



Outlook for Japanese Stock Market & Economy

Sumitomo Mitsui DS Asset Management

-May 2022-



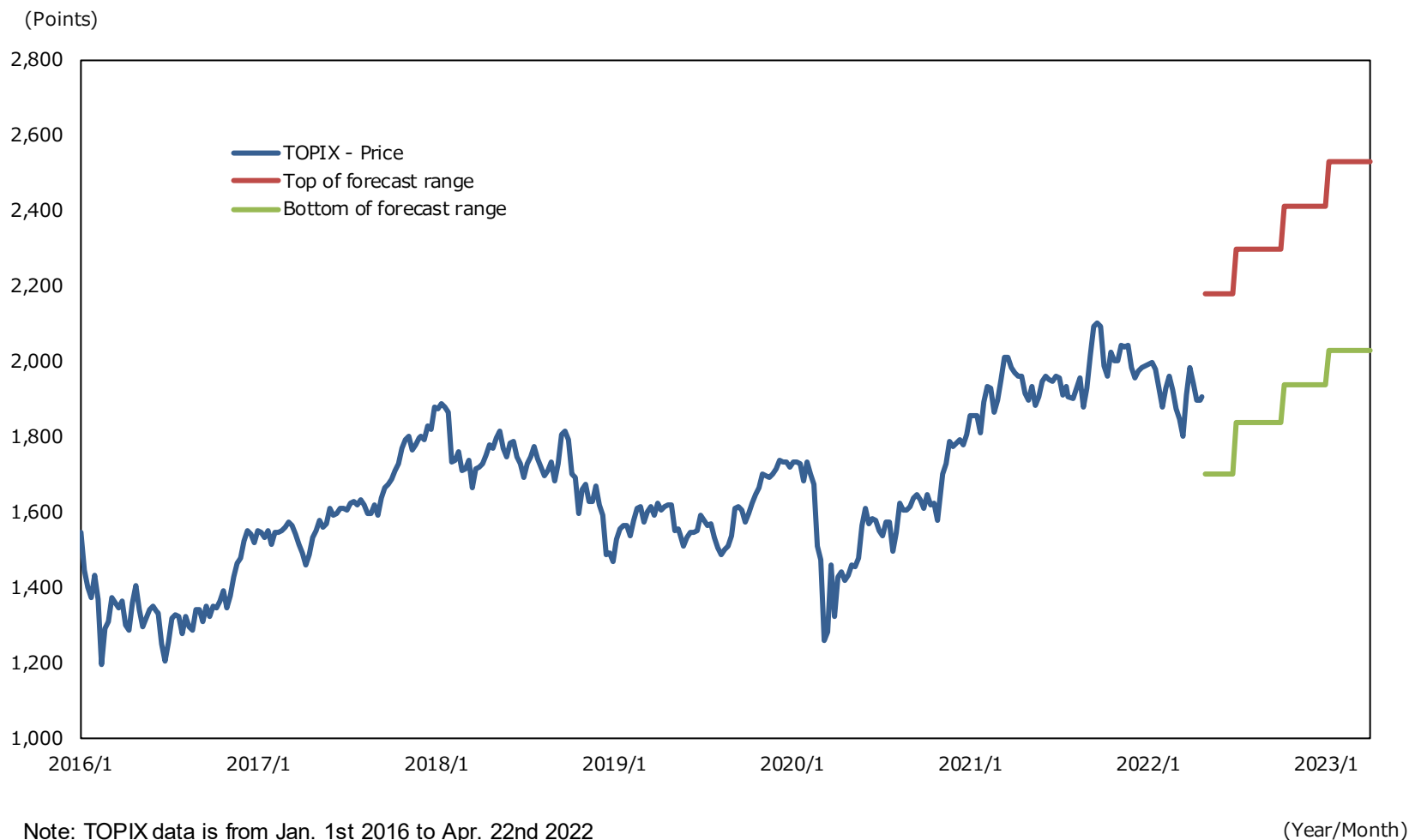
Outlook for Japanese Stock Market

Market Outlook

- We believe the Japanese equity market will resume its bullish trend due to receding uncertainty over the global economy and after digesting conservative earnings guidance offered by Japanese companies for the current fiscal year.
- We maintain our TOPIX target at 2,300 and Nikkei 225 at 32,300 for March 2023.
- The Japanese equity market will be under selling pressure in the short term owing to multiple contractions caused by overly conservative earnings forecasts and prolonged concern about the war in Ukraine.
- We expect the market will be supported by improving economic fundamentals, such as the recovery of Japanese nominal GDP growth and also expectations for fiscal stimulus ahead of the upper house election in the summer.



We expect bullish equity market ahead



Note: TOPIX data is from Jan. 1st 2016 to Apr. 22nd 2022
(Source) TOPIX: Tokyo Stock Exchange, forecast by SMDAM

Upside / Downside risk scenarios

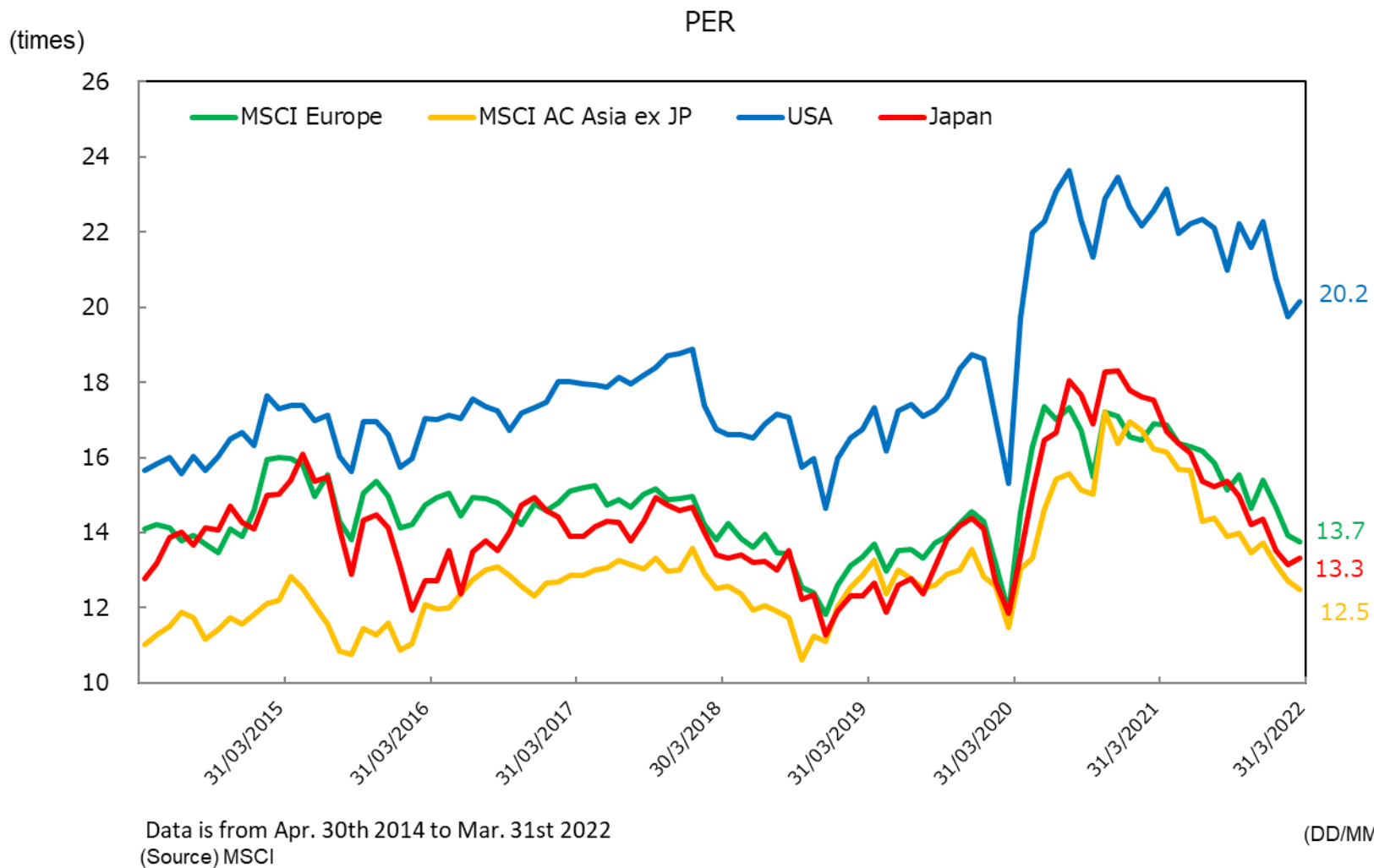
■ Upside Risks

- Acceleration of economic recovery
- Recovery of inbound travel to Japan
- Declining volatility in commodity market

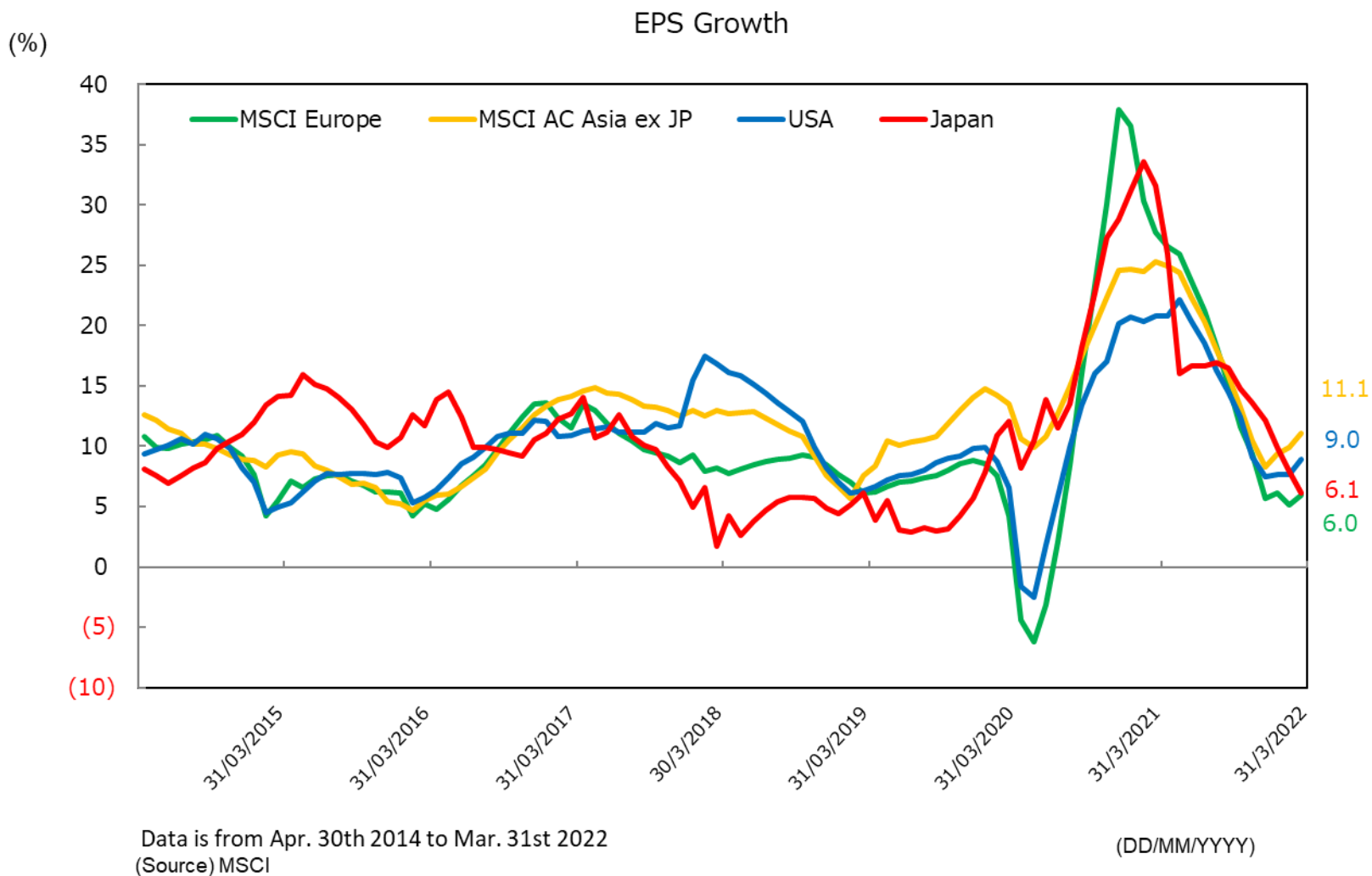
■ Downside Risks

- Escalation of global military conflict
- Growing concern for stagflation

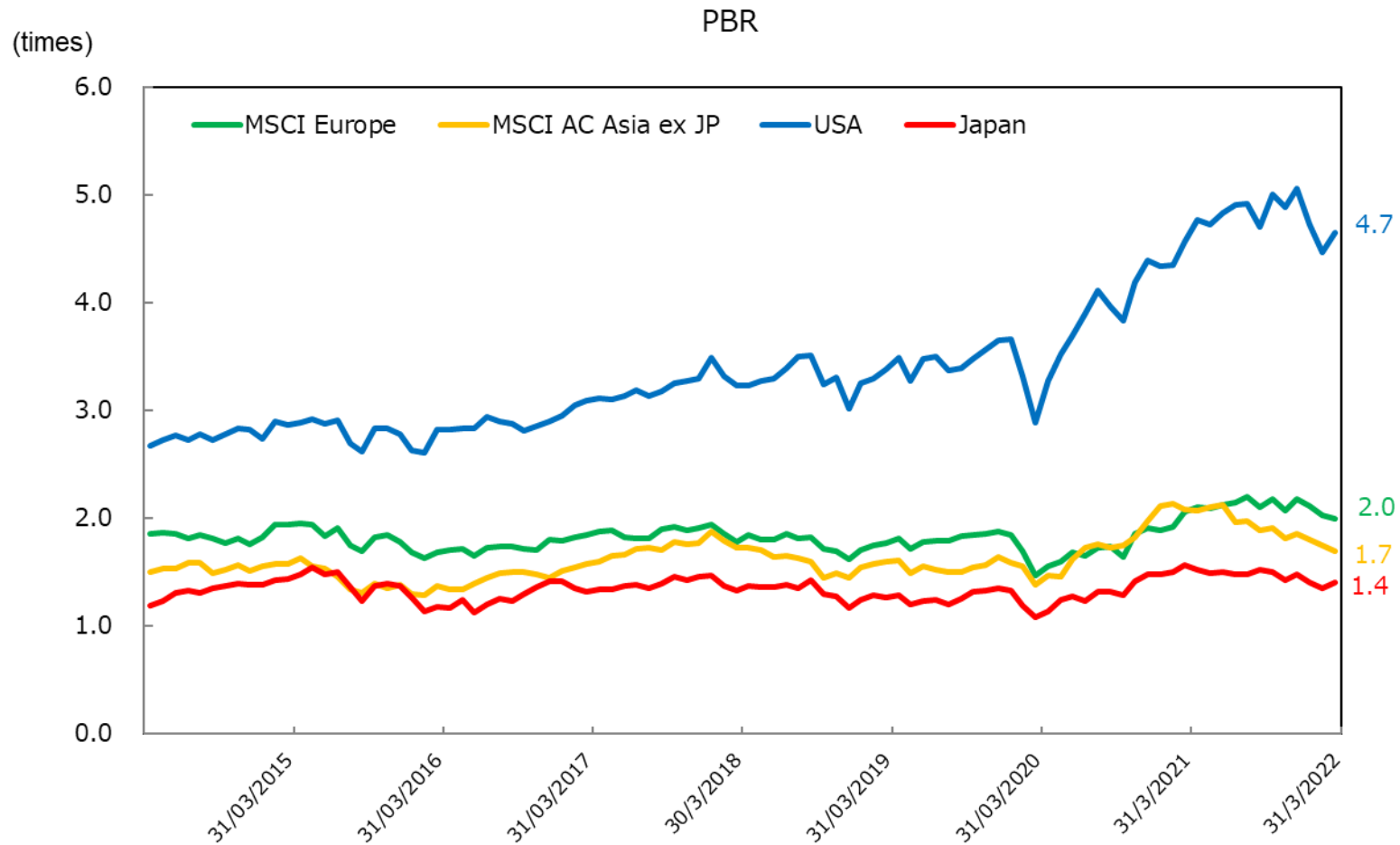
PER rebounded in US and Japan along with declining volatility



