Strategy

JefMacro 2nd Half Outlook—Recession comes 2H '23; Europe's Stagflation Crisis

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Key Takeaway

Aneta sees 8 more hikes, Fed Funds end at 3.7% in '22, 4% in '23. Recession in '23. Zervos thinks monetary policy provides strong long-term economic support through anchoring of long-term inflation expectations. According to GREED & fear, Europe in midst of stagflation crisis, economy more vulnerable in short term. In credit, prefer low price bonds, selective in CCC, pick spots in European risk. Unfortunately, the move in the USD can persist for some time.

David Zervos—Recent market moves says Fed has achieved a very desirable position, the state of "uber-credibility". We have a monetary policy backdrop which provides strong long-term economic support through an anchoring of long-term inflation expectations.

GREED & fear—The best hope for those owning stocks is that the focus in America will switch from rising prices to a weakening economy. For that could cause political pressures to move other way when inflation is likely to be above Fed's target. Europe is in the midst of a stagflation crisis, which is why its economy is vulnerable in the short term.

Aneta Markowska—Recession is inevitable, but not imminent: A cycle of mass layoffs is unlikely until corporate profit margins deteriorate. This will set off a recessionary dynamic in Q3'23. Fed Funds will peak around 4%, 50bps higher than implied forward rates. In the near term, commodity prices and easing supply chains will push inflation down; creates temporary upside for real growth momentum and for sentiment.

Sherif Hamid—Some credit themes: Low priced bonds; Sell 1-5yr HY and Leveraged Loans vs low $ price BB/B; Selective in CCC's; Start picking spots in European risk.

Global Strategy—The sell-down in commodity stocks suggests that we have entered the last phase of a cycle. Declining inflation expectations bodes well for Discretionary, Comm Serv, Mod Bullish Tech. Sentiment is Bearish, equity positioning more neutrally weighted.

Desh Peramunetilleke—An earnings correction usually signals the end of the market correction, suggesting further downside. With peaking profitability and the sharp quality-growth de-rating, we could soon witness a style shift away from value.

Steven DeSanctis—SMID size segment pricing in nasty recession/bear market, relative valuations back to '20 levels, % of US equity market now less than 4%, due for bounce. We may have entered "The Golden Age of Active Management".

Aniket Shah—ESG backlash & fallout; Three focus areas of the backlash: Where is it coming from? What is being done about it? What should ESG be going forward? **Energy Transition vs Energy Security:** The debate is dependent on one's time horizon.

Brad Bechtel—USD smile framework says the USD outperforms when the global economy is dealing with a high level of uncertainty that drives investors into safer assets. How far will the USD go? Unfortunately, the move higher can persist for some time.

JefMacro

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

Steven G. DeSanctis, CFA *
Equity Strategist
(212) 284-2056
sdesanctis@jefferies.com

Aniket Shah, PhD *
Global Head of ESG Strategy
(212) 323-3976
ashah14@jefferies.com

Desh Peramunetilleke †
Global Head of Microstrategy
+852 3743 8056
desh.peramunetilleke@jefferies.com

~ non-Research Department Economists.

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