

【Japanese Equity Market Outlook】

•A phase to lay the foundation for the next rally

Nikkei 225 Average	May end	MoM
	14,632.38	2.29%

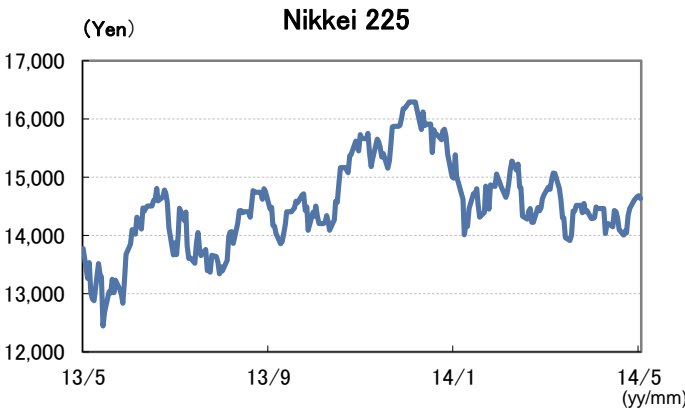
【Market review in May】

In May, equity markets in Japan dropped in the early and middle parts of the month, followed by a rise late in the month. Early in the month, the market started positively due to favorable U.S. economic indicators but turned negative following the deterioration of the situation in Ukraine and the progress of a stronger yen. The middle of the month saw favorable responses to higher equity prices in the U.S. Equity markets continued the declining trend, however, with further strengthening of the yen owing to the expected monetary easing in Europe and declining U.S. interest rates. Late in the month, equity prices rose, as the investor sentiment improved gradually with the successive announcements of favorable economic indicators in the U.S. and China, as well as the heightened expectation for the situation in Ukraine to improve after the election of a new president, etc.

【Outlook】

In June, equity markets in Japan are likely to be in a phase to lay the foundation for the next rally. While equity prices rose from late May due to the improvement of external conditions, we believe current equity prices are undervalued based on PER (Price Earnings Ratio), etc. Nonetheless, even if there was a sense of undervaluation, market participants may feel strongly against buying stocks as they were not sure about recovery of the economy after the rise in consumption tax. Around the end of June, major economic indicators for May will be announced. Many of those economic indicators for April deteriorated due to the reaction to the last minute surge in demand. If there is an improvement in the indicators for May, the stance of market participants toward investment is likely to become more positive.

Positive Factors	Negative Factors
<ul style="list-style-type: none">• Recovery of the U.S. economy.• Seemingly undervalued equity prices in terms of PER.• Recovering from a reactionary decline of consumption tax increase.• 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• Strengthening of the yen due to declining interest rates in Europe and the U.S.



*Source: data from Nikkei Inc. Daiwa Asset Management

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