

# Weekly Investment Highlights: 9 December 2022

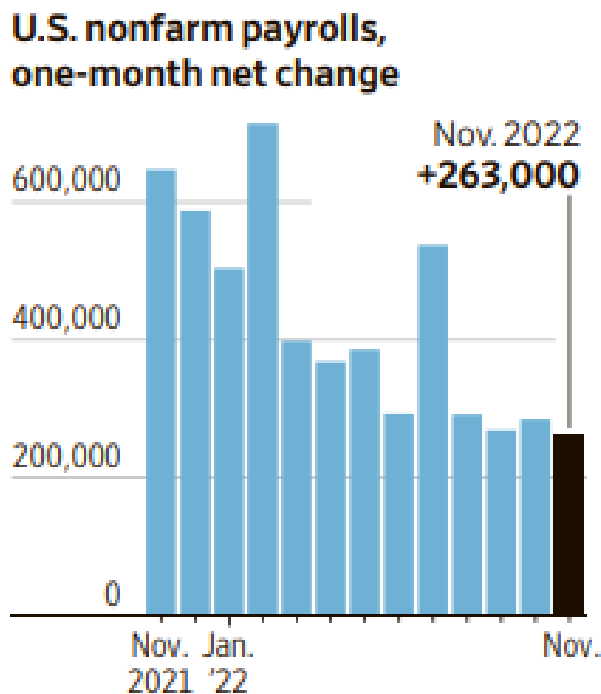
## Non-farm Payrolls Showed Strength In The Labor Market

Friday’s nonfarm payrolls report showed continued strength in the labor market. November’s nonfarm payrolls rose over 263k, well above estimates for 200k, together with a 0.6% MoM increase in hourly earnings (double what was expected) and a flat unemployment rate of 3.7%.

The U.S. economy continues to post strong job gains, though the pace has slowed in recent months as some large corporations have announced layoffs.

But cracks are emerging. Some companies in technology, entertainment and real estate are shedding workers, with many growing nervous about the economic outlook.

Despite these strong figures, we still expect a 50bps Fed rates increase, lower than the 75bps we have experienced so far.



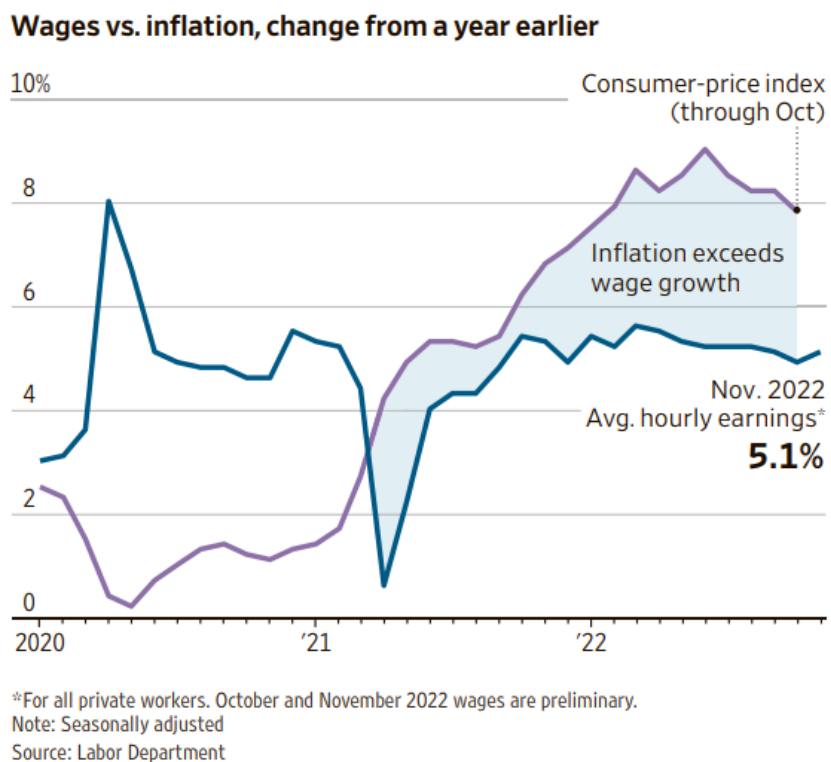
Source: Bloomberg 09.12.2022

## Nominal vs Real Wage Inflation – Two Different Stories

Despite the wage increase rhetoric, among advanced G20 countries, real wage growth in the first half of 2022 declined to minus 2.2 per cent.

North America has been particularly hard hit; average real wage growth in the US and Canada fell to minus 3.2 per cent in the first half of 2022.

This indicates that wage inflation is probably following CPI inflation rather than causing the increase.

