

SEVENS REPORT *alpha*

Alpha Webinar #52 – A Fork in the Road for Markets

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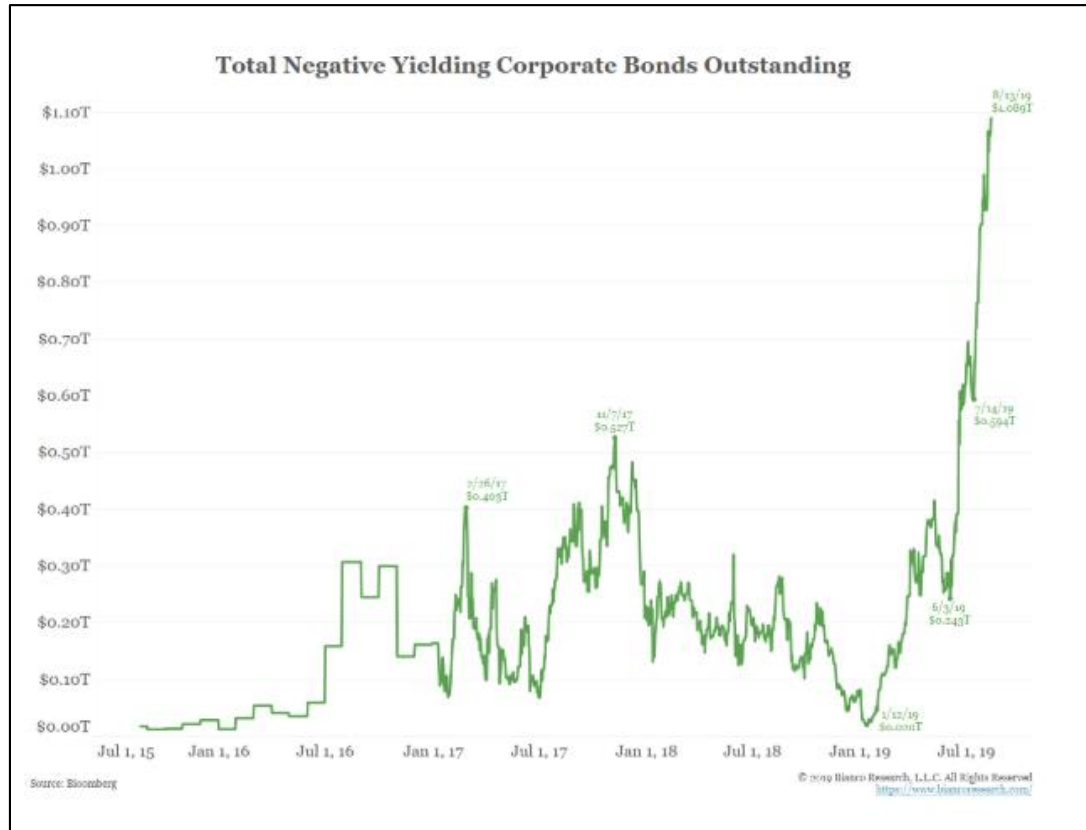
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Goals for Today's Webinar

- Negative Yields – What do they mean?
- What is “Japan-ization” mean for the economy and markets?
- What Alpha strategies would outperform in this scenario?
- What specific policies (central banks and governmental) indicators will tell us if the global economy is going to re-accelerate (like we did in 2016)?
- What are the differences between 2016 and now (there are some significant ones).
- What Alpha strategies would outperform over the long term in this scenario?

The number of bonds trading with negative yields is exploding.



