



Outlook for Japanese Stock Market & Economy

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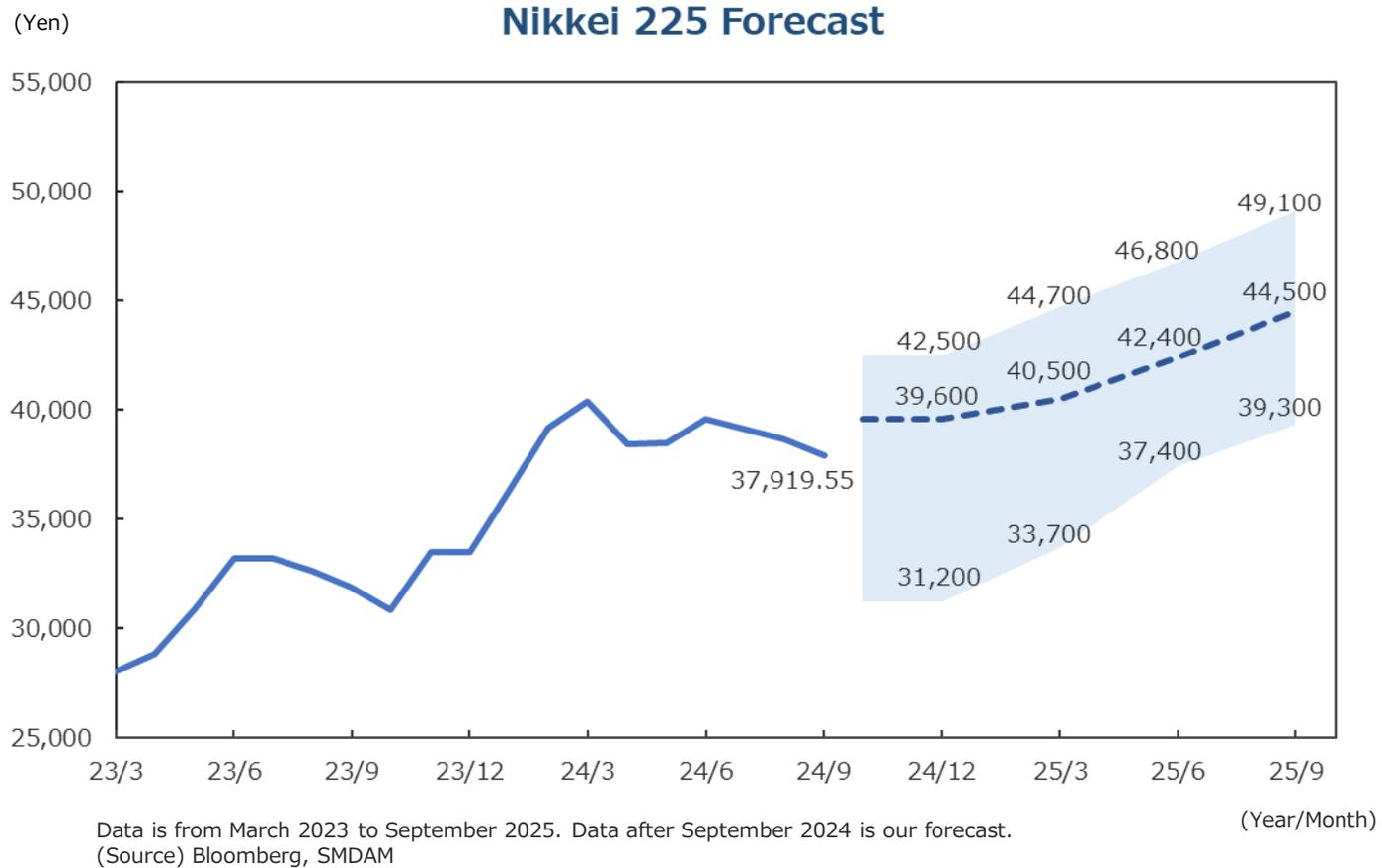


Outlook for Japanese Stock Market

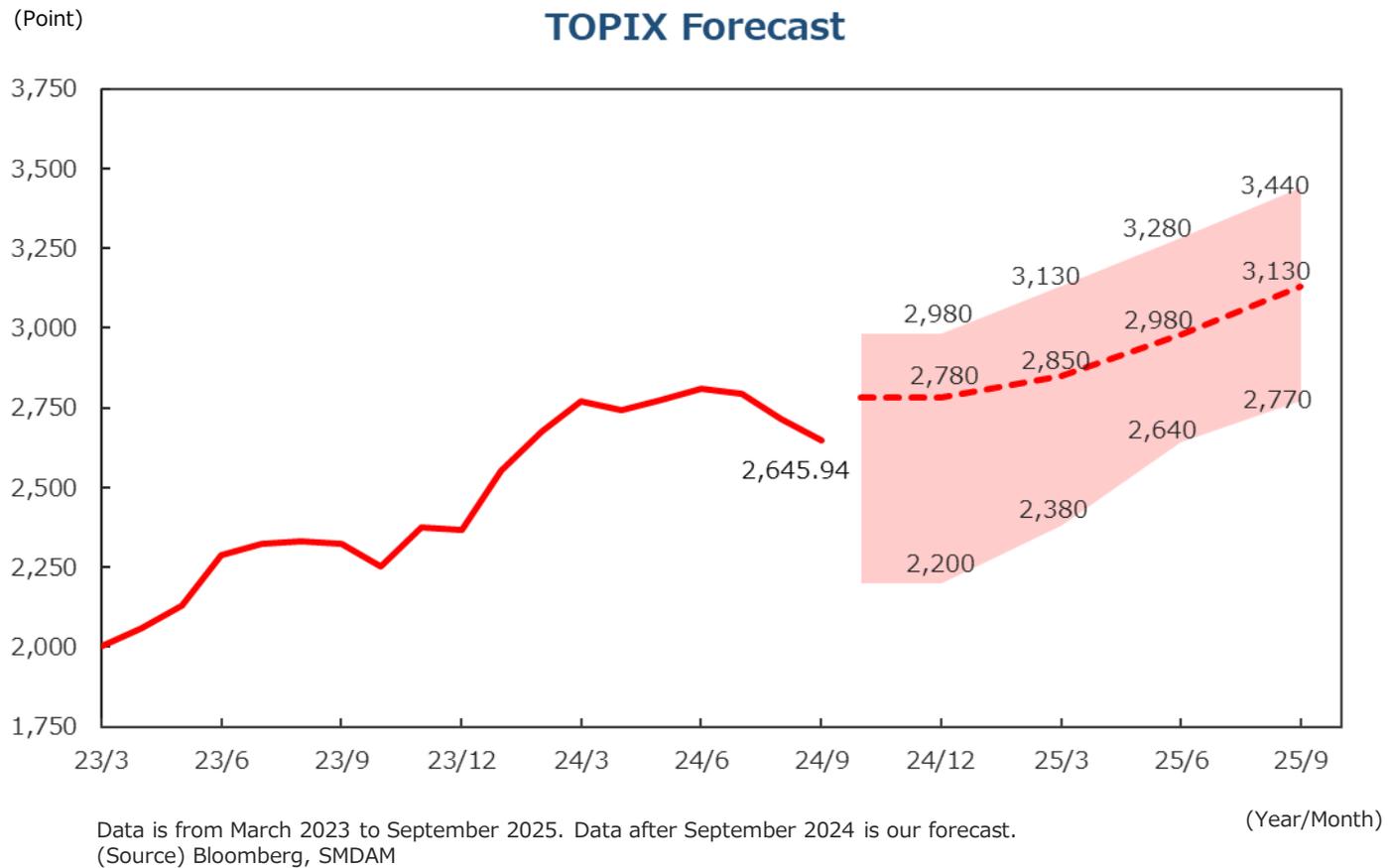
Market Outlook

- We foresee the recent volatile range trade caused by uncertainty over the US economy and Japan's monetary policy shift being followed by a bullish rally after the future path of US monetary policy becomes clearer and market volatility has settled.
- We believe the US economy will avoid a hard landing thanks to solid consumer spending, and expect the BOJ to tone down its hawkish stance and raise its policy rate slowly and cautiously.
- We expect the Nikkei 225 to cross the 40,000 mark again by the end of March 2025 and reach 45,000 by the end of CY 2025.
- Though Shigeru Ishiba's victory in the LDP leadership election was a negative surprise for the stock market, an early snap election in the “honeymoon period” for the new prime minister could be positive for the ruling LDP's approval rating and also the equity market in the near future.

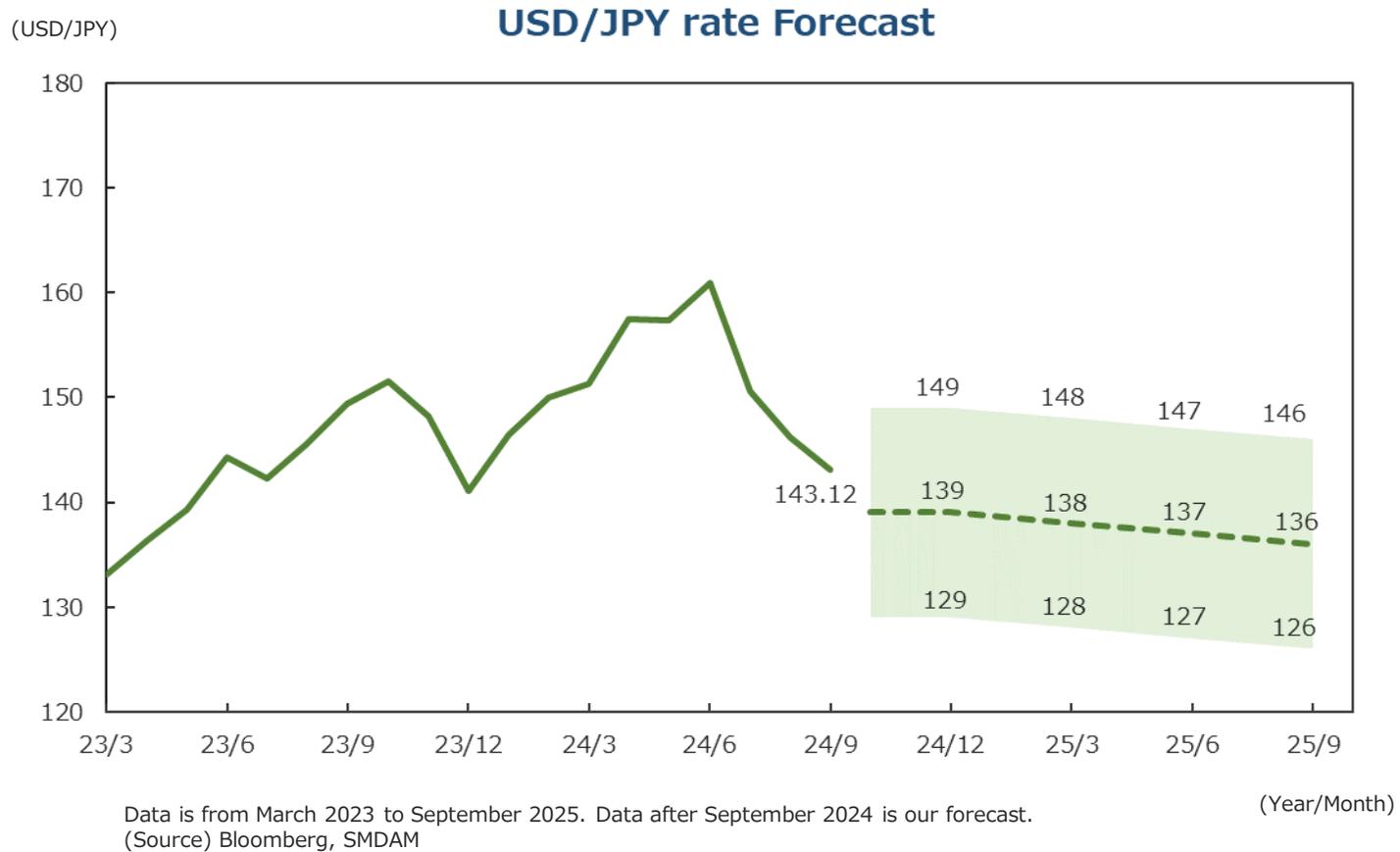
We remain bullish on the market despite recent sharp correction



We remain bullish on the market despite recent sharp correction



Narrowing interest rate gap weighing on USD/JPY rate ahead



Upside / Downside risk scenarios

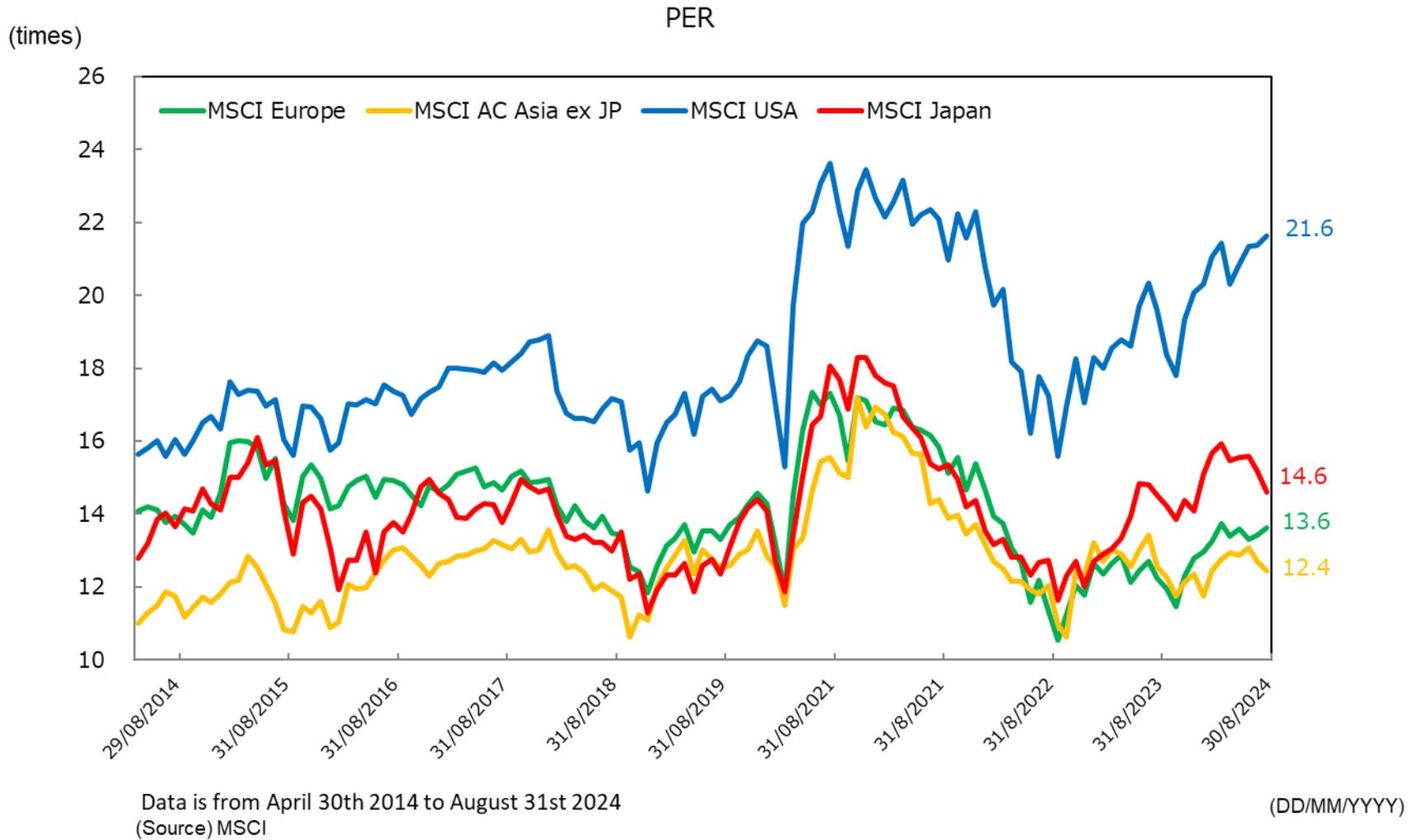
■ Upside Risks

- Receding excessive concern over the US economy
- Further improvement of corporate governance, led by Tokyo Stock Exchange

