SEVENS REPORT

Sevens Report Alpha Webinar: What Could Go Wrong?

Thursday, January 23rd, 2020

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What Could Go Wrong?

- **A Political Scare:** Markets are 100% assuming Trump is re-elected, but it's a long time between now and November. If Sanders or Warren emerge as the Democratic nominee, that will hit stocks and reduce the market multiple. And, we'll know this (most likely) by super Tuesday, March 13th.
- **The Fed Turns More Hawkish:** This isn't as farfetched as it might seem, because there are signals emerging that the Fed is starting to worry their repo actions are inflating a stock market bubble. The Fed is scheduled to end the repo activities in April, and any hint of doing that sooner could spook markets.
- **Economic Data Disappoints:** This is a very legitimate concern over the medium term, but barring a total collapse in activity, it's not likely to cause a correction in Q1, and that's because the bulls will use two excuses to explain soft data: First, it's because phase one wasn't signed until January. Second, the 737 Max production shutdown will temporarily depress U.S. activity. But, beyond Q1, those excuses won't hold much water, so this is something to watch in the second quarter.
- **Geo-Political Concerns:** U.S.-Iran tensions have receded lately, but the potential for conflict remains, and any sort of disruption to the global flow of oil will pressure the global economy.

What Could Go Wrong? Political Scare

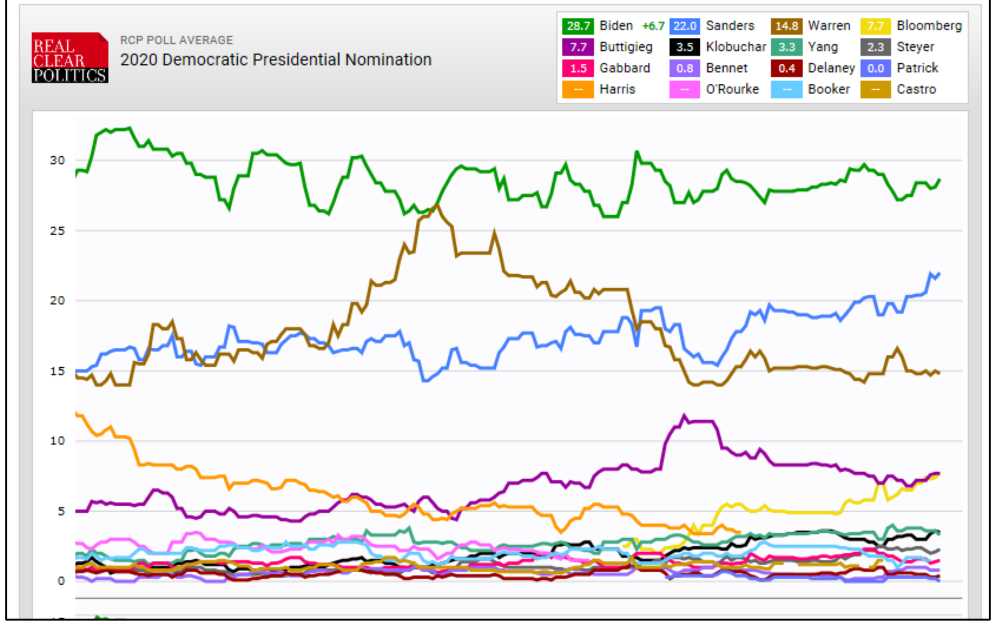
2020 Democratic Presidential Nomination

National | Iowa | New Hampshire | Nevada | South Carolina | California | Texas | Massachusetts | General Election Polls

