

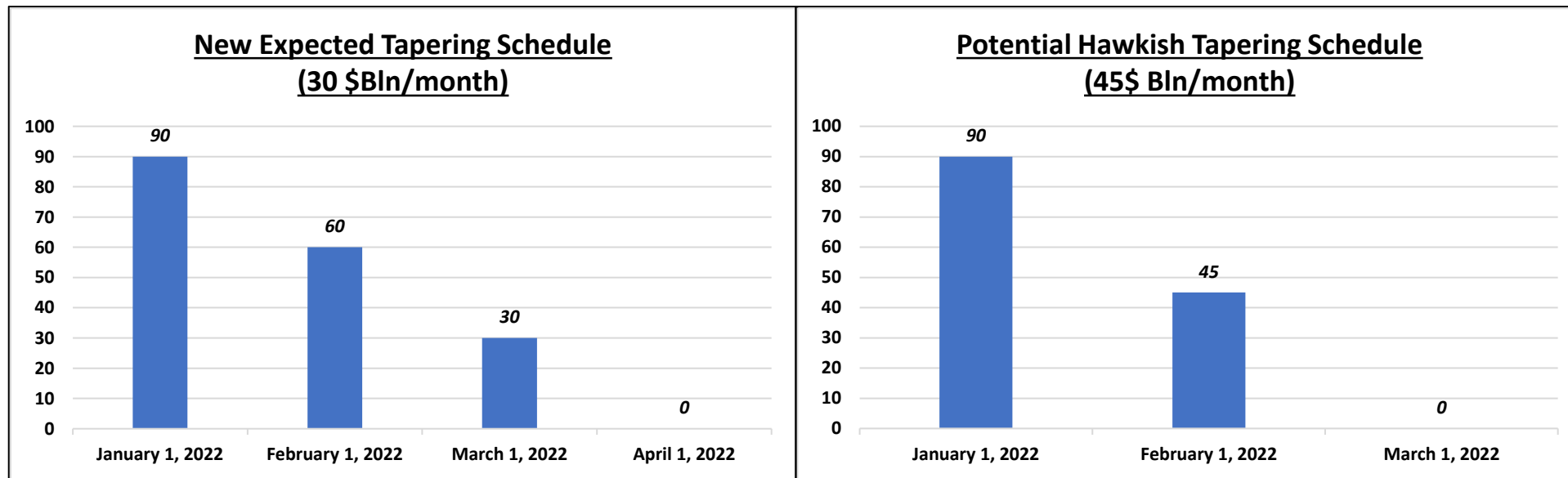
## **Sevens Report Alpha Webinar:**

**Fed Update**

**Thursday, December 9<sup>th</sup>, 2021**

**Tom Essaye, President Sevens Report Research**

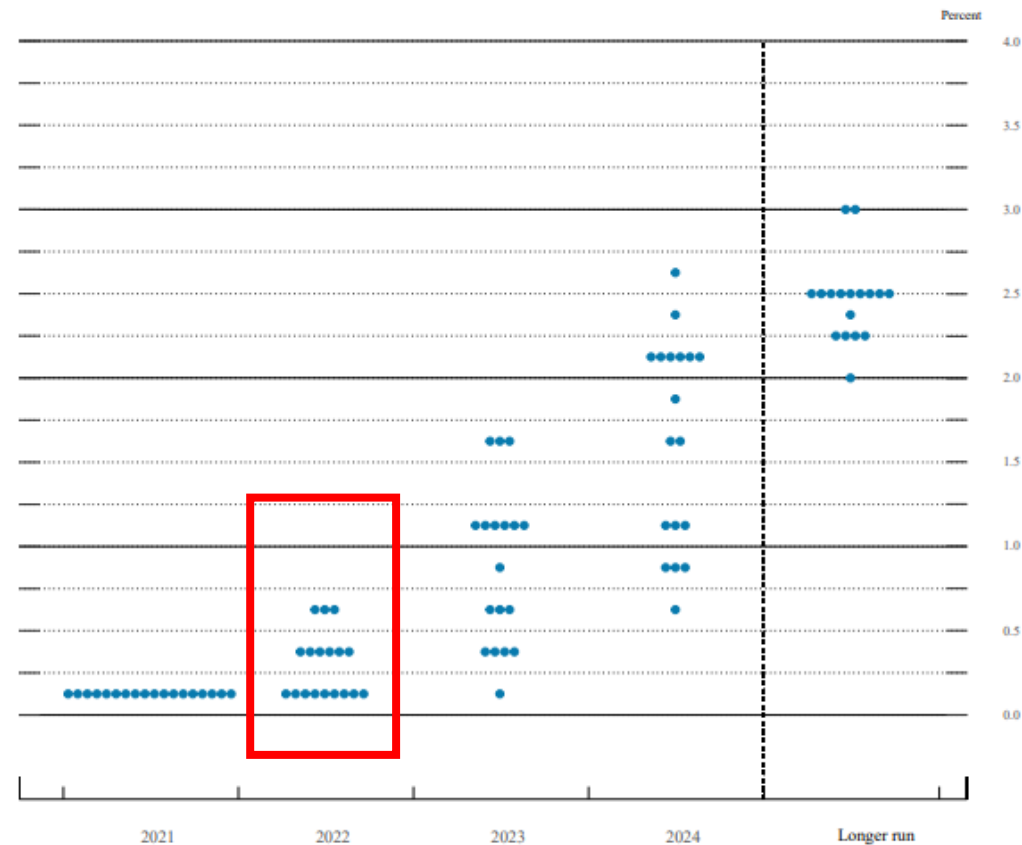
## Early FOMC Preview: How Much Will the Fed Accelerate Tapering of QE?



