

Value + Alpha Group

PM's Monthly Perspectives

Author



Takuya KAMIISHI, CMA
Co-Lead Portfolio Manager

In August, the MSCI Japan index increased on the back of strong earnings results and eased concerns about US tapering. The consensus earnings forecast of Japanese equities was revised up as many companies released strong earnings results. While statements on tapering by US Fed officials pushed around the markets during the month, investors ultimately appreciated dovish comments by Jay Powell at the Jackson Hole Economic Symposium such as "Tapering doesn't suggest a period of interest-rate hike," and "Monetary policies in response to transitory price increases are ill-advised." Meanwhile, the announcement by Toyota Motor that it would cut production by approximately -40% in September due to wire harness / chip shortages weighed down auto-related stocks.

Politics: The next PM will take office at the end of September. While the Bank of Japan (BoJ) will maintain accommodative monetary policies regardless of the result of the LDP leadership election, the impact on each industry is varied depending on who wins the election

Prime Minister (PM) Yoshihide Suga declared his decision not to run for a Liberal Democratic Party (LDP) leadership vote on 3 September 2021. He judged that his resignation should put the LDP at an advantage in the subsequent Lower House election after an increase in new coronavirus cases dragged down the cabinet approval rating. The LDP leadership vote is expected to be held on 29 September, followed by the announcement on economic packages in October and the Lower House election in the first half of November.

The focal point right now is who will be the next PM. The winner of the LDP leadership vote will become the PM given the fact that the ruling party, LDP, is likely to maintain the current position.

The policies proposed by main LDP presidential candidates, namely Kishida, Kono and Takaichi have been summarised on the next page.

Whoever wins the election, we can expect policies with a certain consideration for the economy given the LDP is a business-friendly party. While Kishida and Kono try to strike a balance between growth and welfare, Takaichi seems to advocate expansionary fiscal/ dovish monetary policies given that she upholds 'New Abenomics' as her economic policy with a support from ex-PM Abe. So, stock markets are likely to appreciate Takaichi most in terms of macroeconomic policies. Meanwhile, Bank of Japan (BoJ) governor, Kuroda, will basically maintain accommodative monetary policies until the end of his term in April 2023 regardless of the election result.

We see differences among three candidates in microeconomic policies rather than in macroeconomic ones. Kishida is enthusiastic about R&D investments as well as expanding subsidies for industries that are suffering from the coronavirus pandemic, while Kono is committed to renewable energy initiatives, reduction of social security costs and promotion of disaster insurance policies. Takaichi is eager to drastically expand budgets for defence as well as for public works, so the relations between Japan and China / South Korea are expected to worsen with her victory. Potential beneficiaries of the election depend on the winner, so we will keep a close eye on media reports and change our sector allocation accordingly.

Policies of main LDP presidential candidates and possible impact on domestic stock markets

	KISHIDA	KONO	TAKAICHI
Growth or Welfare	Neutral	Neutral	Growth
Stance on fiscal policy	Positive	Negative	Positive
Stance on monetary policy	Slightly hawkish	Slightly hawkish	Dovish
Stance toward stock market	Slightly unfriendly	Slightly friendly	Slightly unfriendly
His / Her focus	<ul style="list-style-type: none"> ▪ Subsidising fixed costs of domestic companies depending on their business scale ▪ Expanding free PCR inspection stations and spreading home-based inspection tools ▪ Establishing the Health Crisis Management Agency that heads clinical practices and research on epidemiology ▪ R&D in advanced science technology ▪ New income-doubling plan (wage increase, overhaul on quarterly disclosure of earnings results etc.) ▪ Building 5G infrastructures ▪ Promoting dual residence 	<ul style="list-style-type: none"> ▪ Pushing forward renewable energy projects while being against nuclear power plants ▪ Reducing social security costs ▪ Recommending to buy disaster insurance policies ▪ Promoting energy-saving buildings/ residence ▪ English lessons/ remote class/ proficiency-dependent education ▪ Raising the labour's relative share as well as the wage floor with the corporate tax reduction ▪ Raising spectrum user fees for TV stations 	<ul style="list-style-type: none"> ▪ Investments in crisis management (defence budget, JPY100 trillion in 10 years for prevention of disaster, domestic production of pharmaceuticals and personal protective equipment) ▪ R&D investments in semiconductor, pharmaceutical, civil engineering, electromagnetic wave, quantum computing machine and energy saving IT device ▪ Nuclear power plants ▪ Storage battery, Strengthening power grids ▪ Providing domestically produced pulse oximeter to every household in Japan
Favourable for:	Industries that fell into the red due to the coronavirus, PCR-related, Pharmaceutical, Medical Devices, Telecom Engineering Work, R&D	Renewable Energy Power, Non-life insurer	Defence Services, Construction, Pharmaceutical, Electric Power, Power Grid, Storage Batteries, Semiconductor, Pulse Oximeter, R&D
Unfavourable for:	N/A	Electric Power, Pharmaceutical, Nursing Care, Medical Devices, TV Stations	Companies that depend on China or South Korea for their sales, Financials

Source: created by Sumitomo Mitsui DS Asset Management based on various materials as of 3 September 2021.

Economy: We expect leading indicators to rebound in September following a decline in August

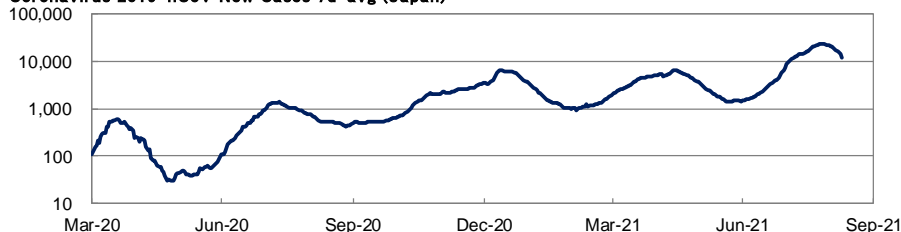
The result of the Economy Watchers Survey (average of current and future), which is considered as an important leading indicator that promptly gives an accurate grasp of economic trends, fell from 48.4 in July to 39.2 in August after hitting peak at 50.0 in June. We think the indicator declined due to two reasons, namely an increase in new coronavirus cases and a production cutback of automobiles due to chip shortages. The result was not a surprise for us but we expect a rebound from September onwards, led by a progress in vaccination programs, economic packages by the new PM and a recovery in auto production.

Japan Economy Watchers Survey (Average of Current and Future)



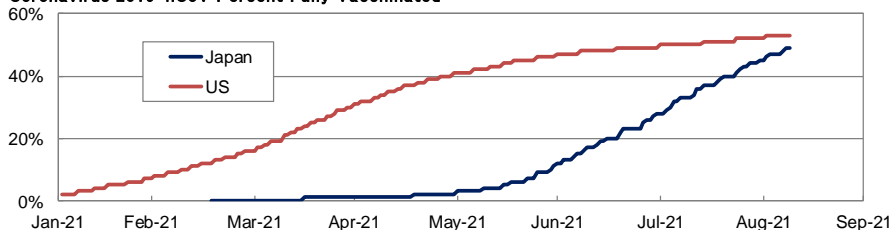
Source: Bloomberg, as of 8 September 2021.

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



Source: Bloomberg, as of 8 September 2021.

Coronavirus 2019-nCoV Percent Fully Vaccinated



Source: Bloomberg, as of 8 September 2021.

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 6436

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