Weekend Alpha

Job Market Bad News is Good News for Stocks

Thomas Lee, CFA AC

HEAD OF RESEARCH

- As we enter the second half of the year, we still see this as a “buy-the-dip” market – even though we still see the possibility of a correction later this year.
- The bond market has taken what we believe to be an overly hawkish stance, anticipating approximately one and a half rate hikes from the Federal Reserve before the end of 2026.
- However, our view is that earnings growth is likely to continue strengthening in the second half of the year, even as inflation declines. I think we could end up with potential cuts re-entering the picture later this year.

Read the Latest Macro Minute Video

Mark L. Newton, CMT [AC]

HEAD OF TECHNICAL STRATEGY

- Mag 7 has snapped back to life after holding intermediate-term support, and with one day left in this holiday-shortened week, MAGS very well could register its highest weekly close in four weeks while also breaking out vs. $RSP.
- Wednesday proved to be the mirror opposite of recent sessions, with Financials and Healthcare both higher by more than +1.4% as the broader market comes back while Tech’s sub-sectors consolidate one by one without any major market decline, a big positive overall.
- South Korea’s $EWY declined nearly -7% Wednesday and has broken the uptrend from its April lows, and it pays to let this stabilize before re-engaging one of 2026’s strongest country ETFs.

Read the Latest Daily Technical Strategy

Sean Farrell [AC]
HEAD OF DIGITAL ASSET STRATEGY

- Strategy 8-K formalized BTC as a potential funding source for balance sheet repair, preferred dividends, and repurchases.
- While the removal of acute recursive tail risk was positive, the market now has to digest the possibility that Strategy becomes a source of BTC supply rather than incremental demand in the near term.
- This does not mean BTC necessarily needs to move materially lower, but it does help explain why investors may be reluctant to step in aggressively ahead of potential supply. The good news is that STRC traded higher today. The higher this trades the closer MSTR’s balanced sheet is to being “repaired.”

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L. Thomas Block
WASHINGTON POLICY STRATEGIST

- The Federal Reserve was in the spotlight this week when the Supreme Court, as many expected, ruled that the president doesn't have the right to short circuit due process and fire a Federal Reserve Board member.
- The case involved Trump's efforts to fire Governor Lisa Cook. The ruling will allow Governor Cook to remain on the board and denies the president the opportunity to fill a vacancy who might be more friendly to his desire to cut rates and support his new chair.
- This week also saw the new chair make his first speech. In the speech, he recommitted the board to the goal of 2% inflation and stated that achieving the goal remained the focus of the board.

Read the Latest US Policy

JOB MARKET BAD NEWS IS GOOD NEWS FOR STOCKS

Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

Key Takeaways

- The S&P 500 rallied 1.8% to 7,483.24 points this week, while the Nasdaq Composite added to 25,832.67, up 2.1%. Bitcoin was at USD 61,428 on Friday afternoon.
- Fundstrat Head of Research Tom Lee remains bullish on stocks for the year, but still expects a bear market before 2026 is over.
- Head of Technical Strategy Mark Newton expects investors to rotate back to the Magnificent Seven over memory stocks.

"Sometimes you have to take a risk if you want great things to happen." — Christian Pulisic

Good evening,

The S&P 500 posted its largest weekly gain since May 8.

The broad-based index rose 1.8% to 7,483.24 points, with eight out of 11 sectors finishing in the green. It has been up for 12 of 14 weeks. The tech-heavy Nasdaq composite, meanwhile, rallied 2.1% to 25,832.67 points. Both of them are hovering near records.

In the past month, the stock market has traded in a narrow range, thanks to peace discussions between the U.S. and Iran stalling and a volatile run in memory stocks. Hot inflation data hasn't helped either, propelling investors to bet on interest-rate hikes this year.

But increasingly, there are signs that energy prices have peaked, which would arguably mean that inflation has peaked. Still, the move down could take some time.

