

Fundamental Active Group PM's Monthly Insights

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Market Outlook

We expect a firm stock market for December given economic recovery as a result of stimulus packages by the government and improvement in corporate earnings. Domestic stock markets are likely to enjoy strong rallies in the first half of the month. However, gains may be reversed temporarily just before Christmas as electric carmaker, **Tesla**, will be introduced to the S&P500 on 21 December at the closing price of the previous business day. As the inclusion of Tesla ranks as the biggest on record, in terms of market capitalisation, US stocks should fall back when index funds adjust their holdings (i.e. sell large amounts of other component names) to mirror the index. Consequently, domestic stocks are likely to follow US stocks on an interim basis after rapid stock price rallies across the world in November. A decline of Tesla's shares should be inevitable in view of their price surge since its addition to the S&P 500 has been announced. It appears difficult for Tesla to maintain its high valuations, taking into account they are earning profit by selling CO² emission rights with its car production and sales segment still operating in the red.

The earnings season for 1H FY2020 for companies with financial year ends on 28 February or 31 March is over (excluding those that deferred their announcements). According to data aggregated by Mizuho Securities, declining rates of operating income and net income decreased sharply from 38% and 55% for the March-May/April-June quarter to 18% and 15% for the June-August and July-September quarters respectively. If we focus on earnings growth rates for the latter half of the financial year of those that announced earnings forecasts for the full financial year, operating income and net income will increase 22% and 5% respectively. Net income is likely to increase in FY2020 as many companies booked huge amounts of extraordinary losses such as impairment losses and valuation losses in FY2019. There also appears to be an opportunity for operating income to top the forecast given a rapid recovery in auto/electronic component production.

The media has reported on hospitals being overwhelmed following a surge in new coronavirus cases. But there were only 70 severe cases as of 30 November. The number of beds Tokyo secured for severe cases was only 150, which seemed to make the media nervous. We believe the reality is far from the crisis situation, at this stage, and this could be a catalyst for further capital investment if companies improve their technological infrastructure for teleworking and remote meeting.

Investment Strategy

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

Sectors shown are TOPIX 17 industries

We will maintain our overweight positions in IT, materials, financials and consumer discretionary. In the IT sector, we will increase the weights of software developers and IT solution providers on the back of a recovery in their order intake. We will remain overweight in semiconductor makers as well. We will increase the weight of the material sector following a rebound in demand of semiconductor materials, steel and electric wires. In the financial sector, we will reduce the weight of insurers while increasing that of securities firms as long-term interest rates stopped rising. On the other hand, we plan reduce the weight of the consumer staple sector.

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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).

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