

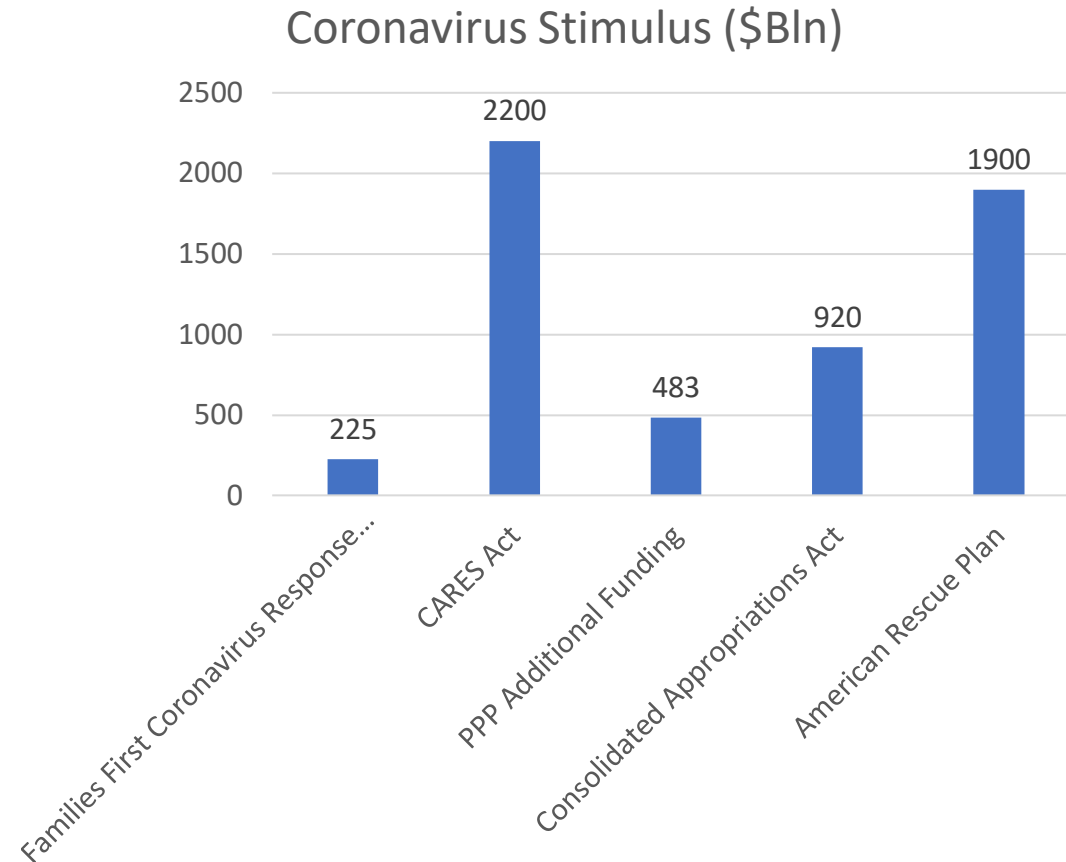
Sevens Report Alpha Webinar:

Current Status of the Four Pillars of the Rally

Thursday, June 10th, 2021

Tom Essaye, President Sevens Report Research

Pillar 1: Historic Federal Support.



• What's Next?

- Infrastructure.
 - If it happens, expect \$700ish – \$1.2 trillion-ish but over 5-10 years.
- Unemployment Benefits
 - Pandemic Unemployment Assistance (\$300/week) is supposed to last until September 6th.
 - But, by July 10th (so a month from today) 25 states will no longer provide the extra incentive.
 - There appears to be zero appetite for additional stimulus in Congress given progress vs. the virus.
- Pillar Status: Cracking (and likely crumbled by September).
 - What could destroy it: Premature removal of unemployment benefits and no infrastructure deal.

Pillar 2: Historic Federal Reserve Stimulus

Recent balance sheet trends

Choose one of the 5 charts.

