

# PM's Monthly Perspectives

Author



**Takuya KAMIISHI, CMA**  
Co-Lead Portfolio Manager

In June, the MSCI Japan advanced with the increase of vaccination programs and the JPY depreciation. The index rose at the beginning of the month when investors welcomed the progress in vaccination programs, but news on tapering by the US Fed pushed around domestic stock markets later until the end of the month. While both the US jobs report and the US Consumer Price Index (CPI) that were announced in the first half of the month exceeded the market estimates, Japanese stock markets sustained themselves as investors concluded that the US was still far from the restoration of full employment with widespread price hikes unseen. They fell when the median of the dot plots, which show where individual Federal Open Market Committee (FOMC) members expect monetary policy to go, indicated at the latest FOMC meeting on 16 June that there would be two interest rate hikes by the end of 2023, but rebounded on the next day when investors flocked to long-term bonds on expectations that the Fed would avert the escalation of inflation by setting out tapering early enough and the yield on 10-year US Treasuries decreased in turn.

With regards to exchange rates, the JPY depreciation against the USD shored up domestic stock prices. The JPY weakened against the USD when the yield on 2-year US Treasuries rose significantly following the FOMC meeting.

**Economy: Hard to predict the course of the domestic economy following an improvement in leading indicators in June**

The Economy Watchers Survey results, which is one of the most important statistics that promptly offers an accurate grasp of region-by-region economic trends, for June improved and even exceeded the market estimates. The average of current and future conditions rose from 42.9 in the previous month to 50.0, a level which is relatively high compared with the average of past data. The primary reason for the improvement was a progress in vaccination programs. The report cited an increase in events and more frequent flows of elderly people as characteristic reasons of current conditions, and an increase in customer traffic to department stores, major electronics retailers, theme parks as well as the number of hotel guests as those of future conditions. It also indicated an improvement in job markets, including an increase in job openings. On the other hand, there are mixed feelings toward the Olympic Games. The report showed that people are pinning hopes on increased demand of TV sets while worrying about a resurgence of Covid-19.



Source: SMDAM based on Bloomberg data as of 8 July 2021.

It is difficult for us to predict leading indicators for the July-to-September quarter. The Japanese government decided to declare the fourth state of emergency from 12 July to 22 August in Tokyo ahead of the Tokyo Olympic Games in summer and the Lower House election at the end of September in order to carry these events to success. While another state of emergency drags down leading indicators, the government can press forward vaccination programs and formulate fiscal policies for the election during the period. As a result, we cannot tell whether leading indicators will move up or down in the short term. However, we believe the domestic economy has just entered into the expansion phase or come to the middle of the expansion phase in the long-term horizon.

**Policy: Revisions of Japan's Corporate Governance Code should enhance corporate values further**

Revised versions of Japan's Corporate Governance Code (the "Code") and Guidelines for Investor and Company Engagement (the "Guidelines") were published on 11 June. Given their intention to further improve governance and the sustainability of domestic companies, they should boost mid-to long-term corporate values. They also show that the current Japanese administration adopts a friendly stance towards stock markets.

The Code, which stipulates an appropriate form of listed companies, was compiled in 2015 and prompted domestic companies to enhance their governance. It was revised in 2018 and again this time in 2021.

Meanwhile, the Guidelines, which provide agenda items for engagement that institutional investors and companies are expected to focus on, were compiled in 2018, having encouraged dialogues on topics sought by the Code such as generating sustainable growths and increasing corporate values over the mid-to long-term. They were revised for the first time this time. The main points of the revisions of the Code and the Guidelines are as follows:

**1. Enhancing Board Independence**

- Increase in the number of independent directors from at least two to at least one-third of the board for Prime Market listed companies (where necessary, a majority of the board members should be elected as independent directors).
- Establish a nomination committee and a remuneration committee (appointment of independent directors enough to have them form a majority of the committee members for Prime Market listed companies).
- Disclose a skill matrix of board members conforming to the company's business strategy.
- Appoint independent directors having managerial experiences at other companies.

**2. Promoting Diversity**

- Disclose a policy and voluntary measurable targets in respect of promoting diversity in senior management by appointing females, non-Japanese and mid-career professionals.
- Disclose human resource development policies ensuring diversity, including the status of implementation.

**3. Attention to Sustainability and ESG**

- Develop a basic policy and disclose initiatives on the company's sustainability.
- Enhance the quality and quantity of climate-related disclosure based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations or equivalent international frameworks at Prime Market listed companies.

**4. Other Major Points**

- Appoint enough independent directors to have them form a majority of the board or establish an independent special committee at Prime Market listed subsidiaries so as to cope with conflicts of interest between their parent company and minority shareholders.
- Promote the use of electronic voting platforms and disclosure in English at Prime Market listed companies.

Given a high awareness of the Code among many Japanese companies, they should grapple with the three agendas mentioned above from now on. We believe the latest revisions should contribute positively to domestic stock markets in the mid-to-long run.

### **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

Junya OKADA +44 (0)20 7507 6437

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)