



**PM'S MONTHLY INSIGHT
FUNDAMENTAL ACTIVE GROUP**

Market Outlook and Investment Strategy

April 2019

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Japanese stocks are likely to test their support-level in April. While there are many positive factors, such as the rise in US stock prices, the stability of the yen-dollar exchange rate and expectations for a bottoming out of the Chinese economy, bearish company guidance which will likely be announced by companies in the earnings season beginning in the second half of April, will cap stock prices. In addition, investors will hesitate to take positions ahead of 10 consecutive holidays at the end of April, which is also considered a negative factor for the stock market. We expect bearish company guidance due to a planned increase in consumption tax, amid a slowdown in the Japanese economy. With the sluggish industrial production index in February, we may see lacklustre earnings growth in 1H of 2019. Meanwhile, if the consumption tax hike is implemented, a deceleration in company profits in 2H 2019 is most likely inevitable. However, the TOPIX Index's estimated P/E for FY2018 is less than 13x, and even after taking into consideration profit declines of 10% or more in FY2019, the P/E is considered to be historically low. We believe the downside of the stock market will be limited, even if it falls.

The budget bill for FY2019 was just passed by the Diet at the end of March, so it is unlikely that new economic measures will be on the agenda over April. However, we believe stock prices will turn up after the long holiday break (mid-May). Discussions on economic-stimulus measures are expected to get into full swing ahead of the Upper House election, and when companies announce bearish guidance, stock prices tend to trend upwards around the earnings reporting season as all the negative factors will have been priced in by then. For these reasons, we expect the Japanese stock market to bottom out in late April.

Investment Strategy

Overweight Sectors	Underweight Sectors
Commercial Trade	Transport & Logistics
Foods	Machinery
Financials (Ex Banks)	Banks

We are unlikely to expect positive factors (e.g. the delay of the consumption tax hike) in Japan prior to the 10 consecutive holidays. For this reason, we overweight sectors and names which are highly responsive to favourable foreign news. We have overweight positions in the commercial trade sector due to rising iron ore and crude oil prices. We are also overweight the pharmaceuticals sector on expectations for their strong earnings growth, but we will lock in profits and reduce its weight. With regard to the financials sector, we are overweight in non-life insurance stocks on expectations for rising insurance premiums. In addition, we have increased our weight in FA-related and electronic components names as the Chinese economy seems to have bottomed out. On the other hand, we are underweight the marine/air transportation sectors due to concerns over falling freight rates. We have also reduced our weight in the banking sector due to concerns over rising credit costs.

*Sectors shown above are TOPIX 17 industries (ex. Performance Attribution Analysis).

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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).

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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.

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