



# Asia Macro & Market Outlook

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2Q 2020 Edition

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# Directory

## Macro Outlook

- Summary P2
- COVID-19 P3
- China P4 - 5
- NIES 4 P6
- ASEAN 5 P7
- India P8
- Oceania P9
- Forecasts: GDP, CPI, and policy rate P10

## Market Outlook

- 1Q20 Market Review P11
- Summary P12
- EPS and EPS revision P13 - 14
- Valuation band P15 - 18
- China P19
- India P20
- NIES 4 P21
- ASEAN 5 P22
- Oceania P23

- Introduction of Asia Research Center P24

# Summary

Macro  
Outlook

- Growth outlook has been slashed due to unprecedented control measures across Asia.
- Chinese economy should start to recover in 2Q20.
- NIEs4 should face headwinds in 2Q20 due to slump in external demand, before recovery in 2H20.
- ASEAN5 growth should sharply decelerate in 2Q20 while Thailand should face more headwinds.
- Indonesia sovereign rating should face downside risk given that Joko administration has abandoned strict fiscal discipline.
- Indian economy should dramatically slow down in 2Q20.
- Australia economy is expected to fall into recession in 2020.

(Note) Outlook as of 17 April 2020; subject to update thereafter without notice.

# COVID-19 – Unprecedented Measures across Asia

Ex. 1

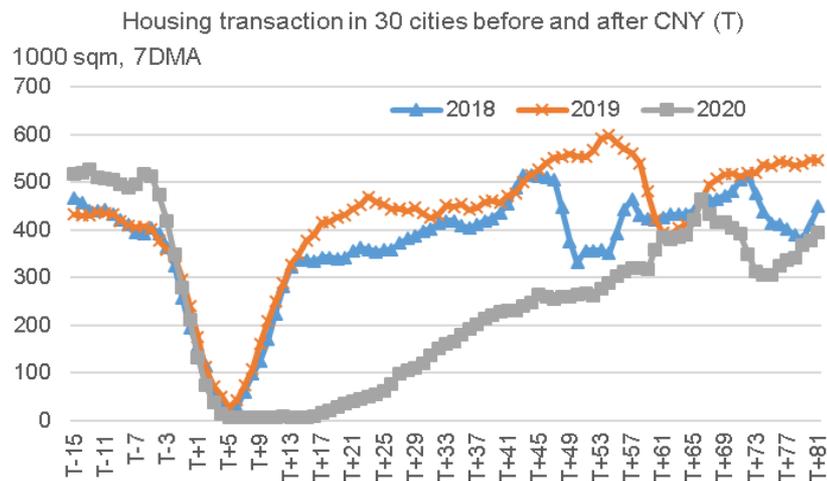
Country	Domestic control	Immigration control	Fiscal Policy	Monetary Policy
China	Wuhan lockdown between 23 Jan and 8 Apr. Other cities in Hubei Province locked down until 25 Mar. Other provinces introduced restrictive measures in late Jan and early Feb, most lifted since mid-Feb.	14 days quarantine (5 Mar) when entering major cities from infected areas. 14-day quarantine for all immigrants to Beijing (16 Mar). Visas for foreigners will be suspended from 28 Mar.	Budget deficit to be widened. Issuance of special sovereign bonds. Increase in quota of local special bonds. Waiver of corporate social security burden for 2-4 months.	Allowance of moratorium. 7D reverse repo rate cut by 20bp (30 Mar). Two targeted RRR cuts (16 Mar and 3 Apr).
Korea	Govt requested the refraining from mass gathering on 21 Feb. Restriction on purchase of masks based on the year of birth. Govt requested refraining from going out across the country on 21 Mar.	From 10 Mar, strengthening restrictions on immigrants from Japan. From 19 Mar, strengthened restrictions on all immigrants.	A supplementary budget of 1% of GDP.	50bp policy rate cut at emergency meetings on 16 Mar.
Taiwan	Residents are allowed to purchase 9 masks every 14 days. Residents returning from overseas are required to go through 14 day home quarantine.	Entry ban of Chinese residents on 6 Feb. Entry ban of all foreigners on 19 Mar.	Spical budget of 1.2% of GDP to help affected sectors and individuals.	25 bp policy rate cut on 19 Mar. Low-interest loan line (1% of GDP) to SMEs.
Hong Kong	Home office for civil servants since 25 Jan. Schools closed since Lunar New Year holidays. Ban public gathering of more than 4 people. Closure of cinemas, gyms, etc.	Closed entry checkpoints expect for 3 places such as airports on 4 Mar. 14 day mandatory quarantine for people arriving from overseas.	Budget deficit widened to 9.5% of GDP. 10,000 HK \$ cash pay-out to all permanent residents.	HKMA announced the reduction of issuance of Exchange Fund bills to increase liquidity in the interbank market by 20 bn HK \$.
Philippines	Luzon and Manila lockdown from 15 Mar to 14 Apr. Many churches accept online worship services.	Entry ban for arrivals from China, Hong Kong and Macau (2 Feb). Stopped visa issuance (19 Mar).	Cash payments to low-income earners (1.6% of GDP).	25 bp policy rate cut on 6 Feb, two 50 bp cuts on 19 Mar and 16 Apr.
Thailand	State of emergency between 26 Mar and 30 Apr. Songkran (Thai New Year) holidays (13 to 15 Apr) have been postponed.	All foreigners are required to have a certificate of health in English (22 Mar). Closure of all land checkpoints (23 Mar).	5,000 baht cash payout to 3 million people without social insurance for 3 months (0.3% of GDP). Reduction of withholding tax. 1.5 times tax deduction for interest expense.	Two 25 bp rate cut on 5 Feb and 20 Mar. Financial support for individuals and tourism. Allowance of moratorium.
Malaysia	National lockdown between 18 Mar and 28 Apr, except for essential services.	Borders closed between 18 Mar and 28 Apr.	Stimulus package including subsidies and tax exemptions (1.7% of GDP).	25 bp policy rate cut on 3 Mar. 6 month moratorium for SME and individual loans.
Singapore	"Circuit breaker" from 7 Apr to 4 May, during which most workplaces except for essential services and key economic sectors are closed.	Entry ban for Chinese passport holders (31 Jan). 14 days home quarantine for all immigrants (20 Mar).	Cash benefits (up to S \$ 900). Govt paid part of employee salary, etc. (11% of GDP).	MAS monetary easing on 20 Mar.
Indonesia	State of emergency in Jakarta from 20 Mar to 2 Apr. Banned the use of offices and suspended business at entertainment facilities.	Suspension of visa exemption and arrival visa (20 Mar). Ban entry all foreigners on 31 Mar.	Comprehensive economic measures such as tax cuts (2.5% of GDP). Fiscal discipline was loosened (24 Mar).	Two 25 bp policy rate cuts on 20 Feb and 19 Mar.
Vietnam	Banned going out of home nationwide from 1 to 15 Apr. Stopped public transportation.	Ban entry of persons who have stayed in China (4 Feb). Visa issuance stopped for 30 days (18 Mar). Ban entry of all foreigners (22 Mar).	Economic measures such as tax payment delay and fee reduction (1.3% of GDP).	Rate cut (17 Mar). Allow the grace of debt repayment. Relax NPL criteria.
India	Natioanal lockdown between 25 Mar to 3 May.	Visas issuance stopped in principle (13 Mar to 15 Apr). Prohibition of entry / exit (25 Mar to 3 May).	Economic measures (0.7% of GDP) mainly for the poor, such as cash payments to farmers.	0.75 bp policy rate cut on 27 Mar. Allowed postponement of debt repayment. Relax NPL criteria.
Australia	Government shall maintain lockdown at least until 15 May.	All travelers are required to take self-quarantine for 14 days. Government could maintain passage control to overseas until the beginning of 2021.	Government shall take proactive fiscal measures worth about 11% of GDP.	RBA has decided to take QE with YCC (Yield-Curve-Control).

Source: Govts and central banks' websites, SMDAM

# China – Gradual activities resumption

- Economic activities have been gradually recovering from trough in Feb.
- Pace of recovery has been dragged by existing social distancing measures.
- Manufacturing sectors are expected to see faster normalization than service sectors.

