

# Fundamental Active Group PM's Monthly Insights

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## Market Outlook

We expect the Japanese stock market will move up in July with better-than-expected corporate earnings. Earnings of exporters for the April-June quarter should top forecasts by sell-side analysts thanks to the JPY weakening trend. We expect many companies will upgrade their earnings guidance for the 1H FY2021 (April-September) or the full FY2021 immediately before or during the upcoming earnings season given modest guidance so far by makers of not only automobiles but also machines, electric appliances and raw materials due to chip shortages. The earnings season for the April-June quarter will kick off in the latter half of July.

Social-mobility restrictions due to the coronavirus have fuelled concerns over the domestic economy while earnings forecasts of many domestic companies including auto-related makers that were announced during the FY2020 earnings season fell below the market consensus. These negative factors have weighed down domestic stock prices.

However, we expect an upturn in the domestic economy because economic activities are gradually picking up with the spread of vaccination campaigns and auto makers are likely to ramp up production without any slump. Furthermore, the Japanese government should unveil another economic stimulus package as a manifesto ahead of the Lower House election when the Olympic Games are over. The Bank of Japan (BOJ) has also declared that it would maintain loose monetary policies, which suggests a favourable environment for equity investments. We believe domestic stock markets will enjoy rallies toward the end of the year.

## Investment Strategy

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

Sectors shown are GICS 11 sectors.

We will basically take overweight positions in exporters that can benefit from the JPY depreciation. We will invest in financials stocks with advantages in overseas businesses that can receive large benefits from the JPY depreciation. While we will remain overweight in IT stocks including software developers and electronic component makers, the overweighting range shrank when we reduced the weight of semiconductor manufacturing equipment (SME) stocks. We will also remain overweight in materials stocks such as steel, nonferrous metals and semiconductor materials, financials stocks whose valuations are low and from which we can expect shareholders' returns and consumer discretionary stocks including auto makers whose earnings are expected to turn up, while maintaining an underweight position in consumer staples stocks whose valuations are high and earnings growths are small. We will take an underweight position in industrials stocks that are lagging behind in earnings recoveries, while reducing the underweighting range by raising the weight of capital goods producers that are enjoying an increase of order intake.

## 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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