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# Better prospects after November for Japan equities

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**Potential near-term stability in the USDJPY might give Japan equities some respite in the coming weeks and months, but investors should continue to remain wary of upcoming event risks. Namely, the US presidential and Japan's LDP leadership elections hold the potential to generate volatility in USDJPY and Japan's equity market. We see a greater likelihood of an enduring share price recovery after November, as the uncertainties fade, and fresh catalysts come to the fore.**

The USDJPY's sharp 1.6% three-day bounce off 140.60 has given support to the TOPIX, which rose 2.4% this week (2 percentage points after the Fed's decision alone). The Fed's growth-positive message seems to have assured the market that a steep easing cycle to head off a recession will not be needed. We were already of the opinion that the USDJPY was oversold, and we think that the pair might rise further to 145-147 in the near term. Going by last week's market reactions, this might offer the TOPIX respite after its sharp 7.4% fall earlier this month.

Notwithstanding a potentially healthier showing in the near term, we would urge investors to maintain a medium-term horizon on their Japan equities exposure in light of the potential for near-term volatility. We also expect the USDJPY to peak around 145-147, and would look to sell the pair around there. The positive catalysts on the other hand are only likely to kick in late this year and in 2025.

**Wait out the US election.** The main event risk is of course the US presidential election early in November. Candidate Donald Trump has indicated an inclination to impose significant new broad import tariffs, and also flagged a distaste for USD strength. A Trump win could inject more uncertainty into the USDJPY market, possibly causing the pair to dive sharply. This could in turn be disruptive for exporters, who dominate the TOPIX.

**Potential for general elections to provide an early boost.** Investors should note that both houses of parliament are controlled by the LDP and its coalition partner. In the wake of the election (on 27 September) of the LDP's party leader, a snap general election is likely to be called before year-end, especially if the cabinet's approval rating rises after the next LDP leader is announced. Historically, snap elections have tended to boost Japan's equity market due to expectations of more policy impetus from a new administration wielding a new mandate. This time round, there is the potential for added optimism if a generational leadership change occurs in the form of a young, or female party leader. Foreign investors especially might perceive the change in the profile of the party leader as indicative of appetite for a continuation of Japan's continued reforms.

**Impact of structural reforms to manifest in the new year.** Two consecutive years of wage growth on the back of the successful spring (Shunto) wage negotiations, supported by inflation in 2024, should be positive for corporate earnings growth. Furthermore, fresh money inflows from the Nippon Individual Savings Account (NISA) program should add another boost to Japan equities from early 2025. The NISA program is a savings program to incentivize Japanese households to invest their savings in the stock market by making these tax free; the size of the program and coverage of the tax-exemption have both been increased.

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