

Sevens Report Alpha Webinar – What the Fed Pivot Means for Markets in 2024 (Outperformers and Laggards)

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Fed Pivot In The Early 2000s.

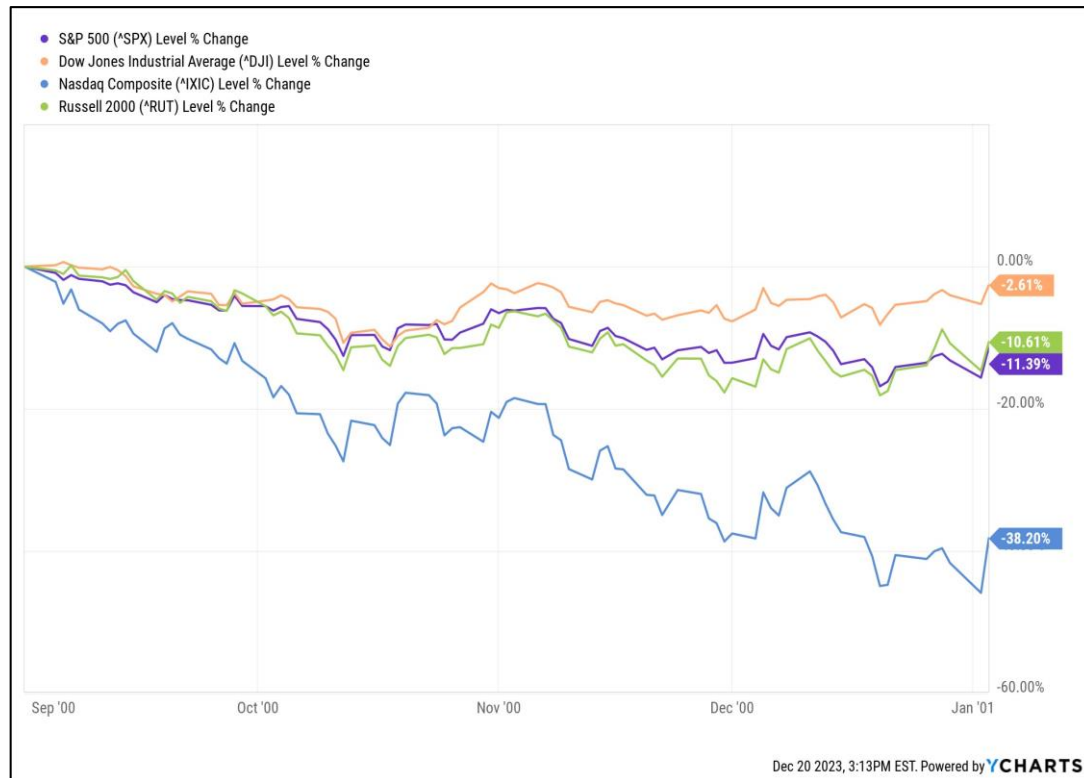
- Pivot Date: 9/1/2000
- First Cut Date: 1/3/2001

Economic Activity

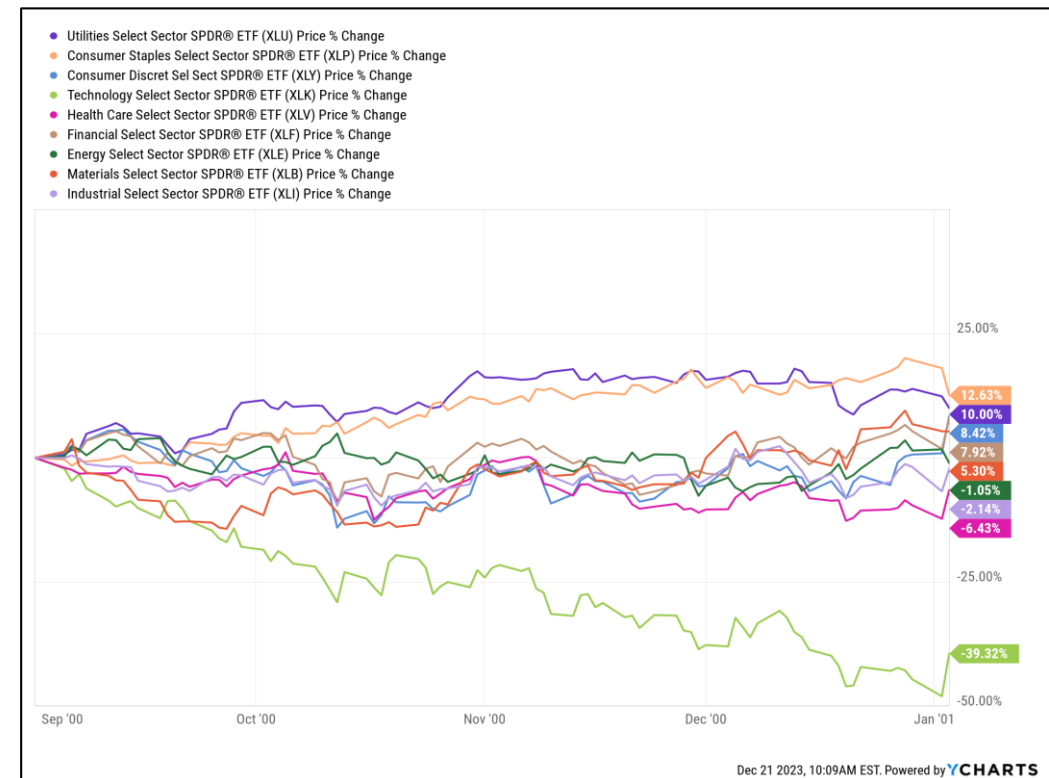
Economic Data	9/1/2000	1/3/2001 (First Cut)	9/1/2001 (1 Year from Pivot)
ISM Manufacturing PMI	49.90	43.9	46.3
Unemployment Rate	4.10%	3.90%	4.90%
GDP	7.50%	2.50%	2.40%
Jobless Claims	301K	353K	402K

Fed Pivot In The Early 2000s.

