



Japanese Equity Report Tokio Marine Asset Management (London) Limited

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Market Comment in Response to Brexit

It is difficult to accurately predict the short-term impact on the global economy and stock markets from the United Kingdom leaving the European Union, but we expect the yen to rally as the market turns to more risk-free assets, which runs the risk of driving down stock prices, particularly for exports-related companies.

Stock prices could be particularly impacted for those Japanese companies that have a high sales ratio or major production or sales locations in the UK as uncertainty lurks.

However, we believe there is a low chance of a financial crisis and a drawn-out crash in market prices, similar to that following the collapse of Lehman Brothers, based on the statement by the Minister of Finance, Taro Aso, that he would firmly respond to currency market movements, and expectations that central banks worldwide will collectively implement mitigation measures, such as liquidity provisions.

We are forecasting record profit levels for Japanese companies this fiscal year, and so find stock prices to be undervalued on the current market.

In addition, we expect companies to continue reducing their cash stockpiles in the form of record-high dividend pay-outs and stock buy-backs, which should act as a tailwind for market prices. If the current market chaos proves to be short-lived, our predictions are for a rally in Japanese stocks.



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