



# Outlook for Japanese Stock Market & Economy

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Sumitomo Mitsui DS Asset Management

-July 2021-



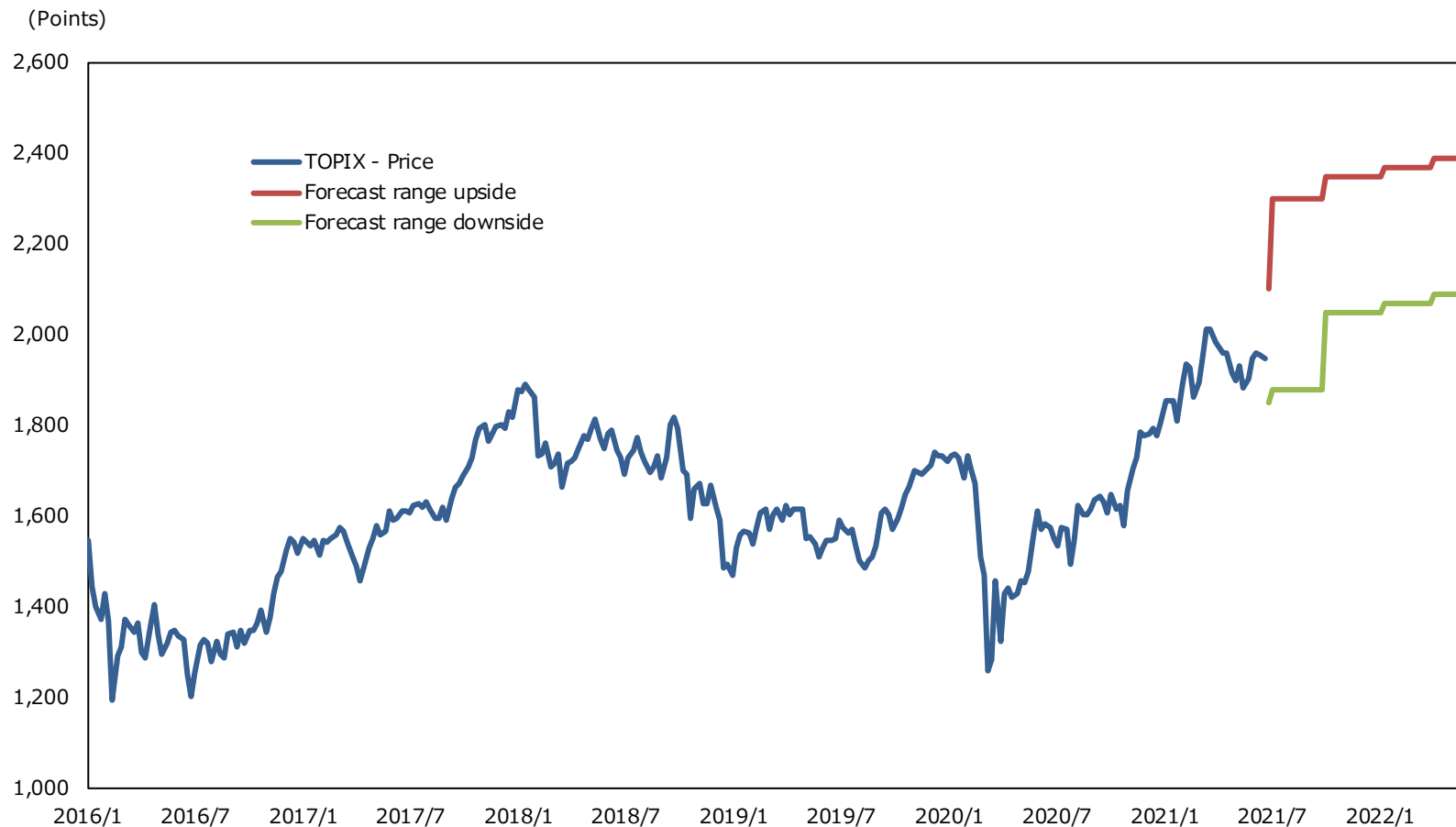
# Outlook for Japanese Stock Market

# Market Outlook

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- We maintain our bullish view on the Japan stock market going forward.
- We have raised our TOPIX target to 2,220 for FY2021, PER 17 and EPS 130, reflecting our upward revision of EPS forecast.
- Next market rally could be triggered by positive corporate earnings guidance expected to be released in July / August.
- EPS of Japan equity could reach a historical high level this fiscal year, led by manufacturers, thanks to the economic recovery due to the progress of vaccinations.

# TOPIX Index and Forecast



Note: TOPIX data is from Jan. 1st 2016 to June 18th 2021  
(Source) TOPIX: Tokyo Stock Exchange, forecast by SMDAM

(Year/Month)

# Upside / Downside Risk

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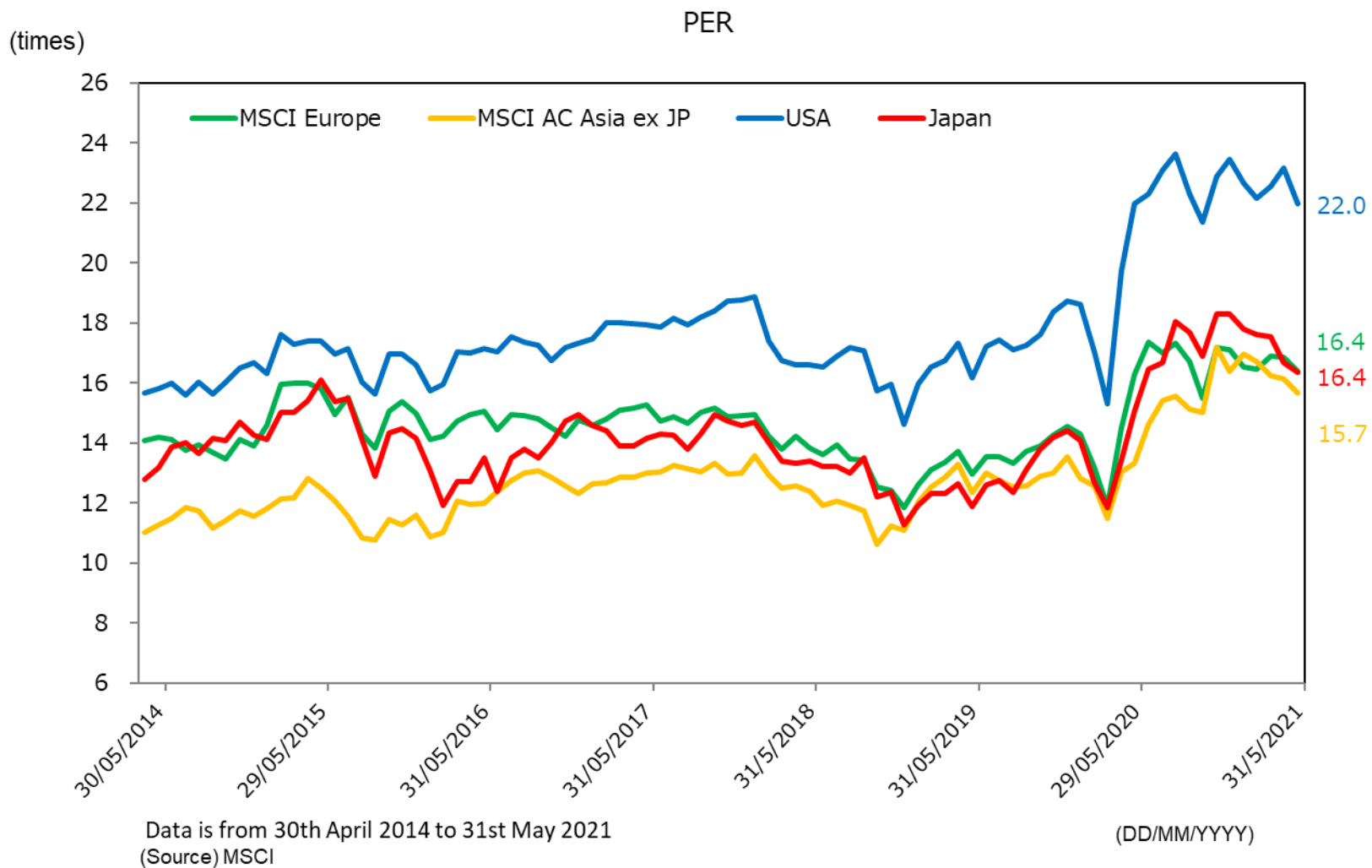
## ■ Upside Risks

- Strong economic recovery thanks to the progress of COVID-19 vaccinations
- Positive corporate earnings
- Acceleration of global economic recovery in and after year 2022

