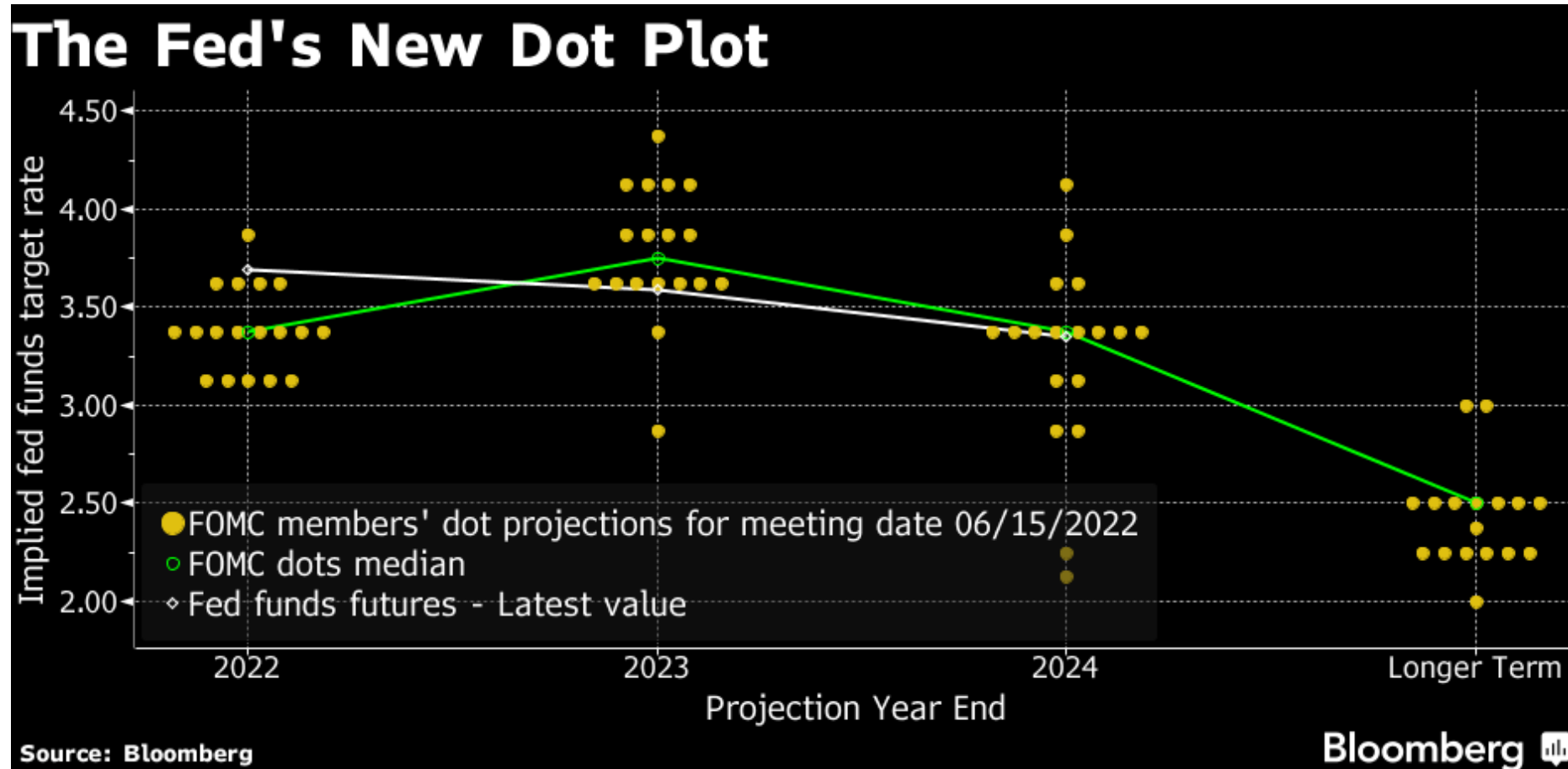


Sevens Report Alpha Webinar – When Will the Fed (Actually) Pivot?

