

# SEVENS REPORT *alpha*

**Webinar #28: Bullish/Bearish Scenario Analysis**

**Thursday September 13<sup>th</sup>, 2018**

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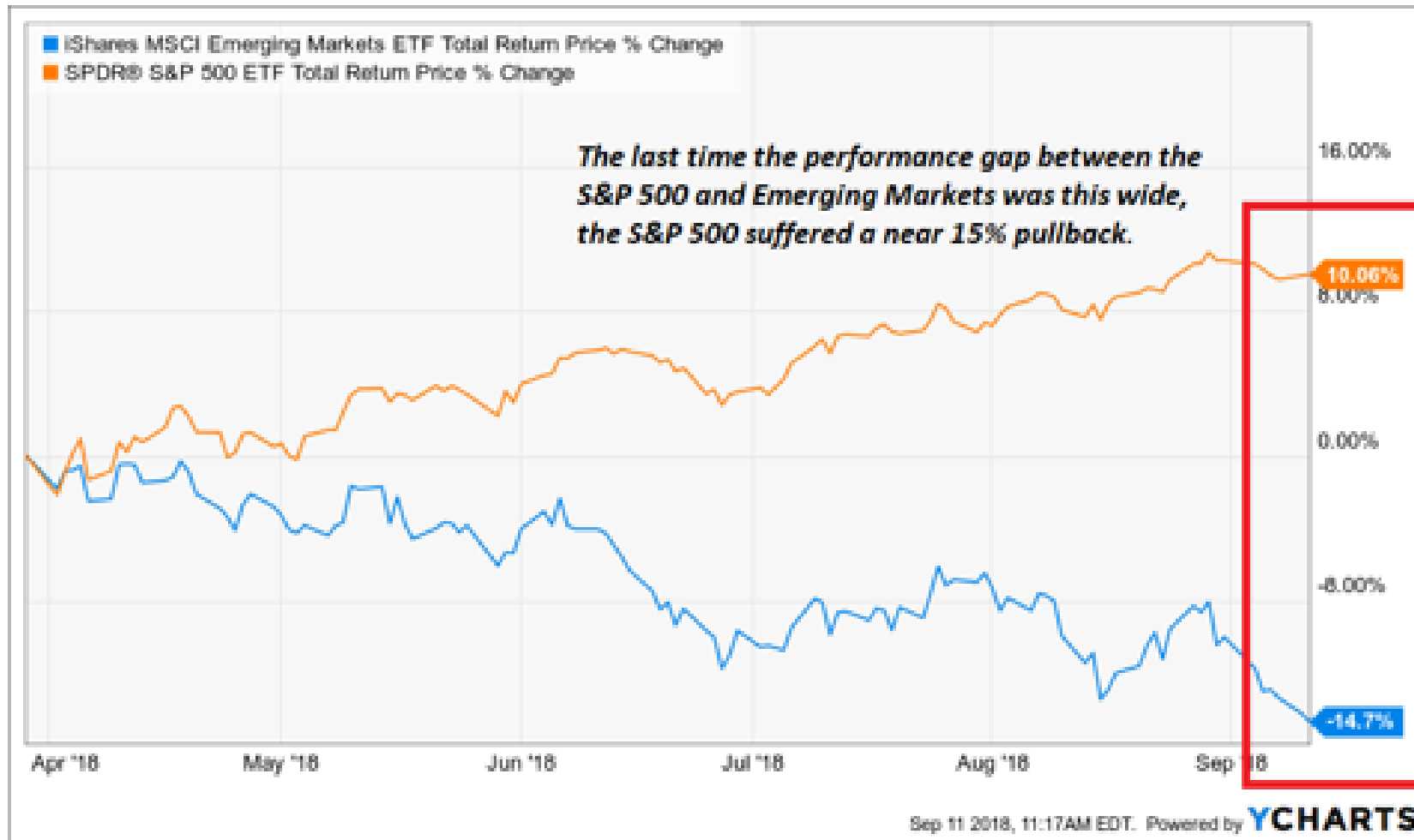
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## Goals of today's Webinar

