

Japan Insight: BofA Strategy Monthly

Assessing upside risks to Japan equities; scenario of Apr-Jun rally

Investment Strategy

Market upside risks remain despite losing momentum

We continue to see upside risks to Japan equities and expect the market to rally in the Apr-Jun quarter. While the New Year rally in Japan equities seems to have paused, we believe it could be justified by the recent deterioration of the earnings revisions. That said, revisions are likely to recover from Apr-Jun, likely leading to another rally. We raise our end-2024 forecasts for Japan stocks (to TOPIX of 2,715pt, Nikkei 225 to ¥38,500).

Although yen appreciation is commonly seen as a risk to Japan stocks, our forex strategist has pointed out that the continued outward foreign direct investment (FDI) would constrain yen appreciation. Japan companies' earnings have become less sensitive to exchange rates as a result of a shift of production overseas and the improved quality of their exports. Exchange rates should not pose much of a risk to Japan stocks as long as the appreciation of the yen against cross-currencies remains moderate, in our view, as a weaker dollar vs. other currencies helps bolster the global economy.

Apr-Jun rally hinges on real wages and cyclical recovery

We believe the upside risk to stocks reaching all-time highs by end-2024 depends on the degree of improvement in earnings revisions. Although the risk of the bank of Japan (BoJ) ending its negative interest rate policy (NIRP) has risen, we see this as an opportunity in that there would be one less potential negative catalyst after the move. Potential rise in real wages in Apr-Jun following the BoJ's policy normalization should fuel earnings recovery. Additionally, if more companies provide disclosures per the Tokyo Stock Exchange (TSE)'s requests with full-year results, increased net purchases by overseas investors, coupled with a seasonal increase in corporates' share buybacks, are likely to amplify the market's upward trajectory. Furthermore, the cyclical recovery in manufacturing looks likely to strengthen from Apr-Jun. We find that both the EPS and share-price rebounds tend to accelerate in years when both the manufacturing cycle and real wages are recovering.

Stock selection: High-dividend stocks and quality cyclical

We believe the BoJ's policy normalization would be a tailwind for value stocks; dividend yield, in particular, should be an effective factor for stock selection until mid-March. The pause in the market's sharp climb is likely to pave the way for dip-buying of high-dividend-yielding stocks by individual investors given the Nippon Individual Savings Account (NISA) program expansion this year. If the market resumes its rally in Apr-Jun, it should lead to further upside for the quality cyclical stocks that overseas investors tend to prefer. Exhibit 34 shows the high-dividend stocks, and Exhibit 37 lists the quality cyclical names. As before, we expect to see an opportunity for some small caps to rebound, starting around spring.

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Refer to important disclosures on page 26 to 28.

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Investment Strategy
Japan

Masashi Akutsu >>
Strategist
BofAS Japan
+81 3 6225 7754
masashi.akutsu@bofa.com

Tony Lin, CFA >>
Equity Strategist
BofAS Japan
+81 3 6225 8123
tony.y.lin@bofa.com

Tetsuhiro Tokuyama
Strategist
BofAS Japan
+81 3 6225 8499
tetsuhiro.tokuyama@bofa.com

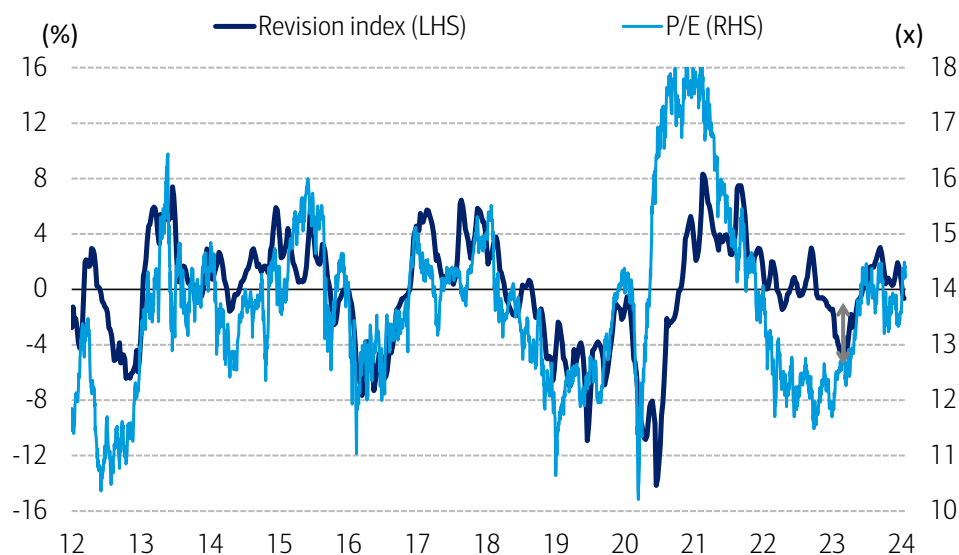
Market rally has paused, but upside risks remain

The rally in Japan stocks that suddenly began in early Jan has been dampened by the BoJ, which surprised the market by signaling at its Jan meeting that it is open to the possibility of ending NIRP.

This happened right when the stock market rally was already set to weaken. The recent sharp rally could be attributed partly to P/Es that were low relative to earnings forecast revisions, but they are already back to fair levels (the median of the TOPIX P/E range is 14.0x, vs. 13.5x at the start of the year). P/Es unsurprisingly stopped rising given revisions started worsening a bit recently (Exhibit 1). There is probably insufficient justification for additional risk-taking as long as the 3Q results are not good enough to spark upward revisions.

Exhibit 1: TOPIX revision index and 12-month forward P/E

Current market P/E trades above the level that earnings revision implies; earnings revisions slightly deteriorated



Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index.

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We see no need to be overly pessimistic, however. With the macroeconomic cycle providing a tailwind for Japan stocks, we believe the revision index is likely to improve in Apr-Jun and expect the rally in Japan stocks to resume in the same quarter. Although it is premature to forecast at this point, we cannot completely rule out the upside risk of stocks reaching new record-highs by end-2024, depending on where the revision index ends up.

Also, we slightly raise our year-end price forecasts for Japan equities, mainly marking to market our macro assumptions and reflecting the changes of P/E and N/T ratio. We now expect TOPIX to reach 2,715pt by end-2024 (vs. previous 2,650pt), based on forward P/E of 14.3x as of end-2023. This would translate into a Nikkei 225 price forecast of ¥38,500 (vs. previous ¥37,500), based on a N/T ratio of 14.2 (Exhibit 2). In a bullish scenario where the P/E increases to 15x, we believe TOPIX could regain the record-high since 1989 (2,880pt); if the N/T ratio maintains an elevated level, Nikkei 225 is likely to reach its historical high faster than TOPIX.

Exhibit 2: TOPIX, Nikkei forecasts and top-down EPS estimates

We expect TOPIX/Nikkei 225 to reach 2,715pt/¥38.5K in 2024

	TOPIX EPS	TOPIX EPS (YoY)	TOPIX (pt)	Nikkei225 (yen)
Mar '23 (A)	145.0	3.7%	2,004	28,041
Dec '23 (E)	165.1	13.9%	--	--
Dec '24 (E)	--	--	2,715	38,500
Dec '24 (previous)	--	--	2,650	37,500
Mar '25 (E)	178.9	8.3%	--	--
Mar '26 (E)	195.5	9.3%	--	--

Source: BofA Global Research

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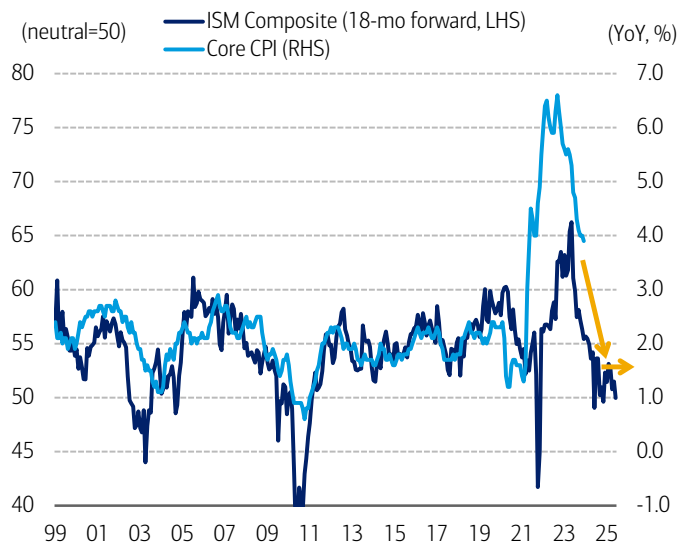
Disinflation in US is likely to continue in near term

Next, we summarize the external environment. A stable US economy is a prerequisite for Japan stocks to rise, and we expect the Fed to start cutting rates in response to disinflation.

The inflation rate is a lagging indicator, and we can get a general idea of its trend by looking at leading indicators. The US CPI has a strong tendency to lag the Institute for Supply Management (ISM) composite index and the financial conditions index by 18 months (Exhibit 3, Exhibit 4). Although not a hard and fast indicator, inflation is still reflecting with a lag the economic slowdown following the pandemic, and disinflation is likely to persist until mid-2024. The Fed could cut rates in 1H 2024. The resilience of the US economy implies disinflation could weaken in 2H. The rate cuts the market is pricing in could be somewhat excessive (our US economics team expects a total of four in 2024, with the first one in March). For details, see our 26 Jan [US Economic Weekly](#) report.

Exhibit 3: ISM Composite (18-month forward) and US core CPI

ISM Composite points to a near-term disinflation, then stabilization in 2024

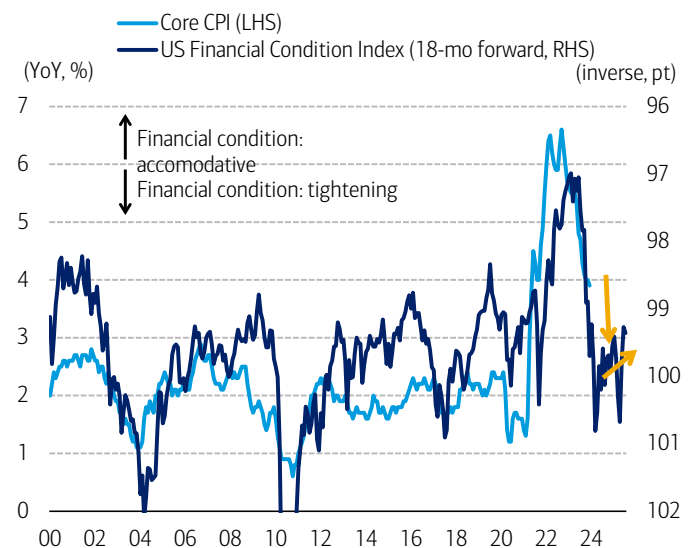


Source: BofA Global Research, Bloomberg

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Exhibit 4: Financial Condition Index and US core CPI

The Financial Conditions Index also points to a near-term disinflation, then stabilization in 2024



Source: BofA Global Research, Bloomberg

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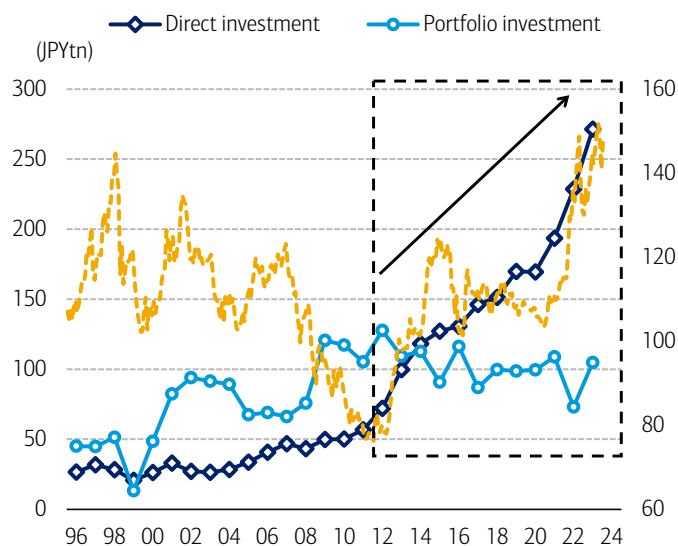
Earnings have become less sensitive to exchange rates

As for exchange rates, many investors have worried about yen appreciation ever since the possibility of Fed rate cuts emerged as a market theme in Oct-Dec 2023. Yen appreciation would not be that surprising given the dollar tends to weaken against other currencies once the Fed begins a rate-cut cycle (for details, see our 24 Jan [World at a Glance](#) report). However, our forex team does not believe the yen is the ideal currency to purchase when selling dollars and therefore expects the yen's appreciation against other currencies to be limited (the team forecasts USD/JPY of 142 at end-2024 and 136 at end-2025). The most likely pattern is either dollar and yen depreciation or dollar depreciation combined with moderate yen appreciation.

There are reasons why conditions are less conducive to yen appreciation than they used to be. As noted by our forex team, there has been a change in the supply-demand structure of exchange rates. Ten years ago, the majority of Japan's net foreign assets consisted of foreign bonds and other securities investments, and the repatriation of this capital during risk-off periods caused the yen to appreciate sharply. Now, though, outward FDI accounts for most of Japan's net foreign assets (Exhibit 5). Such investments tend to be unidirectional, making them less liquid and more difficult to repatriate, and hence they tend to drive yen selling persistently (for details, see the team's 22 May [Liquid Insight](#) report). It was after Japan's outward FDI increased that exchange rates started diverging from fair value based on Japan/US rate differentials and purchasing power parity (Exhibit 6).

Exhibit 5: FDI and portfolio investment and USD/JPY

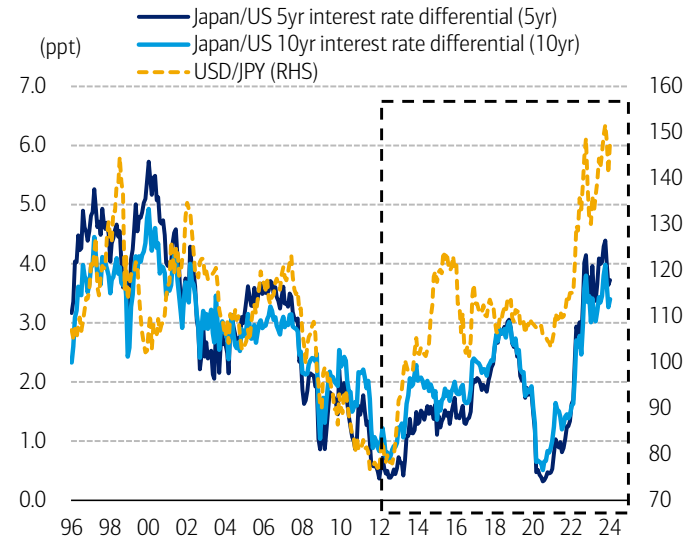
FDI increased significantly in recent years



Source: BofA Global Research, Bloomberg, MoF

Exhibit 6: US-Japan yield differentials (5-yr, 10-yr) and US/JPY

The yield differentials widened with the increase of FDI



Source: BofA Global Research, Bloomberg

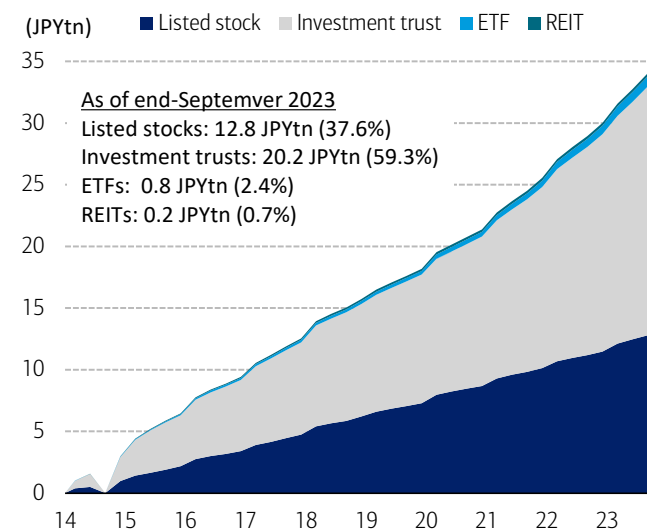
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If the Fed rate cuts guide the US economy to a soft-landing, they may not be a factor leading to yen appreciation. First, the increase in NISA account limits will change fund flows (for details, see our 11 Jan [FX Watch](#) report). About 60% of NISA funds are invested in mutual funds and ETFs, many of which are invested in foreign stocks (Exhibit 7, Exhibit 8). This tends to trigger automatic dollar buying and yen selling. Although the Fed rate cuts by themselves put upward pressure on the yen, this yen appreciation would be moderated by Japan individual investors' purchases of US stocks if the rate cuts help avert the US recession.

