



# Outlook for Japanese Economy & Stock Market

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

-October 2020-

# Executive summary

## ➤ Japanese Economy

PM Suga and his cabinet made a good start with approval rating soaring to 74% in a survey made by NIKKEI, which is comparable to the highest rating given to ex PM Abe's cabinet in March 2013. PM Suga's cabinet is made of experienced and capable members. PM Suga is going to seamlessly succeed emergency policies fighting with COVID-19. He also stresses his priority on deregulation & digitization of the government and also on enhancing transformation of Japanese industries by such as supporting start-ups. (Page 9)

- 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 in phase 1, which is a start of a new economic cycle. (Page 4)
- GDP for Apr-Jun quarter (QoQ % annualized) was officially revised-down from -27.8% to -28.1%, which has little impact for the forecast for 2020. SMDAM's quarterly GDP forecast was mildly revised-up for 4Q 2020, 1Q and 2Q 2021 reflecting mild upward revision made for US and other developed economies. (Page 12)

## ➤ Japanese Stock Market

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. (Page 20)

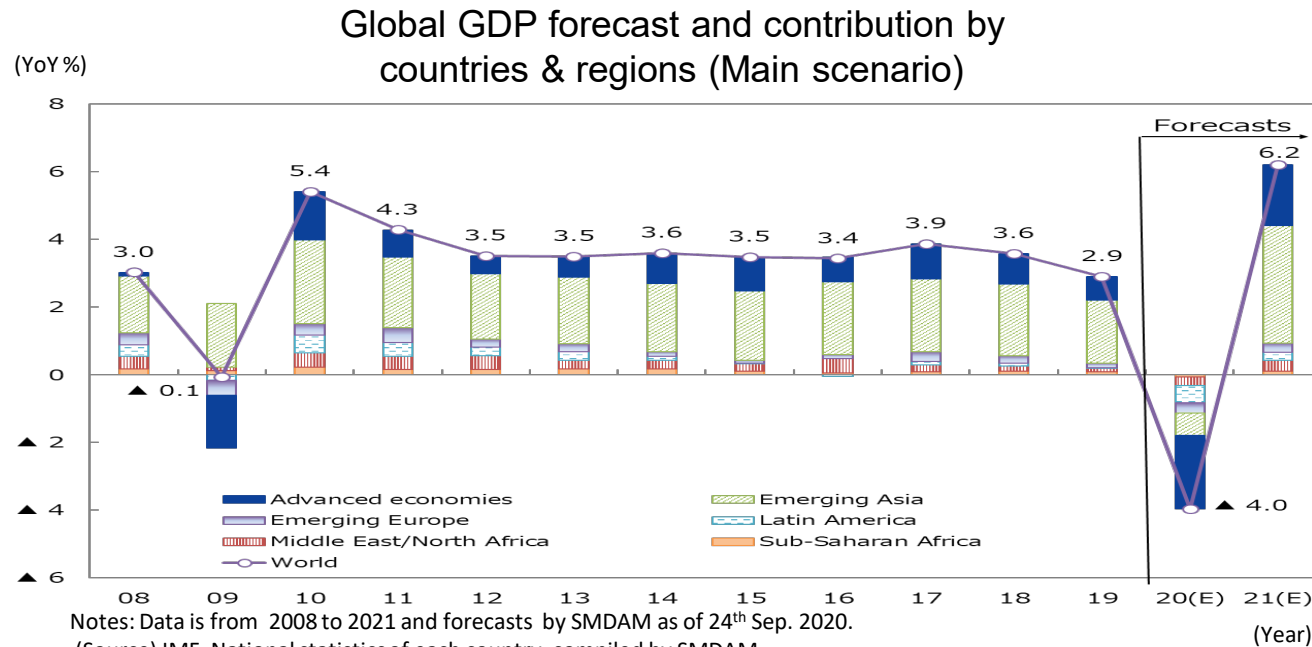
- After digesting Apr-Jun quarterly earnings announcements, 12M EPS consensus forecast stopped deteriorating and bounced back lately. (Page 23)



# Outlook for Japanese Economy

# Outlook for the global economy

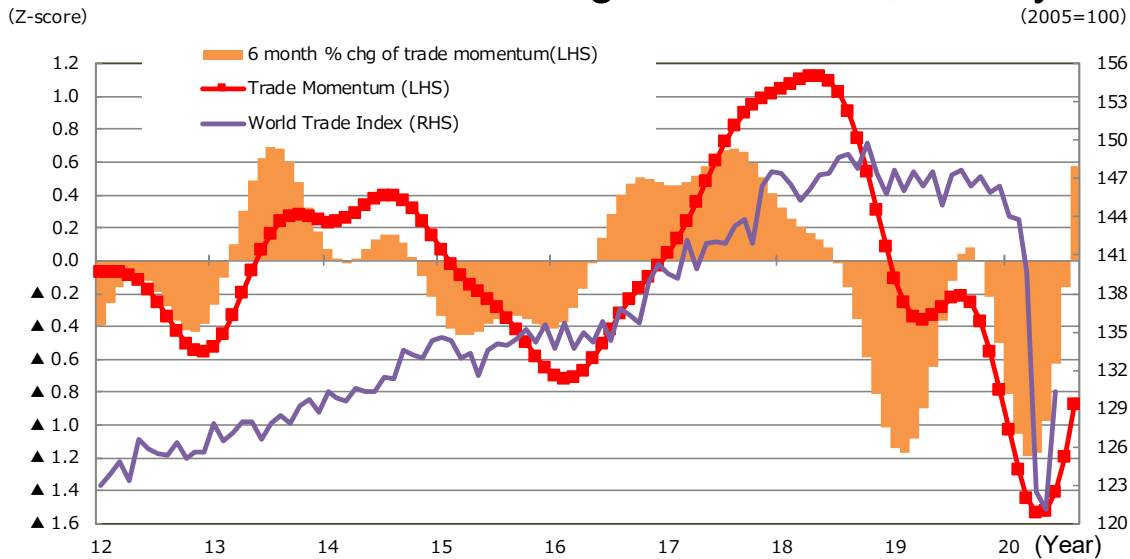
- SMDAM revised-down global real GDP forecast for 2020 from -3.6% to -4.0% as a main scenario, due mainly to cut in India, which is suffering from spreading COVID-19, more than offsetting slight upward revision for US and Europe. GDP forecast for 2021 was revised-up from 5.9% to 6.2%.
- Life with COVID-19 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 indicates a start of a new economic cycle

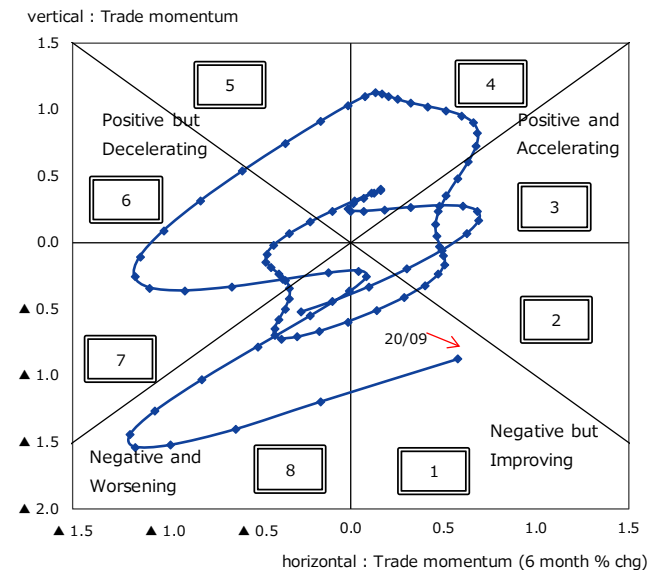
- SMDAM has developed trade momentum indicators in order for monitoring economic cycles and estimating in which phase of cycle current position is situated.
- COVID-19 caused a severe negative impact, however, the trade momentum hit bottom in May and substantial recovery is continuing afterwards.
- Phase analysis shows that we are now in phase 1, which is a start of a new economic cycle.

