

Japan Equity Strategy

Japan equities with a stronger yen: Moves in not only JPY but also USD important

Investment Strategy

FX and Japan equities: Watching the JPY & USD currents

The market has begun sensing the risks from yen appreciation, but we do not currently see this as a major threat to the market. As pointed out by our forex strategist, it would be premature to ignore carry. As long as the yen does not appreciate sharply, Japanese stocks can benefit from a weakening dollar. Japanese companies have expanded their overseas production in recent years and shifted more into higher quality exports to avoid competing on price with manufacturers elsewhere in Asia, thereby reducing the forex sensitivity of their earnings. Meanwhile, the earnings impact should be positive, in our view, when financial-easing effects and the boost to the global economy from dollar depreciation lead to an increase in export volume.

Stock selection: Peaked US rates & post-results reversal; two screens

After US interest rates peaked, a reversal appears to be gaining momentum. Many of the stocks that have outperformed this year are in sectors that correlate highly with US interest rates, and it is time to start looking at those sectors with a low or inverse correlation with rates. The typical pattern following interim results season is for the market to shift focus to the next fiscal-year earnings and for share prices to reverse.

Sectors with strong earnings prospects for next fiscal year and a low correlation with US interest rates include tech and cyclical growth sectors (electric machinery, precision machinery, machinery, and chemicals), domestic demand-led sectors (information and communications including IT services, services including human resources related, textiles & apparel, and miscellaneous finance), inflation-related sectors (real estate, construction, and metal products), and defensives (pharmaceuticals and food).

In Exhibit 9, we show 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. Exhibit 10 lists the domestic demand-led stocks with strong earnings prospects next fiscal year, assuming the yen will start to strengthen mildly.

2024 outlook: Inflation and corporate reform

The market currently has few concerns, and the 2024 outlook is likely to be bright. We expect cost-push inflation to be replaced by wage inflation at the macro level and look for progress with corporate reforms at the micro level. Meanwhile, there are considerable uncertainties regarding the US economy. In the case of no landing or a soft landing, Japan is likely to complete its exit from deflation (we think the most likely scenario is a soft landing), but there is still the risk of a hard landing.

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Refer to important disclosures on page 10 to 12.

12630988

Timestamp: 23 November 2023 04:30PM EST

24 November 2023

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Japan

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Forex and Japanese stocks: Moves in not only JPY but also USD important

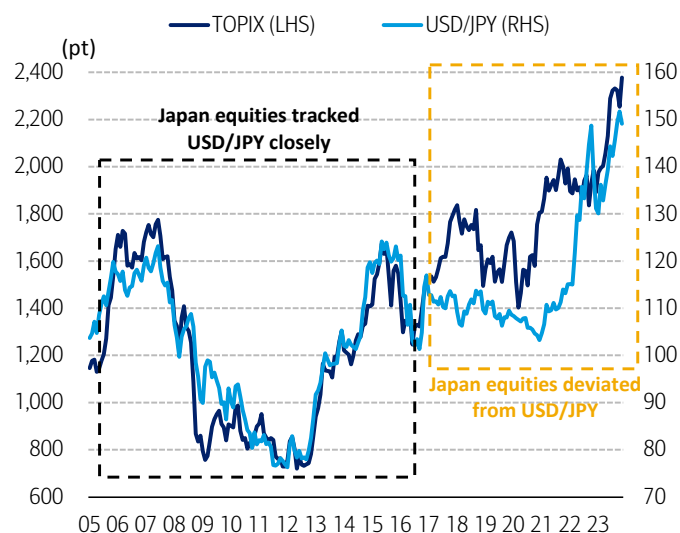
After the reverse CPI shock in the US (see our 15 November [Japan equity strategy](#) report for details), the market started sensing the risks from yen appreciation, but we do not think that is much of a threat to the market at this point. As pointed out by our forex strategist, it would be premature to ignore carry. We think the yen is unlikely to be the optimal currency for selling dollars into (for details, see our 19 November [World at a Glance](#) for each country's forex and interest rates).

Additionally, although the market started anticipating Fed rate cuts around mid-2024, its expectation of a BoJ exit from NIRP (Negative Interest Rate Policy) followed by consecutive rate hikes has been weakening (we expect an exit from NIRP in January 2024, April 2024 at the latest, and look for a 0.25ppt rate hike in Oct-Dec 2024 and again in Apr-Jun 2025; for details, see our 20 November [Global Economics](#)). We expect the still large Japan/US rate spread to dampen the risks of yen appreciation.

As long as the yen does not appreciate sharply, Japanese stocks should benefit from a weakening dollar. Japanese companies have expanded their overseas production in recent years and shifted more into higher quality exports to avoid competing on price with manufacturers elsewhere in Asia. This has made the share price as well as earnings less forex sensitive (Exhibit 1, Exhibit 2). When monetary easing effects and the boost to the global economy from dollar depreciation lead to an increase in export volume, there will be a positive earnings impact. Another important point is that the strengthening of the Chinese yuan in step with dollar depreciation will create more room for China to ease monetary conditions.

