

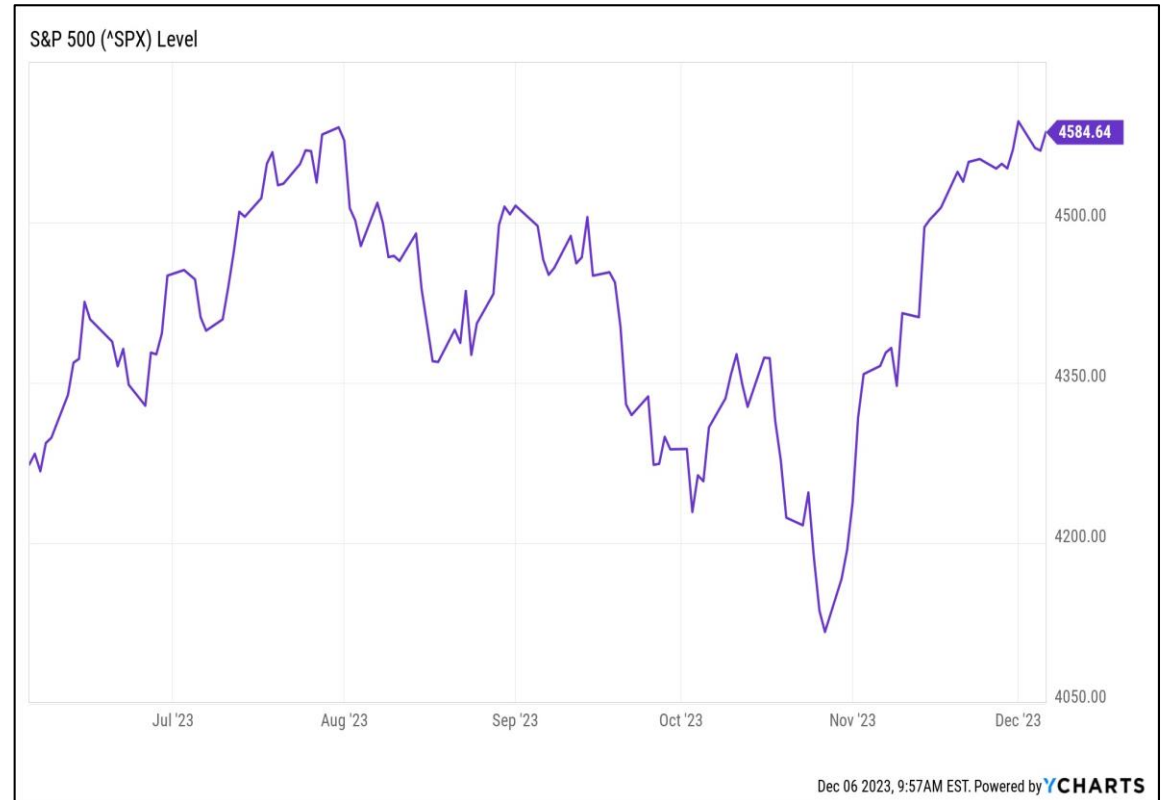
Sevens Report Alpha Webinar – What Are Investors Assumptions for 2024?

December 7th, 2023

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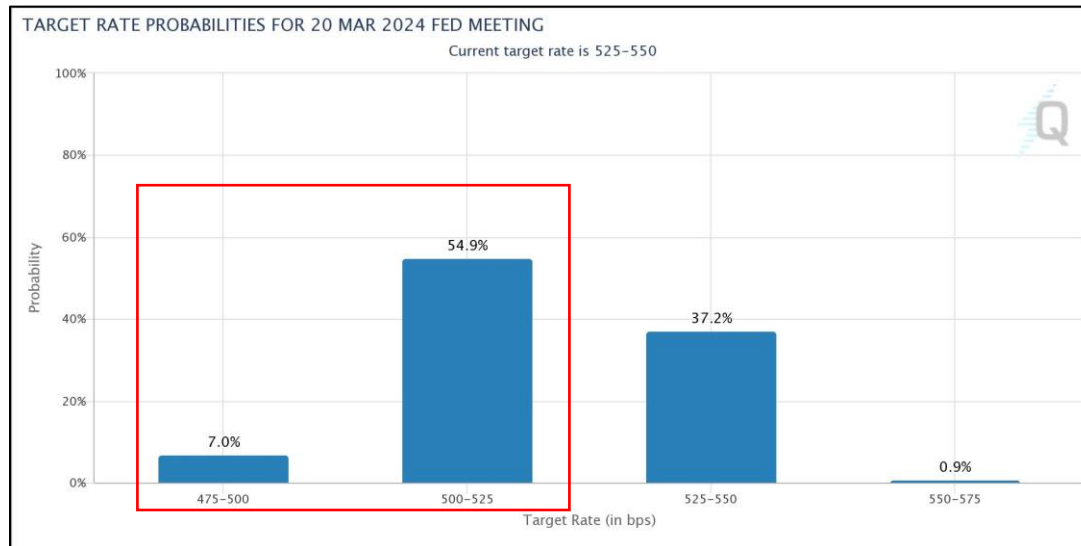
Key Assumptions

