

■ First Word

August 12, 2024

We are watching 3 things this week. At top of list is Middle East conflict.



Tom Lee, CFA AG

HEAD OF RESEARCH

Week of 8/11-8/16:



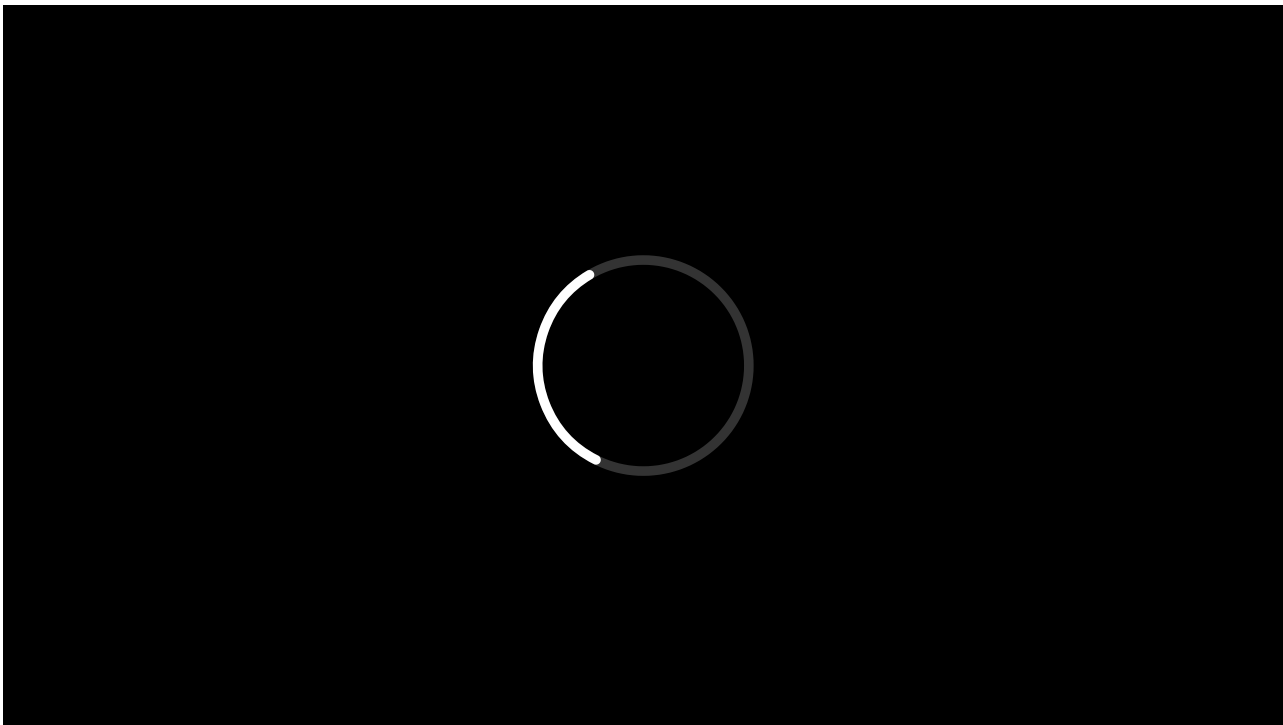
Thomas Lee, CFA
Head of Research

First Word
Report

Macro Minute
Video

VIDEO: There are 3 things we are watching closely this week. At the top of the list is a potential imminent attack by Iran on Israel

Please click below to view our [Macro Minute](#) (duration: 4:51)



Probabilities favor that the worst is behind us for August. That is, the S&P 500 fell to 5,119 on August 5th (close 5,344 on Friday 8/9) and this is likely the low for Summer (August to October). This does not mean markets go straight up, as bottoms are a process. Mark Newton, Head of Technical Strategy, also sees the probabilities this way until at least mid-September.

- There are 3 things that are top of mind for this week:
 - Iran potentially attacks Israel in coming days
 - July Core CPI released on Wed 8/14 at 8:30am ET
 - Watching the VIX as bottoms are a process
- The most serious and with the most variable outcomes is the imminent attack. There are widespread media reports that Iran plans to launch a direct attack soon ([X.com](#)). And there are also media reports that Washington is trying to stave off such an attack. The [WSJ.com](#) reports that the US has warned of severe economic consequences and resulting escalation to Iran if such an attack takes place.

