



# Japanese Stock Market Outlook

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SMAM monthly comments & views  
- September 2015 -



Sumitomo Mitsui Asset Management

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## Executive summary

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### ➤ Japanese Economy

Japan's economy had a temporal setback in Apr-Jun quarter. Slowing growth in China is posing a concern for exports, however, decline in private consumption is affected by temporal factors and expected to be back on a recovery path from Jul-Sep quarter.

- SMAM cut real GDP forecast from +1.5% to +0.9% for FY2015 after recently released quarterly 0.4% decline for Apr-Jun quarter, in which weak private consumption and exports were main drag.
- Consumers sentiment was negatively affected by rising prices of food and other essential items. Summer bonus seems to have been delayed to July, which should help consumption recovery onwards.

### ➤ Japanese Stock Markets

Concern on the global economies, especially China and emerging countries, are causing risk-off attitude for the global investors, which are weighing on the Japanese stock market for the short term.

- Underlying corporate earnings are strong, which should be the driver for the Japanese stock market going forward.
- Policymakers attention should come back to “economy “ once long lasting procedures for amending national security law is completed, which would brighten the sentiment surrounding Japanese stock market.

Notes: Macro and market views are as of August 17<sup>th</sup> and 19<sup>th</sup>, 2015 respectively, and subject to updates thereafter without notice

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# Outlook for Japanese Economy

## SMAM economic outlook for FY15-16

- SMAM cut real GDP forecast from +1.5% to +0.9% for FY2015 after recently released quarterly 0.4% decline for Apr-Jun quarter, in which weak private consumption and exports were main drag.
- Net Exports forecast for FY2015 were revised downward from +0.2% to -0.1% with economic slowdown in China as the main cause.

	FY12	FY13	FY14	FY15E	FY16E
Real GDP growth	1.0%	2.1%	-0.9%	0.9%	1.7%
Private Consumption Expenditure	1.8%	2.5%	-3.1%	0.5%	2.0%
Private Housing Investment	5.7%	9.3%	-11.7%	2.6%	4.5%
Private Capital Investment	1.2%	4.0%	0.5%	3.5%	3.3%
Public Consumption Expenditure	1.5%	1.6%	0.4%	1.1%	0.5%
Public Capital Investment	1.0%	10.3%	2.0%	0.8%	-1.6%
Net Exports (contrib. to GDP growth)	-0.8%	-0.5%	0.6%	-0.1%	-0.1%
Exports	-1.4%	4.4%	7.9%	0.0%	4.1%
Imports	3.6%	6.7%	3.6%	1.0%	5.0%
Nominal GDP	0.1%	1.8%	1.6%	1.7%	2.0%
GDP Deflator	-0.9%	-0.3%	2.5%	0.8%	0.2%

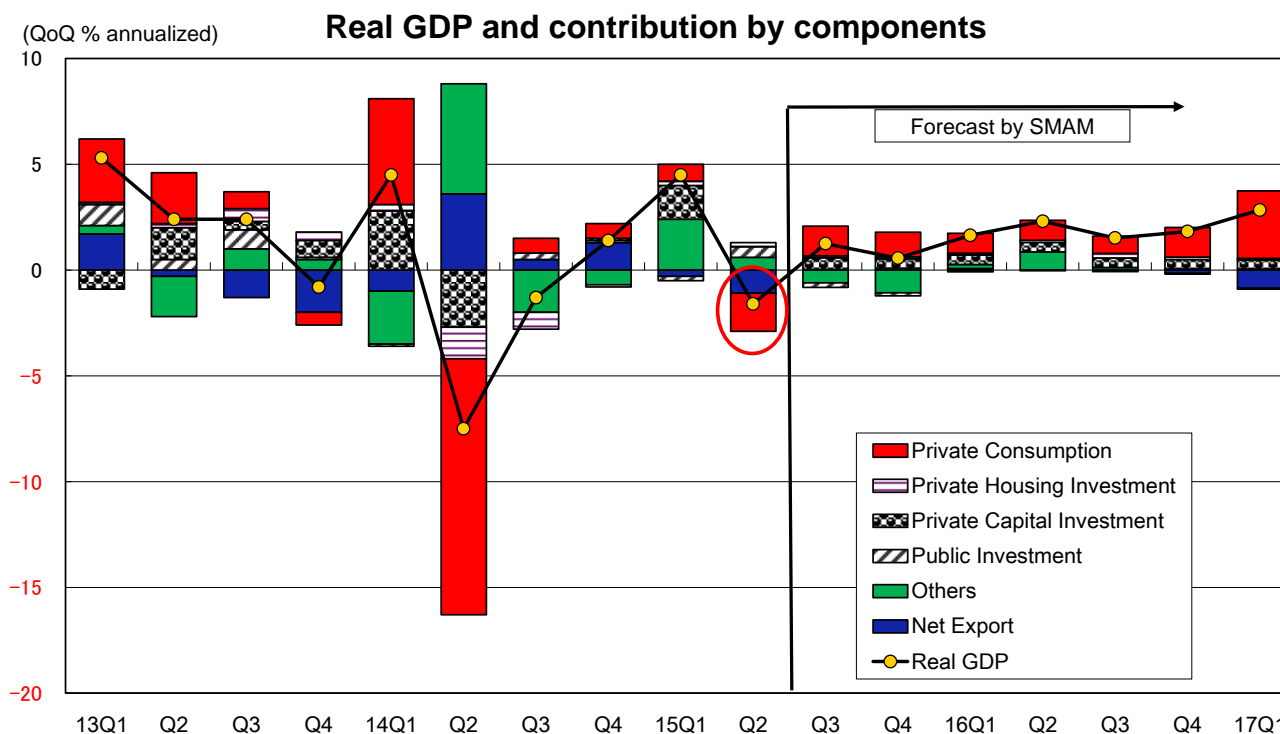
Notes: E=SMAM forecasts. SMAM views are as of Aug.17<sup>th</sup>, 2015 and subject to updates thereafter without notice