Exhibit 7: NISA purchased amount by asset classes

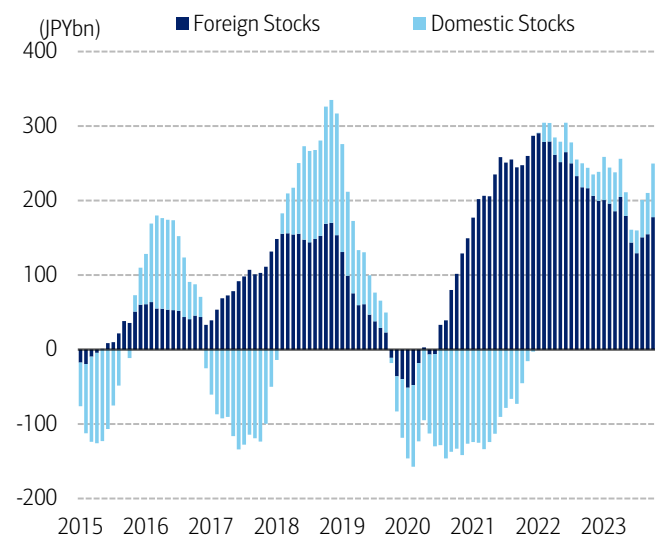
60% of NISA flows went into investment trusts



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Exhibit 8: Publicly offered investment trusts: domestic vs. foreign stock flows (12MMA)

Foreign stocks > domestic stocks



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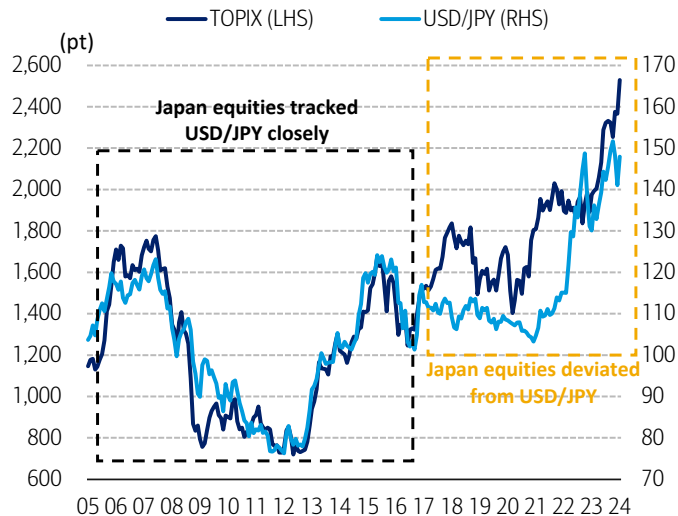
Second, to the extent that rate cuts increase the likelihood of a soft-landing, they tend to encourage carry trades based on interest rate differentials. Third, if a significant weakening of the US economy can be avoided, the total cumulative rate cut is unlikely to be as large as the market expects (for details, see the 11 Jan report noted above).

It is important to see the exchange rate impact on Japan stocks as multifaceted. Japan companies' shift of production overseas, as a part of outward FDI, together with improvements in the quality of exports have reduced the sensitivity of Japan stocks and earnings to exchange rates (Exhibit 8). Broad dollar depreciation against other currencies often leads to a rebound in both the export volumes and earnings of Japan companies because a weaker dollar lowers dollar funding costs and the effective costs of dollar-denominated debt and thereby stimulates the global economy (Exhibit 9).

Consequently, a rise in Japan stocks even in dollar terms is more often associated with periods of dollar and yen depreciation or dollar depreciation combined with moderate yen appreciation rather than with periods of dollar appreciation and yen depreciation (if growth in export volume driven by dollar weakness is lacking, the percentage rise in stock prices is more than offset by yen depreciation; Exhibit 10). The rally in Japan stocks in Apr-Jun 2023 and this Janu was driven not by yen depreciation but rather by the dollar weakening broadly against other currencies (Exhibit 11). This should continue if the period of strong appreciation is already running out of steam. We believe exchange rates are unlikely to be a major risk for Japan stocks.

Exhibit 9: TOPIX and USD/JPY

Lower correlation vs. that before 2016

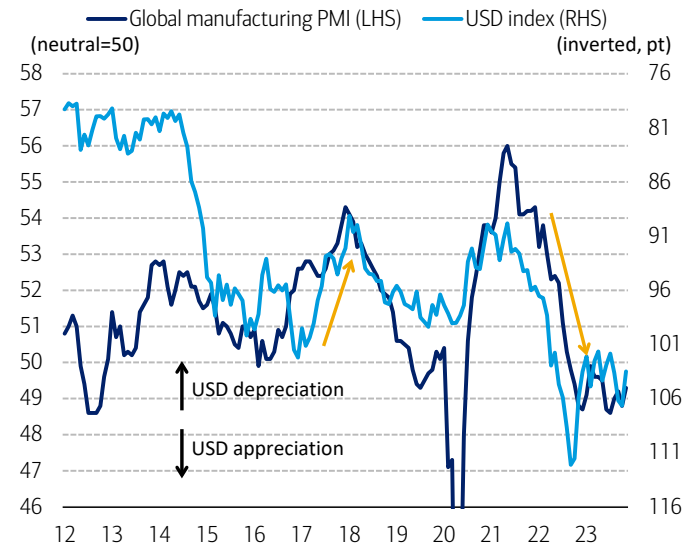


Source: BofA Global Research, Bloomberg

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Exhibit 10: Global manufacturing Purchasing Managers' Index (PMI) and USD/JPY

A weaker USD/JPY helps stimulate the global economy

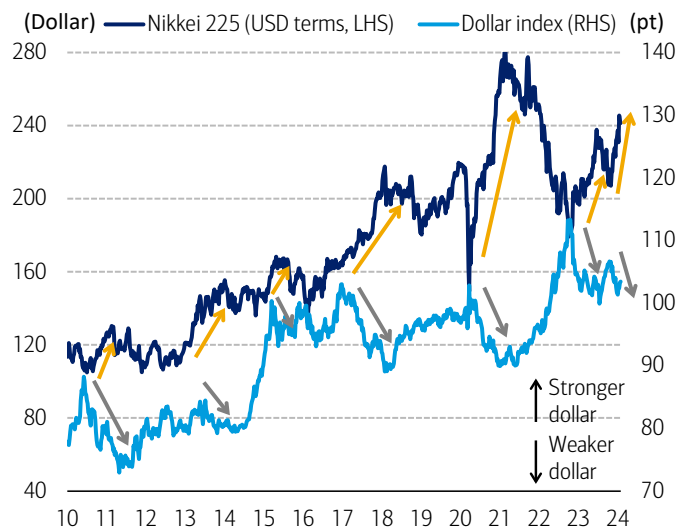


Source: BofA Global Research, Bloomberg

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Exhibit 11: Nikkei 225 (dollar terms) and dollar index

Japan equities tend to increase when the greenback weakens

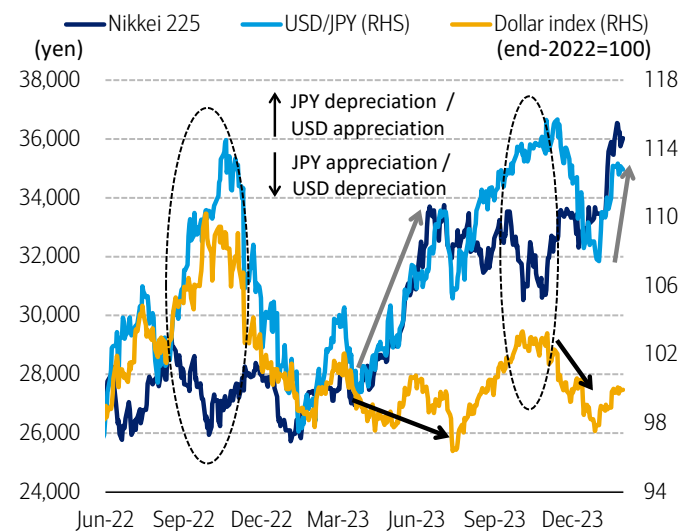


Source: BofA Global Research, Bloomberg

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Exhibit 12: Nikkei 225, USD/JPY and dollar index

A weaker dollar and a weaker yen helped boost equity rally in Apr-Jun 2023 and this year



Source: BofA Global Research, Bloomberg

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BoJ's NIRP removal would not be negative

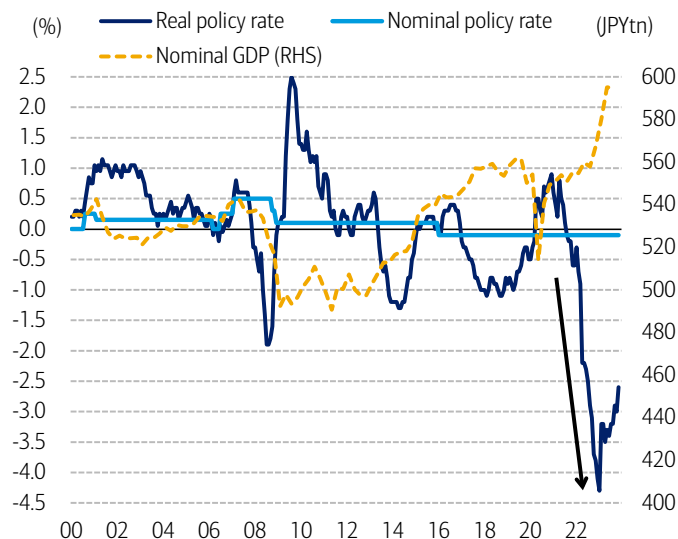
As for the BoJ, we believe an end to the NIRP would be a positive in that it would remove one potential negative. The BoJ probably changed its tone regarding an end to the NIRP because its discussions with companies gave it more confidence in base pay increases this spring. If this view is correct, then monthly wages can be expected to rise in Apr-Jun, after the spring wage negotiations.

Rates are likely to reach positive territory gradually, based on BoJ Governor Ueda's remark about trying to avert discontinuity in its exit strategy. An end to the NIRP in March or April would quickly remove a major potential negative from the equation (our economics team sees an April end as most likely; for details, see the team's 23 Jan [Japan Watch](#) report) and allow the market to turn its attention to real wage growth.

For starters, an end to the NIRP would not inherently be negative. The biggest problem in the past was that deflation and disinflation kept the real policy rate from falling sufficiently (Exhibit 13). If inflation takes hold, the real policy rate would be lower than before, even with moderate rate hikes. As long as the rate hikes are gradual, nominal GDP growth is likely to remain above interest rates (Exhibit 14). When real investment returns consistently exceed funding costs, it is appropriate for companies to increase their leverage and invest. Such a scenario would also be positive for risk assets overall.

Exhibit 13: Policy rates and nominal GDP

Real policy rate remains negative

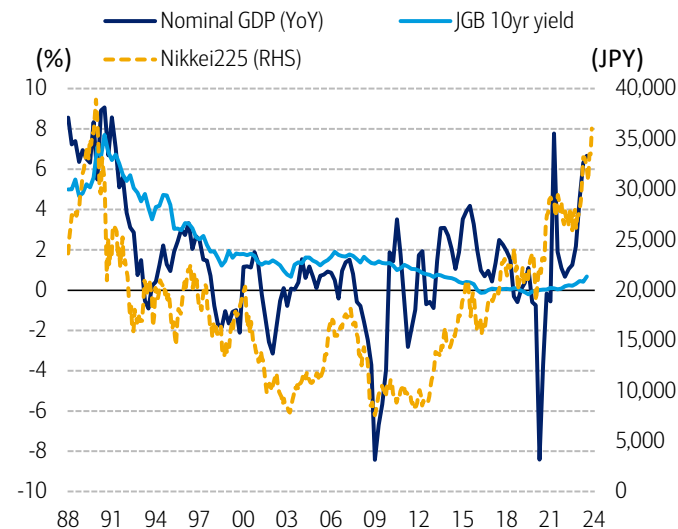


Source: BofA Global Research, INDB
Based on core CPI (ex-consumption tax impact)

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Exhibit 14: Nominal GDP, JGB 10-yr rate and Nikkei 225

Nominal GDP surpassed JGB 10-yr rate



Source: BofA Global Research, Bloomberg, Refinitiv

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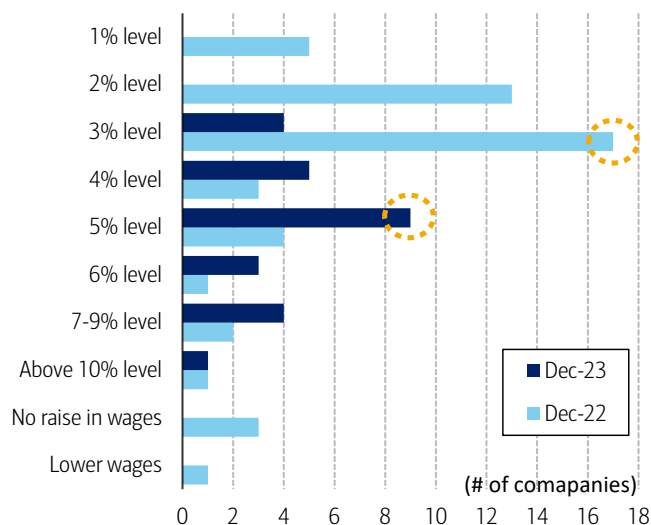
Prospects for Apr-Jun market rally; rise in real wages

Meanwhile, the outlook for Apr-Jun onward would become clearer after an end to the NIRP. First, real wages are increasing likely to rise. The Nikkei's previous survey of 100 company presidents in Dec 2023 on the key spring wage negotiations showed the largest number of responses on the expected average pay increase was in the 3.0% range. The actual increase was 3.6% (Exhibit 15). Given the expected increase in the latest survey is up to the 5.0% level, an increase in the 4.0% range can be expected if annual salary increases are around 1.5% (our economics team forecasts across-the-board base pay increases of 2.5-3.0%; see the team's 10 Jan [Wages update](#) report). As in 2023, monthly wages should start to rise in Apr-Jun, after the spring wage negotiations.

Another barrier to real wage growth is the easing of cost-push inflation. The path ahead could already be in sight. Upstream inflation, a leading indicator, shows a change in the nature of inflation, namely a significant weakening of goods inflation but a pickup in services inflation along with wage increases (Exhibit 16). The same is happening with inflation at the consumer level (for details, see the 26 Jan [January CPI](#) report). Real wages thus appear to be on the verge of rising.

