

## **Sevens Report Alpha Webinar – Similarities Between Now and 2000/2007**

**August 3<sup>rd</sup>, 2023**

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## Is It Different This Time?

We want to explore the similarities between the early 00's, mid 00's, and now.

To do that, we'll examine the following criteria:

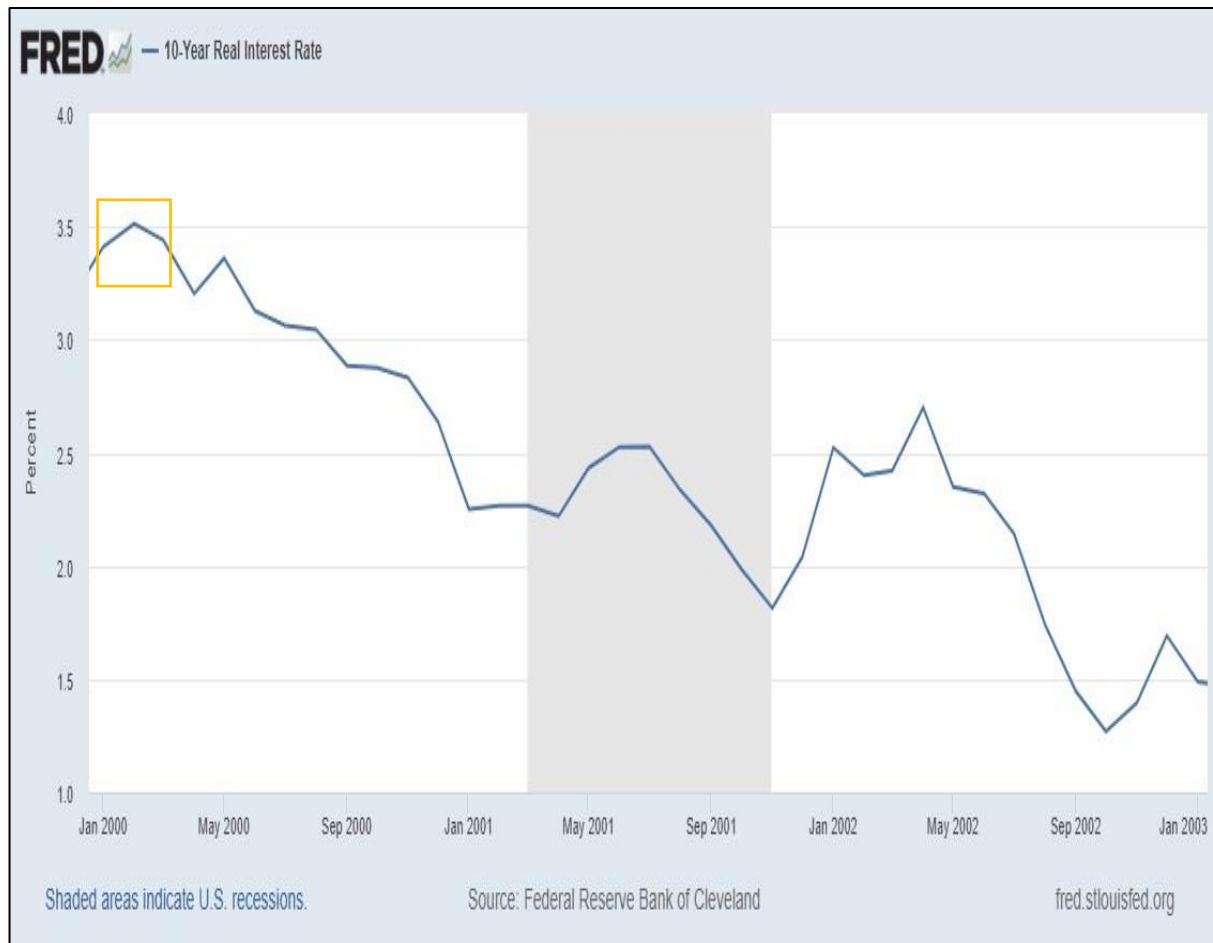
- Real Interest Rates
- GDP
- ISM Manufacturing PMI
- Jobless Claims
- Unemployment
- P/E

