Strategy

JefMacro Weekly—Inflation Expectations Begin to De-anchor; 75bps Hike This Week

June 12, 2022

Key Takeaway

Aneta moved to a 75bps hike by Fed. Long-term inflation expectations are no longer contained, Fed has no choice but to shift gears, front-load rate hikes. GREED & fear thinks hawks on the ECB are leaning towards bond-buying, giving them room to raise rates. Higher rates are needed to boost Eurozone Banks. Sherif thinks it will be hard for longer-term neutral rates to break out until we prove the economy can absorb hiking cycle without negative economic impact.

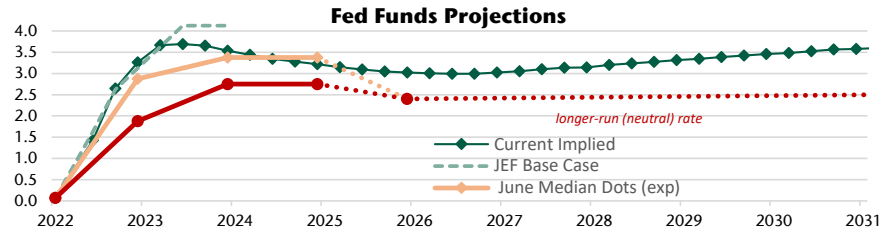
GREED & fear—With the ECB signaling the first rate hike since '11, it is interesting that wage growth appears to be accelerating in the Eurozone, playing catch up with the US. The ECB is likely to announce some form of contingency bond-buying plan to cap spreads to guard against the risk of renewed monetary tightening causing turmoil in the periphery. The hawks on the ECB have accepted such a bond-buying program if it gives them more room to raise rates. And increased interest rates is certainly what is needed in the Eurozone to liberate banks from negative rates.

Aneta Markowska—The inflation data are game changers that force the Fed to switch to a higher gear, front-loading policy tightening. We are changing our call, and now expect a 75bp increase. Inflation isn't peaking, it is still accelerating, and the acceleration in the core is occurring despite easing supply chain pressure, which is reducing inflation in several consumer goods categories. This should dash hopes that easing supply constraints will make inflation go away. Long-term inflation expectations are no longer contained, hence we believe the Fed has no choice but to shift gears and front-load rate hikes.

Sherif Hamid—It will be hard for longer-term neutral rates to break out until we prove the economy can absorb the hiking cycle without a lot of ill effects. We like growing a duration long in the 5-10y bucket with yields above 3%. Curve flattening also gives us another opportunity to start to grow treasury curve steepeners.

Global Strategy—Both lagging & coincident Software indicators have improved, suggesting that revenue streams won't disappoint. Treasury yields have exacted a penalty on valuations, but the recent relapse in credit spreads provides room for performance. Poor Tech sentiment indicators offer an insurance against downside. **We remain Bullish Tech.**

The JEF forecast is now for a 75 basis point hike this week



Source: Bloomberg; JEF 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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