

Sevens Report Alpha Webinar:

Answering the #1 Question I've Received from Investors

Thursday, December 23rd, 2020

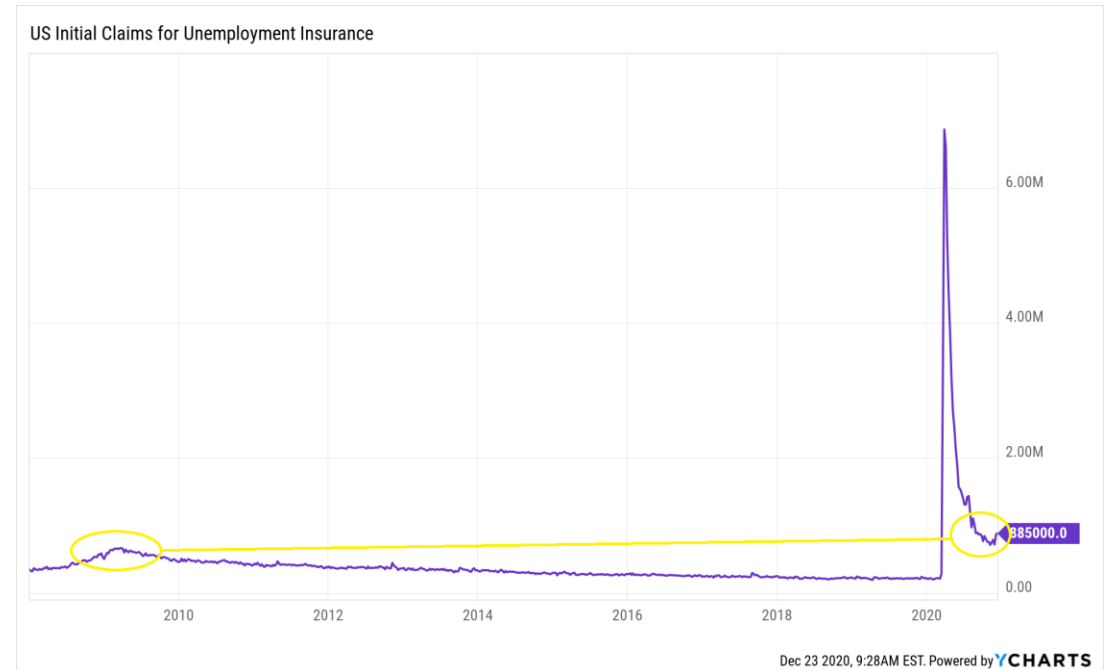
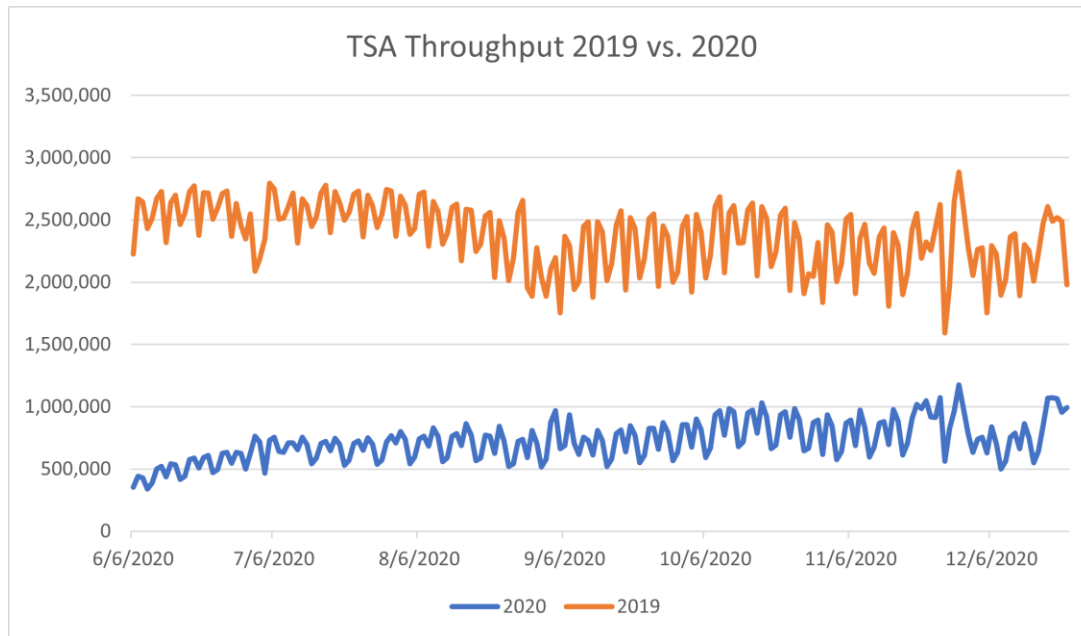
Tom Essaye, President Sevens Report Research

