



# Outlook for Japanese Economy & Stock Market

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

-June 2020-

# Executive summary

## ➤ Japanese Economy

Global economy is gradually starting again according to SMDAM's GDP simulation using Apple's Mobility Index. People's mobility and estimated GDP are recovering comparatively faster in countries such as France, Germany and US, which experienced severe impact from COVID-19 and also started lifting of lockdowns relatively early. Japan has been forming a bottom from late April and the bottom level, -7.9% was noticeably milder than double digits in other countries, which was because lockdown in Japan was softer than other countries. Recovery of Japan's mobility and GDP is forecast to gather pace going forward since easing of lockdowns has just started from late May. (Page 4)

- In April, Japan once looked destined for a burst of infection similar to US, however, number of infection cases significantly calmed down in May and number of fatalities per 100 thousand population is less than 1, which is in a league of the smallest in world comparison. Japan has achieved this without strong compulsory lockdowns but request based soft lockdowns. (Page 7)
- 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. (Page 5)

## ➤ Japanese Stock Market

Soft lockdown in Japan is going to be lifted from the remaining 5 prefectures including Tokyo at the end of May and gradually improving economic activities will support the stock market. Stock valuation has rebounded to a mid point of the historical range in PE Ratio and considering further down-revision in earnings forecast, stock market has got a little optimistic, which could limit further upside for a while. (Page 19)

- SMDAM simulated 12M forward EPS forecast to bottom in December 2020 at 96.2 for TOPIX. Given 12 times PE ratio as the lower end of the stock valuation, around 1200 in TOPIX, which was the latest bottom hit in March seems reasonable as a solid supporting level. (Page 19,22)

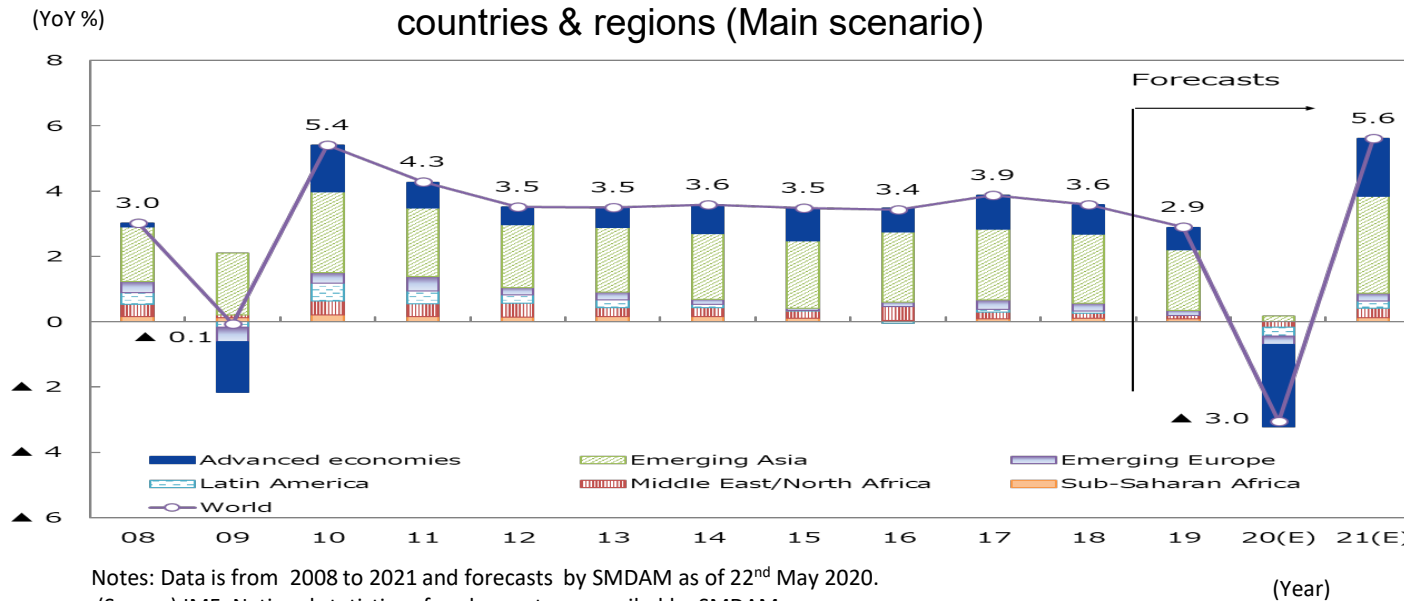


# Outlook for Japanese Economy

# Outlook for the global economy

- SMDAM down-revised global real GDP forecast for 2020 from -2.1% to -3.0% as a main scenario, due mainly to worse than expected emerging economies and lower than expected medical consumption as medical services other than COVID-19 were put aside.
- GDP forecast for 2021 was up-revised from 5.0% to 5.6%.
- Life with COVID-19 continues until effective vaccine is developed and become available worldwide. Global economy is expected to show recovery from June, however, the pace of recovery is going to be mild and with some setbacks when COVID-19 infection sporadically increases.

Global GDP forecast and contribution by countries & regions (Main scenario)



Notes: Data is from 2008 to 2021 and forecasts by SMDAM as of 22<sup>nd</sup> May 2020.  
 (Source) IMF, National statistics of each country, compiled by SMDAM.

# Global economy is gradually restarting by lifting of lockdowns

- Apple provides Mobility Index Data, which tracks level of peoples mobility. SMDAM made analysis between this Mobility Index and each nation's released GDP, which is used for estimating the latest GDP status corresponding to the latest Mobility Index Data.
- In this estimation, GDP for top 30 countries (excluding China) hit bottom in 13<sup>th</sup> April deviating -11.9% from the baseline, and then recovered by +4.5% to -7.4% by 19<sup>th</sup> May, the latest date of available Mobility Index.
- People's mobility and estimated GDP are recovering comparatively faster in countries such as France, Germany and US, which experienced severe impact from COVID-19 and also started lifting of lockdowns relatively early.
- Japan has been forming a bottom from late April and the bottom level, -7.9% was noticeably milder than double digits in other countries, which was because lockdown in Japan was softer than other countries. Recovery of Japan's mobility and GDP is forecast to gather pace going forward since easing of lockdowns has just started from late May.

## Estimated GDP % change from the baseline before the pandemic (based on Apple Mobility Index)

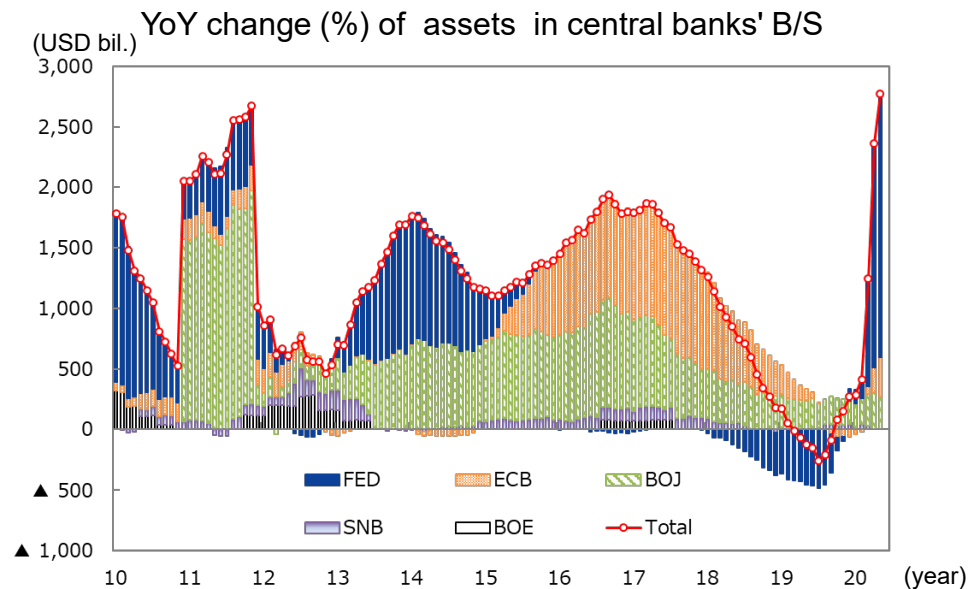
	Top 30 in GDP ex. China	United States	Japan	Germany	United Kingdom	France	Italy	Spain	South Korea
Date of bottom (Y/M/D)	2020/4/13	2020/4/5	2020/4/23	2020/3/26	2020/4/2	2020/3/27	2020/3/28	2020/4/5	2020/3/5
a) Bottom (% chg.)	▲ 11.9	▲ 11.4	▲ 7.9	▲ 12.2	▲ 14.3	▲ 16.6	▲ 17.1	▲ 17.6	▲ 11.9
b) 19th May (% chg.)	▲ 7.4	▲ 5.0	▲ 7.0	▲ 4.4	▲ 10.4	▲ 7.8	▲ 12.0	▲ 13.5	▲ 9.0
b)-a)	+ 4.5	+ 6.4	+ 0.9	+ 7.8	+ 3.9	+ 8.8	+ 5.1	+ 4.1	+ 2.9