Exhibit 1: TOPIX and USD/JPY

Lower correlation vs. that before 2016

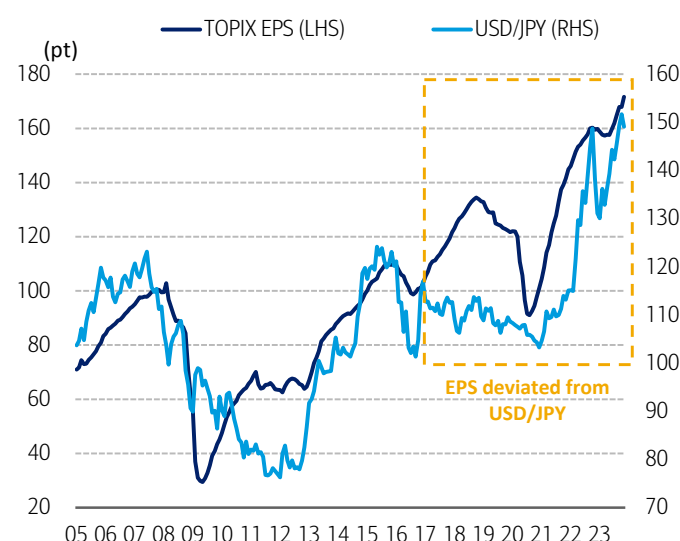


Source: BofA Global Research, Refinitiv

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Exhibit 2: TOPIX EPS and USD/JPY

The EPS impact from USD/JPY also seems weaker in recent years



Source: BofA Global Research, Refinitiv

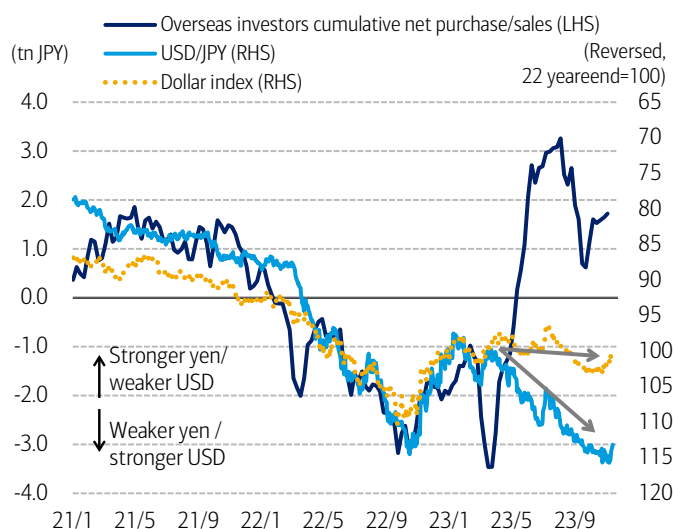
Note: the EPS is based on I/B/E/S 12-month forward consensus estimate.

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For example, although the yen weakened dramatically in 2022, the strengthening of the dollar at the same time worsened the global economy, and overseas investors became net sellers of Japanese stocks as the yen weakened and dollar strengthened (Exhibit 3). There appears to be an inverse correlation between the dollar and Japanese stocks (Exhibit 4). We think the most likely scenario for 2024 is a moderate weakening of the dollar and moderate strengthening of the yen, not necessarily a bad combination for corporate earnings (we expect the USD/JPY to rise to 155 by end-March 2024, then correct to 142 by end-2024).

Exhibit 3: Overseas investors cumulative purchases, USD/JPY and dollar index

Yen depreciated along with a higher oil price



Source: BofA Global Research, Bloomberg

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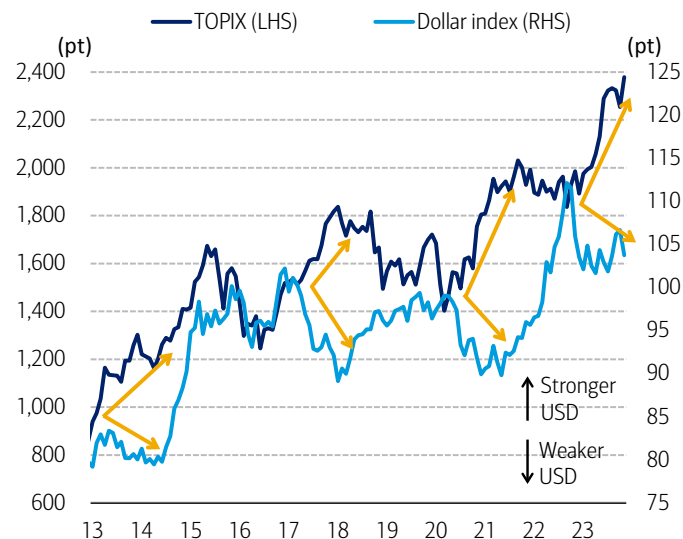
Stock selection: Declining US interest rates & reversal following interim results

Meanwhile, after US interest rates peaked, a reversal started gaining momentum. Our core view is that US interest rates will remain high and that continued sharp changes are unlikely. However, the sectors that have outperformed in 2023 correlate highly with US interest rates (Exhibit 5). With the Fed now more likely to stop hiking rates, it is time to consider sectors with a low or inverse correlation (Exhibit 6).

