March 31, 2015

Press Release

Nikko Asset Management Co., Ltd.

Overweight Stance on Global Equities Intact: Nikko Asset Management's New House View Shows

- Maintains long-held overweight view on global equities
- Shifts stance on the Fed's first rate hike to 4Q from June/July
- Reverses the Eurozone's six-month overweight stance amid rising equity valuations
- Enthusiastic on emerging economies amid growth prospects in G3 and China

The G3[1] economies will continue to propel growth and gains in equities prices in the year ahead with valuations remaining steady despite rising U.S. interest rates, according to Nikko Asset Management's Global Investment Committee (GIC), which is retaining an overweight stance on global equities.

The Tokyo-based firm's key investment committee has held an overweight position on global equities in the last 14 quarters out of 15 since September 2011.The G3 economies are set to exceed the current consensus for economic growth going forward, committee members said, adding the United States should rebound from the unusually brutal winter and the West Coast port strike, while the Eurozone and Japan should recover faster than expected.

"There certainly are some worrisome issues, as always, but we find none of them are convincing enough to prevent moderate increases in equity prices," said John F. Vail, chief global strategist and head of the GIC. "Rising U.S. interest rates are consensus now, so although there may be volatility as such crystallizes, it may be no more problematic than the tapering process." He noted that US equities rose very strongly during the tapering process.

On the U.S. Federal Reserve's monetary policy, the committee is shifting its stance on the first rate hike to the fourth quarter from June/July. Nikko Asset Management's analysts believe that a negative year-on-year CPI through September will steady the Fed's hand despite firm economic growth.

"The FOMC roster includes more doves this year and the core Fed leadership is traditionally quite dovish, so we expect the Fed funds channel rate at only 0.50-0.75 percent at the year-end," Vail said.

Surging equity valuations in the Eurozone has prompted the GIC to reverse its six-month overweight stance on the region to underweight. The committee thinks that Europe will

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[1] The United States, Eurozone and Japan

Note: all dates in this report are Calendar Year (CY)-based unless otherwise specified.

underperform in the next six months, while the U.S., Japan and Asia-Pacific ex-Japan should perform the best and, thus, deserve an overweight stance.

"Eurozone equity valuations have surged to rather high levels, as equity prices increased with the lower euro and a rebound in economic confidence from very low levels," Vail commented. "We think the market needs to pause for earnings to catch up, Vail noted.

Regarding U.S. equities, the S&P 500 is trading at 17 times next twelve month (NTM) earnings, which is high in a historical context, but the company's analysts believe this is a fair valuation as interest rates remain structurally lower than any time since the 1950s. The U.S. economy's conditions are mixed, but consumer spending is the most important factor, which the analysts believe will continue to be very firm.

Elsewhere, the company's analysts were optimistic about China and emerging markets economies. China, as the world's second-largest economy, is expected to achieve a 6.9 percent seasonally adjust annual growth rate in the April-September period.

"Given our view of stronger G3 and Chinese growth, coupled with dovish central banks and rising commodity prices, we are now more enthusiastic about emerging economies," Vail said, reversing a long-held negative overall stance. He noted in particular that "we continue to believe that Asian emerging markets economies will remain firm as domestic demand is sturdy and external imbalances are quite small."

Nikko Asset Management's GIC met on March 24th for its quarterly review of global economic conditions. Based on the findings of its senior investment professionals around the world, the company periodically reconsiders house views on the major global markets and asset classes.

The committee's main forecasts[2] at this time are:

Japan: Half-year GDP growth (April to September) of 2.8 percent half-on-half, seasonally adjusted, with equities, as measured by TOPIX, rising about 10.5 percent in yen terms over the next six months to September.

U.S.: Half-year GDP growth of 3.2 percent half-on-half, seasonally adjusted, with equities, as measured by the S&P 500, rising 6.1 percent in dollar terms over the next six months to September.

Eurozone: Half-year GDP growth of 2.1 percent half-on-half, seasonally adjusted, with equities, as measured by the MSCI Europe, rising 4.1 percent in euro terms over the next six months to September.

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[2] In comparison against the base date on March 20.

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