

The Impact of US Tariff Hikes on Japanese Stocks

Uncertainty Surrounding Tariffs Continues, but Supply-Demand Conditions Remain Favorable

February 3, 2025

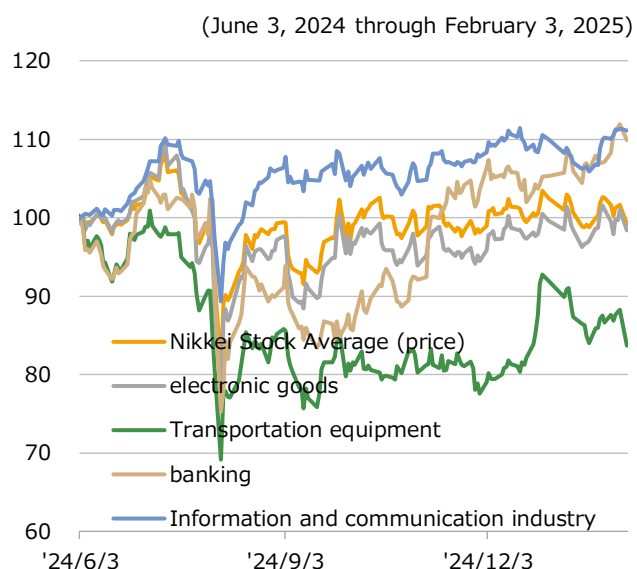
Despite Stock Price Declines Due to US Tariff Hikes, Favorable Supply-Demand Conditions Such as Share Buybacks Provide Support

On February 3rd, the stock market (up to the morning session) saw the Nikkei 225 drop by 2.4% and the TOPIX by 2.3% following President Trump's executive order on February 1st to impose a 25% tariff on Canada and Mexico and an additional 10% on China. Stocks related to external demand, particularly automobiles that import many finished products and parts from Mexico, experienced significant declines. Although President Trump was strongly committed to raising tariffs, but the stock market's decline was also driven by the widespread belief that such tariff increases, which would harm the domestic economy, would be avoided. The tariff hikes are expected to be passed on to product prices, potentially leading to a future decline in demand. Additionally, retaliatory tariffs from affected countries could further dampen demand. There is also the possibility of a reactionary decline in demand following a rush to purchase before the tariff hikes. Furthermore, President Trump's statement about imposing uniform tariffs on all countries suggests that uncertainty will persist for some time.

However, Japanese companies' enthusiasm for shareholder returns is unprecedented, and favorable supply-demand conditions are driving stock prices up. If tariff hikes lead to reduced consumption and subdued inflation, interest rate cuts by various countries could support the economy, potentially avoiding a significant economic downturn. Moreover, if other countries proceed with rate cuts while the Bank of Japan continues its rate hikes, the Yen could appreciate. This would benefit domestic demand companies struggling with rising costs and attract long-term investors focusing on the undervalued Yen assets, potentially leading to a significant stock price increase driven by domestic demand, reminiscent of the 1980s.

█ Nikkei Stock Average and TSE Industry Index

(June 2024 beginning=100)



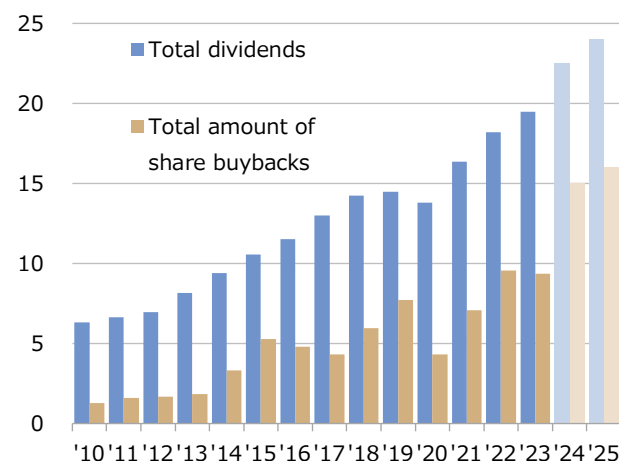
※February 3, 2025 until the morning session end of the day.

Source: Bloomberg; Compiled by Daiwa Asset Management

█ Total dividends and share buybacks

(trillions of yen)

(FY2010-FY2025)



※Daiwa Securities forecasts for FY2024 and FY2025

Source: Daiwa Securities Co.Ltd.; Compiled by Daiwa Asset Management

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