



# Japanese Market Outlook 2024

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December 2023

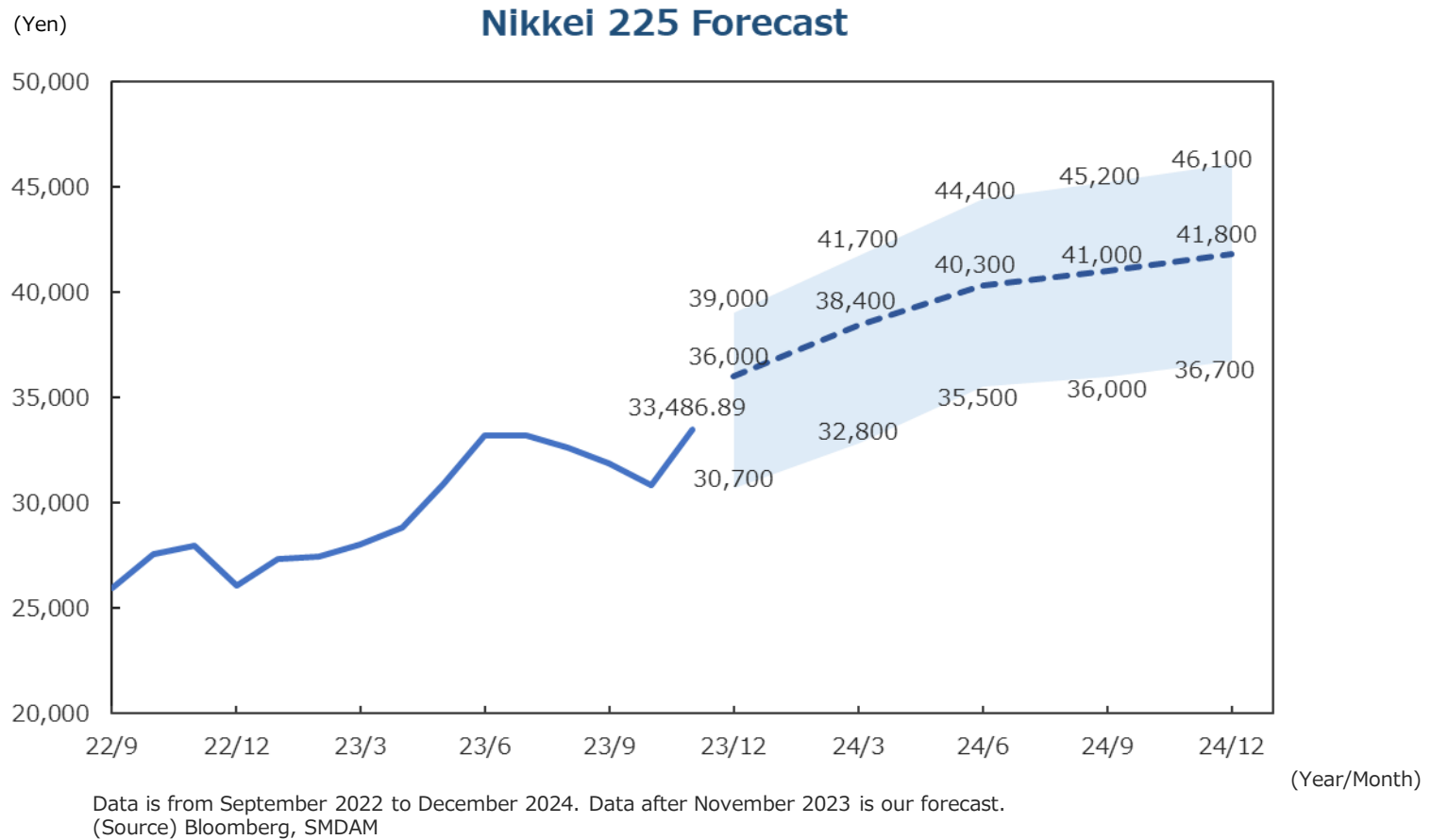
