

Nikkei 225 Index's Market Outlook of Coming Summer Season

- Generally, Nikkei 225 Index's average monthly performance during the summer season was poor in the past.
- Market needs to understand U.S. and China's intention of policy to avoid weaker Japanese stock market triggered by U.S.-China trade friction.
- FY2018 major Japanese companies' net profits are expected to increase. Corporate earnings result announcement at every financial year end will support stock price.

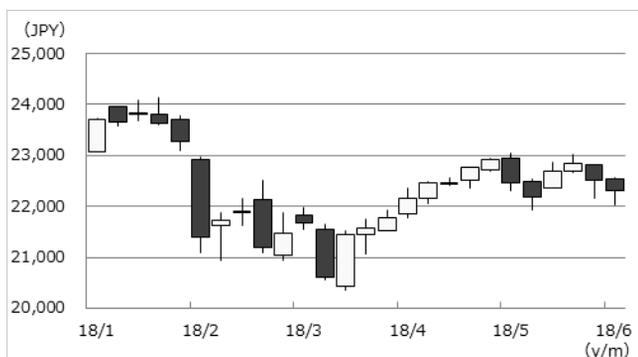
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Looking back at the movement of 2018 first half Nikkei 225 Index, after reached JPY24,129.34 on Jan 23, it fell to JPY2,347.49 on Mar 26 following weakening U.S. stock market due to increasing U.S. long-term interest rate. After that, Nikkei 225 Index slowly recovered to JPY23,000 level during May and June. However, current price was kept around JPY22,000 level due to cautiousness surrounding U.S.-China trade friction. (Diagram 1)

From now, summer market will begin. For your reference, Nikkei 225 Index's average monthly performance in past 33 years was around 0%, -1.1% and -1.3% in July, August and September, respectively. Negative performances stand out in August and September. (Diagram 2) As people refer to "Summer slump market," it is believed that the stock market price becomes inactive during summer as a lot of market players are on vacation. Especially, average price in August had drastically fallen during "Obon*" vacation in the past.

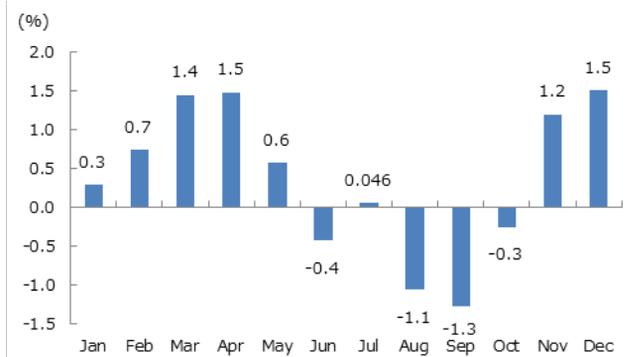
*Obon is a summer event during which people welcome the spirits of their ancestors back home.

"Diagram 1: Nikkei 225 Index"



(Note) Data from Jan 5 to Jun 29, 2018.
(Source) SMAM, based on Bloomberg L.P. data.

"Diagram 2 : Nikkei 225 Index Monthly Performance"



(Note) Data from Jan 1985 to Dec 2017. Average monthly percentage change in past 33 years. Precise percentage change of July is 0.046%
(Source) SMAM, based on Bloomberg L.P. data.



Market needs to understand U.S. and China's intention of policy to avoid weaker Japanese stock market triggered by U.S.-China trade friction.

Nevertheless, these are just the simple average in the past and do not necessarily suggest that the market will fall in August and September. However, U.S. president Trump is expected to maintain protective trade policy till mid-term election in coming November. Accordingly, U.S.-China trade friction is expected to continue to weigh on Japanese stocks possibly for few months from the summer to autumn.

U.S. and China set to impose USD34bil. worth of tariffs (total amount of USD50bil.) on July 6 which has brought market to attention. As we believe that tariff rise is only a negotiation card to take advantage in trade talks, we do not expect both countries to start trade war which will slow down both of their economies. Whether the stock market can discount this issue cool-headed or not seems to be the key of avoiding "Summer slump market."

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FY2018 net profits of companies comprising Nikkei 225 Index are expected to drop marginally. Hence, upward earnings revision is necessary in order for Nikkei 225 Index to boost upward trend. The trigger will be Apr.-Jun. financial results of companies whose fiscal year end is March. Peak of Apr.-Jun. quarterly fiscal announcement will be from end of July to beginning of August. During this announcement period, Japanese investors will try to assess possibility of upward revision in corporate earnings forecasts by checking business progress.

This summer's direction of Nikkei 225 Index will be determined by which factors it will strongly react to; "U.S.-China trade friction worries" or "upward revision of corporate earnings forecasts." Meanwhile, we expect net profits of 277 of major companies of our research universe to moderately increase by +1.7% YoY. According to our view, we expect stock price to recover even after fall in summer as the expectation of upward earnings revision will grow with every financial results announcement.

***Please note that this report is a translation of Japanese report written on July 2, 2018.**



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