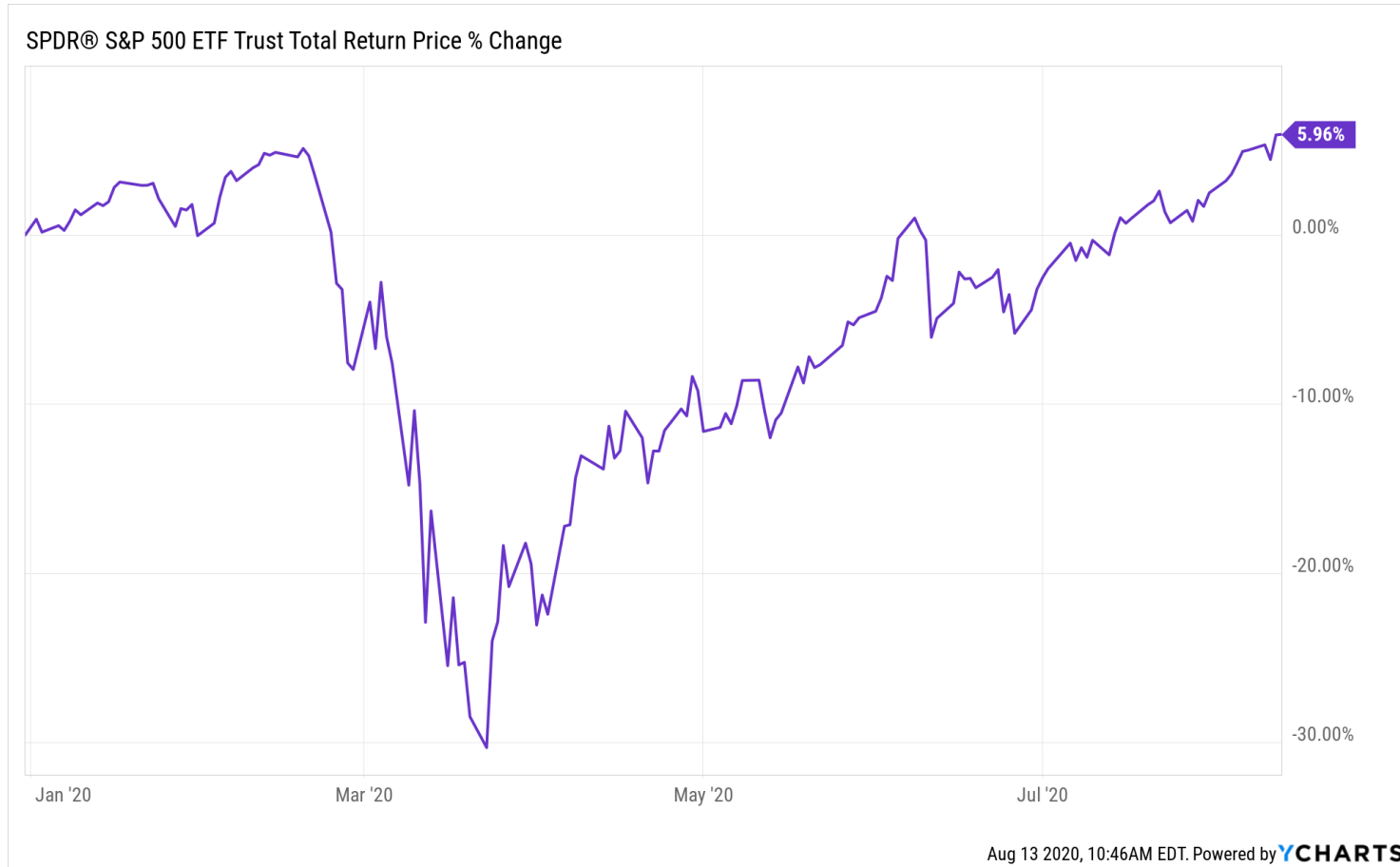


Sevens Report Alpha Webinar: **Market Set Up Into Year-End**

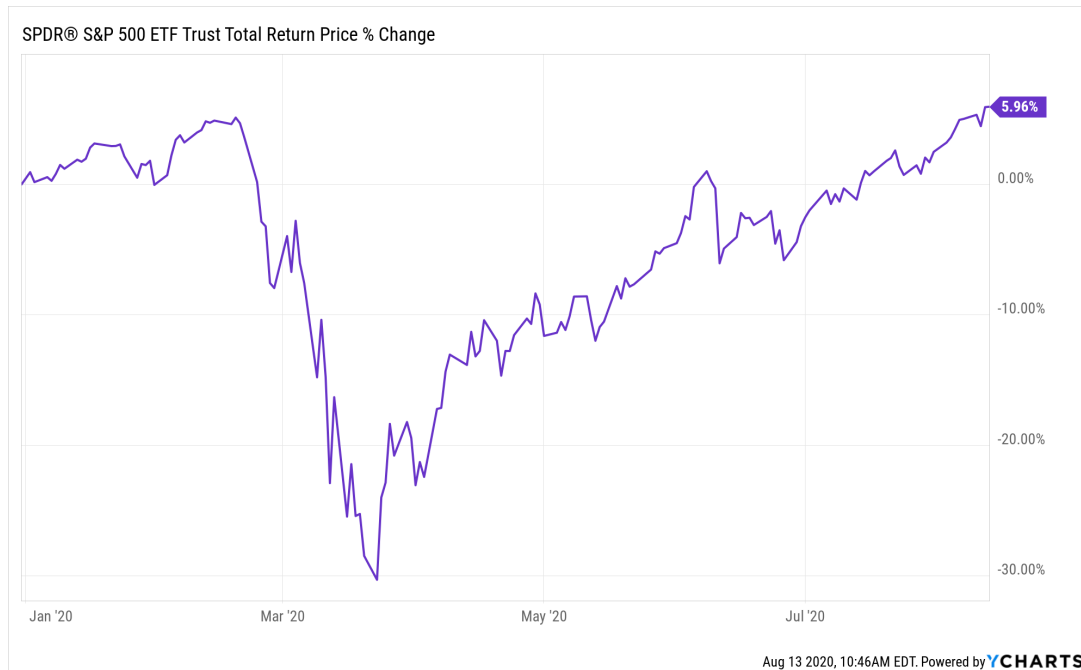
Thursday, August 13th, 2020

Tom Essaye, President Sevens Report Research

2020 – A Graphical Look



The S&P 500 is Up 6% YTD – What's Assumed?



- Stimulus bill gets passed in early September.
- Fed meeting on 9/16 reveals 1) An aggressive inflation target and 2) New QE program.