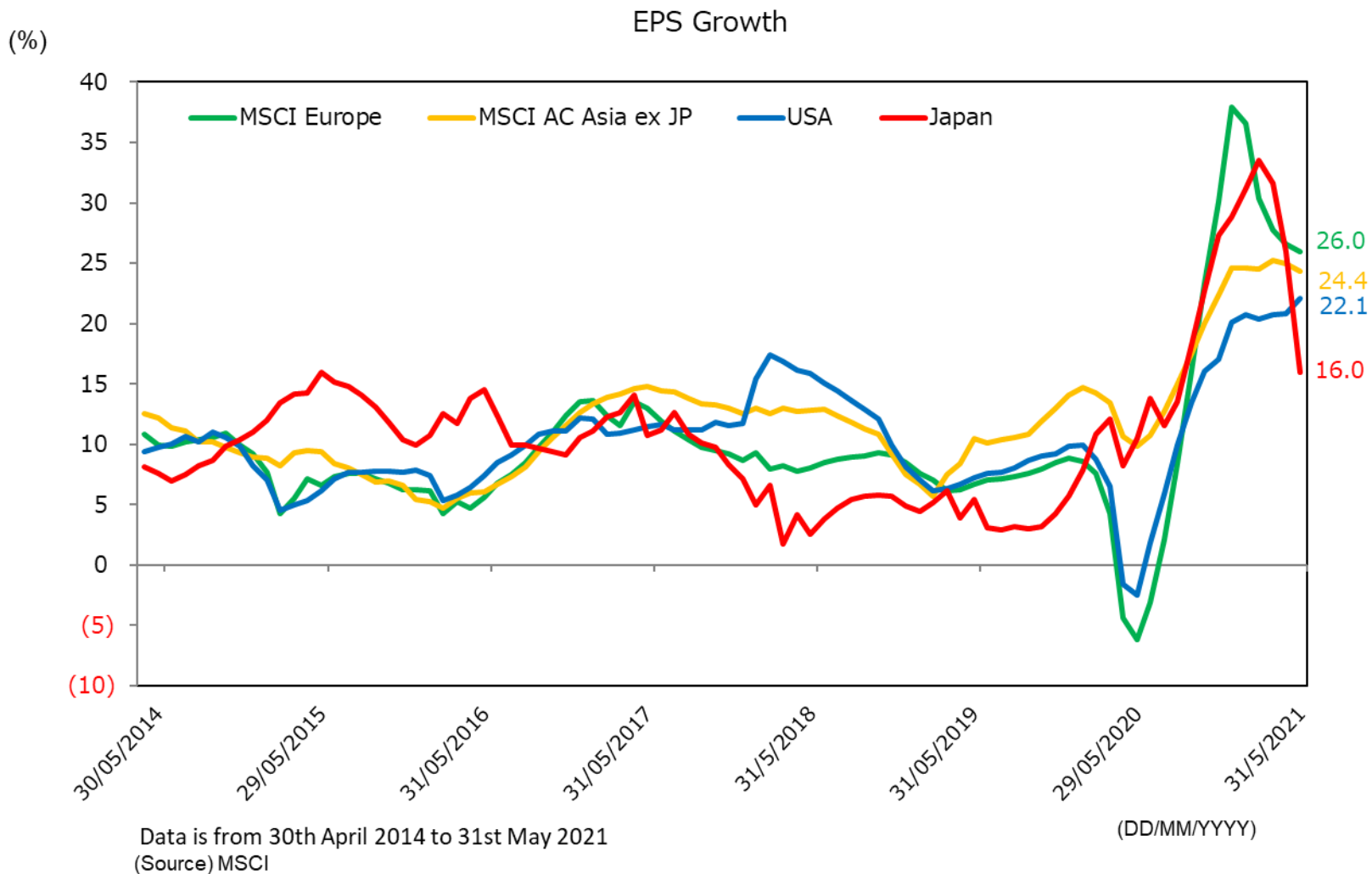
## ■ Downside Risks

- Renewed concern for inflation and monetary tightening
- Delay of normalization of economy owing to the spread of COVID-19 new variant
- Concerns for the sustainability and the effectiveness of the current fiscal and monetary policy

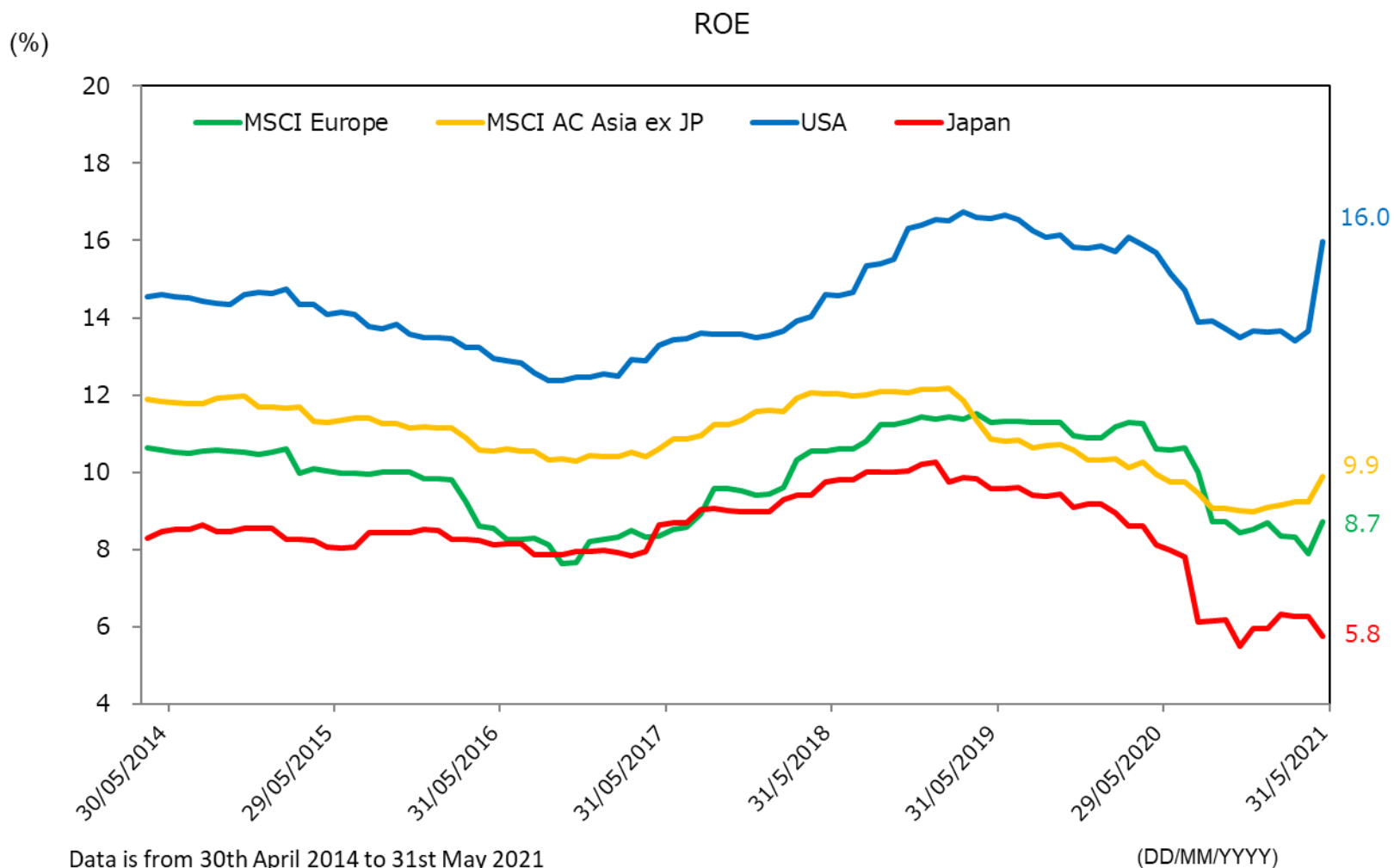
# Global Comparison of Key Valuations



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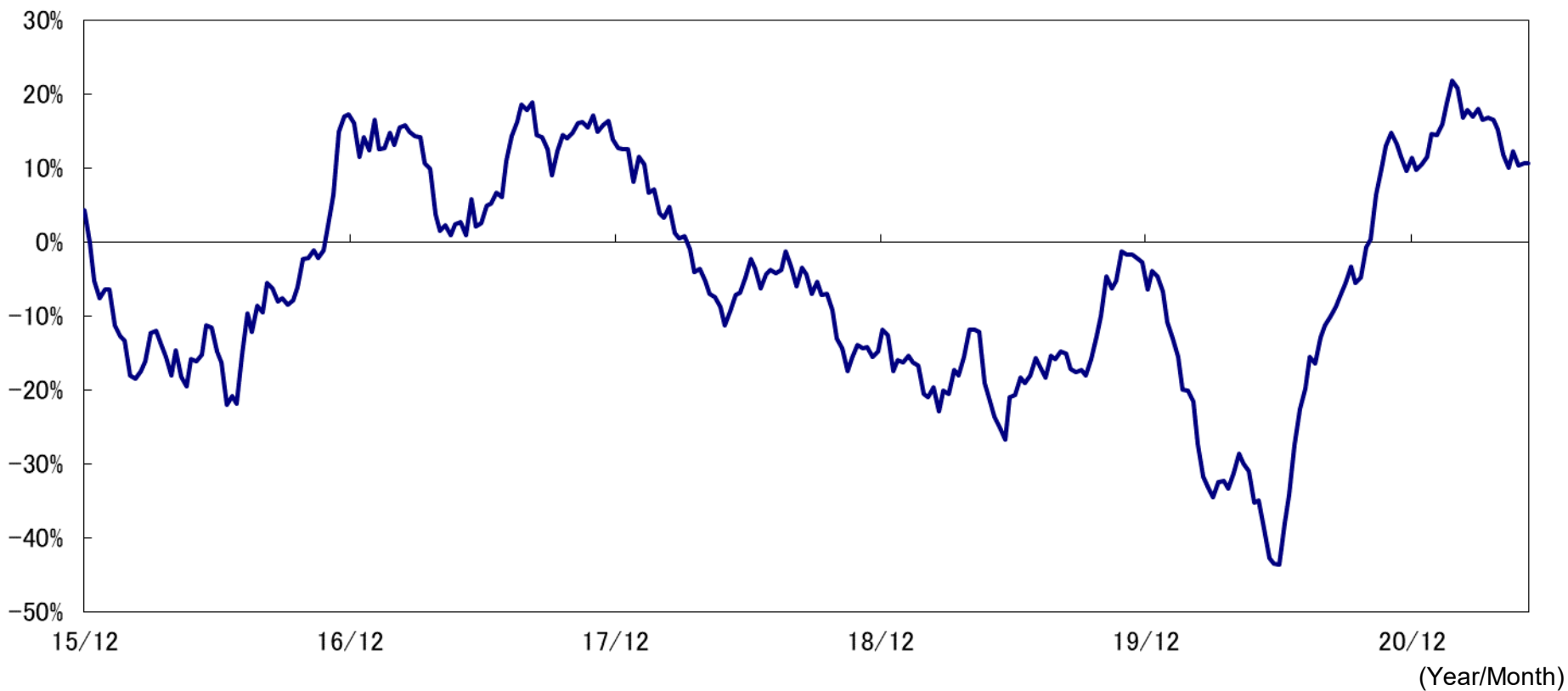


