

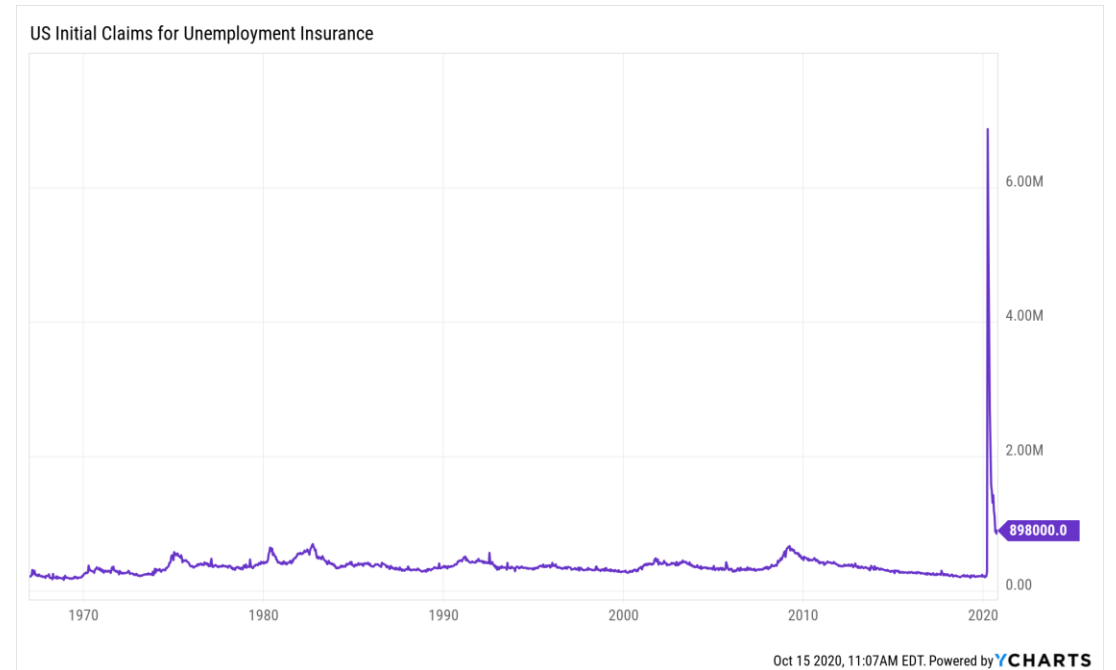
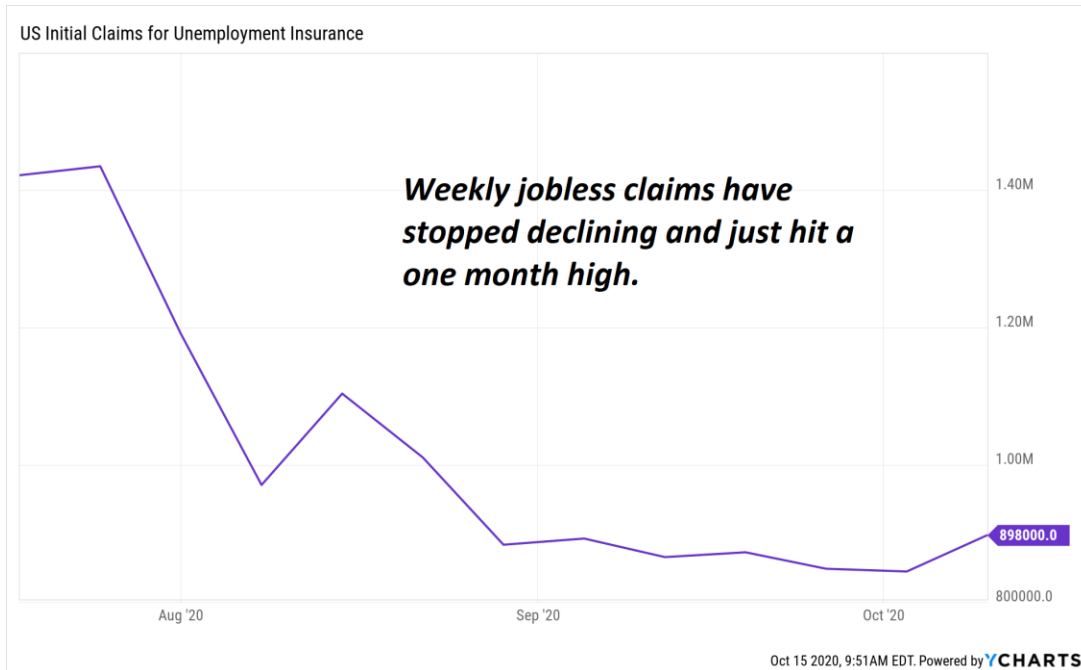
Sevens Report Alpha Webinar:
How Badly Does the Market Need Stimulus?

