



# Outlook for Japanese Stock Market & Economy

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Sumitomo Mitsui DS Asset Management

-November 2021-



# Outlook for Japanese Stock Market

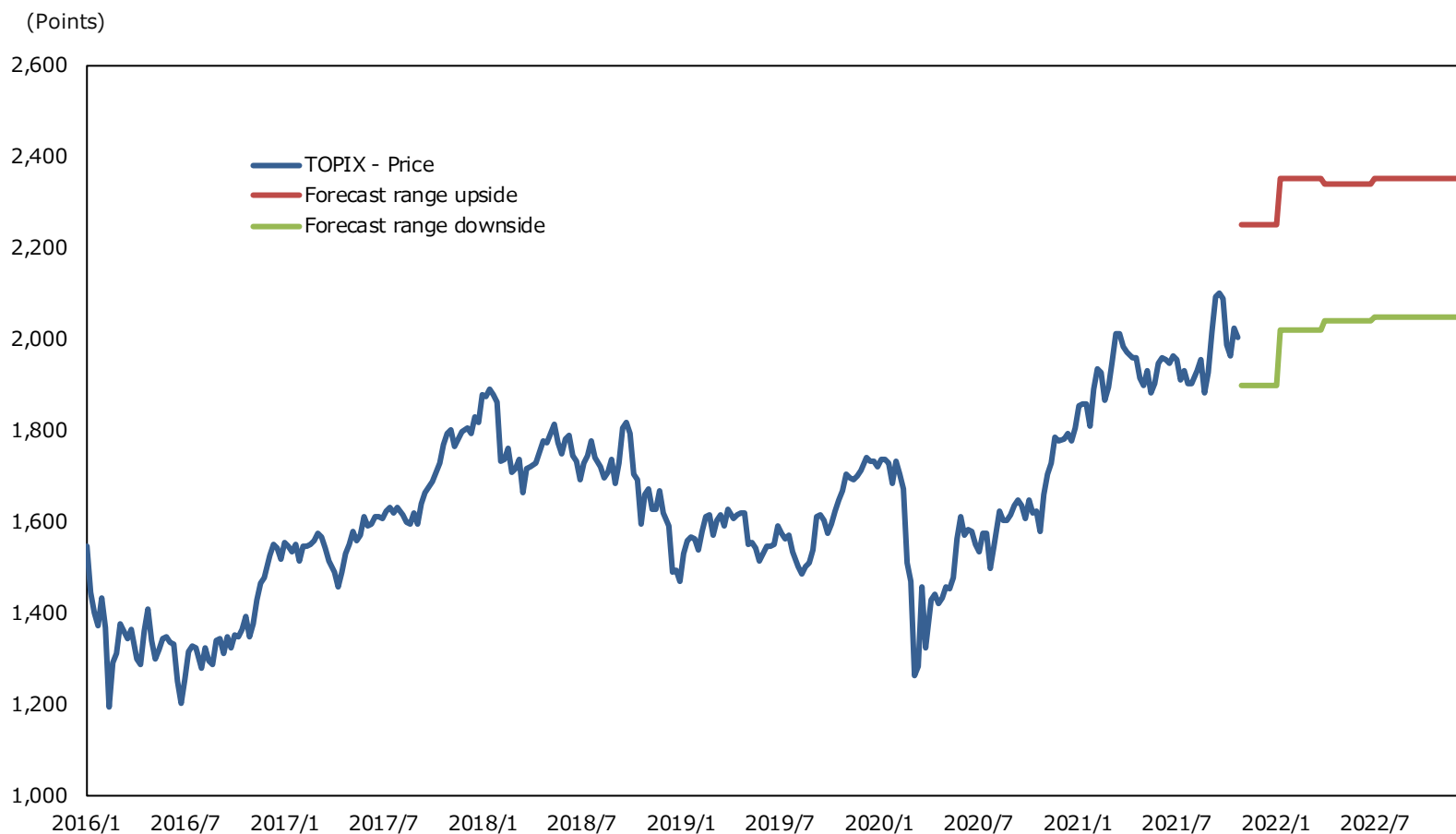
## Market Outlook

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- We are bullish on Japanese equity market thanks to strong earnings growth and accelerating economic recovery towards FY 2022.
- Our TOPIX target is unchanged at 2,180 for FY 2021 and 2,200 for CY 2022.
- We forecast TOPIX EPS could reach 131 points, an historical high, in FY 2021 and 141 in FY 2022.
- Though investors are concerned about bottle-neck driven inflation and Chinese economy, including real estate problem, electricity shortage, and slowing economic growth, in the short term, we expect market will be back to a bullish trend after confirming sound fundamentals of global economy and strong corporate earnings towards next year.



# TOPIX Index and Forecast



Note: TOPIX data is from Jan. 1st 2016 to Oct. 22nd 2021  
(Source) TOPIX: Tokyo Stock Exchange, forecast by SMDAM

(Year/Month)

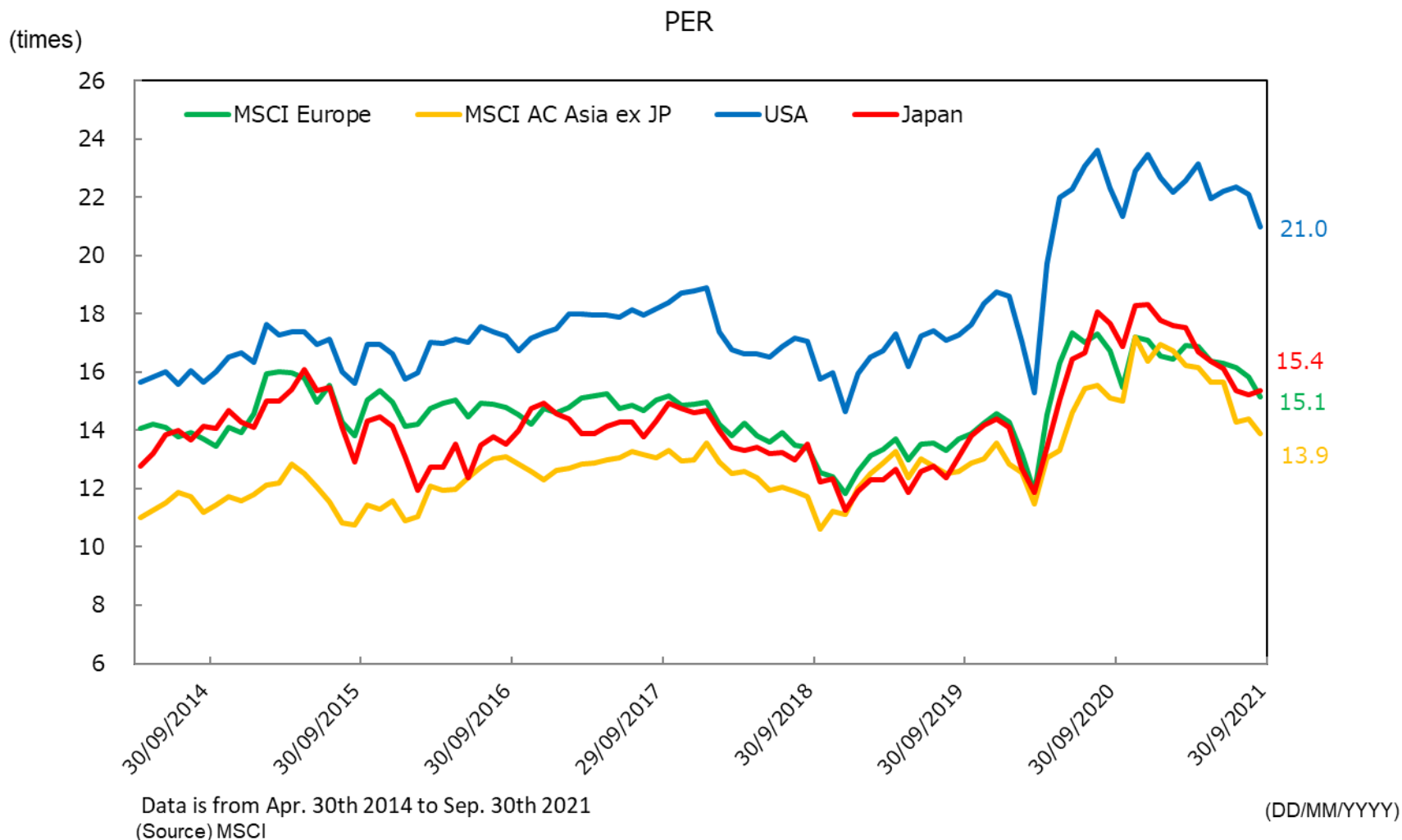
## ■ Upside Risks

- Rapid normalization of global economy thanks to the development of effective therapy/treatment for COVID-19 patients
- Steep increase in approval rate of new Prime Minister Kishida and his cabinet

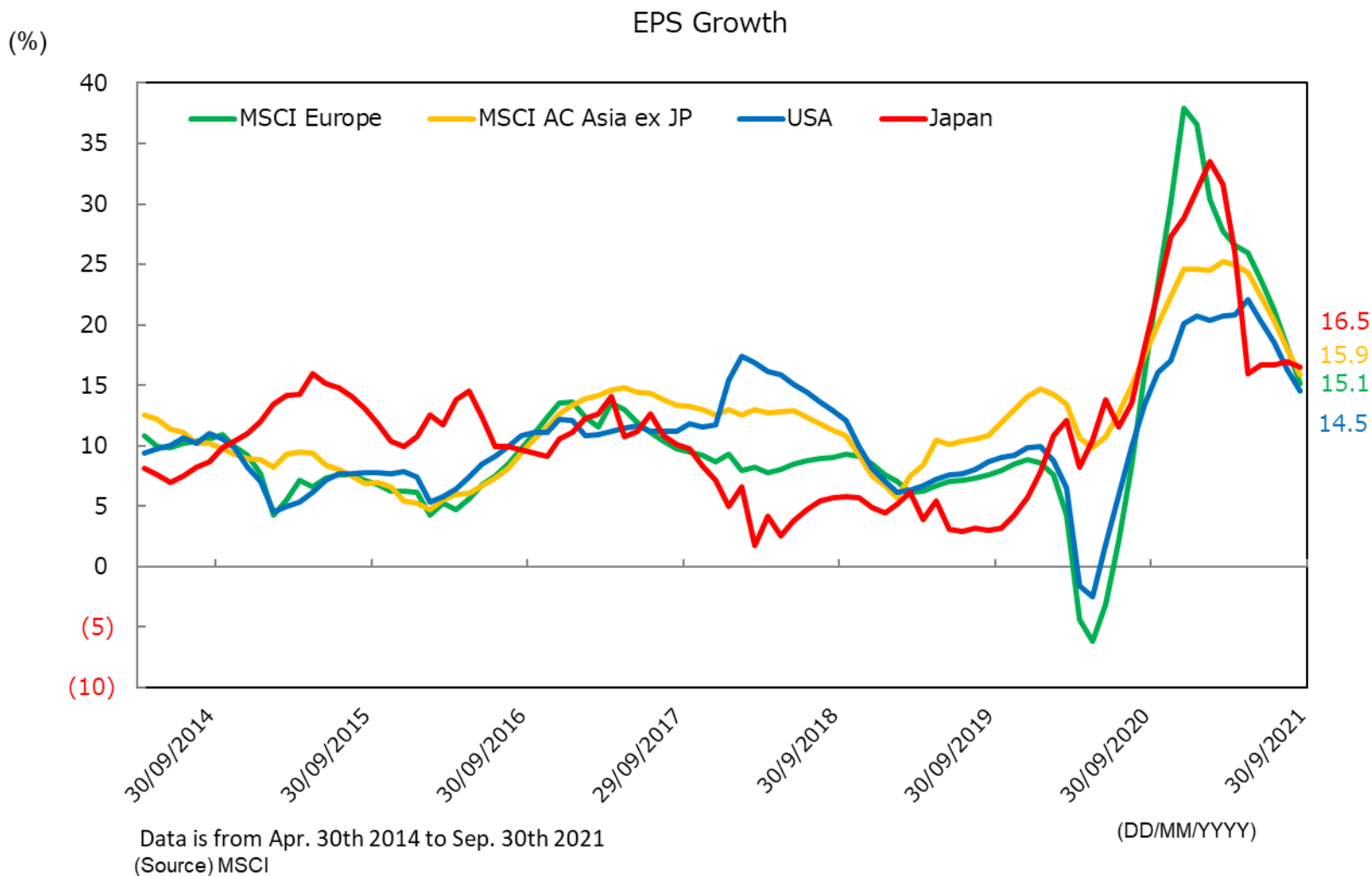
## ■ Downside Risks

- Uncertainty over domestic politics
- Delay of normalization of domestic economy due to COVID-19 new variant
- Additional bottle neck in global supply chain
- Concern about stagflation

