



Outlook for Japanese Economy & Stock Market

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

-November 2020-

Executive summary

➤ Japanese Economy

Exports from Japan rose further in September increasing by 7% from August. For China, exports of Auto and Machinery made large contributions whereas electrical goods decreased from August. For US, exports of Auto, Machinery and Electric goods were large contributors. Manufacturing side of the Japanese economy is going to lead the recovery supported by robust exports. (Page 17)

- 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 we are now progressed to phase 2 of a new economic cycle. (Page 4)
- In Japan the 3rd supplemental budget spending plan will be sent to the National Diet in January. (Page 11 & 16)

➤ Japanese Stock Market

Stock markets are forward looking in nature and it would be important to estimate what could happen in 6 months from now. Vaccine for COVID-19 is forecast to be widely available around spring and a new wave of COVID-19 infection in winter will be over. Global economy will be gathering strength and monetary policy will stay expansionary, which are all positive for stock prices. Major risk will be geopolitical tensions to rise. (Page 21)

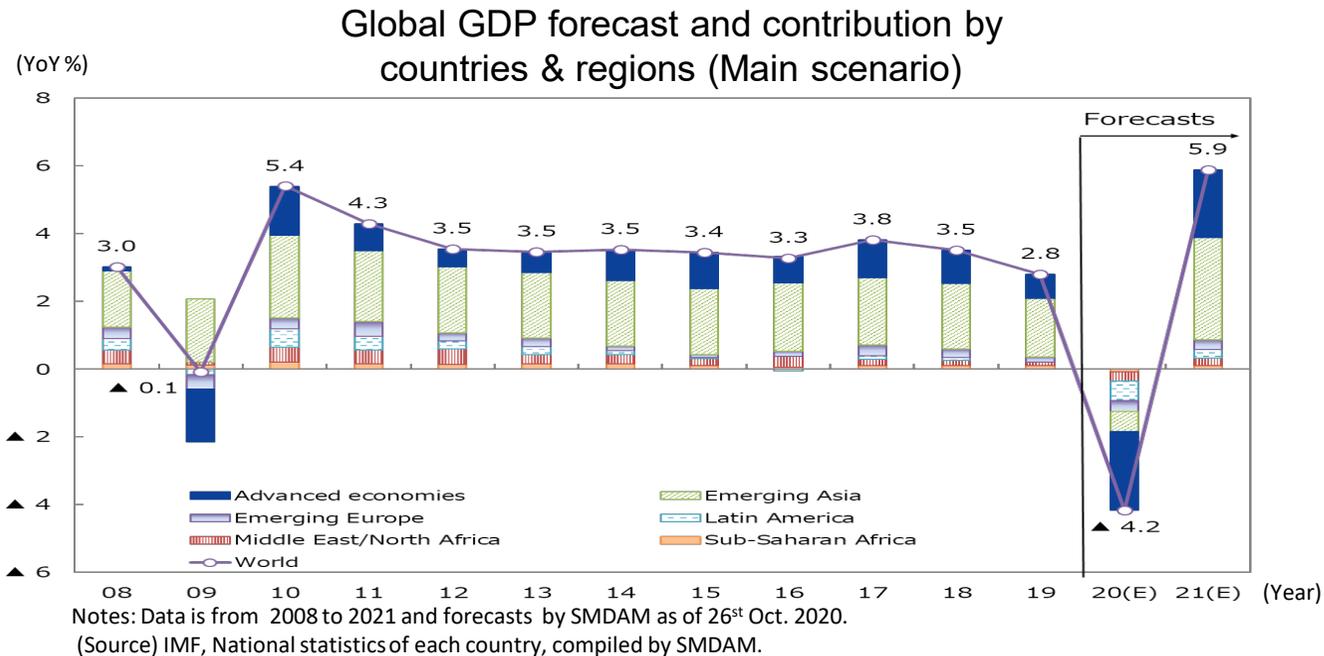
- Adjustment in over-valuation of technology stocks are progressing in US, however, negative effects on Japanese stocks is going to be limited. Rotation to value stocks is expected to support Japanese market, which is rich in value stocks, and also strengthening recovery in manufacturing industries is supportive to Japanese manufacturing companies. (Page 21)
- 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 1.32 looks attractive. (Page 24)



Outlook for Global Economy

Outlook for the global economy

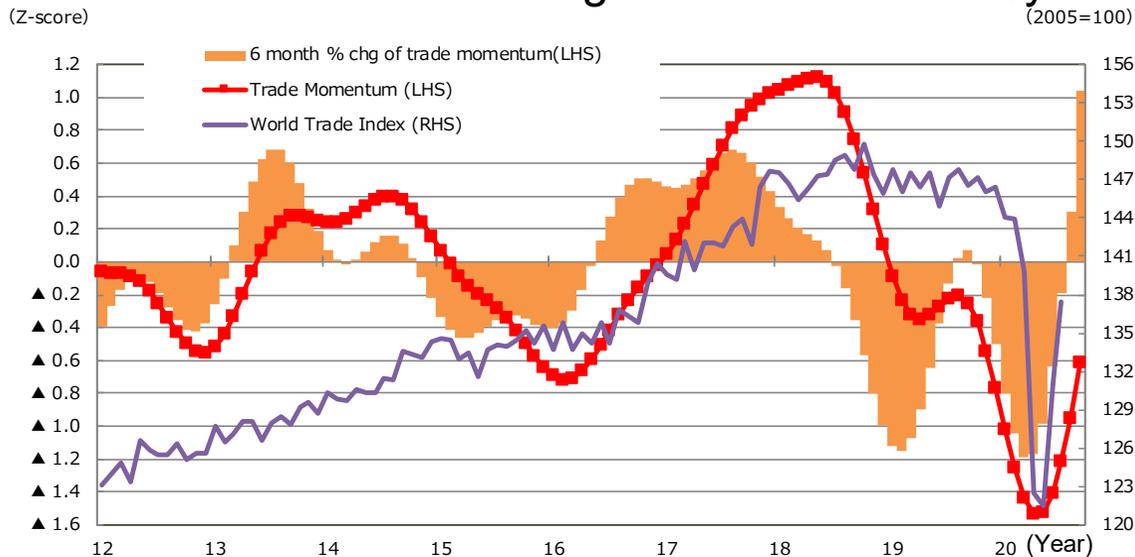
- SMDAM maintained outlook for the global economy from the previous month. GDP forecast was slightly adjusted for weighting change made by IMF. Forecast for 2020 and 2021 were adjusted downwards by 0.1% and 0.2 % respectively.
- Life with COVID-19 continues until effective vaccine is developed and become available worldwide, however, fatality ratio is substantially lower than it was in the first wave of pandemic around in May, which probably shows that we know the virus and effective treatments better than before. Global economy is expected to show continuing recovery led by developed economies. Manufacturing industries will be the main driver of the recovery for the rest of this year and full recovery in physical service sectors will be from the latter half of 2021.



Trade momentum analysis shows a new economic cycle is progressing

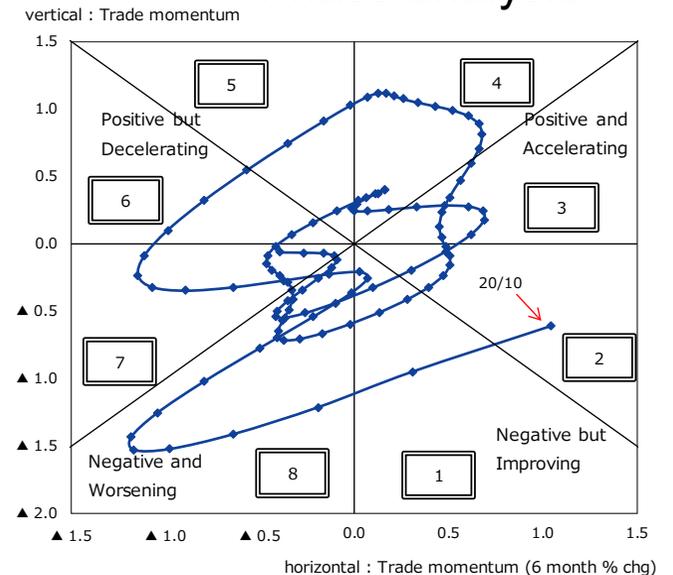
- SMDAM has developed trade momentum indicators in order for monitoring economic cycles and estimating in which phase of cycle current position is situated.
- COVID-19 caused a severe negative impact, however, the trade momentum hit bottom in May and substantial recovery is continuing afterwards.
- Phase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

