

# The Japan Update

**11 November 2014**

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## **Japan's stock market from a capital flow perspective**

### **As market settles down, focus to return to stocks listed on start-up markets**

Amid the continued recovery in the U.S. economy and announcements of strong economic indicators, the Federal Reserve Board announced on 29 October its decision to discontinue its programme of asset purchasing and quantitative monetary easing. In response, the U.S. dollar surged against other currencies as the markets anticipated a future increase in interest rates. Then on 31 October, the Bank of Japan announced that it would implement additional monetary easing measures, which further weakened the yen against the U.S. dollar and sent Japanese stocks considerably higher.

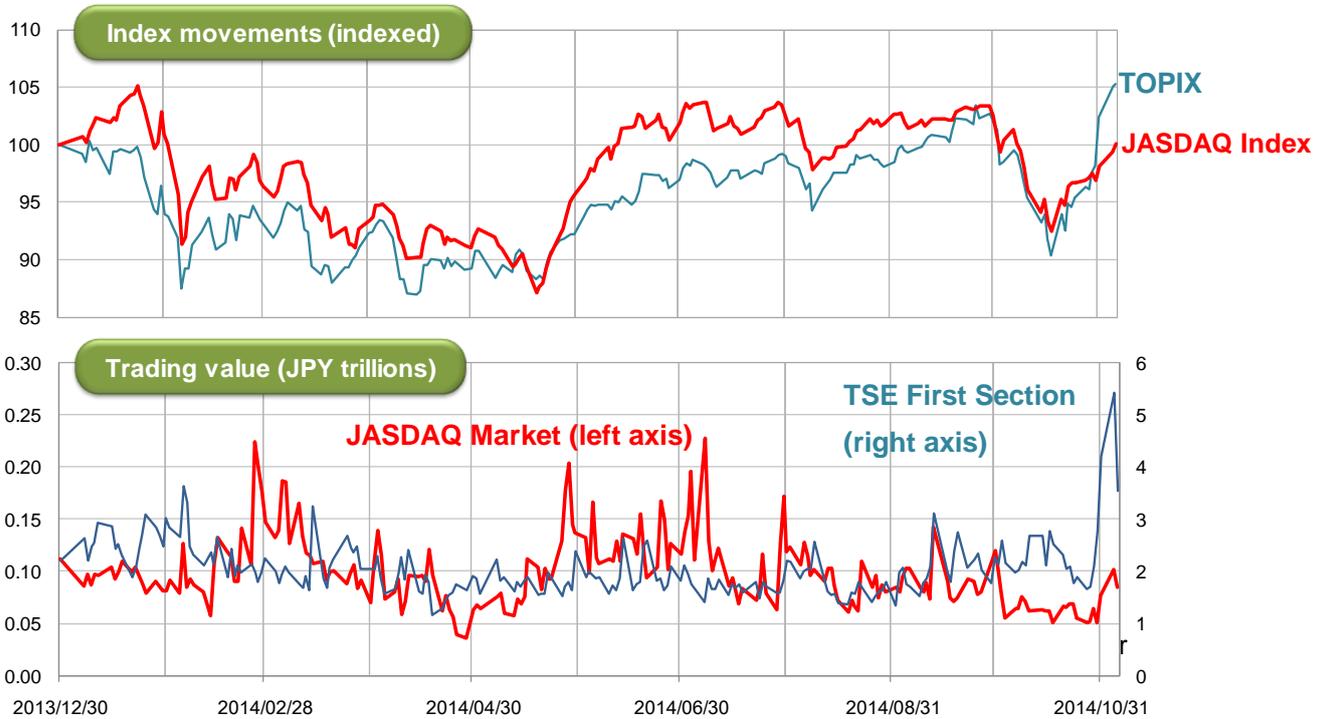
Over the course of the market upswing, investors have taken a positive view of the weaker yen. As a result investment capital has flowed mainly into large-cap stocks, many of which are export-related firms. While a weak yen stimulated investment in large-caps, there was only moderate growth among stocks listed on markets for start-ups, whose earnings do not necessarily benefit from a weak yen. As shown in the graph below, on the whole start-up market stocks (represented by the JASDAQ Index) generally performed better than large-caps (TOPIX) during 2014. However since late October, the TOPIX has seen a sudden rise while the JASDAQ Index has only increased moderately. A similar trend can also be observed in trading value, which represents fluctuations in investment capital flows.

For the time being, it is hard to imagine that a great deal of capital will flow into stocks listed on markets for start-ups, as large-caps currently account for the bulk of activity on Japan's stock markets. That said, the effects of sudden price movements on the overall market only last for a limited period, and it appears that the market is gradually regaining its composure. At the same time, the prices of stocks listed on markets for start-ups rise as earnings are pushed higher with the introduction of new technologies and the development of new product markets. Market participants therefore carefully assess the earnings growth of such firms, and their stocks tend to perform well during periods of strong earnings. Looking ahead, as the activity in large-cap stocks returns to normal, the focus of the market may once again return to the robust earnings of firms listed on markets for start-ups.



## TOPIX and JASDAQ Trends and Market Trading Value

(December 30, 2013 to November 5, 2014)



Sources: Nikkei, Inc.; Tokyo Stock Exchange, Inc.; Nikko AM.

The graphs above are based on past data and are not a guarantee of future outcomes.

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