Major Index Performance - Pivot to First Cut.

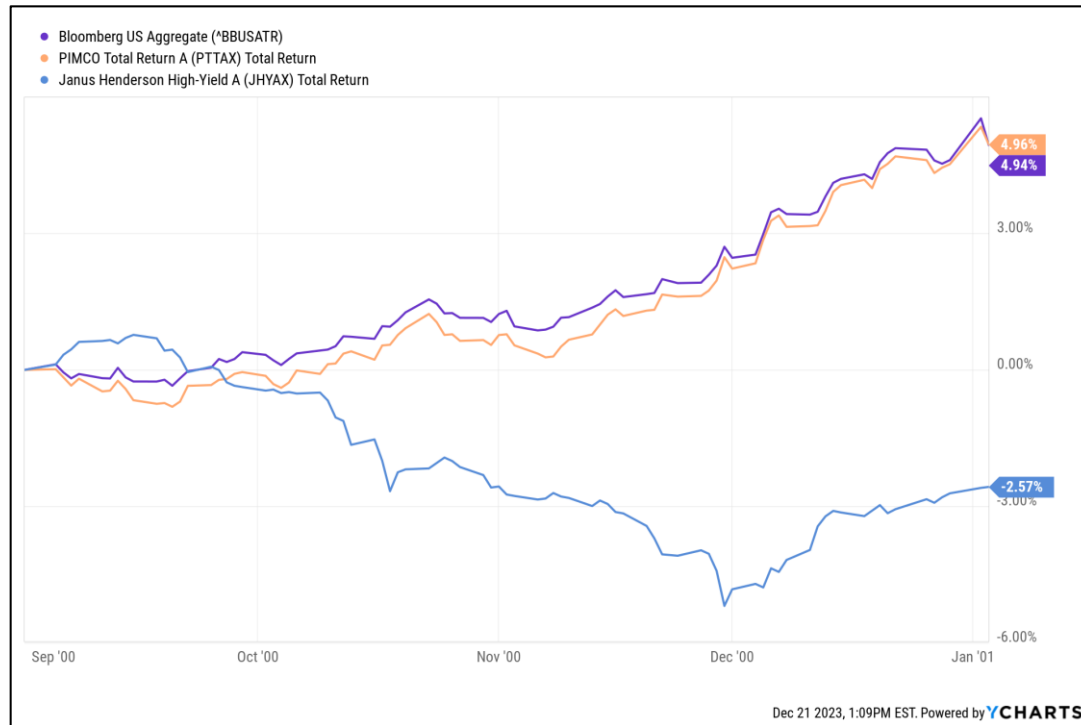


Sector Performance – Pivot to First Cut.



Fed Pivot In The Early 2000s.

Bond Performance – Pivot to First Cut.

