Strategy

# JefMacro Weekly–Is rate vol a canary in coal mine? Coming student loan cliff

March 26, 2023

## Key Takeaway

**Zervos weighed in on balance sheet release: Expansion modest vs. last week. Change in combination of discount window borrowing, new BTFP flat. Those looking for escalation in bank run risks not finding support. Mohit: Long rates peaked, macro challenging for risky assets, but ST support from underinvested positions. Simons estimates impact of end of student loan moratorium. Darby's sector changes: raised Tech to Mod Bull, down Fin'ls, Discretionary to Mod Bear.**

**David Zervos**—Thoughts on the Fed balance sheet release: The expansion was a much more modest ~$100b relative to last week's ~$300b. The net change in the combination of discount window borrowing and the usage of the new BTFP was flat. Those looking for an escalation in bank run risks will not find any support for that view.

**GREED & fear**—Valuation differential between India & China has reverted to its mean after outperformance by China. This sets up potential for renewed outperformance by India, most particularly as long-only foreign investors are UW India.

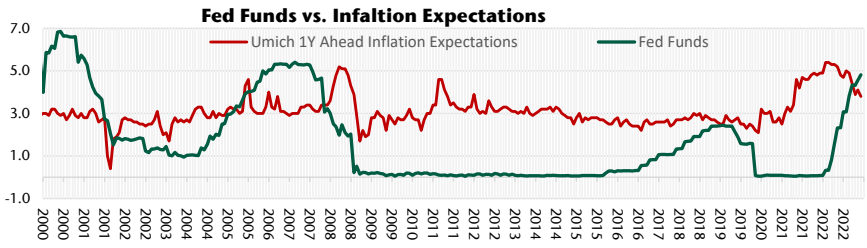
US stock market's initial response to a Fed U-turn should be positive, just as it will be negative for Treasury bonds. Still, market has to react to earnings downgrade risk triggered by a recession, even if that is in the context of a declining FF rate.

**Thomas Simons**—Household balance sheets have weakened; the likely end of student loan repayment moratorium presents more downside. According to NY Fed, the average student loan payment for a borrower that was not in deferment prior to the forbearance was $393 per month. This translates to about 0.6% of personal income, 0.8% of monthly PCE, and roughly 1.3% of discretionary PCE. The impact on income is similar to tax increases associated with "The Fiscal Cliff", which followed a slowdown in consumption.

**Mohit Kumar**—We remain in the camp that the current crisis is not systemic. But we do believe that recent events will force banks to deleverage and constrain lending, which would have a negative impact on economy. ECB has potentially more room to hike, simply because it is behind the curve. Long rates have peaked, the macro outlook is challenging for risky assets, but we can see short-term support from underinvested positions.

**Global Strategy**—We upgrade Tech to Mod Bullish from Mod Bearish, lowering Fin'ls & Discretionary to Mod Bearish from Mod Bullish and Bullish, respectively.

**Inflation expectations have fallen back to April '21 levels**




Source: Haver; JEF Economics

# JefMacro

**The JefMacro Weekly is the accumulation of this week's best Macro research.**

**Global Strategy made a handful of changes to sector allocation**

Large Caps

| Sector | New | | Old |
|---|---|---|---|
| Info Tech | Mod. Bull | ↑ | Mod. Bear |
| Financials | Mod. Bear | ↓ | Mod. Bull |
| Discretionary | Mod. Bear | ↓ | Bullish |

Source: Jefferies

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^Prior trading day closing price unless otherwise noted.

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