



Outlook for Japanese Stock Market & Economy

Sumitomo Mitsui DS Asset Management

-October 2021-

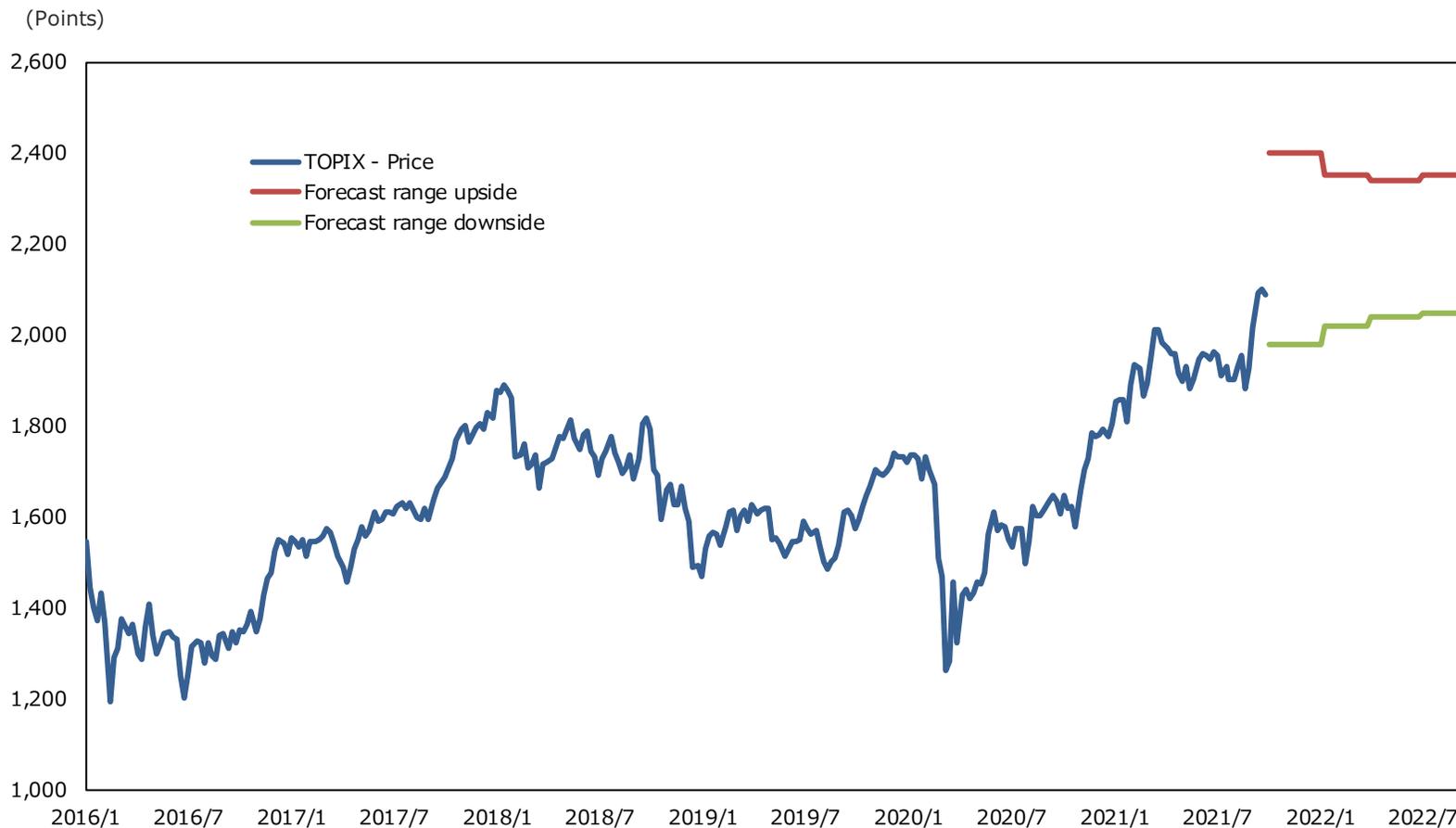


Outlook for Japanese Stock Market

Market Outlook

- We are bullish on Japanese equity market for the mid-to-long term thanks to strong corporate earnings and global economic recovery.
- Receding political uncertainty lifted Japanese equity sharply higher after the announcement of PM Suga's resignation, sending Nikkei 225 and TOPIX index to the highest level in 31 years.
- We have raised our TOPIX target for FY 2021 to 2,180 from 2,070 due to multiple expansion.
- We forecast EPS of TOPIX could reach to 130 point, historical highs, in FY 2021 and 140 in FY 2022.
- Manufacturers are leading the earnings recovery, while non-manufacturers are expected to recover towards FY 2022 thanks to vaccinations and effective medications for COVID-19.

TOPIX Index and Forecast



Note: TOPIX data is from Jan. 1st 2016 to Sep. 24th 2021
(Source) TOPIX: Tokyo Stock Exchange, forecast by SMDAM

(Year/Month)

Upside / Downside Risk

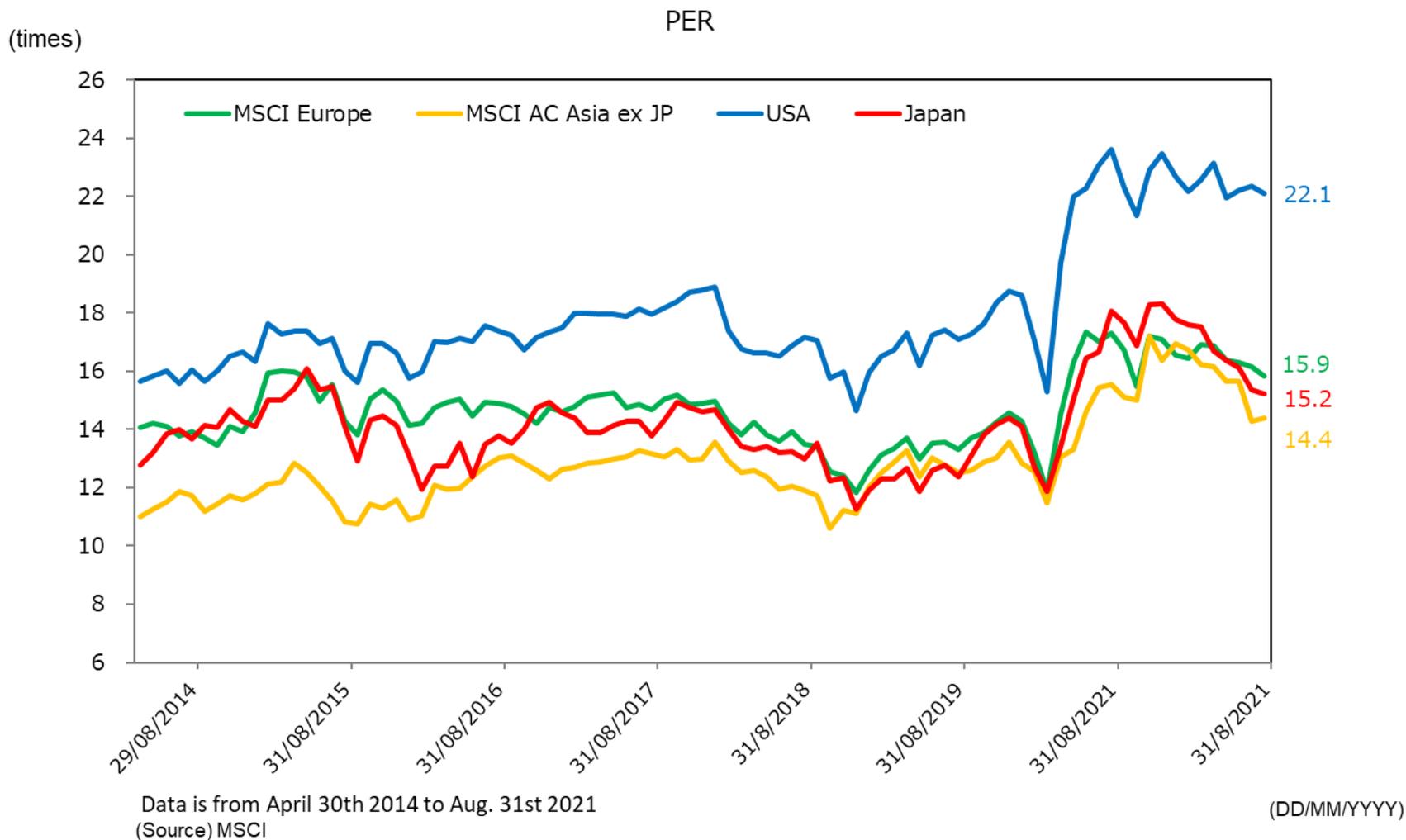
■ Upside Risks

- Land slide victory of ruling LDP at coming general election
- Strong recovery of domestic economy thanks to the progress of vaccinations
- Acceleration of global economic growth towards CY 2022

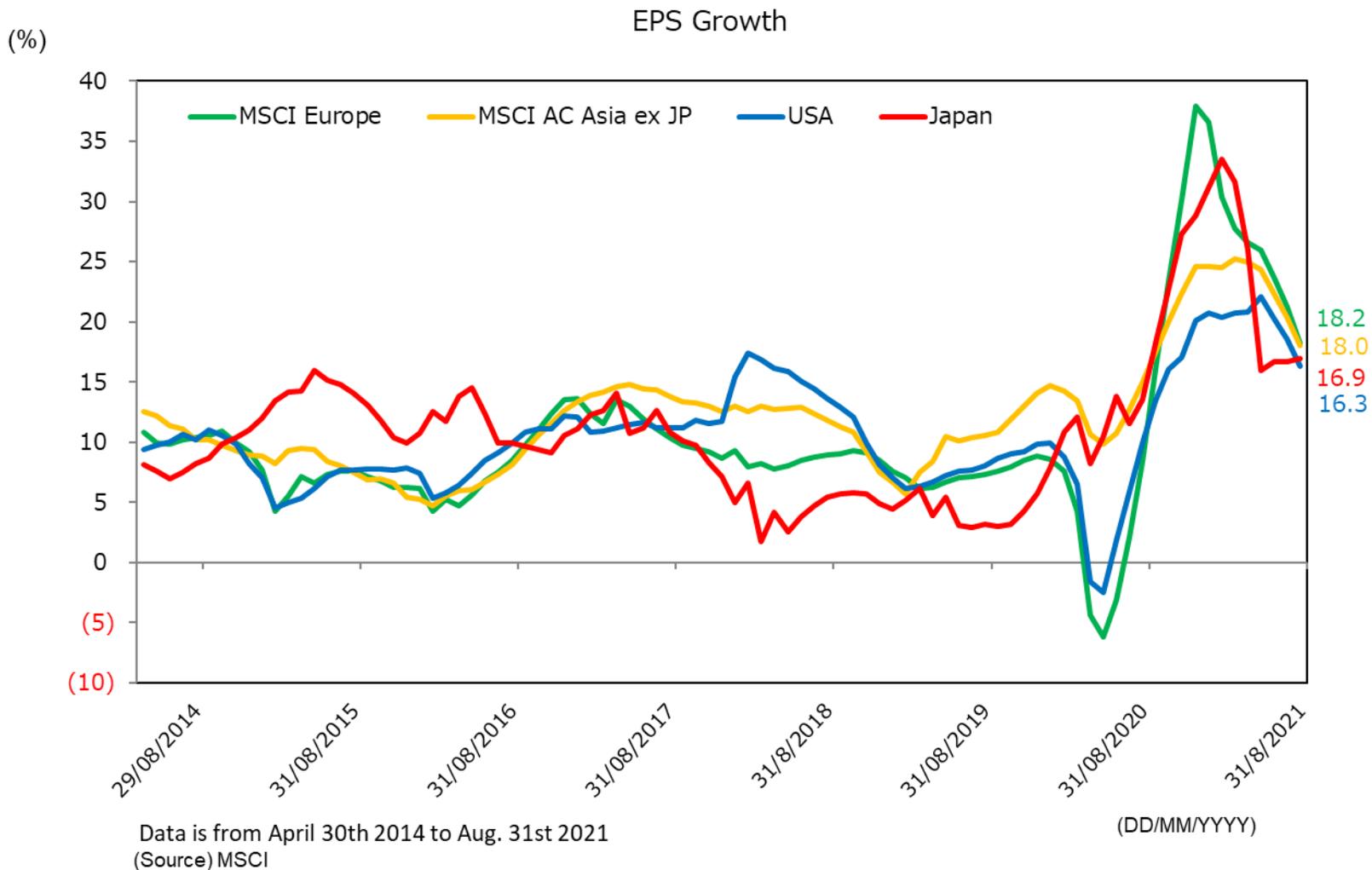
■ Downside Risks

- Renewed concern for domestic politics
- Further delay of normalization of domestic economy due to COVID-19 new variant
- Renewed concerns for US monetary policy owing to unexpectedly high inflation and wage hike

