

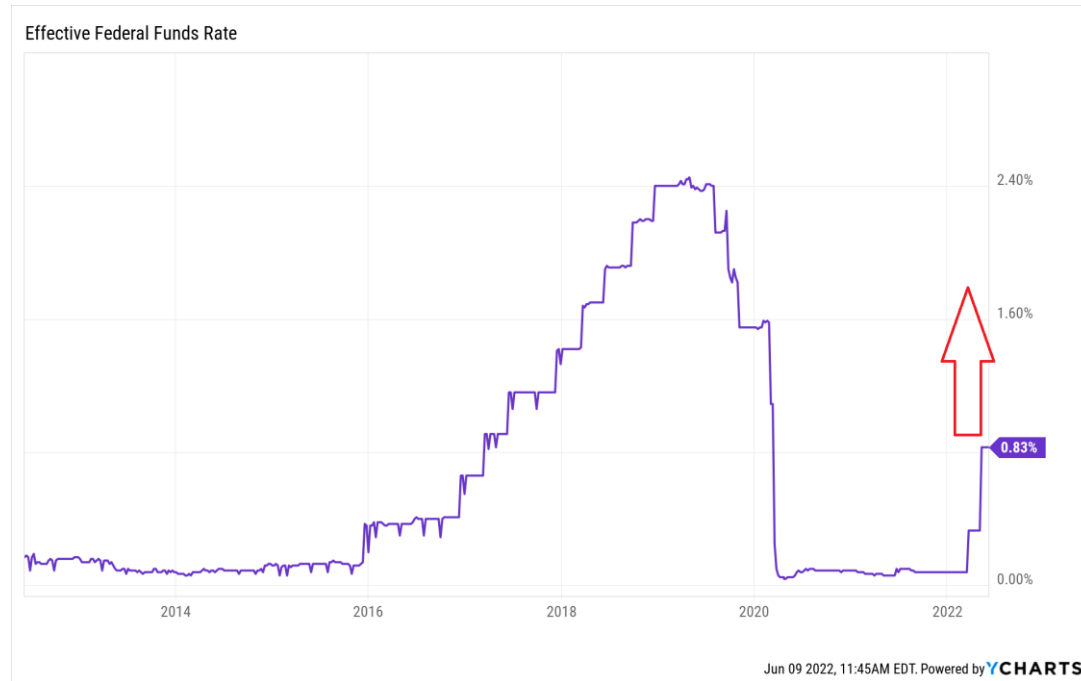
Sevens Report Alpha Webinar #118 – Fed Meeting Preview and Economic Update

June 9th, 2022

Tom Essaye, President Sevens Report Research

Markets and the economy are about to embark on the most dramatic Fed tightening in decades

Fund Funds Is About To Surge Higher



The Balance Sheet Is About To Contract Sharply

Credit and Liquidity Programs and the Balance Sheet

Overview

Crisis response

Monetary policy normalization

Fed's balance sheet

Federal Reserve liabilities

Recent balance sheet trends

Open market operations

Central bank liquidity swaps

Lending to depository institutions

Fed financial reports

Other reports and disclosures

Information on closed programs

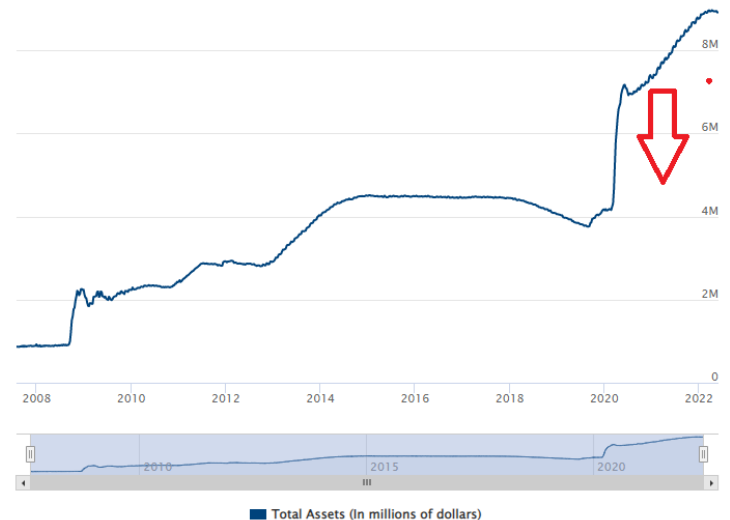
Recent balance sheet trends

Choose one of the 5 charts.

