

Sevens Report Alpha Webinar #117 – Is This a Repeat of the 1970s?

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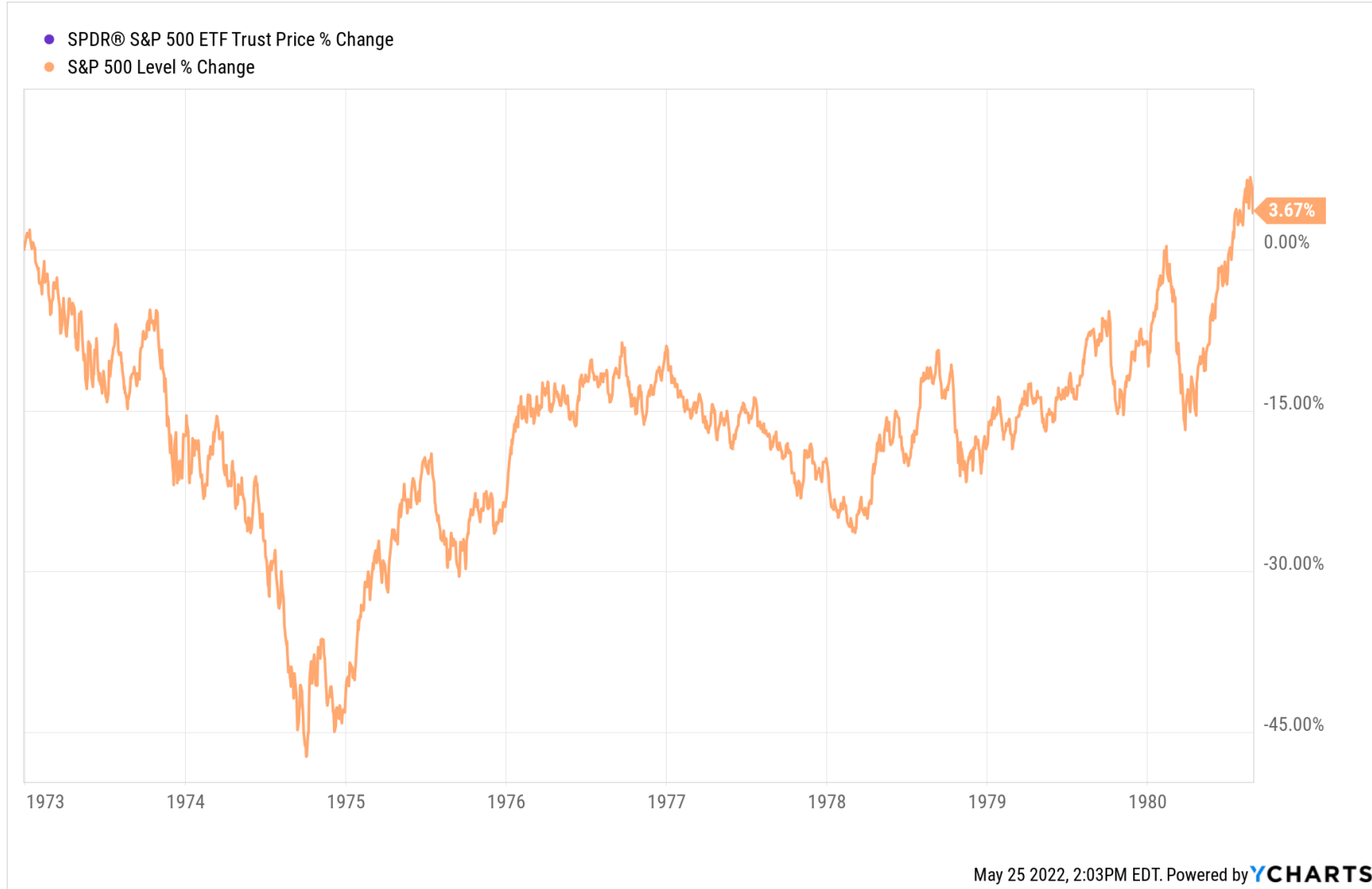
Comparing the Current Market to Two Previous Bears

- The current macro-economic set up is defined by the following:
 - Extremely high inflation
 - A Fed aggressively hiking rates
 - An expected economic slowdown
 - Geo-political unrest
 - Potentially falling corporate earnings
- Given these current fundamentals, analysts have identified two previous market periods that had similar characteristics, in an effort to learn more about the potential future path for stocks, bonds, commodities and the economy.
- Those two periods are:
 - The 1973 Bear Market
 - The 2000 Bear Market

