



Outlook for Japanese Economy & Stock Market

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

-August 2020-

Executive summary

➤ Japanese Economy

Export from Japan made a small rebound in June, which probably is a sign of bottoming. By destinations, US showed bottoming sign and China stays pre-COVID level after a sharp rebound in May. Asia ex. China, which is by far the largest destination, has not recovered yet, however, export to this region is expected to show a recovery in coming months considering the fact that the region managed COVID-19 infection relatively well and also it has strong linkage with recovering China. (Page 10)

- SMDAM up-revised GDP forecast for FY2020 from -5.7% to -5.5% as the global economy is recovering faster than expected. Forecast for FY 2021 was revised downward from +3.7% to +3.4%. (Page 7)
- BOJ's "TANKAN" business survey in June showed sharp deterioration in business sentiment as expected. However, CAPEX for software was robust in FY2019 and plan for FY2020 in June survey showed further 5% YoY increase. (Page 11)

➤ Japanese Stock Market

Global liquidity created by massive monetary easing and fiscal aid and also near-zero long term bond yields in US are causing rash for positive yields still acquirable from equities. Stock valuation in PE ratio for Japanese market has broken historical trading range to the upside, however, current valuation will be justified by extremely low interest rates and international comparison with other markets such as US. Recovering pace of Japanese economy is forecast to be mild in the face of current resurgence of COVID-19 infection, which could undermine spending on holidays in this summer. (Page 19)

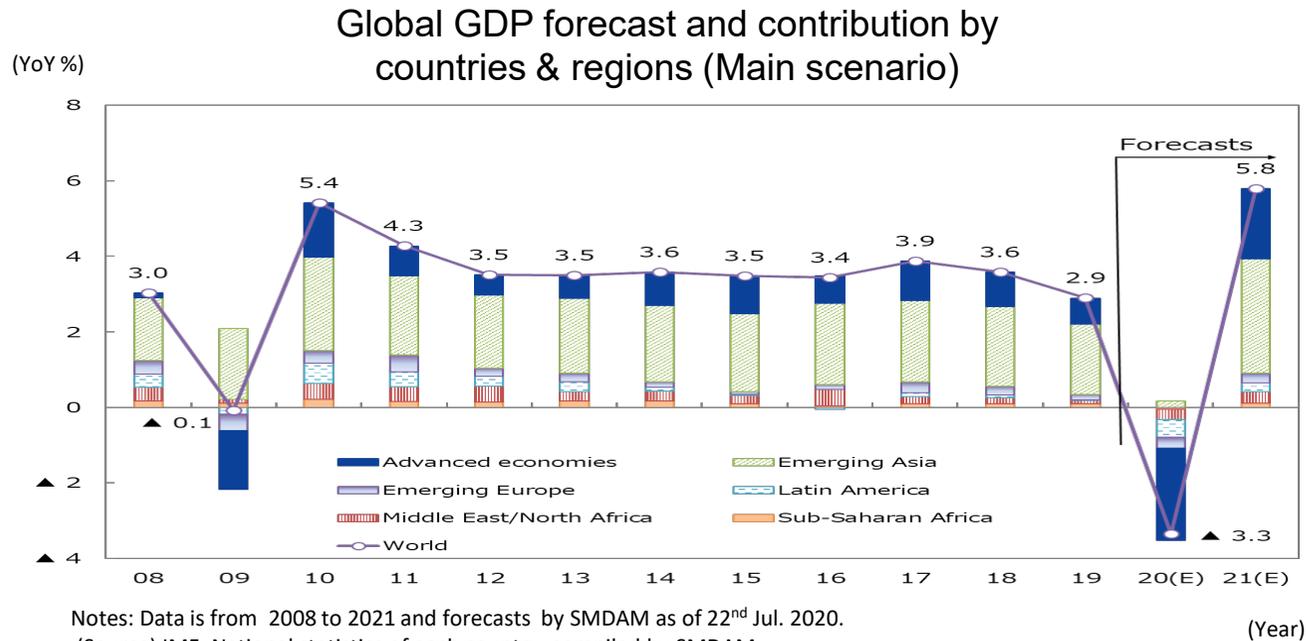
- Foreign investors kept selling Japanese equities this year until June. They stopped selling in the first 2 weeks in July. They might shift equity investments from expensive US stocks into relatively inexpensive Japanese stocks. (Page 24)



Outlook for Japanese Economy

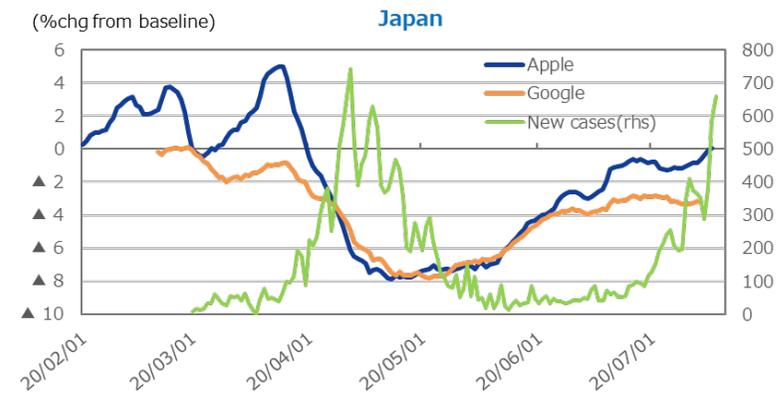
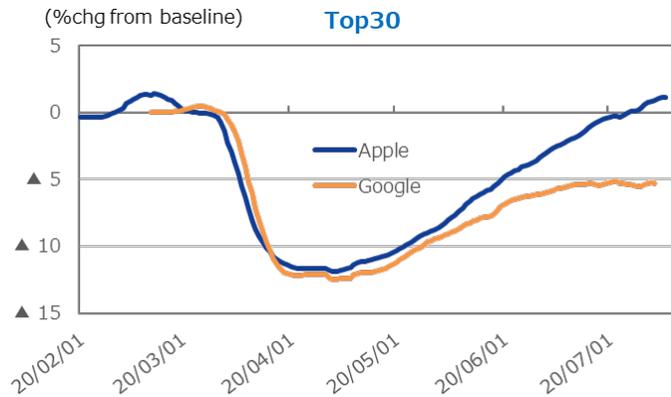
Outlook for the global economy

- SMDAM down-revised global real GDP forecast for 2020 from -3.2% to -3.3% as a main scenario, due mainly to worse-than-expected emerging countries and technical adjustment reflecting revised GDP in some countries. GDP forecast for 2021 was up-revised from 5.7% to 5.8%.
- Life with COVID-19 continues until effective vaccine is developed and become available worldwide. Global economy is expected to show continuing recovery led by developed economies, however, the pace of recovery is going to be affected by sporadic resurgence of COVID-19 infection cases. SMDAM does not expect another round of global hard lockdowns in the main scenario.



Recovering pace slowed down due to resurgence of COVID-19 cases

- Apple's mobility index became too high compared to the level of economic statistics. Google's mobility index was taken as a main GDP tracker this month instead. On the top charts, Google's mobility index shows that recovering pace slowed down since mid June both for top 30 countries on the left chart and Japan on the right chart.
- For Japan, number of daily new infection cases jumped over 600 to the previous peak level, which would undermine people's activities. However, number of fatalities is normally zero per day yet.



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)	2020/4/14	2020/4/13	2020/5/3	2020/3/30	2020/4/3	2020/3/31	2020/3/31	2020/3/31	2020/3/29	2020/3/2	2020/4/10	2020/4/17
a) Bottom (% chg.)	▲ 12.4	▲ 12.0	▲ 7.8	▲ 12.5	▲ 17.8	▲ 20.1	▲ 19.6	▲ 20.3	▲ 14.1	▲ 5.1	▲ 21.5	▲ 10.6
b) 14th July (% chg.)	▲ 5.3	▲ 5.9	▲ 3.2	▲ 2.9	▲ 9.4	▲ 3.5	▲ 9.8	▲ 4.3	▲ 5.4	▲ 1.1	▲ 5.1	▲ 5.2
b)-a)	+ 7.2	+ 6.1	+ 4.6	+ 9.7	+ 8.4	+ 16.6	+ 9.8	+ 16.0	+ 8.7	+ 4.1	+ 16.4	+ 5.4

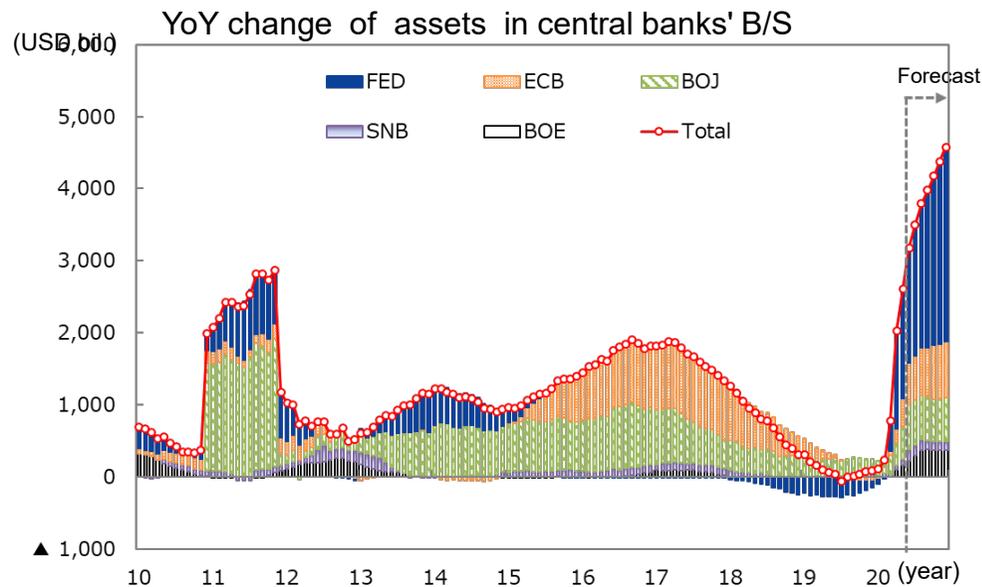
Note: SMDAM analyzed correlation between Google's and Apple's mobility index data and released GDP data, and exponentially estimated the GDP status corresponding to the latest mobility index data in a % change from the baseline GDP, which was the trend line prior to the COVID-19 pandemic.

Google's data is up to 14th July, Apple's data is up to 17th July and number of new COVID-19 infection cases is up to 18th July.

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

Global central banks stay in emergency mode

- Central banks are determined to do almost everything they can do in order for avoiding financial meltdown stemming from COVID-19 pandemic. Another focus is on providing lifelines to households and businesses gasping for cash in the face of job losses and evaporating sales. FRB started to purchase corporate bonds and facilitated various routes for financing businesses. Governments are taking measures for helping both households and businesses.
- BOJ held extraordinary monetary policy committee meeting on 22nd May and decided to add measures for providing funding to businesses through banks. When banks make government initiated zero-interest-rate-unsecured-loans to small & mid businesses, BOJ will give 0.1% interest to each bank and also increase exemption amount from charging negative interest rate. Monetary policies were maintained in June and July.

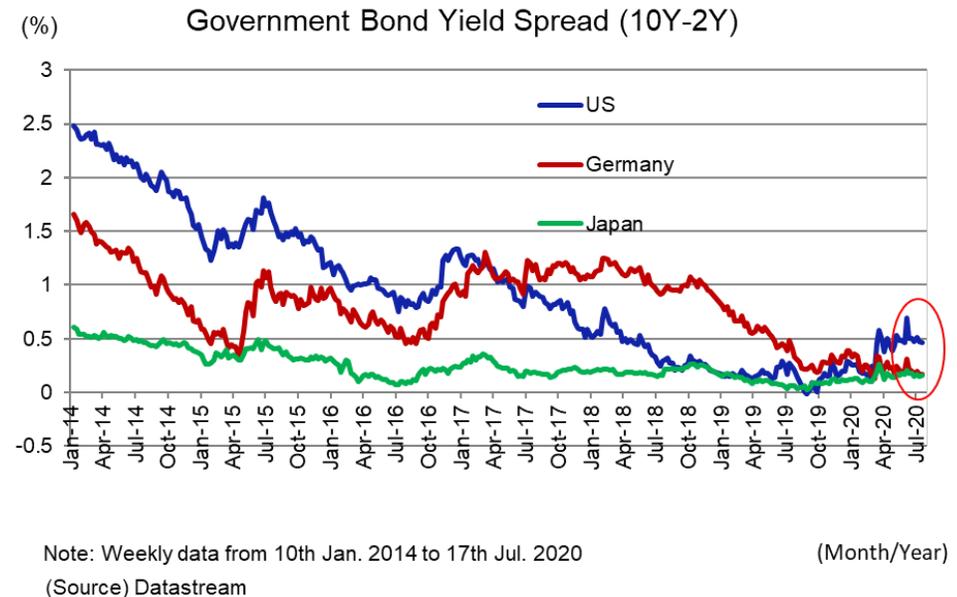
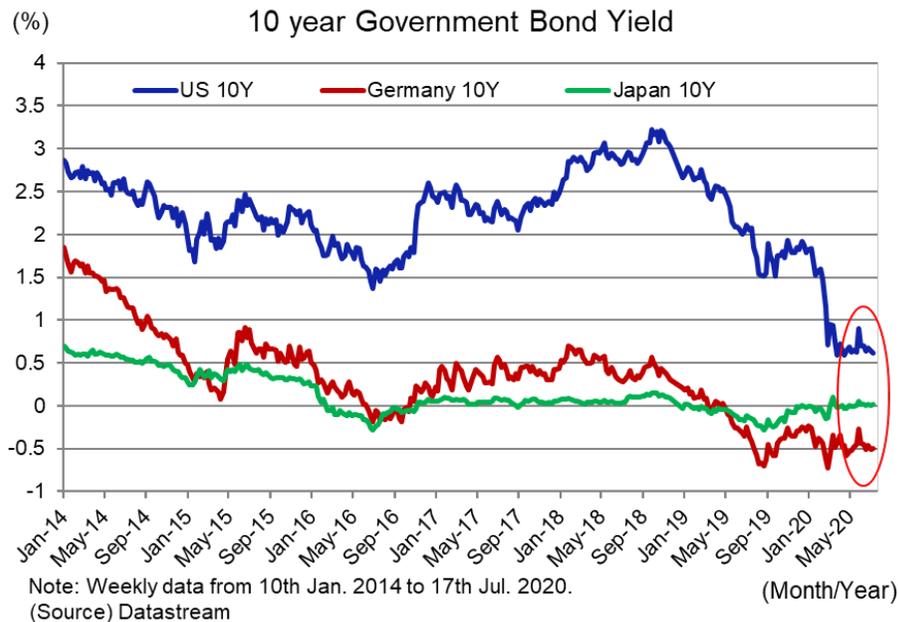


Note: Data is from Jan 2010 to 30th June 2020.

(Source) Bloomberg, each central bank, compiled by SMDAM.

Fixed income markets stay calm

- After a mini-spike in bond yields in early June, when global economy started recovering stronger than expectations, global bond yields stayed calm supported by quite dovish comments from central banks and continuous massive monetary easing.



SMDAM Japanese economic outlook for FY20-21

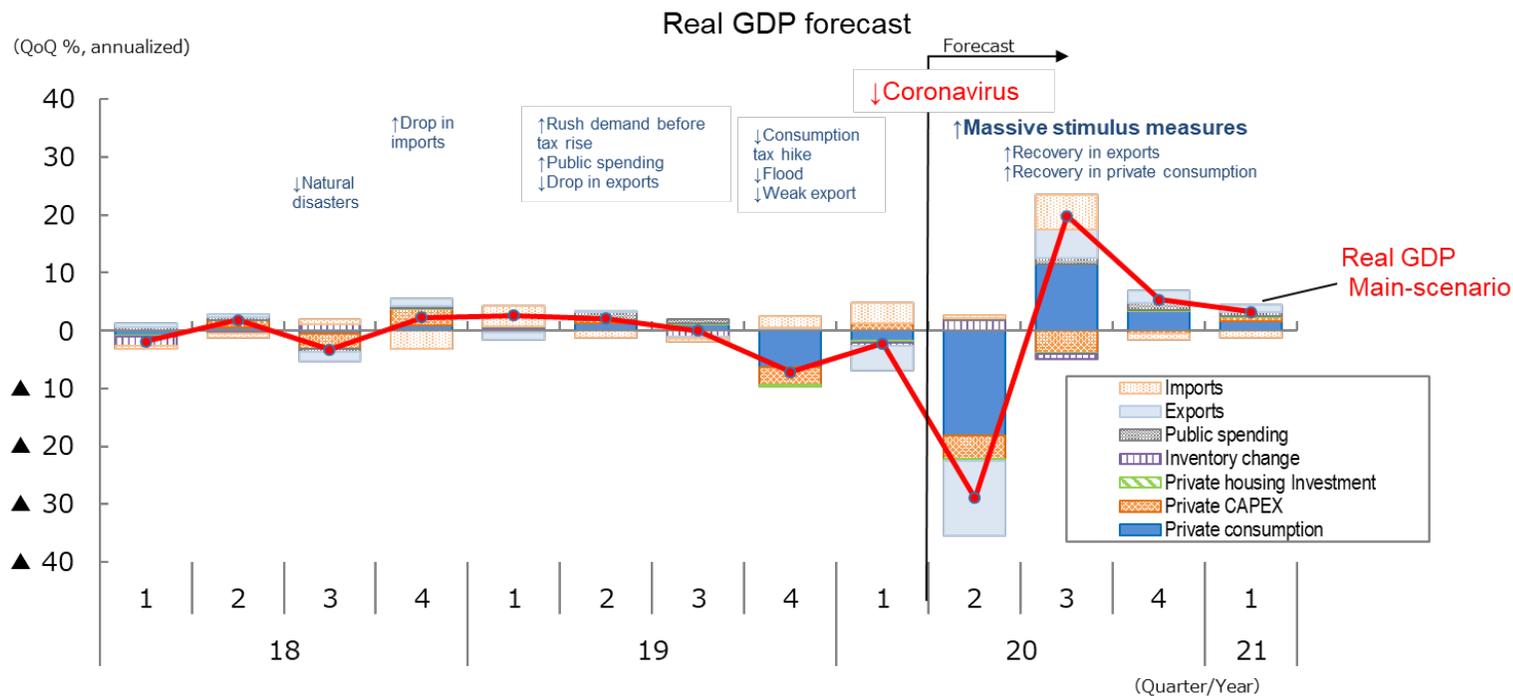
- SMDAM up-revised GDP forecast for FY2020 from -5.7% to -5.5% as the global economy is recovering faster than expected. Forecast for FY 2021 was revised downward from +3.7% to +3.4%.
- After the nationwide state of emergency was lifted on 25th May, economic activities are coming back led by service sectors, which were hit hard by COVID-19 pandemic. Manufacturing side is forecast to start recovering soon and to lead the economic recovery in FY2021.

(YoY %)	FY16	FY17	FY18	FY19	FY20E	FY21E
Real GDP growth	0.9%	1.9%	0.3%	0.0%	-5.5%	3.4%
Private Consumption Expenditure	0.0%	1.1%	0.1%	-0.6%	-5.6%	3.0%
Private Housing Investment	6.3%	-1.4%	-4.9%	0.5%	-8.4%	2.7%
Private Capital Investment	-0.4%	4.3%	1.7%	-0.2%	-11.3%	1.7%
Public Consumption Expenditure	0.7%	0.3%	0.9%	2.4%	2.0%	0.9%
Public Capital Investment	0.6%	0.5%	0.6%	3.3%	2.9%	5.3%
Net Exports (contrib. to GDP growth)	0.8%	0.5%	-0.1%	-0.2%	-1.0%	0.9%
Exports	3.7%	6.4%	1.7%	-2.7%	-16.4%	9.1%
Imports	-0.9%	3.9%	2.5%	-1.7%	-10.2%	2.9%
Nominal GDP	0.8%	2.0%	0.1%	0.8%	-4.2%	3.9%
GDP Deflator	-0.2%	0.1%	-0.2%	0.8%	1.3%	0.6%
Industrial Production	0.8%	2.9%	0.3%	-3.6%	-13.1%	7.1%
CPI (excl. fresh food)	-0.2%	0.7%	0.8%	0.4%	-0.4%	0.2%

Note: E=SMDAM forecasts. SMDAM views are as of 22nd Jul. 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

Japanese GDP is forecast to make a recovery from 3Q 2020

- SMDAM revised GDP forecast for Apr-Jun quarter (QoQ % annualized) from previous -32.1% to -28.9% resulting in up-revision for FY2020 (ending in March 2021) GDP growth.
- Financial supports from the government are providing lifelines and amount of supports will be further topped up.



Note: SMDAM views are as of 22nd Jul. 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 budget spending was approved in June. Total project size is advertised to be 117.1 trillion yen, which is identical to the spending size approved in April.
- 31.9 trillion yen is direct budget spending, among which the largest part is for maintaining employment and businesses. Support for property rents payment was newly added as a program. 10 trillion yen was saved as a reserve preparing for swift actions when required.
- The government started “Go To campaign”, which promote tourism in Japan, however, it fell in confusion in the face of sharply increasing COVID-19 infection.

Fiscal stimulus measures in Japan

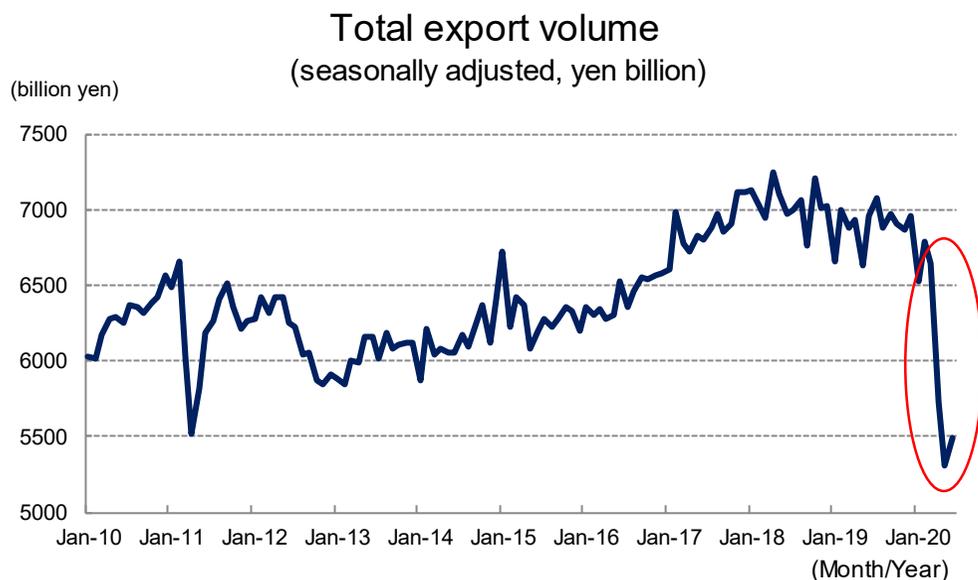
(Trillion yen)	FY2020 1st supplementary budget spending (Approved in April)					FY2020 2nd supplementary budget spending (Approved in June)				
	Total size of the project	Fiscal budget spending	Central & local government budget	FY2020 supplementary budget	Fiscal Investment & Loan Program	Total size of the project	Fiscal budget spending	Central & local government budget	FY2020 supplementary budget	Fiscal Investment & Loan Program
1) Enhancing quarantine & medical treatment, and developing drug & vaccine	2.5	2.5	2.5	1.8	-	N/A	N/A	N/A	3.0	N/A
2) Maintaining employment and businesses	80.8	30.8	21.1	19.5	9.7	N/A	N/A	N/A	14.1	N/A
3) Spending for boosting economic recovery	8.5	3.3	2.8	1.8	0.5	N/A	N/A	N/A	4.7	N/A
4) Enhancing economic & social platform	15.7	10.2	8.0	0.9	2.3	N/A	N/A	N/A	-	N/A
5) Reserve for additional measures	1.5	1.5	1.5	1.5	-	N/A	N/A	N/A	10.0	N/A
Total	117.1	48.4	35.8	25.7	12.5	117.1	72.7	33.2	31.9	39.2

Note: As of 24th Apr. 2020

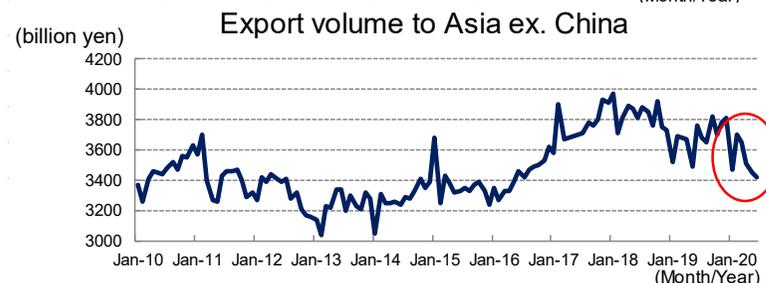
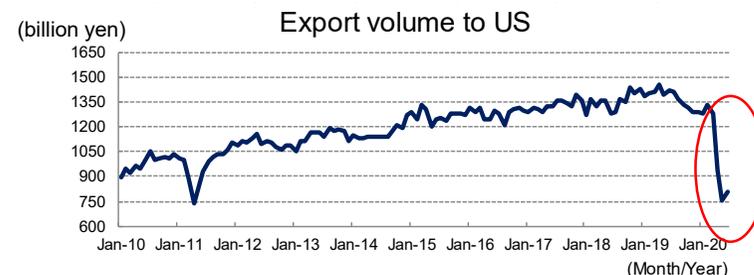
(Source) Cabinet Office, compiled by SMDAM

Export shows a sign of recovery

- Export from Japan made a small rebound in June, which probably is a sign of bottoming.
- By destinations, US showed bottoming sign and China stays pre-COVID level after a sharp rebound in May. Asia ex. China, which is by far the largest destination, has not recovered yet, however, export to this region is expected to show a recovery in coming months considering the fact that the region managed COVID-19 infection relatively well and also it has strong linkage with recovering China.



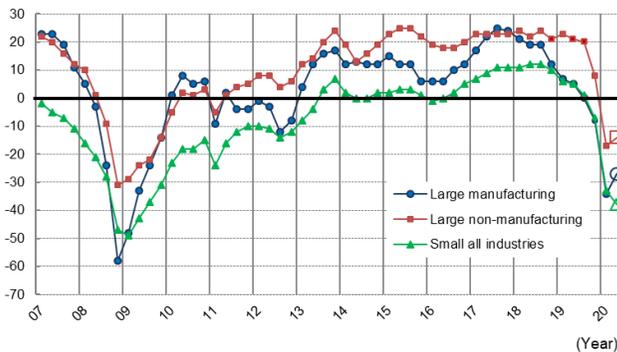
Note: Data is from Jan. 2010 to Jun. 2020.
(Source) Ministry of Finance, Bank of Japan, compiled by SMDAM.



CAPEX plan stays resilient despite negative impact of COVID-19

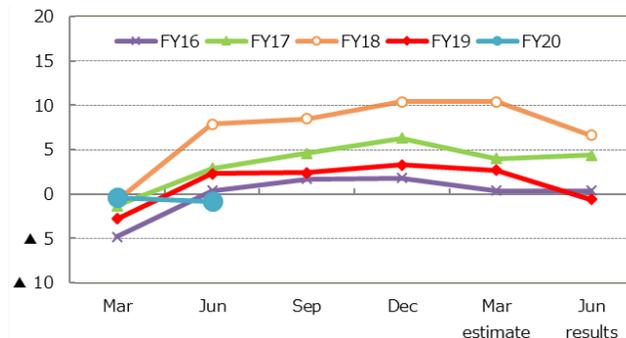
- BOJ's "TANKAN" business survey in June showed sharp deterioration in business sentiment as expected.
- CAPEX for software was robust in FY2019 and plan for FY2020 in June survey showed further 5% YoY increase as right end chart exhibits.
- When excluding software, which is shown in the middle chart, CAPEX plan for FY2020 was flat, however, CAPEX has been strong since FY2018 and flat YoY change is not bad.

BOJ "TANKAN" business survey, current condition DI
(Last plots are for future condition DI as of June 2020)



Note: Data is quarterly from Mar. 2007 Jun. 2020
Diffusion Index above 0 means condition is good.
(Source) Bank of Japan

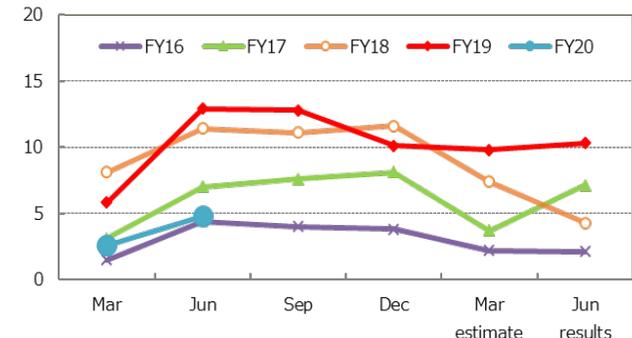
CAPEX plan, excluding software and R&D
(all size, all industries)
(YoY %)



▲ 10

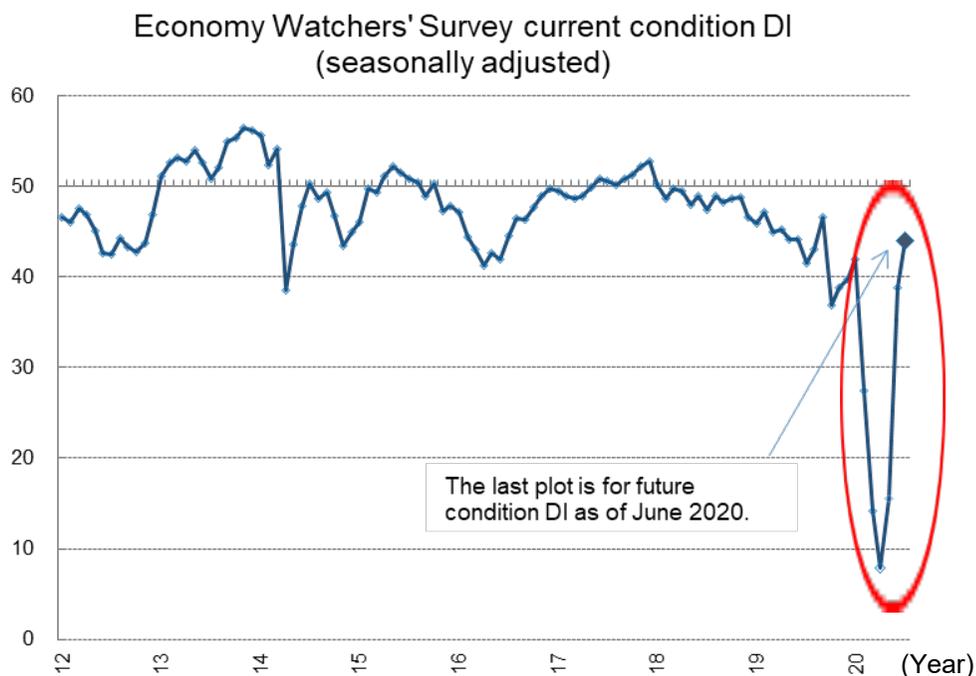
Note: The chart shows history of the CAPEX plan for each fiscal year. Mar estimate is at each fiscal year end and Jun actual results are surveyed after the end of each fiscal year.
(Source) Bank of Japan

CAPEX plan for software
(all size, all industries)
(YoY %)



Economy Watcher Survey is making a v-shaped recovery

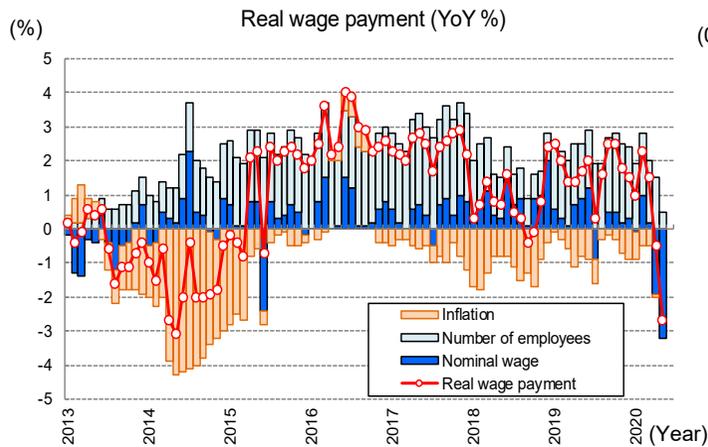
- Economy Watcher Survey covers people working at economic sensitive jobs. Current condition DI bounced back sharply in June and Future Condition DI indicates recovery to continue.



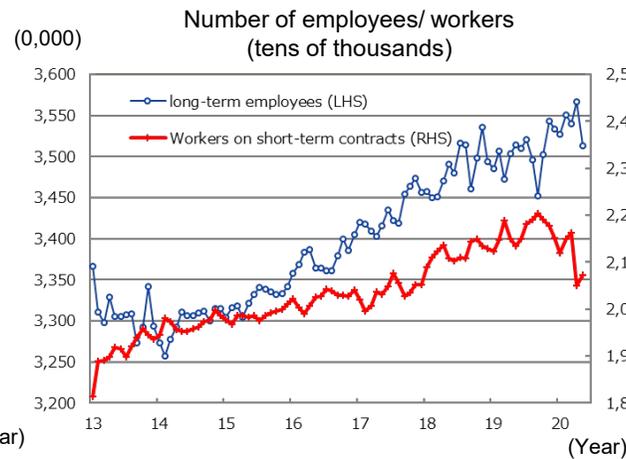
Note: Data is from Jan. 2012 to June. 2020. DI above 50 means condition is better than preceding 2 to 3 months.
(Source) Cabinet Office

COVID-19 negative impact increased on wage and labor market

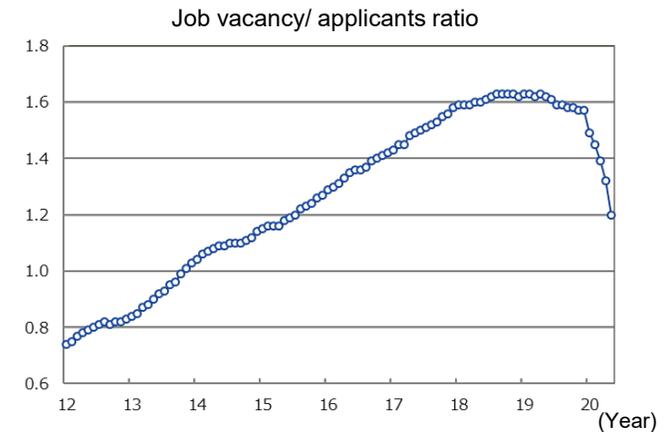
- Real wage declined by -2.7% YoY in May due to decline in overtime and bonus payment. Regular fixed payment was unchanged. Japanese economy was worst hit by COVID-19 in May due to nationwide lockdown.
- Job vacancy / applicants ratio further declined in May.
- Around 37% workers are on a short-term contract basis and vulnerable to current difficult economic environment. Number of such workers was almost unchanged in May after a large decline in April, meanwhile number of long-term employees decreased in May as exhibited in the middle chart.



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



Note; Data is from Jan. 2012 to May 2020.
(Source) Ministry of Finance



Note; Data is from Jan. 2012 to May 2020.
(Source) Ministry of Finance

US presidential campaign is going to gather pace

- US presidential election is probably the most important event among scheduled events below.
- How the recovery from COVID-19 pandemic progresses and if the global leaders and central banks can keep making preemptive actions are the most influential factors for the global economy.

Upcoming key events

Month	Region/Country	Events	
2020	August	US National Convention (17-20 Democrats, 24-27 Republicans)	
	September	US	Debates begin between US presidential candidates
			15-16 FOMC meeting
		Japan	16-17 BOJ Monetary Policy Committee Meeting
		EU	24 ECB meeting
	October	G20	15-16 G20 meeting of finance ministers and head of central banks
		EU	29 ECB meeting
		Japan	1 BOJ TANKAN business survey (September survey) 28-29 BOJ Monetary Policy Committee Meeting
	November	US	US presidential election
			4-5 FOMC meeting
	December	US	15-16 FOMC meeting
		Japan	17-18 BOJ Monetary Policy Committee Meeting

(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

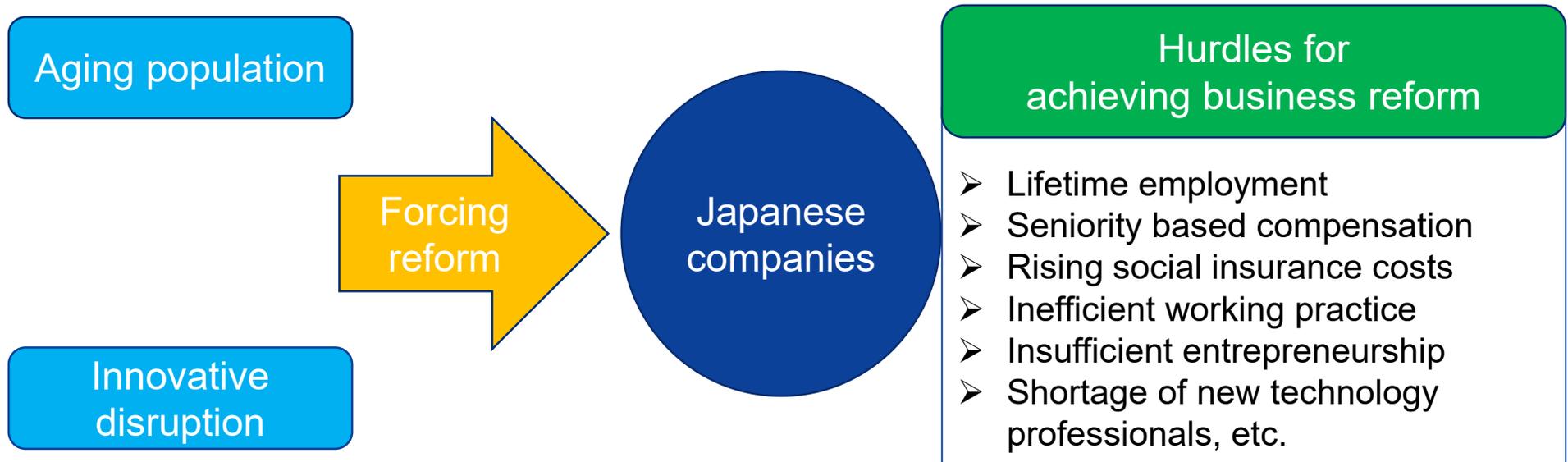
	Switzerland	U.S.	Israel	Finland	Germany	Netherlands	Sweden	Japan	Singapore	Denmark	China
Innovation total	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	28th
a) Capacity for innovation	1	2	3	7	5	6	4	21	23	16	44
b) Quality of scientific research institutions	1	5	3	8	11	4	13	14	12	16	36
c) Company spending on 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 6. Shortage of new technology professionals	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).

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



Outlook for Japanese Stock Market

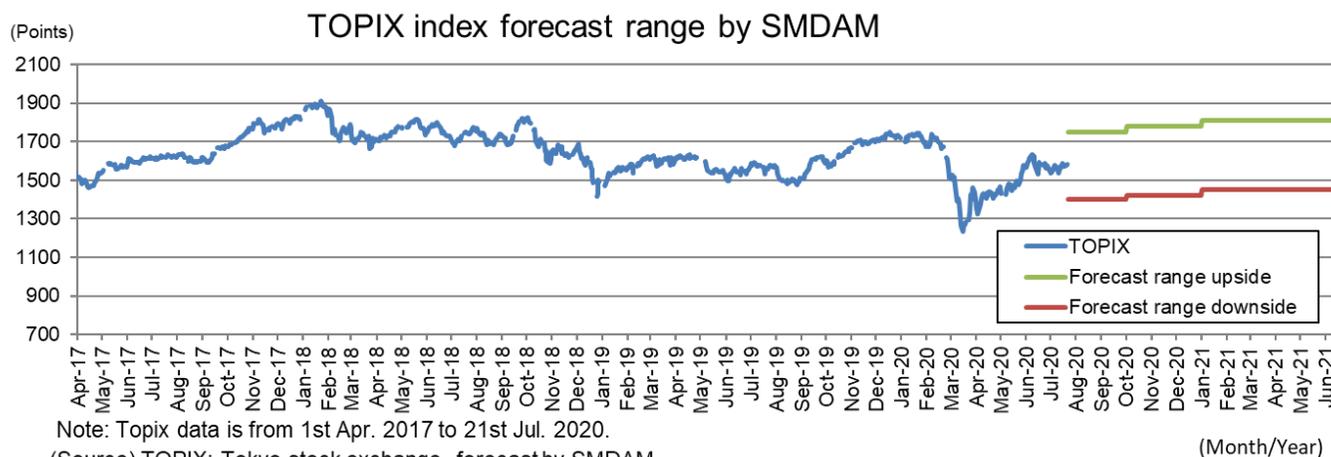
High stock valuation will be supported by low interest rates and global comparison

■ SMDAM short-term view

➤ Global liquidity created by massive monetary easing and fiscal aid and also near-zero long term bond yields in US are causing rash for positive yields still acquirable from equities. Stock valuation in PE ratio for Japanese market has broken historical trading range to the upside, however, current valuation will be justified by extremely low interest rates and international comparison with other markets such as US. Recovering pace of Japanese economy is forecast to be mild in the face of current resurgence of COVID-19 infection, which could undermine spending on holidays in this summer.

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

➤ Until effective vaccines become available worldwide, life with COVID-19 continues. Sporadic resurgence of infection cases could slow down the pace of economic recovery, which will bring in volatility to the stock prices. However in the long-term, COVID-19 will be conquered and recovery in economy and stock prices will continue into a new expansion phase after a short but deep recession, which is just ending.



Note: SMDAM's projection is as of 22nd Jul. 2020 and subject to updates without notice.

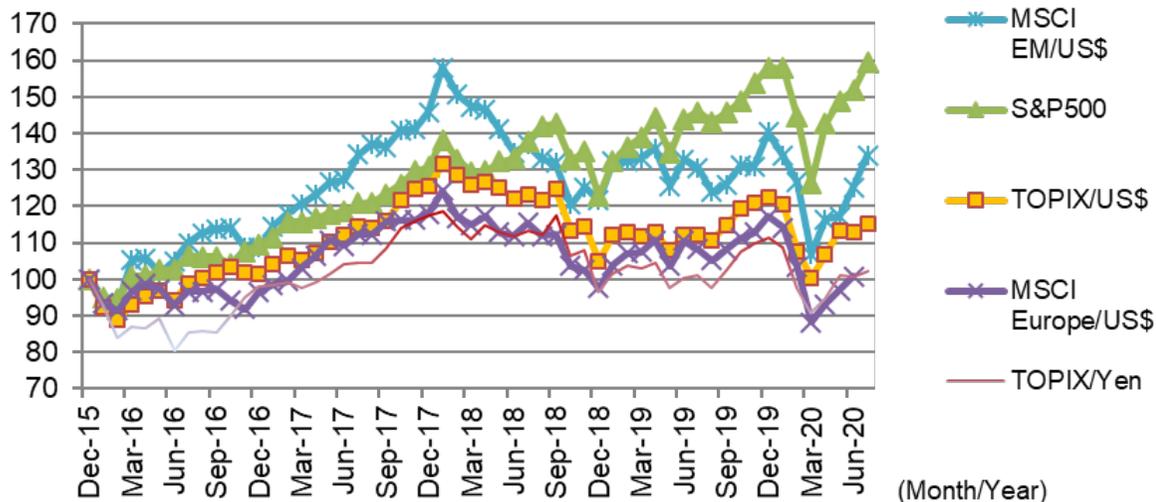
Base scenario & Upside / Downside risks for our forecasts

- **Our Base Scenario** is assuming the following views:
 - Another global hard lockdown caused by 2nd wave of COVID-19 pandemic can be avoided.
 - Severe tensions between US and China go on, however, US is going to avoid making a fatal blow to the global economy.
 - US economy contracts in 2Q and start to make recovery from 3Q 2020.
 - 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 and also large fiscal spending is made and topped up when necessary.
- **Upside Risks** include:
 - Outlook for COVID-19 pandemic gets brighter by such as progress in developing vaccine or drugs.
 - US and China make significant concessions in the trade negotiations.
 - Stronger-than-expected global growth.
 - Denuclearization in Korean peninsula makes a visible progress.
 - Japanese economy gets stronger than expected boosted by large fiscal spending.
- **Downside Risks** include:
 - 2nd wave of COVID-19 pandemic emerges and lockdowns cause severe economic disruption globally.
 - Global economy falls into a serious and long lasting depression.
 - Trade negotiation between US and China completely breaks up igniting a decades of power struggle.
 - Seriously escalating geo-political tensions in Middle East & East Asia.
 - Political turmoil flares up in US running up to US presidential election in 2020.
 - Populism gains in Europe further destabilizing EU.

US and emerging markets are leading current rally in stock prices

- Global stock markets continued recovering led by US and emerging markets.
- Japan is lagging a little due to relatively slower pace of economic recovery and resurgence of COVID-19 infection cases undermining people's sentiment in Japan.
- However, investors could shift investments from expensive US growth stocks into less expensive Japanese stocks, which could cause Japanese stocks to make a catch-up.

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

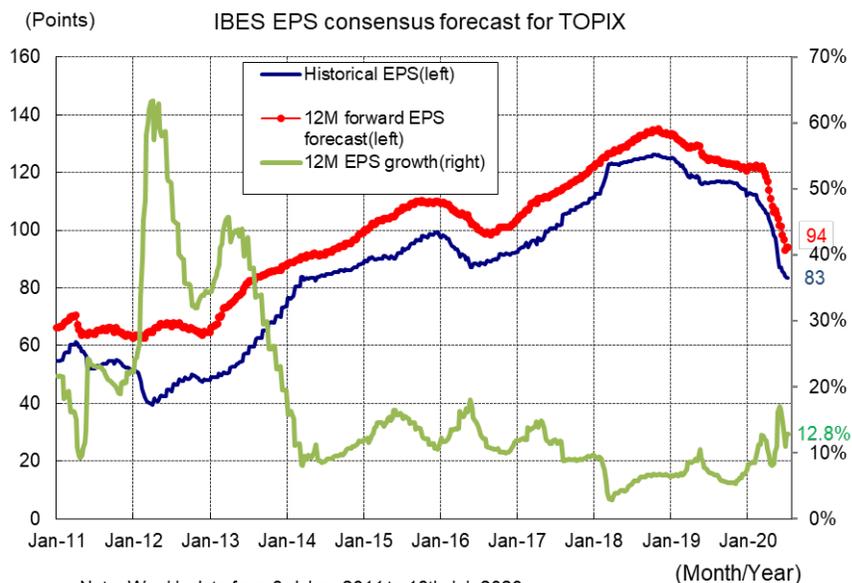


Notes: Data is up to 21st Jul. 2020.

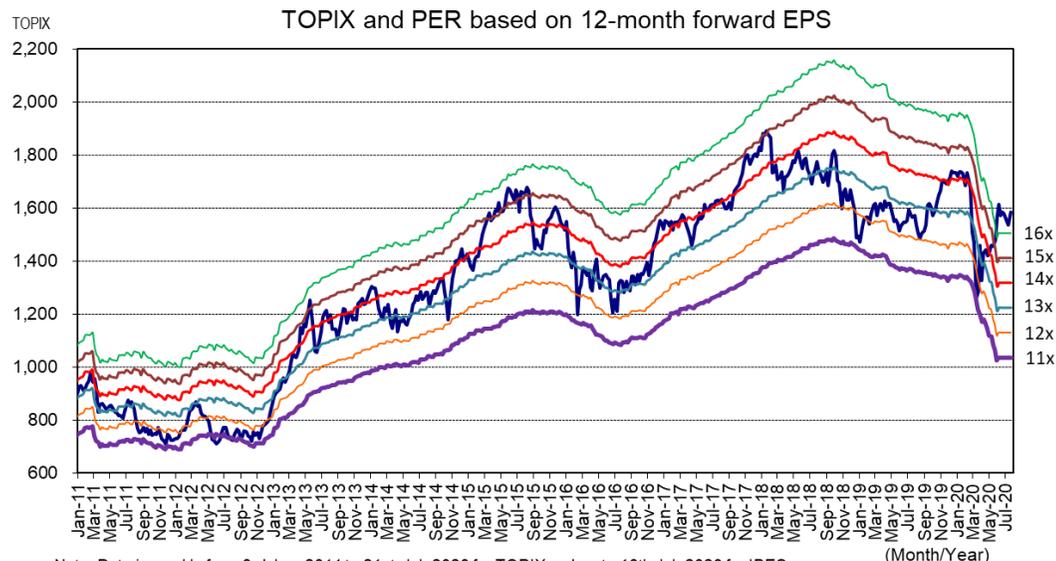
(Source) Datastream, MSCI and Tokyo Stock Exchange, compiled by SMDAM.

Downward earnings revision progressed to make stock valuation dearer

- Analysts have substantially down-revised EPS forecast, which made PE Ratio (PER) for TOPIX become higher than the historical range between 11 times and 16 times. Given the latest EPS forecast of 94, TOPIX at 1580 corresponds to PER of 16.8.
- This is mainly 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. High stock valuation in US can theoretically be supported by relative valuation vs. interest rates, such as yield ratio or yield gap although such relative valuation measures could be volatile due to almost zero interest rates.



Note: Weekly data from 3rd Jan. 2011 to 13th Jul. 2020.
(Source) Datastream, IBES



Note: Data is weekly from 3rd Jan. 2011 to 21st Jul. 2020 for TOPIX and up to 13th Jul. 2020 for IBES 12M forward EPS forecast. TOPIX was 1582.74 at the end of the period.
(Source) Tokyo Stock Exchange, Datastream and IBES, compiled by SMAM

SMDAM's corporate earnings forecasts

- SMDAM makes earnings forecast for 455 companies excluding financials in its corporate research coverage.
- In the latest forecast on 5th June, recurring profits are forecast to decline by -10.9% in FY2020 and then recover by 28.2% in FY2021. When indexed with the latest high in FY2018 as 100, level of recurring profit for FY2019, 2020, 2021 are calculated at 78, 69 and 89 respectively. Corporate profits are expected to be 10% below the historical record level even after a robust recovery in FY2021. (“Recurring profits” in Japanese accounting means “earnings from continuous businesses”, which is basically before tax and extraordinary items.)

SMDAM Corporate Earnings forecasts (455 Companies research coverage excl. financials)

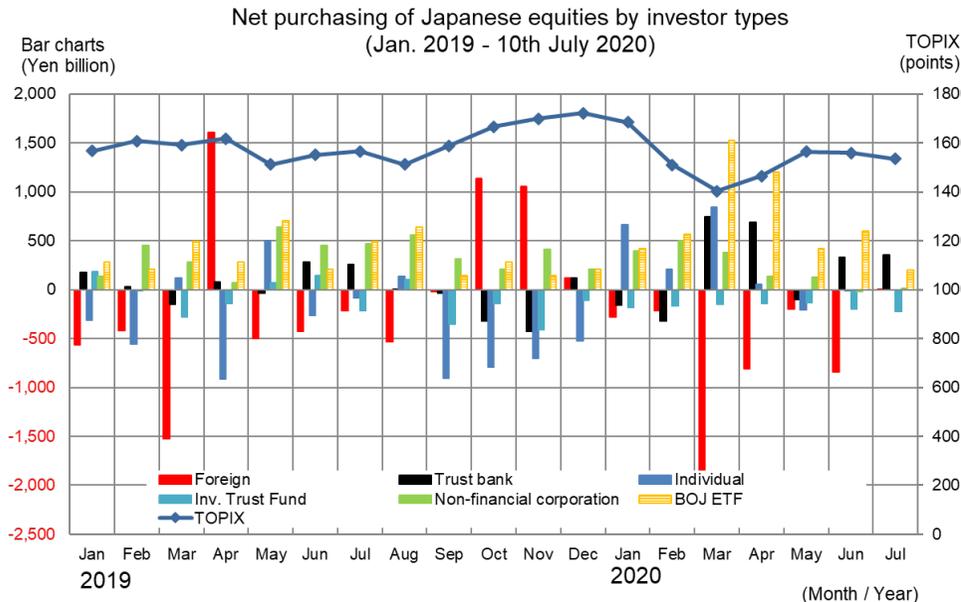
Fiscal year	FY 2019	FY 2020E	FY 2021E
Date of forecast	Actual	as of 5th Jun. 2020	as of 5th Jun. 2020
Sales (YoY %)	-2.5%	-8.6%	5.5%
Operating Profits (YoY %)	-25.0%	-10.4%	29.2%
Recurring Profits (YoY %)	-22.4%	-10.9%	28.2%
Net Profits (YoY %)	34.7%	-2.5%	33.5%
Recurring profits (YoY %)			
Manufacturing 260 companies	-25.7%	-10.1%	32.5%
Non-manufacturing 195 companies	-17.8%	-11.7%	22.8%

Note: Key assumptions for FY2019 & 2020 are Yen/US\$ 108 and Yen/EUR117.

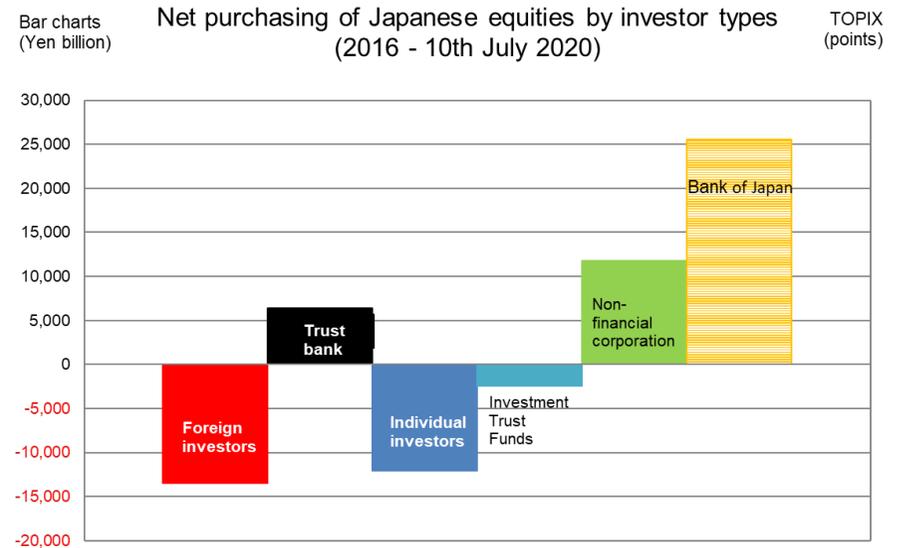
(Source) SMDAM Corporate Research Department, Toyo Keizai

Selling by foreign investors stopped in July

- Foreign investors kept selling Japanese equities this year until June. They stopped selling in the first 2 weeks in July. They might shift equity investments from expensive US stocks into relatively inexpensive Japanese stocks.
- In a long-term since 2016, ETF purchasing by BOJ and share buy-back by companies are two main purchasers.
- Selling by individual investors gets smaller if purchasing via IPO is included.



Note: Data is for Tokyo stock exchange and Nagoya stock exchange up to 10th Jul. 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

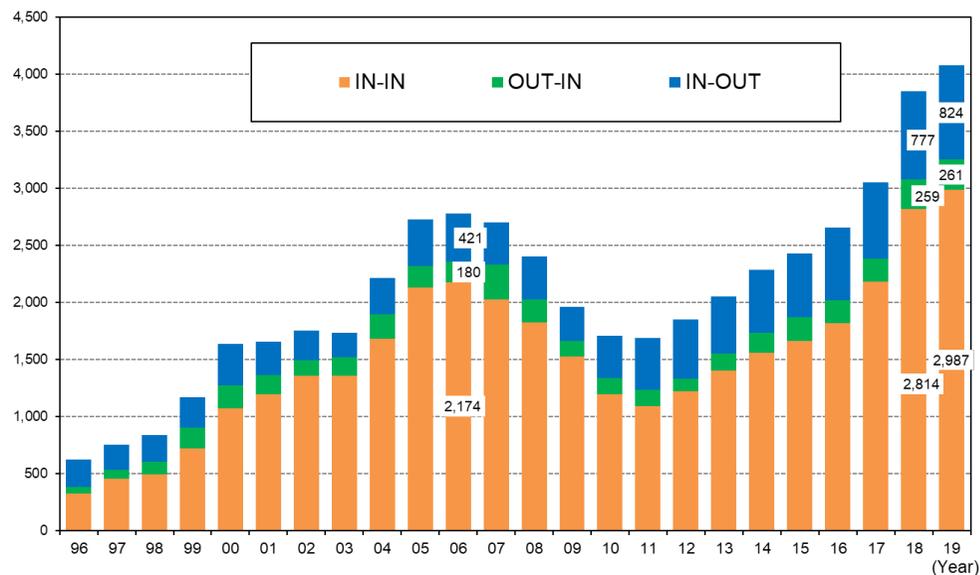
Note: As of 13th Mar. 2020.

(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.

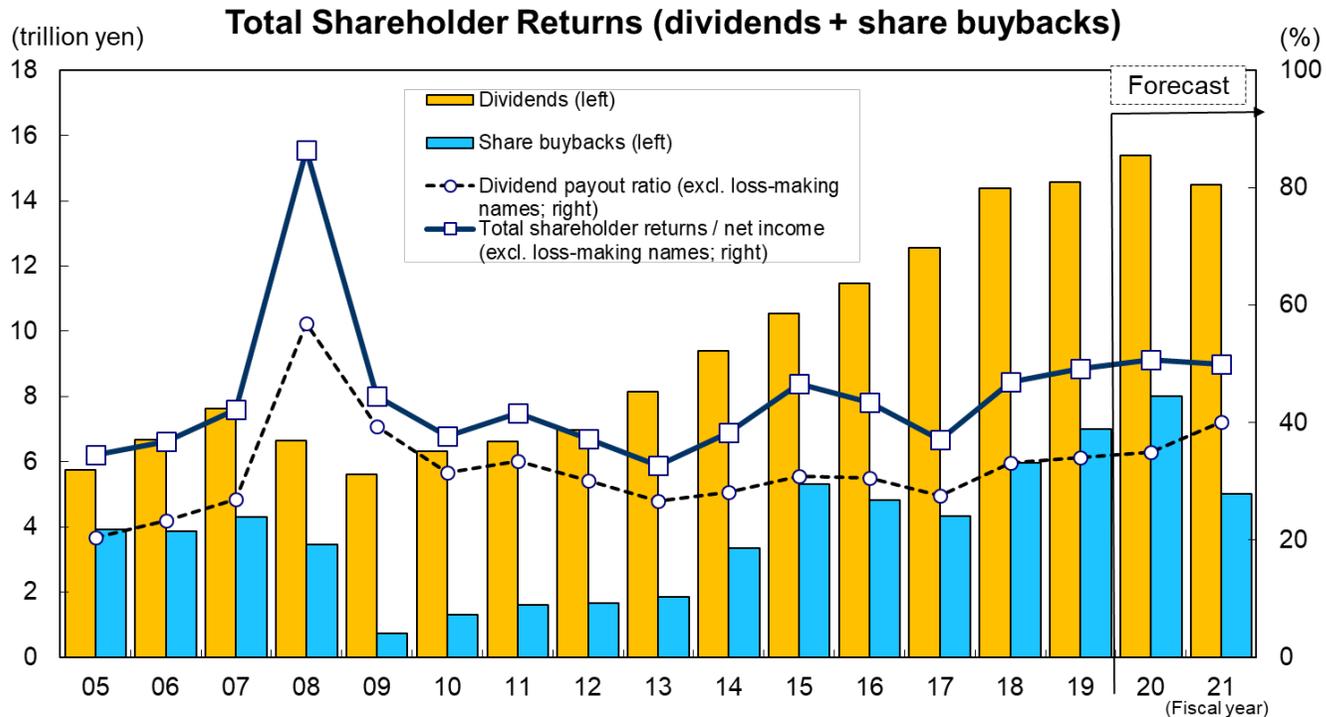
Number of M&A deals involving Japanese companies
(Excluding transactions among the same business group)



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.
- Dividends also renewed historical record in FY2019 and expected to increase further in FY2020. Dividend and share buyback are forecast to decline in FY2021 due to COVID-19 impact.



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

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