

Japan Insight: BofA Strategy Monthly

Near-term correction a risk; wage growth should pick up after fog clears

Investment Strategy

Market uncertainty may ease from mid-November

We expect market visibility to improve approaching spring 2024, despite near-term correction risk. Yen weakness amid risks of rising oil prices will worsen Japan's terms of trade and could provoke expectations of further BoJ policy normalization. US long-term rates at 5% are worsening financial conditions, dampening investors' risk appetite. While it is difficult to project the trajectory of US long-term rates, we think the current rise is likely to peak soon, around mid-November, owing to 1) the Fed becoming less hawkish; 2) the US Treasury auction settling down following the potential peak in early November and 3) the US economy on track to slow in 4Q. We believe the US economy, albeit slowing, has likely become less sensitive to interest rates, and the interest rates decline is likely to be gradual.

Brighter 2024 catalysts: Wage hikes, and rising ROE

Meanwhile, wage increases are more likely to remain high at the 2024 Shunto, and there is now a clear path toward fully exiting deflation. Rengo has proposed a wage increase of at least 5%, higher than this year's, and some large companies have already announced substantial wage hikes. The scope for not raising wages is narrowing. Additionally, inflation has been high in 2023, and the biggest shortage of workers in the nonmanufacturing sector since 1992 suggests that the upcoming Shunto will bring another large wage increase. Meanwhile, the rise in food prices is expected to abate, thereby making a turn to positive growth in real wages more likely. Although there is a positive correlation between companies' ROE and the inflation rate, ROE will truly take off when inflation becomes grounded on wage hikes rather than cost-push factors.

Defensive stocks for now; peak rates = cyclical growth

Although our preference for value stocks remains, stocks with low volatility attributes should provide a safer haven amid uncertainty in the external environment. If US interest rates were to peak, tech and other cyclical growth stocks could also become long candidates. Although rates are generally expected to remain elevated, it is early yet for a rebound of overvalued growth blue chips. We think small caps could rise as early as January 2024, when real wage growth turns positive and the yen stops weakening.

We highlight three screens given the macro backdrop. Exhibit 23 shows low volatility, low beta stocks; Exhibit 29 lists stocks with 2H RP growth expectation above 1H level and FY2 RP growth expectation surpassing 5%; Exhibit 30 screens stocks that should adapt to structural changes in Japan's economy.

31 October 2023

Investment Strategy
Japan

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Acronyms in this report:

Fed: The Federal Reserve
YCC: Yield Curve Control
QT: Quantitative tightening
FOMC: Federal Open Market Committee
UAW: United Auto Workers
GFC: Global Financial Crisis
RP: Recurring Profits

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Risk of a market correction: uncertainty stands in the way of taking risk

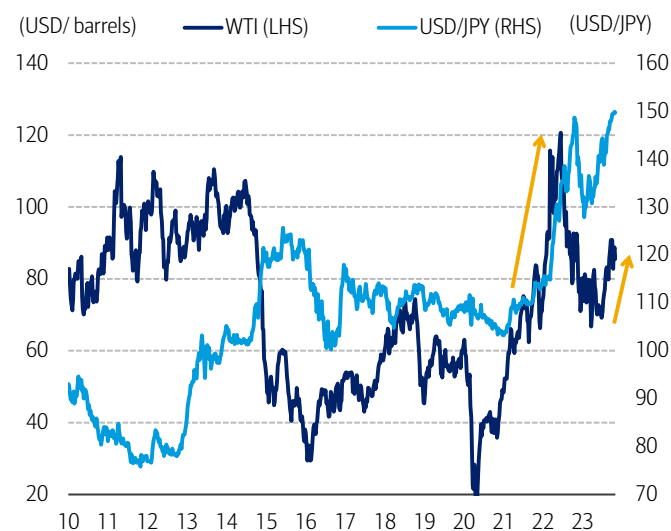
Disturbing trends suggest we could be on the eve of a major market correction. Turmoil in the Middle East, speculation of a YCC change by the BoJ, and uncertainty around US long-term rates at 5% will likely make it difficult to take risk. We think the risk of a major market decline cannot be ruled out, depending on how these play out. However, there is now a clear path between now and spring 2024 for wage growth and a full exit from deflation. Although we advise particular caution until early November, we expect visibility to improve afterward.

Following is a summary of the situation. Regarding the war between Israel and Hamas, given that (1) the situation in the Mideast has not had much impact on global economies and markets in the past, and the focus is on whether there will be a sharp rise in oil prices and (2) the Israel-Palestine conflict has not started a sharp increase in oil prices since 1973 (for details, see our 25 Oct report, [BofA FAQs: Five Answered Questions](#)), the market is probably focused on the extent to which the conflict spreads outside Israel and Palestine's borders. The wild card is whether this develops into a war between Israel and Iran, especially if it means a worst-case scenario of the Strait of Hormuz closing.

We are closely watching the war developments despite its low possibility of further escalation. During times like these, there is a strong tendency for yen depreciation not to have a positive impact on Japanese stocks. Because of the negative correlation between the dollar and oil prices, oil prices normally fall when the yen weakens (and dollar strengthens), but the yen is now weakening concurrent with rising oil prices. This would likely create a "bad" yen depreciation that worsens Japan's terms of trade (Exhibit 1). As was the case in 2H 2022, not only does this squeeze corporate profit margins but it also worsens the government's approval ratings and raises concerns about forex market intervention. There is probably also pressure on the BoJ to modify policy.

Exhibit 1: WTI crude oil prices and USD/JPY

Yen depreciated along with a higher oil price

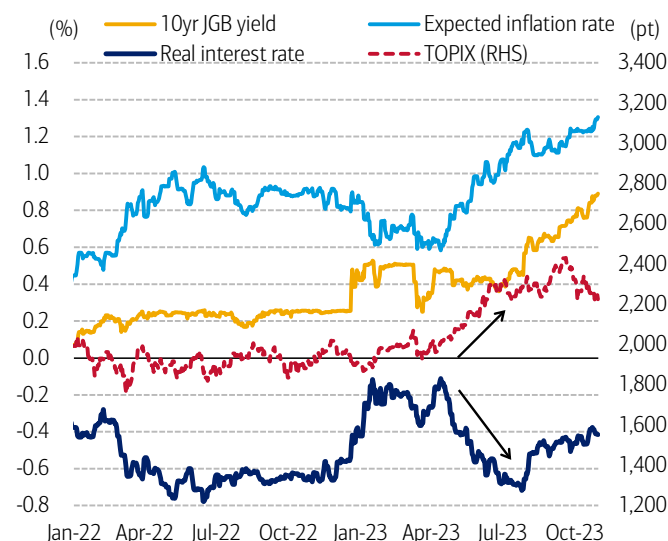


Source: BofA Global Research, Bloomberg

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Exhibit 2: 10yr JGB yield, inflation expectation, real interest rate and TOPIX

Real interest rate rises along with the nominal rate when the inflation expectation is relatively stable



Source: BofA Global Research, Bloomberg

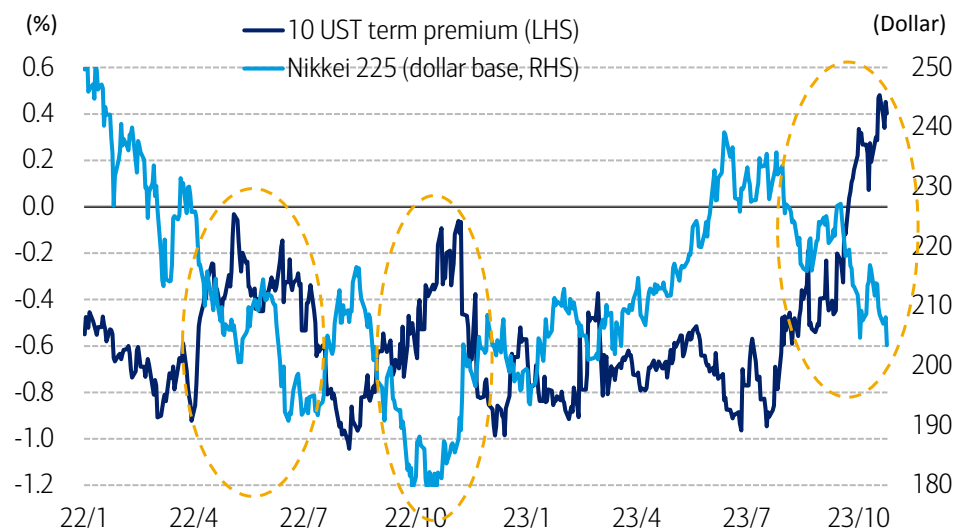
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The BoJ further increased the flexibility in the conduct of YCC in Oct MPM (see [BoJ's YCC flexibilization 31 October 2023](#)). The BoJ was correct in modifying YCC in July, because rising inflation expectations had caused a sharp drop in real interest rates (Exhibit 2). Because of a decline in inflation expectations (in step with rising US interest rates), however, both nominal rates and real rates are rising. The BoJ's changes to YCC

led directly to a further rise in real rates, and this could lead to a market correction. The worsening of Japan's terms of trade brought by rising oil prices and yen devaluation, together with the BoJ's policy normalization, have caused Japanese stocks to underperform.

Exhibit 3: 10 UST term premium and Nikkei 225 in USD terms

Japan equities (in USD terms) tend to decline when UST term premium rises



Source: BofA Global Research, Bloomberg

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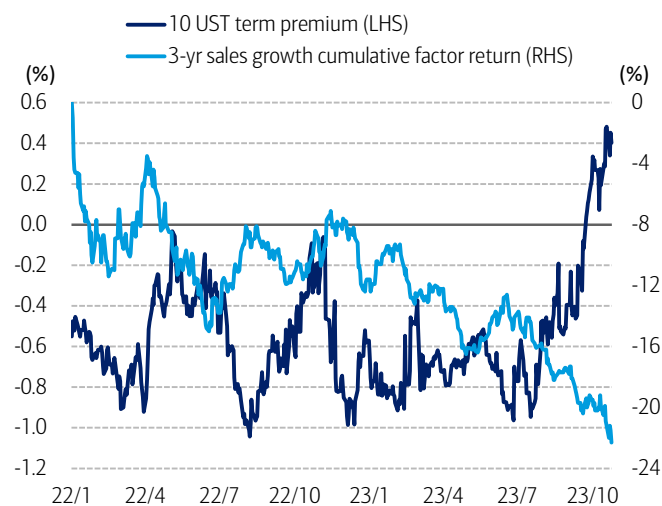
There are not enough market participants willing to accept duration risk in either the stock or government bond market

Furthermore, the worsening of financial conditions brought by rising US interest rates is hurting the market. The main force driving long-term rates higher is a sharply rising term premium. In other words, the rise in rates cannot be explained by fundamentals (interest rates are rising for reasons other than short-term rate expectations), but rather by worsening fiscal discipline, increased Treasury issuance, the absorption of liquidity through QT, and an overly hawkish Fed.

A rise in interest rates driven by the term premium is a "bad" rise, one that also affects Japanese stocks. Even with the yen weakening in step with the rise in US interest rates, indicators are either flat or declining and there is a strong downward trend in dollar-based indicators (Exhibit 3). This is also creating a barrier to macro growth while pushing the discount rate higher and creating strong headwinds for growth stocks (Exhibit 4). There has been a rotation into low-volatility stocks as the market increasingly goes into a risk-off mode (Exhibit 5). In the US, cloud-related revenues at richly valued (long-duration) big tech stocks have been short of expectations, and the sharp decline in their share prices is probably related to the worsening of financial conditions. There are not enough market participants willing to take on duration risk in either the stock or Treasury markets. Current conditions are creating strong headwinds for risk sentiment.

Exhibit 4: 10 UST term premium and 3-yr sales growth cumulative factor return

A higher 10 UST term premium means headwinds for growth stocks

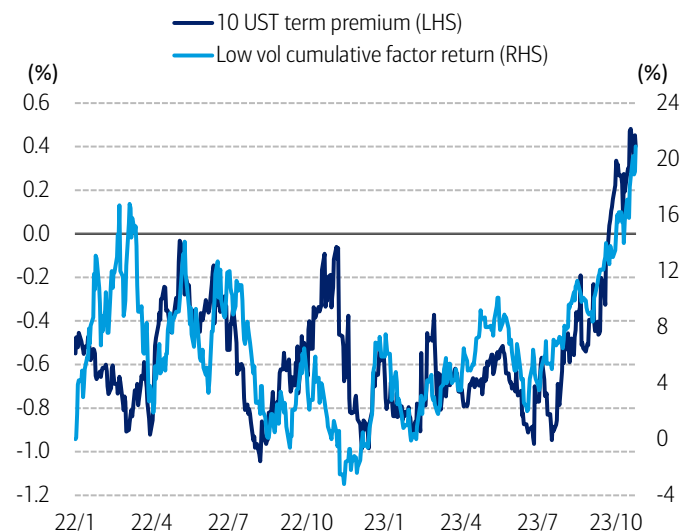


Source: BofA Global Research, Bloomberg

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Exhibit 5: 10 UST term premium and low vol cumulative factor return

A higher 10 UST term premium favors low vol factor



Source: BofA Global Research, Refinitiv, Bloomberg

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An initial peak in US interest rates may occur around mid-November

Will US interest rates regain stability? Although difficult to forecast, our impression is that rates are near their upper limit, at least for the near term, and likely to peak around mid-November. We see three reasons for this.

First is the change in the Fed's outlook. The accelerated rise in interest rates was sparked by the September FOMC meeting, mostly by comments that the Fed sees the rise in the term premium as a substitute for rate hikes. It seemed to indicate that its stance is to look at financial conditions overall, and adjust the policy rate when the term premium rises. The risk of a disorderly rise in interest rates has receded.

The second reason is Treasury bond supply-demand. Although US debt issuance should remain at high levels, the near-term focus is on the 3yr, 10yr, and 30yr Treasury auctions scheduled for 7, 8, and 9 November, respectively. Although there is a risk of interest rates rising over the near term, that risk should abate after these events pass. Additionally, although a contrarian view, if the US government fails to pass a 2024 budget by 17 November and there is a shutdown of government institutions, it will increase the likelihood of the Fed skipping a rate hike at its December FOMC meeting (our US economist expects the Fed to skip at the November meeting and hike at the December meeting, but thinks it is a close call).

The third reason is the macroeconomy. The resumption of student loan repayments, impacts from the UAW strike, and worsening financial conditions are likely to cause the macroeconomy to slow in 4Q (for details, see our 27 October [US Economic Weekly](#)). The strong showing of US GDP in 3Q will make the slowdown that much more noticeable. Based on the above, US interest rates look likely to peak around mid-November.

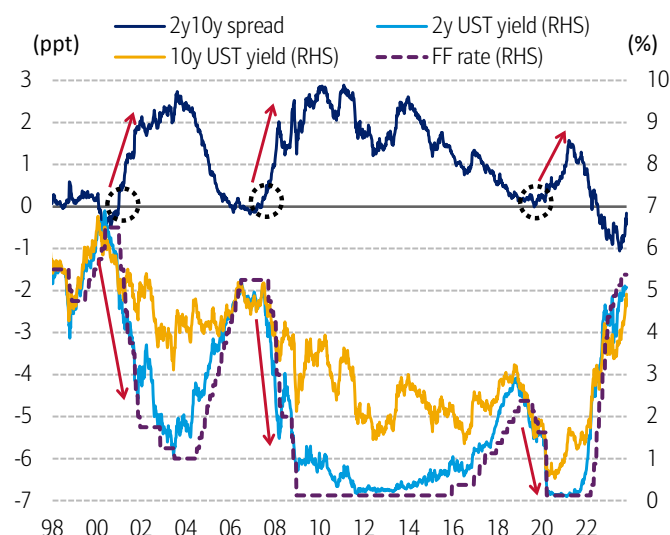
US interest rates appear to be near their upper limit. The 10yr Treasury yield has risen enough to flatten the 2yr-10yr curve. When the maturity spread has gone past flattening into a steepening mode in the past, it was not when the 10yr yield was rising more than the 2yr yield, but rather when both the 2yr and 10yr yields were declining in anticipation of rate cuts, with the 2yr yield declining by more (Exhibit 6). We see limited room for the

10yr yield to rise unless an acceleration of inflation pushes the foundational 2yr yield substantially higher.