Exhibit 15: "Survey of 100 corporate presidents": expectations of Spring wage negotiation rate

"5%" answers most concentrated in Dec-23, surpassing "3%" in Dec-22

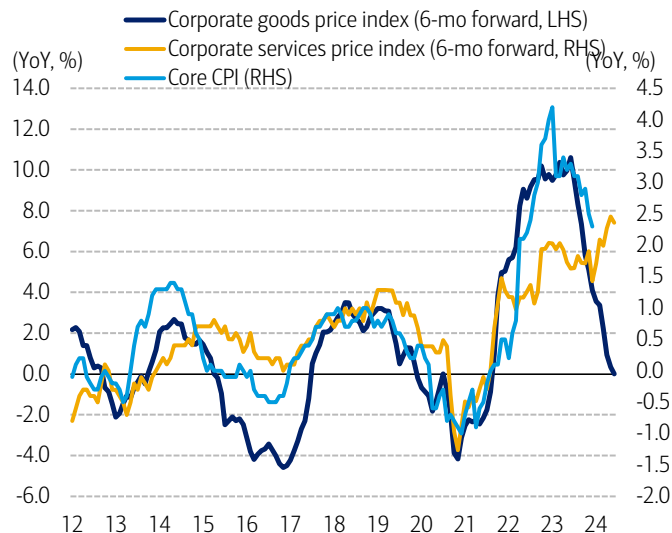


Source: BofA Global Research, Nikkei Shinbun
Note: Survey period from Dec 7-21, 2023.

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Exhibit 16: Corporate goods price index, corporate services price index and core CPI

Upstream inflation slowed, while services inflation picked up



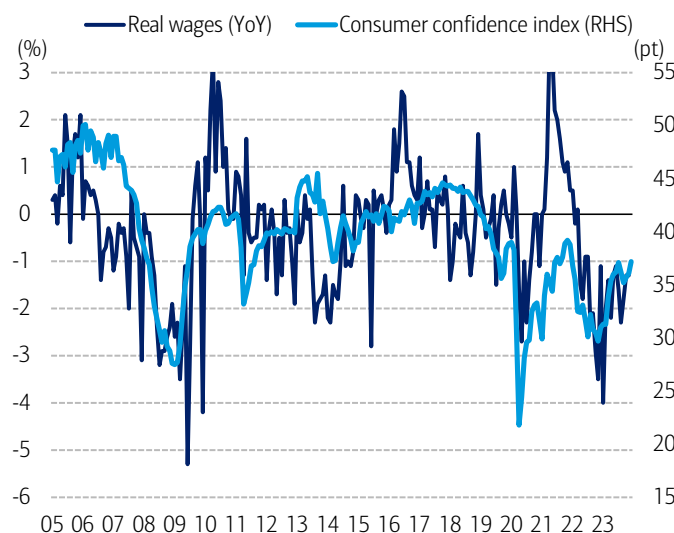
Source: BofA Global Research, INDB, BoJ
Note: excluding consumption tax impact

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If real wages rise in Apr-Jun, revisions are also likely to improve, and consumers' purchasing power would increase (Exhibit 17, Exhibit 18). In addition, as evidenced by the current deterioration in revisions, price increases are not very sustainable with cost-push inflation but are smoother with wage inflation. When labor costs (wages) rise, margin deterioration is typically avoided through increased consumption and price increases (Exhibit 19).

Exhibit 17: Real wages and consumer confidence index

Real wage growth helps improve consumer confidence

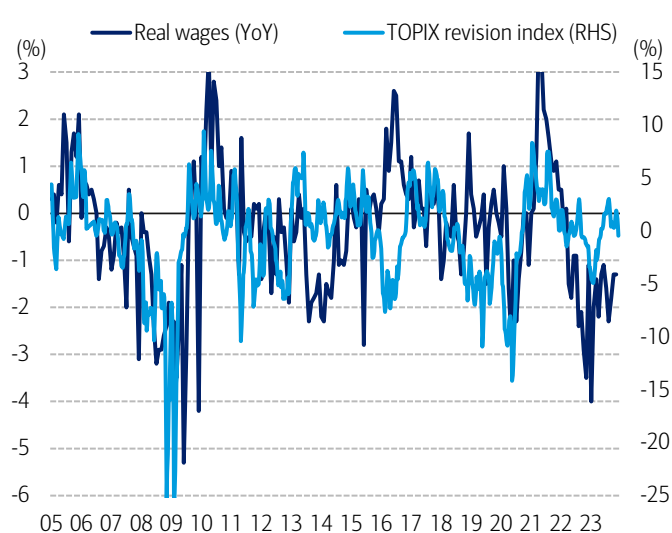


Source: BofA Global Research, Bloomberg, INDB
Note: Real wages exclude the impact of consumption tax hike; based on common business since 2016.

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Exhibit 18: Real wages and TOPIX revision index

TOPIX revision index tends to improve when real wages increase

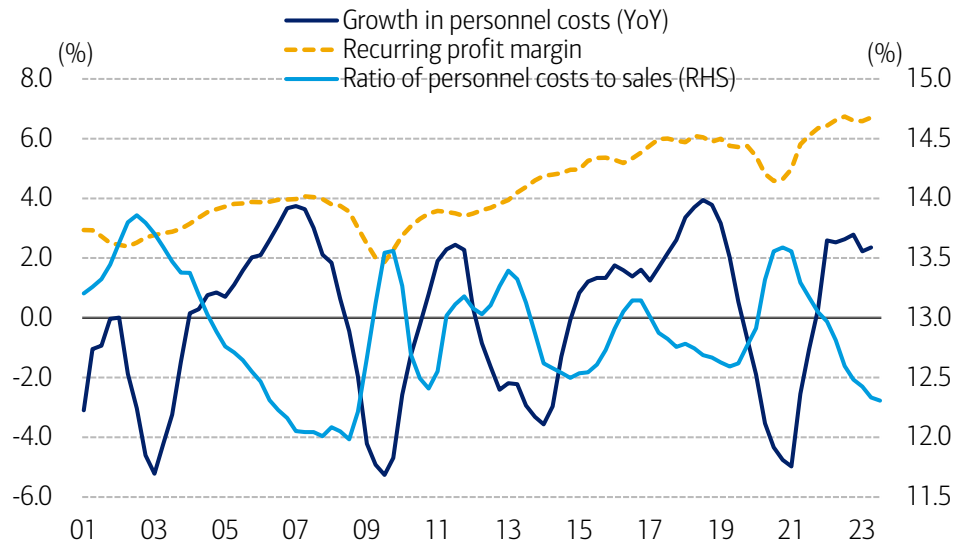


Source: BofA Global Research, Refinitiv, INDB
Note: Real wages exclude the impact of consumption tax hike; based on common business since 2016. Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index

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Exhibit 19: Growth in personnel costs, the ratio of personnel costs to sales and profit margin

A rise in personnel costs tends to increase sales, eventually lowering the ratio of personnel costs to sales



Source: BofA Global Research, MoF
Note: All industries, all sizes.

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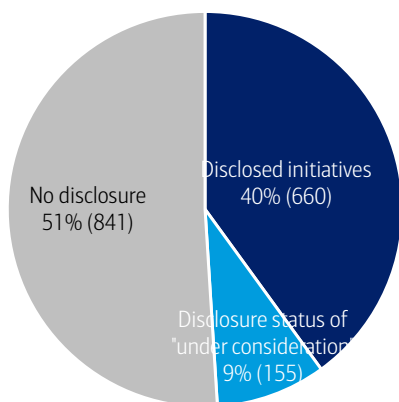
Share buybacks and overseas inflows to increase in Apr-Jun

Another positive in Apr-Jun is the TSE's pressure on companies to boost their P/Bs. If rising real wages bolster confidence that inflation will stick, companies will become more aware of the irrationality of building up cash and be encouraged to invest in productivity improvements and use capital more effectively than before. The TSE's pressure on companies to boost their P/Bs represents institutional support for this effort.

In particular, the list of companies that responded to the TSE's request, which was released on 15 Jan and is updated monthly, is a move that very much introduces an "element of shame" into what companies do or do not. Half of the companies had not disclosed any recommended actions as of end-2023. We expect reform plans to become more widely publicized along with the announcements (around May) of full-year results, guidance for next fiscal year, and medium-term plans (Exhibit 20, Exhibit 21).

Exhibit 20: Status of Disclosure on “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

Half of Prime Market has not disclosed

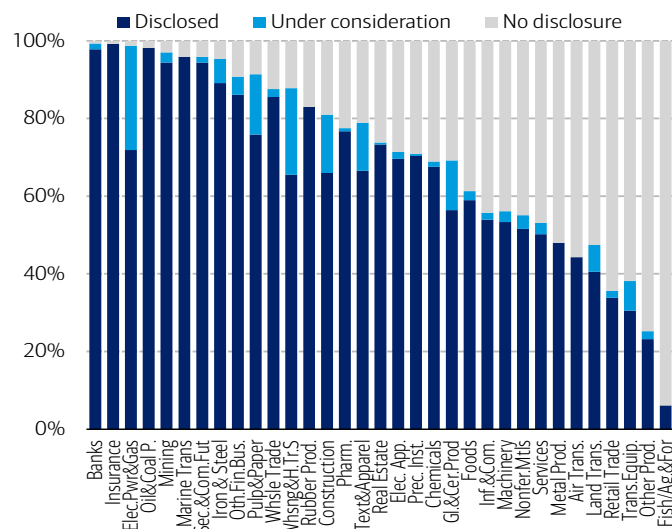


Source: BofA Global Research, JPX
Note: as of the end of Dec 2023.

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Exhibit 21: Status of Disclosure on “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

Value sectors tend to have a higher disclosure rate



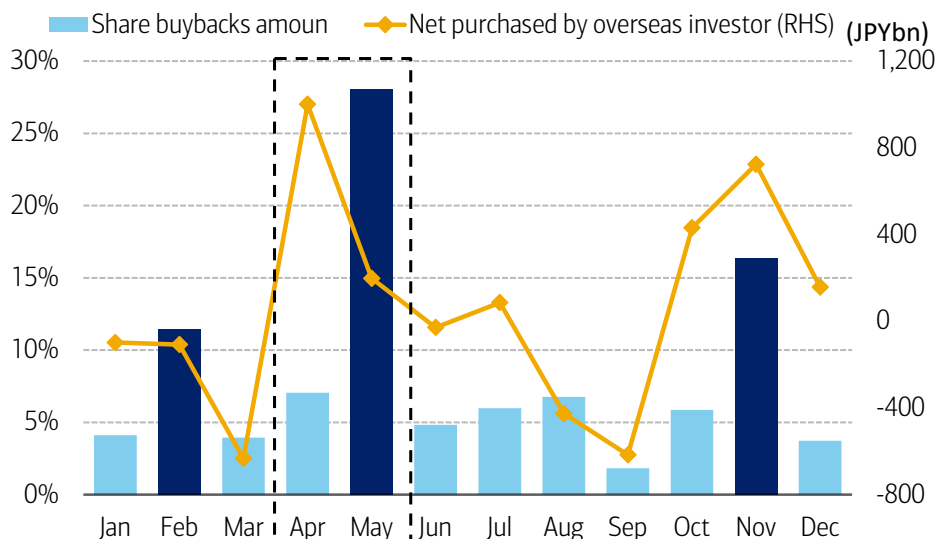
Source: BofA Global Research, Japan Exchange Group (JPX), QUICK
Note: as of the end of Dec 2023

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As a result, two seasonal patterns are likely to be more pronounced than before. First, share buybacks are likely to increase in support of the reform proposals, and the seasonal tendency for buybacks to rise when companies announce their full-year results around May would be amplified. In addition, after the BoJ meeting in April (or later if the BoJ ends the NIRP in March), it would not be surprising if nonresident investors' purchases of Japan stocks substantially increase, as they usually do in April owing to tax refunds and other factors, in anticipation of growth in share buybacks (Exhibit 22). This development is likely to be a tailwind for Japan stocks in Apr-Jun.

Exhibit 22: The seasonality of share buybacks and net purchases by overseas investors

Seasonality shows overseas investors' purchases tend to pick up in April, followed by the increases of corporate buybacks in May



Source: BofA Global Research, QUICK
Note: based on TOPIX500 constituents. From Jan 2011 to Mar 2023.

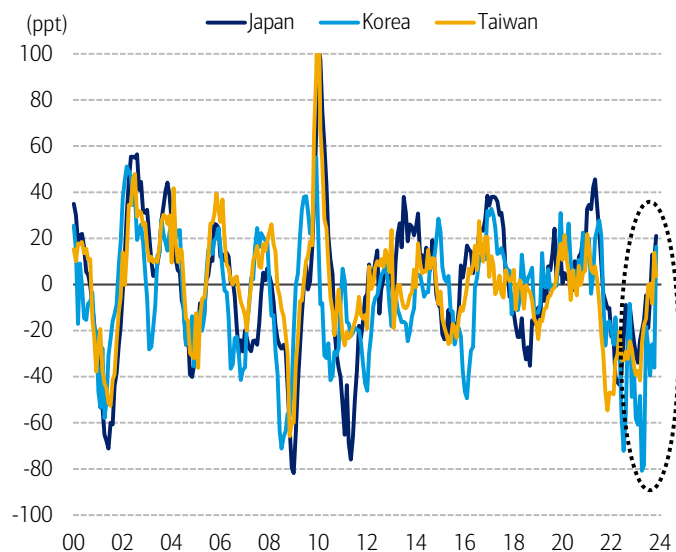
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Manufacturing economy and real wages likely to rebound in 2024

An encouraging external factor is that the manufacturing cycle has likely begun to recover. The manufacturing cycle is in a bottoming-out phase that occurs every three to four years, and the shipment-inventory balance for electronic components/devices, a strong leading indicator, shows signs it will continue to recover (Exhibit 23, Exhibit 24). Revisions for Japan companies, a high proportion of which are manufacturers, are also likely to improve in Apr-Jun, following the current fiscal year's results, and in Jul-Sep, following the results for 1Q next fiscal year (Exhibit 25, Exhibit 26).

