

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 gain ground in September. Given strong corporate earnings and low valuations, domestic stock prices are likely to turn up when the candidate who holds out aggressive fiscal policies wins the LDP presidential election and concerns over the economy recede over time.

A candidate who promises aggressive fiscal policies should win the LDP presidential election with economic policies after the spread of vaccination programs as a main topic in the election race. Judging from past results of the by-election, the Tokyo metropolitan assembly election and the Yokohama mayoral election, Prime Minister (PM) Suga's policies are not supported by voters because he only calls for vaccination and restraint on economic activity.

There are three reasons behind this view. Firstly, voters are feeling anger toward the current administration following media reports that a few coronavirus patients aged 60 or younger lost their lives at home without access to medical services though they bear the increased burden of social security premiums. Secondly, we don't understand why the government keeps imposing social-mobility restrictions on people who have been vaccinated. Thirdly, people aged 60 or younger who are in the prime of life have few chances to get inoculated because of vaccine shortages. We think presidential candidates have to show specific measures to improve the medical system as well as how to normalise economic activity as soon as possible, while the LDP has to show how to offset an economic downturn triggered by the consumption tax hike in 2019 in order to win the Lower House election. However, we believe that the new government will take expansionary fiscal policies even if the ruling party falls below a majority and opposition parties take power in the Lower House election. Whoever wins the election, these business-friendly policies should boost stock prices.

Given each prefectural governor has a responsibility to improve the medical care system such as securing an increasing number of hospital beds for coronavirus patients, medical system is unlikely to become a point of issue in the LDP presidential election though the issue will affect the course of national election. Having said that, given many voters cast blame on the government for failures on counter-measures against the coronavirus, we think it is difficult for the LDP to win the Lower House election unless it proposes aggressive economic policies.

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 overweight the Materials sector given its low valuation. In addition, industry players continue upgrading earnings estimates with a series of announcements on dividend increases. We also overweight the Financials sector on expectations of increased shareholder returns after the interim earnings announcements. We remain overweight in software developers of the IT sector due to strong orders for their products while maintaining an underweight position in the consumer staples sector. We also remain underweight in the industrials sector due to a delay in the recovery of capital investments amid rising new coronavirus cases.

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

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

Sumitomo Mitsui DS Asset Management (UK) Limited
5 King William Street, London, EC4N 7DA
United Kingdom
www.smd-am.co.uk