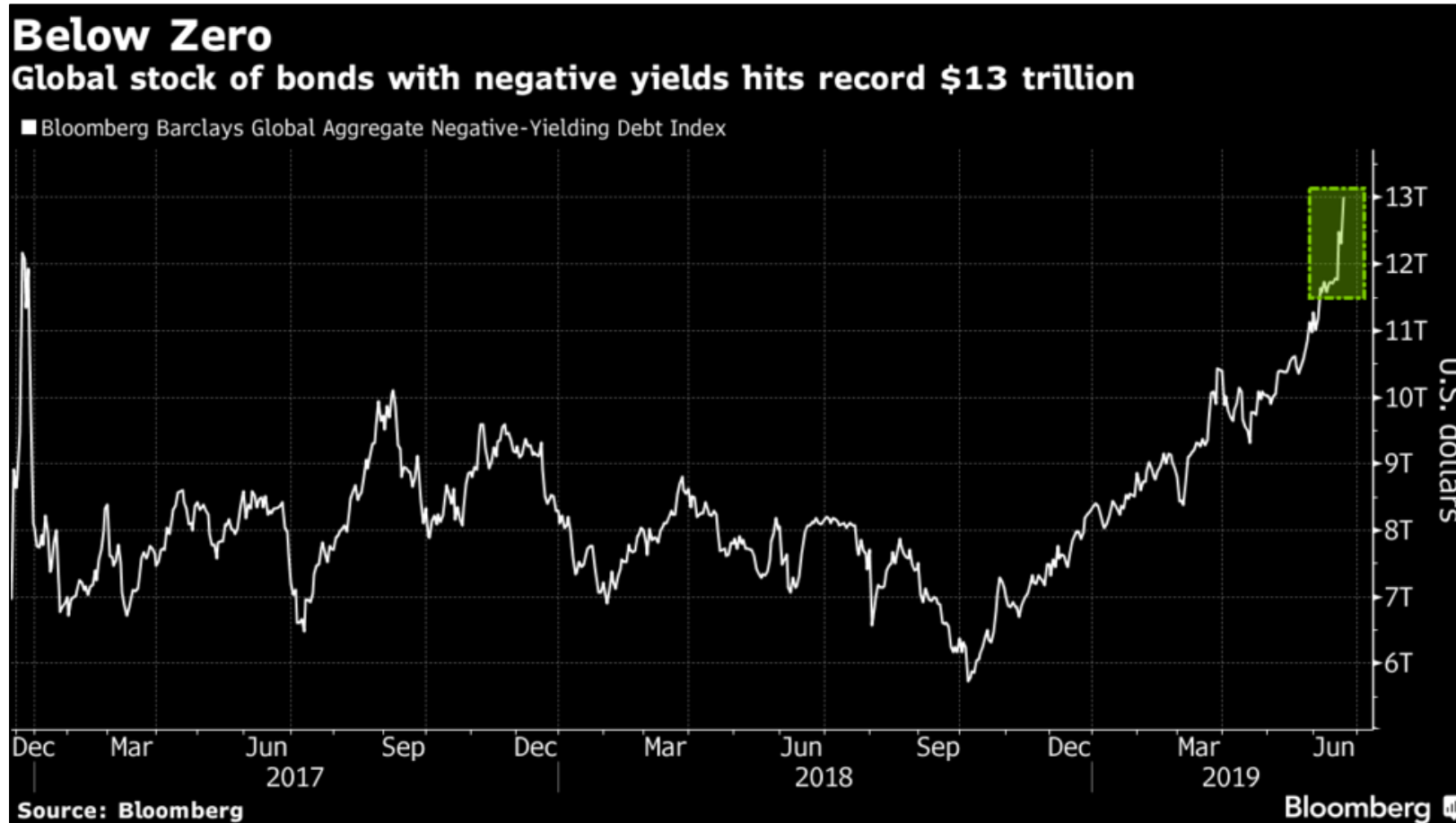
Global bond yields

	Maturity			
	2-year	5-year	10-year	15+ year
US	1.51%	1.42%	1.55%	2.04%
Italy	0.02%	0.78%	1.34%	2.45%
UK	0.49%	0.37%	0.45%	1.01%
Spain	-0.57%	-0.35%	0.09%	0.96%
Sweden	-0.66%	-0.71%	-0.36%	1.41%
Japan	-0.30%	-0.34%	-0.24%	0.19%
Belgium	-0.80%	-0.67%	-0.35%	0.54%
France	-0.79%	-0.77%	-0.42%	0.45%
Netherlands	-0.88%	-0.85%	-0.56%	-0.17%
Germany	-0.92%	-0.91%	-0.69%	-0.17%
Denmark	-0.92%	-0.89%	-0.67%	-0.43%

