



Outlook for Japanese Stock Market & Economy

Sumitomo Mitsui DS Asset Management

Hisashi Shiraki
Chief Global Strategist

-September 2024-

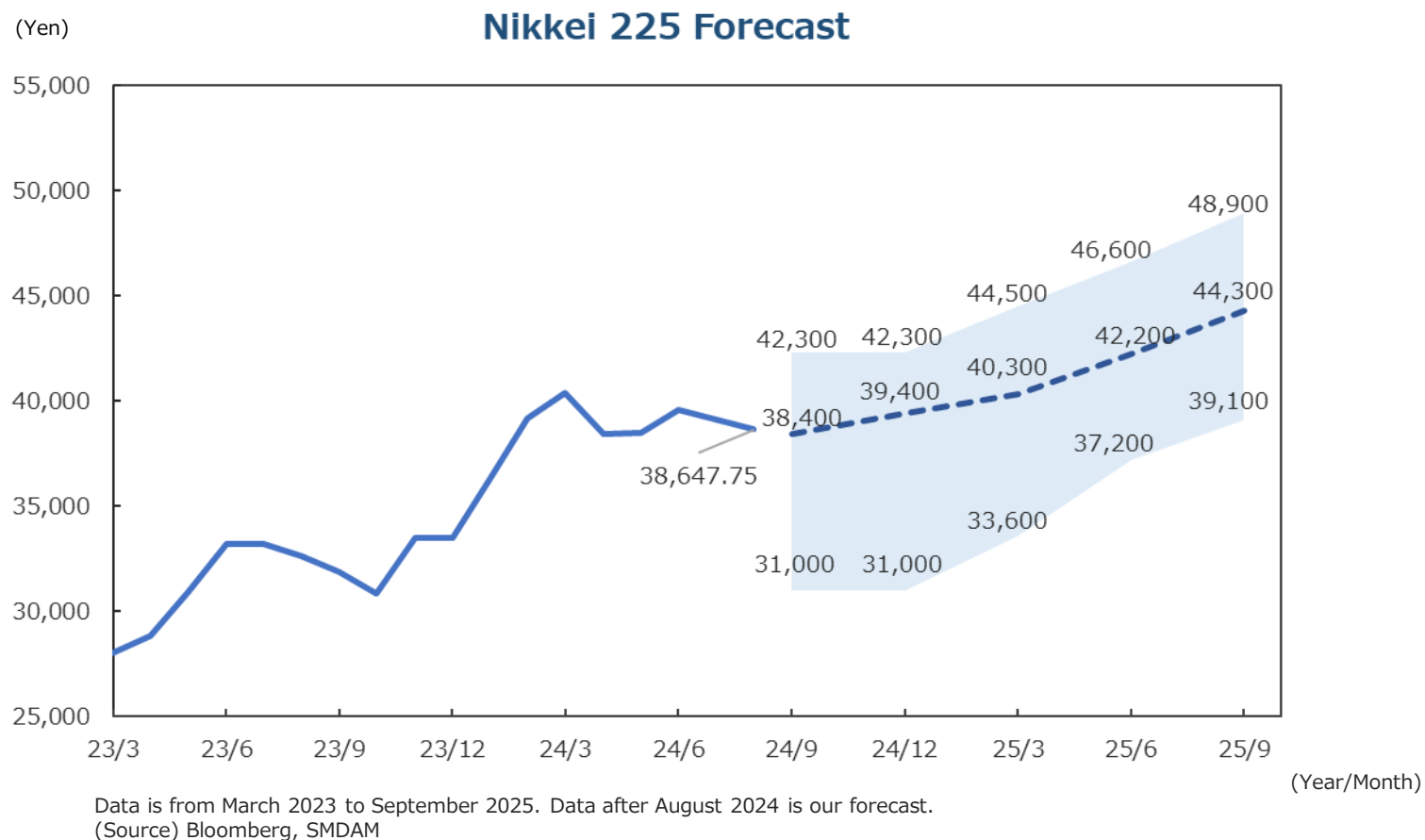


Outlook for Japanese Stock Market

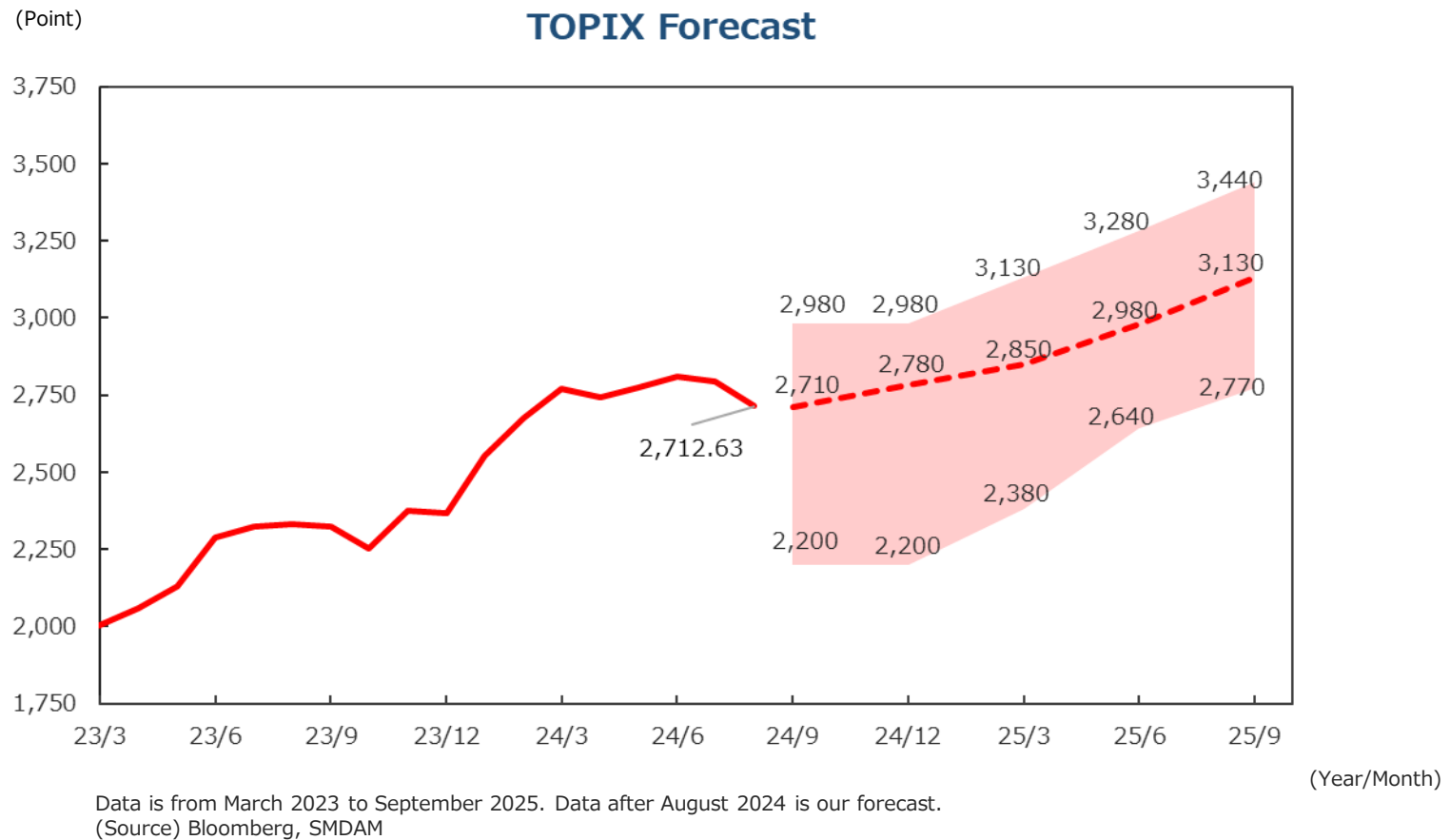
Market Outlook

- We expect the Japanese equity market to resume its bullish trend after temporary correction caused by uncertainty in the US economy and concern over the hawkish stance of the Bank of Japan.
- We believe the US economy will avoid “hard landing” thanks to the rate cut by the Federal Reserve, and the BOJ to tone down its hawkish stance due to the recent sharp retreat of the USD/JPY rate.
- We have lowered our price target of the Nikkei 225 for FY 2024 to 40,300 from 43,000 and that for TOPIX to 2,850 from 3,050 due to a change in estimate P/E ratio after the recent spike in market volatility.

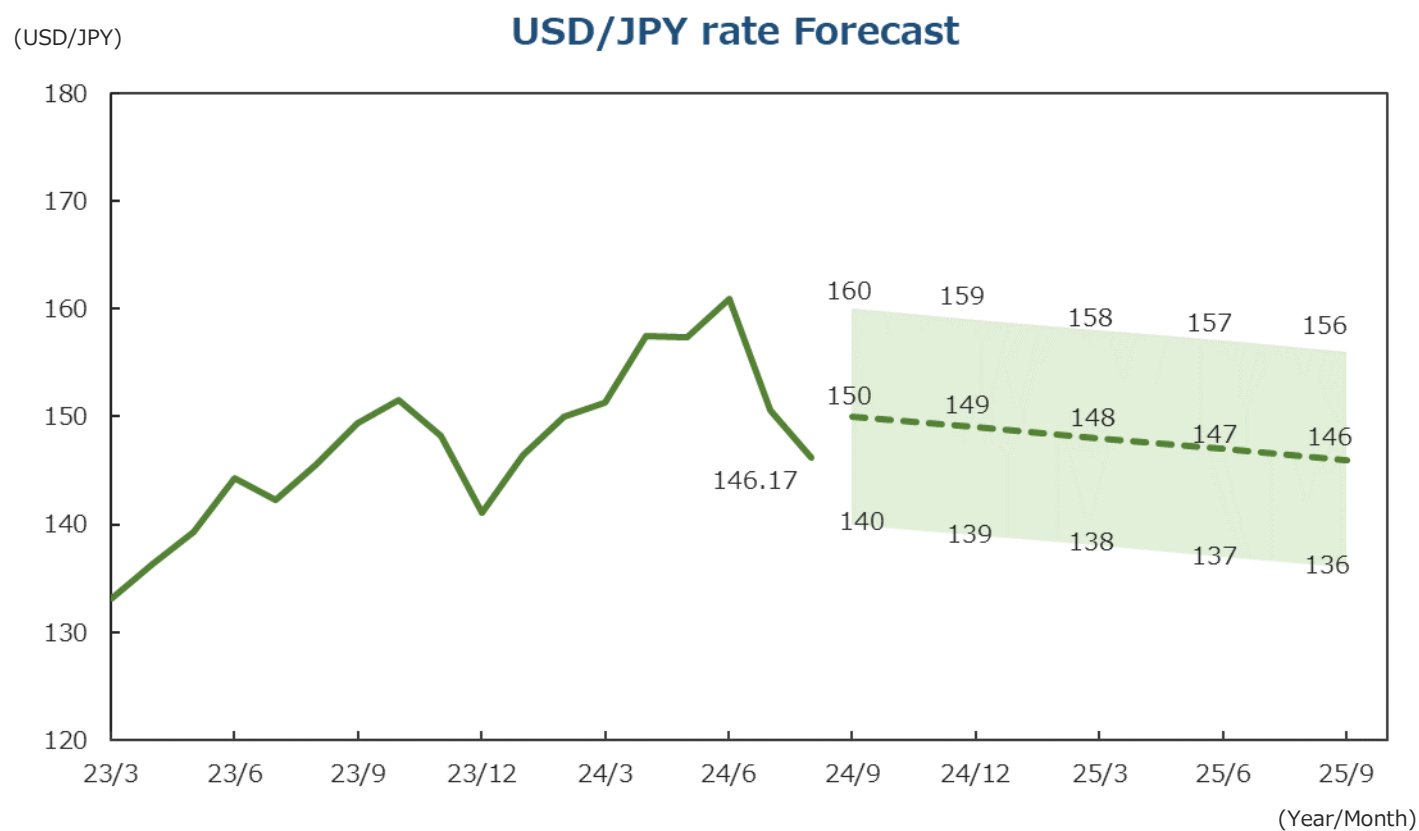
We expect stock market to resume bullish trend going forward



We expect stock market to resume bullish trend going forward



Narrowing interest rate gap weighing on USD/JPY rate ahead



Data is from March 2023 to September 2025. Data after August 2024 is our forecast.
(Source) Bloomberg, SMDAM

Upside / Downside risk scenarios

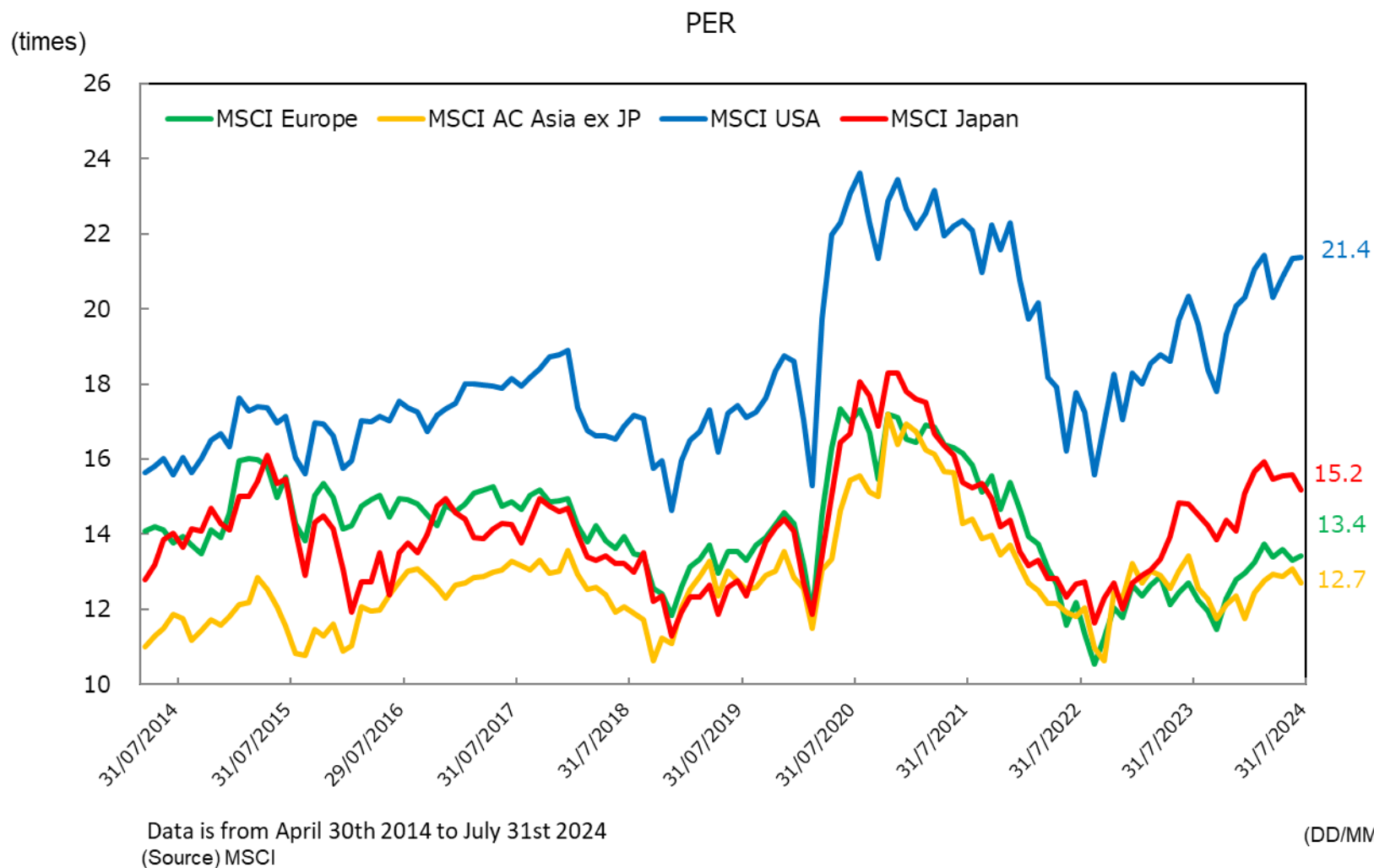
■ Upside Risks

- Receding excessive concern over the US economy
- Further improvement of corporate governance, led by Tokyo Stock Exchange