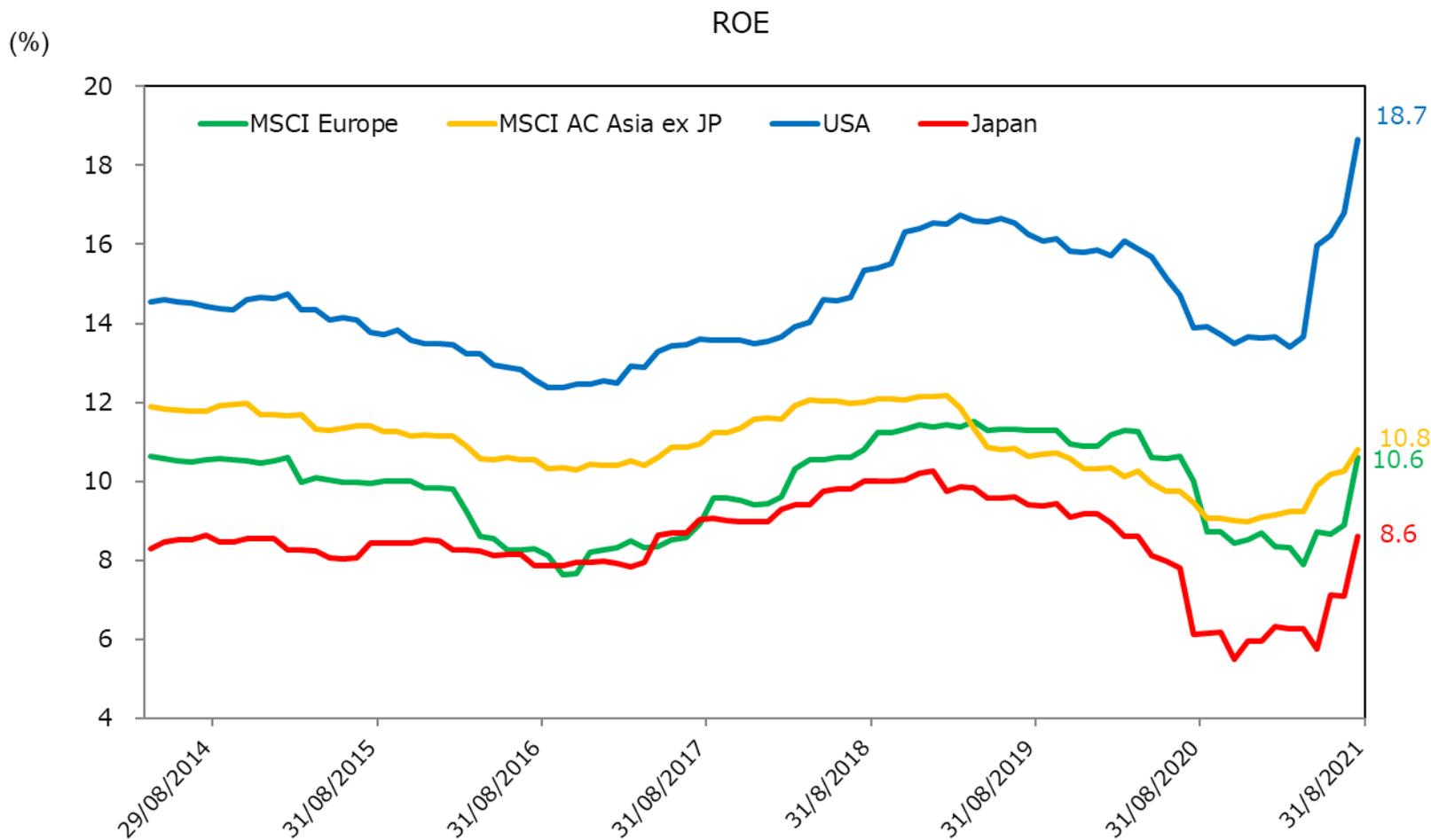
Global Comparison of Key Valuations: PER



Global Comparison of Key Valuations: Earnings Growth



Global Comparison of Key Valuations: ROE



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

(DD/MM/YYYY)

Revision of Earnings Forecasts

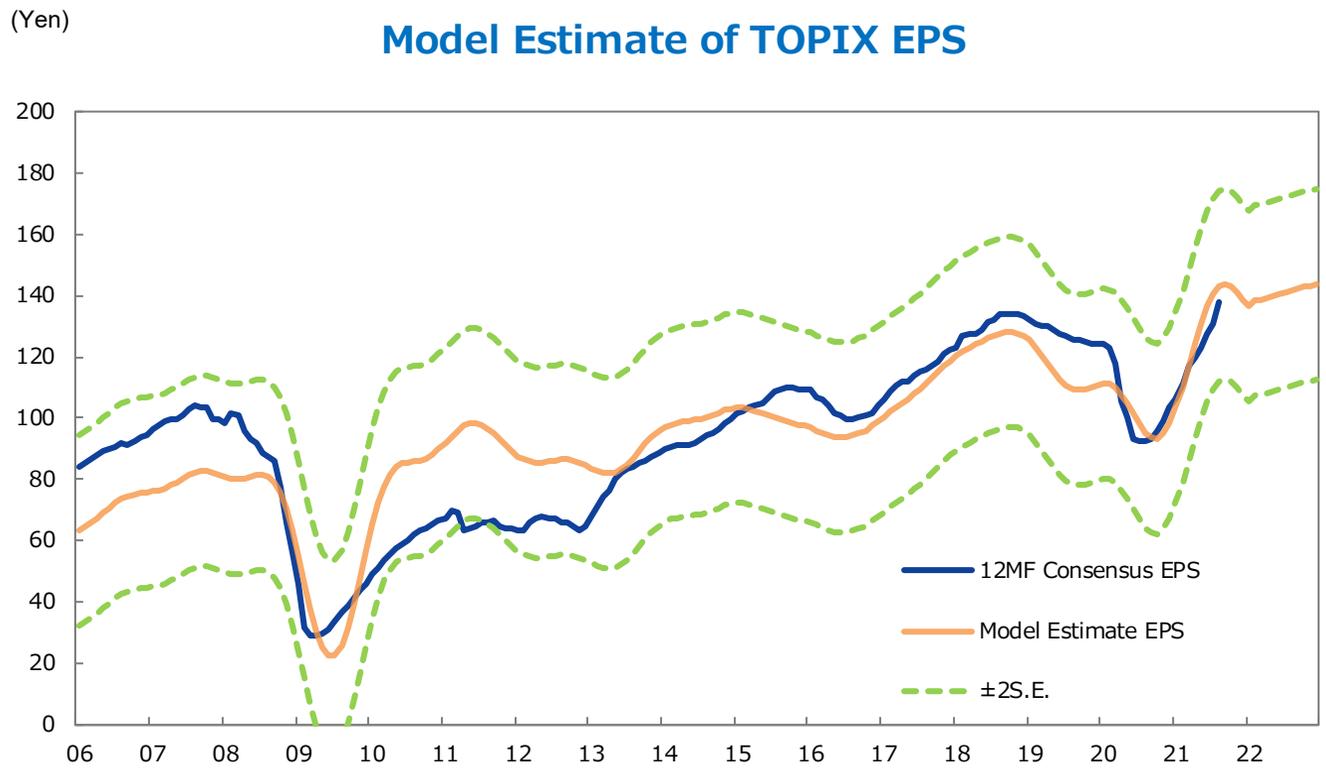
TOPIX Revision Index



Data is from Jan. 1st 2016 to Sep. 10th 2021
(Source) Datastream, IBES

(YY/MM)

Top Down Approach, Model Implied Fair Value

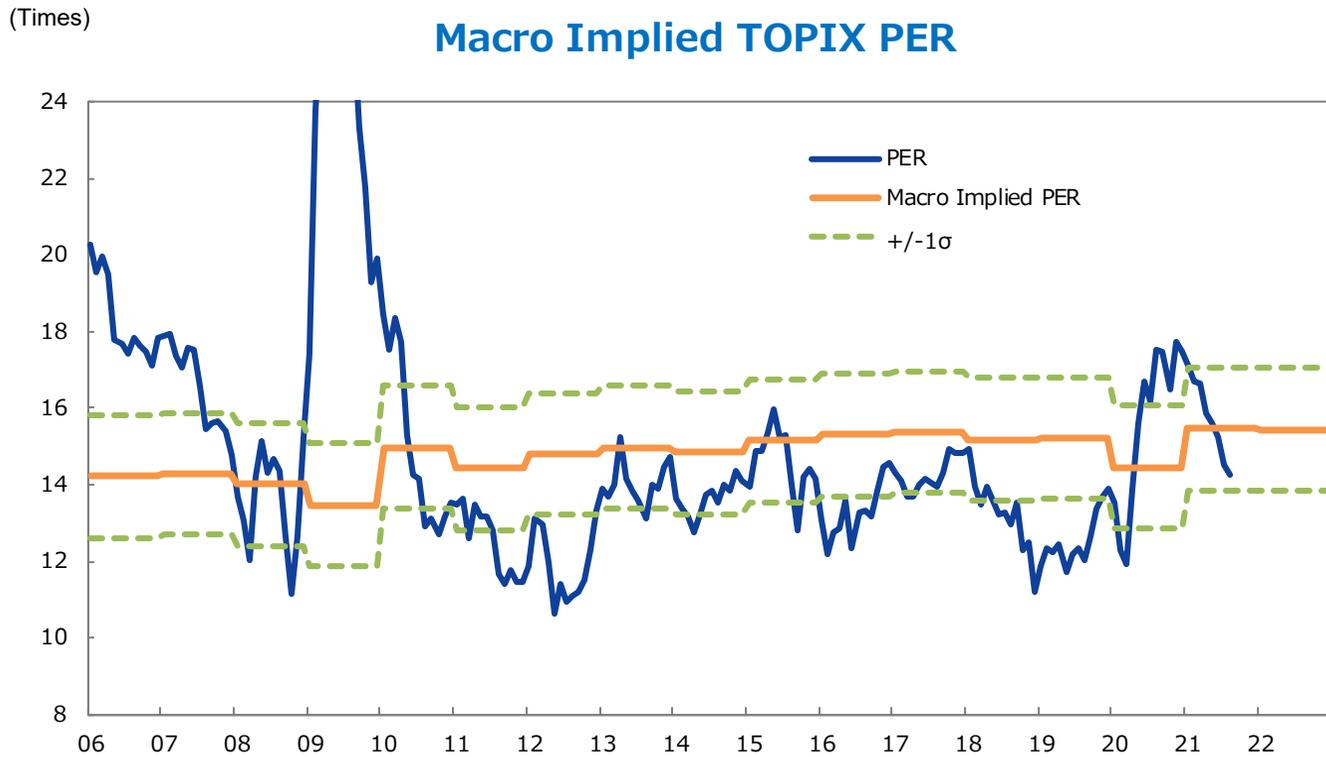


Consensus data is from Jan. 2006 to Aug. 2021, Model data is from Jan. 2006 to Dec. 2022.

