

Today's Topic **Thoughts on Japanese equity market (November 2016)**
A night after "US President Donald Trump" was elected

Point 1

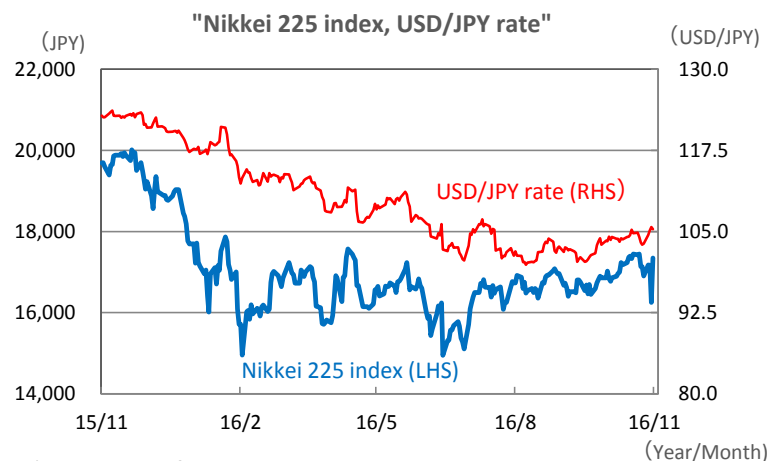
Japanese equity fell whereas US equity rose
US equity market rose on expectation of implementation of economic measures

- Donald Trump and Republicans won the US presidential and congress elections respectively on 8th November 2016. Next day on 9th in the Japanese financial markets, JPY appreciated sharply and Japanese equity fell significantly over the concern that Mr. Trump who had addressed radical opinions on trade and immigration policy have won the US presidential election.
- Later in the US financial market, US equity and USD rose and US bond fell over the expectation on implementation of economic measures and deregulations through tax reduction and infrastructure expenditures, as Republicans won the majority of both Houses in addition to Mr. Trump's victory.

Point 2

Japanese equity showed a "V shaped" recovery
Discounted negatives of so called Trump risk

- On 10th November, Nikkei 225 index rose sharply and closed at JPY17,344 (+JPY1,092 from previous day) reflecting sharp rise of US equity market a day before. As to USD/JPY rate, unwinding of stronger JPY against USD led JPY to depreciate to 105.38 level as of 3 p. m. on 10th November 2016.
- Mr. Trump may possibly make extreme comments on his policy of trade and immigration, however, if US economic growth becomes robust by implementing economic measures, it will become a tailwind for the Japanese equity. Fall of Japanese equity market on 9th could possibly be the initial reaction of market to discount negatives of so called Trump risk.



(Note) Data period is from 11th November 2015 to 10th November 2016
 (USD/JPY rate is as of 3 p.m.).

(Source) SMAM, based on Bloomberg L.P. data

Future Outlook

Moderate upward trend is likely to continue despite growing uncertainty

- Inauguration of the US president Donald Trump is likely to raise uncertainty over safety and trading for Japan. For example, Trans-Pacific Partnership (TPP) may become difficult to be enacted as the new President opposes the multilateral free trade agreement and US may require Tokyo to increase defense budget in return for keeping American base in Japan. There seems to be not much factors which will directly hurt Japanese economy except possible volatility of global financial market as these uncertainty will not weigh on Japan in a significant manner.
- It is a positive news for US corporates if US economy becomes buoyant by implementation of economic measures and by deregulations with the start of Trump administration next year. We believe that this will benefit Japanese equity as well. Therefore, even though we foresee some volatility in Japanese equity market as uncertainty still remains with new type of the US president, we still expect Japanese equity to continue its moderate upward trend reflecting future recovery of Japanese corporate earnings.



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