How is the market so good, but the economy so bad (and does it mean stocks are going to drop?)

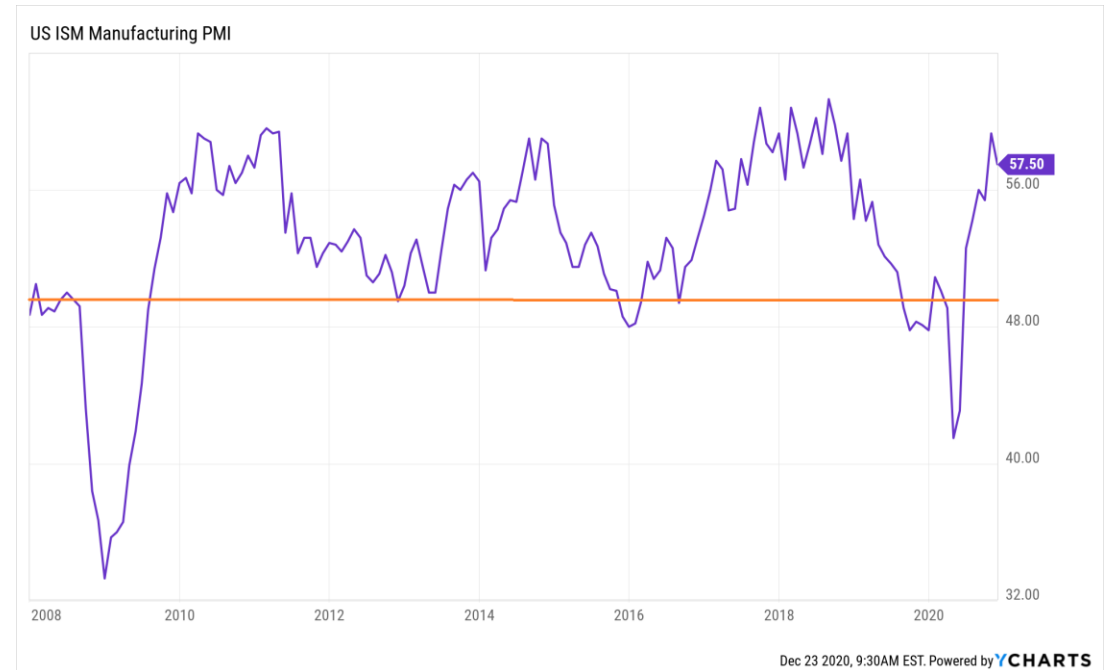
Before we answer that question, there's an important point that needs to be made about this economic crisis that differs from virtually all others including: Great Depression, S&L Crisis, Tech Bubble, Financial Crisis.

In this current economic crisis, there were no bad actors, and that means, with the right amount of help, the economy can return to normal years before we would normally expect it to do so.

