

Japan Equity Strategy

1Q review and market outlook: 1Q results suggest market will rise in Oct-Dec

Investment Strategy

1Q results suggest market will rise in Oct-Dec

The Apr-Jun (1Q) FY23 results have mostly concluded and suggest the market could rise in Oct-Dec. Given the strong progress toward full-year guidance that has been largely below the consensus, we believe companies are likely to revise their forecasts upward when announcing interim results. With earnings recovering, this should set the stage for an accelerated rise in the market during Oct-Dec.

Also interesting is that the number of companies announcing share buybacks with 1Q results was the highest since FY3/13. If there is also a large increase in the number of companies announcing share buybacks with the interim results, it would further underscore the change in attitude toward shareholder payouts. We list the companies that reported 1Q results with at least 25% of full-year guidance and with consensus estimates higher than guidance (Exhibit 11).

Summer risks: China economy and US interest rates

We believe risks in the summer could come from a weakening China economy and accelerated rise in US interest rates. If the interim results indicate that China's economic slowdown is serious, it would put a dampener on our scenario for a rising market in Oct-Dec. However, the consensus for China's real GDP growth has been declining and drawing closer to the government's 5% target. If China considers 5% its "line of defense", it would probably come out with some serious fiscal and monetary stimulus measures. In other words, it seems most advisable to remain cautious until China reacts.

The view on US interest rates so far was that rapid rate hikes lead to recession and then large rate cuts, which was pushing the yield spread shrinking (short end vs. long end) and making it difficult for long-term rates to rise. However, since that view has changed to expectations that there will be no recession, the policy rate will remain high, and future rate cuts will be smaller, short-term rates have not declined while only long-term rates have corrected upwards, resulting in the yield spreads to widen. If inflation weakens further in Oct-Dec and thereby strengthens the case for halting rate hikes, the market will probably become more amenable to pricing in a scenario of rate cuts in 2024 (because the real policy rate rises if the inflation rate falls while the nominal policy rate remains largely flat, making room for adjusting the nominal policy rate with a rate cut).

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Investment Strategy
Japan

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

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

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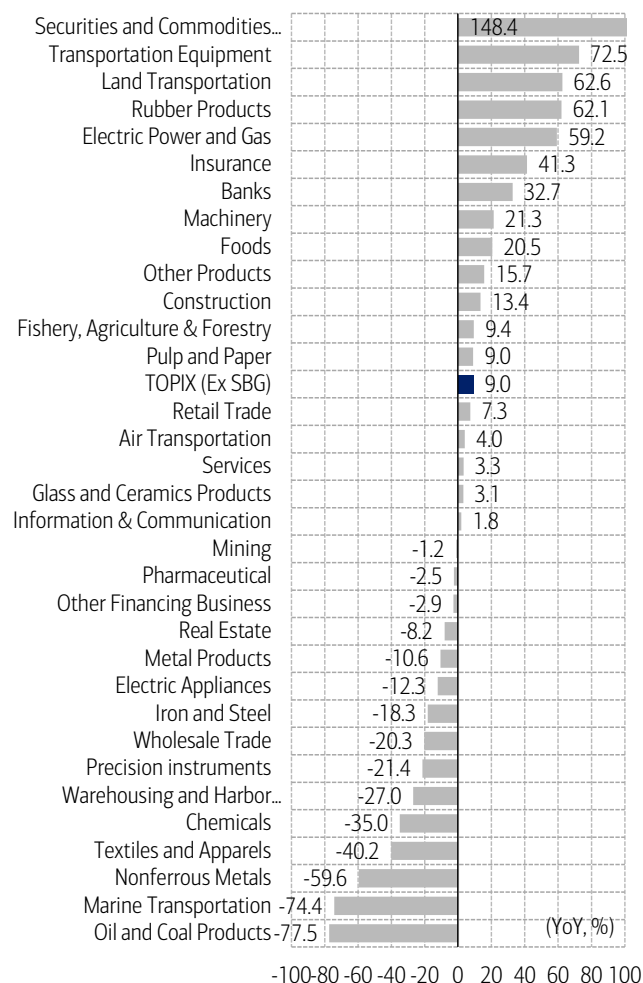
1Q results hint at market rise in Oct-Dec

The 1Q FY3/24 results have been mostly concluded and seem strong overall, suggesting a rise in the market in Oct-Dec. TOPIX companies with fiscal years ending February or March (excluding SoftBank Group) reported YoY growth of 7.7% YoY in sales, 15.2% in operating profit, 9.0% in recurring profit, and 12.7% in net profit (Exhibit 3).

It is still the case that the sectors with relatively weak earnings growth during the pandemic have had relatively high earnings growth since then (Exhibit 1). The sectors with the highest earnings growth were domestic demand-driven sectors like finance, land transportation, construction, and retail, as well as those sectors that benefited the most from an easing of supply-chain pressures and declining materials prices, namely transportation equipment, rubber products, electric power & gas, and pulp & paper. In contrast, the sectors that benefited from the post-pandemic sharp rise in commodity and materials prices have reported large earnings declines, including oil & coal products, marine transportation, nonferrous metals, and chemicals. The manufacturing sectors that had sharp increases in demand following the pandemic have been weighed down by inventory adjustments and further weakened by China's economic stagnation.