(Year)

(Source) SMDAM

Top Down Approach, Model Implied Fair Value

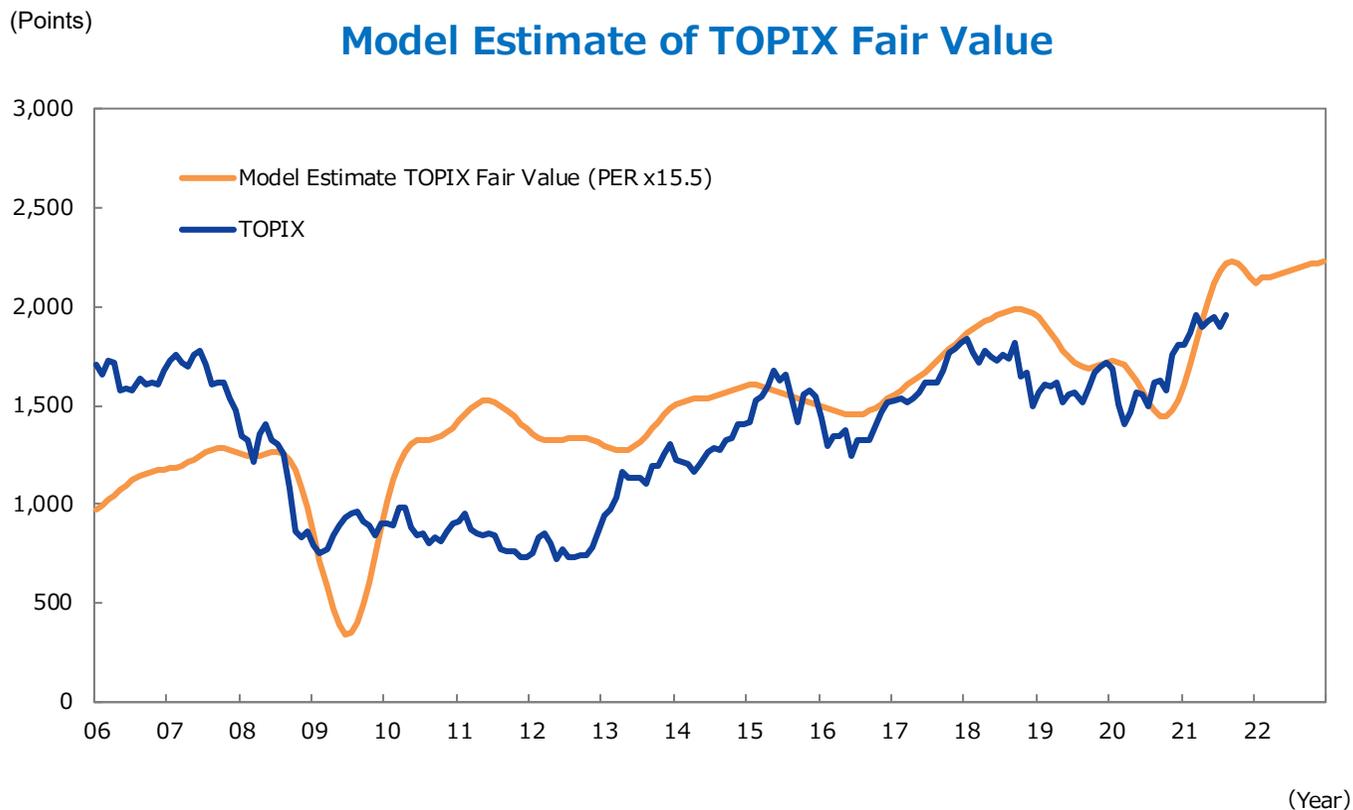


Consensus data is from Jan. 2006 to Aug. 2021, Model data is from Jan. 2006 to Dec. 2022.

(Year)

(Source) SMDAM

Top Down Approach, Model Implied Fair Value

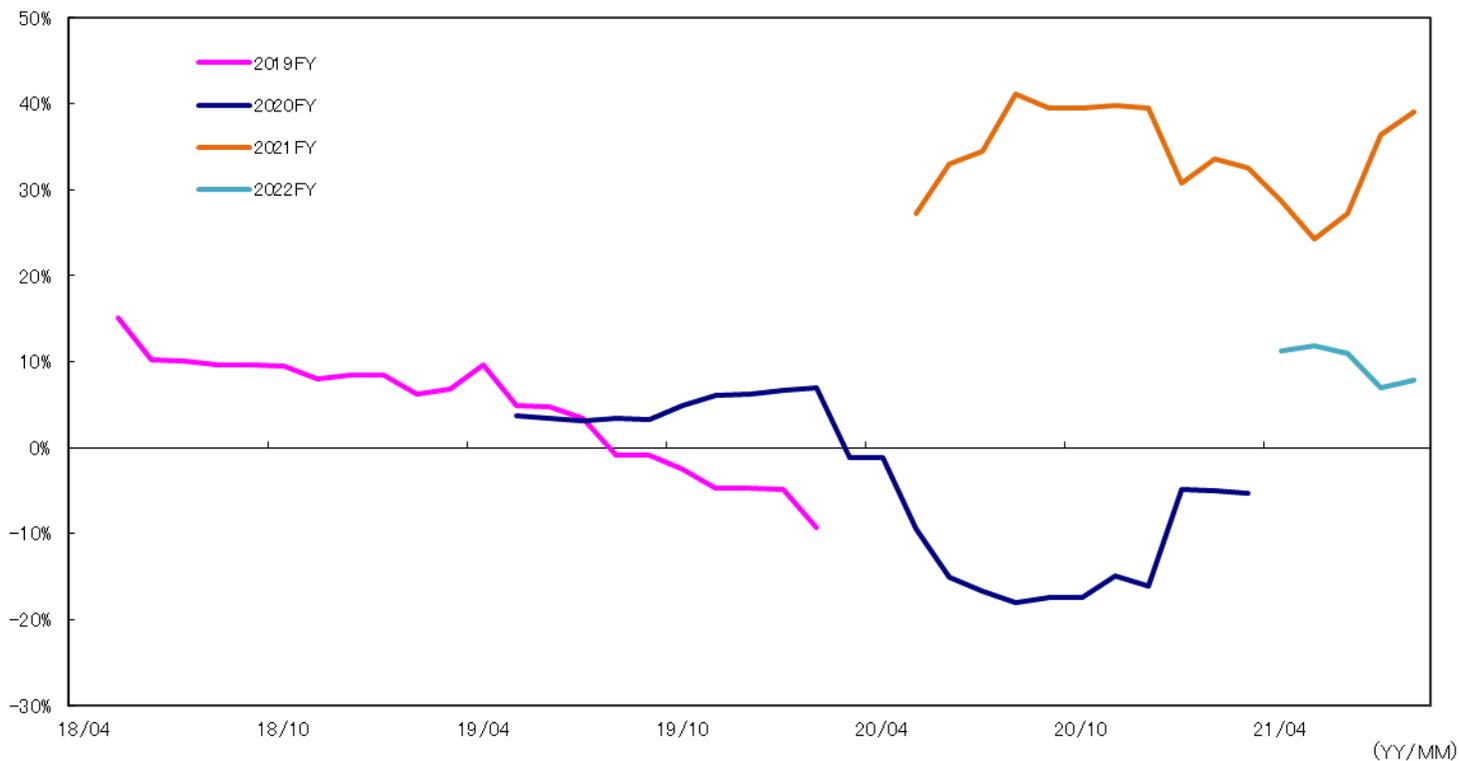


Consensus data is from Jan. 2006 to Aug. 2021, Model data is from Jan. 2006 to Dec. 2022.

(Source) SMDAM

Bottom Up Estimate, Corporate Earnings Growth

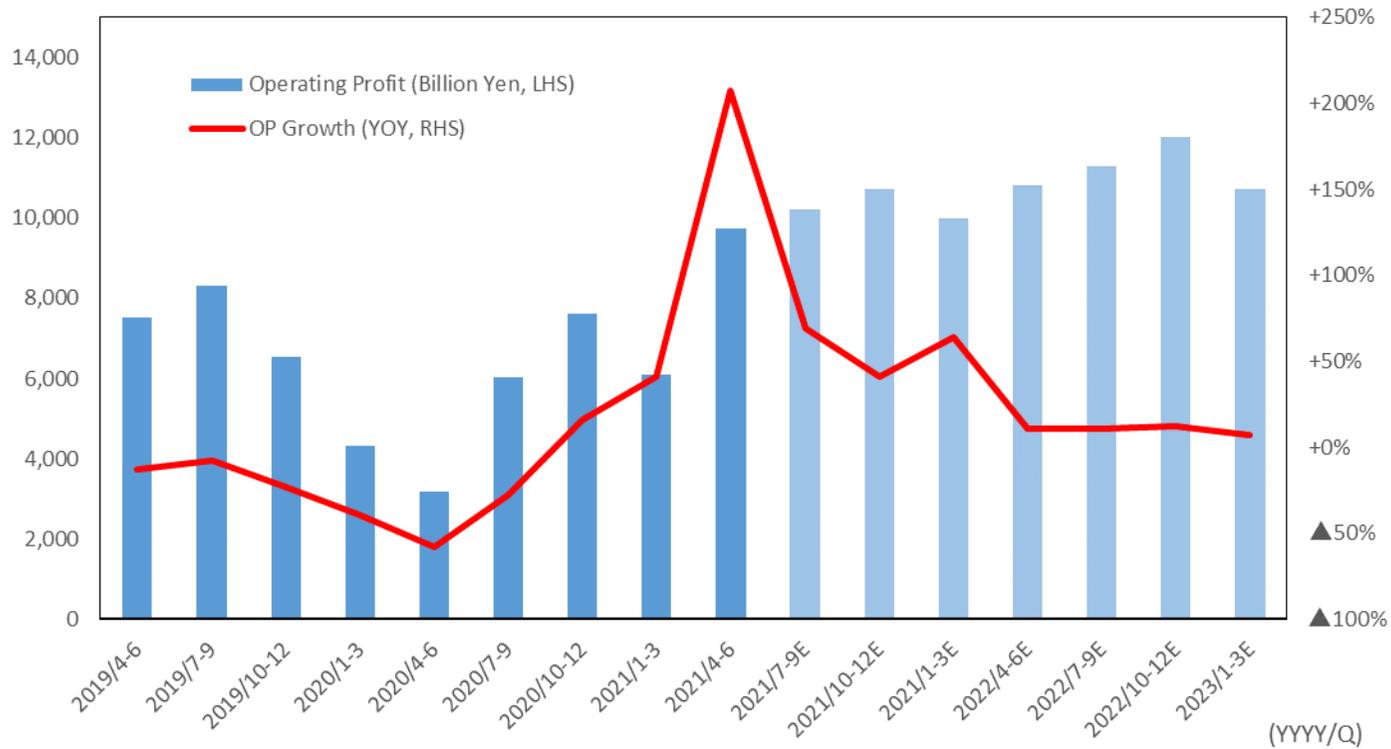
SMDAM Core Research Universe (EX-Financials) Est. Recurring Profit Growth



Note: Data is as of Sep. 9th 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

