



Japan Markets: What lessons have been learnt from August volatility?

Japan Outlook - Hisashi Shiraki, SMDAM Chief Global Strategist

September 2024

Japan 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 a “hard landing” thanks to the rate cut by the Federal Reserve, and the Bank of Japan (BOJ) will tone down its hawkish stance due to the recent sharp retreat of the USD/JPY rate.
- We have lowered our price target for 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.

Nikkei 225 Forecast



TOPIX Forecast



Source: Bloomberg, forecast by SMDAM. Data after August 2024 is our forecast.

The figures refer to past and forecasted performance.

Past performance and forecasts are not a reliable indicator of future performance and may not be repeated.

Data shown in JPY terms

Upside and downside risks

The upside risk scenario includes the waning of excessive concern over the US economy, alongside continuing improvements in corporate governance and shareholders' value led by the Tokyo Stock Exchange.

On the other hand, the tightening of fiscal policy to achieve a surplus of primary balance, an excessive and rapid appreciation of the yen and hasty tightening of the monetary policy by the BOJ form the downside scenario.

Signs of economic recovery and inflation picking up

In the second quarter of 2024, real GDP grew for the first time in two quarters. In particular, consumer spending recovered, growing for the first time in 5 quarters, due to the normalisation of auto production and an improvement in wages.

As for soft data, the Economy Watchers Survey and Consumer Confidence Index for July have been adversely affected by higher inflation, while the PMI recovered in July. Despite 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 in August.

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.

Q2 lead to upward revision of real GDP growth forecast

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.

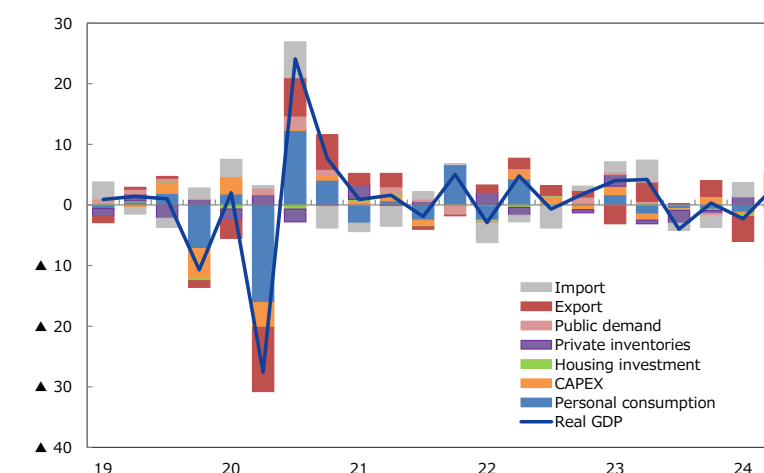
As for the outlook, we expect the Japanese economy to return to a moderate growth path on the back of wage increases, fiscal stimulus, such as tax cuts and benefits, firm capital investment motivation, such as labour saving, digitalisation, greening, urban development, and construction of semiconductor factories, and the resilience of overseas economies.

In FY 2024, the effects of these two measures will mostly offset each other, but in FY 2025, both measures will lift our inflation forecasts. The nationwide core CPI is likely to be +2% by the end of 2025, given the energy boost from the end of subsidies for utility bills and gasoline. Thereafter, core CPI is likely to decelerate again due to the receding energy factor, and core CPI is expected to remain stable at around +2% YOY from around H2 of CY 2025, supported by the rise in service prices accompanied by wage hikes.

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



Real GDP growth rate (YOY, %)



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

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.

Economic measures set soon after new prime minister

Prime Minister Kishida announced plans to implement various 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 less clear since Kishida announced that he will not run for leader of the Liberal Democratic Party, it is highly likely that the economic measures will be handed over to the next leader and 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.

Revised forecast for policy rates

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 our revision 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 conducts a comprehensive review of the economy in the January 2025 Outlook Report.

Contact Details

Sumitomo Mitsui DS Asset
Management (UK) Limited

100 Liverpool Street,
London, EC2M 2AT
United Kingdom

www.smd-am.co.uk



Richard HAXE
Managing Director,
Head of Business Development

+44 20 7507 6431
richard_haxe@smd-am.co.jp



Alex BARRY
Executive Director,
Head of Sales, UK and Ireland

+44 20 7507 6419
alex_barry@smd-am.co.jp



Chloé CHOQUIN
Director,
Business Development

+44 20 7507 6424
chloe_choquin@smd-am.co.jp

General Disclaimer

This material is for general information purposes only without regard to any particular user's investment objectives or financial situation. It is educational in nature and should not be interpreted or constituted as an offer, solicitation or recommendation or advice to buy or sell securities or pursue any particular investment strategy or investment product in any jurisdiction or country, nor is it a commitment from Sumitomo Mitsui DS Asset Management Company, Limited or any of its subsidiaries ("SMDAM Group") to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. No representation or promise as to the performance of funds or the return on any investment is made. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, and are based on certain assumptions and current market conditions that are subject to change without prior notice.

The material is correct to the best of our knowledge at the date of issue and subject to change without notice. We do not guarantee its accuracy, completeness, fairness or timeliness, and make no representations or warranties, express or implied, as to the accuracy or completeness of the statements or any information contained therein and any liability for any error, inaccuracy or omission is expressly disclaimed. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. Nothing in this material constitutes accounting, legal, regulatory, tax or other advice.

It should be noted that investment involves risks, including the possible loss of the principal amount invested, and the value of your investment may rise or fall.

Past performance and yields are not necessarily indicative of current or future results.

This material is issued by the following entities:

In the European Economic Area, this material does not constitute a marketing communication and is directed solely at professional clients.

In Japan, by Sumitomo Mitsui DS Asset Management Company, Limited. It is for non-Japanese institutional investors only and is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.

In the United Kingdom, by Sumitomo Mitsui DS Asset Management (UK) Limited. It does not constitute a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

In Hong Kong, by Sumitomo Mitsui DS Asset Management (Hong Kong) Limited. The contents of this material has not been reviewed by the Securities and Futures Commission.

In Singapore, by Sumitomo Mitsui DS Asset Management (Singapore) Pte. Ltd. It is only for accredited investors and institutional investors as defined in the Securities and Futures Act 2001 ("SFA"). You may wish to seek advice from an independent professional and financial advice before investing in any investment, and if you choose not to seek such advice, you should consider carefully whether the investment is suitable for you.



In the United States and Canada, by Sumitomo Mitsui DS Asset Management (USA) Inc. Some statements contained in this material concerning goals, strategies, outlook or other non-historical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements or opinions of the author speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities.

The organizations and/or financial instruments mentioned are for reference purposes only. The content of this material should not be construed as a recommendation for their purchase or sale. Charts and graphs are provided for illustrative purposes only. This document may not be copied, redistributed or reproduced in whole or in part without prior written approval from Sumitomo Mitsui DS Asset Management (USA) Inc. The content of this document should not be interpreted as a solicitation for business and is intended as background information for professional institutional investors only. Please contact us should you require further information. Both Sumitomo Mitsui DS Asset Management Company, Limited and Sumitomo Mitsui DS Asset Management (USA) Inc. are registered as investment advisory firms under the US Investment Advisor's Act of 1940.

General Terms

The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals. The video itself or the contents of the video may not be copied, redistributed, reproduced or relied upon by any person, in whole or in part, without prior written approval from SMDAM Group. All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMDAM Group, except as otherwise stated.