



Outlook for Japanese Stock Market & Economy

Sumitomo Mitsui DS Asset Management

-September 2021-

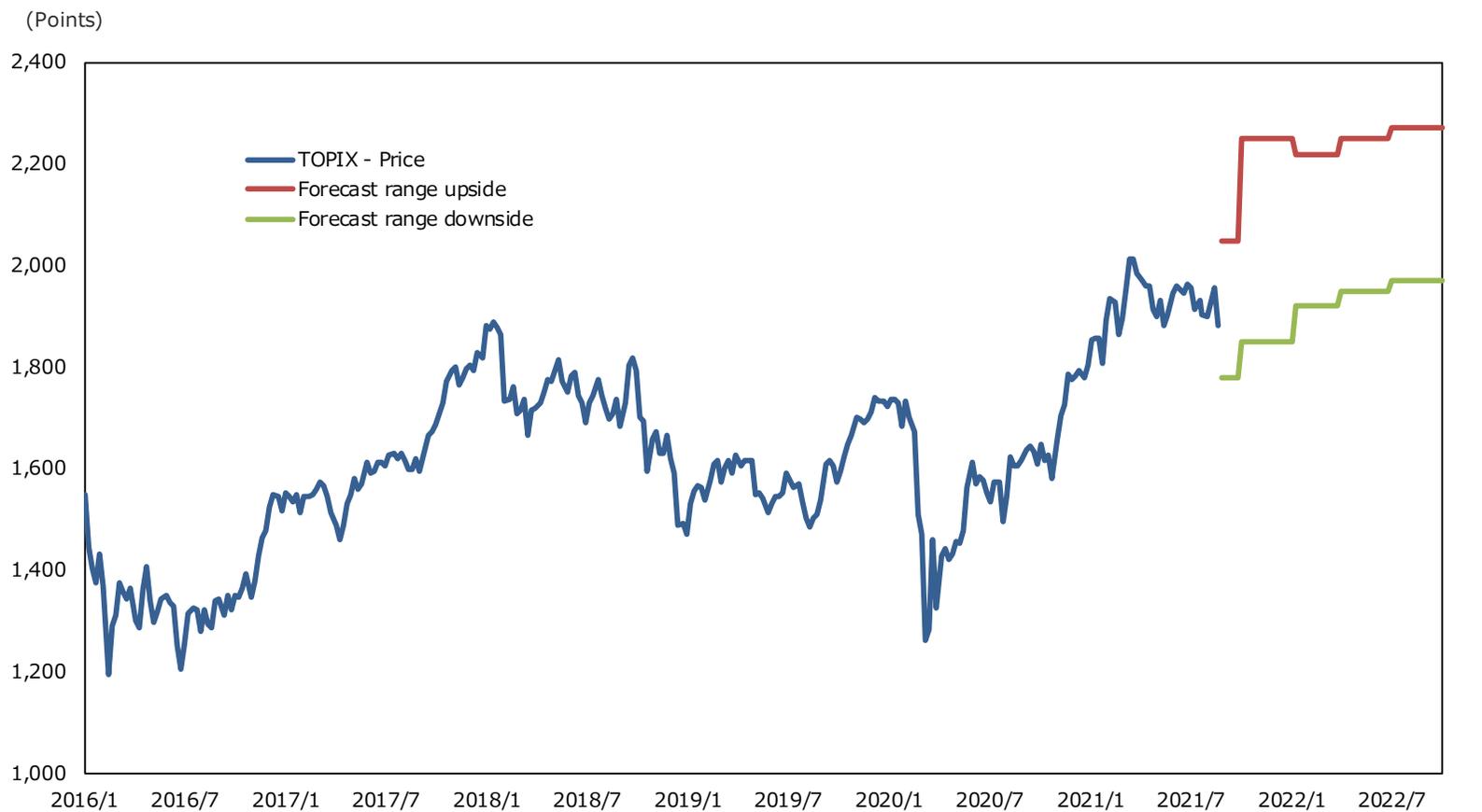


Outlook for Japanese Stock Market

Market Outlook

- We believe Japanese equity will stay on its bullish trend for the mid-to-long term supported by a strong corporate earnings recovery.
- 73% of listed companies' EPS for Q1 FY2021 had beaten the market consensus and EPS of current fiscal year could reach to 130, historical highs.
- Though strong earnings recovery is supporting the market, concern for the COVID-19 delta variant, domestic politics, and a slowing global economy could continue to weigh on the market in the short term.
- We have lowered our TOPIX target to 2,070 from 2,170 for the end of FY 2021 due to the review of fair valuation instead of EPS forecast.
- While manufacturers are leading the strong earnings recovery, non-manufacturers are expected to follow after autumn thanks to the progress of vaccinations.

TOPIX Index and Forecast



Note: TOPIX data is from Jan. 1st 2016 to Aug. 20th 2021
(Source) TOPIX: Tokyo Stock Exchange, forecast by SMDAM

(Year/Month)

Upside / Downside Risk

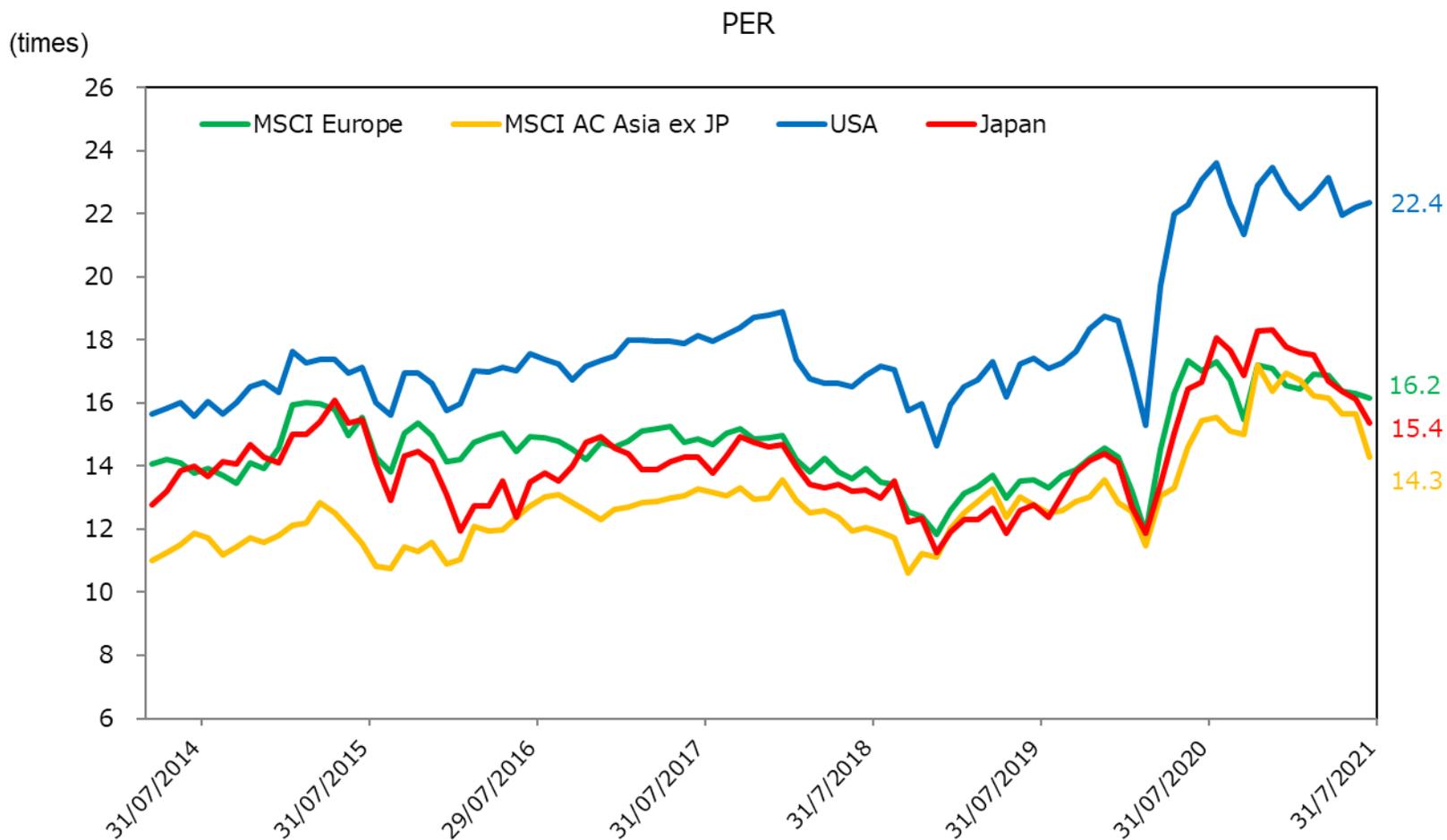
■ Upside Risks

- Strong recovery of domestic demand thanks to the progress of COVID-19 vaccinations
- Acceleration of global economic growth in CY 2021 and CY 2022
- Recovery in PM Suga's approval rate and receding uncertainty over domestic politics

■ Downside Risks

- Delay of normalization of global economy due to COVID-19 new variant
- Growing uncertainty over domestic politics
- Renewed concerns for US monetary policy owing to unexpectedly high inflation and wage hike

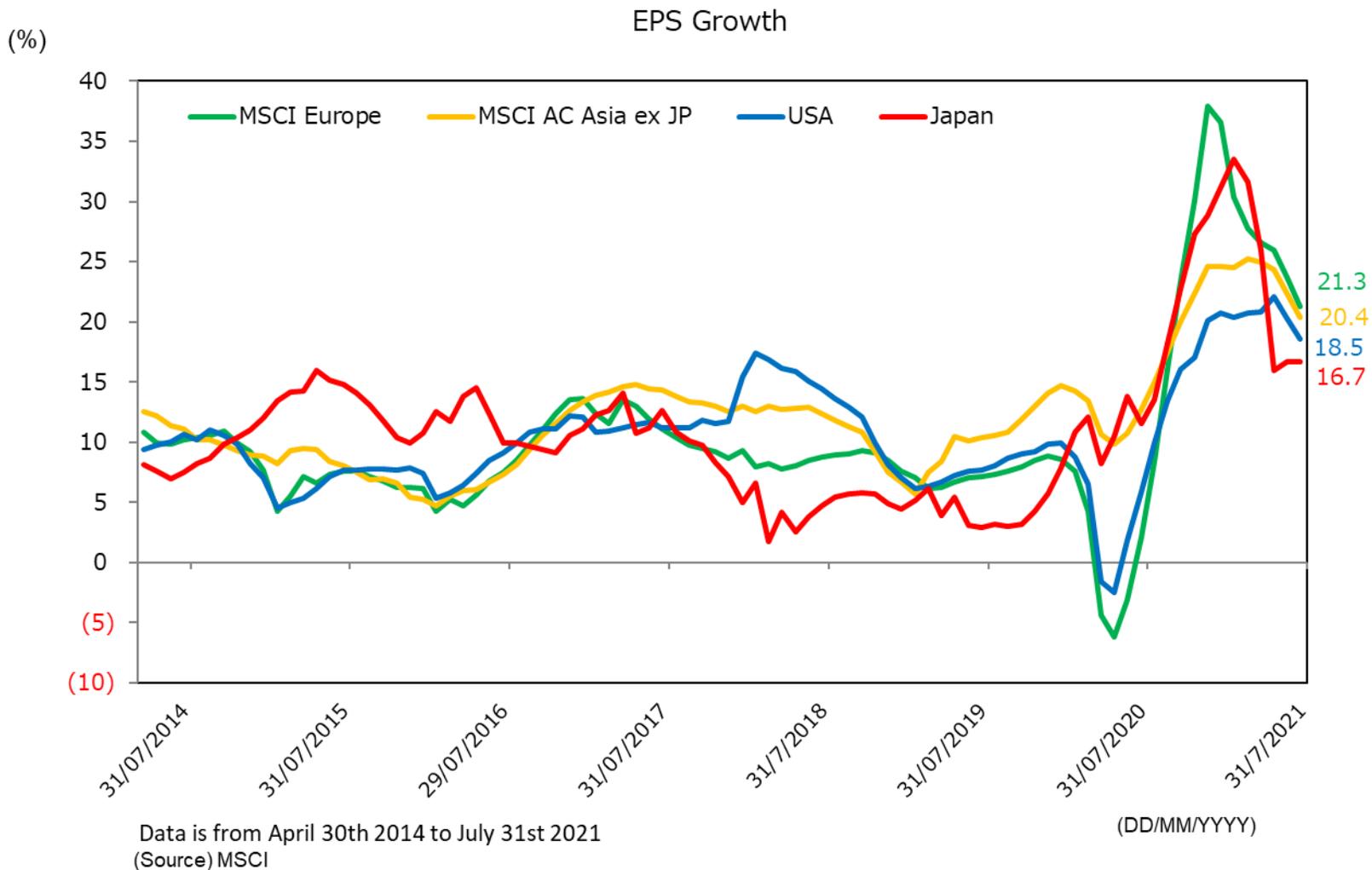
Global Comparison of Key Valuations: PER



