October 7, 2014

Press Release

Nikko Asset Management Co., Ltd.

Nikko Asset Management Heightens Overweight Stance on Global Equities

- G-3 central bank policy and economic growth seen supporting global equities
- Geopolitics remains a risk factor, but is manageable
- Abenomics' progress supports Japan equity, while additional BOJ easing less likely

A largely positive global macroeconomic scenario reinforced by the U.S. Federal Reserve's accommodative monetary policy is expected to buoy global equity prices, which prompted Nikko Asset Management to heighten its overweight position on global equities, according to the Tokyo-based asset manager's Global Investment Committee.

The firm's key investment committee decided to raise its overweight position on global equities on expectations that equity prices will rise even further in the coming months. This was the second straight quarter that the committee arrived at an overweight stance on global equities since its previous meeting in June, after revising its stance to neutral in March for the first time in about two and a half years.

"There are certainly some worrisome issues, as always, but we find none of them convincing enough to halt the upside momentum in equity prices," said John F. Vail, chief global strategist and head of the committee. "Even rising U.S. interest rates are consensus now, so although there may be volatility as such crystallises, it may be no more problematic than the nearly completed tapering process."

Geopolitics remains a major risk factor, but the committee believes that the various conflicts, including the problems in Ukraine and Iraq, are not likely to escalate dramatically. This should underpin the growth prospects for the G3 (the United States, eurozone and Japan) economies, in line with the consensus over the next two quarters. In addition, China's economy will continue to slow faster than consensus, but it does not appear to be headed for a hard landing, the committee believes.

"Undoubtedly, geopolitics remains a significant risk factor and we will continue to be ready to adjust our view," Vail said. "China's economy must also be watched very carefully because the tail risk of a major downturn is far from negligible."

Nikko Asset Management's Global Investment Committee met on September 26th 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.

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

The committee's main forecasts at this time are:

Japan: Half-year GDP growth (October 2014 to March 2015) of 2.8-2.9 percent half-on-half, seasonally adjusted, with equities rising 12 percent in yen terms over the next six months to March.

U.S.: Half-year GDP growth of 2.9-3.1 percent half-on-half, seasonally adjusted, with equities rising 4 percent in dollar terms over the next six months to March.

Eurozone: Half-year GDP growth of 1.2-1.4 percent half-on-half, seasonally adjusted, with equities rising 7 percent in dollar terms over the next six months to March

"We believe that Japan's recovery is on track," Vail said. "Our positive view on inventory building and net exports is likely what sets us apart from consensus, but our forecasts are hardly aggressive and seem completely logical."

Prime Minister Shinzo Abe's economic stimulus policy continues to support Japanese shares, which have risen in recent months in line with the yen's fall, but Japan remains under-appreciated, according to Vail. "Abenomics has disappointed some investors and skepticism remains fairly high, but such is fading as more good news comes out, especially on corporate taxes and GPIF's asset reallocation," he added.

A key part of Abenomics, BOJ policy-making, is seen as unchanged in terms of asset buying. Still, the effect of the yen's decline has increased inflation prospects and thus reduced the need for the central bank to ease monetary policy further. "We do not expect major BOJ easing for the intermediate term, but it will very likely extend its current easing plan into 2015," Vail said.

Meanwhile, the company's analysts believe the U.S. economy will continue to be resilient, backed by consumer spending, capital expenditure and housing construction. "As for employment, we continue to believe that payrolls will expand at a healthy rate, especially in the housing construction and related services areas," Vail said. "Perhaps the strongest sign of growth in the U.S. is in auto sales. Retail spending is also solid, new home sales are rebounding and ex-aircraft durable goods orders have accelerated further in recent month and are surging if you include aircraft," he added.

"In the eurozone, conditions were weaker in the second quarter than we expected, substantially due to the effects of the Ukraine crisis, but this should improve going forward," Vail said, adding the weakness of the euro and improvements in credit conditions should help reduce concerns over deflation.

Nikko Asset Management's views are published in its Evolving Markets research report.

-ENDS-

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

This material has been prepared solely for the purposes of Nikko AM to communicate about the market environment, etc. It is not solicitation for a specific fund. Moreover, the information in this material will not affect Nikko AM's fund investment in any way. Mentions of individual stocks in these materials neither promise that the stocks will be incorporated nor constitute a recommendation to buy or sell. The information in these documents have been prepared from what is considered to be reliable information but the accuracy and integrity of the information is not guaranteed by the Company. Figures, charts, and other data in these materials are current as of the date of publication unless stated otherwise. In addition, opinions expressed in these materials are as of the date of publication unless stated otherwise. * The graphs, figures, etc., contained in these materials contain either past or back-dated data, and make no promise of future investment returns, etc. These documents make no guarantee whatsoever of future changes to the market environment, etc. Opinions expressed in these documents may contain opinions that are not Nikko AM's but the personal opinion of the author, and may be changed without notice.

Forwarding or quoting from these materials without the advance permission of Nikko AM's corporate communications representative is strictly prohibited. Please contact Nikko AM's Corporate Communications at +81-(0)3-6447-6775 if you have any questions.

About Nikko Asset Management

Nikko Asset Management is a leader in the Asian financial services industry, with $168 billion in assets under management as of June 30, 2014. Established in 1959, the firm has representation across 25 locations in 12 countries and enjoys one of the largest distributor networks in the region, serving both retail and institutional clients. More than 300 banks, brokers, financial advisors and life insurance companies distribute the company's products.

Nikko Asset Management manages a wide range of equity and fixed income strategies in both active and passive formats, leveraging the talents of over 250 investment professionals. In 2013 alone, Nikko Asset Management won awards for excellence in asset management from Lipper, Morningstar, Mercer, AsianInvestor, R&I, among others.

The company's management team is highly diverse and experienced, and is committed to running the company according to international best practices. Nikko Asset Management's independence from the limitations imposed on many captive asset management companies allows it to focus on the interests of clients. At the same time, the company enjoys a stable base of shareholders, with majority ownership held by Sumitomo Mitsui Trust Holdings and a strategic stake by DBS Bank.

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

* Consolidated assets under management and sub-advisory of Nikko AM and its subsidiaries as of June 30, 2014. AUM figures are converted into US dollars using the month-end exchange rate.
** Represents the 25 locations of Nikko Asset Management and its overseas subsidiaries and affiliates (including minority joint ventures) across 12 countries.

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