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Japan Quantitative Strategy | Japan

Despite Reciprocal Tariff Pause, Pre-Tariff-Announcement Preference for Domestic Demand-driven Stocks Intact

In the afternoon of April 9 (local time), US President Trump announced a 90-day pause on the reciprocal tariff increases. The stock market rallied sharply. Yet the preference for domestic demand-drive names from before the reciprocal tariff announcement remains intact.

Key Takeaways

- On Apr 9 (afternoon, local time), US President Trump announced a 90-day pause on tariff hikes for some countries/regions .
- On April 10, the Nikkei average and TOPIX rose by 9.1% and 8.1%, respectively.
- Returns for cyclical and financial industries rose, as did those for the high beta, high volatility, size (large), and long-term momentum factors.
- Yet the preference for domestic demand-driven and defensive stocks in place since before the tariff announcement remains intact.

Related reports

[Initial Reaction of Japanese Stock Market to Reciprocal Tariffs \(3 Apr 2025\)](#)

[Initial Reaction of Japanese Stock Market to Reciprocal Tariffs \(Cont'd\): Focus of Correction This Time is Long-term Momentum \(7 Apr 2025\)](#)

[Our Thoughts on Factor Moves Amidst Tariffs \(4 Apr 2025\)](#)

MORGAN STANLEY MUFG SECURITIES CO., LTD.+

Ukyo Haraguchi, CFA

Quantitative Strategist

Ukyo.Haraguchi@morganstanleymufg.com

+81 3 6836-8925

MORGAN STANLEY & CO. INTERNATIONAL PLC+

Ronald Ho, CFA

Quantitative Analyst

Ronald.Ho@morganstanley.com

+44 20 7425-2722

Stephan Heller

Quantitative Analyst

Stephan.Heller@morganstanley.com

+44 20 7425-9753

Stephan M Kessler

Quantitative Analyst

Stephan.Kessler@morganstanley.com

+44 20 7425-2854

MORGAN STANLEY MUFG SECURITIES CO., LTD.+

Sho Nakazawa

Equity Strategist

Sho.Nakazawa@morganstanleymufg.com

+81 3 6836-8926

Kanji Ohi, CFA

Quantitative Strategist

Kanji.Ohi@morganstanleymufg.com

+81 3 6836-8924

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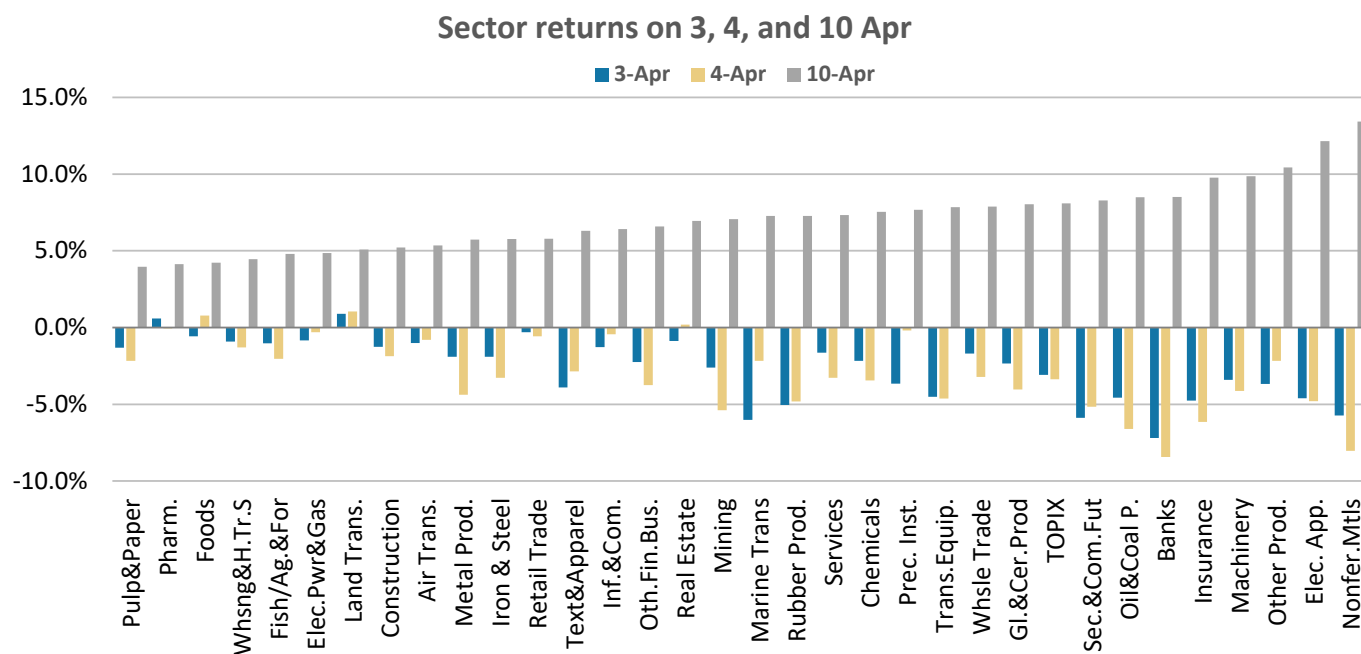
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Despite Reciprocal Tariff Pause, Pre-Tariff-Announcement Preference for Domestic Demand-driven Stocks Intact

