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Amid lingering policy uncertainty, increased liquidity supports the stock market

1 August 2025

- The background to the consistency in global stock prices includes steady economic indicators, increased liquidity, and a global trend toward monetary easing. The weak dollar is giving countries room to lower interest rates.
- Japanese stocks are likely to see earnings forecasts improve in response to the Japan-US agreement, which includes a reduction in automobile tariffs. US stocks have experienced improvements in earnings forecasts ahead of the rest of the market. As US reciprocal tariffs move into the implementation phase, we will closely monitor whether these improvements spread beyond AI-related stocks.

Global Stock Prices Remain Firm amid High Uncertainty

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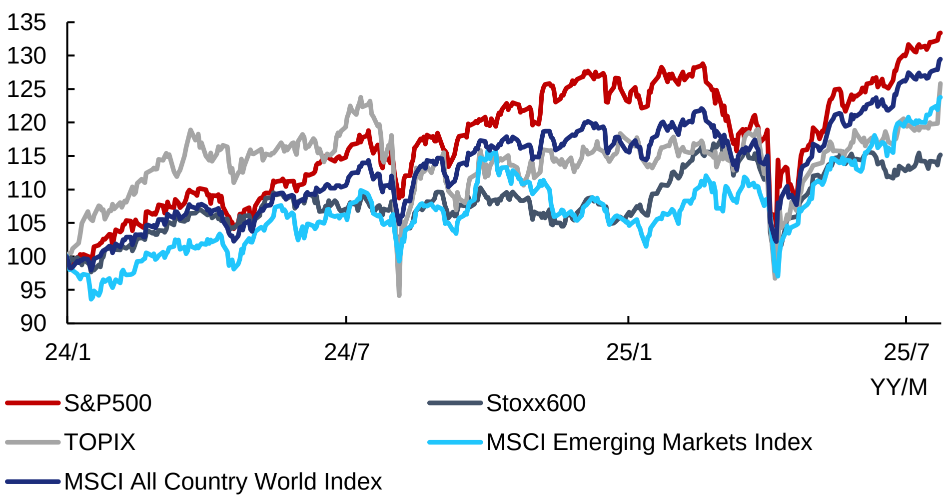
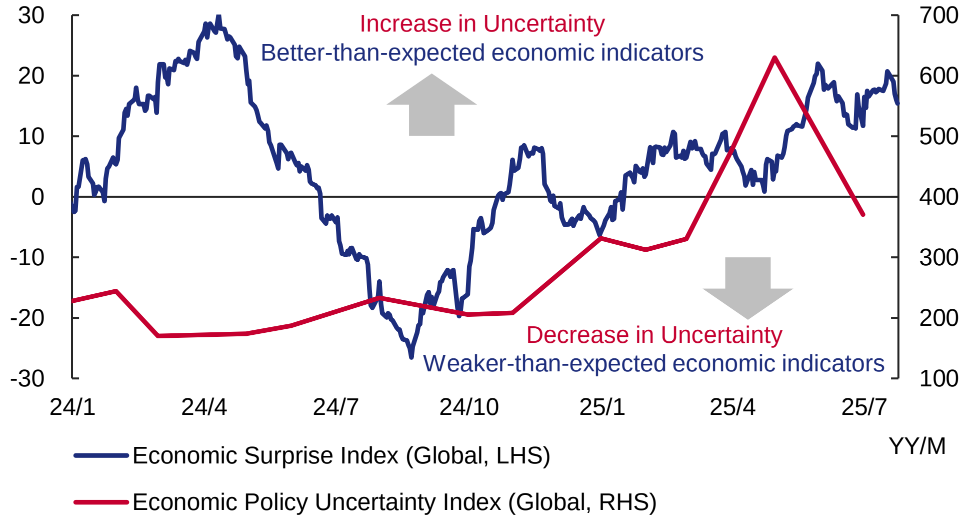
In response to the Trump administration's announcement of reciprocal tariffs, global stock prices corrected in April. Since then, stock prices have remained firm through to late July. The S&P 500 and TOPIX indices reached record highs, and the MSCI All Country World Index, which is said to cover approximately 85% of the world's investable equities, also reached a record high (Figure 1). The economic policy uncertainty index, calculated by counting economic-related terms used in news articles, reached a historic high in April (Figure 2). However, reflecting developments such as the significant tariff reduction agreement between the US and China, it has been declining since then through June, though it remains at a high level.

