

[Japanese Equity Market Outlook]

Tug of war between policy expectations and the economic slowdown is expected to continue

Nikkei 225 Average	September end	MoM
	8870.16	0.34%

[Market review in September]

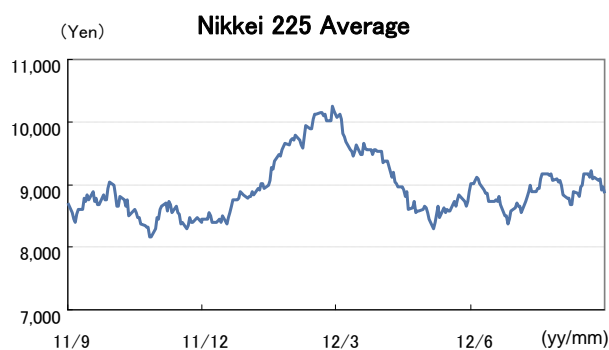
In September, equity markets rose until the middle of the month, but then dropped afterwards. The start of the month saw equity prices decrease following the deterioration of overseas economic indicators. However, equity prices reversed to rise after the decision by the European Central Bank (ECB) on a new government bond purchase program. During the middle of the month, equity prices continued to rise, in positive response to events such as the favorable decision by the Germany's constitutional court on the constitutionality of the European Stability Mechanism (ESM) and the adoption by the U.S. Federal Reserve Board (FRB) of a third round of quantitative easing (QE3). Equity prices dropped late in the month due to heightened concerns over the global economic slowdown and increased worries over the European debt problems. In addition, the worsening relationship between Japan and China over a territorial issue appears to have had a negative impact on equity markets.

[Outlook]

In October, equity markets are likely to show unstable movements reflecting the contradictory factors of the continued policy expectations and vigilance over the real economy. September witnessed launching monetary easing and market stabilization measures one after another by the central banks in Japan, the U.S., and Europe. As for Japan, further easing in October is a possibility. On the other hand, economic activities in countries other than the U.S.—including Japan—are showing an increasing sign of slowing down, which in turn will be a drag on equity prices. Announcements of quarterly corporate earnings will begin from late October. Considering the recent economic slowdown, we are not optimistic about their results. Nonetheless, we could still expect favorable changes in the real economy going forward because, after the Lehman Brothers bankruptcy in 2008, economic indicators tend to improve from autumn to next spring.

[Points]

Positive Factors	Negative Factors
<ul style="list-style-type: none"> Implementation of further monetary easing by the BOJ Global economic recovery supported by policy responses of individual countries 	<ul style="list-style-type: none"> Renewed concern about the European debt problems Strong yen Prolonged policy vacuum caused by political turmoil in Japan



*Source: data from Nikkei Inc. Daiwa Asset Management

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