- The obvious implication of an attack is that equities become “risk-off” as investors wait for clarity of the scope of the resulting conflict expansion. Watching the VIX will be the easiest proxy.
 - the VIX closed at 24 on Friday
 - the recent high was 67 in early August
 - we doubt the VIX will surge back to those highs
 - when VIX closes below 20, it is a sign of “relief”
- The impact on equities from an Iran attack is just not something we can model ahead of the event. And this means investors need to be wary and mindful that this will be a “high velocity” impact on markets. And as more clarity becomes available, we can provide better guidance.
- There is a lot of important macro economic data released this week:
 - 8/12 Mon 11:00 AM ET: Jul NY Fed 1yr Inf Exp
 - 8/13 Tue 6:00 AM ET: Jul Small Business Optimism Survey **92e**
 - 8/13 Tue 8:30 AM ET: Jul Core PPI **0.14%e**
 - 8/14 Wed 8:30 AM ET: Jul Core CPI **0.19%e**
 - 8/15 Thu 8:30 AM ET: Jul Retail Sales **0.3%e**
 - 8/15 Thu 8:30 AM ET: Aug Empire Manufacturing Survey **-6.0e**
 - 8/15 Thu 8:30 AM ET: Aug Philly Fed Business Outlook **7.0e**
 - 8/15 Thu 10:00 AM ET: Aug NAHB Housing Market Index
 - 8/15 Thu 4:00 PM ET: Jun Net TIC Flows
 - 8/16 Fri 10:00 AM ET: Aug P U. Mich. 1yr Inf Exp
- Of these, we view July Core CPI as the most critical. This is released Wed am at 8:30am ET.
 - Street consensus is +0.19% MoM
 - Last 3 Core CPI readings super “soft”
 - April, May, June → +0.29%, +0.16% and +0.06%
- Arguably, anything below +0.25% is very good. Why? Because Core CPI between November to March averaged >0.30% MoM. Thus, even a +0.25% would be a 4th core inflation reading that broke below the trends of 2022-2023.

- The details is what matters, so we will have a fuller preview as we get closer to Wednesday. But our view remains that inflation is falling like a rock. And auto insurance and shelter are the two components keeping inflation readings high.
- Over the weekend, Miki Bowman, Fed governor spoke hawkishly. And she is not confident that sufficient evidence is in place for a rate cut ([X.com](#)):
 - Bowman: “I am not confident that inflation will decline in the same way as in the second half of last year.”
- Her view is the latest example of a Fed using “data dependence” and at important turning points, this is a liability. There are also many investors still “hawkish” on inflation, so her view is not alone. But this is the reason we believe Wed’s July Core CPI is important. This will likely sway some views from hawks “data dependent” for forward looking.
- As we noted in recent notes, bottoms are a process. And we think the easiest proxy to watch is the VIX. When the spot VIX falls below 20 and the VIX futures curve (1M less 4M) “uninverts” we view this as a market fully pricing in the “worst is behind us.”
- But the bottom will have already been in place by then. Barring a serious escalation of the Middle East (not known), this is the case. But keep in mind, bottoms are a process.

BOTTOM LINE: Evidence growing that equities made their summer lows on 8/5.

Generally, August to October is a tough period for markets. One important client, ES of NY, has repeatedly mentioned to me “I never make money in August.” And that is consistent with Mark Newton, Head of Technical Strategy, view that Aug to Oct is window where stocks risk/reward is less attractive than the period post-election.

- Since 1950, however, of that period between August to October, the S&P 500 has bottomed most commonly during August.
 - August, Sept and Oct low %: 44%, 17%, 40%
 - meaning, markets most likely bottom in August (for that period)

- Guess what is the most common week for the bottom?
 - the first week of August
 - 15 of the 74 years
- Lastly, we need to be mindful that Iran could launch an attack this week, in response to several high profile assassinations. The Olympics continue to August 11. So, markets are naturally wary of the headline risk from this. But we know the adage:
 - “sell the build-up, buy the invasion”
- The only thing is that at the start of the Russia-Ukraine war, markets had a short relief rally. But that war has since become a larger and most costly conflict. So, problems percolating in the Middle East are not to be taken lightly.
- But just because markets might have some headwinds near term does not change the probabilities of a strong second half. As we noted previously:
 - Since 1950, when S&P 500 is up >10% in the first half
 - 23 instances
 - 2H (second half) gains +9.8%, 83% win-ratio
 - the 4 negative 2H instances were 1975, 1983, 1986, 1987
 - essentially, all the negative 2H were during Volcker era

Bottom line, markets are certainly showing strong signs of gaining their footing. And we also view this panic as ultimately being a growth scare (coupled with a carry trade unwind).