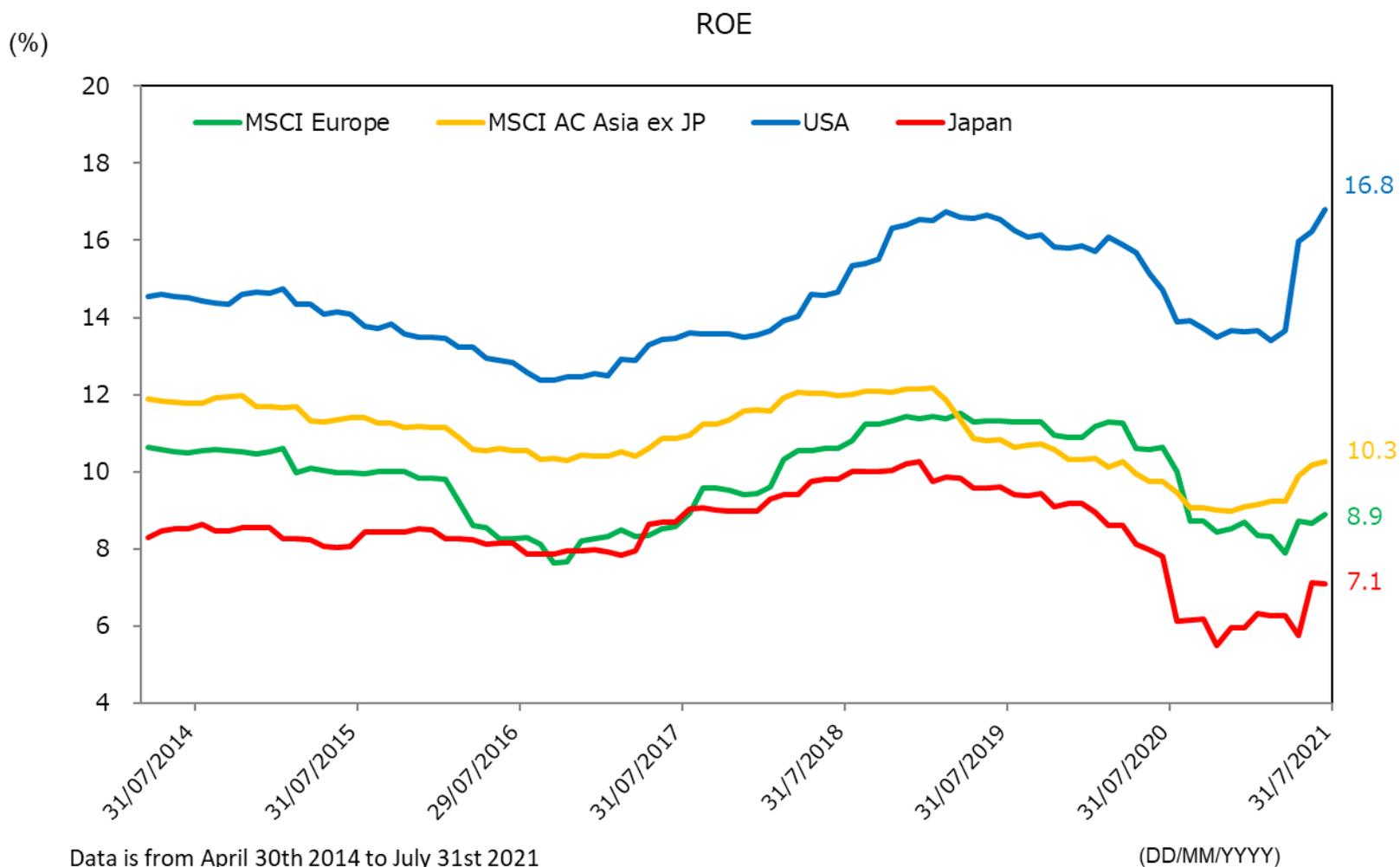
Data is from April 30th 2014 to July 31st 2021
 (Source) MSCI

(DD/MM/YYYY)

Global Comparison of Key Valuations: EPS

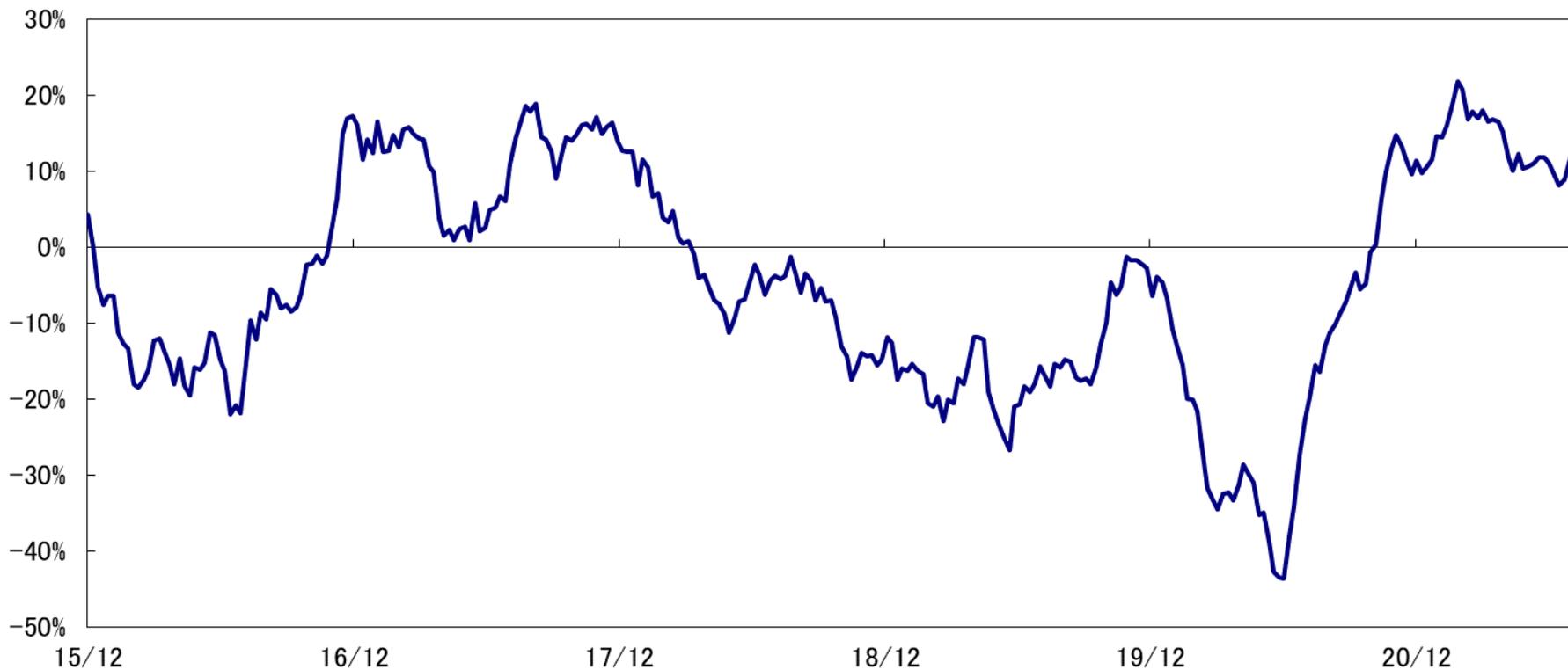


Global Comparison of Key Valuations: ROE



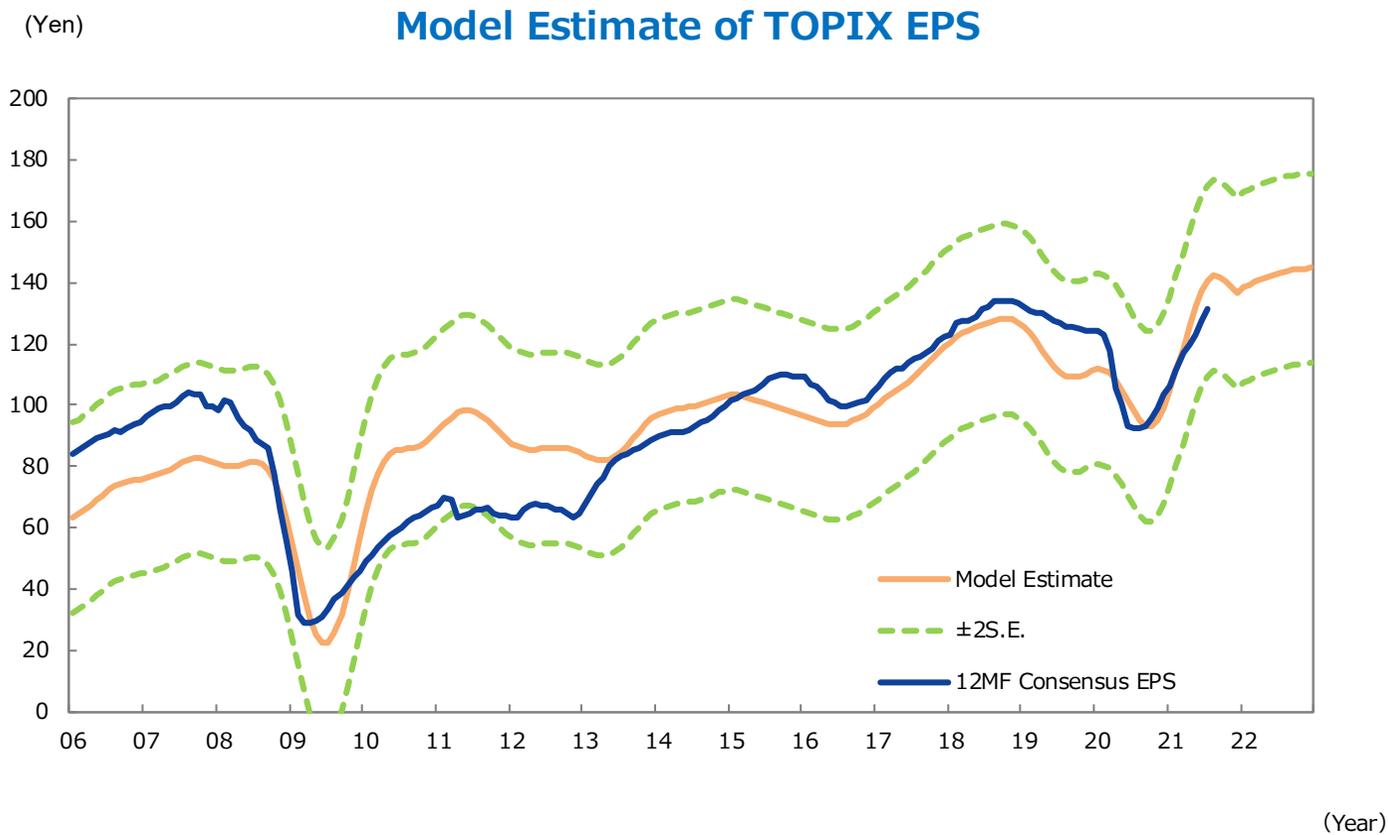
Revision of Earnings Forecasts

TOPIX Revision Index



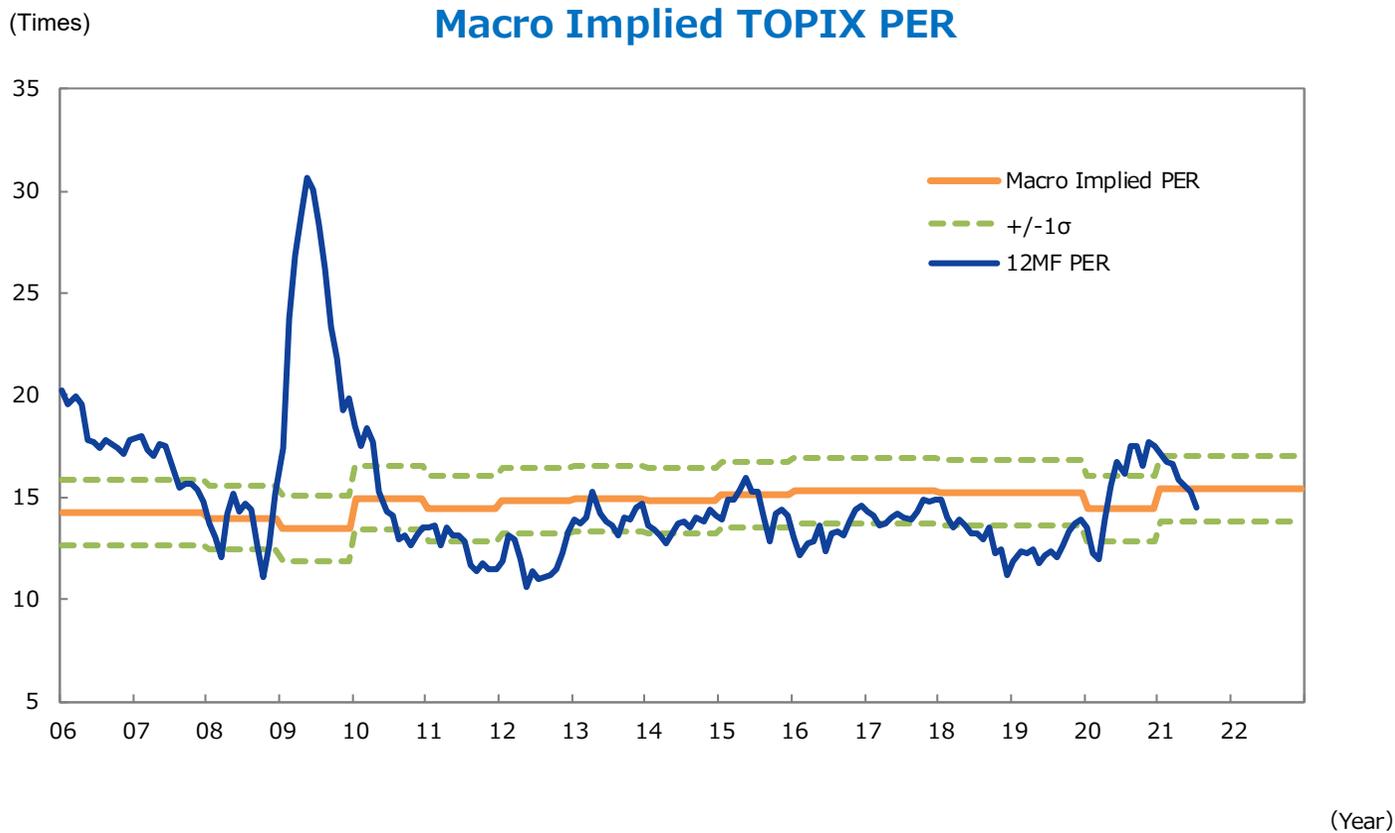
Data is from Dec. 31st 2015 to Aug. 12th 2021
(Source) Datastream, IBES

