

Temporary Dip!

March 2025

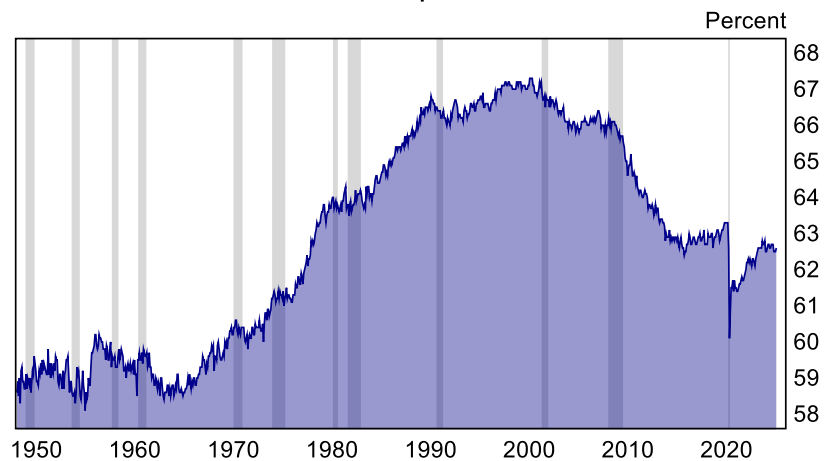
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Mizuho Securities USA LLC

Private and confidential

Labor Participation Rate



Note: Monthly data through January 2025.
Source: Mizuho Securities USA, BLS.

MIZUHO

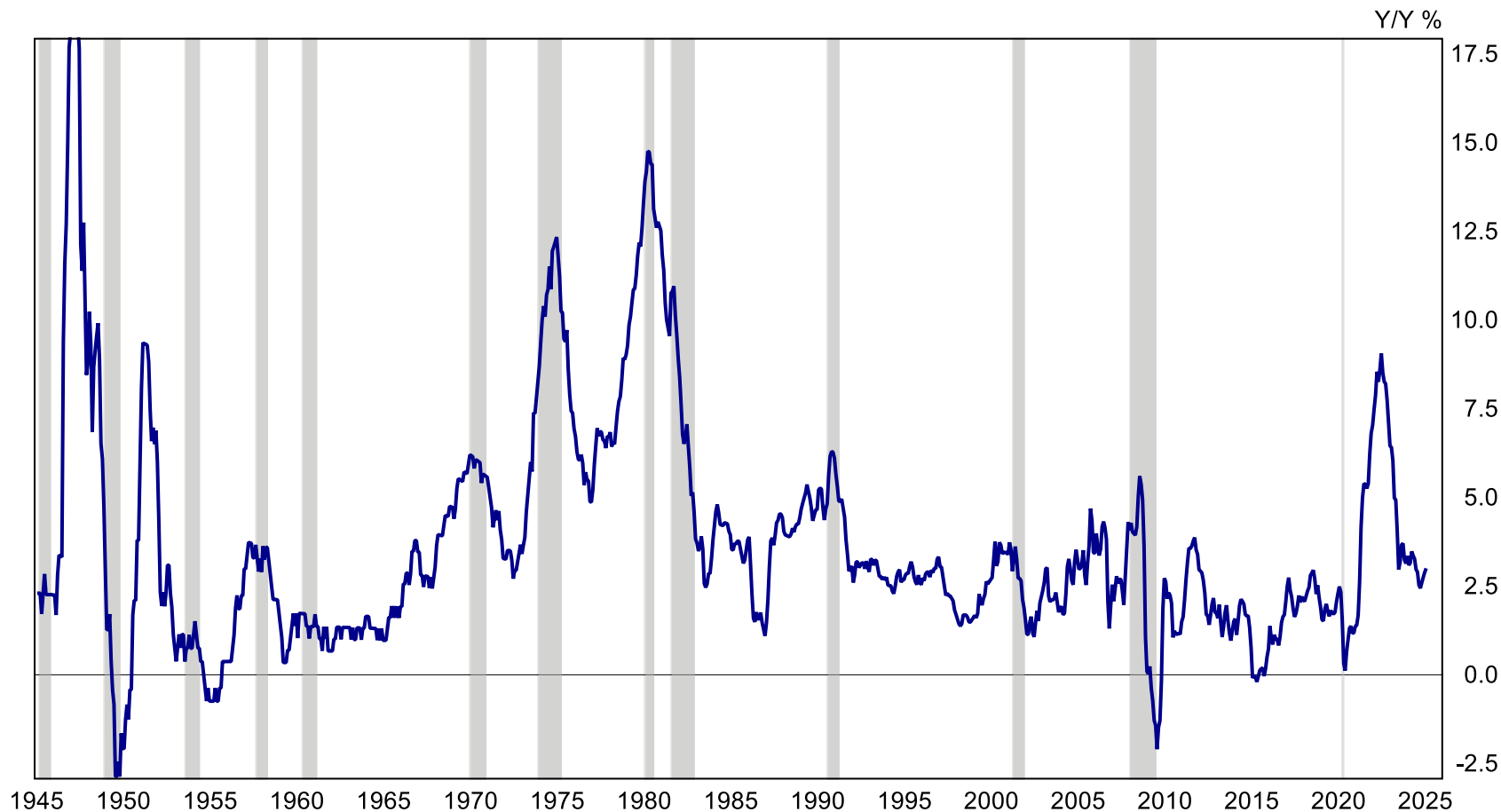
Conclusion

1. **Temporary dip in the headline:** The domestic economy grew by only 2.3% in the final three months of 2024, despite a solid 4.2% rise in consumer spending which contributed 2.8% to topline growth. This contrast between slightly above-trend growth and the robust consumer contribution to real GDP in Q4 of last year highlights the fact that inventories were drawn down in the process of satisfying the spike in consumer demand. The net inventory drag on overall growth recorded during the fourth quarter subtracted a large -0.9% from the growth in real GDP. Moreover, a curious Q4 2024 GDP development was that the net trade deficit had little if any effect on overall economic growth, despite all the speculation that there would be a big surge in imports before year-end as companies rush to build stocks in advance of the promised Trump tariffs. The net result of these key macro-economic trends was that real final sales of domestic product rose 5.5%, extending an unusually long string of such robust gains in final sales. Solid Q4 consumer spending also built on top of a solid 3.7% rise in consumer spending over the July to September period, which helped power a 3.1% rise in Q3 2024 real GDP.
2. Following on the heels of these six months of exceptionally strong consumer spending, some payback in early 2025 is to be expected and there is no doubt that the January retail sales report is evidence that just such a recalibration in the consumer has begun. However, projecting from just one month's data to the entire quarter or the full year, as some Street forecasters are prone to do, would be a mistake. The fundamentals behind the consumer are exceptionally favorable. The labor market remains tight, wages continue to rise at +4%, and the household balance sheet is very healthy. These macro drives suggest companies will likely replenish their depleted stocks and although a good portion of this inventory rebuild will flow overseas, consumers are likely to increase spending on services, assuring a slightly above-trend rise in Q1 GDP. Should Q1 2025 real GDP contract at 1.5% annual rate suggested by the Atlanta Fed and not at the +2.7% included in our latest +3 full year forecasts, then real growth later in the year is more likely to exceed our latest forecasts given the constructive fundamentals and the markets again discounting 50 basis points of rate cuts later this year. As such, we see no reason to cut fully year outlook, especially now that long-term rates are back in the 4.25% area.

3.

Disinflation trend in place

Consumer Price Inflation in the Post-War Period

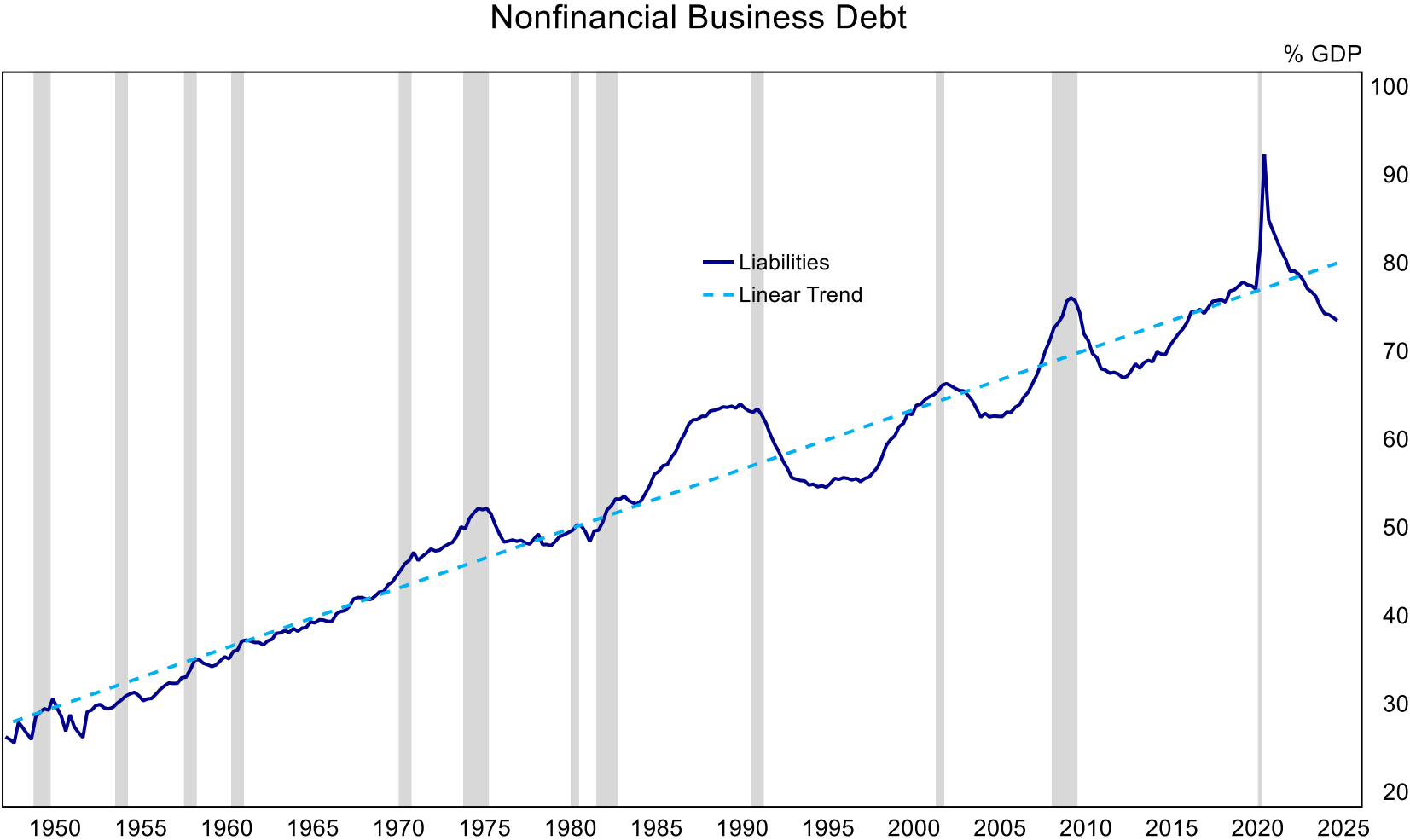


Note: Monthly data through January 2025.

Shaded areas NBER recessions.

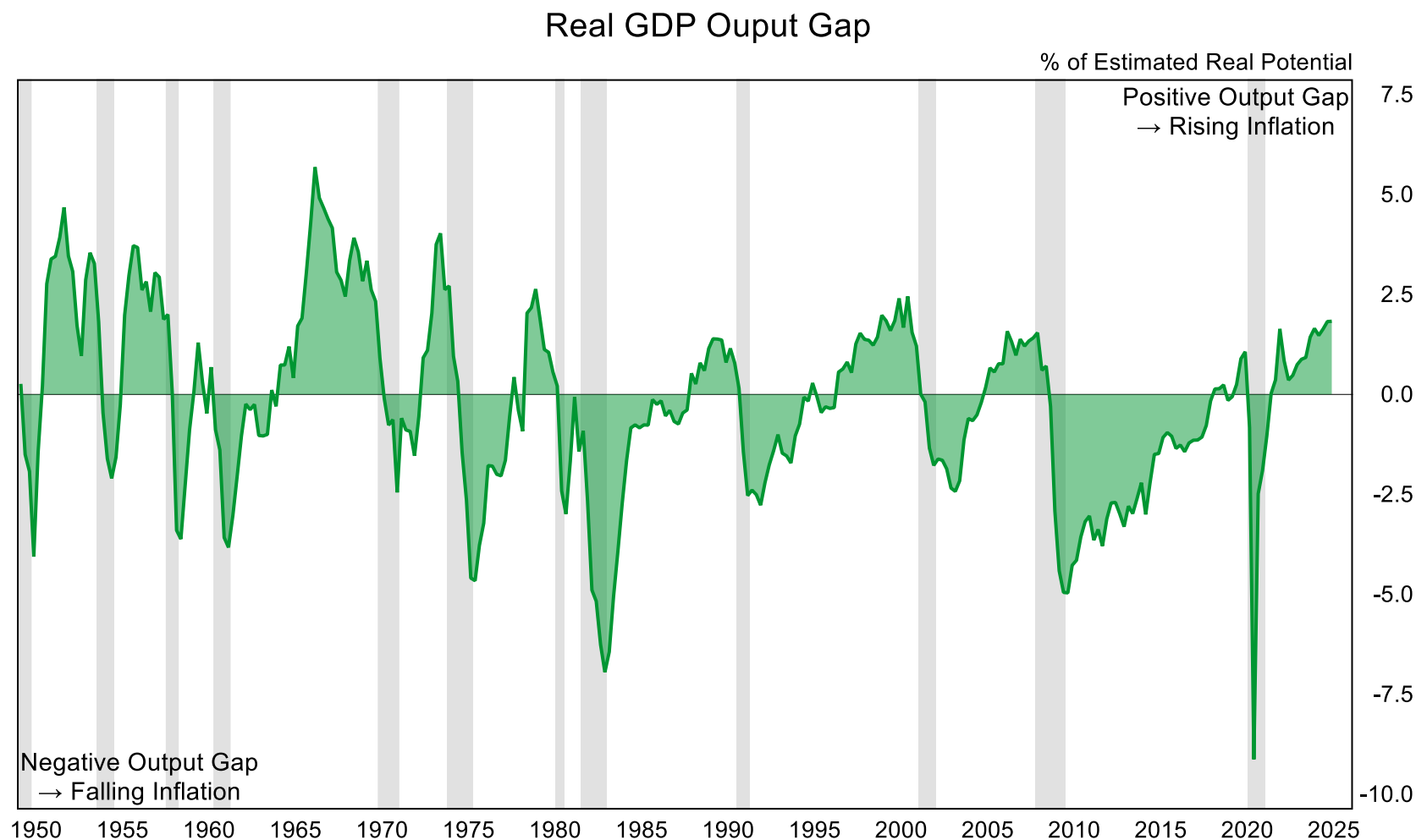
Source: Mizuho Securities USA, BLS.

Covid-19 recession was a fourth consecutive credit cycle



Note: Quarterly data through 2024 Q3.
Source: Mizuho Securities USA, FRB, BEA.

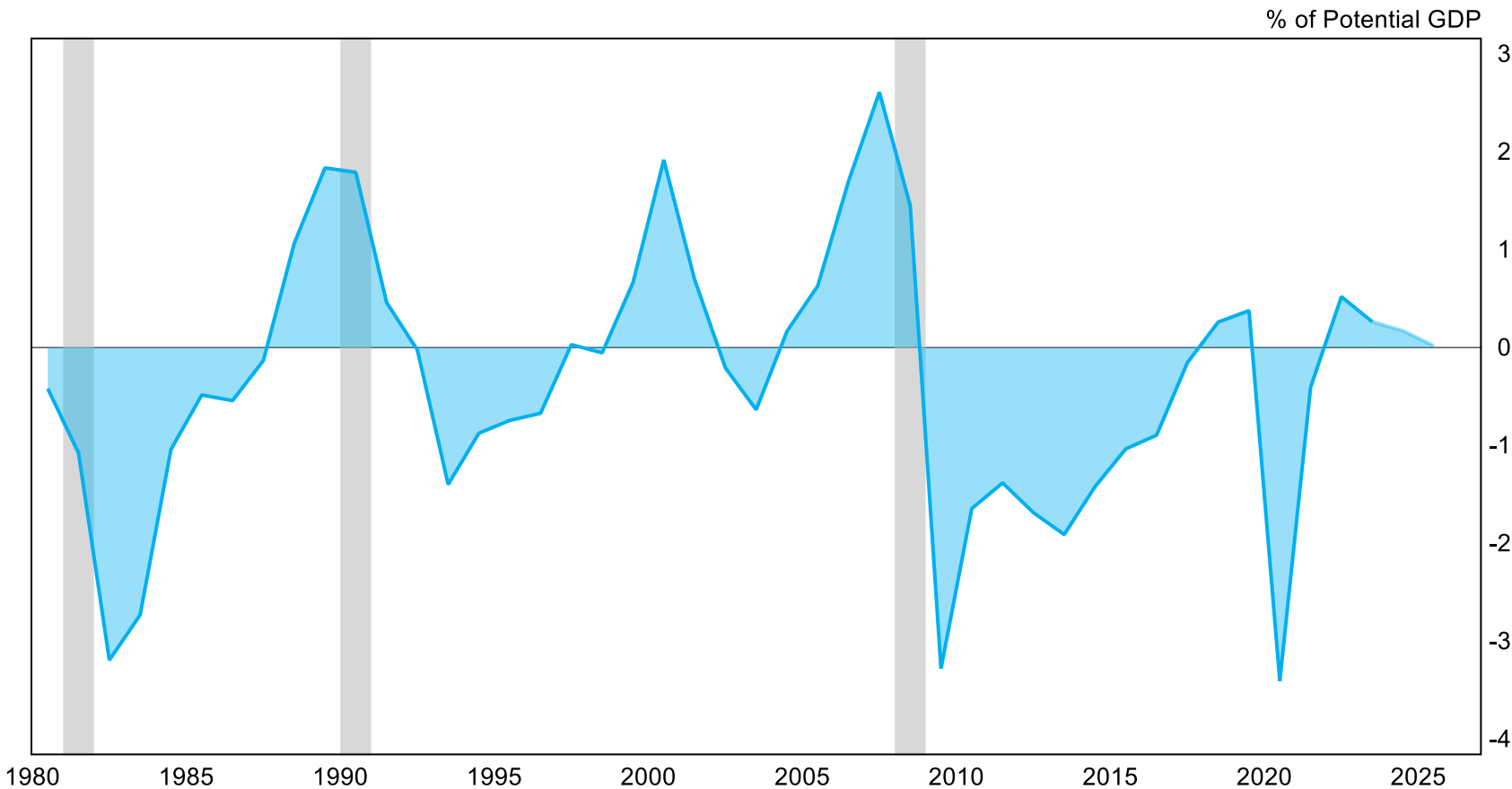
Output Gap points to sticky inflation.



Note: Shaded areas NBER recession.
Source: Mizuho Securities USA, BEA, CBO.

Global excess capacity evident

Advanced Economies Real Output Gap
IMF World Economic Outlook



Note: Annual data through 2024. 2024 is a forecast.
Shaded areas are NBER recessions.
Source: Mizuho Securities USA, IMF.

Global excess supply reflected in current account surplus

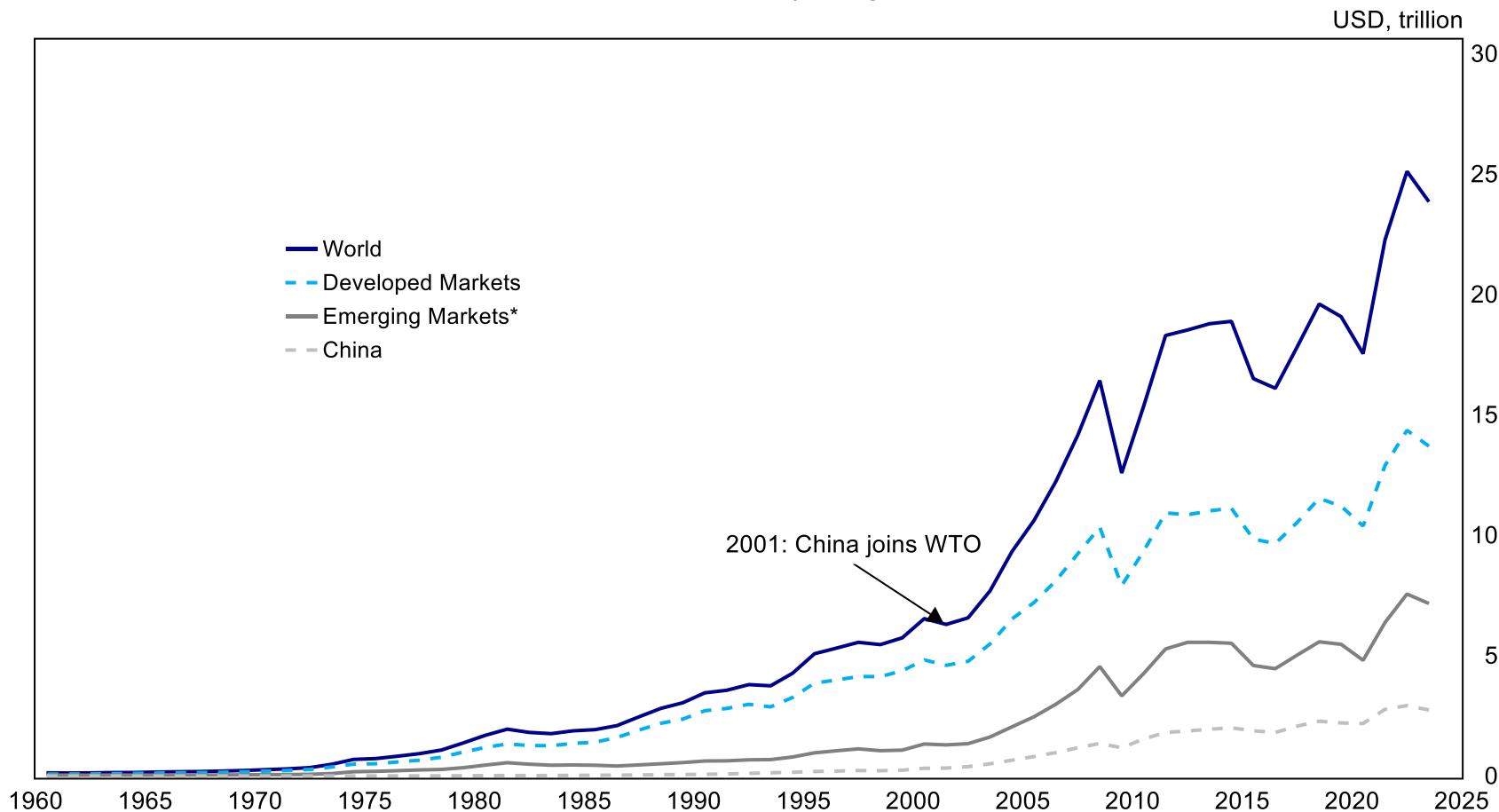


Note: Annual data through 2023.

Source: Mizuho Securities USA, IMF, CEPII.

Uptrend in global trade adds to excess supply pressures

Total Trade by Region



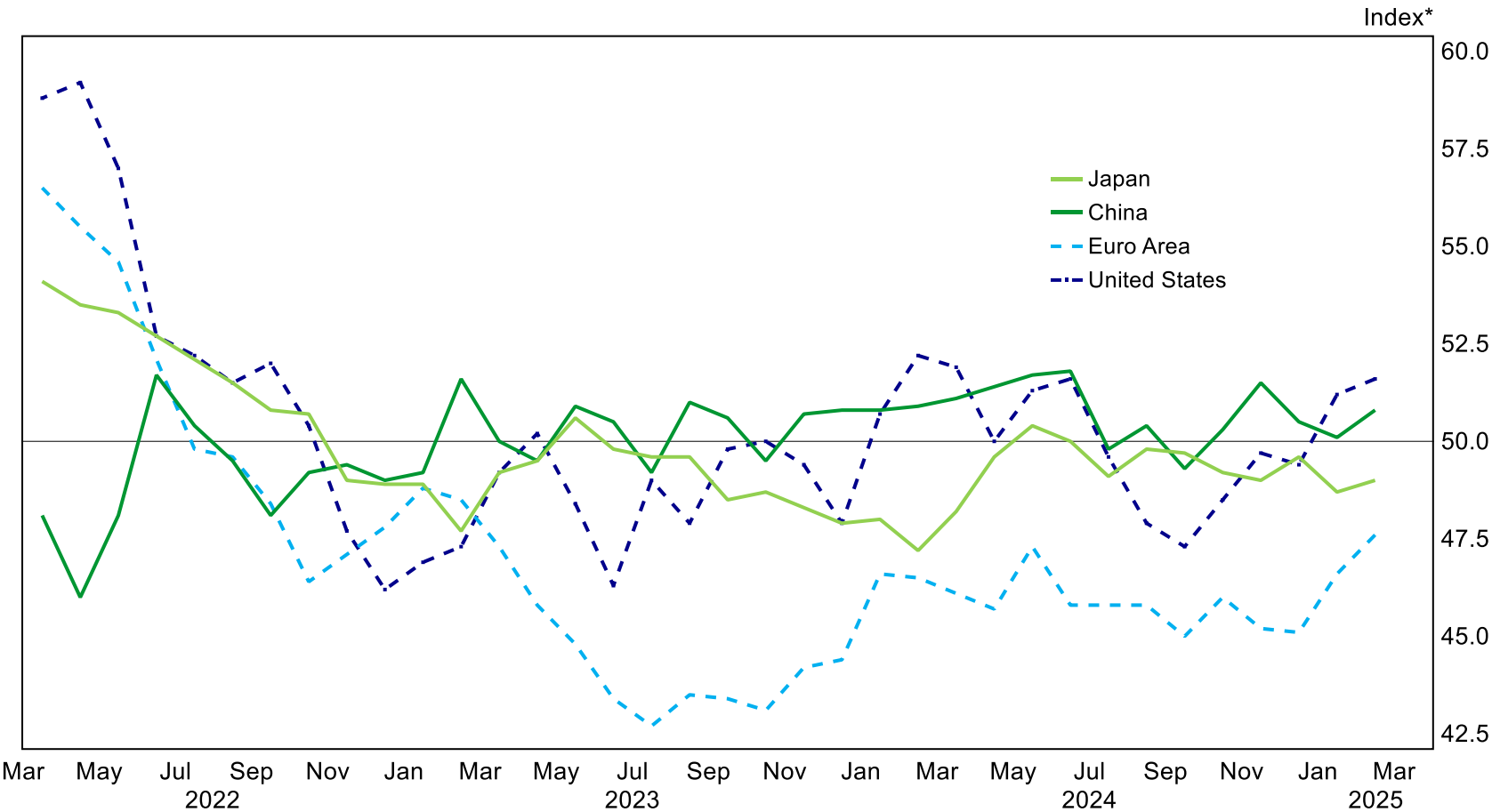
Note: Annual data to 2024. Total trade is average of imports and exports.

*Emerging markets is excluding China.

Source: Mizuho Securities USA, IMF.

Excess supply dampens global manufacturing

Manufacturing PMIs



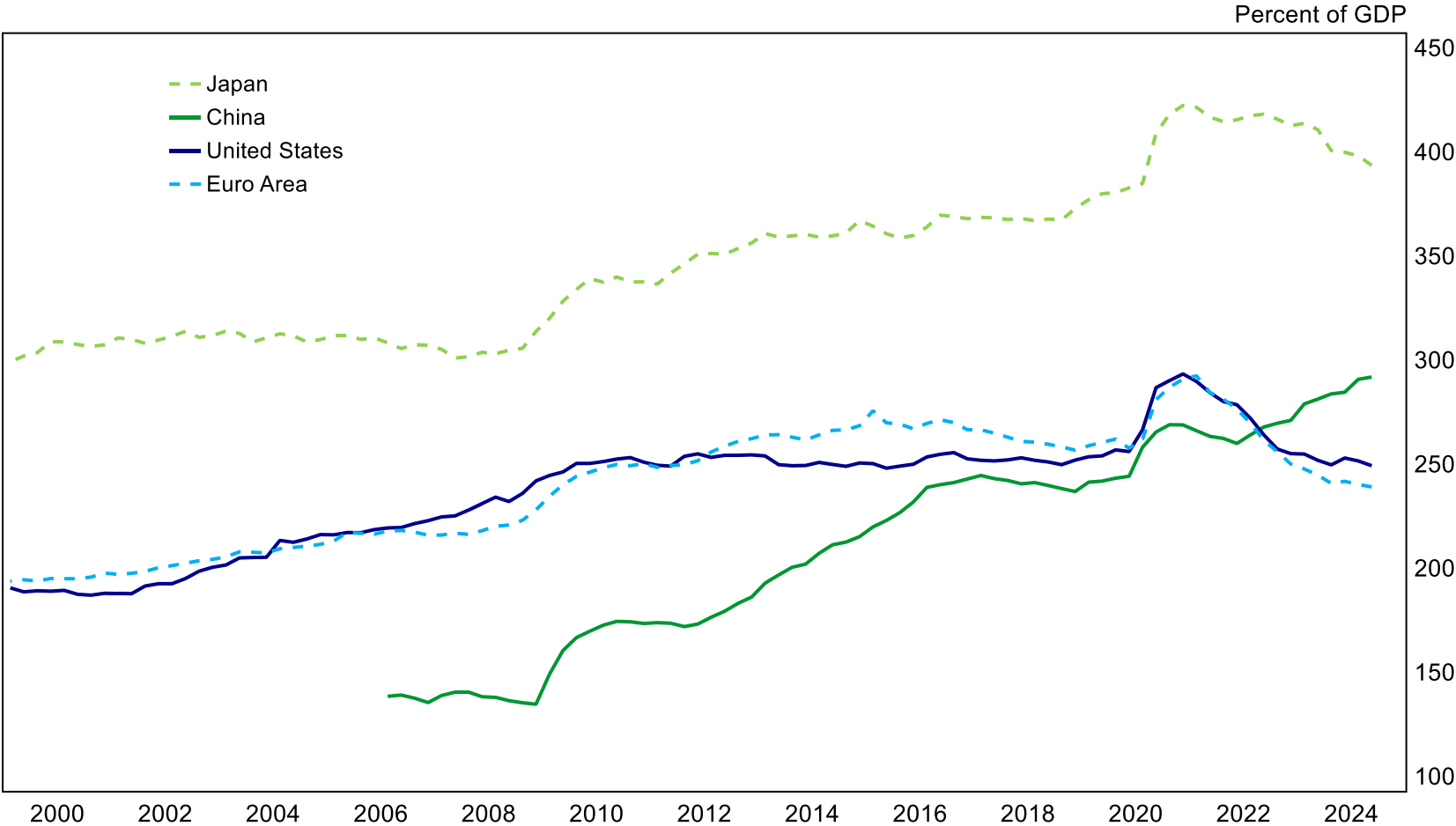
Note: Monthly data to February 2025.

*50 is neutral.

Source: Mizuho Securities, Markit.

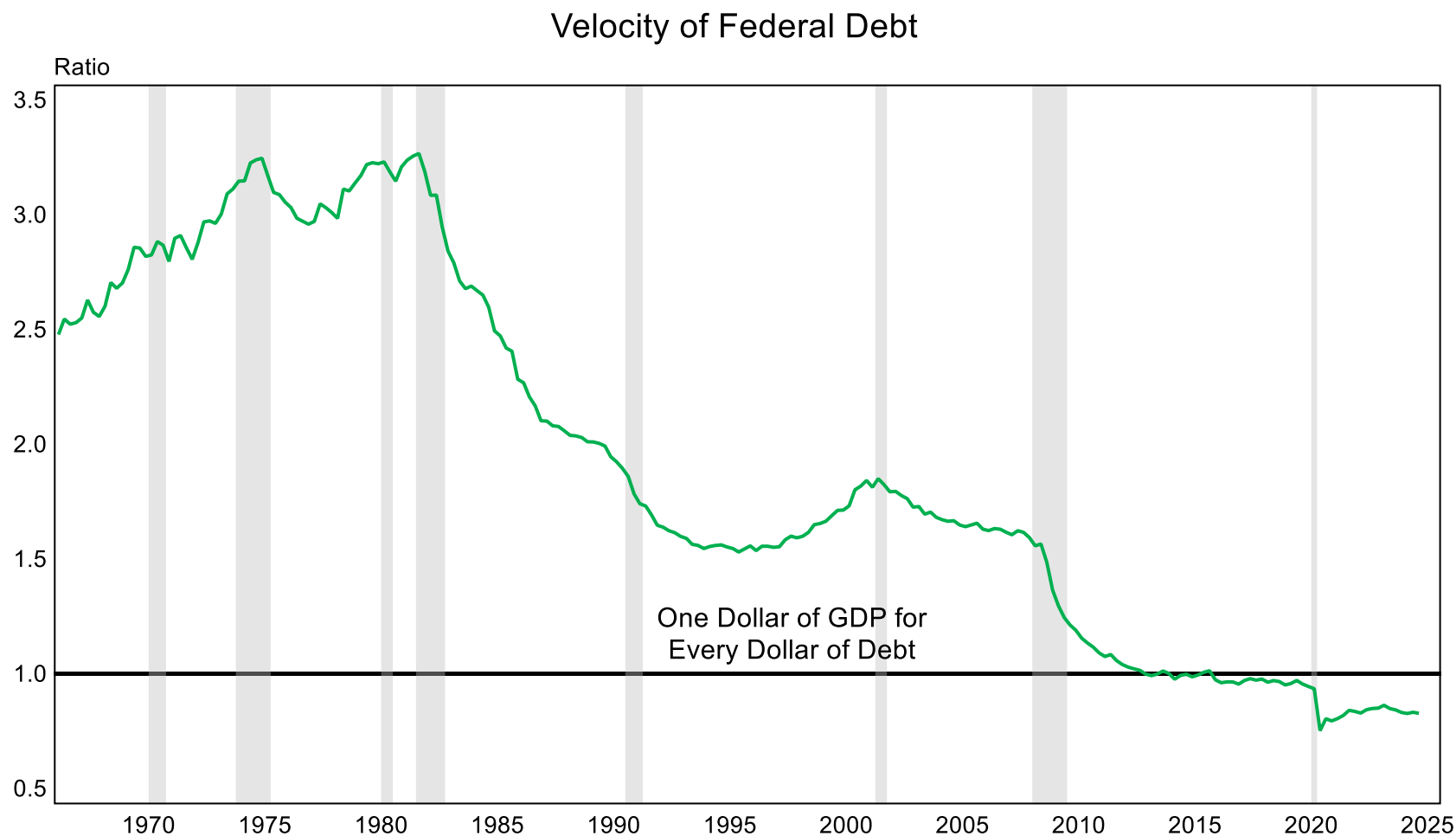
Debt/ GDP an important global headwind

Debt of Non-Financial Sectors



Note: Quarterly data through 2024 Q2.
Source: Mizuho Securities USA, BIS.

Fiscal stimulus has become less effective



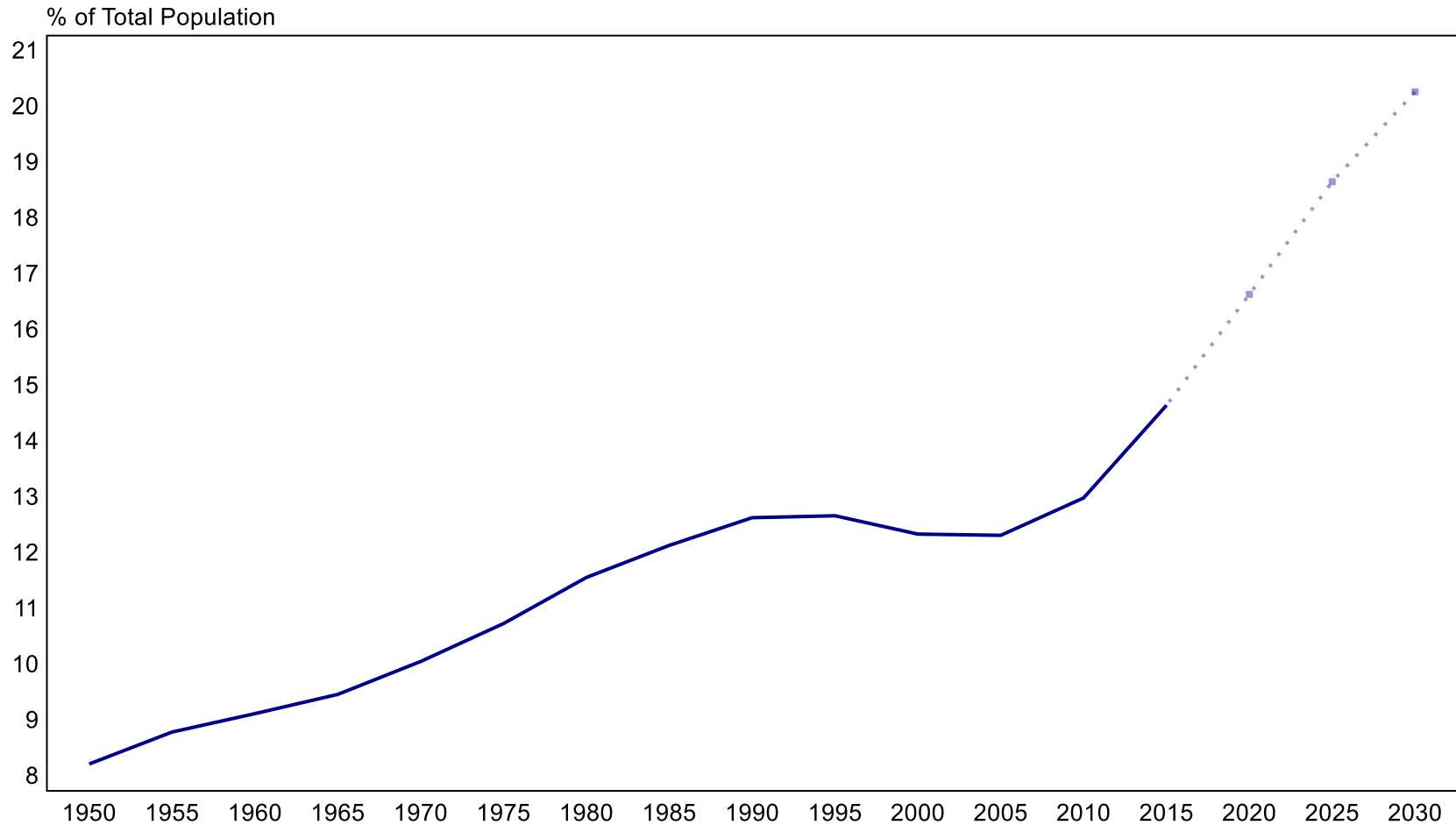
Note: Velocity of federal debt is calculated as the inverse of federal public debt to nominal GDP.

