

【Japanese Equity Market Outlook】

Steady markets expected

Nikkei Average	December end	MoM
	17,450.77 yen	-0.05%

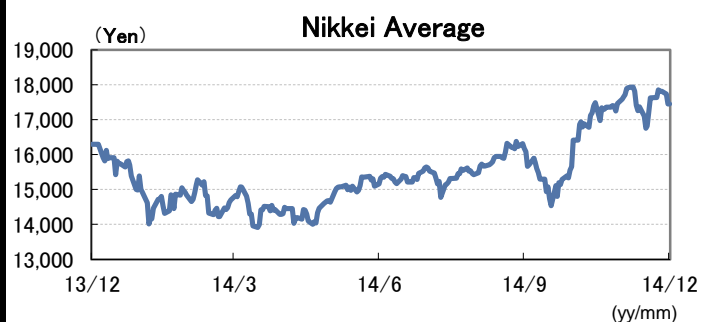
【Market review in December】

In December, equity markets in Japan showed substantial fluctuation. The markets rose at the start of the month in favorable response to the announcements of good economic indicators including the U.S. Employment Statistics, as well as newspaper surveys indicating the dominance of the ruling parties in the lower house election that was officially announced on December 2. When the price of oil plunged followed by large sell-offs of the currency and equities of oil-producing Russia, however, instability spread throughout financial markets, with Japanese equities dropping markedly as well. But when the cautious stance for the normalization of the monetary policy was indicated at the U.S. FOMC (Federal Open Market Committee) on December 16-17, equity prices turned to rebound sharply this time. Later, toward the end of the month, there were some sell-offs, due to concerns about the situation in Russia as well as the situation in Greece, where parliament was dissolved.

【Outlook】

In January, equity markets in Japan are forecast to move steadily due to expectations for corporate earnings. The remarkable point is the reporting of corporate settlements for the period of April-December, to begin in full force from late in the month. Since the earnings forecasts by companies and analysts have so far changed only slightly from the level at the start of the term—whereas companies dealing with external demand are likely to reflect the favorable effects of a weaker yen—earnings forecasts could be revised upward substantially in response to the settlement of accounts this time. Moreover, with the passing of three quarters this fiscal year, investor attention is starting to move to the next fiscal year: In the next fiscal year, with the positive effects of a weaker yen and cheaper oil becoming palpable throughout the year, it appears that expectations for the increased corporate earnings are prone to be heightened further.

Positive Factors	Negative Factors
<ul style="list-style-type: none"> Economic recovery of Japan due to weaker yen, cheaper oil and improvement in corporate earnings Recovery of the U.S. economy Purchase of Japanese equities by BOJ and GPIF 	<ul style="list-style-type: none"> Destabilization of all financial markets due to further sharp drops in oil prices Heightened geopolitical risk



*Source: data from Nikkei Inc. Daiwa Asset Management

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