

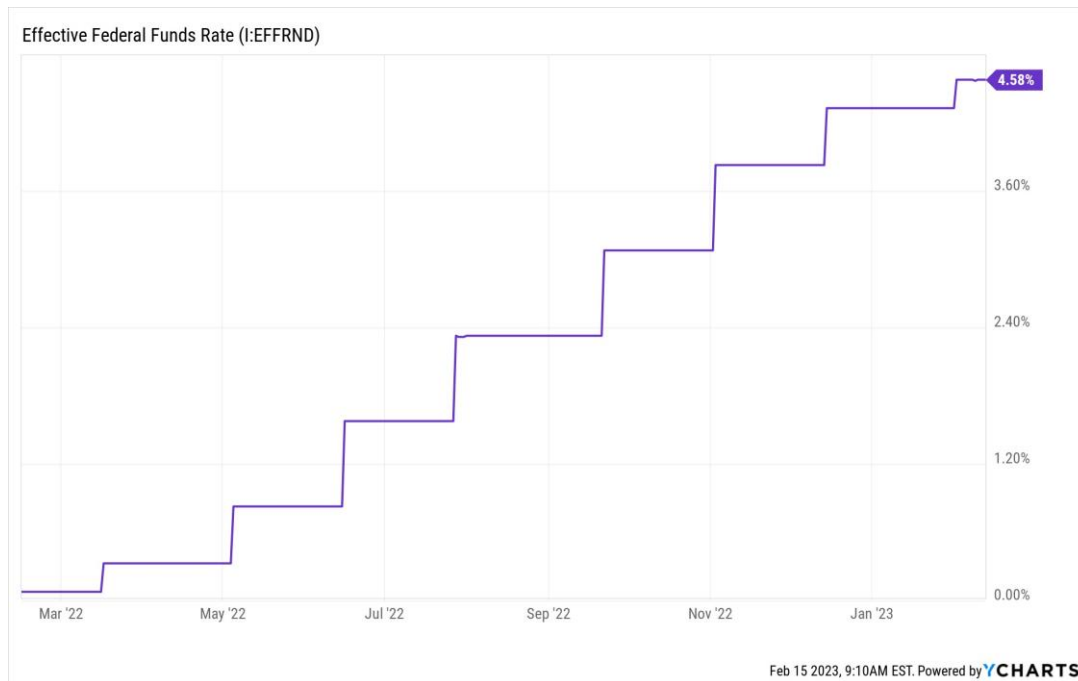
Sevens Report Alpha Webinar – Hard Landing, Soft Landing, or No Landing (In-Depth Look)

February 16th, 2023

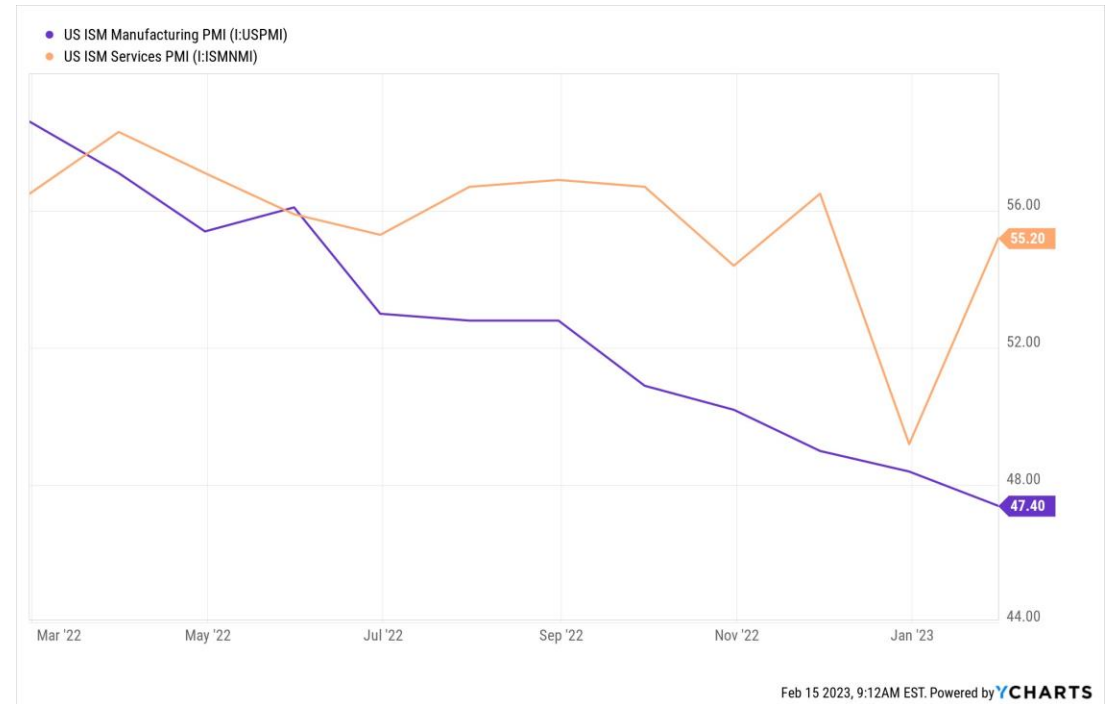
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Background