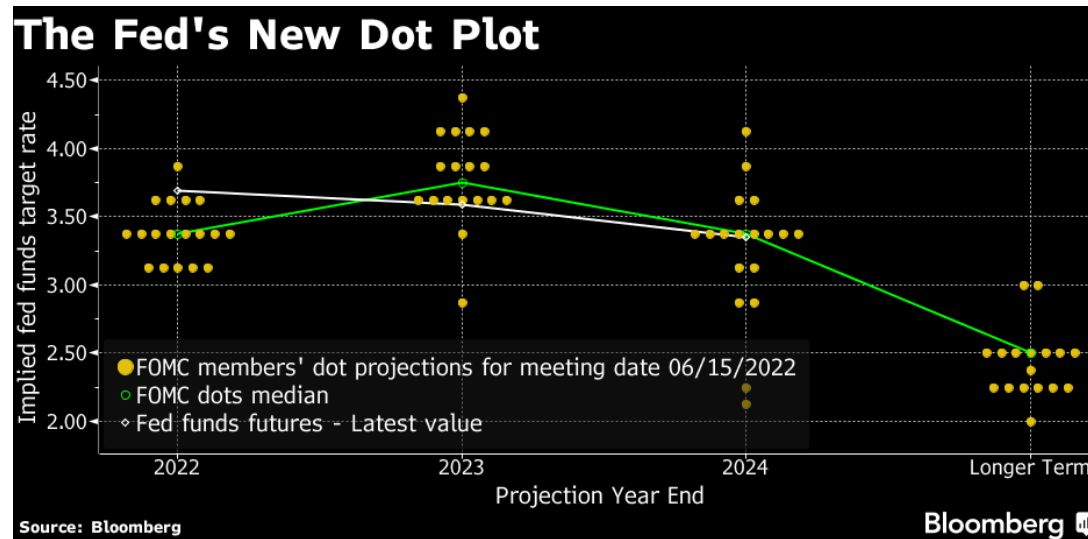
August 4th, 2022

Tom Essaye, President Sevens Report Research

What Does An Actual Pivot Look Like?



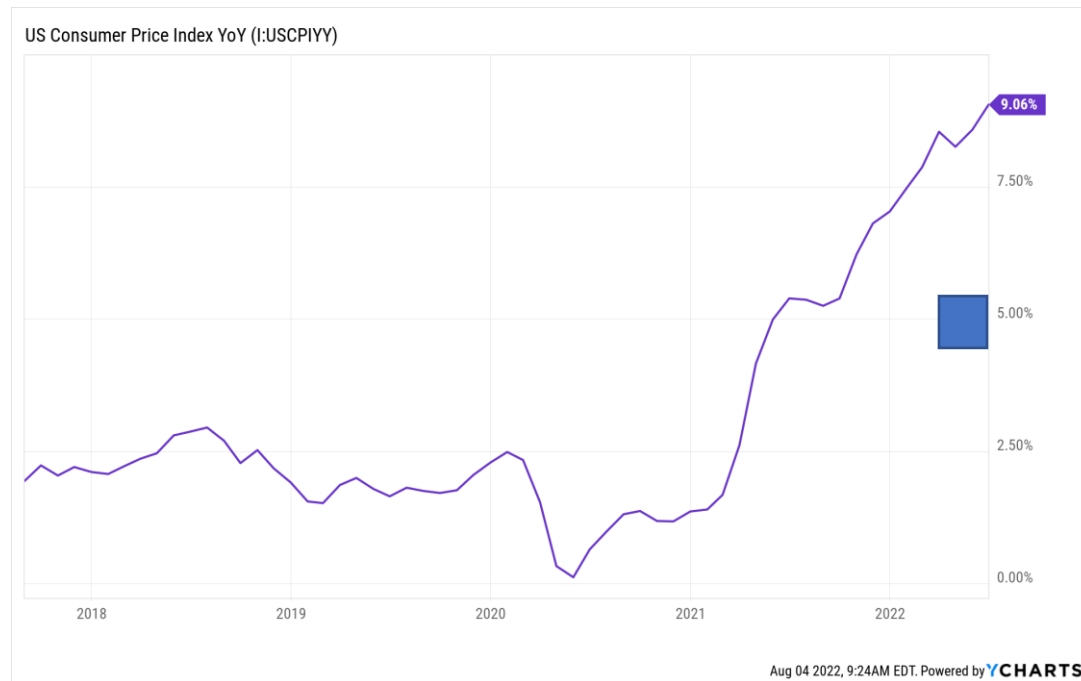
What Does An Actual Pivot Look Like?



