

Outlook for Japanese Stocks Following Mutual Tariff Imposition

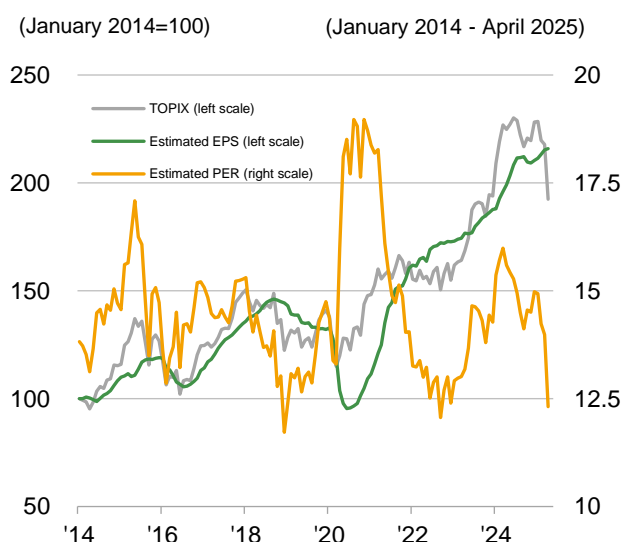
Market moves toward stability with 90-day suspension of the added-on portion

April 10, 2025

Assuming a shakeout of excessive pessimism, expect US tax cuts to materialize

On the 9th, the additional tariffs imposed by the Trump administration on reciprocal tariffs were enacted as scheduled. China, which announced countermeasures, faced an additional 50% increase, resulting in a total of 104% additional tariffs being imposed. In response, China hinted at further retaliatory measures, raising concerns about the escalation of the trade war. As a result, the Nikkei Stock Average experienced a significant drop of 1,299 yen (3.93%) compared to the previous day on the 9th. Despite this situation, it was anticipated that: ① the full details of the Trump administration's tariffs were becoming clear, potentially alleviating uncertainty, ② there was room for negotiation with the Trump administration, similar to the tariffs on Canada and Mexico, ③ the Trump administration was unlikely to withstand the significant adverse effects on the economy and approval ratings caused by the stock market decline, ④ the market was underestimating positive factors for the economy, such as large-scale tax cuts and falling energy prices occurring simultaneously with the tariff hikes, ⑤ there was no definitive evidence of an economic downturn at present. Therefore, the market was deemed overly pessimistic, and a selling climax was anticipated to be near. Around 2 am Japan time on the 10th, the Trump administration announced a 90-day suspension of the additional tariffs set for each country and region (however, the additional tariff rate on China would be increased to 125%), leading to a sharp rise in US stocks, especially tech stocks, and a substantial increase in Nikkei futures in overnight trading. Although there remains uncertainty regarding the retaliatory measures between China and the US and the US response after 90 days, the market is expected to stabilize temporarily due to the rebound from excessive pessimism. Furthermore, there is a possibility that the specifics of the US tax cuts will be well-received in the future.

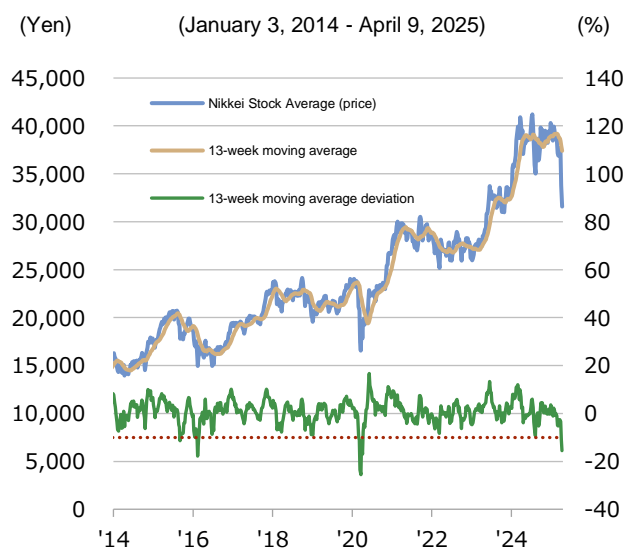
TOPIX and Forecast EPS/PER



※Monthly chart. April 2025 values are as of the 9th. 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 9, 2025

※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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