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Press Release

Nikko Asset Management Co., Ltd.

Retain Global Equities Overweight Despite Fed Hikes Ahead: Nikko Asset Management's Updated House View

- *Global equities overweight stance backed by G3 growth*
- *Fed likely to raise interest rates three times by end of 2015 starting in September*
- *Maintains underweight stance on European equities amid weaker euro*

The G3 economies are expected to remain strong thanks to U.S.-led growth which has prompted Nikko Asset Management to maintain its long-held overweight stance on global equities, according to the Tokyo-based asset manager's Global Investment Committee (GIC). The committee noted that the U.S. Federal Reserve is likely to tighten its monetary policy more aggressively than the GIC had originally expected.

The members of the firm's key investment committee now believe the timing of the Fed's credit tightening will occur in September instead of the market consensus of October. Also the GIC members expect the Fed to raise interest rates three times by 25 basis points each starting in September, lifting the key Fed funds channel rate to 0.75-1.00% by the end of the year.

"If global economic growth remains firm led by the strong U.S. economy with no GREXIT or geopolitical crises, then it will be hard for the Fed not to hike in September, nor to skip an October hike," said John F. Vail, chief global strategist and head of the GIC. "We believe the economy, plus the equity and bond markets, can absorb this normalization from extremely low rates."

The company's GIC members, which consist of senior investment professionals from the company's global offices, have supported an overweight view on global equities for 15 of the past 16 quarters, since September 2011. The committee maintained its overweight stance on equities in the United States, Japan and Asia-Pacific excluding Japan, while it has kept its underweight stance on European equities after it reversed its six-month overweight view in March.

"We expect equities in the Eurozone will rise in the next two quarters after they stagnated in the second quarter. But we expect them to underperform due to a weaker euro, so we will maintain our underweight stance on the region," Vail said.

The GIC members believe that Japanese equity prices will continue to perform strongly as export volumes increase on the back of a gradual improvement in the global economy and from the yen's weakness, which is forecasted to fall to around 127 against the U.S. dollar by the end of the year. Also, they believe Abenomics is showing results, especially

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for corporations, with first-quarter pretax profit margins soaring to historical highs for both the manufacturing and non-manufacturing sectors.

"Abenomics is working very well for both local and international investors and it should continue to do so in our view," Vail said. "The market PER of 16.0 times our forward earnings estimate is attractive and consensus earnings estimates will likely continue to improve, partly due to a slightly weaker yen but also due to the improving global economy."

Elsewhere, the Chinese economy continued to struggle during its transition to a more balanced economy, but it does not appear to be in a hard-landing. The committee forecasts the world's second largest economy to achieve growth of 6.6 percent half-on-half, seasonally adjusted, in the July-December period this year and in the January-June period in 2016.

The committee members were enthusiastic about the prospects for emerging economies due to stronger G3 and Chinese growth. But the strength of the U.S. dollar and the weakness in commodity prices could weigh on their economies. They think oil prices will decline slightly due to increased global supplies, especially from Iran, but other commodity prices should remain flat.

Nikko Asset Management's GIC met on June 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[1] at this time are:

Japan: Half-year GDP growth (July to December) of 1.5 percent half-on-half, seasonally adjusted, with equities, as measured by TOPIX, rising about 8.4 percent in yen terms over the next six months to the end of the year.

U.S.: Half-year GDP growth of 2.7 percent half-on-half, seasonally adjusted, with equities, as measured by the S&P 500, rising 8.5 percent in dollar terms over the next six months to December.

Eurozone: Half-year GDP growth of 1.9 percent half-on-half, seasonally adjusted, with equities, as measured by the MSCI Europe, rising 7.8 percent in euro terms over the next six months to December.

-ENDS-

[1] In comparison against the base date on June 19.

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For more information, please visit http://en.nikkoam.com/

* Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of March 31, 2015.

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