

# Japanese Equity Report

Tokio Marine Asset Management (London) Limited

6<sup>th</sup> February 2018



## Market Comment

### Our thoughts on the recent sharp decline of the Japanese stock market

U.S. labour statistics announced on 2<sup>nd</sup> February revealed a higher than consensus increase in the average wage per hour. Reflecting concerns on the risk of faster than expected rate hikes, yields of U.S. 10-year treasury bonds jumped beyond 2.8%. As a result, the U.S. stock market suffered a substantial decline. The Japanese stock market also fell sharply following the overseas market sell-off. As of market close today, Topix fell 8.77% from its recent high on 23<sup>rd</sup> January, and the S&P 500 is 7.8% off from its record high on 26<sup>th</sup> January.

Not experiencing any significant price falls since early 2017, the U.S. stock market had been enjoying a so-called “Goldilocks” market. The plunge it is experiencing this time seems to have surprised the market participants, who had become accustomed to the excessively subdued market volatility. This may have aggravated the recent market decline.

Despite concerns that the long-lasting post-crisis economic recovery may in turn bring about a recession phase, we believe the U.S. stock market will soon restore its stability. The reason being that we expect corporate earnings will increase, further supported by the U.S. tax reforms, and that U.S. 10-year treasury yields are likely to rise gradually rather than quickly. We also remain positive on the Japanese stock market outlook as the BOJ most likely will continue to keep an easy monetary policy for some time going forward.

However, given the recent increased volatility of the financial markets, we will keep a close eye on the stock market to see if the Goldilocks market will continue in the future.

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For more information about the issues raised in this commentary, please contact Business Development at Tokio Marine Asset Management (London) Ltd.

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