The 1970's Bear Market

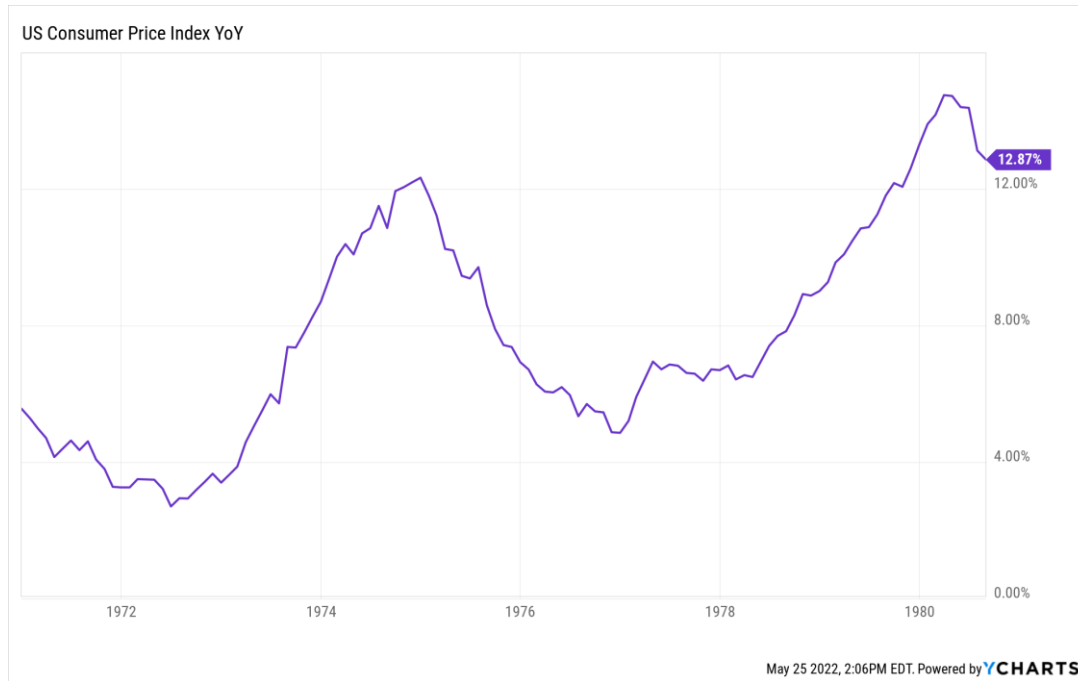
- Official “Bear Market” lasted from 1973-1974.
- The S&P 500 declined 48% peak to trough.
- The bear market lasted 21 months.
- But, the impact lasted much longer. The recovery was 69 months and the S&P 500 did not fully recoup the losses until 1980!
- The P/E for the S&P 500 declined from 20.1 to 7.0.