## Trade momentum as a guide for economic cycle



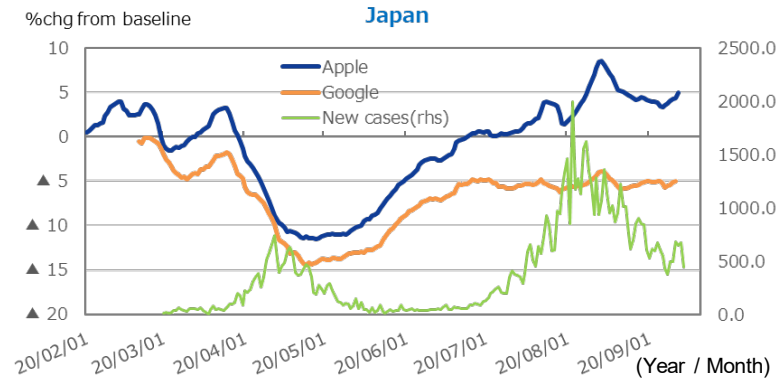
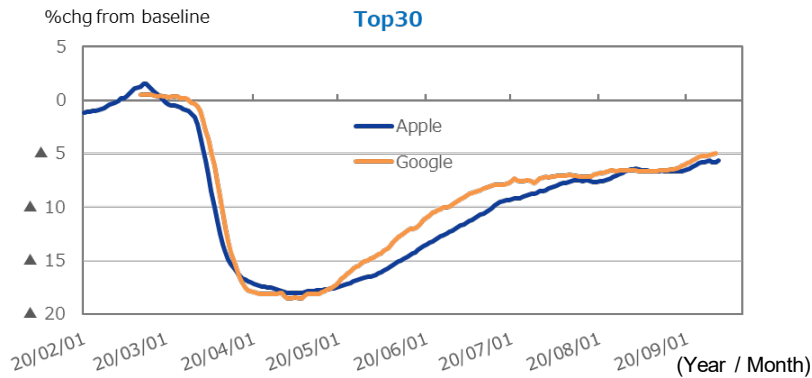
(Notes) Trade momentum is calculated from 16 indicators and compiled by SMDAM. Data is from Jan 2012 to Sep 2020.  
 (Source) Bloomberg, Datastream and other National Statistics.

## Phase analysis



# People's mobility keeps recovering

- Apple based GDP tracker for Japan remains too high compared to the level of economic statistics. Google's mobility index was taken as a main GDP tracker again this month. On the top charts, Google's mobility index shows that recovery continues for top 30 countries meanwhile recovery in Japan seems a little slow.
- For Japan, number of daily new infection cases fell significantly. Go To campaign, which provides financial incentive for tours in Japan, started in August excluding Tokyo as residents and a destination, and now Tokyo is going to be included from October.



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) 11th September (% chg.)	▲ 5.0	▲ 6.0	▲ 5.0	+ 0.9	▲ 7.2	▲ 0.9	▲ 10.9	▲ 1.6	▲ 2.8	▲ 6.7	▲ 6.0	▲ 8.6
b)-a)	+ 13.6	+ 10.6	+ 9.5	+ 21.4	+ 18.7	+ 28.4	+ 15.8	+ 27.6	+ 19.6	+ 3.7	+ 24.4	+ 8.1

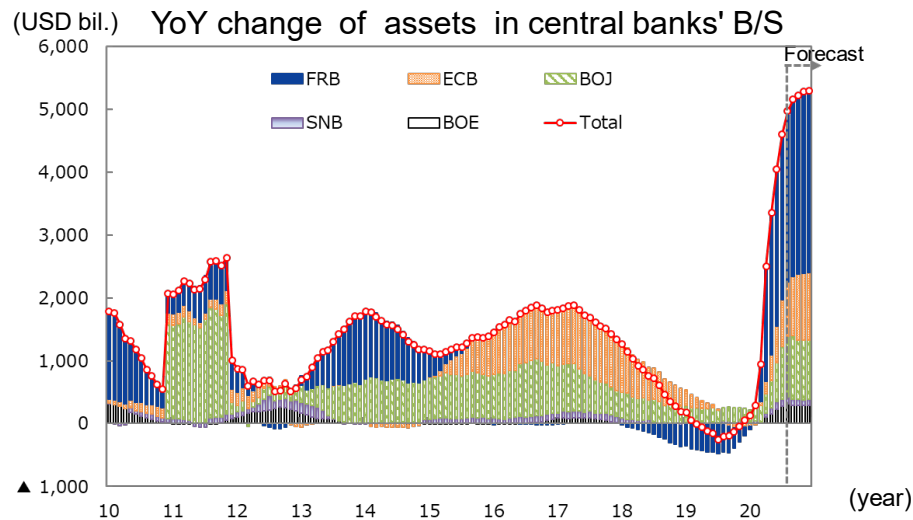
Note: SMDAM analyzed correlation between Google's and Apple's mobility index data and released GDP data, and exponentially estimated the GDP status corresponding to the latest mobility index data in a % change from the baseline GDP, which was the trend line prior to the COVID-19 pandemic.

Google's data is up to 14<sup>th</sup> August, Apple's data is up to 11<sup>th</sup> September and number of new COVID-19 infection cases is up to 14<sup>th</sup> September.

(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.
- FRB strengthened its forward guidance that current policy rate will 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 were maintained in June, July and August. On Thursday 17<sup>th</sup> 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 July 2020. Forecast is up to Dec 2020.  
(Source) Bloomberg, each central bank, compiled by SMDAM.

# SMDAM Japanese economic outlook for FY20-21

- SMDAM revised-up GDP forecast for FY2021 from +2.9% to +3.1% as a result of stronger US and other overseas economies.
- Mr. Suga was elected as the new LDP leader and the Prime Minister. He will continue driving emergency policies made by PM Abe and also pursue stronger policies on achieving deregulation and enhancing economic growth.

