Daiwa's View

"Purchases of all risk assets" have started

➢ All we can do now is just follow this trend

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Daiwa Securities Co. Ltd.

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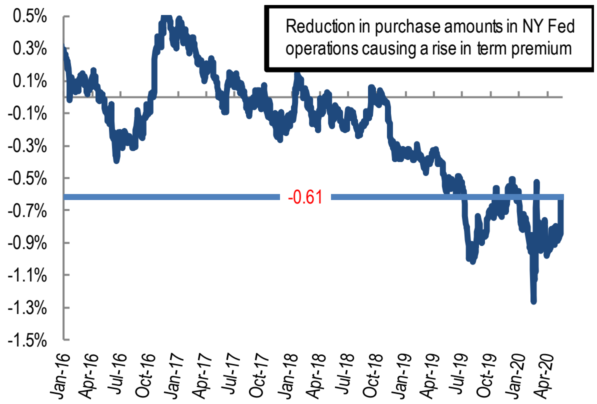
Risk-on mode again continued yesterday. The S&P 500 Index finally ended in positive territory for the year, rising to 3,232 pt. The NASDAQ Index advanced to 9,924 pt, setting a record high. The risk-on mode is apparently similar to that seen last week, but a notable point is the decline in long-term yields, unlike last week. This decline may indicate stronger expectations for a decision on continued generous support via monetary easing at this week's FOMC meeting.

As stated in our report yesterday, QE reduction by the New York Fed has been serving as a factor to drive a rise in the term premium. It is expected that the Fed will not clarify its next policy stance until autumn. Therefore, if the central bank gives the market the cold shoulder, the transition period would entail a risk of resurgence of the taper tantrum seen in 2013. In such a situation, yesterday's decline in long-term yields prior to the FOMC meeting can be interpreted as a sign that the Fed will likely address the risk of higher yields due to the taper tantrum (= expansion of purchase amounts/slowdown in reduction pace). If so, implications of this for the market are naturally "buy all risk assets."

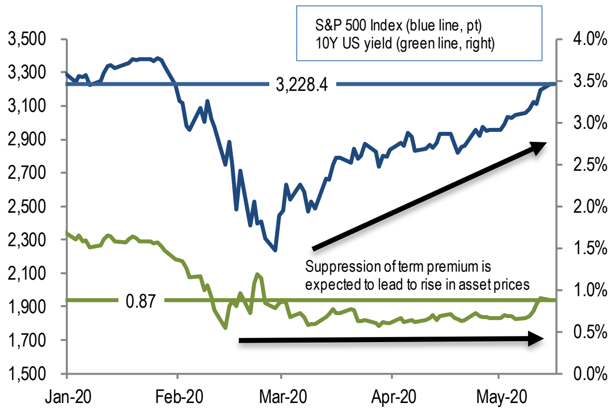
We are uncomfortable with the phenomenon that risk asset prices are setting record highs amid the worst-ever economic environment. However, this is probably an inevitable result, given the largest-ever monetary easing, an unprecedented fiscal spending, and the existence of a time lag that could bring about an overheated market. After confirming a near-term stance at tomorrow's FOMC meeting, we should see a rise in prices of all risk assets, including stocks, long-term bonds, and corporate bonds (degree may differ by product). I feel a bit blue when I imagine the picture beyond this "purchases of all risk assets." However, all we can do now is just follow this trend.

Chart: 10Y US Term Premium



Source: Bloomberg; compiled by Daiwa Securities.

Chart: US Stock Price and 10Y Treasury Yield



Source: Bloomberg; compiled by Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

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[Fitch]

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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 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 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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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- 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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