

November 1st Japanese Stock Market Plunge

A Call for Composure Based on US and Japanese Corporate Earnings

November 1, 2024

The Nikkei 225 index experienced a significant decline, driven by the downturn in US tech stocks and the appreciation of the Yen.

The Nikkei 225 index experienced a significant decline on November 1st, closing at 38,053 points, down by 1,027 points (2.6%) from the previous day. This substantial drop was influenced by the following factors:

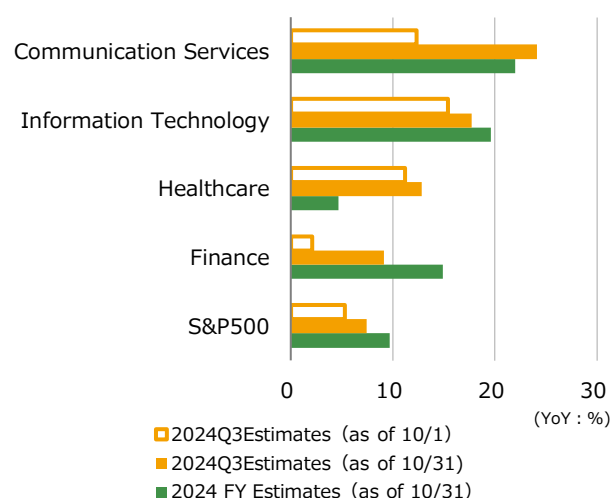
1. US Tech Stock Decline: The US stock market saw a sharp drop led by tech stocks following the disappointing Q3 earnings and capital expenditure forecasts from Microsoft and Meta, announced after the previous day's trading session. This sell-off extended to the Tokyo market, impacting domestic tech stocks.

2. Yen Appreciation: Remarks by Bank of Japan Governor Ueda during the press conference following the October 31st Monetary Policy Meeting prompted the speculation of an early rate hike, causing the Yen to appreciate to the upper 151 Yen range against the US dollar.

3. Investor Caution Ahead of Key Events: Awaiting the release of the US October employment report on November 1st and the US presidential election on November 5th, many investors in the Tokyo market refrained from buying ahead of the three-day weekend.

Despite these factors, there is no need for excessive pessimism regarding the fundamentals of Japanese stocks. The view that US tech stocks (in the communication services and information technology sectors) will drive corporate earnings growth through AI-related businesses remains unchanged (see Chart 1). At the current exchange rate levels, domestic companies are projected to achieve a 7.5% YoY increase in recurring profit for fiscal 2024(see Chart 2). Although the political landscape remains uncertain, leading to market volatility, it is important to note that the underlying corporate earnings trends supporting stock prices are solid.

Chart 1 - S&P 500 Earnings Gains by Major Sector



※LSEG Forecast; 324/500 companies have published their 2024Q3 (July-September) results as of 10/31

(Source: Prepared by Daiwa Asset based on LSEG

Chart 2: Recurring Profit Growth Rates of Major Listed Companies by Exchange Rate Assumption

	2024FY Ordinary Income Growth		
	Company	Manufacturing	Non-Manufacturing
1 US\$=130JPY, 1 €= 145JPY	1.6%	-3.4%	8.5%
1 US\$=135JPY, 1 €= 150JPY	3.0%	-0.7%	8.2%
1 US\$=140JPY, 1 €= 155JPY	4.5%	2.1%	8.0%
1 US\$=145JPY, 1 €= 160JPY	6.0%	4.8%	7.7%
1 US\$=150JPY, 1 €= 165JPY	7.5%	7.5%	7.5%
1 US\$=155JPY, 1 €= 170JPY	9.0%	10.2%	7.2%

※Reflects exchange rate fluctuations from July 2024 onward

(Source: Prepared by Daiwa Asset based on Daiwa Securities Corporate Earnings Outlook

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