Sevens Report Alpha Webinar:

Five Markets Risks to Watch in Q2

Thursday, April 1st, 2021

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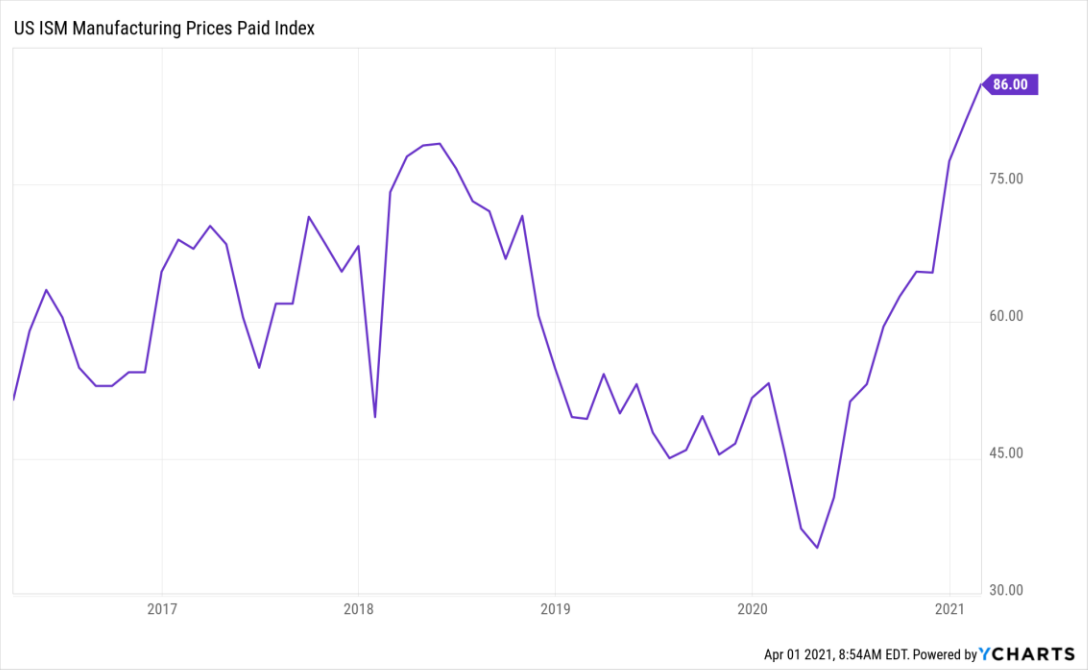
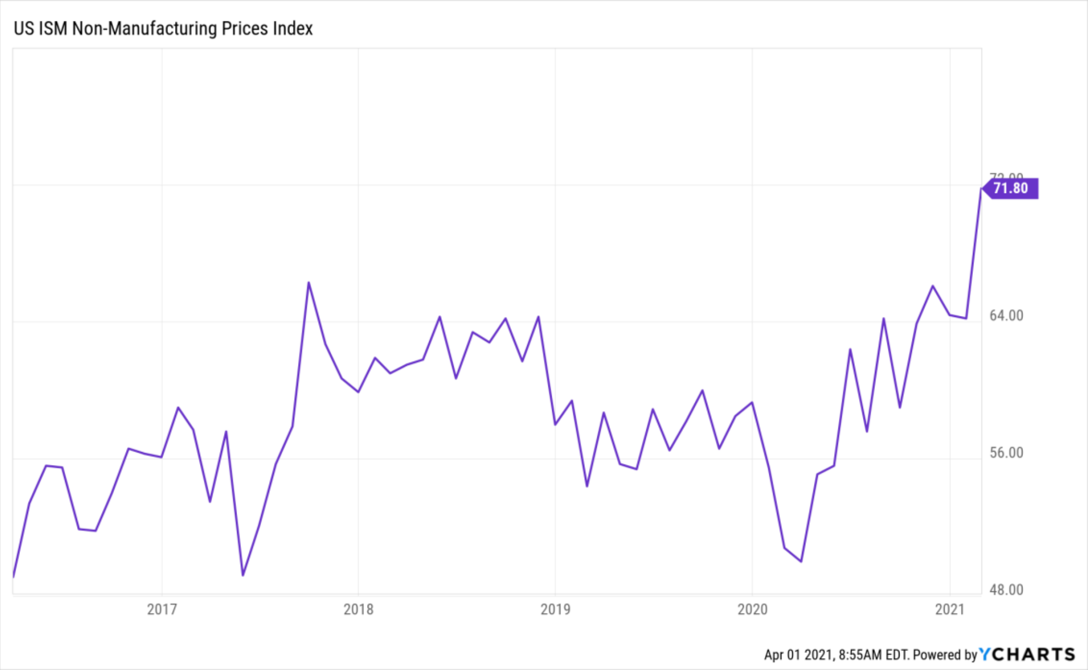
Earnings disappointment due to supply chain disruptions or higher input costs

