NOMURA
Connecting Markets East & West

Nomura Asset Management
Investment Outlook
Winter 2024

NOMURA ASSET MANAGEMENT

Winter 2024

Contents

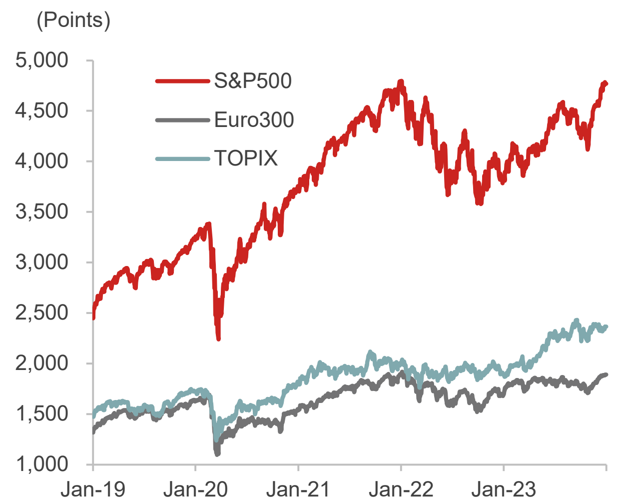
Note: The commentaries are as of middle to late December 2023.

Quarterly Financial Market Recap

Earlier during the October-December 2023 review period, concerns arose in the financial markets over the possibility of a “higher for longer” approach to interest rate policy by Federal Reserve along with rising US government bond issuance that briefly pushed the 10-year US Treasury yield above 5%. However, Indications that employment growth and inflation were beginning to slowdown in the United States raised hopes of a shift towards monetary easing. This change in sentiment later caused a significant decline US long term-bond yields, back to near where they had been at the beginning of the review period. The stock market also responded favorably to the drop in market interest rates and so equity prices rallied. With lower yields on long-term US bonds, and the narrowing of interest rate differentials with other countries, the US dollar declined against both the euro and the yen.

Equity Market of Major Countries

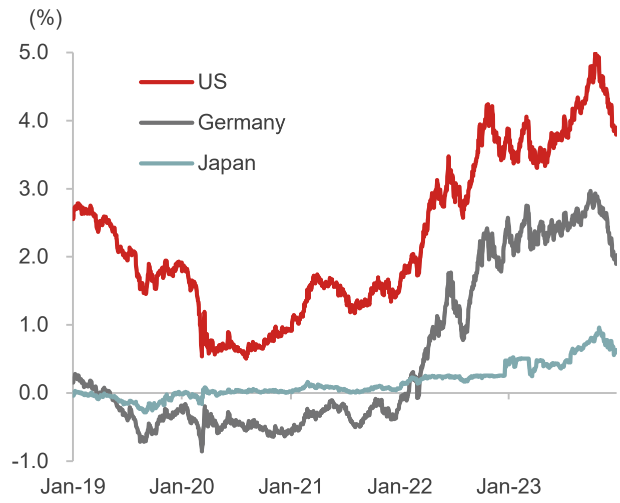
(January 2, 2019 - December 31, 2023, daily)



Source: Nomura Asset Management based on Bloomberg data

10 Year Bond Yields in Major Countries

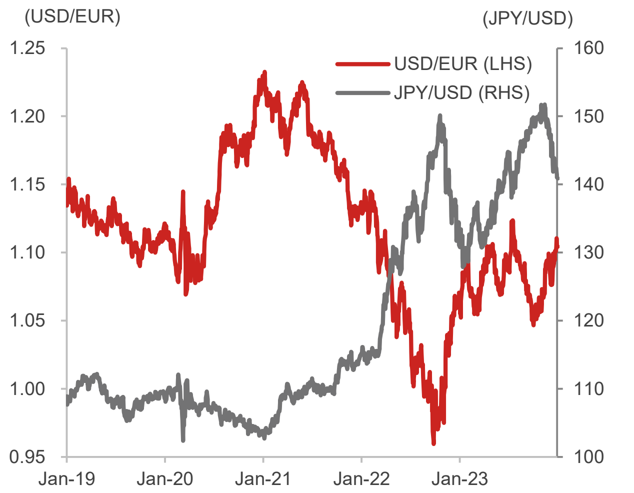
(January 2, 2019 - December 31, 2023, daily)



Source: Nomura Asset Management based on Bloomberg data

Yen and euro against the US dollar

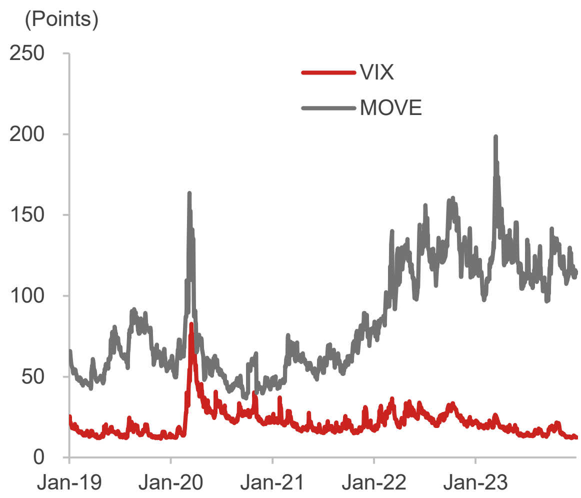
(January 2, 2019 - December 31, 2023, daily)



Source: Nomura Asset Management based on Bloomberg data

Trends in VIX and MOVE

(January 2, 2019 - December 31, 2023, daily)



Note: The VIX and the MOVE are indexes that show the risk of future volatilities of US stocks and US bonds, respectively.
Source: Nomura Asset Management based on Bloomberg data

Investment Environment Outlook

Assuming steady interest rates and only a mild economic contraction, significant stock price adjustments can be avoided in 2024


Rumi Kurumizawa
Chief Economist

Takahiro Homma
Senior Corporate Managing Director, Chief Investment Officer

The US and European central banks may be approaching a pivot point for interest rates

Policy meetings held by the major central banks of the United States, Eurozone, and Japan in December 2023 revealed important information that could prove crucial for forecasting the monetary policy outlook in 2024.

In the United States, the Federal Open Market Committee (FOMC) participants' median outlook for policy interest rates suggested there would be no further rate hikes in this stage of the cycle. Indeed the so called "dot-plot" forecast indicated a total of 75 basis points in rate cuts during 2024. In the Eurozone, while the European Central Bank (ECB) has distances itself from suggestions of further rate hikes, ECB President Christine Lagarde has issued comments aimed at restraining expectations of an early rate cut.

In contrast, there were growing expectations of early end of negative interest rate policy in Japan. However, Bank of Japan Governor Kazuo Ueda mentioned that while there is growing certainty over whether it can achieve stable and sustained attainment of its price stability target, it will need more time to assess conditions and did not provide clear indications about the timing of any policy changes.

Based on our assessment, we expect that from mid-2024 onwards, central banks in the United States and Eurozone will begin to cut rates to adjust the degree of monetary tightening, while Japan is expected to begin the rollback of its unconventional monetary easing tools.

Recent communication from the central banks suggests that while the US and European central banks are heading towards rate cuts, their first move is not imminent, which aligns with our expectations.

Bond yields on a downward trend

The bond market has responded to this bias towards interest rate cuts by the Federal Reserve Board (Fed), with the yield on the 10-year US Treasury note falling below 4% after the FOMC meeting in December 2023. Amid expectations of a rate cut in March 2024, comments from New York Fed President John Williams and others have sought to restrain expectations of an early rate cut. While the bond market has been moving as anticipated towards lower yields, we believe the current pricing in of policy rate cuts might be somewhat premature and over done.

Therefore, there is some potential for a temporary rolling back of these early rate cut expectations, which could bring a rebound in interest rates amidst the ongoing decline. However, as the economic momentum deteriorates and the possibility of a rate cut becomes more likely, there could be a further decline in interest rates from current levels towards the middle of 2024. Even if the rate cutting phase continues, the pace of declining government bond yields expected to be very gradual once there are signs of the economy bottoming out.

Yields on German and Japanese government bonds are also expected to be somewhat correlated to US Treasury yields. Regarding JGB yields, while there is some possibility of temporary interest rate increases beyond this correlation around the time of policy adjustments by the Bank of Japan, it is expected to return to a more stable trajectory as expectations of continuing rate hikes diminish.

Weaker US dollar trend expected

Alongside observations of a potential shift in US monetary policy, yields on US Treasury bonds have fallen back, leading to a depreciation of the US dollar against the euro and the yen. In particular, while rate cuts are anticipated in the US in 2024, there has been an increase in rate hike expectations in Japan, leading to a strengthening of the yen.

Factors such as market risk sentiment, disparities in monetary policies, interest rate differentials, and capital flows have an impact, although the main exchange rate determinants are not always interest rate differentials. However, assuming that the anticipated downward trend in US bond yields in 2024 is correct, as long as there is no sharp and sustained deterioration in market risk sentiment, such as a financial crisis, we expect the US dollar to depreciate further.

Awareness of the relative weakness of the Eurozone's economy and expectations of an economic slowdown in the US in the first half of 2024 are seen as likely to limit the Euro's appreciation against the US dollar, but as signs of a global economic recovery become evident towards the end of the year, we expect the Euro to appreciate against the US dollar.

As for the yen, we believe structural factors will make a significant appreciation of the yen unlikely. However, in the short-term until the end of 2024, we anticipate that the narrowing of the interest rate differential between Japan and the US will contribute to a stronger yen.

Stock market expected to see upward trend from mid-2024

Against this backdrop of declining bond yields, US equities have been on the rise toward mid-December 2023. If the situation unfolds in line with the statement by Fed Governor Christopher Waller at the end of November 2023, suggesting that falling inflation rates could justify interest rate cuts even without an economic slowdown, it is likely to have a positive impact on the earnings per share (EPS) and price-earnings ratio (PER) for stock prices.

However, looking ahead to the first half of 2024, where we anticipate the strong effects of past monetary tightening to become more apparent, we expect the outlook for corporate earnings to face some weakness. On the other hand, as expectations of a "shallow and short" economic slowdown increase towards the second half of 2024, a more optimistic view on future corporate earnings seems likely to take hold, and under a trend of declining interest rates, we can expect stock prices to shift towards an upward trend.

Regarding Japanese stocks, if the yen continues to strengthen as we predict, it is expected to weigh heavily on corporate earnings. However, considering that the Bank of Japan is likely to maintain a relatively easy monetary policy, even after the removal of negative interest rates, and given that a strengthening yen could lead to cost containment, we anticipate that a corresponding increase in stock prices might be possible even during a period of yen strength.

Japan Equity Market Outlook

Will the second round of governance reform and inflation deliver results?

Shintaro Harada
Senior Investment Officer,
Active Japanese Equity

After a successful 2023, there are many uncertainties in 2024

Japanese stocks enjoyed a significant rally in 2023, with the market gaining more than 20%. However, events in 2024 could bring potential turning points from various perspectives. Instability stemming from the Israel-Palestinian conflict has already shaken the stability of the global security framework. In addition, factors associated with a more authoritarian approach from the government of Xi Jinping in China could have a repercussions for technology driven market of Taiwan. Significant political events also loom large - like the US presidential election, as well as general elections in Taiwan and possibly Japan too. While the ideal scenario would be for these occasions to pass off uneventfully and help to maintain stability in the global economy, it might be overly optimistic to assume that this series of polls will all lead to positive resolutions.

