

Sevens Report Alpha Webinar:

Roadmap Into Year-End

Thursday, September 16th, 2021

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Fed Policy: Tapering Options

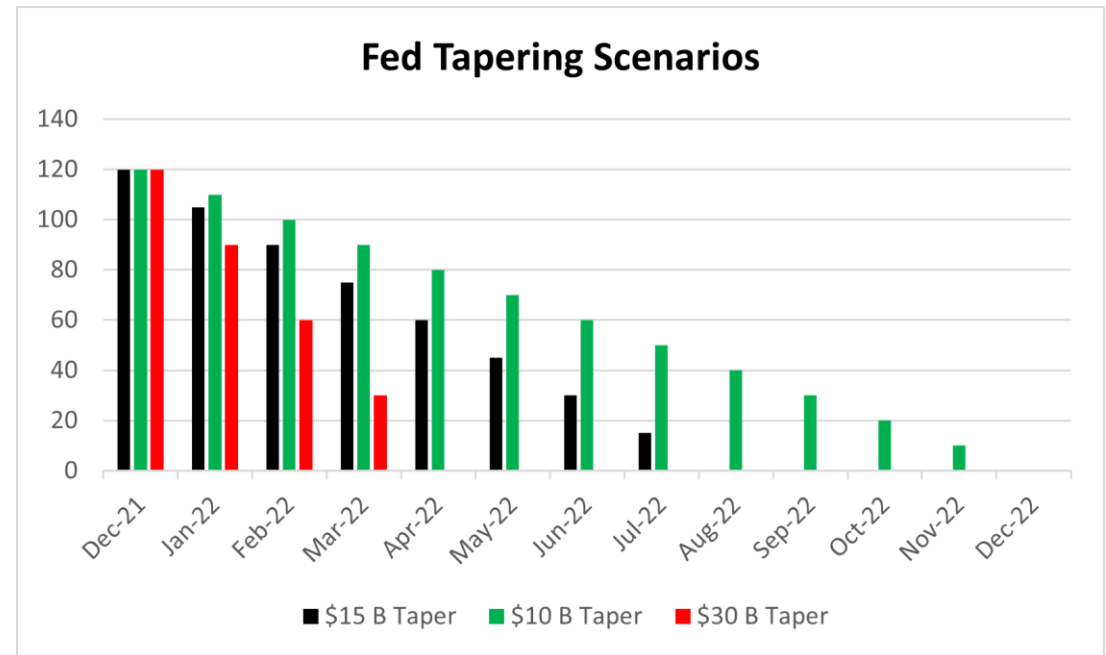
	\$15 B Taper	\$10 B Taper	\$30 B Taper
Dec-21	120	120	120
Jan-22	105	110	90
Feb-22	90	100	60
Mar-22	75	90	30
Apr-22	60	80	0
May-22	45	70	
Jun-22	30	60	
Jul-22	15	50	
Aug-22	0	40	
Sep-22		30	
Oct-22		20	
Nov-22		10	
Dec-22		0	

Tapering Scenarios:

Expected: \$15 bln/month. No market impact.

Dovish/Bullish: \$10 bln/month. Positive stocks, positive inflation, positive 10-year yield.


Hawkish/Bearish: \$30 bln/month. Negative everything.



