Investment Strategy

4 Aug 2017

BULLISH FOR JP & ASIA EQUITY: EYES ON BOJ, GPIF(ESG), US&EURO MARKET

Prime Minister Abe inaugurated the new "result-oriented" Cabinet. Following the severe hit to his approval rate, by scandals and ministerial gaffes, the PM gravitated toward veterans with political reach. The line-up is brilliant to forge the solid footing of PM & LDP, while no impact is expected for the financial market in short-term.

US & European equity extend its rally (S&P500 +14%, FTSE100 +11%; 12mth) with healthy economic expansion, while (JP market) ETF purchase by the BOJ continue; good reason to be bullish for JP & Asia equity. In addition, be aware of GPIF(Japan's Government Pension Investment Fund; largest in the world)'s new activities for the theme ESG (Environment, Social, and Governance).

Last month, GPIF announced "FTSE Blossom Japan", "MSCI Japan ESG Leaders Select", and "MSCI Japan Empowering Woman" as three benchmark indices to begin allocating its asset. The fundamental change of its investment criteria shall not just influence the equity market, but also culture & social values. Investments with high ESG scores look attractive.

Shanghai equity continue to show stable rally, while the short-term momentum of Singapore & Hong Kong shares face correction risk. Cyclical trends indicate positive outlook for Thai & Philippines Equity for the next 3-6mth. We expect global interest-rate hike and the Chinese economy to remain stable. China PPI (9/Aug), US CPI(11^{th}), and US FOMC minutes (16^{th}) are important.

DOWNTURN RISK: SHORT-TERM CORRECTION IN THE US? AND THE BOJ INFLATION TARGET

Although we continue to view US & European equity positively, further accelerated rise may trigger some profit taking. NY Dow Ind 30 Index marked its historical high for 7 consecutive days, while RSI(14D) is 75.23, and possible correction can already be seen in Hi-Tech & Bio names. Need to ease the pressure.

The media in Japan have so far ignored the recent big news, that the BOJ has lowered its CPI (core CPI) outlook and postponed its inflation target (2%) to 2019. No changes for the monetary policy, while the economy is far from favorable condition.

OTHER

Private equity, M&A, and real estate investments for a few million to billion US$ size continue to be very attractive, and expanding. Cross border deals in various industries are seen. The risk premium is high in these deals (too small to be dealt by mega-banks and bulge-bracket brokers); very attractive.

EXAMPLE INVESTMENT IDEAS

RECRUIT HOLDINGS[6098] BUY

- TSE1st listed stock, 1919yen/share, 3-6mth view
- High ESG ratings, good earnings momentum
- Innovative Web/IT business model to enter investment-return period

BUY US$ / SELL YEN

- Short-term(few weeks) & Mid-term (few months), expecting global interest rate hike
- Y110.7/US$ now

KDDI[9433] BUY

- TSE1st listed stock, 3020yen/share, 3-6mth view
- High ESG ratings, good earnings momentum, share buy-back

THAI EQUITY SET50 ETF[1559] BUY

- TSE1st listed ETF, 3010yen/share (SET Index 1576)
- Good to pair vs SELL in Singapore & HKG indices

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