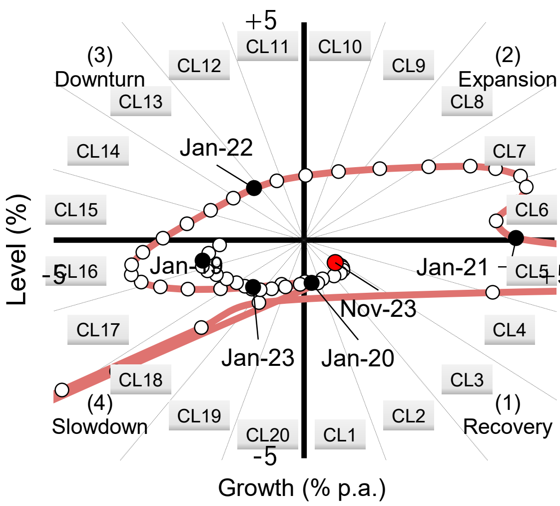
In this uncertain environment, at the macroeconomic level, the timing and pace of interest rate cuts in the United States, as well as how far long-term interest rates will decline in response, will determine the direction of global capital markets. This will also be discussed in a similar context within the Japanese stock market. Factors determining the market's prospects include the economic outlook and the inflation rate. However, the market outlook seems to be fairly universal given the broad expectations of a mild economic slowdown, a fall in the inflation rate, and the eventual pivot in US policy interest rates towards rate cuts. However, there is some disparity in perspectives regarding the timing and the extent of interest rate cuts, and this is one cause of variation in the current market outlook.

Short-term stagnation in global economy and Japan's position

In terms of business conditions, the global economic cycle is transitioning from a period of stagnation to a recovery phase, as shown in the diagram on the right. However, due to fluctuations in demand and supply constraints caused by the Covid-19 pandemic, the current situation is not following the usual pattern of a cyclical recovery, and it could therefore regress back to a stagnation phase. Reflecting weak growth in China and Europe, as well as possible deceleration in the US for the first half of 2024, it is possible there could be a counter-clockwise cyclical recovery.

On the other hand, Japan's economy looks relatively favorable due to its delayed recovery; although the focus there lies on the progress toward a full-fledged escape from deflation. This year's spring wage negotiations are expected to yield better results than last year, and they could drive a broad increase in real wages amid a slowdown in food inflation. In this context, there could be a continued favorable impression of the Japanese economy among global investors. However, there is a risk that once the upward cycle in product prices is complete, the momentum for wage growth in the coming year could weaken. We should also be mindful of the persistence of inflation.

Figure 1. OECD Composite Leading Indicator (CLI) Cycle



Source: Nomura Asset Management based on OECD (Organisation for Economic Co-operation and Development) data.

Slower corporate earnings momentum and currency fluctuations

Judging from FY23 earnings results, there has been continued profit growth driven by the Automobiles and Utilities sectors. However, prospects for next fiscal year are contingent on exchange rate assumptions. It is important to note that the Aubomotiles sector could face a decline in profits next fiscal year, and the Utilities sector could see a lower year-on-year profit growth due to the rebound from this year. For instance, the exchange rate effect on the Automobiles sector is estimated to result in a forex loss of -1.5 trillion yen in fiscal year 2024 using the exchange rate assumption of 130 yen per dollar, compared to a foreign exchange gain of 800 billion yen in 2023 (our estimates). This would have a significant impact on the Automobiles sector, causing an estimated 2% fall in the market's overall recurring profits of 68 trillion yen. Despite this, the export sector as a whole can likely maintain profitability unless there is significant yen appreciation beyond this level. However, earnings momentum is trending towards a more sluggish outlook, so depending on the global economic slowdown, sustaining profit growth could become more challenging.

Figure 2. Corporate Earnings Trend

Recurring Profits Growth Rate (Fiscal YoY, %)

	FY22	FY23E	FY24E	FY25E
RN Large Cap	4.2	11.8	8.3	7.4
RN Large Cap (ex Financials)	7.7	8.7	8.0	7.1
Manufacturing	2.7	14.2	9.0	7.5
Non Manufacturing (ex Financials)	15.8	1.0	6.3	6.4
Chemicals	-5.2	-6.5	12.5	7.7
Machinery	6.6	10.2	10.5	7.5
Automobiles	2.9	58.2	2.0	1.7
Electrical machinery, precision equipment	5.3	-0.8	10.6	12.9
Pharmaceuticals, healthcare	18.2	-10.2	29.3	11.9
Food	17.7	8.7	8.0	8.2
Trading companies	18.6	-11.6	-5.0	2.2
Retailing	20.5	9.8	8.2	8.4
Services	-12.8	7.1	9.9	6.6
Utilities	赤字	1521.9	-31.5	1.3
Financials	-18.3	38.0	10.0	9.7

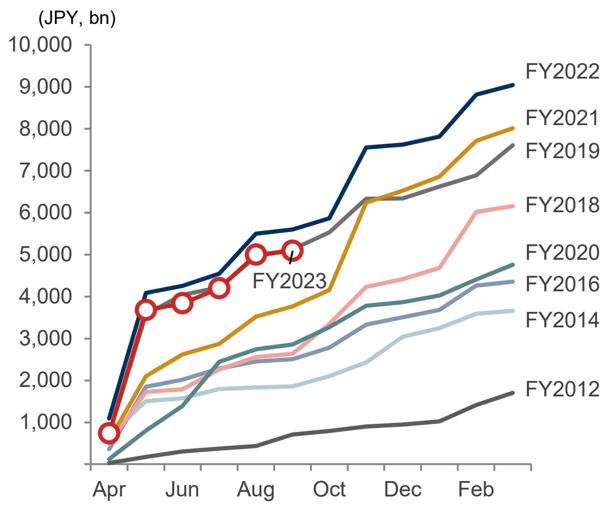
Note: Nomura Securities industry classification selected the major sectors. The forecast is from FY23 to FY25, with an assumed exchange rate of 145 yen to the US dollar.
Source: Nomura Asset Management based on Nomura Securities data.

Direction of the Tokyo Stock Exchange's guidance on management reform

Equity market gains in Tokyo during 2023 can be attributed partly to the Tokyo Stock Exchange's guidance and its request for corporate management to focus on cost of capital. The TSE seemed much more committed to these efforts and attracted positive attention from foreign investors. While some effects have been noticeable, such as rising share prices of companies announcing share buybacks, the actual overall results may not have met expectations, as indicated in Figure 3.

The TSE's specific recommendation that companies should aim for a price-to-book ratio (PBR) higher than 1.0, suggests that we could see comprehensive management improvements unfold over time. Therefore, it seems that the TSE has set the course by its request to those companies in January 2023, and this will encourage sustained initiatives and ongoing efforts towards improvements in shareholder returns for low PBR companies.

Figure 3. Share buybacks



Source: Nomura Asset Management based on QUICK and SMBC Nikko Securities data

Japanese Stock Market in 2024: Focus on the 2nd Round of Governance Reform and Inflation

The year-end market forecast for 2024 is 2500 for the TOPIX index and 35,000 yen for the Nikkei 225 Average. These forecasts are based on assumptions of 2025 fiscal year EPS of 180 yen, PER of 14, and an NT ratio (Nikkei 225 Average divided by TOPIX) of 14. Since the Global Financial Crisis, and particularly following the Abenomics policies, the average PER for the TOPIX Index has been around 14, with an average of 16 when optimistic forecasts are discounted and around 12 when incorporating a pessimistic outlook.

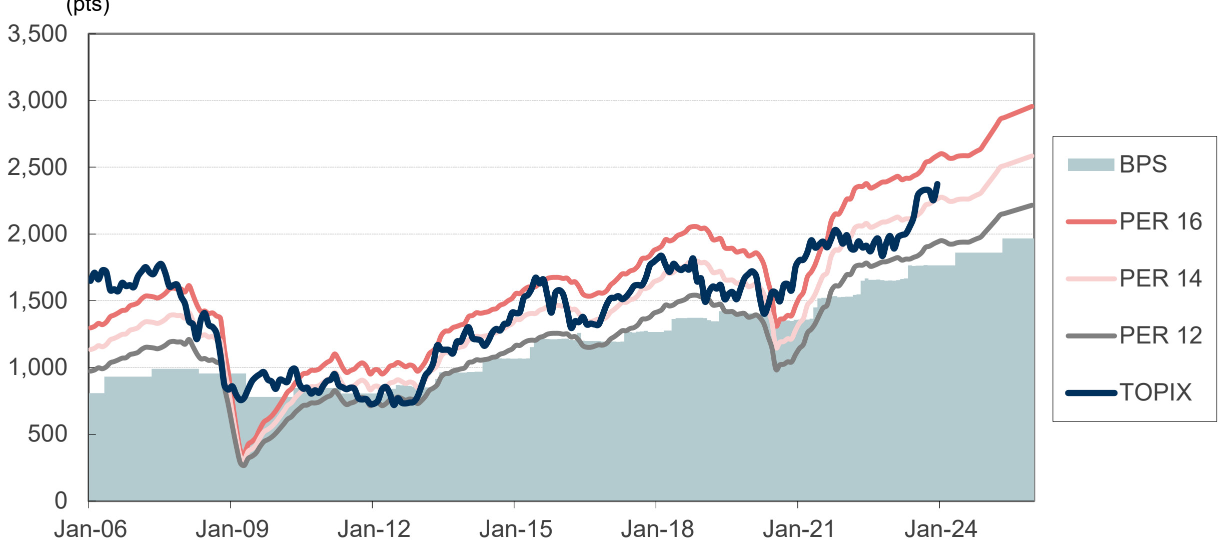
These projections incorporate earnings growth expectations for FY2025 without stretching valuations. In the case of a shallow macroeconomic slowdown, leading to a swift economic recovery, an ideal “Goldilocks” market scenario would potentially justify an average sell-side estimate of 38,000 yen (Nikkei 225). If the scenario were to include a more substantial improvement in corporate governance, it could also imply some valuation expansion, manifesting as a most bullish forecast of 40,000 yen for the Nikkei 225. However, the negative impact of ongoing global monetary tightening could materialize, while also the scenario of an appreciating yen progressing beyond expectations cannot be ruled out. Therefore, our assumptions do not lean towards such high expectations.

Overall, the view is that amidst an economic slowdown, with lowered interest rates bolstering the stock market and economic conditions poised to recover from a shallow trough, then we can anticipate steady corporate earnings, leading to market returns that are broadly consistent with earnings growth. For the first half of the year, we should consider the uncertainty centered on economic conditions and the potential risk of yen appreciation. To the extent that global equity markets may have factored in the early adoption of reduced-interest-rate expectations, it is envisioned that the second half of the year will see a turnaround following a period of uncertainty.

In conclusion, alongside cyclical theories of economic and interest rate fluctuations, other essential components include the TSE-led governance reforms and rising wage trends, including the spring wage negotiation, which can impact investor confidence to the extent that such outcomes become visible. We should therefore adopt a cautious approach initially, mediated by a more positive approach while closely assessing the progress of these trends.

Figure 4. TOPIX and PER Band, and PBS

(TOPIX: Jan-06 - Nov-23, PER Band and PBS: Jan-06 - Dec-25, monthly)



Source: Nomura Asset Management based on Nomura Securities data.

