

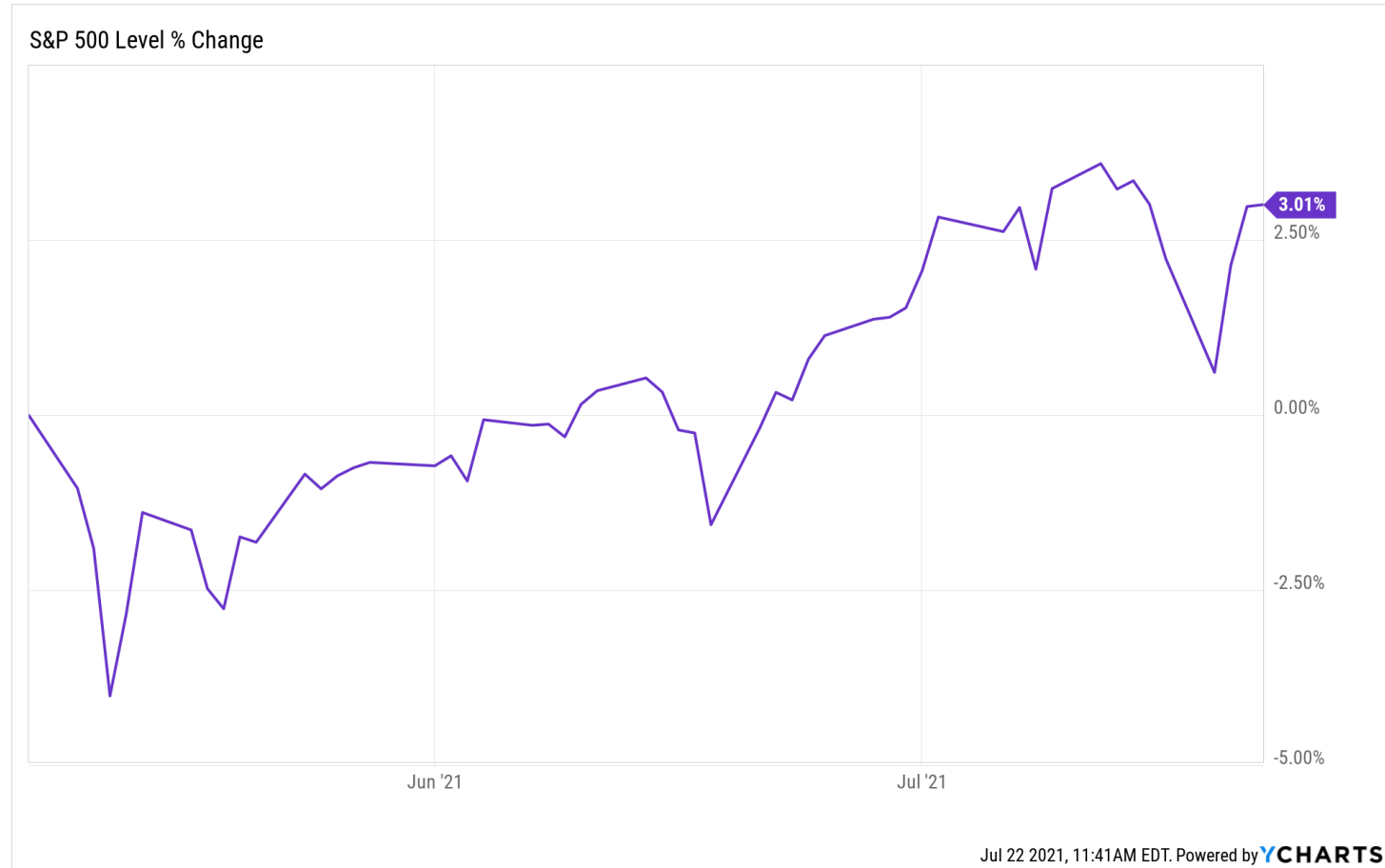
Sevens Report Alpha Webinar:

What Can Go Right? What Can Go Wrong?

Thursday, July 22nd, 2021

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S&P 500 – Small Drift Higher Over Past Three Months



S&P 500 – Small Drift Higher Over Past Three Months



- Instead of broad-based rallies, the movement in the market over the past three months has been internal.
- Super cap tech has closed the massive performance gap from earlier in the year and is again leading the market.
- This should only be happening if investors are anticipating an economic slowdown.

A Fork in the Road



Which fork is taken will depend on how market variables are resolved.

