

Sevens Report Alpha Webinar: **Updated Fed Outlook**

Thursday, April 15th, 2021

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- What's Expected from the Fed by the Markets?
- According to Fed Fund Futures, the market is not expecting a rate increase until December of 2022 or January of 2023, more than 1.5 years away.


































30 DAY FEDERAL FUNDS FUTURES - QUOTES

Globex

GLOBEX FUTURES GLOBEX OPTIONS OPEN OUTCRY OPTIONS

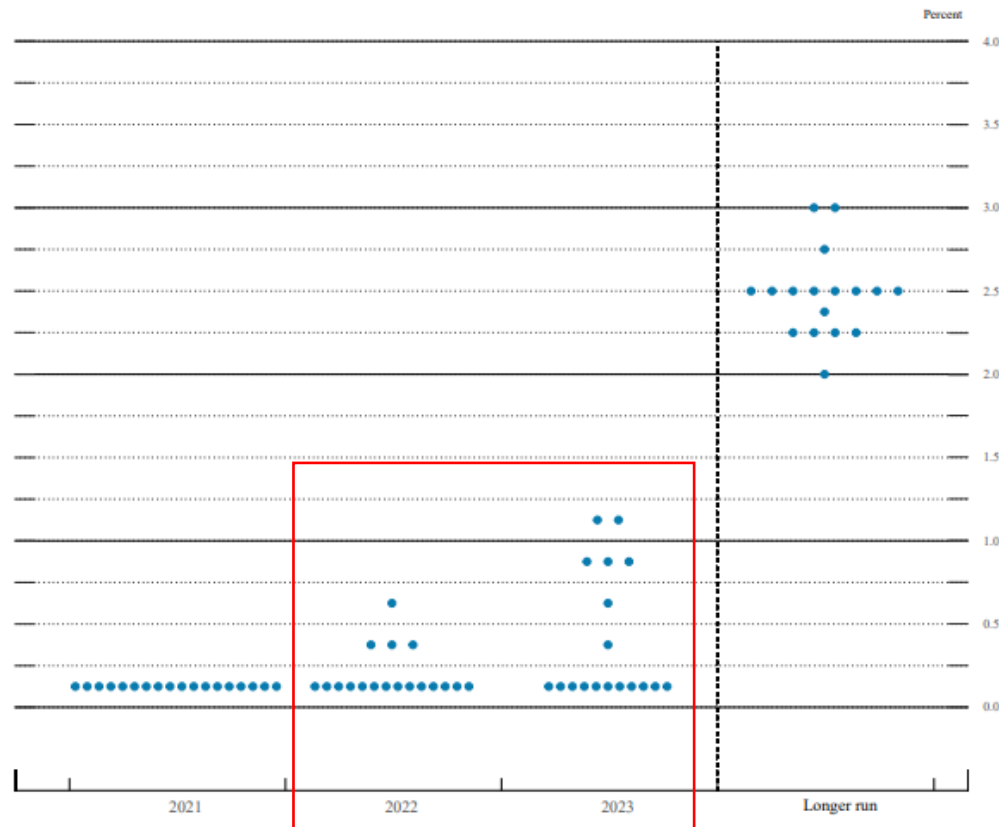
AUTO REFRESH IS **ON**

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MONTH	OPTIONS	CHARTS	LAST	CHANGE	PREV SETTLE	OPEN	HIGH	LOW	VOLUME	UPDATED
APR 2021			99.93	UNCH	99.93	99.93	99.93	99.93	17,093	08:24:32 CT 15 Apr 2021
MAY 2021			99.915	-0.01	99.925	99.925	99.925	99.915	24,253	08:21:09 CT 15 Apr 2021
JUN 2021			99.915	-0.005	99.92	99.92	99.92	99.915	17,480	08:19:44 CT 15 Apr 2021
JUL 2021			99.91	-0.005	99.915	99.915	99.915	99.91	7,175	08:21:09 CT 15 Apr 2021
AUG 2021			99.91	-0.005	99.915	99.915	99.915	99.91	7,754	08:21:33 CT 15 Apr 2021
SEP 2021			99.91	-0.005	99.915	99.915	99.915	99.91	3,452	08:22:48 CT 15 Apr 2021
OCT 2021			99.915	UNCH	99.915	99.92	99.92	99.915	2,359	08:19:44 CT 15 Apr 2021
NOV 2021			99.915	UNCH	99.915	99.92	99.92	99.915	9,474	08:19:44 CT 15 Apr 2021
DEC 2021			99.915	UNCH	99.915	99.915	99.92	99.915	3,537	08:19:44 CT 15 Apr 2021