1. Fed Policy
2. Economic Growth
3. Earnings
4. Geopolitics
5. Domestic Politics
(including the 2024 election)

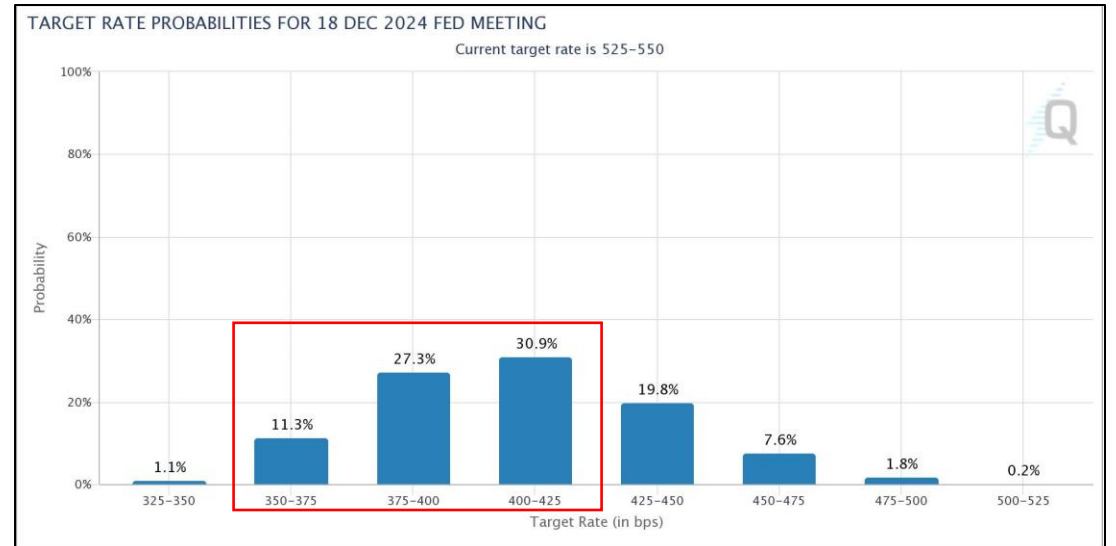


Fed Expectations

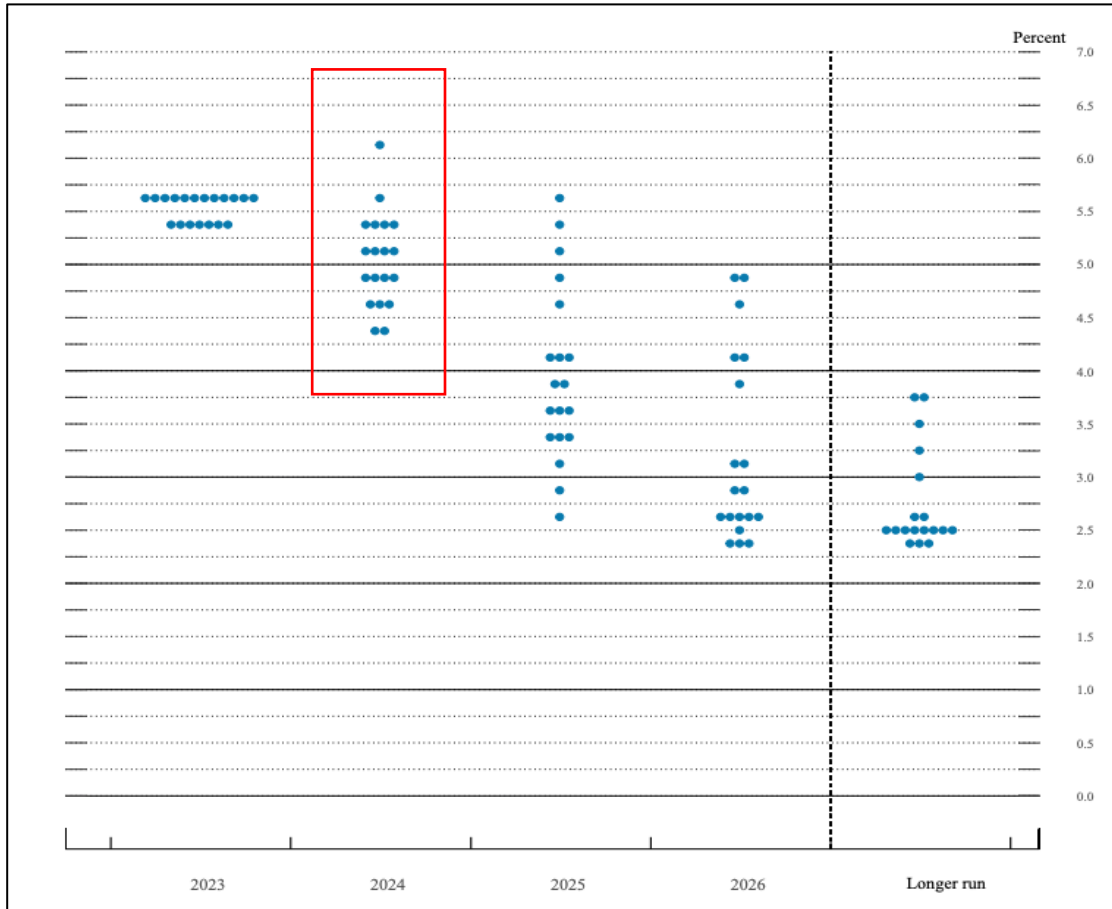
The market now expects a 25 bps rate cut at the March Fed meeting.



The market now expects between 1.25% - 1.50% of rate cuts by December (six or seven cuts).