WEEK AHEAD 8/11: Things that will matter most

1. **SOON: Iran potential attack Israel**
2. **Wed 8/14 8:30am ET: July CPI**
3. **Technical: Bottoms are a process**

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Mossad Commentary ✓

@MOSSADiI

Our intelligence community believes that Iran has decided to attack Israel directly and that it is expected to do so within a few days

01 : **06** : **37** : **39**
DAYS HOURS MINUTES SECONDS

|| GIF

2:02 PM · Aug 11, 2024 · **17.8K** Views

64

98

303

17



Source: X.com

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U.S. Warns Iran of ‘Serious Risk’ if It Conducts Major Attack on Israel

Biden administration has been mounting intensive campaign to encourage both sides to de-escalate

By *Michael R. Gordon* [Follow](#) and *Lara Seligman* [Follow](#)

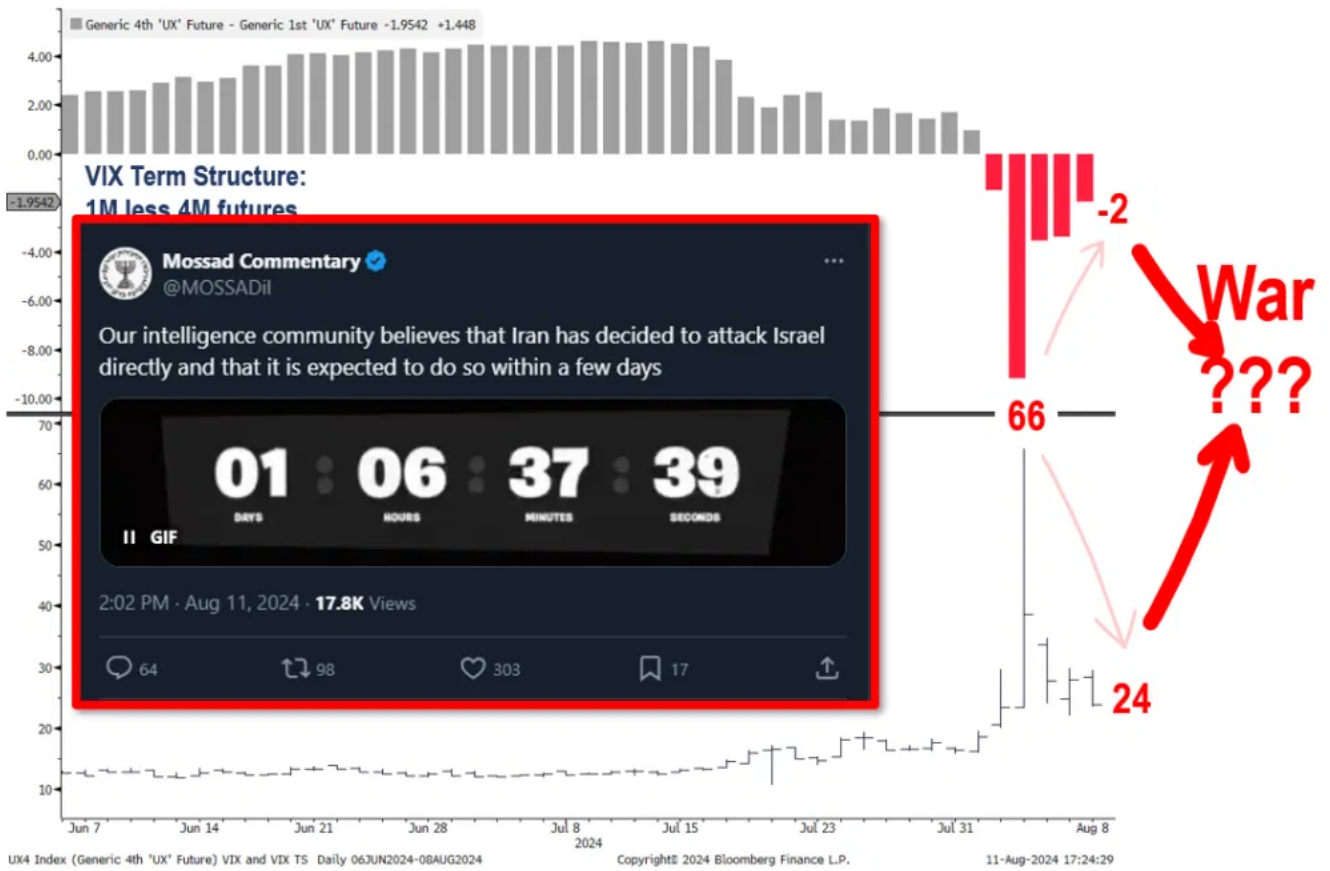
“The United States has sent clear messaging to Iran that the risk of a major escalation if they do a significant retaliatory attack against Israel is extremely high,” said the official.

Those messages have also put Tehran on notice “that there is a serious risk of consequences for Iran’s economy and the stability of its newly elected government if it goes down that path,” the official added.

Iran has signaled it plans to retaliate against Israel for [the recent killing of a senior Hamas leader](#) in Tehran. The Biden administration has been mounting an [intensive campaign to discourage Iran](#), its proxies and Israel from undertaking military action that would escalate tensions in the region, as Washington tries to salvage [prospects of a cease-fire](#) in the Israel-Hamas war in Gaza.