JAN 2022			99.915	UNCH	99.915	99.915	99.915	99.915	6,114	08:19:44 CT 15 Apr 2021
FEB 2022			99.91	UNCH	99.91	99.915	99.915	99.91	715	08:23:13 CT 15 Apr 2021
MAR 2022			99.905	UNCH	99.905	99.905	99.905	99.905	886	08:19:44 CT 15 Apr 2021
APR 2022			99.90	UNCH	99.90	99.90	99.90	99.90	3,617	08:24:55 CT 15 Apr 2021
MAY 2022			99.89	UNCH	99.89	99.895	99.895	99.89	572	08:22:55 CT 15 Apr 2021
JUN 2022			99.88	+0.005	99.875	99.88	99.88	99.875	797	08:19:44 CT 15 Apr 2021
JUL 2022			99.87	+0.005	99.865	99.87	99.87	99.865	2,696	08:19:44 CT 15 Apr 2021
AUG 2022			99.855	+0.005	99.85	99.85	99.855	99.85	1,197	08:19:44 CT 15 Apr 2021
SEP 2022			99.845	+0.01	99.835	99.835	99.845	99.835	50	08:19:44 CT 15 Apr 2021
OCT 2022			99.825	+0.01	99.815	99.815	99.83	99.815	1,276	08:19:44 CT 15 Apr 2021
NOV 2022			99.805	+0.02	99.785	99.79	99.805	99.79	218	08:19:44 CT 15 Apr 2021
DEC 2022			99.77	+0.015	99.755	99.765	99.77	99.765	17	08:19:44 CT 15 Apr 2021
JAN 2023			99.745	+0.01	99.735	99.75	99.75	99.745	7	08:19:44 CT 15 Apr 2021

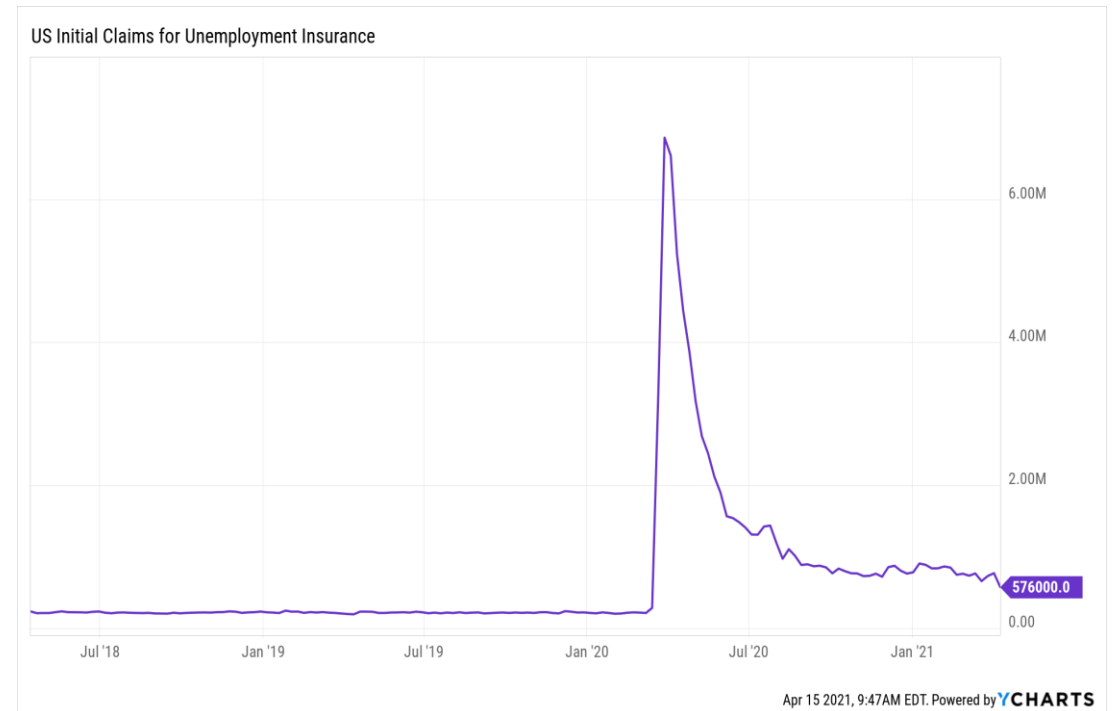
- What's Expected from the Fed by the Fed?
- Most Fed officials don't see any interest rate increases until 2024!
- Point being, there's a gap between what the market expects (late 2022/early 2023) and what the Fed is signaling (2024).

