

•**Japanese Equities:** Equity price adjustment to be temporary if any, due to favorable corporate earnings

Nikkei Stock Average	October end	MoM
	22,011.61 Yen	8.13%

#### [Market review in October]

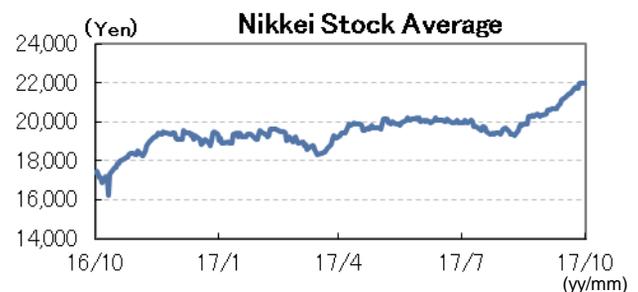
Equity prices to rise strongly after exceeding key level of Nikkei Stock Average

Equity markets in Japan rose. At the start of the month, equity prices increased mainly due to the steady U.S. economy and the empirical rule which states that equity prices are likely to increase before lower house elections. From the middle of the month, equity prices were on an increasing trend, albeit with a sense of caution about high prices, primarily in favorable response to the Nikkei Stock Average exceeding the highest price since 2000, the landslide victory of the ruling parties in the lower house election, and progress in U.S. tax reform. Moreover, equity prices were also pushed up by generally favorable corporate earnings in Japan announced from the end of the month.

#### [Outlook]

The current markets have momentum. On the other hand, since the sense of overheating cannot be denied for technical indicators, etc., we foresee an adjustment risk remaining in the short term. However, given the favorable corporate earnings, as long as there is no additional negative factor, any adjustment is expected to be only temporary with equity prices to begin increasing again. If the profit increase continues in the next term as expected by the market, the current level of equity prices should be at a level which can be fully explained by corporate earnings.

Positive Factors	Negative Factors
<ul style="list-style-type: none"> <li>● Stable economic activities and corporate earnings.</li> <li>● Progress in the U.S. tax cut policy</li> </ul>	<ul style="list-style-type: none"> <li>● Reaction to rapid rise of equity prices</li> <li>● Heightened geopolitical risks</li> <li>● Agreement on the U.S.-Japan Economic dialogue placing burden on Japan</li> </ul>



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

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