SEVENS REPORT

Sevens Report Alpha Webinar:

Average Inflation: What Happens If It Works (and What Happens If It Doesn't?)

Thursday, September 3rd, 2020

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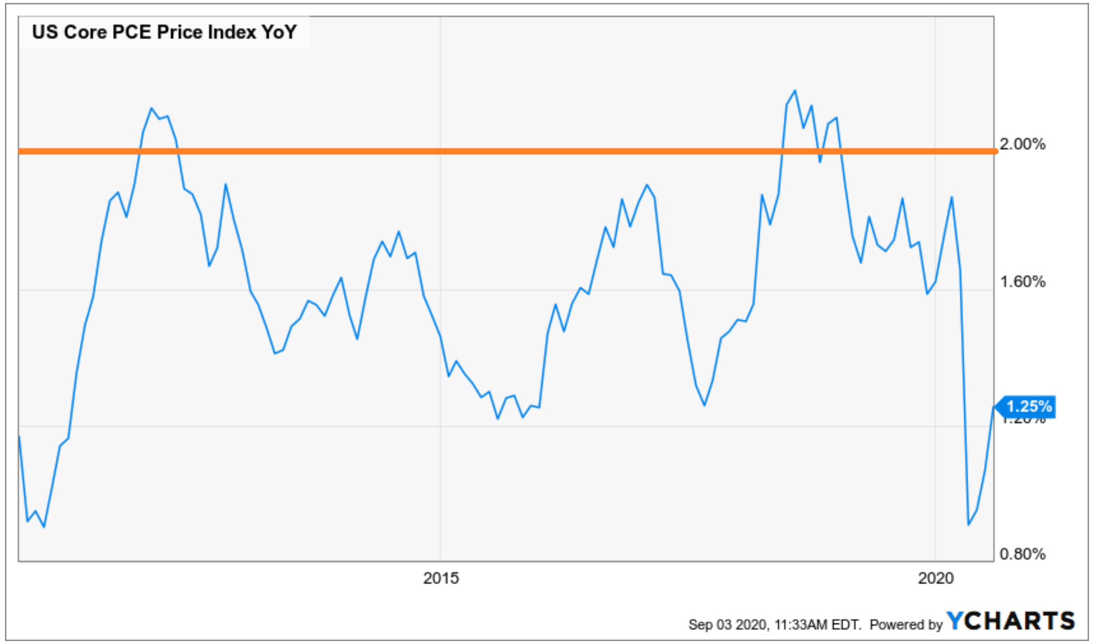
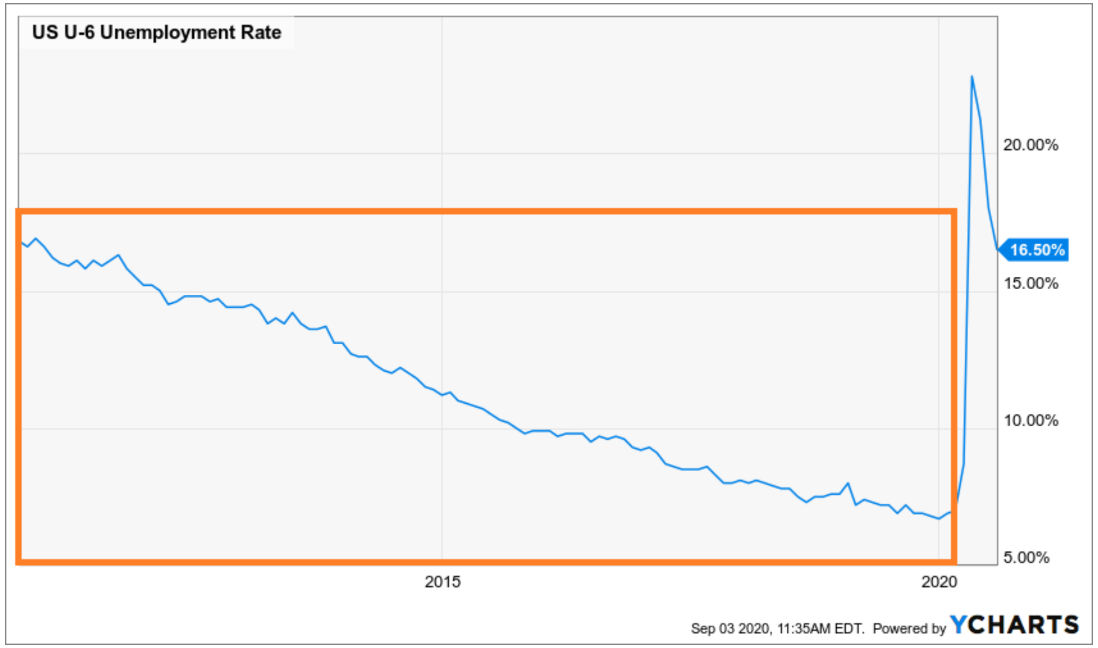
Average Inflation: What Does Mean?

