



# Outlook for Japanese Economy & Stock Market

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

-December 2020-

# Executive summary

## ➤ Japanese Economy

SMDAM revised-up GDP forecast for FY2020 from -5.8% to -5.4% due to stronger than expected GDP for Jul-Sep 2020. SMDAM also revised-up GDP forecast for FY 2021 from +3.1% to +4.0% considering positive effects from COVID-19 vaccines become available earlier than previous forecast. (Page 8)

- Exports from Japan rose to make a recovery over pre-COVID-19 level. Exports to Asia ex. China, which is the largest destination, made a robust increase in October led by machinery and electrical goods to reach a level comparable to the historical monthly high in Jan. 2018. For China, exports of auto, machinery and electrical goods made large contributions. (Page 11)
- 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 the current new cycle is further progressing in Phase 2. (Page 4)
- In Japan the 3rd supplemental budget spending plan will be sent to the National Diet in January. (Page 10 & 15)

## ➤ Japanese Stock Market

Big uncertainties are going behind. US presidential election is over and effective new vaccines for COVID-19 are coming. Despite resurgence of COVID-19 during winter, Japanese stock market will be able to keep focusing on the sustainable recovery of the real economy as well as corporate earnings from 2021. Japanese stock market is considered to be sensitive to global economy, which will work positively in a comparison among global stock markets. (Page 20)

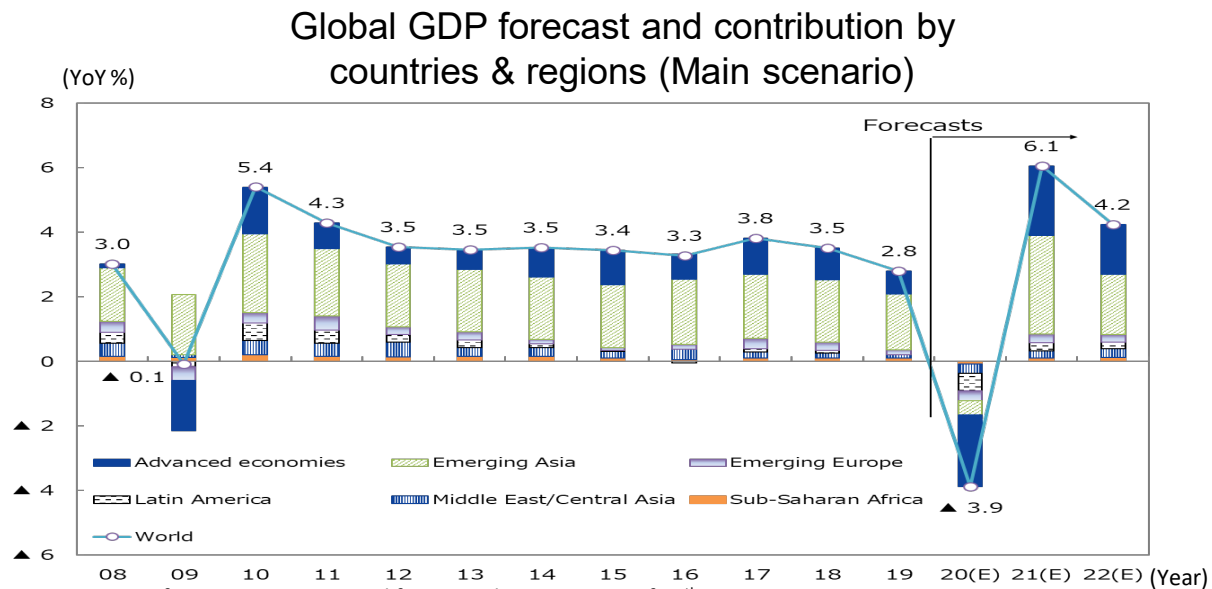
- Difference in PBR reflects gap in ROE, however, Japan's PBR at 1.28 looks attractive. (Page 23)
- 12M EPS consensus forecast has been bouncing back from September. Jul-Sep quarterly earnings results were generally better than preceding forecasts. Latest 12M forward EPS growth forecast rose sharply to 28.9%. (Page 24)



# Outlook for Global Economy

# Outlook for the global economy

- SMDAM has revised GDP forecast for 2020 and 2021 upwards by 0.3% and 0.2 % respectively. This is mainly due to a rising possibility of COVID-19 vaccine to become widely available faster than previously expected.
- Global economy is expected to show continuing recovery led by developed economies. Manufacturing industries will be the main driver of the recovery for the coming months. Physical service sectors likely recover from the latter half of 2021.
- We expect slow recovery in labor market as industrial structure has been changing but 2022 forecast is slightly higher than potential growth rate due to low inflation.

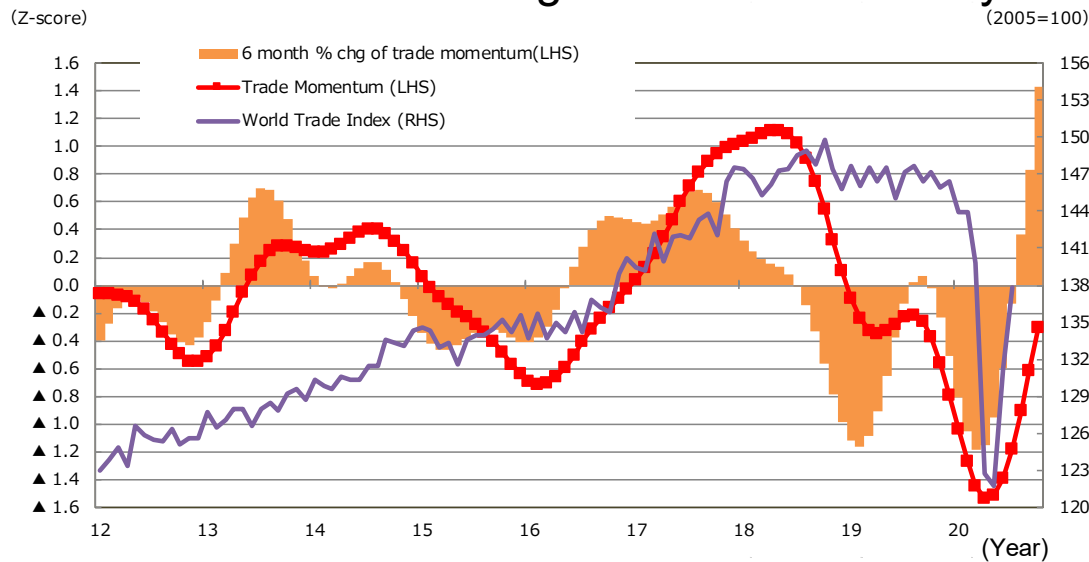


Notes: Data is from 2008 to 2022 and forecasts by SMDAM as of 25<sup>th</sup> Nov. 2020.  
 (Source) IMF, National statistics of each country, compiled by SMDAM.

# 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 the current new cycle is further progressing in Phase 2.

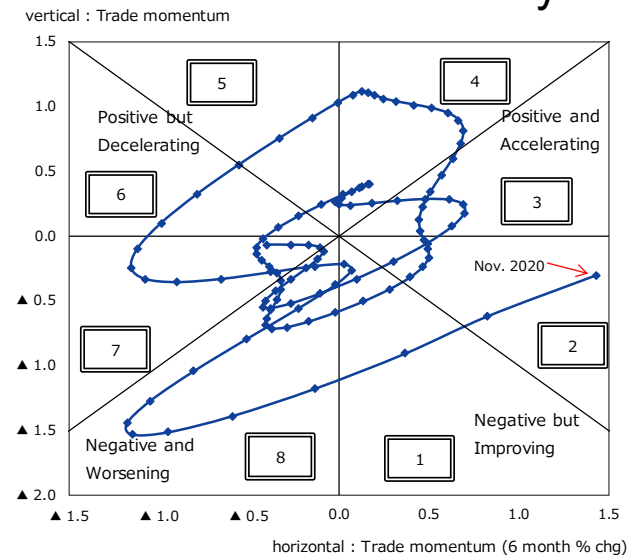
## Trade momentum as a guide for economic cycle



(Notes) Trade momentum is calculated from 16 indicators and compiled by SMDAM. Data is from Jan 2012 to Nov 2020.