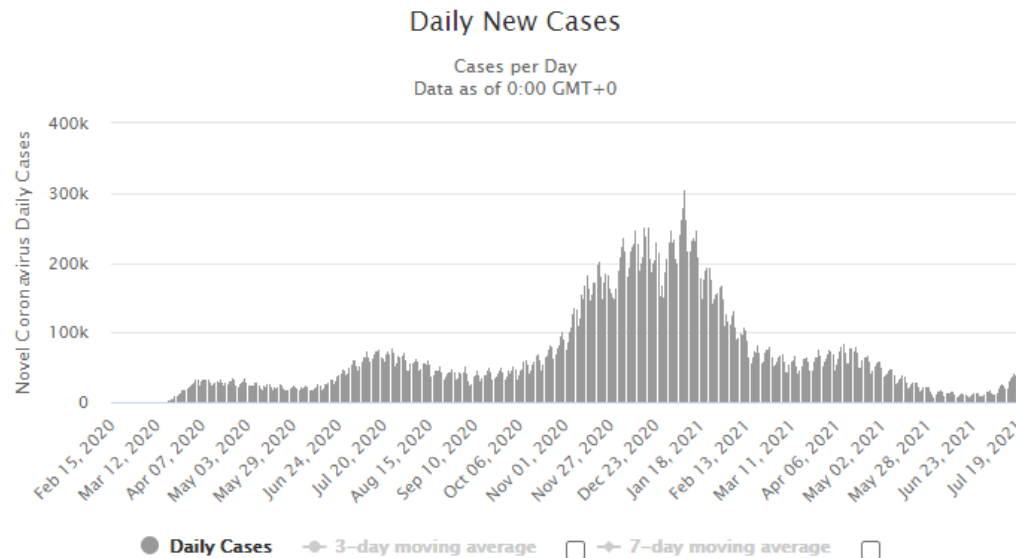
Current influences on markets are:

- Covid Cases
- Treasury Yields
- Fed Tapering
 - Inflation
- 2022 Expected EPS

COVID

Current Situation

Daily New Cases in the United States

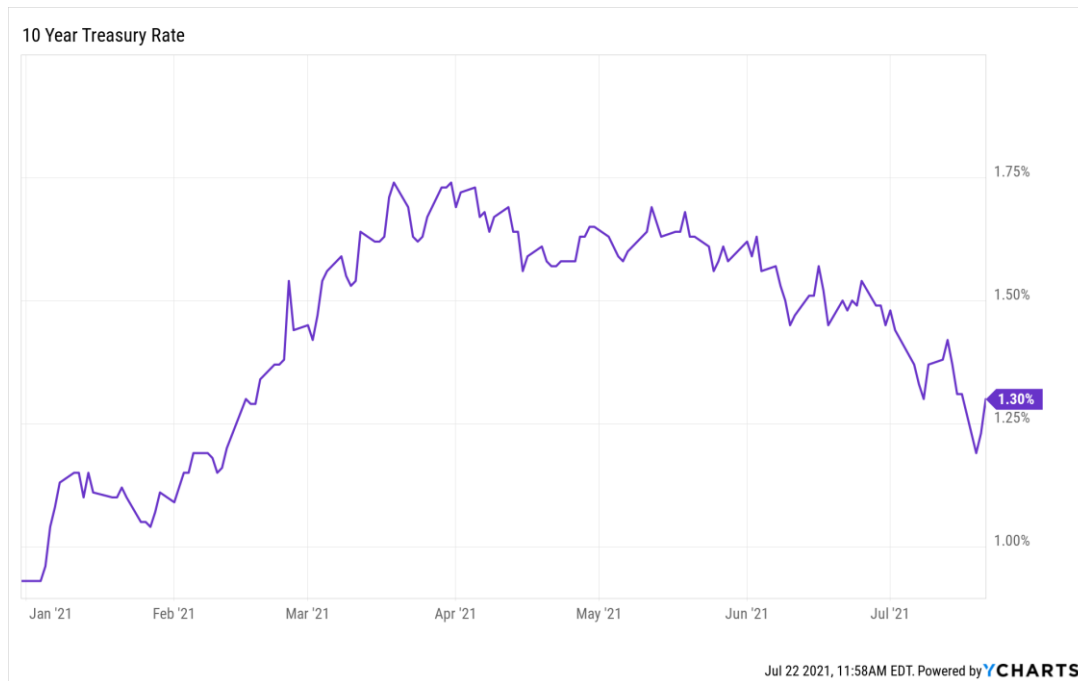


Positive or Negative Depends on Variant

- Unless a COVID variant can breakthrough one of the mRNA vaccines (Pfizer/Moderna) then COVID will not derail the economy.
- The issue is that the longer COVID-19 is prevalent, the more variants it will produce.
- Positive outcome: Vaccines hold up.
- Negative outcome: A variant breaks through.

Treasury Yields

Current Situation



Positive or Negative Depends on Pace

- Yields low for multitude of reasons (technical, global demand, Fed, etc.)
- Pace of the rise is the key here. As long as acceleration isn't too quick, it won't be a headwind.
- Positive outcome: Yields drift gradually higher back to upper 1% range.
- Negative outcome: Yields spike higher similar to February/March towards 2%.