## Why It Matters

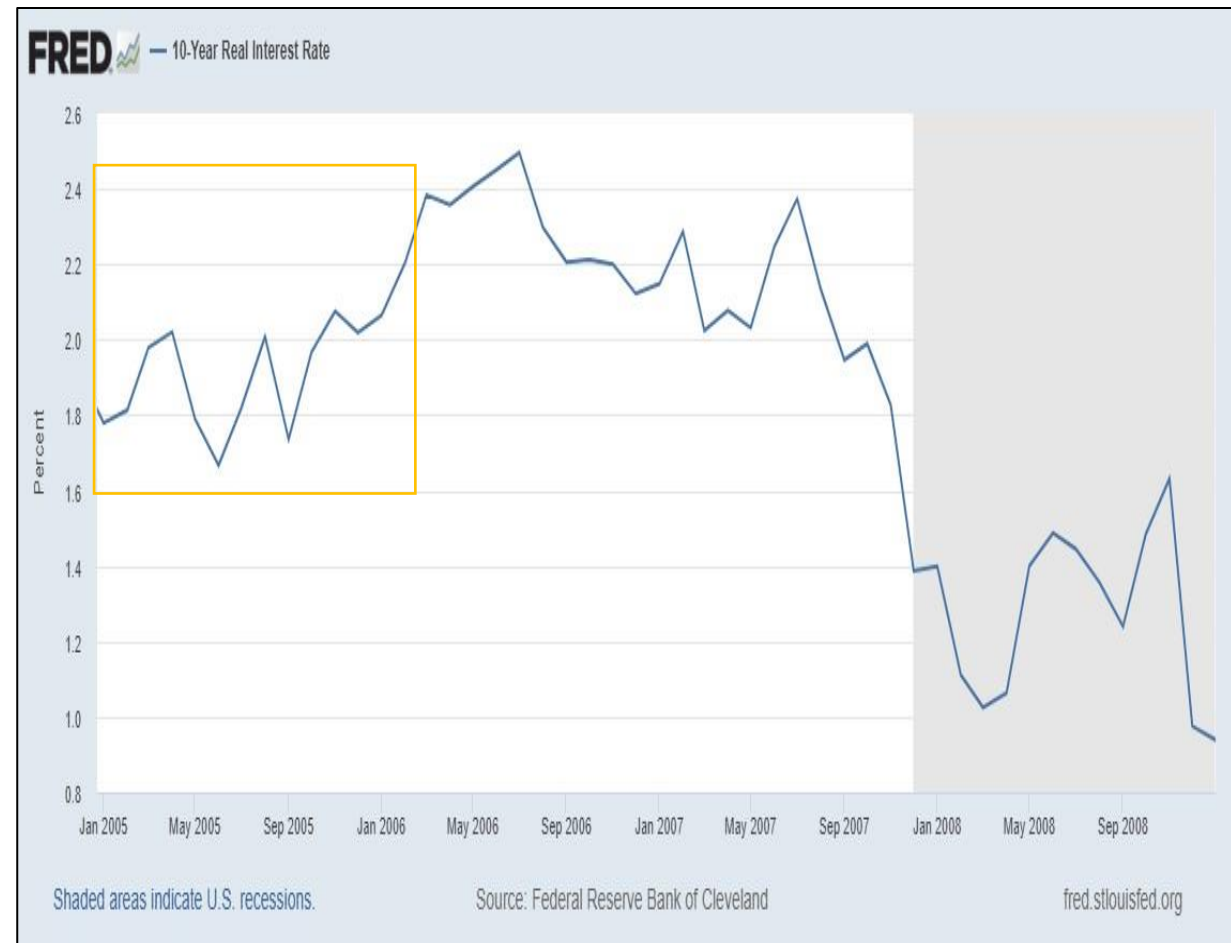


## Real Interest Rates

2000 – 2002 Real Interest Rates

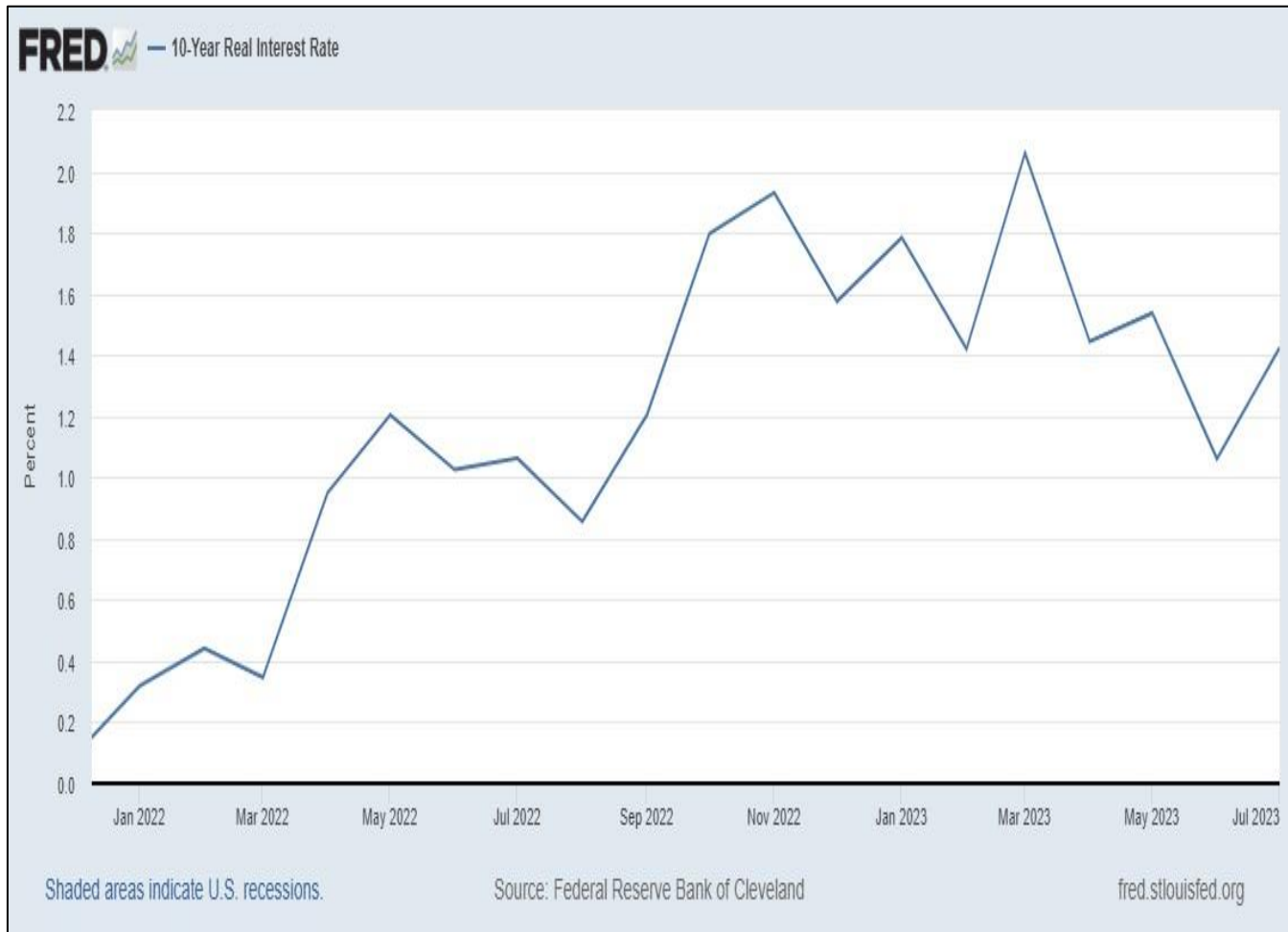


2005 – 2008 Real Interest Rates



## Real Interest Rates

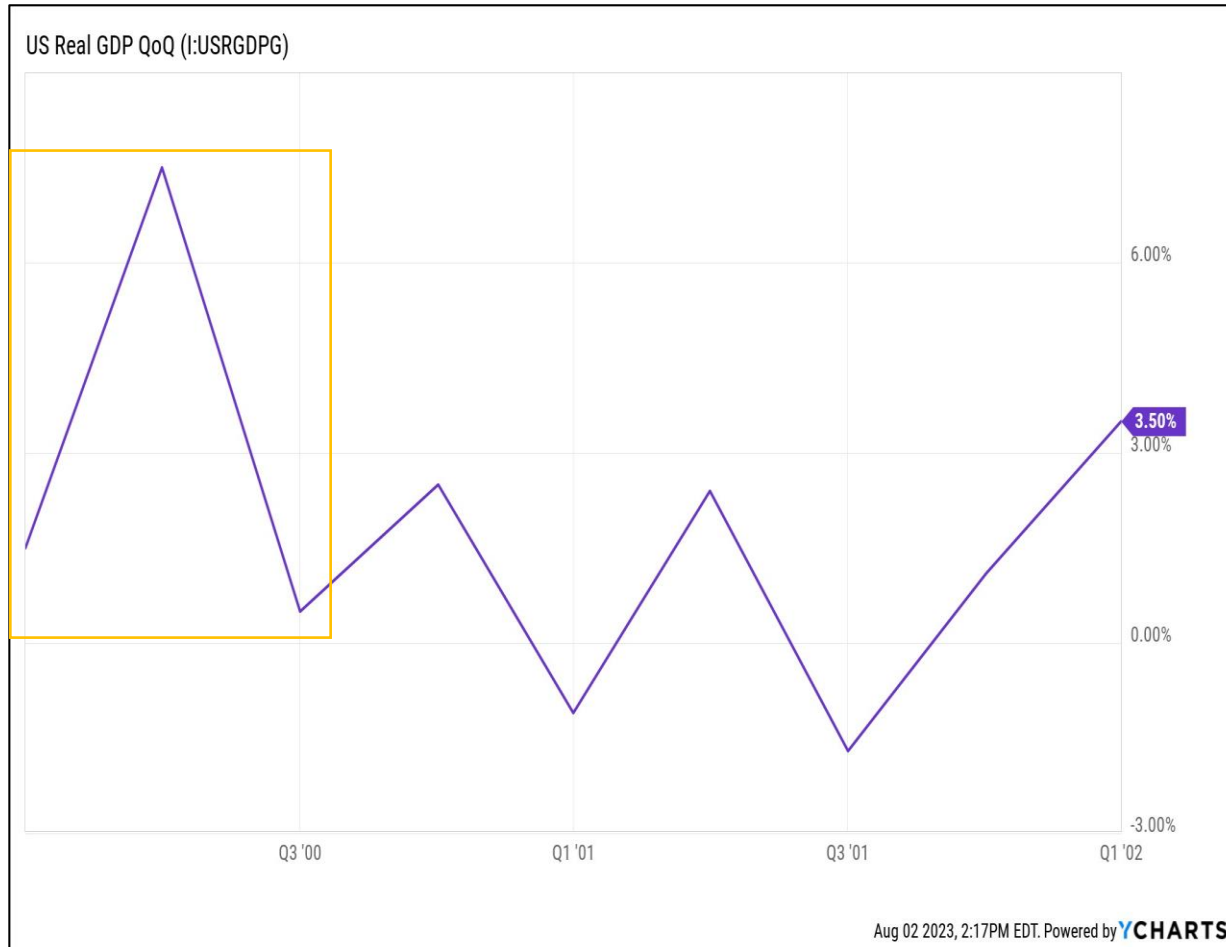
### Real Interest Rates Now



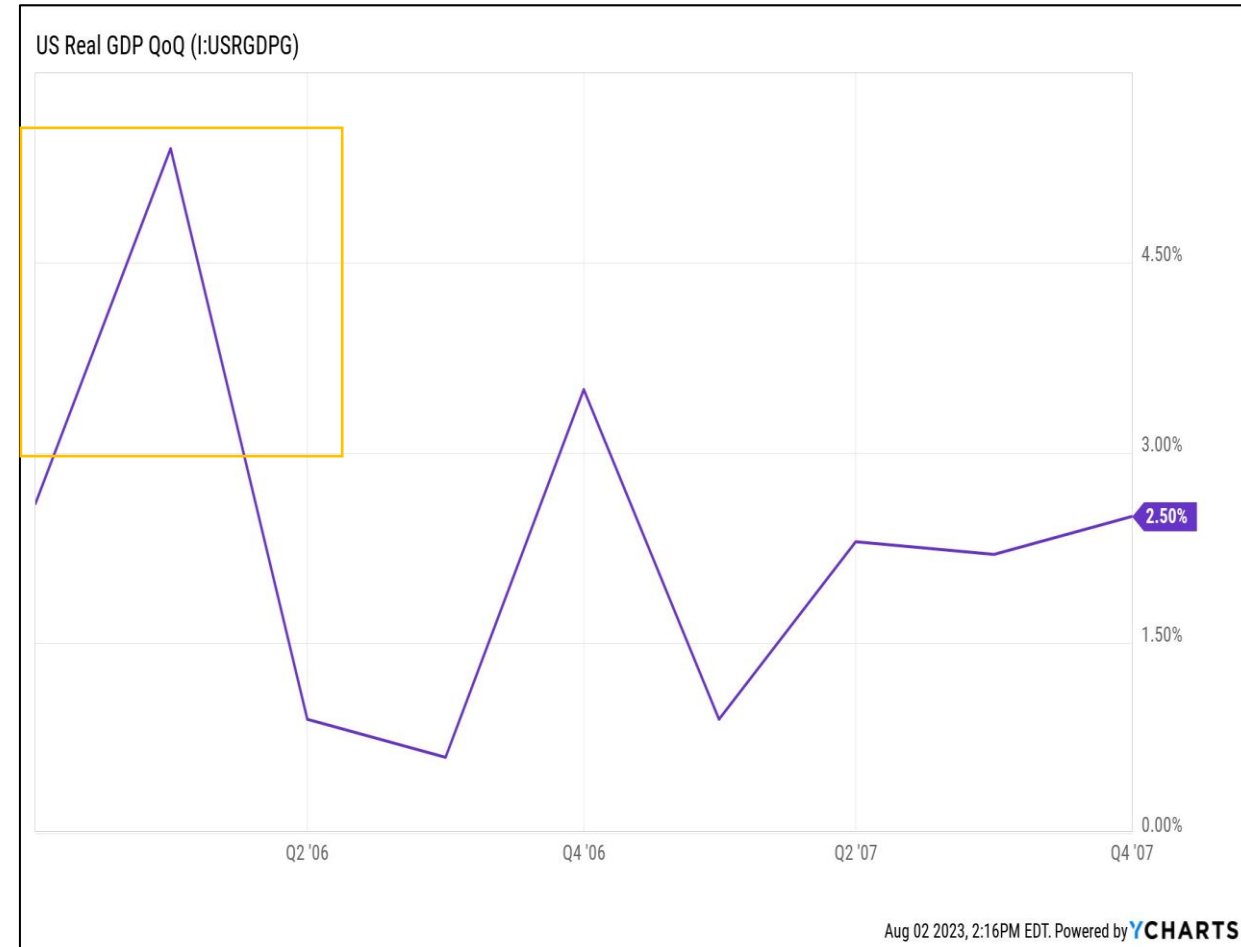
