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## Japan Quantitative Strategy | Japan

# When Will the Preference for Domestic Market/Defensive Stocks Flip?

With tariffs causing major uncertainties, investors remain enamored of domestic market and defensive names. Fundamentally, however, these are a temporary haven. Turnaround timing will probably come, at the latest, in around July-Aug, when 1Q results are out and the 90-day tariff suspension ends.

## Key Takeaways

- Recent preferences center on 1) domestic demand-related names, especially companies whose businesses rely on intangible assets, and 2) defensive names.
- Analyst dispersion confirms that this preference is rooted in a desire to avoid uncertainty.
- However, these names are ultimately a temporary haven, and positions will be unwound at some point.
- One crucial question is whether new-FY guidance is unveiled at full-year results.
- Share prices floundered for companies that delayed guidance releases in 2020.

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[Initial Reaction of Japanese Stock Market to Reciprocal Tariffs \(3 Apr 2025\)](#)[Initial Reaction of Japanese Stock Market to Reciprocal Tariffs \(Cont'd\): Focus of Correction This Time is Long-term Momentum \(7 Apr 2025\)](#)[Despite Reciprocal Tariff Pause, Pre-Tariff-Announcement Preference for Domestic Demand-driven Stocks Intact \(11 Apr 2025\)](#)[Our Thoughts on Factor Moves Amidst Tariffs \(4 Apr 2025\)](#)

MORGAN STANLEY MUFG SECURITIES CO., LTD. +

**Ukyo Haraguchi, CFA**

Quantitative Strategist

Ukyo.Haraguchi@morganstanleymufg.com

+81 3 6836-8925

MORGAN STANLEY &amp; CO. INTERNATIONAL PLC+

**Ronald Ho, CFA**

Quantitative Analyst

Ronald.Ho@morganstanley.com

+44 20 7425-2722

**Stephan Heller**

Quantitative Analyst

Stephan.Heller@morganstanley.com

+44 20 7425-9753

**Stephan M Kessler**

Quantitative Analyst

Stephan.Kessler@morganstanley.com

+44 20 7425-2854

MORGAN STANLEY MUFG SECURITIES CO., LTD. +

**Sho Nakazawa**

Equity Strategist

Sho.Nakazawa@morganstanleymufg.com

+81 3 6836-8926

**Kanji Ohi, CFA**

Quantitative Strategist

Kanji.Ohi@morganstanleymufg.com

+81 3 6836-8924

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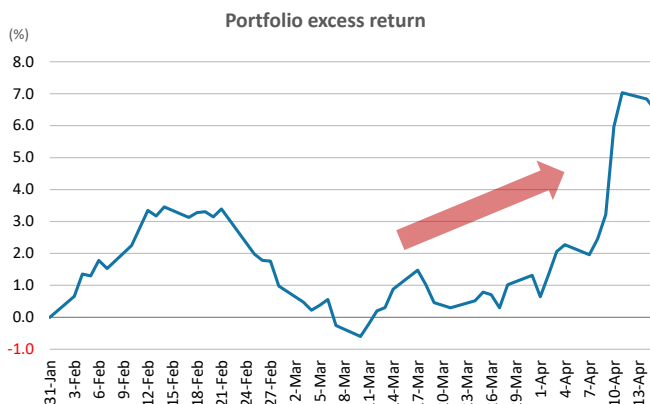
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# When Will the Preference for Domestic Market/Defensive Stocks Flip?

The markets have been beset by uncertainty since President Trump announced reciprocal tariffs on April 2 (local time). In the afternoon of April 9, the president announced a 90-day suspension on tariff hikes for certain countries and regions, triggering a temporary positive response from the equity market ([Despite Reciprocal Tariff Pause, Pre-Tariff-Announcement Preference for Domestic Demand-driven Stocks Intact; Apr 11, 2025](#)). However, the market remained at the mercy of the daily news flows, including developments related to tariffs on autos and semiconductors.