Global Equity Market Outlook

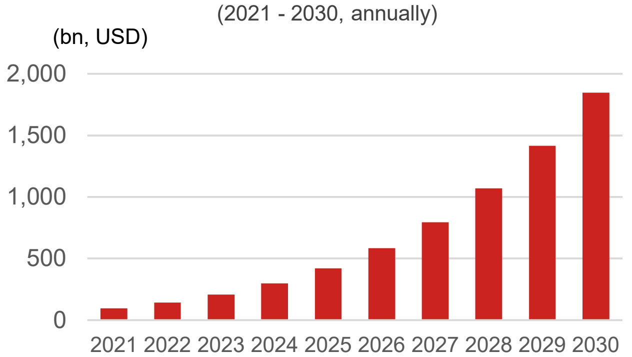
Takahiro Nakayama
Senior Manageing Director
Chief Investment Officer,
Active Global Investments

Productivity revolution driven by AI should provide attractive investment opportunities. In the short term, we are monitoring economic trends, changes in monetary policy, and presidential elections. In emerging markets, we are paying attention to the benefits of the US interest rate cuts and the weakening of the US dollar.

Revolution in productivity driven by Artificial Intelligence

Looking back on 2023, the impact of localized bank failures in the United States and the rapid interest rate hikes by various central banks has been limited, and as a result, the global stock market (MSCI ACWI index: US dollar-based) saw a 21% increase for the year as of December 20th. Particularly notable was the May 2023 earnings report from Nvidia, which significantly surpassed market expectations and led to renewed focus on AI-related stocks in the stock market, highlighting the strength of demand in the AI sector. The efforts by companies to digitally transform (DX) accelerated during the pandemic, and now, the utilization of generative AI is rapidly evolving from the trend of digitalization and cloud-based operations. Unlike many new technologies that were traditionally used by a limited group of IT engineers, generative AI, exemplified by chatbot GPT launched in November 2022, is expected to be utilized across various fields, driving the global AI market size (revenue) towards an estimated expansion to $1.847 trillion by 2030. With generative AI's potential to handle a wide range of intellectual tasks depending on the training data, an increase in overall productivity across the economy can be expected. Looking at the example of the significant expansion of IT-related investments in the 1990s, it can be observed that the labor productivity in the United States surged from 1.7% to 2.5% following the launch of Windows 95 in 1995. Given the anticipated transformation generative AI is expected to bring to the entire economy, it is not only the performance growth of related companies that is expected, but also an improvement in the profitability of a wide range of businesses over the medium to long term.

Figure 1. Trends in Global AI Makret Size
(2021 - 2030, annually)



Source: Nomura Asset Management based the Ministry of Internal Affairs and Communications' Information and Communications White Paper.

Figure 2. Productivity changes in the US labor force (yoy)

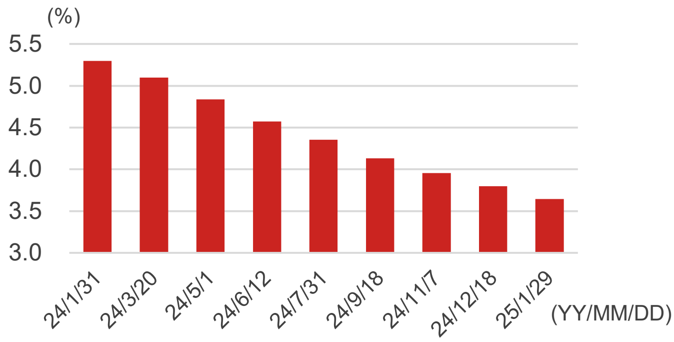
1980-1981	0.7
1990-1998	1.9
ow 1990-1996	1.7
ow 1996-1998	2.5

Source: Nomura Asset Management based the Fed's data

Changes in monetary policy

The market's emphasis regarding monetary policy for 2024 is likley to shift towards the timing and magnitude of eventual interest rate cuts. With inflationary pressure easing as the recovery from supply chain disruption progresses, and with a likley deceleration in strong US consumer trends going forward, markets are now incorporating rate cuts in 2024. Lower interest rates should act as a supportive factor for the overall stock market.

Figure 3. US Policy Interest Rate Outlook
(January 2024 – January 2025, FOMC announcement date)
(As of December 20, 2023)

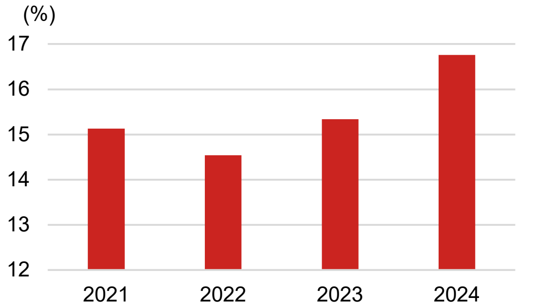


Source: Nomura Asset Management based on Bloomberg data

Focus on the quality of corporate earnings

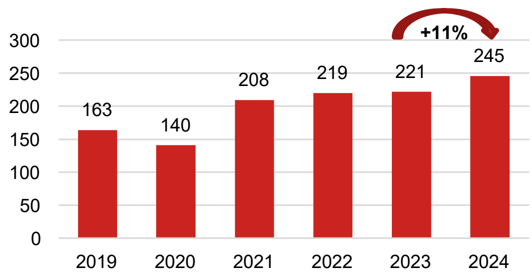
In the 2024 market earnings outlook, the easing of cost pressure is expected to drive profit margin improvements as raw material prices and labor costs settle down. This is in addition to companies' own efforts to enhance their earnings. For companies included in the S&P500 index, the 2024 EPS growth forecast is 11% (yoy). However, there is a general trend towards decelerating economic growth, and there are indications of increased borrowing and rising delinquency rates for low-income households. There are also concerns regarding a potential slowdown in spending by lower-income and middle-income groups. Some economically sensitive companies are revising their profit growth outlook downwards. While there are longer term expectations for a productivity revolution driven by AI and lower interest rates, it will be more important to focus on the structural growth factors in 2024, including the strength of profitability, financial health, and other quality-related aspects of corporate earnings that are not influenced by economic trends.

Figure 4. S&P500 Operating Profit Rate
(2021 - 2024, annually, forecast for 2023-2024)



Source: Nomura Asset Management based on Bloomberg data

Figure 5. S&P500 Earnings per Share
(2019 - 2024, Forecast for 2023-2024)

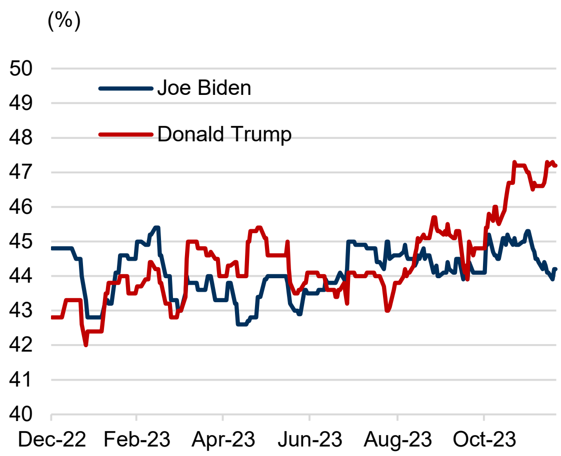


Source: Nomura Asset Management based on FactSet data

Impact of the US Presidential Election

In the United States, the presidential election is scheduled for November 2024. At present, it is highly likely that the Democratic Party will nominate the incumbent President Joe Biden, while the Republican Party will nominate former President Donald Trump. If President Biden wins, we should expect no major policy changes. However, if former President Trump returns to the White House and the Republican Party also wins the congressional elections, we should anticipate significant policy changes. In domestic matters, there would be a greater emphasis on tax reduction policies, while policies for promoting renewable energy led by the Biden administration may also be subject to change. Moreover, changes to foreign policy could be expected regarding the Russia-Ukraine conflict and policies towards China. Poll numbers so far offer no clear indication of which side might emerge victorious, but depending on the outcome, it is important to closely monitor the situation as it could have a significant impact on the financial markets.

Figure 6. Trends of Public Opinion Polls for the 2024 US Presidential Election
(December 20, 2022 – December 20, 2023, daily)



Source: Nomura Asset Management based on Real Clear Politics data

Emerging equities: US interest rate cuts will be a tailwind. The Central and Eastern European markets are of particular focus.

In anticipation of a shift towards interest rate cuts by the Federal Reserve later in 2024, we are seeing an improved investment environment lately for emerging market stocks, with support coming from a decline in long-term US interest rates and the depreciation of the US dollar. Weakening of the US dollar is expected to benefit commodity markets especially, providing a tailwind for stocks in resource-rich countries such as South Africa, Brazil, and Indonesia. Furthermore, if falling inflation allows the Federal Reserve to transition towards rate cuts, it could provide room for rate cuts in emerging markets that have been maintaining policy rates at relatively high levels for reasons such as currency defense. For instance, as of December 15, Mexico's policy rate stood at 11.25% despite a November inflation rate of 4.3% (yoy), resulting in a real interest rate of approximately 7% (accounting for inflation); similarly, Brazil's real interest rate is also around 7%. While not as high, Indonesia and South Africa also have real interest rates at around 3%. In these emerging market countries, rate cuts could lead to a decline in corporate funding costs and consumer loan interest rates for housing and automobiles, allowing for a boost to the economy through monetary policy.

Finally, we believe that Central and Eastern European markets are also worthy of attention. Following Russia's invasion of Ukraine, investment in Russia effectively became unfeasible, leading the current Eastern European market to be comprised of EU countries such as Poland, the Czech Republic, and others in Central Europe. Stocks in Central European countries experienced a sell-off after the invasion, but have made significant recoveries since the beginning of 2023. Considering the dividend yield of 4.3% and a price-to-earnings (PER) ratio of approximately 8, we believe there is still upside potential in regional stock prices. Moreover, inflation rates in these countries increased temporarily to the 20% range following the surge in fuel prices after the invasion, which had an adverse impact on household consumption. But energy prices have since decreased from the spring of 2023. On the other hand, with direct investment from the Eurozone and tight labor markets, wages have been growing at a strong pace over an extended period, potentially leading to an increase in consumer purchasing power and expansion of household spending, thereby supporting the economy and stock markets in Central and Eastern European countries.

Figure 7. Year-to-date Stock Market Returns
(in US dollars, total return)
(December 31, 2022 - November 20, 2023)

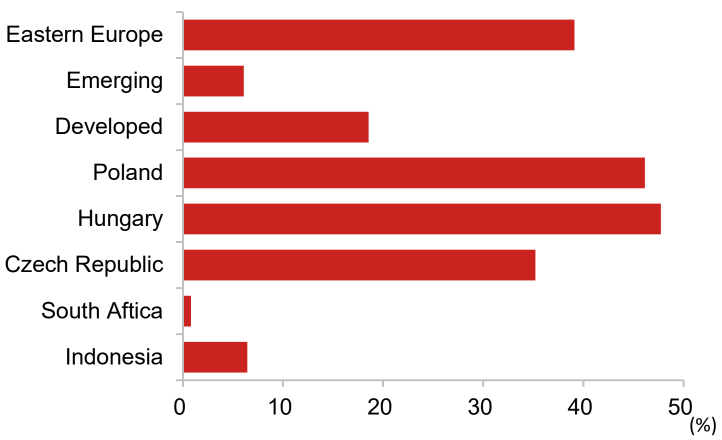
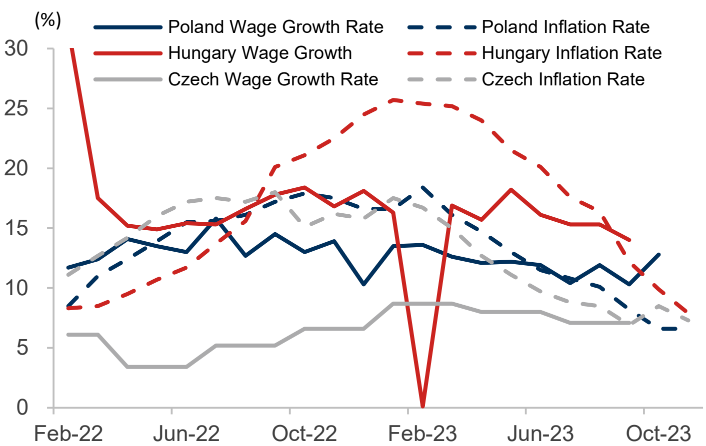


Figure 8. Central and Eastern European Countries:
Wage Growth Rate and Inflation Rate
(February 2022 – November 2023, monthly)



Note: Left: Emerging Markets: MSCI EM(Emerging Market)Index, Developed Markets: MSCI World Index, Countries: MSCI Country Index
Source: Nomura Asset Management based on FactSet and Bloomberg data

J-REIT Market Outlook

Positive signs include improving office market conditions and a declining interest rate trend.