(%, YoY except Net Exports)

Source: Cabinet Office, Bank of Japan, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMAM forecasts

## Private consumption is expected to recover after weak readings in Apr-Jun quarter

- Apr-Jun quarter GDP was -1.6% , for which contribution from private consumption at -1.8% and net exports at -1.1% were two main causes (all figures are annualized) as red circle in the chart shows.
- Slowdown in Chinese economy poses the biggest risk for Japanese economy whereas private consumption is affected by temporal factors and expected to recover from July-Sep quarter.

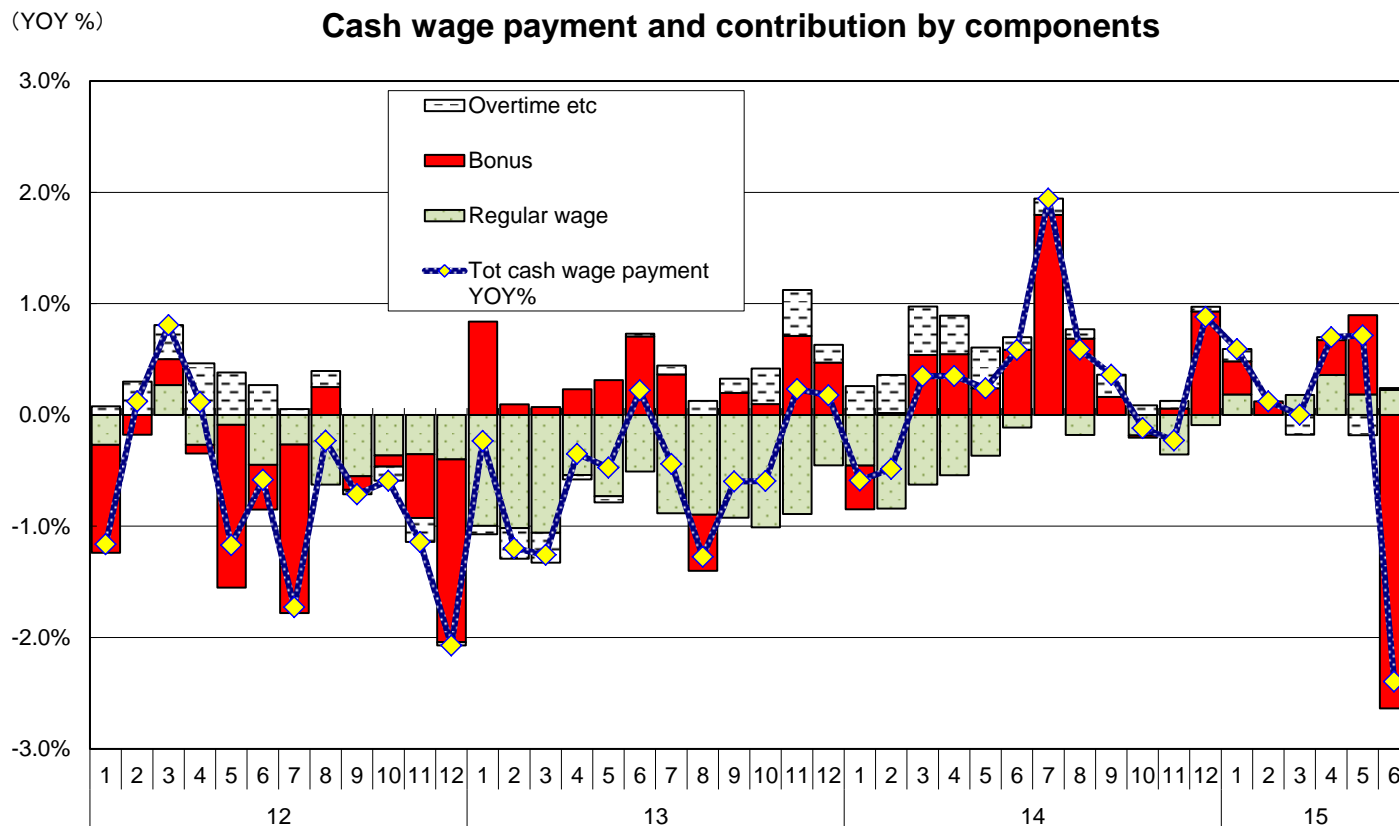


Notes: E=SMAM forecasts. SMAM views are as of August 17<sup>th</sup>, 2015 and subject to updates thereafter without notice

Source: Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMAM forecasts .