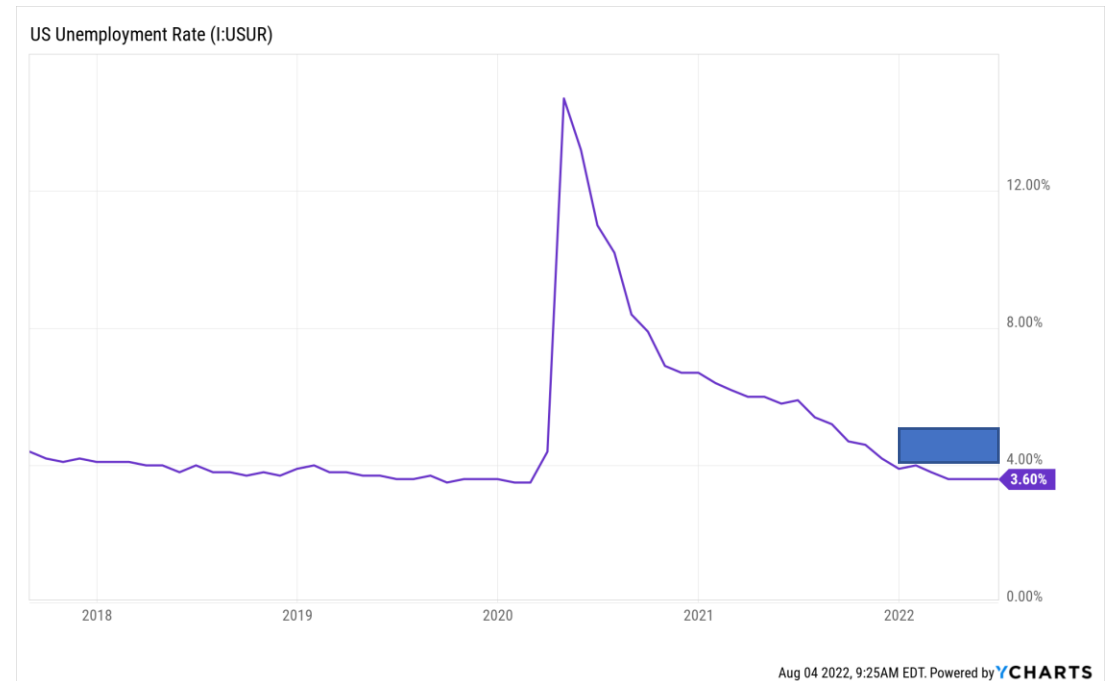
- Pivot Proof 1: Median 2023 “dot” declines from 3.75%, reflecting the idea that the Fed thinks:
 - It won’t hike as much as expected
 - It will have to ease policy sooner than expected.
- Pivot Proof 2: Median 2024 “dot” declines from 3.375%, reflecting more future easing.

