

【Japanese Equity Market Outlook】

A continued steady trend foreseen

Nikkei 225 Average	August end	MoM
	15,424.59	-1.26%

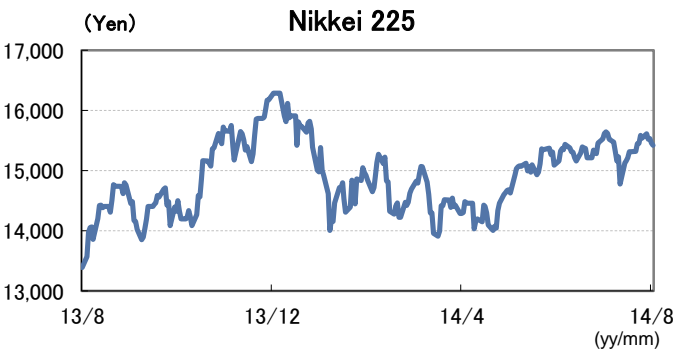
【Market review in August】

In August, equity markets in Japan fell in the early part of the month but recovered later. Equity prices decreased rapidly at the beginning of the month due to unfavorable news from overseas, including concerns over the credit risk of a major Portuguese bank, the default of Argentina, growing tension over the Ukrainian situation, and the U.S. approval of air strikes in Iraq. From the middle of the month onward, however, equity prices gradually recovered. This was because concerns about geopolitical risks gradually receded with incipient movements for talks to improve the situation between Ukraine and Russia as well as between Israel and Hamas, and at the same time the yen weakened further against the U.S. dollar in response to the announcements of favorable U.S. economic indicators and the like.

【Outlook】

In September, equity prices in Japan are expected to continue their rising trend which started in the latter half of May. While they fell rapidly at some phase in August due to overseas factors, the following recovery showed that equity markets had gained resilience against unfavorable factors such as geopolitical risks. Going forward, equity prices are likely to rise due to such factors as a steady recovery of the U.S. economy and the accompanying weaker yen, an upward revision of corporate earnings, an expansion of investment in Japanese equities by public funds, and policy management with the utmost priority placed on the economy. The risks could be those of the Japanese economy rather than geopolitical ones. The Japanese economy has not clearly recovered from the drop that occurred after the rise in consumption tax; if the stagnation is prolonged, we may see negative effects on earnings and the like.

Positive Factors	Negative Factors
<ul style="list-style-type: none">A weaker yen due to the recovery of the U.S. economyExpectations for upward revision of earningsExpansion of investment in Japanese equities by public pension fundsExpectations for the recovery of growth potential by implementing a Growth Strategy	<ul style="list-style-type: none">Concerns about a prolonged economic stagnation after the rise in consumption taxHeightened geopolitical risks.



*Source: data from Nikkei Inc. Daiwa Asset Management

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