Data is from 30th April 2014 to 31st May 2021  
 (Source) MSCI



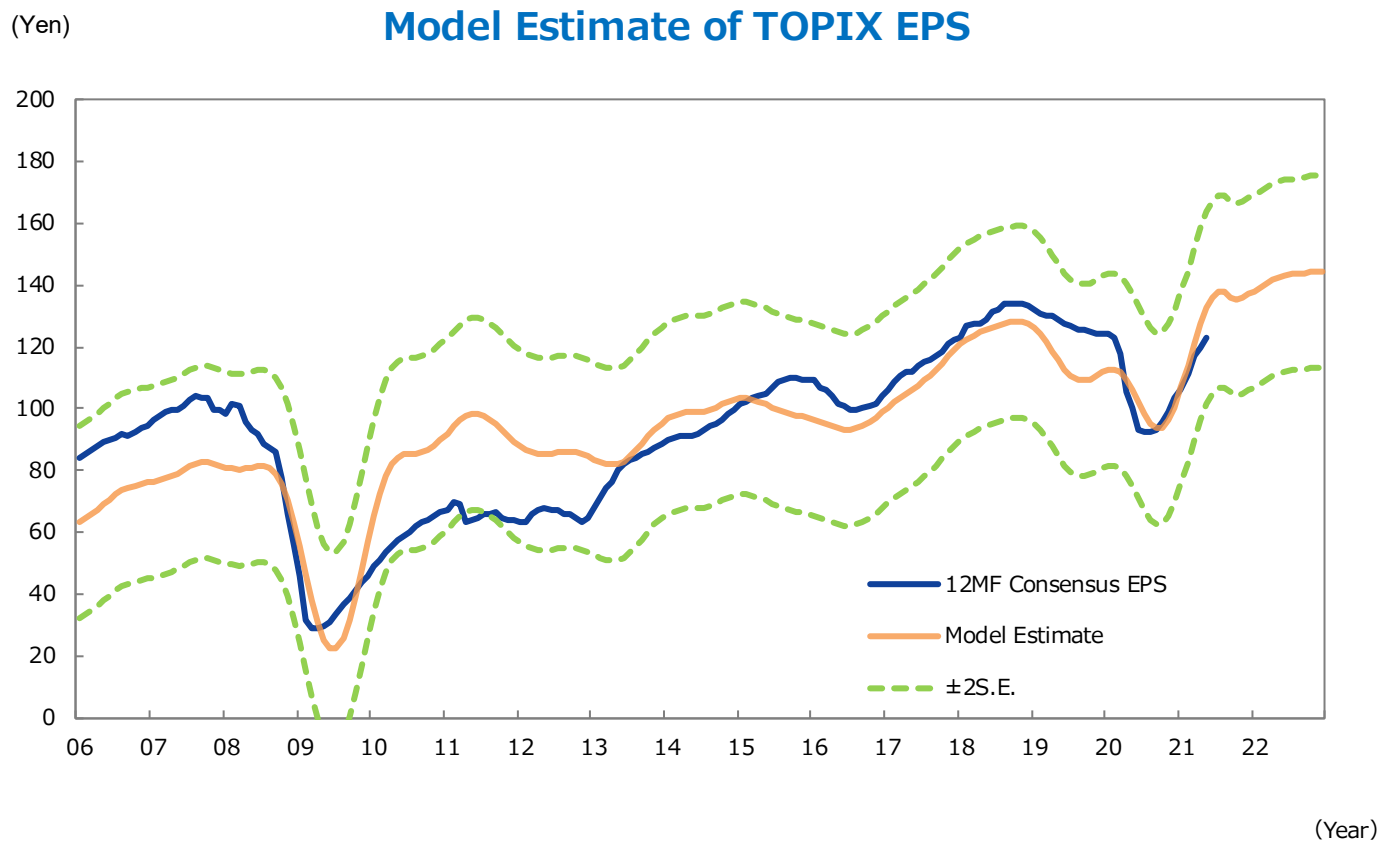
# Revision of Earnings Forecasts

TOPIX Revision Index



Data is from 31st December 2015 to 10th June 2021  
(Source) Datastream, IBES

# Top Down Approach, Model Implied Fair Value

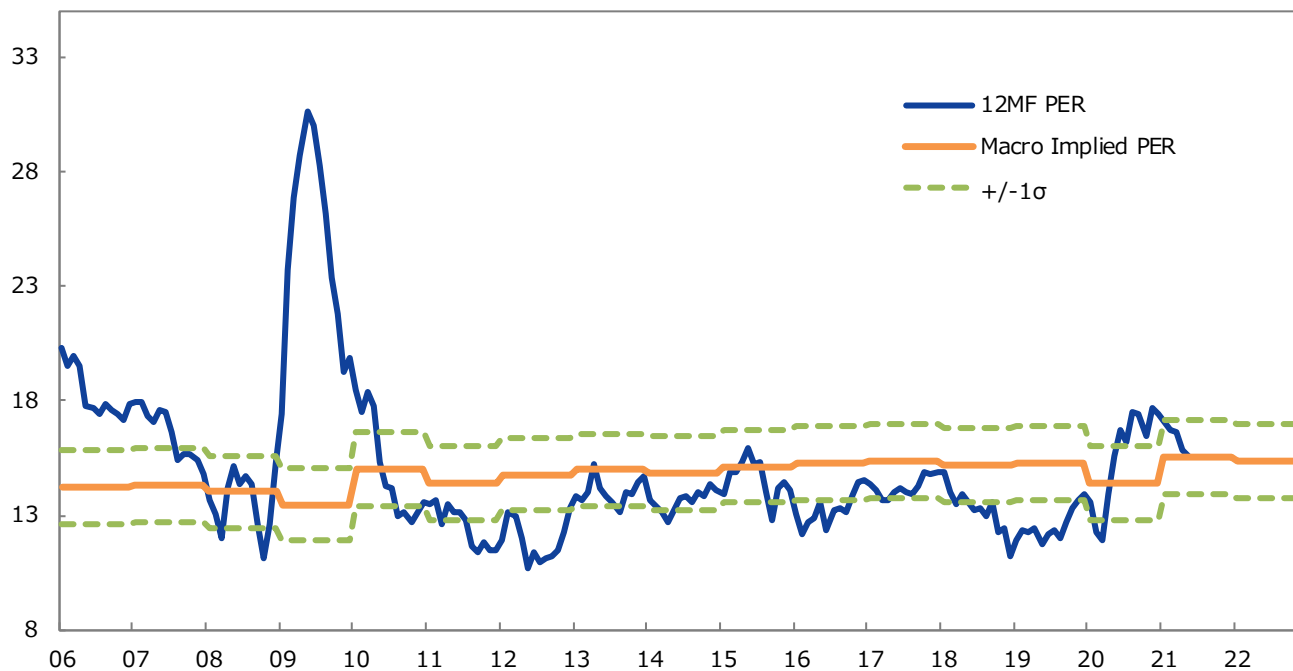


Consensus data is from Jan. 2006 to May 2021, Model data is from Jan. 2006 to Dec. 2022.  
(Source) SMDAM

# Top Down Approach, Model Implied Fair Value

(Times)

## Macro Implied TOPIX PER



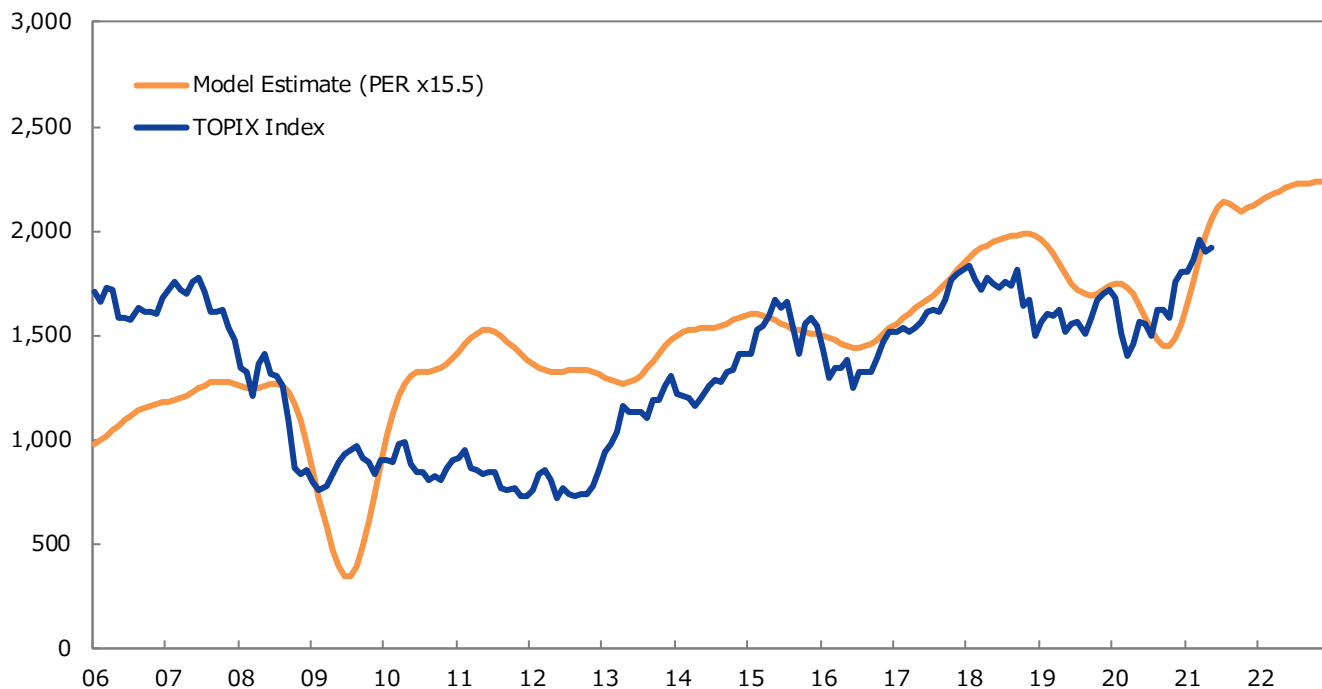
(Year)

12MF PER data is from Jan. 2006 to May 2021, Model data is from Jan. 2006 to Dec. 2022.

(Source) SMDAM

# Top Down Approach, Model Implied Fair Value

## Model Estimate of TOPIX Fair Value



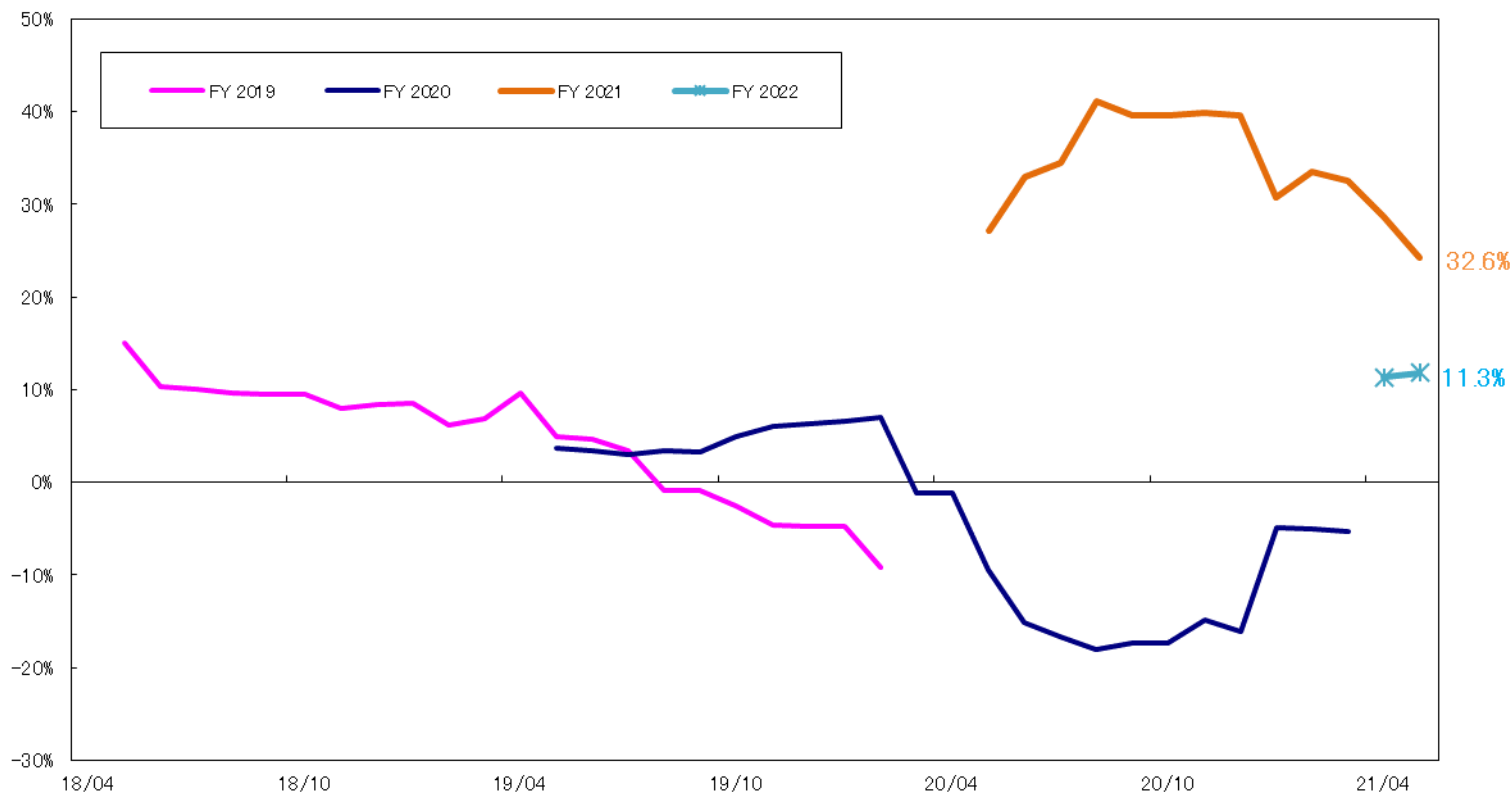
(Year)