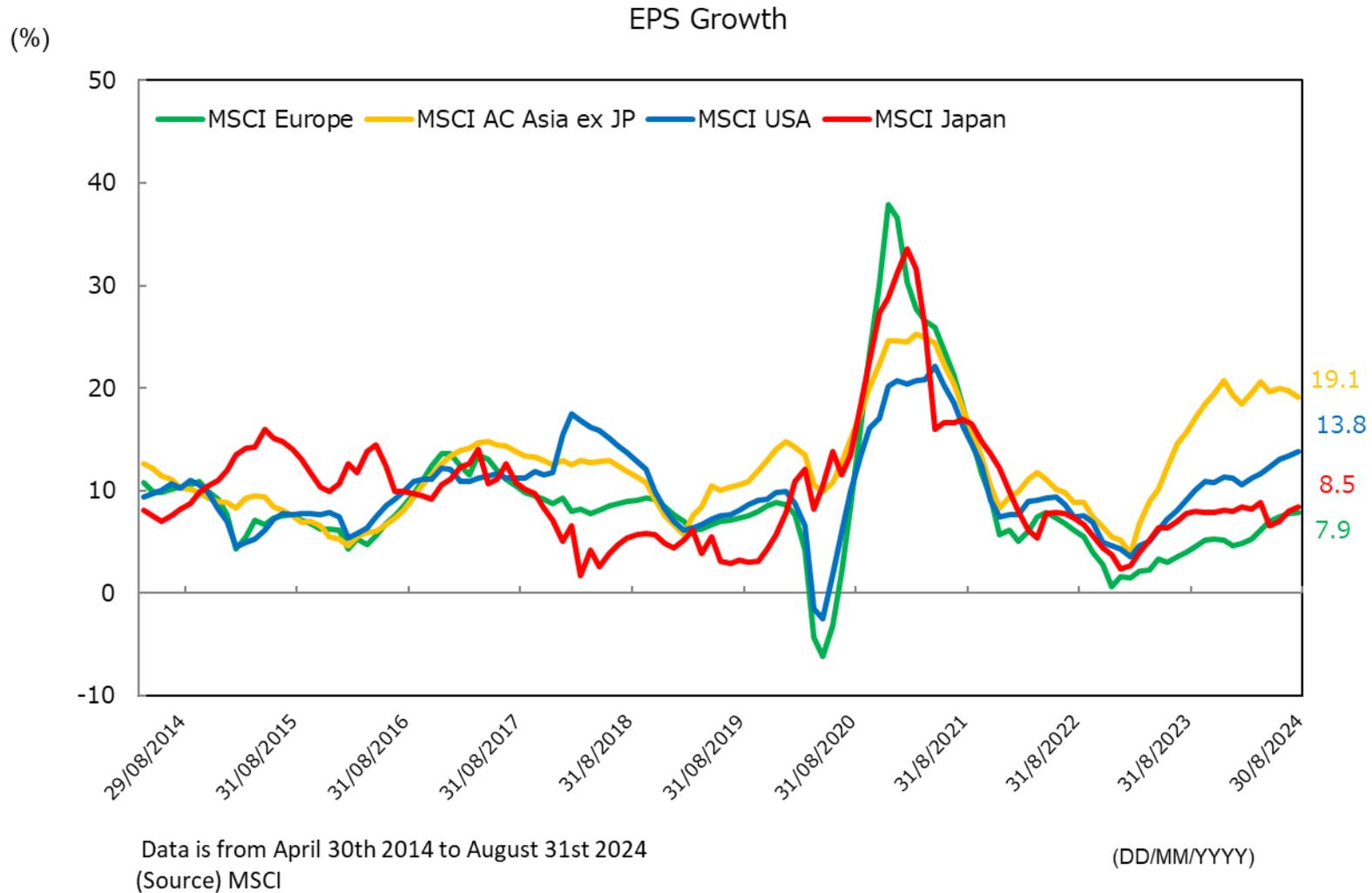
■ Downside Risks

- Tighter fiscal policy to target the primary surplus
- Hasty monetary tightening by the Bank of Japan
- Excessive and rapid JPY appreciation

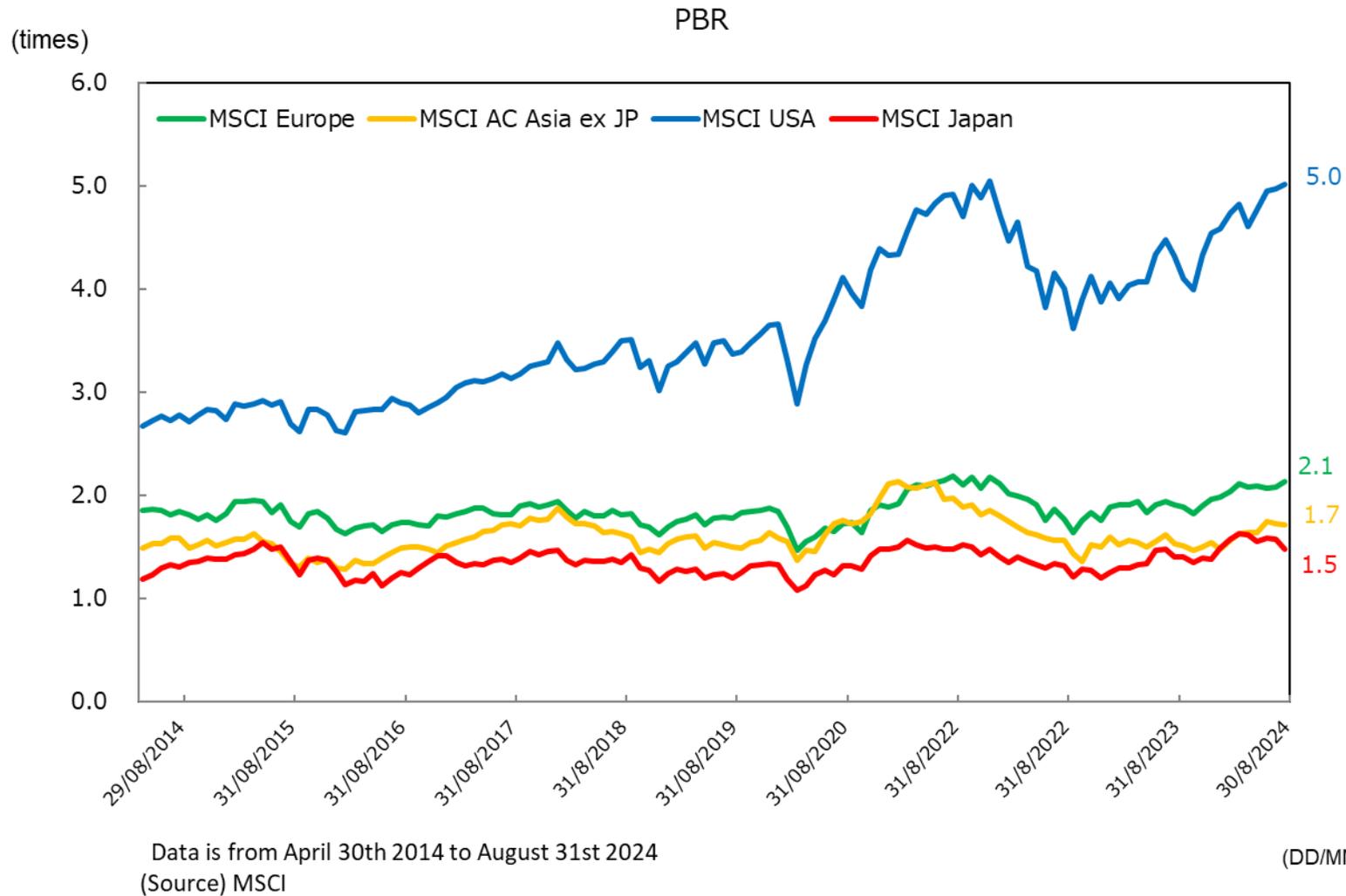
P/E ratio declined sharply due to recent market correction