If the 10yr yield continues rising, it could rise as high as the S&P 500 earnings yield and thereby squeeze the yield spread down to zero (Exhibit 7). Barring a bubble like one that occurred around the year 2000, this would probably be the result of either the purchasing of undervalued Treasuries or the selling of overvalued stocks. Interest rates are likely to decline in either case.

Exhibit 6: 2y10y spread, 2y UST yield, 10y UST yield and FF rate

UST yields usually move from flattening to steepening when both 2yr and 10y yields factor in rate cuts

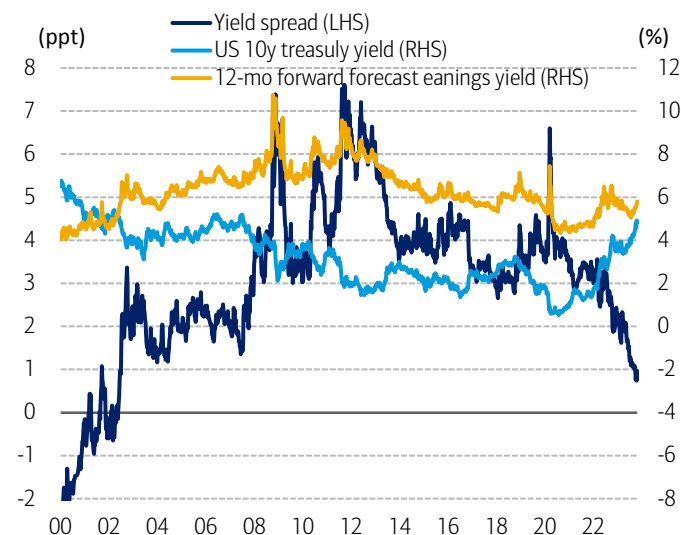


Source: BofA Global Research, Bloomberg

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Exhibit 7: Yield spread of S&P500

The yield spread of S&P500 contracted sharply



Source: BofA Global Research, Refinitiv, Bloomberg

Note: yield spread = earnings yield – 10-yr UST yield. Earnings yield is based on I/B/E/S 12-month forward consensus estimate.

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The US economy is becoming less sensitive to interest rates

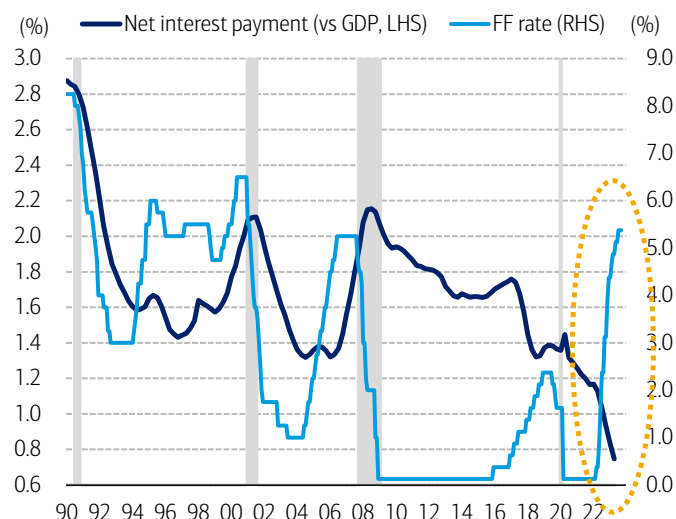
Meanwhile, the medium-term trend in US interest rates depends on the direction of the US economy. Barring a greater or lesser slowdown of the US economy, we see little room for interest rates to fall, but interest rates could drop rapidly in the event of a recession. Although our US economist expects the US economy to slow, he envisions a soft landing with no recession.

We think the US economy has not collapsed despite high interest rates because of the lag between Fed rate hikes and their effects and also because the macroeconomy has become less sensitive to interest rates. In fact, the net interest payments of US corporations (interest income minus interest expense) as a percentage of GDP worsened during previous rate hike cycles, but has been improving this time around (Exhibit 8). We attribute this to borrowing rates having been locked in long term when interest rates were low and to corporations' reduced dependence on bank loans and accumulation of cash over the past decade.

The same can probably be said of consumers. Unlike in Japan, 91.4% of residential mortgages in the US are at fixed rates, many for 30 years (Exhibit 9). That percentage rose after the global financial crisis, thereby making the economy less sensitive to interest rates. The growth of real estate and stock holdings within asset portfolios has made it less likely that consumer balance sheets will worsen when interest rates are high (Exhibit 10).

Exhibit 8: Net interest payment of the US and FF rate

US corporates' net interest payments remain modest despite a elevated FF rate

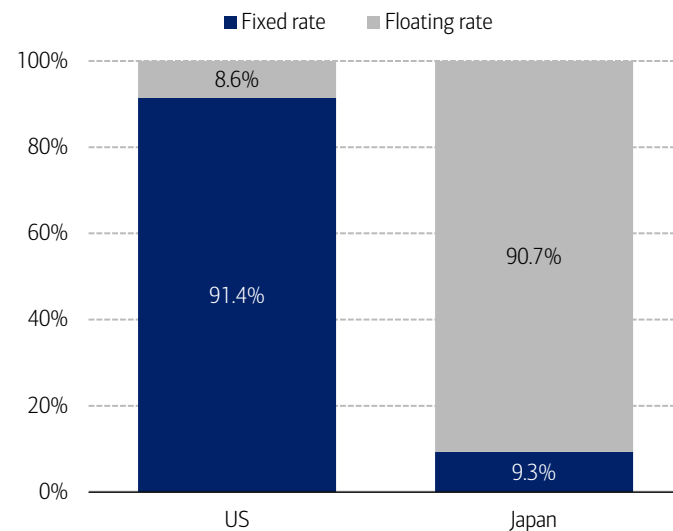


Source: BofA Global Research, Fed
Note: Shadow areas show US recession periods.

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Exhibit 9: Mortgage loan comparison (US vs. Japan)

More than 90% of US mortgage loans are fixed rate type

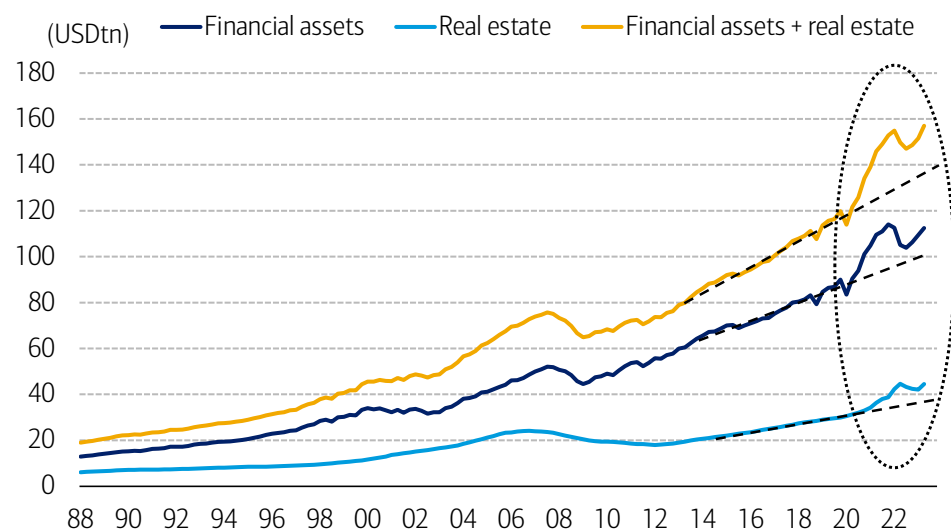


Source: BofA Global Research, MBA, Japan Housing Finance Agency

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Exhibit 10: US household financial assets, real estate

US household financial assets, real estate continued to increase above historical trend



Source: BofA Global Research, Fed

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In contrast, the number of agents whose balance sheets worsen with rising interest rates, including low income individuals and bank loan-dependent SMEs, should increase. The economy is likely to start slowing. However, rising interest rates only have a limited impact on the high-income individuals and large corporations that are important to the economy, and we think this makes a recession unlikely.

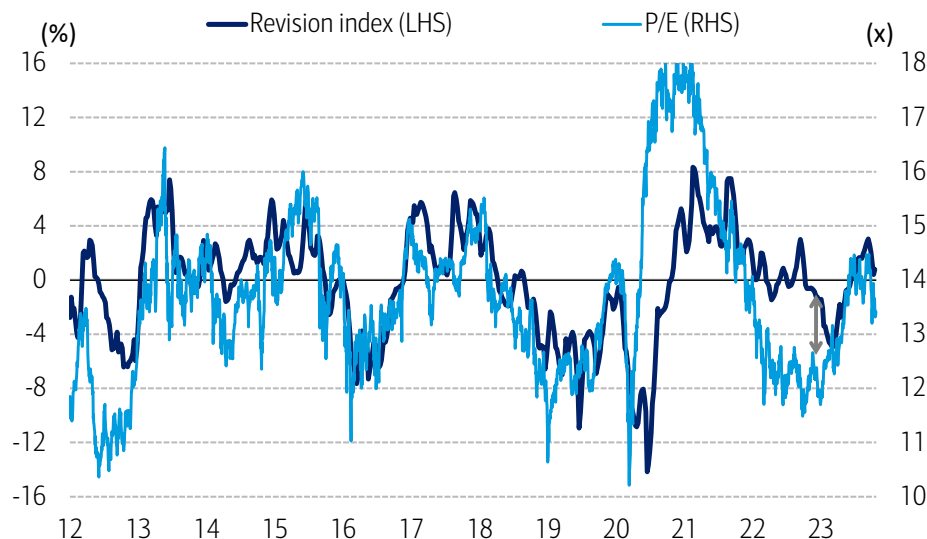
In light of the above, we expect interest rates overall to follow a declining trend, albeit at a very moderate pace. We think the above mechanism explains why there has been only a limited weakening in the hard data despite a worsening of the soft data based on the PMI or consumer sentiment.

There is now a clear path toward wage growth and exiting deflation between now and spring 2024

We therefore expect US interest rates to stabilize once the BoJ policy meeting, FOMC, and Treasury auctions have passed. When there is less uncertainty over the macroeconomy, the earnings cycle should lead to an upward pricing of the market. The TOPIX P/E has dropped below 14x, the median of its range, but for that to persist would require the earnings revision index to worsen from positive to negative territory (Exhibit 9). The revision index should rise following interim results, but it is not there yet.

Exhibit 11: TOPIX revision index and 12-month forward P/E

TOPIX P/E will not drop below 14x substantially unless earnings revision turns into negative 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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Furthermore, while the external environment is deteriorating, there is now a clear path toward a second consecutive Shunto of high wage increases in spring 2024. If there is not only one but two years of large wage increases, it will probably increase confidence that there has been an upward shift of wages. Although the market's direction will depend on the external environment, the domestic narrative is actually more important.

In fact, the scope for avoiding large wage increases at Shunto 2024 is becoming increasingly narrower. Rengo has decided to request 2024 wage increases of at least 5% (and base salary increases of at least 3%), in both cases higher than in 2023. Keidanren has also published guidelines strongly supportive of base salary increases. Last year, some large corporations started announcing plans for wage hikes in December, but this year several companies announced large wage hikes (around 7%) in October (Exhibit 12). This will probably have an announcement effect on other companies.

The need for large wage hikes at Shunto is also supported by the economic data. That inflation is higher this year than it was last year makes it likely that companies will support large wage increases to keep work motivation high, prevent job leaving, and maintain employment (Exhibit 13). Additionally, the shortage of workers in the nonmanufacturing sector is the worst it has been since 1992. This suggests there could be a repeat of last year's Shunto wage hike, which was the highest since 1992 (Exhibit 14). To the extent that inflation is triggered by rising wages, recovering consumer sentiment should make it easy to raise prices, and this is not a bad thing for EPS and profit margins (Exhibit 15).

Exhibit 12: Wage hike plans of large-cap companies

Some large-cap names have already announced substantial wage-hike plans

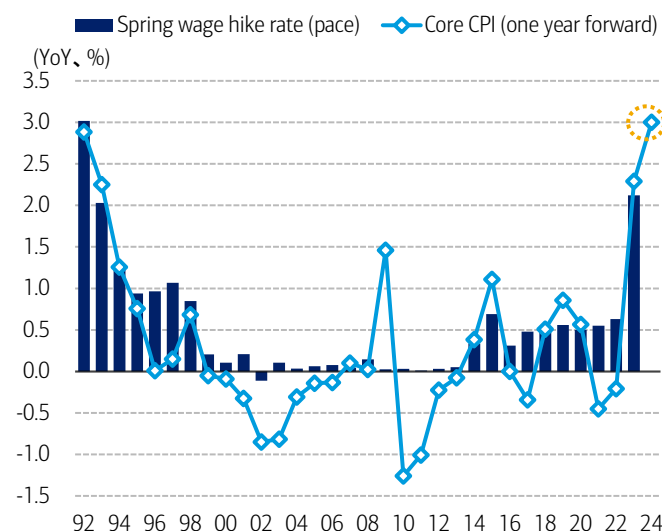
Bic Camera Inc	Raising base pay rising by 7%; raising annual compensation for new graduates by 14%-16%
Suntory HD	Raising wages by around 7%, with base pay rising by 3%
Meiji Yasuda Life	Looking at a 7% increase in annual compensation
AGC	Looking for a continued wage-hike stance until 2030; raising annual compensation for new graduates by 4%

Source: BofA Global Research, Nikkei Shimbun

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Exhibit 13: Spring wage hike rate and core CPI (1-yr forward)

A higher inflation this year may provide tailwinds to spring wage hike rate in 2024



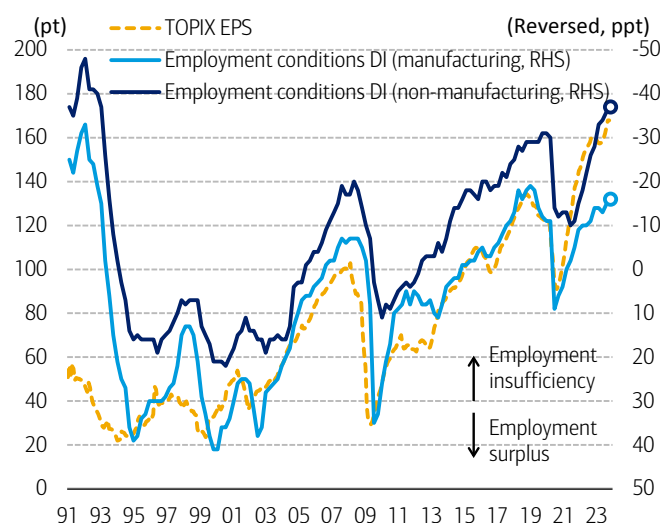
Source: BofA Global Research, Ministry of Health, Labour and Welfare, RENGO

Note: We calculate the calendar average for the core CPI, using our house view forecast for the latest number

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Exhibit 14: BoJ Tankan: Employment conditions DI and TOPIX EPS

The labor shortage of non-manufacturers reached record high since 1992



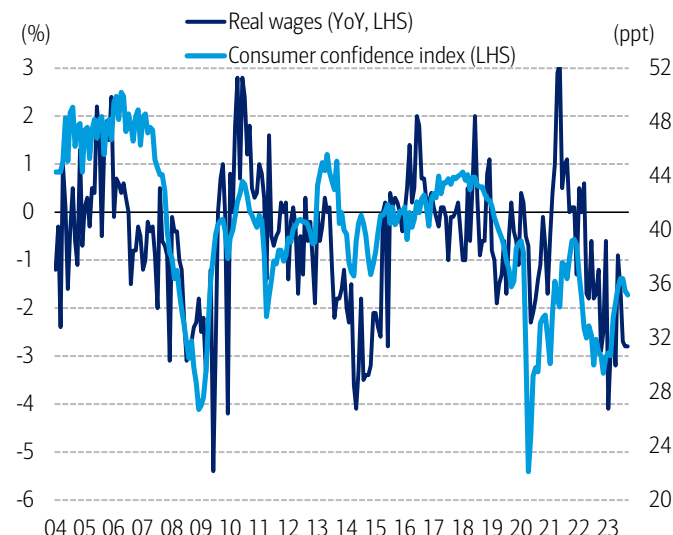
Source: BofA Global Research, BoJ, Refinitiv

Note: based on Sep BoJ Tankan survey, large enterprises. EPS is based on I/B/E/S consensus 12-month forward estimates.