Earnings growth trend reaches the bottom excluding Japan



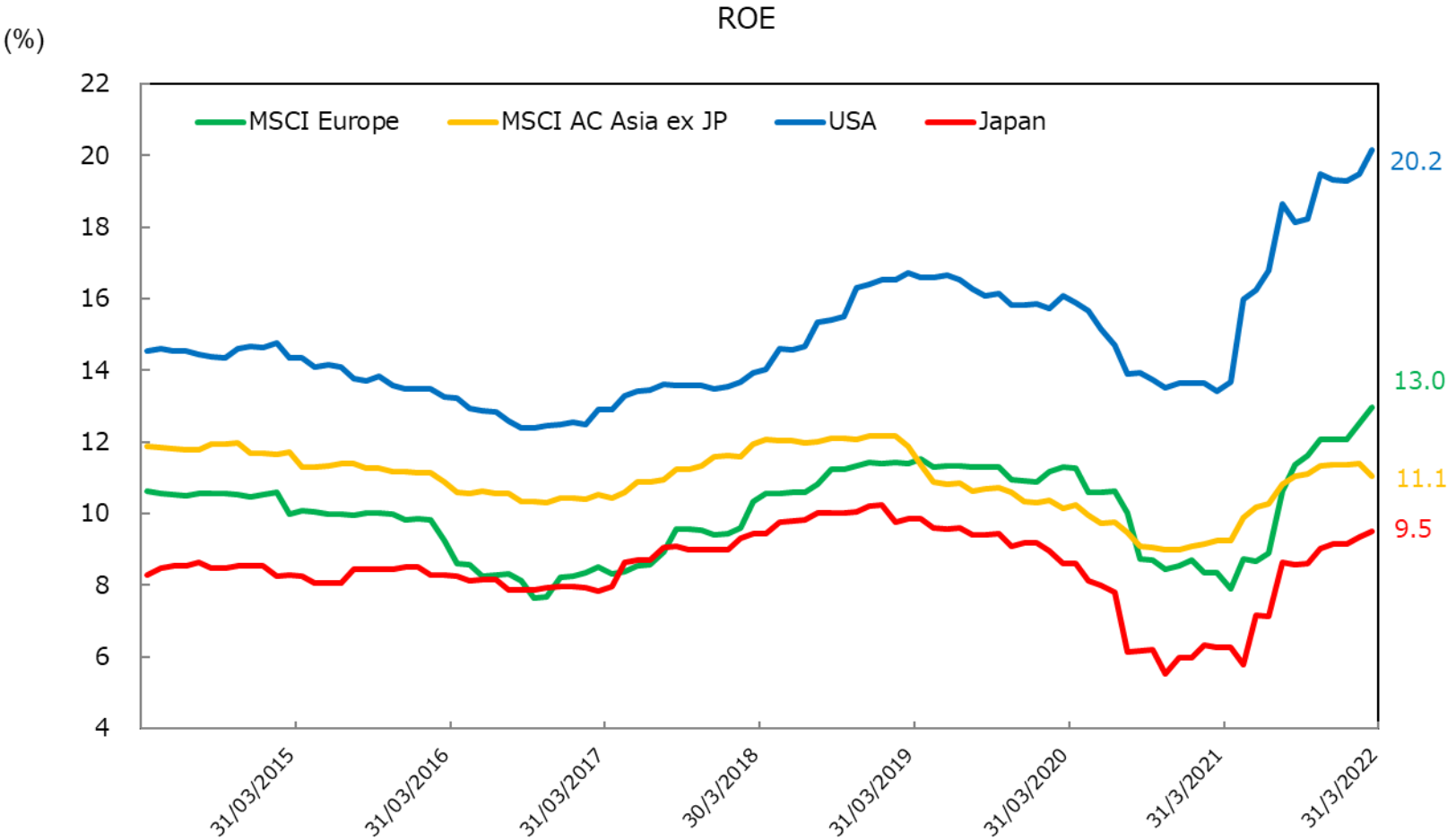
PBR recovered slightly in US and Japan



Data is from Apr. 30th 2014 to Mar. 31st 2022
(Source) MSCI

(DD/MM/YYYY)

Japan's ROE continues its steady recovery

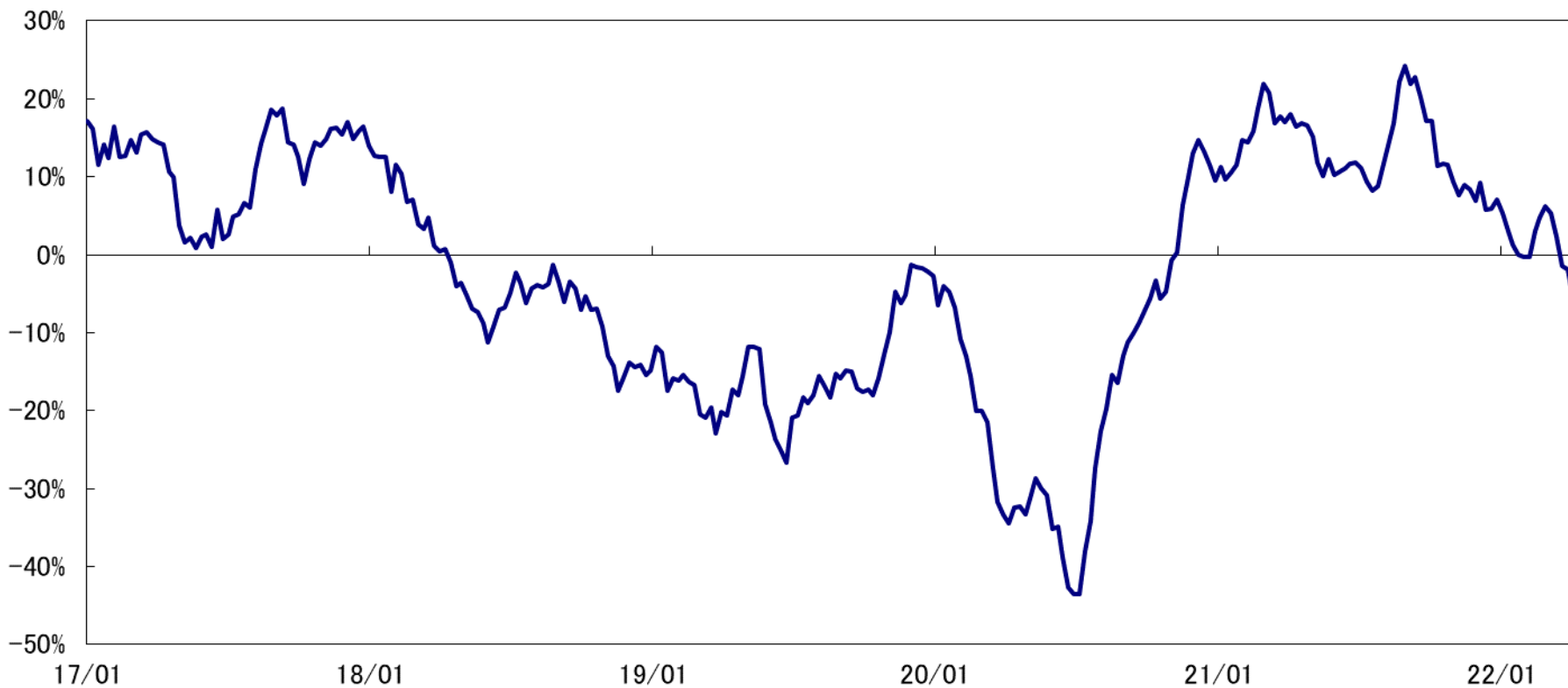


Data is from Apr. 30th 2014 to Mar. 31st 2022
 (Source) MSCI

(DD/MM/YYYY)

Earnings revisions decline due to fear over global economy

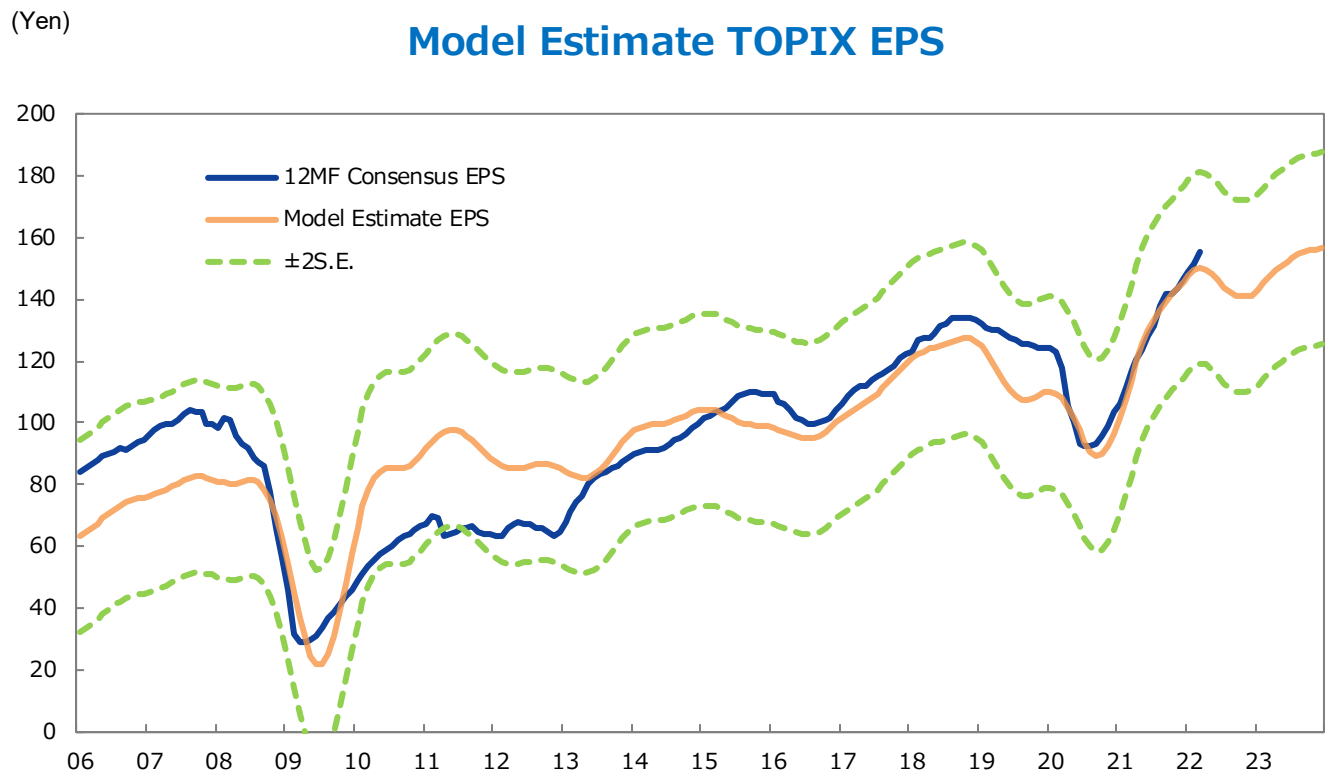
TOPIX Revision Index



Data is from Dec. 31st 2016 to Apr. 12th 2022
(Source) Datastream, IBES

(YY/MM)

EPS forecast continues to grow despite model indicating slowdown

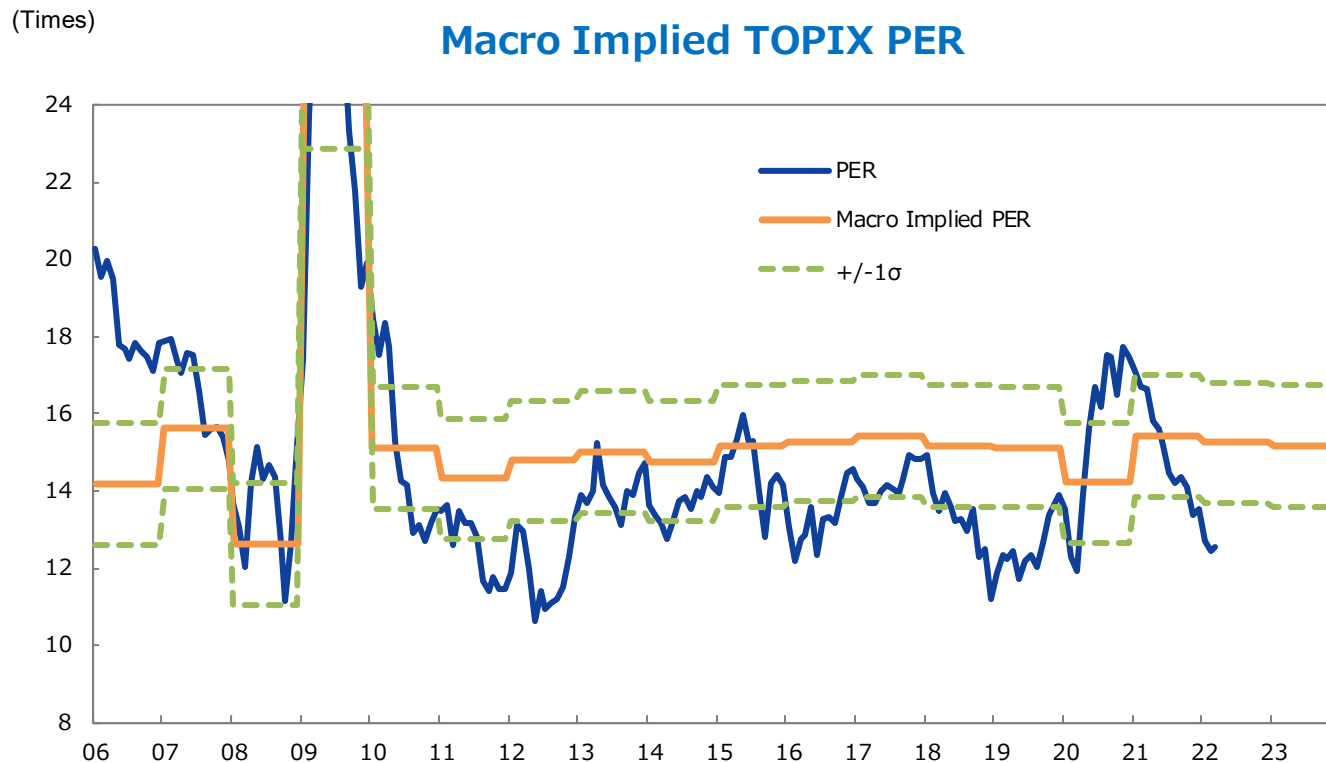


Consensus data is from Jan. 2006 to Mar. 2022, Model data is from Jan. 2006 to Dec. 2023