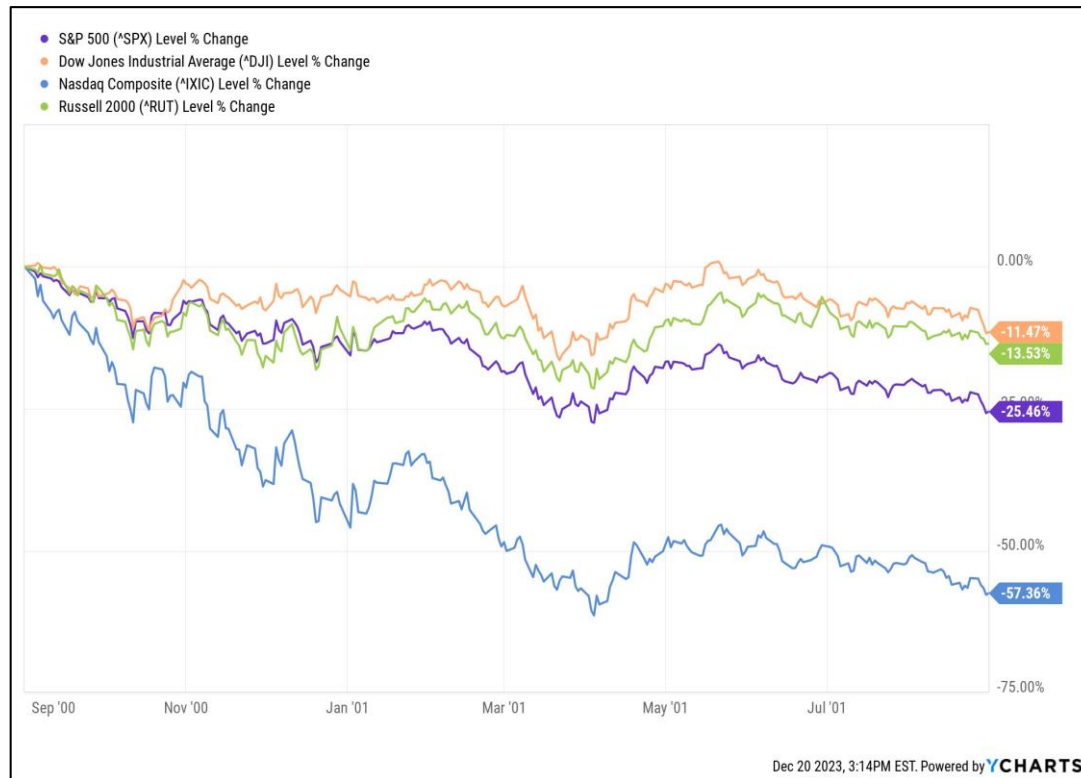


Observations

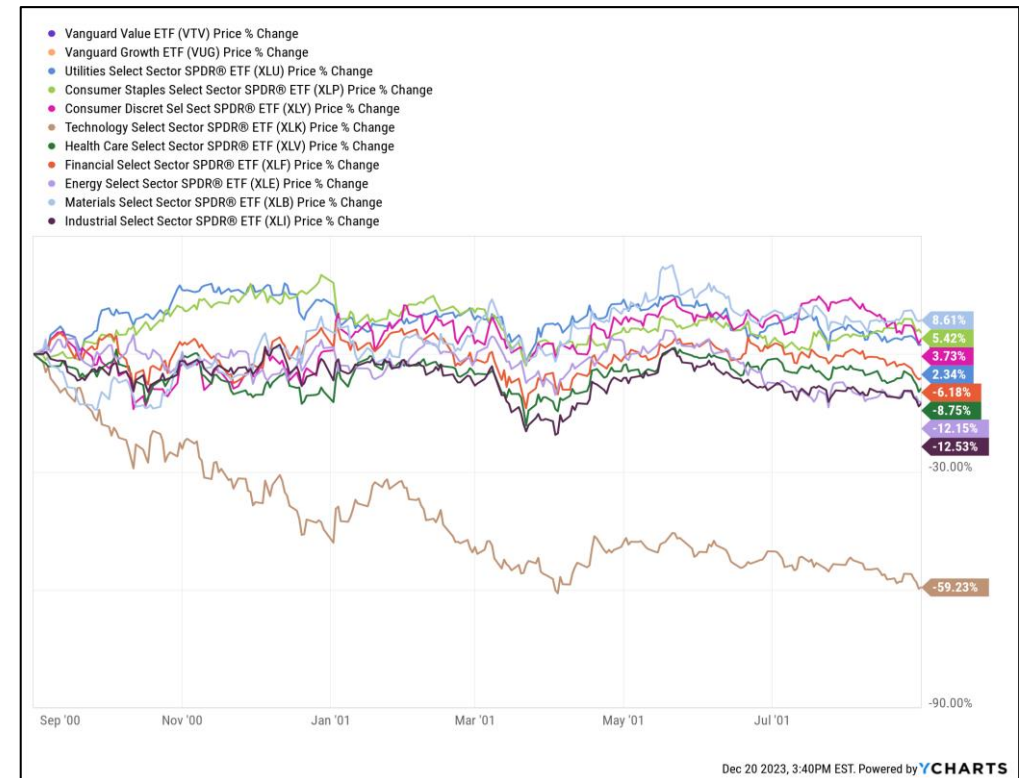
- Growth slowed following the pivot and first cut.
- Stocks declined following the pivot, although defensive sectors were positive and outperformed.
- Treasuries rallied while corporate bonds came under pressure.

Fed Pivot In The Early 2000s.

Major Index Performance – One Year After Pivot.

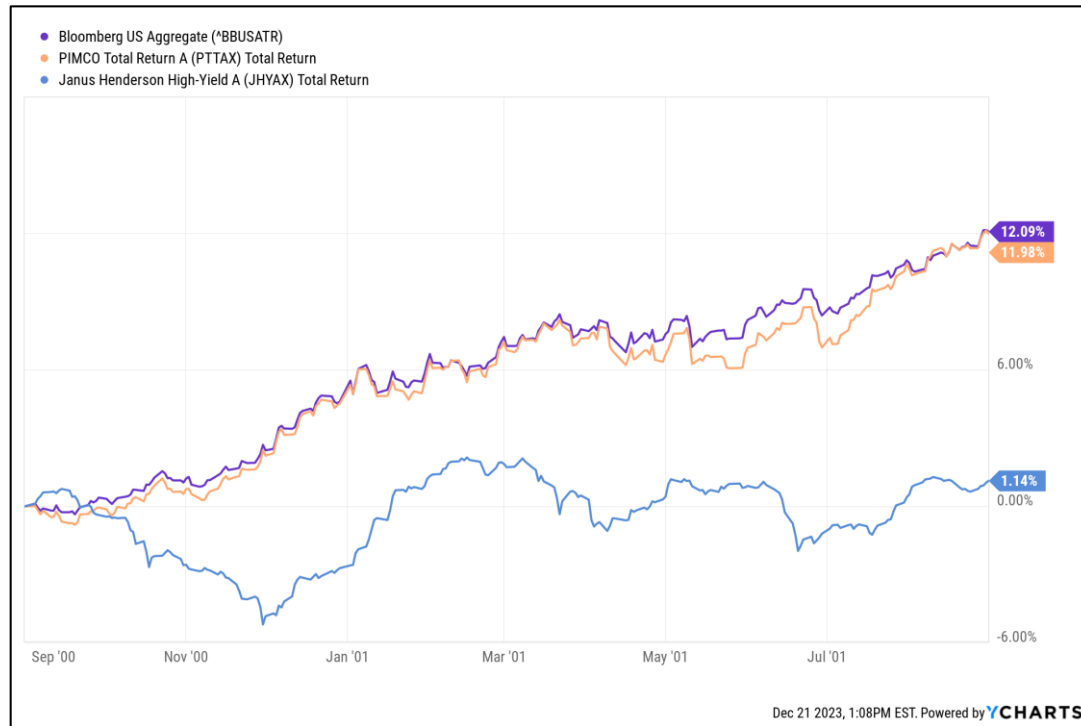


Sector Performance – One Year After Pivot.