Note: SMDAM analyzed correlation between 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.

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

# Global central banks are in emergency mode

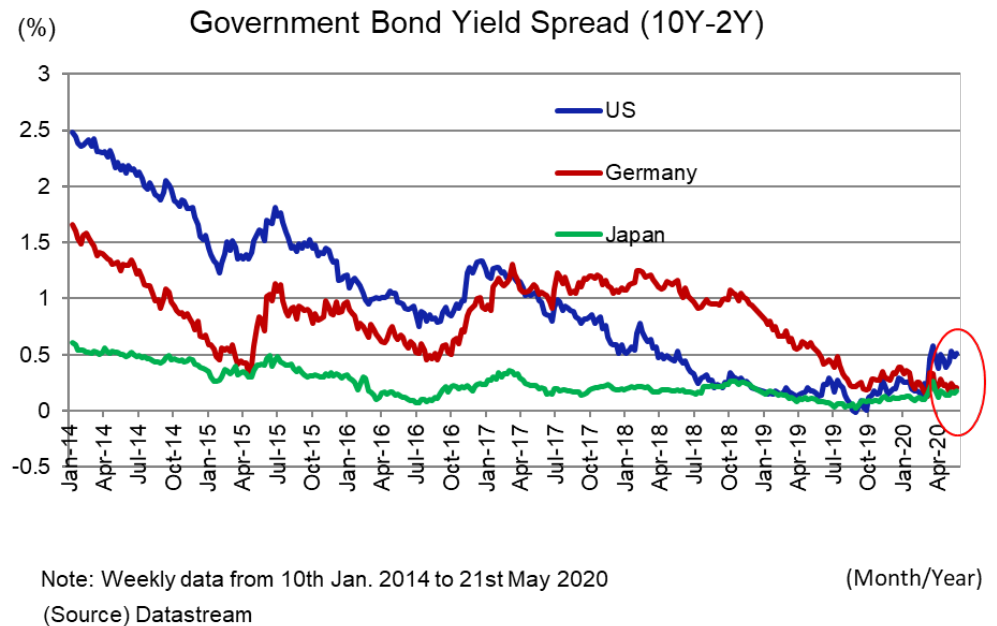
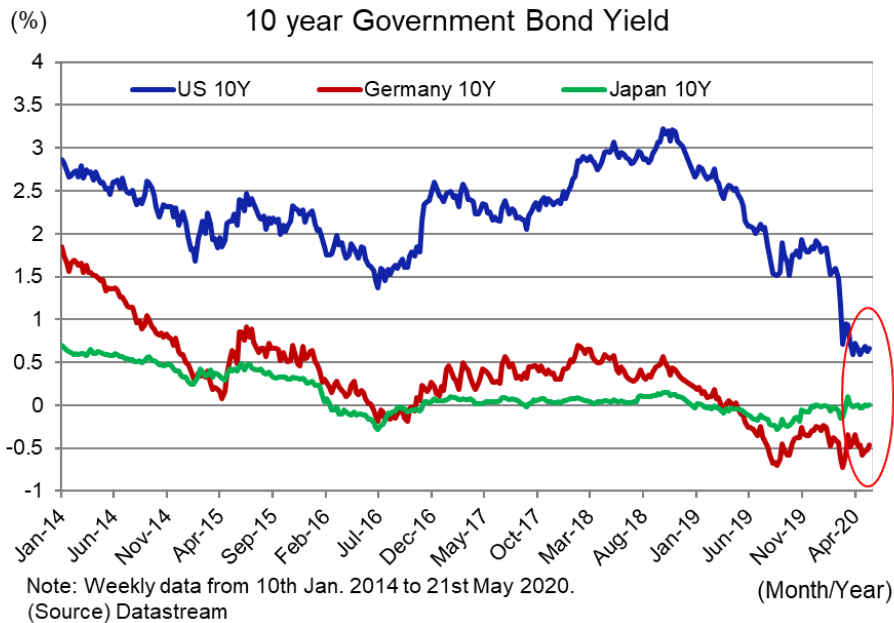
- Central banks are determined to do almost everything they can do in order for avoiding financial meltdown stemming from COVID-19 pandemic. Another focus is on providing lifelines to households and businesses gasping for cash in the face of job losses and evaporating sales. FRB started to purchase corporate 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 22<sup>nd</sup> 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.



Note: Data is from Jan 2010 to 20<sup>th</sup> Mar 2020.  
(Source) Bloomberg, each central bank, compiled by SMDAM.

# Volatility in long-term yields has calmed down

- Global bond markets have stabilized owing to very much pro-active monetary easing by central banks including massive quantitative easing by FRB in US.



# SMDAM Japanese economic outlook for FY20-21

- SMDAM down-revised GDP forecast from -4.8% to -6.1% as the nationwide state of emergency was extended by 3 weeks in May. Forecast for FY 2021 was revised upward from +2.7% to +3.6%.
- Until an effective vaccine is developed and become available worldwide, life with COVID-19 continues. Japan may be able to show a model case of such life as it requires social responsibilities by individuals not to spread infection.
- In April, Japan once looked destined for a burst of infection similar to US, however, number of infection cases significantly calmed down in May and number of fatalities per 100 thousand population is less than 1, which is in a league of the smallest in world comparison. Japan has achieved this without strong compulsory lockdowns but request based soft lockdowns.

