# Sevens Report Alpha Webinar:

## Post Election and Vaccine Market Outlook

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# Market Outlook Post-Election

- The outlook for stocks over the medium/longer term has improved dramatically over the past week.
  - Election Clarity
  - Vaccine results
  - Strong Q3 earnings
  - More central bank accommodation
    - ECB/BOE/RBA

# What Does That Mean for the Broad Market?

- Earnings expectations have increased.
  - Expected 2021 S&P 500 EPS are now $170/share and it's not unreasonable that it ends up at $175/share by the end of Q4 earnings. That's up more than $10 from the depths of the COVID lockdowns in March/April.
  - Expected 2022 S&P 500 EPS are now between $190 - $200/share.
  - The acceptable market multiple is expanding to levels previous not thought sustainable.
    - In normal times, 20X next year's earnings has always proven unsustainable.
    - But, we are potentially on the cusp of one of the most "equity friendly" macro-economic set ups in history.
    - The market will potentially push a 22X multiple.
  - What does that mean: 22*$195 = 4290 in the S&P 500 (this is how GS and others are getting their S&P 500 targets above 4k in 2021).

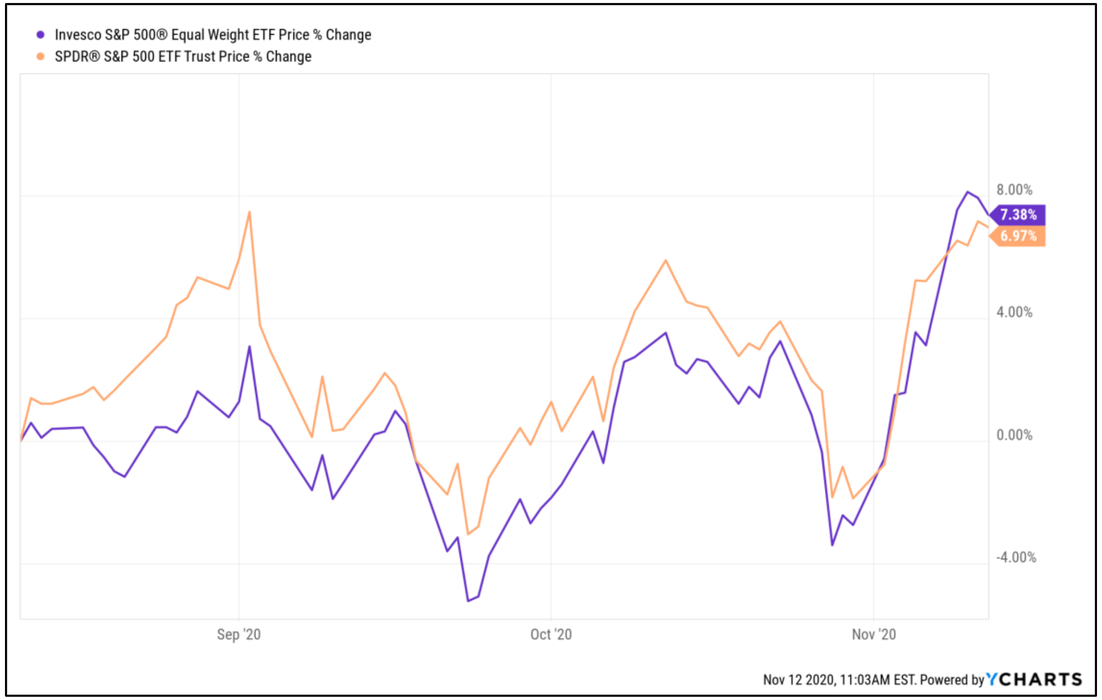
# Looks Good.  What Could Go Wrong?