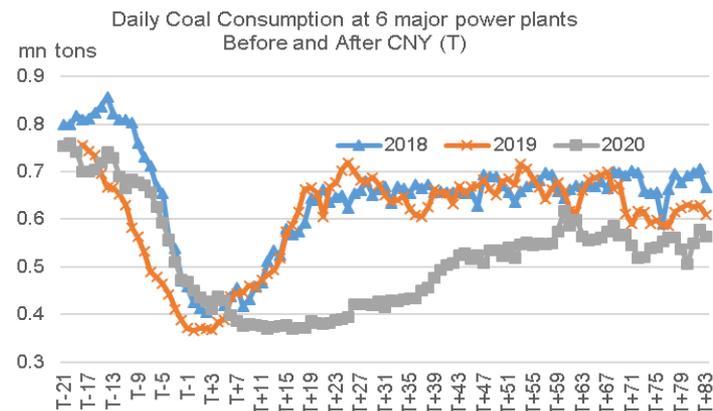
Ex. 3



Source: Wind, SMDAM

Data period: 01/2018– 04/2020

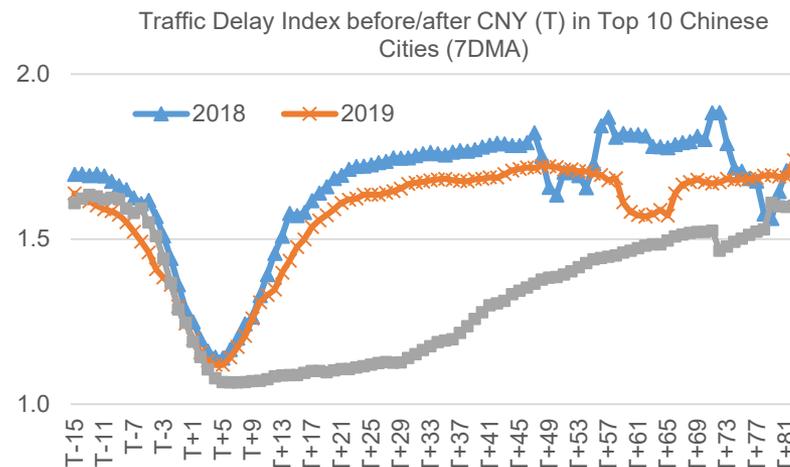
Ex.2



Source: Wind, SMDAM

Data period: 01/2018– 04/2020

Ex. 4



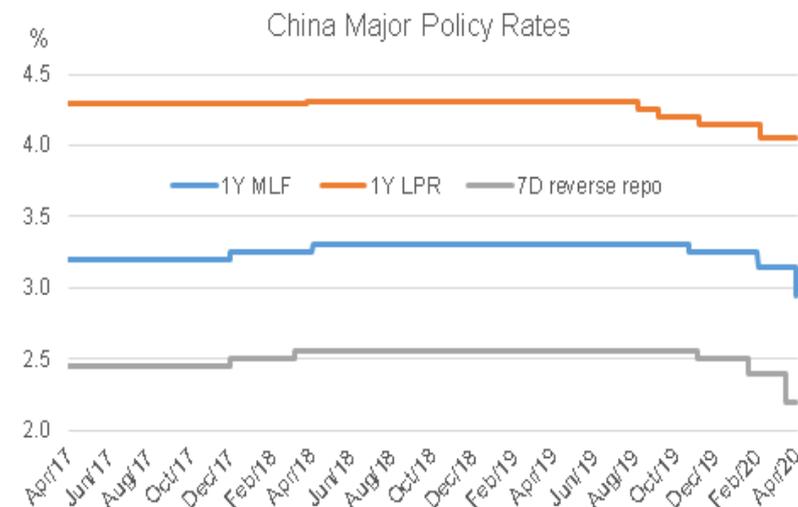
Source: Wind, SMDAM

Data period: 01/2018– 04/2020

# China – Large stimulus to support growth

- We expect economic growth to come back to positive territory in Q2 and rebound in 2H20.
- Fiscal policy should take a leading role in stimulus package.
- Monetary policy should continue easing-bias to support growth.

Ex. 5



Source: Wind

Data period: 04/2017– 04/2020

Ex. 6

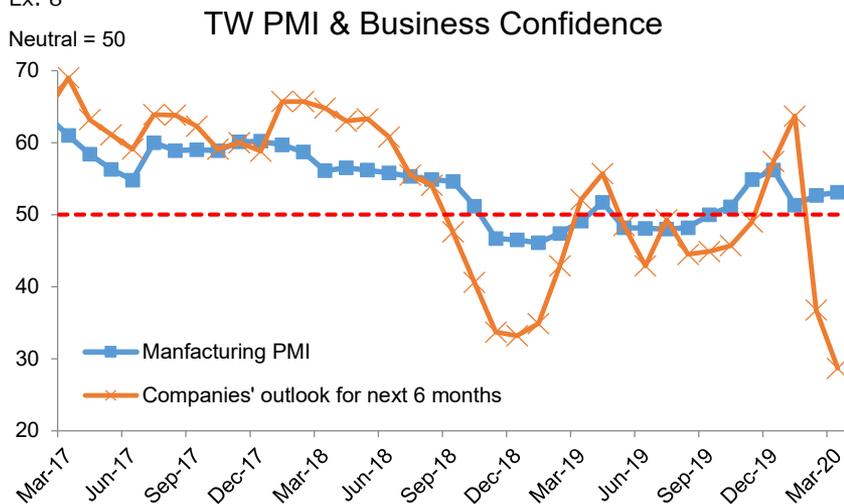
China Stimulus Forecast							
No.	Item	a	b	c(b-a)	d	e (c*d)	
		2019 (% of GDP)	2020E (% of GDP)	Increase (ppt)	Multiplier	Contribution to GDP (ppt)	
A	Headline fiscal deficit	2.8	3.8	1.0	n.a.	n.a.	
B	Funding from special accounts	2.1	2.4	0.3			
C (A+B)	General budget account deficit	4.9	6.2	1.3	n.a.	0.9	
C1	Tax cut	n.a.		0.6	0.3	0.2	
C2	Increase in fiscal expenditure	n.a.		0.7	1.0	0.7	
D	Local govt special bond issuance (used for Infrastructure investment)	2.2	3.5	1.3	1.5	2.0	
E	Special sovereign bonds (used for relief and public consumption)	0.0	2.0	2.0	0.5	1.0	
F	Social security contribution waiver	n.a.		1.0	0.3	0.3	
G (C+D+E+F)	Fiscal subtotal	n.a.		5.6	n.a.	4.1	
H	Monetary easing (M2 growth)	8.7	10.5	1.8	0.3	0.5	
I	Grand total (G+H)	n.a.					4.7

(Note) This analysis is as of 17 Apr 2020; subject to update thereafter without notice.  
Source: Wind, SMDAM

# NIES 4 – To get worse before getting better

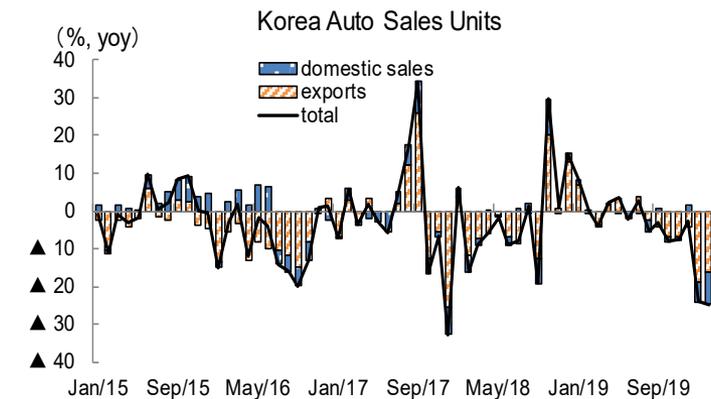
- NIEs4 should face significant headwinds in Q2 caused by slump in external demand and domestic control measures.
- We expect central banks in Korea and Singapore to ease monetary policy in 2Q20.
- NIES4 economy could gradually recover in 2H20, thanks to more effective virus containment.

Ex. 8



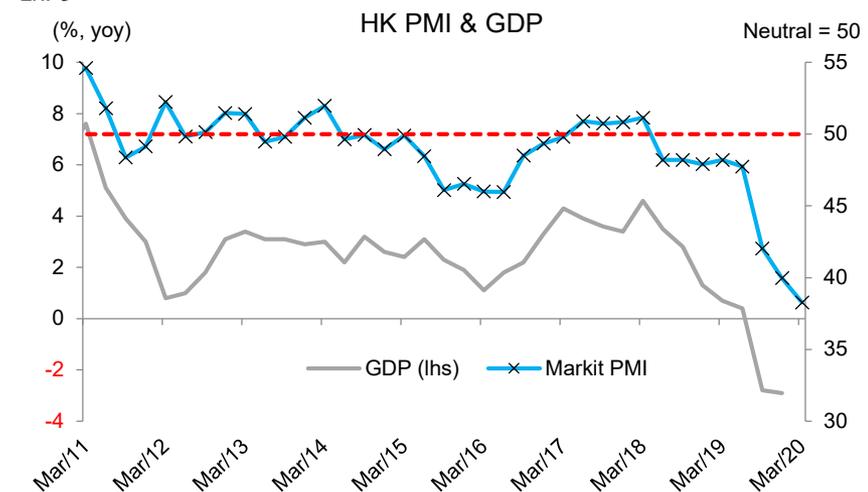
Source: CEIC

Ex. 7



Source: CEIC

Ex. 9



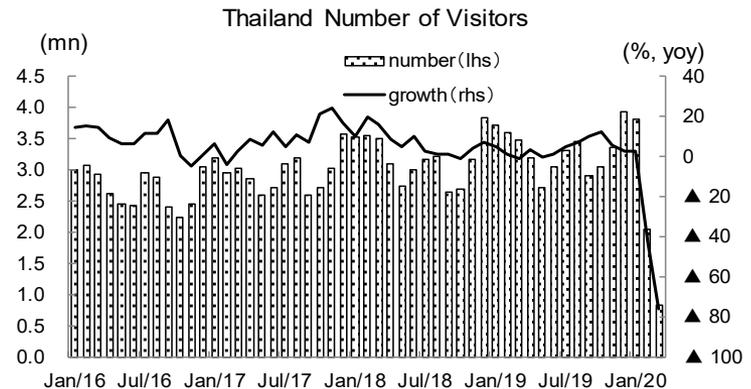
Source: Wind

Data period: 03/2011– 03/2020

# ASEAN 5 – Facing strong headwinds

- Economic growth should deteriorate sharply in Q2 due to lockdown measures.
- Thailand: economic recovery should be slow due to slow return of tourists.
- Indonesia: V-shaped recovery cannot be expected due to loose measures to prevent infection. Sovereign downgrading risks have been rising.
- We expect rates cuts in Philippine, Malaysia, Thailand and Vietnam in Q2.