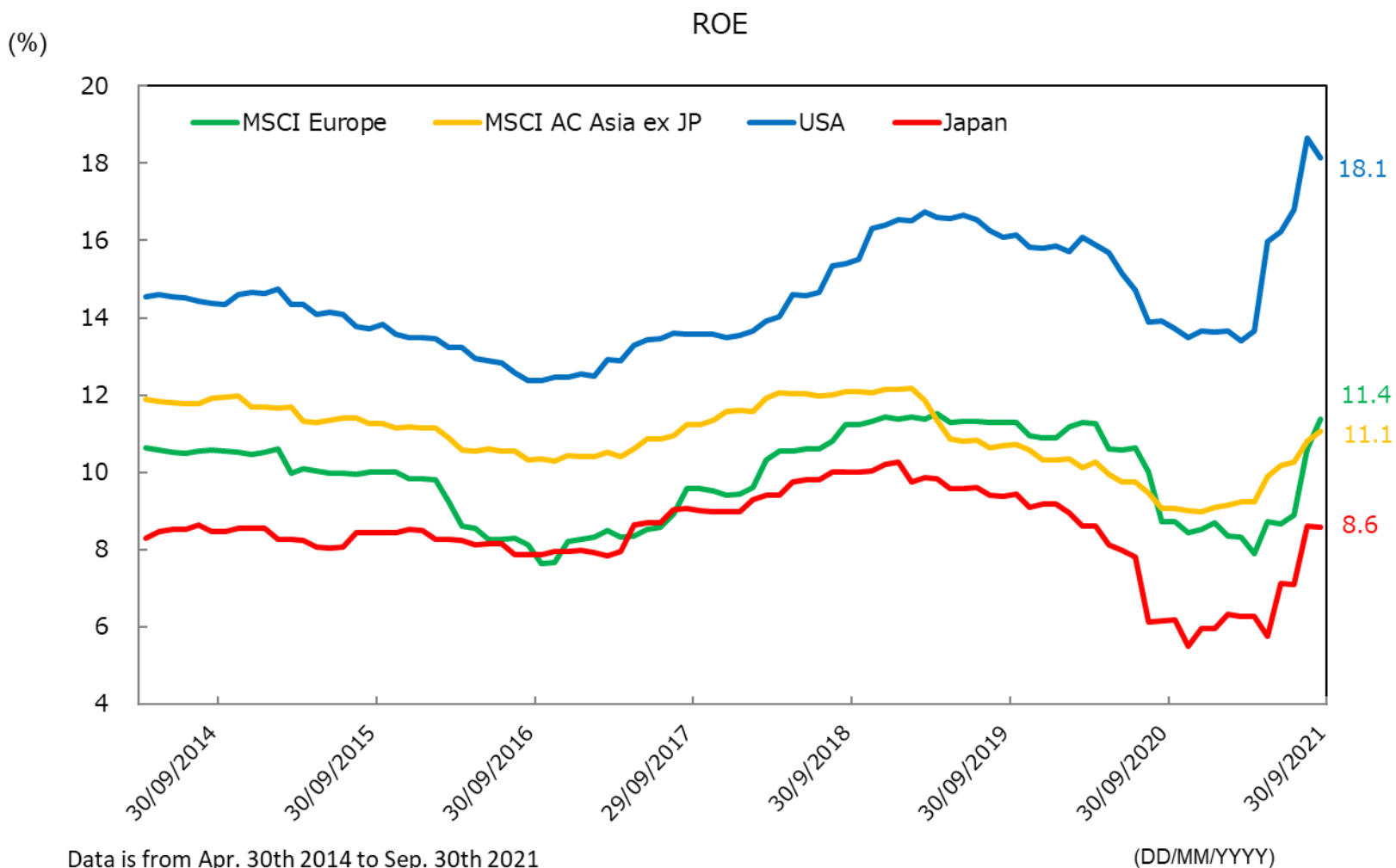
# Global Comparison of Key Valuations: PER



# Global Comparison of Key Valuations: Earnings Growth



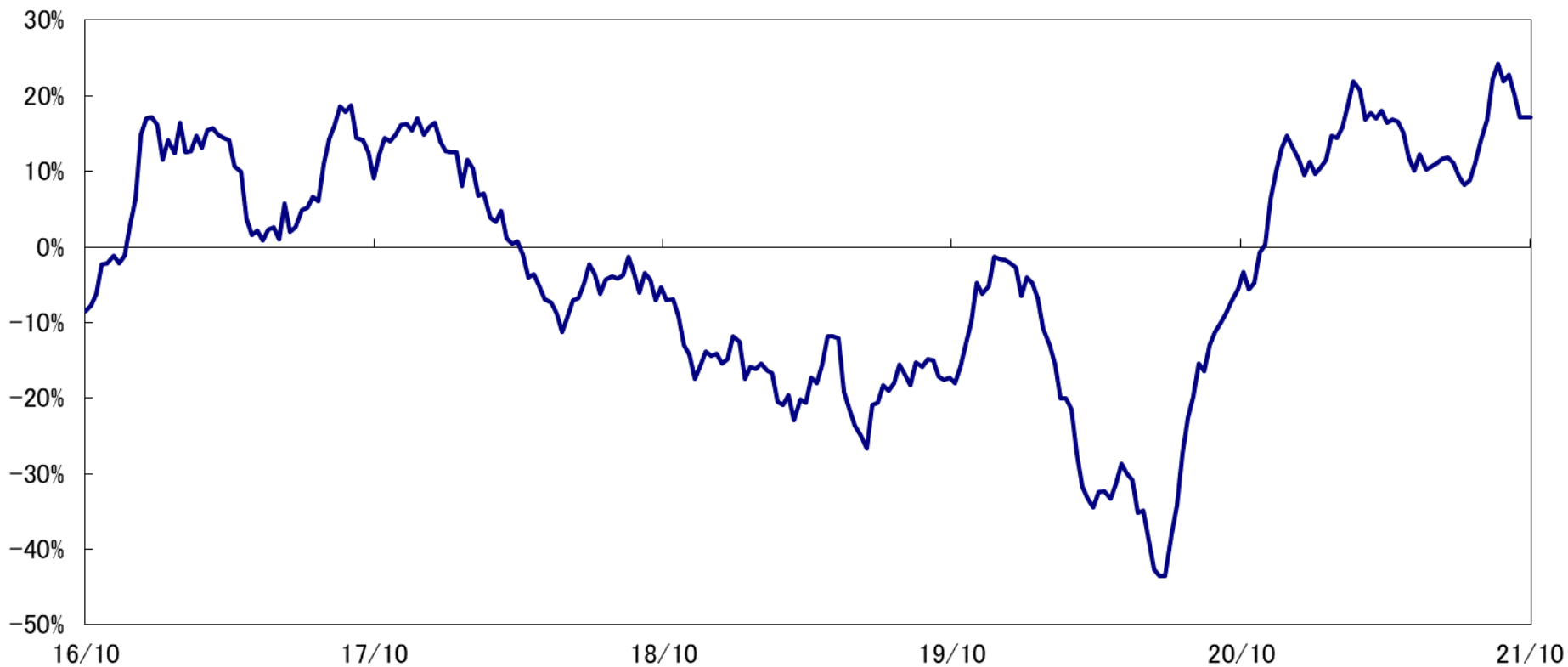
# Global Comparison of Key Valuations: ROE





# Revision of Earnings Forecasts

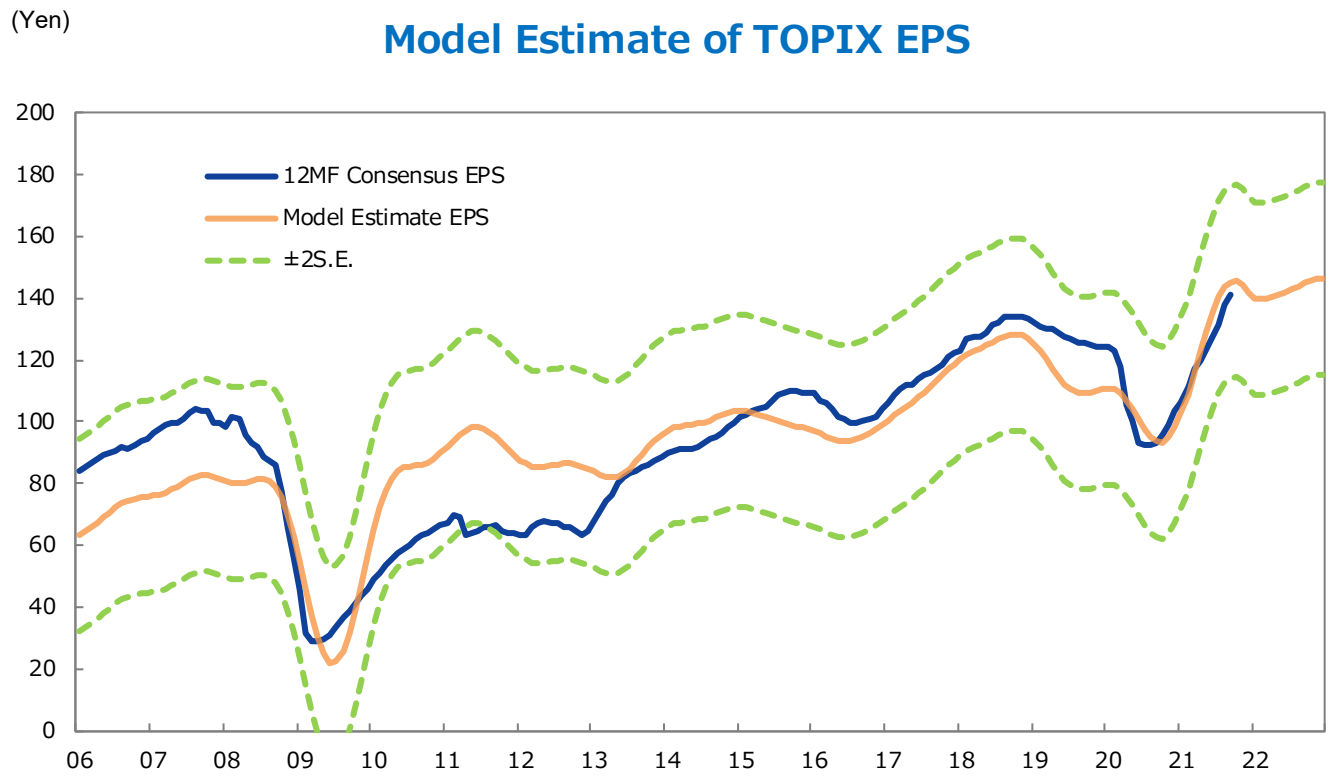
TOPIX Revision Index



Data is from Oct. 1st 2016 to Oct. 8th 2021  
(Source) Datastream, IBES

(YY/MM)

# Top Down Approach, Model Implied Fair Value

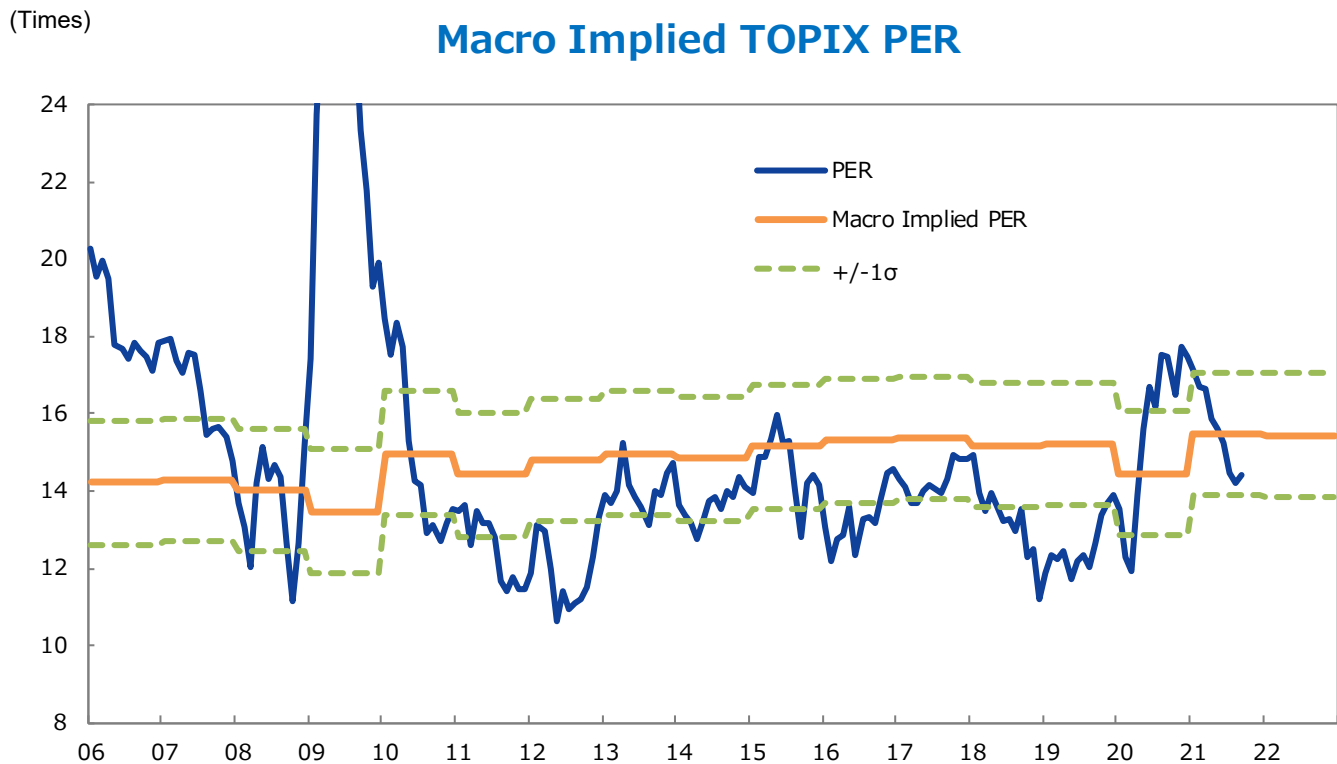


Consensus data is from Jan. 2006 to Sep. 2021, Model data is from Jan. 2006 to Dec. 2022.

