Strategy

JefMacro Weekly—CB Invention Slows Dollar Strength, But Does Not Alter Path

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Key Takeaway

Zervos thinks if 5Y/5Y inflation breakevens drop materially below 2%, would generate quick & substantial dovish rhetoric change. A short-term rally by SPY would not surprise GREED & fear, but will be short-lived due to earnings estimates have not fallen. Brad thinks CB intervention can slow the strength of the dollar, but will not alter its path as US economy in better place than most. Aneta argues failing home prices will not be deflationary this time around.

David Zervos—Investors thought Jay would succumb to market and/or political pressure as the tightening began to bite. The Fed has reiterated their commitment to fighting inflation, and we have argued that the Fed put strike is much lower than it has been in the past. We think investors should watch breakevens; if 5Y/5Y breakevens start to drop below 2%, that would generate some quick and substantial dovish rhetoric changes.

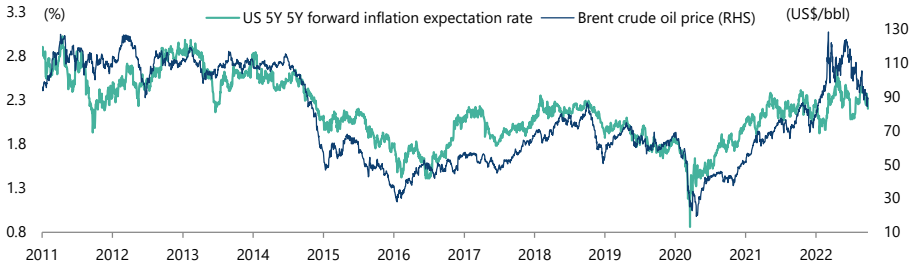
GREED & fear—A short-term rally for the S&P would not surprise us, but US equities are likely to break below June low for the simple reason that US earnings have barely been downgraded and base case is that US is heading for recession. Recession talk will invite hopes of a Fed pivot at a time when the American central bank is still in the process of trying to regain its inflation-fighting credibility.

Aneta Markowska—We don't think the decline in housing will be deflationary. What matters for inflation is rents, not prices, and while the two should be connected, it can take years for them to converge. We could see imbalances get worse, as plummeting housing affordability is boosting labor demand, while higher financing costs and reduced capital availability are beginning to restrain multi-family building.

Sherif Hamid—We think the "quality call" has become less obvious; plenty of opportunity across that spectrum, and would tend to lean into a focus on low $ price instruments vs higher $ instruments, selling near par risk we think has cyclical exposure and buying risk we're willing to underwrite through a cycle that is trading at discounts.

Brad Bechtel—The recent developments of intervention by CBs around the world are definitely going to a headwind to the USD rally, but they will not alter the path. The USD is benefiting from rising real rates, but also from the fact that the US economy is in a better place to weather the potential growth slow down than other economies around the world.

Watch 5Y/5Y inflation breakevens, as they have fallen less than that of Brent



Source: Bloomberg; St. Louis Fed; 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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