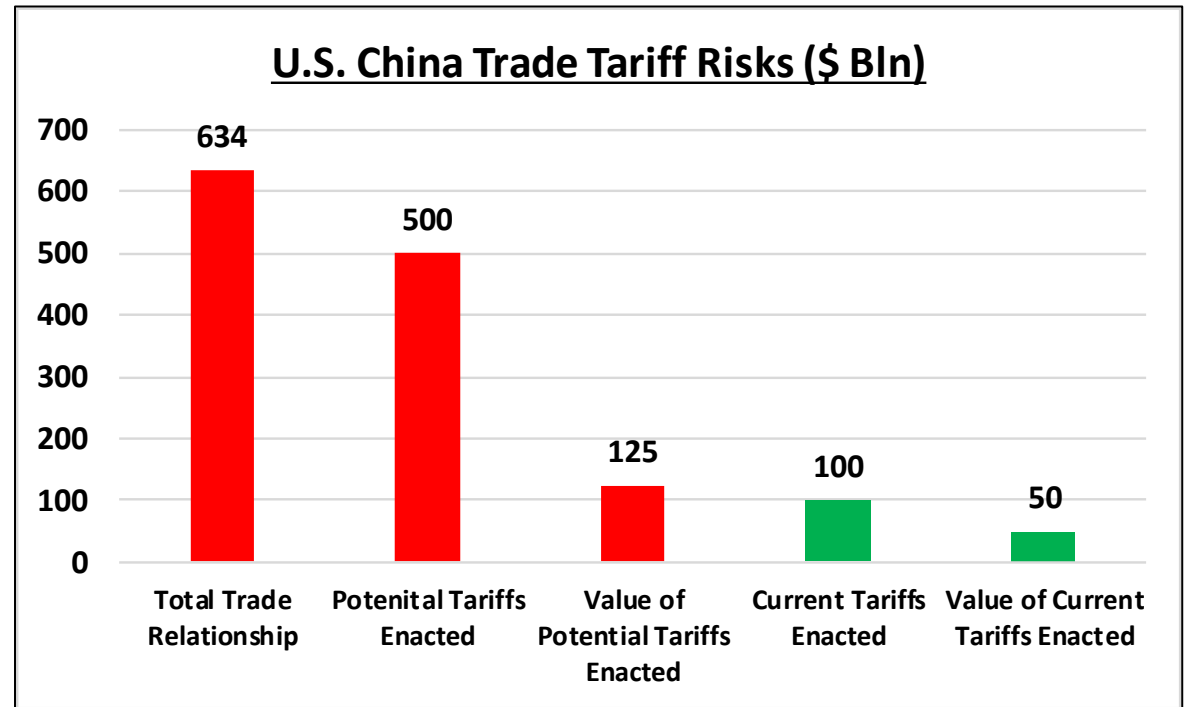
- **The Biggest Problem Facing Markets Today.**
- **Five Catalysts to Decide the Year**
  - A U.S. China Trade Deal.
  - December Fed Rate Hike.
  - U.S. Dollar.
  - Q3 Earnings Season.
  - Midterm Elections.
- **Alpha Playbook: Picks for a Positive or Negative Outcome.**

## The Biggest Problem Facing Markets

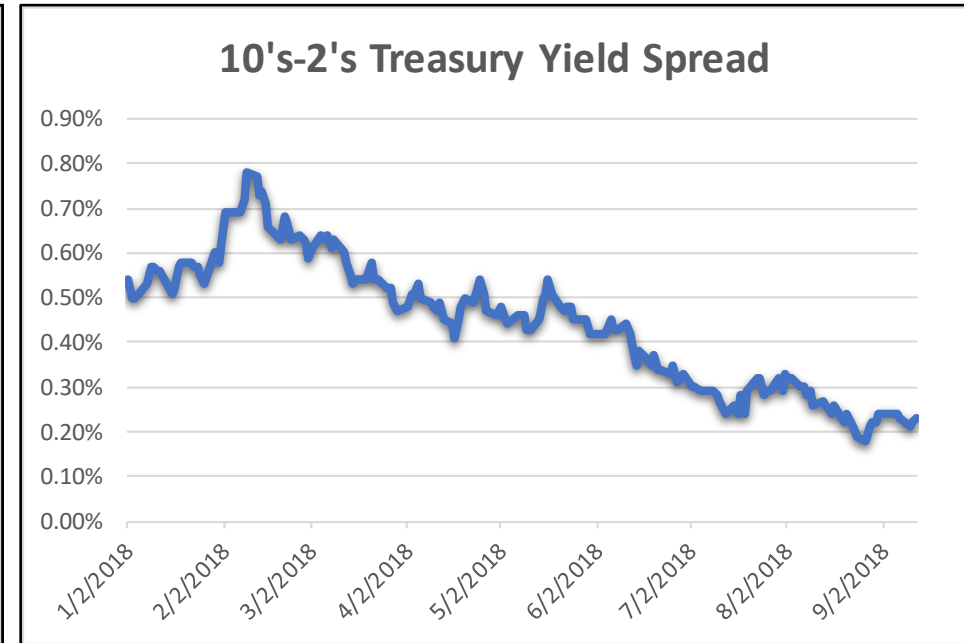


## Catalyst 1: U.S./China Trade Deal

- Current Situation:
  - Progress:
    - U.S./EU trade conflict largely settled.
    - U.S./Mexico trade conflict largely settled.
    - U.S./Canada trade conflict soon to be settled.
    - Removes multiple sources of potential risks.
  - China
    - 50 billion in reciprocal tariffs between U.S. & China.
    - Threat of \$200 bn more.