Thursday, October 15th, 2020
Tom Essaye, President Sevens Report Research

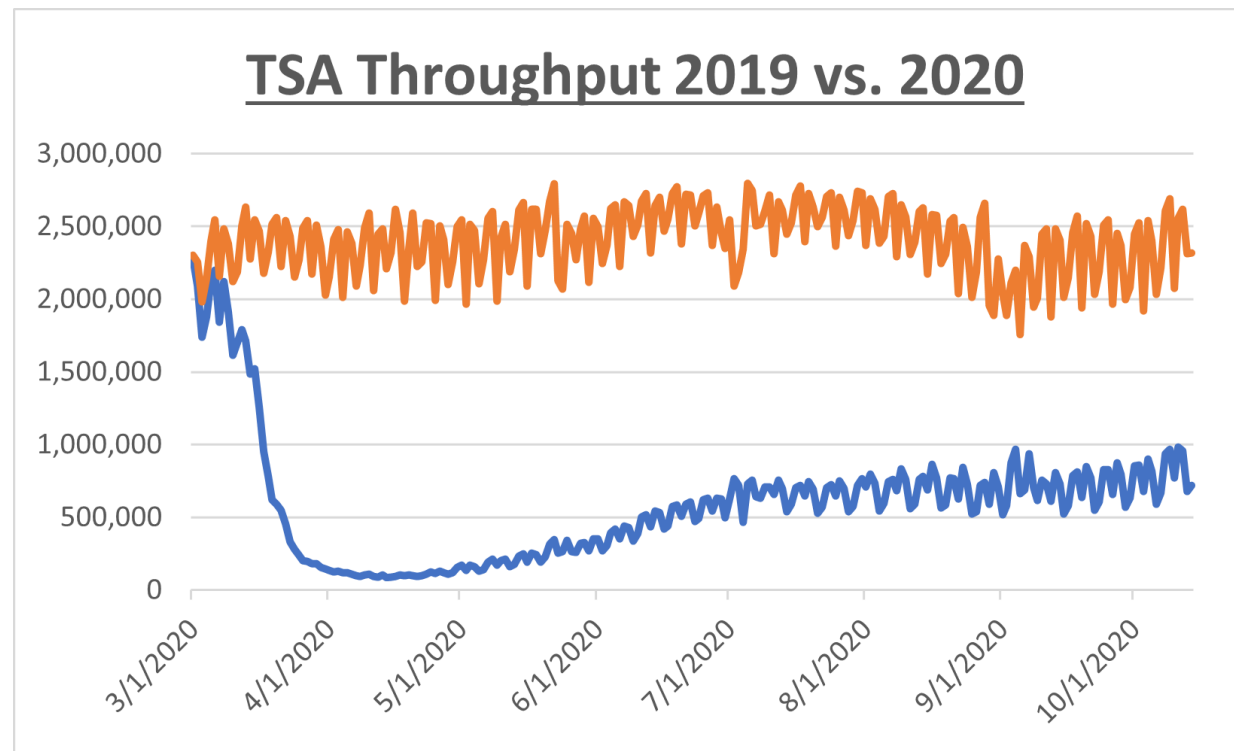
Current Stimulus On Deck

- Existing: \$300 billion of CARES Act funding that is left over.
- “Targeted”: \$500 billion Republicans in the Senate will vote on next week. **This has no chance of becoming law.**
- “Most Likely” : \$1.5 - \$1.8 trillion comprehensive deal between Republicans/Democrats. **This isn’t happening until after the election.**
- Democrat Proposal: \$2.2 trillion passed in early October. **This has no chance of becoming law.**
- “Blue Wave” Stimulus: \$ 5 trillion. This is the general sum of the \$2.5 COVID-19 related stimulus (Democrat’s ideal number) combined with other Biden initiatives, should a “Blue Wave” occur. **This would be a 2021 issue once Democrats were in full power.**