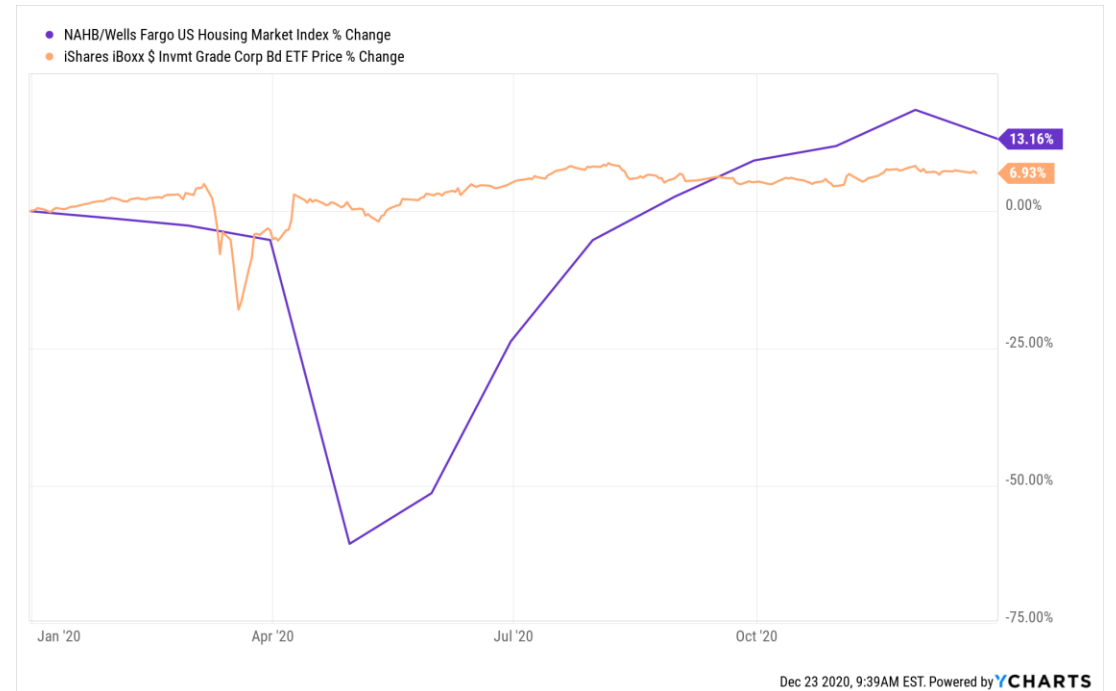
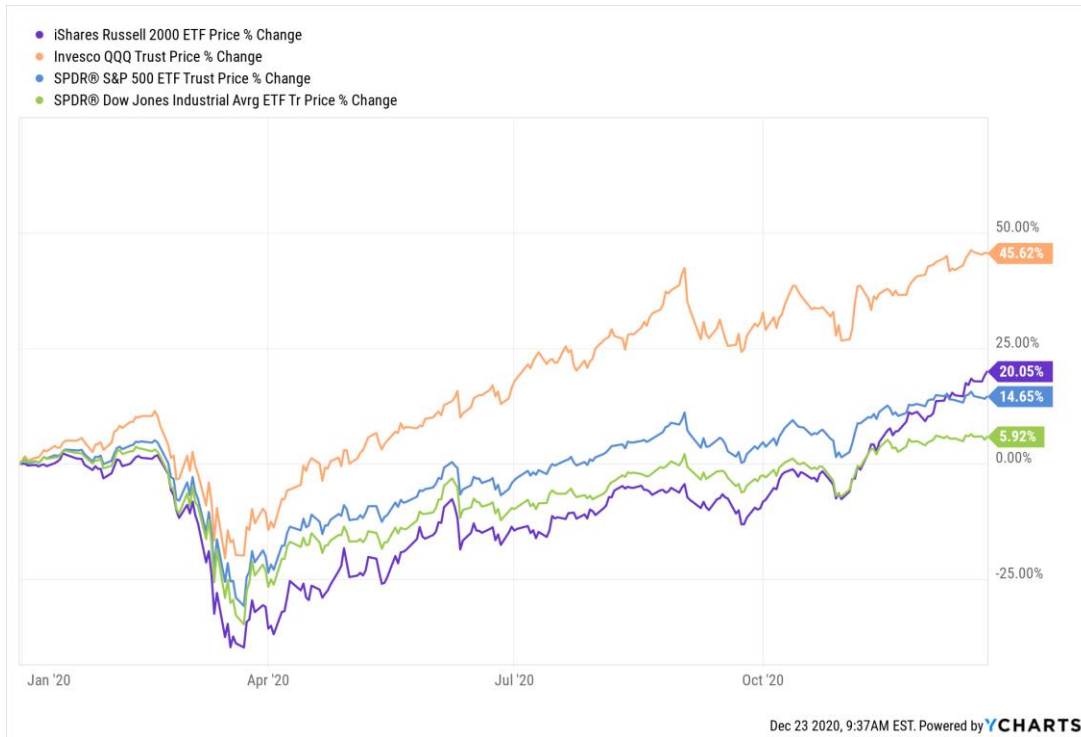
The state of the economy (why it is not good, but also not *that* bad)