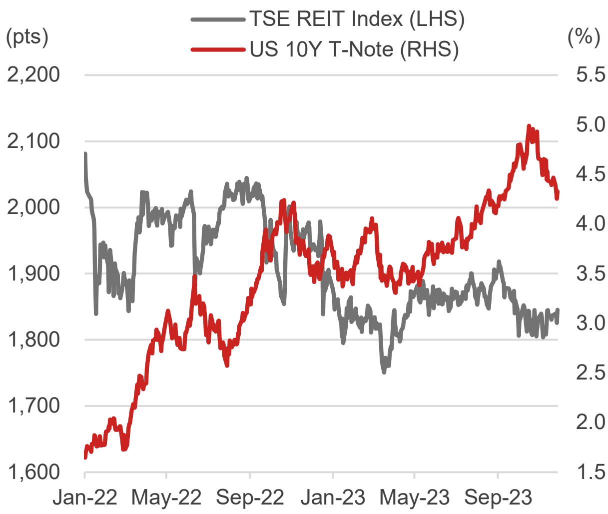
Tomoyuki Nobuhara
Senior Portfolio Manager

Interest rates domestically and internationally have been trending downwards

J-REIT prices fell in 2022 as a result of the indirect impact of rising interest rates in overseas markets. In 2023, amid ongoing uncertainty surrounding monetary policies, both domestic and international interest rates remained volatile and the J-REIT market again struggled to regain upward momentum.

However, as inflationary pressures are easing, there are signs that the Fed is consider a pause in its interest rate tightening and may even be looking ahead to lowering rates from later in 2024. While it is possible that the Bank of Japan might consider lifting its negative interest rate policy, both domestic and international interest rates seem to be tapering off lately and could be approaching a pivot point and a shift towards a downward trend, which could drive positive movements in the J-REIT market.

Figure 1. TSE REIT Index and US 10Y T-Note Yield
(January 4, 2022 – November 30, 2023, daily)

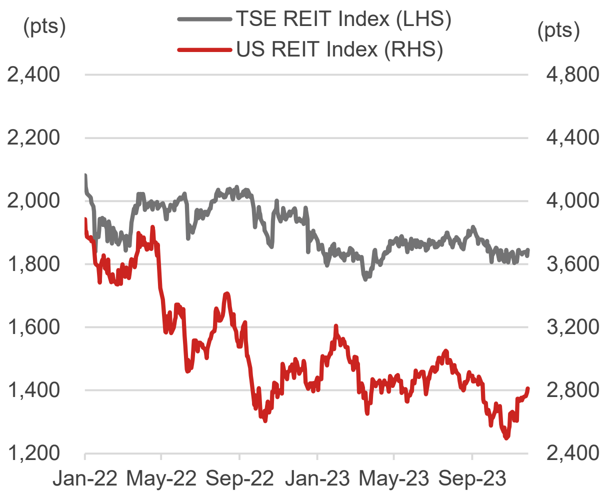


Note: US 10Y Treasury Note yields are Bloomberg Generic
Source: Nomura Asset Management based on Bloomberg data

J-REITs look resilient compared to overseas REIT markets

In the US, although there has been a pause in policy interest rate tightening, borrowing costs remain high, leading to increased hurdles for new real estate investments. With a limited number of property buyers, falling real estate prices in the office sector particularly have become a major risk in the US market, leading to a stagnation in the US REIT market. On the other hand, given the relatively low inflation and interest rates in Japan and the unchanged lending stance of financial institutions, there has been little impact on real estate prices. As a result, the J-REIT market has performed steadily compared to overseas markets. Recently, with the downward trend in US interest rates, the decline in the US REIT market has also eased.

Figure 2. Trends in TSE REIT Index and US REIT Index
(January 4, 2022 to November 30, 2023, daily)

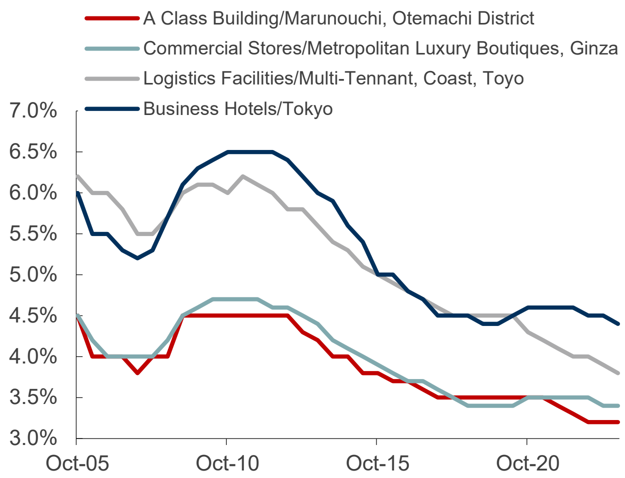


Note: The US REIT Index is the FTSE/NAREIT US Index.
Source: Nomura Asset Management based on Bloomberg data

Japanese real estate prices have not declined

Rising interest rates can lead to a decline in real estate prices through an increase in the required yields for real estate investment. This has been the case in some overseas markets. However, in Japan, although market interest rates have increased slightly, they remain relatively low, and this has not led to any increase in the yields expected by real estate investors. Consequently, the appraisal prices of properties held by J-REITs have been stable. If the current difficulties facing real estate investment in overseas markets persist then Japan is likely to remain positioned as an attractive investment market, so stable trends in real estate prices can be expected.

Figure 3. Trends in Expected Real Estate Yield (October 2005 to October 2023, half-year)



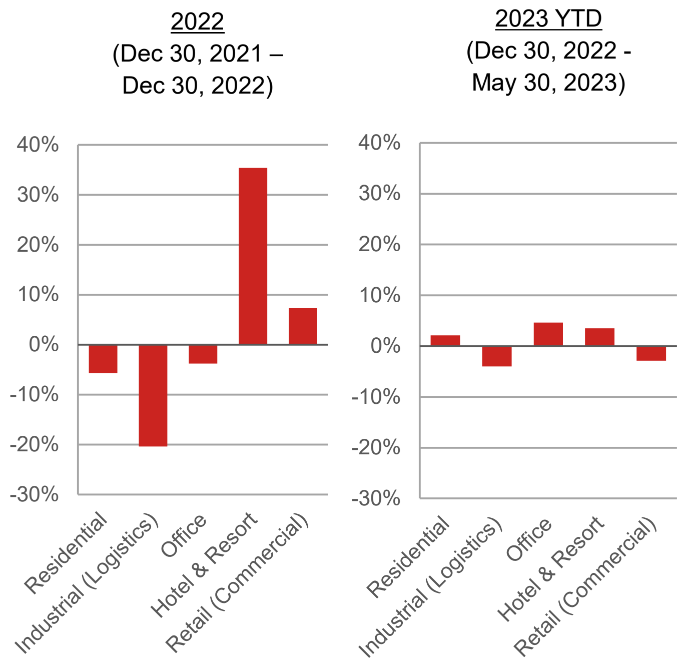
Source: Nomura Asset Management, based on data from the Japan Real Estate Institute

No significant differences in sector returns in 2023

In 2022, sector-specific returns were indirectly impacted by rising interest rates in other leading economies, which led to a fall in the distribution yield and a perceived decline in the investment appeal of the logistics sector, resulting in negative returns. Conversely, the hotel sector saw significant price gains as a result of the expected recovery in domestic demand and inbound tourism.

In 2023, while there have not been any significant differences in sector-specific returns as in 2022, there are early signs of improvement in the office market, resulting in relatively high but still modest price gains for the office sector.

Figure 4. TSE REIT Index Sector Based Return

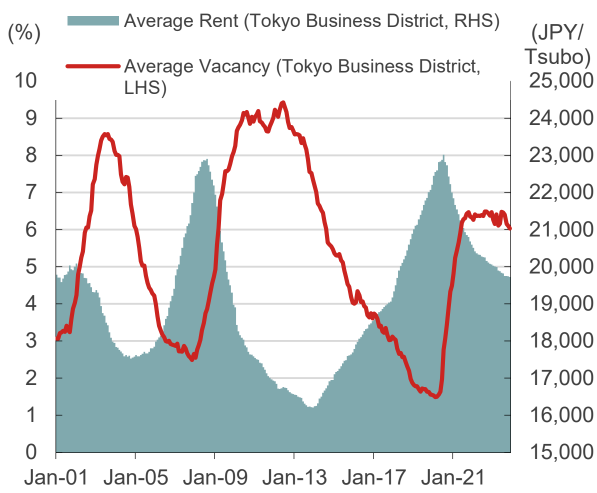


Note: Market capitalization weighted average, industry classification is GICS industrial subsector classification.
Source: Nomura Asset Management based on Bloomberg data

Office market shows signs of recovery in demand

The office vacancy rate rose to the mid-6% range during the pandemic before stabilizing, but it has now fallen back to the lower 6% range from the second half of this year. In 2023, there was a significant supply of new office buildings, but as corporate office demand increased due to the recovery in office attendance and post-pandemic trends, demand for office space has begun to show signs of recovery and the increase in vacancy rates has been limited. Looking ahead to 2024, there are forecasts of a decline in the supply of new office buildings compared to the previous year, which bodes well for the sector from a supply and demand perspective. With the ongoing recovery in office demand, there is the potential for vacancy rates to fall further.

Figure 5. Tokyo Business District Office Market
(January 2001 to November 2023, monthly)

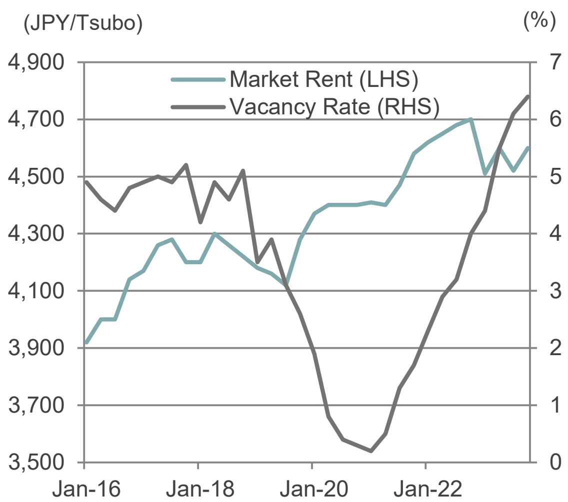


Source: Nomura Asset Management based on data from Sanki Shoji

Rising vacancy rate at logistics facilities, but rental rates are stable

Strong demand for advanced logistics facilities remains consistent, driven by the expansion of e-commerce and the need for logistics restructuring. However, the pace of new logistics facility supply has accelerated, leading to an upward trend in vacancy rates. Despite the high rental costs for newly supplied logistics facilities, average rental asking rates have remained stable. Rents for existing properties owned by logistics REITs still remain relatively cheap, leading to continued increases in cash flow due to rising rents. In the medium-term, there is some possibility of a slowdown in new logistics facility supply due to rising development costs like land and construction expenses, and it will be important to monitor whether this results in an improvement in the supply and demand dynamics of logistics facilities.