- Real rates rose after each inversion, and only after hitting a specific threshold began to decline.
- Real Interest Rates 13 Months After Inversion
  - March 2001, 2.27%.
  - January 2007, 2.15%
  - August 2023, 1.42%

## GDP

### 2000 – 2002 GDP



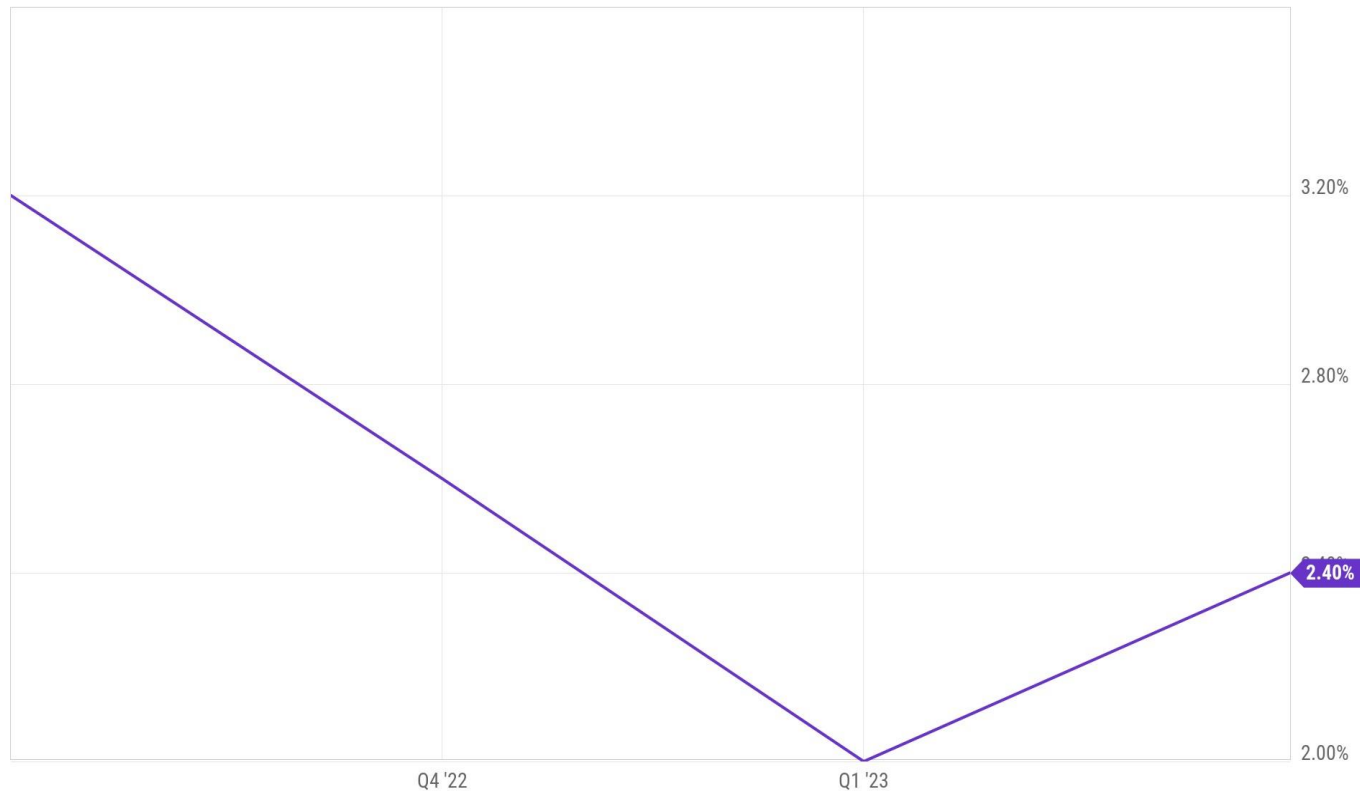
### 2005 – 2008 GDP



## GDP

GDP Now

US Real GDP QoQ (I:USRGDPG)