Exhibit 23: Electronic device shipment-inventory balance in Japan, Korea and Taiwan

Leading indicator implies further improvement of inventory cycle

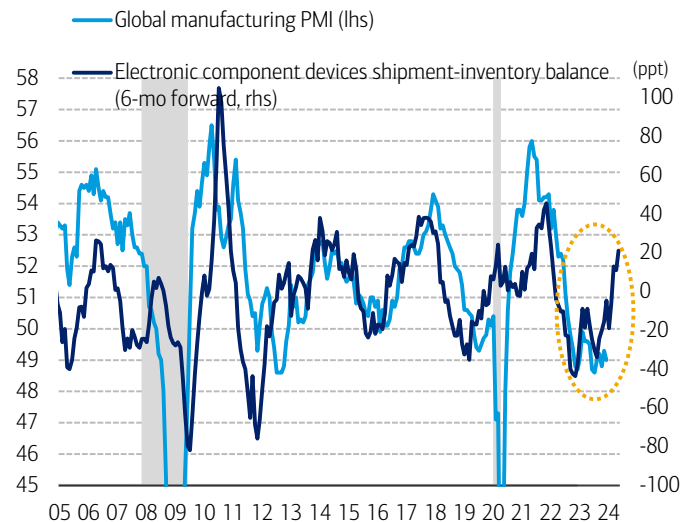


Source: BofA Global Research, Refinitiv

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Exhibit 24: Global manufacturing PMI and the shipment-inventory balance of electronic components

Manufacturing cycle (every 3-4 years) could be in the bottoming phase

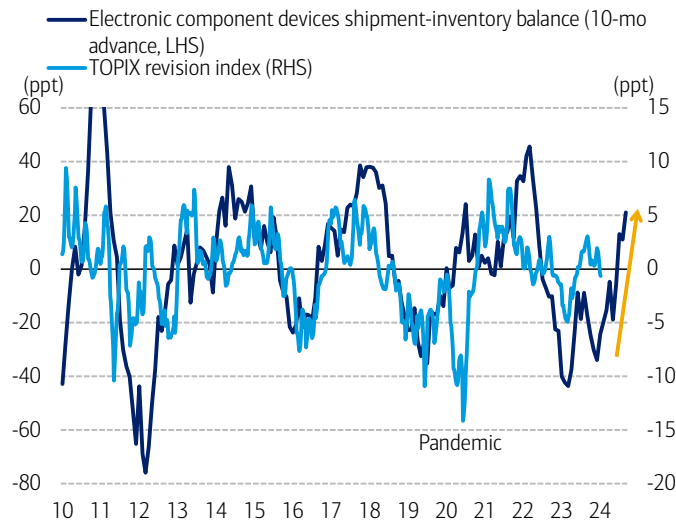


Source: BofA Global Research, Refinitiv, S&P500 Global

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Exhibit 25: TOPIX revision index and the shipment-inventory balance of electronic components

Leading indicator implies further improvement of the revision index



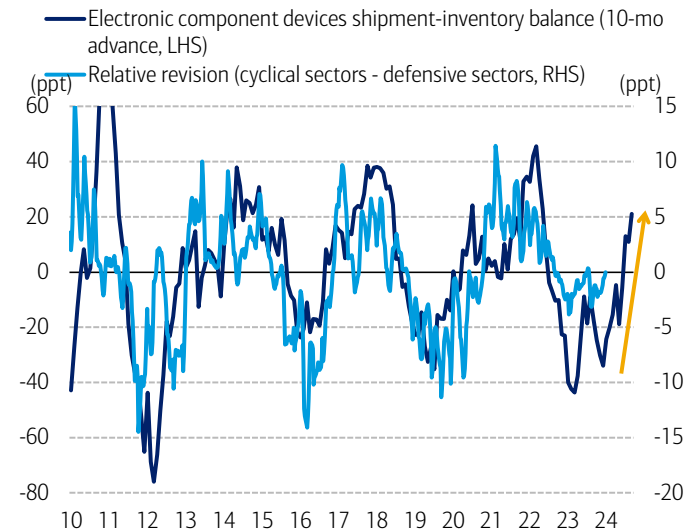
Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index.

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Exhibit 26: Relative revision index (cyclical sectors vs. defensive sectors) and the shipment-inventory balance of electronic components

When the leading indicator improves, cyclical sectors tend to recover strongly in terms of revision ratio



Source: BofA Global Research, Refinitiv

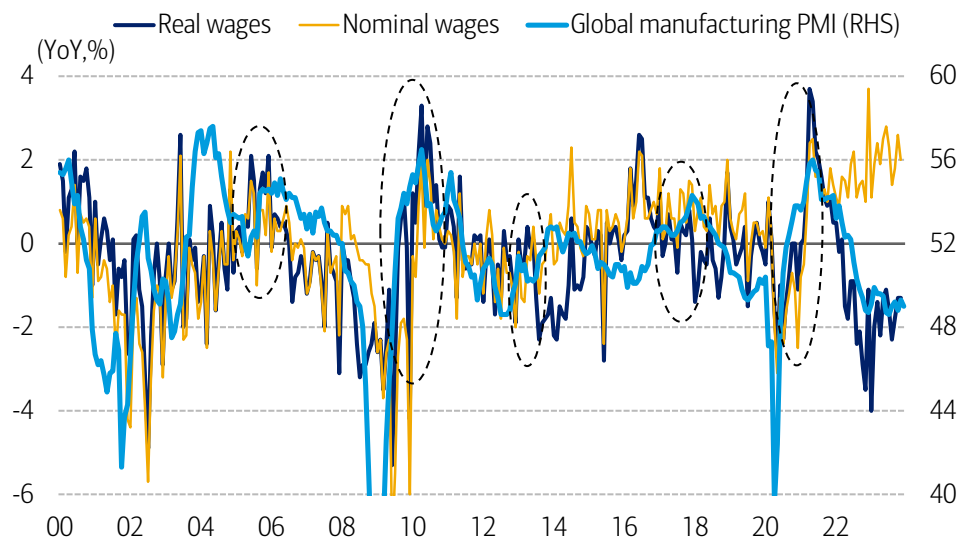
Note: Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index.

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The manufacturing cycle and real wage rebounds are likely to coincide this year, as they did in 2005, 2009, 2013, and 2020. The macro cycle is considered favorable for Japan equities, as rebounds in EPS and stock prices accelerated in all of these years (Exhibit 27).

Exhibit 27: Real wages, nominal wages and global manufacturing PMI

In 2005, 2009, 2013, 2017, and 2020, manufacturing cycle recovered with real wages, leading to EPS and share-prices rally



Source: BofA Global Research, S&P500 Global, INDB

Note: Real wages exclude the impact of consumption tax hike; based on common business since 2016.

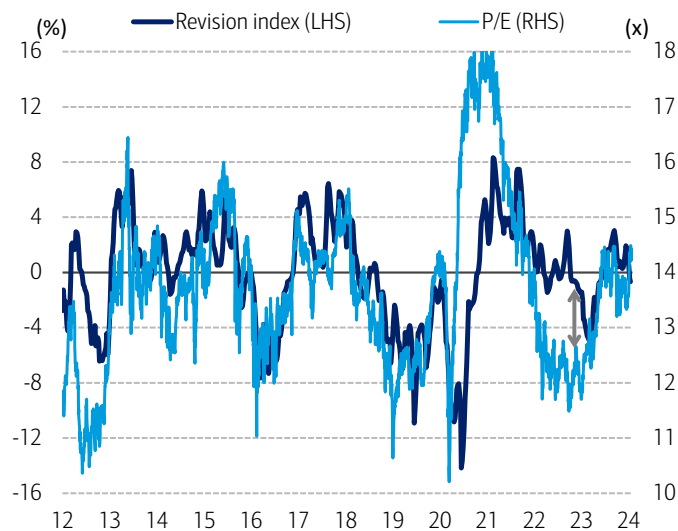
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As noted earlier, earnings forecast revisions look likely to improve. The extent to which the market ends up rallying could depend on the degree of revision improvement. The market's P/E rises to 16x, the upper end of the range, when revision is rising toward a peak (Exhibit 28). For example, for the market to top its all-time high in 1989 in 1H, its P/E would have to be above 16x, the upper end of the range; The hurdle might be high,

judging from the recent earnings revision ratio. Yet this achievement is not out of the question in 2H 2024, depending on revisions and the degree of P/E expansion (Exhibit 29). Meanwhile, regaining the all-time high in 2H 2024 would mean the market P/E surpassing current level, likely reaching 15x. If this scenario were to play out, the market from a supply-demand perspective would probably be in a phase of accelerated share buybacks in connection with corporate reforms, a rise in overseas investors' Japan stock weightings, and a shift among retail investors, who are getting younger on average, to a momentum-oriented stance (Exhibit 31).

Exhibit 28: TOPIX revision index and 12-month forward P/E

Current market P/E trades above the level that earnings revision implies; earnings revision slightly deteriorated



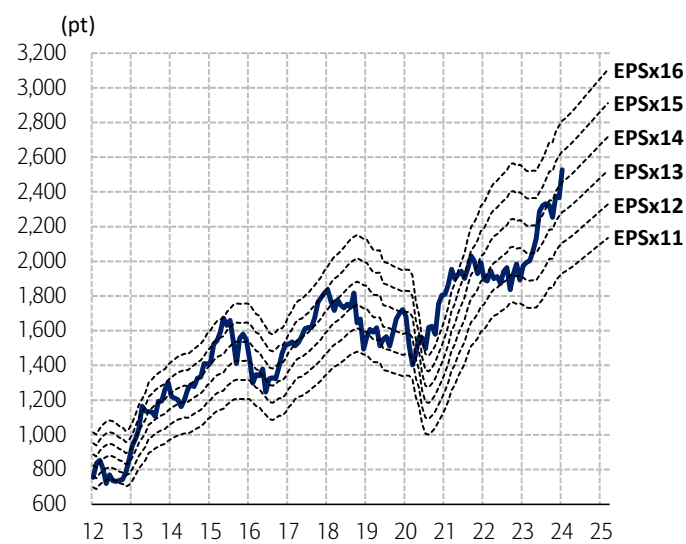
Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index.

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Exhibit 29: TOPIX and 12-month forward P/E band

If P/E reaches 15-16x, TOPIX could break the record-high since 1989 (2,880pt)



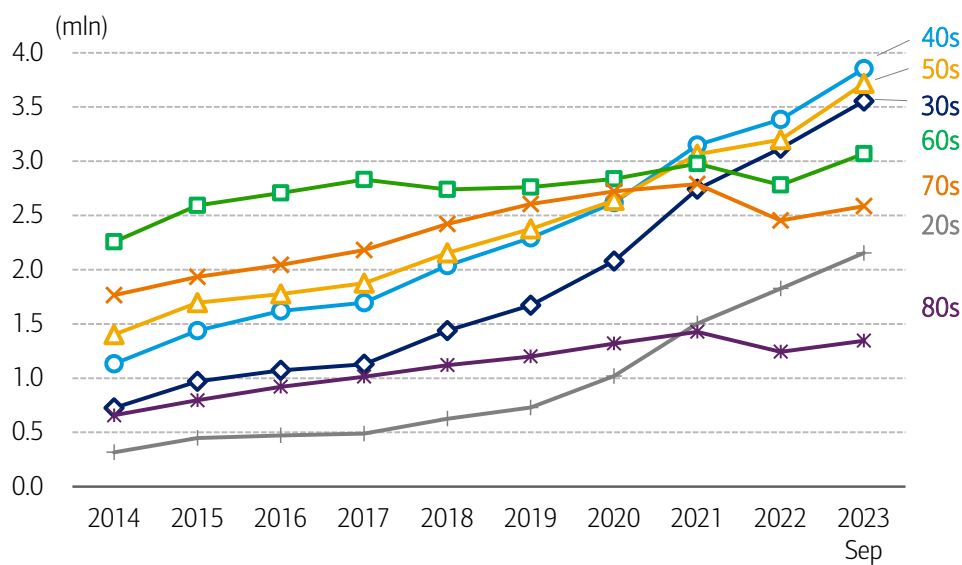
Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward EPS estimate, 4 week MA for revision index

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Exhibit 30: NISA account by age

Generational shift: more people in their 30s and 40s joined NISA since 2021, vs. the dominance of 60s and 70s in 2014 when the NISA program was introduced



Source: BofA Global Research, S&P500 Global, INDB

Note: Real wages exclude the impact of consumption tax hike; based on common business since 2016.

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The US presidential election in Nov, however, could lead to some uncertainties in Jul-Sep. The market implications would depend on whether the next president is a Democrat or a Republican and on the makeup of both the chambers of Congress. It is difficult to lean toward a particular scenario. In any case, we expect the market to rally late in the year, after the election.

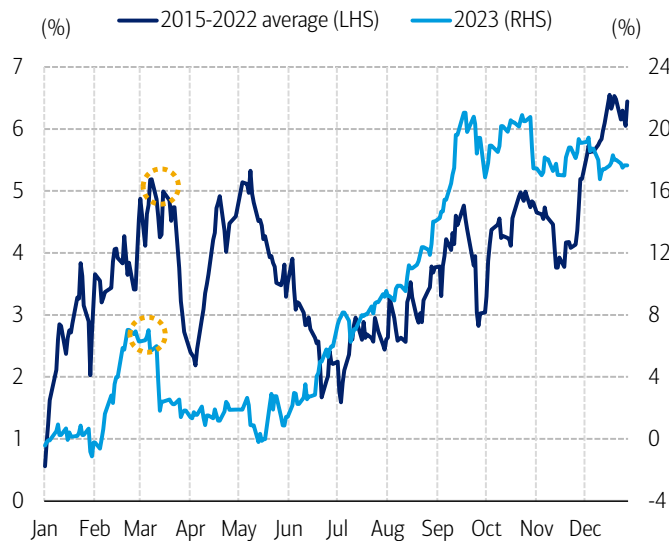
Dividend yield has been seasonally effective factor until mid-March

We end by summarizing our view on stock selection. Anticipation of a change in BoJ policy is likely to boost value stocks in the near term, but high-dividend yielding stocks are likely to be favored because dividend yield is seasonally a very effective factor until mid-March (performance worsens after a stock goes ex-dividend and then starts improving again ahead of possible announcements of dividend increases along with full-year results; Exhibit 31). Since Oct-Dec 2023, the performance of value stocks has been heavily affected by expectations of Fed rate cuts, but high-dividend yielding stocks have been relatively stable (Exhibit 32).

If the market's strong uptrend lets up, dip-buying by individual investors after the new NISA program starts is likely to be a catalyst for high-dividend yielding stocks. In fact, stocks with higher individual investor ownership (defined as the free float weighting excluding the holdings of institutional investors and insiders) tend to have higher dividend yields (Exhibit 33, which places stocks into five groups based on this ownership ratio). The established notion that individual investors prefer dividends thus seems to be on the mark. Exhibit 34 shows stocks with a dividend yield of at least 2.8% and a minimum required investment of less than ¥1mn.

Exhibit 31: The seasonality of divide

Seasonality shows dividend yield factor tends to work until mid-March

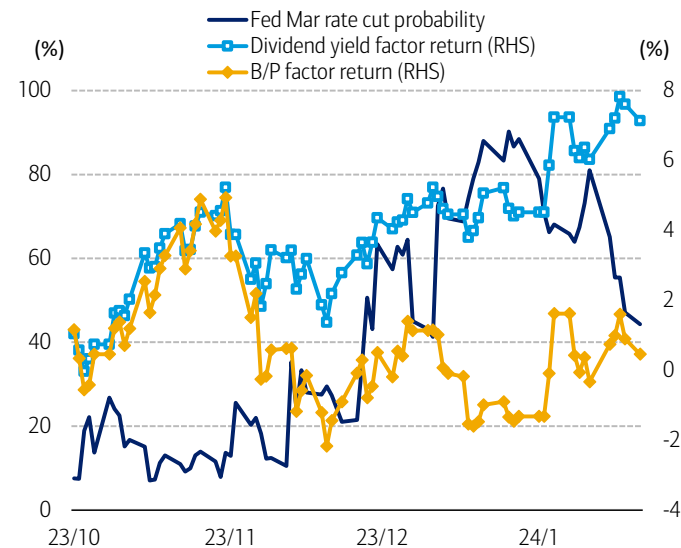


Source: BofA Global Research, FactSet

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Exhibit 32: Market pricing of Fed Mar rate cut possibility, dividend and B/P cumulative factor return

Low-P/B stocks moved inversely with the Fed pricing; high-dividend names tend to be more stable

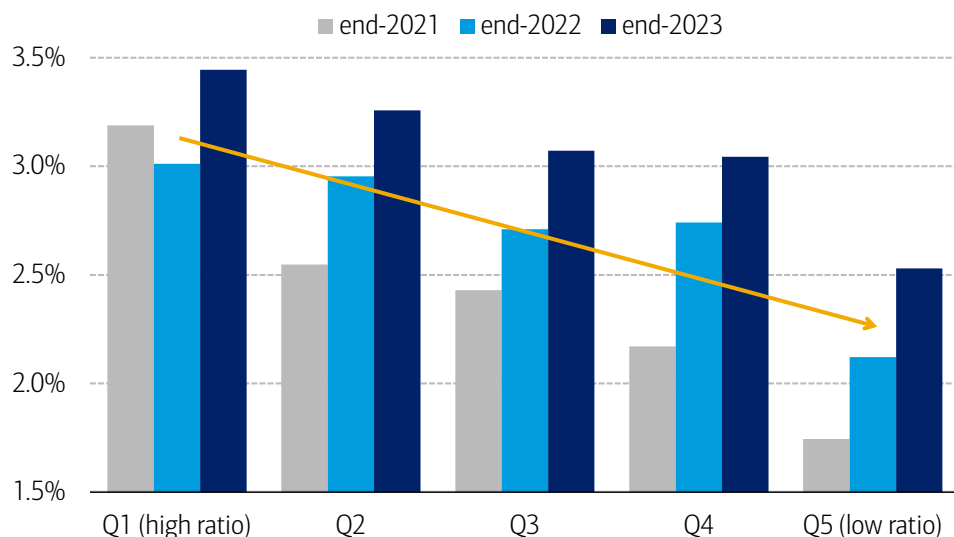


Source: BofA Global Research, CME group, Bloomberg

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Exhibit 33: Estimated retail investors' holding ratio by 5 quantiles: Average dividend yield by the end of 2021, 2022 and 2023

Stocks with high retail holding ratio tends to have high dividend yield



Source: BofA Global Research, FactSet

Note: We adjust the retail holding stock ratio based on market float. We divide TOPIX1000 companies into 5 groups, then calculate the average of dividend yield by the end of 2021, 2022 and 2023.