Fed Tapering

Current Situation

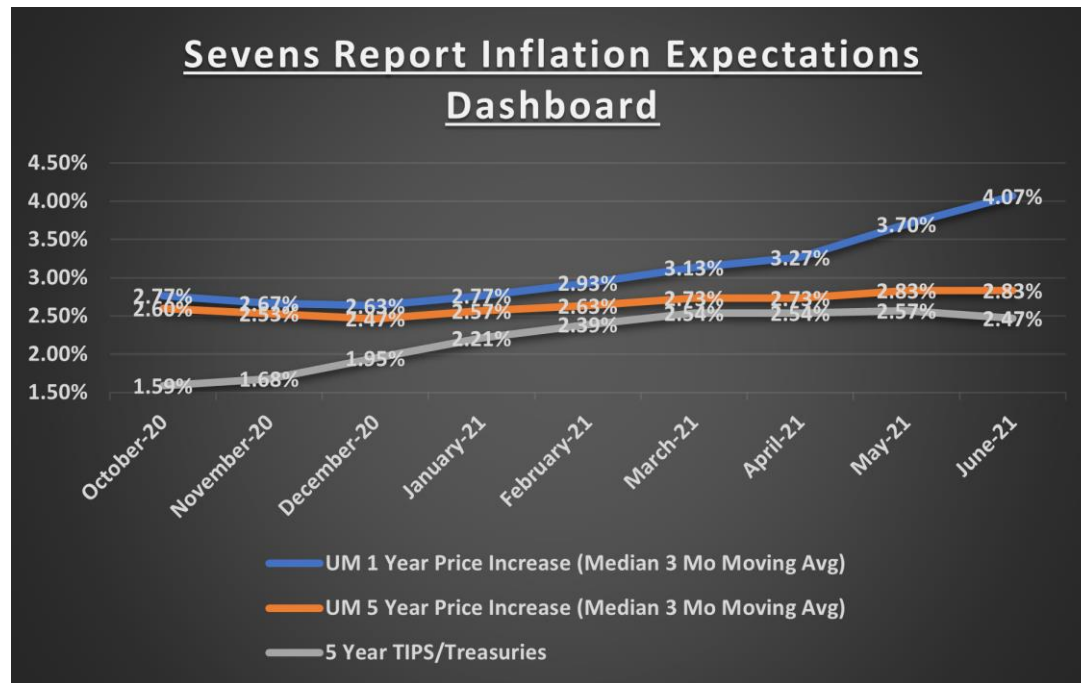
- Fed Talking About, Talking About Tapering.
- Fed Expected to Announce Tapering Intentions on Aug 26-28 or September 22nd.
- Tapering to begin in December (give or take a month so Nov-Jan).
- Tapering expected to be in the amount of around 15 billion per month. Ends QE by June 2022.

Positive or Negative Depends on Surprises

- Positive outcome: No surprises.
- Negative outcome. Surprise via timing (before November?) or via the pace (greater than \$15 billion/month).

Inflation

Current Situation



Positive or Negative Depends Decline

- Inflation metrics will need to start to normalize in the coming months, otherwise Fed will get more hawkish.
- Positive outcome: Inflation stats and expectations start to drift lower starting in August/September
- Negative outcome: There's no drift lower in inflation by the start of Q4, calling into question the idea that inflation is temporary.

2022 S&P 500 EPS

Current Situation

- Expected S&P 500 2022 EPS: \$215-\$220.
- Means the S&P 500 is trading at 20.2X – 19.7X.

Positive or Negative Depends Final EPS

- 2022 expected EPS is up from \$200-\$205 at the start of 2021 to \$215-\$220.
- Positive outcome: The increase continues, and the S&P 500 moves higher on valuation.
- Negative outcome: The increase reverses, and the S&P 500 drops on valuation concerns.

What Can Go Right?

- Vaccines Hold Up
- Rise in Yields is Orderly
- Fed Sticks to Tapering Schedule
- Inflation Recedes Before Q4
- S&P 500 EPS Stay in \$215-\$220 Range
- Ideas for a COVID Vaccine Announcement. (8.25.20). JETS/PEJ/KBE/REZ.
- Cyclical Rotation to Value (11.3.20). RSP/VTV/RPV.
- Four Small Cap ETFs for the Economic Recovery (4.20.21). PSCD/FXG/RWJ/ISCV.

What Can Go Wrong?

- Variant Breaks Through a mRNA Vaccine
 - Inflation Does Not Recede
 - Yields Spike Higher (Repeat of Feb/March)
 - Fed Tapers More Aggressively
 - S&P 500 EPS Decline
- Alpha Strategies for this Environment
 - What Worked in 2020 and Can Again in 2021. (12.15.20).
IBUY/XITK/IPAY/FIVG/LIT
 - Inflation Playbook (2.23.21).
PDBC/GNR/SGOL/RLY.
 - Fixed Income Playbook for Rising Rates (6.2.21). IVOL/VRP.
 - Hedged Equity. 3.10.20).
DMRL/CCOR/JHEQX.