Fed Expectations



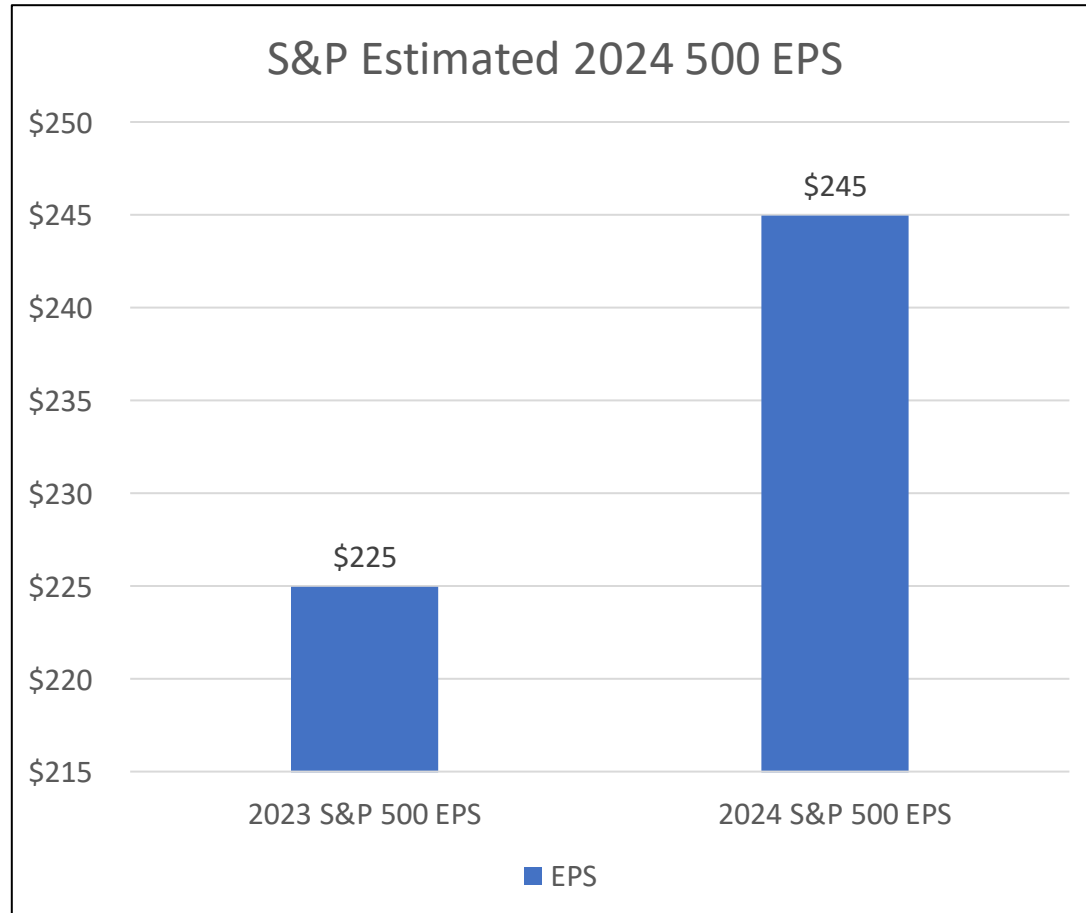
- The market's outlook differs substantially from the Fed's outlook.
- In September, only two of 19 FOMC members agreed with the market's expectations.
- Even if there's some dovish movement at next week's updated dots, it's very likely there will be a large gap between what the market expects and what the Fed plans to do.