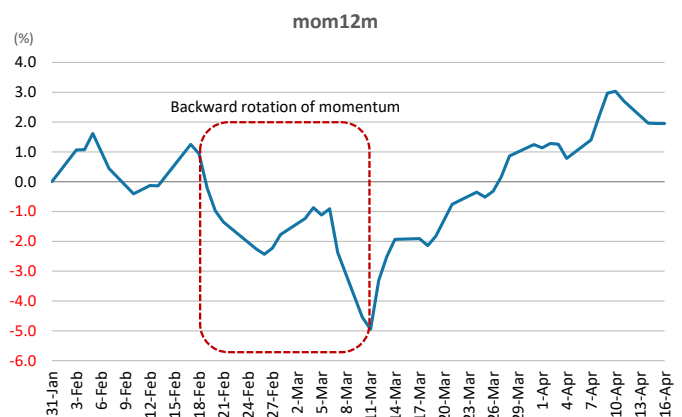
Amid all this uncertainty, we can point out two main stock picking trends. The first is the preference for domestic market-dependent names, in particular companies that trade in intangible assets, which are likely to be out of scope for tariffs (software, IP; we call these “intangible-related stocks”). As we pointed out in our Apr 11, 2025 report above, even on April 10, immediately following the announcement of the temporary suspension of reciprocal tariffs, these names were in strong demand with investors. Looking at performance for the names listed in the same report (with the caveat that the list also includes names other than intangible-related stocks), we note a clear improvement from mid-March through early April ([Exhibit 1](#)). Performance had deteriorated from late-Feb through early March, but we think this mainly owed to a reversal in momentum for these intangible-related stocks ([Quant Matters Japan \(Mar 2025\); Mar 13, 2025](#)). For reference, we present factor returns for 12-month momentum in [Exhibit 2](#), which shows a broadly similar pattern with a bottom on around March 10.

**Exhibit 1:** Performance of list in our April 11 report: Rose between mid-March and early April



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research  
Note: Assuming equal weighted portfolio was constructed at end -Jan 25; Excess return against TOPIX500

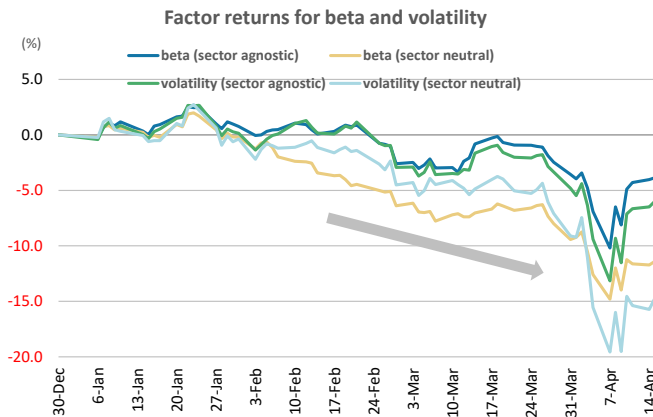
**Exhibit 2:** 12-month momentum factor return



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research  
Note: TOPIX500 universe

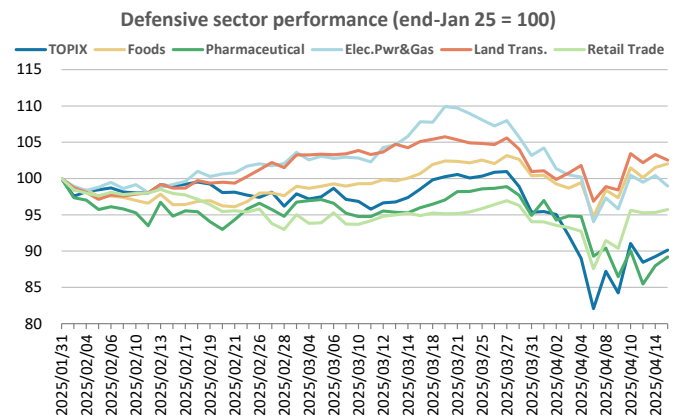
The second trend is a more direct preference for low-market-risk names. Described in terms of factors, this would equate to low-beta and low-volatility stocks ([Exhibit 3](#)). From a sector perspective, we would be looking at food, pharmaceuticals, electric power & gas, and other sectors recognized as defensive. These have outperformed TOPIX, with the exception of pharmaceuticals, which is expected to come within scope of the tariffs ([Exhibit 4](#)). Indeed, the Quick Monthly Survey for April confirms an increase in investor allocations to defensive sectors ([Exhibit 5](#)).