Shaded areas NBER recessions.

Source: Mizuho Securities USA, Fed Board, St. Louis Fed, BEA.

Aging population is another growth headwind

US Population over 65



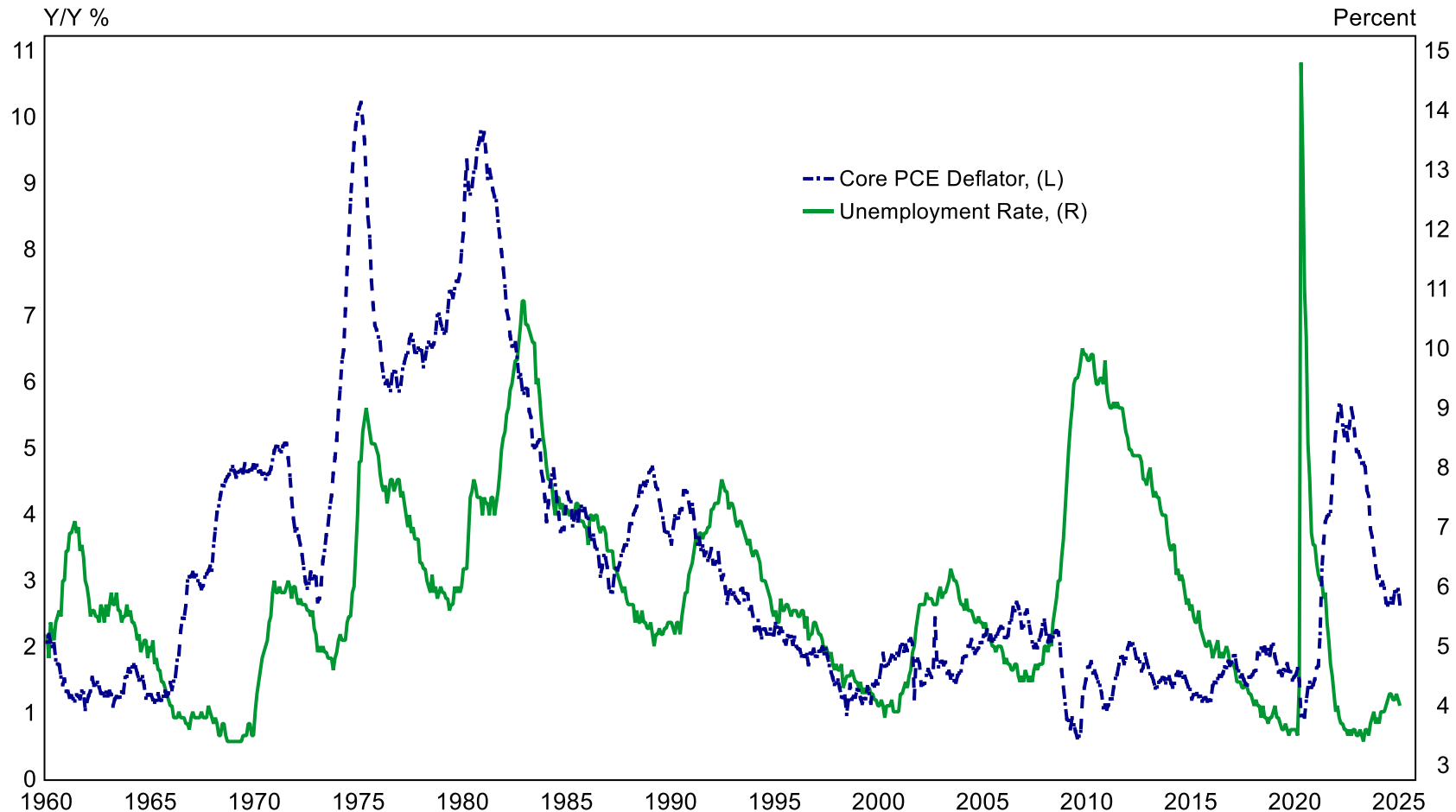
Note: Forecast is medium variant.

Source: Mizuho Securities, UN.

Monetary Policy

Tight labor market should constrain the Fed

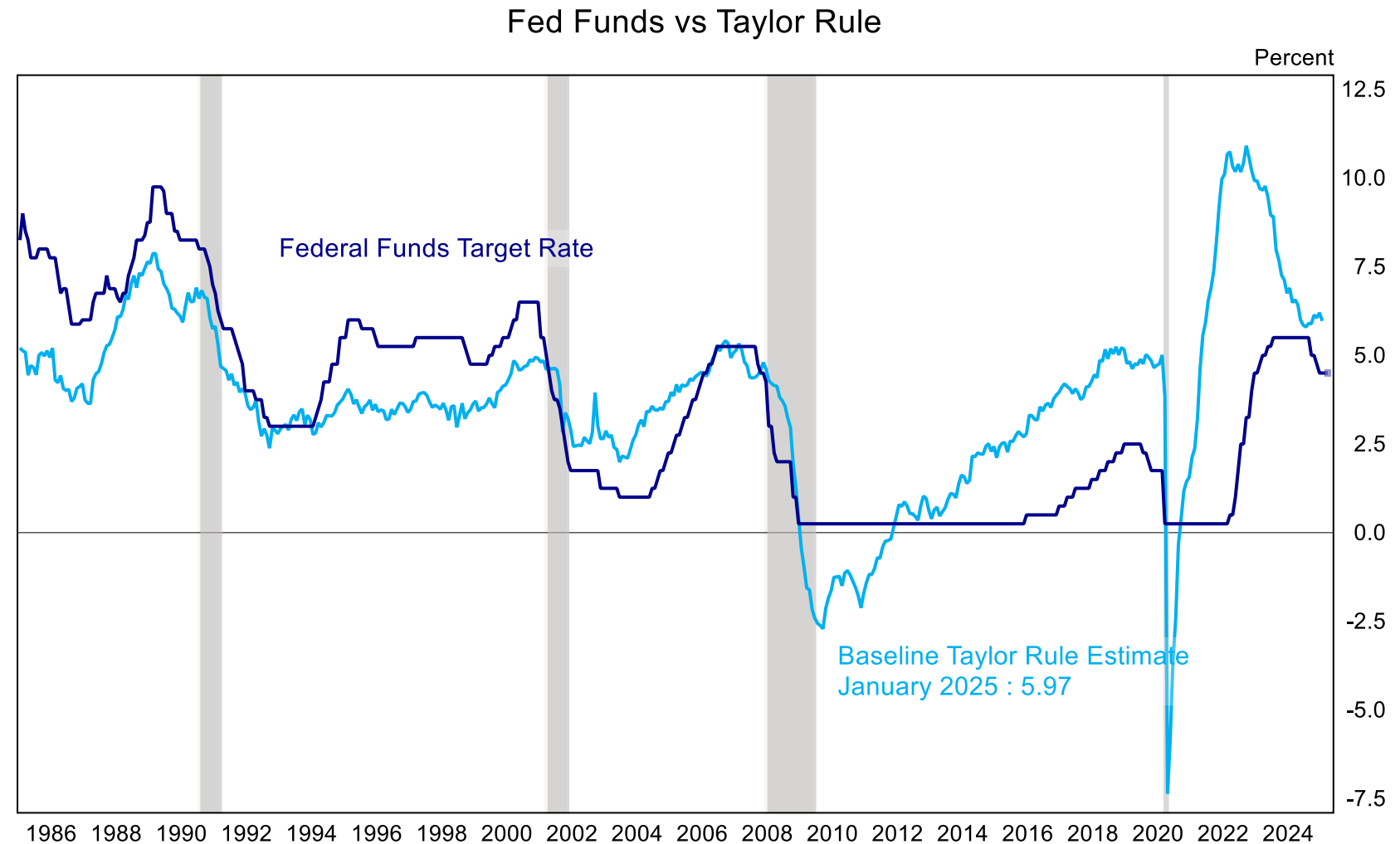
Phillips Curve Relationship



Note: Monthly data through 1/2025, 1/2025.

Source: Mizuho Securities USA, BLS, BEA, St. Louis Fed, CBO.

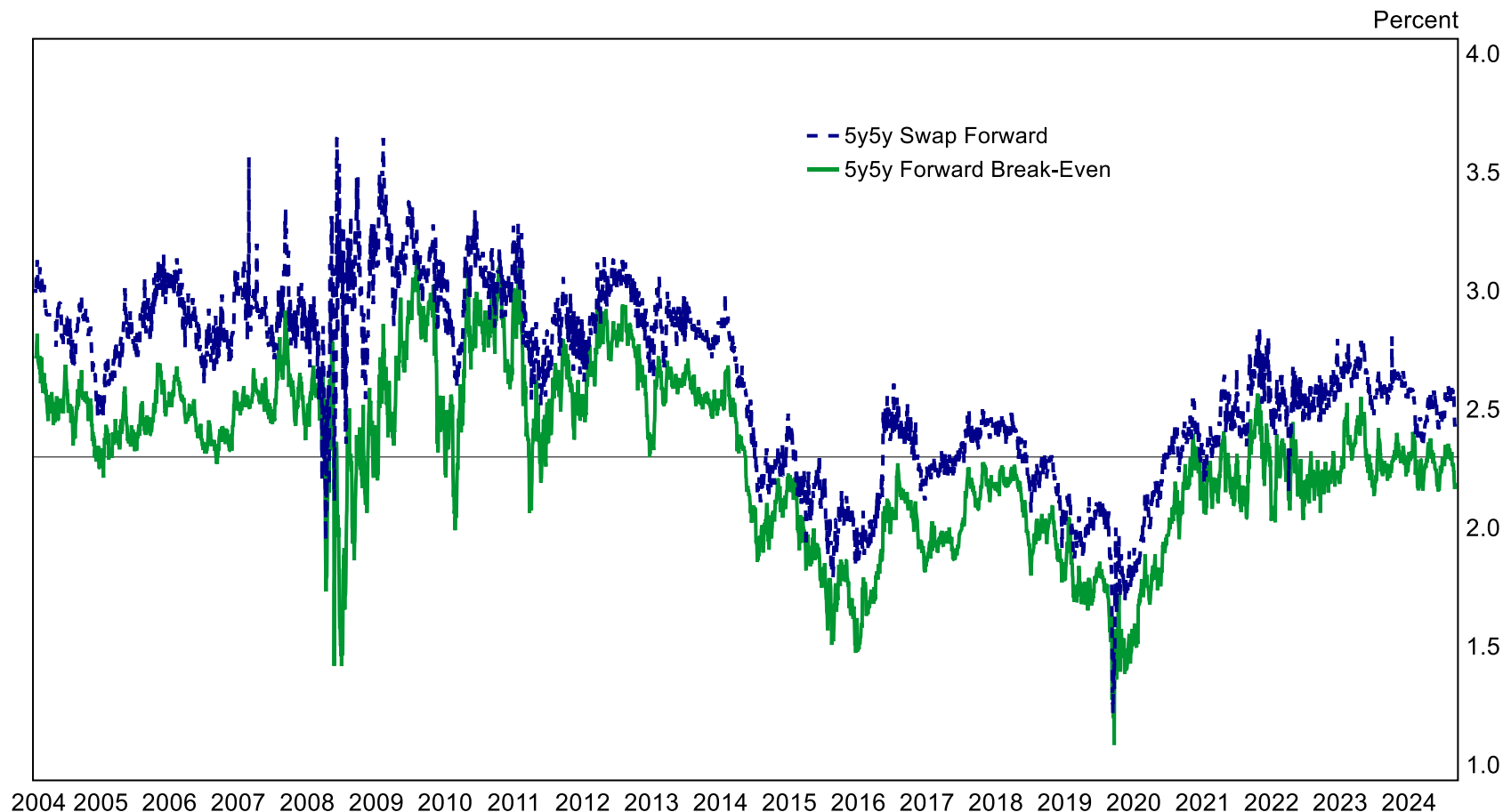
Taylor rule suggests policy not to restrictive



Source: Mizuho Securities, NBER.

Inflation expectations stuck above 2% target

US Market-Based Inflation Rates

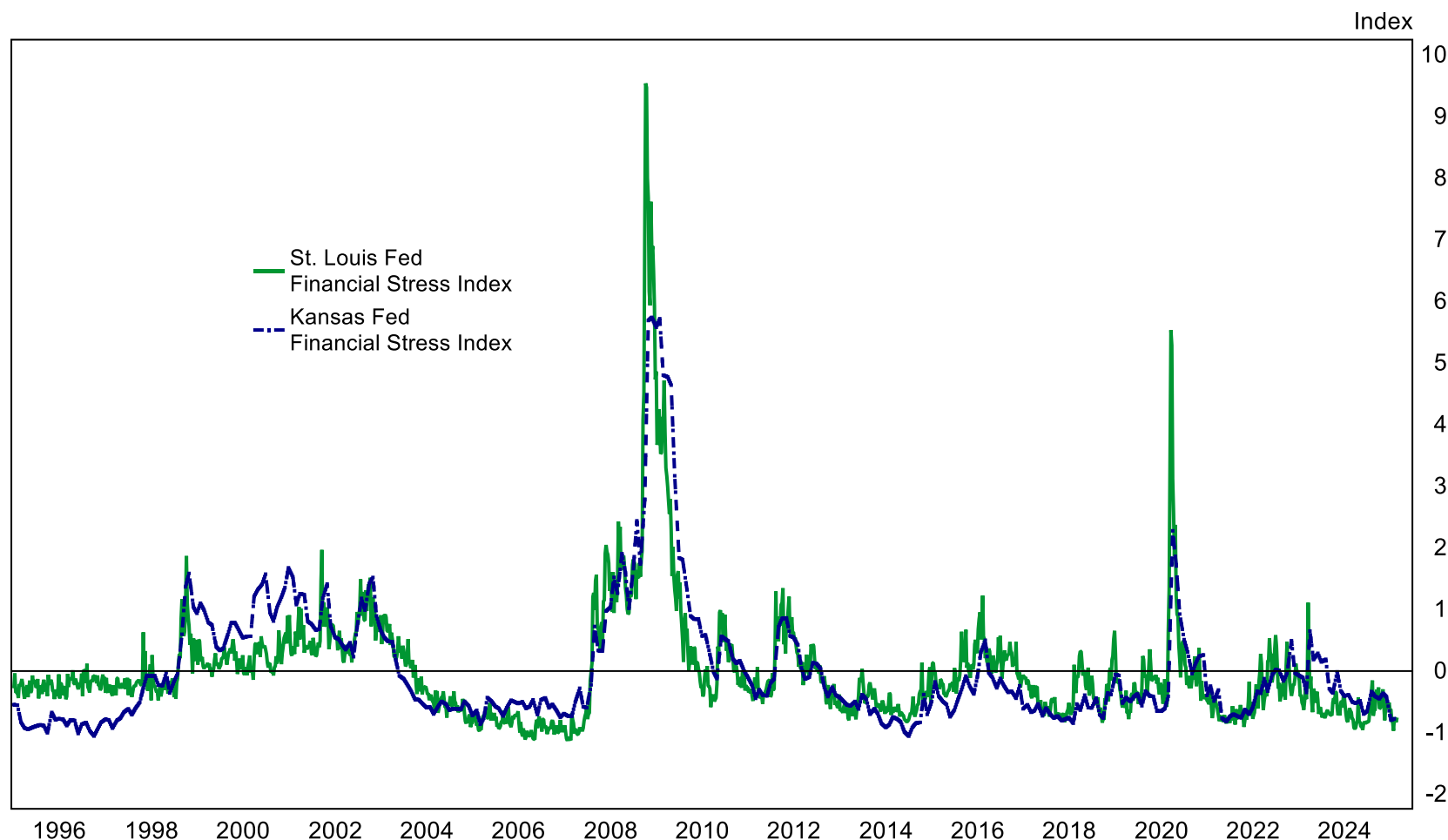


Note: Daily data through 3/3/2025.

Line at 2.3% to account for tendency of CPI to run above the Fed's target of 2.0% PCE.

Source: Mizuho Securities USA, Bloomberg.

Financial stress not an issue despite lingering CRE concerns



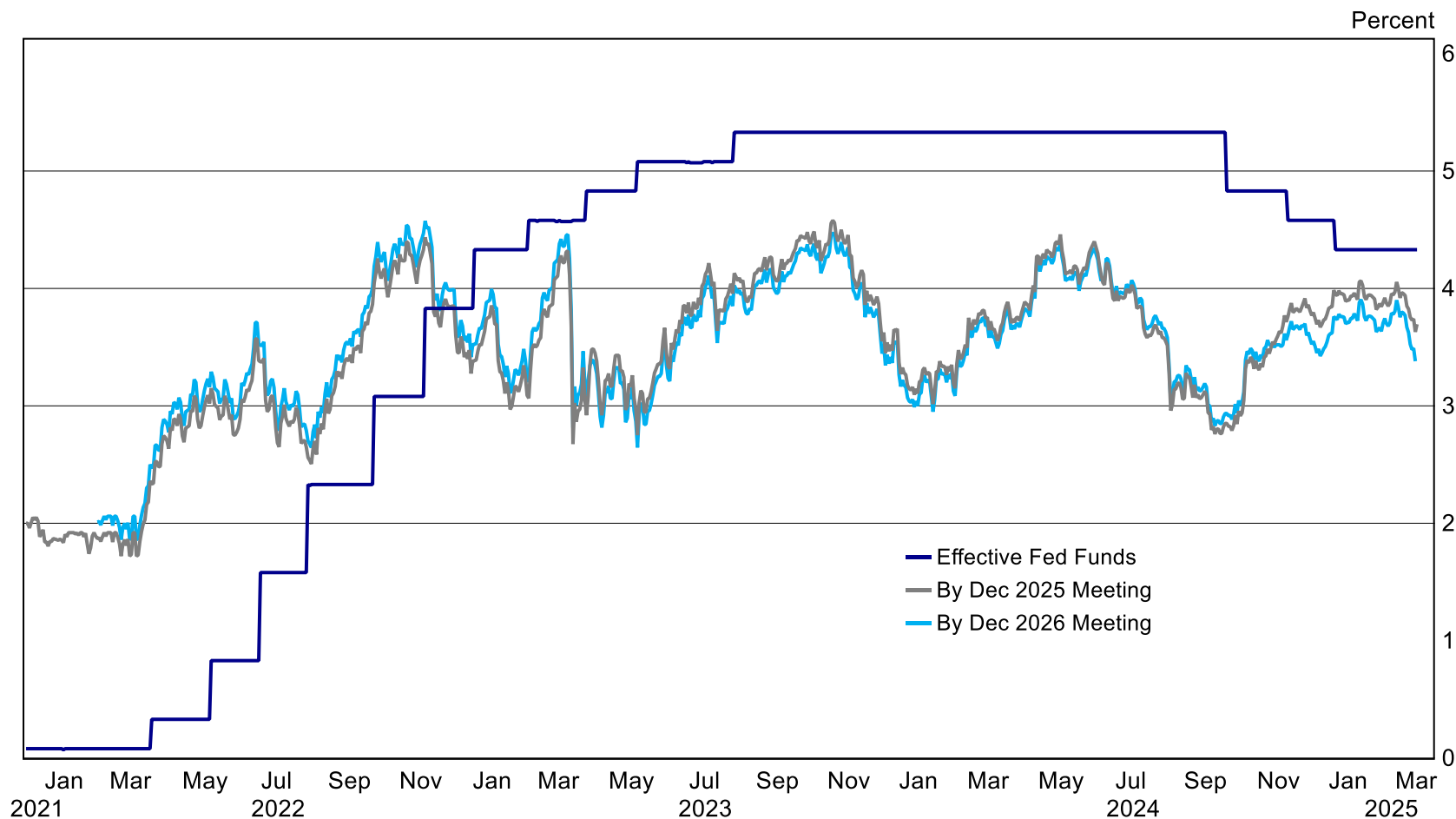
Note: Weekly data through February 2025.

Monthly data through January 2025.

Source: Mizuho Securities USA, Kansas City Fed, St. Louis Fed.

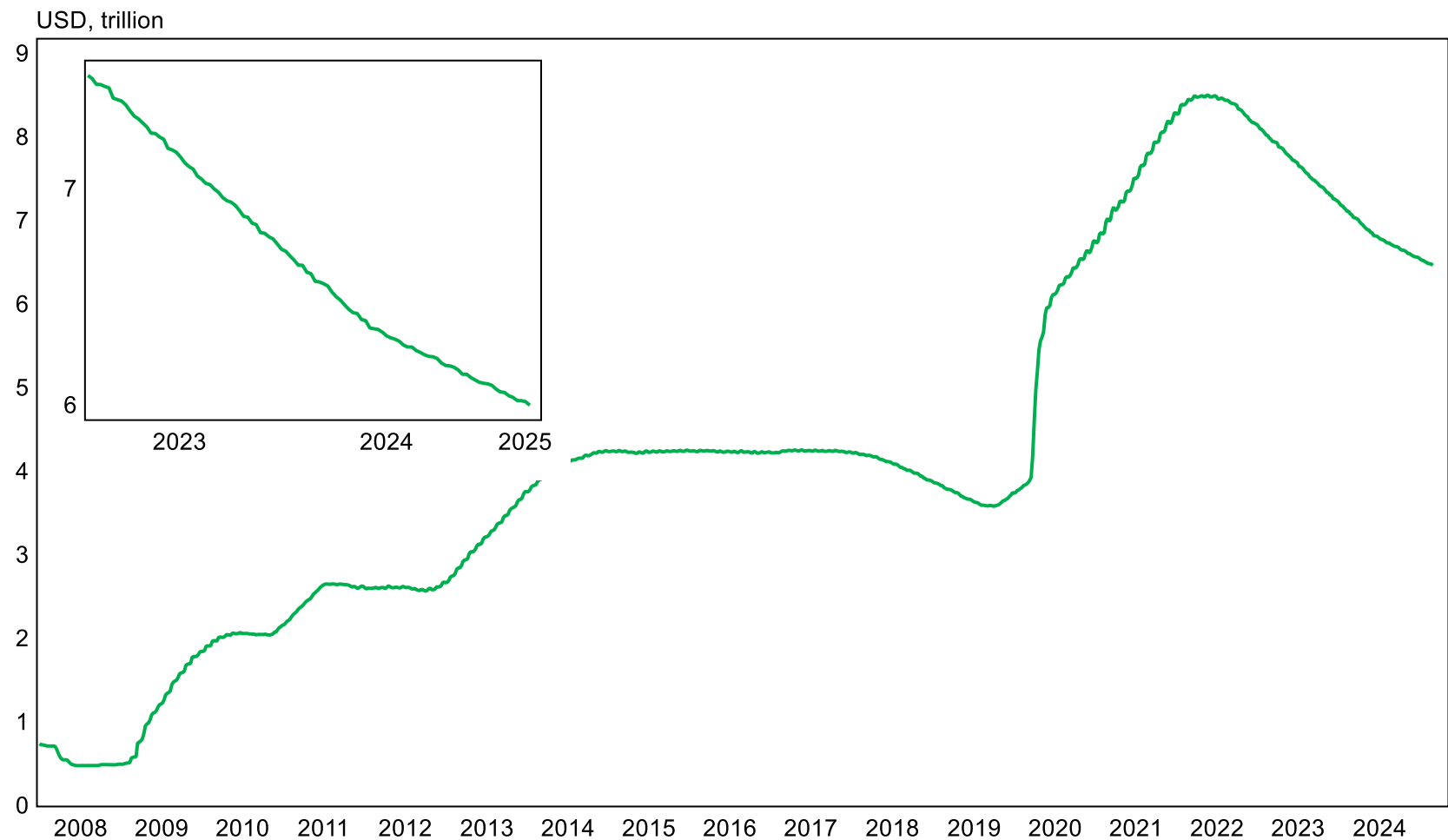
Fed Funds Expectations

Hikes/Cuts Priced in Fed Funds Futures



Note: Daily data through 2/28/2025.
Source: Mizuho Securities USA.

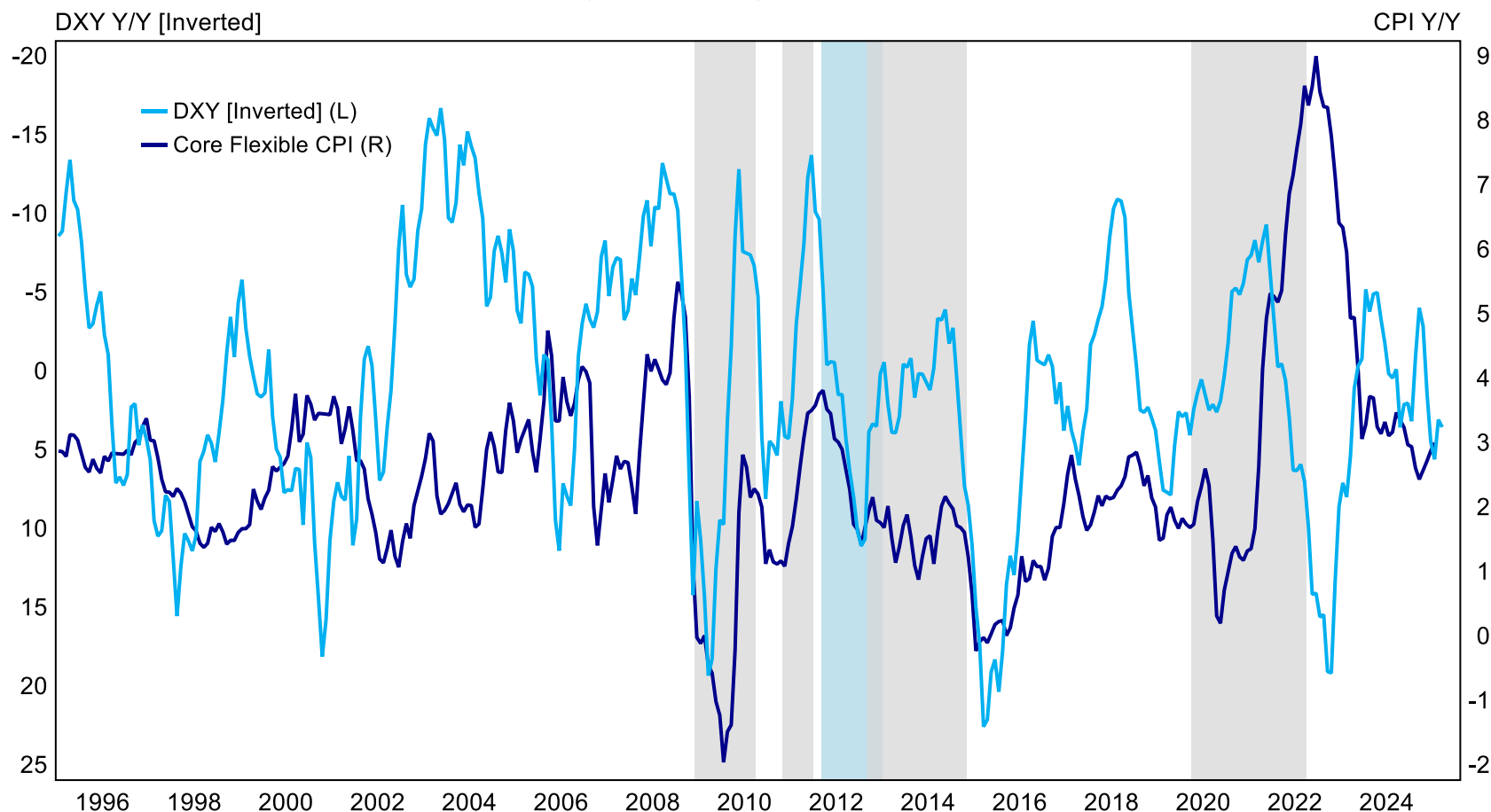
SOMA still normalizing



Note: Weekly data through 2025 W9.
Released on Thursday, February 27, 2025.
Source: Mizuho Securities, FRB.

Quantitative policy tools are very effective

QE, the Dollar, and Inflation



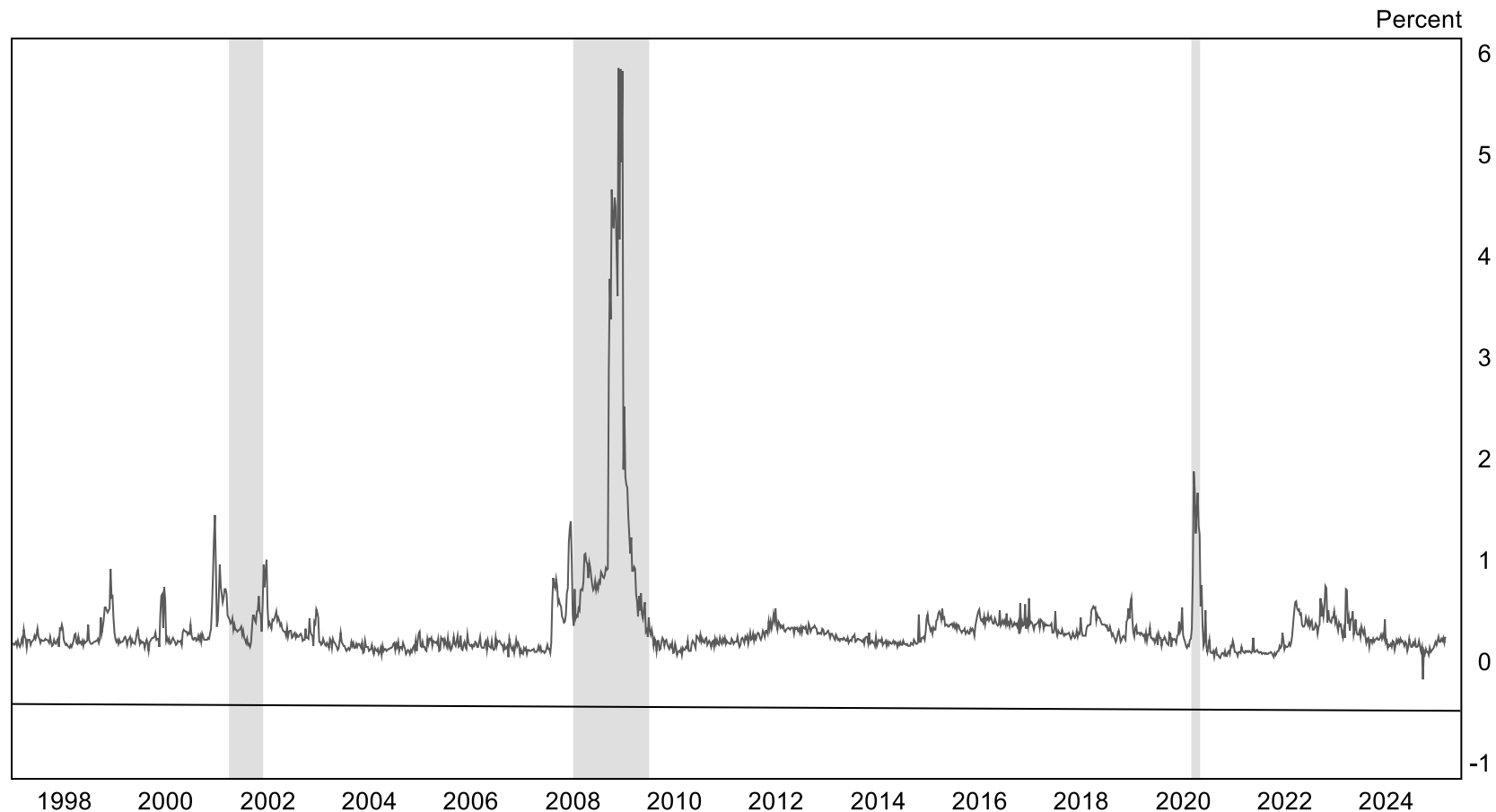
Note: Monthly data through 1/2025.

Gray shaded areas QE. Blue shaded areas Twist.

Source: Mizuho Securities USA.

Few companies borrow at the front end of the curve

Commercial Paper Spread
A2/P2 minus AA Non-financial Commercial Paper



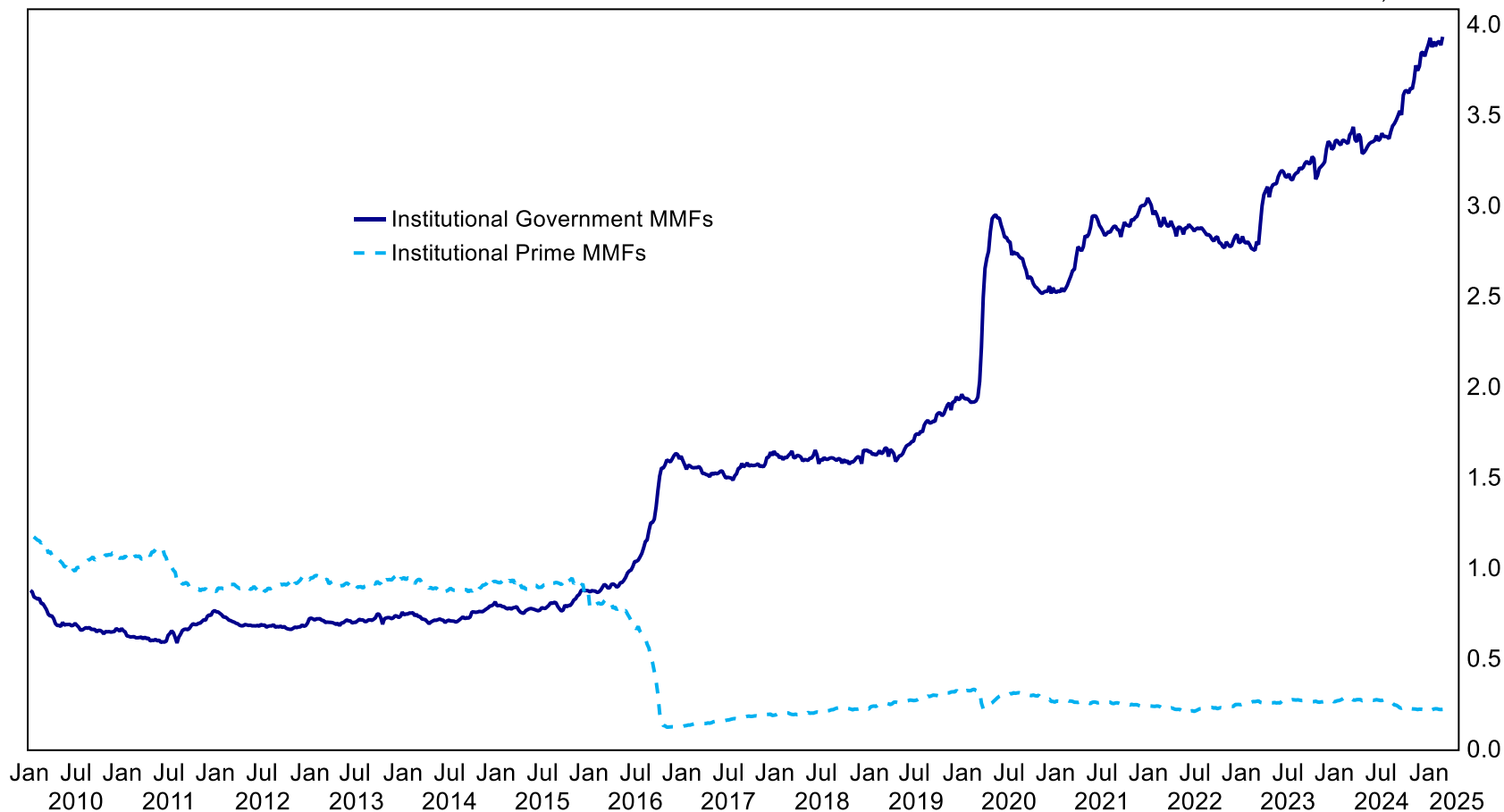
Note: Weekly data through February 2025.

Source: Mizuho Securities USA, FRB.

Money market fund balances suggest ample liquidity in markets

Total Net Assets

USD, trillion



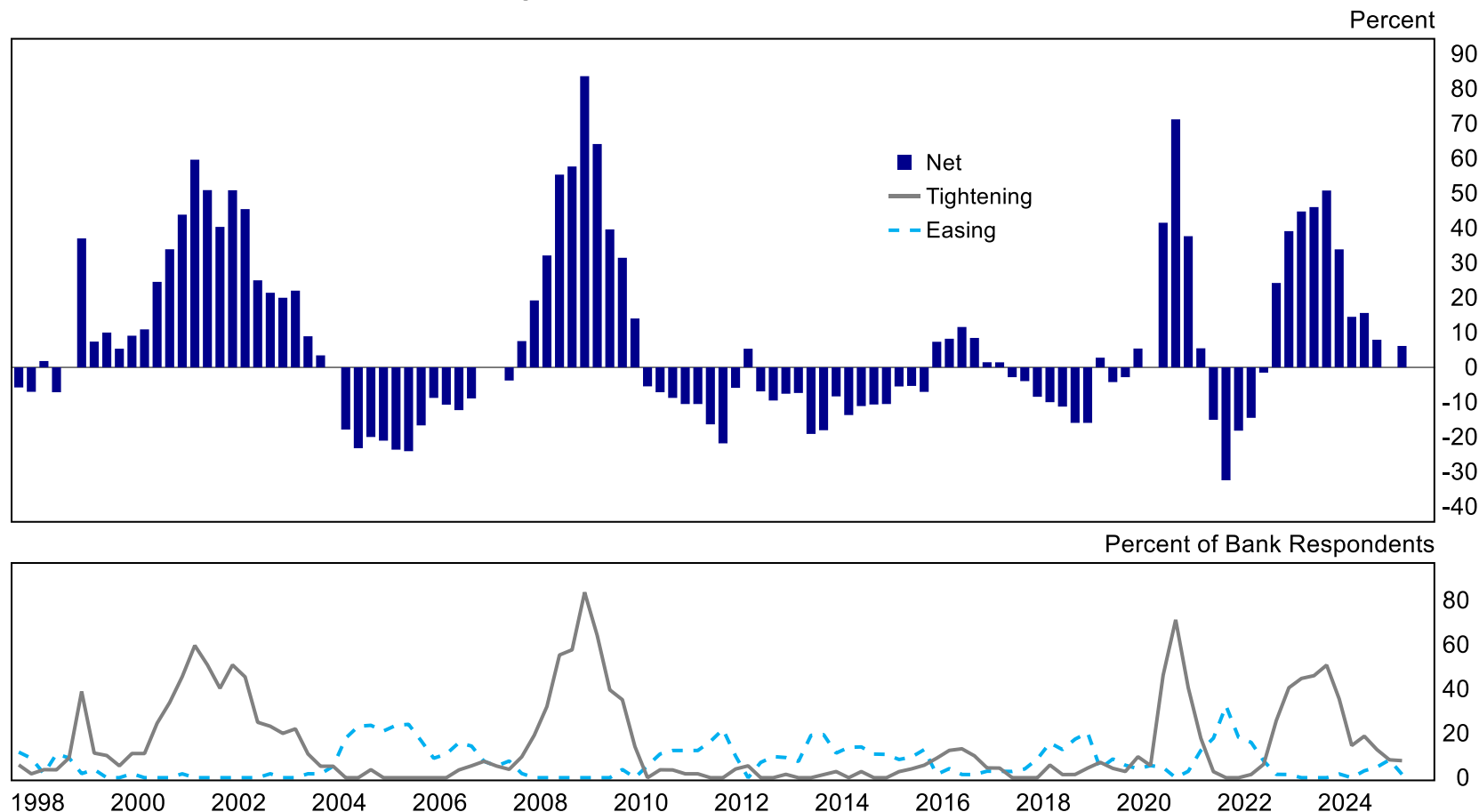
Note: Weekly data through 2025 W9.

