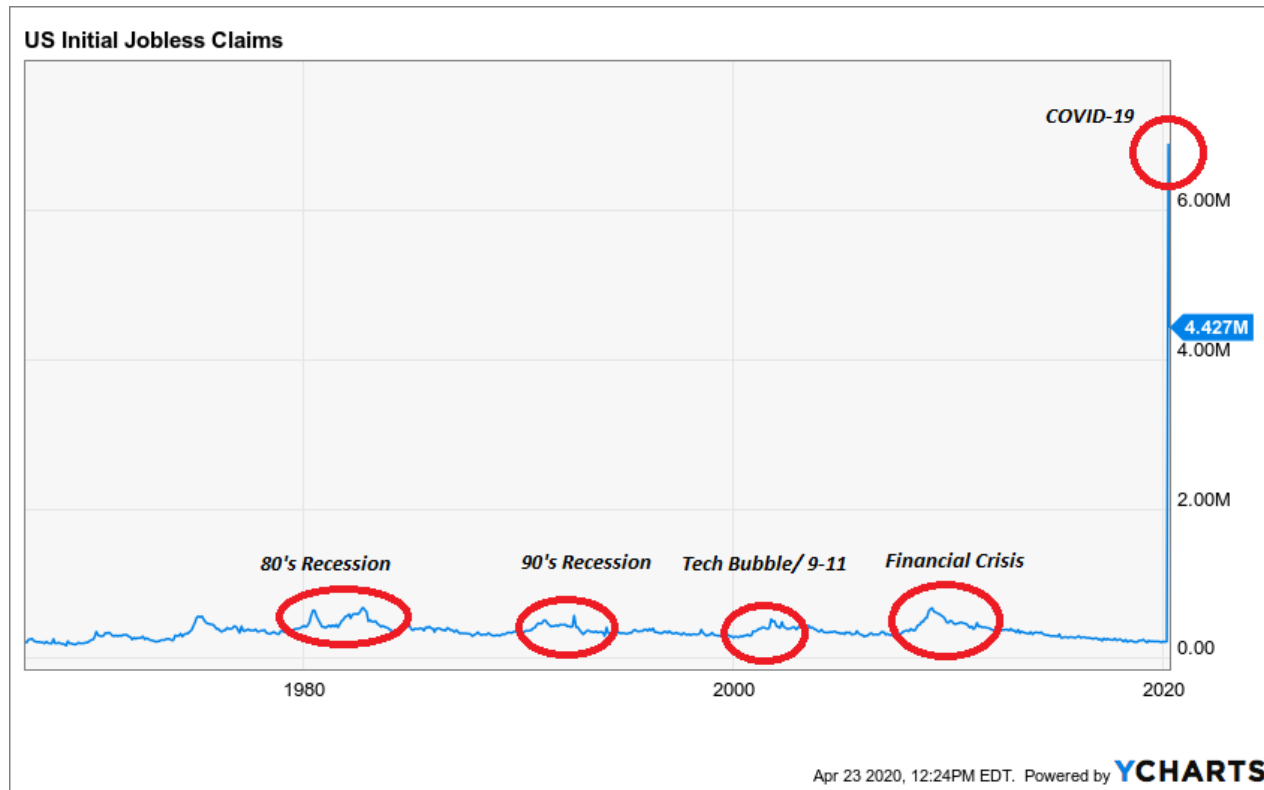


Sevens Report Alpha Webinar:
When Will the Economy Be Back to Normal?

Thursday, April 23rd, 2020

Tom Essaye, President Sevens Report Research

How Bad Is The Economic Damage?



Key findings:

- Flash U.S. Composite Output Index at 27.4 (40.9 in March). New series low.
- Flash U.S. Services Business Activity Index at 27.0 (39.8 in March). New series low.
- Flash U.S. Manufacturing PMI at 36.9 (48.5 in March). 133-month low.
- Flash U.S. Manufacturing Output Index at 29.4 (46.5 in March). New series low.

Data collected April 7-22

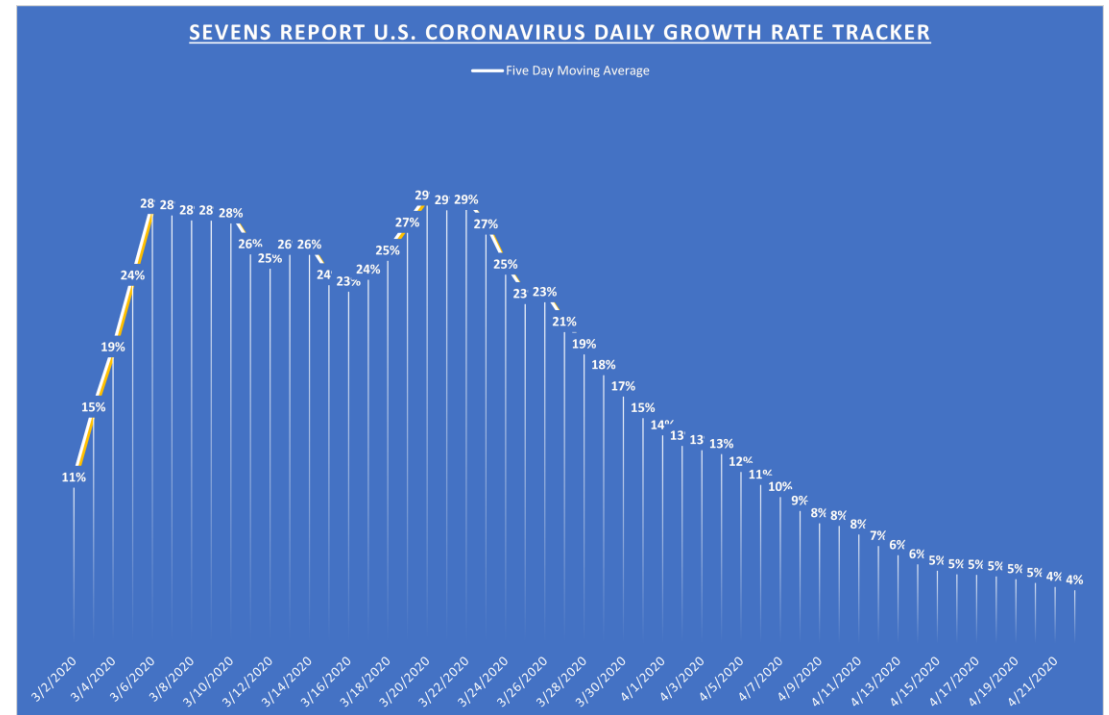
IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

