

## Japanese Equity Market Outlook

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Daiwa Asset Management Co. Ltd.

### < Market review in September and the first half of October >

The Japanese equity market ended the month of September with the TOPIX index down 1.22%, and the NIKKEI index down 2.85%. The major negative factors were the lingering sovereign debt crisis in the Eurozone and the worries of the US economic outlook. The market reacted negatively to the deterioration of the US employment data, the downgrade of some European sovereign debts, and when the credit ratings of some European financial institutions were reported. Although the market showed some signs of recovery at one stage when expectations improved regarding better progress in the Greece's bail out and the coordinated supply of US dollar liquidity by the US, Japan and EU countries, the rebound was short lived.

In October, the market participants are still focusing on the issues of the European credit crisis and the US economic outlook. However, at least the US economic indicators started to show some improvement, and giving the market some support. As of October 14th, the TOPIX index is down 1.62%, while the Nikkei index is up 0.55% from their levels at the end of September.

### < Biased market participants' view >

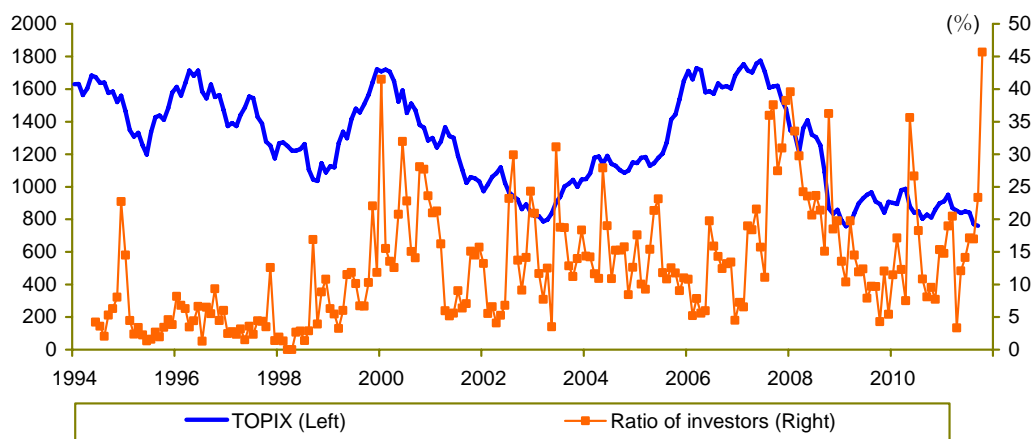
According to QUICK Corp.'s Investor Opinion Poll held in October, it was found that 45.7% of investors chose to focus on trends of overseas equity and bond markets among the 6 factors that were selected to see what factors could move the Japanese equity market within next 6 months. The six factors polled were: 1) economic and business results, 2) trends of interest rates, 3) trends of foreign exchange rates, 4) political / foreign policy issues, 5) domestic factors / market psychology, 6) trends of overseas equity markets / bonds markets. It was the highest rate ever assigned to trends of overseas markets and bond markets in the opinion poll, and seems to be a reasonable result considering the seriousness of the credit crisis in the Eurozone. However, as a general rule a trend change will come in many cases when a lot of investors are biased and all seem to pay attention to the same market factor. The current situation of biased attention by investors might be indicating that such overseas equity market and bond market factor are about to be, or has already been priced in the current market level. Or, such biased situation might tend to bring a new surprise from other factors that have not been paid enough attention to by investors. We would like to monitor the market for the time being with such consideration.

## <Outlook>

The Japanese equity market will still remain in a certain range over the next year as a result of mixed factors with positive and negative impacts. On one hand, positive factors could be rising public and private spending for the recovery from the great disaster and the attractive valuation levels of equities indicated by PBR levels below 1x. On the other hand, key negative factors could be the stagnating US and European economies, and the prolonged European sovereign debt crisis. We believe that the current level of the Japanese market is close to the bottom end of our expected trading range.

For a short-term view, a technical rebound is likely to come soon, and the market is indicating signs of recovery time to time. As for measures to cope with credit crisis in the Eurozone, the additional bail out plan for Greece (6th aid in the first package) and the further enhancement of the European Financial Stability Fund are expected to be completed soon and it could stabilize the market. However, investors are concerned that such temporary stabilization of the market might lessen the pressure on related parties to act and EU member countries might not be as coordinated if the crisis sentiment passes. Therefore, we might once again have to see a similar turbulent situation in the period from December to January, similar to the periods from last June to July and September to October.

### QUICK Corp.'s Investor Opinion Poll : Do you pay more attention to situations in overseas equity markets and bond markets?



TOPIX: Jan 1994 - Sep 2011, Ratio of investors: Jun 1994 - Oct 2011

(Source) QUICK Corp.

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