research Tom Lee, this was not unexpected – a Tech consolidation after the sizable gains posted in the past few months. We see evidence of those gains in the Nasdaq 100, which even after this week's activity remains up by about 15% YTD.

Head of Technical Strategy Mark Newton agreed that "some consolidation in Technology was expected compared to the broader market", reminding us that "the extent to which many large-cap Technology stocks dominate the SPX and QQQ has translated into a quick declines in the SPX and QQQ since mid July." Asked whether these portend a larger correction in store, Newton said, "Fortunately, I think the answer is 'no'. [...] Despite this week, we really have not seen any true evidence of technical deterioration. I think it's important to note that markets remain within uptrends."



“We are still constructive on the S&P 500 overall,” agreed Lee, viewing much of this week’s selloff as “overdone.” Yet for Lee, the interesting aspect of the large-cap selloff has been its effect on small-caps. “Previously, we had confidence that a sizable rally for small-caps would ensue, but we had initially thought this would be funded by the \$6 trillion of cash on the sidelines,” Lee told us. Instead, it is the rotation out of large-caps that seems to be fueling the rise of small-caps (\$IWM), which rose about 3% this week.

“We see [small-caps] as the most compelling near term opportunity,” Lee said, particularly given the Fundstrat team’s analysis of historic precedents. The Russell 2000 has been volatile, trading at +/- 1% in 11 out of the last 12 trading sessions. This has happened only 10 times in non-bear markets since 1979 – in 1987, 1998, 2009 (4x), 2011, 2020 (2x). “These were all clear ‘risk-on’ years and more importantly, ‘early cycle’ years,” Lee pointed out.

When looking at what happened to the Russell 2000 after this quantitative signal, we found high win ratios one-month forward, as well as three, six, and 12 months afterwards. In fact, the win ratio was 100% in the three-, six-, and 12-month forward-looking periods. We see this in our Chart of the Week:



SMALL-CAPS: Quantitative Support

Russell 2000 11 of 12 Consecutive Daily Returns Magnitude >=1% Move and Forward Returns
Since 1979

Russell 2000 11/12D >+1%/<-1%			Russell 2000 Forward Returns			
Signal Date	-12D	Bear Market	1M	3M	6M	12M
1	10/27/1987	-35% ← 1987	7%	14%	31%	37%
2	10/16/1998	-6% ← 1998	13%	22%	22%	21%
3	4/11/2000	-11% x	-4%	4%	-4%	-12%
4	5/9/2000	2% x	5%	4%	3%	-0%
5	9/30/2008	-6% x	-24%	-31%	-37%	-11%
6	11/3/2008	0% x	-16%	-18%	-10%	6%
7	11/19/2008	-2.3% x	18%	4%	20%	42%
8	12/8/2008	17% x	3%	-27%	10%	24%
9	3/3/2009	-20% } ← 2009	25%	44%	61%	80%
10	3/27/2009	17%	12%	19%	43%	58%
11	4/15/2009	7%	3%	8%	33%	57%
12	10/29/2009	-5% } ← 2011	-1%	7%	24%	21%
13	9/28/2011	-4%	17%	15%	30%	29%
14	3/6/2020	-1.4% x	-27%	0%	10%	51%
15	3/31/2020	-5% } ← 2020	14%	23%	28%	93%
16	4/24/2020	8%	10%	21%	30%	84%
17	2/1/2022	-5% x	-1%	-8%	-8%	-4%
18	3/20/2023	-8%	3%	7%	6%	17%

	Russell 2000 Forward Returns				
	-12D	1M	3M	6M	12M
All Instances (N=25)					
Average	-5%	3%	6%	16%	33%
Median	-5%	4%	7%	21%	27%
Win Ratio	33%	67%	78%	78%	78%
Ex-Bear Markets (N=10)					
Average	-5%	10%	18%	31%	50%
Median	-5%	11%	17%	30%	47%
Win Ratio	30%	90%	100%	100%	100%
7/25/2024	10%	Very strong			

\$IWM
Implied Price:

1M: +10%	90%	\$243
3M: +18%	100%	\$260
6M: +31%	100%	\$288
12M: +50%	100%	\$330

Source: Fundstrat, Bloomberg
*Excluding Overlapping Instances

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Newton’s technical view on small-caps coincides with Lee’s. “When we look at \$IWM versus the S&P 500, we have seen a very meaningful breakout of a trend going back over the last three years. That’s happened very quickly over the last three weeks, a very powerful move. For me right now, it still looks right to favor Russell 2000 and think that that can show some outperformance.”

Macroeconomic data

We saw some important macroeconomic data released this week as well, providing clues as to what the Fed might do at the next meetings of the Federal Open Markets Committee (FOMC). The next two FOMC meetings will take place on July 31 and September 18.