Fed Policy: Dots/Rate Hike Expectations

30 DAY FEDERAL FUNDS FUTURES - QUOTES

VENUE: GLOBEX

 **AUTO-REFRESH IS OFF** Last Updated 16 Sep 2021 08:18:53 AM CT. Market data is delayed by at least 30 minutes.

MONTH	OPTIONS	CHART	LAST	CHANGE	PRIOR SETTLE	OPEN	HIGH	LOW	VOLUME	UPDATED
<div><div>🏠</div><div>SEP 2021</div><div>ZQ1T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.92	-0.0025 (UNCH)	99.9225	99.92	99.92	99.92	435	08:01:45 CT 16 Sep 2021
<div><div>🏠</div><div>OCT 2021</div><div>ZQ1T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.92	UNCH (UNCH)	99.92	99.92	99.92	99.92	4,250	08:00:00 CT 16 Sep 2021
<div><div>🏠</div><div>NOV 2021</div><div>ZQ1T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.915	-0.005 (-0.01%)	99.92	99.915	99.92	99.915	182	05:58:15 CT 16 Sep 2021
<div><div>🏠</div><div>DEC 2021</div><div>ZQ1T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.915	-0.005 (-0.01%)	99.92	99.915	99.92	99.915	7,152	08:00:18 CT 16 Sep 2021
<div><div>🏠</div><div>JAN 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.92	-0.005 (-0.01%)	99.925	99.92	99.92	99.92	136	08:00:18 CT 16 Sep 2021
<div><div>🏠</div><div>FEB 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.92	UNCH (UNCH)	99.92	99.92	99.92	99.92	920	08:00:18 CT 16 Sep 2021
<div><div>🏠</div><div>MAR 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.92	UNCH (UNCH)	99.92	99.92	99.92	99.92	662	08:07:31 CT 16 Sep 2021
<div><div>🏠</div><div>APR 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.915	-0.005 (-0.01%)	99.92	99.92	99.92	99.915	1,257	08:07:05 CT 16 Sep 2021
<div><div>🏠</div><div>MAY 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.915	-0.005 (-0.01%)	99.92	99.915	99.92	99.915	1,522	08:00:59 CT 16 Sep 2021
<div><div>🏠</div><div>JUN 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.905	-0.005 (-0.01%)	99.91	99.91	99.91	99.905	1,282	08:07:01 CT 16 Sep 2021
<div><div>🏠</div><div>JUL 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.895	-0.005 (-0.01%)	99.90	99.90	99.90	99.895	4,379	08:07:04 CT 16 Sep 2021
<div><div>🏠</div><div>AUG 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.88	-0.005 (-0.01%)	99.885	99.885	99.885	99.88	0,300	08:00:58 CT 16 Sep 2021
<div><div>🏠</div><div>SEP 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.805	-0.005 (-0.01%)	99.87	99.87	99.87	99.805	374	08:00:18 CT 16 Sep 2021
<div><div>🏠</div><div>OCT 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.835	-0.005 (-0.01%)	99.84	99.835	99.835	99.835	1,300	08:01:24 CT 16 Sep 2021
<div><div>🏠</div><div>NOV 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.805	-0.01 (-0.01%)	99.815	99.81	99.81	99.805	1,123	08:00:00 CT 16 Sep 2021
<div><div>🏠</div><div>DEC 2022</div><div>ZQ2T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.76	-0.01 (-0.01%)	99.77	99.765	99.765	99.76	177	08:02:01 CT 16 Sep 2021
<div><div>🏠</div><div>JAN 2023</div><div>ZQ3T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.72	-0.01 (-0.01%)	99.73	99.725	99.725	99.72	925	08:02:01 CT 16 Sep 2021
<div><div>🏠</div><div>FEB 2023</div><div>ZQ3T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.685	-0.015 (-0.02%)	99.70	99.695	99.695	99.685	44	08:07:31 CT 16 Sep 2021
<div><div>🏠</div><div>MAR 2023</div><div>ZQ3T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	-	-	99.655	-	-	-	0	20:17:05 CT 15 Sep 2021
<div><div>🏠</div><div>APR 2023</div><div>ZQ3T</div></div>	<div><div>CALL</div></div>	<div><div>▲</div></div>	99.595	-0.015 (-0.02%)	99.61	99.60	99.60	99.595	2	07:31:56 CT 16 Sep 2021