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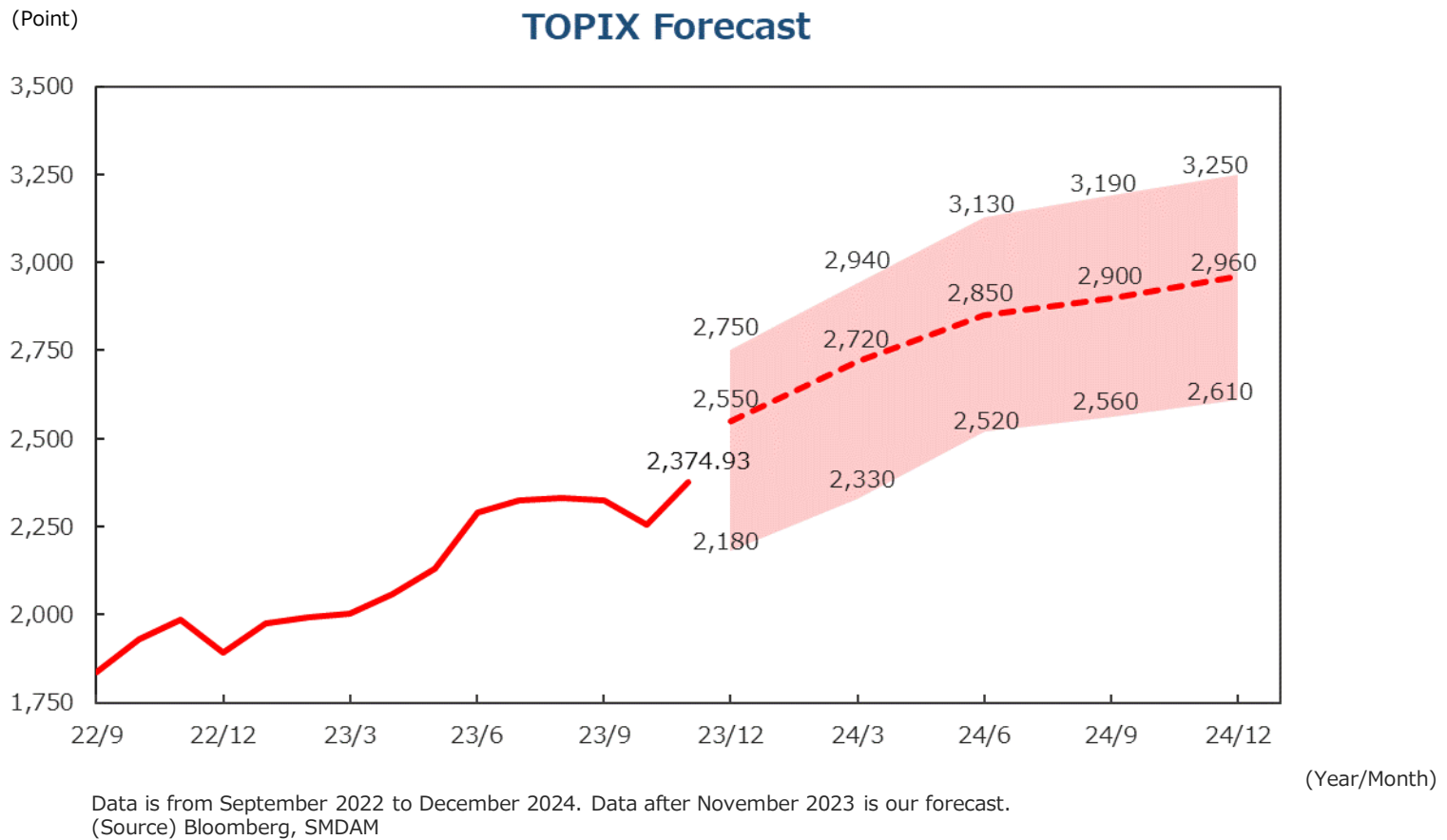
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Sumitomo Mitsui DS Asset Management

