

Sevens Report Alpha Webinar – Will There Be a Santa Claus Rally?

November 11th, 2022

Tom Essaye, President Sevens Report Research

S&P 500 – Rally or Roll Over?



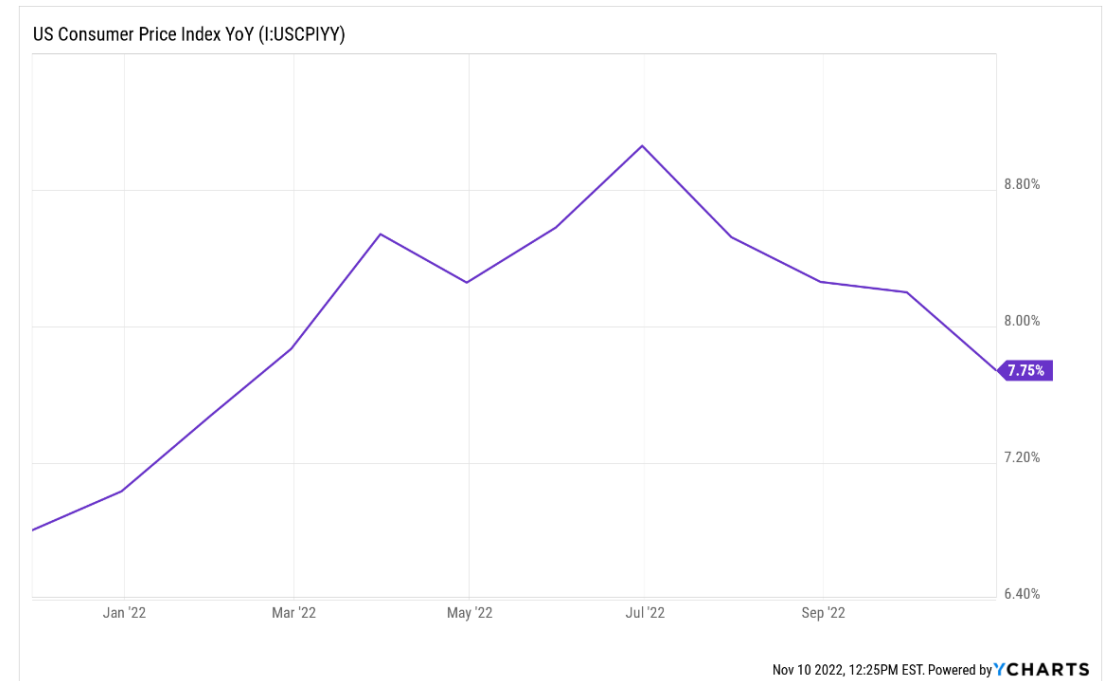
Key Catalysts to Watch (In Order of Importance)

- Inflation – Continued decline?
 - Inflation Expectations
 - Price indices in ISM PMIs
 - November CPI report (out December 13th).
- Terminal Rate Expectations – Does the Fed Pivot Occur?
 - “Dots” at December Fed meeting on December 14th
- Economic Data – Is Stagflation Happening?
 - October ISM PMIs
 - November Jobs Report
- China Reopening – Does It Continue?
 - Chinese Manufacturing PMIs
- Russia/Ukraine War
 - Do we get a cease fire?