The 1970's Bear Market

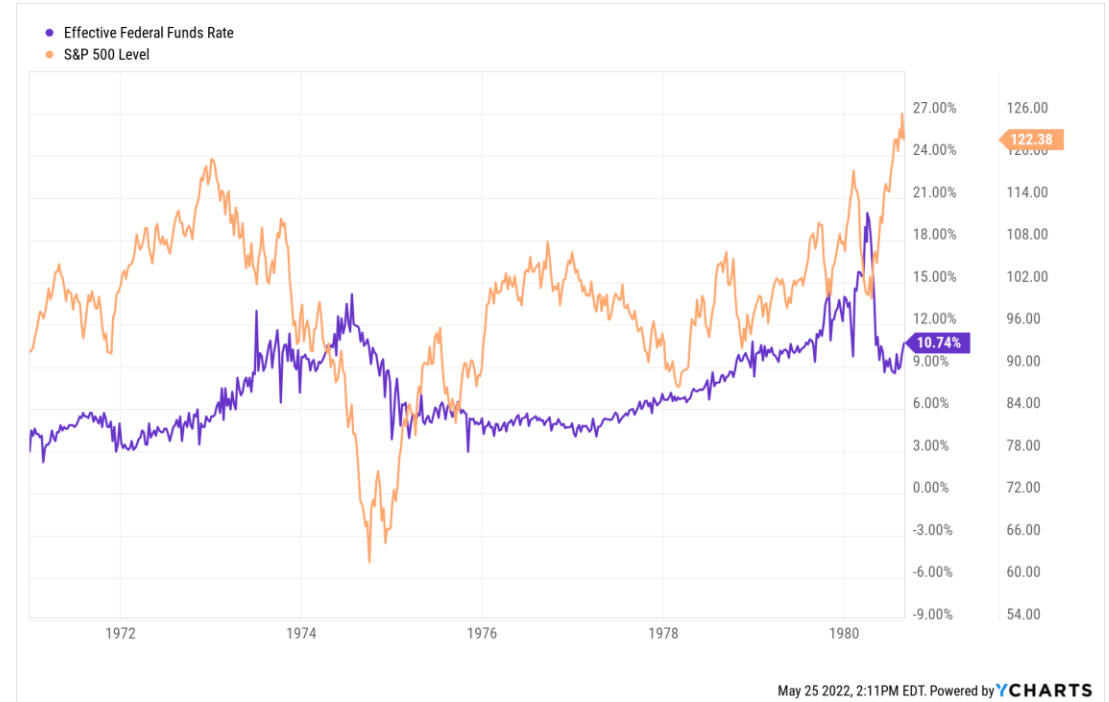


The 1970's Bear Market – What Caused It? A government response to inflation – Rate Hikes

Inflation rose quickly in 1972-1973.



And the Fed hiked rates in response.



The 1970's Bear Market – What Caused It? A government response to inflation – Price Controls

- But, Fed rate hikes were only part of the problem.
- In the early 1970's President Nixon took the U.S. off the gold standard, ushering in an intense spike in inflation as the dollar declined.
- In response to that inflation, in August 1971 President Nixon then instituted a 90 day freeze on prices and wages. After the 90 day expiration, price and wage increases were heavily regulated, and increases had to be approved by “Pay Boards” and “Price Commissions.”

The 1970's Bear Market – What Caused It? A government response to inflation – Price Controls

- That initially was successful at slowing inflation, but when controls were removed in January of 1973, intense demand caused an explosion in prices as consumers rushed to lock in lower prices.
- By June of 1973 price controls were reinstituted, but the effect was disastrous as inflation had taken hold.
- With selling prices capped, many essential goods like chicken, beef, etc. went into severe shortages as farmers and ranchers literally killed herds and flocks instead of selling them at a loss.



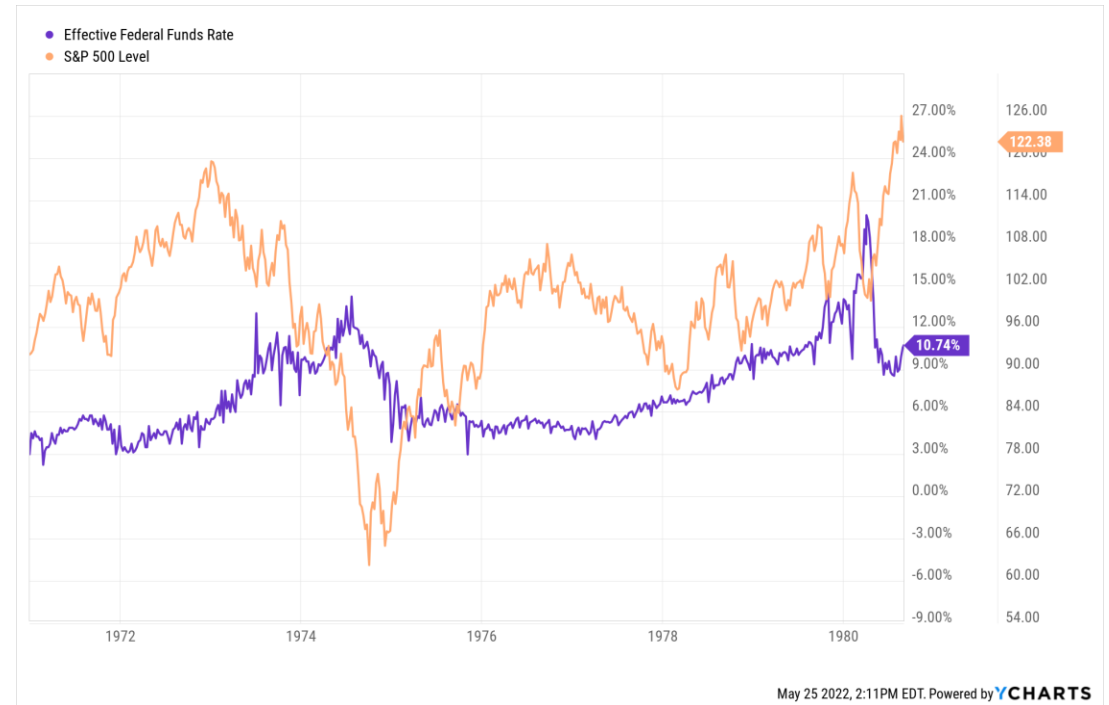
The 1970's Bear Market – What Caused It? A government response to inflation – Price Controls