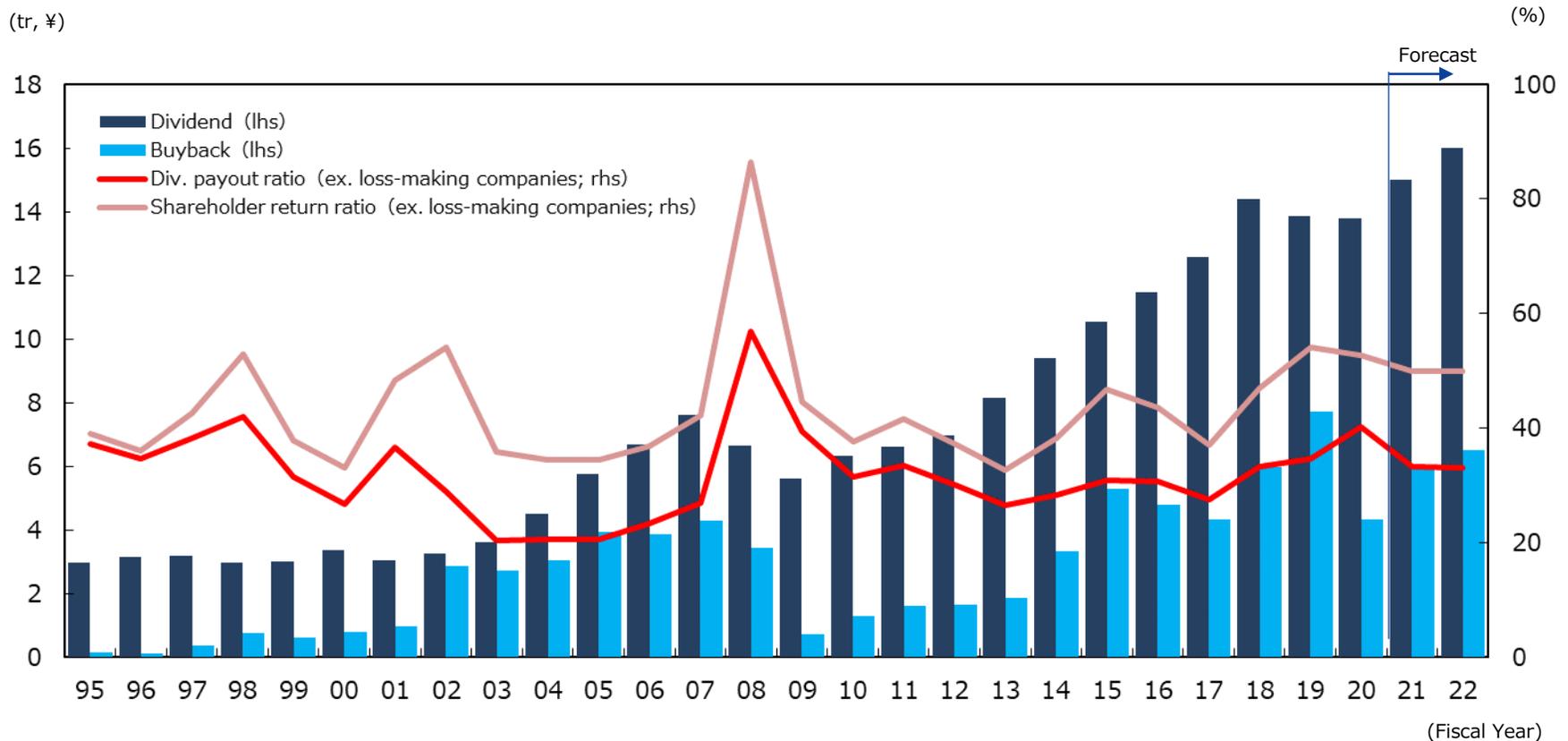
Investors that have signed up to the Principles for Responsible Institutional Investors	
Trust banks	6
Investment managers	202
Insurance companies	24
Pension funds	72
Others	12
Total	316

note: As of Aug. 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 their 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	7.17	7.16	16.04	28.31	30.86	23.61	59.81
Total Value	3.46	6.19	20.97	28.47	20.79	9.18	36.08
Top Cap Value	3.07	7.98	23.67	33.88	26.15	18.66	42.19
Large Cap Value	3.12	6.28	21.96	29.57	20.56	10.71	35.87
Mid Cap Value	3.18	4.25	19.91	23.68	12.74	-0.34	26.65
Small Cap Value	5.12	5.76	16.52	23.55	21.89	2.38	36.14
Micro Cap Value	6.14	7.18	14.57	21.00	20.24	1.67	41.00
Total Growth	11.29	12.23	11.09	29.03	48.71	41.45	79.69
Top Cap Growth	11.46	11.77	11.44	32.81	51.94	47.04	83.93
Large Cap Growth	11.44	12.08	10.88	29.92	50.57	43.94	80.79
Mid Cap Growth	11.42	12.61	9.94	25.36	48.22	39.10	75.34
Small Cap Growth	9.79	13.76	13.29	21.38	33.88	22.63	69.66
Micro Cap Growth	9.14	12.71	14.04	23.90	37.50	25.23	79.05
Top Cap Total	7.38	9.97	16.83	33.44	39.50	33.02	62.81
Large Cap Total	7.14	9.12	16.13	30.24	36.53	27.94	58.66
Mid Cap Total	6.79	7.92	15.14	25.69	32.41	20.74	52.57
Small Cap Total	6.76	6.24	15.48	21.87	23.79	10.15	51.03
Micro Cap Total	7.02	8.76	14.41	22.12	26.35	9.96	54.72

Note : As of Sep. 10th 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 slowing export and consumer spending owing to a surge in infections of the COVID-19 delta variant.
- Employment is steady and wages are picking up in nominal and real terms.
- Inflation is rising due to special effect of sharp increase in rent fees.

[Outlook]

- ① **We have not changed our real GDP growth forecast at +3.5% in FY 2021, and +3.1% in FY 2022.** In the near future, the economic sluggishness is likely to continue. However, the growth rate is expected to accelerate in the second half of FY 2021 due to the progress of vaccinations and the relaxation of behavioral restrictions related to COVID-19 infections. Additional fiscal stimulus are expected to affect the economy positively in and after FY 2022.
- ② **We have kept our core CPI estimates at 0.0% for FY 2021, and +0.7% for FY 2022.** The core CPI is expected to turn positive due to rising energy price. However, 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.** 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 the autumn. We expect current policy mix, accommodative fiscal and monetary policy, will continue with new prime minister.** Japanese government and the ruling LDP are increasingly calling for additional public spending due to 5th wave of COVID-19 infection and the general election scheduled in the autumn.

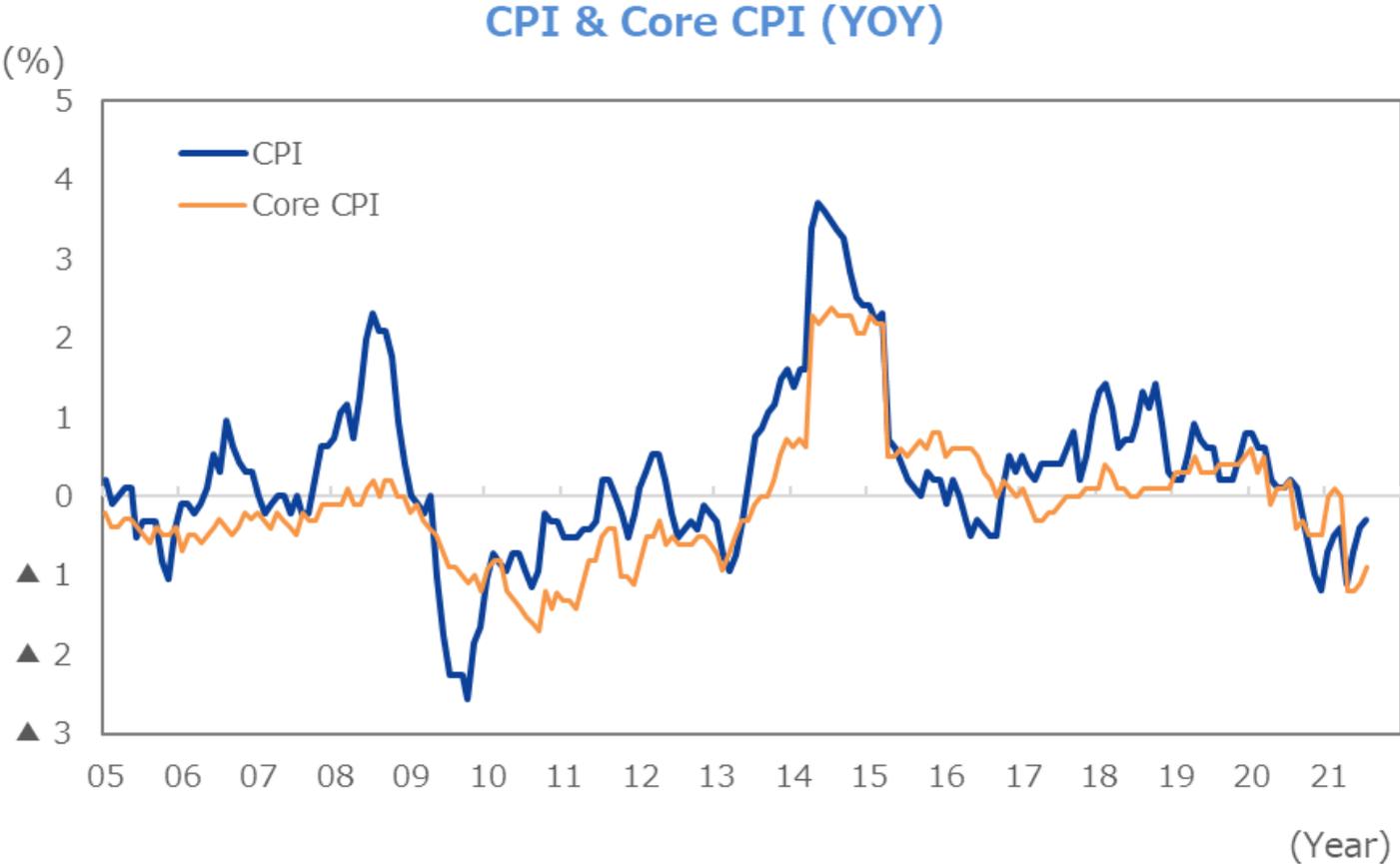
Japan Economy Forecast

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%	3.5%	3.1%
Private final consumption expenditure	-0.3%	1.0%	0.1%	-1.0%	-5.8%	3.0%	2.6%
Private housing investment	4.3%	-1.8%	-4.9%	2.5%	-7.2%	2.5%	1.8%
Private-sector capital investment	0.8%	2.8%	1.0%	-0.6%	-6.8%	4.1%	5.3%
Public fixed capital formation	0.5%	0.6%	0.8%	1.5%	4.2%	0.1%	2.1%
Net export contribution	0.7%	0.4%	-0.2%	-0.4%	-0.6%	0.9%	0.3%
Exports of goods and services	3.4%	6.3%	2.0%	-2.2%	-10.4%	13.5%	5.2%
Imports of goods and services	-0.5%	3.8%	3.0%	0.2%	-6.8%	8.1%	3.8%
Nominal GDP	0.8%	2.0%	0.1%	0.3%	-3.9%	2.9%	3.4%
GDP deflator	0.0%	0.2%	-0.1%	0.9%	0.6%	-0.6%	0.4%
Industrial Production Index	0.8%	2.9%	0.3%	-3.7%	-9.9%	9.4%	5.2%
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%	1.0%	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

