TOKIO MARINE ASSET MANAGEMENT CO., LTD.
1-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan
Phone 81-3-3212-2968 Fax 81-3-3212-3084

March 18, 2011

MARKET UPDATE & OUTLOOK FOLLOWING THE EARTHQUAKE

One week has past since the unprecedented disaster in Japan. Because there has been a big impact upon the financial markets, we would like to present a market update and outlook to our clients in the hope that it will be helpful and informative.

1. Market Update After The Earthquake

Not only the Japanese stock market, but also global stock markets have declined since the earthquake.

Stock indices	Market	March 10	Low (Date)	March 17	A Rate of decline
TOPIX	Japan	930.84	725.9(15)	810.80	-12.9％
Nikkei 225 Average	Japan	10434.38	8227.63(15)	8962.67	-14.1％
S＆P 500	US	1295.11	1249.05(16)	1273.72	-1.7％
Stoxx Europe 600	Europe	277.88	262.13(15)	267.08	-3.9％
MSCI Kokusai	-	4509.2	-	4408.4	-2.2％
MSCI Pacific ex JP	Asia	5749.0	-	5531.1	-3.8％

(Source: Bloomberg)

On the day when the earthquake occurred, many stock markets including the Japanese market reacted negatively to the news and in the end they declined modestly. However, as it became clear that there was a large-scale disaster caused by the earthquake and that nuclear power plants were severely damaged, the global stock markets, which had shown a rally against the backdrop of the growing optimistic views on the economic recovery, fell sharply to the lowest level so far this year. During the latter half of last week, the Japanese stock market restored its calmness and exhibited a recovery trend. However, the market shows nervous movements because of a) the impact of the disaster upon the domestic and global economy and b) remaining concerns of a meltdown at the nuclear power plants and a shortage of electricity supply.

Japanese Stock Market

In the Japanese stock market, it was reported that radioactive materials were leaked from nuclear power plants after the magnitude of the disaster was recognised. After the government announcement on the morning of March 15, the market experienced panic selling in the fear of the material impact of the earthquake upon the Tokyo Metropolitan function and the Nikkei 225 plummeted to around JPY 8,200 at one point. Foreign mass media repeatedly reported the current situations of the disaster and crippled nuclear power plants which triggered wide-spread pessimistic views among foreign investors resulting in a massive sell off. Since then, the market has reacted to the news on the nuclear power plants, but it regained its composure and recovered for the latter half of the week and the Nikkei 225 closed at the level of JPY 9,200 last Friday.

[Nikkei 225 Chart]

(Source: Bloomberg)

1-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan
Phone 81-3-3212-2968 Fax 81-3-3212-3084

Overseas Stock Markets

Overseas stock markets ended on a bearish tone last week, reflecting the negative effects on global finance and economic conditions caused by the earthquake in Japan. As for the news related to the nuclear power plants, the Western authorities issued circulars to foreign residents in Japan to evacuate and enlarged the evacuation zone. The Commissioner for Energy of European Commission referred to the situation as the loss of control of the facility. As news of a serious radiation leak was wired daily to foreign countries, growing concerns led to nuclear-related stocks and insurance stocks declining.

Also, in addition to the Japanese earthquake, a state of emergency was declared by Bahrain and Portugal was downgraded by Moody's. This has heightened the risk aversion among investors, leading to falling stock prices. Asian shares declined more than US and European shares, because Asian shares, are strongly linked to the Japanese economy.

Bond Markets

In domestic and foreign bond markets, interest rate (yields) have declined slightly overall as a result of the risk aversion clearly displayed by investors in a decline in stock prices after the earthquake.

In the domestic bond market, the yield on 7-year bonds in particular was lowered, reflecting a flight to quality and the additional credit-easing policy set forth by the Bank of Japan. As life, non-life and casualty insurance firms, who are major investors, were losing investment appetite on the longer end of the market, brokerage houses needed to reduce their inventories towards the end of March and so the market tended to be weaker, reflecting the weaker demand for the super-long bonds.

As a result of market participants affected by the earthquake (such as securities firms and financial institutions) and a decline in back-office functions (such as an increase in the number of employees who cannot commute to their office), market participants remarkably refrained from trading fixed income except under urgent circumstances. Consequently, the money market remained unstable, because the supply and demand situation temporally collapsed.