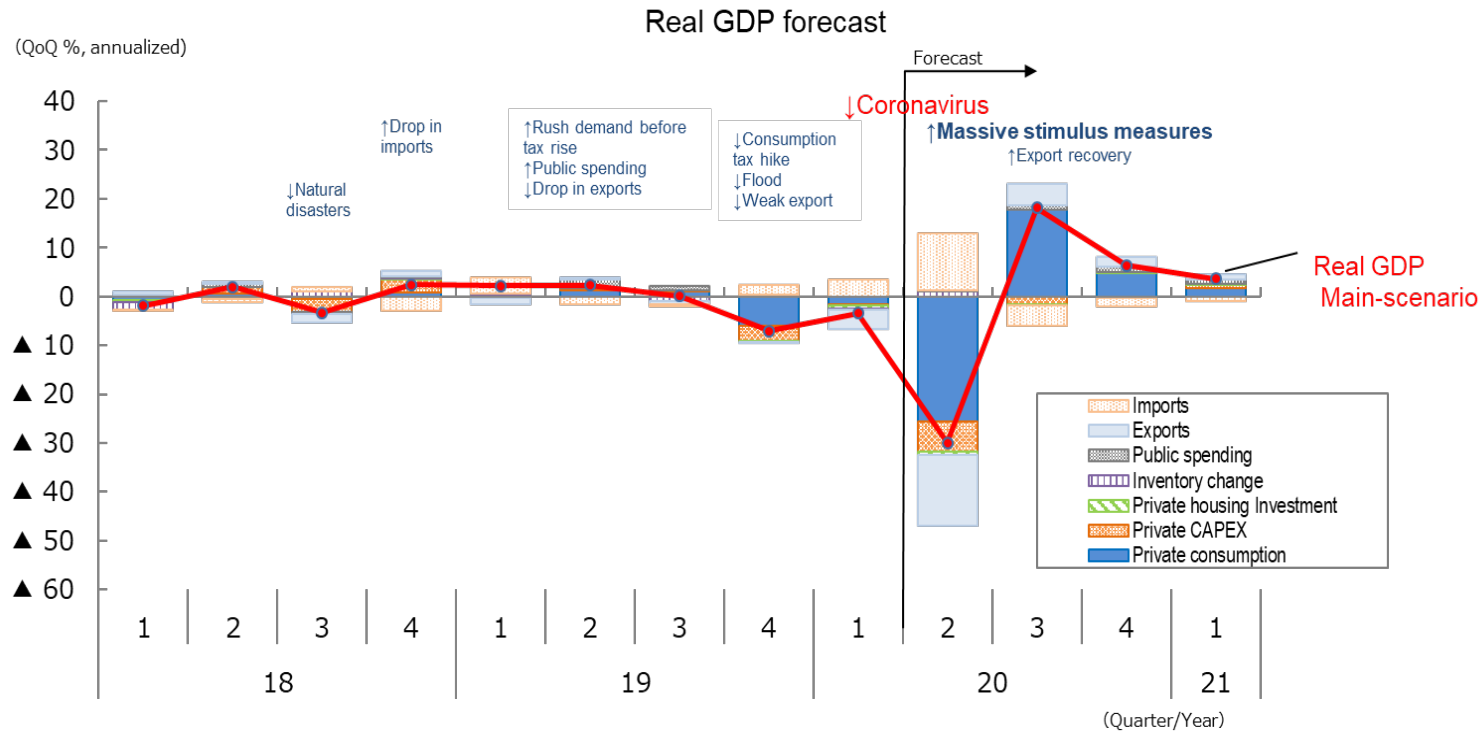
(YoY %)	FY16	FY17	FY18	FY19	FY20E	FY21E
Real GDP growth	0.9%	1.9%	0.3%	-0.1%	-6.1%	3.6%
Private Consumption Expenditure	0.0%	1.1%	0.1%	-0.6%	-6.6%	4.2%
Private Housing Investment	6.3%	-1.4%	-4.9%	0.3%	-9.4%	3.4%
Private Capital Investment	-0.4%	4.3%	1.7%	-0.9%	-13.8%	2.7%
Public Consumption Expenditure	0.7%	0.3%	0.9%	2.4%	1.8%	1.2%
Public Capital Investment	0.6%	0.5%	0.6%	3.3%	2.1%	5.4%
Net Exports (contrib. to GDP growth)	0.8%	0.5%	-0.1%	-0.2%	-0.6%	0.2%
Exports	3.7%	6.4%	1.7%	-2.7%	-19.5%	9.0%
Imports	-0.9%	3.9%	2.5%	-1.7%	-15.6%	6.9%
Nominal GDP	0.8%	2.0%	0.1%	0.7%	-4.4%	4.1%
GDP Deflator	-0.2%	0.1%	-0.2%	0.8%	1.7%	0.5%
Industrial Production	0.8%	2.9%	0.3%	-3.6%	-14.4%	6.7%
CPI (excl. fresh food)	-0.2%	0.7%	0.8%	0.4%	-0.9%	-0.1%

Note: E=SMDAM forecasts. SMDAM views are as of 22<sup>nd</sup> May 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 dip sharply in 2Q of 2020

- Japanese GDP for Jan-Mar quarter was -3.4% (QoQ % annualized), slightly better than preceding forecast. However, SMDAM's forecast for Apr-Jun GDP was further revised-down from previous -22.5% to -29.9% (QoQ % annualized) due to underlying weakness in economic activities, followed by Jul-Sep recovery at +18.1% as restriction on peoples mobility is going to be lifted.
- Fiscal stimulus measures currently amounting to 117 trillion yen is going to be further added.



Note: SMDAM views are as of 22<sup>nd</sup> May 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

- Fiscal stimulus measures to combat COVID-19 pandemic amount to 117 trillion yen, among which real budget spending is also large at 48.4 trillion yen. Further top-up is expected as life with COVID-19 continues.
- Most of the spending is for maintaining employment and businesses, for which budget spending size is 30.8 trillion yen. For individuals, 100 thousand yen per head is going to be distributed to all residents and also zero interest rate loans for businesses are going to be provided. However, speed of implementing measures is too slow. For many businesses, especially small ones in service industries, sales have declined typically by 80% or 90% and they are desperate for cash. Swift rescue operation is really required.

(Trillion yen)

**Fiscal stimulus measures in Japan**

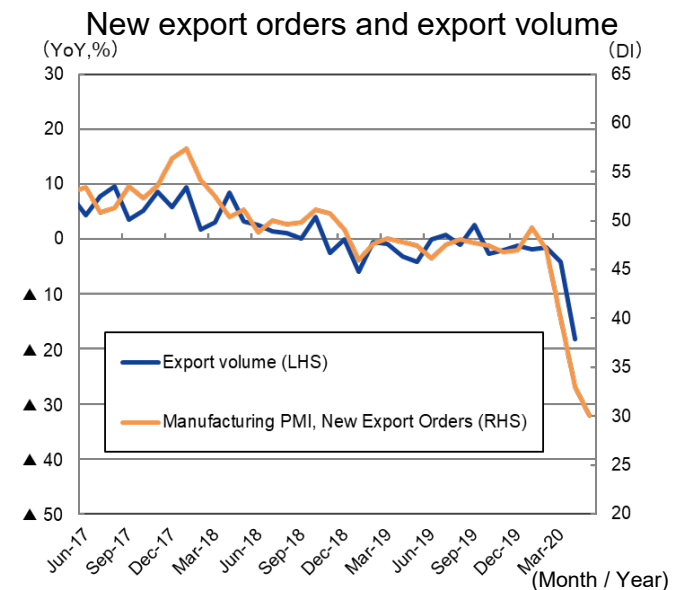
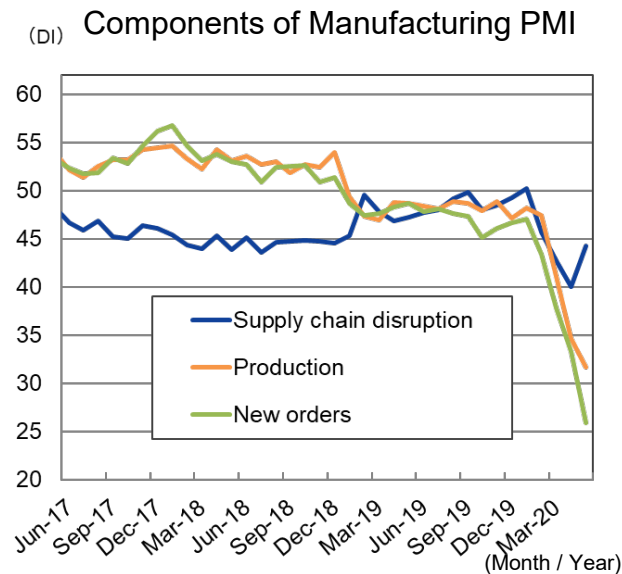
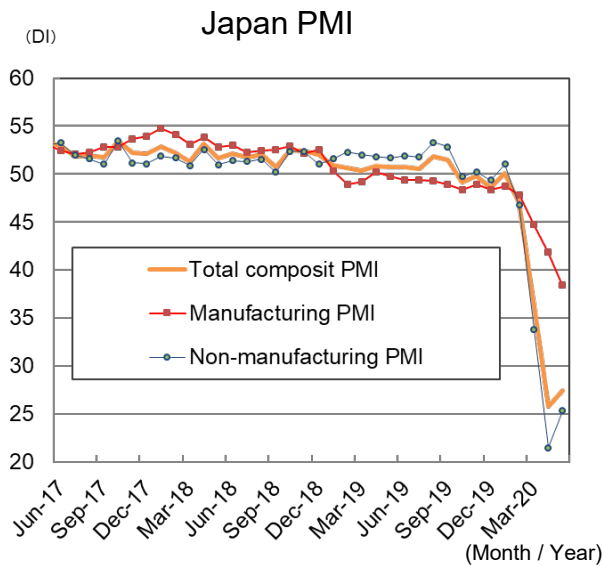
	Total size of the project				
		Fiscal budget spending			
		Central & local government budget	Fiscal Investment & Loan Program		
			FY2020 supplementary budget		
1) Enhancing quarantine & medical treatment, and developing drug & vaccine	2.5	2.5	2.5	1.8	-
<b>2) Maintaining employment and businesses</b>	<b>80.8</b>	30.8	21.1	<b>19.5</b>	9.7
3) Spending for boosting economic recovery	8.5	3.3	2.8	1.8	0.5
4) Enhancing economic & social platform	15.7	10.2	8.0	0.9	2.3
5) Reserve for additional measures	1.5	1.5	1.5	1.5	-
<b>Total</b>	<b>117.1</b>	48.4	<b>35.8</b>	<b>25.7</b>	12.5

