

Japanese Equity Report

Tokio Marine Asset Management (London) Limited

12th October 2018



Market Comment

Our thoughts on the sharp decline of the Japanese stock market

A sharp decline in the US stock market on 11th October 2018 has spread to various global financial markets. As of 6 a.m. Japan time on 12th October, the US S&P 500 was down 5.3%; in Europe, the Stoxx 600 Index was down 3.6%; and the Hong Kong Hang Seng Index was down 3.5%. Japan's TOPIX index has now fallen around 8% since its peak at the beginning of the month. The VIX volatility index has risen from around 15 to 29 points over the course of two days, to reach a peak for 2018.

In credit markets, US and European corporate bond credit spreads are widening among SMEs and financials in particular. Meanwhile, treasury yields are down slightly across the board as investors seek to move into safer assets. We believe the trigger for this major correction is the rise of US ten-year treasury yields above 3.2% in early October. Additional factors are an overheated US stock market and ongoing US-China trade war concerns.

The global market correction in February was largely a result of changing money flows, as investors who had previously moved money into stock markets and other higher risk assets after a sustained period of global financial stability decided to pull out. This time, the decline was due more to rising US interest rates, and their continued impact on global markets.

With no sign of excess inflation in the global economy as a whole, we believe interest rates are unlikely to continue rising; stability looks likely to return as market participants regain trust in monetary policy. Broadly speaking, however, the US is in a rate hike cycle, with rates currently higher than they have been for several years; there remains a certain level of risk that market turbulence led by US treasury yields could continue for some time. We will keep a cautious watch on US monetary policy and interest rate trends, US-China trade issues, and the possibility of turmoil infecting emerging markets.

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

Email: tmal@tokiomarine.co.uk | Tel.: +44 (0)20 7280 8580 | Website: www.tokiomarineam.co.uk

Disclaimer

This document is intended for informational purposes only and no claims can be made based on the content provided therein. It does not constitute an offer or an investment recommendation to purchase or sell investment funds/products or to execute any other types of transactions. It makes no guarantee for the accuracy, reliability, currency and completeness of the information provided herein. The content of this document is subject to change without notice. Tokio Marine Asset Management (London) Limited is authorised and regulated by the Financial Conduct Authority (FRN 487699) and accepts no liability for any damages whatsoever arising from action taken on the basis of the contents of this document. Any simulated performance data and/or past performance data is not a reliable indicator of future performance.