Sevens Report Alpha Webinar:

Early Market Catalysts in 2022

Thursday, January 6th, 2022

Tom Essaye, President Sevens Report Research

Key Events to Start 2022:

1. FOMC Minutes – Hawkish.
2. December Jobs Report (1/7/22)
3. Build Back Better Progress (1/10/22 – 2/9/22)
4. December CPI (1/12/22)
5. Omicron Case Peak (1/15/22 – 1/30/22)
6. January FOMC Decision (1/26/22)

December Jobs Report. Friday, January 7th.

- Too Hot:
  - > 700k Job Adds, < 4.0% UE Rate, Wages > 4.5%.
- Just Right
  - 50k-700k Job Adds, > 4.1% UE Rate, Wages <4.5%.
- Too Cold
  - < 50k Job Adds, >5.0% UE Rate

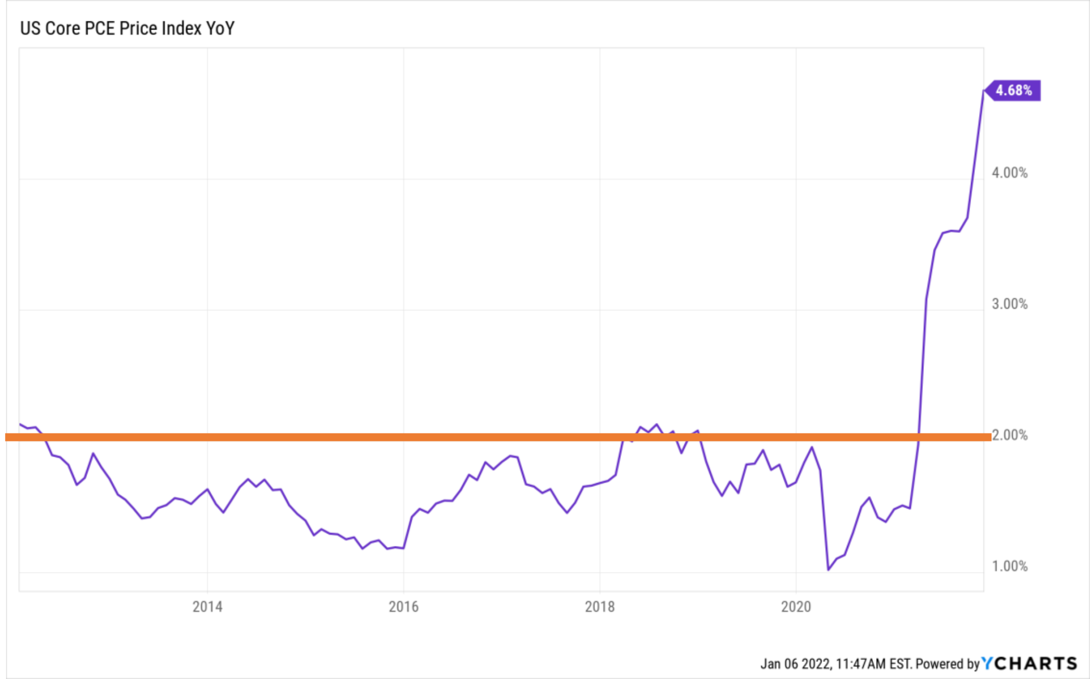
Build Back Better Progress, January 10th – February 9th.

- Current Plan Value is $1.7 Trillion.
- It is mostly made up of increased spending and not significant tax increases (that remains the key issue for markets).
- Key Sticking Points in the Bill:
  - Overall level of spending
  - Extension of Child Tax Credits
- If a bill passes, it's likely closer to the $1.5 trillion level (which is a framework Manchin agreed to in the summer of 2021).