TOPIX data is from Jan. 2006 to May 2021, Model data is from Jan. 2006 to Dec. 2022.

(Source) SMDAM

# Bottom Up Estimate, Corporate Earnings

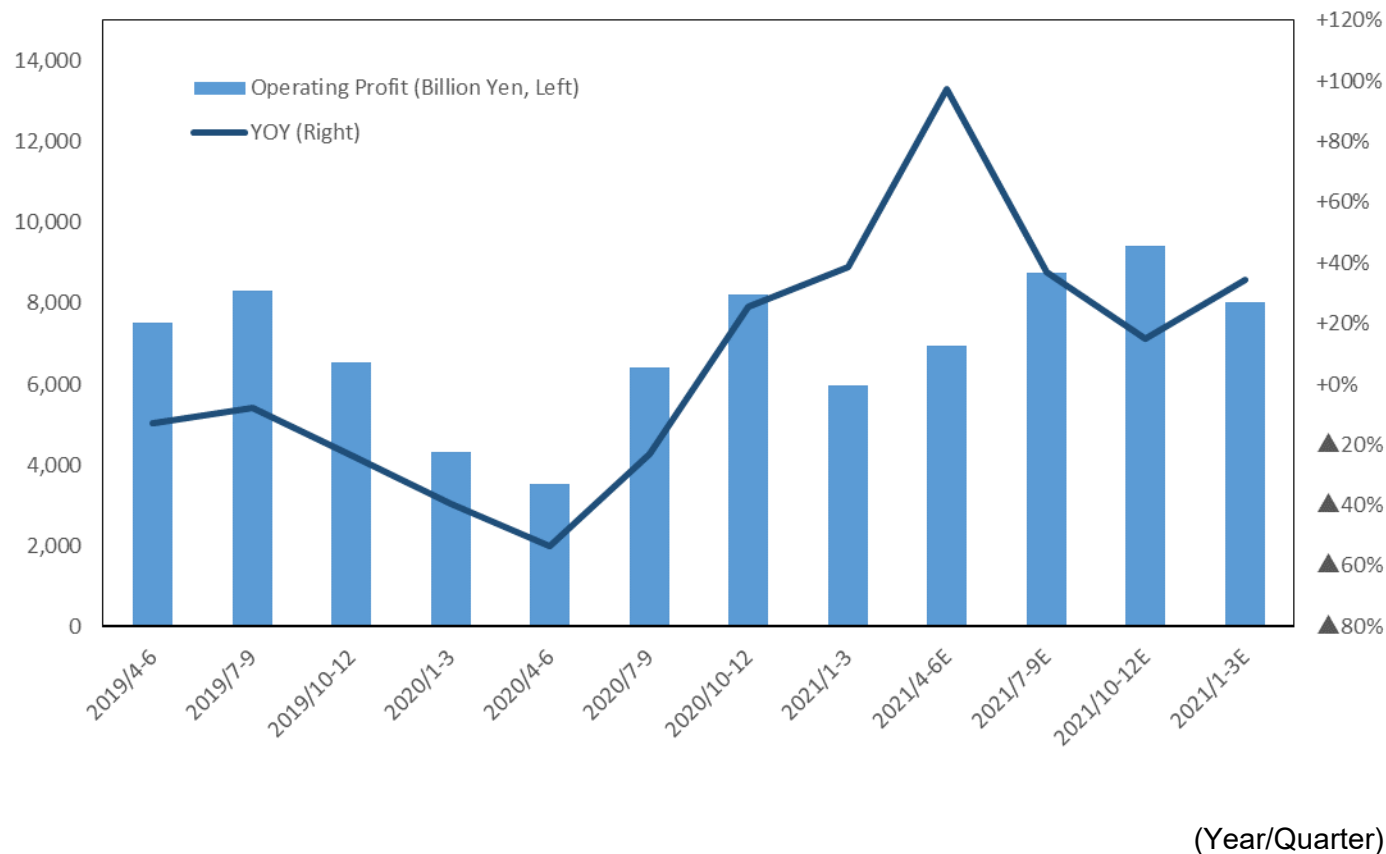
SMDAM Core Research Universe (Ex-Financial) Est. of Recurring Profit Growth



Note: SMDAM Core Universe consists of 488 major Japanese companies covered by SMDAM in-house analysts.  
 (Source) SMDAM

# Bottom Up Estimate, Corporate Earnings

Operating Profit (All Industries ex-financials and Softbank Group)



(Source) SMDAM

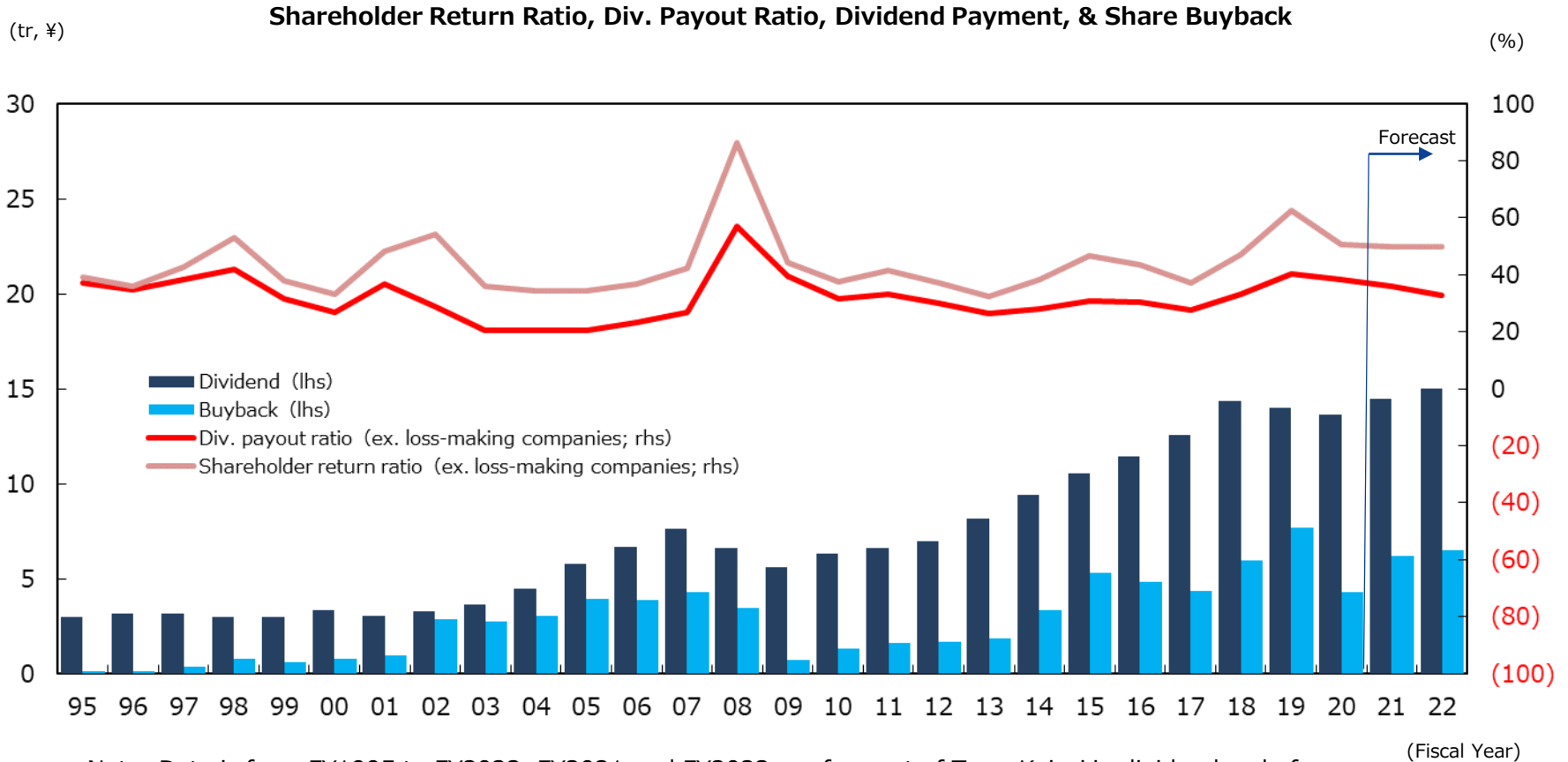
# Corporate Governance Code and Stewardship Code

Number of investors that publicly announced acceptance of the Stewardship Code	
Trust banks	6
Investment managers	199
Insurance companies	24
Pension funds	63
Others	12
<b>Total</b>	<b>304</b>

note: As of March 31st 2021  
(Source) FSA, SMDAM

- The Stewardship Code (SC) was set in February 2014. Investors are taking a more pro-active approach in talking to the companies and exercising proxy voting rights. The Financial Services Agency discloses the name of institutional investors which have publicly accepted the SC.
- After the inception of the Corporate Governance Code (CGC) in June 2015, pressure has been increasing on companies to improve its governance, efficiency and shareholder returns.
- These two codes have been progressively reviewed and enhanced, and are making visible impact on corporate behavior and investors' attitudes as shareholders.
- In the recent amendment of the CGC, companies are required to explain the rationale of "cross holdings" or "strategic holdings" of other companies' shares, which implicitly provide protection against takeovers and hostile shareholder actions, and is often negative for achieving shareholder value.
- The SC was reinforced in March 2020 to require investors to evaluate ESG factors.