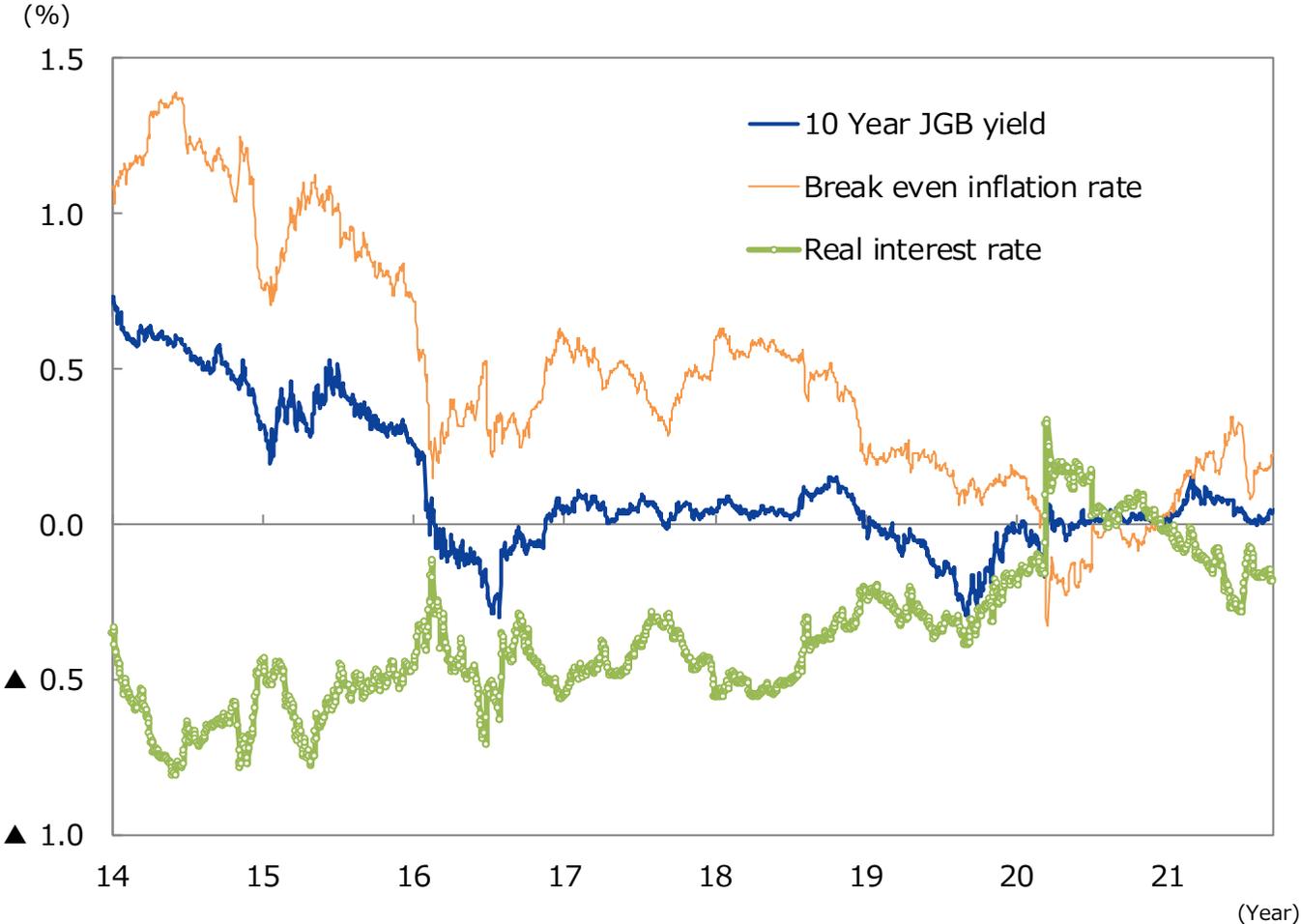
Consumer Price Index



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

Break Even Inflation & Real Interest rate

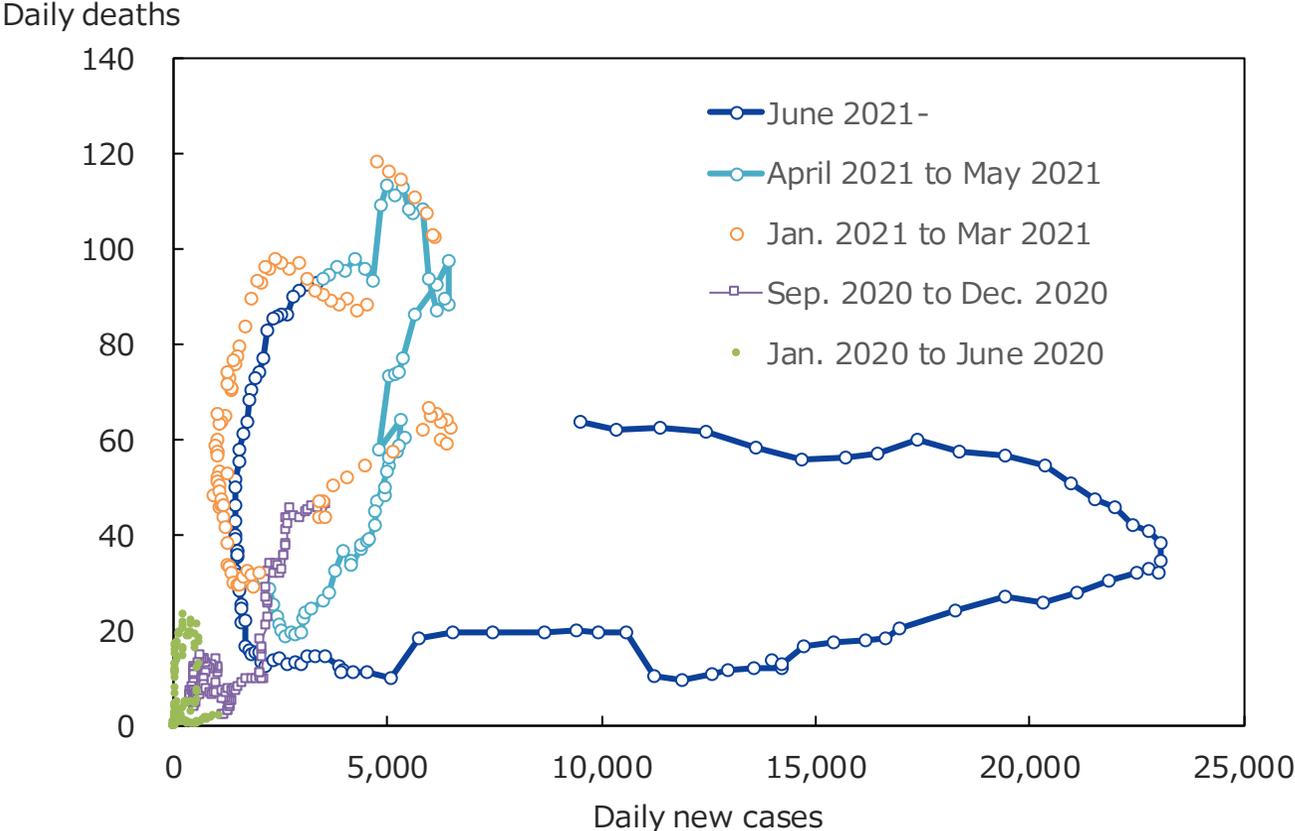
JGB Yield, BEI, and Real Interest rate



(Data) From Jan. 1st 2014 to Sep. 14th 2021
(Source) Bloomberg, SMDAM

COVID-19 New Cases & Confirmed Deaths

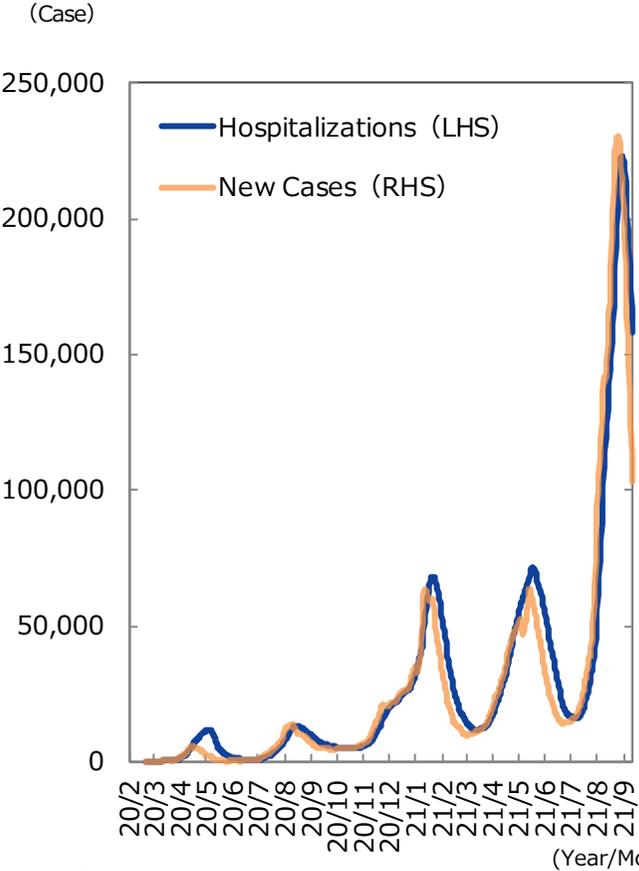
COVID-19 New patients and confirmed deaths



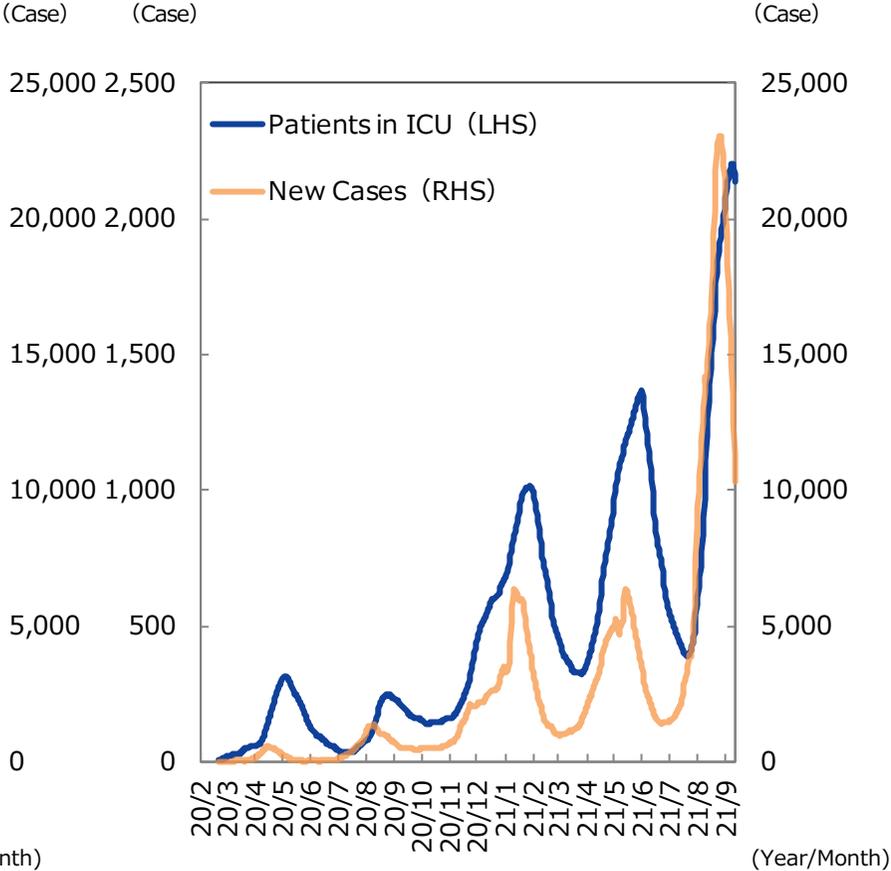
(Data) 7 days moving average, From Jan. 1st 2020 to Sep. 12th 2021
 (Source) Bloomberg, SMDAM

COVID-19 New Cases & Hospitalizations, Nationwide

New Cases and Hospitalizations



New Cases and Patients in ICU

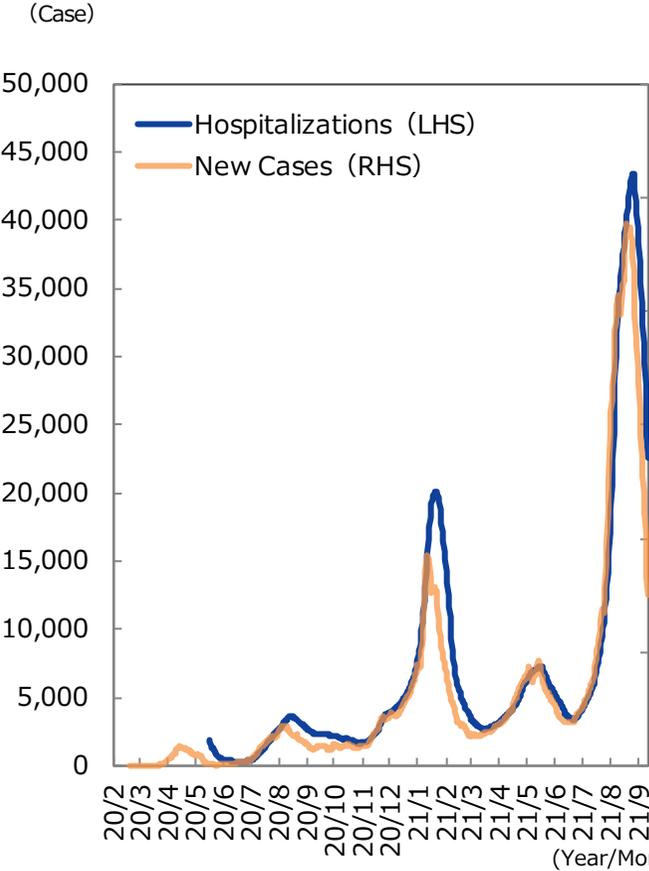


(Data) 7days Moving average. From Feb. 1st 2020 to Sep. 11th 2021.