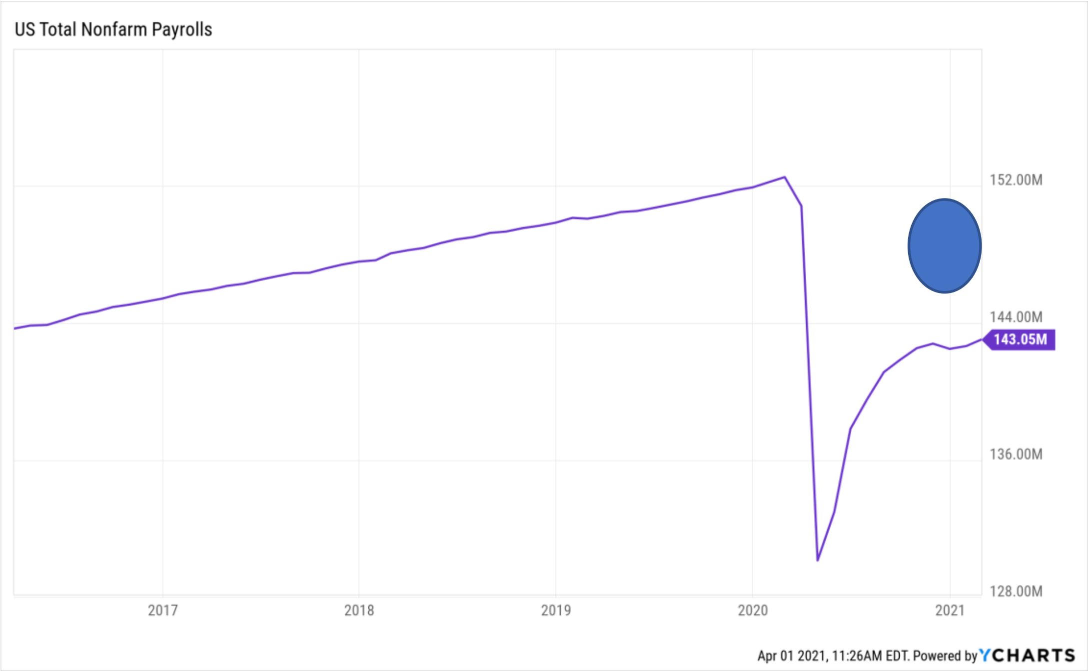


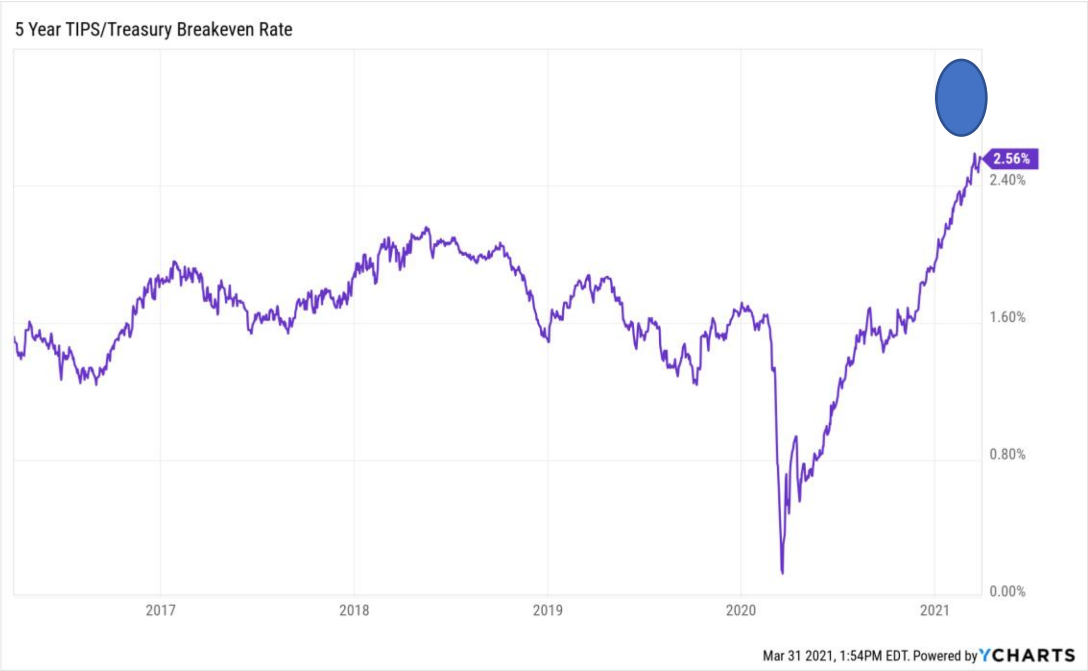


Earnings disappointment due to supply chain disruptions or higher input costs

- Numerous industries have warned on negative impacts due to supply chain issues.
  - Autos have curtailed production due to semiconductor shortage.
  - Consumer discretionary: NKE cited port congestion.
  - Transportation (Texas winter storm)
  - Tech (Samsung)
  - Plastics
- Positively, most of these issues are thought to be temporary, as supply chain issues should ease as the pandemic recedes.
- But, that begs the question: When does the global pandemic end?
- More to the point, if this impacts 2021 earnings, fine. But it impacts 2022 earnings, that’s a problem for the markets.

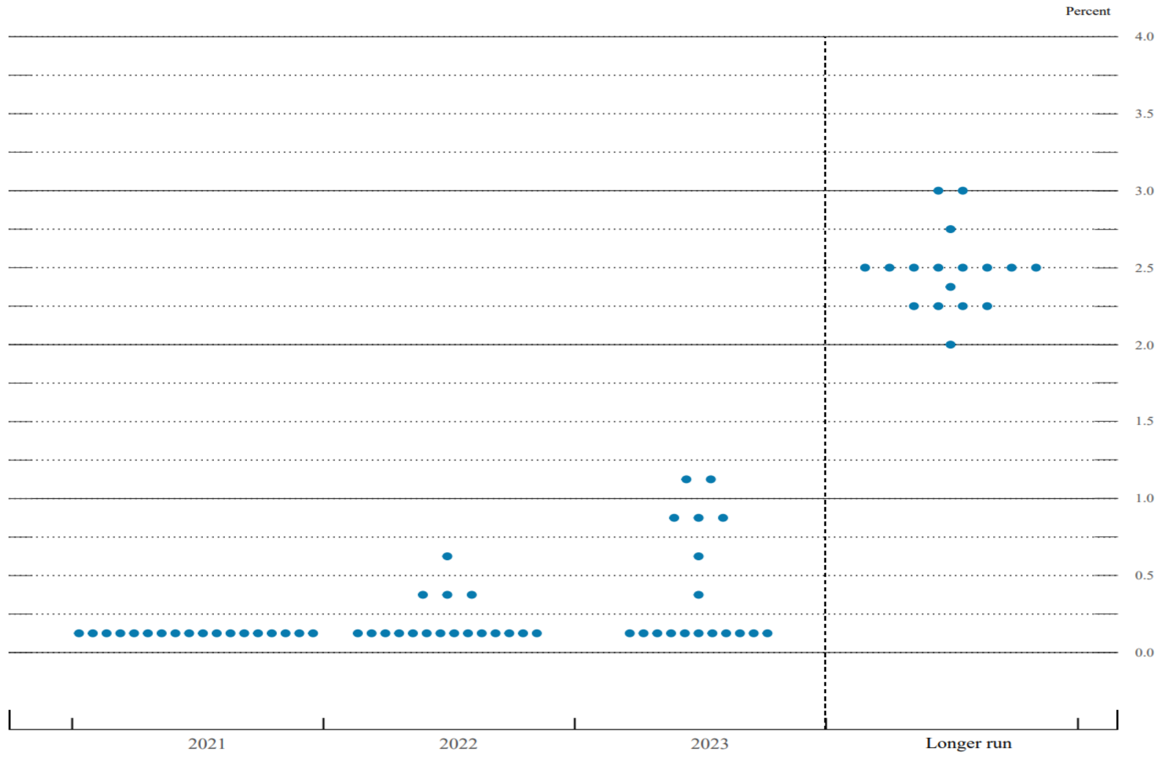
The Fed hinting it will taper QE in late 2021





The Fed hinting it will taper QE in late 2021

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The Fed hinting it will taper QE in late 2021

- **Last Tapering and Rate Hike Timeline**
- **December 2013 Fed Begins to Taper QE**
- **October 2014 Fed Ends QE**
- **December 2015 Fed Hikes Rates**

- **If Fed Hikes Rates in December 2023….that means…..**
- **Tapering Announced December 2021….**
- **QE Ending in Q4 2022.**

Tax Hikes

- Three Trillion in Tax Hikes Sought for “Build Back Better.”
- Plan Divided into Two Parts
  - Physical Infrastructure (Just Announced)
  - “Social” Infrastructure
    - Free community college, social equality initiatives, etc.
  - Physical Infrastructure Will Be First/Easiest To Pass

- Proposed Tax Hikes from Wednesday’s Announcement:
  - Corporate Tax Increase to 28% from 21%.
  - Minimum 21% Tax on All Foreign Subsidiaries
  - Minimum 15% Tax on Stated Earnings
  - Increased Personal Taxes for Highest Earners (Details Not Provided)
    - Previously discussed:
      - Capital Gains at Ordinary Income > 1 MM
      - Step Up in Basis > 1 MM
      - Highest Bracket to 39.6% from 37%.