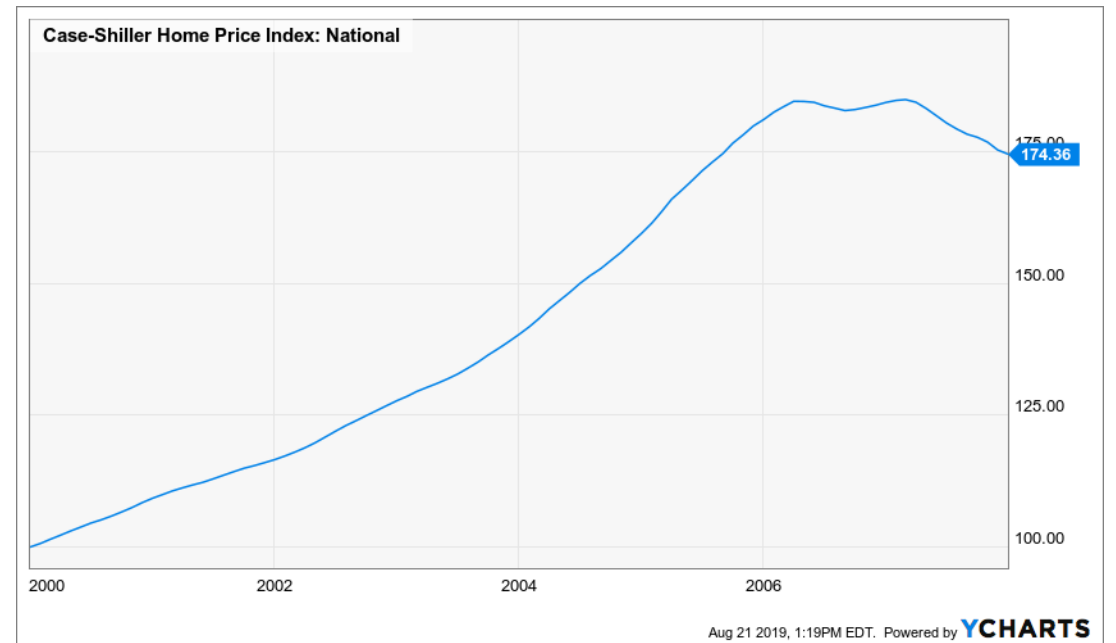
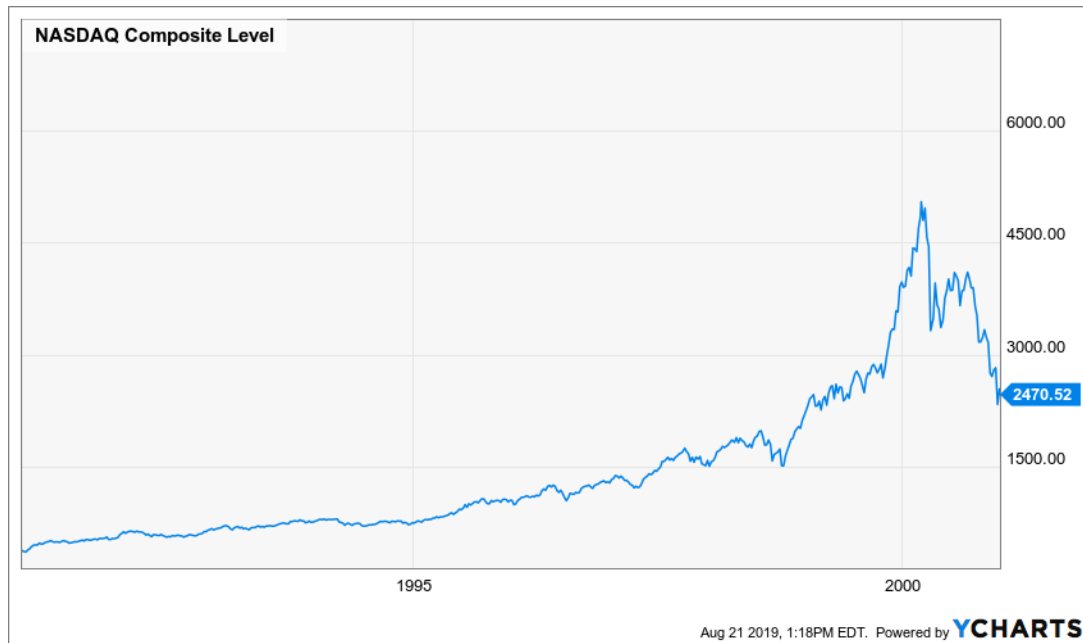
SOURCE: Factset



Nearly 1/3 of tradeable bonds worldwide have a negative yield.



Those bond charts bring back bad memories:



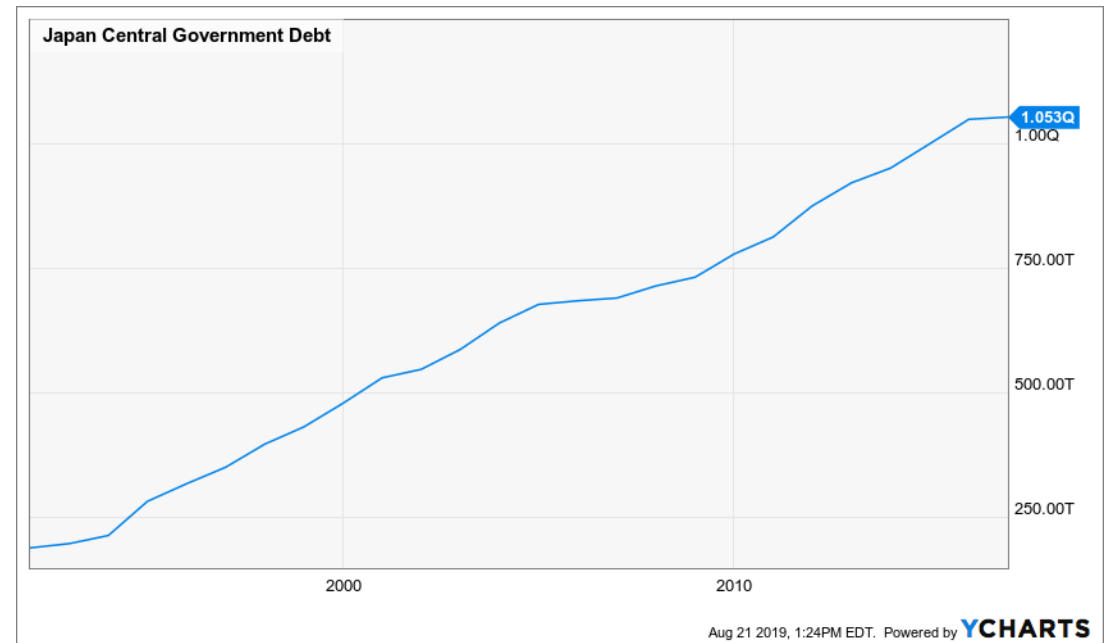
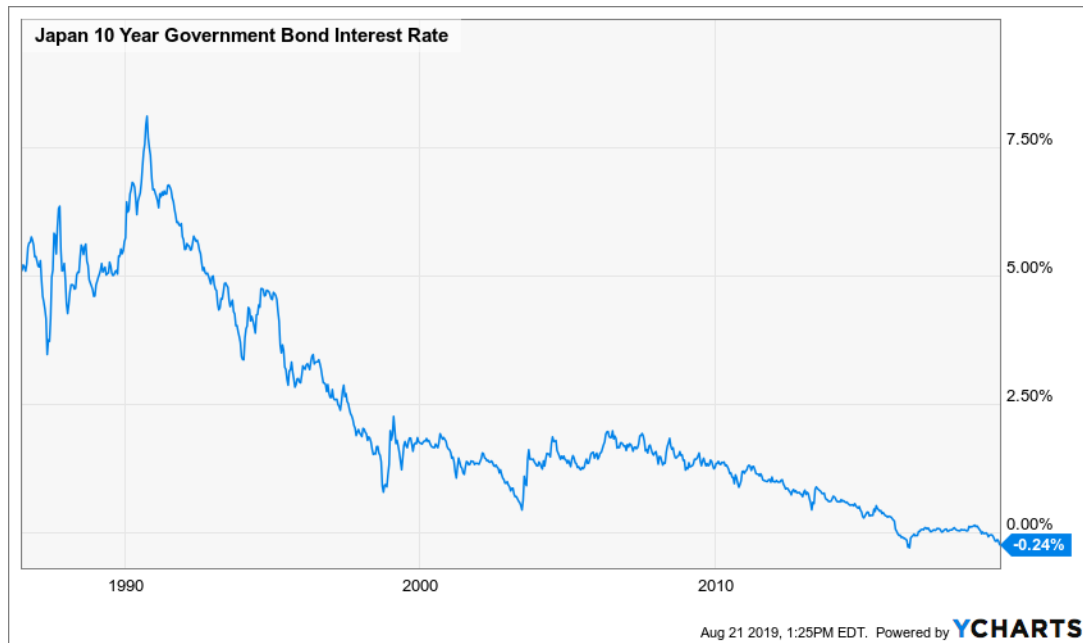
What Do Negative Yields Mean?

- We (the U.S. market) and global economy is headed for a period of “Japan-ization” or
- Global stimulus will help to reignite the global economy, just like it did in 2016