Exhibit 1: Apr-Jun recurring profit by sector

Overall domestic demand-oriented sectors saw large RP growth

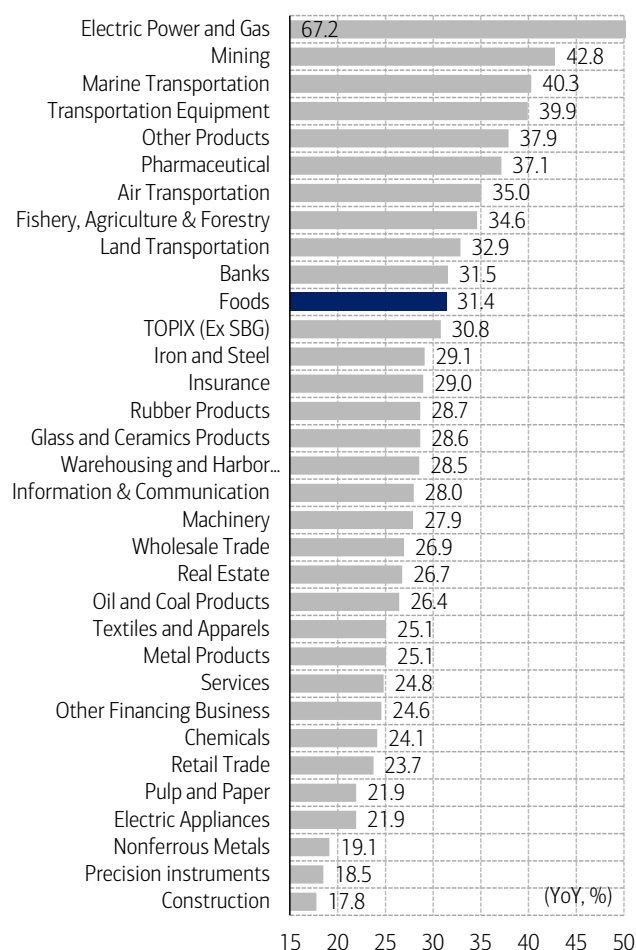


Source: BofA Global Research, QUICK

Note: based on TOPIX companies with fiscal year ending in Mar and Feb. SBG = SoftBank Group.
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Exhibit 2: Apr-Jun progress rate by sector (recurring profit, vs. company guidance)

Electric power and gas, mining and marine transportation show relatively high progress rate vs. full fiscal year guidance



Source: BofA Global Research, QUICK

Note: based on TOPIX companies with fiscal year ending in Mar and Feb. SBG = SoftBank Group.
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Exhibit 3: Apr-Jun (1Q) results (aggregate of FY2/24 and FY3/24 companies)

Overall 1Q RP (ex-SBG) increased 9.0%, delivering 30.8% against FY guidance

Sector names	Apr-Jun results (FY3/24 & FY2/24, YoY%)				Apr-Jun progress rate (FY3/24 & FY2/24, % vs. full year company estimate)			
	Sales	Operating profit	Recurring profit	Net Income	Sales	Operating profit	Recurring profit	Net Income
TOPIX	7.6	15.2	32.9	46.2	24.2	25.3	30.4	31.7
TOPIX (Ex SBG)	7.7	15.2	9.0	12.7	23.9	25.3	30.8	32.8
Manufacturing industries	8.6	1.1	1.6	12.2	24.2	23.8	30.3	31.8
Non-manufacturing industries	2.9	37.2	105.3	144.4	23.6	27.3	30.9	31.0
Non-manufacturing industries(Ex SBG)	2.9	37.2	9.9	2.1	23.0	27.3	31.9	34.0
Financial industries	22.4	21.3	32.6	49.5	30.5	23.6	30.0	32.7
Foreign demand oriented	14.7	31.7	29.3	46.5	24.6	24.2	31.1	32.6
Electric Appliances	4.1	-13.7	-12.3	0.3	23.4	16.8	21.9	21.4
Transportation Equipment	24.0	92.0	72.5	82.6	25.6	31.2	39.9	41.8
Machinery	12.4	30.6	21.3	27.6	24.0	24.5	27.9	28.2
Precision instruments	6.3	-22.9	-21.4	131.5	23.3	17.7	18.5	47.6
Cyclical	-4.2	-33.8	-38.4	-39.8	23.4	21.6	26.6	28.6
Chemicals	-4.6	-38.2	-35.0	-25.6	22.7	18.5	24.1	24.9
Wholesale Trade	-5.6	-6.1	-20.3	-20.6	24.0	25.4	26.9	29.3
Iron and Steel	7.1	-16.2	-18.3	-17.1	24.1	25.0	29.1	35.4
Nonferrous Metals	0.6	-56.0	-59.6	-69.5	23.9	12.0	19.1	17.1
Glass and Ceramics Products	7.6	3.7	3.1	13.1	23.4	22.9	28.6	30.2
Textiles and Apparels	-1.4	-45.1	-40.2	-48.0	22.9	18.2	25.1	22.9
Oil and Coal Products	-12.9	-78.5	-77.5	-82.1	23.0	23.9	26.4	25.1
Rubber Products	14.6	130.8	62.1	75.3	24.6	24.8	28.7	29.3
Marine Transportation	-7.9	-32.4	-74.4	-76.5	25.7	28.0	40.3	37.0
Pulp and Paper	7.5	87.4	9.0	12.9	20.2	18.1	21.9	20.3
Mining	8.4	38.5	-1.2	2.9	23.5	38.4	42.8	41.4
Domestic demand oriented	8.0	13.7	1349.1	4.0	23.7	24.2	27.0	27.5
Retail Trade	6.9	10.8	7.3	-0.4	24.2	23.0	23.7	27.1
Information & Communication	5.7	-1.2	1.8	1.3	23.6	24.9	28.0	28.5
Land Transportation	11.6	63.5	62.6	37.0	23.7	30.9	32.9	32.8
Construction	13.6	19.2	13.4	22.3	21.9	14.7	17.8	17.7
Other Products	9.5	21.2	15.7	36.5	24.9	29.7	37.9	42.9
Services	4.8	-0.6	3.3	-31.9	24.8	21.5	24.8	16.3
Metal Products	8.6	-7.3	-10.6	-3.5	23.5	16.5	25.1	27.3
Air Transportation	35.2	3.3	4.0	4.0	23.1	29.3	35.0	38.7
Warehousing and Harbor Transportation	-13.1	-30.0	-27.0	-33.8	23.4	25.6	28.5	26.7
Financials	20.0	5.6	26.5	41.4	27.6	24.5	29.5	32.2
Banks	35.0	--	32.7	45.5	26.9	--	31.5	35.6
Insurance	12.5	--	41.3	57.9	32.0	--	29.0	30.0
Securities and Commodities Futures	79.1	318.5	148.4	493.4	--	--	--	--
Real Estate	2.8	-5.9	-8.2	-1.1	22.9	24.8	26.7	28.7
Other Financing Business	1.1	-4.1	-2.9	20.8	24.1	23.6	24.6	23.3
Defensives	10.1	249.9	216.9	259.1	23.9	43.4	49.8	49.5
Pharmaceutical	6.9	12.4	-2.5	-8.7	25.8	32.1	37.1	34.4
Electric Power and Gas	13.0	25.5	59.2	15.1	22.7	61.2	67.2	66.7
Foods	7.5	16.1	20.5	55.6	24.3	28.4	31.4	36.8
Fishery, Agriculture & Forestry	6.5	24.6	9.4	9.3	24.5	28.8	34.6	30.2

