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# Recent Hot Topics in the Stock Market

14 March 2025


- While European stocks rose sharply on expectations of fiscal expansion, US tech stocks and other sectors were weak. Japanese stocks also slumped.
- Concerns about a US recession may be overdone, and there is hope for the implementation of positive policies such as tax cuts by the US administration in the future.
- In Europe, countries such as Germany have turned to fiscal expansion, and the possibility of boosting economic growth is increasing. China is also set to increase its fiscal spending.
- Regarding Japanese stocks, we can expect to see an improvement in the performance of export-related manufacturers due to the recovery in demand forecasts in Europe and China.


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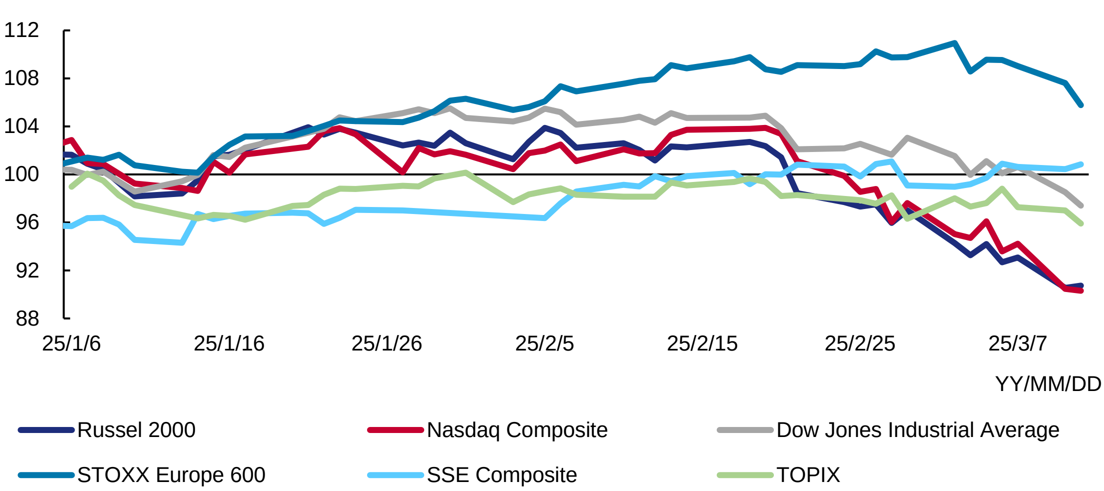
## European stocks rise sharply, US tech stocks are weak

Since the beginning of the year, European equities have risen sharply (Figure 1). This is likely to reflect expectations of fiscal expansion in Germany and prospects of a peace settlement in Ukraine. On the other hand, in the US, the NASDAQ Composite, which has a high proportion of high-tech stocks, and the Russell 2000, which is a small-cap index, have recently been in negative territory in terms of year-to-date performance. The rapid expansion of Artificial Intelligence (AI) related demand is now in its second year, and the rate of year-on-year revenue growth is slowing. The recent slowdown in the US economy is also thought to be a factor. Japanese stocks have been sluggish, with large-cap tech stocks selling off in line with the decline in US tech stocks.

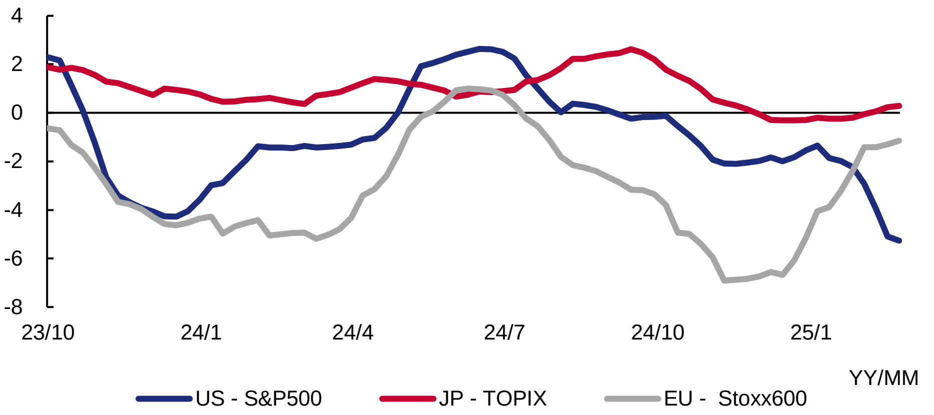
**Figure 1: Trends in Major Stock Price Indices**