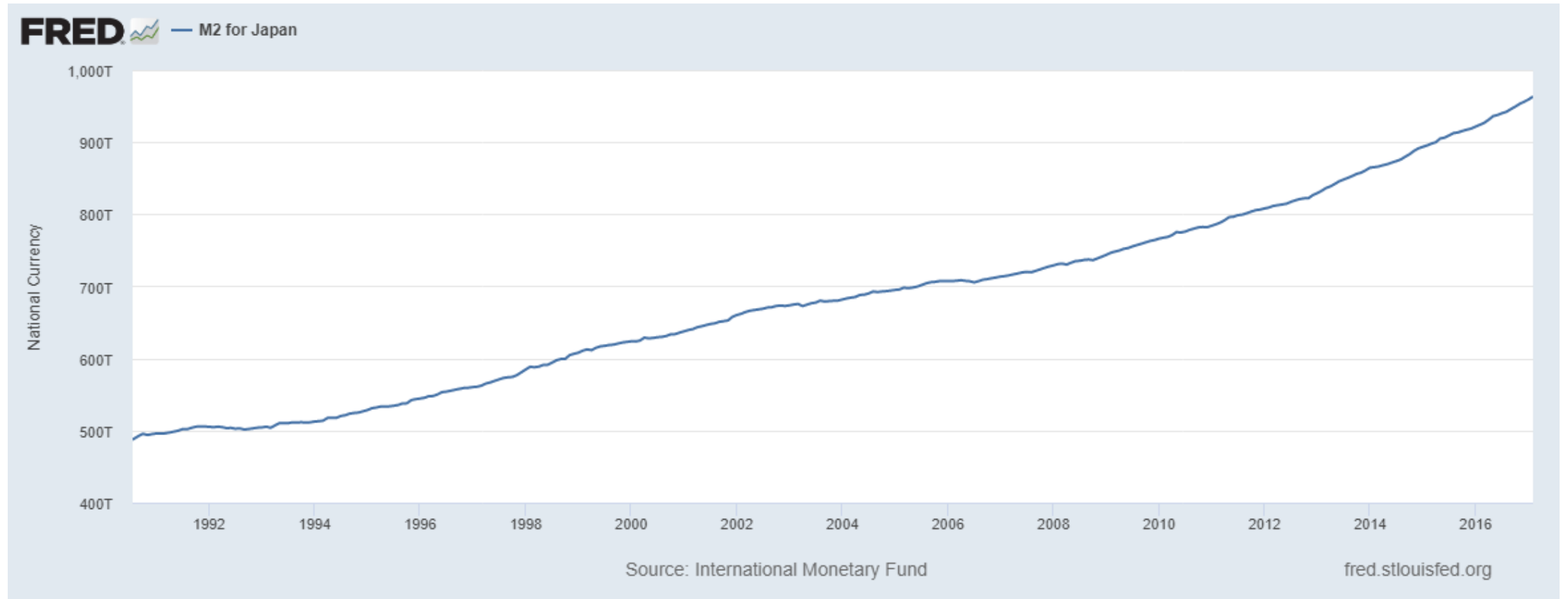
What is “Japan-ization?”

- Using the Japanese economy as a model post crash (so since the 1980's):
 - Forever low interest rates that fail to stimulate growth (rate cuts)
 - Increasing money supply that fails to stimulate inflation (QE)
 - Stagnant asset prices (stocks, real estate)
 - Never ending bull market in bonds/debt
 - Constant risk of deflation (cash)
 - Stubbornly bouyant currency