Source: BofA Global Research, QUICK

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Progress toward full-year recurring profit guidance is high at 30.8%, an indication of how conservative that guidance is. Further evidence of this comes from consensus estimates, which are well above company forecasts (Exhibit 4). Also given the significant improvement in the ratio of companies with a positive earnings surprise, we expect consensus estimates to be raised (Exhibit 6).

Exhibit 4: Consensus forecasts vs. company guidance (aggregate of FY2/24 and FY3/24 companies)

Upbeat consensus vs. guidance suggests guidance upgrade potential

Sector	Sales (%)	Operating profits (%)	Recurring profits (%)	Net profits (%)
Securities and Commodities Futures	1,234.3	23.1	326.1	616.2
Wholesale Trade	306.8	23.6	160.9	3.7
Other Financing Business	285.1	165.4	134.1	1.3
Air Transportation	1.2	95.9	112.1	23.0
Information & Communication	2.5	5.6	103.9	73.5
Information & Communication (ex SBG)	-12.0	5.6	66.0	43.7
Precision instruments	18.5	4.6	100.4	22.4
Banks	4,938.3	--	91.8	4.7
Iron and Steel	1.3	93.3	89.6	-2.5
Textiles and Apparels	0.4	83.5	84.5	4.5
Electric Power and Gas	-2.1	87.8	63.3	55.2
Foods	0.5	25.9	34.6	2.8
Transportation Equipment	4.2	18.9	29.1	19.3
Electric Appliances	1.1	10.8	24.9	9.6
Oil and Coal Products	-0.2	14.9	15.3	16.8
Other Products	2.5	12.4	15.2	12.7
Mining	0.2	13.8	14.0	11.5
Services	0.2	10.8	13.2	9.4
Machinery	3.2	11.0	10.6	6.6
Glass and Ceramics Products	-2.0	2.5	10.3	6.9
Metal Products	0.4	9.4	10.1	11.6
Construction	-0.3	3.2	8.5	5.3
Rubber Products	1.3	4.6	8.0	4.7
Land Transportation	-0.8	5.3	6.8	6.6
Pulp and Paper	-2.6	3.2	6.3	4.9
Retail Trade	1.1	5.9	6.3	4.5
Nonferrous Metals	-0.3	0.8	5.9	3.3
Chemicals	-0.5	3.0	4.9	3.8
Marine Transportation	1.6	0.7	4.9	7.4
Pharmaceutical	1.1	8.8	4.5	15.7
Real Estate	0.4	1.6	2.6	2.2
Insurance	103.4	--	1.2	1.6
Warehousing and Harbor Transportation	-1.0	0.9	0.7	0.4
Fishery, Agriculture & Forestry	-1.2	-4.8	-3.3	-9.8
Total	22.0	15.0	40.4	14.5
Total (ex SBG)	20.9	15.0	37.6	12.5

