

Japan Equity Strategy

What's driving the confusing stock selloff, and how to respond

Investment Strategy

Sudden selloff reflects supply-demand & US rate concerns

We think the recent drastic selloff in Japan equities partly reflects supply-demand factors. Market volatility typically increases around end-September, and this combined with (1) rebalancing mainly by pension funds, triggering a reversal of TOPIX's excessive outperformance versus Nikkei 225; (2) the risk of forex market intervention, which fueled a decline in value stocks; and (3) loss cutting by CTAs to drive a dramatic short-term selloff. Along with supply-demand factors, we think the selloff was driven by uncertainty about US interest rates at a more fundamental level.

Rising US rates/USD/oil depressing Japanese stocks

The trigger for the selloff was the jump in the Fed's real policy rate outlook at the September FOMC. We think the resulting inconsistency in the Fed's assumptions prompted an allergic reaction from the market. The negative impact of rising US rates naturally spilled over to Japanese stocks. Higher US rates weaken the yen, but Japanese stocks tend to fall at least in USD terms when the dollar strengthens. USD is typically inversely correlated with oil prices, and the recent combination of a stronger dollar and more expensive oil triggered by OPEC+ production cuts is also squeezing stocks.

Exporters tend to underperform in phases of rapid dollar appreciation despite the weak yen, and we therefore see domestic-demand sectors as a near-term safe haven amid market turbulence. However, if US stocks continue to fall and the Fed halts rate hikes in November, this could trigger a market inflection. The situation in China, another source of concern, has also improved somewhat. A shift from the current pattern of USD/CNY weakness to a weaker USD and stronger CNY could ease concerns about China.

A barbell strategy: Quality + Value

If global quality stocks outperform after the Fed halts rate hikes, Japan is likely to follow suit. But Japan's behind-the-curve inflation and BoJ policy normalization expectation would usually be positive for value names. We therefore think the scenario of a concurrent rally for Japanese quality stocks and some value names is also conceivable.

In Exhibit 12, we show domestic demand-oriented stocks with resilient earnings expectations and inexpensive valuation. Exhibit 15 lists China-related stocks.

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Investment Strategy Japan

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Supply-demand factors fueled selloff, but root cause is rising US rates

Japanese stocks have sold off sharply, with the Nikkei falling \$1,330 (4.2%) over the three trading days thus far in October. The lack of a clear-cut cause has prompted widespread market concern. We think supply-demand was a factor: the typical market pattern during earnings recovery is for stocks to rise through late-September as analysts revise up estimates after 1Q results and investors seek to lock in dividends, then fall around end-September as GPIF and other pension funds rebalance (Exhibit 1).

Exhibit 1: The seasonality of TOPIX performance by EPS changes 2023 appears to follow those years with EPS increases



Source: BofA Global Research, QUICK Note: We calculate the average TOPIX performance based on annual EPS changes since 2010. Previous yearend price = 100.

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Exhibit 2: TOPIX revision index and 12-month forward P/ETOPIX P/E will not peak out until earnings revision peaks out in positive territory



Source: BofA Global Research, Refinitiv
The revision index (4 weeks moving average), P/E is based on I/B/E/S consensus estimate for 12-month forward EPS.

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However, the unusual recent jump in market volatility likely reflects one-time factors: (1) a spate of investors unwinding positions as pension funds' rebalancing caused TOPIX's excessive outperformance vs. the Nikkei 225 during the Jul-Sep value rally to reverse; (2) concerns that the Japanese government could intervene in forex markets, spurring a selloff of value stocks, and (3) loss cutting by CTAs as indexes dove below their breakeven point (which we estimate at ¥31,552 for the Nikkei 225; see 9/29 Systematic Flows Monitor for details).

Naturally, if the market selloff was caused solely by supply-demand factors, lower P/Es would be an attractive investment opportunity (Exhibit 2). However, as we have written previously, the recent slump partly reflected a sharp rise in US interest rates, and we think it would be more accurate to say that supply-demand factors only exacerbated the selloff (see 9/26 Japan Insight for details). Our near-term focus is the macro outlook.