- Risk 1:  No stimulus.
    - It's becoming more likely that the looming runoffs in Georgia will delay stimulus (again), likely until after the lame duck session ends in late January.
    - The PFE Covid vaccine might make the need for large stimulus (which the market expects) less urgent, ultimately reducing the size of any compromise bill (anything under $1T would be a material disappointment).
    - Solid economic data is having a similar effect, putting downward pressure on the size of any potential bill.
- Risk 2:  Exponential COVID spike.
    - Markets have ignored the quasi-parabolic spike in coronavirus cases because lockdowns have been surgical. But, that may change in the coming weeks as cases surge further, or in early 2021 if the Biden administration puts pressure on states to lockdown while vaccine distribution ramps up.
- Risk 3:  Central banks disappoint.
    - The ECB has sowed high expectations for large scale QE, while markets are expecting the Fed to do more QE or to quantify their current QE program in a forceful way (duration, etc).  If central banks disappoint and aren't dovish enough, then markets will be disappointed.
- Risk 4:  Yields Spike Higher.
    - This could be one of the most favorable macro set ups for stocks in years (decades?).  It also could be one of the most favorable set ups for consumer inflation in years (decades?).  There's still a "bond bubble" out there, and if a decline in bonds/increase in yields becomes disorderly, that will hit markets.

# So What's It Mean for Markets Right Now?

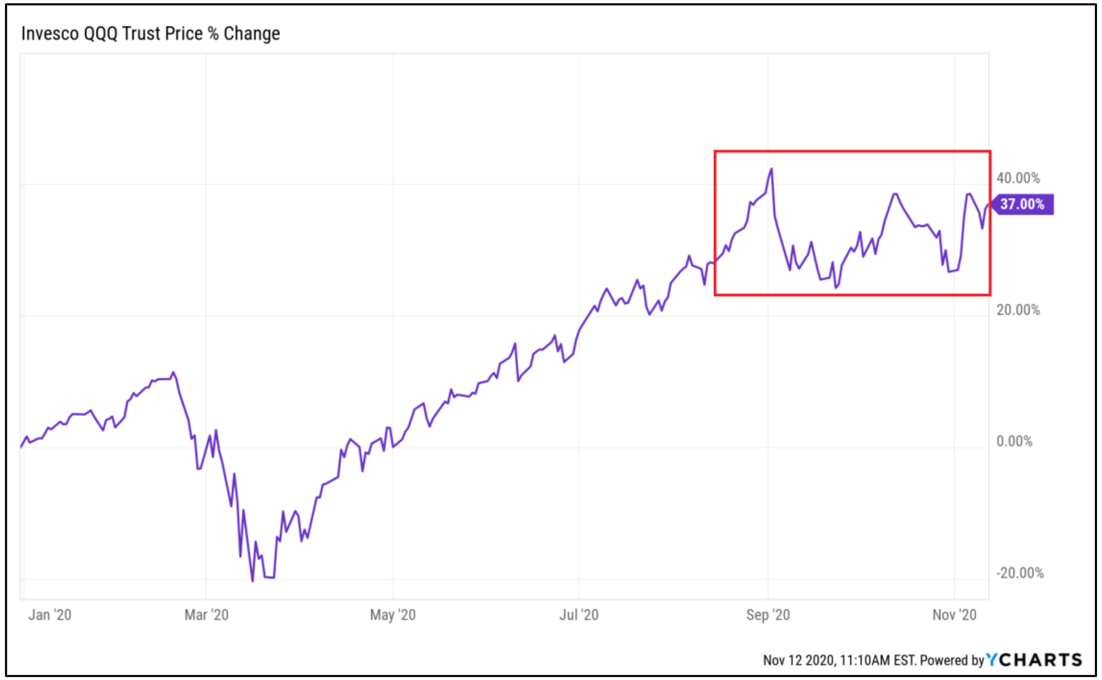
- Between now and year-end, expect some more volatility, even a modest pullback (5%ish) barring a major negative surprise.
- But, none of the risks above appear to be major bearish game-changers.
- So, it's a question of "What" to be long, rather than "If" we be long (again beyond the short term).