Total Assets of the Federal Reserve

The Federal Reserve's balance sheet has expanded and contracted over time. During the 2007-08 financial crisis and subsequent recession, total assets increased significantly from \$870 billion in August 2007 to \$4.5 trillion in early 2015. Then, reflecting the FOMC's balance sheet normalization program that took place between October 2017 and August 2019, total assets declined to under \$3.8 trillion. Beginning in September 2019, total assets started to increase.

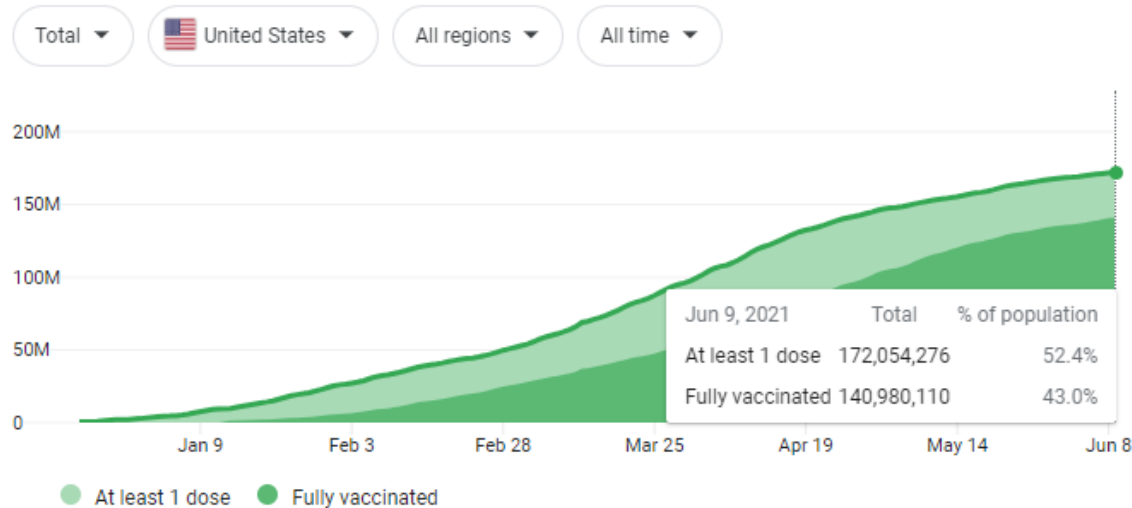


- Tapering Expectations:
 - Next week: Acknowledgement that it needs to happen.
 - August or September: Announcement of tapering schedule (monthly reductions).
 - November '21-January '22. Tapering begins.
- When Will Balance Sheet Stop Expanding?
 - During the 2014 tapering, the Fed tapered QE by \$10 bln/month.
 - Currently Fed buying \$120 bln/month of Treasuries and MBS.
 - Assuming the same schedule, the Fed's balance sheet will keep rising until late 2022.
- Pillar Status: Intact.
 - What could destroy it: The Fed tapering QE faster than expected and removing accommodation before late 2022.

Pillar 3: Vaccine Optimism

Vaccinations

From [Our World in Data](#) · Last updated: 2 days ago



This data shows how many people have received at least 1 dose of a vaccine. People who are fully vaccinated may have received more than 1 dose. · [About this data](#)

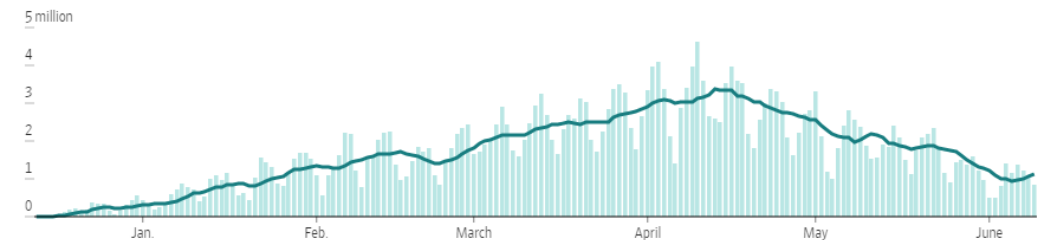
THE WALL STREET JOURNAL.

U.S.