## Early FOMC Preview: Will the “Dots” Show Two Hikes in 2022 or Three?

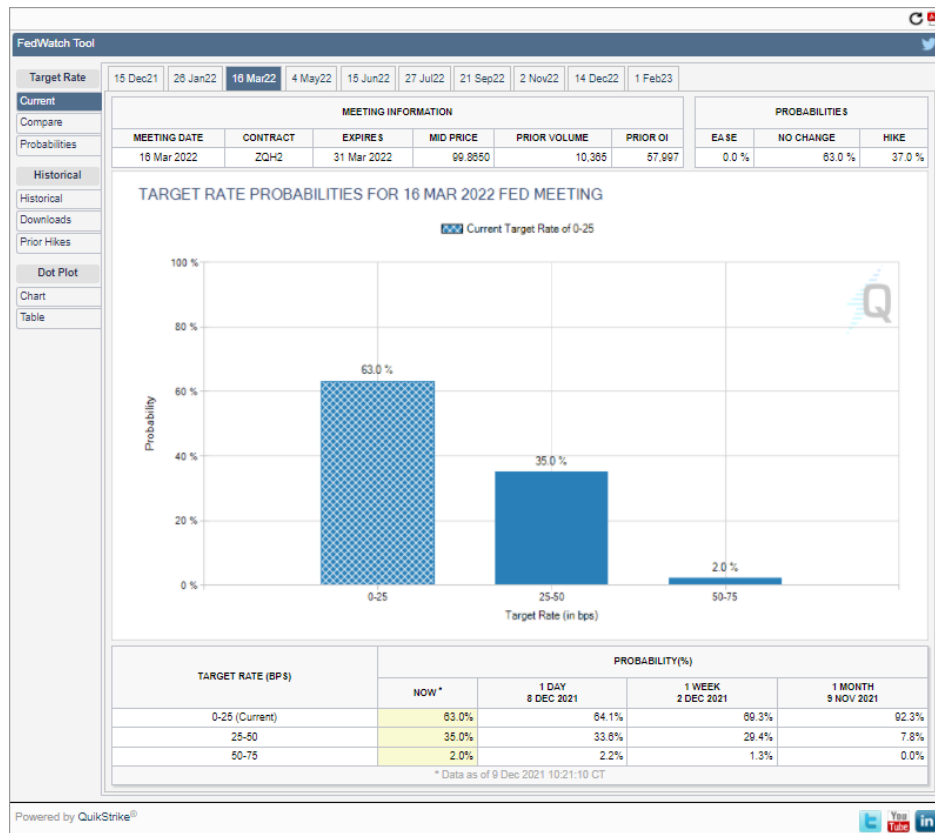
For release at 2:00 p.m., EDT, September 22, 2021