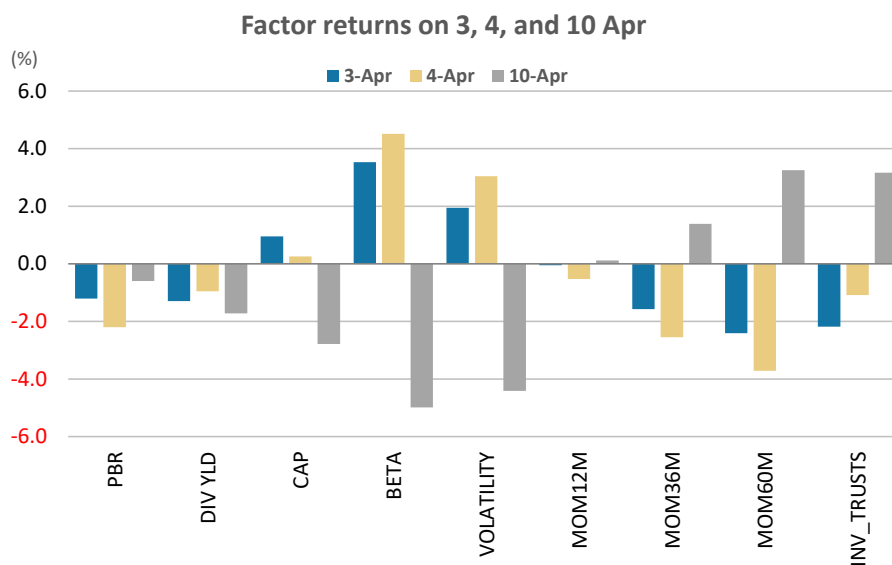
In the afternoon of April 9 (local time), US President Trump announced a 90-day pause on tariff increases for some countries and regions. The baseline 10% reciprocal tariff remains in place, however, and the tariff on China, which announced its own measures in response, was raised to 125% (later revised to 145%). The tariff pause was well received, with the S&P 500 rising 9.5% on April 9, followed on April 10 by substantial gains in the Nikkei average (+9.1%) and TOPIX (+8.1%).

In [Initial Reaction of Japanese Stock Market to Reciprocal Tariffs \(3 Apr 2025\)](#) and [Initial Reaction of Japanese Stock Market to Reciprocal Tariffs \(Cont'd\) \(7 Apr 2025\)](#), we discussed market trends in the wake of President Trump's announcement of reciprocal tariffs on April 2 (local time), but what happened on April 10 was roughly the inverse. By industry type, cyclical industries and the financial sector have rebounded substantially, while defensive industries have seen only limited gains ([Exhibit 1](#)). From a factor perspective, returns increased for high beta, high volatility, size (large), and long-term momentum (60 months, 36 months) ([Exhibit 2](#)).

But it is too early in our view to assume that this will resolve concerns about an economic slowdown and lead to a shift towards a risk-on dynamic. As mentioned, the US has raised tariffs on Chinese goods, and China has also announced total tariffs of 84% on US goods. A preference for low-risk stocks began to emerge in February ([Quant Matters Japan \(Mar 2025\) \(13 Mar 2025\)](#)), before the reciprocal tariffs were announced, and we think the trends with respect to domestic demand-driven and defensive stocks seen before that announcement will continue after the reciprocal tariff pause.

Exhibit 1: Sector returns on April 3, 4, and 10: Strong rebound in cyclical and financial sectors on April 10

Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research.
 Note: Sorted by return on April 10.

