

Regarding the sharp decline in Japanese stocks on April 7th

The imposition of retaliatory tariffs by China has exacerbated the downward trend in stock prices.

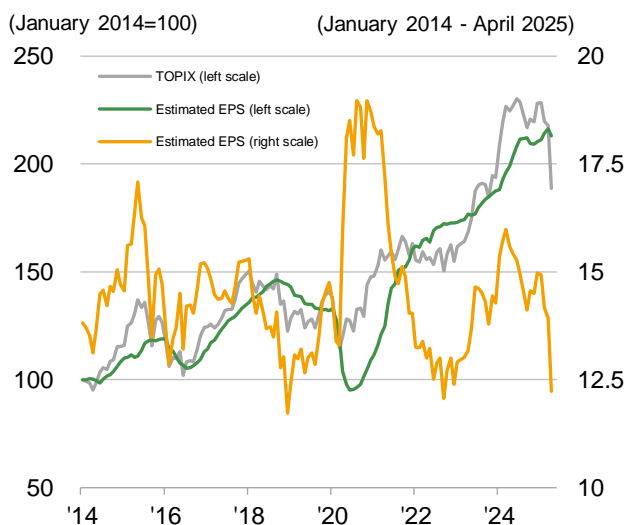
April 7, 2025

In the short term, excessive pessimism has led to an overselling of stocks

In response to the announcement of reciprocal tariffs by the Trump administration, China has announced retaliatory measures, including the imposition of an additional 34% tariff on all US products starting Thursday, April 10th. This has raised concerns about the escalation of the trade war, leading to a significant decline in US stocks at the end of last week. Consequently, the Nikkei 225 index on April 7th has continued its sharp decline, closing the morning session down 2,189 points (6.48%) from the previous day. Although there was prior caution regarding the Trump administration's tariff hikes and the potential for Chinese retaliatory measures, skepticism about the significant negative impact of these tariffs on the domestic and global economy persisted until just before the announcement of reciprocal tariffs. This skepticism is believed to be a major factor in the current sharp decline.

However, the sharp drop in stock prices following the announcement of reciprocal tariffs by the Trump administration suggests that stocks have been oversold and have already fallen to undervalued levels. While concerns remain about the contraction of global trade and the deterioration of earnings for export-dependent companies, several factors suggest that the market's excessive pessimism may be unwarranted and that a selling climax may be near. These factors include: (1) the increasing clarity of the full scope of the Trump administration's tariffs and the responses of various countries, which is expected to reduce uncertainty; (2) the possibility of negotiations with the Trump administration, as seen with tariffs on Canada and Mexico; (3) the Trump administration's likely aversion to a significant stock market decline due to its negative impact on the economy and approval ratings; (4) the market's underestimation of positive factors for the economy, such as large-scale tax cuts and falling energy prices, which are occurring simultaneously with the tariff hikes; and (5) the absence of definitive evidence of a severe economic downturn, unlike during the Lehman Shock or the COVID-19 pandemic.

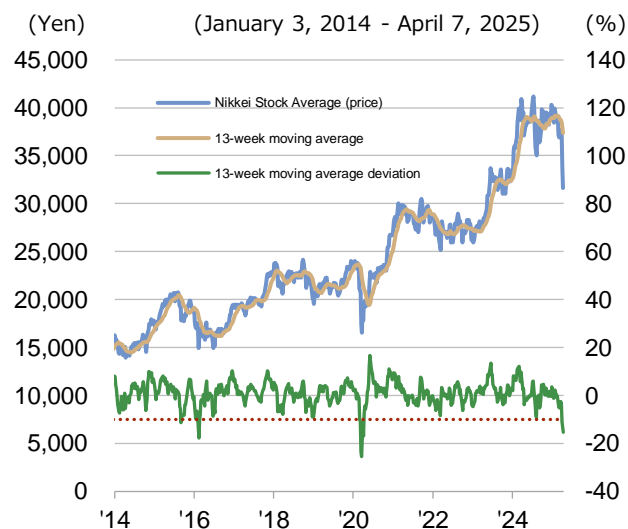
TOPIX and Estimated EPS/PER



※Monthly chart. April 2025 values are as of the 7th, morning session.
Projected EPS and PER are based on 12-month forward estimates

Source: Bloomberg; Compiled by Daiwa Asset Management)

Nikkei Stock Average and 13-Week Moving Average Deviation



※Weekly chart. Latest values are as of April 7, 2025, morning session

※The red dotted line represents the level of -10% deviation from the 13-week moving average

Source: Bloomberg; Compiled by Daiwa Asset Management)

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