

•**Japanese Equities:** Favorable economic activity and increasing corporate earnings to contribute to further rises in equity prices in 2018

Nikkei Stock Average	December end	MoM
	22,764.94 Yen	0.18%

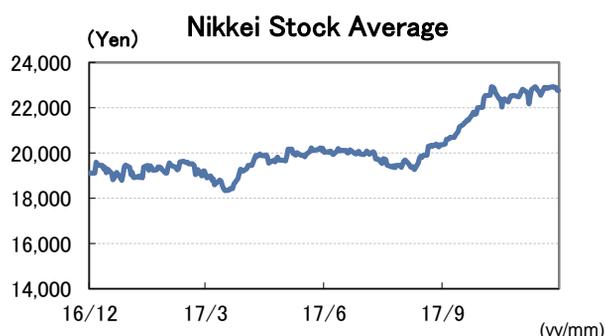
[Market review in December]

A month for feeling ups and downs depending on developments in US tax reforms. Equity markets in Japan rose slightly. In the first half of the month, equity prices dropped at one point, responding negatively to the possibility of turmoil in the Middle East due to recognition by the US of Jerusalem as Israel's capital. However, in the second half of the month, equity prices recovered quickly in a favorable response to the steady progress of discussions on the US tax reform bill. After the successful passage of the US tax reform bill in Congress, they secured a gain for the month, although the probability of higher equity prices decreased because all of the news expected had come out.

[Outlook]

We expect equity prices in Japan to continue their upward trend, supported by growing earnings of Japanese companies against the background of favorable global economic activity and generally accommodative monetary policies by the central banks of advanced countries. The favorable environment for equity markets is basically expected to continue, although attention should be paid to changes in the monetary policies of central banks due to the accelerated pace of increases in inflation rates and developments related to geopolitical risk.

Positive Factors	Negative Factors
<ul style="list-style-type: none"> ● Stable economic activities and corporate earnings ● Higher-than-expected growth of US economy due to US policies to cut taxes 	<ul style="list-style-type: none"> ● Heightened geopolitical risks ● Retreat from monetary easing and accelerated tightening by central banks in Japan, Europe, and the US



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

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