

Today's Topic

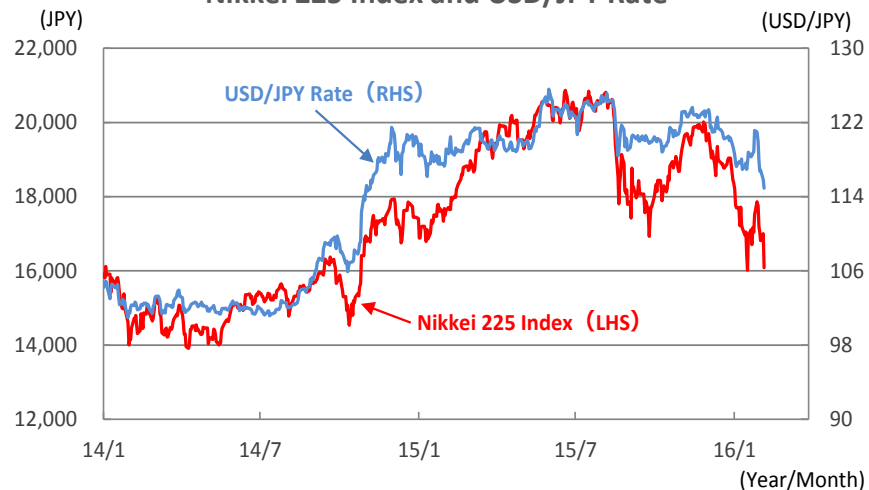
Japanese equities oversold again, although underpinned by low interest rates

Point 1

Nikkei 225 index dropped more than JPY 900 USD/JPY rate weakened to JPY 114 level

- On 9th February, the Nikkei 225 fell sharply by JPY 918.86 closing at JPY 16,085.44. Risk-off sentiment built up in the market following the previous day's equity market sell-off in Europe and the US. USD/JPY rate weakened to JPY 114 level for the first time since November 2014, as so-called "JPY buying on risk averse" progressed. The yield of the 10-year Japanese government bond (JGB) became negative for the first time in its history (-0.030% at 16:00 of 9th February), as refuge funds purchased JGBs.

"Nikkei 225 Index and USD/JPY Rate"



(Note) Data period of both Nikkei 225 Index and USD/JPY Rate are from 6th January 2014 to 9th February 2016.

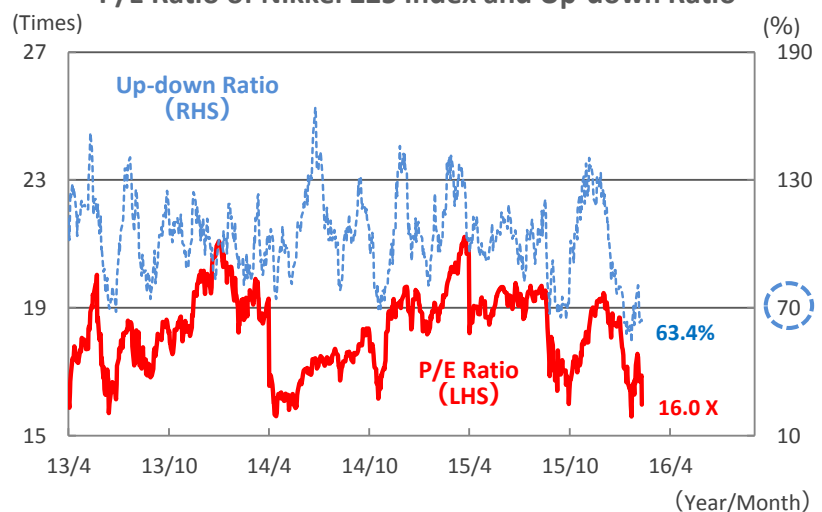
(Source) SMAM, based on Bloomberg L. P. data.

Point 2

Possible credit concern of a large European bank? Equity valuation likely to have entered into oversold level

- In addition to lingering concern over falling crude oil price and uncertainty over global economy led by China's slowdown, emergence of a large European bank's credit concern was also the background of market turmoil. According to media, a large German bank's credit guarantee fee reached highest level for the first time in almost 4 years, as some credit analysts pointed out possible difficulty of interest payment next year for high risk bonds issued by the Bank. Despite the Bank's assurance of ample capital for interest payments, risk averse behavior has not stopped.
- Data indicating overselling and undervaluation has become noticeable as equity market seems to have discounted risk factors to an undue level. As of 9th February 2016, up-down ratio of Tokyo Stock Exchange 1st Section was 63.4%, much lower than 70% which is deemed as an oversold level.

"P/E Ratio of Nikkei 225 Index and Up-down Ratio"



(Note) Data period of both P/E Ratio and Up-down Ratio are from 1st April 2013 to 9th February 2016. P/E Ratio is based on estimated earnings. Up-down Ratio is based on TSE1, 25 days.

(Source) SMAM, based on Bloomberg L. P. data.

Future Outlook

Negative interest rate to stay. Equity price to gradually stabilize as some data indicate undervaluation

- Chinese economy is expected to gradually recover as signs of recovery in property investments can already be seen and the government still has room to implement policy measures. Meanwhile, it seems negative interest rates are here to stay even in the relatively long end of the curve due to the interest rate decline across the yield curve, following BOJ's negative interest rate policy implementation.
- Low interest rates can be deemed positive to corporate activities and equity market. The market seems to gradually stabilize if earnings growth are re-focused as Japanese corporations' earnings outlook for FY2016 is expected to renew its record highs despite some downward revision due to JPY appreciation.

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.