Figure 6. Logistics facility market (Tokyo area)
(January 2016 to October 2023, quarterly)



Source: Nomura Asset Management, based on data from Ichigo Real Estate Service.

*This commentary contains the personal views of the author and does not necessarily represent the house view.

Bond and Currency Market Outlook

A pivot to interest rate cuts by the Federal Reserve will trigger a turnaround in bond and currency markets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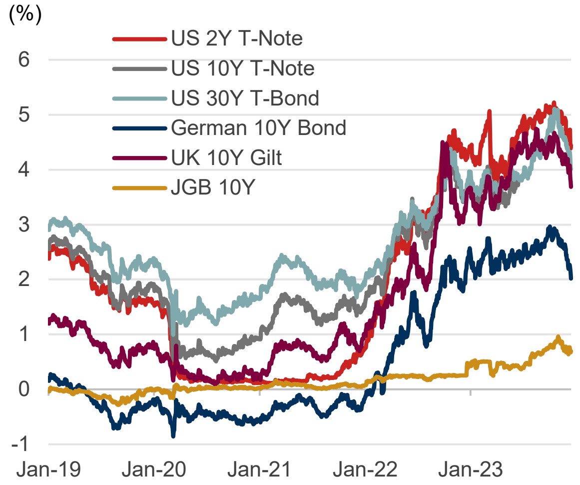
Head of Investment, Global Fixed Income

High volatility seen in the bond market

As major central banks shifted their monetary policies from tightening to interest rate maintenance, the bond market saw a volatile turn of events. The yield on the 10-year US Treasury note reached 5% in October, the first time since 2007, as markets expected the Fed to maintain its policy rate at elevated levels for an extended period. However, as inflation decelerated and signs of a slowdown appeared in the previously robust labor market, the bond yields rapidly declined. Following the December FOMC meeting, where there was a growing impression that the Fed might be poised to transition to an interest rate cut sometime during 2024, the yield on the 10-year US Treasury note fell further, dropping below 4%.

Figure 1. Changes in Government Bond Yields
(January 2, 2019 – December 16 2023, daily)



Note: Yield is Bloomberg Generic
Source: Nomura Asset Management based on Bloomberg data

Timing of FRB's policy shift towards an interest rate cut

Based on the policy interest rate outlook issued by FOMC members in December, the so called "dot-plot" implied that the Fed might implement a total of 75 basis points in interest rate cuts during 2024. We also expect the Fed to lower interest rates in 2024 as the US economy falls into recession. In Europe, we are also expecting the ECB to implement policy rate cuts more rapidly than the Fed in 2024. While ECB President Lagarde stated there was no discussion about cutting interest rates at the December meeting, we think there is a strong possibility of a policy shift considering the slowing of inflation and weaker economic conditions compared to the US.

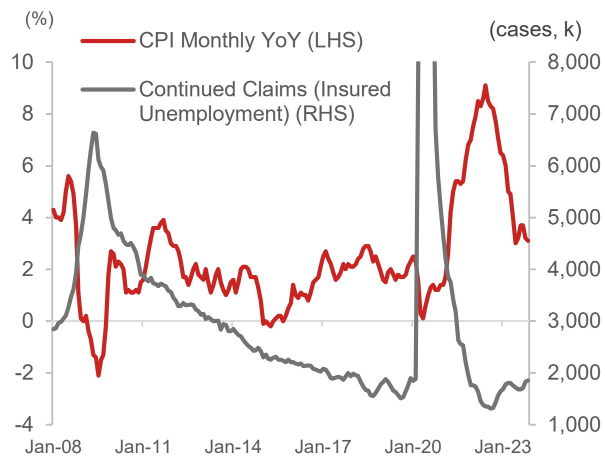
Major central banks have implemented significant and unusually rapid interest rate hikes from 2022 to 2023 in response to accelerating inflation. However, we believe 2024 will bring a policy reversal, with many central banks beginning to implement interest rate cuts. 2024 is poised to become a year of significant policy shift in monetary conditions.

While we are already observing signs of this shift, we also anticipate a change in market trends as monetary policy undergoes a significant transition. In the bond market, we expect a downward trend in yields, while in the currency market, there is some risk of a weaker US dollar and the potential for a significant rebound in the Japanese yen, depending on the policy stance of the Bank of Japan. With this substantial shift in monetary policy, we believe there is a need to remain cautious about the potential for significant market changes.

US economy expected to head into recession

Based on the cumulative adverse effects of the steep rise in policy interest rates, we expect the US economy to slip into recession during the first half of 2024. In the US, the consumer price index (CPI) inflation rate, which had previously reached 9%, are gradually easing into the 3% range, alleviating inflationary pressures. On the economic front, personal consumption has been robust so far, but we anticipate some weakening of consumption as households draw down their excess savings. While the job market remains robust with an unemployment rate in the high 3% range, there are indications that labor market conditions could deteriorate, such as a rising number of continuing jobless claims and a decline in job openings.

Figure 2. US CPI and Labor Market
(January 2008 to November 2023, monthly)



Note: Chart truncated for 2020 to highlight most recent moves.
Source: Nomura Asset Management based on Bloomberg data

Bond yields could fall further as Fed pivots towards an interest rate cut

The US bond market has seen a significant decrease in yields since their October peak, factoring in the potential for the Fed to cut interest rates at a faster pace than indicated at the December FOMC meeting. However, we still believe there is room for bond yields to fall further. According to the FOMC's outlook, the Fed anticipates that the US economy will remain firm and avoid a recession. Although the economic drag from the series of rapid interest rate hikes has not yet been fully realized, we forecast that the sustained high level of policy rates, stabilizing around the mid-5% range, will gradually begin to weigh on both consumer and corporate spending.

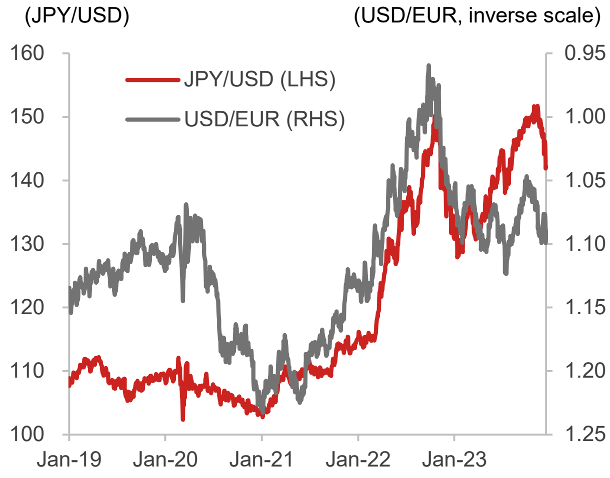
We anticipate that as inflation decelerates and the hitherto robust labor market shows further signs of slowing down, there is an increased likelihood of the FRB taking a more proactive stance on interest rate cuts to prevent a recession. This could potentially lead to a further decrease in bond yields. However, a rapid decline in long-term bond yields, along with the easing financial environment due to the high stock prices, also poses the risk of quickly reigniting economic growth and inflation. We therefore need to remain cautious. However, with high sustained policy rates gradually exerting downward pressure on economic growth, we anticipate that the US economy is heading towards a recession.

US dollar is expected to remain on a downward trend

Given the anticipation of a slowdown in the US economy and potential future policy rate cuts by the Federal Reserve, we expect the US dollar to come under downward pressure in the currency market. The US dollar saw a significant appreciation from the second half of 2021 to 2022 amid rapid interest rate tightening. However, with the possible shift in the FRB's monetary policy towards rate cuts, we can expect the US dollar to depreciate on the foreign exchange market.

During periods of economic downturn in the US and Europe, there is a possibility that the US dollar could experience a temporary safe-haven rally in response to market risk-aversion. However, as the FRB takes more active measures to lower interest rates in light of an economic recession, we ultimately expect the US dollar to depreciate..

Figure 3. JPY/USD and USD/EUR
(Jan 2, 2019 to December 15, 2023, daily)



Source: Nomura Asset Management based on Bloomberg data

Risk of a rapid appreciation of the yen

In the context of an overall weakening of the US dollar, especially once the Fed starts to cut interest rates, we anticipate that the yen will likely appreciate against the US dollar. We expect the Bank of Japan to lift its negative interest rate policy in the latter half of 2024 and then aim to move gradually away from its unconventional monetary easing policy. With overseas central banks expected to be uniformly implementing interest rate cuts, while the Bank of Japan conducts rate hikes, the contrasting direction of monetary policy between these overseas central banks and the Bank of Japan may lead to yen appreciation.

However, considering the vulnerability of personal consumption in the Japanese economy, we believe it will be difficult for the Bank of Japan to carry out consecutive rate hikes soon after abandoning its negative interest rate policy. If the Bank of Japan's rate hikes are gradual and limited in scale, then the upward pressure on the yen could be muted. However, there is a risk that the unwinding of accumulated short yen positions, which have expanded due to the widening interest rate differentials, could occur due to the transition of monetary policies domestically and overseas. Even if the interest rate differentials between overseas central banks and the Bank of Japan remains, as the interest rate spread narrows, the market must be attentive to the potential for significant yen appreciation as those short yen positions are unwound.

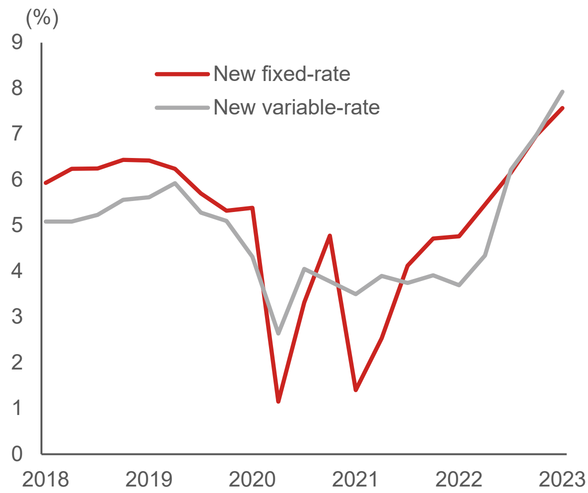
Global Economic Outlook 1 – Base Case Scenario

Slowdown in growth and the start of rate cuts expected in 2024

We expect further economic slowdown ahead

We forecast that the US economy will be in recession with rising unemployment rates due to the effect of tight monetary policy on the real economy with a certain time lag. We believe that the pre-COVID low interest rate environment that lasted for a long time and the liquidity supply during the COVID-19 pandemic, among other things, have mitigated the impact of rate hikes, but such effects will likely fade away. In fact, households' credit card loan delinquency rates are rising, which suggests that consumption will be suppressed. In addition, businesses are facing the need to refinance debts that they borrowed in the low interest-rate environment. We expect that the current high interest rates will work to slow economic growth, and as a result, inflationary pressures will also decrease.