## Delayed summer bonus payment was probably one reason for weak private consumption

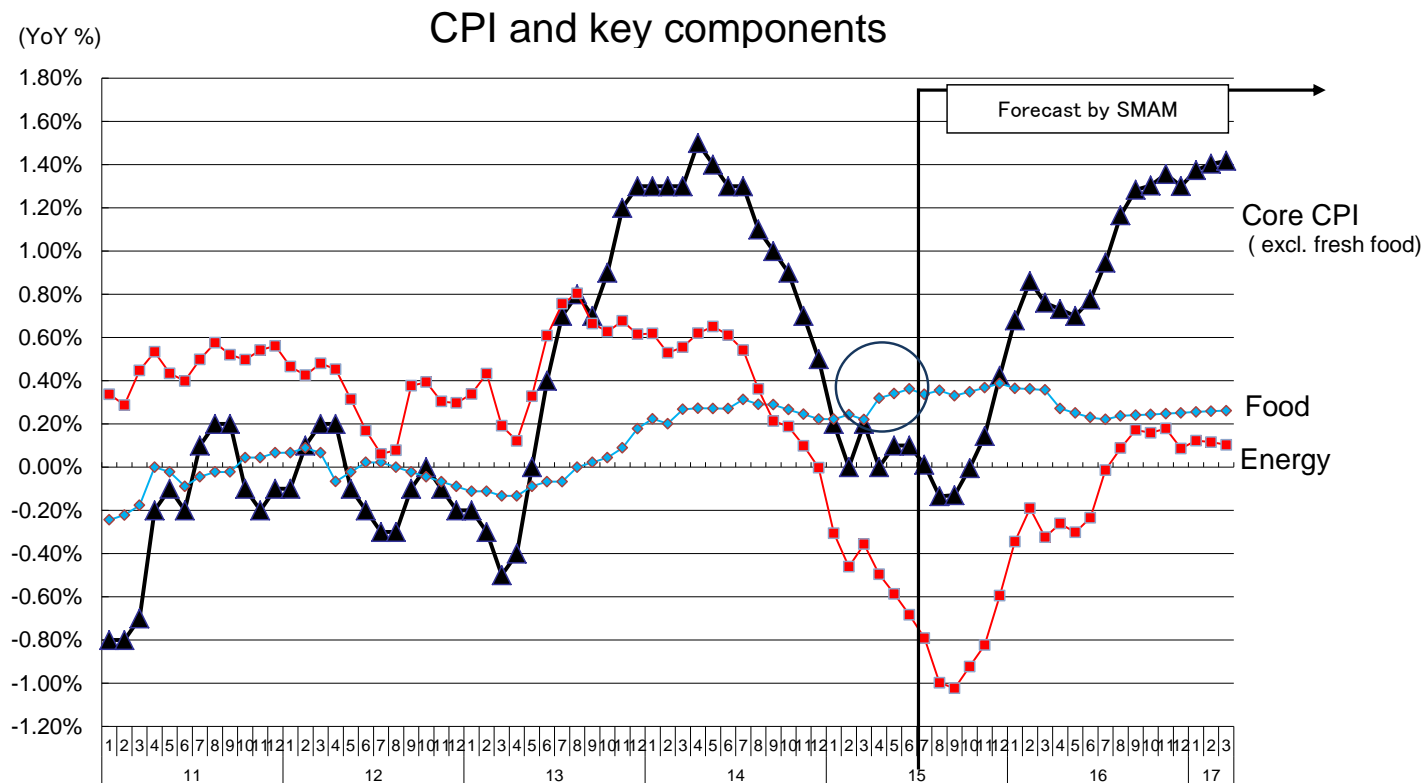
- Timing of summer bonus payment seems to have been delayed compared to the last year as bonus in June declined YOY.
- Nation wide summer bonus level should be better than the last year and sharp rebound in July and August can be expected, probably causing some distortion for private consumption statistics.



(Source) Ministry of Health, Labor and Welfare

## Price increase in food and other essential items are probably affecting consumer sentiment

- Although overall CPI is hovering around zero due to lower energy prices, weak yen is lifting import prices, which leads to higher prices of food and other essential items as blue circle shows in the chart.
- Japanese consumers are probably feeling higher cost of living, which could be denting their sentiment for consumption.

