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Nikko Asset Management

December 15, 2015

Press Release

Nikko Asset Management Co., Ltd.

Nikko Asset Management Lifts View on Global Equities to Moderately Overweight

- *Lifts stance to slightly overweight from neutral on global equities*
- *Underweight stance on global bonds amid expectation of a moderate rise in yields*
- *U.S. dollar seen as strong in 2016 as central bank divergence continues*

Healthy economic growth prospects in the United States, which is expected to drive corporate earnings, has led Nikko Asset Management's Global Investment Committee (GIC) to lift its stance on global equities to moderately overweight from neutral, according to the Tokyo-based asset manager's latest house view.

The company's key investment committee maintained an underweight stance on global bonds against U.S. dollar cash for U.S. dollar-based clients due to a forecasted moderate rise in global bond yields. Meanwhile, the U.S. dollar is expected to continue appreciating, the committee noted.

"Our new macro-backdrop scenario had moderately more positive ramifications for global equities, with the U.S. rising mildly but the other regions posting substantial gains," said John F. Vail, chief global strategist and head of the GIC. "We forecast that global equities will continue to rise, especially developed markets outside of the United States, but we do not wish to be aggressively overweight."

In October, the committee changed its overweight stance on global equities that was largely in place since September 2011. Committee members were less optimistic about the outlook of corporate earnings and share prices in the United States.

The GIC members, who consist of senior investment professionals from the company's global offices, expect equities in Europe, Japan and Asia Pacific excluding Japan to outperform over the next six months. Conversely the United States should underperform on a relative basis, leading the committee to adopt an underweight stance on U.S. equities.

Eurozone equity prices in U.S. dollar terms should rebound after three quarters of weakness due to the euro's fall, with corporate earnings and continued regional economic expansion driving growth, the committee said.

Any delay in progress of the Trans-Pacific Partnership (TPP) will be a temporary headwind for Japanese equities, but improving corporate earnings should be positive, it added.

"We believe Abenomics is working well, especially for corporations, with third quarter pretax profit margins soaring to historical highs for both manufacturing and non-manufacturing sectors," Vail said. "It is, thus, working very well for equity investors too, and should continue to do so, in our view."

In currencies, the U.S. dollar is expected to be strong next year as central bank divergence continues. The U.S. Federal Reserve is expected to raise its interest rates in December followed by further 25 basis point hikes at alternating meetings through 2016.

Meanwhile, there is some chance for the Bank of Japan to ease if the yen strengthens to 110-115 against the U.S. dollar. For the European Central Bank, the GIC members expect mild easing moving forward as the ECB does not wish to cause a rupture while the Fed is hiking rates.

As for oil prices, the committee expects Brent crude oil to stand around $43 per barrel at the end of June. Oil prices should stabilize after recent declines, as global economic growth remains firm. Investors are starting to be concerned about a possible supply disruption as geopolitical risks are growing in the Middle East and North Africa (MENA) region, the committee noted.

Nikko Asset Management's GIC met on December 8 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 (January to June 2016) of 0.8 percent half-on-half, seasonally adjusted, with equities, as measured by the TOPIX, rising 7.5 percent in yen terms over the next six months to June 2016.

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 3.0 percent in dollar terms over the next six months to June 2016.

Eurozone: Half-year GDP growth of 1.3 percent half-on-half, seasonally adjusted, with equities, as measured by the MSCI Europe, rising 15.2 percent in euro terms over the next six months to June 2016.

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[1] In comparison against the base date of December 4, 2015.

About Nikko Asset Management

Nikko Asset Management is positioning itself to be Asia's premier global asset manager. The firm offers world-class asset management solutions for global investors, and has US$146.4 billion (17.54 trillion yen) in assets under management*. With more than 200 investment professionals**, the firm leverages its extensive global resources representing over 30 nationalities across 11 countries. Headquartered in Asia for over 55 years, Nikko Asset Management's vantage point, extending east to west, distinguishes its investment approach.

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 September 30, 2015.
** As of September 30, 2015, 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
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