Top Down Approach, Model Implied Fair Value



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

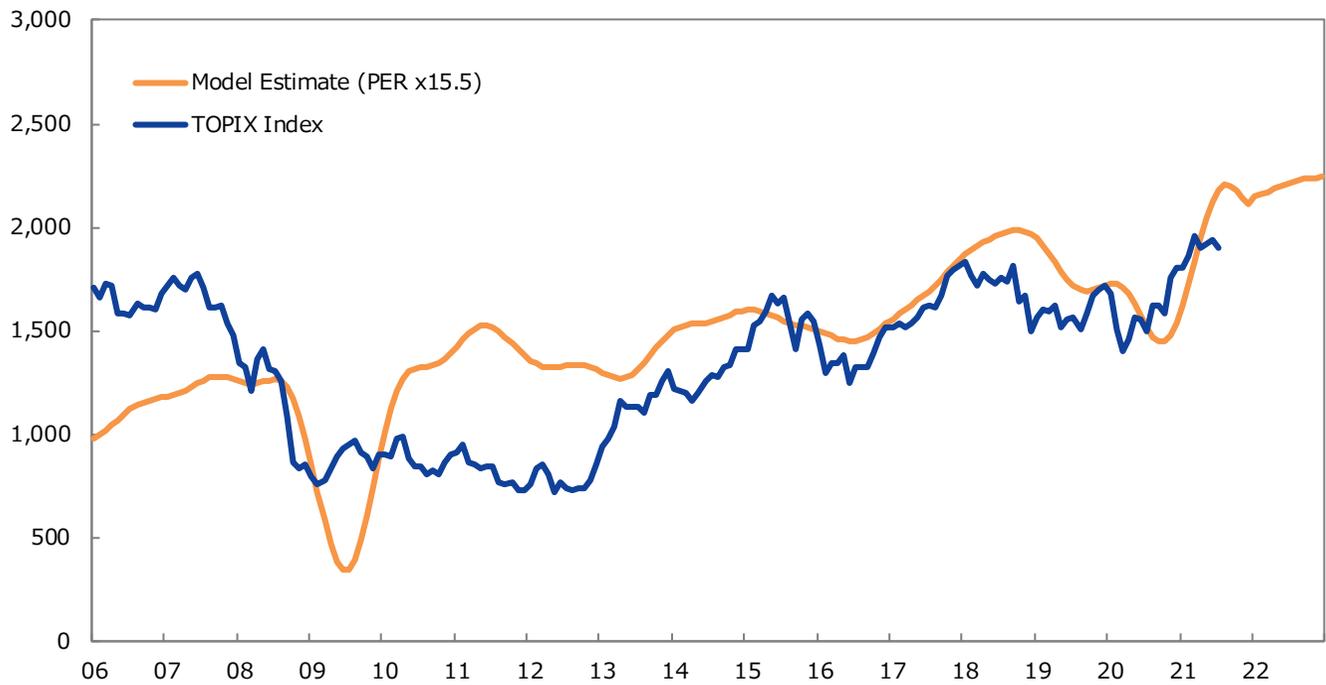
Top Down Approach, Model Implied Fair Value



12MF PER data is from Jan. 2006 to July 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

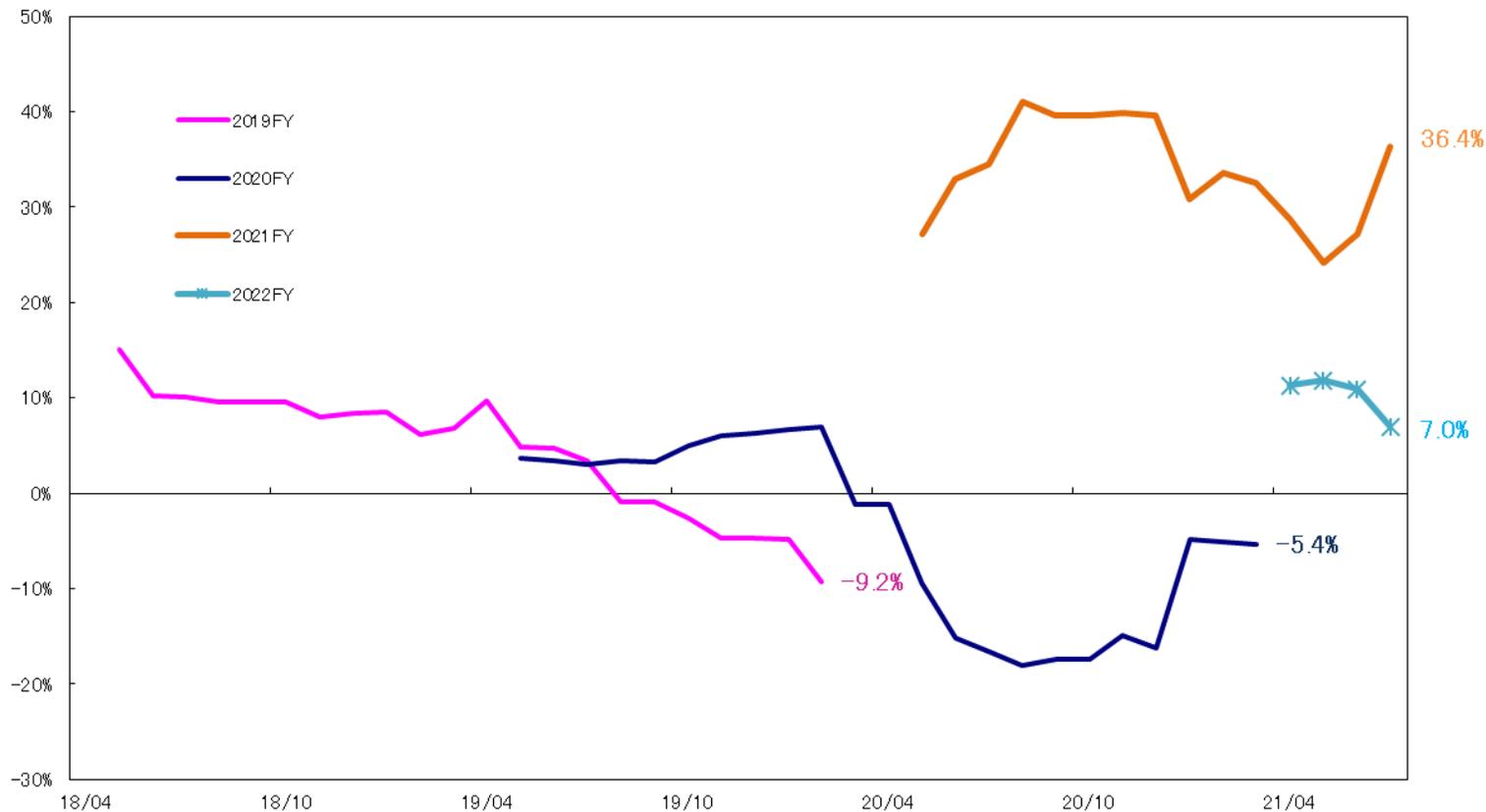


(Year)

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

Bottom Up Estimate, Corporate Earnings Growth

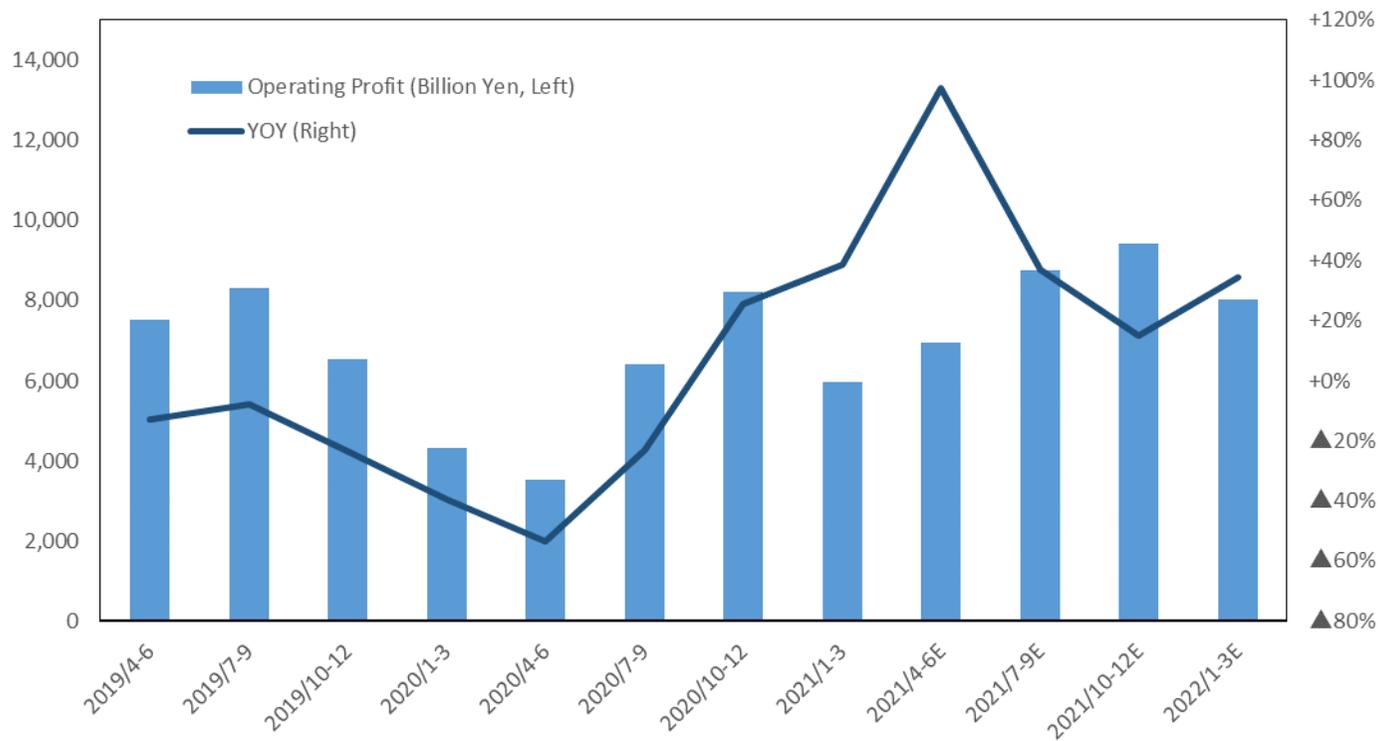
SMDAM Core Research Universe (Ex-Financial) Est. of Recurring Profit Growth



Note: Data is as of Aug. 16th 2021, SMDAM Core Universe consists of 469 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)



(Year/Quarter)

(Source) SMDAM

Corporate Governance Code and Stewardship Code

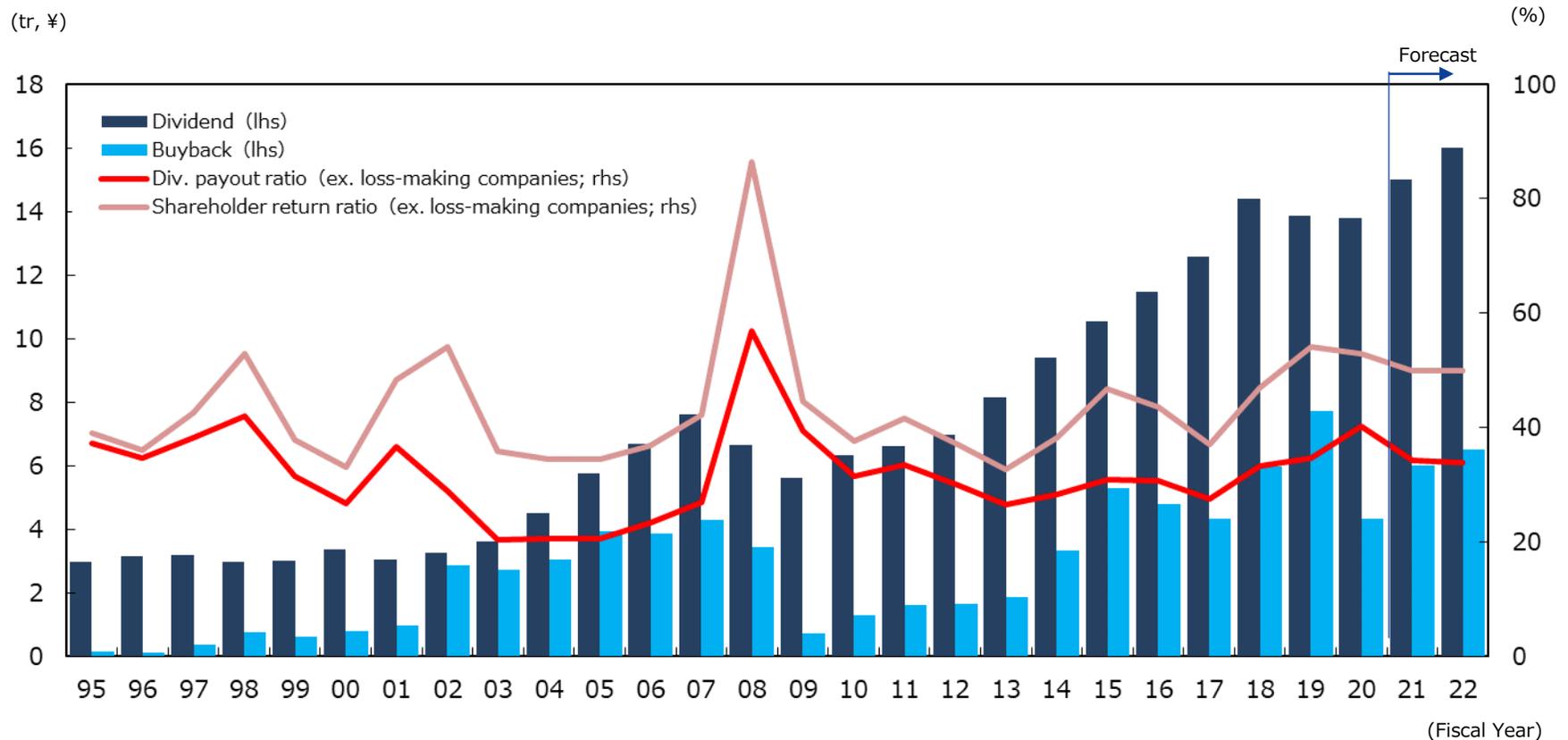
Investors that have signed up to the Principles for Responsible Institutional Investors	
Trust banks	6
Investment managers	199
Insurance companies	24
Pension funds	68
Others	12
Total	309

