Strategy

JefMacro Weekly—Retaliation Pivot; More Cautious on European Equities & Credit

February 12, 2023

Key Takeaway

Zervos says premature to assume Jay is done with tough love needed to anchor inflation expectations. "Diverges" from expectations on how quickly inflation falls. GREED & fear sees a number of points showing China returning to normal. Mohit turned more cautious on European Credit & Equities. Aneta expects CPI to increase by 0.4%; 4% run rate. Stickiness of inflation and short-term inflation expectations argues for two more hikes, possibility of a third in June.

David Zervos—It is too premature to assume that Jay is done administering all the necessary tough love needed to anchor inflation expectations. He will need to see a very long and sustained period of lower inflation, and a much higher unemployment rate, to bring any easing actions into play. The change in tone was not about an imminent policy change; rather, it was just a well-deserved jab at his highly misguided critics.

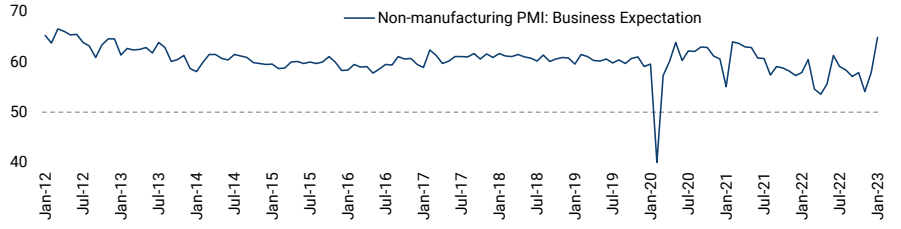
GREED & fear—A number of data points show how China is returning to normal as the country puts the pandemic behind it. Online travel agencies have reported that bookings for air tickets, hotels, and scenic spots during the Chinese New Year holiday have exceeded pre-pandemic '19 levels.

Aneta Markowska—A big chunk of the softening in inflation was seasonal; underlying inflation looks more sticky. Although y/y inflation is slowing, monthly readings do not inspire a lot of confidence it continues. We expect CPI to increase by 0.4%; firmly on the 4% run rate. **The stickiness of inflation and short-term inflation expectations argues for two more hikes, and it raises the possibility of a third in June.**

Mohit Kumar (European Economist)—We see limited room for further sell-off in rates, as a fair degree of hawkishness is priced in. We favor a small long in rates at current levels and would add if 10Y USTs go above 3.75% and 10Y Bunds above 2.45%. We are turning cautious on equities, as positioning suggests that long positions are getting stretched and valuations look rich. For credit investors, we favor adding long volatility strategies.

Sherif Hamid—Credit markets are going through a reassessment of the growth/inflation/policy narrative, and while we've had a big move in the rates market, there is still some scope for spreads and other risk assets to react further. We would continue to be pretty close to home in risk while maintaining high/low beta compression trades, though further gaps higher in yield/wider in spreads would get us more constructive.

China's Non-manufaturing PMI Business Expectations are rising substantially, as the re-open progresses



Source: National Bureau of Labor Statistics; Jefferies

JefMacro

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

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^Prior trading day closing price unless otherwise noted.

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