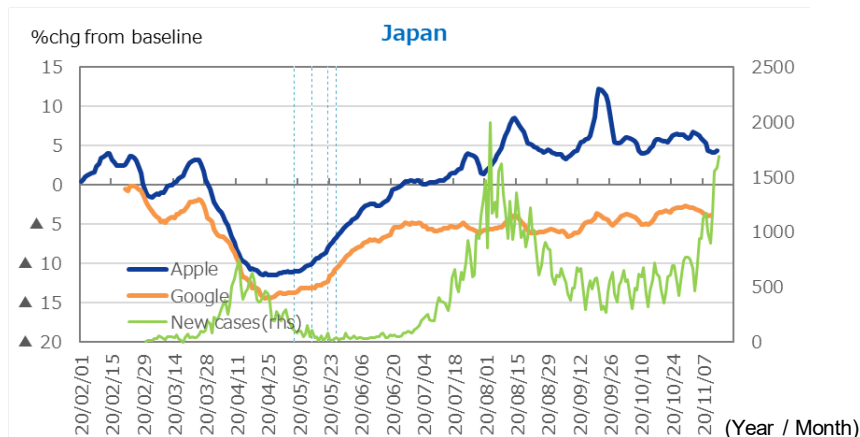
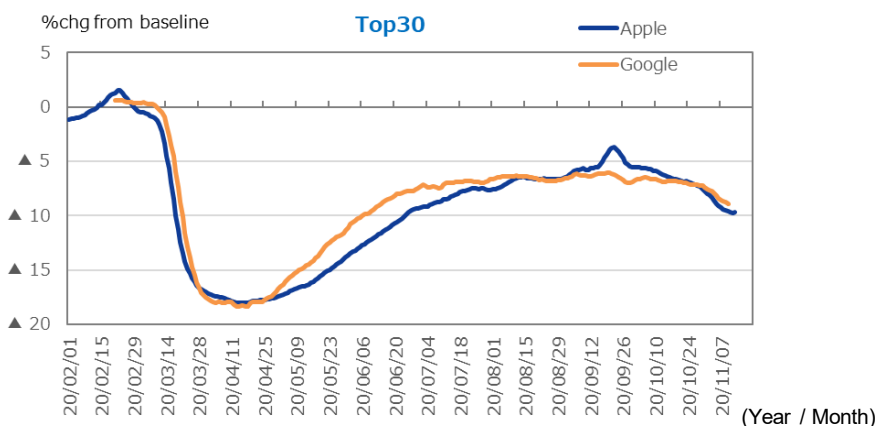
(Source) Bloomberg, Datastream and other National Statistics.

## Phase analysis



# People's mobility faces a temporary slowdown due to COVID-19 resurgence

- On the top charts, Google's mobility index shows that recovery for top 30 countries is slowing down due to resurgence of COVID-19 cases in Europe and US.
- For Japan, COVID-19 situation had been better than Europe and US and Go To campaign, which provides financial incentive for tours in Japan, made a lot of people venture out for a short excursion. However, daily infection cases hit a new record lately and the level of restriction on peoples activities needs to be raised.



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.)	▲ 18.3	▲ 16.6	▲ 14.5	▲ 20.6	▲ 25.9	▲ 29.4	▲ 26.7	▲ 29.2	▲ 22.4	▲ 10.4	▲ 30.4	▲ 16.7
b) 8th November (% chg.)	▲ 8.4	▲ 7.6	▲ 3.3	▲ 9.2	▲ 12.3	▲ 18.0	▲ 8.6	▲ 10.6	▲ 5.3	▲ 1.1	▲ 11.5	▲ 7.3
b)-a)	+ 9.9	+ 9.0	+ 11.1	+ 11.3	+ 13.6	+ 11.4	+ 18.1	+ 18.6	+ 17.1	+ 9.2	+ 18.9	+ 9.3

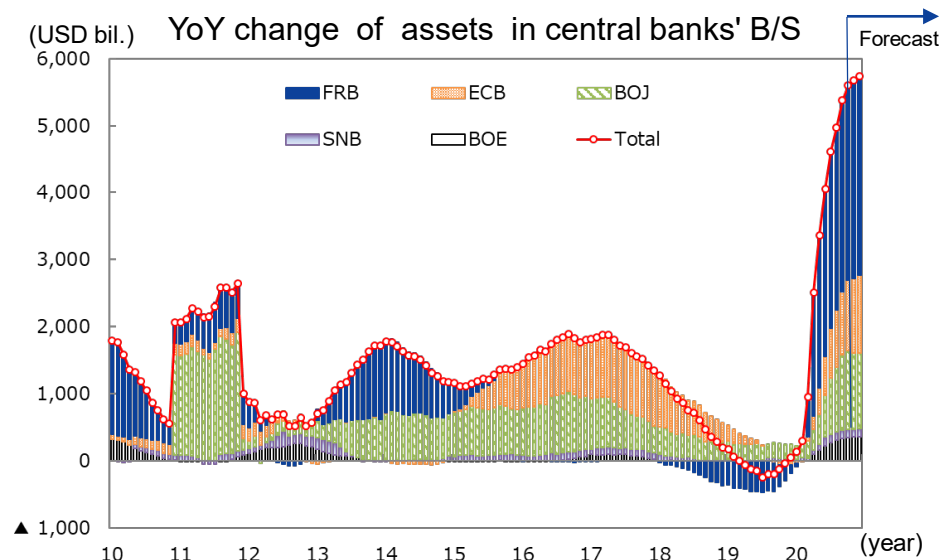
Note: SMDAM analyzed correlation between Google's and Apple's mobility index data and released GDP data, and exponentially estimated the GDP status corresponding to the latest mobility index data in a % change from the baseline GDP, which was the trend line prior to the COVID-19 pandemic.

Google's data is up to 10<sup>th</sup> November, Apple's data is up to 13<sup>th</sup> November and number of new COVID-19 infection cases is up to 14<sup>th</sup> November..

(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 from May. 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 October 2020. Forecast is up to Dec 2020.  
(Source) Bloomberg, each central bank, compiled by SMDAM.



