



Market reaction to Japan earthquake 14 March 2011



Shogo Maeda
Head of Japanese
Equities

– The central bank has injected 15 trillion yen to provide liquidity and stability to financial markets

– Economic activity is bound to decline in the short term, but with the progress in relief work and the recovery in infrastructure, the economy should return to a recovery track

– Based on the information currently available, we do not believe there has been serious overall damage to the business sustainability of many Japanese companies

It became increasingly apparent over the weekend that the magnitude of the earthquake and subsequent human tragedy in Japan were much greater than we could imagine.

The Japanese people have experienced many earthquakes and the associated consequences before (including the problems in nuclear power plants), but the magnitude has never been this big. Nevertheless, there has been a real contrast between the destructive power of the tsunami, and the orderly and calm response of the people.

The Nikkei opened 6% down in Tokyo on Monday morning and, as we expected, the yen has strengthened slightly on anticipated repatriation of money by Japanese companies. It is no surprise that insurance companies and manufacturing companies, with plants near the earthquake's epicentre, have sold off, while construction and housing companies are well supported. In addition, TEPCO's share price (Tokyo Electric Power Company), which owns the nuclear reactor at Fukushima, has suffered.

The central bank has injected 15 trillion yen to provide liquidity and stability to financial markets. It is clear in the short term that uncertainty will persist, as Japan implements a massive relief operation to look after the people most affected by the disaster. There is also the risk of aftershocks while the authorities try to ensure the safety of the nuclear power generator in Fukushima.

Economic activity is bound to decline in the short term, but, with the progress in relief work and the recovery in infrastructure, we believe the economy should once again return to a recovery track. The region hardest hit by the earthquake and tsunami accounts for about 7% of the national output. The Tokyo Metropolitan area has remained largely unaffected by the earthquake, and, so far, the financial markets are functioning as usual.

Based on the information currently available, we do not believe there has been serious overall damage to the business sustainability of many Japanese companies. As more information becomes available from the companies with regard to the damage caused, we think the market will become more stable.

Important Information:

The views and opinions contained herein are those of Shogo Maeda, Head of Japanese Equities, and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment

Schroders quickview



recommendations. Information herein is believed to be reliable but Schroder Investment Management Ltd (Schroders) does not warrant its completeness or accuracy. No responsibility can be accepted for errors of fact or opinion. This does not exclude or restrict any duty or liability that Schroders has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Schroders has expressed its own views and opinions in this document and these may change. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions.

Issued in March 2011 by Schroder Investment Management Limited, 31 Gresham Street, London EC2V 7QA, which is authorised and regulated by the Financial Services Authority. For your security, communications may be taped or monitored. UK00717



Schroders