SMBC Group

US Rates Strategy Weekly

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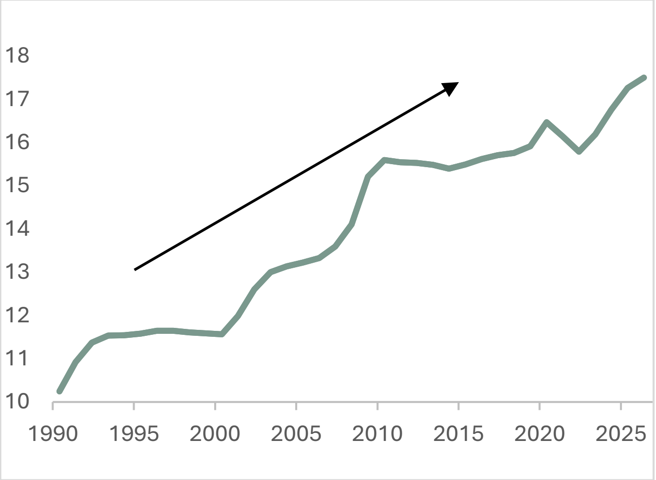
Week ahead

- **ISM Manufacturing (Feb., Mon.) and ISM Services (Feb., Wed.)**: ISM manufacturing jumped in January on the back of sharp increases in new orders, production and employment. We are expecting this will soften to a still positive 50.9 reading as the regional Fed manufacturing surveys were mixed. We forecast ISM Services will fall to 50.9, as all Fed services surveys declined except for Kansas City. This follows a notable 3.5-point increase since September for ISM services.

- **Employment Report (Feb., Fri.)**: We are forecasting modest job gains of +34k and +51k for headline and private nonfarm payrolls, and a 4.4% unemployment rate. In the 12 months ending in January, the health care and social assistance sector added +758k jobs while all other sectors collectively shed -399k jobs (+359k net job growth). This sector now commands a record 17.5% of private employment and is climbing, a sign of fragility that has often coincided with broader economic downturns (1990-91, 2001, 2007-09). We expect this will continue.

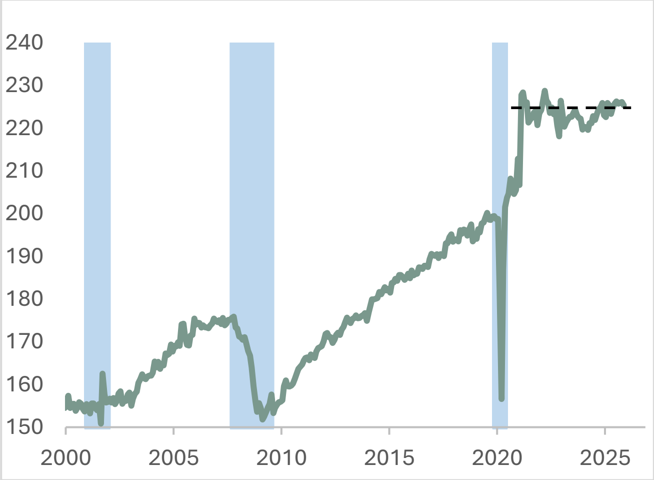
- **Retail Sales (Jan., Fri.)**: We are forecasting +0.1% MoM and -0.1% for headline and ex autos retail sales. Retail spending has struggled to keep up with inflation, having moved sideways since May 2021. January is unlikely to improve much, as total vehicle sales declined -7.3% m/m. Nominal retails sales were boosted by a 3.5% m/m increase in gasoline prices.

Figure 1: Health Care and Social Assistance Jobs (% of Private NFP)



Source: BLS, Haver, SMBC Nikko

Figure 2: Real Retail Sales ($Billions)



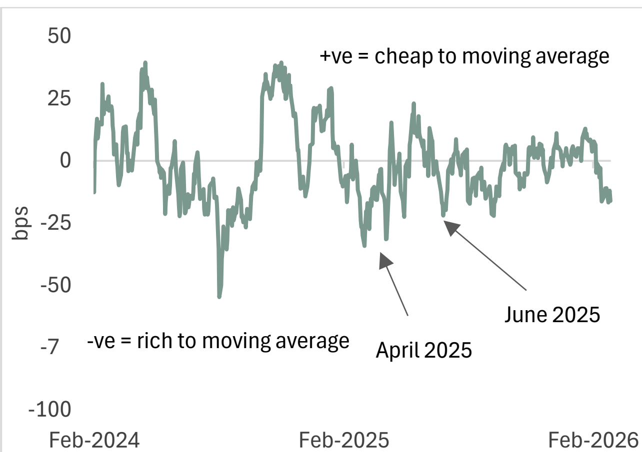
Source: Census, BLS, Haver, SMBC Nikko

Duration rally needs geopolitical escalation or risk-off, TIPS Breakevens offer the cleaner hedge