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

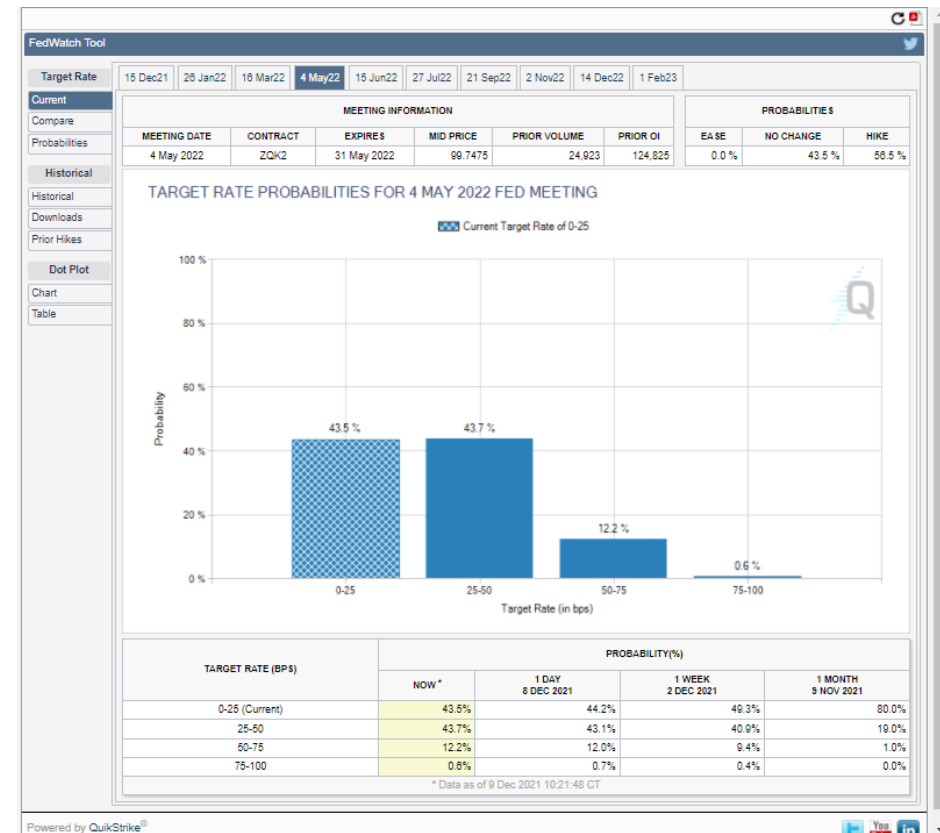


## Early FOMC Preview: When Will the Fed Hike Rates (and How Many Hikes?)

### March: 47% Chance of a Rate Hike

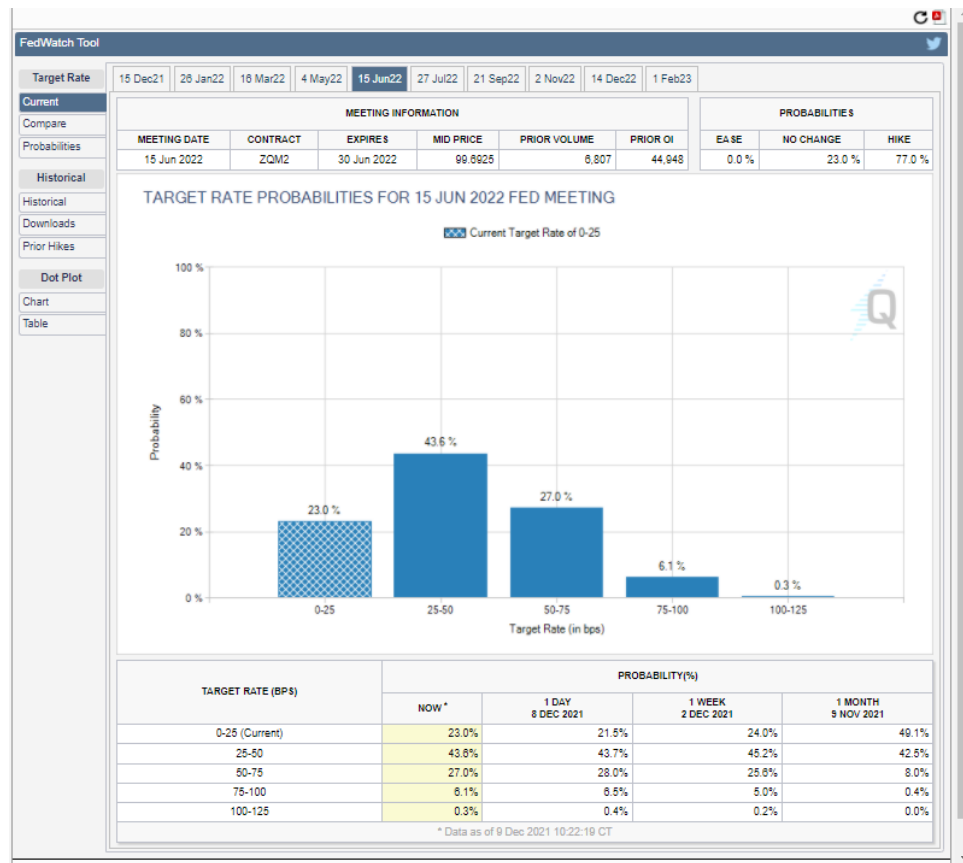


### May: 67% Chance of a Rate Hike

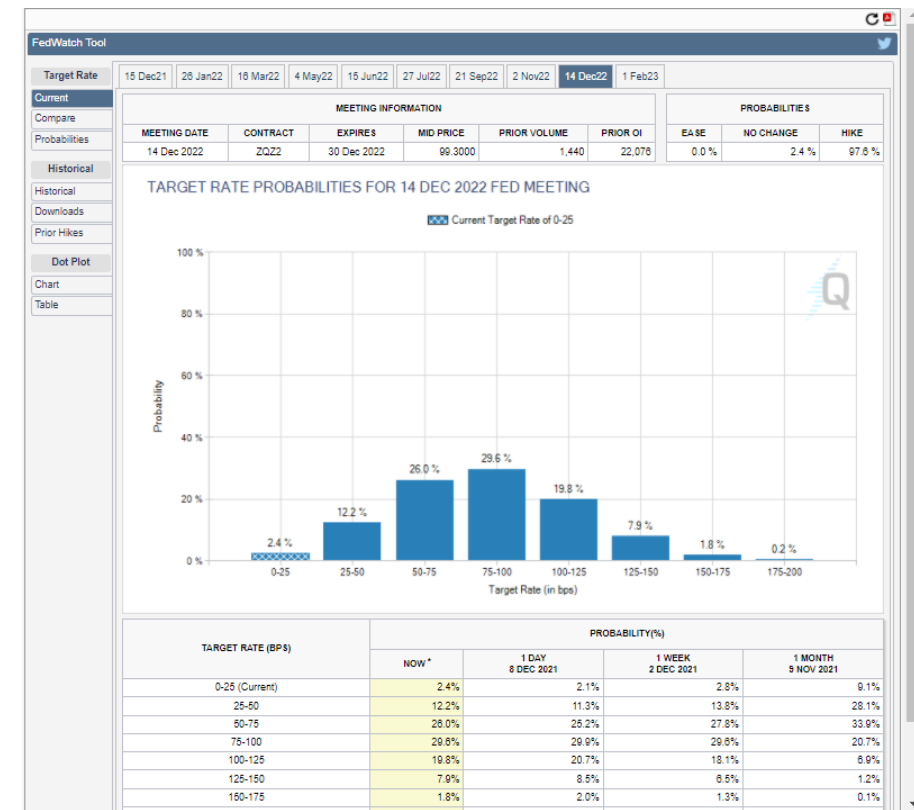


