

Sevens Report Alpha Webinar – Remaining Chances for a Turnaround

October 13th, 2022

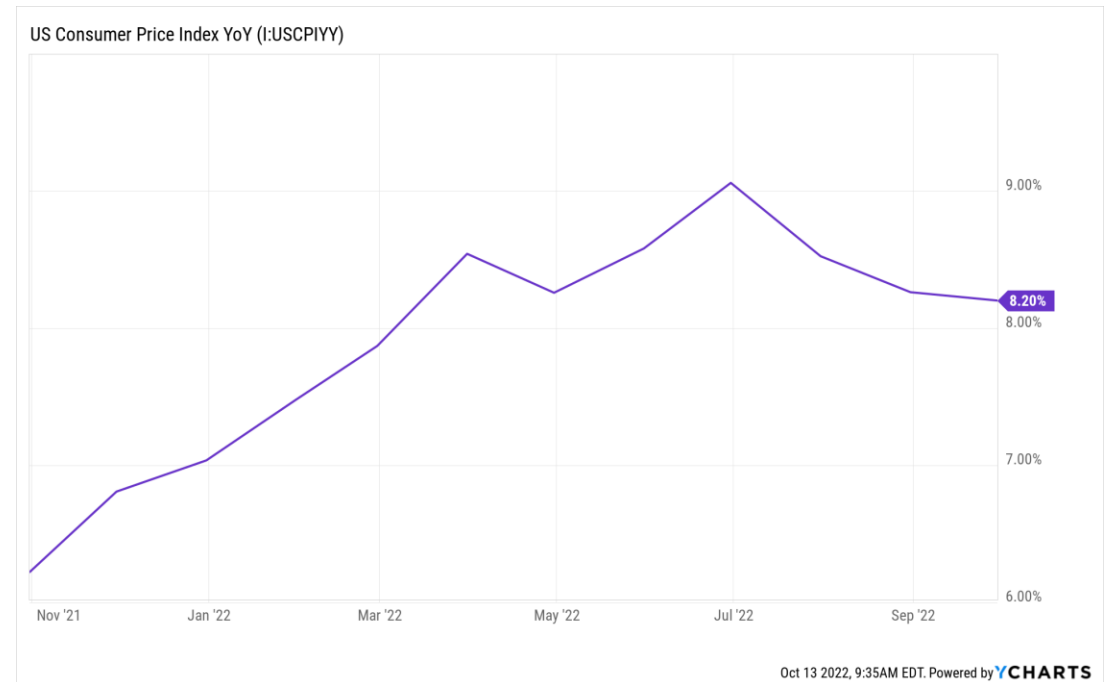
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What Can Cause A Turnaround in this Market?

- The formula for market stabilization is not a complicated or mysterious one.
 - First, inflation must peak *and* show it's meaningfully declining.
 - Second, once inflation is declining, the Fed will make the “pivot” towards a less hawkish policy.
- So, the key is data.
 - Inflation data
 - Jobs data
 - Fed expectations
- They will tell us when markets have what they need to stabilize, so we want to identify the data points where that might occur.

October CPI. 10.13.22 (Today)

- Did it help markets stabilize?
 - No.
- Inflation printed too hot on both headline and core CPI.
- Housing costs (which are 40% of CPI) were the main driver of the hot inflation print, but it was more than that as service inflation was also hot.
- Other measures of inflation are declining, but it'll take time for CPI to drop – and we'll need to see slowing growth for that to happen.