Economic Growth



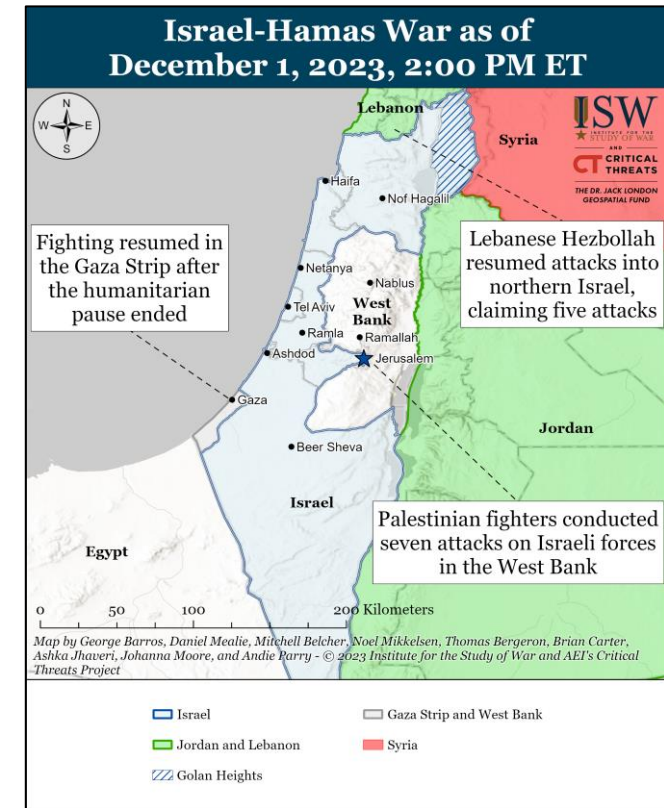
- I'm not going to review economic data here because that's not how the market shows us its expectations.
- Instead, it shows us its expectation for growth via the market multiple.
- 2024 estimated S&P 500 earnings are \$245/share. The S&P 500 is trading at 4570-ish. That means the market multiple is $4570/245 = 18.7X$.
- An 18.7X multiple means the market is expecting **no material slowing of growth – essentially a “No Landing” scenario.**
- For reference, a “soft landing” scenario is likely a 16X-18X multiple depending on severity while a growth slowdown is 15X-16X. A recession is sub 15X.
- Here's the point: The market is not at all priced for a growth scare or a mild contraction and this is a risk as we start 2024.

Earnings



- The market expects 8.8% earnings growth year over year which is solidly above the historical average (between 3% - 6%).
- If the economy slows or disinflation turns to deflation, this type of earnings growth will be difficult to achieve.