Note: As of 24<sup>th</sup> Apr. 2020

(Source) Cabinet Office, compiled by SMDAM

# Business sentiments show varied impact and future prospects

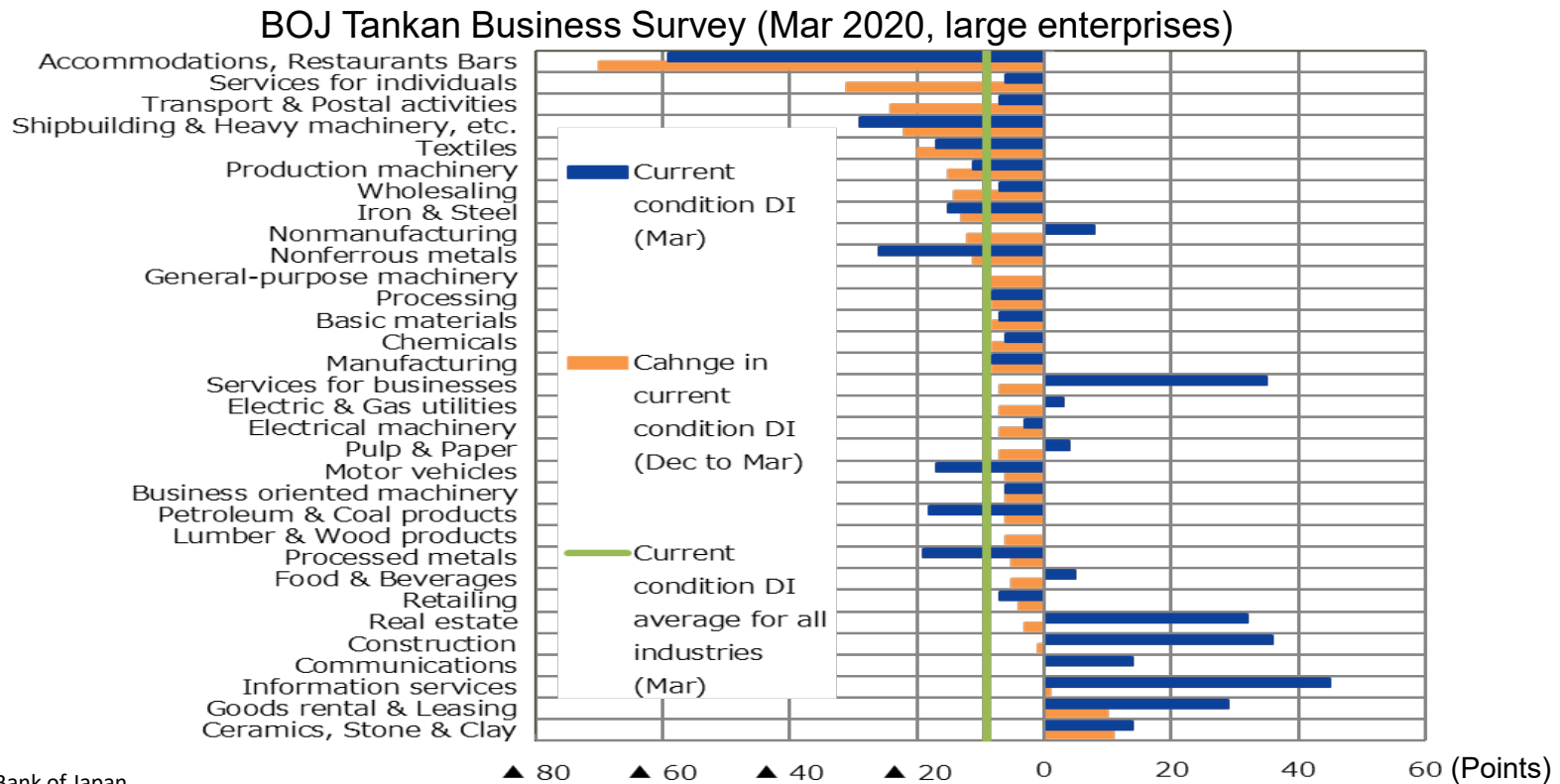
- Non-manufacturing PMI rebounded in May though still at much depressed level. May 2020 survey was made between 12<sup>th</sup> and 19<sup>th</sup> May and prospect of lockdown lifting should have supported this rebound.
- Manufacturing PMI continued to decline in May. Looking into components, supply chain disruption has eased, probably due to manufacturing activities restarted in Main Land China and Taiwan. However, New orders showed large decline as well as production.
- Demand from overseas is still depressed and it will take a while until exports start to come back.



Note: Data is from Jun. 2017 to May. 2020.  
Source: IHS Markit, BOJ, compiled by SMDAM.

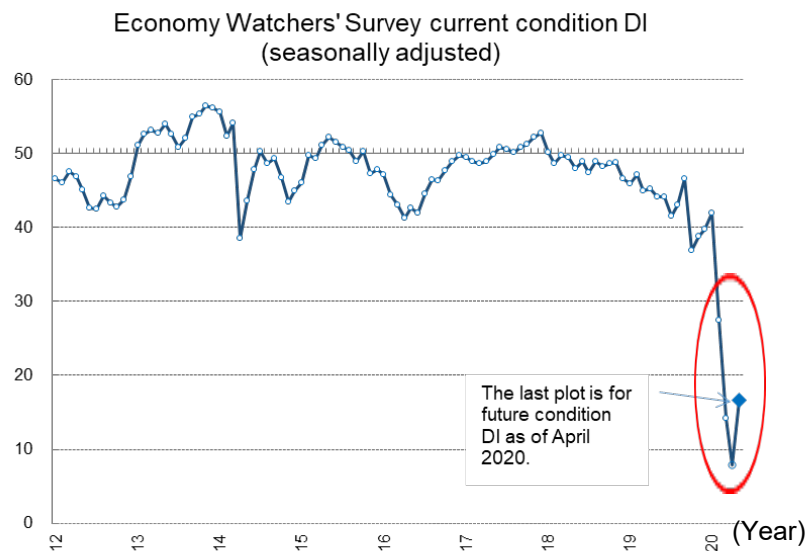
# BOJ Tankan Business Survey shows varying impact of COVID-19

- BOJ Tankan Business Survey in March showed clear impact of COVID-19 pandemic on various industries' business sentiments. Worst affected were such as "Accommodation, restaurants & bars", "Individual services", "Transport" and "Textiles" all severely affected by people staying at home. On the other hand, "Communication" and "Information services" were positive examples, for which increase in remote-working is beneficial.