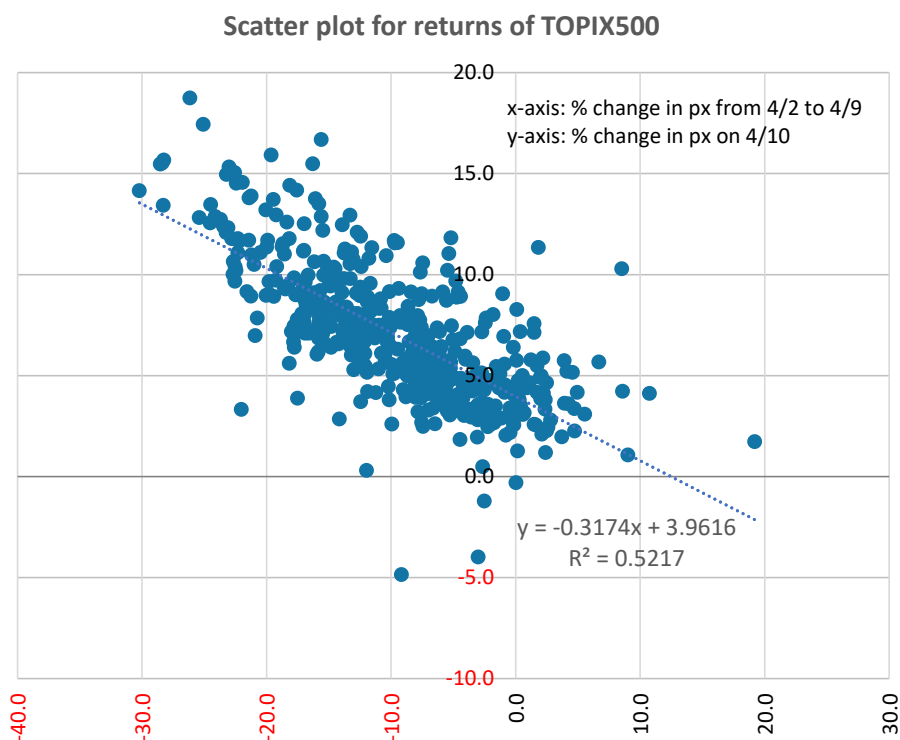
Exhibit 2: Returns for major factors (provisional) on April 3, 4, and 10

Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research.
 Note: TOPIX 500 universe.

The same view holds for returns on individual stocks. The scatter plot in [Exhibit 3](#) shows the returns for TOPIX 500 constituents from the April 2 close (before the reciprocal tariffs were announced) to the April 9 close on the x-axis and the April 10 returns on the y-axis. As the downward trend indicates, the lower the April 2–9 return, the higher the April 10 return, consistent with the above discussion. While this relationship can be

approximated by a straight line, it is, of course, not perfectly linear. Here, we calculate the predicted April 10 return for individual stocks based on the regression equation (shown in [Exhibit 3](#)) and then find the difference (residual) between the actual return and the predicted value. Looking at the stocks with large positive residuals—i.e., those for which the actual April 10 return was larger than the predicted value—although company-specific factors may also be in play, we note the presence of many domestic demand-driven names, particularly those doing business in intangible assets (such as software and intellectual property) that seem unlikely to be subject to the tariffs, as well as some defense-related names. In other words, these are the stocks that have been favored since before the reciprocal tariffs were announced on April 2. The strong preference for these stocks led to crowding, such that they were the focus of unwinding in early March ([Quant Matters Japan \(Mar 2025\) \(13 Mar 2025\)](#)), but this dynamic seems to have run its course for now.

Exhibit 3: Scatter plot of individual stock returns: The deeper the dip, the greater the rebound on April 10



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research.
Note: TOPIX 500 universe.

Exhibit 4: Exhibit 3 Stocks with large residuals from the regression curve (in order of largest residuals)