Geopolitics



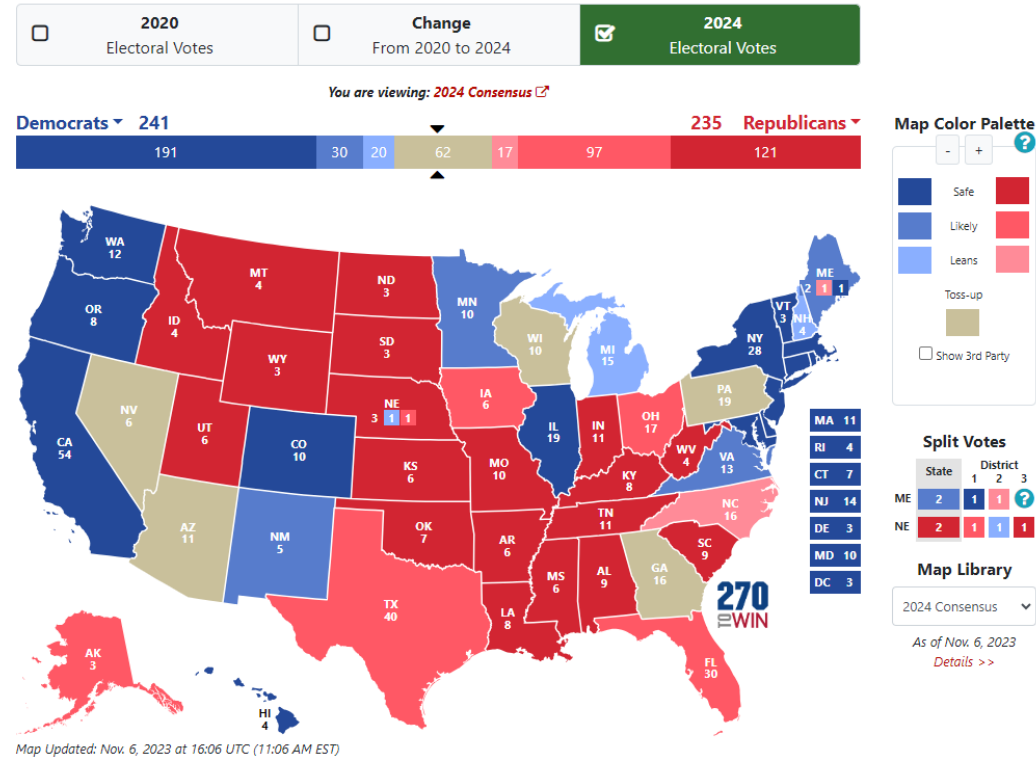
Geopolitics



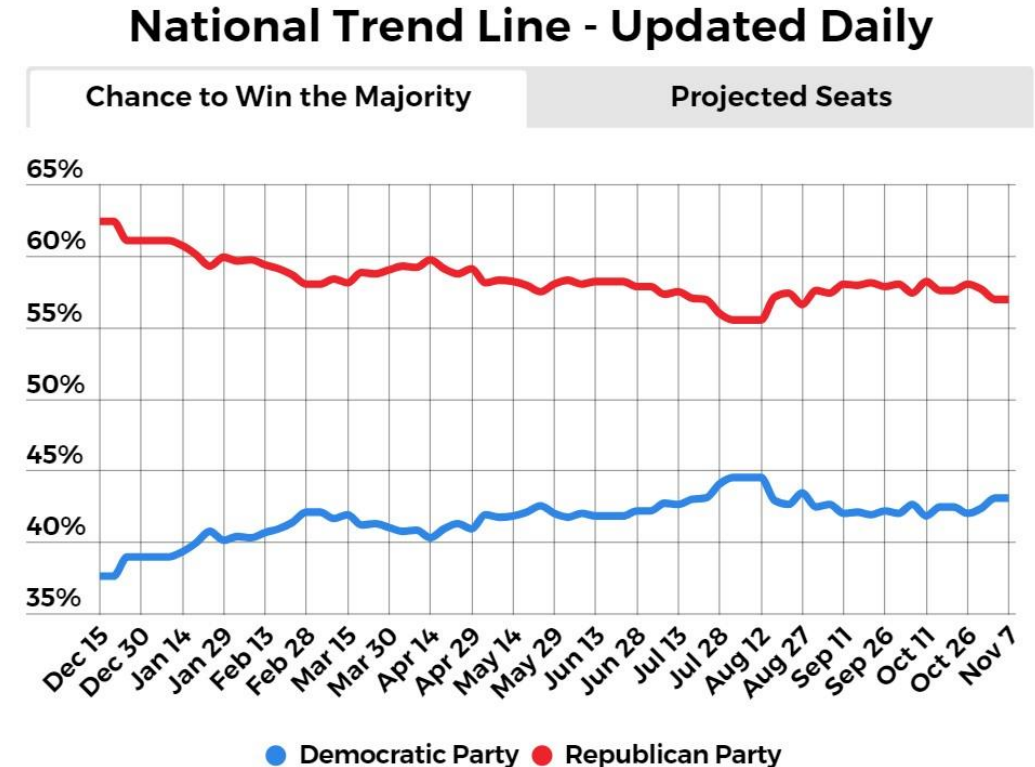
- The conflicts in Ukraine and Gaza remain enormous human tragedies.
- But, from a market standpoint, oil remains the best way to gauge investor expectations for both conflicts.
- With oil near multi-month lows, the market has assumed neither conflict spreads nor deteriorates materially.