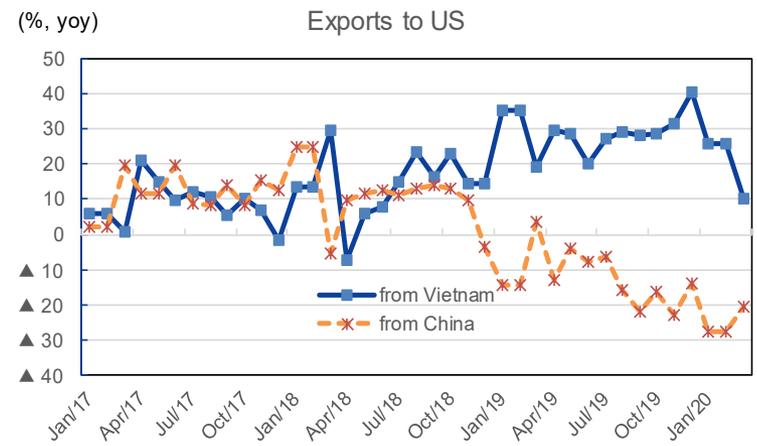
Ex. 10



Source: CEIC

Data period: 01/2016– 03/2020

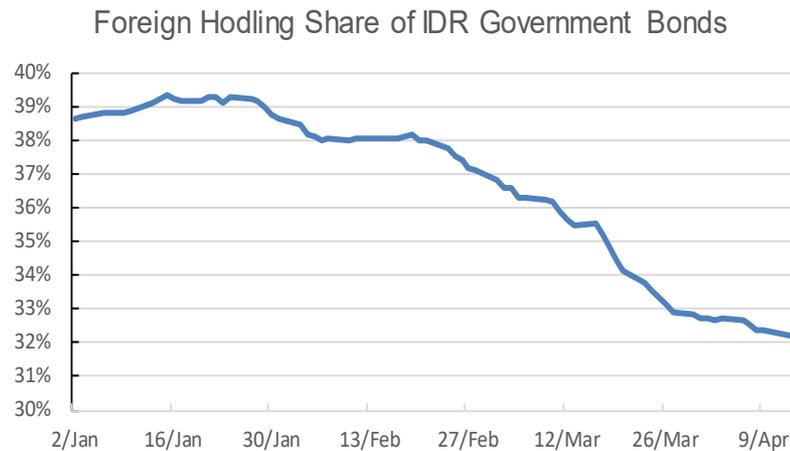
Ex. 12



Source: CEIC

Data period: 01/2017– 03/2020

Ex. 11



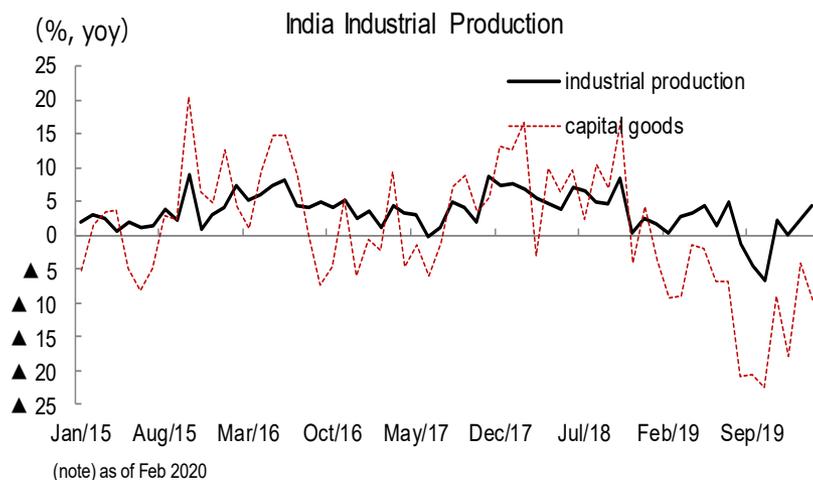
Source: CEIC

Data period: 01/2020– 04/2020

# India – Growth momentum to weaken

- Economic growth should sharply slow down in Q2 due to prolonged lockdown.
- Risk of widening fiscal deficit as fiscal revenue for FY20/21 heavily depends on asset sales.
- Moody's may revise down sovereign rating to Baa3, the lowest level for investable grade.
- CPI inflation has peaked out, which should open room for further rate cuts in Q2.

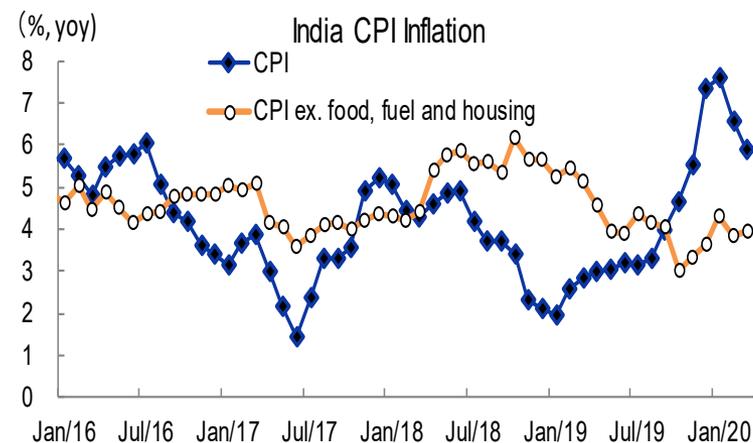
Ex. 13



Source: CEIC

Data period: 01/2015–03/2020

Ex. 14



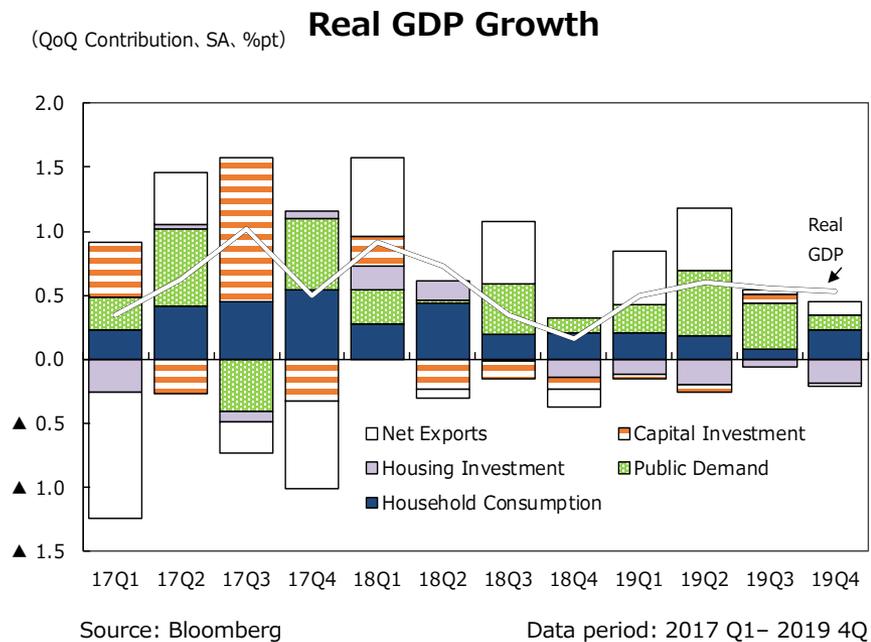
Source: CEIC

Data period: 01/2016– 03/2020

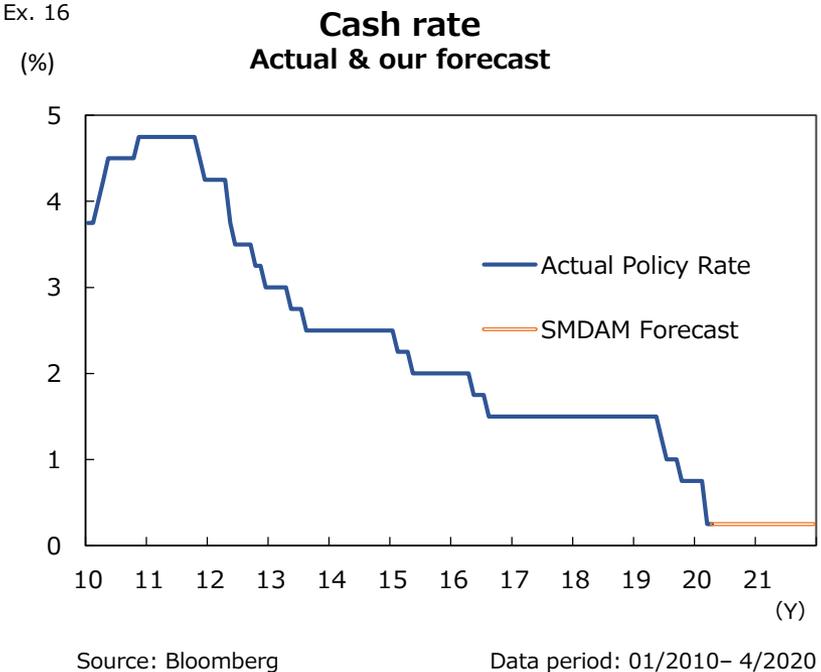
# OCEANIA – Falling into recession

- Due to COVID-19, Australia would maintain a lockdown until the end of June. Therefore, its economy is expected to fall into recession in 2020, the first time since the early 1990s.
- We expect the RBA to keep the cash rate and the 3 year yield rate target at 0.25% for a few years.
- Upside risk: The spread of COVID-19 in Australia is contained earlier than expected, thus having an upside effect on household consumption.
- Downside risk: COVID-19 continues until next year and Australia has to extend the lockdown.

Ex. 15



Ex. 16



(Note) This analysis is as of 15 April 2020; subject to update thereafter without notice.

# Forecasts: GDP, CPI, and policy rate

Ex. 17

		GDP			CPI			Policy Rate						
		2019	2020	2021	2019	2020	2021	2019	2020	2021	2020			
											1Q	2Q	3Q	4Q
China		6.1	3.6	8.3	2.9	2.8	1.9	4.15	3.65	3.65	4.05	3.65	3.65	3.65
India		4.6	1.5	7.1	4.8	3.2	4.3	5.15	3.90	3.90	4.40	3.90	3.90	3.90
N I E S 4	Korea	2.0	0.2	3.2	0.4	0.1	1.5	1.25	0.50	0.50	0.75	0.50	0.50	0.50
	Taiwan	2.7	2.0	3.2	0.6	0.4	1.3	1.375	1.125	1.125	1.125	1.125	1.125	1.125
	Singapore	0.7	-2.3	3.1	0.6	-0.8	1.4							
	Hong Kong	-1.2	-1.9	3.6	2.9	1.5	2.5							
A S E A N 5	Indonesia	5.0	2.0	5.8	2.8	2.9	3.4	5.00	4.50	4.50	4.50	4.50	4.50	4.50
	Thailand	2.4	-4.9	5.8	0.7	-1.0	1.9	1.25	0.50	0.50	0.75	0.50	0.50	0.50
	Malaysia	4.3	-2.3	7.3	0.7	0.4	2.1	3.00	1.75	2.00	2.50	2.00	1.75	1.75
	Philippines	5.9	-0.3	8.1	2.5	2.1	3.1	4.00	2.25	2.25	3.25	2.25	2.25	2.25
	Vietnam	7.0	4.0	7.8	2.8	2.8	2.9	6.00	4.00	4.00	5.00	4.00	4.00	4.00
Australia		1.8	-2.0	4.3	1.6	1.7	1.5	0.75	0.25	0.25	0.25	0.25	0.25	0.25