The latest data showed that U.S. GDP beat expectations in 2Q2024, further supporting market hopes for a soft landing as the Federal Reserve's battle against inflation progresses. Our Washington Policy Strategist Tom Block suggested that at our weekly research huddle that the GDP numbers "take pressure off the Fed to actually cut next week."

Newton agreed. "None of today's data is enough to dissuade the Fed from cutting in September, but [there's] also nothing to suggest they need to cut next week or to move by more than 25 bps at a time."

We also saw June Core PCE data this week, and it came in slightly higher than consensus at +0.18% MoM. In Lee's view, Friday's PCE data was "good enough" to maintain his base case: "I think the Fed is going to cut rates in September, starting an easing cycle."

As implied by Fed Funds Futures trading, the market is nearly unanimous in agreement that there will be no surprise cut next Wednesday. However, investors are unanimous in their expectations of at least one cut by the end of the September meeting and nearly unanimous that there will be at least two cuts by the end of 2024 (if not more).

Politics

As most probably know, it's been an eventful week in politics: President Biden ended his quest for re-election, Vice President Kamala Harris quickly became the presumptive Democratic nominee, and former President Trump worked to extend the momentum generated by last week's Republican convention. It is worth noting that Washington Policy Strategist Tom Block has told us on numerous occasions that political strategists typically view Presidential-election polling numbers before Labor Day in September as unreliable. To be clear, Fundstrat does not have a view or preference on the potential outcome of the election.



The outcome of Presidential elections have generally not impacted the markets in the intermediate term. As Newton noted, “I don’t give election-year politics that much importance as to what drives stocks.” Regardless of the result, after elections “when the uncertainty is eliminated, markets typically do better,” he said. However, the uncertainty before the election leads him to suggest that investors could face challenges from September into November.

Elsewhere

Microsoft put the number of computers affected by a problematic CrowdStrike update at 8.5 million. CrowdStrike announced that as of Friday, 97% of affected machines had been fixed and brought back online.

A new study showed that a growing share of U.S. adults of childbearing age do not expect to have children. The [Pew Research Center survey](#) showed that among adults younger than 50, 47% said they are unlikely to ever have children. Within that group, 57% said that they simply don’t want to have children (as opposed to being medically unable to have children or citing concerns about finances or the state of the world, for example).

The SEC filed fraud and market-manipulation [charges](#) against noted short-seller Andrew Left, head of Citron Capital and Citron Research. The regulator alleged that the respondents carried out “a \$20 million multi-year scheme to defraud followers by publishing false and misleading statements regarding his supposed stock-trading recommendations.” The conduct cited by the SEC concerns shares in 23 different companies.

The People’s Bank of China cut several key rates this week in the face of slowing and disappointing economic growth. China’s central bank on Monday cut its seven-day reverse repo rate to 1.7% from 1.8%; the one-year loan prime rate (LPR) from 3.45% to 3.35%; and the five-year LPR from 3.95% to 3.85% . On Thursday, it also cut the rate on one-year term policy loans from 2.5% to 2.3%. The cuts all took markets and observers by surprise, with the PBOC having given no warning or hints that such policy moves were being considered.

About one fourth of Eurostar trains were canceled on Friday after “coordinated” arson attacks on high-speed lines ahead of the Olympic Games, which opened on Friday. Affected lines included those traveling from London and Belgium to Paris, as well as various lines across France. Though security in Paris is elevated, the perpetrators targeted rail infrastructure at key points in rural France, which were unguarded. Investigators have not disclosed theories about the identities of the perpetrators or their underlying motives.

Typhoon Gaemi made landfall on the southeast coast of China after having wreaked havoc in the Philippines and Taiwan. The storm’s death toll stood at 39 as of Friday morning, with 34 of those having taken place in the Philippines. Gaemi is also being blamed for the sinking of an oil tanker carrying 400,000 gallons (1.5 million liters) of industrial fuel.

China announced plans to raise its retirement age as its population ages and life expectancies rise. The current retirement age (60 for men, 55 for women in white-collar occupations, and 50 for women who work blue-collar jobs) will be “gradually” raised in a “prudent orderly manner,” the Chinese Communist Party Central Committee said in a statement without disclosing additional details.



Important Events

S&P CoreLogic 20-City CS home price MoM, May Tue, Jul 30 9:00 AM ET
Est.: 0.30% Prev.: 0.38%

Conference Board Consumer Confidence, July Tue, Jul 30 10:00 AM ET
Est.: 99.5 Prev.: 100.4

FOMC Meeting and Rate Decision Wed, Jul 31 2:00 PM ET
Est.: 5.25% – 5.50% Prev.: 5.25% – 5.50%

Change in Non-Farm Payrolls, July Fri, Aug 2 8:30 AM ET
Est.: 178K Prev.: 206K



Stock List Performance

Strategy	YTD	YTD vs S&P 500	Inception vs S&P 500	
Granny Shots	+13.71%	-0.74%	+105.11%	View
Upticks	+17.47%	+3.02%	+10.84%	View



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