

Sevens Report Alpha Webinar: **How Bad Is the Damage?**

Thursday, April 2nd, 2020

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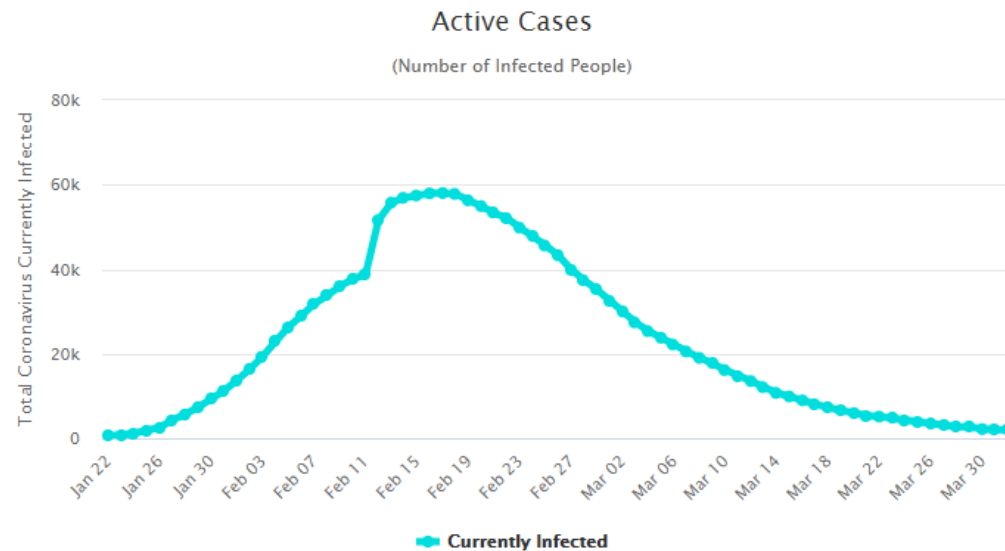
Goals for today's webinar

- **Virus Numbers:** Are there encouraging trends in the actual data?
- **When Could This End?** We'll revisit good/bad/ugly scenarios from the previous webinar in the context of the new data.
- **Valuations:** Are stocks cheap? It depends on our estimates for earnings and the economy.
- **What Can Still Go Wrong?** Continuing the “fire” analogy from Monday's Report, I'll talk about the one remaining “hot spot” in the markets.
- What additional Alpha strategies **will take advantage of longer-term opportunities**, assuming we avoid a long, protracted recession and bear market.

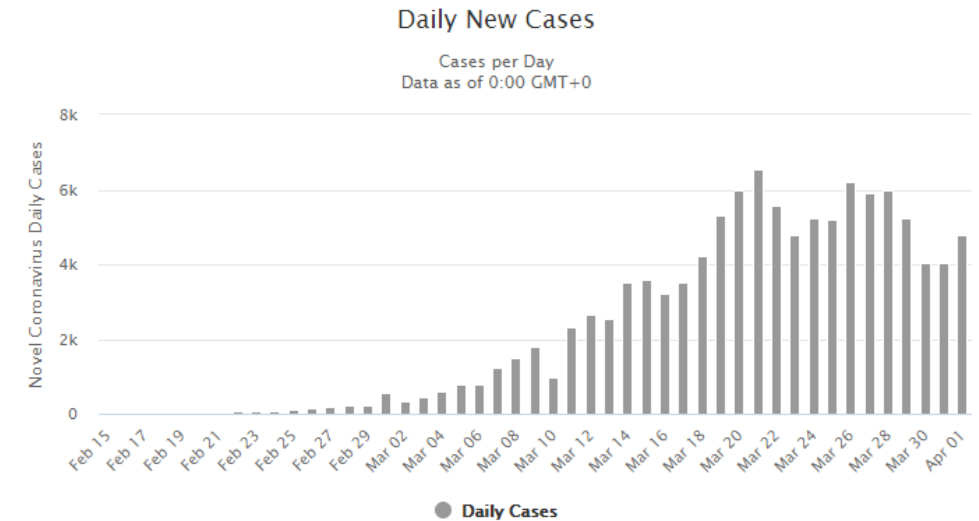
Virus Numbers: The Most Important Market Influence