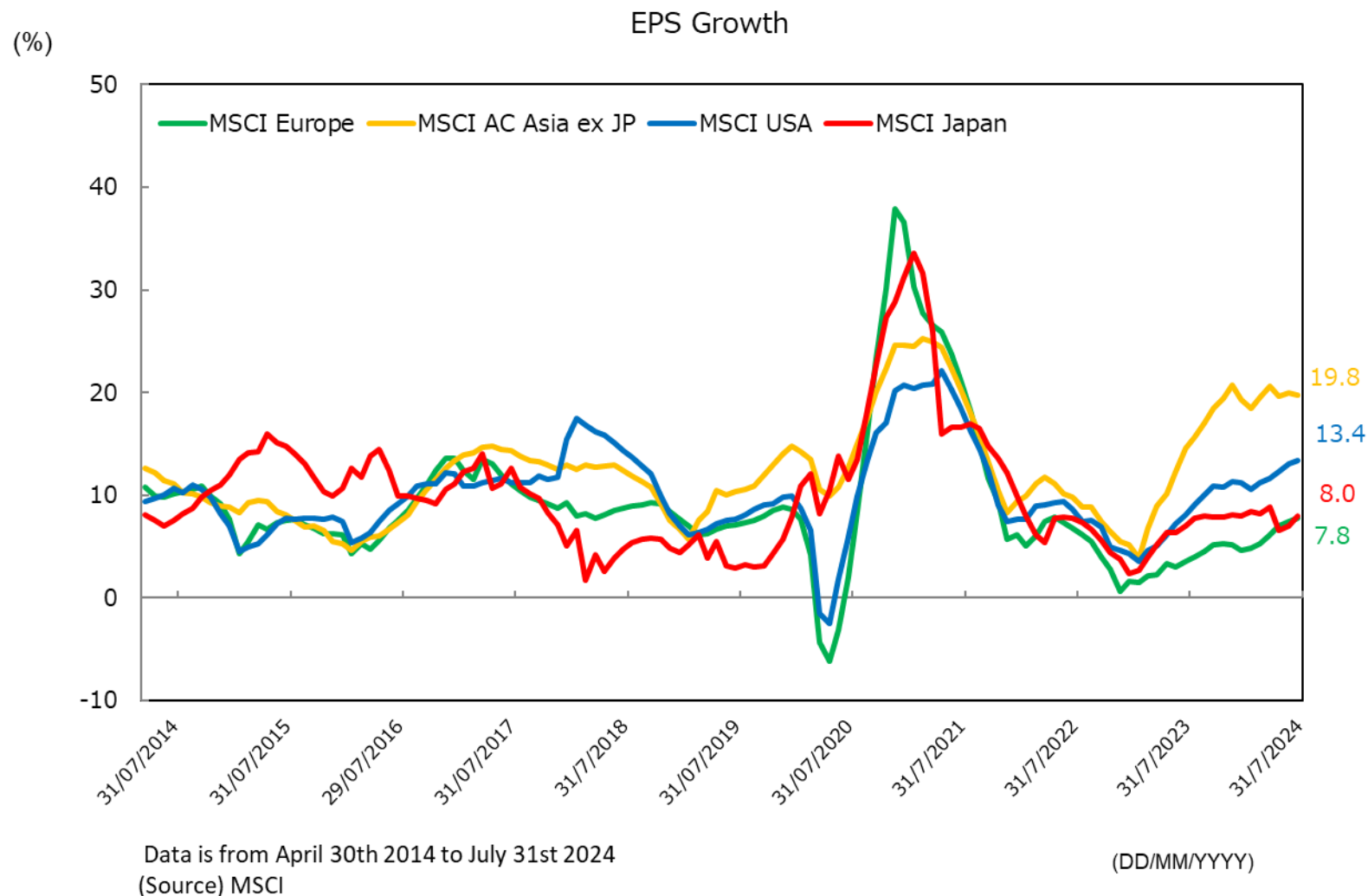
■ Downside Risks

- Tighter fiscal policy to achieve a primary surplus
- Excessive and rapid JPY appreciation
- Hasty monetary tightening by the BOJ

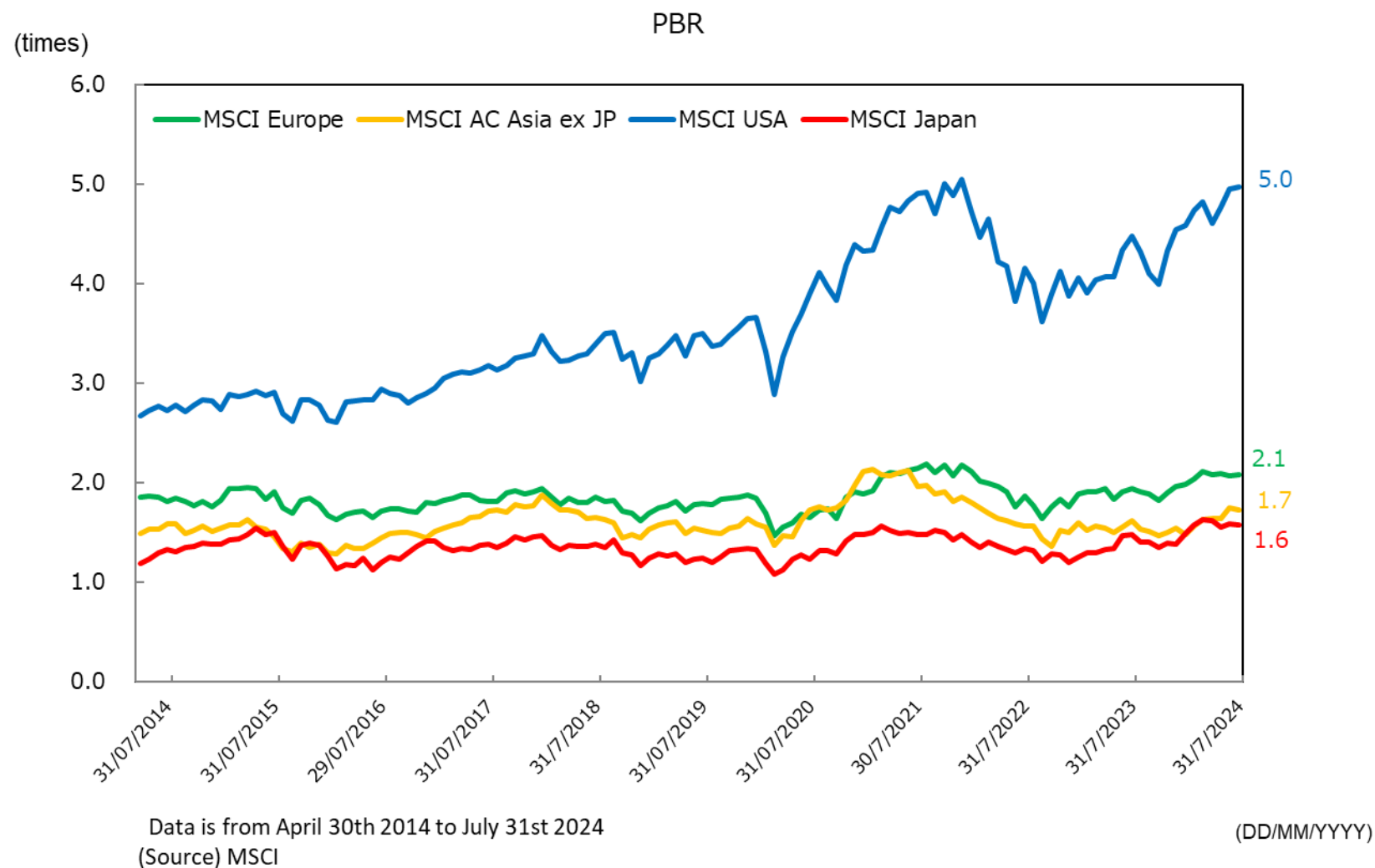
P/E ratio gap widening between Japan and Asian peers