# Outlook for Japanese Economy



# SMDAM Japanese economic outlook for FY20-22

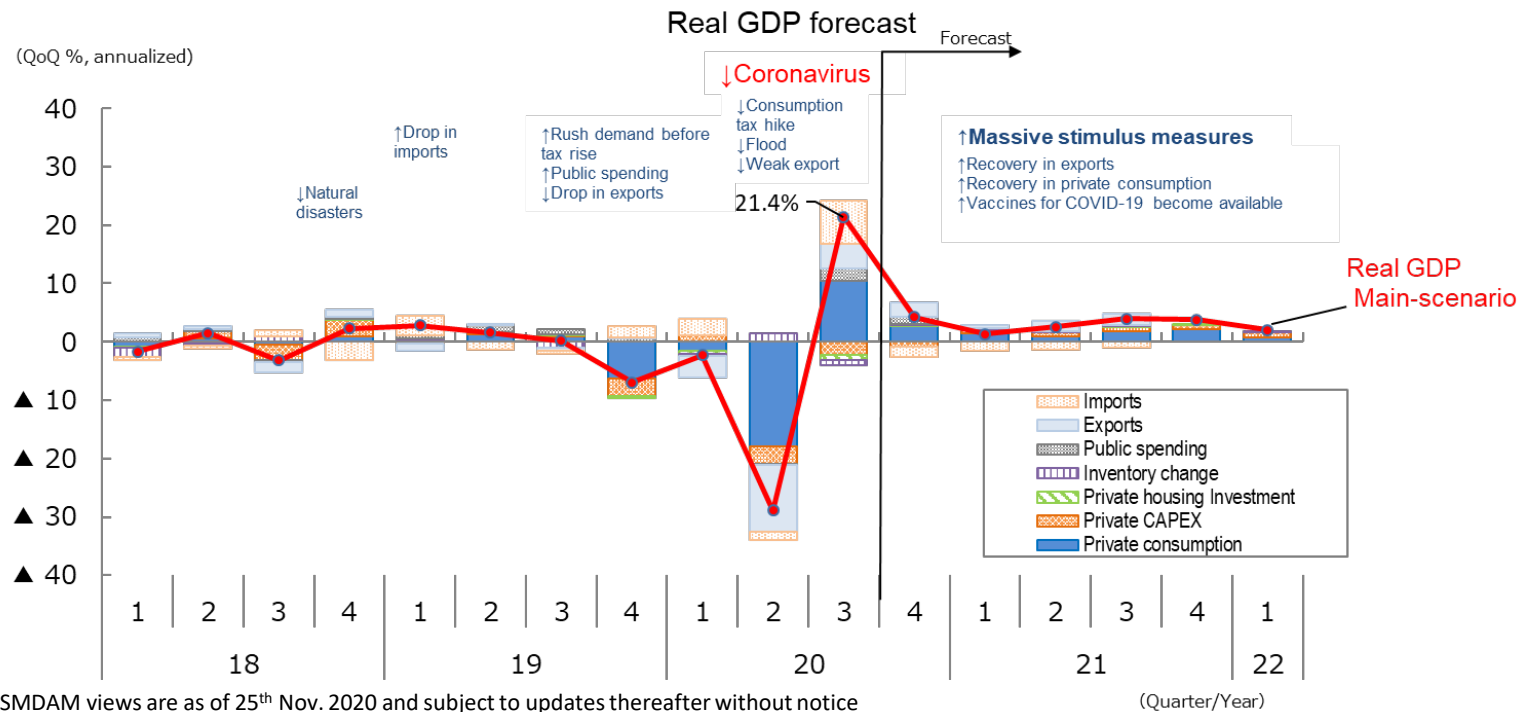
- SMDAM revised-up GDP forecast for FY2020 from -5.8% to -5.4% due to stronger than expected GDP for Jul-Sep 2020. SMDAM also revised-up GDP forecast for FY 2021 from +3.1% to +4.0% considering positive effects from COVID-19 vaccines become available earlier than previous forecast.
- SMDAM extended the forecast to FY2022 this time. Mild economic growth is forecast to continue.
- PM Suga continues driving emergency policies and also pursue stronger policies on achieving deregulation, digitization and enhancing economic growth.

( YoY %)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Real GDP growth	1.9%	0.3%	0.0%	-5.4%	4.0%	1.8%
Private Consumption Expenditure	1.1%	0.1%	-0.5%	-5.9%	3.9%	1.3%
Private Housing Investment	-1.4%	-4.9%	0.6%	-9.5%	1.7%	1.9%
Private Capital Investment	4.3%	1.8%	-0.3%	-8.5%	1.9%	5.3%
Public Consumption Expenditure	0.3%	0.9%	2.3%	2.2%	0.9%	0.3%
Public Capital Investment	0.5%	0.6%	3.3%	2.9%	4.2%	1.2%
Net Exports (contrib. to GDP growth)	0.5%	-0.1%	-0.2%	-1.1%	1.0%	0.0%
Exports	6.4%	1.7%	-2.6%	-14.7%	11.3%	6.1%
Imports	3.9%	2.5%	-1.5%	-7.7%	4.5%	5.5%
Nominal GDP	2.0%	0.1%	0.8%	-4.5%	4.7%	2.2%
GDP Deflator	0.1%	-0.2%	0.8%	1.0%	0.7%	0.4%
Industrial Production	2.9%	0.3%	-3.6%	-10.8%	9.8%	4.9%
CPI (excl. fresh food)	0.7%	0.8%	0.4%	-0.6%	0.5%	0.4%

Note: E=SMDAM forecasts. SMDAM views are as of 25<sup>th</sup> Nov. 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

- Quarterly GDP for Jul-Sep 2020 came out at 21.4% (QoQ % annualized), which was much stronger than preceding SMDAM's forecast of 16.5%. Exports were stronger and manufacturers built-up inventories, which made a large contribution for this strong results.
- Japan's GDP growth is forecast to pick up from Apr-Jun quarter next year, which is earlier than our previous forecast. This is mainly caused by COVID-19 vaccines becoming widely available from spring next year, which is 3 to 6 months earlier than previous assumption.



Note: SMDAM views are as of 25<sup>th</sup> Nov. 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

- In the 2<sup>nd</sup> 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 urgently discussed among the cabinet in the face of current resurgence of COVID-19 cases.

## Fiscal stimulus measures in Japan

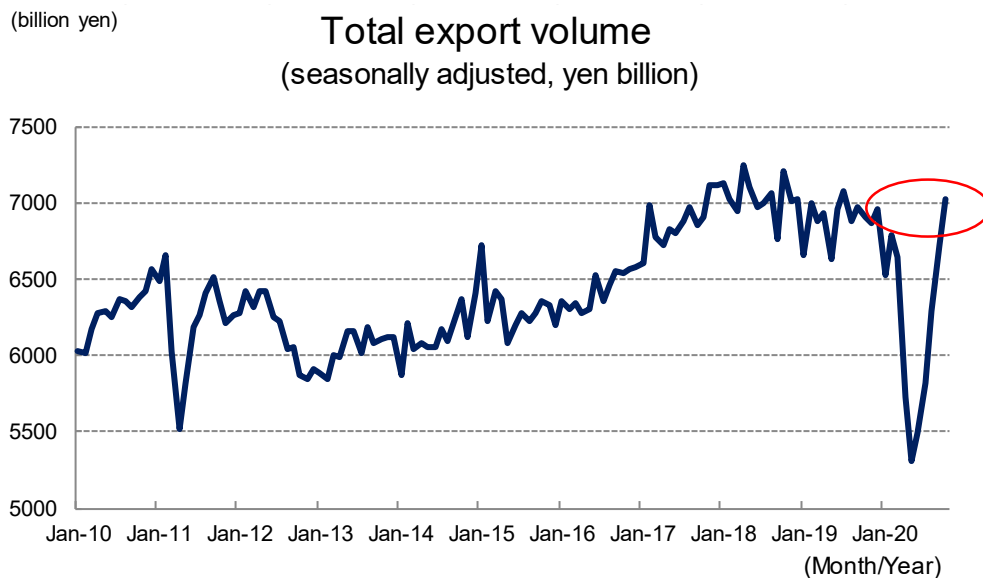
(Trillion yen)	FY2020 1st supplementary budget spending (Approved in April)					FY2020 2nd supplementary budget spending (Approved in June)				
	Total size of the project	Fiscal budget spending	Central & local government budget	FY2020 supple mentary budget	Fiscal Investment & Loan Program	Total size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

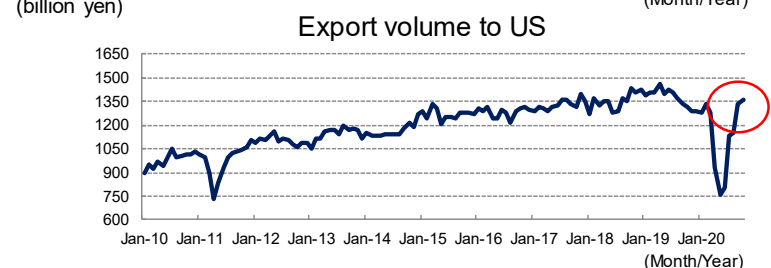
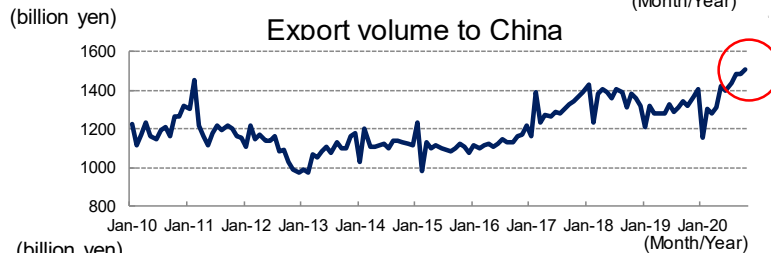
(Source) Cabinet Office, compiled by SMDAM

# Exports from Japan recovered to pre-COVID-19 level in October

- Exports from Japan rose to make a recovery over pre-COVID-19 level.
- Exports to Asia ex. China, which is the largest destination, made a robust increase in October led by machinery and electrical goods to reach a level comparable to the historical monthly high in Jan. 2018. For China, exports of auto, machinery and electrical goods made large contributions.
- Manufacturing side of the Japanese economy is going to lead the recovery supported by robust exports.