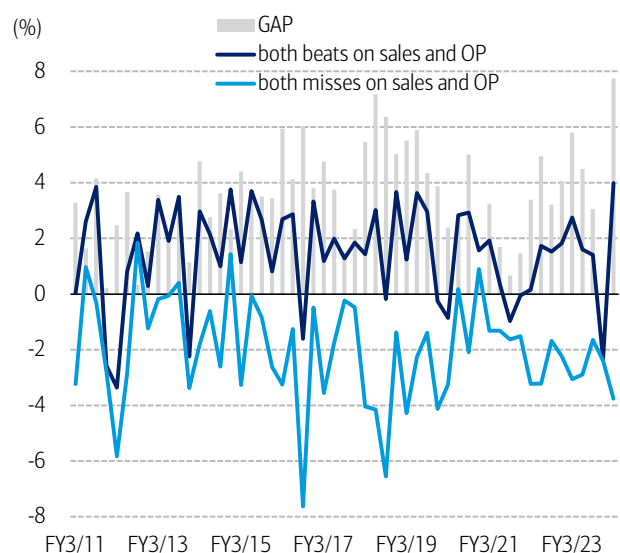
Source: BofA Global Research, QUICK

Note: based on TOPIX companies with fiscal year ending in Mar and Feb. SBG = SoftBank Group. Quick consensus.

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Exhibit 5: Gap between beats and misses since 2010 (5-day relative average performance, vs. TOPIX)

Widening gap hints at investors' selective stance



Source: Bloomberg, BofA Global Research

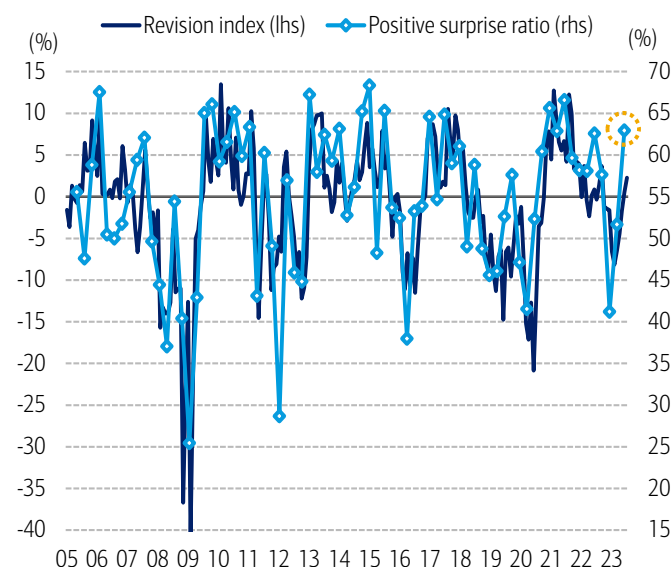
Note: Average 5-day share price change post earnings reporting.

Based on Quick consensus OP.

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Exhibit 6: TOPIX revision index and results surprise ratio

Substantial improvement in positive surprise ratio could lead to further increase in earnings revision index



Source: BofA Global Research, Refinitiv, Bloomberg

Note: The results positive surprise ratio is the percentage of companies that reported quarterly EPS that beat the Bloomberg consensus estimate. It is a mechanical calculation that does not take into account the degree of divergence. The revision index (I/B/E/S consensus estimate for 12-month forward EPS) is for one quarter ahead.

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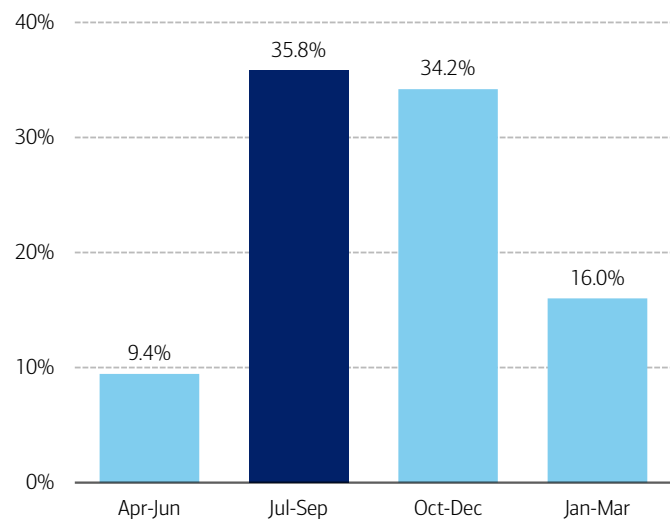
Revisions to earnings guidance tend to happen more with the release of interim results, and we believe the number of companies announcing an upward revision with their 1H FY3/24 results is likely to increase (Exhibit 7). The typical pattern during a period of recovering earnings is that the market shows strong upward momentum in Oct-Dec (conversely, it is usually deterioration in earnings that is the primary cause of collapsing stock prices toward the end of the year; Exhibit 8). If a string of upward revisions pushes the revisions index higher, the P/E multiples tied to that may also rise toward a peak (P/E multiples tend to peak when the revision index peaks in positive territory).

Also notable is that the number of companies announcing share buybacks with 1Q results was at its highest since FY3/13 (Exhibit 9). Normally, the number of share buybacks announced tends to be higher with interim results than with 1Q results (Exhibit 10). If there is a large increase in the number of companies announcing share buybacks with interim results as there was following 1Q results, it would further underscore the change in attitude toward shareholder payouts. Overall, 1Q results suggest a rise in the market in Oct-Dec.