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Exhibit 15: Real wages and consumer confidence index

Positive correlation between the two series



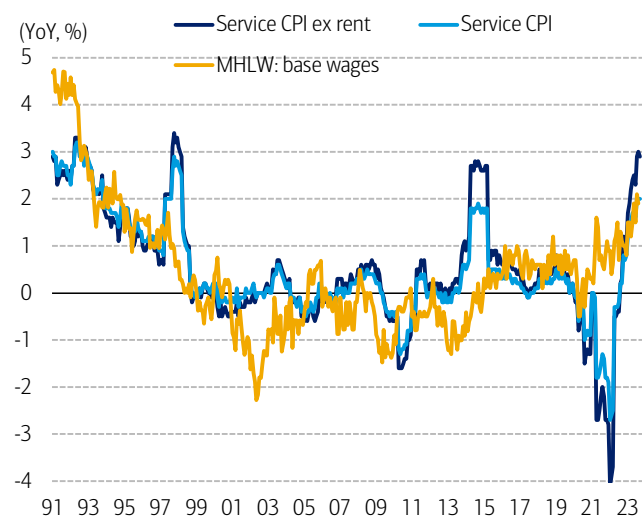
Source: BofA Global Research, Refinitiv, Bloomberg

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Two consecutive Shunto negotiations resulting in a high wage increase would probably be the last piece of the puzzle required to fully exit deflation. In fact, price hikes are starting to take hold in the services sector, where wages account for the majority of costs, and the services CPI excluding rents, which are sticky, is at its highest since 1992 (Exhibit 16; see our 27 October [Japan Watch](#)). Services deflation is the main reason why Japan is the only major economy in deflation, and Japan is on the verge of exiting that deflation (Exhibit 17).

Exhibit 16: Services CPI and base wage growth

Services CPI tends to be correlated with wage growth; services CPI ex rent is reaching record high since 1992



Source: BofA Global Research, INDB

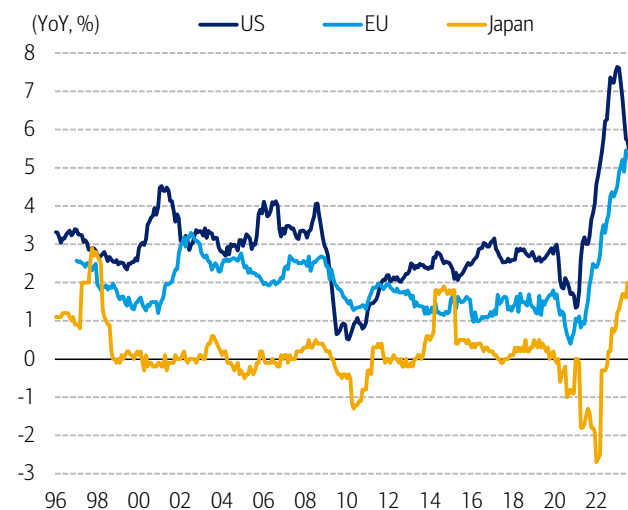
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If there are large wage increases coupled with a weakening of cost-push inflation, real wages should turn positive. Most of Japan's high inflation rate comes from rising food prices, but those increases are expected to weaken (Exhibit 18). Additionally, if the government starts cutting income taxes around June 2024, that will further stimulate consumption.

Of course, the rising probability of the BoJ lifting NIRP as a part of that process is a market risk (our economists expect that to happen in January 2024). However, curtailing extreme yen depreciation will lower cost-push inflation and contribute to growth in real wages. The biggest problem had always been that deflation kept the real policy rate from declining, and inflation has finally made it possible for the real policy rate to decline (Exhibit 19). The BoJ adjusting nominal rates in response to inflation becoming entrenched is not a bad thing for Japanese stocks.

Exhibit 17: Services CPI in the US, EU and Japan

Services deflation is the main reason why Japan is the only major economy in deflation

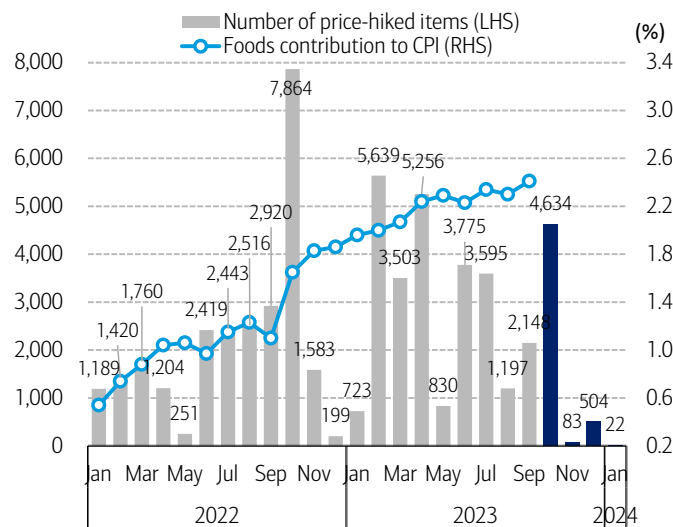


Source: BofA Global Research, Refinitiv

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Exhibit 18: Number of price-hiked items and foods contribution to CPI

Price hikes of foods are expected to cool down

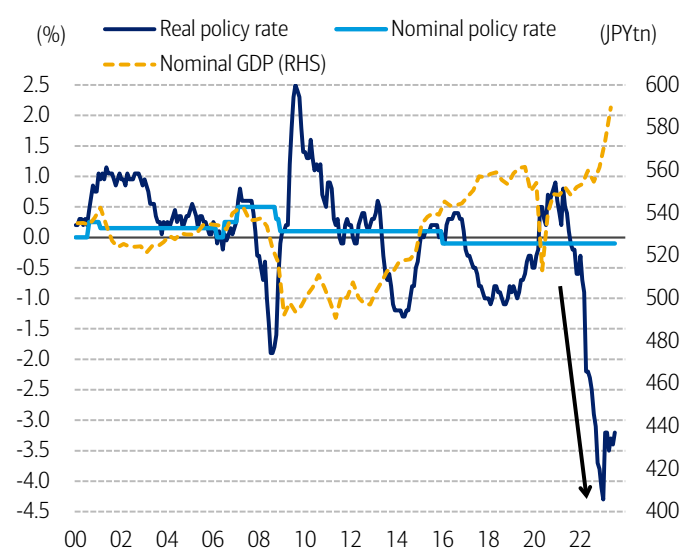


Source: BofA Global Research, Teikoku Databank

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Exhibit 19: BoJ's policy rate (real vs. nominal) and nominal GDP

Inflation helps lower the real interest rates



Source: BofA Global Research, INDB

Based on core CPI (ex-consumption tax impact)

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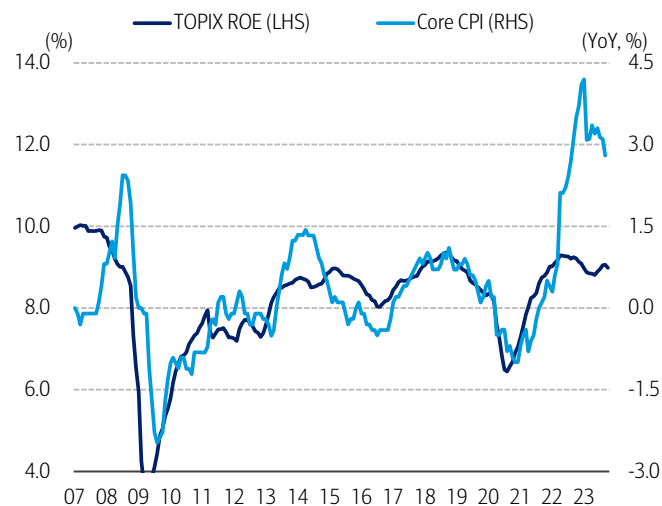
Real wages must rise for ROE to improve substantially

Furthermore, rising real wages should also boost Japanese companies' ROE. Although ROE has a positive correlation with the inflation rate, the noticeable divergence between the two recently can be attributed to the large element of cost-push inflation, which prevents sufficient improvement in profit margins (Exhibit 20). Improvement in real wages should lead to substantial increases in ROE (Exhibit 21). Additionally, if sustained wage hikes become more certain, it could motivate companies to initiate significant reforms. We think the TSE's initiatives to update its list of companies not meeting its P/B requirements on a monthly basis starting in 2023 will accelerate this trend.

Based on the above, we think it has become more likely that between now and next spring, Japan will solidify its exit from deflation, real wages will turn positive, and ROEs will increase. After the current turmoil passes, we think Japanese stocks are likely to enter an upward trajectory.

Exhibit 20: TOPIX ROE and Core CPI

Positive correlation between the two series



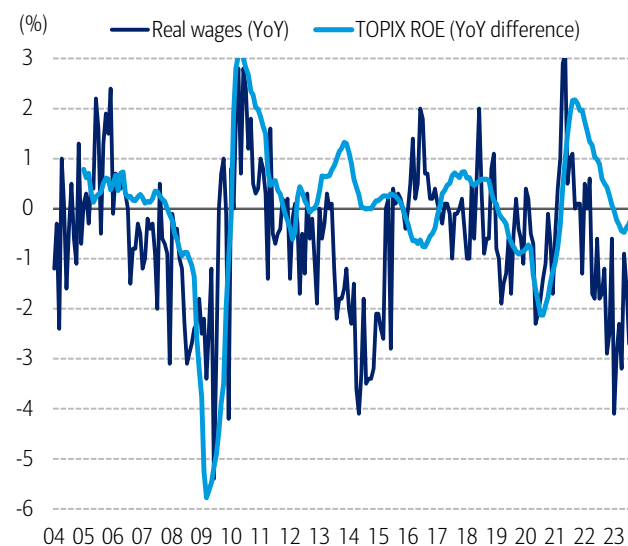
Source: BofA Global Research, Refinitiv

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

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Exhibit 21: Real wages and TOPIX ROE (YoY difference)

Improvement in real wages should lead to substantial increases in ROE



Source: BofA Global Research, Refinitiv

ROE is based on I/B/E/S 12-month forward consensus estimate

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Value stocks are outperforming, but we currently favor defensives

Next, we summarize our view on stock selection. The strong performance of value stocks can be attributed to (1) the TSE's P/B rule changes and (2) Japan's late entry into the inflation cycle and the BoJ's policy adjustments, and therefore probably still has upside left. Value sectors have witnessed a large decline in P/B, particularly since the BoJ introduced negative interest rates in January 2016. Although ROE improvement is a requirement, there appears to be room for restoring P/B multiples (Exhibit 22).

Amid uncertainty in the external environment, however, defensive stocks have been preferred. As already noted, low volatility has been a safe haven in the US during a rise in the term premium (Exhibit 5). Exhibit 23 shows domestic demand-led stocks with a P/B below 3x as well as low volatility, low beta, and strong earnings the following fiscal year. Domestic demand-led stocks are more defensive in nature and will have considerable price upside if wage inflation becomes entrenched.

Exhibit 22: B/P, ROE changes by sector post the introduction of NIRP

Value attributed sectors saw large P/B contraction post the introduction of NIRP

	B/P changes (ppt)	ROE changes (ppt)	PBR	ROE
	Post the introduction of NIRP (Dec 15 vs. now)	FY24 vs. FY15	Current	FY24
Electric Power and Gas	-56.4	-2.6	0.7	7.7
Textiles and Apparels	-40.0	-1.1	0.8	6.4
Fishery, Agriculture & Forestry	-39.5	-0.1	1.0	8.3
Securities and Commodities Futur	-38.1	-1.0	0.7	5.8
Oil and Coal Products	-37.7	24.5	0.6	7.4
Real Estate	-30.9	1.3	1.1	9.2
Nonferrous Metals	-30.3	2.5	0.7	7.0
Metal Products	-30.1	3.4	0.9	7.2
Construction	-27.9	-2.5	1.1	9.2
Land Transportation	-26.5	-2.4	1.3	7.6
Glass and Ceramics Products	-25.3	2.8	0.9	8.2
Rubber Products	-23.9	-1.3	1.1	10.5
Transportation Equipment	-22.0	-1.1	1.1	9.8
Foods	-17.5	-0.3	1.7	9.2
Services	-17.2	0.1	1.8	7.5
Pharmaceutical	-16.0	-0.3	1.7	7.7
Other Financing Business	-14.9	-0.9	1.1	9.8
Pulp and Paper	-14.5	3.8	0.6	6.8
Iron and Steel	-10.1	5.9	0.7	8.9
Air Transportation	-7.9	-4.6	1.5	10.7
Chemicals	-7.2	1.2	1.4	9.2
Warehousing and Harbor Transpor	-6.7	1.7	0.9	6.9
Banks	-5.2	-0.7	0.7	6.4
TOPIX	-3.6	1.5	1.3	9.0
Retail Trade	-1.3	1.5	1.9	8.8
Information & Communication	0.4	-1.0	1.9	10.0
Machinery	4.3	2.3	1.5	10.4
Precision instruments	5.3	1.5	2.8	12.6
Electric Appliances	7.0	4.0	1.9	10.6
Insurance	15.9	3.0	1.1	10.0
Other Products	23.8	5.8	2.1	10.6
Mining	38.1	7.6	0.7	8.3
Wholesale Trade	41.7	8.1	1.2	11.2
Marine Transportation	47.0	17.1	0.8	6.6

Source: BofA Global Research, Bloomberg, Refinitiv

Note: The calculation of B/P changes is based on the previous month of NIRP introduction; we reverse the signs of B/P changes to match ROE changes (minus means undervalued, plus means overvalued). ROE is based on I/B/E/S consensus forecast.