**Exhibit 3:** Beta and volatility factor returns



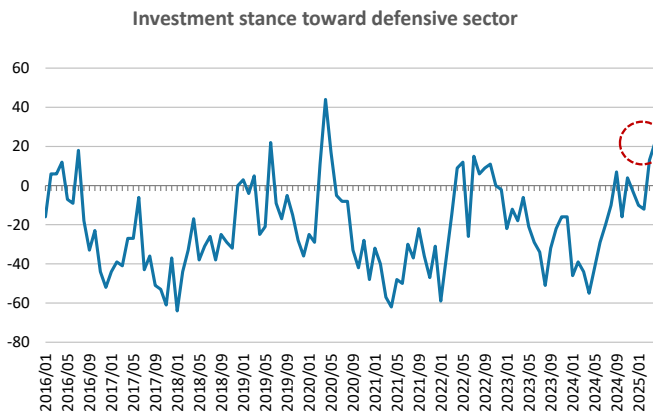
Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research  
Note: TOPIX500 universe; Beta against 36-month TOPIX return and 36-month volatility; Sector neutral based on TSE-33 sector

**Exhibit 4:** Defensive sector performance (end-Jan 2025=100):  
Outperformance against TOPIX, except for Pharma



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research

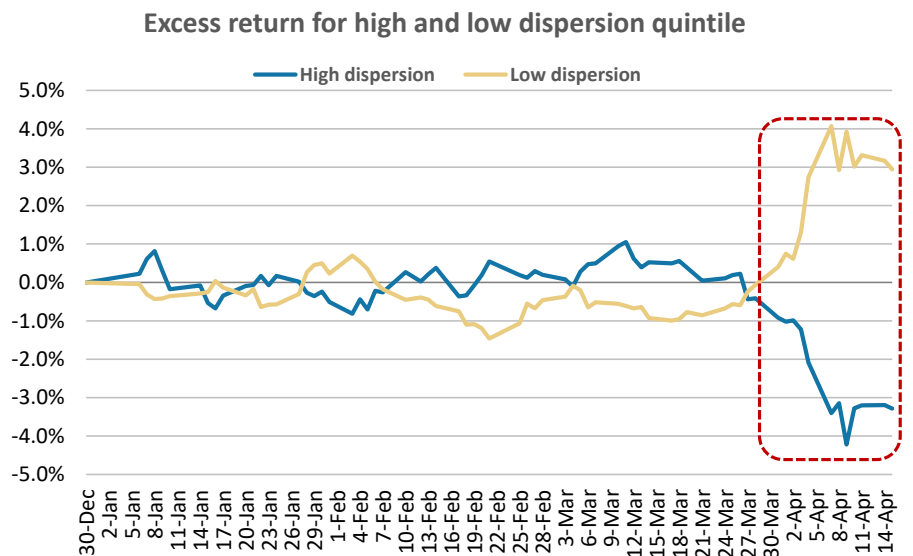
**Exhibit 5:** Investment stance toward defensive sector: Level  
since start of Covid pandemic



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research  
Note: QUICK monthly survey; investment stance is ratio of "overweight" responses minus "underweight" responses; pharmaceuticals, food, utilities, and telecom carriers used as defensive sectors; survey conducted from Apr 1st to 3rd

Another interesting observation is the evident desire to avoid uncertainty in corporate earnings. [Exhibit 6](#) shows excess returns versus the universe for the highest and lowest quintiles by analyst dispersion (defined as the absolute value for: forecast standard deviation divided by forecast average) calculated using next-FY NP forecasts. Since late March, investors have clearly been buying (selling) names with narrow (wide) dispersion. For reference, we list names with wide and narrow analyst dispersion in, respectively, [Exhibit 7](#) and [Exhibit 8](#).