Exhibit 11 lists the companies that reported 1Q recurring profits that were at least 25% of full-year guidance and that have consensus estimates higher than guidance. We limit the list to companies with a gap of less than 20% between their most recent P/B and their 5yr-average P/B. These are probably the companies with the highest expectation of an upward revision with interim results.

Exhibit 7: The seasonality of corporate guidance revisions

Corporates tend to revise their annual RP guidance in 2Q



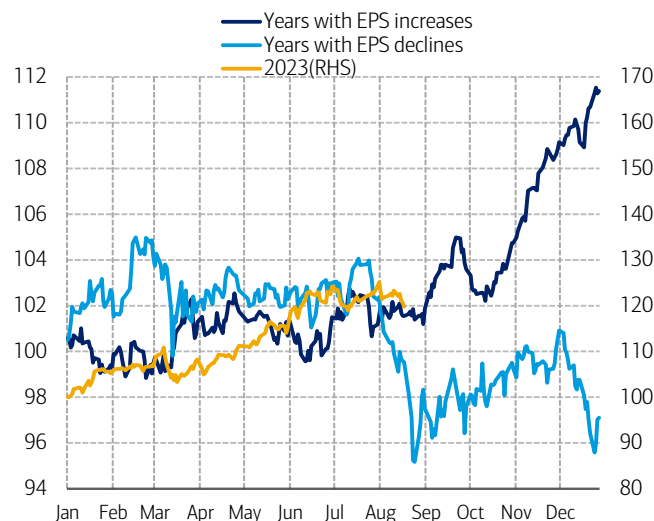
Source: BofA Global Research, QUICK

Note: we calculate the simple average of the number of FY corporate recurring profits guidance revisions over the last 5 years (FY2018-FY2022).

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Exhibit 8: The seasonality of TOPIX performance by EPS changes

2023 appears to follow those years with EPS increases



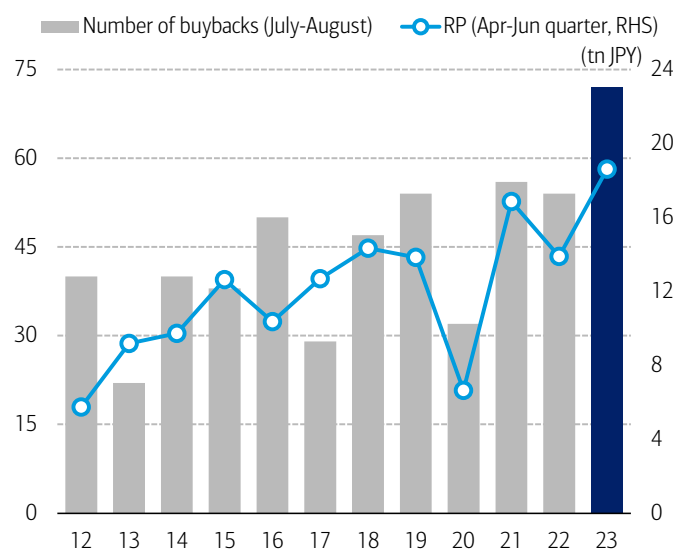
Source: BofA Global Research, QUICK

Note: We calculate the average TOPIX performance based on annual EPS changes since 2010. Previous year end price = 100.

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Exhibit 9: 1Q recurring profit and number of share buybacks (Jul-Aug)

Record profits = record number of buyback announcements



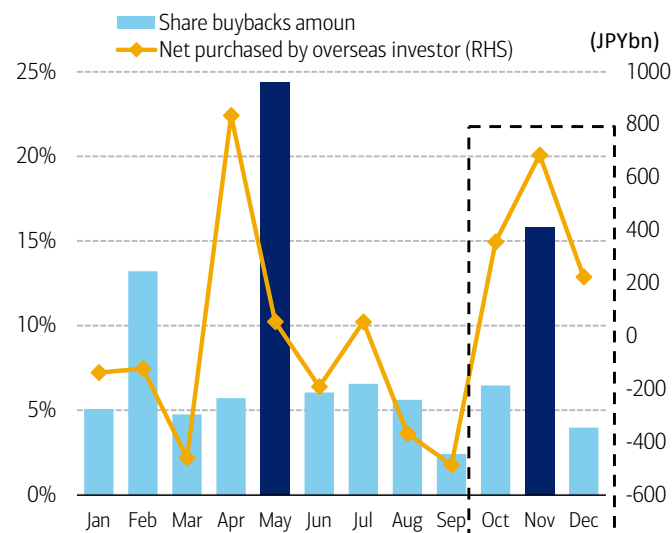
Source: BofA Global Research, QUICK

Based on TOPIX companies with fiscal year ending in March.

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Exhibit 10: The seasonality of share buybacks and net purchases by overseas investors

Share buybacks' rebound in Oct-Dec could lead to overseas investors' revisit of Japan equities



Source: BofA Global Research, QUICK

Note: based on TOPIX500 constituents. From Jan 2011 to Mar 2022.

