Mizuho Brief: Fed

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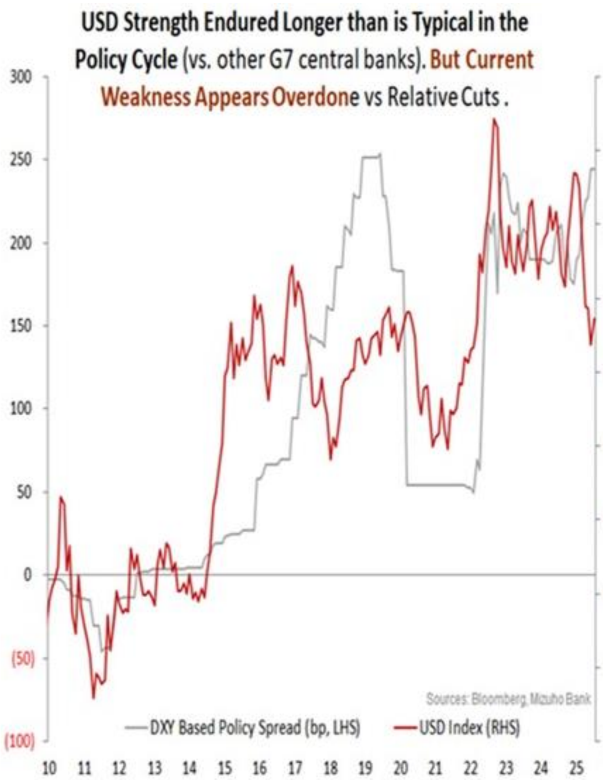
MIZUHO

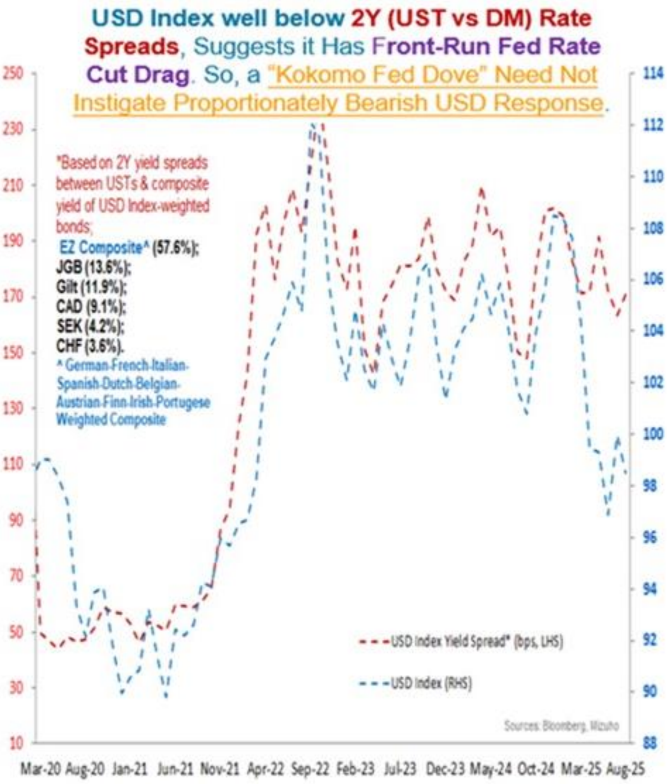
Contemplating a Dovish "Kokomo" Fed Shift

"We'll get there fast
And then we'll take it slow
That's where we wanna go
Way down in Kokomo"

- Kokomo, Beach Boys, 1988

- **Aggressive rate cut calls by Bessent** seizing upon *softer jobs* and the *absence of offending inflation flares* have **markets contemplating** a **dovish "Kokomo" Fed shift**.
- In other words, the growing likelihood of **a Fed that is inclined to deliver deeper cuts, sooner**.
- To be sure, this is a notable **pivot away from the Fed's current guarded pause** (within a gradual easing cycle).
- Whereas the prevailing **FOMC views are rather split**, not ubiquitously and increasingly dovish.
- And despite a more dovish drift, **even Fed doves only concede room**, ***not urgency*, to cut**.
- Crucially, the broader **dovish inclination is for gradual (not rushed) easing,** even when rate cuts resume.
- **But Bessent is imploring greater urgency for substantially lower rates**.
- Specifically, a front-loaded 50bp in Sep to lead a series of cuts to lower the Fed Fund rate by150-175bp soon after.
- **Reconciling this unsustainable Bessent-Fed gap** will **likely require a dovish Fed of travel**.
- **Especially when coupled with** political bias for **dovish leaning Fed displacements** (in the pipeline), *"Kokomo Fed dove" bets not as outlandish as one might think.*
- Yields: If these bets mount, it could translate into a faster front-end led drop in UST yields.
- Latent Long-end Upside Volatility: But **fiscal/inflation risks resurfacing** once "Kokomo dove" impact wanes could revive upside volatility in long-end yields, ***partially retracing "Kokomo" yield drop***.
- Curve: A distinct bull steepening squares with more aggressive Fed cuts, with some accentuation from a bearish long-end leg later.
- USD to Soften, Not Crash**: But expectations of an aggressively bearish USD corresponding to "Kokomo Dove Fed" may be overkill given easing/risks elsewhere and USD weakness already baked in.
- AXJ Divergence, Not Domination: Hence, AXJ will probably not dominate *despite* a **softer USD**. Instead, **more emphatic divergence** *flanked by incrementally improved traction* is more likely.





* "Kokomo" here references the Beach Boys song. Specifically, the line, "get there fast and then .. take it slow".

**Sub 93-96 dips in the broader 93-98 range looks more likely than a sustained crash to 90-92 levels.