- Positive phase III COVID 19 vaccine results sometime before year-end (MRNA/AZN)
- Q3 Earnings that don't show a reduction in 2021 S&P 500 earnings (\$163ish/share) or 2022 earnings (\$187ish/share).
- No Blue Wave on November 3rd.

Safe Assumptions

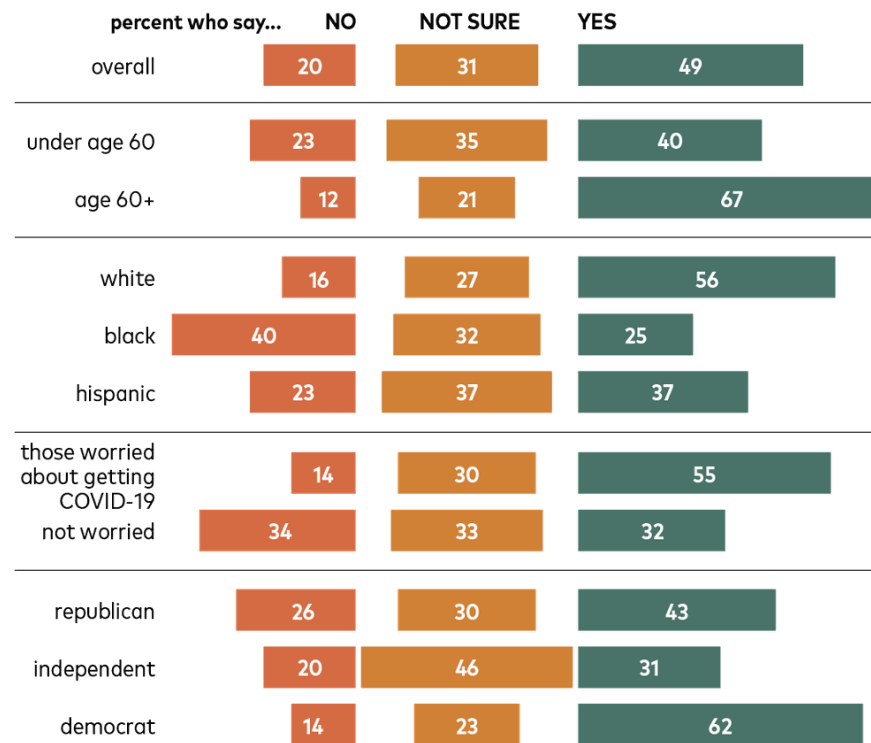
- Stimulus bill gets passed in early September.
- Fed meeting on 9/16 reveals 1) An aggressive inflation target and 2) New QE program.