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Exhibit 11: Companies with 1Q progress rate above 25%, company guidance below market consensus and P/B gap vs. 5-yr average below 20%

The following companies are likely to revise their forecasts upward when announcing interim results

TSE code	Company name	Sector	MKT CAP (tn JPY)	1Q progress rate (RP, vs CoE, %)	% RP consensus vs. CoE	ROE (Quick consensus)	Current P/B (A)	5-year average P/B (B)	Gap (% A/B)
4502	TAKEDA PHARMACEUTICAL	Pharmaceutical	7,002	73.0	39.1	3.9	1.0	1.2	-16.5
3116	TOYOTA BOSHOKU	Transportation Equipment	503	38.4	32.3	12.8	1.2	1.1	12.8
9001	TOBU RAILWAY	Land Transportation	837	55.5	29.7	7.5	1.7	1.5	13.6
7203	TOYOTA MOTOR	Transportation Equipment	38,675	46.6	29.0	11.5	1.1	1.0	4.1
5019	IDEMITSU KOSAN	Oil & Coal Products	876	38.5	27.5	7.8	0.5	0.7	-26.7
7270	SUBARU	Transportation Equipment	1,999	38.5	23.8	12.0	0.9	1.0	-12.8
7261	MAZDA MOTOR	Transportation Equipment	893	37.2	23.1	9.9	0.6	0.5	17.6
7974	NINTENDO	Other Products	8,171	52.9	20.8	17.3	3.1	3.5	-10.4
4091	NIPPON SANJO HOLDINGS	Chemicals	1,443	35.5	18.2	11.1	1.8	1.9	-5.1
6981	MURATA MANUFACTURING	Electric Appliances	5,383	28.5	17.1	8.1	2.1	2.4	-13.9
6954	FANUC	Electric Appliances	4,047	27.7	16.1	7.9	2.4	2.9	-17.8
5020	ENEOS HOLDINGS	Oil & Coal Products	1,565	28.4	15.8	6.9	0.5	0.6	-11.0
7267	HONDA MOTOR	Transportation Equipment	7,999	43.5	15.3	8.0	0.6	0.6	2.1
6301	KOMATSU	Machinery	3,870	33.5	13.6	13.1	1.4	1.3	3.9
9107	KAWASAKI KISEN	Marine Transportation	1,206	36.4	13.3	9.4	0.8	1.0	-22.4
9022	CENTRAL JAPAN RAILWAY	Land Transportation	3,781	36.2	12.5	7.4	0.9	1.0	-5.1
6201	TOYOTA INDUSTRIES	Transportation Equipment	3,260	42.1	11.0	5.4	0.7	0.7	-6.2
6594	NIDEC	Electric Appliances	4,504	41.0	10.6	12.6	2.9	4.8	-40.4
7259	AININ	Transportation Equipment	1,344	27.2	10.5	7.7	0.7	0.7	-7.9
4403	NOF	Chemicals	500	32.2	10.4	12.7	2.0	1.9	1.9
9024	SEIBU HOLDINGS	Land Transportation	519	46.1	10.3	6.3	1.3	1.2	2.2
6305	HITACHI CONSTRUCTION MACHINERY	Machinery	904	33.3	9.5	13.4	1.3	1.2	2.5
8697	JAPAN EXCHANGE GROUP	Other Financing Business	1,375	36.6	9.5	16.2	4.4	3.9	12.2
7211	MITSUBISHI MOTORS	Transportation Equipment	822	36.4	9.4	14.4	0.9	0.9	4.1
3861	OJI HOLDINGS	Pulp & Paper	585	28.9	8.9	7.3	0.6	0.8	-22.4
2670	ABC-MART	Retail Trade	671	38.9	8.2	10.7	2.2	1.9	14.2
4613	KANSAI PAINT	Chemicals	570	37.7	7.7	18.6	1.8	2.1	-12.6
9020	EAST JAPAN RAILWAY	Land Transportation	3,039	32.0	7.5	6.0	1.2	1.1	6.6
9021	WEST JAPAN RAILWAY	Land Transportation	1,499	48.9	6.4	6.7	1.4	1.3	8.0
2002	NISSHIN SEIFUN GROUP	Foods	554	33.2	6.1	6.5	1.2	1.3	-8.3
6178	JAPAN POST HOLDINGS	Services	3,703	27.9	5.4	2.3	0.4	0.3	14.6
5334	NITERRA	Glass & Ceramics Products	667	37.2	5.3	12.6	1.1	1.0	14.3
4523	EISAI	Pharmaceutical	2,774	54.4	5.3	5.0	3.2	3.2	-1.8
7181	JAPAN POST INSURANCE	Insurance	853	30.9	5.2	3.5	0.3	0.4	-31.5
9101	NIPPON YUSEN	Marine Transportation	1,922	40.6	5.0		0.7	0.8	-10.4
2413	M3	Services	1,942	26.4	4.7	16.4	6.1	16.0	-61.7
6963	ROHM	Electric Appliances	1,259	32.2	4.4	7.7	1.3	1.2	8.1
3231	NOMURA REAL ESTATE HOLDINGS	Real Estate	639	37.7	4.3	9.9	0.9	0.8	11.8
9007	ODAKYU ELECTRIC RAILWAY	Land Transportation	805	47.1	4.0	14.2	2.0	2.3	-13.8
4536	SANTEN PHARMACEUTICAL	Pharmaceutical	524	43.2	3.8	7.8	1.7	2.0	-14.5
1925	DAIWA HOUSE INDUSTRY	Construction	2,584	25.7	3.7	11.0	1.1	1.2	-4.9
6841	YOKOGAWA ELECTRIC	Electric Appliances	749	30.5	3.5	11.2	1.8	1.8	2.2
8801	MITSUI FUDOSAN	Real Estate	2,814	29.7	3.0	7.3	0.9	1.0	-3.2
1808	HASEKO	Construction	528	27.4	3.0	12.3	1.0	1.0	0.2
4581	TAISHO PHARMACEUTICAL HOLDINGS	Pharmaceutical	533	50.6	2.5	1.7	0.6	0.8	-18.9
2269	MEIJI HOLDINGS	Foods	1,083	25.4	2.4	7.2	1.4	1.8	-19.1
4021	NISSAN CHEMICAL	Chemicals	853	30.7	2.3	18.8	4.0	4.3	-7.9
6273	SMC	Machinery	4,617	29.6	1.0	10.5	2.5	2.7	-7.6
3289	TOKYU FUDOSAN HOLDINGS	Real Estate	620	32.4	0.9	9.0	0.9	0.8	12.9
4732	USS	Services	649	26.4	0.8	15.7	3.4	2.8	19.3
5713	SUMITOMO METAL MINING	Nonferrous Metals	1,253	32.3	0.2	3.4	0.7	0.9	-22.6