The typical pattern following interim results season is for the market to shift focus to the next fiscal-year earnings and for share prices to reverse. The outlook has become more uncertain since the pandemic, delaying the point at which the market starts pricing in the following year's earnings, but the market may return to its pre-pandemic pattern (Exhibit 7).

Exhibit 4: TOPIX and dollar index

Japan equities tend to increase when the greenback weakens

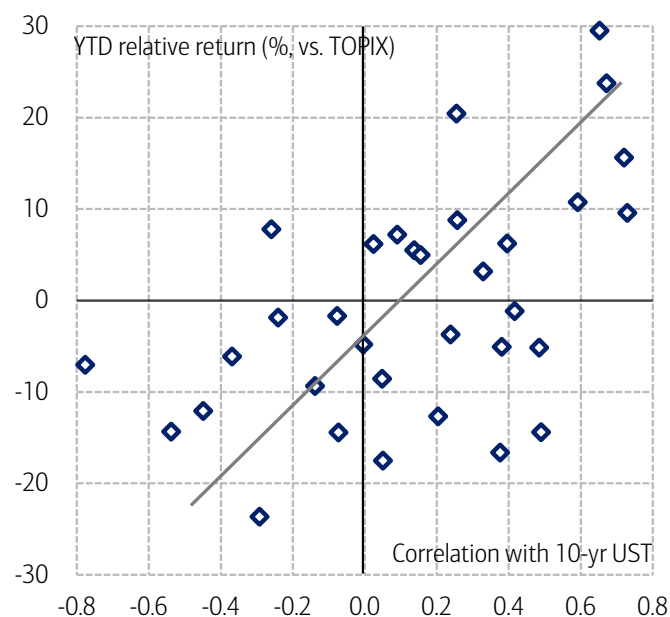


Source: BofA Global Research, Bloomberg

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Exhibit 5: YTD relative return (vs. TOPIX) by sector and correlation with 10-yr UST

Sectors with high UST correlation tend to outperform



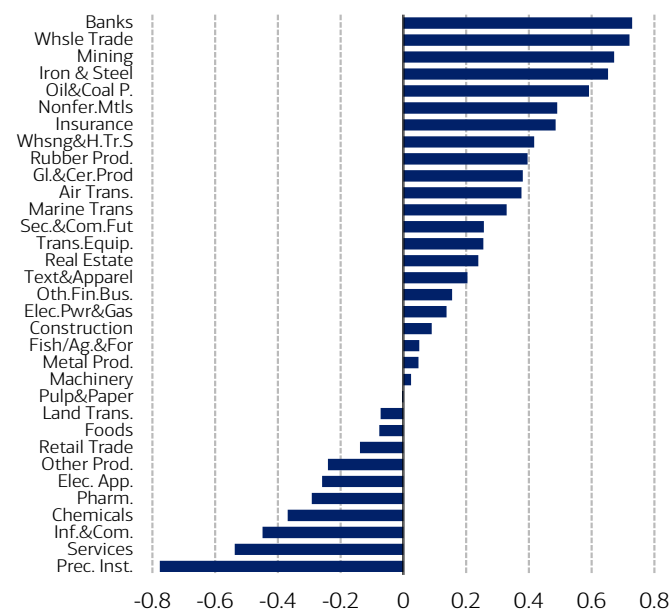
Source: BofA Global Research, Bloomberg

Note: Correlation calculation is monthly basis, since 2015.

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Exhibit 6: YTD relative return (vs. TOPIX) by sector and correlation with 10-yr UST

UST peaking out may necessitate the rotation into low-UST-correlation sectors



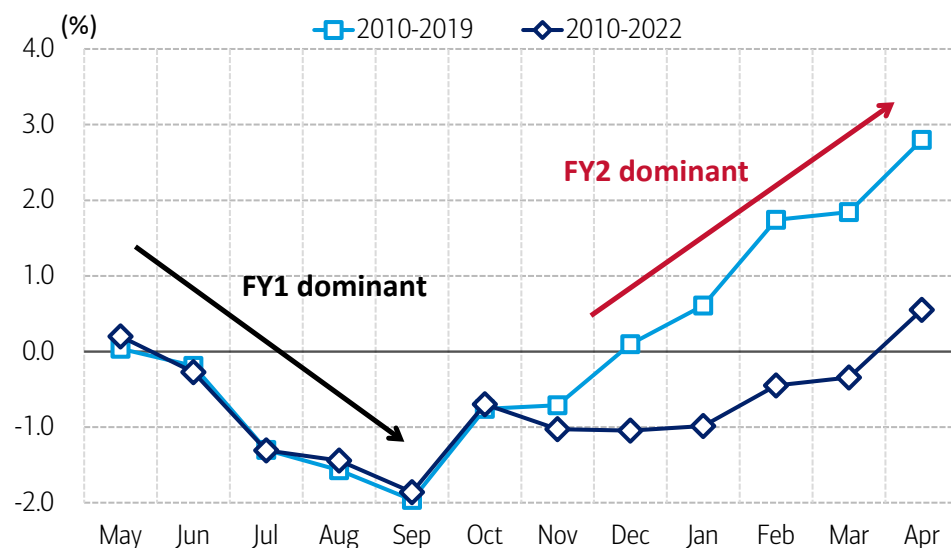
Source: BofA Global Research, Bloomberg

Note: Correlation calculation is monthly basis, since 2015.