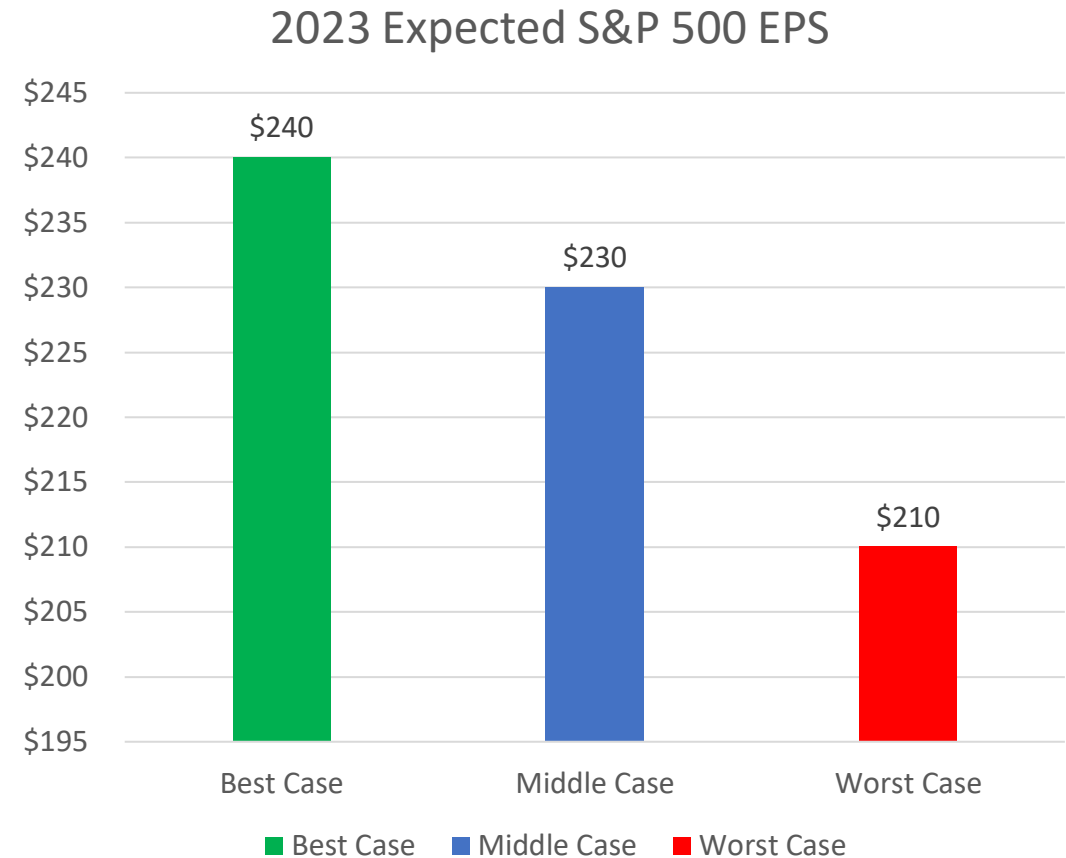
BOE Ends Bond Purchases (10/14/22)

- The UK fiscal dysfunction has added unnecessary weight to the markets.
- Tomorrow the BOE will, possibly, suspend bond purchases and it risks the possibility that GILT yields spike and pull Treasuries higher with them, increasing systemic risks.
- Positive If: The BOE tells markets that it will step in to ensure orderly markets.
- Negative If: The BOE tells markets they're on their own (think Lehman).