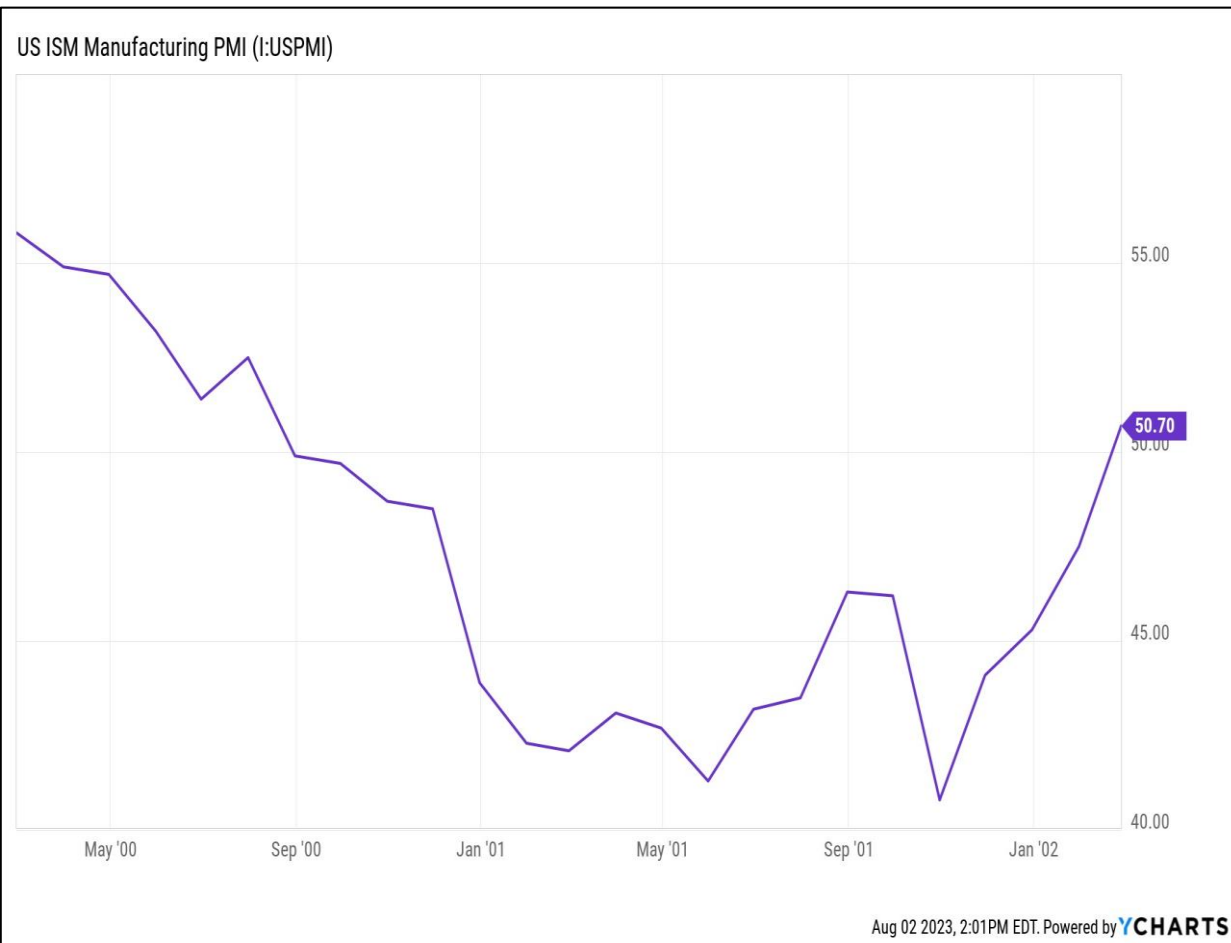


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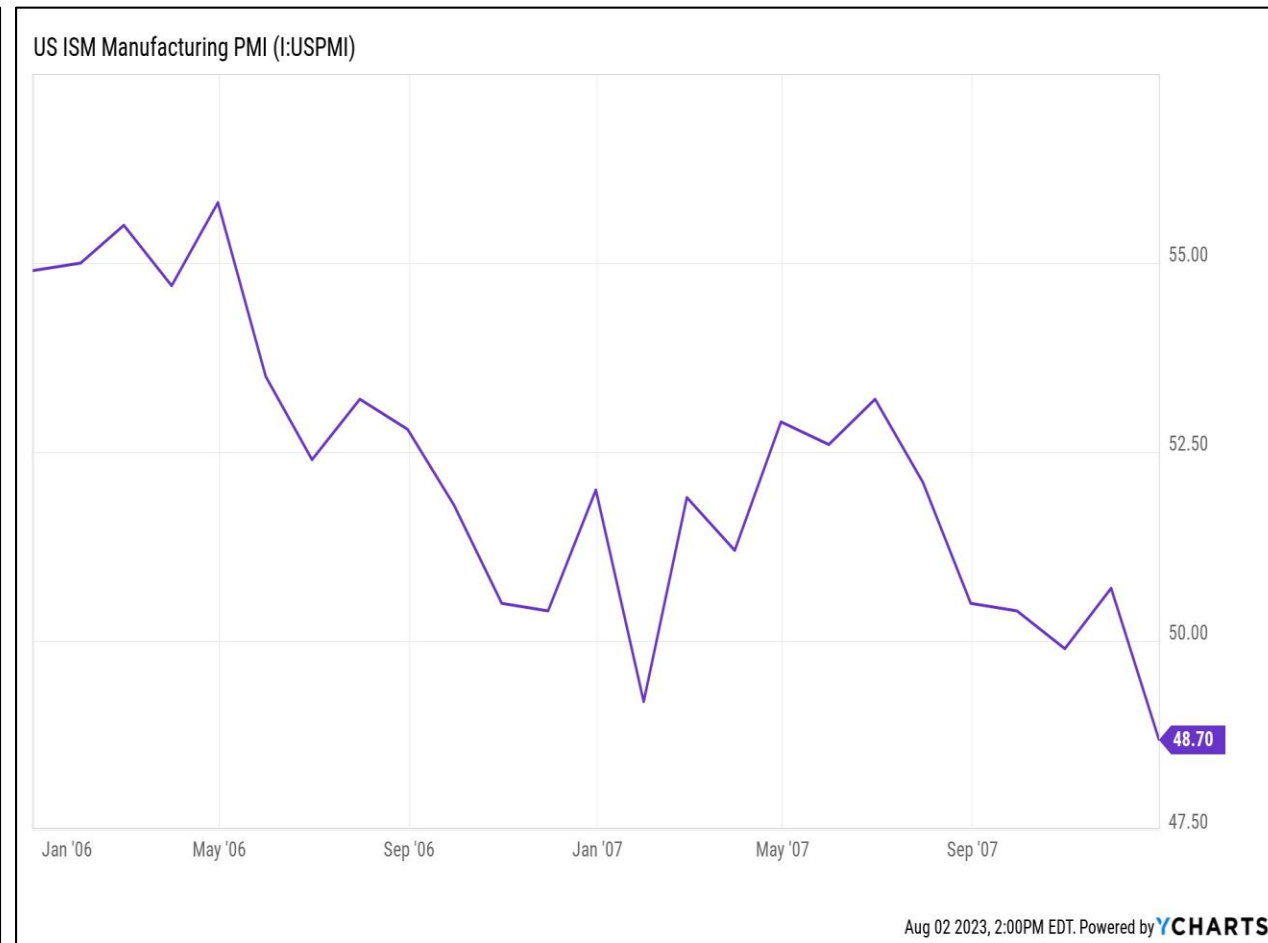
- GDP rose following the initial yield curve inversions, but eventually rolled over.
- GDP 13 Months After Inversion
  - March 2001, 2.50%
  - January 2007, 3.50%
  - August 2023, 2.40%.