## Early FOMC Preview: When Will the Fed Hike Rates (and How Many Hikes?)

### June: 77% Chance of a Rate Hike

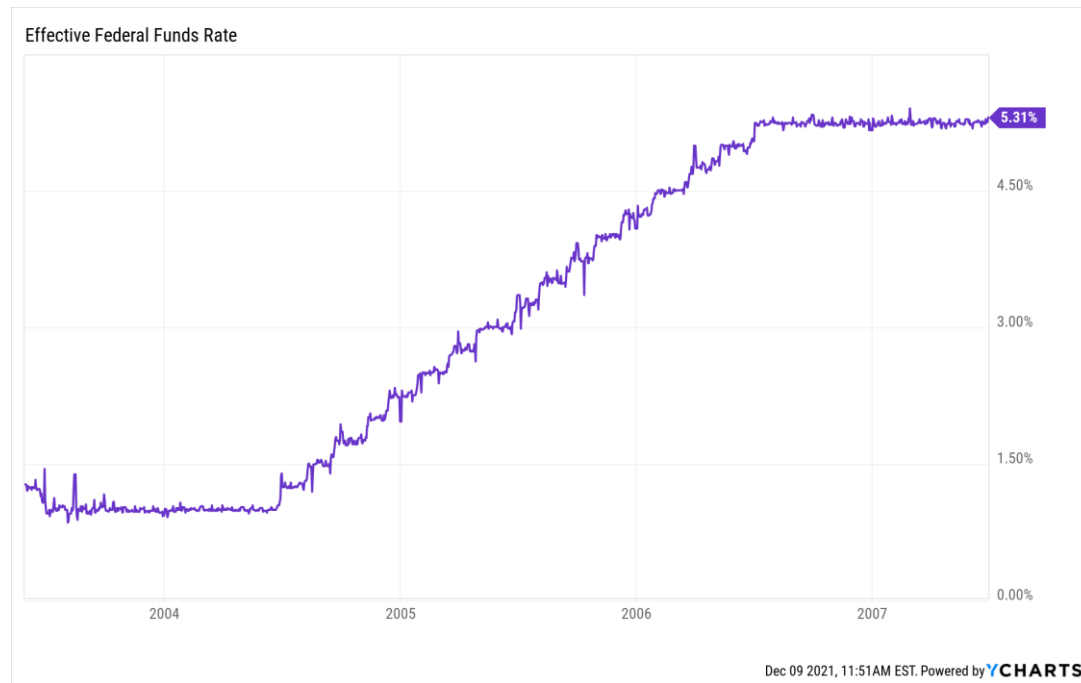


### December: 86% Chance of Two Rate Hikes



## What Will This Do To Markets? 