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Exhibit 23: Domestic demand-oriented stocks with low volatility, low beta and resilient earnings expectation in next fiscal year

Domestic stocks with RP growth (FY2) above 5%, revision (FY1) above -5%, ROE (FY2) above 5%, P/B below 3, historical volatility under 25 and beta below 1.0

Code	Company name	Sector	Mkt cap (bn JPY)	RP growth (FY1, %)	RP growth (FY2, %)	ROE (FY2)	% 3M RP revision	PBR	Historical volatility (1yr)	Beta (vs TOPIX, 60m)	YTD return (vs. TPX)
2914	JAPAN TOBACCO INC	Foods	6,858	0.7	6.3	13.0	0.4	1.6	16.2	0.6	11.8
8766	TOKIO MARINE HOLDINGS INC	Insurance	6,788	45.6	8.0	14.2	-1.5	1.7	24.8	0.7	-0.7
8411	MIZUHO FINANCIAL GROUP INC	Banks	6,518	10.2	7.2	6.8	1.7	0.7	24.4	0.8	18.4
3382	SEVEN & I HOLDINGS CO LTD	Retail Trade	4,799	2.8	6.3	9.4	2.1	1.3	22.3	0.5	-22.8
9022	CENTRAL JAPAN RAILWAY CO	Land Transportation	3,437	35.7	8.6	7.6	7.1	0.9	17.5	0.9	-14.5
8725	MS&AD INSURANCE GROUP HOLDIN	Insurance	2,954	82.2	12.4	10.6	-2.2	0.8	22.4	0.8	10.4
9020	EAST JAPAN RAILWAY CO	Land Transportation	2,932	104.8	22.9	7.3	0.4	1.2	16.7	0.9	-15.1
4578	OTSUKA HOLDINGS CO LTD	Pharmaceutical	2,864	47.0	15.1	9.0	10.4	1.1	18.9	1.0	-3.2
1925	DAIWA HOUSE INDUSTRY CO LTD	Construction	2,603	-18.6	8.8	10.9	1.3	1.1	17.8	0.7	15.1
8802	MITSUBISHI ESTATE CO LTD	Real Estate	2,574	-12.2	6.9	7.7	-1.0	1.1	22.3	0.7	-7.5
8630	SOMPO HOLDINGS INC	Insurance	2,234	169.4	6.8	11.7	-0.2	0.9	24.1	0.8	-9.4
1928	SEKISUI HOUSE LTD	Construction	1,916	3.2	6.0	11.4	1.4	1.1	17.2	1.0	4.9
2503	KIRIN HOLDINGS CO LTD	Foods	1,913	6.0	9.2	11.9	0.5	1.6	14.6	0.9	-14.0
9202	ANA HOLDINGS INC	Air Transportation	1,428	24.6	13.9	11.2	9.6	1.5	17.5	1.0	-14.4
9021	WEST JAPAN RAILWAY CO	Land Transportation	1,374	53.6	14.5	7.8	7.9	1.3	19.0	0.8	-19.1
2587	SUNTORY BEVERAGE & FOOD LTD	Foods	1,356	0.9	9.8	8.7	-1.7	1.3	24.0	0.4	-19.3
2897	NISSIN FOODS HOLDINGS CO LTD	Foods	1,347	22.8	8.6	11.2	8.0	2.8	20.7	0.2	2.7
9042	HANKYU HANSHIN HOLDINGS INC	Land Transportation	1,300	8.0	7.1	6.5	4.5	1.2	18.1	0.9	-0.2
2267	YAKULT HONSHA CO LTD	Foods	1,208	14.2	7.7	11.4	-3.2	2.1	23.0	0.4	-36.1
2269	MEIJI HOLDINGS CO LTD	Foods	1,082	9.6	7.0	7.9	6.6	1.4	18.4	0.3	-9.0
1878	DAITO TRUST CONSTRUCT CO LTD	Real Estate	1,061	6.9	15.0	20.2	-0.2	2.6	21.8	0.8	-6.2
9005	TOKYU CORP	Land Transportation	1,044	66.6	6.3	7.2	11.3	1.4	18.0	0.8	-18.4
3003	HULIC CO LTD	Real Estate	948	8.6	5.8	12.1	0.5	1.4	17.0	0.8	9.6
9602	TOHO CO LTD	Information & Communication	917	20.3	7.7	9.0	3.1	2.0	17.9	0.7	-21.9
1802	OBAYASHI CORP	Construction	907	-15.6	14.2	6.8	-1.1	0.9	22.5	1.0	10.0
9064	YAMATO HOLDINGS CO LTD	Land Transportation	902	30.3	15.0	8.7	-2.9	1.4	22.6	0.6	-0.5
9041	KINTETSU GROUP HOLDINGS CO L	Land Transportation	879	0.7	6.0	10.1	1.7	1.7	18.5	0.6	-23.1
9007	ODAKYU ELECTRIC RAILWAY CO	Land Transportation	796	50.8	12.7	6.8	11.4	1.9	22.5	0.9	5.3
2651	LAWSON INC	Retail Trade	691	37.0	5.2	14.7	26.6	2.5	24.1	0.3	20.5
3861	OJI HOLDINGS CORP	Pulp & Paper	627	15.5	11.8	7.7	0.7	0.7	18.1	0.7	0.9
9008	KEIO CORP	Land Transportation	626	52.9	17.2	7.0	25.5	1.5	21.5	0.4	-26.9
2002	NISSHIN SEIFUN GROUP INC	Foods	592	28.5	8.3	7.0	6.0	1.2	17.5	0.5	-6.6
8572	ACOM CO LTD	Other Financing Business	561	0.8	9.6	9.6	-2.7	0.9	20.5	0.9	-6.9
1808	HASEKO CORP	Construction	557	-3.0	5.8	12.3	0.2	1.1	16.1	1.0	7.2
3141	WELCIA HOLDINGS CO LTD	Retail Trade	492	-1.7	6.7	11.7	-0.4	2.2	24.7	0.3	-38.5
4536	SANTEN PHARMACEUTICAL CO LTD	Pharmaceutical	490	729.2	6.2	9.2	17.4	1.6	22.8	0.7	1.9
9989	SUNDRUG CO LTD	Retail Trade	489	6.0	8.4	11.4	1.3	2.0	21.3	0.5	-15.9
9142	KYUSHU RAILWAY COMPANY	Land Transportation	479	39.6	15.5	9.7	2.5	1.1	16.3	0.5	-14.1
2871	NICHIREI CORP	Foods	474	6.5	8.0	10.5	1.3	1.7	20.4	0.2	-7.6
9045	KEIHAN HOLDINGS CO LTD	Land Transportation	463	41.1	14.1	7.7	7.4	1.4	22.9	0.7	-14.2
9024	SEIBU HOLDINGS INC	Land Transportation	455	67.6	20.1	6.4	6.5	1.1	23.8	0.8	-17.6
9048	NAGOYA RAILROAD CO LTD	Land Transportation	453	14.3	38.7	6.4	-3.9	1.0	19.1	0.5	-22.5
9831	YAMADA HOLDINGS CO LTD	Retail Trade	440	6.6	6.5	5.5	1.6	0.5	14.3	0.7	-19.1
2282	NH FOODS LTD	Foods	440	78.9	11.1	6.0	7.7	0.9	15.3	0.4	2.1
1944	KINDEN CORP	Construction	434	3.5	5.1	5.5	-0.1	0.8	17.9	0.7	29.6
8056	BIPROGY INC	Information & Communication	404	12.1	9.5	15.5	0.9	2.5	22.1	0.6	-10.6
2501	SAPPORO HOLDINGS LTD	Foods	396	-10.9	58.3	7.2	8.8	2.3	23.4	0.9	38.5
8905	AEON MALL CO LTD	Real Estate	387	27.7	15.0	6.4	-4.7	0.8	16.9	0.8	-18.9
2327	NS SOLUTIONS CORP	Information & Communication	379	6.7	6.9	10.7	-0.5	1.8	19.9	0.9	13.5
9749	FUJI SOFT INC	Information & Communication	360	6.3	9.6	32.4	-4.3	2.4	21.0	0.8	22.1
2809	KEWPIE CORP	Foods	360	-28.6	42.1	6.1	11.2	1.3	16.1	0.4	-10.4
8410	SEVEN BANK LTD	Banks	349	5.3	8.0	7.5	5.6	1.4	18.7	0.6	-6.1
9006	KEIKYU CORP	Land Transportation	343	92.9	33.9	6.7	5.9	1.2	18.3	0.9	-28.6
9044	NANKAI ELECTRIC RAILWAY CO	Land Transportation	325	25.2	28.5	7.3	4.3	1.2	19.3	0.6	-18.8
1959	KYUDENKO CORP	Construction	316	14.4	11.0	10.9	0.9	1.2	23.0	0.7	19.9
8279	YAOKO CO LTD	Retail Trade	305	10.3	5.6	11.8	4.2	2.0	12.5	0.2	-6.4

Source: BofA Global Research, QUICK

Note: screening criteria: 1) TOPIX constituents in domestic demand-oriented sectors, 2) stocks with mkt cap above 300bn JPY; 3) RP growth (FY2) above 5%, 4) revision (FY1) above -5%, 5) ROE (FY2) above 5%, 6) P/B below 3, 7) historical volatility under 25 and 8) beta below 1.0. Ranked by mkt cap in descendent order.

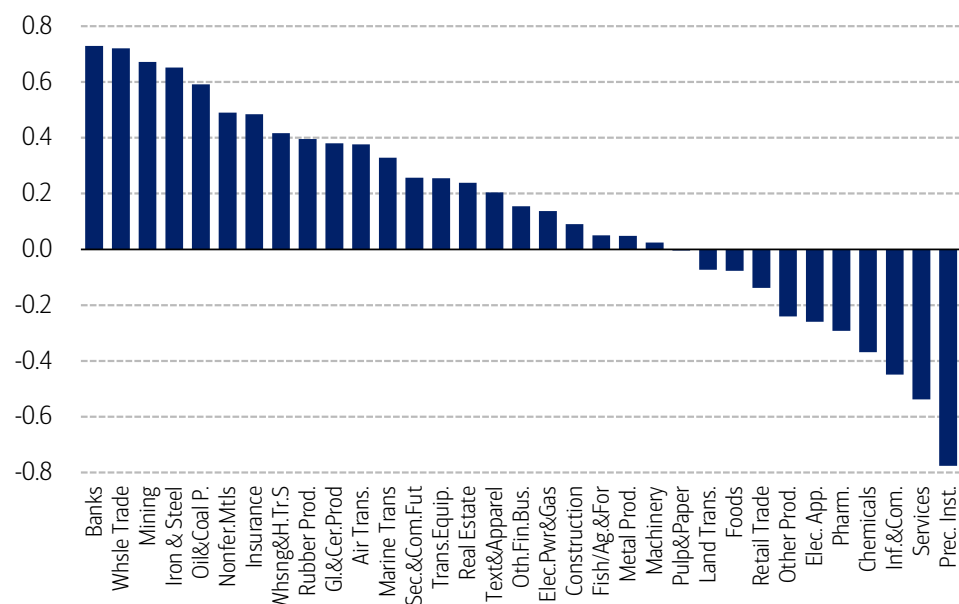
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If US interest rates peak out, select cyclical growth stocks

Meanwhile, although premature at this point, it is necessary to consider stock selection after US interest rates peak. This is likely to have a significant impact on sector rotation (Exhibit 24).

Exhibit 24: Correlation of relative return (vs. TOPIX) by sector and 10-yr UST

Prec. Inst., services, inf.& com., chemicals, pharm. and elec. app. sectors show negative correlation with UST



Source: BofA Global Research, Bloomberg

Note: since 2015, monthly basis.

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Additionally, in a typical year, the market buys based on current fiscal year earnings until interim results are released, after which there is a strong tendency for prices to gradually start forming based on the following year's earnings (Exhibit 25). We expect the following year's earnings to recover in those sectors, including electric machinery, machinery, and precision machinery, that underperform when US interest rates are rising (Exhibit 28). Depending on financial conditions, the pricing in of the following year's earnings could begin earlier. The manufacturing cycle experiences a bottom every 3-4 years (Exhibit 26, Exhibit 27).

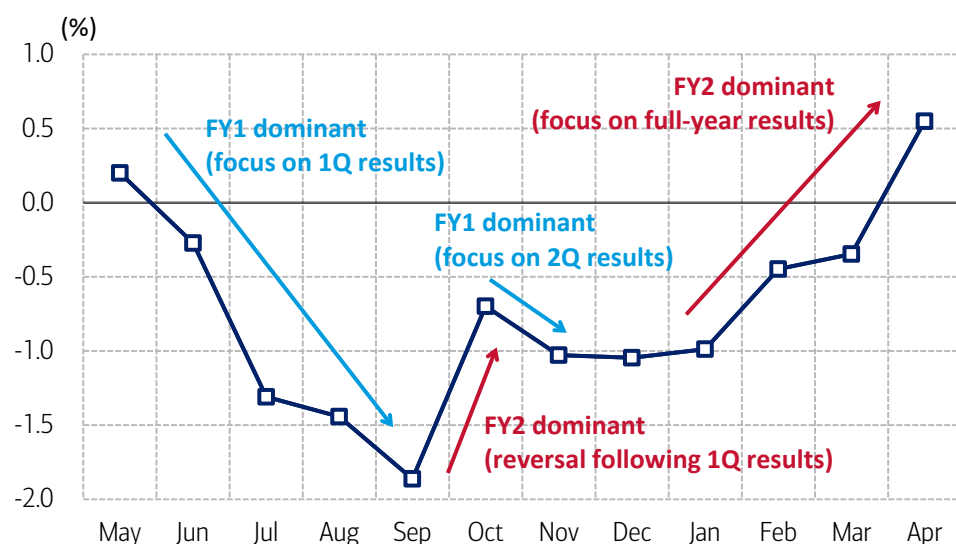
However, the fundamental view on US interest rates is that they will remain high even after peaking. It is early yet for a rebound in quality growth stocks that have become overvalued because of their stable earnings growth potential. Tech stocks with earnings volatility driven by the inventory cycle and other cyclical growth stocks are easier to choose based on valuations.

Exhibit 29 shows stocks with recurring profit growth that is higher in 2H than in 1H and expected to be at least 5% in the following fiscal year. The list is limited to stocks with a following-year P/E below 25x, a following-year ROE of at least 6%, and a revision index of at least -5%. This includes many of the leading tech stocks.

Exhibit 30 shows the list from a different perspective. The stocks have an average ROE and ratio of current profits to sales for the current year and following year that are higher than they were in FY2017-FY2018, prior to the pandemic. These are stocks that can adapt to structural changes in Japan's economy.

