

【Japanese Equity Market Outlook】

Watch on the U.S. to be gradually replaced by expectations for domestic policy measures

【Market review in July】

In July, equity markets rose until the middle of the month, followed by a large drop late in the month. Early in the month, equity prices increased due to such factors as the announcements of steady economic indicators in Japan and the United States as well as the further weakening of the yen. During the middle of the month, while there was a phase when people were conscious about the sense of short-term overheating in the market, developments such as the rise of U.S. equities after Federal Reserve Board (FRB) Chairman Bernanke showed a stance of maintaining the accommodating monetary policy were received favorably. Late in the month, equity prices rose temporarily in favorable response to the landslide victory of the ruling parties in the upper house elections, followed by a large drop due to the heightened vigilance after the financial results of some companies as they did not meet market expectations and the strong yen was further strengthened.

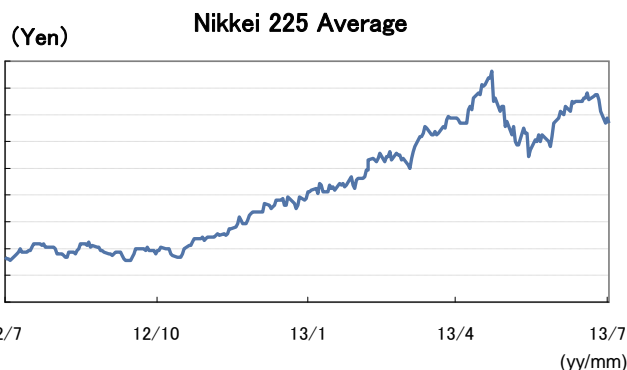
【Outlook】

In August, equity markets are likely to be influenced by the developments of the U.S. monetary policy at the beginning. In the United States, reduction of the size of quantitative monetary easing is expected to start by the end of this year, but there has been no clear consensus formed yet as to when it will start and how big the reduction will be. With the statement by the Federal Open Market Committee (FOMC) at the end of July and major economic indicators at the beginning of August, a consensus is expected to be formed. At that stage, however, markets could become temporarily unstable. Nonetheless, expectations for policy measures are likely to be rising in the market, as we expect a resurgence of policy developments in Japan from the latter half of August such as the budget for the next year and tax reform, as well as the growth strategy.

【Factors】

Positive Factors	Negative Factors
<ul style="list-style-type: none"> Strengthened trend of recovery in economic activity and earnings Expectations for accelerated economic recovery through tax cuts for investment, etc. Expected recovery of growth potential through implementation of the growth strategy 	<ul style="list-style-type: none"> Furthering of a stronger yen caused by the instability of overseas financial markets, etc. Excessive slowdown of emerging market economies

Nikkei 225 Average	July end	MoM
	13,668.32	-0.07%



*Source: data from Nikkei Inc. Daiwa Asset Management

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