

**Japanese Equities:** Equity prices expected to rise in line with profit growth of companies in Japan despite concerns about strong yen.

Nikkei Average	July end	MoM
	19,925.18 Yen	-0.54%

#### [Market review in July]

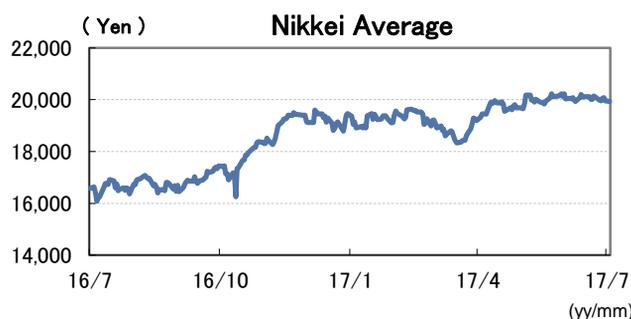
Equity prices remained within particular range despite stronger yen.

Equity markets in Japan declined. However, despite the decline, if looked at for the whole month, they remained within a particular range. July saw the yield of U.S. treasury bonds drop with the deceleration of the rise in U.S. price statistics, and the resulting stronger yen and weaker dollar in the foreign exchange market. Nevertheless, since at present the foreign exchange rate is generally in line with the level assumed for the forecast of corporate earnings by the market, its impact on equity markets was limited.

#### [Outlook]

Going forward the developments in U.S. price statistics should continue to be watched, as they affect not only the pace of monetary tightening (the raising of interest rates) in the U.S. but also the Yen/U.S.dollar exchange rate. However, we do not think that price increases are likely to decelerate so much as to prevent the normalization of monetary policy. On the other hand, the financial results of companies in Japan have showed favorable outcomes so far to ascertain the continued trend of increasing profits. We expect that equity prices will continue their gradual rising trend in line with the growth of EPS.

Positive Factors	Negative Factors
<ul style="list-style-type: none"> <li>● Stable economic activities and corporate earnings.</li> <li>● Increase in US yields due to the raising of US interest rates, and the accompanying further strengthening of the dollar and weakening of the yen.</li> </ul>	<ul style="list-style-type: none"> <li>● Emergence of political uncertainty due to the decreased support for the administration.</li> <li>● Heightened geopolitical risks</li> <li>● Concerns about US protectionist policies.</li> </ul>



\*Source: data from Nikkei Inc. Daiwa Asset Management

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