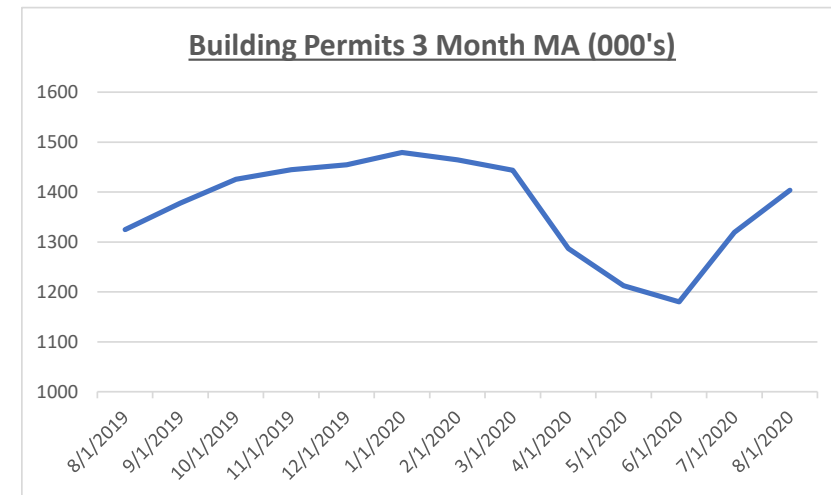
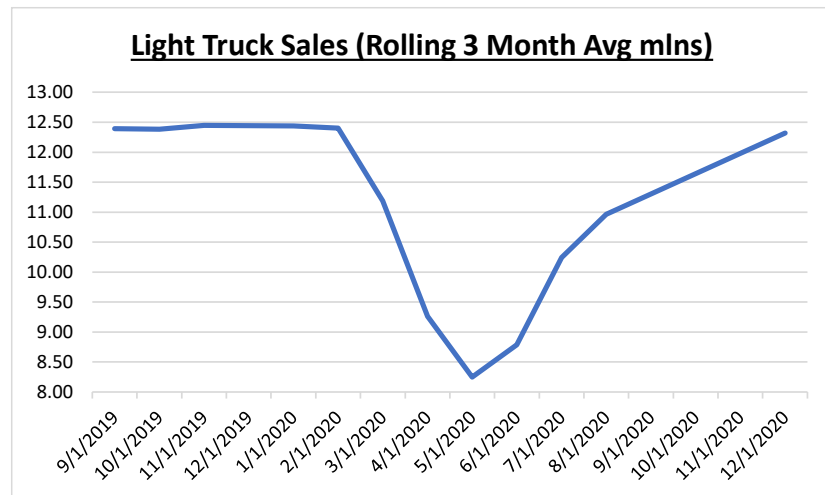
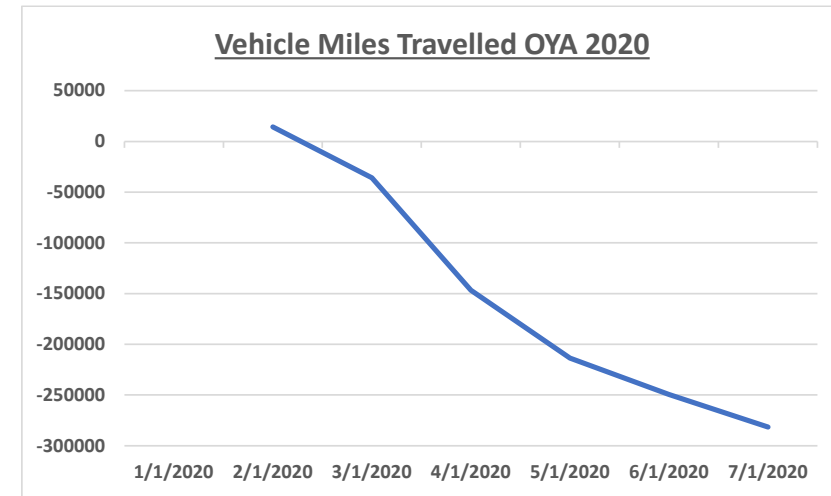
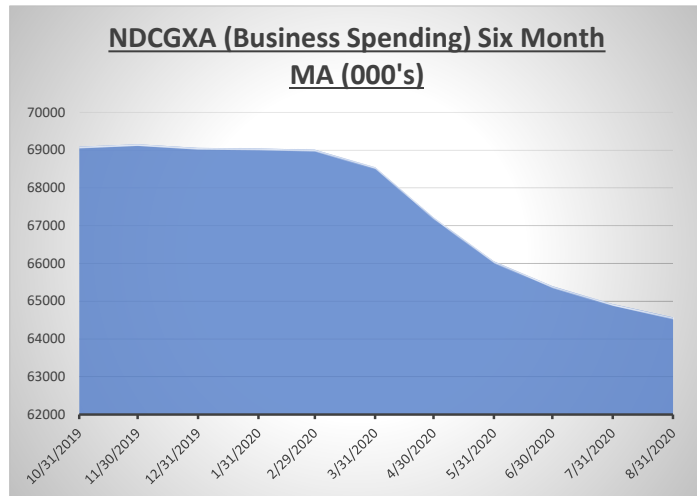
Current State of the Economy