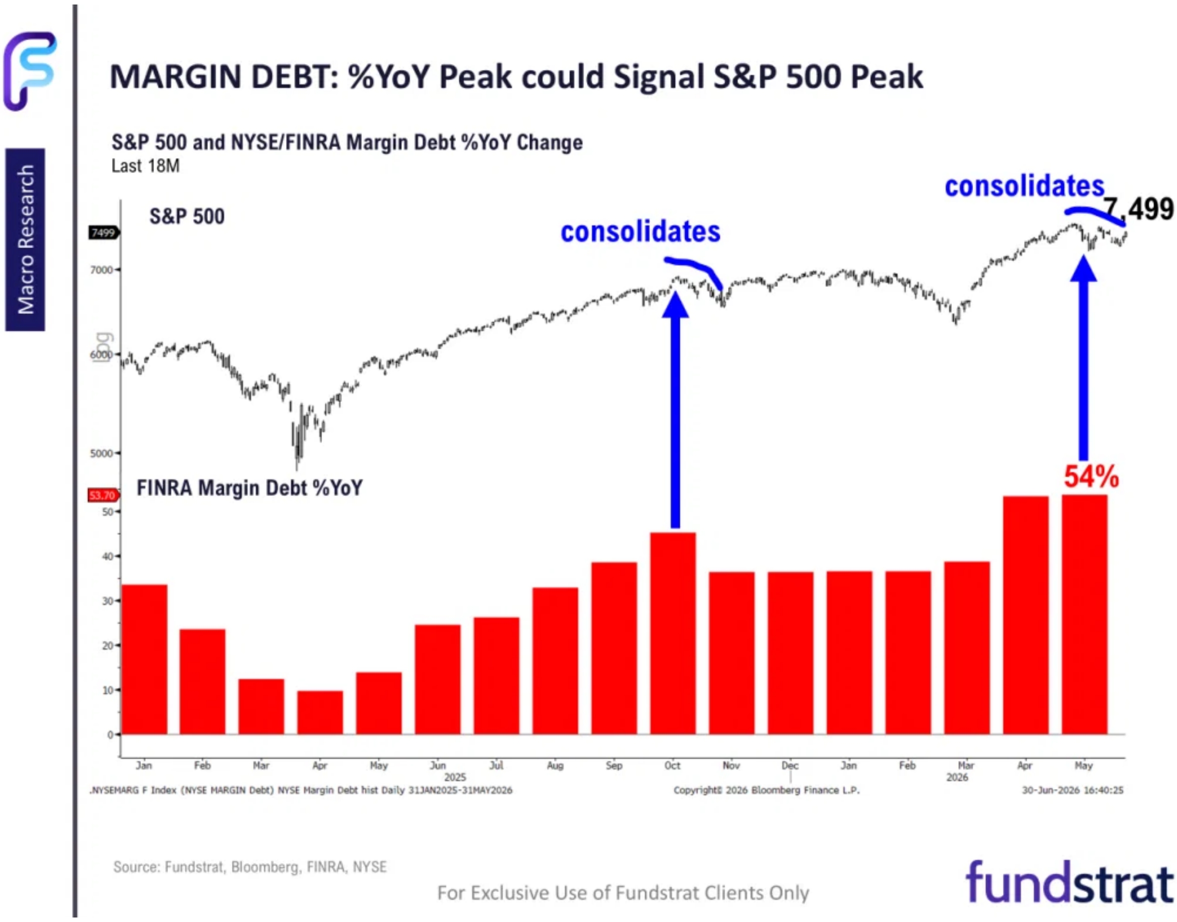
"Gasoline prices rise like a rocket and they fall like a feather," Fundstrat Head of Research Tom Lee said in his Macro Minute videos. "The good news is, of course, that means there's less inflation later this year."

One small silver lining on interest-rate bets: The monthly jobs report on Thursday made the case for holding rates steady this year. The U.S. economy added 57,000 jobs in June, coming lower than expectations of 115,000. The unemployment rate edged down to 4.2%, below projections of 4.3%, partly because workers have left the labor force, rather than a function of a strengthening labor market.

In typical Wall Street fashion, bad news is good news. Traders are now pricing in a 19.8% chance of a hike at the Fed's July meeting, down from 28.9% a day ago, according to CME's FedWatch data.

Lee still estimates that the second half of the year could feel like a bear market, though he has updated his year-end price target for the S&P 500 to 8,000 points. One reason for that near-term bearishness is that margin debt keeps growing. And Lee said that it's coming off about 12 months of sizeable monthly increases.

