

【Japanese Equity Market Outlook】

To rally in the second half of the month after the stabilization of investor sentiment

Nikkei 225 Average	January end	MoM
	14,914.53	- 8.45%

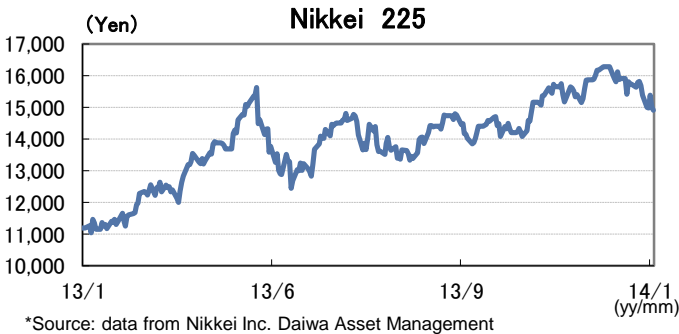
【Market review in January】

In January, equity markets had been virtually flat until the middle of the month, followed by a substantial drop. During the early to middle part of the month, equity prices as a whole were moving sideways, while their daily movements were a little rough, showing ups and downs in response to strong and weak economic indicators in the U.S., as well as U.S. interest rates and foreign exchange developments reflecting these indicators. Later in the month, downward swings of economic indicators in China and the sharp fall of Argentine peso accelerated a downfall of emerging currencies, which, with concerns about emerging economies, led to world-wide risk-averse movements in financial markets. Japanese equities dropped considerably as well. Near the end of the month, the decline of emerging currencies was alleviated to some extent by the raising of interest rates in some emerging countries and other factors, but it did not go so far as to wipe out the uneasiness of investors.

【Outlook】

In February, we expect that the uneasy psychological state of investors is likely to calm down, leading to equity prices rallying in the second half of the month. For the time being, concerns over emerging economies will have a negative impact on the sentiment of investors for Japanese equities, resulting in continued unstable market movements. Since the current concerns over emerging economies are not rooted in problems that may endanger world economy as a whole, however, provided that counter-measures are taken in some countries with problems (we have already seen the raising of interest rates etc.), uneasy investor sentiment is likely to gradually subside. Japanese equities are highly likely to rally if investor sentiment calms down because they are perceived as good value due to the announcements of good earnings results for the April-December period and the like, while equity prices are declining.

Positive Factors	Negative Factors
<ul style="list-style-type: none">• Upward revisions of earnings• Favorable turn in the balance of equity supply and demand.• Expectations for accelerated economic recovery though policy measures.• Expectations for the recovery of growth potential through implementation of the growth strategy.	<ul style="list-style-type: none">• Accelerated weakening of some emerging currencies• Weak economic indicators in the U.S.• Strong yen.



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