- We are bullish on the Japanese stock market in 2024.
- Solid increase in nominal GDP, steady corporate earnings, and accelerating business cycle of manufacturers could boost the equity market in 2024.
- Further fiscal expansion, due to rising tax revenue and the unpopularity of PM Kishida's cabinet, may have positive impact on the economy and market sentiment before the presidential election of the ruling Liberal Democratic Party (LDP) in September 2024.
- Possible change to the monetary policy in spring 2024 could be a tricky factor for the market after decades of an ultra-low interest rate environment in Japan.
- Geopolitical risk and unexpected slowdown of the global economy may be headwinds for the market in 2024.



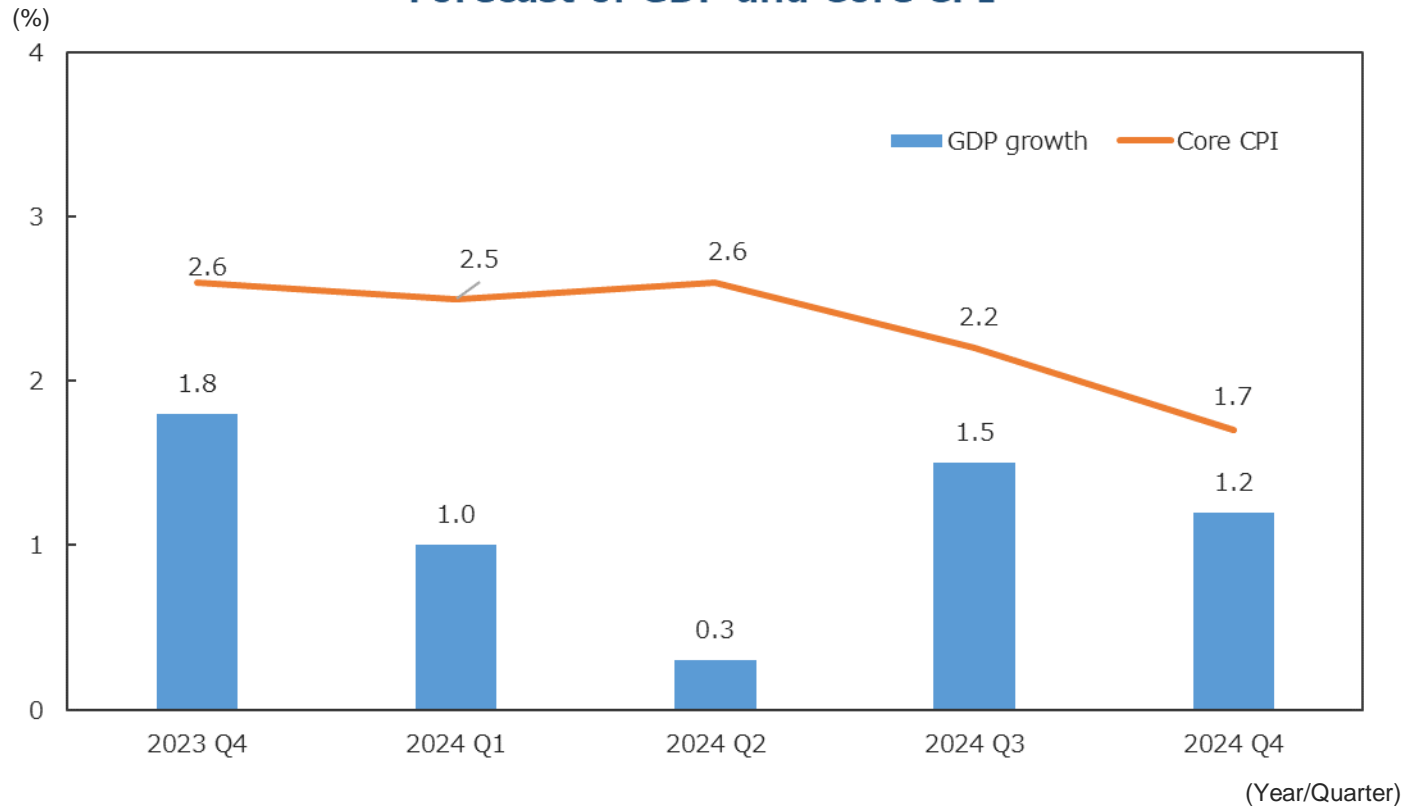