Trade momentum as a guide for economic cycle



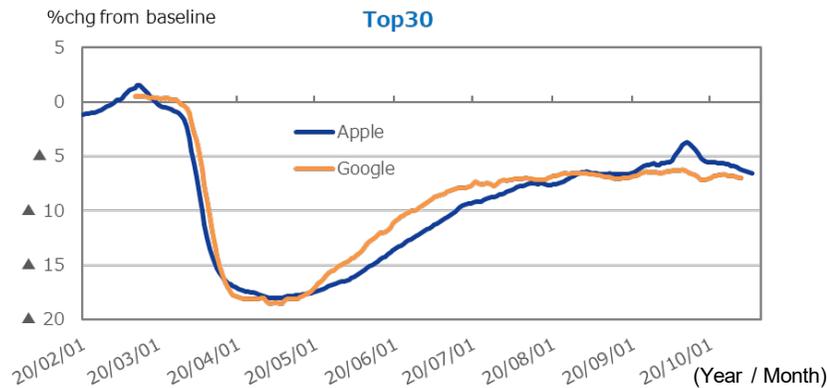
(Notes) Trade momentum is calculated from 16 indicators and compiled by SMDAM. Data is from Jan 2012 to Oct 2020.
 (Source) Bloomberg, Datastream and other National Statistics.

Phase analysis



People's mobility is still mildly improving in Japan

- On the top charts, Google's mobility index shows that recovery for top 30 countries plateaued lately due to resurgence of COVID-19 cases in Europe and part of US. Japan shows mild recovery is still continuing.
- For Japan, number of daily new infection cases is under control. Go To campaign, which provides financial incentive for tours in Japan made a huge success and a lot of people ventured out for a short excursion. The government is topping up the budget for this campaign. Similar incentives such as Go To Eat and Go To Event campaigns are also in place.



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.)	▲ 18.5	▲ 16.6	▲ 14.5	▲ 20.6	▲ 25.9	▲ 29.4	▲ 26.7	▲ 29.2	▲ 22.4	▲ 10.4	▲ 30.4	▲ 16.7
b) 13th October (% chg.)	▲ 7.0	▲ 7.1	▲ 5.0	▲ 4.2	▲ 10.7	▲ 5.5	▲ 10.6	▲ 4.7	▲ 4.9	▲ 1.6	▲ 7.9	▲ 9.0
b)-a)	+ 11.5	+ 9.5	+ 9.5	+ 16.3	+ 15.2	+ 23.9	+ 16.1	+ 24.5	+ 17.6	+ 8.8	+ 22.5	+ 7.7

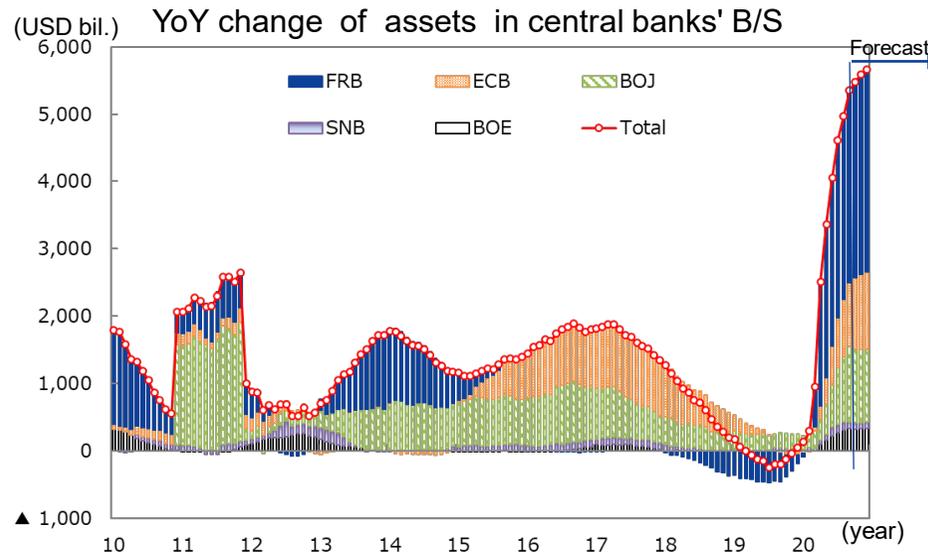
Note: SMDAM analyzed correlation between Google's and Apple's mobility index data and released GDP data, and exponentially estimated the GDP status corresponding to the latest mobility index data in a % change from the baseline GDP, which was the trend line prior to the COVID-19 pandemic.

Google's data is up to 13th October, Apple's data is up to 17th October and number of new COVID-19 infection cases is up to 18th October..

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

Global central banks will keep ultra-easy monetary policy for a long term

- Central banks have done almost everything imaginable in order for avoiding financial meltdown stemming from COVID-19 pandemic. Another focus has been on providing lifelines to households and businesses gasping for cash in the face of job losses and evaporating sales. Central banks are calling for additional fiscal measures.
- In September, FRB strengthened its forward guidance for the policy rate to continue “until labor market conditions have maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time”.
- For Japan, monetary policies has been maintained in from May. On Thursday 17th September, BOJ governor Mr. Kuroda praised PM Abe’s maneuvering and expressed his confidence on PM Suga. He also said he is willing to stay in his position until the end of the term, which ends in April 2023.



Note: Data is from Jan 2010 to 31st September 2020. Forecast is up to Dec 2020.
(Source) Bloomberg, each central bank, compiled by SMDAM.



Outlook for Japanese Economy

SMDAM Japanese economic outlook for FY20-21

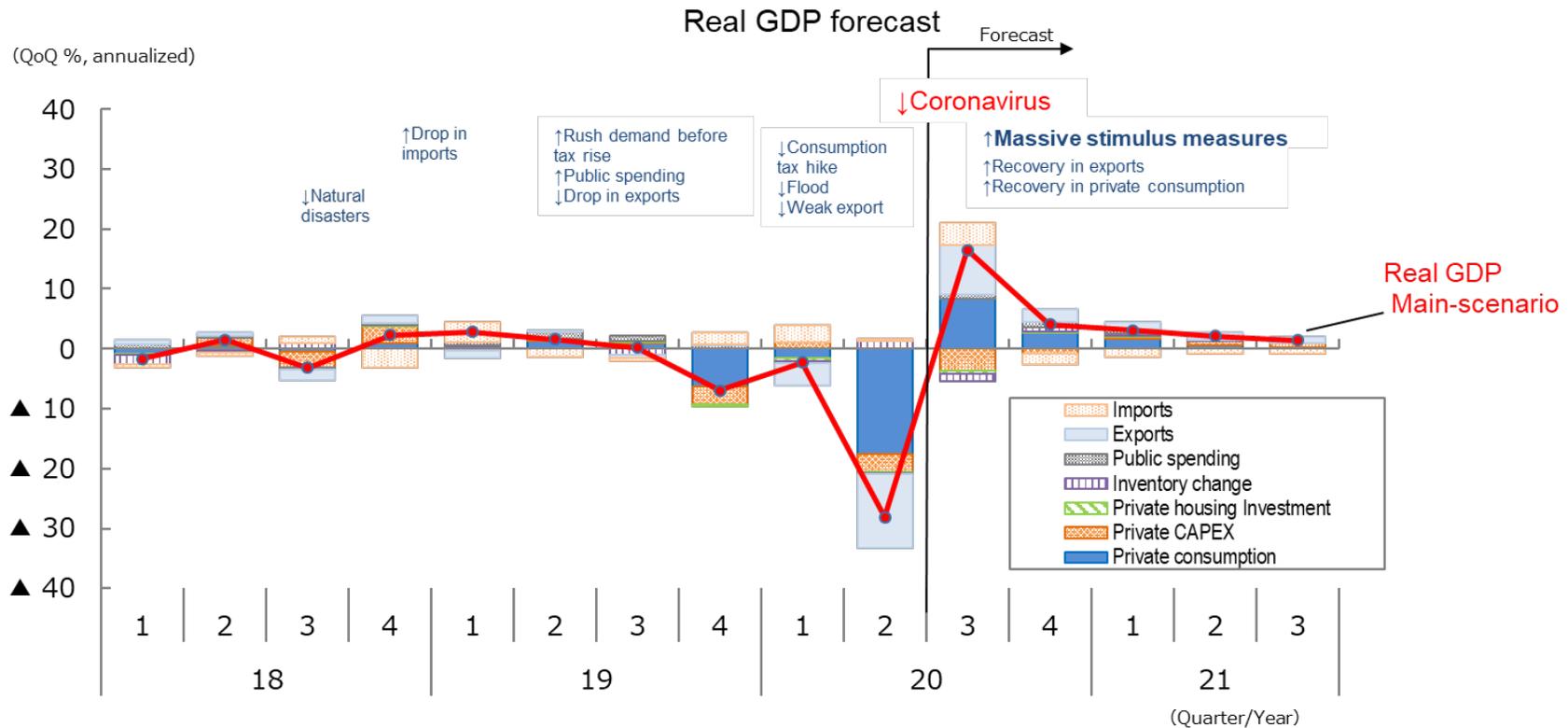
- SMDAM revised-up GDP forecast for FY2020 from -6.1% to -5.8% as a result of stronger than expected recovery in exports.
- PM Suga continues driving emergency policies and also pursue stronger policies on achieving deregulation, digitization and enhancing economic growth.