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Exhibit 34: Stocks with shareholder returns

Dividend yield above 2.8%, unit investment below JPY1mn, FY2 ROE above 6%, FY1 RP revision above -3%

Code	Name	Sector	Mkt cap (bn JPY)	ROE (FY2,%)	P/E (FY2,x)	RP revision (FY2, vs. 3 months prior,%)	Unit investment (mil JPY)	YTD relative return (vs. TOPIX)
8306	MITSUBISHI UFJ FINANCIAL GRO	Banks	16,027	7.7	11.0	5.4	0.14	19.7
9432	NIPPON TELEGRAPH & TELEPHONE	Information & Communication	16,018	13.7	12.3	-0.7	0.02	-10.7
8316	SUMITOMO MITSUI FINANCIAL GR	Banks	9,657	6.9	10.1	6.4	0.76	15.6
8031	MITSUMI & CO LTD	Wholesale Trade	8,990	12.0	10.4	6.6	0.59	14.2
9434	SOFTBANK CORP	Information & Communication	8,811	21.3	18.0	1.4	0.20	-6.6
7267	HONDA MOTOR CO LTD	Transportation Equipment	8,605	8.7	8.2	8.5	0.16	27.0
2914	JAPAN TOBACCO INC	Foods	7,620	15.4	15.2	8.6	0.38	16.9
8766	TOKIO MARINE HOLDINGS INC	Insurance	7,389	14.2	12.6	4.3	0.38	5.5
8411	MIZUHO FINANCIAL GROUP INC	Banks	6,451	7.0	9.5	3.0	0.27	12.9
7751	CANON INC	Electric Appliances	5,079	9.2	16.6	3.0	0.38	5.2
8002	MARUBENI CORP	Wholesale Trade	4,185	14.0	8.9	2.1	0.25	28.0
8053	SUMITOMO CORP	Wholesale Trade	4,056	11.0	8.3	3.6	0.34	17.4
6301	KOMATSU LTD	Machinery	3,808	12.2	10.7	5.0	0.39	6.3
5401	NIPPON STEEL CORP	Iron & Steel	3,296	10.1	6.8	9.2	0.36	26.1
8591	ORIX CORP	Other Financing Business	3,251	10.1	8.4	-1.7	0.29	3.1
1925	DAIWA HOUSE INDUSTRY CO LTD	Construction	3,069	11.5	10.8	3.5	0.45	13.0
1605	INPEX CORP	Mining	2,758	8.6	7.8	10.4	0.21	23.8
8630	SOMPO HOLDINGS INC	Insurance	2,486	11.0	9.7	0.6	0.76	-10.4
1928	SEKISUI HOUSE LTD	Construction	2,247	11.4	11.1	2.7	0.34	4.6
7270	SUBARU CORP	Transportation Equipment	2,187	13.8	6.6	23.9	0.30	5.6
8309	SUMITOMO MITSUI TRUST HOLDIN	Banks	2,073	7.3	9.6	0.4	0.30	-4.9
2503	KIRIN HOLDINGS CO LTD	Foods	1,909	11.9	14.9	-0.4	0.21	-20.9
5020	ENEOS HOLDINGS INC	Oil & Coal Products	1,837	7.2	8.3	1.9	0.06	4.8
8308	RESONA HOLDINGS INC	Banks	1,774	6.2	10.8	-1.3	0.08	-16.8
8601	DAIWA SECURITIES GROUP INC	Securities & Commodity Futures	1,678	6.9	16.9	9.9	0.11	39.1
7202	ISUZU MOTORS LTD	Transportation Equipment	1,603	12.9	8.7	-0.3	0.21	-2.7
7259	AI SIN CORP	Transportation Equipment	1,581	9.2	9.7	9.4	0.55	29.4
3407	ASAHI KASEI CORP	Chemicals	1,540	6.7	13.2	-1.3	0.11	-17.2
5411	JFE HOLDINGS INC	Iron & Steel	1,473	8.6	7.0	6.7	0.23	19.5
4528	ONO PHARMACEUTICAL CO LTD	Pharmaceutical	1,380	14.1	11.7	1.1	0.26	-34.7
4188	MITSUBISHI CHEMICAL GROUP CO	Chemicals	1,351	7.4	10.9	10.7	0.09	13.8
8795	T&D HOLDINGS INC	Insurance	1,284	9.4	12.5	-1.2	0.24	-5.8
5019	IDEMITSU KOSAN CO LTD	Oil & Coal Products	1,231	8.1	8.7	9.8	0.08	5.0
3003	HULIC CO LTD	Real Estate	1,202	12.3	12.7	1.5	0.16	13.3
4704	TREND MICRO INC	Information & Communication	1,162	21.6	34.9	26.7	0.81	-7.1
7261	MAZDA MOTOR CORP	Transportation Equipment	1,105	12.7	5.3	28.4	0.18	39.3
3092	ZOZO INC	Retail Trade	983	48.3	21.6	0.0	0.33	-27.0
1802	OBAYASHI CORP	Construction	976	6.7	14.1	0.7	0.14	2.9
4204	SEKISUI CHEMICAL CO LTD	Chemicals	907	9.5	12.0	1.4	0.22	-11.2
1911	SUMITOMO FORESTRY CO LTD	Construction	899	13.1	8.8	4.1	0.44	38.6
2651	LAWSON INC	Retail Trade	831	17.5	15.9	33.7	0.84	21.4
5334	NITERRA CO LTD	Glass & Ceramics Products	804	13.5	9.6	11.8	0.39	15.3
5406	KOBE STEEL LTD	Iron & Steel	790	8.7	8.3	10.7	0.20	151.7
2768	SOJITZ CORP	Wholesale Trade	775	11.1	7.4	-0.3	0.35	-2.3
8439	TOKYO CENTURY CORP	Other Financing Business	771	9.3	9.7	3.5	0.16	7.1
3231	NOMURA REAL ESTATE HOLDINGS	Real Estate	725	9.5	10.3	0.8	0.40	2.9
3289	TOKYU FUDOSAN HOLDINGS CORP	Real Estate	715	9.2	10.3	2.2	0.10	24.6
7752	RICOH CO LTD	Electric Appliances	689	6.7	10.9	1.2	0.12	-9.7
8354	FUKUOKA FINANCIAL GROUP INC	Banks	652	7.0	9.9	2.7	0.35	-5.6
6448	BROTHER INDUSTRIES LTD	Electric Appliances	589	8.4	10.5	7.4	0.25	-4.6
1808	HASEKO CORP	Construction	573	12.2	9.5	-1.6	0.19	-2.6
5021	COSMO ENERGY HOLDINGS CO LTD	Oil & Coal Products	549	11.5	8.3	4.3	0.63	41.2
8572	ACOM CO LTD	Other Financing Business	534	9.2	8.7	0.4	0.04	-19.0
6113	AMADA CO LTD	Machinery	530	8.1	12.9	11.9	0.16	15.1
9142	KYUSHU RAILWAY COMPANY	Land Transportation	510	9.6	11.9	2.1	0.32	-20.3
2784	ALFRESA HOLDINGS CORP	Wholesale Trade	493	6.2	19.7	11.3	0.24	17.0
5444	YAMATO KOGYO CO LTD	Iron & Steel	479	10.7	8.6	10.2	0.82	41.6
6417	SANKYO CO LTD	Machinery	473	14.5	9.3	2.9	0.90	-9.8
8804	TOKYO TATEMONO CO LTD	Real Estate	469	9.8	9.8	3.0	0.22	3.9
8253	CREDIT SAISON CO LTD	Other Financing Business	456	7.9	8.7	10.4	0.28	18.3

Source: BofA Global Research, QUICK

Note: Universe consists of TOPIX stocks with mkt cap above 450 bn JPY, screened based on the following conditions: Dividend yield above 2.8%, Unit investment below 1mln JPY, FY2 ROE above 6%, FY1 RP revision above -3%; listed in descending order of mkt cap. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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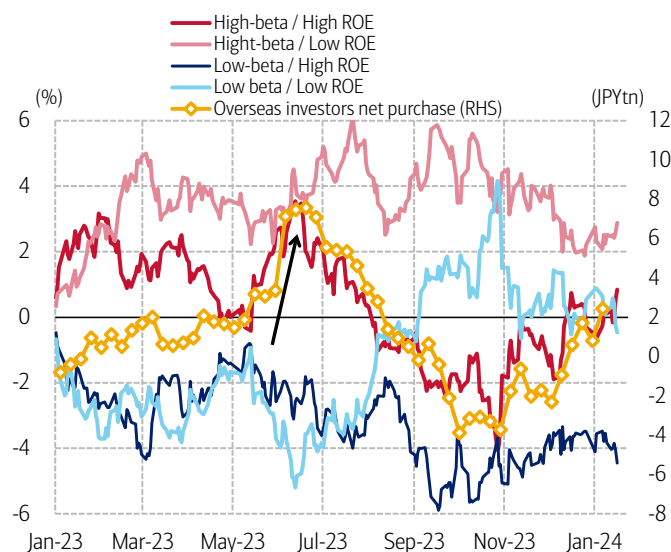
Quality cyclicals when funds from nonresident investors flow in

If the revision index continues to improve, an inflow of funds from nonresident investors can be expected. We expect a general preference for large-cap quality cyclicals. In fact, large caps outperformed in Apr-Jun 2023, thanks to the inflows from overseas investors. The performance of high-beta/high-ROE (quality cyclical) stocks (with stocks placed into four groups based on their betas and ROEs) is strongly correlated with nonresident investors' fund flows (Exhibit 35, Exhibit 36). The near-term trend reflects a pullback from the strong performance since the start of the year, but we see room for these stocks to rise, particularly in Apr-Jun.

The earnings of high-beta/high-ROE stocks with low leverage (Exhibit 37) can be expected to improve next fiscal year.

Exhibit 35: Relative performance based on beta and ROE

"High Beta/ high ROE" stocks tend to be correlated with overseas investors' flows



Source: BofA Global Research, FactSet, S&P Global

Notes: Universe consists of TOPIX 500 stocks, which are divided into four groups based on 36-month beta and ROE; relative average returns calculated.

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Exhibit 36: Estimated retail investors' holding ratio by 5 quantiles: Cumulative dividend yield factor return when the dividend yield return was positive vs. previous trading day

Similar to YTD moves in 2024

Beta / ROE	Categorization	Key sectors
High beta/high ROE	Export growth (or quality cyclical)	SPE, FA, Electric Appliances, Industrial electronics, etc.
High beta/low ROE	Export value	Autos, Machinery, Iron & Steel, etc.
Low beta/high ROE	Domestic growth (or defensive)	Foods, Information & Communication, Pharmaceutical, Healthcare, Game, etc.
Low beta/low ROE	Domestic value	Financials, Retail Trade, Air Transportation, Land Transportation, etc.

Source: BofA Global Research

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Exhibit 37: Quality cyclical names in Japan

Large caps with ROE (FY2) above 8%, financial leverage below 3, beta above 1, and relatively resilient FY2 earnings (FY2 RP growth and RP revision ratio above -3%)

