

Daiwa's View

US stocks plunged again, led by high-tech issues

- Continuing correction of optimism

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Daiwa Securities Co. Ltd.

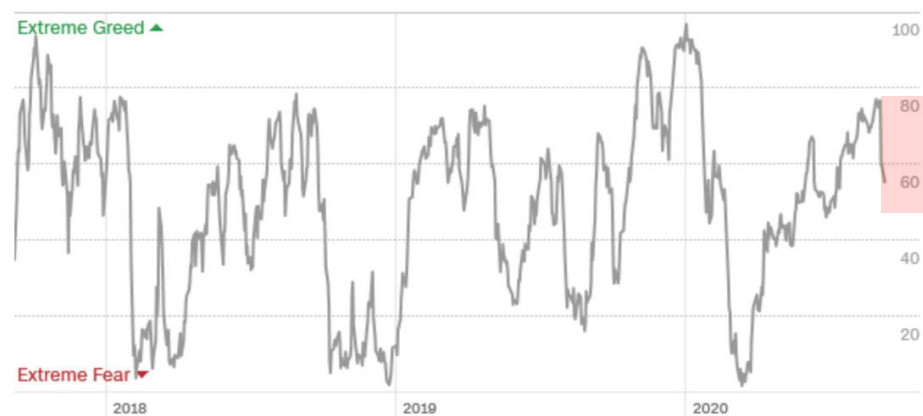
Continuing correction of optimism

US stocks plunged again, led by high-tech issues

After the Labor Day weekend, the US stock market tumbled again, led by high-tech issues. Tesla shares plunged by as much as 21%. The US stock market itself declined for three consecutive days. As we mentioned in [our 26 August report](#), the SKEW Index, a tail risk indicator that is also carefully watched by the BOJ, rose to the level on par with that in September 2018 and January 2020, a warning against the possibility of a significant repricing of assets. From the viewpoint of financial conditions as well, the Goldman Sachs Financial Conditions Index fell to 98.5. As this index tends to plunge after stock prices set record highs driven by easing money, this time is also a repeat of this trend (chart on next page).

Investor sentiment appears to be normalizing sharply from [a near-euphoric situation](#). Last week, CNN's Fear & Greed Index rose close to around 80, showing optimism. It then fell to 55, close to neutral (chart below). This shows that investors are becoming more level-headed, but does not indicate the permeation of pessimism. As investor sentiment is easily moved, there is a chance that it will head toward pessimism. However, at this point, the accurate assessment of the current situation would be a healthy correction against excessive optimism.

Fear & Greed Index



Source: CNN website; colored by Daiwa Securities.

Recently, many market participants have been convinced of a V-shaped economic recovery, and market prices have factored in such a mood. Under this circumstance, the Economic Surprise Index posted a sharp recovery in line with a rise in advance market forecasts (chart on next page), but it has started to decline, albeit still at high levels, which warrants attention. Once the market factors in positive factors, surprises tend to create a downward rather than upward reaction. For the time being, market reactions to positive news are likely to be

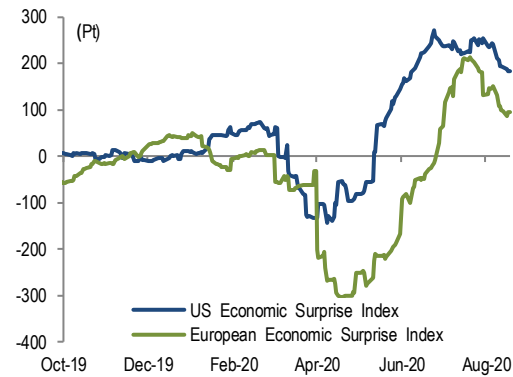
limited, while those to bad news could be strong, although this partly depends on next week's FOMC meeting¹. We expect a prolonged market correction toward the US Presidential election, rather than the quick return to the optimistic/bull market that had been observed until last week.

US S&P 500 Index, Financial Conditions Index



Source: Bloomberg; compiled by Daiwa Securities.

Economic Surprise Index in US and Europe



Source: Bloomberg; compiled by Daiwa Securities.

Amid the plunge in stock prices, US Treasury yields declined across the board last night. The 5-year/30-year spread also posted slight bull flattening from 117bp to 115bp. Of course, there was also a risk-off factor here, but we could point out a “reaction” to last month’s bear steepening caused by caution about deterioration in supply/demand conditions owing to increased Treasury issuance and concentrated issuance of corporate bonds. In the US corporate bond market, we are hearing news on the delayed issuance of some bonds due to deteriorated market conditions. Therefore, bond supply/demand conditions may not worsen as much as we initially expected.

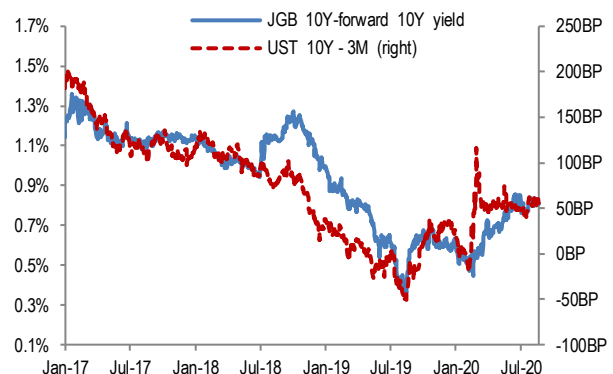
Regarding JGBs, we are worried about market fluctuation prior to the 20-year JGB auction scheduled for tomorrow. However, if moves are limited to the correction of optimism, there should be no major impact. For example, we saw the UST 10-year/3-month spread, which tends to correlate with the JGB 10-year forward 10-year yield, fall from 60bp to 56bp yesterday. On average, however, the spread has been stable, remaining range-bound since the COVID-19 pandemic. Any changes would likely happen at the timing of an upside or downside breakout of the 10-year US Treasury yield. However, this necessitates either euphoria or pessimism, rather than the correction of optimism.

UST Long-term/short-term Yield Spread (10Y-3M)



Source: Bloomberg; compiled by Daiwa Securities.

JGB 10Y-forward 10Y Yield, UST Long-term/short-term Yield Spread



Source: Bloomberg; compiled by Daiwa Securities.

¹ Based on last week’s remarks by Fed officials, most market participants forecast that FOMC will postpone concrete action until Nov FOMC meeting after presidential election.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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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.

As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

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), Daiwa Securities Living Investment Corporation (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 ¥10bn. 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 Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

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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.

** The ratio of margin requirements etc. to the amount of the transaction 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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Corporate Name: Daiwa Securities Co. Ltd.

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