Exhibit 25: Seasonality of factor return of EPS growth (FY2-FY1)

Shares of companies with strong profit growth in current FY peaked around Nov. 1H results announcements; ahead of announcements of full-year results and guidance, focus shifting to earnings outlook for next FY



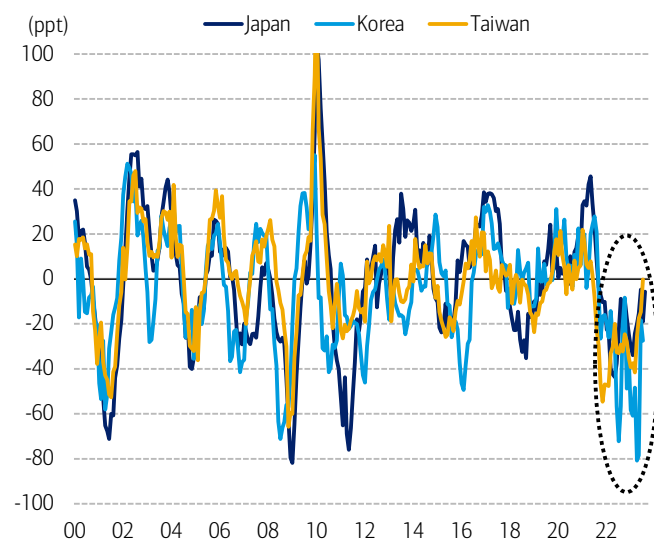
Source: BofA Global Research, FactSet

Note: Average of cumulative factor return of EPS growth (FY2-FY1) each year since 2010

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Exhibit 26: The shipment-inventory balance of electronic components in Japan, Korea and Taiwan

The cycle of electronic components appears to be bottoming

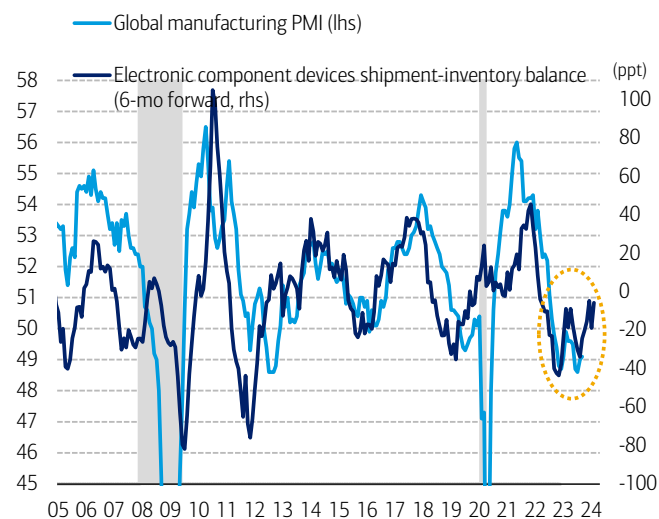


Source: BofA Global Research, Refinitiv

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Exhibit 27: Global manufacturing PMI and the shipment-inventory balance of electronic components

Manufacturing cycle could be bottoming vs. history



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

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Exhibit 28: RP growth by sector

Nonferrous metals, pharma, metal products, electric appliances, chemicals saw higher RP growth expectation

Sector	FY22 (YoY,%)	FY23E (YoY,%)	FY24E (YoY,%)	FY24-FY23 (ppt)
Nonferrous Metals	-25.8	-18.2	29.4	47.6
Textiles and Apparels	-14.6	22.7	23.1	0.4
Pharmaceutical	1.7	6.8	21.9	15.1
Metal Products	-17.1	14.1	21.5	7.4
Pulp and Paper	-61.4	126.5	18.8	-107.6
Electric Appliances	-0.6	-1.4	18.2	19.6
Chemicals	-8.5	-3.5	17.8	21.3
Air Transportation	139.9	61.9	16.4	-45.4
Precision instruments	7.5	-1.9	15.3	17.2
Land Transportation	398.2	27.5	13.6	-13.9
Glass and Ceramics Products	-23.0	46.3	13.1	-33.1
Other Financing Business	1.0	14.0	12.7	-1.3
Rubber Products	49.5	12.3	12.0	-0.3
Machinery	17.3	15.2	11.2	-4.0
Construction	1.0	6.0	10.2	4.2
Services	-11.5	5.9	10.1	4.2
Real Estate	8.7	2.4	9.8	7.4
Insurance	-42.3	71.6	8.9	-62.7
Foods	-2.4	13.0	8.9	-4.2
Retail Trade	12.1	12.5	8.2	-4.3
Iron and Steel	-1.6	-13.0	7.8	20.8
Securities and Commodities Fu	-57.8	54.7	7.6	-47.0
Banks	-2.8	28.9	6.9	-22.1
Information & Communication	1.7	3.1	6.2	3.1
Transportation Equipment	2.1	39.7	5.9	-33.8
Warehousing and Harbor Transp	10.2	-16.7	2.7	19.3
Wholesale Trade	18.5	-8.7	-0.5	8.2
Fishery, Agriculture & Forestry	-3.5	10.9	-1.1	-12.0
Oil and Coal Products	-49.6	1.5	-4.6	-6.1
Marine Transportation	10.3	-76.7	-5.5	71.2
Other Products	-7.9	3.7	-5.8	-9.5
Electric Power and Gas	-111.8	4532.8	-22.5	-4555.4
Mining	90.9	-37.2	-23.0	14.3
TOPIX	0.3	11.1	7.9	-3.2

Source: BofA Global Research, QUICK

Note: based on TOPIX companies with fiscal year ending in Mar or Feb (excluding SoftBank Group 9984)

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Exhibit 29: Stocks with 2H RP growth expectation above 1H level and FY2 RP growth expectation surpassing 5%

2H RP growth expectation > 1H RP growth expectation, FY2 RP growth above 5%, FY2 P/E below 25, FY2 ROE above 6%

Code	Name	Sector	Mkt cap (bn JPY)	1H RP growth (%)	2H RP growth (%)	RP growth (FY2, %)	RP revision (FY1, vs. 3 months prior,%)	ROE (FY2,%)	P/E (FY2,%)
6758	SONY GROUP CORP	Electric Appliances	16,022	-8.2	12.9	12.8	0.2	12.5	15.8
8035	TOKYO ELECTRON LTD	Electric Appliances	9,480	-46.7	-19.7	30.3	0.5	22.4	23.5
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	8,902	-24.0	-15.4	9.1	-4.3	14.4	14.4
6367	DAIKIN INDUSTRIES LTD	Machinery	6,774	4.9	19.8	11.6	-2.5	12.4	21.6
6981	MURATA MANUFACTURING CO LTD	Electric Appliances	5,395	-38.2	23.6	31.2	2.7	10.2	21.3
6273	SMC CORP	Machinery	4,890	-28.7	-2.2	11.9	-2.2	11.0	23.9
3382	SEVEN & I HOLDINGS CO LTD	Retail Trade	4,734	0.9	3.9	6.3	1.6	9.6	14.6
6752	PANASONIC HOLDINGS CORP	Electric Appliances	3,744	32.9	50.1	14.3	-1.6	9.5	9.7
6702	FUJITSU LIMITED	Electric Appliances	3,554	-40.5	7.9	16.2	-3.7	15.0	14.5
8591	ORIX CORP	Other Financing Business	3,325	24.1	32.1	17.2	-0.9	10.2	8.6
8750	DAI-ICHI LIFE HOLDINGS INC	Insurance	3,111	7.5	22.8	5.9	1.2	9.1	10.6
5401	NIPPON STEEL CORP	Iron & Steel	3,109	-47.5	-4.0	13.8	4.1	9.5	6.7
4543	TERUMO CORP	Precision Instruments	2,933	11.3	21.5	14.3	-0.0	10.2	24.6
7011	MITSUBISHI HEAVY INDUSTRIES	Machinery	2,868	54.8	63.9	9.2	6.0	11.4	12.8
8802	MITSUBISHI ESTATE CO LTD	Real Estate	2,718	-25.8	0.3	6.9	-1.0	7.7	15.7
9613	NTT DATA GROUP CORP	Information & Communication	2,500	-5.3	4.0	17.6	-1.1	10.1	15.3
4307	NOMURA RESEARCH INSTITUTE LT	Information & Communication	2,252	5.5	15.7	10.9	0.9	20.4	24.6
7832	BANDAI NAMCO HOLDINGS INC	Other Products	2,057	-18.9	82.6	9.1	1.3	14.8	19.2
8830	SUMITOMO REALTY & DEVELOPMEN	Real Estate	1,823	2.4	12.2	6.4	0.2	9.2	9.9
9843	NITORI HOLDINGS CO LTD	Retail Trade	1,805	-6.9	-2.8	5.9	-2.2	10.5	18.5
7259	AISIN CORP	Transportation Equipment	1,587	106.7	520.7	9.3	4.6	8.4	10.3
6869	SYSMEX CORP	Electric Appliances	1,492	3.1	27.4	12.9	-0.8	13.9	24.7
6988	NITTO DENKO CORP	Chemicals	1,358	-34.2	56.5	8.2	-0.3	10.6	12.0
5411	JFE HOLDINGS INC	Iron & Steel	1,349	-33.9	398.7	13.1	7.4	9.2	6.3
5802	SUMITOMO ELECTRIC INDUSTRIES	Nonferrous Metals	1,339	-14.9	11.8	17.7	-1.0	6.4	10.4
4188	MITSUBISHI CHEMICAL GROUP CO	Chemicals	1,288	-16.5	110.7	15.7	1.6	7.0	11.3
1812	KAJIMA CORP	Construction	1,285	-7.8	11.8	7.6	1.5	10.7	10.6
2267	YAKULT HONSHA CO LTD	Foods	1,285	11.5	18.3	7.3	-2.8	11.4	19.6
5713	SUMITOMO METAL MINING CO LTD	Nonferrous Metals	1,270	-69.8	-36.5	61.8	8.2	6.2	12.5
3402	TORAY INDUSTRIES INC	Textiles & Apparel	1,234	-34.6	135.4	24.8	-1.2	6.3	12.5
9766	KONAMI GROUP CORP	Information & Communication	1,158	35.3	97.6	8.7	2.7	13.5	19.7
6963	ROHM CO LTD	Electric Appliances	1,130	-33.0	3.1	11.0	-2.3	7.8	15.1
2269	MEIJI HOLDINGS CO LTD	Foods	1,092	-11.7	39.7	7.0	6.3	7.9	18.7
1878	DAITO TRUST CONSTRUCT CO LTD	Real Estate	1,085	-1.5	15.6	15.0	-0.2	20.2	12.4
4062	IBIDEN CO LTD	Electric Appliances	1,056	-56.0	21.6	37.5	-2.3	12.1	19.7
4739	ITOCHU TECHNO-SOLUTIONS CORP	Information & Communication	1,036	19.8	24.7	7.8	0.2	12.8	24.2
6383	DAIFUKU CO LTD	Machinery	1,033	-3.2	-2.4	16.6	-2.0	13.2	21.2
6586	MAKITA CORP	Machinery	1,013	67.8	324.4	35.6	15.8	6.4	19.3
7261	MAZDA MOTOR CORP	Transportation Equipment	1,007	11.8	44.1	6.1	14.0	10.3	5.9
4204	SEKISUI CHEMICAL CO LTD	Chemicals	986	-15.6	19.2	8.5	2.4	10.1	12.6
9602	TOHO CO LTD	Information & Communication	947	7.0	41.8	8.2	2.8	8.9	21.9
1802	OBAYASHI CORP	Construction	935	-39.9	7.0	14.2	-1.1	6.8	13.2
8331	CHIBA BANK LTD/THE	Banks	925	-2.4	20.0	5.4	1.1	6.0	13.6
4021	NISSAN CHEMICAL CORP	Chemicals	909	-9.0	17.7	6.6	-0.5	19.2	20.2
9064	YAMATO HOLDINGS CO LTD	Land Transportation	902	-32.0	58.9	15.0	-2.9	8.7	16.6
8473	SBI HOLDINGS INC	Securities & Commodity Futures	878	43.3	56.0	9.3	0.5	8.8	9.1
7211	MITSUBISHI MOTORS CORP	Transportation Equipment	818	5.1	12.0	6.3	13.1	14.8	5.7
2768	SOJITZ CORP	Wholesale Trade	716	-32.2	23.4	6.5	-0.1	11.5	6.6
2651	LAWSON INC	Retail Trade	706	10.8	53.8	6.3	15.6	14.0	16.1
5332	TOTO LTD	Glass & Ceramics Products	660	-43.2	44.0	11.4	-2.9	8.3	16.1
6448	BROTHER INDUSTRIES LTD	Electric Appliances	636	-3.4	84.4	6.0	6.8	8.2	11.9
3861	OJI HOLDINGS CORP	Pulp & Paper	627	-13.0	64.8	11.8	0.7	7.7	8.0
4042	TOSOH CORP	Chemicals	613	-34.6	142.6	15.0	-0.5	9.7	8.0
6753	SHARP CORP	Electric Appliances	600	-59.9	149.0	80.0	22.5	9.8	21.7
2002	NISSHIN SEIFUN GROUP INC	Foods	592	26.2	31.1	8.3	6.0	7.0	19.5
2181	PERSOL HOLDINGS CO LTD	Services	562	-2.1	8.0	18.1	-0.2	19.3	13.7
8572	ACOM CO LTD	Other Financing Business	561	-5.5	8.8	9.6	-2.7	9.6	9.0
7731	NIKON CORP	Precision Instruments	554	-31.0	-2.2	28.2	0.5	7.2	12.1
8252	MARUI GROUP CO LTD	Retail Trade	514	3.6	31.1	11.8	-0.8	11.2	17.8
1963	JGC HOLDINGS CORP	Construction	506	-7.6	4.9	6.8	0.6	8.0	14.1
4403	NOF CORP	Chemicals	500	-7.0	3.9	8.7	0.7	12.7	15.0

Source: BofA Global Research, QUICK

Note: Screening criteria: 1) mkt cap above 400bn JPY among TOPIX constituents with fiscal year ending in Mar or Feb; 2) RP growth rate gap (2H - 1H) above 0%; 3) RP growth rate (FY2) above 5%; 4) RP revision rate above -5%; 5) ROE(FY2) above 6%; 6) P/E (FY2) below 25. Based on Quick consensus. Ranked by mkt cap in descendent order.

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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Exhibit 30: Stocks with average ROE and RP margin expectation (FY23, FY23) surpassing pre-pandemic average level (FY17-FY18)

ROE: FY24 > FY23, FY23-23 average > FY17-18 average, recurring profits (RP) margins: FY24>FY23, FY23-23 average > FY17-18 average