10's-2's Is the Key

### Fund Funds '03-'07

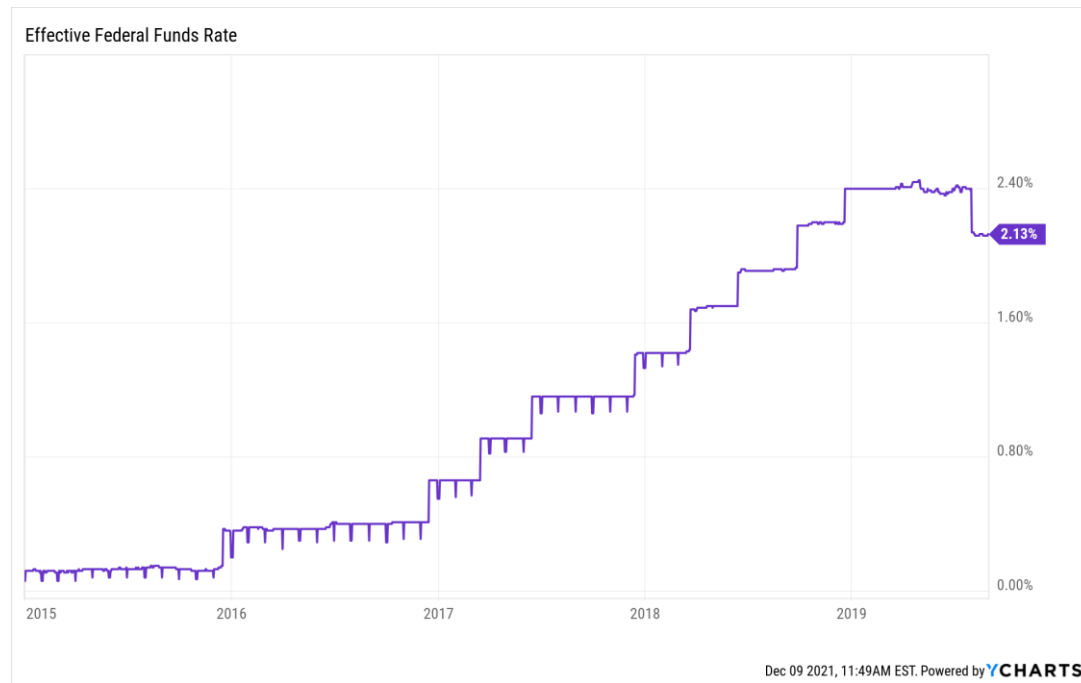


### 10's-2's '03-'07

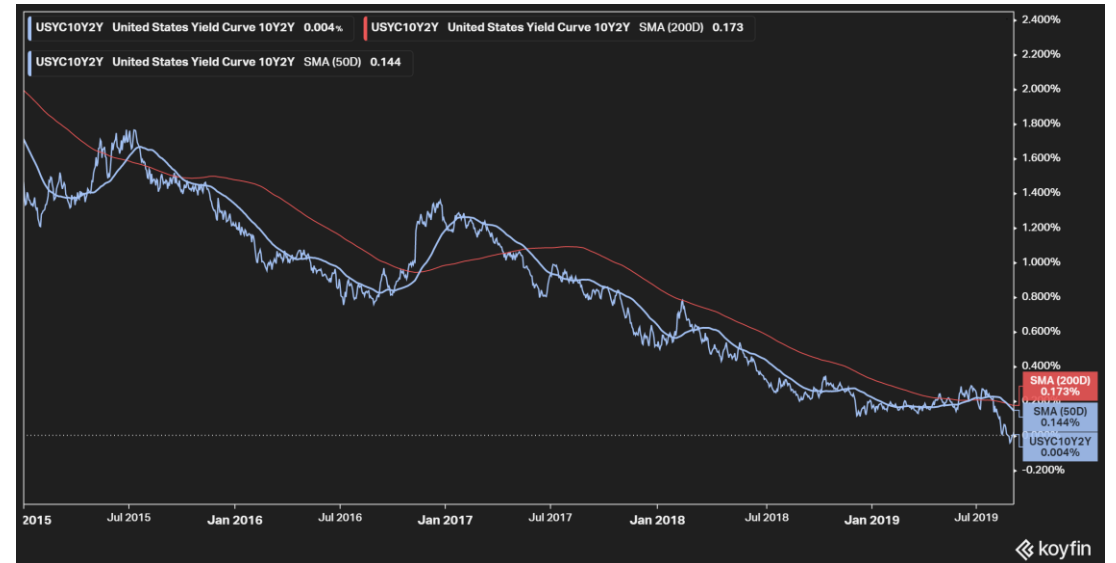


## What Will This Do To Markets? 10's-2's Is the Key

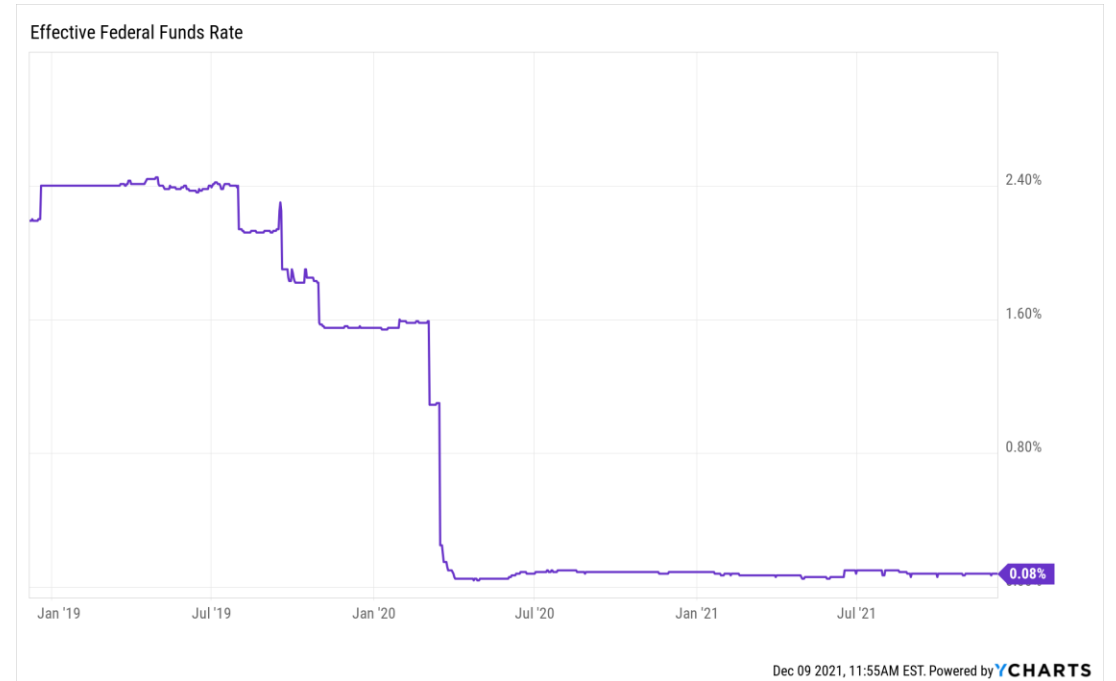
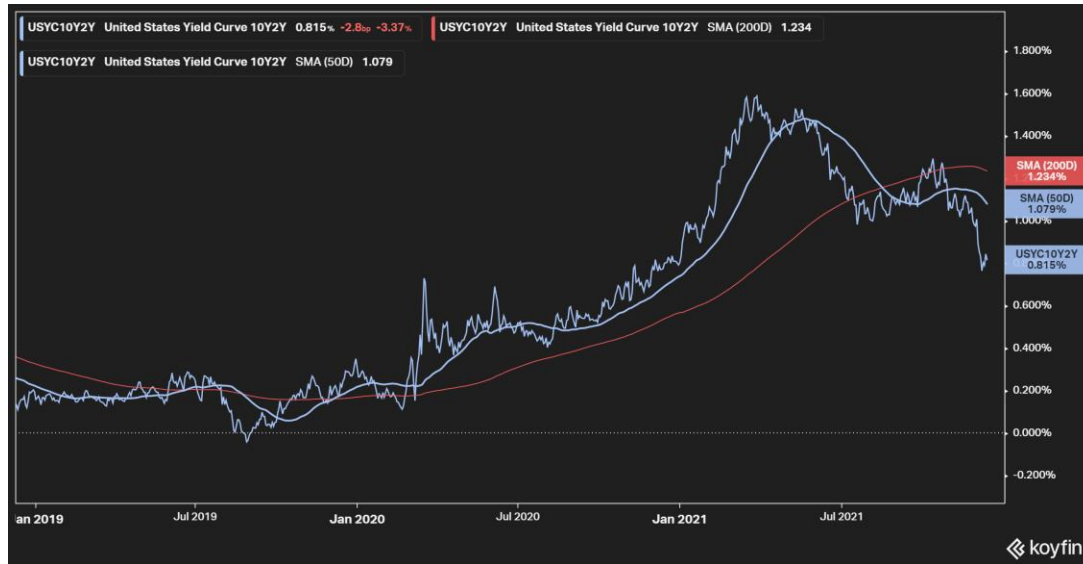
### Fed Funds '15-'19