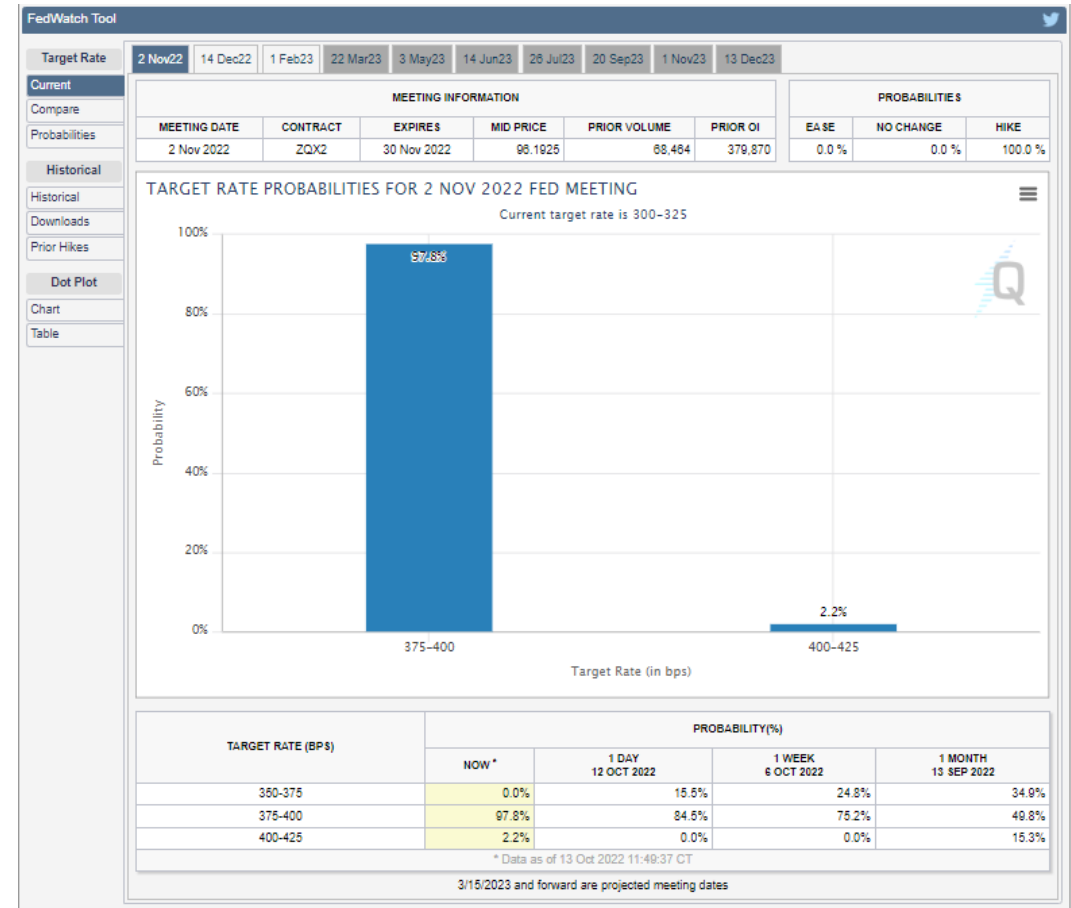
Earnings Season. 10/17/22 – 11/4/22

- Earnings expectations matter. Here's why:
- If the multiple on the market is 16, then $16 * \$240 = 3840$ in the S&P 500.
- But, if expected 2023 earnings fall to \$220, then $16 * \$220 = 3520$. That's a 10% difference, never mind if 2023 earnings drop toward \$200 (unlikely but possible).
- Positive If: Q3 earnings surprise to the upside and commentary/guidance is positive.
- Negative If: Q3 earnings miss expectations.