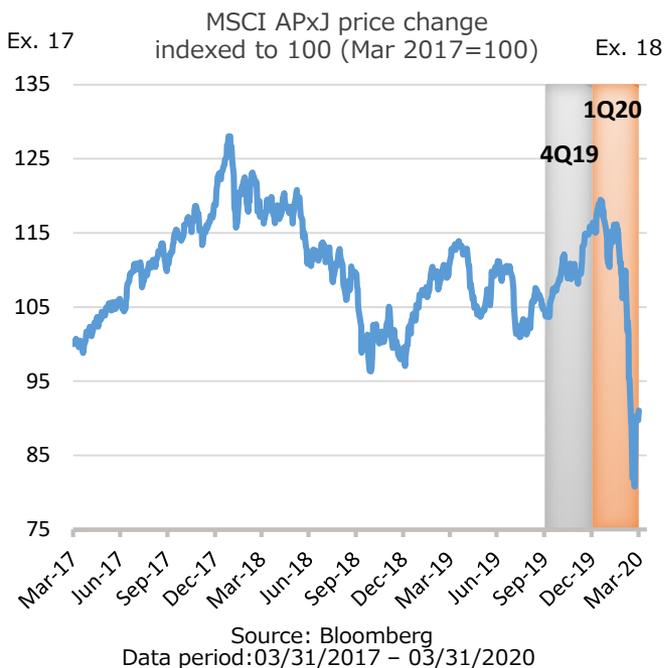
(Note) Forecasts as of 17 April 2020; subject to update thereafter without notice. Figures in yellow are actual y-o-y growth figures; others are forecast.

Source: SMDAM

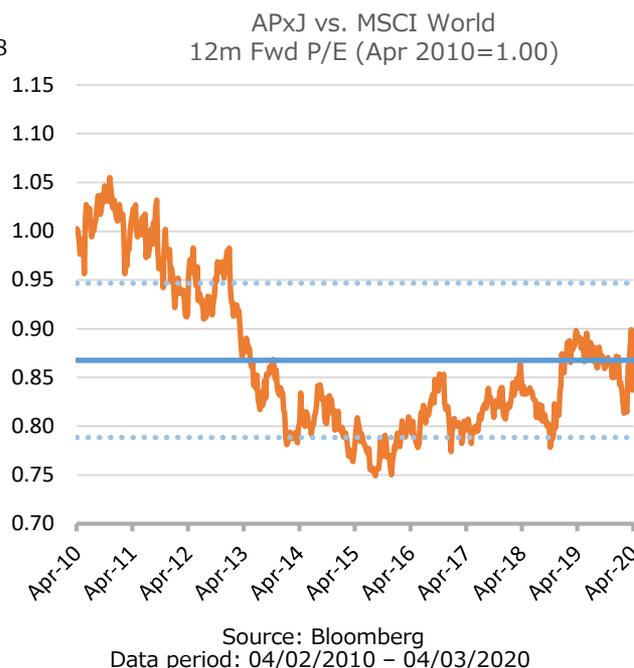
# 1Q20 Market Review – COVID-19 Bear Market

- The Asia Pacific market plummeted in 1Q20 in an response to the global outbreak of COVID-19 and its subsequent impact on the whole economy.
- The diversion between DM and EM equity prices is widened and EM becomes even cheaper.
- The indexes marked negative performance across the Asia Pacific region. The countries where the COVID-19 containment are witnessed such as New Zealand, Korea and Greater China, outperformed APxJ index. The decline was significant in most ASEAN countries which encountered capital outflow of foreign investors and currency weakness. The Australian market was dragged by the sinking energy prices and AUD depreciation.

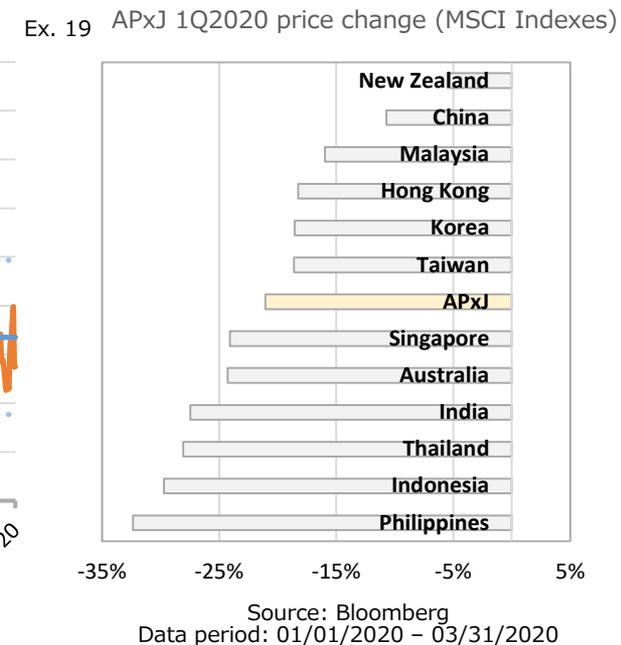
Plummeted as the COVID-19 outbreak spread across the world, pricing in the global recession.



EM's discount deepened against DM.

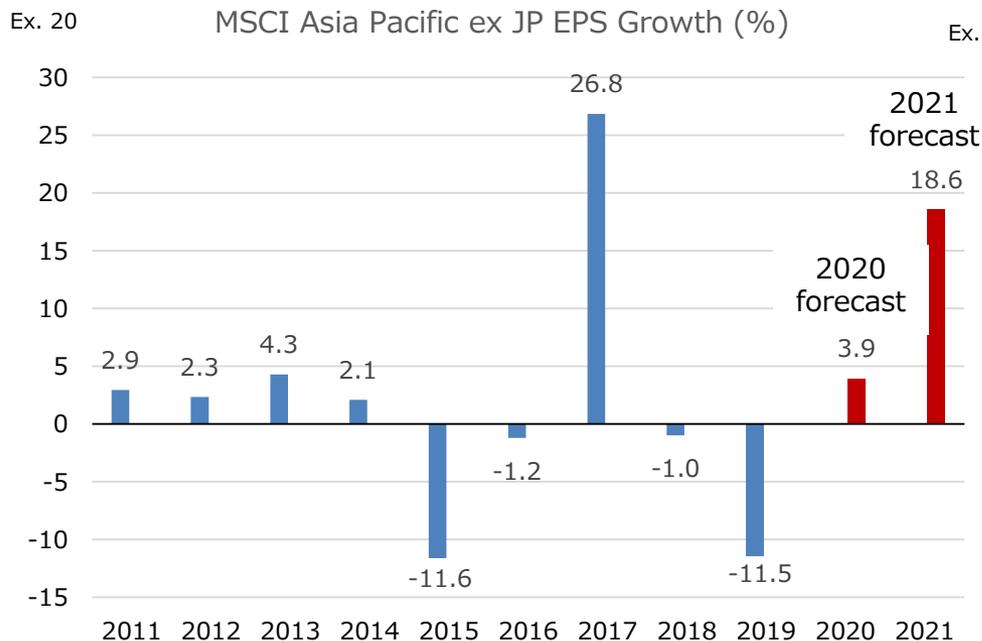


The containment situation of COVID-19 decided winners and losers.



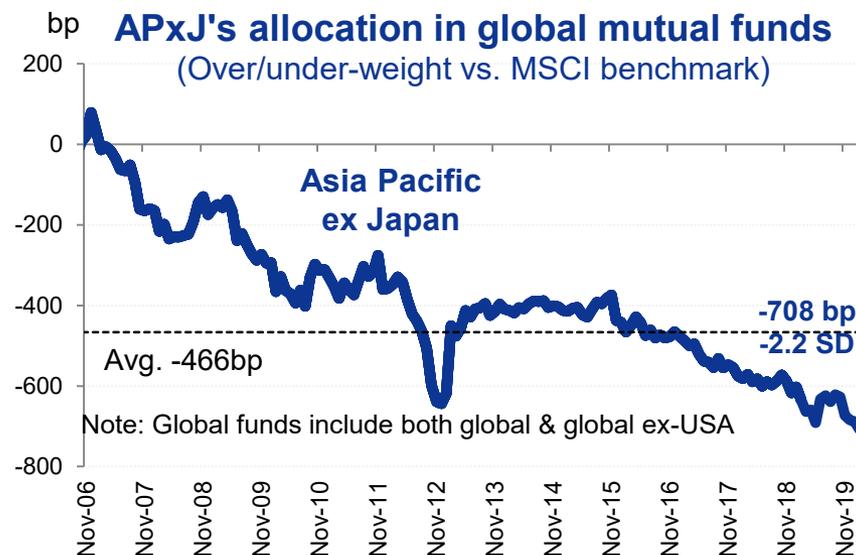
# Summary – Volatile ahead of gradual recovery in 2Q20

- Recovery of corporate earnings was halted by disruption of economic activities triggered by global COVID-19 outbreak. Earnings downward revision expanded once again in 1Q20 and EPS growth forecast for 2020 is also shrank to +3.9% with possibility of entering negative territory, while 2021 outlook shows resilience.
- Heavy underweighted allocation to APxJ by global mutual funds leaves room for buy-back after the virus containment.
- Valuation multiples have come down to fair/attractive levels as indexes corrected across the board.
- The key catalyst for 2Q is successful containment of COVID-19 which would lead to bottoming-out of downward revision of corporate earnings as economic activities are normalized. Risk remains with Sino-US trade talk toward the phase 2 agreement.