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Exhibit 7: Seasonality of factor return of EPS growth (FY2-FY1)

Focus shifting to earnings outlook for next FY (the trend was weaker post pandemic)



Source: BofA Global Research, FactSet

Note: Average of cumulative factor return of EPS growth (FY2-FY1) for 2010-2019, 2010-2022.

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Exhibit 8 compares current fiscal year and next fiscal-year earnings growth forecasts and the correlation of 10yr Treasury yields and relative return by sector. We highlight sectors that have a spread of at least 3% between this year's and next year's growth

rate and a correlation coefficient with US interest rates of less than 0.25. These are tech or cyclical growth sectors (electric machinery, precision machinery, machinery, and chemicals), domestic demand-led sectors (Information and communications including IT services, services including human resources related, textiles & apparel, and miscellaneous finance), inflation-related sectors (real estate, construction, and metal products), and defensives (pharmaceuticals and food).

Exhibit 8: Recurring profits growth, 10-yr UST and relative return correlation by sector

Cyclical growth sectors and domestic demand-oriented sectors have higher RP growth in next fiscal year

Sector	FY22 (YoY,%)	FY23E (YoY,%)	FY24E (YoY,%)	FY24-FY23 (ppt)	10-yr UST and relative return correlation (vs. TOPIX)
Pharmaceutical	2.5	-1.9	27.0	28.9	-0.29
Nonferrous Metals	-24.7	-16.2	25.9	42.1	0.49
Textiles and Apparels	-13.0	19.0	24.9	5.9	0.20
Chemicals	-8.6	-6.9	22.7	29.6	-0.37
Glass and Ceramics Products	-33.2	35.7	19.5	-16.2	0.38
Pulp and Paper	-59.8	112.9	18.9	-94.0	-0.00
Services	-21.6	19.8	17.9	-1.9	-0.54
Electric Appliances	3.4	-0.7	16.5	17.2	-0.26
Insurance	-42.5	68.2	16.4	-51.7	0.48
Precision instruments	11.2	-4.6	15.9	20.6	-0.78
Metal Products	5.0	-1.2	14.2	15.4	0.05
Air Transportation	139.9	66.9	13.5	-53.4	0.38
Other Financing Business	1.0	14.1	13.1	-1.0	0.15
Land Transportation	349.6	31.2	12.1	-19.1	-0.07
Foods	10.8	9.4	11.9	2.5	-0.08
Machinery	12.4	14.4	11.7	-2.7	0.02
Rubber Products	4.3	24.5	10.3	-14.1	0.40
Retail Trade	8.5	13.7	9.5	-4.2	-0.14
Real Estate	11.8	4.1	9.5	5.4	0.24
Securities and Commodities Futures	-55.9	56.9	9.4	-47.5	0.26
Construction	4.5	3.1	9.3	6.1	0.09
Information & Communication	1.5	4.6	7.0	2.4	-0.45
Banks	-2.8	30.5	6.7	-23.7	0.73
Iron and Steel	-1.6	-10.5	4.0	14.5	0.65
Transportation Equipment	3.0	49.7	3.7	-45.9	0.25
Warehousing and Harbor Transportation	12.4	-16.1	1.4	17.4	0.42
Fishery, Agriculture & Forestry	-2.7	7.2	1.1	-6.1	0.05
Wholesale Trade	18.3	-8.2	0.6	8.8	0.72
Mining	115.8	-18.8	-0.6	18.2	0.67
Marine Transportation	10.3	-75.0	-3.5	71.5	0.33
Other Products	-5.8	6.0	-4.2	-10.2	-0.24
Oil and Coal Products	-49.6	12.7	-11.7	-24.4	0.59
Electric Power and Gas	-109.0	6198.6	-25.4	-6224.0	0.14
TOPIX	2.0	12.0	8.5	-3.5	-

Source: BofA Global Research, QUICK

Note: Based on TOPIX companies with fiscal year ending in Mar or Feb (ex SoftBank Group). Based on QUICK consensus, using Toyokeizai estimate if QUICK consensus is not available. Relative return vs. TOPIX. Blue highlights show FY24- FY23 RP growth above -3%, correlation with 10-yr UST below 0.25.

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Exhibit 9 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. These are stocks that have had weak earnings thus far but are expected to have an improving earnings trajectory moving forward. Many of the stocks are tech or other cyclical growth names.

Exhibit 10 shows the domestic demand-led stocks with strong earnings prospects in next fiscal year, assuming the yen starting to strengthen.

