NOMURA
Connecting Markets East & West

# Nomura Asset Management
# Investment Outlook
## Autumn 2023

NOMURA ASSET MANAGEMENT

Autumn 2023

# Contents



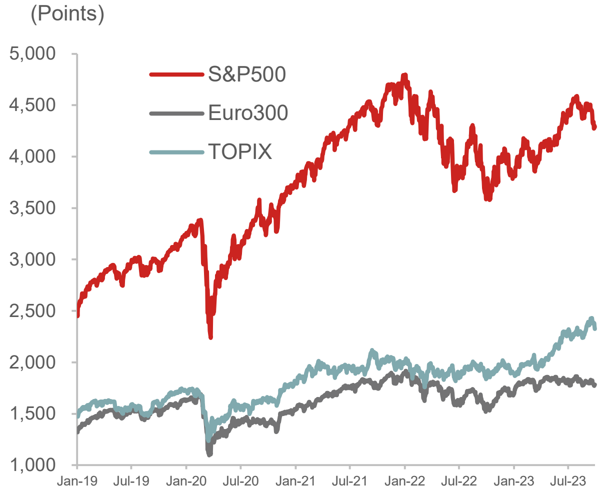
Note: In the Investment Strategy section, most of Nomura Asset Management's senior investment professionals offer their views of the investment strategy and market prospects – commentaries are as of September 2023, and reflect each professional's personal views, and do not entirely match NAM's house view.

# Quarterly Financial Market Recap

During the July-September quarter of 2023, U.S. long-term bond yields briefly fell after the release of June U.S. CPI data that was below market expectations; but yields then started to rise again, pushing towards a 15-year high as the U.S. economy remained resilient. While stock prices advanced when U.S. market interest rates declined, stocks later tended to weaken alongside rising bond yields. The U.S. dollar appreciated against both the euro and the yen as the gap between U.S. and other sovereign long-term bond yields continued to widen.

### Equity Market of Major Countries

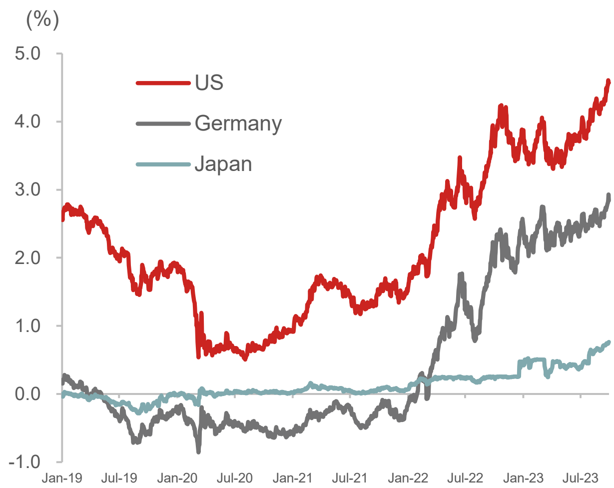
(January 2, 2019 - September 30, 2023, daily)




Source: Nomura Asset Management based on Bloomberg data

### 10 Year Bond Yields in Major Countries

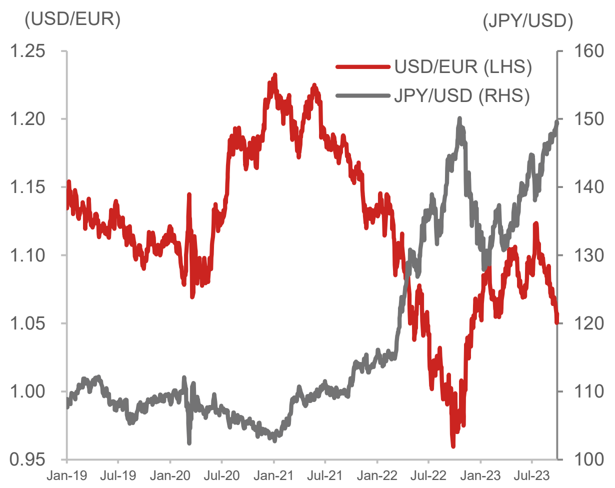
(January 2, 2019 - September 30, 2023, daily)




Source: Nomura Asset Management based on Bloomberg data

### Yen and Euro against the US dollar

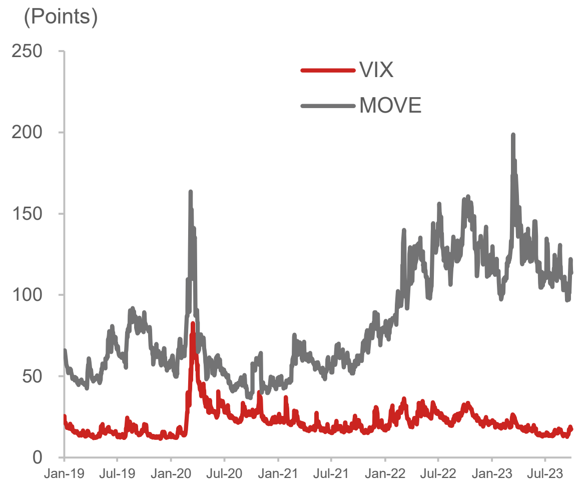
(January 2, 2019 - September 30, 2023, daily)




Source: Nomura Asset Management based on Bloomberg data

### Trends in VIX and MOVE

(January 2, 2019 - September 30, 2023, daily)




Note: The VIX and the MOVE are indexes that show the risk of future volatilities of US stocks and US bonds, respectively.
Source: Nomura Asset Management based on Bloomberg data

# Investment Environment Outlook

Interest rates are expected to fall in 2024 as the rate hike phase winds down

Rumi Kurumizawa
Chief Economist

Takahiro Homma
Senior Corporate Managing Director,
Chief Investment Officer

## U.S. and Europe expected to enter rate cutting phase of interest cycle in latter half of 2024

We expect a period of negative economic growth rates in the first half of 2024, accompanied by a rise in the unemployment rate, as monetary tightening implemented by the U.S. Federal Reserve and European central banks begins to belatedly take effect.

In the U.S., high interest rates are likely to begin weighing down on the economy even more going forward as (1) households face the depletion of "excess savings" and (2) firms face the prospect of refinancing debt from the low interest rate era. In the Eurozone, we are already seeing some of the downward pressure on demand from interest rate hikes.

On the other hand, the "soft landing" scenario is also becoming more plausible from the following perspective: (1) real income conditions for households will improve and consumption will stabilize as inflation subsides, and (2) firms will accelerate fixed investment on the back of industrial policies such as the U.S. Inflation Reduction Act (IRA). If we define a soft landing as a scenario where the economy and prices return to cruising speed without a recession, then this scenario remains a possibility.

In the case of both our house view forecast and the soft-landing scenario, inflation fears will recede in mid-2024, justifying a rate cut to adjust the degree of monetary tightening.

Financial market participants should pay attention to (1) a risk scenario in which inflation concerns remain, raising expectations of further interest rate hikes or pushing back expectations of interest rate cuts, and (2) a risk scenario in which the effects of monetary tightening on demand are more pronounced than expected in our house view.

## Bond yields on a downward trend

With expectations of a soft landing remaining for the time being, long-term interest rates in the U.S. and Europe are expected to remain flat. Afterwards, we can expect interest rates to enter a downward trend as the economy approaches a projected recession. However, if the economy remains in what we would categorize as a "moderate recession," then rapid interest rate cuts in the future are unlikely, and the decline in long-term interest rates could be relatively gradual.

With a view to stabilizing the economy in the future through a rate cut expected from the July-September period of 2024, long-term interest rates are expected to stop falling and to begin rising slightly even if policy interest rate cuts continue.

Over the long run, long-term interest rates could remain higher than during the period of low inflation and interest rates prior to the pandemic. This is because (1) the neutral rate of interest, a rate that implies neither policy tightening nor easing, could rise against a backdrop of worsening fiscal conditions and other factors, and (2) medium- to long-term inflation expectations could remain higher than before after experiencing this recent episode of high inflation.

JGB yields rose to around 0.7% in response to the easing of yield curve controls (YCC) in July and subsequent remarks by BOJ Governor Kazuo Ueda. The BOJ is expected to abandon the YCC policy during the second half of 2024, but even if the decision is made, we expect JGB yields to stabilize in a manner linked to global interest rates.

## Weaker U.S. dollar trends expected

The U.S. dollar depreciated against the yen and against the euro as a result of the U.S. Consumer Price Index data for June (released mid-July), which showed an easing of inflationary pressure. Since then, amid heightened soft landing expectations, the interest rate gap between the U.S. and Japan and Europe has widened, and the U.S. dollar has appreciated again, partly because of the supply-demand balance of U.S. government bonds, but also partly due to the debate over a rise in the natural rate of interest.

Looking ahead, however, we uphold our view that the historical strength of the U.S. dollar could be revised as monetary policy moves from a tightening bias towards maintenance of the status quo, with interest rate cuts eventually coming into view. The exchange rate is not necessarily determined solely by monetary policy differences and interest rate differentials, but if we assume that recent correlation with the U.S.-Japan interest rate differential is maintained, we can estimate that the exchange rate would trend around the 130-135 yen/USD level towards the middle of 2024.

