Mizuho Chart Speak: FX

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The Liquidity Cover Quelling "Sell America" (Part 1)

"Show me the money!" – **Jerry Maguire**

In a Nutshell:

- The **resurgence in US liquidity**, *led by high-powered M1 that tends to boost excess reserves*, has likely **flattered the bullish momentum in US equities** and ***in apparent defiance of "Sell America"*** at that.
- But **relative under-performance of US equities** *via-a-vis global equities* is **sobering reminder that "Sell America"** may **merely** be **augmented to "buy relatively less"**.
- And so, **US equity bulls may be dependent on the liquidity cover**. And the **trajectory of liquidity will determine the endurance of US equity rallies**.

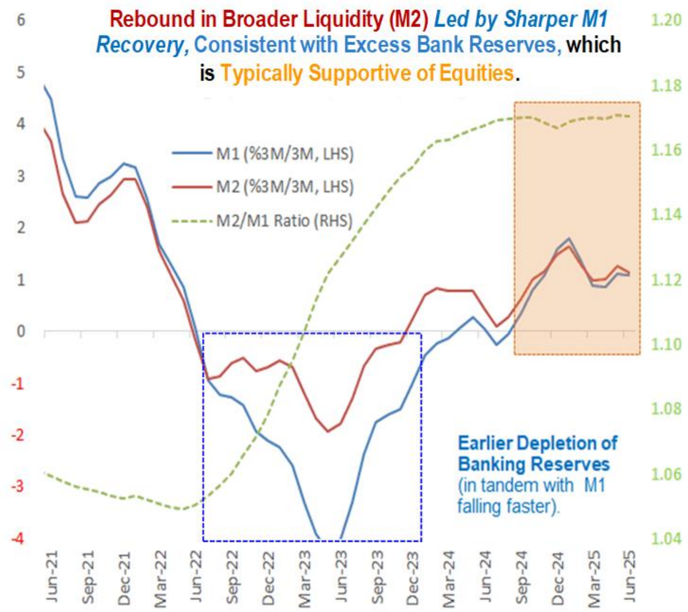
- **US equity markets** are **arguably the greatest refutation of a naked "Sell America" position** as rallies have endured and extended through temporary stumbles.
- To be sure, the **"Sell America"** narrative, while a compelling proposition, as a trade position is **neither linear nor unqualified**.
- FX: A **bearish USD** *associated with "Sell America"* has been **backstopped** by;

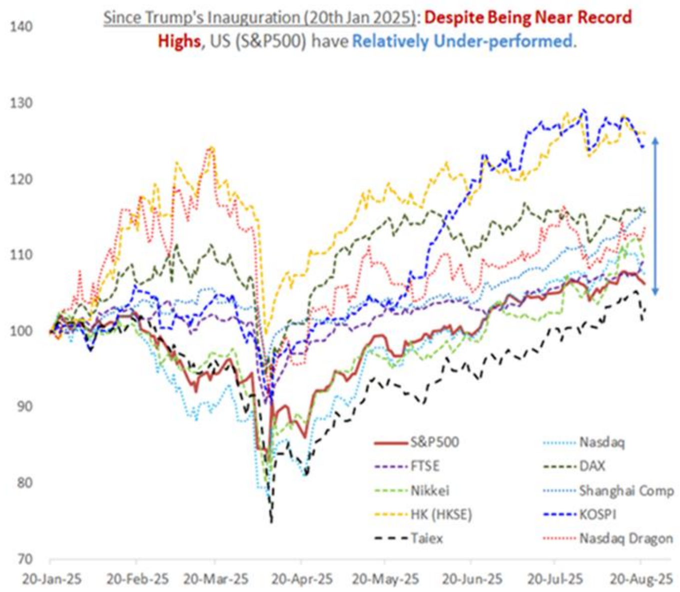
  i. Extractive "Pay America"/"pay-to-play" policies *accretive to USD* albeit at the expense of trade partners, and;
  ii. TINA support, given the lack of deep, viable fiat alternatives to displace the USD. And more acutely so as EUR valuations appear stretched.

- Rates: UST yields have been capped/dampened as selling of USTs have been checked by dovish Fed shifts
- Equities: But the **real defiance of "Sell America" may be found in US equities** that have printed fresh records fairly recently despite pulling back in recent session.
- And the **latter** is **especially**, and almost unequivocally, **attributable to the cover rising liquidity tide**. Which has indeed **lifted all the proverbial boats**.
- First, the undeniable **deluge of liquidity making a comeback**, *and in particular backed by excess banking reserve solid M1 rebound*, has **motivated bullish US equities**.
- The **return of "high-powered"* M1 liquidity**, which is **often associated with a potential for a much larger order of liquidity boost**, with the
- *Especially given the prohibitively high opportunity cost of being uninvested* **is prohibitive** *given money market rates well above 4%.*

- Second, and crucially, **notwithstanding with the liquidity boost** for equities **relative allocation favour non-US equities** as S&P500 has lagged equity rallies elsewhere in relative terms.
- And so, ***within the context of flush liquidity boosting global equities,* "Sell America" plays out as buy relatively less**.
- As a corollary, the *reliance on liquidity to support valuations* is a stark reminder that **optimism may not be unconditional or unequivocal**.
- More importantly, it will be important to **watch the trajectory of US liquidity** conditions **to gauge the endurance of US equity bulls**.

*This is because M1 growth tends to correspond to excess bank reserves that need to be deployed (as loans, asset allocation) to maximize returns, therefore increasing money multipliers by a far higher order.





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