Figure 1. US Lending Rates of New Loans to Small and Medium-sized Businesses
(January - March 2018 – April - June 2023, quarterly)



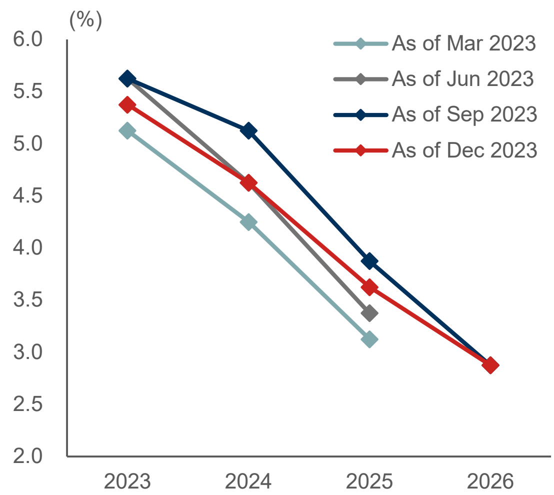
Source: Nomura Asset Management based on data published by the Federal Reserve Bank of Kansas City.

We expect rate cuts to start in mid-year

The Federal Open Market Committee (FOMC) kept the federal funds rate unchanged at its meeting held in December 2023 for three meetings in a row. The federal funds rate outlook (median) by the FOMC participants suggests the end of hike rates and a rate cut by 0.75 percentage points in 2024. This is close to the forecast that we have presented previously.

We maintain our view that under our moderate recession and lower inflation scenario, the US and European central banks will decide to cut interest rates in a phased manner in and after mid-2024 in order to adjust the degree of monetary tightening. If the central banks are flexible to implement policy operations, the economy is expected to start moving toward stabilization in the second half of 2024.

Figure 2. Federal Funds Rate Outlook by FOMC Participants (Median)



Source: Nomura Asset Management based on the Fed data

Global Economic Outlook 2 – Risk Scenario

Risk balance is currently tilted toward upside from the somewhat conservative base case scenario

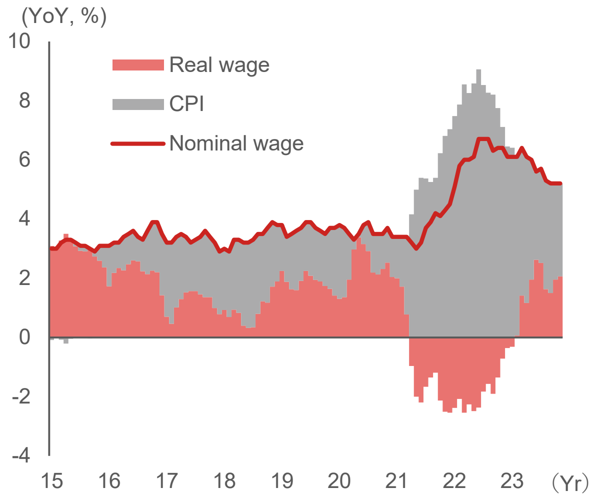
Upside risk: A recession will be avoided

According to the GDP Now, US real GDP for October-December 2023, estimated by the Federal Reserve Bank of Atlanta, is up approximately 2.7% on a quarterly year-on-year basis (as of December 19, 2023), indicating the consistent healthy growth.

In 2024, a so-called “soft landing” scenario, in which a recession is avoided while inflation continues to be moderate, may play out.

Given the positive real wage growth since 2023, we cannot deny the possibility that the economy will continue to grow at a moderate speed as the real income environment will support consumption. On the other hand, the labor participation rate in the labor market is trending upward. It is also possible that inflation rates will continue to decline on the back of increasing labor supply, and growth and inflation control will be achieved at the same time.

Figure 1. US Real Income Environment
(January 2015 - November 2023, monthly)



Note: The wage index published by the Federal Reserve Bank of Atlanta is used for nominal wage. Real wage is calculated by deducting year-on-year percentage changes in CPI from year-on-year percentage changes in nominal wage.
Source: Nomura Asset Management based on data published by the Federal Reserve Bank of Atlanta and CEIC data

Downside risk: A severe recession or shock will occur

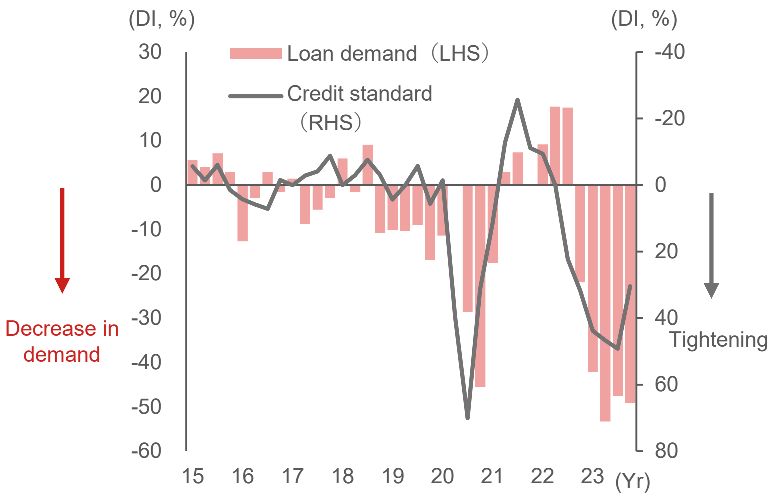
Our base case scenario is that the US and European economies will dip to negative growth with rising unemployment rates in the first half of 2024, but can avoid a severe recession.

However, according to survey results, loan demand of small and medium-sized businesses is weak, and lending standard is tightening. Under a high interest rate environment, businesses may act more conservatively than expected.

If inflation is re-accelerated, central banks may cut rates in a cautious manner, in which case clear bottoming out of economy may not be observed anytime soon.

Given that out base case scenario’s economic outlook is rather bearish compared to the mainstream view in the financial market, we see that the risk balance is tilted somewhat toward upside.

Figure 2. Loan Demand of US Small and Medium-sized Businesses
(January 2015 - October 2023, Quarterly)



Note: Senior Loan Officer Opinion Survey
Source: NAM based on CEIC data

Global Economic Outlook 3
– Economic Cycle

There is a risk that the global Composite Leading Indicators will start worsening again

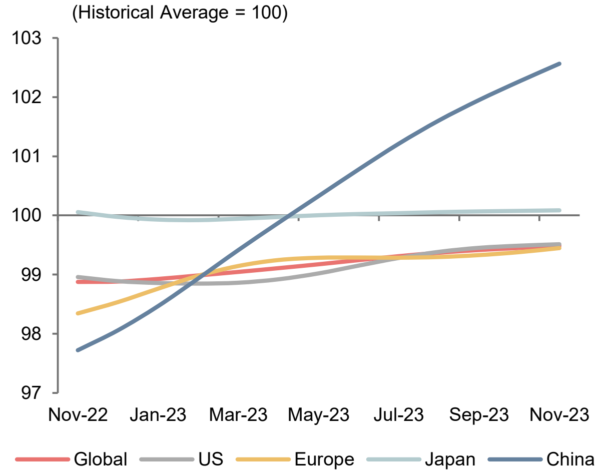
There is a risk that the global Composite Leading Indicators will start worsening again

The Composite Leading Indicator (CLI) of the Organization for Economic Co-operation and Development (OECD) currently remains almost flat. Although the current situation is technically defined as a recovery phase, the pace of recovery is very weak compared to similar period in the past.

In the past, most similar periods were followed by an expansion phase as the Indicator rose above the historical average of 100. On the other hand, the Indicator may fail to reach 100 this time and start to worsen again. In recent years, this happened in 2002 after the IT bubble and in 1991 after the collapse of the bubble economy.

Unlike developed countries/regions, the Chinese Composite Leading Indicator remains strong. However, as the Indicator has deviated upward from growth forecasts and other economic statistics, there is a risk that the Chinese Composite Leading may also start worsening temporarily.

Figure 1. Changes in OECD Composite Leading Indicators
(November 2022 - November 2023, monthly)



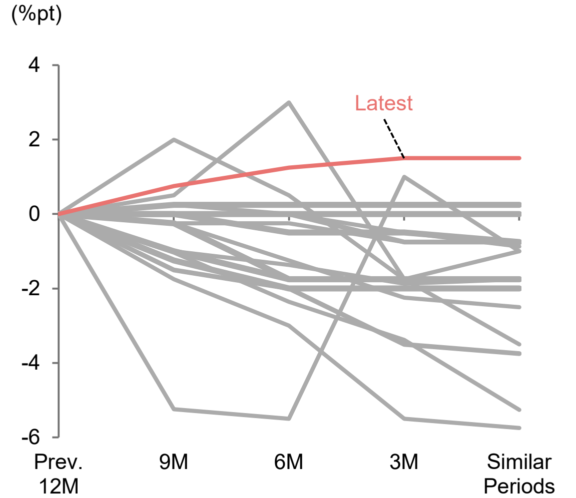
Note: “Global” is based on G7 data. “Europe” is based on data for four major European countries.
Source: Nomura Asset Management based on OECD data

Interest rate and hedged foreign bond investment environments unlike those in past similar periods

In past recovery phases, interest rate cuts had started earlier, and the monetary easing contributed to the economic transition. However, the current cycle has moved to a recovery phase without going through monetary easing, and this has likely prevented the economy from reaching a full-fledged recovery.

In such an environment, hedged foreign bonds in particular among financial assets have been negatively affected in 2023. Usually, the investment environment for hedged foreign bonds improves most during the period of monetary easing. However, in the current cycle, their return on investment has worsened significantly due to the double factors of high policy rates (hedging cost) in the US and Europe and rising long-term interest rates. The investment environment for hedged foreign bonds is expected to improve going forward as long-term interest rates will start to decline. On the other hand, the hedging cost burden will likely remain for the time being.

Figure 2. Changes in US Policy Rates in Similar Periods over the Past Year
(Similar Periods in Economic Cycles in and after 1970)



Note: Similar periods have been identified quantitatively based on global economic cycles. U.S. policy rates are changes from 12 months earlier than the respective similar period, which is set at zero. Ten similar phases have been identified in and after 1970.
Source: Nomura Asset Management based on OECD and Refinitiv Datastream data

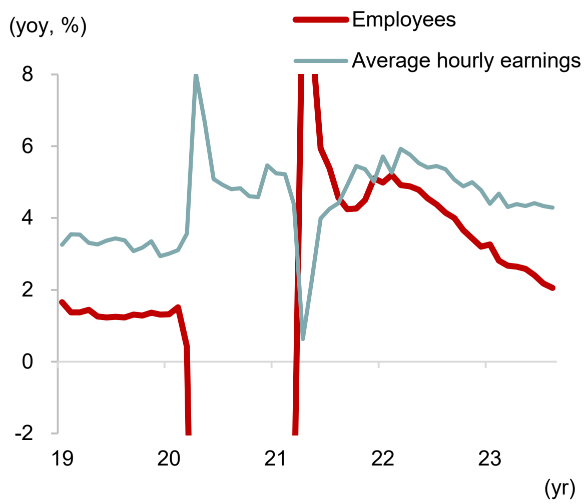
US

Although soft landing expectations are rising, ultimate inflation control would require an economic downturn

US economy remains resilient

The US economy is slowing down, but remains resilient. While the effect of rate hikes is taking time to realize, employment and wage growth has slowed, but remains at high levels, supporting the expansion of consumption. That said, as inflation continues to moderate, expectations are rising for soft landing that achieves inflation targets while avoiding recession. However, the slowing inflation so far has been led by the moderation of inflationary pressures from supply-side factors, such as the normalization of distribution network. To achieve 2% inflation rate set by FRB with steady decline in inflation, changes in demand-side factors, such as a moderate recession or deterioration of the labor market, will also be necessary. As the effect of rate hikes is expected to get even stronger, we forecast an economic downturn and moderation of inflationary pressures from demand-side factors in 2024.