## ISM Manufacturing PMI

2000 – 2002 ISM Manufacturing PMI



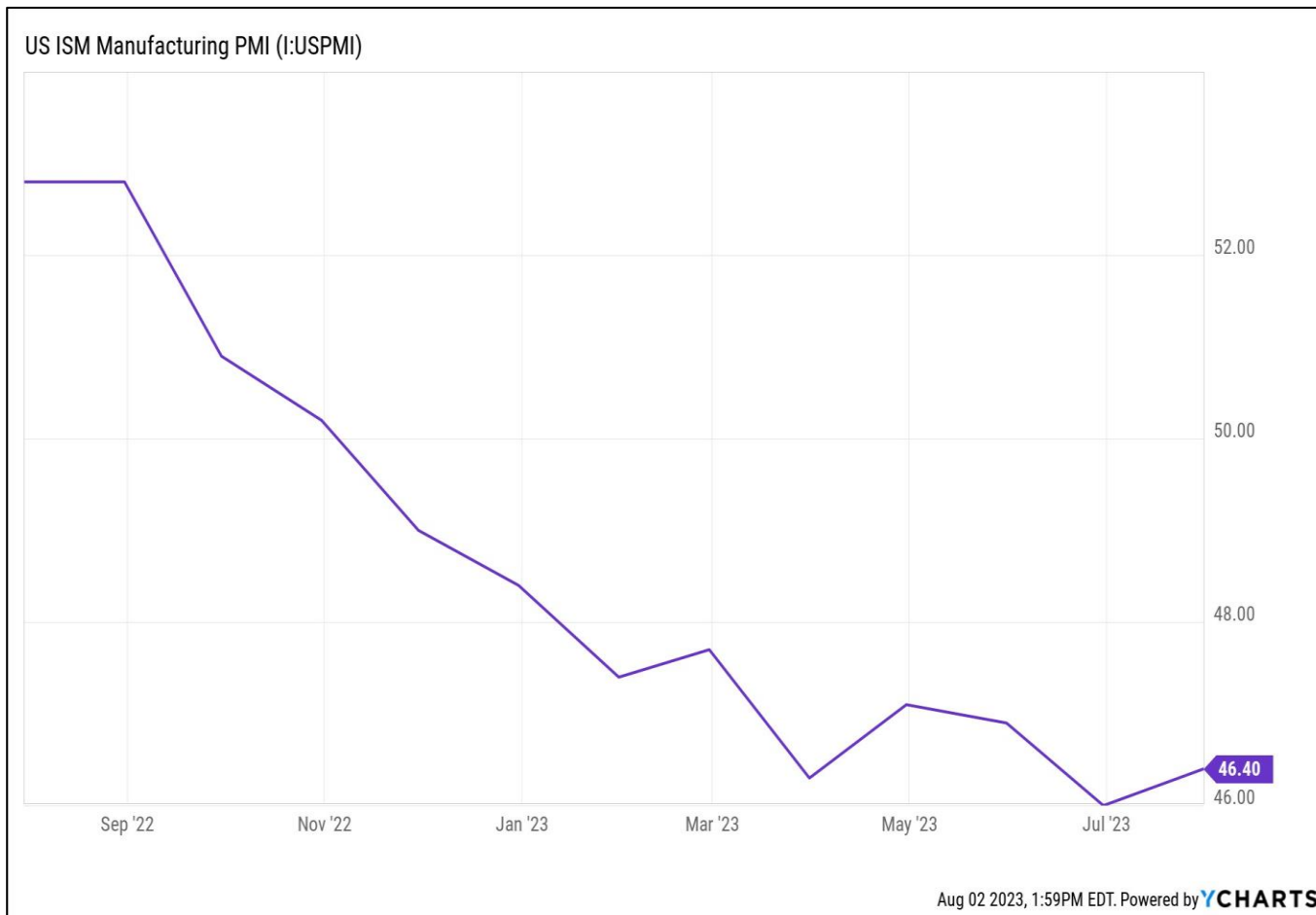
2005 – 2008 ISM Manufacturing PMI





## ISM Manufacturing PMI

### ISM Manufacturing PMI Now



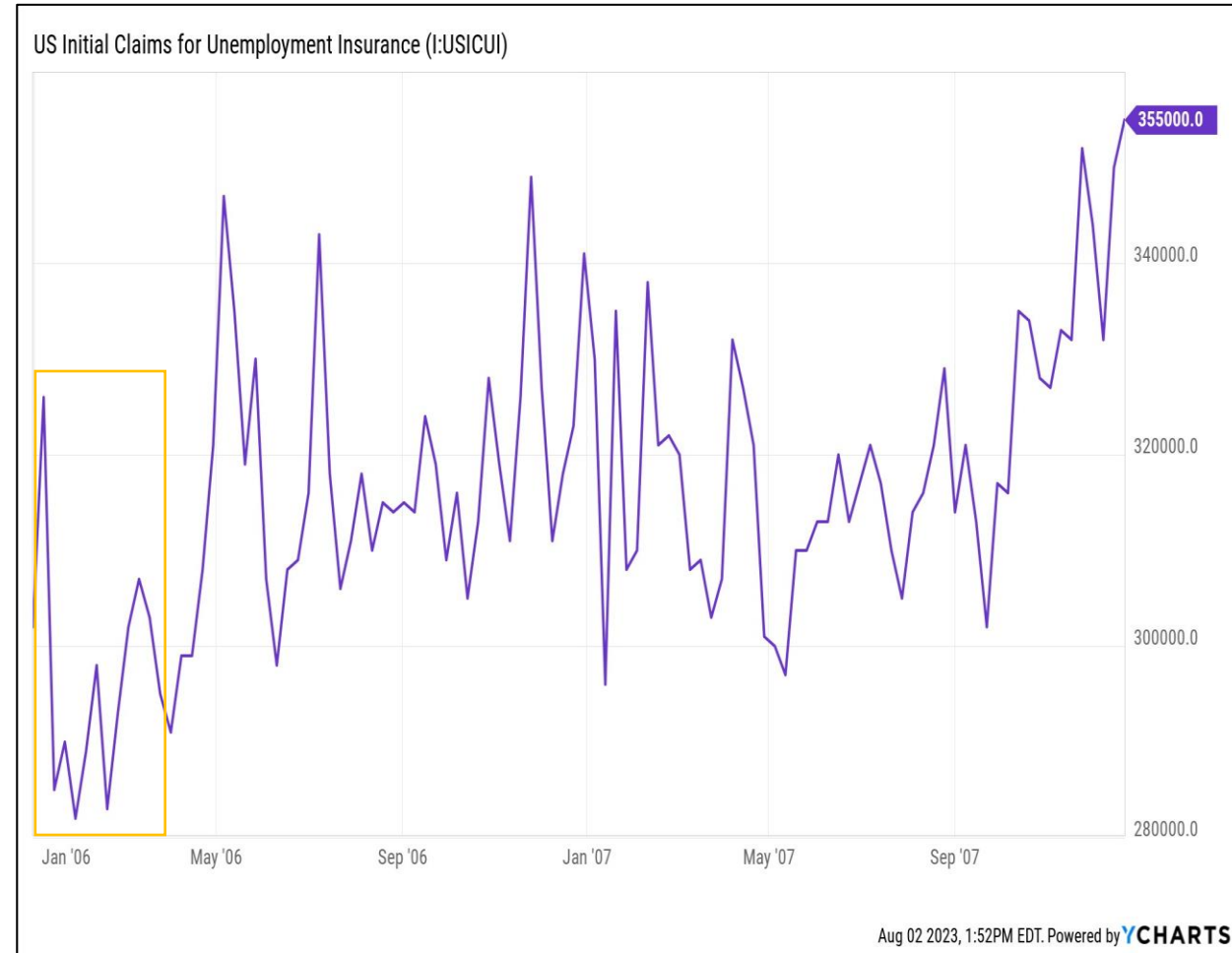
- The ISM Manufacturing PMI declined following previous inversions.
- ISM Manufacturing PMI 13 Months After Inversion
  - March 2001, 42.10
  - January 2007, 52.00
  - August 2023, 46.40

