Strategy

JefMacro Weekly—Terminal Rate Reaches 4.6%, More Downside For '23/24 Growth

September 18, 2022

Key Takeaway

More changes to forecasts with Aneta looking for FF rate to hit 4.4% by year-end. This means 75bps hike this week and Nov. 50bps in Dec. US GDP impacted by 2.3% in '23 thanks to hikes/stronger $. Global Strategy earlier in week downgraded Ind'ls to Mod Bearish. GREED & fear would be surprised if S&P did not trade back to June lows, prefers names that generate cash, pays dividends. IG yields north of 5%, decade highs, HY yields approaching 9%, long duration.

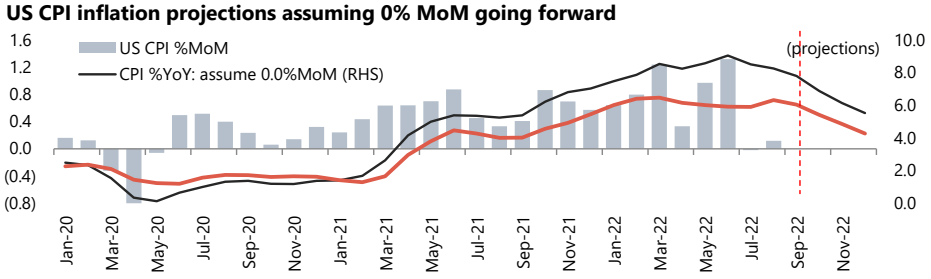
GREED & fear—would be surprised if there is not a re-test of the June low by the S&P 500. The CPI data further supports renewed relative outperformance of Value over Growth, though the issue will be not whether a stock is "Value" or "Growth" but whether it generates cash and pays a dividend. The real bearish message from inflation is for fixed income where the US ten-year Treasury bond yield has broken above its long-term trend line. There is scant evidence of the sort of fin'l accident that might renew hopes of a Fed U-turn; though any such U-turn would in itself be gov't bond bearish.

Aneta Markowska—The CPI report, coupled with the improvement in growth momentum and an uptick in labor demand, have led us to revise our outlook for the Fed. We expect two more 75bp hikes in Sep & Nov, followed by a 50bp increase in December, which will bring the funds rate to 4.4% by year-end. We think the Fed might have to deliver at least one more hike in early '23. Our new rate path, coupled with an assumed 15% dollar appreciation, will knock off 2.3 ppts from next year's growth. There is no change in our recession timeline, begins in Q3'23, **but now expect contraction to be steeper and longer.**

Sherif Hamid—With 5-yr treasuries north of 3.6% and 10-yr treasuries at 3.45%, quite a bit of hawkishness is priced into rate markets. We are constructive duration risk and would be growing a duration long. Another big part of credit's relative outperformance is about valuations. IG yields are north of 5%, decade highs, and US HY yields are approaching 9%. With those valuations, we are getting to a point where even if we expect a business cycle downturn, single B and higher rated parts of the market just aren't obvious sales.

Global Strategy—The relative performance of Industrials in the last quarter has been bailed out by Transports and not mainstream Capital Goods. The market is discounting a modest earnings decline while lead indicators are in the process of bottoming out. **We move to Modestly Bearish on Industrials.**

US CPI inflation projections assuming 0% MoM going forward

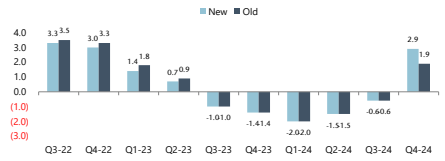


Source: Bureau of Labor Statistics, Jefferies

JefMacro

The JefMacro Weekly is the accumulation of this week's best Macro research.

JEF economics lowered some of their quarterly GDP forecasts



Source: JEF Economics

Global Strategy lowered Industrials to Modestly Bearish from Modestly Bullish

Large Caps

Sector	New	Old
Industrials	Mod. Bear	Mod. Bull

Source: Jefferies

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^Prior trading day closing price unless otherwise noted.

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