Strategy

JefMacro Weekly—More Closet Easing; Bullish on The Land of the Rising Sun

December 18, 2022

Key Takeaway

Zervos thinks that hawkishness is fully priced; a squeeze higher is more likely than a downdraft for spoos. GREED & fear feels latest CPI highlights why growing confidence that monetary tightening expectations, dollar has peaked. Global Strategy sees beneficiaries of China reopening through purchases of services & goods. Japanese consumer companies are well-placed; bullish TOPIX. Desh thinks style shift underway, focus on QARP, low risk, top-line leaders.

David Zervos—We're going to stick with this idea that hawkishness is fully priced; thus a squeeze higher is more likely than a downdraft for spoos. Maybe we will get dinged on that view because of some external forces like what we saw from the ECB, but we don't see spoo downside coming from domestic US sources like Fed rhetoric.

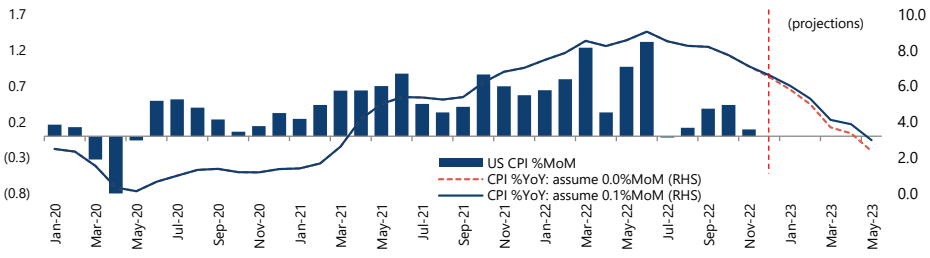
GREED & fear—The latest CPI report highlights why investors have growing confidence that US inflation has peaked, which is also why GREED & fear has growing confidence that monetary tightening expectations, and the US dollar, peaked.

Aneta Markowska—The war against inflation is not over. The Fed has won on several fronts, but still feels it's losing on Services (X-Housing). Since service inflation is tied to labor market, fixing inflation comes down to unwinding labor imbalance, slowing wage growth towards 3.5%. This puts labor market at the center of the outlook. We believe the prospects of flattening the Philips curve and engineering a benign slowdown in wage inflation are slim. This was evident in the SEP, which showed that a higher unemployment rate will be needed to return to 2% inflation.

Global Strategy—China's relaxation of Covid ought to stimulate a Chinese consumer. China & Japan have yield curves that want to steepen, while the rest of the G7 is mired in inverted yield curves. Both the PBOC & BoJ are pursuing policies embracing inflation and that are running countercyclically to the Fed. The best beneficiaries of a China reopening will come through purchases of services and goods. Japanese consumer companies are well-placed. We advocate a bullish position on the TOPIX.

Desh Peramunetilleke—We expect the SPX to correct, as higher rates limit valuations, growing recession risk is driving earnings cuts and return seasonality is no longer supportive. Value dominated in '22, but a style shift is underway with quality staging a comeback. Our model portfolio focuses on QARP, low risk, and top-line leaders.

US CPI Inflation projection assuming 0.0%MoM or 0.1%MoM going forward



Source: Bureau of Labor Statistics; Jefferies

The JefMacro Weekly is the accumulation of this week's best Macro research.

This is the last JefMacro of '22: Here's wishing everyone Happy Holidays!

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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