Sevens Report Alpha Webinar:

Don't Get Blindsided in 2021

Thursday, November 10th, 2020

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Current Bullish Thesis

Divided government +
Historic government stimulus +
Historically dovish Fed +
Economic recovery driven by vaccine +
Calm bond yields and inflation =

S&P 500 > 4000.

Politics (Historic Government Stimulus)

What's Assumed by Markets?

- Republicans win one of the two races, ensuring a small majority in the Senate.
- The House Of Representative Democrat majority will be seven seats, one of the smallest in history.
- The result is a divided government (which the market takes as a positive for the next two years).

Policy Implications

- No significant income tax increases (No headwind)
- No significant changes to healthcare
    - Positive XLV
- No national minimum wage increase
    - Positive Consumer discretionary (PEJ/XLY)
- Scaled down stimulus?
- Potential infrastructure compromise
    - FIVG/PAVE/XLI

Is That Assumption Correct?

Politics

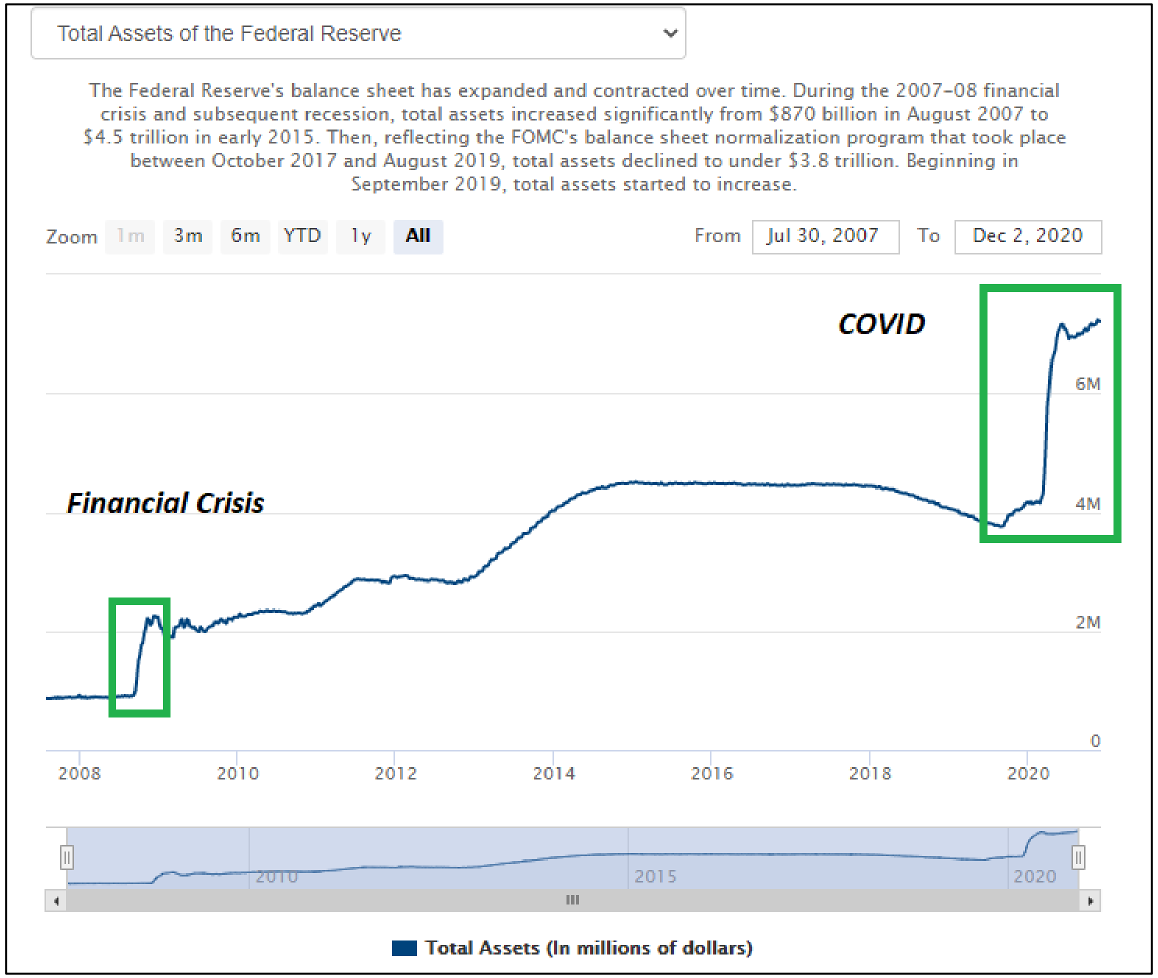
What Happens If the Assumptions Are Wrong?