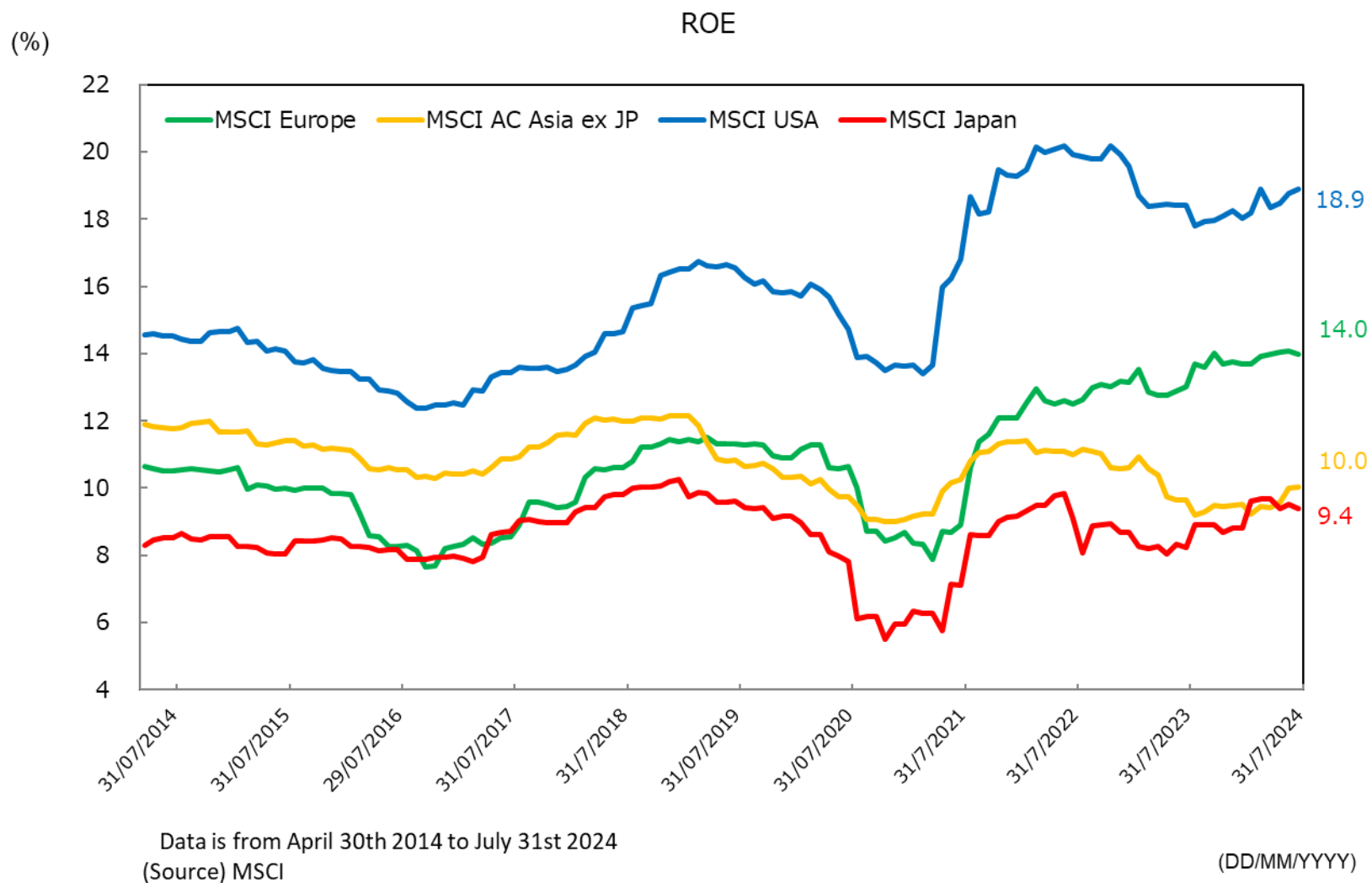
Japan's EPS continues steady growth



Japan's P/B ratio has room for further improvement

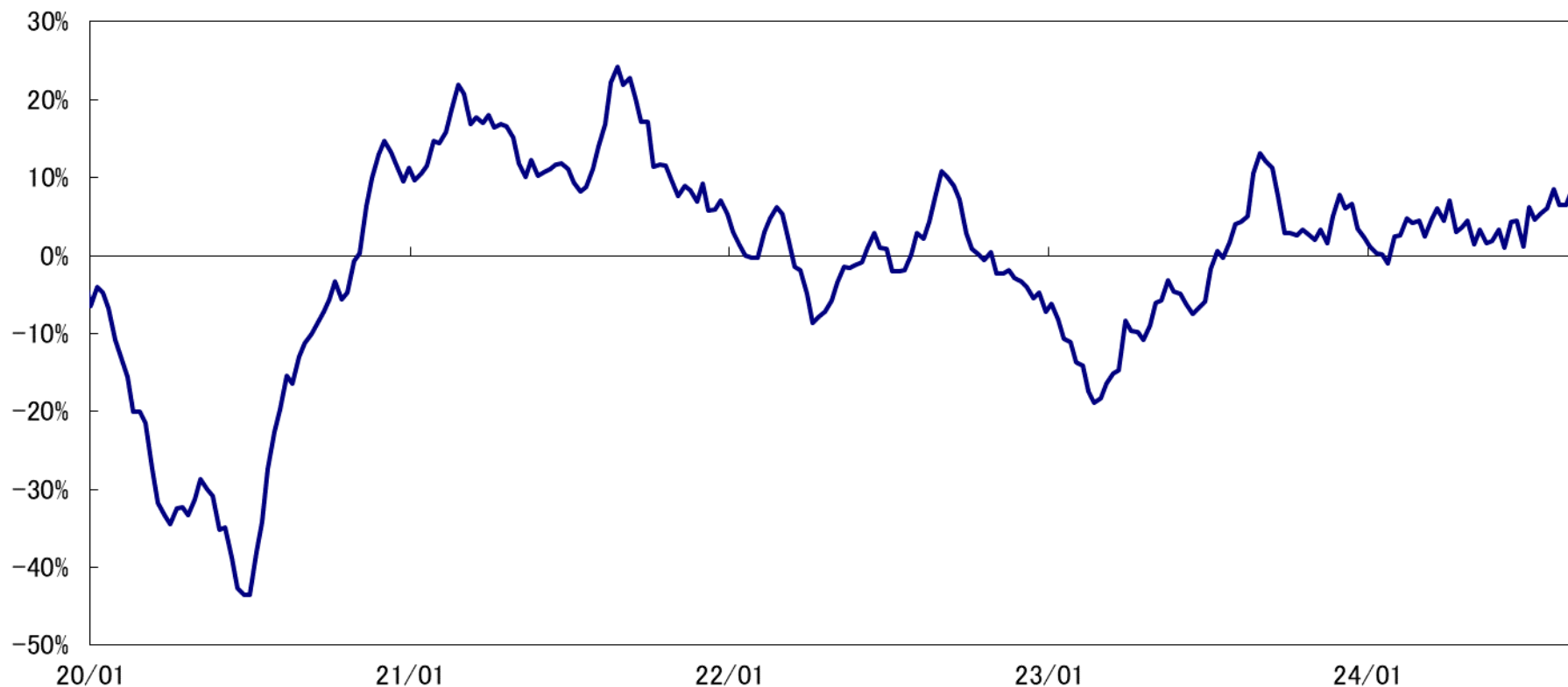


Earnings growth lifts Japan's ROE



EPS revision remains steady even after sharp market correction

TOPIX Revision Index

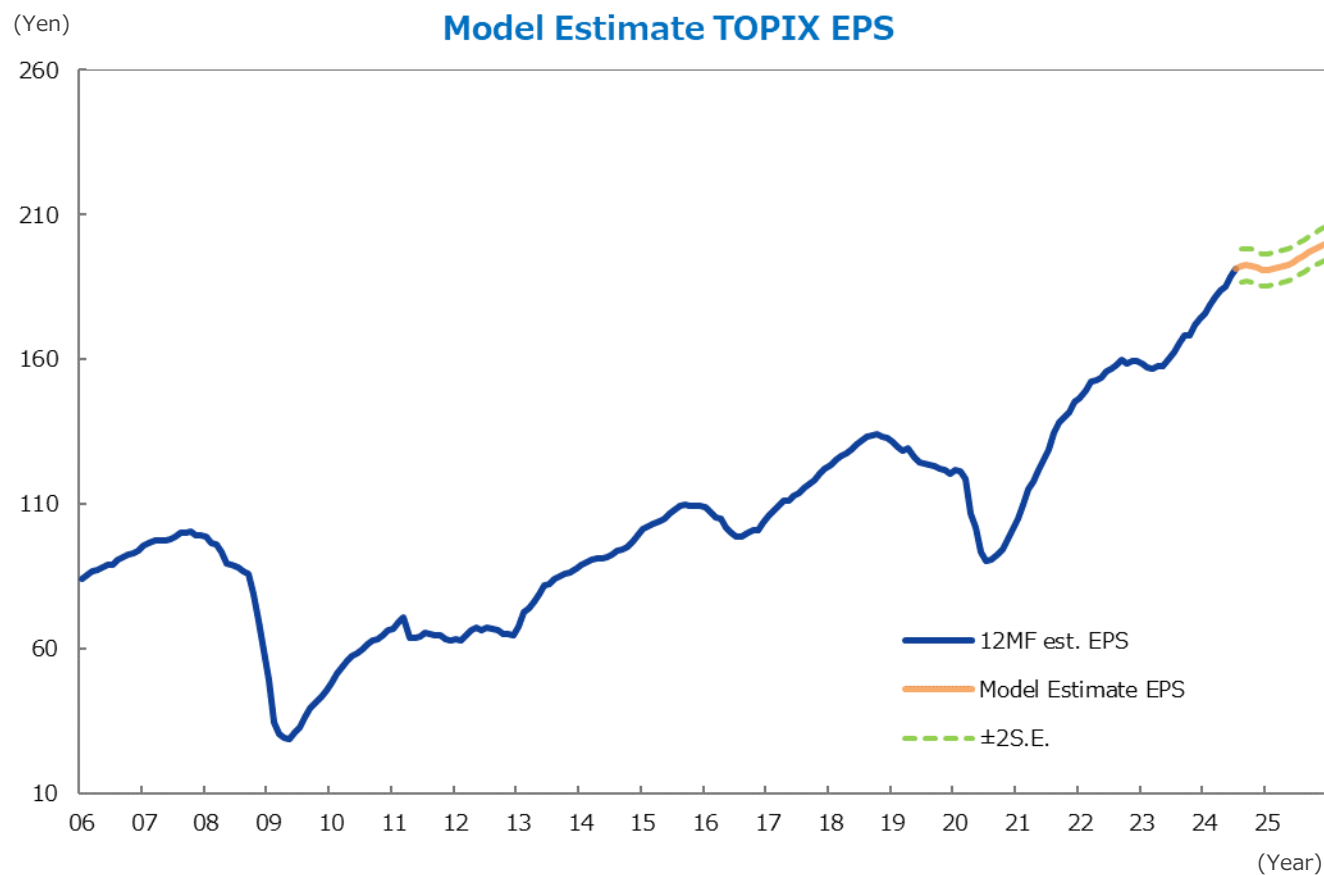


Data is from January 2nd 2020 to August 22nd 2024
(Source) Datastream, IBES

(YY/MM)

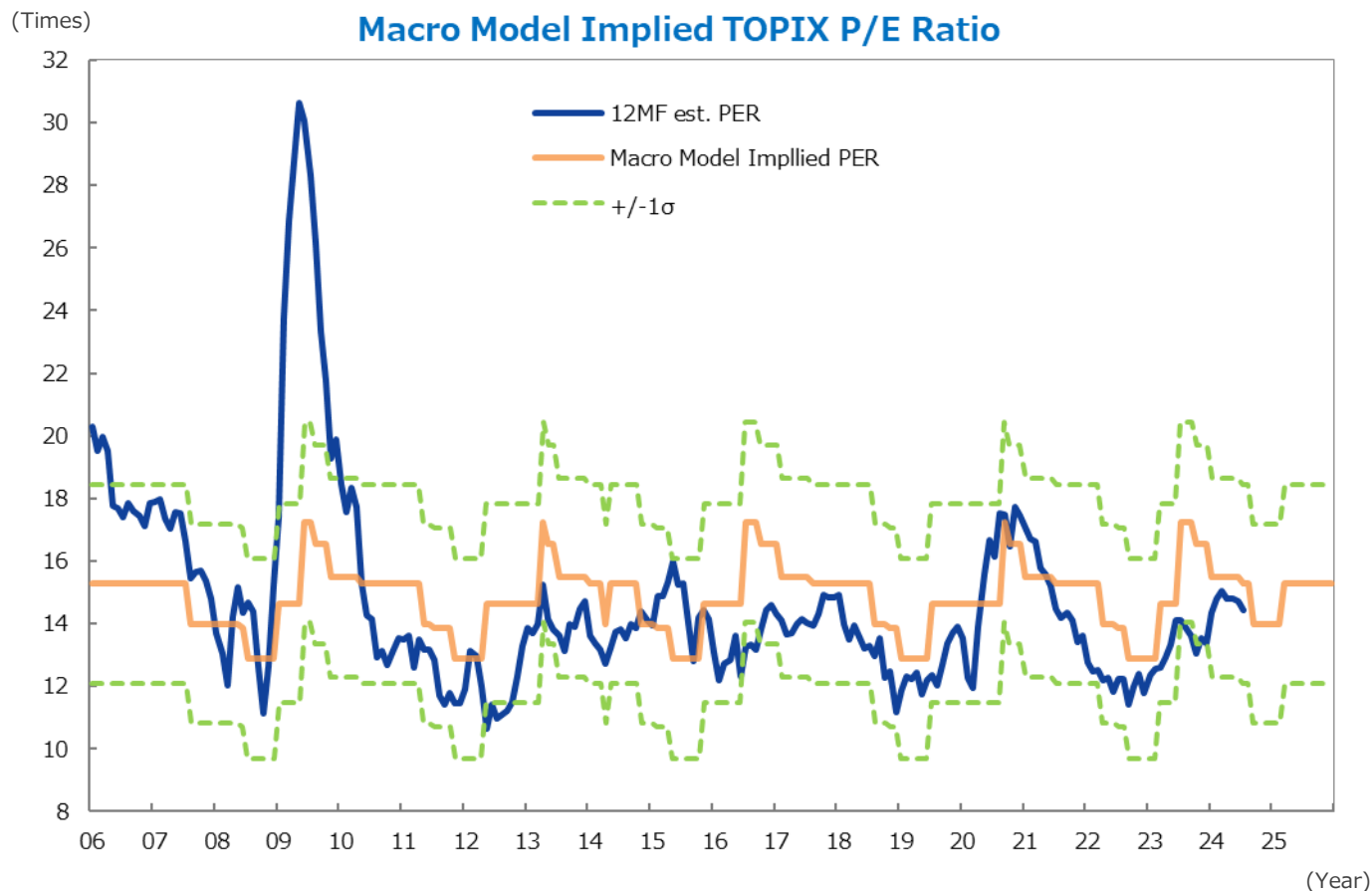


Growth of estimate EPS might slow in the near future



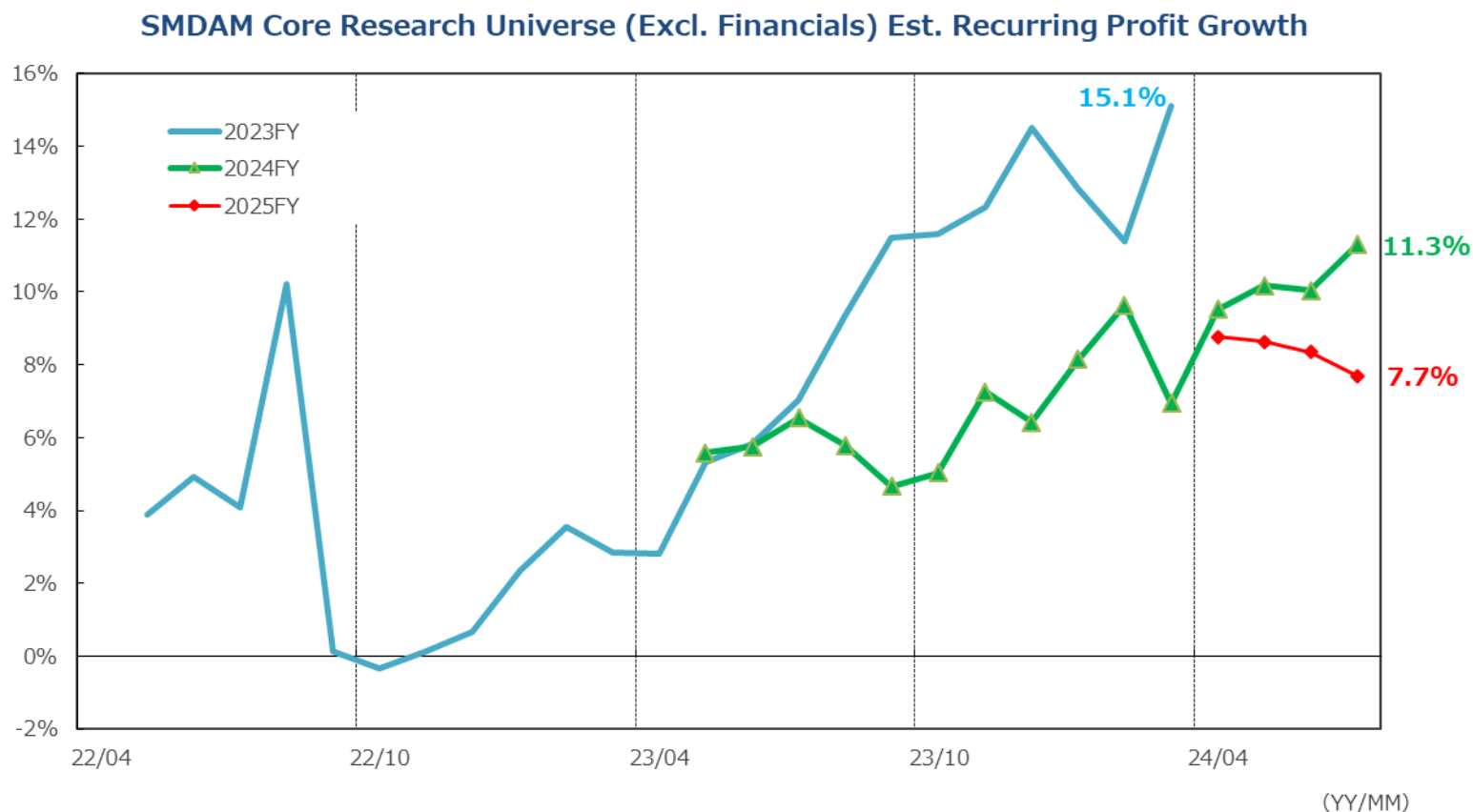
Note: Consensus data is from January 2006 to June 2024. Model estimate Data is from August 2024 to December 2025.
Source: SMDAM

P/E ratio still has room for expansion



Note: Consensus data is from January 2006 to July 2024, Model estimate Data is from January 2006 to December 2025.
Source: SMDAM