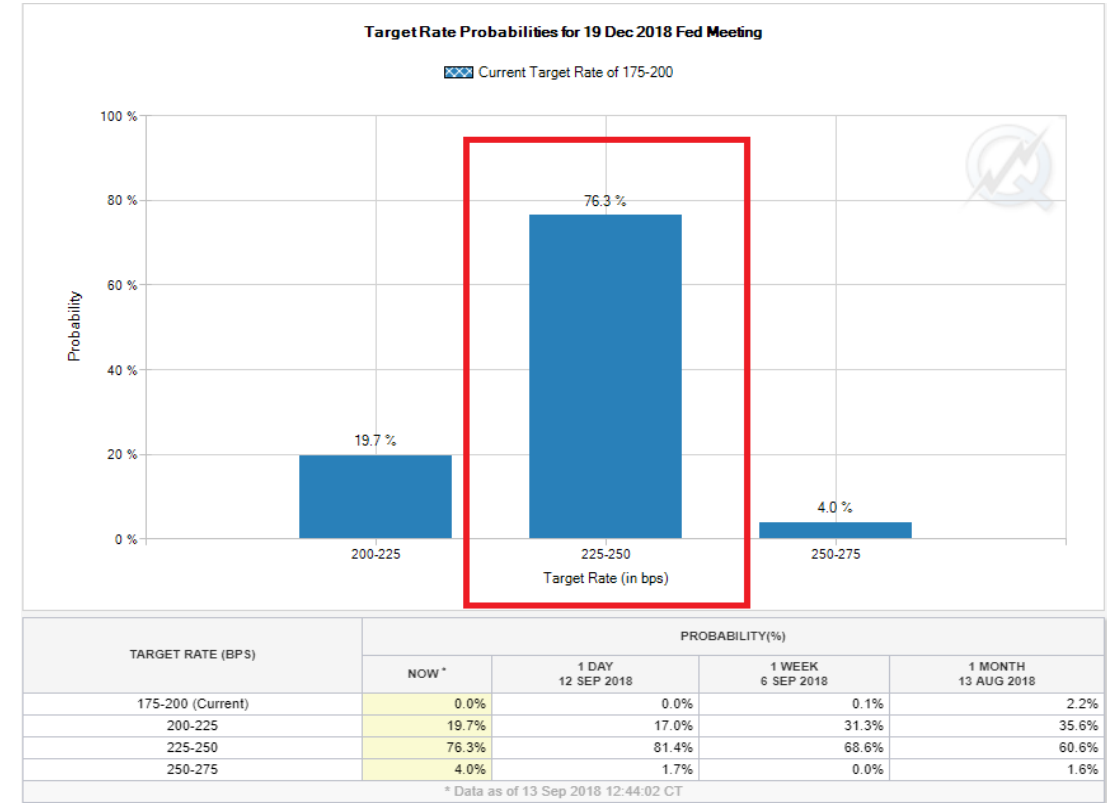
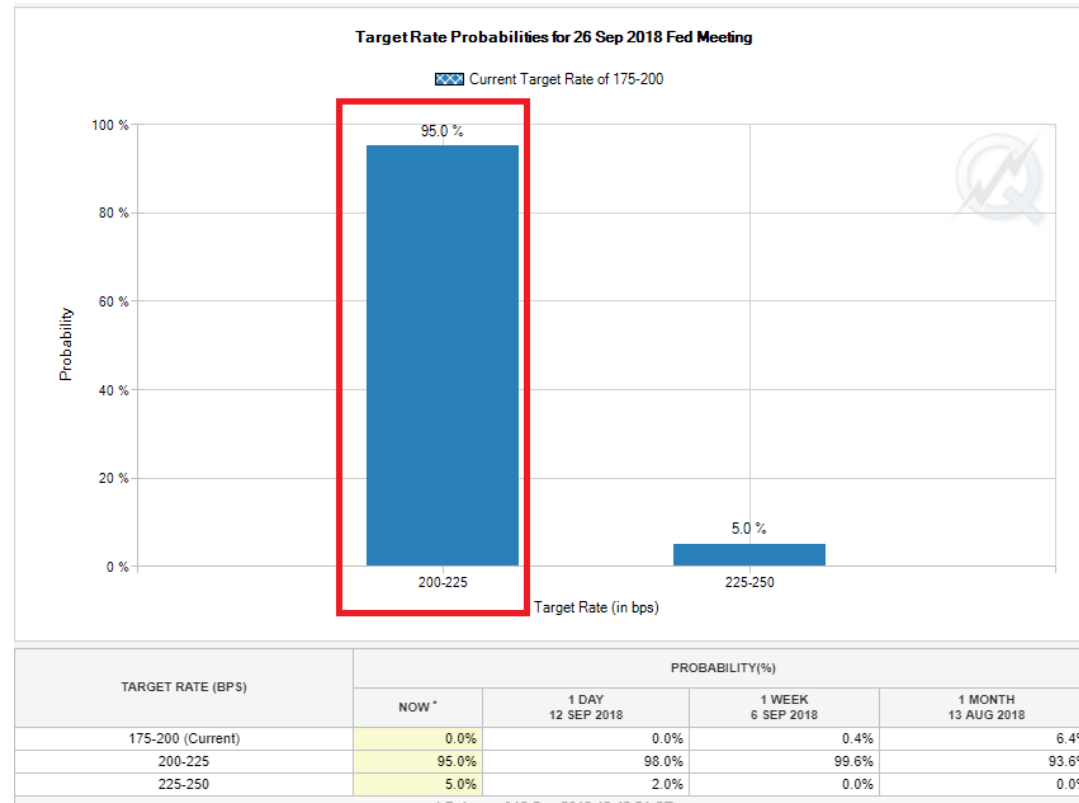