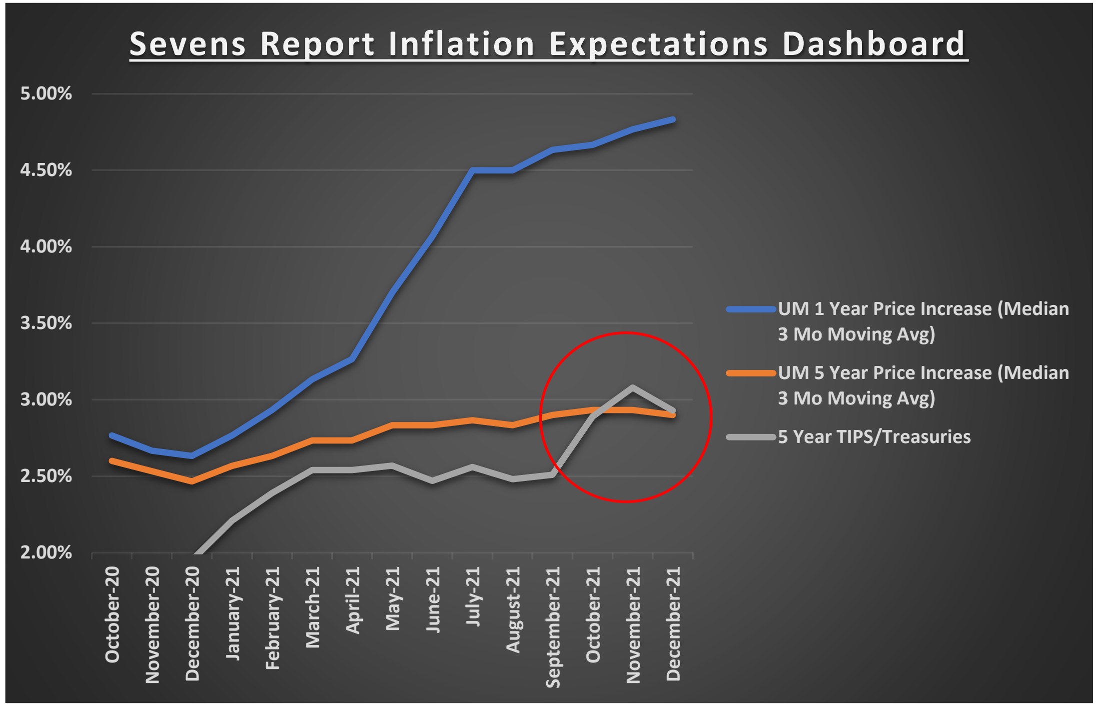
- If the bill passes:
  - Not a market positive as it will only further stoke inflation by adding Federal spending into the mix.
- If the bill does not pass:
  - The drop in federal spending will be a risk to watch for the economy as we move through 2022.
  - The budget deficit will drop from 15% of GDP in 2020 to 12.4% of GDP in 2021, to 4.7% in 2022 – essentially the same as pre-pandemic levels.
- Point being, BBB is not a potential positive catalyst for the markets in its current form, but it could add to volatility.
- If BBB passes, possibly have the opposite of the previously Federal Government/Federal Reserve relationship. From '12-'15, Fed was dovish because government wasn't stimulating. Now, possible Fed must hike to stop government stoking of inflation.

December CPI, Wednesday, January 12th.

CPI Expectation: 6.9%. Core CPI: 4.9%. Inflation Won't Drop Materially, But It Could Peak.



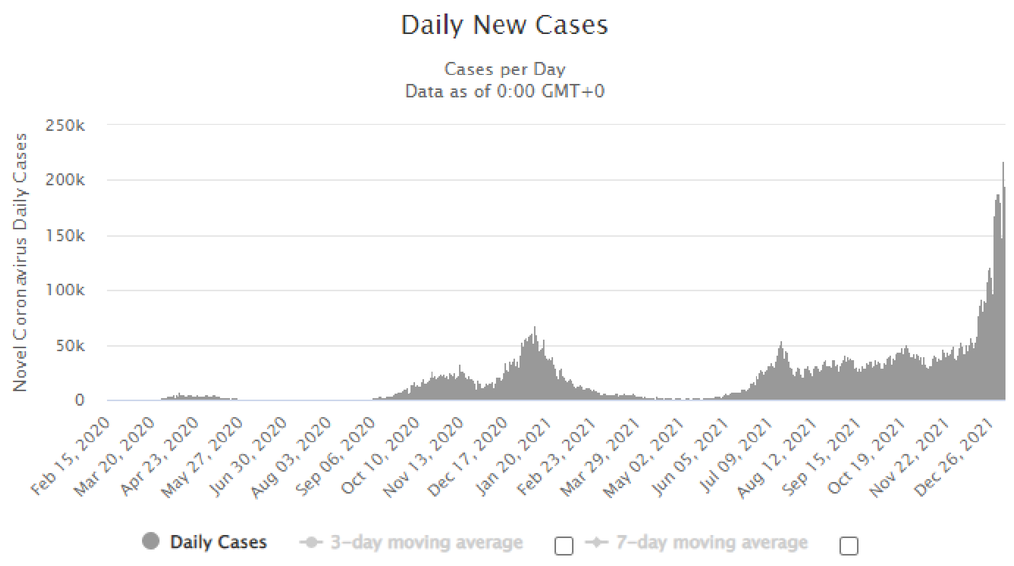
Inflation Expectations Could Be Plateauing.