Rising UST yields/USD/oil depressing Japanese stocks

We look next at what happened during the recent selloff. The trigger for the change in market perceptions was the September FOMC. The Fed raised its policy rate outlook to align with a major upward revision to its GDP outlook. However, the lack of change in its inflation outlook resulted in far higher real policy rate assumptions (Exhibit 3). We think this inconsistency prompted an allergic reaction from the market. The 2024 real policy rate forecast of 2.5% and current expected inflation of around 2.4% suggest a 10yr UST yield of up to 5% (Exhibit 4).

Exhibit 3: September SEP changes vs. June

"Depressing inflation requires a cyclical slowdown" view seems to be waning

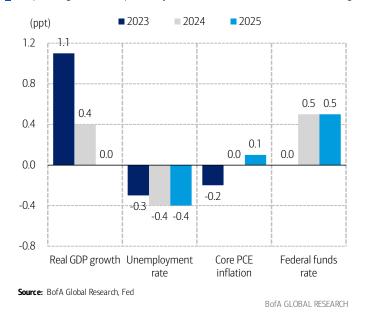


Exhibit 4: FOMC Summary of Economic Projections (SEP)

Policy rate upgrades along with real GDP upward revisions. No change in inflation forecast led to a high real rate

	Median						
		2023	2024	2025	2026	Longer run	
Change in real GDP	Sep-23	2.1	1.5	1.8	1.8	1.8	
	Jun-23	1.0	1.1	1.8		1.8	
Unemployment rate	Sep-23	3.8	4.1	4.1	4.0	4.0	
	Jun-23	4.1	4.5	4.5		4.0	
PCE inflation	Sep-23	3.3	2.5	2.2	2.0	2.0	
	Jun-23	3.2	2.5	2.1		2.0	
Core PCE inflation	Sep-23	3.7	2.6	2.3	2.0		
	Jun-23	3.9	2.6	2.2			
Federal funds rate	Sep-23	5.6	5.1	3.9	2.9	2.5	
	Jun-23	5.6	4.6	3.4		2.5	
Real federal funds rate (FF rate - PCE inflation)	Sep-23	2.3	2.6	1.7	0.9	0.5	
	Jun-23	2.4	2.1	1.3		0.5	
Real federal funds rate	Sep-23	1.9	2.5	1.6	0.9		
(FF rate - Core PCE inflation)	Jun-23	1.7	2.0	1.2			

Source: BofA Global Research, Fed

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While Apr-Jun featured a "good" rise in interest rates on better-than-expected economic data, the uptrend from Jul-Sep was likely a "bad" one led mainly by a jump in term premia (mainly on supply-demand factors; Exhibit 5, Exhibit 6). The latter likely reflected a major impact from a jump in UST issuance. The correlation between US stocks and interest rates was positive in Apr-Jun but turned negative again from Jul-Sep, suggesting that higher rates could translate directly into downside risk for the stock market (Exhibit 7).

The negative impact of rising US interest rates also spilled over to Japanese stocks. Rising US rates support Japanese stocks by weakening the yen, but a concurrent uptrend in the dollar typically causes Japanese stocks to fall at least in USD terms (Exhibit 8). This reflects the essentially negative impact of a stronger dollar on the global economy and financial conditions. For eg, a similar pattern occurred after Fed Chair Jerome Powell's hawkish pivot at the end-August 2022 Jackson Hole symposium shocked the market. This contrasts with Japanese stocks' USD-based rally in Apr-Jun, which featured concerted inflows of capital from overseas investors.

Exhibit 5: US economic surprise index and 10-yr UST

Divergence widened since Aug

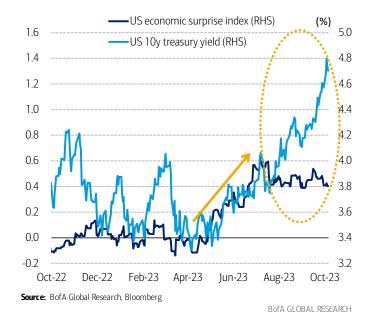
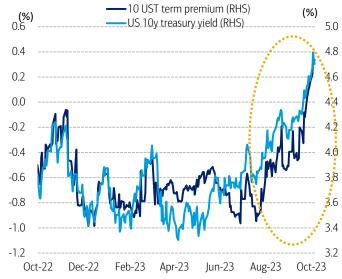