How do we actually get there? The Good Way

**Inflation rolls over (below 5% by Q1 '23)
on a combination of rate hikes, QT, and re-
engaging of globalization.**

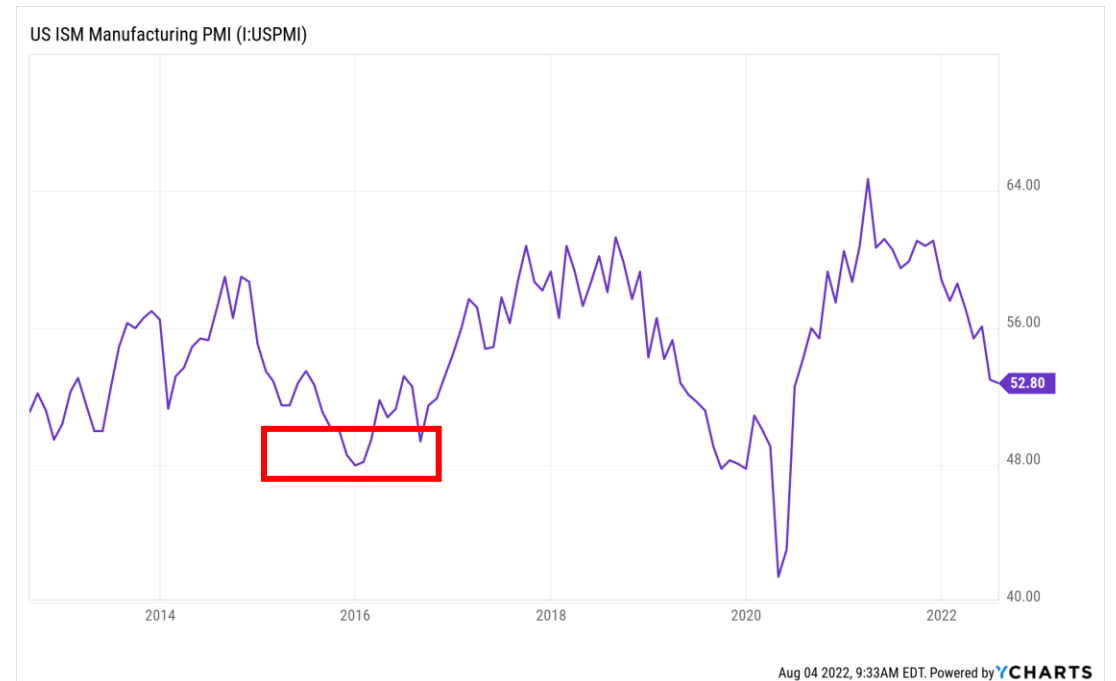
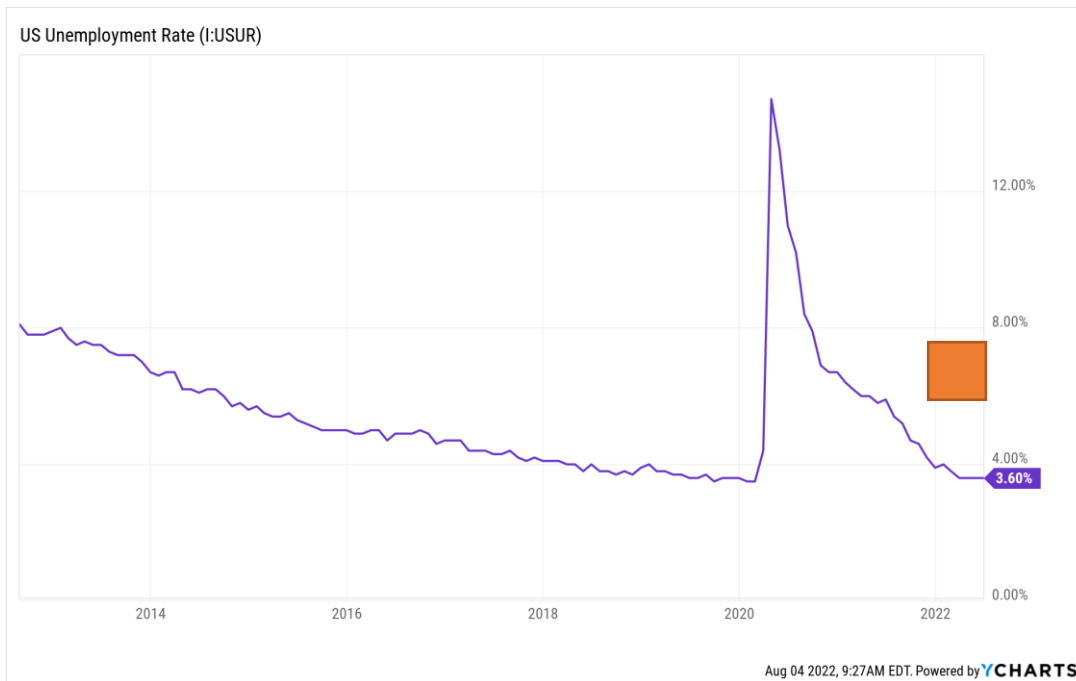


**Unemployment rises to more normal
levels (between 4.00% - 4.50%).**



How do we actually get there? The Bad Way

Rate hikes and QT crush the economy and the Fed is forced to back off rate hikes because of economic pain.



Chance for a Pivot #1: Friday's Jobs Report

- Increase Chance for a Near Term Pivot:
 - Job adds < 200k.
 - Unemployment close to 4.0%.
 - Wages < 5.0%.
- Decreased Chance for a Near Term Pivot:
 - Job adds > 250k.
 - Unemployment little changed (around 3.6%).
 - Wages > 5.0%.

Chance for a Pivot #2: Wednesday's CPI Report

- Expectations: Headline CPI 8.8% yoy. Core CPI 6.1% yoy.
- Increase Chance for a Near Term Pivot:
 - Headline CPI < 8.5%.
 - Core CPI < 5.7%.
- Decreased Chance for a Near Term Pivot:
 - Headline CPI > 8.8%.
 - Core CPI > 5.9%.

