Strategy

JefMacro Weekly—Wage Price Spirals & Lessons from '60s Employment Slowing

June 5, 2022

Key Takeaway

GREED & fear walked away from investor meetings with the impression that no one expects material relaxation of China's Covid policies. If the unexpected happens, Chinese equities will jump. Aneta sees the labor market tightness reminiscent of the '60's. Fed needs to engineer positive real interest rates. Also, Fed has to remain tighter for longer. JefMacro team made a few sector shifts; Modestly Bullish Energy & Fin'ls in Large, Underweight Utilities in SMID.

GREED & fear—The negative impact of China's Covid policy remains on investors' minds. No one is expecting any material relaxation, though there is also a general understanding that Chinese equities will explode higher if the unexpected happens. Investors are interpreting Premier Li Keqiang's call as a signal of high-level disagreement with the Covid suppression policy. *GREED & fear* continues to believe the stimulatory policies being announced remain irrelevant in the context of continuing Covid suppression.

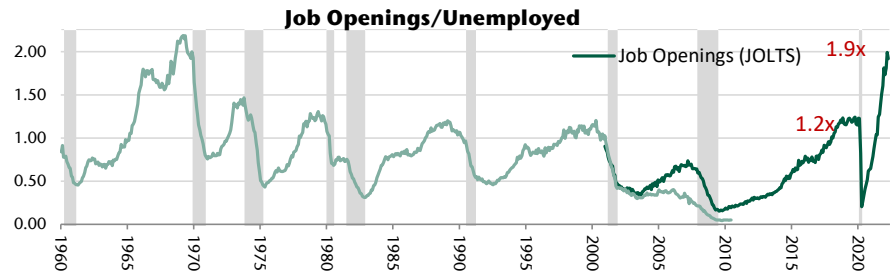
Aneta Markowska—The labor market tightness today is reminiscent of the '60s, which is the last time the ratio of job vacancies-to-unemployed reached the current level. There are two important lessons from that period that also apply today. In order to break a positive feedback loop between prices and wages, Fed needs to engineer positive real interest rates. When faced with persistent inflation, Fed has to remain tighter for longer.

Sherif Hamid—We would move from a small long risk position to a small short given the sharp squeeze tighter and growing macro risks. Despite our commodity-related trepidation, we would leg into a duration long, with a view to grow that rate position on any inflation fear/commodity price related moves above 3% on 10y treasury yields.

Global Strategy—Financial conditions have loosened underwritten by a drop in the trade-weighted dollar and narrowing credit spreads. The fallback in inflation expectations, as well as a firmer Chinese RMB, have aided markets. **We upgrade both Energy & Fin'ls to Modestly Bullish, and Banks to Bullish.**

Steven DeSanctis—The Bond Proxies trade at 23x earnings, relative to the universe, a 33% premium to their long-term average. When the market finally hits its low and rallies, this group gets left behind. **We moved to an Underweight on Utilities.**

The current imbalance in the labor market is at levels last seen in the 1960's



Source: Haver; Jefferies Economics

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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