

Daiwa's View

Downward pressure on yields shown by US corporate earnings results

- Highlights sluggish 'old economy' and surge in 'new economy'

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Daiwa Securities Co. Ltd.

Highlights sluggish 'old economy' and surge in 'new economy'

Downward pressure on yields shown by US corporate earnings results

Yesterday, Facebook, Amazon, Apple, and Google announced their earnings results. Since these four stocks account for 15% of the total market capitalization of the S&P 500 Index, they are now stocks with macro-level rather than just micro-level importance. Looking at the total quarterly earnings results of the four firms, profit and revenues reached around \$28.6bn and \$198.1bn, respectively. These figures are far above market estimates (\$19bn and \$181.5bn), a positive surprise. Amazon's EPS surprisingly came in at \$10.3 vs. the estimate of \$1.46. Apple's EPS also exceeded the estimate of \$2.04, standing at \$2.58, pushing up the stock price as much as 5% in after-hours trading. Although excessive expectations for IT stocks have been a recent concern, it appears that even those expectations fell short of the actual situation.

Meanwhile, earnings of non-IT firms are naturally reflecting [GDP trends](#) (down 32.9% q/q annualized in Apr-Jun). Amid the spreading outlook that a V-shaped recovery is unlikely in the near term, expectations for earnings at old-economy firms are falling again. We may once more see the development of solid NASDAQ and sluggish DJIA stocks.

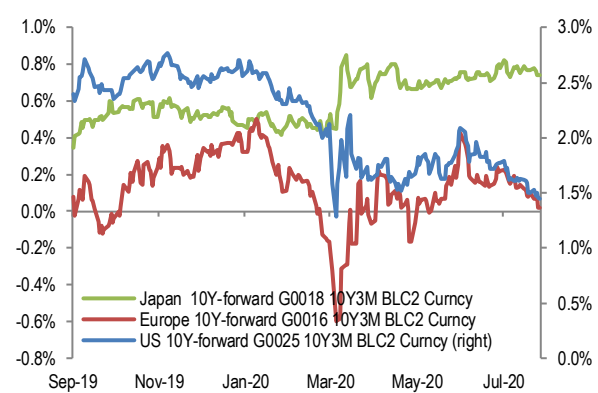
These trends with the DJIA and NASDAQ indices are also suggestive for yields that reflect the overall macro economy. US yields again declined yesterday, with the 10-year yield falling to the 0.50-0.55% range. The 30-year US yield also fell below 1.2% at one point, but managed to recover to 1.20% at closing time. Even in terms of 10-year forward yields, however, there is clear [flattening pressure, which has entered a new phase](#). The 10-year US real interest rate slid to -0.98%, falling below the bottom reached during the period when the Fed was led by Ben Bernanke.

10Y US Treasury Yield



Source: Bloomberg; compiled by Daiwa Securities.

10Y-forward 3M Yield in Japan, US, and Europe



Source: Bloomberg; compiled by Daiwa Securities.

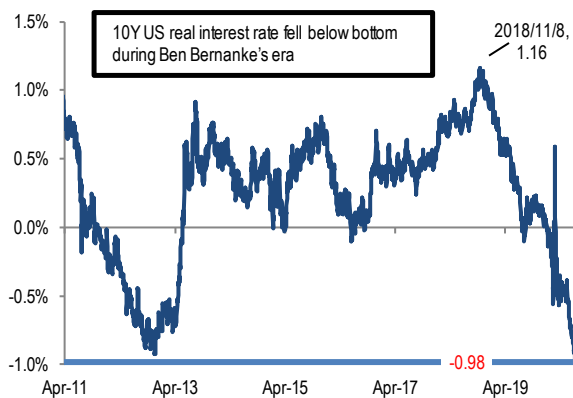
We think the decline in European and US yields to this level will finally make JGBs attractive for overseas investors. Under the circumstances, the Ministry of Finance announced *International Transactions in Securities* yesterday (weekly; based on reports from major designated investors), which confirmed that (1) net investment in Japanese long-term debt securities by overseas investors during 19-25 July came in at Y337.4bn and (2) they remained net buyers for three consecutive weeks. A reversal of the USD/JPY currency basis also suggested the possibility of an inflow of a certain amount of overseas funds, and such expectations were verified by the data. Eventually, JGBs will be unable to avoid global factors in the long run. If the inflow of funds by overseas investors fills part of the supply pressure due to increased JGB issuance, steepening pressure on JGB yields owing to increased issuance and the BOJ's operation stance may have become more difficult to surface than before.

International Transactions in Securities (Y bn, weekly, based on reports from designated major investors)

	Portfolio investment assets (net)				Portfolio investment liabilities (net)			
	Equity and investment fund shares	Long-term debt securities	Short-term debt securities	Total	Equity and investment fund shares	Long-term debt securities	Short-term debt securities	Total
03-Jul-20	217.1	-520.7	9.3	-294.2	-77.0	-746.5	2,274.7	1,451.2
10-Jul-20	-3,639.0	1,067.9	47.1	-2,524.0	66.9	751.4	1,058.1	1,876.4
17-Jul-20	-81.0	292.2	72.8	284.0	-109.9	174.4	2,102.6	2,167.1
24-Jul-20	-149.6	-565.0	-90.8	-805.4	70.6	337.4	45.0	453.1
4-week avg	-913.1	68.6	9.6	-834.9	-12.4	129.2	1,370.1	1,487.0
52-week avg	71.8	235.4	4.9	312.1	-128.0	-36.7	238.1	73.4

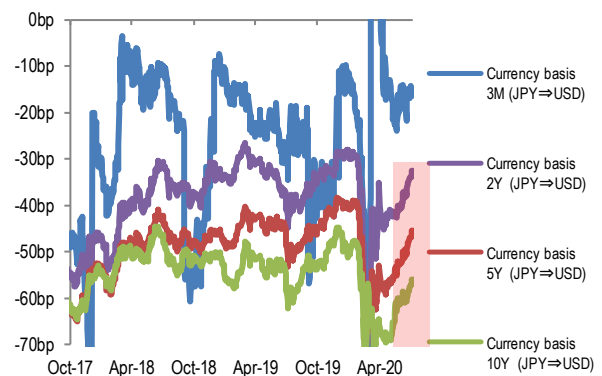
Source: MOF; compiled by Daiwa Securities.

10Y US Real Interest Rate



Source: Bloomberg; compiled by Daiwa Securities.

USD/JPY Currency Basis



Source: Bloomberg; compiled by Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

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- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

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■ Credit Rating Agencies

[Standard & Poor's]

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The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moody.com/pages/default_ja.aspx))

Assumptions, Significance and Limitations of Credit Ratings

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[Fitch]

The Name of the Credit Rating Agencies group, etc

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The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

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Other Disclosures Concerning Individual Issues:

- 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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- 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.

** 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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