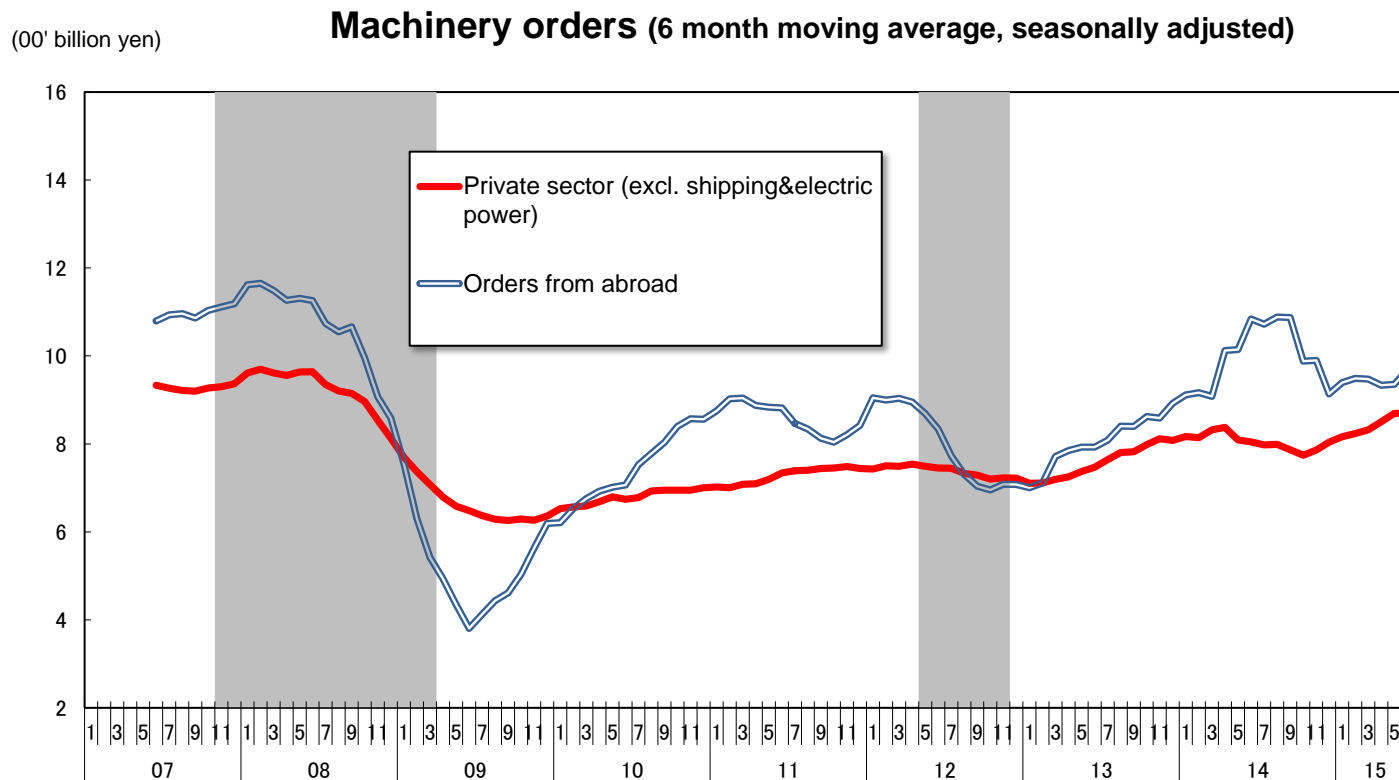


Note: Excluding direct impact from consumption tax hike in April 2014.

(Source) Ministry of Internal Affairs & Communications, forecast by SMAM.

## Private capital investment is expected to make a solid contribution to the economy

- Private capital investment in Apr-Jun quarter was flat, however, it is forecast to recover and make a solid contribution of around 0.5% (annualized) to GDP through to FY2016.
- Machinery orders 6 month moving average stays in an upward trend, though uncertainties recently growing for the orders from abroad.



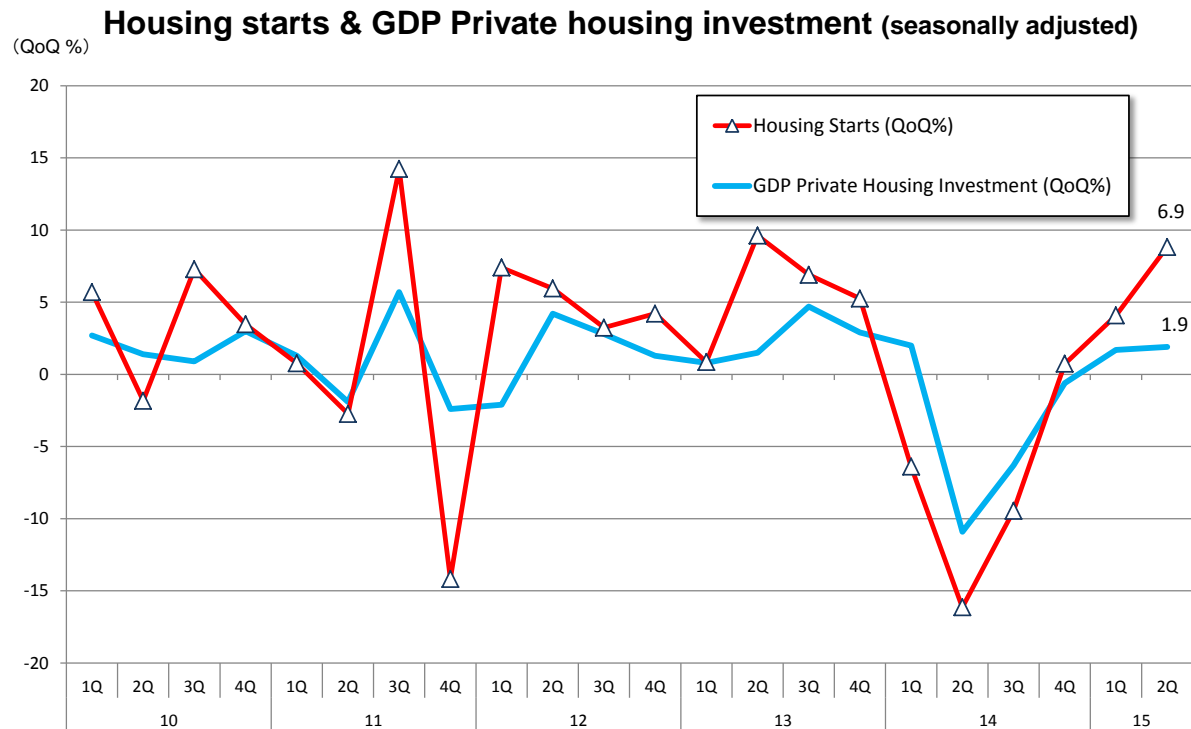
Note: Shadowed are recession periods.