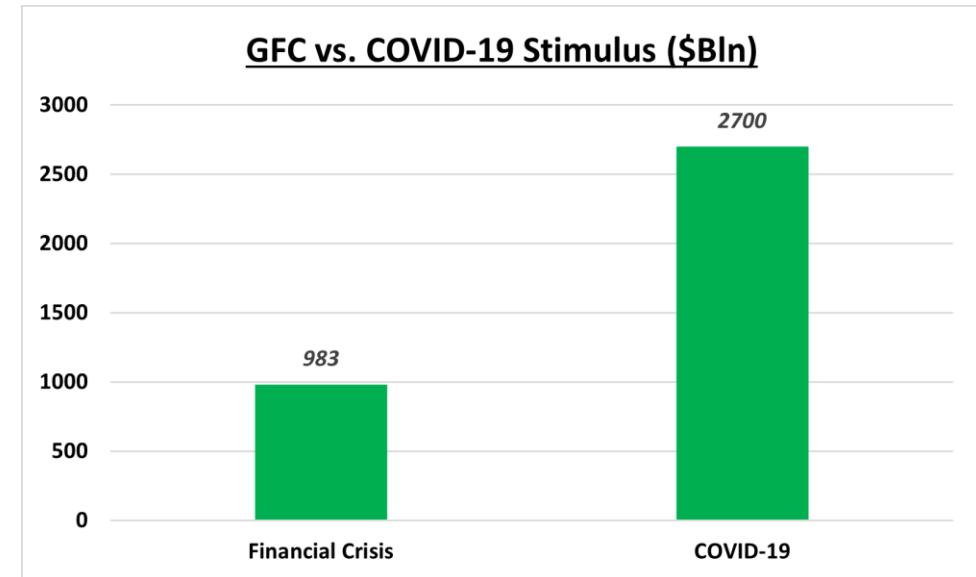
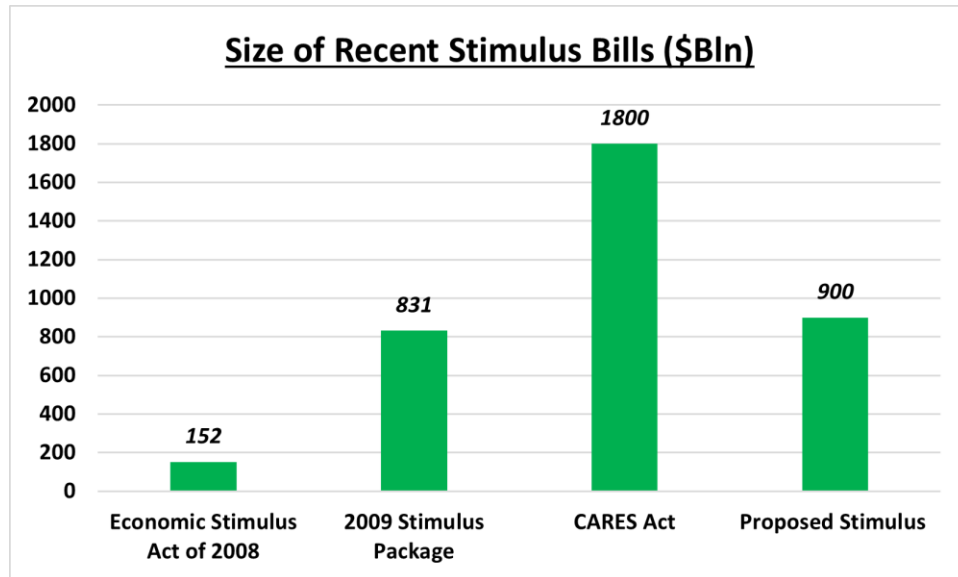
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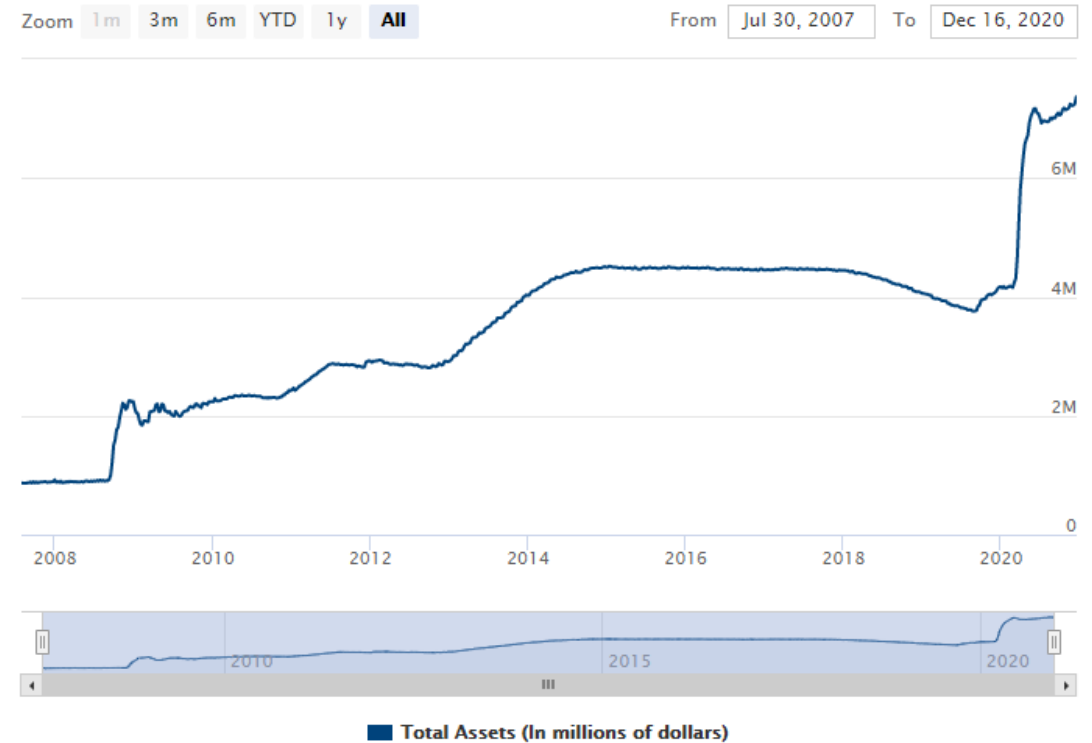
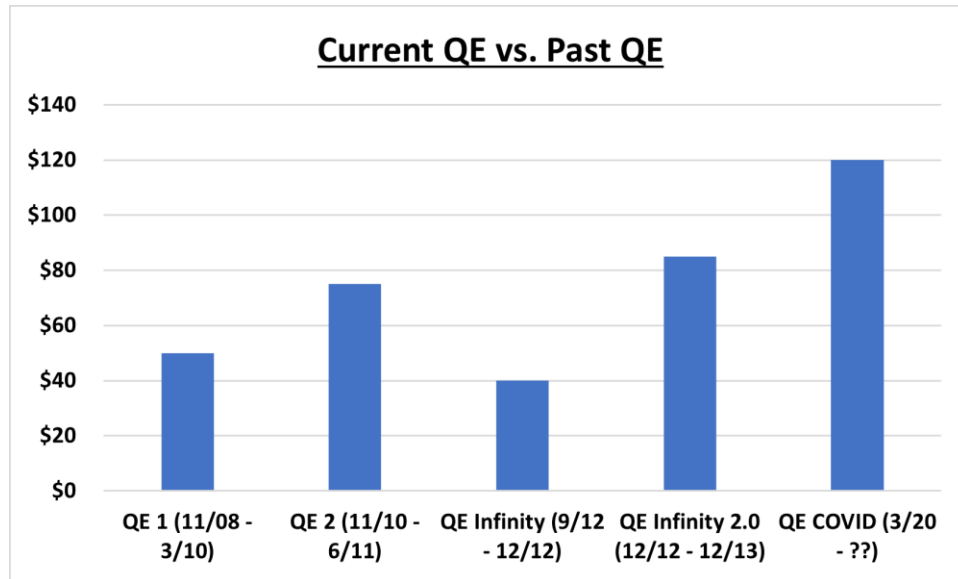
The state of the markets (why they are so strong)