# Economy Watcher Survey hit historical low

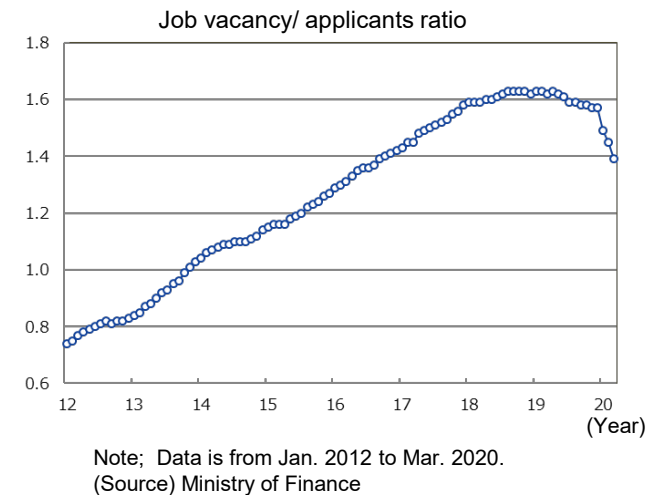
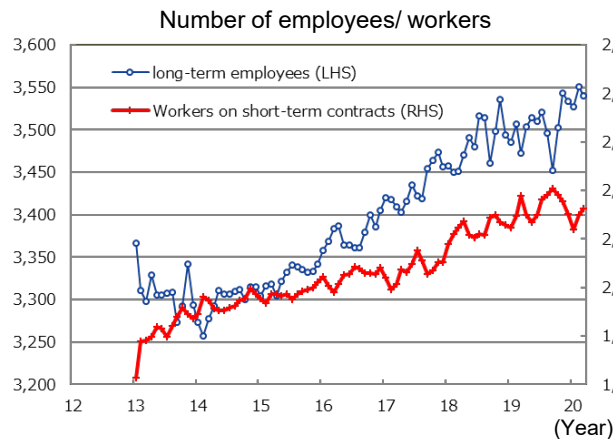
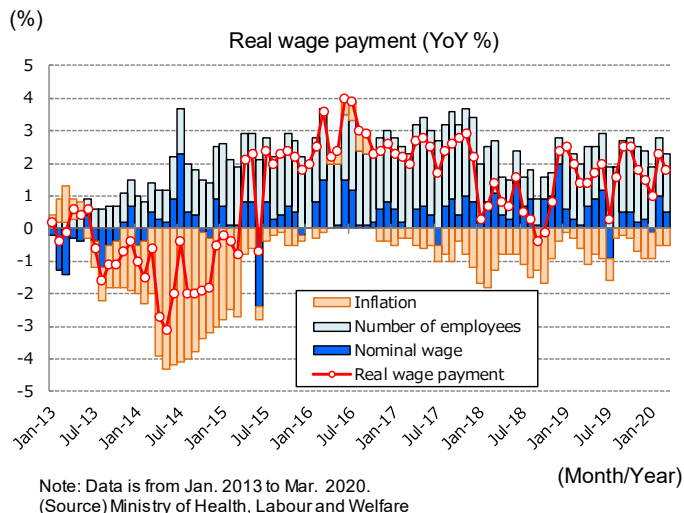
- Economy Watcher Survey covers people working at economic sensitive jobs. April current condition DI sharply deteriorated from the previous month and renewed a historical low at 7.9 point.
- Future condition DI was 16.6, higher than the current condition DI, which probably implies that people are expecting the worst to be over in the coming 2 to 3 months when COVID-19 pandemic gradually eases.
- The state of emergency was lifted in many areas and still continuing Tokyo & surrounding prefectures as well as Hokkaido will also see lifting of the state of emergency and loosening of restrictions on peoples mobility soon.



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

# Employment in Japan is still holding

- As a long-term trend, total wage payment in Japan keeps growing due mainly to increasing number of employees. Number of female workers are further increasing and also elder people are extending retirement age. This picture has not changed so far until March despite the fact that Japan has been in an economic contraction since October last year due to consumption tax hike and natural disasters.
- However, COVID-19 has caused a severe economic contraction and employment is under a strong stress. Job vacancy / applicants ratio further declined in March as a worrying sign.
- More than 40% are working on a short-term contract basis and vulnerable to current difficult economic environment.



# COVID-19 pandemic is overwhelming other events

- Attempts to loosen lockdowns will have most influential developments in the coming months.
- At the National People's Congress, China announced its intention of tightening governance on Hong Kong, which is worrying. Political conflicts surrounding China could see a resurgence.

## Upcoming key events

Month	Region/Country	Events	Notes
2020 May	US-China	25 Report on Hong Kong Human Rights and Democracy Act	Concern of rising conflicts surrounding China.
	China	22- National People's Congress	
	US	Loosening lockdown begins.	
	Japan	Cash payment is made to all residents in Japan	
June	Japan	1 Lockdowns are lifted and people's activities gradually come back. End of the government led incentive program for cash-less payments. 15-16 BOJ Monetary Policy Committee Meeting	
	US	9-10 FOMC meeting	
	G7	G7 summit meeting in US	
	Middle East	OPEC meeting	
July	Japan	1 BOJ TANKAN business survey (June survey)	
		Election for Tokyo Metropolitan Governor	
August	US	National Convention (17-20 Democrats, 24-27 Republicans)	
September	US	Debates begin between US presidential candidates	
November	US	US presidential 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

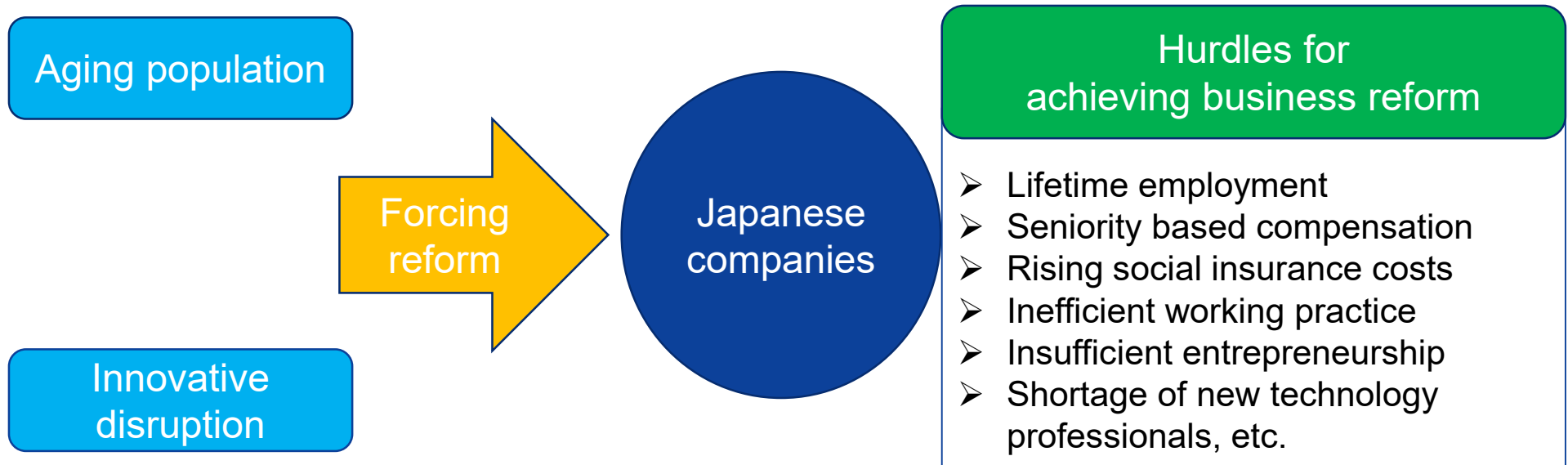
Note: All numbers are rankings among 137 economies. Top 10 rankings are highlighted in green. Japan's relative weakness is highlighted in orange.

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

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



# Outlook for Japanese Stock Market

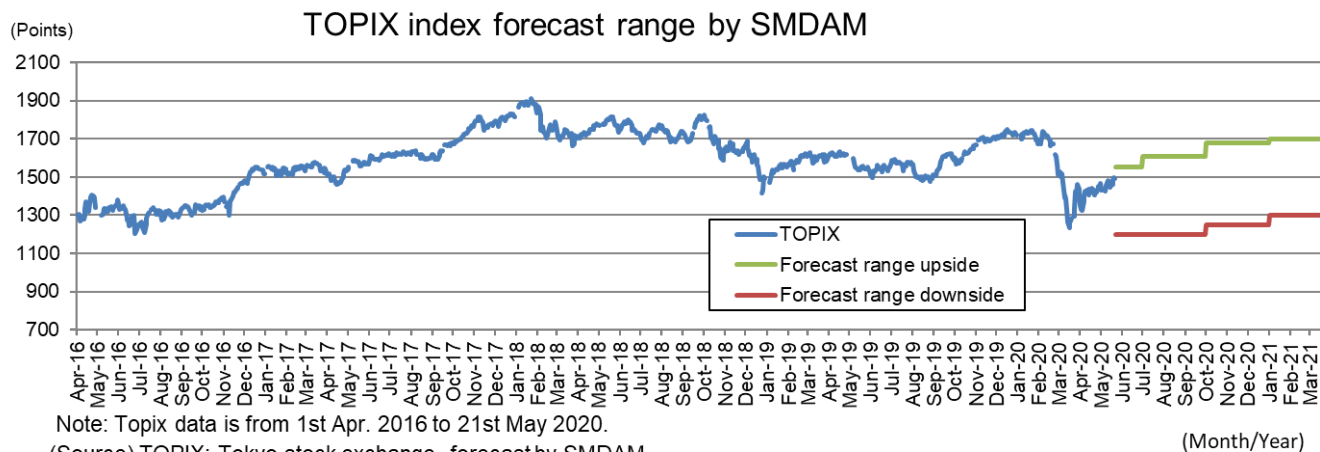
# Gradually lifting lockdowns will provide positive feelings

## ■ SMDAM short-term view

- Soft lockdown in Japan is going to be lifted from the remaining 5 prefectures including Tokyo at the end of May and gradually improving economic activities will support the stock market. Stock valuation has rebounded to a mid point of the historical range in PE Ratio and considering further down-revision in earnings forecast, stock market has got a little optimistic, which could limit further upside for a while.

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

- Lockdowns are gradually eased in advanced economies. Recovering economic activities will provide positive feelings and also massive amount of money created by monetary easing and fiscal aid is stimulating price of financial assets. SMDAM simulated 12M forward EPS forecast to bottom in December 2020 at 96.2 for TOPIX. Given 12 times PE ratio as the lower end of the stock valuation, around 1200 in TOPIX, which was the latest bottom hit in March seems reasonable as a solid supporting level.



Note: SMDAM's projection is as of 22<sup>nd</sup> May 2020 and subject to updates without notice.

# Base scenario & Upside / Downside risks for our forecasts

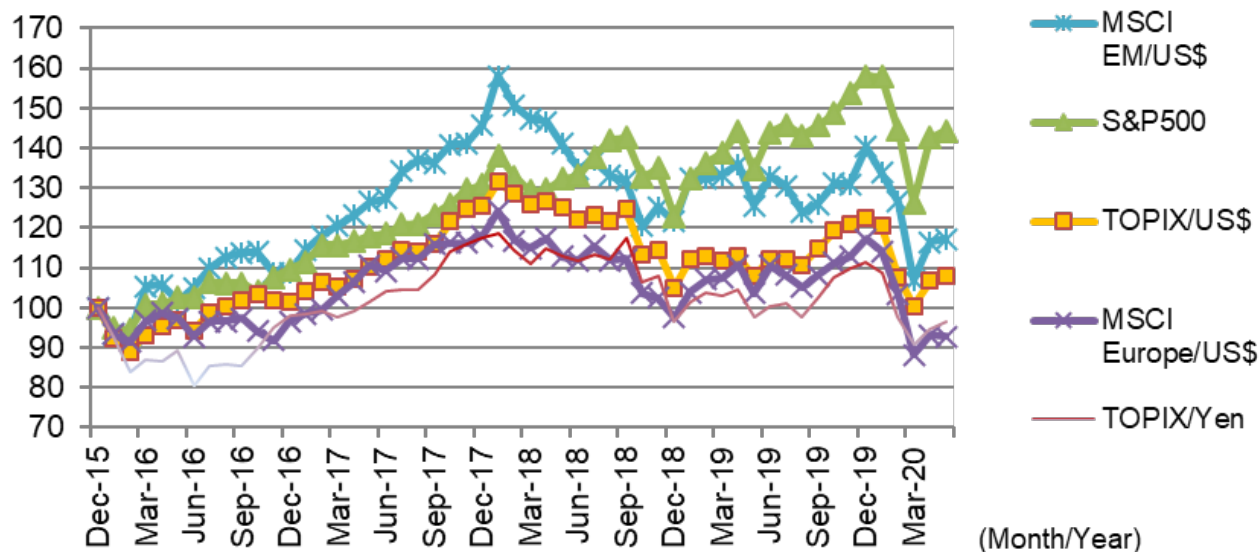
- Our **Base Scenario** is assuming the following views:
  - Lockdowns are lifted in 2Q 2020 and COVID-19 pandemic is largely contained by summer.
  - Tokyo avoids hard lockdown and pandemic's impact on economic activity in Japan stays less severe than US or Europe.
  - Severe tensions between US and 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 globally.
- **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:
  - COVID-19 pandemic continues throughout 2020. China, once seemed to have contained the virus, forced to lockdown cities again. Resurgence of COVID-19 infection forces lockdowns globally again.
  - Global economy falls into a serious 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.

Note: SMDAM's projection is as of 22<sup>nd</sup> May 2020 and subject to updates without notice.

# Global stock markets have bounced on loosening lockdowns

- Global stock market bounced back in April and further edged up on loosening lockdowns.
- For the performance for May so far, there was no big difference among the stock markets depicted on the chart below.

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

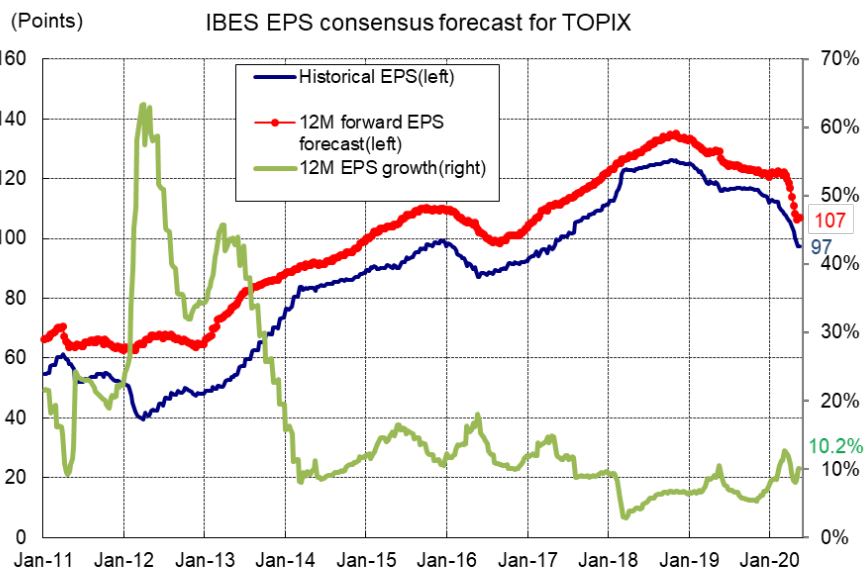


Notes: Data is up to 21st May 2020.