Amid expectations of an eventual interest rate cut by the Federal Reserve, there is a chance that depreciation of the U.S. dollar and the appreciation of the yen could accelerate amid speculation that the Bank of Japan might undertake relatively large-scale monetary policy revisions, including the elimination of negative short-term interest rates.

As the economic recovery prospects become clearer in the second half of 2024, including through rate cuts, risk sentiment is expected to improve. We expect the euro to be the strongest among the three major currencies, followed by the U.S. dollar and the yen.

## Stock market expected to see upward trend from mid-2024

We believe that the time lag between the weakening of the real economy and a fall in inflation, and the transition from monetary tightening to easing will drive stock price fluctuations.

For the time being, robust economic growth will be positive for risk assets, but any upward pressure on interest rates, with expectations that a rate cut is a long way off, will be negative for stocks from a valuation perspective. With the market beginning to notice a deterioration in economic indicators and the sense of caution about the persistent high inflation rate receding, the expected decline in interest rates will in turn be positive for stock prices, while at the same time, the fear of a recession will be negative.

If there is a consensus that any subsequent recession will be "shallow and short," and if it actually occurs as we expect, the pivot towards interest rate cuts as central banks start to adjust their tight monetary polices, could be enough to lift the stock market from a range-bound to an upward trend.

# Introduction to Corporate Hybrid Bond Strategy

Julian Marks
Head of Corporate Hybrid Bonds

The past 18 months have been turbulent for fixed income markets. However, recent events have left the corporate hybrid bond market – a high quality sector that has grown up "under the radar" over the past decade - trading at particularly attractive levels.

## Why now is the right time to buy Corporate Hybrid Bonds

The past 18 months have been turbulent for fixed income markets. Sharp rises in interest rates, higher inflation, war in Europe and an economic slowdown have led to falling and volatile bond markets.

However, recent events have left the corporate hybrid bond market – a high quality sector that has grown up "under the radar" over the past decade - trading at particularly attractive levels.

Before expanding further on the opportunity, it is worth explaining what corporate hybrid bonds are and who issues them.

Corporate Hybrid Bonds or 'Corporate Hybrids' are bonds with certain equity-like features.

Key characteristics include:

- Long-dated or perpetual bonds that are callable, typically 5-10 years from issuance
- Subordinate to senior bonds in the capital structure of companies
- Coupons that are deferrable at the discretion of the issuer

Corporate Hybrids are generally issued by high quality, investment grade, non-financial issuers. The real attraction for investors is that yields on Corporate Hybrids are significantly higher than those on senior bonds of the same issuers. Investors are essentially offered a high-yield-type coupon from strong investment grade issuers. Due to their structural features, Corporate Hybrid bonds are typically more volatile than senior investment grade bonds.

Figure 1: Option Adjusted Spreads on Corporate Hybrid Bonds


Note: Using 50%/50% mix of ICE BofA Global Hybrid Non-Financial Index (GNEC) and ICE BofA Global Hybrid Non-Financial High Yield Index (HNEC) for Corporate Hybrid . The OAS is the measurement of the spread of a bond over the risk-free rate, which is adjusted to take into account an embedded option'.
Source: Nomura Asset Management based on Bloomberg data, as at August 18, 2023

*This commentary is based on our investment and research professionals' personal views and does not represent NAM's house view.

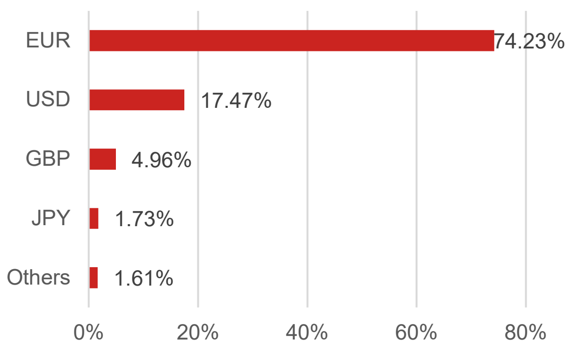
As we can see, the universe of Corporate Hybrid issuers is extremely high quality.

- The vast majority of issuers are investment grade rated.
- Most of the issuers are from sovereign AAA/AA rated northern European countries.
- There is very limited issuance from emerging markets.
- In terms of sectors, utilities is by far the largest, followed by energy and telecoms.
- The majority of issuers are market leaders in their sectors, with significant pricing power.
- The universe offers diversification away from US issuers, USD bonds and banks/financials.

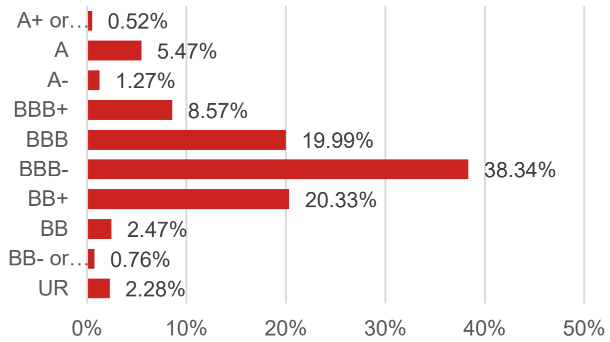
Figure 2: Characterristics of Corporate Hybrid Universe

| Statistics | Total | *Excluding real estate sector |
|---|---|---|
| Yield to Call (EUR hedged, %) | 10.53 | 6.91 |
| Yield to Call (USD hedged, %) | 12.31 | 8.69 |
| Yield to Call (GBP hedged, %) | 12.69 | 9.07 |
| Yield to Call (JPY hedged, %) | 6.58 | 2.96 |
| Option Adjusted Spread (bps) | 281 | 254 |
| Effective Duration (yrs) | 3.3 | 3.5 |
| Average Rating | BBB | BBB |
| Number of Bonds | 295 | 260 |
| Number of Issuers | 110 | 95 |
| Market Value (EUR bn) | 186 | 176 |

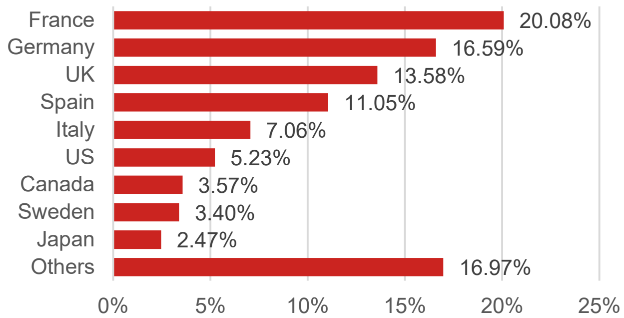
Currency Breakdown



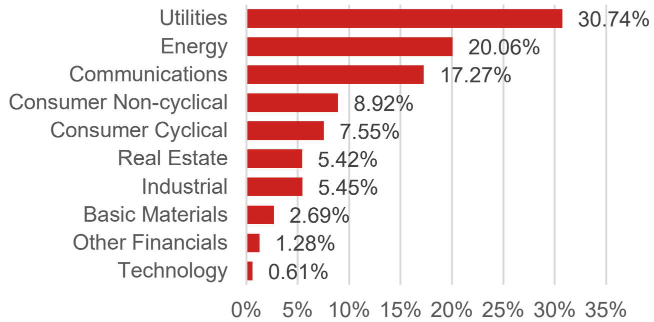

Rating Breakdown




Country Breakdown




Sector Breakdown




Note: Custom universe which includes all non-financial corporate hybrid instruments globally to the best of our knowledge. Hedged yield is calculated based off the 12M FWD points for the currencies of the underlying securities
Source: Nomura Asset Management, Bloomberg, as at August 18, 2023

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## Why are they issued?

Issuing Corporate Hybrid bonds allows companies to support their credit ratings in a relatively cost-efficient way without diluting their shareholders. Due to their equity-like features, credit rating agencies view hybrids as 50% equity and 50% senior bond. Furthermore, in most jurisdictions, the coupons on Corporate Hybrids are fully tax-deductible from the issuer's perspective, just like coupons on senior bonds but unlike dividends on shares. The combination of these points can allow non-financial issuers to lower their weighted average cost of capital and maintain their credit ratings by substituting Corporate Hybrid bond issuance for an equal mix of senior bonds and equity issuance.

Corporate Hybrids have a very investor-friendly structure. Issuers have strong incentives to pay the coupons and to call the bonds at the first call date. If issuers fail in this regard, they risk losing access to this source of funding and the cost-of-capital benefits discussed above. The main risks of these bonds to investors each have significant mitigating characteristics:

## Why do investors like them?

| Key Risks | Mitigants |
|---|---|
| Subordination / Zero recovery in event of default | ■ High quality, stable issuers<br>■ Highly unlikely to default |
| Coupon Deferral Risk | ■ Solid ratings, sustainable cash flows and strong, flexible balance sheets<br>■ Stable and regular common dividends paid<br>■ Mechanisms in place to connect interest on hybrid bond remuneration with other securities |
| Extension Risk | ■ Bond structures ensure the notes lose equity credit after first call date - transforming them into potentially expensive senior debt<br>■ Coupon step-ups<br>■ Reputational risk |
| Early Redemption Risk | ■ Reputational damage |

Essentially, investors are purchasing subordinated bonds of high quality non-financial issuers and then 'selling' management various 'options' embedded in these bonds:

1. The option to defer the coupon
2. The option to extend rather than calling the bond at the first call date
3. The option, under certain circumstances, to call the bonds back early at or above par.

