Strategy

JefMacro Weekly—Fed Hikes 75 in Sept; Terminal Rate 4%-4.25% Reached in Jan

September 11, 2022

Key Takeaway

JEF Macro changes: Aneta sees 75bps in Sept, 50 in Nov, 25 in Dec, FF hits terminal rate of 4% to 4.25% by Jan not March. Global Strategy & DeSanctis lower '22's earnings growth for Large, SMID to 6% & 6.5%. Global Strategy lowered S&P 500 target to 4300. Zervos points out the love/hate relationship markets have with Fed. Contends market knows aggressive hiking is a necessary evil to keep inflation expectations anchored, market could look to better times ahead.

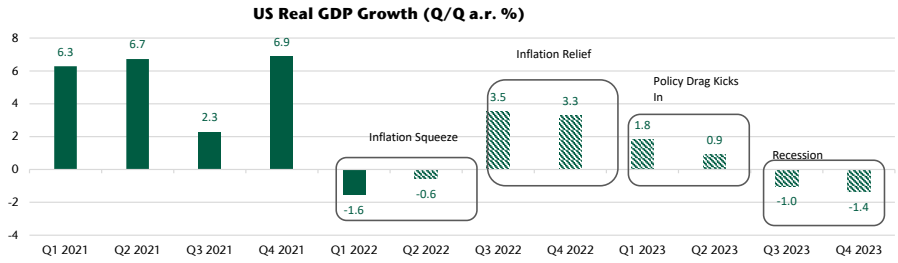
David Zervos—In difficult times, as the Fed doles out QE and soothes the pain of a recession, the market falls in love with the Fed. When it's time to pull the plug on stimulus as inflation risks heat up, the market feels betrayed by a Fed that causes it pain after all the nurturing. We believe the market does know that the current pain is necessary for a brighter future. Without it, inflation expectations would become unanchored, making it tough to return to the good times.

GREED & fear—In Japan, the story is the same in terms of the continuing failure of Japanese institutional investors to re-allocate out of local fixed income to their own stock market despite the Topix outperforming the 10-year JGB. Still, there is much greater interest in int'l equities, and, in particular, US equities. The correlation between a weak yen and a strong Japanese stock market has completely broken down, while the weakening yen has not led to a pickup in foreign buying of Japanese stocks.

Aneta Markowska—We revised our call for Sept hike to 75bp, and reaffirmed our call for a 4%-4.25% terminal rate. But 4% is NOT a cap. If anything, we see risks skewed to the upside. We believe growth is on track to accelerate in 2H to a 3%-3.5% range. Household balance sheets are too strong, nominal income too strong, and declining energy prices are boosting consumers' purchasing power, which is likely to increase demand for non-energy goods and services at a time when the Fed is trying to push it down.

Sherif Hamid—Valuations in the credit markets look attractive, we think positioning and sentiment remain pretty cautious, and supply could underwhelm unless valuations continue to move tighter. We think investors should be a little more constructively positioned for a trade, though we would continue to be sellers of sharp rallies given the continued challenging longer-term backdrop. Notably, after the big move higher in treasury yields, we would be legging long duration here as well.

After weaker GDP, we look for an inflation relief rally with growth back above 3% in Q3 and Q4



Source: Haver, 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.

Please refer to Jefferies important disclosure here.

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