Musha Research

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Musha Research Commentary

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Musha Research's view of the US-led market crash

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Fundamentals show no reason for stock prices to decline

1. Global economies are faring well.
2. Corporate earnings around the world are favorable.
3. New industrial revolution and innovation are supporting the economies.
4. Appropriate economic policies by major governments.
5. Controlled inflation.

No signs of a recession taking place in the near future. Prolonged bear markets do not occur without a recession.

Not many view current US stock prices as a bubble

1. PER at the end of January was 23 times (earnings yield 4.3%). This seems somewhat high as historical average is 15. However, taking into account the low level of long-term interest rates, stocks are more attractive. (Yield spread is still very wide in the U.S.)(Shiller's CAPE ratio at its highest since the dot-com bubble, isn't practical as it does not consider low interest rates.)
2. Economists view that interest rates rising will be limited and outlook of corporate earnings continues to be bright (benefits of the tax reform to kick in).
3. The misery index (unemployment rate + inflation) which indicates the wellness of an economy is at its historical low, which can also justify high PER.

There is no need to be concerned about current stock price levels from fundamentals.

Cause of market plunge --- simply based on the supply and demand

1. Vicious chain-reaction selling triggered by program trading
2. Speeding adjustment

The Dow Jones Industrial Average has risen rapidly; 42% in 15 months since Mr. Trump was elected. This is far too fast and needs adjustment. Current stock prices are not bubble levels. However, the speed of its climb is too fast. In the past 120 years, the New York Dow has grown by 600 times which is an annual rate of 6%, and in the past 40 years, 9% or 26 times. Current speed is obviously abnormal. This rapid growth gives stock investors excessive returns. This can cause distortion in the financial markets. It is only rational for the market to adjust the abnormal high returns that stock investors have received.

Japanese stocks are more attractive

Japanese stock levels are more attractive compared to US stocks' sharp and rapid increase. In the second half of the Showa era, the Nikkei Average increased 400 times in 40 years (from 92.6 yen on January 31, 1950 to the peak of 38,916 yen at the end of December 1989). However in the 30 years of the Heisei era, it has stopped to gain at all. The Nikkei Average is currently at 23,000 yen which is lower than it was in the first month of Heisei (Jan 1989), when stock price ended at 31,581 yen. Japanese stock market doesn't have to adjust its speed. Also, when taking into consideration the very wide return gap between almost 0% government bond yield or savings deposit rate and 6% Japanese stock's earnings yields, Japanese stocks are the better buy.

In the past, Japanese corporations lost presence trying to be "number one". Now they have shifted to an "only one" strategy which is bringing in remarkably higher profits. Please refer to Strategy Bulletin Vol. 192 and Key Strategy Issues Vol. 303.