Figure 1: Trends in Major Stock Indices



Source: Bloomberg, Asset Management One Co., Ltd.
Note:1. Daily data from 2 January 2024 to 24 July 2025
2. Indexed with the values at the end of 2023 set at 100 for each index

Figure 2: Economic Policy Uncertainty Index and Economic Surprise Index



Source: Bloomberg, Asset Management One Co., Ltd.
Note:1. Daily data from 1 January 2024 to 24 July 2025 for Economic Surprise Index
2. Monthly data from January 2024 to June 2025 for Economic Policy Uncertainty Index

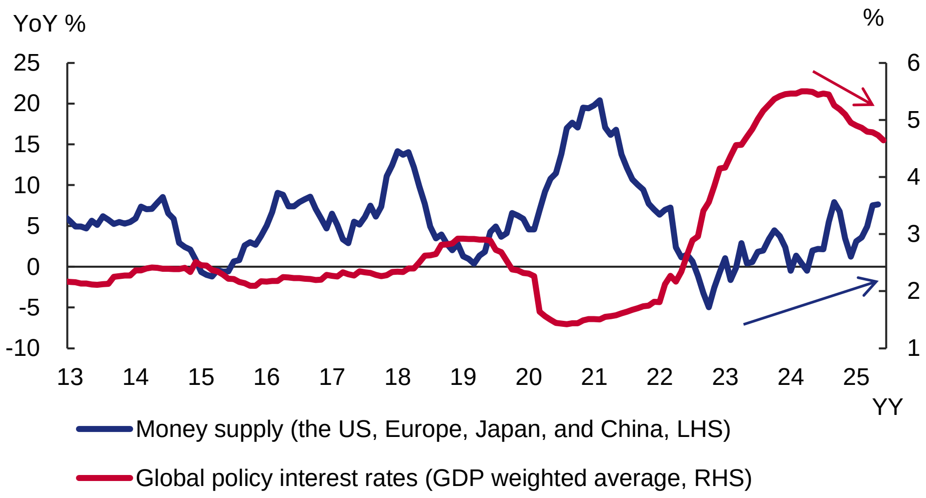
Amid this situation, the Economic Surprise Index, which indicates whether economic indicators have exceeded or fallen short of prior market expectations, was around zero in late April. In other words, upward and downward surprises were in equilibrium, but this index has since improved and remains in positive territory. Soft data reflecting corporate and household sentiment, e.g., economic sentiment and consumer confidence in various countries, had temporarily deteriorated but has recently stabilized. Additionally, hard data reflecting the real economy, e.g., employment, retail sales, and durable goods orders (capital investment), have remained relatively resilient compared to the deterioration in soft data.

With the passage of the US's major fiscal bill, uncertainty surrounding regulatory and tax reforms has decreased. In addition, the US administration has reached an agreement with Japan and EU and is advancing negotiations with other countries with tentative agreements in sight, which is expected to further reduce economic policy uncertainty. In response to this decrease in uncertainty, the corporate sector in particular may resume capital investment and hiring, which had been put on hold.

Global Money Supply Expands, Policy Interest Rates set to fall Further

During the April correction phase, stock markets rebounded in a short period of time, indicating ample liquidity in financial markets. This trend has in fact continued with the money supply in major countries is expanding (Figure 3).

Figure 3: Global Money Supply and Policy Interest Rates



Source: Bloomberg, IMF, Asset Management One Co., Ltd.
Note:1. Monthly data from January 2013 to June 2025 for Global policy interest rates, to May 2025 for Money supply
2. Money supply is the year-on-year change in the total dollar-denominated M2 of the US, the euro area, Japan and China
3. Global policy interest rates are the weighted average of the policy interest rates of 27 countries around the world (weighted by nominal GDP in USD as of 2023)

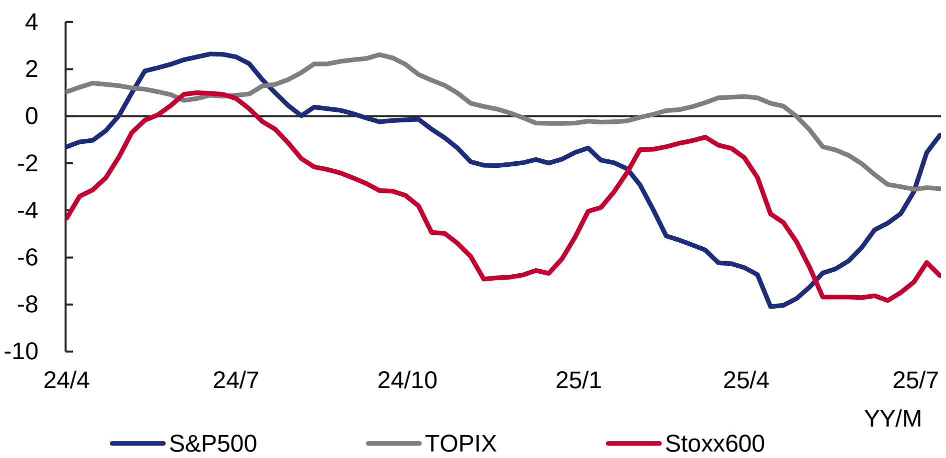
During the COVID-19 pandemic in 2021, countries around the world implemented fiscal stimulus measures and monetary easing to support their economies, leading to a significant expansion of the money supply. However, in response to accelerating inflation, the Federal Reserve Bank (FRB) began a series of interest rate hikes in 2022, leading to a contraction in money supply. Recently, the FRB's decision to shift to interest rate cuts in 2024, along with rate cuts by the European Central Bank (ECB) and the People's Bank of China, has caused money supply to shift toward expansion once again.