First expected rate hike: December 2022

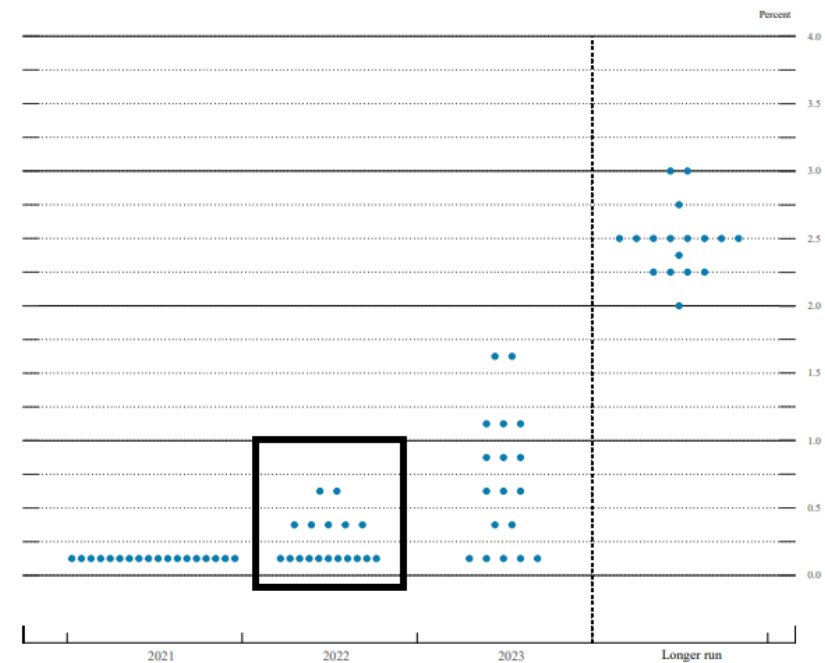
Second expected rate hike: June 2023

Bullish: Dots next week confirm one hike in 2022.

Bearish: Dots imply possibly two hikes in 2022.

For release at 2:00 p.m., EDT, June 16, 2021

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



Tax hikes: How many, How much and What Does It Mean for Markets?

Current Proposed Tax Hikes (9/16/2021)

- Corporate Tax Hike to 26.5% from current 21%.
- Top personal income bracket to 39.6% tax rate from current 37%.
- Incomes > 5 million get a 3% surtax.
- Long term capital gains increased to 25% from 20% for filers with incomes > 400k.

