Strategy

JefMacro Weekly—Was It Transitory After All? Reasons Why Dollar Rallied Remain

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Key Takeaway

Oil was on GREED & fear's mind, as OPEC+ meeting coupled with China potentially relaxing COVID suppression rules has Chris maintaining exposure to Energy. Concerning has been divergence of macro measures of profits & actual S&P earnings. Within credit, Sherif thinks BBs are becoming a sale again within quality stack. Was inflation transitory after all? Markets think so. However, Aneta thinks view is overly optimistic, continue to see upside risks for inflation.

GREED & fear—The most important issue for the oil market is if there is any sign of a relaxation in China's Covid suppression policy given this is the one area where there is evidence of demand destruction. GREED & fear is maintaining exposure to energy. S&P 500 profits have diverged on the upside above the macro measure of profits in the national accounts. This is a concern since history shows that the usually more volatile S&P500 series always converges with a lag with the macro measure of corporate profits.

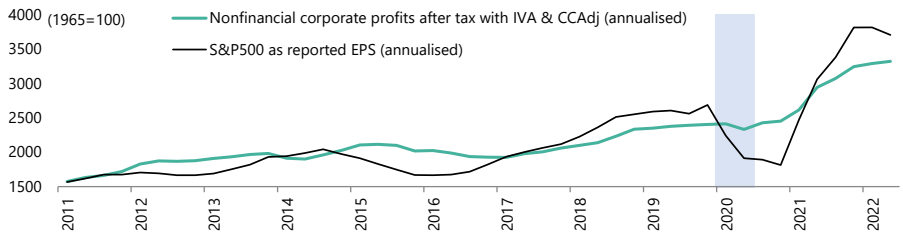
In Asia Maxima, China's residential property market is suffering its worst downturn since it was privatised in the 1990s as incremental easing measures have proved ineffective. The base case is that the government will take decisive action to finance the completion of unfinished projects following the October meeting of the Communist Party.

Aneta Markowska—Was inflation transitory after all? Markets certainly seem to think so. The TIPS market implies that by this time next year, inflation will be essentially back at the Fed's 2% target, and will remain there for the foreseeable future. This belief has in turn fueled speculation about a policy pivot. We think this view is extremely optimistic and continue to see risks skewed to the upside.

Sherif Hamid—With some outperformance, we think BBs are becoming a sale within quality stack, trading 130bp wide of BBBs and with CCC/BB spread ratio at 3.4x, at the recent highs. BBs look snug vs both higher quality and lower quality risk.

Brad Bechtel—The USD has been consolidating with the pull back representing a similar move in other consolidations. The reasons why the dollar has rallied are still here. They are a hawkish Fed, an economy that can weather the storm better, the safe haven bid associated with the USD when geopolitical risk is high, and a faster pace of rate hikes than most developed market central banks are providing.

US NIPA nonfinancial corporate profits after tax and S&P500 as reported EPS (2011-2022)



Note: Annualised data. Shaded areas = recessions. US nonfinancial corporate profits after tax with inventory valuation and capital consumption adjustment. Source: Bureau of Economic Analysis, S&P Dow Jones Indices

JefMacro

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

JefMacro Strategy *
Global Macro Team
jefmacro@jefferies.com

David Zervos * ~
Chief Market Strategist
dzervos@jefferies.com

Christopher Wood †
Global Head of Equity Strategy
+852 3743 8746
christopher.wood@jefferies.com

Aneta Markowska * ~
US Economist
amarkowska@jefferies.com

Sean Darby †
Global Equity Strategist
+852 3743 8073
sdarby@jefferies.com

Aniket Shah, PhD *
Global Head of ESG Strategy
(212) 323-3976
ashah14@jefferies.com

Steven G. DeSanctis, CFA *
Equity Strategist
(212) 284-2056
sdesanctis@jefferies.com

~ non-Research Department Economists.

^Prior trading day closing price unless otherwise noted.

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