# Shareholder Returns, Buybacks and Dividends



Note: Data is from FY1995 to FY2022, FY2021 and FY2022 are forecast of Toyo-Keizai in dividend and of Daiwa Securities in share buybacks.

Source: Toyo Keizai, Quick , and INDB compiled by Daiwa Securities



# Winners and Losers

## Performance Comparison of Russell/Nomura Style Indices

Index	Returns(%)						
	3 Month	6 Month	YTD	1 Year	2 year	3 Year	5 Year
RN Japan Equity	-2.33	9.51	8.77	24.30	29.38	11.94	58.42
Total Value	-0.39	16.89	16.80	25.61	17.38	-1.02	44.89
Top Cap Value	2.31	20.03	20.11	31.20	24.23	8.41	53.97
Large Cap Value	0.29	18.21	18.15	27.03	17.84	0.95	45.90
Mid Cap Value	-2.12	16.03	15.79	21.49	8.98	-9.34	34.58
Small Cap Value	-3.52	10.95	10.73	19.22	15.26	-9.63	39.51
Micro Cap Value	-3.03	7.96	8.41	15.47	14.48	-10.59	43.04
Total Growth	-1.98	2.11	0.72	20.84	37.65	21.65	71.15
Top Cap Growth	-2.02	2.92	0.95	23.51	41.74	29.91	81.86
Large Cap Growth	-2.05	1.96	0.45	21.45	39.81	24.35	73.01
Mid Cap Growth	-2.11	0.40	-0.39	18.11	36.61	16.04	61.08
Small Cap Growth	-1.30	3.69	3.55	15.70	21.38	2.75	55.29
Micro Cap Growth	-1.69	4.54	5.10	19.25	24.58	5.79	64.60
Top Cap Total	0.03	10.53	9.39	27.29	33.51	19.46	67.94
Large Cap Total	-0.86	9.72	8.83	24.89	30.16	13.63	60.40
Mid Cap Total	-2.12	8.56	8.04	21.53	25.43	5.49	50.37
Small Cap Total	-3.68	8.53	8.40	18.51	19.97	-3.48	46.90
Micro Cap Total	-2.64	6.94	7.42	17.17	18.30	-4.59	51.75

Note : As of 17th June 2021  
(Source) Bloomberg



# Outlook for Japanese Economy

# [Japanese economy] Summary

## Current Status and Prospects of the Japanese Economy

### [Outlook]

- ① **The forecast for real GDP is +3.8% (previously 3.9%) in FY 2021, and +2.4% (+2.3%) in FY 2022.** Growth forecast for FY 2021 was revised downward to reflect an extension of the declaration of a state of emergency. On the other hand, forecast for FY 2022 was revised upward, taking into account the reaction to the downward revision of FY 2021. In Q2 2021, growth is expected to be negative but small. We expect economic recovery after Q3 2021. In addition to the progress of vaccinations, increased external demand and recovery of automobile production are also expected.
- ② **The nationwide core CPI outlook (excluding effects of the consumption tax hike and free education) is +0.4% (previously +0.2%) in FY2021, and +0.6% (previously +0.5%) in FY2022.** The main factor behind the upward revision was a hike in the assumption of crude oil price, WTI, from \$60 to \$65. The year-on-year nation wide core CPI is likely to remain near zero for the time being, and then to increase moderately led by energy prices. However, as the supply-demand balance is not so tight, the underlying inflationary pressure will be limited.
- ③ **The overall monetary policy framework is likely to be maintained for the time being.** In the "inspection for more effective and sustainable monetary easing," the Bank of Japan has announced measures to deal with side effects of its monetary policy, such as more flexible purchasing program of ETFs and J-REITs and clarification of the range of fluctuations in the long-term interest rate. The Bank of Japan has established a new interest rate program to promote loans and has made it clear that there is room for interest rate cuts, but the central bank will lower the already negative interest rates further only in emergencies, such as a sharp rise in the yen. The deadline for financial assistance to companies was extended from September 30 2021 to March 31 2022 at the meeting for monetary policy on June 17-18.
- ④ **Attention will now be focused on discussions on a supplementary budget ahead of the general election scheduled in autumn. There is a possibility that economic stimulus measures will be ordered by the cabinet in the summer.** The government intends to cover its immediate fiscal spending with a reserve fund.
- ⑤ **We maintain our main scenario, accommodative fiscal and monetary policy.** Prime Minister Suga has called for the continuation of Abenomics, and policy management is generally in line with this. Even if the administration of Prime Minister Suga ends up with a short life span, it is likely that the government will continue its economy-friendly policies until the COVID-19 will be under control.

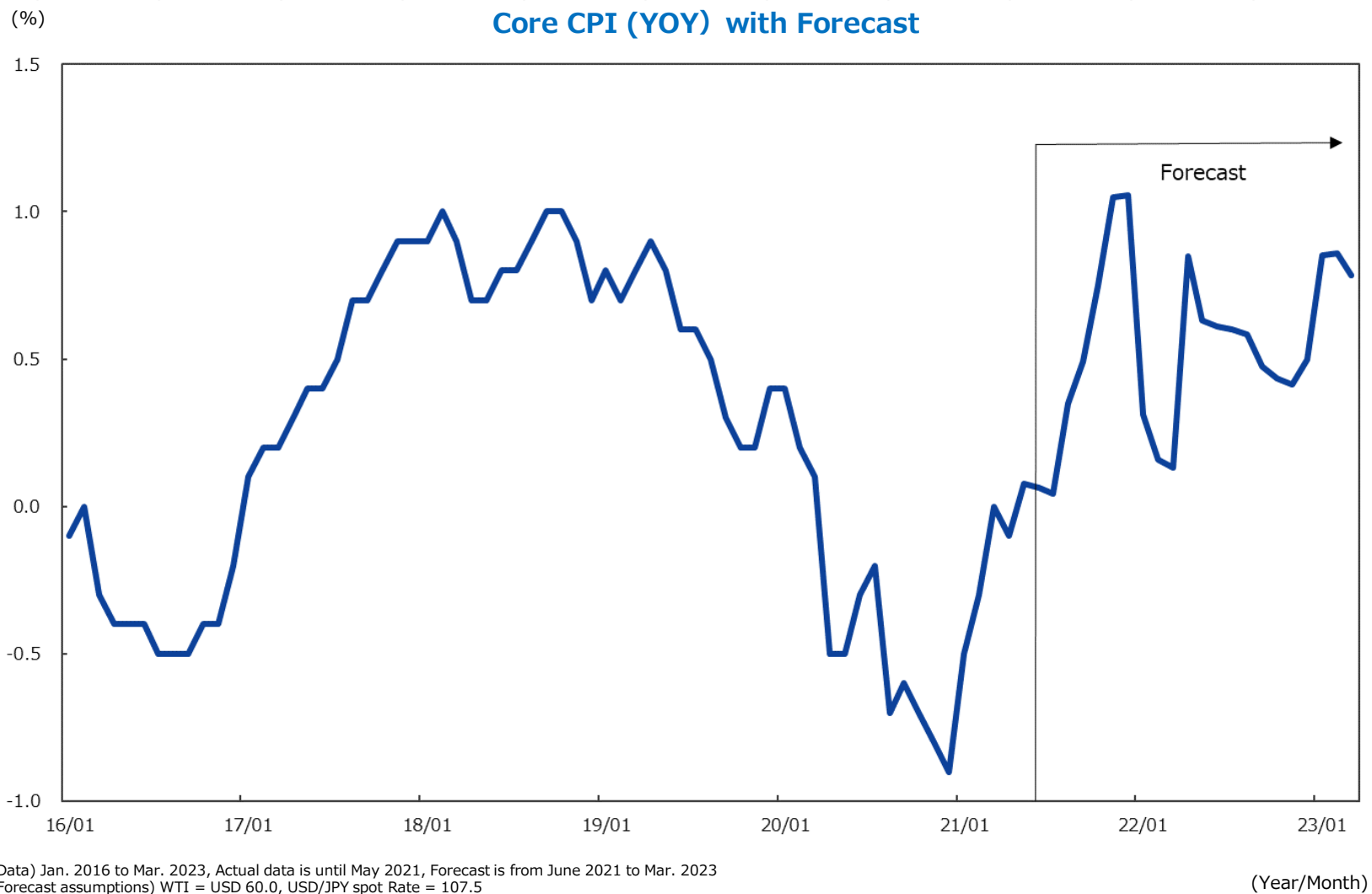
# Japan Economy Forecast

Forecast of Annual Real GDP Growth								
Fiscal Year	FY16	FY17	FY18	FY19	FY20	FY21 Est	FY22 Est	
Real GDP	0.8%	1.8%	0.2%	-0.5%	-4.6%	3.8%	2.4%	
Private final consumption expenditure	-0.3%	1.0%	0.1%	-1.0%	-6.0%	3.2%	2.0%	
Private housing investment	4.3%	-1.8%	-4.9%	2.5%	-7.1%	1.4%	2.1%	
Private-sector capital investment	0.8%	2.8%	1.0%	-0.6%	-6.9%	4.1%	5.6%	
Public fixed capital formation	0.5%	0.6%	0.8%	1.5%	4.3%	2.7%	1.5%	
Net export contribution	0.7%	0.4%	-0.2%	-0.4%	-0.6%	1.1%	0.1%	
Exports of goods and services	3.4%	6.3%	2.0%	-2.2%	-10.5%	13.0%	5.2%	
Imports of goods and services	-0.5%	3.8%	3.0%	0.2%	-6.9%	6.4%	4.6%	
Nominal GDP	0.8%	2.0%	0.1%	0.3%	-3.9%	3.2%	2.8%	
GDP deflator	0.0%	0.2%	-0.1%	0.9%	0.6%	-0.6%	0.3%	
Industrial Production Index	0.8%	2.9%	0.3%	-3.7%	-9.9%	12.2%	4.5%	
Consumer Price Index (Core)	-0.2%	0.7%	0.8%	0.4%	-0.5%	0.4%	0.6%	
Domestic corporate goods price index	-2.4%	2.7%	2.2%	0.1%	-1.4%	2.7%	0.0%	
Employee compensation	2.4%	2.0%	3.2%	2.0%	-2.0%	0.6%	1.5%	
Unemployment rate	3.0%	2.7%	2.4%	2.4%	2.9%	2.8%	2.7%	
Call Rate (End value)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	

(Note) Rate of increase over the previous year. Net exports are based on the degree of contribution, and the consumer price index (Core) excludes the effects of the consumption tax and free education. The forecast is for Sumitomo Mitsui DS Asset Management.