note: As of June 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
RN Japan Equity	0.07	0.31	6.05	19.27	28.15	12.99	47.84
Total Value	-1.29	1.30	11.79	21.04	17.36	-0.04	31.48
Top Cap Value	-0.47	3.20	14.92	24.93	23.58	8.82	37.33
Large Cap Value	-1.32	1.47	12.76	21.87	17.41	1.20	31.48
Mid Cap Value	-2.37	-0.61	10.15	18.20	8.94	-9.23	22.91
Small Cap Value	-1.13	0.47	7.47	17.24	17.12	-5.64	30.65
Micro Cap Value	-0.33	-0.08	5.38	14.30	14.42	-6.37	34.71
Total Growth	2.50	-4.63	0.29	17.15	37.53	27.23	66.55
Top Cap Growth	2.36	-6.16	0.54	20.52	40.67	31.40	71.23
Large Cap Growth	2.60	-4.96	0.16	17.94	39.61	29.44	67.90
Mid Cap Growth	3.00	-2.90	-0.47	13.87	37.76	26.35	62.40
Small Cap Growth	1.48	-1.01	1.66	10.32	21.26	10.25	54.41
Micro Cap Growth	-1.38	-4.79	0.77	10.42	22.30	11.49	61.83
Top Cap Total	1.00	-1.95	6.87	22.70	32.64	20.33	54.18
Large Cap Total	0.59	-1.83	6.13	20.24	29.65	16.02	50.24
Mid Cap Total	0.00	-1.66	5.06	16.81	25.48	9.90	44.45
Small Cap Total	-0.85	1.30	5.59	14.72	19.37	0.20	39.98
Micro Cap Total	-0.63	-1.49	4.00	13.21	17.57	0.34	45.29

Note : As of Aug. 21st 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 soft patch due to a surge in infections of the COVID-19 delta variant and a state of emergency for 21 prefectures, including Tokyo.
- Employment is steady and wage is picking up in nominal and real terms.
- Inflation was revised downward sharply due to a change in the CPI calculation standard, such as the weight given to mobile phones.

[Outlook]

- ① **The forecast for real GDP is +3.5% (previously +3.8%) in FY 2021, and +3.1% (+2.9%) in FY 2022.** We revised down our growth forecast for the second half of FY 2021 due to the declaration of a state of emergency and the rapid increase in infections of the COVID-19 delta variant. Although the progress of vaccinations will support the economy, we lowered our estimate due to slow down of personal consumption. The recovery in consumer spending will be postponed in and after Q1 FY 2022, when vaccination will be generally completed. We revised upward our growth estimate for FY 2022 thanks to the deferred demand of FY 2021.
- ② **The nationwide core CPI is 0.0% (previously +0.8%) in FY 2021, and +0.7% (previously +0.9%) in FY 2022.** A sharp downward revision was made due to a change in the CPI standard and lowered assumption of WTI from 75 dollars per barrel to 70 dollars. Core CPI is expected to turn positive owing to energy prices. However, as the supply-demand balance is not so tight, underlying inflationary pressure is limited.
- ③ **Current accommodative monetary policy of the BOJ will be maintained for the foreseeable future.** In the "Review to Implement More Effective and Sustainable Monetary Easing," the BOJ has introduced measures to deal with the side effects of large-scale monetary easing, such as flexible purchasing policies for ETFs and J-REITs and clarification of the fluctuation range of long-term interest rates. The BOJ has established a new interest rate system to promote lending and has made it clear that there is room for further monetary easing in case of emergency. The BOJ has already decided to introduce new funding program for climate change, and it is scheduled to be implemented within FY 2021.
- ④ **Additional fiscal stimulus, as much as 30 trillion yen, is likely to be launched before the general election in autumn.** The government and the ruling LDP are increasingly calling for additional public spending due to a declining approval rate and spread of the new COVID-19 variant.
- ⑤ **We maintain our scenario, accommodative fiscal and monetary policy with Prime Minister Suga.** Despite the declining approval rate of the cabinet, the opposition parties are generally regarded as not capable enough to be an alternative of the current ruling party. Within the LDP, major factions have expressed support for PM Suga, and there has been no remarkable move to oust him. However, if the LDP loses a huge number of seats at the general election in the autumn, even in the case of winning a majority, uncertainty over politics will grow further towards the upper house election next year.

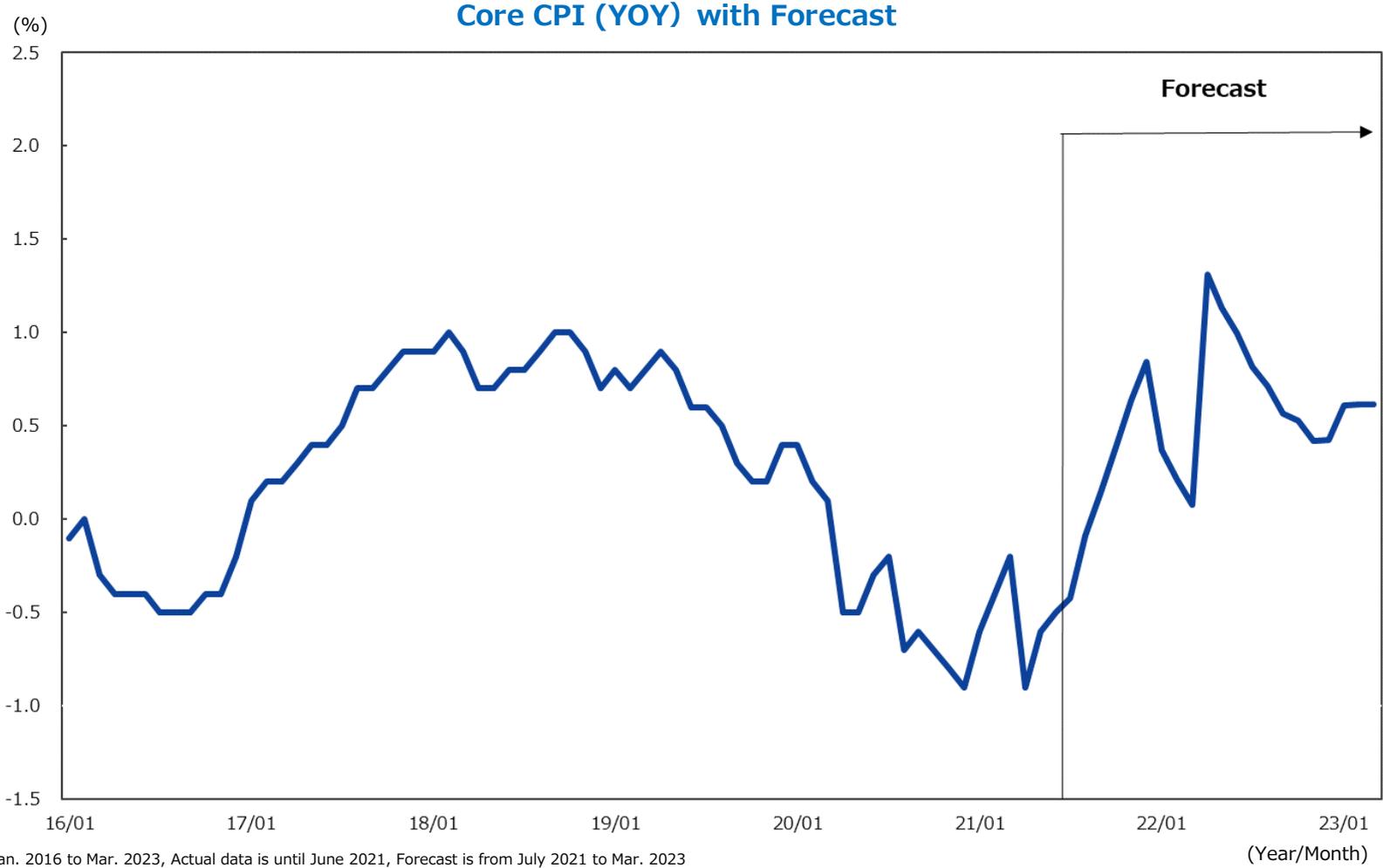
Japan Economy Forecast

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%	-4.5%	3.5%	3.1%
Private final consumption expenditure	-0.3%	1.0%	0.1%	-1.0%	-5.9%	3.1%	2.6%
Private housing investment	4.3%	-1.8%	-4.9%	2.5%	-7.2%	2.2%	1.7%
Private-sector capital investment	0.8%	2.8%	1.0%	-0.6%	-6.8%	3.8%	5.5%
Public fixed capital formation	0.5%	0.6%	0.8%	1.5%	4.2%	0.4%	2.1%
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%	14.2%	5.3%
Imports of goods and services	-0.5%	3.8%	3.0%	0.2%	-6.8%	8.9%	4.0%
Nominal GDP	0.8%	2.0%	0.1%	0.3%	-3.9%	3.0%	3.5%
GDP deflator	0.0%	0.2%	-0.1%	0.9%	0.6%	-0.5%	0.4%
Industrial Production Index	0.8%	2.9%	0.3%	-3.7%	-9.9%	10.1%	5.3%
Consumer Price Index (Core)	-0.2%	0.7%	0.8%	0.4%	-0.6%	0.0%	0.7%
Domestic corporate goods price index	-2.4%	2.7%	2.2%	0.1%	-1.4%	4.5%	0.3%
Employee compensation	2.4%	2.0%	3.2%	2.0%	-2.0%	0.9%	1.8%
Unemployment rate	3.0%	2.7%	2.4%	2.4%	2.9%	2.9%	2.6%
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

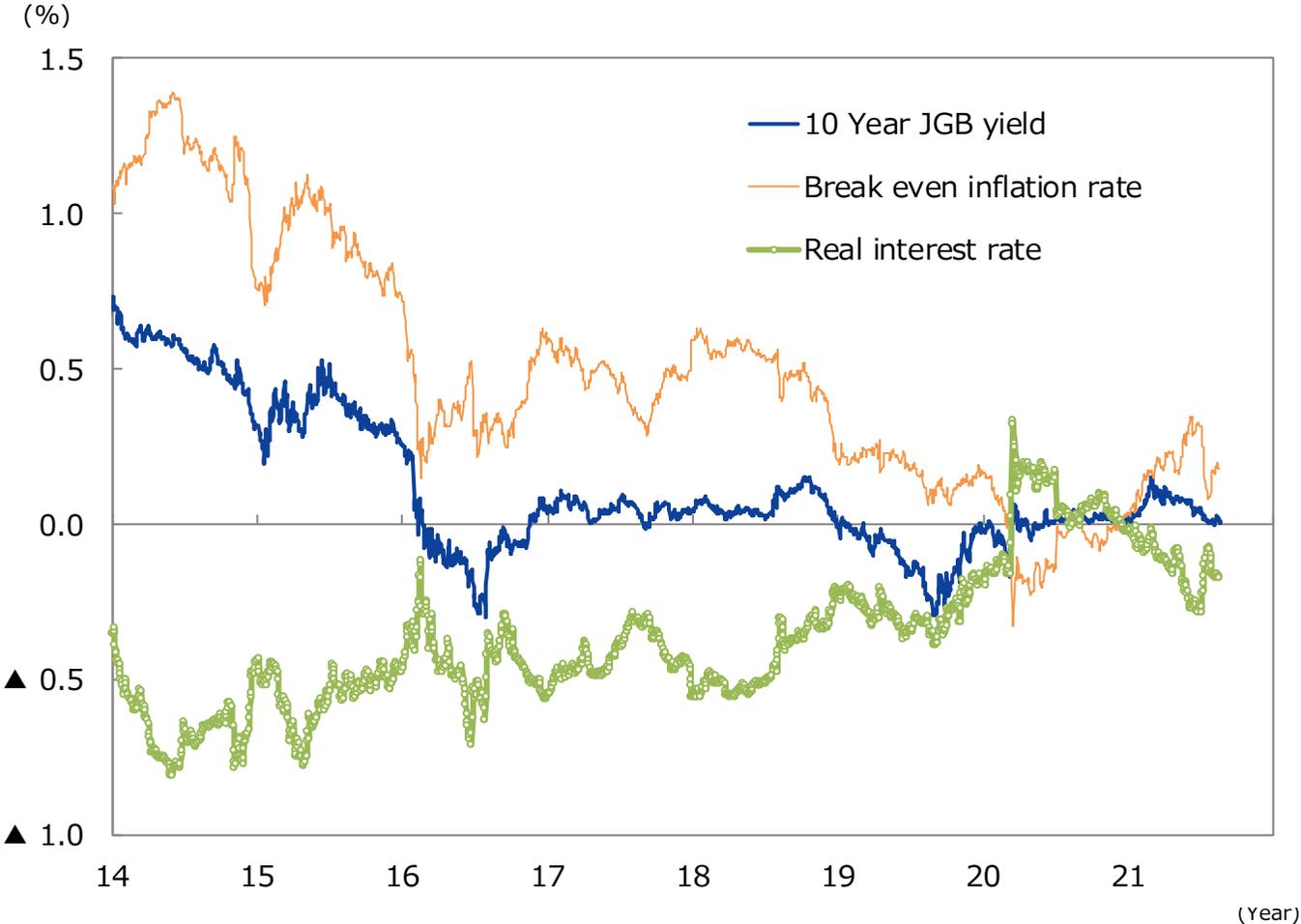
Core CPI with Forecast



(Data) Jan. 2016 to Mar. 2023, Actual data is until June 2021, Forecast is from July 2021 to Mar. 2023
(Source) MIAC, Bloomberg, SMDAM