(YoY %)	FY16	FY17	FY18	FY19	FY20E	FY21E
Real GDP growth	0.9%	1.9%	0.3%	0.0%	-5.8%	3.1%
Private Consumption Expenditure	0.0%	1.1%	0.1%	-0.5%	-6.4%	2.5%
Private Housing Investment	6.3%	-1.4%	-4.9%	0.6%	-6.4%	1.6%
Private Capital Investment	-0.4%	4.3%	1.8%	-0.3%	-10.2%	1.1%
Public Consumption Expenditure	0.7%	0.3%	0.9%	2.3%	0.6%	0.8%
Public Capital Investment	0.6%	0.5%	0.6%	3.3%	3.3%	4.3%
Net Exports (contrib. to GDP growth)	0.8%	0.5%	-0.1%	-0.2%	-0.8%	0.9%
Exports	3.7%	6.4%	1.7%	-2.6%	-11.8%	10.3%
Imports	-0.9%	3.9%	2.6%	-1.5%	-6.7%	4.2%
Nominal GDP	0.8%	2.0%	0.1%	0.8%	-4.7%	3.8%
GDP Deflator	-0.2%	0.1%	-0.2%	0.8%	1.2%	0.7%
Industrial Production	0.8%	2.9%	0.3%	-3.6%	-11.0%	7.9%
CPI (excl. fresh food)	-0.2%	0.7%	0.8%	0.4%	-0.5%	0.4%

Note: E=SMDAM forecasts. SMDAM views are as of 26th Oct. 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

- SMDAM made an upward revision on GDP forecast for Jul-Sep quarter (QoQ % annualized) from 13.9% to 16.5% due to stronger than expected exports, which also led to stronger industrial production in Japan.
- Japan's GDP is forecast to continue recovering in 2021.



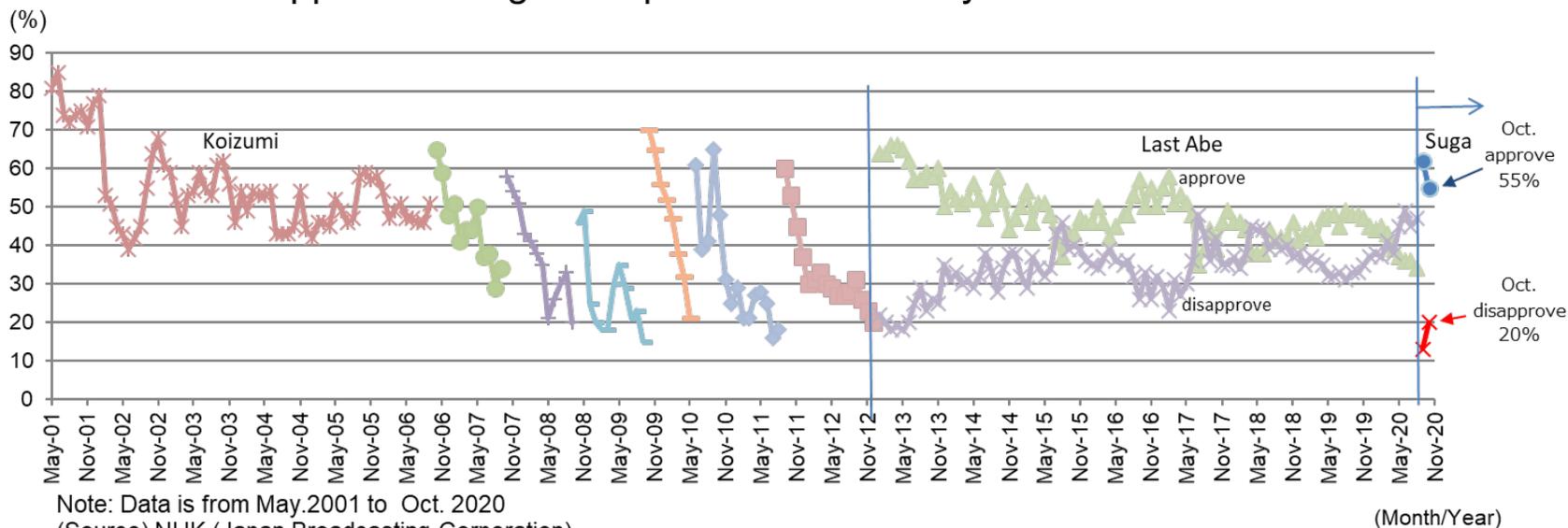
Note: SMDAM views are as of 26th Oct. 2020 and subject to updates thereafter without notice

(Source) Cabinet Office, Bank of Japan, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMDAM forecasts

PM Suga holds favorable approval rating

- After making a good start in September, PM Suga and his cabinet holds favorable approval rating in October. PM Suga seamlessly succeeded emergency policies fighting with COVID-19. He also powered ahead on deregulation & digitization of the government and also on enhancing transformation of Japanese industries by such as supporting start-ups.
- Just before becoming the PM, Mr. Suga led Go To campaign as the chief cabinet secretary and it proved to be a big success in encouraging people, who were cautious about COVID-19, to go out for domestic tours or eating at restaurants. Number of new cases of COVID-19 infection is yet under control. The government is planning to make additional supplemental budget spending plan.

Approval ratings of Japanese cabinets by Prime Ministers



Fiscal stimulus in Japan

- In the 2nd supplemental budget in June, 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.
- Further top-up is now discussed among the cabinet.

Fiscal stimulus measures in Japan

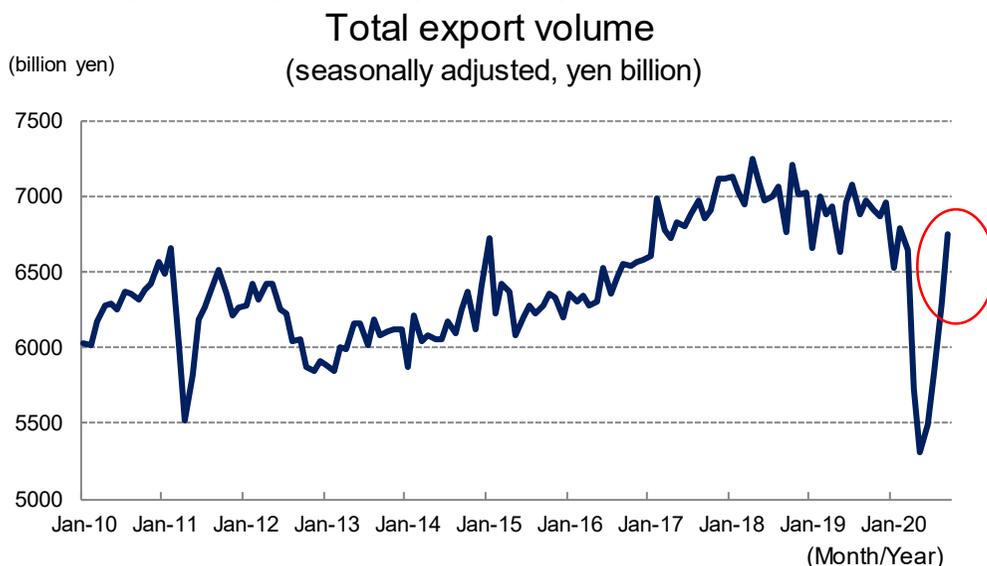
(Trillion yen)	FY2020 1st supplementary budget spending (Approved in April)					FY2020 2nd supplementary budget spending (Approved in June)				
	Total size of the project	Fiscal budget spending	Central & local government budget	FY2020 supple mentary budget	Fiscal Investment & Loan Program	Total size of the project	Fiscal budget spending	Central & local government budget	FY2020 supple mentary 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 Jun. 2020

