Strategy

JefMacro Weekly—The Global Consumer Has its Mojo; When Will QT Start to Hurt?

August 21, 2022

Key Takeaway

GREED & fear did a deep dive into Energy, remains confident group outperforms. Sees no signs of demand destruction, inventory levels decline, macro backdrop remains stagflationary. Global Strategy sees consumer sentiment improving and an encouraging mean reversion bounce in Discretionary. We feel US & global consumer still has Mojo. Sherif suspects Jackson Hole will be opportunity for Fed to set expectations into the fall, we don't want to be long into event.

GREED & fear—remains bullish on Energy, as global oil inventories have now declined back to '07 levels, which preceded the spike in oil to an all-time high in '08. The macro environment remains stagflationary, while investors are in danger of forgetting that wars are inflationary. These mounting geopolitical risks are a reason to maintain exposure to Energy and Gold even if the demand-supply situation was not so critical.

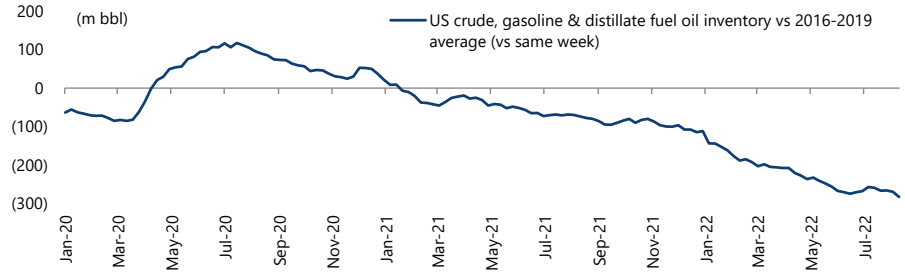
Aneta Markowska—The most important aspect of QT is how much duration is being transferred from Fed back to the market. This creates portfolio balance effects, and causes repricing of term & risk premia. The Fed has been shrinking its balance sheet for almost three months, but so far this has not resulted in a duration transfer. QT will start to hurt when investors have to absorb duration. There are two plausible ways this can happen: Treasury increases coupon sizes, or the Fed sells MBS assets.

Sherif Hamid—We expect a hawkish sounding Fed in an attempt to jawbone markets back down. We suspect the Fed's Jackson Hole confab will be an opportunity for the Fed to try to set expectations going into fall, hence we don't want to be long going into the event. Tilt a little short going into September: We would use the underperformance of EUR credit to add selectively to EUR vs USD credit.

Global Strategy—Consumer sentiment surveys are expected to improve encouraging a mean reversion bounce in Discretionary. We continue to run a Long position in US Dividend Income vs. Momentum. We feel the US and global consumer still has its Mojo.

Steven DeSanctis—The rally by small caps took a pause after jumping 22% from 6/16 low. We look for a rotation, as the rise by lower-quality names were way too far, way too fast, and now lower ROE names trade at 6.5x sales vs. 1.2x for the highest ROE stocks.

US oil inventories remain at an extreme deficit level



Note: Data up to week ended 12 August 2022. Including SPRs. Source: Energy Information Administration (EIA)

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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