### 10's-2's '15-'19

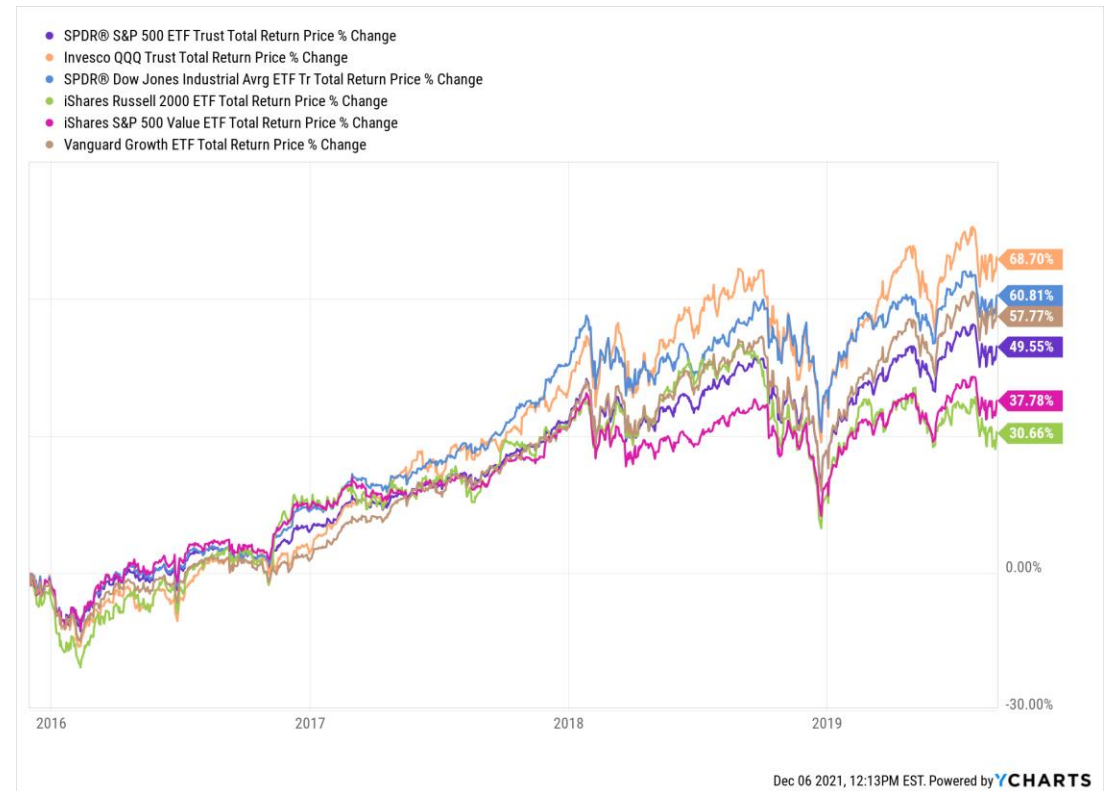
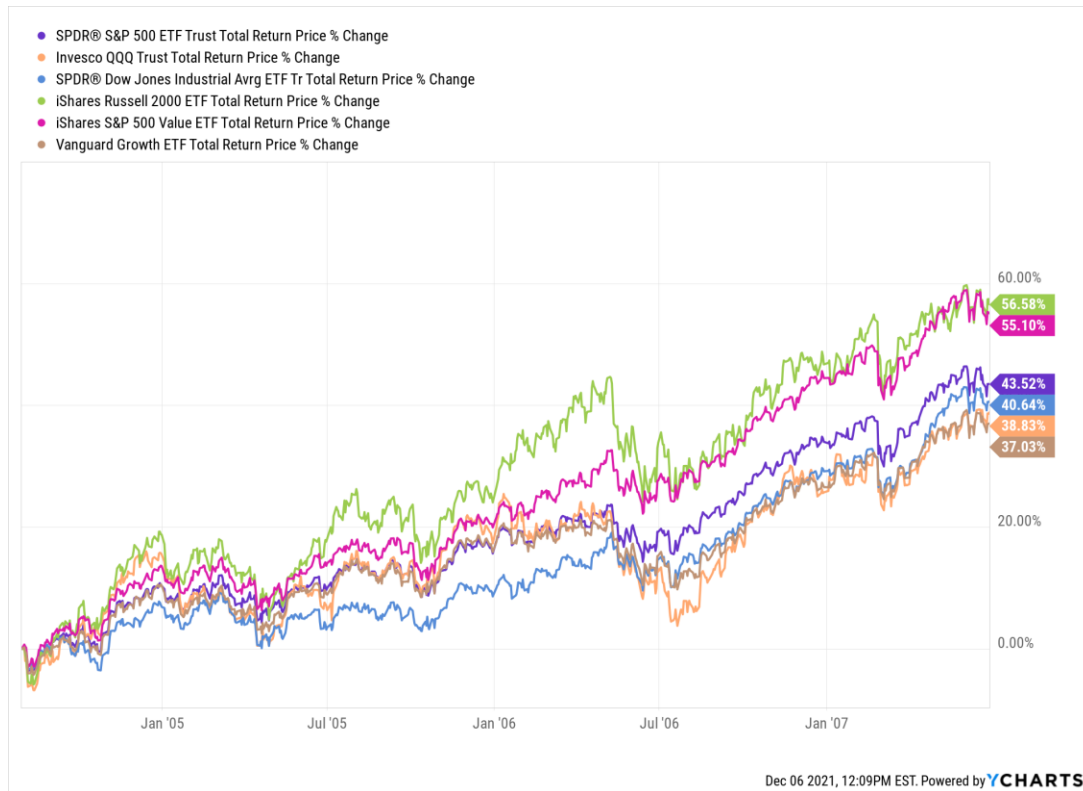