Treasuries have rallied sharply since late January on geopolitical de-risking, concerns around AI valuations, and renewed focus on private equity/BDC credit exposures. With yields now pressing the lower end of the recent range, and the 5y sitting 16 bps rich (Figure 3) to its 60-day moving average (dma), the risk-reward for adding duration here is less compelling absent a material escalation in geopolitical conflict or a risk-off from equity valuation concerns. Using the June 2025 US-Iran-Israel conflict as a template, a contained or short-lived flare up would likely allow for a temporary 5-10 bps rally in 5y yields. A prolonged escalation, or a correction in risk assets might increase the rally to 15-20 bps. Conversely, a credible de-escalation or an Iran nuclear agreement might cause a 20 bp or so selloff in 5y yields.

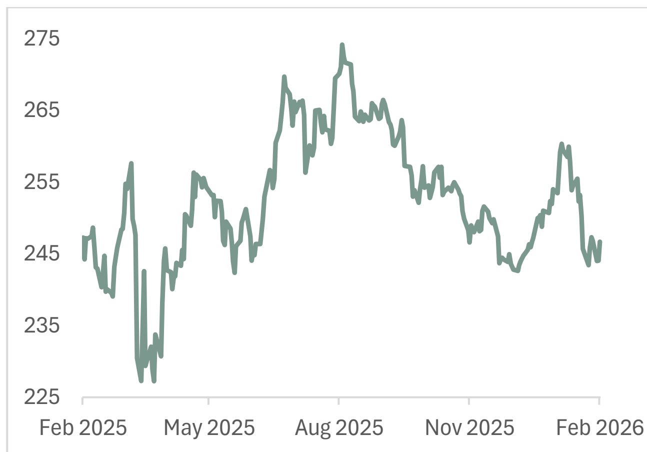
Against this backdrop, TIPS breakevens screen as a cleaner geopolitics hedge than outright nominals. Carry adjusted 5y breakevens have retraced to levels last seen in mid-2025 (Figure 4), and we are entering a **seasonally positive carry window in March, with around 14 bps of positive carry over a 3m period**. In an conflict escalation scenario, higher oil prices should support breakevens while in a de-escalation nominal yields would likely backup faster than real yields, cushioning BE's.

Figure 3: 5y yields – distance from 60dma (bps)



Source: Bloomberg, SMBC Nikko

Figure 4: Carry Adjusted 5y TIPS Bes (bps)

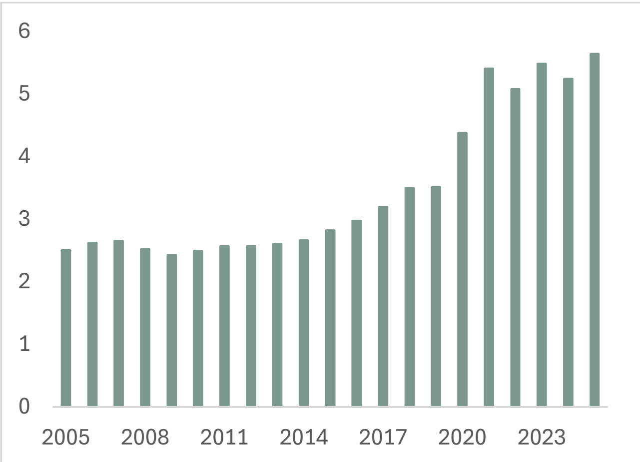


Source: Bloomberg, SMBC Nikko

Be your own boss

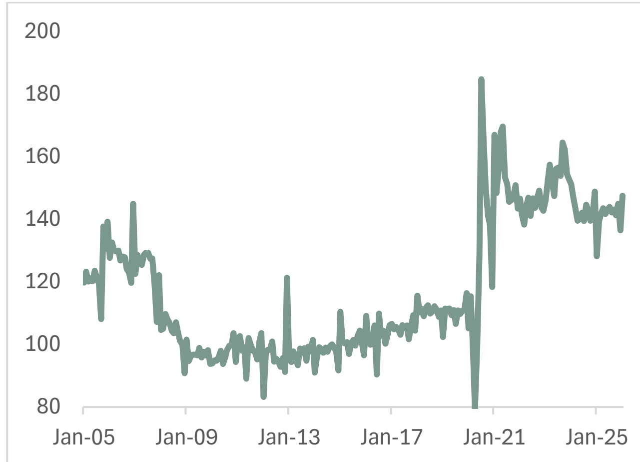
The desire to be an entrepreneur appears to have increased since COVID. Annual applications for new employer identification (tax) numbers or EINs have exceeded 5m/y since 2021 (Figure 5). Applications in 2025 were a record 5.65m. Of course, filing for an EIN is not the same as establishing a fully-fledged firm. The Census Department sorts the applications data for those whose profiles are consistent with firms that are highly likely to be set up. High propensity applications have increased since COVID, reversing an extended period of weak(er) business formation following the financial crisis (Figure 6). Curiously, the ratio of high propensity applications to total applications has fallen steadily since the financial crisis – to less than 30%. It is unclear if this is because it has become easier to *apply* to start a business or the components determining Census' "high propensity" estimate have tightened. That said, **the Census' estimate of projected business formations over the next four quarters has increased – particularly in 2025** (Figure 7).

