

# Navigating Japan Equities: Monthly Insights From Tokyo (February 2025)

Apparent improvement in BOJ's messaging; Japan's resilience amid trade-related news

This month we discuss signs of improvement in the Bank of Japan (BOJ)'s market communication following its recent rate hike; we also focus on Japan's economic resilience amid a flurry of trade-related headlines impacting the markets.

By Naoki Kamiyama, Chief Strategist  
7 February 2025

## Rate hike highlights apparent improvement in BOJ's communication

In a widely expected move, on 24 January the Bank of Japan (BOJ) hiked interest rates by 25 basis points (bps) to 0.5%, their highest level since 2008. The last time the BOJ hiked rates in July 2024, market conditions were notably different. Back then, Japan's equity market sank in the wake of the central bank's monetary tightening. Many attributed this equity market slump, dubbed the "BOJ shock" by some, to the rate hike. However, a more plausible explanation is that the BOJ's tightening roughly coincided with the release of weak US employment data. This not only damaged global equity sentiment but also triggered a rapid appreciation of the yen, leading to a sharp reversal in the Japanese market. This time, however, the market took the BOJ's move in stride. The market had time to price in a possible rate hike after BOJ Governor Kazuo Ueda and Deputy Governor Ryozo Himino hinted at possible tightening. In this regard, the BOJ's improved communication with the market was evident.

While its market messaging may have improved, the BOJ remains cautious in its approach. Taking the central bank's caution into account, market participants expect only one more rate hike in 2025. Their focus has already shifted to the timing of the next rate hike and how the BOJ intends to communicate its intentions. The BOJ's cautious approach reflects its fear of prematurely stifling inflation by hiking rates. Inflation appears firmly entrenched and the BOJ's concerns may appear overblown. However, we are likely to see the central bank continuing to act with prudence rather than haste.

In addition to inflationary trends, the BOJ will also have to keep an eye on the impact of the US administration's policies on the markets. The long-term impact US policies could have on the markets and the economy remains uncertain. However, statements from Washington have caused market volatility and their short-term impact cannot be ignored. From the BOJ's perspective, the central bank is likely hoping that any declarations from the White House will not result in a sustained rise in dollar/yen during its ongoing rate-hiking cycle. Thus, when contemplating future monetary policy, the BOJ may have to consider dollar/yen volatility during the current US presidential term.

## Japanese economic resilience in focus amid flurry of trade-related news

Actions and statements by US President Donald Trump are dominating news headlines and the markets are feeling the impact as well. However, when viewed from a longer term perspective, the impact of these headlines on Japan's market is likely to be more psychological than tangible. It is worth focusing on what is happening on the ground domestically. Wages in Japan have been rising and are set to surpass inflation, which is more significant than tariff-related developments from an economic perspective.

The tariffs the US may impose on trade partners such as Japan should not be downplayed, particularly considering the potential impact on exporters. Japanese exporters could also come under pressure should the yen begin to appreciate on Japanese and US monetary policy developments. However, if the steady rise in wages can be maintained—ideally at about 3% for the next two years—it will stimulate domestic demand and help offset slower growth by exporters. Wage growth surpassing inflation will further increase consumption, providing a particular boost to small and medium-sized enterprises, as well as consumption and construction-related sectors. If the BOJ raises interest rates, the banking sector will receive a further lift as well. These are the areas that the market may focus on, potentially giving broader equities the lift they need for 2025.

Regarding exporters, the rise in wages and the labour shortages Japan is currently experiencing are changing the country’s profit sources. Compared to the Abenomics era, Japan is no longer as dependent on its exporters, who were in turn reliant on US demand. This shift is due to the fact that rising wages and labour shortages have broadened and deepened the scope of activity and diversified the profit sources of Japanese companies across a broad array of sectors.

### Japanese equities mixed in January on trade uncertainty, stronger yen

The Japanese equity market was mixed in January, with the TOPIX (w/dividends) rising 0.14% on-month and the Nikkei 225 (w/dividends) falling 0.80%. Stocks were weighed down by uncertainty surrounding the protectionist policies of the new US administration as well as the appreciation of the yen against the US dollar amid the outlook for the BOJ to continue hiking rates based on remarks made by Governor Ueda. On the other hand, positive factors included the International Monetary Fund raising its 2025 global economic growth forecast in light of the strength of the US economy. Japanese equities were also supported by the gains from semiconductor-related and other high-tech stocks after the US president announced a large-scale investment plan to boost the country’s AI development.

Of the 33 Tokyo Stock Exchange sectors, 17 sectors rose, including Securities & Commodity Futures, Other Products, and Banks, while 16 sectors declined, including Marine Transportation, Electric Power & Gas, and Wholesale Trade.

#### Exhibit 1: Major indices

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	39,572.49	-0.8%	1.3%	1.2%
JGB Yield	1.245	+0.144	+0.293	+0.189
JPY/USD	155.19	-1.1%	1.8%	3.1%
JPY/EUR	160.78	-1.6%	-3.0%	-1.4%
MSCI World	3,836.58	3.5%	5.2%	7.4%
Valuation	Mth-end	1-mth	3-mth	6-mth
TOPIX	2,788.66	0.1%	3.5%	-0.2%
Div. Yield (e)	2.3%	2.4%	2.3%	2.2%
Price/Earn (e)	15.5	15.2	15.9	16.2
Price/Book	1.4	1.3	1.4	1.4

Source: Bloomberg, 31 January 2025

#### Exhibit 2: Valuation and indicators

Valuation /indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	2.3%	2.4%	2.3%	2.2%	2.7%
Price/Earn (e)	15.5	15.2	15.9	16.2	13.6
Price/Book	1.4	1.3	1.4	1.4	1.0
Daily Turnover	83	86	90	92	66
Market Cap.	972	941	956	960	575
MSCI World					
Div. Yield (e)	1.7%	1.8%	1.9%	2.0%	2.7%
Price/Earn (e)	21.7	20.5	20.0	18.8	15.9
Price/Book	3.6	3.3	3.3	3.0	2.2

Source: Bloomberg, 31 January 2025

**Important information:** This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment. This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

**United Kingdom:** This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**Luxembourg and Germany:** This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secateur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

**United States:** This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore:** This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or

have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

**Canada:** The information provided herein does not constitute any form of financial opinion or investment advice on the part of Nikko AM and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.