1-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan
Phone 81-3-3212-2968 Fax 81-3-3212-3084

Taking a look at the overseas bond market, interest rates have decreased slightly in both the U.S. and Europe. A sense of vigilance has been felt against the negative impact of the Japan's earthquake upon the world economy and a flight to quality among investors on concerns about the effects of a nuclear power plant disaster.

Currency Markets

In the currency market, the yen was stronger this week over the speculation of the repatriation of funds back to Japan by financial institutions and domestic companies. Early in the morning of March 17, the yen advanced to JPY 76 after individual investors were obliged to settle their trades, reflecting their loss cut at JPY 78 to 79, which was triggered by overseas investors' purchasing Yen on the news about the proposal for the G8 emergency meeting made by France and on the speculations over the G8's support to purchase yen-denominated bonds. JPY 76 has been traded at the highest level against the US dollar since it was recorded in 1995. After that, it remained at around JPY 79, reflecting the impact of the earthquake (in particular, trends in nuclear power plants). However, the coordinated intervention on the morning of March 18 lowered the Japanese yen to JPY 81.

2. Market Outlook For The Time Being

Outlook of The Domestic Economy & Stock Markets

It is anticipated that the direct impact of the disaster will be significant and the suspended operations due to a lack of electric supply will, in particular, have a substantial influence on economic activities. The industrial production index for March, which is to be announced at the end of April, will fall substantially. Afterwards, the demand for reconstruction, which is said to be around JPY 6 trillion, will be mainly funded through public investments after the quarter of April to June and it is thought that this will help sustain the Japanese economy for about one year.

In the case of the Great Hanshin-Awaji Disaster, which took place in January 1995, the production for January fell by 2.6% from the previous month. Considering the size of the disaster and the impact of the rolling blackouts in the Tokyo Metropolitan area, the influence this time will be much larger.

1-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan
Phone 81-3-3212-2968 Fax 81-3-3212-3084

The market will move nervously for a while in light of the above-mentioned macroeconomic factors, while it is sensitive to the news on nuclear power plants and the influence of the rolling blackouts in the Tokyo Metropolitan area in the short term.

In the case of the Great Hanshin Awaji Disaster, share prices continued to decline towards the summer until the large-scale economic stimulus measures were issued. The current market environment is very different from that of the Great Hanshin Awaji Disaster, because a) the market was in the middle of a structural adjustment after the bubble burst and b) the share prices in 1995 were much more expensive than those in the current market. We believe that it is not necessary to be very concerned that a similar pattern of share price movement as seen in the prior case will take place.

We believe that the low that the Japanese stock market reached on March 15 has factored in the worst scenario of the nuclear power plants and a significant impact on the Tokyo metropolitan function. If the situation gets better, we expect that the level of the market registered on March 15, where the Nikkei 225 fell down to JPY 8,227, will be the lowest.

Outlook of Overseas Stock Markets

The global stock markets have shown a decline which was exasperated by the disaster during the adjustment phases from high levels registered in late February. As concerns on the nuclear power plants end, overheating reports calm down, the adjustment phase will be over. Global stock markets will be then factored into fundamentals such as outlook in the financial markets and economy.

Outlook of the Currency Market

Speculators might enter the currency market again after they confirm to what extent the market intervention has been effective towards the higher yen. We believe that it is less likely that a sharp rise in the yen similar to that on March 17 may occur, because a) the coordinated interventions are ready to tackle a speculative higher yen and b) the Bank of Japan continues to take a credit-easing policy. Additionally, the level of JPY 80 against the US dollar has been already rooted in the market unlike in 1995, so we believe that there will be no material impact upon the Japanese economy without a substantial higher yen from now on.

1-3-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan
Phone 81-3-3212-2968 Fax 81-3-3212-3084

Also, the disaster is unprecedented in size. Therefore, it is necessary to watch not only the situation after the disaster and at nuclear power plants, but also the political leadership in and outside Japan going forwards. With strong leadership, the disaster could provide a good opportunity for Japan to regenerate Japanese economy and politics which have remained sluggish since the Great Hanshin Awaji Disaster.

- End -

DISCLAIMER

1. This report is written by Tokio Marine Asset Management Tokyo and is not a disclosure report based on the Japanese Financial Instruments and Exchange Law

2. This report is compiled based on reliable information, but we cannot guarantee its accuracy or integrity

3. This report is compiled as of the date stated above and is subject to change. This is not a guarantee of future market trends nor future movement of individual stocks