Strategy

JefMacro Weekly–Armageddon Fail; Oh Bother, Only the Sticky Part's Left

April 16, 2023

Key Takeaway

Zervos revisits bank stress: More robust checks/balances coming. For macro, without broader systemic risks coming, difficult to see events having meaningful economic consequences. For GREED & fear, deposit outflow means inevitable tightening in lending standards. Key variable remains whether outflow from banks continues given deflationary implications due to negative impact on credit multiplier. Tom Simons thinks Fed has more to do to slow inflation to target.

David Zervos—The number of FDIC-insured banking institutions in the US has been declining for decades, it still stands much higher than in other developed nations. The storyline feels more like a natural evolution of survival of the fittest than deep cuts to banking services. Without broader systemic risks coming into play, as they did in '08 and '98, it is difficult to see this having any meaningful macroeconomic consequences.

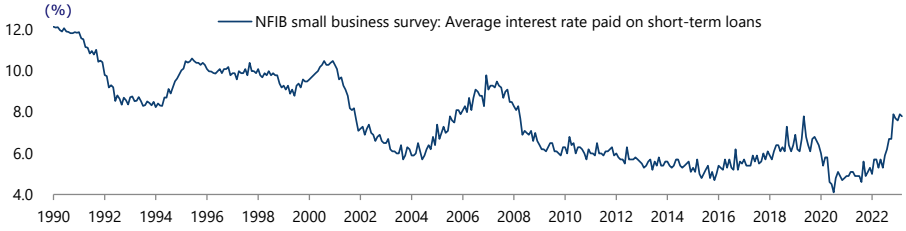
GREED & fear—The deposit outflow means seemingly inevitable tightening in lending standards. The positive is that commercial real estate loans are usually financed long-term unlike leveraged loans which have been geared to a rising Libor. The key remains whether outflow of deposits from regional banks continues given potentially deflationary implications as a consequence of the negative impact on the credit multiplier.

Thomas Simons—Expectations of rate cuts assume Fed will find evidence inflation is trending back towards target and likely to stay there. We don't think the data has shown signs of that. Headline inflation and wage growth have decelerated from peak, but underlying forces that drive inflation remain firm. To ensure inflation gets back to the 2% target, Fed needs to slow unit labor costs. This reduces largest source of cost pressure, and demand via slower wage growth. They have made progress, but have a way to go.

Mohit Kumar—For rates, our view is to use any sell-off as a buying opportunity. For risky assets, the key will be when bad news becomes bad news. We see short-term support for equities. However, as we move closer to recession, we see growth concerns dominating. Medium-term, we retain a cautious view.

Sherif Hamid—Consensus is looking for a recession, as are we, but that does likely mean the "pain trade" is higher in risk & tighter in spreads. We suspect folks should be moving back toward flattish overall risk, and look to sell spread rallies should they come, and similarly, be flattish duration; look to use treasury sell-offs to grow a duration long.

Average interest paid on short-term loans approaching 8%



Source: National Federation of Independent Business (NFIB); Jefferies

JefMacro

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^Prior trading day closing price unless otherwise noted.

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