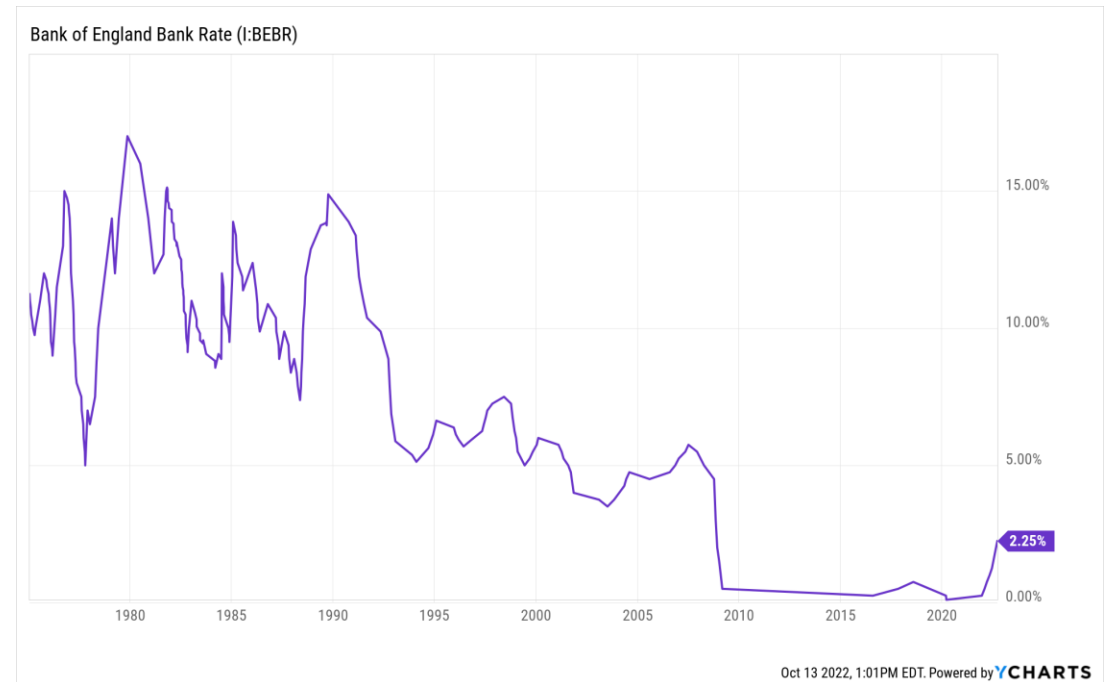
Fed Meeting 11.2.22

- The Fed will hike 75 bps here, but at this point, they'll be into restrictive territory.
- Does the Fed note that “dual-sided” risks to the outlook at this meeting, and in doing so offer a first hint that rate hikes are coming to an end sooner than later?
- Positive If: Fed addresses “dual risks” (meaning they’re worried about growth and inflation).
- Negative If: Fed does not address dual risks and instead just continues to focus on inflation.