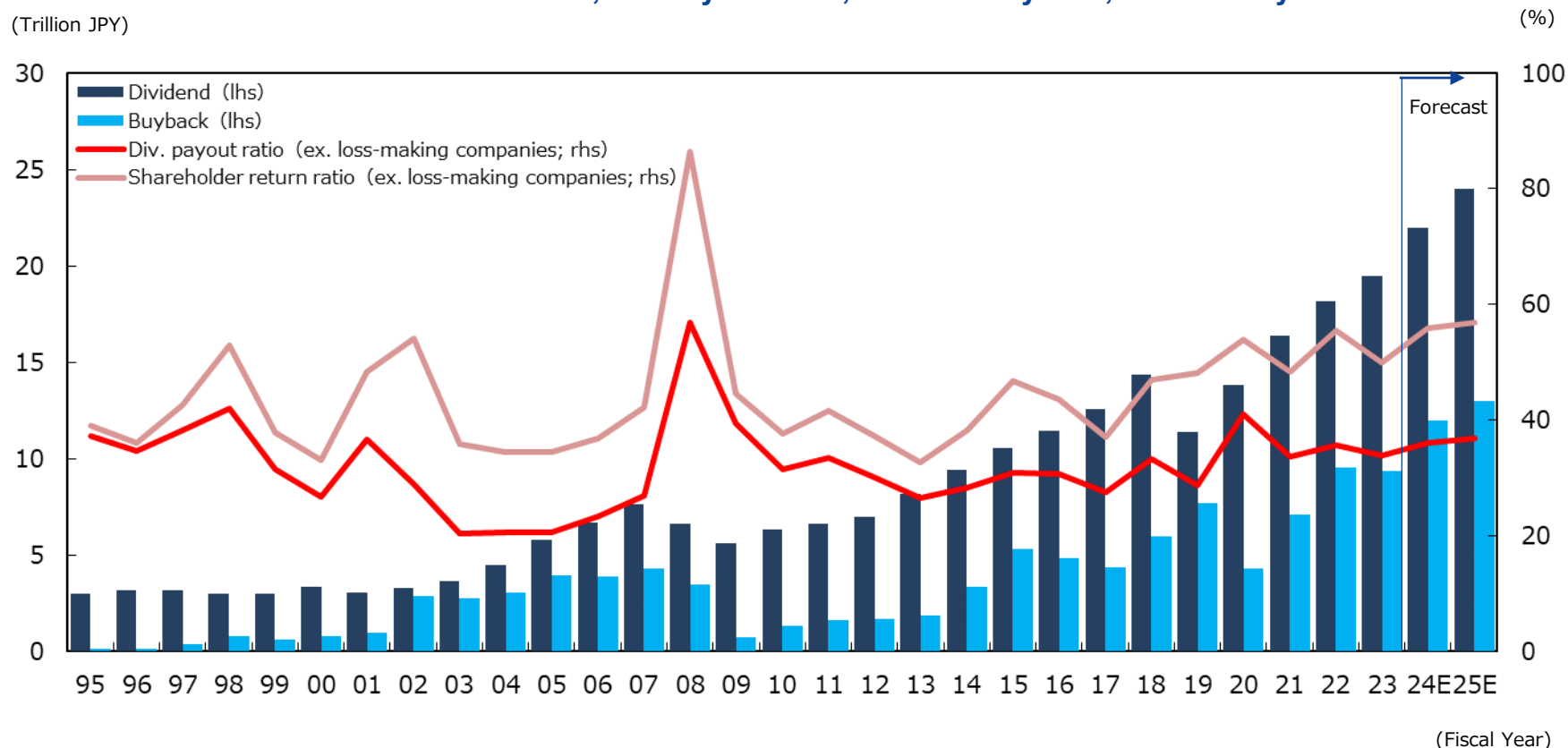
Bottom up research indicates steady earnings outlook ahead



Note: Data is as of 15th August 2024, SMDAM Core Universe (Excl. Financials) consists of 386 Japanese companies covered by SMDAM in-house analysts.
Source: SMDAM

Streak of record-breaking dividends and buybacks

Shareholder Return Ratio, Div. Payout Ratio, Dividend Payment, & Share Buyback



Note: Data is from FY1995 to FY2025. FY2024 and FY2025 are forecasts by Daiwa Securities.
Source: Toyo Keizai, Quick, INDB, Daiwa Securities, SMDAM

Recent market correction hit large cap value hard

Performance Comparison of Russell/Nomura Style Indices

Index	Returns(%)						
	3 Month	6 Month	YTD	1 Year	2 year	3 Year	5 Year
RN Japan Equity	-2.23	1.27	13.76	18.21	36.62	40.46	80.00
Total Value	-3.87	1.94	16.76	20.94	50.08	65.97	94.77
Top Cap Value	-6.62	0.06	21.74	23.99	59.90	80.11	122.58
Large Cap Value	-4.38	1.71	17.95	21.70	52.14	70.20	99.83
Mid Cap Value	-2.08	3.38	14.44	19.19	42.94	58.58	72.76
Small Cap Value	-1.35	3.06	11.45	17.45	41.01	48.01	73.36
Micro Cap Value	-0.98	2.80	9.74	16.70	38.73	46.61	67.75
Total Growth	-0.67	0.68	11.17	15.59	24.63	19.51	64.36
Top Cap Growth	-2.12	0.71	14.12	21.07	30.36	25.89	77.09
Large Cap Growth	-0.93	0.90	12.21	16.94	26.83	21.69	69.89
Mid Cap Growth	1.51	1.29	8.68	9.63	20.44	14.41	57.62
Small Cap Growth	1.74	-1.38	2.33	4.46	7.62	2.29	24.03
Micro Cap Growth	-0.95	-5.01	-0.04	2.63	4.56	-0.92	21.18
Top Cap Total	-3.90	0.46	16.94	22.38	42.82	47.39	95.49
Large Cap Total	-2.53	1.26	14.74	19.18	38.25	42.44	84.67
Mid Cap Total	-0.52	2.42	11.77	14.69	31.82	35.63	70.19
Small Cap Total	-0.20	1.33	7.81	12.37	27.10	28.54	53.44
Micro Cap Total	-0.97	0.09	6.32	11.97	26.44	29.21	51.92

Note : As of 23rd August 2024
(Source) Bloomberg





Outlook for Japanese Economy



Current status & Outlook of Japanese economy

[Current Status]

- **The economy is recovering.** In the second quarter of 2024, real GDP grew for the first time in 2 quarters. In particular, consumer spending recovered, growing for the first time in 5 quarters, due to a normalization of auto production and an improvement in wages. As for soft data, the "Economy Watchers Survey (July)" and "Consumer Confidence Index (July)" have been adversely affected by higher inflation, while the PMI (July) recovered. Regarding concerns about a slowdown in the U.S. economy and the impact of sudden changes in financial markets, there were no significant changes observed in the "Reuters Tankan (August)".
- **Inflation is picking up.** Nationwide core CPI rose +2.6% YOY in June, rebounding from +2.5% in May. Tokyo Metropolitan Area Core CPI rose +2.2% YOY in July, re-accelerating from +2.1% last month. Inflation was pushed up by energy prices as the policy factor of reduced levies for electricity and gas bills had a large impact.

[Outlook]

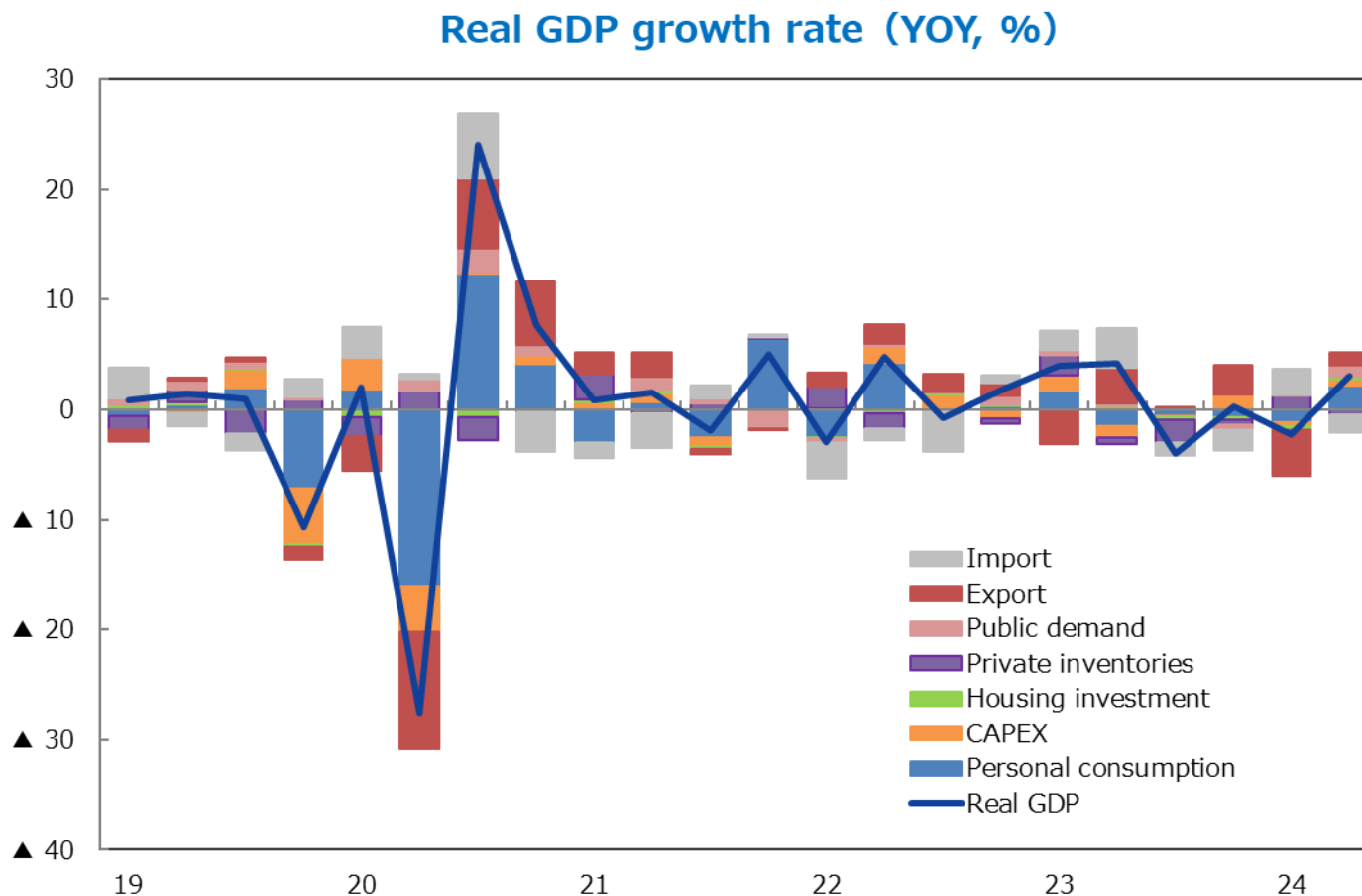
- ① **We have raised our real GDP growth forecast for FY 2024 to +0.5% from +0.2% and that for FY 2025 to +0.7% from +0.6%.** Figures for FY 2024 have been revised upward due to strong results in Q2 2024. As for the outlook, we expect the Japanese economy to return to a moderate growth path on the back of wage increases, fiscal stimulus, such as tax cuts and benefits, firm capital investment motivation, such as labor saving, digitalization, greening, urban development, and construction of semiconductor factories, and the resilience of overseas economies.
- ② **We have maintained our core CPI forecast for FY 2024 at +2.5% and that for FY 2025 at +2.2%.** As for the outlook, the nationwide core CPI is likely to be above +2% level throughout 2025, given the energy boost from the end of utility bill subsidies and the gasoline subsidy. Thereafter, core CPI is likely to slow down due to the receding energy factor, and core CPI is expected to remain stable at around +2% YOY, supported by the rise in service prices accompanied by wage hikes.
- ③ **We expect the government to continue their accommodative fiscal policy.** Prime Minister Kishida announced plans to implement economic measures in autumn. In addition to providing subsidies to low-income households, the government will provide local subsidies to small and medium-sized companies, school lunches, medical and nursing care, logistics and regional tourism. Although the details of the economic measures have become unclear since PM Kishida announced that he will not run for president of the Liberal Democratic Party, it is highly likely that the economic measures will be handed over to the next prime minister. In view of the possibility of a dissolution of the Diet and a general election, we will pay close attention to the risk of large-scale economic measures.
- ④ **We have changed our forecast for the BOJ's monetary policy.** The new forecasts of policy rates are 0.50% in January 2025, 0.75% in July 2025 and 1.00% in January 2026 (previously: 0.50% in December 2024, 0.75% in June 2025 and 1.00% in December 2025). The main reason for the change is the recent turnaround of USD/JPY rate which reduces inflation risk and allows the BOJ to take time to assess various data before an additional rate hike. The BOJ is expected to maintain its policy stance, and will focus on downside risks to the economy for a while. If the yen weakens sharply again or downside risks to the economy subside quickly, we cannot rule out the possibility of an additional rate hike by the end of the year. However, the main scenario is that an additional rate hike will be implemented after the central bank conduct a comprehensive review of the economy in the January 2025 Outlook Report.

Forecast for the Japanese economy

Forecast of annual Real GDP growth and its breakdown							
Fiscal Year	FY19	FY20	FY21	FY22	FY23	FY24 Est	FY25 Est
Real GDP	-0.8%	-3.9%	3.1%	1.6%	0.8%	0.5%	0.7%
Private final consumption expenditure	-0.9%	-4.8%	1.8%	2.7%	-0.6%	0.6%	0.8%
Private housing investment	2.6%	-7.4%	0.3%	-3.3%	0.3%	-0.9%	-0.9%
Private-sector capital investment	-1.3%	-5.7%	3.2%	4.1%	0.3%	2.0%	0.9%
Private inventory investment	-0.2%	-0.2%	0.5%	0.1%	-0.2%	0.0%	0.0%
Public fixed capital formation	1.6%	4.9%	-6.5%	-6.1%	0.7%	0.8%	0.2%
Net export contribution	-0.5%	-0.6%	0.8%	-0.5%	1.4%	-0.2%	-0.1%
Exports of goods and services	-2.3%	-10.0%	12.5%	4.9%	2.8%	1.2%	2.9%
Imports of goods and services	0.2%	-6.3%	7.3%	7.3%	-3.2%	2.4%	3.3%
Nominal GDP	0.0%	-3.2%	3.0%	2.5%	4.9%	3.0%	2.4%
GDP deflator	0.8%	0.7%	-0.1%	0.9%	4.0%	2.5%	1.7%
Industrial Production Index	-3.5%	-9.6%	5.6%	-0.3%	-1.9%	1.3%	1.5%
Consumer Price Index (Core)	0.4%	-0.6%	0.1%	3.0%	2.8%	2.5%	2.2%
Domestic corporate goods price index	0.1%	-1.5%	7.1%	9.5%	2.3%	2.0%	1.0%
Employee compensation	2.0%	-1.5%	2.1%	2.4%	1.8%	3.7%	3.6%
Unemployment rate	2.4%	2.9%	2.8%	2.6%	2.6%	2.5%	2.3%
Monetary Policy interest rate (Short term)	-0.10%	-0.10%	-0.10%	-0.10%	0-0.1%	0.50%	1.00%