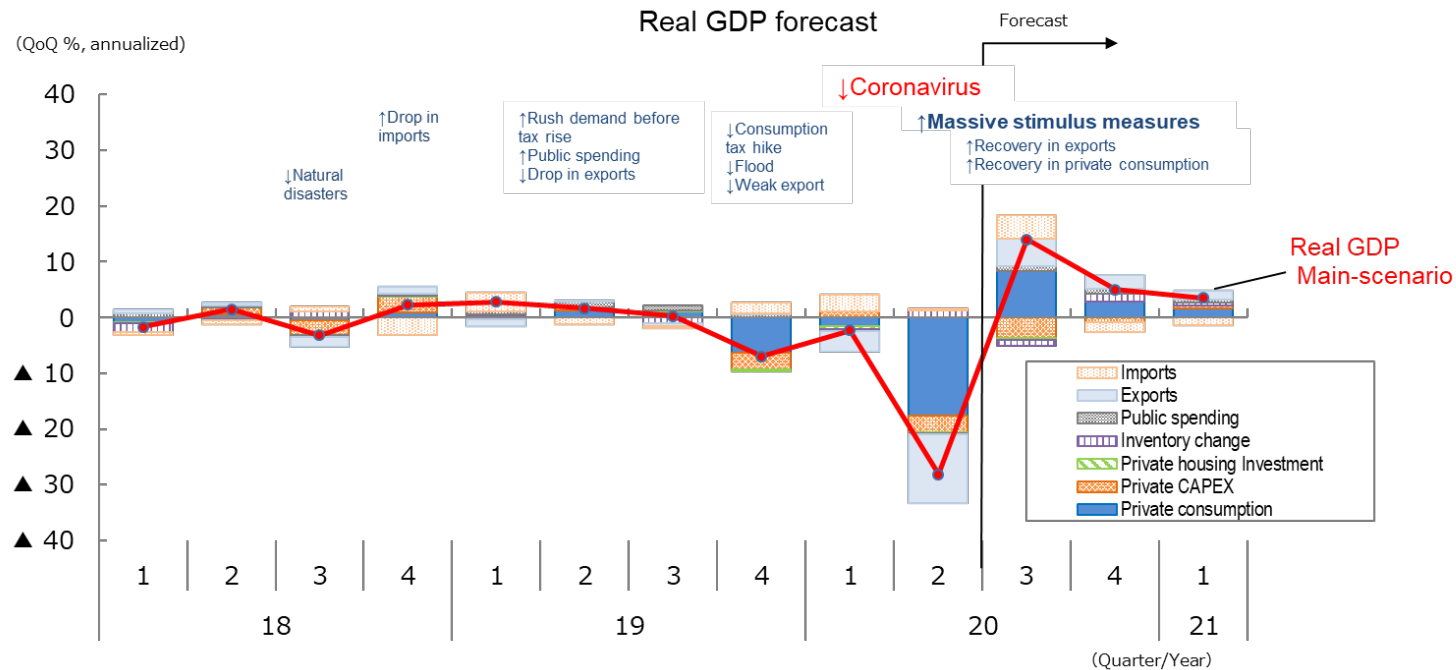
(YoY %)	FY16	FY17	FY18	FY19	FY20E	FY21E
Real GDP growth	0.9%	1.9%	0.3%	0.0%	-6.1%	2.9%
Private Consumption Expenditure	0.0%	1.1%	0.1%	-0.6%	-6.6%	2.5%
Private Housing Investment	6.3%	-1.4%	-4.9%	0.5%	-6.3%	1.6%
Private Capital Investment	-0.4%	4.3%	1.8%	-0.3%	-8.6%	0.5%
Public Consumption Expenditure	0.7%	0.3%	0.9%	2.3%	1.1%	0.9%
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%	-1.4%	0.6%
Exports	3.7%	6.4%	1.7%	-2.6%	-15.4%	8.7%
Imports	-0.9%	3.9%	2.6%	-1.5%	-7.2%	4.1%
Nominal GDP	0.8%	2.0%	0.1%	0.8%	-4.8%	3.5%
GDP Deflator	-0.2%	0.1%	-0.2%	0.8%	1.4%	0.6%
Industrial Production	0.8%	2.9%	0.3%	-3.6%	-13.8%	6.2%
CPI (excl. fresh food)	-0.2%	0.7%	0.8%	0.4%	-0.4%	0.3%

Note: E=SMDAM forecasts. SMDAM views are as of 24th Sep. 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 continue recovering

- GDP for Apr-Jun quarter (QoQ % annualized) was officially revised-down from -27.8% to -28.1%, which has little impact for the forecast for 2020.
- SMDAM's quarterly GDP forecast was mildly revised-up for 4Q 2020, 1Q and 2Q 2021 reflecting mild upward revision made for US and other developed economies.

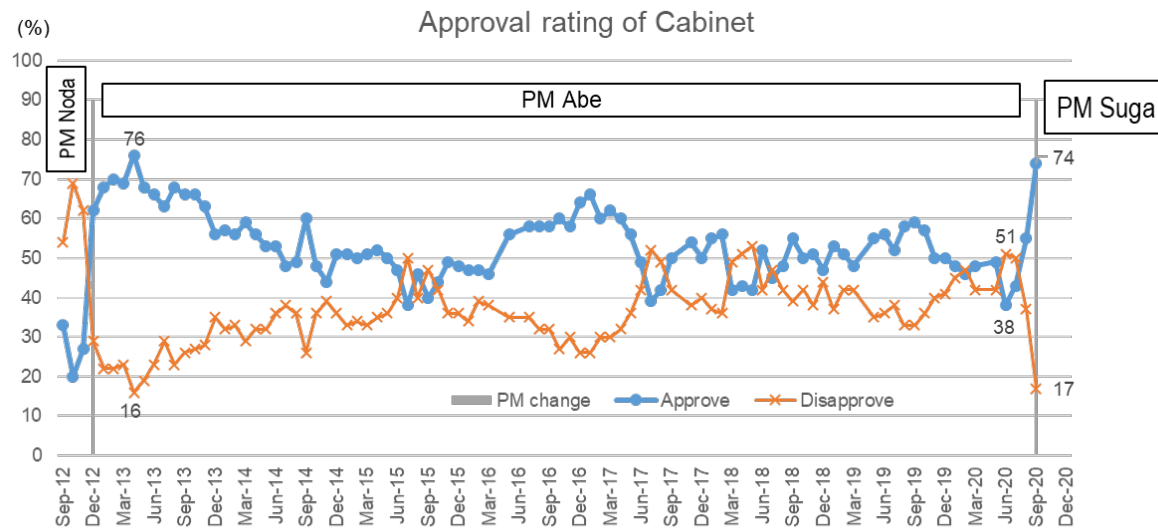


Note: SMDAM views are as of 24<sup>th</sup> Sep. 2020 and subject to updates thereafter without notice

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

# PM Suga made a very good start with high approval rating

- PM Suga and his cabinet made a good start with approval rating soaring to 74% in a survey made by NIKKEI, which is comparable to the highest rating given to ex PM Abe's cabinet in March 2013. PM Suga's cabinet is made of experienced and capable members.
- PM Suga is going to seamlessly succeed emergency policies fighting with COVID-19. He also stresses his priority on deregulation & digitization of the government and also on enhancing transformation of Japanese industries by such as supporting start-ups.
- PM Suga's potential weakness could be on diplomatic side, on which PM Abe established strong trust with national leaders helped by his personality and communication skill. However, PM Suga is a very good listener too, which would probably help him inheriting diplomatic assets created by PM Abe.



Note: Data is from Sep. 2012 to Sep 2020.

(Source) NIKKEI Inc. Chart was produced by SMDAM

# 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.
- Further top up is expected especially if PM Suga chooses early general election this year or at the beginning of the next year.