Source: BofA Global Research, QUICK

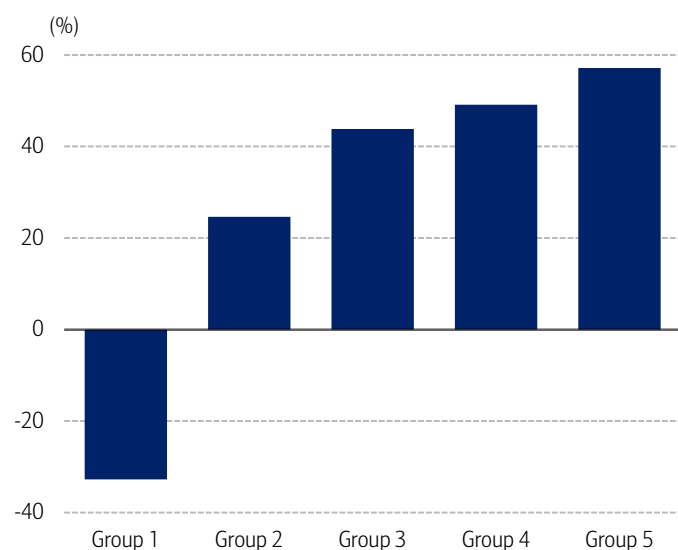
Note: Screening criteria: 1) TOPIX companies with fiscal year ending in Mar or Feb; 2) mkt cap above 500bnJPY; 3) RP consensus > CoE (FY1); 4) Apr-Jun progress rate above 25% or above 5-yr average where data is available; 5) P/B gap between 5-yr average less than 20%. Based on QUICK consensus. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

Summer risks: China economy and US interest rates

Next we consider whether there are any blind spots in the above view. There are two risks that bear close watching. The first is weakness in China economy. If the interim results indicate that China's economic slowdown is serious, it will put a dampener on our scenario for a rising market in Oct-Dec. We note that the stocks with a higher proportion of sales in China had commensurately worse results in 1Q (Exhibit 12). Furthermore, that share prices of China-related stocks have remained high will amplify the negative impact on the market (Exhibit 13).

Exhibit 12: RP growth by 5 China sales ratio

Companies with high China sales ratio delivered weak RP growth in Apr-Jun quarter



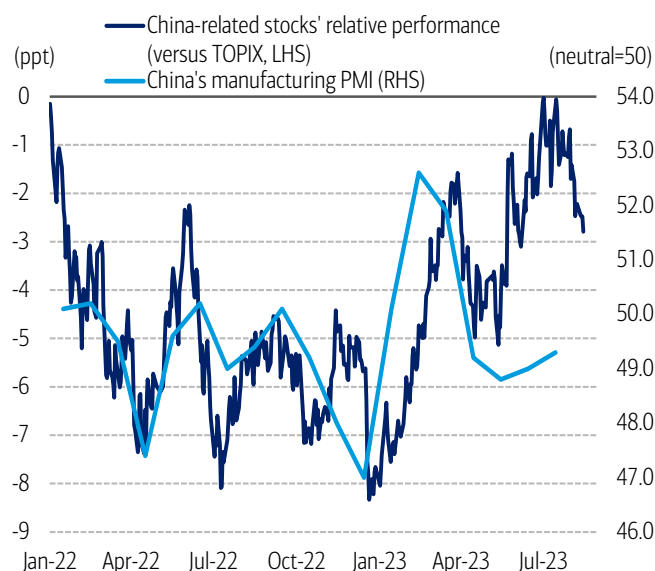
Source: QUICK, Bloomberg, BofA Global Research

Note: we divide the companies with China sales exposure into 5 groups (group 1 the highest), then calculate the simple average of Apr-Jun RP YoY growth by 5 groups.