Tracking Covid-19 Vaccine Distribution

How many doses of the vaccine have been delivered and administered

An average of **1.1M doses a day** administered over the past week



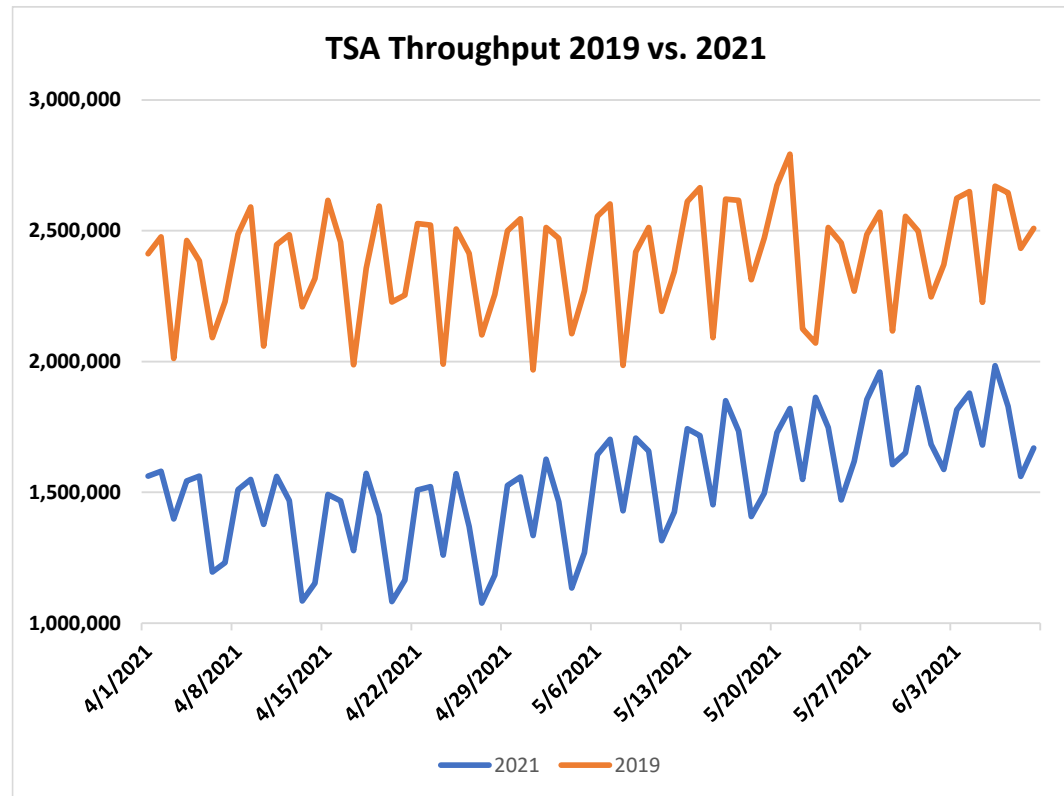
Note: Last updated June 10, at 11:00 a.m.

