

Fundamental Active Group PM's Monthly Insights

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Market Outlook

We expect Japanese stocks to gradually reach a bottom in February. My personal view is that the worst-case scenario has already been priced in the market when Honda and Nissan closed their factories in or near Wuhan. The Nikkei 225 index rose +1% on 5 February when the Japanese authorities decided to call for passengers in a large cruise ship that entered the Yokohama port from Hong Kong to be quarantined onboard for two weeks. It is still difficult for us to estimate the impact of COVID-19, however people should stop spreading irrational fear.

The coronavirus outbreak would have a significant impact on the economy and corporate earnings in China as local authorities were forced to extend the Chinese New Year holidays and shut down transport networks in the Hubei province with a focus on Wuhan. We expect a series of downgrades in profit forecasts not only from Chinese companies but also from Japanese ones. Not only exporters but sectors such as air transportation, marine transportation, hotel operation and retail trade are also likely to suffer. That said, we believe that the market has already incorporated these ill effects through a dip in the latter half of January.

We expect electronic components/ semiconductor makers to lead a rebound in the Japanese stock market. These sectors can expand production quickly and respond to growing demands by transporting necessary production equipment, components and their products by air, while the investments in 5G mobile devices and data centres are likely to continue across the world with the booming economy in the US. An increasing number of companies in these sectors are actually reporting sharp recoveries in orders and earnings at the latest earnings season.

Investment Strategy

Overweight sectors (Largest shown first):	Underweight sectors (Largest first):
Information technology	Industrials
Materials	Health care
Financials	Consumer Discretionary

Sectors shown are TOPIX 17 industries

We maintain an overweight position in the IT sector including electronic components/ semiconductor makers. However, we will narrow the active weight of sectors and individual stocks across the board. We normally, increase weights of defensive sectors such as pharmaceuticals, retail trade and land transportation in a risk-off market, but they might suffer this time from the warm winter as well as a decrease in the number of tourists. We keep an unbiased and cautious stance in stock selection.

For example with regard to major factory automation (FA) operators such as **Keyence** and **Fanuc**, we are planning to reduce a weight of **Keyence** (IT sector) while newly investing in **Fanuc** (industrial, in which we continue to underweight) as its order intake hit bottom. We do not intend to increase our position in the pharmaceutical sector on the back of hope for a coronavirus drug as some companies are far from the case. **Shionogi**, whose flagship product is an anti-flu medicine downgraded its profit forecast due to a fall in the number of flu patients as a result of preventive actions by many people following the spread of the novel coronavirus. For the healthcare sector, we will add names such as **Olympus** to reduce the underweight range of the healthcare equipment & service subsector.

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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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