

# Fundamental Active Group PM's Monthly Insights

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## Market Outlook

We expect the Japanese stock market will remain solid in September. Chief cabinet secretary Yoshihide Suga is likely to replace the outgoing Prime Minister, Shinzo Abe. Mr. Suga is likely to push forward a further expansion of fiscal expenditures given his commitment so far to stave off recessions due to social distancing measures following the coronavirus pandemic. He has striven to shore up the domestic economy by promoting measures to boost demand such as the "Go To" campaign (subsidies for domestic tourism). When we look back on Mr. Abe's economic policies, he seems to have lost interest in economic growth for the past year or more. In that sense, if Mr. Suga replaces Mr. Abe, Japanese stock markets will surely benefit from his enthusiasm about economic expansion. The Bank of Japan is also expected to continue the accommodative monetary policies, which will create an ideal environment for stock price rallies.

Given the fact that most people who have had positive results in polymerase chain reaction (PCR) tests for the virus have no symptoms while the number of positive results remains high with an increase in the number of people who take PCR tests, the new administration will be able to implement economic expansion policies without any trouble. We do not see any overwhelmed hospitals, with only 32 hospitalised patients who were seriously ill with artificial ventilators as of 31 August. If another candidate such as Mr. Kishida or Mr. Ishiba is elected as the next leader, stock markets are likely to lose steam and remain sluggish until the successor unveils his economic policies.

I myself pin my hopes on Mr. Suga. He may seek support from Mr. Abe in foreign diplomacy or leave it to the foreign minister because he is not as well versed in diplomacy as Mr. Abe. If he relegates foreign matters to other persons and concentrates on economic issues, domestic stock markets will enjoy its benefits. Mr. Suga was deeply involved in economic policies, when Abenomics was working well. Mr Suga was behind most successful economic measures such as those placed to increase incoming foreign tourists. If foreigners see the new Prime Minister (most likely, Mr. Suga) is under the influence of Prime Minister Abe, the change in the prime minister will be judged to be successful.

The earnings season for the April-June quarter is now over. According to earnings results 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, operating profits and net profits decreased by -39% and -56% respectively. While the rate of decline in operating profits rose from the previous quarter, they turned to the black on a net basis. While earnings sharply improved at telecom companies (e.g. **SoftBank Group** returned to profit.) and temporary expenses such as restructuring costs significantly decreased at steelmakers, losses increased further at auto makers due to a slump in auto production and posting of restructuring costs at **Nissan**.

However, auto production started to rapidly improve in the July-September quarter. Not only auto makers but also material makers including steelmakers and chemical producers should enjoy this benefit. It seems operating profits of domestic companies have hit bottom in the April-June quarter, pinning hopes for further net profit recoveries from now on. We believe not only macroeconomic policies but these corporate earnings recoveries will also prop up stock markets.

## Investment Strategy

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

Sectors shown are TOPIX 17 industries

We take an overweight position in financials as many of them are expected to buy back their own shares after the interim earnings season. We also overweight IT which is expected to achieve earnings recoveries and automobiles as the consumer discretionary sector. We will also reduce the underweight range of transportation in the industrial sector. On the other hand, we will reduce the weights of stocks that had been performing well until now such as food supermarkets, pharmaceuticals and toiletries.

## 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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