Current State of the Economy



Current State of the Economy



Q3 Earnings Preview

- Q2 Earnings were, vs. expectations, some of the best ever:
 - 82% of S&P 500 companies beat earnings estimates (usually in low 70% range).
 - 64% of S&P 500 companies beat revenue estimates (usually around 50%).
 - Need to see similar numbers in Q3, especially on the revenue side of things as that implies a real economic recovery.
 - But earnings also important.

| Expected 2021 S&P 500 EPS | | |
|---------------------------|---------------------------------|--------------------------------------|
| <u>Date</u> | <u>Full Year EPS (2021)</u> | <u>Market Level 20X Multiple</u> |
| In Q1 2020 (post COVID) | \$162.50/share | 3,250 |
| In Q2 2020 | \$165/share | 3,300 |
| Now (Q3 2020) | \$167.50/share | 3,350 |
| Best Case | \$170/share | 3,400 |

What sectors need stimulus the most (And what happens if they do not get it?)

- Airlines (JETS).
 - Movie Theatres (AMC/CNK/MMI/IMAX)
 - Cruise Lines (RCL/CCL)
 - Theme Parks (SEAS/SIX/FUN)
 - Restaurants (CMG/DRI/CAKE/BLMN)
- If No Stimulus:
 - Airlines: More debt/less routes.
 - Movie Theaters: More debt/theatre closures/bankruptcy
 - Cruise Lines: Bankruptcy unlikely but more debt/fewer itineraries/less revenue (fewer shore excursions)
 - Theme Parks: Bankruptcy
 - Restaurants: Some Bankruptcies

What would all this stimulus do for stocks?

| | | | | | |
|----------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| % Move | -4.40% | -4.40% | 0.49% | 5.39% | 22.55% |
| S&P 500 Target | 3315 | 3315 | 3485 | 3655 | 4250 |
| 2020 EPS | 170 | 170 | 170 | 170 | 170 |
| Multiple | 19.5 | 19.5 | 20.5 | 21.5 | 25 |
| Stimulus | \$300,000,000,000 | \$500,000,000,000 | \$1,500,000,000,000 | \$2,200,000,000,000 | \$5,000,000,000,000 |

What happens if there is a Republican Senate? (This is a scenario we need to watch out for given the recent rally)

| | | | | | |
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Conclusions

- The economy still badly needs stimulus. Do not let the stock market fool you – the economy is very, very far away from “normal” levels of activity.
- Without large stimulus (\$1.5 trillion or more) we’re likely looking at increasing corporate casualties in the hardest hit sectors: Airlines/Cruise Lines/Movie Theatres/Theme Parks/Dine-In Restaurants.
- Implications of the stimulus are significant, with easily 20% upside in stocks in the short term if we get a “Blue Wave” and historic fiscal stimulus. Conversely, the outlook for stocks dims significantly in the medium and longer term without more stimulus.