Strategy

JefMacro Weekly—Jay's Volcker moment; Housing recession, consumption to follow?

June 19, 2022

Key Takeaway

Zervos points out that stocks, commodities, real estate, are hedges for inflation. He expects some relief in having a responsible Fed. In GREED & fear's opinion, degree of monetary tightening depends as much on the politics and the markets as on the economy. Vote-seeking American politicians will switch from worrying about inflation to worrying about Americans' 401k plans. Aneta believes barring unforeseen shocks, consumers still have a relatively long runway.

David Zervos—We expect the Fed continues to defend their credibility, and Chair Powell will prove his commitment to fighting inflation. A lot of negativity has already been priced into risk assets, and we should remember that stocks, commodities and real estate, are hedges for inflation. We expect that there will be some relief in having a responsible Fed.

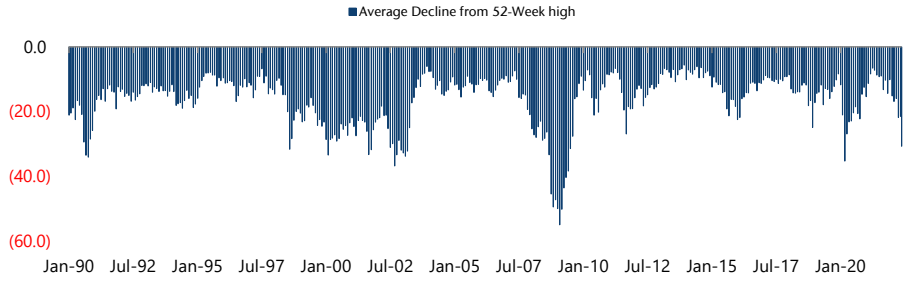
GREED & fear—Whether this degree of monetary tightening happens will depend as much on the politics and the markets as on the economy. The focus of vote-seeking American politicians will likely switch from worrying about the need to be doing something about inflation to worrying about the impact of monetary tightening on Americans' 401k plans

Aneta Markowska—While we don't believe in a soft landing scenario, we do not think a recession is imminent. Barring unforeseen shocks, consumers still have a relatively long runway, likely measured in quarters, not months. Unlike housing, which is very rate-sensitive, we believe consumption will be less sensitive to borrowing costs in this cycle because households are flush with cash and are thus less reliant on credit growth.

Sherif Hamid—We expect growth sensitive parts of the credit market to remain under pressure. We remain cautious on discretionary, autos, transportation, and chems. The energy trade feels tricky to us; while we do see continuing risk of a further spike higher in commodity prices, we think investors should lighten energy longs given how well the sector trades vs the broader market.

Global Strategy—Any monetary overkill will be played out in credit markets. US high yield bonds were discounting a default rate of 5%, whereas in typical recessions that number is above 40%. HY spreads in nominal and real terms are still far away from pandemic highs.

Carnage! Average S&P 500 name off 30% from their 52-week high, comparable to March '20 levels



Source: FactSet; FTSE Russell; 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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