

# Fundamental Active Group PM's Monthly Insights

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## Market Outlook

We expect the Japanese stock market to bounce back in August. Domestic stock markets may enter into a temporary correction phase and attempt to bottom out in the first half of the month, given the deterioration in corporate earnings, a resurgence in coronavirus cases and concerns over the domestic economy. But stock prices should resume upwards toward the end of the month when the earnings season for the April-June quarter is over. We believe companies that are expecting earnings improvement should lead a broad stock price rebound. Moreover, we remain hopeful for stock price rallies of companies that are planning to buy back their own shares and ramp up shareholder returns.

Despite rising coronavirus cases, most patients have only mild or even no symptoms. There should be no confusion in the healthcare industry if we lease hotels and quarantine these patients. On the other hand, the prolonged rainy season seems to have pushed down the domestic economy by raising prices of fresh foods and weighing on consumer spending. The Japanese government is struggling to implement measures to boost consumption after its "Go To" tourism promotion campaign came under fire because of resurging Covid-19 infections around the country. The government will try to stimulate the economy by placing more orders for public works including disaster restoration and disaster prevention countermeasures for the time being.

Corporate earnings for the April-June quarter have been weak, as envisioned. Forty-five percent of companies listed on the 1st section of the Tokyo Stock Exchange (TSE) that close their fiscal year at the end of February or March announced their earnings results by 31 July. According to the aggregated data, operating income and net profits decreased by -59% and -76% YoY respectively. Domestic companies suffered declines of -33% in operating income and fell into the red on a net basis in the previous quarter. Apparently, companies lost operating income faster than expected, but they returned to profit on a net basis due to decreased extraordinary losses. According to **SoftBank Group's** earnings report released on 4 August, it returned to profit in the April-June quarter from a net loss of JPY1.4 trillion in the January-March quarter. As shown in this case, net profits of companies listed on the TSE 1st section may have bottomed out in the January-March quarter. By the way, the total sum of net losses of those that close their fiscal year at the end of February or March amounts to approximately JPY1 trillion.

While we are seeing a recovery in production activity, the momentum of the domestic economy is still weak. We think sectors such as electric appliance & precision instruments and automobiles will lead the overall earnings recovery going forward. An increasing number of financial firms are improving profitability thanks to a growth in trading gains. Retailers including drugstore chains that are operating in suburbs and IT solution providers that support teleworking environments are also enjoying strong revenues.

## Investment Strategy

Overweight sectors (largest shown first):	Underweight sectors (largest shown first):
Information technology	Consumer Staples
Materials	Industrials
Financials	Real Estate

Sectors shown are TOPIX 17 industries

We overweight sectors such as financial firms that are expected to repurchase their shares after releasing interim financial results, IT companies that are expecting earnings recoveries, telecom carriers as well as auto makers in the consumer discretionary while taking underweight positions in foods in consumer staples and transportation in industrials.

## 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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