Exhibit 6: 10-yr UST and 10-yr UST term premium

The rate hikes since Aug was mainly driven by the rise of term premium

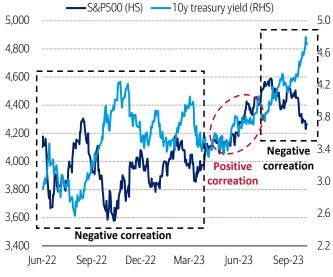


Source: BofA Global Research, Bloomberg

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Exhibit 7: S&P500 and 10-yr UST yield

The correlation turned negative since July

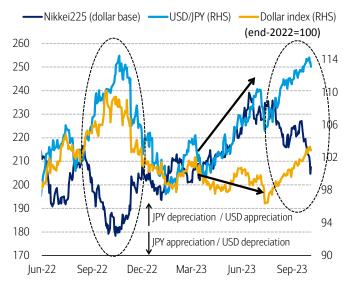


Source: BofA Global Research, Bloomberg

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Exhibit 8: Nikkei 225 (in USD terms), USD/JPY and dollar index

Dollar strengthened and yen weakened since Jul



Source: BofA Global Research, Bloomberg

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USD is typically inversely correlated with oil prices, and the recent combination of a stronger dollar and more expensive oil caused by OPEC+ production cuts is also squeezing stocks. This also resembles the aftermath of last year's Jackson Hole symposium (Exhibit 9). In contrast to the US, which is now an oil-producing nation, Japan is a net importer, and a weaker yen alongside high oil prices depress its terms of trade. Growing expectations for the Japanese government to intervene in forex markets have also heightened the sense of "bad" yen weakness.



However, several contrasts with 2022 mean that macro conditions this year have not worsened as much: (1) a weaker USD and oil prices, (2) the fact that prices are rising for few commodities other than oil (Exhibit 10), and (3) the fact that the weaker yen is now stimulating inbound tourism. That said, sudden uptrends in USD tend to dampen risk sentiment and cause export sectors to underperform even if the yen weakens (Exhibit 11 shows the inverse correlation between USD/JPY and export sectors,). The recent market selloff appears overdone, but, in the near term, we see domestic-demand sectors as a safe haven amid market turbulence. Exhibit 12 lists domestic-demand stocks with upbeat earnings that are not excessively overvalued on P/E.

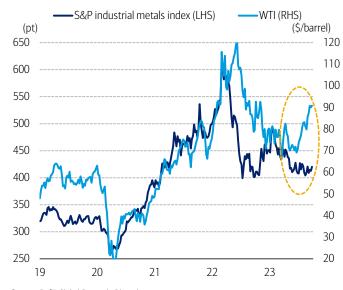
Exhibit 9: Dollar index and WTI crude oil futures

A stronger dollar coexists with higher oil prices



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Exhibit 10: S&P industrial metals index and WTI crude oil futures Crude oil prices diverged from the other commodities' prices

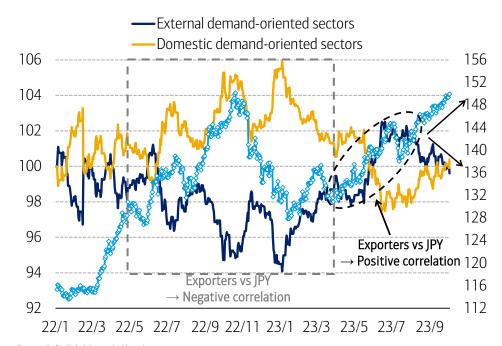


Source: BofA Global Research, Bloomberg



Exhibit 11: USD/JPY and the relative performance of domestic and external demand-oriented sectors

 $The \ correlation \ of \ USD/JPY \ and \ external \ sectors \ is \ negative \ when \ the \ yen \ depreciates \ amid \ dollar \ strength$



Source: BofA Global Research, Bloomberg

Exhibit 12: Domestic demand-oriented stocks with resilient earnings expectation and inexpensive valuation

Domestic demand-oriented sectors, earnings revision improvement, RP revision above 1%, ROE above 5%, P/E below 25