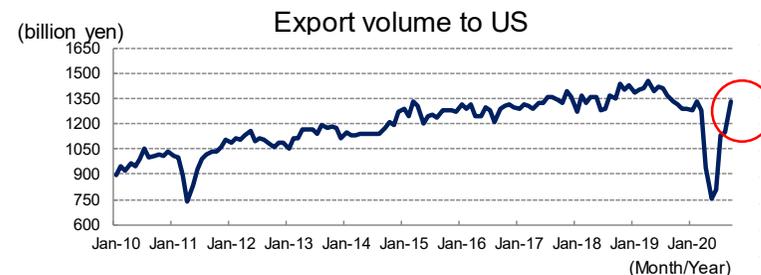
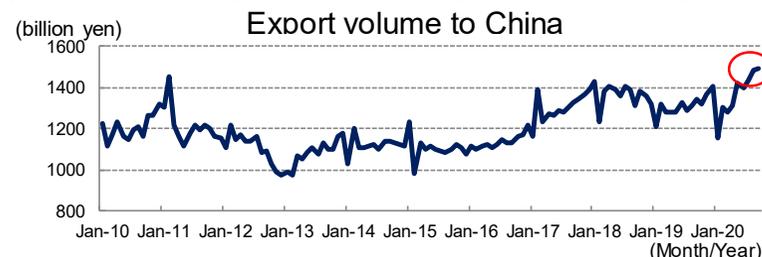
(Source) Cabinet Office, compiled by SMDAM

Exports from Japan continue strong recovery

- Exports from Japan rose further in September increasing by 7% from August.
- For China, exports of Auto and Machinery made large contributions whereas electrical goods decreased from August. For US, exports of Auto, Machinery and Electric goods were large contributors.
- Manufacturing side of the Japanese economy is going to lead the recovery supported by robust exports.

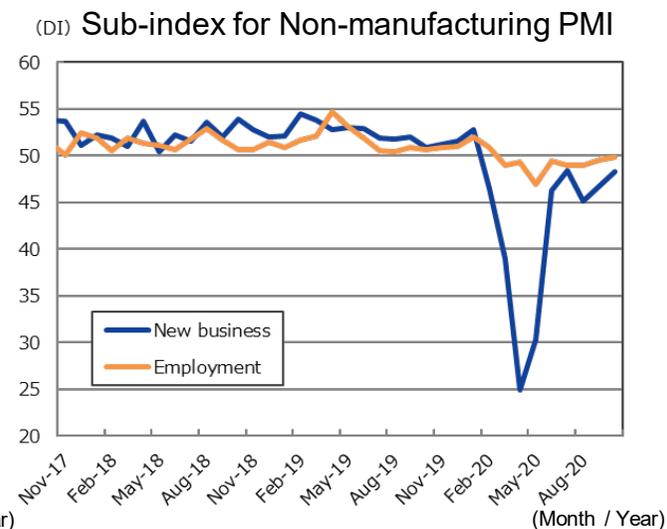
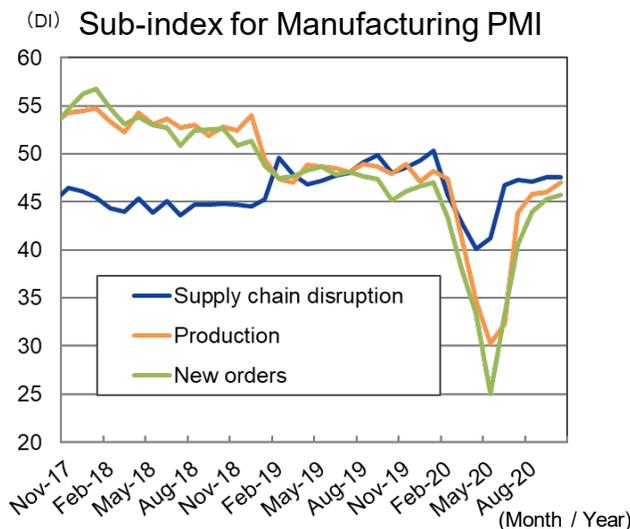
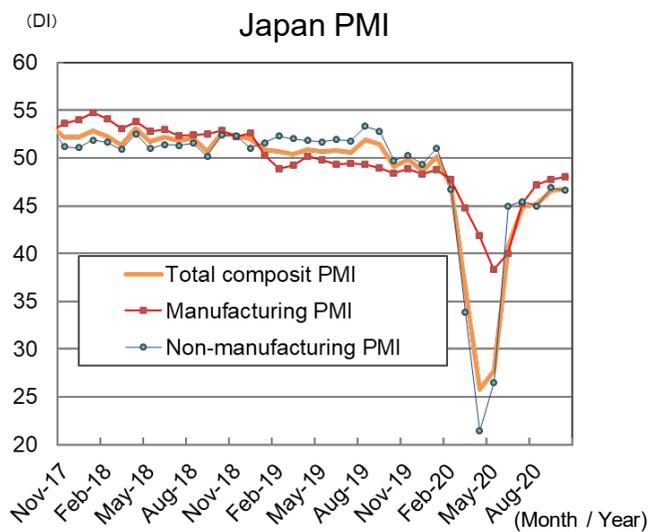


Note: Data is from Jan. 2010 to Sep. 2020.
(Source) Ministry of Finance, Bank of Japan, compiled by SMDAM.



Business sentiment in manufacturing sector continues mild improvement

- PMI for Japan moved sideways in October. Manufacturing sector showed continuing mild recovery, for which recovering production is making positive contribution, which is shown on the left and the middle chart.
- PMI for non-manufacturing service sector slightly declined in October, however, resilient private consumption and positive effects from government led campaigns are going to sustain mild recovery going forward.