We believe – mainly due to the risk mitigating characteristics listed above – that the options embedded in these instruments are generally far 'out of the money' for most of the bonds and provide investors with significant opportunities.

In fact, there has never been a missed coupon on a Corporate Hybrid bond by an investment grade issuer.

In addition, aside from recent extensions by real estate issuers – a sector we have long been cautious on – there is very limited history of call dates being skipped by investment grade Corporate Hybrid issuers. We expect these trends to continue in future.

## Environment, Social and Governance

As might be expected for a strong, investment grade, developed market universe, Corporate Hybrid issuers generally score very well on ESG criteria. Many of these issuers – particularly in the utilities sector – are at the forefront of the energy transition and have often issued Corporate Hybrid bonds to support investment along this path – reducing fossil fuels and carbon emissions and investing in areas such as wind and solar power

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## Why do Corporate Hybrid Bonds look attractive and why might they perform from here?

We believe there are three key reasons why corporate hybrids are looking so attractive relative to other opportunities right now. This undervaluation is mainly due to misconceptions that, once corrected, should lead to strong performance.

1. The aftermath of the Credit Suisse Contingent Convertible (CoCo) bond situation has scared investors and has left corporate hybrids trading at unfairly wide spreads. Corporate Hybrids are not CoCos and do not have a regulator who can convert them or write them down. As time goes on, memories of Credit Suisse will fade and as people learn more about hybrids, their spreads should narrow.
2. Real estate. It is only around 5% of the asset class and 3.5% of our benchmark. However, it is more risky than the rest of the universe. Issuers are smaller, more cyclical, more highly leveraged, with much less operating history and have less reliance on senior debt markets. Hence, they are more likely to miss call dates rather than call. By contrast, Hybrids in all other sectors continue to be called. As investors realise there is no contagion here beyond real estate, this should lead to (non-real estate) hybrid spreads tightening.
3. Interest rates. Clearly, rising interest rates are negative for bonds generally. However, many investors appear to believe that at higher rates, corporate hybrids are less likely to be called. For reasons discussed above - the loss of ratings agency equity treatment and particularly the post-call skip (higher) coupon will be based on swap rates – so the level of interest rates is irrelevant to call risk. Senior debt spreads are the variables that matter most. The risk of a call being skipped surfaces only if senior debt spreads are larger than the callable hybrid spreads at the time of the call. This point is especially important. As rates stabilise and start to fall, corporate hybrids should do very well - as they have in the past amid falling interest rate environments – see figure 1.

## Our approach

When managing active Corporate Hybrid portfolios, we focus only on investment grade, developed market issuers with strong ESG characteristics. Our approach is best described as long term, value-oriented, fundamental and bottom-up. Our aim is to outperform our benchmark by a significant margin over a 3-5 year period. We tend to form relatively concentrated portfolios focused on bonds that we believe are significantly undervalued. We try to be patient in waiting for the market to offer us opportunities but attempt to act decisively when they are offered.

Given that Corporate Hybrids are typically more volatile than senior bonds and have structural differences, a deep understanding of the issuer and the structure of the bond is critical in coming to a view on valuation. We look carefully at the prospectus in order to understand the terms of the bond. We 'stress test' each issuer and consider the probability of call and extension risk under various challenging scenarios. We look at the history of the issuer and consider points like the length of time the issuer has been listed, its dividend-paying record – particularly in times of stress – and its relationship with bond investors.

Our analysis is forward-looking – we tend to favour strong, defensive issuers with pricing power that we believe will continue to thrive even in challenging times, but, most importantly, where the bonds are trading significantly below their fundamental fair value. We compare our findings with the potential returns currently on offer from the bond in question and calibrate them with the other opportunities available to create what we consider the optimal portfolio from a long-term risk-adjusted return perspective. The recent growth and development of the market has led to particularly interesting opportunities for active, long-term investors.

## Conclusion

The Corporate Hybrid Bond market allows investors to access high-yield-like coupons from strong investment grade issuers. It is mainly composed of robust, defensive, non-financial companies, with significant pricing power, which leaves it relatively well placed in both a recessionary and inflationary environment. Furthermore, the structure is extremely bondholder-friendly and should not be confused with Coco bonds, which have riskier features than Corporate Hybrids. There has never been a missed coupon by an investment grade Corporate Hybrid issuer, and there are very few historical incidents of extension and no Corporate Hybrid can ever be written-down in the manner of Credit Suisse's Cocos recently. As interest rates reach a peak and start to decline and as bonds continue to be called, we believe Corporate Hybrids should perform extremely well. Our fundamental driven, value-approach looks to take advantage of what should be a great set of opportunities for investors.

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# Engagement Activities for Japanese Companies

Tokyo Stock Exchange (TSE) calls for measures for companies with a PBR consistently below 1 to show clear policies and initiatives for improvement

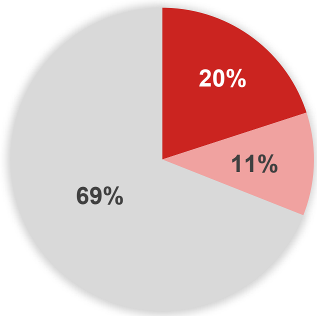
Yosuke Uchida
Head of Engagement Department

## TSE calls on companies with PBR below 1 to disclose specific improvement policies

In March 2023, the TSE asked listed companies to strengthen their efforts to take account of capital costs and stock prices as part of their management policy. This has had a considerable impact on many investors, including overseas investors, as well as Japanese companies. It seems the TSE has made a big impact by clearly indicating a specific valuation target (PBR) and by addressing the cost of capital, which has not been discussed in much depth until now.

Indeed as of July 2023, more than 30% of companies listed on the Tokyo Prime Market, including those under consideration, disclosed such initiatives (Figure 1), suggesting the effects of the TSE announcements were felt sooner than expected. While there is an alternative view that the number of companies responding was not sufficient, considering that such a significant number of companies responded so soon, the quick response from these companies can be viewed as a positive signal.

Figure 1. State of Disclosure based on TSE request of "Action to implement management that is conscious of Cost of Capital and Stock Price"




■ Disclose Measures ■ Under Consideration ■ No Description

Source: Nomura Asset Management based on materials of TSE listed sections

## Actual capital cost disclosure ratio has been less than 10%

Nomura Asset Management's Engagement Department held a hearing with equity research analysts at the beginning of this fiscal year to investigate the efforts of each company in terms of capital efficiency and capital cost. The table (Figure 2.) shows sectors that have been relatively active in improving their return on capital (Return on Invested Capital). Most conglomerates, such as general electronics and general chemicals, have introduced measures to improve return on capital to some extent, but few companies have introduced capital costs as a specific management indicator, except for some in the electronic components and machinery industries. Although there is a bias among industries, it is estimated that, overall, about 20% of companies introduced return on capital (including sectoral) disclosures, and the actual cost of capital was less than 10%.

Figure 2. Introduction and disclosure of ROIC and capital costs

| Sector | Measures and Progress |
|---|---|
| General Electronics | ROIC is used by many companies, but it is mainly an internal management indicator. No capital costs introduced. |
| SPE | ROIC was introduced by two companies as an internal management indicator. No capital cost disclosure. |
| Electronic Component | Approximately 30% of ROIC and capital cost, mainly for international blue chip companies |
| Trading Company | Introduction of ROIC is about 10%. Only one company introduced capital cost. |
| Chemical, Fiber | Introduction of ROIC and Capital Cost is app. 20-30% and 10% respectively. |
| Automobile | Introduction of ROIC is about 10%. There is no need to separate business divisions. No capital cost introduced. |
| Machinery | For internal revenue management, ROIC has been introduced to app. 30%, Capital cost has reached to app. 40%. |

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## Engagement on return on capital

Engagement with companies to improve return on capital is also an ongoing theme. Our engagement activities follow nine key themes (Figure 3), which are updated annually and are spread across several broad themes, such as "strengthen commitment to capital efficiency", "rational explanation of financial strategy", and "integrate business strategy and sustainability". Specific contents of this engagement include: disclosures of ROIC by division and capital cost, restructuring of business portfolio strategy based on disclosures, and setting of optimal capital structure. The primary engagement goal, i.e. focusing on improving return on capital, has increased 1.4 times during the past reporting year (from the end of September 2022 to the end of September 23).

