

[Japanese Equity Market Outlook]

While assessing the situations in Japan and abroad, a cautious watch on monetary policy is needed.

Nikkei 225 Average	March end	MoM
	14,827.83	- 0.09%

[Market review in March]

In March, equity markets in Japan alternately took favorable and unfavorable turns. At the start of the month, equity prices dropped due to factors such as the heightened tension in Ukraine, but they rose afterwards because concerns over a military confrontation receded after President Putin of Russia expressed the position that military intervention in Ukraine would not be necessary for the time being. The middle of the month, however, equity prices declined markedly, owing to the rapidly deteriorating investor sentiment caused by Russia’s forceful annexation of Crimea in the midst of the opposition from the U.S and European countries, a substantial overall decline of China’s main economic indicators in January and February. Late in the month, equity prices turned to rise in favorable response to the announcement of several economic indicators showing the underlying strength of the U.S. economy, the trend of a weaker yen, and the like.

[Outlook]

In April, equity prices in Japan are expected to continue alternately taking favorable and unfavorable turns. While the risk is low for the Ukrainian situation to see increased military tension, we are worried about economic sanctions being tightened. For the Chinese economy, continued attention is likely to be paid to the degree of economic slowdown and the issues of the financial system. The focus on the Japanese economy is the magnitude of the impact from the rise in the consumption tax. In equity markets, it appears that the focus is in a continued phase of assessing developments and impacts of these uncertain factors for a while. The BOJ monetary policy may turn out to be a destabilizing factor. While additional monetary easing at an early stage is not likely judging from the price trends, the possibility of additional monetary easing in April to avoid prolonged economic downturns after the rise in the consumption tax or for other reasons cannot be denied.

Positive Factors	Negative Factors
<ul style="list-style-type: none">• Recovery of the U.S. economic indicators• Seemingly undervalued equity prices in terms of PER• BOJ additional monetary easing• Expectations for the recovery of growth potential through implementation of the growth strategy.	<ul style="list-style-type: none">• Heightened geopolitical risks• Uncertainty of Chinese financial system• Strong yen.



*Source: data from Nikkei Inc. Daiwa Asset Management

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