## Fiscal stimulus measures in Japan

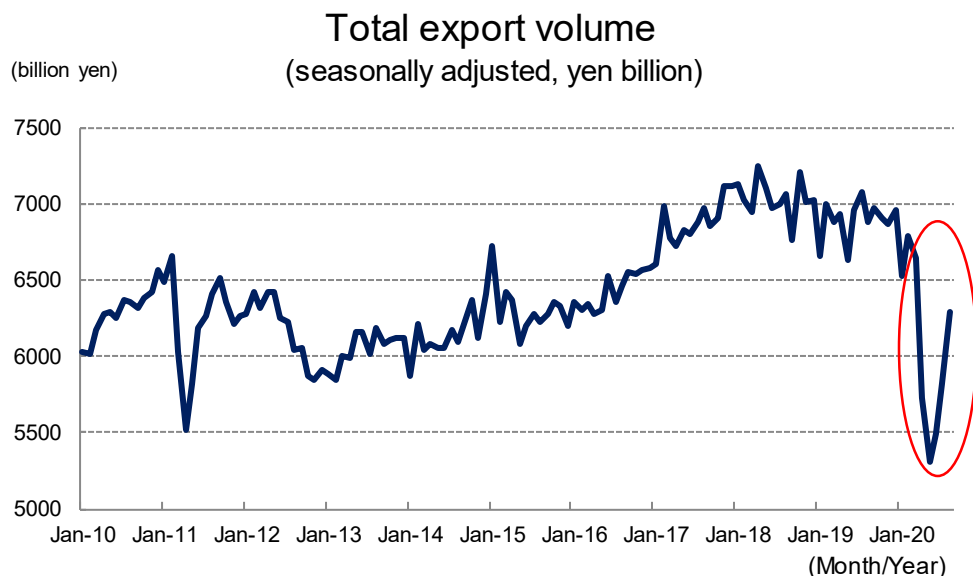
(Trillion yen)	FY2020 1st supplementary budget spending (Approved in April)					FY2020 2nd supplementary budget spending (Approved in June)				
	Total size of the project	Fiscal budget spending	Central & local government budget	FY2020 supple mentary budget	Fiscal Investment & Loan Program	Total size 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
<b>2) Maintaining employment and businesses</b>	<b>80.8</b>	30.8	21.1	<b>19.5</b>	9.7	N/A	N/A	N/A	<b>14.1</b>	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
<b>Total</b>	<b>117.1</b>	48.4	<b>35.8</b>	<b>25.7</b>	12.5	<b>117.1</b>	72.7	<b>33.2</b>	<b>31.9</b>	39.2

Note: As of Jun. 2020

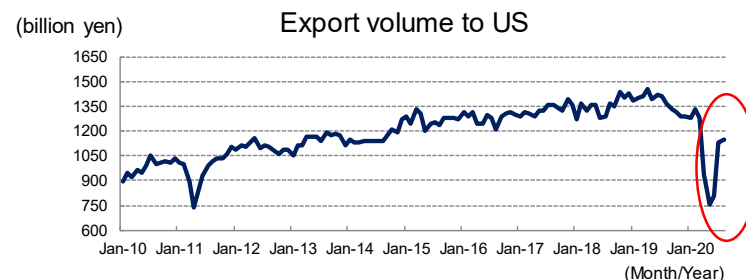
(Source) Cabinet Office, compiled by SMDAM

# Exports from Japan continue recovering

- Exports from Japan extended recovery in August.
- By destinations, Asia ex. China, which is the largest destination, showed strong recovery in August. Exports to US showed further recovery and US showed strong recovery led by autos. Exports to China and US further strengthened.
- Manufacturing side of the Japanese economy is going to lead the recovery going forward.

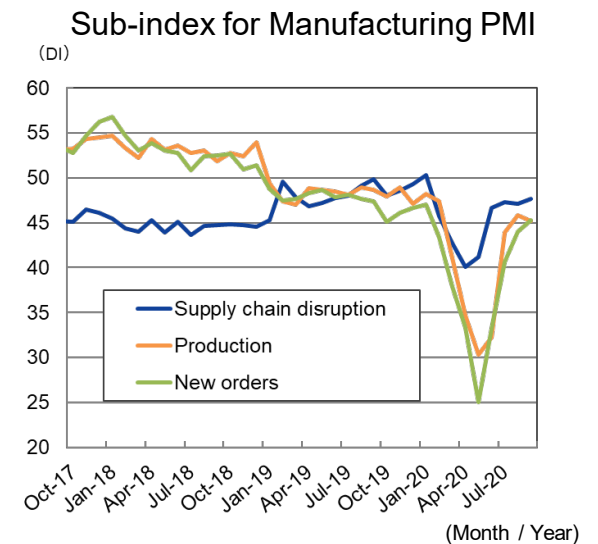
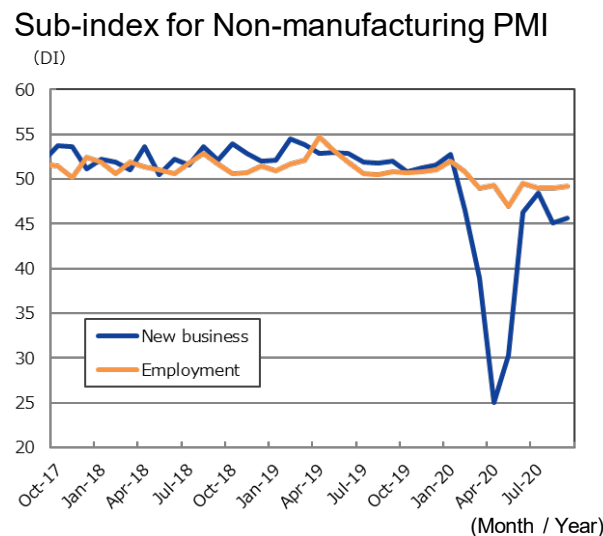
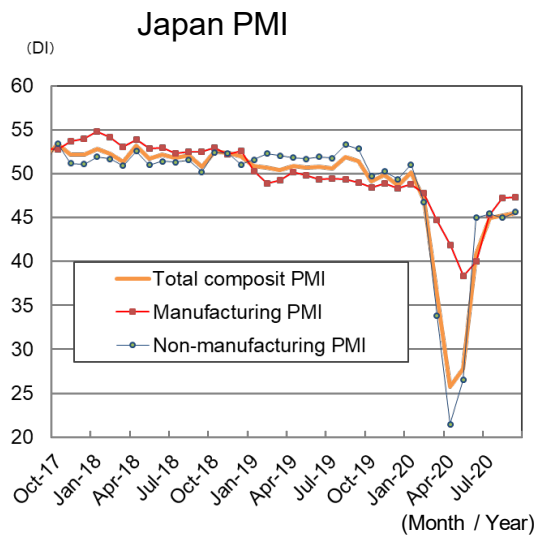


Note: Data is from Jan. 2010 to Aug. 2020.  
(Source) Ministry of Finance, Bank of Japan, compiled by SMDAM.