Exhibit 9: Stocks with 2H RP growth expectation above that in 1H and next fiscal year RP growth expectation surpassing 5%

2H RP growth expectation > 1H RP growth, FY2 RP growth above 5%, FY2 P/E below 30, 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	-25.9	42.1	12.8	-0.7	12.2	16.4
8035	TOKYO ELECTRON LTD	Electric Appliances	9,480	-48.7	-14.7	26.6	2.2	23.4	28.3
4063	SHIN-ETSU CHEMICAL CO LTD	Chemicals	8,902	-23.5	-15.5	8.8	-4.0	14.5	16.7
6902	DENSO CORP	Transportation Equipment	7,359	45.1	56.6	10.8	8.9	11.2	14.2
6367	DAIKIN INDUSTRIES LTD	Machinery	6,774	-0.7	30.7	9.7	-1.8	12.5	22.3
6981	MURATA MANUFACTURING CO LTD	Electric Appliances	5,395	-25.7	27.3	22.1	14.0	10.5	22.3
7741	HOYA CORP	Precision Instruments	5,359	-6.9	14.5	13.3	-1.7	22.1	29.0
6273	SMC CORP	Machinery	4,890	-25.5	-6.7	12.0	-2.1	11.0	25.1
6594	NIDEC CORP	Electric Appliances	4,052	22.8	3789.7	7.1	4.9	12.3	17.6
6752	PANASONIC HOLDINGS CORP	Electric Appliances	3,744	34.6	46.2	14.5	-2.3	9.3	10.1
8591	ORIX CORP	Other Financing Business	3,325	11.0	39.9	19.2	-2.2	10.2	8.6
8750	DAI-ICHI LIFE HOLDINGS INC	Insurance	3,111	12.0	20.0	6.3	1.9	9.1	10.2
2802	AJINOMOTO CO INC	Foods	2,996	2.9	11.1	16.4	1.2	14.8	25.6
7011	MITSUBISHI HEAVY INDUSTRIES	Machinery	2,868	46.3	70.8	9.7	5.7	11.3	12.7
8802	MITSUBISHI ESTATE CO LTD	Real Estate	2,718	-42.4	15.1	7.5	-1.3	7.7	14.6
9613	NTT DATA GROUP CORP	Information & Communication	2,500	-13.6	10.0	18.8	-1.6	10.0	15.9
4307	NOMURA RESEARCH INSTITUTE LT	Information & Communication	2,252	7.0	14.1	10.8	0.9	20.7	27.3
7832	BANDAI NAMCO HOLDINGS INC	Other Products	2,057	-20.0	90.4	8.8	2.6	15.1	18.8
9843	NITORI HOLDINGS CO LTD	Retail Trade	1,805	-19.2	6.5	6.4	-3.5	10.4	18.1
2413	M3 INC	Services	1,729	-2.0	14.0	14.1	0.6	16.6	29.4
7259	AISIN CORP	Transportation Equipment	1,587	97.1	603.6	9.9	9.3	8.8	10.1
6869	SYSMEX CORP	Electric Appliances	1,492	-3.6	32.2	13.4	-1.6	13.7	27.6
8593	MITSUBISHI HC CAPITAL INC	Other Financing Business	1,362	-11.7	46.9	13.5	0.0	8.4	10.6
6988	NITTO DENKO CORP	Chemicals	1,358	-30.2	40.5	10.7	-3.8	11.3	13.3
5411	JFE HOLDINGS INC	Iron & Steel	1,349	-14.3	280.2	7.8	7.8	8.7	6.9
5802	SUMITOMO ELECTRIC INDUSTRIES	Nonferrous Metals	1,339	-0.2	8.0	18.1	1.6	6.7	11.0
4188	MITSUBISHI CHEMICAL GROUP CO	Chemicals	1,288	6.7	119.9	6.2	18.2	6.9	11.8
1812	KAJIMA CORP	Construction	1,285	-8.0	6.6	6.9	-1.1	10.5	10.6