## Catalyst 2: December Rate Hike – Something Here Doesn't Fit



A decline in inflation expectations and a nearly inverted yield curve is what we typically see when the Fed has reached a neutral level of interest rates.

## Catalyst 2: December Rate Hike – Something Here Doesn't Fit



## Catalyst 3: U.S. Dollar

- Resistance: 96.75. Support: 94.20. Both on a closing basis.
- Break of Resistance is bearish for stocks, break of support is bullish.

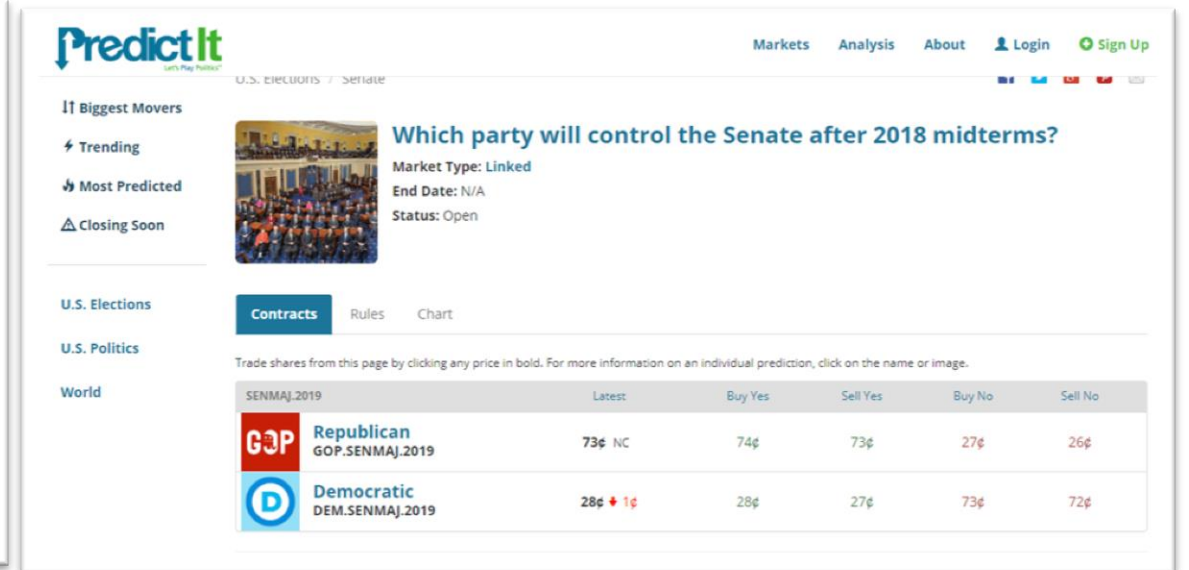
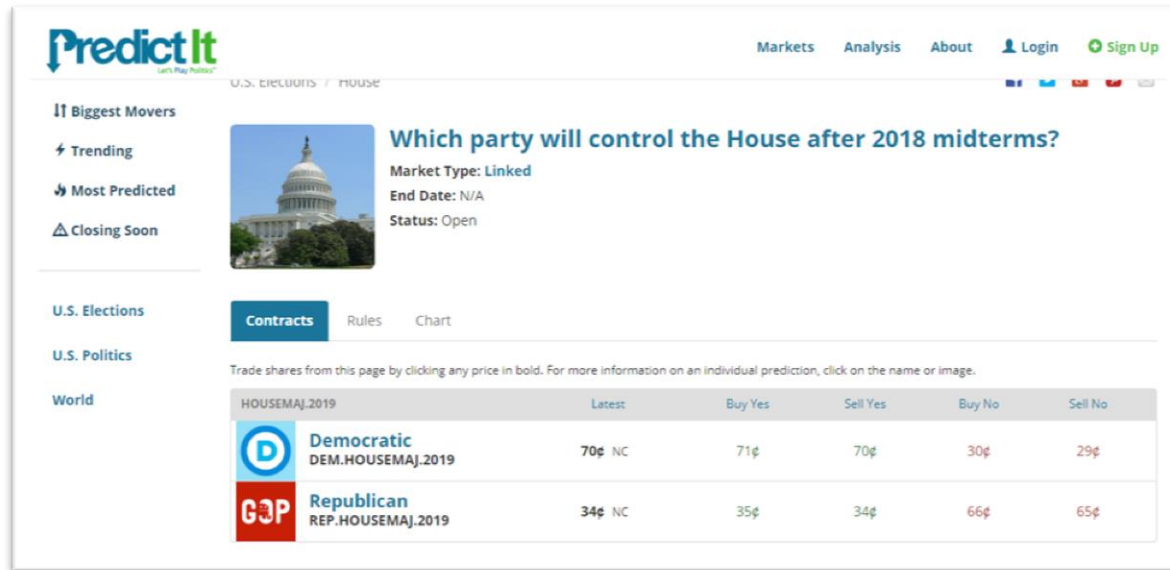




## Catalyst 4: Q3 Earnings Season

<u>Earnings Scenario Analysis</u>				
	Current	Previous	Peak Earnings Growth	Peak E & E (Worst Case)
2019 FY EPS Expectations	179	172	172	172
Forward Multiple	16.20	16.8	16	15
S&P 500 Level	2900	2900	2752	2580
Return			-5%	-11%

## Catalyst 5: Mid-Term Elections



- No major economic legislation looming (tax cuts have already passed, can't be repealed until 2020).
- Never ending political dramas, including impeachment, remain a risk to markets, but bar for impeaching President remains very high. This is the negative outcome from a market standpoint (likely inevitable regardless of election outcome).
