Strategy

JefMacro Weekly—Don't Be Fooled by Strong Econ Data, Cracks Are Emerging

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Key Takeaway

On surface, US economy looks strong. But under the hood, Aneta sees cracks. She believes that lags have gotten longer, much of last year's tightening has not been digested by economy. She struggles to see rationale for accelerating hikes to 50bps. Mohit is neutral risky assets, continues to favor Europe over US. DeSanctis points out SMID-Cap balance sheets are in good shape, relative valuations cheap, fundamentals better, sticks with size segment outperforming.

GREED & fear—Our base case in China-related equities is a pause to refresh before the next up leg. The key issue to monitor will be the recovery in the residential property market. The good news is that there has been a pronounced pickup in secondary market sales in tier-one and tier-two cities since Covid policies were relaxed.

Aneta Markowska—Margin weakness caused by slowing nominal growth, sticky labor costs and rising interest rates, will eventually cause the labor market to crack, most likely around the third quarter. Small businesses, which include many early-stage startups, are at the heart of our thesis, as their labor intensity, floating rate exposure, and dependence on outside capital make them particularly vulnerable to late-cycle pressures.

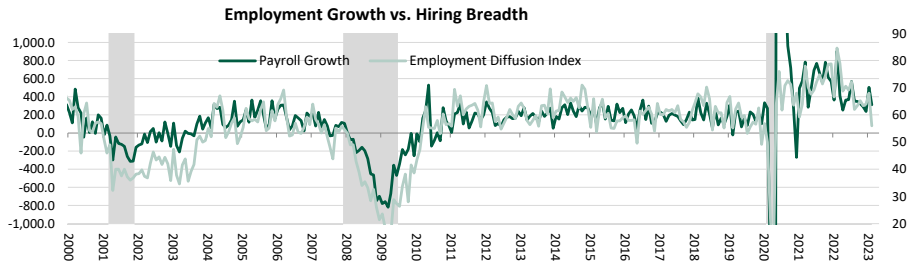
Even if inflation surprises on the upside, we believe Fed will conclude that risks have become more two-sided, and moving in 25bp increments is a prudent path.

Mohit Kumar—We view the current risk off events to have a limited contagion and be relatively contained. But the events will prove to be a wake-up call for investors to analyse their exposure to a rising rate environment and puts idiosyncratic risks back on the table. We are neutral risky assets and continue to favour Europe over US.

Sherif Hamid—Across credit, we would be inclined to move toward flattish duration, start moving to take advantage of widening spreads and get a little longer spread beta. We do think in the context of the ongoing developments folks should go slowly.

Steven DeSanctis—Given where valuations stand, we still think fundamentals are better down cap, balance sheets are in better shape than in the past, we think the size segment bounces back and outperforms in '23. We do think owning better balance sheets makes sense, while we like names with overseas exposure.

Cracks under the surface in Employment and Hiring



Source: Bloomberg

JefMacro

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^Prior trading day closing price unless otherwise noted.

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