Source: Bloomberg, Asset Management One Co. Ltd.
Note: 1. Each stock price index is indexed to 100 at the end of 2024
2. Daily data from 6 January to 11 March 2025

The earnings revision index, calculated as the difference between the number of companies whose forecasts were revised upward and the number of companies whose forecasts were revised downward as a percentage of the total number of companies, is on a downward trend in the US (Figure 2). In Europe, on the other hand, it is improving rapidly, and stock prices should reflect this trend. In Japan, the earnings revision index is in the positive territory, but this does not seem to be leading to overseas investors buying Japanese stocks.

**Figure 2: The Earnings Revision Index of Japanese, US and European Stocks**




Source: LSEG Data & Analytics, Asset Management One Co. Ltd.
Note: 1. Earnings revision index is 12-week moving average data
2. Daily data from 6 October 2023 to 28 February 2025

## Fears of a US slowdown are overdone

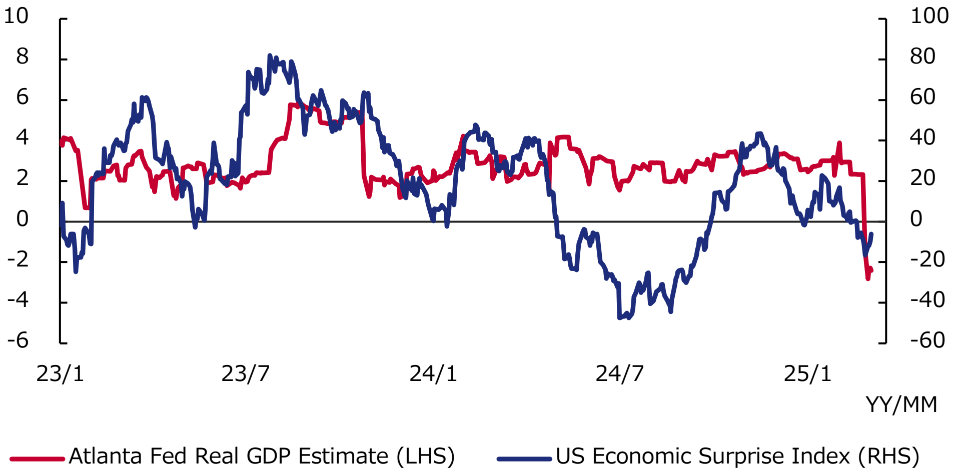
In the US, economic indicators such as retail sales and consumer confidence have shown a marked downward trend recently (Figure 3, next page). The Atlanta Fed publishes daily estimates of US real GDP growth based on monthly economic indicators, and according to the latest data for the January-March period (6 March), the annualized rate was -2.4% compared with the previous quarter. However, given the significant 4% expansion in consumption in the October-December period, a slowdown in growth was to some extent expected. In addition, a surge in demand prior to the inauguration of the new US administration was also likely to contribute to the increased volatility.

It is typical to see a lot of noise in the economic indicators at the beginning of the year, so there is a possibility that concerns about an economic recession are overdone.

The market's expectations about Trump administration policies have been that the negative policies such as the imposition of tariffs and restrictions on immigration, would be implemented first, and policies that have a positive impact on the economy, such as tax cuts, would require congressional approval, and would therefore be implemented later. This has indeed been the case.

Some market participants are also speculating that the US is leaning towards fiscal austerity following the cost-cutting measures by the Department of Government Efficiency (DOGE) and the suspension of aid to Ukraine. It is likely that this is simply the order in which policies are implemented, and tax cuts and other measures are expected to follow. In addition, the US administration includes many people from the corporate and financial sectors, including Treasury Secretary Scott Bessent, and is expected to show consideration for market trends.