Source: FactSet  
Data as of April 14<sup>th</sup> 2020

Ex. 21 Global mutual funds expands underweight in APxJ

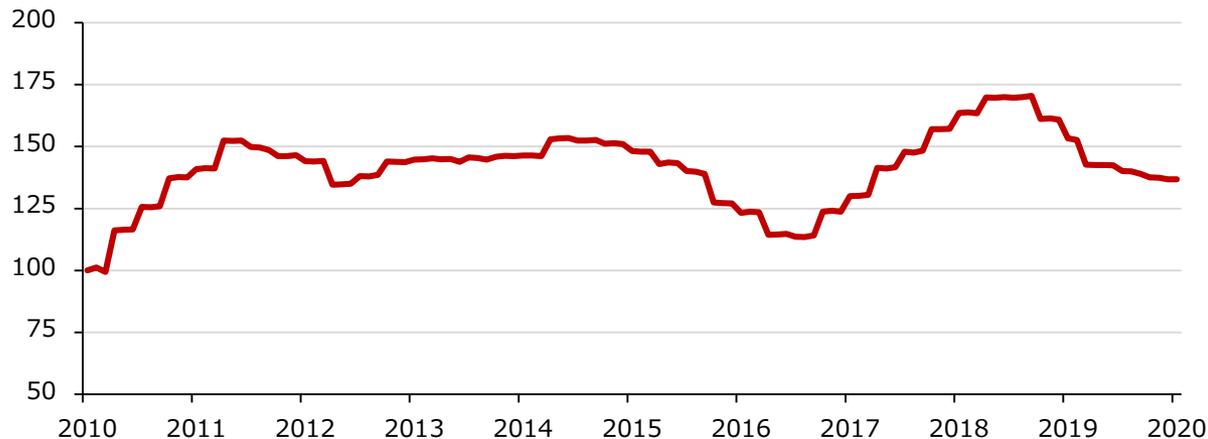


Source: EFPR, FactSet, MSCI, Goldman Sachs  
Data period: 02/28/2007 – 02/28/2020

# EPS – Significant downward revision is inevitable.

Ex.22

MSCI Asia Pacific ex Japan (31 Mar 2010 = 100)

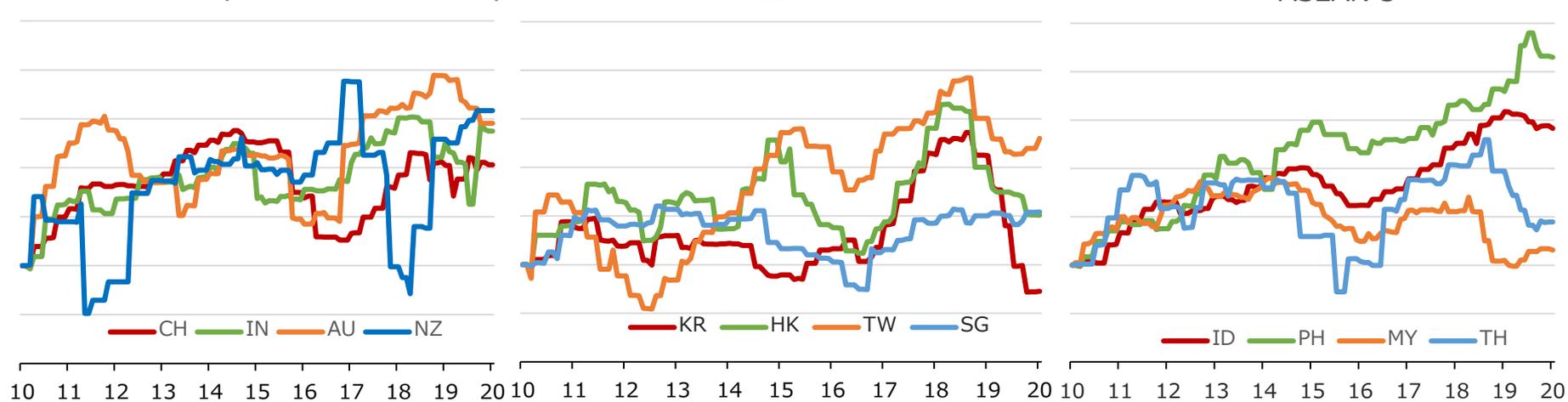


Ex. 23-25

EPS Growth (31 Mar 2010 = 100)

NIES 4

ASEAN 5



Source: Bloomberg  
Data period 01/31/2011 – 03/31/2020

## EPS revision – Bottom is yet to be seen.

- Downward earnings revision continued into 1Q20 across Asia Pacific (ex-Japan) region as economic activities were disrupted by COVID-19 outbreak.
- 2Q will be the key term to see its bottoming-out depending on how the supportive measures by respective governments come in effect. China may take lead with faster normalization of corporate activities which has been already seen in manufacturing data in March.

Ex. 26

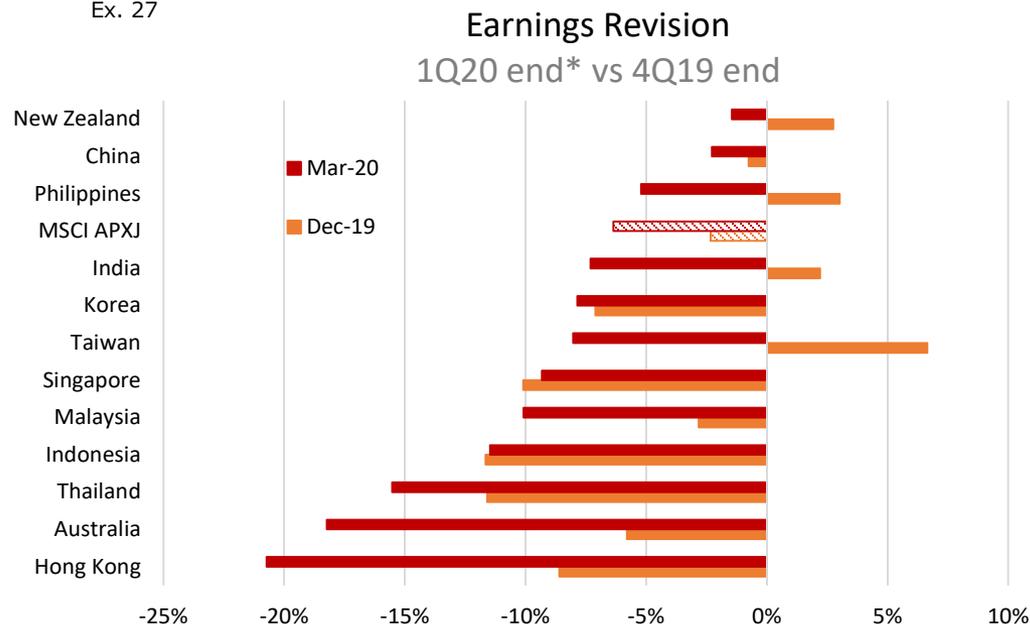
EPS Revision	12 Weeks	
	2020	2021
China	-8.6%	-5.9%
Hong Kong	-13.9%	-7.1%
Korea	-8.6%	-3.6%
Taiwan	-6.3%	-4.3%
Singapore	-13.0%	-7.6%
Malaysia	-11.7%	-8.7%
Thailand	-19.9%	-14.4%
Indonesia	-8.2%	-6.9%
Philippines	-5.2%	-3.6%
India	-7.1%	-4.4%
Australia	-9.3%	-5.1%
New Zealand	-5.7%	-2.7%
<b>MSCI Asia Pac Ex Jp</b>	<b>-11.8%</b>	<b>-8.7%</b>

Note: EPS % change in 12 weeks time prior to 3 Jan 2020.

Source: I/B/E/S

Data as of 04/03/2020

Ex. 27



Note 1 : Earnings revisions ratio = (No. of estimates upgraded – No. of estimates downgraded) / Total number of estimates

Note 2: 1Q20 end is as of March 24 2020.

Source: IBES, MSCI, RIMES, Morgan Stanley Research

Data as at 03/24/2020

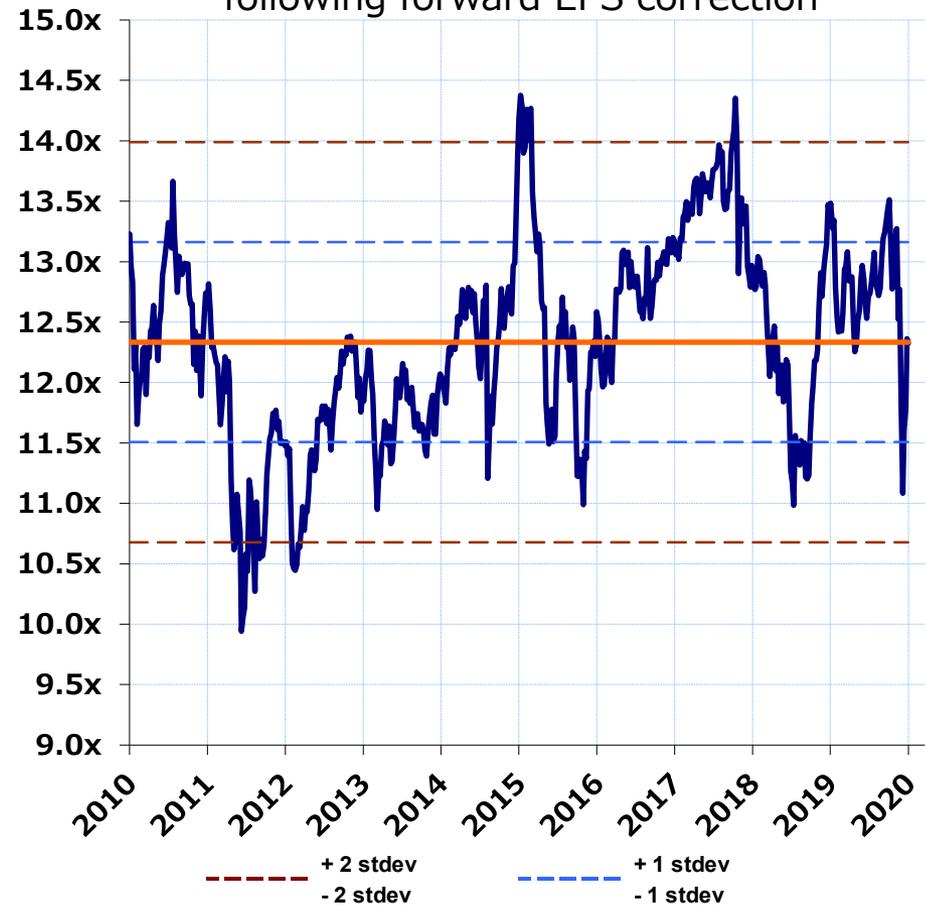
# Valuation band – Fair/attractive even after current rebound

