

# SEVENS REPORT *alpha*

**Alpha Webinar #56 – Can Markets Rally into Year-End?**

**Thursday October 17<sup>th</sup>, 2019**

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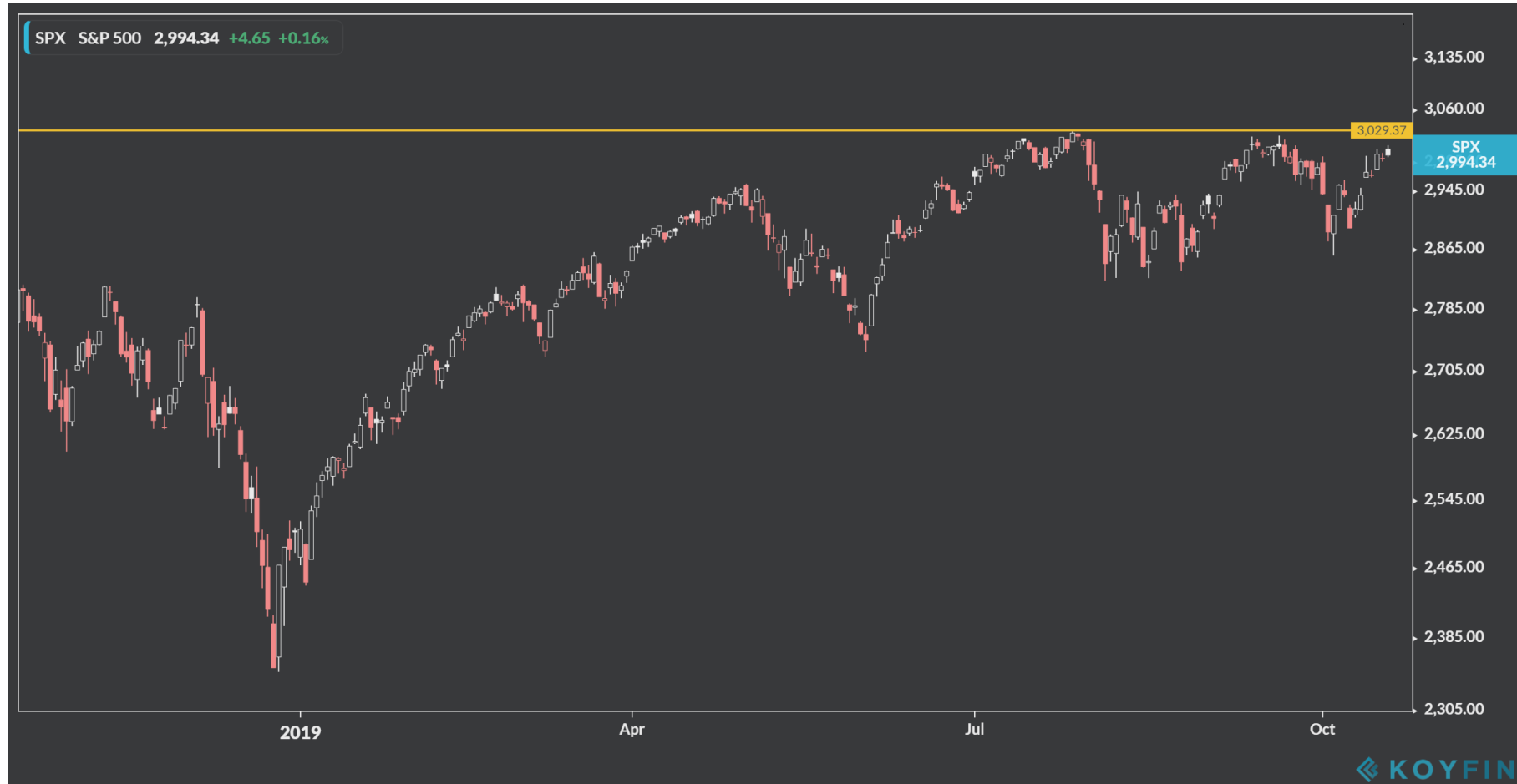
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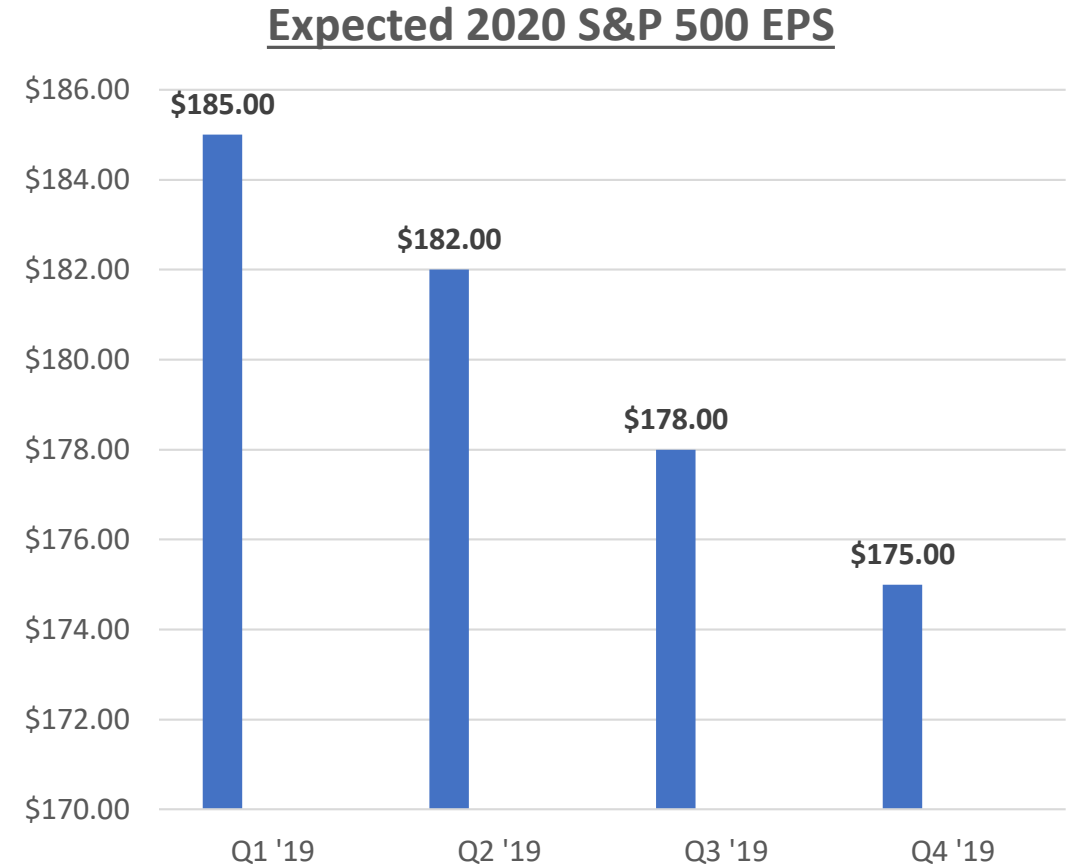
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## Can the S&P 500 Get Through 3000?



