



Today's Theme



Japan

Japanese Equity Market Outlook



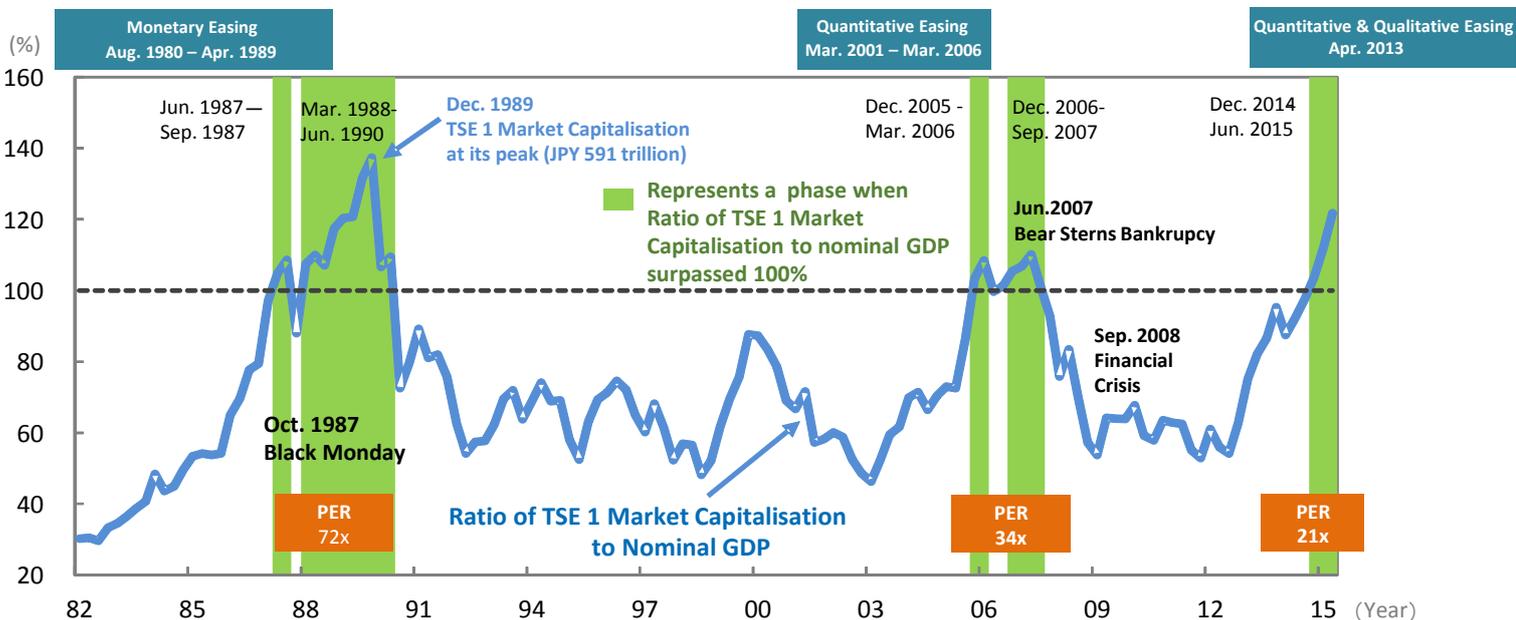
Is Japanese equity market in a “Bubble” phase?



The market capitalisation of Japanese equity market has hit the record high surpassing the previous high in 1989. The ratio of market cap to Japan’s nominal GDP has also surpassed 100%. However, we do not believe Japanese equity market is in a “Bubble” phase right now, as share prices are not expensive on the corporate earnings point of view.

- Market capitalisation of Tokyo Stock Exchange Section 1 (TSE1, hereafter) as of May end hit the record high of JPY 606 trillion in almost 25 years, surpassing JPY 591 trillion at 1989 end. Market capitalisation is inflated as the number of listed companies increased and/or corporate size (number of shares) grew, although share prices are not as high as in those days.
- The ratio of TSE1 market capitalisation to nominal GDP surpassed 100% several times in the past. In some of those periods, so called a “Bubble” was created by a significant rise of P/E Ratio, a ratio of share price to corporate earnings.
- Empirically, after the ratio surpassed 100%, it moved lower with no exceptions. The backdrop was the impact of drastic structural diversion such as a) change of monetary policy to tightening, b) pandemonium of global economy and financial markets.
- We do not think Japanese equity market is in a “Bubble” phase as current P/E Ratio at 21x does not seem expensive compared to similar phases in the past. Japanese equity market is expected to perform stronger in tandem with improving corporate earnings. Meanwhile, we need to pay attention whether global growth led by the US economy remains sustainable and how BOJ conducts policy normalisation going forward.

“Ratio of TSE 1 Market Capitalisation to Nominal GDP”



(Note) 1. Data period from March 1982 to June 2015 (Quarterly basis). For June 2015, data of May end market capitalisation and Jan.-Mar. 2015 nominal GDP were used.

2. P/E Ratio used is the highest multiples in the phase of ratio of market capitalisation vs. nominal GDP surpassed 100%. Latest P/E Ratio is as of May 2015.

(Source) SMAM, based on Quick Astradata



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