Strategy

JefMacro Weekly—Recession Is Inevitable, But Not Imminent; Changes in Forecasts

June 25, 2022

Key Takeaway

GREED & fear's base case is a change in Fed language, prior to Mid-Term elections. If GREED & fear is wrong and Fed continues aggressive course, downside for equities is much worse. Aneta updated forecasts: Lowered GDP to 2% in '22, flat in '23, raised her '22 year-end 10-year forecast to 3.64%. If we bounce sharply in credit, Sherif says sell risk into strength. Global Strategy upped Discretionary to Mod Bullish, Downgraded Utilities to Bearish.

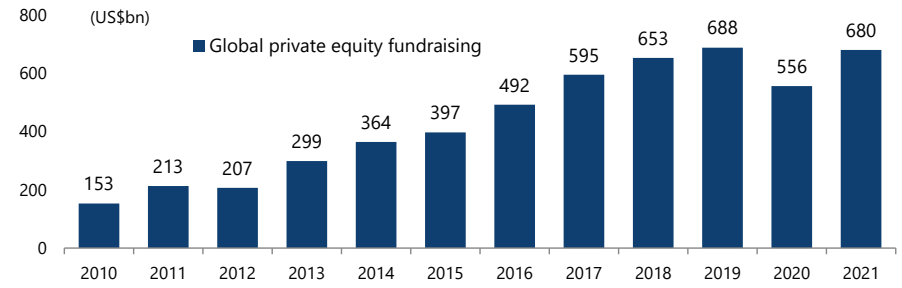
GREED & fear—Base case is a change in Fed language prior to the Mid-Term elections. If GREED & fear is wrong, and the Fed continues on its current aggressive course, the downside for US equities is significantly worse. The longer the monetary tightening cycle proceeds, the more refinancings will expose the unrealistic "marks" valuing private investments and the more likely there will be an after-the-event regulatory post-mortem on why public pension funds and the like ever agreed to such restrictive terms.

Aneta Markowska—Following the jump in inflation expectations, gradual normalization is no longer an option, the Fed has no choice but to continue to accelerate the tightening cycle. We expect 75bp hike in July, followed by two 50bp increases, and three 25bp hikes thereafter. This would bring Fund Funds rate to a 4-4.25% range by March. While we acknowledge the headwinds facing the economy, we don't think a recession is imminent. **However, we do lower our '22 GDP forecast to 2% and expect 0% growth in '23.**

Sherif Hamid—Despite the bounce, the Fed is likely to continue on a hawkish path in the near-term. We suspect the heavy data calendar will be more important than usual, but it would take some pretty meaningful deviations from consensus to sustainably change the narrative. To that extent, if we do start to bounce more sharply we would be inclined to sell risk into that strength, with a focus on reducing high $ price low quality risk.

Global Strategy—Our analysis of momentum and target price changes showed Consumer Discretionary sub-sectors occupied the bottom half over the past three months and are in the more distressed quadrant for earnings/sentiment in the past 4 weeks. Yet the stocks are exhibiting high Earnings Yield and decent valuation support vs. past five years. **We upgrade sector to Modestly Bullish, while we cut Utilities to Bearish.**

Private equity has raised a considerable amount of assets over the last several years



Source: McKinsey Global Private Markets Review; Preqin; 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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