

PRESS RELEASE
OCTOBER 4, 2016

NIKKO ASSET MANAGEMENT CO., LTD.

Nikko Asset Management Bullish on Japan and Developed Asia-Pacific Equities

- *The Fed expected to hike in December or March.*
- *The BOJ and ECB will remain on hold for the next 12 months.*
- *Bond yields to remain relatively stable for the next two quarters.*

Nikko Asset Management's Global Investment Committee (GIC) is positive on Japanese and developed Asia-Pacific equities over the next six months due to low valuations in Japan and a bullish outlook for Hong Kong and Australian shares. But the GIC will maintain a slightly underweight stance on global equities amid continued sluggish global growth, geopolitics and uncertainty surrounding the outcome of the U.S. presidential election and its impact on the U.S. economy.

"We have been cautious on global equities since our September meeting last year, and while they have risen 7% in the U.S. dollar terms through September 28th, global bonds have risen 10%," said John Vail, chief global strategist and chairman of the GIC. "Our new macro-backdrop scenario continues this moderately negative view of global equities, particularly in Europe, but we are bullish on Japanese and developed Asia-Pacific equities."

The committee members, who consist of senior investment professionals from the company's global offices, predict that Democratic Party candidate Hillary Clinton will win the presidency, but the Congress will be split, which could make it difficult to materialise her largest plans. Even if she wins by a large margin, there may be a great deal of unrest and continued investigation into her past activities.

With regards to the outlook for monetary policies by central banks, the GIC said the U.S. Federal Reserve is expected to hike in December or March as growth is strong enough to handle a small increase, but, thereafter, the Fed will likely be highly uncertain about any further hikes. The European Central Bank and Bank of Japan will remain on hold for the next twelve months, with the continuation of their QE programmes, but with no new policies.

For bonds, the GIC said bond yields will remain fairly stable for the next two quarters as its new scenario expects continued sluggish economic growth. The committee forecasts the U.S. 10-year Treasury yield to be at around 1.7 percent at the end of March with those for 10-year JGBs and German Bunds at zero.

As for currencies, the yen is expected to stabilise around 100 against the U.S. dollar at the end of March on views that the Fed will not hike rates more than once. For the euro, the ECB is not expected to make any major QE moves and the region will continue its high current account surplus, which could prompt capital repatriation. The committee expects the euro to stand around US\$1.13 at the end of March.

The committee met on September 29 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 forecasts¹ at this time are:

U.S.: Half-year GDP growth (October 2016 to March 2017) of 2.0 percent Half-on-Half seasonally adjusted annual rate (HoH SAAR), with the S&P 500 falling 1.2 percent in dollar terms over the next six months to March 2017.

Japan: Half-year GDP growth of 0.8 percent HoH SAAR, with TOPIX rising 6.7 percent in yen terms over the next six months to March 2017.

Eurozone: Half-year GDP growth of 0.8 percent HoH SAAR, with MSCI Europe falling 3.8 percent in euro terms over the next six months to March 2017.

¹Total return from the base date of September 23, 2016

Nikko Asset Management's series of house views.

<https://en.nikkoam.com/articles/2016/10/still-cautious-on-a-six-month-view-except-for-japanese-and-asia-pacific-equities>

This material has been prepared solely for the purposes of Nikko Asset Management 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 or sectors in these materials neither promise that the stocks or sectors 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

With US\$165 billion (16.93 billion yen) under management, Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income, Multi-Asset and Alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest exchange-traded funds (ETFs).

Headquartered in Asia for over 55 years, the firm represents more than 200 investment professionals and over 30 nationalities across 11 countries. More than 300 banks, brokers, financial advisors and life insurance companies around the world distribute the company's products.

The investment teams benefit from a unique global perspective complemented by the firm's historic Asian DNA, delivering consistent excellence in performance. The firm also prides itself on its progressive solution-driven approach, which has led to many innovative funds launched for its clients.

For more information about Nikko Asset Management and to access our investment insights, please visit our [homepage](#).

* Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of June 30, 2016.

** As of June 30, 2016, including employees of Nikko Asset Management and its subsidiaries.

Nikko Asset Management Co., Ltd.

Registration Number: Director of the Kanto Local Finance Bureau (Financial instruments firms) No. 368

Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association/
Japan Securities Dealers Association