

Fundamental Active Group PM's Monthly Insights

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Market Outlook

We expect the Japanese stock market will remain solid in October. Stock prices are likely to gain ground while paying attention to revisions of corporate earnings estimates and the extent of earnings recoveries for the July-September quarter. The earnings season for the latest quarter will kick off in the latter half of October. When we look into earnings results of retailers for reference (most retailers close their fiscal year on 28 February instead of 31 March and release their quarterly earnings results one month earlier than others), many of them - including apparel shops and major home appliance stores - enjoyed earnings recoveries in the June-August period after tough times due to social distancing measures such as the partial lockdown in the previous quarter. Given stock prices of retailers whose earnings results improved beyond expectations climbed in the wake of their announcements, those of other industries are likely to respond straightforwardly to revisions of earnings estimated by analysts.

Yoshihide Suga, the new prime minister of Japan, is expected to focus first on rebuilding the domestic economy that has been hit by social distancing measures. Mr Suga, in his previous role as Chief Cabinet Secretary with Mr Abe's cabinet, has led initiatives to boost consumption so far such as subsidies for domestic tourism / eating-out and a points-based rewards program called "MYNA point", though he exceptionally demanded wireless carriers to lower mobile phone rates. He has been committed to economic revitalisation in recent months and approved an entry of foreign businessmen into Japan. When the extraordinary Diet session is convened, a plan to establish the digital agency is crystallised and the budget size for further stimulus measures become clearer, stock prices should reflect these developments.

Given a rapid recovery in auto production, an increase in home appliance sales and a growth in exports of electronic components and steel / chemical products, we are expecting sharp earnings improvements of companies, especially manufacturers from the previous quarter and announcements on upgrades of earnings estimates at the upcoming earnings result briefing sessions.

As for the future prospect, earnings results for the October-December quarter should be greatly affected by the outcome of the US presidential election. Even if Mr Biden wins the election, we don't think he will be able to introduce measures that damages the economy such as the corporate tax hike and the tightening of financial restrictions unless the economy turns up and the unemployment rate declines to a certain extent. We expect stock markets to remain firm on the assumption that both the US and Japan maintain loose monetary policies as well as expansive fiscal policies within this year.

Investment Strategy

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

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. In the IT sector, we will increase the weight of electronic component makers given an increase in their order intake. We will reduce the underweight range of Transportation in the industrial sector, while reducing the weight of telecom carriers following a request from the new prime minister to lower mobile phone rates.

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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).

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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).

Disclosures

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