Inflation

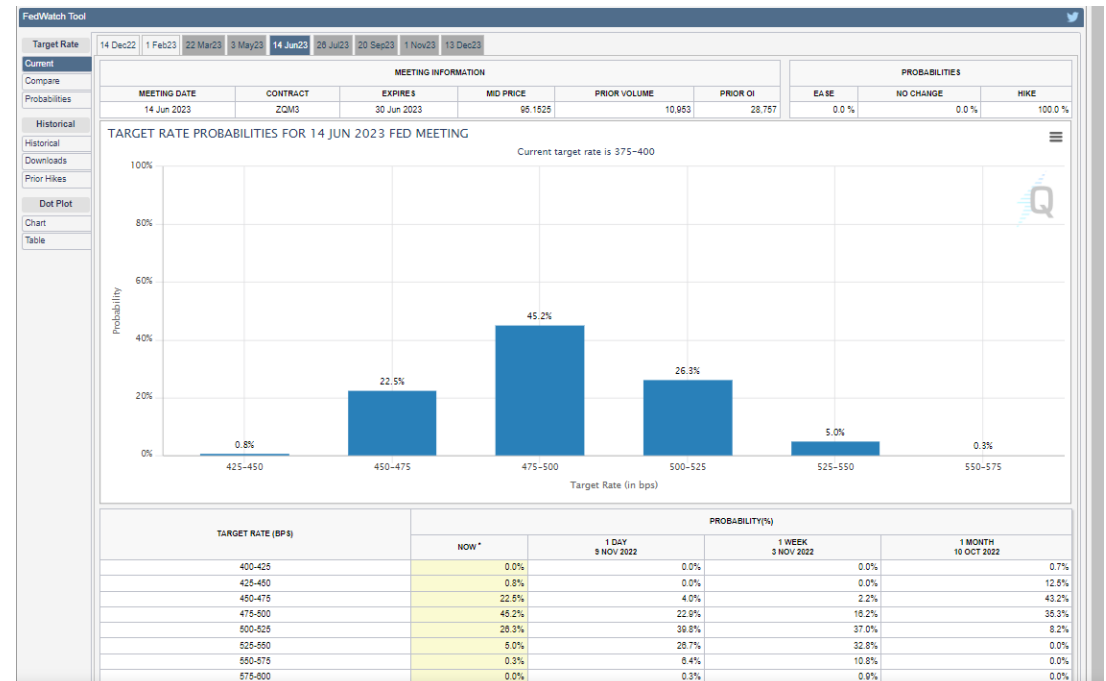
Key Variables

- University of Michigan Consumer Sentiment Five Year Inflation Expectations.
 - Key level: 2.9%. Less than 2.9% will be another positive data point.
- ISM Manufacturing and Service Price Indices
 - ISM Manufacturing Prices Paid Index. October reading: 46.6.
 - Pre-pandemic reading: 53.30.
 - ISM Services Prices Paid Index. October reading: 70.7.
 - Pre-pandemic reading: 55.5
- November CPI report (released December 13th).
 - October reading: 7.7%.
 - Key Level: < 7.3%.