Source: Mizuho Securities USA.

Credit Considerations

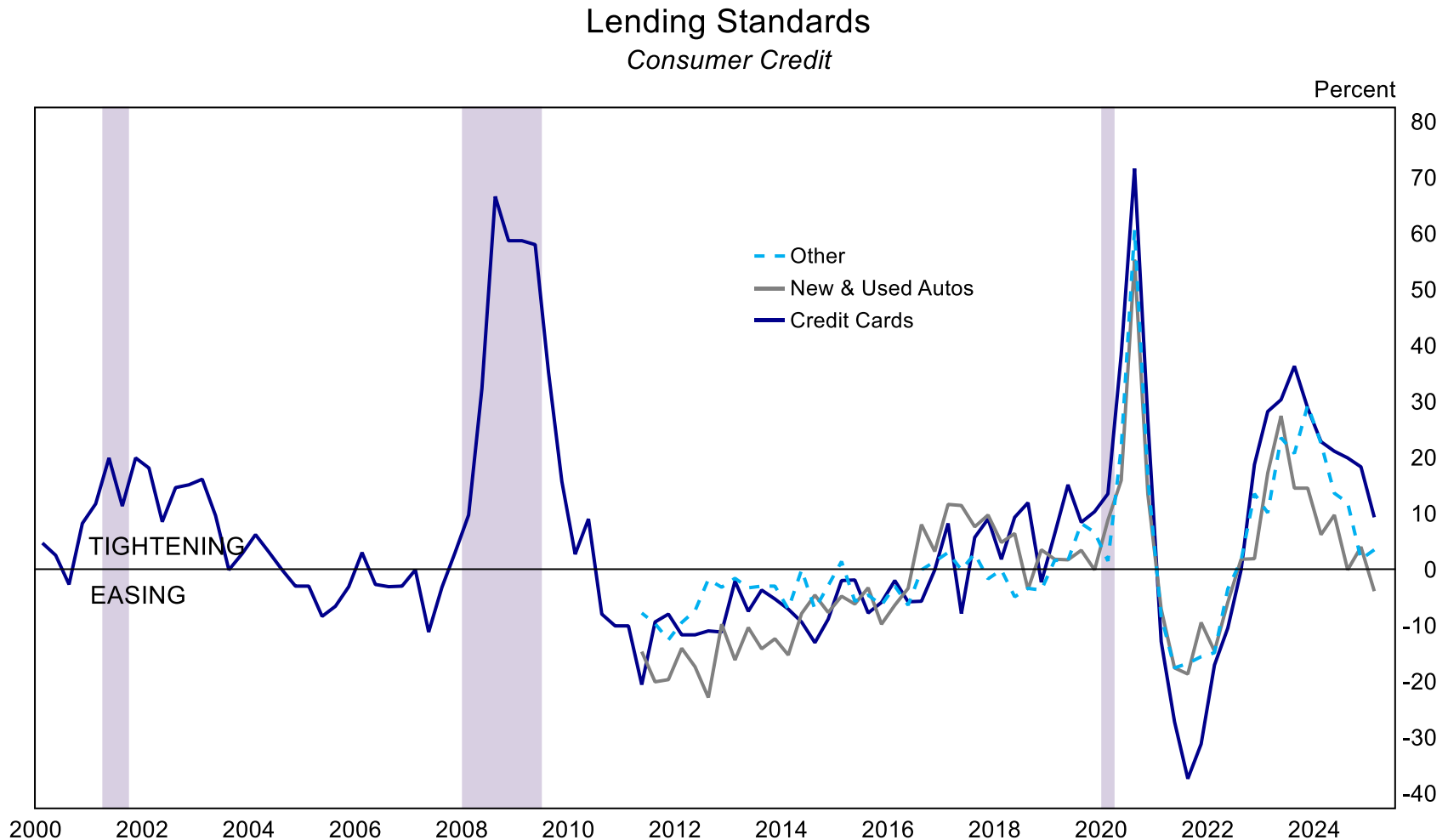
Tightened lending standards becoming less of an issue

Lending Standards for Commercial Credit



Note: Quarterly data through 2025 Q1.
For large & medium sized firms.
Source: Mizuho Securities USA, FRB.

Banks have become less restrictive to the consumer



Note: Monthly data through 2020 Q2.

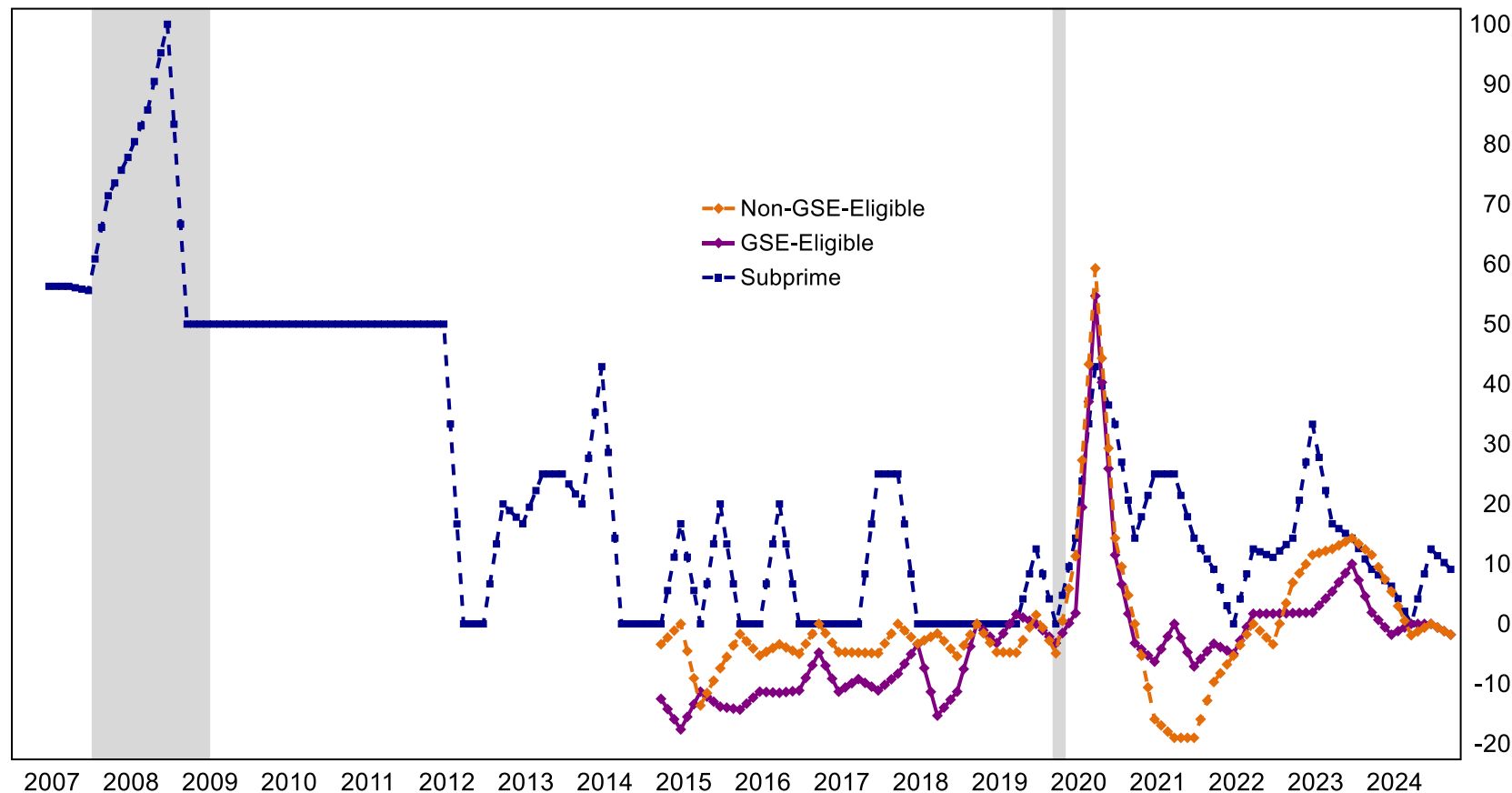
Source: Mizuho Securities USA.

Banks are less restrictive to the consumer

Lending Standards

Mortgages

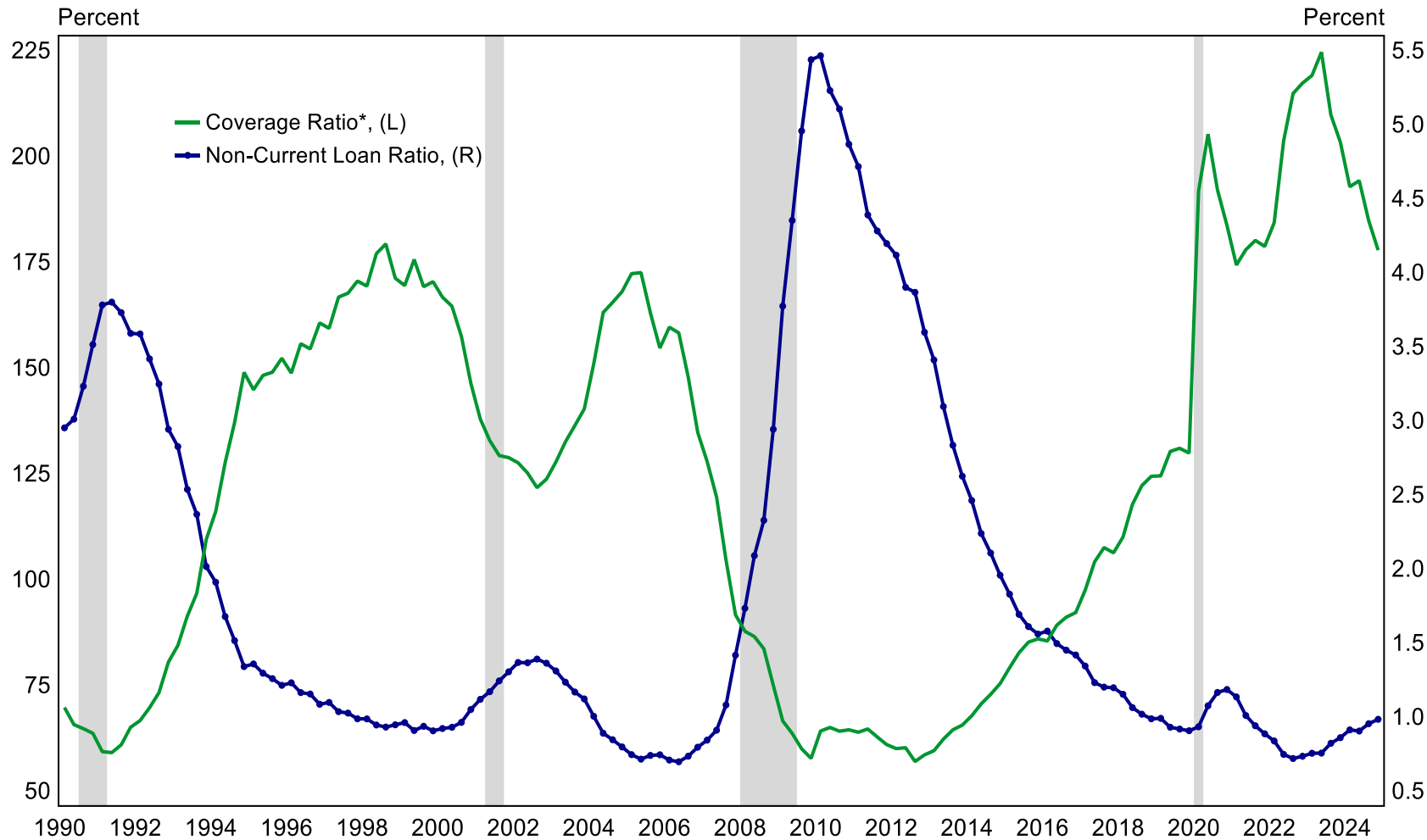
Percent



Note: Quarterly data through 1/2025.

Source: Mizuho Securities, FRB.

Bank balance sheets look healthy

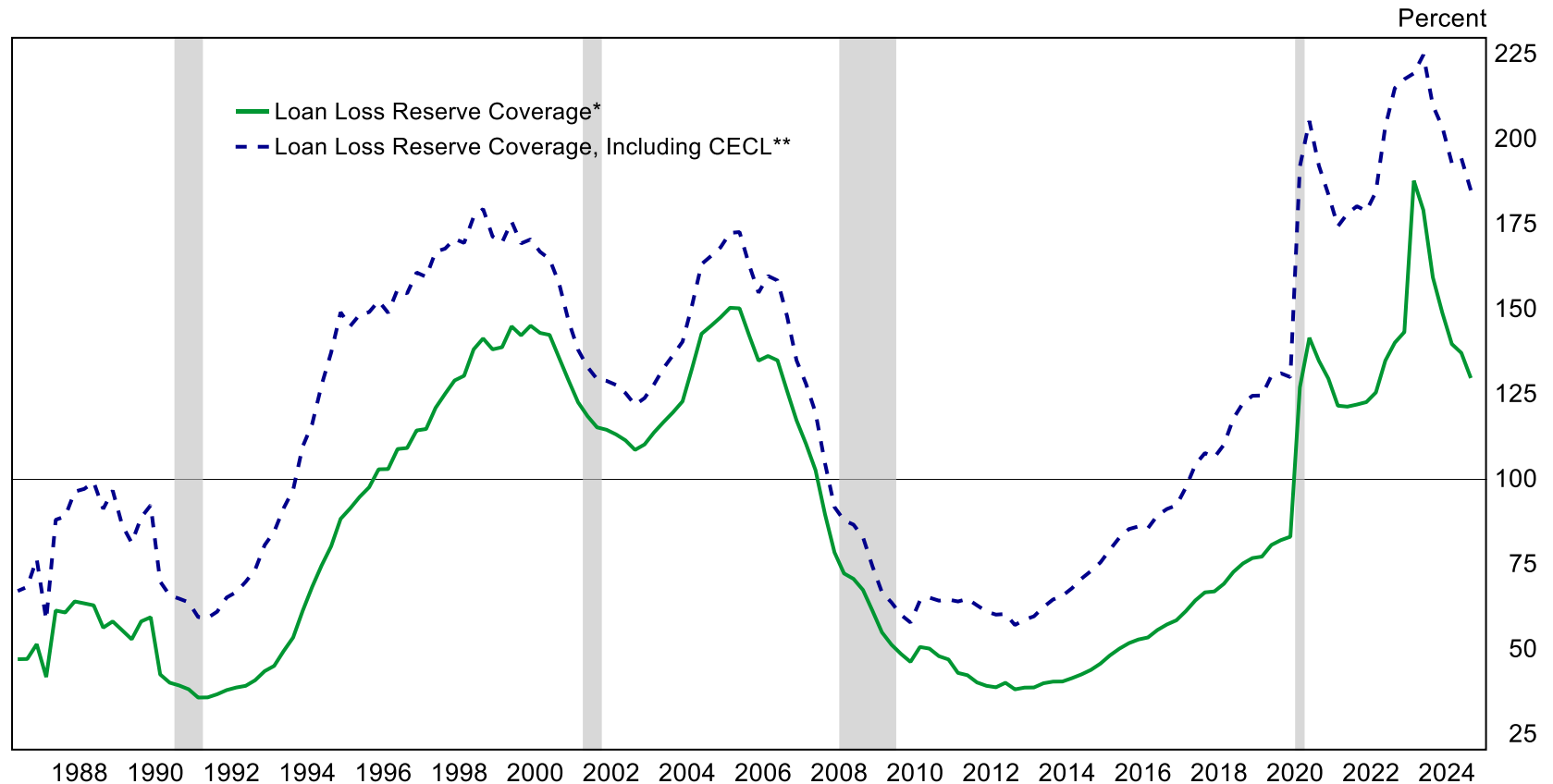


Note: Quarterly data through 2024 Q4.
*Includes current expected credit losses (CECL).
Source: Mizuho Securities USA, FDIC.

Ample reserves against non-performing loans

Loan Loss Reserve Coverage

Commercial & Savings Institutions



Note: Quarterly data through

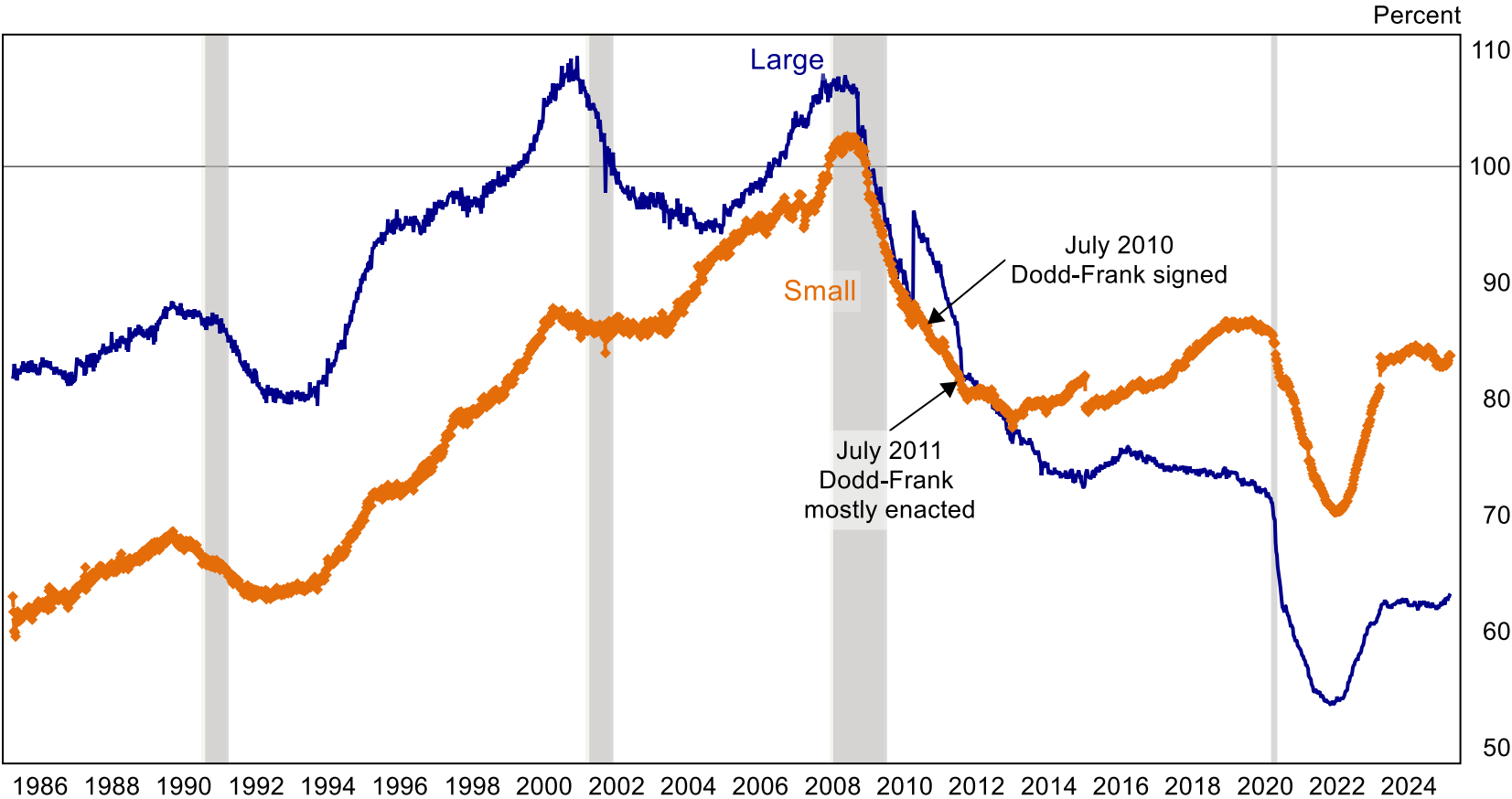
*Including troubled debt restructurings (TDRs) and other real estate owned (OREO).

**Includes current expected credit losses (CECL).

Source: Mizuho Securities USA, FDIC.

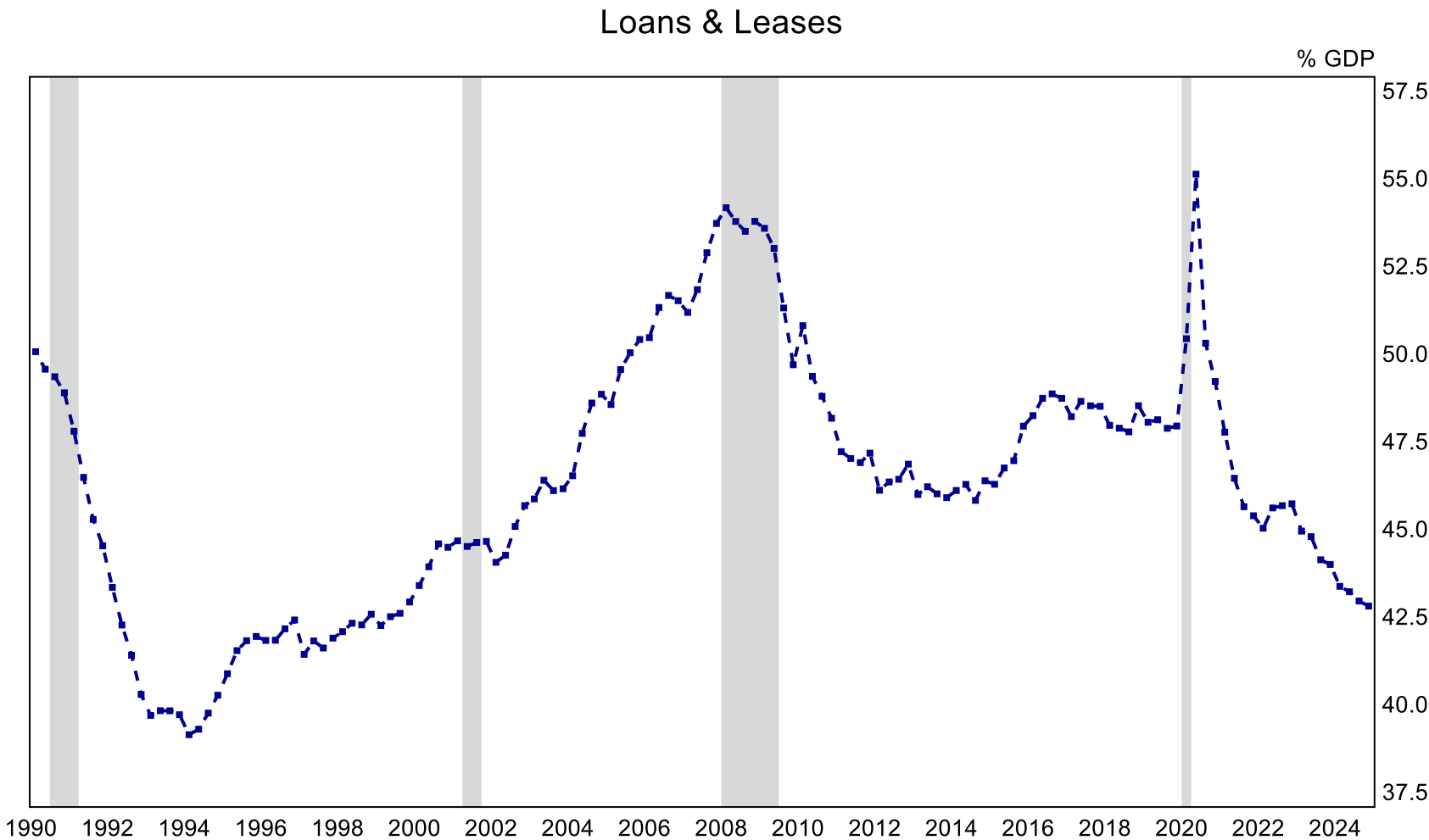
Lending squeeze has abated

Loan to Deposit Ratio
Domestic Commerical Banks



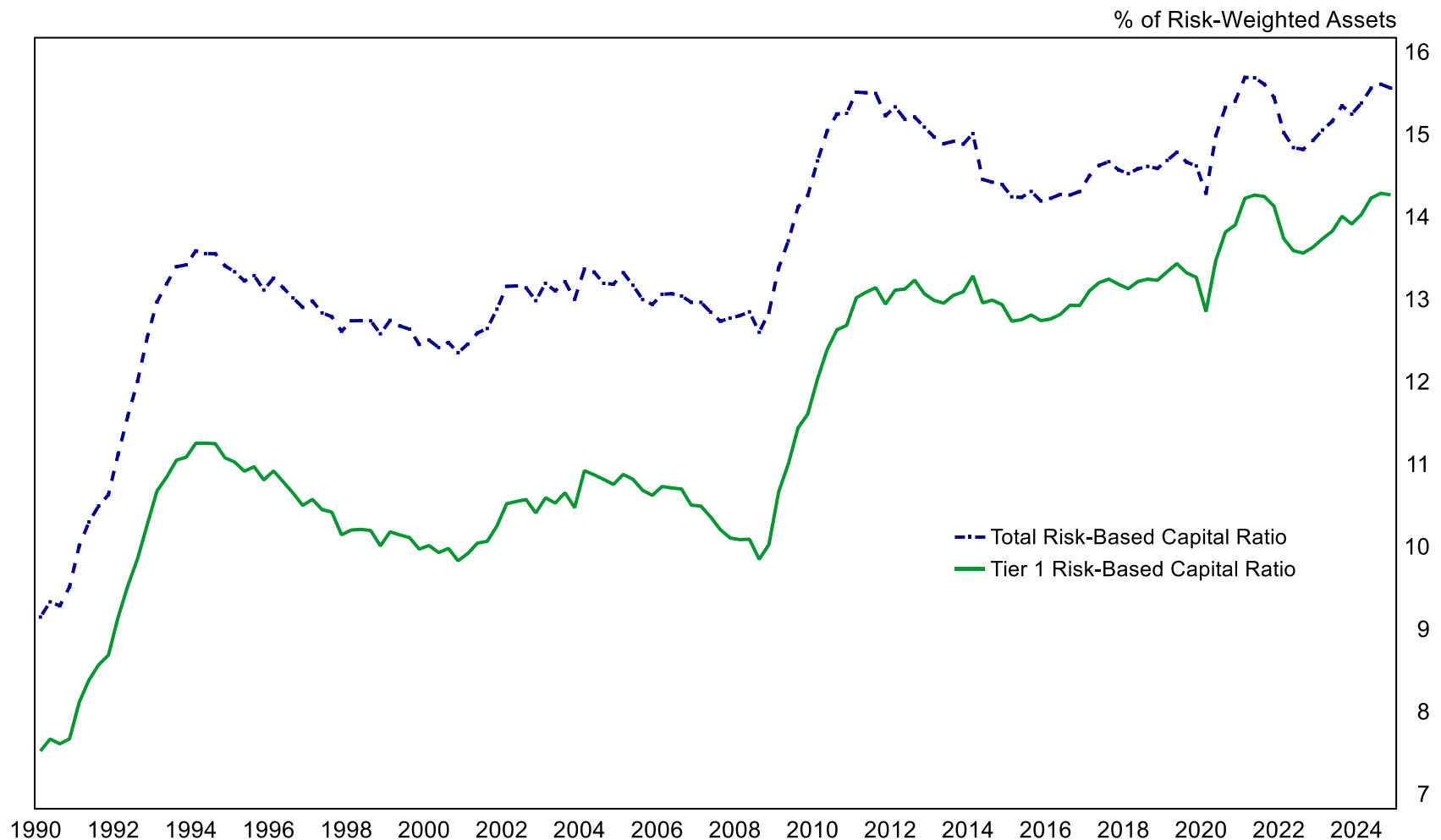
Note: Weekly data through 2025 W8.
Released on Friday, February 28, 2025.
Source: Mizuho Securities USA, FRB.

Less reliance on bank loan markets



Note: Quarterly data through 2024 Q4.
Source: Mizuho Securities USA, BEA, FDIC.

Strong risk based capital positions



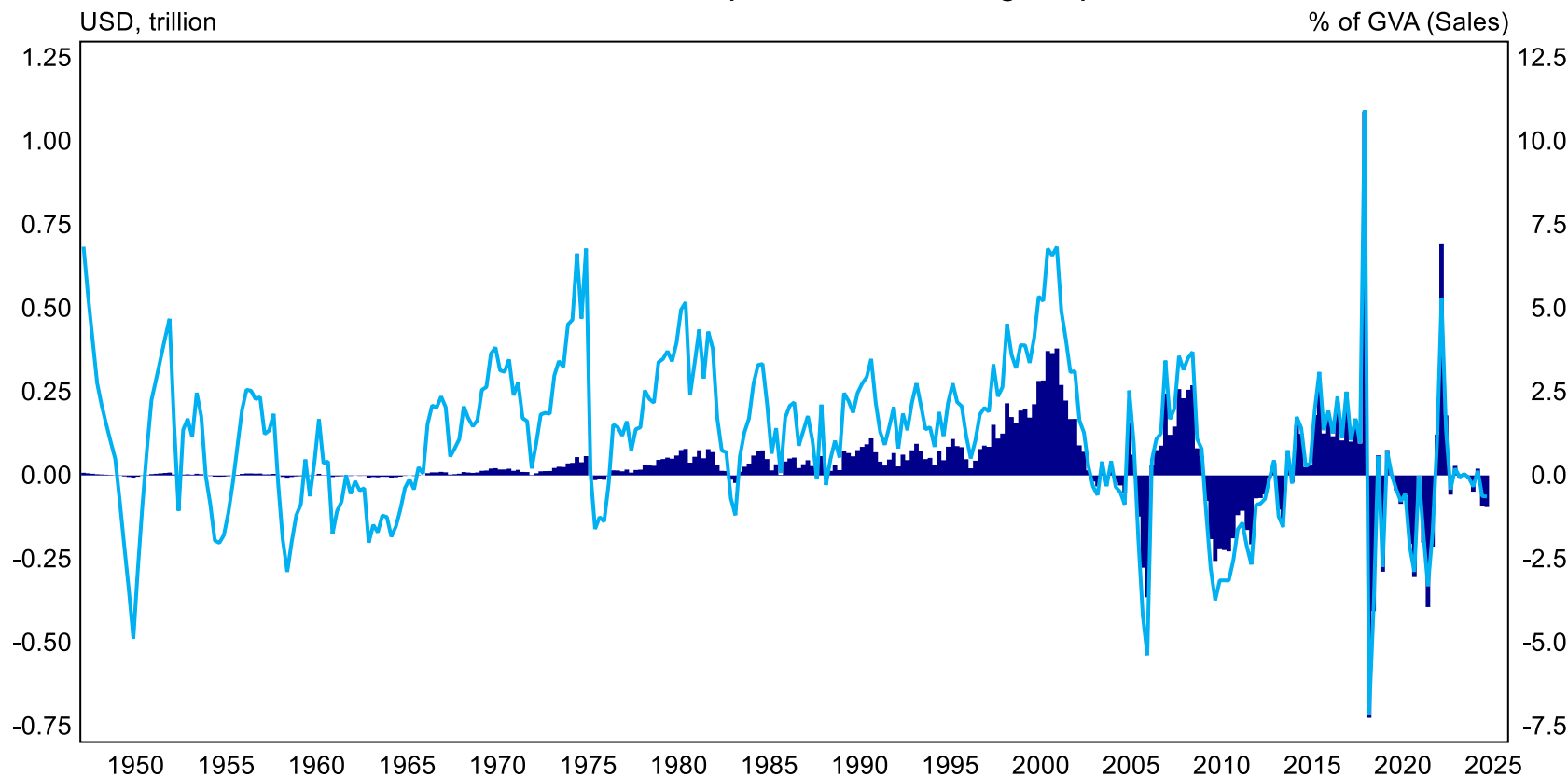
Note: Quarterly data through 2024 Q4. Released on Wednesday, February 26, 2025.

Source: Mizuho Securities USA, FDIC.

Corporate Spreads and Balance Sheet

Financing gap reflects reduced external funding

Nonfinancial Corporate "Financing Gap"*



Note: Quarterly data through 2024 Q3.

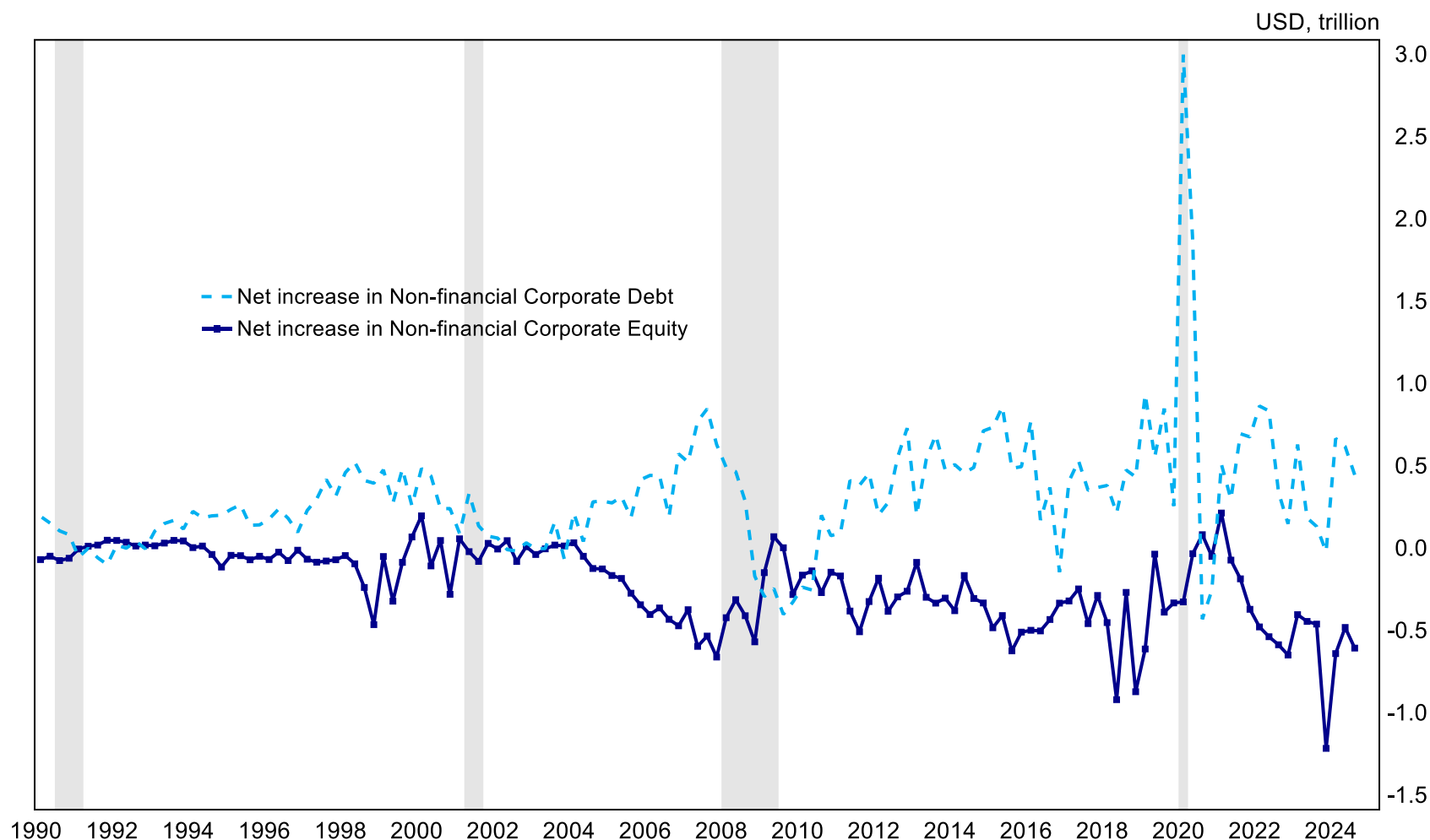
*Financing Gap = CapEx - Internal Cash Flow

Internal cash flow = Domestic Gross Saving ex Capital Transfers
(Profits After-Tax - Div + CInvAdj + Dep - Net Capital Transfers)

CapEx = FI + Inv + Other NFA

Source: Mizuho Securities USA, FRB.

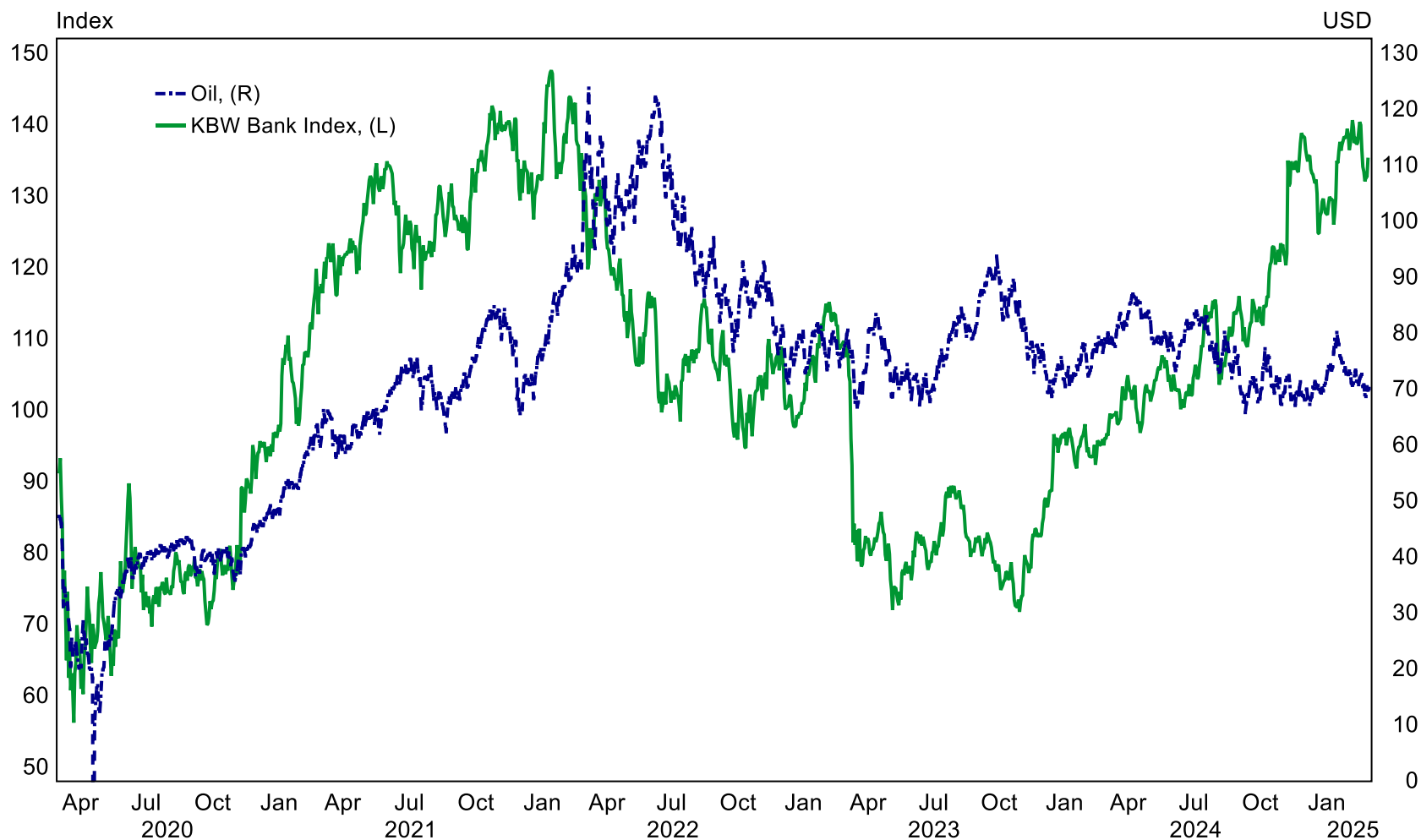
Corporate leverage back to normal while companies buy back shares



Note: Quarterly data through 2024 Q3.

