

【Japanese Equity Market Outlook】

A continued steady trend foreseen

Nikkei 225 Average	July end	MoM
	15,620.77	3.03%

【Market review in July】

In July, equity markets in Japan gradually became steady towards the end of the month, while fluctuating. Early in the month, the markets started with a rise due to the favorable results of the BOJ Tankan Survey and the U.S. employment statistics, followed by a drop, as concerns about the credit risks of some banks in Portugal were heightened. After the middle of the month, the positive financial results of Japanese and U.S. companies pushed up equity prices. Moreover, towards the end of the month, equity prices were also supported by the weakening of yen exchange rates after the announcements of strong U.S. economic indicators. Although concerns about geopolitical risks in Ukraine and the Middle East remained strong, these risks were not seen to exacerbate the world economy immediately, and therefore, the impacts on equity prices turned out to be only temporary.

【Outlook】

Equity markets in Japan are expected to continue the current steady trend in August. While many announcements of financial results for the period of April-June have been made since late July, they have been positive so far, with many companies revising up their earnings forecasts. In the past three quarters, the weak financial results of some major companies at the beginning of such announcements and the like deteriorated the market sentiment, which in turn tended to result in weak equity prices during the period of financial result announcements. This time, however, both financial results and equity prices can be said to have had a good start. Basically, this trend is expected to continue in August as well. Risk is again a geopolitical one. With the intensification of sanctions against Russia, Russia is likely to take stronger counter-measures, which could have negative impacts on equity markets through concerns about the deterioration of the European economies.

Positive Factors	Negative Factors
<ul style="list-style-type: none">• Positive earnings, expectation for upward revision of earnings .• PER cheaper than the United States• Expectations for the recovery of growth potential through implementation of the growth strategy.• Recovery of the U.S. economy.	<ul style="list-style-type: none">• Heightened geopolitical risks.• Prolonged concerns of sluggish consumption after the consumption tax hike.



*Source: data from Nikkei Inc. Daiwa Asset Management

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