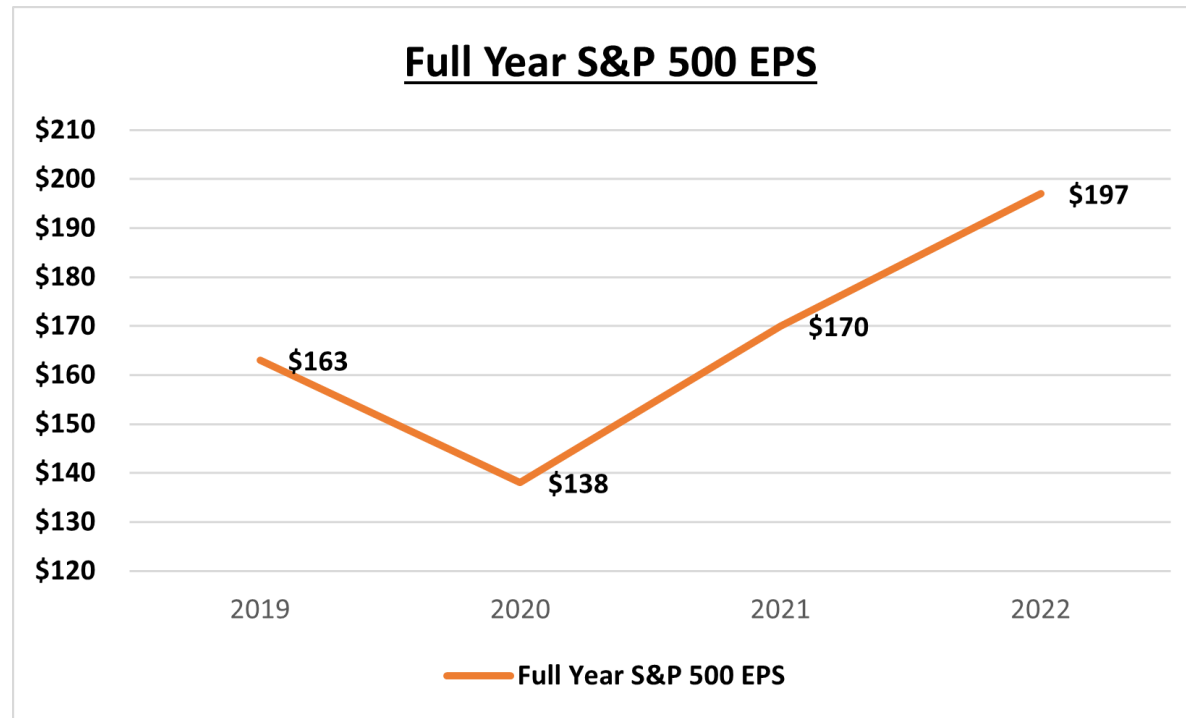
The state of the markets (why they are so strong). Reason 1: Federal Stimulus