Figure 5: Annual applications



Source: Census Department, SMBC Nikko

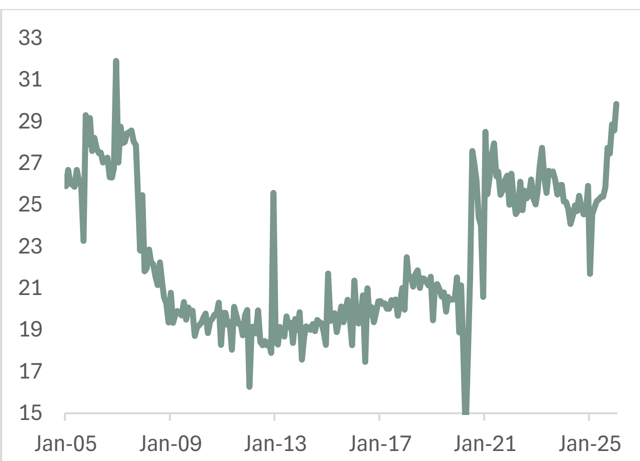
Figure 6: High propensity applications (000)



Note: Business applications are those that the Census Departments considers have a "high propensity" to become a payroll tax paying firm. Source: BLS, Census Department, SMBC Nikko

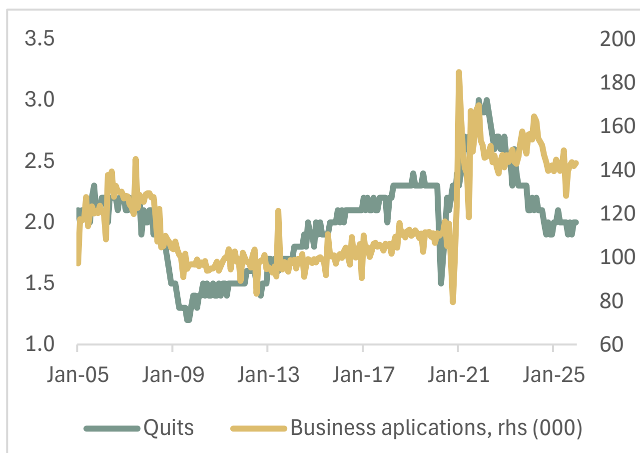
The desire to be your own boss is roughly correlated with worker confidence and household wealth. Would-be entrepreneurs need to feel comfortable giving up a steady paycheck to start their own enterprise. This confidence is also reflected in workers' willingness to voluntarily quit a job. As a result, an increasing quit rate often coincides with rising new business formation. That said, this shifts over time. Workers may be more willing to quit their jobs than they are to plunge into starting a new business. This was true in the decade following the financial crisis. The correlation between quits and new business starts appears strongest at business cycle turning points.[1]

Figure 7: Projected business formation (000)



Source: Census Department, SMBC Nikko

Figure 8: Quits and applications (%, 000)



Note: Business applications are those that the Census Departments considers have a "high propensity" to become a payroll tax paying firm. Source: BLS, Census, SMBC Nikko

[1] See, "Job Quits, New Business Applications and the Post-Pandemic Pace of US Business Formation", M. Owyang and M. Hogan, Federal Reserve of St. Louis, August 5, 2024.

Starting a new business also requires capital so new formations are correlated with gains in household net worth. Strong household balance sheets encourage more risk-taking. As a result, the surge in new business formations after COVID occurred during a period of exceptionally strong growth in net worth. Between mid-2020 and December 2021, household net worth increased 29%.

It also takes talent. In an interesting analysis using micro-data from Denmark the authors compare the IQs between R&D workers and entrepreneurs.[2] R&D workers are defined as those working in industries that typically have a high portion of patents. They find that higher IQ people are more likely to be R&D workers than entrepreneurs. **But the pattern is reversed for "transformative" entrepreneurs**. Transformative entrepreneurs start up highly productive firms that tend to be more profitable than other start-ups. Indeed, these firms reach 10x their initial annual revenue by year 10 compared to 2.5x for the non-transformative new businesses.