# Economy

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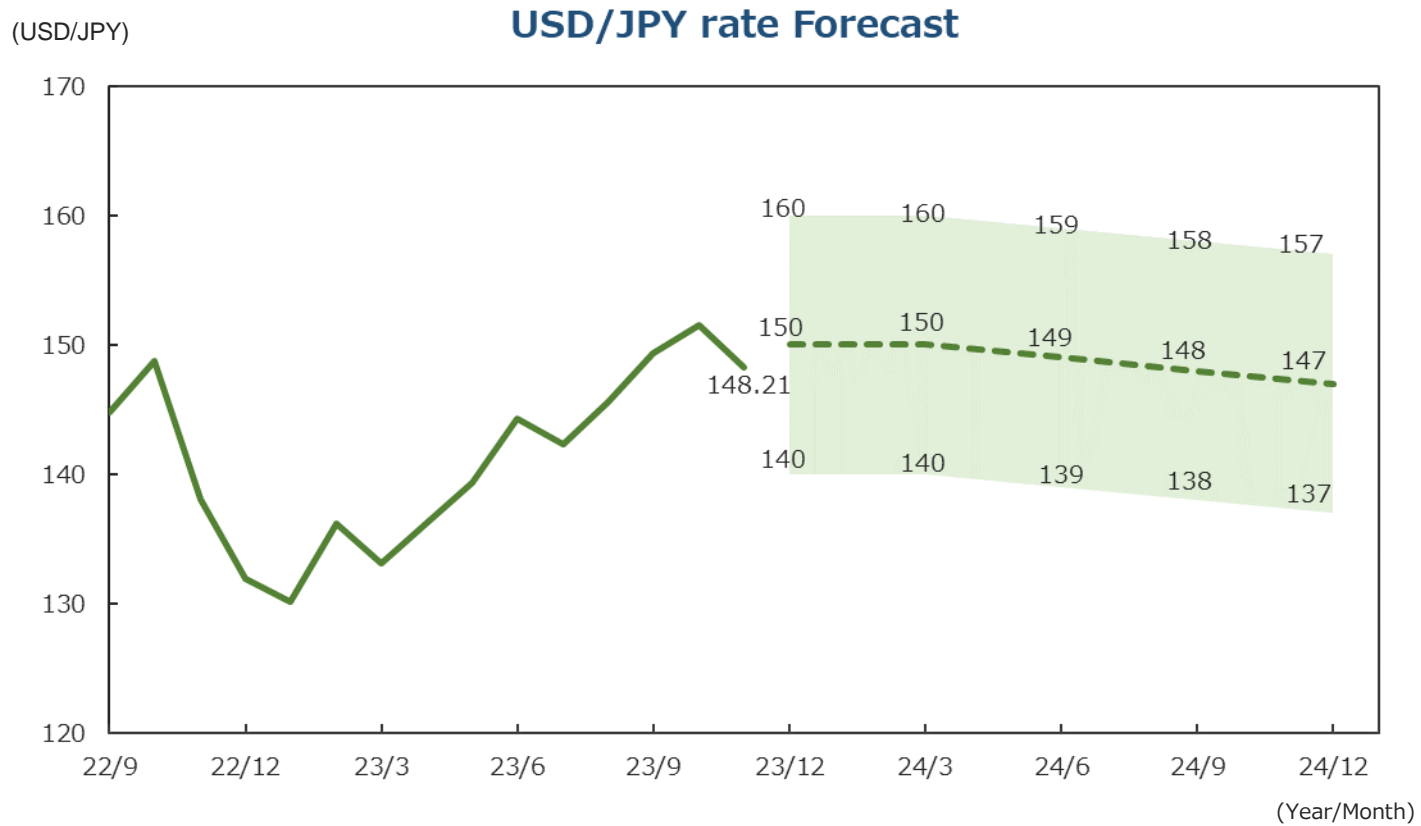
- We expect Japanese economy to continue moderate expansion throughout 2024.
- The virtuous cycle of mild inflation and wage increases, as well as fiscal stimulus, could lift the nominal GDP growth rate above 2% in 2024.
- The consumer price index is expected to slow down to below 2% by the end of 2024 from around 3% currently owing to falling import prices, such as food and energy.
- The government is expected to maintain its accommodative fiscal policy.
- The impact of the possible shift in monetary policy by the Bank of Japan could have marginal impact on the economy as the BOJ is expected to keep the short term policy rate at around 0% even after the pivot in 2024.