10 Year Break Even Inflation & Real Interest rate

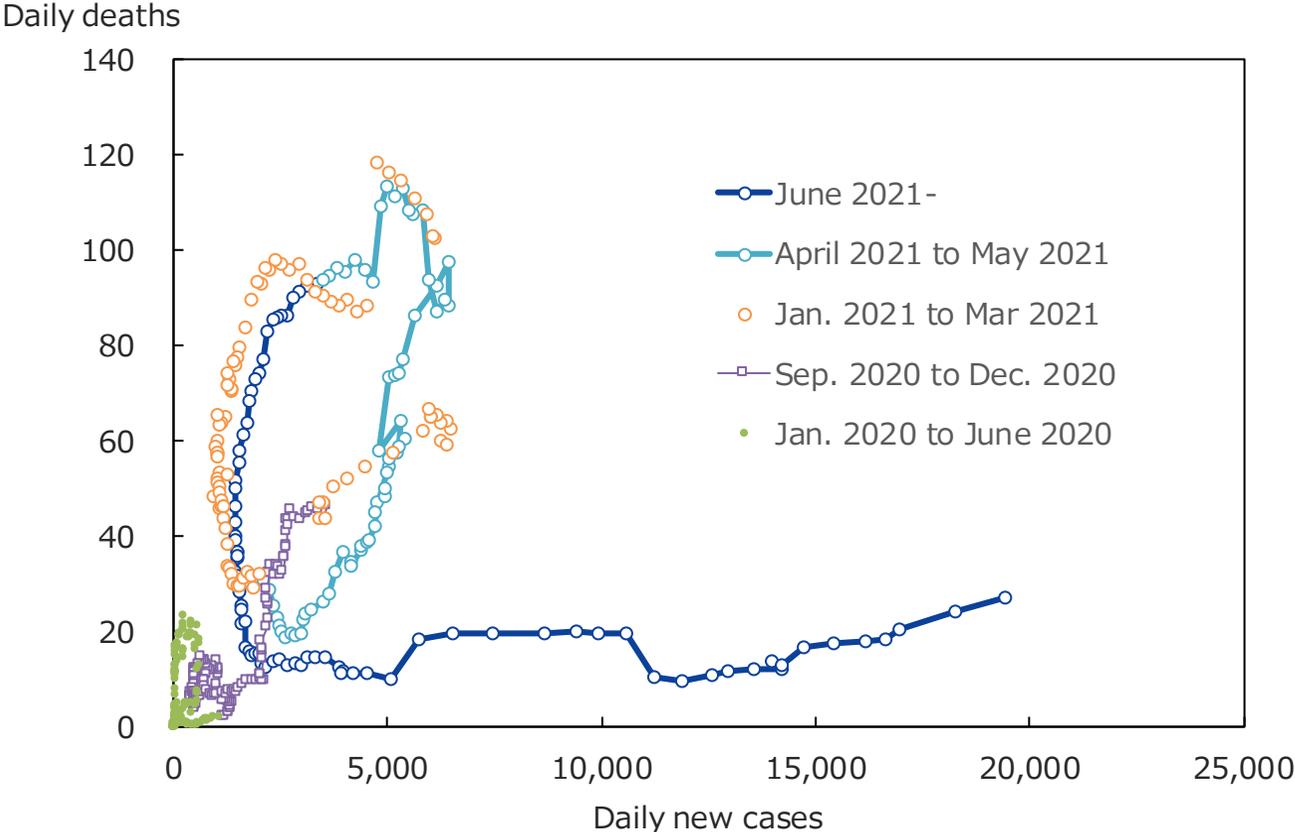
JGB Yield, BEI, and Real Interest rate



(Data) From Jan. 1st 2014 to Aug. 16th 2021
(Source) Bloomberg, SMDAM

COVID-19 New Cases & Confirmed Deaths

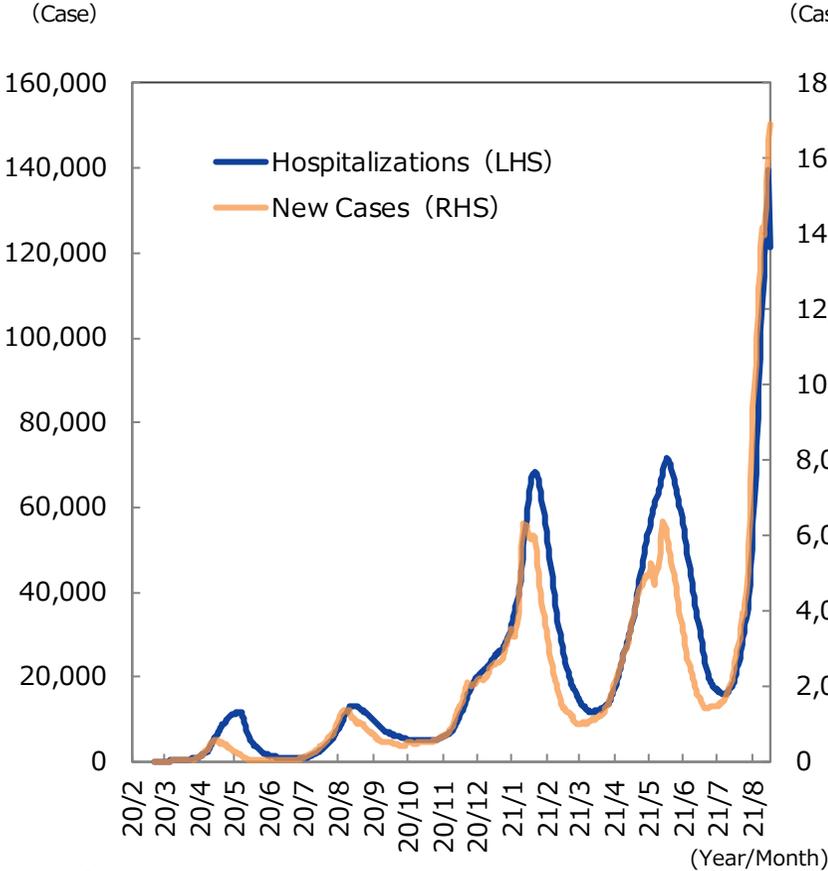
COVID-19 New patients and confirmed deaths



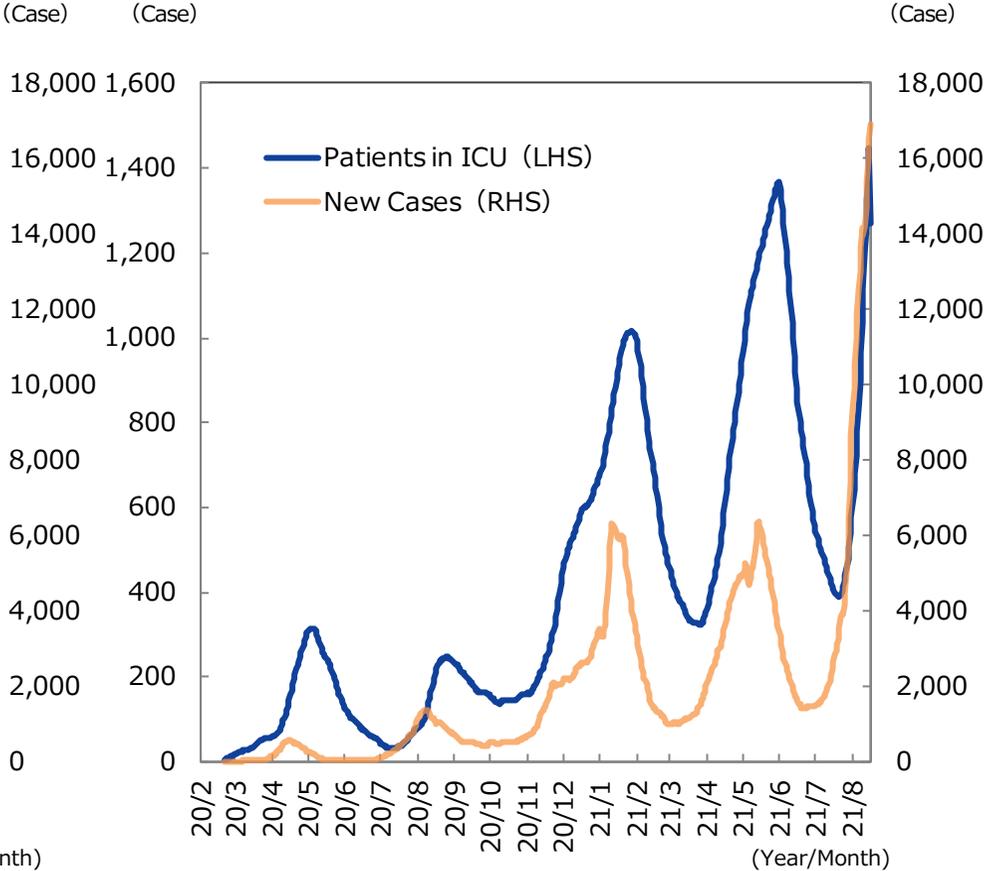
(Data) 7 days moving average, From Jan. 1st 2020 to Aug. 16th 2021
(Source) Bloomberg, SMDAM

COVID-19 New Cases & Hospitalizations, Nationwide

New Cases and Hospitalizations



New Cases and Patients in ICU

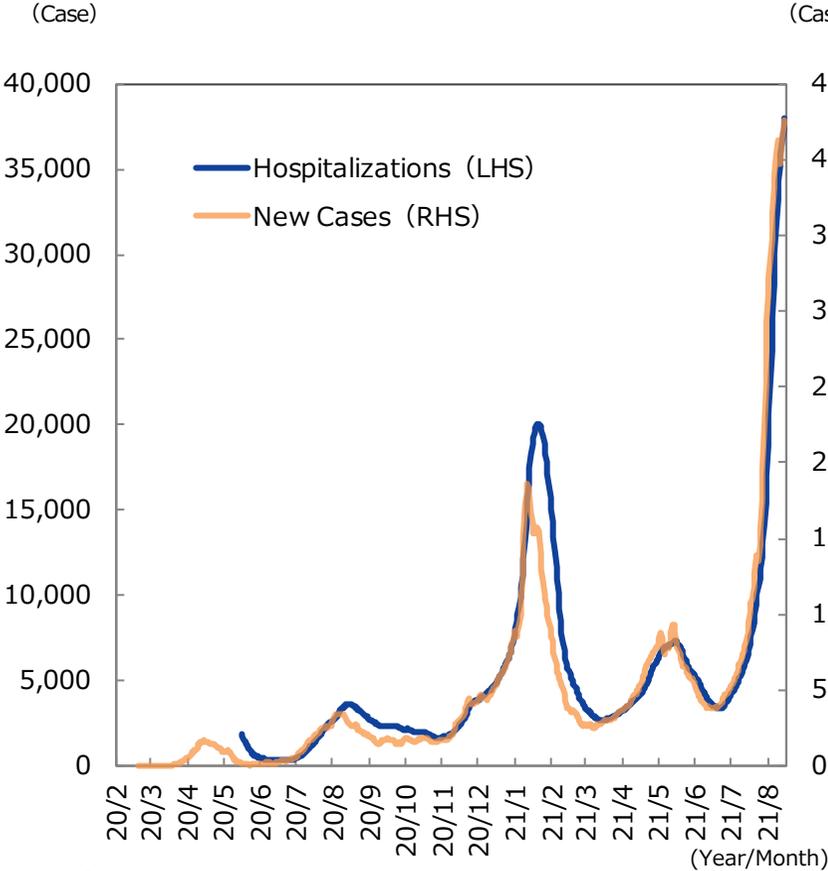


(Data) 7days Moving average. From Feb. 1st 2020 to Aug. 16th 2021.

