

# Fundamental Active Group PM's Monthly Insights

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## Market Outlook

We expect Japanese equity markets to recover in November. In October, Japanese stocks remained weak until the end of the month because geopolitical risk grew in the Middle East and the market focused on the rising U.S. long-term interest rates and the developments on monetary policies in both Japan and the U.S. However, these uncertain factors are expected to gradually dissipate in the future, and the equity market movement will reflect the fundamentals of individual companies. We believe Japanese stocks will advance toward the end of the year because they are approaching the lower end of our forecast range due to the recent decline.

The Bank of Japan (BOJ) decided to enhance the flexibility of its yield curve control (YCC) policy in the Monetary Policy Meeting held at the end of October. The BOJ has shifted its stance on controlling 10-year JGB yields through fixed-rate purchase operations from “capping at 1.0%” to “targeting 1.0%”. However, it is not a change of the existing monetary policy but a step to allow the yield to move more flexibly depending on the actual economic situation. The BOJ reassured the equity markets as it planned on aggressively maintaining its monetary easing framework until continued wage increases are confirmed. Even though the inflation outlook continues to be revised upward.

Earnings announcements of Japanese companies started in late October. Their operating profit increase rates for the July-September quarter remain above market expectations for now. Especially, electric power & gas and transportation equipment sectors contribute largely. The full-year earnings guidance of Japanese companies are expected to be revised upward in the future, and their residual income (RI) is likely to turn positive although factors for their strong earnings, including yen depreciation, have generally been priced in. The percentage of companies that revised up their dividend plans is increasing significantly, and we can confirm the enhancement of their stockholder return policy. The market attention is likely to shift slowly to the next fiscal year earnings from around the time of the interim results announcements. The market development is likely to be different from the overwhelmingly value-stock dominant movement up until September.

On the topic of stock supply and demand, we still have expectation on the new NISA, a tax exemption program for individual investors in Japan, starting in 2024. It will bring higher attention to the trend in individual investors. In approximately 2,000 trillion yen of Japan's household financial assets, more than 50% is held as cash and deposits, and the holding ratio of stocks and investment trusts is lower than that in the U.S. and Europe. The new NISA program will raise the investment limit and make the investment period permanent. Therefore, it will be an essential system for individual assets management. We anticipate a continuous inflow of funds from individual investors to support stock prices in the medium term.

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

### 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, communication services, and information technology sectors. We will pay attention to stocks whose earnings are expected to recover from the second half of this fiscal year to next fiscal year as investor's attention will shift to earnings in FY2024 after the July-September earnings announcements. Among semiconductor stocks which have continued to suffer from business downturns due to inventory adjustment, we will consider buying names whose orders are expected to recover. We will increase the weight on stocks that not only have a low price-to-book (P/B) ratio but also can increase the return on equity (ROE) or enhance their shareholder returns while expanding earnings. In addition, we will continue overweight undervalued real estate stocks, in terms of price to NAV ratio, that are resilient against inflation.

On the other hand, we will continue to underweight the industrials and health care sectors from the viewpoints of earnings growth rate and valuation. In addition, we will decrease the weight on stocks that became overvalued as their prices rose in the July-September quarter.

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## Hideyuki TANIUCHI, CFA/CMA

### Senior Portfolio Manager and Group Leader, Fundamental Active Group, Equity Management Department

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).

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