**Exhibit 6:** Excess return for high and low analyst dispersion names: Low dispersion stocks have risen, high dispersion stocks have fallen



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research  
 Note: TOPIX500 universe, where 3 companies or more provide estimates

## Exhibit 7: 50 stocks with high analyst dispersion

Code	Stocks	TSE 17 sectors	Share price (JPY, 4/16)	Market cap (JPYmn, 4/16)	Forward P/E	P/B (X)
1963	JGC HOLDINGS	Const&Mat	1,051	272,859	-	0.67
2432	DENA	IT&Serv&Oth	3,353	409,554	12.4	1.63
2579	COCA-COLA BOTTLERS JAPAN HOLDI	Foods	2,486	455,606	39.4	0.93
3397	TORIDOLL HOLDINGS	Retail	4,333	382,998	77.4	4.00
3401	TEIJIN	Raw Mat&Chem	1,132	223,985	8.7	0.47
3436	SUMCO	Const&Mat	856	299,820	42.8	0.51
3659	NEXON	IT&Serv&Oth	2,134	1,755,156	18.0	1.70
3994	MONEY FORWARD	IT&Serv&Oth	3,860	213,352	-	5.72
4004	RESONAC HOLDINGS	Raw Mat&Chem	2,460	454,857	17.1	0.67
4005	SUMITOMO CHEMICAL	Raw Mat&Chem	308	509,926	20.1	0.53
4061	DENKA	Raw Mat&Chem	1,894	167,680	163.2	0.54
4188	mitsubishi chemical group	Raw Mat&Chem	659	991,891	17.0	0.52
4502	TAKEDA PHARMACEUTICAL	Pharmaceutical	4,190	6,666,079	55.9	0.89
4503	ASTELLAS PHARMA	Pharmaceutical	1,323	2,393,279	169.1	1.58
4578	OTSUKA HOLDINGS	Pharmaceutical	6,772	3,738,311	13.0	1.31
4631	DIC	Raw Mat&Chem	2,553	242,936	10.1	0.60
4755	RAKUTEN GROUP	IT&Serv&Oth	760	1,637,561	-	1.76
4902	KONICA MINOLTA	Elec&Prec	403	202,423	-	0.37
4911	SHISEIDO	Raw Mat&Chem	2,280	912,000	151.8	1.44
5301	TOKAI CARBON	Const&Mat	853	191,764	16.5	0.63
5713	SUMITOMO METAL MINING	Steel&Nonfer	2,798	813,552	24.8	0.43
5938	LIXIL	Const&Mat	1,601	460,032	115.0	0.73
6395	TADANO	Machinery	927	120,008	7.9	0.62
6457	GLORY	Machinery	2,397	141,275	10.3	0.59
6472	NTN	Machinery	209	111,391	-	0.43
6481	THK	Machinery	3,341	433,852	20.8	0.98
6526	SOCIONEXT	Elec&Prec	1,429	256,546	14.1	1.89
6702	FUJITSU	Elec&Prec	2,869	5,940,975	24.0	3.03
6707	SANKEN ELECTRIC	Elec&Prec	6,126	153,751	3.0	0.91
6723	RENESAS ELECTRONICS	Elec&Prec	1,600	2,992,984	16.0	1.13
6753	SHARP	Elec&Prec	814	529,106	88.0	3.63
6963	ROHM	Elec&Prec	1,237	499,451	-	0.50
6965	HAMAMATSU PHOTONICS	Elec&Prec	1,173	387,194	19.5	1.11
6967	SHINKO ELECTRIC INDUSTRIES	Elec&Prec	5,907	798,461	44.3	2.86
6976	TAIYO YUDEN	Elec&Prec	2,084	271,375	52.0	0.78
7201	NISSAN MOTOR	Auto&TransEq	316	1,173,995	-	0.19
7205	HINO MOTORS	Auto&TransEq	414	237,876	-	1.88
7211	mitsubishi motors	Auto&TransEq	368	537,748	10.7	0.51
7732	TOPCON	Elec&Prec	3,186	345,307	-	3.26
8129	TOHO HOLDINGS	Wholesale	4,825	352,350	17.9	1.16
8267	AEON	Retail	3,970	3,461,541	85.5	3.26
9009	KEISEI ELECTRIC RAILWAY	Trans&Logi	1,409	728,782	10.0	1.34
9024	SEIBU HOLDINGS	Trans&Logi	3,352	1,084,248	3.3	2.27
9064	YAMATO HOLDINGS	Trans&Logi	1,960	706,393	17.8	1.09
9101	NIPPON YUSEN	Trans&Logi	4,412	2,033,932	4.2	0.65
9104	MITSUI O.S.K. LINES	Trans&Logi	4,778	1,733,309	4.2	0.65
9107	KAWASAKI KISEN	Trans&Logi	1,759	1,123,984	3.8	0.65
9401	TBS HOLDINGS	IT&Serv&Oth	4,306	713,035	16.0	0.66
9501	TOKYO ELECTRIC POWER COMPANY H	Elec.Pow/Gas	404	1,432,640	3.8	0.17
9984	SOFTBANK GROUP	IT&Serv&Oth	6,738	9,904,828	12.1	0.79

Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research

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## Exhibit 8: 50 stocks with low analyst dispersion

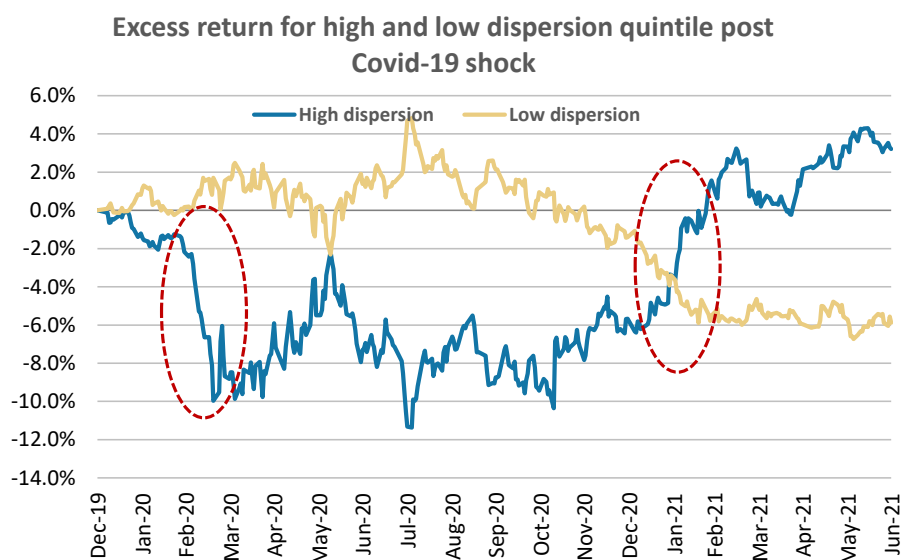
Code	Stocks	TSE 17 sectors	Share price (JPY, 4/16)	Market cap (JPYmn, 4/16)	Forward P/E	P/B (X)
2002	NISSHIN SEIFUN GROUP	Foods	1,823	529,724	13.5	1.03
2222	KOTOBUKI SPIRITS	Foods	2,043	317,932	26.7	7.89
2331	SOHGO SECURITY SERVICES	IT&Serv&Oth	1,123	572,955	19.7	1.59
2670	ABC-MART	Retail	2,610	646,285	14.2	1.76
2784	ALFRESA HOLDINGS	Wholesale	2,111	403,834	13.7	0.78
2871	NICHIREI	Foods	1,888	484,955	18.6	1.82
2875	TOYO SUISAN	Foods	8,844	980,632	14.4	1.83
3003	HULIC	Real Estate	1,455	1,117,306	10.3	1.33
3088	MATSUKIYOCOCOKARA	Retail	2,586	1,074,937	19.7	2.06
3231	NOMURA REAL ESTATE HOLDINGS	Real Estate	879	806,270	10.5	1.06
3289	TOKYU FUDOSAN HOLDINGS	Real Estate	979	704,715	9.6	0.92
3626	TIS	IT&Serv&Oth	4,037	953,674	20.0	2.85
4021	NISSAN CHEMICAL	Raw Mat&Chem	4,032	551,578	13.4	2.44
4043	TOKUYAMA	Raw Mat&Chem	2,522	181,807	7.3	0.71
4307	NOMURA RESEARCH INSTITUTE	IT&Serv&Oth	5,346	3,107,317	33.2	7.23
4684	OBIC	IT&Serv&Oth	4,730	2,355,540	32.5	4.96
4732	USS	IT&Serv&Oth	1,384	711,119	17.8	3.30
5076	INFRENEER HOLDINGS	Const&Mat	1,174	346,148	8.8	0.58
6136	OSG	Machinery	1,566	155,270	9.2	0.81
6301	KOMATSU	Machinery	4,041	3,842,802	9.7	1.19
6370	KURITA WATER INDUSTRIES	Machinery	4,582	532,432	14.9	1.47
6532	BAYCURRENT	IT&Serv&Oth	7,492	1,164,342	30.5	12.07
6806	HIROSE ELECTRIC	Elec&Prec	15,170	541,478	15.7	1.37
6845	AZBIL	Elec&Prec	1,158	648,979	15.6	2.55
7164	ZENKOKU HOSHO	Fin(ExBank)	2,985	411,096	12.8	1.79
7459	MEDIPAL HOLDINGS	Wholesale	2,337	512,331	14.5	0.78
7476	AS ONE	Wholesale	2,322	185,185	20.3	2.58
7550	ZENSHO HOLDINGS	Retail	8,594	1,381,344	32.4	6.19
7936	ASICS	IT&Serv&Oth	2,752	2,021,295	25.2	8.42
8001	ITOCHU	Wholesale	6,569	10,411,139	10.3	1.61
8012	NAGASE	Wholesale	2,392	274,861	8.9	0.66
