

Fundamental Active Group PM's Monthly Insights

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Market Outlook

The Japanese stock market is likely to remain solid in December. While trade negotiations between the US and China stagnated due to anti-government protests in Hong Kong, the Eurozone and China's PMIs suggested a possible end of the economic downturns experienced across the respective regions. In Japan, the administration is discussing the large-scale supplementary budget. If it is approved, an increasing number of analysts will upgrade corporate guidance based on higher expectations for an economic recovery, which in turn should boost equity valuations.

Japan's October retail sales and industrial production index both declined sharply following a last-minute jump in demand ahead of the consumption tax increase in addition to the devastating typhoons, but it seems like these negative factors had already been priced in the market. The administration is proceeding to a discussion to compile additional economic measures by early December. Hopefully, a supplementary budget worth JPY10 trillion will be formulated. With disaster control measures included, the budget amount is likely to exceed our initial forecast.

As the Bank of Japan (BoJ) maintained loose monetary policies and the administration shifted its fiscal policy in an expansionary direction, we believe that the lagging Japanese stocks will catch up with US and European stocks shortly (on a local currency basis).

The Amendment Bill of the Foreign Exchange & Foreign Trade Act (FEFTA) was passed on 22 November, but this event did not hold back buybacks by foreign investors and Japanese stocks kept rising.

Investment Strategy

Overweight sectors (Largest shown first):	Underweight sectors (Largest first):
Information Technology	Industrials
Materials	Health Care
Financials	Real Estate

We overweight construction & materials as well as electronic component makers and semiconductor manufacturing equipment (SME) makers on expectations for an increase in 5G-related investments and mobile terminal production. On the other hand, we underweight foods and services.

Masashi KAMOHARA, CMA

Senior Portfolio Manager and Group Leader, Fundamental Active Group, Equity Management Department

Mr Kamohara is the Lead Portfolio Manager of the Fundamental Active product. He started his career with Daiwa Securities in 1987 and transferred to Daiwa Institute of Research the following year to become a Japanese equity analyst. He was seconded to their Frankfurt office (between November 1992 and February 1995) and Hong Kong office (between February 1995 and March 1997) as an analyst for European and Asia equities respectively. He transferred to Daiwa International Capital Management, the former entity of Daiwa SB Investments, in 1998 to become a fund manager of international equities.

He became a Japanese equity portfolio manager in October 2000 and has managed the Fundamental Active product since its inception in October 2003.

Mr Kamohara graduated from Kyoto University with a BA degree in Educational Administration (1987).

Hideyuki TANIUCHI, CFA/CMA

Senior Portfolio Manager

Mr Taniuchi supports Mr Kamohara in managing the Fundamental Active product. He started his career with Yamaichi Securities in 1996. He moved to Nikko Asset Management the following year as a trader of equities, convertible bonds and FX. He became a senior portfolio manager of Japanese equity specialising in Growth stocks. He joined Daiwa SB Investments in June 2008 to support Mr Kamohara in managing the Fundamental Active product.

Mr Taniuchi graduated from Tokyo University of Science with BS/Engineering in Industrial Administration (1996).

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Note: Daiwa SB Investments Ltd. (DSBI) merged with Sumitomo Mitsui Asset Management Company, Limited (SMAM) on 1 April 2019

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