Code	Stocks	TSE 17 sectors	Share price (JPY, 4/10)	Market cap (JPYmn, 4/10)	Forward P/E	P/B (X)	Residual (%)
4676	FUJI MEDIA HOLDINGS	IT&Serv&Oth	3,304	773,779	69.9	0.78	9.04
3635	KOEI TECMO HOLDINGS	IT&Serv&Oth	2,280	766,133	21.8	3.69	7.97
6481	THK	Machinery	3,572	463,849	22.2	1.04	7.78
5344	MARUWA	Const&Mat	26,750	330,951	17.8	2.68	6.49
6920	LASERTEC	Elec&Prec	12,115	1,142,280	14.8	6.08	6.36
3769	GMO PAYMENT GATEWAY	IT&Serv&Oth	8,348	639,102	32.1	6.20	6.21
5838	RAKUTEN BANK	Banks	5,800	1,011,998	20.7	3.46	5.74
5803	FUJIKURA	Steel&Nonfer	4,710	1,393,517	17.6	3.33	5.52
9766	KONAMI GROUP	IT&Serv&Oth	18,835	2,702,823	33.2	5.37	5.39
4483	JMDC	IT&Serv&Oth	2,905	189,863	30.6	2.56	4.77
7011	MITSUBISHI HEAVY INDUSTRIES	Machinery	2,512	8,472,916	35.1	3.61	4.77
6501	HITACHI	Elec&Prec	3,248	14,876,950	24.0	2.54	4.70
6988	NITTO DENKO	Raw Mat&Chem	2,624	1,854,187	13.6	1.73	4.69
6361	EBARA	Machinery	2,093	967,104	13.4	2.04	4.64
7974	NINTENDO	IT&Serv&Oth	10,505	13,642,738	45.3	4.54	4.64
6861	KEYENCE	Elec&Prec	58,400	14,203,329	34.5	4.70	4.61
6758	SONY GROUP	Elec&Prec	3,527	21,690,382	19.7	2.59	4.53
5631	JAPAN STEEL WORKS	Machinery	5,294	393,921	24.4	2.10	4.53
2222	KOTOBUKI SPIRITS	Foods	2,410	375,059	31.5	9.31	4.52
9602	TOHO	IT&Serv&Oth	8,079	1,506,658	33.4	3.02	4.35
3923	RAKUS	IT&Serv&Oth	1,991	360,710	44.0	19.29	4.25
6532	BAYCURRENT	IT&Serv&Oth	6,757	1,050,115	33.9	10.88	4.21
6305	HITACHI CONSTRUCTION MACHINERY	Machinery	3,871	832,710	9.8	1.02	4.10
6701	NEC	Elec&Prec	3,052	4,163,689	26.6	2.05	4.09
7453	RYOHIN KEIKAKU	Retail	4,484	1,259,018	27.0	3.81	4.09
4062	IBIDEN	Elec&Prec	3,645	513,437	18.8	1.00	4.08
3994	MONEY FORWARD	IT&Serv&Oth	3,784	209,152	0.0	5.89	4.00
8035	TOKYO ELECTRON	Elec&Prec	19,665	9,274,658	17.1	5.05	3.97
5802	SUMITOMO ELECTRIC INDUSTRIES	Steel&Nonfer	2,150	1,706,575	10.5	0.73	3.93
3038	KOBE BUSSAN	Wholesale	4,150	1,135,440	38.3	6.80	3.87
3391	TSURUHA HOLDINGS	Retail	10,400	515,394	21.8	1.79	3.84
8802	MITSUBISHI ESTATE	Real Estate	2,470	3,088,946	17.8	1.29	3.73
3659	NEXON	IT&Serv&Oth	2,159	1,775,722	18.2	1.72	3.73
3697	SHIFT	IT&Serv&Oth	1,208	323,007	36.5	8.87	3.71
9613	NTT DATA GROUP	IT&Serv&Oth	2,626	3,682,264	25.9	2.01	3.68
9468	KADOKAWA	IT&Serv&Oth	3,930	585,532	61.3	2.95	3.65
7186	CONCORDIA FINANCIAL GROUP	Banks	842	963,652	12.2	0.75	3.64
6594	NIDEC	Elec&Prec	2,162	2,578,334	13.4	1.38	3.63
6857	ADVANTEST	Elec&Prec	5,903	4,522,532	25.9	8.71	3.60
9843	NITORI HOLDINGS	Retail	16,415	1,878,590	20.2	1.95	3.57
4543	TERUMO	Elec&Prec	2,860	4,233,660	33.9	3.00	3.56
9401	TBS HOLDINGS	IT&Serv&Oth	4,518	748,140	16.8	0.69	3.49
8331	CHIBA BANK	Banks	1,198	964,612	11.9	0.73	3.45
9697	CAPCOM	IT&Serv&Oth	3,833	2,043,032	34.1	7.90	3.43
8129	TOHO HOLDINGS	Wholesale	4,776	348,772	17.7	1.15	3.34
4704	TREND MICRO	IT&Serv&Oth	10,130	1,427,333	38.4	11.37	3.33
7936	ASICS	IT&Serv&Oth	3,078	2,260,736	28.1	9.42	3.31
6526	SOCIONEXT	Elec&Prec	1,587	284,921	15.7	2.10	3.19
7272	YAMAHA MOTOR	Auto&TransEq	1,114	1,142,845	7.7	0.93	3.17
2801	KIKKOMAN	Foods	1,477	1,431,343	22.6	2.65	3.14

Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research.
Note: TOPIX 500 universe.

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Not-Rated/Hold	3	0%	0	0%	0%	0	0%
Underweight/Sell	598	16%	81	10%	14%	227	13%
Total	3,799		848			1726	

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