Source: Mizuho Securities USA, FRB.

Crude oil market looks supported

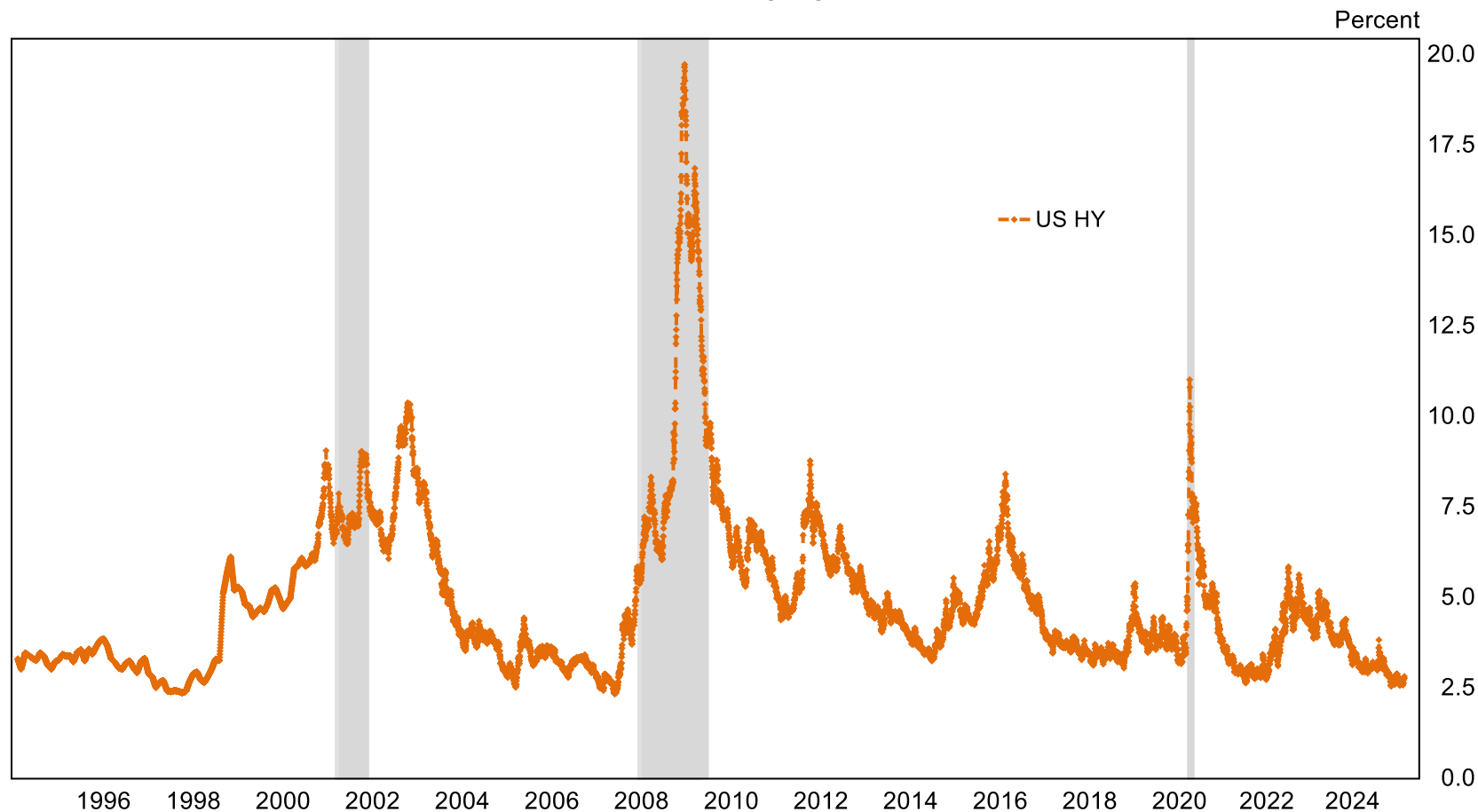


Note: Daily data through 2/28/2025.

Source: Mizuho Securities USA, Bloomberg.

Investors not concerned about default risk

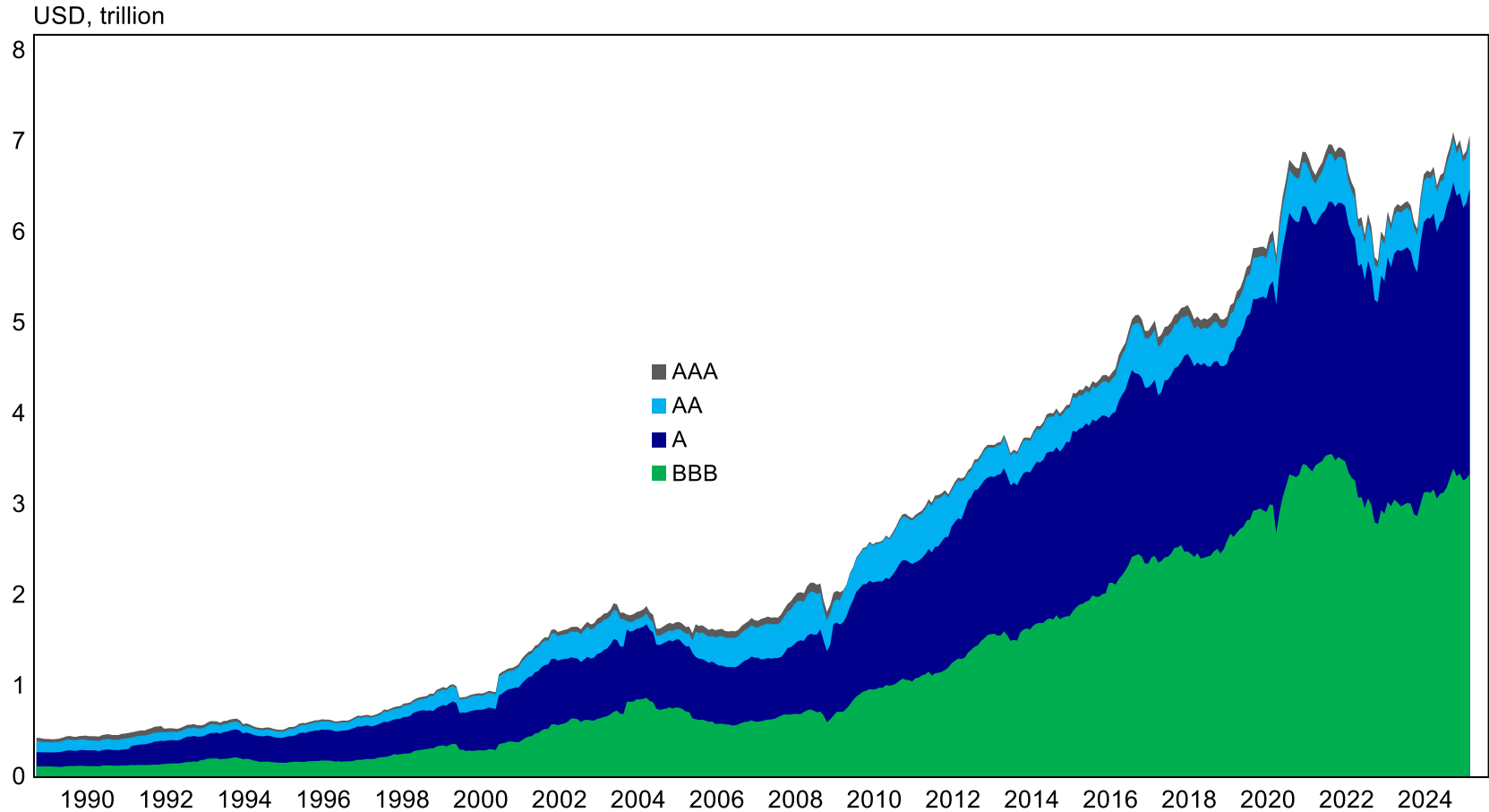
US Corporate and Emerging Market Spreads



Note: Daily data through 2/28/2025.
Shaded areas indicate NBER recession.
Source: Mizuho Securities USA, Bloomberg.

BBB issuance remains elevated

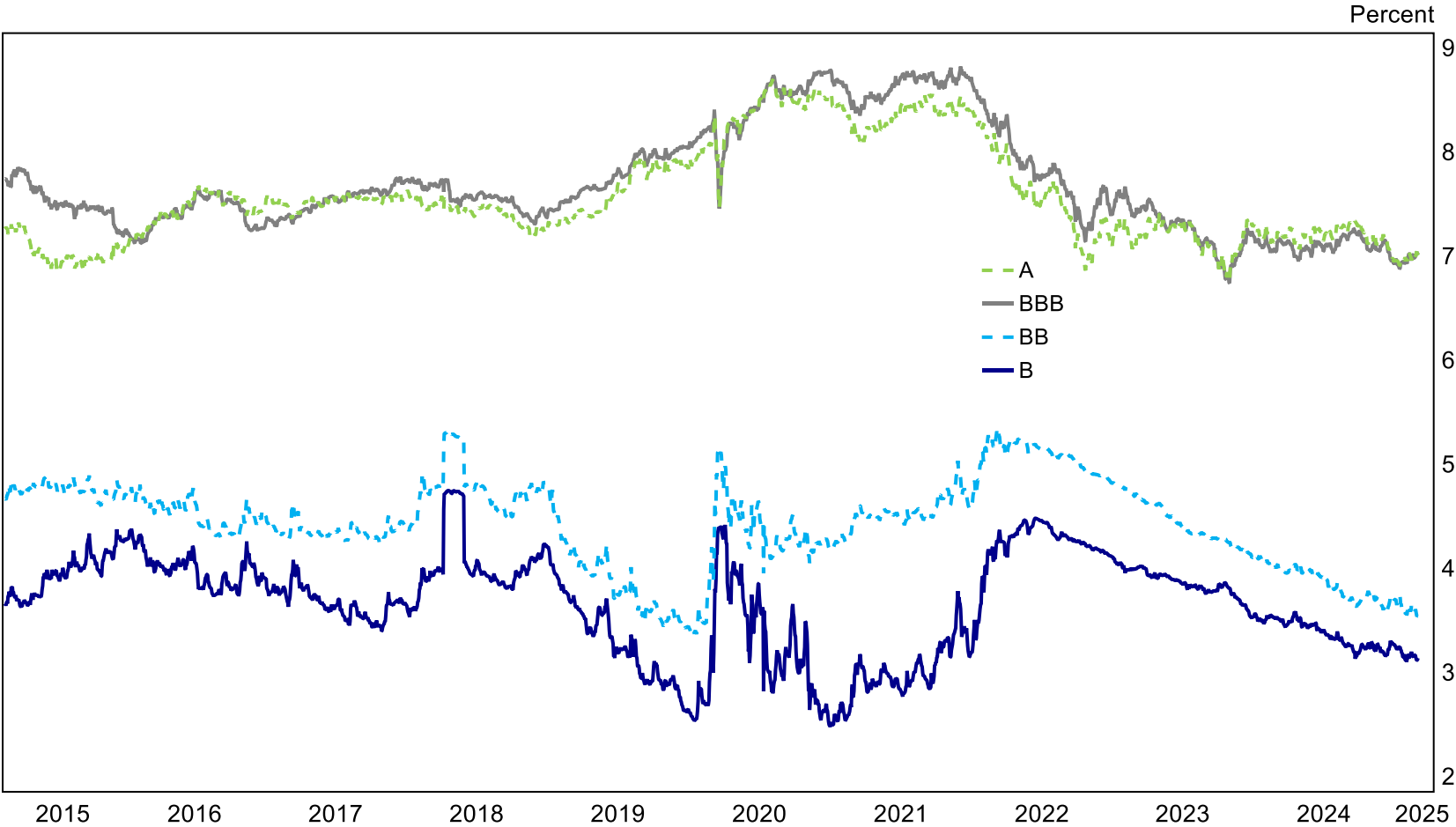
US Investment Grade Index by Rating
Market Cap



Note: Daily data through 2/28/2025.
Source: Mizuho Securities USA, Bloomberg.

Duration back to normal

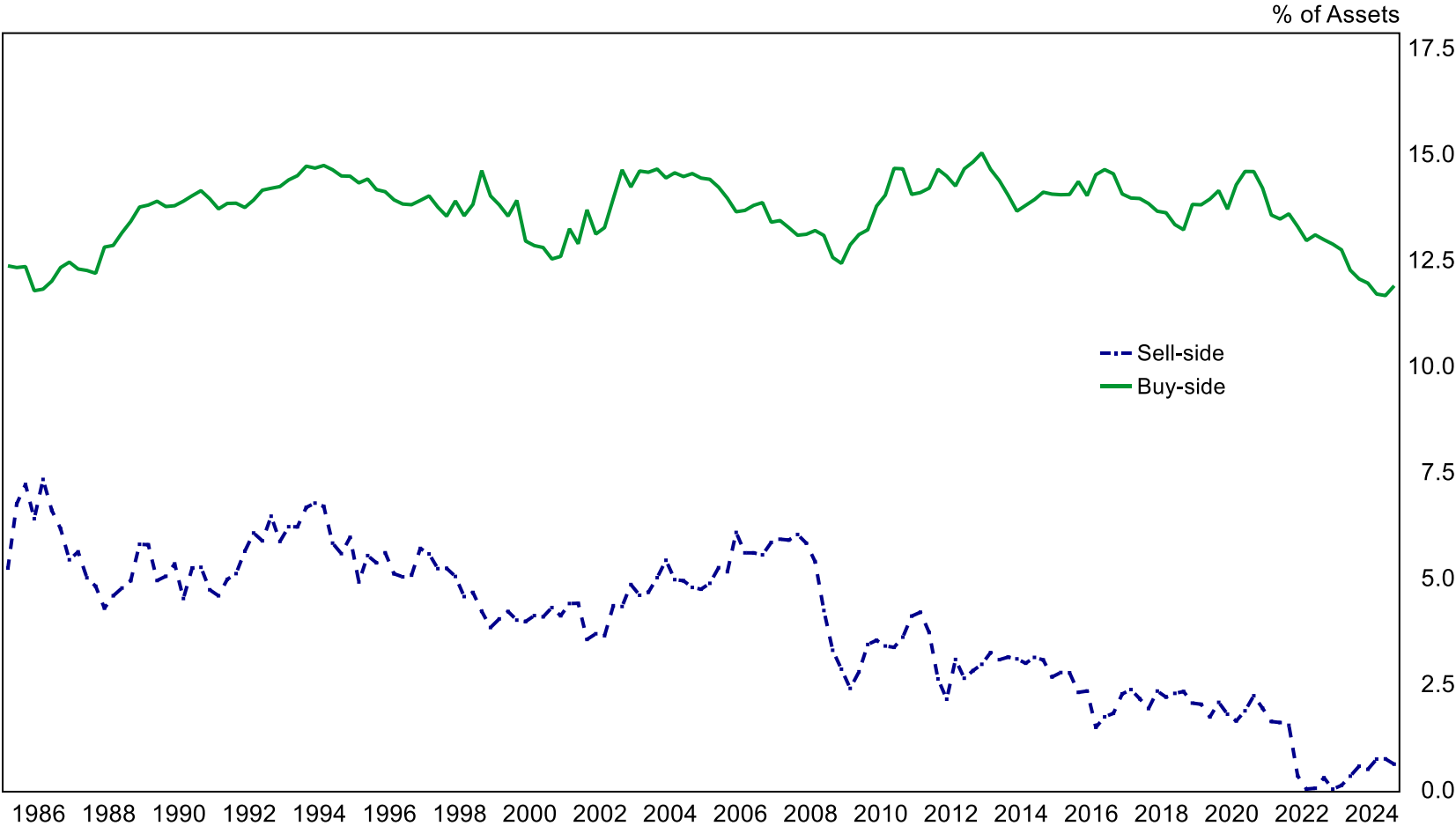
Modified Duration by Credit Rating



Note: Daily data through 2/28/2025.
Source: Mizuho Securities USA.

Buy side less exposed to bonds

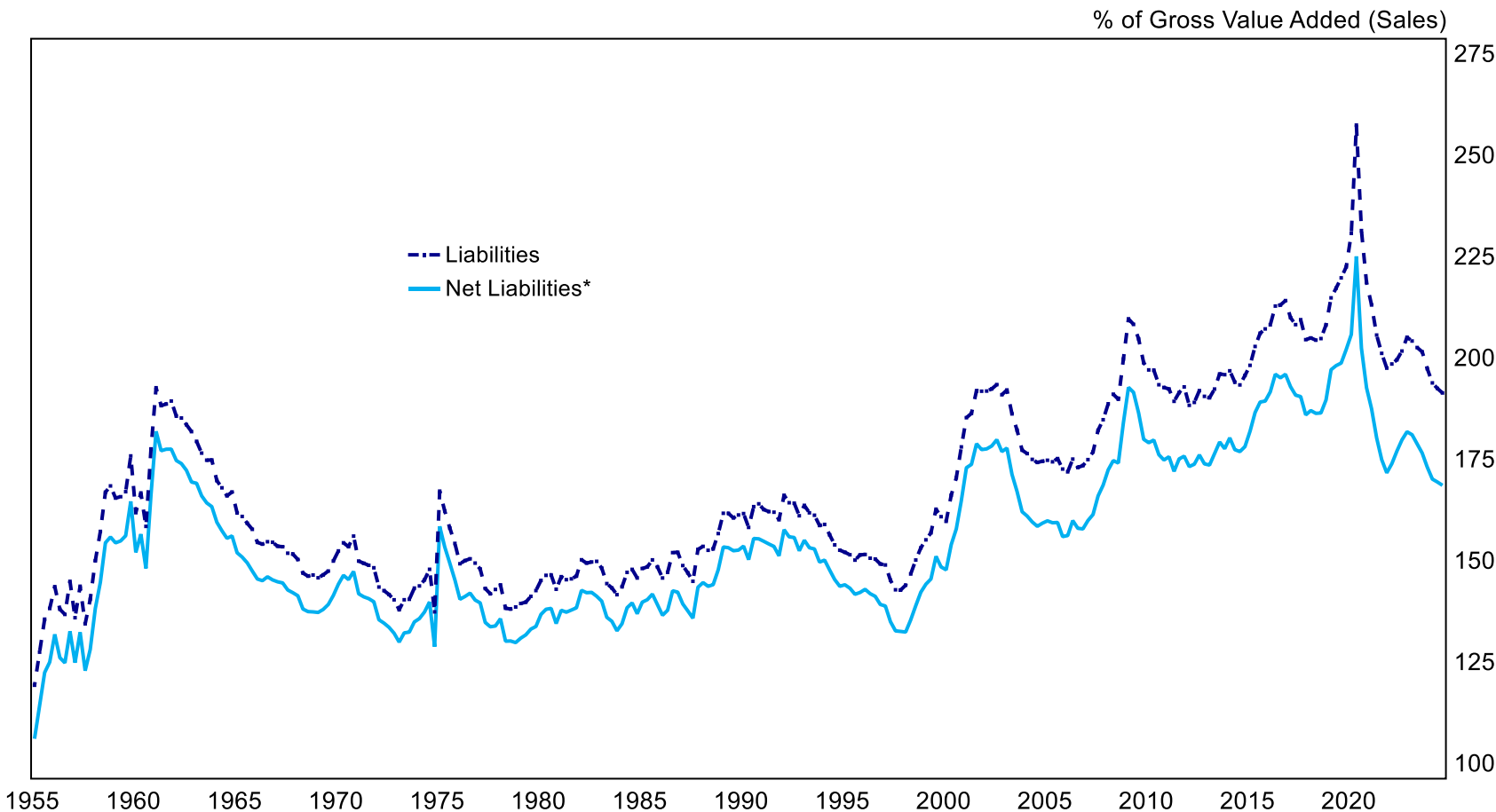
Coporate Bond Holdings



Note: Quarterly data through 2024 Q3. Released on Thursday, December 12, 2024.
Source: Mizuho Securities USA, FRB.

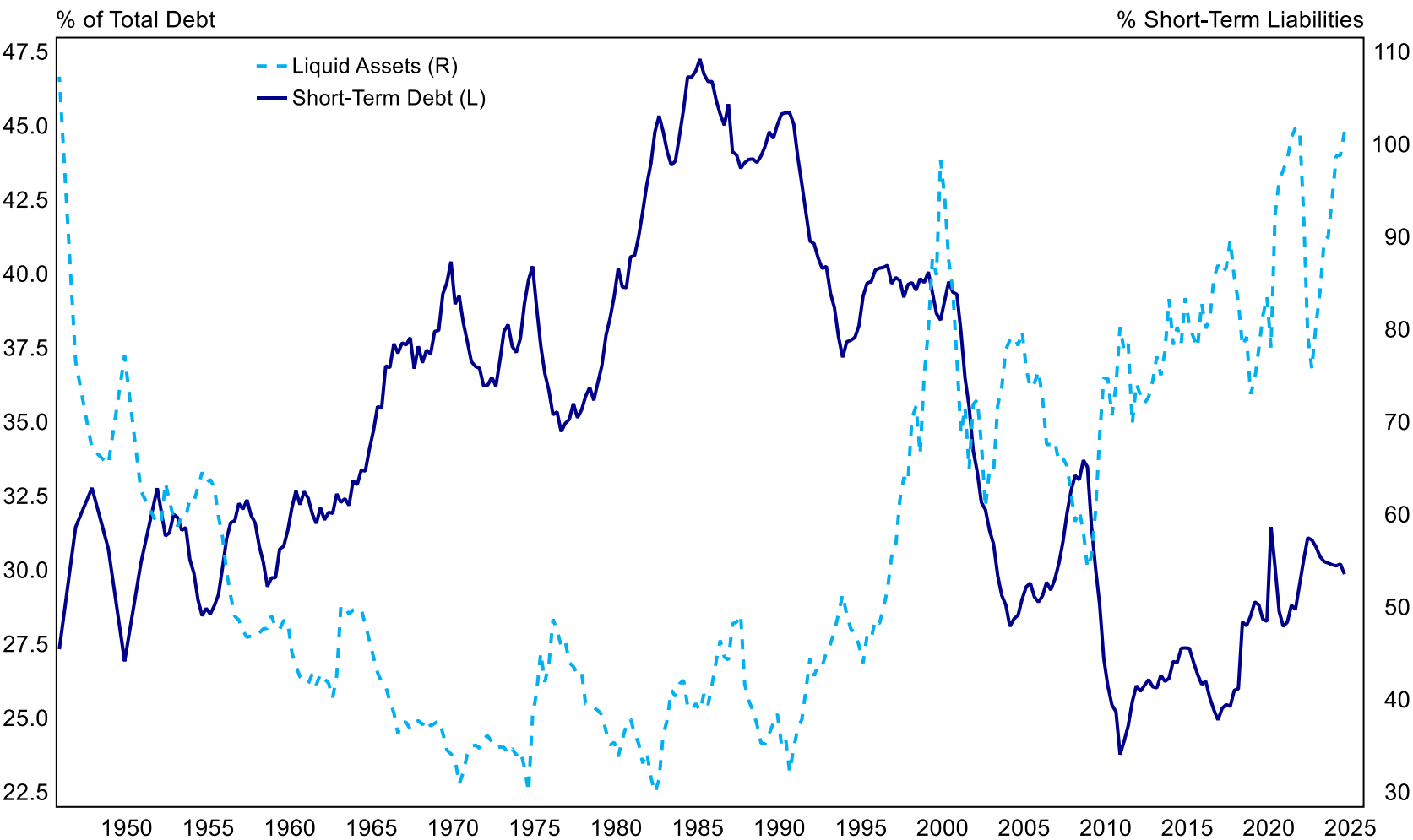
Non-financial corporate leverage well controlled

Nonfinancial Corporate Liabilities



Note: Quarterly data through 2024 Q3.
*Net cash and cash-like assets.
Source: Mizuho Securities USA, FRB, BEA.

Limited exposure to short-term funding

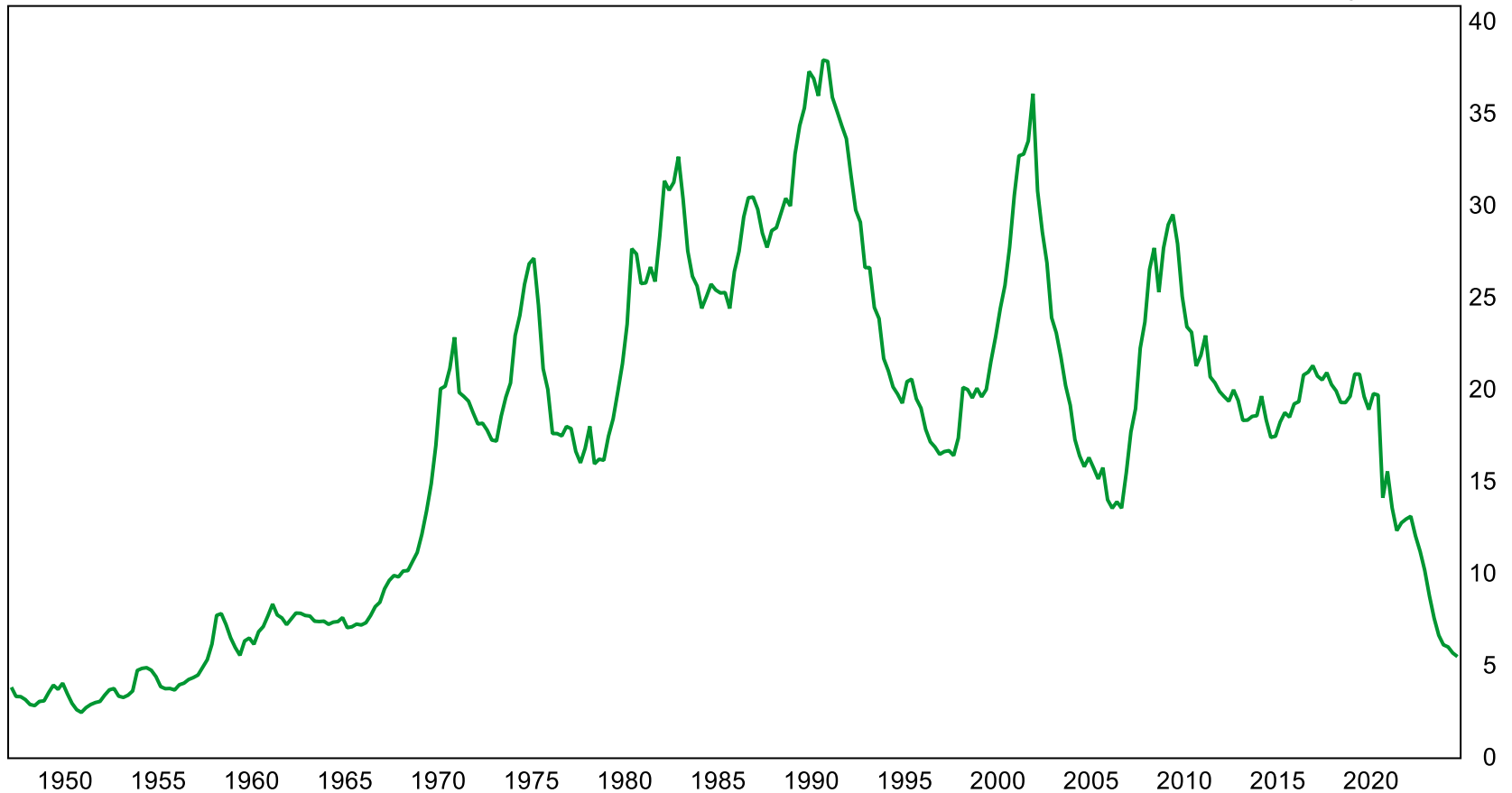


Note: Quarterly data through 2024 Q3.
Source: Mizuho Securities USA.

Corporate debt burden at multi-generational lows

Non-Financial Corporate Interest Payments

% of Operating Surplus*



Note: Quarterly data through 2024 Q3.

*Operating surplus is Sales minus cost of goods sold, depreciation, labor costs, and net production taxes.

Source: Mizuho Securities USA, BEA.

Household Balance Sheet

Covid-19 excess savings depleted

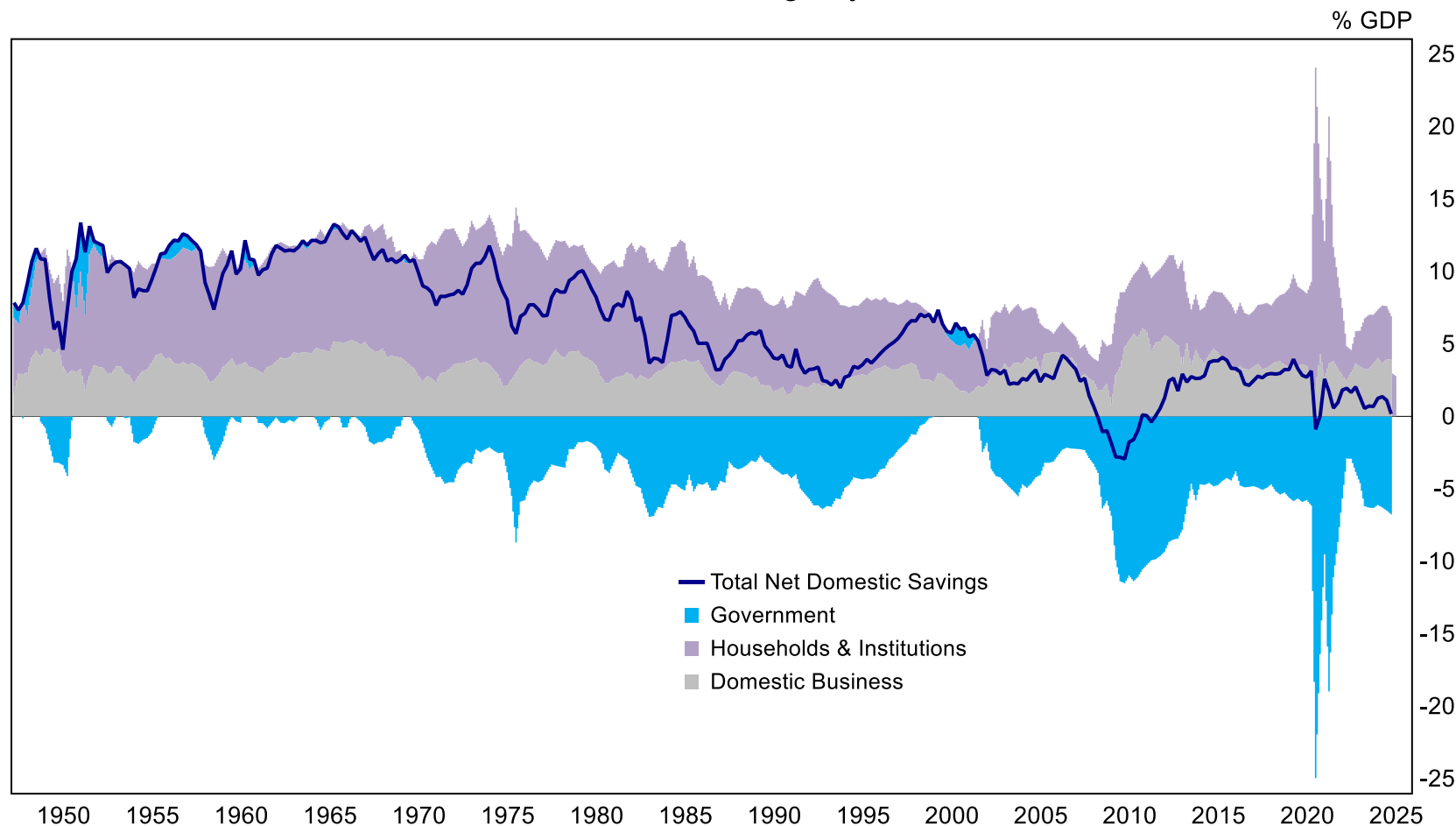


Note: Monthly data through 1/2025.

Source: Mizuho Securities USA.

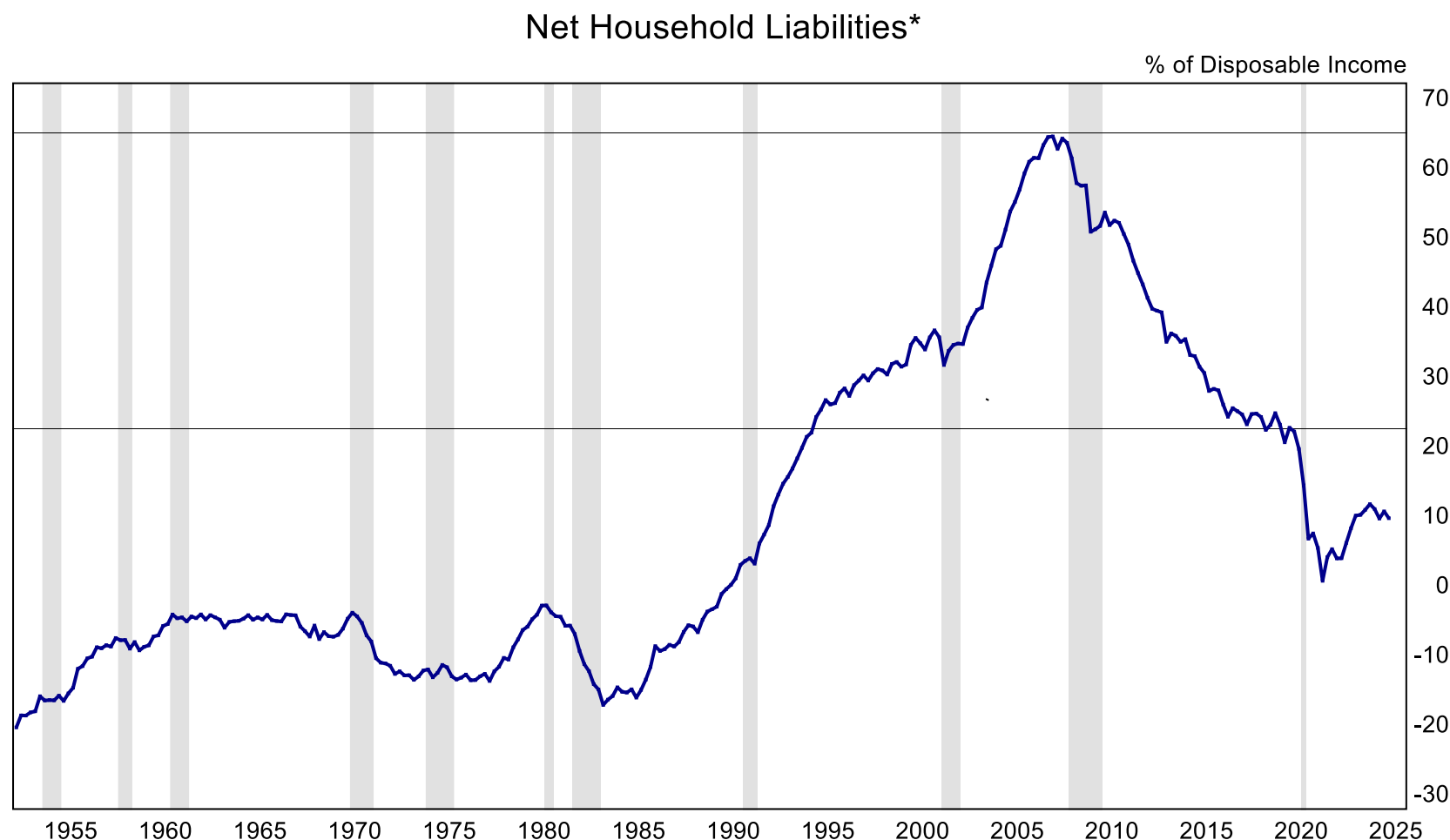
Deficit spending driving down net domestic savings

Net Domestic Savings by Sector



Note: Quarterly data through
Source: Mizuho Securities USA.

