# Daiwa's View

## History rhymes

- From "Greed" to "Neutral"

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## History rhymes

**From "Greed" to "Neutral"**

At the beginning of this year, I noted that something to watch out for in 2020 was whether market sentiment would again be driven by fear, because I felt the "extreme optimism" dominating the financial market at that time was unlikely to be sustained. Feeling that objective data was called for, and not just my intuitive sense, I pointed out that CNN's Fear & Greed Index was at the unprecedented level of 97.

After plunging to 47 yesterday, the index recovered slightly to 52 as of this morning. It appears that market sentiment has quickly changed from "Greed" to "Neutral" within a month.

**Chart: Fear & Greed Index**

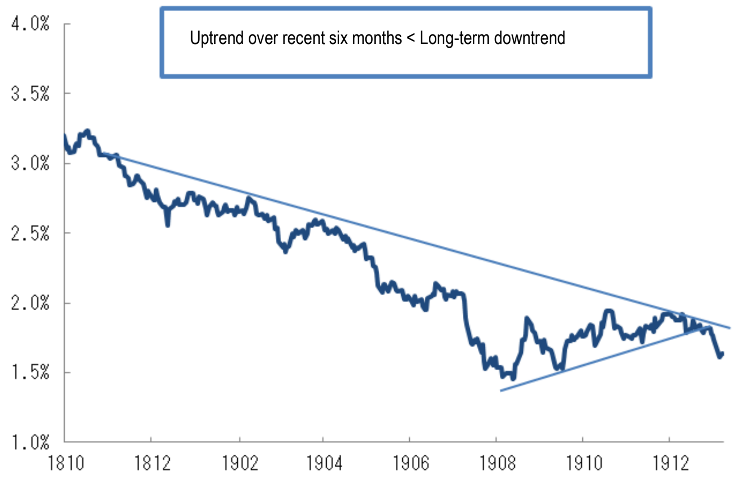

*Source: Extracted from CNN website.*

Of course, it was impossible to forecast the outbreak of a new coronavirus. The continual flow of news reports about the surge in the number of infections and the death toll is fueling fear. Because this is a life-threatening matter, trepidation grows as more details are disclosed.

Nevertheless, I think the current situation could serve as a lesson for the future. It is impossible to accurately forecast the timing and cause of future events. However, looking at the Fear & Greed Index over a certain span of time, it was foreseeable that there would be a reversal of market sentiment from that elevated level.

Close observation of the index shows that it posts a sharp drop, similar to the recent one, roughly twice a year. This implies that the financial market relatively frequently experiences a process in which market sentiment cools rapidly from an elevated level. It might be a bit over the top, but, as they say, "History does not repeat itself, but it rhymes." However, lessons from the past may be somewhat useful in the current situation. Although one cannot deny that it is possible that market sentiment could be driven by further fear going forward, a comparison with past cases indicates that the market has seen a substantial correction. We should acknowledge this fact. In our view, now is the time for partial profit taking.

**Chart: US Long-term Interest Rate**




*Source: Bloomberg; compiled by Daiwa Securities.*

Moreover, we can point out another factor—that the uptrend in the US long-term interest rate over the past six months appears to have ended.

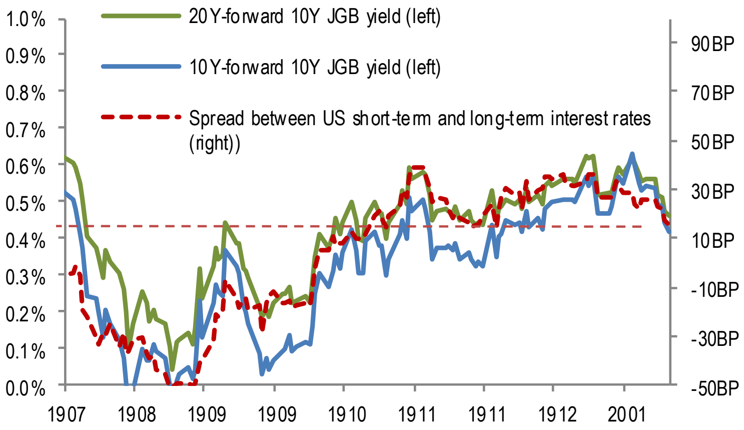
Toward the beginning of this year, a long-term, downward trend line and a recent six-month, upward trend line converged (chart above). Usually, when this triangle formation occurs, an upside or downside breakout is observed. The latest downside breakout implies that fundamental factors, which had brought about yield declines over the long term (low inflation and a decline in natural rate of interest), were stronger than other factors. This has increased confidence for the upper end in our US Treasury yield forecasts for 2020 (1.60-2.00%).

In setting the lower end of our forecast range, we assumed that yield curve inversion (the market becoming more demanding for rate cuts) would not continue. Another important focal point is whether this fundamental factor will be reconfirmed.

On 27 January, Kamiyama Kazushige, Director-general of the BOJ's Research and Statistics Department, expressed the reasonable view that the new coronavirus outbreak will not have a major impact on the underlying tone of global economic recovery provided that the period of severity of the outbreak ends in about three months, as was the case with SARS, while acknowledging however that there is anxiety about how long the outbreak will continue. We do not yet know how the new coronavirus will push down fundamental factors. However, at the moment, we believe that, as the market restores its calm and Kamiyama's reasonable view eventually becomes more widespread, it is very possible that a 10-year US Treasury yield range with a 1.60% bottom will be confirmed.

Moreover, given the recent correlation between JGB and US yields (chart below), the aforementioned conclusion regarding US long-term yields can be applied to superlong JGB yields. As it is impossible to forecast how the impact of the new coronavirus will spread, we cannot deny the need for a certain degree of tail hedge. However, with the 20Y JGB yield now approaching the lower end of our estimated core range for 2020 (0.15-0.40%, core range of 0.20-0.35%), we recommend partial profit taking.

**Chart: 10Y- and 20Y-forward 10Y JGB Yields, Differential Between US Short-term and Long-term Interest Rates**




*Source: Bloomberg; compiled by Daiwa Securities.*

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**[Standard & Poor's]**

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**[Moody's]**

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May 2018

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1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
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2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Nippon Healthcare Investment Corporation (3308), Japan Rental Housing Investments (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group is to acquire up to 5.01% of Credit Saison's total common shares outstanding (as of 31 Jul 2019), while Credit Saison is to purchase up to Y2bn worth of Daiwa Securities Group's common stock.

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- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
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