Source: WSJ.com

VIX: Reversing from 3rd highest ever reading



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KEY EVENTS: August 12th to August 16th

- 8/12 Mon 11:00 AM ET: Jul NY Fed 1yr Inf Exp
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CPI: June lands far softer than expectations

	Nov	Dec	Jan	Feb	Mar	April	May	Jun	Jul
Date	12/12/23	1/11/24	2/13/24	3/12/24	4/10/24	5/15/24	6/12/24	7/11/24	8/14/24
Core CPI est.	+0.30%	+0.30%	+0.30%	+0.30%	+0.30%	+0.30%	+0.30%	+0.21%	
Core CPI actual	+0.31%	+0.28%	+0.39%	+0.36%	+0.36%	+0.29%	+0.16%	+0.06%	
Delta	Slight Worse	Better	Worse	Worse	Worse	Better	Better	Better	

3 consecutive super “soft” CPI

Source: [Fundstrat](#), Bloomberg

CPI: "Stubborn" is Auto insurance + Shelter

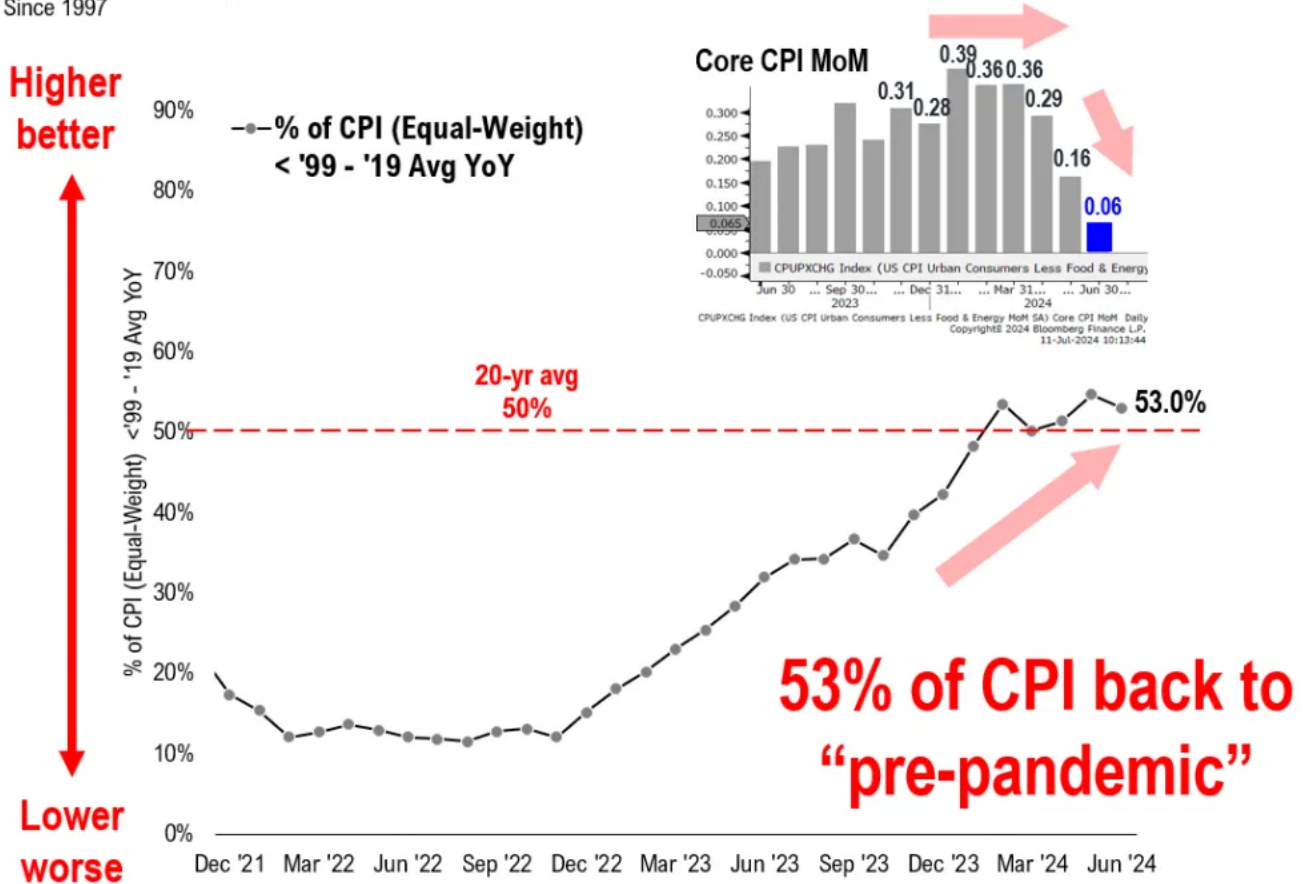
Core CPI Expenditure Category	Weight (%)	1999-2019	Current	Current	
		20Y YoY CAGR (%)	YoY (%)	YoY Less 20Y CAGR (%)	CTG to Delta (%)
Core CPI	100	2.0	3.3	1.26	1.26
A					
Core Goods	23.3	-0.0	-1.8	-1.79	-0.48
Core Services	76.7	2.8	5.1	2.30	1.68
<i>Shelter + Auto Insurance</i>					
Shelter	45.5	2.7	5.2	2.45	1.07
Auto Insurance	3.7	4.1	19.5	15.42	0.51
B					
TOTAL Shelter and Auto Insurance	49.2	2.8	6.2	3.38	1.59
C = A less B					
Core Services ex-Shelter & Auto Insurance	27.5	2.7	3.1	0.33	0.09
Other Core Services					
Household operations	1.2	3.2	3.7	0.56	0.01
Auto maintenance and repair	1.6	2.8	6.0	3.27	0.05
Hospital and related services	2.9	5.5	7.1	1.56	0.04
Misc. personal services	1.1	3.1	4.6	1.52	0.02
Recreation services	4.1	2.3	3.4	1.05	0.04
Internet services	1.2	-1.0	4.3	5.35	0.07
Personal care services	0.8	2.3	5.0	2.71	0.02
Postage and delivery services	0.1	3.2	3.7	0.46	0.00
Motor vehicle fees	0.7	3.2	2.9	-0.28	-0.00
Tuition, other school fees, and childcare	3.0	4.6	2.9	-1.65	-0.04
Professional services	4.5	2.6	2.1	-0.45	-0.02
Leased cars and trucks	0.7	-0.9	4.3	5.15	0.05
Telephone services	1.9	-0.5	0.1	0.63	0.01
Public transportation	1.5	1.1	-3.8	-4.87	-0.05
Car and truck rental	0.2	1.1	-6.3	-7.41	-0.01
Health insurance	0.7	3.8	-4.2	-7.99	-0.06