(Year)

(Source) SMDAM

# Top Down Approach, Model Implied Fair Value

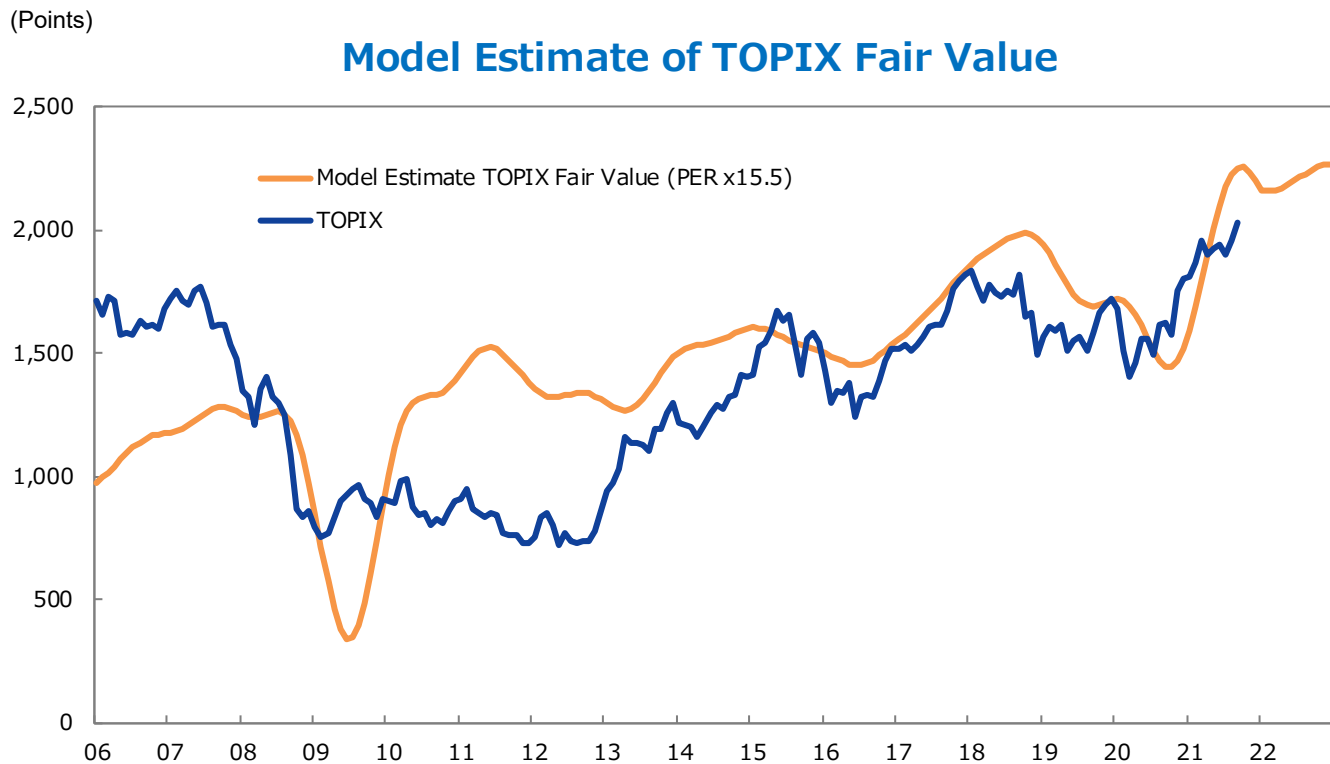


Consensus data is from Jan. 2006 to Sep. 2021, Model data is from Jan. 2006 to Dec. 2022.

(Year)

(Source) SMDAM

# Top Down Approach, Model Implied Fair Value



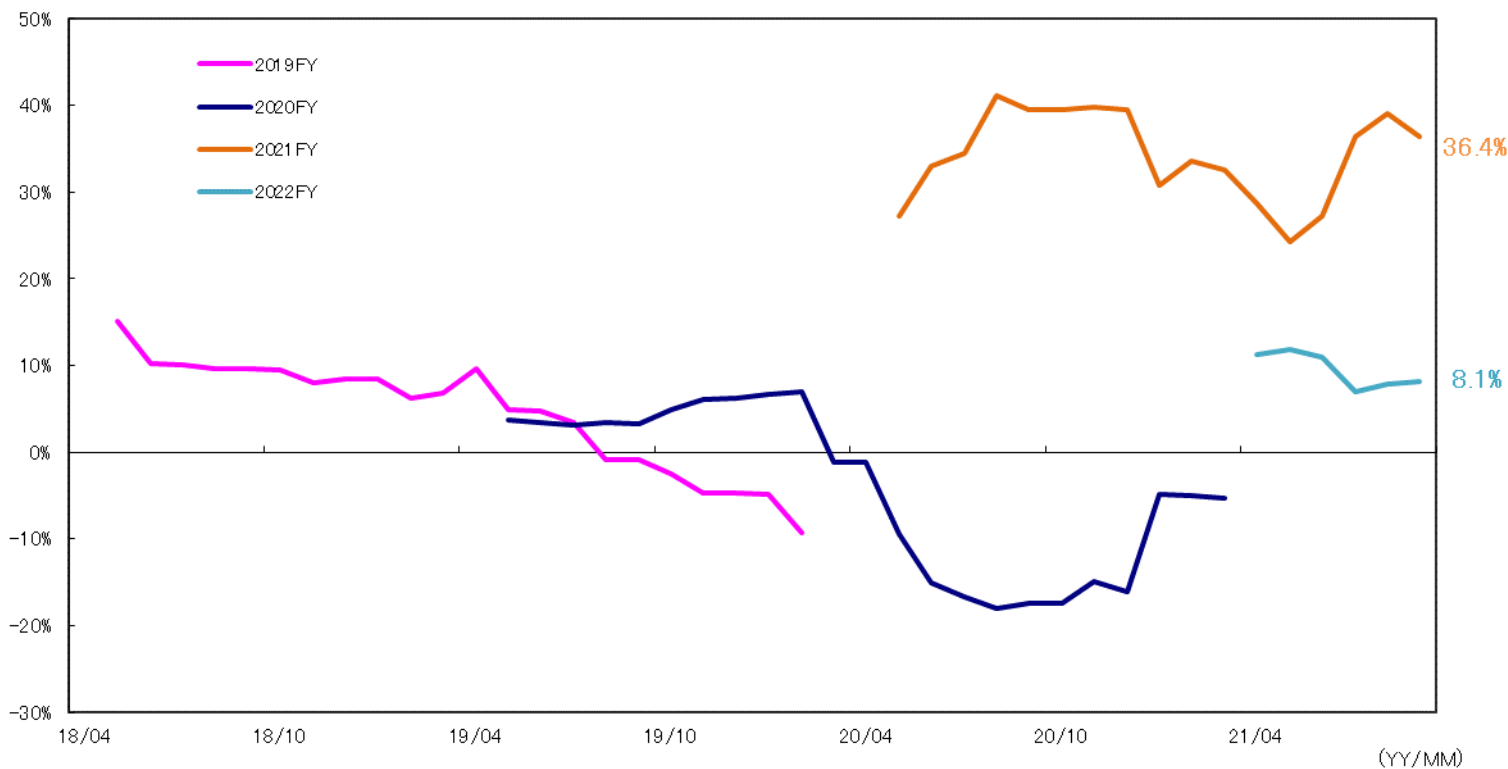
TOPIX data is from Jan. 2006 to Sep. 2021, Model data is from Jan. 2006 to Dec. 2022.

(Year)

(Source) SMDAM

# Bottom Up Estimate, Corporate Earnings Growth

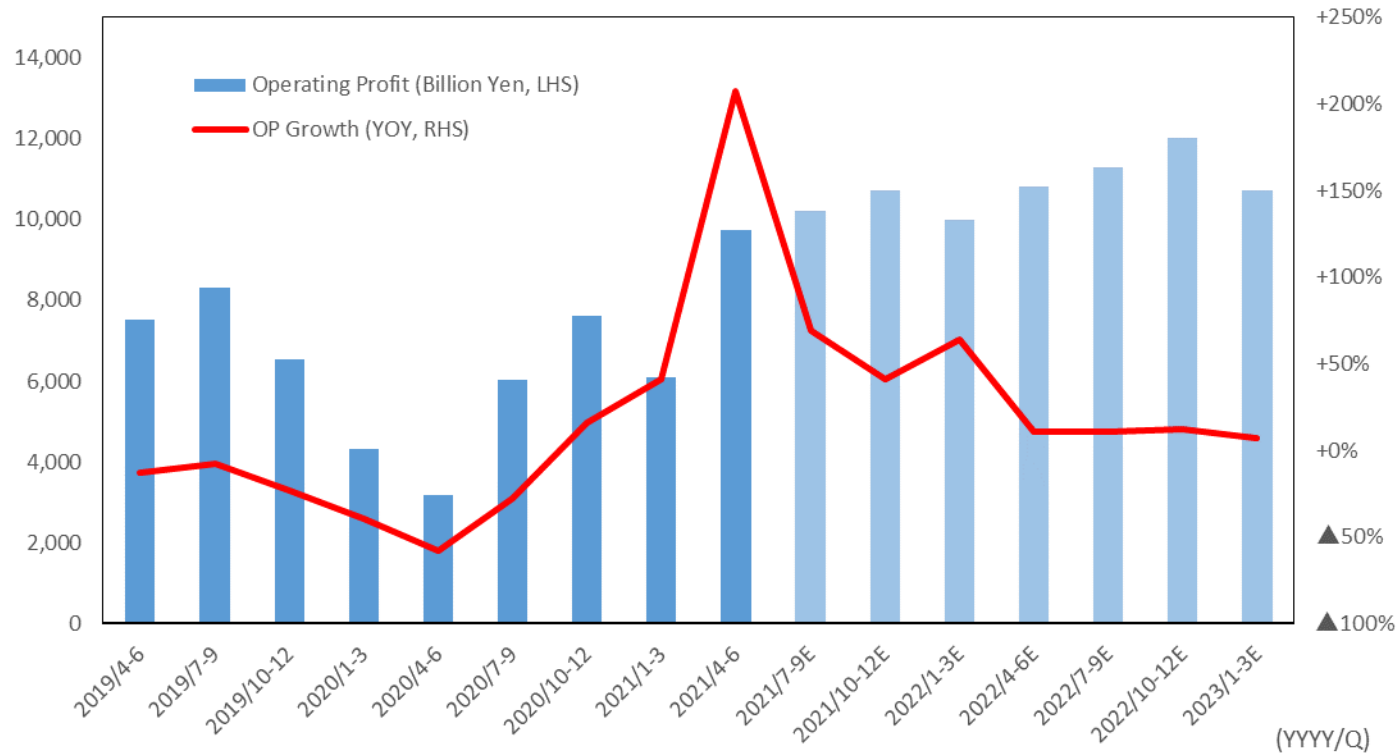
SMDAM Core Research Universe (EX-Financials) Est. Recurring Profit Growth



Note: Data is as of Oct. 8th 2021, SMDAM Core Universe consists of 450 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

Investors that have signed up to the Principles for Responsible Institutional Investors	
Trust banks	6
Investment managers	202
Insurance companies	24
Pension funds	72
Others	12
<b>Total</b>	<b>316</b>

