

Value + Alpha Group

PM's Monthly Perspectives

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In November, the TOPIX jumped following progress in vaccine development, the ending of the US presidential election and better-than-expected economic indicators. Investors welcomed a string of positive results on Covid-19 vaccine trials, while the 2020 US election result came as no surprise and the US ISM Manufacturing PMI as well as Japan's Economy Watchers Survey exceeded the market consensus, both of which propped up stock prices. While value stocks centering on energy and financials outperformed on Wall Street, value stocks underperformed in Japan due to an increase of new cases.

While leading indicators declined due to a resurgence in new coronavirus cases, auto production seems to remain strong.

The latest Economy Watchers Survey result published on 8 December fell back after domestic leading indicators continued to improve so far. The average of current and future economic conditions plunged from 51.8 in October to 41.1 in November mainly due to a resurgence in new coronavirus cases in Japan.

Occupancy rates of hotels as well as operation rates of restaurants rebounded since Tokyo was added to a target area of "GO TO" travel campaigns (a policy in which the government subsidises up to 50% of travel expenses) on 1 October. We could see a sign of recovery in employment in these industries. However, after the government suspended the policy in some cities including Osaka and urged restaurants to cut their operating hours due to an increase in new cases, an increasing number of people seem to have turned negative and expressed concerns over the economy in the latest survey.

We believe the timing of the next coronavirus peak and whether Tokyo will be excluded from target areas of "GO TO" travel campaigns should determine the course of leading indicators in the short-term. On 8 December, the government decided to delay the expiration date of the campaign from 31 January 2021 to 30 June 2021 with a positive attitude toward fiscal expenditures on stimulus measures such as "GO TO" travel campaigns.

Returning to the latest Economy Watchers Survey result, comments on a recovery of auto production drew our attention. They suggest that economic recoveries are patchy with healthy industries and struggling ones mixed.

Japan Economy Watchers Survey (Average of Current and Future)

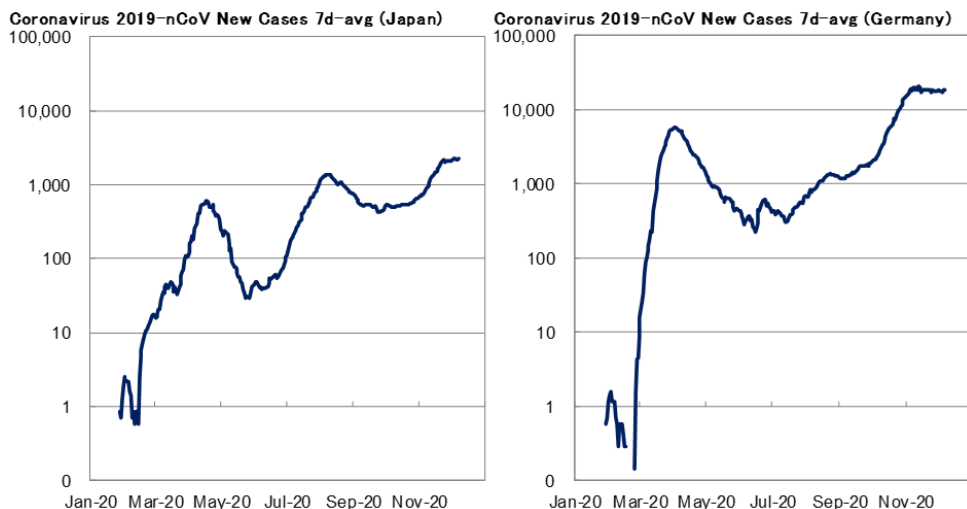


Source: Bloomberg, data correct as of 8 December 2020.



The number of new coronavirus cases in recent days remain flat in Japan, with the far lower level of infection than those of other nations.

According to Bloomberg, the number of new cases (the seven-day moving average) turned up in late September, but now it remains mostly flat. Given approximately 2,000 new cases have been added per day in Japan while Germany reports about 18,000 daily new cases, the absolute number of infections in Japan is still far smaller than those in other developed countries. We can hardly predict the number of new cases, so we will keep an eye on the latest infection status.



Source: Bloomberg, data correct as of 7 December 2020.

Investment Strategy

We expect that the Japanese equity market will advance under ongoing accommodative monetary policies though it will be pushed around by the coronavirus infection status or economic indicators in the immediate term. Over the longer term, more open policies to overseas funds including the improvement in corporate governance as well as policies to boost the immigration intake are 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.

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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:

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