Fed Pivot In The Early 2000s.

Bond Performance – One Year After Pivot.



Observations

- All major indices were sharply lower one year after the pivot.
- Defensive sectors handily outperformed on a short and longer-term basis.
- Treasuries were some of the best performers and a clear place to hide.

Fed Pivot In The Mid 2000s.

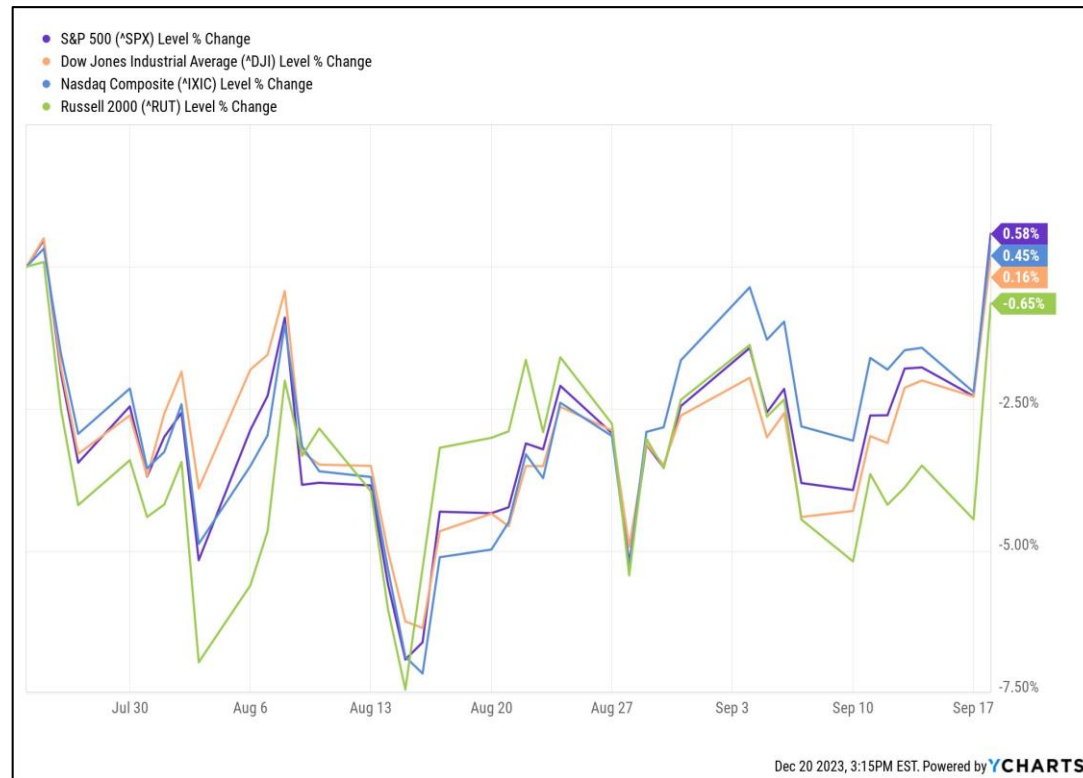
- Pivot Date: 7/24/2007
- First Cut Date: 9/18/2007

Economic Activity

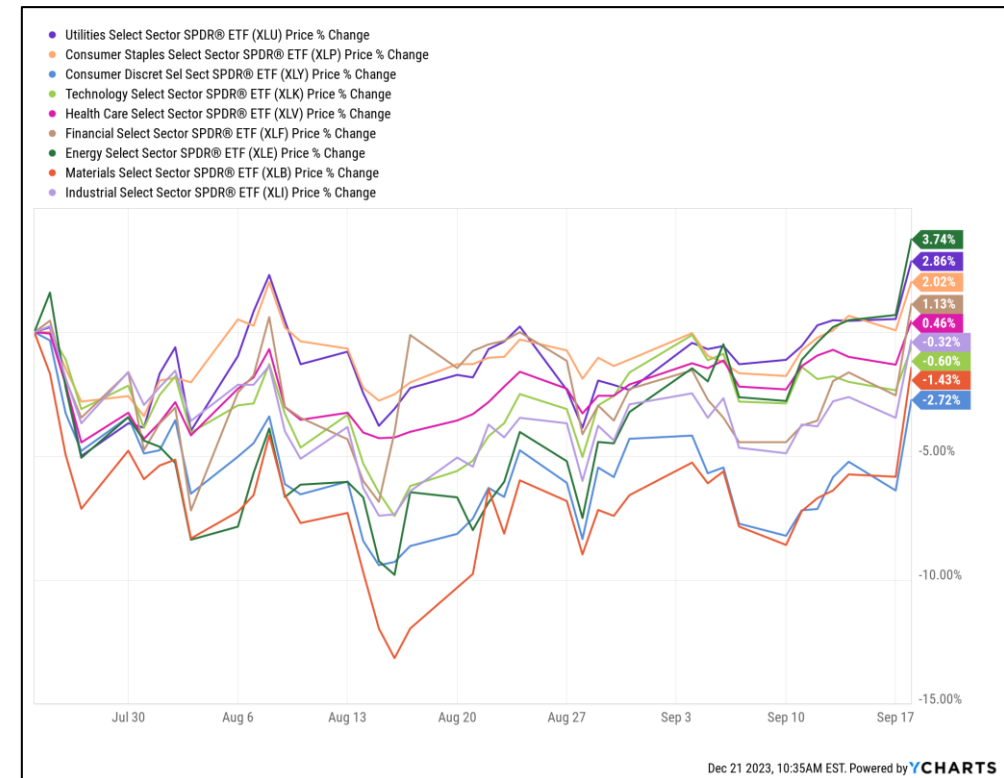
Economic Data	7/24/2007	9/18/2007 (First Cut)	7/24/2008 (1 Year from Pivot)
ISM Manufacturing PMI	53.20	50.5	50
Unemployment Rate	4.60%	4.60%	5.60%
GDP	2.30%	2.30%	2.10%
Jobless Claims	310K	313K	402K

Fed Pivot In The Mid 2000s.

