

## Japanese Equity Market Outlook

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### < Market review from October to November >

In October 2012, equity markets rose, with TOPIX rising 0.67%, and the Nikkei Stock Average 0.66%. In the first half of the month, equity prices dropped, due to the heightened concerns about global economic slowdown caused by such factors as the downward revision by the IMF of its world economic outlook. On the other hand, the period from October 15 to 19 saw an increase in equity prices, in a favorable response to the good economic indicators in the U.S. and China, Moody's announcement to keep the ratings of Spanish government bonds intact, the weaker yen in the foreign exchange markets, and the like. Subsequently, to the end of the month, equity prices stopped rising and remained within the range owing to many announcements of a downward revision of corporate earnings.

The equity prices remained within the range upon entering into November. After the U.S. presidential elections on Nov. 6, however, equity prices in Japan dropped following a sharp decline in U.S. equity prices caused by concerns over the fiscal cliff. Nonetheless, on the evening of Nov. 14—after Prime Minister Noda's announcement of his intention to dissolve the House of Representatives on Nov. 16—equity markets rebounded on Nov. 15 in anticipation of a new government. TOPIX and the Nikkei Stock Average dropped 0.65% and 1.10%, respectively, from the levels at the end of October (as of November 15).

### < Prime Minister Noda expressed his intention to dissolve the House of Representatives on Nov. 16 >

At the one-on-one debate of party leaders on Nov. 14, Prime Minister Noda expressed his intention to dissolve the House of Representatives on Nov. 16. It was the realization at long last of an agreement in August among the Democratic Party of Japan (DPJ)—to which the Prime Minister belongs—the Liberal Democratic Party of Japan (LDP) and New Komeito on the dissolution of the House of Representatives, "shortly." Prime Minister Noda decided the dissolution presumably because he determined that it would be difficult to implement policy if he held on to power without having a majority in the House of Councilors, while keeping a majority in House of Representatives is becoming increasingly difficult due to the increasing exodus from his party. The voting and vote-counting for elections of the House of Representatives are scheduled on December 16. It is expected that a coalition government of the LDP, New Komeito, and some other parties will gain power.

The dissolution has positive effects on equity markets in the following ways: (1) the risk of policy stalemate in the case of continuation of Noda administration is gone; (2) a new administration with LDP at its core is expected to take a policy stance more congenial to private corporations than DPJ; and (3) As LDP president Abe is taking a very tough stance in demanding that the Bank of Japan (BOJ) implement bold monetary easing, it is expected that sooner or later after a new government's assuming power, BOJ will take more active monetary easing, which in turn will spread the expectation in equity markets of further weakening of the yen in the foreign exchange markets.

Nevertheless, even if the LDP/New Komeito is successful in gaining a majority in House of Representatives, they will not have the majority in the House of Councilors, which will not undergo elections this time around. They will be in the same situation as the current DPJ. Accordingly, there will remain a risk as to whether policies desired by equity markets will be implemented with the expected speed.

## < Outlook >

As for the next year or so, the equity markets are expected to rise around April to June 2013, while moving in a range before and after that period.

In Japan, economic activities and corporate earnings have been deteriorating. The real GDP in the July-September period declined substantially year on year by an annualized rate of 3.5%. Regarding corporate earnings for FY2012 (April 2012 – March 2013), ordinary income is expected to increase about 5% (Tokyo Stock Exchange 1st Section; excluding financial companies and electric power/gas companies); however, considering the deteriorating economic indicators, it is highly possible for ordinary income to decrease. These factors will drive down equity prices, while the recovery of overseas economic activities and expectations about the policies of a new government will create upward pressure. As a result, equity markets are likely to move within the range for the time-being.

Around April to June 2013, equity prices are forecast to rise substantially with an optimistic sentiment to be caused by such factors as: the spillover effect of improvement in overseas economic activities is likely to lead to expectations about the recovery of economic activities and corporate earnings in Japan; and BOJ is very likely to step into bold monetary easing after replacement of its Governor and Deputy Governors. Following the substantial rise in equity prices, equity markets are expected to move within the range, as we are more likely to have the phase where we will have to wait for the reality to catch up with the high equity prices brought up by expectations for the future.

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