- Then, things got worse.
- OPEC initiated an oil embargo on the United States for the U.S. supplying arms to Israel during the wars vs. Egypt and Syria.
- With price controls on gasoline and oil prices exploding, combined with low imports, gas shortages and lines ensured.

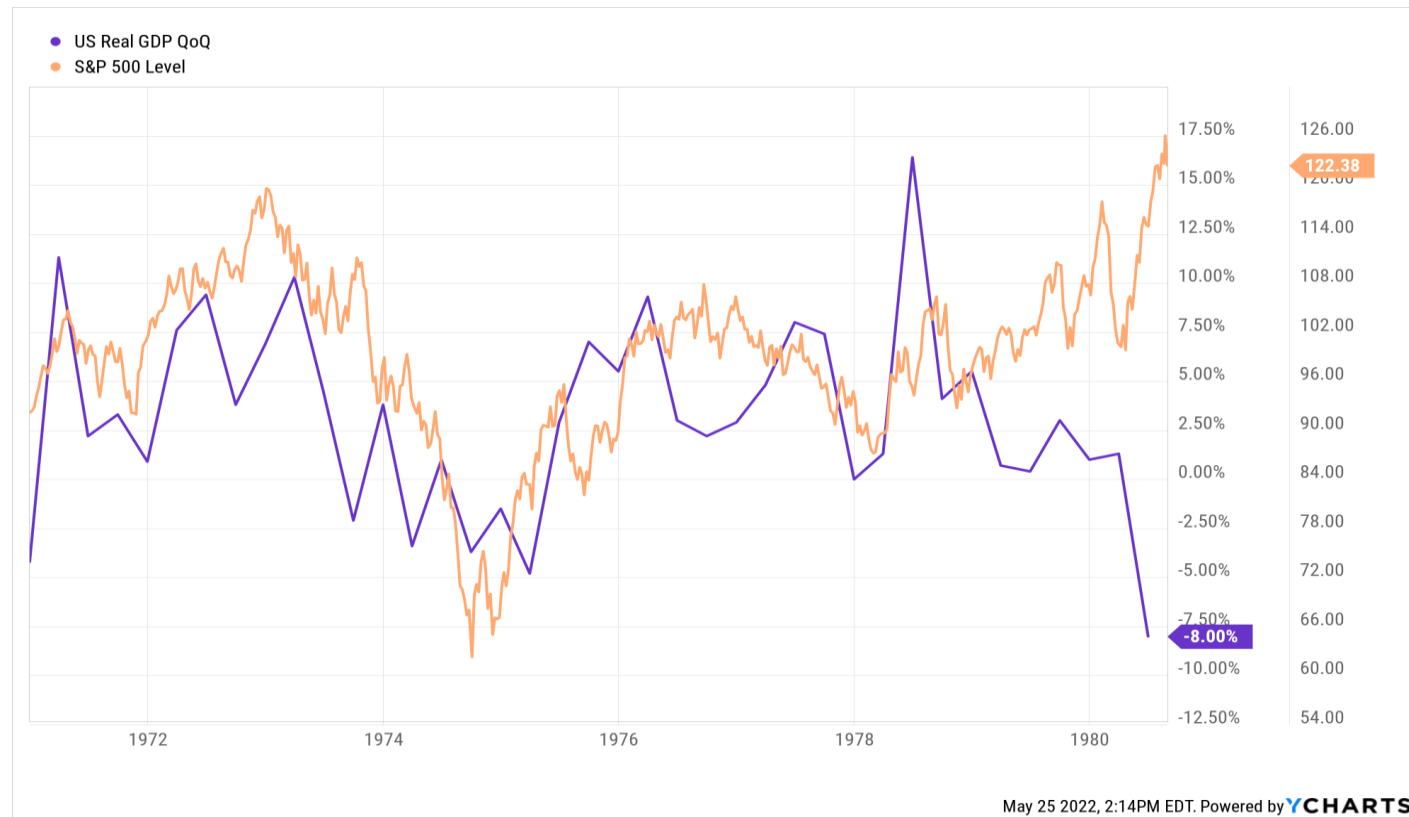


The 1970's Bear Market – What Caused It? An Erratic Fed

- Fed policy during this period was exceptionally erratic, adding more confusion to an already difficult economic time.



