

2017 Japanese Equity Market Outlook

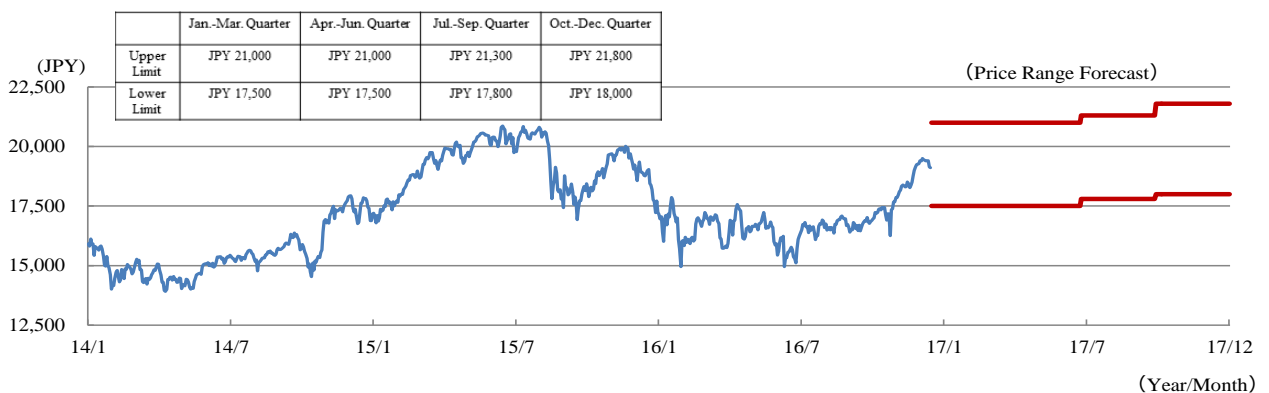
- Our forecast range for Nikkei 225 index is from JPY 17,500 to JPY 21,800; the range reflects uncertainty of US president-elect Donald Trump’s economic policies.
- Excessive expectations by market participants towards US government’s spending size, expected to be announced in March 2017 at earliest, will likely to turn out less than Trump’s commitment.
- Nikkei 225 index is expected to be back on bullish trend after temporal consolidation as Trump’s economic policies will boost US economy and US equity market.

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SMAM’s 2017 forecast range for Nikkei 225 index is from JPY 17,500 to JPY 21,800 (Chart 1). Price range of JPY 4,300 is based on (i) the range of 2016 (JPY 4,728.89) and (ii) the fact that size and timing of US president-elect Donald Trump’s economic policies, probably the largest event of 2017, is not announced yet.

Our forecast of fluctuations in Nikkei 225 index through out 2017 is as follows; market continues to focus on whether Nikkei 225 index will break through JPY 20,000 level or not in the beginning of the year as far as strong expectation over Trump’s economic policies persists. Nikkei 225 index might possibly test downside if excessive expectation will be revised down temporarily, once the outline of Trump’s economic policies becomes clear by March 2017. However, we strongly believe that the Japanese equity will be back on recovery trend towards year end along with rise of US equity, as Trump’s economic policies are expected to boost US economy to some extent.

“Chart 1: Price Range Forecast of Nikkei 225 Index”



(Note) Data period is from 6th January 2014 to 29th December 2016. Price ranges indicated beyond January 2017 are forecast made by SMAM as of 19th December 2016. Heavy lines in red are upper and lower limits of price range forecast.

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

Excessive expectations by market participants toward US government's spending size, expected to be announced in March 2017 at earliest, will likely to turn out less than Trump's commitment

Pillars of Trump's economic policies are international trade policy and fiscal policy. At the US presidential inauguration on 20th January 2017, extent of protectionism in international trade will become clear as renegotiation of North American Free Trade Agreement (NAFTA) is scheduled to be announced on the day. SMAM expects that unilateral hardline measures will not be implemented by the US and realistic approach based on negotiation will be adopted for international trade policy. We, therefore, believe that concern of market participants over US's protectionism will gradually fade away.

Meanwhile, the size of fiscal policy will become clear at earliest by March 2017, if budgetary discussion proceeds smoothly at US Congress. We estimate total tax reduction of USD 2.4 trillion in the next 10 years and infrastructure investment of USD 275 billion over next 5 years based on neutral fiscal policy. As the size of actual fiscal policy is expected to be less than that of US president-elect Donald Trump's commitment, it is highly possible that over estimation by market participants will be revised down temporarily.

Nikkei 225 index is expected to be back on bullish trend after temporal consolidation as Trump's economic policies will boost US economy and US equity market

We, however, estimate that US's GDP growth rate for a year starting from Jul.-Sep. 2017 GDP till Apr.-Jun. 2018 will rise by about 0.8% points affected by implementation of both tax reduction and infrastructure investment based on our neutral fiscal policy. Therefore, disappointment and consolidation of the market will be temporal and Japanese equity will be back on its recovery trend if US equity moves on a steadily tone as US economic growth is likely to accelerate in the second half of 2017.

Our recurring profit estimation of SMAM's research universe called Core Research Universe (221 companies excluding financials) for FY2017 is + 13.2 % YoY. As our estimation of USD/JPY rate is 110, if JPY is traded at cheaper level than JPY 110 against USD, there will be a room for upward revision of earnings forecasts. Moreover, we can expect Nikkei 225 index to challenge its upper range of JPY 21,000 level in Oct.-Dec. 2017 if Trump's economic policies boost US economic growth and US equity without any significant event. However, European politics and environment surrounding China and emerging countries still remain as risk factors and Japanese equity may possibly be largely affected by currency exchange rate policy of Trump's government.

*** Please note that this report is a translation of Japanese report written on 5th January, 2017.**

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