(Source) MHLW, NHK, SMDAM

COVID-19 New Cases & Hospitalizations, Tokyo

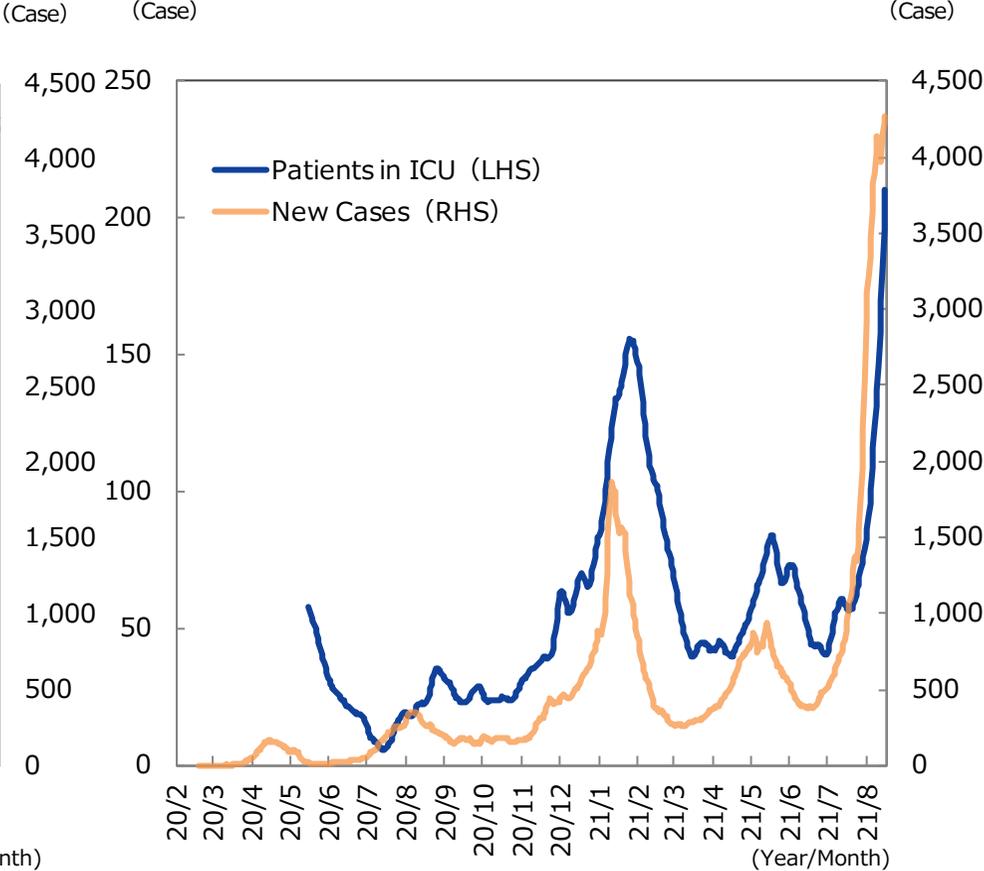
New Cases and Hospitalizations



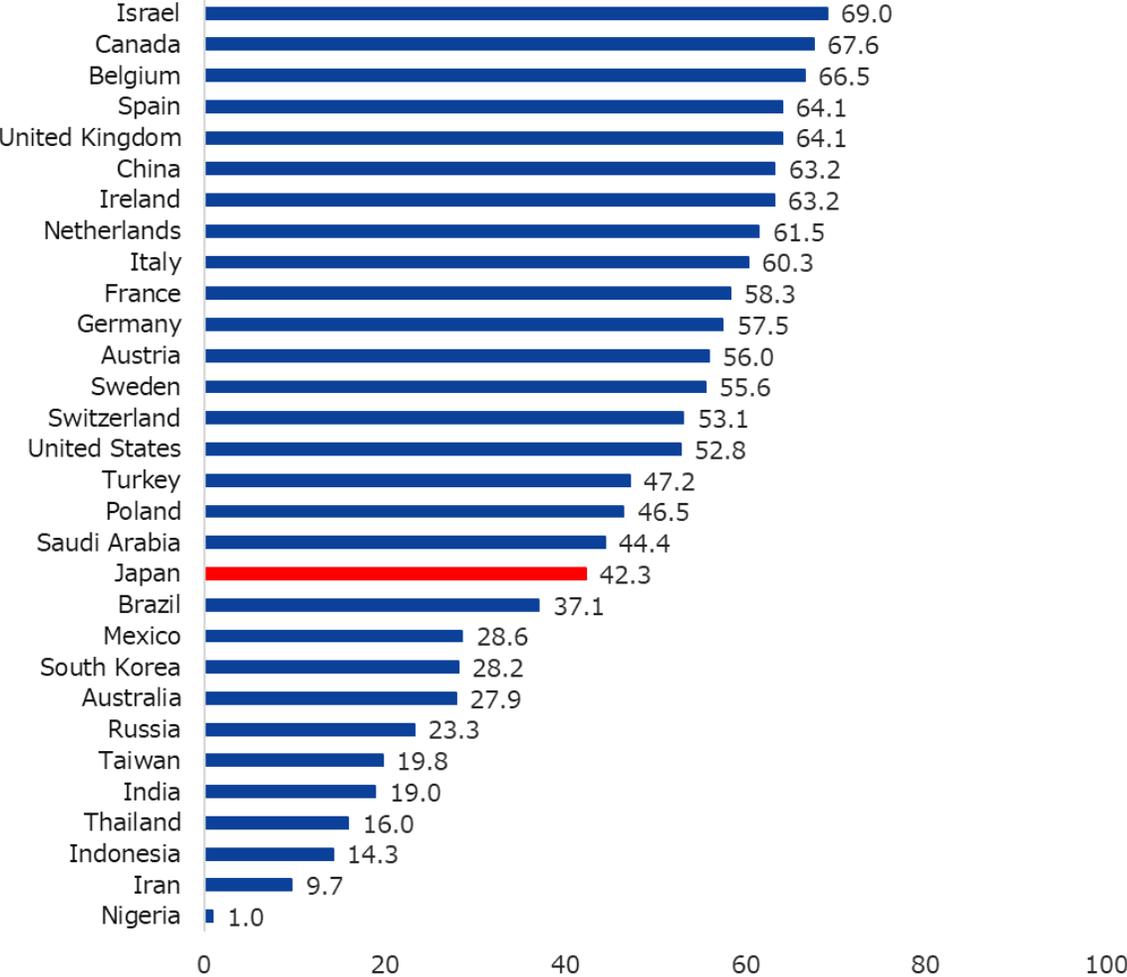
(Data) 7days Moving average. From Feb. 1st 2020 to Aug. 16th 2021.

(Source) MHLW, NHK, SMDAM

New Cases and Patients in ICU

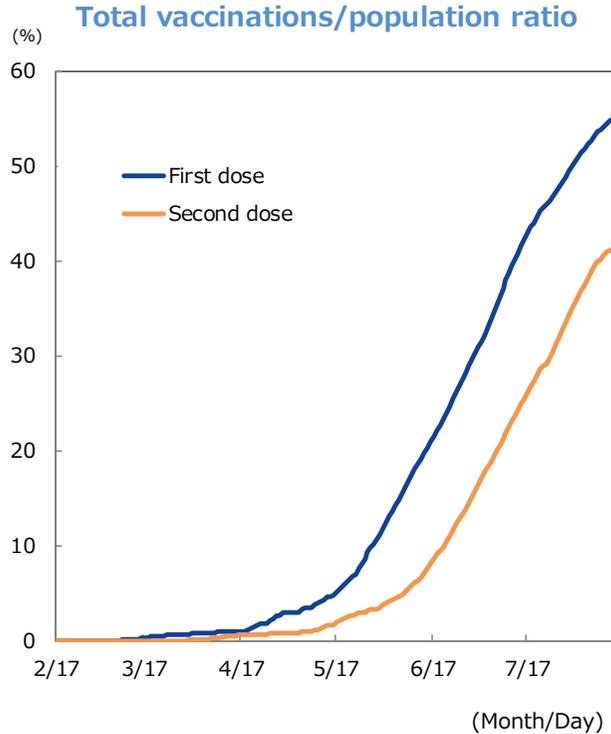
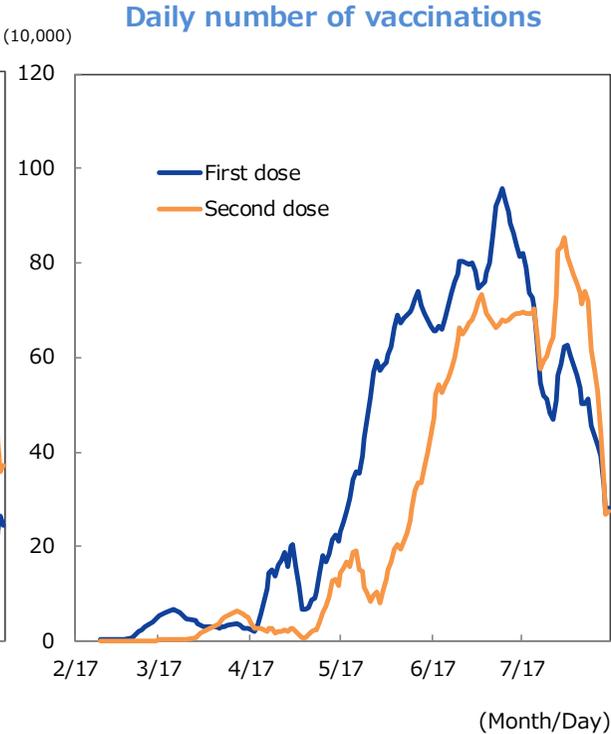
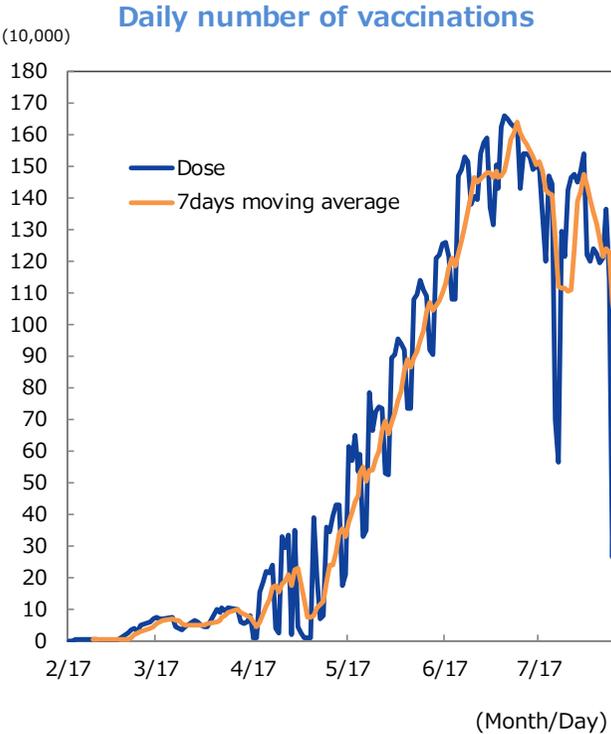


COVID-19 Vaccinations Coverage Global Comparison



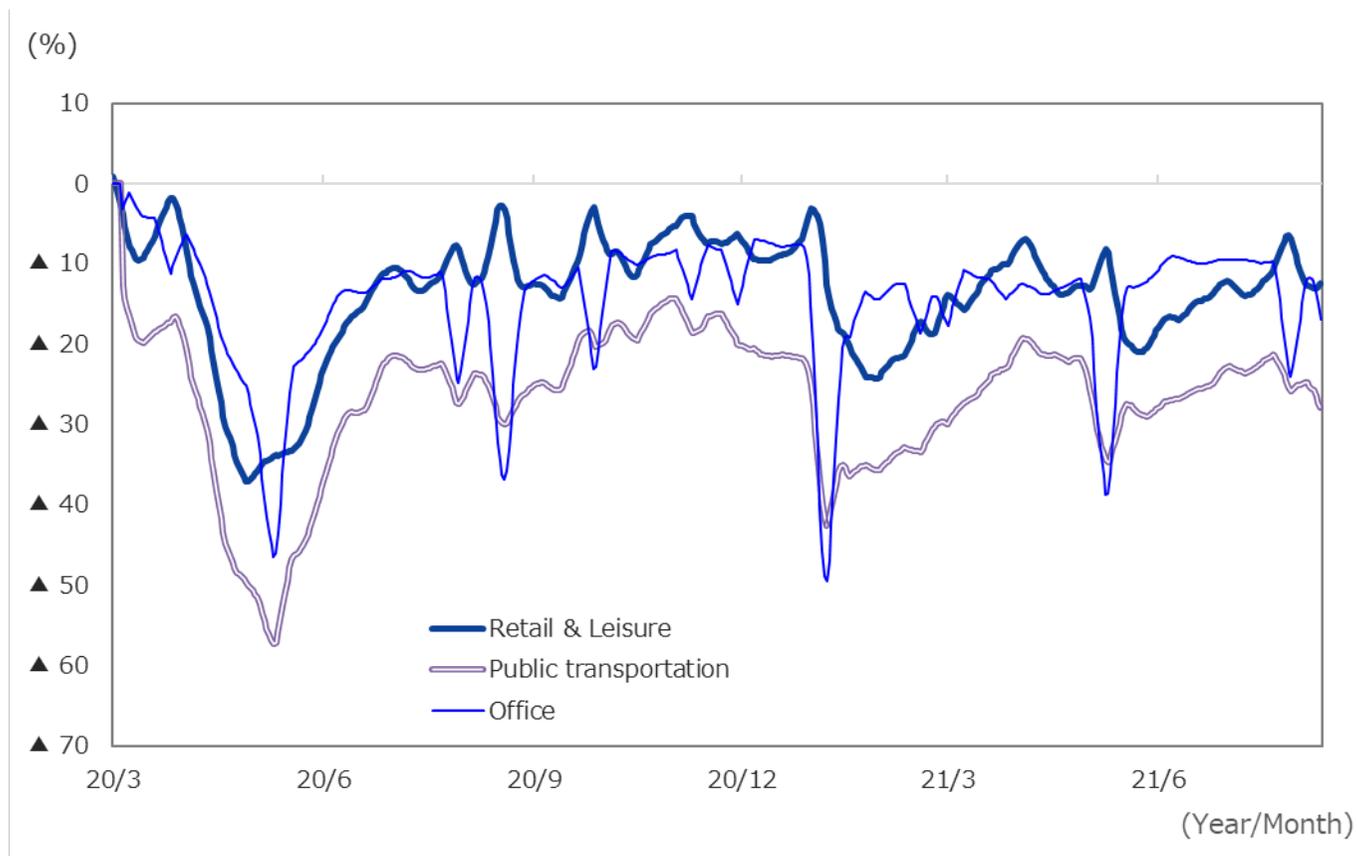
(Data) As of Aug. 11th 2021
(Source) Our World in Data, SMDAM