The 1970's Bear Market – The Result was a Sharp Drop in GDP and Nearly a “Lost Decade” in Stocks.



The 2000's Bear Market

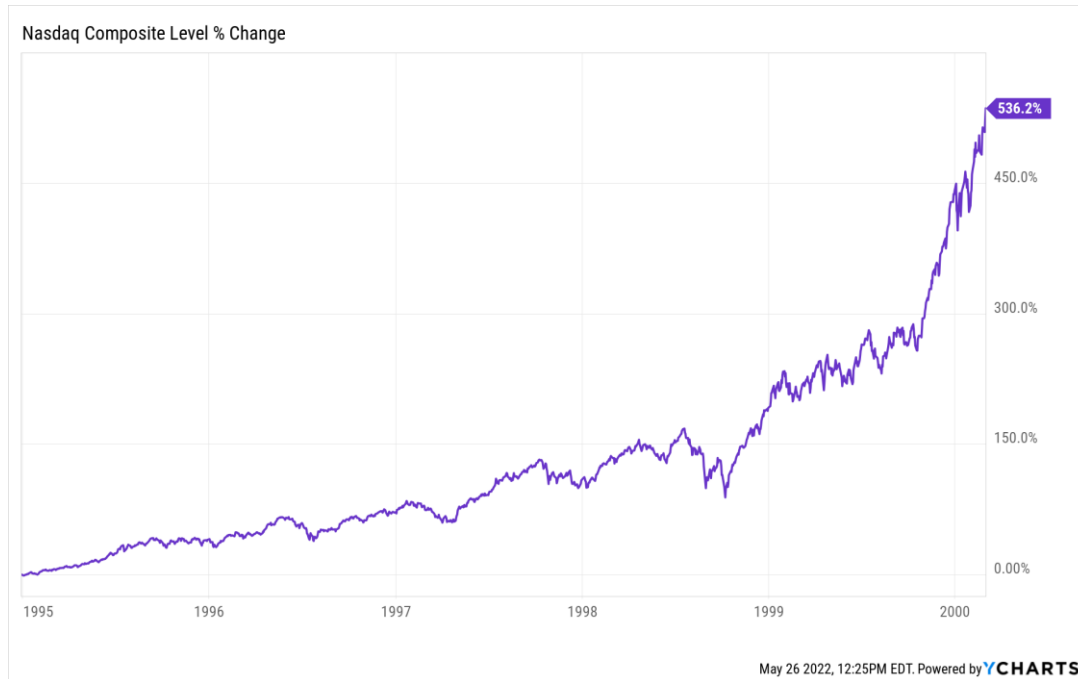
- Official “Bear Market” lasted two years.
- The S&P 500 declined 45% peak to trough.
- But, the impact lasted much longer. The recovery was 72 months and the S&P 500 did not fully recoup the losses until 2006.
- The P/E for the S&P 500 declined from 35.3X to 14.3X.