(Source) Cabinet Office



## Robust property market and private housing investment is a bright spot for the economy

- Private housing investment is picking up, which was one of the bright spots in rather disappointing Apr-Jun GDP components.
- Not only in residential sectors, property markets are widely booming with money flows from both Japanese investors and overseas investors, which could support the economy to stay afloat, where robust corporate earnings should work as another support.



Note: Seasonal adjustment of Housing Starts was made by SMAM.

(Source) Cabinet Office, Ministry of Land, Infrastructure, Transport and Tourism

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# Outlook for Japanese Stock Markets

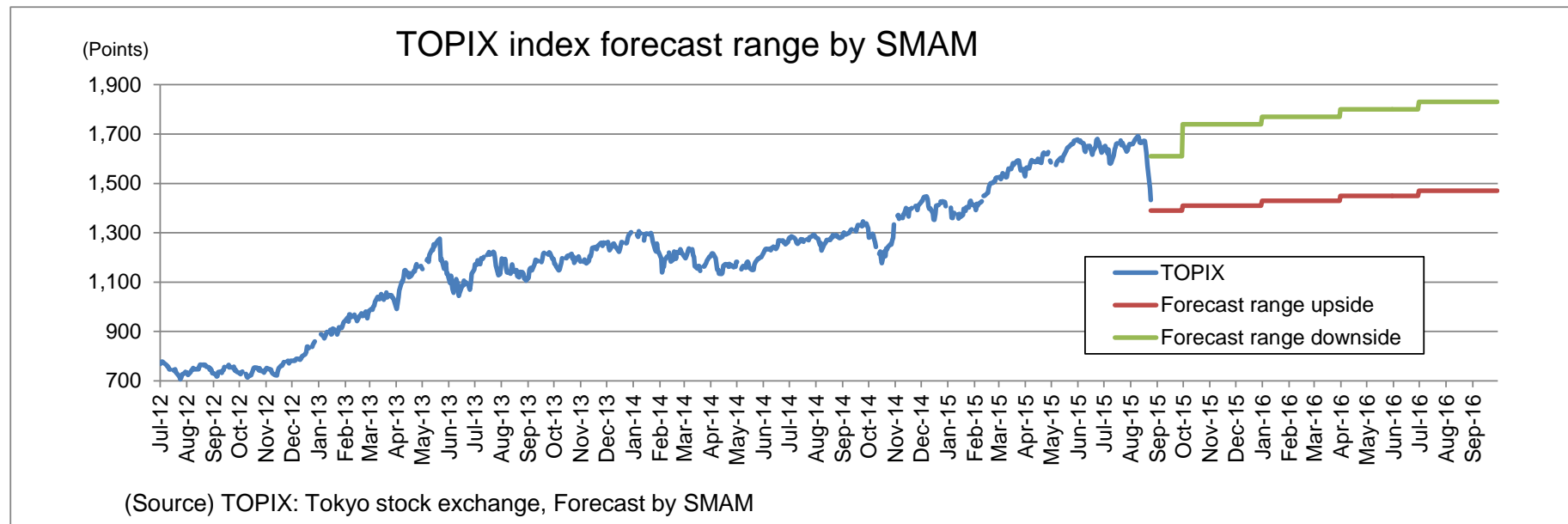
## Stock market outlook: Earnings growth prospects should help the stock market

### SMAM short-term view

- Concern on the global economies, especially China and emerging countries, are causing risk-off attitude for the global investors, which are weighing on the Japanese stock market for the short term.

### Longer-term outlook (6-months and beyond)

- Underlying corporate earnings are strong, which should be the driver for the Japanese stock market going forward.
- Policymakers attention should come back to “economy “ once long lasting procedures for amending national security law is completed, which would brighten the sentiment surrounding Japanese stock market.