- Democrats win both seats, securing a technical majority in the Senate (with Harris tie-breaker) and controlling Congress and the Presidency.
- The divided government thesis is replaced by a "mini Blue Wave" reality.
  - Mini Blue Wave because while it's a technical Democrat majority, a lot of the very progressive policies might not pass.

Market Implications

- Increased tax liability (income, corporate)
  - General headwind
- Larger stimulus
  - Upward pressure on yields. Value outperforms growth.
- Large infrastructure bill
  - PAVE/XLI
- Other tactical opportunities: ESG Stocks (ESGV), Marijuana (MJ), Emerging Markets/Weaker Dollar (EEM).

FOMC Meeting:
Bottom Line is This Trend Can't Slow (Never Mind Stop)



FOMC Meeting

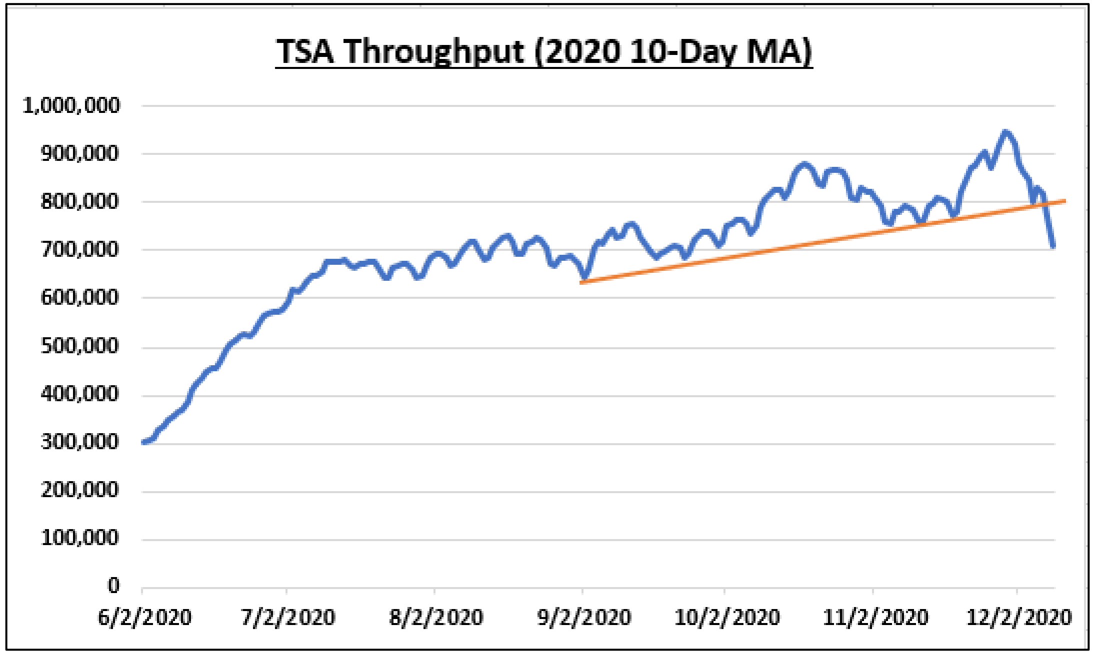
What's Expected

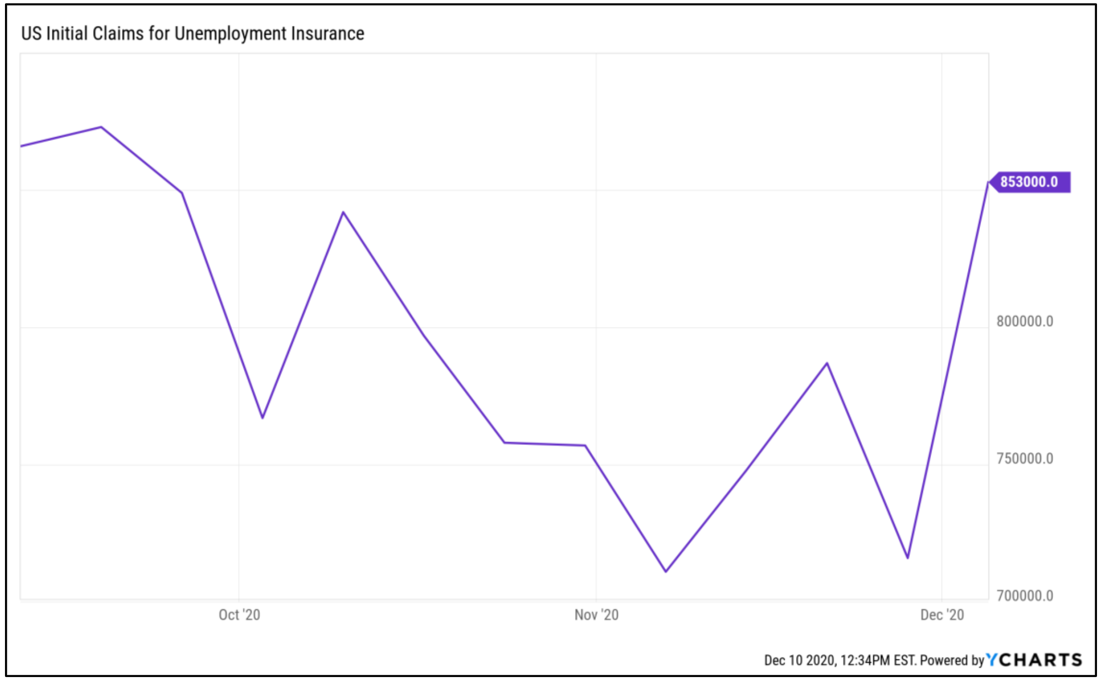
- Currently the FOMC has open-ended QE and is purchasing a minimum of $120 billion in Treasuries/MBS's per month.
- FOMC is expected to alter the composition of those purchases (but not the size) to the longer end of the yield curve.
- The Fed is not expected to increase QE or put a definitive end data on it.