The Early 2000's Bear Market

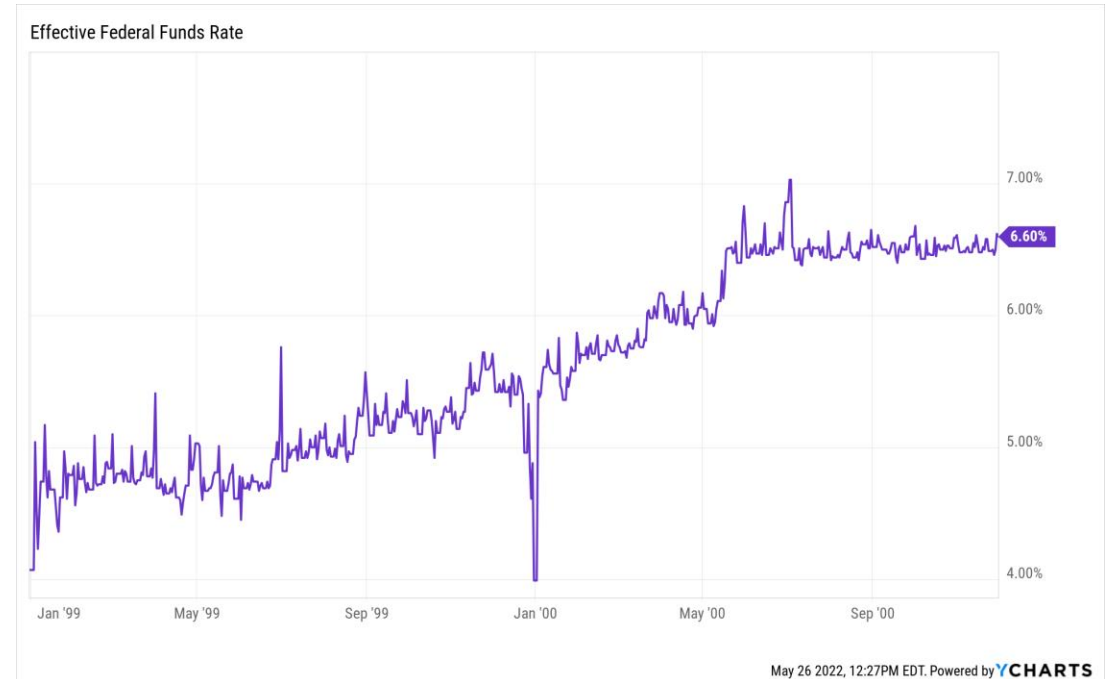


The 2000's Bear Market – What Caused It? Irrational Exuberance and Rate Hikes

The Dot Com Bubble sent stock valuations to heady levels and retail investor participation in stocks exploded



And the Fed hiked rates in response.



The 2000's Bear Market – What Caused It? The September 11th Attacks. .

- The S&P 500 and U.S. GDP were already falling before the attacks of September 11th rocked the country.
- The ensuing economic slowdown further exacerbated the natural deleveraging that was occurring in the economy.