Figure 3. Engagement - Key Themes (FY2022)

| |
|---|
| 1. Integrate business strategy and sustainability |
| 2. Climate change |
| 3. Natural capital |
| 4. Human rights risk |
| 5. Utilization of human capital with diverse values |
| 6. Resolving challenges to achieve societal well-being |
| 7. Redefine the Board of Directors |
| 8. Strengthen commitment to capital efficiency |
| 9. Rational explanation of financial strategy |

Figure 4. Engagement Goals

| | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 |
|---|---|---|---|---|---|---|---|
| Engagement Goals - Total | 420 | 535 | 665 | 793 | 905 | 990 | 1072 |
| Return on Capital (ROC) | 85 | 94 | 112 | 128 | 146 | 151 | 158 |
| *ROC / Total* | *20%* | *18%* | *17%* | *16%* | *16%* | *15%* | *15%* |

Source: Nomura Asset Management

## Increased awareness of improving return on capital by the investee companies

Next, we turn to the introduction of the case studies. For the medium-term management plan, simply requiring disclosure of information about return on capital improvements and explanations of financial strategy are not in themselves enough to raise equity valuations or resolve situations where PBRs remain below 1.

Measures that could have an immediate effect are to resolve excess balance sheet reserves by enhancing shareholder returns, such as through share buybacks. Many Japanese companies still hold cash reserves in excess of appropriate levels, and they need to invest more in research and development, human capital, and measures to improve returns to shareholders.

<u>Case 1. Midsize semiconductor manufacturer</u>

Although the company posted stable profits, its excessive financial assets have contributed to a capital efficiency slump. We took issue with the fact that the only indicators of executive performance-linked compensation were operating income and net income. We therefore urged the company to add a measure of capital efficiency. ROE was added to the target indicators in 2023 and we expect management to show a greater commitment to capital efficiency in future.

<u>Case 2. Midsize transportation company</u>

Since 2021, we have conducted several direct engagement activities. In our assessment, the company has a large amount of financial assets, and concerns remain that the company has not set up policies to utilize financial assets and to set capital efficiency targets, and therefore they have not been used effectively. The company has since announced a growth strategy, ROE targets, and shareholder returns policies along with the release of its medium-term management plan in June 2023.

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## Engagement on capital efficiency

The following case studies focus on resolving the most important issues (materiality) faced by individual companies.

Case 3. Major tire manufacturer (Figure 5)

The company made a major acquisition by expanding its business from automotive to construction and industrial applications, but its market evaluation remained low. We asked for a business briefing on off-highway tires (OHT) and an explanation of its growth strategy. The company disclosed measures to strengthen the business and announced that it would sell ¥30 billion in cross-shareholdings for the full year of 2023 to fund its OHT business.

Case 4. Major retailer

The company's return on capital indicators, such as ROE, have remained subdued. While other peers are developing improvement measures, we have also asked the company to establish and disclose such measures. At a briefing held in April 2023, the company disclosed its capital cost calculations, its target for return on capital and improvement measures with the aim of increasing its PBR to 1.

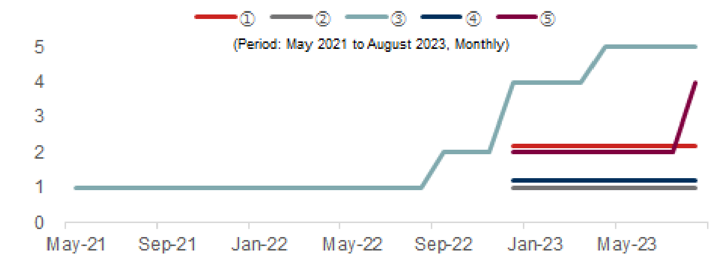
Case 5. Non-ferrous metal manufacturer

This long-established company is engaged in multiple businesses with low returns and high performance volatility. We have asked the company to disclose its return on capital and explain its business portfolio. At a briefing held in April 2023, the company disclosed its sales growth rate and ROIC by business. It also laid out a policy of optimizing its business portfolio by taking this into account.

Figure 5. Engagement Case Study – A Major Tire Manufacturer

**Engagement goal**

① SBT Acquisition and Environmental Initiatives
② Redefining the Board of Directors (remedy the fact that CEO is Chair of both the Nomination and Compensation Committee)
**③ Reduction in cross-shareholdings**
④ Reflection of capital efficiency in management remuneration
**⑤ Business briefing session on OHT (off-highway tyre) business, explaining growth strategy**





<Questions> < Response from Target Company >

③ Cross-shareholdings are higher than those of other companies in the same industry.

We assess every year, but recognize that they are high. — 1
(May 2021, Managing Director)

③ Sales of cross-shareholdings have been slow.

It was difficult to sell shares last year because of acquisitions. Company recognizes that there are too many, and will proceed to reduce them. — 1→2
(Sep 2022, Managing Director)

③ The company sold part of its shares in a rubber products manufacturer. However, the company's shareholdings remain larger than those of other companies in the same industry.

Management also recognizes the large number of cross-shareholdings. We are considering sales from two perspectives, quantitative and qualitative, while considering a net asset ratio of 20%. — 2→4
(Dec 27, 2022, Director, CSR Planning Dept.)

③ Disclosed plans to sell investment securities and record extraordinary income

③ Disclosed the sale of investment securities. Could you tell us more about the background?

The purpose of the sale is not only to reduce cross-shareholdings, but also to **improve capital efficiency in consideration of the PBR below 1.** It will also be used to fund the acquisition of a deal scheduled to close in early May.

In the current fiscal year, the company will continue to reduce its cross-shareholdings and work to repay one year of the TWS acquisition, including the recently announced sale of its U.S. distribution company. — 4→5
(Apr 14, 2022, General Manager of Accounting Department)

③ Announced a full-year 30 billion yen stock sale. — 5
⑤ Disclosure of policy to strengthen OHT business by focusing on acquisition projects using the proceeds from the sale — 2→4
(Aug, 2023, Company announcement)

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# Human Capital Management

Human capital management that improves corporate value

Madoka Minagoshi
Senior ESG Specialist

## Human capital information disclosure begins

Since the fiscal year ended March 2023, listed companies have been required to include disclosures relating to human capital in their annual reports. Human capital refers to the knowledge, skills, and motivation of the firm's human resources and personnel. Traditionally, corporate investment has focused on tangible assets like factories and production facilities. However, changes in recent years to the industrial structure have seen the source of corporate competitiveness shift towards intangible assets such as patents and business models. For this reason, information on human resources that generate such intangible assets (e.g. human intellectual capital) has attracted attention as an indicator of a company's growth potential.

Although some companies have made voluntary disclosures of human capital information in the past, the revised Corporate Governance Code of 2021 made disclosure of human capital information a requirement within a company's Annual Securities Report – a statutory document. This signifies the growing importance of human capital information.

Figure.1. Domestic Trends in Human Capital Disclosure

| | |
|---|---|
| Sep-20 | Ito Report for Human Capital Management released by the Ministry of Economy, Trade and Industry |
| Jun-21 | Human capital criteria added to revised Corporate Governance Code |
| Aug-22 | "Guidelines for Human Capital Visualization" announced by the Cabinet Secretariat |
| FY23 - | Require listed companies to disclose human capital information in annual securities report |

Source: Nomura Asset Management based on various information sources

## Global trend in human capital information disclosure

Global corporate interest in human capital information is growing, and disclosure rules are being established in each country and region.

In Europe, the Non-Financial Reporting Directive mandated that non-financial information, including human capital, must be disclosed by companies with sales above a certain threshold in 2014. Subsequently, publication of the Corporate Sustainability Reporting Directive, which sets out more detailed disclosure rules, will gradually expand the scope of the directive from 2024.

In the United States, the U.S. Securities and Exchange Commission (SEC) revised Regulation S-K under the U.S. Securities Act in 2020 to require listed companies to disclose human capital information in their annual reports.

In addition, the International Sustainability Standards Council (ISSB), which is part of the IFRS Foundation, is seeking to establish standards for the disclosure of sustainability information in relation to climate change, and they have listed four priority projects: biodiversity, human capital, human rights, and integration in reporting. If the ISSB formulates human capital standards, then it is expected that the Japanese authorities might also adopt similar standards in Japan, and companies will be required to disclose them.

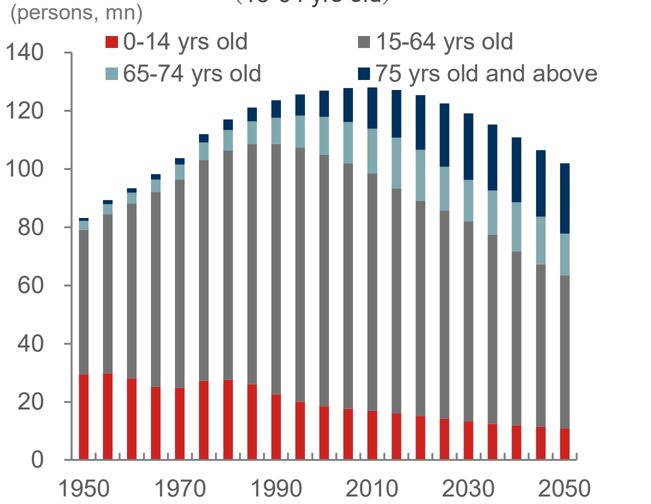
*This commentary is based on our investment and research professionals' personal views and does not represent NAM's house view.