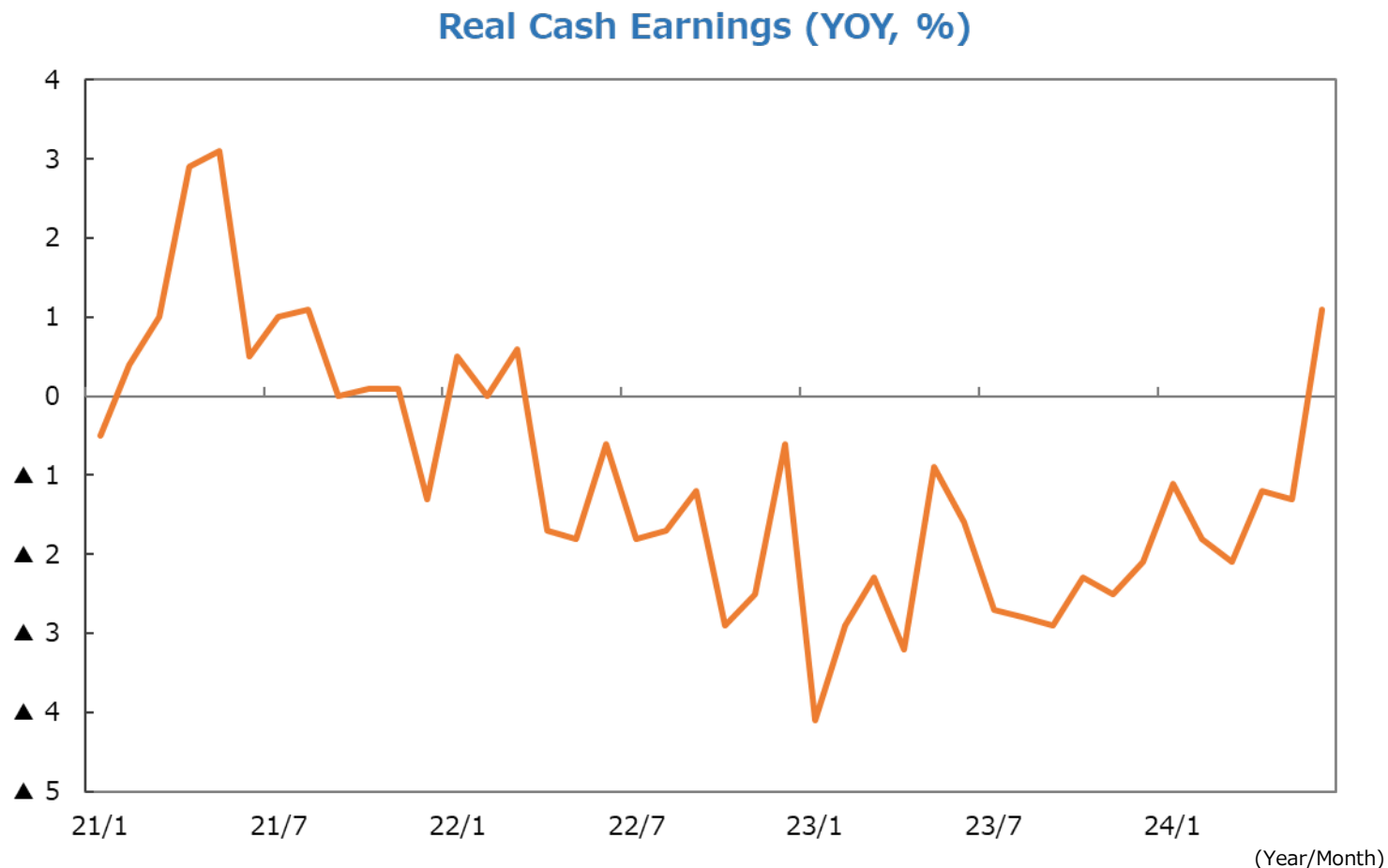
Note: Rate of increase over the previous year. Net exports are based on the degree of contribution, and the consumer price index (Core) excludes the effects of the consumption tax and free education.
Source: Sumitomo Mitsui DS Asset Management based on data from the Cabinet Office, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry

Japanese real GDP moved back into positive territory



Note: Data is from Q1 2019 to Q2 2024.
Source: Cabinet office, SMDAM

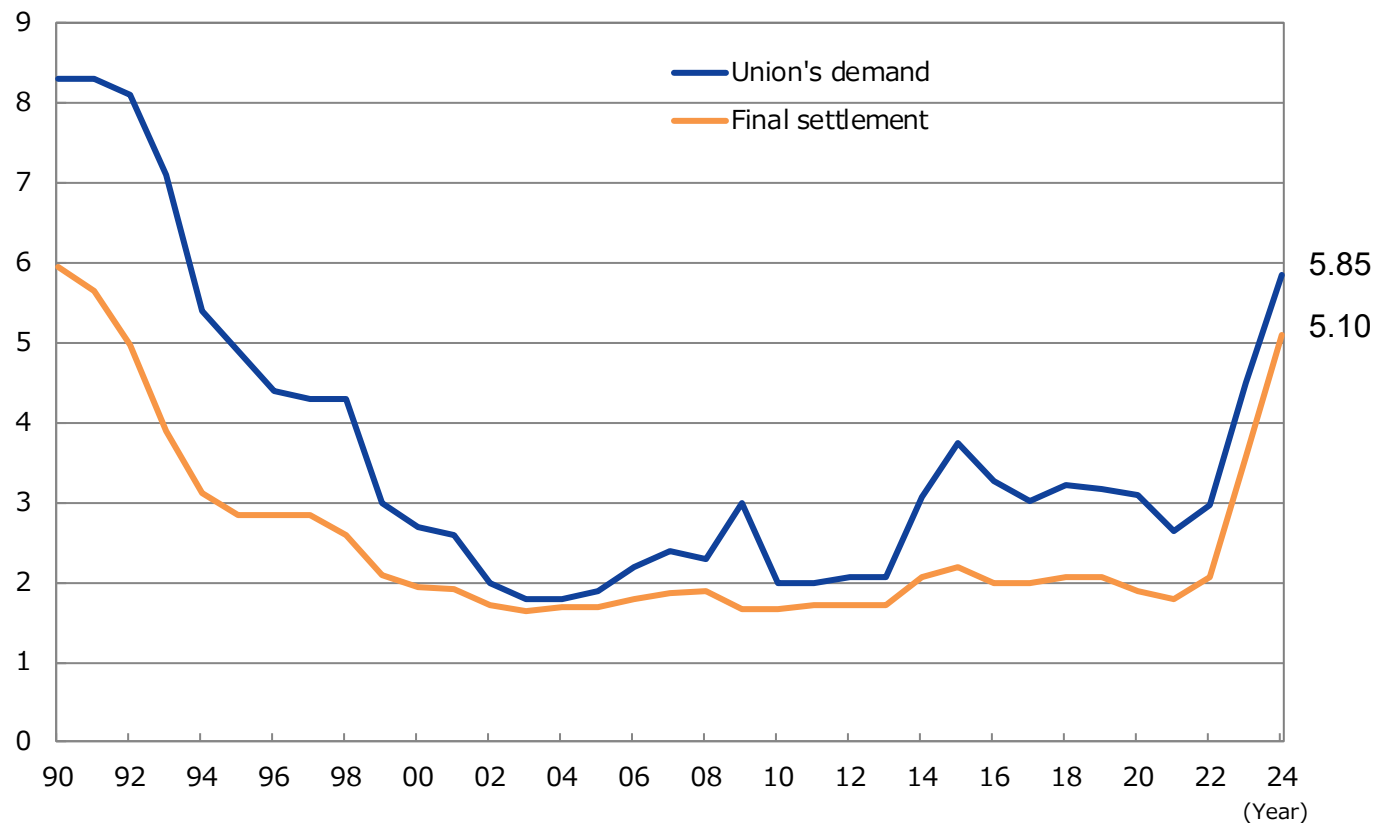
Real wage grew for the first time in 27 months



Note: Data is from January 2021 to June 2024.
Source: Japanese Trade Union Confederation, SMDAM

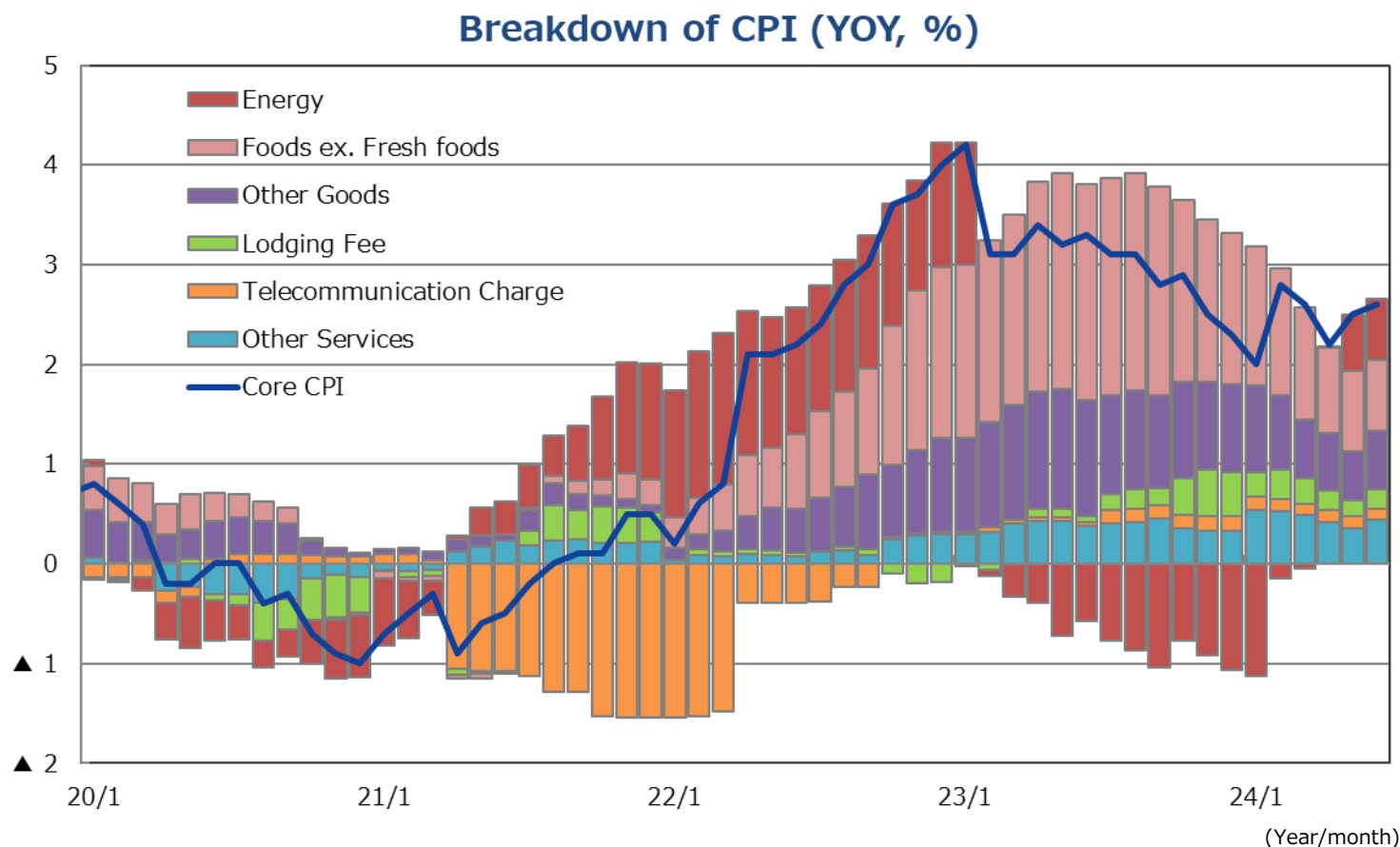
Highest wage increase in 33 years

Wage increase (YOY, %)



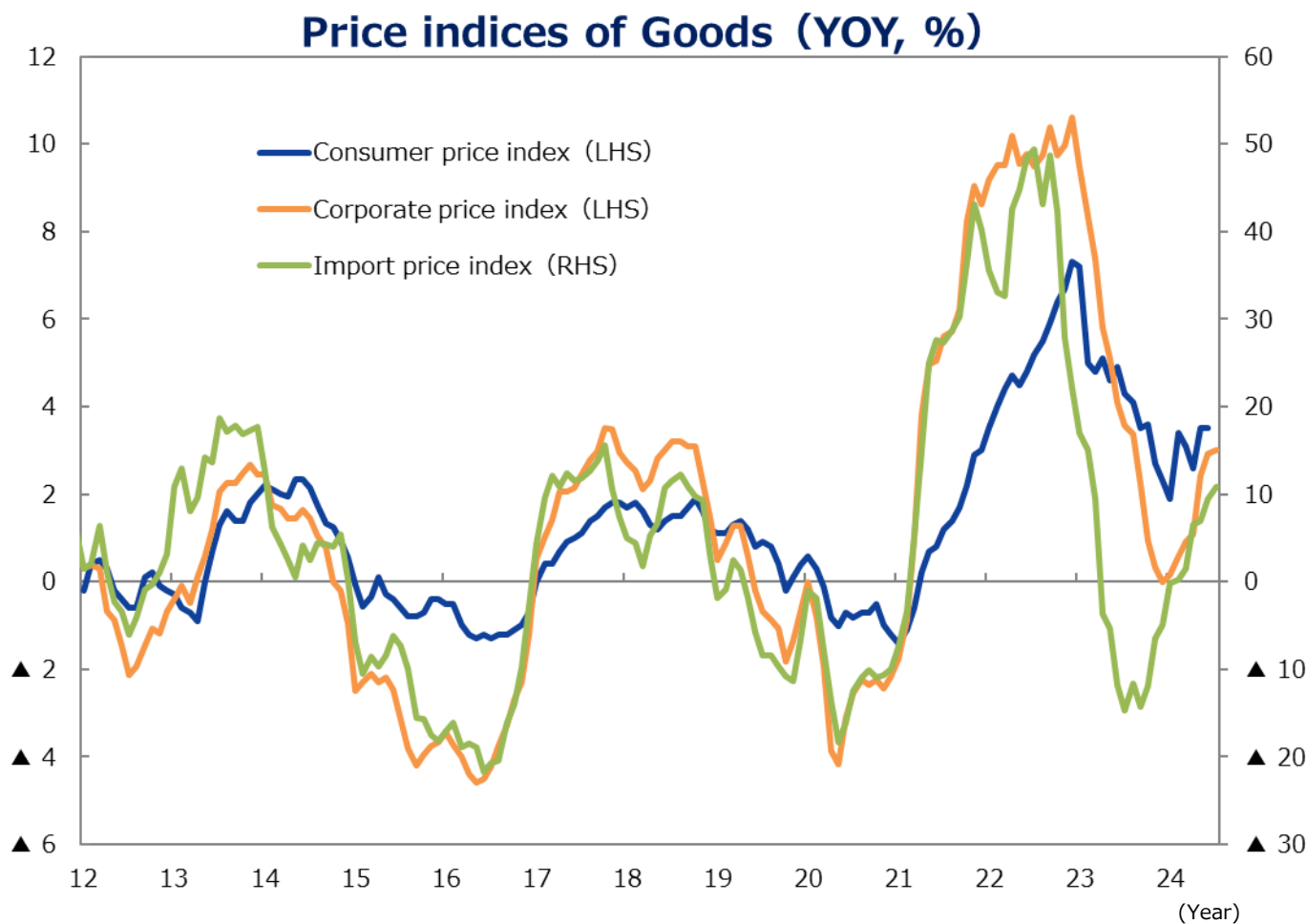
Note: Data is from FY 1990 to FY 2024.
Source: Japanese Trade Union Confederation, SMDAM

End of utility bill subsidies lift energy prices



Note: Data is from January 2020 to June 2024.
Source: MIAC, SMDAM

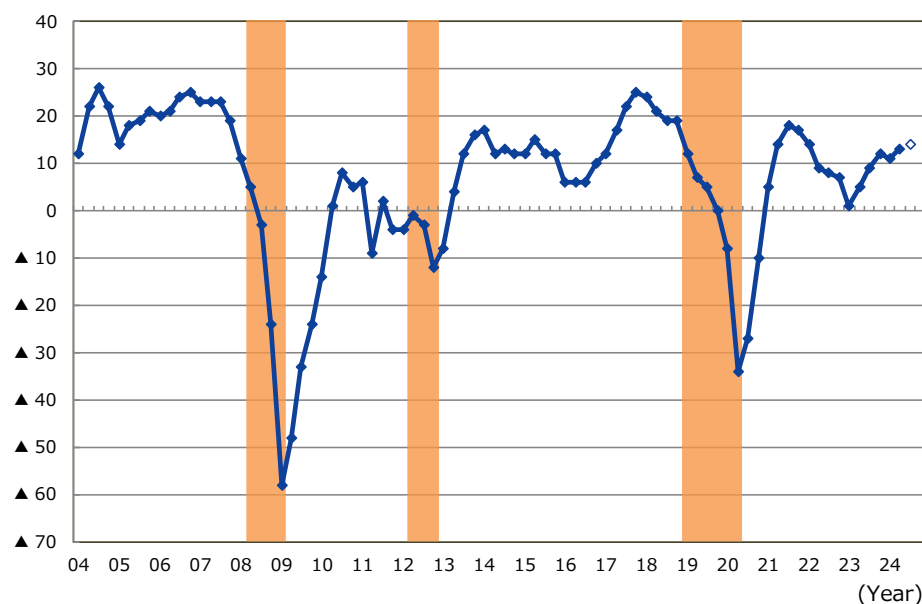
Cost push inflation again?