## What Will This Do To Markets? 10's-2's Is the Key

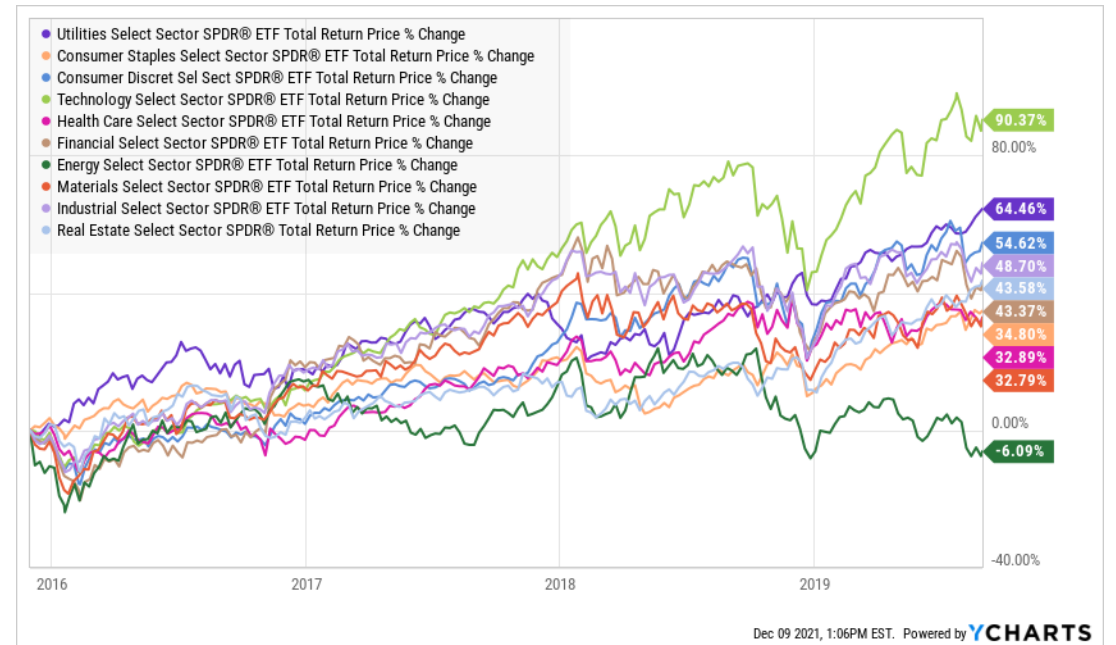
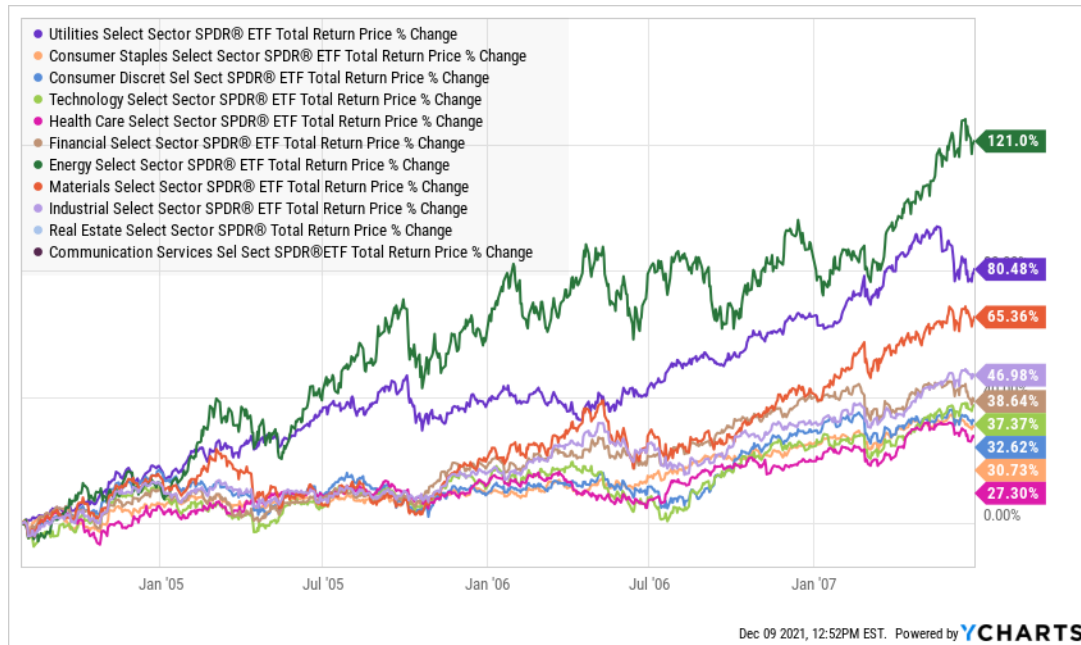