2267	YAKULT HONSHA CO LTD	Foods	1,285	0.6	26.5	6.7	-4.6	10.9	0.0
5713	SUMITOMO METAL MINING CO LTD	Nonferrous Metals	1,270	-68.2	-40.9	50.0	8.1	6.2	13.2
9766	KONAMI GROUP CORP	Information & Communication	1,158	34.7	104.6	7.8	4.4	13.5	19.1
2269	MEIJI HOLDINGS CO LTD	Foods	1,092	-1.1	32.3	6.9	9.5	8.2	16.3
1878	DAITO TRUST CONSTRUCT CO LTD	Real Estate	1,085	2.3	11.4	15.6	-0.3	20.5	12.5
4062	IBIDEN CO LTD	Electric Appliances	1,056	-41.1	-5.7	25.3	-5.0	11.2	21.5
6383	DAIFUKU CO LTD	Machinery	1,033	-16.3	5.6	16.6	-2.7	13.1	0.0
6586	MAKITA CORP	Machinery	1,013	64.7	344.8	36.1	17.1	6.3	20.7
4204	SEKISUI CHEMICAL CO LTD	Chemicals	986	-4.4	8.5	8.6	3.1	10.4	12.2
9602	TOHO CO LTD	Information & Communication	947	8.8	39.9	7.7	3.1	9.0	22.1
1802	OBAYASHI CORP	Construction	935	-21.9	-9.3	9.3	-0.8	6.7	13.4
8331	CHIBA BANK LTD/THE	Banks	925	-1.5	17.8	6.8	0.7	6.1	12.5
4021	NISSAN CHEMICAL CORP	Chemicals	909	-18.1	25.4	7.3	-2.4	18.7	18.3
8473	SBI HOLDINGS INC	Securities & Commodity Futures	878	31.8	59.7	10.9	-2.5	8.7	9.5
3092	ZOZO INC	Retail Trade	868	6.1	7.4	6.8	-0.4	46.3	20.7
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	863	26.2	26.8	11.6	17.2	15.0	23.2
8439	TOKYO CENTURY CORP	Other Financing Business	740	6.1	12.2	9.1	1.7	9.4	8.8
2768	SOJITZ CORP	Wholesale Trade	716	-39.5	39.8	7.3	0.1	11.5	6.6
6370	KURITA WATER INDUSTRIES LTD	Machinery	663	3.8	69.9	12.1	2.5	9.6	18.8
5332	TOTO LTD	Glass & Ceramics Products	660	-21.0	16.9	8.1	-3.9	8.1	17.8
6532	BAYCURRENT CONSULTING INC	Services	632	25.1	27.4	27.0	-0.7	38.4	17.3
4042	TOSOH CORP	Chemicals	613	-31.3	134.4	12.4	-0.5	9.0	8.0
6753	SHARP CORP	Electric Appliances	600	-67.2	152.5	85.3	21.6	10.5	20.7
5333	NGK INSULATORS LTD	Glass & Ceramics Products	583	-16.2	3.6	20.6	0.1	7.6	11.5
2181	PERSOL HOLDINGS CO LTD	Services	562	-23.6	46.9	19.3	-0.0	20.7	13.8
1963	JGC HOLDINGS CORP	Construction	506	-16.7	17.6	7.0	0.2	8.0	11.7
4403	NOF CORP	Chemicals	500	-1.4	4.5	8.1	4.0	13.2	15.3
3141	WELCIA HOLDINGS CO LTD	Retail Trade	492	-4.2	1.6	6.6	-0.2	11.7	17.2
9989	SUNDRUG CO LTD	Retail Trade	489	11.6	13.8	7.5	5.3	11.7	16.9
5021	COSMO ENERGY HOLDINGS CO LTD	Oil & Coal Products	474	-52.2	775.9	6.0	12.4	12.0	7.0
3774	INTERNET INITIATIVE JAPAN	Information & Communication	444	-2.4	25.5	17.0	-2.0	19.5	19.3
9468	KADOKAWA CORP	Information & Communication	433	-44.4	29.8	11.0	-2.0	7.5	24.2
3086	J FRONT RETAILING CO LTD	Retail Trade	417	53.8	338.4	8.2	4.4	7.8	12.9