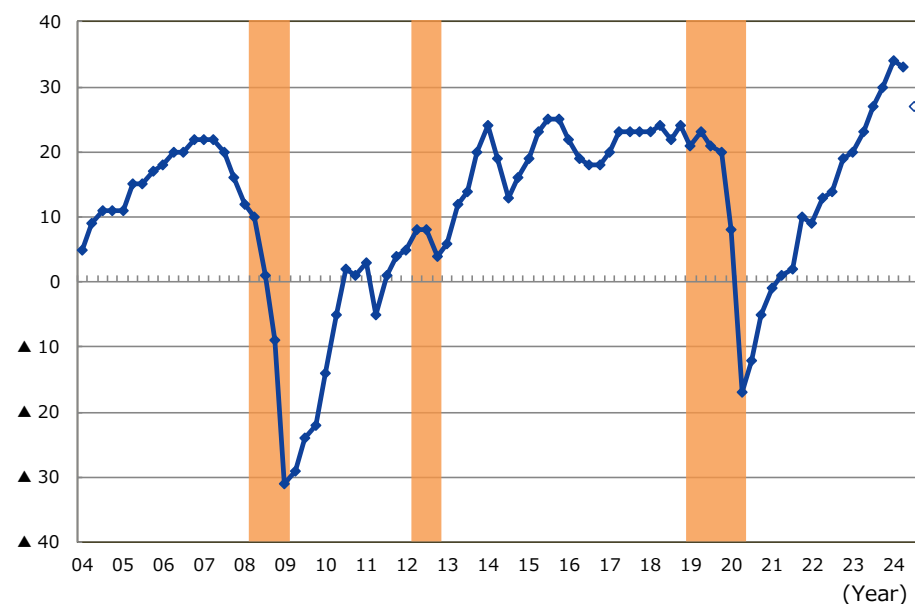
Note: Data for Corporate price index and Import price index are from January 2012 to July 2024 and Consumer price index is from January 2012 to June 2024
Source: MIAC, Bloomberg, SMDAM

Non-manufacturers' sentiment fell for the first time in 4 years

BOJ business condition DI Large manufacturers (%)



BOJ business condition DI Large non-manufacturers (%)

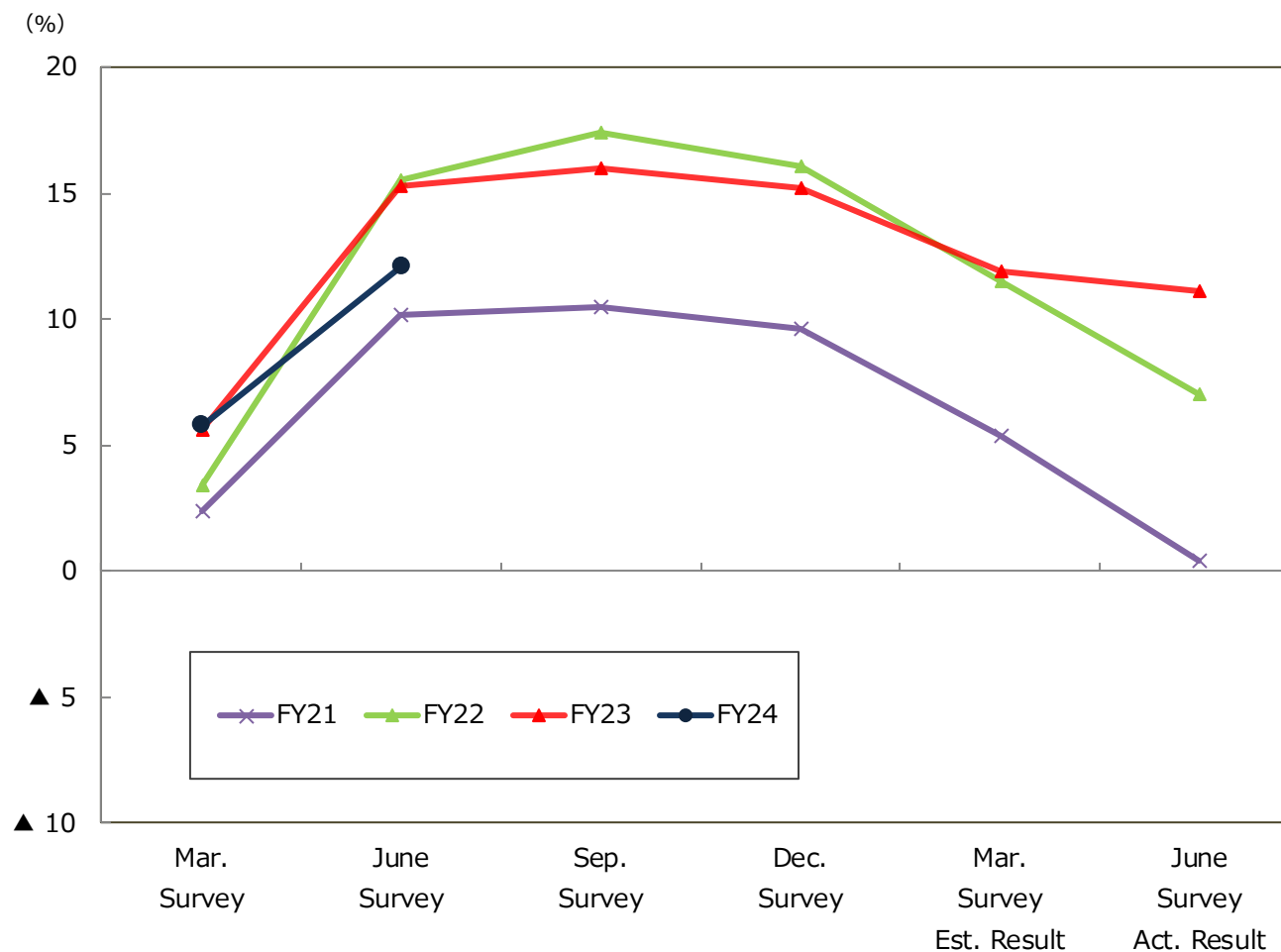


Note: Data is from Q1 2004 to Q2 2024. The orange shadow are periods of economic recession.

Source: The Bank of Japan, SMDAM

CAPEX maintains a brighter outlook in FY2024

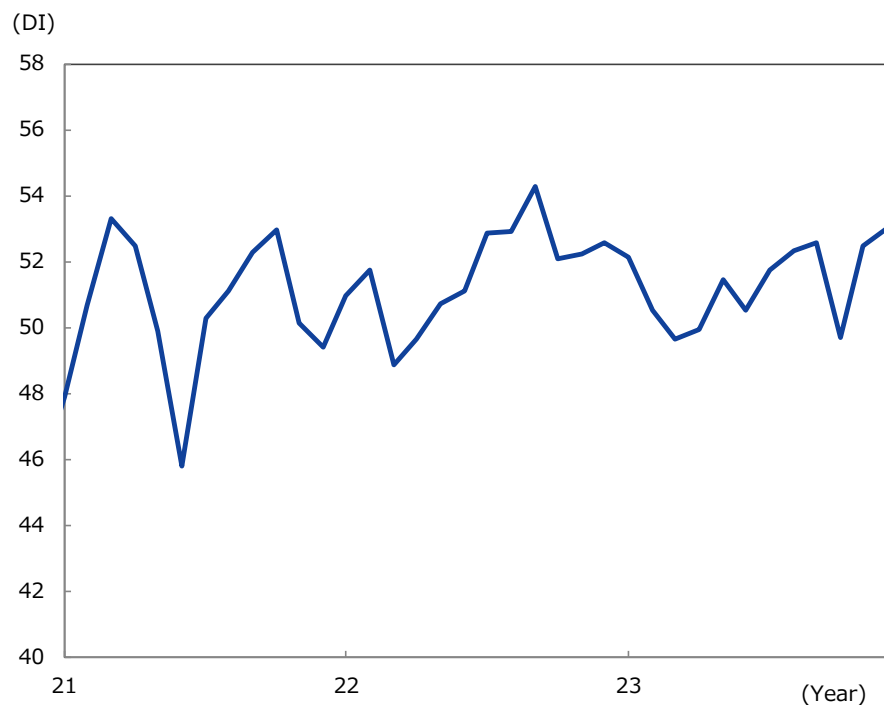
Plan of CAPEX (Inc. Software, Ex. Land and R&D, YOY)



Note: Data is from Q1 FY2021 to Q2 FY2024.
Source: The Bank of Japan, SMDAM

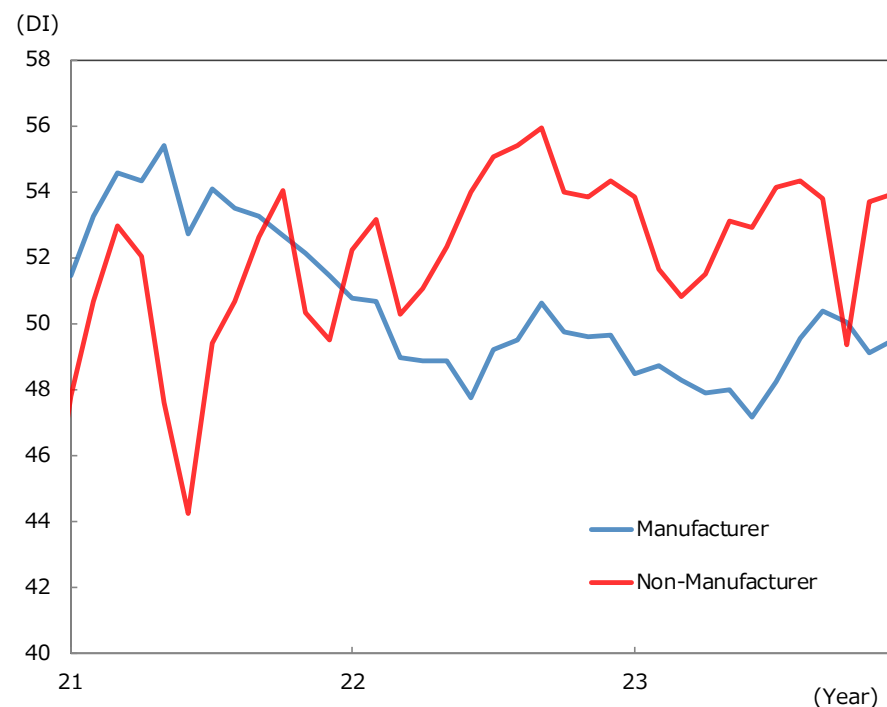
While service PMI remains stable, manufacturers see recovery

Composite PMI



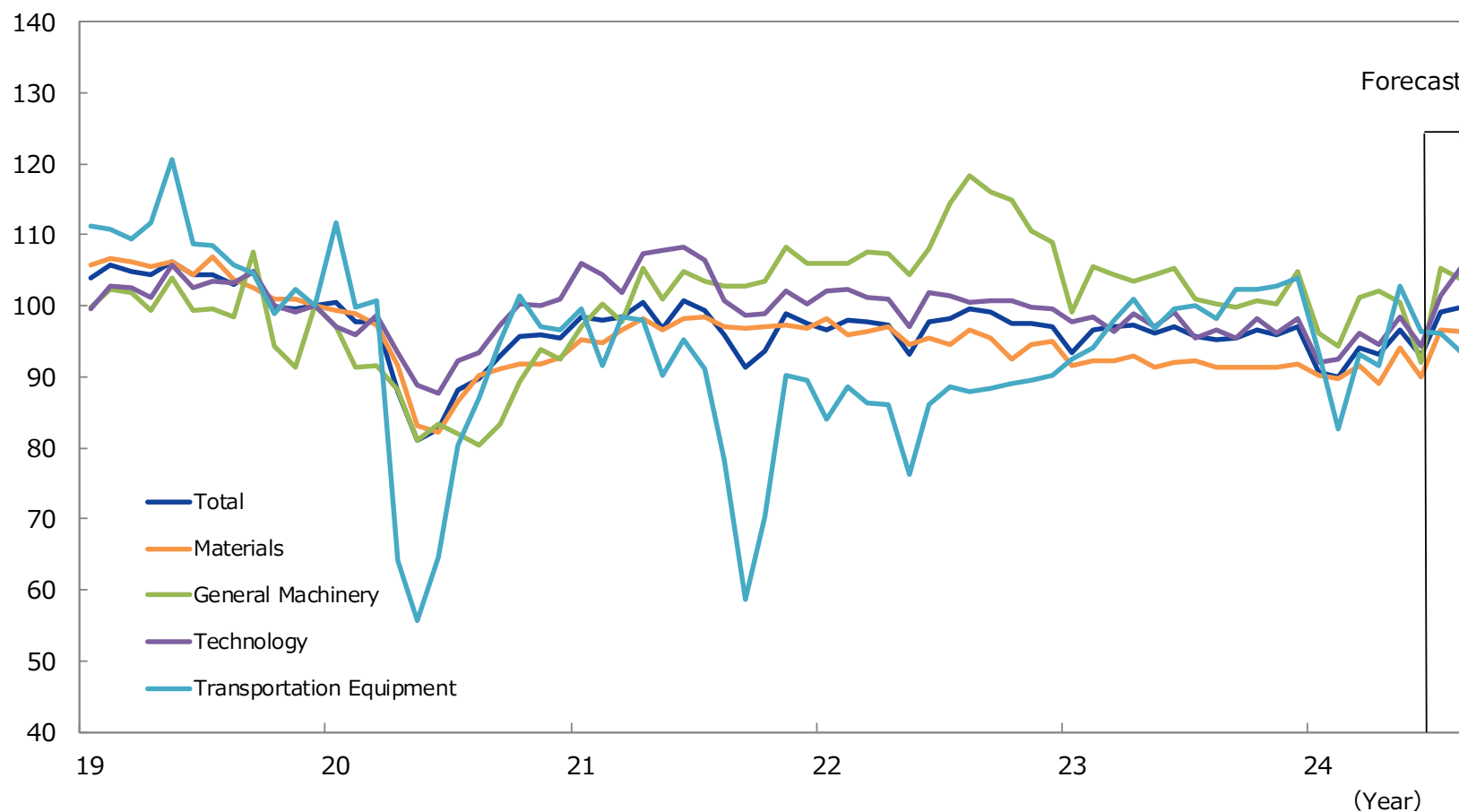
Note: Data is from September 2021 to August 2024.
Source: Bloomberg, SMDAM