# Level of business sentiment moved sideways in September

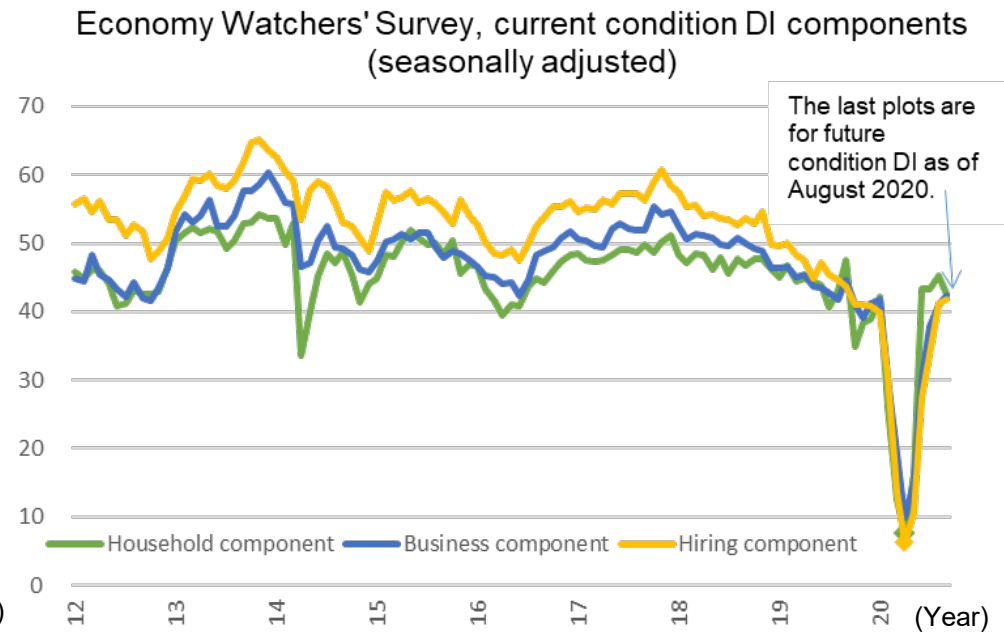
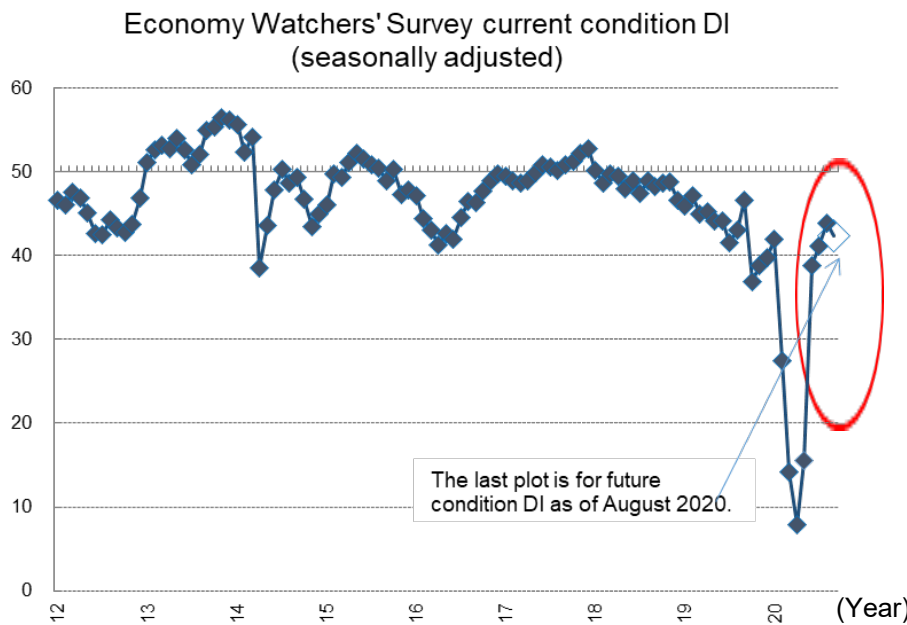
- After making a strong recovery in June and July, PMI for Japan moved sideways in August and September, which was due to a resurgence of COVID-19 cases.
- In September, number of new cases has declined again and Tokyo Metropolitan Government decided to lower COVID-19 warning level by one notch. Unless we see another significant resurgence of COVID-19 cases, peoples' activity and business sentiments are expected to show further recovery.



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

# Consumer sentiments showed recovery for consecutive 4 months

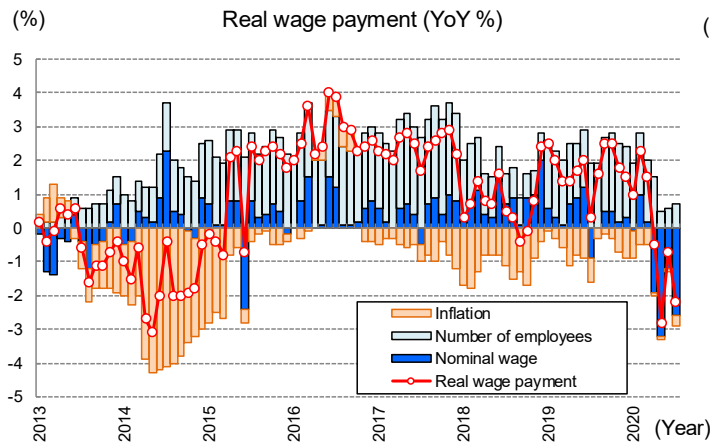
- Economy Watcher Survey covers people working at economic sensitive jobs. Current condition DI in August rose in 4 consecutive months since May.
- Future condition DI was slightly lower than current condition DI in August, for which household components were the main cause in the face of a resurgence in COVID-19 cases, which then calmed down in September.



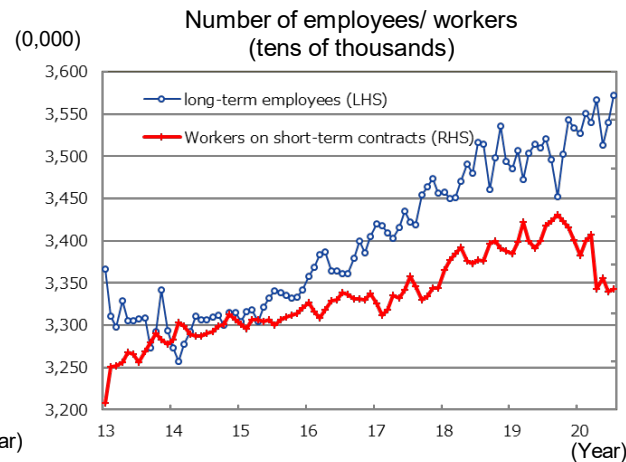
Note: Data is from Jan. 2012 to Aug. 2020. DI above 50 means condition is better than preceding 2 to 3 months.  
 (Source) Cabinet Office

# COVID-19 negative impact continues on labor market

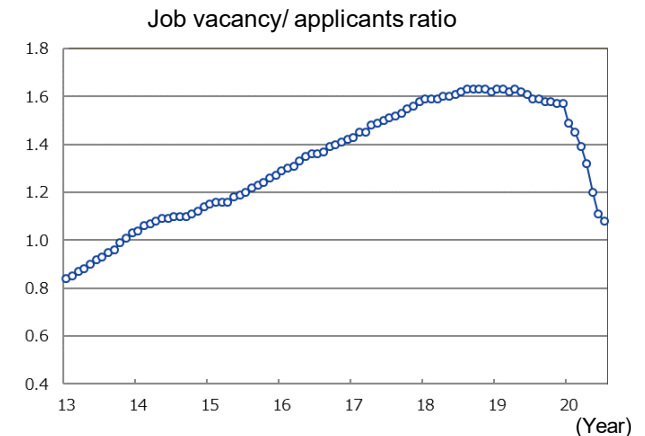
- Real wage declined by -2.2% YoY in July, which has been in negative territory since April due mainly to decline in overtime and bonus payment.
- Job vacancy / applicants ratio further edged-down in July.
- Around 37% workers are on a short-term contract basis and vulnerable to current difficult economic environment.



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



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



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

# US presidential campaign gathers pace

- US presidential election is just a month away.
- FDA in US is going to have a meeting for monitoring the development of COVID-19 vaccines in October.
- PM Suga's cabinet started with a high approval rating, which allures LDP leaders to have an early general election this year. Lower house needs to have a general election before the current term-end in October 2021.

## Upcoming key events

Month	Region/Country	Events
2020 October	US	7 Debate between candidates for US Vice President
		15 Debate between candidates for US President (Florida)
		22 Debate between candidates for US President (Tennessee)
		23 FDA in US holds a meeting for COVID-19 vaccines
	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	3 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

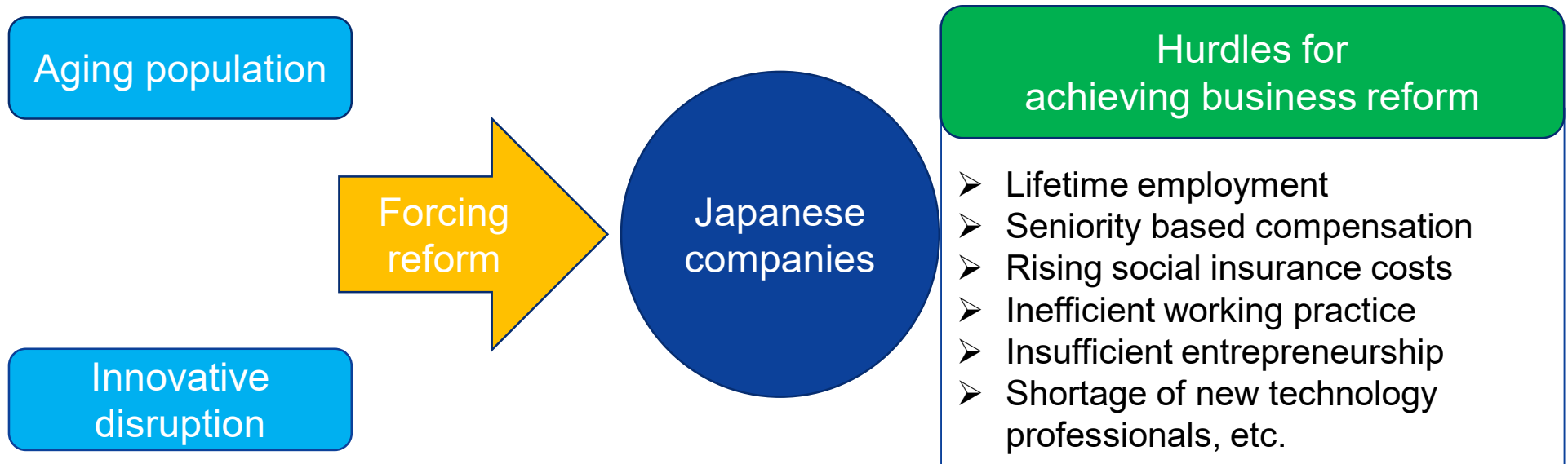
	Switzerland	U.S.	Israel	Finland	Germany	Netherlands	Sweden	Japan	Singapore	Denmark	China
Innovation total	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	28th
a) Capacity for innovation	1	2	3	7	5	6	4	21	23	16	44
b) Quality of scientific research institutions	1	5	3	8	11	4	13	14	12	16	36
c) Company spending on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

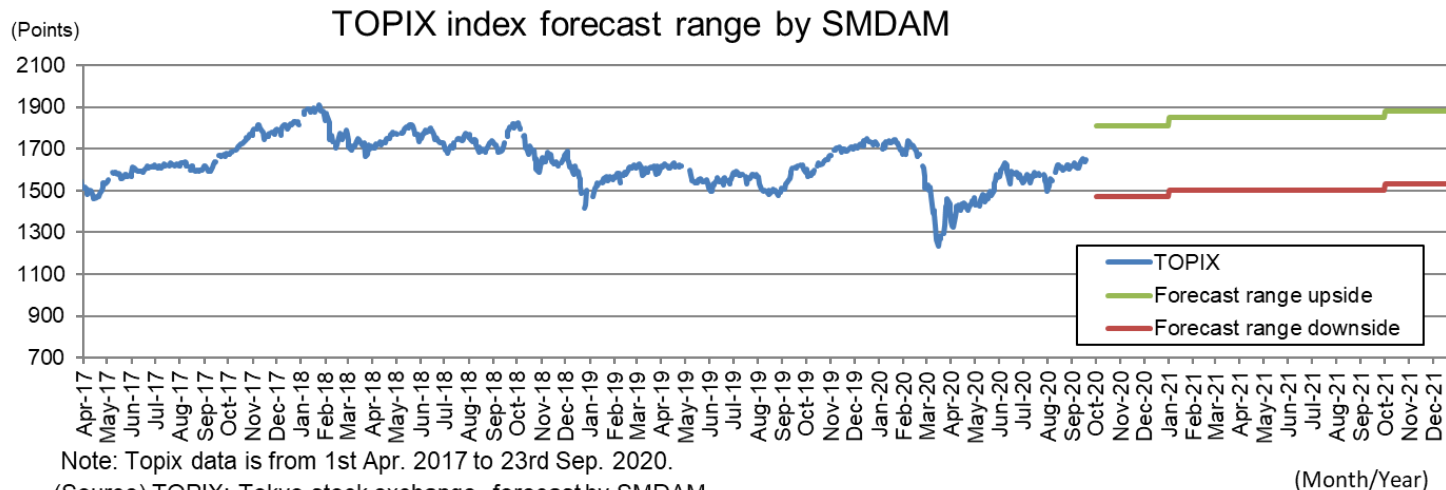
# Adjustment in tech-stocks in US will have limited impact on Japan

## ■ 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)

➤ 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 24<sup>th</sup> Sep. 2020 and subject to updates without notice.

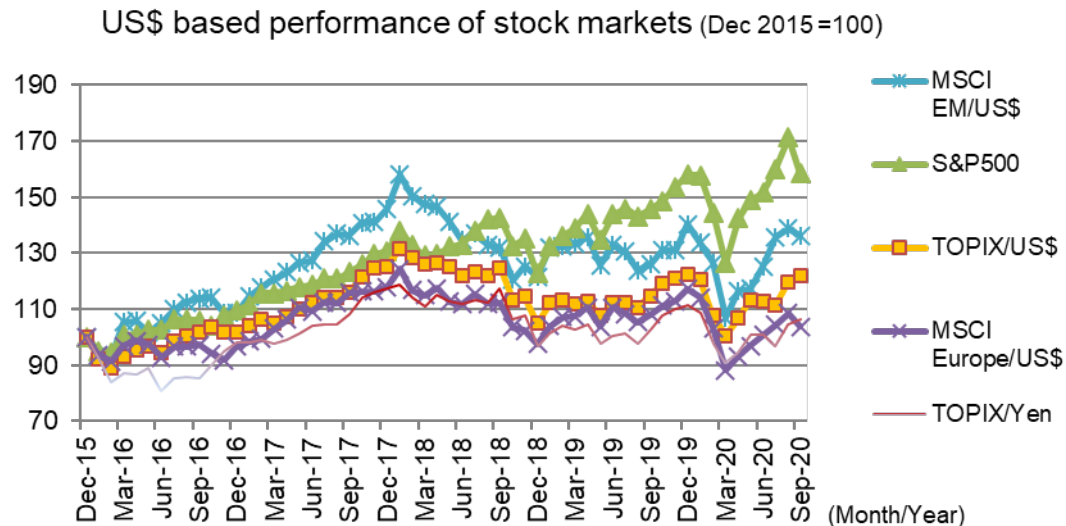
# Base scenario & Upside / Downside risks for our forecasts

- **Our Base Scenario** is assuming the following views:
  - Another global hard lockdown caused by 2<sup>nd</sup> 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 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:
  - 2<sup>nd</sup> 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.