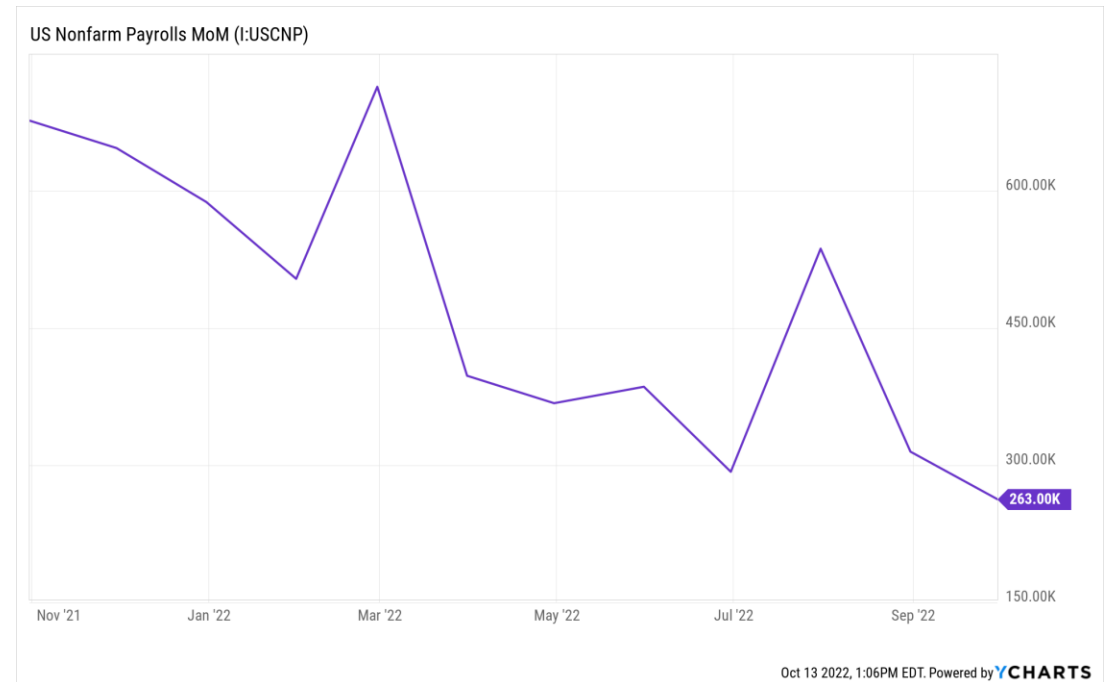
BOE Meeting. 11.3.22

- Again, this event shouldn't be that important, but because of UK fiscal dysfunction, it's now very important.
- The key issue here is whether the BOE hikes rates enough to offset the fiscal damage from Truss's spending/tax cut plan.
- From a market stability standpoint, the bigger the hike, the better!
- Positive If: The BOE hikes rates by more than 100 bps.
- Negative If: The BOE hikes rates by 75 bps or less.



October Jobs Report 11.4.22.

- The Fed can't pivot until there's more balance in the labor market.
- Job adds must come down if that's going to happen.
- Positive If: Job adds drop towards or below 200k
- Negative If: Job adds remain solid, in the mid 200's or higher.



UK Fiscal Budget. 11.23.22

- Again, this event shouldn't be that important, but because of UK fiscal dysfunction, it's now very important.
- This budget document will let markets know exactly what's planned from a spending/tax cut standpoint and detail how much damage it'll do to the fiscal outlook for the UK.
- Positive If: The smaller the budget, the better for market stability.
- Negative If: The larger the budget, the worse for market stability.

Mini-budget: What has been announced?



Income tax

Basic rate cut by 1p to 19p from April 2023
Scrapped: 45% top rate for high earners



National Insurance

1.25% rise to be reversed from November 2022



Stamp duty

No duty on first £250,000
of property's value, up from £125,000

First time buyers

No duty on first £425,000
of property's value, up from £300,000



Bankers' bonuses

Scrapped: Cap limiting payouts



Corporation tax

Scrapped: Planned rise from 19% to 25%

Changes to income tax does not apply in Scotland.

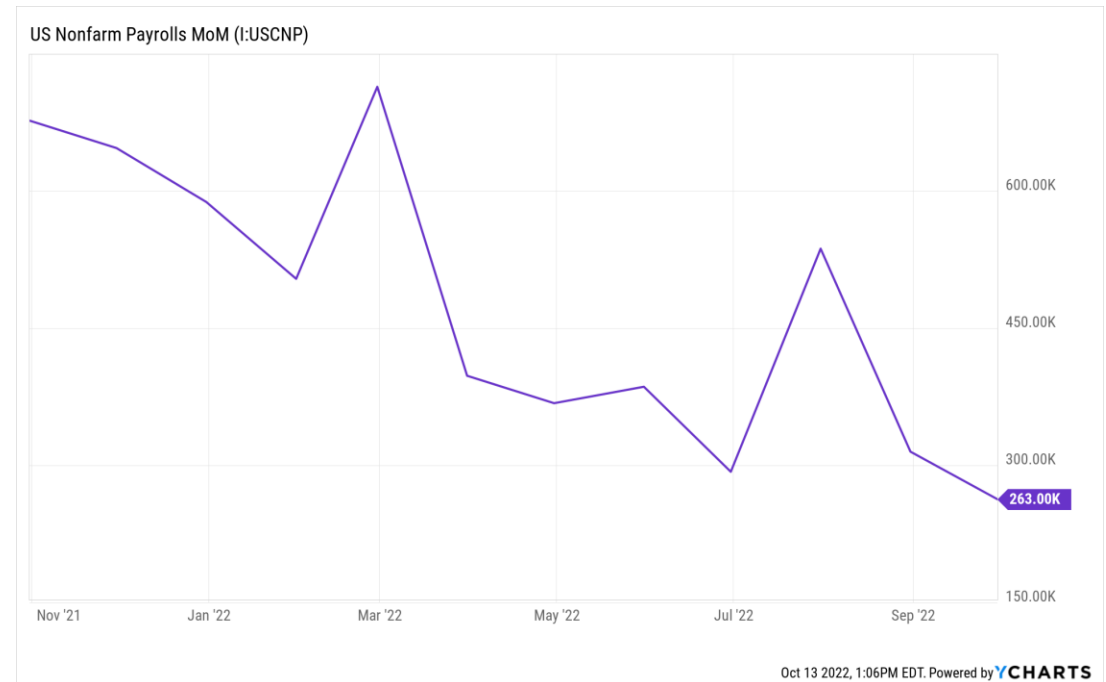
Changes to stamp duty apply in England and Northern Ireland only.