### Forecast of GDP and Core CPI



Data is from Q4 2023 to Q4 2024. GDP growth and Core CPI are YoY.  
(Source) SMDAM

- We expect the USD/JPY rate will decline in a moderate trend due to the possible pivot of the US Federal Reserve and the Bank of Japan in 2024.
- We predict the pace of Yen appreciation could be slow as the divergence of interest rates, including market rates and policy rates, could support the value of USD throughout 2024.
- If the US economy slows beyond our expectations, lower US interest rates and falling risk appetite of investors could trigger the unwinding of the yen carry trade and lead to an unexpected appreciation of the yen in 2024.
- If geopolitical risks materialize, a fall in US interest rates due to inflows into “safe haven” US treasuries and yen buying due to “risk-off” could put unexpected downward pressure on the USD/JPY rate in 2024.



Data is from September 2022 to December 2024. Data after November 2023 is our forecast.  
 (Source) Bloomberg, SMDAM



# Monetary policy

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- We expect the end of ultra easy monetary policy in Japan in April 2024.
- We foresee the Bank of Japan raising its key policy rate from -0.1% to 0% and eliminating yield curve control (YCC) in Spring 2024.
- We expect the Bank of Japan will need to confirm wage increases in mid-March 2024 before revising its economic outlook report in April 2024, and eventually make changes to its monetary policy by announcing its judgment that the probability of stably achieving the inflation target at 2% has increased.
- If the momentum of wage increases is above current market consensus, or if the yen continues to weaken excessively, policy revisions may be earlier than we currently anticipate.