Code	Name	Sector	Mkt cap (bn JPY)	RP growth (FY1, %)	RP revision (FY1, vs. 3 months prior,%)	ROE (FY1,%)	P/E (FY1,%)	YTD return (%, vs TOPIX)
	ELEGRAPH & TELEPHONE	Information & Communication	14,350	6.9	1.7	14.3	12.2	-3.5
4661 ORIENTAL	SHI UFJ FINANCIAL GRO	Banks	10,758 8,234	85.3	11.4	7.7 12.3	10.2	18.4
	10 MITSUI FINANCIAL GR	Services Banks	7,283	46.9 4.9	14.6 1.2	6.7	0.0	9.1 16.2
	ARINE HOLDINGS INC	Insurance	4,847	44.5	9.9	14.8	12.3	-1.6
	FINANCIAL GROUP INC	Banks	4,769	10.2	4.3	6.7	9.3	13.3
	JAPAN RAILWAY CO	Land Transportation	3,257	35.7	10.2	7.1	13.2	-14.2
9020 EAST JAPA		Land Transportation	2,772	104.8	1.1	6.0	19.8	-12.3
3659 NEXON CO		Information & Communication	2,567	16.4	7.8	12.2	22.6	-30.7
	HOLDINGS CO LTD	Pharmaceutical	2,401	47.0	15.5	7.6	16.4	0.8
8630 SOMPO H		Insurance	1,871	168.5	26.7	12.6	9.7	-12.4
1928 SEKISUI F	HOUSELTD	Construction	1,678	3.4	1.5	11.6	10.0	0.9
8830 SUMITON	10 REALTY & DEVELOPMEN	Real Estate	1,420	6.5	2.0	9.5	9.8	-3.8
9202 ANA HOLE	DINGS INC	Air Transportation	1,393	24.6	14.5	19.3	17.7	-11.3
	BEVERAGE & FOOD LTD	Foods	1,391	1.0	1.0	8.4		-17.6
9021 WEST JAP	AN RAILWAY CO	Land Transportation	1,332	53.6	9.4	6.6	20.3	-16.0
	LECTRIC POWER CO INC	Electric Power & Gas	1,212	7096.9	90.8	16.1	5.3	29.1
9201 JAPAN AIF		Air Transportation	1,129	152.2	31.9	8.8	18.2	-15.5
9005 TOKYU CC		Land Transportation	1,101	66.6	23.1	5.7	25.0	-18.1
8697 JAPAN EXC	CHANGE GROUP INC	Other Financing Business	1,067	10.0	5.6	15.5	23.2	24.2
	LECTRIC POWER CO INC	Electric Power & Gas	1,060	407.1	95.0	10.7	5.8	10.5
	SHI HC CAPITAL INC	Other Financing Business	1,003	16.5	2.7	8.0		24.5
4716 ORACLE C		Information & Communication	1,003	5.7	4.5	32.2	24.4	8.9
	YOCOCOKARA & CO	Retail Trade	1,002	13.5	4.9	9.4	24.8	3.9
	HANSHIN HOLDINGS INC	Land Transportation	998	8.0	2.7	6.6	19.8	5.7
	ECURITIES GROUP INC	Securities & Commodity Futures	975	42.9	6.6	5.6	14.6	21.3
9532 OSAKA GA		Electric Power & Gas	909	117.0	6.9	8.1	7.8	-7.5
9766 KONAMI (JROUP CORP	Information & Communication	871	62.1	4.5	13.4	20.8	9.5
3626 TIS INC	ODD	Information & Communication	853	3.0	2.2	13.8	20.3	-24.3 29.6
1812 KAJIMA CO 9435 HIKARI TS		Construction Information & Communication	845 837	1.9 2.5	4.7 16.3	10.4 12.1	10.3 13.0	-1.4
4768 OTSUKA (Information & Communication	789	16.7	7.4	13.1	24.4	30.0
	ECHNO-SOLUTIONS CORP	Information & Communication	781	22.9	1.8	12.5	21.6	23.2
	ECTRIC POWER COMPANY	Electric Power & Gas	760	201.3	96.7	6.8	4.1	4.3
	GROUP HOLDINGS COL	Land Transportation	668	0.7	15.7	10.5	20.4	-22.8
9001 TOBU RAI		Land Transportation	665	6.8	2.0	7.3	22.6	-0.1
	ELECTRIC RAILWAY CO	Land Transportation	634	50.8	23.0	14.2	11.9	5.0
	SAN KAISHA LTD	Foods	615	29.5	3.9	10.4	16.1	-3.8
9719 SCSK COR		Information & Communication	605	6.9	4.7	13.6	17.9	10.6
4732 USS CO L		Services	590	4.2	1.8	15.7	19.7	-1.0
	USE GROUP CO LTD	Real Estate	590	14.2	2.3	24.8	6.8	-17.6
3099 ISETAN M	ITSUKOSHI HOLDINGS L	Retail Trade	588	44.6	12.2	5.2	19.8	-3.9
2670 ABC-MAR		Retail Trade	554	17.8	11.0	10.7	19.9	-11.0
7936 ASICS CO	RP	Other Products	553	56.8	28.3	15.2	0.0	45.4
8439 TOKYO CE	ENTURY CORP	Other Financing Business	542	9.0	3.7	8.9	9.2	8.0
2651 LAWSON		Retail Trade	538	19.9	15.9	12.6	21.5	15.6
2002 NISSHIN S	SEIFUN GROUP INC	Foods	472	28.5	3.9	6.2	21.1	-7.7
	RAILWAY COMPANY	Land Transportation	464	39.6	9.6	9.9		-13.9
	JDOSAN HOLDINGS CORP	Real Estate	457	2.8	12.3	8.8	9.6	19.0
9024 SEIBU HO		Land Transportation	440	66.4	4.7	6.1	20.7	-22.4
9989 SUNDRUC		Retail Trade	434	5.8	1.6	11.0		-12.5
	PHARMACEUTICAL CO LTD	Pharmaceutical	425	722.5	3.9	7.9	19.5	6.9
2282 NH FOOD:		Foods	395	76.9	1.1	5.2		-0.4
	OLDINGS CO LTD	Land Transportation	391	41.1	6.5	7.3		-10.3
	ECURITY SERVICES CO	Services	364	7.5	3.4	7.9		5.1
7649 SUGI HOL		Retail Trade	361	7.4	5.9	8.9	20.0	-16.1
2871 NICHIREI		Floatia Davisia & Con	360	6.5	5.0	9.9		-7.5
	ELECTRIC POWER CO INC	Electric Power & Gas	359	264.4	1.4	15.3		1.3
8056 BIPROGY I		Information & Communication	356	12.1	2.1	15.5	16.2	-8.9

