

Sevens Report Alpha Webinar:
Four Major Market Influences (Updated)

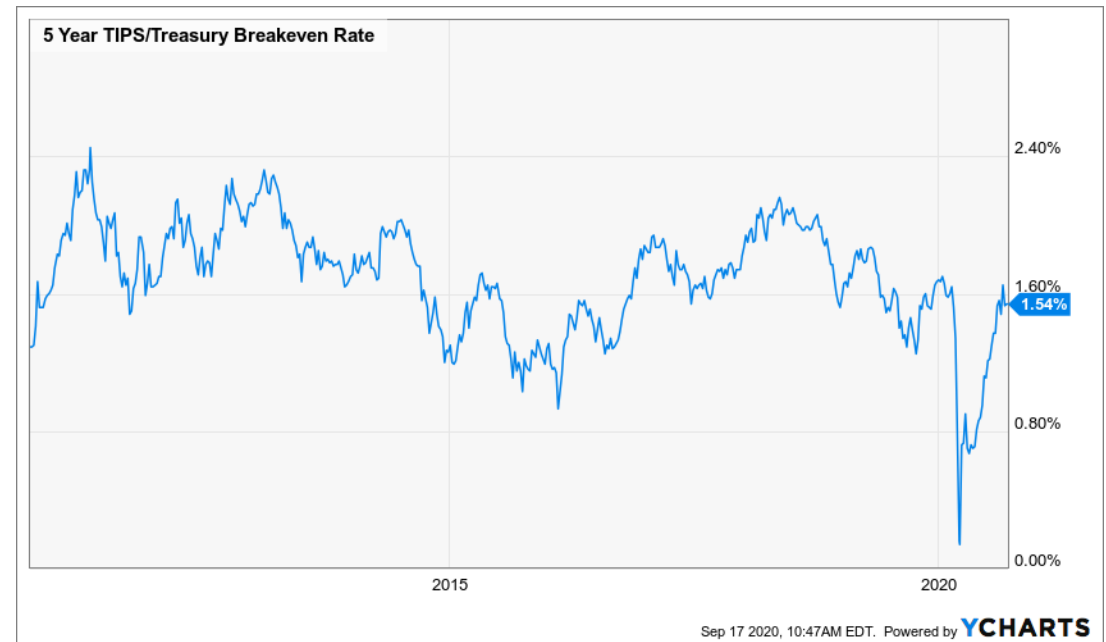
Thursday, September 17th, 2020
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Where Does the Market Stand? Previous Assumptions

- Fed meeting on 9/16 reveals 1) An aggressive inflation target and 2) New QE program.
- Stimulus bill gets passed in early September.
- Positive phase III COVID 19 vaccine results sometime before year-end (MRNA/AZN)
- Economy back to normal by early 2021.
- Current Valuation
 - 2021 S&P 500 Consensus EPS: \$165. Up from previous \$163.
 - Current S&P 500 level: 3365ish.
 - **Current Multiple: 20.40X**

Continued historic Fed accommodation

- Prior View (that supported stocks): Fed essentially max dovish, will do anything to support asset prices.
- New View: Fed set bar for higher inflation, but market is not convinced it'll do what's necessary to actually achieve that outcome.
- Net Result: Less Bullish.
- Key Variable To Watch: Inflation Break-evens.



Stimulus expectations

- Prior View: \$1.5T stimulus bill that would be passed by early September.
- New View: \$1.5T stimulus bill still passes by???????
 - \$1.5T compromise bill proposed by “Problem Solvers” Caucus in House.
 - Some incremental motion, but election looms and expectations are low for a deal before November 3rd.
- Next Events to Watch:
 - Deal up to Pelosi and McConnell. Those are the two to watch (not Trump).
 - House in session until election (but at this point more for optics than anything else).
 - Watch economic data. If data rolls over or the virus surges again in the fall, then pressure to get something done will increase.
 - Becomes a bearish gamechanger if there’s no deal by year-end.

