Strategy

JefMacro Weekly—There Are Not 36bps of Rate Cuts Priced in; Probing Neutral

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Key Takeaway

Zervos observes FF are expected to peak at 4.90%, then drop to 4.54%. He does not think investors should buy into narrative; Fed is ONLY around to help in unlikely event of a crash landing. Aneta & Tom Simons think the Fed hikes 25bps this week, not 50, however we reach same terminal rate of 5.1% with hikes in March and May. GREED & fear admits that more risk-on rally if earnings reporting season is navigated smoothly. Global Strategy goes long Homebuilders.

David Zervos—Markets are forecasting that Fed Funds is "expected" to peak at 4.90% and then "expected" to drop to 4.54% by December. Inflation has shocked the Fed to the upside; they need to be cautious not to inadvertently lower rates too early. Don't buy into this gobbledygook about a couple of rate cuts being priced into December. **For now, the Fed is ONLY around to help in the very unlikely event of a crash landing.**

GREED & fear—Encountering pushback on the view that the US is heading for recession. The JEF forecast is that the US is heading for a 5-quarter recession, starting in Q3. If such a timeline is accurate, GREED & fear has to admit that it can allow for more of a risk-on rally if the current earnings reporting season can be navigated relatively smoothly. Also, with the deadline to raise the debt limit on 5 June, and recession not forecast until Q3, **the current risk-on mood could run longer even if the recession forecast proves correct.**

Aneta Markowska& Thomas Simons—We had been expecting a 50bp hike at the February meeting, but Fed officials have telegraphed that they are ready for another downshift, **will proceed in 25bp increments until they are convinced that inflation is truly on its track toward 2%.** Assuming no change in short-term inflation expectations, a March hike will push the real funds rate toward 0.85%, and another hike in May would put it at 1.1%. If our economic scenario proves correct, assuming the labor market remains resilient in 1H but softens in early summer, the May meeting will mark the last hike of this tightening cycle.

Global Strategy—The 30-year fixed rate mortgage peaked at just over 7% after hitting a record low of just under 3% in '21. Existing home sales are at pandemic lows just as mortgage applications bounce. **We remain bullish on Discretionary, and go long Homebuilders vs. the S&P 500.**

Aniket Shah—While ESG investing has received pushback, there are areas where there is bipartisan consensus and investable opportunities. We see four areas of consensus: **The energy transition; Adaptation and resilience; The importance of financial materiality in investment decision-making; and increased attention to the working class.**

We expect the savings rate to rise in '23; creating drag on consumption growth

	Disposable Income Growth	+	Change in Savings Rate	=	Nominal Consumption	=	PCE Inflation	+	Real Consumption
2022	3.1	+	5 ppts	=	8.1	=	4.9	=	3.0
1H's '23 Annual (Est.)	5.6	+	-2 ppts	=	3.4	=	2.4	=	1.0

Source: Haver; JEF Economics

JefMacro

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

We recently raised some of our commodity forecasts

	Copper					
Forecasts	1Q23	2Q23	3Q23	4Q23	2023	2024
New	$4.20	$4.25	$4.00	$4.25	$4.18	$4.81
Old	$3.30	$3.30	$3.60	$3.80	$3.50	$4.31
	Gold					
	1Q23	2Q23	3Q23	4Q23	2023	2024
New	$1,900	$1,900	$1,900	$1,900	$1,900	$1,850
Old	$1,800	$1,800	$1,800	$1,800	$1,800	$1,750

Source: Bloomberg; Jefferies

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^Prior trading day closing price unless otherwise noted.

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