

Value + Alpha Group

# PM's Monthly Perspectives

## Author



**Takuya KAMIISHI, CMA**  
Portfolio Manager

In October, the MSCI Japan (net total return local index) decreased amid growing concerns over Covid-19 and the JPY appreciation against the USD. Stock prices advanced during the beginning of the month on expectations of additional economic stimulus measures in the US. Better-than-expected ISM non-manufacturing PMI in the US also shored up the market. But when the media reported about the Republican Party's hesitance about stimulus measures, the JPY turned up and its upward trend continued while stock prices declined toward the end of the month. Increases in new Covid-19 cases in the US and Europe followed by new lockdowns or tighter restrictions on movements also discouraged investors. With regard to corporate earnings results, recoveries in auto/electronic parts production as well as companies' cost-reduction efforts led to operating income growths at many domestic companies.

### Earnings: The earnings season for the July-to-September quarter kicked in.

The earnings announcement season for the July-to-September quarter got under way. As of 30 October, approximately 40% of major listed companies (excluding financials) from the first section of the Tokyo Stock Exchange (TSE) announced their earnings results. According to Daiwa Securities, operating income of the TOPIX 1,000's component issues with Institutional Brokers' Estimate System (IBES) consensus decreased -26% year-on-year but surpassed the consensus by 17%. Generally speaking, many companies topped their forecasts of operating income, which gave us an impression of strong earnings. In particular, the strength of auto/electronic parts makers was prominent while the earnings of IT & services providers appeared weak due to a decline in orders.

### Positives

**Sony:** The company beat the consensus estimate of sales and EPS as it enjoyed bigger-than-expected demand for its games and home electronics following shelter-at-home policies. Amid concerns over fresh sanctions on **Huawei**, strong sales of semiconductors for iPhones offset a deceleration in demand of those for the Chinese telecom group.

**Panasonic:** The company beat the consensus estimate of sales and EPS. It benefited from the bigger-than-expected recovery in auto production but its efforts to reduce fixed costs also contributed to its earnings growth.

### Negatives

**Fujitsu:** The IT service provider missed the consensus estimate of sales and EPS. The company suffered a decline in orders amid suspension or postponement of IT investments by companies. Its comment at the earnings result briefing session that demand from local governments and hospitals are still weak with no signs of recovery also displeased investors.

**Z Holdings:** The media company beat the consensus estimate of sales but missed that of EPS. Its forecast of operating income also fell below its market consensus. The company's prediction that its ad revenue would decline and its plan to expand promotional costs to a large extent for its mid-term growth also discouraged investors.

### Economy: Japan's leading indicators are still on an upward trend.

Leading indicators are still in the recovery phase. Japan's flash leading index, the composite index of eleven leading indicators (CI) for September rose to 92.9 from 88.5 for the previous month. This means the domestic economy is on the road to recovery after bottoming out in April/May.

**Japan Business Conditions (Leading Composite Index, 2015 average=100)**



Source: Bloomberg, data correct as of 9 November 2020.

The flash CI is composed of nine leading indicators and all of them improved in September. Its upturn of +4.4 points is broken down into +1.25 by the Japan consumer confidence index, + 0.86 by the index of producer's inventory ratio of finished goods (producer goods), +0.64 by the producer's inventory ratio of finished goods (final demand goods), +0.61 by the Japan new job offers ex new graduates and so on. This means a recovery of consumer sentiment, a decrease in inventories and an improvement in employment led to the bullish economic outlook. However, given all of the nine flash indicators have improved, recoveries in housing as well as financial policies are also likely to boost the economic recovery from now on. The domestic economy is still in the early stage of economic recovery, suggesting a positive sign for stock prices.

**Japan Consumer Confidence Index (SA)**



Source: Bloomberg, data correct as of 9 November 2020.

