

# Fundamental Active Group PM's Monthly Insights

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## Market Outlook

We expect the Japanese stock market will stay firm in June. Stock markets are likely to move up amid growing expectations for the economic recovery with the spread of vaccination programs. Upgrades of earnings forecasts by sell-side analysts should also boost stock prices.

The earnings season for companies with a fiscal year ending 28 February or 31 March is over. While operating income for the FY2020 dropped -6%, net income rose +22% from a low base in the previous year when extraordinary losses such as impairment losses bloated. When we focus on the January-March quarter, operating income showed a year-on-year (YoY) increase of 50% and net income surged eleven-fold. Given growth rates of these income were 25% and 2.75 times respectively in the latter half of FY2020 (October 2020 – March 2021), we can tell how sharply the domestic corporate earnings increased in the latest quarter. According to the tally of earnings guidance for the FY2021, growth rates of operating/ net income were 27% and 34% respectively. They both fell below the market estimates as expected. Domestic-demand-led sectors such as construction, electric power & gas, IT & services (telecom carriers) unveiled forecasts of earnings declines with many companies releasing guidance that falls below the consensus of sell-side analysts due to chip shortages, weighing down forecasts for the overall earnings growth rates.

Economic activity is picking up not only in China but also in the US and Europe amid rising vaccination rates. Exports of FA equipment, machinery, petrochemicals, steel products and so on from Japan to these booming regions are expanding. Exports of automobiles and auto parts should also turn up when the volume of chip production increased. On the other hand, given many companies haven't reflected the rapid recovery of machinery orders and an increase in steel / petrochemical prices from this March in their earnings guidance for the FY2021 yet, we assume sell-side analysts will upgrade their earnings forecasts before long. In addition, economic activity will start again at home with the spread of vaccination programs, prompting earnings of domestic-demand-led companies to bottom out. Upgrades of guidance should lift domestic stock prices in turn.

## Investment Strategy

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

Sectors shown are GICS 11 sectors.

We remain overweight in IT and materials that should continue booking strong earnings as well as financials whose valuation is low and from which we can expect shareholders' returns, while maintaining an underweight position in consumer staples due to its low earnings growth rate. We will reduce the extent of underweight in Industrials by buying stocks that are expected to enjoy strong earnings.

## 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).

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