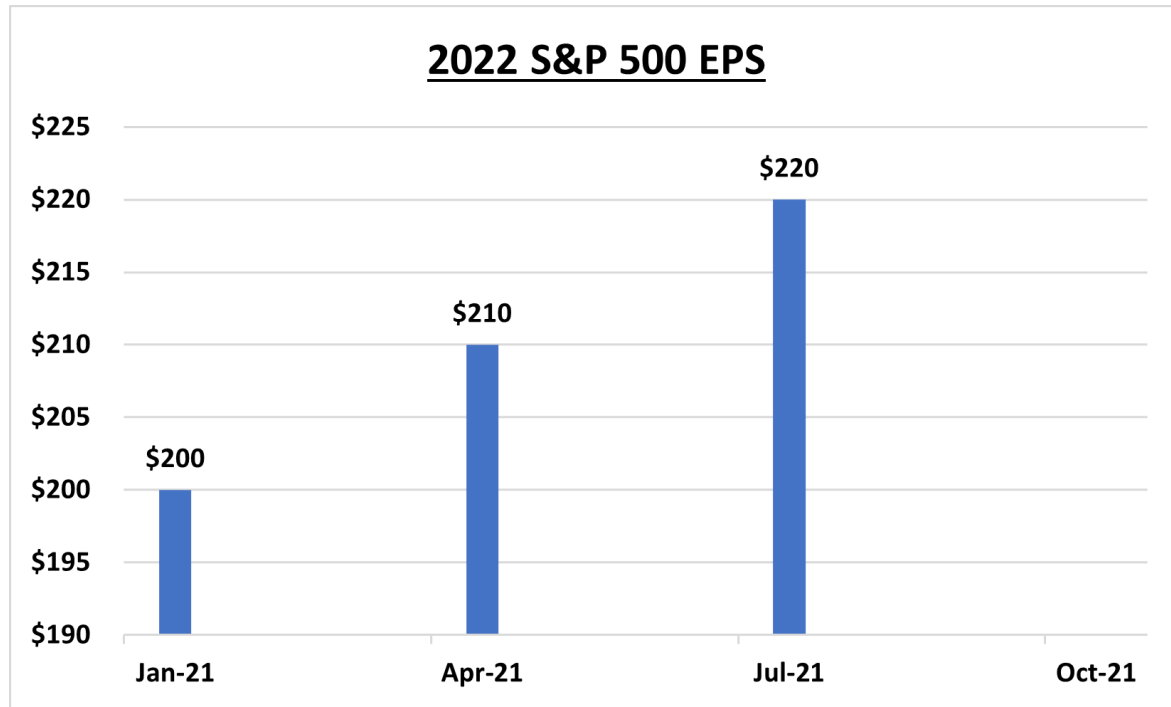
Key Dates to Watch in This Process

- September 27th: House must vote on bi-partisan infrastructure bill (\$ 1.2 trillion).
 - The 3.5 Trillion spending bill, which will include the final specifics on tax increases, needs to be done by this date in the House also.
- September 30th: Government fiscal year ends. If a “continuing resolution” isn’t passed by the end of business on this day, a government shutdown will occur.
- October 4th: The Senate will consider the \$3.5 trillion spending bill.
- October 15th (ish): U.S. hits the debt ceiling (this will need to be raised. If it’s not attached to the Continuing Resolution, expect volatility and drama).

Tax hikes: How many, How much and What Does It Mean for Markets?

- What Does All This Mean for Markets?
 - First, it is likely that there will be at least some tax increases before year-end.
 - Most likely candidates include:
 - Corporate tax increase (but no more than 26.5% most likely).
 - High income tax increase (but likely no worse than returning to 2017 levels of 39.6% for the top bracket).
 - Will these cause increased volatility?
 - Yes, but mostly because stocks are priced for perfection at these levels, and the increase in corporate taxes will reduce EPS while the increased personal tax rate will marginally impact spending or investment.
 - **But, as long as the economic recovery remains strong and the Fed doesn't aggressively taper, this outcome would not be a bearish gamechanger for anyone with a medium/longer term time horizon.**
 - Is there a chance nothing happens?
 - Yes. Moderate Democrats do not want a massive spending/tax program into next year's election. They also want the bi-partisan infrastructure bill passed. Meanwhile, progressive Dems want a massive spending/tax program and they are withholding support for the infrastructure bill until they get support for the \$3.5 trillion plan. Both will not occur (the infrastructure bill passes and the \$3.5 trillion bill passes) and the two sides could cancel each bill out, resulting in nothing occurring.
 - But, that's not the most likely outcome (although it is possible).

Earnings: Will \$220 for 2022 hold?