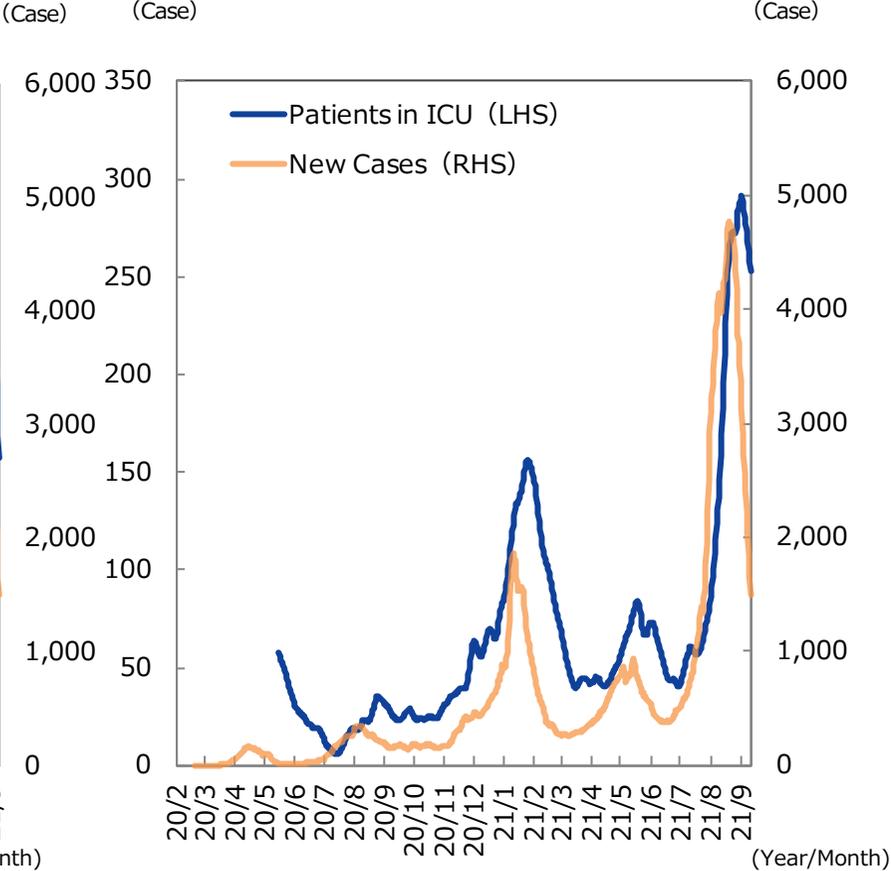
(Source) MHLW, NHK, SMDAM

COVID-19 New Cases & Hospitalizations, Tokyo

New Cases and Hospitalizations



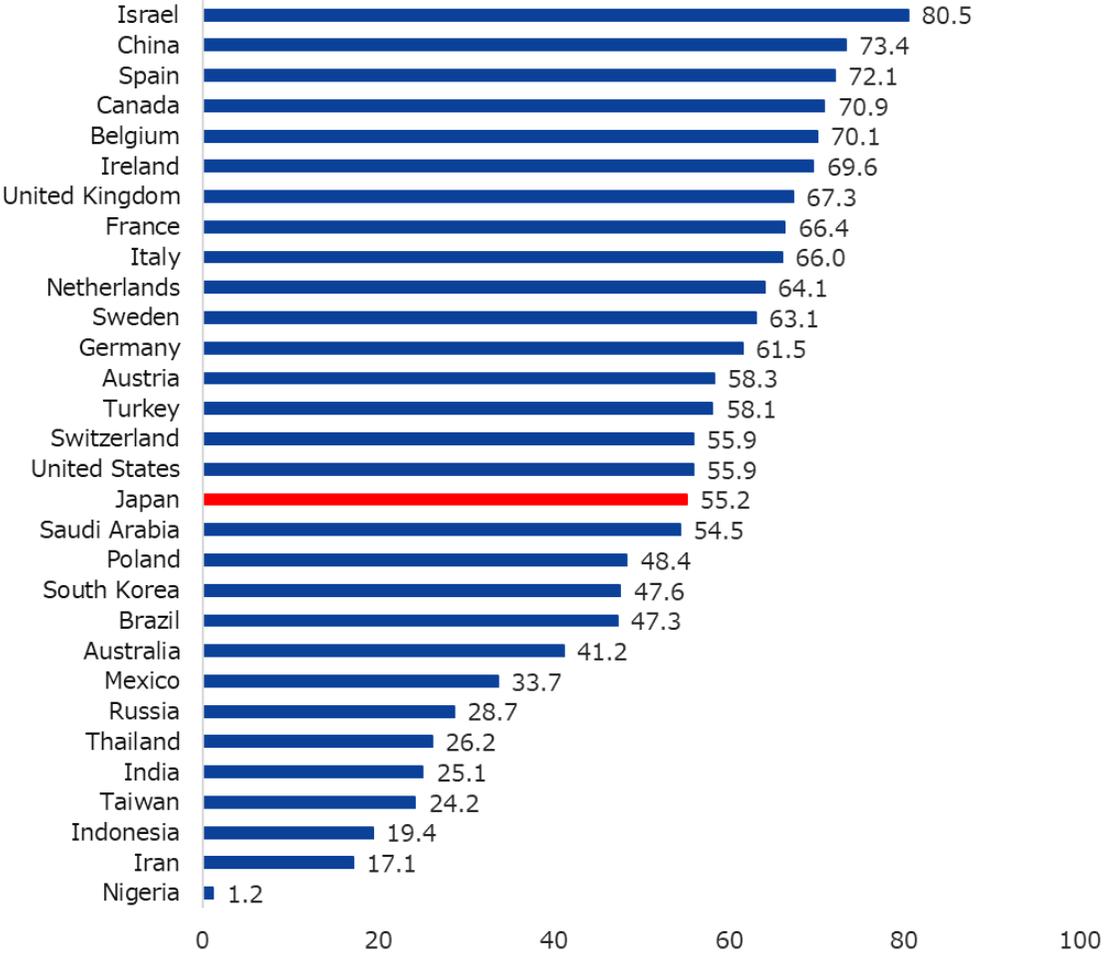
New Cases and Patients in ICU



(Data) 7days Moving average. From Feb. 1st 2020 to Sep. 11th 2021.