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 30. 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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Exhibit 10: Domestic demand-oriented stocks resilient earnings expectation in next fiscal year

Domestic stocks with RP growth (FY2) above 5%, revision (FY2) above 0.8%, ROE (FY2) above 7%, P/B below 7

Code	Company name	Sector	Mkt cap (bn JPY)	RP growth (FY1, %)	RP growth (FY2, %)	ROE (FY2)	% 3M RP revision (FY2)	PBR	YTD return (vs. TPX)
3397	TORIDOLL HOLDINGS CORP	Retail Trade	306	49.8	32.3	10.7	28.6	47.6	0.6
7453	RYOHIN KEIKAKU CO LTD	Retail Trade	569	21.3	12.9	11.1	27.2	18.9	-0.2
3769	GMO PAYMENT GATEWAY INC	Information & Communication	618	20.9	24.3	19.5	24.4	30.4	-12.4
2651	LAWSON INC	Retail Trade	691	41.8	5.7	15.2	22.9	15.5	0.6
9983	FAST RETAILING CO LTD	Retail Trade	10,823	7.4	9.0	16.5	17.0	33.8	-0.3
2897	NISSIN FOODS HOLDINGS CO LTD	Foods	1,347	33.7	11.0	12.2	15.9	24.6	0.5
3549	KUSURI NO AOKI HOLDINGS CO L	Retail Trade	307	14.0	11.1	14.3	14.2	18.2	-0.3
2875	TOYO SUISAN KAISHA LTD	Foods	663	44.0	6.9	11.8	12.5	17.8	0.3
8233	TAKASHIMAYA CO LTD	Retail Trade	351	34.0	8.4	7.5	11.1	10.7	0.2
4527	ROHTO PHARMACEUTICAL CO LTD	Pharmaceutical	818	26.5	11.6	15.0	9.1	23.2	0.4
9022	CENTRAL JAPAN RAILWAY CO	Land Transportation	3,437	46.8	5.9	8.0	8.9	11.1	-0.1
2914	JAPAN TOBACCO INC	Foods	6,858	-3.2	16.2	17.5	8.8	15.2	0.2
3659	NEXON CO LTD	Information & Communication	2,315	25.6	5.1	12.9	8.6	20.1	-0.2
9202	ANA HOLDINGS INC	Air Transportation	1,428	27.3	14.6	11.4	8.5	13.3	0.2
7936	ASICS CORP	Other Products	975	61.9	15.1	18.3	8.2	28.0	1.8
2002	NISSHIN SEIFUN GROUP INC	Foods	592	37.2	8.6	7.4	8.1	20.7	0.0
9005	TOKYU CORP	Land Transportation	1,044	65.6	7.7	7.8	7.7	19.8	0.0
2269	MEIJI HOLDINGS CO LTD	Foods	1,082	12.5	6.9	8.2	7.0	16.3	-0.4
3088	MATSUBUYOCOCOKARA & CO	Retail Trade	1,087	19.7	8.3	10.3	6.6	20.6	0.3
8114	DESCENTE LTD	Textiles & Apparel	318	36.8	15.1	13.5	6.2	21.3	0.8
4704	TREND MICRO INC	Information & Communication	791	10.7	7.9	18.1	6.1	35.3	0.3
4578	OTSUKA HOLDINGS CO LTD	Pharmaceutical	2,864	49.9	16.2	8.9	5.9	13.3	-0.1
3086	J FRONT RETAILING CO LTD	Retail Trade	372	132.3	8.2	7.8	5.4	12.9	0.2
9201	JAPAN AIRLINES CO LTD	Air Transportation	1,180	162.9	12.5	11.1	5.1	12.1	0.3
7532	PAN PACIFIC INTERNATIONAL HO	Retail Trade	1,939	5.7	10.6	15.5	4.8	25.4	0.6
9989	SUNDRUG CO LTD	Retail Trade	489	10.2	7.5	11.7	4.7	16.9	-0.0
2801	KIKKOMAN CORP	Foods	1,601	9.4	10.2	12.4	4.1	36.2	-0.2
9719	SCSK CORP	Information & Communication	773	8.5	8.3	14.4	3.8	19.8	0.3
2802	AJINOMOTO CO INC	Foods	2,996	7.1	16.4	14.8	3.6	25.6	1.1
1911	SUMITOMO FORESTRY CO LTD	Construction	716	-21.8	8.7	13.6	3.6	7.5	0.2
1928	SEKISUI HOUSE LTD	Construction	1,916	3.4	6.3	11.4	3.4	10.0	0.1
8801	MITSUI FUDOSAN CO LTD	Real Estate	3,046	-1.3	9.4	7.2	2.9	13.7	0.1
5838	RAKUTEN BANK LTD	Banks	408	16.9	14.5	13.5	2.8	11.6	0.3
9602	TOHO CO LTD	Information & Communication	917	20.3	7.7	9.0	2.5	22.1	-0.1
3382	SEVEN & I HOLDINGS CO LTD	Retail Trade	4,799	2.9	6.7	9.2	2.4	16.3	-0.1
8279	YAKO CO LTD	Retail Trade	305	10.7	5.6	11.8	2.3	16.2	-0.2
3289	TOKYU FUDOSAN HOLDINGS CORP	Real Estate	682	4.9	5.9	9.2	2.1	9.9	0.1
8410	SEVEN BANK LTD	Banks	349	5.3	8.0	7.5	2.1	15.5	-0.1
4684	OBIC CO LTD	Information & Communication	2,088	13.2	11.6	16.7	2.0	34.8	-0.5
2331	SOHGO SECURITY SERVICES CO	Services	436	8.7	5.0	8.1	1.9	15.4	-0.5
3391	TSURUHA HOLDINGS INC	Retail Trade	497	5.0	5.7	9.8	1.9	21.9	-0.1
8111	GOLDWIN INC	Textiles & Apparel	487	11.9	8.4	23.9	1.7	21.1	-0.8
8804	TOKYO TATEMONO CO LTD	Real Estate	439	7.5	5.3	9.6	1.7	9.4	0.1
8473	SBI HOLDINGS INC	Securities & Commodity Futures	878	44.9	10.9	8.7	1.6	9.5	-0.2
8056	BIPROGY INC	Information & Communication	404	12.9	9.5	15.7	1.5	18.2	-0.0
9766	KONAMI GROUP CORP	Information & Communication	1,158	63.8	7.8	13.5	1.5	19.1	-0.1
1925	DAIWA HOUSE INDUSTRY CO LTD	Construction	2,603	-17.9	8.8	11.3	1.4	10.2	-0.0
2327	NS SOLUTIONS CORP	Information & Communication	379	7.0	7.2	10.9	1.4	17.4	0.2
4768	OTSUKA CORP	Information & Communication	1,141	16.5	12.2	14.4	1.4	22.5	0.1
8750	DAI-ICHI LIFE HOLDINGS INC	Insurance	3,111	15.4	6.3	9.1	1.3	10.2	0.4
8439	TOKYO CENTURY CORP	Other Financing Business	740	9.0	9.1	9.4	1.2	8.8	-0.3
1959	KYUDENKO CORP	Construction	316	14.4	11.3	10.9	1.2	10.2	0.0
9613	NTT DATA GROUP CORP	Information & Communication	2,500	-0.8	18.8	10.0	1.2	15.9	-0.5
7832	BANDAI NAMCO HOLDINGS INC	Other Products	2,067	10.8	8.8	15.1	1.0	18.8	-0.4
2181	PERSOL HOLDINGS CO LTD	Services	505		18.6	20.7	0.9	14.4	-0.1
8802	DAI-ICHI LIFE HOLDINGS INC	Real Estate	2,574	-12.5	7.7	7.7	0.8	14.7	-0.2

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) RP revision (FY2) above 0.8%, 5) ROE (FY2) above 7%, 6) P/B below 7. Ranked by RP revision (FY2) 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.

