

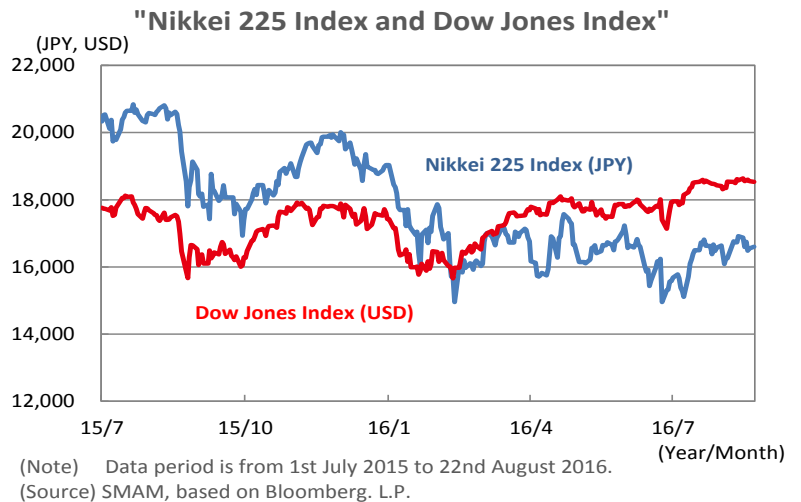
Today's Topic **Japanese equity market (August 2016)**

Market is expected to reflect improving corporate earnings from this autumn

Point 1

Nikkei 225 index hovers around 16,000 level in August Nikkei 225 index lags behind US equity market

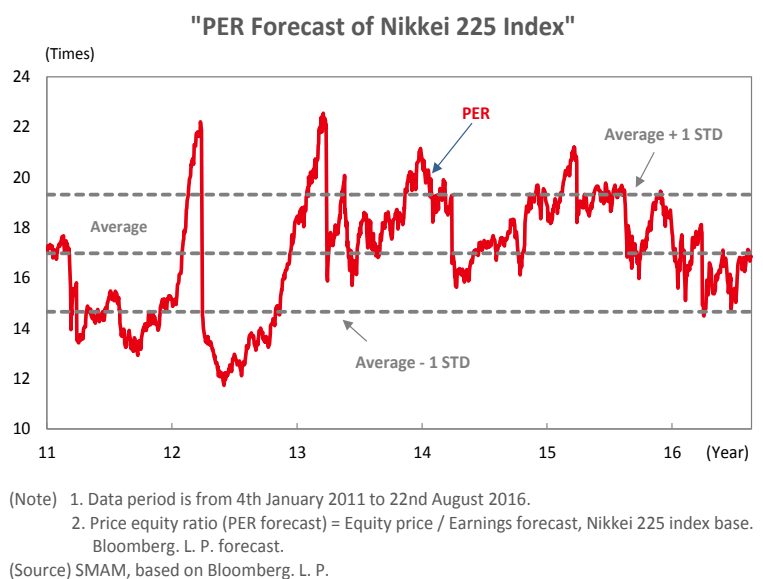
- In August, global equity market as a whole, is performing well epitomized by major equity indices of the US market renewing their record-highs. While, Nikkei 225 index of Japan has been hovering around 16,000 level so far. Despite expectation of BOJ's ETF (Exchange-traded fund) purchase, stronger JPY such as USD/JPY exchange rate breaking through JPY100 level, weighed on the Japanese equity market.



Point 2

Earnings forecasts were revised downward Equity valuation is not high

- Earnings forecasts announced by Japanese corporations for FY2016 was revised downward to a slight profit (recurring profit) fall of -1.9% YoY.
- On the other hand, price earnings ratio (PER) forecast, compiled by Bloomberg L. P.) of Nikkei 225 index is still around its past average. Japanese equity valuation measured by PER is not at its expensive level.



Future Outlook

Japanese equity market is expected to reflect improving corporate earnings from this autumn

- Background of US equity market renewing its record-high is a solid recovery of the US economy with delay of expected US rate hike. Furthermore, recent recovery of crude oil price is likely to become a tailwind to the global equity market. Under such market environment, BOJ's additional easing and implementation of front-loaded supplemental budget seem to support Japanese equity market. For the time being, growth of the Japanese equity market might be limited under pressure of JPY appreciation, however, we expect its recovery from lag supported by i) US economic recovery and ii) improvement of corporate earnings due to a lull in stronger yen going forward.



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