**Figure 3: Estimated US Real GDP and US Economic Surprise Index**




Source: Bloomberg, Asset Management One Co. Ltd.
Note: 1. Daily data from 3 January 2023 to 6 March 2025
2. Annualised QoQ %

## Europe and China to expand fiscal spending

In Europe, expectations of fiscal expansion were growing due to the economic slump in Germany. In Germany, which held general elections in February this year, the main political parties agreed on a policy of significant fiscal expansion (loosening the constitutional restrictions on fiscal spending, increasing defense budget, and establishing an infrastructure investment fund), and a major change in fiscal policy is expected. The European Union (EU) has also proposed to establish a large-scale fund with the aim of increasing defense spending to 3.5% of GDP (Figure 4). The breakdown of the US-Ukraine summit meeting and the resulting uncertainty over the continuation of US military support has likely triggered this change in policy.

**Figure 4 : Indications of Fiscal Expansion in Europe**

| Draft agreement between Germany's main political parties (based on media reports) |
|---|
| ・Relaxation of the 'debt brake' restrictions, which require a balanced budget<br>・Establishment of an infrastructure investment fund of 500 billion euros (approximately 1% of Germany's GDP per year) over the next 10 years<br>・Increase defense spending (2.1% of Germany's GDP in 2024) (to 3.5% or more?) |
| **Proposal from the European Commission (by President von der Leyen)** |
| ・Under the EU's plan to rearm, a total of 800 billion euros will be spent over four years (150 billion euros of this will be loans to individual countries). |

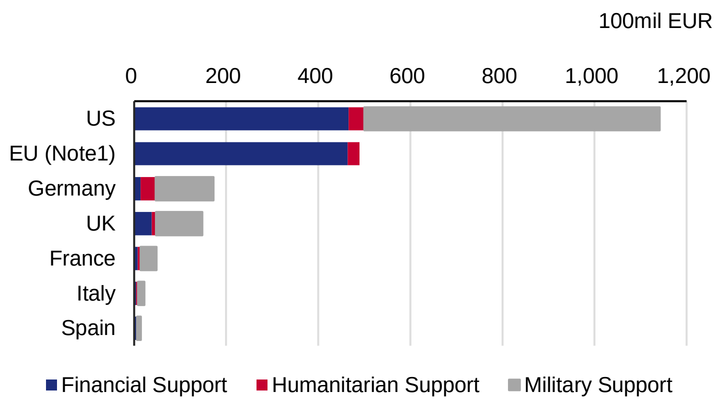
Source: Asset Management One Co. Ltd. based on various media reports

After the end of the Cold War, European countries reduced their defense spending and, as they moved towards economic integration, they followed a path of fiscal austerity led by Germany. The North Atlantic Treaty Organization (NATO) has required member countries to spend 2% of their GDP on defense. Compared to the US and the UK, the defense spending of continental European countries remained at a low level, and as the Trump administration has criticized, they free-riding NATO's defense (Figures 5 and 6). In Germany, the constitution stipulates a policy of fiscal balance, and the expansion of government spending has been restricted. As a constitutional amendment requires the approval of two-thirds or more of the members of the German Bundestag, it remains to be seen how things develop, but a major shift from the policy of several decades ago is probably under way. In addition, the Trump administration is calling on NATO member countries to increase their military spending to 5% or more of GDP.

Fiscal expansion is expected to contribute to economic growth in the region. In February this year, the Kiel Institute for the World Economy, an independent German think tank, published their estimates. They suggest that if Europe were to increase its defense spending from 2% to 3.5% of GDP and shift from importing US-made weapons to producing them in the region, it could boost GDP by 0.9-1.5% per year. It also suggested that increased R&D spending for military development could have a ripple effect on industries outside of the defense sector.