Ex. 28-29

12m fwd P/B largely undervalued



While 12m fwd P/E around 10 yr average, following forward EPS correction



Source: MSCI, Factset  
Data period: 04/16/2010 – 04/15/2020

# Valuations – China, India, and Oceania

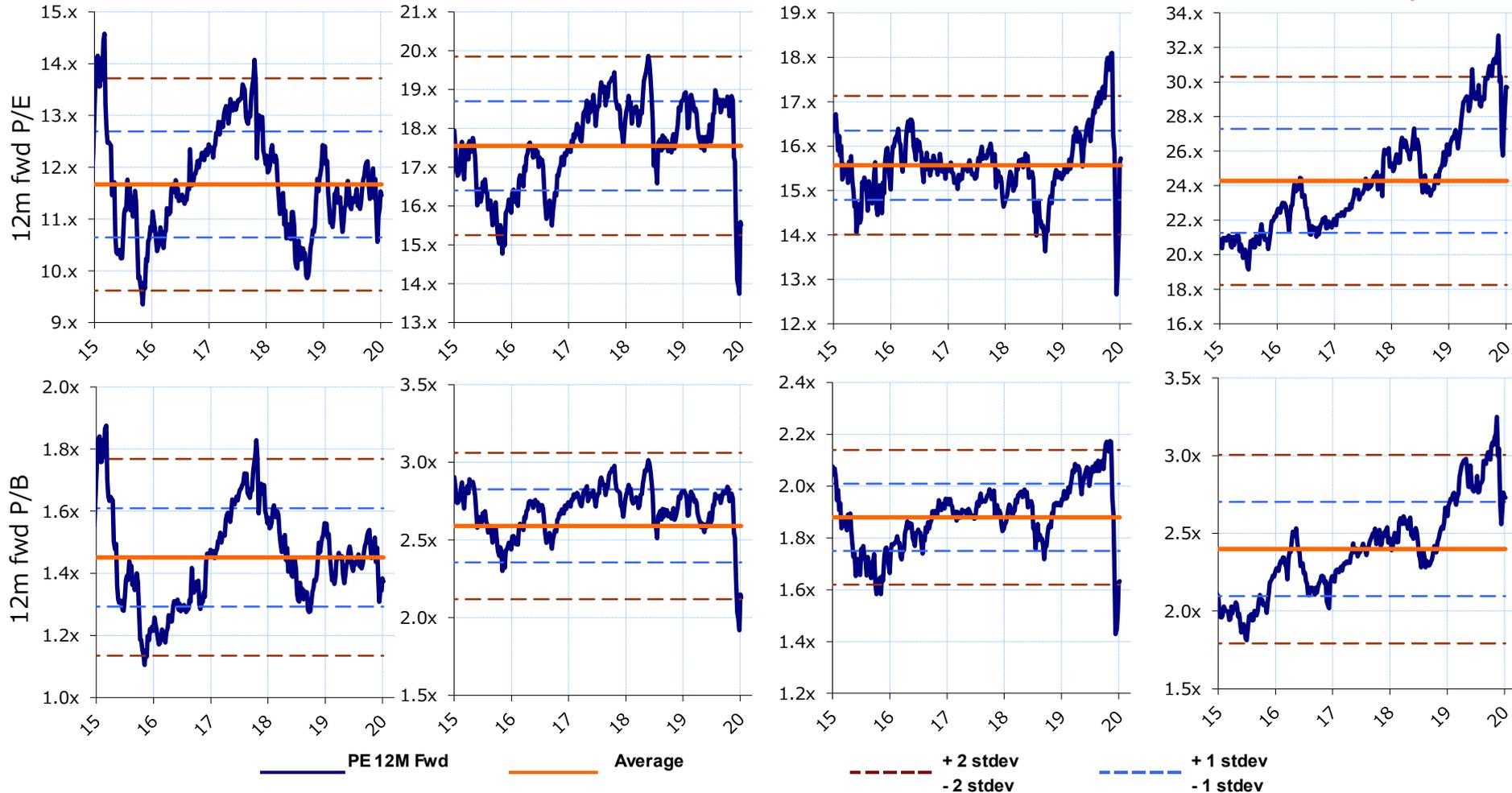
Ex. 30-37

China - **Fair**

India - **Attractive**

Australia - **Fair**

New Zealand - **Expensive**



Source: FactSet, MSCI Data period: 04/10/2015– 04/15/2020

# Valuations – NIES

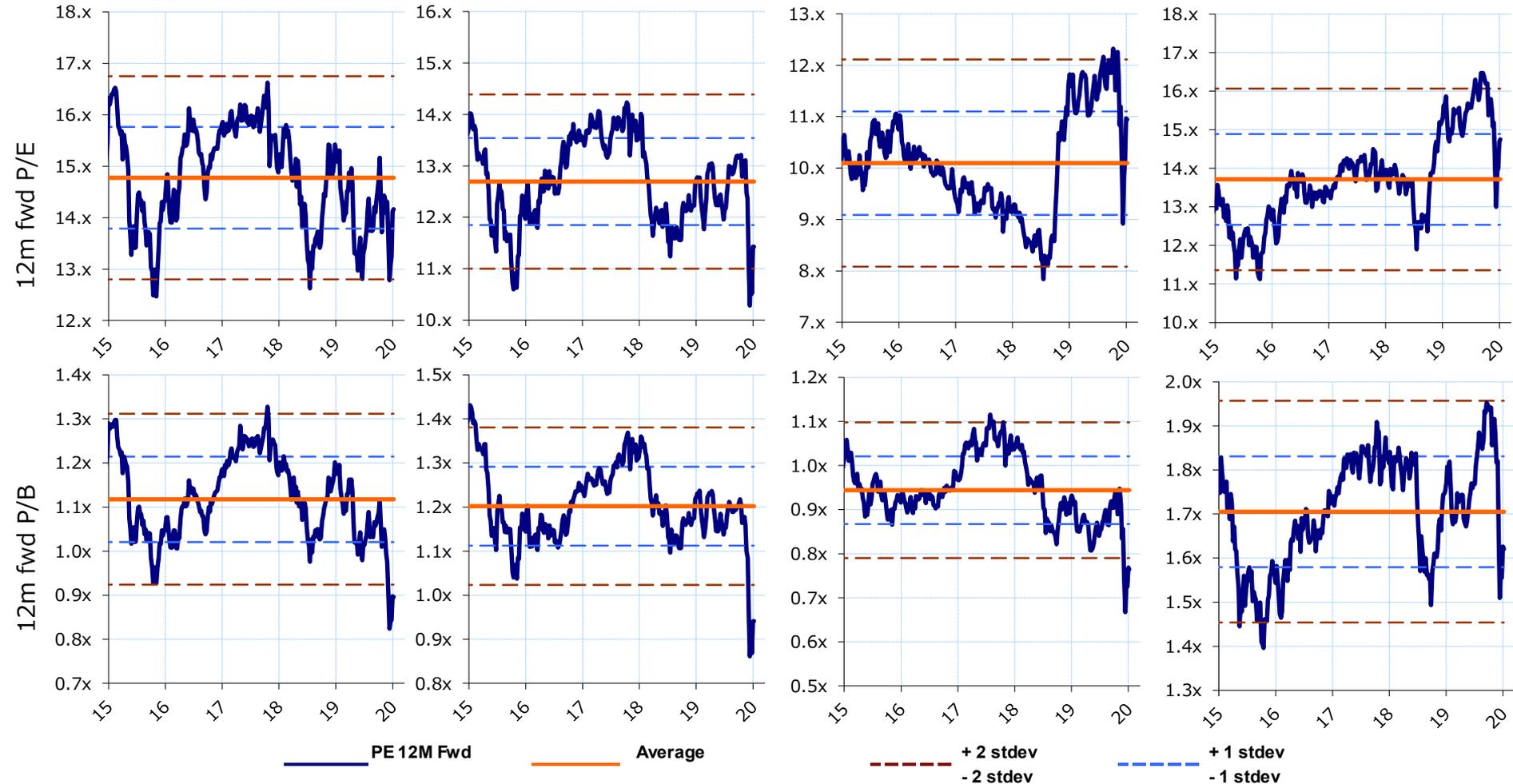
Ex. 38- 45

Hong Kong – **Attractive**

Singapore - **Attractive**

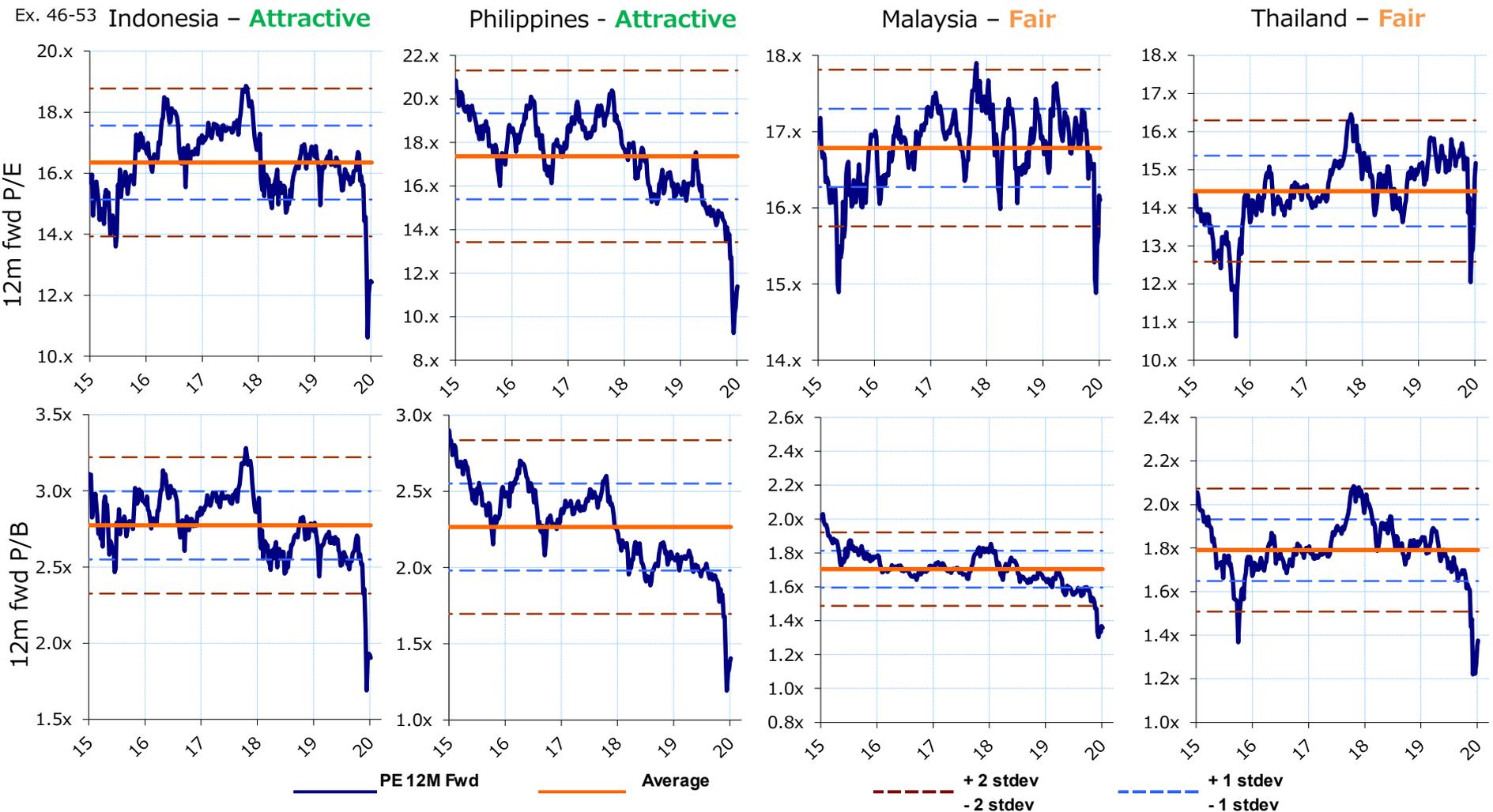
Korea – **Fair**

Taiwan – **Fair**



Source: FactSet, MSCI Data period: 04/10/2015– 04/15/2020

# Valuations – ASEAN



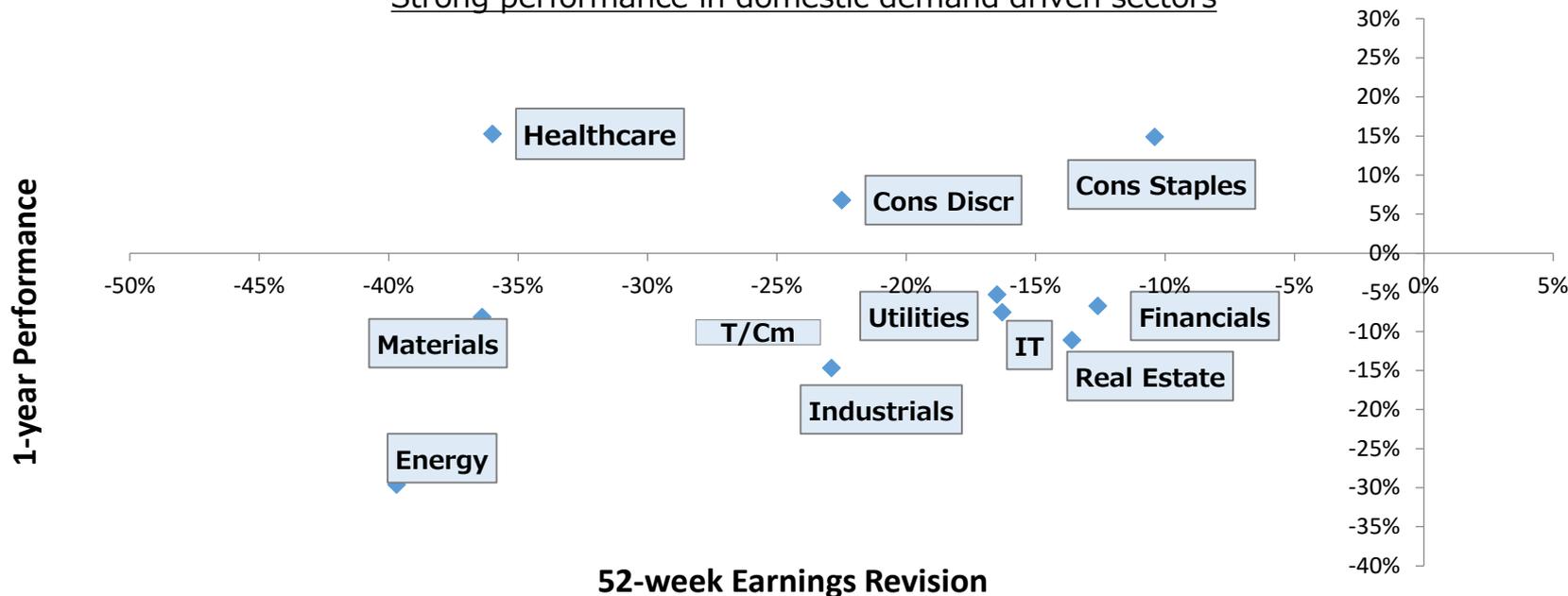
Source: FactSet, MSCI Data period: 04/10/2015– 04/15/2020

## China – Selective pick on domestic demand driven sectors

- MSCI China's decline was limited relatively to other markets during 1Q20, owing to earlier sign of COVID-19 containment and the government's supportive measures to mitigate its economic impact.
- We expect the market to see resilience with less volatility into 2Q20 as China takes lead to contain COVID-19. Its undemanding valuations as well as ample liquidity supply provide support to the downside.
- We maintain conservative strategy, being selective on domestic-demand driven sector and high quality names that are undervalued despite of its mid-long term growth potential. We also prefer beneficiaries from the social changes associated with virus outbreak including E-commerce/E-learning operators and IT infrastructures builders/providers.

Ex. 54

### Strong performance in domestic demand driven sectors



Note: 1-yr performance: 04/03/2019 – 04/03/2020

Earnings revision as of 04/03/2020

Source: FactSet, I/B/E/S