Polling Data

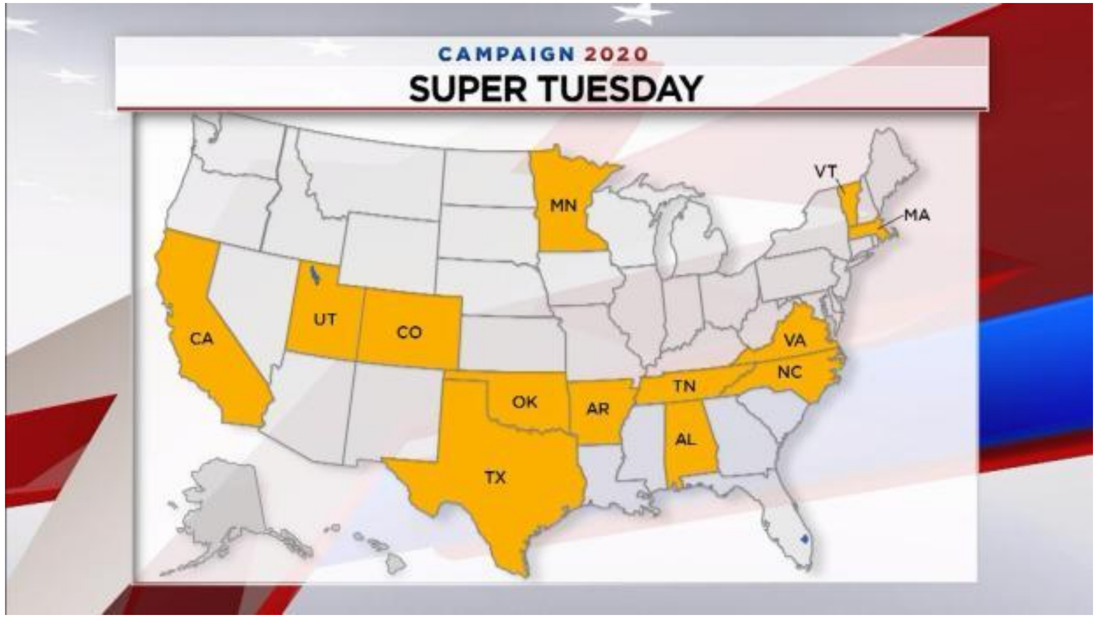
Poll	Date	Sample	Biden	Sanders	Warren	Bloomberg	Buttigieg	Klobuchar	Yang	Steyer	Gabbard	Bennet	Delaney	Spread
RCP Average	1/13 - 1/21	--	28.7	22.0	14.8	7.7	7.7	3.5	3.3	2.3	1.5	0.8	0.4	Biden +6.7
Economist/YouGov	1/19 - 1/21	470 LV	28	18	21	6	8	4	3	2	3	0	0	Biden +7
Monmouth	1/16 - 1/20	372 RV	30	23	14	9	6	5	3	1	1	1	0	Biden +7
CNN	1/16 - 1/19	500 RV	24	27	14	5	11	4	4	2	0	0	0	Sanders +3
Morning Consult	1/15 - 1/19	12402 LV	29	24	15	10	8	3	4	3	2	1	1	Biden +5
SurveyUSA	1/14 - 1/16	1086 LV	32	21	14	9	9	2	4	3	2	--	--	Biden +11
The Hill/HarrisX	1/13 - 1/14	451 RV	29	19	11	7	4	3	2	3	1	2	1	Biden +10

