



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

Market Outlook and Investment Strategy

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We expect Japanese equities to rebound in September as the negative impact of the consumption tax hike seems to have been priced into current stock prices. Corporate earnings in the April-to-June quarter were not as bad as we feared, with Japanese equities trading at a discount on forward P/E of only 12x. We expect an increase in money inflow into the equity market on expectations for interim dividend payments at the end of September as companies are strengthening shareholder returns.

The earnings season for the April-to-June quarter is finally over. According to aggregated data by **Mizuho Securities**, overall operating profits and net profits decreased by -6% and -2% respectively. While manufacturing industries such as electric appliances, automobiles, steel, and machinery saw declines of -21% in operating profits and -30% in net profits due to the worsening trade environment, non-manufacturers achieved growths of +2% in operating profits and +32% in net profits, with information & communication sectors as the largest contributors thanks to an increase in investments for IT solutions. The financial sector also achieved increases of +1% in operating profits and +3% in net profits which was beyond the scope of our assumption. Profits increased at non-life insurance companies thanks to a decline in natural disasters, while major banks and securities companies posted huge amounts of profits from investments in US Treasuries, resulting in unexpectedly strong earnings.

The US and Japan reached a broad trade agreement in late August, which would involve Japan further opening up its agricultural market to American goods by reducing tariffs in exchange for immunity from threatened tariffs on its car exports. If the agreement is officially announced, a sense of security will spread and is likely to boost the overall valuation of Japanese equities in turn.

An increasing number of companies have announced share buyback programs and revised dividend payout ratios, making dividend yields more attractive than government bond yields. We expect rallies in names with strong earnings and high dividend yields.

Investment Strategy

Overweight Sectors	Underweight Sectors
Information Technology	Industrials
Communication Services	Consumer Discretionary
Materials	Real Estate

We will take overweight positions in sectors with stable earnings such as pharmaceutical and cosmetics (chemicals). We also overweight financials (ex. banks) due to its high dividend yield, while reducing an overweight range. On the other hand, we underweight transportation & logistics and machinery. In IT & services we underweight services to a large extent with no attractive names.

In terms of GICS, we overweight sectors such as technology, financials and communications while underweighting the industrial sectors, including machinery and logistics.

Notes:

Sectors shown above are TOPIX 17 industries (ex. performance attribution analysis).

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

Note: Daiwa SB Investments Ltd. (DSBI) merged with Sumitomo Mitsui Asset Management Company, Limited (SMAM) on 1 April 2019.

Hideyuki TANIUCHI, CFA/CMA – Senior Portfolio Manager

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.

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

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