



Japan Markets: Could a bull rally be on the horizon for Japanese equities?

Japan Outlook – October 2024



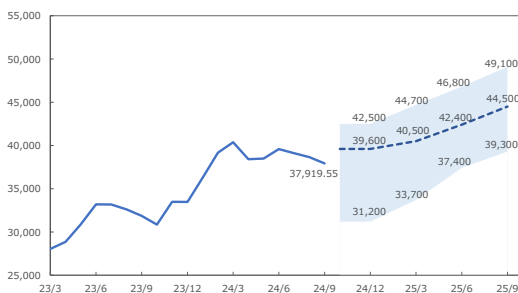
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Outlook on the Japanese equity market

- Japan has been a volatile market of late, driven by uncertainty around the US economy and Japan’s shift in monetary policy. However we believe there will be a bullish rally once the trajectory of US monetary policy becomes clearer and market volatility stabilizes.
- We believe that the US economy will avoid a hard landing, thanks largely to robust consumer spending. Additionally, we expect the Bank of Japan (BOJ) to adopt a more cautious approach, gradually raising its policy rate which will please the markets.
- By the end of March 2025, we project the Nikkei 225 will surpass the 40,000 mark and may well reach 45,000 by the end of the year.
- Although Shigeru Ishiba’s unexpected victory in the Liberal Democratic Party (LDP) leadership election initially disappointed markets, an early snap election during the “honeymoon period” for the new prime minister could bolster the ruling LDP’s approval ratings and positively impact the equity market in the near term.

Nikkei 225 Forecast



TOPIX Forecast



Source: Bloomberg, forecast by SMDAM.

The figures refer to the past and that past performance is not a reliable indicator of future results

Data after September 2024 is our forecast, such forecasts are not a reliable indicator of future performance.

Upside risks

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

Downside risks

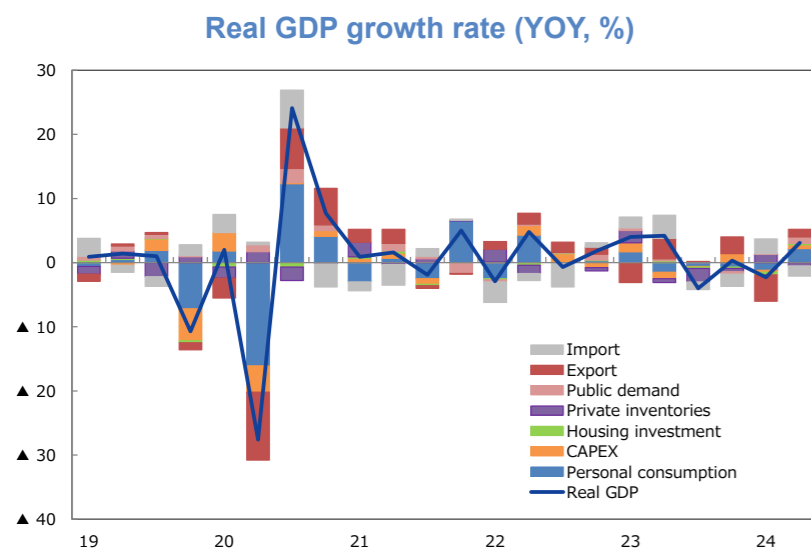
- Tighter fiscal policy to target the primary surplus
- Hasty monetary tightening by the Bank of Japan
- Excessive and rapid JPY appreciation

Consumer spending on the rise amidst steady data

In the second quarter of 2024, real GDP grew for the first time in two quarters, marking a significant turnaround. Notably, consumer spending, which had been sluggish, increased for the first time in five quarters.

Despite fluctuations in stock prices and a strengthening yen, soft data—released earlier than hard data—has remained robust. The PMI (August) and the Economy Watchers Survey (August) showed recovery, while the Consumer Confidence Index (August) remained strong.

Furthermore, the CAPEX plans outlined in the Business Survey Index for Q3 indicate solid growth expectations.



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



Inflation trends and economic outlook

Inflation has been on the rise, with the nationwide core Consumer Price Index (CPI) increasing by 2.7% year-over-year in July, up from 2.6% in June. In the Tokyo Metropolitan Area, the core CPI rose 2.4% year-over-year in August, accelerating from 2.2% the previous month.

The nationwide core CPI has been significantly impacted by the removal of subsidies for electricity and gas bills, while the depreciation of the yen has also contributed to the uptick in the Tokyo area.

Economy expected to return to moderate growth

We have slightly adjusted our real GDP growth forecast for fiscal year 2024, lowering it from 0.5% to 0.4%. However, our forecast for fiscal year 2025 remains unchanged at 0.7%. The revision for FY 2024 is primarily due to updated GDP figures for the second quarter of 2024.

Looking ahead, we expect the Japanese economy to regain a moderate growth trajectory. This will be supported by wage increases and robust capital expenditure driven by labour-saving initiatives, digitalization, greening projects, urban development, and semiconductor factory construction. Global economies are demonstrating resilience which will also aid the Japanese economy.

Our core CPI forecast for FY 2024 remains at 2.5%, but we have revised our FY 2025 forecast down to 2.0% from 2.2%. This adjustment is mainly due to changes in our assumptions regarding crude oil prices and foreign exchange rates. We have lowered our WTI price forecast to \$70 per barrel from \$75, and we now expect the dollar-yen exchange rate to average 148 yen in FY 2024 (down from 151 yen) and 141 yen in FY 2025 (down from 145 yen).

We anticipate that the nationwide core CPI will remain above 2% throughout 2025. While cost-push pressures from import prices are expected to ease, the end of subsidies for electricity, gas, and petrol will likely drive energy prices higher. Additionally, service price increases are expected to coincide with wage hikes. From 2026 onward, while energy factors may stabilize, core CPI is likely to remain steady at around 2% year-over-year due to ongoing increases in service prices.

Expectations for policy continuity under new leadership

We anticipate that the government will continue its accommodative fiscal policy. Prime Minister Kishida has announced plans for economic measures to be implemented this autumn.

Despite his decision to step down, his successor, Mr. Ishiba, is expected to maintain existing fiscal policies, including plans to extend subsidies for electricity, gas, and gasoline for low-income households.

Revised monetary policy forecast

We have adjusted our forecast for the Bank of Japan's monetary policy as follows: we now expect the policy rate to rise to 0.50% in December 2024, 0.75% in July 2025, and 1.00% in January 2026 (previously projected as 0.50% in January 2025, 0.75% in July 2025, and 1.00% in January 2026).

The decision to bring forward the timing of the next rate hike by one month is based on (1) the limited adverse impact of financial market instability on the economy since August and (2) the Policy Board members' consistent intention to maintain a hawkish stance while closely monitoring financial market developments. The timing of subsequent rate hikes remains unchanged.

If you would like to access the full report please contact your business development representative.

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