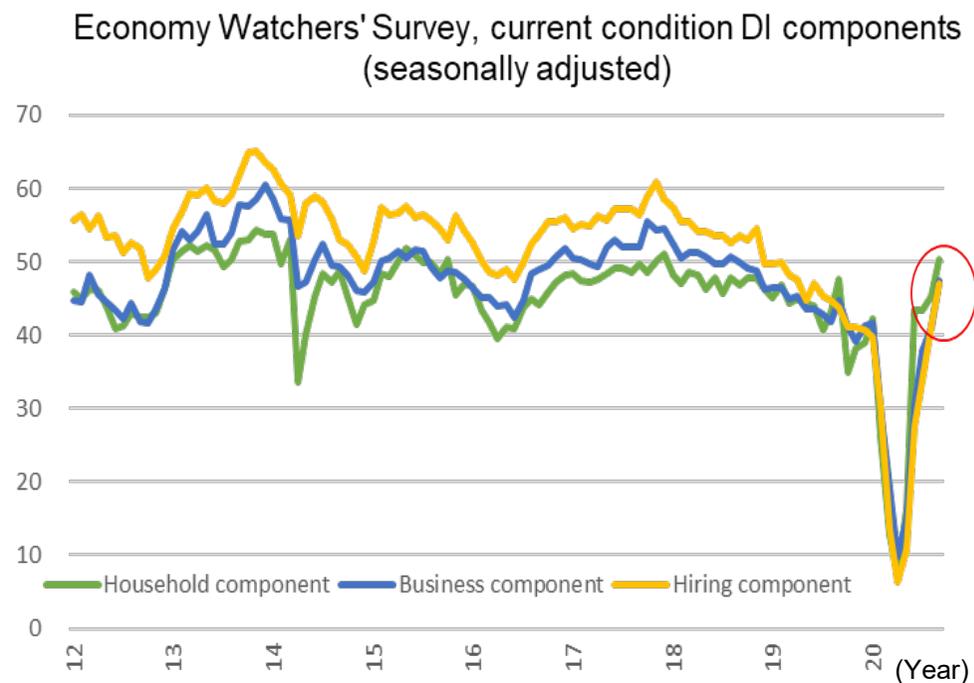
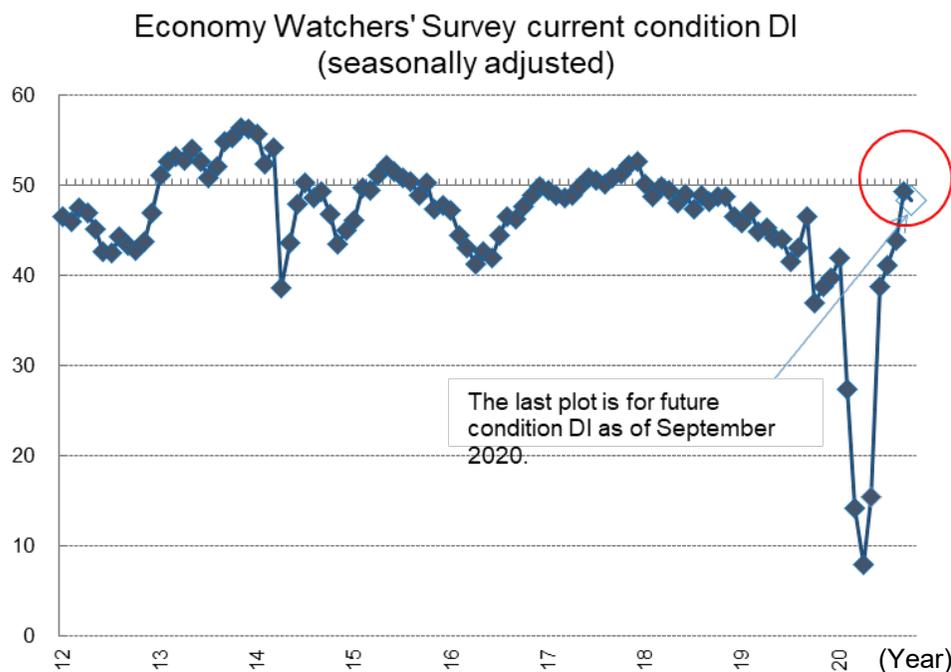


Note: Data is from Nov. 2017 to Oct. 2020.

Source: IHS Markit, BOJ, compiled by SMDAM.

Economic sentiments showed recovery for consecutive 5 months

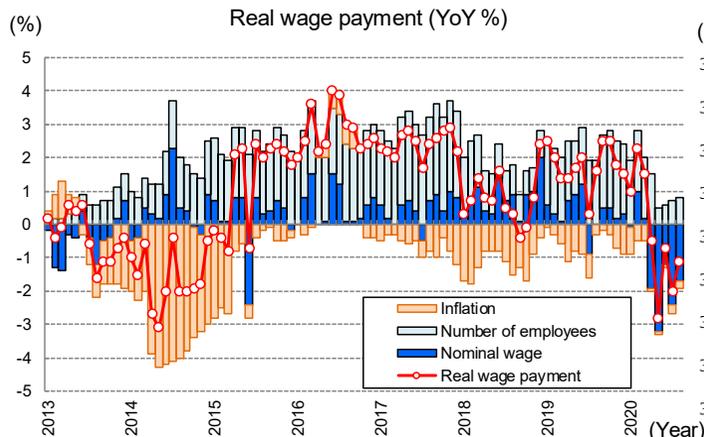
- Economy Watcher Survey covers people working at economic sensitive jobs. Current condition DI in September was 49.3 rising in 5 consecutive months since May. All components, household, business and hiring, showed significant improvement.
- For frequent used words in responses, “(Go To) Campaign” increased significantly whereas negative words related to COVID-19 showed sizable decrease.



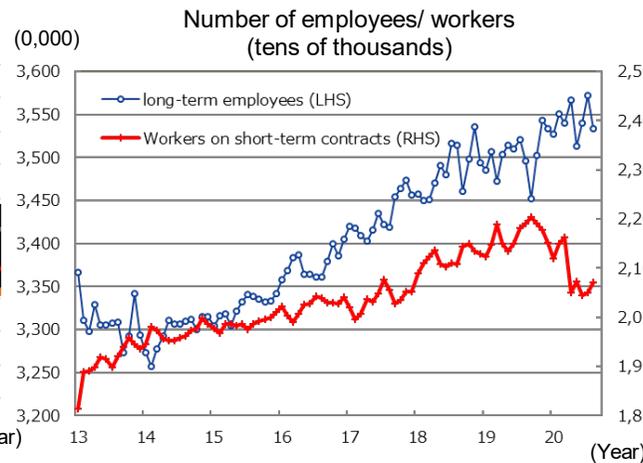
Note: Data is from Jan. 2012 to Aug. 2020. DI above 50 means condition is better than preceding 2 to 3 months.
 (Source) Cabinet Office

COVID-19 negative impact continues on labor market

- Real wage declined by -1.1% YoY in August, which has been in negative territory since April due mainly to decline in overtime and bonus payment.
- Job vacancy / applicants ratio further edged-down to 1.04 times in August.
- COVID-19 negative impact continues on labor market, however considering the magnitude of impact on overall economy, employment has been maintained rather well and also wage has been kept at only 1% to 2 % YoY decline.



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



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



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

Who wins the US presidential election and how?

- Who will win the US presidential election? Is it going to get into a turmoil and brought to the Supreme Court ?
- In Japan the 3rd supplemental budget spending plan will be sent to the National Diet in January.
- As other important issues for Japan, next general election In Japan needs to be held by September before the end of current term for LDP leader. Also, if and how Tokyo Olympic Games can be held is important.

Upcoming key events

	Month	Region/Country	Events	Notes
2020	November	US	3 US presidential election	Mail ballot issue cleared?
			4-5 FOMC meeting	
	December	US	15-16 FOMC meeting	
Japan		17-18 BOJ Monetary Policy Committee Meeting		
2021	January	US	20 Inauguration of the new president ?	
			26-27 FOMC meeting	
	Japan	Mid month National Diet (Ordinary session) begins	3rd supplementary budget spending is expected to be approved.	
		20-21 BOJ Monetary Policy Committee Meeting & Perspective Report		
	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

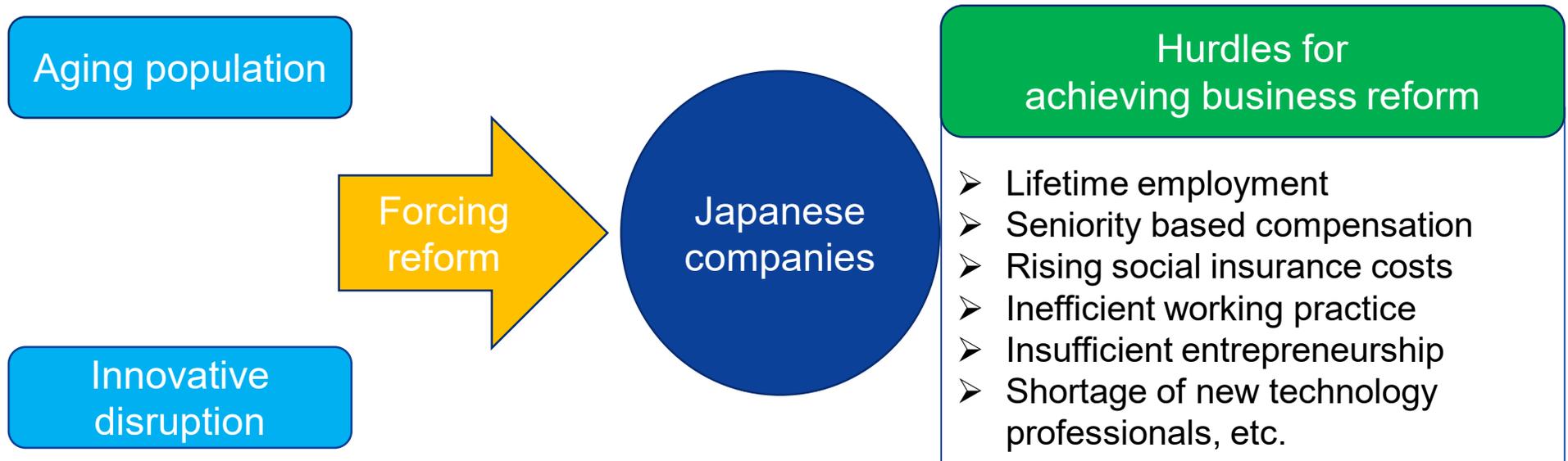
	Switzerland	U.S.	Israel	Finland	Germany	Netherlands	Sweden	Japan	Singapore	Denmark	China
Innovation total	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	28th
a) Capacity for innovation	1	2	3	7	5	6	4	21	23	16	44
b) Quality of scientific research institutions	1	5	3	8	11	4	13	14	12	16	36
c) Company spending on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

