Strategy

JefMacro Weekly—Debt Ceiling, Getting Ugly Before it Gets Started; Going Global

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Key Takeaway

GREED & fear prefers markets outside US, Hong Kong less risky alternative to China. Highlights Eurozone Bank. Tom Simons thinks raising debt ceiling could be worse this time than '11. Does not rule out credit downgrade. Across credit, compression trade remains focus, selling tighter spread risk that rallied back toward tights in spreads, picking one's spots in higher spread risk with room to run. Global Strategy lowered Ind'ls to Mod Bearish from Mod Bullish.

GREED & fear—For global investors reluctant to re-enter China, the obvious less risky approach is to invest in domestic Hong Kong stocks, where a re-opening trade is now on with the border with the mainland opened since 8 January. GREED & fear also continues to believe that the liberation from the ECB's policy of negative rates is a bullish game changer for the Eurozone's banking sector.

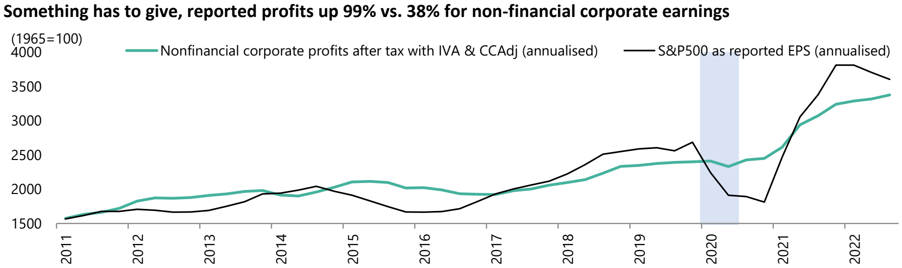
Thomas Simons—Despite clear lessons about risk and reward from the past, the gov't appears to be heading down the same path on the debt ceiling. We had thought this wouldn't be as bad as the '11 debacle, but it now looks like there is a high probability that it's going to go worse. We expect a knock-down, drag-out fight that goes all the way until the 11th hour, and another downgrade of the US sovereign credit rating cannot be ruled out.

Aneta Markowska—One question underlying the soft-hard landing debate relates to policy lags. The soft landing camp believes policy lags have shortened since the introduction of forward guidance which transmits future hikes through fin'l conditions, impacting the economy before those hikes are delivered. We are inclined to take the other side of that debate and argue that policy lags are longer than assumed by most.

Sherif Hamid—The compression trade is being put to the test along with the soft landing narrative. Even after a bounce, the CCC/BB spread ratio continues to sit at 3.25x, still high vs history. Despite growing risks, we suspect the compression trade remains the right focus, selling tighter spread risk that has rallied back toward the tights in spreads and picking one's spots in higher spread risk with some room to run.

Global Strategy—The relative valuation change between Discretionary and Industrial has become quite wide and this affords an opportunity to go Long Discretionary over Industrials. **We lowered Industrials to Modestly Bearish from Modestly Bullish.**

Something has to give, reported profits up 99% vs. 38% for non-financial corporate earnings



Source: Bureau of Economic Analysis; Jefferies

JefMacro

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

Global Strategy lowered Industrials to Mod Bearish from Mod Bullish

Large Caps

Sector	New	Old
Industrials	Mod. Bear	Mod. Bull

Source: Jefferies

WHAT TO WATCH: Global Macro Conference Call Series with Jefferies Thought Leaders: See Registration Details

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^Prior trading day closing price unless otherwise noted.