PMI, Manufacturer & Non-Manufacturer



Recovery in auto production lifts industrial production

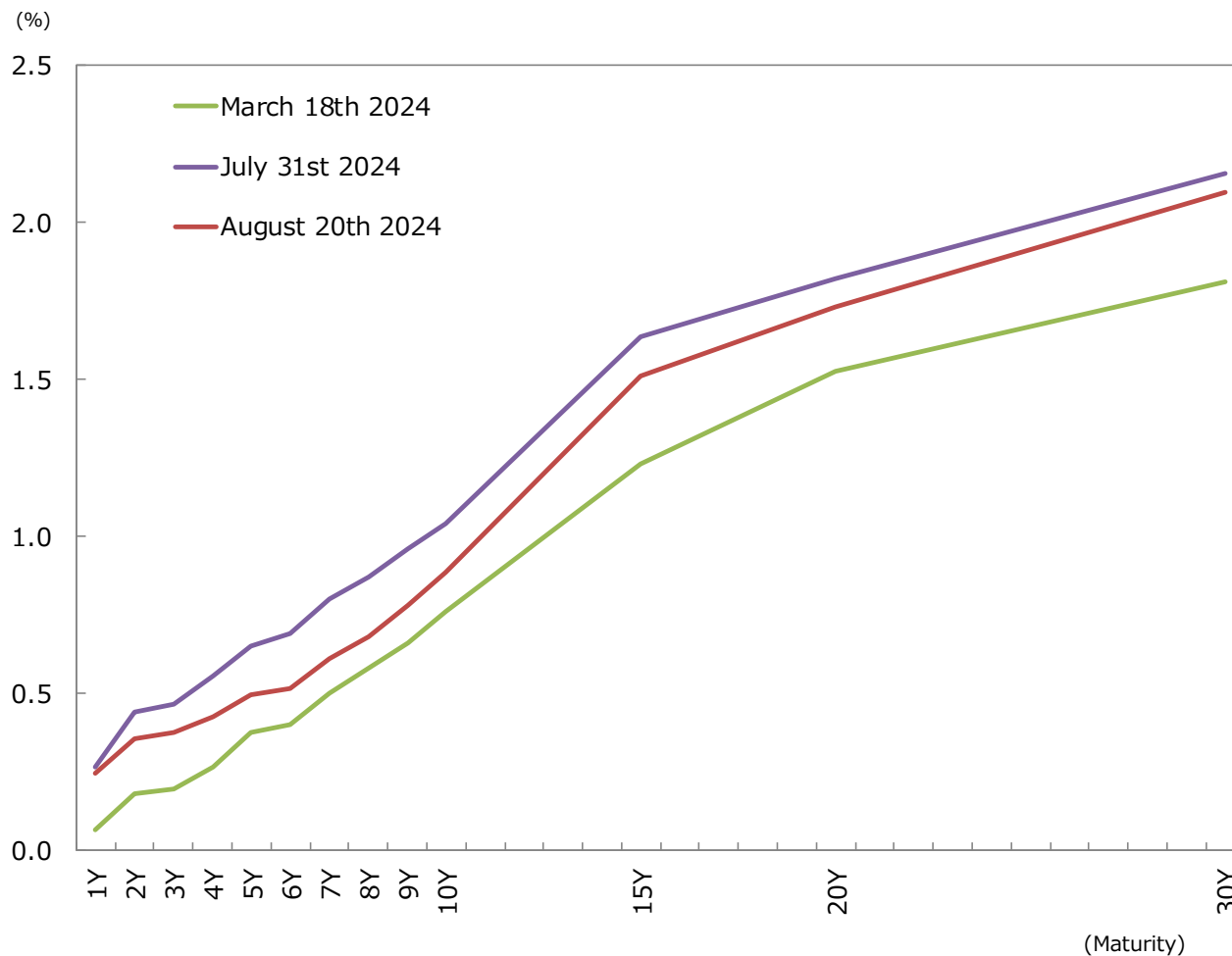
Industrial Production (Dec. 2019=100)



Note: Data is from January 2019 to August 2024. Data after June 2024 is forecasts.
Source: METI, SMDAM

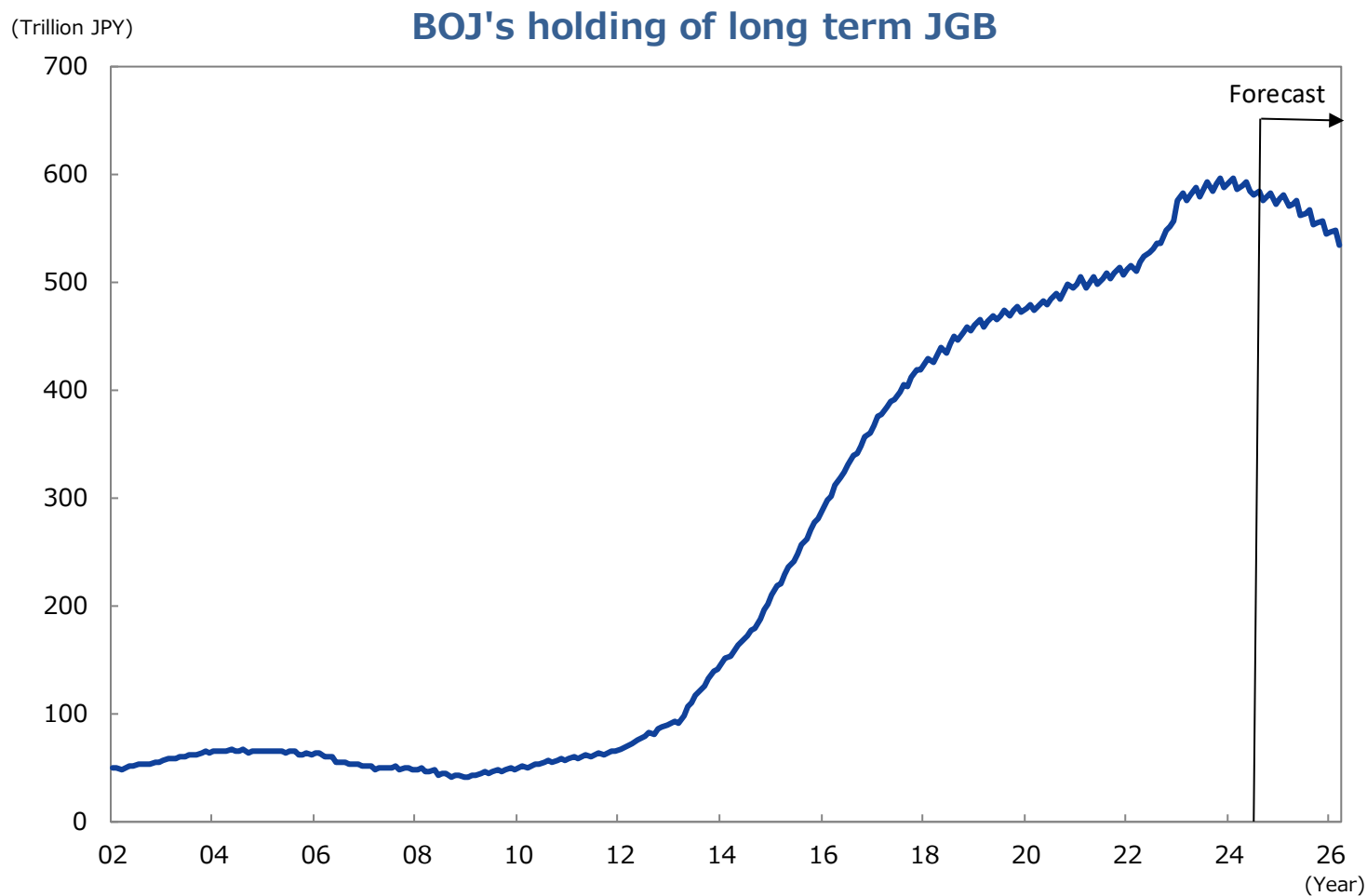
JGB yield curve sank due to weakening US economic data

Yield Curve of Japanese Sovereign



Source: Bloomberg, SMDAM

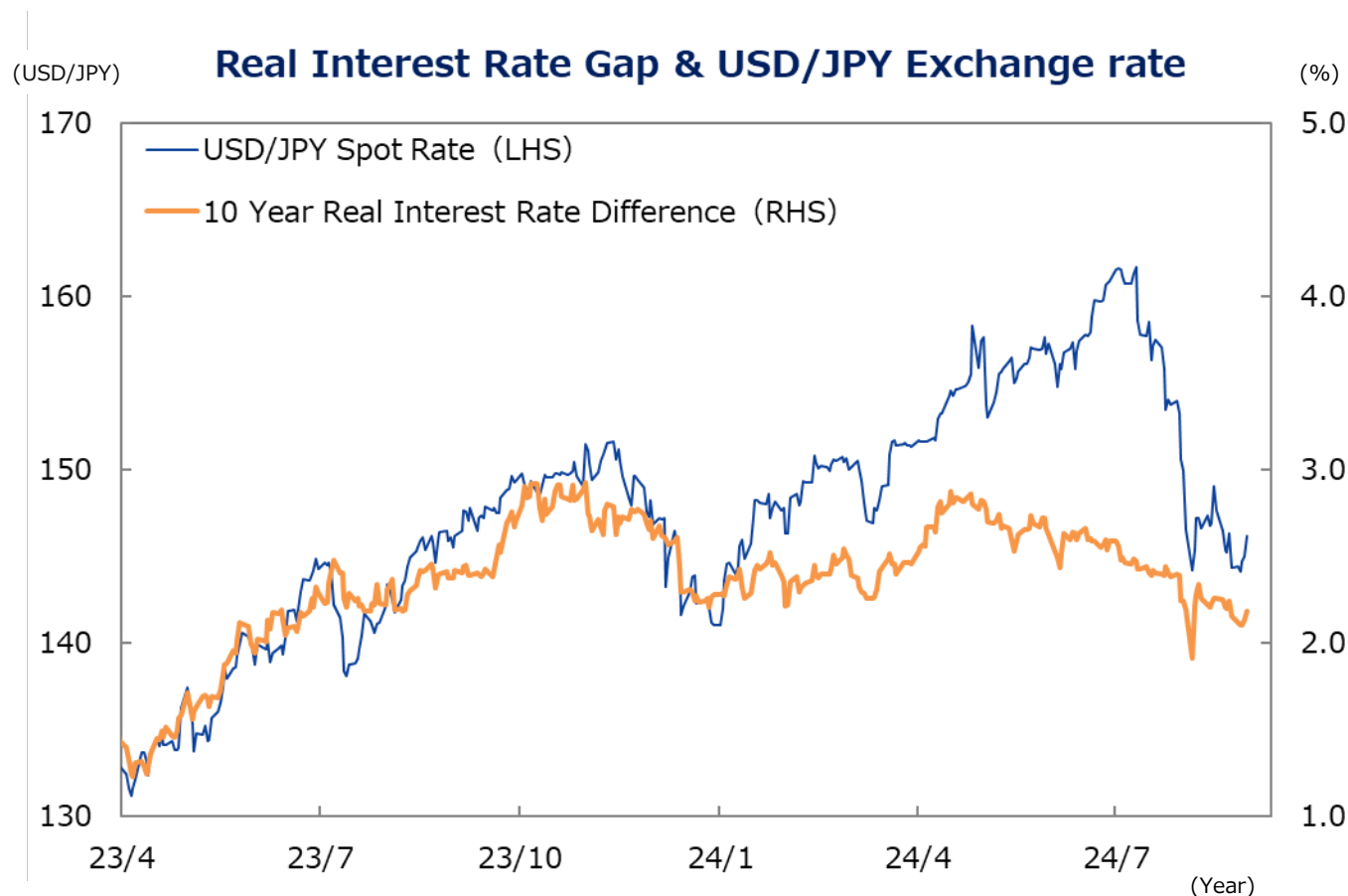
The BOJ to start reducing bond purchases



Note: Data is from January 2002 to March 2026. Data after July 2024 is forecasts.
Source: METI, SMDAM



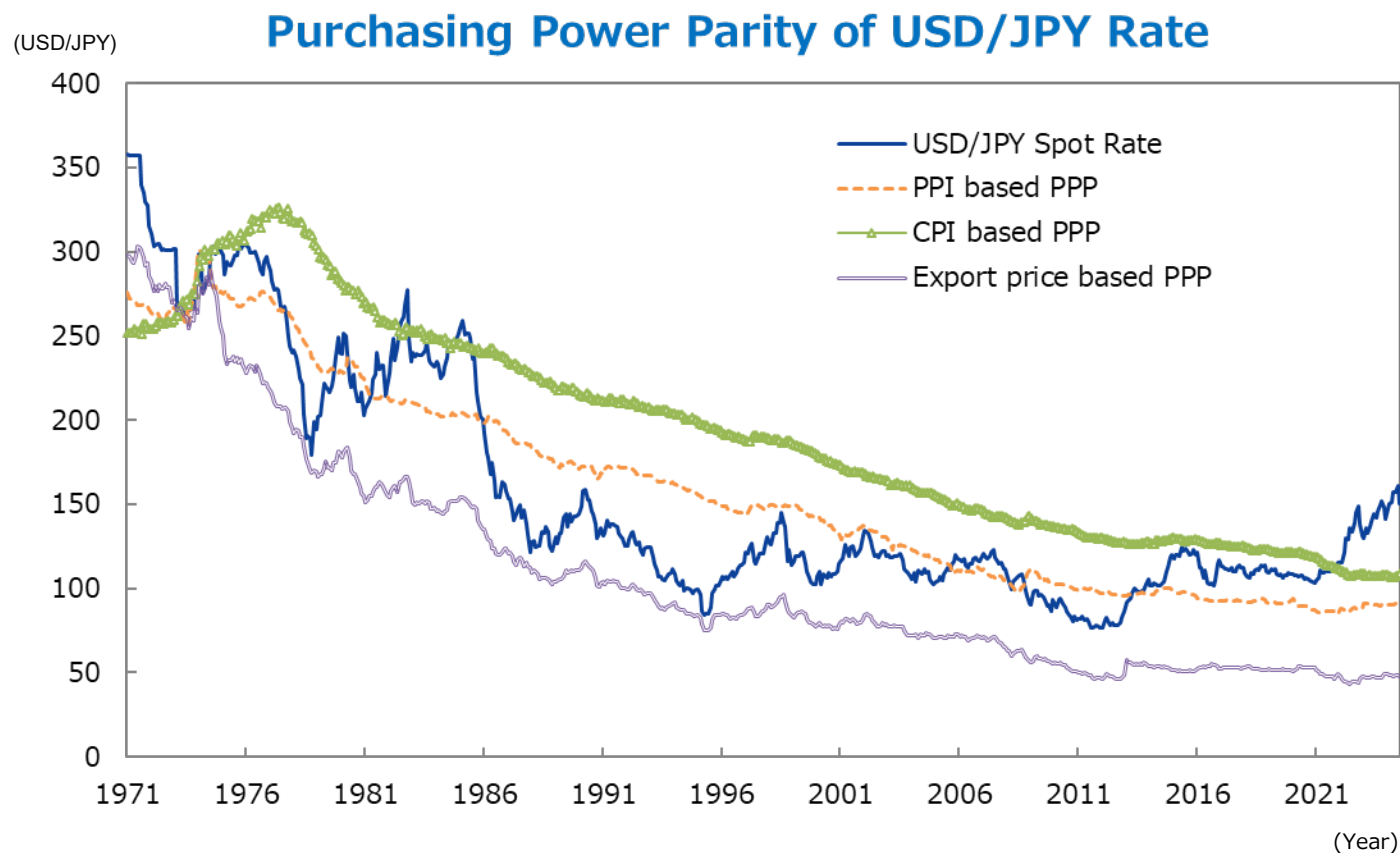
Convergence of interest rate gap and USD/JPY rate



Note: Real interest rates are 10 year government bond yields. Data is from 1st April 2023 to 30th August 2024.

