

Stock Market Decline on February 28

Robust Performance of Japanese Companies with Emphasis on Enhanced Shareholder Returns and Domestic Demand

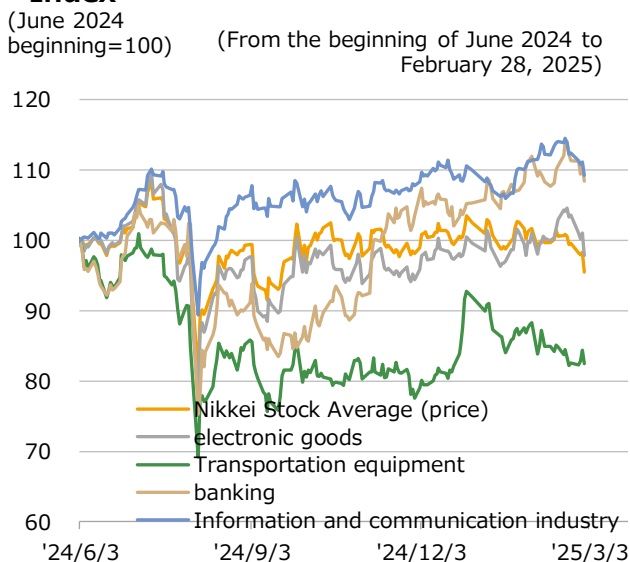
February 28, 2025

Focus on Enhanced Shareholder Returns and Domestic Demand Amid Strong Uncertainty in US Economy and Policies

On February 28, the stock market (up to the morning session) saw the Nikkei 225 drop by 2.8% and the TOPIX fall by 1.9%. President Trump announced the imposition of a 25% tariff on Canada and Mexico and an additional 10% on China starting March 4, leading to a decline in export-related companies. Additionally, despite NVIDIA's strong earnings report, its stock price plummeted, causing a ripple effect on domestic AI and data center-related companies. Furthermore, many of the US economic indicators for February fell short of market expectations, contradicting the prevailing views of economic expansion, accelerating inflation, and rising US interest rates. The potential for tariffs, immigration restrictions, and government efficiency measures to act as economic dampeners suggests that inflation may not accelerate as anticipated, leading to lower US interest rates and a shift of funds into US Treasuries. This environment makes it easier for AI-related stocks, which have seen significant gains, to be sold off. The uncertainty surrounding the Trump administration's policies and the US economy is likely to persist.

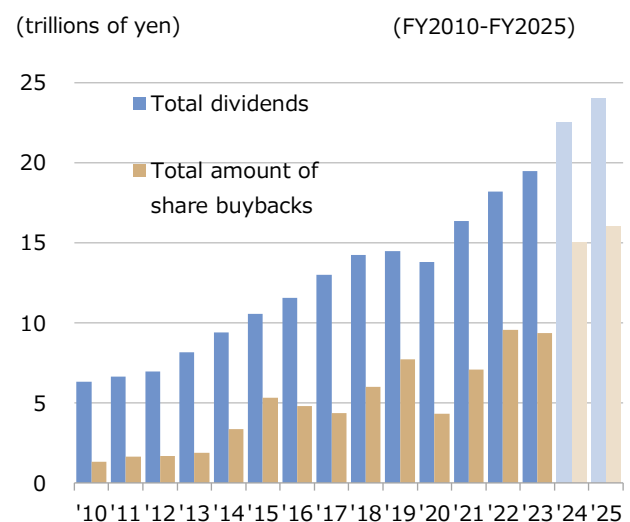
However, the current situation does not indicate a significant downturn in the performance of Japanese companies. Unprecedented levels of corporate shareholder returns are acting as a factor supporting stock prices. Additionally, a slight economic slowdown may help to calm inflation, with interest rate cuts in various countries expected to support the economy and stock prices. Furthermore, the domestic inflation trend is becoming more entrenched, with domestic interest rates rising and the Yen appreciating. This could draw attention to financial stocks that benefit from rising interest rates and domestic demand companies that benefit from lower costs. The depreciation of the Yen has made Yen-denominated assets significantly undervalued, attracting long-term foreign investors, which is expected to accelerate capital inflows and maintain an upward trend in stock prices.

Nikkei Stock Average and TSE Industry Index



※February 28, 2025 until the front end of the day.
(Source: Bloomberg)

Total dividends and share buybacks



※Daiwa Securities forecasts for FY2024 and FY2025
(Source: Daiwa Securities Co.)

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