Not So Safe Assumptions

- Positive phase III COVID 19 vaccine results sometime before year-end (MRNA/AZN)
- Q3 Earnings that don't show a reduction in 2021 S&P 500 earnings (\$163ish/share) or 2022 earnings (\$187ish/share).
- No Blue Wave on November 3rd.

Not So Safe Assumption 1: Positive phase III COVID 19 vaccine results sometime before year-end (MRNA/AZN)

Do you plan to get vaccinated against coronavirus?



Source: AP-NORC Poll, May 14-18, 2020



- Associated Press-NORC Center for Public Affairs Research found that just 49% of Americans would get vaccinated if a COVID 19 vaccine became available.
- Herd immunity for a virus is usually achieved with 70% - 90% vaccinated.

Not So Safe Assumption 2: No Blue Wave on November 3rd.

- Regardless of who wins the Presidency, and significant legislative changes will only occur if both Congress and the Presidency are Democratic (a Republican House is not thought possible).
- A “Blue Wave” is where the Democrats also win the Senate.
- Republicans currently hold 53-47 edge.
- Republicans defending 23 seats.
- Democrats only 12 seats.
- Currently the consensus views five seats as toss ups:
 - Maine
 - North Carolina
 - Colorado
 - Arizona
 - Montana
- Democrats need to win four of five and hold Michigan, New Mexico and New Hampshire.
- Right now, polls say that’s what’s happening

Not So Safe Assumption 3: Q3 Earnings that don't show a reduction in 2021 S&P 500 earnings (\$163ish/share) or 2022 earnings (\$187ish/share).

- 2021 Earnings Assumptions
- Current S&P 500 Level: 3382
- Current Bottoms Up 2021 S&P 500 EPS Forecast: \$163ish
- Current Multiple: 20.75X

- 2022 Earnings Assumptions
- Current S&P 500 Level: 3382
- Current Bottoms Up 2022 S&P 500 EPS Forecast: \$187ish
- Current Multiple: 18.10X

“Good” Market Scenario

- Stimulus Passes
- Fed Gives 2% Inflation Target, Large QE Program
- MRNA/AZN Phase III Trial Wildly Successful.
- 2021 & 2022 EPS Don't Fall
- Split Government after Election (Republicans keep Senate).
- Market Reaction: S&P 4000?
- Alpha Ideas:
 - Future of Consumer Spending (IBUY/FINX/IPAY). Issue Date: 7.24.18
 - Commodities (PDBC/GNR/RLY). Issue Date: 9.18.18
 - Reflation Playbook (Numerous ETFs listed). Issue Date: 9.24.19
 - International/Europe (IQLT/VIGI/GSIE)/VGK/FEZ. Issue Dates: 1.14.20/7.14.2020
 - Floating Rate Funds (FLOT/USFR/SRLN/EFR) Issue Date: 8.16.18

“Bad” Market Scenario

- Stimulus Passes
- Fed Gives 2% Inflation Target, Large QE Program
- MRNA/AZN Phase III Not Overwhelmingly Successful (or Outright Fails)
- 2021 & 2022 EPS Fall
- Blue Wave
- Market Reaction: 10% - 20% Decline.
 - Alpha Ideas
 - Japanization Playbook (PTCIX/VYM/PDI). Issue Date: 9.10.19
 - Hedged Equity ETFs (DMRL/CCOR/JHEQX). Issue Date 3.10.20
 - Preferred Stock ETFs (PGF/VRP/PFXF). Issue Date 1.29.19
 - Cash Management (FPNIX/MINT/BBBIX). Issue Date 12.17.19

“Middle” Market Scenario

- Stimulus Passes
- Fed Gives 2% Inflation Target, Large QE Program
- Some, but not all, of remaining three assumptions:
 - COVID Vaccine
 - Earnings Stable
 - No Blue Wave
- Market Reaction: S&P 500 Ends 2020 Between 3000-3300
 - Alpha Strategies
 - Strategies for a “U” Shaped Recovery (PGF/DG/DLTR/RHS). Issue Date: 5.5.20
 - Sustainable Dividends (NOBL/DGRO/TDIV). Issue Date: 6.2.2020
 - Minimum Volatility Funds (USMV/SPLV/EEMV/EFAV). Issue Date: 5.21.19