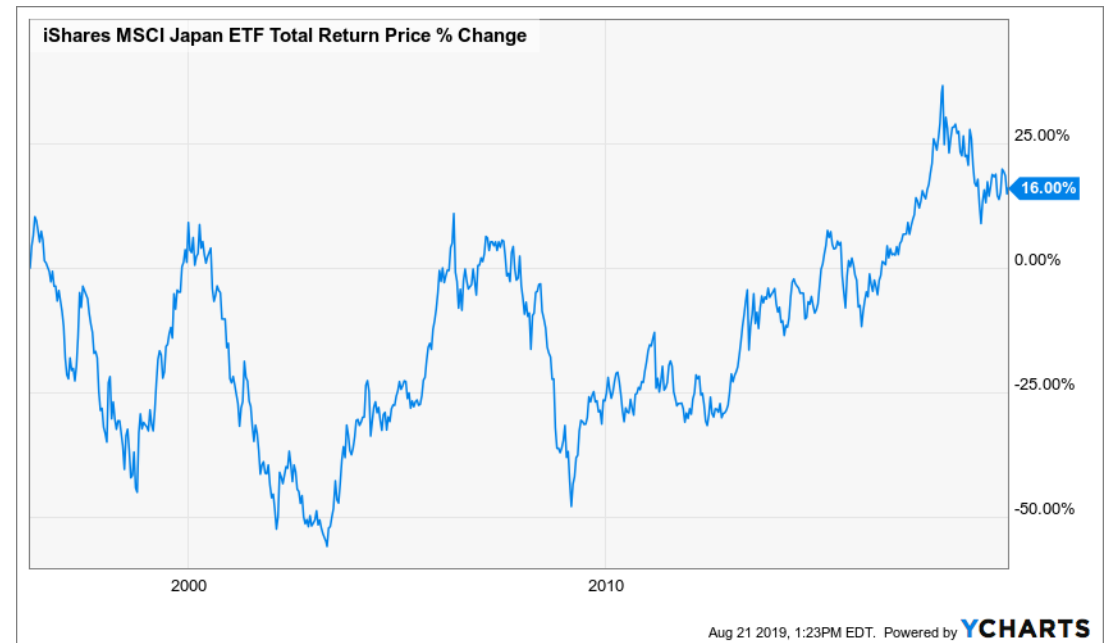
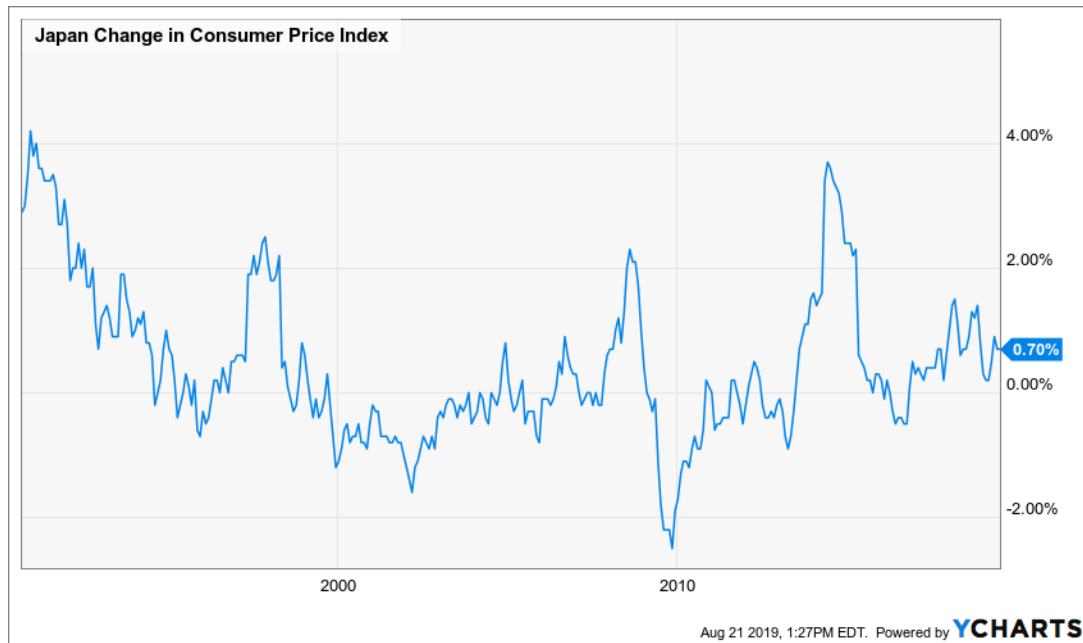
Japanization in Pictures – Forever low rates and exploding debt levels.



Japanization in Pictures – Exploding Money Supply



Japanization in Pictures – No Inflation and No Share Price Appreciation



Japanization in Pictures – But Gold and Commodities Have Done Well Locally.