Source: Centers for Disease Control and Prevention

By WSJ Graphics

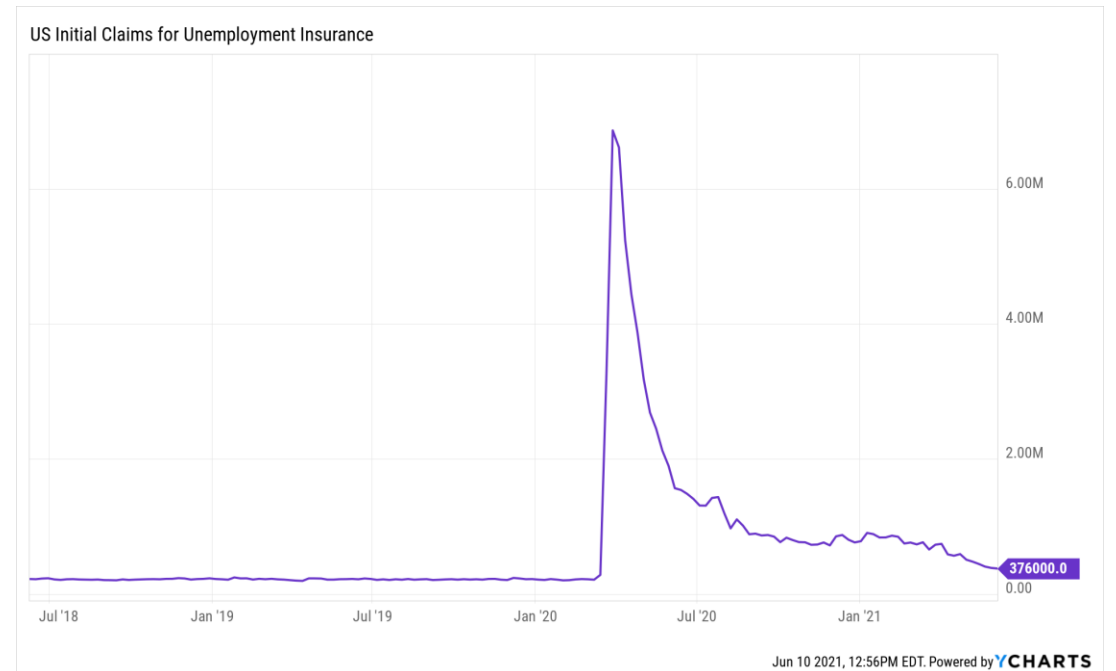
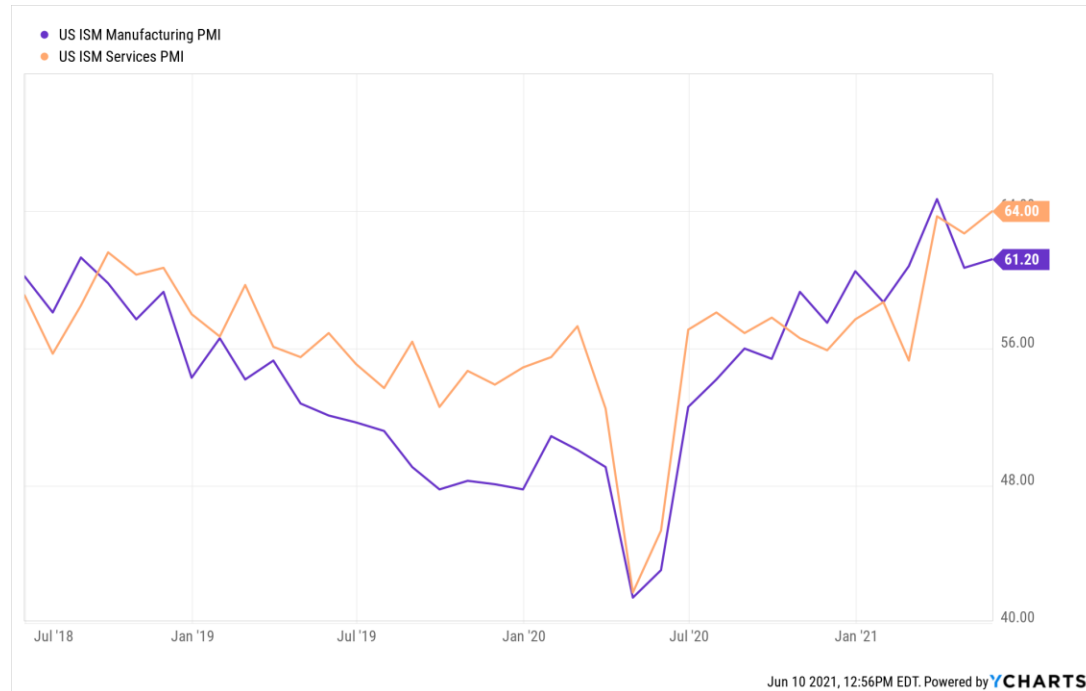
Updated June 1, 2021 9:31 am ET