## Earnings

- Q3 earnings, so far, have been positive compared to expectations.
- But beyond the now ridiculous game of beating estimates (which are sandbagged by management) is the reality that earnings have been falling all year.



## Market Valuations

- **Expected Next Years EPS *times* A Market Multiple Between 15 and 18.**
- **Markets Can Rise Because**
  - EPS Increases (if companies make more money per share via increased revenues, cost cutting or buy backs) or
  - Multiple Expansion (if the macro environment gets better via rate cuts, reduction in geo-political stress, etc.)
- **Markets Can Fall Because**
  - EPS Declines (falling revenues, increased costs, etc.)
  - Multiple Declines (if the macro environment deteriorates via bad data, geo-political stress, etc.)
- So, the two keys are 1) Expected EPS (easy to find) and 2) Appropriate market multiple (more difficult)

## Influence 1: U.S./China Tariffs

- Current Status: Trade Truce. No new tariffs. No real economic stimulus. No material tariff reduction. **Multiple: 16-17.**
  - Key Question: Is “Phase 1” an actual step towards to de-escalation of the trade war, or just a stall tactic to support markets?
- Positive Outcome: Actual tariff reduction once “Phase 1” is signed at the APAC conference in mid-November. **Multiple: 17-18?**
- Negative Outcome: “Phase 1” turn out to be just a delay tactic. December tariffs go into place, October tariffs go into place. **Multiple: 16-15.**

## Influence 2: Fed

- Current Status: One more rate cut expected on October 30 and the Fed leaves the door open to another cut in December. **Multiple: 16-17.**
  - Key Question: Will the Fed cut enough to prevent a broader slowdown?
- Positive Outcome: Fed cuts in October and December. **Multiple: 17-18.**
- Negative Outcome: Fed cuts in October and inserts the word “Patient” into the statement, which signals no more cuts in 2019 (or likely early 2020, either). **Multiple: 16-15.**

## Influence 3: Economic Data

- Current Status: U.S. and global manufacturing and business spending weak, but no apparent spillover into the consumer or the labor markets. **Multiple: 16-17.**
  - Key Question: Will current weakness in manufacturing spread to the rest of the economy?
- Positive Surprise: Manufacturing activity rebounds and ends concerns about a spill over. **Multiple: 17-18.**
- Negative Surprise: Spillover occurs and we begin to see weakness in 1) Jobless claims and 2) Retail Sales. **Multiple: 16-15.**



## What Does This Mean For Markets?

- The table basically reflects all reasonable market probabilities.
- The range is from a low of 2580 to a high of 3204. That's a 21% range from peak to trough.
- Consensus 2020 EPS is drifting to \$175, so that should be our focus now.
- This will be useful going forward – it's not going to change much unless something material happens (at which point I'll change it).

Market Multiple/EPS Table				
	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>
<u>172</u>	2580	2752	2924	3096
<u>175</u>	2625	2800	2975	3150
<u>178</u>	2670	2848	3026	3204

## How To Position?

- Current Environment:
  - Minimum Volatility ETFs: USMV/SPLV/EEMV/EFAV. Issue Date 5/21/19.
  - Hedged Equity ETFs: DMRL/CCOR/JHEQX. Issue Date 4/9/19