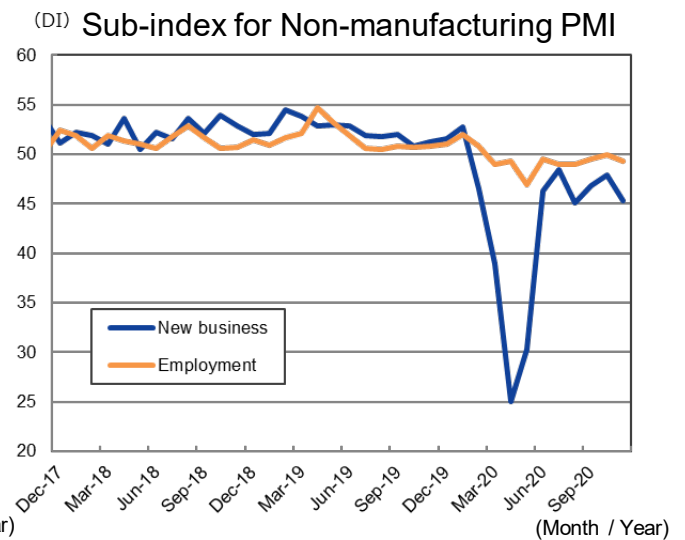
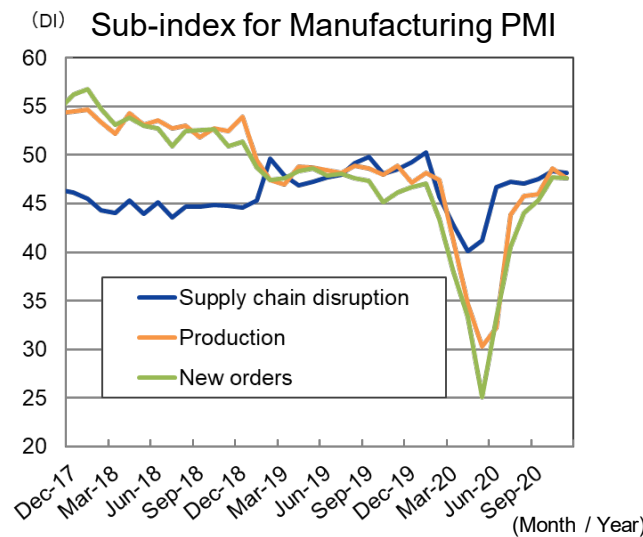
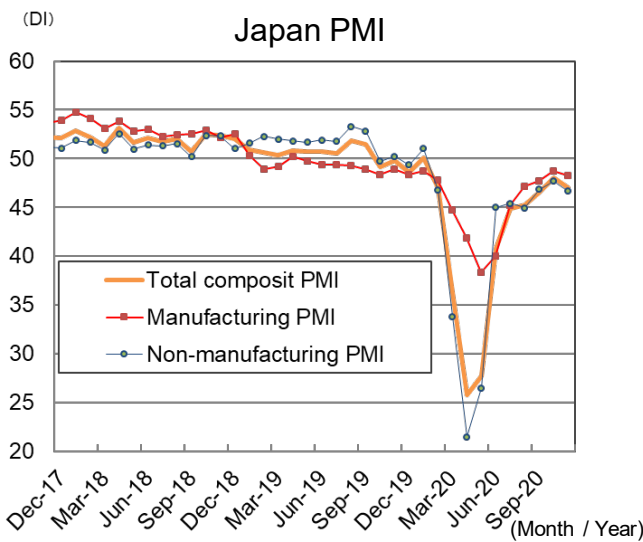


Note: Data is from Jan. 2010 to Oct. 2020.  
(Source) Ministry of Finance, Bank of Japan, compiled by SMDAM.



# Business sentiment slightly declined in November

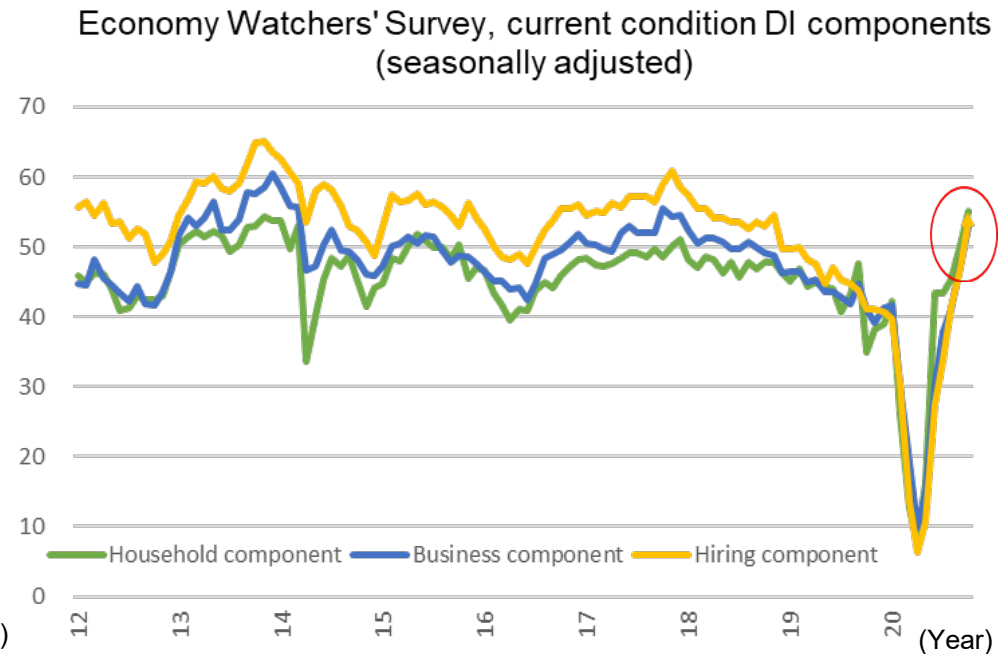
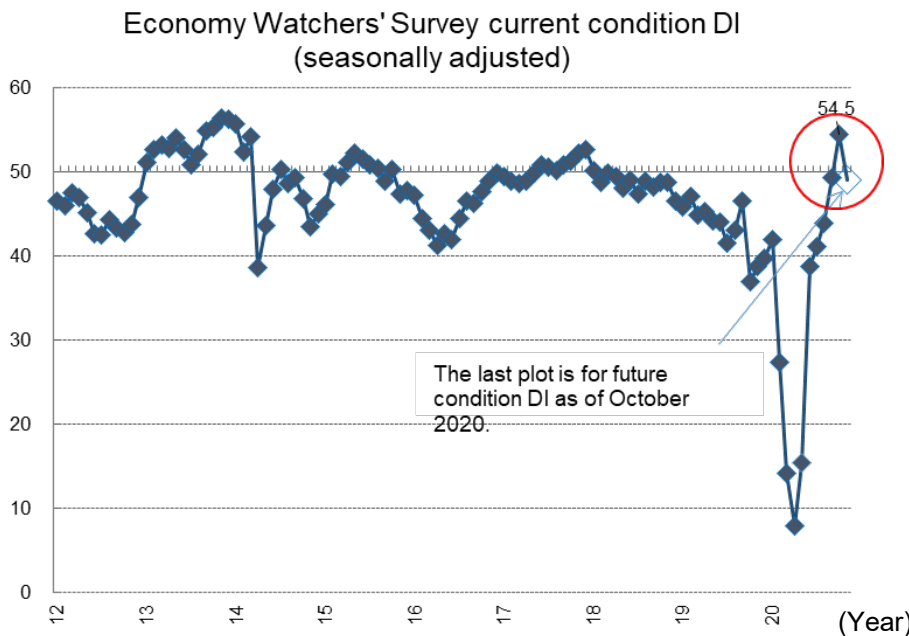
- PMI for Japan slightly declined in November. The survey was made between 12<sup>th</sup> and 18<sup>th</sup> of November. Recent surge in COVID-19 cases made a mildly negative impact on the business sentiment.
- PMI for manufacturing sector declined by 0.5 point to 48.3 after 5 consecutive months of increase. PMI Non-manufacturing sector declined by 1 point to 46.7 after 6 consecutive months of increase.