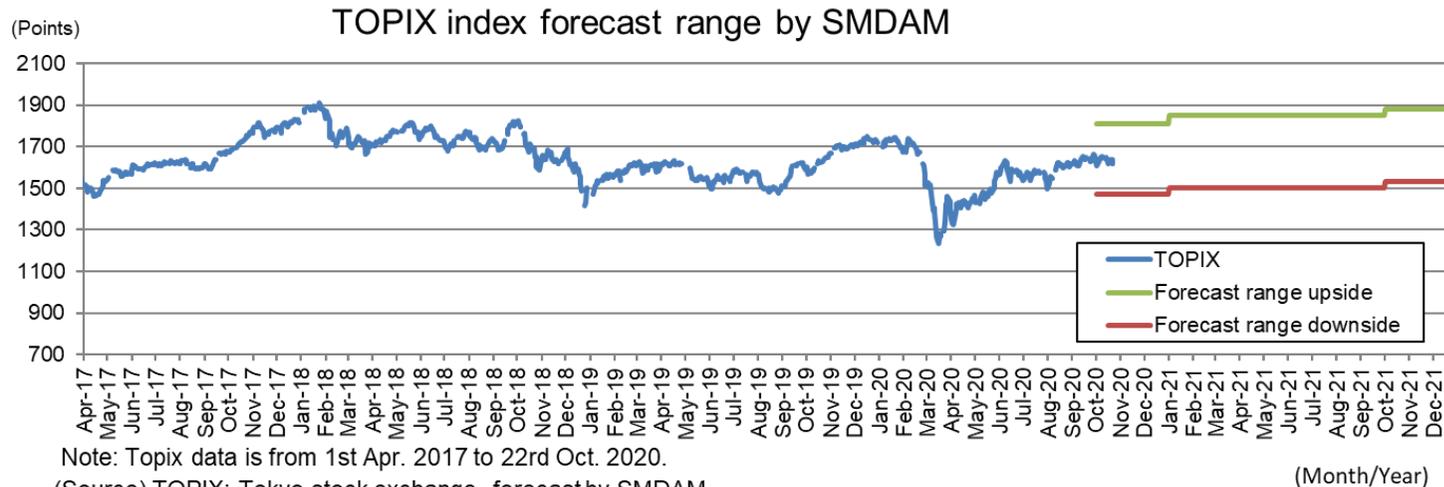
Forward looking stock markets may shift focus to the recovery of real economy in 2021

■ SMDAM short-term view

➤ Adjustment in over-valuation of technology stocks are progressing in US, however, negative effects on Japanese stocks is going to be limited. Rotation to value stocks is expected to support Japanese market, which is rich in value stocks, and also strengthening recovery in manufacturing industries is supportive to Japanese manufacturing companies. Japanese stocks are relatively inexpensive in stock valuation and seems to be well positioned if investors further shift focus from “with corona theme” to ongoing recovery in physical economy.

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

➤ Stock markets are forward looking in nature and it would be important to estimate what could happen in 6 months from now. Vaccine for COVID-19 is forecast to be widely available around spring and a new wave of COVID-19 infection in winter will be over. Global economy will be gathering strength and monetary policy will stay expansionary, which are all positive for stock prices. Major risk will be geopolitical tensions to rise.



Note: SMDAM's projection is as of 24th Sep. 2020 and subject to updates without notice.

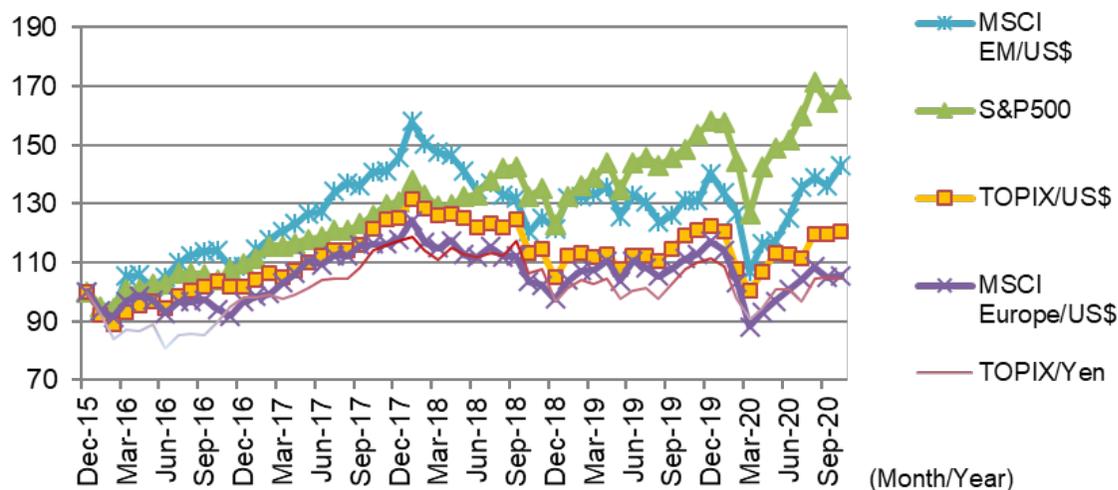
Base scenario & Upside / Downside risks for our forecasts

- **Our Base Scenario** is assuming the following views:
 - Another global hard lockdown caused by COVID-19 pandemic can be avoided.
 - 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 recovery continues afterwards.
 - 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:
 - Another serious 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 after US presidential election in 2020.
 - Populism gains in Europe further destabilizing EU.

Japanese stock market shows resilience in tech-stock-setback

- Emerging markets are doing better than other regions so far in October.
- US stocks retreated from the peak in August due to concerns such as extremely high valuation of technology stocks, uncertainties surrounding US presidential election, resurgence of COVID-19 infection.
- Europe dipped on resurgence of COVID-19 causing lockdowns in some countries and also on uncertainties of Brexit.
- Japan is showing resilience. COVID-19 is still under control and relatively low valuation is supportive in a setback of technology stocks.