## Jobless Claims

2000 – 2002 Jobless Claims



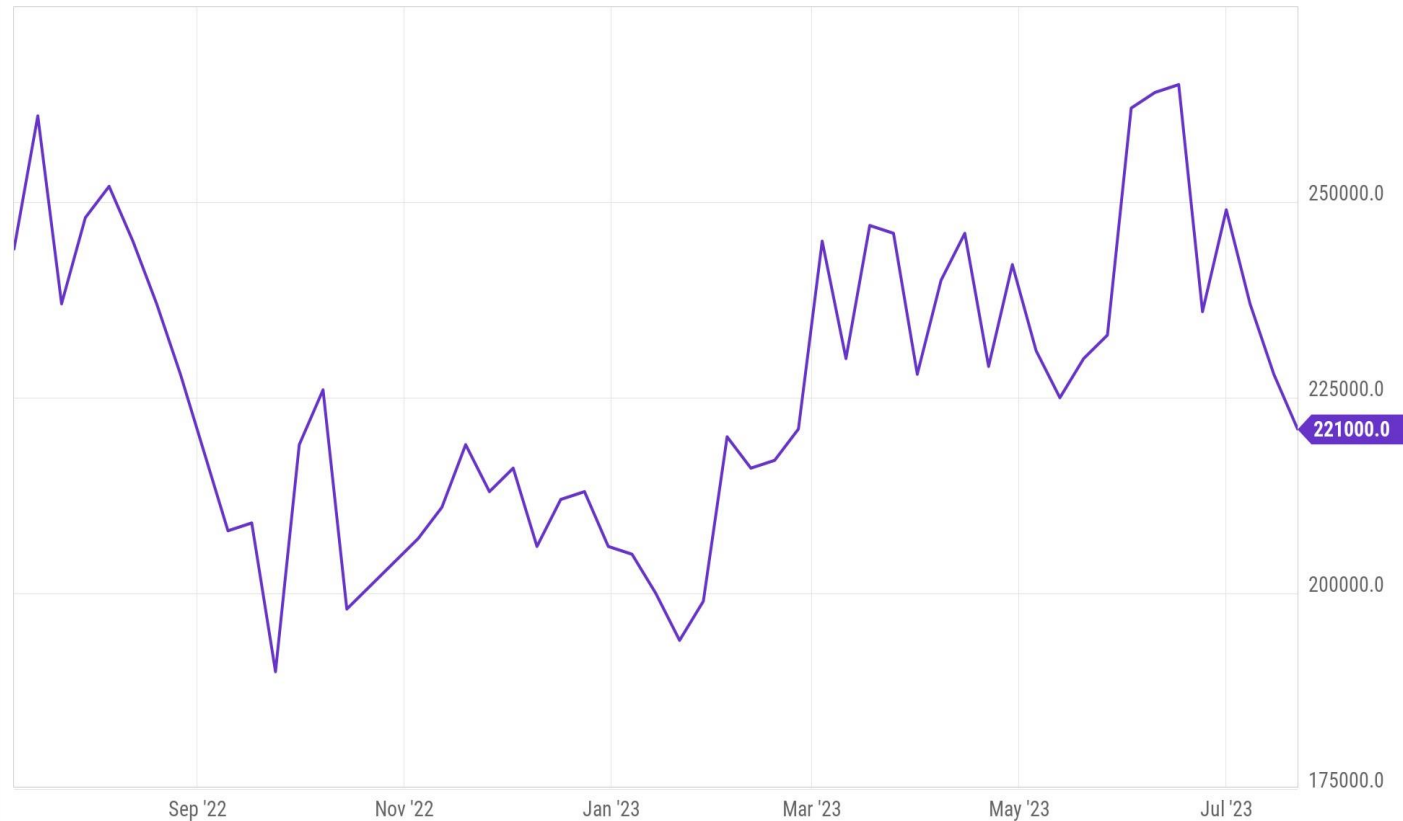
2005 – 2008 Jobless Claims



## Jobless Claims

### Jobless Claims Now

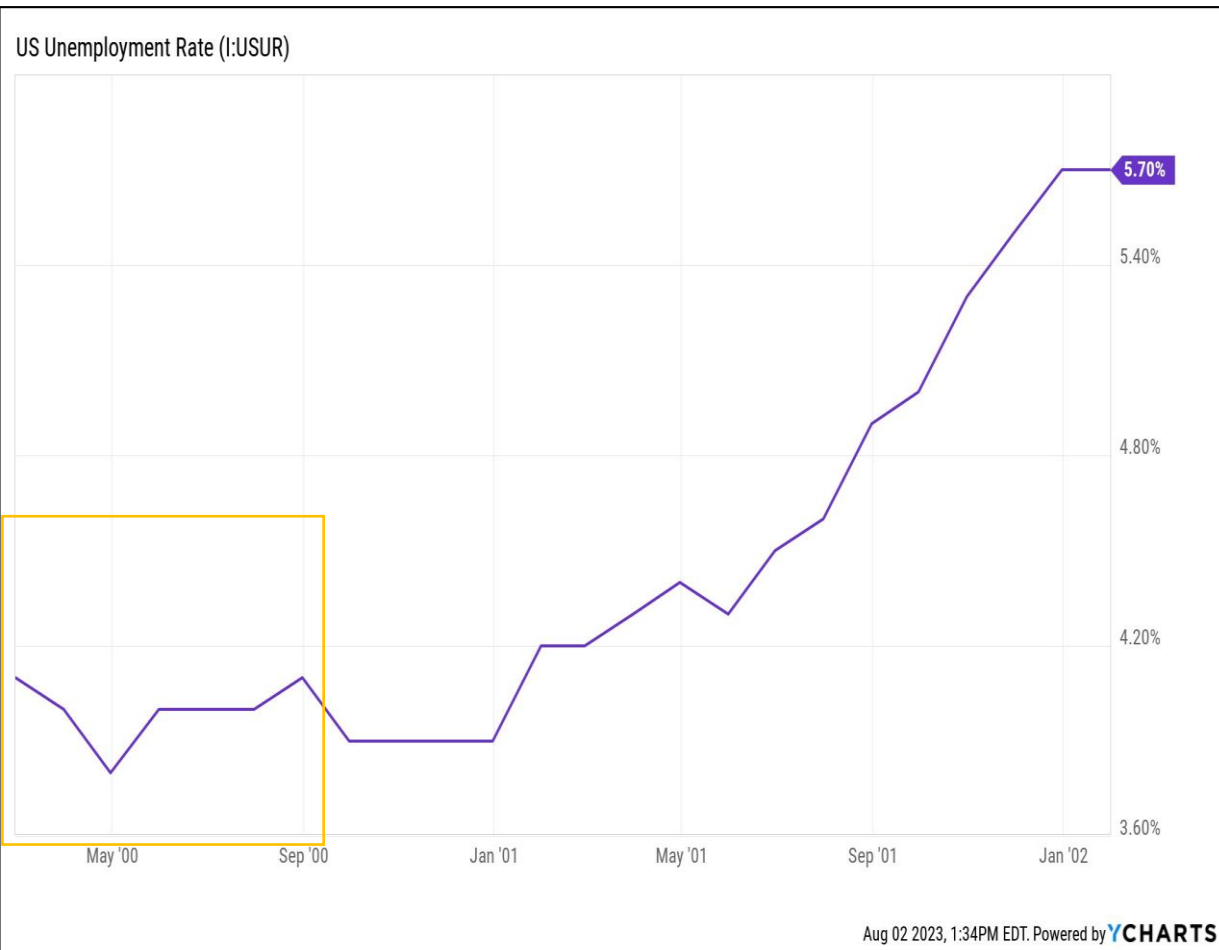
US Initial Claims for Unemployment Insurance (I:USICUI)