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

# Economic sentiments showed recovery for consecutive 5 months

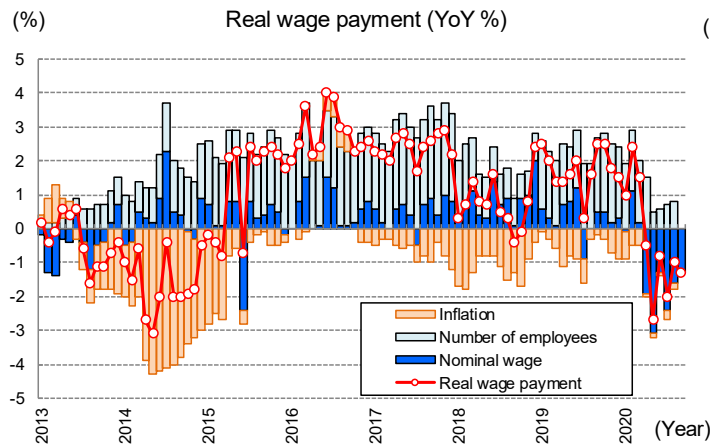
- Economy Watcher Survey covers people working at economic sensitive jobs. Current condition DI in October rose strongly to 54.5 from 49.3 in the previous month, rising in 6 consecutive months since May. All components, household, business and hiring, showed significant improvement. Future condition DI was lower than current condition DI in October, which indicates people are getting a little concerned about recent surge in COVID-19 cases.
- For frequent used words in responses, “(Go To) Campaign” remained as one of the most mentioned words.



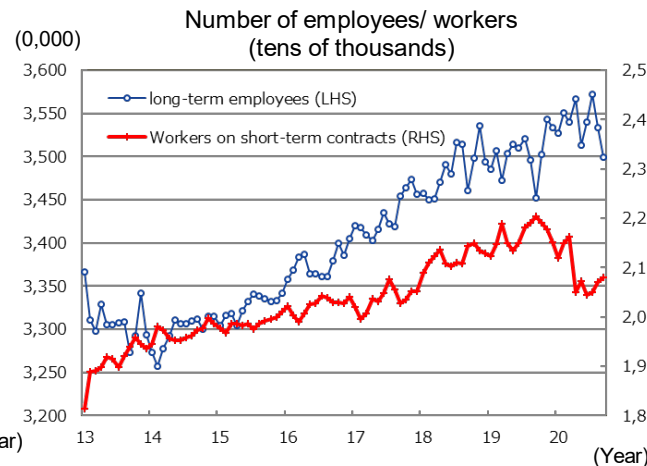
Note: Data is from Jan. 2012 to October, 2020. DI above 50 means condition is better than preceding 2 to 3 months.  
 (Source) Cabinet Office

# COVID-19 negative impact continues on labor market

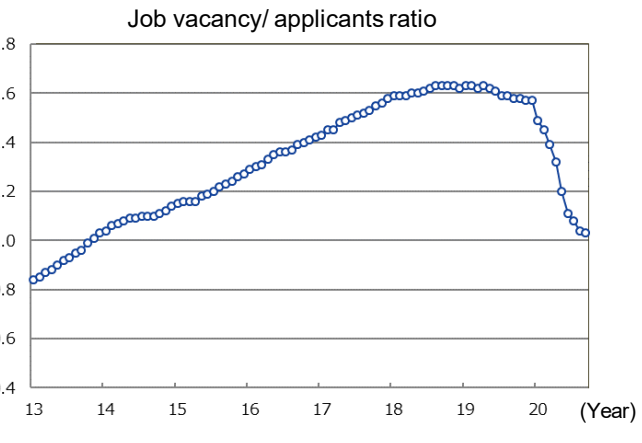
- Real wage declined by -1.3% YoY in September, which has been in negative territory since April due mainly to decline in overtime and bonus payment.
- Job vacancy / applicants ratio further edged-down to 1.03 times in September.
- COVID-19 negative impact continues on labor market, however considering 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 Sep. 2020. Continuous sample basis.  
(Source) Ministry of Health Labour and Welfare



Note: Data is from Jan. 2013 to Sep. 2020.  
(Source) Ministry of Finance



Note: Data is from Jan. 2013 to Sep. 2020.  
(Source) Ministry of Finance

## Big uncertainties are going behind

- Joe Biden will be confirmed as the new US president by 14<sup>th</sup> December when presidential voting is made by US electoral college.
- Pfizer's vaccine for COVID-19 is expected to be approved for emergency application in December first and will become widely available in spring next year. Other vaccines will follow soon.
- 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	December	US	14 Presidential voting by United States electoral college	Joe Biden's victory will be confirmed.
			15-16 FOMC meeting	
			Expected approval of Pfizer's COVID-19 vaccine	
		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

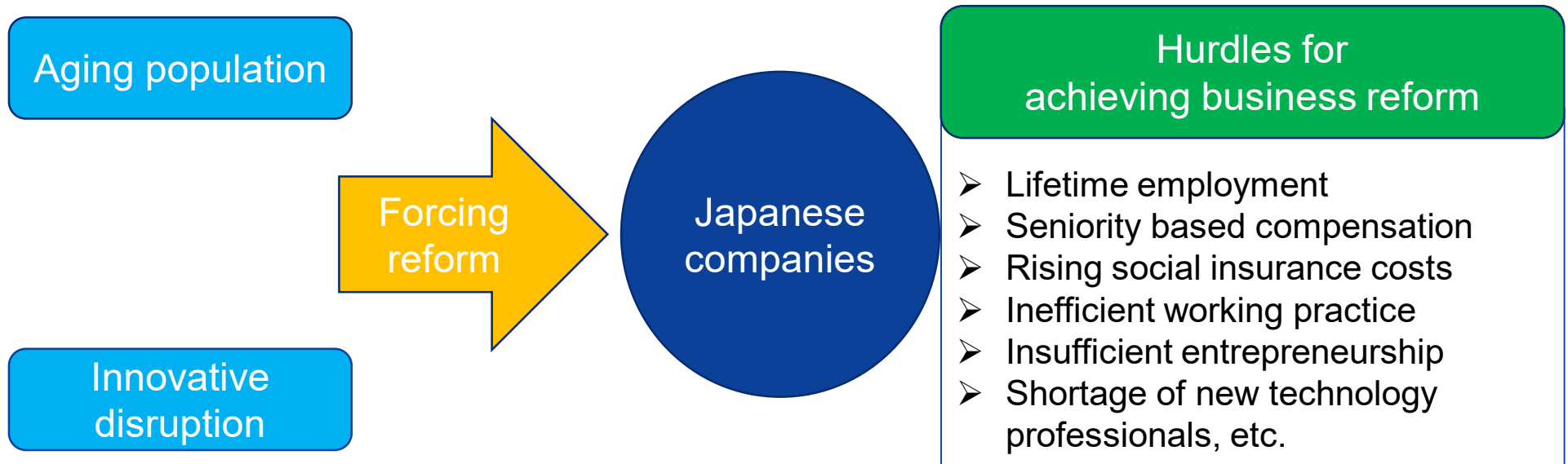
	Switzerland	U.S.	Israel	Finland	Germany	Netherlands	Sweden	Japan	Singapore	Denmark	China
Innovation total	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	28th
a) Capacity for innovation	1	2	3	7	5	6	4	21	23	16	44
b) Quality of scientific research institutions	1	5	3	8	11	4	13	14	12	16	36
c) Company spending on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