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

# Downward earnings revision continues

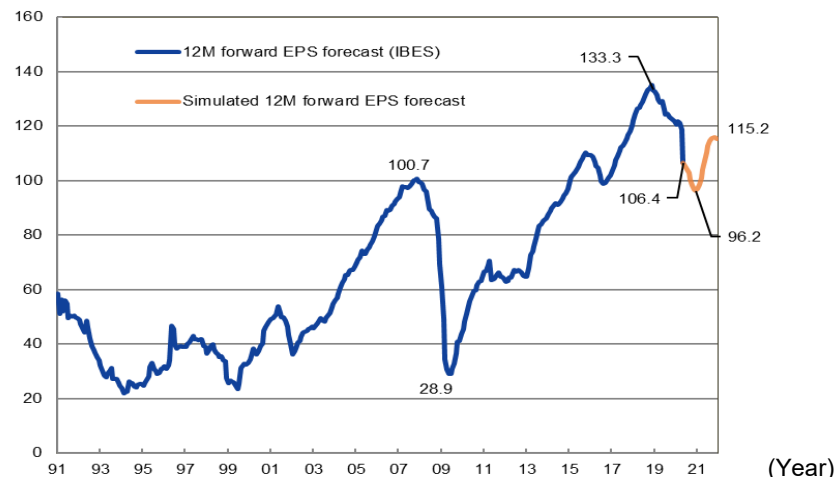
- Analysts are down-revising EPS forecast and the consensus forecast by IBES fell to 107 for TOPIX as of 15<sup>th</sup> May, which is shown on the left hand chart.
- On the right hand chart, SMDAM has made a top down estimation of how 12M-EPS could move until Dec 2021 based on SMDAM's main economic scenario, which assumes that COVID-19 calms down and lockdowns are gradually lifted. The global economy starts recovering from June, however, cautious life with COVID-19 continues. Result of the simulation could vary widely depending on the applied economic scenario, however, as an example, 12M-EPS is estimated to decline to 96.2 in December 2020 and then start to make recovery. Simulated 12M-EPS is 115.2 for Dec 2021.



Note: Weekly data from 7th Jan. 2011 to 15th May. 2020. (Month/Year)

(Source) Datastream, IBES

A simulation of estimated 12M forward EPS for TOPIX

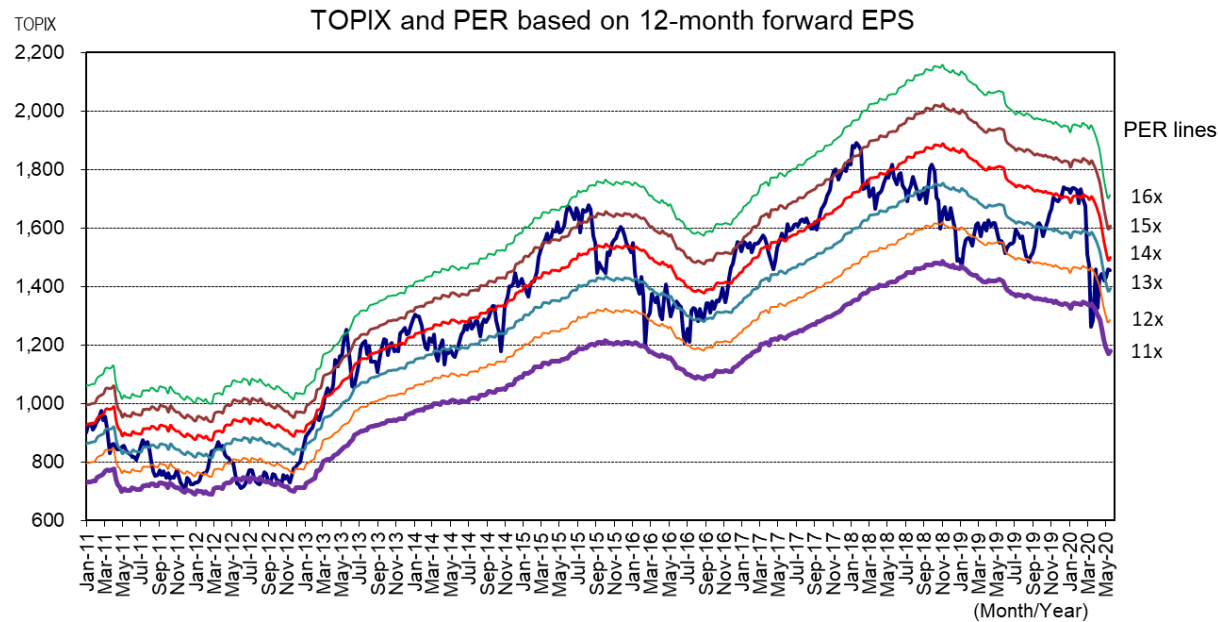


Note: The simulation is based on SMDAM original trade momentum index and IBES consensus 12M forward EPS forecast. Future EPS forecast was exponentially estimated by the course of future trade momentum set by SMDAM's economists using main economic scenario. IBES data is as of 1<sup>st</sup> May 2020.

(Source) IBES, simulation by SMDAM

# Japanese stock market looks fairly valued considering SMDAM's main scenario

- PE ratio (PER) for TOPIX bounced back from the recent slump under 11 times and, at the end of March, came back to 12 times which had been the lower end of the trading range since 2013. TOPIX edged up so far in May and PER increased to mid 13's level, which is the mid point of the historical range.
- Assuming the simulated 12M-EPS on the previous page and taking 96.2 as the bottom, and also assuming the lower end of the historical trading range of 12 times PER, corresponding TOPIX is calculated as 1154.4 and the latest bottom around 1200 in March seems solid supporting level for TOPIX. Stock prices tend to overshoot and SMDAM's economic scenario could be wrong, but this could be of some help in thinking about stock market valuation.

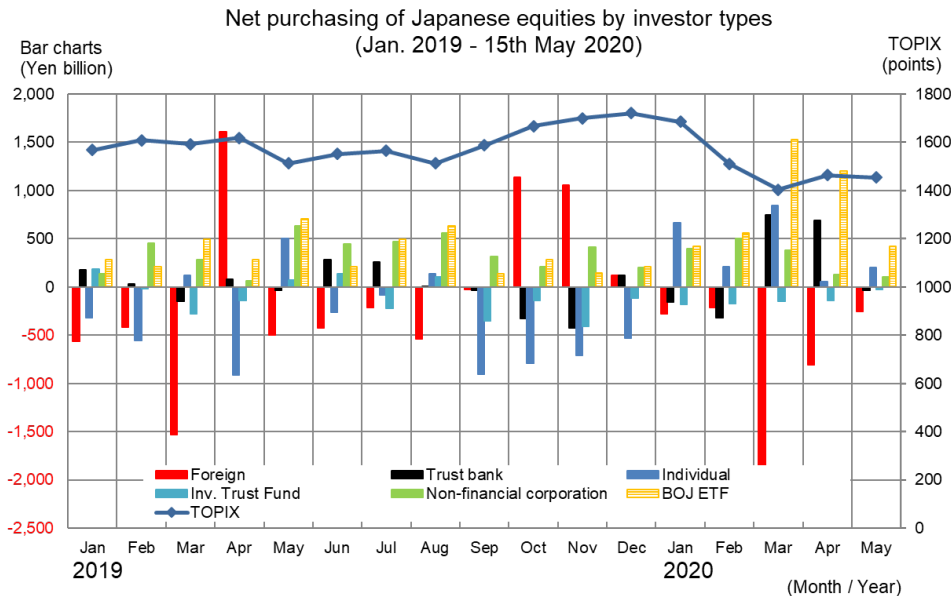


Note: Data is weekly from 5th Jan. 2011 to 15th May 2020. TOPIX was 1453.77 at the end of the period.  
(Source) Tokyo Stock Exchange, Datastream and IBES, compiled by SMAM

