

## Japanese Equity Market – What to Focus on from here

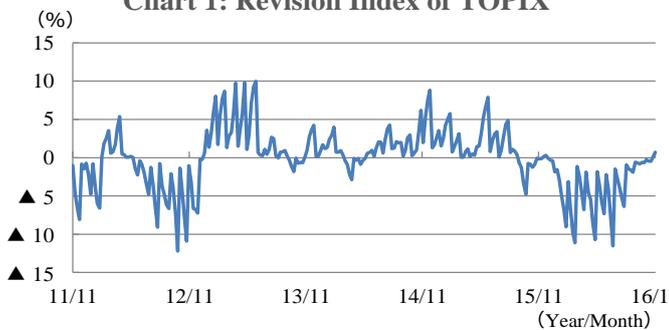
- The Trump rally in the stock markets may level off in December, as it might be getting difficult to justify this expectation-driven rally as time proceeds.
- However, upward trend of the Japanese equity market will likely to continue despite the Trump rally taking a breather, as Japanese corporate's earning forecast is improving.
- We need to be prepared for a possible reaction of the Japanese financial market if currently high expectation for the Trump policy is proved to be disappointing. US's currency policy is also an important factor to be watched.

**The Trump rally in the stock markets may level off in December, as it might be getting difficult to justify this expectation-driven rally as time proceeds**

On 1<sup>st</sup> December 2016, Nikkei 225 Index touched intra day's high of JPY 18,746 as JPY weakened against USD to latter part of JPY 114 and the Organization of the Petroleum Exporting Countries (OPEC) reached agreement to cut oil production. Nikkei 225 index rose more than JPY 2,600 within less than a month from the latest bottom of JPY 16,111.81 marked on 9<sup>th</sup> November 2016. I would like to think over what we need to watch out from here after in regard to Japanese equity market that has already rallied sharply.

We believe that Nikkei 225 index surged by positively reacting to rising US equity market and long-term bond's yield as well as stronger USD, on the back of "expectation" towards US President-elect Mr. Donald Trump's policies. However, it will become more difficult to justify this equity market rally based only on "expectation" as time proceeds. Also, the Trump rally may possibly take a breather in December when market participants taking holidays increase, and also market theme could change as the month turns.

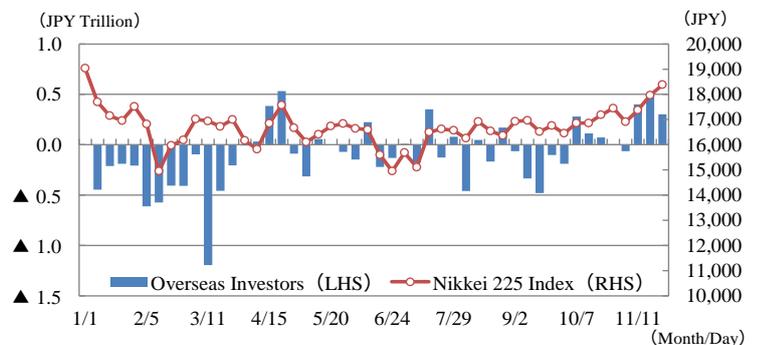
"Chart 1: Revision Index of TOPIX"



(Note) Data period is from 29th Nov. 2011 to 29th Nov. 2016. Bigger numbers are shown if more 12 months forecast of earnings per share (EPS) of constituent companies of Tokyo Stock Exchange 1st Section Index (TOPIX) were revised upward, while smaller numbers if more companies were revised downward.

(Source) SMAM, based on Datastream data.

"Chart 2: Japanese Equity Trading by Overseas Investors"



(Note) Data period is from week ending on 1st January 2016 to that ending on 25th November 2016. Japanese equity trading by overseas investors published by Tokyo Stock Exchange.

(Source) SMAM, based on Bloomberg L. P. data.

**However, upward trend of the Japanese equity market will likely to continue despite the Trump rally taking a breather, as Japanese corporate's earning forecast is improving**

Now, I would like to examine earnings forecast of Japanese corporations. According to revision index of Tokyo Stock Price Index (TOPIX), it has come back into positive territory (Chart 1). This indicates the number of companies that revised their earnings upward is increasing compared to those revised downward. Therefore, Japanese corporate earnings are starting to show signs of improvement, for which weakening JPY might have started working positively.

Next, I would like to examine trading activities of overseas investors in Japanese equity market. According to Tokyo Stock Exchange data (Chart 2), overseas investors were net buyers of Japanese equities for the past 3 weeks starting from the second week of November (7<sup>th</sup> to 11<sup>th</sup> November) when US presidential election was held, till the fourth week of November (21<sup>st</sup> to 25<sup>th</sup> November). This indicates overseas investors have switched to purchasing Japanese equity market. We therefore believe that rising trend of Japanese equity market will be maintained despite the Trump rally taking a breather in December.

**We need to be prepared for a possible reaction of the Japanese financial market if currently high expectation for the Trump policy is proved to be disappointing. US's currency policy is also an important factor to be watched**

However, we have to be cautious that market's "expectation" for US President-elect Mr. Donald Trump's policy is far too high. Therefore, negative reaction on Japanese stock markets and JPY could be magnified if in any reason the Trump policy is deemed disappointing. In addition, although the new US Treasury Secretary Mr. Steven Mnuchin has not yet indicated clear policy on foreign exchange, if he moves to prevent extremely strong USD, we believe, Japanese equity market will be influenced negatively by USD/JPY rate fluctuation.

**\* Please note that this report is a translation of Japanese report written on December 2<sup>nd</sup>, 2016.**

## **Disclaimer**

### **Please read this disclaimer carefully.**

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- ☐ The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited