



Outlook for Japanese Stock Market & Economy

Sumitomo Mitsui DS Asset Management

Hisashi Shiraki
Chief Global Strategist

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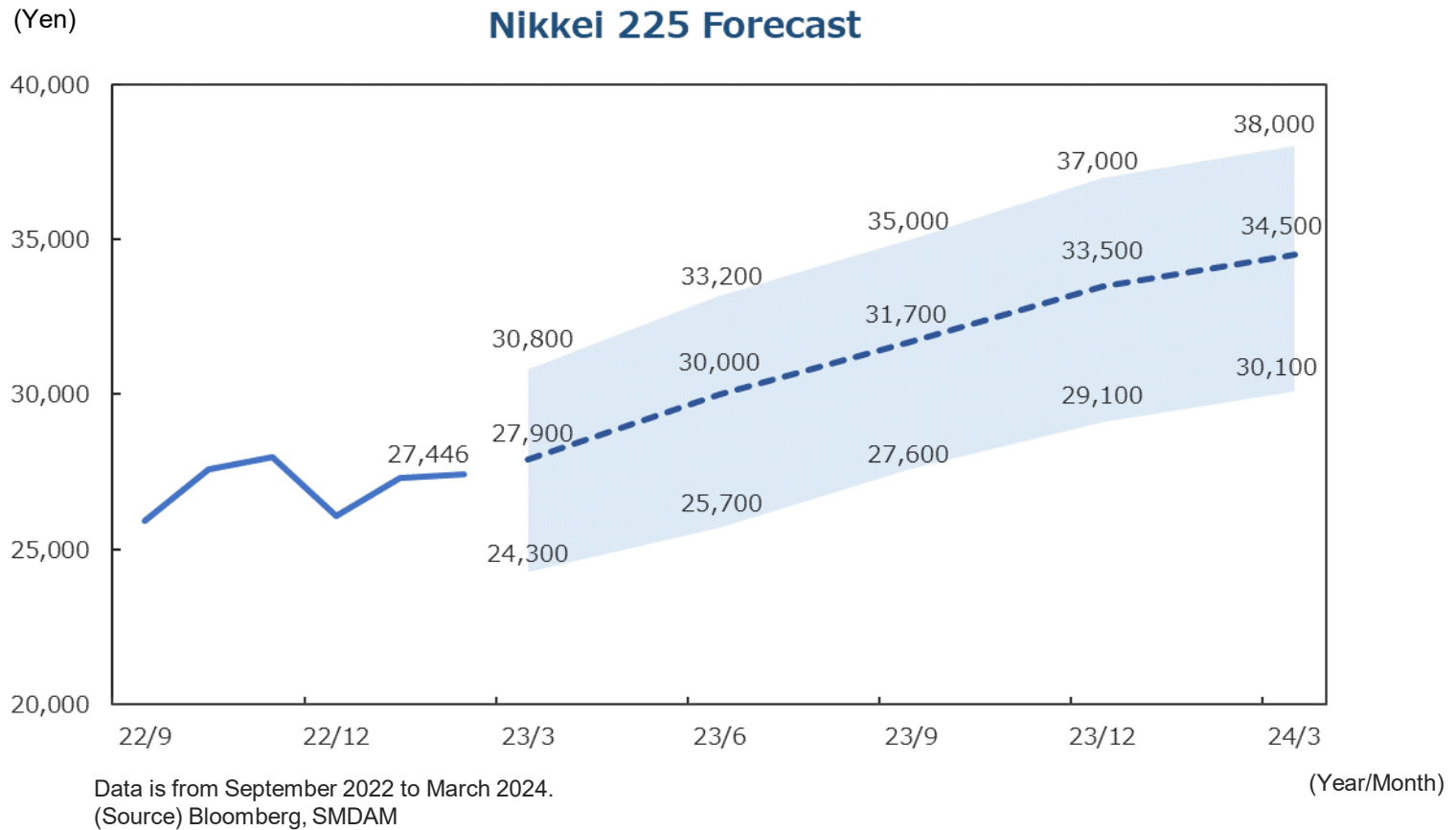


Outlook for Japanese Stock Market

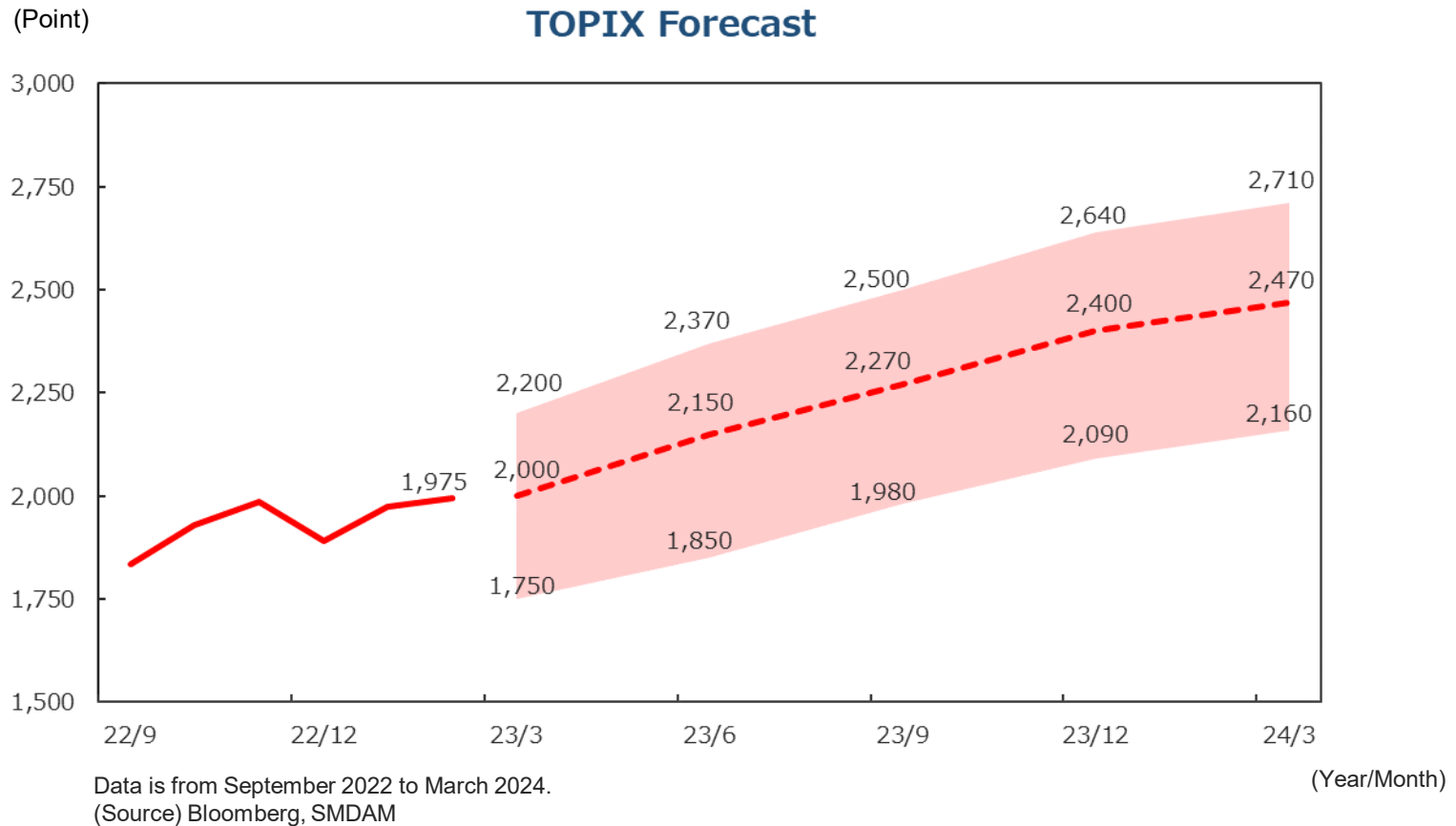
Market Outlook

- We believe that the Japanese equity market will resume its bullish trend after confirming the peak of FED tightening and the trough of the global economic cycle.
- While stable domestic demand and economic recovery in China could limit the down side of the market, concern over the global economy and financial turmoil could weigh on investors' appetite for riskier assets in the near future.
- We have raised our TOPIX target from 2,330 to 2,400 and that of the Nikkei 225 from 32,500 to 33,500 as of the end of 2023 due to an upward revision of the domestic economic forecast with strong wage inflation.
- We expect that the return of Chinese inbound travelers could be a strong tailwind to the Japanese economy and domestic service stocks going forward.

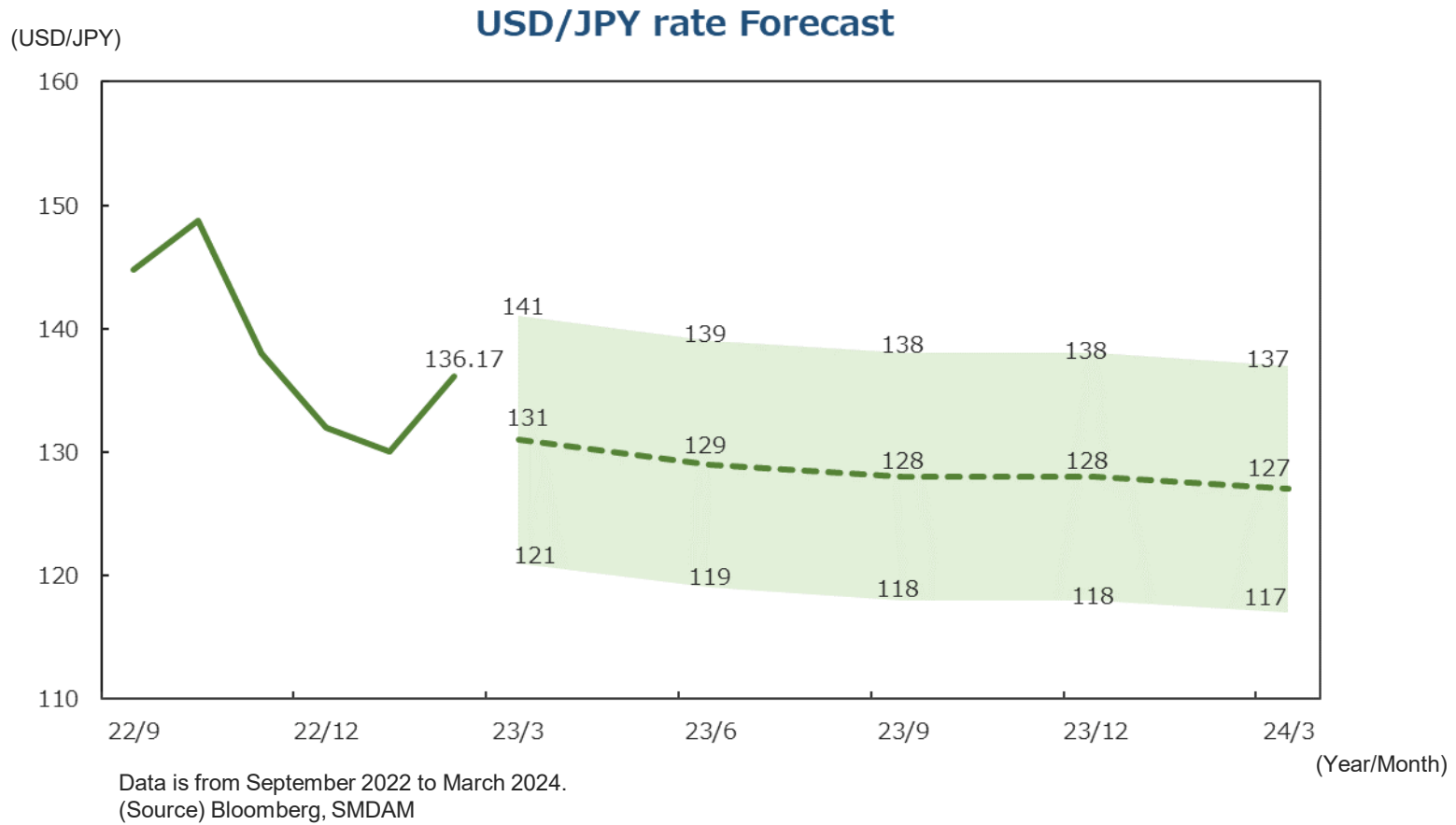
Equities to resume bullish trend after range trading



Equities to resume bullish trend after range trading



USD/JPY to decline gradually due to upcoming FED pivot



Upside / Downside risk scenarios

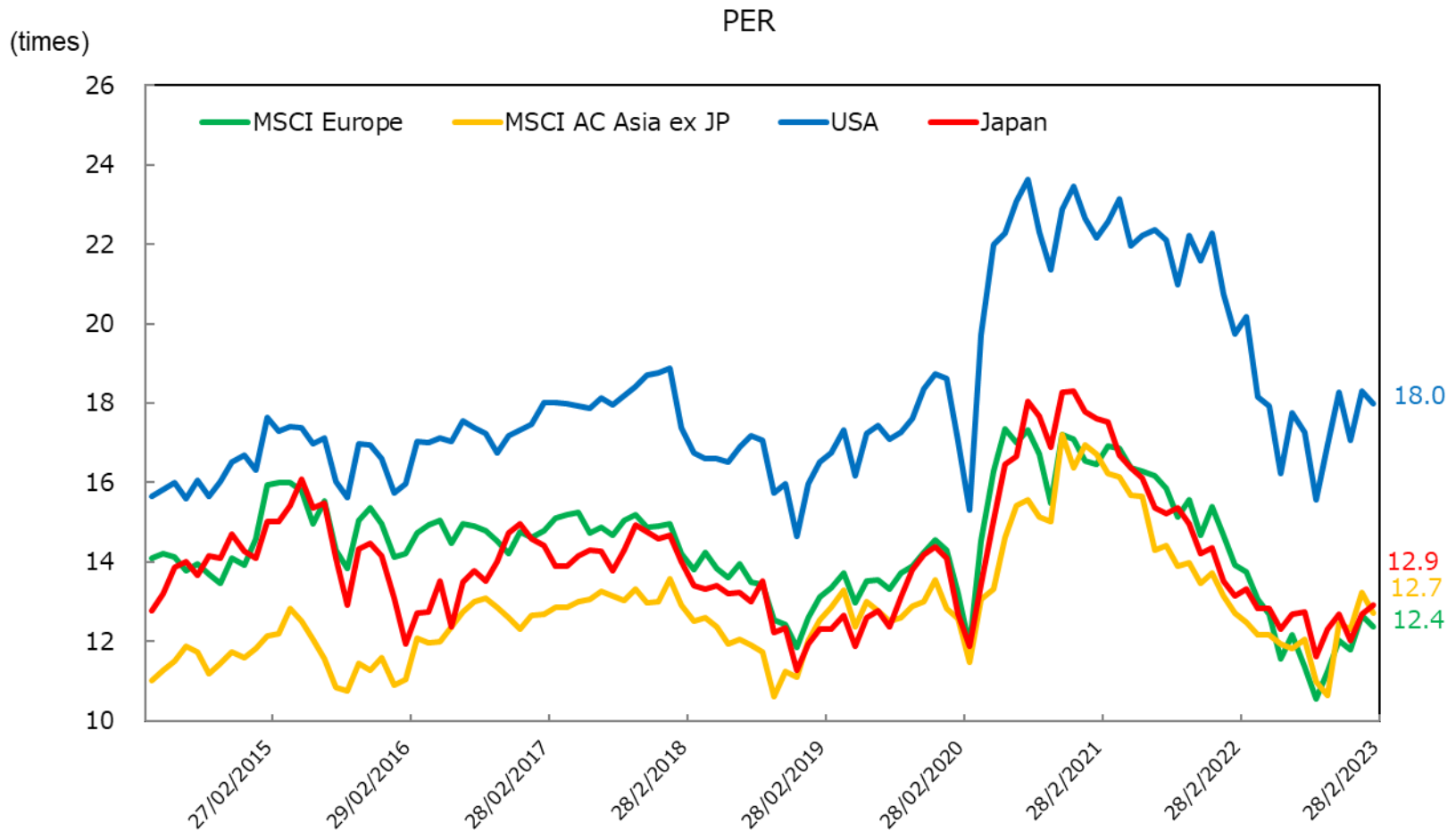
■ Upside Risks

- FED pivot and monetary easing
- Growing expectation for mild inflation in Japan

■ Downside Risks

- Excessive JPY appreciation and negative impact on corporate earnings
- Change in fiscal policy towards austerity
- Slower than expected pace of economic recovery in China

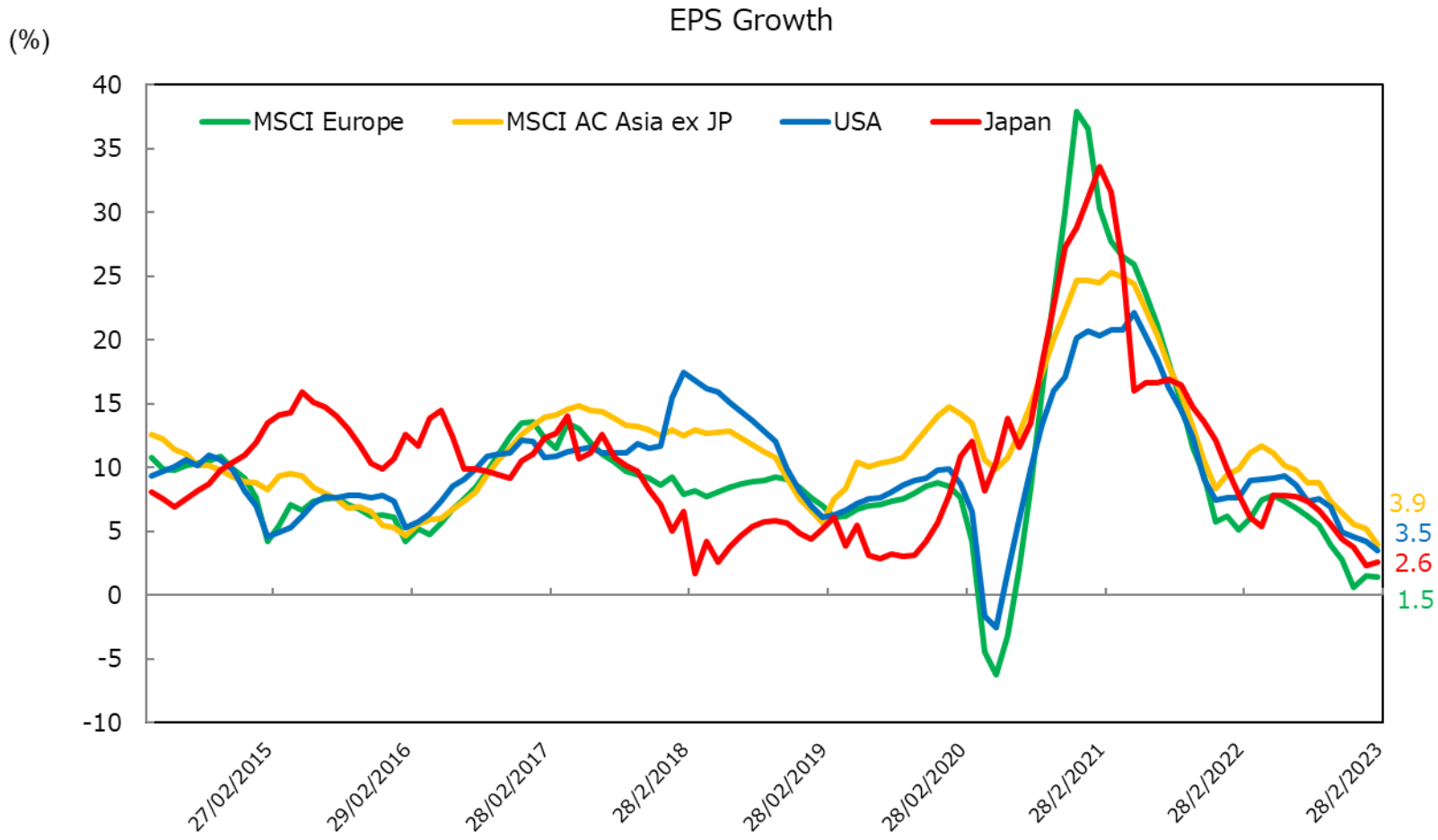
PERs hit the bottom due to falling bond yield



Data is from April 30th 2014 to February 28th 2023
(Source) MSCI

(DD/MM/YYYY)

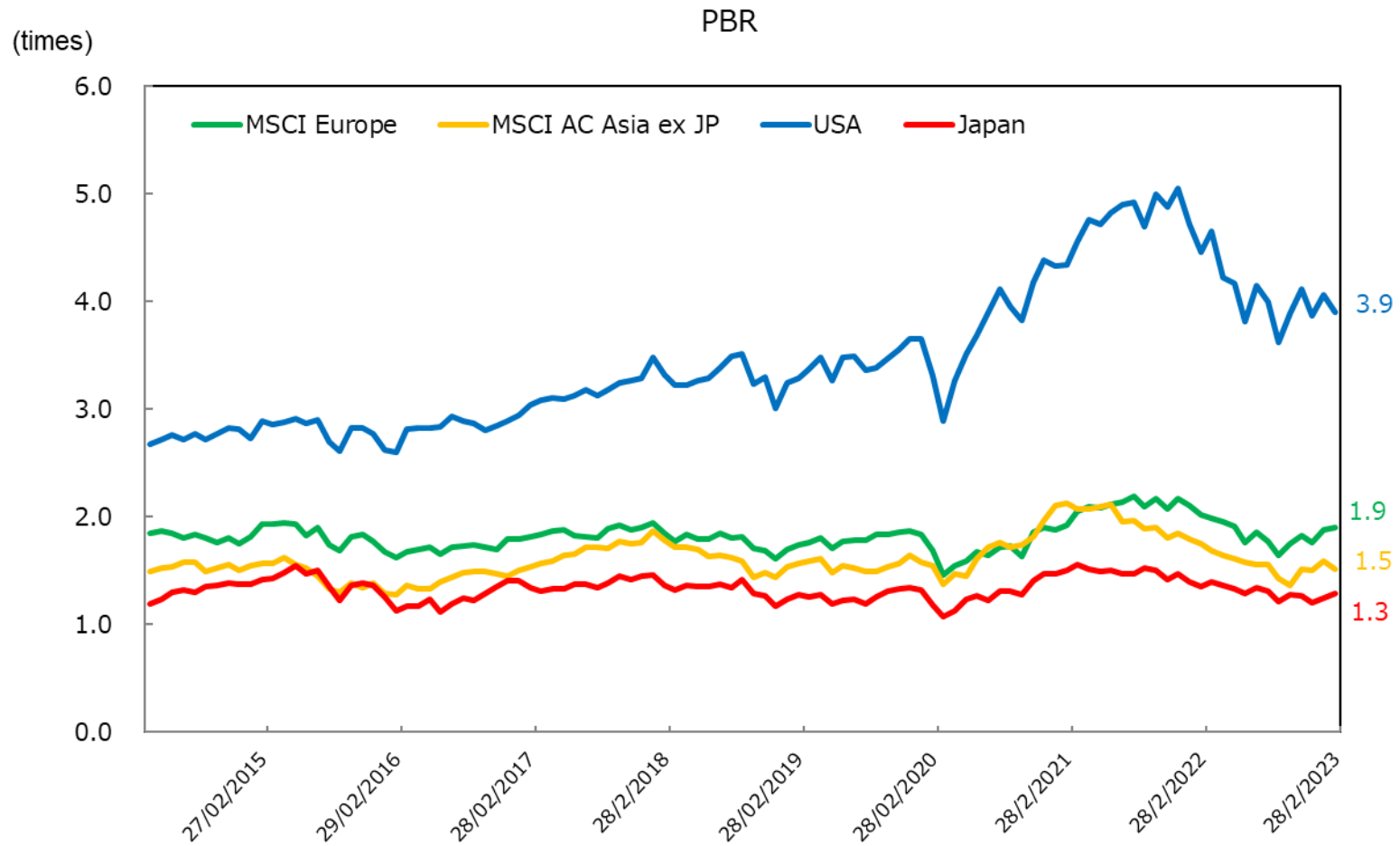
Sluggishness of global economy weigh on EPS growth



Data is from April 30th 2014 to February 28th 2023
 (Source) MSCI

(DD/MM/YYYY)

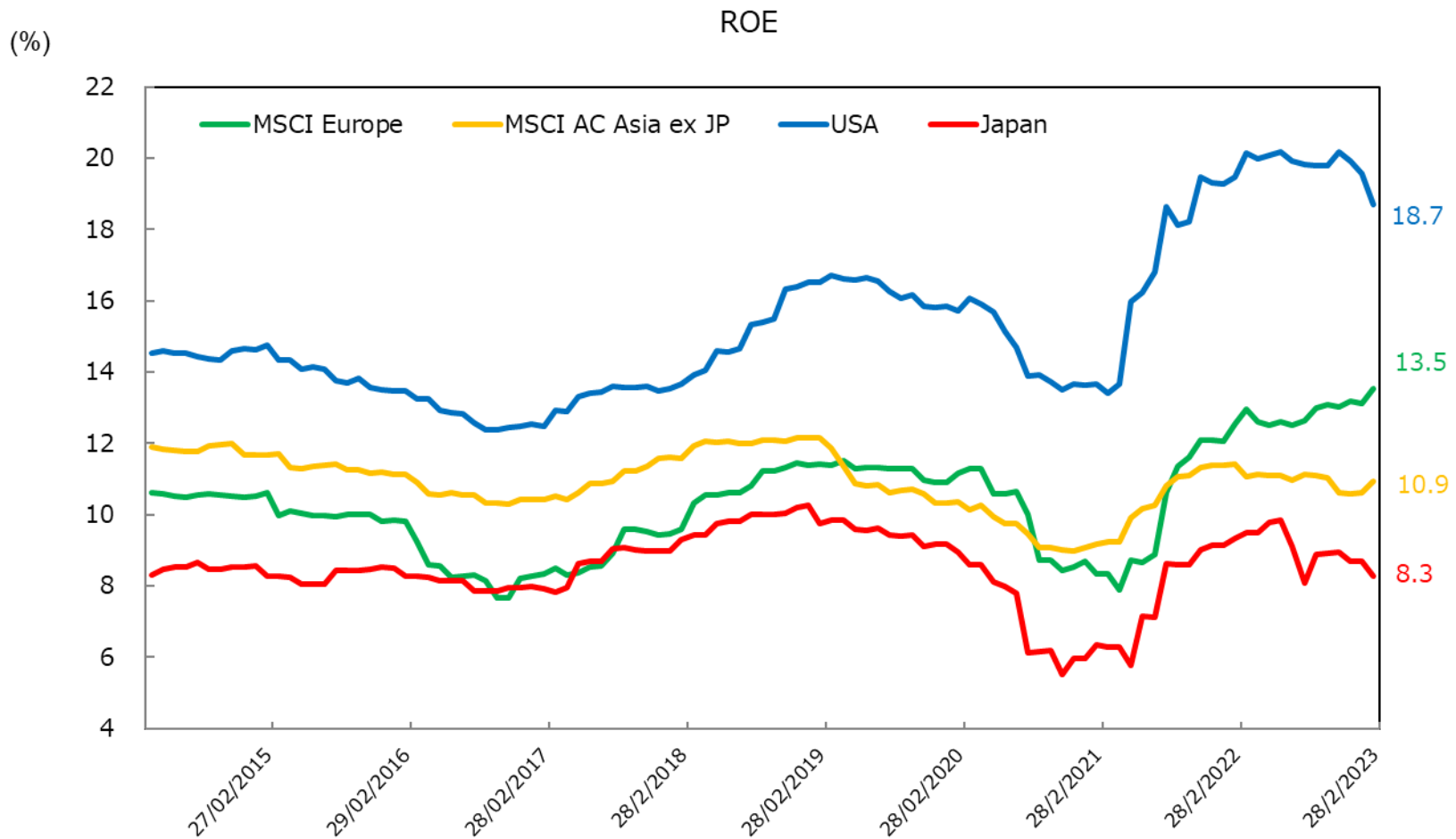
Tokyo stock exchange pushes low-PBR companies to change



Data is from April 30th 2014 to February 28th 2023
(Source) MSCI

(DD/MM/YYYY)

Lackluster manufacturers' results weigh on Japan's ROE

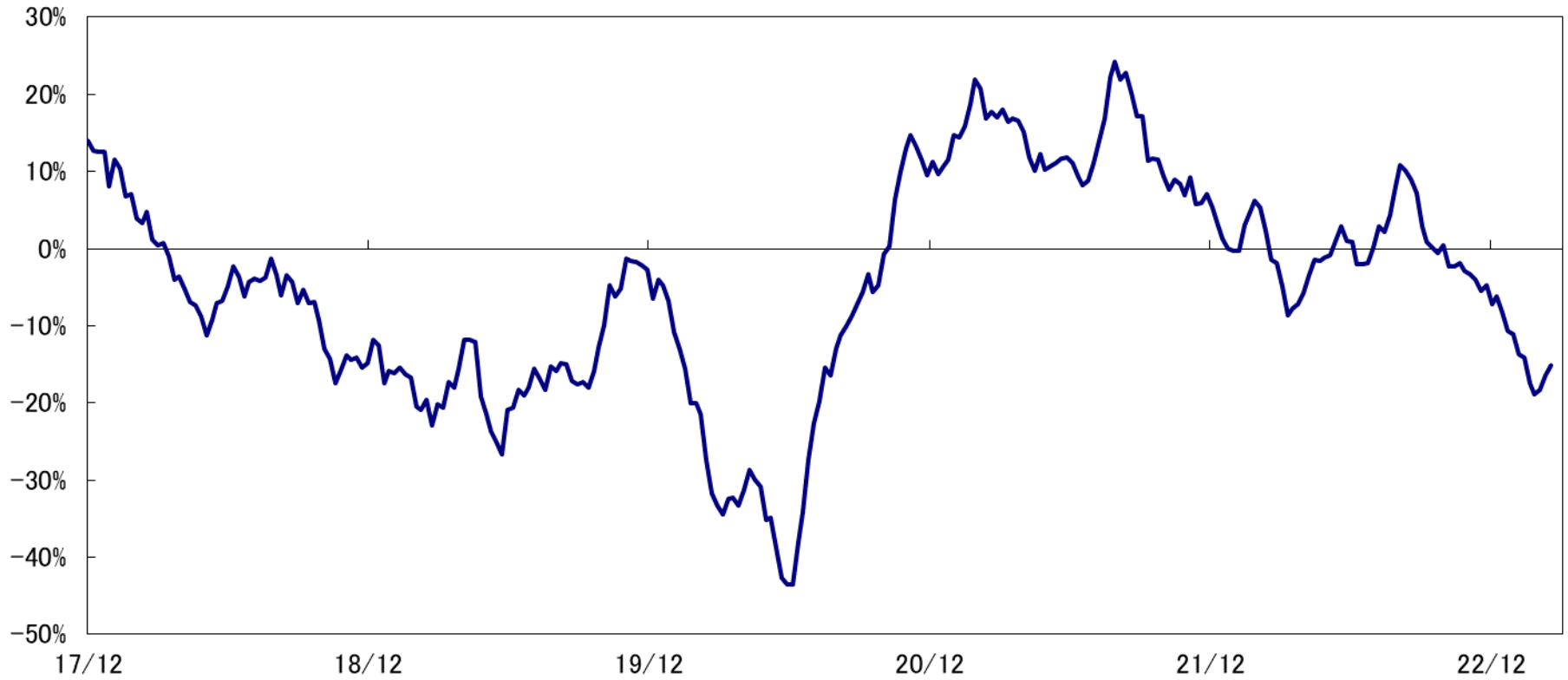


Data is from April 30th 2014 to February 28th 2023
 (Source) MSCI

(DD/MM/YYYY)

EPS revision stop sliding

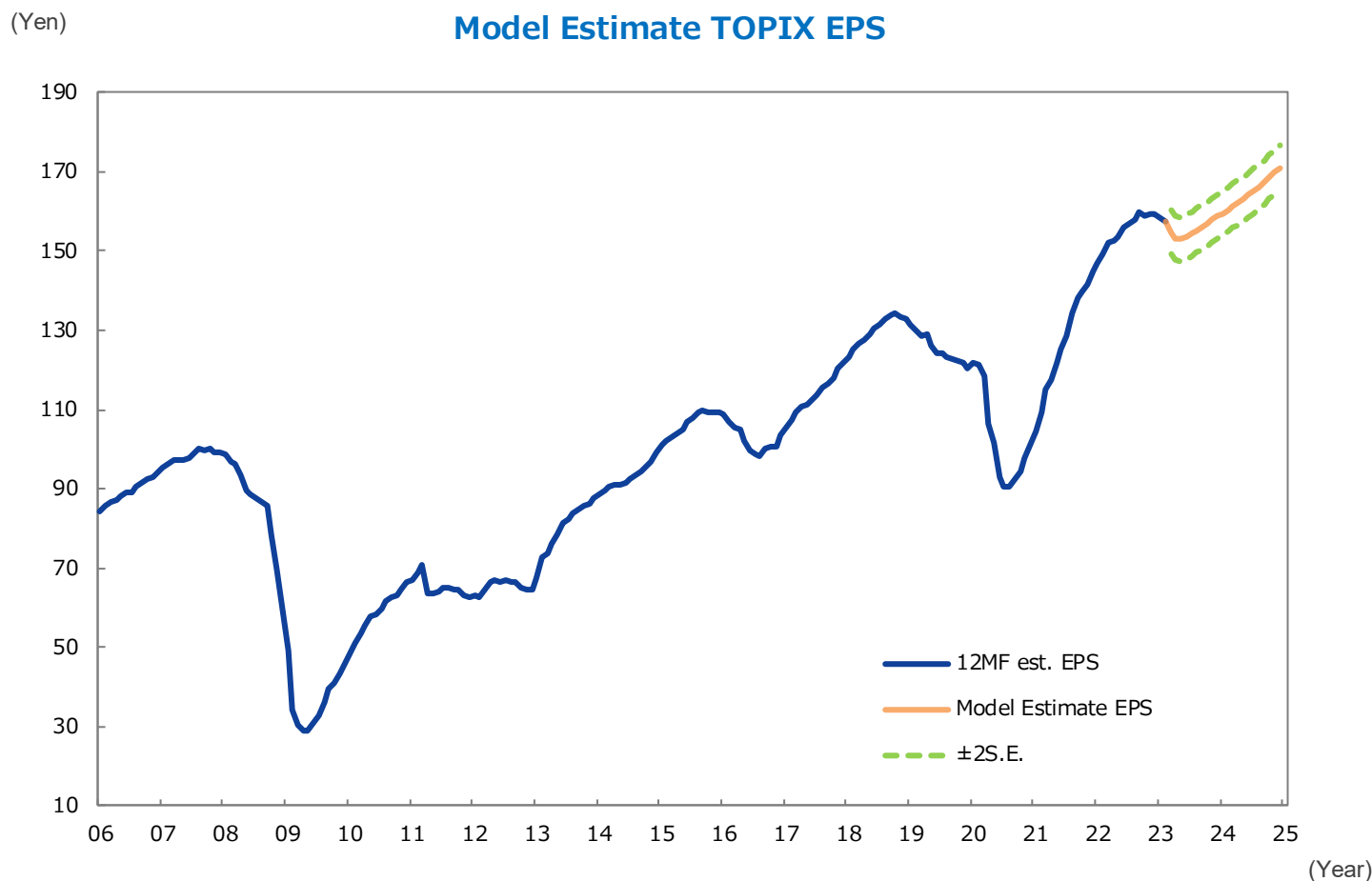
TOPIX Revision Index



Data is from December 28th 2017 to March 16th 2023
(Source) Datastream, IBES

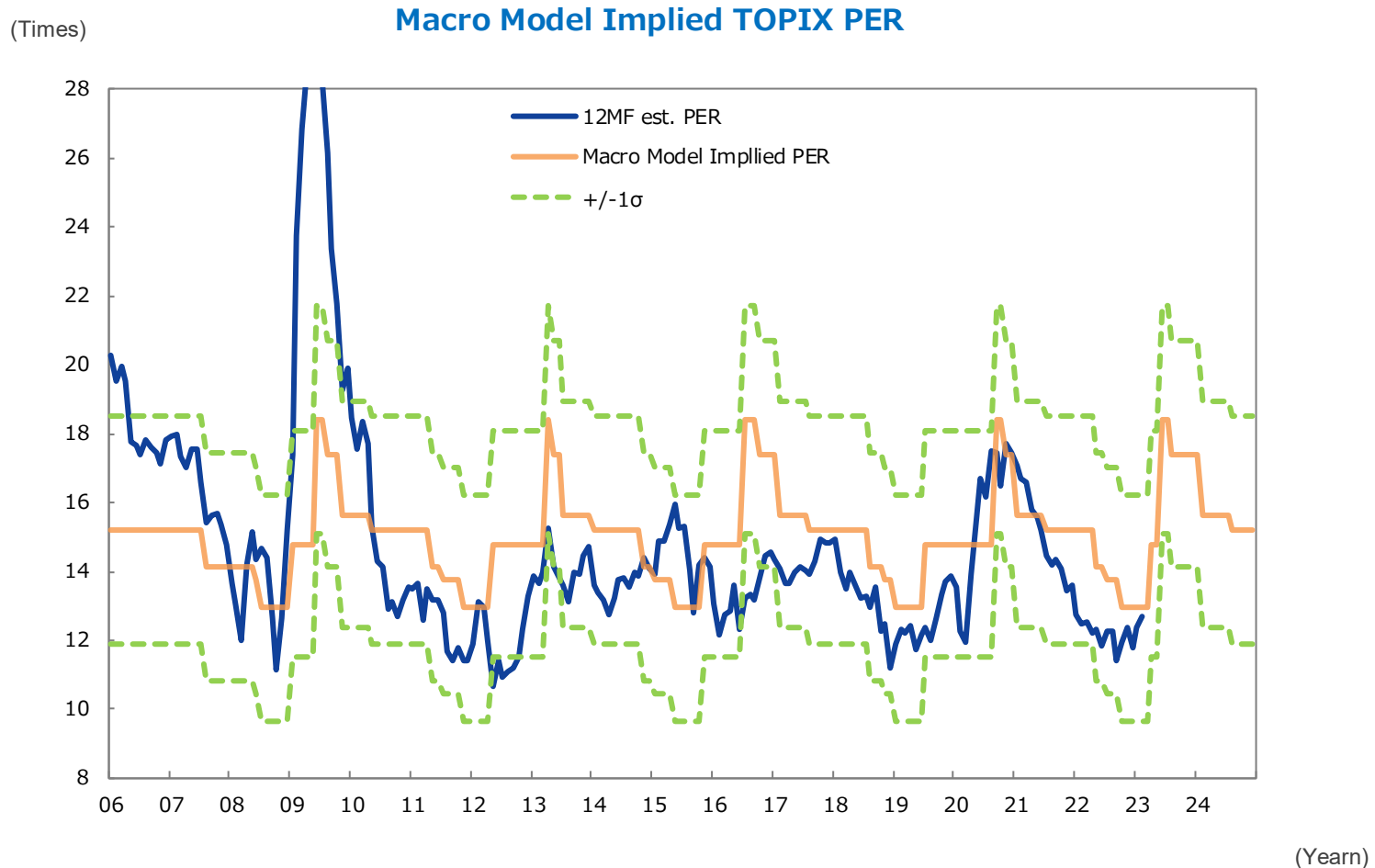
(YY/MM)

Quant model indicates EPS to pick up after temporary pause



Note: Consensus data is from January 2006 to February 2023,
Model estimate Data is from February 2023 to December 2024.
Source: SMDAM

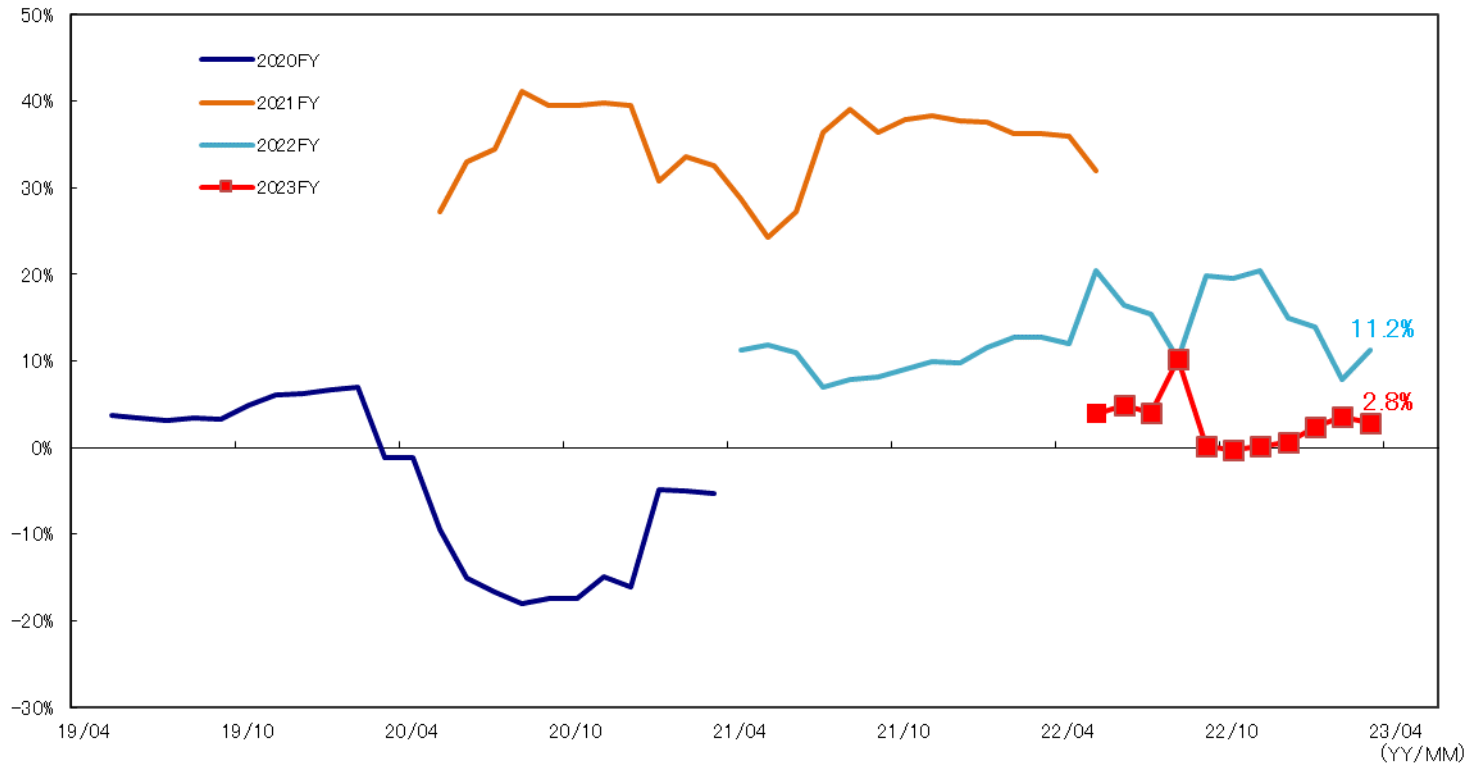
Model indicates PER to rebound from rock bottom



Note: Consensus data is from January 2006 to February 2023,
Model estimate Data is from February 2023 to December 2024.
Source: SMDAM

Earnings growth to slow next fiscal year

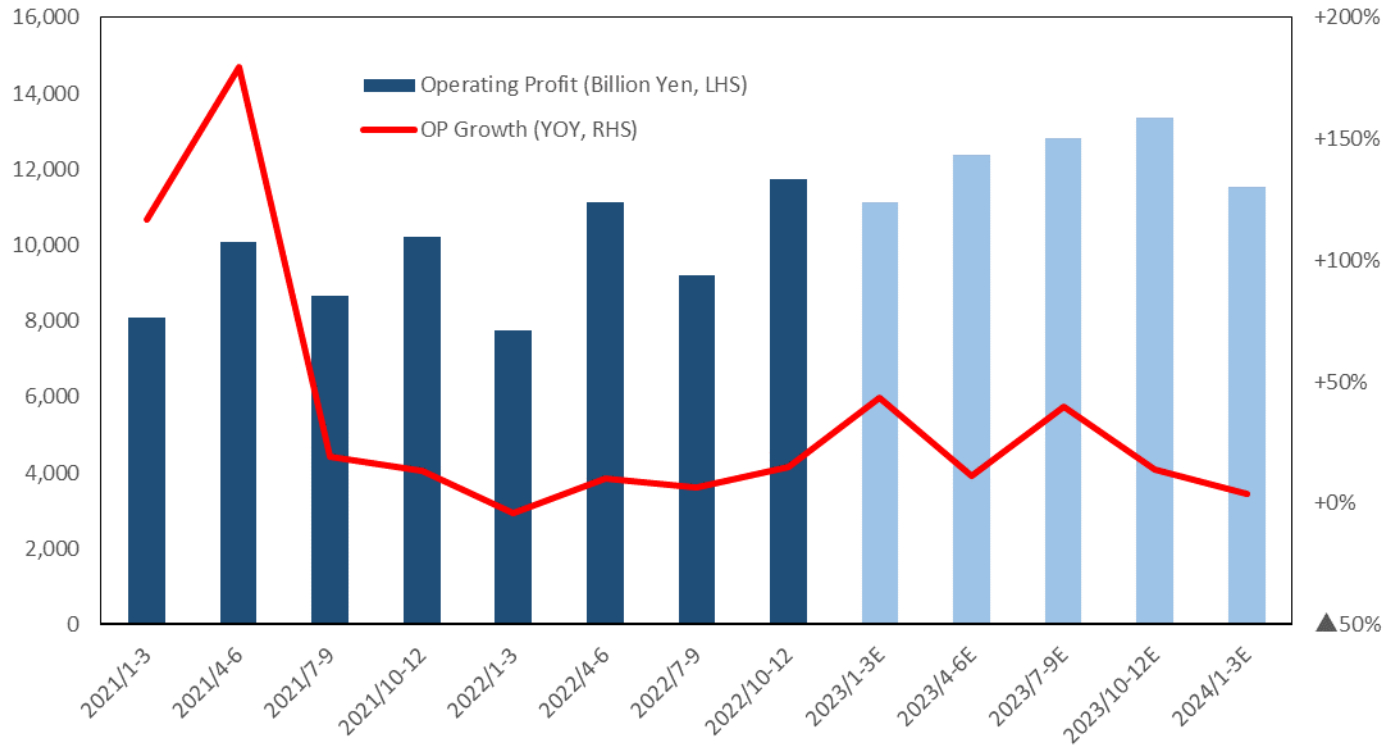
SMDAM Core Research Universe (Excl. Financials) Est. Recurring Profit Growth



Note: Data is as of 16th March 2023, SMDAM Core Universe (Excl. Financials) consists of 408 Japanese companies covered by SMDAM in-house analysts.
Source: SMDAM

Outlook for operating profit remains stable

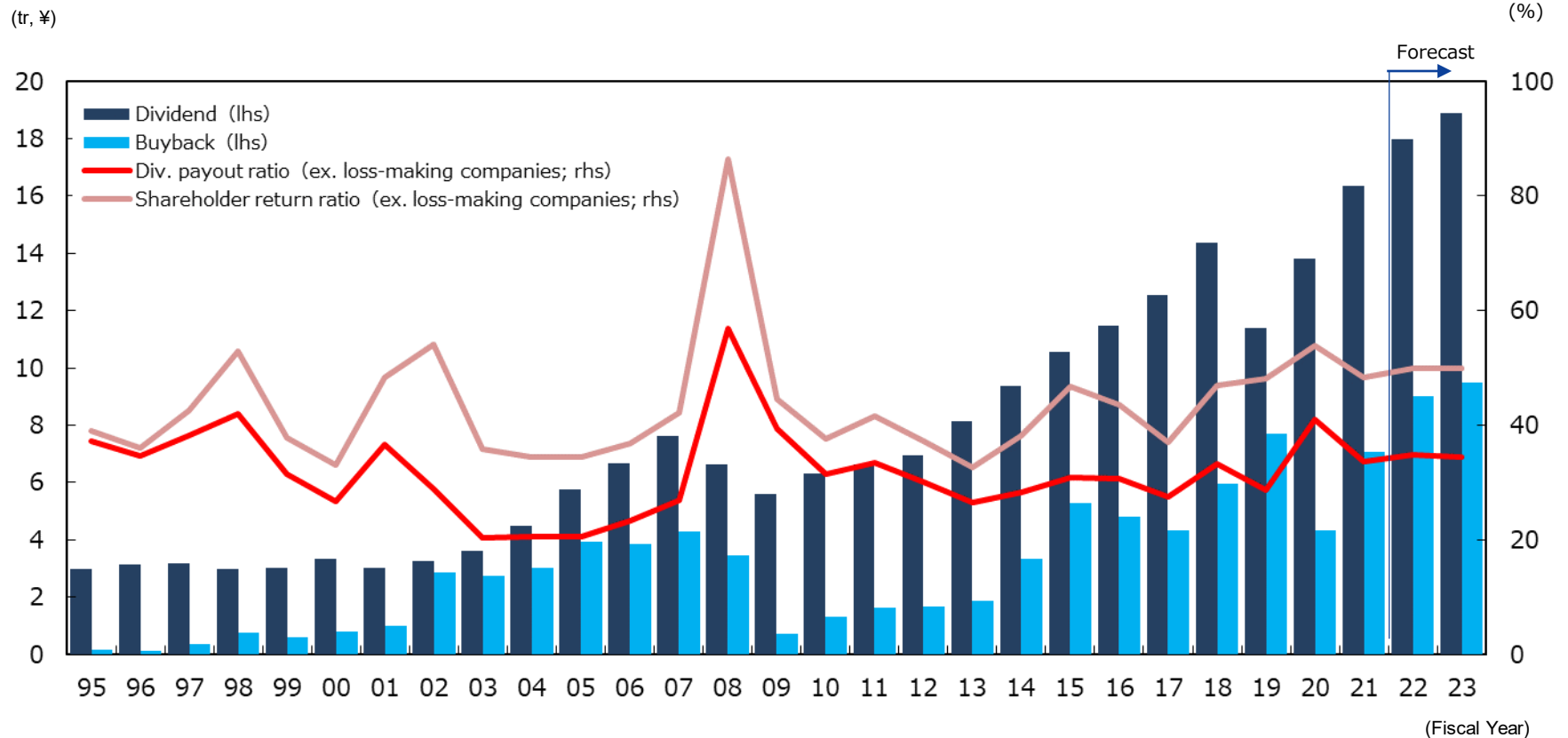
Operating Profit (All Industries Excl. Financials and Softbank Group)



Note: Actual data is from Q1 2021 to Q4 2022. Estimate data is from Q1 2023 to Q1 2024.
Source: SMDAM

Dividends and buybacks continue to rise beyond historical highs

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



Note: Data is from FY1995 to FY2023. FY2022 and FY2023 are forecasts.
 Source: Toyo Keizai, Quick, INDB, Daiwa Securities, SMDAM

Big swing from Value to Large Cap Growth YTD

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	3.11	2.16	3.48	-1.29	1.17	47.48	18.21
Total Value	1.44	1.51	1.70	1.20	8.92	53.69	13.38
Top Cap Value	-0.78	1.40	-0.10	-0.33	13.96	61.79	25.73
Large Cap Value	0.75	1.09	1.27	0.07	10.08	55.90	16.13
Mid Cap Value	2.79	0.67	3.08	0.58	5.46	48.74	3.30
Small Cap Value	4.55	3.37	3.61	6.21	3.72	43.88	1.55
Micro Cap Value	5.41	5.18	4.04	7.20	6.28	41.38	0.88
Total Growth	4.72	3.13	5.19	-3.69	-5.45	39.94	21.67
Top Cap Growth	5.80	4.21	6.74	-5.36	-3.99	42.25	29.62
Large Cap Growth	5.10	3.67	5.83	-3.98	-5.16	40.61	24.50
Mid Cap Growth	3.80	2.67	4.19	-1.43	-7.06	37.73	16.71
Small Cap Growth	1.87	-1.04	0.49	-0.92	-8.10	33.79	1.01
Micro Cap Growth	2.53	0.57	0.43	0.59	-10.29	38.46	1.87
Top Cap Total	2.90	2.85	3.72	-3.09	3.41	50.54	27.07
Large Cap Total	3.04	2.29	3.67	-2.07	1.50	48.47	21.11
Mid Cap Total	3.28	1.44	3.61	-0.46	-1.06	45.97	12.88
Small Cap Total	3.49	1.45	2.36	3.33	-1.31	40.84	2.18
Micro Cap Total	4.43	3.44	2.80	4.86	0.63	41.76	2.57

Note : As of 24th March 2023
(Source) Bloomberg



Outlook for Japanese Economy

Current status & Outlook of Japanese economy

[Current Status]

- **The economy is picking up.** Domestic demand remains strong despite weaknesses in export and production amid a slowdown in overseas economies. Companies' attitude for CAPEX is persistent thanks to pent-up demand and needs for de-carbonization and digitization. Despite the headwinds of higher prices, consumer spending has remained stubborn amid the reopening of the economy. Since October 2022, border restrictions had been relaxed and the recovery in inbound travelers' consumption has continued.
- **Inflation is trending upward.** While the Nationwide core CPI accelerated to +4.2% in January 2023 from +4.0% for the previous month, Tokyo core CPI slowed to +3.3% in February 2023 from +4.3% for the previous month thanks to measures to reduce the burden of electricity and gas bills. Import prices, which had previously caused cost push inflation, have already peaked.

[Outlook]

- ① **We have maintained our real GDP growth forecast for FY 2022 at 1.3%, while we have raised our estimate for FY 2023 from +1.0% to +1.2% and FY 2024 from +0.9% to +1.0%.** We have raised our forecast for FY 2023 and FY 2024, mainly due to upward revision of wage increases. We expect the economic recovery to continue for the foreseeable future, supported by CAPEX, consumer spending, inbound consumption and fiscal stimulus. On the other hand, the economy is likely to soften temporarily in the second half of FY 2023 owing to a slowdown in the US economy. After that, the economy is likely to recover as the US will be expected to avoid a stall.
- ② **We have maintained our core CPI forecast for FY 2022 at +3.0%, whilst we have revised upward our estimate for FY 2023 from +2.2% to +2.7% and FY 2024 from +1.2% to +1.5%.** Inflation forecasts for FY2023 and FY 2024 have been raised, mainly due to the upward trend in wage increases. Taking into account the effect of measures to reduce the burden of electricity and gas bills effective from February 2023 and the decaying cost push pressure, the core CPI is highly likely to follow a decelerating trend, albeit with some fluctuations, until it falls below + 2.0%. However, inflation is expected to decline at a slower pace than previously expected.
- ③ **PM Kishida and his cabinet will continue its accommodative economic policy.** In October 2022, the cabinet approved a comprehensive economic package to overcome higher inflation and stimulate the economy. This was a massive economic package, with national and local government expenditures totaling 37.6 trillion JPY. Recently PM Kishida ordered the compilation of additional measures to combat inflation within the scope of the existing reserve fund. In the medium term, we should pay attention to the possibility of fiscal austerity by PM Kishida's cabinet. The government is now planning to finance part of the increase in the national security budget with corporate tax increases.
- ④ **We expect that the new governor of the bank of Japan will change monetary policy by widening the YCC (yield curve control) range from $\pm 0.5\%$ to $\pm 1\%$ in April 2023. However, it is highly likely that the BOJ may be cautious about changing its policy if financial turmoil in the US and Europe persists.** BOJ's new governor Yoshihiko Ueda, who will take office in April, has indicated that the central bank would continue its easy monetary policy, citing the lack of prospects for achieving a stable 2% inflation target. On the other hand, the new governor does not deny the side effects of YCC and is closely watching the impact on the bond market, and is likely to respond to them. We expect YCC will be modified soon as it's relatively easy to explain that the expansion of the YCC range is not a monetary tightening compared to other policy options.

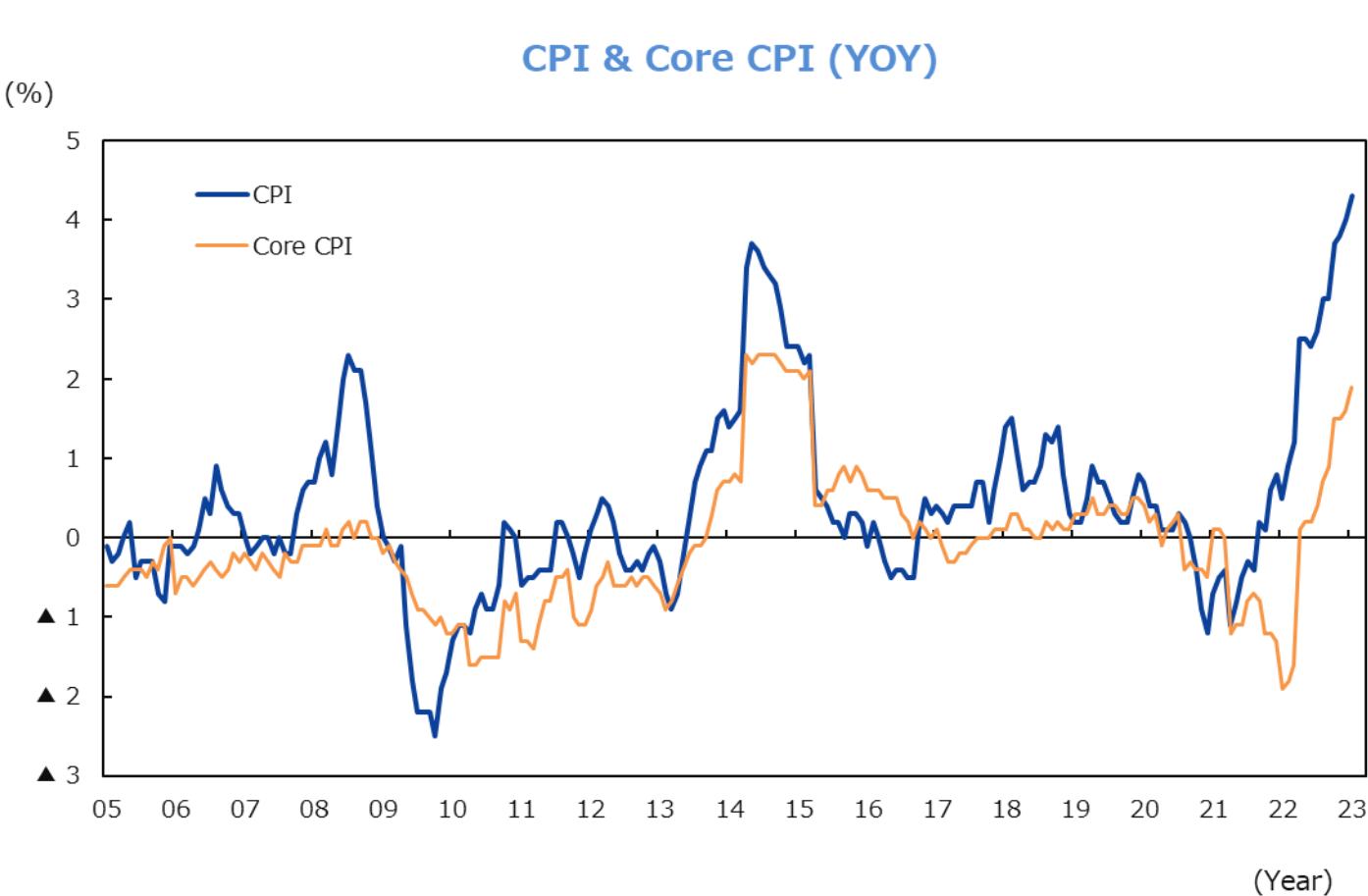
Forecast table for the Japanese economy

Forecast of annual Real GDP growth and its breakdown							
Fiscal Year	FY18	FY19	FY20	FY21	FY22 Est	FY23 Est	FY24 Est
Real GDP	0.3%	-0.9%	-4.6%	2.5%	1.3%	1.2%	1.0%
Private final consumption expenditure	0.1%	-1.0%	-5.4%	1.5%	2.3%	1.1%	0.9%
Private housing investment	-4.8%	2.5%	-7.8%	-1.1%	-4.5%	-0.9%	-0.2%
Private-sector capital investment	1.5%	-1.7%	-7.7%	2.1%	2.9%	2.5%	2.2%
Public fixed capital formation	0.8%	1.7%	5.1%	-6.4%	-4.0%	1.4%	0.9%
Net export contribution	-0.2%	-0.5%	-0.6%	0.8%	-0.4%	-0.1%	-0.1%
Exports of goods and services	2.0%	-2.3%	-10.0%	12.3%	4.6%	0.1%	2.2%
Imports of goods and services	3.0%	0.2%	-6.3%	7.1%	6.9%	0.3%	2.6%
Nominal GDP	0.2%	0.0%	-3.9%	2.4%	1.8%	2.8%	2.1%
GDP deflator	-0.1%	0.8%	0.7%	-0.1%	0.5%	1.7%	1.1%
Industrial Production Index	0.3%	-3.7%	-10.0%	5.9%	-0.6%	-0.5%	1.9%
Consumer Price Index (Core)	0.8%	0.4%	-0.6%	0.1%	3.0%	2.7%	1.5%
Domestic corporate goods price index	2.2%	0.1%	-1.5%	7.1%	9.3%	-0.1%	0.0%
Employee compensation	3.2%	2.0%	-1.5%	2.1%	2.1%	2.6%	2.3%
Unemployment rate	2.4%	2.4%	2.9%	2.8%	2.6%	2.4%	2.3%
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.

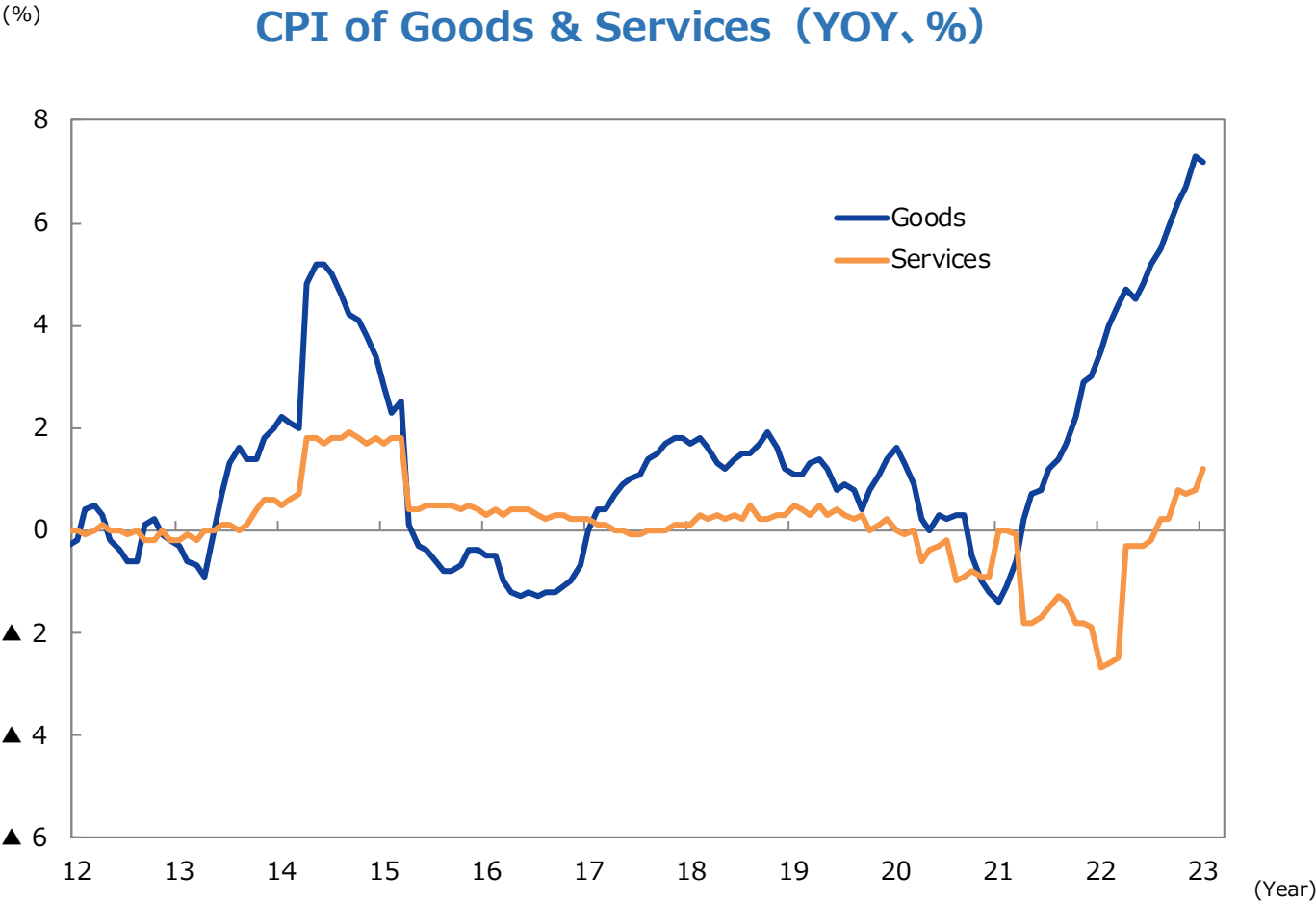
Source: Sumitomo Mitsui DS Asset Management based on data from the Cabinet Office, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry

Food and energy lift inflation to a 41 year high



Note: Data is from January 2005 to January 2023, Core CPI is excluding food, except for alcohol, & energy
Source: MIAC, Bloomberg, SMDAM

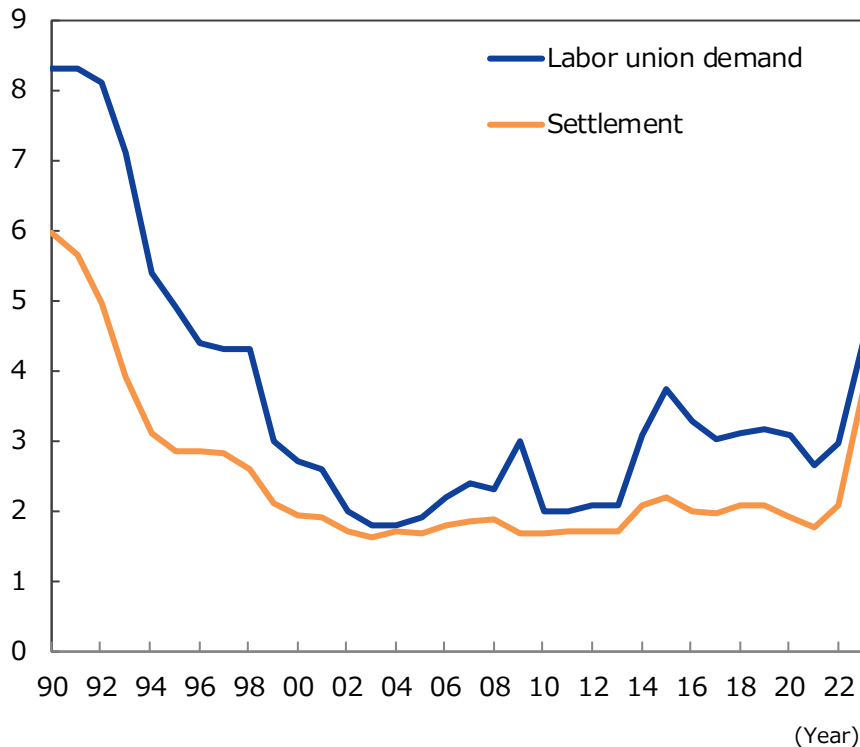
Goods inflation spreading to services slowly but steadily



Note: Data is from January 2012 to January 2023.
Source: MIAC, Bloomberg, SMDAM

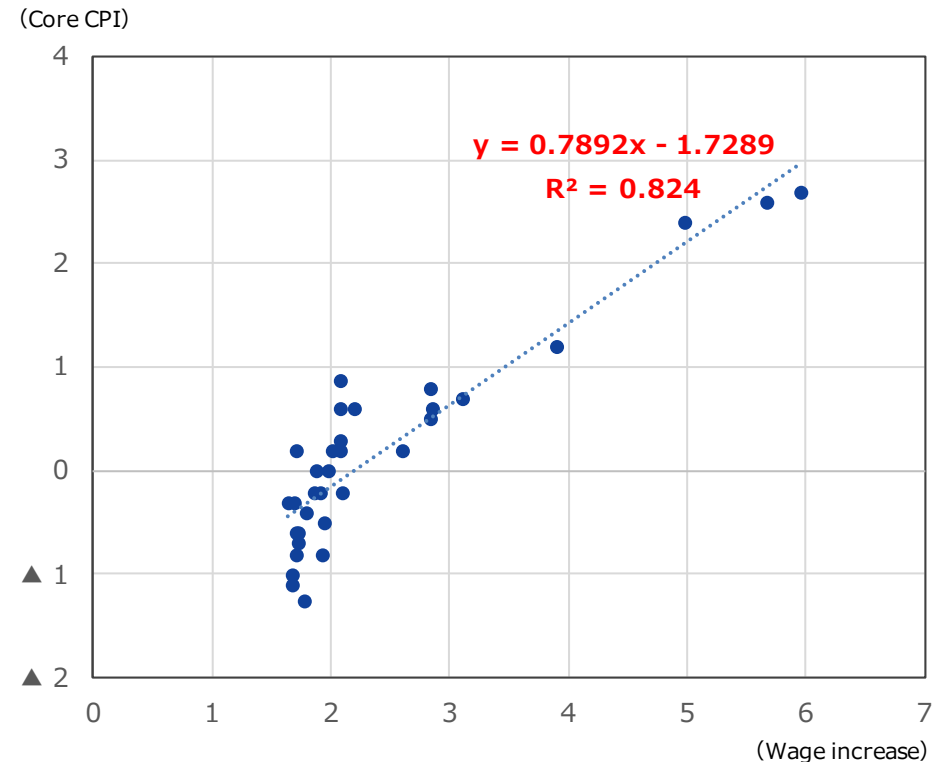
Start of a virtuous cycle?

Wage increase demand & settlement (YOY, %)



Note: Data is from FY 1990 to FY 2023.
Source: Japanese Trade Union Confederation, SMDAM

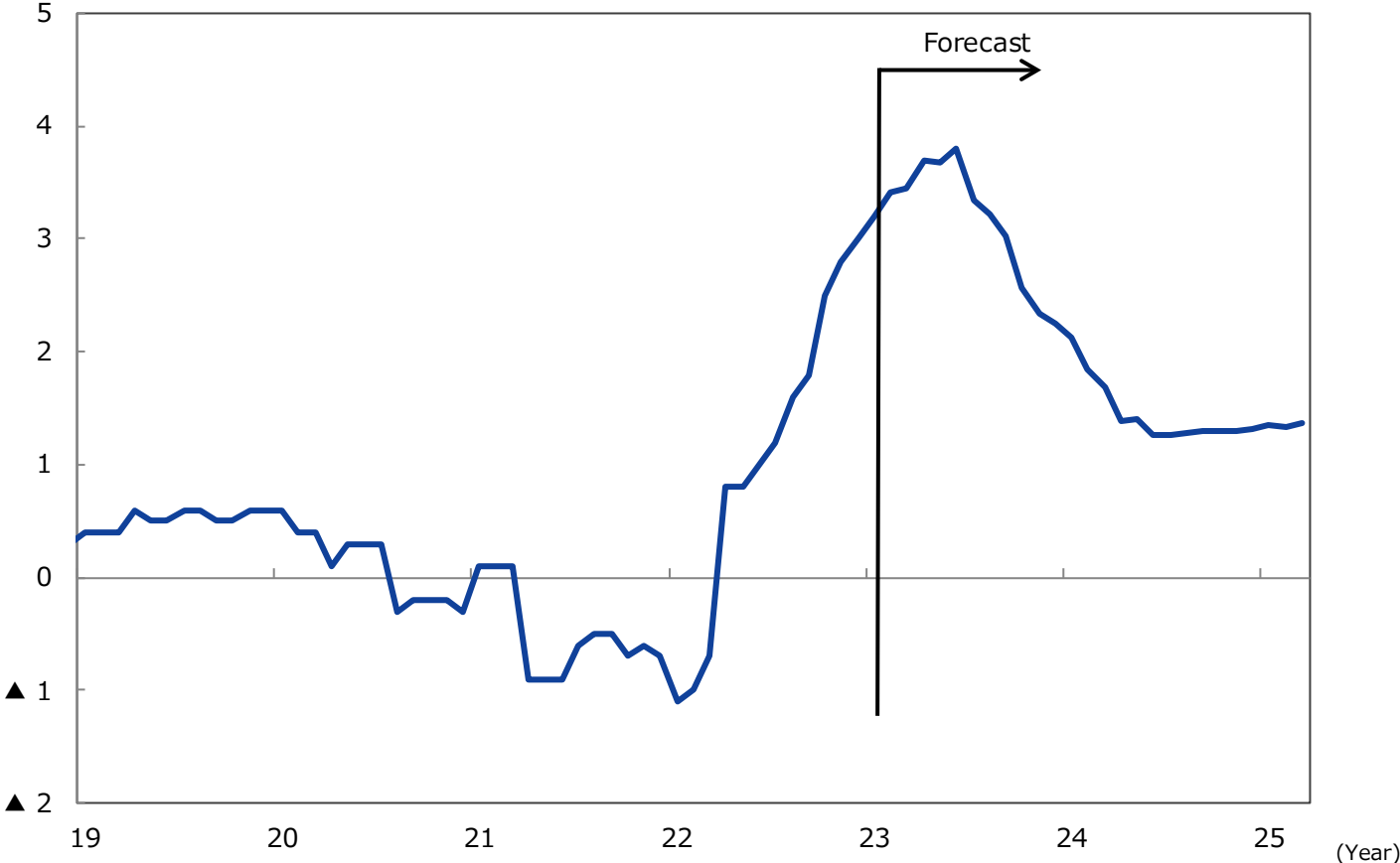
Wage increase & Core CPI (YOY, %)



Note: Data is from FY 1990 to FY 2022. Core CPI is excluding food, except for alcohol, & energy
Source: MIAC, Japanese Trade Union Confederation, SMDAM

BOJ forecasts Core CPI to peak in the near future

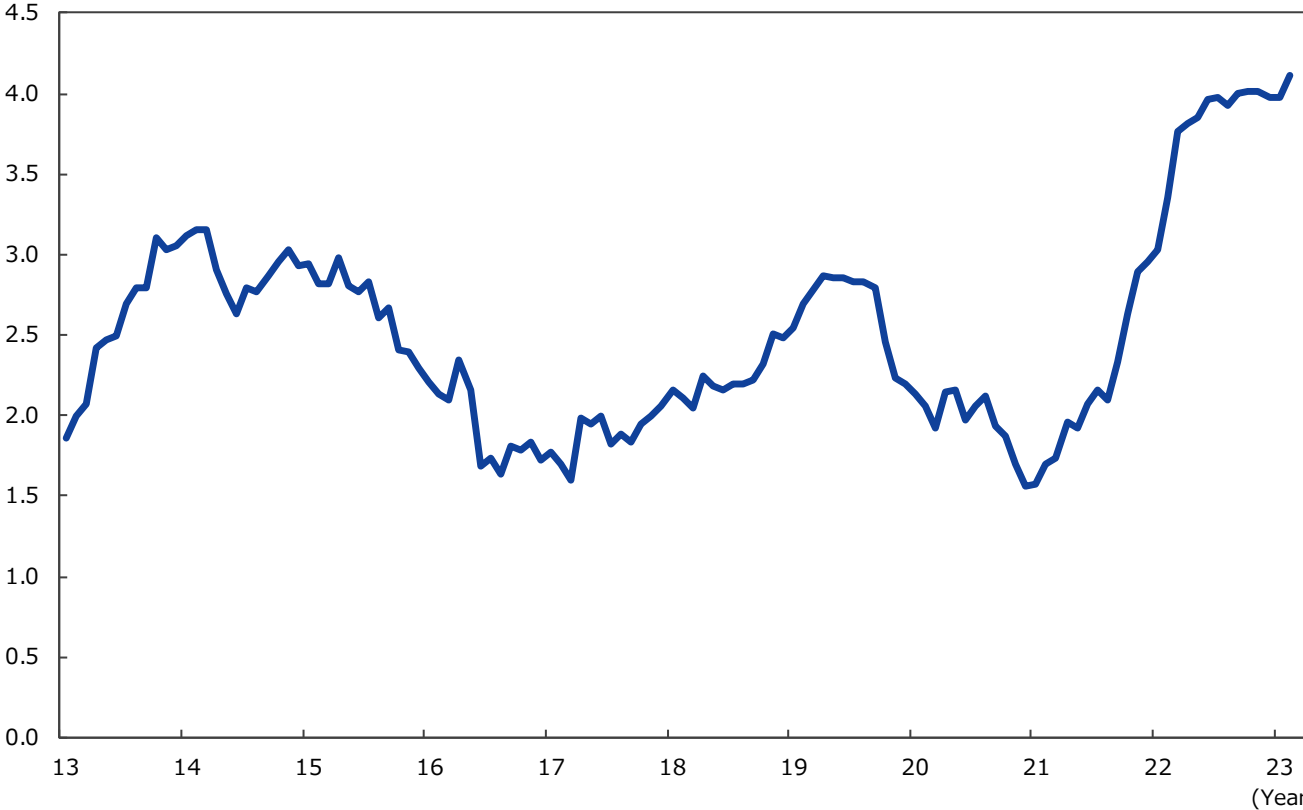
BOJ's Core CPI forecast (YOY, %)



Note: Data is from January 2019 to March 2025. BOJ's CPI is excluding fresh foods & energy. Data after January 2023 are forecast.
Source: The Bank of Japan, SMDAM

Higher prices changing people's perspective for inflation

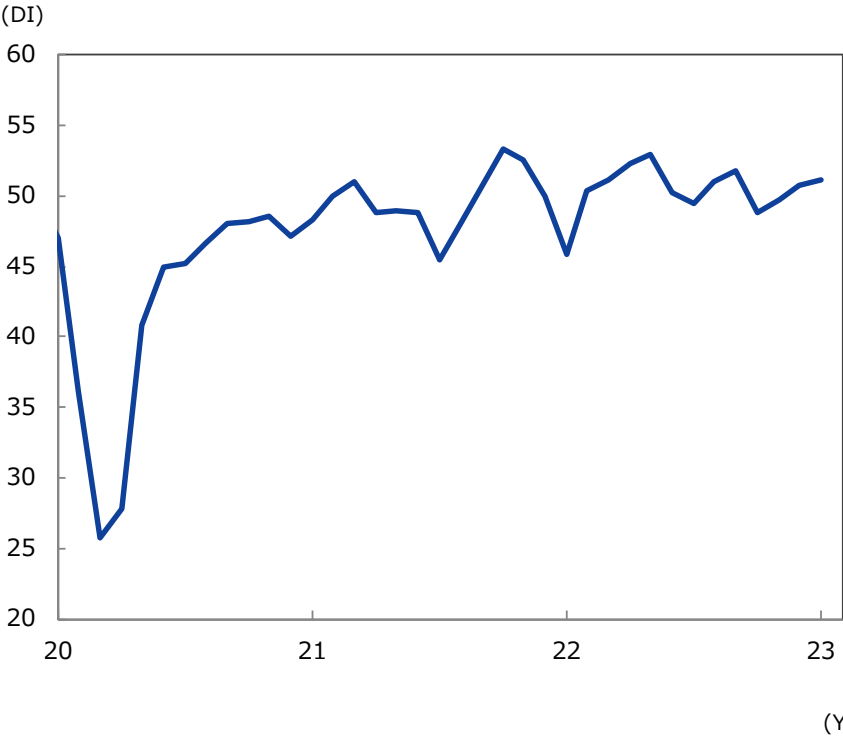
Consumers' Expectation of Inflation Rate (YOY, %)



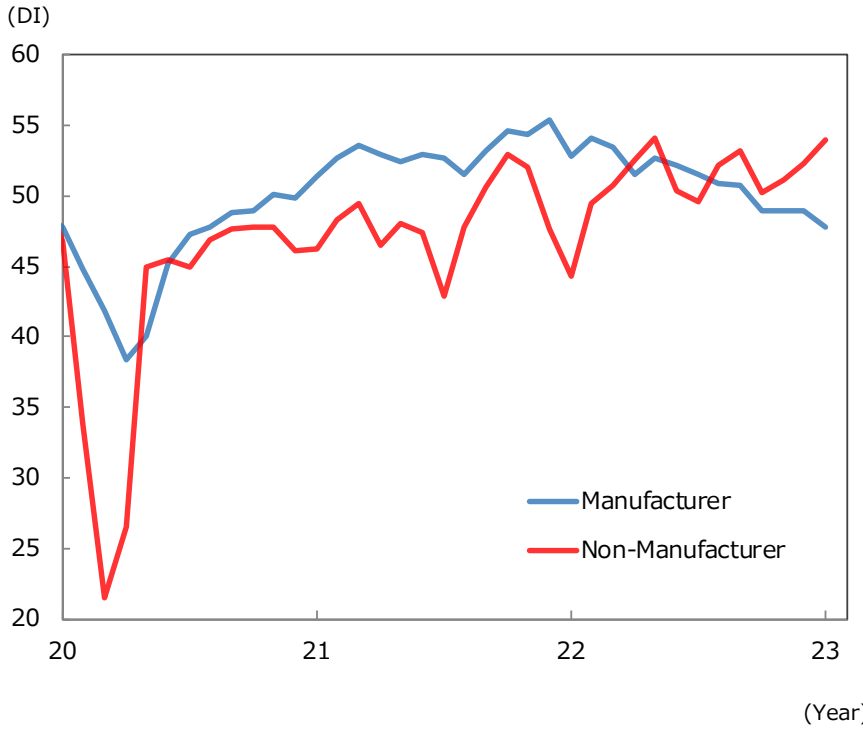
Note: Weighted average of inflation forecast of "Consumer Confidence Survey". Data is from January 2013 to February 2023.
Source: Cabinet Office, SMDAM

Services gaining momentum despite manufacturers' weakness

Composite PMI



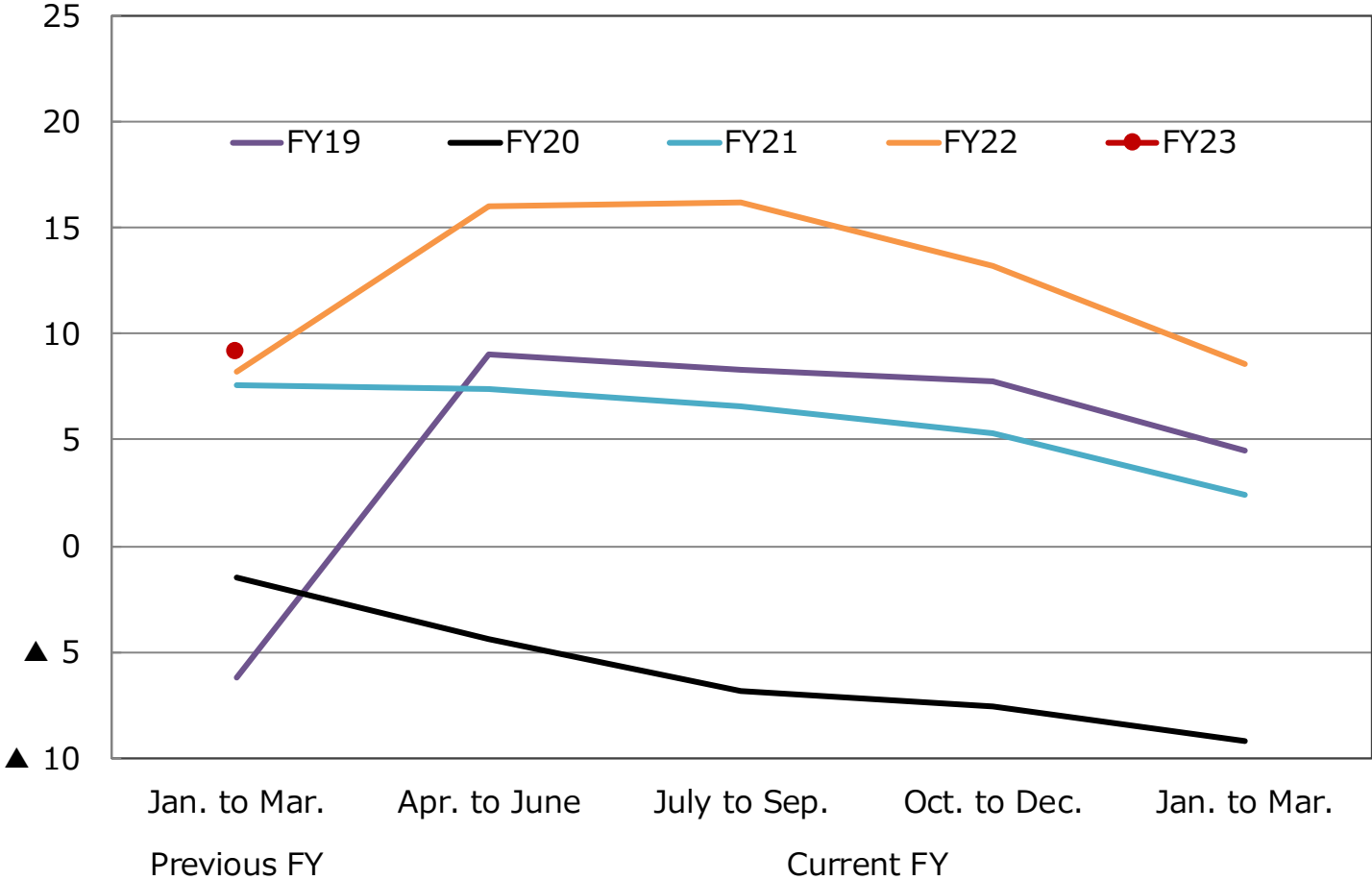
PMI, Manufacturer & Non-Manufacturer



Note: Data is from February 2020 to February 2023.
Source: Bloomberg, SMDAM

CAPEX still running higher than usual

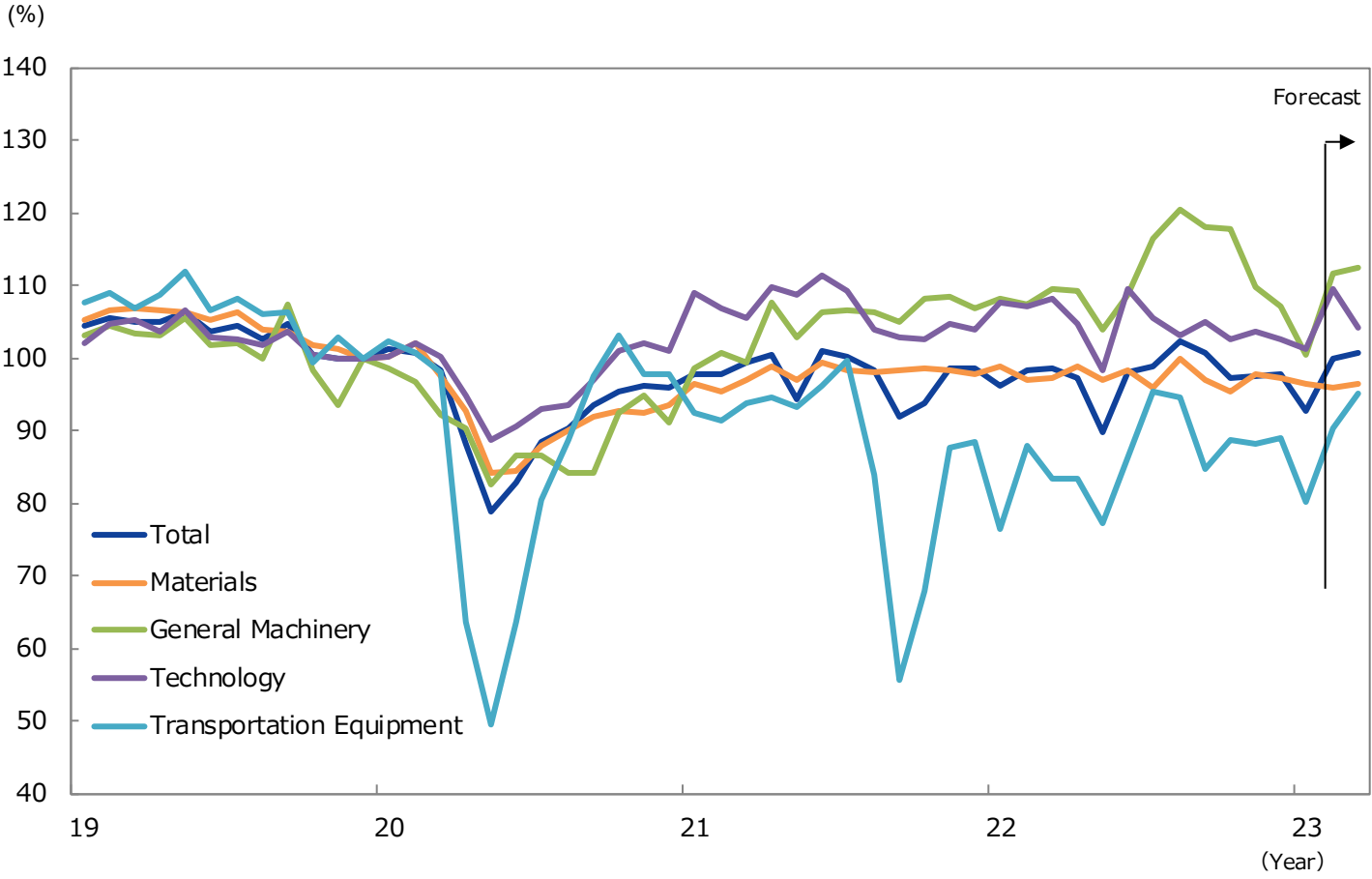
Plan of CAPEX (YOY)



(Data) All industries, all sizes, including software, excluding land and R&D, from Q1 2019 to Q1 2023
 (Source) Cabinet Office, SMDAM

Recovery in Autos to support industrial production going forward

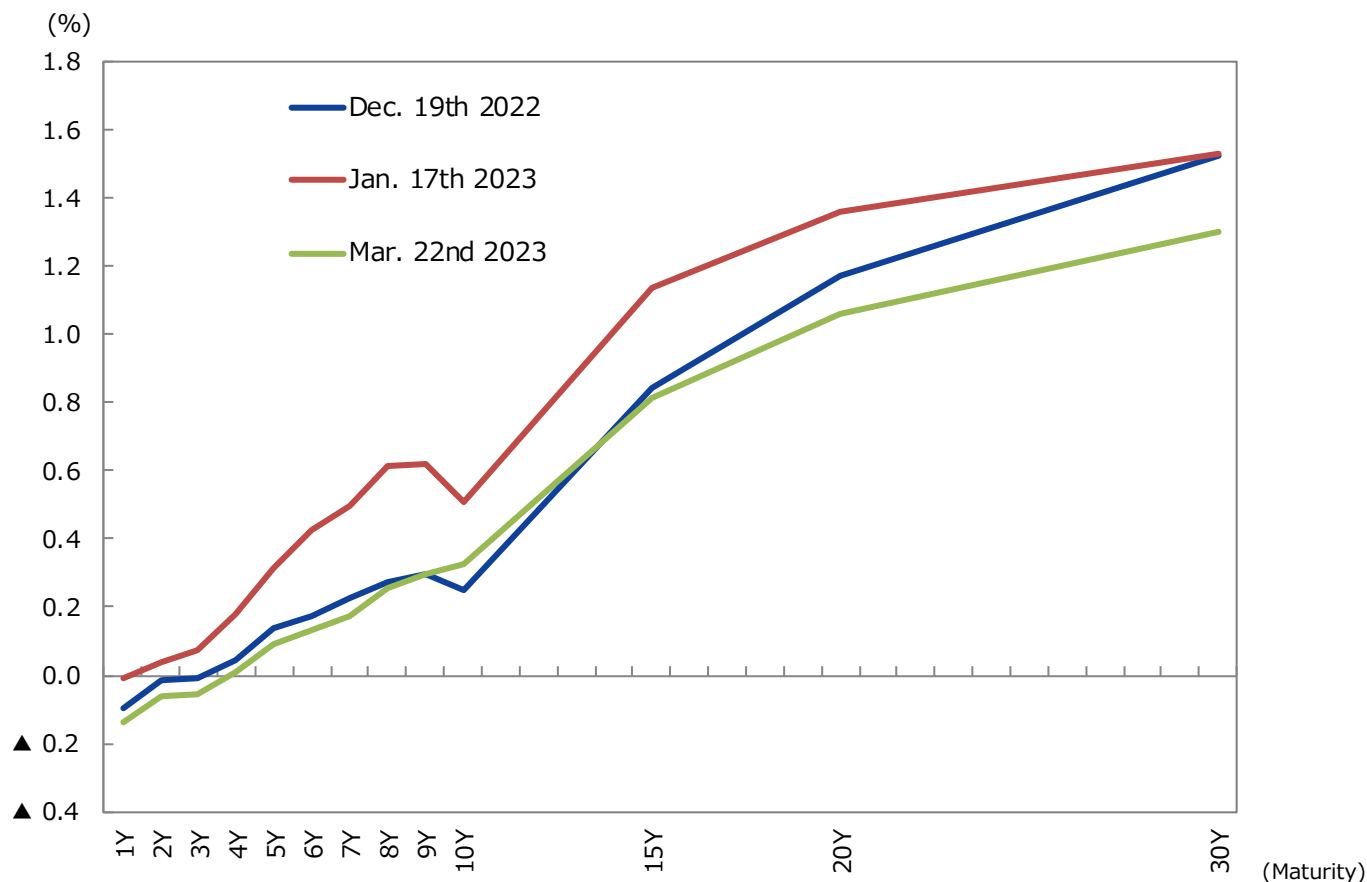
Industrial Production (Dec. 2019=100)



Note: 100% = December 2019. Data is from January 2019 to March 2023. Data after January 2023 are forecasts.
Source: METI, SMDAM

Shape of JGB yield curve back to normal amid financial turmoil

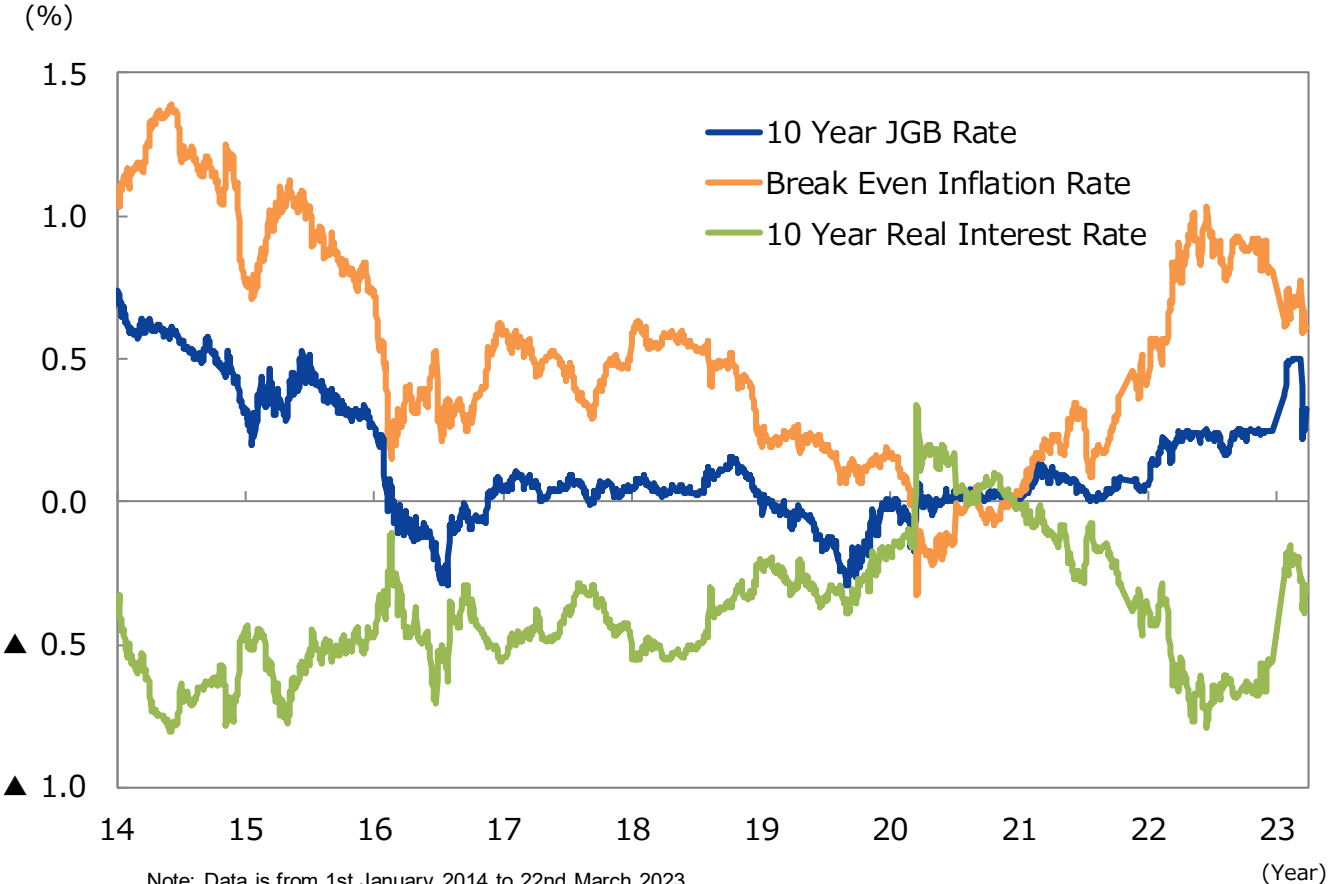
Yield Curve of Japanese Sovereign



Source: Bloomberg, SMDAM

Financial turmoil pushed real & nominal interest rates lower

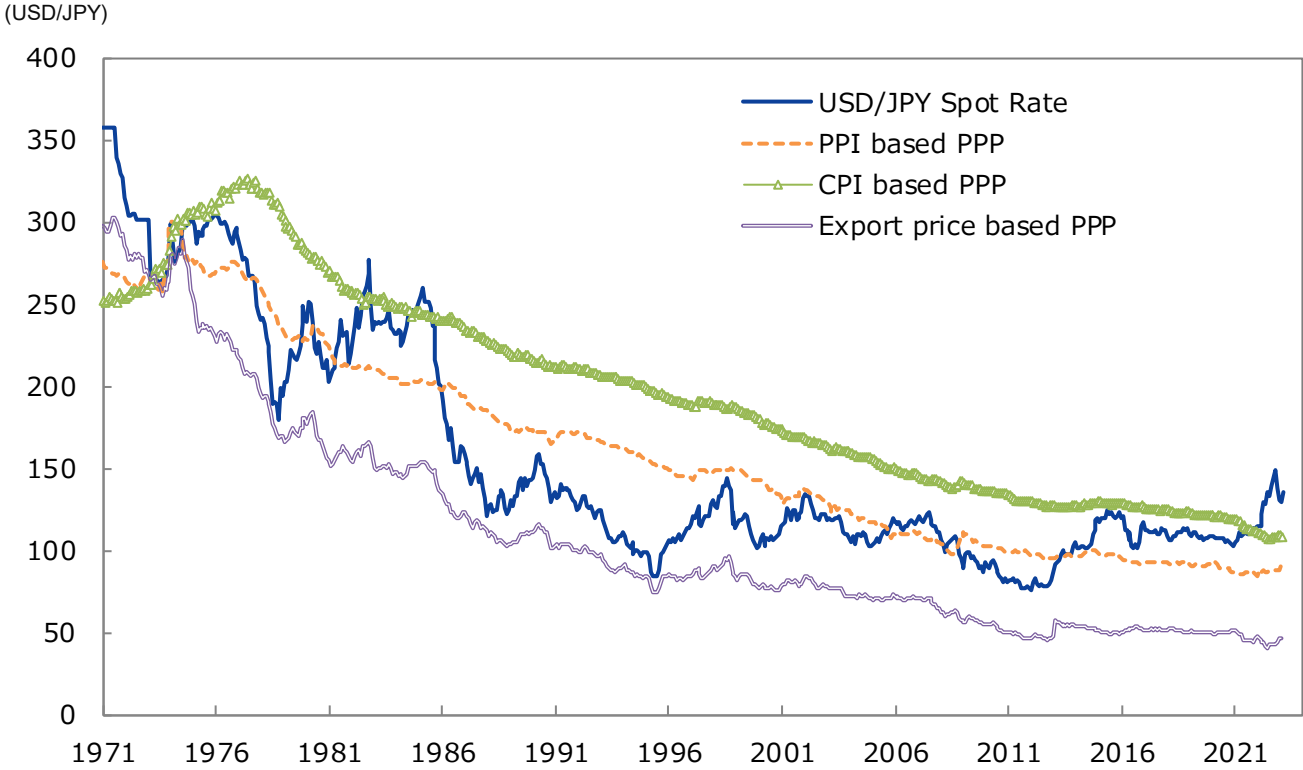
JGB, BEI, and Real Interest rate



Note: Data is from 1st January 2014 to 22nd March 2023.
Source: Bloomberg, SMDAM

USD/JPY keeps hovering above purchasing power parity

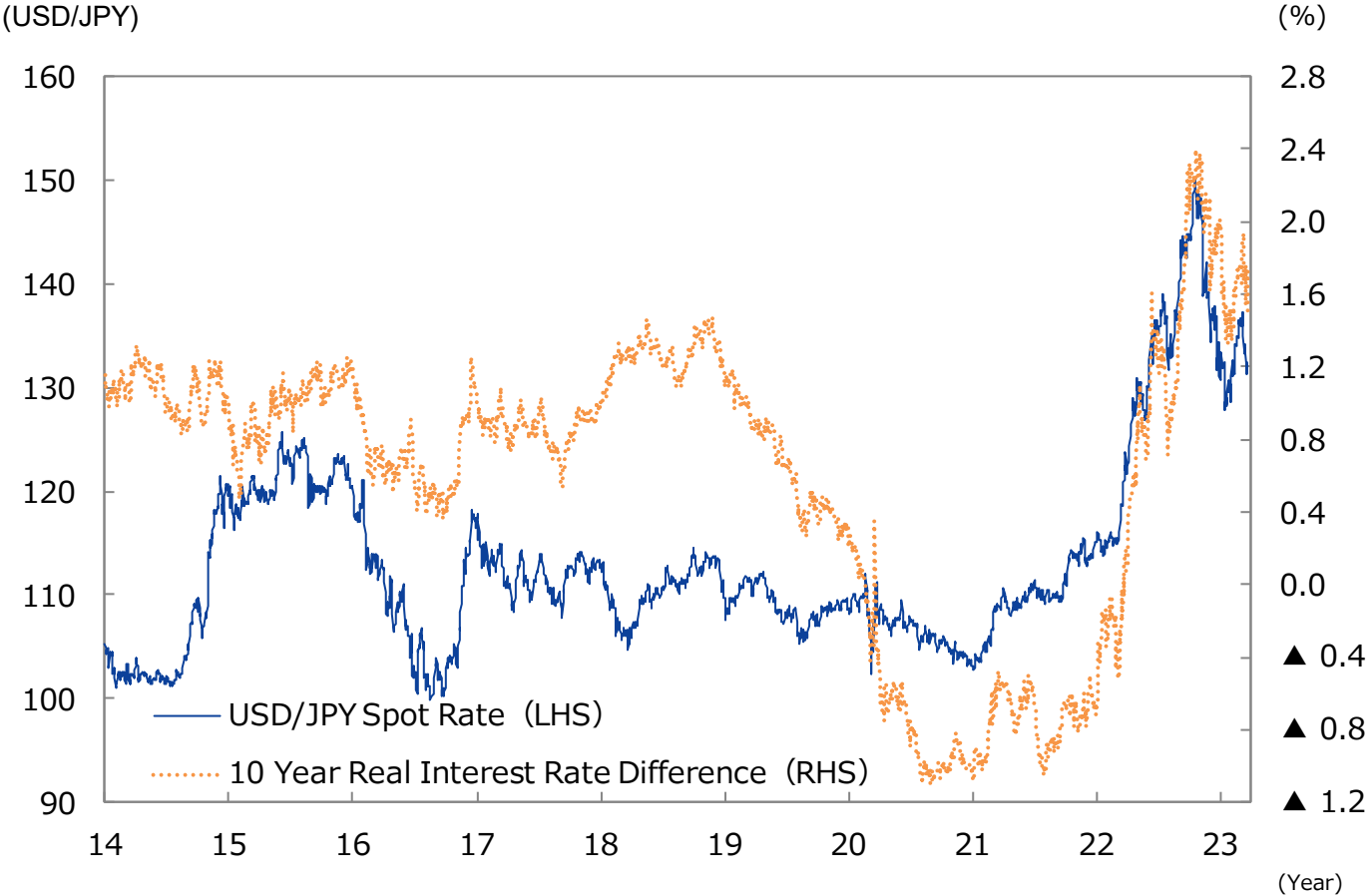
Purchasing Power Parity of USD/JPY Rate



Note: Data of USD/JPY Spot Rate, PPI based PPP, and CPI based PPP are from January 1971 to February 2023. (Year)
Export price based PPP is from January 1971 to January 2023.
Source: DOL, Bank of Japan, SMDAM

Concern over financial turmoil moves USD/JPY & bond yields

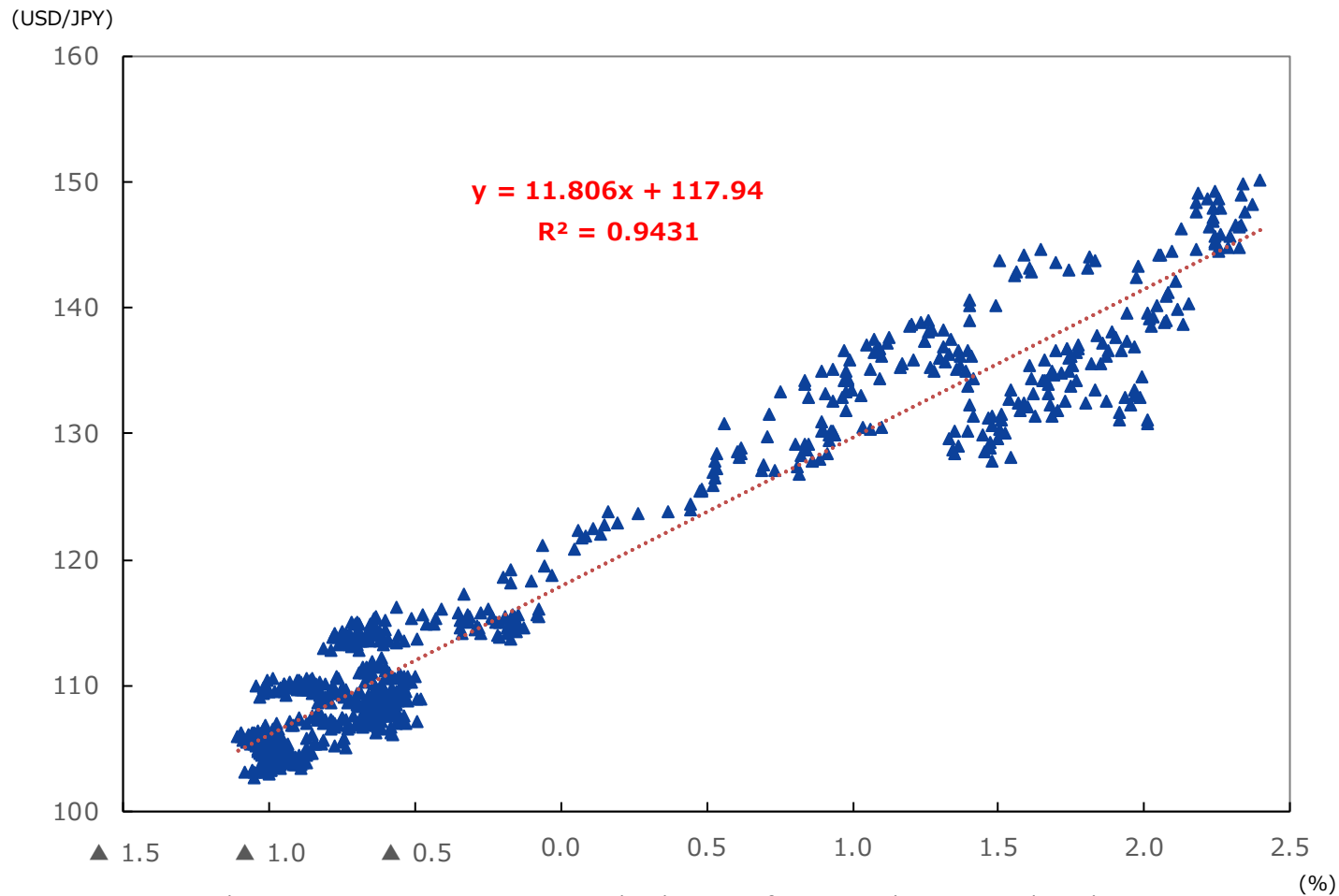
Real Interest Rate Gap & USD/JPY Exchange rate



Note: Data is from 1st January 2014 to 22nd March 2023.
 Source: Bloomberg, SMDAM

Real yield gap keeps dominating USD/JPY so far

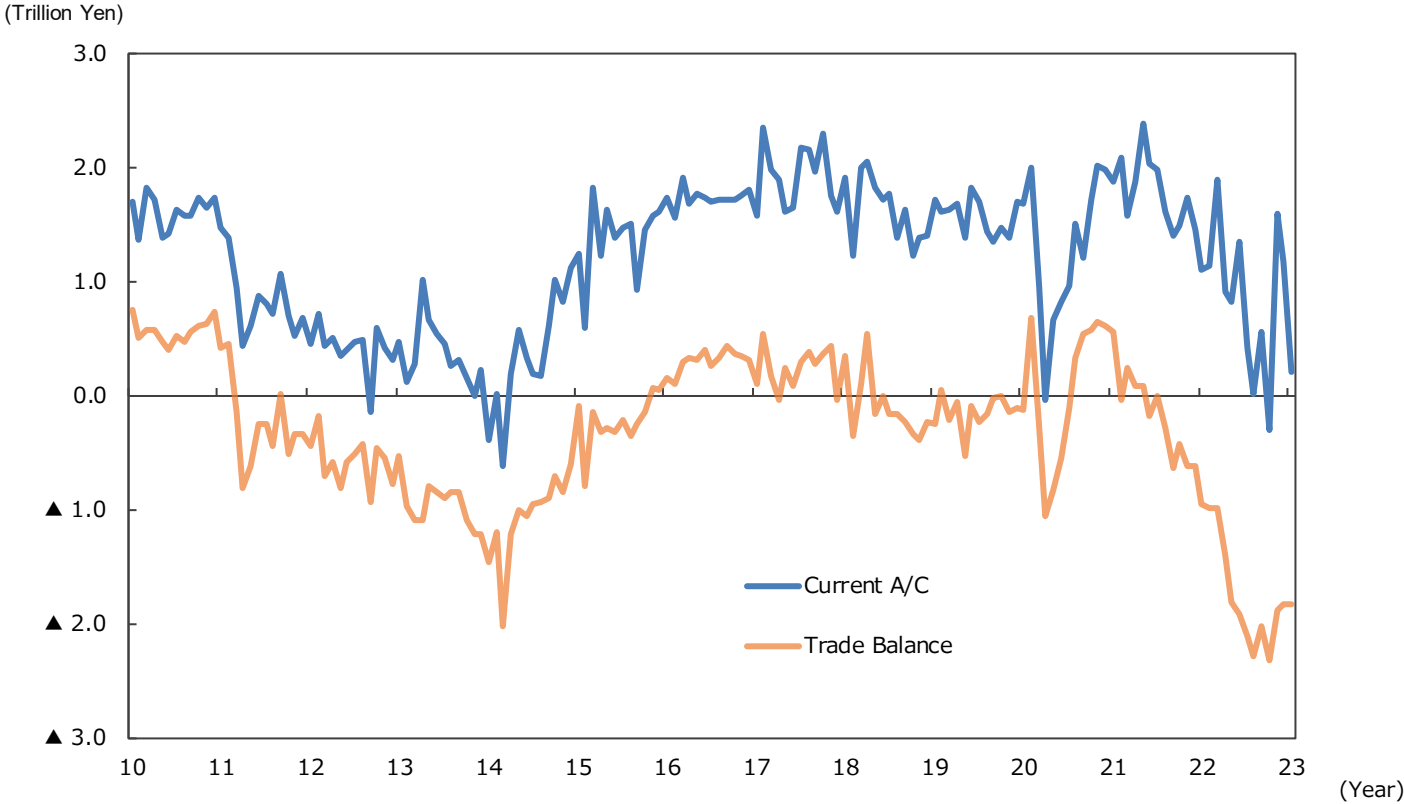
Correlation between Real Interest Rate Gap & USD/JPY



Note: Real interest rates are 10 year government bonds. Data is from 1st April 2020 to 22nd March 2023.
Source: Bloomberg, SMDAM

Higher energy prices continue boosting trade deficits

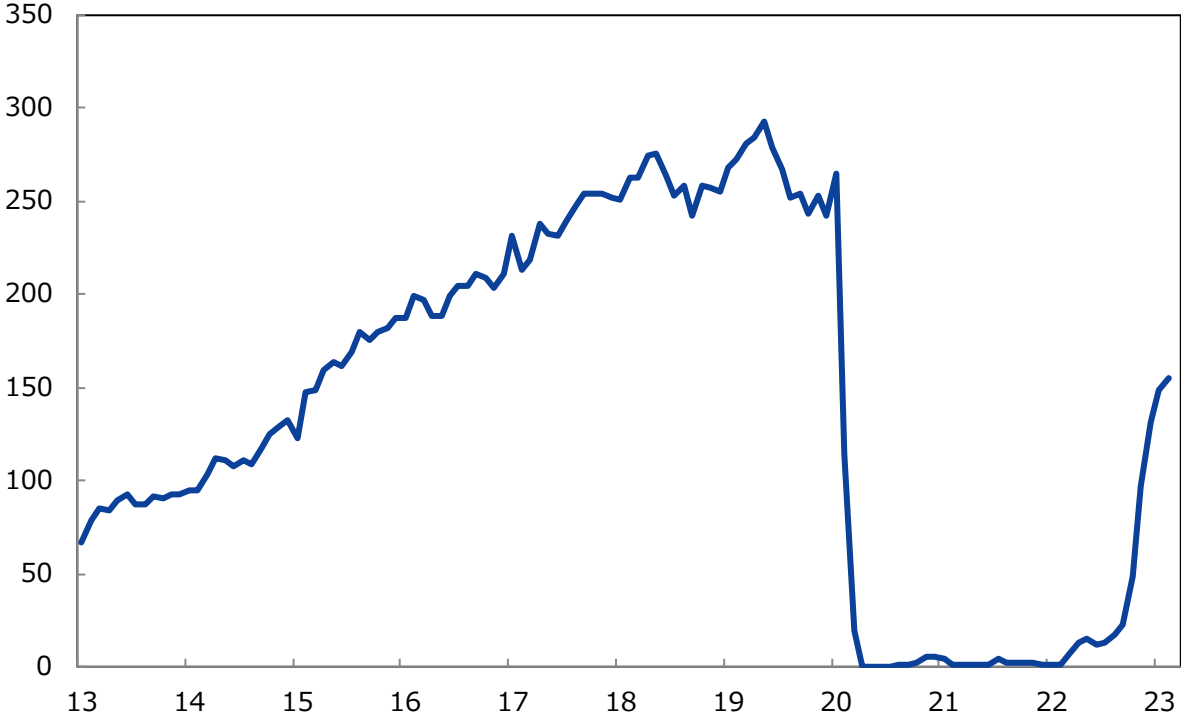
Current Account & Trade Balance



Note: Data is Seasonally adjusted. Current account is from January 2010 to January 2023. Trade balance is from January 2010 to February 2023.
Source: MOF, SMDAM

Inbound travelers coming back sharply after “Re-opening”

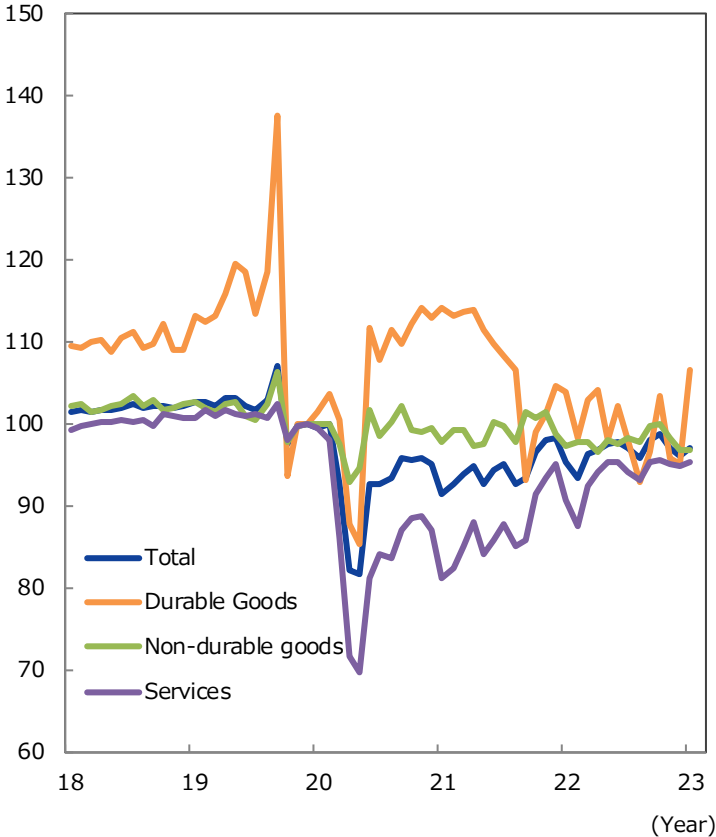
Inbound Travelers to Japan



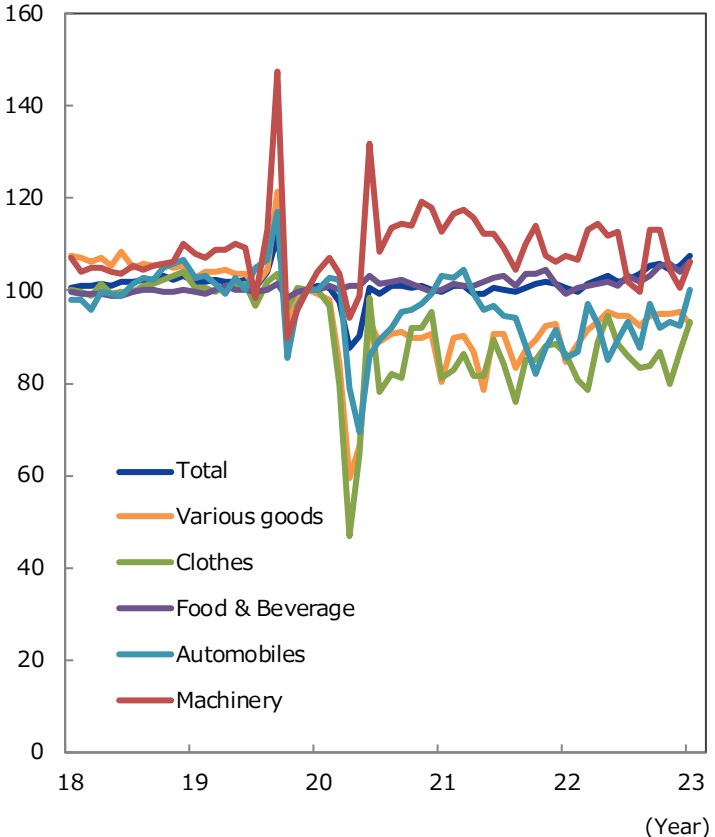
Note: Data is from January 2013 to February 2023. Data is seasonally adjusted.
Source: Japan National Tourism Organization, SMDAM

Consumer activities back to normal

Consumer Activity Index (Dec. 2019 = 100)



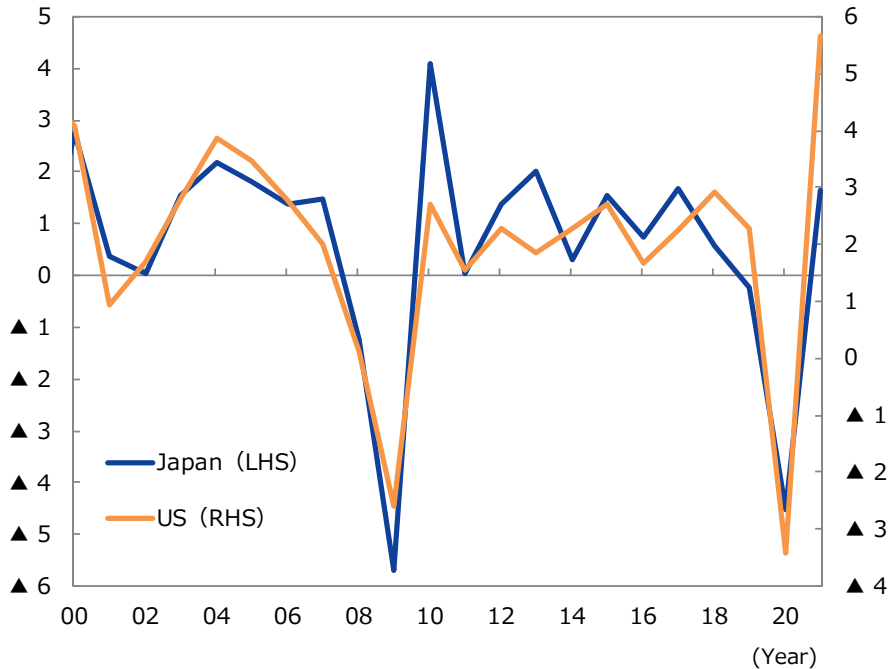
Retail Sales (Dec. 2019 = 100)



Note: Data is from January 2018 to January 2023.
Source; Bank of Japan, METI, and SMDAM

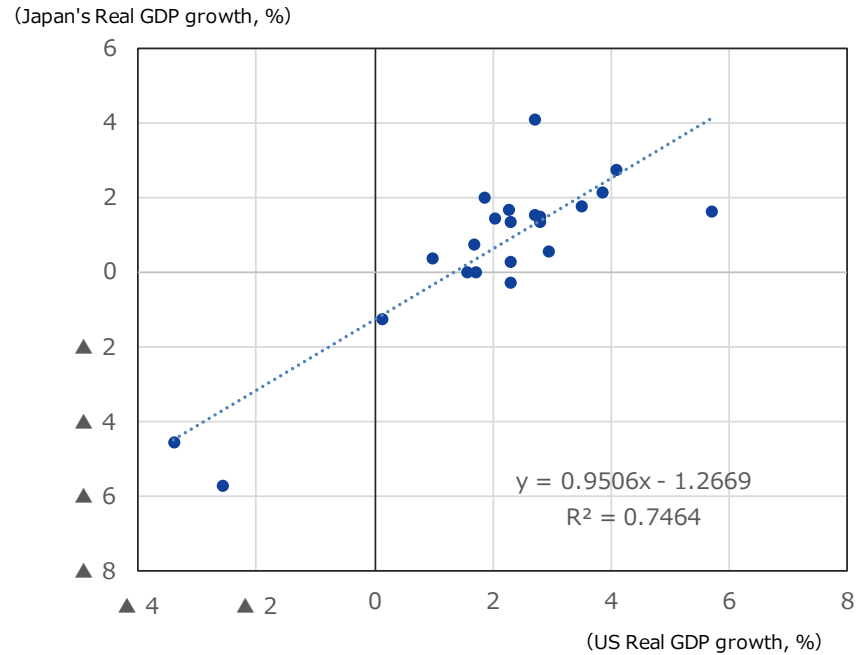
Strong correlation between US and Japanese economic growth

Real GDP Growth (YOY, %)



Note: Data is from 2000 to 2021
Source: IMF, SMDAM

Correlation of Real GDP Growth



Japan's marginal exposure to Russian businesses

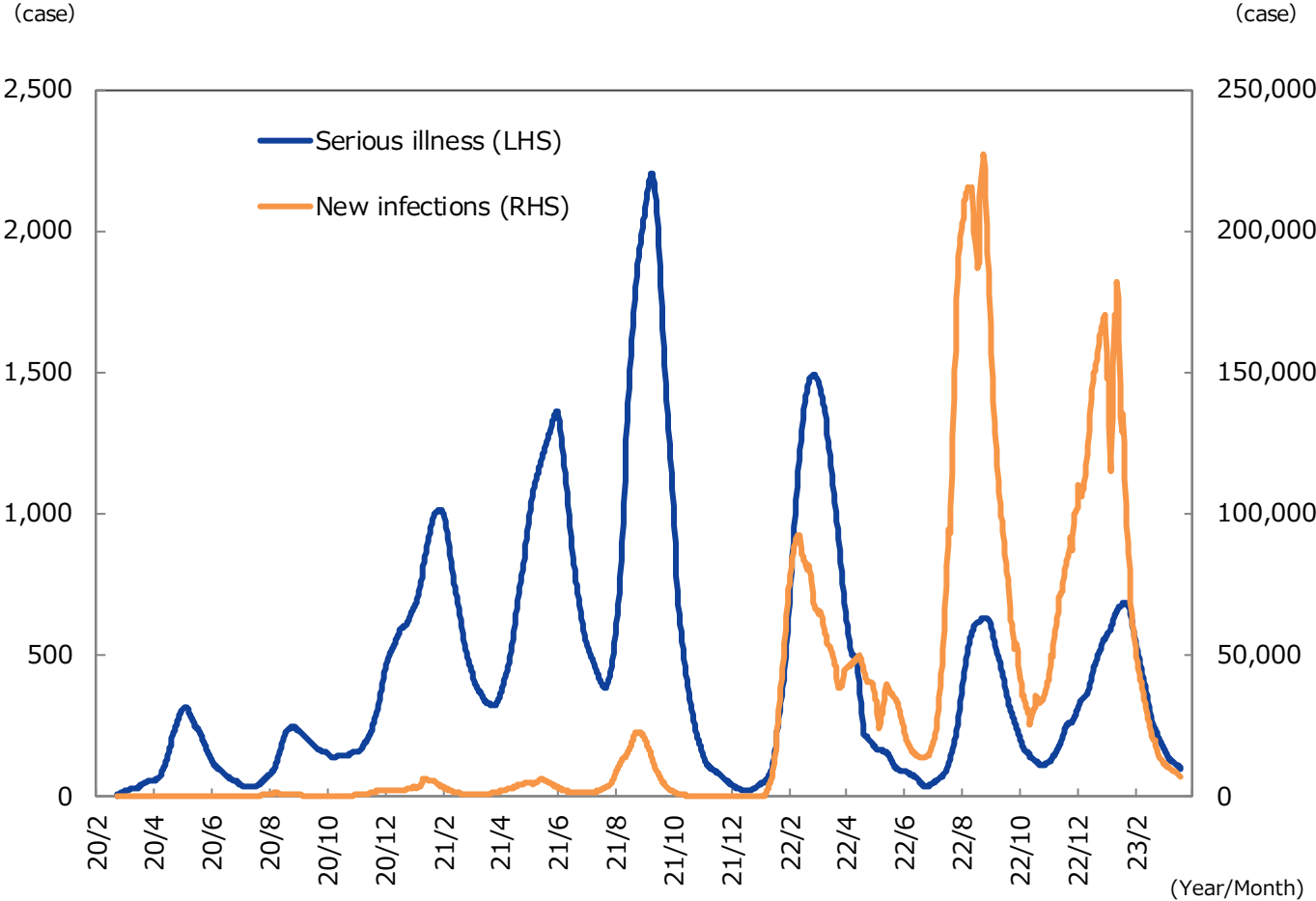
(%)

	Export		Import	
	Weight of Total Export	Weight of GDP	Weight of Total Import	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

Note: As of year 2021.
Source: MOF, SMDAM

Out of sight out of mind, COVID-19 infections

COVID-19 New Infections and Serious Illness



Note: 7 days moving average. Data is from 21st February 2020 to 19th March 2023.
Source: MHLW, NHK, SMDAM

Approval rate hit the bottom after issue of Unification church faded

Cabinet approval rate

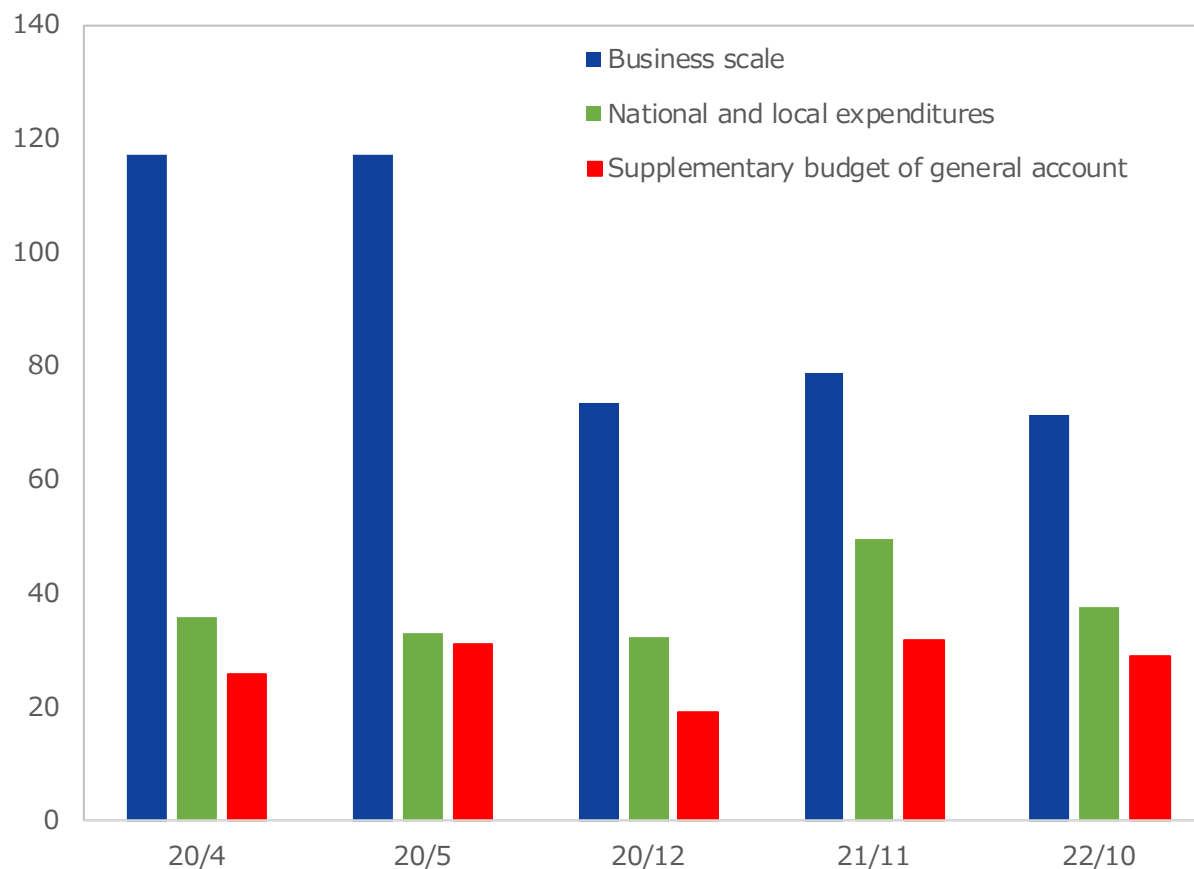


Note: Data is from January 2013 to March 2023.

Source: NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

Size of fiscal stimulus, from “COVID-19” to “rising utility bills”

Size of Fiscal Stimulus (trillion yen)



Source: MOF, SMDAM

(Year/month)

Schedule of major events

Year	Month	Date	Event
2023	April	8	Term expiration of the BOJ governor Kuroda
		9	Appointment of New BOJ governor
		9, 23	Nationwide local elections
		23	By-elections for the House of Representatives and the House of Councilors
		27-28	Monetary Policy Meeting
	May	17	Release of CY 2023 Q1 GDP
		19-21	G7 Summit in Japan
	June	8	Revision of CY 2023 Q1 GDP
		15-16	Monetary Policy Meeting
		21	End of the ordinary Diet session Big-boned policy decisions Formulation of guidelines for the facilitation of labor mobility
		27-28	Monetary Policy Meeting
	July	27-28	Monetary Policy Meeting
	August	15	Release of CY 2023 Q2 GDP
September	8	Revision of CY 2023 Q2 GDP	
	9-10	G20 Summit in India	
	21-22	Monetary Policy Meeting Appointment of key posts of ruling Liberal Democratic Party	
October	1	Start of the qualified invoice-based method	
	30-31	Monetary Policy Meeting	
November	15	Release of CY 2023 Q3 GDP	
December	8	Revision of CY 2023 Q3 GDP	
	18-19	Monetary Policy Meeting Cabinet approval of the initial budget for fiscal 2024 and the tax reform outline	

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