**Index of Producer's Inventory Ratio of Finished Goods (Producer Goods, 2015 average = 100, SA, Inverted)**



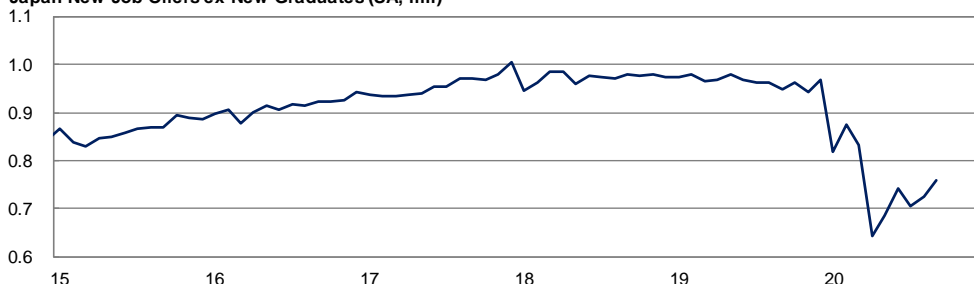
Source: Bloomberg, data correct as of 9 November 2020.

**Index of Producer's Inventory Ratio of Finished Goods (Final Demand Goods, 2015 average = 100, SA, Inverted)**



Source: Bloomberg, data correct as of 9 November 2020.

Japan New Job Offers ex New Graduates (SA, mil)



Source: Bloomberg, data correct as of 9 November 2020.

### Investment Strategy

We expect that the Japanese equity market will advance with the economic recovery and ongoing accommodative monetary policies. Over the long term, more open policies to overseas funds including the improvement in corporate governance as well as policies to boost the immigration intake are also likely to support the market. We identify external factors, such as the outbreak of financial crises and another global recession, as major risks because they might bring about a sharp yen appreciation. Taking these into consideration, we will overweight the consumer discretionary sector and stocks with low price/book (P/B) ratios.

**Takuya KAMIISHI, CMA**  
**Portfolio Manager, Value + Alpha Group**

Mr KAMIISHI joined Daiwa SB Investments in 2009 and covered US & European equities as a strategist from 2010 to 2013. He moved to Hong Kong in 2013 as an analyst for the auto & industrials sector in Asia Pacific ex-Japan equity. In 2015, he returned to Japan and covered the IT & services sector as a Japan equity analyst. In 2016, he became a portfolio manager in the Value + Alpha group.

Mr KAMIISHI obtained a BA degree in Economics from Keio University (2009) in Japan.

**Note:**

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

**Disclaimers**

Issued by Sumitomo Mitsui DS Asset Management (UK) Limited. Registered in England and Wales

Registered office 5 King William Street, London, EC4N 7JA; registered number 1660184. Authorised and regulated by the Financial Conduct Authority.

**Past performance is not a reliable indicator of future performance and may not be repeated. An investment's value and the income deriving from it may fall, as well as rise, due to market fluctuations. Investors may not get back the amount originally invested.**

The data contained in this document is for information purposes only. It is correct to the best of our knowledge at the date of issue and may be subject to change. The client legal agreement will take precedence over this document. This document is not legally binding and no party shall have any right of action against Sumitomo Mitsui DS Asset Management (UK) Limited, in relation to the accuracy or completeness of the information contained in it or any other written or oral information made available in connection with it. Nothing in this document or any related presentation shall be deemed to constitute investment advice, nor shall we be deemed to be an investment advisor unless formally appointed as such, or as discretionary investment manager, by way of written agreement.

The information contained in this presentation is to be used by the professional client that this document is issued to only.

This document may not be copied, redistributed or reproduced in whole or in part without prior written approval from Sumitomo Mitsui DS Asset Management (UK) Limited.

**Contact Details**

Business Development and Client Relations

Takahiro UENO +44 (0)20 7507 6431

Jennifer SANDS +44 (0)20 7507 6424

Email: [uksales@smd-am.co.jp](mailto:uksales@smd-am.co.jp)

Sumitomo Mitsui DS Asset Management (UK) Limited  
5 King William Street, London, EC4N 7DA  
United Kingdom  
[www.smd-am.co.uk](http://www.smd-am.co.uk)