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



# Outlook for Japanese Stock Market

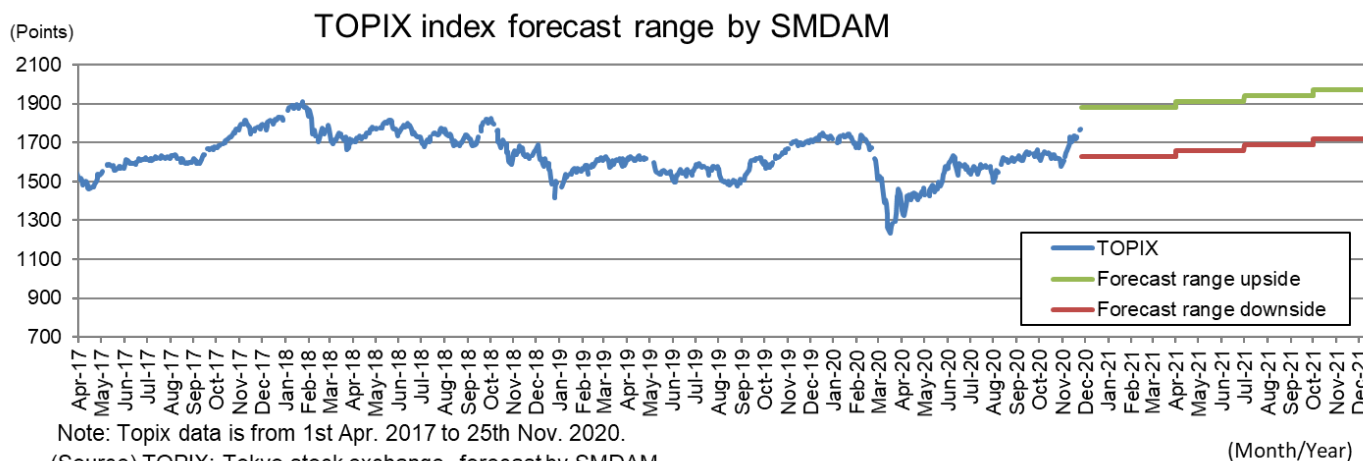
# Investors' focus has shifted to the strong economic recovery from 2021

## ■ SMDAM short-term view

- Big uncertainties are going behind. US presidential election is over and effective new vaccines for COVID-19 are coming. Despite resurgence of COVID-19 during winter, Japanese stock market will be able to keep focusing on the sustainable recovery of the real economy as well as corporate earnings from 2021. Japanese stock market is considered to be sensitive to global economy, which will work positively in a comparison among global stock markets.

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

- Stock markets are forward looking in nature and it would be important to keep focusing on what could happen in 6 months and beyond. 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, monetary policy will stay expansionary, and Joe Biden will pursue restoring international coordination, which are all positive for stock prices. Major risk will be geopolitical tensions to rise.



Note: SMDAM's projection is as of 25<sup>th</sup> Nov. 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.
- Vaccines for COVID-19 become available in spring of 2021.
- Severe tensions between US and China go on, however, US is going to avoid making a fatal blow to the global economy.
- Global economy sustains recovery path into 2021 and 2022.
- 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:

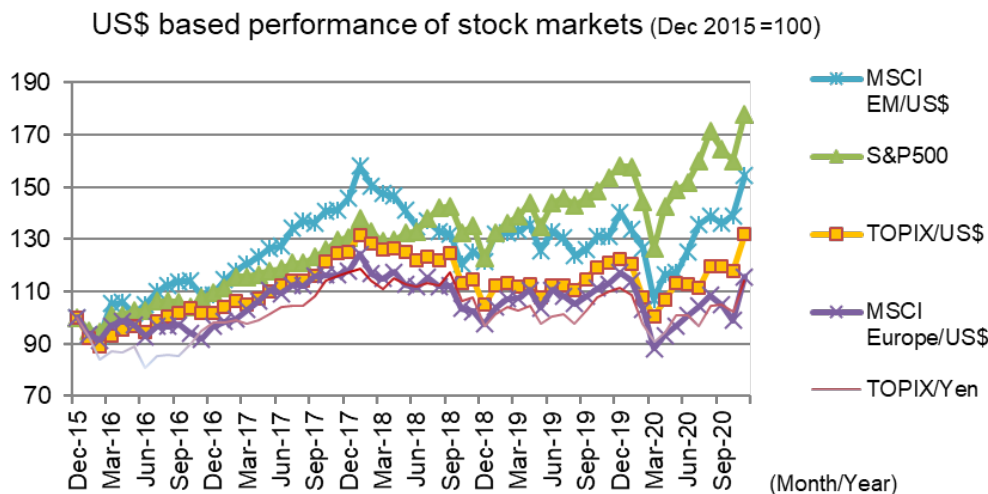
- Stronger-than-expected global growth.
- US and China make significant concessions in the trade negotiations.
- Japanese economy gets stronger than expected boosted by large fiscal spending and strong exports.

## ■ Downside Risks include:

- Another serious wave of COVID-19 pandemic emerges and lockdowns cause severe economic disruption globally.
- Tensions between US and China escalates to ignite severe disruption in global trades.
- Seriously escalating geo-political tensions in Middle East & East Asia.
- Donald Trump steals US presidential election in the end and political & social turmoil flares up in US.
- Joe Biden and Democrats face a political deadlock due to rejection by Republican controlled US Senate.
- Populism gains in Europe further destabilizing EU.

# Stock markets started a bull-run on US presidential election and vaccines for COVID-19

- Investors' focus has shifted to the expected strong recovery of the real economy from 2021. Stock markets started rallying after US presidential election, which cleared big uncertainty by Joe Biden's victory, and good news of COVID-19 vaccines.
- US stocks are renewing all-time high records. MSCI Emerging Market Index is also making a strong rally.
- For Japan, yen based TOPIX price index is still lower than the recent high in January 2018, however, almost unnoticeably, US dollar based TOPIX price index became higher than in January 2018, which was the previous high exhibited in this chart. Japanese stocks are considered to be sensitive to global economy, which will be attractive to investors focusing on global economic recovery from 2021.



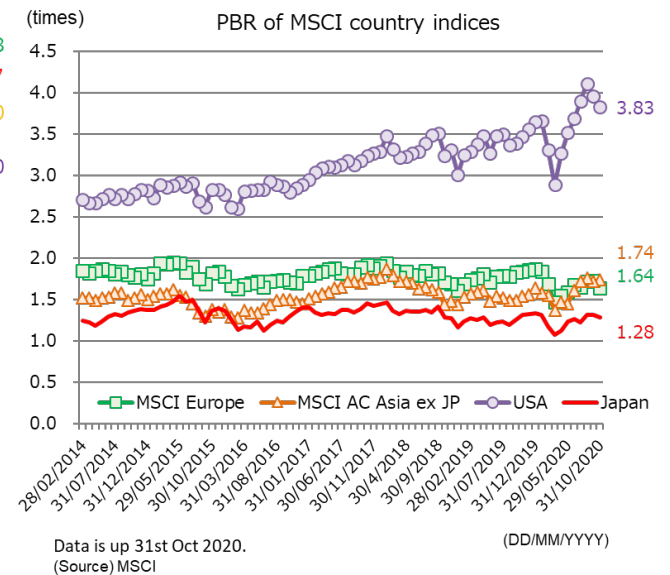
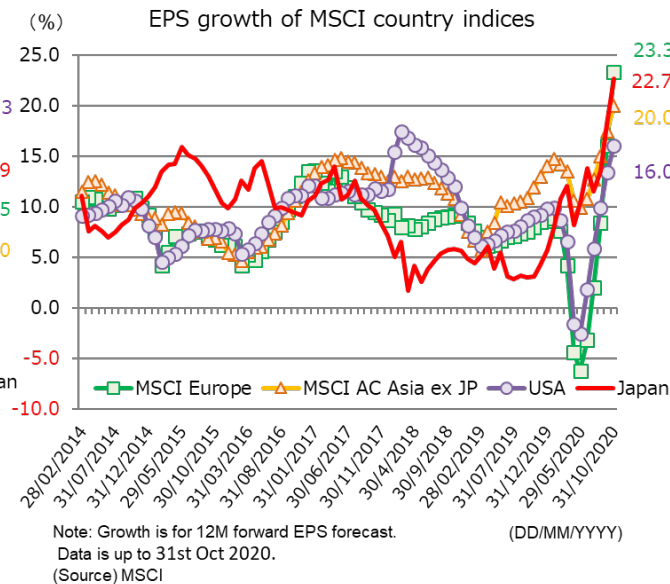
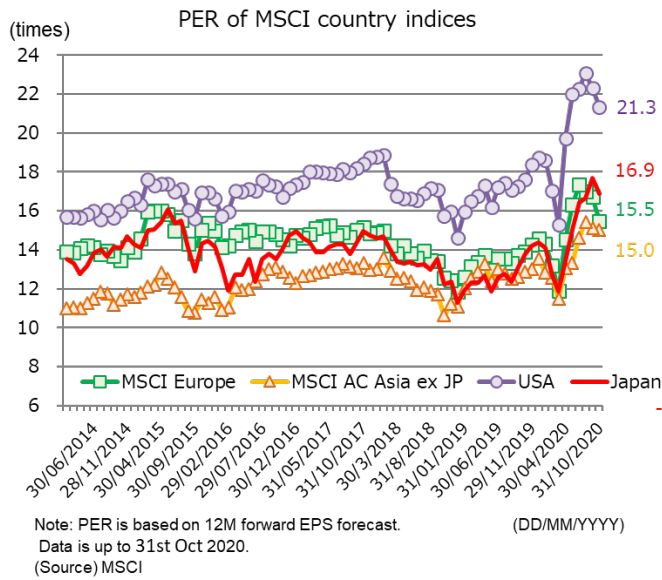
Notes: Data is up to 25th Nov. 2020.