Takeaway 1: Average Inflation Target

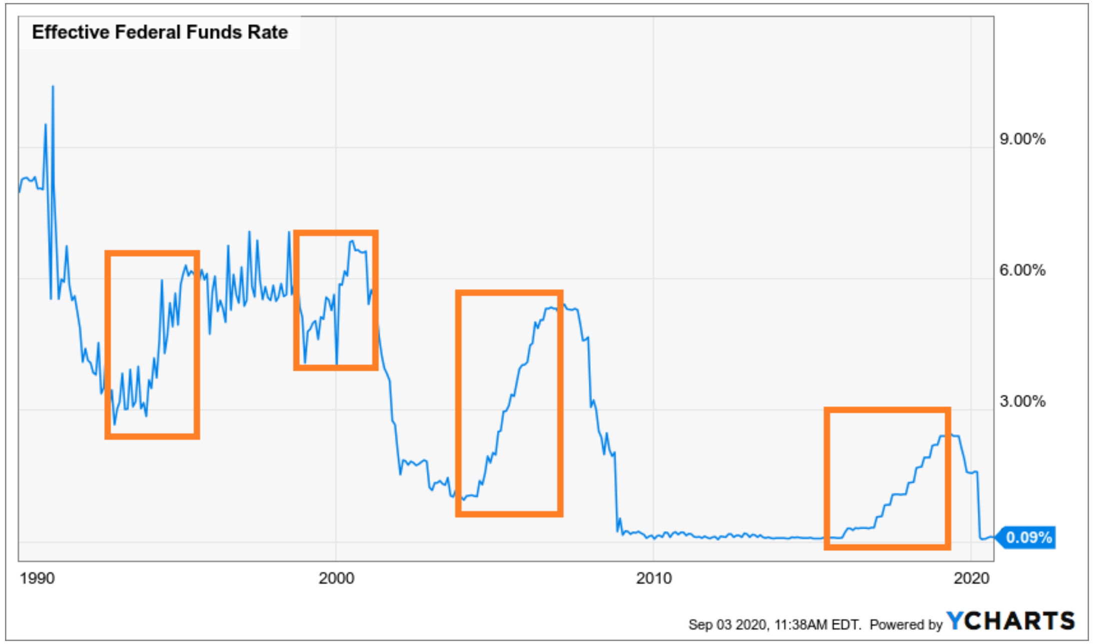


Takeaway 2: Abandoning Phillips Curve

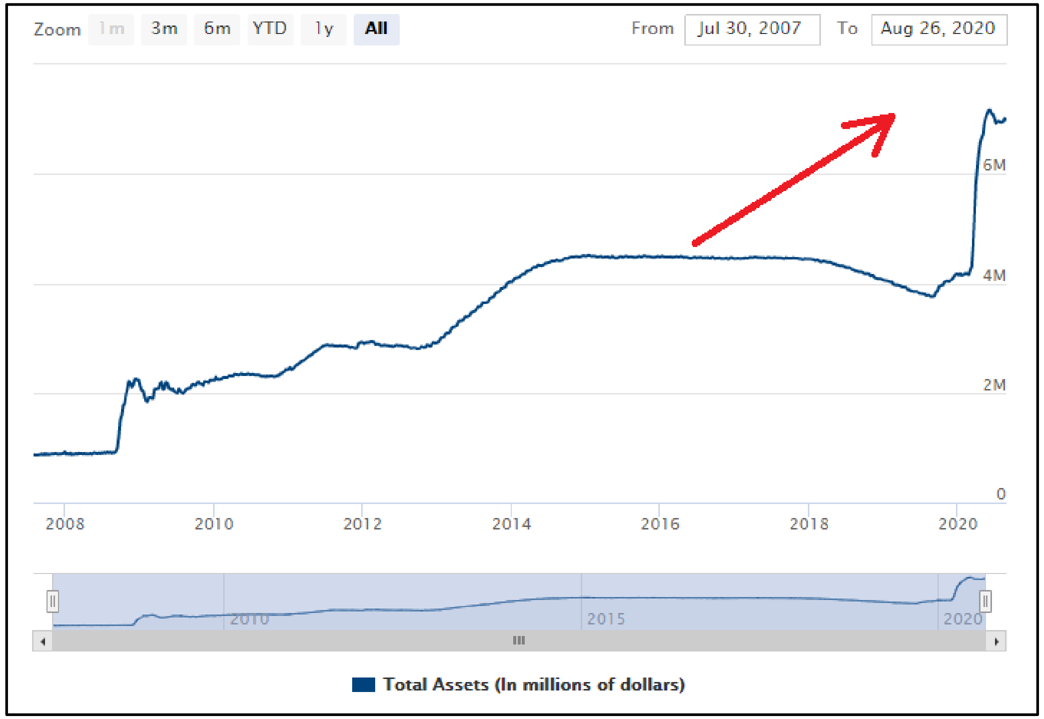


Average Inflation: What Does Practically Mean?

Delayed Rate Hikes



Larger and Longer QE Programs



Practical Near-Term Application:

Good for stocks (lower rates, more QE, virtuous inflation).

What If the Fed Is Successful? (Inflation Accelerates)

Likely Market Reaction

- Easy Fed Causes an Orderly Dollar Decline
- The Uptick in Inflation along with Economic Growth Causes An Orderly Rise in Yields
- Economic Growth Accelerates
- Asset Inflation Accelerates (especially in the beginning)
  - Good for stocks, real estate, commodities.

Playbook

- Equal Weight S&P 500
  - RSP (Issue Date 9.7.17)
- Banks/Financials
  - Higher Yields (KBE/XLF).
- Growth into Value
  - RPV (Issue Date 12.18.18)
- Floating Rate Funds
  - FLOT/USFR/SRLN/EFR (Issue Date 8.6.18)
- Small Caps
  - IJR/VBK/XLSV (Issue Date 1.28.2020)
- Commodities
  - PDBC/GLD

