Strategy

JefMacro Weekly—Bottom Picking is Messy; Three Narratives We Disagree With

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Key Takeaway

Zervos believes market could have put in a bottom, despite tape on Friday, but bottom picking is messy. Has new trading strategy into year end. Aneta continues to think Fed moves to 4% on FF with no cuts in '23. NOT in recession camp, pushes back on 3 false market narratives. GREED & fear thinks Chinese Central Gov't will have to take more decisive action to address downturn in residential property market. However, policy response could be later in the Fall.

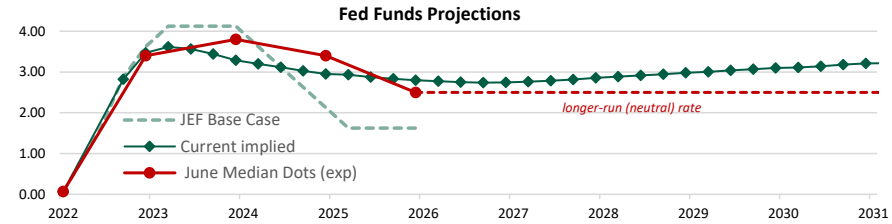
David Zervos—Several things had changed by mid-June. Notably: with nominal income growth remaining strong, it was hard to see nominal earnings down drastically. Aggressive Fed hawkishness was leading to increased credibility and the market had dropped well over 20% and a lot of negativity was already priced in. As a result, I believe that the bottom could very well be in, thought bottom picking is typically messy. **I update my trading strategy for the remainder of the year.**

GREED & fear—The Chinese Central Government will have to take more decisive direct action to address the downturn in residential property, in terms of funding the completion of unfinished projects, given the sector's huge importance. But, like Covid suppression, a full-scale policy response may have to await the outcome of the October/November meeting at which Xi is expected to be re-appointed.

Aneta Markowska—We believe the Fed and continue to think they will push rates to 4% and keep them there for all of '23. We believe rates will be higher for longer because the economy will be stronger for longer. The risk of a recession over the next 6-9 months is much lower than perceived. **We disagree with three market narratives:** 1H productivity weakness will trigger a cycle of layoffs; Negative real wages will squeeze consumer demand; Weakness in soft data will drive weakness in hard data. The next catalyst is employment report, which we think risks are skewed to the downside only due to technical factors.

Global Strategy—Both the Inflation Reduction Act (IRA) and the CHIPs and Science Act are unlikely to diminish US inflation nor improve the budget. However, there is an argument that it will kickstart some much-needed investment to boost productivity. The proposed corporate tax changes were watered down. We provided some investment themes around the winners and losers from these two bills.

JEF Economics sees rates higher for longer because economy will be stronger for longer



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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