## Declining population and human capital

To ensure continuous growth in corporate value amid significant and complex changes in the business environment, it is becoming increasingly important to adopt more flexible recruitment policies and to invest in the development of the necessary human resources in line with a company's overall business strategy.

In Japan, in particular, the working-age population (15-64 years old), which is economically active, had already peaked by 1995 and has been in decline since then. The working population is expected to shrink to 52.75 million in 2050, a drop of around 30% from 2021, making it increasingly difficult to secure the necessary human resources. As the value of work changes, especially among the younger generation, and following the Covid-19 pandemic, it is also an important management requirement to create a rewarding work environment in which diverse human resources can maximize their abilities, and where corporate human capital initiatives can attract attention.

Figure 2. Trends in Estimates of working-age Population (15-64 yrs old)




Source: Nomura Asset Management based on the Ministry of Internal Affairs and Communications "Population Census of Japan," National Institute of Population and Social Security Research "Population Projections for Japan"

## Research on human capital make advances

Amid growing interest in the disclosure of human capital information, Nomura Asset Management conducted an analysis of the relationship between human capital and stock prices. Specifically, we selected indicators related to human capital to quantitatively evaluate a company's ability to utilize human resources and to examine the relationship with its stock price performance. Analysis of Japan's 1,000 largest companies by market capitalization, suggested a clear difference in annualized returns between the highest-scoring and lowest-scoring groups. Our analysis found that companies with higher human capital assessments had a strong correlation with higher investment returns.

In addition, human capital indicators such as "Employee engagement", "Well-being", and "Cognitive diversity" are attracting attention. "Employee engagement" refers to a sense of worth, and a high number indicates that employees are taking more initiative in their work. "Well-being" refers to good physical, mental and social health, and it has been found that happier employees are more creative and productive than those who are not. In addition, there are two types of diversity: "Demographic diversity", which refers to attributes that cannot be changed, such as gender and race, and "Cognitive diversity", which refers to the diversity of thought characteristics, skills, and experiences. The latter type is considered important for building innovative organizations.

In the future, we will deepen the dialogue on human capital between companies and investors, drawing on these new topics.

*This commentary is based on our investment and research professionals' personal views and does not represent NAM's house view.

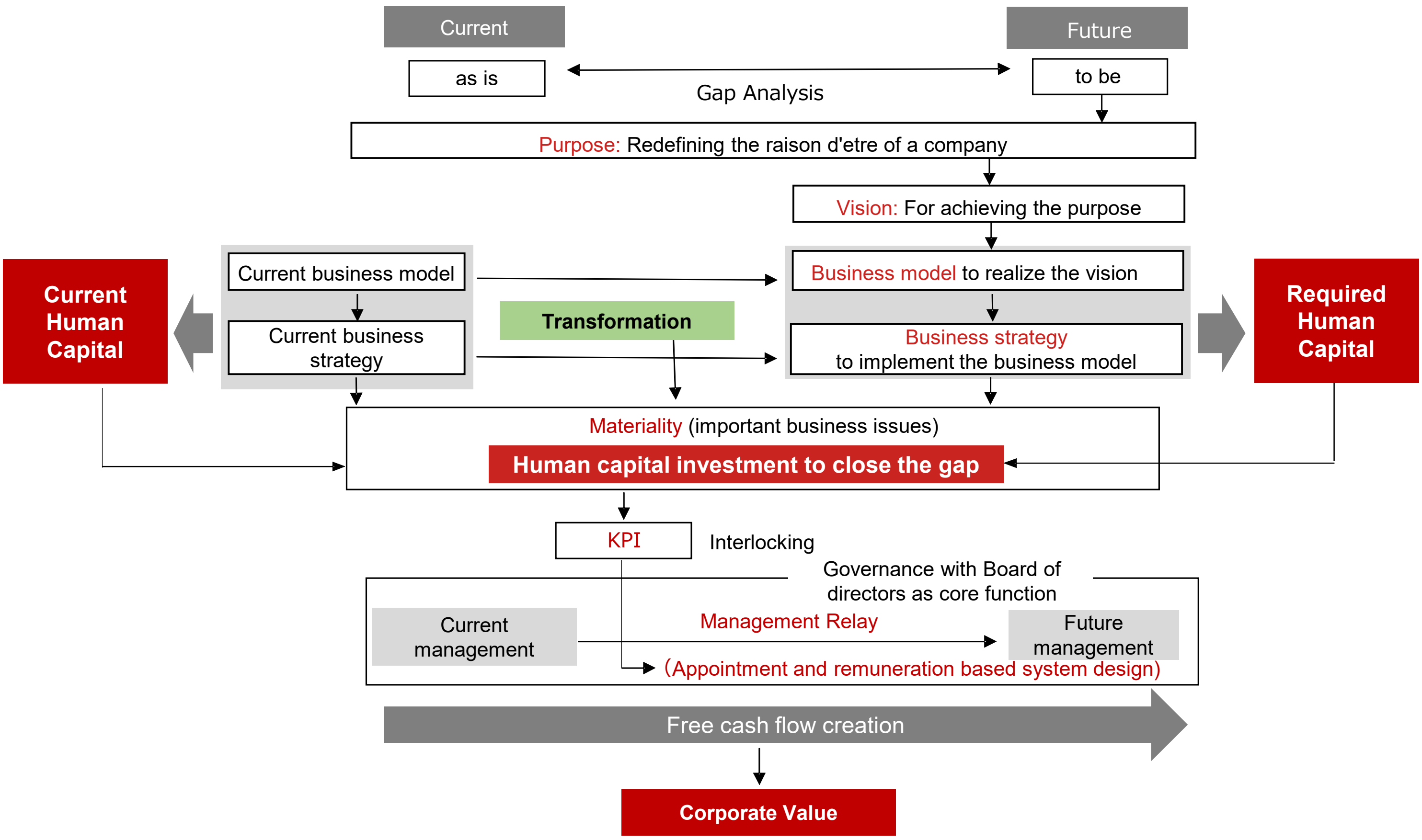
## Human capital management that improves corporate value

Ultimately, human capital management aims to improve corporate value. So, in what ways can human capital management help to improve corporate value?

Corporate value is defined in finance theory as the present value of future cash flows. In order to grow continuously and to generate cash flow in an era of high uncertainty, a company needs a management strategy that takes into account expected future changes in the business environment and it needs the right human capital to implement it. Therefore, it is necessary to analyze and understand where there are any gaps between the firm's current human capital and the human capital needed to implement future management strategies. Investment in human capital therefore aims to close this gap. Companies are then required to set agenda-specific KPIs to manage the progress of human capital investments and to conduct regular reviews.

From this perspective, we will engage in human capital dialogue with our investee companies to raise the overall level of the Japanese market by improving the value of the companies in which we invest.

Figure 3. Correlations between corporate value and human capital investment




Source: Nomura Asset Management

*This commentary is based on our investment and research professionals' personal views and does not represent NAM's house view.

# Global Economic Outlook 1 – Base Case Scenario

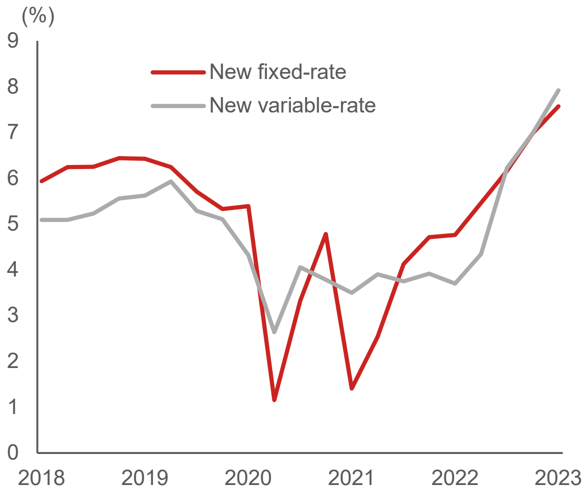
Economic growth to slow as effects of monetary tightening surface

## The effect of past monetary tightening has not completely surfaced yet

We predict that the U.S. economic growth rate will be negative with rising unemployment rates due to the effect of past monetary tightening on the real economy with a certain time lag. However, we expect that its timing will be postponed by about six months from the second half of 2023, which was our previous prediction. We believe that the pre-COVID low interest rate environment that lasted for a long time and the liquidity supply during the COVID-19 pandemic, among other things, have prevented part of the effect of rate hikes from surfacing. However, as debt raised under the COVID low interest rate environment is refinanced going forward, the current high interest rates should work to slow economic growth.

As a result, inflationary pressures will also decrease.