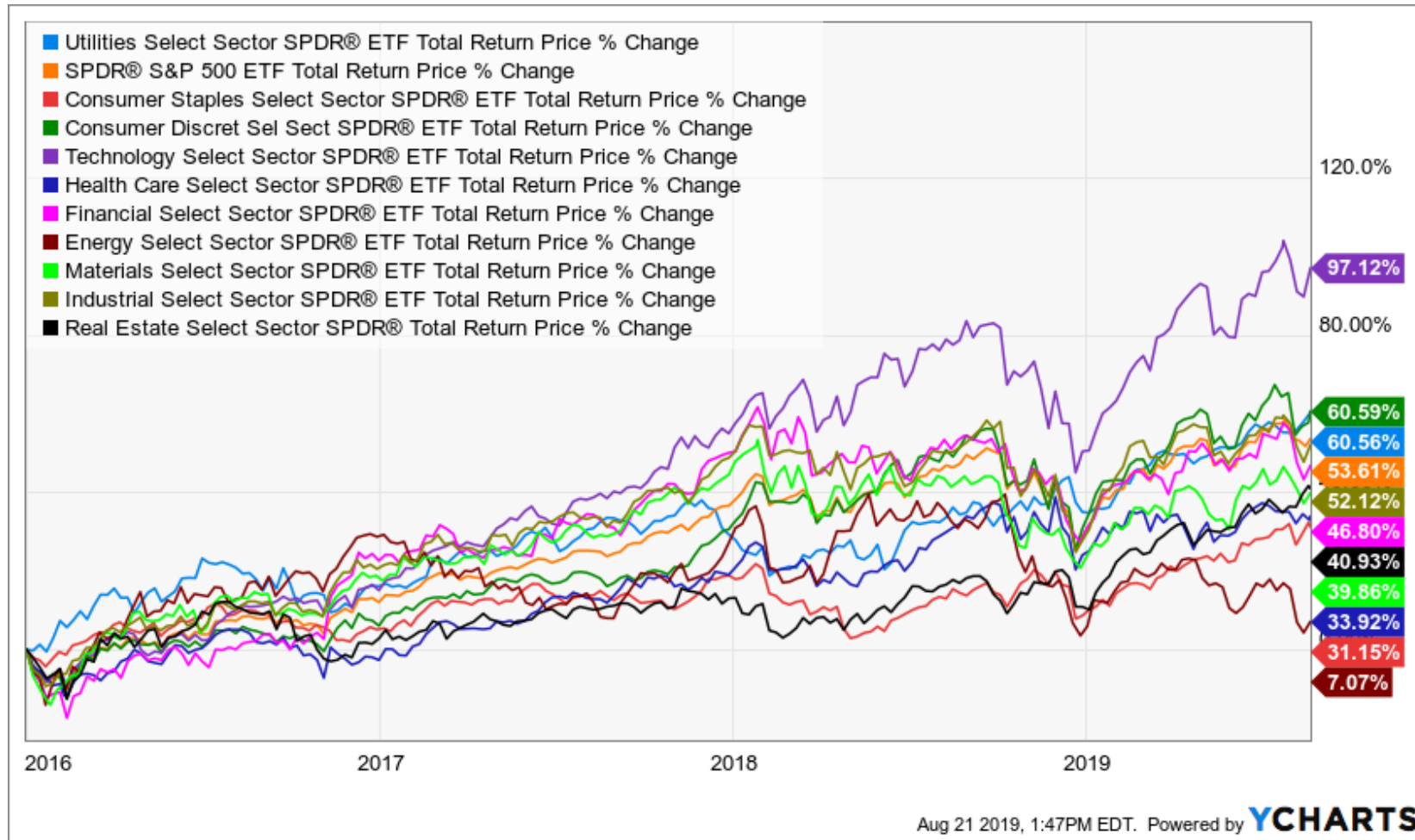
What Works in Japanization?

- Gold.
 - Issue: How to Responsibly Allocate to Gold (7/2/19). GLD/SGOL/GDX/KL/FNV.
- Utilities.
 - Issue: Utilities for Income (2/12/19). VPU.
- Cash.
 - Issue: Cash Alpha (3/6/18). FPNIX.
- Bonds
 - Issue: Active Bond ETFs (2/20/18). BOND/TOTL/FTSL.
- Non-Correlated Strategies
 - Issue: Merger Arbitrage. (10/17/17). GABCX/MNA.

What's the Key Indicator to Watch? The 30 Year Treasury Yield.