Total Assets of the Federal Reserve

Zoom 1m 3m 6m YTD 1y All

Jul 30, 2007 — Jun 1, 2022

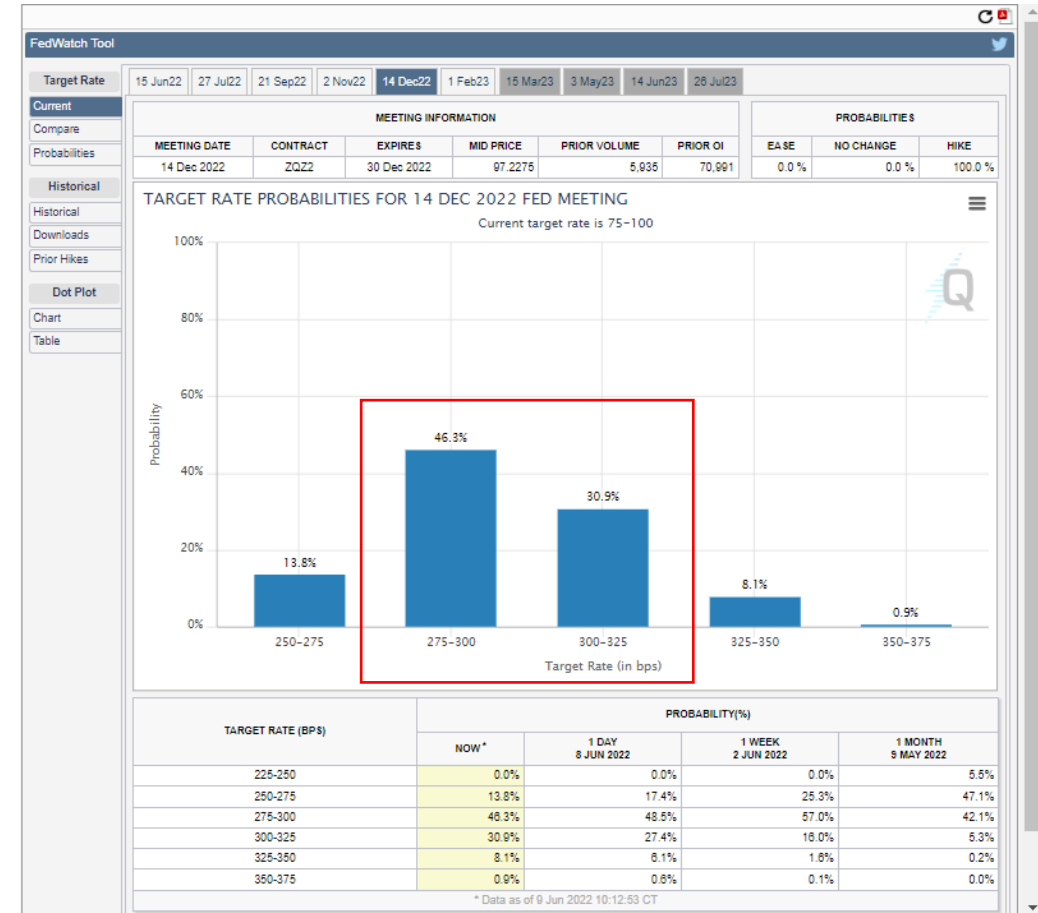


Taking Stock of the Current Situation

- It's important to realize that despite YTD stock volatility and tightening of financial conditions, there's been no material impact on the economy. Fed tightening hasn't even really started.
- So, as this begins, it's important to understand the current state is:
 1. Expected rate hikes
 2. Economic growth
 3. Inflation
 4. Financial conditions
- In the end, the economy will slow. It's just a question of hard landing or soft landing.