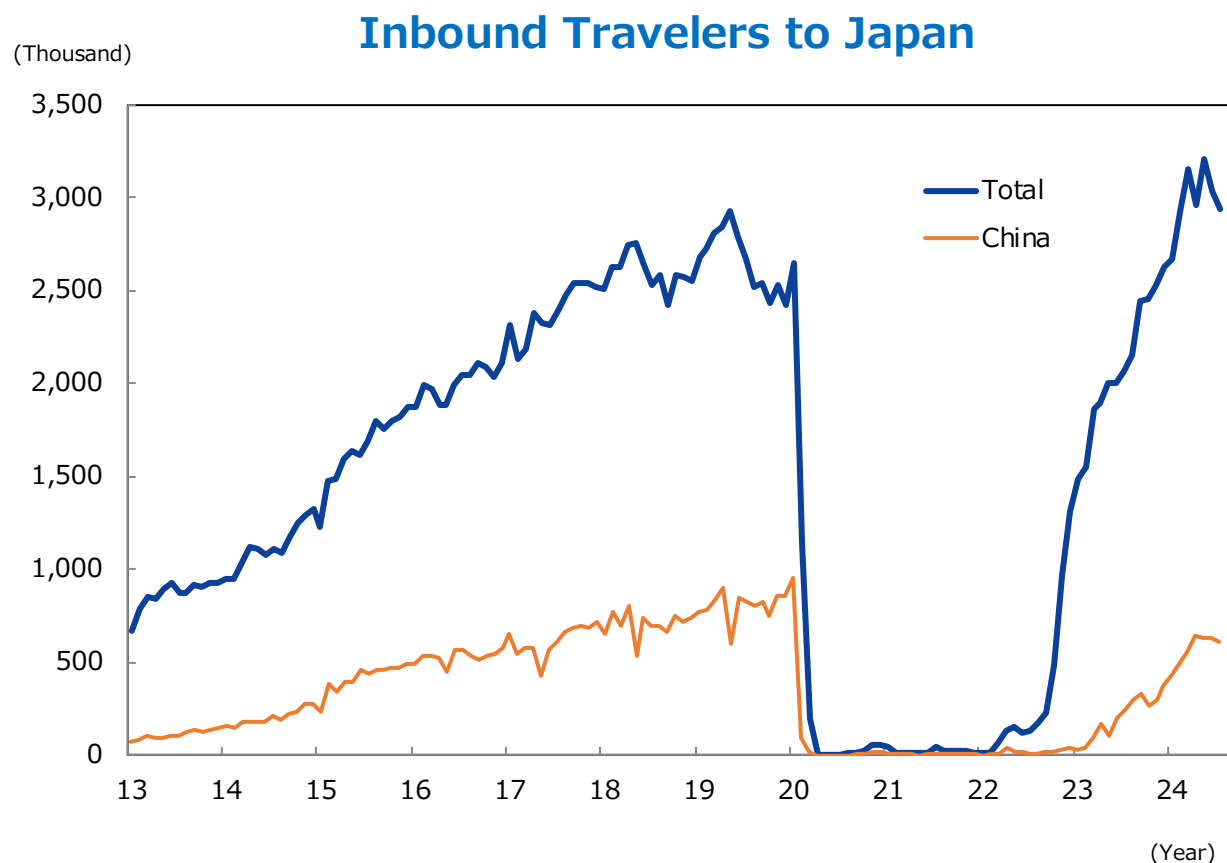
Source: Bloomberg, SMDAM

Convergence to “purchasing power parity” again?



Note: Data is from January 1971 to July 2024.
Source: DOL, Bank of Japan, SMDAM

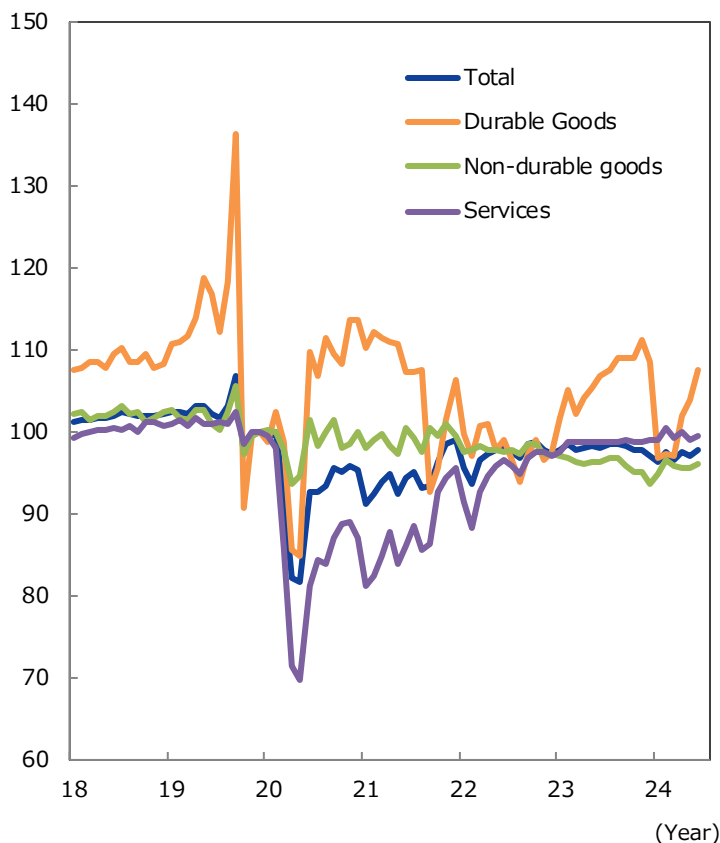
Inbound travel maintains historical high



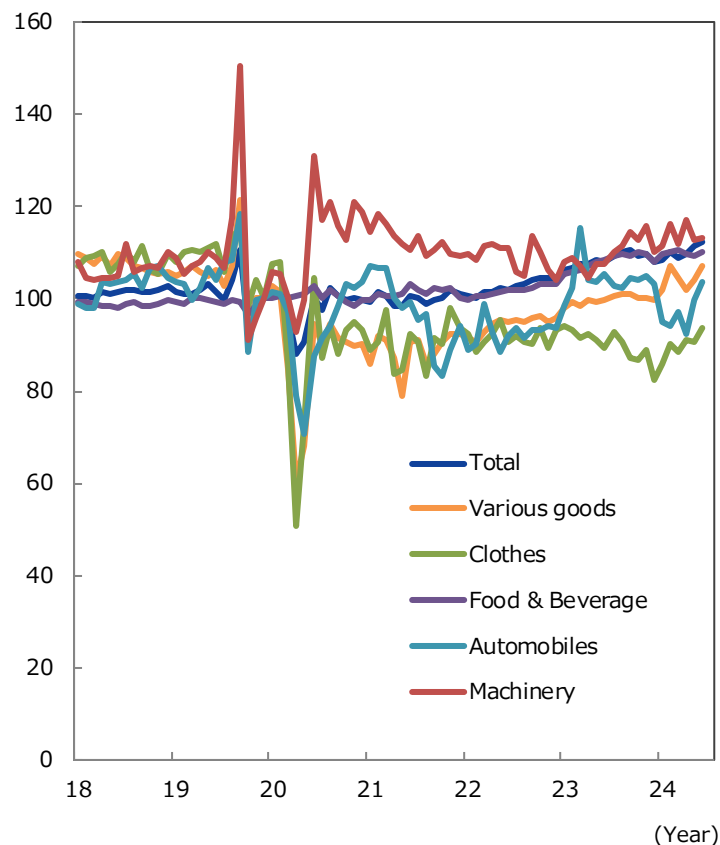
Note: Data is from January 2013 to July 2024. Data is non-seasonally adjusted.
Source: Japan National Tourism Organization, SMDAM

Rebound of autos pushes up retail sales

Consumer Activity Index (Dec. 2019 = 100)



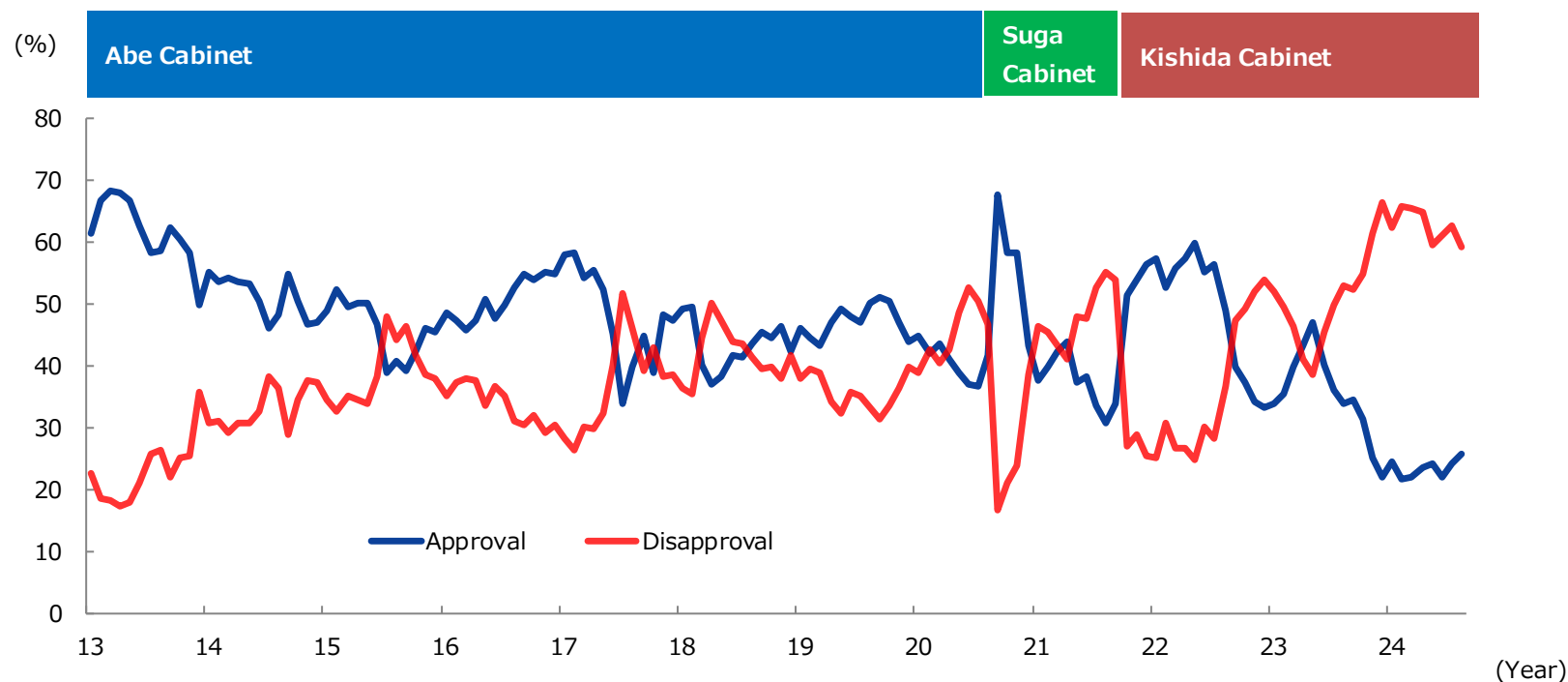
Retail Sales (Dec. 2019 = 100)



Note: Data is from January 2018 to June 2024.
Source; Bank of Japan, METI, and SMDAM

PM Kishida's announcement of his resignation has lifted the approval rate

Cabinet approval rate



Note: Data is from January 2013 to August 2024.

Source: NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

Schedule of major events

Year	Month	Date	Event
2024	September	9 19-20 30	Revision of Q2 GDP Monetary Policy Meeting Termination of the presidency of the LDP
	October	30-31	Monetary Policy Meeting
	November	15	Release of Q3 GDP
	December	9 18-19	Revision of Q3 GDP Monetary Policy Meeting Cabinet approval of the initial budget for FY 2025 and the outline for tax reform
2025	January	23-24	Ordinary Diet Session Monetary Policy Meeting
	February		Release of 2024 Q4 GDP
	March	25 18-19	Expiration of the term of the Bank of Japan's Adachi Policy Board member Revision of 2024 Q4 GDP Monetary Policy Meeting Enactment of the FY 2025 budget and tax-related bills
	April	13 30-5/1	Start of Osaka Expo Monetary Policy Meeting
	May		Release of 2025 Q1 GDP
	June	30 16-17	Expiration of the term of the Bank of Japan's Nakamura Policy Board member Revision of 2025 Q1 GDP Monetary Policy Meeting Cabinet's decisions on "Big-boned policy" End of the ordinary Diet session
	July	28	Election of the House of Councillors
	August		Release of 2025 Q2 GDP
	September	18-19	Revision of 2025 Q2 GDP Monetary Policy Meeting
	October	29-30 30	Monetary Policy Meeting Expiration of the term of the House of Representatives
	November		Release of 2025 Q3 GDP
	December	18-19	Revision of 2025 Q3 GDP Monetary Policy Meeting Cabinet approval of the initial budget for FY 2025 and the outline for tax reform

(Source) Compiled by Sumitomo Mitsui DS Asset Management Co., Ltd.

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