(Year)

(Source) SMDAM

PER sank below the bottom of the normal range

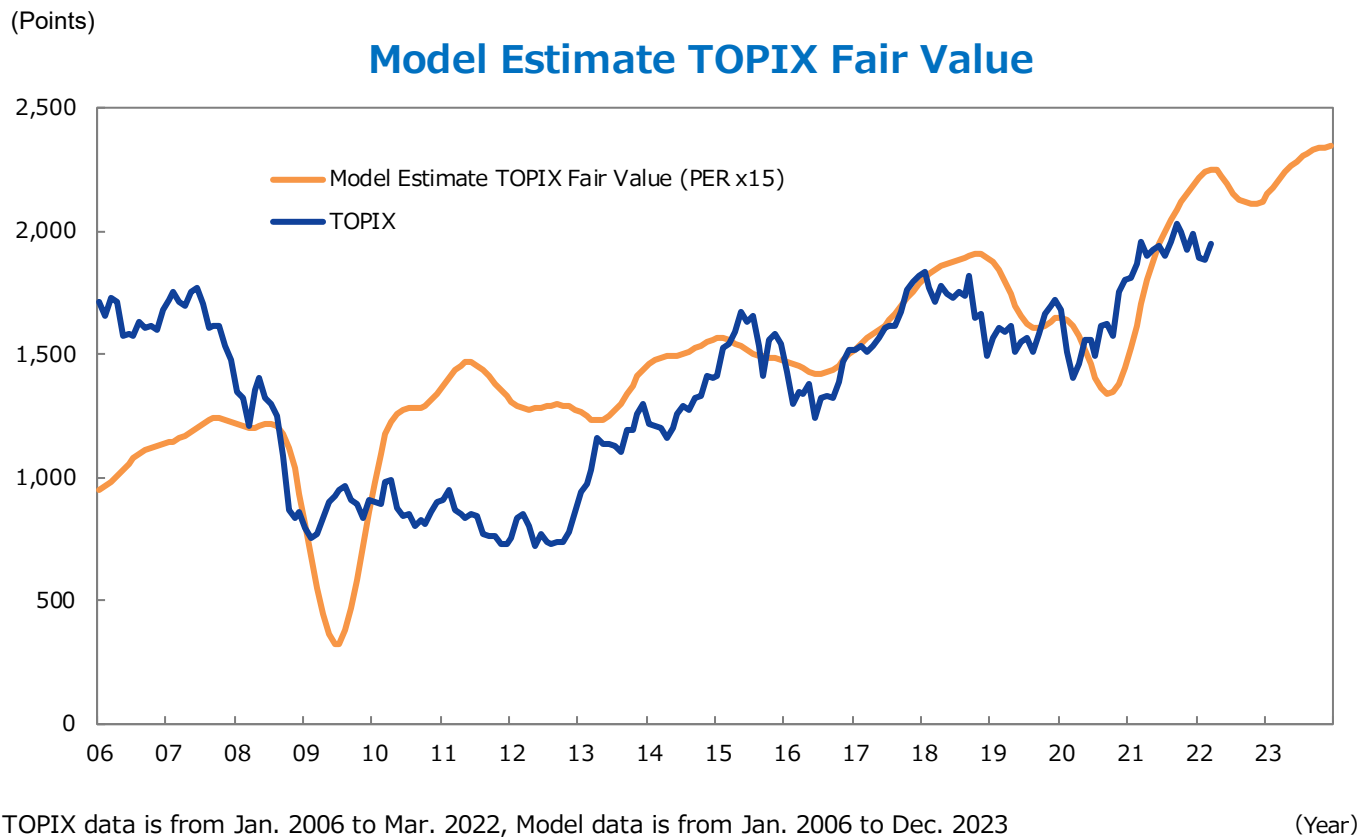


Consensus data is from Jan. 2006 to Mar. 2022, Model data is from Jan. 2006 to Dec. 2023

(Year)

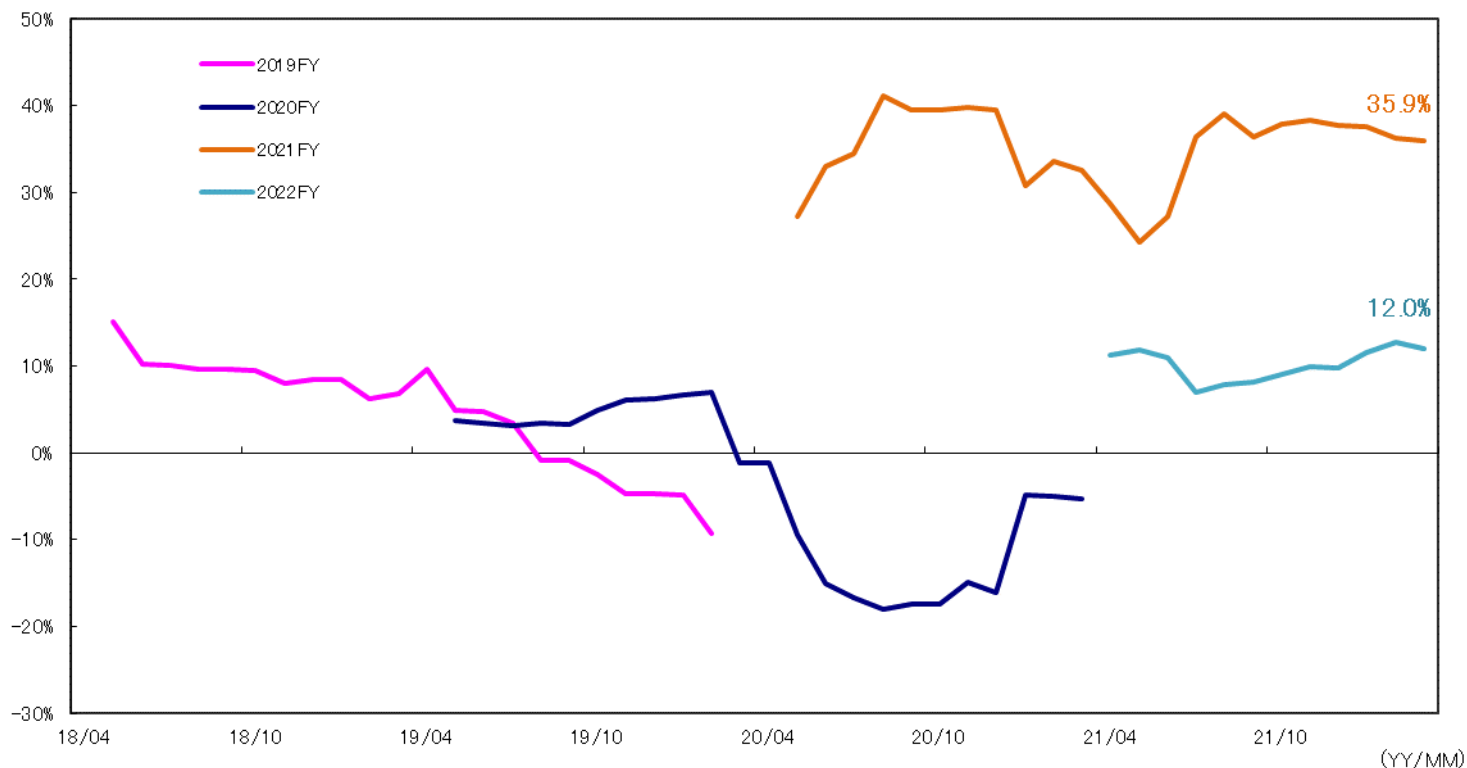
(Source) SMDAM

Quants model indicates opportunity to accumulate equities



Bottom up earnings estimate – steady outlook continues

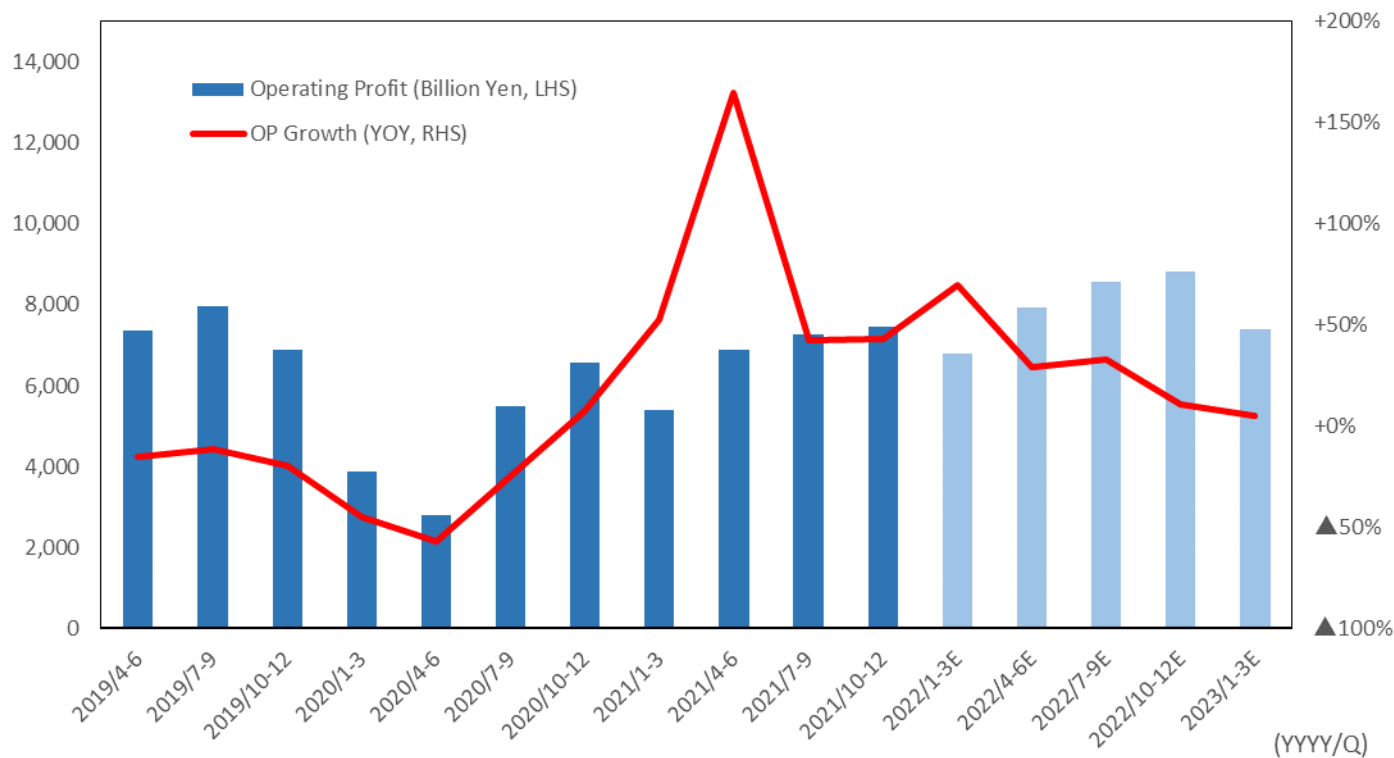
SMDAM Core Research Universe (Excl. Financials) Est. Recurring Profit Growth



Note: Data is as of Apr. 12th 2022, SMDAM Core Universe (Excl. Financials) consists of 431 major Japanese companies covered by SMDAM in-house analysts.
 (Source) SMDAM

Bottom up earnings estimate – steady outlook for operating profit

Operating Profit (All Industries Excl. Financials and Softbank Group)



Actual data is from Q2 2019 to Q4 2021, estimate data is from Q1 2022 to Q1 2023
 (Source) SMDAM

Tide of improvement of “corporate governance” in Japan

Investors that have signed up to the Principles for Responsible Institutional Investors	
Trust banks	6
Investment managers	206
Insurance companies	24
Pension funds	76
Others	11
Total	323

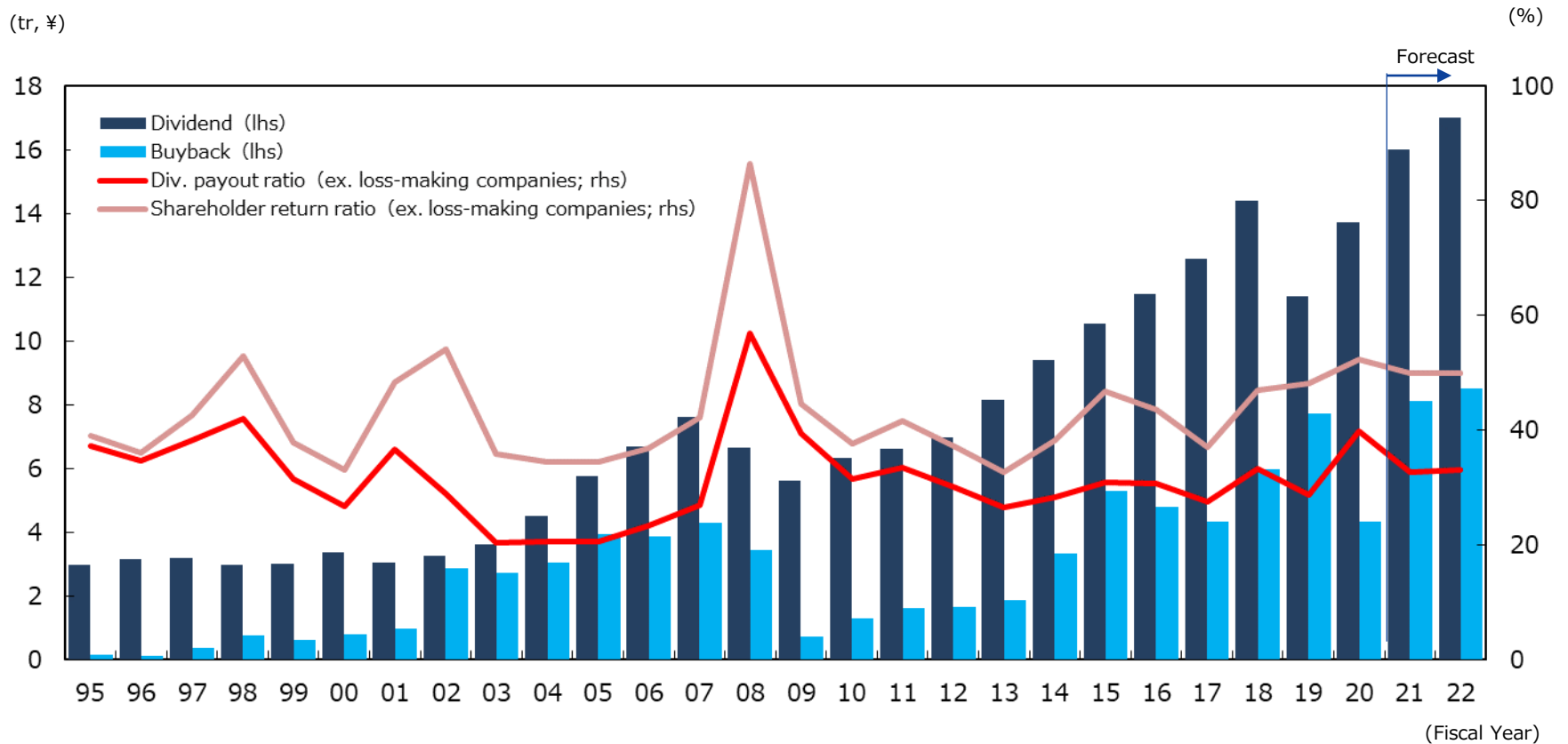
note: As of Mar. 31st 2022

(Source) FSA, SMDAM

- The Stewardship Code (SC) was set in February 2014. Investors are taking a more proactive approach in talking to companies and exercising proxy voting rights. The Financial Services Agency discloses the name of institutional investors that 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 a 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.