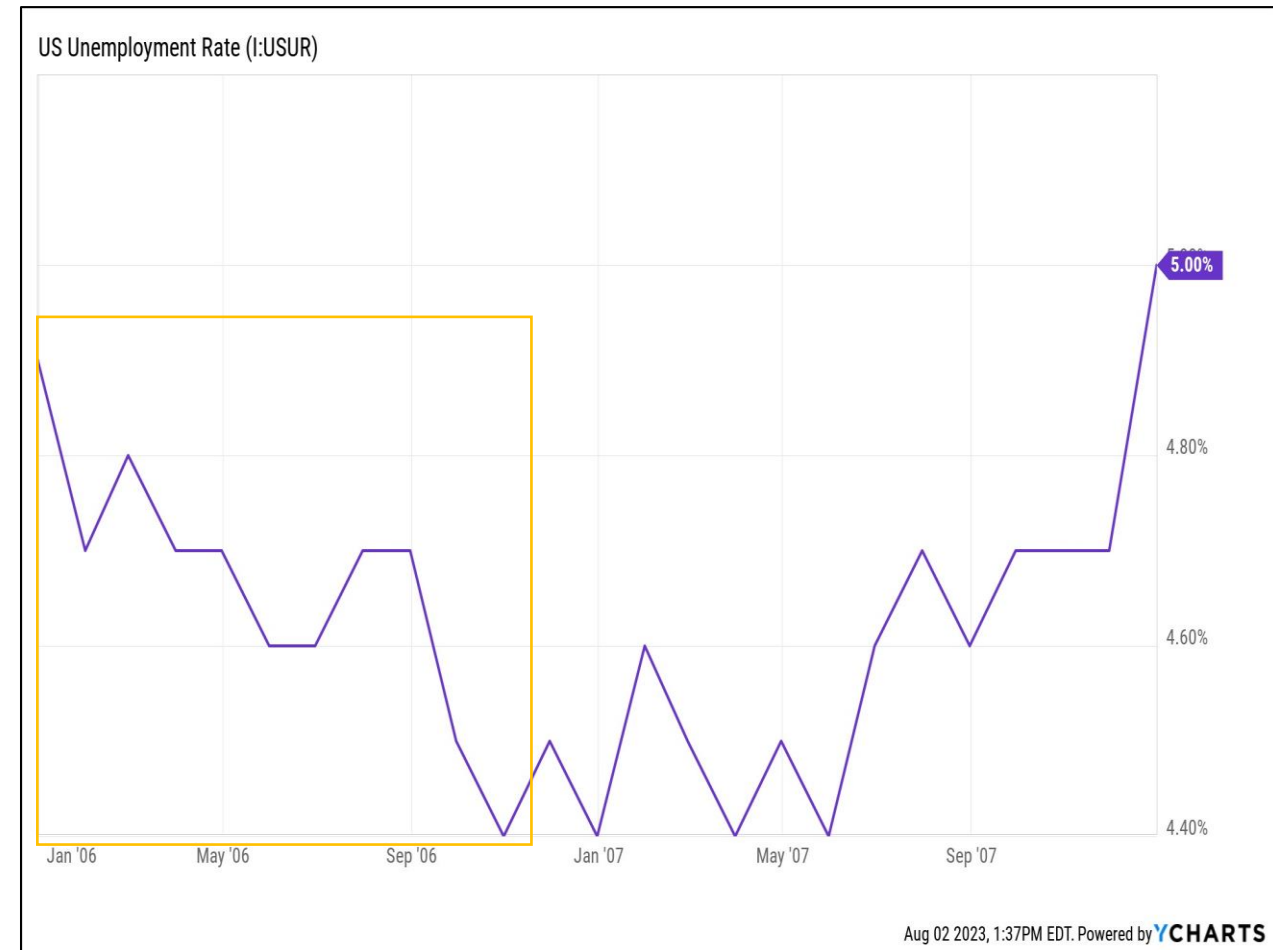
- Jobless Claims 13 Months After Inversion
  - March 2021, 384k
  - January 2007, 308k
  - August 2023, 221k