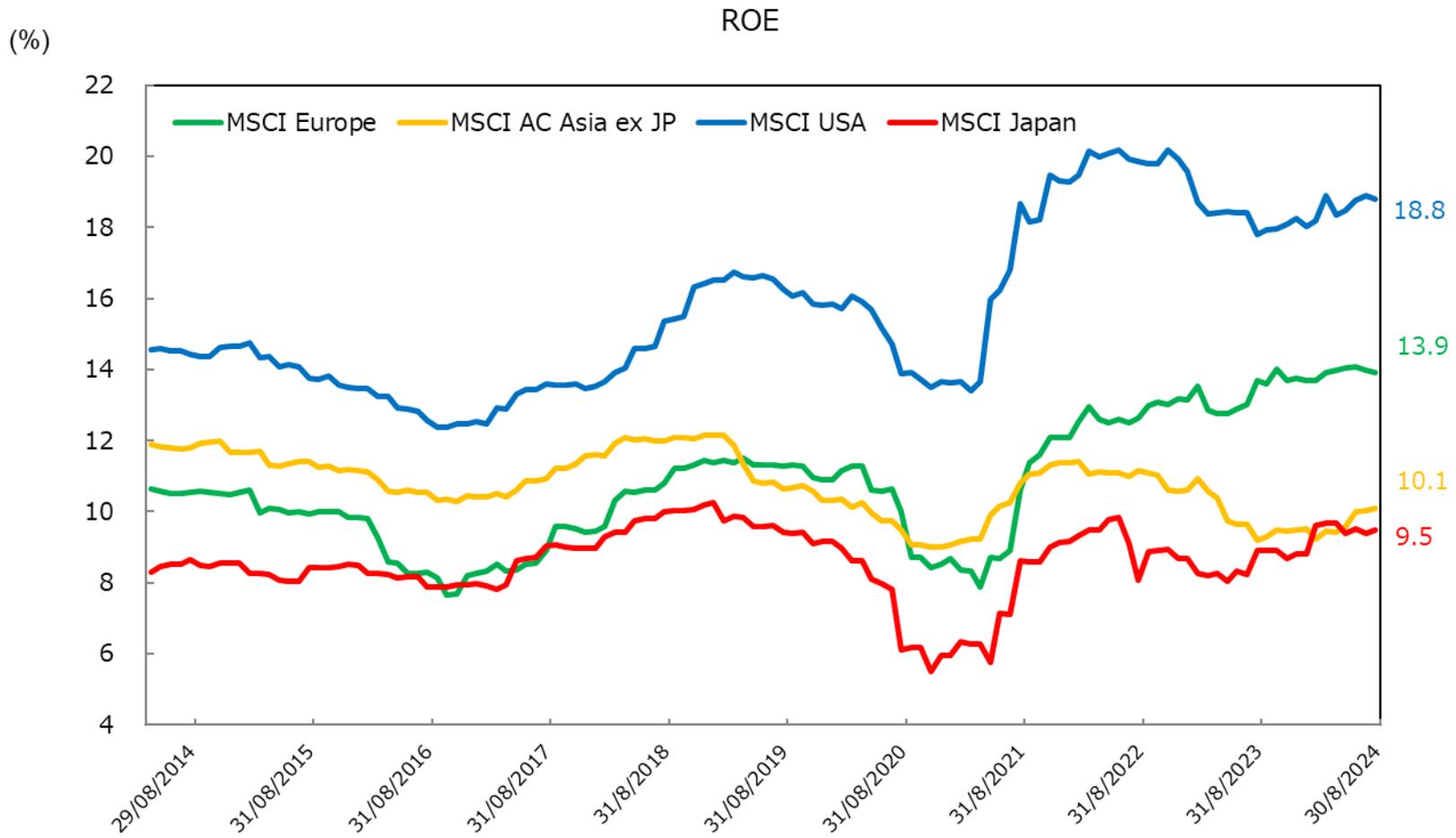
Japan's EPS growth keeps steady pace



Market correction brought P/B ratio to lowest level in 2024



Steady earnings growth lift Japan's ROE

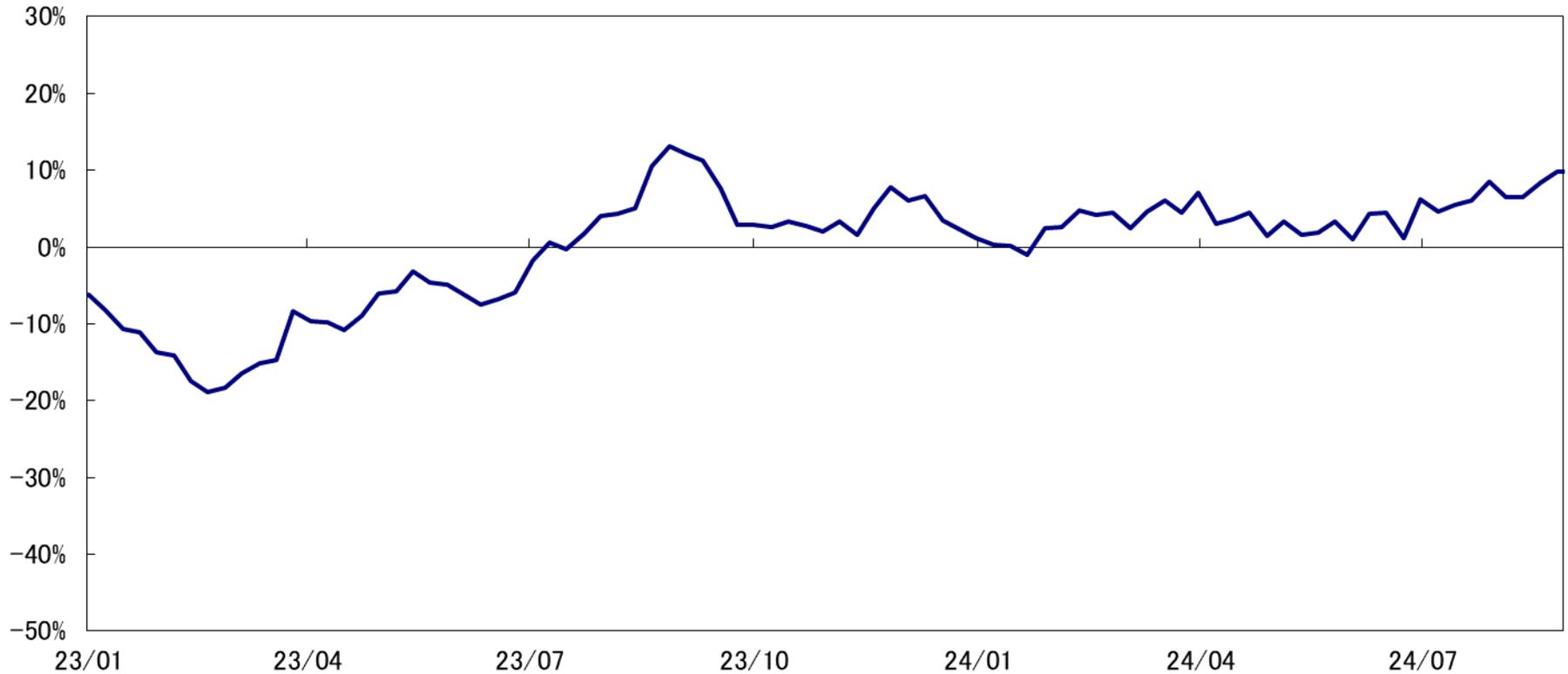


Data is from April 30th 2014 to August 31st 2024
 (Source) MSCI

(DD/MM/YYYY)

Analysts' earnings revision remains positive

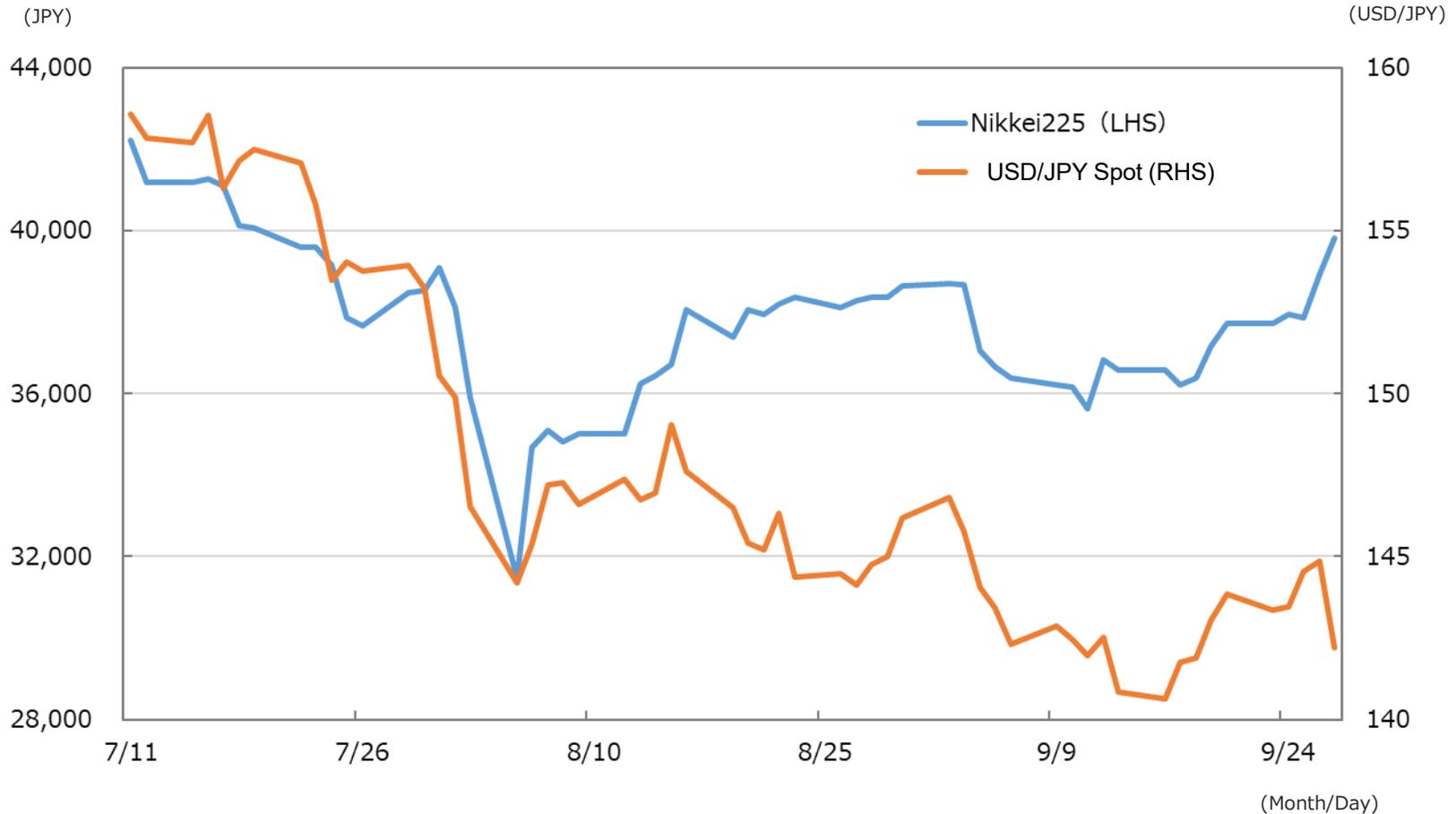
TOPIX Revision Index



Data is from January 5th 2023 to September 19th 2024
(Source) Datastream, IBES

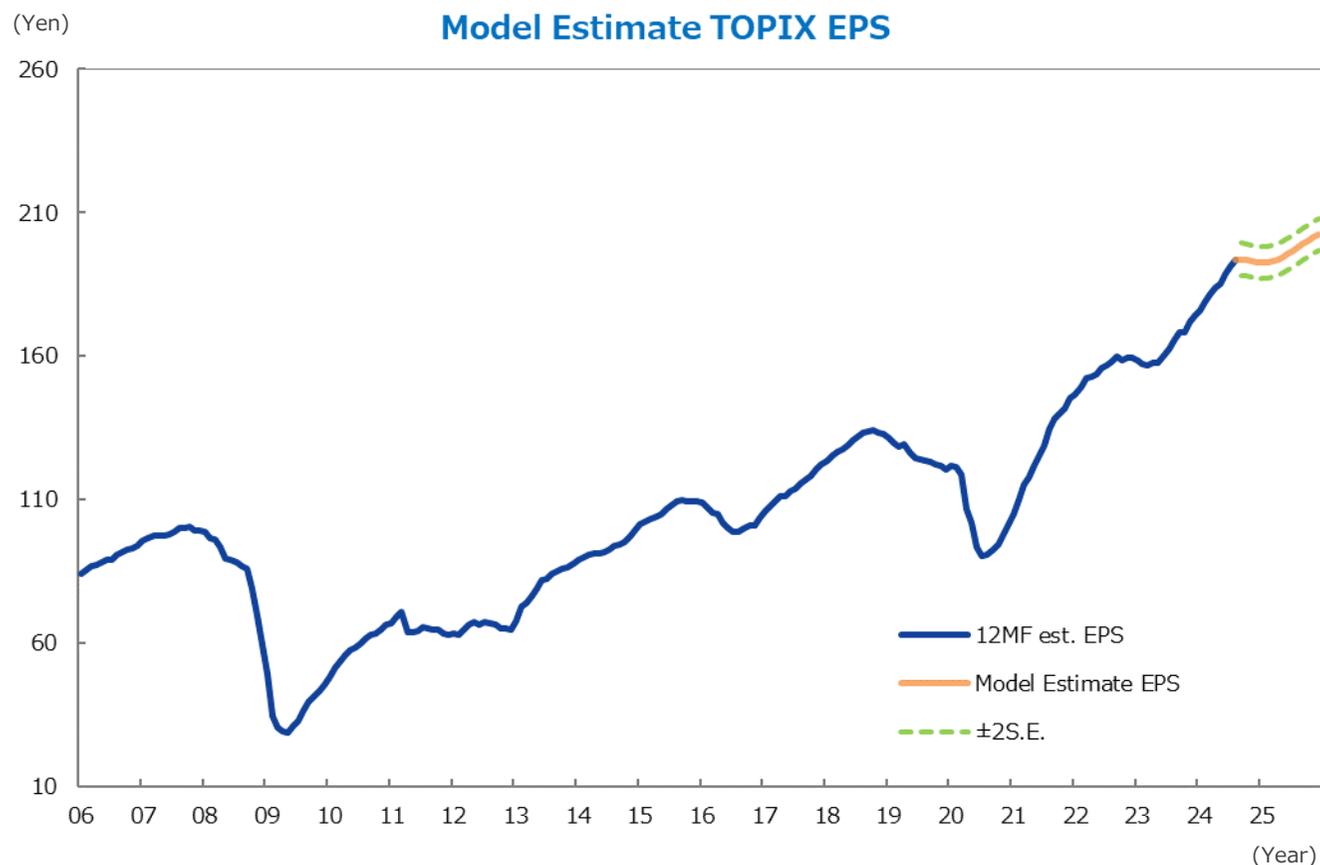
(YY/MM)

Is a strong Yen always bad for stocks?



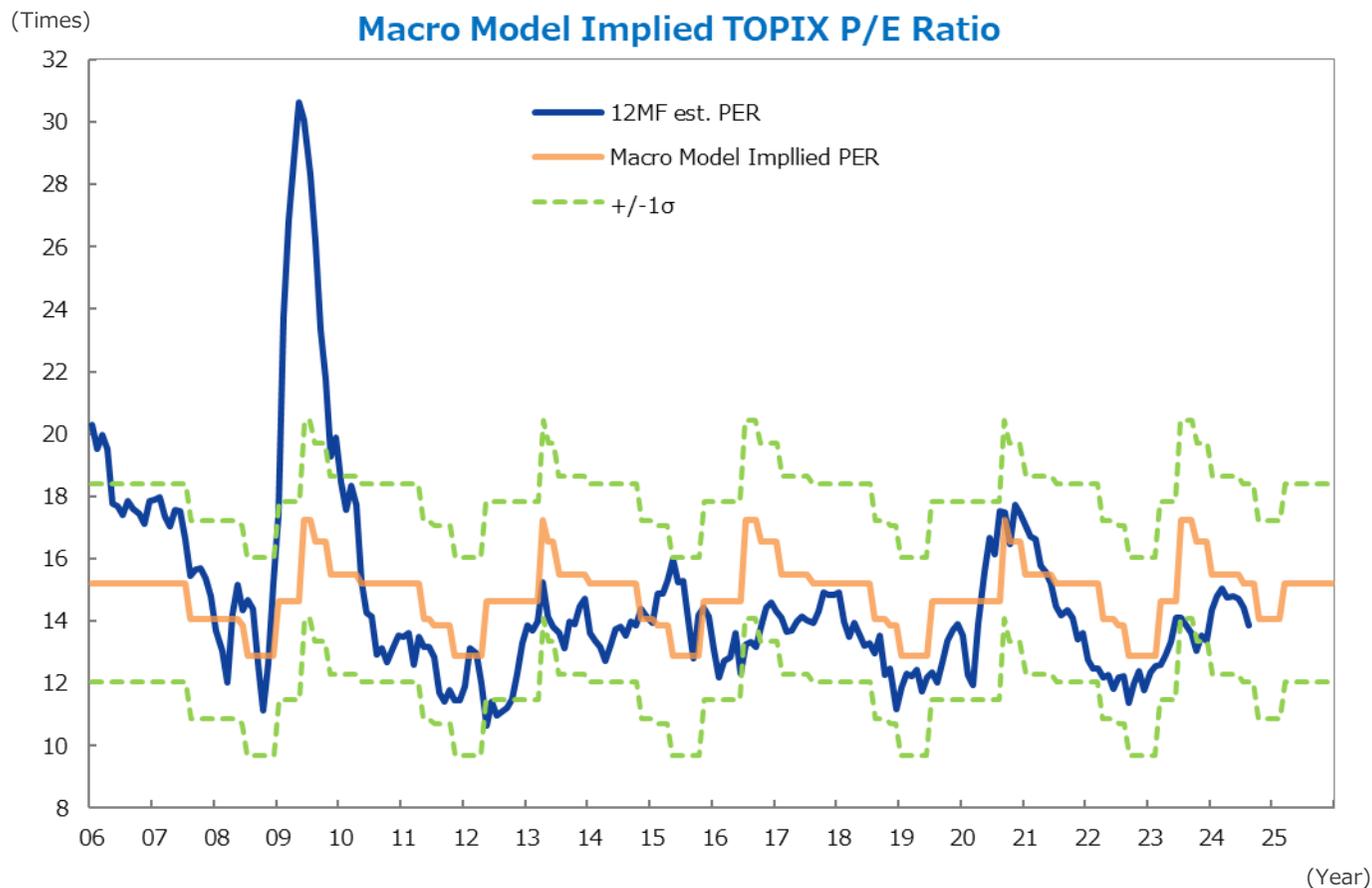
Data is from 11th July 2024 to 27th September 2024.
(Source) Bloomberg

Model suggests temporary pause of EPS growth in the near future



Note: Consensus data is from January 2006 to August 2024. Model estimate Data is from September 2024 to December 2025.
Source: SMDAM