U.S. Lending Rates of New Loans to Small and Medium-sized Businesses
(January-March 2018 - January-March 2023, Quarterly)



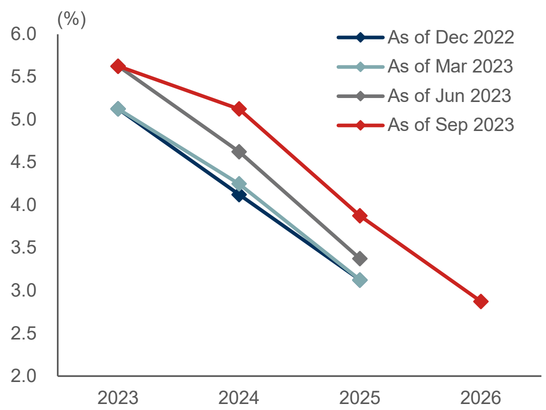

Source: Nomura Asset Management based on data published by the Federal Reserve Bank of Kansas City.

## Rate cuts expected to start in 2024

The FOMC meeting held in September did not change the target range for the federal funds rate. On the other hand, one additional rate hike this year was suggested by the median value of FOMC participants' projections of the federal funds rate. According to their latest projections, interest rate cuts will start in 2024, but the pace of rate cuts will be slower than that suggested in their previous projections in June.

We maintain our view that under our moderate recession scenario, the U.S. and European central banks will decide to cut interest rates in a phased manner in and after mid-2024. If these central banks implement flexible policy operations, the economy is expected to start moving toward stabilization in the second half of 2024.

FF Rate Outlook by FOMC Participants (Median)




Source: Nomura Asset Management based on the Fed data

# Global Economic Outlook 2 – Risk Scenario

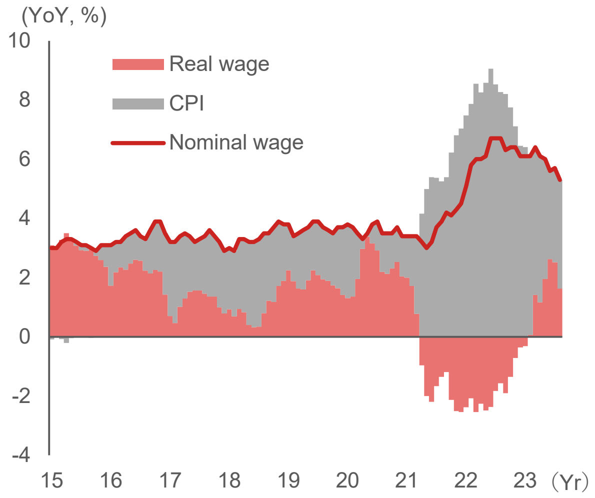
Risk balance is currently tilted toward upside from the somewhat conservative base case scenario

## Upside risk: Recession to be avoided or delayed

Regarding the base case scenario that the U.S. economy will start contracting in the first half of 2024, the following upside risks exist: (1) Although growth momentum will soften, a recession will be avoided and (2) A recession will occur, but a little later than expected.

Although both inflation rates and wage growth rates have been slowing down, nominal wage growth has remained above inflation rates for approximately last six months, indicating that the income environment is improving in real terms. Although there are certain estimates indicating that the excess savings of households is being depleted, we cannot deny the possibility that the US economy will continue to grow at a normal pace as the real income environment now starts supporting consumption, and recession is avoided as a result.

U.S. Real Income Environment
(January 2015 - August 2023, Monthly)




Note: The wage index published by the Federal Reserve Bank of Atlanta is used for nominal wage. Real wage is calculated by deducting year-on-year percentage changes in CPI from year-on-year percentage changes in nominal wage.
Source: Nomura Asset Management based on data published by the Federal Reserve Bank of Atlanta and CEIC data

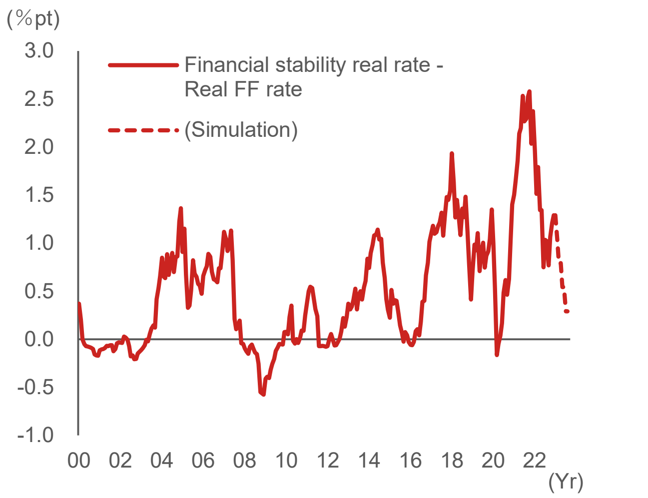
## Downside risk: A significant contraction or shock will occur

Although our base case scenario has taken into consideration the impact on the economy and prices of a tighter financial environment and central banks' responses to it, sufficient attention needs to be paid to the downside risk that the financial environment will tighten far more than expected.

The actual real Fed funds rate has approached fairly closer to the financial stability real rates (above which the financial environment is likely to be destabilized) estimated by the Federal Reserve Bank of New York.

For the time being, upside risks may outweigh downside risks in the economy. However, we should be wary of the downside risk that the cumulative effect of rate hikes will weigh more heavily on the real economy than expected, and financial stability will be undermined.

Financial Stability Real Rates Estimated by the Federal Reserve Bank of New York
(January 2000 - September 2023, Monthly)




Note: The Federal Reserve Bank of New York has published estimates through December 2022. Simulation data are used for 2023 by assuming that the financial stability real rates will remain flat while rate hikes will occur in 2023.
Source: Nomura Asset Management based on data published by the Federal Reserve Bank of New York.

# Global Economic Outlook 3 – Economic Cycle

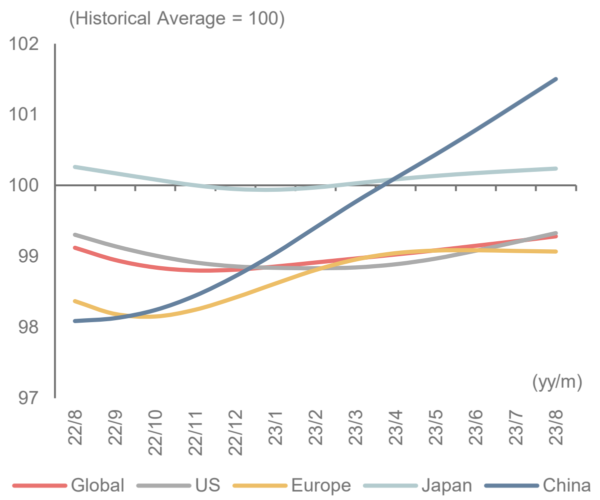
While the global economy will continue to recover, the size of growth will be small due to the softening of the European economy

## Global Composite Leading Indicators are rising, but the pace is moderate

The Composite Leading Indicator (CLI) of the Organization for Economic Co-operation and Development (OECD) started to recover sometime around the end of 2022. After entering the recovery phase in the first half of 2020 last time, the economy has come full circle in about three and a half years.

While the global CLI entered the recovery phase, the directions of CLIs of individual countries and regions are varied. While the Chinese CLI is rising significantly, the size of recovery in the U.S., Europe, and Japan has been small. The European CLI showed signs of economic recovery earlier than the US and Japanese CLIs, but has started declining again. Given these developments, the recent rise in the global CLI has been somewhat slower than in similar periods in the past.

Changes in OECD Composite Leading Indicators (August 2022 - August 2023)



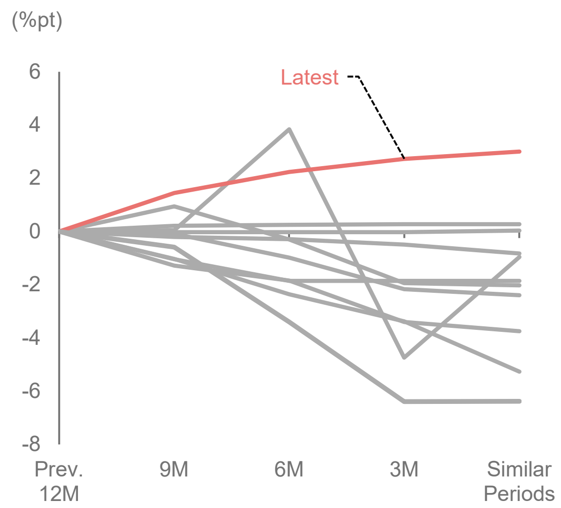

Note: "Global" is based on G7 data. "Europe" is based on data for four major European countries.
Source: Nomura Asset Management based on OECD data

## Attention to whether Europe can achieve economic recovery under the inverted yield curve

Recovery in stock markets has so far preceded economic recovery. This is largely the same trend as in the past. On the other hand, the interest rate environment is different from those during the past similar phases. In the past similar periods, there was a clear pattern that the U.S. and European central bank continued to cut policy rates until the economy starts to recover, and it is almost certain that monetary easing triggered economic recovery.

