

【Japanese Equity Market Outlook】

A steady movement is expected

Nikkei Average	October end	MoM
	16,413.76 yen	1.49%

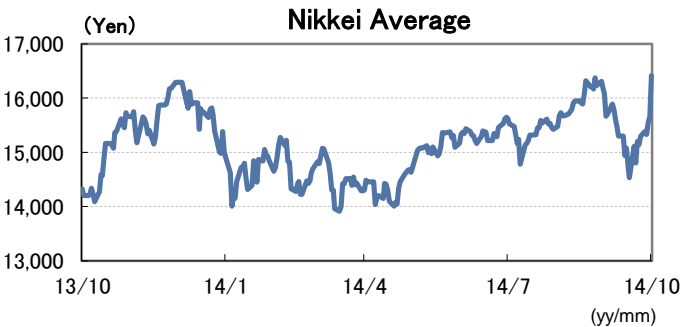
【Market review in October】

Equity markets in Japan dropped substantially in the first half of October, followed by a sharp rise in the second half. During the first half of the month, equity prices declined markedly, due to the spreading of concerns about the world economy after the announcements of low economic indicators in Europe, and the downward revision by the IMF (International Monetary Fund) of the world economic outlook as well as the increased uncertainties such as the spread of the Ebola infection, and political uncertainty in Japan. In the second half of the month, however, equity prices rapidly rebounded thanks to the receding concerns over the future of the world economy after the announcements of favorable U.S. economic indicators, the expected considerable raising of the ratio of domestic equities in its managed assets by the GPIF (Government Pension Investment Fund) and its decision as well as the unexpected additional monetary easing by the Bank of Japan (BOJ).

【Outlook】

In November, equity markets in Japan are expected to continue the rising trend since the second half of October, albeit at a slower pace. With the BOJ’s additional monetary easing at the end of October, market participants appear to have reconfirmed the BOJ’s strong will to overcome deflation. Equity prices are not likely to decline for a while, supported by the supply and demand sides of equities such as the GPIF policy of purchasing more domestic equities and the increased ETF purchase by BOJ, in addition to the trend of a weaker yen arising from the difference in the direction of monetary policies between Japan and the U.S. While the decision to raise the consumption tax rate in December is attracting attention, regardless of whether it is implemented as scheduled or postponed, the economic conditions are likely to be fully taken into consideration in both cases. As a result, the decision is not expected to invite a substantial drop of equity prices.

Positive Factors	Negative Factors
<ul style="list-style-type: none">Steady recovery of the U.S. economyWeaker YenPublic pension funds' increased investment in Japanese equitiesExpected upward revision of earningsImplementation of the Growth Strategy	<ul style="list-style-type: none">Prolonged economic stagnation due to inventory adjustmentsHeightened geopolitical riskSpread of Ebola infection in Europe, U.S., and Asia



*Source: data from Nikkei Inc. Daiwa Asset Management

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