Source: UK Government

BBC

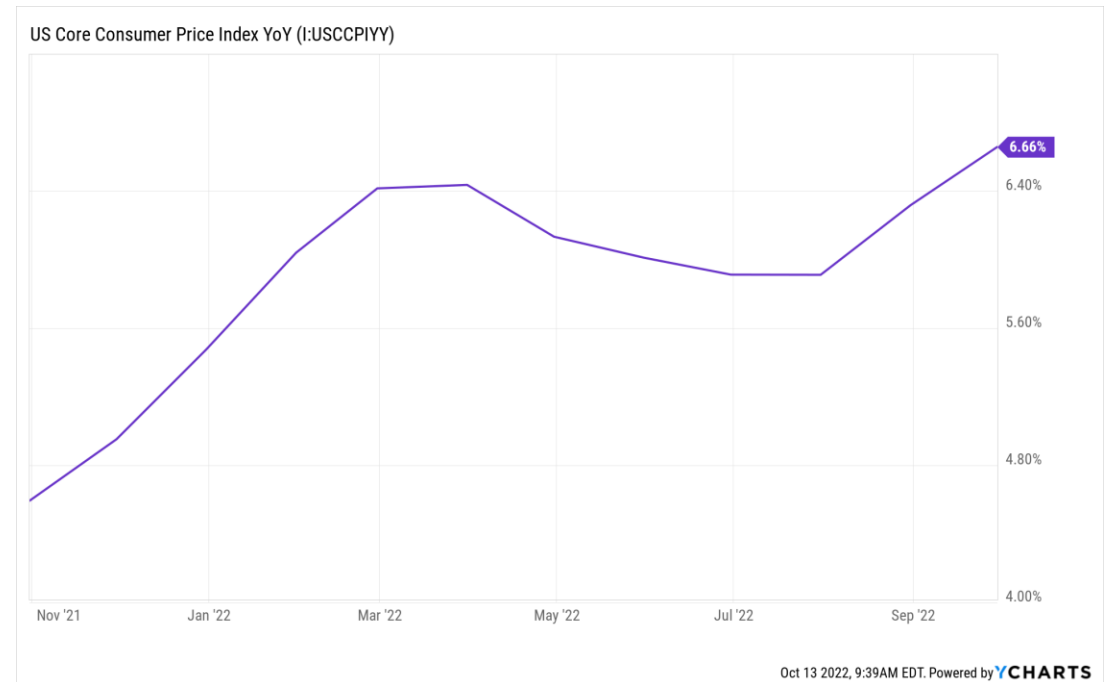
November Jobs Report. 12/02/22

- The Fed can't pivot until there's more balance in the labor market.
- Job adds must come down if that's going to happen.
- Positive If: Job adds drop towards or below 200k
- Negative If: Job adds remain solid, in the mid 200's or higher.