Progress of COVID-19 Vaccinations



(Data) From Feb. 17th 2021 to Aug. 15th 2021
 (Source) MHLW, SMDAM

Google Community Mobility Report

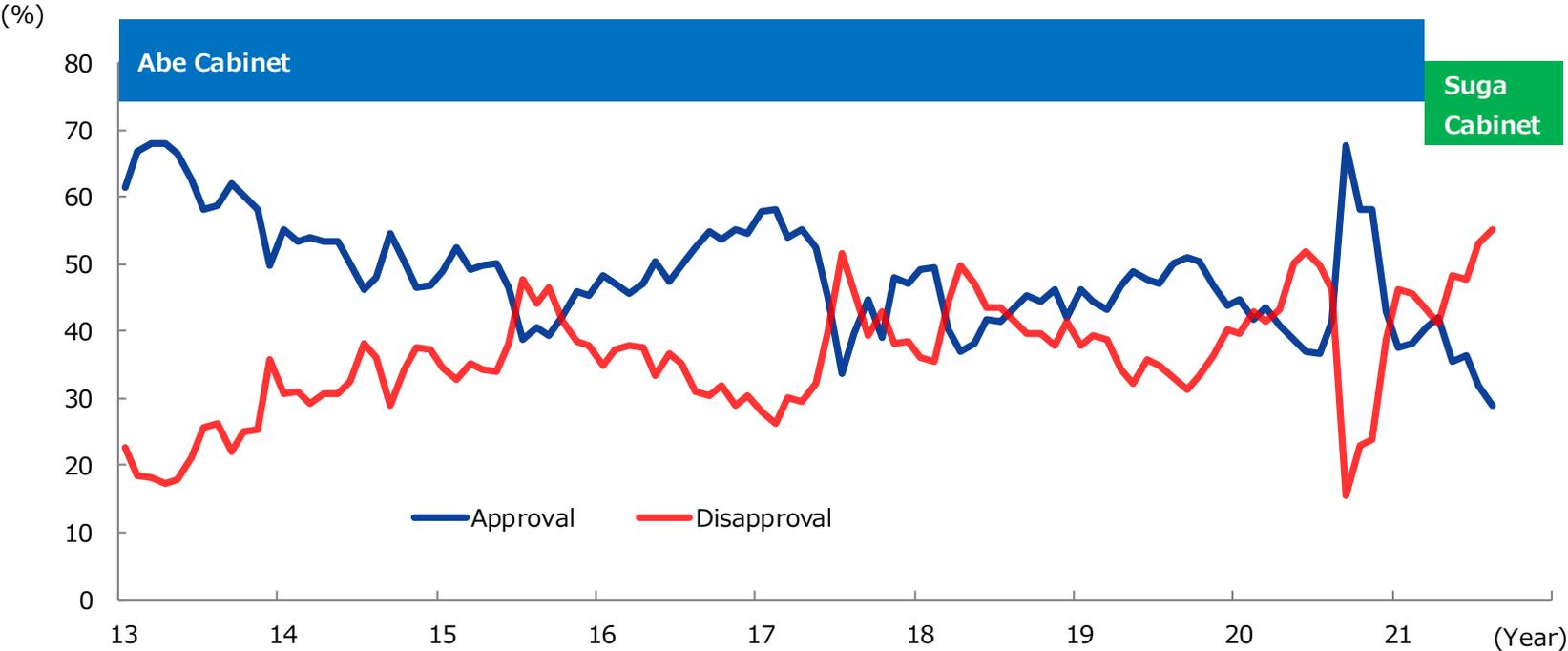


(Data) 7 Days moving average, From Feb. 17th 2020 to Aug. 11th 2021

(Source) Google, SMDAM

Cabinet approval rate

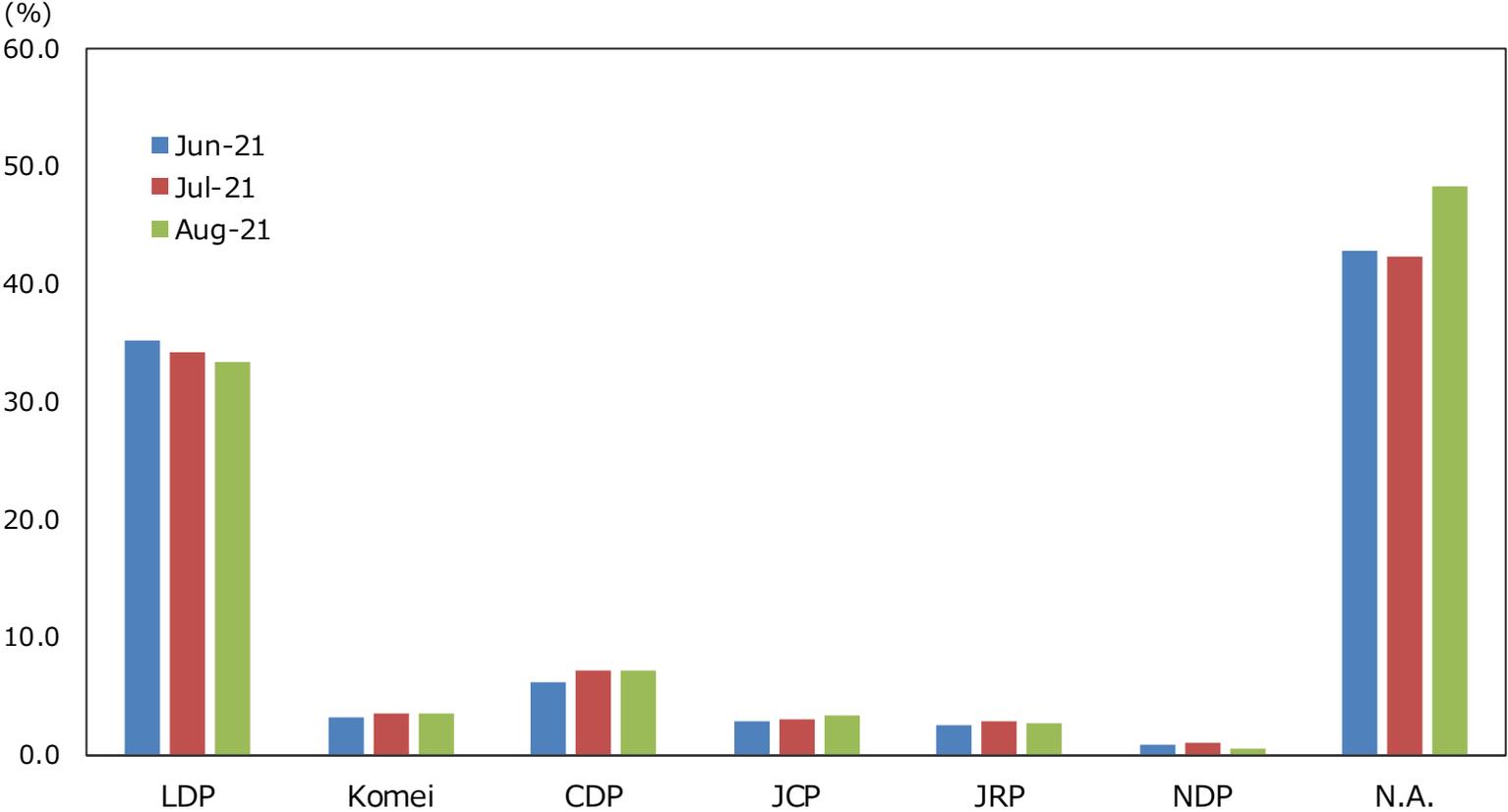
Cabinet approval rate



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

Political party approval rate

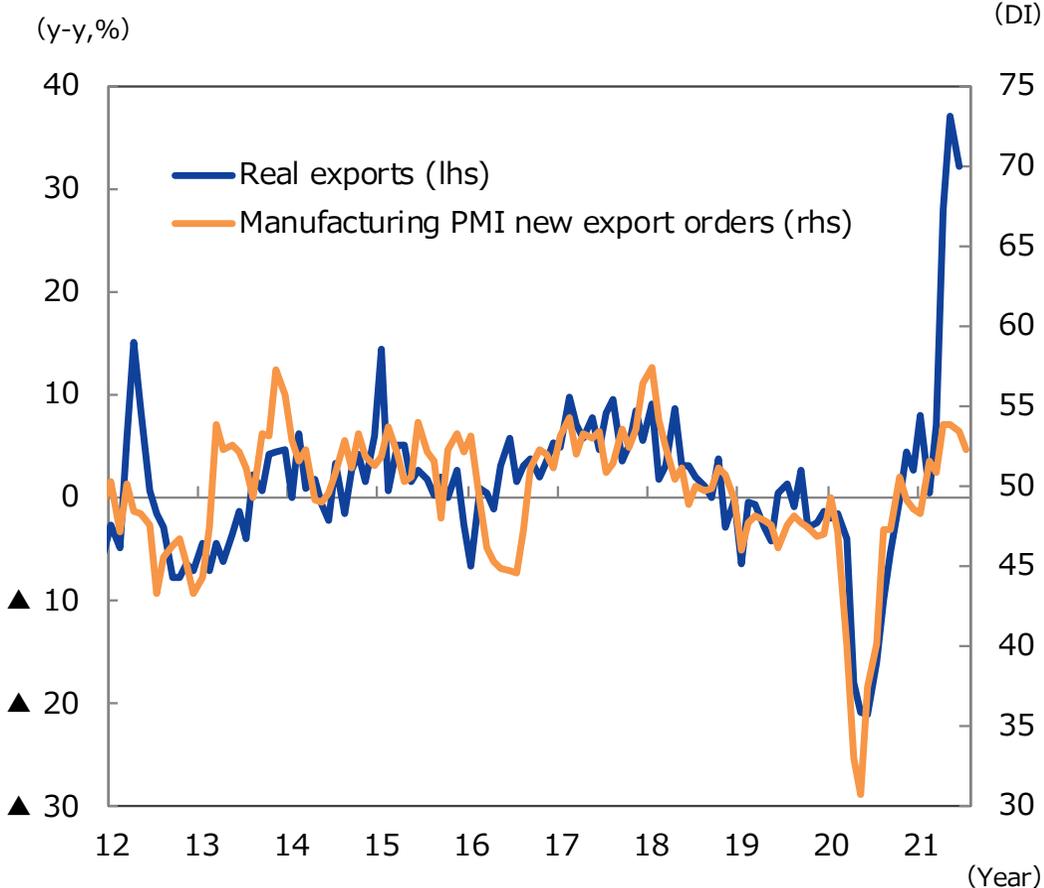
Approval rating of political parties



(Source) SMDAM

Exports and Manufacturing Activities

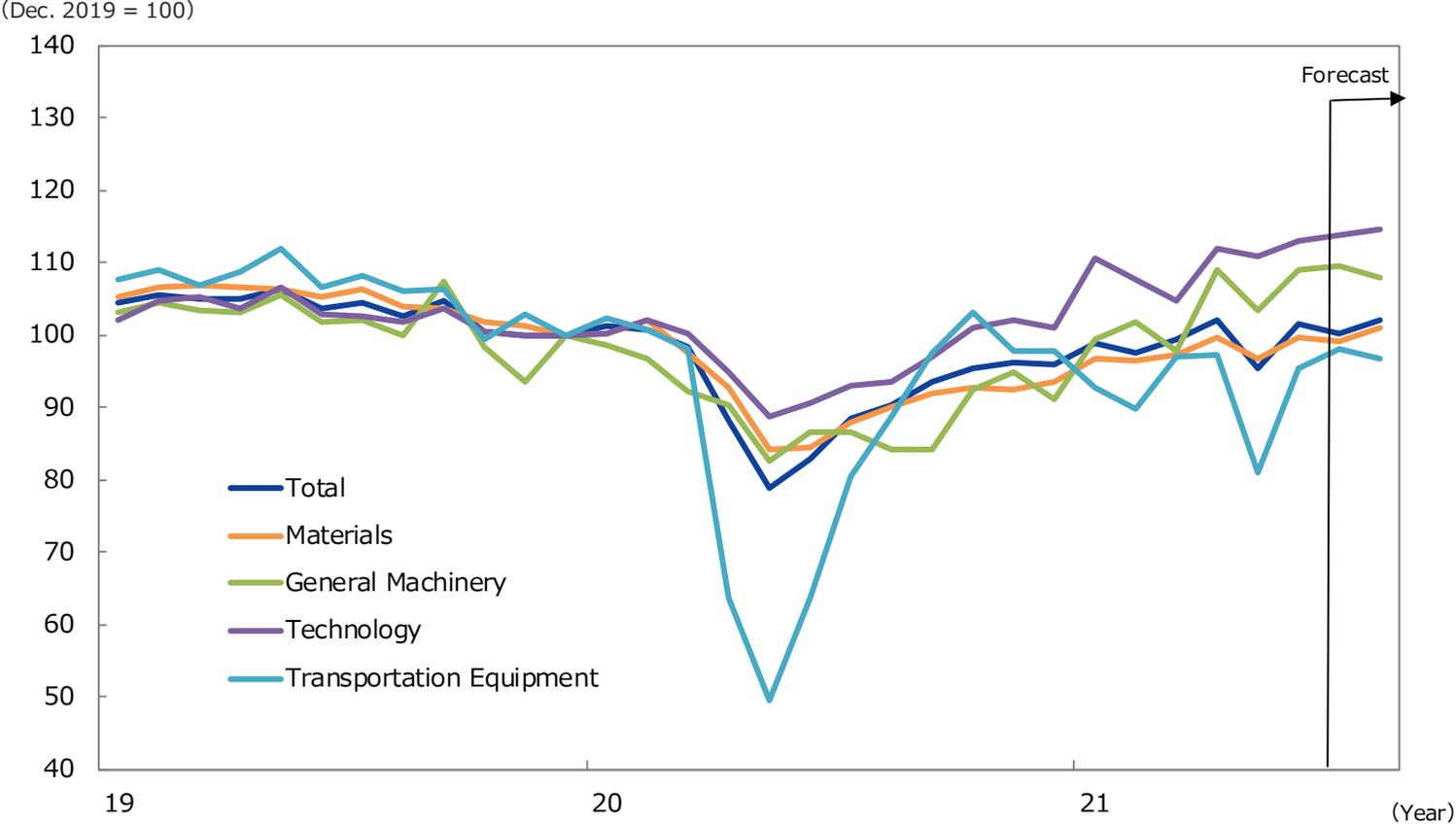
Real exports and manufacturing PMI new export orders