Household leverage not a big concern

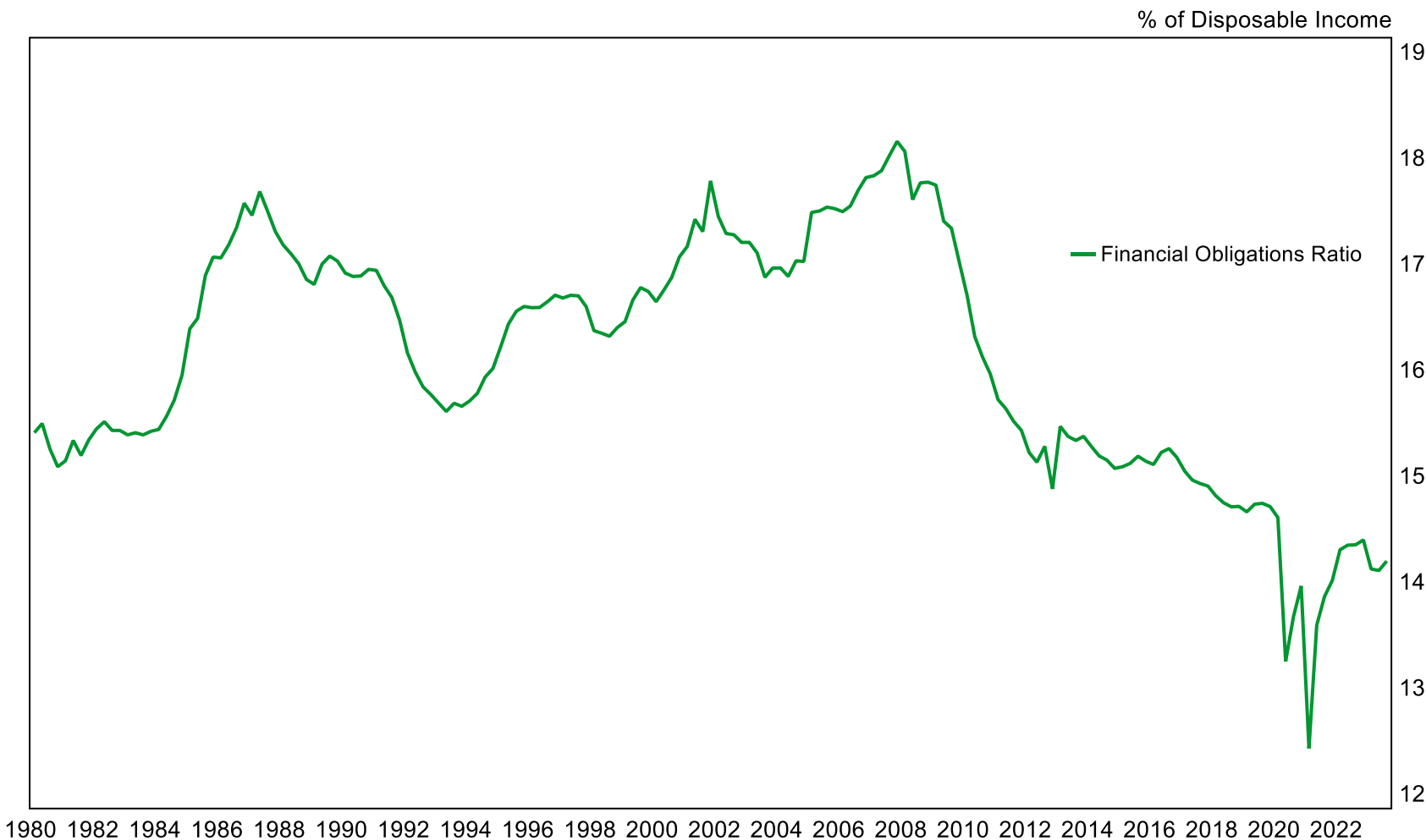


Note: Quarterly data through <Property OriginalEndDate not found.>. Shaded areas NBER recessions.

*Liabilities net cash & cash-like assets.

Source: Mizuho Securities USA, FRB.

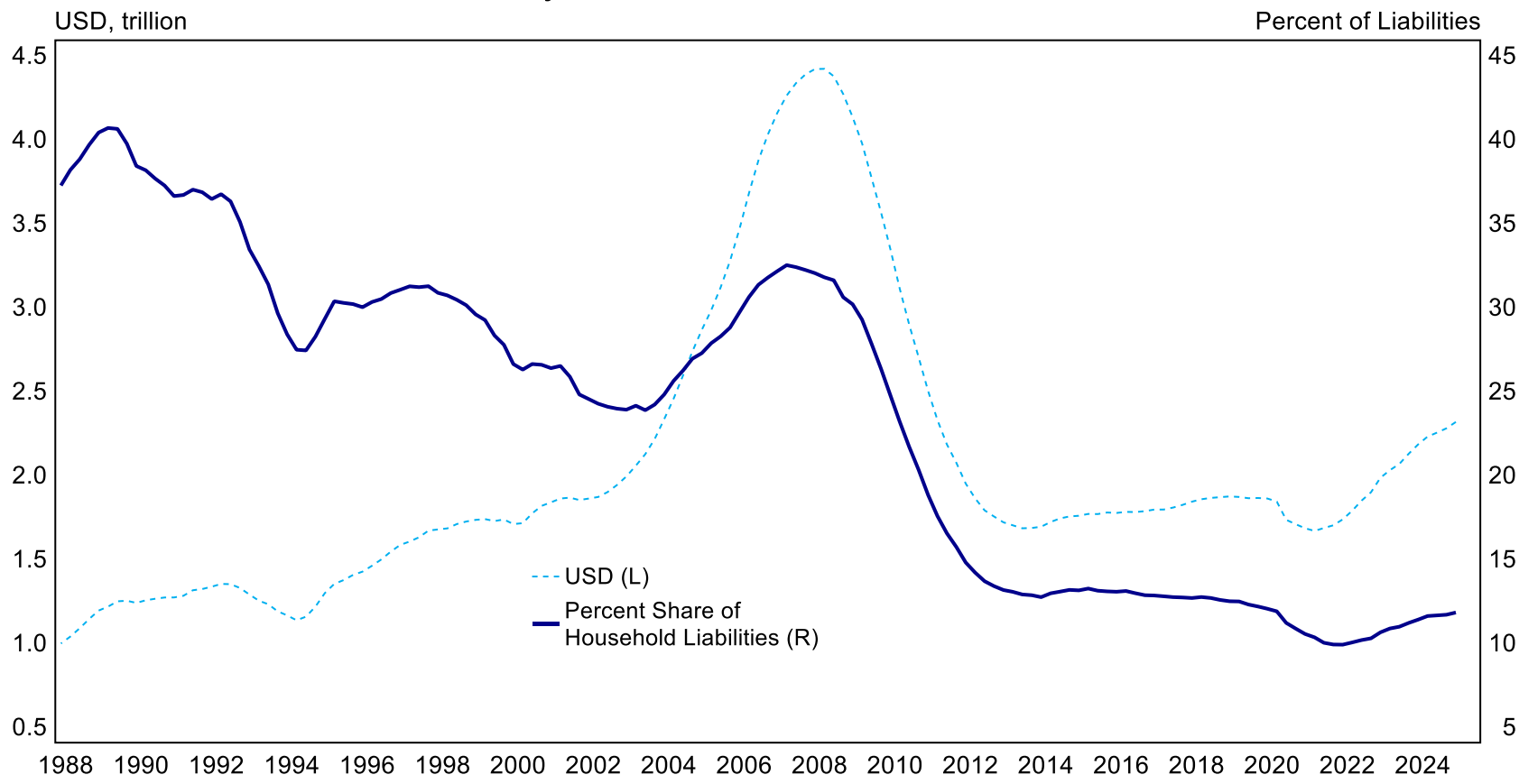
Household debt burden remains exceptionally low



Note: Quarterly data through 2023 Q3. Released on Friday, July 26, 2024.
Source: Mizuho Securities USA, Fed.

Households focused on long duration funding

Adjustable Rate Household Debt

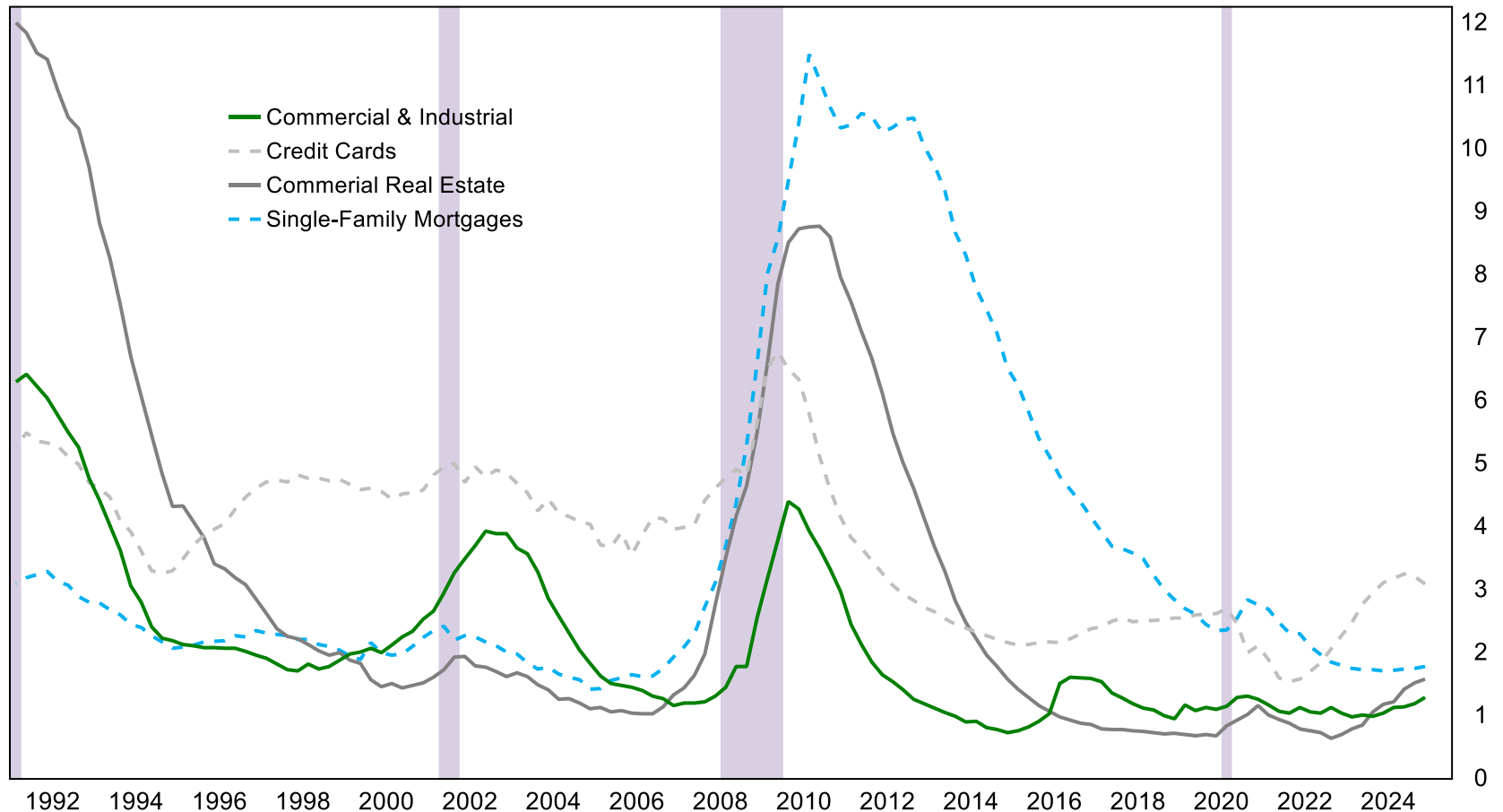


Note: Quarterly data through 2024 Q4.
Includes ARMs and revolving credit.
ARM share of adjustable mortgages uses
5-year average of ARM originations.
Source: Mizuho Securities USA.

Selective credit squeeze

Delinquency Rates (30+ days)

Percent

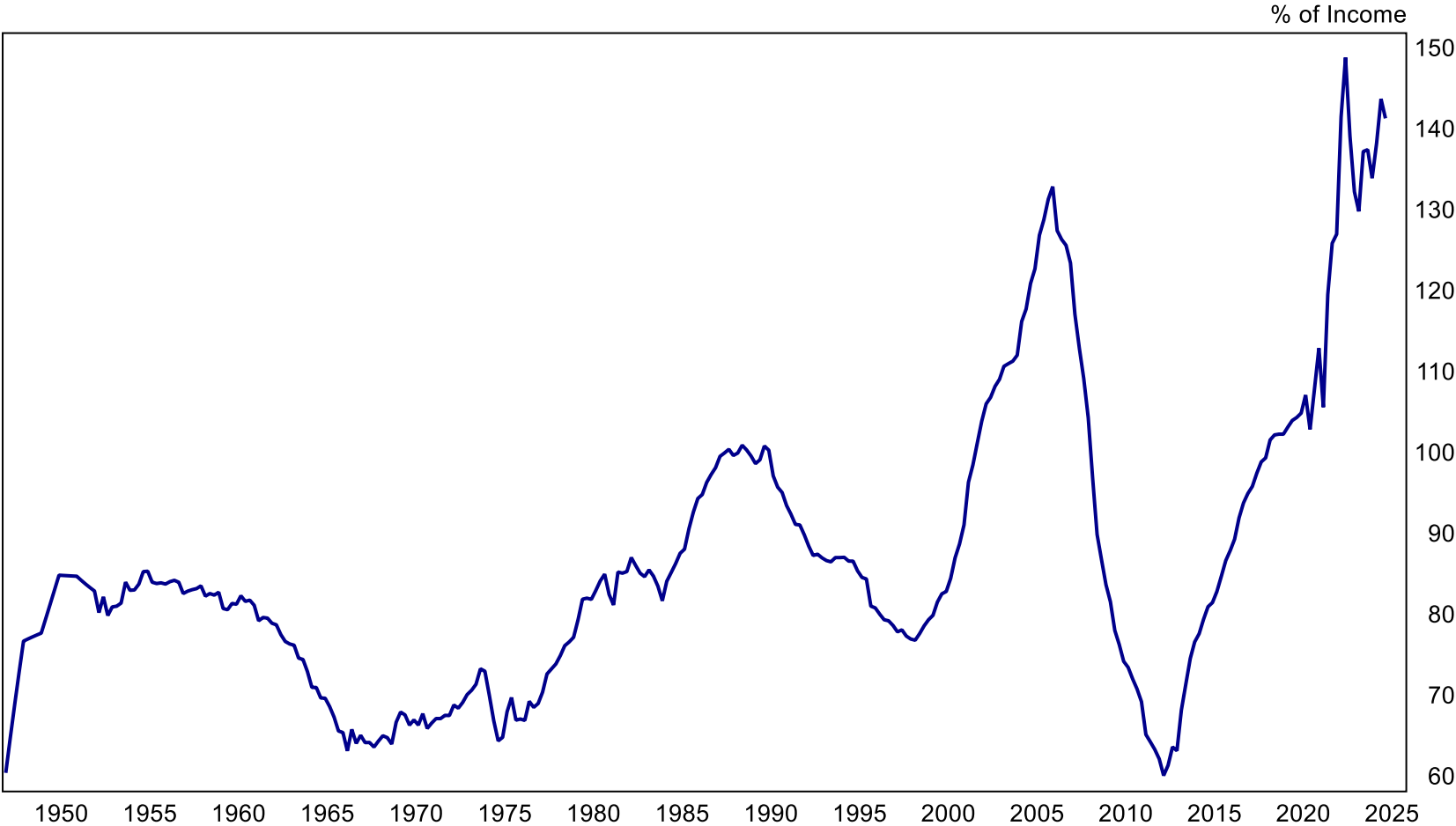


Note: Monthly data through 2020 Q2.

Source: Mizuho Securities USA.

Home equity still a positive

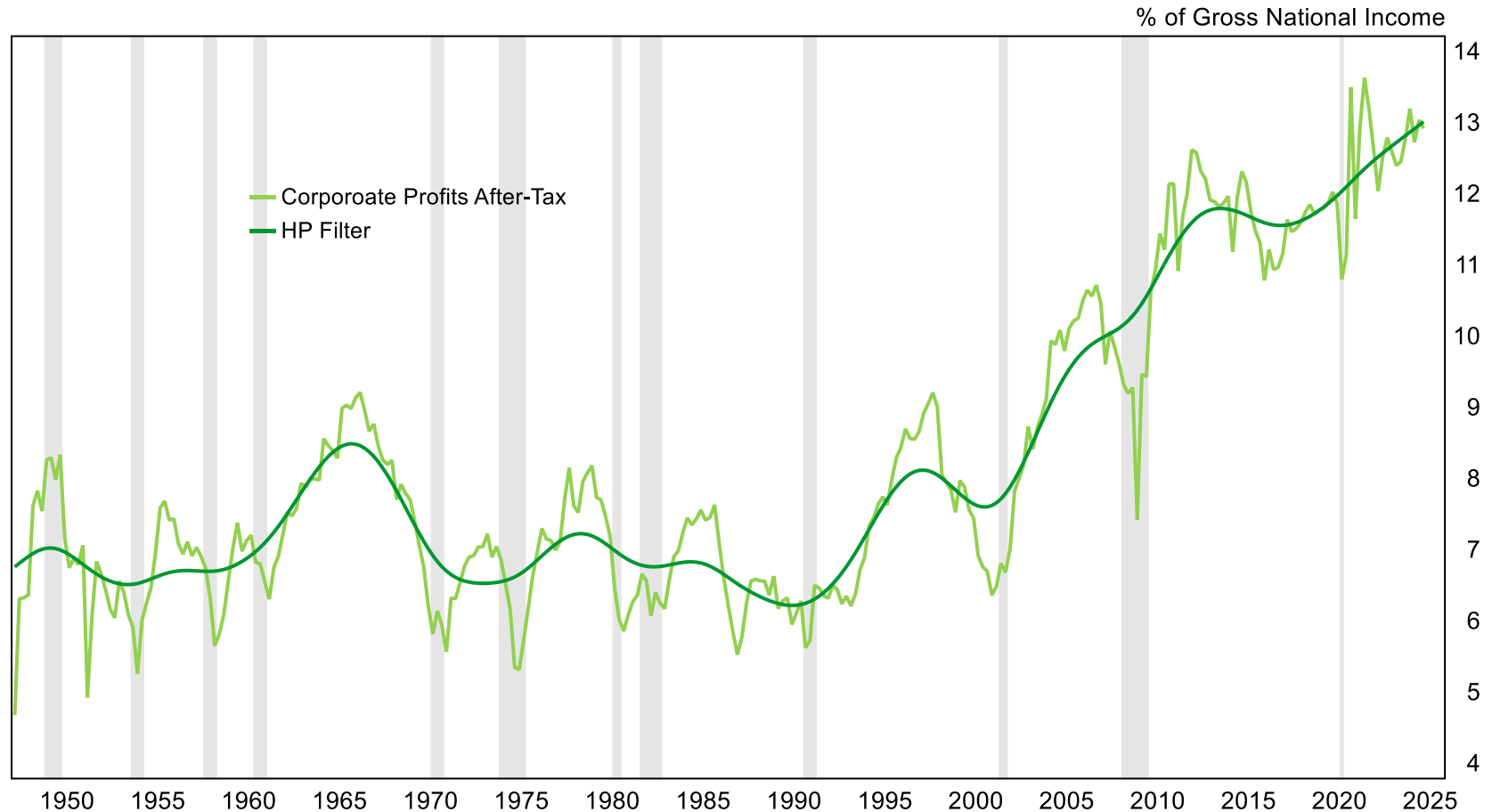
Homeowner's Equity in Household Real Estate



Note: Quarterly data through 2024 Q3.
Source: Mizuho Securities USA.

Corporate profit share still high

Corporate Share of Income

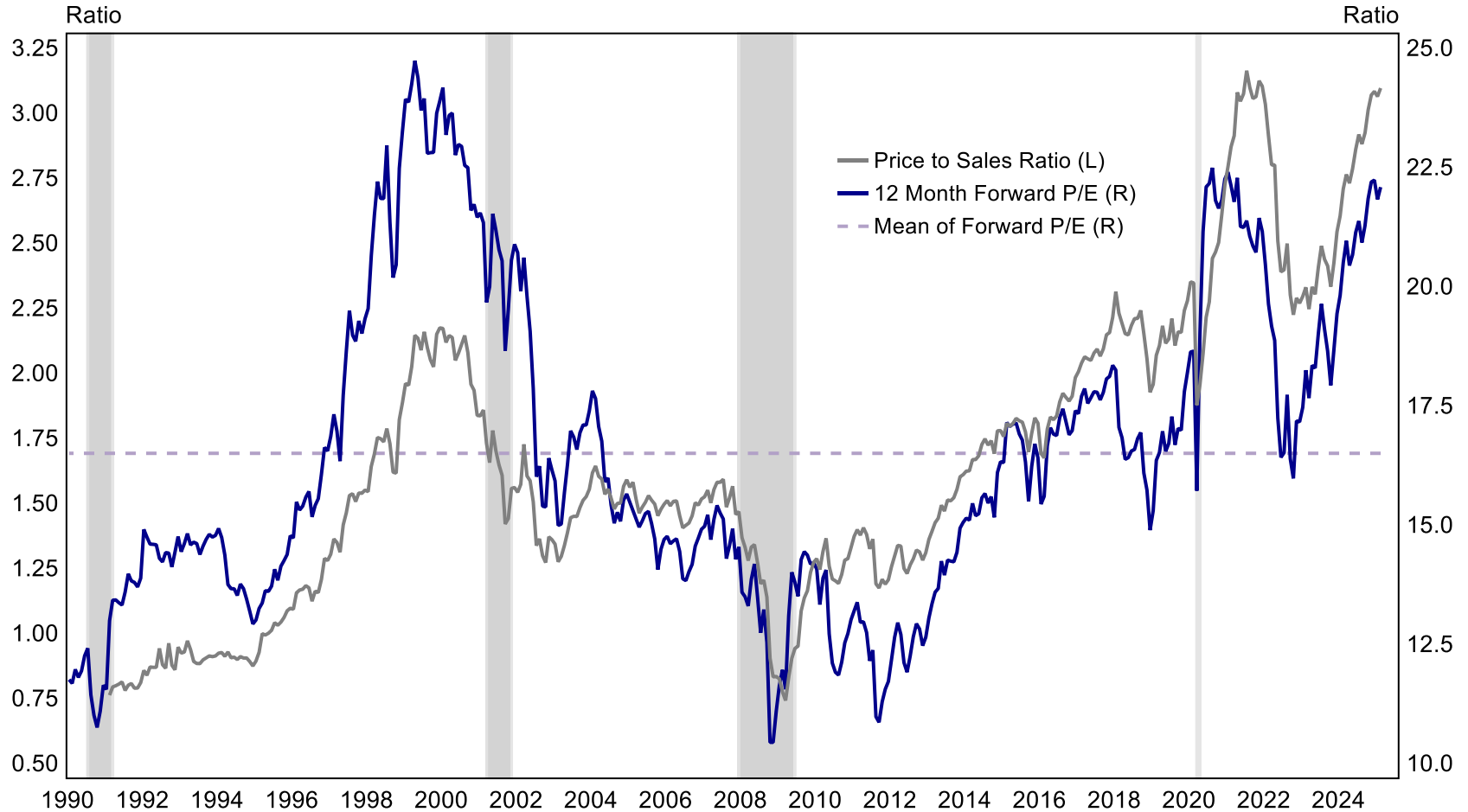


Note: Quarterly data through 2020 Q2.
Shaded areas indicate NBER-defined recessions.
Source: Mizuho Securities USA, BEA, NBER.

Equity Valuation Considerations

Equities are expensive

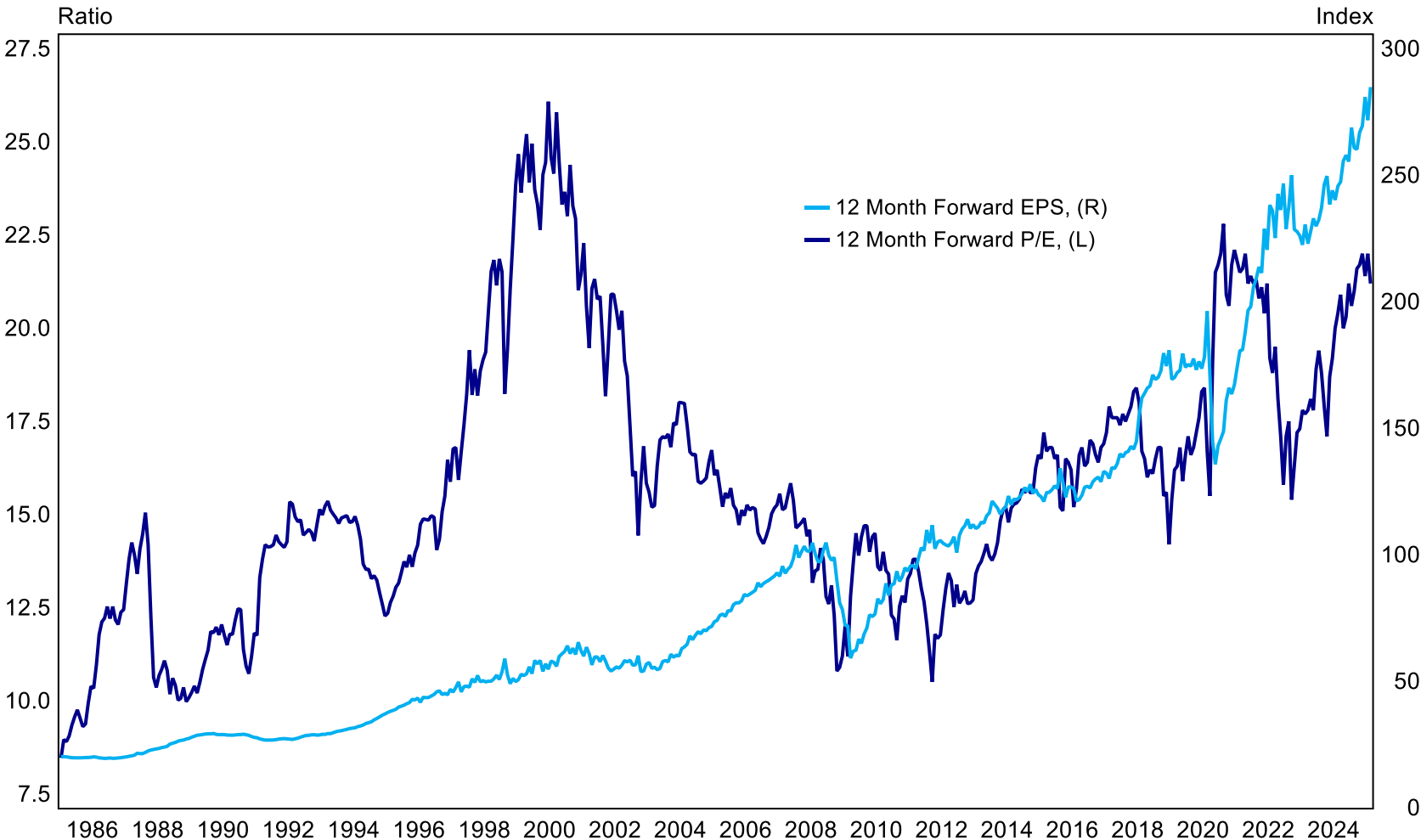
S&P 500 Valuations



Note: Monthly data through 2/2025.

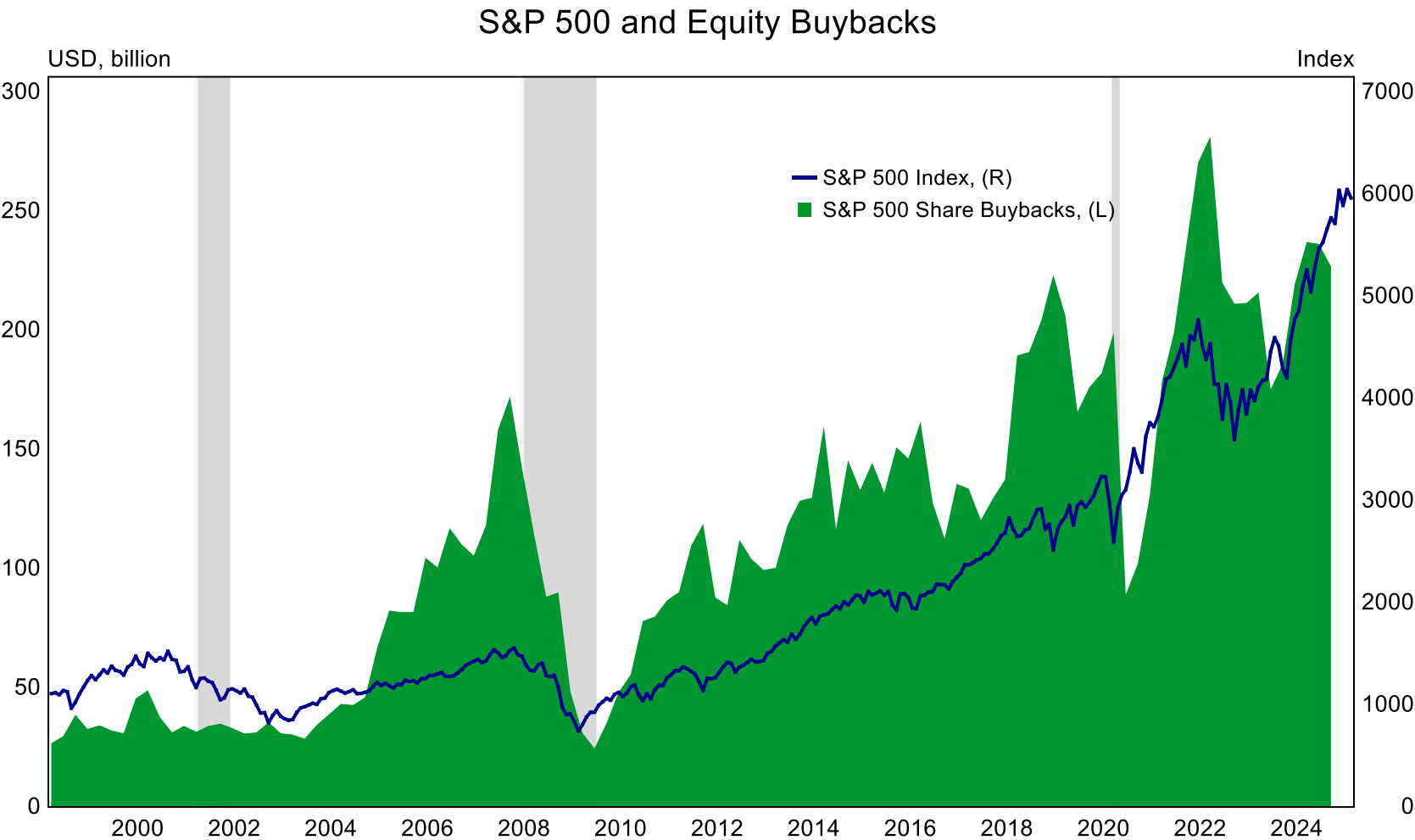
Source: Mizuho Securities USA.

Robust earnings expectations



Note: Monthly data through 2/2025. Released on Monday, March 3, 2025.
Source: Mizuho Securities USA, S&P.

Buybacks still elevated

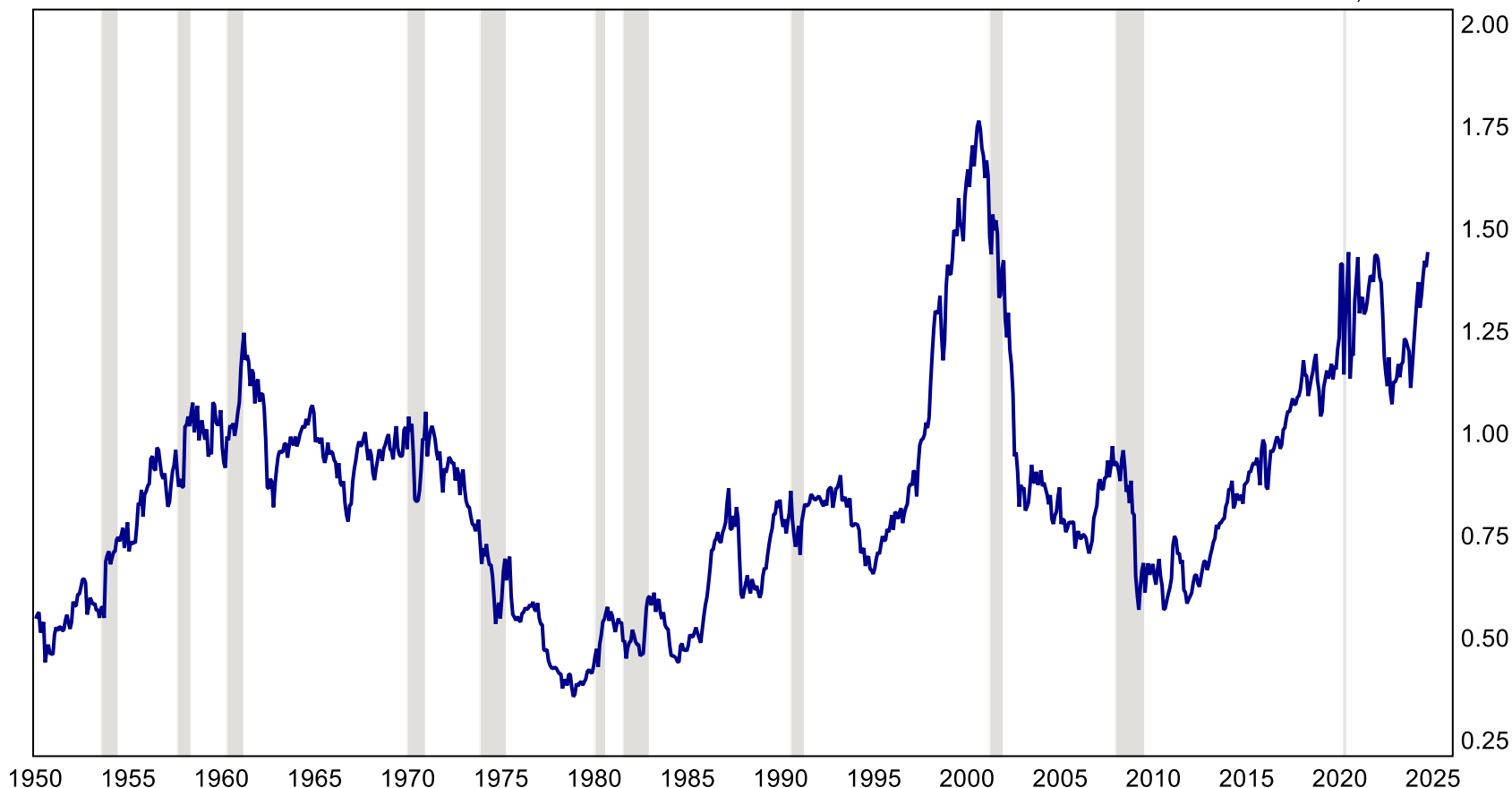


Note: Quarterly data through 2024 Q3.
Source: Mizuho Securities USA, S&P.

Market is expensive relative to macro economy

S&P 500 to EBITDA Corporate Profits

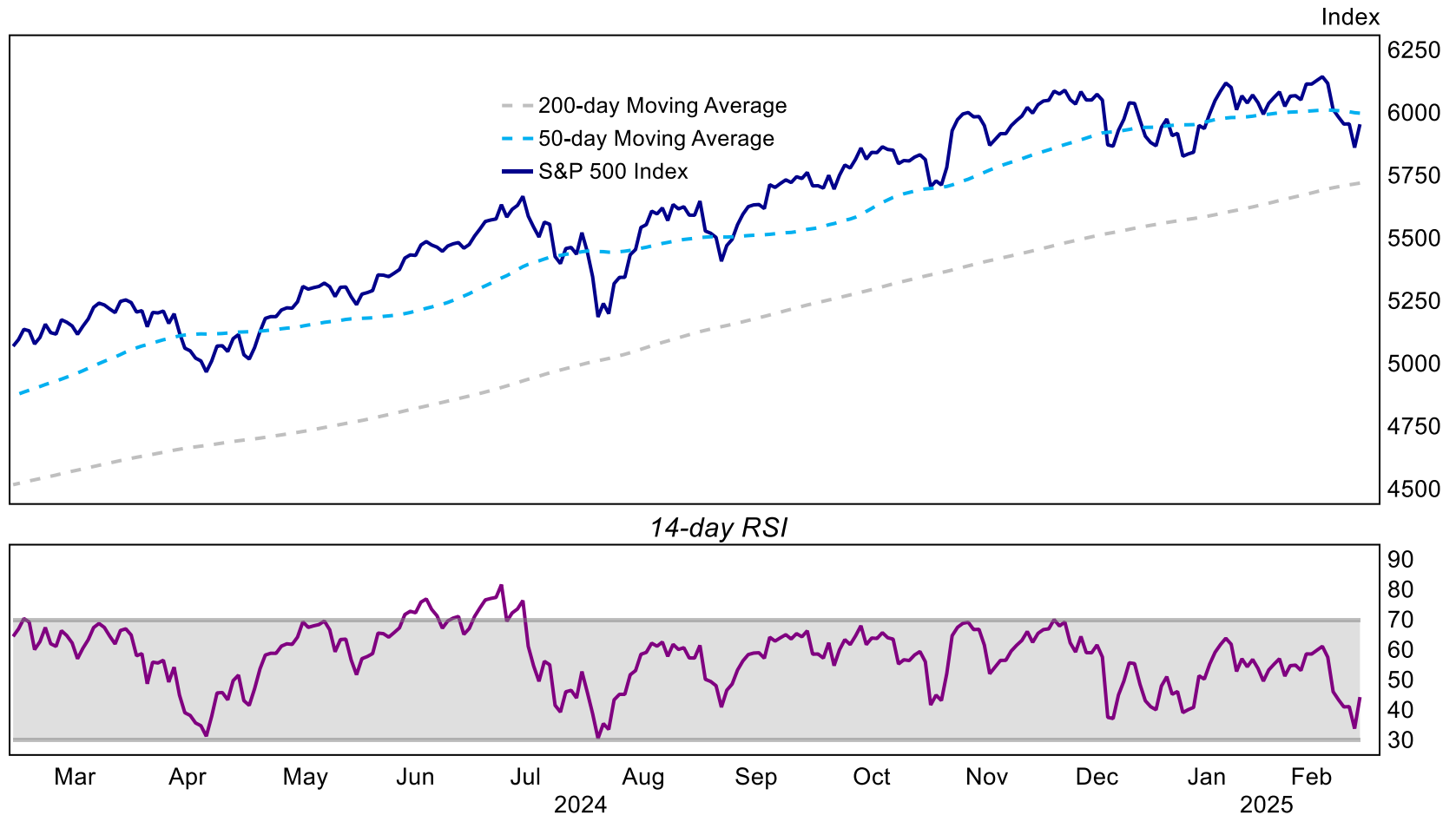
Ratio, 1960=1



Note: Monthly data through 2/2025.
Shaded areas are NBER recessions.
Source: Mizuho Securities, BEA, S&P.