Likely Market Reaction

- Hawkish If: The Fed makes no changes to the current QE program.
  - Likely Market Reaction: A broad pullback. The dollar would rally and yields would jump. Defensive sectors (especially tech) should outperform).
- Dovish If: The Fed increases QE.
  - Likely Market Reaction: Broad rally, led by value/cyclicals on even hotter economic growth.

Economic Recovery (On going?)

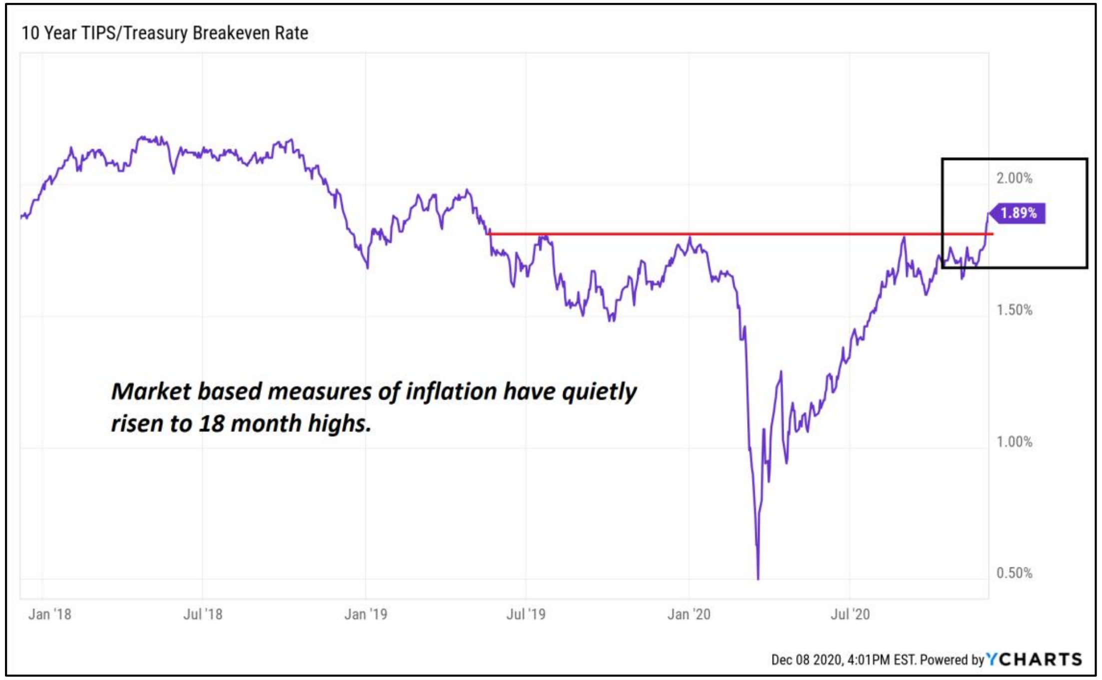




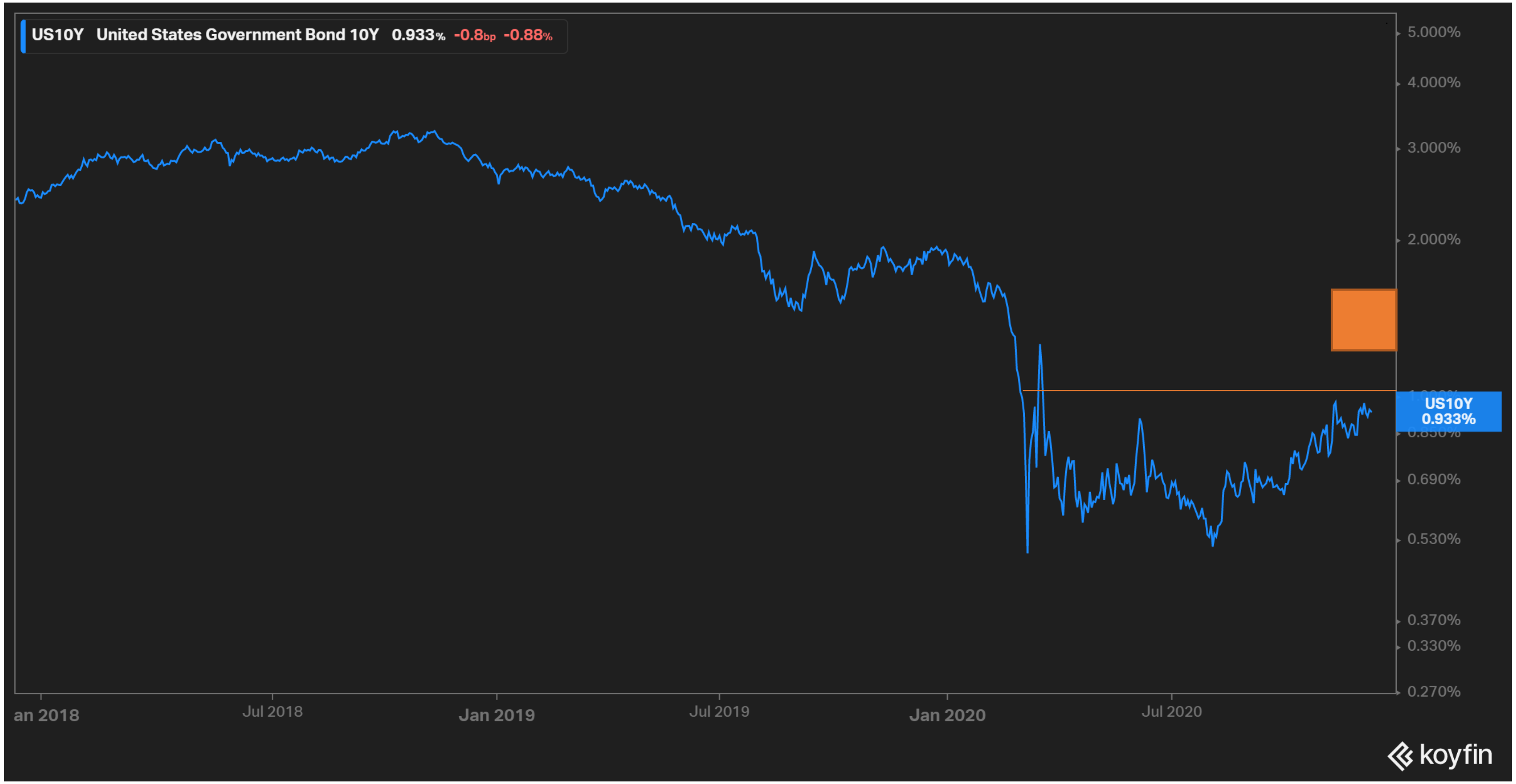
Bond Yields

10's – 2's Spread

Inflation Expectations



Bond Yields – How High Is Too Much?



Strategies & ETFs

"Positive" Scenario (Equation on Pg. 1 is Correct)

- Industrials & Infrastructure: VIS/PAVE (11/17/2020)
- Rotation to Value: RSP/VTV/RPV (11/3/2020)
- Post COVID Strategies: JETS/PEJ/KBE/REZ (8/25/2020)
- Falling Dollar: XSOE (8/11/2020). EMQQ (6/26/18)

More Cautious Scenario (Something goes wrong)

- No Federal Stimulus
  - Minimum Volatility ETFs: USMV/SPLV (5/21/19)
- Fed Not Dovish Enough
  - Floating Rate ETFs: FLOT/USFR/SRLN/EFR (8/6/18)
- Blue Wave
  - Post Election Tactical Strategies: LIT/ESGV/ICLN/MJ/VHT/XSOE (11/17/2020)
- Inflation/Yield Spike
  - Floating Rate ETFs: FLOT/USFR/SRLN/EFR (8/6/18)
  - Hedged Equity ETFs: DMRL/CCOR/JHEQX (4/9/19)