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

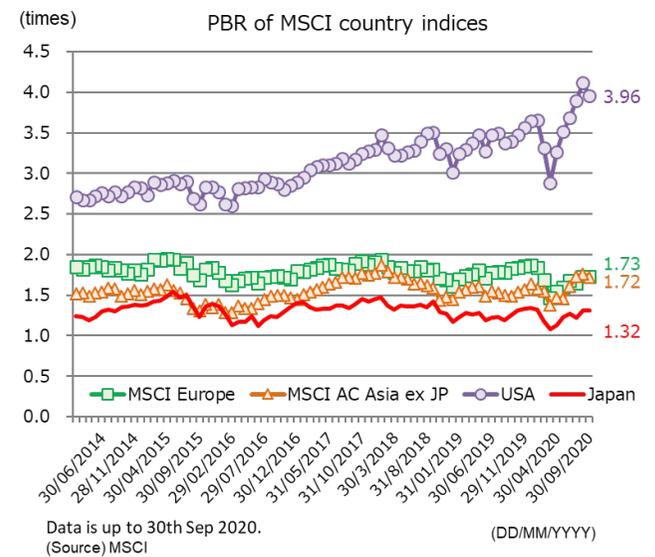
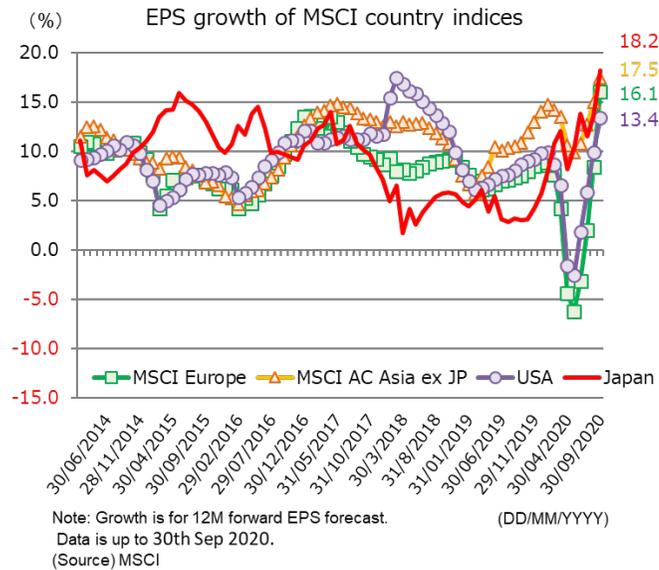
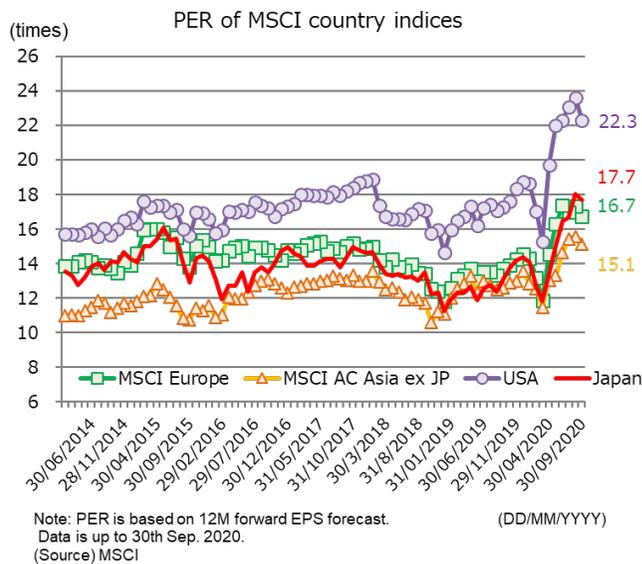


Notes: Data is up to 22rd Oct. 2020.

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

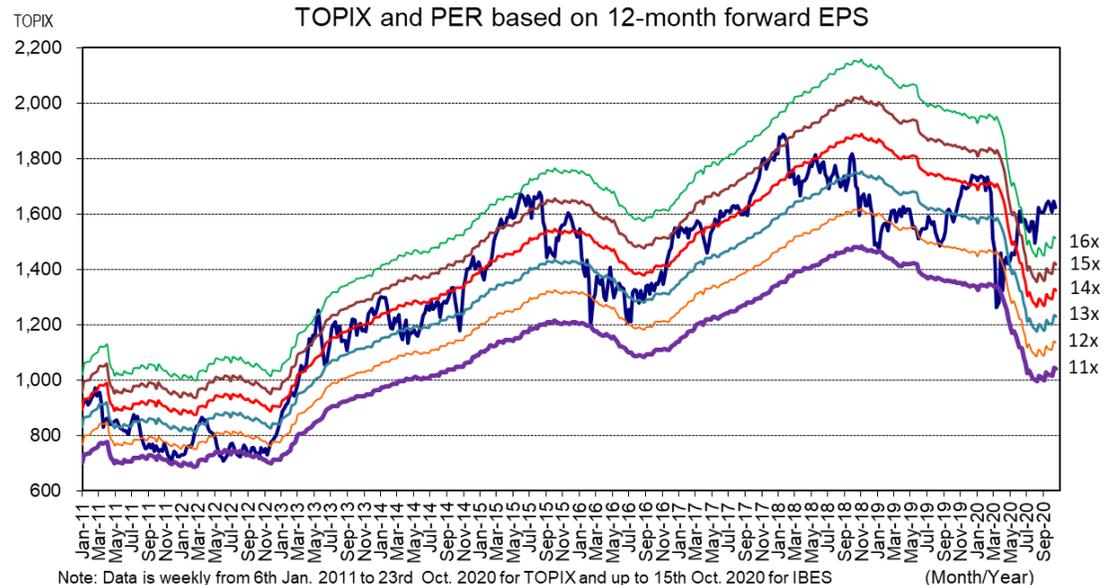
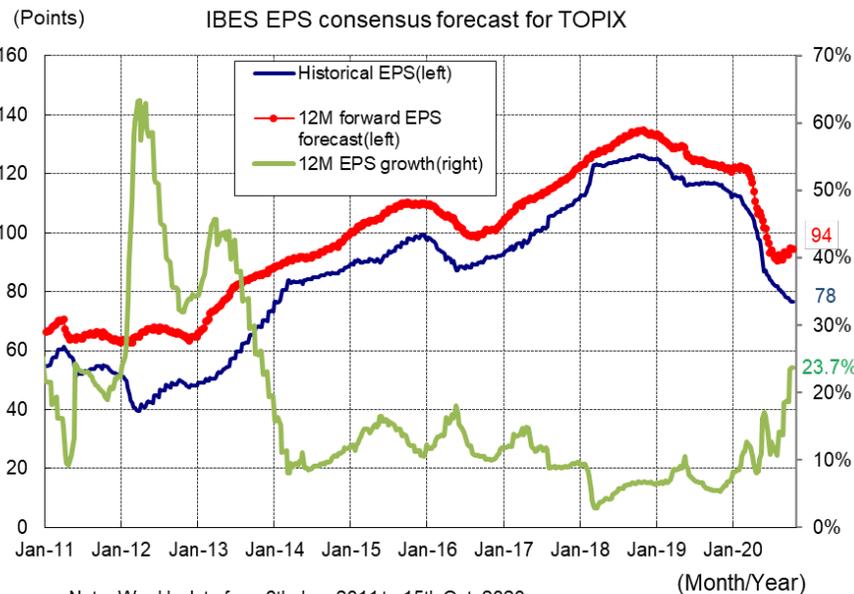
Relative stock valuation is getting attractive for the Japanese stocks

- 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 1.32 looks attractive.



12M forward EPS consensus bounced back from September

- After digesting Apr-Jun quarterly earnings announcements, 12M EPS consensus forecast has been bouncing back from September. Latest 12M forward EPS growth forecast rose sharply to 23.7%.
- Given the latest EPS forecast of 94, TOPIX at 1600 corresponds to PER of 17, which is higher than the historical range between 11 times and 15 times. 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, however, extreme over-valuation in technology stocks in US is going to be adjusted further.



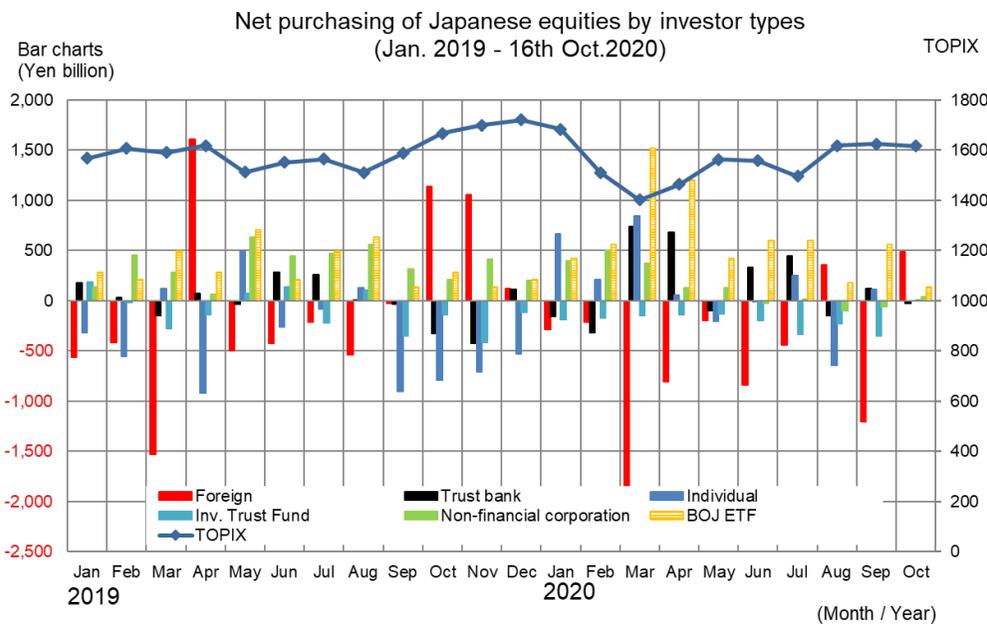
Note: Data is weekly from 6th Jan. 2011 to 23rd Oct. 2020 for TOPIX and up to 15th Oct. 2020 for IBES 12M forward EPS forecast. TOPIX was 1644.25 at the end of the period.

