

Japan's Stock Market: Can the all-time high continue to last?

EQUITY STRATEGY TEAM

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Japan's Markets Defy Recession

In February, the Nikkei 225 index surpassed its all-time high of 38,916 points achieved in 1989, to rally to a new record. The economic outlook for Japan suggests continued support for its markets this year.¹ The Bank of Japan (BOJ) may expect to end its negative interest rate policy (NIRP) starting in April 2024, if Japan's upcoming annual spring wage round is firm.¹ The prospect of higher real wages is likely to improve consumer sentiment and increase purchasing power, making it easier for companies to raise their price of goods sold, which would help to offset higher labour cost.¹ Moreover, companies with greater exposure to domestic demand are anticipated to outperform, capitalising on the prevailing positive sentiment.¹ Even if the BOJ discontinues NIRP, it is projected to maintain a dovish stance throughout 2024, ensuring that real policy rates remain accommodating. A sustained period of inflation would result in lower real policy rates compared to the past, even with gradual rate hikes.¹

How are Japanese equities performed so far?

Japanese equities had a strong start to the year, as the MSCI Japan Index reached its highest level in 34 years in January 2024.² The positive performance of the MSCI Japan Index was likely supported by the weakening of the Japanese yen. The potentially higher retail participation in stock markets following improved tax incentives that came into effect on 1 January 2024 under the Nippon Individual Savings Account scheme may have also contributed.² Historically, performances of the major Japanese equity indices had a positive correlation with the USDJPY, but the relationship appears to be looser in recent years. Hence, any sharp appreciation of the JPY could still result in a pullback in equity prices, though domestic oriented companies are well positioned to outperform in such a scenario.² Additionally, it is worth noting that Japanese companies have been less profitable compared to their counterparts in the US and Europe.³ Looking ahead, investors will pay close attention to the earnings season and the comments made during the monetary policy meetings conducted by the BOJ.²

Which sectors did the market focus on?

The markets continue to favour companies that are defensive in order to better withstand potential weaknesses in the global economy and have higher exposure to domestic consumption rather than exporters.² Japanese banks and insurance companies are expected to benefit from the BOJ's monetary policy normalisation in the medium to long term, although in the short term, the BOJ is expected to maintain a dovish stance.²

Another popular theme in the market is focusing on stocks related to generative artificial intelligence and industrial automation, as they have the potential to benefit from Japan's ageing population and shrinking labour force.² It is potentially expected that AI revenue will experience significant growth in the long term.² However, some traders now believe that upside is limited, and are likely to wait for a pullback before adding new positions.²



Nikkei 225 Index

Below are the **index stocks** with **market cap of more than JPY 100B**



Top 30 index stocks based on market cap

Ticker	Name	Market Cap	Price [USD]	Earning Announcement Date	Analysts' Consensus 12M Target Price [USD]	Potential returns from Analyst Consensus	Dividend Yield
7203 JP	TOYOTA MOTOR CORP	58.36T	3,577.00	10/05/2024	3,406.50	-4.77%	1.82%
8306 JP	MITSUBISHI UFJ FINANCIAL	18.74T	1,519.00	15/05/2024	1,453.00	-4.34%	2.70%
8035 JP	TOKYO ELECTRON LTD	17.05T	36,150.00	10/05/2024	34,642.11	-4.17%	1.02%
6861 JP	KEYENCE CORP	17.22T	70,800.00	26/04/2024	74,984.70	5.91%	0.42%
6758 JP	SONY GROUP CORP	16.40T	13,005.00	26/04/2024	16,186.36	24.46%	0.65%
9432 JP	NIPPON TELEGRAPH & TELEPHONE	16.46T	181.80	10/05/2024	196.00	7.81%	2.75%
9983 JP	FAST RETAILING CO LTD	13.83T	43,470.00	11/04/2024	40,224.45	-7.47%	0.76%
8058 JP	MITSUBISHI CORP	13.81T	3,305.00	09/05/2024	2,889.70	-12.57%	2.12%
9984 JP	SOFTBANK GROUP CORP	12.91T	8,779.00	10/05/2024	8,953.16	1.98%	0.50%
4063 JP	SHIN-ETSU CHEMICAL CO LTD	12.80T	6,397.00	26/04/2024	6,190.00	-3.24%	1.56%
6501 JP	HITACHI LTD	11.82T	12,745.00	26/04/2024	12,793.33	0.38%	1.22%
7974 JP	NINTENDO CO LTD	11.13T	8,572.00	09/05/2024	8,502.17	-0.81%	2.20%
8316 JP	SUMITOMO MITSUI FINANCIAL	11.00T	8,227.00	15/05/2024	8,551.43	3.94%	3.28%
9433 JP	KDDI CORP	10.48T	4,552.00	10/05/2024	4,922.33	8.14%	3.08%
8001 JP	ITOCHU CORP	10.55T	6,659.00	09/05/2024	6,875.00	3.24%	2.40%
6098 JP	RECRUIT HOLDINGS CO LTD	10.26T	6,047.00	15/05/2024	6,368.67	5.32%	0.38%
8031 JP	MITSUMI & CO LTD	10.03T	6,624.00	02/05/2024	6,293.64	-4.99%	2.57%
7267 JP	HONDA MOTOR CO LTD	9.75T	1,795.00	10/05/2024	1,886.29	5.09%	3.23%
4661 JP	ORIENTAL LAND CO LTD	9.66T	5,311.00	26/04/2024	5,497.01	3.50%	0.21%
4568 JP	DAIICHI SANKYO CO LTD	9.95T	5,109.00	26/04/2024	5,554.53	8.72%	0.98%
9434 JP	SOFTBANK CORP	9.53T	1,986.50	10/05/2024	1,891.75	-4.77%	4.33%
4519 JP	CHUGAI PHARMACEUTICAL	9.96T	5,934.00	26/04/2024	5,782.71	-2.55%	1.38%
6902 JP	DENSO CORP	8.70T	2,759.50	26/04/2024	2,903.85	5.23%	1.88%
8766 JP	TOKIO MARINE HOLDINGS INC	8.70T	4,343.00	17/05/2024	3,829.23	-11.83%	2.79%
2914 JP	JAPAN TOBACCO INC	7.88T	3,939.00	09/05/2024	3,882.54	-1.43%	4.93%
4502 JP	TAKEDA PHARMACEUTICAL CO	7.09T	4,480.00	09/05/2024	4,720.00	5.36%	4.20%
8411 JP	MIZUHO FINANCIAL GROUP INC	7.03T	2,767.00	15/05/2024	2,891.43	4.50%	3.61%
7741 JP	HOYA CORP	6.72T	19,145.00	08/05/2024	19,827.36	3.56%	0.57%
6367 JP	DAIKIN INDUSTRIES LTD	6.25T	21,315.00	09/05/2024	26,043.75	22.19%	1.13%
6981 JP	MURATA MANUFACTURING	6.13T	3,022.00	26/04/2024	3,314.79	9.69%	1.65%

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