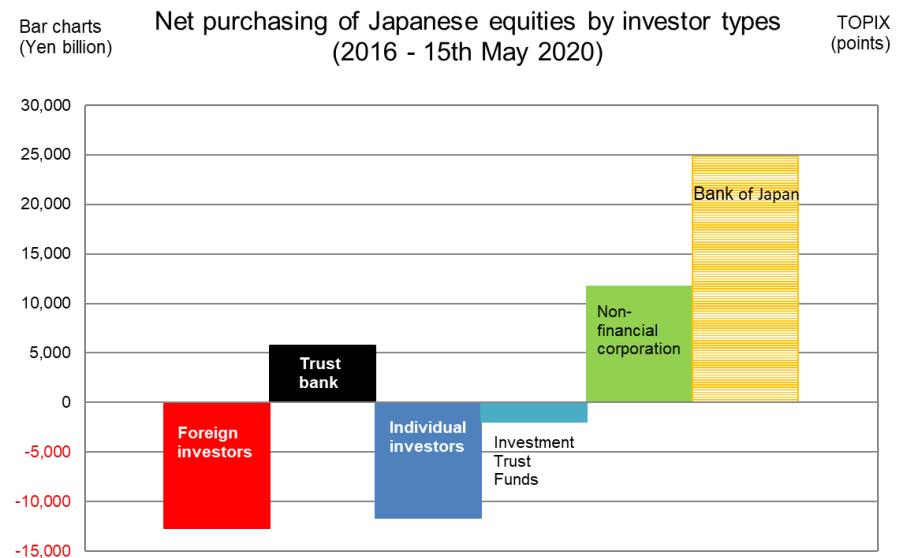


# Individuals have been active in this year

- Selling from foreign investors continued.
- BOJ has scaled-up purchasing via ETF in March and April, however, calmed down in May due to long holiday period and also solid going of the Japanese stock prices.
- Individual investors have been actively purchasing since the start of 2020.



Note: Data is for Tokyo stock exchange and Nagoya stock exchange up to 15th May 2020.  
 BOJ ETF figure is officially released data from BOJ.  
 (Source) Japan Exchange Group, Bank of Japan



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 BOJ ETF figure is officially released data from BOJ.  
 (Source) Japan Exchange Group, Bank of Japan

# 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

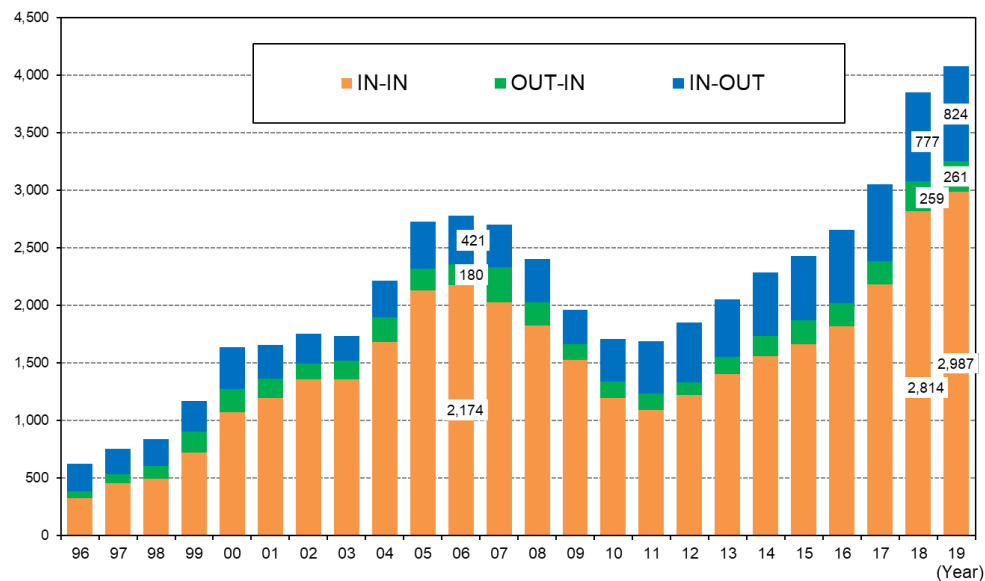
Note: As of 13th Mar. 2020.

(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.

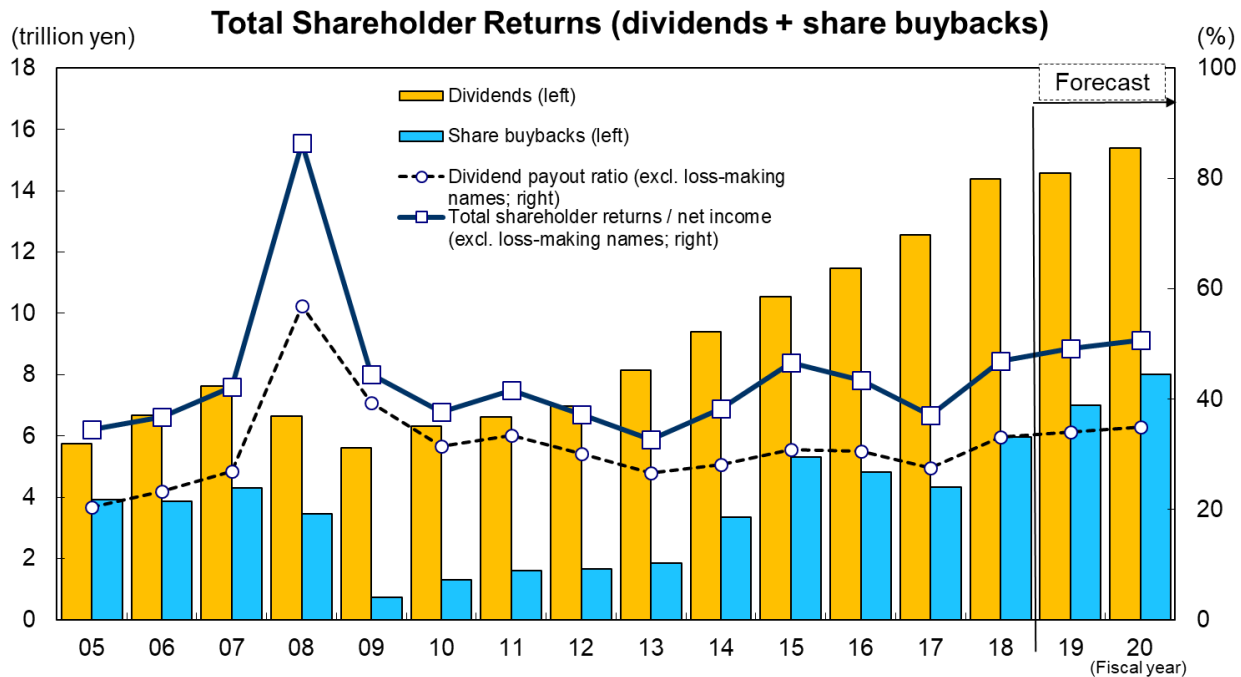
Number of M&A deals involving Japanese companies  
(Excluding transactions among the same business group)



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 FY2018 and expected to increase further in FY2019 and onwards, however, the negative impact of COVID-19 has not yet been fully reflected.



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

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