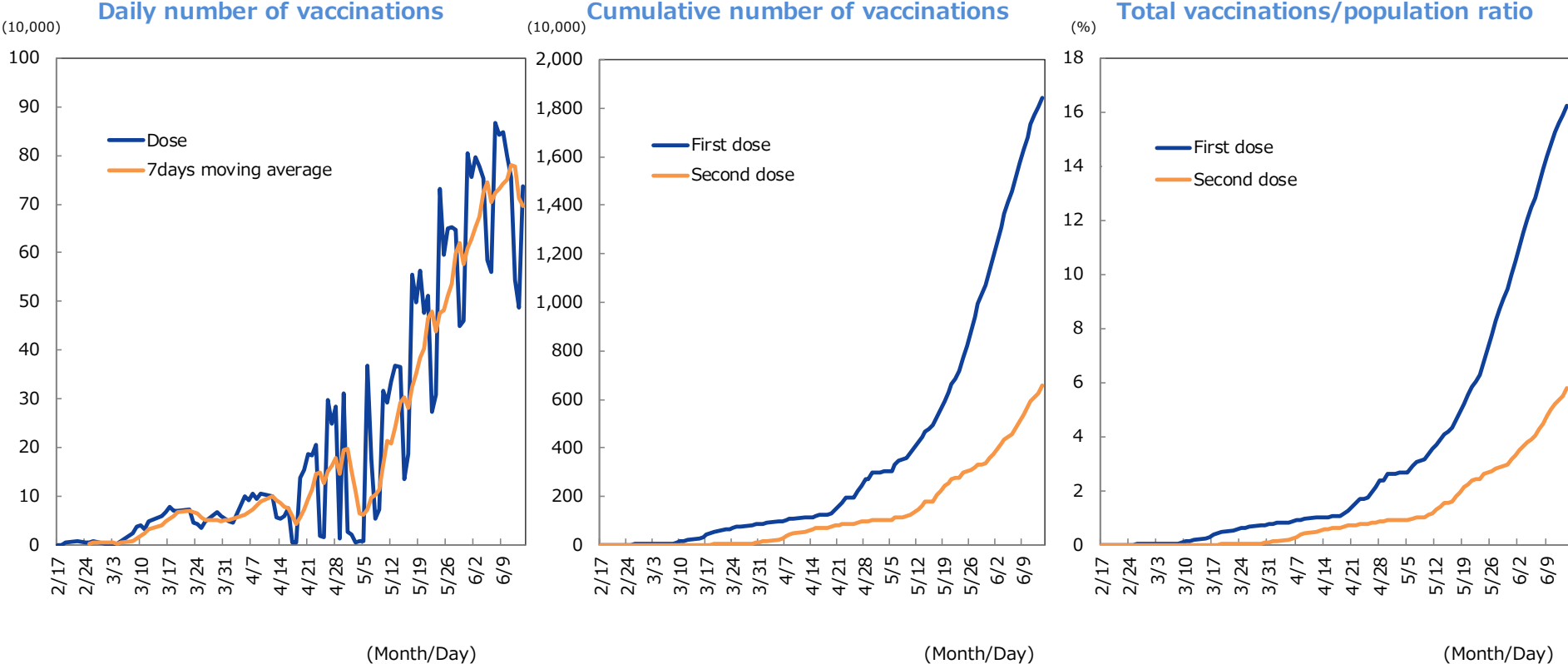
(Source) Creation of Sumitomo Mitsui DS Asset Management based on data from the Cabinet Office, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry

# Core CPI with Forecast



(Data) Jan. 2016 to Mar. 2023, Actual data is until May 2021, Forecast is from June 2021 to Mar. 2023  
(Forecast assumptions) WTI = USD 60.0, USD/JPY spot Rate = 107.5  
(Source) MIAC, Bloomberg, SMDAM

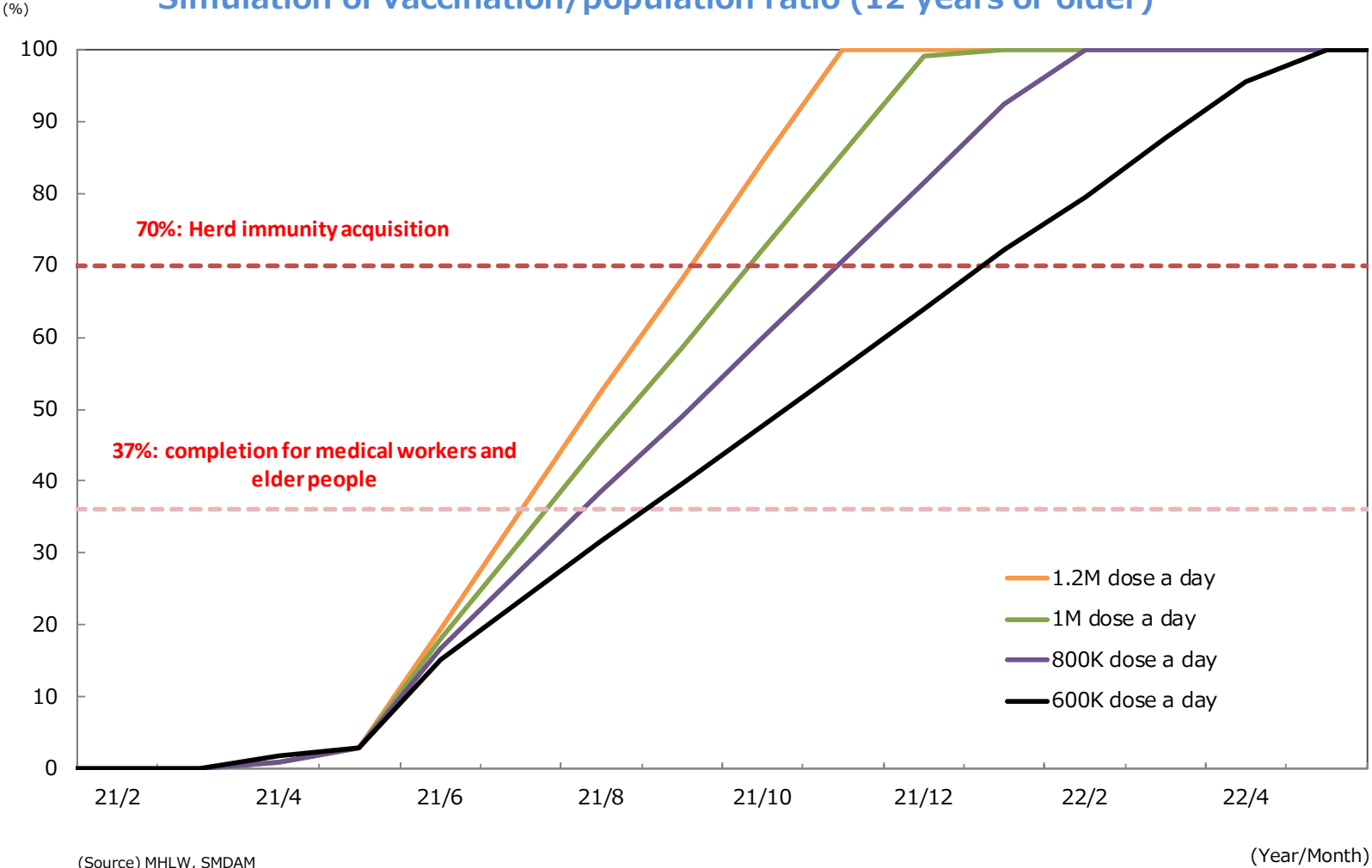
# Progress of COVID-19 Vaccinations



(Data) From 17<sup>th</sup> Feb. 2021 to 14<sup>th</sup> June 2021  
 (Source) MHLW, SMDAM

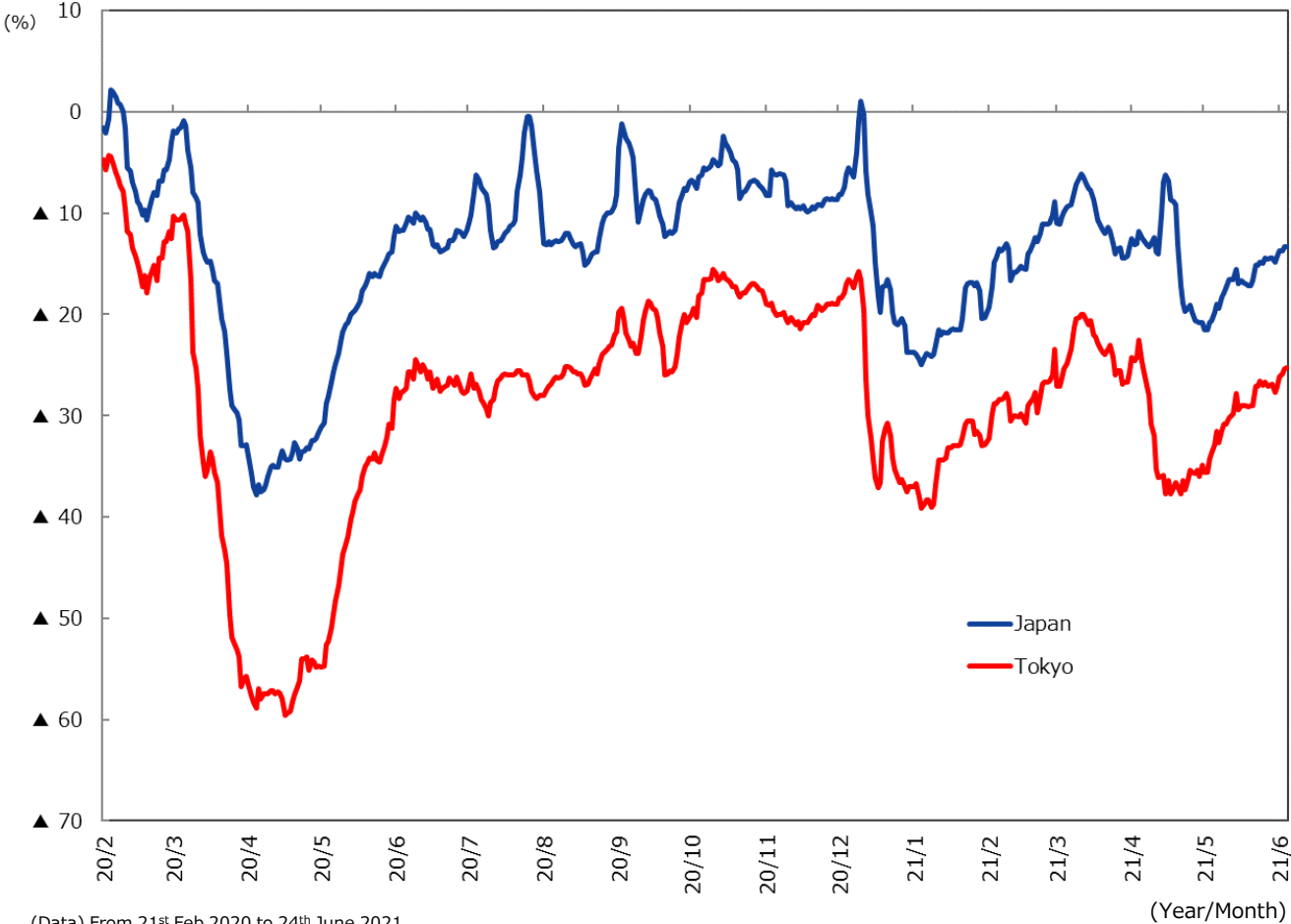
# Progress of COVID-19 Vaccinations

Simulation of vaccination/population ratio (12 years or older)



