Japanese Equity Market Outlook

May 16, 2013

Daiwa Asset Management Co. Ltd.

<Market review from April to May 2013 >

In April 2013, equity markets rose with TOPIX and the Nikkei Stock Average up by 12.60% and 11.80%, respectively. At the beginning of the month, equity prices started with a drop due to downward swings of economic indicators in Japan and abroad. These prices reversed and rose markedly, however, after the Bank of Japan (BOJ) announced bold monetary-easing measures exceeding market expectations. Subsequently, equity prices dropped temporarily at some point, in response to the heightened uncertainties of overseas economic activities going forward, destabilization of financial markets upon the sharp fall in gold prices, the Boston bombing, and the like; they rose again, nonetheless, towards the end of the month, with the continued expectations for the “quantitative and qualitative monetary easing” by the BOJ. The rise of equity prices was also supported by such factors as the acceptance of the BOJ’s monetary policy at the G20 meeting, expectations for interest rate cuts by the ECB, and expectations for stabilization of the political situation in Italy.
Entering into May, equity markets rose further, due to the announcement of favorable employment statistics in the U.S. and the furthering of a weaker yen. From the end of April, TOPIX rose 7.53%, with the Nikkei Stock Average 8.91% (as of May 15).

<Growth Strategy >

The Abe administration calls for the policy package of monetary policy, fiscal policy, and growth strategy a “three-pronged” strategy. Preparation of a growth strategy is currently under way, while monetary policy and fiscal policy have already been implemented as the “quantitative and qualitative monetary easing” and the supplementary budget for the last fiscal year, respectively. Its final contents are expected to be announced before the G7 Summit meeting to be held on June 17-18.
As discussions on a growth strategy cover a broad range of areas, it is inevitably difficult to determine its main points. This is because, in order for a mature economy like Japan to regain its growth potential, one or two reforms will hardly suffice. There is a need to accumulate various reforms in many areas. From the viewpoint of equity markets, we should duly consider the following points in evaluating Abe administration’s enthusiasm for reform: reinforcement of corporate governance; utilization of private job placement services; strengthening of childcare services; release of public data; special zone system; liberalization of on-line sales of medicine; and consolidation of farming land, etc.

< Outlook >

Looking ahead for one year or so, we expect equity markets to rise towards July-August 2013, to decrease for one or two months some time towards the year end, and then, to rise in 2014.
For the time-being, equity prices are likely to continue rising, owing to expectations for policy responses and support from the effects of their achievement. The impact of policy measures is beginning to be felt, as shown by such events as a relatively high real GDP growth at the annualized rate of 3.5% year on year for the January-March period. In preparation for the upper house election in July, the government and the ruling parties are expected to continue focusing on boosting economic growth.

Later toward the year-end, however, we might have some phase that requires caution. If the U.S. economy continues its steady recovery, discussions on exit policy of the Fed will begin in earnest as early as autumn. The rise of global equity markets since last year is the result of strengthened global monetary easing, in the midst of sluggish economic activities. If the U.S. policy that has driven the monetary easing is to be changed, equity markets could experience more-than-expected adjustments. In Japan, moreover, there are some factors which are likely to push down equity prices toward the year end, such as: the current taxation on capital gain and dividend will return to the original 20% from the reduced 10% in 2014; and concerns about the expected temporary economic slowdown after the increase of the consumption tax rate (from 5% to 8%) scheduled to be implemented in April 2014.

In 2014, while these downside factors will have exhausted their effects, expansion of earnings will gain the full force against the background of economic recovery, which in turn will lead to the return of the increasing trend of equity prices.