"Since 1960, when margin debt rises more than 50% year-over-year, you can see it leads to consolidation in equity markets. The exception is 2021 where markets powered through," he said. Our Chart of the Week has more details:



That's important to highlight, according to Lee. "We're still bullish near term, and I think we remain bullish, but sometime later this year, I think it's going to feel like a bear market."

In that scenario, Lee recommends investors to buy the dip. He highlighted six reasons why: (1) ISM turned above 50, after 3-years below 50 (2) Earnings acceleration continues (3) Oil has fallen back to pre-war levels, which means that inflation is set to fall in the second half (4) Bond markets are hawkish but the Fed is dynamic (5) 55% year-over-year rise of margin debt means consolidation (6) Fund managers trailing benchmark worst return in five years.

Lee has also said that chances are the drawdown is limited in its magnitude because the Magnificent Seven have already been in a bear market, and they are now perking back up, according to Head of Technical Strategy Mark Newton.

He wrote that the Roundhill Magnificent Seven ETF has achieved a meaningful snapback, which has successfully exceeded its one-month downtrend, causing MACD to turn back positive on daily charts.

“Given Mag 7’s dominance within U.S. benchmarks, this relative turn is also helpful for U.S. outperformance vs. other countries,” he said. “I expect Memory’s relative dominance to consolidate further in the weeks ahead as leadership within Technology shifts back to Mag 7 and, to a lesser extent, to Software.”

Elsewhere

Anthropic received White House clearance to release Fable, its newest AI model and the public version of the company's Mythos model. The release had previously been halted after Amazon researchers discovered workarounds to evade the guardrails intended to prevent Fable from being used to carry out cyberattacks or engage in other unsafe activities. The White House order halting the initial release had previously applied only to foreign-born individuals and those outside the U.S., but, lacking a way to effectively assure compliance with the criteria, the company was forced to suspend its release.

Former CIA Director John Brennan has sued the Trump administration, seeking a court order that would bar the administration from destroying records regarding the criminal investigations targeting him. Brennan has claimed that the investigation was the result of a level of "vindictiveness" that is "overwhelming." He is currently the target of two investigations: one involving allegations that he lied to congress about the CIA's assessment that Russia interfered in the 2016 election, and another that claims that members of the intelligence and law-enforcement community violated Trump's civil rights.

The Trump administration has decided not to renew the USMCA trade deal with Canada and Mexico that President Trump himself negotiated during his first term, citing substantial issues with its terms. Though the deal will remain in force until 2036, the White House opted not to extend it for an additional 16 years – at least during this annual review.

Taiwanese authorities detained two employees of Super Micro Computer as part of an investigation into the alleged smuggling of Nvidia chips to China. Two other employees were detained but released on bail. Notably, such chip smuggling is not illegal under Taiwanese law (though legislation to change that is being considered), and the detentions and investigations are widely viewed as a nod to U.S. sensitivities about the matter.

A small plane crashed into Beijing's tallest building, killing the pilot and leaving 13 others injured. But it reportedly could have been much worse, as a Hainan Airlines passenger jet narrowly avoided crashing into the plane first. The building, the 109-story Citic tower, is near the residences of a number of senior Chinese government officials, as well as the headquarters of the Chinese communist party, and thus is supposed to be in restricted airspace. The incident thus raises questions about Chinese control of some of its most sensitive airspace.

And finally: The head of Uganda's military once again gave rapper Jay-Z one week to "surrender" his wife, the pop star Beyonce, or else face him in a duel. Gen. Muhoozi Kainerugaba, who is also the son of Uganda's president, also bragged about his cattle holdings and threatened to escalate the matter to the United Nations. Neither Jay-Z nor Beyonce have commented on the matter. Kainerugaba made similar comments last year.

U.S. markets and Fundstrat offices will be closed on Friday, July 3, in observance of the Independence Day holiday. We hope everyone has a safe and festive celebration.

Important Events

ISM Services Index
Mon, Jul 6 10:00 AM ET

Est.: 54.2 Prev.: 54.5

Trade balance
Tue, Jul 7 8:30 AM ET

Est.: -$78.8b Prev.: -%55.9b

Existing home sales
Thu, Jul 9 10:00 AM ET

Est.: 1.9% Prev.: 3.2%

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