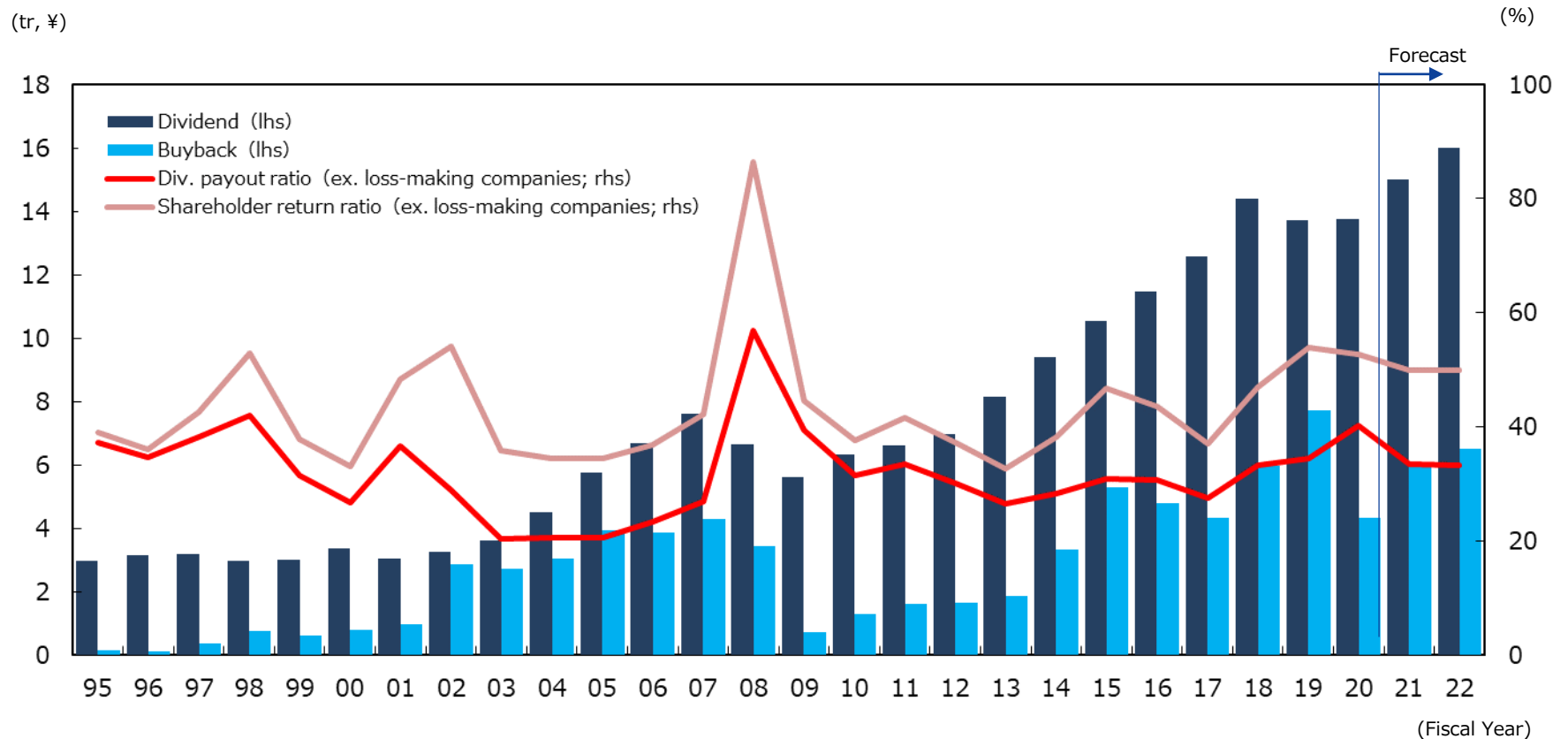
note: As of Sep. 30th 2021

(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

## Shareholder Return Ratio, Div. Payout Ratio, Dividend Payment, & Share Buyback



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
<b>RN Japan Equity</b>	<b>0.67</b>	<b>0.91</b>	<b>9.79</b>	<b>20.44</b>	<b>24.96</b>	<b>17.50</b>	<b>49.05</b>
Total Value	2.35	3.04	17.53	26.03	15.05	4.00	33.23
Top Cap Value	2.94	6.34	21.43	31.94	22.63	13.60	42.83
Large Cap Value	2.68	3.79	18.98	28.38	15.70	5.41	34.62
Mid Cap Value	2.37	0.75	16.04	24.07	6.23	-5.74	23.33
Small Cap Value	0.76	-0.42	11.00	15.80	12.01	-2.34	26.37
Micro Cap Value	0.22	-0.15	8.55	12.23	9.30	-3.11	29.66
Total Growth	0.31	-1.04	2.03	15.12	33.06	30.21	64.30
Top Cap Growth	0.52	-1.13	2.48	20.93	36.76	36.03	69.95
Large Cap Growth	0.35	-1.21	1.72	16.23	34.63	32.38	65.45
Mid Cap Growth	0.05	-1.34	0.47	9.22	31.14	26.71	58.33
Small Cap Growth	-0.06	0.66	5.25	6.33	20.76	14.09	54.23
Micro Cap Growth	-0.24	-0.96	6.37	6.90	24.96	16.28	64.52
Top Cap Total	1.67	2.34	10.82	26.09	30.23	25.11	56.42
Large Cap Total	1.53	1.29	9.90	22.29	26.49	19.84	50.96
Mid Cap Total	1.33	-0.18	8.58	16.90	21.22	12.40	43.32
Small Cap Total	-0.39	-0.46	9.14	12.34	16.06	4.53	37.23
Micro Cap Total	0.08	-0.39	7.90	10.28	14.99	3.86	42.36

Note : As of Oct. 11th 2021  
(Source) Bloomberg



# Outlook for Japanese Economy

# Summary of Japanese economy

## Current Status and Prospects of the Japanese Economy

### [Current Status]

- The economy is in a stable condition. Despite negative factors such as global supply-chain problems, an overseas economic slowdown, and soaring raw material prices, the economy is supported by consistent capital expenditure and recovery of domestic demand thanks to the progress of vaccinations and lifting coronavirus restrictions.

### [Outlook]

- ① **We have revised down our real GDP growth forecast to +3.3% from +3.5% for FY 2021 and +2.9% from +3.1% for FY2022.** Major reasons for the downward revision are the global supply chain bottleneck and slowing global economy. In the third quarter of 2021, Japanese economy is in a soft patch. In the fourth quarter of 2021 and the first quarter of 2022, however, the growth rate is expected to accelerate thanks to the progress of vaccinations and lifting behavioral restrictions. The supplementary budget for FY 2021 is expected to be launched by the end of 2021, and further fiscal stimulus is expected to be effective from FY 2022.
- ② **We have raised our core CPI forecast to +0.1% from 0.0% for FY 2021, and +1.1% from +0.7% for FY 2022.** The major reasons for revision are rising crude oil and other energy prices. However, the pricing pressure from the supply-demand balance is moderate, and underlying inflationary pressure is likely to be limited.
- ③ **Current accommodative monetary policy of the BOJ will be maintained for the foreseeable future** due to low inflation and negative impact to the economy caused by the COVID-19 pandemic. Further monetary easing could be implemented only in case of emergency, such as excessive currency appreciation.
- ④ **We expect new PM Kishida and his cabinet to maintain existing policy mix, accommodative fiscal and monetary policy. Supplementary budget for FY 2021 could be increased by as much as 30 trillion yen due to relatively low approval rate of the new cabinet and negative impact to the economy caused by 5<sup>th</sup> wave of the pandemic.**

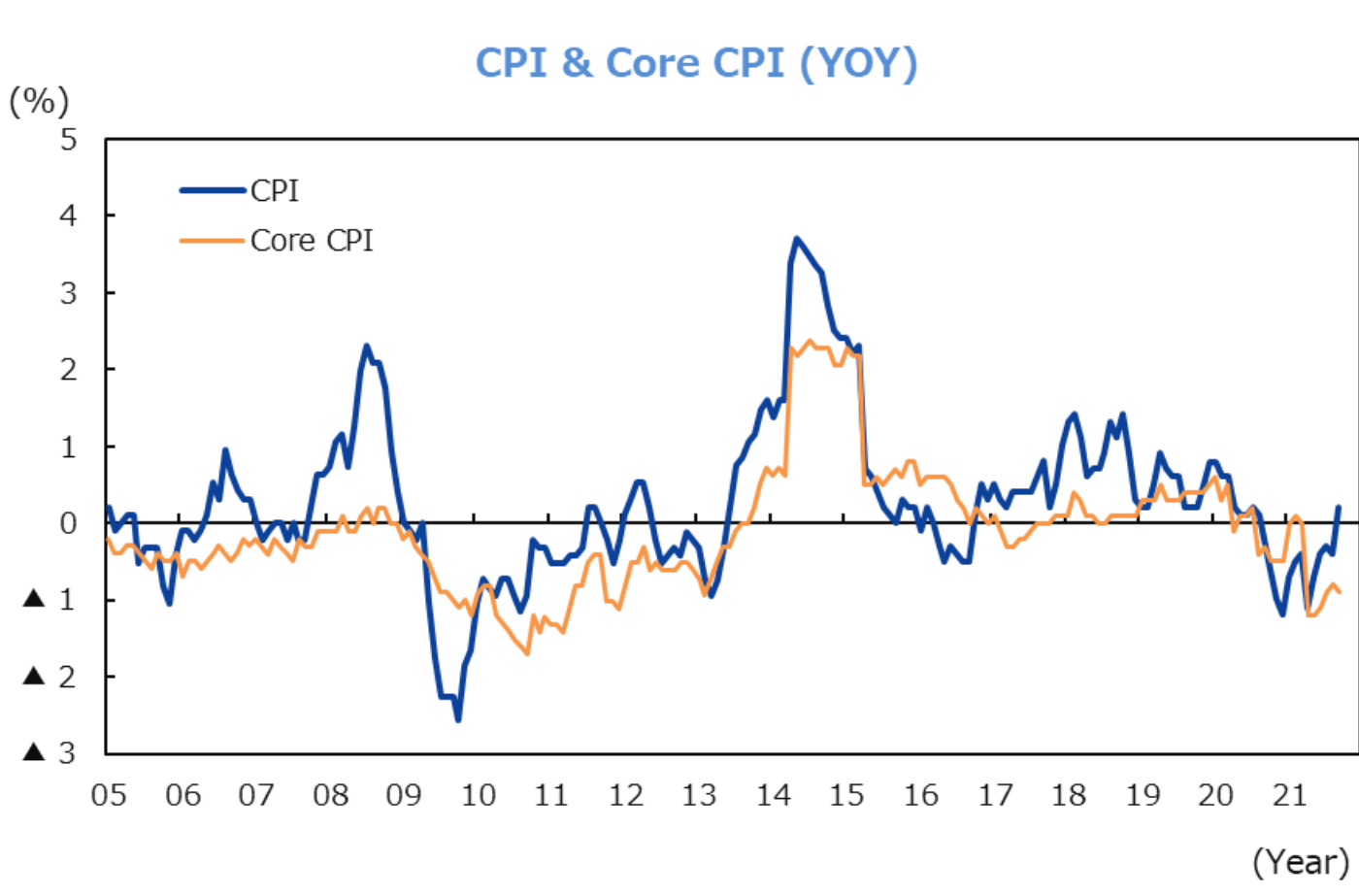
# Japan Economy Forecast

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%	-4.4%	3.3%	2.9%
Private final consumption expenditure	-0.3%	1.0%	0.1%	-1.0%	-5.8%	2.9%	2.5%
Private housing investment	4.3%	-1.8%	-4.9%	2.5%	-7.2%	2.6%	1.6%
Private-sector capital investment	0.8%	2.8%	1.0%	-0.6%	-6.8%	3.6%	4.9%
Public fixed capital formation	0.5%	0.6%	0.8%	1.5%	4.2%	-0.1%	2.0%
Net export contribution	0.7%	0.4%	-0.2%	-0.4%	-0.6%	0.8%	0.2%
Exports of goods and services	3.4%	6.3%	2.0%	-2.2%	-10.4%	12.6%	4.6%
Imports of goods and services	-0.5%	3.8%	3.0%	0.2%	-6.8%	7.7%	3.6%
Nominal GDP	0.8%	2.0%	0.1%	0.3%	-3.9%	2.7%	3.2%
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%	8.0%	4.8%
Consumer Price Index (Core)	-0.2%	0.7%	0.8%	0.4%	-0.6%	0.1%	1.1%
Domestic corporate goods price index	-2.4%	2.7%	2.2%	0.1%	-1.4%	5.3%	0.6%
Employee compensation	2.4%	2.0%	3.2%	2.0%	-2.0%	0.9%	1.7%
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