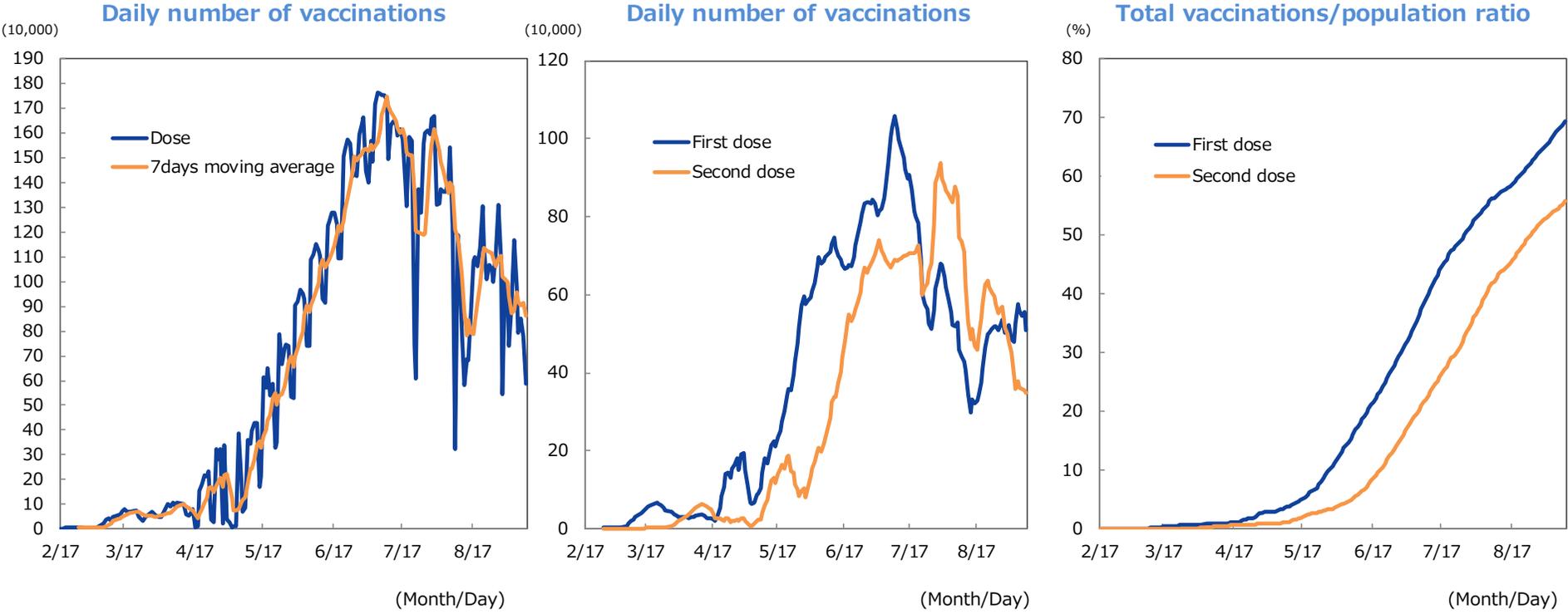
(Source) MHLW, NHK, SMDAM

COVID-19 Vaccinations Coverage Global Comparison



(Data) As of Sep. 7th 2021
 (Source) Our World in Data, SMDAM

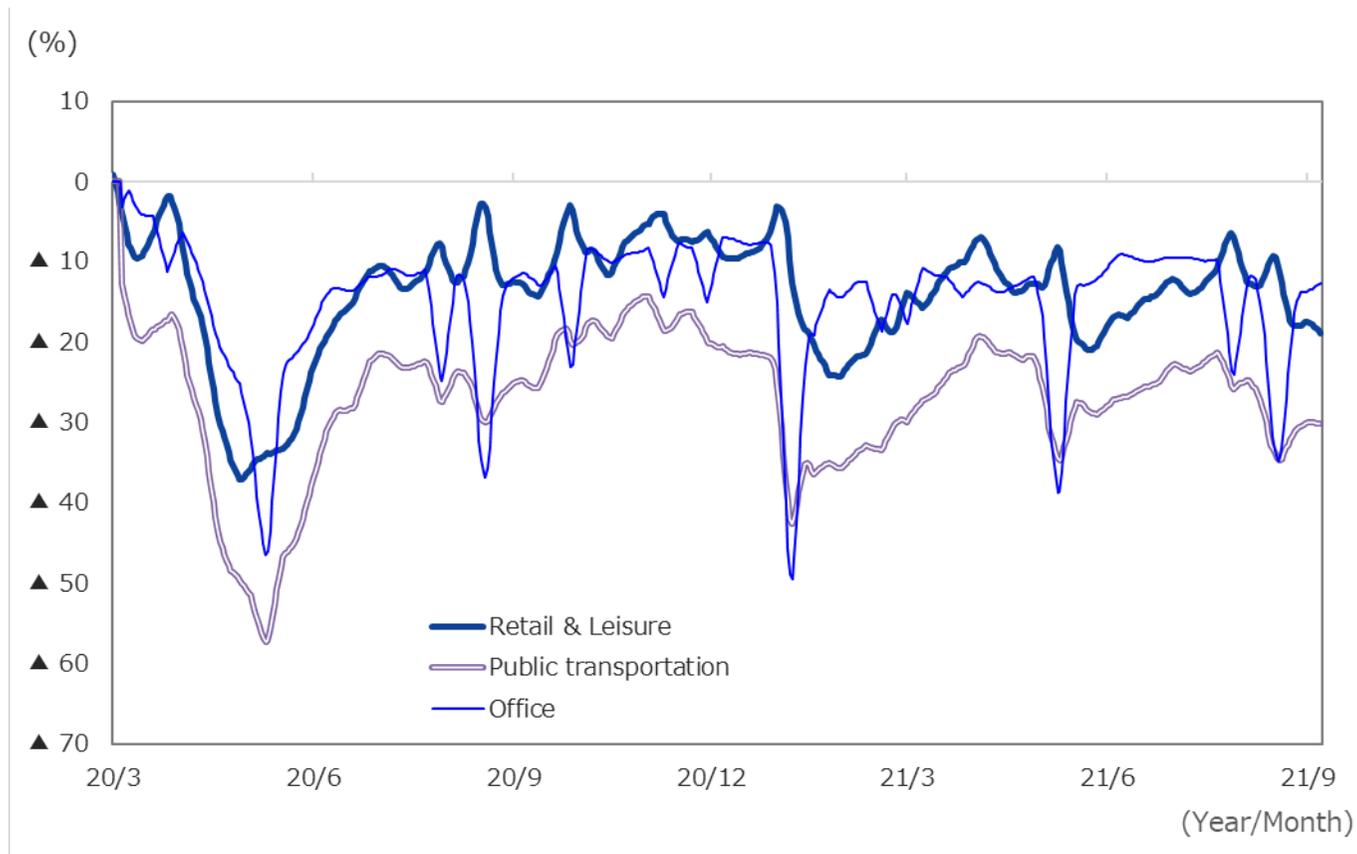
Progress of COVID-19 Vaccinations



(Data) From Feb. 17th 2021 to Sep. 9th 2021
 (Source) MHLW, SMDAM

Mobility Data

Google Community Mobility Report

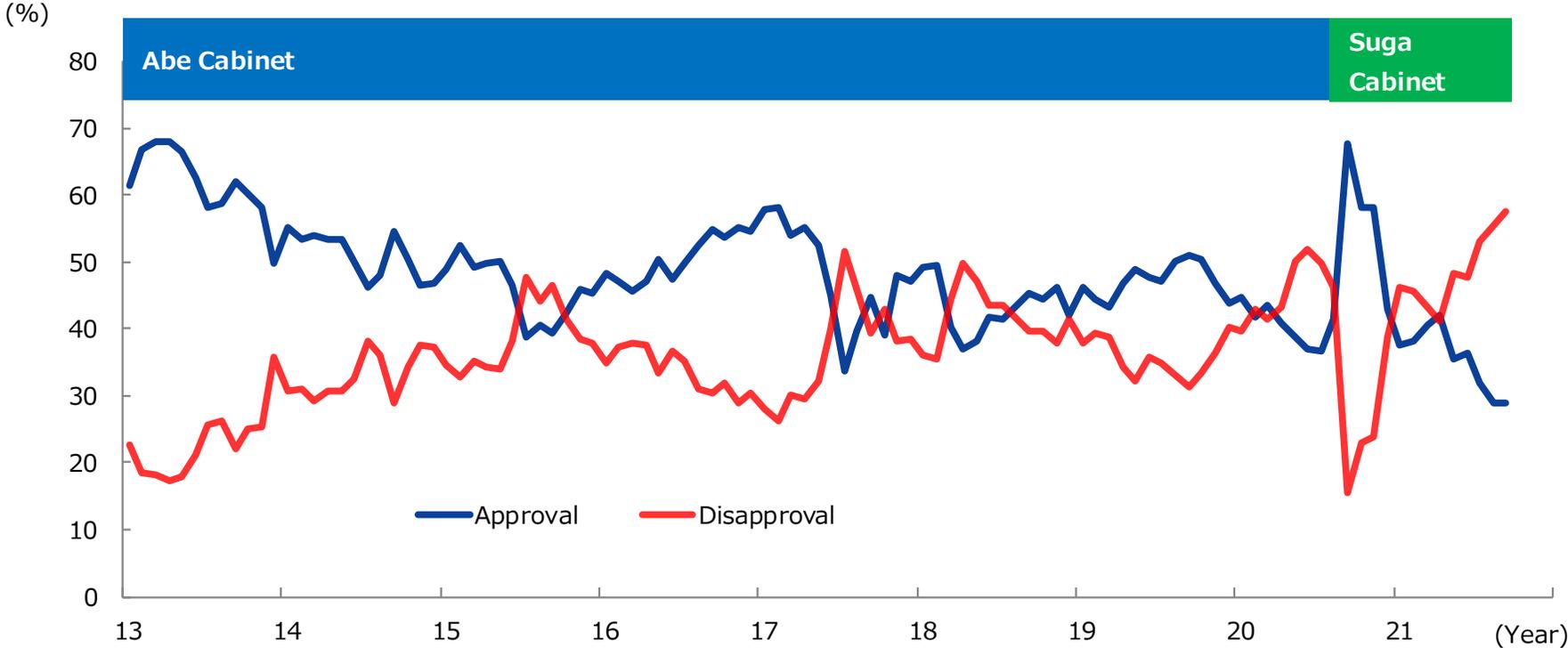


(Data) 7 Days moving average, From Mar. 1st 2020 to Sep. 7th 2021

(Source) Google, SMDAM

Cabinet approval rate

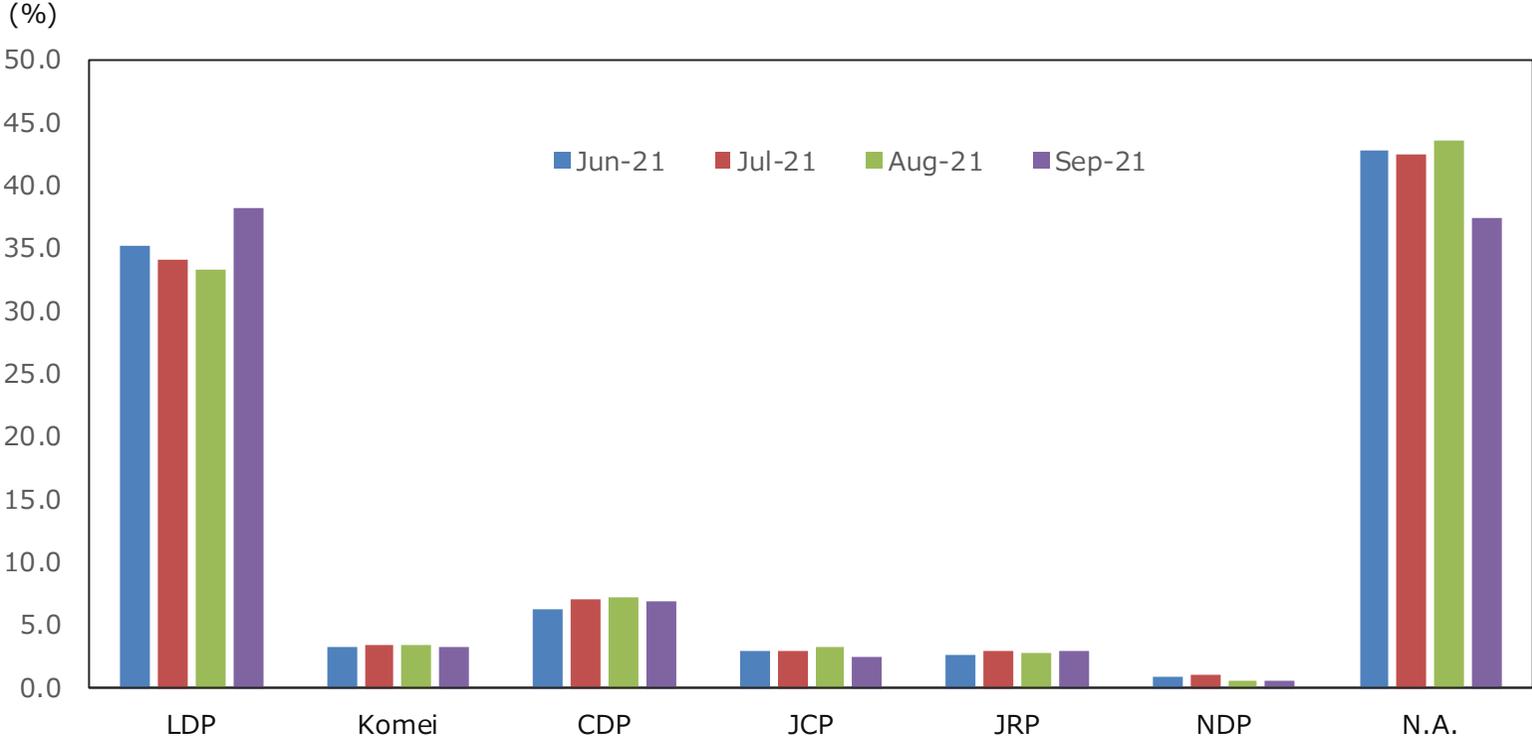
Cabinet approval rate



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

Political party approval rate

Approval rating of political parties



(Source) SMDAM

New Prime Minister and Economic Policy

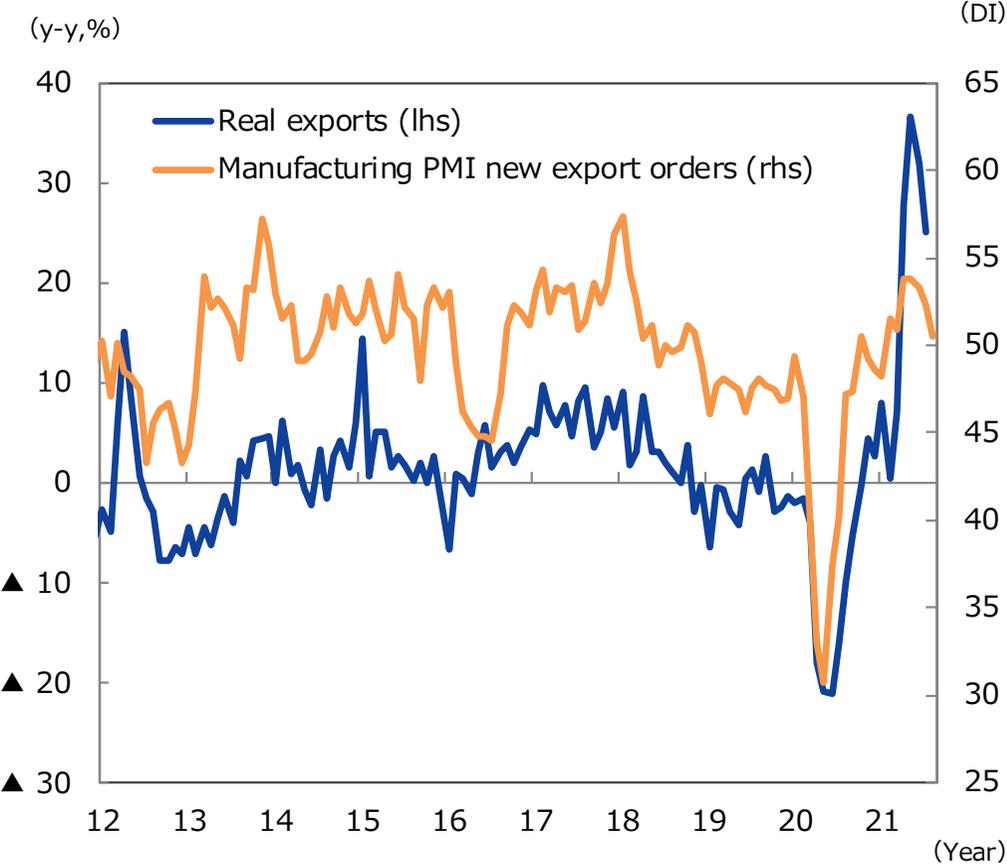
New President of Ruling LDP and His economic Policy