Pillar 3: Vaccine Optimism

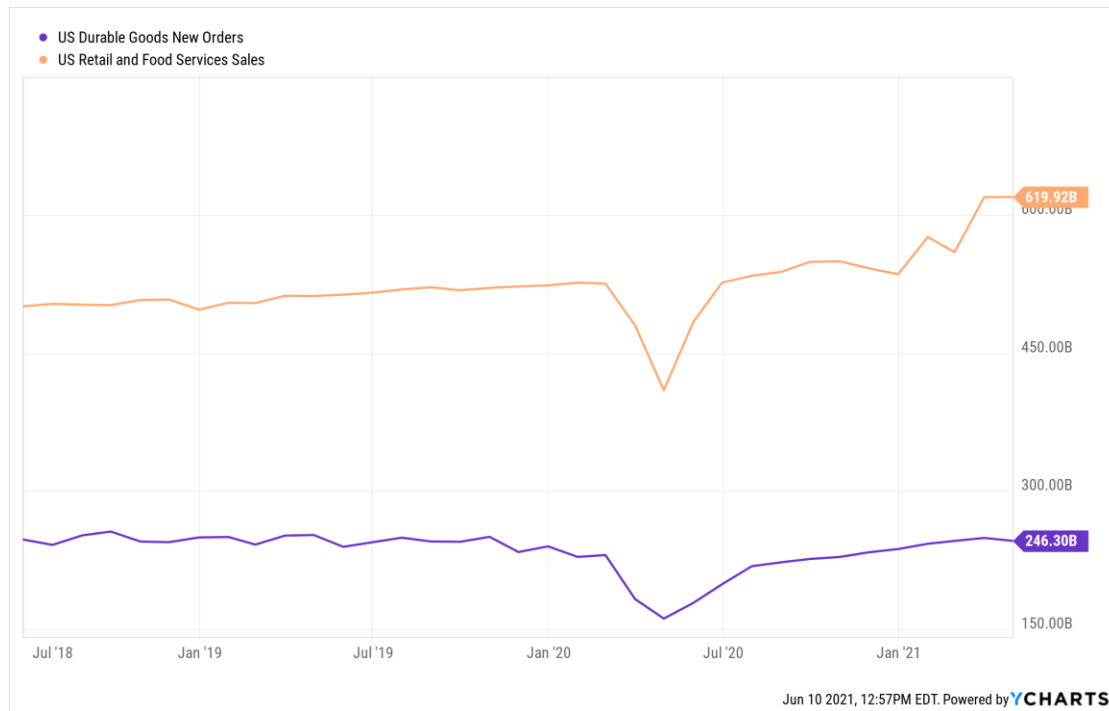


- Vaccinations have facilitated the broad reopening of the U.S. economy.
- At this point, the U.S. is not far from a “pre-COVID” level of activity and that should be achieved in the next few months.
- Globally, however, there remains a lot of work to do on vaccinations and re-opening the global economy.
- That presents potential “re-opening” trades in Europe/Emerging Markets.
- But, in the U.S., the vast majority of the vaccination benefit has been received by the economy and markets.
- Pillar Status: Cracked (but still Intact)
- What could destroy it: A COVID variant.

Pillar 4: Economic Recovery



Pillar 4: Economic Recovery



- The economic recovery is very strong, surpassing even some of the most optimistic expectations.
- And, as long as the labor supply problem is solved in the coming weeks, there are no immediate threats to the economic recovery.
- Pillar Status: Intact.
- What could destroy it: A COVID variant, surging inflation or persistent labor supply problems.

Four Pillars Updated

- Pillar 1: Historic Federal Support. **Cracked and likely crumbled by September.**
 - Pillar 2: Historic Federal Reserve Stimulus. **Intact.**
 - Pillar 3: Vaccine Optimism. **Cracked but Intact.**
 - Pillar 4: Economic Recovery. **Intact.**
- Macro Take: Outlook still positive. Maintain long bias as, for now, downside is limited. However, don't get too aggressive on risk.
 - Alpha Strategies For This Environment:
 - Inflation Playbook: SGOL/PDBC/GNR/RLY/RTM/RGI/BKLN/JAAA/STIP. 2/23/21.
 - "Old Economy": DJD/FDL/RPV. 1/26/21.
 - Finding Value in European Equities: VGK/FEZ. 7/14/20.
 - Three Strategies for 5G: QCOM/MRVL/QRVO/FIVG. 6/30/20.
 - Socially Responsible Investing: ESGV. 3/26/19.