SMAM Japan Insights (No.045)

11 June 2015

Masahiro Ichikawa
Senior Strategist

Japanese and US Stock Market Outlook after US Jobs Report

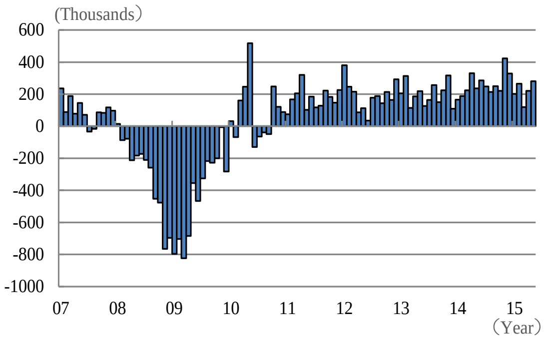
- May US jobs report showed improvement in the labour market slack.
- The expectation on US rate hikes in this year moved USD higher whereas US bond and share prices lower.
- US growth allowing Fed to hike rates would ultimately favour both US and Japanese stocks.

May US job report showed improvement in the labour market slack

The May US Nonfarm payroll (NFP) by the U.S. Bureau of Labor Statistics increased by 280,000, better than consensus of 226,000 from the previous month (Chart:1). The NFP in 6 month moving average basis is growing firmly at 236,000. In terms of the components, Private service-providing added strongly 256,000 in Leisure & hospitality and Retail trade, whereas Goods-producing showed slowing particularly in Mining and logging.

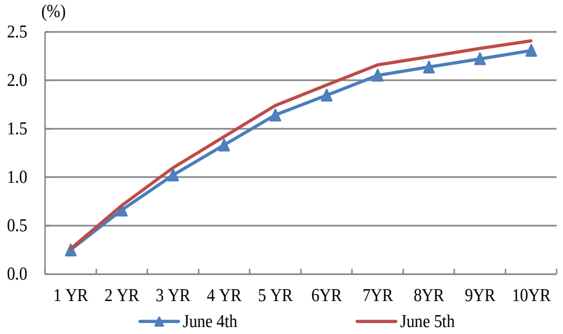
The following 4 data are listed as a US labor market slack; (a) y-o-y change in average hourly earnings, (b) unemployment rate for the person unemployed for 27 weeks and over, (c) participation rate and (d) part time for economic reasons. In the month, 3 of 4 data showed improvement except for (d). Reviewing these specific numbers, (a) average hourly earnings rose from 2.2% y-o-y to 2.3% y-o-y, (b) unemployment rate for the person unemployed for 27 weeks and over fell from 29% to 28.6%, (c) participation rate gained from 62.8% to 62.9% and (d) part time workers for economic reasons increased from 6,580,000 to 6,652,000. Meantime, the unemployment rate in the month rose by 0.1ppt from April to 5.5% , but this was due to the increase in the number of job seekers as the participation rate in May was higher.

Chart 1: US Nonfarm Payroll Employment



(Note) Data period from January 2007 to May 2015.
(Source) SMAM, based on Bloomberg L. P. data.

Chart 2: US Treasuary Yield Curve



(Note) Yield of 4, 6, 8 and 9YR are calculated based on time distribution.
(Source) SMAM, based on Bloomberg L. P. data.

The expectation on US rate hikes in this year moved USD higher whereas US bond and share prices lower

The US Treasury market closed lower after the jobs report on June 5th as the mid-to long term bond yields moved higher on increasing expectation for US rate hike within this year (Chart:2). In the currency market, USD also moved higher against major currencies, whereas US stocks such as Dow Industrial Average and S&P500 Indices plunged on concern over likely rate hike. Treasuries, currencies and stock markets reacted in the same way as before to the expectation of Fed's policy normalization. Now, reviewing the correlation between rate hikes and stock prices, a rate hike as an outcome of economic recovery would favour stock prices as it would prove solid macro economy. On the contrary, a rate hike caused by inflationary pressure is likely to weigh on stock prices. I believe higher US Treasury yields at present are caused by the former reason.

US growth allowing Fed to hike rates would ultimately favour both US and Japanese stocks

Tokyo stock market also closed lower on June 8th following weak US stock market on the concern over the Fed's rate hike. The financial markets across the globe are likely to become nervous when the timing of the liftoff is approaching. The US, Japan and other major stock markets are likely to consolidate temporarily. However, that would be a tailwind for US stocks and global economy if solid US economy enables the Fed to hike rate. This would also be a tailwind for Japanese stocks as US growth pushes Japan's exports to US higher, and the exporters benefit from higher USD/JPY led by widening yield spread between US and Japan.

The US Fed seems to conduct their policy normalization prudently. The US Treasury yields and USD are likely to move higher at moderate pace alongside the mild growth in the country. In this sense, the trend of lower stock prices on concern about the rate hikes will be eased eventually, and global financial markets are also very likely to stay away from a pandemonium over higher US bond yields. Therefore, the risks on US rate hikes would finally be marginal for the stock markets.

Note: Comments in this report are based on data as of June 8th.

Disclaimer

Please read this disclaimer carefully.

•This material is for non-Japanese institutional investors only.
•The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
•The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
•Past performance is not necessarily indicative of future results.
•The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
•The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
•The recipient of this report must make its own independent decisions regarding investments.
•The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
•The awards included in this report are based on past achievements and do not guarantee future results.
•The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
•This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
•All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399
Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type Ⅱ Financial Instruments Firms Association
© Sumitomo Mitsui Asset Management Company, Limited