Note: SMAM's Projection is as of August 25<sup>th</sup> 2015 and subject to updates without notice

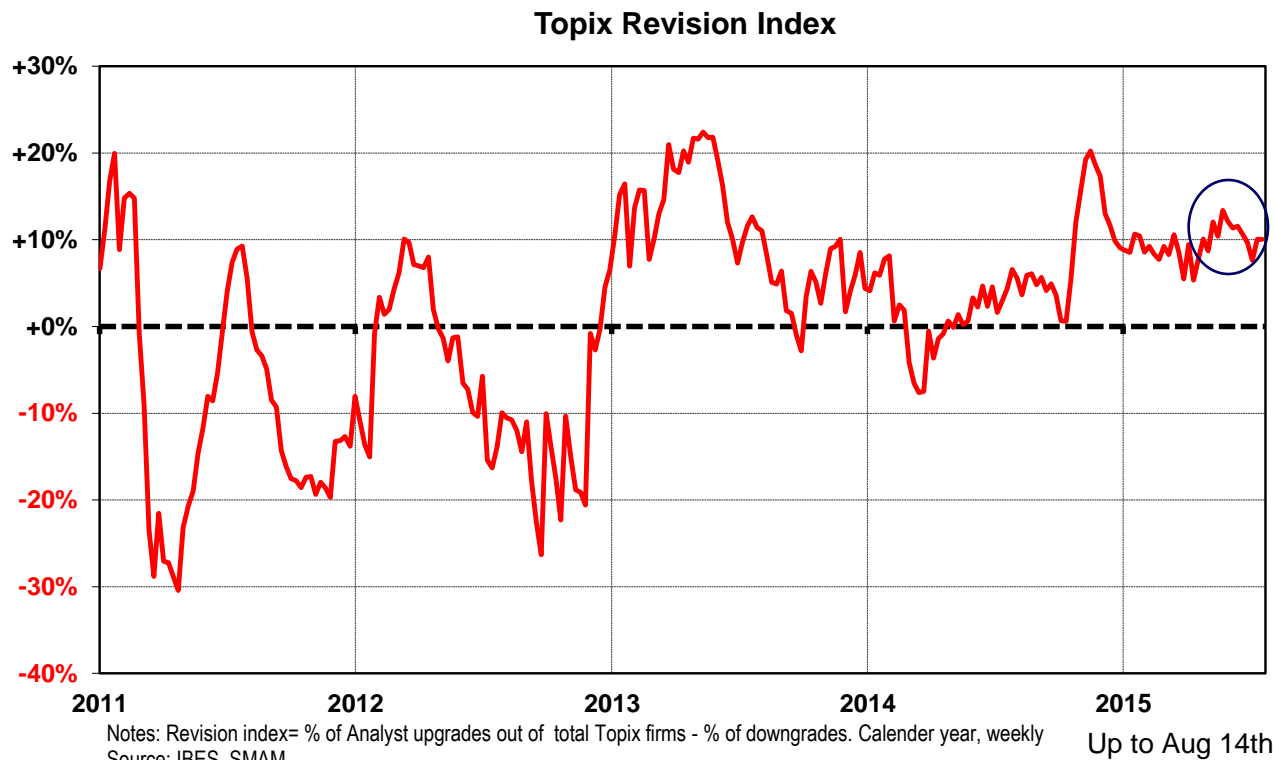
## Base scenario & Upside / Downside risks for our forecasts

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- Our **Base Scenario** is assuming the following views:
  - Global economic recovery to be sustained led by strong US economy
  - Japan's private consumption buoyed by higher real wages growth
  - Growing expectation for positive corporate earnings revisions due to weaker JPY
  - Reflationary policy to be continued toward the next consumption tax hike
  
- **Upside Risks** include:
  - Stronger-than-expected global growth
  - Stronger-than-expected measures by Abe government
  
- **Downside Risks** include:
  - Unexpectedly large impact from the process of US monetary policy normalization
  - Concern over emerging economies including China
  - Increasing geopolitical concerns