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



# Relative stock valuation is getting attractive for the Japanese stocks

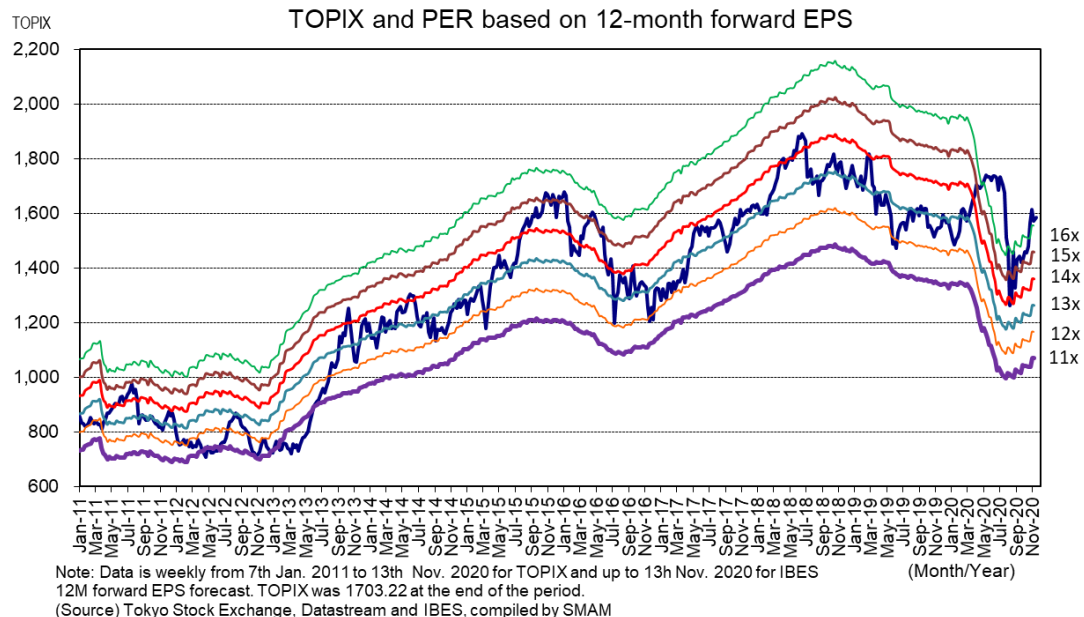
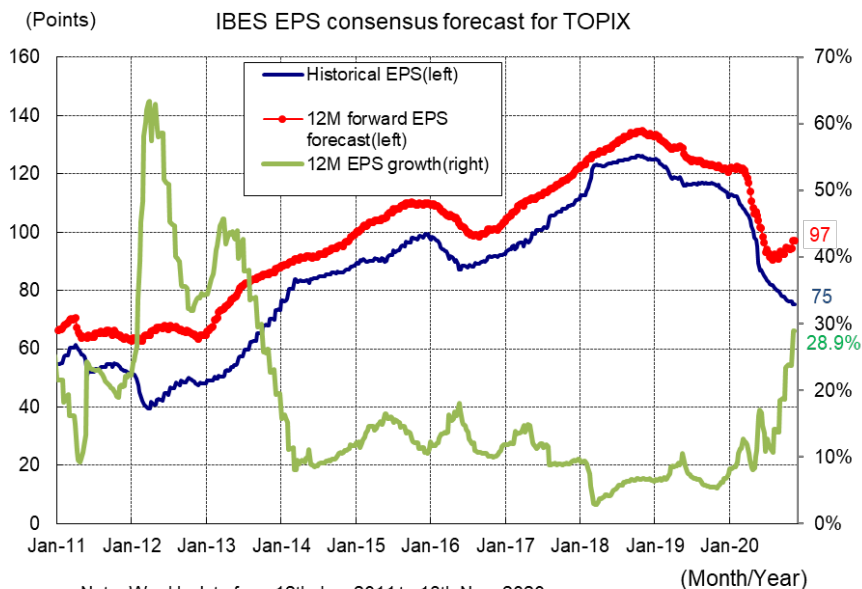
- PER for US stocks is extremely high, however, considering recent rise in US long-term bond yields, it seems to have hit a ceiling. For all countries and regions displayed on the left chart, rising EPS forecast made PER to decline despite rising share prices.
- Positive earnings momentum is strengthening for all countries and regions displayed on the middle chart.
- Difference in PBR reflects gap in ROE, however, Japan's PBR at 1.28 looks attractive.





# 12M forward EPS consensus growth forecast shows robust expansion

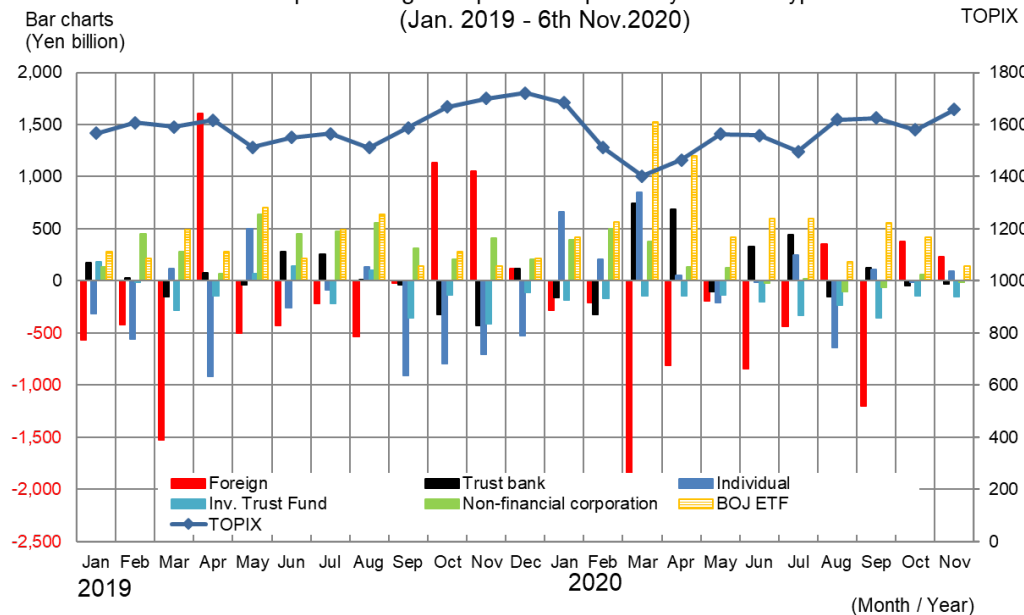
- 12M EPS consensus forecast has been bouncing back from September. Jul-Sep quarterly earnings results were generally better than preceding forecasts. Latest 12M forward EPS growth forecast rose sharply to 28.9%.
- Given the latest EPS forecast of 97, TOPIX at 1700 corresponds to PER of 17.5, which is higher than the historical range between 11 times and 15 times. This was initially 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. Current high PER is assuming strong and sustainable recovery of economy and corporate earnings in 2021, and PER will gradually come down to the normal range as such expectations materialize.