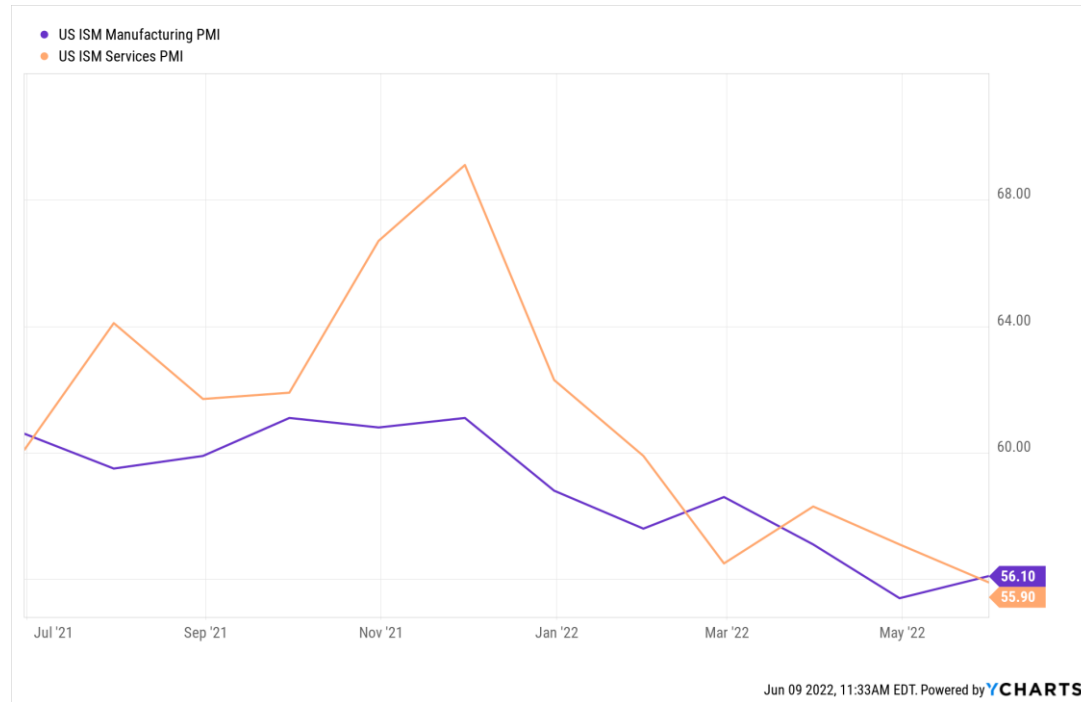
Expected Fed Funds

- All that matters now is where year-end Fed Funds.
- Over the past week, we've seen expectations for year-end Fed Funds rise sharply:
 - Year-end Fed Funds > 3.00% is now a 31.5% probability, up from 5.3% a month ago.
 - Overwhelming expectations Fed Funds ends the year between 2.75% and 3.25%.