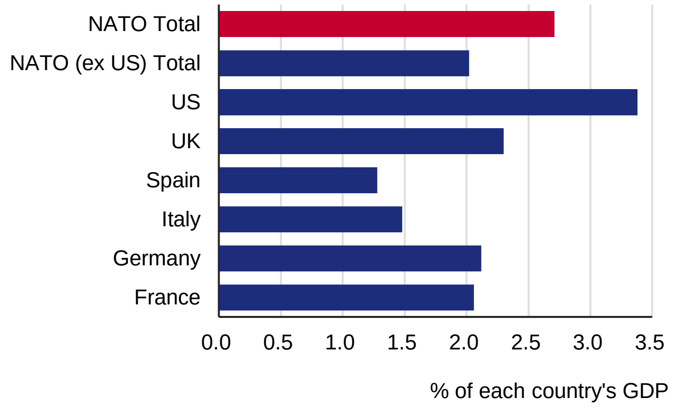
In addition, China also announced its policy of increasing fiscal spending at the National People's Congress, which opened on 5 March, and significantly increased its defense budget.

**Figure 5 : Amount of Aid to Ukraine from Major Countries**




Source: Kiel Institute for the World Economy, Asset Management One Co. Ltd.
Note: 1. Not the total EU member states but European Commission level for EU
2. Amount of support from 24 January 2022 to the end of 2024

**Figure 6 : Defense Spending (as a percentage of GDP) of Major NATO Member Countries**




Source: NATO, Asset Management One Co. Ltd.
Note: Estimated figures for 2024

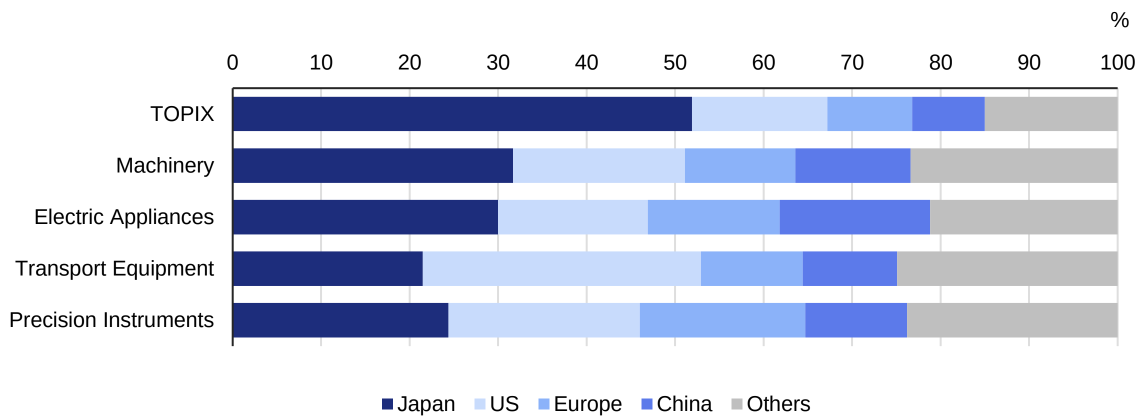
## Japanese companies look to Europe and China for demand recovery

Japan has been seen as a country that is less likely to be targeted by the US administration and is more stable in terms of geopolitics than other regions. However, while Europe and China are showing signs of a large-scale fiscal expansion due to concerns over military situation and economic stagnation, Japan is lagging other major countries in terms of financial and fiscal policy, considering the Bank of Japan's continued interest rate hikes. The effect of the increase in the annual income threshold in the draft FY2025 budget was limited to around 1.2 trillion yen.

Under these circumstances, overseas short-term investors may continue focusing on short-term macroeconomic policy trends and not increase their purchases of Japanese stocks. However, Japanese stocks are relatively undervalued in terms of price-earnings ratios (PER), so we can still expect to see share prices rise in line with profit growth. In addition, export-related manufacturers (Figure 7) with a high proportion of sales in Europe and China can be expected to see their business performance improve due to the prospects of a recovery in demand in Europe and China.

In Japan, the Upper House elections is coming up in summer. If the ruling party loses even more seats, there is a possibility that Japan will head in the direction of fiscal expansion and attract more attention from investors, as the ruling party has not adequately responded to the policy proposals of the Democratic Party for the People, which gained the support of the public in last year's House of Representatives elections.

**Figure 7: Sales by Region by Major Industry Sectors**




Source: FactSet, Asset Management One Co. Ltd.
Note: Actual results for the last 12 months based on the TSE 33 industry classifications

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