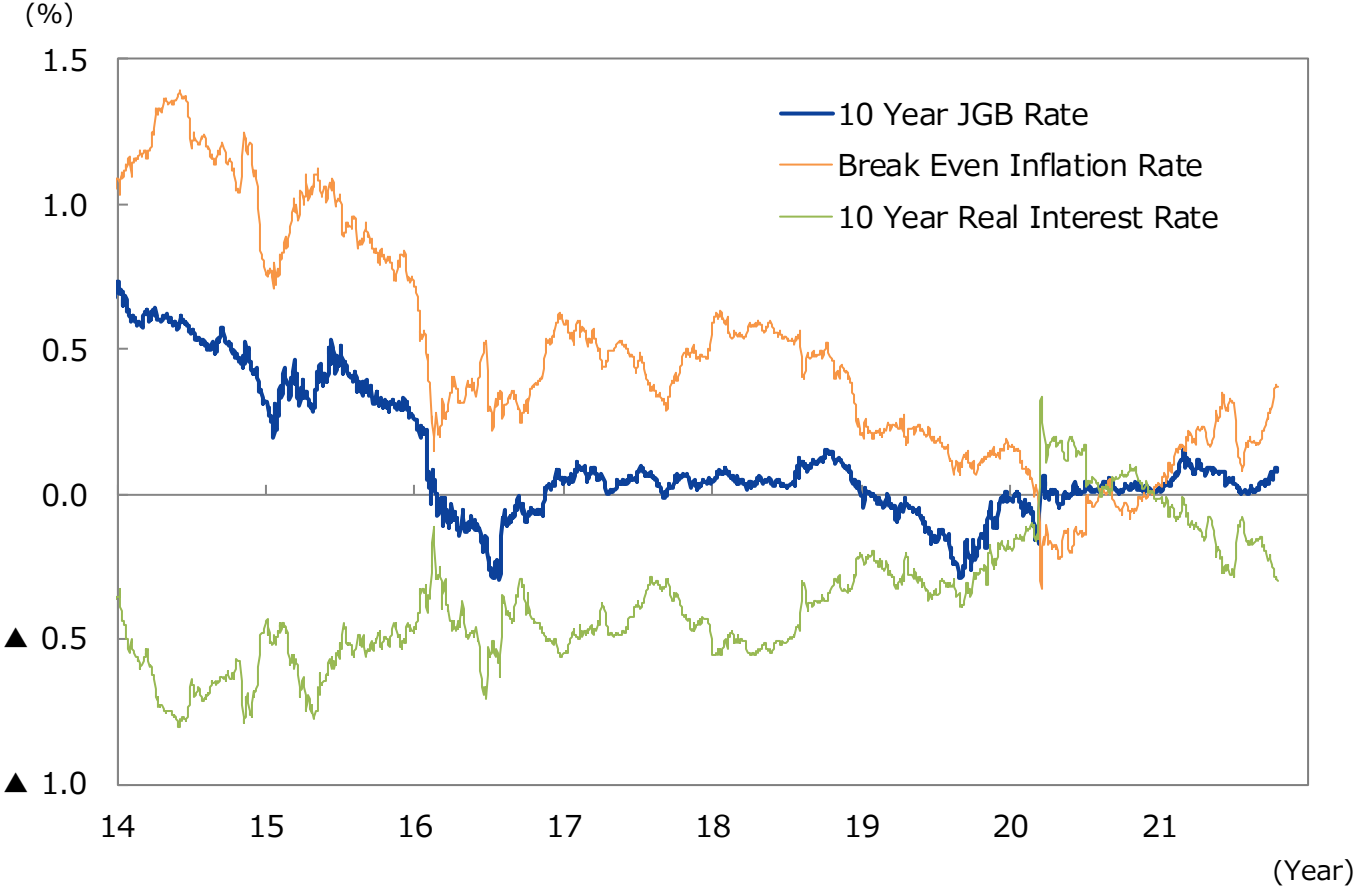
# Consumer Price Index



(Data) Jan. 2005 to Sep. 2021  
(Source) MIAC, Bloomberg, SMDAM

# Break Even Inflation & Real Interest rate

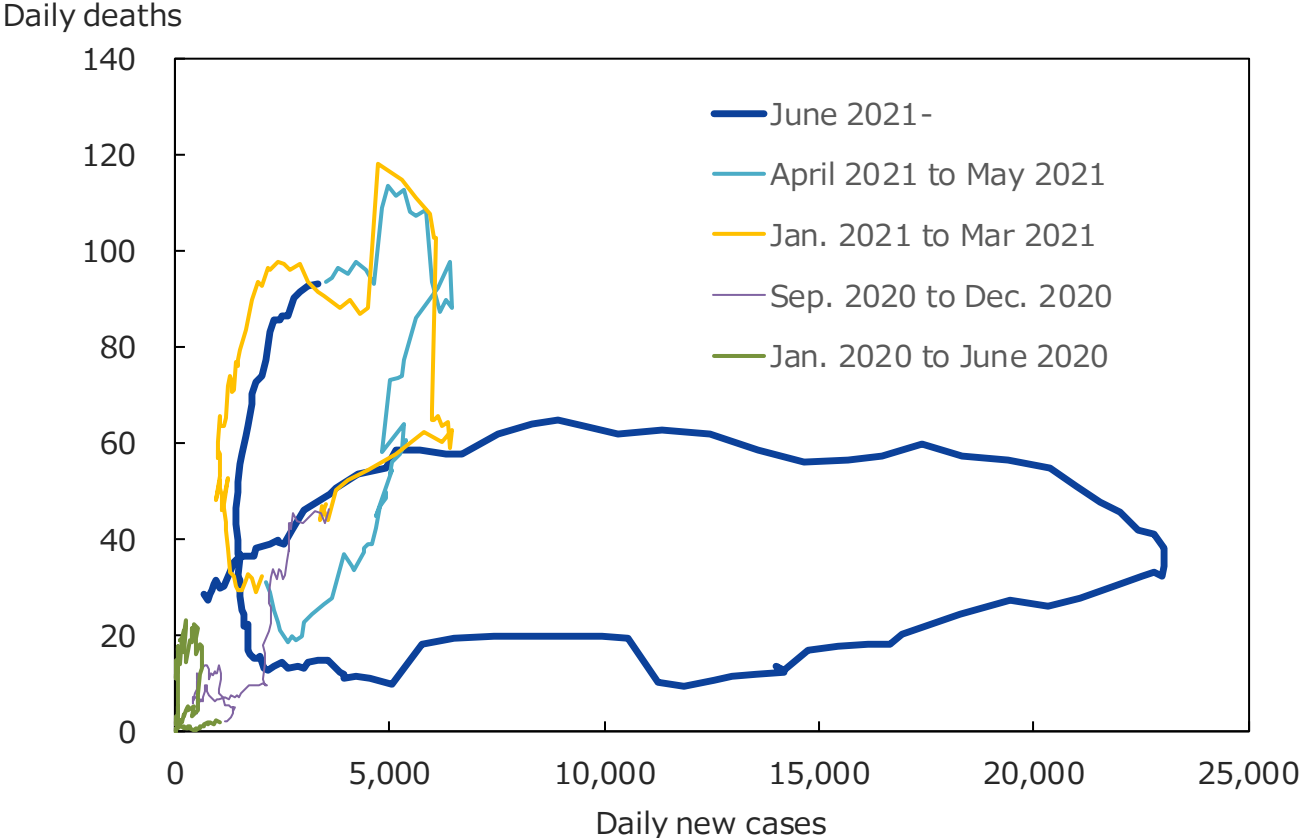
## JGB Yield, BEI, and Real Interest rate



(Data) From Jan. 1st 2014 to Oct. 15th 2021  
(Source) Bloomberg, SMDAM

# COVID-19 New Cases & Confirmed Deaths

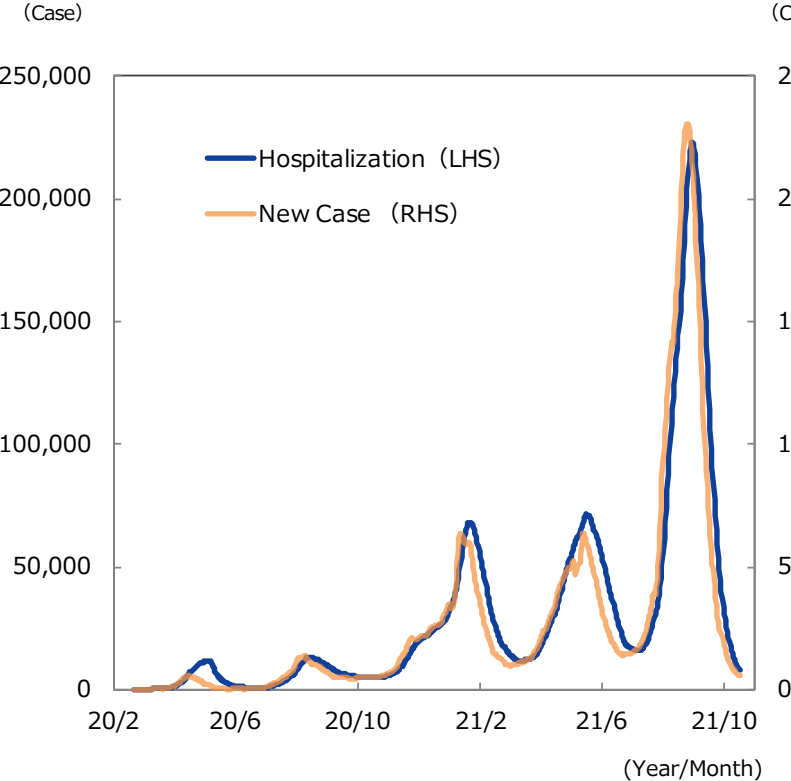
### COVID-19 New patients and confirmed deaths



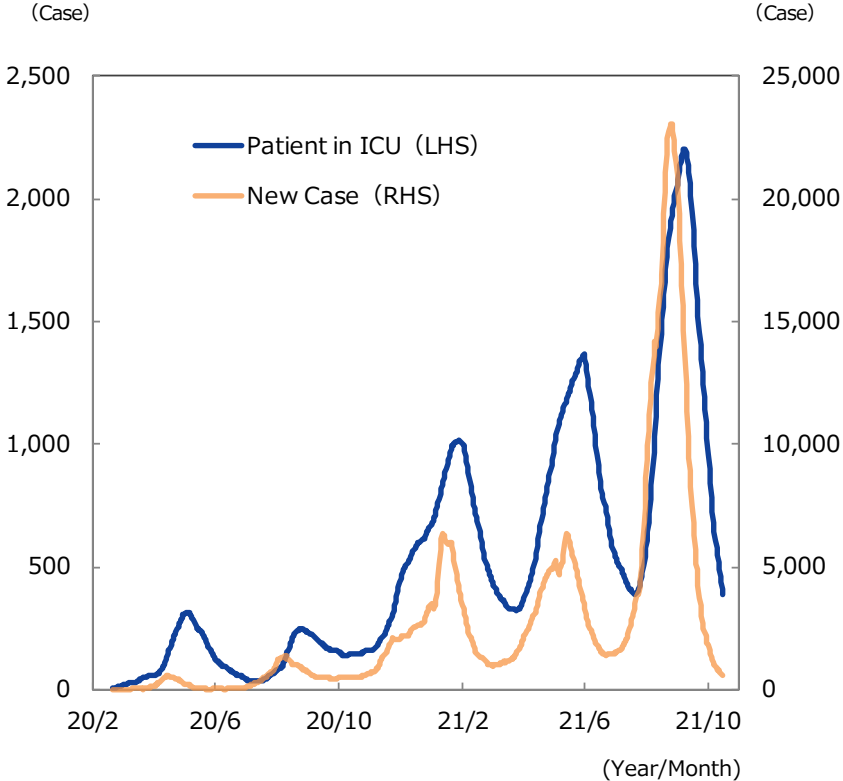
(Data) 7 days moving average, From Jan. 1st 2020 to Oct. 13th 2021  
(Source) Bloomberg, SMDAM

# COVID-19 New Cases & Hospitalizations, Nationwide

New Cases and Hospitalizations



New Cases and Patients in ICU Beds

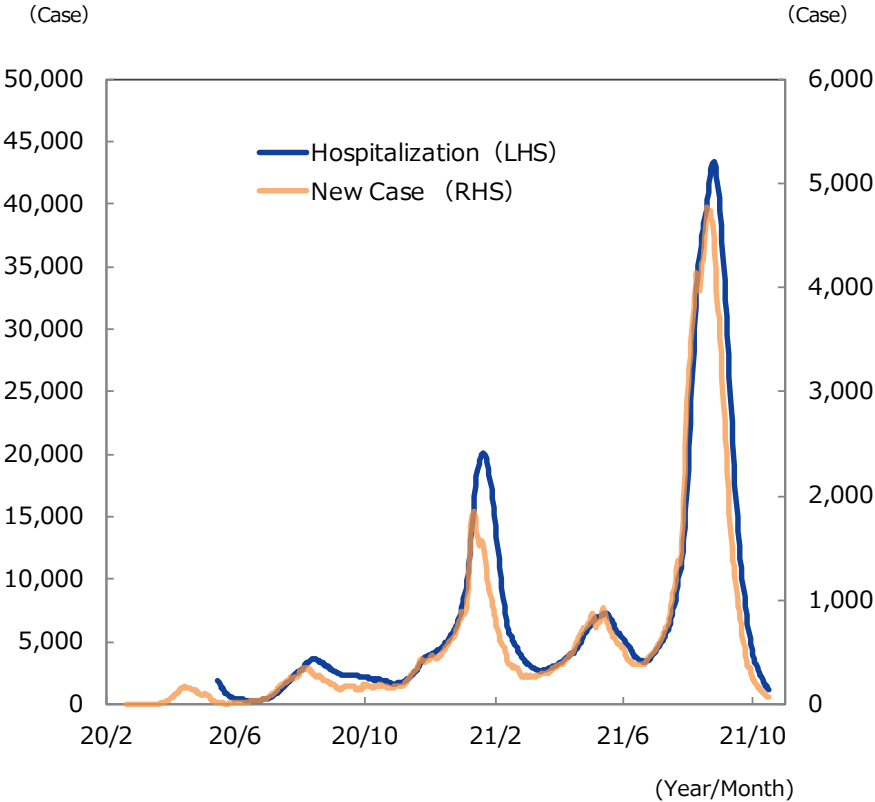


(Data) 7 days moving average. From Feb. 1st 2020 to Oct. 16th 2021.  
 (Source) MHLW, NHK, SMDAM