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

# Japanese stock market shows resilience in tech-stock-setback

- US stock market fell led by technology stocks, which had been over-valued.
- European stock markets also fell in sympathy with US stocks and also on the back of resurgence of COVID-19 in the region.
- Japan has been doing relatively better than these markets so far in September, for which relatively low stock valuation and recovering value stocks are working behind.

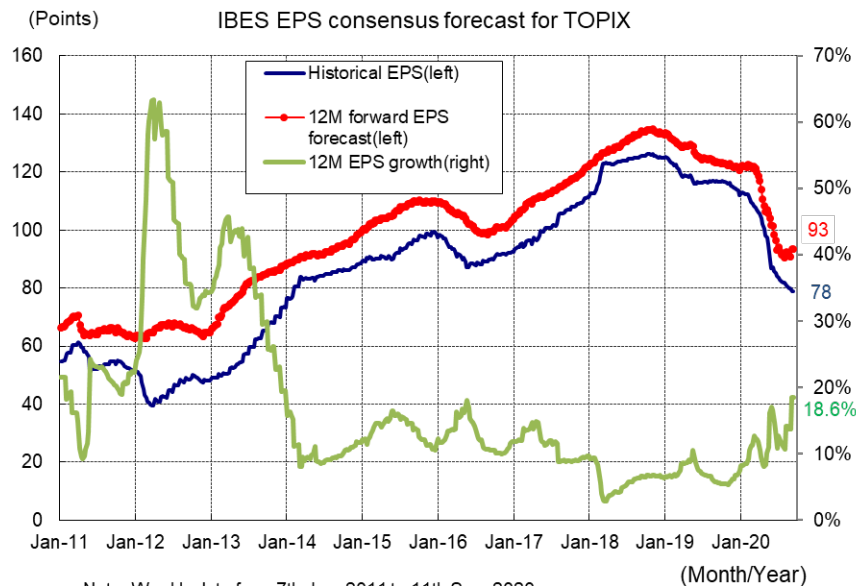


Notes: Data is up to 23rd Sep. 2020.

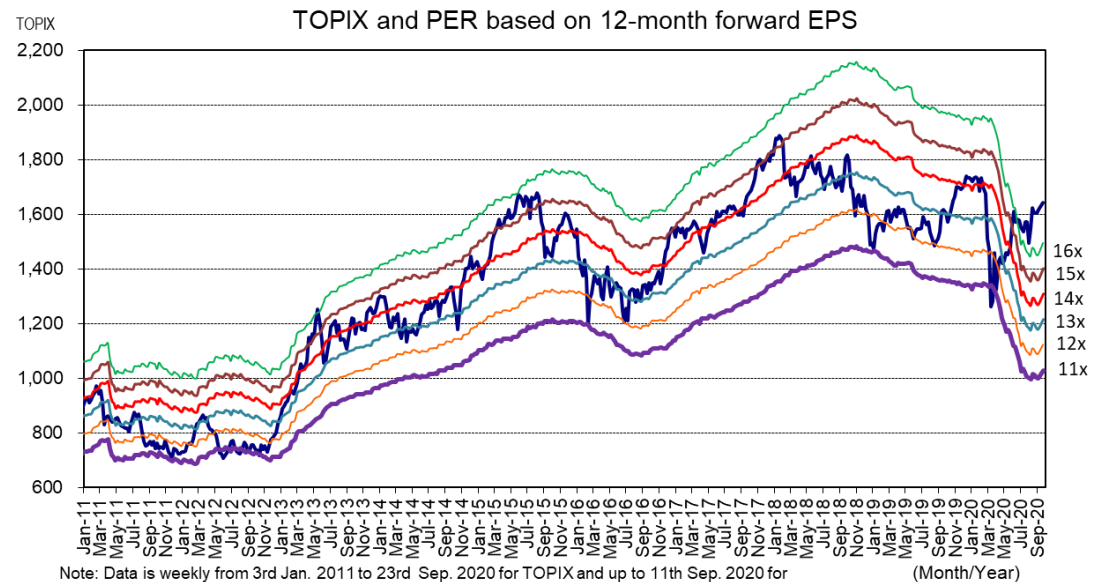
(Source) Datastream, MSCI and Tokyo Stock Exchange, compiled by SMDAM.

# 12M forward EPS consensus forecast edged up lately

- After digesting Apr-Jun quarterly earnings announcements, 12M EPS consensus forecast stopped deteriorating and bounced back lately. Given the latest EPS forecast of 93, TOPIX at 1600 corresponds to PER of 17.2, 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.



Note: Weekly data from 7th Jan. 2011 to 11th Sep. 2020.  
 (Source) Datastream, IBES

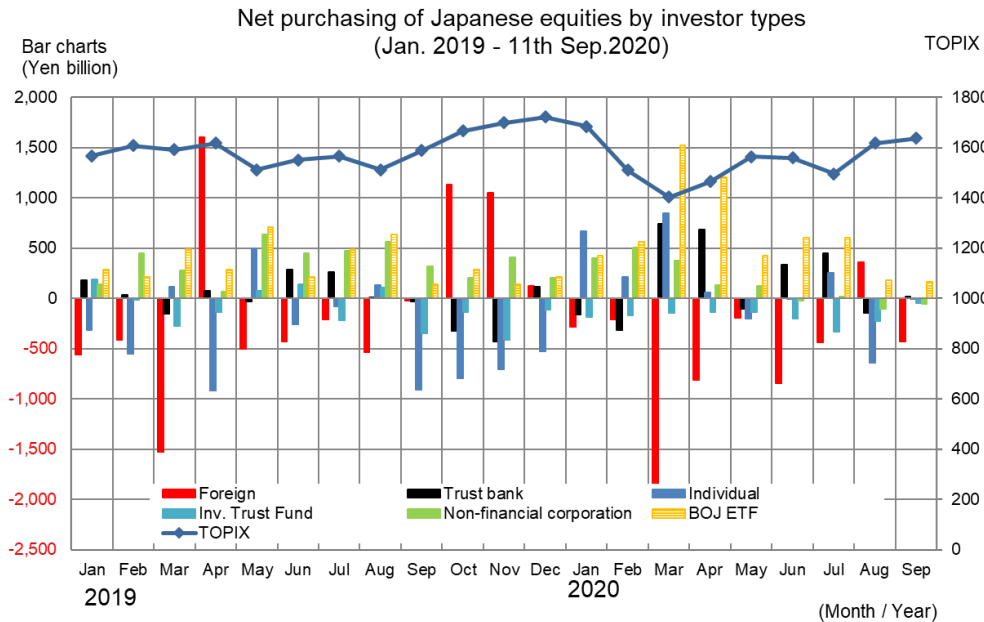


Note: Data is weekly from 3rd Jan. 2011 to 23rd Sep. 2020 for TOPIX and up to 11th Sep. 2020 for IBES 12M forward EPS forecast. TOPIX was 1644.25 at the end of the period.  
 (Source) Tokyo Stock Exchange, Datastream and IBES, compiled by SMAM