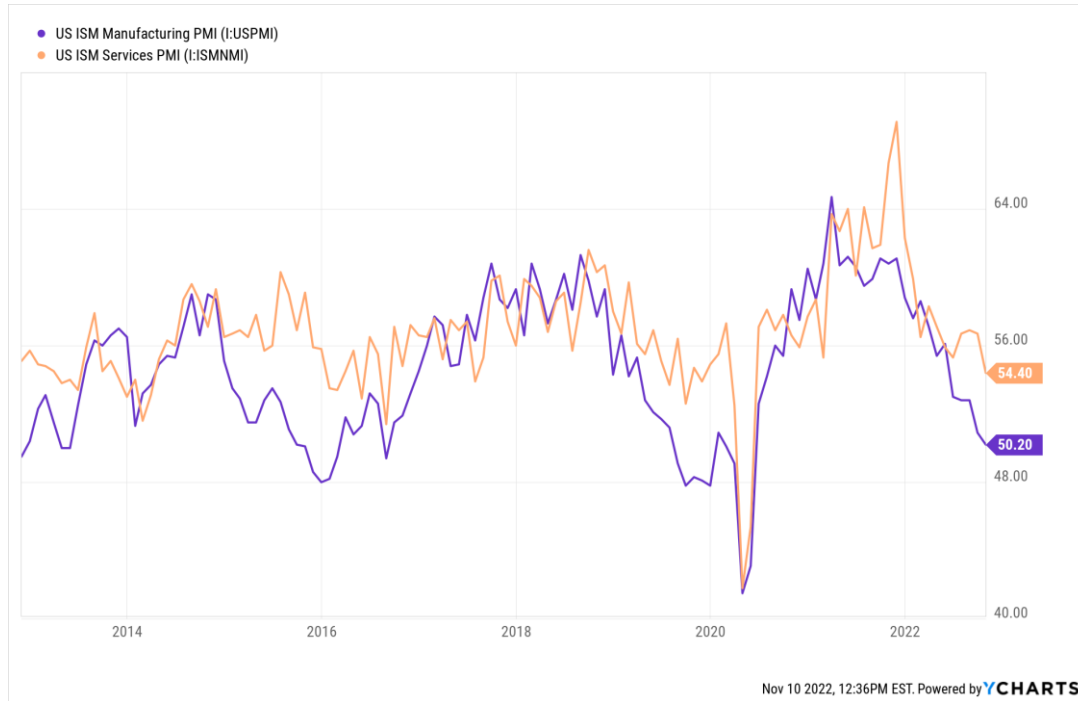
Terminal Rate Expectations

- December 14th FOMC Meeting.
 - This will be a meeting with updated “dots” and the key is whether the “Terminal” rate is above 5.00% or lower.
 - If $> 5.00\%$, that’s a negative.
 - If $< 5.00\%$ that’s a positive and confirms “Peak Hawkishness” and an imminent “Fed Pivot.”
- Fed “Dots”
 - The median terminal dot was 4.625% in the September projections.
 - Fed Fund futures are pricing in one additional hike to 4.875%.
 - Anything below that is less hawkish.

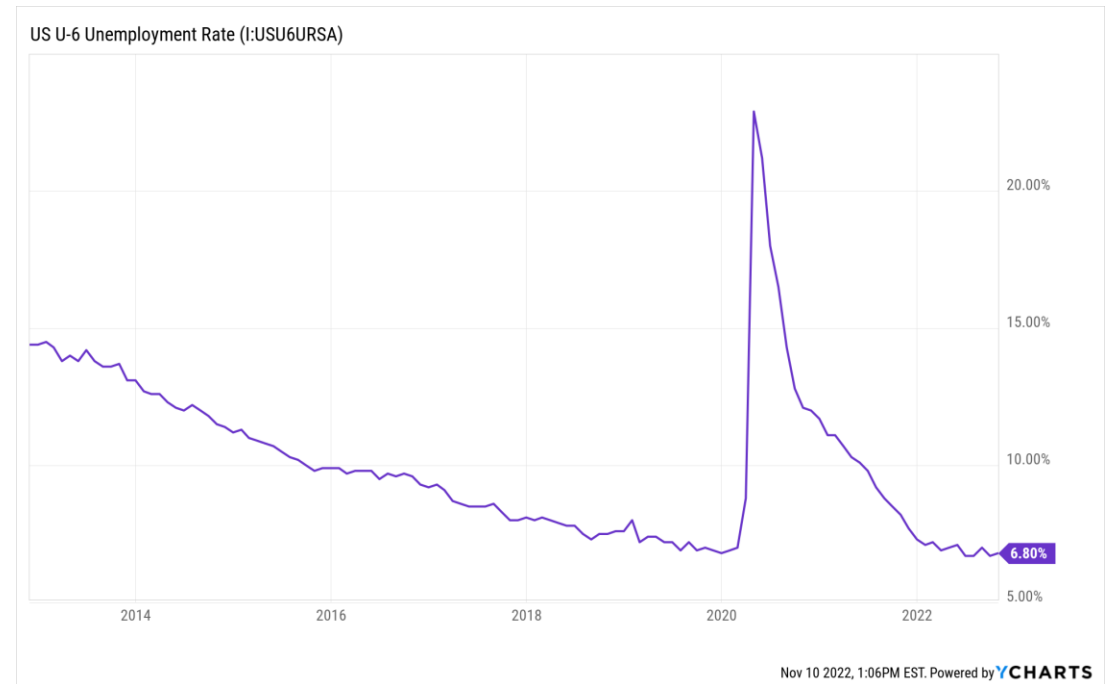


Economic Data – Is Stagflation Happening?

Key Level to Watch: 50. If both service and manufacturing PMIs drop close to 50, that's a bad economic signal.