The state of the markets (why they are so strong). Reason 2: Fed Stimulus



The state of the markets (why they are so strong). Reason 3: Earnings.



Why the market isn't the economy (we hear this on TV a lot, but I've never seen it explained in a way that regular investors can easily understand)

- The value of the S&P 500 is the expected future earnings of 500 large corporations. It is linked to the overall economic activity of the country, but not entirely driven by it, especially when considering stimulus.
- Corporations, especially large corporations, have adjusted incredibly well to the pandemic, as evidenced by the lack of material earnings declines beyond this current year.
- Outside of epi-center industries (travel, leisure) many companies are reporting record earnings as business remains robust, but the pandemic has resulted in forced cost cutting (business trips, office expansion, etc).

How the outlook for stocks is positive in 2021 (five pillars of the rally)

- Pillar 1: Massive Federal Government Stimulus (Complete)
 - Cares Act
 - Next stimulus bill
- Pillar 2: Massive Fed Accommodation and Support (Complete)
 - Massive QE Infinity
 - 0% rates for years into future (2025?)
- Pillar 3: Vaccine Rollout
 - PFE/MRNA vaccines being distributed
 - JNJ in early 2021?
- Pillar 4: Divided U.S. Government (No major policy changes)
 - This depends on Georgia run-off (January 5th)
- Pillar 5: No Double Dip Recession in early 2021
 - Economy needs to hang on through this COVID spike to make the economic hole not too deep in 2021.
 - This also relates to earnings as a recession will hurt earnings expectations.