# India – Macro slowdown weighs on the stock market

- MSCI India corrected sharply in 1Q20, dragged by growing concern of potential economic impact of country-wide lockdown.
- Share price correction brought valuations to fair levels. ROE recovery was hindered by weak earnings recovery.
- We remain cautious on India considering its vulnerable position to capital outflow by foreign investors amid global bear market and also in case of downgrade of sovereign bonds by rating agencies.

Ex. 55 P/B-ROE correlation is gradually coming back on track.

MSCI India P/B 12M Fwd vs ROE 12M Fwd



Source: MSCI, FactSet, Data period: 4/10/2010 – 4/15/2020

Ex. 56 Earnings lost its momentum despite of tax cuts last year.

MSCI India Earnings Momentum Index

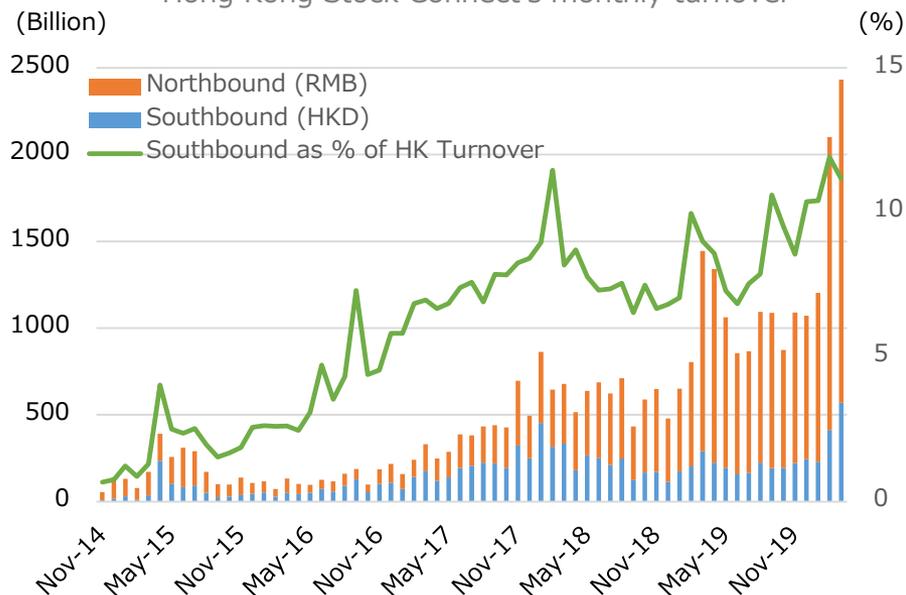


Note: Earning momentum = No. of companies in the index having a positive monthly EPS estimate revision in the past 3 months / No. of companies in the index having a negative monthly EPS estimate revision in the past 3 months  
Source: MSCI, FactSet, Data period: 04/29/2005 – 4/6/2020

## NIES 4 – Hopes on ripple effect from China's recovery

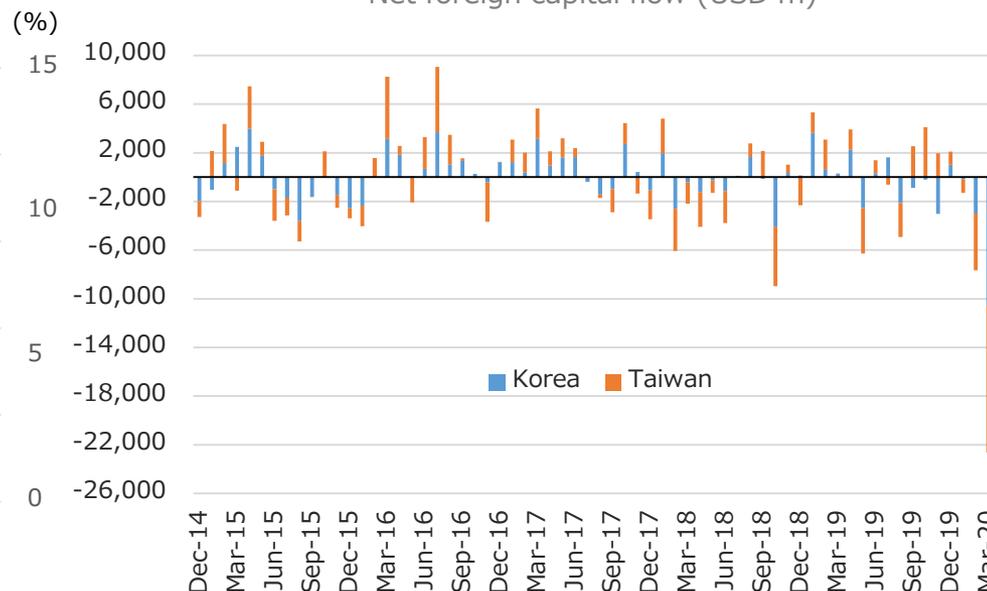
- **Hong Kong** – Downside is relatively limited as sentiment recovers alongside development of COVID-19 containment in China. Valuations in terms of P/E and P/B as well as dividend yield remain attractive.
- **Singapore** – Relatively well positioned thanks to its solid fiscal position and stable currency as well as policy visibility.
- **Taiwan** – Its defensive characteristic with high dividend yield can play out well while cyclical uptrend in the IT sector could be on pause due to COVID-19 outbreak in the US and Europe.
- **Korea** – Earnings momentum is expected to lose infused by recovery in the IT sector.