Major Index Performance - Pivot to First Cut.

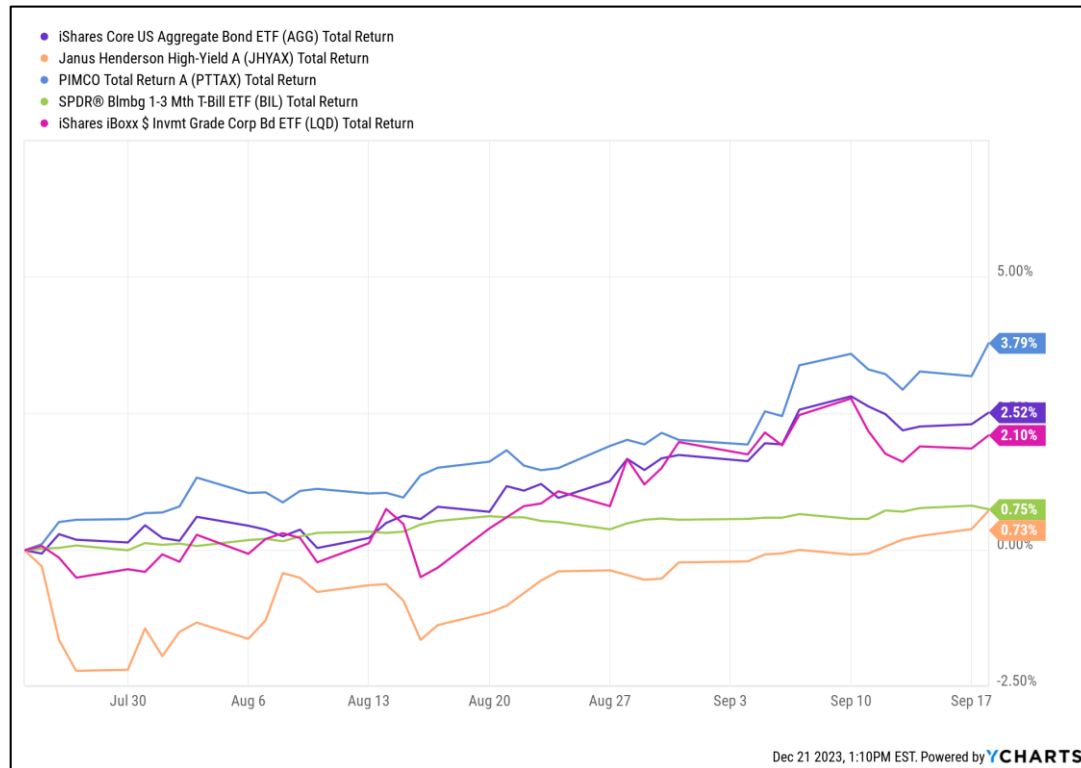


Sector Performance – Pivot to First Cut.



Fed Pivot In The Mid 2000s.

