

# PM's Monthly Perspectives

Author



**Takuya KAMIISHI, CMA**  
Portfolio Manager

In May, the MSCI Japan advanced as concerns over tapering abated and vaccination campaigns expanded in the US. While investors reacted nervously to US economic indicators and statements from US Fed officials throughout the month as they had been paying close attention to US inflation rates and when the Fed would begin tapering, the worse-than-expected US jobs report and a statement from a Fed official that the bank will maintain its loose monetary policy for a while propped up domestic stock prices. The media report that people started to go out actively abroad thanks to a progress in vaccination programs as well as expectations that Japan will follow suit in the next few months also provided a boost to domestic stocks, especially those that can reap benefits from the resumption of economic activity. However, the Bank of Japan (BoJ)'s decision to reduce exchange traded fund (ETF) purchases and to change the related rules continued to weigh down stock prices.

**Economy: Domestic leading indicators are on an upward trend while US ones are peaking out**

Latest domestic leading indicators improved across the board. The Composite index of eleven leading indicators has been rising after hitting the bottom in May 2020. We can cite a reduction in inventories, a better prospect for sales of small and midsize companies as well as an increase in commodity prices as reasons for its improvement in April.

Japan Business Conditions (Leading Composite Index, 2015 average=100)



Source: SMDAM based on Bloomberg data as of 8 June

Index of Producer's Inventory Ratio of Finished Goods (Final Demand Goods, 2015 average = 100, SA, Inverted)



Source: SMDAM based on Bloomberg data as of 8 June

Sales Forecast DI of Small Businesses (SA)



Created by SMDAM based on Bloomberg data as of 8 June

However, M2 dragged down leading indicators for the second straight month after having boosted them until then. While the BoJ maintains a loose monetary policy, the economy seems to be shifting from a phase led by monetary easing to the one led by industrial production.

Japan M2 YoY



Source: SMDAM based on Bloomberg data as of 8 June

We have to keep an eye on the coronavirus infection status to predict the domestic economy. The number of new cases is decreasing lately under the declaration of a state of emergency from 25 April to 20 June.

Coronavirus 2019-nCoV New Cases 7d-avg (Japan)



Source: SMDAM based on Bloomberg data as of 8 June

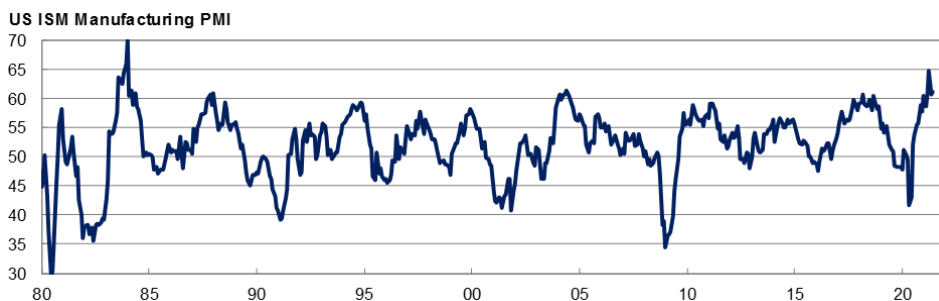
The Economy Watchers Survey result for this April worsened due to the fresh declaration of a state of emergency but rebounded in May with some progress in vaccination programs. So, we expect a recovery in the domestic economy and an upward trend in leading indicators even with the coronavirus infection.

Japan Economy Watchers Survey (Average of Current and Future)



Created by SMDAM based on Bloomberg data as of 8 June

On the other hand, the US Manufacturing PMI, the typical leading indicator in the US, has been struggling to surpass the latest peak of 64.7 for March this year. We leave our view that US leading indicators have peaked out unchanged.



Source: SMDAM based on Bloomberg data as of 8 June

**Investment Strategy**

We expect that the Japanese equity market to remain range-bound due to a tug-of-war between accommodative monetary policies and a sense of overvaluation, especially in the US equity market. Over the long 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.

Notes: Some statements contained in this material concerning goals, strategies, outlook or other non-historical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities.

The organisations and/or financial instruments mentioned are for reference purposes only. The content of this material should not be construed as a recommendation for their purchase or sale. Charts and graphs are provided for illustrative purposes only.

## Takuya KAMIISHI, CMA Co-Lead Portfolio Manager, Value + Alpha Group

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:

Daiwa SB Investments Ltd. (DSBI) merged with Sumitomo Mitsui Asset Management Company, Limited (SMAM) on 1 April 2019.

## Disclaimers

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](mailto: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](http://www.smd-am.co.uk)