TSE	Name	Sector	MKT CAP (tn JPY)	RP growth (FY2, %)	RP revision (FY2, vs. 3 months prior, %)	ROE (FY2, %)	Beta (6m)	Financial leverage (x)	P/E (FY2, x)	YTD relative return (% vs TOPIX)
7203	TOYOTA MOTOR CORP	Transportation Equipment	47.2	62.2	15.4	13.0	1.5	2.6	11.2	8.3
8035	TOKYO ELECTRON LTD	Electric Appliances	13.2	-33.2	1.1	23.1	1.4	1.5	32.5	4.0
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	11.3	-19.4	1.5	14.5	1.1	1.2	18.0	-11.4
6501	HITACHI LTD	Electric Appliances	10.6	-5.0	4.3	11.1	1.3	2.5	17.6	5.1
8001	ITOCHU CORP	Wholesale Trade	10.5	0.4	0.7	15.4	1.4	2.7	12.4	8.8
4519	CHUGAI PHARMACEUTICAL CO LTD	Pharmaceutical	9.4	-17.3	4.8	19.7	1.0	1.3	27.5	-4.9
7267	HONDA MOTOR CO LTD	Transportation Equipment	8.6	69.6	1.6	8.7	1.5	2.2	8.2	5.3
6902	DENSO CORP	Transportation Equipment	7.1	49.8	3.1	11.1	1.4	1.7	13.2	2.7
6367	DAIKIN INDUSTRIES LTD	Machinery	7.1	10.4	-2.9	11.8	1.3	1.9	23.3	-2.7
7741	HOYA CORP	Precision Instruments	6.6	4.0	1.0	22.2	1.1	1.3	33.2	-2.6
6981	MURATA MANUFACTURING CO LTD	Electric Appliances	6.3		3.7	10.5	1.2	1.2	23.7	-5.9
6273	SMC CORP	Machinery	5.6	-19.2	-2.6	10.9	1.4	1.1	27.6	2.4
6503	mitsubishi electric corp	Electric Appliances	4.6	22.7	2.0	8.5	1.2	1.7	15.9	3.2
8002	MARUBENI CORP	Wholesale Trade	4.2	-12.5	2.0	14.0	1.5	2.8	8.9	5.8
4543	TERUMO CORP	Precision Instruments	3.8	19.3	1.7	10.2	1.1	1.4	31.5	0.6
6752	PANASONIC HOLDINGS CORP	Electric Appliances	3.4	41.8	-0.3	9.3	1.2	2.2	8.8	-5.4
5401	NIPPON STEEL CORP	Iron & Steel	3.3	-25.6	4.0	10.1	1.1	2.3	6.8	3.9
7269	SUZUKI MOTOR CORP	Transportation Equipment	3.1	25.9	10.9	12.4	1.1	2.2	10.3	0.8
2802	AJINOMOTO CO INC	Foods	3.0	6.9	-2.7	13.7	1.1	2.0	27.4	3.6
6762	TDK CORP	Electric Appliances	2.9	-0.7	4.3	9.9	1.3	2.2	18.6	1.8
4307	NOMURA RESEARCH INSTITUTE LT	Information & Communication	2.6	10.8	0.1	20.8	1.0	2.1	28.3	-1.2
6701	NEC CORP	Electric Appliances	2.4	15.3	2.0	8.3	1.1	2.5	16.3	4.4
7270	SUBARU CORP	Transportation Equipment	2.2	71.1	19.8	13.8	1.5	1.9	6.6	8.1
6869	SYSMEX CORP	Electric Appliances	1.8	14.7	1.3	13.8	1.0	1.4	28.8	-5.3
4091	NIPPON SANSO HOLDINGS CORP	Chemicals	1.7	32.9	6.6	11.5	1.2	3.0	16.9	-7.2
6988	NITTO DENKO CORP	Chemicals	1.6	-2.7	-1.4	11.3	1.1	1.3	14.4	5.3
2413	M3 INC	Services	1.6	6.2	-0.1	17.0	1.2	1.3	26.7	-6.3
7202	ISUZU MOTORS LTD	Transportation Equipment	1.6	13.3	0.2	12.9	1.3	2.3	8.7	7.7
7259	AISIN CORP	Transportation Equipment	1.6	222.8	6.9	9.2	1.4	2.4	9.7	5.3
9697	CAPCOM CO LTD	Information & Communication	1.5	15.9	-2.0	23.1	1.1	1.3	30.7	14.6
5411	JFE HOLDINGS INC	Iron & Steel	1.5	30.0	-2.4	8.6	1.2	2.6	7.0	-1.1
7272	YAMAHA MOTOR CO LTD	Transportation Equipment	1.5	7.9	-0.7	15.5	1.4	2.2	8.1	4.3
7735	SCREEN HOLDINGS CO LTD	Electric Appliances	1.5	15.6	10.3	18.1	1.3	1.9	22.2	13.5
1812	KAJIMA CORP	Construction	1.4	-0.2	-1.5	10.8	1.1	2.6	11.8	3.6
6479	MINEBEA MITSUMI INC	Electric Appliances	1.3	-19.4	-1.8	11.4	1.3	2.1	16.7	-2.3
9766	KONAMI GROUP CORP	Information & Communication	1.3	63.0	-0.3	13.1	1.2	1.5	21.8	13.3
4704	TREND MICRO INC	Information & Communication	1.2	13.9	28.7	21.6	1.0	2.1	34.9	0.4
6383	DAIFUKU CO LTD	Machinery	1.1	-5.7	0.0	13.3	1.2	1.7	23.0	-3.3
7261	MAZDA MOTOR CORP	Transportation Equipment	1.1	60.1	22.6	12.7	1.5	2.3	5.3	9.7
6504	FUJII ELECTRIC CO LTD	Electric Appliances	1.0	14.4	1.7	12.5	1.3	2.3	14.0	13.6
1911	SUMITOMO FORESTRY CO LTD	Construction	0.9	-21.7	0.9	13.1	1.1	2.5	8.8	-2.7
4183	mitsui chemicals inc	Chemicals	0.9	-18.7	-2.4	11.0	1.1	2.6	9.6	-2.3
7936	ASICS CORP	Other Products	0.9	65.5	6.2	19.5	1.5	2.5	22.9	-1.6
5334	NITERRA CO LTD	Glass & Ceramics Products	0.8	26.1	8.1	13.5	1.0	1.6	9.6	10.2
6361	EBARA CORP	Machinery	0.8	6.8	3.3	13.7	1.4	2.3	13.2	3.7
6845	AZBIL CORP	Electric Appliances	0.7	12.8	1.8	11.9	1.1	1.5	28.2	-3.3
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	0.7	18.7	0.8	14.2	1.1	1.5	20.9	0.6
5101	YOKOHAMA RUBBER CO LTD	Rubber Products	0.6	37.2	5.6	9.9	1.1	1.9	8.0	0.6
6113	AMADA CO LTD	Machinery	0.5	17.8	6.9	8.1	1.3	1.3	12.9	1.2
8111	GOLDWIN INC	Textiles & Apparel	0.5	12.7	2.8	24.3	1.1	1.5	20.6	-7.1
6856	HORIBA LTD	Electric Appliances	0.4	-9.5	11.2	12.0	1.0	1.7	13.1	-0.1
7729	TOKYO SEIMITSU CO LTD	Precision Instruments	0.4	-25.9	2.6	14.5	1.2	1.4	19.0	3.9
4202	DAICEL CORP	Chemicals	0.4	20.4	3.8	15.0	1.2	2.6	7.8	-0.0
7988	NIFCO INC	Chemicals	0.4	20.5	0.8	12.1	1.4	1.6	13.0	-0.7
6028	TECHNOPRO HOLDINGS INC	Services	0.4	14.9	1.7	22.8	1.0	1.9	19.2	-13.2
6141	DMG MORI CO LTD	Machinery	0.4	38.8	1.1	12.9	1.3	2.8	10.1	2.6
5233	TAIHEIYO CEMENT CORP	Glass & Ceramics Products	0.4	5820.2	3.8	9.2	1.0	2.6	7.2	-4.0
7282	TOYODA GOSEI CO LTD	Transportation Equipment	0.4	78.7	5.8	9.2	1.5	1.9	8.4	1.6
5105	TOYO TIRE CORP	Rubber Products	0.4	50.6	13.4	14.0	1.0	1.9	6.6	-4.3
6728	ULVAC INC	Electric Appliances	0.4	9.9	0.4	11.1	1.0	1.8	15.4	0.0

Source: BofA Global Research, QUICK

Note: Universe consists of TOPIX stocks with mkt cap above 350 bn JPY, screened based on the following conditions: ROE (FY2) above 8%, financial leverage below 3, beta above 1 and relatively resilient FY2 earnings above -3, RP revision above -3 over the last 3 months; listed in descending order of mkt cap. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

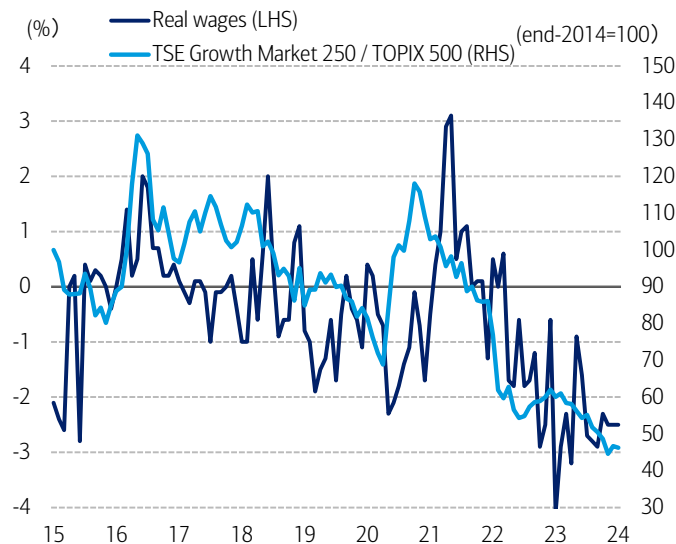
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As before, we expect to see an opportunity for some small caps to rebound starting around spring. Small and mid-cap stocks with high exposure to domestic demand outperform when real wages rise (Exhibit 38). They could tend to be favored by Apr-Jun, when the NIRP is likely ended and attention will probably turn to real wage growth. There could be support from earnings, as companies in the TOPIX Small Index are likely to generate strong profit growth in fiscal 2024 (Exhibit 39).

Exhibit 38: Relative performance of TSE Growth Market 250 / TOPIX 500 and real wages

SME stocks tend to be positively correlated with real wages

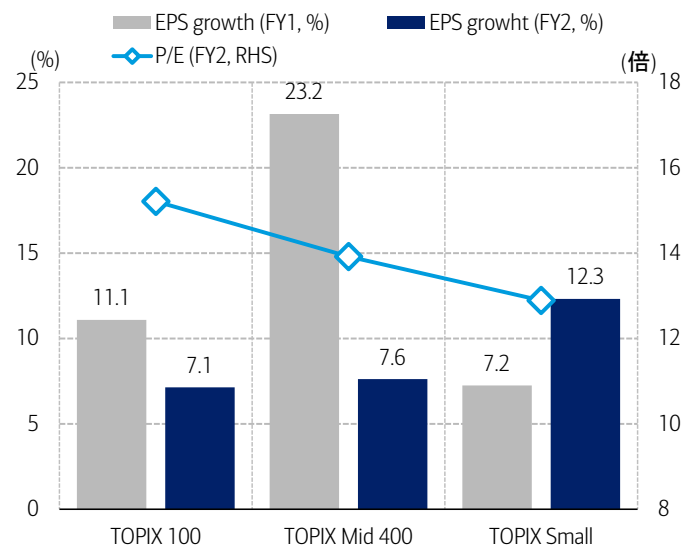


Source: BofA Global Research, Bloomberg

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Exhibit 39: EPS growth and P/E by size

Small caps have a higher growth rate in FY24



Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward EPS estimate

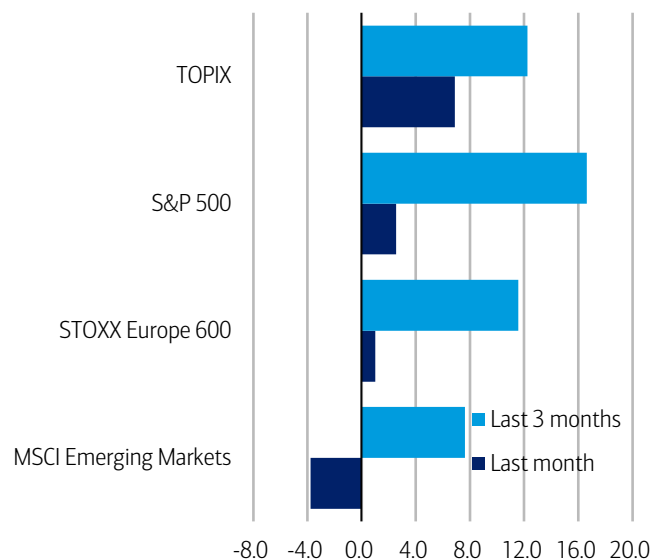
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Appendix 1: Key statistics

1. Performance

Exhibit 40: Japan has outperformed the rest of the world last month

Japan equities' outperformance may have reflected the yen depreciation



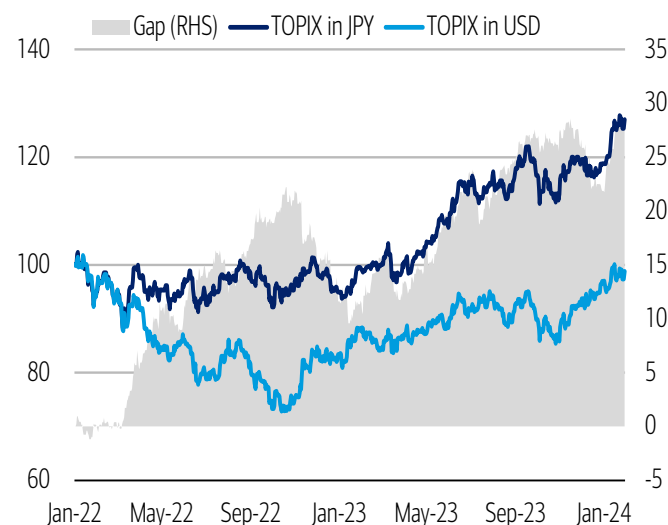
Source: BofA Global Research, Bloomberg

Note: based on total return index in JPY terms; as of 29 Jan, 2024 (same for the following charts).

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Exhibit 41: TOPIX in USD and JPY terms

The gap between TOPIX in USD and JPY remains large vs. history



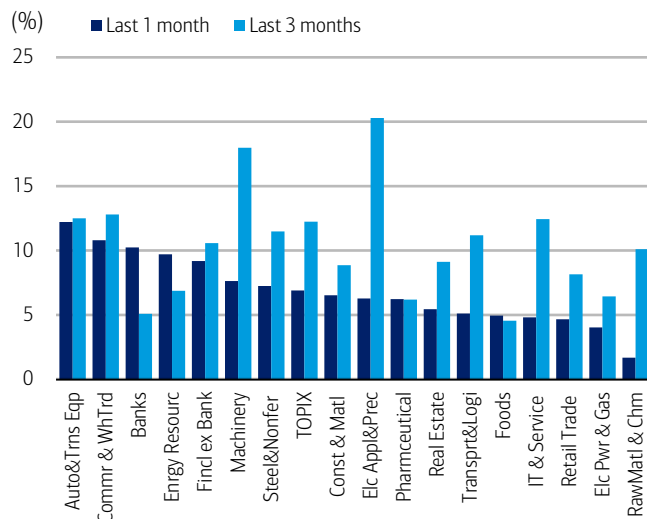
Source: BofA Global Research, Bloomberg

Note: End of Dec 2021 = 100.

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Exhibit 42: Share price performance by sector

Auto&Trns Eqp and Commr & WhTrd sectors have outperformed last month

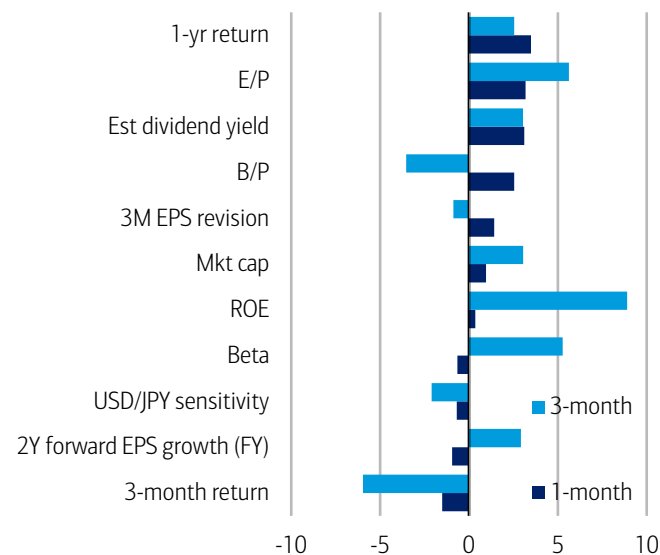


Source: BofA Global Research, Bloomberg

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Exhibit 43: TOPIX factor return (%)

1-yr return factor outperformed last month



Source: BofA Global Research, Bloomberg, Astra Manager

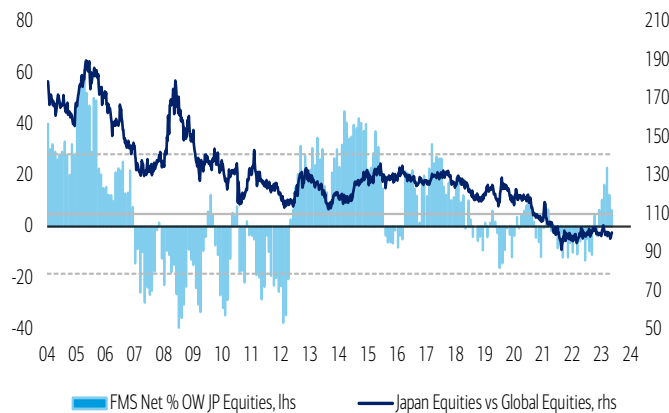
Note: we divide TOPIX names into 5 group based on each factor defined by Bloomberg, then subtract the return of the lowest group from the highest one.