Omicron Case Peak, January 15th – 30th.

- Based on what we've seen in South Africa and England, and given how quickly the variant is spreading, a peak in cases is likely in mid to late January.
- If cases peak, that will be a net positive for markets as it will ease supply chain pressures and economic headwinds.
- That matters, because the Fed isn't going to get more dovish.
- The longer Omicron goes on, the worse it is because it'll likely make the Fed more hawkish.

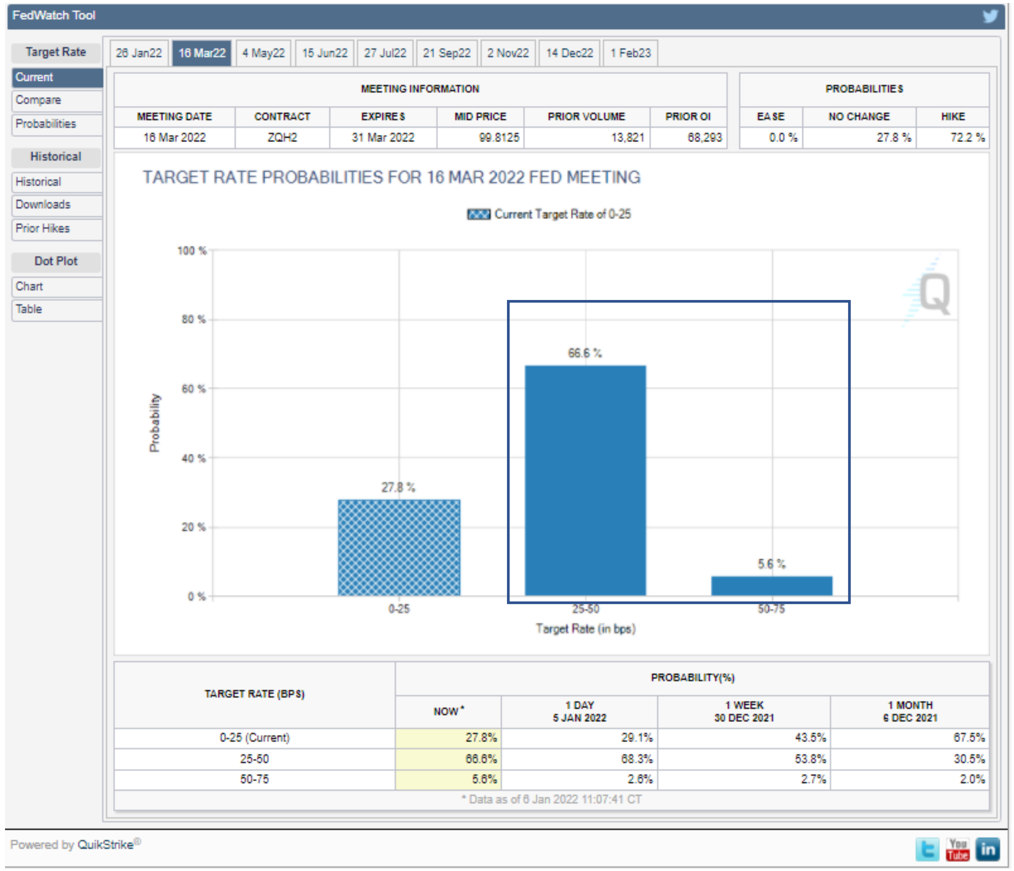
Daily New Cases in the United Kingdom



January FOMC Decision: Wednesday, January 26th.

What's Expected: No Change to Rates or Tapering of QE.

