

Japan Market & Economic Outlook

June 2022

Outlook on the Japanese equity market

- We are bullish on the Japanese equity market based on mid to long term estimates, including a steady outlook for corporate earnings and economic recovery in Japan
- We maintain our TOPIX target at 2,300 and Nikkei 225 at 32,300 for March 2023
- The equity market is currently under selling pressure owing to rising material costs, aggressive monetary tightening by the US Federal Reserve, slowing Chinese economy, and overly conservative earnings guidance offered by companies
- We expect the market to resume its upward trend after confirming strong fundamentals and expectations for fiscal stimulus ahead of the Upper House election in the summer



Source: TOPIX: Tokyo Stock Exchange, forecast by SMDAM

Upside and downside risks

We are optimistic about the acceleration of Japan's economic recovery and growth given that inbound travel to Japan is showing signs of recovery, while volatility in the commodities market is also declining. However, we are paying close attention to downside risks, including the escalation of the military conflict in Ukraine which has resulted in global repercussions, and growing concerns about stagflation.

Recovery of domestic demand boosting economy

The Japanese economy continues on its path to recovery due to increased domestic demand. This is amid concerns over higher inflation, a slowdown in the global economy and the bottle neck in the global supply chain that has weighed on both consumer and business sentiment. Inflation is accelerating owing to external factors such as food and energy costs, and the receding effect of reducing mobile phone fees following a regulation enacted by the Japanese government. While the employment situation is improving, real income is declining due to rising inflation.

Outlook on the Japanese economy

We maintain our FY2022 real GDP growth forecast at 2.1% and our FY2023 forecast at 1.3%. We expect to observe a steady growth trend in the economy in Q2 after a temporary pause in Q1 caused by increased Covid infections and the related restrictions on activities. Despite rising inflation and global supply chain issues, the re-opening of the economy and fiscal stimulus measures could provide a major boost to the domestic economy.

We have revised our Core CPI forecast for FY2022 from +1.6% to +1.8% due to the change in our FX rate estimate, and revised the forecast for FY2023 from +1.0% to +1.1%. We expect core CPI to accelerate to +2.0% in April 2022 and remain at a similar level throughout the year due to the rise in food costs, as well as other core CPI items.

We expect Prime Minister Kishida's cabinet to maintain its existing economic policy in order to boost the economy. The government is currently taking measures to ease the negative impact from soaring energy costs, and an additional fiscal stimulus of 10 trillion yen will follow in the near future to support the economy.

Despite rising inflation, the current accommodative monetary policy will be maintained by the Bank of Japan (BOJ) in the near future as they consider it difficult to control cost-push inflation through monetary tightening. Recent changes in the BOJ policy committee membership suggest Kishida's intention to distance himself from the existing reflationary monetary policy. We see a growing likelihood of a shift away from yield curve control policy once BOJ Governor Kuroda's term concludes in April 2023. His resignation could mark a turning point for the current accommodative monetary policy.

Please contact your Business Development representative for access to the full report.

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