Sevens Report Alpha Webinar:

Valuation Update

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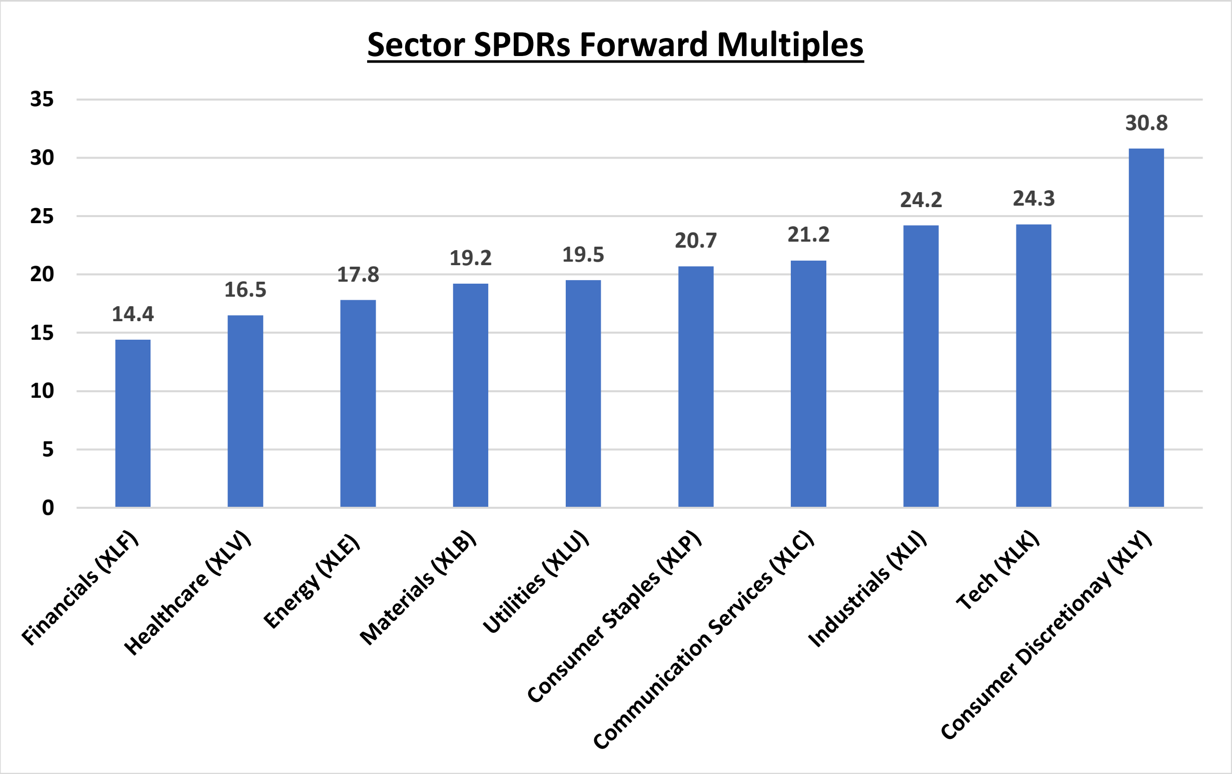
Current S&P 500 Valuation

- Current 2022 S&P 500 Earnings Expectation: $210.
- Current Market Multiple:
- 4210/210 = 20.04X. Historical ceiling.
- But, there's upward pressure on earnings ($225?) *and* yields remain low (21X – 22X multiple?).
- Conclusion: Market isn't cheap, but it's not prohibitively expensive, either and 4500ish in the S&P 500 isn't a crazy thought.

Forward earnings multiples of all 10 S&P 500 sector SPDRs



- Observations:
  - Nothing seems extremely expensive except utilities (19X?).
  - Financials (XLF) being the cheapest sector reinforces our bullish opinion given our belief in rising rates and strong consumer balance sheets.
  - “Value” continues to offer more value than “Growth.”
    - But, that said, industrials have crept higher in valuation, especially with uncertainty around infrastructure.

Value vs. Growth

- Value outperformance hasn’t materially changed the fact that “value” is cheaper than “growth.”
- Forward earnings for “Value” = 17X.
- Forward earnings for growth = 26X.
- Neither crazy expensive.

Conclusions

- The outperformance of cyclical sectors and value styles over the past six to nine months has not yet led to valuations that would make us cautious on the space.
- Generally, “tech” doesn’t seem *that* expensive to us, especially when we focus on “high quality” tech like the FAANGM’s. XLK & FDN offer nice mix of exposure.
- Extreme valuations appear to be centered on the very high growth momentum tech names like TSLA, online payment companies, next gen social media, ARK type stocks. Outside of those pockets of extreme valuations, the market is not yet expensive enough to make us nervous (although it’s clearly not cheap either).

Conclusions

- For this market to become “cheap” or “expensive” we’d need to see:
  - 2022 expected S&P 500 EPS change to (positively) > $220 or (negatively) < $200.
  - The 10-year yield decline towards 1.25% (would result in multiple expansion to 21X-22X) or rise towards 2.00% (could pressure multiple towards 19X).