TSE code	Company name	Sector	Mkt cap (bn JPY)	RP margin % (Average for FY17-18)	RP margin % (FY23)	RP margin % (FY24)	ROE % (Average for FY17-18)	ROE % (FY23)	ROE % (FY24)	P/E x (FY1)
8306	MITSUBISHI UFJ FINANCIAL GRO	Banks	16,462	22.1	23.1	23.1	5.9	7.7	7.7	11.6
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	8,902	24.8	33.0	33.2	12.4	13.8	14.4	14.4
4661	ORIENTAL LAND CO LTD	Services	8,741	24.0	27.4	27.5	11.8	13.5	15.0	62.7
6501	HITACHI LTD	Electric Appliances	8,192	6.1	8.3	9.2	9.2	10.7	10.9	14.3
4568	DAIICHI SANKYO CO LTD	Pharmaceutical	7,956	8.8	10.6	13.4	6.5	8.9	11.5	46.3
6902	DENSO CORP	Transportation Equipment	7,273	7.7	9.8	10.2	8.2	10.6	11.2	13.8
8766	TOKIO MARINE HOLDINGS INC	Insurance	6,788	7.0	10.5	11.0	7.6	14.0	14.2	12.0
7741	HOYA CORP	Precision Instruments	5,359	24.4	29.5	31.1	20.2	20.8	22.2	27.3
4901	FUJIFILM HOLDINGS CORP	Chemicals	3,735	8.4	10.3	10.8	6.8	8.0	8.4	14.9
6702	FUJITSU LIMITED	Electric Appliances	3,554	5.0	8.8	9.8	13.3	13.2	15.0	14.5
2802	AJINOMOTO CO INC	Foods	2,996	6.1	10.3	11.0	7.2	13.1	14.4	25.7
8725	MS&AD INSURANCE GROUP HOLDIN	Insurance	2,954	4.7	7.5	8.1	6.1	9.6	10.6	8.9
6146	DISCO CORP	Machinery	2,921	29.0	37.2	40.1	16.5	20.4	25.2	30.6
4578	OTSUKA HOLDINGS CO LTD	Pharmaceutical	2,864	8.4	13.4	14.8	5.6	8.3	9.0	13.0
6920	LASERTEC CORP	Electric Appliances	2,502	27.0	35.8	41.0	18.7	42.1	48.2	32.1
6762	TDK CORP	Electric Appliances	2,199	7.7	7.9	9.5	8.8	8.0	9.7	14.7
6701	NEC CORP	Electric Appliances	2,123	2.9	5.7	6.3	4.9	7.4	8.0	15.1
4684	OBIC CO LTD	Information & Communication	2,088	54.9	70.8	71.6	14.8	16.5	16.6	33.2
8604	NOMURA HOLDINGS INC	Securities & Commodity Futures	1,895	7.3	7.9	9.0	2.1	4.4	5.2	11.1
7202	ISUZU MOTORS LTD	Transportation Equipment	1,375	8.6	8.6	8.9	12.2	12.4	12.5	7.5
2267	YAKULT HONSHA CO LTD	Foods	1,208	13.6	17.0	17.5	9.8	11.2	11.4	19.5
9143	SG HOLDINGS CO LTD	Land Transportation	1,203	6.4	7.8	8.7	12.2	12.6	13.9	14.3
7550	ZENSHO HOLDINGS CO LTD	Retail Trade	1,113	3.0	4.2	4.5	13.0	17.1	17.3	41.3
6963	ROHM CO LTD	Electric Appliances	1,106	14.9	16.6	16.9	5.5	7.2	7.7	14.9
4739	ITOCHU TECHNO-SOLUTIONS CORP	Information & Communication	1,036	7.9	9.4	9.6	11.7	12.6	12.8	24.2
4062	IBIDEN CO LTD	Electric Appliances	1,013	5.1	14.2	17.3	2.8	9.0	12.1	18.8
7936	ASICS CORP	Other Products	975	3.8	8.5	9.2	-2.3	18.1	18.7	27.3
6504	FUJI ELECTRIC CO LTD	Electric Appliances	964	6.6	9.2	9.7	12.0	11.9	12.1	13.3
7261	MAZDA MOTOR CORP	Transportation Equipment	955	4.1	5.1	5.2	7.7	10.7	10.8	5.4
8331	CHIBA BANK LTD/THE	Banks	925	31.9	31.8	32.7	5.6	6.0	6.0	13.6
4021	NISSAN CHEMICAL CORP	Chemicals	909	18.9	24.3	24.6	16.3	18.9	19.2	20.2
9064	YAMATO HOLDINGS CO LTD	Land Transportation	902	2.8	4.2	4.6	4.0	8.7	8.7	16.6
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	818	10.7	15.7	16.3	7.6	14.1	14.2	24.0
7752	RICOH CO LTD	Electric Appliances	770	-0.9	3.6	3.9	-4.2	5.7	6.2	12.6
6967	SHINKO ELECTRIC INDUSTRIES	Electric Appliances	723	4.6	18.1	23.1	2.3	10.3	12.9	16.6
2768	SOJITZ CORP	Wholesale Trade	700	4.8	5.6	5.9	10.8	11.4	11.5	6.6
8136	SANRIO CO LTD	Wholesale Trade	670	9.9	22.8	24.9	8.4	23.5	24.6	38.3
3231	NOMURA REAL ESTATE HOLDINGS	Real Estate	669	10.6	13.2	13.4	9.1	10.0	10.1	9.5
3099	ISETAN MITSUKOSHI HOLDINGS L	Retail Trade	668	2.4	8.4	8.9	1.1	5.8	6.1	19.4
3861	OJI HOLDINGS CORP	Pulp & Paper	627	6.0	6.4	7.0	6.6	7.3	7.7	8.0
7012	KAWASAKI HEAVY INDUSTRIES	Transportation Equipment	603	2.6	4.1	4.9	6.1	9.1	10.7	8.9
2212	YAMAZAKI BAKING CO LTD	Foods	602	2.8	3.4	3.7	6.4	5.8	7.0	25.4
4385	MERCARI INC	Information & Communication	580	-18.4	9.9	12.8	-25.0	21.6	28.2	34.1
8252	MARUI GROUP CO LTD	Retail Trade	514	15.2	18.0	19.1	8.3	10.3	11.2	17.8
8060	CANON MARKETING JAPAN INC	Wholesale Trade	478	4.9	8.6	8.8	7.1	8.8	8.9	12.3
5101	YOKOHAMA RUBBER CO LTD	Rubber Products	476	8.1	9.4	9.6	10.3	10.2	10.5	7.0
3697	SHIFT INC	Information & Communication	458	8.8	11.8	12.8	17.6	26.3	27.8	36.2
4733	OBIC BUSINESS CONSULTANTS	Information & Communication	452	47.6	46.7	49.0	8.5	8.9	10.2	30.6
9831	YAMADA HOLDINGS CO LTD	Retail Trade	440	2.7	3.3	3.4	3.8	5.2	5.5	12.7
9468	KADOKAWA CORP	Information & Communication	433	1.9	8.9	9.5	-1.5	7.1	7.9	26.8
4516	NIPPON SHINYAKU CO LTD	Pharmaceutical	421	18.0	22.7	24.7	11.7	12.7	13.1	14.5
3086	J FRONT RETAILING CO LTD	Retail Trade	372	9.7	9.6	10.0	7.1	7.6	7.9	12.4
4186	TOKYO OHKA KOGYO CO LTD	Chemicals	363	10.4	15.2	17.0	5.1	8.4	10.7	18.6
9749	FUJI SOFT INC	Information & Communication	360	5.8	6.8	7.0	6.0	8.7	32.4	7.9
8233	TAKASHIMAYA CO LTD	Retail Trade	351	3.8	9.8	10.5	4.6	7.3	7.7	10.2

Source: BofA Global Research, QUICK

Note: Screening criteria: 1) mkt cap above 350bn JPY among TOPIX constituents; 2) ROE: FY24 > FY23, FY23-23 average > FY17-18 average; 3) Recurring profits (RP) margins: FY24>FY23, FY23-23 average > FY17-18 average. Based on Quick consensus. Ranked by mkt cap in descending order.

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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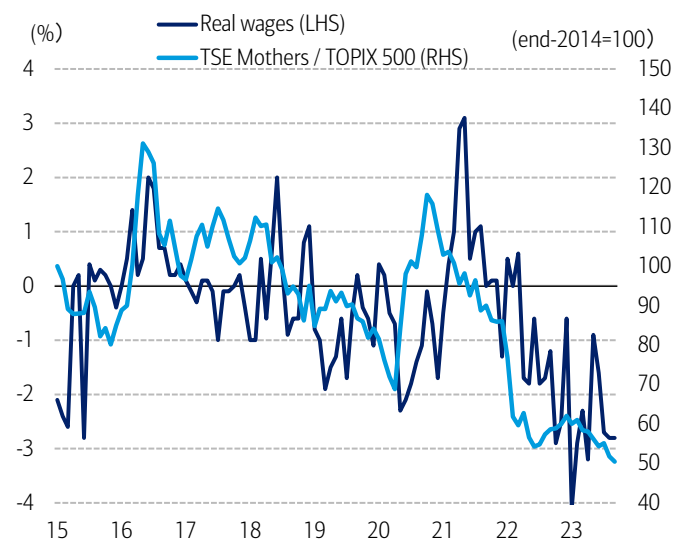
Small caps are likely to rebound either in January or spring 2024

Lastly, we consider when small caps are likely to rebound. Looking at the performance of stocks on the TSE Mothers relative to large caps, we see a positive correlation with real wages (Exhibit 31). This is because the TSE Mothers has many domestic demand-led stocks while it has an inverse relationship with exchange rates (Exhibit 32). When the yen is weakening, it raises the materials costs of domestic demand-led stocks, and this probably makes large external demand-led stocks preferable.

Accordingly, the current conditions of negative real rates and a weakening yen present headwinds for TSE Mothers stocks. For these to turn into tailwinds would require (1) real wages turning positive or nearly positive next year, (2) the BoJ lifting NIRP under these conditions and negative catalysts for overvalued TSE Mothers stocks fading, and (3) the BoJ's lifting of NIRP curtailing excessive yen depreciation and contributing to a rise in real wages. We expect that to happen as early as January 2024 or by around springtime.

Exhibit 31: TSE Mothers/ TOPIX 500 and real wages

The two series are positively correlated

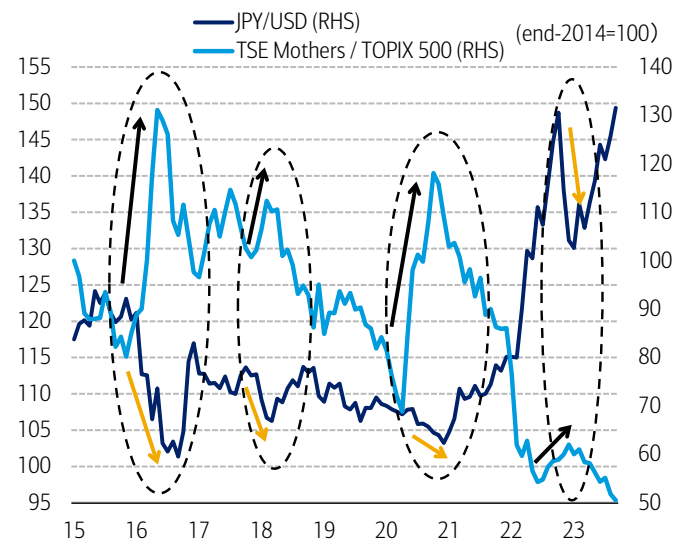


Source: BofA Global Research, Bloomberg

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Exhibit 32: TSE Mothers/ TOPIX 500 and real wages

The two series are negatively correlated



Source: BofA Global Research, Bloomberg

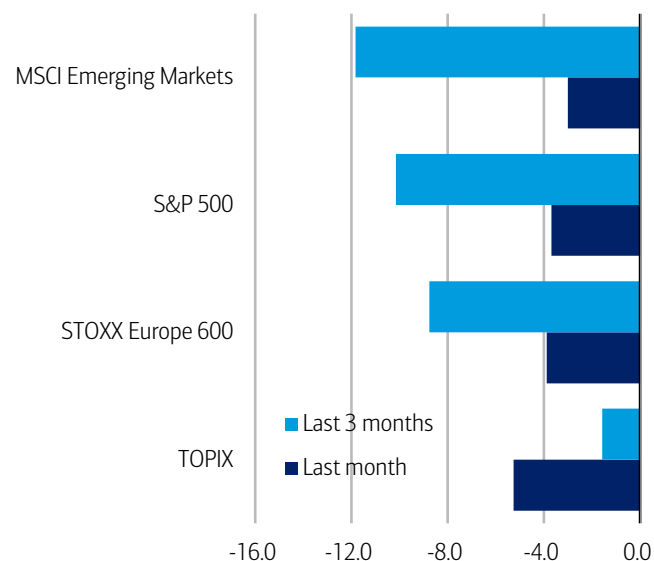
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Appendix 1: Key statistics

1. Performance

Exhibit 33: Japan has underperformed the rest of the world last month

The decline appears to have reflected the seasonality in Sep



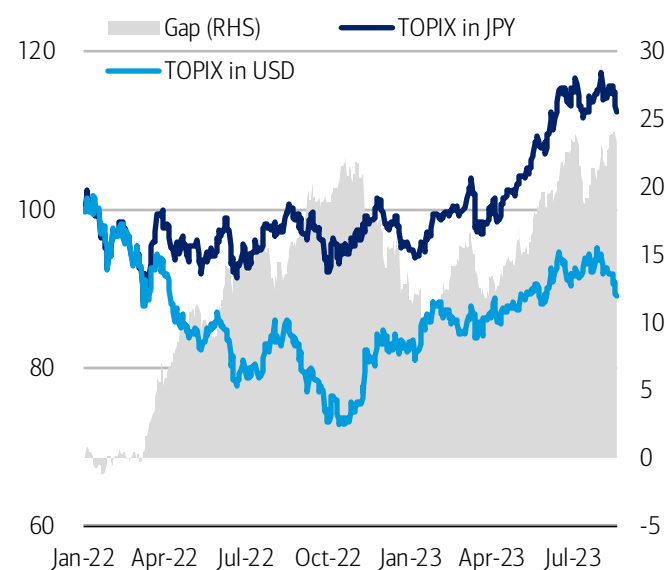
Source: BofA Global Research, Bloomberg

Note: based on total return index in JPY terms; as of 27 Oct, 2023 (same for the following charts).

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Exhibit 34: TOPIX in USD and JPY terms

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



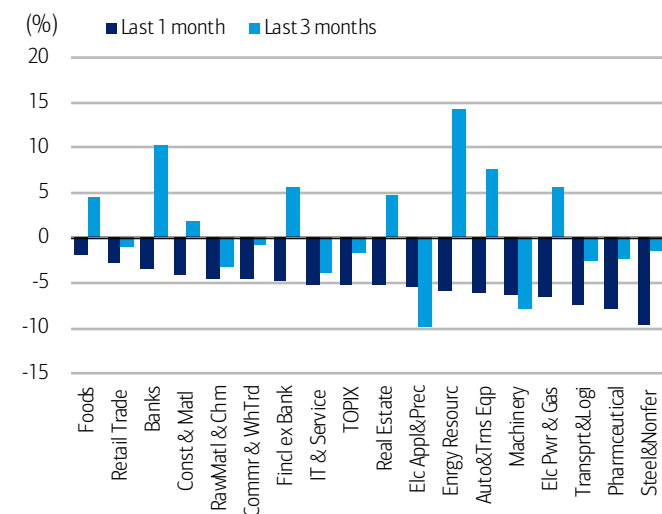
Source: BofA Global Research, Bloomberg

Note: End of Dec 2021 = 100.

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Exhibit 35: Share price performance by sector

Foods and retail trade sectors have outperformed last month

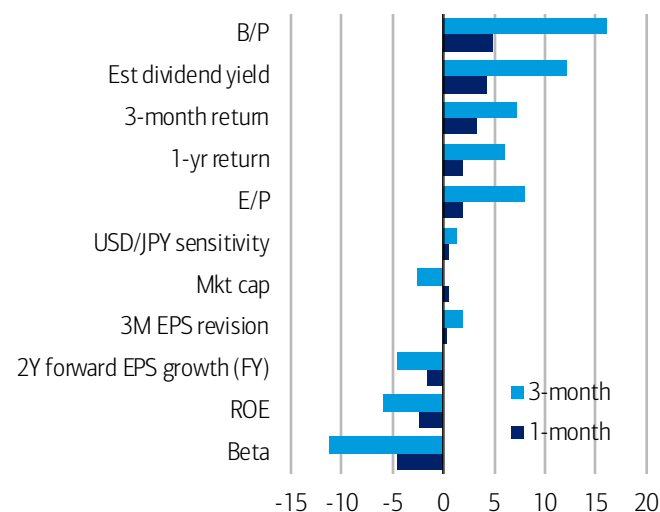


Source: BofA Global Research, Bloomberg

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Exhibit 36: TOPIX factor return (%)

Value factor continued to outperform



Source: BofA Global Research, Bloomberg, Astra Manager

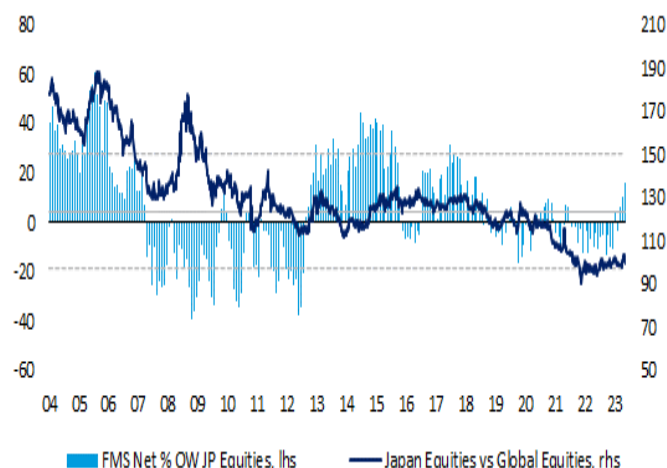
Note: we divide TOPIX names into 5 group based on each factor defined by Bloomberg, then subtract the return of the lowest group from the highest one.