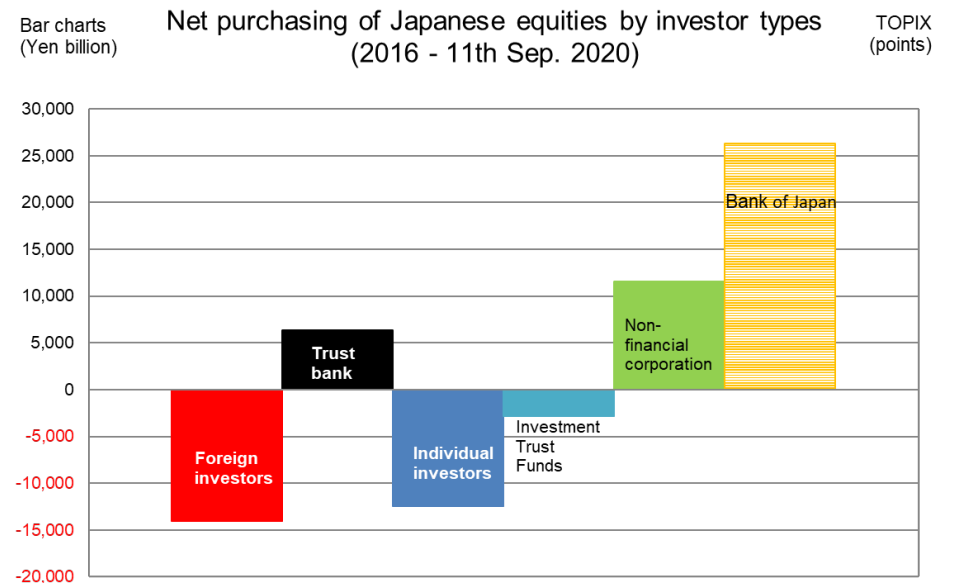


# Investors' activities were relatively calm in August and so far in September

- Foreign investors turned to selling Japanese equities in September, however, activities by investors were relatively calm.
- 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 11th Sep. 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.

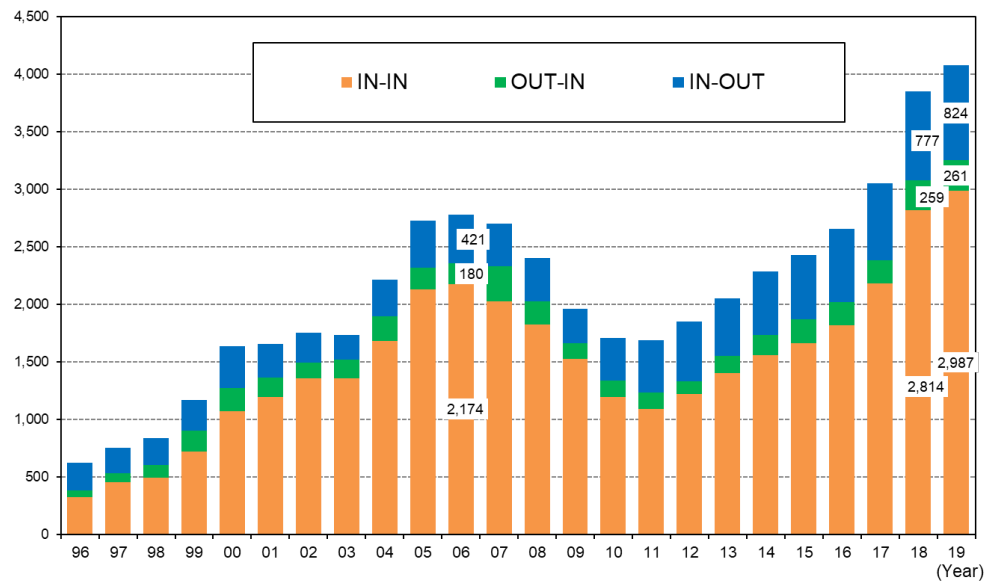
Total number of institutional investors, which publicly declared acceptance of the stewardship code	
Trust banks	6
Investment management companies	191
Insurance companies	23
Pension funds	53
Others (include proxy voting advising companies)	7
<b>Total</b>	<b>280</b>

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.

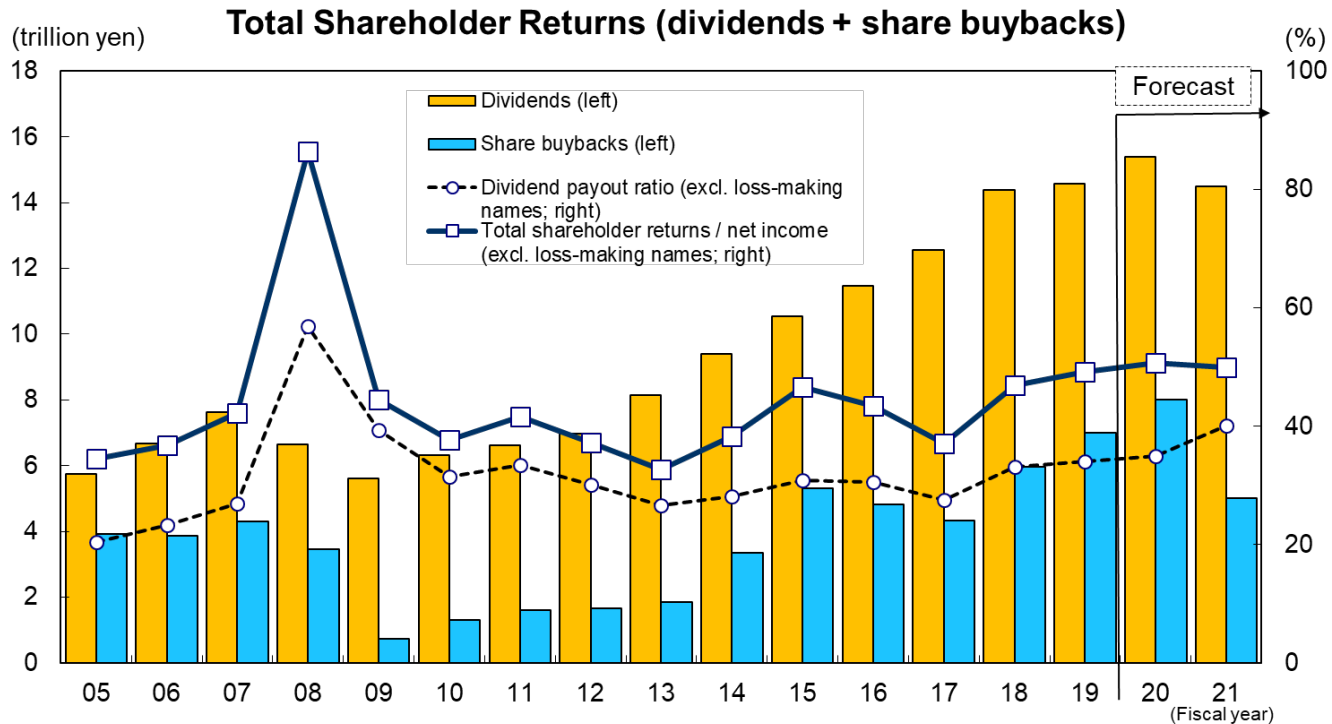
Number of M&A deals involving Japanese companies  
(Excluding transactions among the same business group)



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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