Bond Performance – Pivot to First Cut

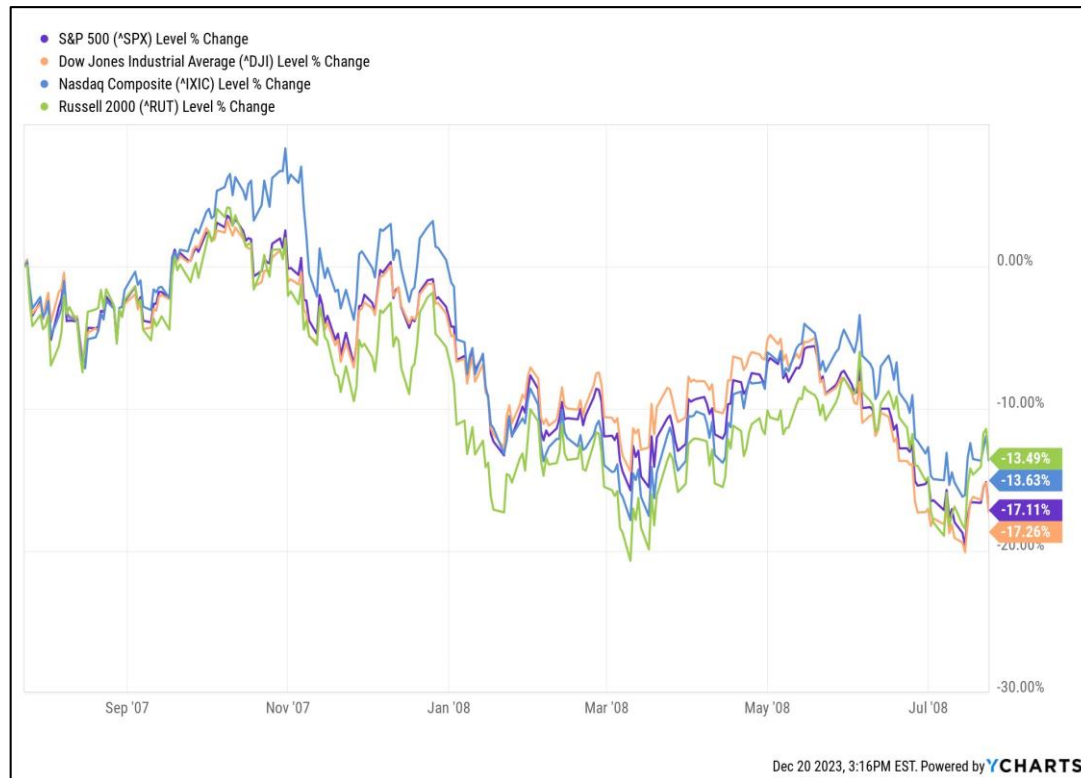


Observations

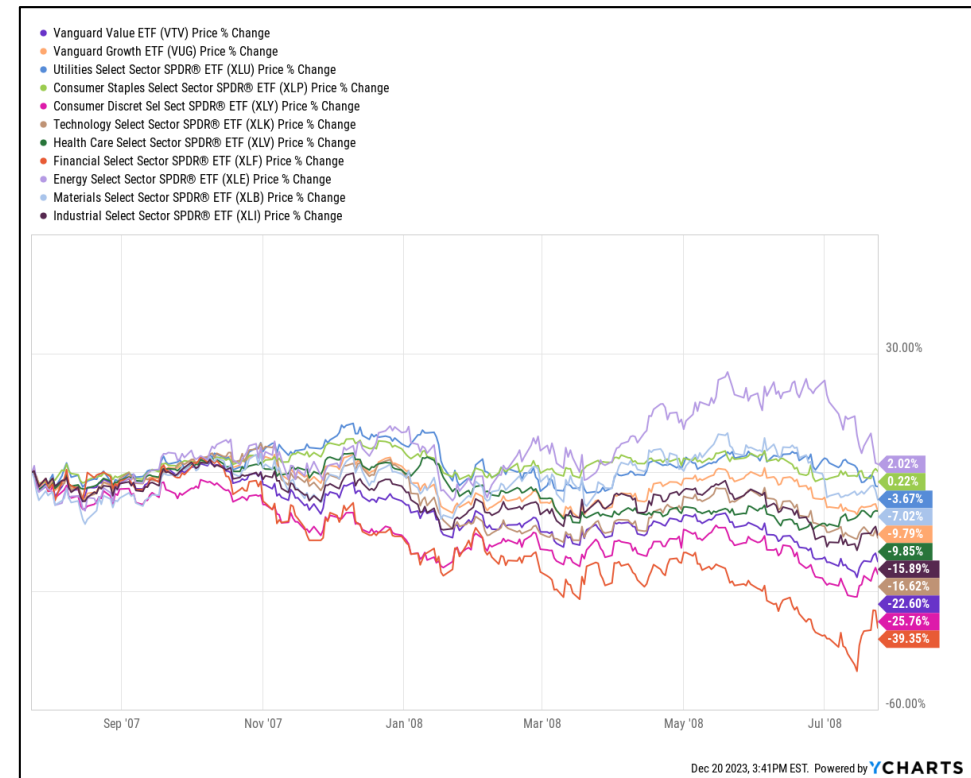
- Markets were little changed following the pivot.
- Defensive sectors again outperformed.
- Bonds were generally higher following the pivot with broad bond indices posting solid returns.

Fed Pivot In The Mid 2000s.

Major Index Performance – One Year After Pivot.

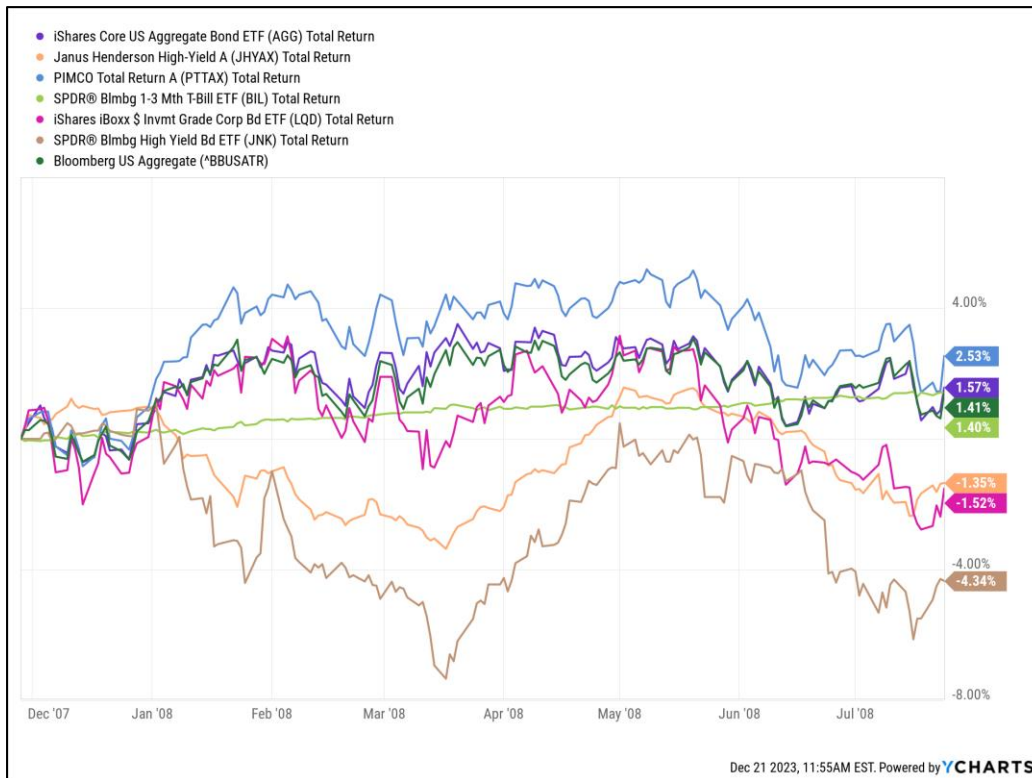


Sector Performance – One Year After Pivot.