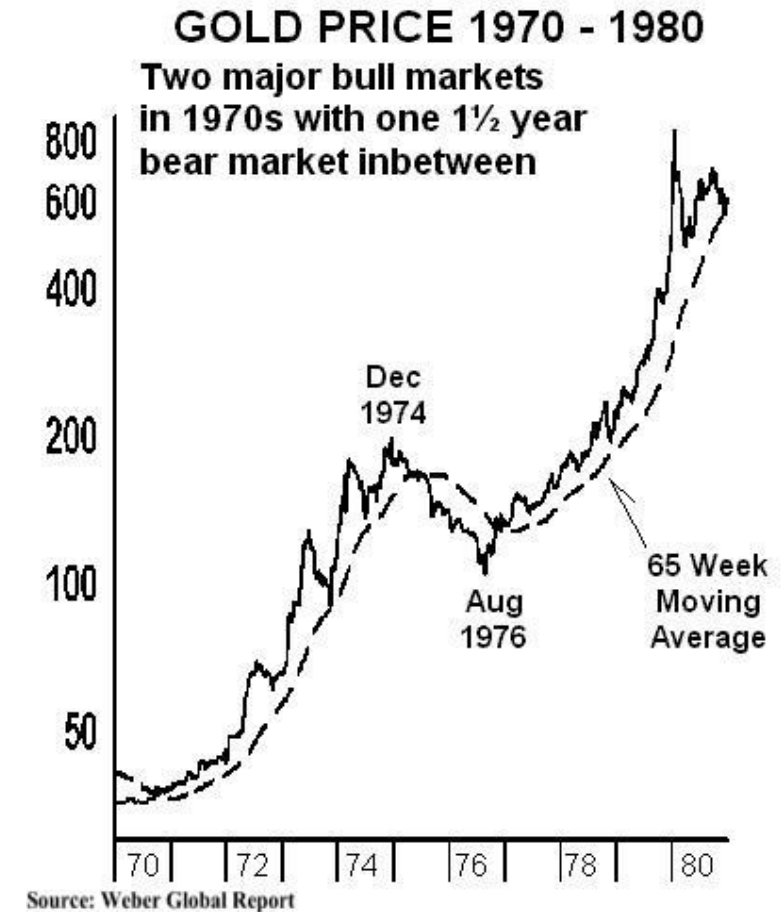
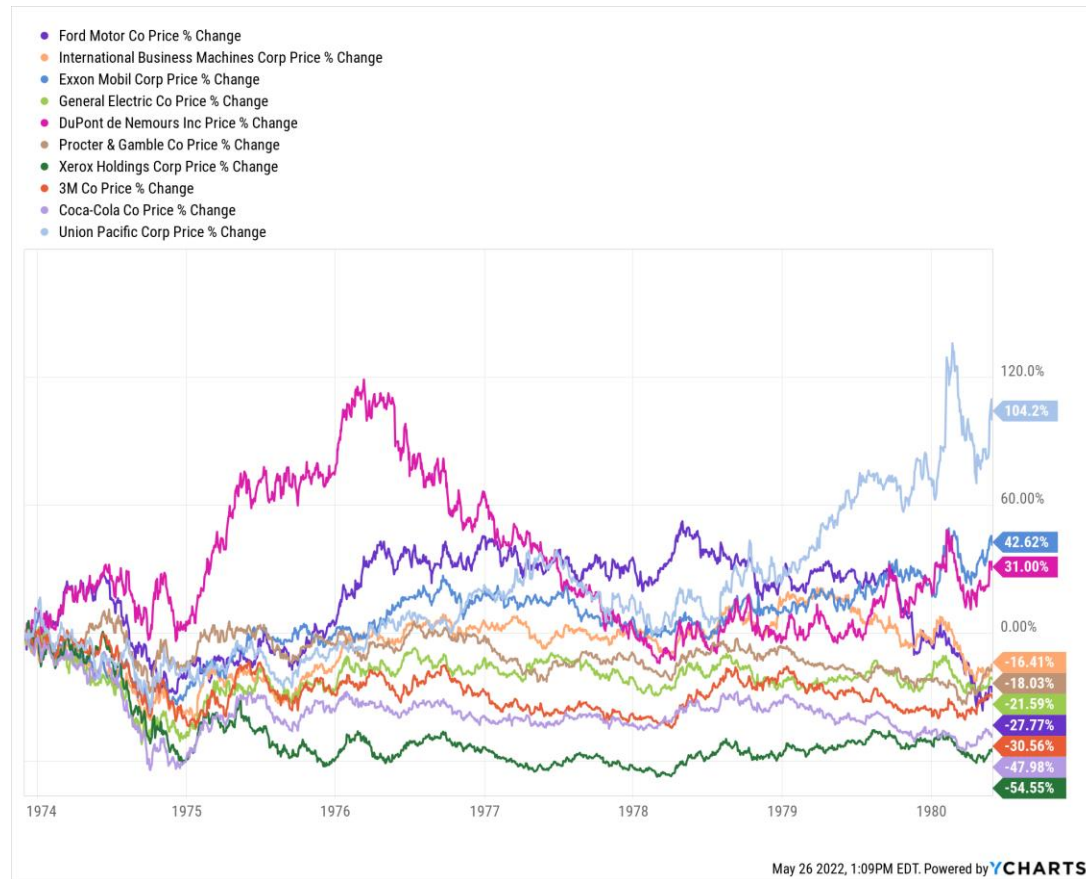
Similarities Between Now and Then

Causes	1970 Bear	Early 2000's Bear	Current Decline
Fed Rate Hikes	X	X	X
High Inflation	X		X
Bad Policy	X		
Geo-Political Risks	X		X
Commodity Prices	X		X
Excessive Valuations		X	
Existential Tragedy		X	

Conclusions

- There are more similarities between the 1973 bear market and today's market, then the early 2000's bear.
 - High inflation, aggressive Fed, geo-political risks (then: Israel/Syria/Egypt war, now: Russia/Ukraine).
 - These are market problems and stocks have traded down accordingly.
 - So, should we expect a 1970's like "Lost decade?"
 - Not yet – here's why:
 - The true economic and market malaise of the 1970's was mostly policy driven.
 - Removing the U.S. from the gold standard caused inflation.
 - That was met with price controls, which resulted in more inflation and shortages.
 - The OPEC embargo only compounded these issues.
 - Federal Reserve policy flailing destroyed business confidence.
 - Bottom line, unless we think the government and the Fed is about to follow a similar script, then we should not automatically assume we are going to have a repeat of the 1970's.
 - Going forward, we will be watching closely for policy blunders that could exacerbate the slowing economy and we will alert you to any risks from Washington.

1970s Outperformers



2000s Outperformers