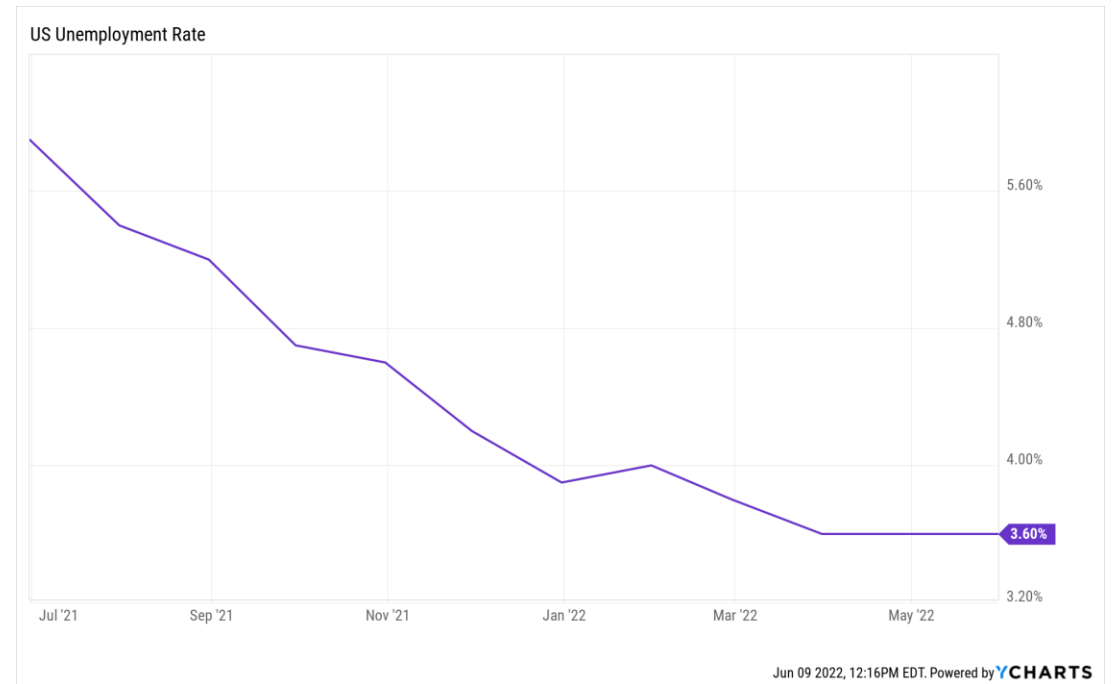


Current Economic Growth – Still Solid

Key number to watch is 50.

