Strategy

JefMacro Weekly—Is a "Hawkish Pivot" a Thing?

November 6, 2022

Key Takeaway

Zervos thinks Fed has done an incredible job anchoring inflation expectations, believes this earns them a chance to sit back, watch data before fine-tuning policy. However, Sherif suspects Fed Chair may end up regretting statement that it is "very very premature" to be talking about a pause. GREED & fear highlights that If catalyst for Tech de-rating is impact of rising rates on valuations, investors should also remember unwinding passive investment strategies.

David Zervos—While conventional wisdom suggests that in a tightening cycle, the Fed raises rates until something breaks. However, I don't see a lot of merit in this view today. Like other central banks, the Fed will use its balance sheet to deal with any financial instability, while sticking with its fight against inflation pressures. I think the Fed has done an incredible job with the anchoring of inflation expectations. I believe this will earn them a chance to sit back and watch the data before fine-tuning policy in response.

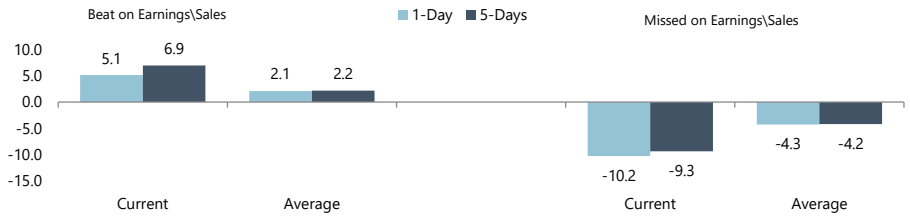
GREED & fear—If the catalyst for Big Tech de-rating is the impact of rising rates on lofty valuations, investors should remember the potential for unwinding of passive driven investment strategies. The decline in FANNGM as % of S&P 500 has much further to run. There is the potential for a tactical rally at year-end if October CPI report raises renewed hopes of a peaking of inflation despite Pivot Powell's more hawkish tone.

Aneta Markowska—Powell dashed pivot hopes, causing the market to reprice the terminal rate higher. We believe a 5% funds rate is high enough to slow growth, thus a reasonable place to pause. We feel like implied rates are at levels that make sense, and expect them to stabilize near current ranges. Does that mean we are out of the woods? Absolutely not!

Sherif Hamid—If a hawkish pivot was the Fed's goal, Powell might have been successful. We do suspect that the Chair may end up regretting his statement that it is "very very premature" to be talking about a pause, but regardless we expect the Fed will be data dependent over the next few meetings.

Global Strategy—We remain Bullish on Japan and expect the TOPIX to rise to 2,230 on above-average earnings growth. We recommend consumer stocks that do well three months after a bottoming in consumer confidence, plays on an increase in defense spending, TOPIX stocks that benefit from an appreciation in the Yen and a low vol basket.

Earnings\Sales beats are being rewarded, but names that missed both have been hit really hard



Note: Excess performance versus S&P 500.
Source: FactSet; Standard & Poor's; 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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