What If the Fed Is Not Successful = No Inflation

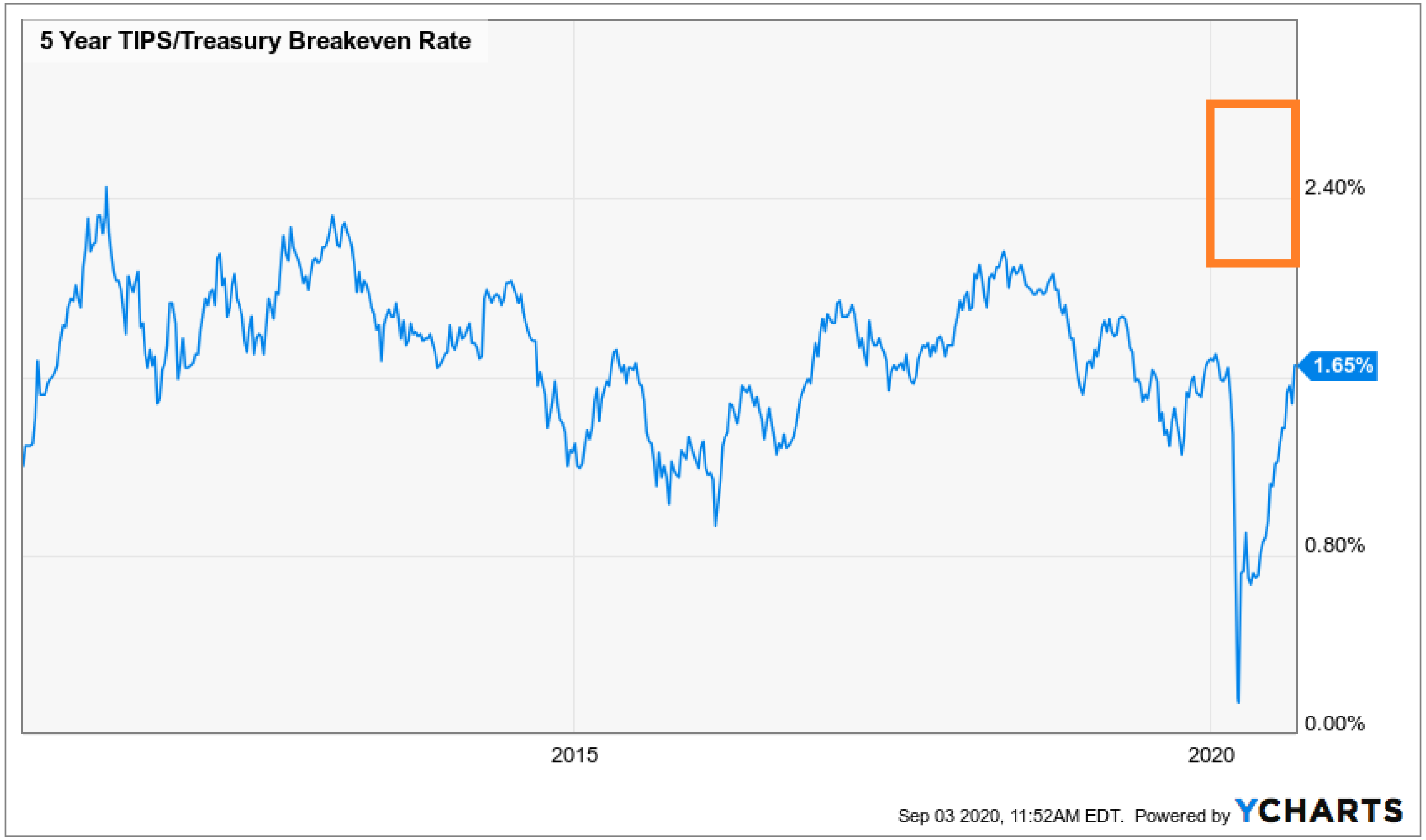
What Is "Japan-ization?"

- Forever low interest rates that fail to stimulate growth (rate cuts)
- Increasing money supply that fails to stimulate inflation (QE)