Technically stocks still look over valued

S&P 500 and Relative Strength Index (RSI)

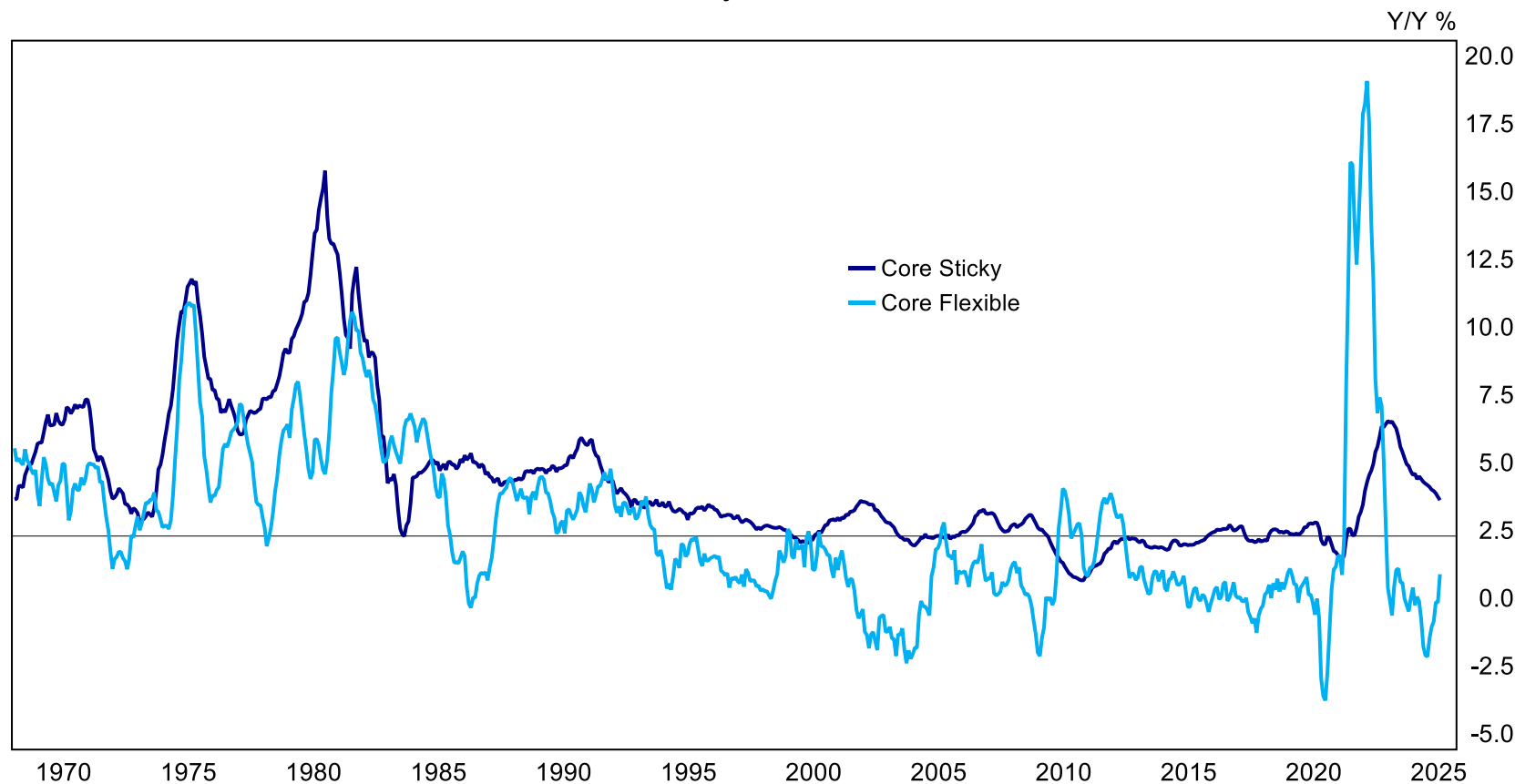


Note: Daily data through 2/28/2025.
Source: Mizuho Securities USA.

Fixed Incomes Valuation Considerations

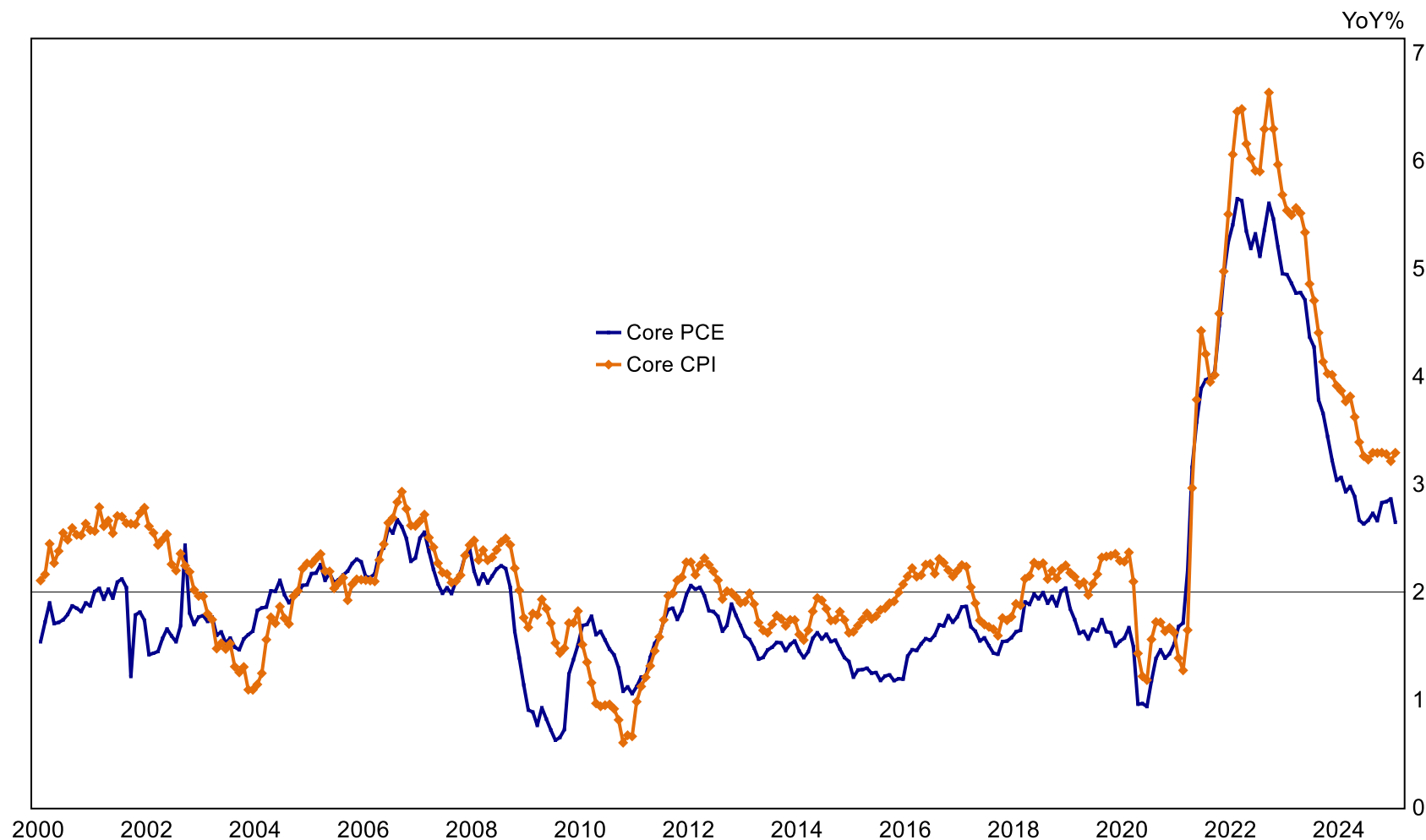
Domestic cyclical inflation pressures persist

Flexible vs Sticky Prices in Core CPI



Note: Monthly data through 1/2025.
Sticky items have relatively stable prices that adjust infrequently like rents and health care items, while flexible items are volatile and adjust more frequently like autos and apparel.
Line centered at 2.3% to reflect historical tendency for CPI to run above Fed's PCE target.
Source: Mizuho Securities USA, Atlanta Fed.

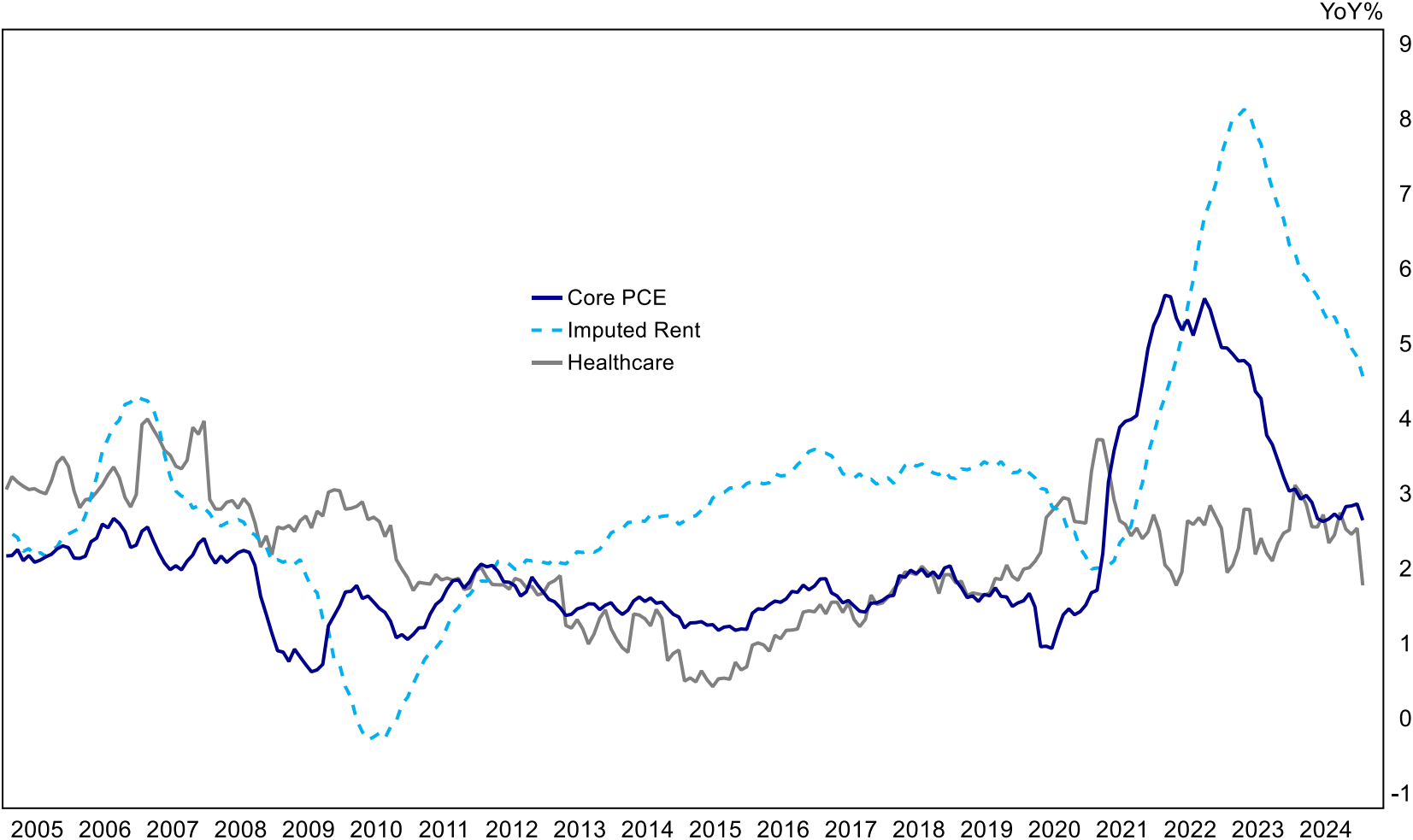
Inflation off the peak but well above 2% target.



Note: Monthly data through 1/2025.

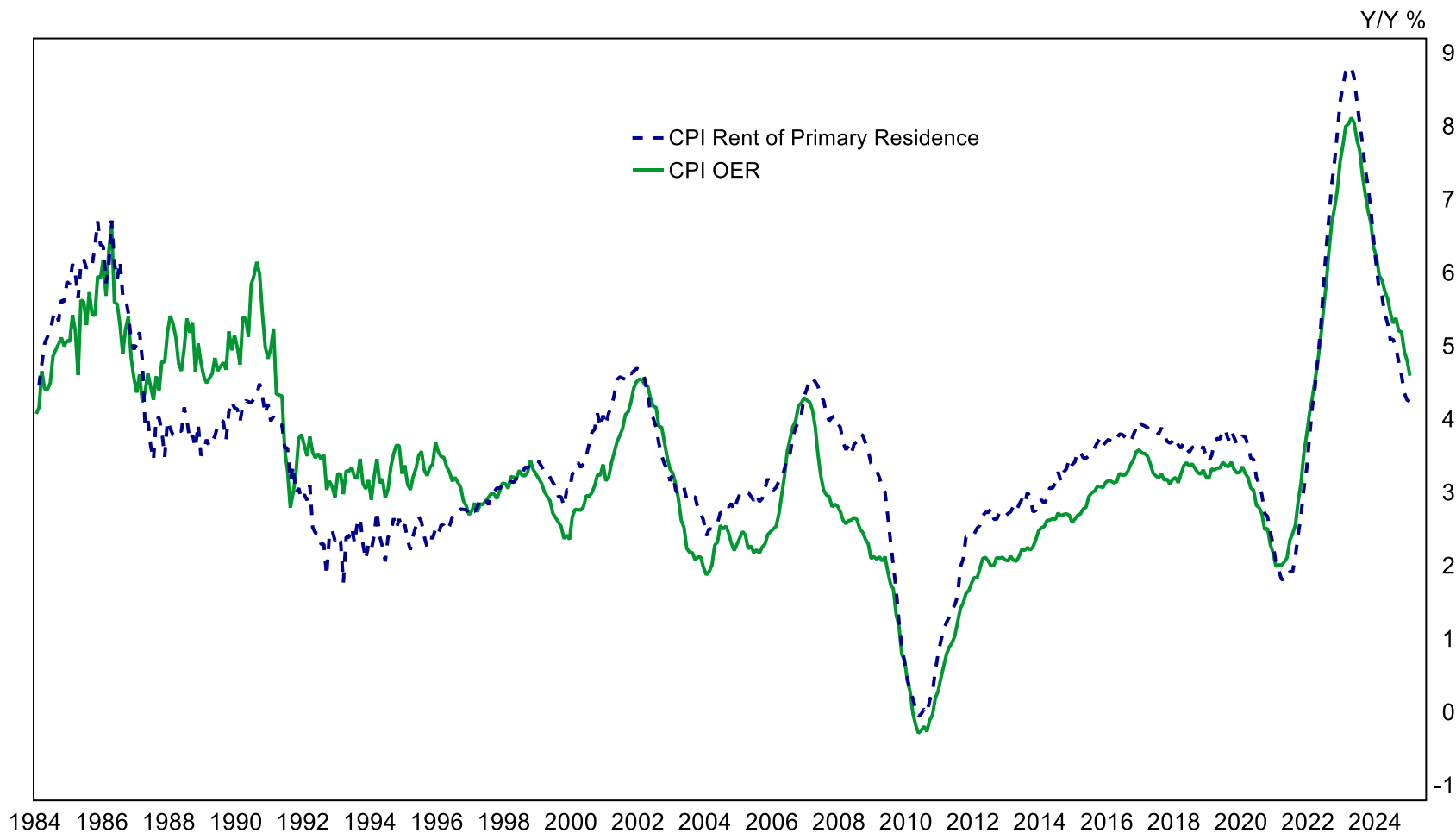
Source: Mizuho Securities USA, BEA, BLS.

Rent still driving core PCE deflator



Note: Monthly data through 1/2025.
Source: Mizuho Securities USA.

Rental market less tight



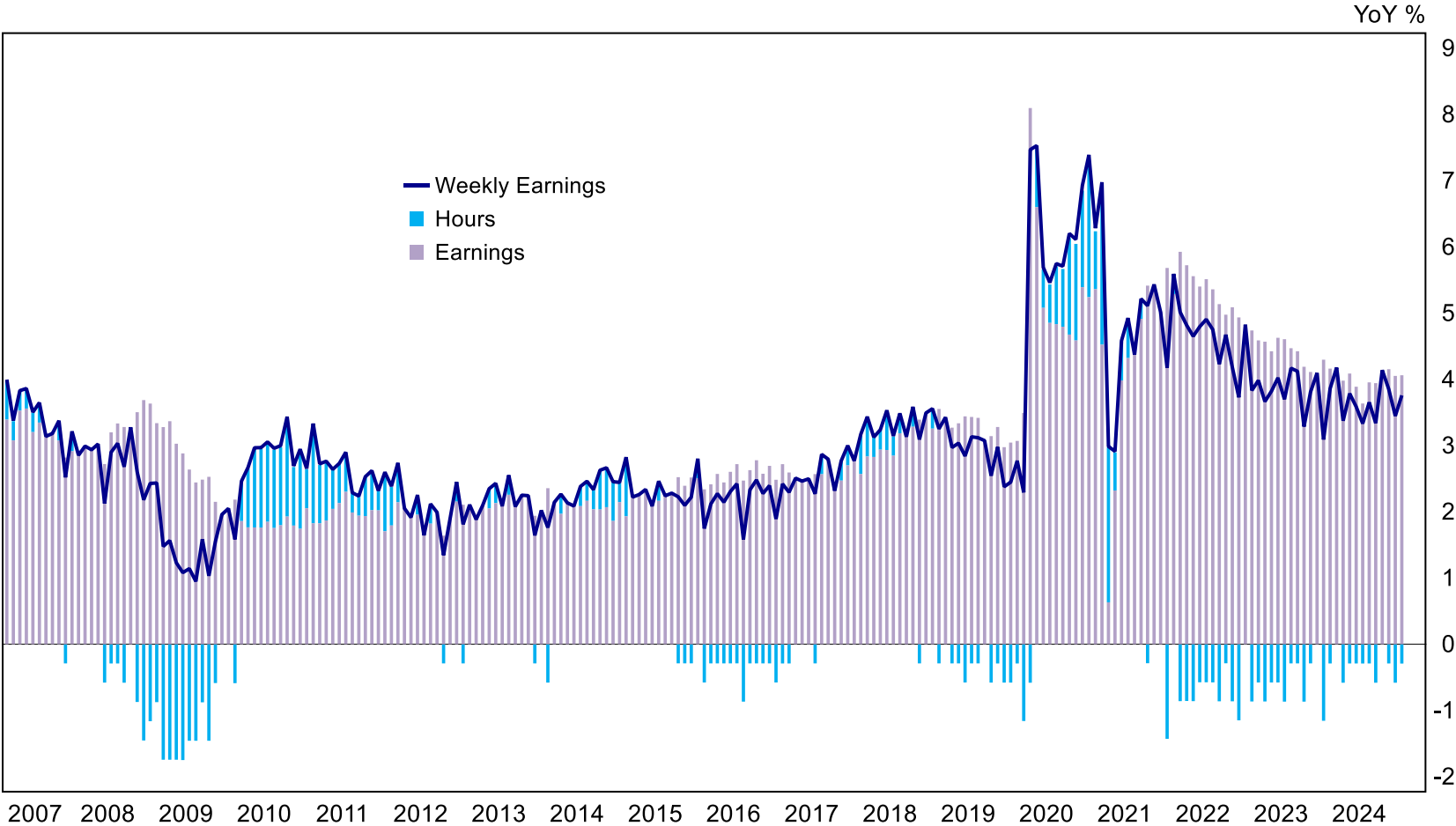
Note: Monthly data through 1/2025. Released on Wednesday, February 12, 2025.

OER is owners' equivalent rent.

Source: Mizuho Securities USA, BLS.

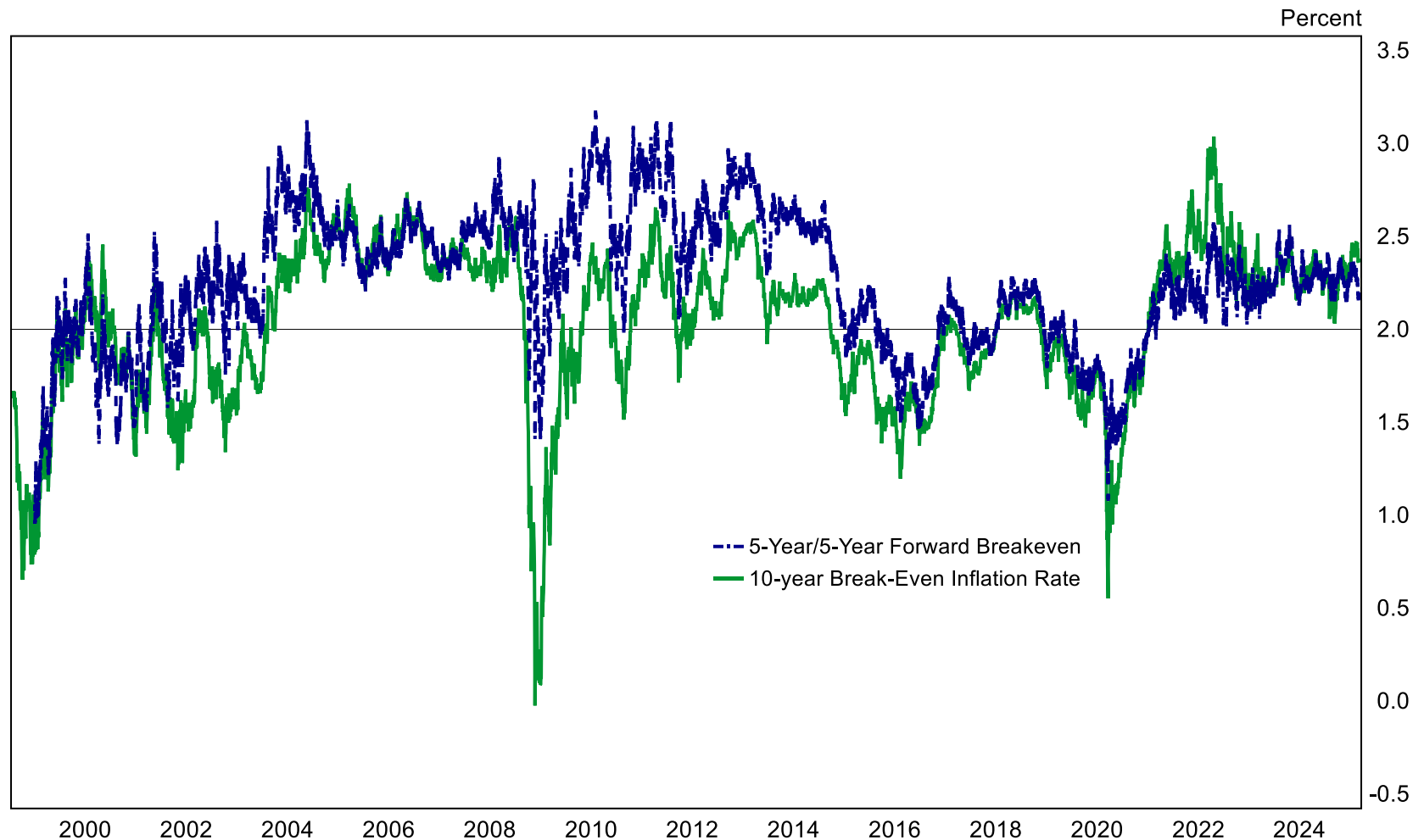
Reduced hours worked keeping hourly earnings inflated

Average Weekly Earnings



Note: Monthly data through 1/2025.
Source: Mizuho Securities USA.

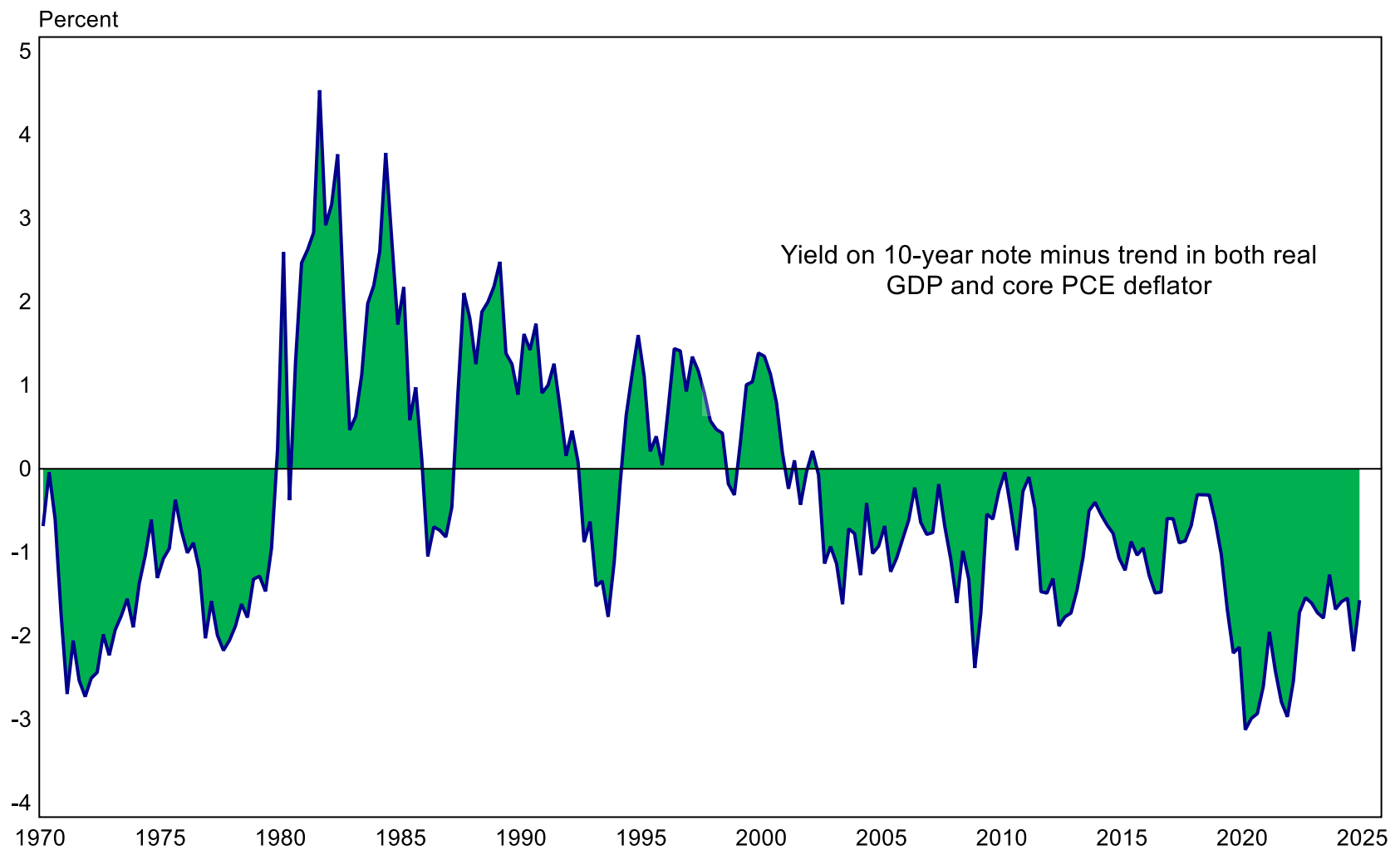
TIPS breakeven inflation still above Fed PCE target



Note: Daily data through 3/3/2025.

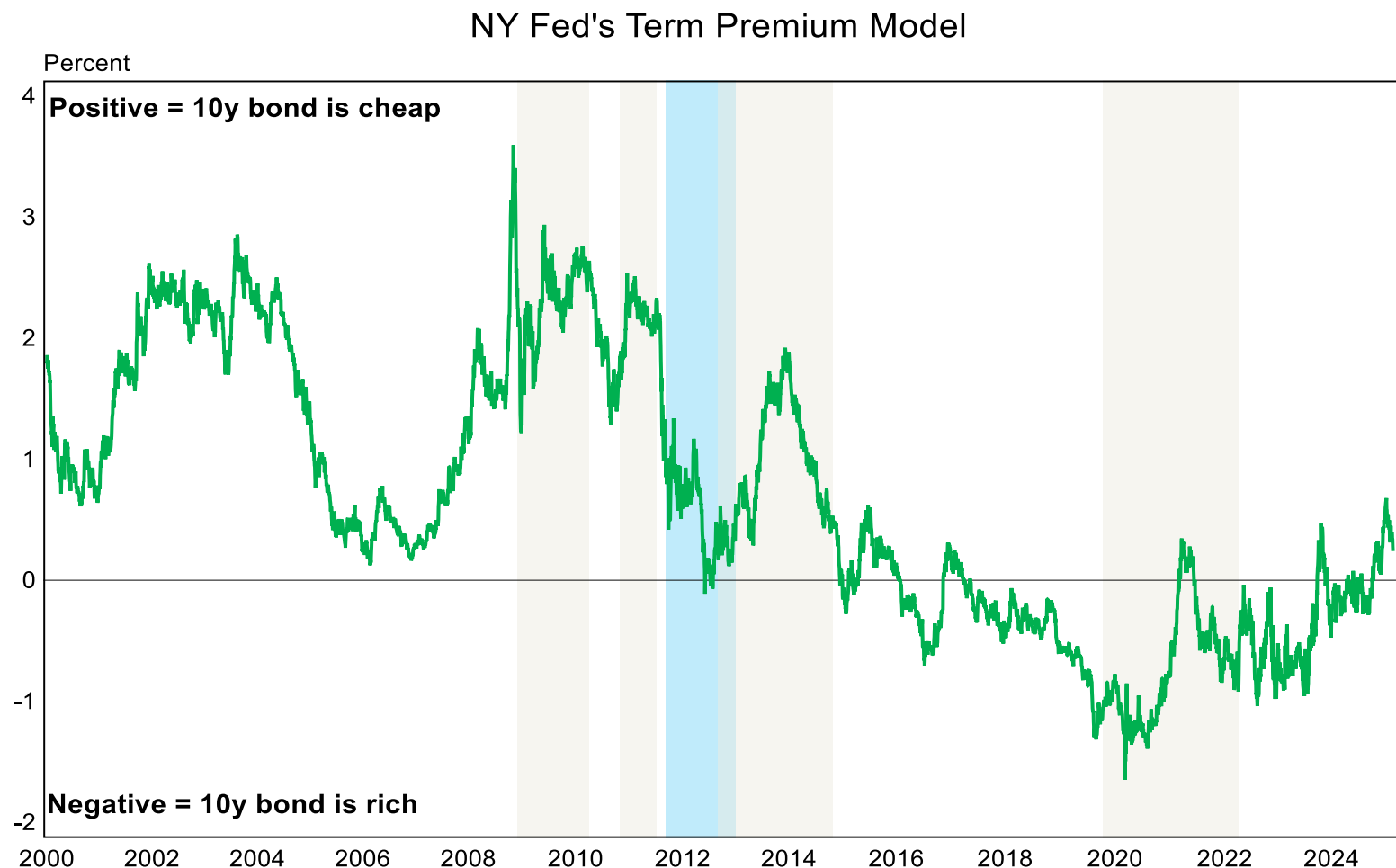
Source: Mizuho Securities USA, Bloomberg.

Liquidity premium squeezed by the spike in inflation



Source: Mizuho Securities, BEA, FRB.

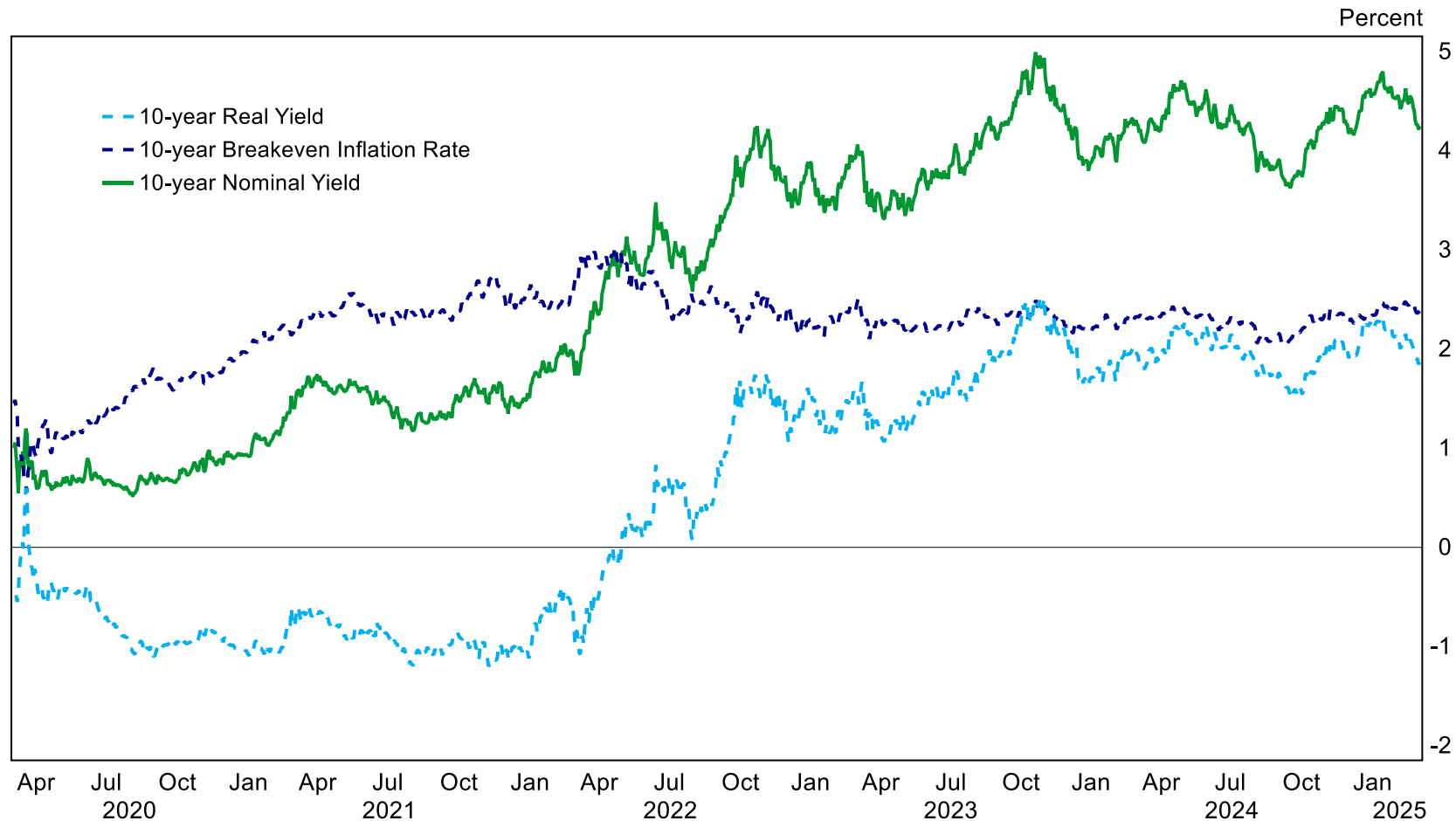
Term premium drifting upwards in line with rising inflation risks.



Note: Term premium is the expected excess return from buying a longer maturity bond instead of rolling a short-term instrument. NY Fed estimate is the Adrian, Crump, and Moench (ACM) model.
Gray color represents QE 1, QE2, QE3, and Non QE/Covid QE; Blue is Operation Twist.

Source: Mizuho Securities USA, NY Fed.

Real yields back to being consistent with trend GDP

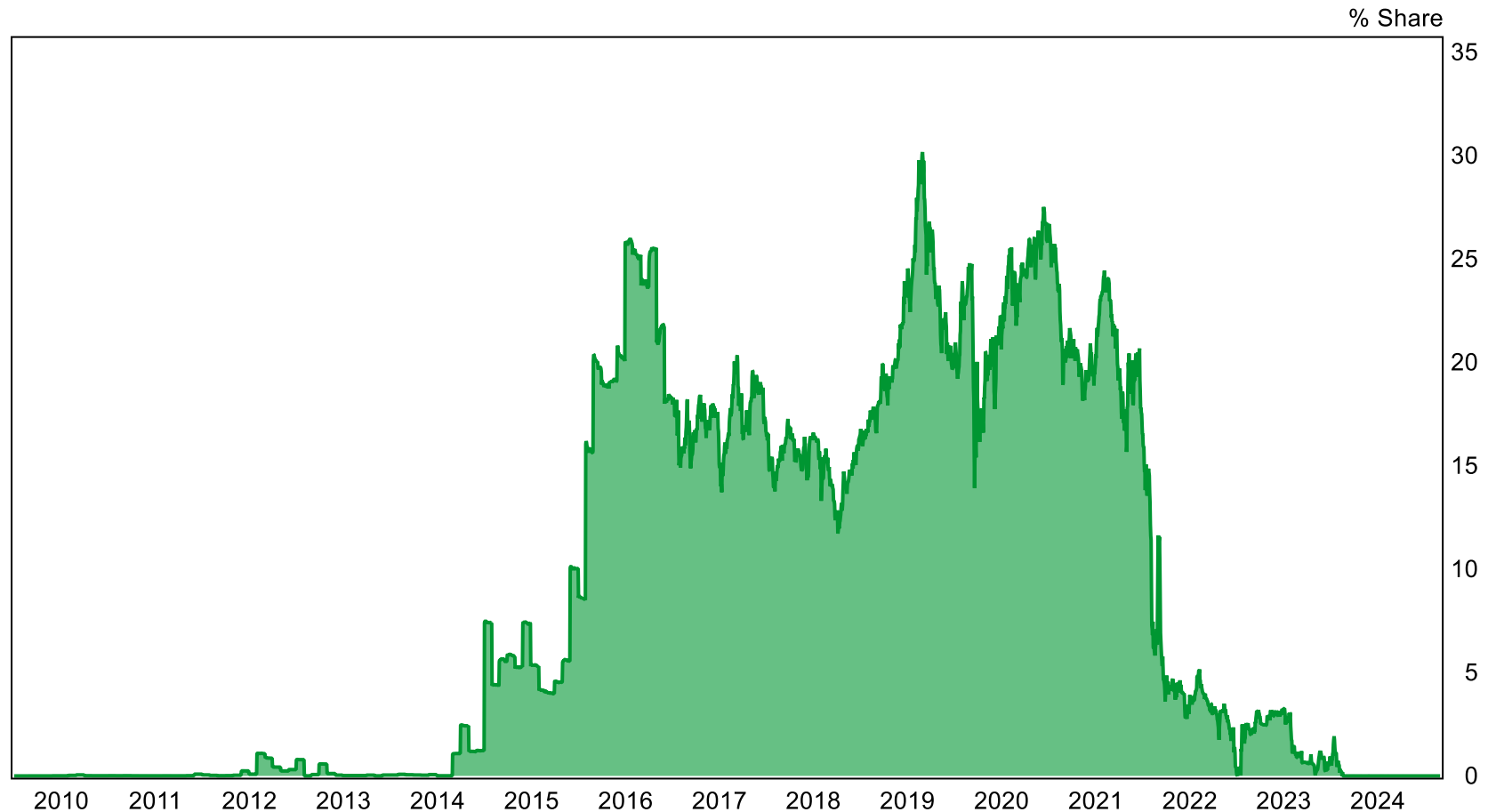


Note: Daily data through 3/3/2025.

Source: Mizuho Securities USA, Bloomberg.