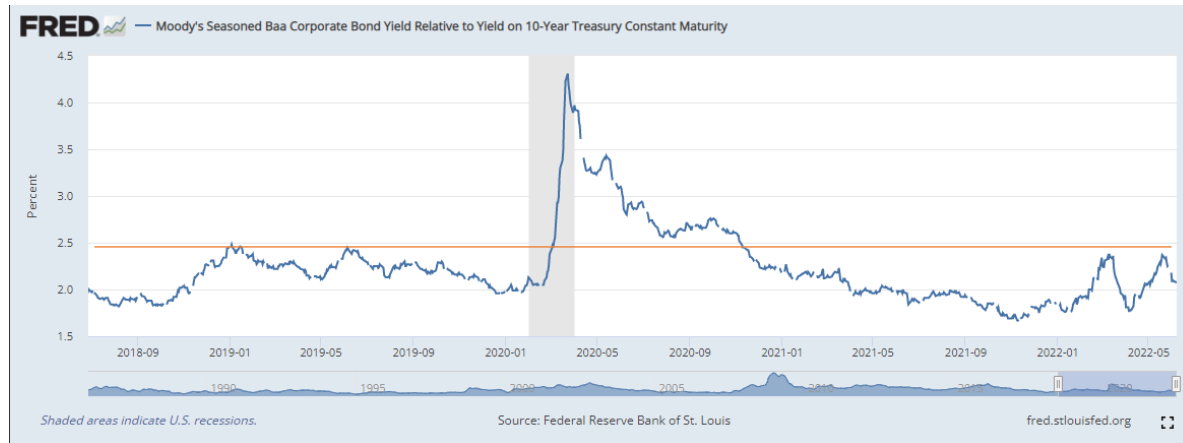


Key number to watch is 4.5%

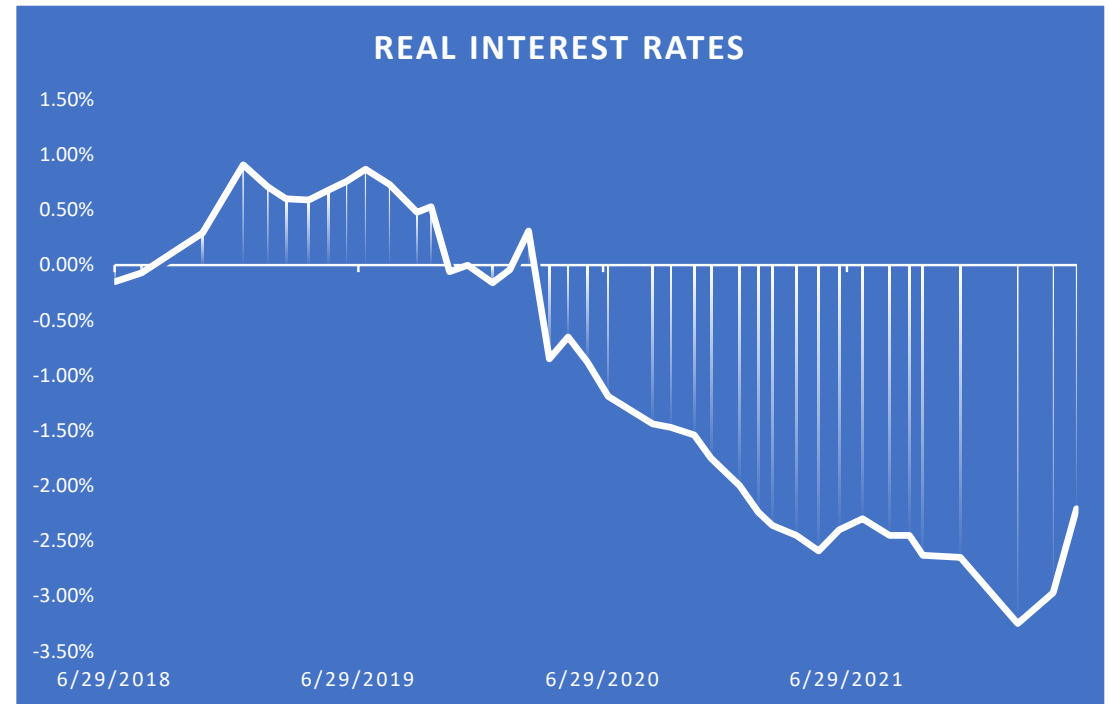


Current Financial Conditions – Fine.

