

【Japanese Equity Market Outlook】

A rising trend to continue

Nikkei 225 Average	September end	MoM
	16,173.52	4.86%

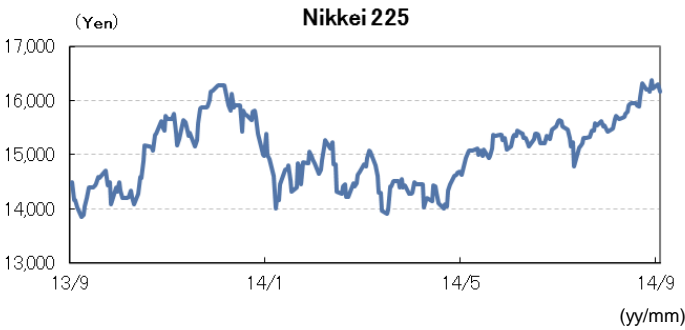
【Market review in September】

In September, equity markets in Japan rose gradually from the start of the month. Although concerns remained about geopolitical risks such as the unstable situation in Ukraine and air strikes against the Islamic State (Isis), equity prices were pushed up by a large swing in the foreign exchange market leading to the depreciation of the yen against the dollar in response to the announcements of generally favorable U.S. economic indicators. In addition, several other factors appear to have contributed to the rise in equity prices, it was confirmed that the U.S. monetary authority would maintain the existing stance of monetary easing for the time being; economic and social confusion was avoided after the no vote to independence prevailed in the Scottish referendum; and expectations for additional monetary easing measures were heightened somewhat after the meeting between Prime Minister Abe and the Bank of Japan Governor Kuroda for the first time in five months. Late in the month, however, they dropped somewhat because of the situation in Hong Kong and deteriorated economic indicators in Japan.

【Outlook】

In October, equity markets in Japan are expected to continue in the rising trend since the second half of May. As before, equity prices are likely to rise due to such factors as the steady recovery of the U.S. economy and the accompanying weak yen, upward revision of corporate earnings, expanded investment by public pension funds in Japanese equities, and policy stance with the highest priority placed on economy. Although some emphasize the negative effects of the weak yen, recent drops in commodity markets such as cheaper oil are likely to substantially alleviate the negative effects of the weak yen; and we estimate that the positive aspects of the weak yen will be larger in the economy and equity prices. The risk factor is the domestic economy. It has not yet recovered clearly from the downturn after the hike in consumption tax, especially production and consumption; if the stagnation is prolonged, there will be concerns about impact on earnings.

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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