# Mobility Data

### Google Community Mobility Report (Retail & Leisure, 7 days Moving Average)

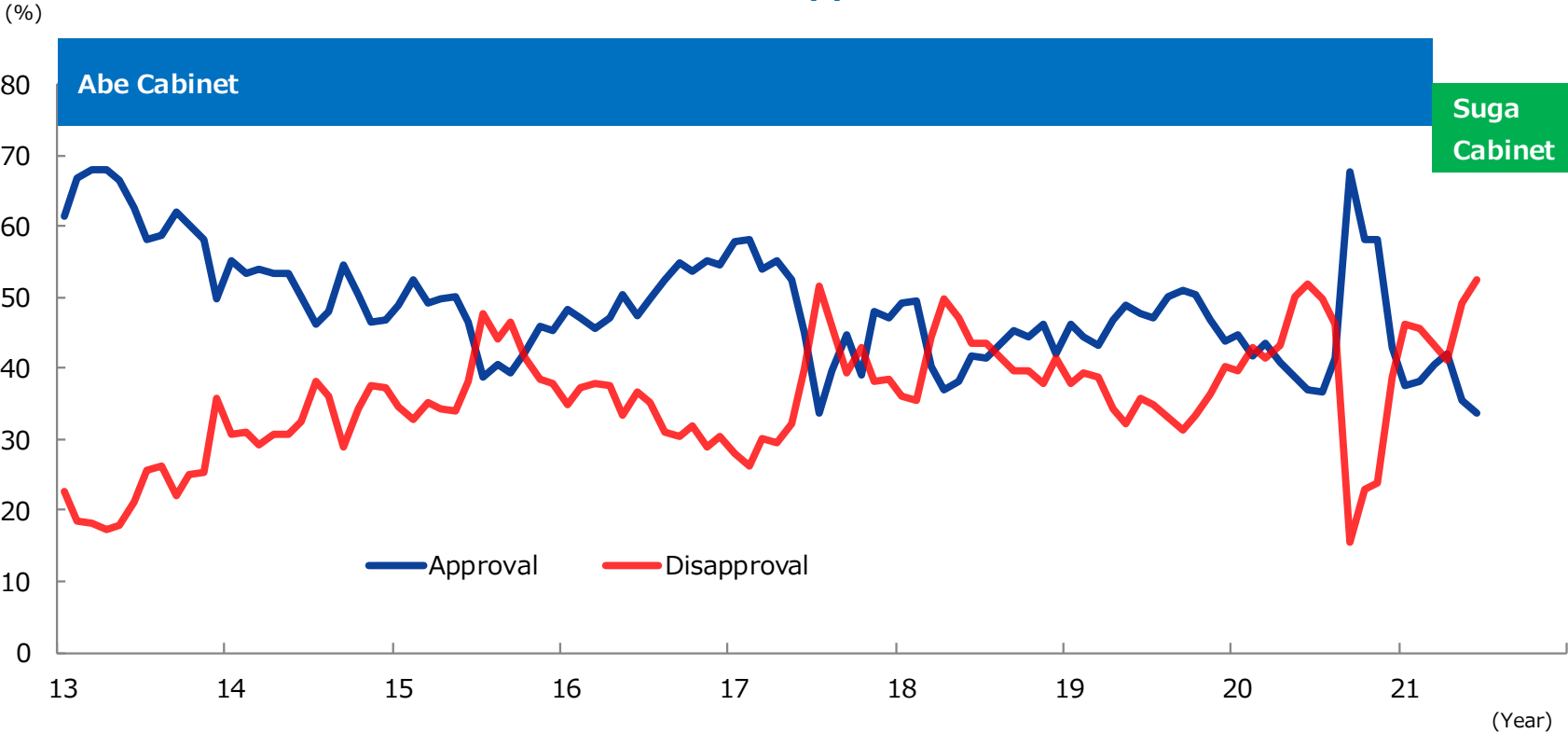


(Data) From 21<sup>st</sup> Feb 2020 to 24<sup>th</sup> June 2021  
(Source) Google, SMDAM



# Government approval rate

## Cabinet approval rate



(Data) From Feb. 2013 to June 2021  
(Source) NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

# Political Schedule, Snap Election in Autumn

Date	Schedule of Political Events
June 11-13th June 16th June 20th	G7 Summit in UK End of the ordinary Diet session End of state of emergency
July 4th	Tokyo Metropolitan Assembly Election
July 23rd July 31st	<b><u>Tokyo Olympics (Until August 8)</u></b> Target for completion of elderly vaccination
August 25th	<b><u>Tokyo Paralympics (Until September 5)</u></b>
September 1st	Launch of Digital Agency
September 30th	<b><u>Expiration of Ruling LDP President's Term</u></b>
October 21st	<b><u>End of the term of the House of Representatives</u></b>

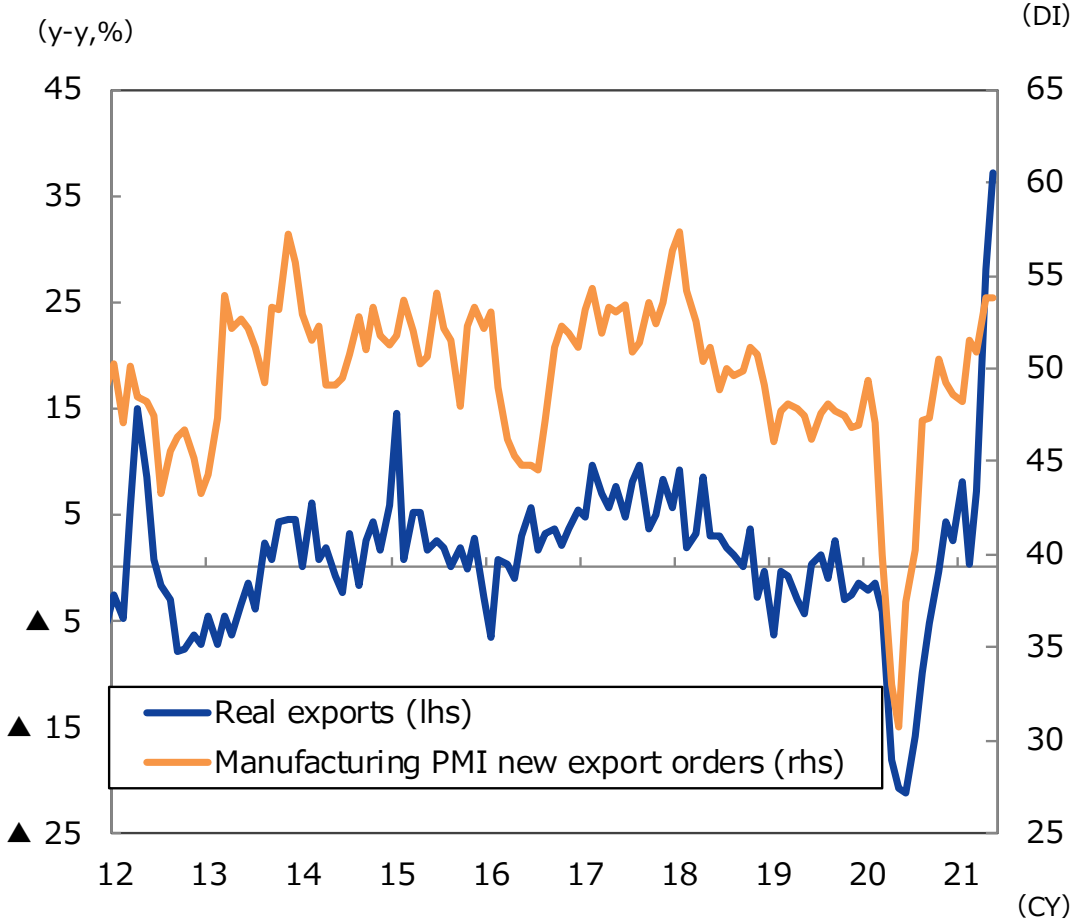
(Source) Compiled by Sumitomo Mitsui DS Asset Management Co., Ltd.

## ■ Snap Election will be held in the Autumn

- PM Suga said he would dissolve the lower house before the end of his term as president of the ruling Liberal Democratic Party (LDP).
- If COVID-19 is under control, an election will be held in September after Tokyo Olympics & Paralympics.
- In case of prolonged spread of COVID-19, election could be held in October.
- To appeal to voters, the government could compile a supplementary budget in this summer just before election.

# Exports and Manufacturing Activities

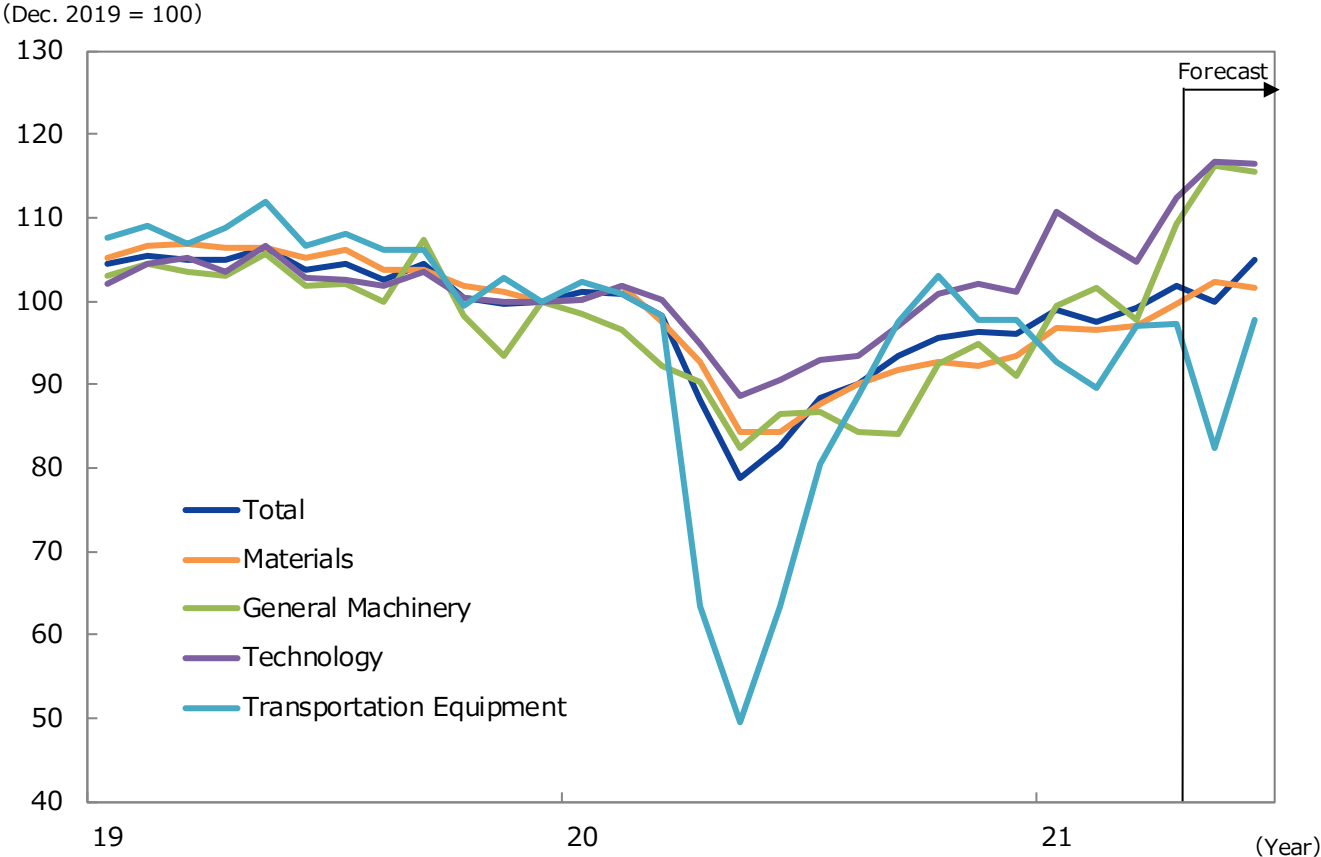
Real exports and manufacturing PMI new export orders