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2. Survey and consensus

Exhibit 44: Net % AA Say they are overweight Japanese Equities

Net% of FMS investors overweight Japan equities



Source: BofA Global Fund Manager Survey, Datastream

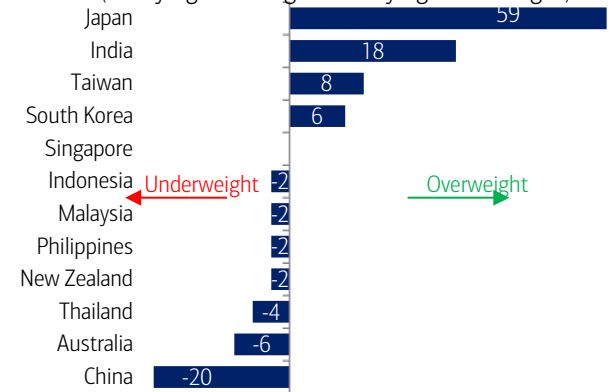
[Global Fund Manager Survey: My Herd is my Bond 16 January 2024](#)

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Exhibit 45: Asia Pacific market sentiment: Net % FMS investors overweight

Japan (net 55% overweight) is unequivocally the favorite market in the region, followed by India (28%), while China (net 12% underweight) sits at the bottom of the preference stack

Asia Pacific market sentiment: Net % FMS investors overweight
(% saying overweight - % saying underweight)



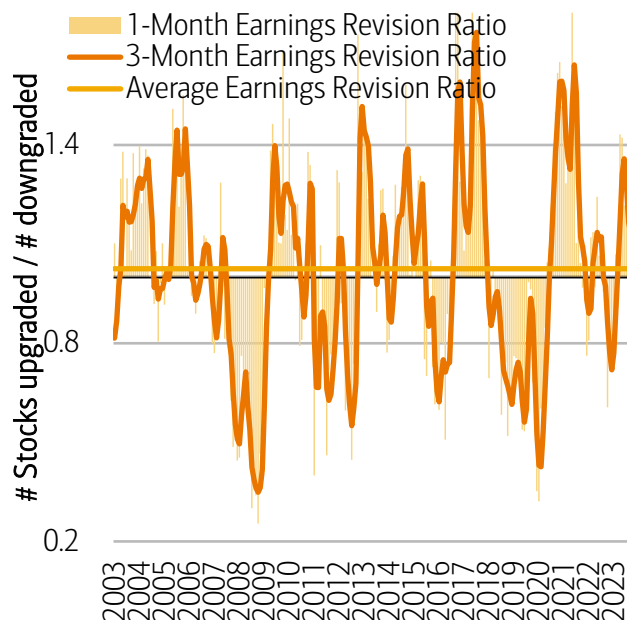
Source: BofA Global Fund Manager Survey, Datastream

[Asia Fund Manager Survey: In outperformers we trust 16 January 2024](#)

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Exhibit 46: Earnings Revision Ratio (next fiscal year)

1-Month Earnings Revision Ratio softened



Source: BofA Global Research, Astra Manager

Note: Fiscal year base. Based on TOPIX constituents.

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Exhibit 47: Earnings revision ratio by sector

Commercial & wholesale trade sector saw more earnings upgrades

Sector	Current fiscal year			Next fiscal year		
	Upward Revision	Downward Revision	Revision Index* (%)	Upward Revision	Downward Revision	Revision Index* (%)
COMMERCIAL & WHOLESALE TRADE	33	-14	40	31	-12	44
TRANSPORTATION & LOGISTICS	18	-11	24	21	-8	45
FINANCIALS (EX BANKS)	16	-11	19	19	-10	31
RETAIL TRADE	65	-35	30	61	-45	15
MACHINERY	25	-16	22	22	-21	2
ELECTRIC POWER & GAS	0	-1	-100	1	0	100
FOODS	24	-20	9	20	-25	-11
PHARMACEUTICAL	18	-14	13	14	-19	-15
TOPIX	456	-497	-4	456	-505	-5
REAL ESTATE	18	-22	-10	19	-21	-5
CONSTRUCTION & MATERIALS	34	-37	-4	30	-40	-14
IT & SERVICES, OTHERS	91	-126	-16	100	-117	-8
STEEL & NONFERROUS METALS	10	-10	0	8	-15	-30
ELECTRIC APPLIANCES & PRECISION INSTRUMENTS	53	-96	-29	63	-85	-15
AUTOMOBILES & TRANSPORTATION	22	-28	-12	17	-35	-35
BANKS	5	-5	0	2	-6	-50
RAW MATERIALS & CHEMICALS	24	-43	-28	24	-43	-28
ENERGY RESOURCES	0	-8	-100	4	-3	14

Source: BofA Global Research, Astra Manager

Note: Based on Quick Consensus on net income revisions. No. of Downward Revision is shown as negative. Ranked by the sum of revision index of current and next fiscal year.

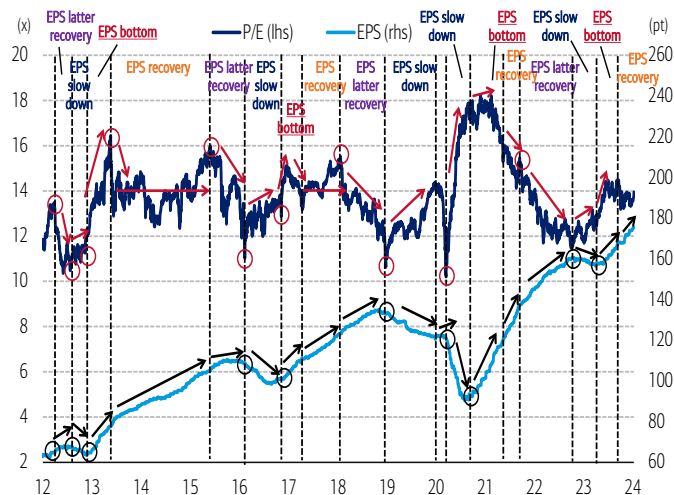
* Revision index is calculated as (No. of Upward Revision + No. of Downward Revision) / (Total No. of companies with Revisions)

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3. Valuation and shareholder returns

Exhibit 48: Correlation between TOPIX 12-month forward EPS estimate and P/E

P/E multiples decline in the latter stages of an EPS recovery and rise during periods of EPS deterioration; the stock prices tend to rise significantly during "EPS bottoming" period, when both P/E and EPS rise



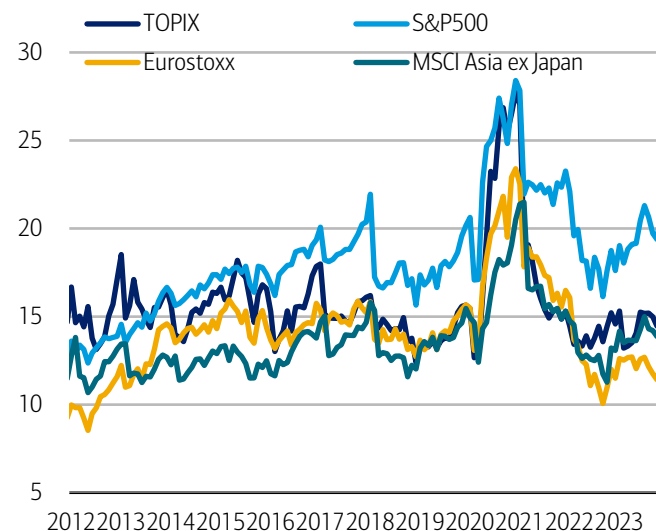
Source: BofA Global Research, Refinitiv

Note: EPS and P/E based on 12-month forward I/B/E/S consensus estimates.

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Exhibit 49: Forward P/E comparison among TOPIX and its global peers

TOPIX still looks cheaper than S&P500

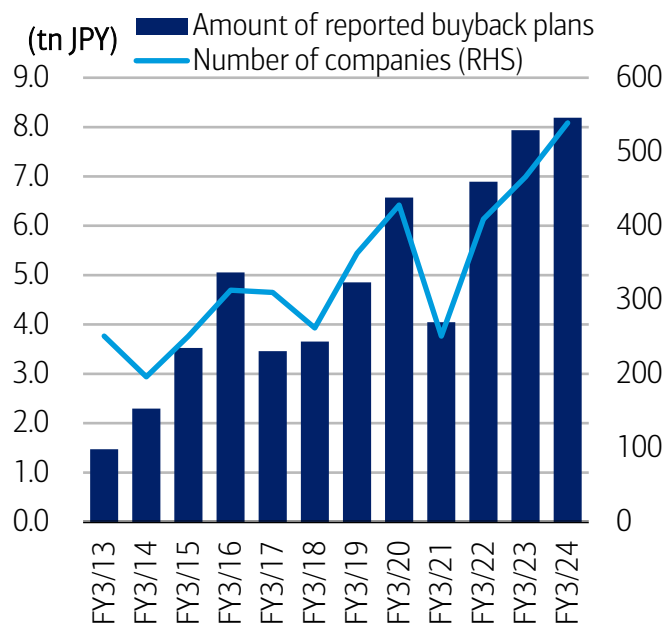


Source: BofA Global Research, Bloomberg

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Exhibit 50: Amount and number of reported buyback plans (FYTD)

Record-high number and buyback amount



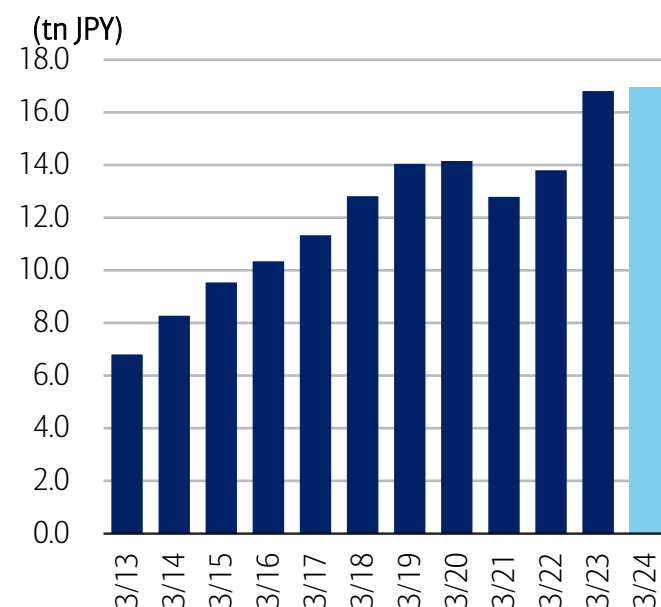
Note: Number of companies is adjusted for the companies which announced buyback plans more than once within a year. From Apr 1 to Jan 29 for each fiscal year.

Source: BofA Global Research, Astra Manager

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Exhibit 51: Total dividend amounts of TOPIX

The market expects a roughly flat dividend growth in this fiscal year



Source: Astra Manager, BofA Global Research
Based on QUICK consensus.

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4. Screenings

Exhibit 52: Large-cap stocks with the highest 1-month return

Top 50 names in terms of 1-month share price performance

TSE Code	Company name	MKT CAP (bn JPY)	1-month absolute performance (%)	3-month absolute performance (%)
9697	CAPCOM CO LTD	1,474.6	21.4	15.3
6504	FUJI ELECTRIC CO LTD	1,091.4	20.4	20.2
7735	SCREEN HOLDINGS CO LTD	1,459.3	20.4	99.1
9766	KONAMI GROUP CORP	1,273.3	20.2	12.1
8604	NOMURA HOLDINGS INC	2,423.3	20.1	32.6
6857	ADVANTEST CORP	4,407.6	19.9	43.1
7011	MITSUBISHI HEAVY INDUSTRIES	3,268.4	17.6	22.7
7261	MAZDA MOTOR CORP	1,122.7	16.6	18.4
9107	KAWASAKI KISEN KAISHA LTD	1,676.0	16.3	33.6
6146	DISCO CORP	4,395.0	16.0	49.0
8015	TOYOTA TSUSHO CORP	3,410.3	15.9	19.3
9101	NIPPON YUSEN KK	2,584.0	15.9	30.7
8001	ITOCHU CORP	10,576.0	15.7	23.1
9104	MITSUBI OSK LINES LTD	1,892.0	15.7	27.8
7203	TOYOTA MOTOR CORP	48,675.8	15.2	13.1
7270	SUBARU CORP	2,241.0	14.9	12.4
7202	ISUZU MOTORS LTD	1,617.5	14.6	20.2
7832	BANDAI NAMCO HOLDINGS INC	2,146.5	14.0	4.4
8473	SBI HOLDINGS INC	992.9	13.6	14.4
9684	SQUARE ENIX HOLDINGS CO LTD	704.2	13.5	15.9
8308	RESONA HOLDINGS INC	1,904.9	13.5	0.9
8306	MITSUBISHI UFJ FINANCIAL GRO	16,878.0	12.9	9.0
8058	MITSUBISHI CORP	10,964.5	12.8	8.1
8002	MARUBENI CORP	4,231.7	12.7	13.1
6178	JAPAN POST HOLDINGS CO LTD	4,893.9	12.3	7.6
6988	NITTO DENKO CORP	1,699.7	12.2	23.9
7259	ASIN CORP	1,631.3	12.2	1.1
4568	DAIICHI SANKYO CO LTD	8,459.9	12.2	8.1
7267	HONDA MOTOR CO LTD	8,936.7	12.2	3.1
6501	HITACHI LTD	10,555.8	11.9	28.2
5938	LIXIL CORP	565.5	11.8	17.9
1802	OBAYASHI CORP	983.8	11.8	5.7
9983	FAST RETAILING CO LTD	12,442.4	11.7	17.2
8601	DAIWA SECURITIES GROUP INC	1,664.3	11.7	23.3
9434	SOFTBANK CORP	9,416.5	11.6	16.0
8031	MITSUBI & CO LTD	8,999.1	11.6	7.8
6701	NEC CORP	2,534.5	11.2	23.2
7272	YAMAHA MOTOR CO LTD	1,471.4	11.2	12.0
8267	AEON CO LTD	3,048.2	10.9	12.8
8035	TOKYO ELECTRON LTD	13,210.4	10.9	42.8
5401	NIPPON STEEL CORP	3,402.2	10.8	10.1
1801	TAISEI CORP	1,007.3	10.7	5.1
2802	AJINOMOTO CO INC	3,134.8	10.5	9.1
1812	KAJIMA CORP	1,376.6	10.5	6.3
4578	OTSUKA HOLDINGS CO LTD	3,257.8	10.4	17.0
5019	IDEMITSU KOSAN CO LTD	1,261.3	10.3	24.4
6460	SEGA SAMMY HOLDINGS INC	524.9	10.3	-9.7
8630	SOMPO HOLDINGS INC	2,509.9	10.2	18.2
8316	SUMITOMO MITSUI FINANCIAL GR	10,143.8	10.2	3.7
4324	DENTSU GROUP INC	1,076.9	10.2	-8.1

Source: BofA Global Research, Astra Manager, Bloomberg

Note: Screened by 1) TOPIX500 companies with MKT CAP above 500 bn JPY; 2) Top 50 in terms of 1-month return. As of Jan 29, 2029 (same for the following screens).

