Strategy

JefMacro Weekly—Can The Fed Bend The Phillips Curve? The Case For Emerging

December 11, 2022

Key Takeaway

With growing evidence of Covid restrictions easing, GREED & fear is bullish for Chinese equities, an increased chance that Emerging Markets have bottomed vs. S&P500 & MSCI World. In Aneta's opinion, to achieve a soft landing, Fed needs to decorrelate job openings from unemployment. Odds of achieving positive outcome, low. Global Strategy optimistic on Europe, region sensitive to falling Energy. DeSanctis optimistic on SMID; thinks investors should get down cap.

GREED & fear—The growing evidence of Covid restrictions easing is bullish for Chinese equities; increases the chance that Emerging Markets has bottomed against S&P500 & the MSCI World. This is the case given the positive earnings upgrade potential for several Asian markets in '23 vs. the risk of earnings downgrades in the US. Global asset allocators should increase allocation to emerging markets if they agree with **GREED & fear's base case; monetary tightening expectations and the US dollar have peaked.**

Aneta Markowska—To achieve a soft landing, the Fed needs to decorrelate job openings from unemployment. It needs to convince the healthiest firms to freeze hiring, without pushing the weakest firms to lay off workers. Companies will respond to the Fed's tightening differently. This is on display, where some businesses are still hiring, while others are buckling under the weight of higher rates and tighter financial conditions. **If history is any guide, the odds of achieving a positive outcome are low.**

Sherif Hamid—We have seen IG cash outperforming HY on absolute and beta-adjusted basis and with the most recent gap, we would shrink generic longs in IG vs HY. US BBs continue to look stretched, and as BB yields crack through 7%, we think a barbell of IG and lower quality HY vs BBs continues to look compelling.

Global Strategy—Any degree of stabilization in energy prices will have outsized effects on European profits. It should allow European real household incomes to rise. The inflation rate & current account positions should simultaneously fall, offering a double catalyst to the Euro. There are signs of inflation 'de-anchoring,' with the latest German wage settlement in line with estimates. An added upside surprise would be a turnaround in Chinese GDP.

Steven DeSanctis—We see small beating large with the RUT rising 9% to 1,975. Relative valuations are very attractive, the inflation backdrop could be most-supportive for the size segment, and we see M&A accelerating and running ahead of the long-term average. We want to be conservative with earnings, and have them falling 15%.

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^Prior trading day closing price unless otherwise noted.

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