Fed Pivot In The Mid 2000s.

Bond Performance – One Year After Pivot.



Observations

- Major indices and most sectors lower one year after the pivot.
- Defensive sectors again relatively outperformed.
- Energy was also a strong performer but volatile.
- Bonds were more mixed with corporates underperforming.

Fed Pivot In 2019.

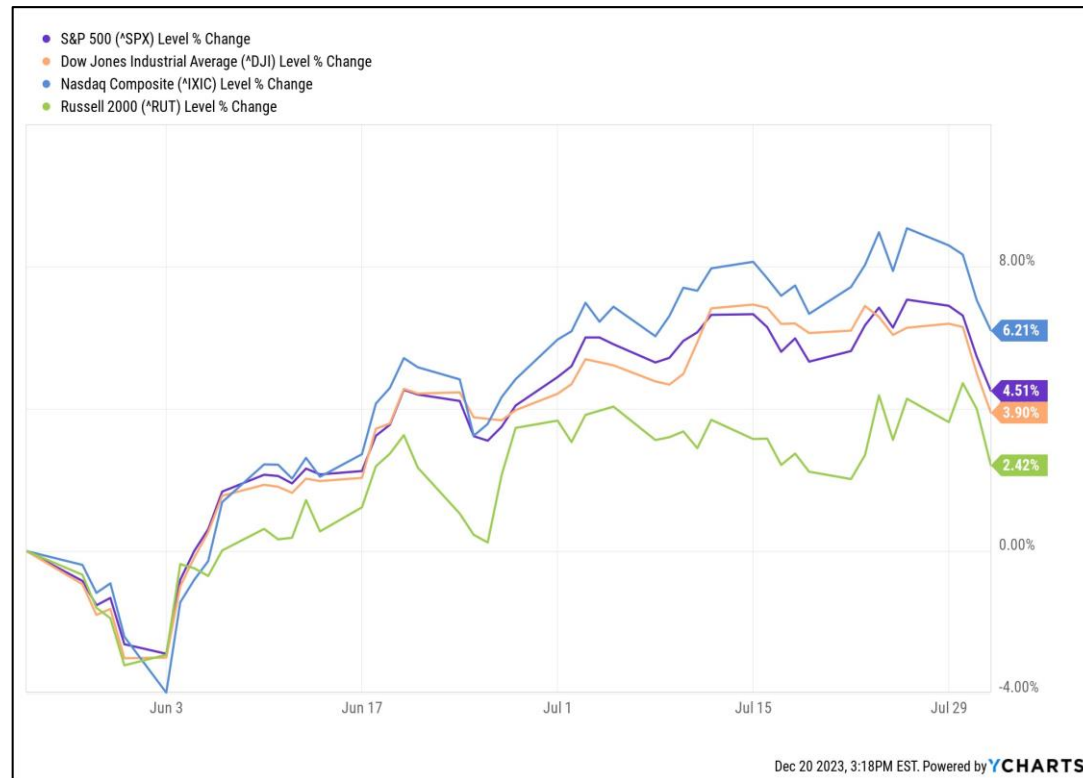
- Pivot Date: 5/24/2019
- First Cut Date: 8/1/2019

Economic Activity

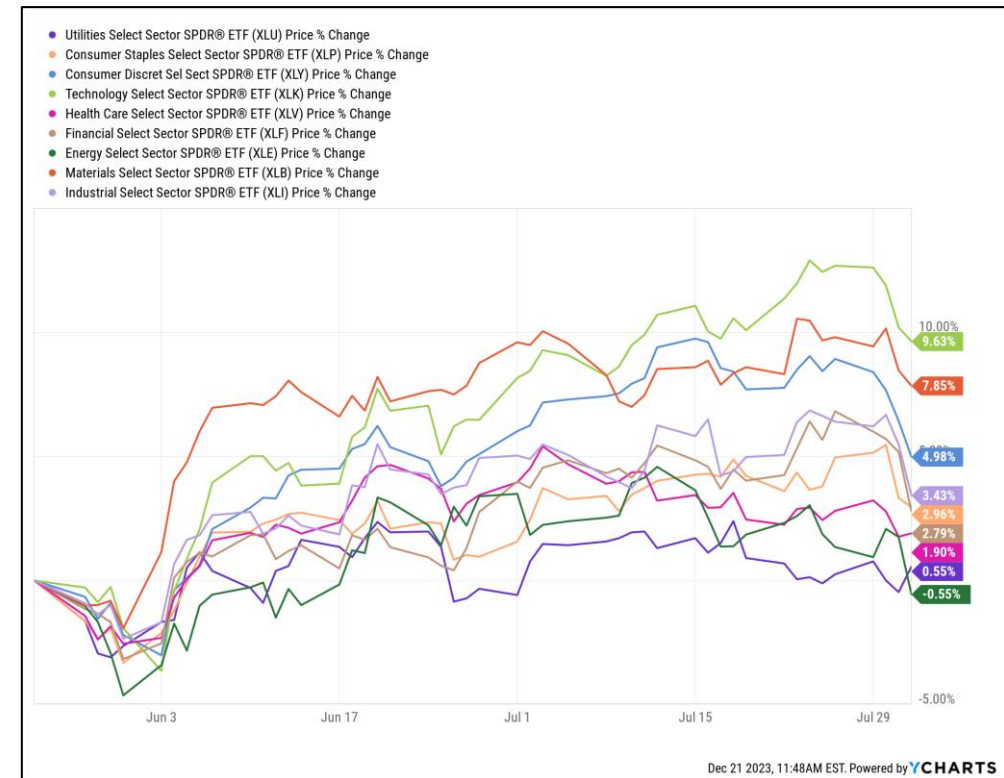
Economic Data	5/24/2019	8/1/2019 (First Cut)	5/24/2020 (1 Year from Pivot)
ISM Manufacturing PMI	52.80	51.2	41.50
Unemployment Rate	3.70%	3.60%	14.70%
GDP	2.20%	3.40%	-5.30%
Jobless Claims	213K	200K	2.176M