8015	TOYOTA TSUSHO	Wholesale	2,353	2,498,754	7.1	0.94
8174	NIPPON GAS	Retail	2,485	280,376	19.8	4.17
8227	SHIMAMURA	Retail	9,557	705,561	16.4	1.40
8283	PALTAC	Wholesale	3,879	244,377	10.9	0.84
8410	SEVEN BANK	Banks	247	291,171	14.3	1.06
8439	TOKYO CENTURY	Fin(ExBank)	1,417	697,078	7.9	0.76
8572	ACOM	Fin(ExBank)	359	562,884	46.9	0.85
8593	MITSUBISHI HC CAPITAL	Fin(ExBank)	957	1,403,102	9.9	0.77
8801	MITSUMI FUDOSAN	Real Estate	1,388	3,860,288	16.0	1.28
8802	MITSUBISHI ESTATE	Real Estate	2,454	3,068,933	17.7	1.28
8804	TOKYO TATEMONO	Real Estate	2,482	519,050	9.4	0.96
8830	SUMITOMO REALTY & DEVELOPMENT	Real Estate	5,337	2,540,871	13.2	1.16
9006	KEIKYU	Trans&Logi	1,517	418,191	19.1	1.13
9042	HANKYU HANSHIN HOLDINGS	Trans&Logi	4,119	1,042,143	12.6	0.96
9044	NANKAI ELECTRIC RAILWAY	Trans&Logi	2,362	267,800	12.7	0.87
9072	NIKKON HOLDINGS	Trans&Logi	2,930	370,586	20.8	1.49
9364	KAMIGUMI	Trans&Logi	3,389	361,189	13.0	0.91
9744	MEITEC GROUP HOLDINGS	IT&Serv&Oth	2,877	224,406	18.7	4.89
9989	SUNDRUG	Retail	4,641	553,816	17.8	2.07

Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research

Note: TOPIX500 universe; 3 companies or more provide estimates; As of end-Mar 25; For important disclosures regarding covered companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

This preference for intangible-related and defensive stocks could continue for some time ahead. However, we see this fundamentally as a transitory flight to safety, with an unwinding due at some point. Defensive names—that is, low-beta names—in particular are likely to underperform during a market about-turn. Similarly, dispersion is basically unrelated to fundamentals. Indeed, as shown in [Exhibit 5](#), allocations to defensive names tend to fall relatively swiftly following a sharp rise. During the COVID shock, large dispersion names were sold heavily, but this dissipated after a time ([Exhibit 9](#)).