All 2020 Democratic Presidential Nomination Polling Data

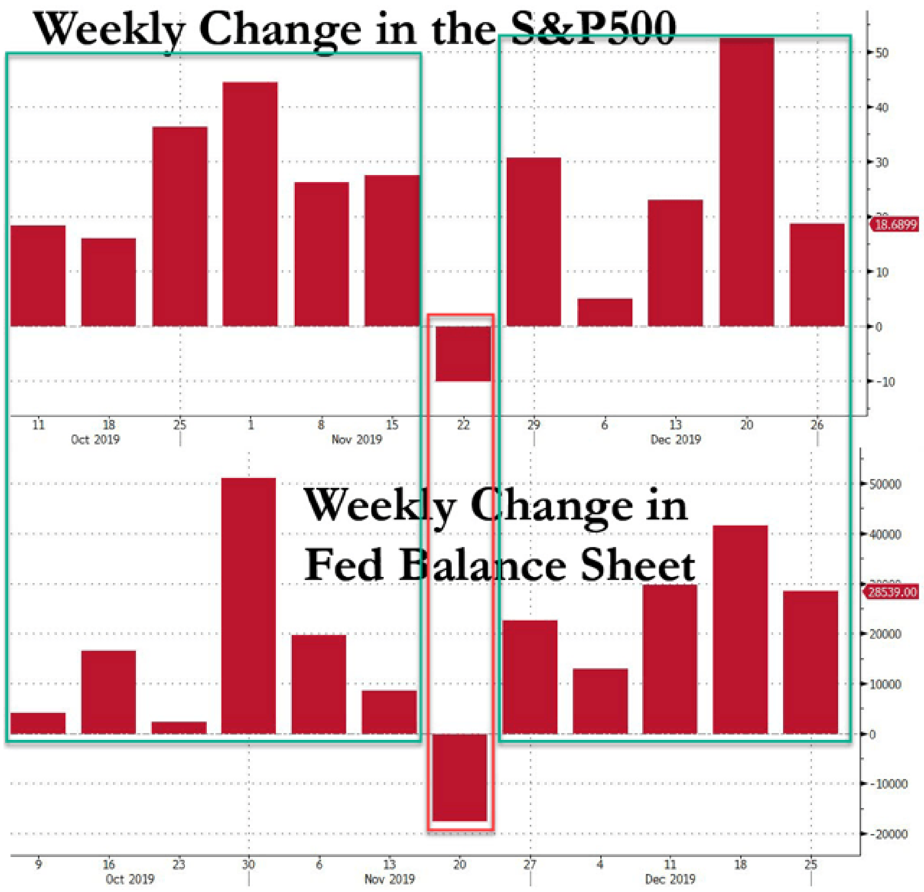


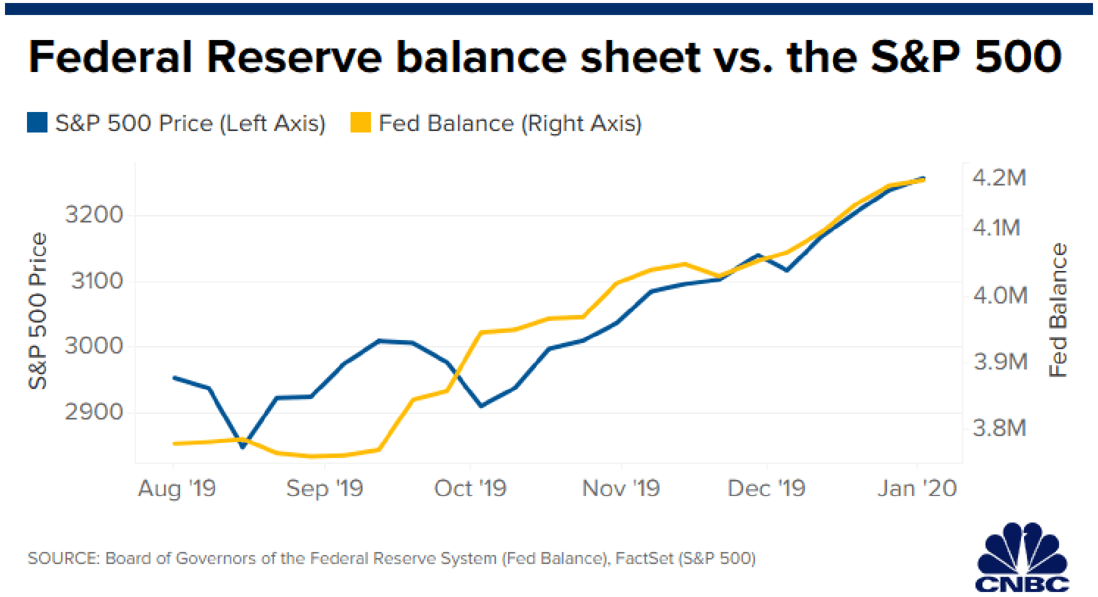
What Could Go Wrong? Political Scare

- More progressive candidates Sanders and Warren are polling well ahead of the rest of the field and not too far behind Joe Biden, the front runner.
- The key date to watch is March 3rd – Super Tuesday.