Fed Pivot In 2019.

Major Index Performance - Pivot to First Cut.

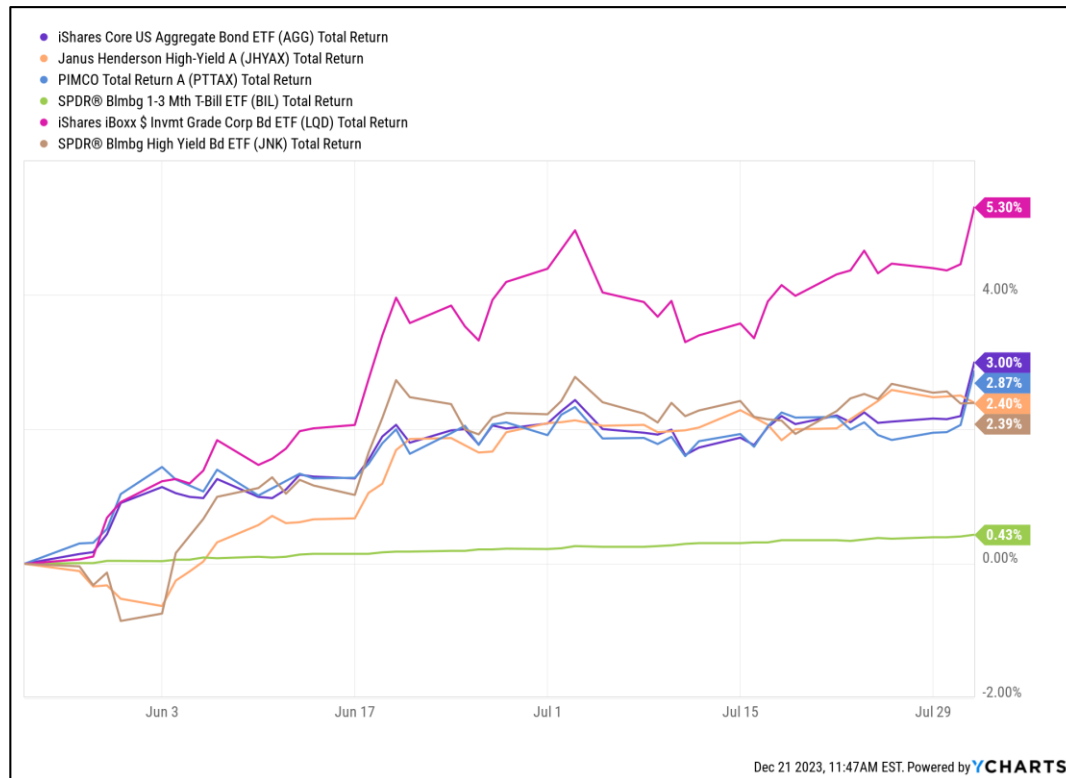


Sector Performance – Pivot to First Cut.



Fed Pivot In 2019.

Bond Performance – Pivot to First Cut.



Observations

- Much more of a “Risk On” reaction to the pivot although the pandemic skews the returns.
- Major indices were higher post-pivot, and more cyclical sectors outperformed.
- Bonds were higher again but led by corporates.

Takeaways

- AGG was higher from pivot to cut and one year after pivot across all three observations. So, the data implies that pivots are positive for bonds over the short and longer term, with Treasuries outperforming corporates in two of the three observations.
- If a slowdown occurs, defensive sectors outperform following a pivot ('00/'07).
- Economic activity slowed one year after the pivot across all three observations (although 2019 was influenced by the pandemic).
- The two typical pivots saw the major indices lower one year hence.

Answers to important questions:

- What consistently outperforms following a pivot in the short and longer term?
 - Answer: Bonds (AGG and similar funds).
- Is a pivot positive for stocks?
 - Answer: In the short term, yes. In the longer term, unclear.
- Does the pivot signal an “All clear” for stocks?
 - Answer: Absolutely not. In two of the three observations, stocks were down sharply one year after the pivot.
- What makes the difference?
 - Answer: Growth. In '00 and '07 the Fed pivot came too late but that only was obvious after the Fed started cutting rates. In '19 there wasn't enough time to gauge the impact because the pandemic changed everything. The biggest takeaways I believe are 1) We can not get complacent because the Fed has pivoted and 2) Economic data remains the key – if it rolls over in 2024, the pivot won't help and defensive sectors will likely outperform.