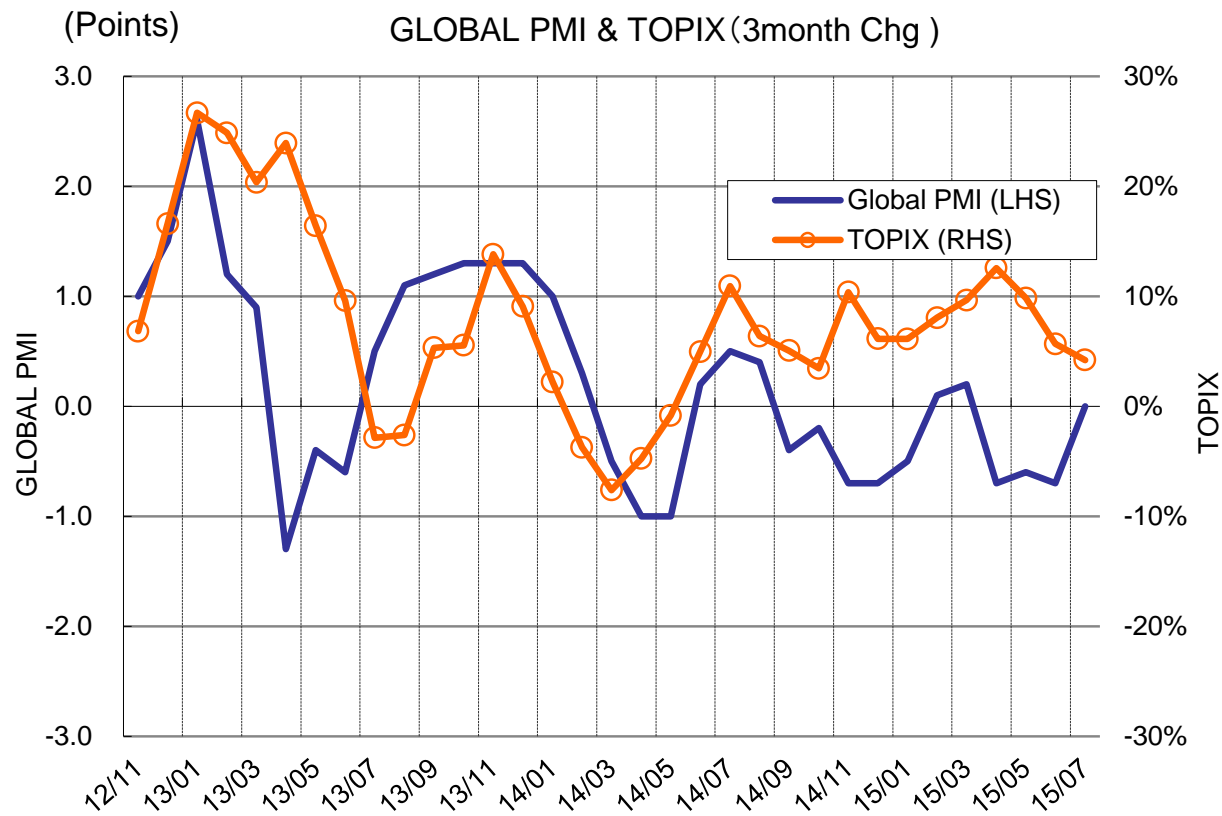
## Robust corporate earnings should be the main driver for the stock market

- Corporate earnings forecast by analysts continues to be revised upward.
- According to Nikkei newspaper, Apr-Jun quarter financial results from 1532 companies (excl. financials) showed YOY increase of +24.3% for recurring profits and +28.2 % for net profits.
- As of August 14<sup>th</sup>, IBES historical EPS for TOPIX was 95.193. 12M forward and 18M forward EPS forecasts were 108.997 and 113.82, which corresponded to 14.5% and 19.5% EPS growth respectively.



## Lackluster global economy is weighing on Japanese stock market

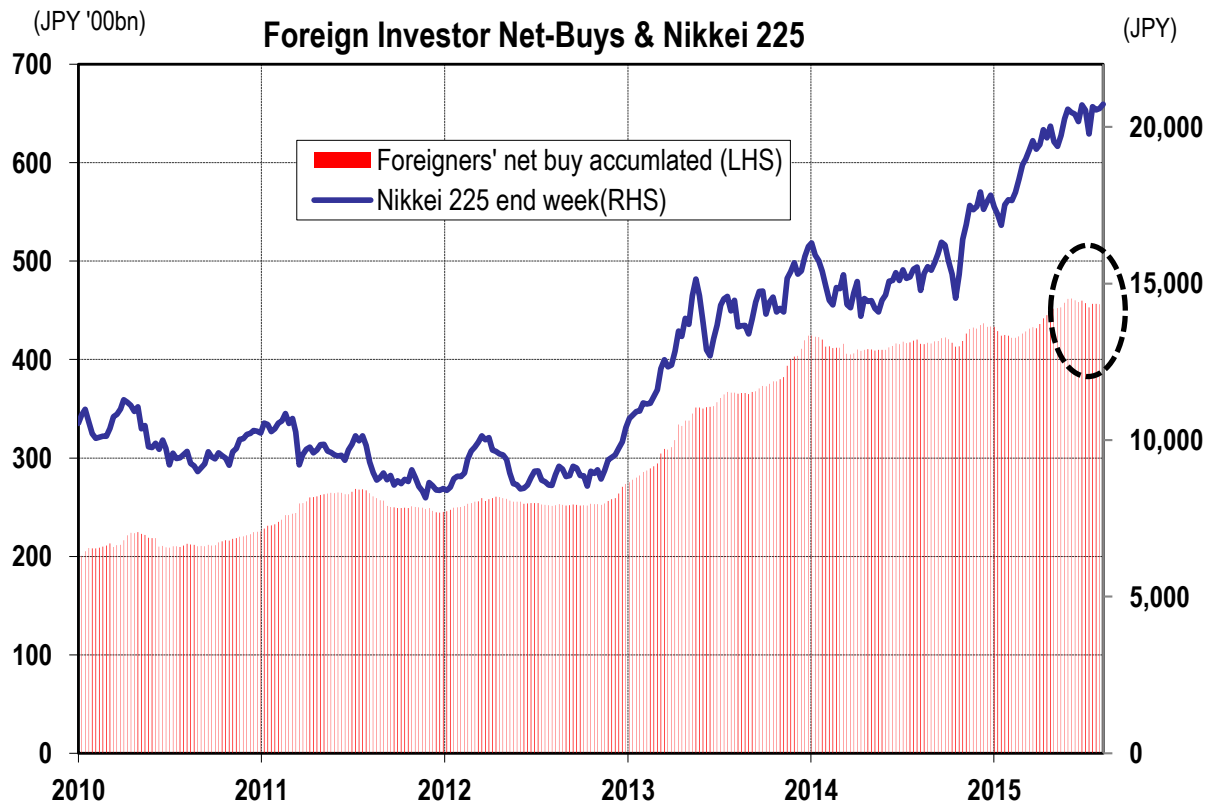
- Global PMI in July was 51. It has been mildly declining for more than a year though staying above the threshold level of 50 points.
- Concern for the global economy, especially for China is currently a drag for the Japanese stock market.