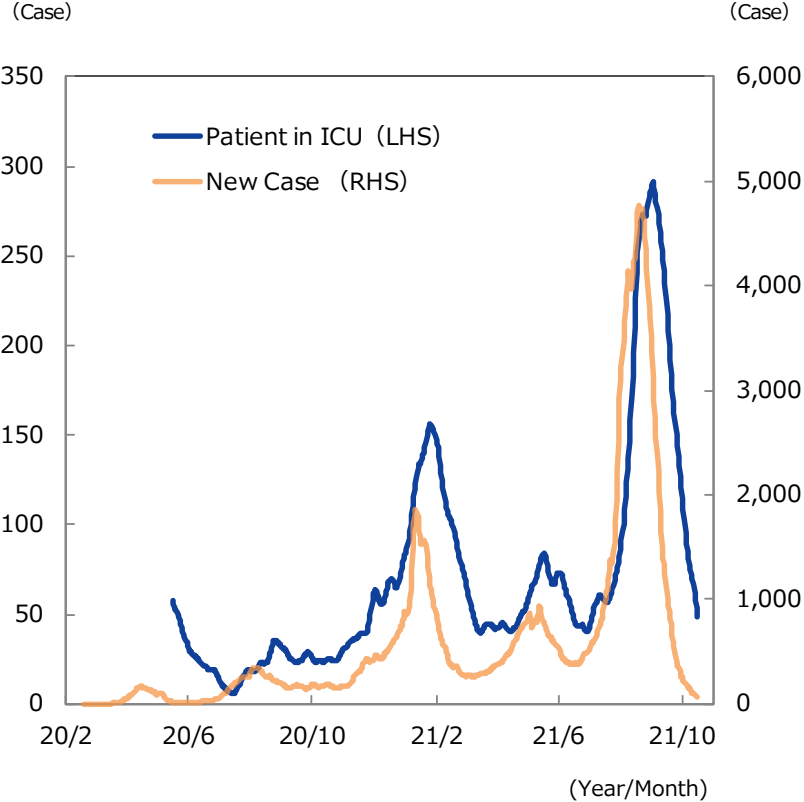


# COVID-19 New Cases & Hospitalizations, Tokyo

New Cases and Hospitalizations in Tokyo

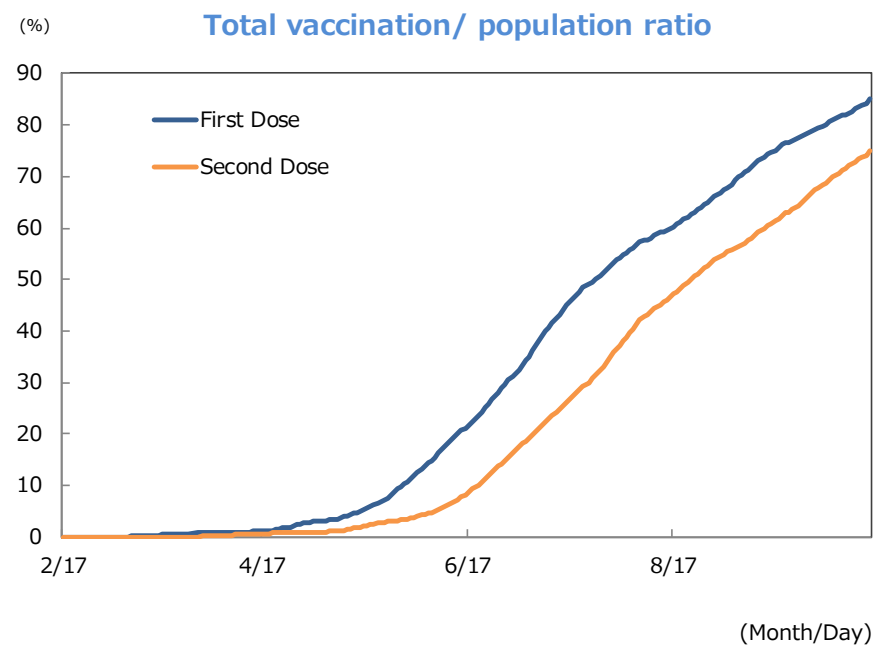
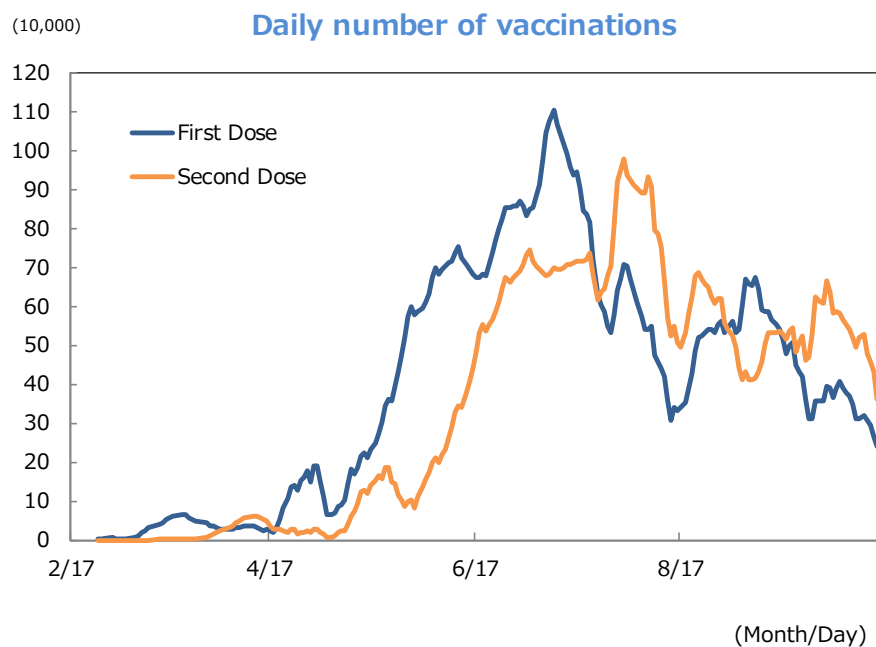


New Cases and Patients in ICU Beds in Tokyo



(Data) 7 days moving average. From Feb. 1st 2020 to Oct. 16th 2021.  
 (Source) MHLW, NHK, SMDAM

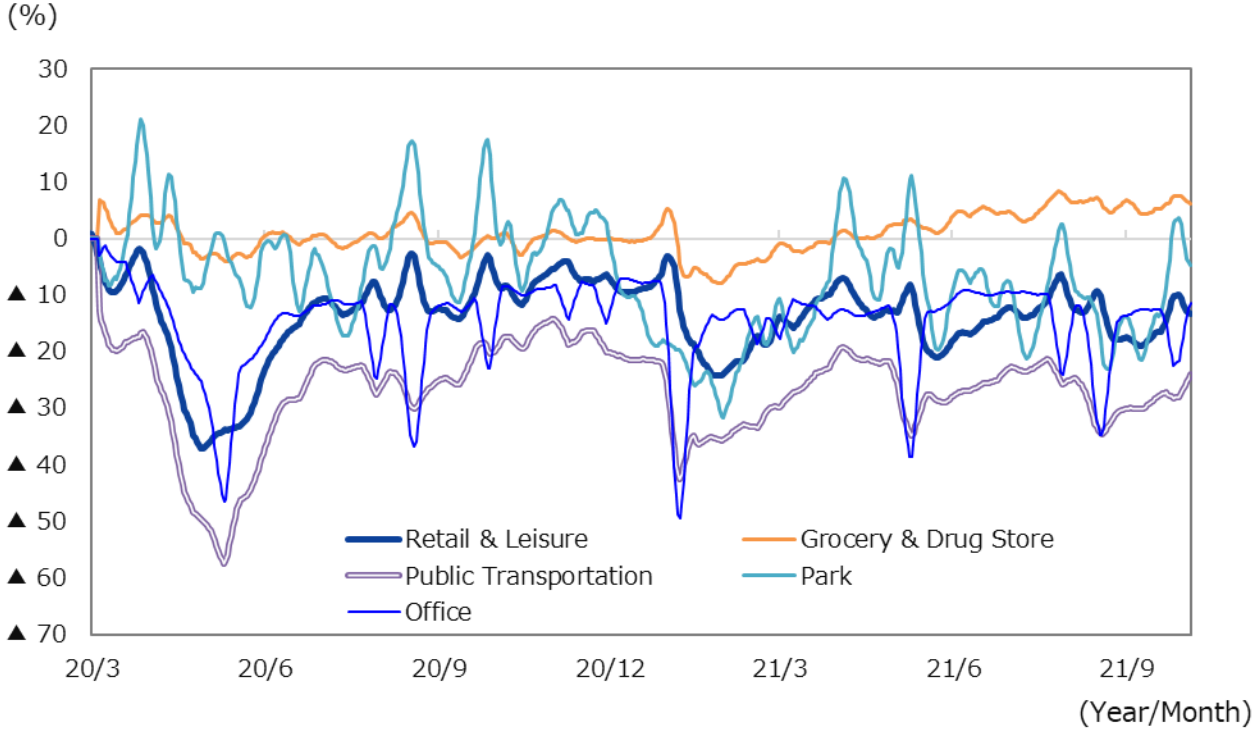
# Progress of COVID-19 Vaccinations



(Data) From Feb. 17th 2021 to Oct. 14th 2021  
(Source) MHLW, SMDAM

# Mobility Data

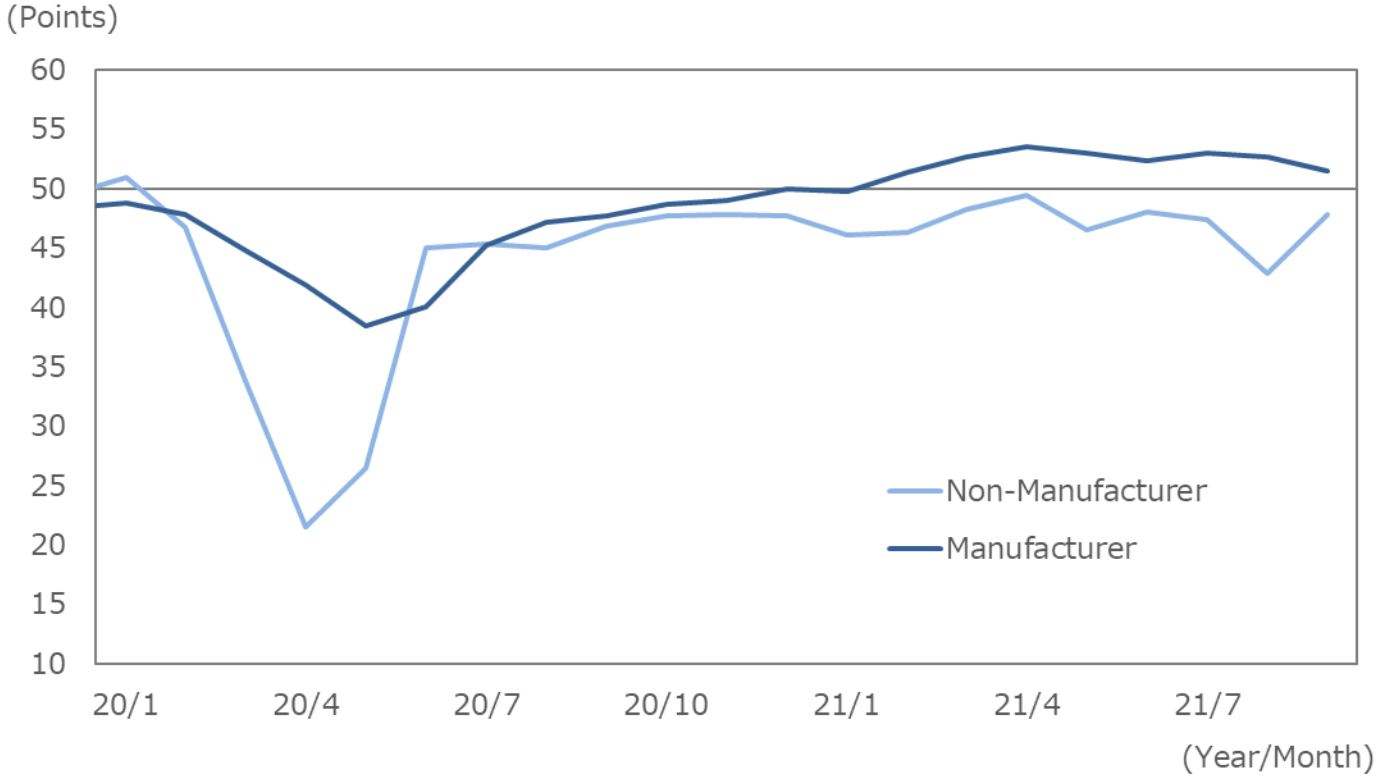
### Google Community Mobility Report, Japan



(Data) 7 Days moving average, From Mar. 1<sup>st</sup> 2020 to Oct. 5<sup>th</sup> 2021  
(Source) Google, SMDAM