# Value vs. Growth

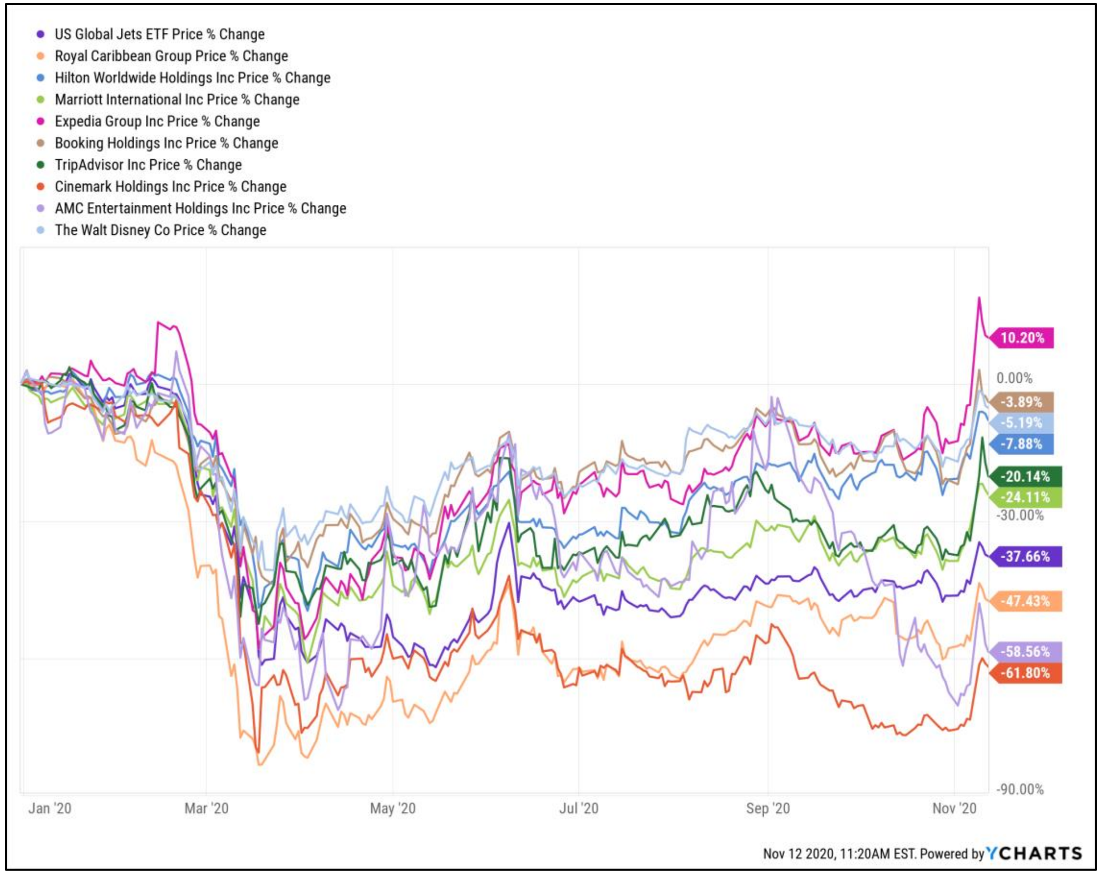
# Value vs. Growth

- Case for rotating to value:
  - Vaccine (or multiple vaccines) are a catalyst for economic return to normal.
  - Tech (broadly speaking) remains historically expensive on a valuation basis and has been essentially consolidating since September (loss of momentum).
  - The S&P 500 is vulnerable from a return standpoint if tech continues to underperform. Allocating to RSP reduces tech exposure in core broad market holdings.
  - But, piling into value and out of tech isn't right, either.
    - The coronavirus surge will help support "stay at home" names a while longer (perhaps into 2021).
    - Super cap tech names like AAPL/MSFT/GOOGL/AMZN/FB, etc. remain very solid companies over the longer term.
    - True weakness will likely appear in some of the "Stay at Home" darlings (Zoom, cloud computing names, etc).