In contrast to the U.S., the European CLI may indicate that interest rate hikes have gradually dragged economic recovery down. In Germany, the policy rate (deposit facility rate) has remained above the 10-year bond yield since March this year, resulting in an inverted yield curve. The several constituent indicators of its CLI have also been worsening in response to the situation.

Changes in U.S. Policy Rates in Similar Periods over the Past Year (Similar Periods in Economic Cycles in and after 1970)




Note: Similar periods have been identified quantitatively based on global economic cycles. U.S. policy rates are changes from 12 months earlier than the respective similar period, which is set at zero. Ten similar phases have been identified in and after 1970.
Source: Nomura Asset Management based on OECD and Refinitiv Datastream data

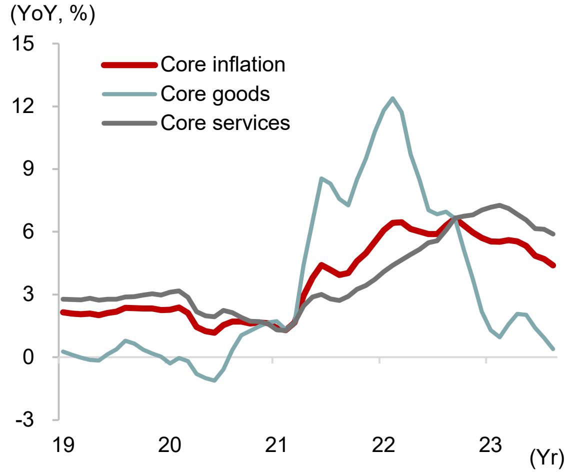
# U.S.

## The economy remains resilient, but is expected to soften going forward due to the effect of rate hikes

### The economy currently remains resilient, but is expected to soften going forward

The U.S. economy is resilient. Despite rate hikes, a virtuous cycle between more employment/wage growth and increased consumption continues to be working. On the other hand, the inflation rate continues to moderate although it remains above the Fed's inflation target of 2%. In this situation, expectations are rising for soft landing that achieves inflation target while avoiding recession. However, if you look at the breakdown of inflation, while the inflation rate of prices of goods has slowed down significantly, the slowdown in the inflation rate of service prices has been limited on the back of wage growth. For further slowdown in inflation rates including that of service prices, a recession and worsening of the labor market would be necessary. As the excess savings accumulated during the period of the COVID-19 pandemic will be reversed more and more going forward, it is expected that the effect of rate hikes will intensify, and an economic downturn will occur.

U.S. Inflation Rate
(January 2019 - August 2023, monthly)




Note: Based on consumer prices. Core and core goods exclude energy and food, core services exclude energy.
Source: Nomura Asset Management based on CEIC data.

### The FOMC did not raise rate in September, but a possibility of additional rate hikes remains

At its meeting in September, the Federal Open Market Committee (FOMC) decided not to raise interest rate after undertaking a rate hike of 0.25 percentage points in July. Nevertheless, Federal Reserve Chair Jerome Powell has left door open to further rate hikes going forward by stating to the effect that the pause in rate hike does not mean that we have reached an appropriate level of interest rate, but rather means that the Fed awaits further data.

The September projections of FOMC participants indicate that the pace of rate cuts in and after 2024 will be slower than that indicated in their June projections although their projections about rate hike goals are unchanged. Nevertheless, their GDP growth projections have been revised upward through 2024 to reflect strong economic trends. On the other hand, their projections about inflation have been largely unchanged, indicating their view that the inflation rate will continue to moderate. We can say that the projections of FOMC participants are much like a soft landing scenario.

Projections of FOMC participants

(Unit: annual percentage changes)

| | | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| GDP growth | September 2023 | 2.1 | 1.5 | 1.8 | 1.8 |
| GDP growth | June 2023 | 1.0 | 1.1 | 1.8 | - |
| Core inflation | September 2023 | 3.7 | 2.6 | 2.3 | 2.0 |
| Core inflation | June 2023 | 3.9 | 2.6 | 2.2 | - |
| Policy rate | September 2023 | 5.6 | 5.1 | 3.9 | 2.9 |
| Policy rate | June 2023 | 5.6 | 4.6 | 3.4 | - |

Note: Median projections of FOMC participants. Core inflation rate represents inflation rate excluding food and energy. GDP growth rates and inflation rates are year-on-year percentage changes for October-December each year. Policy rates are as at the end of each year.
Source: Nomura Asset Management based on data published by the Fed data

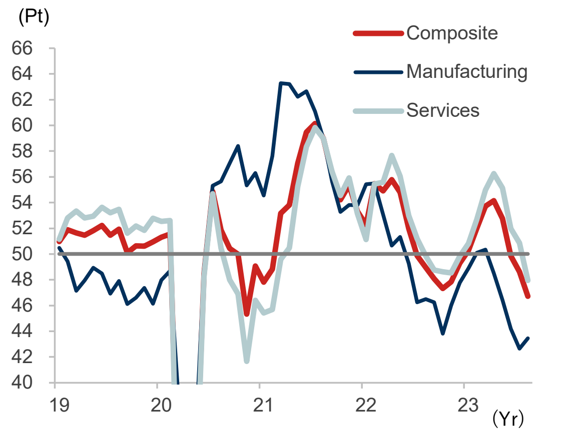
# Eurozone

The effect of rate hikes is expected to drag the economy down further with great uncertainty about its ripple effect to prices

## The economy is currently stagnant and is expected to continue to stagnate due to the effect of rate hikes

The Eurozone economy is stagnant. The Eurozone GDP growth rate for April-June was low. While personal consumption and capital investment lacked strength, inventory investment has boosted GDP. It appears that the increase in inventory levels, which occurred during the period of weak demand, has been unintended by the corporate sector. The Eurozone Purchasing Managers' Index (PMI) for July-September has fallen below the turning point of 50, suggesting that economic stagnation will continue. The service sector as well as the manufacturing sector is weak, indicating the spread of the effect of rate hikes by the European Central Bank (ECB). However, ripple effects of economic stagnation over to prices have been delayed. The inflation rate in the Eurozone has been slowing. However, the pace of slowdown in the core inflation, which excludes energy and food, has been moderate, and inflation pressures remain strong. The effect of rate hikes is expected to drag the economy down further going forward and also to ripple over to prices, but the uncertainty of this ripple effect is high.

Eurozone PMI
(January 2019 - August 2023, monthly)




Note: Some of data in 2020 are not displayed for visibility of recent data.
Source: Nomura Asset Management based on S&P Global data

## The additional rate hike in September is most likely to be the last one

At its Governing Council meeting held in September the ECB decided to raise the policy rate (deposit facility rate) further to a record high level of 4.00%. The newly announced ECB staff projections indicate that GDP and core inflation projections through 2025 have generally been revised downward. At a glance, they do not prompt the ECB to raise interest rates further. However, ECB President Christine Lagarde explained that the reason for the additional rate hike was to reinforce progress toward the central bank's inflation target. Regarding the future course of actions, her statement newly included a sentence that "we consider that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to our target," which strongly suggests that the additional rate hike in September is most likely to be the last one. It appears that the focus of the ECB's monetary policy has shifted from the levels of the policy rate to how long the current levels should be maintained.

Economic outlook by ECB staff

(Unit: annual percentage changes)

| | | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| GDP growth | September 2023 | 0.7 | 1.0 | 1.5 |
| | June 2023 | 0.9 | 1.5 | 1.6 |
| HICP inflation | September 2023 | 5.1 | 2.9 | 2.2 |
| | June 2023 | 5.1 | 3.0 | 2.3 |

Source: Nomura Asset Management based on ECB materials

# Japan

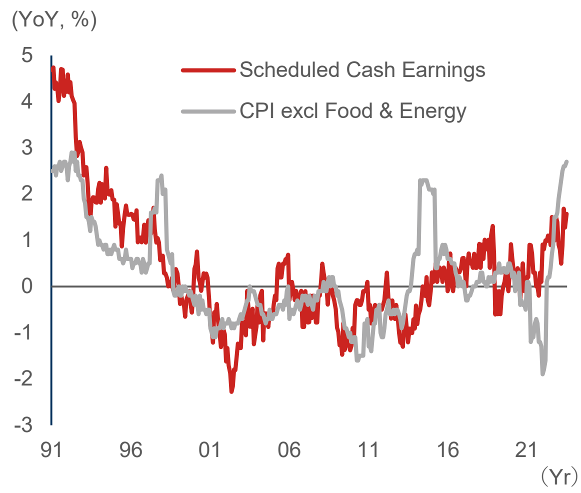
## The BOJ is expected to abandon its yield curve control sometime in the second half of 2024

### Attention to the risk of price hikes

The Japanese economy is expected to continue to achieve solid growth for the time being, supported by recovery in domestic and inbound demand. According to the Monthly Labor Survey, year-on-year real wage growth remains to be negative due to the effect of high inflation, but we expect that real wage growth will improve going forward as the effect of cost-push factors will fade while wage growth rates will rise.