Upward trend of dividends and buy-backs continues

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



Note: Data is from FY1995 to FY2022, FY2021 and FY2022 are forecasts.
 Source: Toyo Keizai, Quick, INDB, Daiwa Securities, SMDAM

Winners and losers – large cap value dominates recent market

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	-1.28	-6.67	-5.19	-3.57	31.81	17.76	29.78
Total Value	1.36	0.12	3.16	4.11	40.18	12.52	20.32
Top Cap Value	2.34	4.09	6.03	10.96	50.14	26.67	35.45
Large Cap Value	2.04	2.04	4.95	6.74	44.08	15.37	23.74
Mid Cap Value	1.64	-0.54	3.52	1.66	37.04	0.80	8.48
Small Cap Value	-1.56	-7.90	-4.06	-6.85	24.01	0.62	5.74
Micro Cap Value	-1.94	-7.41	-6.16	-5.42	20.26	1.18	8.19
Total Growth	-3.97	-12.69	-12.81	-10.43	22.94	21.42	38.06
Top Cap Growth	-5.05	-10.95	-13.34	-8.61	26.34	28.40	45.40
Large Cap Growth	-4.43	-12.37	-13.12	-10.18	23.40	23.56	39.75
Mid Cap Growth	-3.26	-14.81	-12.73	-12.87	18.31	15.81	30.80
Small Cap Growth	0.12	-15.76	-9.97	-12.81	18.41	4.51	23.30
Micro Cap Growth	0.27	-17.99	-12.23	-15.80	19.90	5.34	26.71
Top Cap Total	-1.76	-4.75	-5.30	-0.48	36.42	27.04	39.90
Large Cap Total	-1.33	-5.98	-5.02	-2.64	33.34	20.38	32.67
Mid Cap Total	-0.65	-7.75	-4.55	-5.67	29.26	11.18	22.65
Small Cap Total	-0.99	-10.92	-6.18	-9.25	22.59	2.87	13.36
Micro Cap Total	-1.31	-10.80	-7.99	-8.75	21.13	3.53	16.06

Note : As of Apr. 18th 2022
(Source) Bloomberg



Outlook for Japanese Economy

Current status & Outlook of Japanese economy

[Current Status]

- The economy is recovering. Though rising inflation and deterioration of the global economy caused by the war in Ukraine has been putting downward pressure on the economy, the recovery of domestic demand on the back of declining COVID-19 infections has been improving consumer sentiment and boosting the economy as a whole. The employment situation is getting better with rising real income. Inflation is accelerating owing to external factors, such as foods and energy costs.

[Outlook]

- ① **We have revised down the real GDP growth forecast to +2.1% from +2.4% for FY 2022 and raised our forecast to +1.3% from +1.1% for FY 2023.** We have lowered our growth forecast for 1H of FY 2022 due to the possibility of rebound of COVID-19 infections, delay in the execution of fiscal stimulus, and deterioration of consumer sentiment. We have increased our growth estimate for H1 of FY 2023 by reflecting the impact of deferred economic measures and carry-over effect of GDP growth.
- ② **We have cut our Core CPI forecast for FY 2022 to +1.6% from +1.7% and it remains unchanged at +1.0% for FY 2023.** We have revised down our forecast for FY 2022 due to the change of our estimate of crude oil price. We expect core CPI will reach +2.0% in April 2022 owing to rising energy costs and the pace of inflation will be hovering just below 2%.
- ③ **We expect PM Kishida's cabinet to maintain its economic policy to boost the economy.** Currently the government is executing economic measures to ease negative impact from rising energy costs and additional fiscal stimulus as much as 10 trillion yen will follow in the near future to support the economy.
- ④ **Despite rising inflation, the current accommodative monetary policy will be maintained by the BOJ in the near future as the BOJ regards it as difficult to control cost-push inflation by monetary tightening. Recent changes to the members of the BOJ policy committee suggests PM Kishida's intention to keep distance from the existing reflationary monetary policy. We see a growing likelihood of change to the yield curve control policy after the end of BOJ Governor Kuroda's term in April 2023. His resignation could be a turning point for the current accommodative monetary policy.**

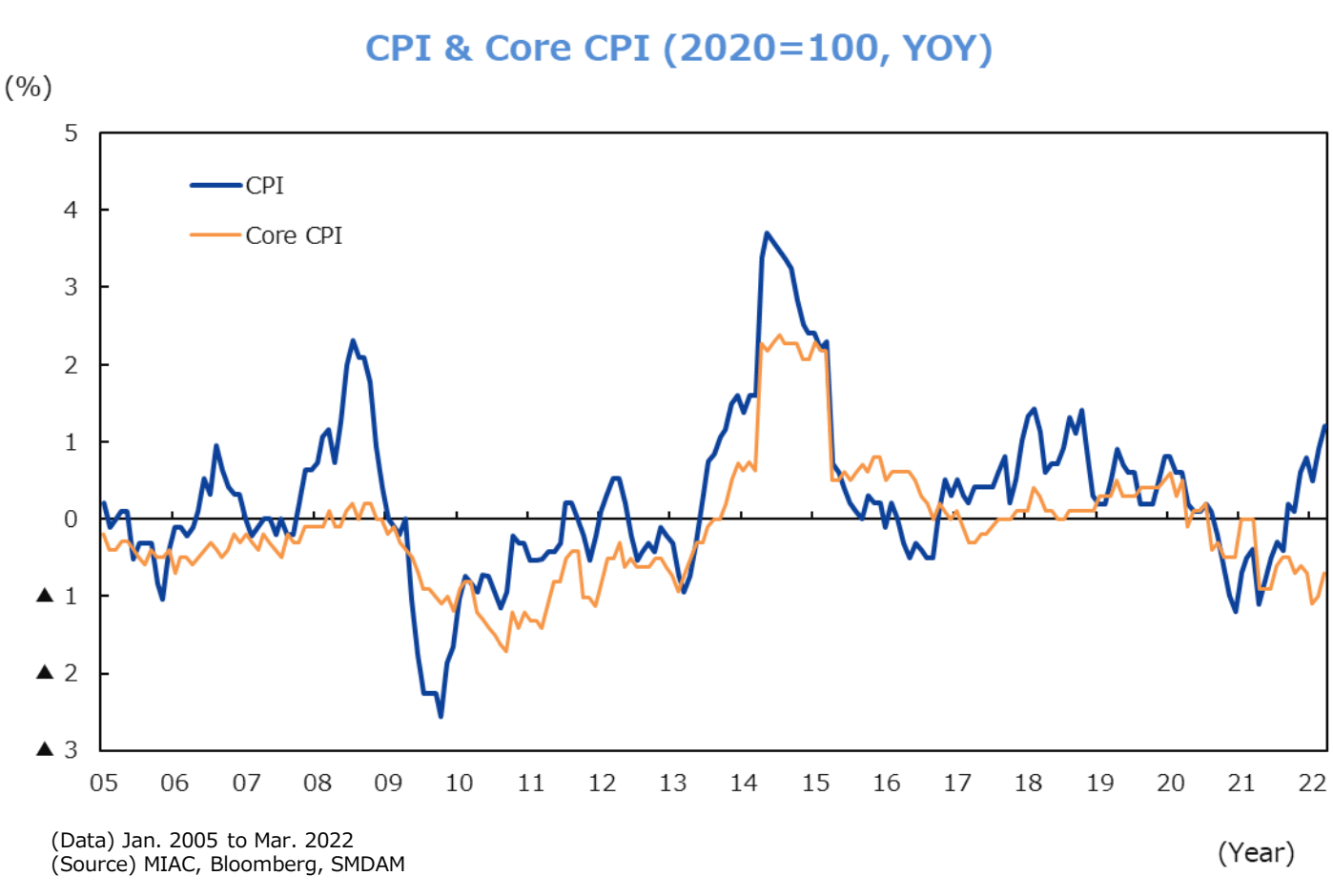
Forecast table for the Japanese economy

Forecast of annual Real GDP growth and its breakdown							
Fiscal Year	FY17	FY18	FY19	FY20	FY21 Est	FY22 Est	FY23 Est
Real GDP	1.8%	0.2%	-0.7%	-4.5%	2.3%	2.1%	1.3%
Private final consumption expenditure	1.0%	0.1%	-1.0%	-5.4%	2.3%	2.3%	1.2%
Private housing investment	-1.8%	-4.9%	2.6%	-7.8%	-1.4%	-1.0%	0.0%
Private-sector capital investment	2.8%	1.2%	-0.6%	-7.5%	1.6%	3.4%	3.2%
Public fixed capital formation	0.6%	0.9%	1.6%	5.2%	-7.2%	-0.6%	0.4%
Net export contribution	0.4%	-0.2%	-0.4%	-0.6%	1.0%	0.0%	0.0%
Exports of goods and services	6.3%	2.0%	-2.2%	-10.5%	13.0%	2.3%	3.4%
Imports of goods and services	3.8%	3.0%	0.2%	-6.7%	6.8%	2.5%	3.4%
Nominal GDP	2.0%	0.1%	0.2%	-3.9%	1.2%	2.2%	1.7%
GDP deflator	0.2%	-0.1%	0.8%	0.6%	-1.1%	0.2%	0.4%
Industrial Production Index	2.9%	0.3%	-3.7%	-9.9%	6.0%	3.6%	3.0%
Consumer Price Index (Core)	0.7%	0.8%	0.4%	-0.6%	0.1%	1.6%	1.0%
Domestic corporate goods price index	2.7%	2.2%	0.1%	-1.4%	7.1%	4.8%	0.4%
Employee compensation	2.0%	3.2%	2.0%	-1.5%	1.6%	1.4%	1.2%
Unemployment rate	2.7%	2.4%	2.4%	2.9%	2.8%	2.8%	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.

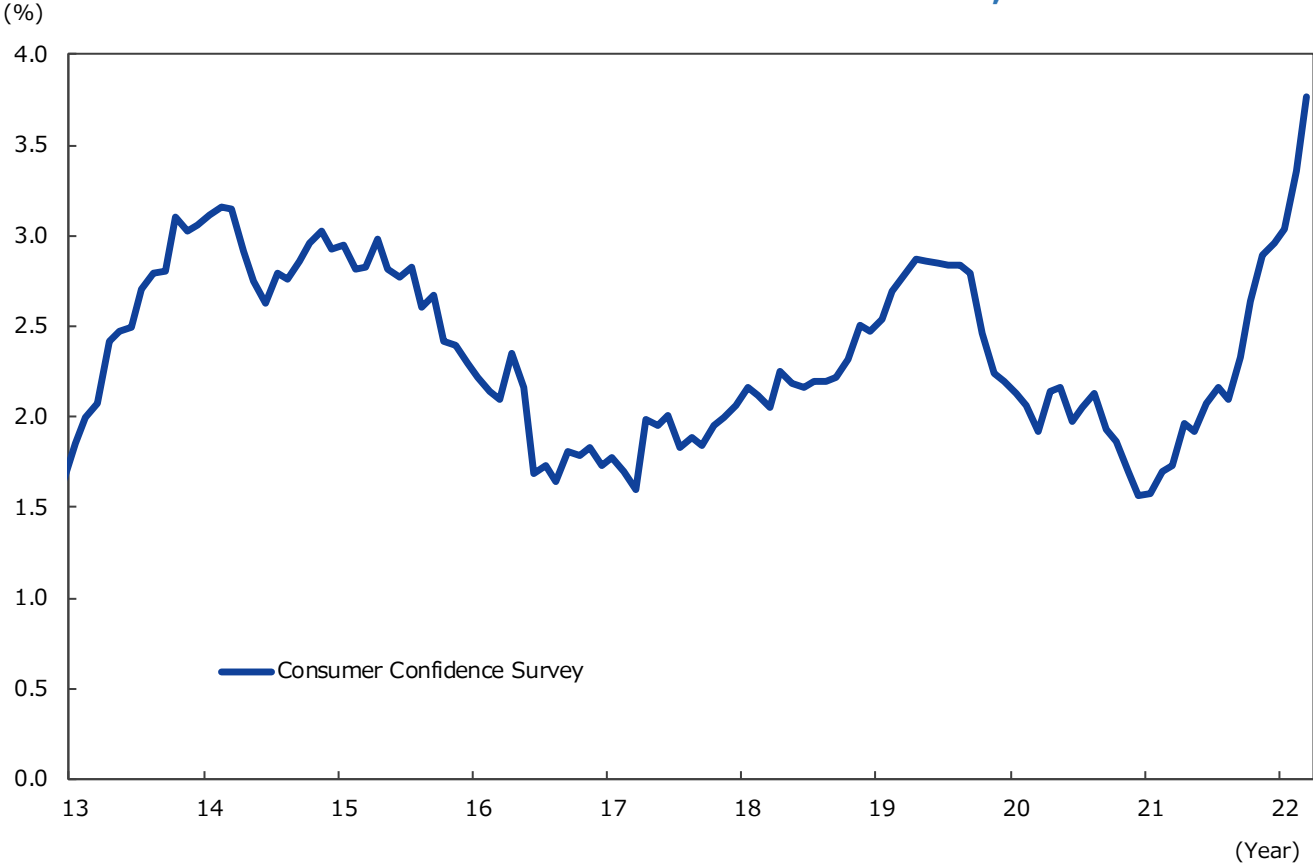
(Source) Creation of Sumitomo Mitsui DS Asset Management based on data from the Cabinet Office, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry

Finally inflation has come back to Japan



Consumers increasingly concerned about inflation

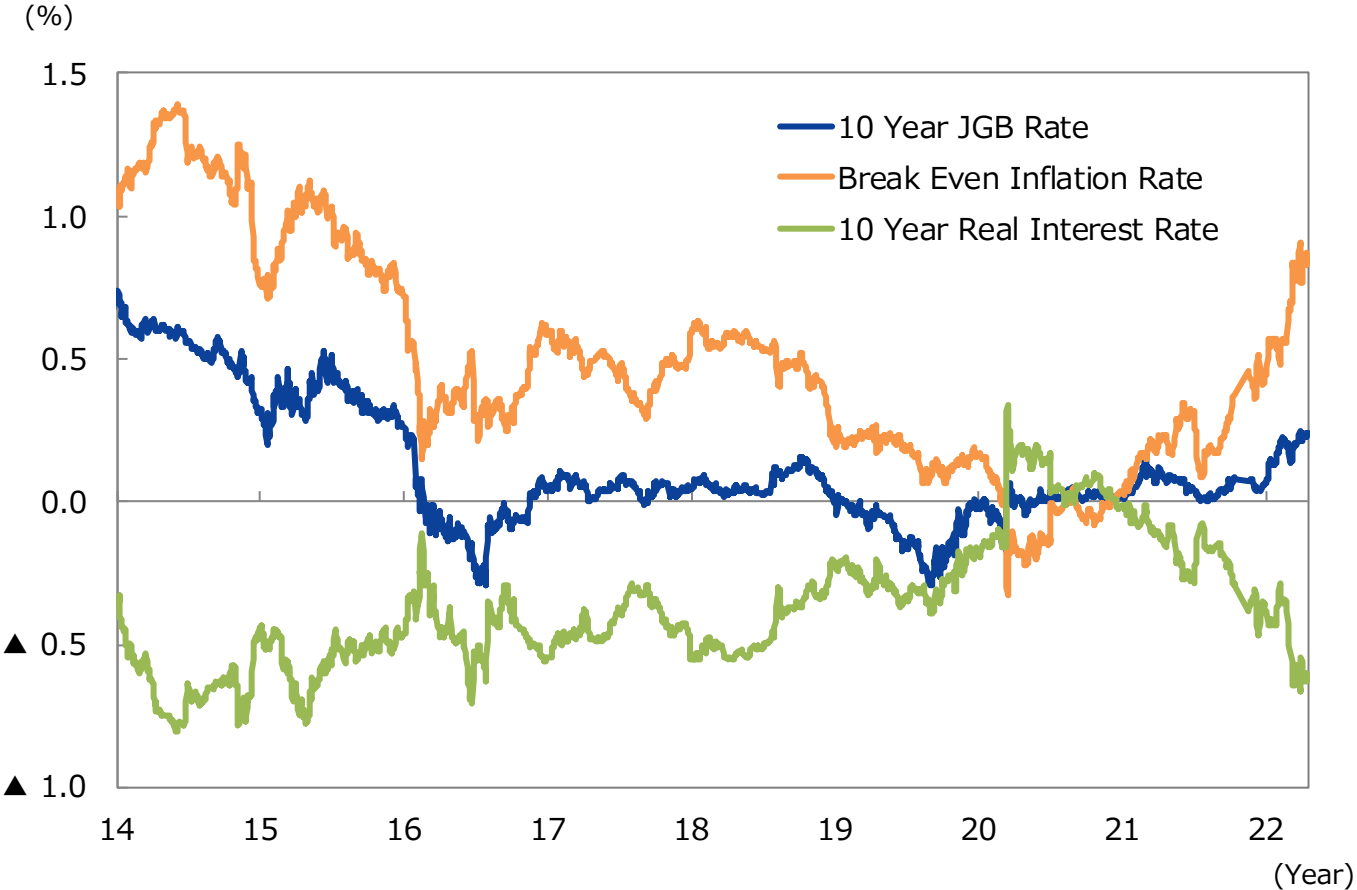
Consumer's Forecast of Inflation (YOY, %)



(Data) Weighted average of inflation forecast of "Consumer Confidence Survey".
Data is from Jan. 2013 to Mar. 2022.
(Source) Cabinet Office, SMDAM

Easy monetary policy pushes real interest sharply lower

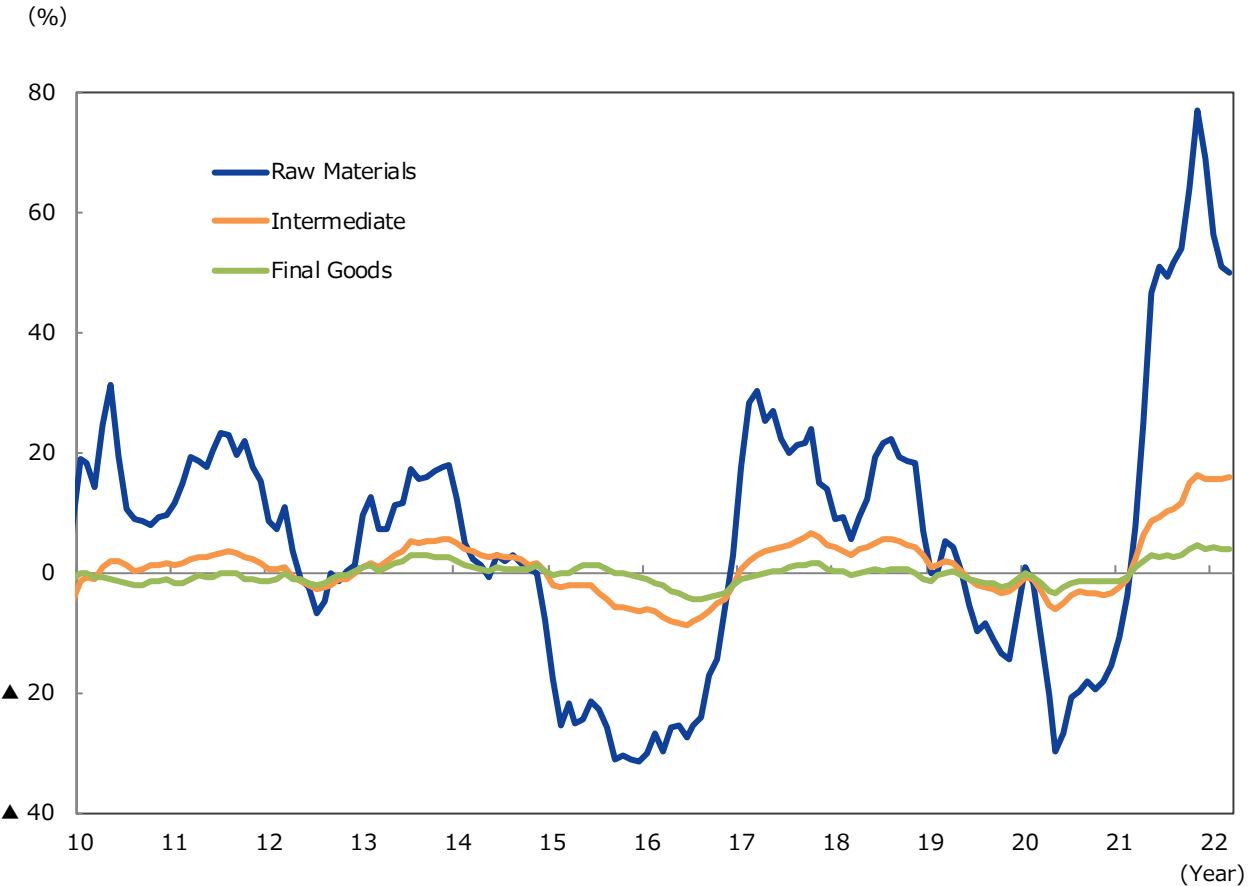
JGB, BEI, and Real Interest rate



(Data) From Jan. 1st 2014 to Apr. 19th 2022
(Source) Bloomberg, SMDAM

Companies struggling to pass through rising input costs

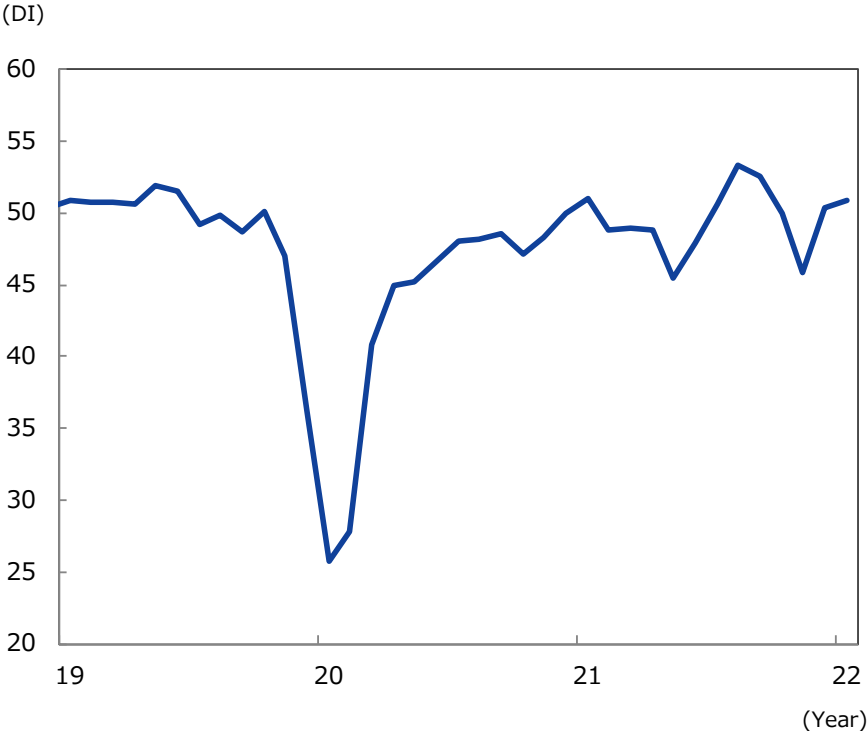
Corporate Price Index (YOY)



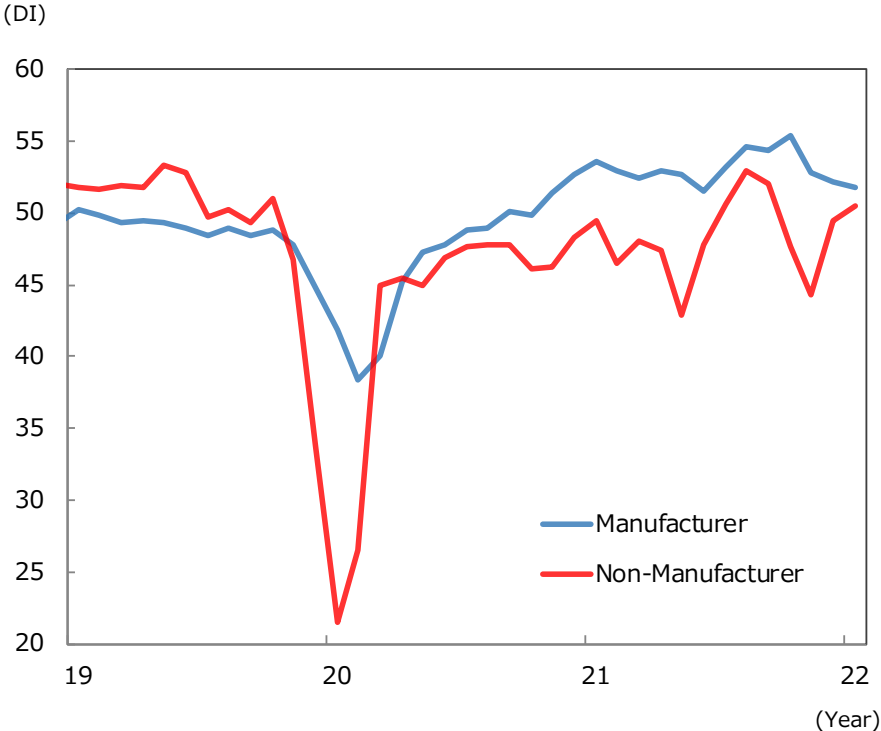
(Data) From Jan. 2010 to Mar. 2022
(Source) Bank of Japan, SMDAM

Mixed PMI, services coming back but manufacturers slowing

Composite PMI



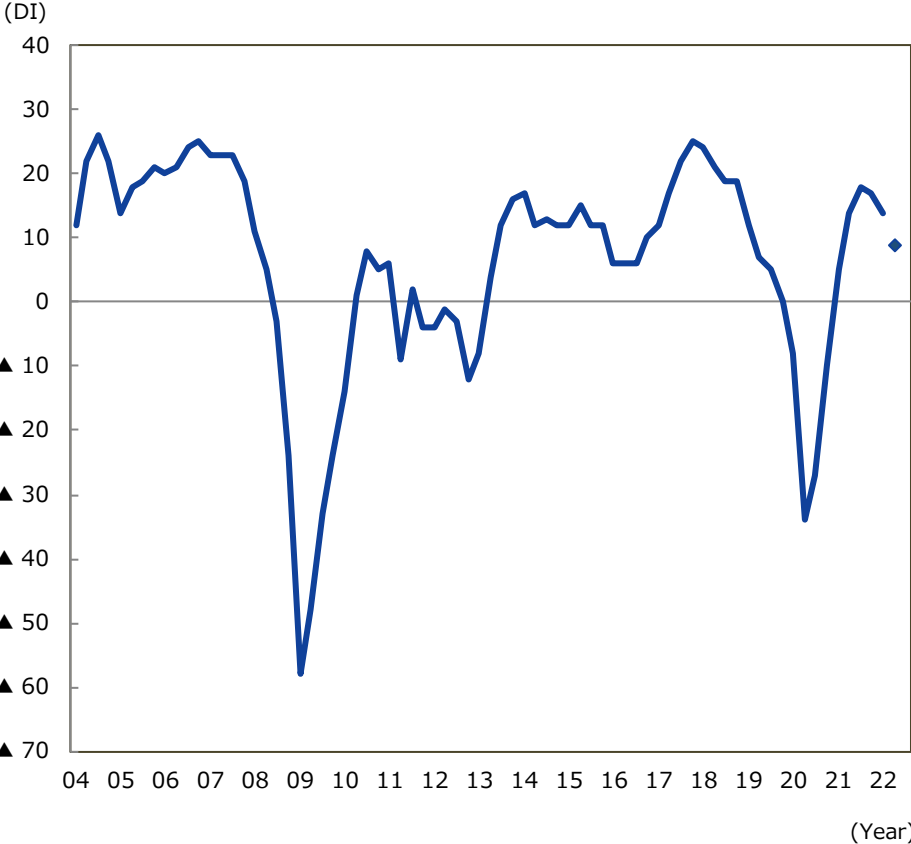
PMI, Manufacturer & Non-Manufacturer



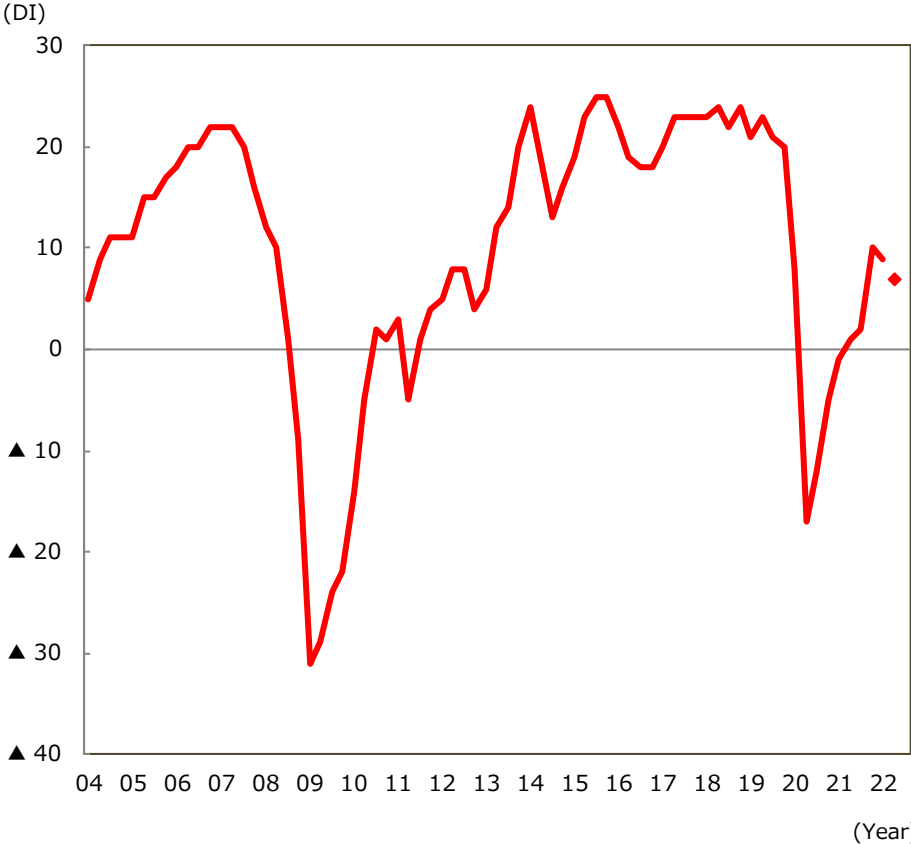
(Data) From Apr. 2019 to Apr. 2022
(Source) Bloomberg, SMDAM

Uncertainty likely to weigh on business sentiment for the near future

BOJ Tankan DI (Large Manufacturer)



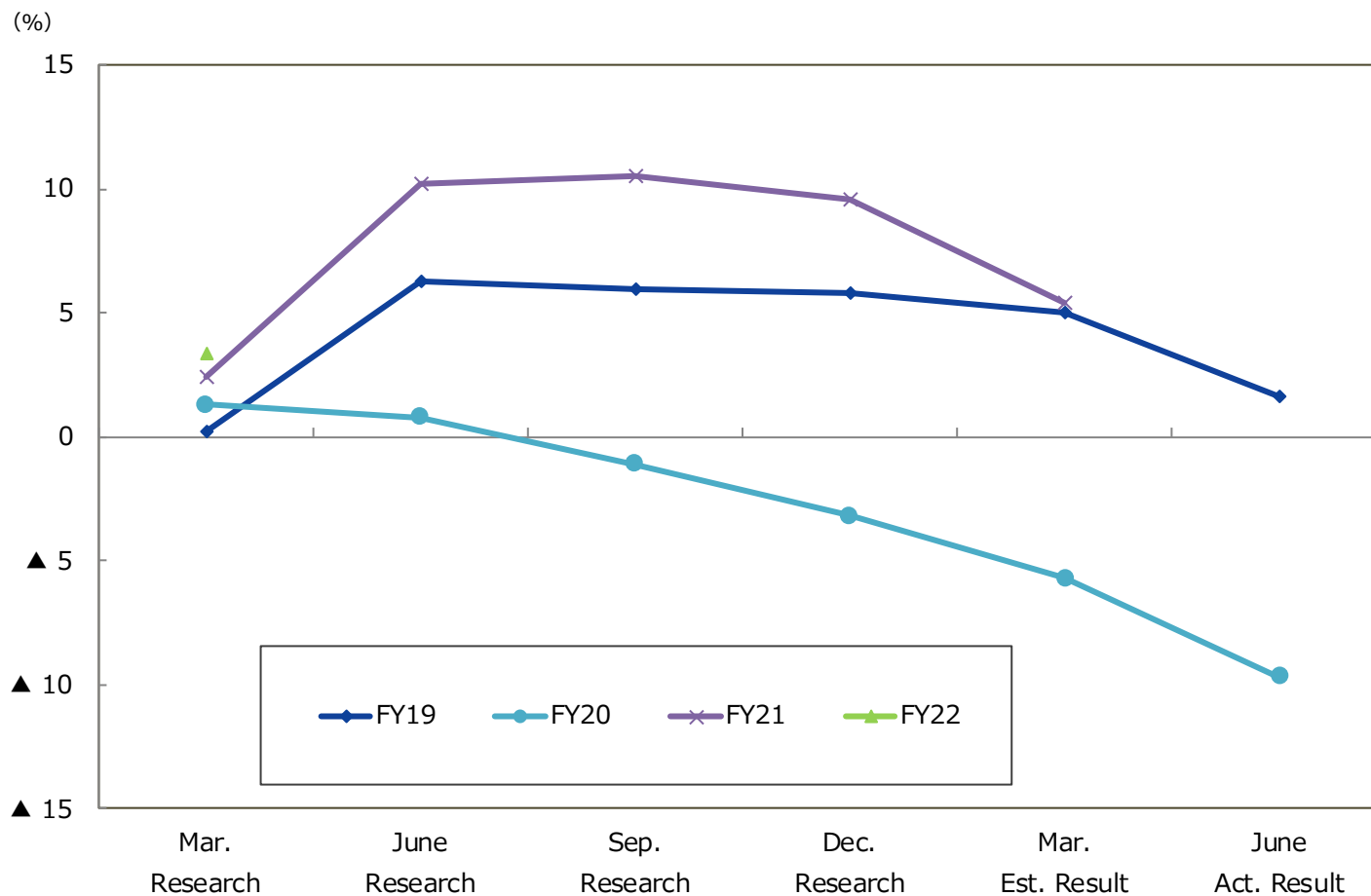
BOJ Tankan DI (Large Non-Manufacturer)



(Data) "Tankan DI, diffusion Index" is business sentiment calculated by the number of "Yes" minus "No". Data is from Q1 2004 to Q2 2022, data for Q2 2022 is forecast figure.
 (Source) The Bank of Japan, SMDAM

CAPEX slowing due to uncertainty over global economy

Plan of CAPEX (Inc. Software, Ex. Land and R&D, YOY)

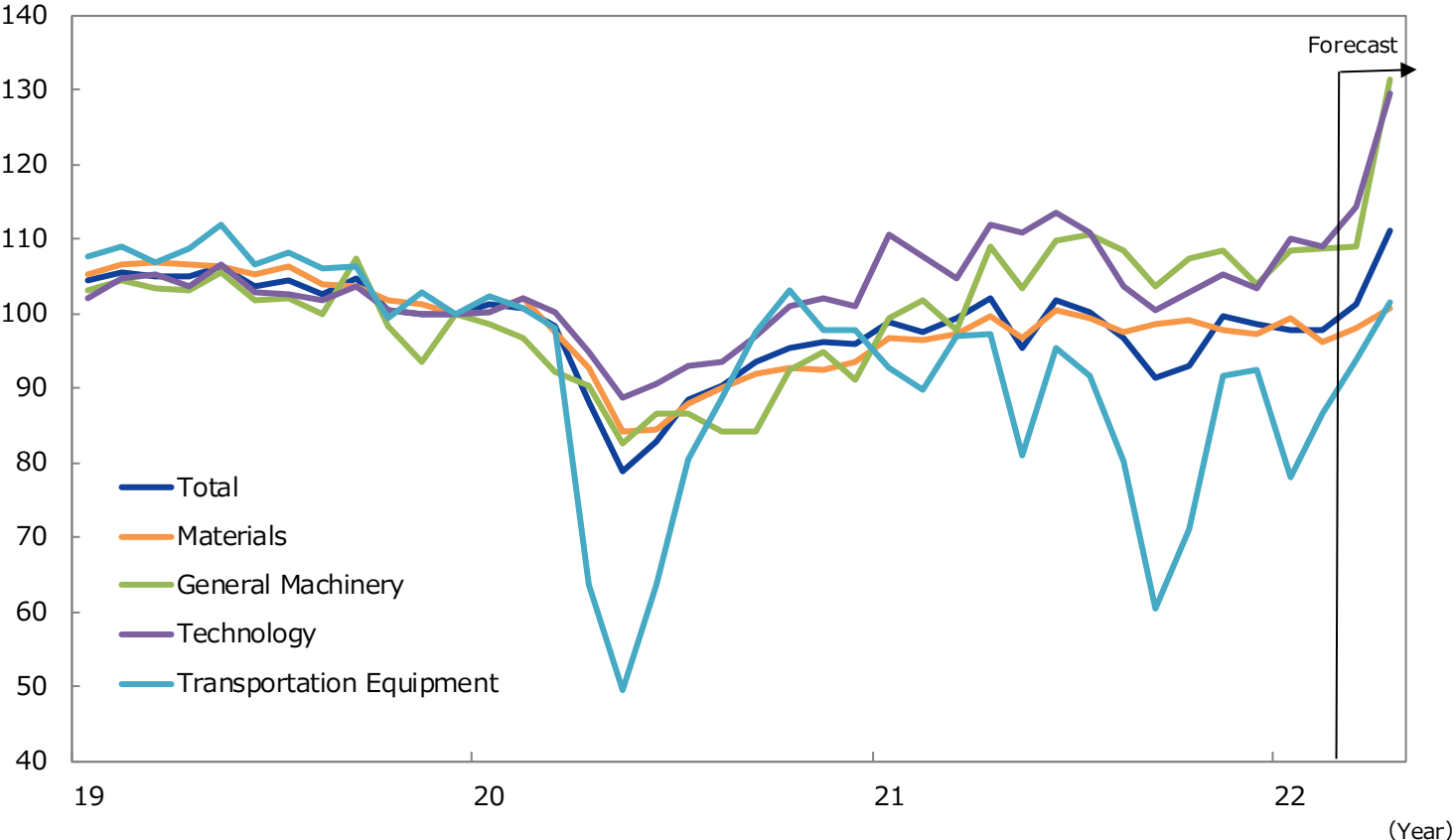


(Data) Data is from Q1 FY 2019 to Q1 FY 2022
(Source) The Bank of Japan, SMDAM

(Quarter)

Industrial production is about to accelerate

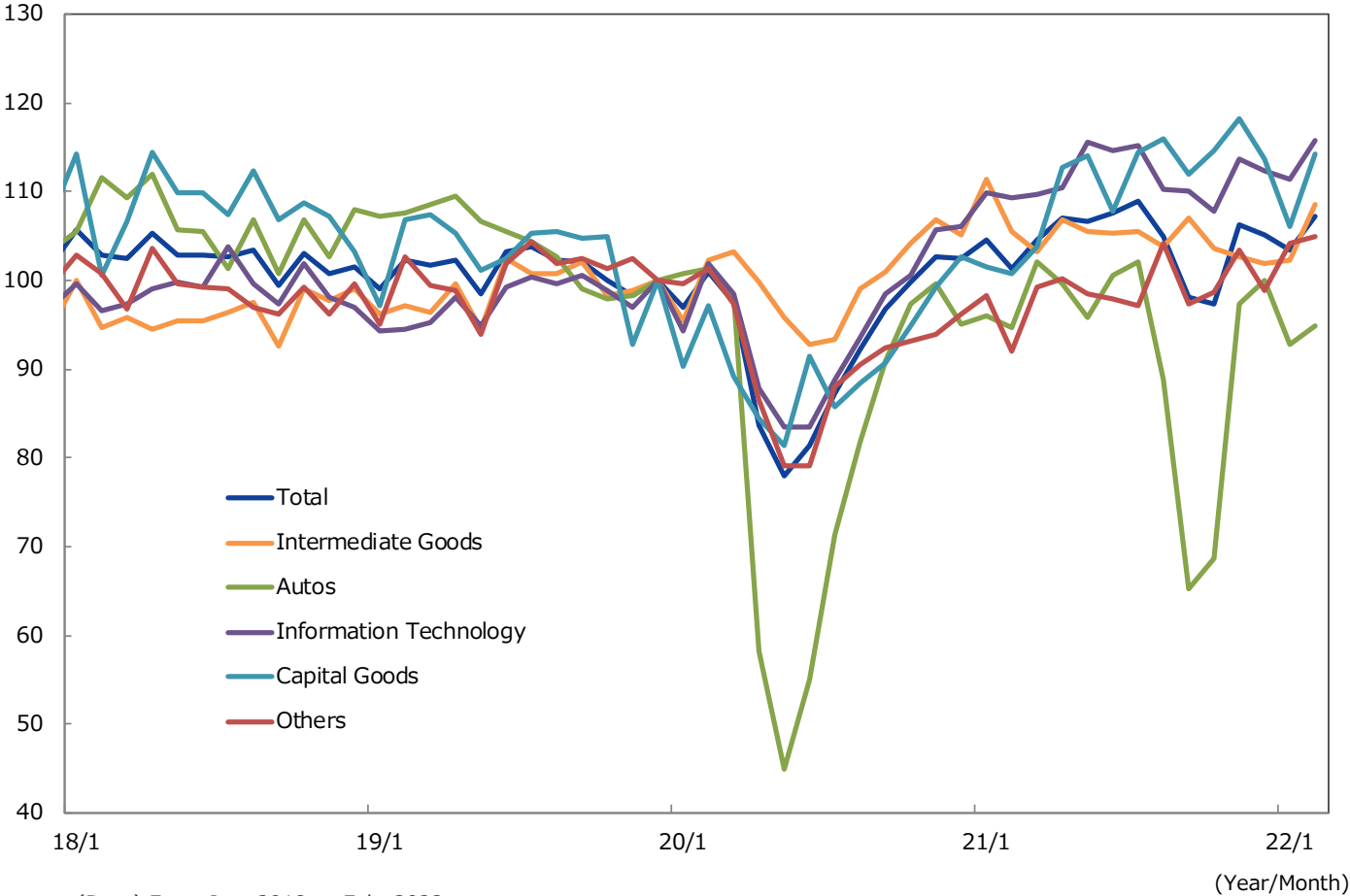
Industrial Production (Dec. 2019=100)



(Data) From Jan. 2019 to Apr. 2022.
(Source) METI, SMDAM

Exports had not accelerated so far in spite of yen's weakness

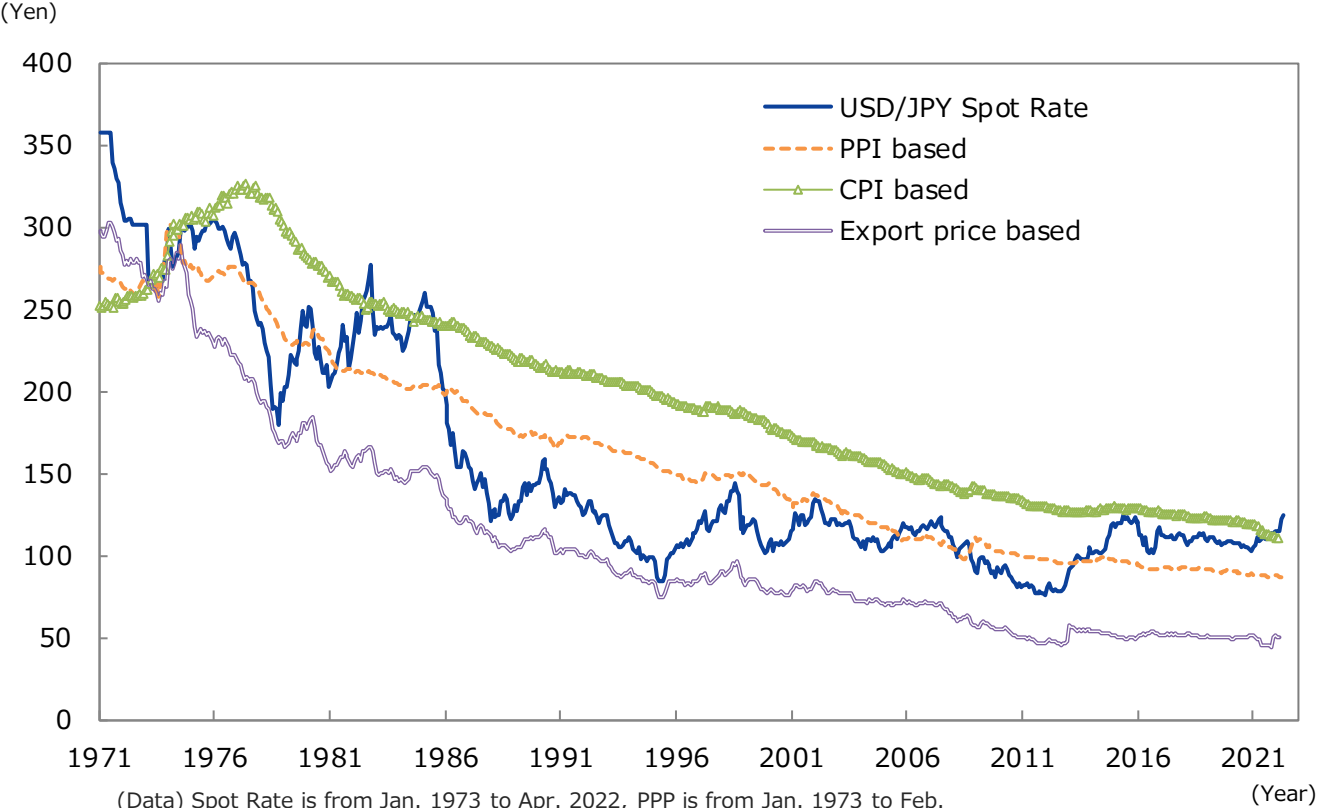
Real Export (Dec. 2019=100)



