Strategy

JefMacro Weekly—American Utopia?

February 5, 2023

Key Takeaway

GREED & fear has gleaned more insight into HY market, which has remained sanguine despite growing recession talk. This is in significant part due to the large number of companies that "termed out" their debt in '20 and '21. Mohit Kumar, new to JefMacro, remains positive on risky assets, believes market focus is on CB's coming to an end of hiking, positions still under-invested, China reopening not fully priced in. Aneta does not believe in "Utopian" scenario.

GREED & fear—has gleaned more insight on America's HY market, which has so far remained sanguine in the context of the growing recession talk. This is in part because a large number of companies "termed out" their debt with an average US$455bn a year of high-yield bond issuance in '20 and '21. It may well be that the real damage in this cycle in the credit markets should the recession unfold, will turn out to be in the private loan market rather than in the bond market.

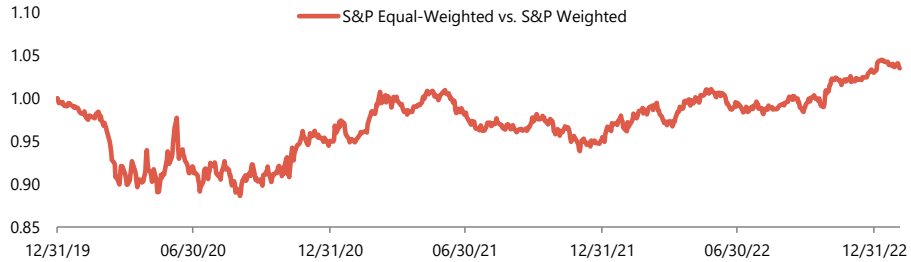
Aneta Markowska—The employment report was nothing short of amazing. We've now had two consecutive months of slowing wage growth and declining unemployment. At face value, it implies an upside-down Phillips curve, where there's no tradeoff between growth and inflation. This is even better than Goldilocks. It's a utopian scenario. **But can it last? We remain skeptical, for a number of reasons.**

Mohit Kumar (European Economics)—We see a range-bound market in rates, with a sell level for Bunds below 2.10% and buy level around 2.45%-2.50%. We continue to remain positive on risky assets, as we believe market focus is on CB's coming to an end of hiking cycle, positions are under-invested, and China reopening theme not fully priced in.

Global Strategy—A falling dollar, a peaking in US rates, and a reopening of the Chinese economy will provide a boost to EM GDP and earnings. There are much more nuances in this post-pandemic cycle that ought to mean total Asia and EM US$ equity returns are much higher than previous US dollar cycles, while the beneficiaries are much more dispersed. **Our themes of West Asia & Eurasia are set to benefit.**

Desh Peramunetilleke—Why mid-cap growth: Growth is slowing for large-cap tech/ internet, which warrants a shift of focus towards higher growth mid-cap ideas. Mid-cap growth stocks are usually cheaper and are witnessing relatively smaller downgrades.

The equal-weighted S&P has outperformed since August 2020



Source: FactSet; Standard & Poor's; Jefferies

JefMacro

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

We welcome Mohit Kumar, Jefferies' Chief Financial Economist Europe, to the JefMacro Weekly.

Across SMID, we lowered Fin'ls to Market Wgt from Overweight

SMID Caps

Sector	New	Old
Financials	Market Wgt. ↓	Overweight

Source: Jefferies

Upcoming Conference Call: The Current State of Global ESG Fund Flows on Wednesday, February 8th at 10am EST. Click **HERE** to register.

JefMacro Strategy *
Global Macro Team
jefmacro@jefferies.com

David Zervos * ~
Chief Market Strategist
dzervos@jefferies.com

Christopher Wood †
Global Head of Equity Strategy
+852 3743 8746
christopher.wood@jefferies.com

Aneta Markowska * ~
US Economist
amarkowska@jefferies.com

Mohit Kumar ‡ ~
European Economist
mkumar8@jefferies.com

Aniket Shah, PhD *
Global Head of ESG Strategy
(212) 323-3976
ashah14@jefferies.com

Sean Darby †
Global Equity Strategist
+852 3743 8073
sdarby@jefferies.com

Steven G. DeSanctis, CFA *
Equity Strategist
(212) 284-2056
sdesanctis@jefferies.com

~ non-Research Department Economists.

^Prior trading day closing price unless otherwise noted.

Please see Jefferies important disclosure here.

* Jefferies LLC / Jefferies Research Services, LLC † Jefferies Hong Kong Limited ‡ Jefferies International Limited