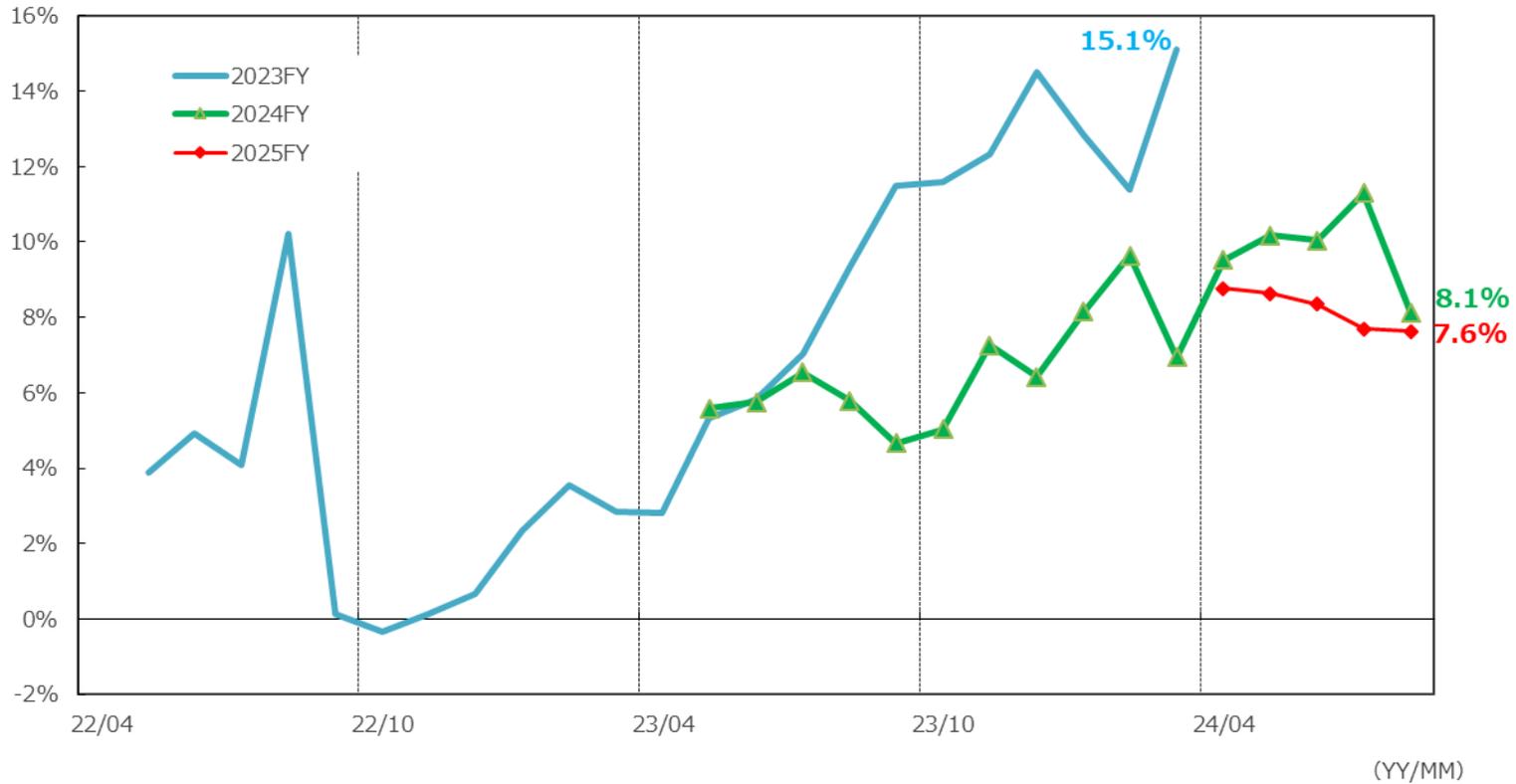
Macro data may temporarily weigh on P/E ratio ahead



Note: Consensus data is from January 2006 to August 2024, Model estimate Data is from January 2006 to December 2025.
Source: SMDAM

In-house analysts lower earnings forecast for FY 2024

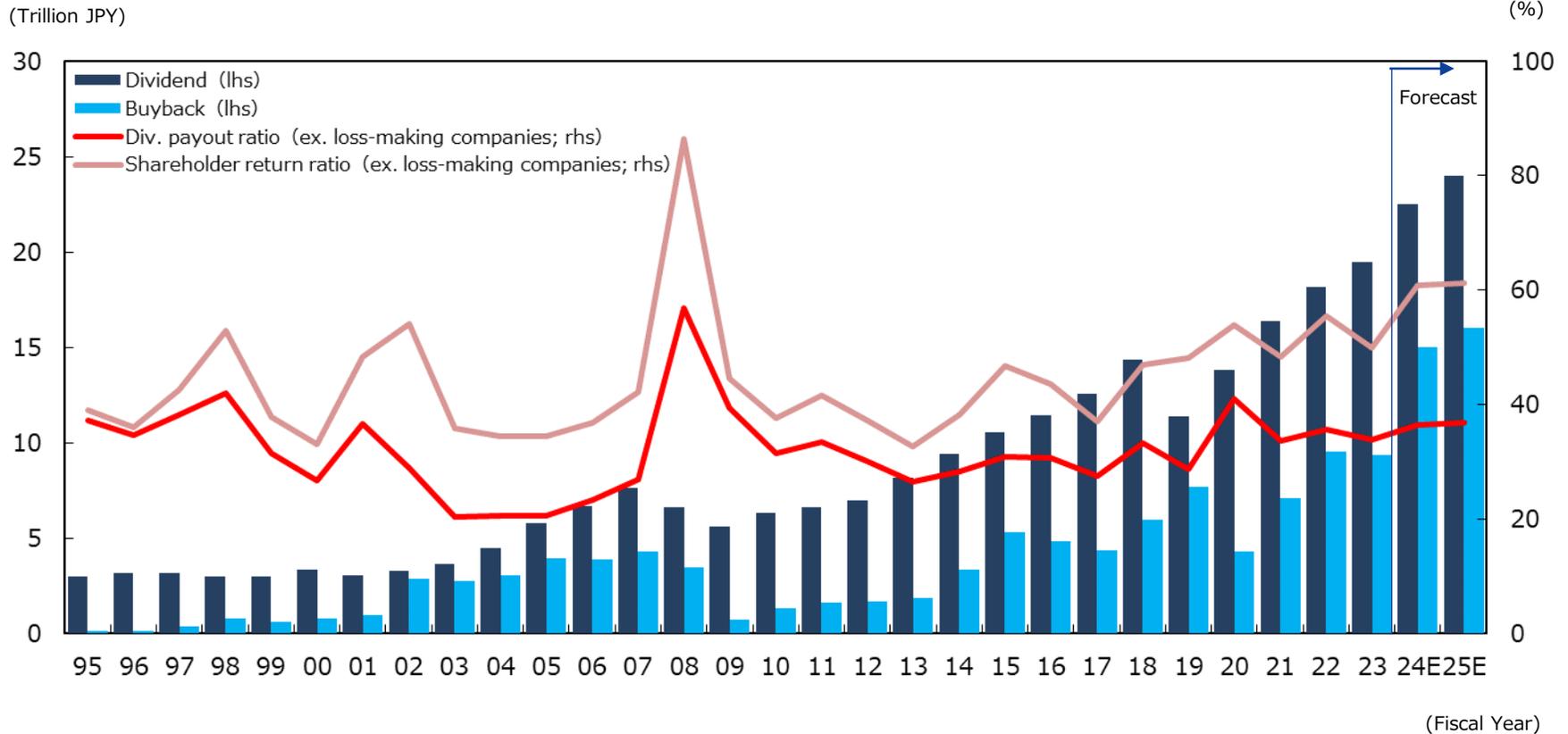
SMDAM Core Research Universe (Excl. Financials) Est. Recurring Profit Growth



Note: Data is as of 12th September 2024, SMDAM Core Universe (Excl. Financials) consists of 398 Japanese companies covered by SMDAM in-house analysts.
Source: SMDAM

Streak of record-breaking dividends and buybacks

Shareholder Return Ratio, Div. Payout Ratio, Dividend Payment, & Share Buyback



Note: Data is from FY1995 to FY2025. FY2024 and FY2025 are forecasts by Daiwa Securities.
 Source: Toyo Keizai, Quick, INDB, Daiwa Securities, SMDAM

Big swing from large value to mid-small growth

Performance Comparison of Russell/Nomura Style Indices

Index	Returns(%)						
	3 Month	6 Month	YTD	1 Year	2 year	3 Year	5 Year
RN Japan Equity	-5.43	-5.43	8.65	6.09	32.75	22.19	60.80
Total Value	-6.84	-5.67	11.61	5.52	43.58	45.91	71.38
Top Cap Value	-10.60	-9.17	14.03	5.40	49.71	56.20	91.61
Large Cap Value	-7.66	-6.56	11.99	4.99	44.49	48.82	74.10
Mid Cap Value	-4.64	-3.93	10.10	4.34	37.68	39.54	52.13
Small Cap Value	-2.91	-1.32	9.96	8.08	39.57	33.51	59.81
Micro Cap Value	-4.17	-1.39	8.31	8.12	38.26	31.31	55.63
Total Growth	-4.10	-5.20	6.10	6.93	23.20	2.78	48.99
Top Cap Growth	-7.50	-7.12	6.43	8.43	26.55	6.08	56.83
Large Cap Growth	-4.55	-5.34	6.64	7.52	25.23	4.26	52.88
Mid Cap Growth	1.49	-1.84	7.07	5.91	22.89	1.24	46.40
Small Cap Growth	0.17	-3.86	1.59	2.14	7.80	-8.94	19.69
Micro Cap Growth	-2.16	-7.10	-0.84	0.50	4.52	-13.06	17.72
Top Cap Total	-8.72	-7.92	9.24	6.91	36.27	25.84	70.74
Large Cap Total	-5.99	-5.91	9.00	6.16	33.90	23.29	63.66
Mid Cap Total	-1.98	-3.01	8.68	5.02	30.31	19.63	53.85
Small Cap Total	-1.77	-2.30	6.62	5.73	26.34	15.51	44.12
Micro Cap Total	-3.52	-3.35	5.11	5.52	26.15	15.06	43.41

Note : As of 18th September 2024
(Source) Bloomberg



Outlook for Japanese Economy

Current status & Outlook of Japanese economy

[Current Status]

- **The economy is recovering.** In the second quarter of 2024, real GDP grew for the first time in 2 quarters. In particular, consumer spending, which had been sluggish, grew for the first time in 5 quarters. Though stock prices have fluctuated wildly and the yen has appreciated, soft data, which is more readily available, has remained firm. The PMI (August) and the “Economy Watchers Survey (August)” recovered, and “Consumer Confidence Index (August)” was solid. The CAPEX plan in the “Business Survey Index (Q3)” was also firm.
- **Inflation is picking up.** Nationwide core CPI rose +2.7% YOY in July, rebounding from +2.6% in June. Tokyo Metropolitan Area Core CPI rose +2.4% YOY in August, re-accelerating from +2.2% last month. Nationwide core CPI was largely influenced by the termination of subsidies for electricity and gas bills. The depreciation of the yen also pushed up Tokyo Metropolitan Area Core CPI.

[Outlook]

- ① **While we have lowered our real GDP growth forecast for FY 2024 to +0.4% from +0.5%, we have maintained that for FY 2025 at +0.7%.** We have slightly cut the forecast for FY 2024 due to revision of real GDP 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, firm CAPEX motivation, such as labor saving, digitalization, greening, urban development, and construction of semiconductor factories, and the resilience of overseas economies.
- ② **While we have maintained our core CPI forecast for FY 2024 at +2.5%, we have lowered that for FY 2025 to +2.0% from +2.2%.** As for the outlook, figures for FY 2025 have been revised downward mainly due to changes in assumptions of crude oil prices and foreign exchange. We have cut WTI forecast to \$70 per barrel from \$75, while the dollar yen will average 148 yen in FY 2024 from 151 yen, and 141 yen in FY 2025 from 145 yen. The nationwide core CPI is likely to be above +2% level throughout 2025. Although cost-push pressure stemming from import prices will dissipate, it is highly likely that the end of subsidies, such as electricity, gas, and gasoline, will push up energy prices. In addition, the rise in service prices is likely to be accompanied by wage hikes. From 2026 onward, the energy factor will dissipate, but core CPI is likely to remain stable at around +2% YOY due to rising service prices.
- ③ **We expect the government to continue their accommodative fiscal policy.** Prime Minister Kishida announced plans to implement economic measures in autumn. Although PM Kishida has decided to step down as prime minister, his successor Mr Ishiba is expected to stick to existing fiscal policy. There are plans to extend the period of providing subsidies for electricity, gas, and gasoline for low-income households.
- ④ **We have changed our forecast for the BOJ’s monetary policy.** The new policy forecasts are as follows: the policy rates will be raised to 0.50% in December 2024, 0.75% in July 2025 and 1.00% in January 2026 (previously; 0.50% in January 2025, 0.75% in July 2025 and 1.00% in January 2026). The reasons for slightly bringing forward the timing of the next rate hike are (1) the adverse impact of financial market instability on the economy since August has been limited, and (2) the Policy Board members have repeatedly indicated their intention to maintain a hawkish stance while monitoring developments in the financial market. We have not changed the timing of any subsequent rate hikes.