  - Even if Democrats win Senate, 2/3 required to remove a President from office.

## Scenario Analysis

### Bullish Outcome

- U.S. & China Strike Trade Deal
- The Fed's Tone Turns Dovish
- The U.S. Dollar Breaks Support at 94.20
- Earnings Remain Solid (\$179 2019 S&P 500 EPS)
- No major political scandal.

### Alpha Playbook (What Outperforms)

- China
  - KBA (China A Shares)
- Emerging Markets
  - EMQQ (FANG & Friends of Emerging markets)
  - EM Bonds
    - EMB, EMLC, EBND, AGEYX
- Foreign over Domestic
  - GVAL (Cambria Global Value)
  - VSS, DSS (Foreign Small Caps)
- Cyclical over Tech
  - RSP (Equal weight S&P 500 ETF)
  - IWC (Microcaps)
- Higher Rates
  - QABA (Community Banks)
  - Floating Rate Fund (FLOT, USFR, SRLN, EFR)
  - Active Bond Management (BOND, TOTL, FTSL)

## Scenario Analysis

### **Bearish Outcome**

- No U.S./China trade deal
- Fed continues to hike rates
- Dollar hit new highs
- Earnings growth peaks in Q3
- Political crisis hits country

### **Alpha Playbook (What Outperforms)**

- Dividend Growth (DIVY)
- Special Dividend Stocks (List of 24 Names)
- Merger Arb Strategy (MNA, GABCX).
- Cash Alpha (FPNIX)
- Buybacks (PKW)