(Data) Real export is from Jan. 2012 to Apr. 2021, MFG PMI new export is from Dec. 2011 to May 2021  
 (Source) Compiled by Sumitomo Mitsui DS Asset Management based on data provided by the Bank of Japan, the Cabinet Office and Markit.

# Industrial Production

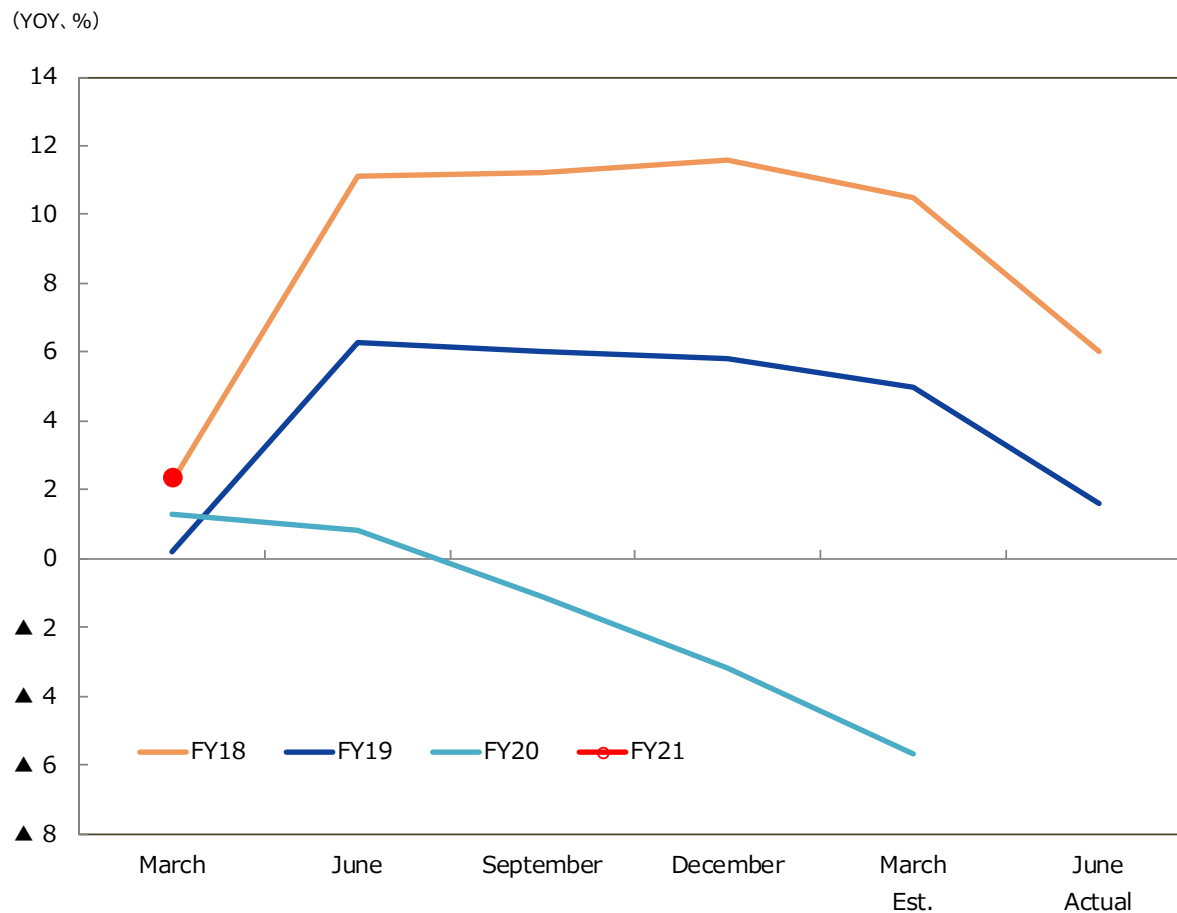
## Industrial Production (Monthly)



(Data) From Jan. 2019 to June 2021  
(Source) METI, SMDAM

# CAPEX

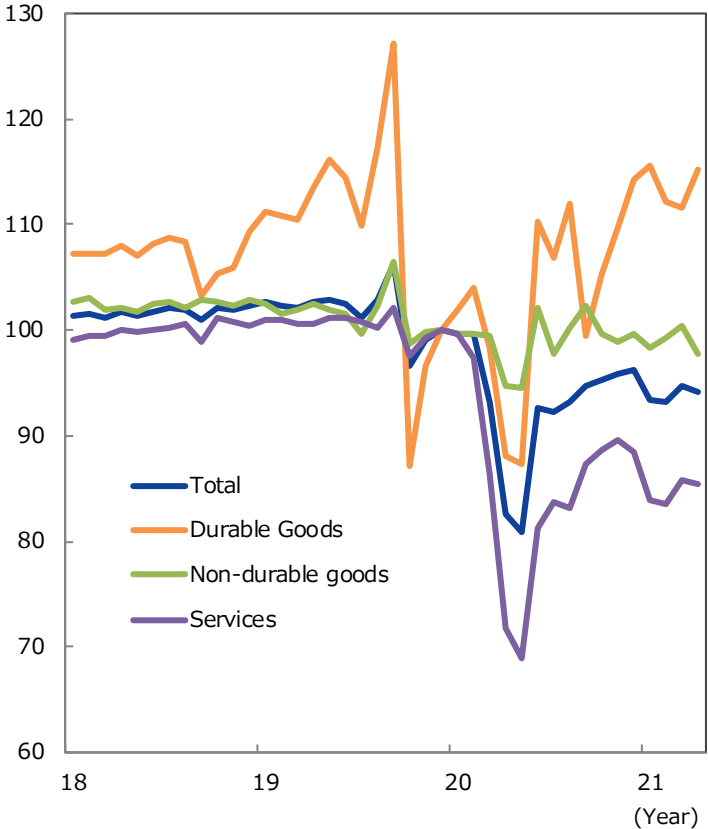
## Plan of CAPEX (inc. software, ex. Land and R&D)



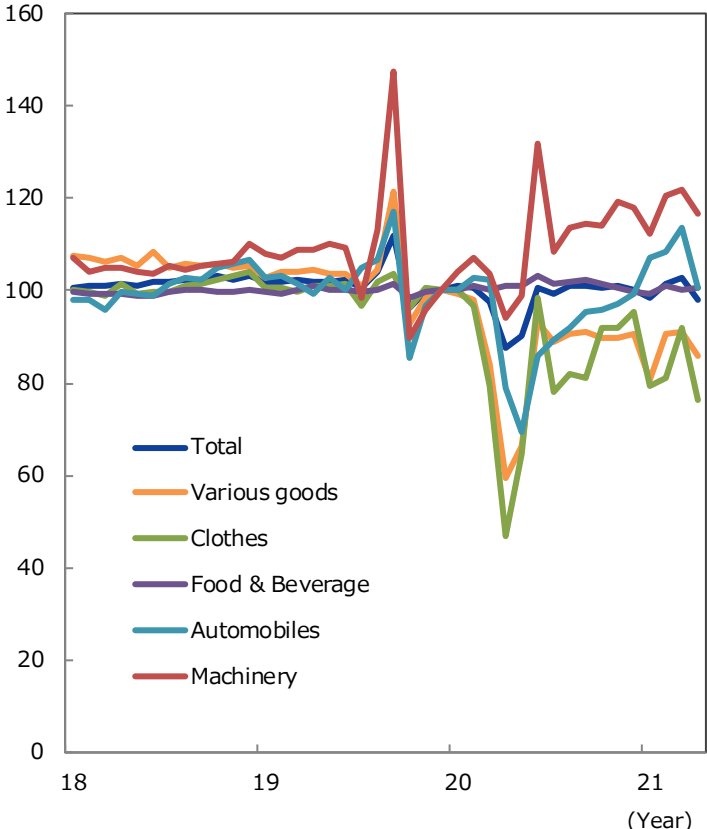
(Source) Bank of Japan, SMDAM

# Consumer Spending

Consumer Activity Index (Dec. 2019 = 100)



Retail Sales (Dec. 2019 = 100)



(Data) From Jan. 2018 to Apr. 2021  
 (Source) Bank of Japan, METI, and SMDAM

# Schedule of Major Events

Major domestic events			
2021	July	4	Tokyo Metropolitan Assembly election
		15-16	Monetary Policy Meeting (perspective report)
		23	Tokyo Olympics (Until August 8)
		31	Target for completion of elderly vaccination
	August	16	Release of FY2021 Q2 GDP
		20	Revision of CPI standards
		25	Tokyo Paralympics (Until September 5)
	September	1	Launch of Digital Agency
		8	Revision of FY2021 Q2 GDP
		21-22	Monetary Policy Meeting
		30	Expiration of Ruling LDP President's Term
	October	21	End of the term of the House of Representatives
		27-28	Monetary Policy Meeting (perspective report)
		31	Target for completion of vaccination of entire nation
	November	15	Release of FY2021 Q3 GDP
	December	8	Revision of FY2021 Q3 GDP
		26-17	Monetary Policy Meeting
		Expected	Outline of Tax Reform in Fiscal 22
		Expected	Cabinet Decision on the FY 22 Budget

(Source) Compiled by Sumitomo Mitsui DS Asset Management Co., Ltd.

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