Strategy

JefMacro Weekly—Job Openings Are Cooling, But Not Fast Enough; Range-Bound

December 3, 2022

Key Takeaway

Zervos thinks market pricing in a sufficiently hawkish Fed, seems unlikely Jay can act more hawkishly than has over past few months. Range-bound at 3500/4300. GREED & fear surprised by lack of response by Beijing to US effort to stop supply of advanced semis. May not be as much of a "done deal" as some have supposed. Aneta looked at implications of faster wage inflation: Dashes hopes for early Fed pause, pressures profits, narrows path to soft-landing.

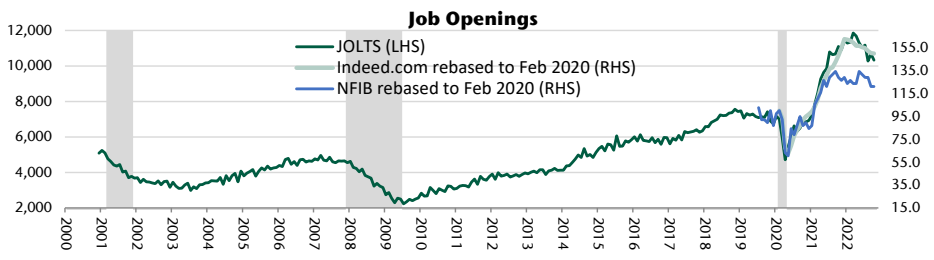
David Zervos—My covered call strategies for '22 generated ~1100bps of outperformance vs. spoos YTD. Looking ahead, I think riding an outright long spoo position, for the time being, makes sense. The markets appear to be pricing in a sufficiently hawkish Fed, and that seems unlikely that Jay can act more hawkishly in the NT than he has over the past few months. I do believe we will probably remain in a 3500/4300 trading-range, and markets could test Chair Powell's reaction by moving toward the higher end of the range.

GREED & fear—Continues to be struck by the lack of a formal Beijing response to the US effort to stop the supply of advanced semis. The question is the extent to which the US has persuaded other countries to go along, given that the stated rationale for this policy is that they could be used in the manufacturing of weapons of mass destruction. GREED & fear hears that US had been trying to get other countries to sign up, before deciding to go ahead with the announcement anyway in the absence of such a formal commitment.

Aneta Markowska—We believe more upside for real wages as firms implement annual comp adjustments, and as inflation fades. The flip side of positive real wage growth is that it will lead to a margin squeeze. We expect Q1 to be a tipping point for profits. The implications of faster wage inflation is that it is negative for markets. It will dash hopes for an early Fed pause, pressure profits, & narrow path to a soft-landing scenario.

Sherif Hamid—Credit is now pricing 4.9% policy rates by mid '23, which seems reasonable, and we're now pricing sub 3% longer-term neutral rates, which is moving to the snug side. That combination tells us that for 10-yr to rally further, we will need to start pricing more significant cuts in '23-'25. It strikes us as early for that narrative to take hold. So while we could definitely see seasonality and systematic buying drive a further leg lower in treasury yields, we'd be inclined to flatten out duration exposure.

Job openings are cooling, but not fast enough



Source: Haver, JEF Economics

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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