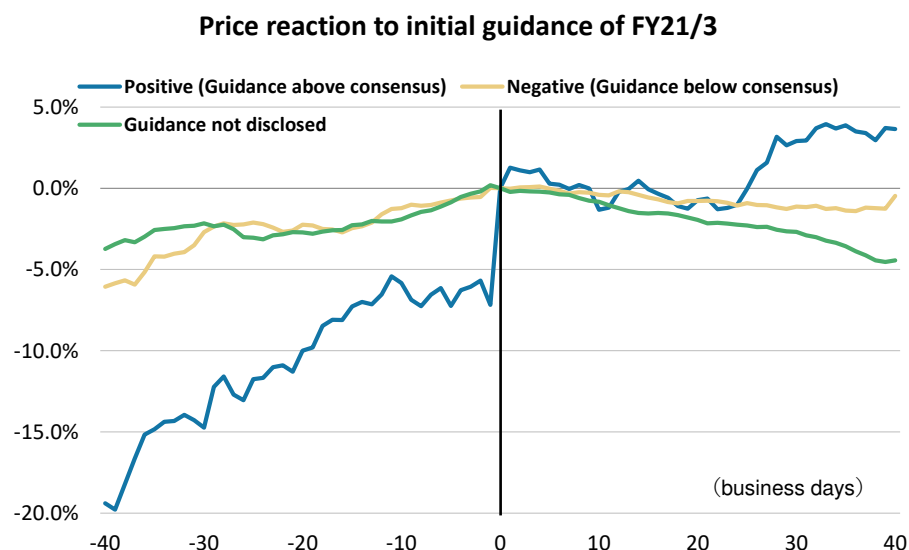
**Exhibit 9:** Excess return for high and low analyst dispersion names after Covid-19 shock: High dispersion names recovered after a while



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research  
Note: TOPIX500 universe, 3 companies or more provide estimates

The question is, when will the turnaround occur? One possibility is the upcoming full-year results announcements. However, as has been widely pointed out, some companies may choose not to announce new-FY guidance together with full-year results. Many companies withheld guidance following the Great East Japan Earthquake (2011) and the early COVID pandemic (2020). Only around 40% of companies announced F3/21 guidance, normally above 90%. A look at share price reactions at the time reveals that share prices languished for companies that did not unveil guidance, with performance below that for negative surprise names ([Exhibit 10](#)).

**Exhibit 10:** Price reaction to initial guidance for FY21/3: Stock prices of companies that did not disclose guidance stagnated



Source: Bloomberg, FactSet, QUICK Workstation, I.N. Information Center, Morgan Stanley Research

Note: TSE1 firms with March year-end; "positive" and "negative" refer to whether initial guidance for FY3/21 NP was higher or lower than the consensus forecast at end-March; "t=0" refers to first business day following release of results; excess returns relative to TOPIX; stocks in question indicated starting on days when there were at least five such stocks

If many companies refrain from posting guidance this time round, we would expect the phenomenon to affect mainly export-dependent and cyclical names, which are more exposed to the impact of tariffs. This means the relative preference for domestic market and defensive names could continue for some time. In such a scenario, the turnaround could slip back to Jul-Aug, when 1Q results are released and the 90-day tariff hike suspension comes to an end. At that point, we would expect some progress in tariff negotiations. Sector preferences would then likely rotate to 1) domestic demand names, premised on a stronger yen (excluding those names which had been favored as defensive picks); 2) stocks with strong earnings (e.g. upward analyst revisions); or 3) export-related and cyclical names, in the event that investors look even further ahead.



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(as of March 31, 2025)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1682	44%	380	45%	23%	805	47%
Not-Rated/Hold	3	0%	0	0%	0%	0	0%
Underweight/Sell	598	16%	81	10%	14%	227	13%
Total	3,799		848			1726	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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