Negative yields no longer a drag on domestic bond markets

Share of Global Debt with Negative Yields



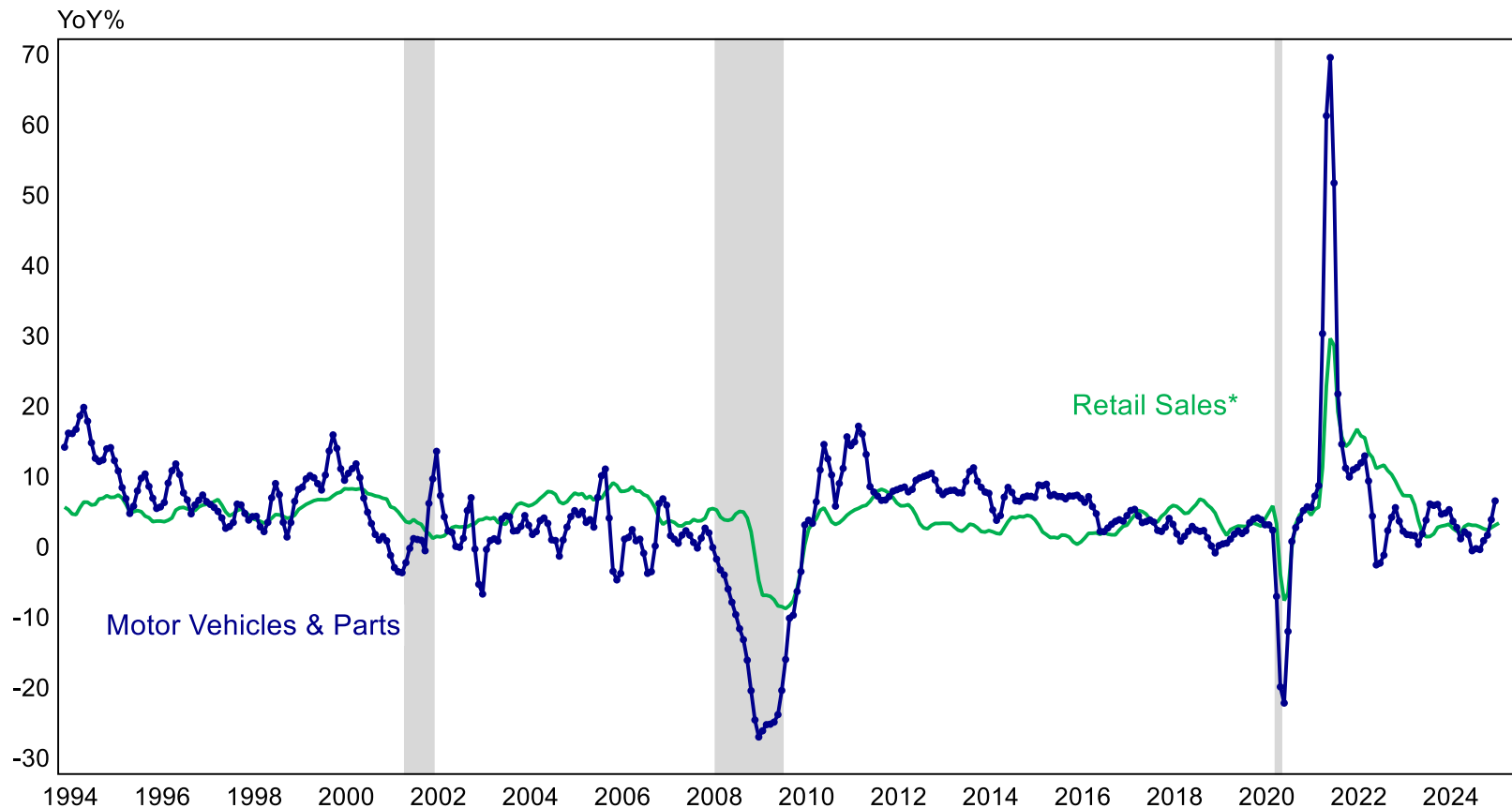
Note: Daily data through 2/28/2025.

Bloomberg Barclays Indices.

Source: Mizuho Securities USA, Bloomberg.

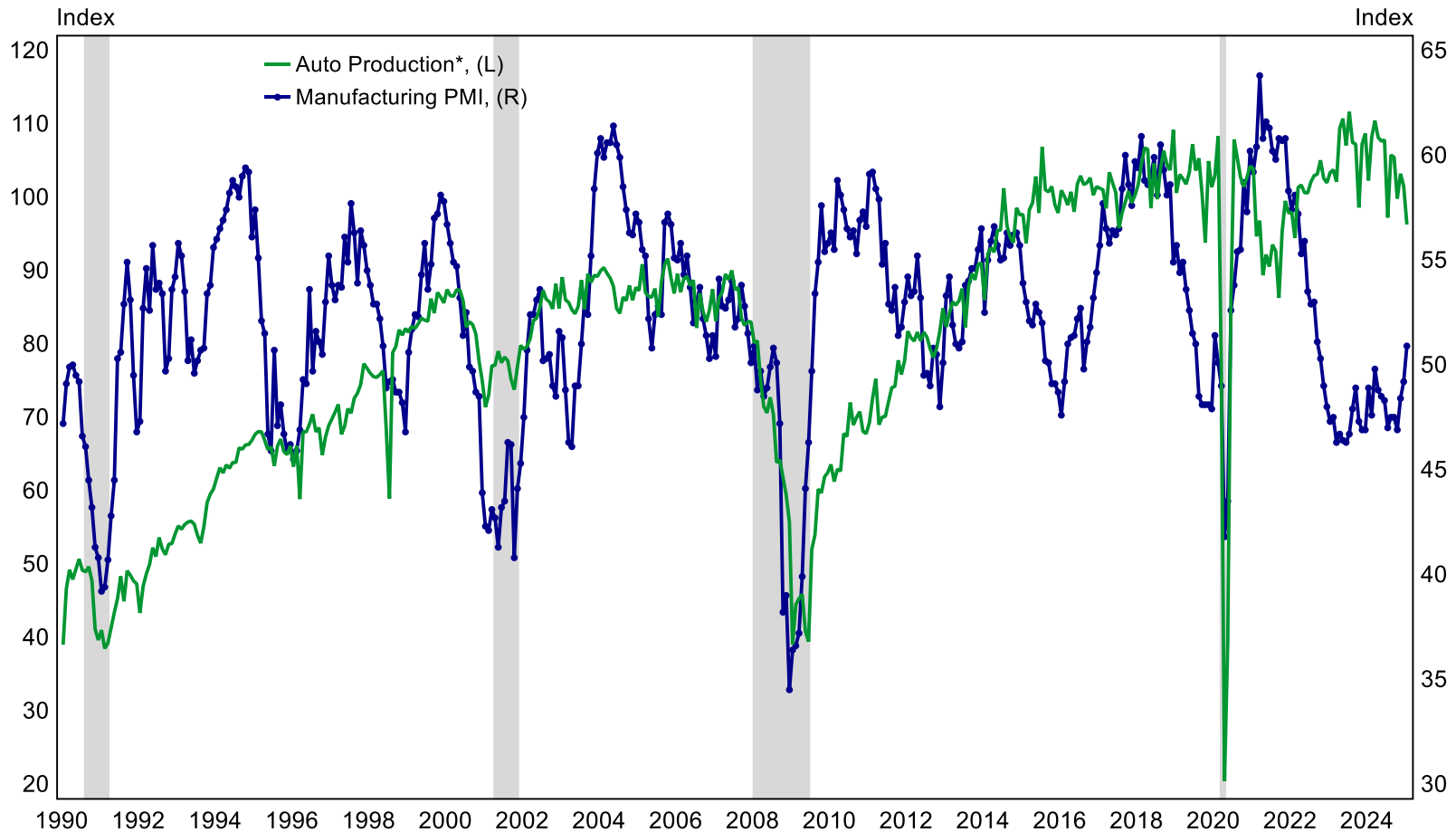
Auto Appendix

Sales slightly higher than inventory



Note: Monthly data through 1/2025.
Yearly percent change in USD retail sales. 3-month average.
*Excluding sales of Motor Vehicles & Parts.
Source: Mizuho Securities, Macrobond, USCB, NBER.

Auto assemblies not holding back manufacturing

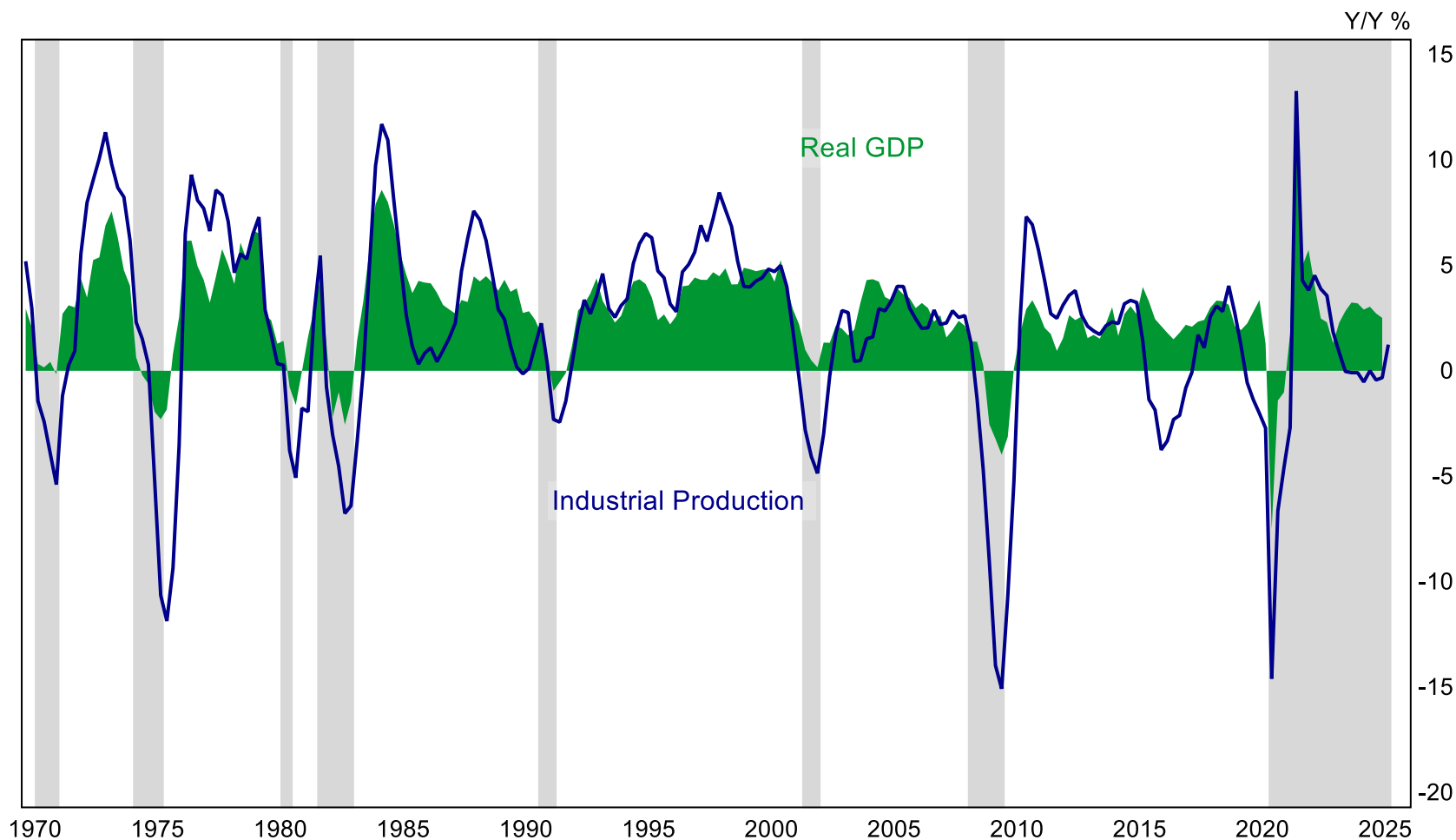


Note: Monthly data through 1/2025.

*Real terms.

Source: Mizuho Securities USA, FRB, ISM.

Factory sector has become less important contributor to GDP



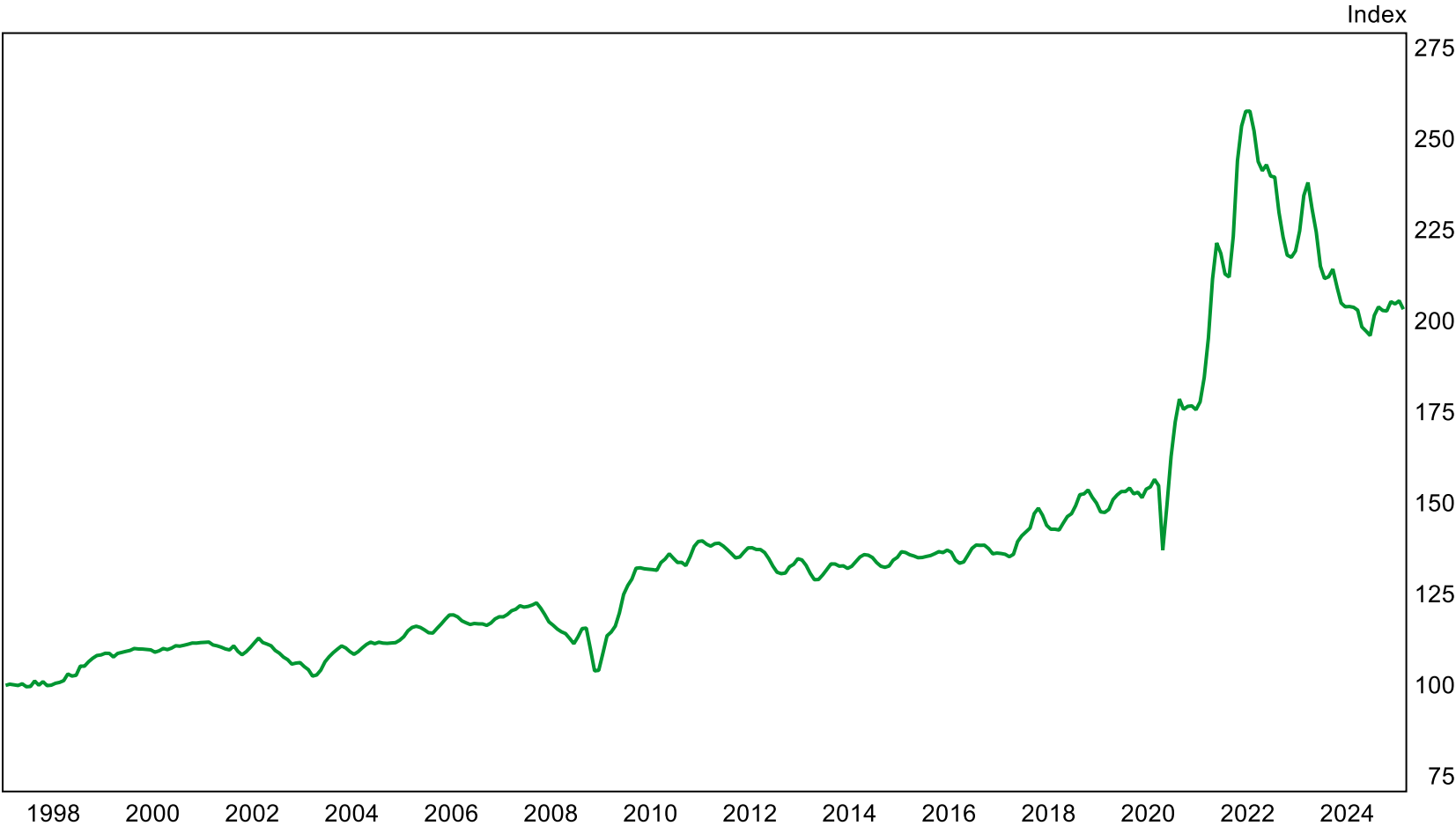
Note: Shaded areas are NBER recessions.

Data through 2024 Q4, 2025 Q1.

Source: Mizuho Securities USA, FRB, BEA.

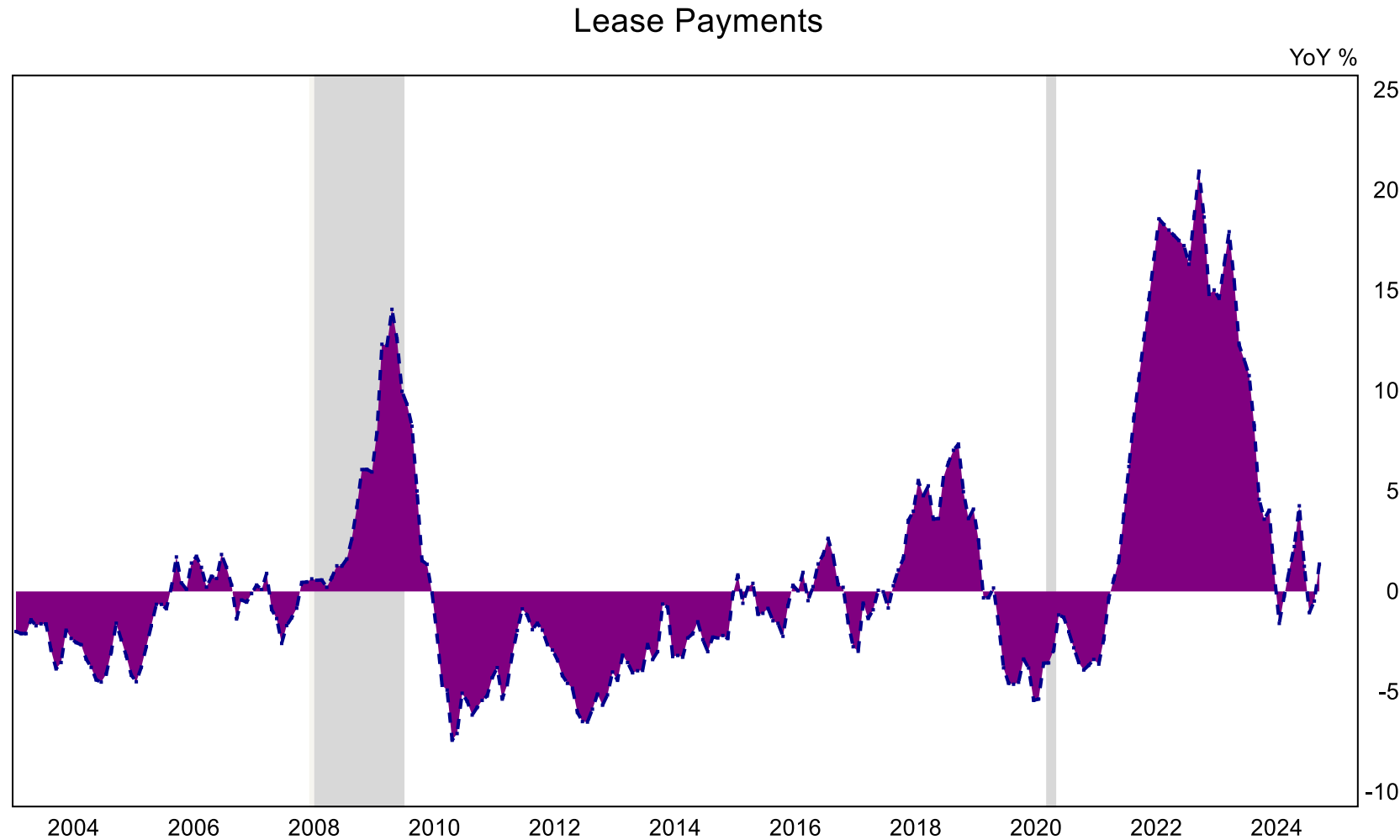
Used car prices stabilized at inflated level

Used Vehicle Value Index



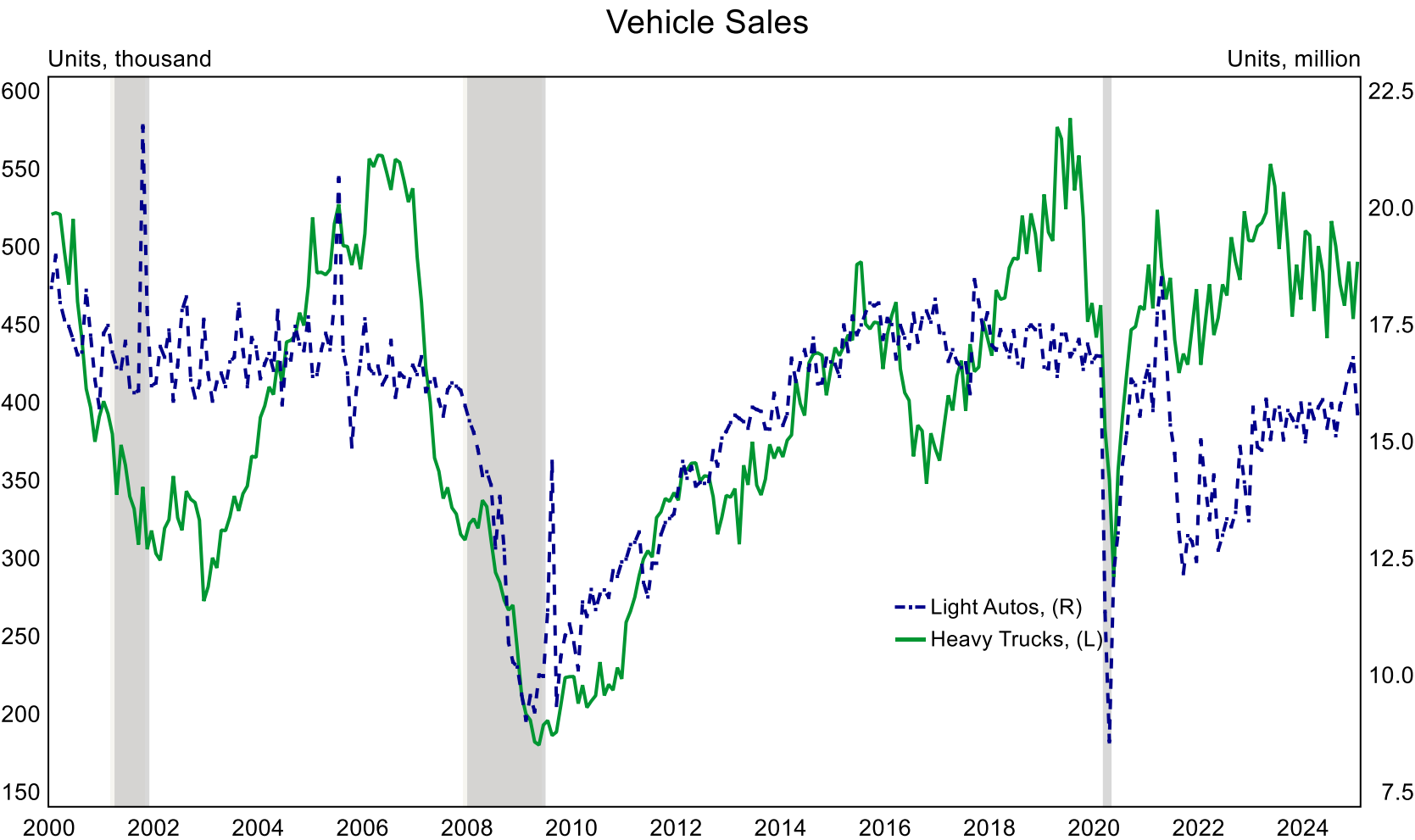
Note: Monthly data through 2/2025. Released on Wednesday, February 19, 2025.
Source: Mizuho Securities USA, Manheim Consulting.

Rate hike effect on auto lease rates appears to have diminished.



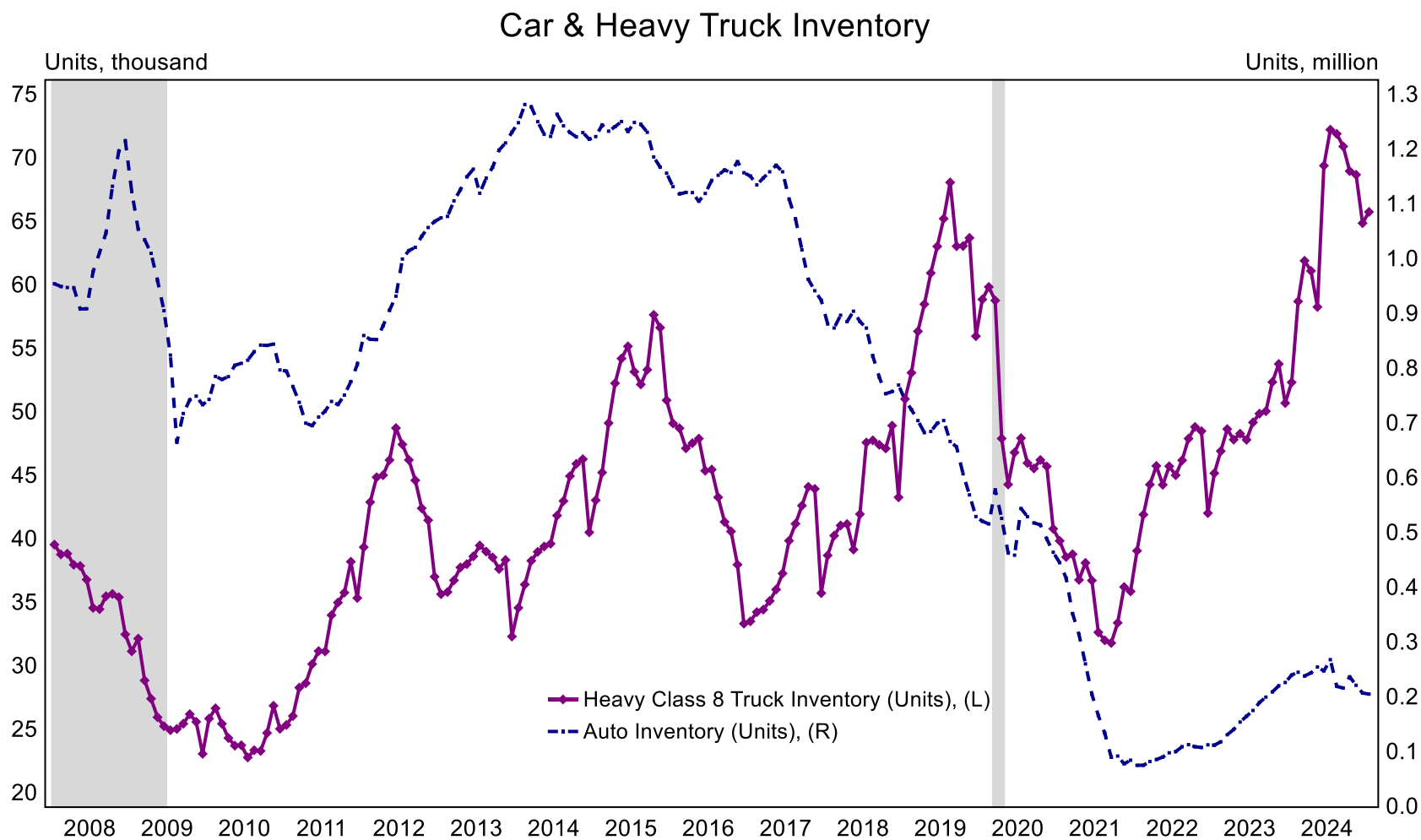
Note: Monthly data through 9/2024.
Source: Mizuho Securities USA, BLS.

Sales of heavy and light trucks resilient



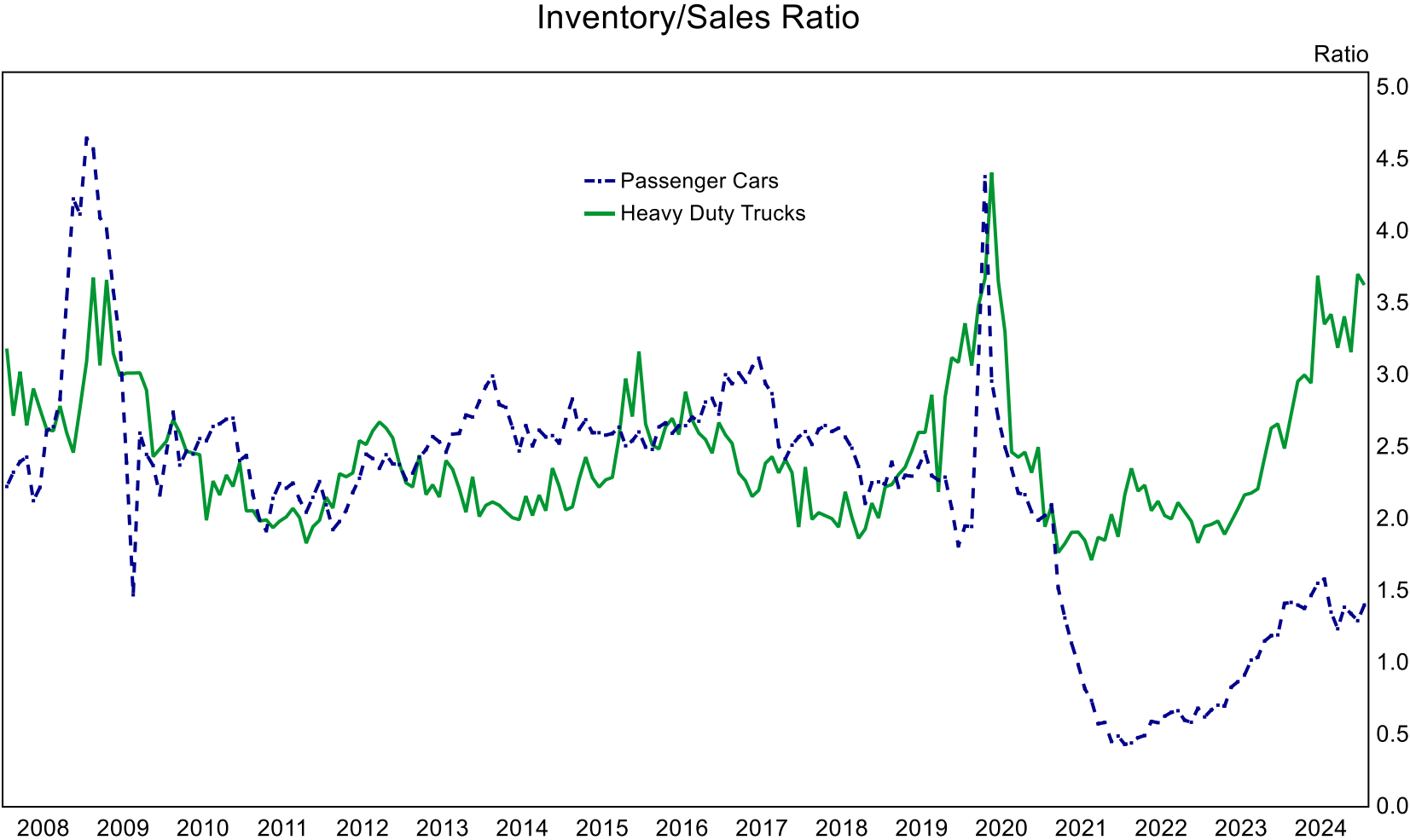
Note: Monthly data through 1/2025.
Source: Mizuho Securities USA, BEA, Wards.

Inventory of heavy trucks elevated



Note: Monthly data through 1/2025.
Source: Mizuho Securities USA, BEA, FTR.

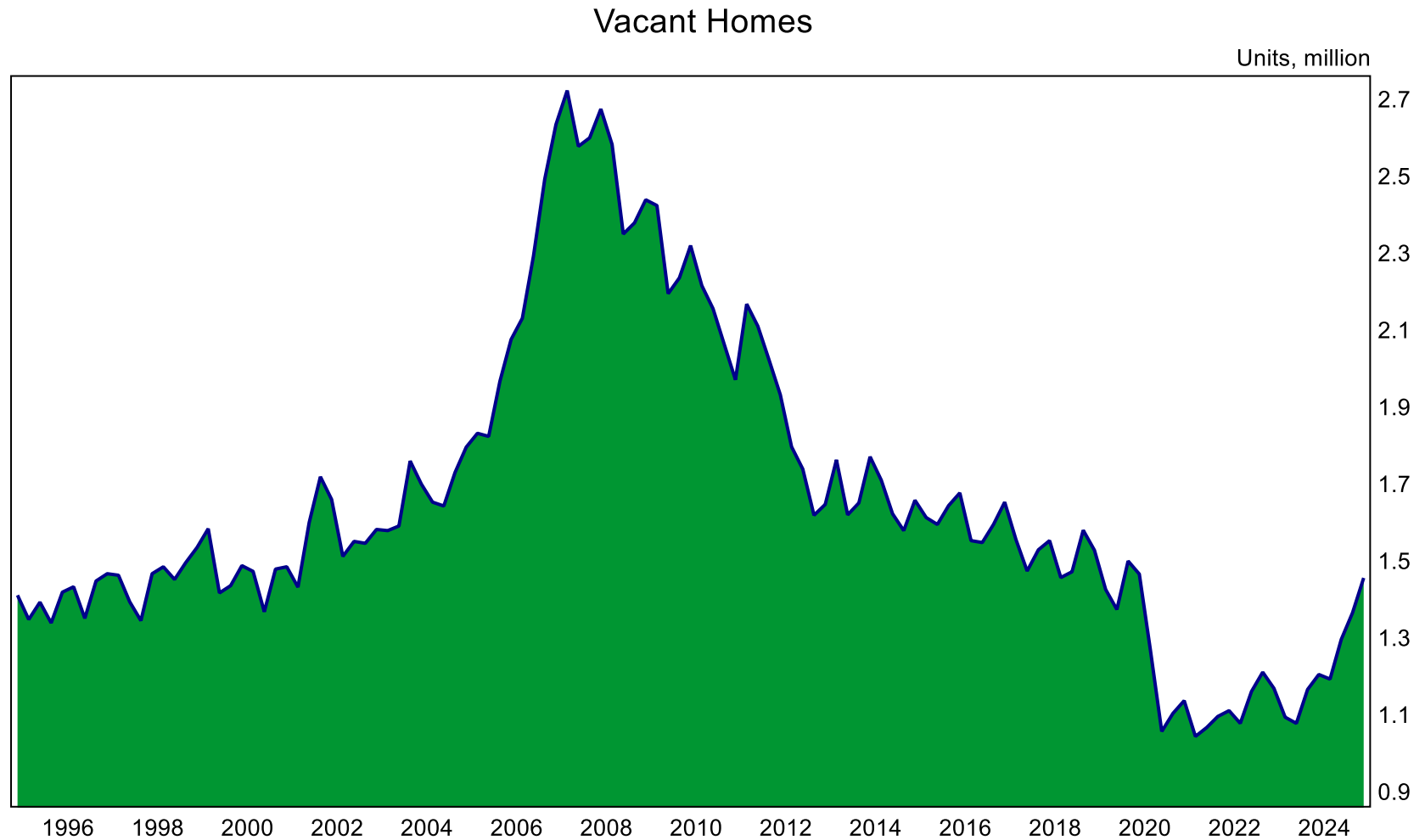
Dealer inventory less of a problem for the industry



Note: Monthly data through 1/2025.
Source: Mizuho Securities USA, FTR, BEA.

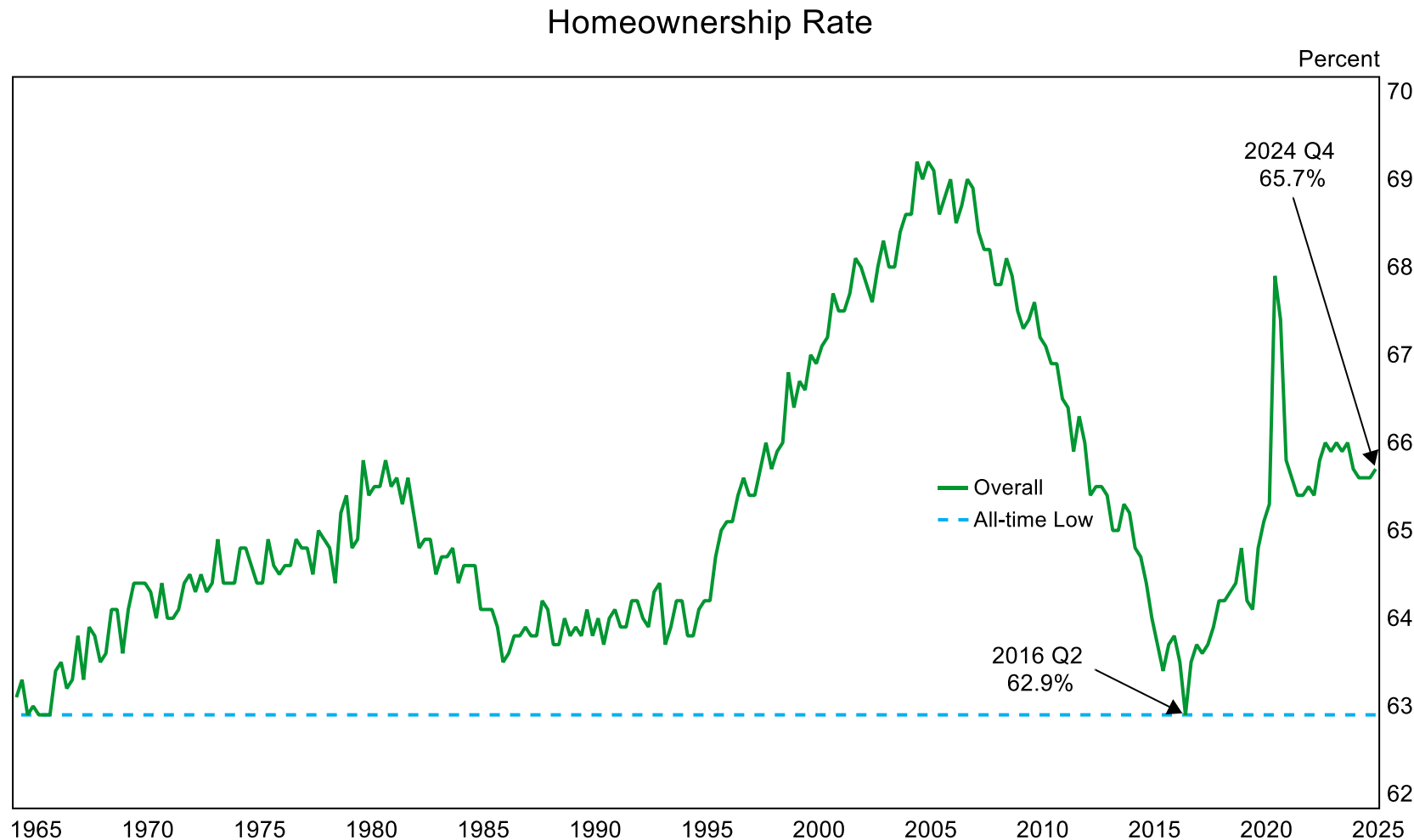
Housing market appendix

The pool of vacant homes still low



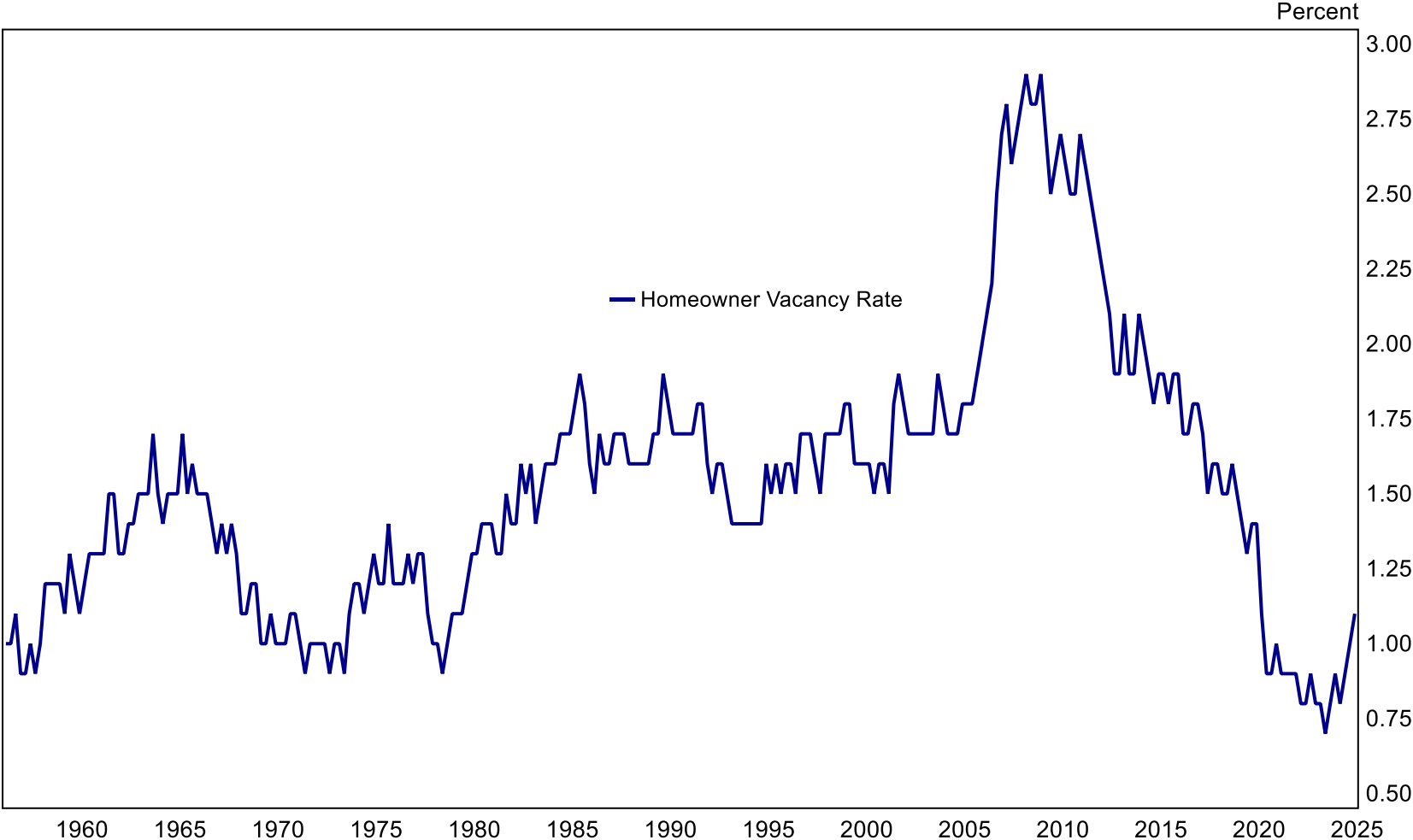
Note: Monthly data through 2025 Q1. Released on Wednesday, February 26, 2025.
Source: Mizuho Securities USA, USCB.