# Purchasing Manager Index

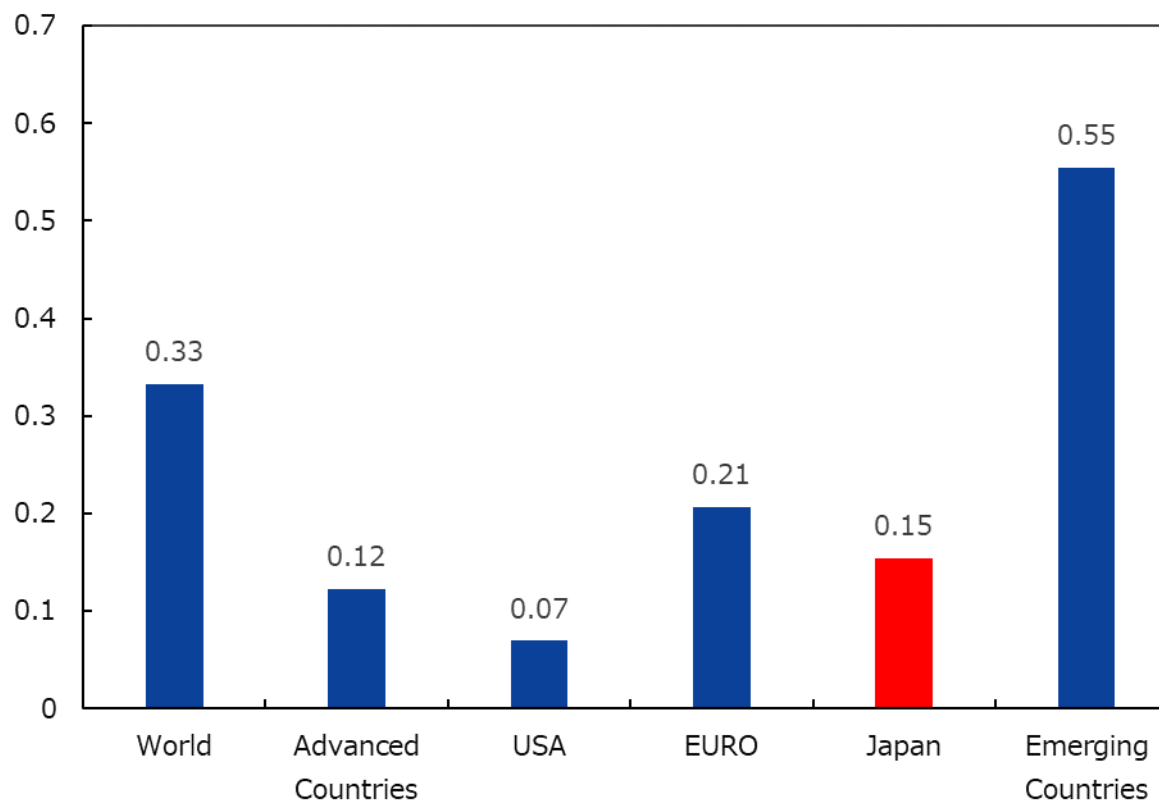
## Japanese PMI, Manufacturer and Non-manufacturer



(Data) Jan. 2020 to Sep. 2021  
(Source) Bloomberg, SMDAM

# Sensitivity to Chinese Economy

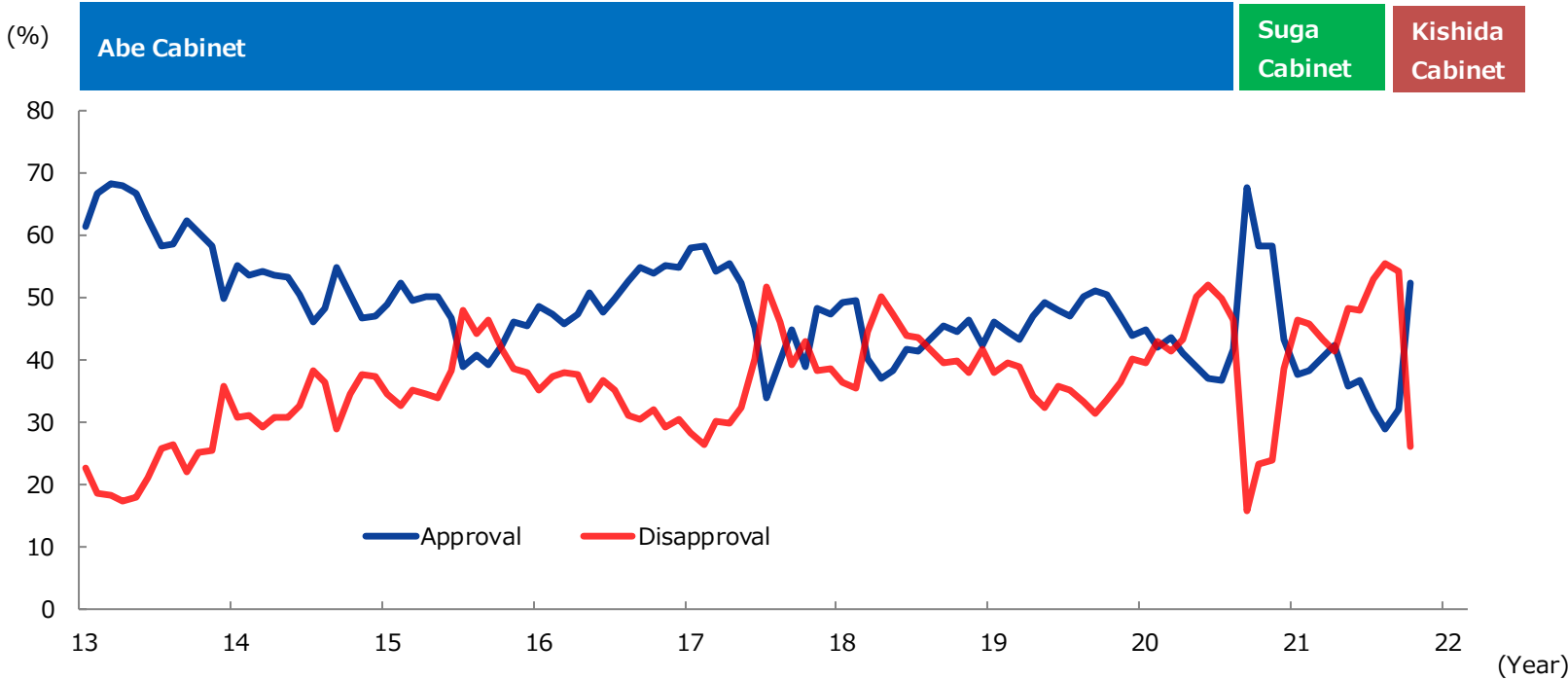
## Elasticity Coefficient to Chinese Industrial Production



(Data) Estimate period is from Jan. 2015 to July 2021  
(Source) Centraal Bureau voor de Statistiek, SMDAM

# Cabinet approval rate

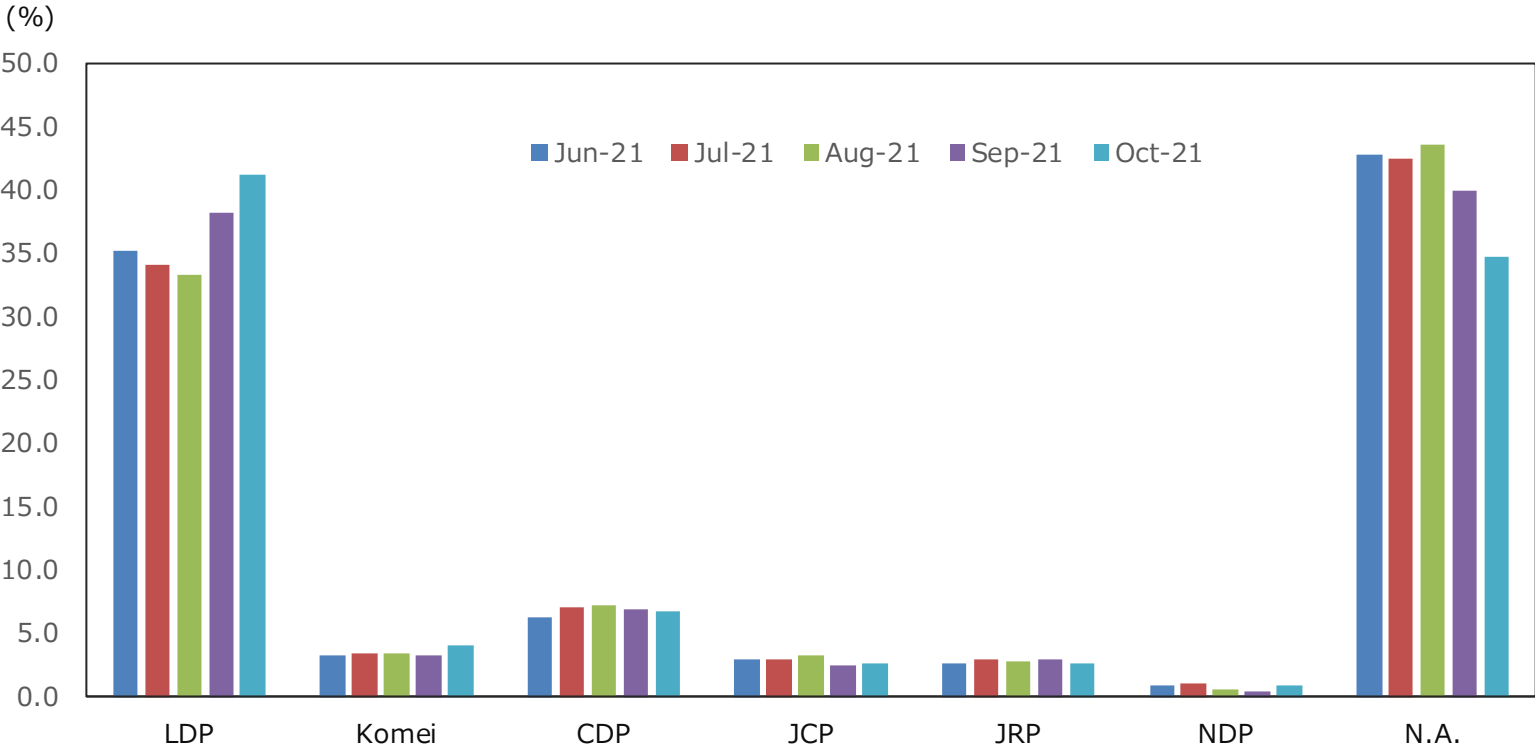
Cabinet approval rate



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

# Political party approval rate

## Approval rates of political parties



(Source) NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Jiji, and SMDAM

# New Prime Minister and Economic Policy

## New Leader of Ruling LDP Party and his Economic Policy

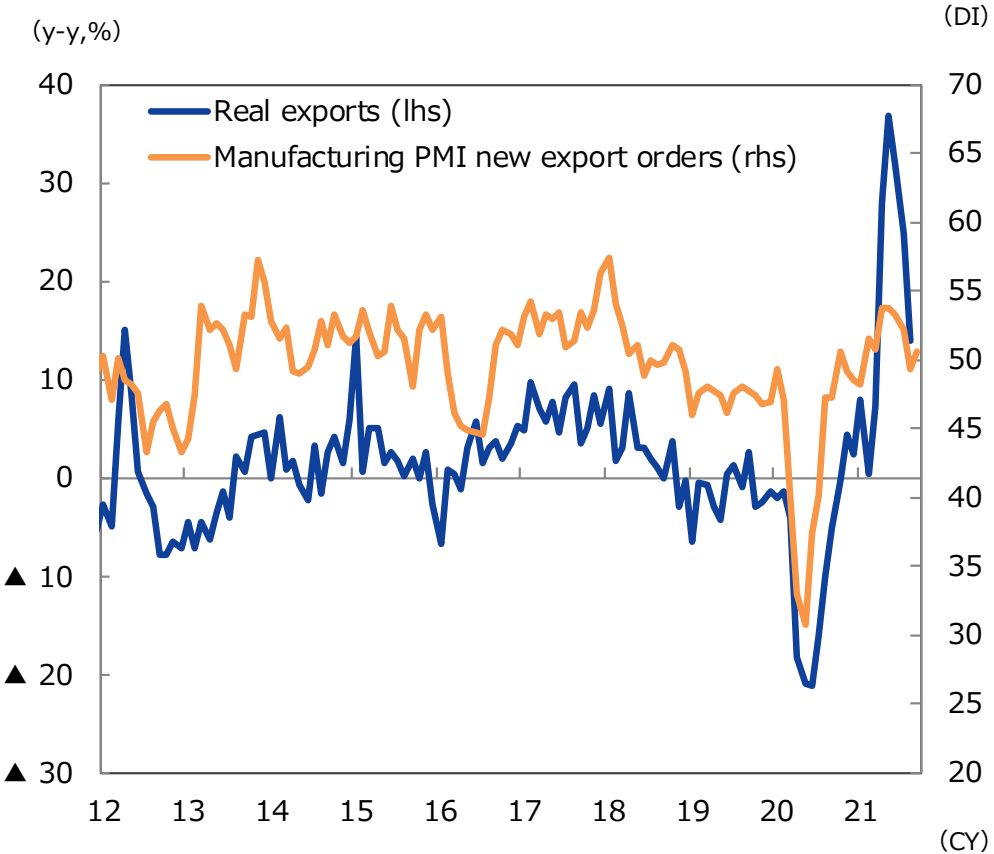
<b>Name</b>	Fumio Kishida
<b>Key Biographies</b>	Former Political Chairman of LDP Former Chairman of the Diet Affairs Committee of LDP Former Minister of Defense Former Minister for Foreign Affairs
<b>Faction</b>	Kishida
<b>Slogan</b>	<ul style="list-style-type: none"> <li>■ New Japanese-style capitalism based on the virtuous cycle of growth and distribution</li> <li>■ Transformation from Neoliberalism</li> </ul>
<b>Orientation of Economic Policy</b>	<ul style="list-style-type: none"> <li>■ Rectifying Economic Disparities</li> </ul>
<b>Economic Policy</b>	<ul style="list-style-type: none"> <li>■ "Growth Strategy with Four Tactics"             <ul style="list-style-type: none"> <li>▪ Science &amp; Technology Nation</li> <li>▪ Economical National Security</li> <li>▪ Digital Rural City-State Vision</li> <li>▪ Support for Aging Society</li> </ul> </li> <li>■ Income Doubling &amp; Distribution-Oriented Policy</li> </ul>