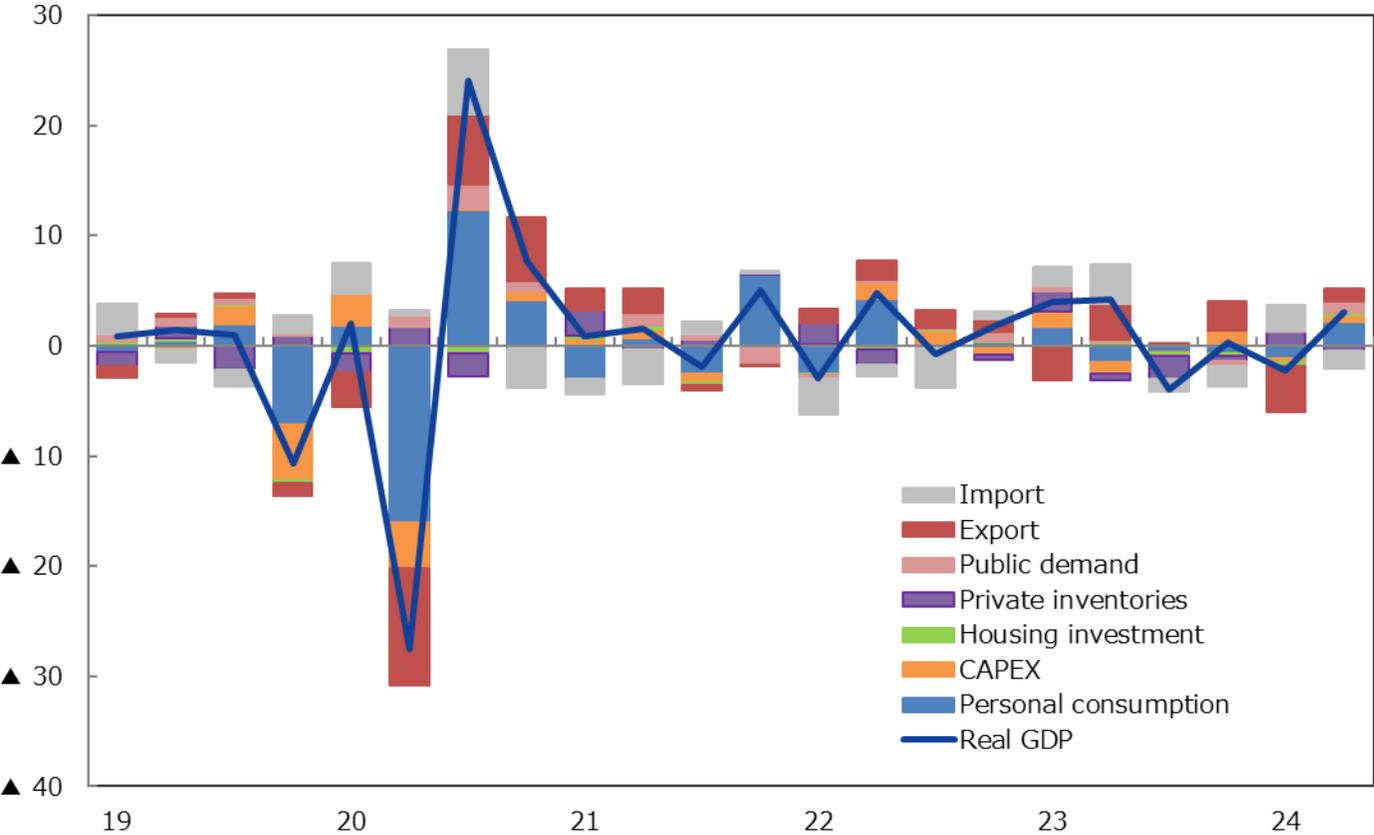
Forecast for the Japanese economy

Forecast of annual Real GDP growth and its breakdown							
Fiscal Year	FY19	FY20	FY21	FY22	FY23	FY24 Est	FY25 Est
Real GDP	-0.8%	-3.9%	3.1%	1.6%	0.8%	0.4%	0.7%
Private final consumption expenditure	-0.9%	-4.8%	1.8%	2.7%	-0.6%	0.5%	0.8%
Private housing investment	2.6%	-7.4%	0.3%	-3.3%	0.3%	-1.1%	-1.0%
Private-sector capital investment	-1.3%	-5.7%	3.2%	4.1%	0.3%	2.1%	1.0%
Private inventory investment	-0.2%	-0.2%	0.5%	0.1%	-0.2%	0.0%	0.0%
Public fixed capital formation	1.6%	4.9%	-6.5%	-6.1%	0.7%	-0.3%	0.0%
Net export contribution	-0.5%	-0.6%	0.8%	-0.5%	1.4%	-0.3%	-0.1%
Exports of goods and services	-2.3%	-10.0%	12.5%	4.9%	2.8%	1.1%	2.7%
Imports of goods and services	0.2%	-6.3%	7.4%	7.3%	-3.2%	2.9%	3.1%
Nominal GDP	0.0%	-3.2%	3.0%	2.5%	4.9%	3.1%	2.5%
GDP deflator	0.8%	0.7%	-0.1%	0.9%	4.0%	2.7%	1.8%
Industrial Production Index	-3.5%	-9.6%	5.6%	-0.3%	-1.9%	0.5%	2.0%
Consumer Price Index (Core)	0.4%	-0.6%	0.1%	3.0%	2.8%	2.5%	2.0%
Domestic corporate goods price index	0.1%	-1.5%	7.1%	9.6%	2.4%	1.8%	0.8%
Employee compensation	2.0%	-1.5%	2.1%	2.4%	1.8%	3.8%	3.5%
Unemployment rate	2.4%	2.9%	2.8%	2.6%	2.6%	2.5%	2.3%
Monetary Policy interest rate (Short term)	-0.10%	-0.10%	-0.10%	-0.10%	0-0.1%	0.50%	1.00%

Note: Rate of increase over the previous year. Net exports are based on the degree of contribution, and the consumer price index (Core) excludes the effects of the consumption tax and free education.
Source: Sumitomo Mitsui DS Asset Management based on data from the Cabinet Office, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry

Real GDP is positive again

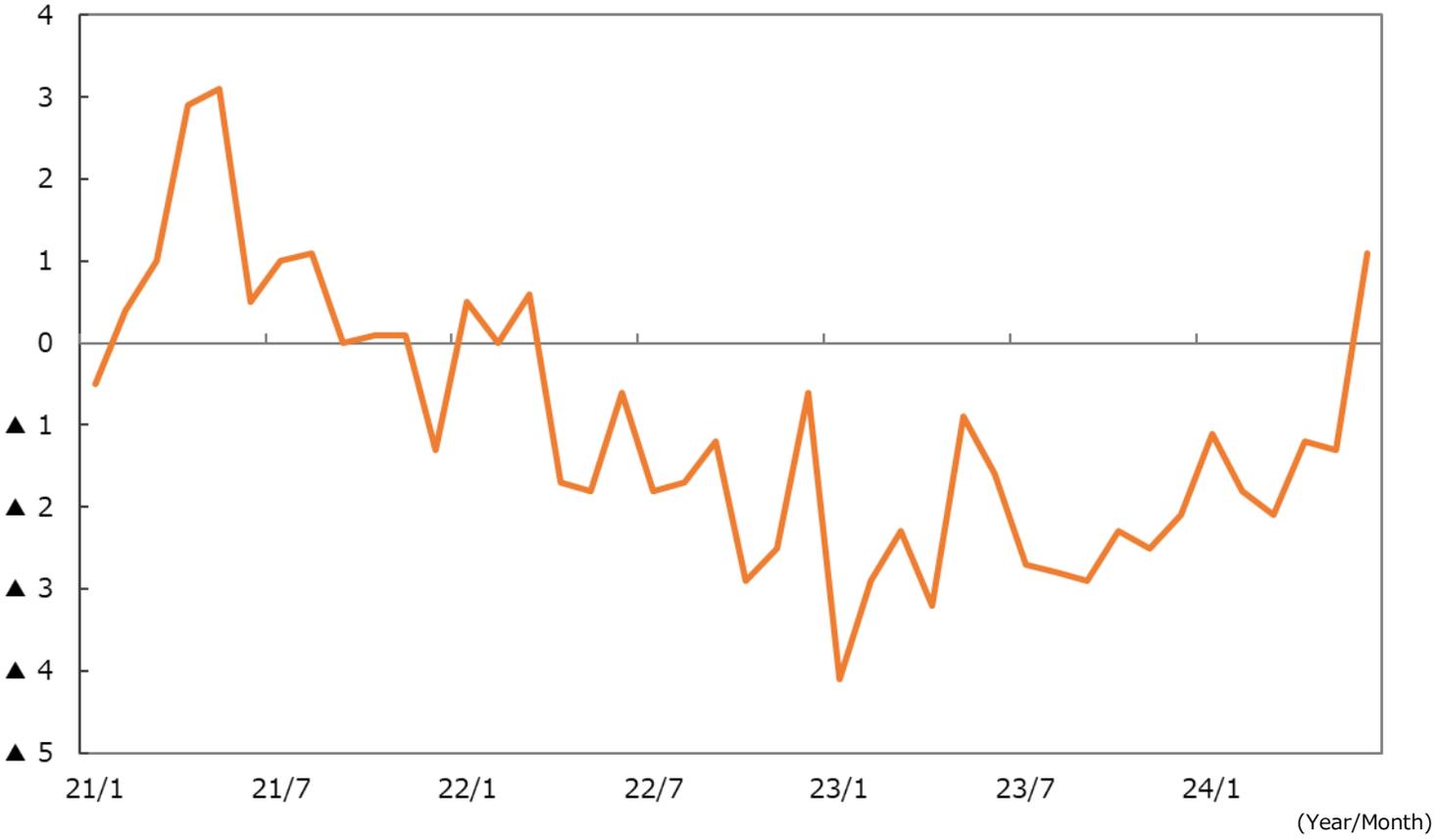
Real GDP growth rate (YOY, %)



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

Real wages grew for first time in 27 months

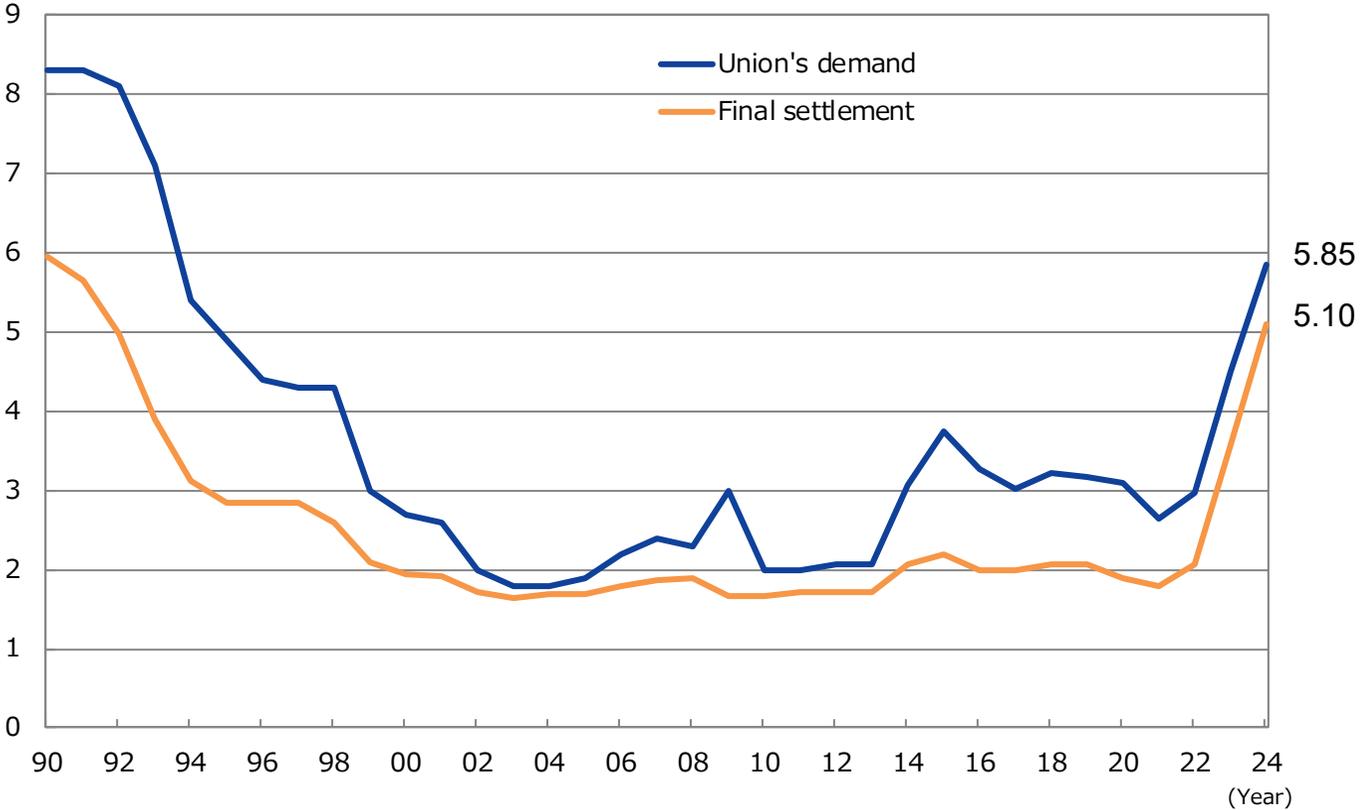
Real Cash Earnings (YOY, %)



Note: Data is from January 2021 to June 2024.
Source: Japanese Trade Union Confederation, SMDAM

Highest wage increase in 33 years

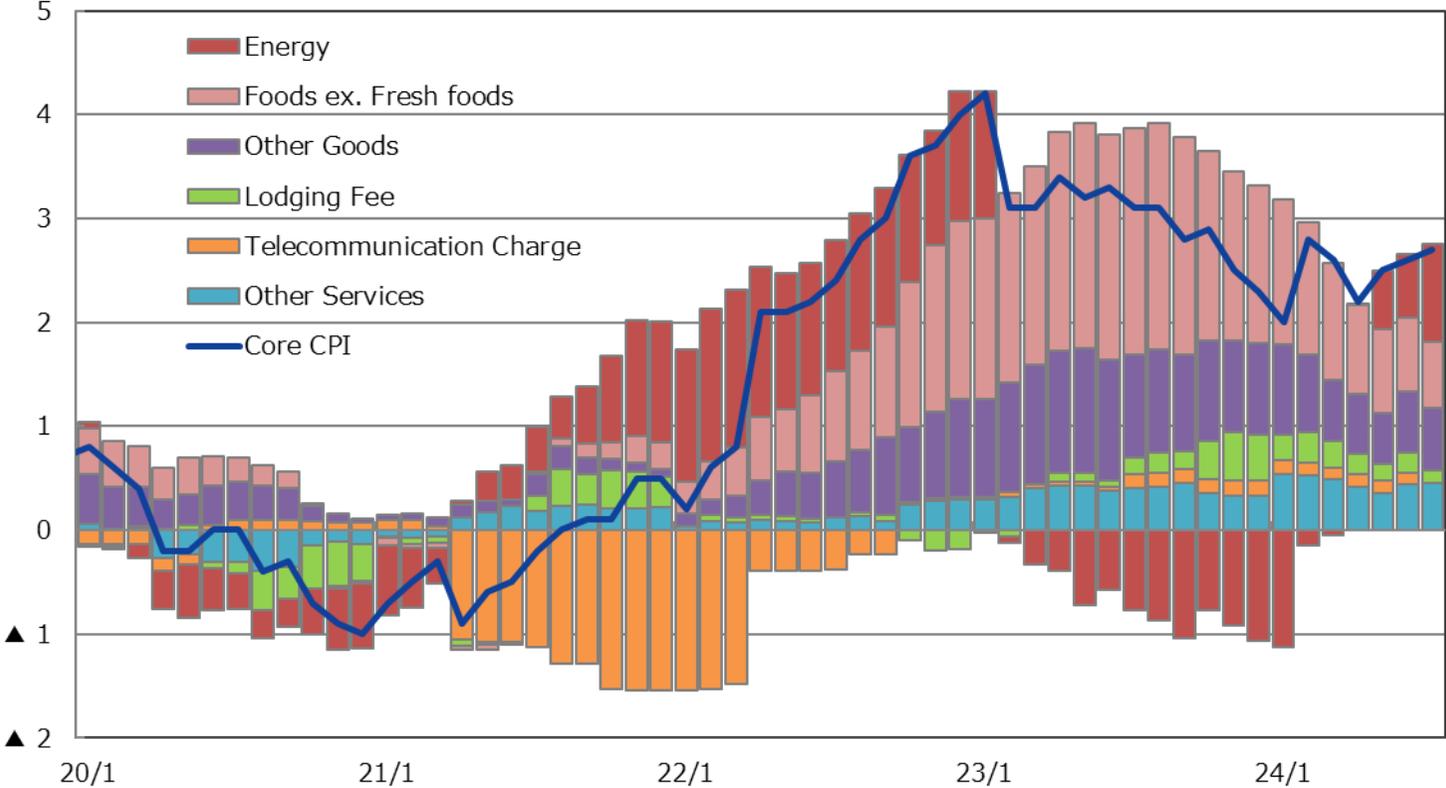
Wage increase (YOY, %)