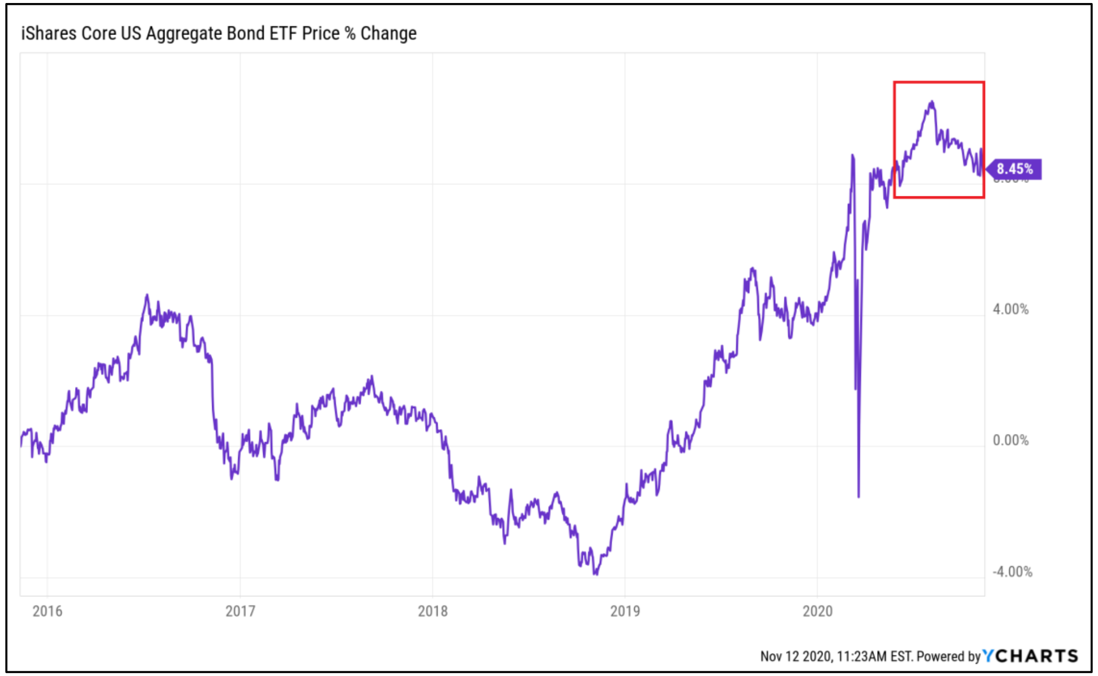
# Higher Risk/Higher Reward

- “Get Out and Spend” Basket
  - JETS
  - RCL
  - HLT/MAR
  - EXPE/BKNG/TRIP
  - CNK/AMC/IMAX
  - DIS/LYV/WWE



# Bonds and fixed income: Does the election and vaccine announcement finally mark the top in the Treasury market?

**If the current environment holds, then the case can be made that bonds have finally peaked, as inflation should rise.**




**From a credit standpoint, high yield should stand to benefit from the economic re-start, although the next month or so could be volatilite if there are new lockdowns.**

## Political Update

- Senate
  - Currently 50 Republicans and 48 Democrats (or Democrat affiliated).
  - Both Georgia Senate seats will go to a run-off on January 5th.
  - If Republicans win one election, outright majority.
  - If Democrats win both, 50/50 split with VP Harris the tie breaker.
  - But, the likelihood of any significant legislation passing would be slim (although tax increases, healthcare expansion, $15 minimum wage, etc. would be on the table).

- Presidency
  - Many major news networks have declared Biden President-Elect.
  - Trump has not conceded and is progressing with legislation challenging the result in Georgia, Pennsylvania, Michigan, Wisconsin and Arizona.
  - The likelihood the election is flipped is very low.
  - So far, the only state that will perform a recount is Georgia, although the Trump administration will likely request a recount in Wisconsin next week.
  - But, even if the recount shows Trump won Georgia and Wisconsin, he'd still need Pennsylvania to get 270 electoral college votes, and right now Pennsylvania is not planning a recount.

# Bottom Line

- For investors with a medium/longer term time horizon (so six months and beyond) this is potentially one of the best macro-economic set ups for stocks we've seen in a long time, as the stock market should enjoy positive tailwinds of: 0% rates/large global QE, forthcoming fiscal stimulus, rising asset inflation and the TINA reality (there is no alternative to stocks).
- However, we should expect volatility over the next few months on 1) COVID cases, 2) Potential political disappointment, and 3) Possible central bank disappointment.
    - But, those are likely entry points for longer term strategies
- From a what could go wrong standpoint, 1) Stimulus disappointment (fiscal or central bank), 2) Higher than expected inflation and 3) Rising yields/interest rates, especially in the longer term.
- For now, through, the medium/longer term benefit of the doubt remains with the bulls.