Source: BofA Global Research, QUICK

Note: screening criteria: 1) mkt cap above 350bn JPY among TOPIX constituents; 2) FY23 RP growth rate above -0%; 3) RP revision rate above 1%; 4) domestic demand-oriented sectors; 5) ROE(FY1) above 5%; 6) P/E below 25. Based on Quick consensus. Ranked by mkt cap in descendent order.

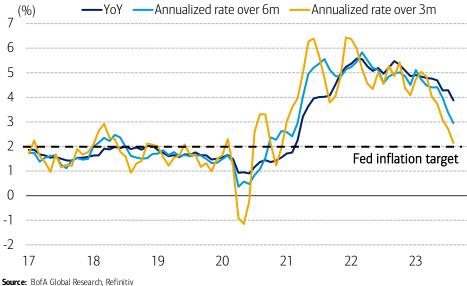


Watch November FOMC; easing USD strength could alleviate China concerns

We look next at the triggers for a market rebound. If US stocks continue to fall and the Fed halts rate hikes in November, this could readily trigger a market inflection. The core PCE deflator (versus 3 months prior) is nearing 2% annualized, supporting our view (Exhibit 13, our US economists forecast another rate hike in November, but do not discount the possibility of a pause; see 9/29 <u>US Watch</u> for details). This would likely drive a rebound in risk sentiment. We expect Japanese stocks' P/Es and EPS to improve from around November due to the weaker dollar and favorable 1H results.

Exhibit 13: US core PCE deflator

Annualized rate over 3 months approaching 3%



source: Both Global Research, Retificity

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The situation in China, another source of concern, has also improved somewhat. There are growing signs that economic data is bottoming, but prospects for a weak Jul-Sep GDP print suggest more accommodative fiscal and monetary policy is likely (see 10/2 China Watch for details). If this prompts a shift from current USD/CNY weakness to a weaker USD and stronger CNY, this could ease concerns about China (CNY weakness during a Chinese recession would amplify capital outflows and limit scope for monetary easing).