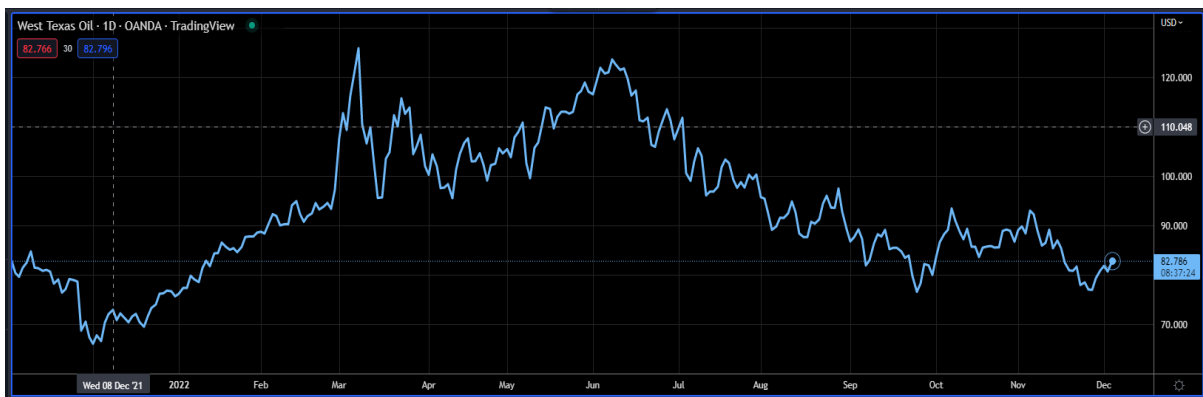


## G7 Caps Russian Oil at \$60 a Barrel

The cap will ban Western companies from insuring, financing or shipping Russian oil unless it is sold below \$60 a barrel.

The governments of India and China, two of the largest buyers of Russian crude, haven't embraced the price-cap plan, wary of joining a U.S.-led sanction program against Russia.

OPEC+ nations on Monday maintained their output targets even in the face of this price cap, as well as a fresh round of sanctions against Moscow and a European Union ban on Russian oil.



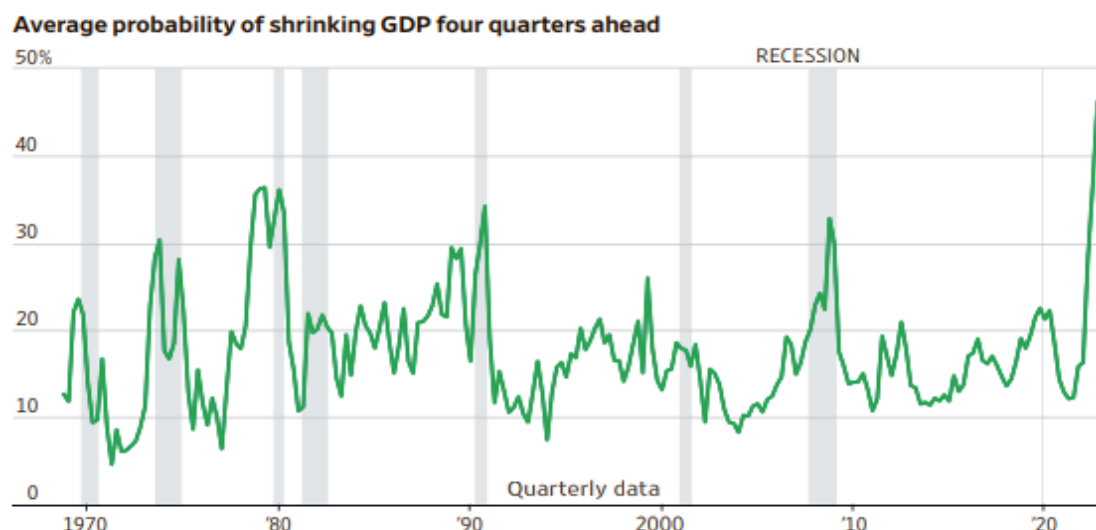
Source: Bloomberg 09.12.2022

## Soft vs Hard Landing

Hard

The Fed hasn't raised rates so far, so fast since Chairman Paul Volcker's assault on inflation at the end of the 1970s. Back then, not just one but two recessions followed in short order.

The yield curve inversion is now over 0.75% the biggest since December 2000, implying a high probability of recession in the coming two to three quarters.



Source: Bloomberg 09.12.2022

## Soft

According to the chief economist at Goldman Sachs “The most important data, especially market data, look nowhere near recessionary”. He points to the strong jobs market supporting household incomes, especially as headline inflation is likely to fall next year. Goldman puts the risk of recession at 35%, far below the consensus.

Since 1968 that Philadelphia Fed started the Recession survey, not a single recession was spotted a year in advance. Economists missed the 1990, 2001 and 2008 recessions completely.

Economic models are based on past economic relationships, expecting similar future behaviours.

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