China and Italy As Examples

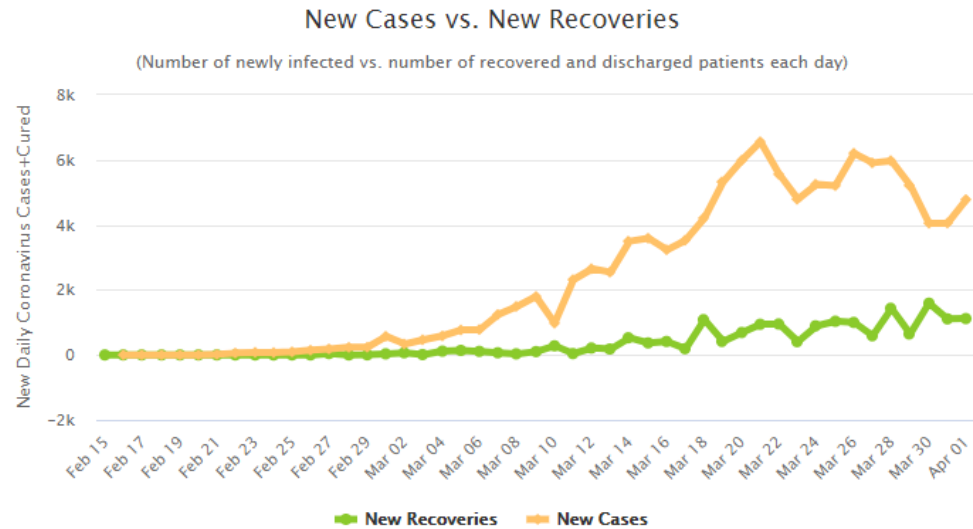
Active Cases in China



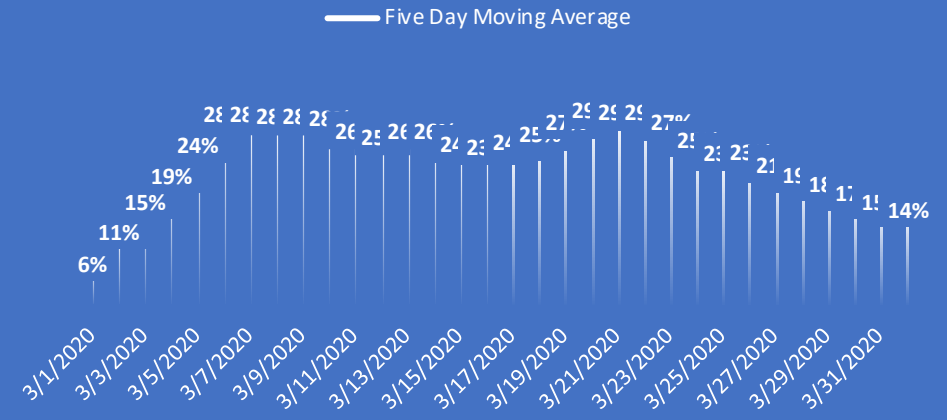
Daily New Cases in Italy



Newly Infected vs. Newly Recovered in Italy



SEVENS REPORT U.S. CORONAVIRUS DAILY GROWTH RATE TRACKER



SEVENS REPORT

Confirmed Cases and Deaths by Country, Territory, or Conveyance

The **coronavirus** COVID-19 is affecting **203 countries and territories** around the world and **2 international conveyances**: the *Diamond Princess* cruise ship harbored in Yokohama, Japan, and the Holland America's *MS Zaandam* cruise ship. **The day is reset after midnight GMT+0.**

[Report coronavirus cases](#)

Now

Yesterday

Search:

Country, Other	Total Cases	New Cases	Total Deaths	New Deaths	Total Recovered	Active Cases	Serious, Critical	Tot Cases/ 1M pop	Deaths/ 1M pop
World	975,835	+40,638	49,479	+2,287	204,833	721,523	37,189	125.2	6.3
USA	226,378	+11,375	5,334	+232	10,265	210,779	5,403	684	16
Italy	110,574		13,155		16,847	80,572	4,035	1,829	218
Spain	110,238	+6,120	10,003	+616	26,743	73,492	6,092	2,358	214
Germany	81,728	+3,747	997	+66	19,175	61,556	3,936	975	12
China	81,589	+35	3,318	+6	76,408	1,863	429	57	2
France	56,989		4,032		10,935	42,022	6,017	873	62
Iran	50,468	+2,875	3,160	+124	16,711	30,597	3,956	601	38
UK	33,718	+4,244	2,921	+569	135	30,662	163	497	43
Switzerland	18,475	+707	522	+34	4,013	13,940	348	2,135	60
Turkey	15,679		277		333	15,069	979	186	3
Belgium	15,348	+1,384	1,011	+183	2,495	11,842	1,144	1,324	87
Netherlands	14,697	+1,083	1,339	+166	250	13,108	1,053	858	78

Some Observations:

- China's economy is coming back on-line a little less than two months after peak virus (PMI > 50, Air traffic up 20% m/m).
- The U.S. virus growth rate is widely believed to be 2-3 weeks behind Italy.
- Italy peaked around March 21st.
- Means U.S. will hopefully peak by April 12th (consistent with administration estimates).
- Using China as a model, economy back on-line by mid-June.

Once Markets Are Stable, Then Focus Can Turn Back Towards Coronavirus and It's Economic Impact (Written March 16th)

- Three Scenarios (from MS):
 - ~~Good: U.S. outbreak peaks at 30k cases within April. So, peak growth occurs over the next two weeks.~~
 - **Average (Now Good)**: Peak growth occurs over the next month and U.S. cases move past China and into the 100's of thousands.
 - **Bad**: Containment doesn't really occur and the virus continues to spread through the summer, and hope then turns towards the pharmaceuticals to develop a vaccine or a treatment.

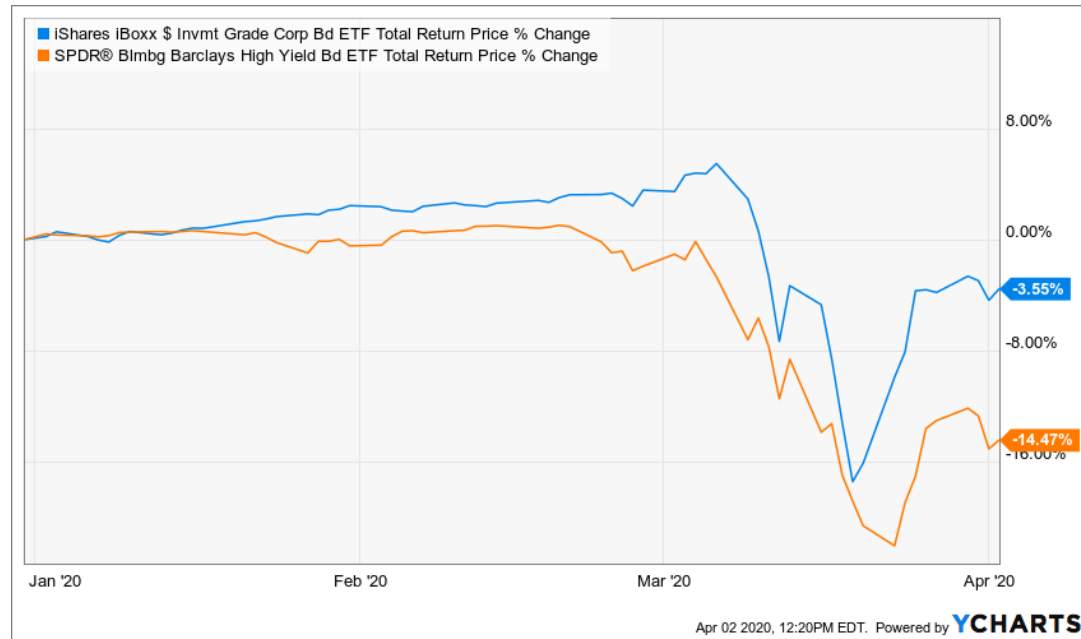
Current Market Set Up – I’m Still Comfortable With This.