Ex. 57-58 The largest trading volume since its launch as investors shuffle their positions in response to COVID-19  
Hong Kong Stock Connect's monthly turnover



Source: Bloomberg, Hong Kong Stock Exchange Data period: 11/30/2014 – 03/31/2020

Foreign investor exited from Korea and Taiwan, fearing COVID-19's impact on exports.  
Net foreign capital flow (USD m)



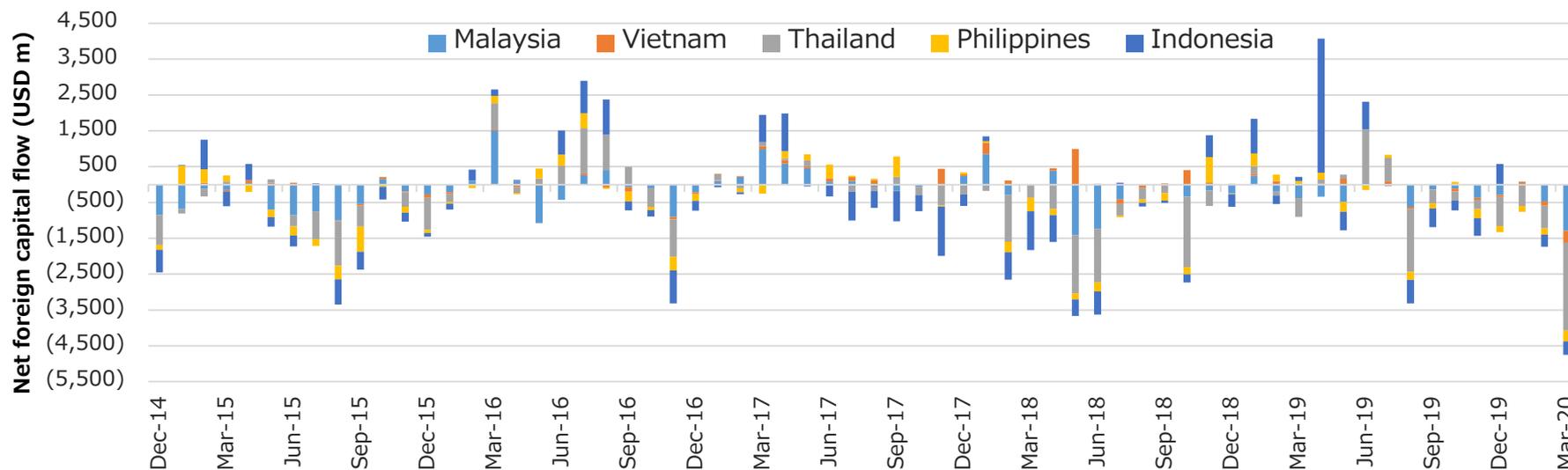
Source: Bloomberg Data period: 12/31/2014 – 03/31/2020

## ASEAN 5 – High volatility, attractive valuations

- **Indonesia** – While valuation level is becoming attractive, earnings outlook remains weak and downward pressure stems from accelerated capital outflow due to deteriorating fiscal discipline.
- **Philippines** – Valuations remain attractive, but deceleration of domestic demand by lockdown mutes its growth story.
- **Malaysia** – Defensive pick, but lacks attractiveness on prolonged weak corporate earnings and macro outlook.
- **Thailand** – The recovery depends on COVID-19 containment progress as tourism sector is essential to its economy. Other factors, such as stabilized currency and valuation, provide support.
- **Vietnam** – Solid macro outlook and attractive valuations continue to support the market.

Ex. 59

Foreign fund flows into ASEAN equities markets

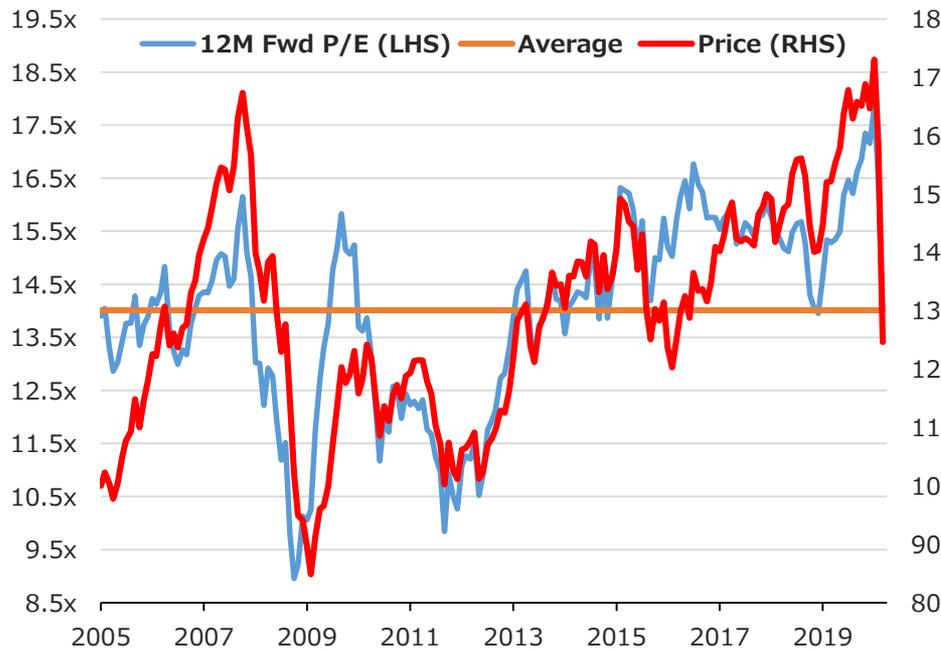


Source: Bloomberg  
Data period: Dec 2014 – Mar 2020

# Oceania – Volatility ahead of policy support

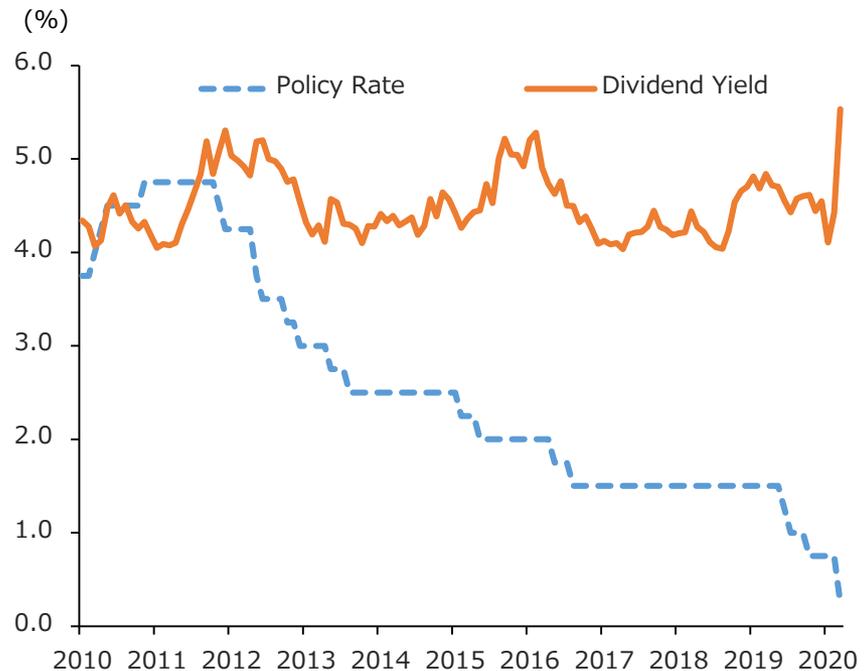
- While the policy rate cut supports the downside, the Australian market will remain volatile as weak currency and sinking energy prices may interrupt its rally. The earnings growth is also limited by soft macro outlook that is dragged by weaker consumer sentiment due to COVID-19 outbreak.
- Meanwhile, positive factors include supportive central bank and the valuations which have come down to fair levels. The hopes are on the government's stimulus packages to sustain the economy and prevent jobs.

Ex. 60 MSCI Australia valuations normalized  
MSCI Australia – Price vs. 12M Fwd P/E  
(31 Jan 2015=100)



Source: FactSet  
Data period: 1/31/2005 – 3/31/2020

Ex. 61 Expansionary monetary policy to support the status-quo  
ASX 200 dividend yield vs. Central bank rate



Source: Bloomberg  
Data period: 01/31/2010 – 03/31/2020

# Introduction of Asia Research Center

The Asian Research Center, founded in Hong Kong in July 2017, conducts high-quality information gathering and analysis specialized in Asia to enhance investment performance and strengthen information dissemination abilities. It also undertakes Asian macro analysis in the SMDAM global macro research team, collaborating with Asian equity analyst team located in Hong Kong, Shanghai, and Singapore.

					
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<b>Time of joining</b>	Dec 2002	May 2015	Sep 2017	Aug 2017	Jan 2018
<b>Industry experience</b>	28 years	26 years	6 years	9 years	4 years
<b>Title</b>	Chief of the Center	Chief Asia Economist	Economist	Researcher	Researcher
<b>Specialty</b>	Company research	Asian macro economy	Macro economy in Greater China	Industry / social trend research	Macro/micro research support

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