(Source) Tokyo Stock Exchange, Datastream and IBES, compiled by SMAM

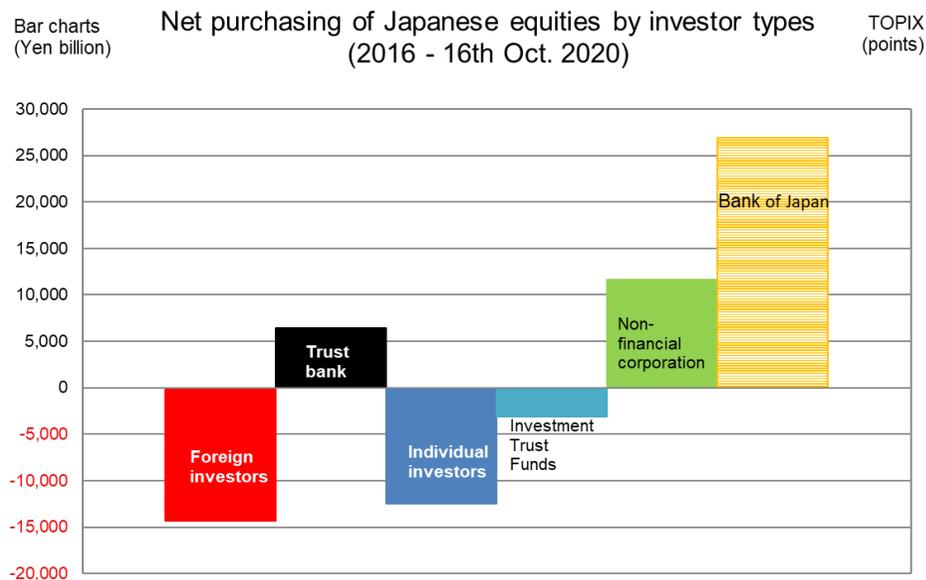
Note: Weekly data from 6th Jan. 2011 to 15th Oct. 2020.
(Source) Datastream, IBES

Foreign investors sold large amount in September, bought back in October

- Foreign investors sold Japanese equity in September and partly bought back so far in October. Except for purchasing by BOJ, other investors stayed on sidelines.
- Many companies are postponing share buy-backs this fiscal year in the face of adverse business environments caused by COVID-19.



Note: Data is for Tokyo stock exchange and Nagoya stock exchange up to 16th Oct. 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

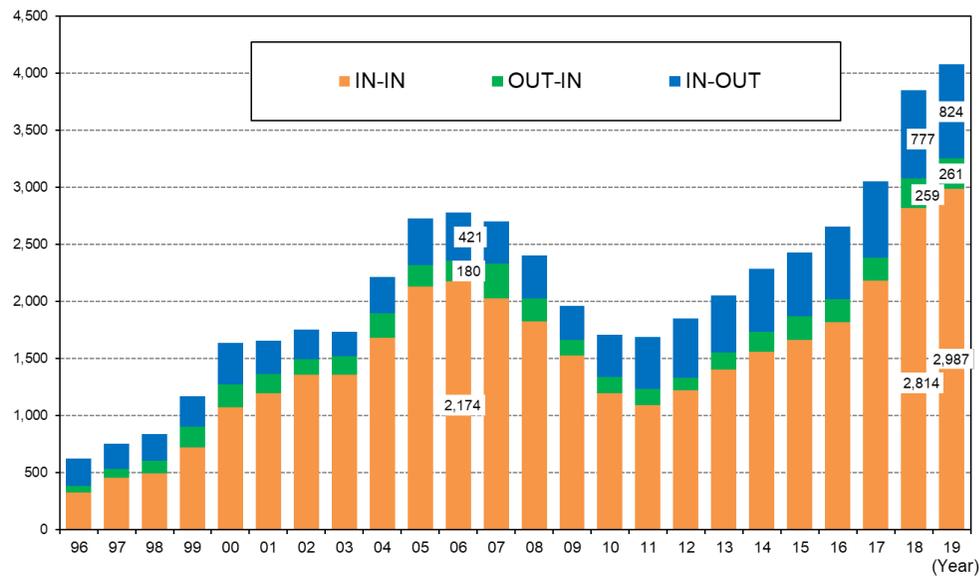
Note: As of 13th Mar. 2020.

(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.

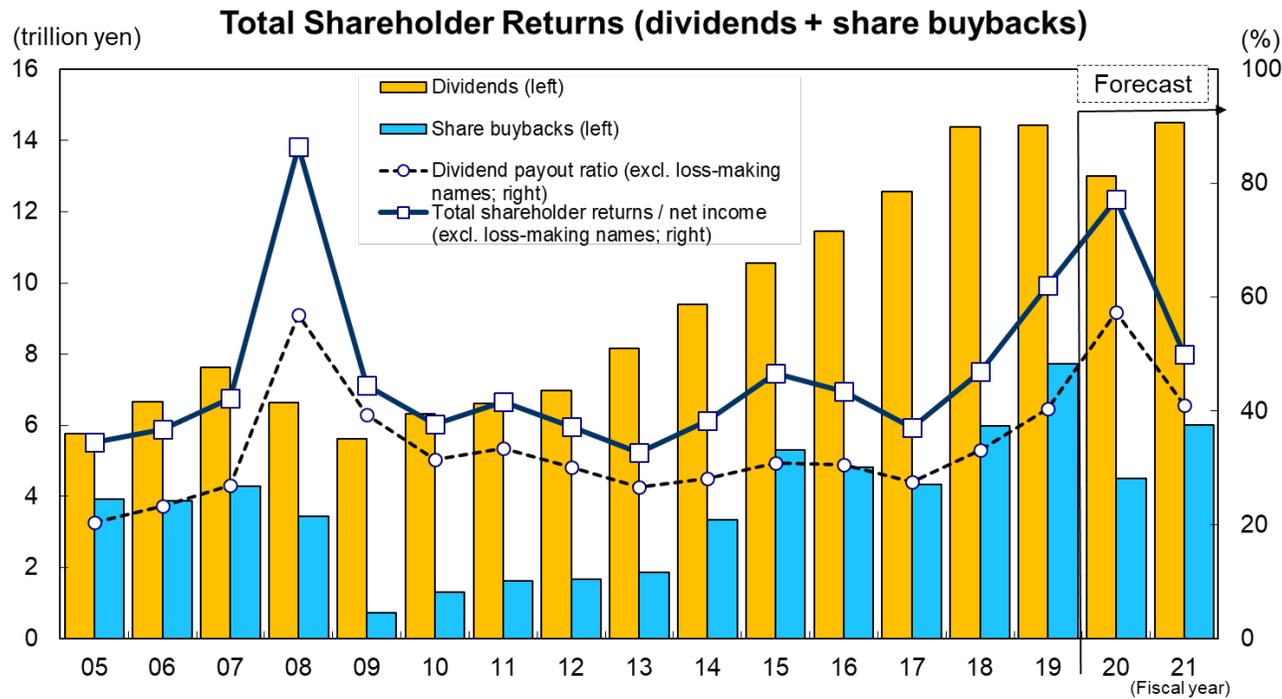
Number of M&A deals involving Japanese companies
(Excluding transactions among the same business group)



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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