

The Recent Decline in Japanese Stocks

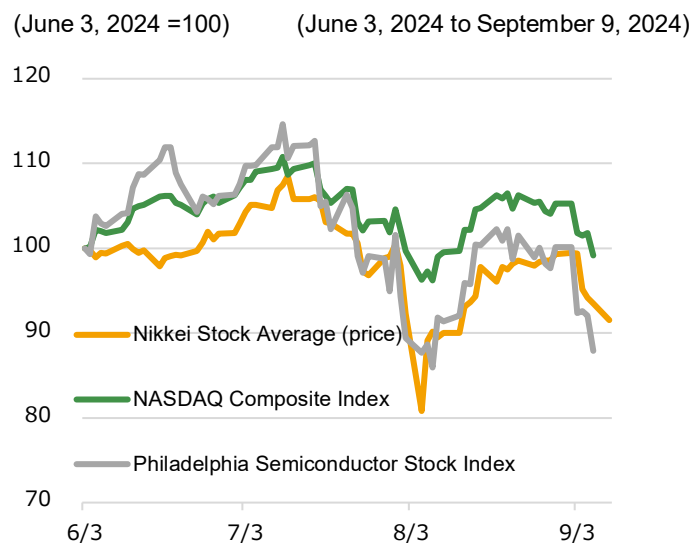
Semiconductor and AI-related stocks led the downside on concerns of a worsening US economy

September 9, 2024

Nikkei Stock Average temporarily down over 1,100 Yen due to lower US employment data

The August US employment report released at the end of last week showed that job growth fell short of market expectations, exacerbating concerns about a potential economic downturn in the US. This led to a significant sell-off in semiconductor and AI-related stocks, causing a decline in US equities. As a result, on the 9th, export-oriented stocks led the decline, and the Nikkei 225 index temporarily fell by over 1,100 points. Although the US job growth missed market expectations, it accelerated from the previous month and the unemployment rate also decreased. The market appears to be overly sensitive to negative news and leaning towards a somewhat pessimistic outlook. Historically, September is a month when US stocks are prone to corrections. This year, with the US presidential election slated for November 5, there is an increasing wait-and-see sentiment, making semiconductor and AI-related stocks, which have surged significantly since the beginning of the year, more susceptible to selling pressure. Concerns about a US economic downturn and the appreciation of the Yen are also making Japanese stocks more vulnerable to selling. However, domestic consumption is on an improving trend due to wage increases, a pause in excessive Yen depreciation, and the effects of the hot summer. Additionally, if a fresh candidate becomes the new president of the Liberal Democratic Party in the election scheduled for the 27th, an early general election is anticipated. Historically, stock prices tend to rise around the time of general elections due to expectations for the new administration, and this could be a factor supporting stock prices this time as well, given the potential improvement in cabinet approval ratings. Furthermore, there have been announcements of share buybacks significantly exceeding the highest pace in history. There is a tendency for share buybacks to accelerate after mid-term earnings announcements in late October and coupled with the resolution of uncertainties surrounding the US presidential election, we anticipate an improvement in the supply-demand dynamics for equities towards the year-end.

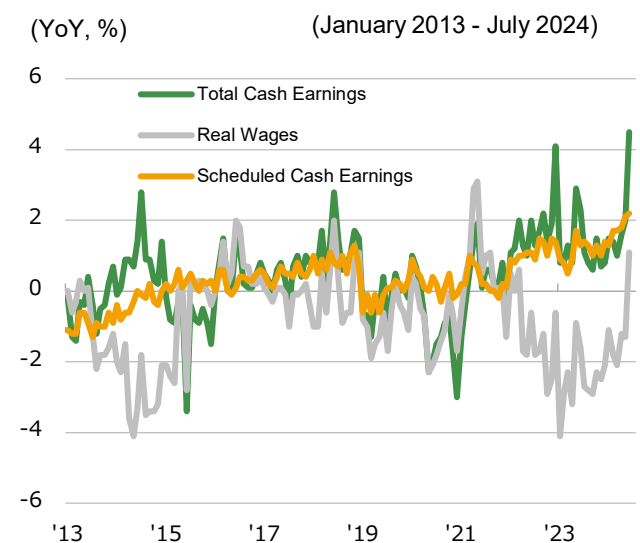
Nikkei Stock Average and U.S. Stock Price Index



※Local currency basis, except Nikkei Stock Average, until September 6, 2024

Source: Bloomberg; Compiled by Daiwa Asset Management

Monthly Labor Survey



※ Companies with at least 5 employees

Source: Ministry of Health, Labour and Welfare; Compiled by Daiwa Asset Management

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