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



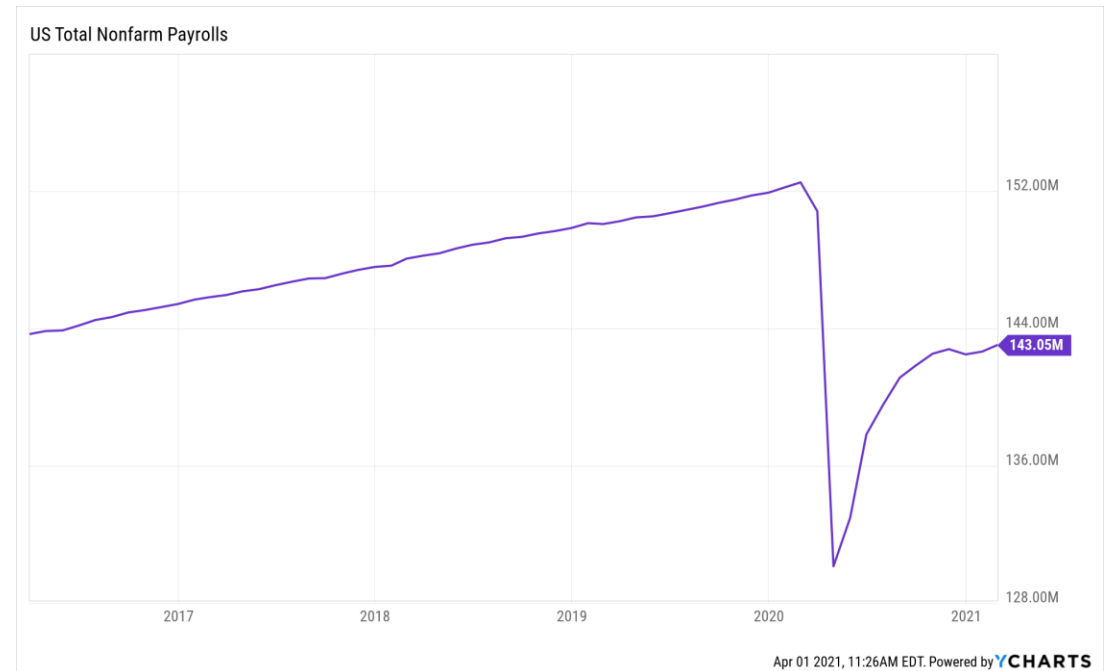
What Could Pull Forward Tapering of QE or Interest Rate Increases? (Which is the Real Risk to Markets)

- Labor Market Improvement
 - Weekly claims fell to 576k.
 - The Fed last began to taper QE in December of 2013. Jobless claims back then were approximately between 300k-350k.
 - If this economy is as primed as the data implies, we could hit that mark in the next two months.
 - Keep in mind, that's when the Fed started tapering. They announced tapering several months before, when claims were more towards 350k.



What Could Pull Forward Tapering of QE or Interest Rate Increases? (Which is the Real Risk to Markets)

- Labor Market Improvement
 - The U.S. economy remains about 8 million jobs lower than pre-pandemic.
 - But, adding half that amount gets us well into recent history – back to 2018 when the Fed was raising interest rates (never mind doing QE).
 - So, if we see several more months of 1 MM job adds, then tapering discussions should start sooner than later.



What Could Pull Forward Tapering of QE or Interest Rate Increases? (Which is the Real Risk to Markets)

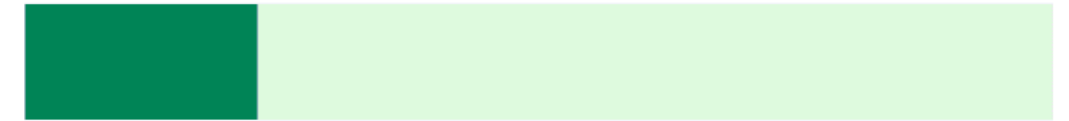
- COVID Improvement
 - Bullard sighted 75% vaccination rates as a time to being tapering discussions.
 - As we showed earlier this week, that should occur by the early summer unless there is 1) A vaccine error (beyond the JNJ episode), 2) A collapse in demand or 3) A resilient variant.
 - Additionally, from a practical standpoint, vaccination has already reached levels to facilitate an economic recovery because more than 80% of people 65 and over in the U.S. have been at least partially vaccinated.

