

20 May 2021

Fundamental Active Group PM's Monthly Insights

Authors



Masashi KAMOHARA, CMA
Group Leader &
Senior Portfolio Manager



Hideyuki TANIUCHI, CMA/CFA
Senior Portfolio Manager

Market Outlook

We expect the Japanese stock market will not hit a year-to-date high in May. Stock markets have lost ground since late April amid fears about an increase in new coronavirus cases and worries that earnings forecasts of domestic companies will fall below the market consensus. That said, we still expect stock prices to turn up in the latter half of the month. Highly valued growth stocks are likely to lose steam while value stocks with low forward PERs are bound to perform well.

According to earnings results for the FY2020 released by domestic companies so far, earnings rebounded sharply in the latter half of the FY. While growth stocks that enjoyed stock price rallies in 2020 tend to fall back after the earnings announcements because their strong earnings had already been priced in, earnings of value stocks in sectors such as automobiles, steel & nonferrous metals and petrochemicals that suffered stock price declines in the first half of 2020 have been rapidly improving since the latter half of the FY2020 with their stock prices bottoming out accordingly. Value stocks are expected to achieve further earnings improvements in the first half of the FY2021 given ongoing recoveries in production volumes and product prices. They should outpace growth stocks by far in the pace of earnings improvement which should in turn boost their stock prices.

While we are still worried about an increase in new coronavirus cases in Asia including Japan, investors are likely to shift their attention from the number of coronavirus cases to the future economic recovery with the spread of vaccination programs. We hope the market will begin to price in economic recoveries as well as earnings recoveries from the latter half of May.

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 and financials, while maintaining underweight positions in industrials and consumer staples. We will increase the weights of stocks whose earnings forecasts are strong but forward PERs are low.

Masashi KAMOHARA, CMA

Senior Portfolio Manager and Group Leader, Fundamental Active Group, Equity Management Department

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

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.

Risk warning: On 1 January 2021 the UK left the EU transitional arrangements and no longer benefits from passporting rights into EEA countries.

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

Marius ERIKSEN +44 (0)20 7507 6438

Email: 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