The Fed has raised rates sharply over the past year.

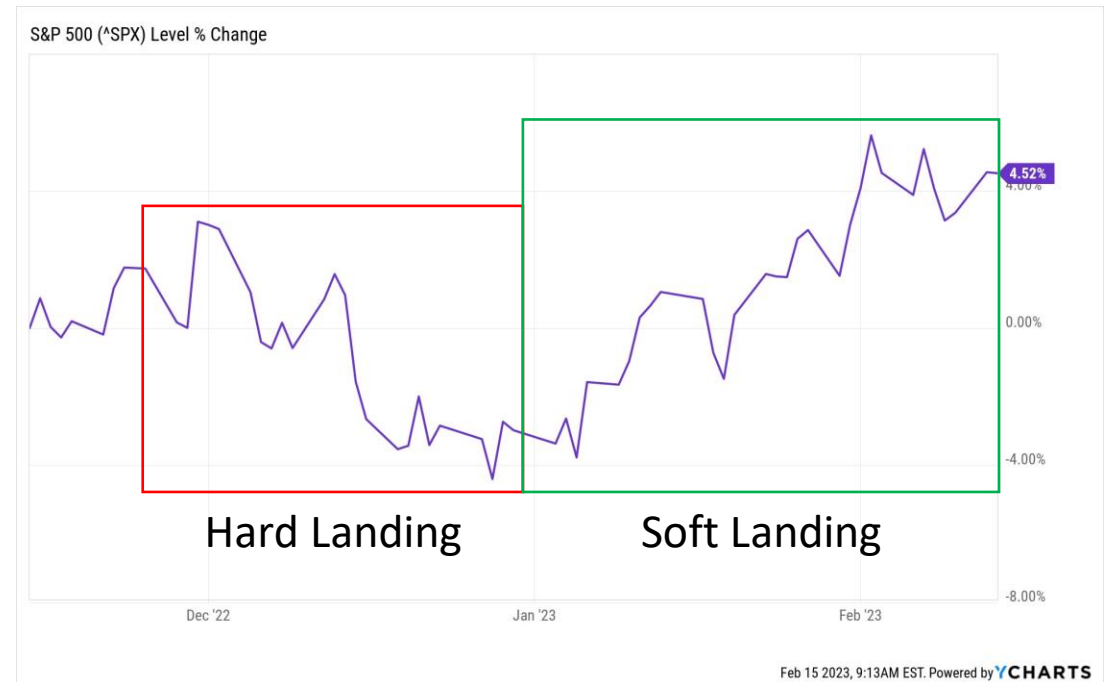


And economic growth has slowed (as we'd expect).