For reference, Exhibit 15 lists Japanese stocks with high China exposure. 1H earnings at these firms likely worsened, suggesting considerable investment risk at this point. We think unfavorable results could mark the end of bad news, though this will ultimately depend on macro conditions.

We believe potential reignited US recession concerns, driven by US employment deterioration, etc., would pose risks to our views.

Exhibit 14: China manufacturing PMI and China-related stocks' relative performance

China-related names have rebounded recently



Source: BofA Global Research, Bloomberg, QUICK

Note: We screen the China-related stocks based on 1) China related sales above 15%; 2) mkt cap above 200bnJPY among TOPIX



Exhibit 15: China-related stocks

China sales above 12%, mkt cap above ¥350bn and ROE (FY1) above 4%

Code Name	Sector	Mkt cap (JPYbn)	China sales ratio (%)	RP revision (vs 3m prior, %)		Return from end-June (vs TOPIX, %)
6861 KEYENCE	Elec. App.	14,116	16.6	-3.4	13.9	-16.2
9983 FAST RETAILING	Retail Trade	11,042	19.4	8.4	16.3	-11.6
8035 TOKYO ELECTRON	Elec. App.	9,775	23.9	0.4	18.9	-2.8
6902 DENSO	Trans.Equip.	8,183	13.0	7.6	10.6	-73.7
6981 MURATA MANUFACTURING	Elec. App.	5,665	49.9	3.7	8.0	-64.7
6273 SMC	Machinery	4,710	27.1	-2.2	10.5	-13.1
6723 RENESAS ELECTRONICS	Elec. App.	4,504	28.3	1.6	19.2	-17.4
6594 NIDEC	Elec. App.	4,269	25.1	11.9	12.4	-10.0
6503 MITSUBISHI ELECTRIC	Elec. App.	4,109	24.4	0.2	7.7	-11.0
8015TOYOTA TSUSHO	Whsle Trade	3,242	12.1	9.1	15.2	13.5
1605 INPEX	Mining	3,143	14.9	1.8	9.0	28.1
6146DISCO	Machinery	2,842	31.3	4.2	20.7	23.7
4612 NIPPON PAINT HOLDINGS	Chemicals	2,673	36.2	6.1	10.1	-13.5
4523 EISAI	Pharm.	2,624	14.6	0.6	5.0	-13.5
7733 OLYMPUS	Prec. Inst.	2,619	13.3	-5.2	36.8	-12.9
3659 NEXON	Inf.&Com.	2,388	24.4	9.9	12.7	-3.6
4911SHISEIDO	Chemicals	2,242	32.7	-11.4	5.4	-15.7
6762TDK	Elec. App.	2,209	54.8	-17.5	7.9	-2.5
7259AISIN	Trans.Equip.	1,696	14.6	6.3	8.0	20.8
6869 SYSMEX	Elec. App.	1,572	23.6	-0.7	13.2	-23.3
6506 YASKAWA ELECTRIC	Elec. App.	1,561	24.4	-2.3	13.8	-16.7
5802 SUMITOMO ELECTRIC INDUSTRIES 6988 NITTO DENKO	Nonfer.Mtls Chemicals	1,487 1,466	15.7 35.3	-1.0 0.9	5.6 11.0	-3.8 -9.3
		1,400	20.0	-1.6	4.9	-c.e- -6.9-
3402 TORAY INDUSTRIES 7701 SHIMADZU	Text&Apparel Prec. Inst.	1,244	20.0	0.7	12.6	-0.9 -9.6
6963 ROHM	Elec. App.	1,222	28.5	-0.5	7.6	-
6479MINEBEA MITSUMI	Elec. App.	1,096	17.5	-11.6	9.8	-8.3
7936ASICS	Other Prod.	1,058	12.9	19.0	17.5	10.3
4527 ROHTO PHARMACEUTICAL	Pharm.	953	15.8	11.7	14.1	15.8
6724SEIKO EPSON	Elec. App.	935	14.0	9.0	9.9	2.7
4021 NISSAN CHEMICAL	Chemicals	920	13.4	-0.7	18.9	4.4
4185JSR	Chemicals	844	17.6	-12.4	6.7	-9.7
4183 MITSUI CHEMICALS	Chemicals	800	12.4	-18.4	9.9	4.0
6841 YOKOGAWA ELECTRIC	Elec. App.	797	16.4	5.4	11.5	-23.6
7951 YAMAHA	Other Prod.	794	13.8	-9.6	8.6	-4.9
6967 SHINKO ELECTRIC INDUSTRIES	Elec. App.	790	12.5	-11.0	11.8	-2.4
7747 ASAHI INTECC	Prec. Inst.	755	19.4	-1.6	12.1	-53.8
7735 SCREEN HOLDINGS	Elec. App.	718	20.5	8.3	18.2	-10.8
5332 TOTO	Gel.&Cer.Prod	701	15.9	-3.0	8.0	-17.3
9962 MISUMI GROUP	Whsle Trade	698	18.5	-16.1	9.6	-4.1
3436SUMCO	Metal Prod.	696	16.3	-6.6	11.3	-1.6
6361 EBARA	Machinery	671	16.2	0.1	13.7	10.2
4042TOSOH	Chemicals	654	15.1	-4.4	8.6	-8.5
6806 HIROSE ELECTRIC	Elec. App.	645	33.4	-11.2		12.1
5333 NGK INSULATORS	Gl.&Cer.Prod	635	14.7	5.6		16.5
6753 SHARP	Elec. App.	592	38.8	23.1	4.9	-17.4
7731 NIKON	Prec. Inst.	575	20.5	2.5	6.1	0.0
6976 TAIYO YUDEN	Elec. App.	574	36.0			0.1
3116TOYOTA BOSHOKU	Trans.Equip.	541	14.8	12.0	12.3	28.1
7453 RYOHIN KEIKAKU	Retail Trade	541	17.5	6.6	8.3	-4.7
4182 MITSUBISHI GAS CHEMICAL	Chemicals	476	12.4	-25.4	7.2	-9.8 8 4
7988 NIFCO	Chemicals Motal Brod	442 424	13.5 16.7	10.8 -11.1	12.5 6.7	-8.4 -18.0
5947 RINNAI 6923 STANLEY ELECTRIC	Metal Prod. Elec. App.	424	20.8	-11.1 -8.3	5.4	13.0
3132 MACNICA HOLDINGS	Whsle Trade	420	21.0	21.3	21.8	13.0
4186 TOKYO OHKA KOGYO	Chemicals	383	17.0	-9.3	8.5	-5.4 -5.4
4202 DAICEL	Chemicals	368	19.7	0.3	14.6	-5. 4 -6.6
6481 THK	Machinery	358	21.3	-24.6	4.9	-16.2
5.5.1111	wacminery	550	21.3	24.0	1.5	10.2

