Marketing Communication
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Fundamental Active Group

PM's Monthly Insights

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Market Outlook

We expect Japanese equity markets to seesaw in September. In August, mainly overvalued stocks, declined due to concerns over the continued U.S. monetary tightening, growing uncertainties about the Chinese economy, together with rising long-term interest rates in Japan and the U.S. Towards the end of the month, Japanese stocks rebounded as investors continued to hunt stocks with strong earnings results. The FED's Chair Jerome Powell's speech at the Jackson Hall Economic Symposium was within our expectations. Our view on the Japanese equity markets in September remains largely unchanged: (1) the Japanese economy is entering into a virtuous cycle thanks to rising prices and wages, (2) Japanese companies have progressed their corporate governance reforms with more companies working to improve capital efficiency, and (3) the supply-demand balance of Japan stocks has continued to improve mainly amongst overseas and individual investors. Risk remains within overseas macro economies, but that will not significantly impact the Japanese equity markets. We anticipate the markets to remain resilient in September although as of now, we cannot find any catalysts to push them upwards.

Japanese corporate earnings for the April-June quarter were excellent, jumping by 35% year-on-year. The earnings of about two-thirds of the companies beat market consensus. In addition, the progress rate of ordinary profit against the full-year FY 2023 forecast was approximately 30%. Many of them pointed to "prices" as a factor for improved earnings. Their profit margins expanded thanks to effects from product price increases as well as lower-than-estimated energy costs increases. Given the recent JPY depreciation trend, more companies will revise their earnings guidance for FY 2023 upwards at their July-September quarter earnings announcements. Many firms have indicated a policy of returning surplus funds to shareholders in order to raise their return on equity (ROE) levels. Therefore, we will keep an eye on the announcement of dividend increases and share buybacks from late September to October. The stock prices of companies that have announced share buybacks since July have generally remained strong, and this trend is likely to continue for some time.

The immediate risk factors are the deterioration of the Chinese economy and the continued tightening of U.S. monetary policy. We will pay attention to the global impact of the Chinese economic slowdown through trades. The August U.S. jobs report showed mixed results: payrolls beat expectations while wage growth rate slowed down. Future U.S. monetary policy will depend on the data, but we judge that the Fed is less likely to decide additional interest rate hikes in September.

Note:

Above stock names are for example purposes and SMDAM is not recommending or giving advice about these stocks.

Sumitomo Mitsui DS Asset Management

Investment Strategy

Overweight sectors (largest shown first):	**Underweight sectors** (largest shown first):
Consumer Discretionary	Industrials
Information Technology	Health Care
Communication Services	Consumer Staples

Sectors shown are GICS 11 sectors.

GICS sector wise, we will continue to overweight the consumer discretionary, information technology and telecommunication services sectors. We will invest mainly in stocks which (1) are expected to improve their profitability by passing on price hikes and benefitting from effects of a weaker JPY, (2) will realise a decrease in raw material costs and logistics costs, or (3) are expected to buy back shares or increase dividends more than anticipated. Considering that the U.S. long-term interest rates are likely to remain in a range for the time being, it seems unlikely that a major trend favouring either “value” or “growth” will emerge. Therefore, we will invest in attractive stocks from both business performance trends and valuation perspectives, anticipating an environment in which the markets tend to move based on corporate fundamentals. Towards earnings announcements for the July-September quarter, we will examine increasing the weight in the financial sector, which is likely to conduct share buybacks. On the other hand, we will continue to underweight industrials and health care sectors from the view point of earnings growth rate and valuation. We will decrease the weight on stocks that depend on external demand to make profits and have become overvalued.

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Mr Taniuchi manages the Fundamental Active product with Mr Kamohara.

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 manage the Fundamental Active product and became the Group Leader in 2021.

Mr Taniuchi graduated from Tokyo University of Science with BS/Engineering in Industrial Administration (1996).

Masashi KAMOHARA, CMA

Senior Portfolio Manager

Mr Kamohara is a Portfolio Manager for 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).

Disclosures

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Risk warning: On 1 January 2021 the UK left the EU transitional arrangements and no longer benefits from passporting rights into EEA countries.

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