Tax Hikes

- What Impact Could This Have on the Markets?
  - They essentially lower the possible ceiling of the market, and depending on the macro environment, create substantial downside.

Scenarios for the S&P 500 Based on Lower EPS

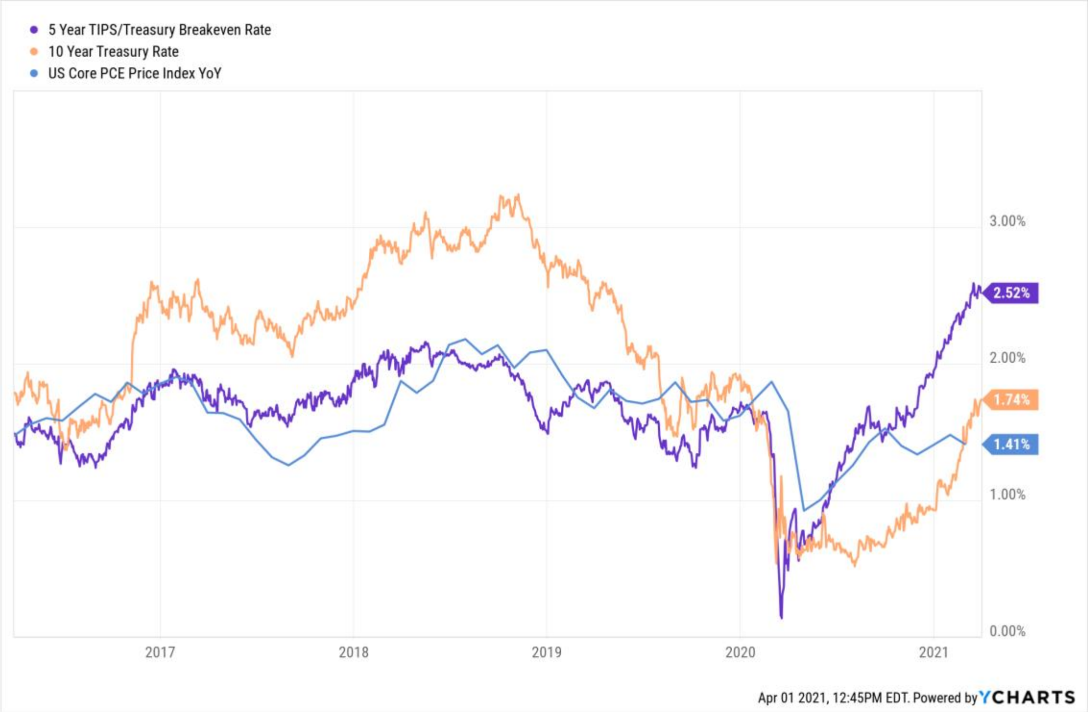
	20X	19X	18X
$205	4,100	3,895	3,690
$195	3,900	3,705	3,510
$185	3,700	3,515	3,330

Tax Hikes

- Amounts to Be Raise of Total $3 Trillion:
  - Corporate Tax Increase: $730B
  - Foreign Subsidiary Tax Increase: $550B
  - Capital Gains Increase: $370B
  - Highest Bracket Increase: $110B
  - = 1.7 Trillion near term.

- What's Likely?
  - Watch Joe Manchin
    - He's said he's for tax increases but likely not to the levels in the current plan.
    - He's called for an increase in corporate taxes to 25% (likely).
    - He's also in favor of higher taxes on the wealthy.
      - The definition of "wealthy" is the key. Biden's 400k "wealthy" is likely to move higher from a tax hike standpoint, but we should expect higher rates on the wealthy this year.

Higher Bond Yields



- What Level Will the 10 Year Yield Cause a Sell Off
  - The 10 year yield is up 80 basis points YTD and the S&P 500 is at all time highs.
  - The key has been the rotation from cyclicals from tech – that can continue.
  - Somewhere between inflation expectations (2.5%) and core PCE (1.4%) we think 10 year yield becomes a headwind. The middle is 1.95% - so that level is notable.

Disappointing economic rebound