Vaccine anticipation

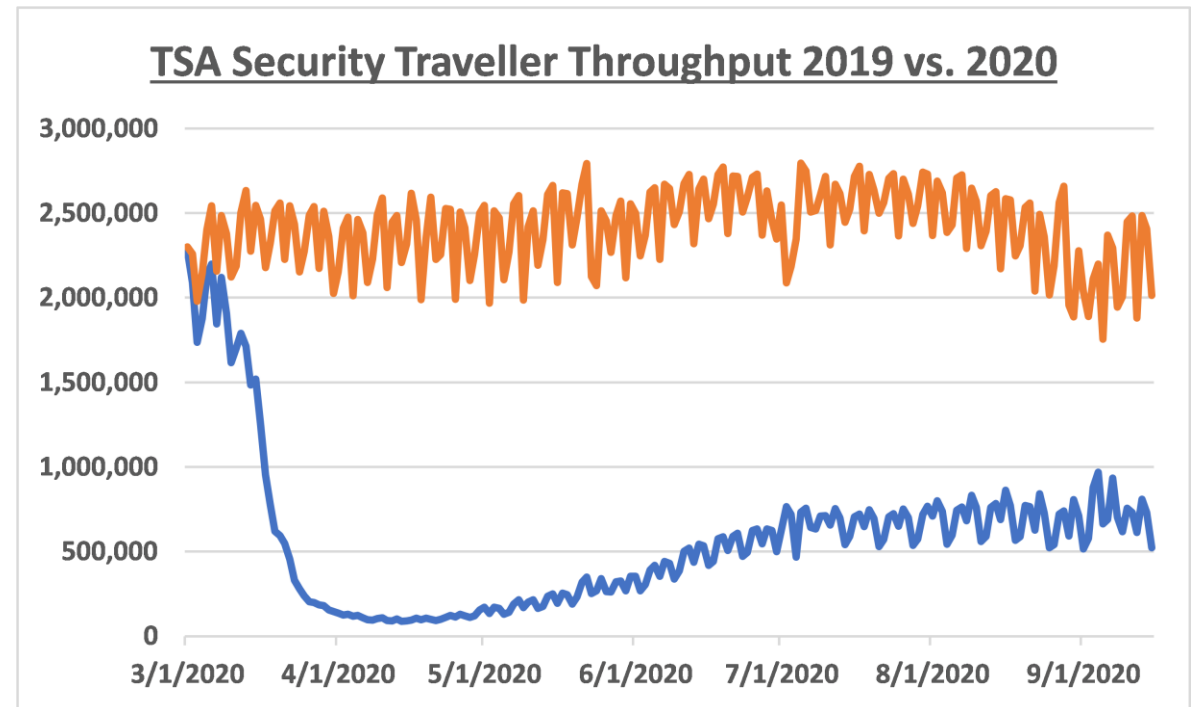
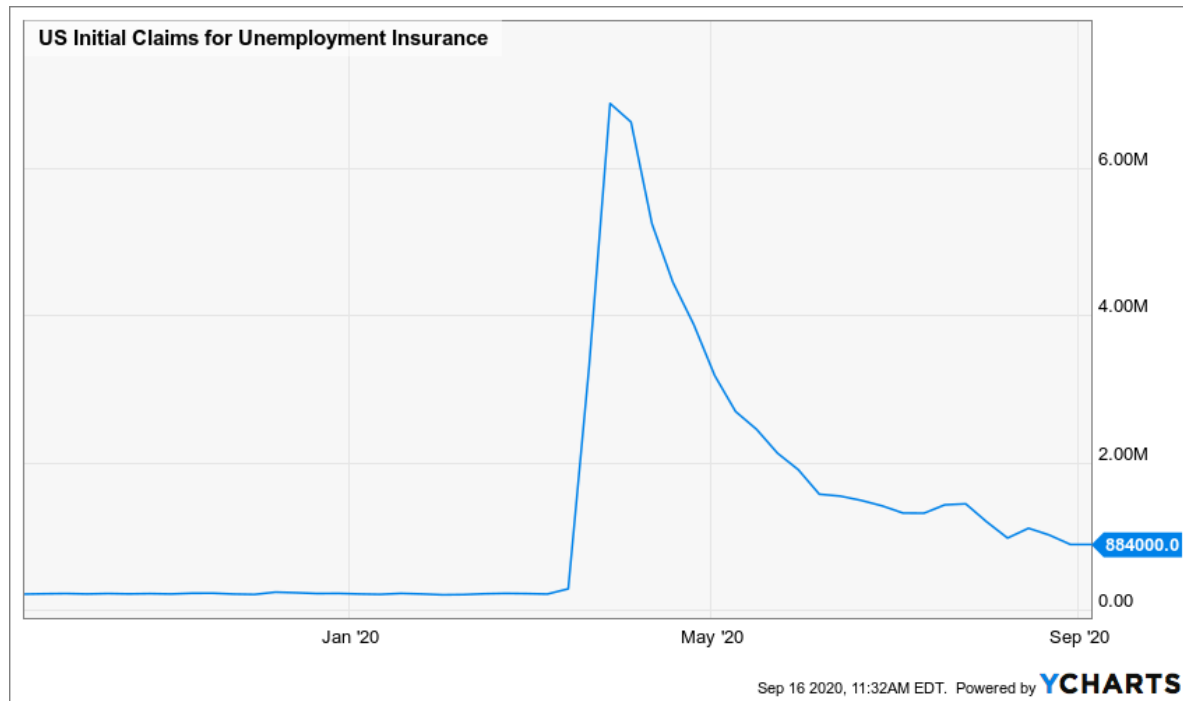
- Prior View: Vaccine Approval by Year-End.
- New View: No change. “EUA” (Emergency Use Authorization) is expected before Election Day, with distribution before 2021 or early in 2021.
- Next Event To Watch:
 - Pfizer, AZN or MRNA to get EUA by Election Day.