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Exhibit 53: Large-cap stocks with the lowest 1-month return

Bottom 50 names in terms of 1-month share price performance

TSE Code	Company name	MKT CAP (bn JPY)	1-month absolute performance (%)	3-month absolute performance (%)
6532	BAYCURRENT CONSULTING INC	549.8	-28.5	-9.3
3769	GMO PAYMENT GATEWAY INC	666.9	-11.1	42.8
4922	KOSE CORP	585.7	-8.6	-5.3
3659	NEXON CO LTD	2,028.7	-7.9	-7.1
3038	KOBE BUSSAN CO LTD	1,049.8	-7.9	3.7
3064	MONOTARO CO LTD	718.2	-7.0	18.1
4684	OBIC CO LTD	2,255.4	-6.8	5.0
9706	JAPAN AIRPORT TERMINAL CO	544.9	-5.8	-8.3
4689	LY CORP	3,598.2	-5.7	24.0
7532	PAN PACIFIC INTERNATIONAL HO	2,024.5	-5.2	8.4
6963	ROHM CO LTD	1,063.4	-4.5	2.5
4063	SHIN-ETSU CHEMICAL CO LTD	11,311.6	-4.5	31.4
6723	RENESAS ELECTRONICS CORP	4,771.8	-4.4	18.7
9143	SG HOLDINGS CO LTD	1,242.0	-4.2	-7.2
2371	KAKAKU.COM INC	341.8	-3.0	18.5
5713	SUMITOMO METAL MINING CO LTD	1,199.3	-2.9	-1.0
4911	SHISEIDO CO LTD	1,655.2	-2.7	-16.5
6702	FUJITSU LIMITED	4,296.5	-2.5	10.5
6976	TAIYO YUDEN CO LTD	474.1	-2.4	6.4
2181	PERSOL HOLDINGS CO LTD	553.2	-2.0	7.0
2897	NISSIN FOODS HOLDINGS CO LTD	1,488.0	-2.0	13.9
4062	IBIDEN CO LTD	1,079.1	-2.0	16.9
4151	KYOWA KIRIN CO LTD	1,256.3	-1.8	-2.9
9008	KEIO CORP	560.2	-1.8	-2.4
6594	NIDEC CORP	3,340.4	-1.6	-0.4
2127	NIHON M&A CENTER HOLDINGS IN	257.9	-1.6	14.3
1878	DAITO TRUST CONSTRUCT CO LTD	1,110.6	-1.4	5.4
4967	KOBAYASHI PHARMACEUTICAL CO	522.9	-1.3	7.7
9064	YAMATO HOLDINGS CO LTD	977.5	-1.2	3.9
6370	KURITA WATER INDUSTRIES LTD	633.9	-1.2	21.8
4732	USS CO LTD	720.5	-1.1	8.8
4005	SUMITOMO CHEMICAL CO LTD	563.7	-1.1	-14.8
6506	YASKAWA ELECTRIC CORP	1,556.4	-0.9	15.9
4091	NIPPON SANSO HOLDINGS CORP	1,631.0	-0.3	1.1
4523	EISAI CO LTD	2,088.1	-0.2	-12.4
6098	RECRUIT HOLDINGS CO LTD	10,097.7	-0.2	37.0
3141	WELCIA HOLDINGS CO LTD	516.5	-0.1	-0.7
6967	SHINKO ELECTRIC INDUSTRIES	740.9	-0.1	6.4
7309	SHIMANO INC	1,966.5	0.0	1.5
9843	NITORI HOLDINGS CO LTD	2,161.8	0.1	16.3
7747	ASAHI INTECC CO LTD	780.1	0.1	15.2
3402	TORAY INDUSTRIES INC	1,198.2	0.2	0.6
7951	YAMAHA CORP	612.5	0.4	-17.5
2413	M3 INC	1,593.7	0.6	1.0
7912	DAI NIPPON PRINTING CO LTD	1,228.0	0.7	7.5
9005	TOKYU CORP	1,083.2	0.7	3.4
4185	JSR CORP	844.4	0.8	1.8
9602	TOHO CO LTD	896.8	0.8	-2.7
6981	MURATA MANUFACTURING CO LTD	6,131.0	1.0	20.2
6753	SHARP CORP	661.5	1.1	8.3

Source: BofA Global Research, Astra Manager, Bloomberg

Note: Screened by 1) TOPIX500 companies with MKT CAP above 500 bn JPY; 2) Bottom 50 in terms of 1-month return.

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Exhibit 54: Large-cap stocks with the highest 3-month earnings revision

Top 50 names in terms of 3-month earnings revision

TSE Code	Company name	Sector	MKT CAP (bn JPY)	% RP revision (vs. 3M prior)	% OP revision (vs. 3M prior)	YTD relative performance (%, vs. TOPIX)
7453	RYOHIN KEIKAKU CO LTD	Retail Trade	639.6	33.5	34.7	-10.3
2651	LAWSON INC	Retail Trade	843.9	32.8		8.6
3197	SKYLARK HOLDINGS CO LTD	Retail Trade	542.4	31.6	24.5	8.6
6146	DISCO CORP	Machinery	4,395.0	30.8	30.1	9.1
4704	TREND MICRO INC	Information & Communication	1,140.4	26.7	25.5	0.4
7261	MAZDA MOTOR CORP	Transportation Equipment	1,122.7	26.5	27.7	9.7
7550	ZENSHO HOLDINGS CO LTD	Retail Trade	1,158.7	26.0	23.4	-9.3
7270	SUBARU CORP	Transportation Equipment	2,241.0	24.9	22.7	8.1
2212	YAMAZAKI BAKING CO LTD	Foods	775.0	24.5	25.0	2.5
3099	ISETAN MITSUKOSHI HOLDINGS L	Retail Trade	674.2	23.8	22.9	3.8
9501	TOKYO ELECTRIC POWER COMPANY	Electric Power & Gas	1,245.3	23.3	41.7	-2.0
3769	GMO PAYMENT GATEWAY INC	Information & Communication	666.9	23.2	21.5	-18.0
6841	YOKOGAWA ELECTRIC CORP	Electric Appliances	790.4	20.0	20.4	2.5
7203	TOYOTA MOTOR CORP	Transportation Equipment	48,675.8	18.9	18.9	8.3
9983	FAST RETAILING CO LTD	Retail Trade	12,442.4	18.5	15.9	4.9
6856	HORIBA LTD	Electric Appliances	500.8	17.5	16.4	-0.1
2897	NISSIN FOODS HOLDINGS CO LTD	Foods	1,488.0	17.2	18.3	-8.9
9101	NIPPON YUSEN KK	Marine Transportation	2,584.0	16.8	18.2	9.0
9001	TOBU RAILWAY CO LTD	Land Transportation	825.6	16.7	13.4	-3.0
2875	TOYO SUIJAN KAISHA LTD	Foods	878.5	16.3	14.7	1.9
9008	KEIO CORP	Land Transportation	560.2	15.6	16.3	-8.7
2501	SAPPORO HOLDINGS LTD	Foods	546.4	14.2	8.1	4.6
9007	ODAKYU ELECTRIC RAILWAY CO	Land Transportation	833.7	14.2	13.7	-1.7
4755	RAKUTEN GROUP INC	Services	1,402.5	14.1	-11.0	-2.6
5929	SANWA HOLDINGS CORP	Metal Products	532.1	13.8	14.1	0.8
7735	SCREEN HOLDINGS CO LTD	Electric Appliances	1,459.3	13.7	11.1	13.5
8136	SANRIO CO LTD	Wholesale Trade	550.6	13.5	14.1	-1.8
9508	KYUSHU ELECTRIC POWER CO INC	Electric Power & Gas	522.3	12.9	11.8	1.0
4536	SANTEN PHARMACEUTICAL CO LTD	Pharmaceutical	556.5	12.2	12.3	-1.6
7269	SUZUKI MOTOR CORP	Transportation Equipment	3,190.5	12.1	12.0	0.8
6113	AMADA CO LTD	Machinery	570.8	11.9	12.1	1.2
5334	NITERRA CO LTD	Glass & Ceramics Products	800.4	11.7	9.7	10.2
4578	OTSUKA HOLDINGS CO LTD	Pharmaceutical	3,257.8	11.5	12.5	3.5
9502	CHUBU ELECTRIC POWER CO INC	Electric Power & Gas	1,439.8	11.5	14.3	-2.6
7936	ASICS CORP	Other Products	883.1	11.5	10.2	-1.6
2002	NISSHIN SEIFUN GROUP INC	Foods	632.5	11.0	11.3	2.6
3038	KOBE BUSSAN CO LTD	Wholesale Trade	1,049.8	10.8	8.5	-14.8
4188	MITSUBISHI CHEMICAL GROUP CO	Chemicals	1,348.3	10.6	10.3	-3.3
9022	CENTRAL JAPAN RAILWAY CO	Land Transportation	3,759.5	10.4	8.1	-5.1
8253	CREDIT SAISON CO LTD	Other Financing Business	516.9	10.4		0.3
9104	MITSUMI OSK LINES LTD	Marine Transportation	1,892.0	10.4	5.7	8.8
5444	YAMATO KOGYO CO LTD	Iron & Steel	530.2	10.2	5.3	2.7
9201	JAPAN AIRLINES CO LTD	Air Transportation	1,245.2	10.1	5.1	-4.2
4613	KANSAI PAINT CO LTD	Chemicals	612.3	10.0	10.5	-0.4
6201	TOYOTA INDUSTRIES CORP	Transportation Equipment	3,955.7	10.0	11.2	-1.3
9005	TOKYU CORP	Land Transportation	1,083.2	10.0	6.8	-6.2
8601	DAIWA SECURITIES GROUP INC	Securities & Commodity Futures	1,664.3	9.9	32.5	4.8
5019	IDEMITSU KOSAN CO LTD	Oil & Coal Products	1,261.3	9.8	4.0	3.5
2914	JAPAN TOBACCO INC	Foods	7,620.0	9.4	8.1	-2.4
5101	YOKOHAMA RUBBER CO LTD	Rubber Products	589.4	9.1	7.0	0.6

Source: BofA Global Research, Astra Manager, Bloomberg

Note: Screened by 1) TOPIX500 companies with MKT CAP above 500 bn JPY; 2) Top 50 in terms of 3-month earnings revision.

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Exhibit 55: Large-cap stocks with the lowest 3-month earnings revision

Bottom 50 names in terms of 3-month earnings revision

TSE Code	Company name	Sector	MKT CAP (bn JPY)	% RP revision (vs. 3M prior)	% OP revision (vs. 3M prior)	YTD relative performance (%, vs. TOPIX)
4911	SHISEIDO CO LTD	Chemicals	1,655.2	-46.8	-42.2	-9.6
4005	SUMITOMO CHEMICAL CO LTD	Chemicals	563.7	-41.5	-19.0	-8.0
4503	ASTELLAS PHARMA INC	Pharmaceutical	3,099.0	-30.4	-27.5	-5.3
6645	OMRON CORP	Electric Appliances	1,404.5	-26.0	-27.6	-3.4
7731	NIKON CORP	Precision Instruments	530.7	-25.2	-24.4	1.3
4004	RESONAC HOLDINGS CORP	Chemicals	547.8	-24.0	-14.8	-1.5
4922	KOSE CORP	Chemicals	585.7	-19.4	-21.9	-15.5
7951	YAMAHA CORP	Other Products	612.5	-19.0	-21.9	-6.5
3436	SUMCO CORP	Metal Products	790.7	-19.0	-20.2	-0.1
4324	DENTSU GROUP INC	Services	1,076.9	-18.8	-16.9	3.3
6857	ADVANTEST CORP	Electric Appliances	4,407.6	-18.3	-18.5	13.0
6963	ROHM CO LTD	Electric Appliances	1,063.4	-18.2	-19.8	-11.4
3291	IIDA GROUP HOLDINGS CO LTD	Real Estate	631.1	-17.9	-18.5	-0.3
9401	TBS HOLDINGS INC	Information & Communication	577.9	-17.6	-25.3	7.4
5938	LIXIL CORP	Metal Products	565.5	-16.8	-10.2	5.0
3861	OJI HOLDINGS CORP	Pulp & Paper	580.9	-14.9	-14.3	-1.4
6954	FANUC CORP	Electric Appliances	4,298.2	-14.8	-16.8	-3.6
6724	SEIKO EPSON CORP	Electric Appliances	846.3	-14.6	-16.9	-2.7
4062	IBIDEN CO LTD	Electric Appliances	1,079.1	-14.5	-15.4	-8.9
9147	NIPPON EXPRESS HOLDINGS INC	Land Transportation	795.5	-13.9	-9.7	2.7
4185	JSR CORP	Chemicals	844.4	-13.4	-17.5	-6.1
6967	SHINKO ELECTRIC INDUSTRIES	Electric Appliances	740.9	-13.0	-15.6	-6.9
5713	SUMITOMO METAL MINING CO LTD	Nonferrous Metals	1,199.3	-13.0		-9.8
4568	DAIICHI SANKYO CO LTD	Pharmaceutical	8,459.9	-12.8	-8.3	5.3
2267	YAKULT HONSHA CO LTD	Foods	1,103.2	-12.6	-13.6	-5.1
1801	TAISEI CORP	Construction	1,007.3	-11.7	-12.8	3.8
6465	HOSHIZAKI CORP	Machinery	777.3	-11.6	-2.9	-2.9
6723	RENASAS ELECTRONICS CORP	Electric Appliances	4,771.8	-11.3	-10.0	-11.3
5201	AGC INC	Glass & Ceramics Products	1,208.3	-11.0	-8.0	-0.8
9962	MISUMI GROUP INC	Wholesale Trade	740.5	-10.9	-10.9	1.9
4021	NISSAN CHEMICAL CORP	Chemicals	833.1	-10.9	-11.6	1.3
4502	TAKEDA PHARMACEUTICAL CO LTD	Pharmaceutical	6,902.4	-10.7	-5.8	0.7
9143	SG HOLDINGS CO LTD	Land Transportation	1,242.0	-10.6	-8.9	-11.1
4151	KYOWA KIRIN CO LTD	Pharmaceutical	1,256.3	-10.3		-8.7
3288	OPEN HOUSE GROUP CO LTD	Real Estate	552.2	-10.0	-9.3	2.6
7733	OLYMPUS CORP	Precision Instruments	2,751.4	-9.1	-9.1	-0.4
7276	KOITO MANUFACTURING CO LTD	Electric Appliances	719.1	-8.5	-7.2	-0.6
5333	NGK INSULATORS LTD	Glass & Ceramics Products	571.0	-8.5	-7.2	1.7
3635	KOEI TECMO HOLDINGS CO LTD	Information & Communication	595.1	-8.4	-10.5	3.2
6971	KYOCERA CORP	Electric Appliances	3,280.8	-8.1	-14.0	-1.4
9064	YAMATO HOLDINGS CO LTD	Land Transportation	977.5	-8.0	-9.5	-8.1
5332	TOTO LTD	Glass & Ceramics Products	713.6	-7.9	-8.0	1.7
6806	HIROSE ELECTRIC CO LTD	Electric Appliances	628.0	-7.9	-8.0	1.6
7309	SHIMANO INC	Transportation Equipment	1,966.5	-7.4	-12.0	-6.8
1803	SHIMIZU CORP	Construction	741.4	-7.3	-6.4	-0.4
3405	KURARAY CO LTD	Chemicals	543.5	-7.2	-6.3	0.5
6460	SEGA SAMMY HOLDINGS INC	Machinery	524.9	-7.1	-11.3	3.5
9684	SQUARE ENIX HOLDINGS CO LTD	Information & Communication	704.2	-7.0	-5.9	6.6
4042	TOSOH CORP	Chemicals	618.3	-7.0	-8.0	-1.3
6594	NIDEC CORP	Electric Appliances	3,340.4	-6.9	-7.2	-8.5

Source: BofA Global Research, Astra Manager, Bloomberg

Note: Screened by 1) TOPIX500 companies with MKT CAP above 500 bn JPY; 2) Bottom 50 in terms of 3-month earnings revision.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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