Chance for a Pivot #3: Fed's Jackson Hole Conference

- Expectations: No material change to expected Fed policy.
- Increased Chance for a Near-Term Pivot:
 - Powell or Brainard come out and focus on the neutral rate of policy and the need to, going forward, slow rate hikes and assess the impact of the recent tightening and QT programs.
 - Powell or Brainard focus a speech on growing economic headwinds.

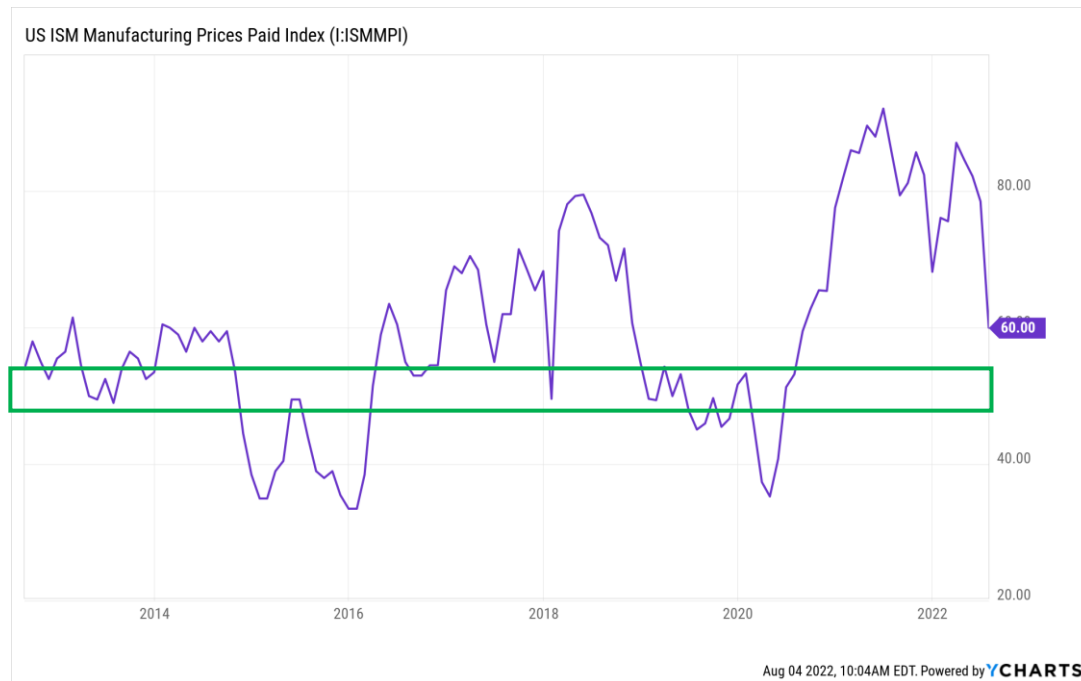
Things Change in September

- Starting in September, and for the remainder of the year, the impact of data on the Fed and the economy will become more nuanced.
- With the economy likely losing momentum by this point, we will have to start to differentiate between data that implies a “Good” Fed pivot or a “Bad” Fed pivot.
- Events to Watch This Month:
 - August Manufacturing PMI (September 1st)
 - August Jobs Report (September 2nd)
 - August CPI (September 13th)
 - September FOMC Decision (September 21st)

Chance for a Pivot #4: August Manufacturing PMI

Increased chance for a near-term “Good Pivot.”

- **Headline PMI stays above 50**
- **Prices Index falls between 50-55**



Increased chance for a near-term “Bad Pivot”

- **Headline PMI drops below 50**
- **Price Index stays above 55**



Chance for a Pivot #5: August Jobs Report

Increased chance for a “good” Fed pivot.

- Job Adds < 200k.
- Unemployment > 4.0%.
- Wages < 4.8%.

Increased chance for a “bad” Fed pivot.