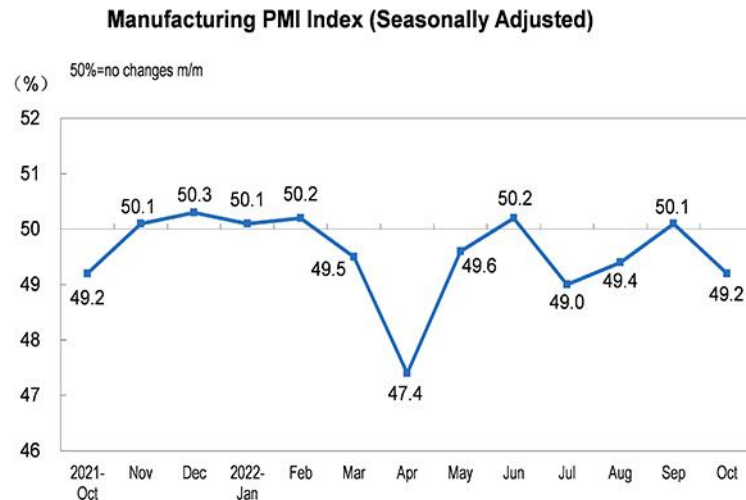


Key Indicator to Watch: U-6. There are large discrepancies between household and establishment employment surveys. U-6 will help provide a broad picture.

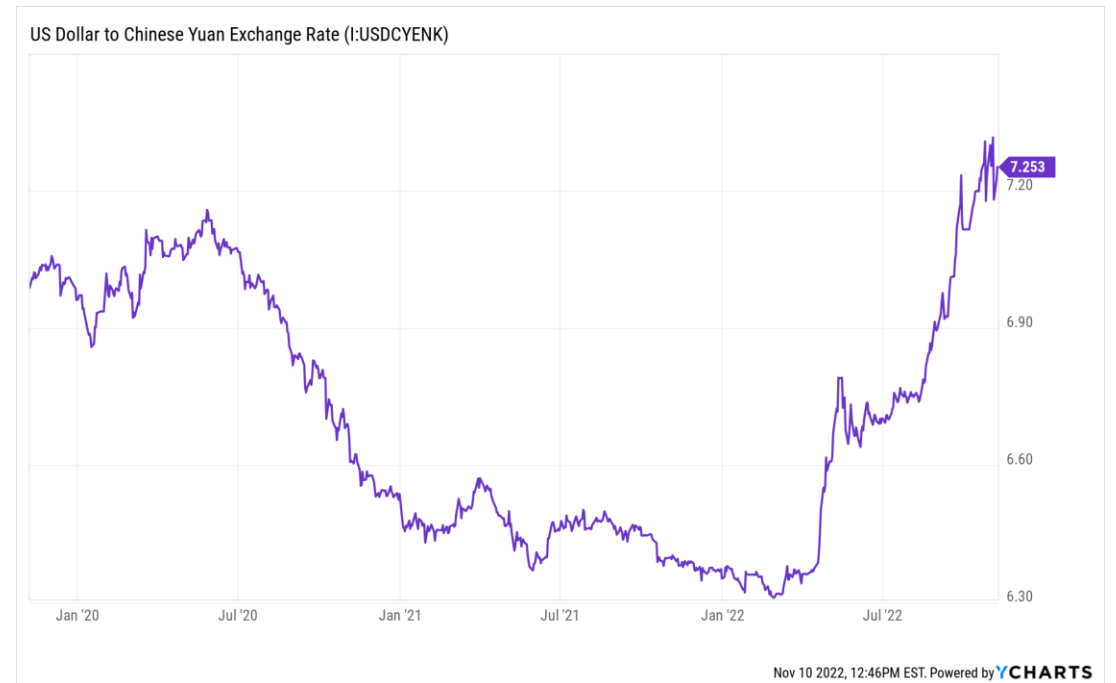


China Re-Opening, Does It Continue?

China NBS Manufacturing PMI. Key Level to watch: 50.3.



Dollar/Yuan. Key Levels to Watch: 7.00, 6.50.