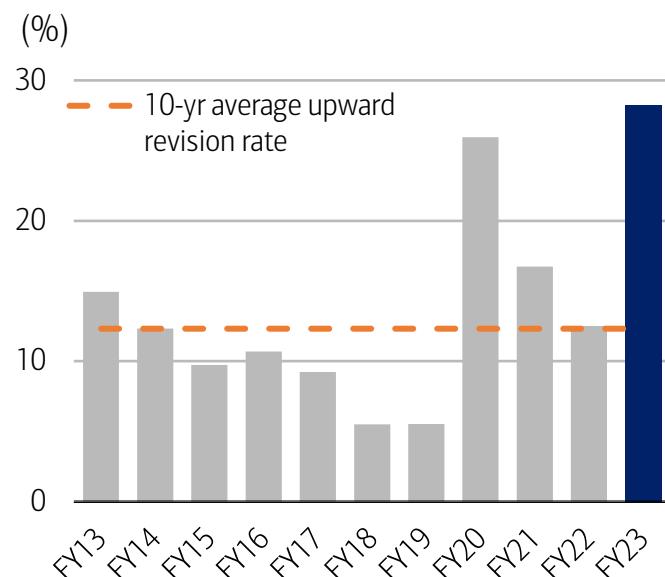
BofA GLOBAL RESEARCH

2024 market: inflation/corporate reforms; US economy a source of uncertainty

Which way is the market likely to head? Interim earnings have been strong and the market currently has few concerns. The number of companies raising their full-year guidance was the highest in a decade (Exhibit 11). Profit margins are also improving (Exhibit 12).

Exhibit 11: % of mid-fiscal-year corporate RP guidance revisions

Record high for 2023 earnings upgrades



Source: BofA Global Research, QUICK

Note: Based on TOPIX companies with fiscal year ending in March or February. Corporate recurring profits guidance revisions vs. previous guidance.

BofA GLOBAL RESEARCH

The outlook for 2024 is likely to be a bright one. We expect the type of inflation to change, as cost-push inflation weakens (helped by the peaking of yen weakness in reaction to the BoJ exiting NIRP) and wage inflation becomes entrenched following Shunto. Cost-push inflation hurts both consumers' real income and companies' profit margins, but under wage inflation, recovering consumer sentiment makes it easier for companies to raise prices and improve their margins. There is a positive correlation between real wages and ROE.

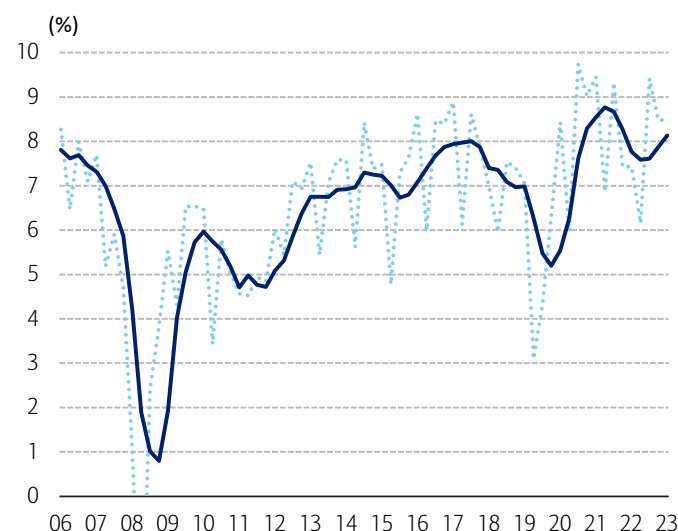
On 15 January 2024, the Tokyo Stock Exchange will publish a list of companies that have complied with its request for P/B reforms and plans to update the list monthly. We expect to see a wide range of companies proposing measures to improve P/B and governance with their full-year results and medium-term business plans. We believe it should be a big year for structural change at the macro and micro levels in 2024, and these changes should provide real catalysts for Japanese stocks.

On the other hand, the outlook for the US economy is uncertain. We think three patterns are possible: (1) no landing (with both the neutral interest rate and productivity rising), (2) soft landing (with inflation declining as demand weakens), and (3) hard landing (with the Fed resuming rate hikes in response to resurgent inflation, similar to the early 1980s). Japan is likely to succeed in exiting deflation if either of the first two patterns prevails; our US economist expects the second, a soft landing (for details, see our 22 November [US Economic Weekly](#)).

Since the pandemic, the US economy has been marked by separate cycles for the manufacturing and nonmanufacturing sectors. It would not be surprising if a weakening of the nonmanufacturing sector, which accounts for 80% of the US economy, were to

Exhibit 12: TOPIX RP margin (fiscal year ending in Mar or Feb, ex SBG)

TOPIX RP margin continued to increase



Source: BofA Global Research, QUICK

Note: based on TOPIX companies with fiscal year ending on February and March. Dotted line shows 4-quarter MA.

BofA GLOBAL RESEARCH

dampen inflation while the manufacturing cycle enters an upturn. Japan's corporate earnings correlate highly with the manufacturing cycle. In the case of a hard landing, there is a risk, in 2024, of rapid yen appreciation crushing inflation expectations in Japan.

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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%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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