Figure 1. US Employees and Average Hourly Earnings
(From 2018 January to 2023 November, monthly)

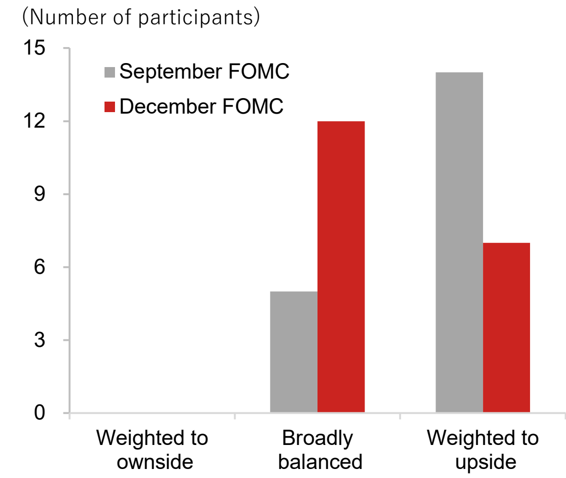


Note: "Employees" are employees in the non-farm sector. Some of the employee data for 2020 and 2021 are not displayed for the latest trends to be easier to see.
Source: Nomura Asset Management based on CEIC data.

Although the FRB is increasingly confident in forecasting more moderate inflation, uncertainties remain

At its meeting in December, the Federal Open Market Committee (FOMC) decided to keep interest rates unchanged in the three consecutive meetings. The participants has shown a scenario that is close to "soft landing" as before. Regarding the risk in inflation outlook, the number of participants who answered "upside" has decreased and the number of participants who answered "largely balanced" increased since September. FOMC participants appear to be increasingly confident about continued moderation of inflation. That said, whether a "soft landing" scenario will be realized or not, remains uncertain. While FOMC participants foresee rate cuts by 0.75 percentage points through 2024, if the rate cuts start too early, there is a risk that inflationary pressures will increase with the re-acceleration of economy. On the other hand, if they start to be late, the economy may be dragged down too much. 2024 will be a very tough year for the FRB.

Figure 2. FOMC Participants' Assessments of Risks Around their Inflation Outlook



Note: The number of participants who indicated "weighted to downside" was zero at both times.
Source: Nomura Asset Management based on data published by the FRB data

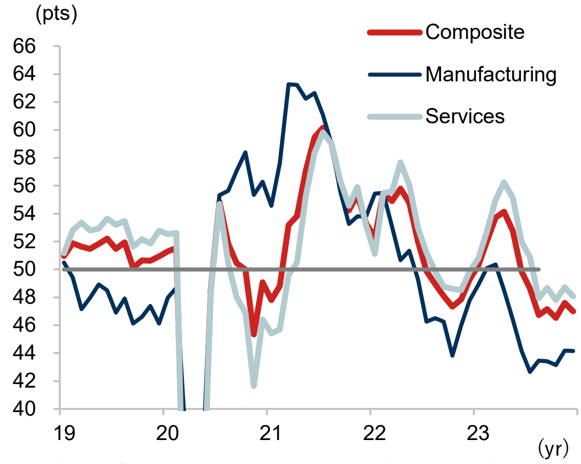
Eurozone

While Euro economies are stagnated, it is taking time for wages and prices to be moderate

With continued stagnation, inflation is trending downward, but service inflation remains at high levels

The Eurozone economy continues to stagnate. Following negative growth in July-September 2023, the Eurozone Purchasing Managers' Index (PMI) for October-December has remained below the turning point of 50, suggesting that the economy continues to stagnate. The effect of rate hikes by the European Central Bank (ECB) appears to be getting stronger. The pace of job growth has slowed in the major euro economies, and unemployment is increasing in some countries. However, moderation of price increase has been delayed. Inflation rates are trending downward on the back of the fading effect of rises in energy prices in the past, but remain at high levels. It appears that economic stagnation and weakness in the labor market are taking time to moderate inflationary pressure through wages. Attention is called to whether further softening of the labor market due to the effect of rate hikes will lead through wages to the moderation of inflationary pressures including service prices.

Figure 1. Eurozone PMI
(January 2019 - December 2023, monthly)



Note: Some of data in 2020 are not displayed for visibility of recent data.
Source: Nomura Asset Management based on S&P Global data

The ECB intends to wait and ascertain the effect from economy to wages

At its Governing Council meeting in December, the ECB decided to keep interest rates unchanged in the two consecutive meetings and released a statement indicating that an additional rate hike is unlikely. However, there is a high hurdle for the central bank to start cutting rates. While the new ECB Staff outlook has forecast that the core inflation rate (excluding energy and food prices) will remain slightly above 2% through 2026, ECB President Christine Lagarde said that "we did not discuss rate cuts at all," indicating that the ECB's cautionary stance on inflation has not been changed. The President also pointed out that "we will receive a lot of data in the first half of 2024," suggesting that ECB is unlikely to cut rates in the first half. The ECB intends to wait and ascertain the effect from economic downturn to wages and prices. However, as the risk of excessive downward pressure on the economy from high interest rates is increasing, the ECB is facing difficult management of monetary policies.

Figure 2. Economic Outlook by ECB Staff

(Unit: annual percentage changes)

		2023	2024	2025	2026
GDP growth	December 2023	0.6	0.8	1.5	1.5
	September 2023	0.7	1.0	1.5	-
HICP core inflation	December 2023	5.0	2.7	2.3	2.1
	September 2023	5.1	2.9	2.2	-

Note: Core inflation excludes energy and foods.
Source: Nomura Asset Management based on ECB materials

Japan

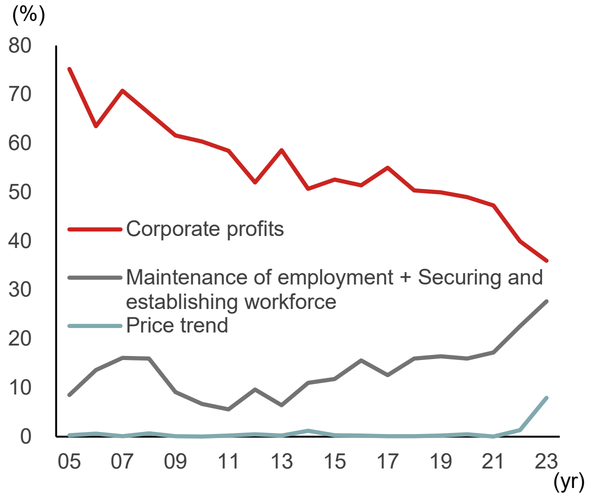
The Bank of Japan is expected to abandon its negative interest rate policy in the second half of 2024

Wage increase rates in annual spring negotiations with labor unions in 2024 likely to exceed 2023 results

Real wages (Monthly Labor Survey) in October 2023 were down 2.3% year on year, and inflation rates have remained above wage growth rates for more than one and a half years. However, the real income environment is expected to improve in the second half of 2024.

Among factors considered to be important by businesses in revising wages, the highest percentage of respondents indicated corporate profits as an important factor, but the percentage of respondents who indicated maintenance of employment as an important factor has increased in recent years. As labor shortage is increasingly recognized as a structural problem, businesses may start maintaining steady wage growth regardless of corporate profits. According to the Financial Statements Statistics of Corporations by Industry, corporate earnings currently remain at record high levels. There is a good chance that wage increase rates in annual spring negotiations in 2024 will exceed 2023 results.

Figure 1. Factors Considered to Be Important by Businesses in Revising Wages
(2005 - 2023, yearly)



Source: Nomura Asset Management based on MHLW data

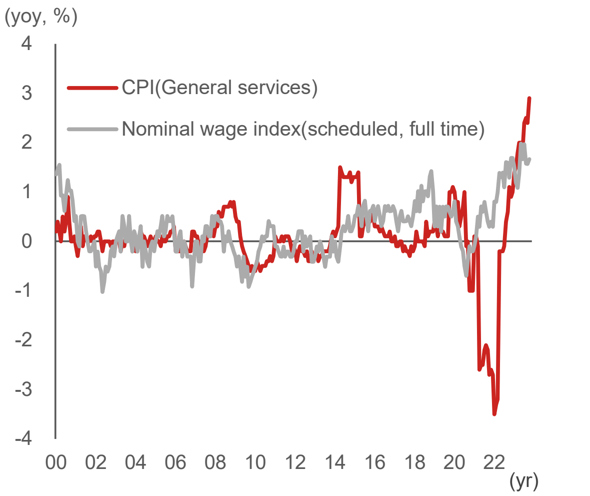
The Bank of Japan is expected to change its policy in the second half of 2024

Amid rising expectations for early rate hikes, the Bank of Japan (BOJ) decided at its monetary policy meeting in December 2023 to keep interest rates unchanged and maintained the same expression regarding its future policy direction.

At the press conference after the monetary policy meeting, BOJ Governor Ueda said that the certainty of sustainable and stable achievement of price stabilization target is gradually increasing by referring to the moderate rises in service prices, but also stated that it takes more time to ascertain the virtuous cycle of wages and prices.

The BOJ's policy decisions will be affected not only by wage and price trends in Japan, but also by political situations and trends in overseas economies. For the BOJ, the cost of waiting for several months before changing its policy would be low. If downside risks in overseas economies surface in the first half of 2024, the focus of attention will likely be on the meeting in July or October 2024.

Figure 2. Prices and Wages
(January 2000 – October 2023, monthly)



Source: Nomura Asset Management based on data from the Statistics Bureau, MIC and CEIC

China

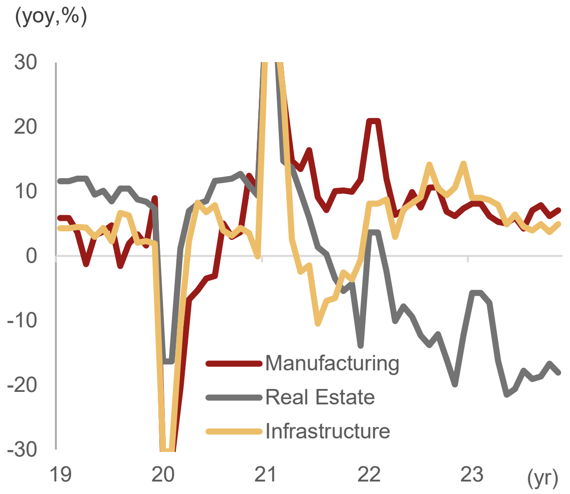
A tug of war between policy support and structural problems

Policy support to stabilize the economy, but downward pressure to remain due to structural problem

We expect that the Chinese economy will gradually start stabilizing with policy support in 2024. In particular, the additional infrastructure investments of about 1 trillion yuan (equivalent to 0.8% of GDP in 2022) approved in October 2023 is expected to boost domestic demand in the first half of 2024.

