



Outlook for Japanese Economy & Stock Market

Monthly comments & views by
Sumitomo Mitsui DS Asset Management (SMDAM)

-January 2021-

Executive summary

➤ Japanese Economy

SMDAM revised-up GDP forecast for FY2020, 21 and 22 by +0.2%, +0.3% and +0.1% respectively. Underlying economic growth has been slightly stronger than previous estimate and also expansionary fiscal spending and progress of vaccination are going to lift GDP in FY2020 and 2021. (Page 9)

- Additional fiscal spending plan was created by the cabinet office and going to be approved by the national diet in January. Additional budget spending this time is 40 trillion yen, which is a little smaller than preceding two cases and 10 trillion yen of reserve in June is counted again. SMDAM estimates its impact on Japanese GDP for FY2020,21 and 2022 to be +0.2%, +0.7% and -0.3% respectively. (Page 11)
- Central banks continue extra-easy monetary policies in order for calming negative impacts caused by the winter spread of Covid-19. They unanimously call for additional fiscal measures to keep economies on a growth path. Behind the doors, central banks are discussing how to maneuver tapering of monetary easing in 2021 when the global economy heads for a full recovery. In order for avoiding negative reaction by financial markets, communication and guidance from central banks are quite important. (Page 6 & 7)

➤ Japanese Stock Market

SMDAM revised both earnings forecast for FY2021 and forecast range for TOPIX index upwards. Despite resurgence of COVID-19 during winter, Japanese stock market will be able to keep focusing on the sustainable recovery of the real economy as well as corporate earnings from 2021. Japanese stock market is considered to be sensitive to global economy, which will work positively in a comparison among global stock markets. (Page 21)

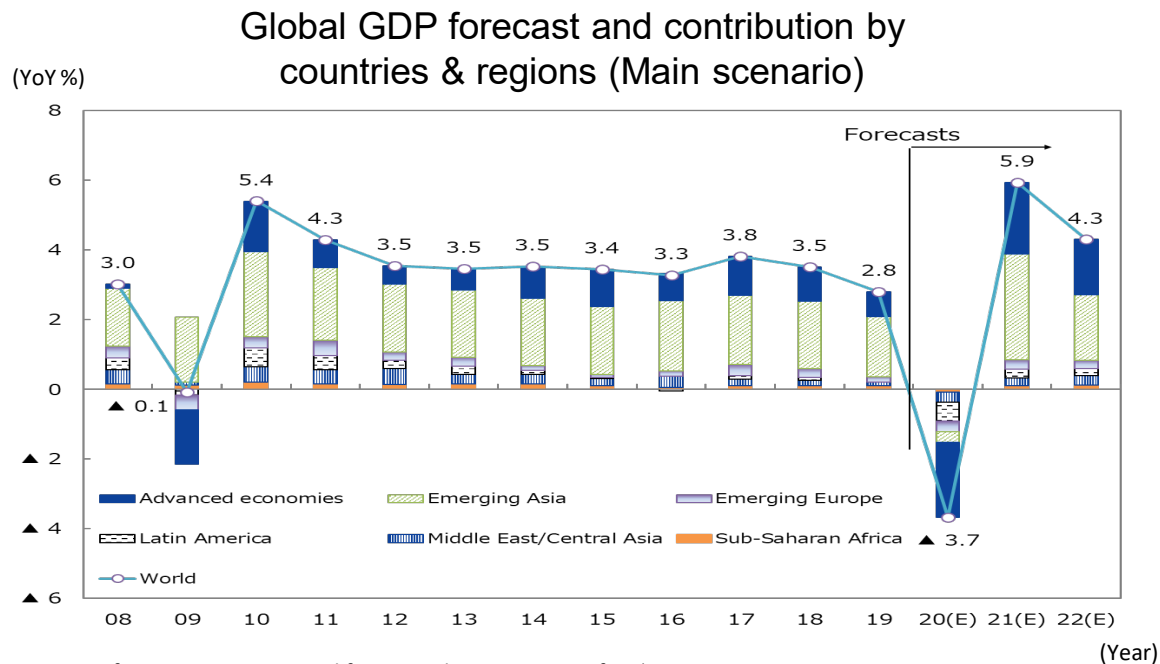
- Difference in PBR reflects gap in ROE, however, Japan's PBR at 1.41 looks attractive if corporate activities for improving governance and shareholder return resume when economic environments gradually normalize. (Page 24)
- Foreign investors purchased Japanese equities quite strongly in November. Activities have calmed down in December, however, they are still buying in December. (Page 27)



Outlook for Global Economy

Outlook for the global economy

- SMDAM has revised GDP forecast for 2020 and 2021 by -0.2% and +0.2 % respectively. Forecast for 2020 was revised downwards due to winter spread of COVID-19. Forecast for 2021 was revised upwards considering COVID-19 vaccines to become widely available faster than previously expected.
- Global economy is expected to show continuing recovery led by developed economies. Manufacturing industries will be the main driver of the recovery for the coming months. Physical service sectors likely recover from the latter half of 2021.

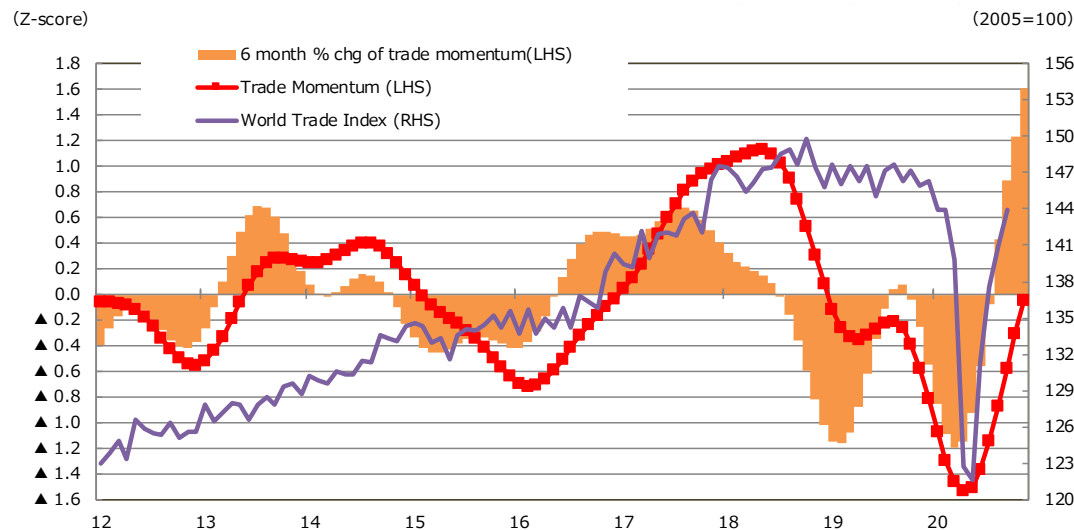


Notes: Data is from 2008 to 2022 and forecasts by SMDAM as of 21st Dec. 2020.
 (Source) IMF, National statistics of each country, compiled by SMDAM.

Trade momentum analysis shows a new economic cycle is progressing

- SMDAM has developed trade momentum indicators in order for monitoring economic cycles and estimating in which phase of cycle current position is situated.
- COVID-19 caused a severe negative impact, however, the trade momentum hit bottom in May and substantial recovery is continuing afterwards.
- Phase analysis shows that the current new cycle is further progressing in Phase 2 and about to move into phase 3.

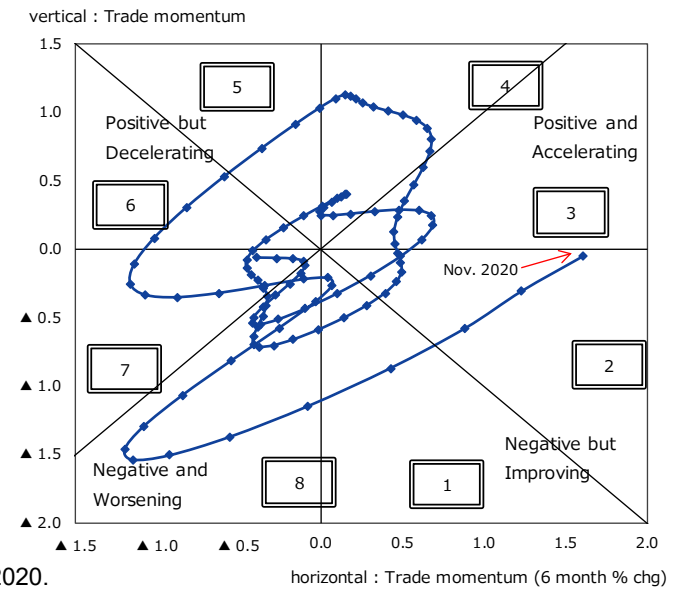
Trade momentum as a guide for economic cycle



(Notes) Trade momentum is calculated from 16 indicators and compiled by SMDAM. Data is from Jan 2012 to Nov 2020.

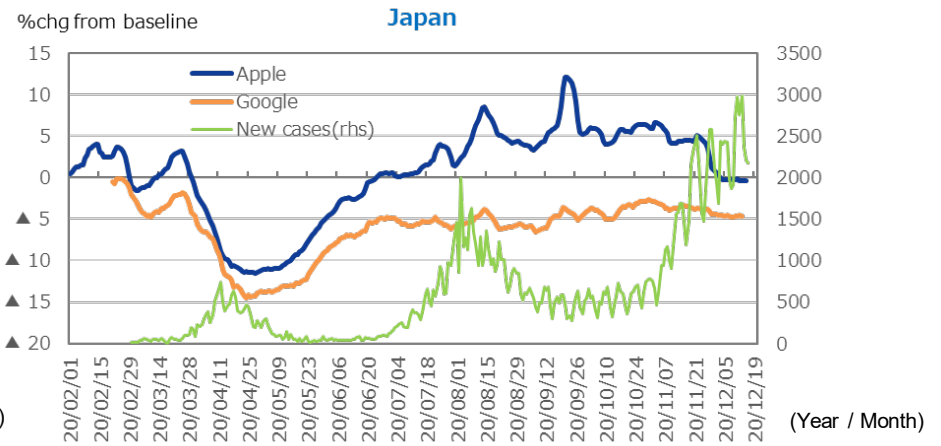
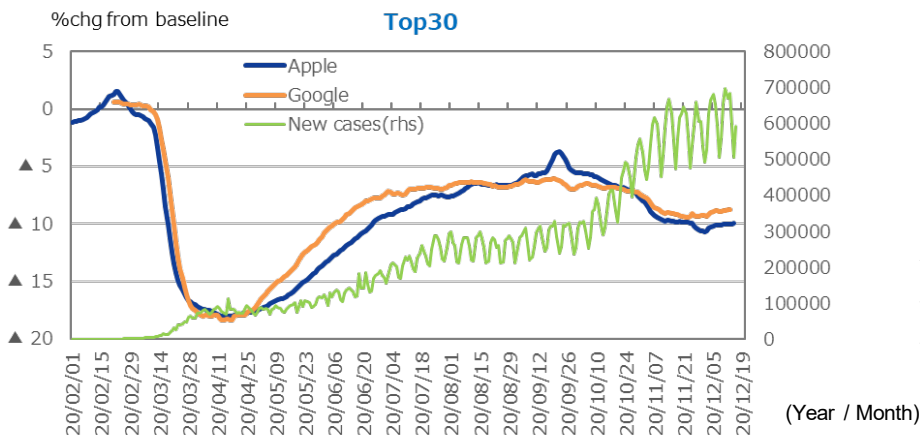
(Source) Bloomberg, Datastream and other National Statistics.

Phase analysis



People's mobility faces a temporary slowdown due to COVID-19 resurgence

- On the top charts, mobility indices and estimated GDP for TOP 30 countries excluding China retreated in November and moving sideways so far in December.
- For Japan, COVID-19 situation is still better than Europe and US ,however, daily infection cases are at new record level and government led Go To campaign incentivizing tourists was forced to be canceled for a while.



Estimated GDP % change from the baseline before the pandemic, based on Google Mobility Index

	Top 30 in GDP ex. China	United States	Japan	Germany	United Kingdom	France	India	Italy	Brazil	South Korea	Spain	Australia
Date of bottom (Y/M/D)	2020/4/18	2020/4/13	2020/4/24	2020/3/29	2020/4/3	2020/4/3	2020/4/24	2020/4/6	2020/3/29	2020/3/2	2020/4/5	2020/4/5
a) Bottom (% chg.)	▲ 18.3	▲ 16.6	▲ 14.5	▲ 20.6	▲ 25.9	▲ 29.4	▲ 26.7	▲ 29.2	▲ 22.4	▲ 10.4	▲ 30.4	▲ 16.7
b) 13th December (% chg.)	▲ 8.7	▲ 9.1	▲ 4.6	▲ 10.7	▲ 12.5	▲ 10.8	▲ 7.4	▲ 11.1	▲ 4.1	▲ 7.2	▲ 10.0	▲ 4.9
b)-a)	+ 9.6	+ 7.5	+ 9.9	+ 9.9	+ 13.4	+ 18.6	+ 19.3	+ 18.1	+ 18.3	+ 3.2	+ 20.4	+ 11.8

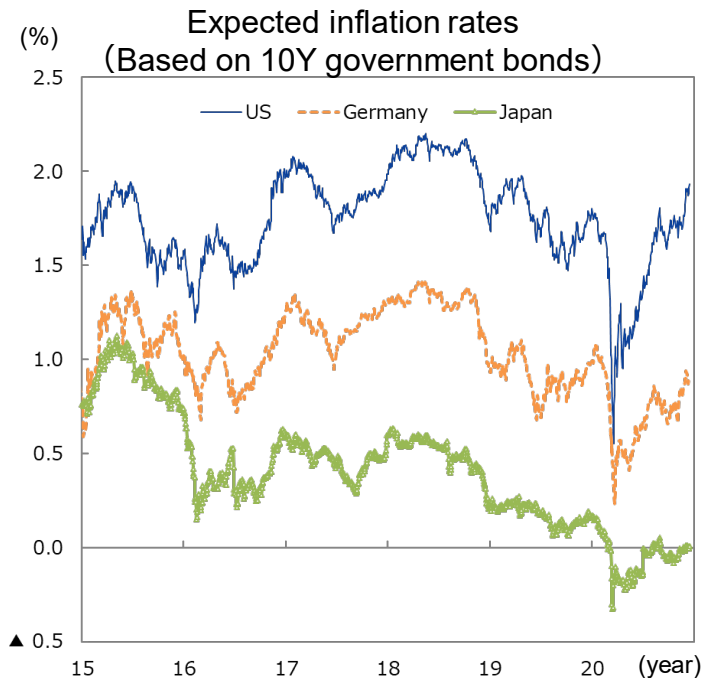
Note: SMDAM analyzed correlation between Google's and Apple's mobility index data and released GDP data, and exponentially estimated the GDP status corresponding to the latest mobility index data in a % change from the baseline GDP, which was the trend line prior to the COVID-19 pandemic.

Google's data is up to 13th December, Apple's data is up to 15th December and number of new COVID-19 infection cases is up to 15th December.

(Source) Google, Apple, National statistics of each country, estimation by SMDAM

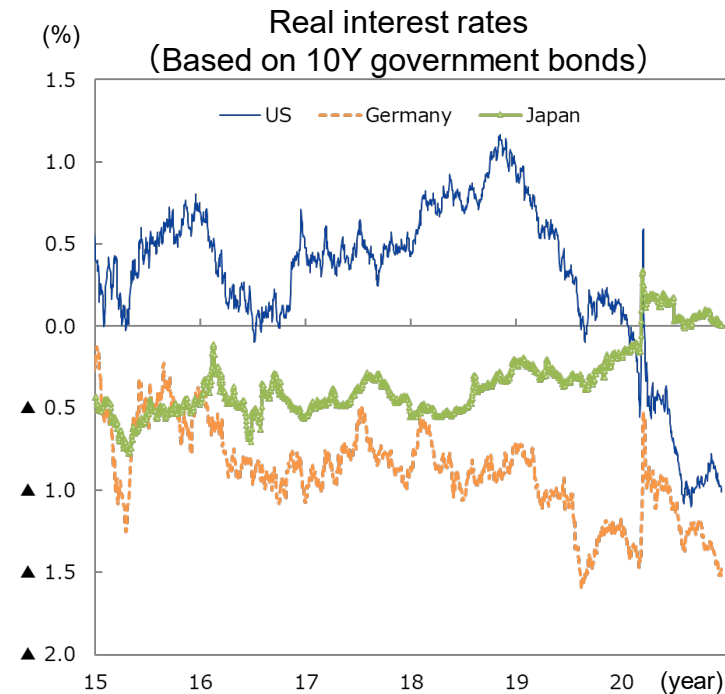
Tapering and guidance to financial markets are key events in 2021(1)

- Expected inflation rates, which are calculated from yields of index linked government bonds and straight bonds, are recovering to 2% level in US and also rising in Germany and Japan too.
- Real interest rates are at unprecedented levels in negative territory for US and Europe, which together with quantitative easing could cause bubble in financial markets.
- On the other hand, actual inflation rate is not likely to rise so quickly and 2% target level will not be met soon in 2021.
- Central banks have a very complicated task in maneuvering monetary policies and taming sensitive financial markets.



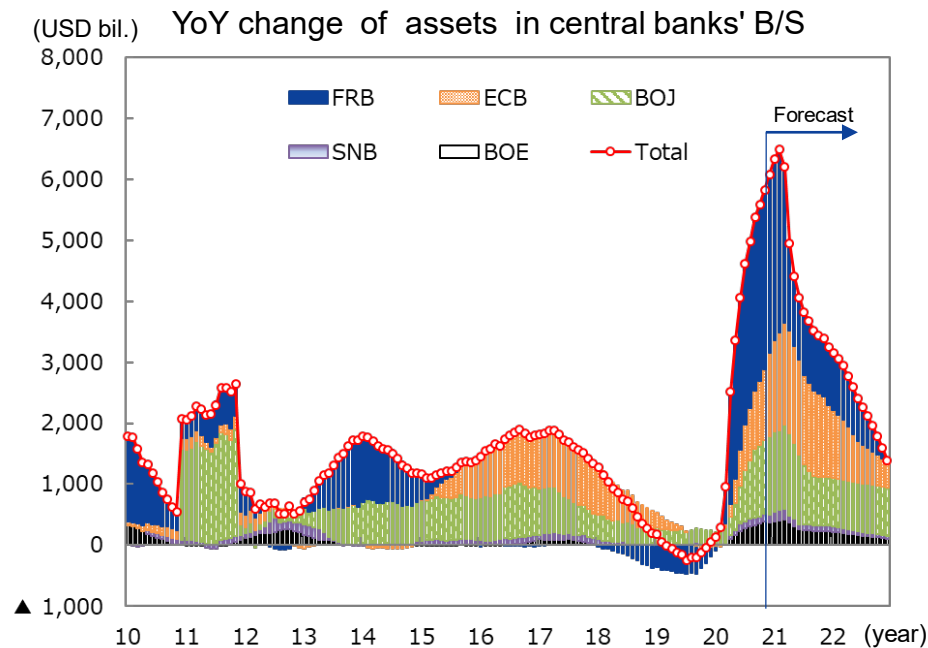
Note: Data is from 1st Jan 2015 to 16th Dec. 2020.

(Source) Bloomberg



Tapering and guidance to financial markets are key events in 2021(2)

- Central banks continue extra-easy monetary policies in order for calming negative impacts caused by the winter spread of Covid-19. They unanimously call for additional fiscal measures to keep economies on a growth path.
- Behind the doors, central banks are discussing how to maneuver tapering of monetary easing in 2021 when the global economy heads for a full recovery. In order for avoiding negative reaction by financial markets, communication and guidance from central banks are quite important.



Note: Data is from Jan 2010 to 30th November 2020. Forecast is up to Dec 2022.
(Source) Bloomberg, each central bank, compiled by SMDAM.



Outlook for Japanese Economy

SMDAM Japanese economic outlook for FY20-22

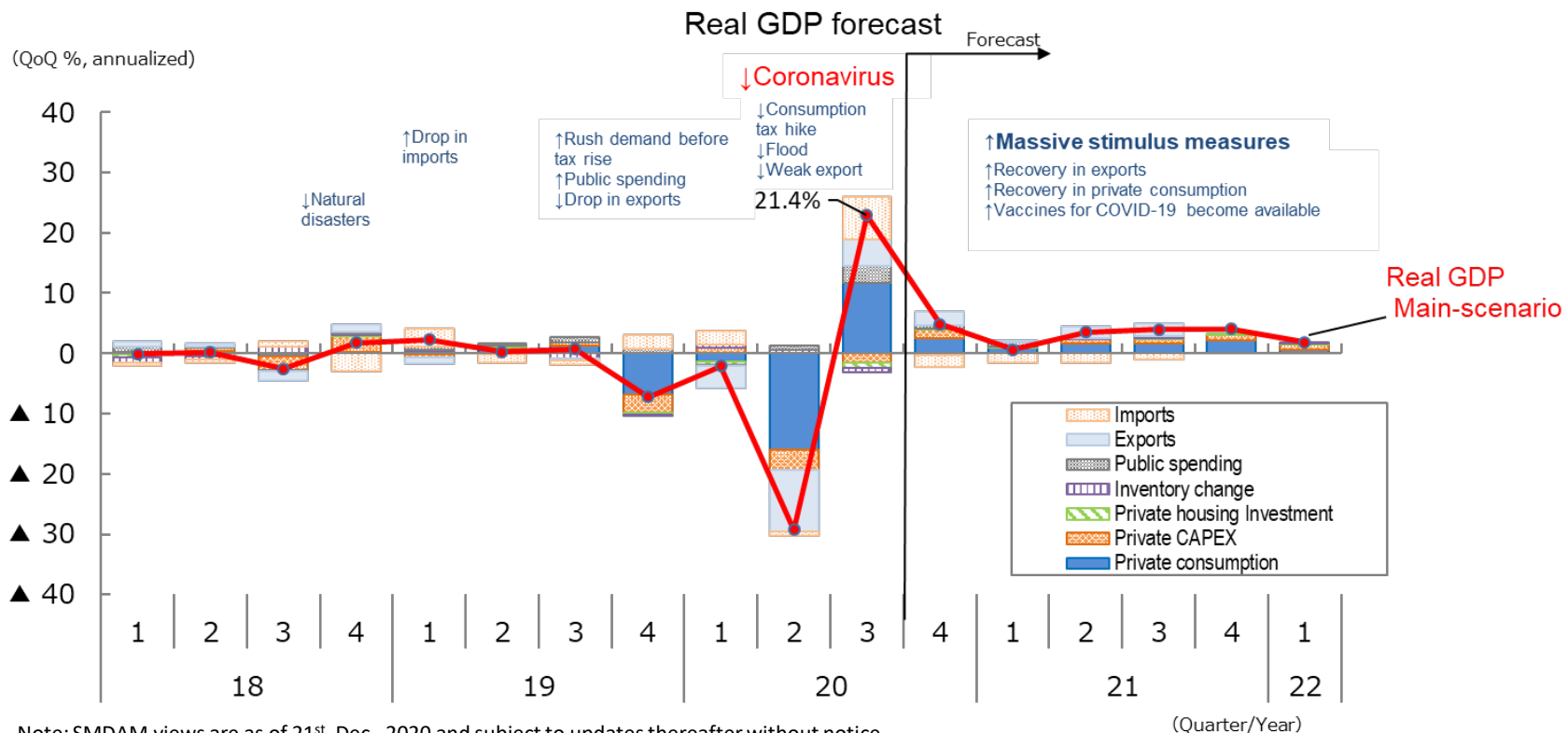
- SMDAM revised-up GDP forecast for FY2020, 21 and 22 by +0.2%, +0.3% and +0.1% respectively. Underlying economic growth has been slightly stronger than previous estimate and also expansionary fiscal spending and progress of vaccination are going to lift GDP in FY2020 and 2021.

(YoY %)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Real GDP growth	1.8%	0.3%	-0.3%	-5.2%	4.3%	1.9%
Private Consumption Expenditure	1.0%	0.2%	-0.9%	-6.0%	4.1%	1.4%
Private Housing Investment	-1.8%	-4.9%	2.5%	-6.9%	2.4%	2.2%
Private Capital Investment	2.8%	1.0%	-0.6%	-7.2%	3.7%	5.4%
Public Consumption Expenditure	0.3%	1.1%	2.0%	2.9%	1.5%	0.3%
Public Capital Investment	0.6%	0.8%	1.5%	4.1%	4.3%	1.4%
Net Exports (contrib. to GDP growth)	0.4%	-0.1%	-0.2%	-1.4%	0.8%	0.0%
Exports	6.3%	2.1%	-2.6%	-14.7%	10.6%	6.1%
Imports	3.8%	2.8%	-1.2%	-7.1%	5.1%	5.7%
Nominal GDP	2.0%	0.2%	0.5%	-4.4%	4.5%	2.3%
GDP Deflator	0.2%	-0.1%	0.9%	0.9%	0.3%	0.4%
Industrial Production	2.9%	0.3%	-3.6%	-10.2%	10.7%	5.1%
CPI (excl. fresh food)	0.7%	0.8%	0.4%	-0.6%	0.4%	0.5%

Note: E=SMDAM forecasts. SMDAM views are as of 21st Dec. 2020 and subject to updates thereafter without notice (%, YoY except Net Exports)
 (Source) Cabinet Office, Bank of Japan, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMDAM forecasts

Japan's GDP is forecast to continue recovering

- Quarterly GDP for Jul-Sep 2020 announced in November came out at 21.4% (QoQ % annualized), which was much stronger than preceding SMDAM's forecast of 16.5%. Exports were stronger and manufacturers built-up inventories, which made a large contribution for this strong results.
- Japan's GDP growth is forecast to pick up from Apr-Jun quarter next year.



Note: SMDAM views are as of 21st Dec., 2020 and subject to updates thereafter without notice
 (Source) Cabinet Office, Bank of Japan, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMDAM forecasts

Fiscal stimulus in Japan

- Additional fiscal spending plan was created by the cabinet office and going to be approved by the national diet in January. Additional budget spending this time is 40 trillion yen, which is a little smaller than preceding two cases and 10 trillion yen of reserve in June is counted again. SMDAM estimates its impact on Japanese GDP for FY2020,21 and 2022 to be +0.2%, +0.7% and -0.3% respectively.
- Budget plan for FY2021 was also created at massive 106.6 trillion yen.
- Focus of spending is shifting to long term measures for renovating Japanese economy such as digitization and clean energy.

Fiscal stimulus measures in Japan

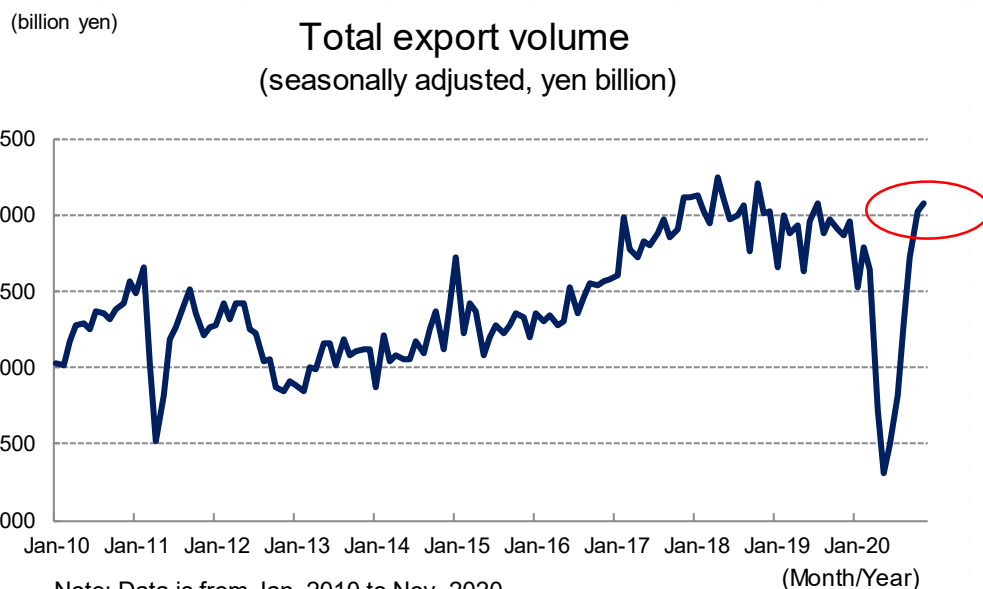
(Trillion yen)	FY2020 1st supplementary budget spending (Approved in April)				FY2020 2nd supplementary budget spending (Approved in June)				FY2020 3rd supplementary budget spending (Going to be approved in January 2021)			
	Total size of the project	Fiscal budget spending	Central & local government budget	Fiscal Investment & Loan Program	Total size of the project	Fiscal budget spending	Central & local government budget	Fiscal Investment & Loan Program	Total size of the project	Fiscal budget spending	Central & local government budget	Fiscal Investment & Loan Program
1) Enhancing quarantine & medical treatment, and developing drug & vaccine	2.5	2.5	2.5	-	N/A	N/A	3.0	N/A	6.0	5.9	4.5	1.4
2) Renovating Japanese economy									51.7	18.4	13.4	5.0
3) Maintaining employment and businesses	80.8	30.8	21.1	9.7	N/A	N/A	14.1	N/A	N/A	N/A	N/A	N/A
4) Spending for boosting economic recovery	8.5	3.3	2.8	0.5	N/A	N/A	4.7	N/A	N/A	N/A	N/A	N/A
5) Enhancing economic & social platform	15.7	10.2	8.0	2.3	N/A	N/A	-	N/A	5.9	5.6	4.4	1.3
6) Reserve for additional measures	1.5	1.5	1.5	-	N/A	N/A	10.0	N/A	N/A	N/A	N/A	N/A
7) Full usage of reserves for additional measures									10.0	10.0	10.0	
Total	117.1	48.4	35.8	12.5	117.1	72.7	33.2	39.2	73.6	40.0	32.3	7.7

Note: As of Dec. 2020

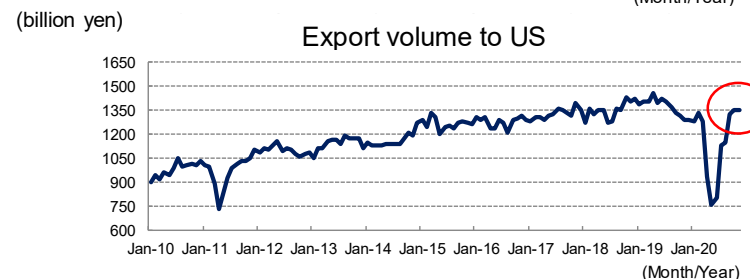
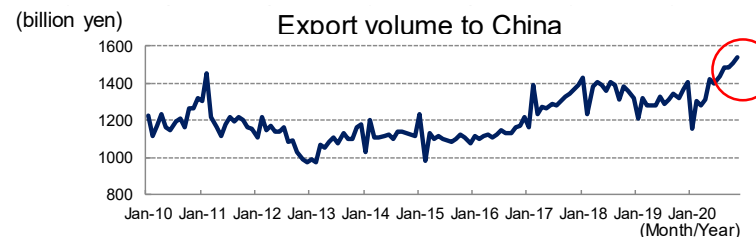
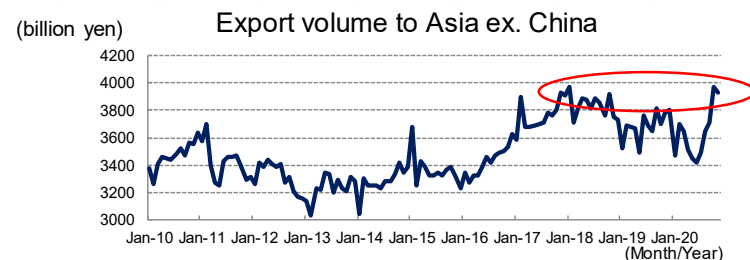
(Source) Cabinet Office, compiled by SMDAM

Exports from Japan continue rising in November

- Exports from Japan edged up further in November led by robust exports of electrical goods and transportation equipment to China.
- Exports to Asia ex. China, edged down slightly in November after making a robust increase in October led by machinery and electrical goods to reach a level comparable to the historical monthly high in Jan. 2018.
- Manufacturing side of the Japanese economy is going to lead the recovery supported by robust exports.

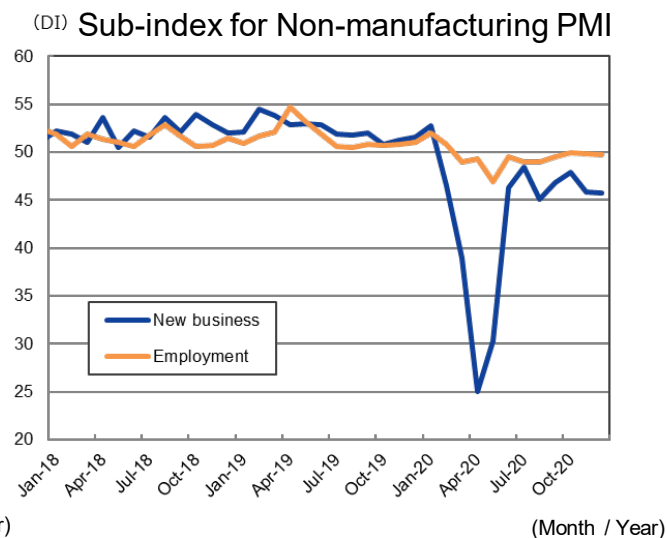
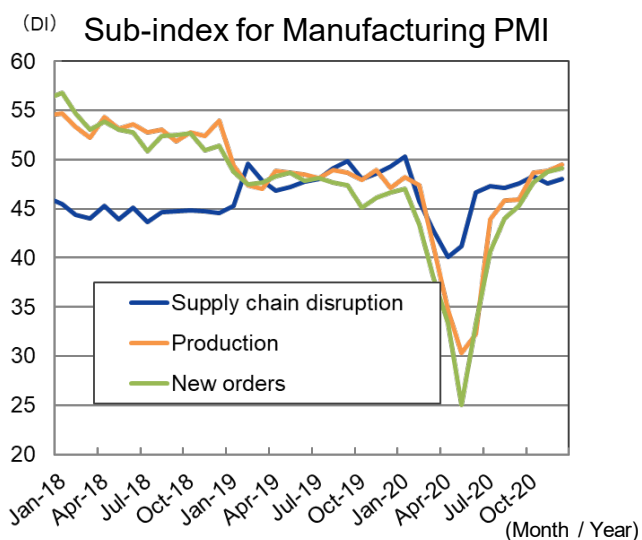
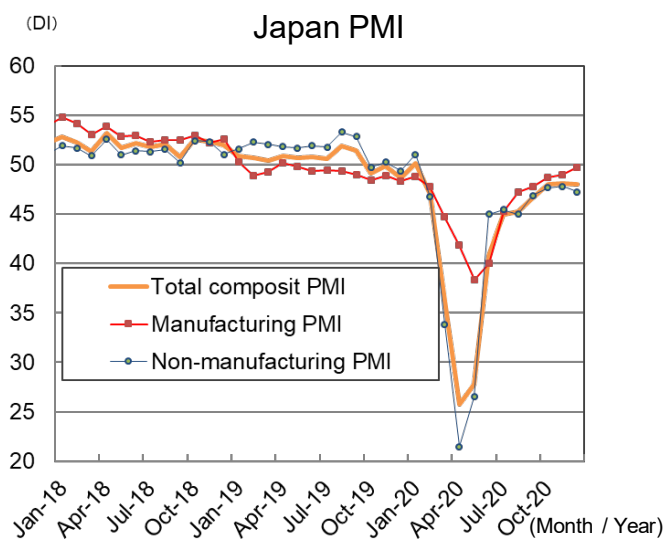


Note: Data is from Jan. 2010 to Nov. 2020.
(Source) Ministry of Finance, Bank of Japan, compiled by SMDAM.



Business sentiment slightly declined in December

- PMI for Japan slightly declined in December dragged by non-manufacturing side, which is suffering from rising Covid-19 cases and restriction on businesses.
- PMI for manufacturing sector showed strength rising by +0.7 point to 49.7, for which sub-index shows solid recovery in new orders as well as production.

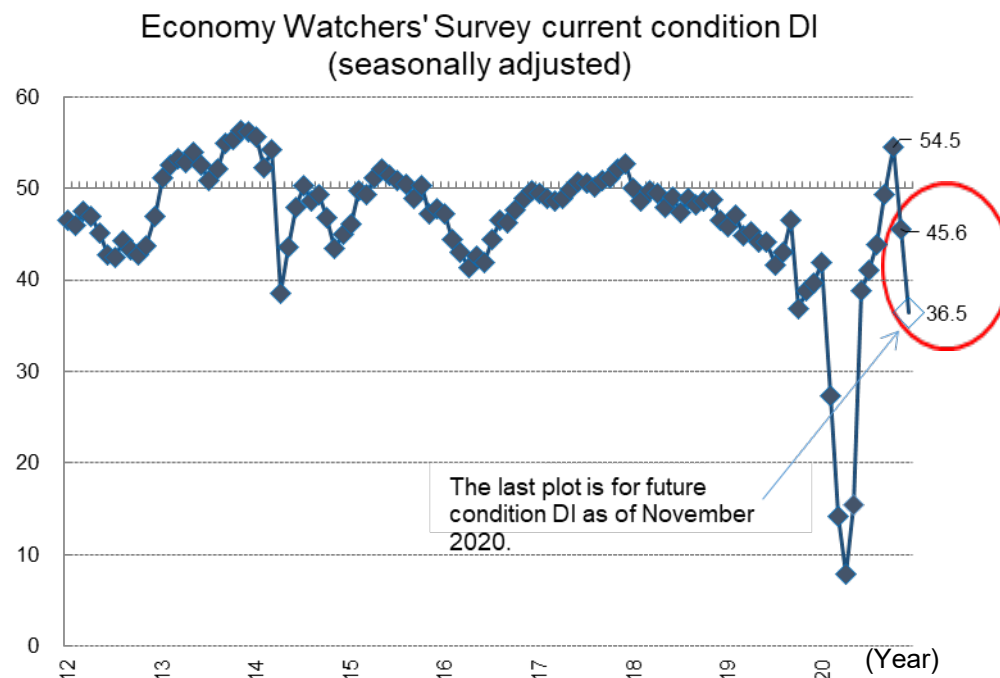


Note: Data is from Jan. 2018 to Dec. 2020.

Source: IHS Markit, BOJ, compiled by SMDAM.

Economic sentiments showed sharp decline as COVID-19 surges

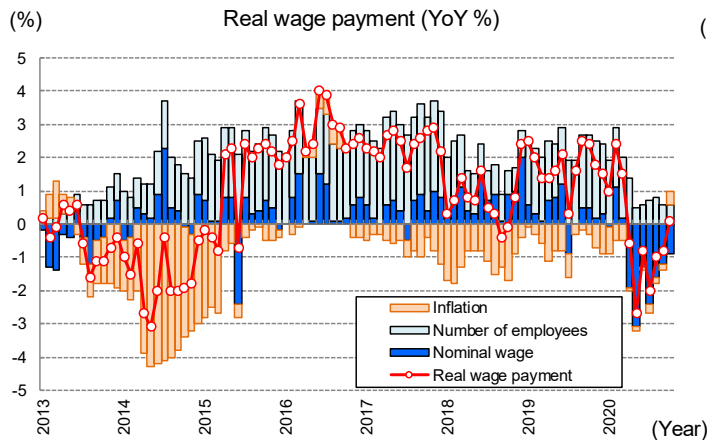
- Economy Watcher Survey covers people working at economic sensitive jobs. Current condition DI in November showed sharp decline from 54.5 to 45.6. Future condition DI was even lower than current condition DI in November.
- Resurgence of COVID-19 and also delayed response by government in halting Go-To-Travel-campaign caused a fear that COVID-19 infection could get out of control.



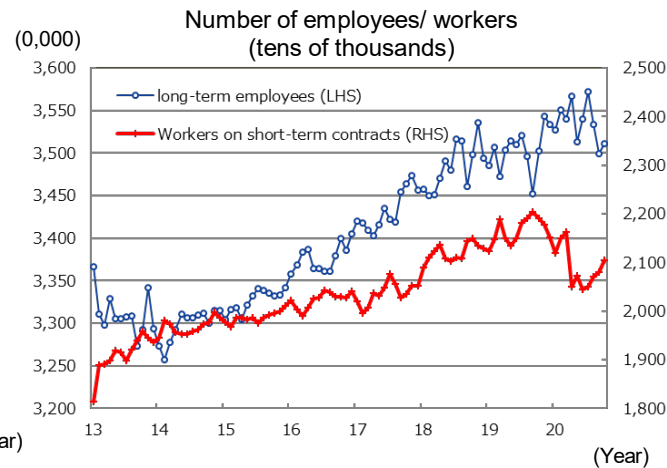
Note: Data is from Jan. 2012 to Nov. 2020. DI above 50 means condition is better than preceding 2 to 3 months.
(Source) Cabinet Office

COVID-19 negative impact temporarily calmed in October

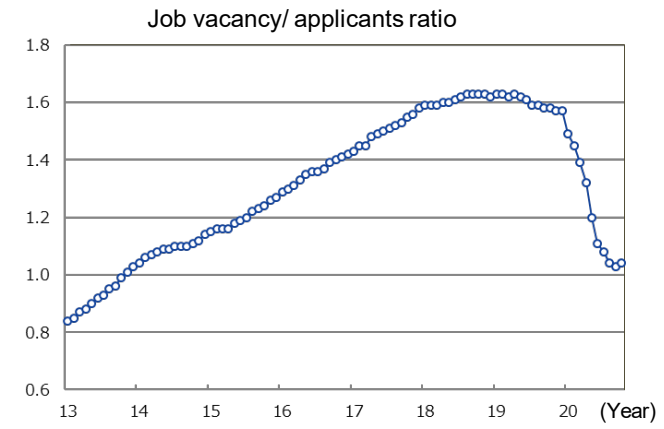
- Aggregated real wage payment increased by +0.1% YoY in October. Number of employees recovered and Job vacancy / applicants ratio also showed slight recovery from 1.03 to 1.04. Corona infection was under control in October and government led Go To campaigns incentivizing tourism and entertainments were making positive impact.
- Negative impact of COVID-19 on labor market will re-emerge from November.



Note; Data is from Jan. 2013 to Oct. 2020. Continuous sample basis.
(Source) Ministry of Health Labour and Welfare



Note; Data is from Jan. 2013 to Oct. 2020.
(Source) Ministry of Finance



Note; Data is from Jan. 2013 to Oct. 2020.
(Source) Ministry of Finance

Fiscal & monetary policies are key events in 2021

- US senate election in Georgia on 5th January is an important event, which could decide US policies ahead. If democrats win both 2 seats, so called blue-wave is complete and democrats are going to dominate US policies.
- Other focal points will be how Joe Biden and his team approach China.
- Also important events not listed here would be how quickly COVID-19 vaccination will progress.

Upcoming key events

Month	Region/Country	Events	Notes
2021 January	US	5 Senate election in Georgia	
		20 Inauguration of Joe Biden as the new US President	
		26-27 FOMC meeting	
	Japan	National Diet (ordinary session) begins	3rd supplementary budget spending is expected to be approved.
		20-21 BOJ Monetary Policy Committee Meeting & Perspective Report	
	EU	21 ECB Monetary Policy Meeting	
February	US	Budget Message of the President Semi-annual testimony of FRB chairman at US congress	
	Japan	25 1st preliminary estimate for Jan-Mar 2021 GDP	
March	US	16-17 FOMC meeting	
	Japan	18-19 BOJ Monetary Policy Committee Meeting	
	China	National People's Congress	
	EU	11 ECB Monetary Policy Meeting	
April	US	27-28 FOMC meeting	
	Japan	26-27 BOJ Monetary Policy Committee Meeting	
	EU	22 ECB Monetary Policy Meeting	
	G20	7-8 G20 meeting by finance ministers & heads of central banks	
May	Japan	1st preliminary estimate for Apr-Jun- 2021 GDP	
July	Japan	23 Tokyo Olympic Games (to 8th Aug)	
September	Japan	30 LDP leader Suga's current term ends	
October	Japan	Limit for the lower house general election	

(Source) Various publications, assembled by SMDAM



Japan is still competitive in innovation, but has some weaknesses

- According to World Economic Forum, Japan was ranked 8th in innovation among 137 economies, which is still competitive, however on a moderate declining trend. As a strength, R&D in Japan is largely led by companies and producing the largest number of patents in this ranking.
- On the weak side, however, this company-led R&D tends to be “progressive” rather than “innovative” and often lacks in global collaboration. Government initiative on innovation is stronger in economies such as US, Germany, Singapore and China.
- Facing with strong global competition in developing key technologies such as AI or Autonomous Driving Technology, Japanese companies are changing approach to more open and more collaborating with global partners.

Global Competitiveness Ranking of Innovation among 137 economies

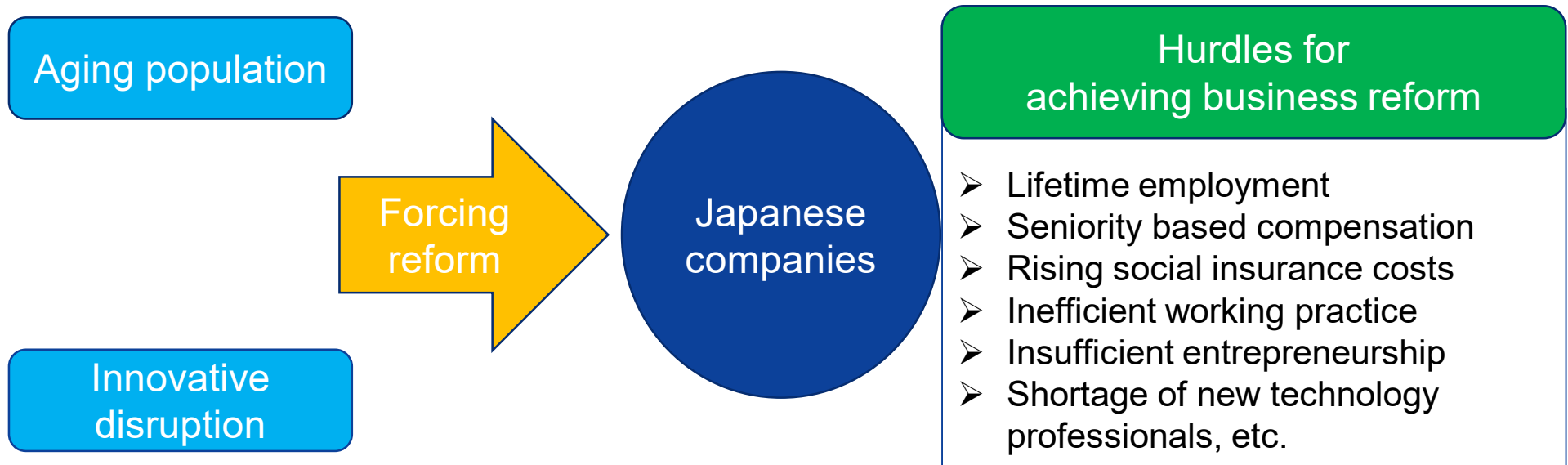
	Switzerland	U.S.	Israel	Finland	Germany	Netherlands	Sweden	Japan	Singapore	Denmark	China
Innovation total	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	28th
a) Capacity for innovation	1	2	3	7	5	6	4	21	23	16	44
b) Quality of scientific research institutions	1	5	3	8	11	4	13	14	12	16	36
c) Company spending on R&D	1	2	3	7	4	8	6	5	17	16	21
d) University-industry collaboration in R&D	1	2	3	4	7	5	10	23	8	21	28
e) Gov't procurement of advanced technology products	37	2	11	20	6	19	17	23	5	39	10
f) Availability of scientists and engineers	12	2	6	1	11	19	20	8	9	44	29
g) PCT patents	3	10	6	4	7	9	2	1	12	8	30

Note: All numbers are rankings among 137 economies. Top 10 rankings are highlighted in green. Japan's relative weakness is highlighted in orange.

(Source): World Economic Forum, The Global Competitiveness Report 2017–2018

Japanese society is changing slowly but steadily

- It may look slow or even stagnant from outside, but Japanese society is making necessary reforms.
- Many problems are stemming from deep rooted Japanese culture & social practice, which became apparent in the face of “aging population” and “innovative disruption”.
- Change of the deep rooted culture & practice should take time, however, it is making progress, and will eventually put Japan in an advantage over other advanced economies, which also have aging population lagging Japan.



Japanese society is changing slowly but steadily

■ Examples of long-term social challenges and progressing solutions

Source of problems	Challenges	Solutions
1. Aging population	a) Pension system reform	<ul style="list-style-type: none"> ● Unconventional "macro-slide" has been implemented to curb pension payment increase referring to "low birth rate" and so on. ● Encourage people to continue working into 70's. ● Encourage people to shift saving to investments. (NISA*, DC)
	b) Labor shortage	<ul style="list-style-type: none"> ● Capital investment for enhancing labor efficiency. (FA, AI, IoT, autonomous driving car, renovating software, etc.) ● Allowing more foreign workers. ● Encourage people to delay retirement. ● Support female workers. (increase nursery, etc.)
2. Weak consumption propensity	c) Clearing peoples worry for the future life	<ul style="list-style-type: none"> ● Pension system reform. ● Gradual adjustment of seniority based wage system to shift compensation from elderly to younger workers. ● Increase of new generation companies. ● Increase of young people working with non-seniority wage system.
3. Rigid employment practice	d) Encouraging business structure reform	<ul style="list-style-type: none"> ● Elder people to retire or continue working at lower wage. ● Gradual adjustment of seniority based wage system. ● More fluid labor market enabling companies to make restructuring. ● Young people are not expecting lifetime employments and focusing on building own career (already progressing).
4. Inefficient working practice	e) Enhancing labor efficiency	<ul style="list-style-type: none"> ● Work style reform to progress.
5. Insufficient entrepreneurship	f) Enhancing "challenge spirit" g) Education reform	<ul style="list-style-type: none"> ● Increase of successful new generation companies. ● Increase of young people with skills of new technologies. ● Young and talented people choose new generation companies rather than old & large firms (already progressing).
6. Shortage of new technology professionals		

Note: *NISA is "Nippon Individual Savings Account". (Source) SMDAM



Outlook for Japanese Stock Market

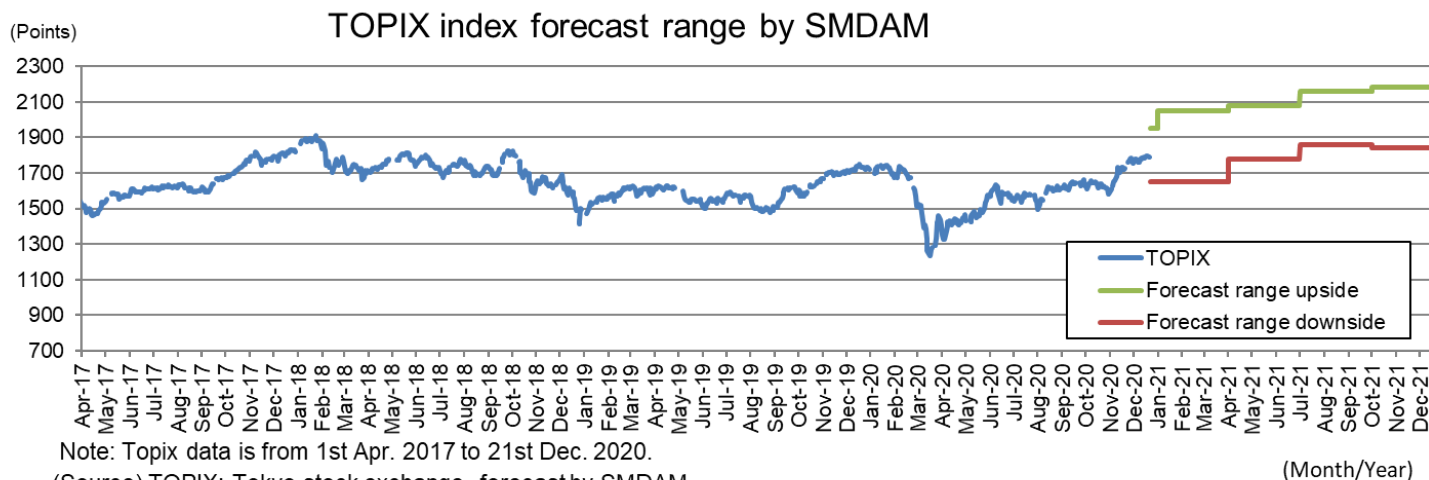
Investors' focus has shifted to the strong economic recovery from 2021

■ SMDAM short-term view

- SMDAM revised both earnings forecast for FY2021 and forecast range for TOPIX index upwards. Despite resurgence of COVID-19 during winter, Japanese stock market will be able to keep focusing on the sustainable recovery of the real economy as well as corporate earnings from 2021. Japanese stock market is considered to be sensitive to global economy, which will work positively in a comparison among global stock markets.

■ Longer-term outlook (6-months and beyond)

- Global economy will gather strength from spring supported by calming down of COVID-19 infection and recently approved fiscal stimulus to make positive effects on economy. Monetary policy will stay expansionary, however, central banks will start contemplating how to implement tapering of monetary easing without causing hiccup in financial markets although BOJ will be the last among central banks to consider tapering. SMDAM expects strong stock markets in the first half of 2021 and then after momentum could slow down a little.



Note: SMDAM's projection is as of 21st Dec. 2020 and subject to updates without notice.

Base scenario & Upside / Downside risks for our forecasts

■ Our Base Scenario is assuming the following views:

- Another global hard lockdown caused by COVID-19 pandemic can be avoided.
- Vaccines for COVID-19 become widely available in spring of 2021.
- Severe tensions between US and China go on, however, US is going to avoid making a fatal blow to the global economy.
- Global economy sustains recovery path into 2021 and 2022.
- Japanese yen does not get extremely stronger beyond 100 yen against US\$.
- Tension in the East Asia or Middle East does not get out of control.
- Central banks continue massive monetary easing.

■ Upside Risks include:

- Stronger-than-expected global growth.
- US and China make significant concessions in the trade negotiations.
- Japanese economy gets stronger than expected boosted by large fiscal spending and strong exports.

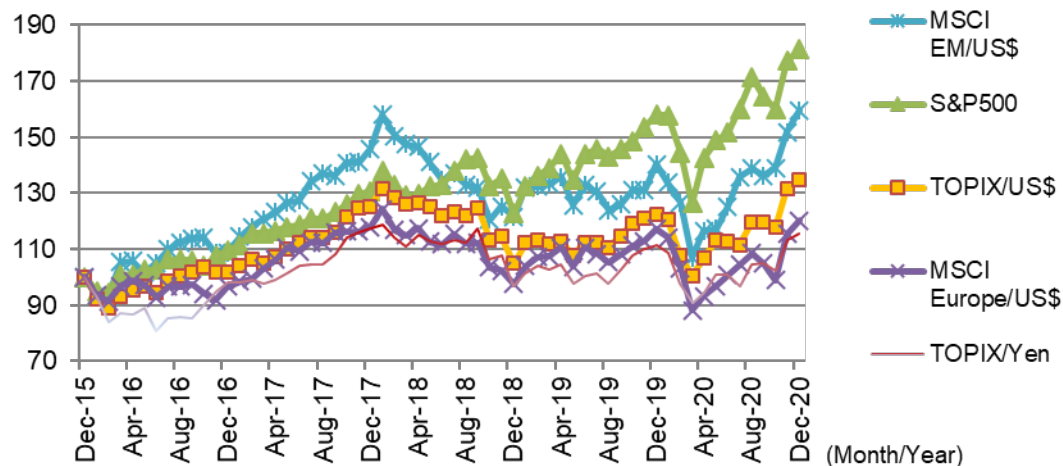
■ Downside Risks include:

- Another serious wave of COVID-19 pandemic emerges and lockdowns cause severe economic disruption globally.
- Tensions between US and China escalate to ignite severe disruption in global trades.
- Seriously escalating geo-political tensions in Middle East & East Asia.
- Joe Biden and Democrats face a political deadlock due to rejection by Republican controlled US Senate.
- Populism gains in Europe further destabilizing EU.
- Central banks start tapering of easy monetary policy causing negative shock to financial markets.

Stock markets continue advancing so far in December

- Emerging markets continue strong rally.
- Activities in stock markets calmed down due to a holiday season towards the year end.
- Recent surge in COVID-19 infection discouraged stock markets a little, however, upward momentum has been maintained on a hope of vaccination and recovery of the real economy in 2021.

US\$ based performance of stock markets (Dec 2015=100)

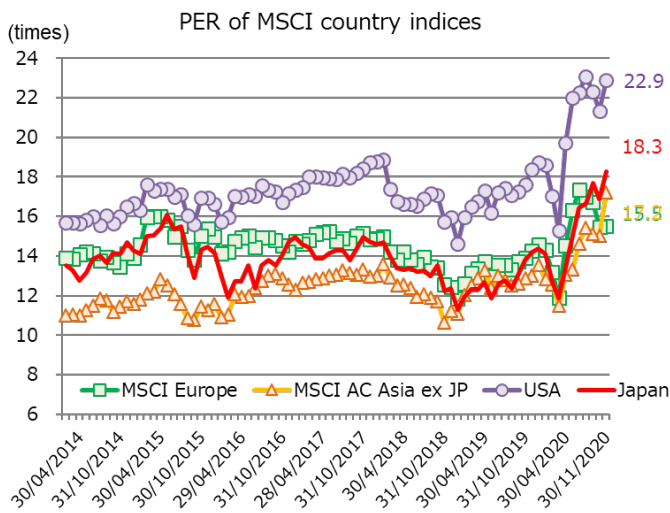


Notes: Data is up to 18th Dec 2020.

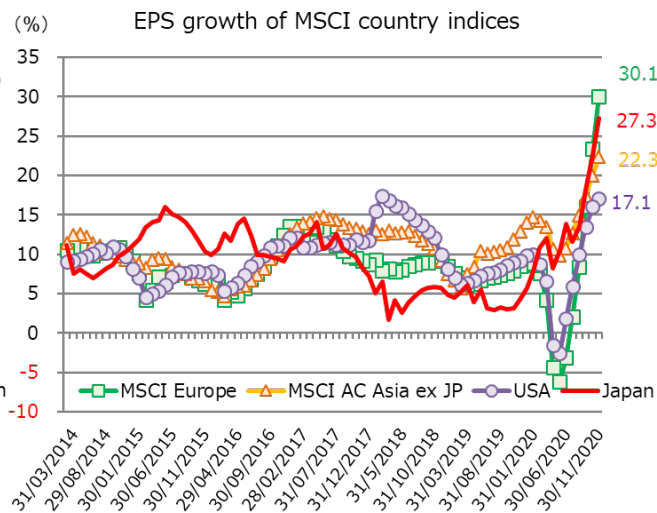
(Source) Datastream, MSCI and Tokyo Stock Exchange, compiled by SMDAM.

Relative stock valuation is getting attractive for the Japanese stocks

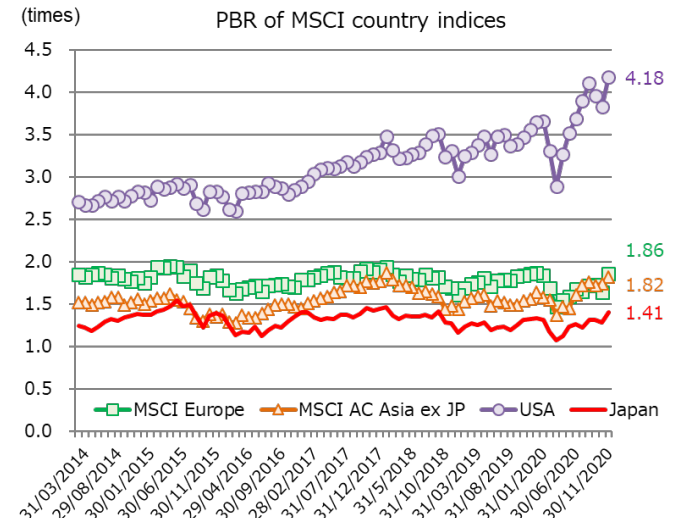
- PER for US stocks is extremely high, however, considering recent rise in US long-term bond yields, it seems to have hit a ceiling.
- Positive earnings momentum is strengthening for all countries and regions displayed on the middle chart.
- Difference in PBR reflects gap in ROE, however, Japan's PBR at 1.41 looks attractive if corporate activities for improving governance and shareholder return resume when economic environments gradually normalize.



Note: PER is based on 12M forward EPS forecast. Data is up to 30th Nov 2020. (Source) MSCI



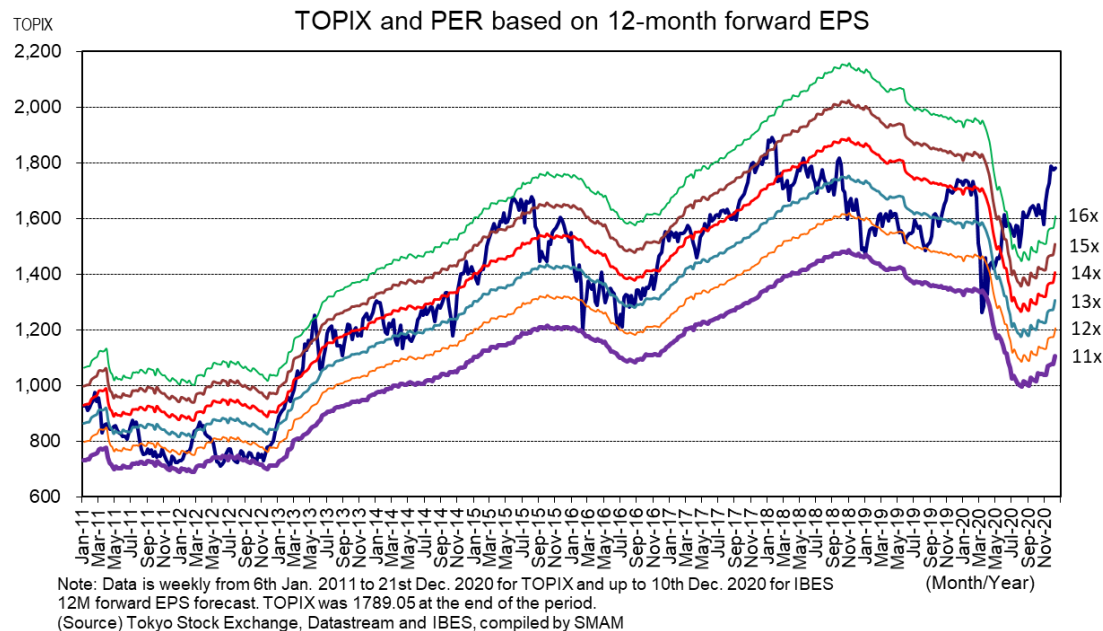
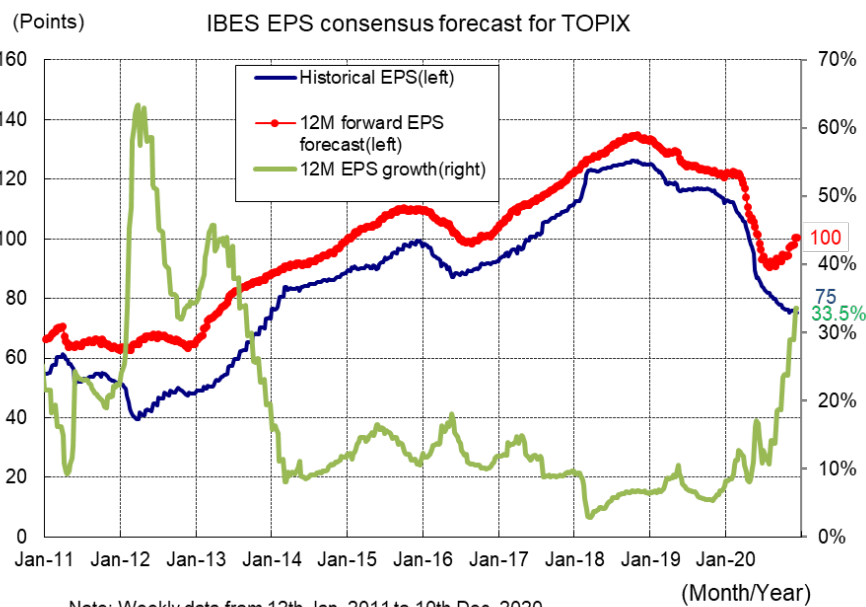
Note: Growth is for 12M forward EPS forecast. Data is up to 30th Nov 2020. (Source) MSCI



Data is up 30th Nov 2020. (Source) MSCI

12M forward EPS consensus growth forecast shows robust expansion

- 12M EPS consensus forecast has been bouncing back from September. Jul-Sep quarterly earnings results were generally better than preceding forecasts. Latest 12M forward EPS growth forecast rose further to robust 33.5%.
- Given the latest EPS forecast of 100, TOPIX at 1780 corresponds to PER of 17.8, which is higher than the historical range between 11 times and 15 times. This was initially caused by even more extreme valuation for US stock prices, which was created by massive liquidity pumped in by central banks and sharp fall in bond yields. Current high PER is assuming strong and sustainable recovery of economy and corporate earnings in 2021, and PER will gradually come down to the normal range as such expectations materialize.



SMDAM's corporate earnings forecasts

- SMDAM makes earnings forecast for 485 companies excluding financials in its corporate research coverage.
- In the latest forecast on 4th December, recurring profits are forecast to decline by -14.2% in FY2020 and then recover by 38.6% in FY2021. When indexed with the latest high in FY2018 as 100, level of recurring profit for FY2019, 2020, 2021 are calculated at 77, 66 and 91 respectively. (“Recurring profits” in Japanese accounting means “earnings from continuous businesses”, which is basically before tax and extraordinary items.)
- In FY2021, profit recovery is forecast to be led by such industries as Railways, Auto, Wholesale Trading, Auto Parts and Transportation, which are all forecast to show strong recovery from FY2020 results hit hard by COVID-19.

SMDAM Corporate Earnings forecasts (485 Companies research coverage excl. financials)

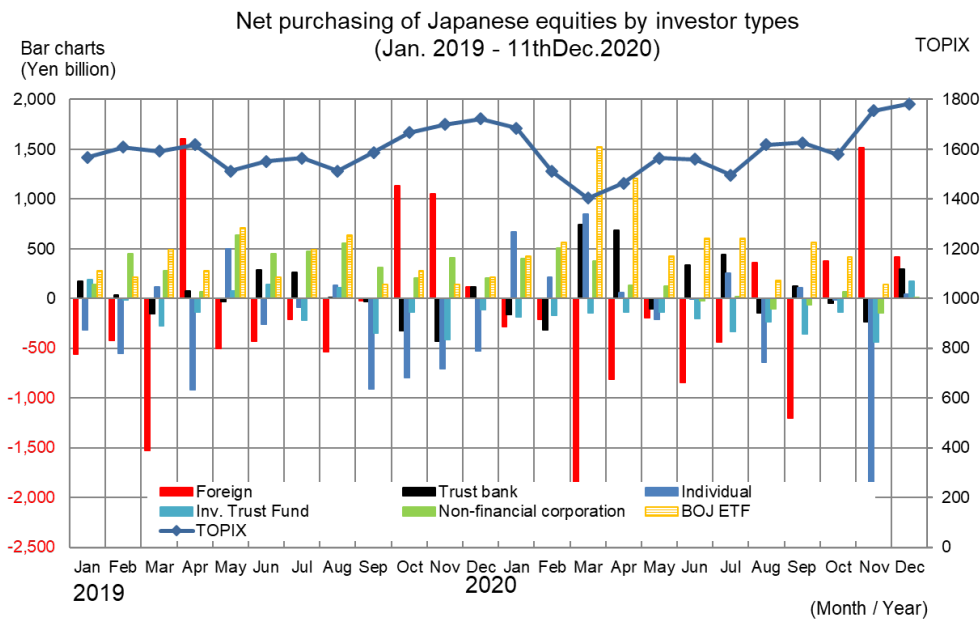
Fiscal year	FY 2019	FY 2020E	FY 2021E
Date of forecast	Actual	as of 4th Dec. 2020	as of 4th Dec. 2020
Sales (YoY %)	-2.4%	-9.7%	7.2%
Operating Profits (YoY %)	-25.4%	-13.1%	38.1%
Recurring Profits (YoY %)	-23.2%	-14.2%	38.6%
Net Profits (YoY %)	-35.5%	-8.2%	48.7%
Recurring profits (YoY %)			
Manufacturing 289 companies	-27.4%	-8.4%	39.0%
Non-manufacturing 196 companies	-17.4%	-21.0%	38.0%

Note: Key assumptions for FY2020 & 2021 are Yen/US\$ 105 and Yen/EUR 124.

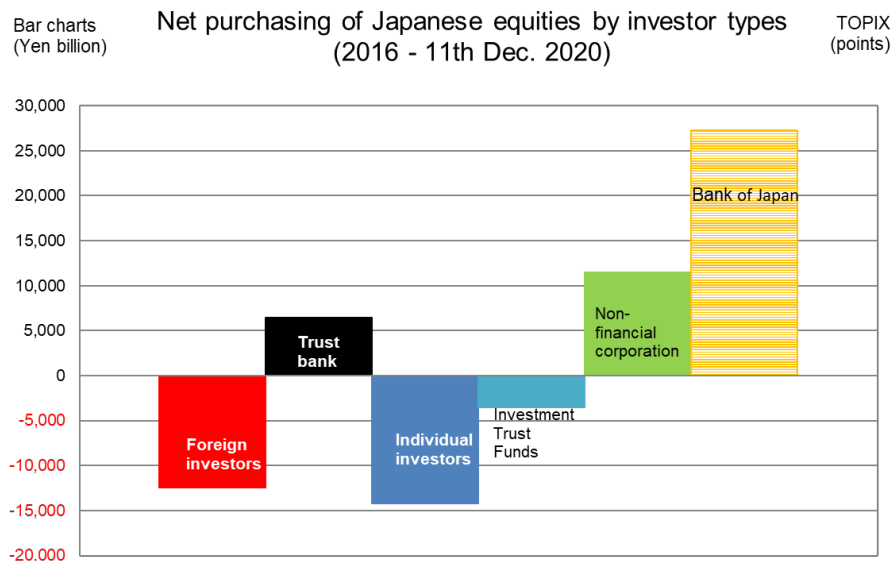
(Source) SMDAM Corporate Research Group

Foreign investors made a strong purchasing in November

- Foreign investors purchased Japanese equities quite strongly in November. Activities have calmed down in December, however, they are still buying in December.
- ETF purchasing was muted in the first two weeks in December partly because the market was strong.
- Many companies are postponing share buy-backs this fiscal year in the face of adverse business environments caused by COVID-19. Share buy-backs are expected to recover in FY2021.



Note: Data is for Tokyo stock exchange and Nagoya stock exchange up to 11th Dec. 2020.
BOJ ETF figure is officially released data from BOJ.
(Source) Japan Exchange Group, Bank of Japan



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Advancing Corporate Governance Code and Stewardship Code

- Stewardship Code (SC) was set in February 2014. Investors are taking more pro-active approach in talking to the companies and exercising proxy voting rights. Financial Services Agency discloses the name of institutional investors, which publicly accepted SC.
- After inception of 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 making visible impact on the corporate behavior and investors' attitudes as shareholders.
- In the recent amendment of 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.
- SC was reinforced in March 2020 requiring investors to evaluate ESG factors.

Total number of institutional investors, which publicly declared acceptance of the stewardship code	
Trust banks	6
Investment management companies	191
Insurance companies	23
Pension funds	53
Others (include proxy voting advising companies)	7
Total	280

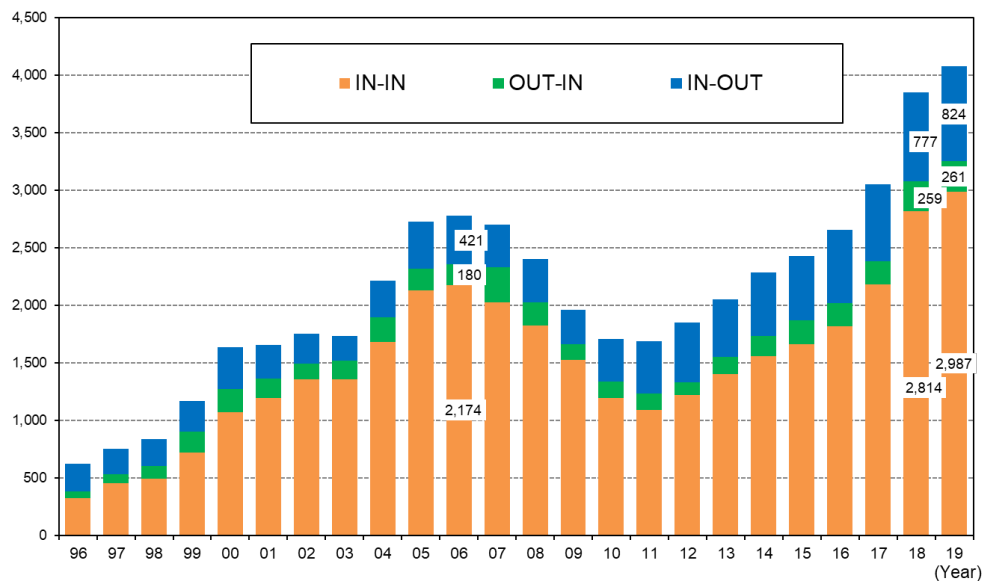
Note: As of 13th Mar. 2020.

(Source) Financial Services Agency

Business restructuring is progressing for Japanese companies

- Japanese companies are getting more and more willing to make positive business restructuring.
- Number of M&A deals between Japanese companies (IN-IN) rose from 2,174 in 2006 to 2,814 in 2018 and further to 2,987 in 2019, which is an evidence that business restructuring is progressing in Japan.
- Number of the deals of Japanese companies acquiring overseas businesses (IN-OUT) also rose from 421 in 2006 to 777 in 2018 and further to 824 in 2019.

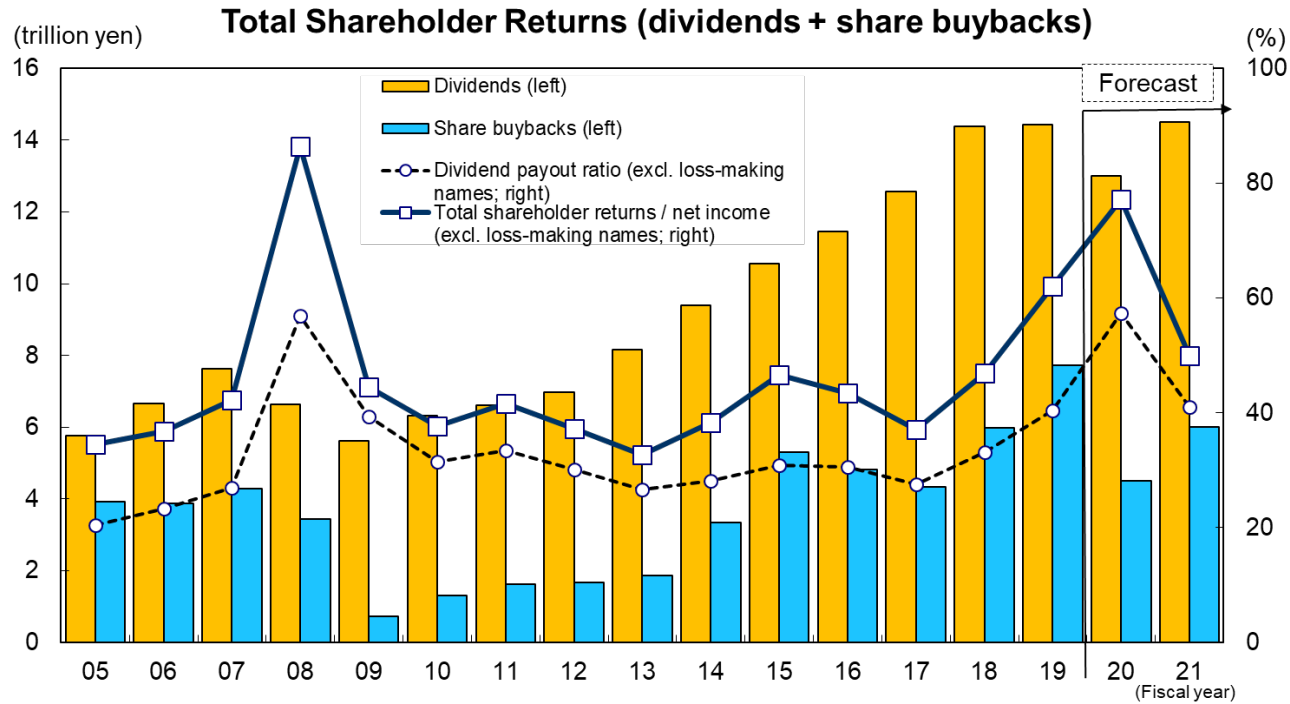
Number of M&A deals involving Japanese companies
(Excluding transactions among the same business group)



Note: IN-IN means Japanese company acquiring Japanese one, OUT-IN is for Non-Japanese company acquiring Japanese company, and IN-OUT is for Japanese company acquiring non-Japanese company.
(Source) RECOF and SMBC NIKKO Securities.

Behavior of Japanese companies are making positive changes

- Share buyback is getting popular among Japanese companies as one of the powerful tools for disposing of accumulated liquidity in the B/S and enhancing EPS growth as well as ROE. After recording a historical high in FY2019, share buybacks are constrained by COVID-19 impact in FY2020 and FY2021.
- Dividends also renewed historical record in FY2019. After a setback in FY2020 due to COVID-19, dividends are forecast to make a quick recovery in FY2021.



Note: All listed firms. Dividend projections are Toyo Keizai estimates, share buybacks forecast is by Daiwa Securities. Data as of Oct. 2020.
 (Source) Toyo Keizai, QUICK, INDB, compiled by Daiwa Securities.

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