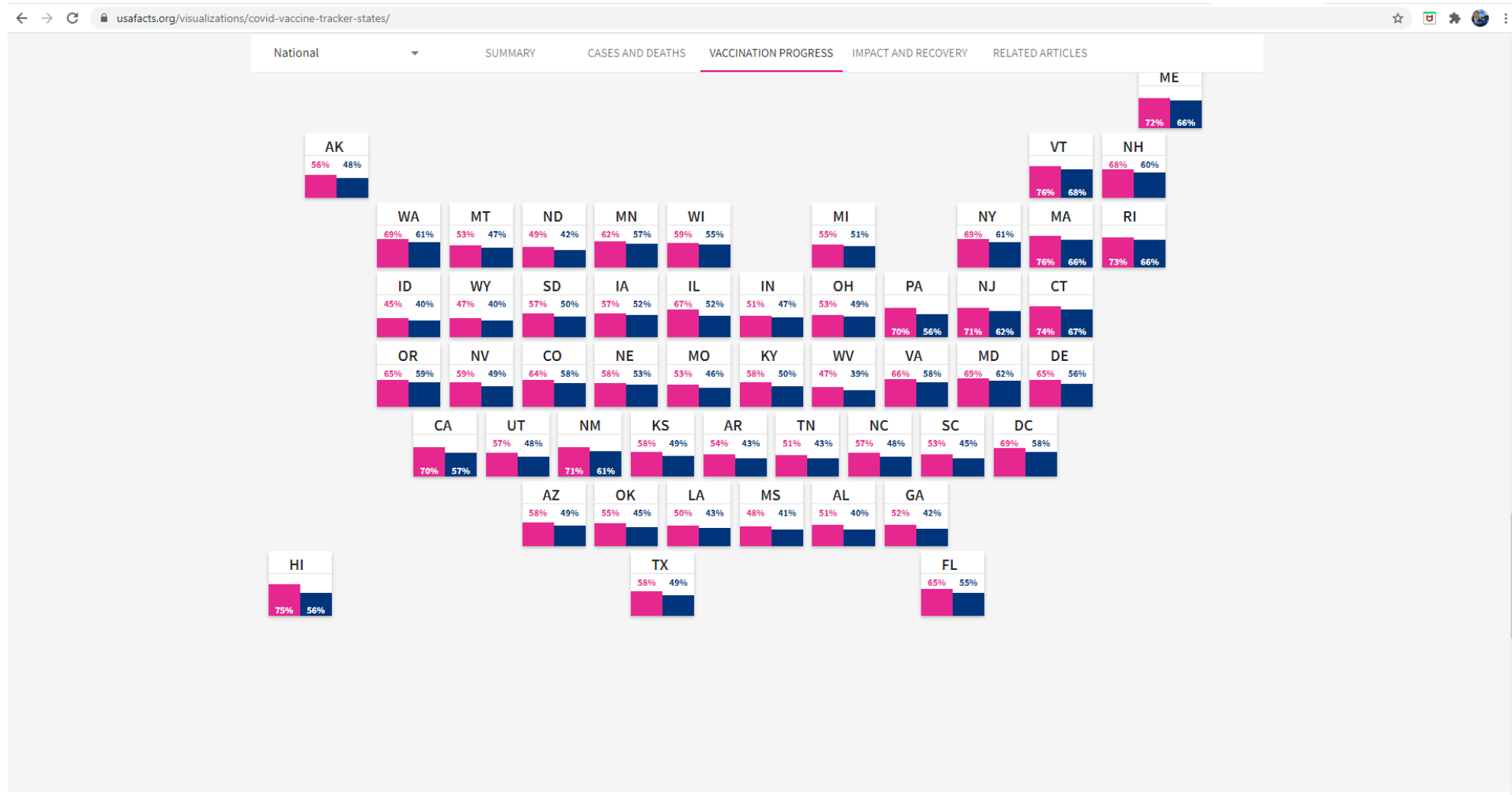


How Could Shifting EPS Expectations Impact the S&P 500?

EPS	Market Multiple	
	20	19
\$200.00	4000	3800
\$210.00	4200	3990
\$220.00	4400	4180

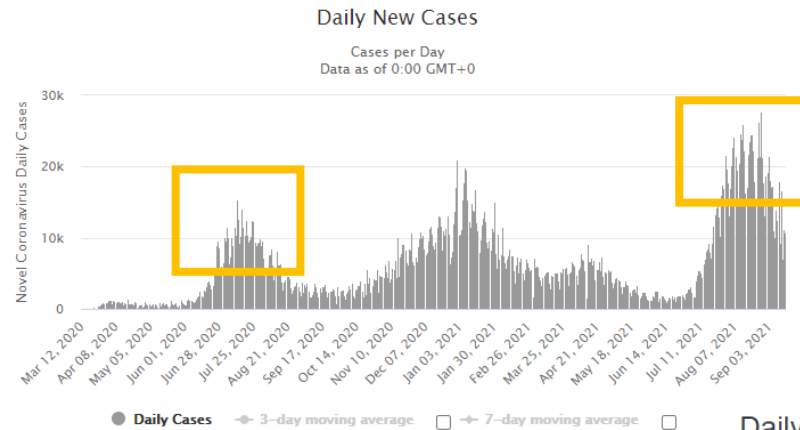
- Expect earnings to be revised lower in Q3.
- But, it's "why" that matters. If it's temporary supply chain issues, then markets will look past earnings cuts and it won't hit the market.
- But, if supply chain issues are the "new normal" that will impact markets more broadly.
- Key dates to watch are from October 12th – November 5th.

COVID: Another wave?

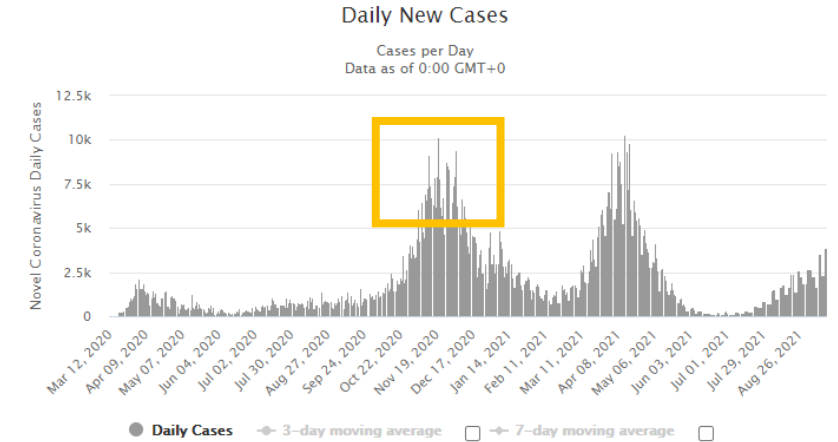


COVID: Another wave?

