Strategy

JefMacro Weekly—Next Recession, Later But Harder; Despite Intervention $ Higher

October 16, 2022

Key Takeaway

In GREED & fear's view, the latest action by US Department of Commerce targeting China & semiconductors amounts to economic warfare. China believes in reciprocity, and there is not much sign of reciprocity yet. Sherif thinks it's hard to be short credit. Continues to think duration risk is more attractive than spread. As for Brad, CB's & Gov'ts impacted by the rising $ seem comfortable intervening to slow pace. However, expect DXY & BBDXY to continue to rise.

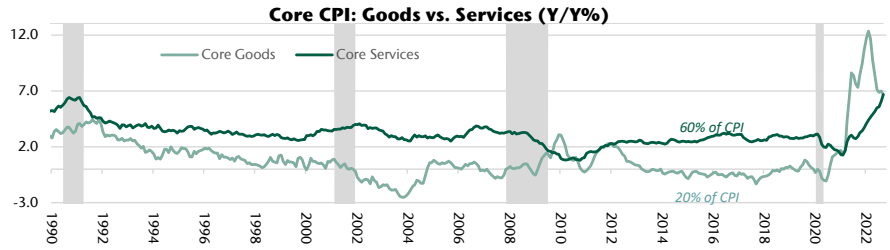
GREED & fear—The latest action by Commerce Department targeting China and semiconductors amounts to economic warfare. The latest move goes beyond what used to be called "containment". It also raises the issue of how long Beijing continues to turn the other cheek. But at a certain point, turning the other cheek is going to start looking weak to the Chinese population. China, culturally, believes in reciprocity and there is not much sign of reciprocity at present.

Aneta Markowska—We envision a recession that comes later than consensus expects, but hits the economy much harder than anticipated. The looming GDP hit from higher rates and stronger dollar is enormous. We expect the Fed to be slow to respond to economic weakness, which will likely prolong the recession and exacerbate its severity. The markets are operating in a "bad news is good news" regime, so when the data finally start to roll over, investor sentiment might improve. However, once it becomes clear that the recession is more severe, bad news will be bad news again.

Sherif Hamid—We expect the Fed to maintain their inflation-fighting credibility, and should that remain the case, we think rates are getting attractive with 10-yr real yields north of 1.6%. We think it's just hard work to be short our markets at these all-in yields. We do think we're going to need signs of a Fed "pivot" in order to see a sustainable rally. We continue to think that duration risk is more attractive than spread.

Brad Bechtel—Central banks and gov'ts impacted by the rising USD seem comfortable intervening to try to slow the pace, knowing they cannot fully stop it. The US has no desire to stop the rise, and the Fed will continue tightening. There is a currency battle taking place in plain sight and will continue until the Fed stops hiking. Expect DXY and BBDXY to continue to rise amid high volatility as asset markets around the world continue to feel the stress of higher rates.

Goods inflation has slowed, but Services is seeing a big acceleration



Source: Bloomberg; 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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