Note: Data is from FY 1990 to FY 2024.
Source: Japanese Trade Union Confederation, SMDAM

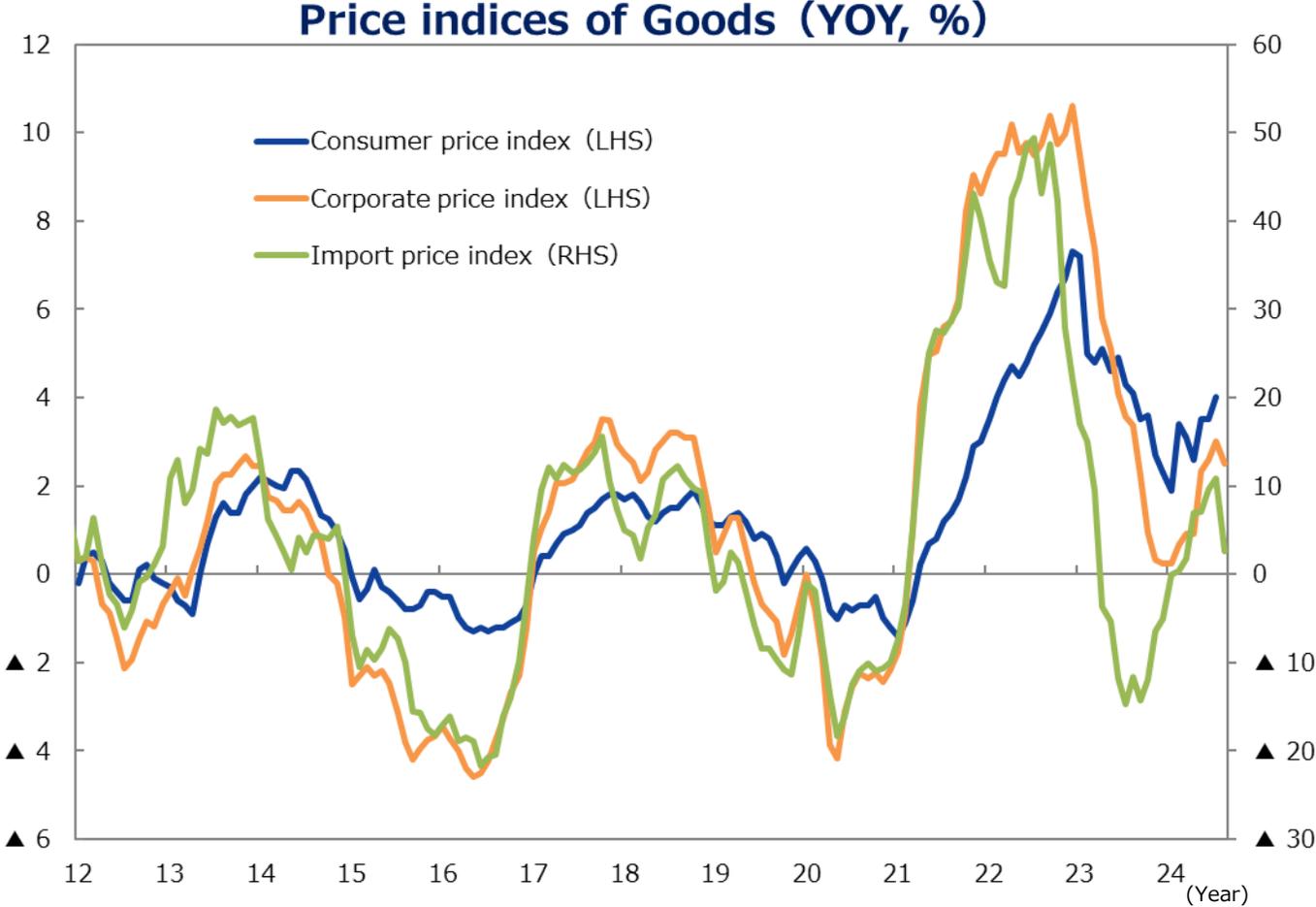
End of utility bill subsidies lift CPI

Breakdown of CPI (YOY, %)



Note: Data is from January 2020 to July 2024.
Source: MIAC, SMDAM

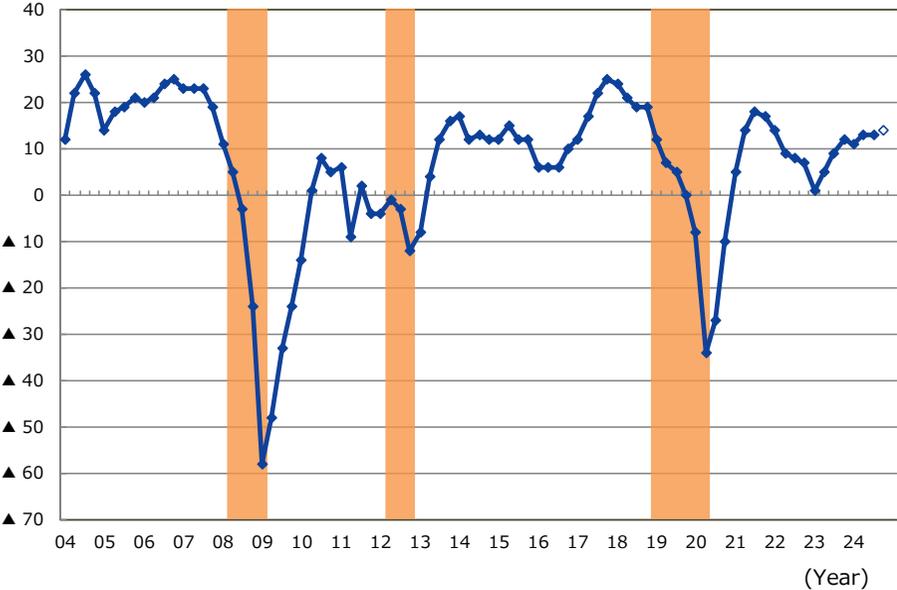
Easing pressure to squeeze profit margin



Note: Data for Corporate price index and Import price index are from January 2012 to August 2024 and Consumer price index is from January 2012 to July 2024
 Source: MIAC, Bloomberg, SMDAM

Improvement of business sentiment appears to stand still

BOJ business condition DI Large manufacturers (%)

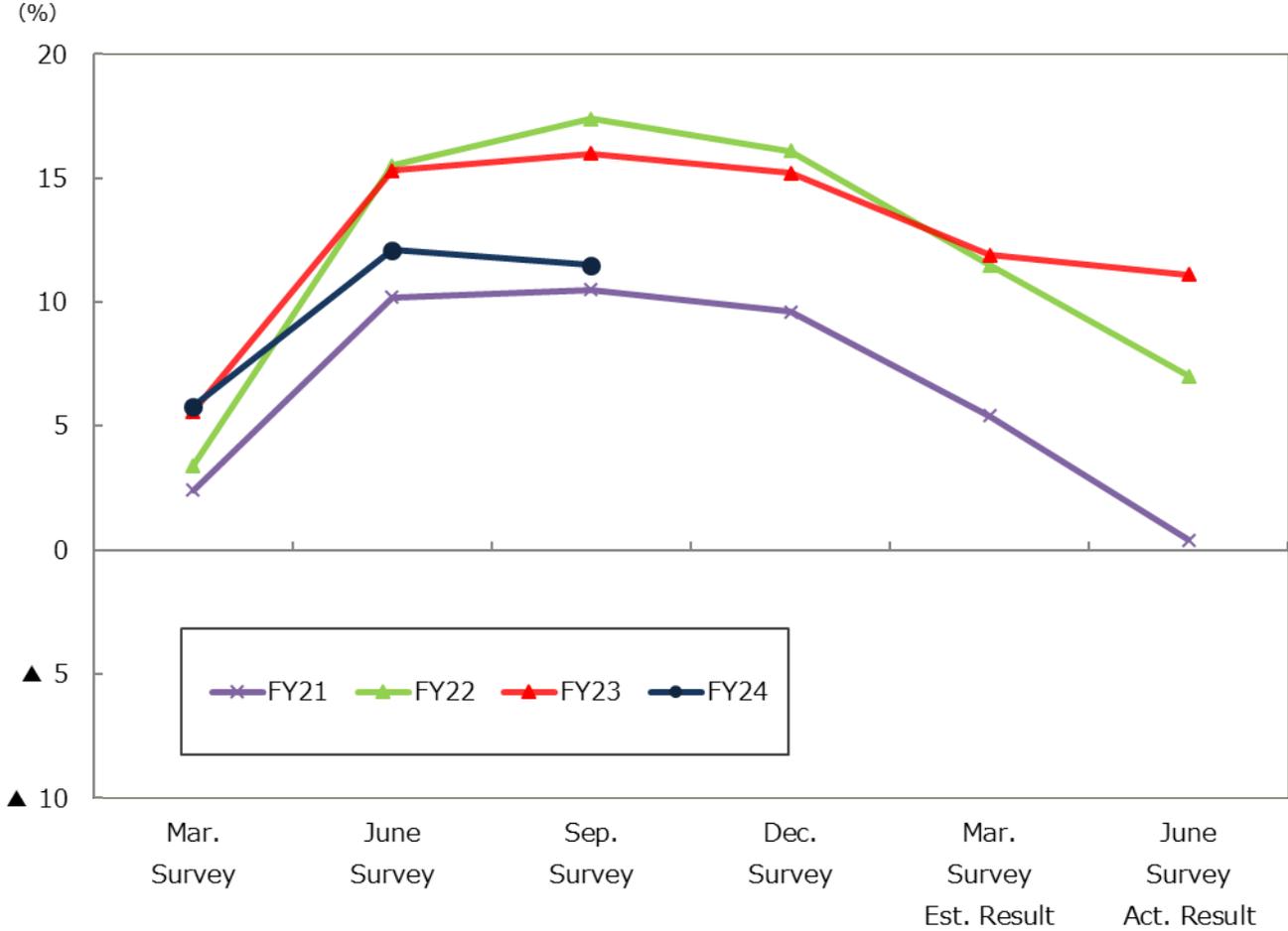


BOJ business condition DI Large non-manufacturers (%)



Note: Data is from Q1 2004 to Q3 2024. The orange shadow represents periods of economic recession.
 Source: The Bank of Japan, SMDAM

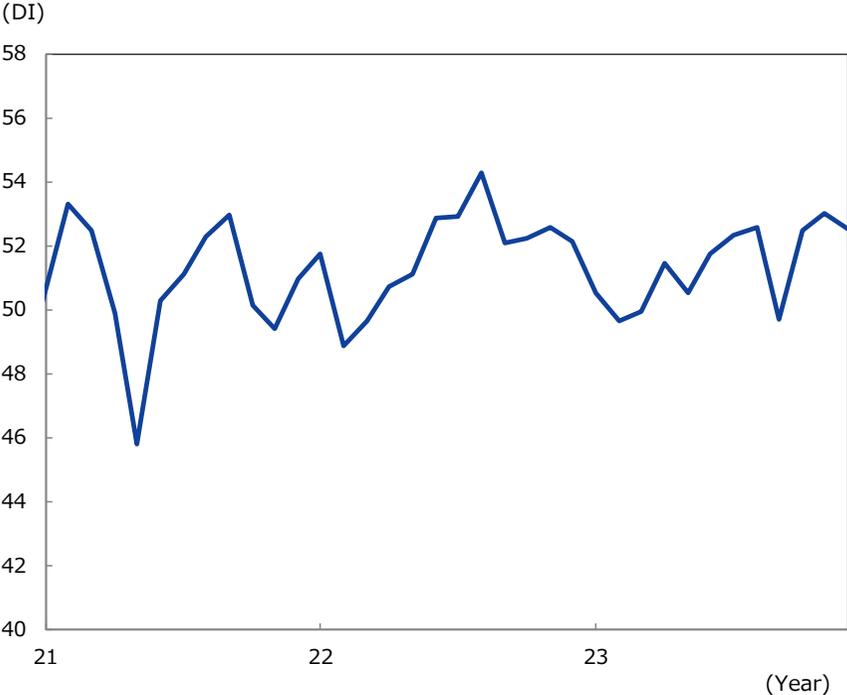
Uncertainty over the global economy weighs on CAPEX outlook



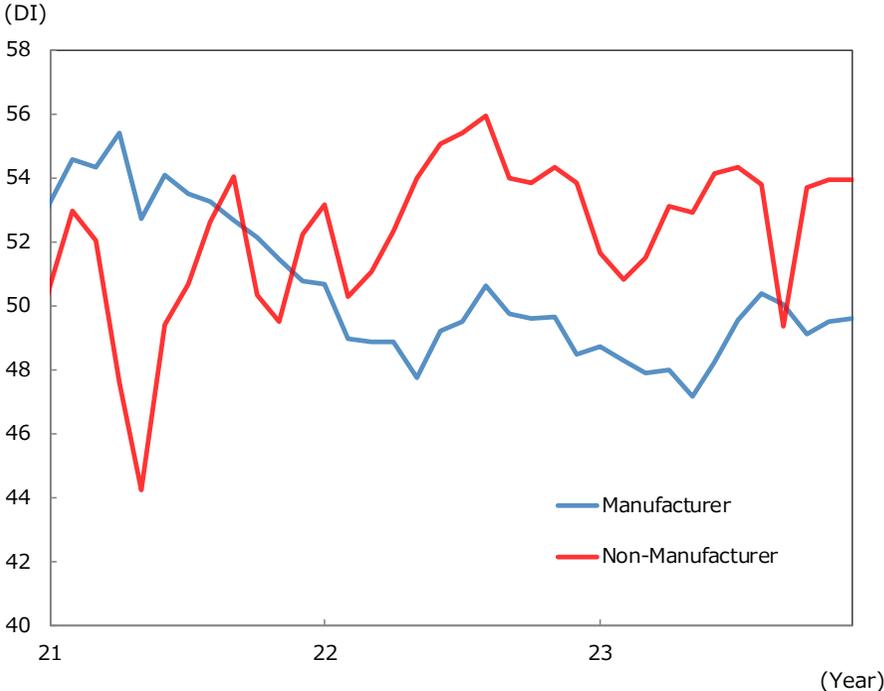
Note: Data is from Q1 FY2021 to Q3 FY2024.
 Source: The Bank of Japan, SMDAM

