

Fundamental Active Group PM's Monthly Insights

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Market Outlook

We expect the Japanese stock market will remain solid in April, helped by improvement in earnings forecasts. The economic outlook is picking up and long-term interest rates are rising in the US but the Bank of Japan (BOJ) are likely to adhere to current accommodative policies. Given the inflation rates hovering in the negative territory, the BOJ has no reason to change its course. The bank recently decreased purchases of equity ETFs after accumulating them as a substitute for Japanese government bonds (JGBs), which we believe is an appropriate action given declines in risk premiums. The BOJ should be able to maintain monetary easing measures by pumping up purchases of JGBs as the government is expected to issue huge amounts of bonds. There is plenty of room for Japanese value stocks to move higher given they are trading at only 1 or less per share book value unlike US counterparts whose price-to-book-value ratios (PBRs) are over 1. The PBR below 1 times means current valuations are below their liquidating values.

According to the latest Japan Company Handbook (Spring 2021 version) which aggregated earnings forecasts of all the listed companies, operating income for the FY2020 (from April 2020 to March 2021) was revised upwards with its growth rate turning positive, while pre-tax/net income is expected to decline due to the emergence of temporary expenses. Manufacturers centering on exporters are enjoying earnings improvement and the **SoftBank Group** is blessed with operating income growth thanks to huge investment gains. Japanese companies are likely to upgrade their earnings forecasts in succession until the end of April when the earnings season for the FY2020 kicks off.

That said, we believe earnings forecasts for the FY2021 will fall below the market consensus on the assumption that Japanese companies will unveil conservative forecasts due to negative factors such as global chip shortages. Thus stock prices might enter a temporary correction phase following the upcoming earnings season.

Notes: Above names are for illustrative purposes and SMDAM is not recommending or advising these stocks.

Investment Strategy

Overweight sectors (largest shown first):	Underweight sectors (largest shown first):
Information Technology	Industrials
Materials	Consumer Staples
Financials	Real Estate

Sectors shown are TOPIX 17 industries

We remain overweight in IT, materials, financials and consumer discretionary, while maintaining underweight positions in consumer staples, industrials and real estate. We reduce the weight of the consumer discretionary sector (auto stocks) while accumulating the materials sector (silicon wafer makers and semiconductor material makers) and the IT sector.

Masashi KAMOHARA, CMA

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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).

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).

Disclosures

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