Opposite Event: Reflation

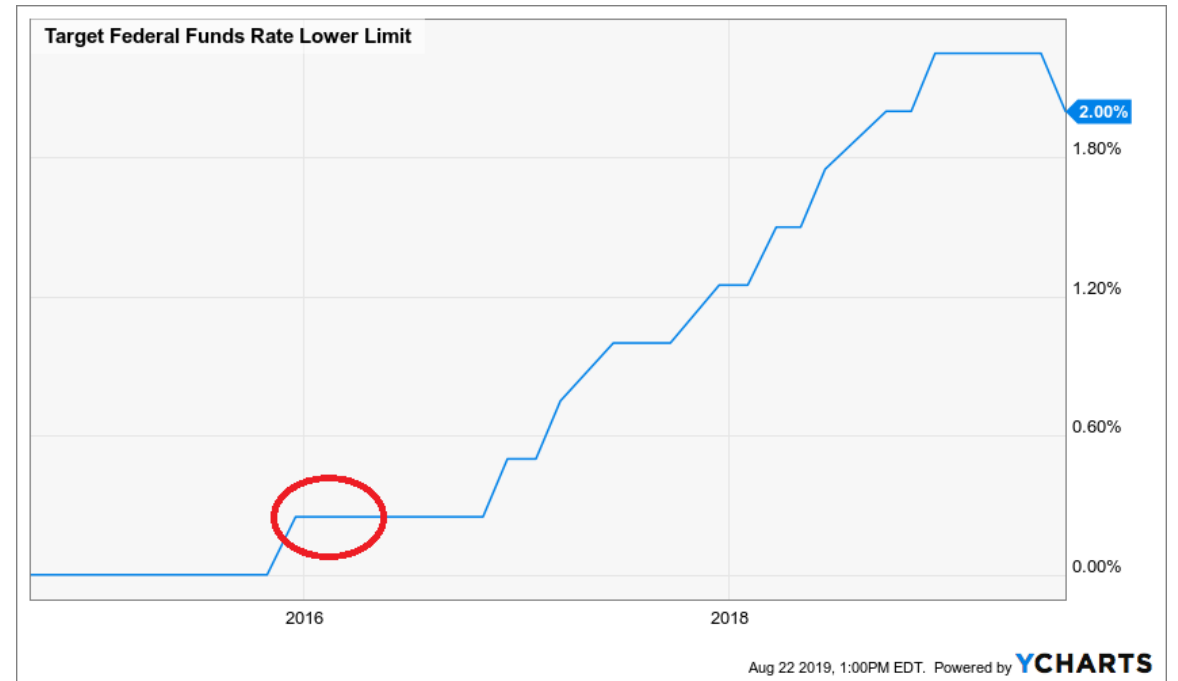
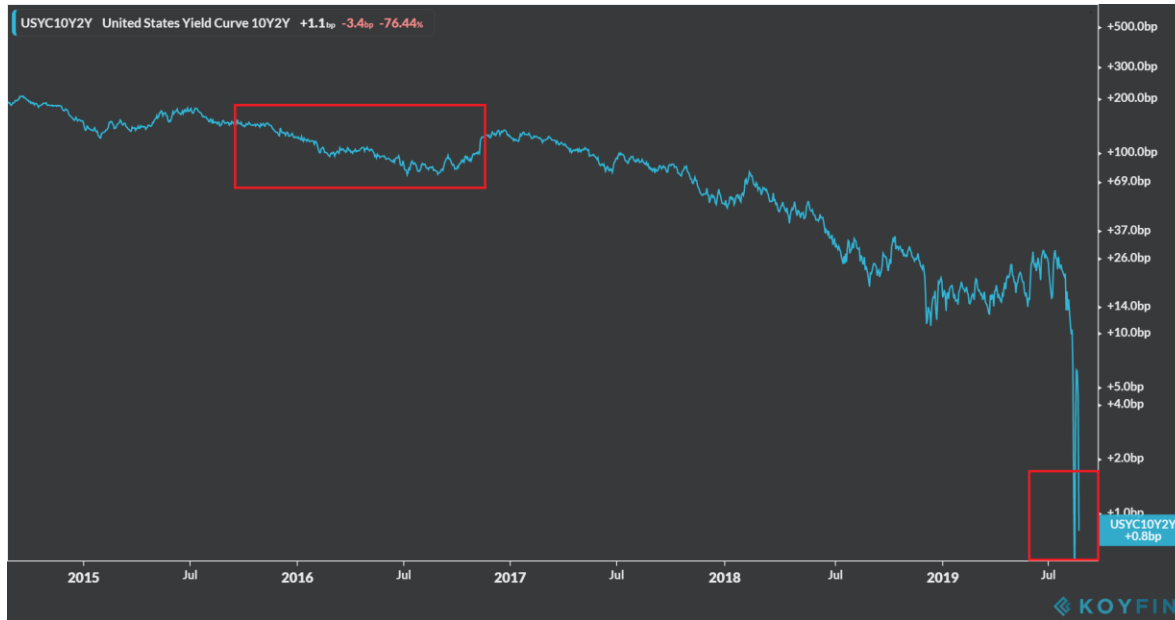


Opposite Event: Reflation. What's the key indicator to watch?

- Global coordinated easing reignites global growth.
- After the “Shanghai” Accord in Jan 2016, the dollar dropped and growth re-ignited.
 - The dollar dropped because the Fed got dovish. Look for a similar playbook if we are going to see growth reignite.



Opposite Event: Reflation. There are two important differences between now and 2016.



Opposite Event: What Works in Reflation?

- Cyclical
 - Issue: Momentum Factor Investing (7/16/19). MTUM/SPMO/FDMO.
 - Future of Consumer Spending (7/24/18). IBUY/FINX/IPAY.
- Tech
 - Issue: ARKK Invest Family of Funds (4/23/19). ARKK/ARKW/AEKG/XITK.
- Emerging Markets
 - Issue: FANG and Friends of Emerging Markets (6/26/18). EMQQ.
 - Issue: Contrarian Ideas to Start 2019 (1/2/19). IEMG/EEMV.
- Floating Rate Funds
 - Issue: Floating Rate Funds (8/6/18). FLOT/USFR/SRLN/EFR.

- What Do I Think Is the More Probable Outcome?