Soft data shows mixed sentiment of businesses

Composite PMI

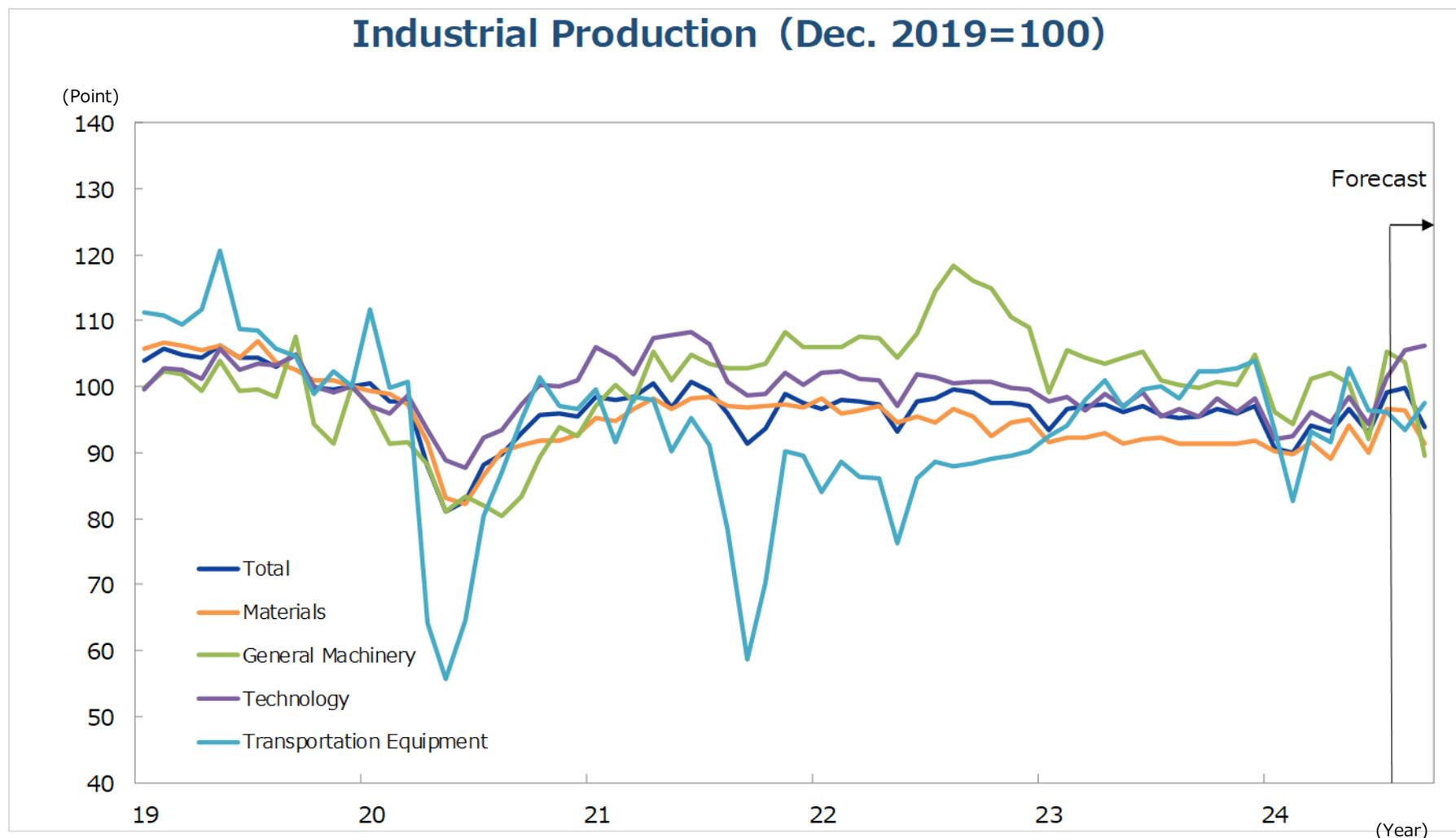


PMI, Manufacturer & Non-Manufacturer



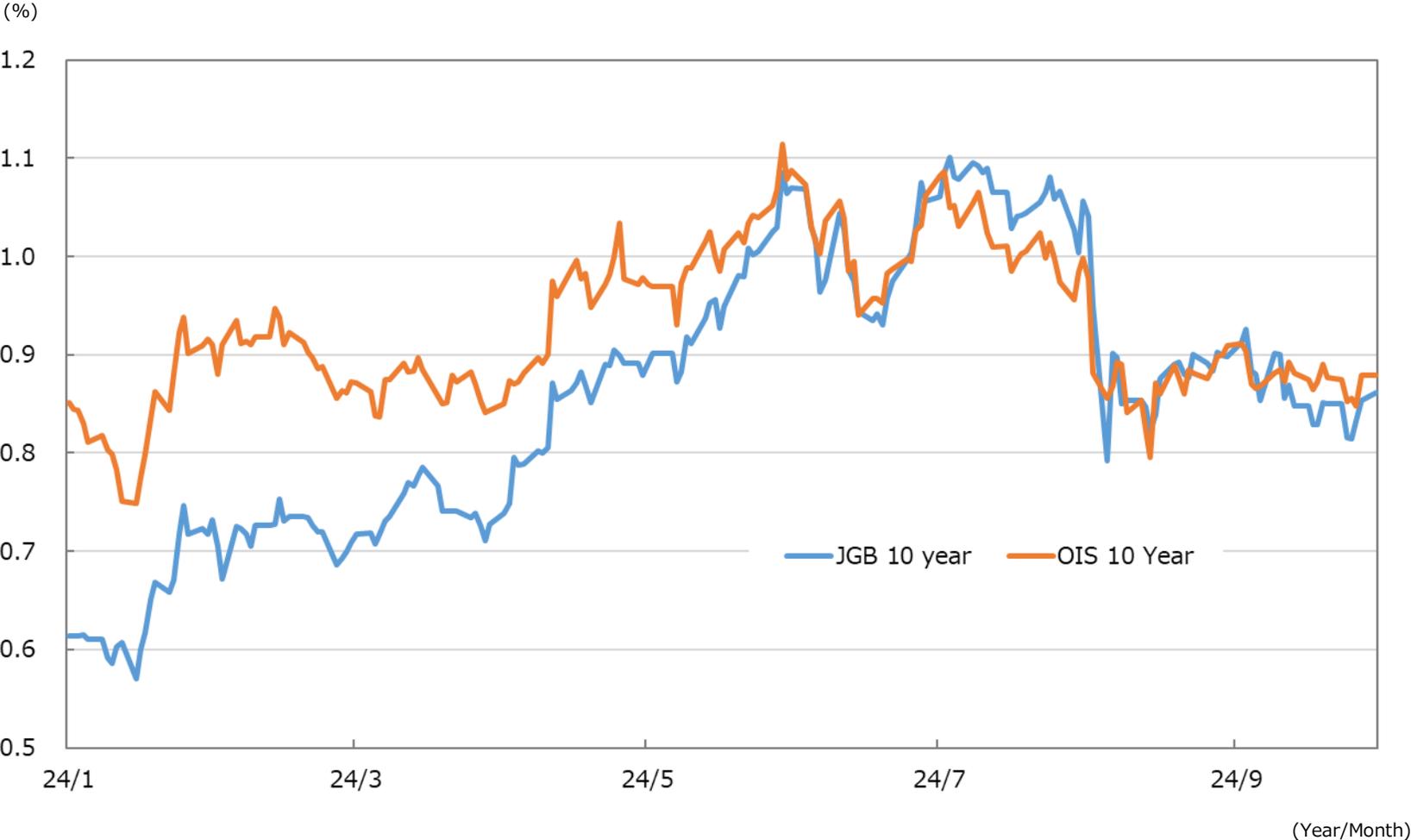
Note: Data is from October 2021 to September 2024.
Source: Bloomberg, SMDAM

While tech is recovering, others are losing momentum



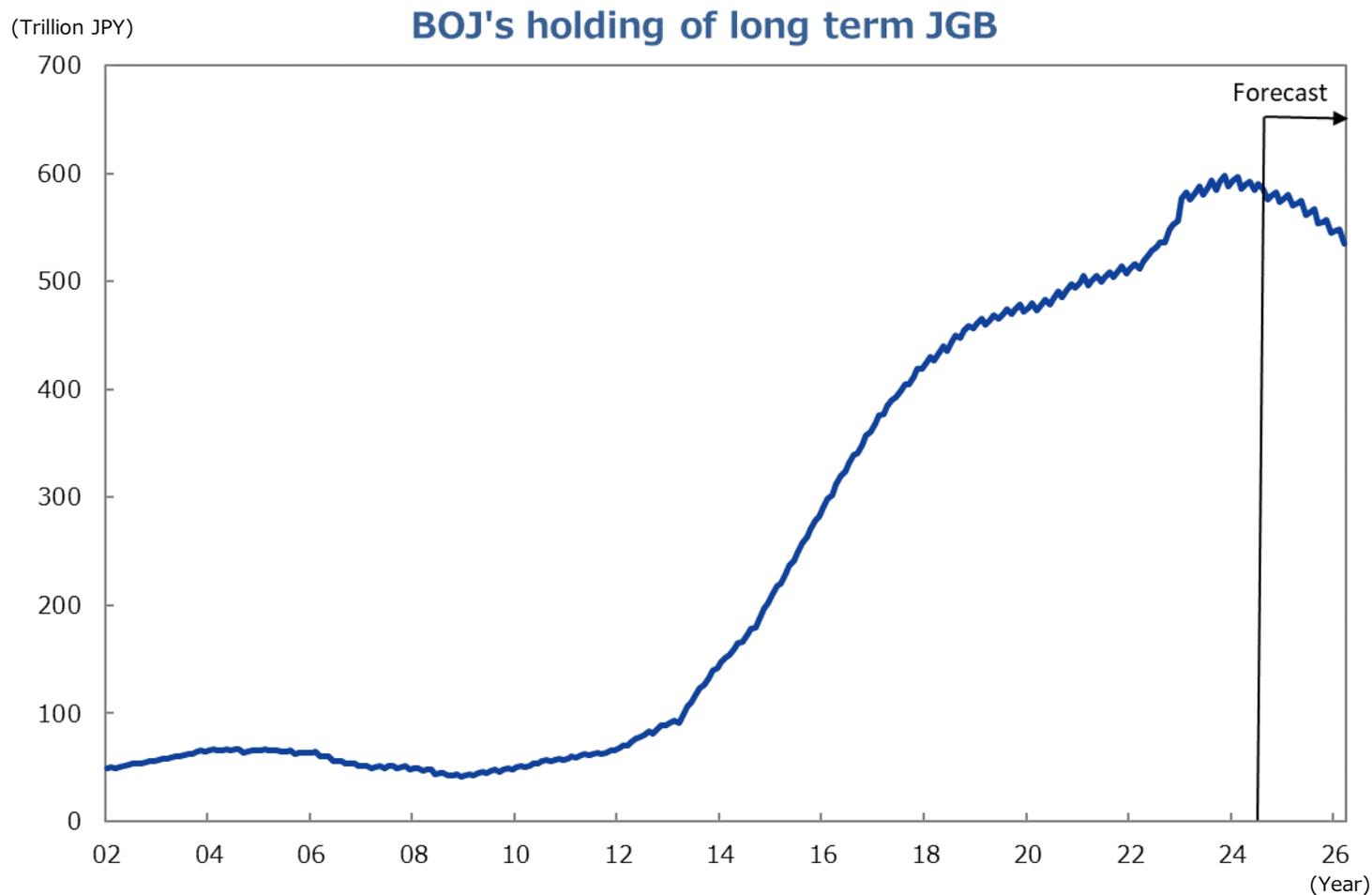
Note: Data is from January 2019 to September 2024. Data after July 2024 is forecasts.
Source: METI, SMDAM

Financial market has not priced in the next hike by the BOJ



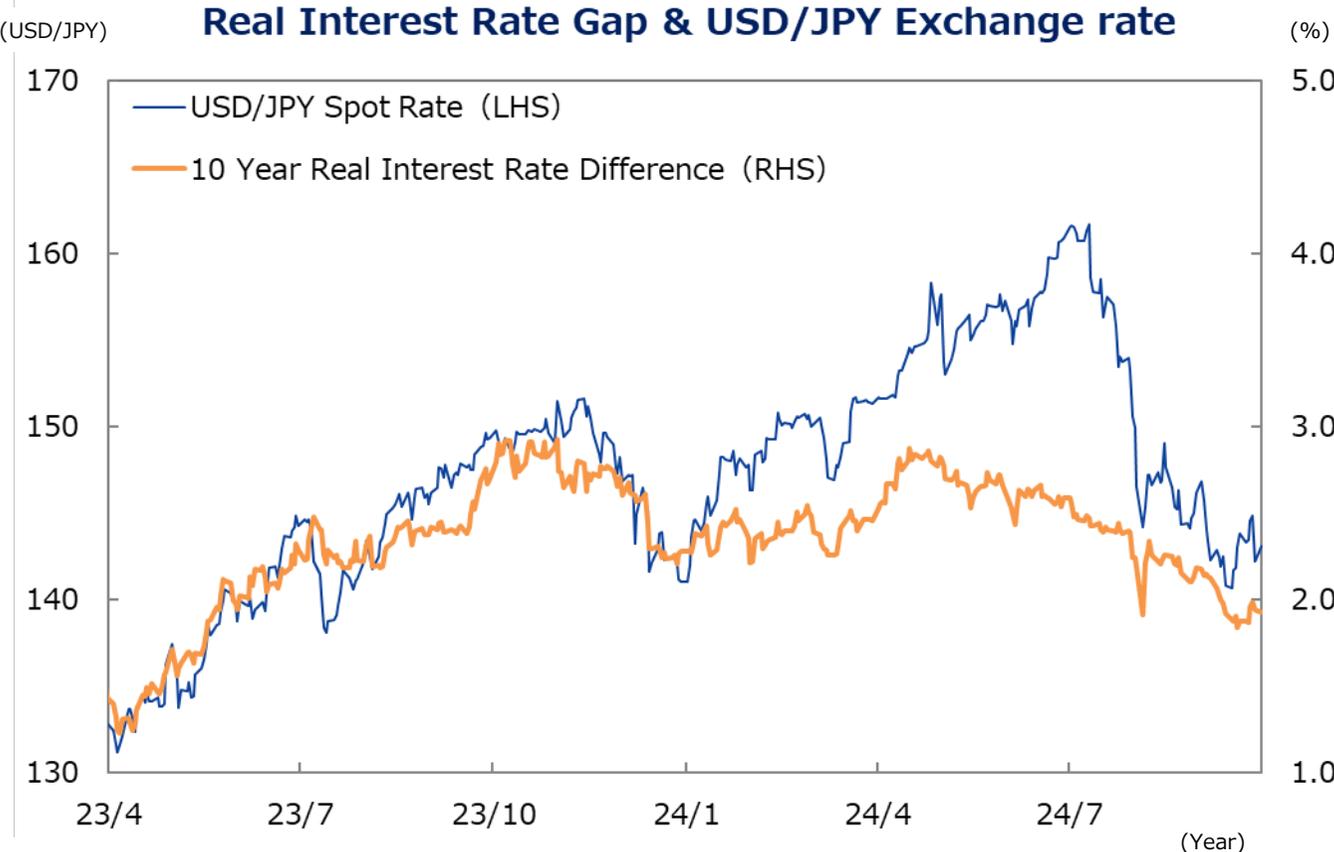
Note: Data is from 1st January 2024 to 30th September 2024.
Source: Bloomberg