Domestic Politics

Presidential Odds

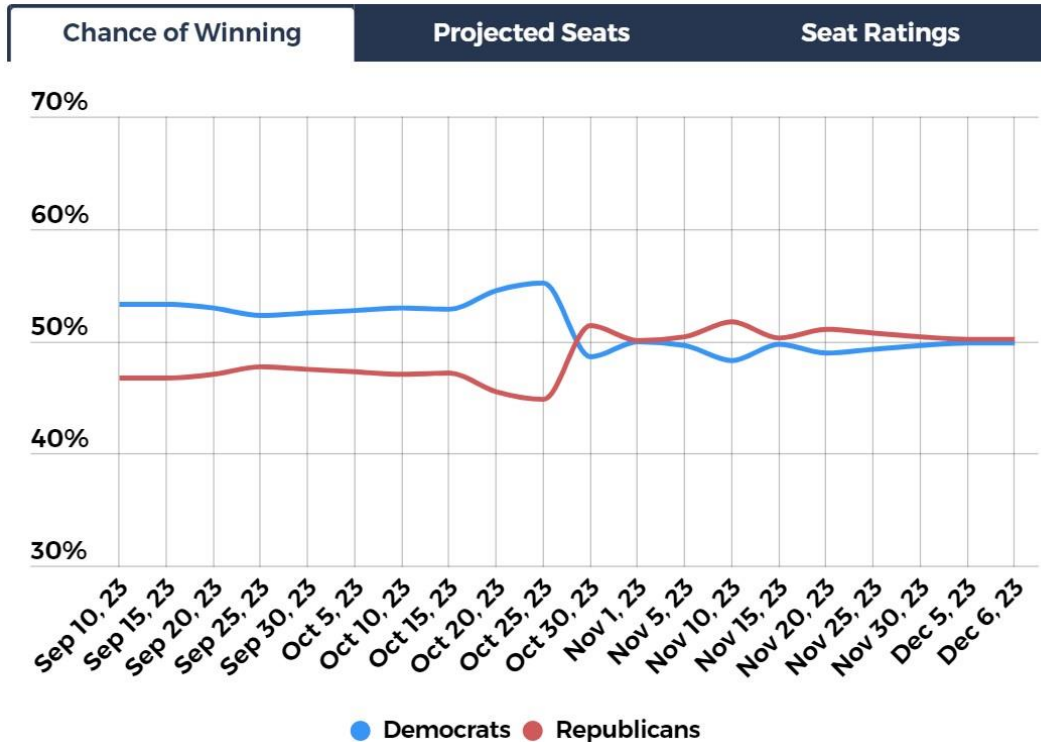


Senate Odds



Domestic Politics

House of Representatives Odds



- It's still very early, but markets expect another contentious and headed election season with potentially close results.
- However, at this point, the market still expects a split government, which is typically a positive for markets.

Takeaways

- At these levels, the S&P 500 has priced in positive assumptions for the economy, earnings, the Fed and geo-politics/domestic politics.
- These positive assumptions have solid backing. But, at the same time, there is more uncertainty out there than the price action currently implies.
- 2022 and 2023 provided significant surprises compared to investors' assumptions and I think it's important to realize that as we approach the start of 2024.
- The bottom line is this: The market has pulled forward a lot of positive events. That doesn't mean they won't happen, but a lot of the benefit is likely already in stocks. So, if there is even modest disappointment to start 2024, don't be shocked if the market is volatile to start the year.