**Stock market**

period: 2021 March 1st -March 4th

There was huge market correction in early March. Multiple factors caused cause this drop. In my perspective, I would consider 3 major factors that impacted on equity market regarding 10% Nasdaq composite index drop.

The factors are given below:

* 10 – Year Bond (Treasury Yield 10 Years)
* 1.9 trillion stimulus bills
* Sector Rotation

**Part 1: 10 – Year Bond (Treasury Yield 10 Years)**

First of all, I would like to talk about the relationship between 10 -year bond and Nasdaq composite index.

US 10 Years bond is one of the important factors when Fed keeps the 0-interest rate. The Nasdaq index is performing inverse proportion with the 10-year bond. In this part, I emphasize how bond has increased and reached to 1.55 from last Oct to this March. The first element would be Covid-19 outbreak and The Federal Reserve System lowered the interest rate to almost zero. The major reason is multiple billion stimulus bills. As producing more bills, this tended to cause huge inflation and the concern has been reflected into the market. Money flow has increased, but as 10-year bond increased due to the lower value of US dollars. This threatens retail investors since this cause huge market depression. This means that investors get attracted more by bond yield over equity market. This will cause negative money flow to the stocks and so it could lead to either depression or periodical correction. The other important factor would be the bank interest. This will go up simultaneously with US treasury yield. Thus, the market may be volatile and many numbers of starts up and bubbled stocks will be crashed badly due to the uncertainty of the market.

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Figure1) Nasdaq 100 index (source: Yahoo)

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Figure2) US Treasury Yield 10 years (source: Yahoo)

**Part 2: 1.9 trillion stimulus bills**

Quantitative easing is closely related to the Covid-19 stimulus bills. As a date of March 6th, the stimulus bills passed both congress and senate. Although the US Treasury yield 10 years spiked to almost 1.6, we can see that increasing the yield seems like a good signal of recovery of the economy. The role of Fed is significant since they can either increase or decrease the interest rate. The current Chairperson **Jerome** **Powell** still supports low interest rate until the US economy recovers. Inflation is the other issue that must be considered during the quantitative easing. This tend to be inevitable since a huge amount of money will be released into the market and this will help to activate the current US market, but this will also downgrade the value of the US dollars. At the moment, Fed is anticipating 2% of the inflation rate in the market. However, this will be still affordable rate considering the current cash flow into the market.

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Figure3) The graph between Interest Rates and Inflation

The Fed’s policy is the primary determinant of inflation and inflation expectations over the longer term. Normally, general audience would assume that when Fed raised the interest rate. The inflation rate will decrease. In this graph, the difference is not very discrete. The reason is the real interest rate. This is also called as equilibrium real interest rate and this will consider broad factors of the current economy such as employment rate, capital resources, and household debt. At the moment, unemployment rate stays at 6.3% and this rate is still higher than fed’s expectation. Thus, Fed will keep the low interest rate to stabilize the US economy. As reflecting the real interest rate, what Fed aims at most would be unemployment rate and market opens to the normal to generate normal cash flow. If the US 10-year Treasury Note goes up to 2%, there will be possibility of the stock market crush or huge fluctuation since Fed kept the position of the low interest, but the 10-year yield still goes up. This mean that the market cannot rely on what Fed is aiming to control the market anymore. This reminds me that the uncertain direction of the market due to the Covid-19 and all investors required to conduct their own research rather following the current trend from the Fed.

**Topic 3: Sector Rotation**

The year 2020 has been developed growth stocks much more than value stock. A lot of tech companies doubled or tripled from the March to December. This means that IT sectors have lots of bubbles and this is about to burst depending on the further stimulus bills and political direction against Covid-19. You can see many of growth stocks increased dramatically, but value stocks such as banking, retail, and travel. As far as I can tell, the Covid-19 has settled compared to previous year and Vaccine is rolling out across the country. When the economy gets settled and the employment rate comes back to normal, the Fed will show the movement of the increase of the interest rate (Tapering). This is a necessary element since quantitative easing policy has kept from early 2020 to mid of the 2021. Approximately $5.5 trillion has been used to support citizens, business, and economy. After conducting a quantitative easing policy, tapering is inevitable since huge amount of money flow will cause hyperinflation that will damage US economy. Thus, this may burst an IT bubble and investors will look for safer assets such as value stocks, silver, gold and raw materials.

To minimize financial loss, we all need to be up to date with the current market and continuous attention is required with Fed’s announcement and 10-year treasury yield. Make sure your portfolio is not focused on only one sector because this will maximize your loss when the interest rate increases. It’s not too late to distribute your stocks with wide range of the sectors.