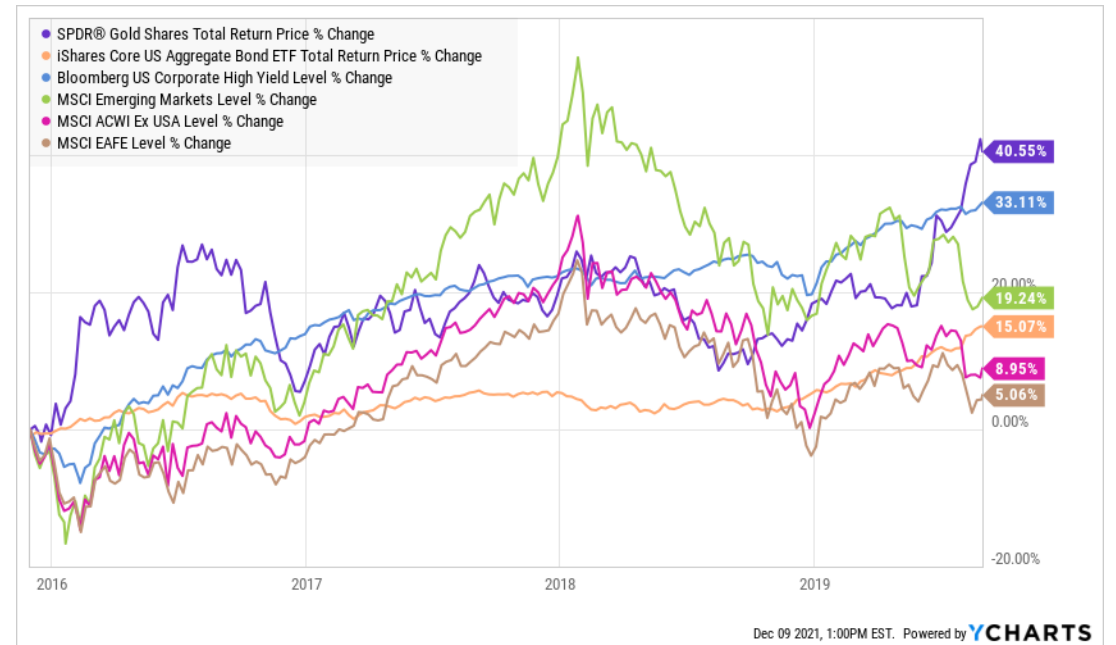
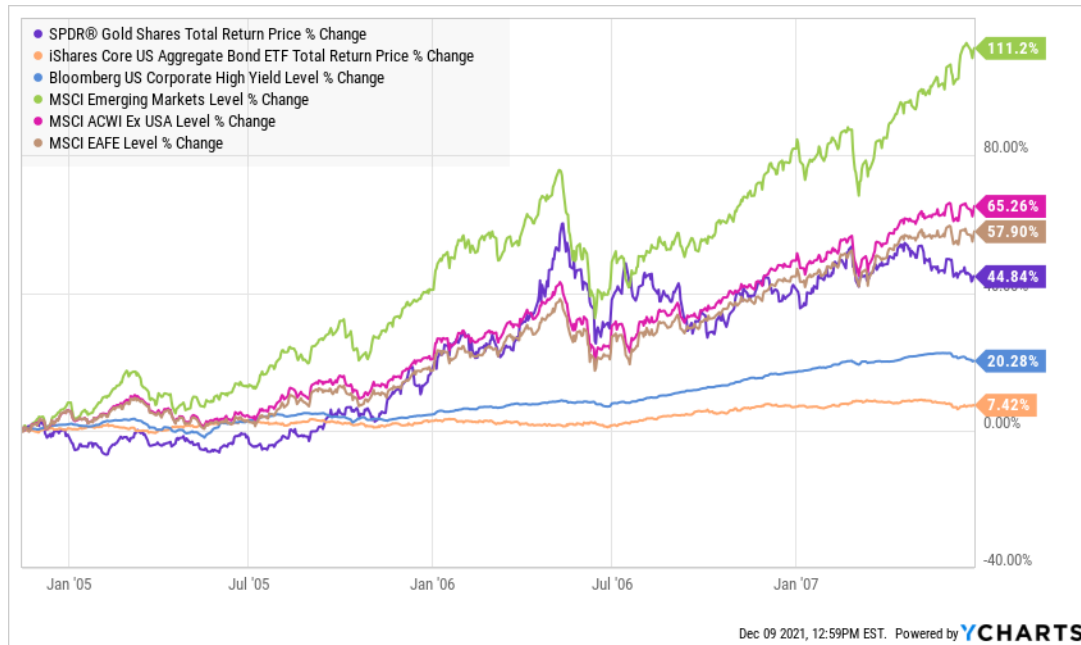
## What can we expect from the markets now that the Fed is embarking on another rate hike cycle?



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- Takeaways:
  - While sector and style performance varied greatly in both rate hike cycles, only one S&P 500 sector declined during both periods – energy (XLE) in the 2<sup>nd</sup> rate hike cycle. All other sectors rose during the rate hike cycles.
  - All major non-stock assets also rose during both rate hike cycles: Bonds, Foreign markets, commodities/gold.
  - Utilities (XLU) ranked second in performance for both rate hike cycles.
  - Value/Commodities/Foreign and Emerging Markets outperformed during the first-rate hike cycle
  - Tech/Growth/U.S. outperformed during the second-rate hike cycle.
- Bottom line: Recent history implies rate hike cycles are good for virtually all assets. The key is determining whether rate hikes are in response to a broad-based surge in growth/inflation (first rate hike cycle) or slower growth narrow inflation (second rate hike cycle).
- We believe it's the former based on 1) Inflation, 2) Growth, 3) Personal Balance sheets and 4) Strong corporate earnings.
- Continue to favor value/cyclicals over tech/growth.