Global central bank interest rates policies are trending downward (Figure 3). Despite the FRB's pause in rate cuts since the start of this year, the dollar has continued to weaken. Against this backdrop, the euro and emerging market currencies have appreciated versus the dollar. Currency appreciation is expected to ease import inflationary pressures, thereby expanding the scope for rate cuts in many countries. Considering the stabilization of oil prices, the global environment is seen as conducive to further rate cuts. In Japan, while the Bank of Japan (BoJ) aims to implement additional rate hikes, the easing of import inflationary pressures due to the stabilization of the yen may have reduced the urgency for further rate hikes.

The Earning Revision Index Improved First in the US

As described above, despite persistent policy uncertainty, the economy appears to be holding up overall, with liquidity expanding. Regarding corporate earnings, the Earnings Revision Index, which shows trends in analysts' revisions to corporate earnings forecasts, indicates that revisions for Japanese and European stocks have deteriorated or remained stagnant in negative territory. Conversely, revisions for US stocks have rapidly improved since mid-April (Figure 4). This movement is likely reflecting a somewhat optimistic outlook on tariff negotiations and the continued expansion of AI (artificial intelligence) demand. While the view that tariffs will not be as high as initially anticipated is gaining traction, they could still act as inflationary pressures or profit compression factors for the US. Going forward, attention will focus on whether uncertainty surrounding earnings outlooks in sectors outside the high-tech sector begins to subside.

Figure 4: The Earnings Revision Indices for Japanese, US, and European Stocks

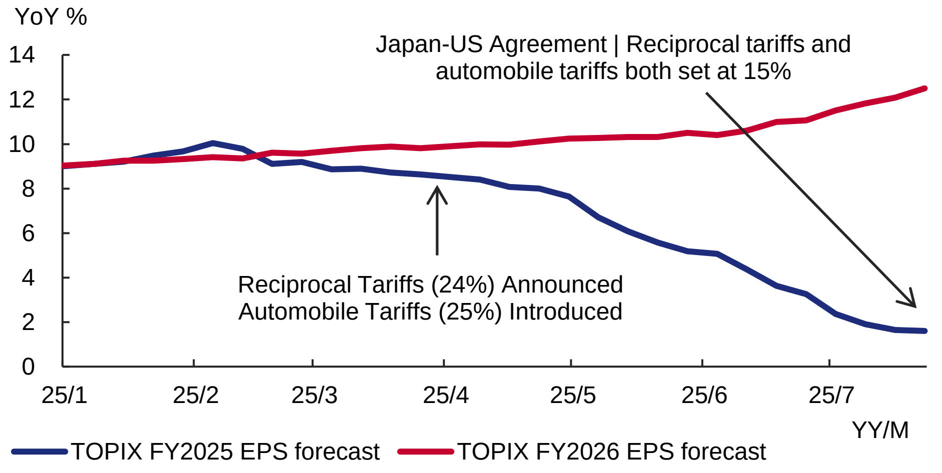


Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: 12-week moving average data from 5 April 2024 to 18 July 2025

Japanese Stocks - Deteriorating Profit Forecast are Likely to Improve

Regarding Japanese stocks (TOPIX), at the beginning of this year, it was expected that profits for the 2025 fiscal year would increase by approximately 9% year-on-year. In April, the US announced reciprocal tariffs, including a 24% tariff on Japan, and a 25% tariff on automobiles (bringing the total to 27.5% when combined with the existing 2.5% tariff). In response, profit forecasts for fiscal 2025 have been revised downward since April, and the latest forecast stands at just under +2% (Figure 5). This represented a downward revision of approximately 7 percentage points compared to the beginning of 2025.

Figure 5: TOPIX's 2025 and 2026 Fiscal Year Earnings Forecasts



Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note:1. Weekly data from 1 January 2025 to 23 July 2025
2. I/B/E/S consensus estimates for EPS (earnings per share) of TOPIX constituent companies are used

Under the Japan-US agreement reached in late July, tariffs on imports from Japan, including automobiles, were set at a flat rate of 15%. The reduction in automobile tariffs, which was somewhat unexpected, is likely to reduce the downward pressure on profits that had already been factored into the market. Japanese automobile manufacturers are now more likely to consider passing on the tariff costs to consumers, as the tariff rate has been finalized, rather than absorbing the costs entirely as expenses. Going forward, downward revisions to profit forecasts are expected to stabilize, with revisions likely to improve.

Following the announcement of reciprocal tariffs in April, bank stocks had been trading somewhat directionless due to the retreat of expectations for a BoJ rate hike. However, on July 23, they rose sharply along with auto stocks. The stock prices of sectors with relatively large weightings in Japanese equity market rose together.

Japanese stocks have been also supported by rapid share buybacks and buying by foreign investors, even as earnings forecasts have been revised downward. Following the Japan-US tariff agreement, stocks broke out of the sideways trend that had persisted since last summer and rose sharply, but earnings forecast improvements are also expected to support Japanese stocks going forward. With US reciprocal tariffs moving into the implementation phase and uncertainty surrounding the domestic and global economies remaining, attention will focus on whether the upward trend can continue.

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