(Data) From Jan. 2018 to Feb. 2022
(Source) Bank of Japan, SMDAM

USD/JPY exchange rate entered new era

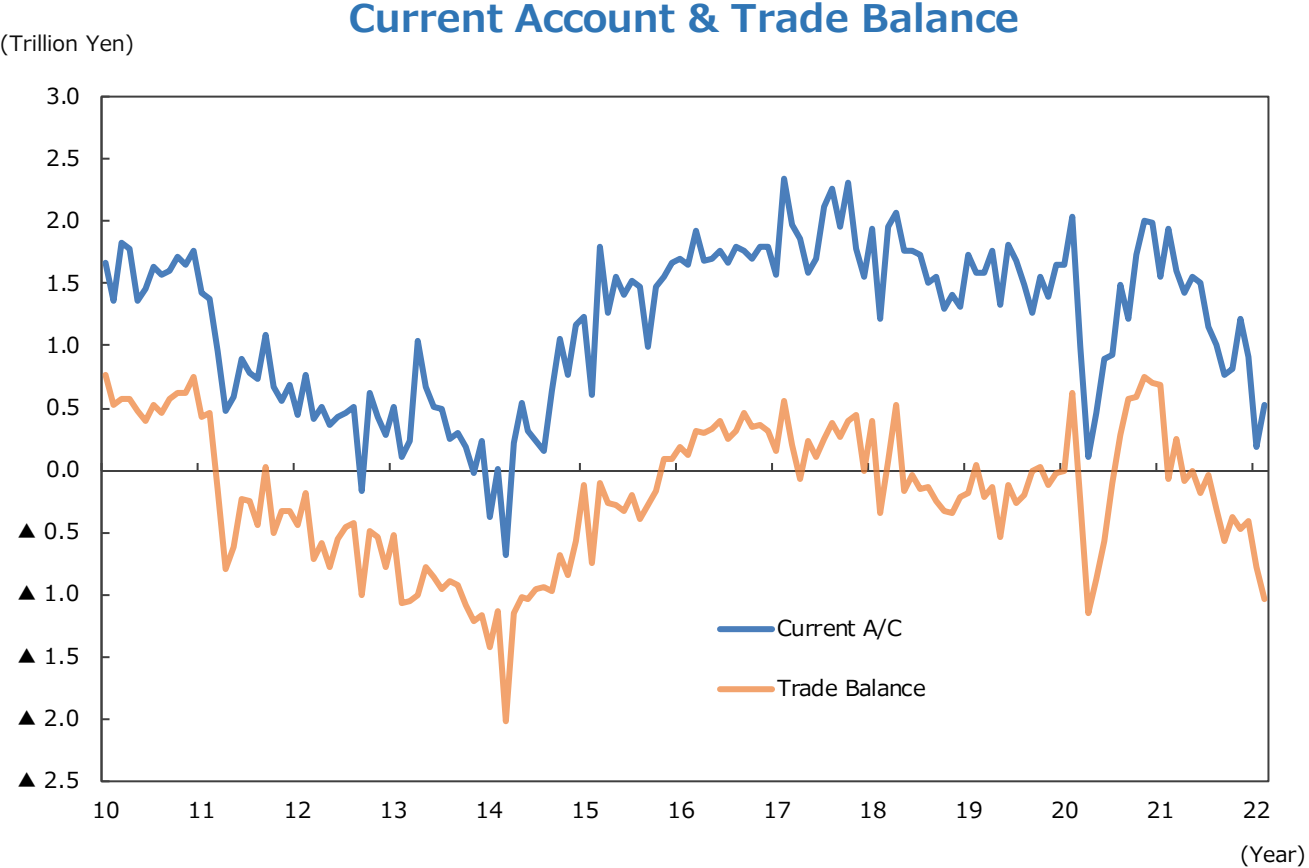
Purchasing Power Parity of JPY/USD Rate (1973/3=100)



(Data) Spot Rate is from Jan. 1973 to Apr. 2022, PPP is from Jan. 1973 to Feb. 2022.

(Source) DOL, Bank of Japan, SMDAM

Rising material/energy costs hit trade balance



(Data) Seasonally adjusted, Data is from Jan. 2010 to Feb. 2022.
(Source) MOF, SMDAM

Marginal exposure to Russian business

Trade Exposure to Russia (%)

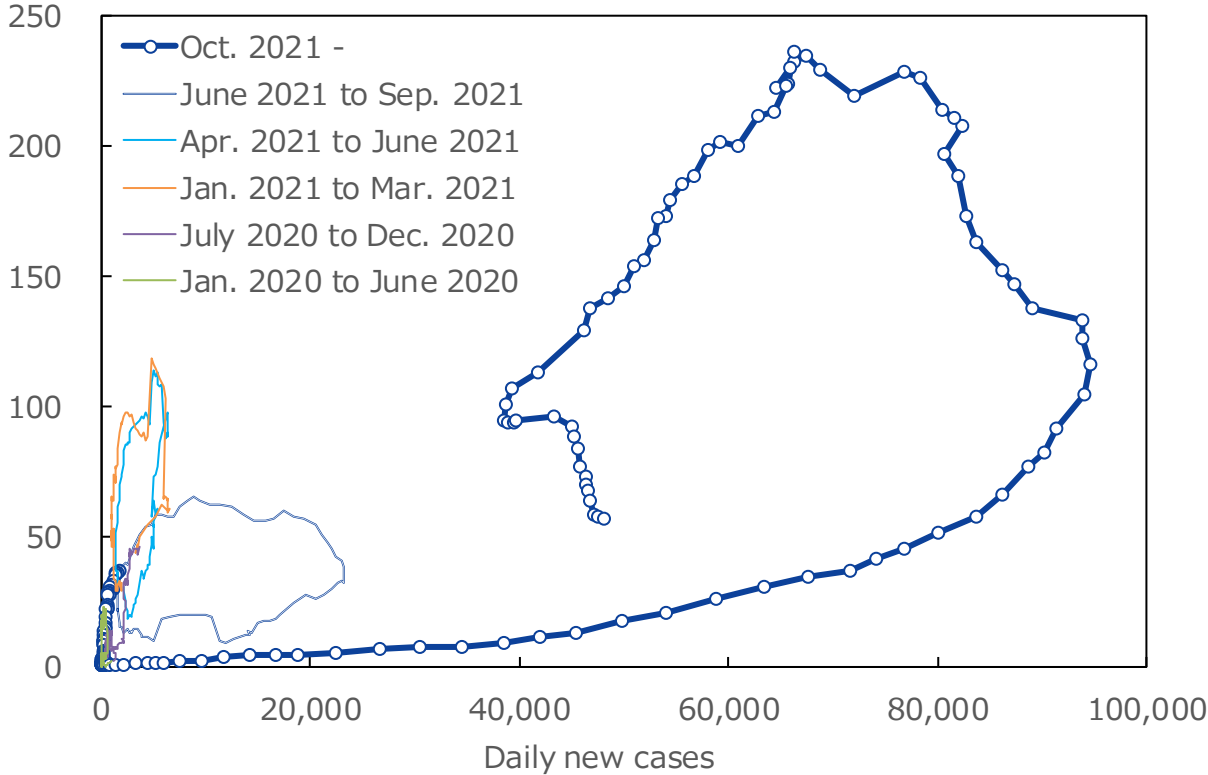
	Export		Import	
	Weight of Total Export	Weight of GDP	Weight of Total Export	Weight of GDP
Total	1.04	0.16	1.82	0.28
Foods	0.01	0.00	0.17	0.03
Raw Materials	0.00	0.00	0.09	0.01
Mineral Fuel	0.01	0.00	1.12	0.17
Chemicals	0.03	0.00	0.02	0.00
Material Products	0.09	0.01	0.41	0.06
Machinery	0.21	0.03	0.01	0.00
Electronics	0.07	0.01	0.00	0.00
Transportation Equipment	0.56	0.09	0.00	0.00
Others	0.07	0.01	0.00	0.00

(Data) As of year 2021.
 (Source) MOF, SMDAM

COVID-19 infections peaked but still hovering at higher level

COVID-19 New patients and confirmed deaths in Japan

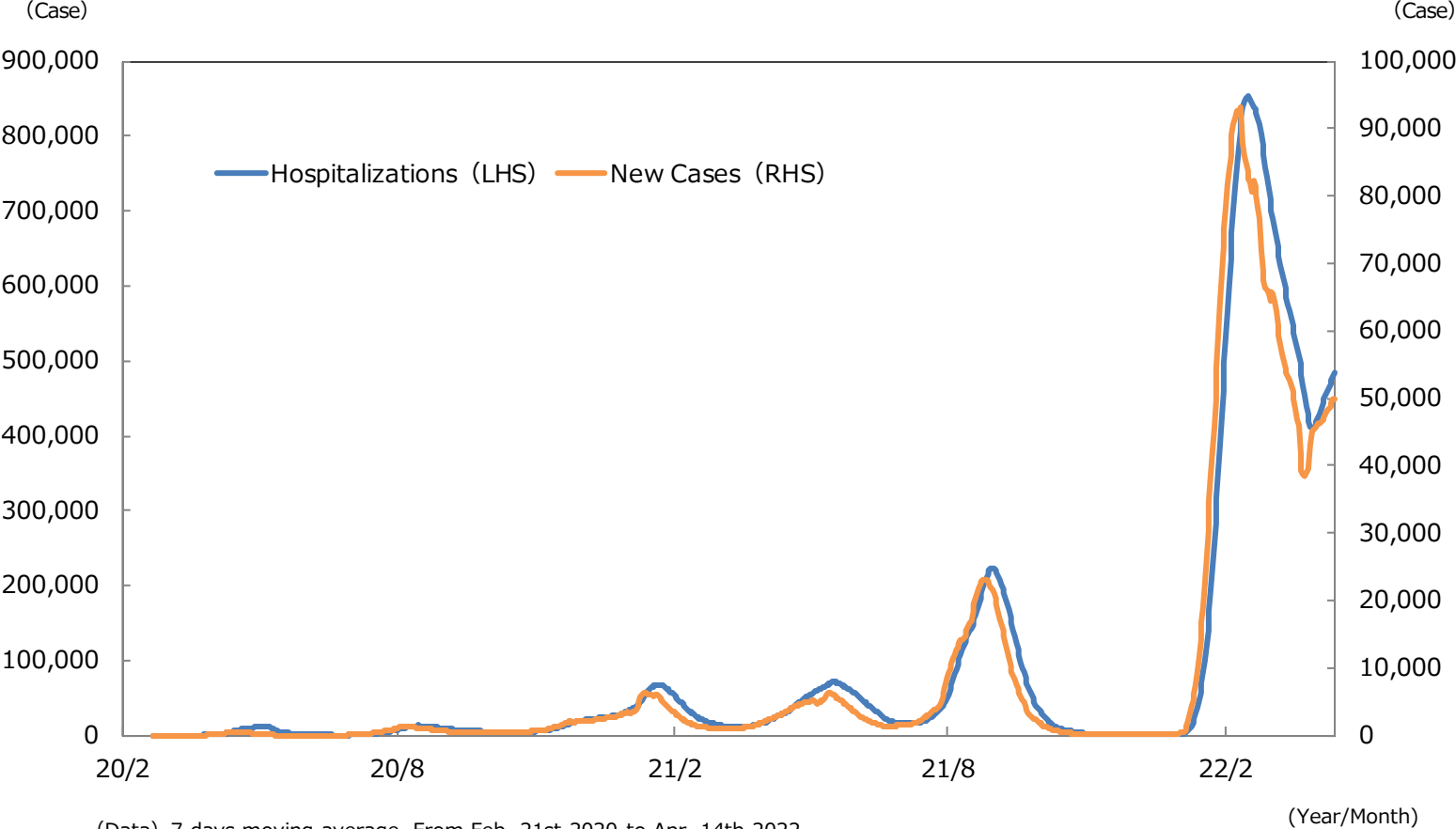
Daily Death



(Data) 7 days moving average, From Jan. 1st 2020 to Apr. 9th 2022
(Source) Bloomberg, SMDAM

COVID-19 infections peaked but still hovering at higher level

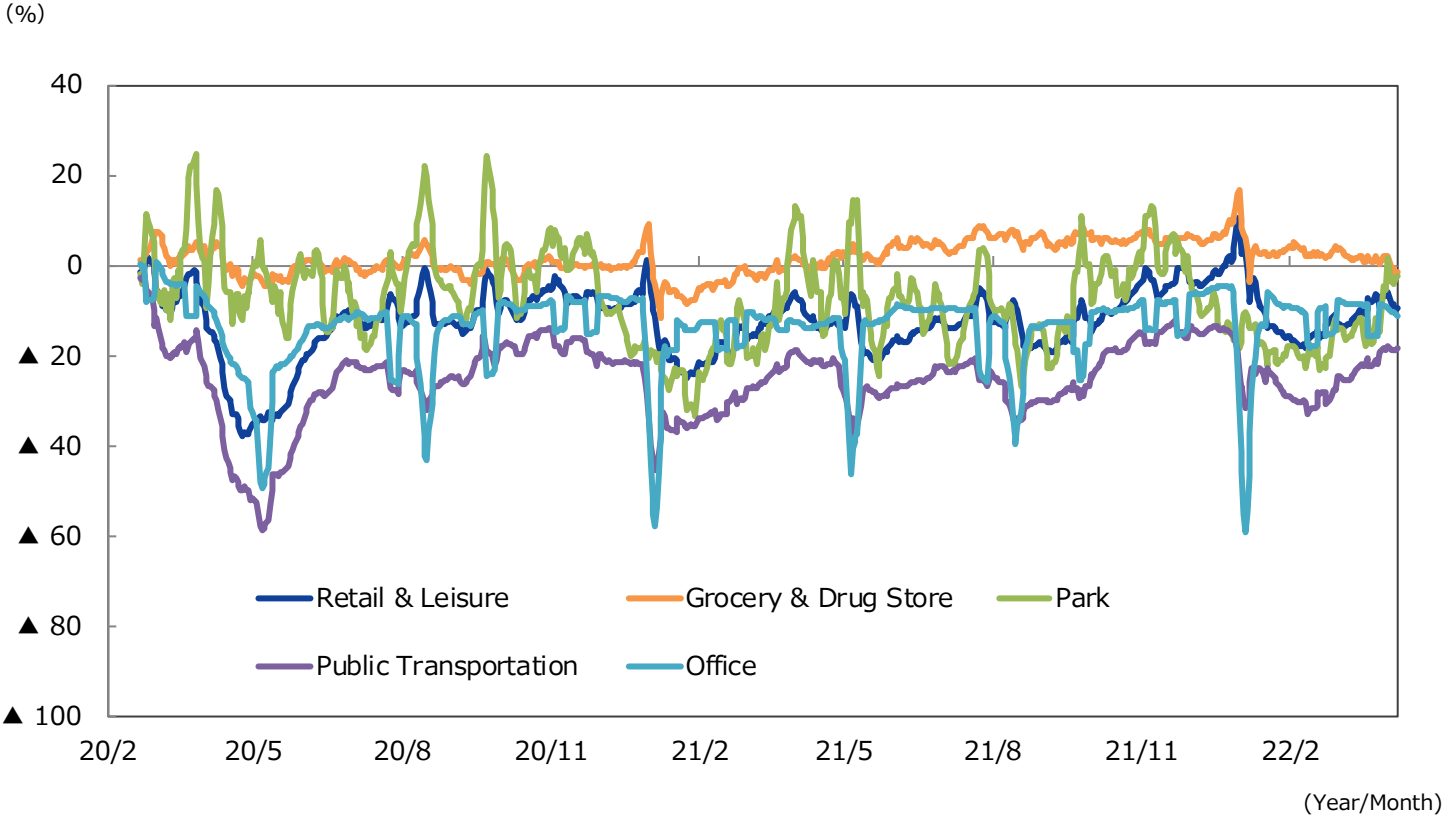
COVID-19 New Cases and Hospitalizations



(Data) 7 days moving average. From Feb. 21st 2020 to Apr. 14th 2022
(Source) MHLW, NHK, SMDAM

