

PM's Monthly Insight

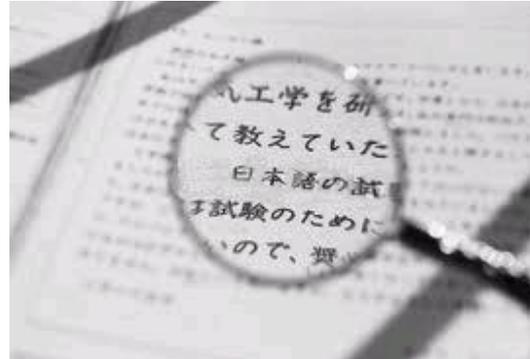
FUNDAMENTAL ACTIVE GROUP

MARKET OUTLOOK AND INVESTMENT STRATEGY

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Author:

Masashi KAMOHARA - Senior Portfolio Manager



Market Outlook

Japanese stocks could be set to decline temporarily at the beginning of March on the back of selling by risk parity funds which tend to adjust their position at the end of the month. Once the influence of this position adjustment is over, we expect stock prices to rise again thanks to good corporate earnings. We are experiencing a period where the yen is strong against the dollar. However, it will be only temporary as foreign investors are closing currency hedging positions when selling Japanese stocks; as well as this Japanese banks are also reducing their positions on foreign bonds before the end of the fiscal year.

According to **Mizuho Securities**, the operating profit of the TSE 1st section listed companies for the first nine months of the fiscal year ending December, increased by +14% year on year, and net profits increased by +24%. The factor that accelerated growth in net profit is a result of the US tax reform which was approved in Q3 (October-to-December 2017) and thus many companies reversed large deferred tax liabilities. In Q3 alone, there was +18% increase in operating profit and +32% increase in net profit.

Mizuho's forecast for the full fiscal year is an increase in operating profit of +11% and an increase in net profit by +20%. The progress rates are 79% and 84% respectively, and the room for upward revision is expected to be large. The earnings of domestic demand driven companies such as construction and service industry are expanding, and earnings continue to expand even without weak yen. This is a characteristic of corporate earnings during this fiscal year.

The nomination of BoJ's governor and deputy governor has been as expected. We expect the BoJ to maintain the accommodative monetary policy for the foreseeable future and the Fed is likely to continue raising rates due to solid economy growth in the US. Thus we forecast the yen depreciation to a 110 yen to the dollar level.

We expect Japanese stocks to begin to rebound in March on the back of the strong corporate earnings with further room for upward revision.

Investment Strategy

Overweight Sectors:	Underweight Sectors:
Construction & Materials	Foods
Commercial & Wholesale Trade	Pharmaceutical
Financials (ex-Banks)	Retail Trade
Machinery	Transportation & Logistics

Concerning stock picks, we plan to incorporate stocks that can expect profit increase for FY2018. We are overweighting the construction & materials sector, but underweighting major construction companies. We overweight companies such as telecommunications and electric construction companies, semiconductor materials, and automobile exhaust gas control parts producers. Also, we overweight trading companies, being beneficiaries of rising commodity prices. We also continue to overweight machine sectors on the back of a strong order back log. We underweight defensive sectors such as food and pharmaceuticals.

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Daiwa SB Investments

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 is lead manager on 11 accounts with USD6.2 billion under management.

Mr Kamohara graduated from Kyoto University with a BA degree in Educational Administration (1987).

Contact Details

Yuhki Sophia KING

Head of Business Development
& Client Relations
Phone: +44 (0) 20 7597 7035
Email: yuhki.king@daiwasbi.co.uk

Luke BURDESS

Business Development Manager
Phone: +44 (0) 20 7597 7024
Email: luke.burdess@daiwasbi.co.uk

Daiwa SB Investments (UK) Ltd.
5 King William Street
London EC4N 7DA, United Kingdom
www.daiwasbi.co.uk

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