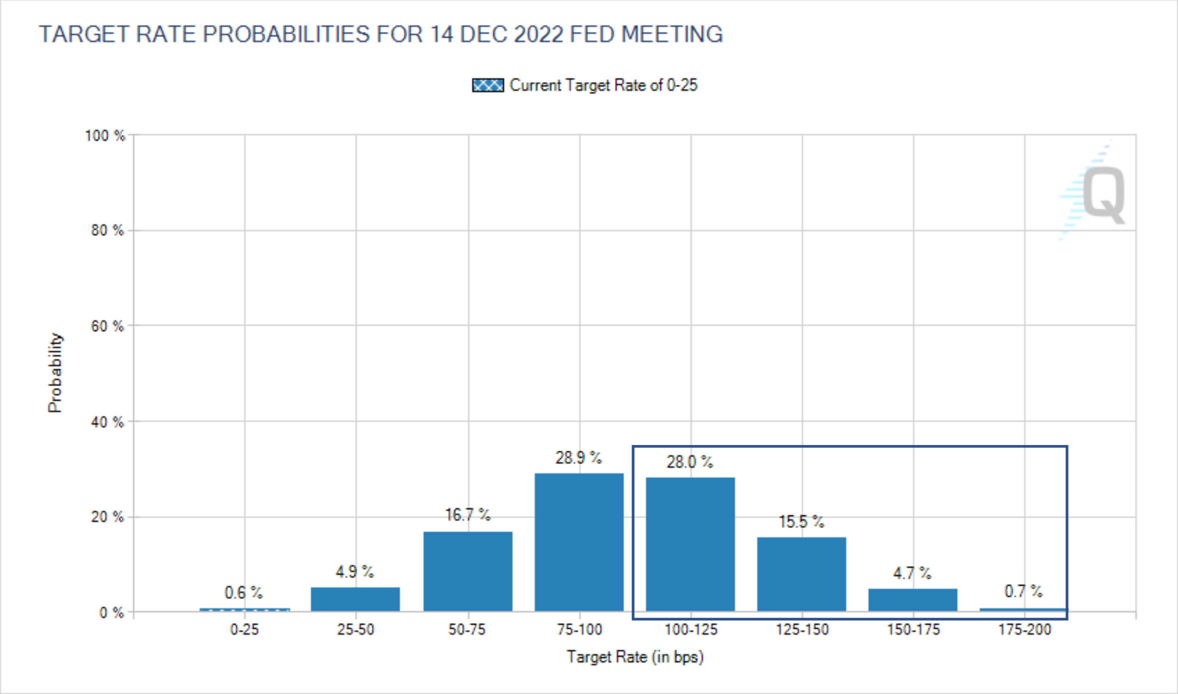
What's Possible: Fed hints at a March rate hike, or references balance sheet reduction (the former is possible, the later is unlikely).



MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
16 Mar 2022	ZQH2	31 Mar 2022	99.8125	13,821	68,293	0.0 %	27.8 %	72.2 %

TARGET RATE (BPS)	PROBABILITY(%) NOW*	1 DAY 5 JAN 2022	1 WEEK 30 DEC 2021	1 MONTH 6 DEC 2021
0-25 (Current)	27.8%	29.1%	43.5%	67.5%
25-50	66.6%	68.3%	53.8%	30.5%
50-75	5.6%	2.6%	2.7%	2.0%

* Data as of 6 Jan 2022 11:07:41 CT



Good Scenario/Bad Scenario

The Good Scenario

- December Jobs Report: In the "Just Right" region.
- Build Back Better: It does not pass (since inflation is markets primary worry).
- CPI: Headline and Core CPI decelerate.
- Omicron: Cases peak in next two weeks.
- FOMC Decision: No material change to statement or tapering, Powell downplays discussion of balance sheet reduction in minutes.

The Bad Scenario

- December Jobs Report : Too Hot (especially in wages, adding further fuel to inflation).
- Build Back Better: Passes and puts more upward pressure on inflation.
- CPI: Does not show signs of deceleration.
- Omicron: Peak doesn't come in January (more supply chain pressures).
- FOMC Decision: Powell lays groundwork for March hike, doesn't downplay balance sheet reduction.

Likely Market Reaction

The Good Scenario

Broad rally led by cyclicals while high growth tech lags.

- Small Caps (4/20/21). PSCD/FXG/RWJ/ISCV.
- "Old Economy" (1/26/21). DJD/FDL/RPV.
- Value (11/3/20). RSP/VTV.
- COVID Vaccine Announcement (8/25/20). JETS/PEJ/KBE/REZ.
- Commodities (9/18/18). PDBC/GNR/RLY.

The Bad Scenario

Wednesday only worse.

- Hedged Equities (3/10/20). DMRL/CCOR/JHEQX.
- Utilities for Income (2/12/19). XPU/NRG/CNP/XLU.
- Bear Market Strategies (10/30/18). USMV/PTLC.
- Minimum Volatility ETFs (5/21/19). USMV/SPLV/EEMV/EFAV.