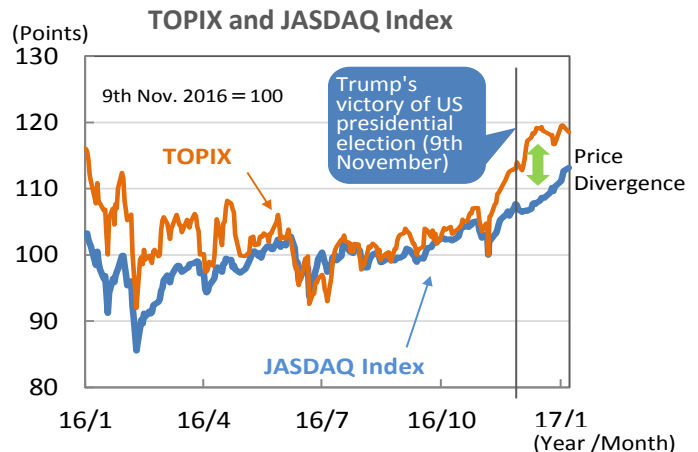


Today's Topic **Japanese equity market (January 2017)**

Large-cap stocks performed well. Small-cap stocks' recovery is expected

Point 1 Large-cap stocks are solid Boosted by "Trump Rally"

- On 9th November 2016, Japanese equity market declined as JPY appreciated on back of Mr. Donald Trump's victory on US presidential election. Subsequently, Japanese equity market sharply rebounded as USD appreciated against JPY following sharp rise of US interest rate due to US equity market rally named "Trump Rally" boosted by market's expectation on US president-elect Donald Trump's tax reduction and infrastructure policy. Especially, Large-cap Indices such as Nikkei 225 Index and TOPIX (Tokyo Stock Price Index) rose sharply.

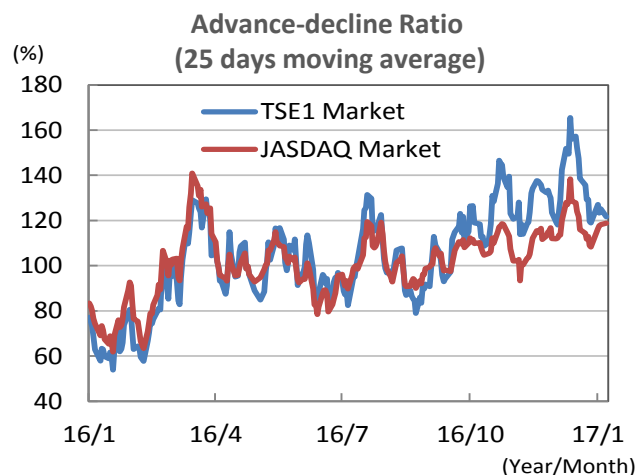


(Note) Data period is from 4th January 2016 to 11th January 2017.
TOPIX stands for Tokyo Stock Price Index.

(Source) SMAM, based on QUICK data.

Point 2 Small-cap stocks lagged behind large caps, but catching up in January

- Small-cap stock indices such as JASDAQ Index also saw a solid rise, however they have lagged behind large-cap stocks. It was not due to deterioration of corporate earnings of small-cap companies but due to ample liquidity of large-cap stocks and rise of selling pressure caused by profit taking.
- Entering January 2017, JASDAQ Index which had lagged behind TOPIX started to show solid recovery and their price divergence has contracted. Overheat of large-cap stocks (TSE1) measured by advance-decline ratio seems to have cooled down.



(Note) 1. Data period is from 4th January 2016 to 10th January 2017.

2. Advance-decline ratio: No. of stocks advanced / No. of stocks declined. Index to measure degree of overheat of equity market. 100% is neutral. In general, more than 120% is considered to be overbought, while less than 70% is considered to be oversold.

(Source) SMAM, based on QUICK data.

Future Outlook Expectation on solid Japanese equity market will persist

- Going forward, focus would be on policies of new US government. If trend of stronger USD continues, we can see positive views on Japanese equity going on. Meanwhile, sense of uncertainty surrounding Japanese equity market persists. Under such circumstances, small-cap stocks, mainly of domestic demand related companies with strong fundamentals, are expected to show a solid performance.



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