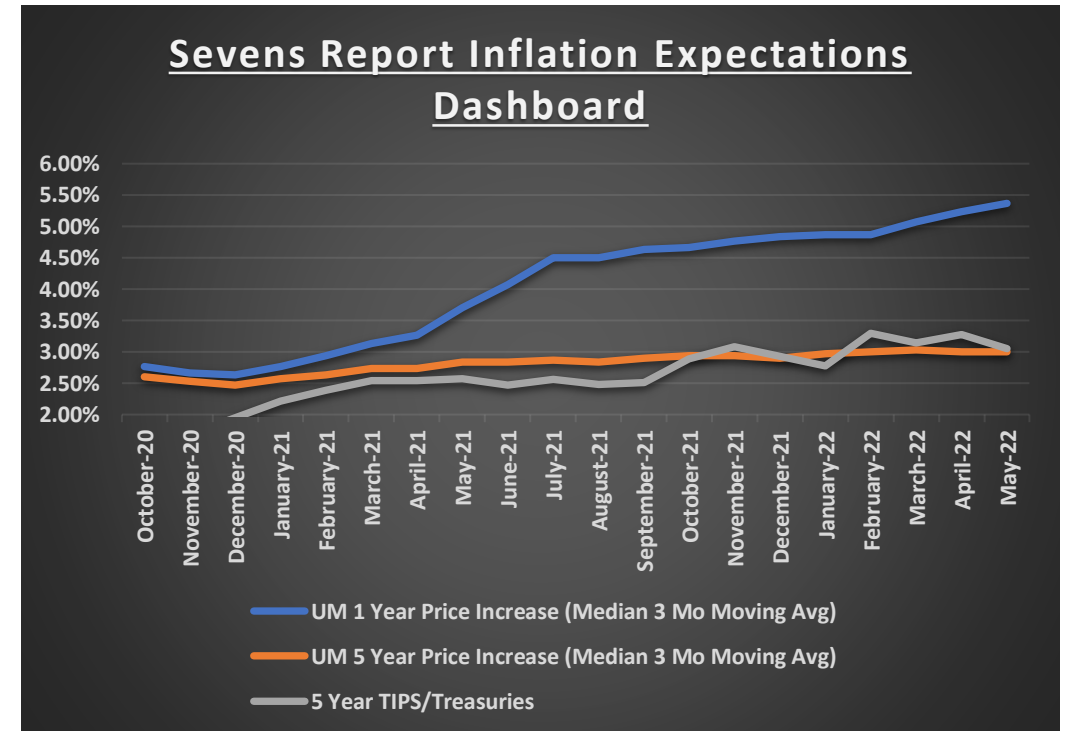
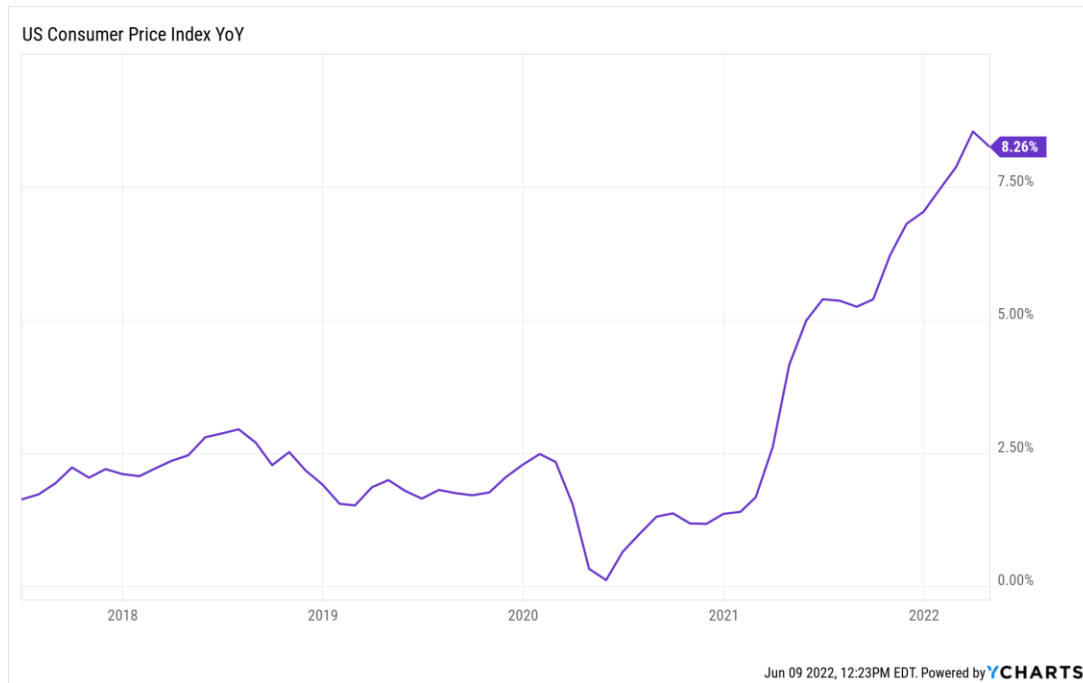
Key number to watch is 2.5%



Key number is 1.0%



Current Inflation – Still Too High But Signs of a Peak



Hard Landing vs. Soft Landing (Print this slide)

What a “Hard” Landing Looks Like

- ISM PMIs drop below 50.
- Jobless claims move towards 300k/Unemployment rate rises above 4.5%.
- Baa Spreads rise solidly above 2.5% (towards 3%)
- Real interest rates turn solidly positive (above 1%).
- Fed funds is over 3% by year-end.
- CPI greater than 6% yoy.
- **Likely Market Reaction: S&P 500 takes out the May 20th lows.**

What a “Soft” Landing Looks Like

- ISM PMIs decline further but stay above 50 or drop below 50 limited time (one/two months).
- Jobless claims remain low (mid 200k)/unemployment rate doesn't move towards 5%.
- Baa spreads remain below 2.5%.
- Real interest rates remain low (near 0%).
- Fed funds stays under 3% at year-end.
- CPI less than 6% yoy.
- **Likely Market Reaction: The S&P 500 will trade markedly higher, possibly above 4600 in the S&P 500.**