## Unemployment Rate

2000 – 2002 Unemployment Rate

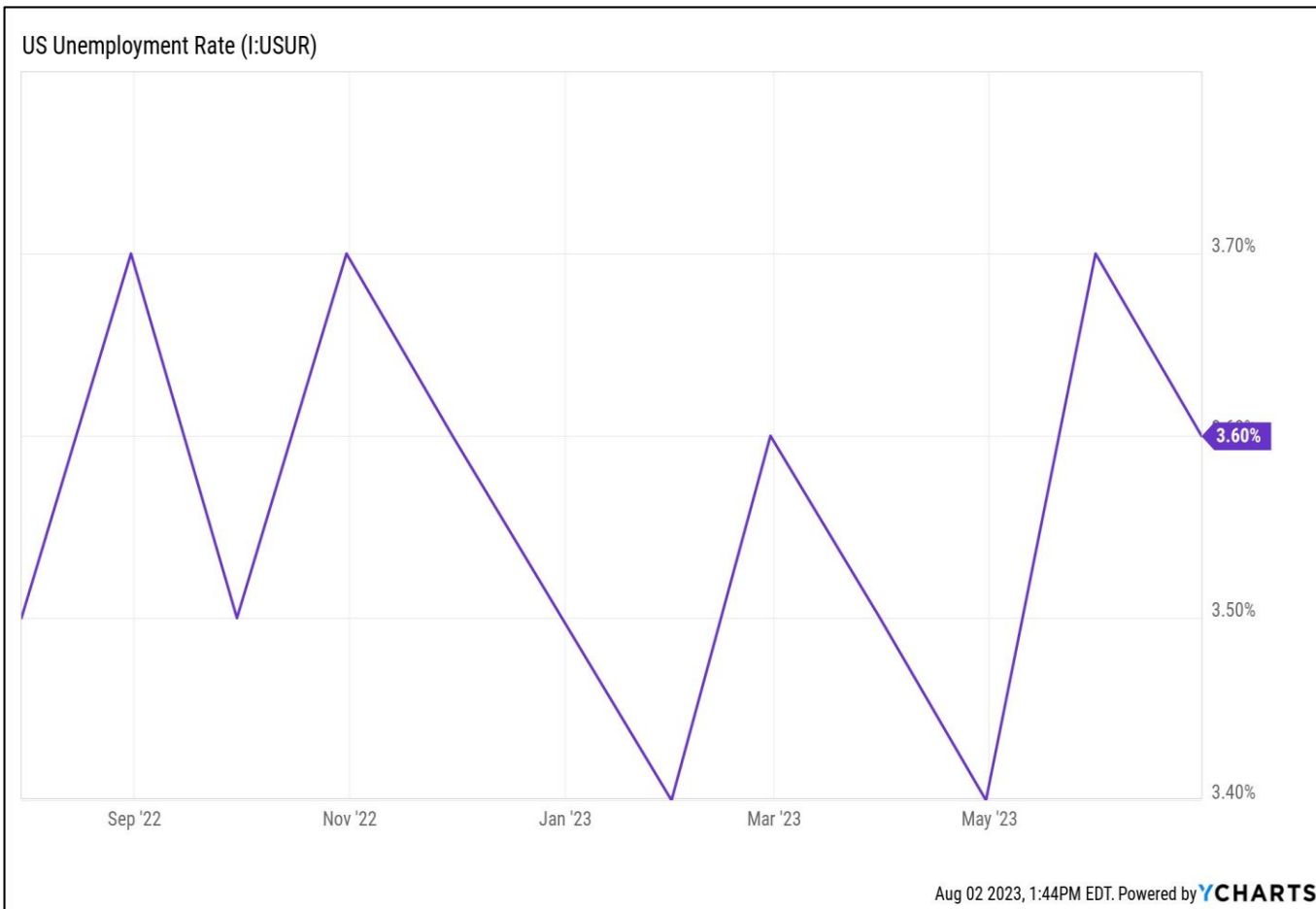


2005 – 2008 Unemployment Rate



## Unemployment Rate

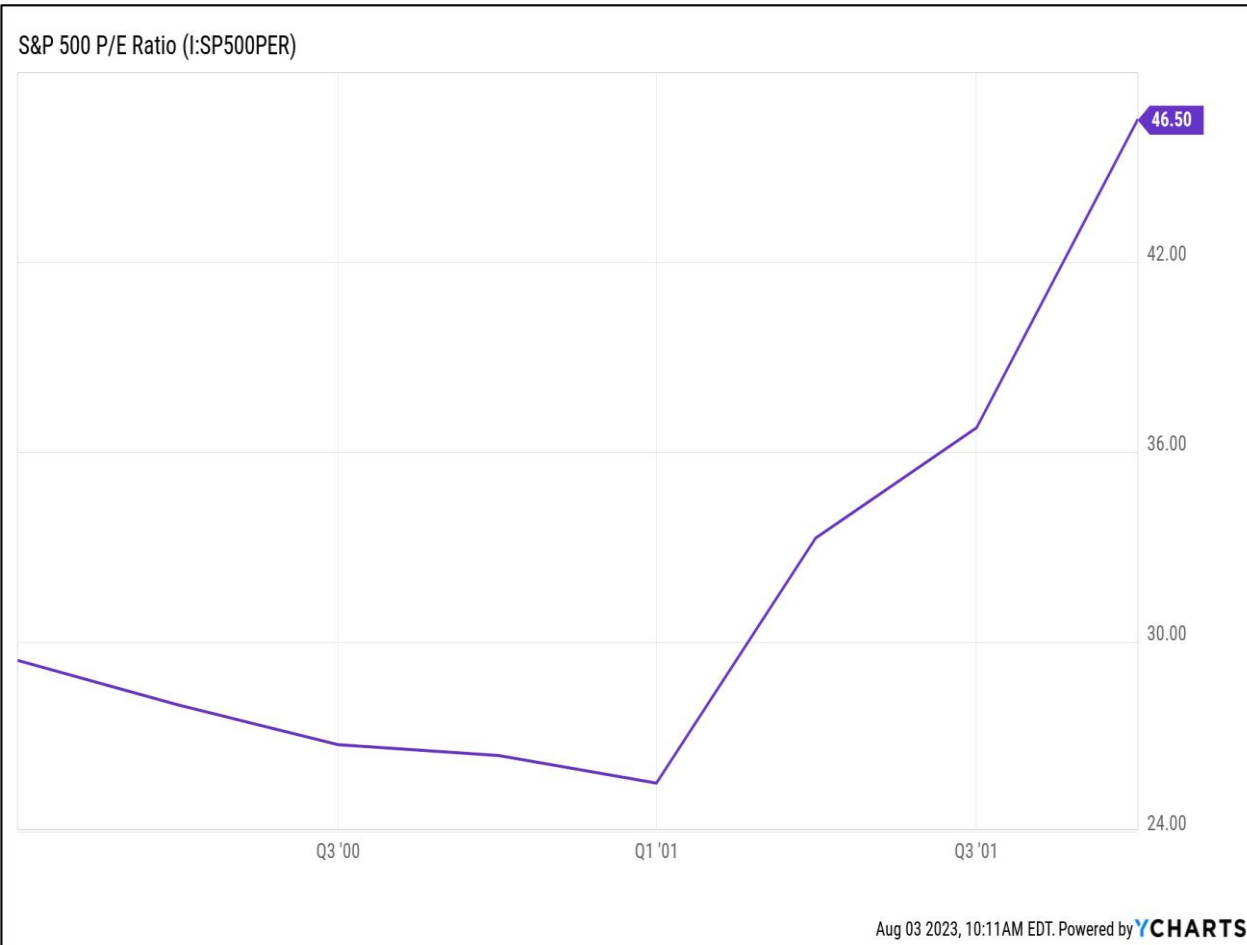
### Unemployment Rate Now



- Both claims and the unemployment rate stayed low initially following the inversion, but later both rose.
- Unemployment Rate 13 Months After Inversion
  - March 2021, 4.20%
  - January 2007, 4.40%
  - August 2023, 3.60%

## Valuation (P/E Ratio)

2000 – 2002 Valuation (P/E Ratio)

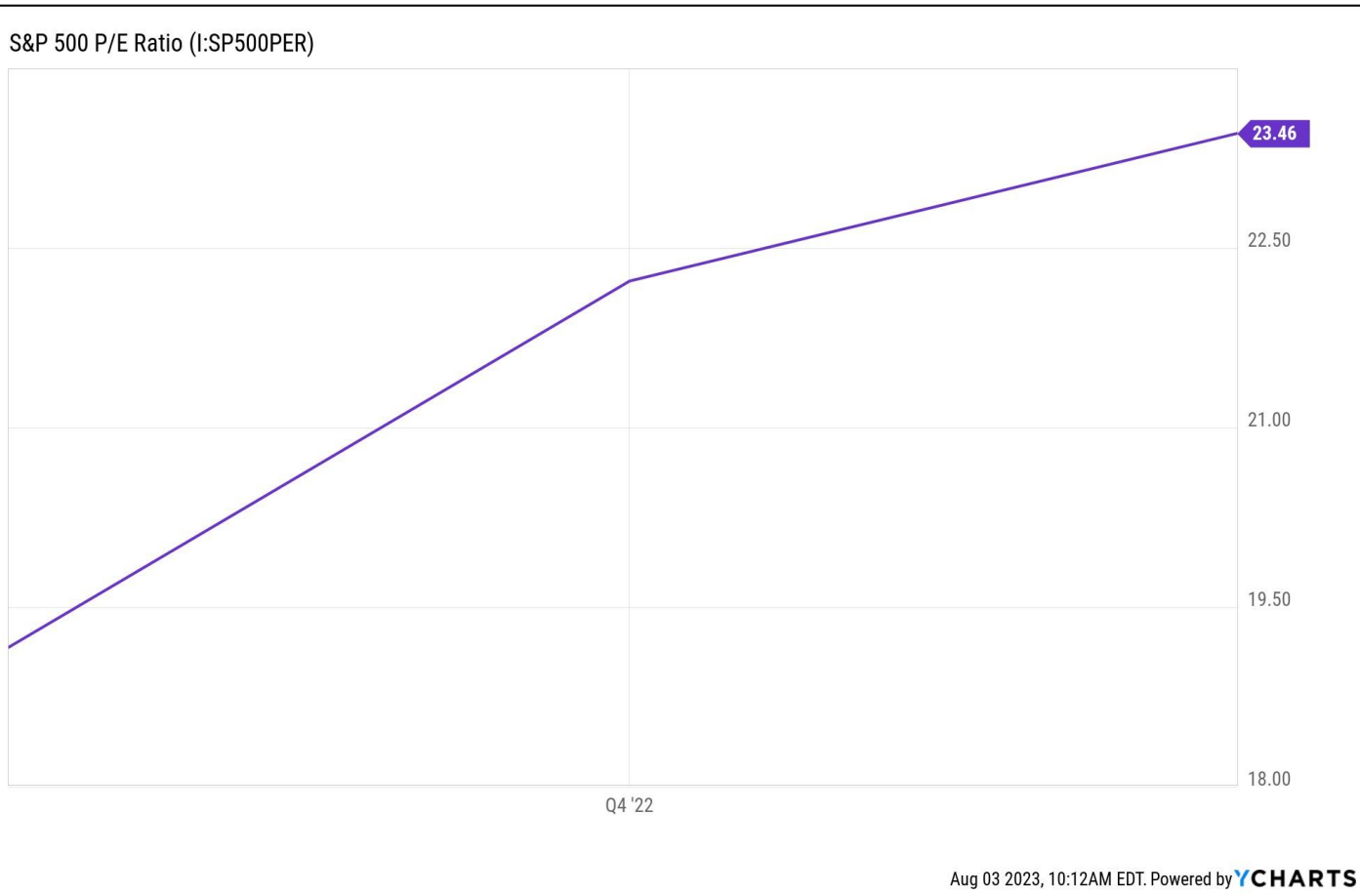


2005 – 2008 Valuation (P/E Ratio)



## Valuation (P/E Ratio)

### Valuation (P/E Ratio) Now



- Current market valuation is in the middle of the past two inversions, so not historically expensive, but not cheap, either.
- Valuation 13 Months After Inversion
  - March 2001, 26X
  - January 2007, 17X
  - August 2023, 23X

# Conclusion

	2/03/2000 Inversion	13-Months After	12/27/2005 Inversion	13-Months After	7/6/2022 Inversion	13-Months After
Real Interest Rates	3.51334	2.26729	2.01835	2.14808	1.06217	1.4243
GDP	1.50%	2.50%	4.90%	3.50%	3.50%	2.40%
ISM Manufacturing PMI	55.8	42.1	54.9	52.0	52.8	46.4
Jobless Claims	312K	384K	302K	308K	244K	221K
Unemployment Rate	4.10%	4.20%	4.90%	4.40%	3.50%	3.60%
Valuation	29.41	26.41	17.85	17.40	19.17	23.46

- My hypothesis for this presentation was that this is a similar timeframe to early '00 and '07, and the data largely confirms that.
- In both cases, economic and employment metrics stayed buoyant before gradually beginning to decline. And, that's what we are seeing today.
- Here's the point: The buoyant employment and growth data is historically typical for post-inversion periods. That doesn't mean we won't get a soft landing. But, it doesn't guarantee it, either.
- As such, we do not think "It's different this time" and I continue to respect the inversion of the 10's-2's and remain concerned about a future economic slowdown (again perhaps as early as Q4 '23 or Q1 '24).