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# The 'jinx of years ending in the number 7' and concerns about a US stock market collapse

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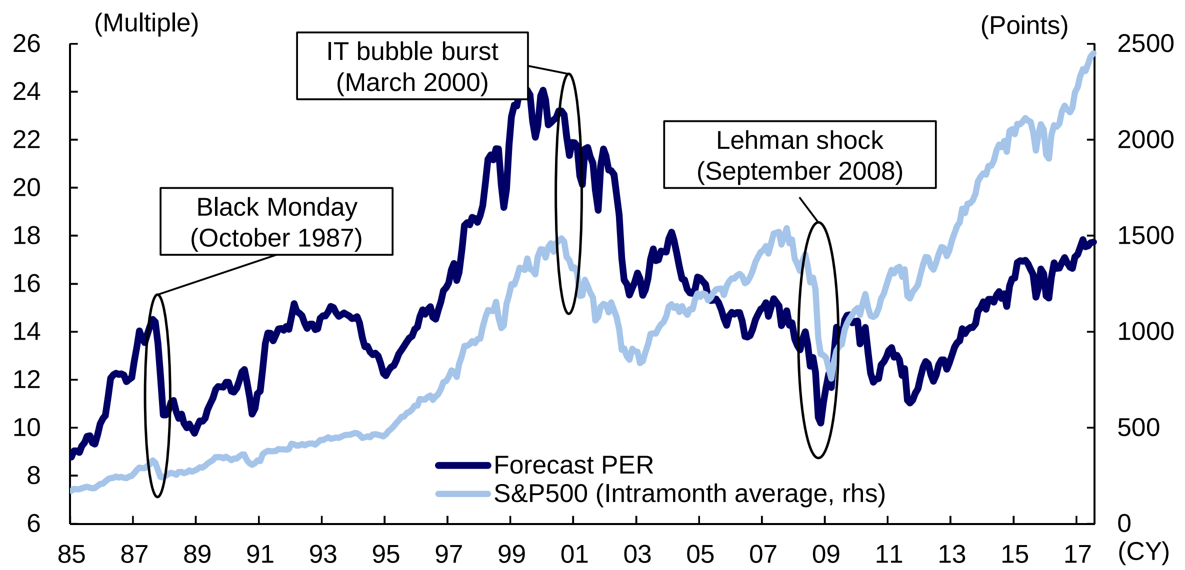
The basic storyline behind our recently released "global economic outlook"[1] is that there is a new normal with an ongoing Goldilocks economy that sees the coexistence of an active stock market and low interest rates, while monetary easing continues. That is, prices are not rising despite the tight labor market, and the continued monetary easing and trend for companies to increasingly return benefits to their shareholders provides a favorable environment for stocks that is expected to lift stock prices. However, given this comfortable situation, our concern is about the sustainability of record high stock prices. The comfortable Goldilocks economy and continued monetary easing certainly favors the stock market, and President Trump is reportedly hoping for a FRB Chair that likes low interest rates to succeed Chair Yellen, when her term of office ends in February 2018. The excessive increase in expectations at these times tends to foster stock market bubbles. US stocks are already overvalued with PER of about 18. Since the beginning of the year, we have noted the prospect of turmoil in the

**[ Chart 1: Forecast PER For the S&P Index ]**




Note: Forecast PER is the 12-month forward forecast PER.
Source: Made by Mizuho Research Institute, Inc. (MHRI) based upon Datastream

[1] *FY2017, FY2018 Economic Outlook*, released in Japanese on August 15 and to be released in English during September

financial markets from summer through autumn, which has been a pattern referred to as the “jinx of years ending in the number 7”. This risk is evident once again this year. However, the current lack of full-blown leverage in the US means the risk of major slump in the real economy is small. Moreover, a temporary decline in stock prices would ease the sense of stock market overheating and also tend to underpin an economy that can avoid a sudden interest rate hike. This also underpins our view that the current period of US economic growth is likely to break through the longest record to date of 120 months. Chart 1 illustrates the movement in the forecast PER for the US stock market. In the past, there have been repeated major corrections in the stock market when the PER has risen.

Chart 2 presents past global economic and financial crises by year since the 1980s. It appears that one of the “Far Flung Forecasts 2017”[2] that we referred to in December 2016 could come true with the “jinx of years ending in the number 7”. Events having major impact on the financial markets have occurred at 10 yearly intervals such as Black Monday in 1987, the Asian financial crisis in 1997, and the subprime problems in 2007. Moreover, these events have all occurred from summer through to autumn. 2017 would be the next year in this jinx cycle, and timed to occur from about now until autumn, so we need to pay particular attention. In addition, it is not just years ending in the number 7, the anomaly in the financial markets is that change tends to occur during the period from summer through autumn.

US Labor Day is on September 4, which marks the end of summer and the start of fall (autumn) in the US. It is the time for students to end their vacations and start the new school year. For many companies in Japan, this time also marks the end of the first half and the beginning of the second half of their fiscal years. Since there is an anomaly for change in the stock market at such time, we will closely monitor market movements. It is difficult to say what could trigger change this year. However, there are concerns about the incumbency of the Trump administration, and any increase in such concerns could lead to financial market instability.

[2] *Mizuho Research Institute's "Far Flung Forecasts 2017"*, Market Insight (December 14, 2016)

**[ Chart 2: Past economic and financial crises ]**

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| 1980s | Savings & Loan Crisis (about 1981-82, 1987-88) |
| 1980s | Latin American debt crisis (1982, Mexican debt crisis) |
| 1987 | Black Monday |
| 1990 | Japan's bubble burst (Stock prices fell from peak at the end of 1989) |
| 1994 | Mexican peso crisis |
| 1997 | Asian currency crisis (1998, Russian financial crisis; LTC collapse) |
| 2000-01 | IT bubble burst (2000-01), Stock price collapse after 9/11 (2011) |
| 2007 | Subprime problem (Paribas shock) |
| 2008 | Lehman shock |
| 2010-12 | European debt crisis (2009, Detection of understatement in Greece's budget deficit) |
| 2013 | Emerging market instability triggered by Bernanke shock |
| 2015, 16 | China's yuan shock (August 2015, January 2016) |

Source: Made by MHRI