Strategy

# JefMacro Weekly—An Early Forecast for '23, S&P 4200; "Golden Age of Restraint"

October 22, 2022

## Key Takeaway

**Global Strategy out with '23 forecast of 4200 for S&P behind 5% earnings growth. US SMID made tweaks to sectors: OW Real Estate, UW Staples. Lloyd Byrne, JEF Oil & Gas analyst, initiated coverage; updated price decks for Oil & Gas. GREED & fear continued to make bullish case for owning Energy: lack of investment, US oil production peaking, company managements focusing on profits, cash flow. While Brad agrees further upside seems stretched for USD, room to go.**

**GREED & fear**—Remains bullish on oil and energy, as this cycle is different as a result of the lack of investment by the oil and gas industry. This in turn is the direct consequence of the intensifying political attack on fossil fuels manifested in the investment world by "ESG". American domestic oil production has peaked. Oil and gas executives have been focused on running their companies for cash flow and dividends. GREED & fear remains bullish as does Lloyd Byrne, JEF's new head of North American energy research, who published his first Jefferies report entitled the "Golden age of restraint".

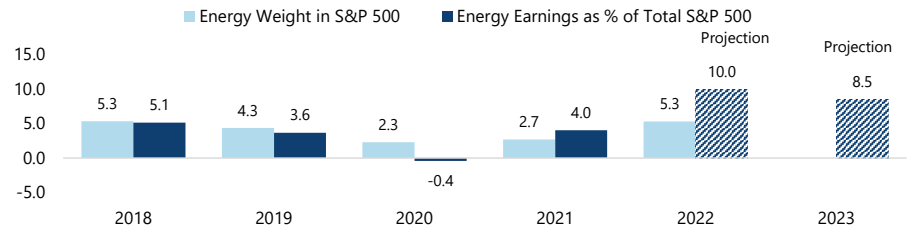
**Global Strategy**—Fin'l conditions are tight with real yields and the dollar suffocating asset markets. Multiple compression has led a forecast earnings recession in '23, but earnings have held up in '22. We lower our S&P earnings for '22 to 5%, target to 4000. **We initiate a 4200 target for '23 along with earnings growth of 5%.**

**Steven DeSanctis**—Across SMID Caps, we upped our weighting on Real Estate to Overweight, as group has been beaten up as badly as the GFC but balance sheets are much better. We also lower Staples to Underweight, as group is most-expensive in SMID.

**Sherif Hamid**—It will likely take a Fed "pivot" to help drive a bigger rally in risk and rates. We do take that to mean a "downshifting" in the pace of tightening rather than pausing or cuts. The market is pricing a 50/50 shot of 50bp or 75bp in December, and pricing a 4.9% peak rate in '23. So there is plenty of gap risk should we get any real "pivot" headlines.

**Brad Bechtel**—With the USD at record highs, there is a reason to believe we might be near the end of the move. While I agree further upside seems stretched, and we have already come a long way, we have more room to go before we finally stop. The Fed is going to retain its inflation-fighting posture and will have the resolve to see rate hikes through to the bitter end, likely hiking into Q1 '23, which will keep upward pressure on the USD.

**If Energy's weight in the S&P 500 reflects weight in profits, sector would be 8.5% in '23**




Source: FactSet; Standard & Poor's; Jefferies

# 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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