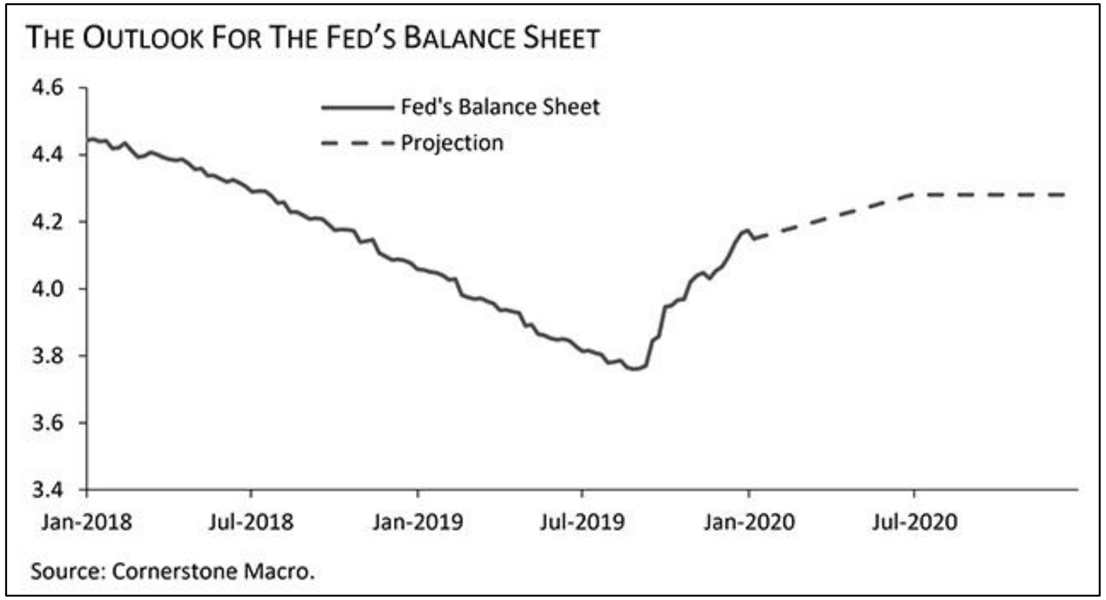
What Could Go Wrong? The Fed Turns More Hawkish





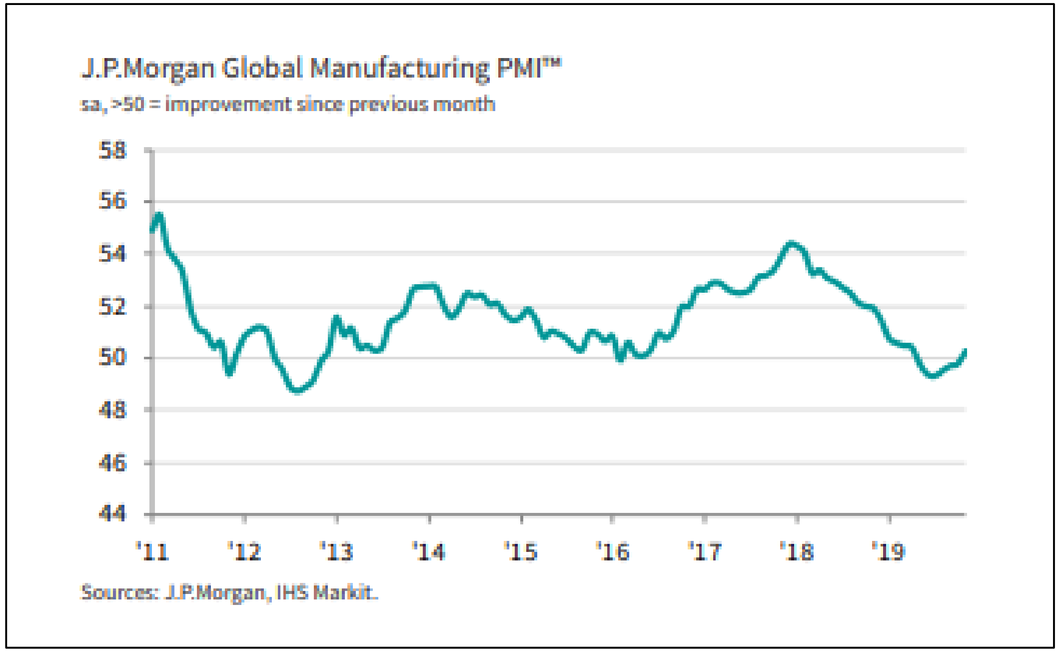
What Could Go Wrong? The Fed Turns More Hawkish