U.S. vaccination progress

122.3 million people, or 36.8% of the population, have received at least one dose



75.3 million people, or 22.7% of the population, are fully vaccinated



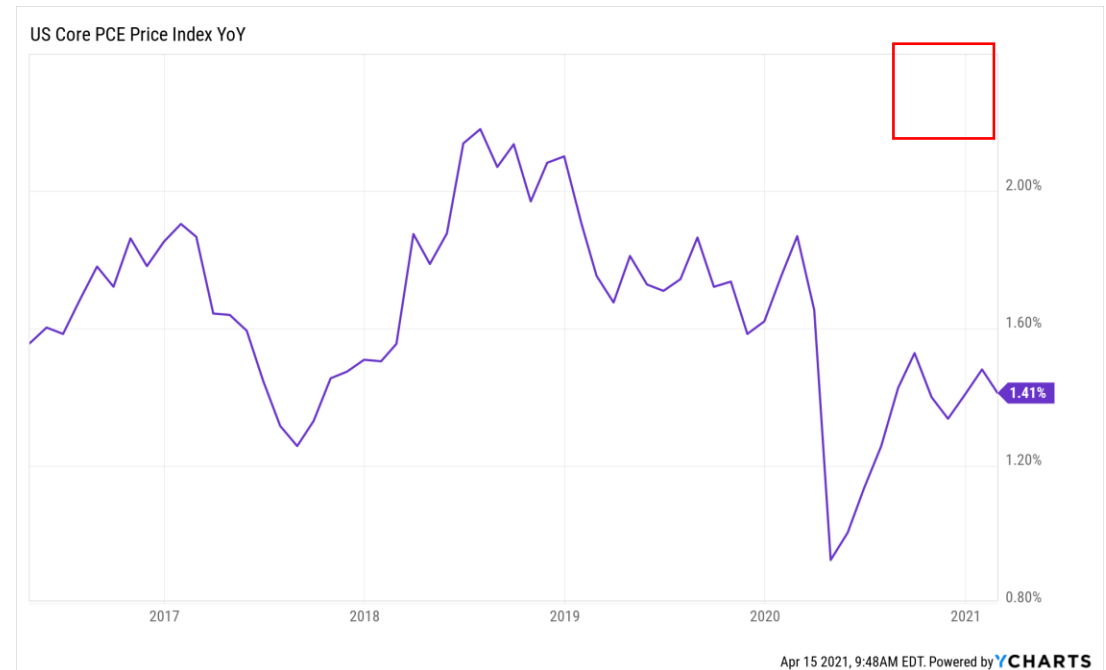
SOURCE: Centers for Disease Control and Prevention (CDC). Data as of 4/13/21. Figures include U.S. territories. The CDC includes recipients of the one-shot Johnson & Johnson vaccine in both of the above categories.



Of those aged 65 and older, nearly 80% have received at least one dose and 62.5% are fully vaccinated.

What Could Pull Forward Tapering of QE or Interest Rate Increases? (Which is the Real Risk to Markets)

- Inflation
 - Never in our careers have we seen the Fed this unconcerned about inflation.
 - Prior to the pandemic, the Fed altered its outlook on inflation to view “average” inflation, which effectively means the Fed will let inflation run longer.
 - And, given that, the Fed is going to ignore any “temporary” uptick in inflation (that’s starting to occur right now).
 - The two keys to the entire inflation debate are:
 - Temporary (if it’s not the Fed is way off-sides).
 - Core PCE Price Index (This is by far the Fed’s preferred measure of inflation and it will have to rise consistently above 2% before the Fed thinks about hiking rates).



What's It All Mean?

- Clearly the risk is that the Fed must taper QE and raise rates sooner than expected. That's not priced into stocks or earnings.
- I think inflation, while the biggest long-term risk, is the least likely reason the Fed becomes less dovish, because they will attribute any increase in statistical inflation as transitory and caused by an economic reopening and supply chain issues.
- What is not transitory, however, is asset inflation. It is surging, much more so than after the financial crisis. And, it's benefitting those that own "stuff" (stocks, real estate, cars, trucks, RV, land, boats, planes, etc.) and that's likely to continue for a long time, even if Core PCE is underwhelming.

What's It All Mean for Markets?

What Happens If Fed Stays Dovish?

- Asset inflation accelerates.
- Tactic: Embrace Cyclical and Risk.
 - Positive for stocks, real estate, commodities, hard assets, crypto currencies.
 - Bitcoin (GBTC/BLOK/ARKW). 12.1.2020.
 - Rotation to Value (RSP/VTV/RPV). 11/3/2020.
 - Hard Assets (PDBC/GNR/RLY.) 9/18/18.
 - Future Inflation Playbook (2/23/21).

What If the Fed Gets Less Dovish

- Statistical inflation accelerates.
- Tactic. Get Defensive Quickly.
 - Stagflation positioning.
 - Hedged Equity ETFs (DMRL/CCOR/JHEQX). 3/10/2020.
 - Floating Rate Funds (FLOT/USFR/SRLN/EFR). 8/6/2018.
 - Defensive Posture: Super Cap Tech (XLK), Utilities (VPU) 2.12.19.
Consumer Staples (RHS) 5.5.20.