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2. Survey and consensus

Exhibit 37: Net % AA Say they are overweight Japanese Equities

Net% of FMS investors overweight Japanese equities



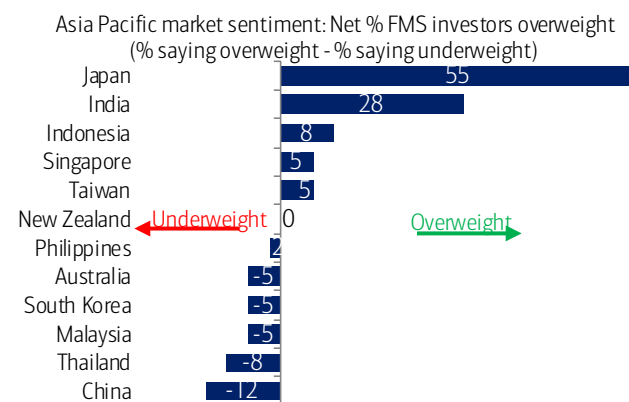
Source: BofA Global Fund Manager Survey, Datastream

Global Fund Manager Survey: Reverse Leverage 17 October 2023

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Exhibit 38: 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



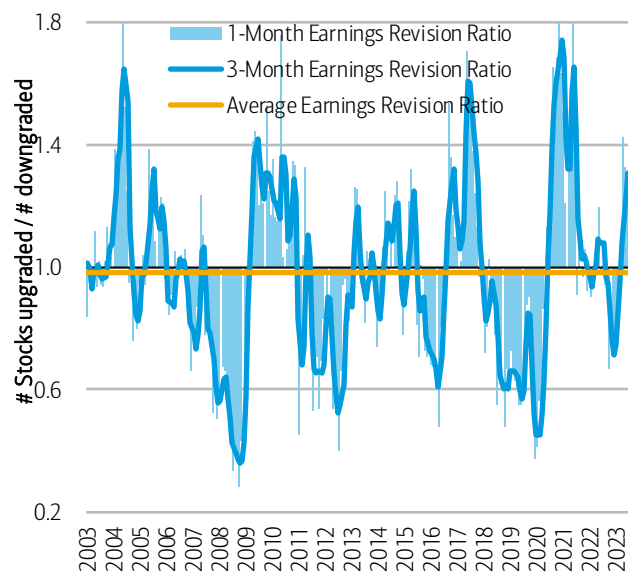
Source: BofA Global Fund Manager Survey, Datastream

Asia Fund Manager Survey: The best and worst of Asia 17 October 2023

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Exhibit 39: Earnings Revision Ratio (current 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 40: 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	105	-48	37	98	-46	36
BANKS	52	-27	32	54	-24	38
REAL ESTATE	67	-36	30	76	-36	36
ENERGY RESOURCES	21	-8	45	16	-11	19
AUTOMOBILES & TRANSPORTATION	174	-89	32	170	-94	29
FOODS	130	-66	33	123	-71	27
TRANSPORTATION & LOGISTICS	130	-65	33	115	-80	18
RETAIL TRADE	226	-144	22	234	-138	26
ELECTRIC POWER & GAS	33	-13	43	23	-22	2
MACHINERY	159	-123	13	173	-109	23
PHARMACEUTICAL	92	-63	19	88	-66	14
TOPIX	2415	-1861	13	2311	-1889	10
CONSTRUCTION & MATERIALS	139	-107	13	130	-117	5
STEEL & NONFERROUS METALS	61	-46	14	55	-51	4
IT & SERVICES, OTHERS	466	-406	7	428	-417	1
FINANCIALS (EX BANKS)	56	-61	-4	54	-58	-4
RAW MATERIALS & CHEMICALS	185	-212	-7	189	-205	-4
ELECTRIC APPLIANCES & PRECISION INSTRUMENTS	319	-347	-4	285	-344	-9

Source: BofA Global Research, Astra Manager

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

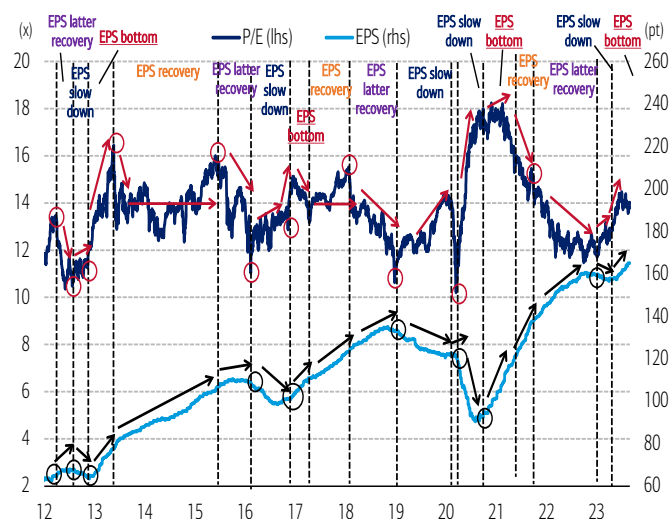
* Revision index is calculated as (No. of Upward Revision + No. of Downward Revision) / (Total No. of companies with Revisions)

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3. Valuation and shareholder returns

Exhibit 41: 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 price tends to rise significantly during "EPS bottoming" period where both P/E and EPS rise



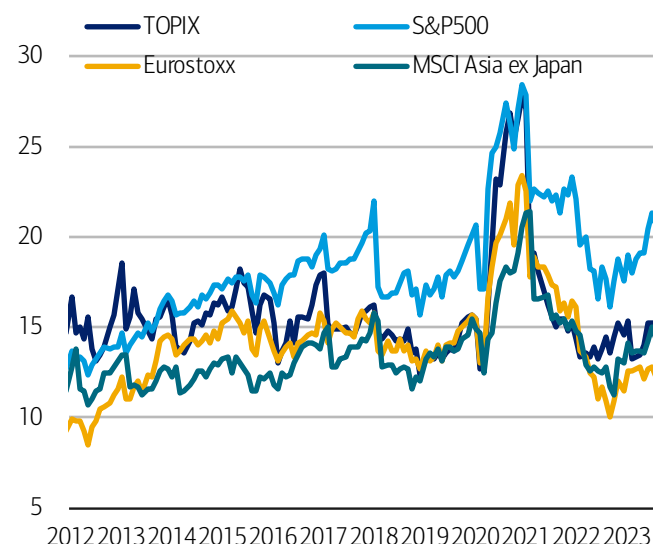
Source: BofA Global Research, Refinitiv

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

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Exhibit 42: Forward P/E comparison among TOPIX and its global peers

TOPIX still looks cheaper than S&P500

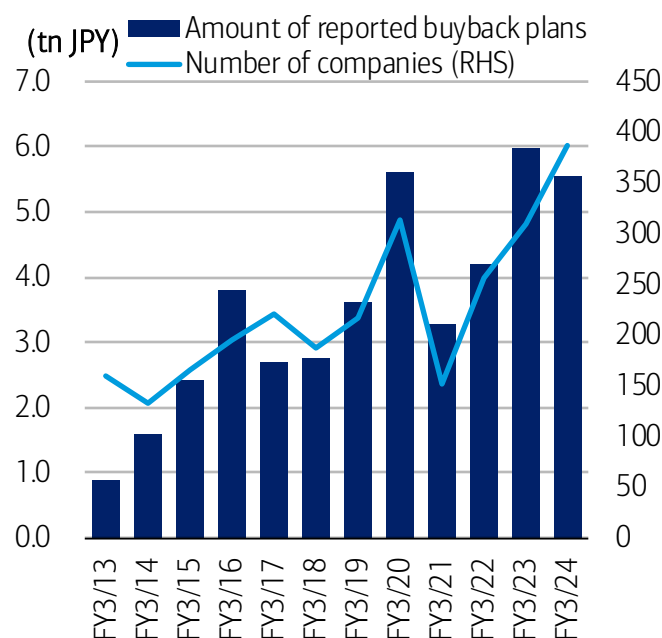


Source: BofA Global Research, Bloomberg

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Exhibit 43: Amount and number of reported buyback plans (FYTD)

More number but less amount vs. FY3/23



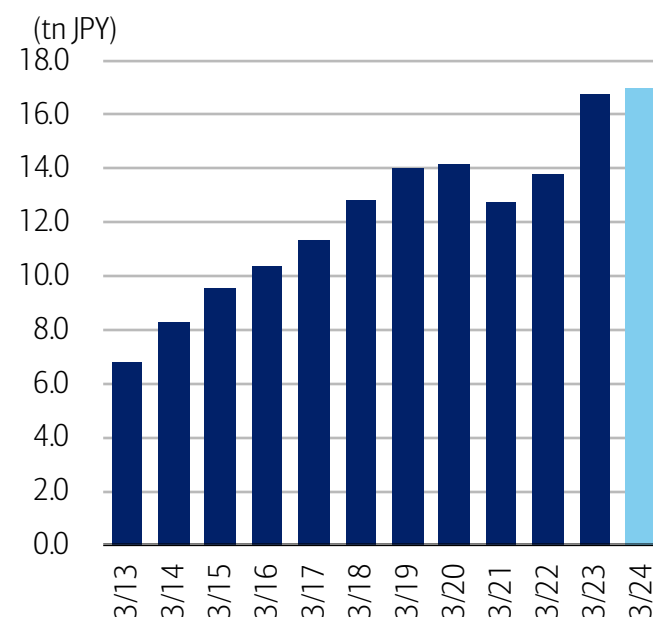
Note: Number of companies is adjusted for the companies which announced buyback plans more than once within a year. From Apr 1 to Oct 27 for each fiscal year.

Source: BofA Global Research, Astra Manager

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Exhibit 44: Total dividend amounts of TOPIX

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



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

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4. Screenings

Exhibit 45: Large-cap stocks with the highest 1-month return

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

TSE Code	Company name	Sector	MKT CAP (bn JPY)	1-month absolute performance (%)	3-month absolute performance (%)	YTD relative performance (% vs. TOPIX)
9143	SG HOLDINGS CO LTD	Land Transportation	1,412.1	15.1	0.6	-4.9
7181	JAPAN POST INSURANCE CO LTD	Insurance	1,071.2	10.9	19.3	2.0
6920	LASERTEC CORP	Electric Appliances	2,412.8	10.0	19.9	-2.4
2002	NISSHIN SEIFUN GROUP INC	Foods	637.5	9.9	18.1	-6.6
9532	OSAKA GAS CO LTD	Electric Power & Gas	1,126.3	9.8	22.9	-3.3
6178	JAPAN POST HOLDINGS CO LTD	Services	4,547.8	9.7	23.8	-0.8
6702	FUJITSU LIMITED	Electric Appliances	3,975.5	9.1	6.1	-12.6
9009	KEISEI ELECTRIC RAILWAY CO	Land Transportation	958.4	7.3	-4.6	27.3
4732	USS CO LTD	Services	671.4	5.7	7.2	3.8
7182	JAPAN POST BANK CO LTD	Banks	4,968.8	5.6	17.4	2.8
2801	KIKKOMAN CORP	Foods	1,603.0	5.4	1.6	1.2
4091	NIPPON SANSO HOLDINGS CORP	Chemicals	1,612.4	5.0	15.2	75.2
7309	SHIMANO INC	Transportation Equipment	1,913.2	4.9	-1.1	-16.3
3038	KOBE BUSSAN CO LTD	Wholesale Trade	999.5	4.2	-4.0	-21.6
8795	T&D HOLDINGS INC	Insurance	1,512.3	4.0	9.6	16.3
8697	JAPAN EXCHANGE GROUP INC	Other Financing Business	1,525.2	4.0	20.2	33.6
8267	AEON CO LTD	Retail Trade	2,682.0	3.8	1.8	-7.8
9107	KAWASAKI KISEN KAISHA LTD	Marine Transportation	1,326.5	3.7	23.3	69.8
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	9,112.6	3.7	-1.4	13.4
4507	SHIONOGI & CO LTD	Pharmaceutical	2,120.3	3.2	17.0	-14.0
6273	SMC CORP	Machinery	4,650.5	3.1	-8.2	5.4
9064	YAMATO HOLDINGS CO LTD	Land Transportation	946.7	2.4	-7.3	-0.5
6861	KEYENCE CORP	Electric Appliances	13,799.6	2.2	-14.9	-16.0
4613	KANSAI PAINT CO LTD	Chemicals	520.8	2.1	-4.7	17.8
8331	CHIBA BANK LTD/THE	Banks	904.4	2.0	13.5	-3.8
2897	NISSIN FOODS HOLDINGS CO LTD	Foods	1,301.2	1.8	6.6	2.7
9706	JAPAN AIRPORT TERMINAL CO	Real Estate	599.9	1.6	-0.8	-21.5
7186	CONCORDIA FINANCIAL GROUP LT	Banks	815.3	1.6	11.3	8.1
6586	MAKITA CORP	Machinery	1,047.3	1.3	-6.5	1.4
4543	TERUMO CORP	Precision Instruments	2,996.0	1.1	-11.7	-12.4
7733	OLYMPUS CORP	Precision Instruments	2,483.0	1.0	-12.2	-34.9
8411	MIZUHO FINANCIAL GROUP INC	Banks	6,510.6	0.9	7.8	18.4
1925	DAIWA HOUSE INDUSTRY CO LTD	Construction	2,669.1	0.8	6.5	15.1
3092	ZOZO INC	Retail Trade	861.7	0.8	-1.6	-34.4
2914	JAPAN TOBACCO INC	Foods	6,918.0	0.6	11.7	11.8
9735	SECOM CO LTD	Services	2,375.0	0.4	9.3	16.4
6501	HITACHI LTD	Electric Appliances	8,631.9	0.4	6.9	13.6
9983	FAST RETAILING CO LTD	Retail Trade	10,399.5	0.3	-6.3	5.1
2503	KIRIN HOLDINGS CO LTD	Foods	1,917.6	0.2	0.2	-14.0
4739	ITOCHU TECHNO-SOLUTIONS CORP	Information & Communication	1,037.3	0.2	23.2	21.6
8473	SBI HOLDINGS INC	Securities & Commodity Futures	868.2	0.2	6.4	5.9
9531	TOKYO GAS CO LTD	Electric Power & Gas	1,476.4	0.1	7.8	7.8
6762	TDK CORP	Electric Appliances	2,155.0	0.0	3.9	9.5
3003	HULIC CO LTD	Real Estate	1,029.8	0.0	12.3	9.6
6758	SONY GROUP CORP	Electric Appliances	15,435.6	0.0	-6.1	1.6
6502	TOSHIBA CORP	Electric Appliances	1,994.5	-0.0	0.5	-19.2
7832	BANDAI NAMCO HOLDINGS INC	Other Products	2,025.3	-0.0	-3.6	-7.8
1803	SHIMIZU CORP	Construction	771.9	-0.1	8.2	19.6
7735	SCREEN HOLDINGS CO LTD	Electric Appliances	738.5	-0.2	-8.1	51.4
8750	DAI-ICHI LIFE HOLDINGS INC	Insurance	3,058.8	-0.2	7.0	-14.9

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 Oct 27, 2023. (same for the following screens)

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Exhibit 46: Large-cap stocks with the lowest 1-month return