Source: BofA Global Research, QUICK

Screening criteria: 1) TOPIX companies with mkt cap above 350 bn JPY; 2) China-related sales exposure above 12%; 3) Quick consensus ROE (FY1) above 4%. Quick consensus. Ranked by mkt cap in descendent order.



If the uncertainties about the Fed's halting the rate hikes fade and global quality stocks outperform, we think Japanese tech and other stocks would likely follow suit. However, we would also note that behind-the-curve inflation and BoJ policy normalization expectation in Japan would usually be positive for value names. We therefore think the scenario of a concurrent rally for Japanese quality stocks and some value names is also conceivable. We would note that this could support a bullish barbell strategy.

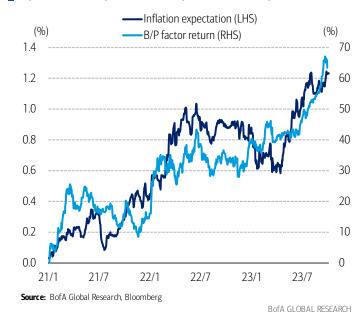
Exhibit 16: US inflation expectation (10-yr) and S&P500 B/P factor return

The cooling down of US inflation expectation weighed on the value stocks



Exhibit 17: Japan inflation expectation (10-yr) and TOPIX B/P factor return

Japan's inflation expectation catch-up sustains value outperformance





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Investment rating Total return expectation (within 12-month period of date of initial rating) Buy 70% Ratings dispersion guidelines for coverage cluster®1 < 70%

Buy ≥ 10% ≤ 70% Neutral ≥ 0% ≤ 30% Underperform N/A ≥ 20%

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