

Today's Topic **Japanese equity market after inauguration of new US president Donald Trump**

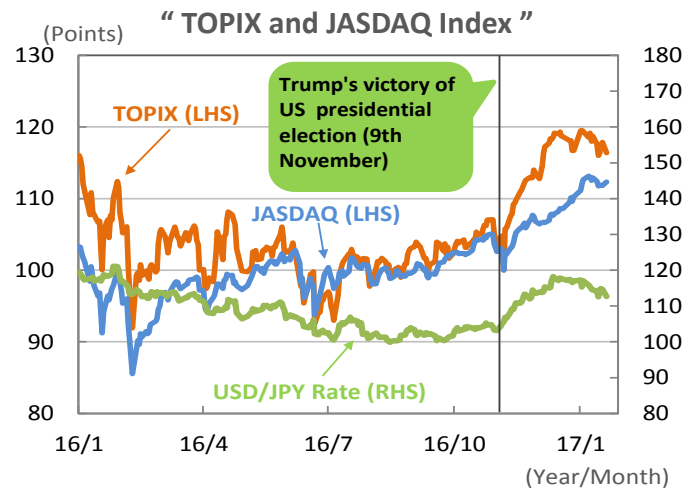
Solid performance of Japanese Small-cap equity market

Point 1 Large-cap stocks peaked out Concern over further progress of protective trade in US

- The Japanese equity market which saw strong rise towards the end of 2016 has softened after entering year 2017. The Japanese equity market had re-attracted investors by (i) expectation on US president Trump's policies and (ii) weakening JPY. However, it started to consolidate, mainly large-cap stocks, as market participants became more keen on assessment of statements and policies of US president Trump.

Point 2 Performance of Small-cap stocks is solid

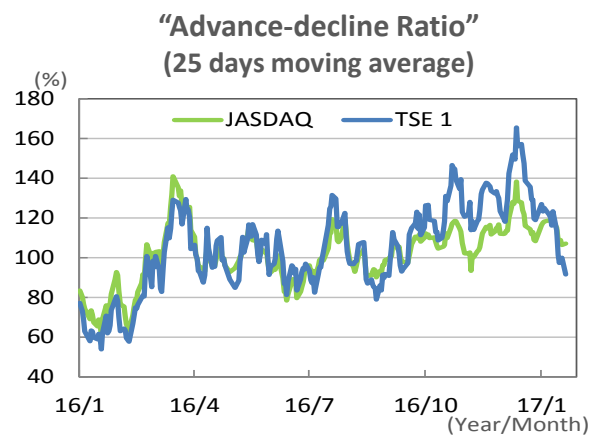
- Meanwhile, wide price divergence between Small-cap stocks and Large-cap stocks from the end of last year has started to contract as performance of Small-cap stocks were relatively solid. As of 10th January 2017, JASDAQ index was 125.94 points and Tokyo Stock Exchange Second Section Index was 5,438.78 points, both of which have renewed their record highs since 2006.
- Price divergence between Large-cap stocks and Small-cap stocks that begun in first half of 2016, has dissipated as the former consolidated while the latter performed well. Small-cap stocks seem to perform well even when JPY is strong because JPY appreciated against USD during this period. We think this is due to appreciation by market participants on rise and growth of companies who provide technologies and services focusing on domestic demand.



(Note 1) Data period is from 4th January 2016 to 23rd January 2017.

(Note 2) Stock indices are 100 as of 9th November 2016.

(Source) SMAM, based on QUICK data.



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(Note 2) Advance-decline ratio: No. of stocks advanced / No. of stocks declined. Index to measure degree of overheat of equity market. 100% is neutral. In general, more than 120% is considered to be overbought, while less than 70% is considered to be oversold.

(Source) SMAM, based on QUICK data.

Future Outlook Market focuses on US president Trump's policies underpinned by solid company performance

- Financial markets will focus on statements and policies of new US president Trump for the time being, however, weaker USD against JPY is likely to continue for some time due to concern over protectionism. Even in such circumstances, solid performance of Small-cap stocks are expected as their business performance are healthy. On the other hand, we believe investors will focus again on Large-cap stocks based on their robust business performance, once currency correction is completed, as USD is expected to strengthen against JPY in a long run due to interest rate difference.



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