- Stagnant asset prices (stocks, real estate) over the longer term
- Never ending bull market in bonds/debt
- Constant risk of deflation (cash)
- Stubbornly bouyant currency

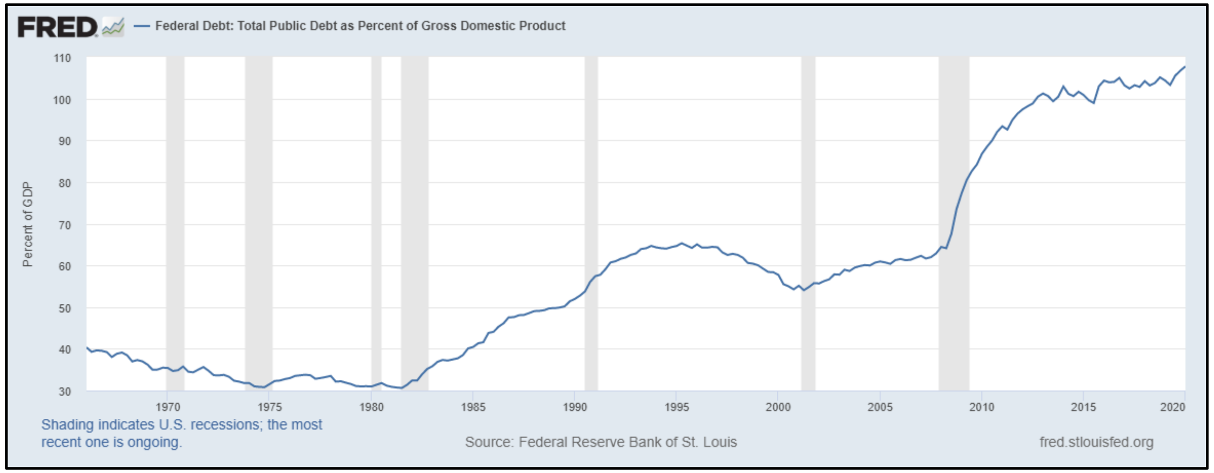
What Works in Japan-ization?

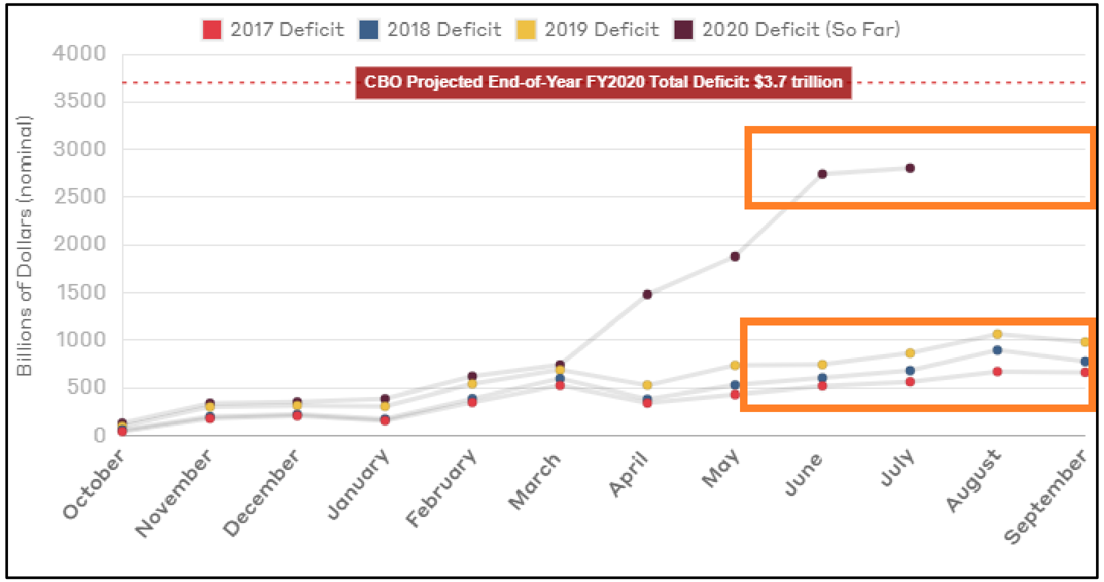
- Gold.
  - Issue: How to Responsibly Allocate to Gold (7/2/19). GLD/SGOL/GDX/KL/FNV.
- Utilities.
  - Issue: Utilities for Income (2/12/19). VPU.
- Cash.
  - Issue: Cash Alpha (3/6/18). FPNIX.
- Bonds
  - Issue: Active Bond ETFs (2/20/18). BOND/TOTL/FTSL.
- Non-Correlated Strategies
  - Issue: Merger Arbitrage. (10/17/17). GABCX/MNA

How Will We Know?



What About Deficits and Debt?





What About Deficits and Debt?

- It All Depends on the Dollar and U.S. 10 Year Treasury Yields.
- If at some point the global bond markets begins to worry about U.S. Debt and Deficit Levels, we will know it because:
  - The Dollar Index will drop sharply (much worse than we're seeing now, likely towards 80 or lower) and
  - The 10-year Treasury yield will start to go up.
  - Those two trends, if they occur quickly, will further hurt the economy because:
    - The weak dollar will increase consumer inflation, making goods more expensive for every day Americans.
    - The 10-year yield will increase borrowing costs for everyone – which isn't good for an economy that's addicted to debt.
  - Higher yields and a weaker dollar are ok as long as they are orderly moves and driven by expectations for better economic growth, but it won't be growth driven in this scenario.
  - Bottom line – This outcome would not be good (but positively it's not likely anytime soon).