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

(Source) SMDAM

Exports and Manufacturing Activities

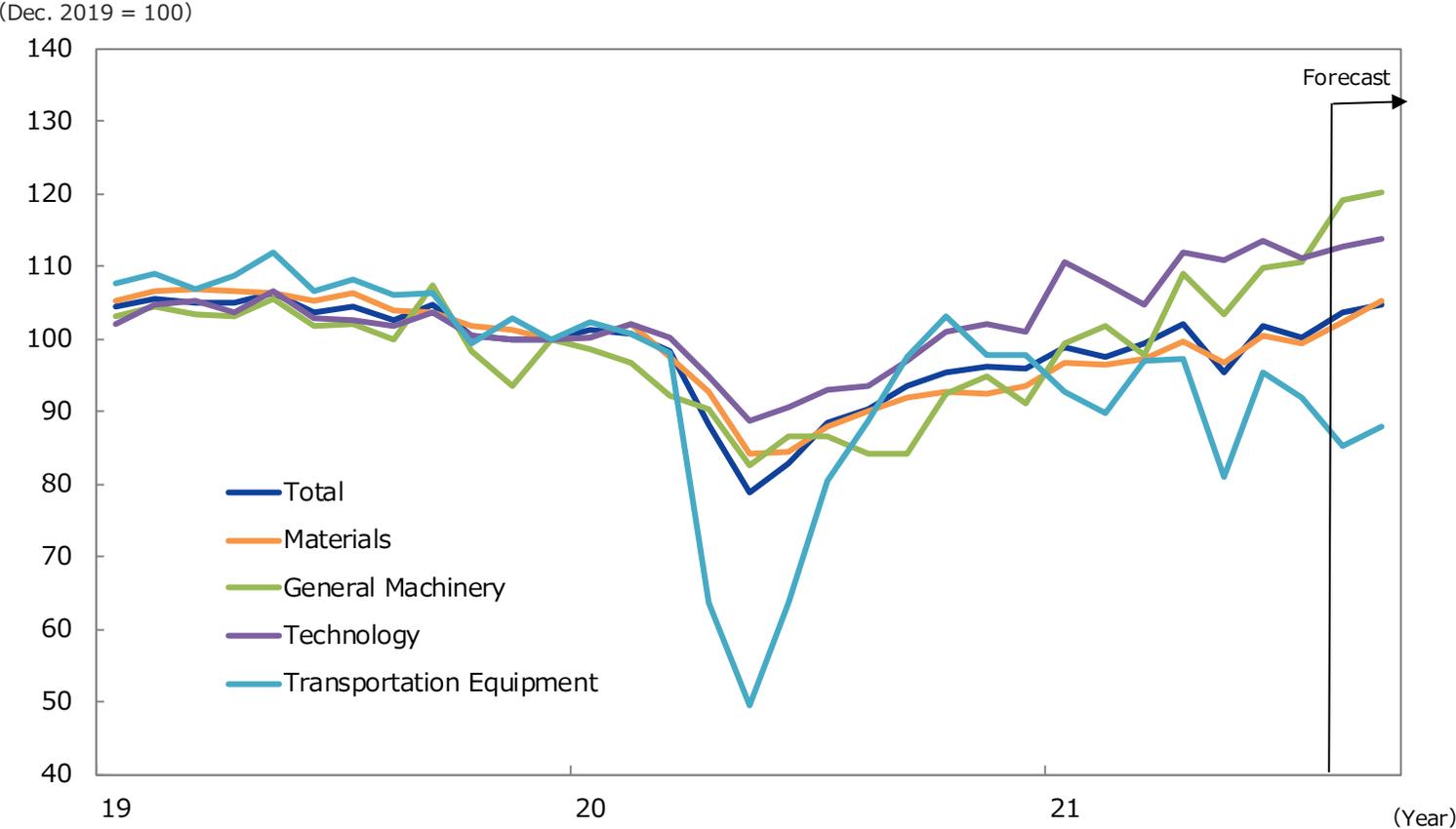
Real exports and manufacturing PMI new export orders



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

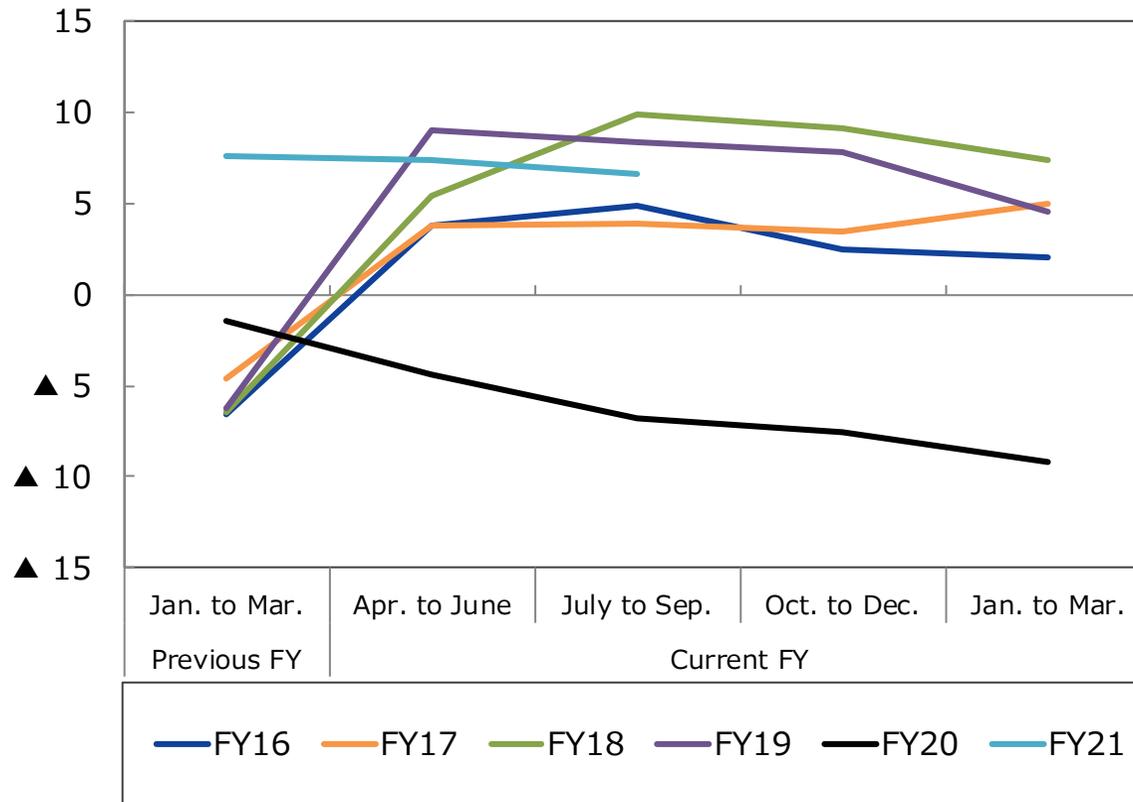
Industrial Production

Industrial Production (Monthly)



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

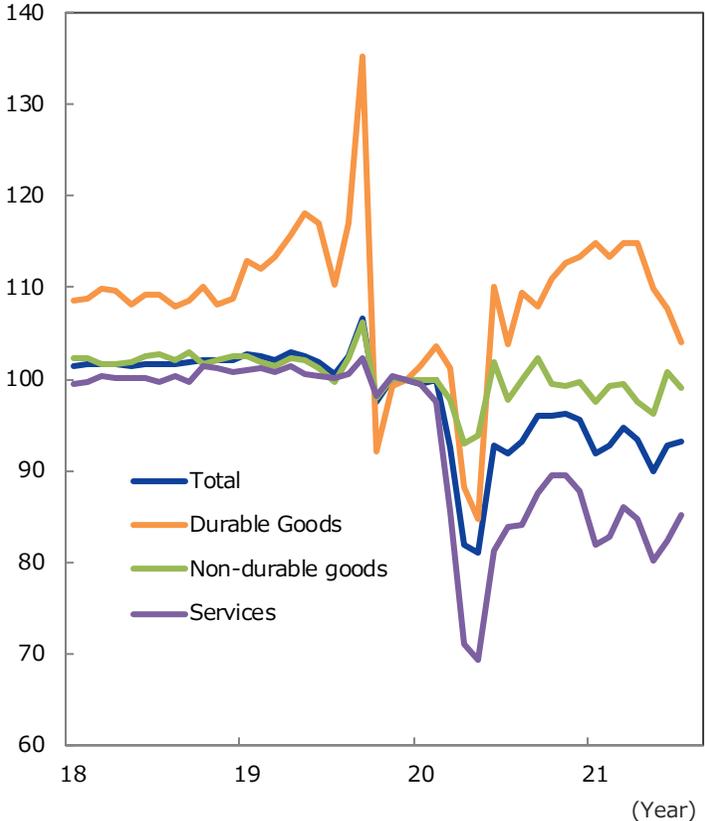
CAPEX in Business Outlook Survey (YOY, %)



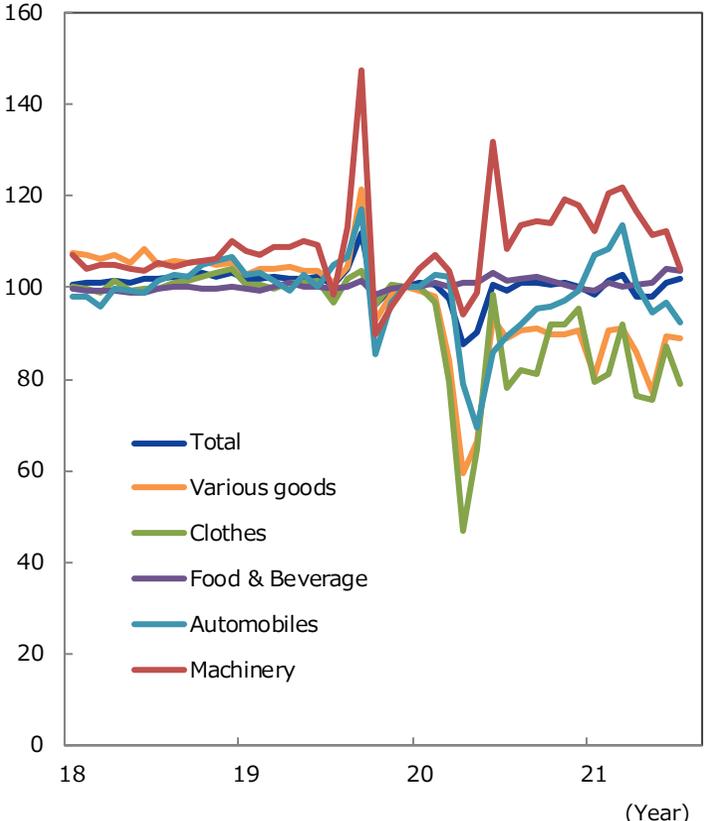
(Data) All industries of all sizes. Including software, excluding land and R&D.
 (Source) Cabinet Office, SMDAM

Consumer Spending

Consumer Activity Index (Dec. 2019 = 100)



Retail Sales (Dec. 2019 = 100)



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

Major Events, Snap Election in the Autumn

Major domestic events			
2021	October	4 or later 21 27-28 31 31 or later	Convocation of extraordinary Diet session & inauguration of new administration End of the term of the House of Representatives Monetary Policy Meeting and release of "Perspective Report" Official target of the completion of vaccinations of entire nation General election
	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.

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