

Today's Topic **Japanese Equity Market Outlook**

## Long-term earnings growth drives Japanese small-cap stocks higher

### Point 1 Year 2018 started with strong Japanese equity market

#### Pace of stock price hike slowed lately

- Entering year 2018, Japanese stock market started with strong tone alongside with global stock markets. Nikkei 225 which surpassed record high of late 90's last year continued to renew its record high. After 10<sup>th</sup> of January, pace of stock price hike slowed due to stronger JPY.

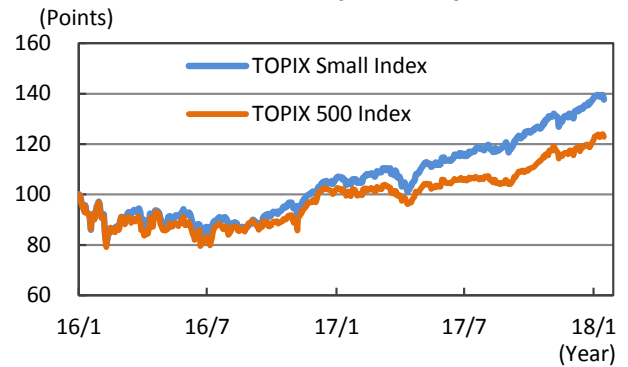
### Point 2 Strong Japanese small-cap index supported by favorable demand and supply conditions

- Japanese small-cap index (TOPIX Small Index) rose sharply by +30.2% YoY higher than that of Japanese large-cap index (TOPIX 500 Index) which rose +18.5 YoY. The small-cap index was supported by favorable demand and supply conditions. Since year 2017, money has been flowing into Japanese emerging equity market such as TSE2 and JASDAQ by way of investment trust funds.
- However, valuation looks rather expensive such as P/E Ratio (Forecast) as of 18<sup>th</sup> January was 16.5 times which was higher than that of past 3 year average (14.4 times).

### Future Outlook Long-term earnings growth is expected to drive Japanese small-cap stocks higher

- In 2018, the global economy is expected to be strong. Japanese economy is also likely to grow led by export and capex. Japanese stock market may enter into new bull market phase as upward revision of Japanese corporate earnings are expected.
- The fascination of Japanese small-cap stocks is its relatively higher earnings growth. Earnings per share of Japanese small-cap stocks for year 2019 and 2020 are forecast to show double digit growth, which are higher than those of Japanese large-cap stocks. Japanese small-cap stocks will likely be strong supported by favorable demand and supply conditions and long-term earnings growth.

“Performance Comparison by Size”

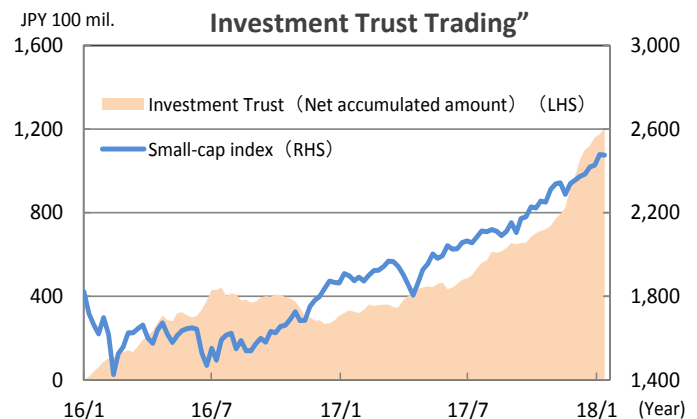


(Note) Data from 4<sup>th</sup> Jan. 2016 to 18<sup>th</sup> Jan. 2018.

Small-cap index is TOPIX Small Index and large-cap index is TOPIX 500 Index.

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

“Net Accumulated Amount of Investment Trust Trading”

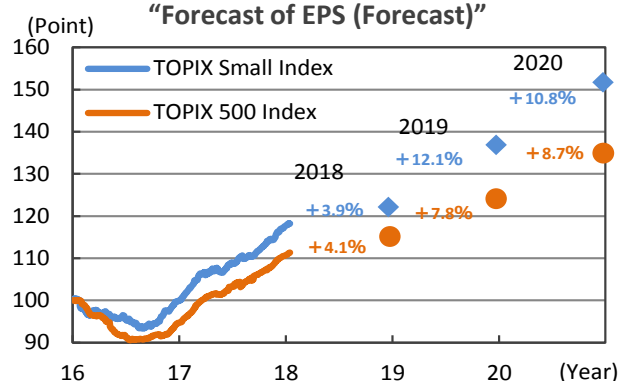


(Note) Data: Small-cap Index is from 1<sup>st</sup> week of Jan. 2016 to 3<sup>rd</sup> week of Jan. 2018. Investment Trust (Net accumulated amount) is till 2<sup>nd</sup> week of Jan. 2018. Accumulated amount from January 2016.

Investment Trust (Net accumulated amount) is the total amount of TSE2, JASDAQ and TSE Mothers.

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

“Forecast of EPS (Forecast)”



(Note) Data from Jan.-Mar. 1995 to Jul.-Sep. 2017.

(Source) SMAM, based on the Cabinet Office, Japan data.



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