The BOJ to start reducing bond purchases



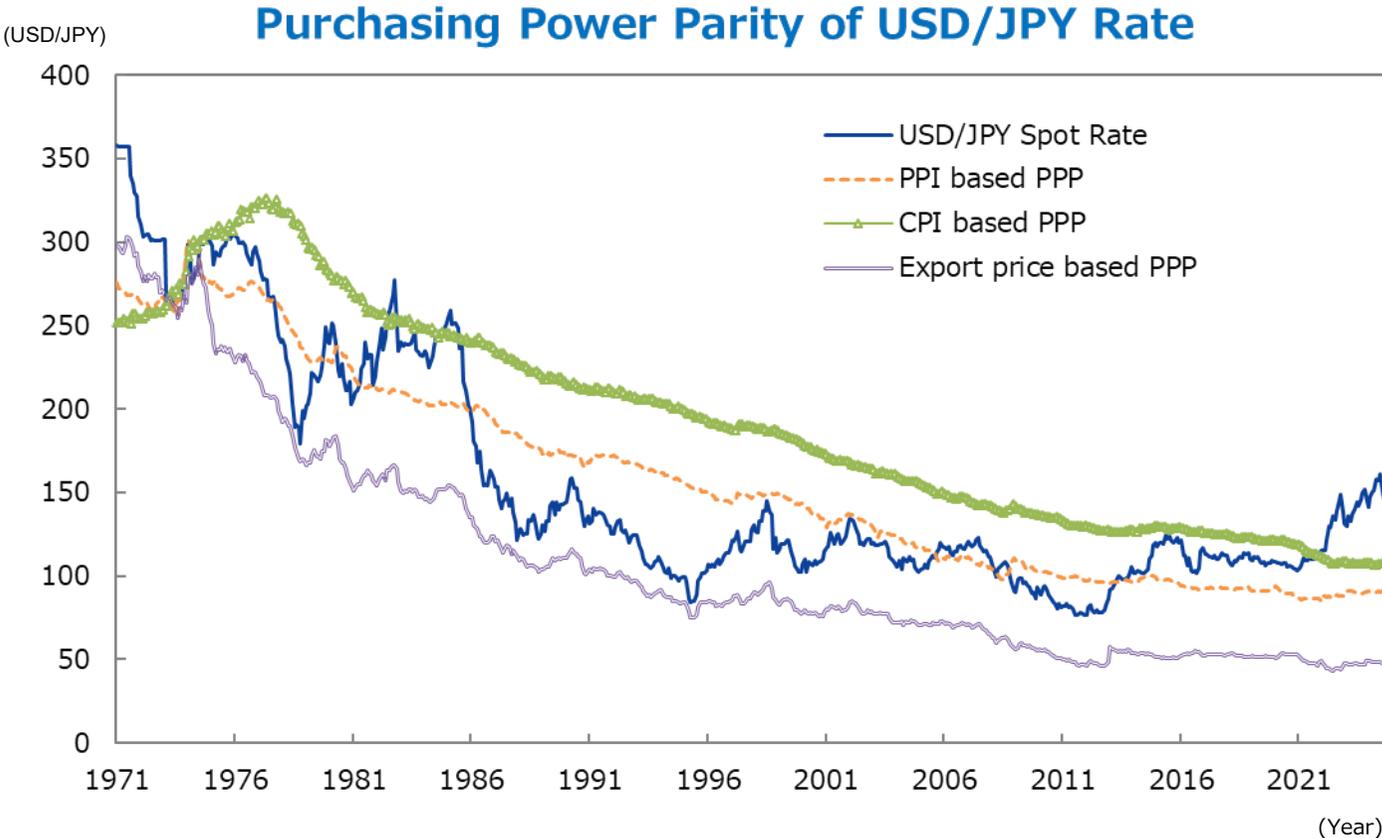
Note: Data is from January 2002 to March 2026. Data after August 2024 is forecasts.
Source: BOJ, SMDAM

Convergence of interest rate gap and USD/JPY rate



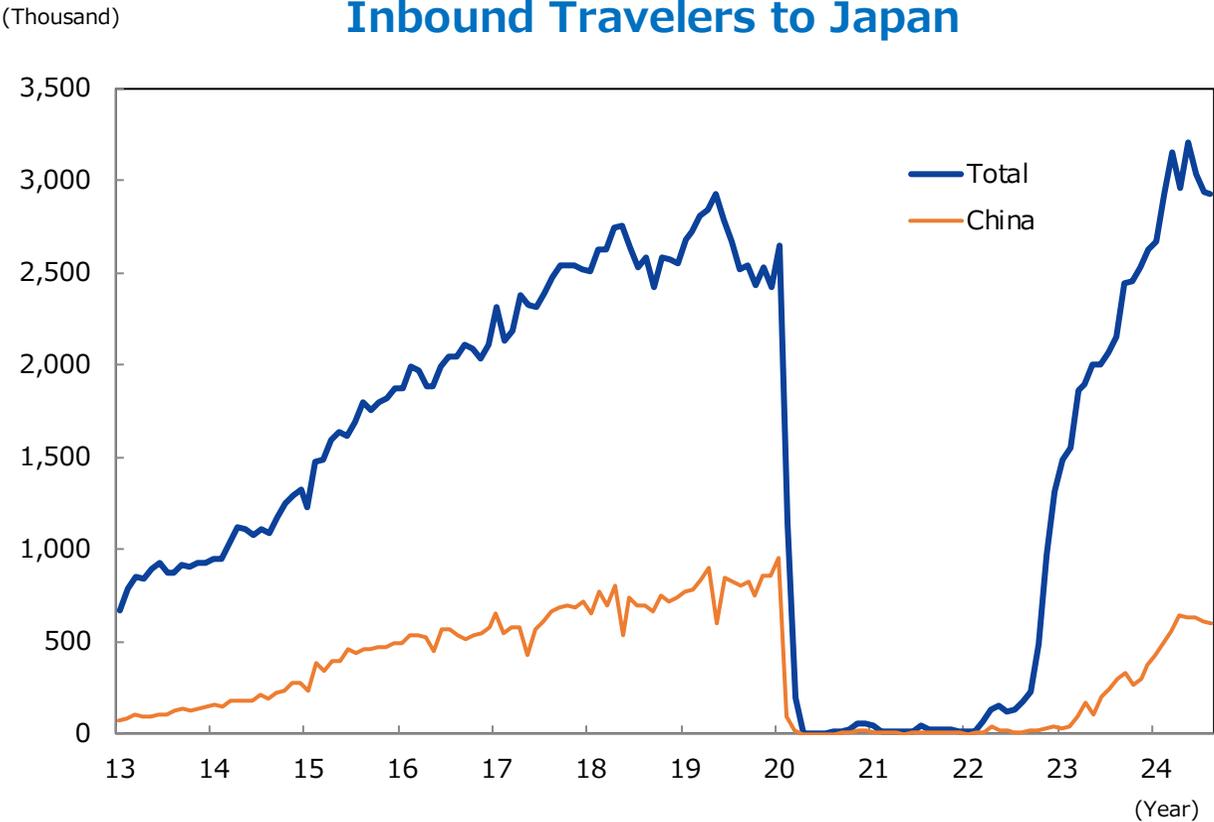
Note: Real interest rates are 10 year government bond yields. Data is from 1st April 2023 to 30th September 2024.
Source: Bloomberg, SMDAM

Convergence to “purchasing power parity” again?



Note: Data is from January 1971 to August 2024.
Source: DOL, Bank of Japan, SMDAM

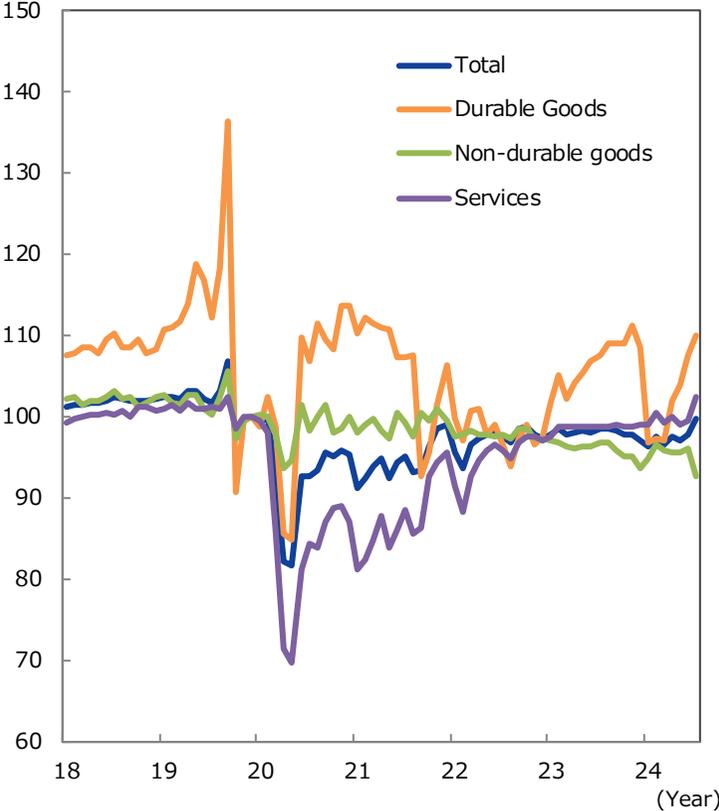
Inbound travel maintains momentum after the peak season



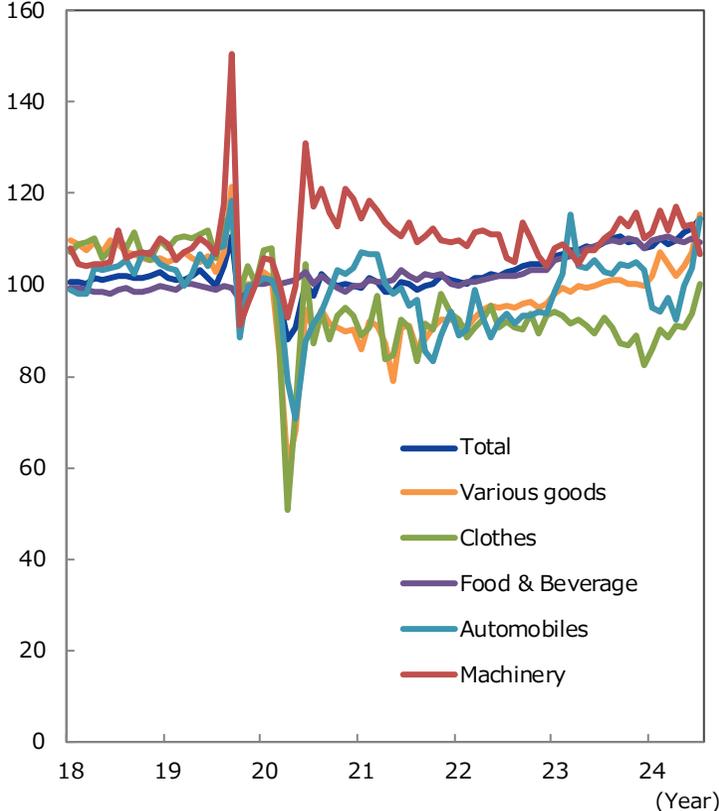
Note: Data is from January 2013 to August 2024. Data is non-seasonally adjusted.
Source: Japan National Tourism Organization, SMDAM

Rebound of autos pushes up retail sales

Consumer Activity Index (Dec. 2019 = 100)



Retail Sales (Dec. 2019 = 100)



Note: Data is from January 2018 to July 2024.
Source; Bank of Japan, METI, and SMDAM

Political uncertainty weighs on the recent market

Cabinet approval rate



Note: Data is from January 2013 to September 2024.
Source: NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

Schedule of major events

Year	Month	Date	Event
2024	October	30-31	Extraordinary Diet Session Monetary Policy Meeting
	November	15	Release of Q3 GDP
	December	9 18-19	Revision of Q3 GDP Monetary Policy Meeting Cabinet approval of the initial budget for FY 2025 and the outline for tax reform
2025	January	23-24	Ordinary Diet Session Monetary Policy Meeting
	February		Release of 2024 Q4 GDP
	March	25 18-19	Expiration of the term of the Bank of Japan's Adachi Policy Board member Revision of 2024 Q4 GDP Monetary Policy Meeting Enactment of the FY 2025 budget and tax-related bills
	April	13 30-5/1	Start of Osaka Expo Monetary Policy Meeting
	May		Release of 2025 Q1 GDP
	June	16-17 30	Revision of 2025 Q1 GDP Monetary Policy Meeting Cabinet's decisions on "Big-boned policy" End of the ordinary Diet session Expiration of the term of the Bank of Japan's Nakamura Policy Board member
	July	28	Election of the House of Councillors
	August		Release of 2025 Q2 GDP
	Septemebr	18-19	Revision of 2025 Q2 GDP Monetary Policy Meeting
	October	29-30 30	Monetary Policy Meeting Expiration of the term of the House of Representatives
	November		Release of 2025 Q3 GDP
	December	18-19	Revision of 2025 Q3 GDP Monetary Policy Meeting Cabinet approval of the initial budget for FY 2025 and the outline for tax reform

(Source) Compiled by Sumitomo Mitsui DS Asset Management Co., Ltd.

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