Russia/Ukraine War

- There are no indicators to watch, and instead we just need to look for outcomes.
 - Positive outcome: Cease fire negotiations begin before year-end with a “Korea-like” cease fire agreed to.
 - Negative outcome: Russia detonates a tactical nuclear bomb or other advanced weaponry like an EMP.

Santa Rally Playbook

- Inflation
 - U-Mich Five Year Inflation Expectations. 11.11.22.
 - < 2.9%.
 - ISM Manufacturing Prices Index. 12.1.22.
 - < 53.3
 - ISM Services Prices Index. 12.5.22.
 - < 55.5
 - November CPI. 12.13.22.
 - < 7.3%
- Terminal Fed Funds
 - Fed Mean Terminal “Dot” 12.14.22.
 - < 5.00%.
- Economic Growth
 - ISM Manufacturing and Service PMIs. 12/1/22 & 12/5/22.
 - > 50.00 each.
 - U-6 Unemployment. 12/2/22.
 - > 7.5%.
- Chinese Re-Opening
 - China NBS Manufacturing PMI
 - > 50.3.
 - Dollar/Yuan
 - < 7.00, < 6.50.
- Russia/Ukraine War
 - Cease-fire before year-end.
- Russia/Ukraine Ceasefire Playbook.
 - EMB (iShares J.P. Morgan USD Emerging Markets Bond ETF)
 - HYEM (VanEck Emerging Markets High Yield Bond ETF)
 - EUFN (iShares MSCI Europe Financials ETF)
 - JETS (U.S. Global Jets ETF)
 - FXE (CurrencyShares Euro Trust)
- What Would Outperform If Markets Turn Around?
 - XITK (SPDR FactSet Innovative Technology ETF)
 - VCR (Vanguard Consumer Discretionary ETF)
 - USHY (iShares Broad USD High Yield Corporate Bond ETF)
 - SRLN (SPDR Blackstone Senior Loan ETF)
- Weathering Market Volatility with “Quality” ETFs.
 - FXO (First Trust Financials AlphaDex Fund).
 - QVAL (ValueShares U.S. Quantitative Value ETF).
 - SYLD (Shareholder Yield. Cambria Shareholder Yield ETF).
 - RPV (Core Value. Invesco S&P 500 Pure Value ETF).

Pullback Playbook

- Inflation
 - U-Mich Five Year Inflation Expectations. 11.11.22.
 - > 2.9%
 - ISM Manufacturing Prices Index. 12.1.22.
 - > 53.3
 - ISM Services Prices Index. 12.5.22.
 - > 55.5
 - November CPI. 12.13.22.
 - > 7.3%
- Terminal Fed Funds
 - Fed Mean Terminal “Dot” 12.14.22.
 - > 5.00%.
- Economic Growth
 - ISM Manufacturing and Service PMIs. 12/1/22 & 12/5/22.
 - < 50.00 each.
 - U-6 Unemployment. 12/2/22.
 - < 7.5%.
- Chinese Re-Opening
 - China NBS Manufacturing PMI
 - < 50.3.
 - Dollar/Yuan
 - > 7.00
- Russia/Ukraine War
 - Nuclear detonation or EMP
- Protection in a Deeper Bear Market
 - SH (ProShares Short S&P 500 ETF)
 - PSQ (ProShares Short QQQ)
 - PTLC (Pacer Trendpilot US Large Cap ETF)
 - SGOV (iShares 0-3 Month Treasury Bond ETF)
- Sectors that Outperformed During Recent Recessions.
 - VHT (Vanguard Health Care ETF)
 - IHF (iShares U.S. Healthcare Providers ETF)
 - VDC (Vanguard Consumer staples ETF)
 - PBJ (Invesco Dynamic Food and Beverage ETF)
- Bear Market Playbook (What Worked Last Time).
 - MINT (PIMCO Enhanced Short Term Maturity Active ETF)
 - SGOL (Aberdeen Physical Swiss Gold Shares ETF)
 - VNQ (Vanguard REIT ETF)
 - FXG (First Trust Consumer Staples AlphaDEX Fund)