(Source) Datastream, Tokyo Stock Exchange

## Supply-Demand balance: Foreign investors stay with Japanese equities

- Despite recent risk off mode among global investors, foreign investors are not selling Japanese equities, which helped Japanese stocks' resilience compared to other major stock markets.

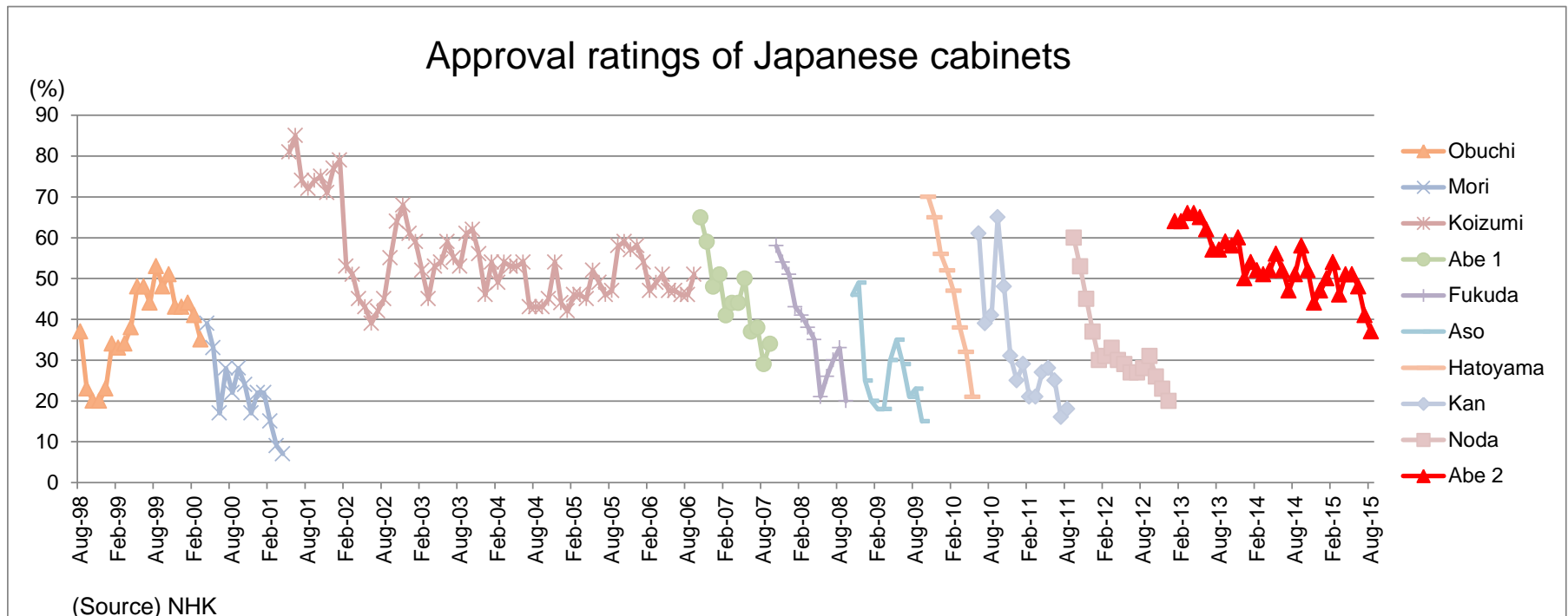


Notes: Calendar year, weekly. Foreign investors' net purchase of TSE listed stocks  
Source: Tokyo Stock Exchange, SMAM

Up to Aug 7th

## Waning political capital for PM Abe needs to be recovered

- Approval rating for PM Abe has been dangerously declining due to controversial policies such as amending National Security Law, restarting nuclear power stations and not promoting growth enhancing policies quickly enough.
- However, most of unpopular issues have been already dealt with, which would limit further significant decline.
- More recent survey by medias other than NHK show the approval rating rebounded after PM Abe made the official statement for commemorating 70 years since the end of WW2.





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