- Job Adds < 50k or negative.
- Unemployment > 4.5%
- Wages > 5.0%

Chance for a Pivot #6: August CPI

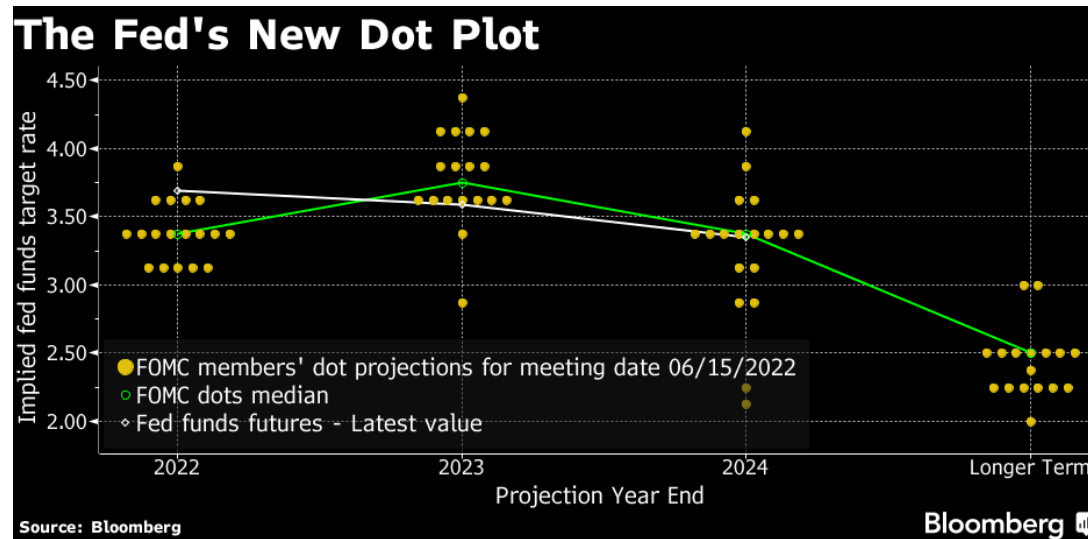
Increased chance for a “good” Fed pivot.

- Headline CPI < 8.0%.
- Core CPI < 5.5%.

Increased chance for NO Fed pivot.

- Headline CPI > 8.0%
- Core CPI > 5.9%.

Chance for a Pivot #7: September FOMC Decision



- This is the meeting where markets expect the Fed to confirm the pivot.
- So, we'll need to see the dots shift and confirm it – otherwise the next chance to confirm the pivot will be in December.
- 2023 dot falls below 3.75%.
- 2024 dot falls below 3.375%.

The Good Pivot Recipe & Alpha Strategies

- Friday's jobs report comes in light.
 - < 200k jobs, UE rate close to 4%, Wages < 5.0%.
- CPI confirms the peak in inflation.
 - Headline < 8.5%
 - Core CPI < 5.7%
- Jackson Hole
 - Commentary focuses on seeing the impact of current tightening, a lot of focus on rates being neutral.
- Aug. Manufacturing PMI (9/1/22)
 - PMI > 50, Prices 50-55
- Aug. Jobs Report
 - < 200k jobs, UE rate at or above 4%, Wages < 4.8%.
- August CPI
 - Headline < 8.0%
 - Core CPI < 5.5%
- Sept. Fed Meeting
 - Dots shift.
- Alpha Strategies
 - This is basically a bullish scenario where there is a soft economic landing and rates fall.
- What Would Outperform is Markets Turn-Around. 2.23.22. XITK/VCR/USHY/SRLN.
- Contrarian Bond Strategy. 5.3.2022. BIV/LQD/PFF.
- REITS As An Inflation Hedge. 11.30.22. VNQ/SRVR/INDS/REZ.
- Opportunities in Small Caps. 1.28.2020. IJR/VBK/XSLV.

The Bad Pivot or No Pivot Recipe & Alpha Strategies

- Friday's jobs report comes in strong or solid.
 - >200k jobs, UE rate around 3.6%, Wages > 5.0%.
- CPI doesn't decline notably.
 - Headline > 8.8%
 - Core CPI > 5.9%
- Jackson Hole
 - Commentary focuses on continuing to hike rates into a more restrictive policy.
- Aug. Manufacturing PMI (9/1/22)
 - PMI < 50, Prices >55
- Aug. Jobs Report
 - <50kk jobs, UE rate < 4.5%, Wages > 5.0%.
- August CPI
 - Headline > 8.0%
 - Core CPI > 5.9%
- Sept. Fed Meeting
 - Dots don't shift.
- Alpha Strategies for this outcome:
 - The likely macro-outcome from this is either 1) Stagflation or 2) Material economic contraction. Either way, it's not good for stocks and I'd expect a test of the June lows.
- Sectors That Outperform During Recessions. 7/12/22. VHT/IHF/VDC/PBJ.
- Low Volatility ETFs. 4.19.22. USMC/SPHD/XYLD.
- Bear Market Playbook. 3.8.22. MINT/SGOL/VNQ/FXG.
- Stagflation Playbook. 8.24.21. FDN/RHS/FLTR/BCI.