



Today's Theme



Japan

Japanese Equity Market (Series 2 / 3)



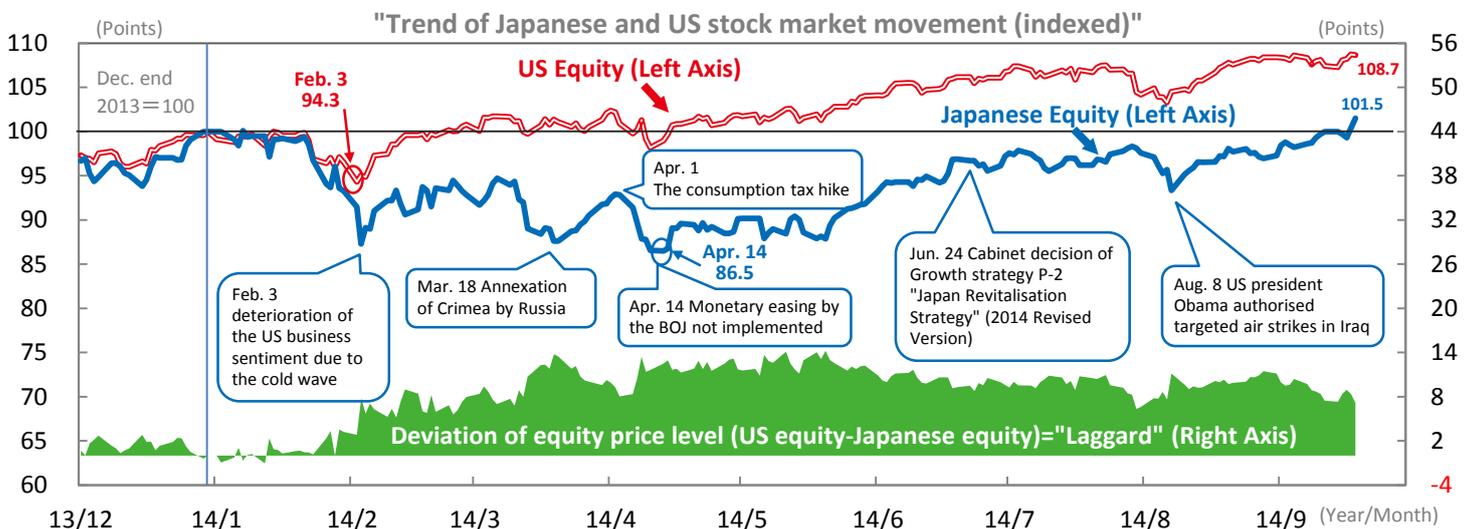
Will Japanese Equity market catch up?



The recovery ratio of the Japanese market from the YTD bottom is higher than that of the US lately. Japan's "laggardness" = "performance gap versus US & Europe" will gradually be tightened by JPY depreciation and the corporate earnings improvement.

■ As the Japanese equity market dropped deeper than US and Europe in first half this year, its year to date performance is staying lower than those of US and Europe. While the Japanese equity recently renewed its yearly historical high on September 19, Japan is still laggard as the YTD cumulative recovery is still smaller than the US and European market's recovery.

■ However, in terms of "recovery ratio" from the YTD bottom, the Japanese equity market rose about 17% from April 14 till September 19, more than the US's 15% climb from February 3. It seems that "laggardness" measured by the "recovery ratio" has already diminished. The next issue is, will the "laggardness" in terms of "deviation of equity price level" also move to disappear eventually?



(Note) Data from Dec. 2, 2013 to Sep. 19, 2014. The indices are MSCI Japan Equity Index and MSCI US Equity Index on local currency basis both indexed so that 2013 December end level = 100, respectively.

(Source) SMAM, based on Fact Set data

Outlook "Laggardness" to diminish with corporate earnings improvement expectation

■ Reasons of the laggardness of the Japanese equity were; concern over the global economic downturn, rising geopolitical risk, the consumption tax hike and JPY appreciation caused by these factors. Lately, we are seeing some changes in JPY FX rate, moved above 109 yen against US\$ for the first time since August 2008.

■ The equity price of Japan and the US (indexed so

that December 2013 level = 100) as of September 19 deviates significantly as former is only 101.5 and latter is 108.7. But, the Japanese equity starts to be looked undervalued because of the rising expectation of the improvement in corporate earnings supported by JPY depreciation. We expect "laggardness" in terms of "equity price level" will gradually diminish going forward.



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