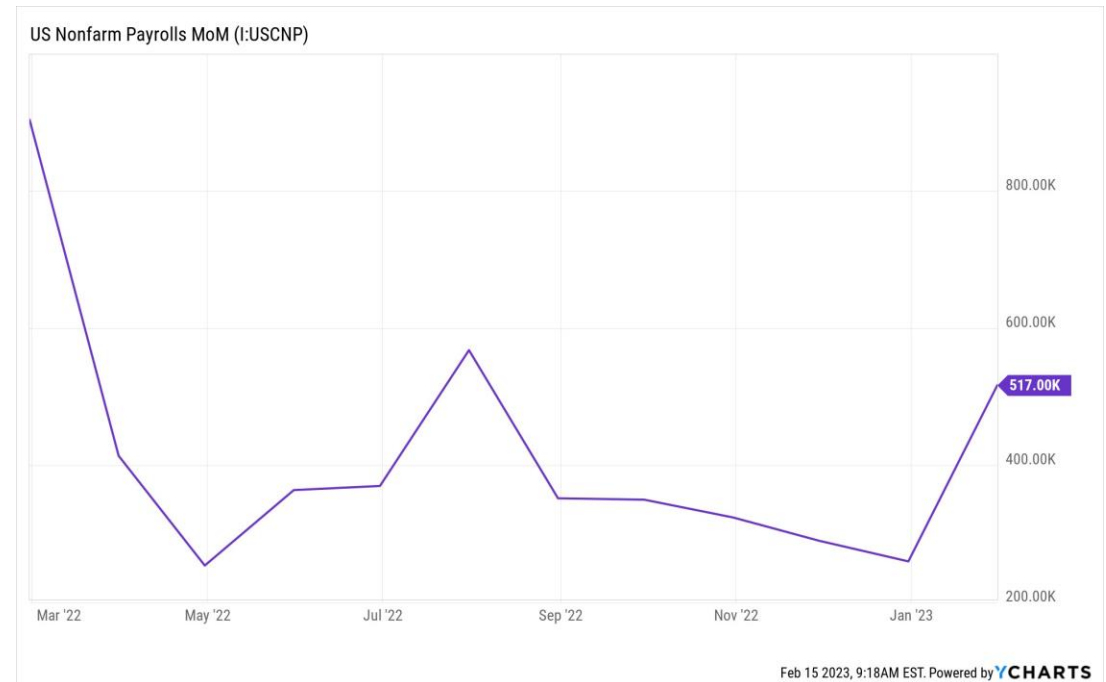
Background (Continued)

- Historically, when the Fed dramatically hikes rates (whether quickly or over time) it slows the economy (as is currently happening).
- The end result of these rate hikes has been either:
 - A recession (referred to as a “hard” economic landing)
 - A mild economic slowdown (referred to as a soft landing).
- One of these outcomes has been what the market was expecting in 2023, and whether it’s looking like a hard landing or soft landing has mattered to stocks.



A New Possibility – No Landing

- A “No Landing” scenario is one where the economy doesn’t really slow.
- A “No landing” economic scenario became more reasonable following the blowout February jobs report and bounce back in the ISM Services PMI.



What's Each Landing Mean for Markets?

	Fed Funds	S&P 500	Value vs. Growth
Soft Landing	Peak Fed Funds: 5.125%. Year-End Fed Funds: 4.875% (one cut).	Near Term: Rally towards (or through) 4300. Year-End: Solidly higher (but not new highs).	Near Term: Growth (as yields decline but growth stays solid). Year-end: Growth.
Hard Landing	Peak Fed Funds: 4.875%. Year-End Fed Funds: < 4.875% (multiple cuts).	Near Term: Sharp pullback (minimum 5% but possibly > 10%). Year-End: 3300-3600.	Near Term: Defensives & Value. Year-End: Defensives and Value
No Landing	Peak Fed Funds: 5.375% or higher. Year-End Funds: 5.375% or higher. (no rate cuts).	Near Term: 4000-4300. Year-End: 4000-ish?	Near Term: Growth. Year-End: Value