Once Markets Are Stable, Then Focus Can Turn Back Towards Coronavirus and Its 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.



Scenarios For Return to Normalcy

- Three Scenarios (again):
 - **Good:** Economy back to normal by the end of the summer (August).
 - Middle: 50% of people act “normal”/50% of people maintain social distancing practices.
 - **Ugly:** Economy “reopens” and we see another flare up of virus cases (this is easily the worst case scenario).

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

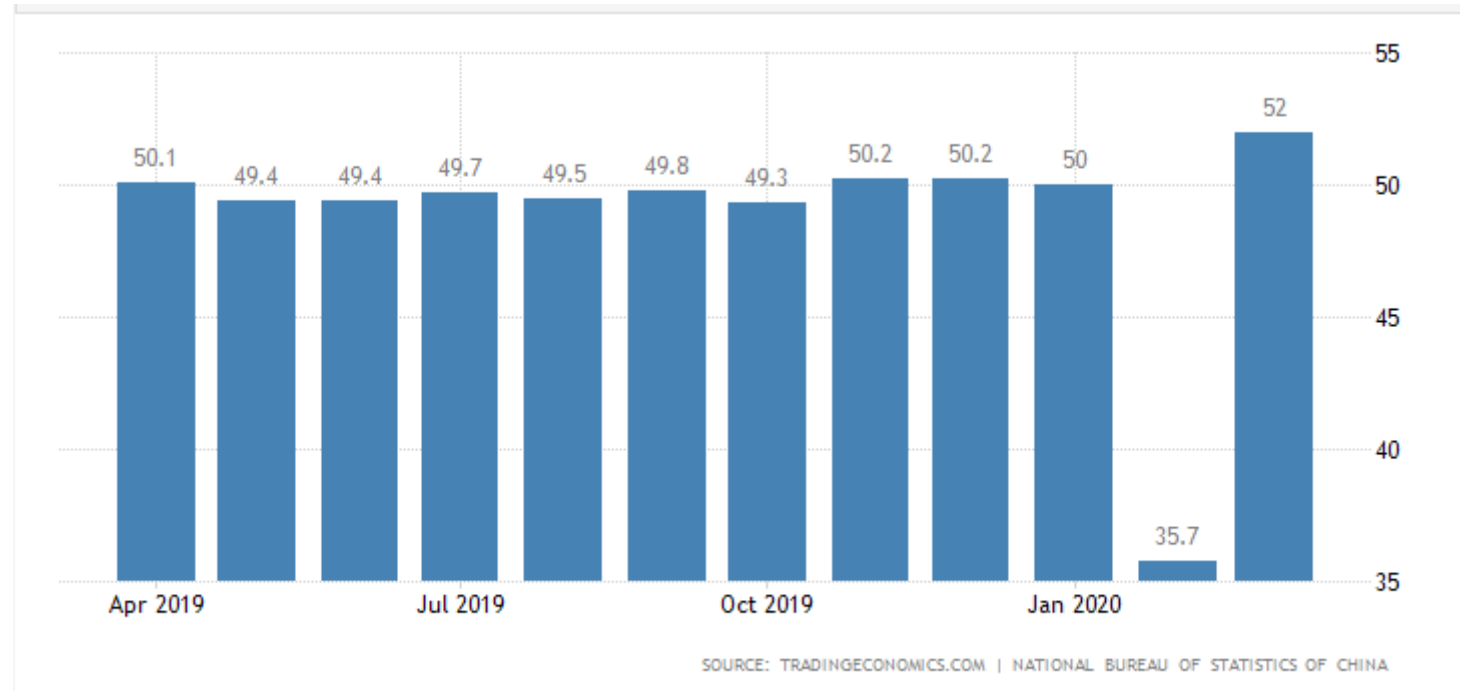
- Still largely comfortable with this valuation.
- EPS expectations coming down, but multiples rising.

When Is It Normal Again? Seven Indicators

- Jobless Claims: < 400k.
- LQD: >132.00
- JNK: > 107.00
- 10 Year Yield > 1.50%
- Oil > \$35.00
- Copper > \$2.60
- U.S. Dollar < 99.00

All that happens = S&P 500 To New Highs (Because of Fed/low rates).

When Is It Normal Again? China.



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.**