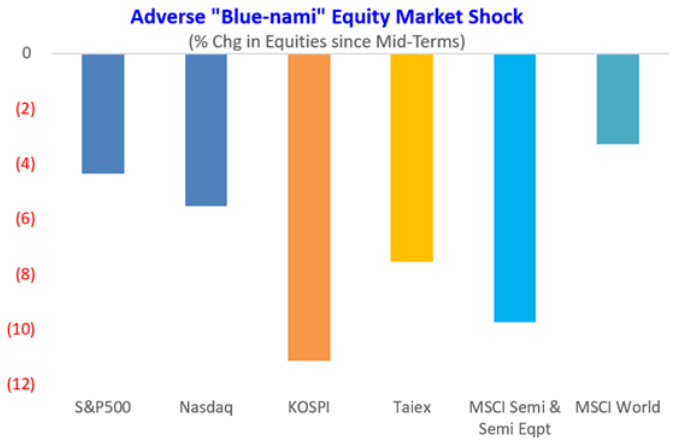
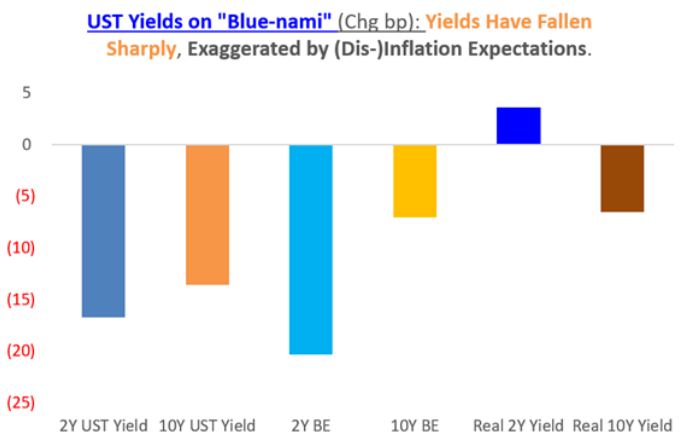
Mizuho Brief: US

Economics & Strategy | Asia ex-Japan

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Is the "Blue-nami" Impact Overblown?





- Half-Empty A.I./Equities: The **"Blue-nami shock"*** for markets is **not entirely an unadulterated "risk off" for equities** *tipped into a bearish spiral from fears of cascading A.I. shakedown* on **presumptions (fears) of Democrat-driven regulatory impediments on data centers** (etc.).
- & Half-Full (Bonds): Instead, ***apart from the adverse equity market impact*** the "Blue-nami" is **simultaneously a positive bond market (UST) boost** *beyond purely "risk off" driven rotation (refuge) into USTs. Crucially,* from **expectations of Democrat-pressured Iran war resolution** and **attendant dial-back in Fed rate hike expectations**.
- Possibly Both Exaggerated: Chances are, **both bearish equities** (A.I./tech) and the **bullish bond market reflex** (with a steepening bias) driving yields down sharply **are overdone**.
- Equity/A.I. Gloom Feedback: To be sure, as investors brace, and possibly over-correct for data center stumbling blocks, **adverse, AI-driven equity market spiral** is **amplified by gloom feedback** – rippling across the value chain (to chips and wider A.I. exposures) *via leverage in the context of circular investments/cash-flows*.
- But Equities May Avert a Crisis Yet: Whereas *if antagonistic Democrats' A.I. rhetoric is strategically** restrained* to suggest a **measured slowing** - ***not indiscriminate shut down*** – **of AI capex build out**, then **fears of an impending crash** may quickly **pivot to short-covering and bargain hunting** into year-end closing.
- Bond Bulls Carried Away: On the other hand, **bond market bulls** driving the long-dated bonds, may be **carried away on overly hopeful expectations of a quick resolution to the wider Middle East crisis** – and *expectations of attendant rollback in energy risks* (crude as well as cracks).
- But Challenged by Executive (Powers)& Externalities: Crucially the realities of "Executive" branch remit over foreign policy and the geopolitical complexities of Middle East relations threaten to hamper a prompt wind down of this military engagement.
- "Blue-nami" Bond Bulls Checked: So, the **"Blue-nami" UST yield relief may prove shallow and short-lived** if the Middle East crisis is not wrapped up. More so, as the Fed is likely to remain vigilant on inflation risks.

- Unresolved Fiscal-Debt Bugbear: Crucially, the bigger picture is that **neither Republicans nor Democrats** appear to have what it takes to **placate bond market vigilantes fretting unsustainable US fiscal and debt dynamics**, undermining the impetus for enduring, structural pullback in yields.
- Iran & Inequality: Especially as any pullback in Iran spending may be offset by reinstatement of healthcare/insurance benefits.

* "Blu-nami" is a reference to the Democrat sweep of a Majority in both the House & Senate following the (3rd Nov) US Mid-Term Election. And the "Blue-nami shock" refers to a sharp A.I.-/tech-led equity market sell-off alongside a corresponding slump in UST yields.

** Apart from the fact that it is in the interest of Democrats to dissociate themselves from a market crash, there ought to be more nuanced appreciation of the strategic importance of being committed to AI buil-out – so long as it is not at the debilitating expense of voters/constituents.

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