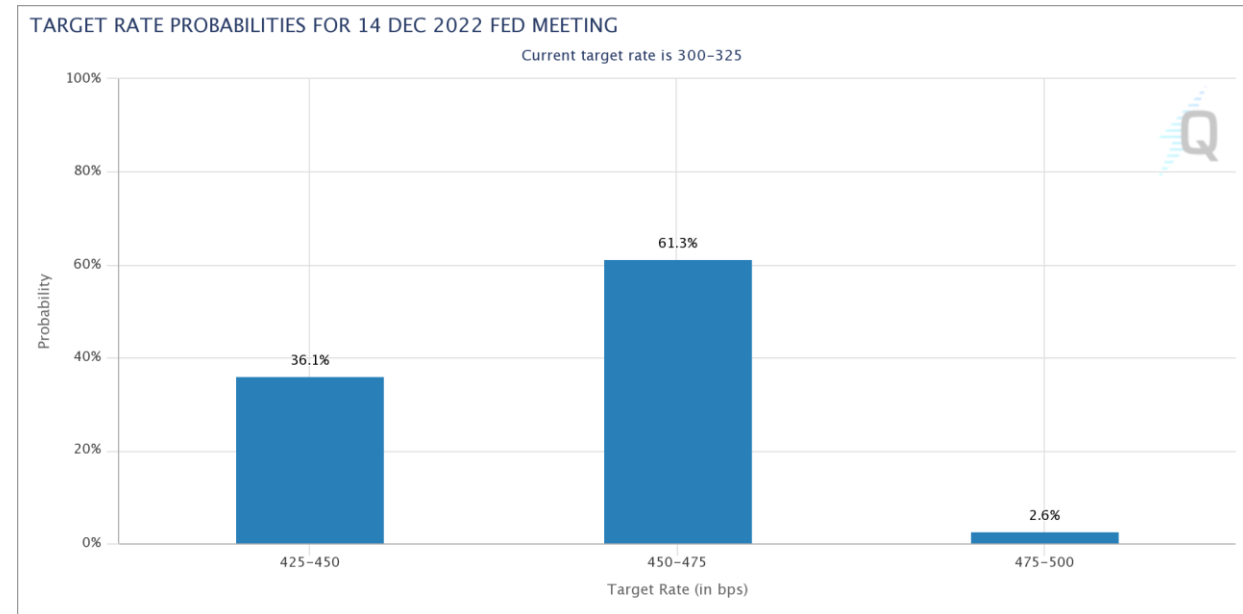
November CPI. 12/13/22.

- Inflation should be moving solidly lower by this month's report.
- If CPI has moved solidly below 8% that will help encourage the Fed to slow rate hikes, and while it may not be the official pivot, it'll certainly be moving in that direction and could easily give way to a "Santa" rally into year-end.
- Positive If: CPI is well under 8% (say low 7% or high 6%).
- Negative If: CPI is not substantially under 8% (mid to high 7% range).



December FOMC Decision. 12/14/22.

- Will the Fed hike by less than November?
- That's the key question for this meeting as the bulls will hope this Fed meeting marks the start of the decline in Fed rate hikes, signaling a potential “pivot” towards less aggressive policy.
- Positive If: The Fed hikes 50 bps or less.
- Negative If: The Fed hikes 75 bps.



Tear Sheet

<u>Events that Could Cause a Market Turnaround</u>			
<u>Date</u>	<u>Event</u>	<u>Positive Outcome</u>	<u>Negative Outcome</u>
10/14/22	BOE ends bond purchases	Purchases still possible.	Purchases not possible.
10/17-22 – 11/4/22	Q3 earnings season	2023 expected EPS > \$230	2023 expected EPS < \$230
11/2/2022	November FOMC meeting	Mention of dual risks.	No mention of dual risks.
11/3/2022	BOE Meeting	> 100 bps hike	< 100 bps hike
11/4/22	October Jobs Report	< 225k jobs added	> 225k jobs added
11/23/22	UK Fiscal Budget	Smaller spending/tax cuts	Larger spending/tax cuts
12/02/22	November Jobs Report	< 225k jobs added	> 225k jobs added
12/13/22	November CPI	CPI < 7.3%	CPI > 7.3%
12/14/22	December FOMC Meeting	50 bps hike.	75 bps hike.