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Exhibit 13: The relative performance of China-related stocks (vs. TOPIX) and China manufacturing PMI

The correction of China-related stocks deepened



Source: QUICK, BofA Global Research

Note: we screen China-related names using criteria including: 1) mkt cap above 200 bnJPY; 2) China sales ratio above 20%.

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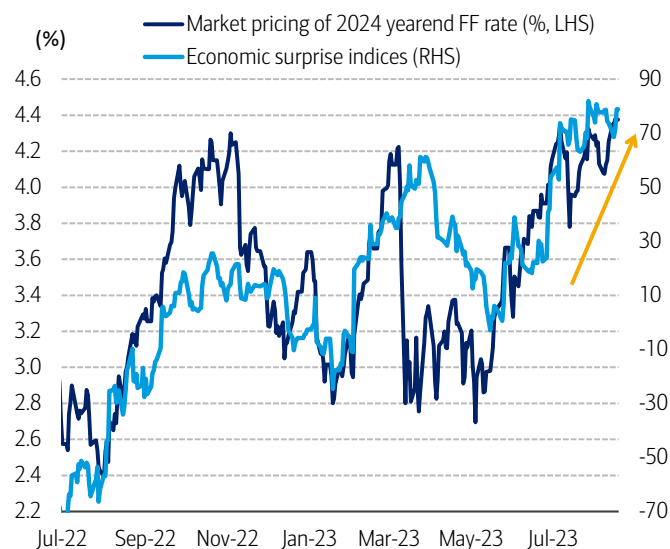
Overall, China's economy bottomed during the Shanghai lockdown in 2022 and the economic data indicated that a moderate recovery is underway, albeit much weaker than expected. Additionally, the consensus has been declining and drawing closer to the government's 5% target for real GDP growth. If China considers 5% its "line of defense", it will probably come out with some serious fiscal and monetary stimulus measures (our China economist expects an increase in fiscal and monetary stimulus measures; for details, see 15 Aug [China Watch](#)). In other words, it is best to move cautiously until China reacts. There is still a risk that the market will start worrying more about the difficult-to-read China economy in Jul-Sep. On the other hand, if that prompts the China government to implement fiscal/monetary stimulus measures and those concerns ease in Oct-Dec, the scenario we currently view as most likely will probably play out.

The second risk to the market is an accelerated increase in US interest rates. The view so far was that rapid rate hikes from the Fed lead to a US recession and then large rate cuts, which was pushing the short end vs. long end yield spread shrinking and making it difficult for long-term rates to rise. However, since that view has changed to expectations that there will be no recession, the policy rate will remain high, and future rate cuts will be smaller, short-term rates have not declined while only long-term rates have corrected upwards, causing yield spreads to widen (Exhibit 14; our US economist has also changed his view and now believes recession can be avoided; for details, see 11 Aug [US Economic Weekly](#)). This would spark an increase in government bond issuance delay fiscal tightening.

If increases in inflation expectations are curtailed by a weakening of inflation and nominal interest rates rise, it would likely lead directly to higher real rates. Expectations of no-landing would destabilize the market.

Exhibit 14: Market pricing of 2024 FF rate and US economic surprise index

No-landing expectation could push back rate-cut expectation

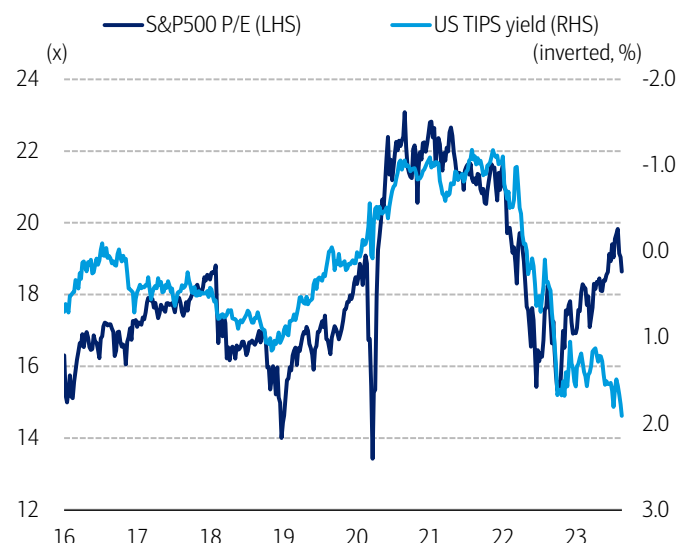


Source: BofA Global Research, Bloomberg

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Exhibit 15: S&P500 12-month forward P/E and US TIPS yield

The real rate is approaching 2%



Source: BofA Global Research, Bloomberg, Refinitiv

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

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Meanwhile, as explained by New York Fed President John Williams on 4 August, if the inflation rate falls while the nominal policy rate is held steady, it will push the real policy rate higher and thereby create room to adjust the nominal policy rate by cutting rates. If inflation weakens further in Oct-Dec and strengthens the case for halting rate hikes, the market will probably become more amenable to pricing in a scenario of rate cuts in 2024. Interest rates are unlikely to keep rising forever.

Overall, it is usually the case that when liquidity drops in Jul-Sep, the market changes as if spooked by the summer risks. It is better to be more defensive for now, and domestic demand-driven value stocks and defensive stocks will probably outperform. At the same time, we believe our scenario for a rise in the market in Oct-Dec remains viable.

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^{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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