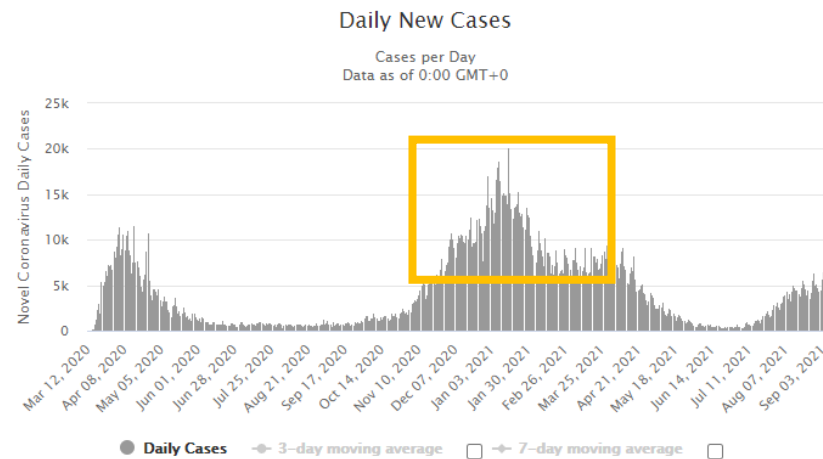
Daily New Cases in Florida



Daily New Cases in Michigan

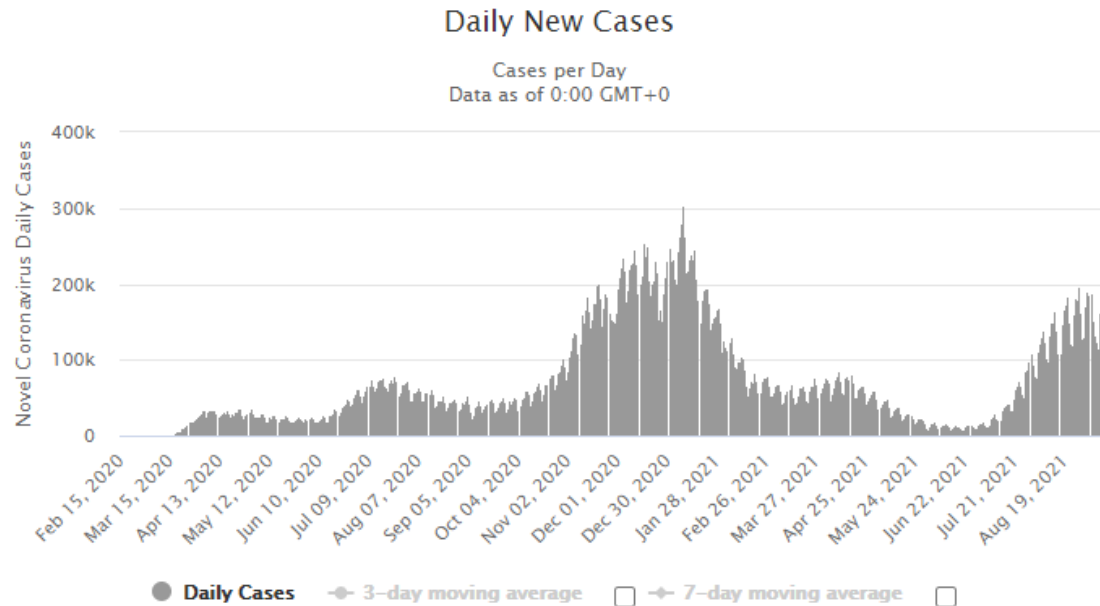


Daily New Cases in New York



COVID: Another wave?

Daily New Cases in the United States



- The key to COVID and markets remains the vaccine.
- Cases will likely continue in waves throughout the fall, but that by itself won't de-rail the economy.
- The key negative event with COVID is an mRNA vaccine is rendered ineffective by a variant. If that happens, it is a bearish gamechanger.