# Foreign investors have been buying back after large selling in September

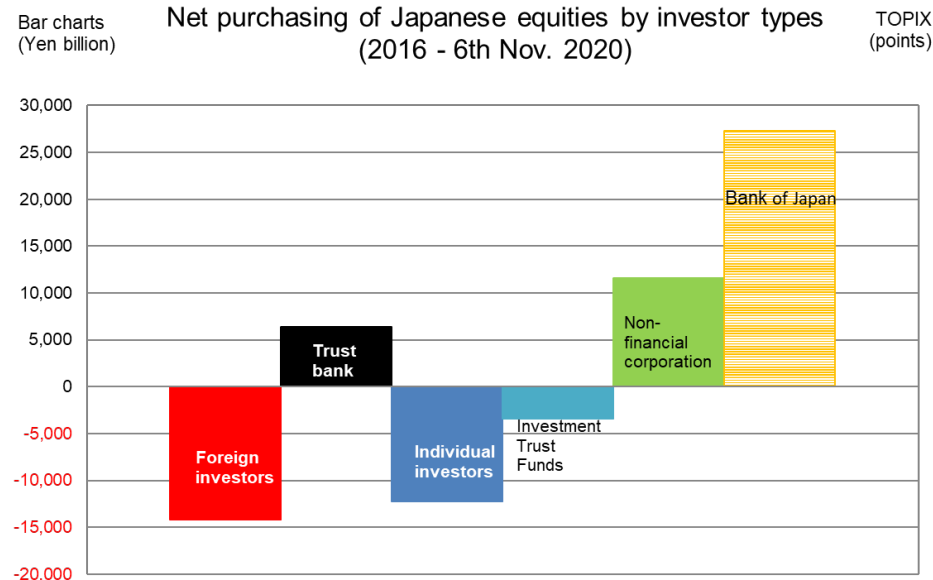
- Foreign investors sold Japanese equity in September and partly bought back in October and so far in November.
- Except for purchasing by BOJ, other investors stayed on sidelines.
- Many companies are postponing share buy-backs this fiscal year in the face of adverse business environments caused by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

Net purchasing of Japanese equities by investor types  
(Jan. 2019 - 6th Nov.2020)



Note: Data is for Tokyo stock exchange and Nagoya stock exchange up to 6th Nov. 2020.  
BOJ ETF figure is officially released data from BOJ.  
(Source) Japan Exchange Group, Bank of Japan

Net purchasing of Japanese equities by investor types  
(2016 - 6th Nov. 2020)



Note: Data is for Tokyo stock exchange and Nagoya stock exchange up to 6th Nov. 2020.  
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

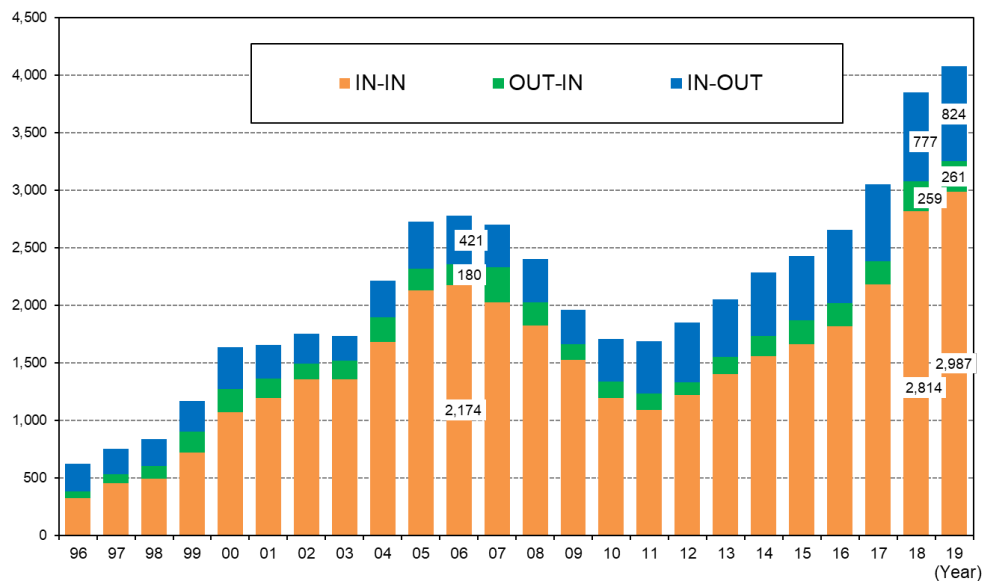
Note: As of 13th Mar. 2020.

(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.

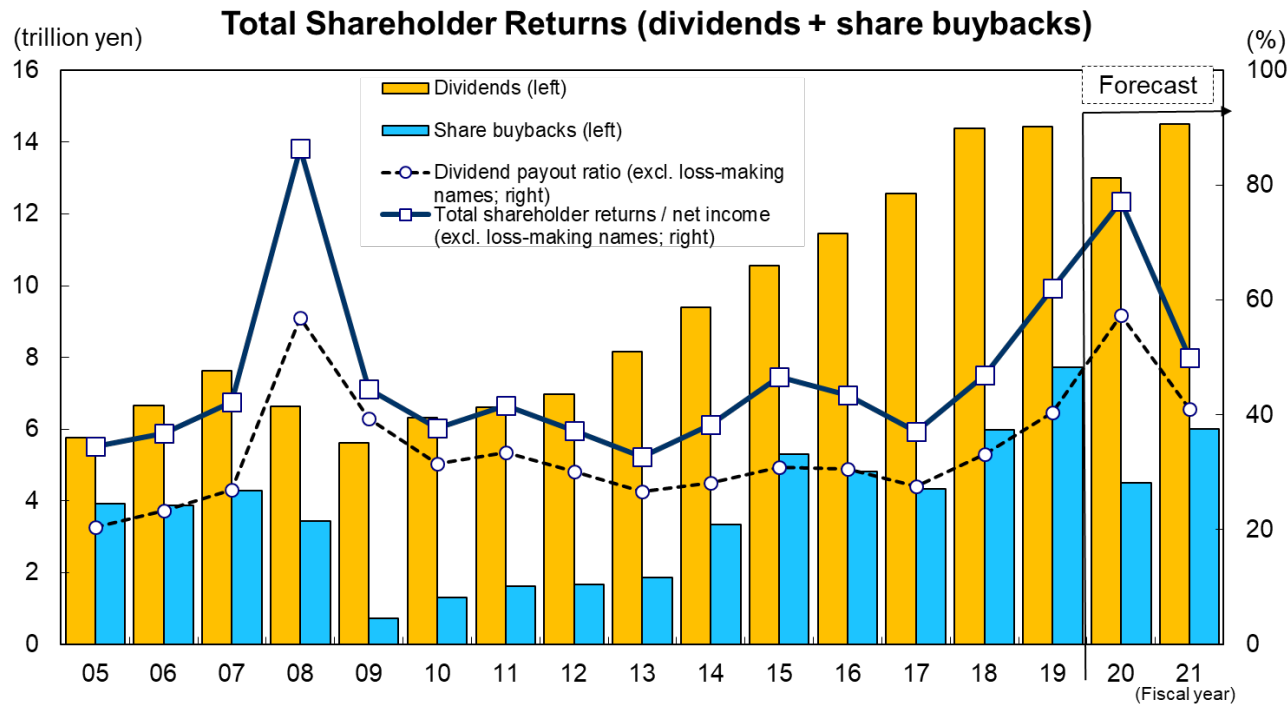
Number of M&A deals involving Japanese companies  
(Excluding transactions among the same business group)



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. 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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