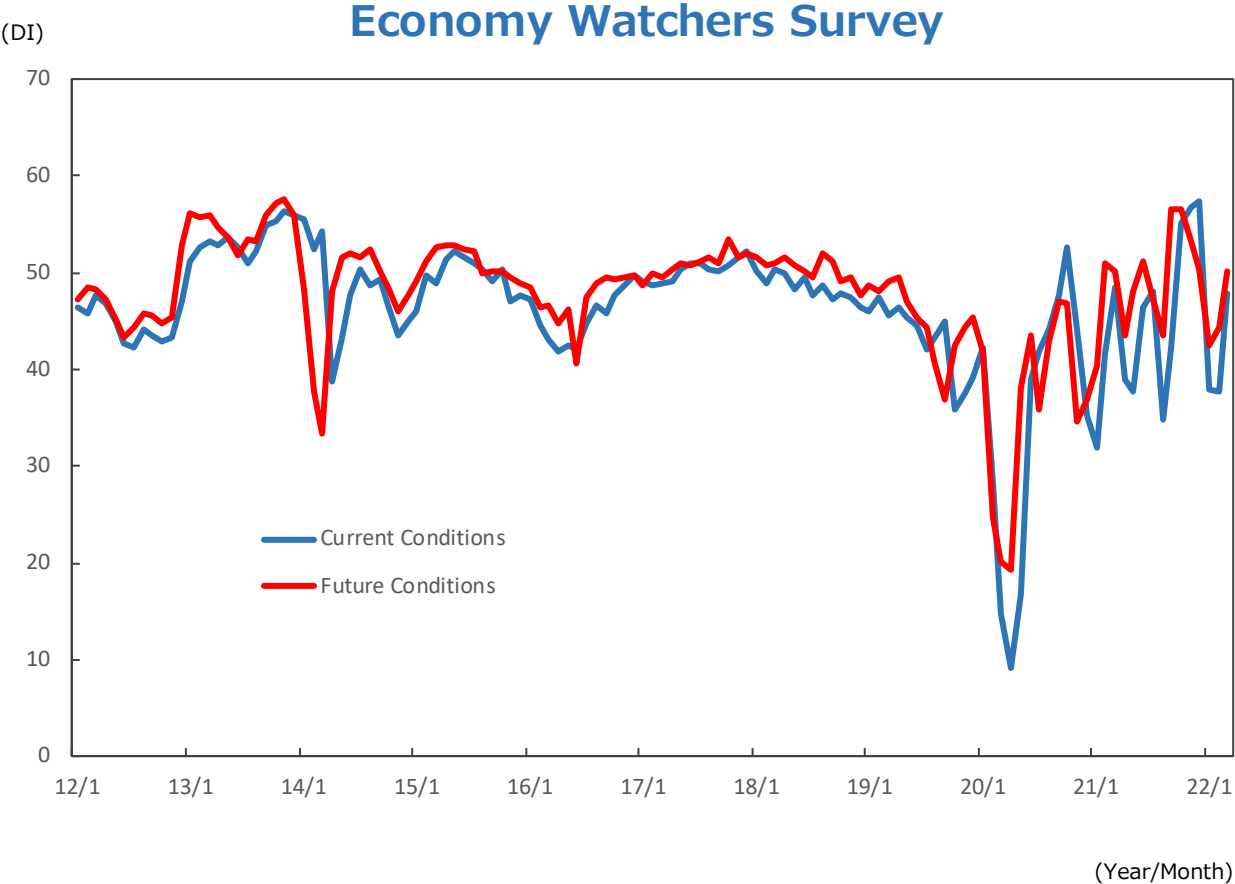
Mobility coming back after peak in infections

Google Community Mobility Report, Japan



(Data) 7 Days moving average, From Feb. 21st 2020 to Apr. 8th 2022
(Source) Google, SMDAM

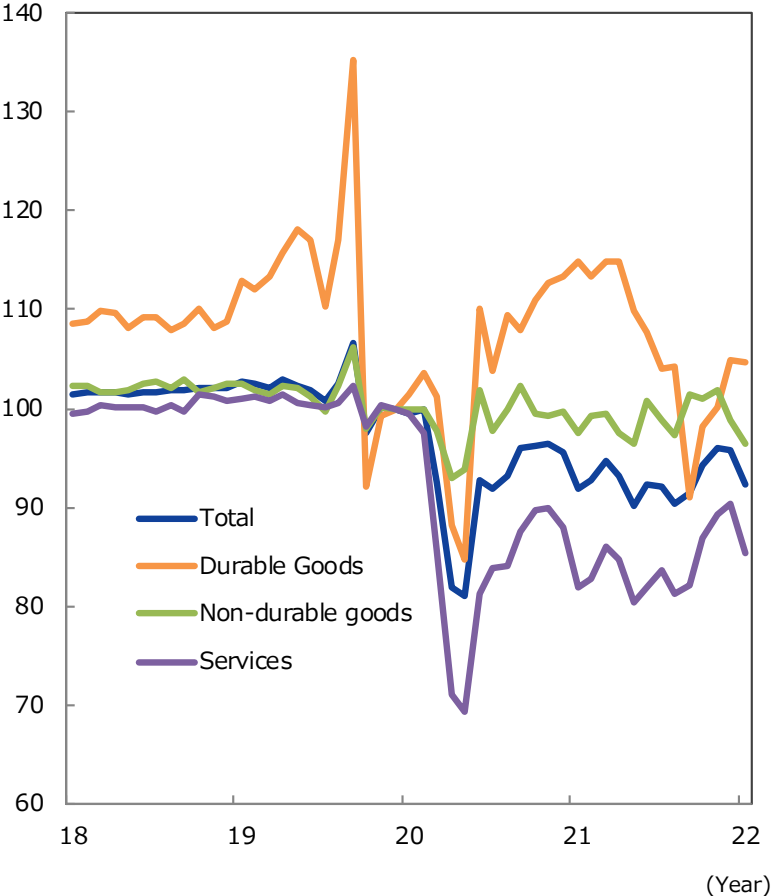
Consumers coming back thanks to declining COVID-19 infections



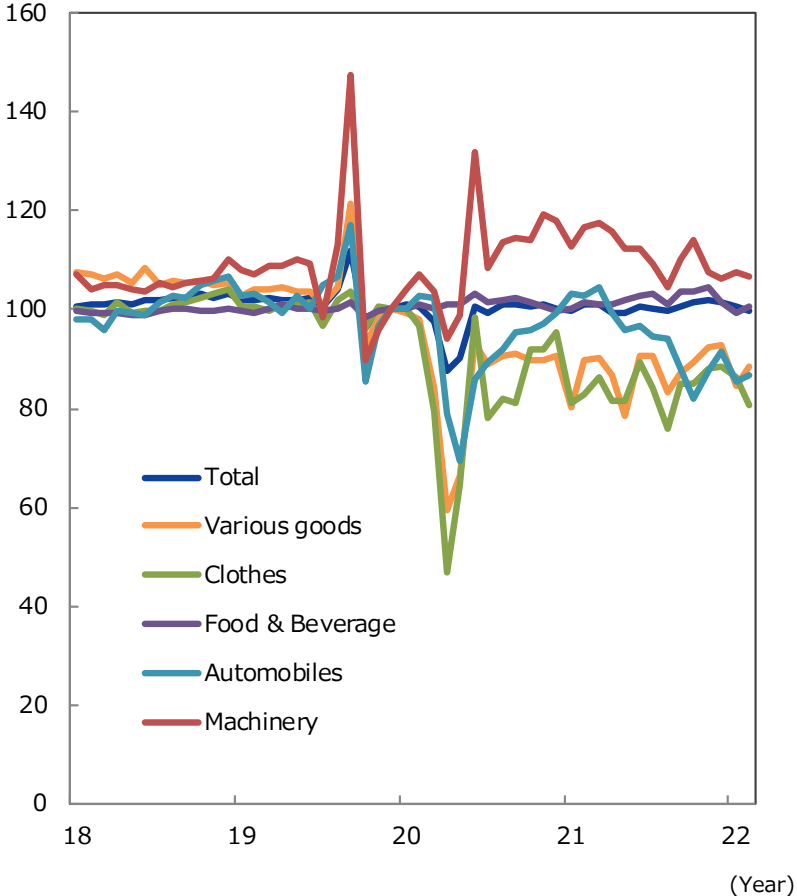
(Data) From Jan. 2012 to Mar. 2022
(Source) Cabinet Office, SMDAM

COVID-19 hits retail sales in the winter

Consumer Activity Index (Dec. 2019 = 100)



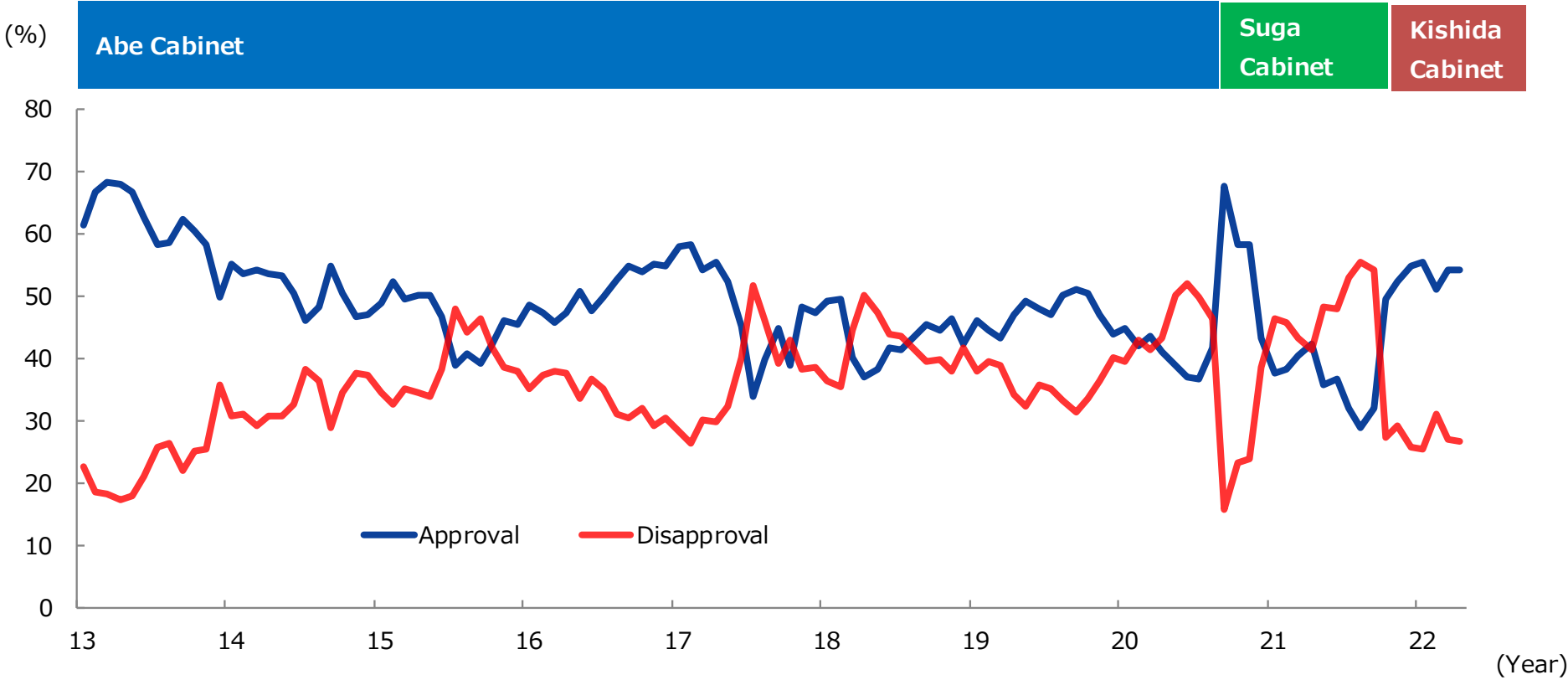
Retail Sales (Dec. 2019 = 100)



(Data) Consumer Activity Index is from Jan. 2018 to Jan. 2022, Retail Sales is from Jan. 2018 to Feb. 2022
 (Source) BOJ, METI, and SMDAM

PM Kishida keeps high approval rate

Cabinet approval rate



(Data) From Jan. 2013 to Apr. 2022
(Source) NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

PM Kishida's economic policy – “growth and distribution”

Leader of Ruling LDP and His Economic Policy

Name	Fumio Kishida
Political Career	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
Policy overview	<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 (10 trillion yen university endowment fund) ▪ Economical National Security (promote free and reliable data flow) ▪ Digital Rural City-State Vision (early rollout of 5G) ▪ Support for Aging Society (universal social insurance) ■ Income Doubling & Distribution-Oriented Policy

(Source) SMDAM

Schedule of major events

Schedule of Major Domestic Events			
2022	May	18	Release of CY 2022 Q1 GDP
	June	8	Revision of CY 2022 Q1 GDP
		15	End of Ordinary Diet Session
		16-17	Monetary Policy Meeting
		26	G7 Summit in Germany Release of Execution Plans and Schedules of "New Capitalism Realization Conference"
	July	20-21	Monetary Policy Meeting
		23	End of the Term of two members of the BOJ Monetary Policy Committee
		25	End of the Term of House of Councilors
	August	15	Release of CY 2022 Q2 GDP
September	8	Revision of CY 2022 Q2 GDP	
	21-22	Monetary Policy Meeting Change of Top Party Officials of LDP	
October	27-28	Monetary Policy Meeting	
	30	G20 Summit in Indonesia	
November	15	Release of CY 2022 Q3 GDP	
December	8	Revision of CY 2022 Q3 GDP	
	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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- 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.
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