(Source) SMDAM



# Exports and Manufacturing Activities

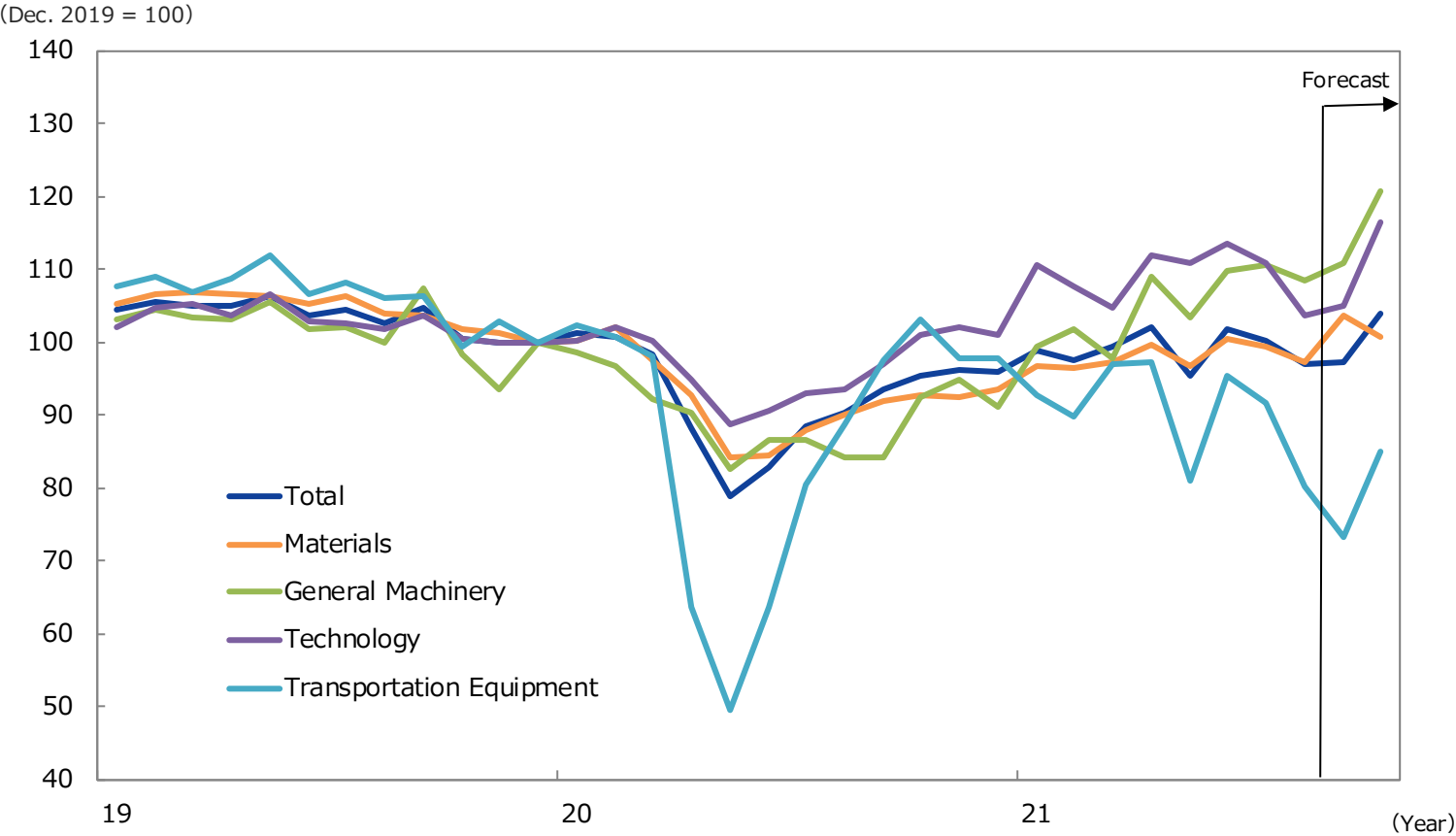
Real exports and manufacturing PMI new export orders



(Data) Real export is from Jan. 2012 to Aug. 2021, MFG PMI new export is from Dec. 2011 to Sep. 2021  
 (Source) BOJ, Cabinet Office, Markit and SMDAM

# Industrial Production

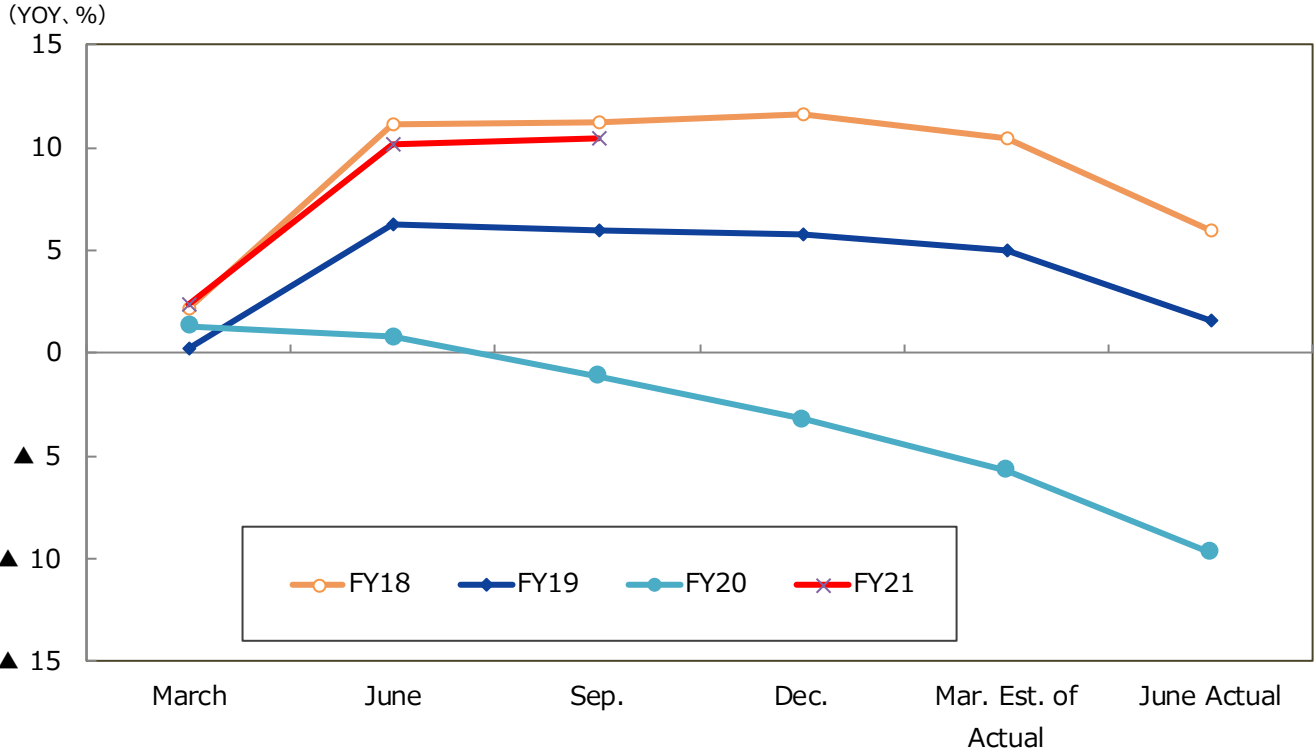
## Industrial Production (Monthly)



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

# CAPEX

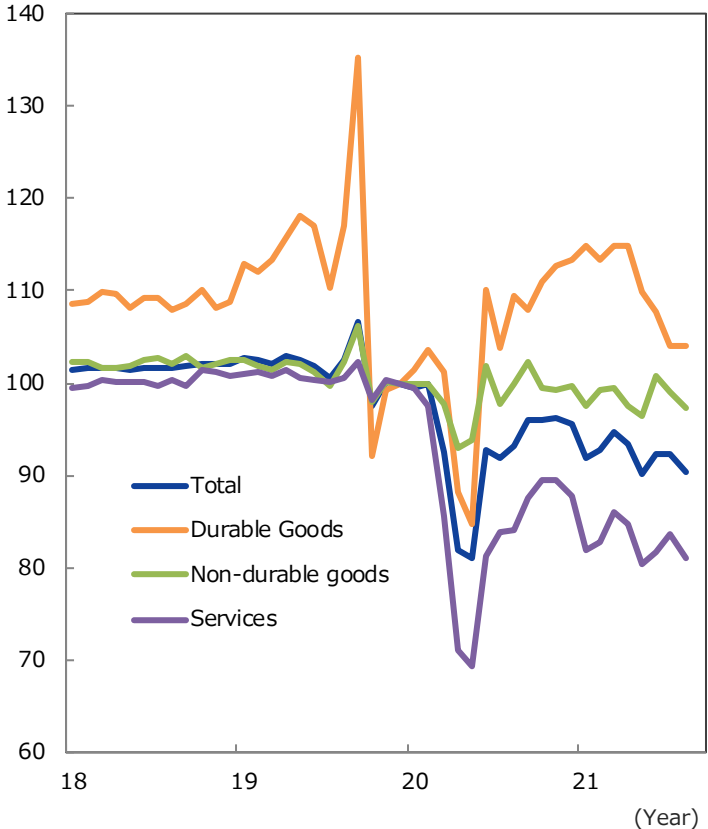
## Plan of CAPEX, Inc. Software, Ex. Land and R&D



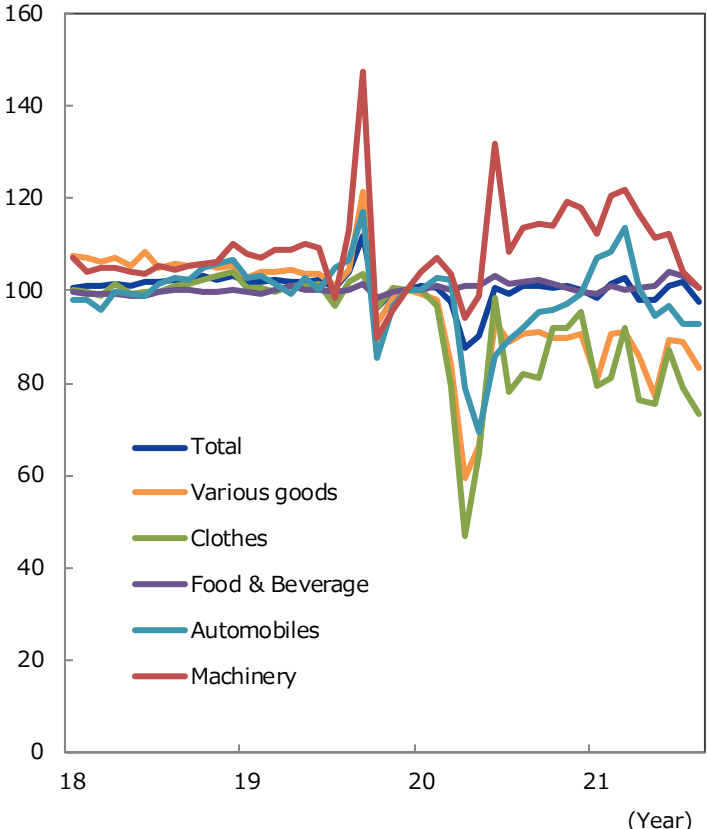
(Source) The Bank of Japan, SMDAM

# Consumer Spending

Consumer Activity Index (Dec. 2019 = 100)



Retail Sales (Dec. 2019 = 100)



(Data) From Jan. 2018 to Aug. 2021  
 (Source) BOJ, METI, and SMDAM

# Schedule of Major Events

Schedule of Major Domestic Events			
2021	November	15	Release of CY 2021 Q3 GDP
	December	8 16-17	Revision of CY 2021 Q3 GDP Monetary Policy Meeting Outline of Tax Reform of FY 2022 Cabinet Decision on the Budget of FY 2022
2022	January	17-18	Monetary Policy Meeting Start of Ordinary Diet Session
	February	15	Release of CY 2021 Q4 GDP
	March	9 17-18	Revision of CY 2021 Q4 GDP Monetary Policy Meeting
	April	27-28	Monetary Policy Meeting
	May		
	June	16-17	Monetary Policy Meeting End of Ordinary Diet Session Cabinet Decision on Bold Policy and Growth Strategy G7 Summit
	July	20-21 23 25	Monetary Policy Meeting End of the Term of two members of the BOJ Monetary Policy Committee End of the Term of House of Councilors
	August		
	September	21-22	Monetary Policy Meeting Change of Top Party Officials of LDP
	October	27-28	Monetary Policy Meeting
	November		
	December	19-20	Monetary Policy Meeting Outline of Tax Reform of FY 2023 Cabinet Decision on the Budget of FY 2023

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

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