Ownership rate reflects household ability to buy a home



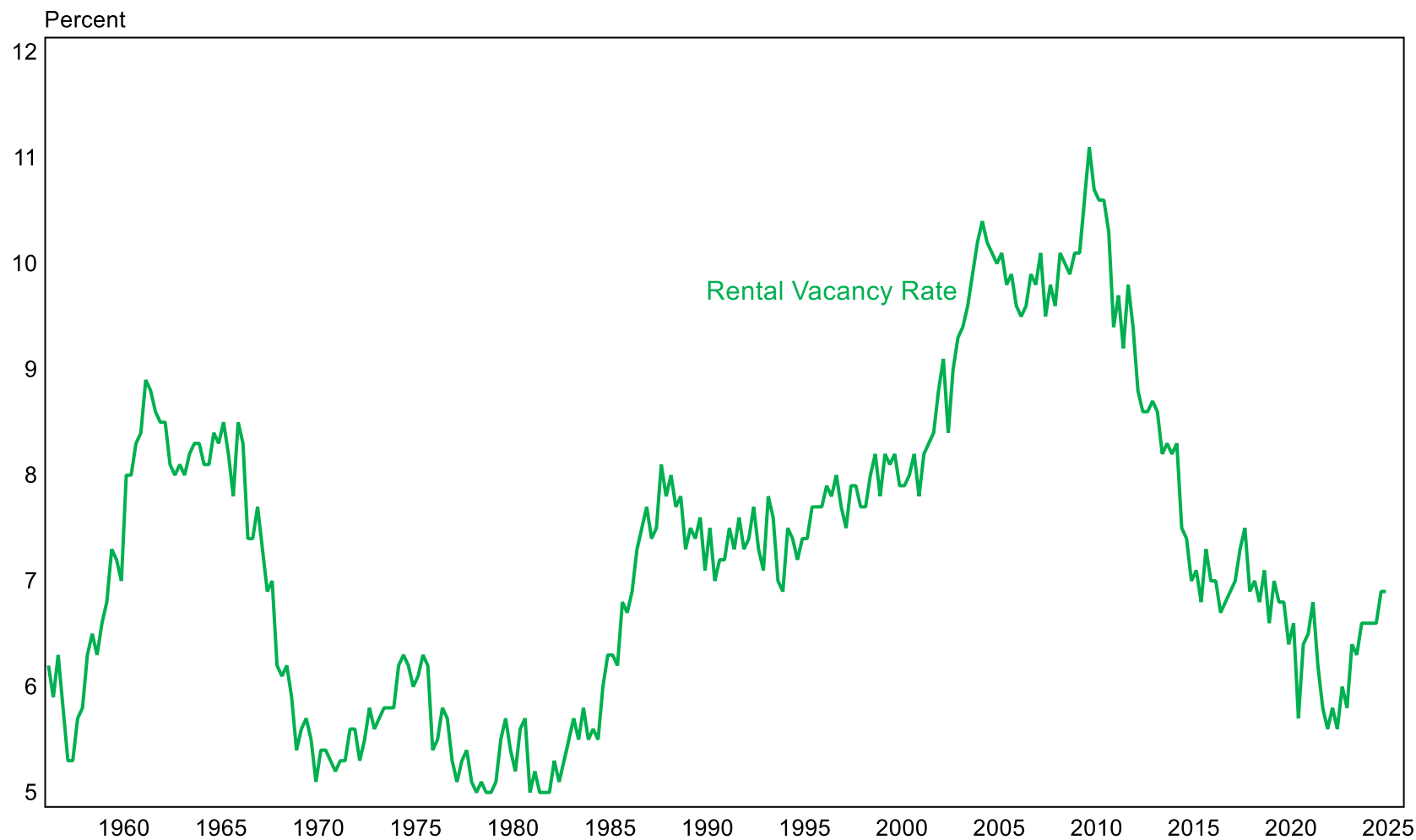
Note: Quarterly data through 2024 Q4. Released on Wednesday, February 5, 2025.
Source: Mizuho Securities USA, Census Bureau.

Vacancy rate key to building activity



Note: Quarterly data through 2024 Q4. Released on Wednesday, February 5, 2025.
Source: Mizuho Securities USA, Census Bureau.

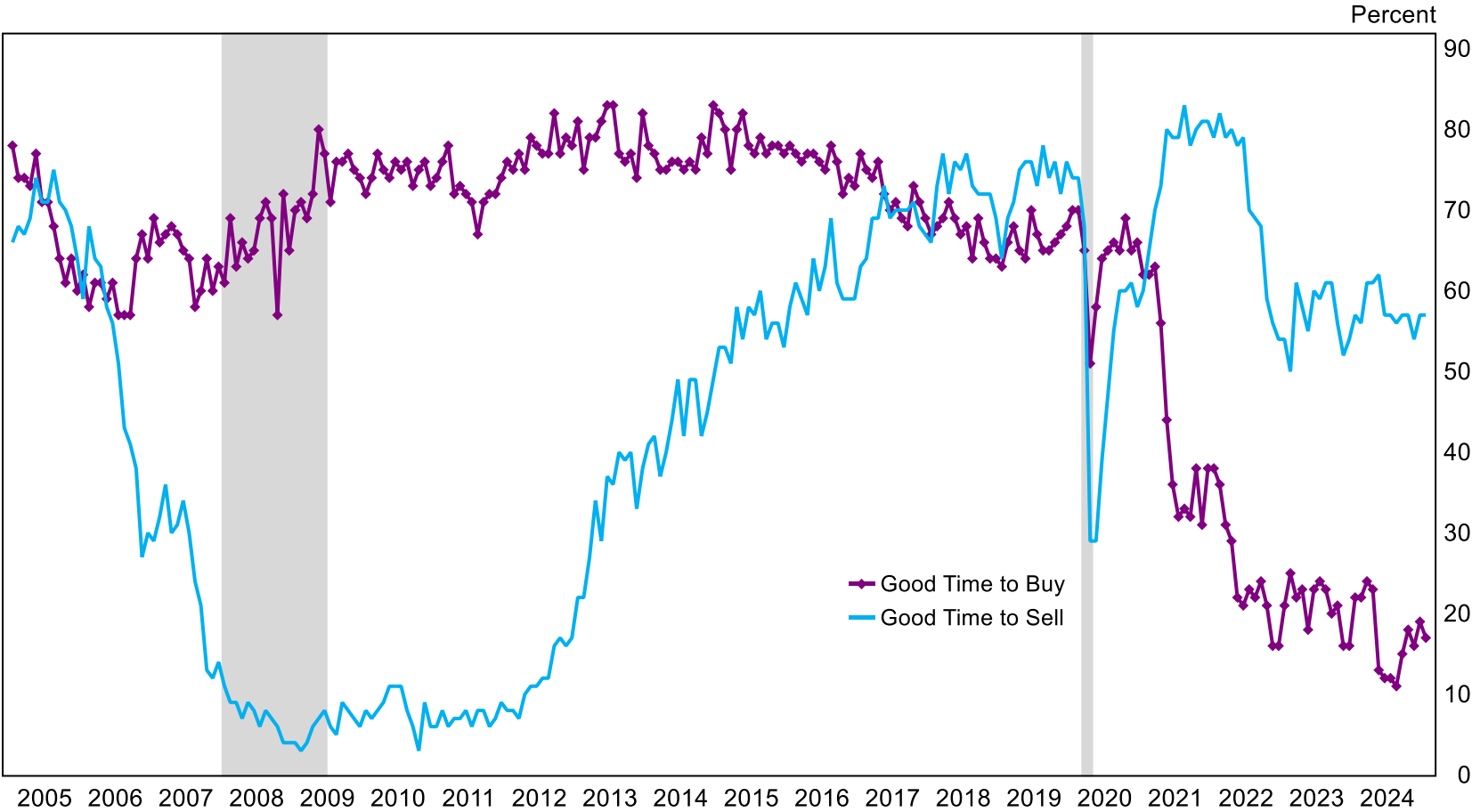
Rental vacancy rate key driver of rents



Note: Quarterly data through 2024 Q4.
Source: Mizuho Securities USA, Census Bureau.

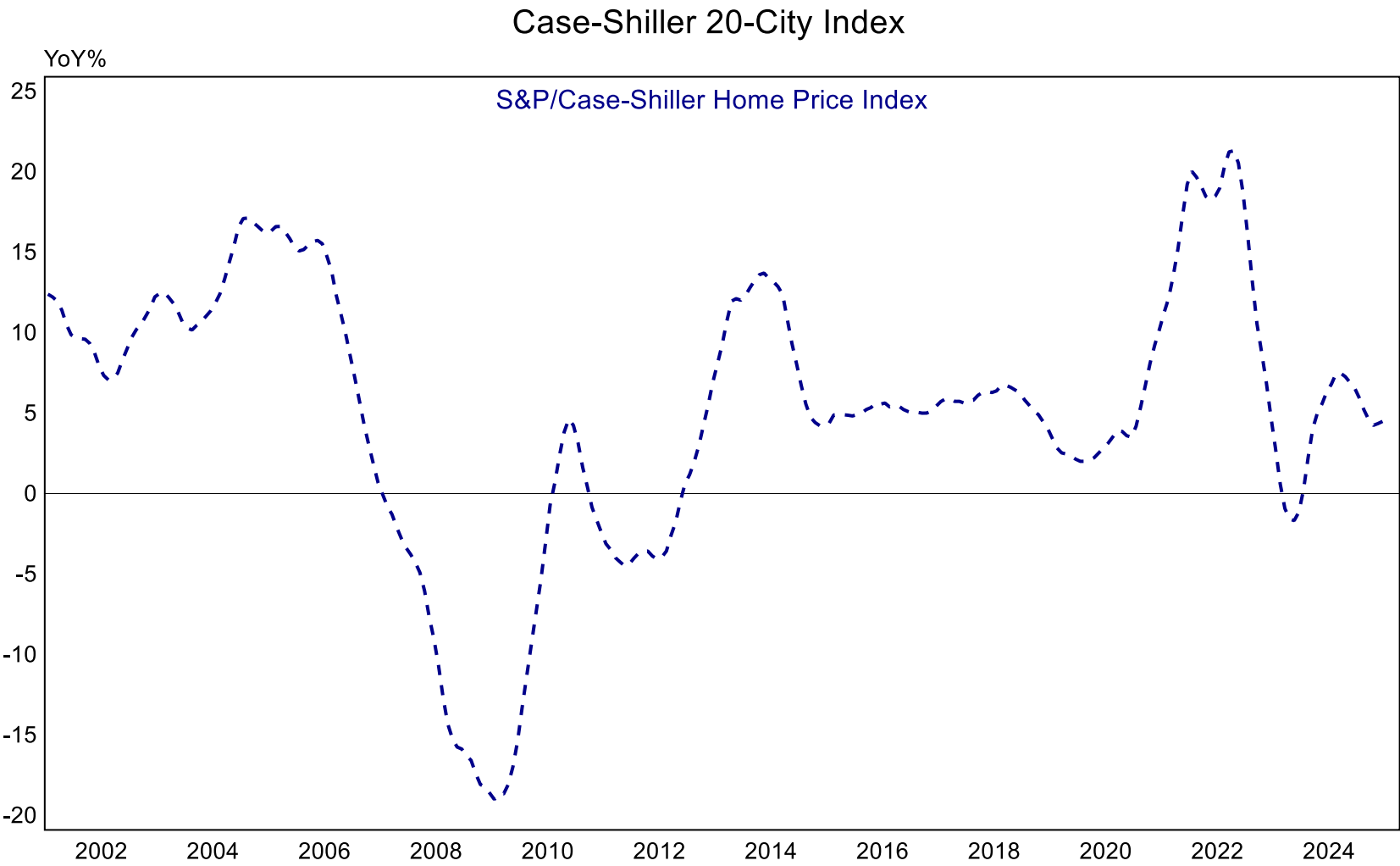
Buyers vs. Sellers

Home Buying & Selling Conditions



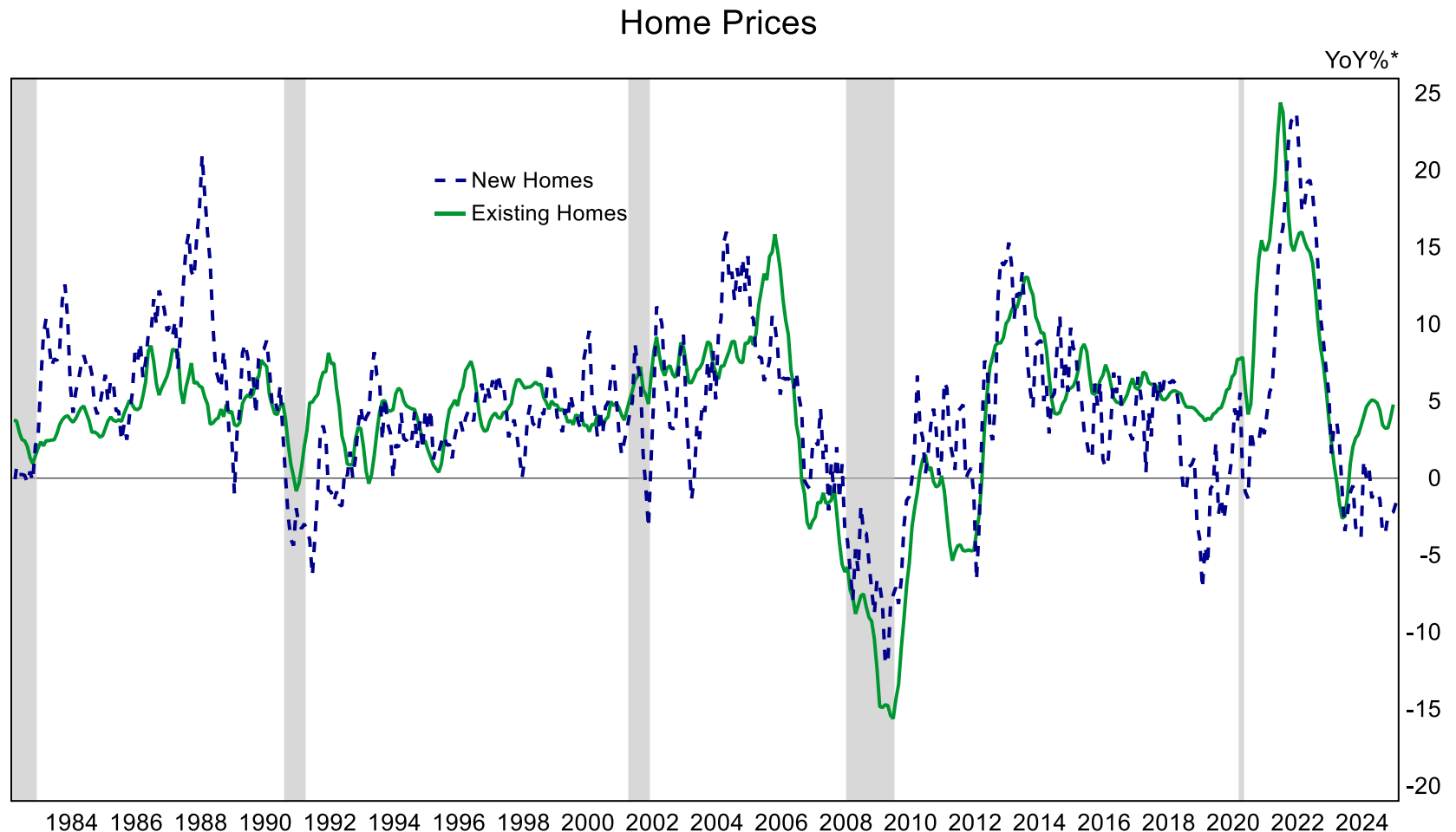
Note: Monthly data through 1/2025.
Released on Friday, February 21, 2025
Source: Mizuho Securities USA, Univ of Michigan.

Home prices in major cities



Source: Mizuho Securities, Macrobond, S&P Global.

Home prices and mortgage rates impact demand



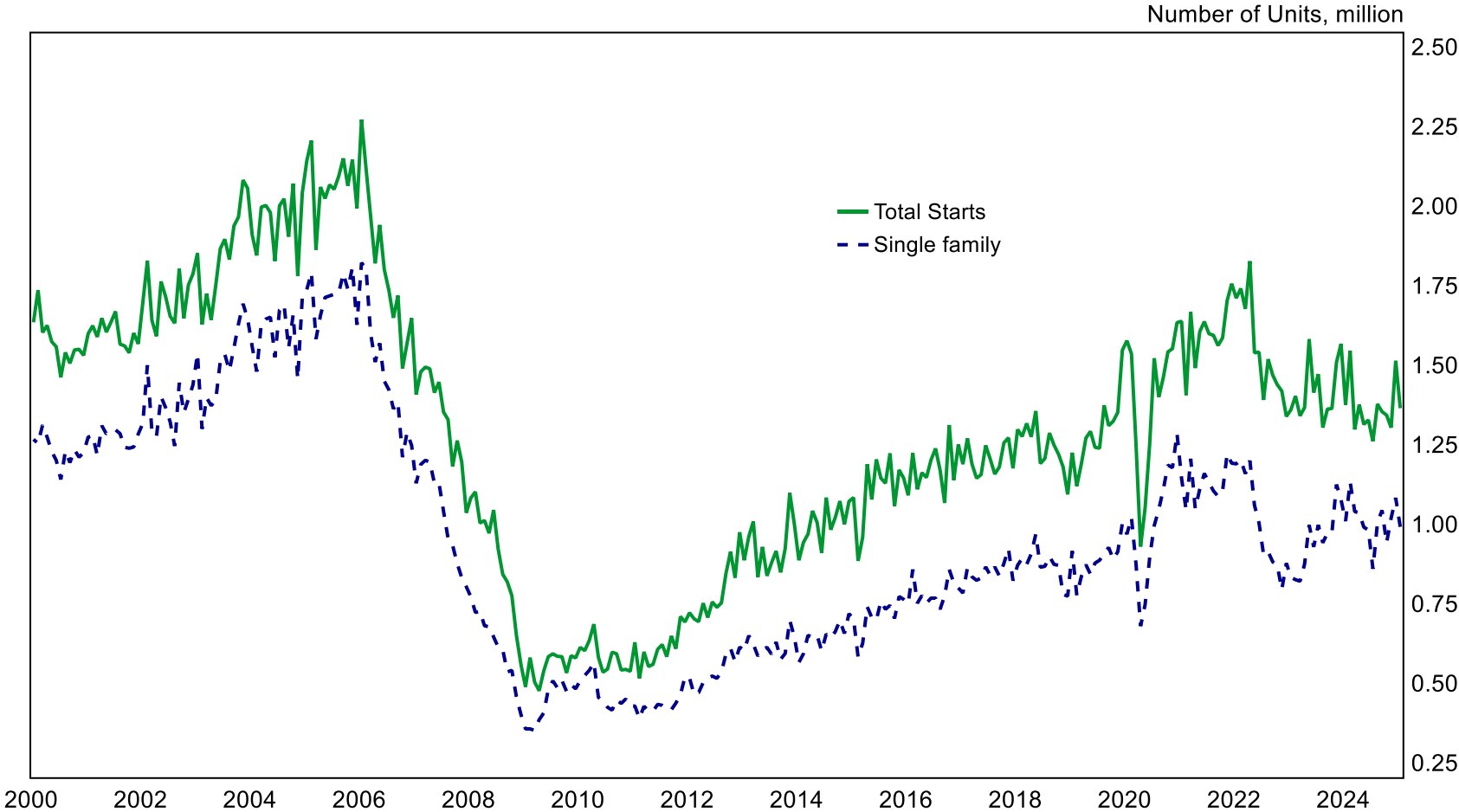
Note: Monthly data through 12/2024. Median prices shown.

*Annual change of 3-month moving average.

Source: Mizuho Securities USA, Census Bureau, NAR.

Builder confidence reflects market fundamentals

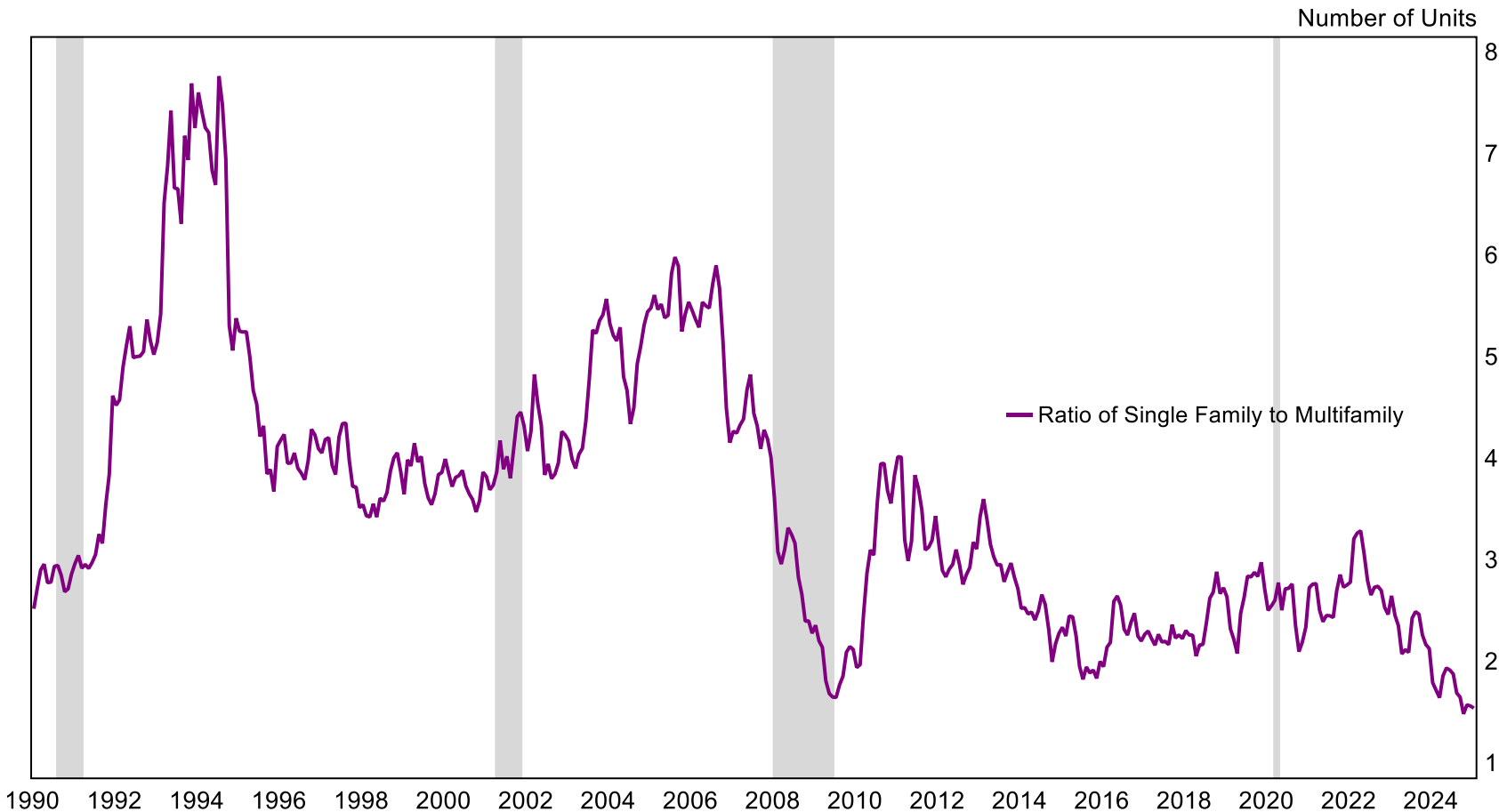
Housing Starts



Note: Monthly data through 1/2025. Released on Wednesday, February 26, 2025.
Source: Mizuho Securities USA, Census Bureau.

Composition of new starts reflects prices vs. rents

Completed New Residential Construction

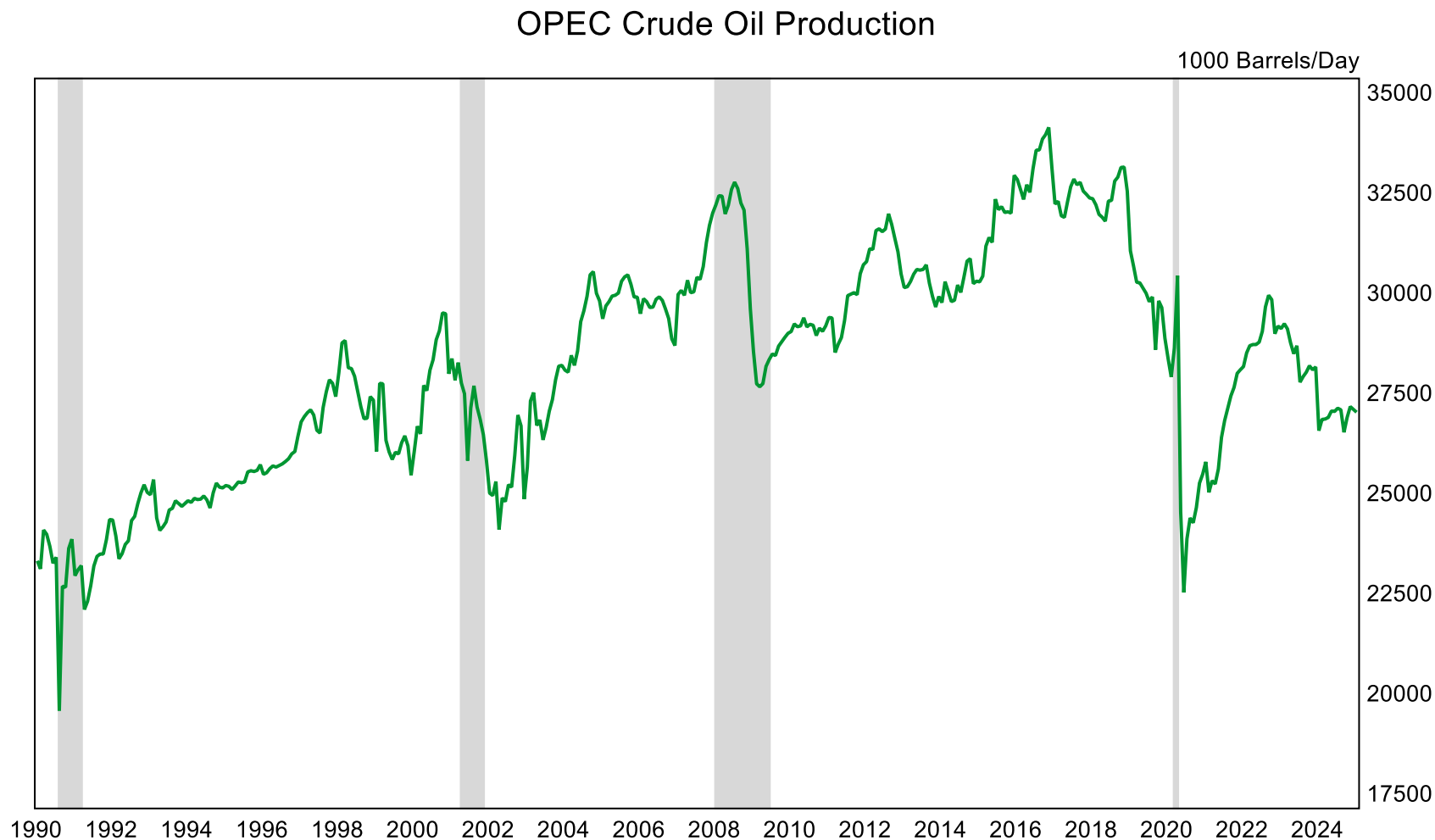


Note: Monthly data through 5/2020. Released on Monday, September 20, 2021.
3-month moving average.

Source: Mizuho Securities USA, USCB, NBER.

Oil appendix

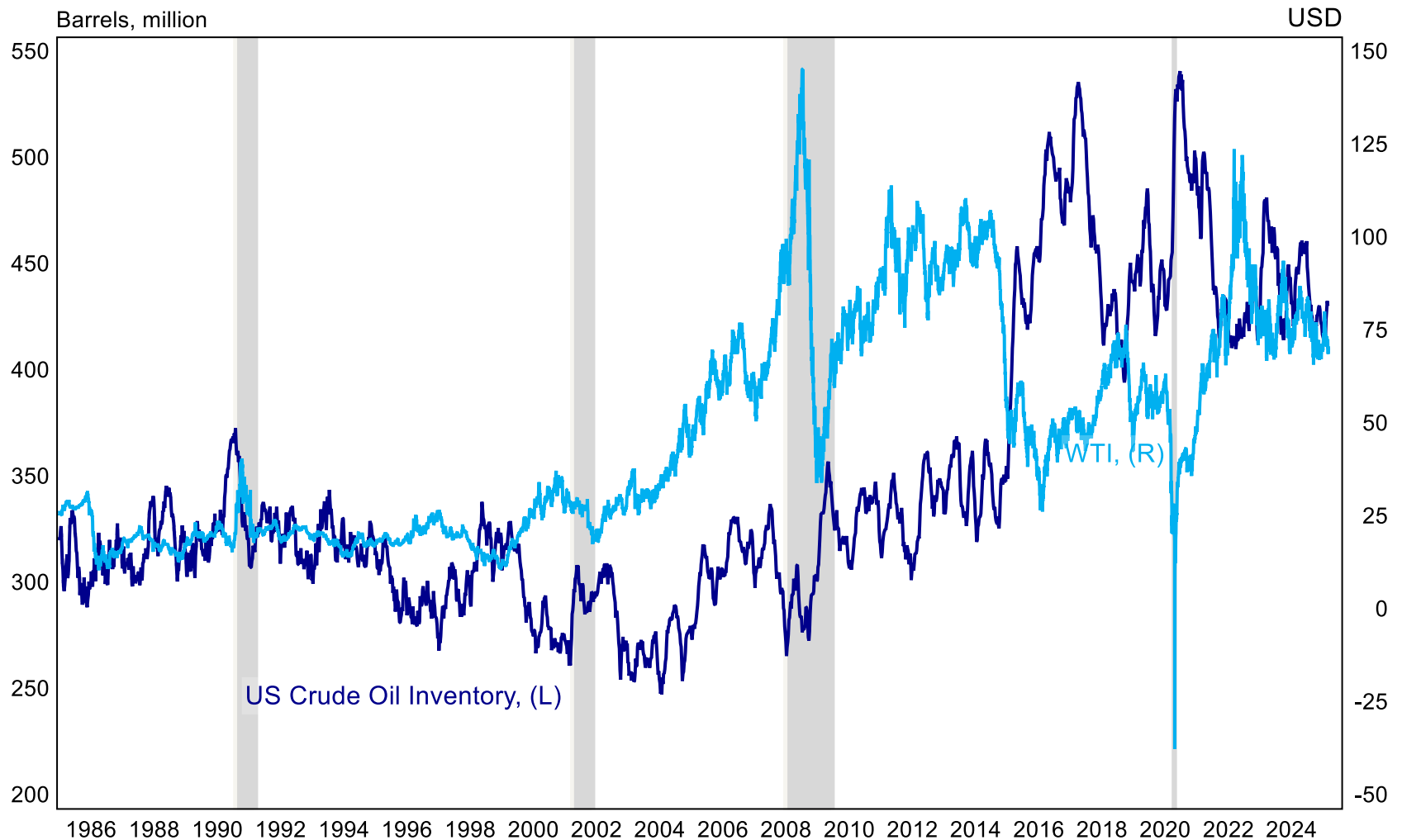
Estimated total OPEC Crude Oil Production



Note: Monthly data through 5/2020. Released on Monday, September 20, 2021.

Source: Mizuho Securities USA, NBER.

U.S. crude oil inventory and WTI

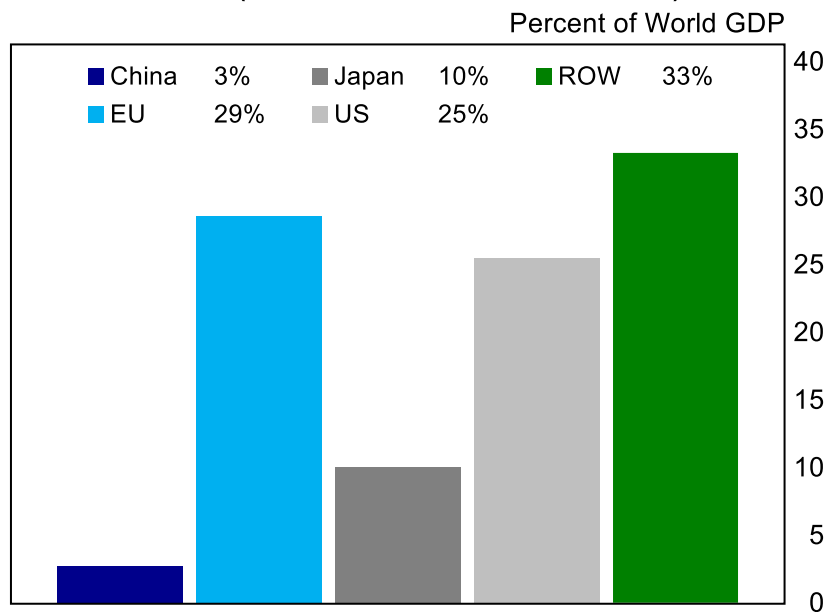


Source: Mizuho Securities, Bloomberg, EIA.

International appendix

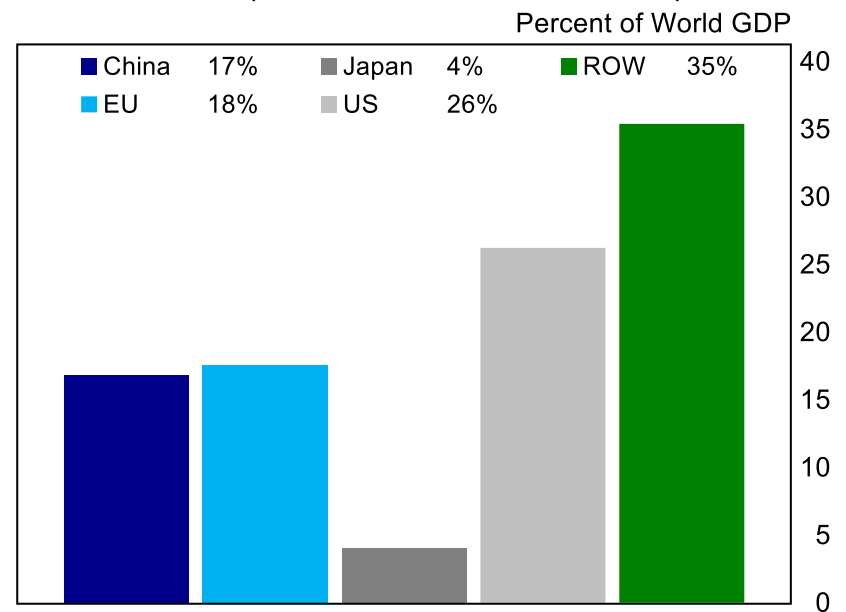
World GDP Breakdown, Pre-Reagan (1981-1989) vs now

1980 (World GDP \$11.2 trillion)



Note: Annual data through 1/1/2029.
Source: Mizuho Securities USA.

2024 (World GDP \$106 trillion)



Note: Annual data through 1/1/2029.
Source: Mizuho Securities USA.

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