

Decline in Japanese Stocks on March 11

Heightened Uncertainty Over Trump Administration Policies,
Yet Positive Outlook for Japanese Equities

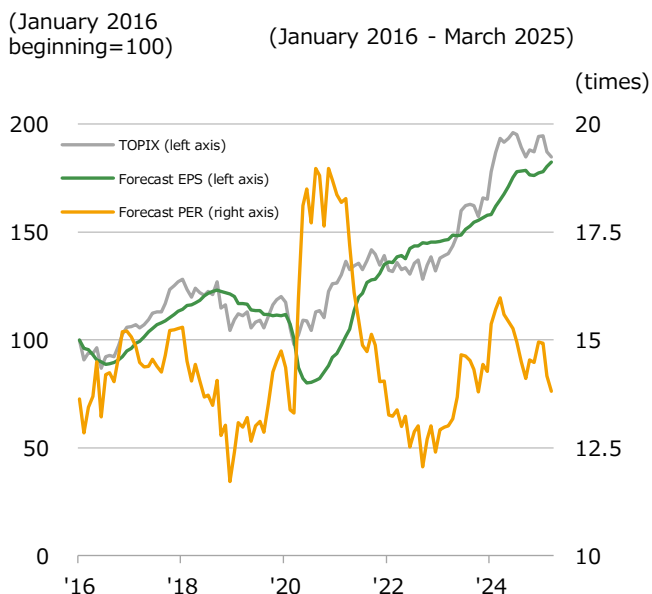
March 11, 2025

Decline in Oil Prices, Interest Rate Cuts, and Tax Reductions Expected to Support Global Economy and Maintain Positive Environment for Japanese Stocks

On March 11, the Nikkei 225 fell by approximately 1,000 points at one point, dropping below the critical 36,000 mark, influenced by the sharp decline in US stocks the previous day. By the end of the morning session, the Nikkei 225 was down 1.7%, and the TOPIX was down 2.0%. Market participants' anxiety heightened after President Trump, in an interview, did not unequivocally dismiss the possibility of an economic recession due to tariff hikes and significant government spending cuts, leading to a sharp decline in US stocks. Since President Trump's inauguration, many economic indicators have deteriorated, falling short of market expectations. Additionally, the tariff hikes and spending cuts by the Department of Government Efficiency (DOGE) have increased uncertainty about the future. The narrowing interest rate differential between Japan and the US and President Trump's dissatisfaction with the weak Yen, which led to Yen appreciation, also contributed to the decline in Japanese stocks.

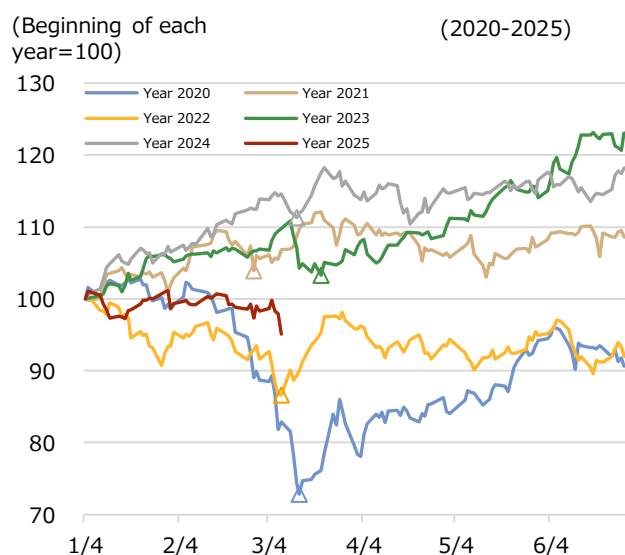
While there are concerns about a temporary downturn in the US economy due to the Trump administration's policies, the decline in oil prices, the effects of interest rate cuts in various countries, and the potential tax cuts in the US expected to be implemented after October suggest that the global economy is not in a state of collapse. The forecasted EPS (earnings per share) of Japanese companies is on an upward trend, and the recent stock price decline has made them somewhat undervalued. Additionally, unprecedented levels of corporate shareholder returns are expected to support stock prices. Historically, both Japanese and US stock prices tend to hit lows around the second Friday of March, when Japan's major SQ (Special Quotation) is calculated. As the uncertainty surrounding the Trump administration's policies dissipates, the pessimistic outlook is expected to gradually recede.

TOPIX and Forecast EPS/PER



※Month-end Value, March 2025 is the Value as of the Morning Session on the 11th
 ※Estimated EPS and PER are forecasted 12 months ahead
 (Source: Bloomberg; Compiled by Daiwa Asset Management)

TOPIX since the beginning of the year



※2025 to the March 11 front. △ is the low around March
 (Source: Bloomberg; Compiled by Daiwa Asset Management)

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