(Data) Real export is from Jan. 2012 to June 2021, MFG PMI new export is from Dec. 2011 to July 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

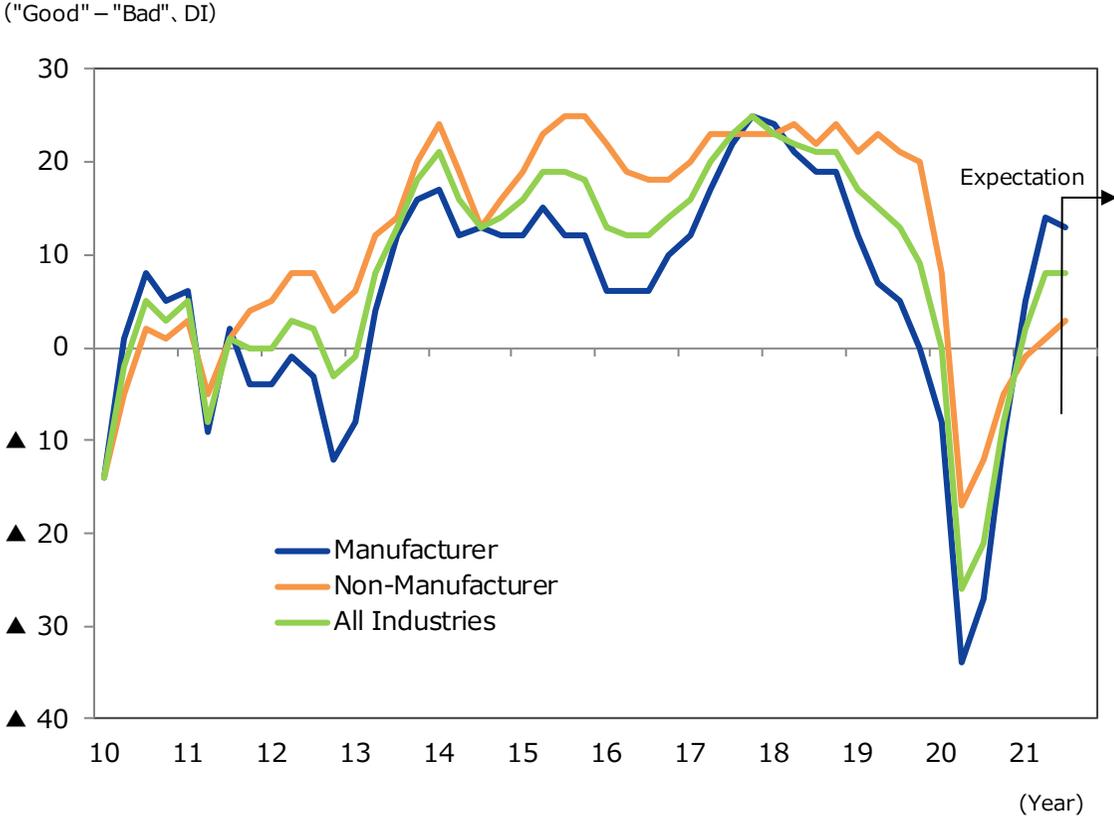
Industrial Production (Monthly)



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

BOJ Tankan Diffusion Index

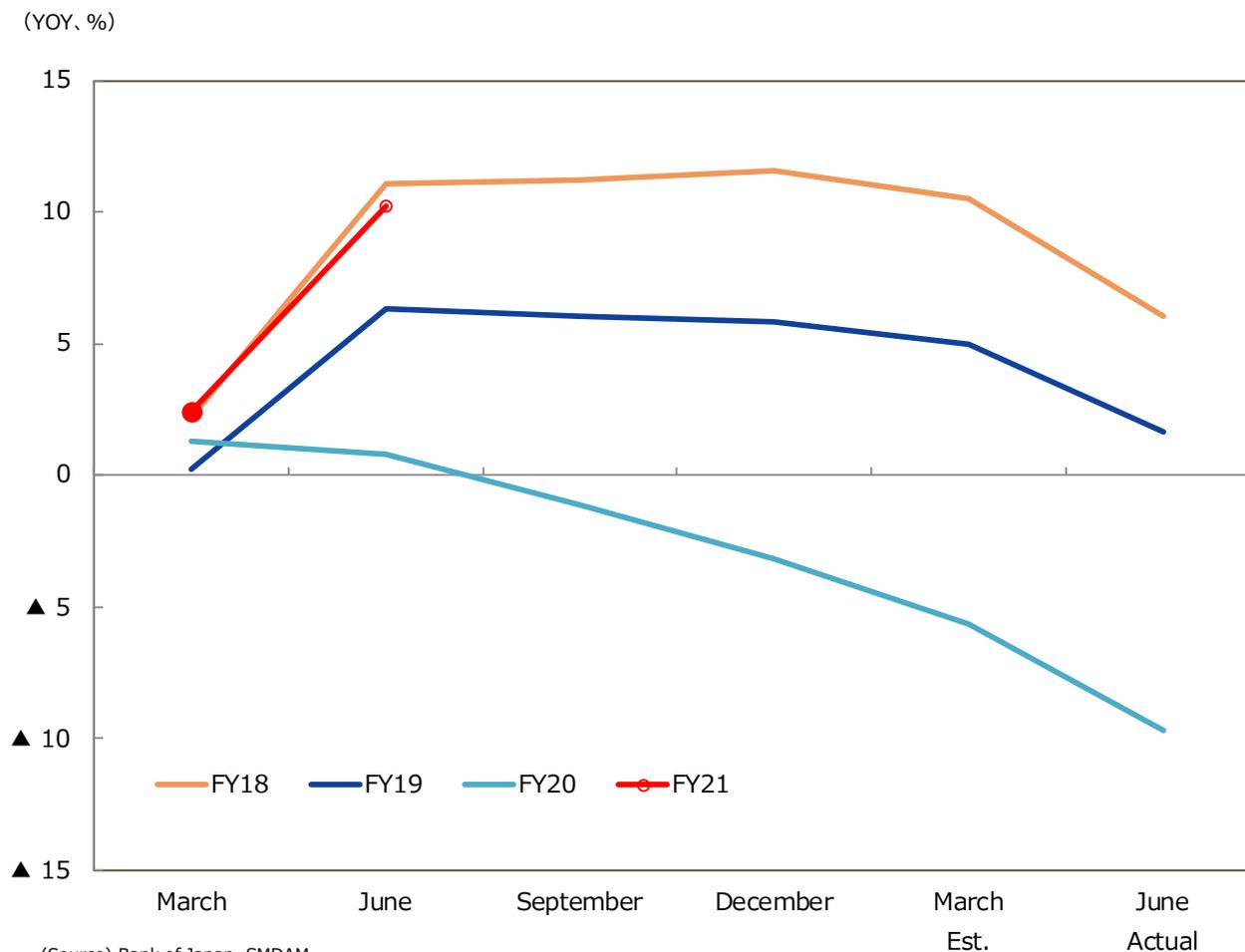
The Bank of Japan "Tankan" Diffusion Index



(Source) Bank of Japan, SMDAM

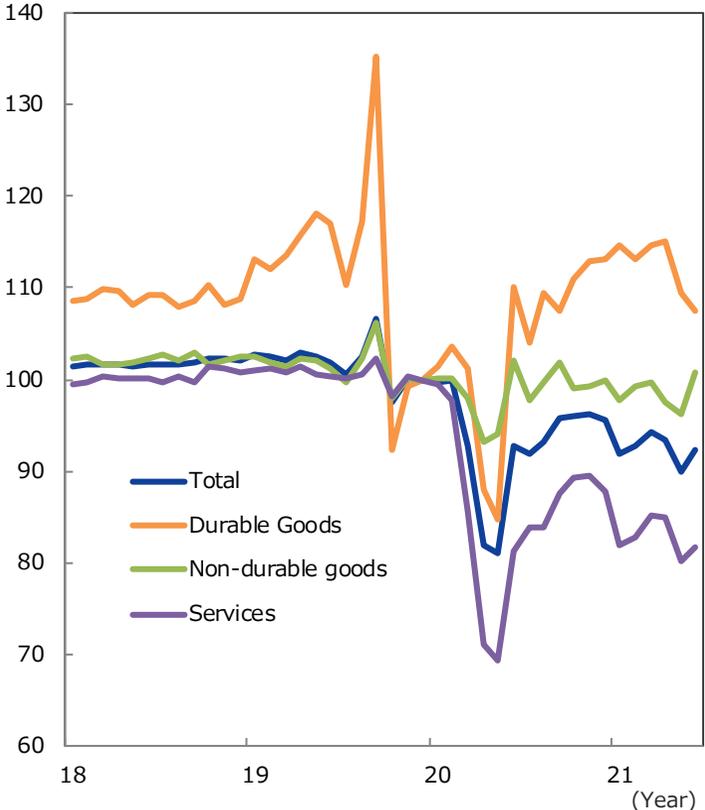
CAPEX

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

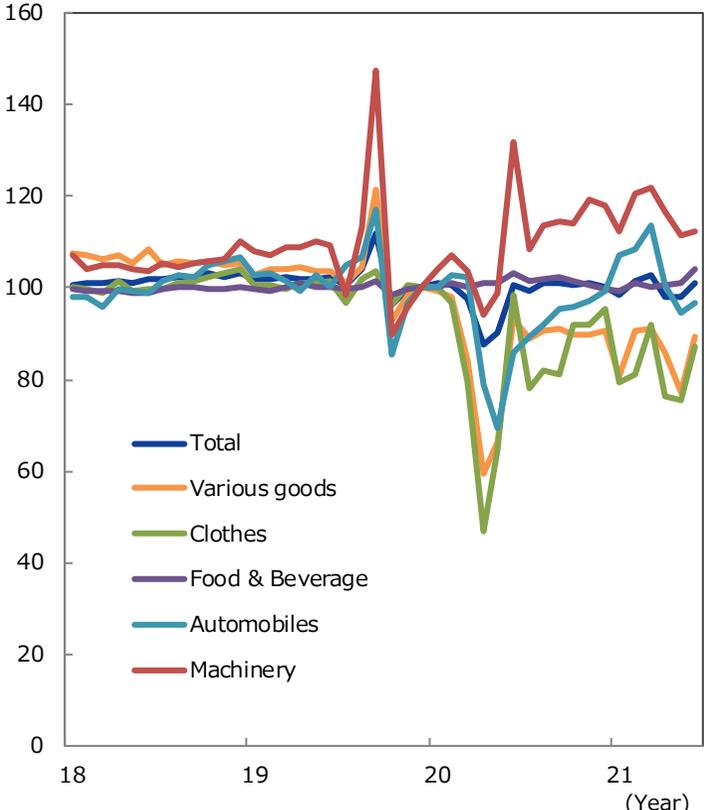


Consumer Spending

Consumer Activity Index (Dec. 2019 = 100)



Retail Sales (Dec. 2019 = 100)



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

Major Events, Snap Election in the Autumn

Major domestic events			
2021	August	8 16 20 25	End of Tokyo Olympics Release of FY2021 Q2 GDP Revision of CPI standards Tokyo Paralympics (Until September 5)
	September	1 8 21-22 <u>30</u>	Launch of Digital Agency Revision of FY2021 Q2 GDP Monetary Policy Meeting <u>Expiration of President's Term of Ruling LDP</u>
	October	<u>21</u> 27-28 31	<u>End of the term of the House of Representatives</u> Monetary Policy Meeting and release of "Perspective Report" Official target of the completion of vaccinations of entire nation
	November	15	Release of FY2021 Q3 GDP
	December	8 16-17 Expected Expected	Revision of FY2021 Q3 GDP Monetary Policy Meeting Outline of Tax Reform in Fiscal 22 Cabinet Decision on the FY 22 Budget

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

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 DS Asset Management Company, Limited (hereinafter “SMDAM”), 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 SMDAM’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 SMDAM 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 SMDAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMDAM’s authorization, or from disclosing this material to a third party.

Registration Number: The Director of Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association

© Sumitomo Mitsui DS Asset Management Company, Limited