New business formation remained strong in 2025 despite declining quit rates (Figure 8). And while gains in household net worth remain robust, they haven't matched their rapid post-COVID surge.[3] **Instead, our sense is that the increase last year reflects ongoing changes in technology and the adoption of AI.** These changes along with remote-working make it easier to set up a new business with broader geographic reach. But they also point to stronger future growth in productivity. Newly created firms are typically more productive than incumbents as they have often adopted the latest, most up-to-date software and business innovations.[4] And, as recently pointed out by Federal Reserve Governor Barr, newly created firms using updated technology increase the competitive pressure on incumbent firms to increase their own efficiency.[5]

While the extent of the AI-boost to labor productivity is unclear, we suspect that some of the improvement is likely to come from an increasing number of small, highly productive (transformative) firms that push larger firms to adopt AI and adapt. Based on the formation numbers it looks as if this has already begun.

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[2] See, "Which Entrepreneurs Boost Productivity?", U. Akcigit, H. Alp, J. Pearce, and M. Prato, Liberty Street Economics, Federal Reserve Bank of New York, January 5, 2026.
[3] Household net worth increased 8% y/y through last September. By contrast net worth rose 29% between June 2020 and December 2021.
[4] See, "How the Pandemic Rebooted Entrepreneurship in the US", K. Fikri and D. Newman, Harvard Business School, January 17, 2024.
[5] See, "What Will Artificial Intelligence Mean for the Labor Market and the Economy?", Federal Reserve Governor Barr, New York Association for Business Economics speech, February 17, 2026

Weekly economic indicator calendar

SMBC US Forecasts						
Date	**Indicator**	**SMBC Forecast**	**Market Consensus (Median)**	**Prior**	**Range of Est.**	**Notes:**
Mar 2	ISM Mfg (10 AM)	50.9	51.8	52.6	49.8 - 53.2	Expecting a mechanical down-move in new orders, production and employment which surged notably in Jan.
Mar 4	ADP Employment (8:15 AM)	8k	43k	22k	38k - +50k	Weakest 12-month average job growth (+23k) in ADP since June 2021.
Mar 4	ISM Services (10 AM)	53.1	53.9	53.8	53.2 - 54.2	All regional Fed services surveys weakened in February, except for KC.
Mar 5	Q4 Nonfarm Productivity (8:30 AM)	1.7%	1.5%	4.9%	1.3% - +1.7%	Real GDP per worker increased by 1.6% QoQar in Q4.
Mar 5	Q4 Unit Labor Costs (8:30 AM)	2.0%	2.2%	-1.9%	-	Likely softer than consensus. Q4 employment costs rose 0.75%, while productivity is stronger than consensus.
Mar 6	Retail Sales (8:30 AM)	0.1%	0.0%	0.0%	-0.3% - +0.3%	**Jan. retail spending was likely weak** as vehicle sales declined -7.3%. Retail sales struggling versus inflation.
Mar 6	Retail Sales ex autos (8:30 AM)	-0.1%	0.1%	0.0%	-0.1% - +0.3%	Gasoline prices increased by 3.5% MoM.
Mar 6	NFP (8:30 AM)	34k	60k	130k	35k - +104k	Forecasting -17k decline for gov't jobs. Last 12m: priv. ed & health +758k jobs vs. -399k for all other sectors.
Mar 6	Private NFP (8:30 AM)	51k	75k	172k	50k - +92k	Forecasting +66k for priv. education and health services. This remains the dominant source of US job growth.
Mar 6	Unemployment Rate (8:30 AM)	4.4%	4.4%	4.3%	4.3% - +4.4%	Upside risk for unemployment rate. We expect a -234k decline in household employment.
Mar 6	Avg Hourly Earnings MoM (8:30 AM)	0.3%	0.3%	0.4%	0.0% - +0.3%	Wage growth trending sideways at 3.7% YoY.

Forecasts subject to change

Source: SMBC Nikko Securities US Economics Forecasts

Quarterly GDP and Rates Forecasts

	2025		2026			
(%)	Q3 Act	Q4 Act	Q1F	Q2F	Q3F	Q4F
Real GDP QoQar	4.3	1.4 (f)	3.0	1.5	2.6	2.2
Real GDP YoY	2.3	2.2 (f)	3.2	2.6	2.1	2.3
Core PCE YoY	2.9	2.7 (f)	2.4	2.4	2.2	2.3
Unemployment	4.3	4.4	4.4	4.4	4.4	4.5
Fed Funds Rate Upper Bound	4.25	3.75	3.75	3.75	3.50	3.50
2 Year	3.61	3.47	3.50	3.40	3.40	3.40
5 Year	3.74	3.73	3.60	3.50	3.50	3.50
10 Year	4.15	4.17	4.15	4.30	4.30	4.30
30 Year	4.73	4.84	4.75	4.75	4.80	4.85

Source: SMBC Nikko

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