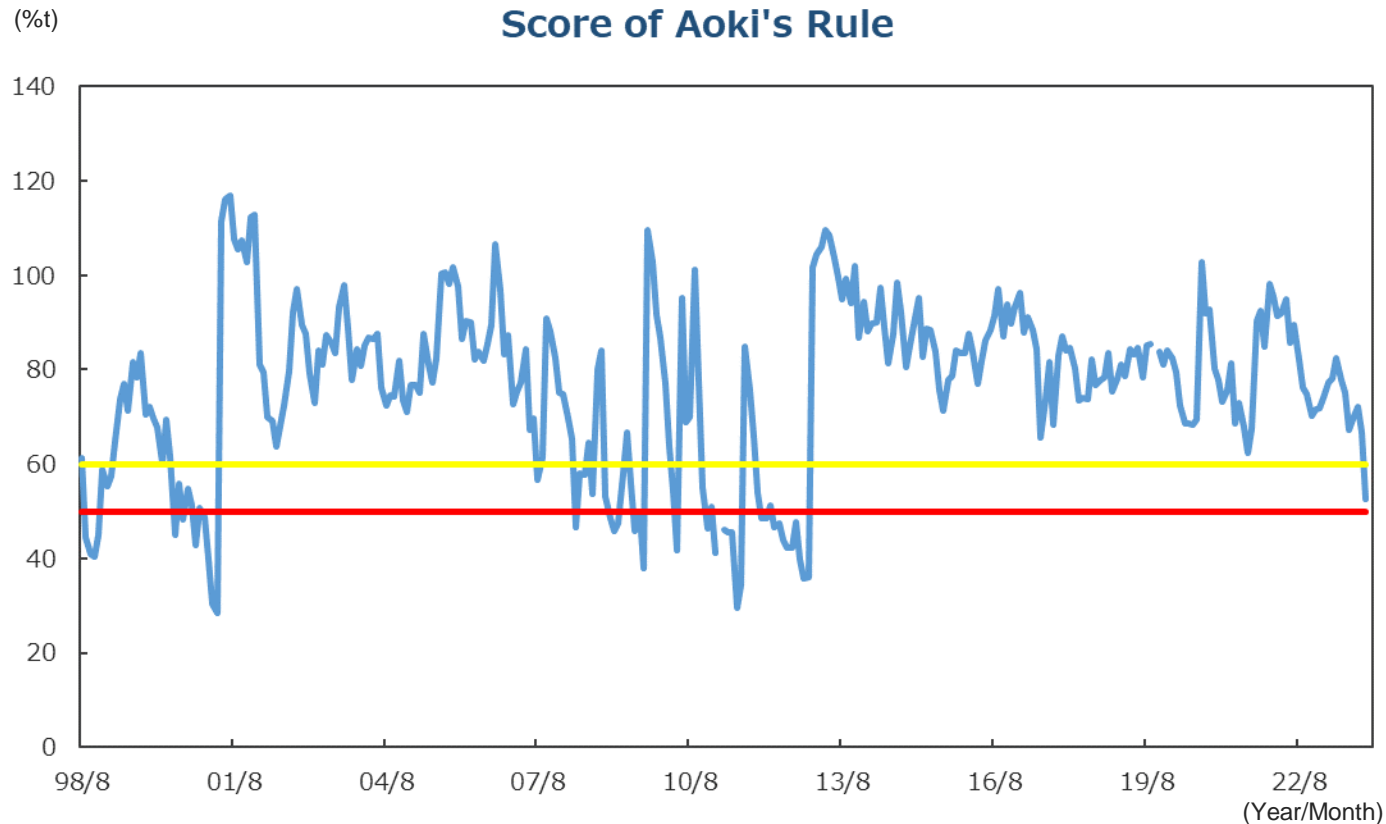
# Politics

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- Prime Minister Kishida's approval rate has been falling throughout 2023 and is expected to continue its negative trend in 2024.
- The sum of the approval rate of the cabinet and the ruling political party, known as the “Aoki Ratio,” has crossed the yellow line and is inching closer to the red line in December 2023.
- It looks difficult for PM Kishida to regain his reputation and political power in 2024, owing to a series of blunders including mismanagement of key ministers.
- PM Kishida’s disapproval rate has been rising sharply due to the ruling Liberal Democratic Party's alleged violations of the Political Funds Control Act.
- Although 2024 will be politically windless due to the absence of major national elections, there is a risk of rising market volatility impacted by the political situation due to the LDP’s leadership election in September 2024.

# Politics

The "Aoki Ratio" is a sum of the approval rate of the cabinet and the ruling political party. According to the formula, if the score falls below the red line at 50 points, the administration will struggle to hold on to power.



Data is from Aug. 1998 to December 2023.  
(Source) SMDAM

# Schedule of 2024

Year	Month	Date	Event
2024	January	1	Start of new NISA (Nippon Individual Savings Account) *
		22-23	Monetary Policy Meeting Convening of the ordinary Diet session
	February	15	Release of CY 2023 Q4 GDP
	March	11	Revision of CY 2023 Q3 GDP
		18-19	Monetary Policy Meeting Enactment of FY 2024 budget and tax reform bills
	April	25-26	Monetary Policy Meeting Release of BOJ view report
	May		Multi-faceted review of Second workshop
	June	13-14	Monetary Policy Meeting Cabinet decision on the broad policy End of the ordinary Diet session
	July	30-31	Monetary Policy Meeting
September	19-20	Monetary Policy Meeting	
	30	Termination of the presidency of ruling LDP	
October	30-31	Monetary Policy Meeting	
December	18-19	18-19	Monetary Policy Meeting
			Cabinet approval of the initial budget for FY 2025 and the outline for tax reform

\* NISA is a tax exemption program for individual investors in Japan

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