- Technically speaking, the Fed's repo operations, which are expanding the balance sheet, aren't QE.
- But, it doesn't matter, because the markets *think* it's QE, and it's causing a rush of money into equities.
- The Fed sees this, and reports are emerging it doesn't like it, so the chances this ends in the next two or three months (April?) are rising.

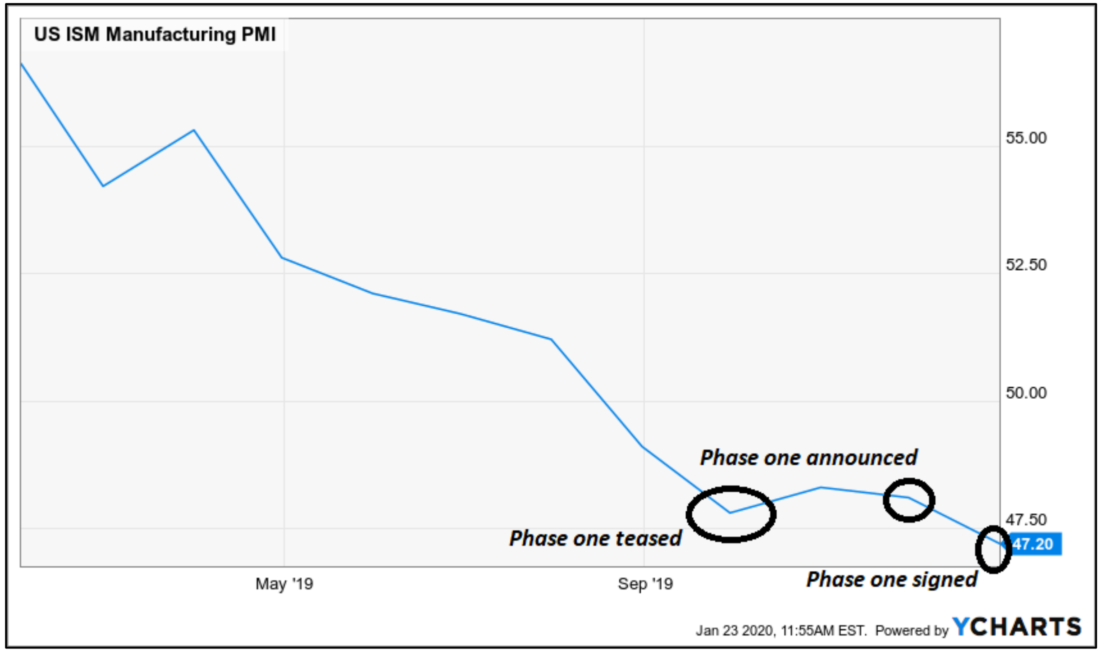


What Could Go Wrong? Economic Data Disappoints

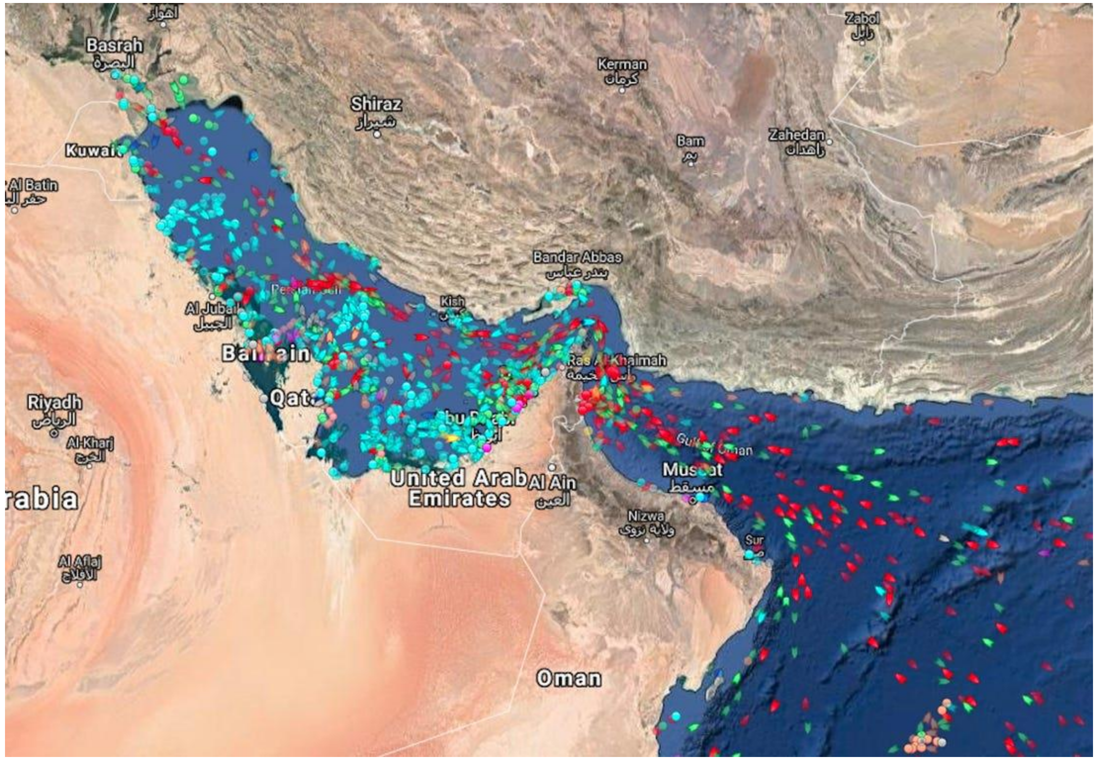
Global Manufacturing PMI Remains Subdued



But, between Phase one just being announced, and Boeing disruptions, soft data will be forgiven until March or April.



What Could Go Wrong? Geo-Political Concerns.



Some Conclusions

- March/April is when we could see a real uptick in volatility.
  - Super Tuesday
  - Potential end of repo
  - Bad data no longer excused
- Does that mean smooth sailing until then? No, markets always discount the future.
- Alpha Strategies to Mitigate These Risks:
  - **Political Scare:** Cash Management - FPNIX/MINT/BBIX (12/17/19), Investing in Green Energy - TAN/FAN/ICLN/PBW (10/8/19), Gold - GLD/SGOL/GDX (7/2/19), Socially Responsible Investing – ESGV (3/26/19)
  - **Fed Turns More Hawkish:** Floating Rate Funds – FLOT/USFR/EFN (8/6/18), Minimum Volatility ETFs – USMV/SPLV/EEMV/EFAV (5/21/19), Hedged Equity ETFs – DMRL/JHEQX (4/9/19)
  - **Economic Data Rolls Over:** Japanization Playbook - PTCIX/VYM/PDI (9/10/19), Utilities for Income – VPU/NRG/CNP (2/12/19), Bear Market Strategies – USMV/PTLC (10/30/18).
  - **Geo-Political Scare:** Seizing Opportunity in the Defense Industry – ITA/PPA/UFO (8/27/19), Gold - GLD/SGOL/GDX.