Hard, Soft and No Landing Impact on S&P 500



Indicators to Watch for Soft/Hard/No Landing

- Employment.
 - The unemployment rate is a key metric, but there are some “leading” employment indicators to watch.
 - Hours worked
 - JOLTS
 - Weekly Jobless Claims
- Inflation
 - “Super core” inflation
- Growth
 - Retail Sales (aggregate demand)
 - ISM Manufacturing & Services PMIs

What Type or Landing? Economic Indicators

	Employment	Inflation	Economic Growth
Soft Landing	Hours Worked: 34.3-34.8 JOLTS: 7M – 9M. Claims: 250k-350k	Super Core CPI: Gradually decreases towards 0.0% m/m (currently 0.36%).	Control Retail Sales: < 0.5% m/m. ISM Manufacturing PMI: 47-51 ISM Services PMI: 47-51
Hard Landing	Hours Worked: < 34.3 JOLTS: < 7M. Claims: >350k	Super Core CPI: Turns materially negative m/m.	Control Retail Sales: Negative m/m. ISM Manufacturing PMI: <47 ISM Services PMI: <47
No Landing	Hours Worked: > 34.4 JOLTS: > 9M Claims < 250k	Super Core CPI: Stays solidly positive (above 0.2% m/m).	Control Retail Sales: 0.5% - 1.0% m/m. ISM Manufacturing PMI: > 51 ISM Services PMI: > 51

Timeline for Resolution?

- Indicators:
 - LEI: Warning of an imminent recession in months.
 - 10 year/3 month spread: Warning of an imminent recession in months.
 - Fed Expectations: Final rate hike in the next month or two.
 - What does it all mean?
 - If there's a "hard" landing coming, we should know it by June because data should start to fall off of a proverbial cliff.
 - If it's a soft landing, we should have a good idea by June as data will begin to moderate, but the descent will be gradual.
 - If it's "no landing" then we should expect rate hikes to continue – and to a point, this is being priced in as Fed Fund Futures are now pricing in a greater than 50% chance of a rate hike in June.

What ETFs, Strategies and Factors Should Outperform?

	Bonds	Sectors	Factors
Soft Landing	<p>SPDR Nuveen Bloomberg High Yield Municipal Bond ETF (HYMB).</p> <p>iShares 0-5 Year High Yield Corporate Bond ETF (SHYG)</p> <p>iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB).</p>	<p>First Trust NASDAQ Technology Dividend Index Fund (TDIV).</p> <p>First Trust Consumer Staples AlphaDEX Fund (FXG).</p> <p>SPDR S&P Oil & Gas Exploration and Production ETF (XOP)</p>	<p>Invesco S&P 500 Pure Value ETF (RPV).</p> <p>Schwab Fundamental International Large Company Index ETF (FNDF).</p> <p>iShares Morningstar Small-Cap Value ETF (ISCV)</p>
Hard Landing	<p>SPDR Portfolio Long Term Treasury ETF (SPTL).</p> <p>PIMCO Long-Term Credit Bond Fund (PTCIX).</p> <p>VanEck Long Muni ETF (MLN).</p>	<p>Invesco S&P 500 Equal Weight Utilities ETF (RYU)</p> <p>First Trust Consumer Staples AlphaDEX Fund (FXG).</p>	<p>Invesco S&P 500 High Dividend Low Volatility ETF (SPHD).</p> <p>USMV (iShares Total Return MSCI USA Minimum Volatility ETF)</p> <p>JHEQX: JPMorgan Hedged Equity Fund Class I.</p>
No Landing	<p>PIMCO Enhanced Short Maturity Active ETF (MINT).</p> <p>JPMorgan Ultra-Short Municipal Income ETF (JMST).</p> <p>WisdomTree Floating Rate Treasury Fund (USFR).</p>	<p>ARK Next Generation Internet ETF (ARKW).</p> <p>Vanguard Communication Services ETF (VOX).</p> <p>First Trust NASDAQ Technology Dividend Index Fund (TDIV).</p>	<p>Invesco S&P SmallCap 600 Revenue ETF (RWJ).</p> <p>ProShares Bitcoin Strategy ETF (BITO).</p>