1.59 of excess inflation

Source: Fundstrat, BLS

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Figure: % of CPI items with YoY **BELOW** Pre-pandemic avg (20-yr)
Since 1997



Source: Fundstrat, Bloomberg, BLS

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TOO MANY INFLATION HAWKS: Bowman

Nick Timiraos @NickTimiraos

Fed governor Miki Bowman, who is among the most hawkish on the FOMC: "I am not confident that inflation will decline in the same way as in the second half of last year."

She keeps the door open to a rate cut: "Should the incoming data continue to show that inflation is moving sustainably toward our 2% goal, it will become appropriate to gradually lower the federal funds rate to prevent monetary policy from becoming overly restrictive on economic activity and employment."

"But we need to be patient and avoid undermining continued progress on lowering inflation by overreacting to any single data point."
[federalreserve.gov/newsevents/spe...](https://www.federalreserve.gov/newsevents/spe...)

12:20 PM · Aug 10, 2024 · **111K** Views

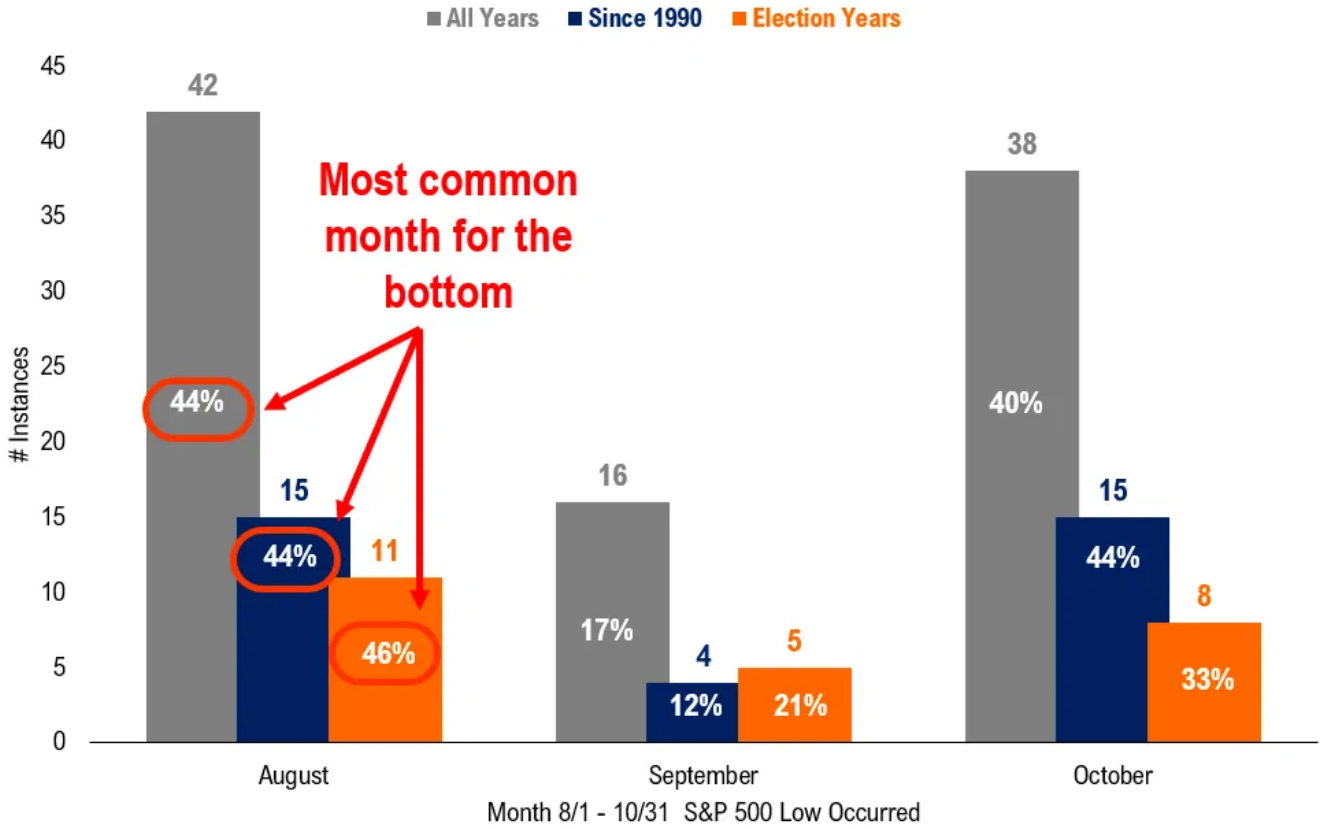
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S&P 500 Aug – Oct Market Low Occurrence by Month