S&P 500 Valuation Matrix (3/16/2020)			
<u>(2020/2021 Blended Earnings)</u>	<u>Long Recession (Not Done By End of Q3)</u>	<u>Done By End of Q3 (Recession)</u>	<u>Done By End of Q2 (Temporary Shock)</u>
	14X	15X	17X
160	2240	2400	2720
165	2310	2475	2805
167.50	2345	2513	2848
170	2380	2550	2890

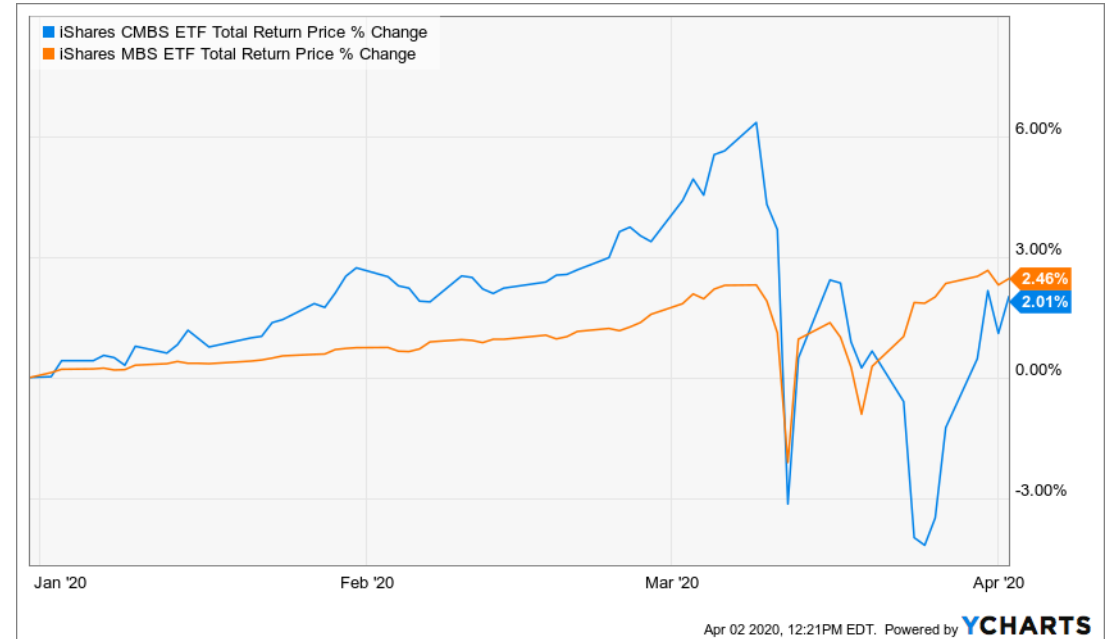
- Still largely comfortable with this valuation.
- But, as I mentioned in yesterday’s Sevens Report, I think we need to look at EPS as blended between 2020 and 2021, at least through the summer.

What Could Still Go Wrong?

There's Been Important Progress in Corporate Bonds (LQD & JNK)



But Mortgages Need to be Watched (ETFs: MBB & CMBS).



Reasons to Be Optimistic: When This Is Over (and it will end) What Sectors Will Get Long Term Tailwinds?

- Reasons to be Optimistic:
 - A lot of negativity already priced in.
 - Viruses are temporary.
 - Government is involved.
 - Enormous global stimulus being thrown at the problem.
 - No bank liquidity issues like in 2008.
 - But, at least temporary slowdown now likely.
- Broad-based Sectors:
 - Tech (Secular Growth)
 - Financials (Steepening Curve)
 - Energy (Generational Values?)
- More Specific Ideas:
 - Wellness Industries/Healthcare.
 - Mobility As A Service (Uber Eats, etc.).
 - Cord Cutting (Good for Content Producers).
 - Work from Home/Video-Conferencing.
 - Easy Online Payment (Small biz)
 - Dollar stores (DG)/Recession names.