<u>Company</u>	<u>Symbol</u>	<u>Current Phase</u>	<u>Next News Date (Approximate)</u>	<u>Hopeful Vaccine</u>
<u>Moderna</u>	MRNA	Phase III	Q3	End 2020
Johnson & Johnson	JNJ	Phase I	Q3	
Pfizer	PFE	Phase III	Q3	End 2020
AstraZeneca	AZN	Phase III	Q3	October 2020
GlaxoSmithKline	GSK	Phase I		
<u>Novavax</u>	NVAX	Phase I/II	Q3	Q1 2021
<u>Inovio Pharma</u>	INO	Phase II	Q3	

On-going economic recovery

- Prior View: Economy back to normal by 2021.
- New View: Economy still back to normal by 2021, but lack of stimulus a complication factor.
- Next Event To Watch:
 - Claims continue towards 500k
 - TSA Throughput through 1MM toward 1.5MM
 - Credit card data needs to hold up (MA/V/AMEX earnings).

On-going economic recovery



Bottom Line

- Prior Assumptions:
 - Fed Max Dovish (ZIRP forever/more QE)
 - Stimulus Done
 - Vaccine By year-end
 - Economy Back to Normal by 2021
- Reality Through 9/17
 - Fed on hold at current policy?
 - Stimulus NOT done
 - Vaccine By Year End
 - Economy back to normal by 2021.....but without stimulus?

Bottom Line

- So three of the four core pillars of this rally have seen some deterioration.
- Yet the S&P 500 remains near all-time highs.
- That certainly can continue, but I do want to point out that from a fact standpoint, the market outlook is less positive than it was two-plus months ago, despite higher stock prices.
- We are still concerned about a further 10%-15% pullback from current levels if we get material disappointment on any of these four factors.