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

TSE Code	Company name	Sector	MKT CAP (bn JPY)	1-month absolute performance (%)	3-month absolute performance (%)	YTD relative performance (% vs. TOPIX)
3769	GMO PAYMENT GATEWAY INC	Information & Communication	457.7	-26.9	-44.6	-63.3
3064	MONOTARO CO LTD	Retail Trade	588.6	-26.6	-33.1	-53.9
6532	BAYCURRENT CONSULTING INC	Services	582.6	-25.0	-18.5	-24.4
6645	OMRON CORP	Electric Appliances	1,096.8	-20.2	-30.2	-20.5
6594	NIDEC CORP	Electric Appliances	3,304.0	-20.1	-34.0	-36.9
4062	IBIDEN CO LTD	Electric Appliances	901.2	-19.7	-24.9	17.8
6976	TAIYO YUDEN CO LTD	Electric Appliances	430.8	-18.3	-21.9	-29.8
6305	HITACHI CONSTRUCTION MACHINE	Machinery	801.5	-18.0	-11.6	13.4
2413	M3 INC	Services	1,540.3	-16.5	-28.7	-54.2
6460	SEGA SAMMY HOLDINGS INC	Machinery	560.9	-15.7	-23.2	1.5
6301	KOMATSU LTD	Machinery	3,319.7	-15.7	-13.8	9.1
6370	KURITA WATER INDUSTRIES LTD	Machinery	511.2	-15.6	-22.6	-37.2
6752	PANASONIC HOLDINGS CORP	Electric Appliances	3,499.8	-15.2	-16.0	12.8
6724	SEIKO EPSON CORP	Electric Appliances	768.3	-15.1	-10.0	-3.7
7261	MAZDA MOTOR CORP	Transportation Equipment	911.4	-15.0	5.2	30.2
4516	NIPPON SHINYAKU CO LTD	Pharmaceutical	380.6	-14.4	-5.5	-45.6
9008	KEIO CORP	Land Transportation	566.5	-14.3	-6.4	-26.9
6504	FUJI ELECTRIC CO LTD	Electric Appliances	866.7	-13.9	-7.9	1.7
6967	SHINKO ELECTRIC INDUSTRIES	Electric Appliances	678.6	-13.8	-9.7	32.7
4502	TAKEDA PHARMACEUTICAL CO LTD	Pharmaceutical	6,331.1	-13.8	-7.5	-20.2
6383	DAIFUKU CO LTD	Machinery	926.8	-13.8	-21.3	2.1
5802	SUMITOMO ELECTRIC INDUSTRIES	Nonferrous Metals	1,237.4	-13.5	-12.1	-11.6
7201	NISSAN MOTOR CO LTD	Transportation Equipment	2,414.2	-13.4	-7.5	22.7
7202	ISUZU MOTORS LTD	Transportation Equipment	1,275.8	-12.7	-8.7	-7.3
7270	SUBARU CORP	Transportation Equipment	1,957.9	-12.4	-2.8	11.3
9697	CAPCOM CO LTD	Information & Communication	1,257.4	-12.4	-23.0	-5.2
6965	HAMAMATSU PHOTONICS KK	Electric Appliances	912.8	-12.2	-18.6	-29.6
6963	ROHM CO LTD	Electric Appliances	1,022.4	-11.9	-24.0	-13.5
7701	SHIMADZU CORP	Precision Instruments	1,038.3	-11.7	-18.5	-23.4
4151	KYOWA KIRIN CO LTD	Pharmaceutical	1,246.9	-11.3	-14.2	-39.8
8015	TOYOTA TSUSHO CORP	Wholesale Trade	2,767.7	-11.1	3.6	46.1
2181	PERSOL HOLDINGS CO LTD	Services	505.1	-11.0	-21.5	-40.8
7936	ASICS CORP	Other Products	882.9	-11.0	7.4	44.9
4188	MITSUBISHI CHEMICAL GROUP CO	Chemicals	1,266.2	-10.8	0.9	6.5
6201	TOYOTA INDUSTRIES CORP	Transportation Equipment	3,421.3	-10.8	2.4	32.1
3635	KOEI TECMO HOLDINGS CO LTD	Information & Communication	637.7	-10.7	-20.1	-37.8
5333	NGK INSULATORS LTD	Glass & Ceramics Products	552.9	-10.6	3.3	-13.8
4755	RAKUTEN GROUP INC	Services	1,174.2	-10.5	-0.1	-25.0
4528	ONO PHARMACEUTICAL CO LTD	Pharmaceutical	1,331.6	-10.3	-1.3	-33.3
4922	KOSE CORP	Chemicals	591.7	-10.0	-29.0	-48.4
3231	NOMURA REAL ESTATE HOLDINGS	Real Estate	620.3	-9.8	-1.0	3.9
6701	NEC CORP	Electric Appliances	2,035.5	-9.7	9.6	43.5
6367	DAIKIN INDUSTRIES LTD	Machinery	6,216.9	-9.6	-25.7	-13.0
9042	HANKYU HANSHIN HOLDINGS INC	Land Transportation	1,172.0	-9.6	-2.1	-0.2
3291	IIDA GROUP HOLDINGS CO LTD	Real Estate	631.0	-9.5	-8.2	-4.6
9020	EAST JAPAN RAILWAY CO	Land Transportation	2,933.5	-9.3	-4.0	-15.1
3382	SEVEN & IHOLDINGS CO LTD	Retail Trade	4,709.7	-9.3	-9.0	-22.8
9613	NTT DATA GROUP CORP	Information & Communication	2,551.1	-9.3	-6.4	-24.9
4911	SHISEIDO CO LTD	Chemicals	1,906.4	-9.2	-22.7	-42.6
6506	YASKAWA ELECTRIC CORP	Electric Appliances	1,306.3	-9.2	-22.5	0.0

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 47: 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)
9706	JAPAN AIRPORT TERMINAL CO	Real Estate	599.9	61.2	56.3	-21.5
7453	RYOHIN KEIKAKU CO LTD	Retail Trade	577.4	40.2	44.5	12.7
8136	SANRIO CO LTD	Wholesale Trade	560.3	32.8	32.6	16.1
9501	TOKYO ELECTRIC POWER COMPANY	Electric Power & Gas	1,029.3	27.1	22.5	16.1
2651	LAWSON INC	Retail Trade	708.7	26.6		20.5
6920	LASERTEC CORP	Electric Appliances	2,412.8	26.3	26.1	-2.4
9008	KEIO CORP	Land Transportation	566.5	25.5	24.7	-26.9
6753	SHARP CORP	Electric Appliances	593.3	22.5	3.8	-19.8
7936	ASICS CORP	Other Products	882.9	22.1	18.5	44.9
1911	SUMITOMO FORESTRY CO LTD	Construction	709.9	20.6	24.3	32.9
9983	FAST RETAILING CO LTD	Retail Trade	10,399.5	17.7	18.5	5.1
7203	TOYOTA MOTOR CORP	Transportation Equipment	41,945.8	17.1	15.1	26.4
4755	RAKUTEN GROUP INC	Services	1,174.2	16.4	8.2	-25.0
9502	CHUBU ELECTRIC POWER CO INC	Electric Power & Gas	1,404.2	16.4	14.4	12.2
6305	HITACHI CONSTRUCTION MACHINE	Machinery	801.5	16.2	17.0	13.4
6586	MAKITA CORP	Machinery	1,047.3	15.8	13.1	1.4
7261	MAZDA MOTOR CORP	Transportation Equipment	911.4	15.5	6.5	30.2
5406	KOBE STEEL LTD	Iron & Steel	699.6	15.5	15.8	159.4
9201	JAPAN AIRLINES CO LTD	Air Transportation	1,194.1	15.2	9.3	-17.3
7532	PAN PACIFIC INTERNATIONAL HO	Retail Trade	1,821.1	15.0	14.5	0.8
7550	ZENSHO HOLDINGS CO LTD	Retail Trade	1,194.9	15.0	12.6	110.6
9104	MITSUI OSK LINES LTD	Marine Transportation	1,482.1	14.9	16.5	5.1
6098	RECRUIT HOLDINGS CO LTD	Services	7,287.5	14.7	13.7	-15.2
6465	HOSHIZAKI CORP	Machinery	695.7	14.2	5.7	-14.6
9435	HIKARI TSUSHIN INC	Information & Communication	954.2	13.3	2.2	-5.1
7267	HONDA MOTOR CO LTD	Transportation Equipment	8,368.8	13.2	11.1	38.6
4689	LY CORP	Information & Communication	2,888.4	13.1	4.4	-4.7
2212	YAMAZAKI BAKING CO LTD	Foods	671.4	13.0	13.3	74.5
7974	NINTENDO CO LTD	Other Products	7,975.3	13.0	7.2	-6.7
5020	ENEOS HOLDINGS INC	Oil & Coal Products	1,671.1	11.8	10.9	5.1
7747	ASAHI INTECC CO LTD	Precision Instruments	674.2	11.7	9.6	-4.0
9007	ODAKYU ELECTRIC RAILWAY CO	Land Transportation	770.2	11.4	10.8	5.3
5334	NITERRA CO LTD	Glass & Ceramics Products	634.8	11.3	8.4	12.9
9005	TOKYU CORP	Land Transportation	1,048.2	11.3	11.3	-18.4
4578	OTSUKA HOLDINGS CO LTD	Pharmaceutical	2,732.8	11.2	7.8	-3.2
7270	SUBARU CORP	Transportation Equipment	1,957.9	10.8	8.0	11.3
3099	ISETAN MITSUKOSHI HOLDINGS L	Retail Trade	649.6	10.6	10.6	-4.4
4661	ORIENTAL LAND CO LTD	Services	8,592.2	10.1	9.3	4.0
9001	TOBU RAILWAY CO LTD	Land Transportation	745.3	9.6	9.1	-2.4
5019	IDEMITSU KOSAN CO LTD	Oil & Coal Products	998.7	9.6	9.9	-8.3
9202	ANA HOLDINGS INC	Air Transportation	1,408.3	9.4	7.3	-14.4
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	814.3	9.3	9.9	34.8
6326	KUBOTA CORP	Machinery	2,378.1	8.6	8.0	-8.3
7269	SUZUKI MOTOR CORP	Transportation Equipment	2,868.3	8.6	6.8	17.5
5333	NGK INSULATORS LTD	Glass & Ceramics Products	552.9	8.2	7.1	-13.8
5713	SUMITOMO METAL MINING CO LTD	Nonferrous Metals	1,200.8	8.2		-30.0
6301	KOMATSU LTD	Machinery	3,319.7	8.1	7.5	9.1
2897	NISSIN FOODS HOLDINGS CO LTD	Foods	1,301.2	8.0	7.4	2.7
3659	NEXON CO LTD	Information & Communication	2,244.7	8.0	3.7	-33.2
4613	KANSAI PAINT CO LTD	Chemicals	520.8	8.0	7.9	17.8

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 48: 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)
4452	KAO CORP	Chemicals	2,518.2	-45.0	-40.8	-13.9
7733	OLYMPUS CORP	Precision Instruments	2,483.0	-26.5	-28.8	-34.9
4502	TAKEDA PHARMACEUTICAL CO LTD	Pharmaceutical	6,331.1	-24.1	-14.4	-20.2
9684	SQUARE ENIX HOLDINGS CO LTD	Information & Communication	599.4	-18.6	-24.9	-38.3
4183	MITSUI CHEMICALS INC	Chemicals	739.1	-18.3	-18.8	8.8
6762	TDK CORP	Electric Appliances	2,155.0	-17.8	-16.7	9.5
4503	ASTELLAS PHARMA INC	Pharmaceutical	3,423.0	-17.7	-18.8	-23.1
5201	AGC INC	Glass & Ceramics Products	1,148.1	-17.4	-15.2	-2.6
9962	MISUMI GROUP INC	Wholesale Trade	648.2	-17.3	-18.8	-37.5
9147	NIPPON EXPRESS HOLDINGS INC	Land Transportation	689.9	-16.1	-17.5	-17.2
1801	TAISEI CORP	Construction	946.3	-14.2	-15.8	0.2
6967	SHINKO ELECTRIC INDUSTRIES	Electric Appliances	678.6	-14.0	-17.6	32.7
6479	MINEBEA MITSUMI INC	Electric Appliances	983.4	-13.6	-13.3	-1.7
4185	JSR CORP	Chemicals	829.8	-13.4	-16.5	34.6
6724	SEIKO EPSON CORP	Electric Appliances	768.3	-12.8	-18.7	-3.7
8604	NOMURA HOLDINGS INC	Securities & Commodity Futures	1,840.9	-12.7		-1.0
4324	DENTSU GROUP INC	Services	1,155.0	-12.2	-19.6	-14.6
3407	ASAHI KASEI CORP	Chemicals	1,277.3	-11.8	-11.3	-20.7
9143	SG HOLDINGS CO LTD	Land Transportation	1,412.1	-11.1	-9.6	-4.9
6954	FANUC CORP	Electric Appliances	3,627.1	-10.7	-12.0	-26.4
4568	DAIICHI SANKYO CO LTD	Pharmaceutical	7,659.6	-10.2	-10.0	-24.6
4911	SHISEIDO CO LTD	Chemicals	1,906.4	-9.8	-2.9	-42.6
7951	YAMAHA CORP	Other Products	733.7	-9.6	-12.6	-38.6
6702	FUJITSU LIMITED	Electric Appliances	3,975.5	-8.8	-9.1	-12.6
6806	HIROSE ELECTRIC CO LTD	Electric Appliances	605.7	-8.7	-12.5	-15.7
6502	TOSHIBA CORP	Electric Appliances	1,994.5	-8.2	-4.6	-19.2
6988	NITTO DENKO CORP	Chemicals	1,390.7	-7.4	-6.1	5.8
3436	SUMCO CORP	Metal Products	675.1	-6.6	-7.0	-10.1
7309	SHIMANO INC	Transportation Equipment	1,913.2	-6.4	-12.1	-16.3
9984	SOFTBANK GROUP CORP	Information & Communication	8,950.8	-5.6		-10.4
3291	IIDA GROUP HOLDINGS CO LTD	Real Estate	631.0	-5.5	-5.7	-4.6
6857	ADVANTEST CORP	Electric Appliances	3,082.2	-5.3	-5.2	70.5
7186	CONCORDIA FINANCIAL GROUP LT	Banks	815.3	-4.4		8.1
8309	SUMITOMO MITSUI TRUST HOLDIN	Banks	2,037.5	-4.1		4.3
4151	KYOWA KIRIN CO LTD	Pharmaceutical	1,246.9	-3.9		-39.8
6971	KYOCERA CORP	Electric Appliances	2,744.9	-3.4	-5.5	-5.6
5108	BRIDGESTONE CORP	Rubber Products	3,976.0	-3.2	0.1	2.5
6645	OMRON CORP	Electric Appliances	1,096.8	-3.2	-6.8	-20.5
2267	YAKULT HONSHA CO LTD	Foods	1,211.3	-3.2	-3.7	-36.1
9064	YAMATO HOLDINGS CO LTD	Land Transportation	946.7	-2.9	-3.7	-0.5
5332	TOTO LTD	Glass & Ceramics Products	639.8	-2.9	-7.7	-37.6
4523	EISAI CO LTD	Pharmaceutical	2,317.7	-2.8	-2.4	-26.8
6506	YASKAWA ELECTRIC CORP	Electric Appliances	1,306.3	-2.7	-3.0	0.0
8572	ACOM CO LTD	Other Financing Business	547.5	-2.7	-3.0	-6.9
6367	DAIKIN INDUSTRIES LTD	Machinery	6,216.9	-2.5	-1.5	-13.0
7276	KOITO MANUFACTURING CO LTD	Electric Appliances	711.2	-2.4	-1.7	-6.7
4062	IBIDEN CO LTD	Electric Appliances	901.2	-2.4	-4.5	17.8
6963	ROHM CO LTD	Electric Appliances	1,022.4	-2.3	-8.2	-13.5
9843	NITORI HOLDINGS CO LTD	Retail Trade	1,865.4	-2.2	-2.4	-23.9
8725	MS&AD INSURANCE GROUP HOLDIN	Insurance	2,892.1	-2.2		10.4

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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