Since 1928



Source: [Fundstrat](#), Bloomberg



S&P 500 Historical 2H Performances
Since 1950

		<i>Median S&P 500 Performance</i>							
		1H	Jul	Aug	Sep	Oct	Nov	Dec	2H
1H >10%	N=								
1H >10%	23	14.7%	3.1%	-0.6%	1.0%	2.0%	2.2%	2.9%	9.8%
1H Positive	51	8.9%	1.6%	0.6%	-0.1%	0.9%	1.9%	1.8%	6.7%
All Years since 1950	74	5.0%	1.3%	0.5%	-0.4%	1.0%	2.0%	1.5%	5.6%
1H Negative	23	-7.3%	-0.2%	0.5%	-2.5%	1.8%	2.7%	0.8%	2.1%
1H <-10%	8	-13.3%	1.4%	0.9%	-6.9%	4.2%	4.2%	1.1%	-2.5%
		<i>Win Ratio</i>							
		1H	Jul	Aug	Sep	Oct	Nov	Dec	2H
1H >10%	23	100%	65%	39%	52%	57%	78%	83%	83%
1H Positive	51	100%	65%	55%	47%	59%	73%	76%	78%
All Years since 1950	74	69%	59%	54%	43%	59%	69%	74%	72%
1H Negative	23	0%	48%	52%	35%	61%	61%	70%	57%
1H <-10%	8	0%	50%	63%	38%	63%	63%	63%	50%

2H ~10%
83% time

2H ~10%
83% time

Source: Fundstrat, Bloomberg

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S&P 500 1H>10% and 2H Returns

Since 1950

Year	S&P 500 1H>10%			S&P 500 2H Returns							2H
	1H	Bear		Jul	Aug	Sep	Oct	Nov	Dec		
		Market	Recession								
1 1954	18%			6%	-3%	8%	-2%	8%	5%	23%	
2 1955	14%			6%	-1%	1%	-3%	7%	-0%	11%	
3 1958	13%			4%	1%	5%	3%	2%	5%	22%	
4 1961	11%			3%	2%	-2%	3%	4%	0%	11%	
5 1967	13%			5%	-1%	3%	-3%	0%	3%	6%	
6 1975	39%			-7%	-2%	-3%	6%	2%	-1%	-5%	
7 1976	16%			-1%	-1%	2%	-2%	-1%	5%	3%	
8 1983	20%			-3%	1%	1%	-2%	2%	-1%	-2%	
9 1985	15%			-0%	-1%	-3%	4%	7%	5%	10%	
10 1986	19%			-6%	7%	-9%	5%	2%	-3%	-3%	
11 1987	26%		x	5%	3%	-2%	-22%	-9%	7%	-19%	
12 1988	11%			-1%	-4%	4%	3%	-2%	1%	2%	
13 1989	14%			9%	2%	-1%	-3%	2%	2%	11%	
14 1991	12%			4%	2%	-2%	1%	-4%	11%	12%	
15 1995	19%			3%	-0%	4%	-0%	4%	2%	13%	
16 1997	19%			8%	-6%	5%	-3%	4%	2%	10%	
17 1998	17%			-1%	-15%	6%	8%	6%	6%	8%	
18 1999	12%			-3%	-1%	-3%	6%	2%	6%	7%	
19 2003	11%			2%	2%	-1%	5%	1%	5%	14%	
20 2013	13%			5%	-3%	3%	4%	3%	2%	15%	
21 2019	17%			1%	-2%	2%	2%	3%	3%	10%	
22 2021	14%			2%	3%	-5%	7%	-1%	4%	11%	
23 2023	16%			3%	-2%	-5%	-2%	9%	4%	7%	
All Instances (N=23)											
Average	16%			2%	-1%	0%	1%	2%	3%	8%	
Median	15%			3%	-1%	1%	2%	2%	3%	10%	
Win Ratio				65%	39%	52%	57%	78%	83%	83%	
Ex-Recessions and Bear Markets (N=22)											
Average	16%			2%	-1%	1%	2%	3%	3%	9%	
Median	15%			3%	-1%	1%	2%	2%	3%	10%	
Win Ratio				64%	36%	55%	59%	82%	82%	86%	
24 2024	15%			1%	-3%						

