

Strategy

JefMacro Weekly—False Dawns & Deeper Drags from Policy Lags; The Case for EM

April 2, 2023

Key Takeaway

GREED & fear sees Asia/EM destined to enjoy outperformance over US, with its greater “growth” over “value” orientation. Global Strategy echoes view that EM in better position. BoJ & PBOC have begun to expand balance sheets, offsetting contraction elsewhere, dollar firm. Tom Simons, US Economist, sees increasing signs inflection point is coming (lower); resilient sectors can only be resilient for so long; bearing more wgt in carrying economy than they can stand.

GREED & fear—In a world where G7 emerges from monetary tightening cycle with a structurally higher level of inflation, as a result of the Fed fudge of the 2% inflation target, that Asia and emerging markets are destined to enjoy long-term outperformance over the US, with its much greater “growth” over “value” orientation.

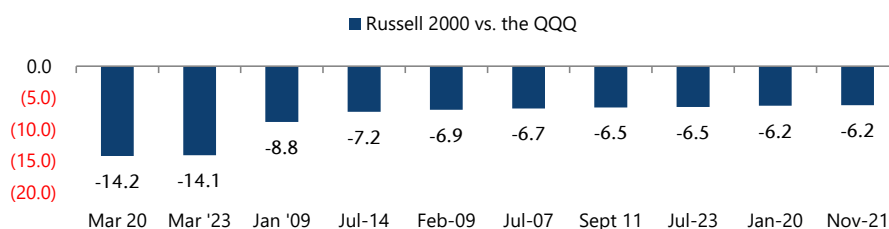
Investors who have taken the view that China is “uninvestable” will view recent news flow cynically. But ultimately what will bring money back into China equities is performance. For now, GREED & fear’s perception is that global money remains out of China, while dedicated emerging market funds have to be in China.

Thomas Simons—The goods-producing economy continues to experience slowing demand & disinflationary pressure, but service side continues to see strong demand & struggles with labor shortages and cost pressures. The labor market is strong, consumer has been resilient in both spending and confidence, and GDP growth is on a solid track for the 3rd straight quarter. **However, there are increasing signs** within the data that an inflection point is coming. The resilient sectors, including consumer, can only be resilient for so long; they are bearing more weight in carrying economy than they can stand.

Global Strategy—CB balance sheets, the BoJ & PBOC, have begun to expand offsetting contraction elsewhere. The dollar remains firm since the greenback remains supported by positive real interest vs, its developed world peers. EM is in a better position.

Steven DeSanctis—The gap between the Russell 2000 and QQQ was the widest since the COVID lows. However, hope springs eternal as some of the macro factors we track have improved such as lower bond & equity vol, tighter HY spreads, and a weaker dollar. The pullback makes small cheaper, could help accelerate M&A, analysts have cut estimates, potentially setting the bar low so companies can hurdle over in 2H, boosting absolute and relative performance.

March's divergence between Small & the QQQ rivaled that of March '20



Source: FactSet; FTSE Russell; 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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