However, the recovery momentum will likely lack strength because of the following two reasons. First, if the US and European economies fall into a recession, it will be a drag on the Chinese economy through the deceleration of exports. Second, various problems currently faced by the Chinese economy will continue going forward. In particular, activities in the real estate market are unlikely to improve markedly in 2024. The stagnant real estate market is expected to cause negative impacts on the economy mainly through the negative wealth effect of falling housing prices on consumption and increasing pressure on local government finance due to decrease in proceeds from the sales of land use rights.

Figure 1. Fixed Asset Investment
(January 1990 - November 2023, monthly)



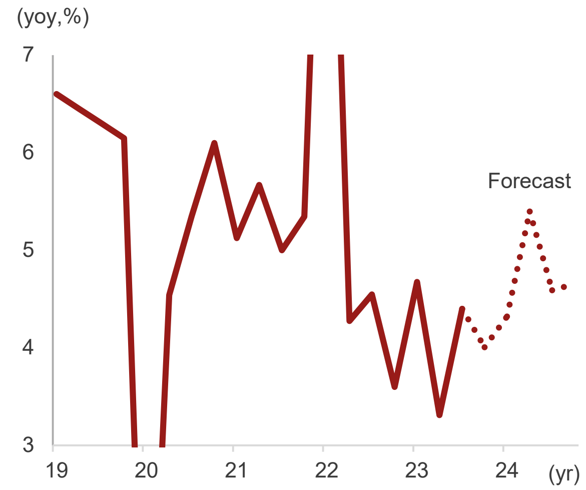
Note: Year-on-year percentage changes are calculated for each month by Nomura Asset Management based on year-to-date data published by the National Bureau of Statistics of China. Some of the data for certain periods are not displayed for the latest trends to be easier to see.
Source: Nomura Asset Management based on CEIC data

Large stimulus packages should not overly be expected

Chinese leadership may maintain the 2024 growth target at around 5.0% in order to prevent any expectations for further economic slowdown. Given such target setting, our growth forecast of low 4% may appear to be too low. However, we expect that the government will accept somewhat low economic growth rates and it will not forcefully stimulate the economy to meet the growth target.

The growth rate for 2023 was inflated due to the low level in 2022 and overstates the reality of the economy. There will be no such padding effect in 2024. In addition, given the nation's demography and stagnation in the real estate market, the potential growth rate of the Chinese economy may have dropped to low 4%. Trying forcibly to overcome this with economic stimulus would cause adverse side effects and contradict the government's stance of prioritizing financial stability.

Figure 2. 2-year Average Real GDP Growth Rates
(Jan-Mar 2019 – Oct-Dec 2024, quarterly)



Note: Some of the data for certain periods are not displayed for the latest trends to be easier to see.
Source: Nomura Asset Management based on CEIC data

Emerging

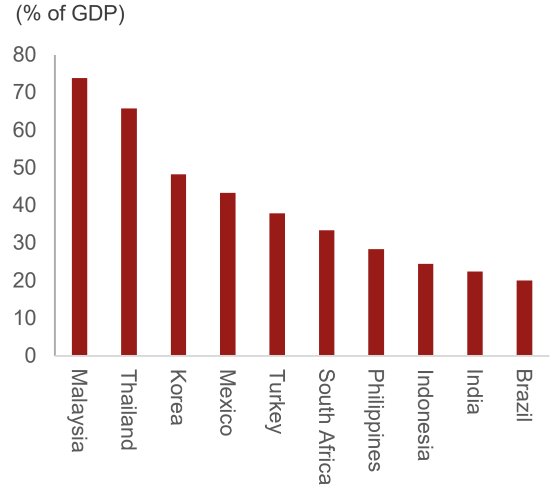
Headwinds are expected to moderate toward the second half of 2024

Economy, inflation, and policy rates are all in the process of normalization

In 2023, many emerging economies remained below their potential growth rates due to the effect of significant rate hikes. At the same time, inflation has been steadily slowing, and some of the central banks have already started rate cuts.

If the US and European economies fall into a recession in the first half of 2024, emerging economies will also be hit particularly if their degree of dependence on external demand is high. However, if the recession proves to be short-lived and the US switches to monetary easing, emerging countries will have further room for rate cuts, and their economies will be headed for relatively early recovery. The stabilization of the Chinese economy should also gradually mitigate headwinds against emerging countries. In emerging countries, their economies, inflation, and policy rates will all move toward normalization through the end of 2024.

Figure 1. Exports of Goods and Services (2022)



Source: Nomura Asset Management based on World Bank data

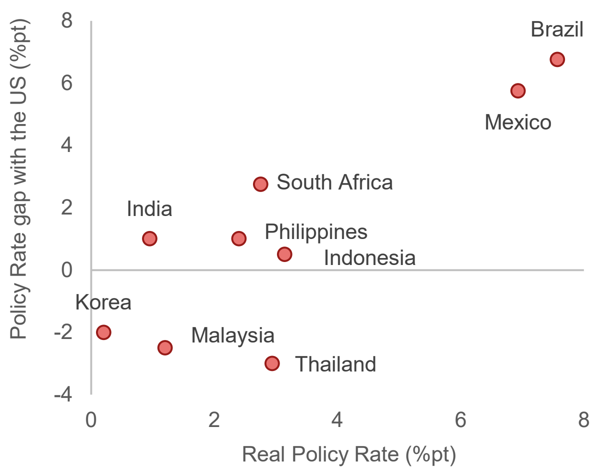
Pay attention on the degree of dependence on external demand and room for rate cuts

The themes in emerging economies that should draw our attention are the degree of dependence on external demand and room for rate cuts.

Malaysia and Thailand, for example, are expected to be easily affected by fluctuations in global economy due to their high degree of dependence on external demand. On the other hand, countries with a high proportion of domestic demand, such as Brazil and India, are likely to continue to achieve relatively stable growth.

In order to assess room for rate cuts by observing the degree of monetary tightening in the domestic market (real policy rates) and risk of capital outflow (policy rate gap with the US), countries in Latin America generally have larger room for rate cuts. In Asia, certain room for adjusting monetary tightening has emerged as inflation slows. However, given the rate gap with the US, central banks of emerging countries are expected to start cutting rates only after ascertaining that the US has switched to easing monetary policies.

Figure 2. Real Policy Rates and Policy Rate Gap with the US



Note: Real policy rates are calculated by subtracting inflation rates from nominal policy rates. The upper limit of the federal funds target range is used as US policy rates.
Source: Nomura Asset Management based on Bloomberg data

Globl Financial Market Forecast

			2023 Q1	Q2	Q3	Q4 F	2024 Q1 F	Q2 F	2021	2022	2023 F	2024 F
Real GDP (qoq, ann, %)	World	*1,*4	2.4	3.1	2.8	2.7	2.0	1.8	6.3	2.9	2.8	1.7
	Developed	*2	1.9	1.6	2.2	0.9	-0.6	-0.1	5.6	2.6	1.7	0.5
	Emerging	*1,*3	3.7	5.2	4.6	4.4	3.7	3.6	7.4	3.4	4.5	3.6
	United States		2.2	2.1	5.2	1.8	-0.7	-0.4	5.8	1.9	2.5	1.0
	Eurozone		0.4	0.5	-0.5	-0.5	-0.9	0.0	5.9	3.4	0.5	-0.3
	Japan		5.0	3.6	-2.9	1.1	0.5	0.8	2.6	1.0	2.0	0.5
	China	*1	4.5	6.3	4.9	5.1	4.1	4.5	8.4	3.0	5.2	4.3
CPI (yoy, %)	World	*4	5.9	4.2	4.0	3.5	3.3	3.4	3.2	7.0	4.4	3.2
	Developed	*2	6.5	4.9	4.1	3.2	3.1	2.8	3.3	7.5	4.7	2.7
	Emerging	*3	4.9	3.1	3.7	3.8	3.8	4.5	3.0	6.2	3.9	4.1
	United States		5.8	4.1	3.6	3.3	3.2	3.0	4.7	8.0	4.1	3.0
	Eurozone		8.0	6.2	4.9	2.9	2.6	2.2	2.6	8.4	5.5	2.0
	Japan	*5	3.5	3.3	3.0	2.8	2.7	2.5	-0.2	2.3	3.1	2.4
	China		1.3	0.1	-0.1	-0.3	-0.3	1.0	0.9	2.0	0.3	1.1
Policy Interest Rate (%)	United States	*6	5.00	5.25	5.50	5.50	5.50	5.50	0.25	4.50	5.50	4.50
	Eurozone	*6	3.00	3.50	4.00	4.00	4.00	4.00	-0.50	2.00	4.00	2.00
	Japan	*6	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00
	China	*6	3.65	3.55	3.45	3.45	3.45	3.45	3.80	3.65	3.45	3.45
10-Year GB Yield (End of Period, %)	United States		3.47	3.84	4.57	3.88	3.90	3.80	1.51	3.87	3.88	3.60
	Germany		2.29	2.39	2.84	2.02	2.00	2.00	-0.18	2.57	2.02	1.90
	Japan		0.35	0.40	0.77	0.61	0.60	0.60	0.07	0.42	0.61	0.80
Equity Index (End of Period, Point)	S&P500		4,109	4,450	4,288	4,770	4,610	4,760	4,766	3,840	4,770	5,120
	EURO300		1,811	1,832	1,785	1,889	1,840	1,880	1,890	1,678	1,889	1,970
	TOPIX		2,004	2,289	2,323	2,366	2,230	2,260	1,992	1,892	2,366	2,380
	MSCI EM ($)		990	989	953	1,024	960	980	1,232	956	1,024	1,030
Currency (End of Period)	USD/EUR		1.09	1.09	1.06	1.10	1.09	1.08	1.14	1.07	1.10	1.11
	JPY/USD		133.1	144.5	149.2	141.0	142.0	138.0	115.2	131.9	141.0	133.0
	JPY/EUR		144.6	157.7	158.0	155.7	155.0	149.0	131.0	140.8	155.7	148.0
	RMB/USD		6.87	7.26	7.30	7.09	7.20	7.20	6.37	6.95	7.09	7.10

		2021	2022	2023	2024 F
Currency (Per USD, End of Period)	INR	74.3	82.7	83.2	82.0
	IDR	14,253	15,568	15,397	14,800
	BRL	5.6	5.3	4.9	4.8
	MXP	20.5	19.5	16.9	17.0
	ZAR	16.0	17.0	18.3	18.0
	TUR	13.3	18.7	29.5	40.0
Policy Interest Rate (%)	India	4.00	6.25	6.50	6.00
	Indonesia	3.50	5.50	6.00	5.00
	Brazil	9.25	13.75	11.75	9.00
	Mexico	5.50	10.50	11.25	9.00
	S. Africa	3.75	7.00	8.25	7.50
	Turkey *6	14.00	9.04	42.50	35.00

Note: Forecast as of December 18, 2023. 1) YoY, 2) GDP weighted average of US, Eurozone, Japan, UK, Canada, Australia, 3) GDP weighted average of China, India, Brazil, Korea, Taiwan, Indonesia, Thailand, Malaysia, the Philippines, Hungary, Poland, Russia, Turkey, Mexico, and South Africa, 4) GDP weighted average of 2) and 3), 5) core consumer price, 6) for Japan the policy interest rate imposed on the current account deposits held by financial institutions at the Bank of Japan, for the US the upper limit of the FF target range, for the Eurozone the central bank deposit interest rate, for China the 1-year loan prime rate, for Turkey, weighted average funding ratio of the central bank, *As for forecast columns, actuals are prioritized if available.
Source: Oxford Economics, Bloomberg, and Nomura Asset Management

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