Post-Volcker

Source: Fundstrat, Bloomberg

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42 SMID Granny Shot Ideas: We performed our quarterly rebalance on 7/16. Full stock list here -> [Click here](#)

PS: if you are enjoying our service and its evidence-based approach

Key incoming data August 2024:

- 8/1 8:30 AM ET: 2Q P Nonfarm Productivity **Tame**



- ~~8/1 8:30 AM ET: 2Q P Unit Labor Costs~~ **Tame**
- ~~8/1 9:45 AM ET: Jul F S&P Global Manufacturing PMI~~ **Tame**
- ~~8/1 10:00 AM ET: Jul ISM Manufacturing PMI~~ **Tame**
- ~~8/2 8:30 AM ET: Jul Jobs Report~~ **Tame**
- ~~8/2 10:00 AM ET: Jun F Durable Goods Orders~~ **Tame**
- ~~8/5 9:45 AM ET: Jul F S&P Global Services PMI~~ **Tame**
- ~~8/5 10:00 AM ET: Jul ISM Services PMI~~ **Tame**
- ~~8/6 8:30 AM ET: Jun Trade Balance~~ **Tame**
- ~~8/7 9:00 AM ET: Jul F Manheim Used vehicle Index~~ **Mixed**
- 8/12 11:00 AM ET: Jul NY Fed 1yr Inf Exp
- 8/13 6:00 AM ET: Jul Small Business Optimism Survey
- 8/13 8:30 AM ET: Jul PPI
- 8/14 8:30 AM ET: Jul CPI
- 8/15 8:30 AM ET: Jul Retail Sales Data
- 8/15 8:30 AM ET: Aug Empire Manufacturing Survey
- 8/15 8:30 AM ET: Aug Philly Fed Business Outlook
- 8/15 10:00 AM ET: Aug NAHB Housing Market Index
- 8/15 4:00 PM ET: Jun Net TIC Flows
- 8/16 10:00 AM ET: Aug P U. Mich. Sentiment and Inflation Expectation
- 8/19 9:00 AM ET: Aug M Manheim Used vehicle index
- 8/21 2:00 PM ET: Jul FOMC Meeting Minutes
- 8/22 8:30 AM ET: Jul Chicago Fed Nat Activity Index
- 8/22 9:45 AM ET: Aug P S&P Global Manufacturing PMI
- 8/22 9:45 AM ET: Aug P S&P Global Services PMI
- 8/22 10:00 AM ET: Jul Existing Home Sales



- 8/23 10:00 AM ET: Jul New Home Sales
- 8/26 10:00 AM ET: Jul P Durable Goods Orders
- 8/26 10:30 AM ET: Aug Dallas Fed Manuf. Activity Survey
- 8/27 9:00 AM ET: Jun S&P CoreLogic CS home price
- 8/27 10:00 AM ET: Aug Conference Board Consumer Confidence
- 8/29 8:30 AM ET: 2Q S 2024 GDP
- 8/30 8:30 AM ET: Jul PCE Deflator
- 8/30 10:00 AM ET: Aug F U. Mich. Sentiment and Inflation Expectation

Economic Data Performance Tracker 2024:



Data item	2024											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
S&P Global Manufacturing PMI	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
ISM Manufacturing PMI	Mixed	Tame	Mixed	Tame	Tame	Tame	Tame					
JOLTS Job Openings	Tame	Tame	Tame	Tame	Tame							
Durable Goods Orders			Tame	Tame	Tame	Tame						
S&P Global Services PMI	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
ISM Services PMI	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
Trade Balance			Tame	Tame	Tame	Tame						
Non-Farm Payrolls	Hot	Mixed	Hot	Tame	Hot	Tame	Tame					
Manheim Used Vehicle Index	Mixed	Tame	Tame	Tame	Tame	Tame	Tame	Mixed				
NYFed 1yr Inf Exp	Tame		Tame	Tame	Tame	Tame						
Small Business Optimism Survey				Tame	Tame	Tame						
CPI	Mixed	Mixed	Hot	Tame	Tame	Tame						
PPI	Mixed	Mixed	Tame	Mixed	Tame	Mixed						
FOMC Rate Decision	Dovish		Dovish		Dovish	Dovish	Dovish					
FOMC Meeting Minutes	Dovish		Dovish		Dovish	Dovish						
Fed Releases Beige Book			Tame	Tame	Tame		Tame					
U. Mich.1-yr inflation Expectation	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
Empire Manufacturing Survey	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
Retail Sales Data	Tame	Tame	Mixed	Tame	Tame	Tame						
Net TIC Flows			Tame	Tame	Tame							
NAHB Housing Market Index	Mixed	Tame	Tame	Tame	Tame	Tame	Tame					
Philly Fed Business Outlook	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
Existing Home Sales				Tame	Tame	Tame						
Dallas Fed Manuf. Activity Survey	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
Chicago Fed Nat Activity Index			Tame	Tame	Tame	Tame						
S&P CoreLogic CS home price	Tame	Tame	Tame	Tame	Tame							
Conference Board Consumer Confidence	Tame	Tame	Tame	Tame	Tame	Tame	Tame					
Existing Home Sales				Tame	Tame	Tame						
New Home Sales				Tame	Tame	Tame						
PCE Deflator	Tame	Tame	Tame	Tame	Tame	Tame						

Data item	2024			
	1Q	2Q	3Q	4Q
Treasury QRA Announcement		Tame		
Non-Farm Productivity	Tame	Tame		
Unit Labor Costs	Tame	Tame		
GDP	Tame	Tame		
Employment Cost Index	Mixed	Tame		

Source: Fundstrat, Bloomberg

Economic Data Performance Tracker 2023:



Data item	2023											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
S&P Global Manufacturing PMI								Mixed		Tame	Tame	Mixed
ISM Manufacturing PMI					Tame	Tame	Tame	Tame	Tame	Tame	Tame	Tame
JOLTS Job Openings					Tame	Tame	Tame	Hot	Mixed	Tame	Tame	Mixed
Durable Goods Orders												
S&P Global Services PMI											Tame	Tame
ISM Services PMI				Tame	Tame	Tame	Tame	Mixed	Tame	Mixed	Tame	Tame
Trade Balance												
Non-Farm Payrolls				Tame	Tame	Mixed	Tame	Tame	Mixed	Tame	Tame	Mixed
Manheim Used Vehicle Index				Tame	Tame	Tame	Tame	Tame	Tame	Tame	Tame	Tame
NYFed 1yr Inf Exp							Tame	Tame	Mixed	Tame	Tame	Tame
Small Business Optimism Survey												
CPI				Tame	Tame	Tame	Tame	Mixed	Mixed	Tame	Tame	Tame
PPI				Tame	Tame	Tame	Tame	Tame	Mixed	Tame	Tame	Tame
FOMC Rate Decision				Dovish	Dovish		Dovish		Hawkish		Dovish	Dovish
FOMC Meeting Minutes					Dovish			Mixed	Dovish		Dovish	Dovish
Fed Releases Beige Book									Tame	Tame	Tame	
U. Mich.1-yr inflation Expectation				Tame	Tame	Tame	Tame	Mixed	Tame	Tame	Tame	Tame
Empire Manufacturing Survey								Mixed	Tame	Tame	Tame	Tame
Retail Sales Data									Hot	Tame	Tame	Tame
Net TIC Flows												
NAHB Housing Market Index							Tame	Tame	Tame	Tame	Tame	Tame
Philly Fed Business Outlook								Tame	Mixed	Tame	Tame	Mixed
Existing Home Sales									Tame			
Dallas Fed Manuf. Activity Survey										Tame	Tame	Tame
Chicago Fed Nat Activity Index												
S&P CoreLogic CS home price				Tame	Tame	Tame		Mixed	Tame	Tame	Tame	Tame
Conference Board Consumer Confidence						Tame	Tame	Tame		Tame	Tame	Tame
Existing Home Sales									Tame			
New Home Sales												
PCE Deflator				Tame	Tame	Tame	Tame		Tame	Tame	Tame	Tame

Data item	2023			
	1Q	2Q	3Q	4Q
Treasury QRA Announcement				Tame
Non-Farm Productivity			Tame	Tame
Unit Labor Costs				
GDP			Mixed	Tame
Employment Cost Index		Tame	Mixed	

Source: Fundstrat, Bloomberg

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