However, it is also possible that the inflation rate will remain at or rose to higher levels than expected. It is taking a long time to pass past increases in costs onto selling prices. In addition, some companies are passing wage increases onto selling prices. On the other hand, there are households of pensioners whose income environment is expected to worsen in real terms as a result of macroeconomic slides. It is important to watch whether there will be a virtuous cycle of rise in wages and prices accompanied by an increase in consumption.

Wages and Prices
(January 1991 - July 2023, Yearly)




Source: Nomura Asset Management based on CEIC data

### The next move of the BOJ is expected to be to abandon its yield curve control in the second half of 2024

At the Monetary Policy Meeting held in July, the Bank of Japan effectively capped the long-term yield curve control (YCC) interest rate at 1.0%, allowing it to exceed the previous limit of 0.5%. The next focus will be on the YCC framework itself and negative short-term interest rates.

The Bank of Japan's policy decisions will be influenced not only by wage and price trends in Japan, but also by political developments and overseas economic developments. In early September, Governor Kazuo Ueda stated that there was a "non-zero chance" that the data on wage and price developments would be available by the end of this year, which was seen as a factor in the market. However, if risks to overseas economies become apparent in the first half of 2024, the focus will be on the October 2024 meeting, in light of the timetable for the ruling Liberal Democratic Party presidential election and the broad-perspective review of monetary policy.

Scheduled Major Events
(September 2023 – December 2024)

| | US Economy | Political situation | Wage・Price | BOJ |
|---|---|---|---|---|
| After Sep. 2023 | | LDP and Cabinet reshuffle(Sep) | | |
| Jan-Mar 2024 | US recession (NAM outlook) | | Spring Labor Negotiations (Mar) | |
| Apr-Jun | | | | Broad-perspective review (Apr-Oct) |
| July-Sep | US rate cuts (NAM outlook) | Expiration of the term of LDP president (Sep) | Report on minimunm wage revision (Jul-Aug) | |
| Oct-Dec | | US presidential election (Nov) | | |

Source: Nomura Asset Management based on BOJ data and various media coverage.

# China

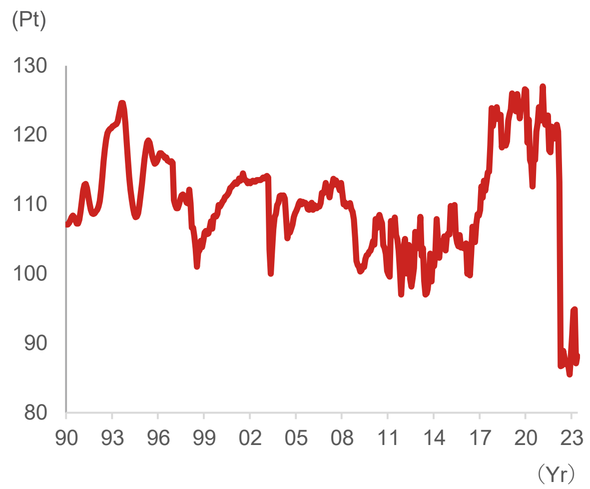
Slow-growth to linger for a long time

## No strong recovery can be expected without recovery in sentiment

The Chinese economy is slowing down as the recovery following the economic reopening was not sustained. We believe that the largest factor behind this is the weak sentiment in the household and private corporate sectors. For example, households have remained cautious about their consumption after the economic reopening and are saving a sizable portion of their income. This is because they have lost confidence in the outlook of the economy in view of high unemployment rates among young people and falling prices of their houses, which account for the greatest part of their assets. In addition, private companies are refraining from aggressive investments on the back of uncertainty in the business environment arising from regulations of authorities and geopolitical confrontations as well as the worsening of demand outlook.

Such weakness in sentiment is in the process of self-realization. Unless the pessimism about outlook recedes, no strong recovery can be expected.

Consumer Confidence Index
(January 1990 - May 2023, monthly)



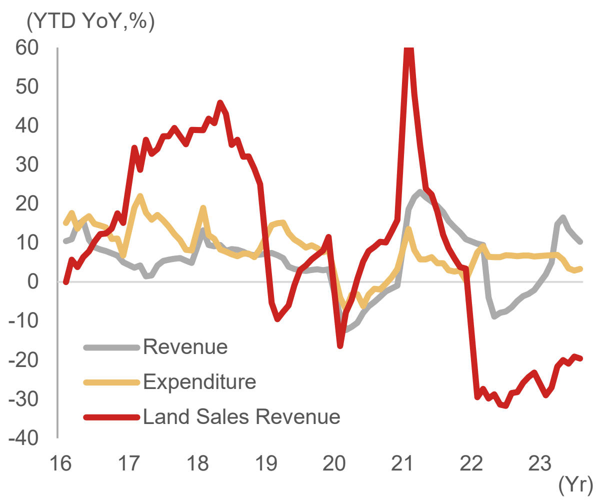

Source: Nomura Asset Management based on CEIC data

## No major fiscal stimulus measures are likely to be announced

We believe that given the lack of demand in the private-sector, the government needs to actively create demand to break the vicious cycle stemming from the weakness in sentiment. However, the government is keeping a distance from major fiscal stimulus measures like those implemented in the past. The government has been reluctant to introduce stimulus measures that could increase long-term financial risks by stressing the quality of growth. Another factor behind the reluctance is that revenue from the sale of land use rights, which is an important source of revenue for local governments, has decreased significantly due to the downturn in the housing market, and the capacity for further economic stimulus is limited.

Although small policy adjustments have recently been made, we expect that low growth is likely to continue going forward through weak sentiment unless major stimulus measures are introduced.

Financial Condition of Local Governments
(January 2016 - August 2023, Monthly)




Source: Nomura Asset Management based on CEIC data

# Emerging

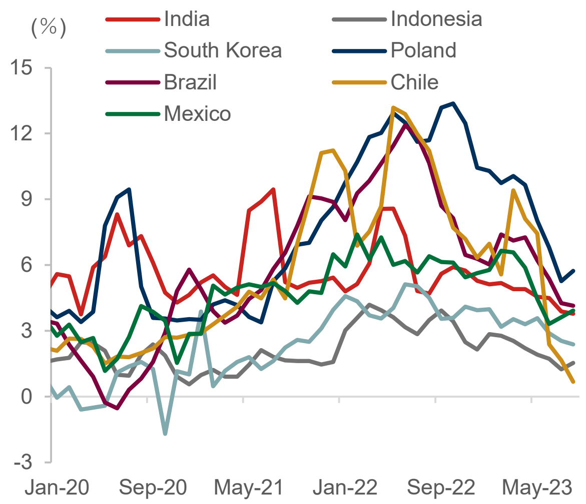
The economy and inflation continue to slow while some countries will start cutting interest rates

## The economy and inflation will continue to slow

Emerging economies as a whole remain weak due to the effects of weak external demand and monetary tightening. Inflation continues to moderate. For example, the core inflation rate (an inflation rate calculated by excluding items that are subject to large fluctuations, such as food and energy) has decelerated on month-over-month basis. However, the downward pressure from food and energy due to the effect of comparison with the previous year has run its course most recently, and these items have become factors to drive the inflation rate higher again as international commodity prices rise.

The economy is expected to remain weak going forward as weakness in foreign demand and tight monetary policies will continue. Inflation is also expected to continue to moderate, but rises in international food and energy prices will be a risk of higher inflation than expected.

Changes in Core Inflation Rates
(January 2020 - August 2023, Monthly)



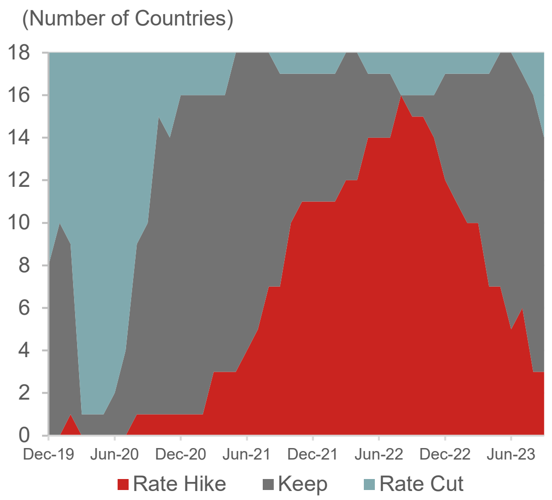

Note: Measured in terms of the seasonally adjusted three-month moving average of month-over-month percentage changes (annualized). The definition of core inflation varies with each country.
Source: Nomura Asset Management based on CEIC data

## Some countries entering the rate cut cycle

As inflation continues to moderate, some central banks, particularly among those of countries that have been actively tightening monetary policies until recently, have started cutting interest rates. These countries have also suggested that they will continue to cut interest rates several times going forward, which indicates a shift from very restrictive monetary policies in the past. However, cautious monetary policy stances are maintained as a whole, including these central banks.

We expect that many more countries will start cutting interest rates if inflation continues to moderate. However, it is likely that cautious monetary policy stances will be maintained going forward, and rate cuts will be deterred if inflation rates rise mainly in food and energy prices more than expected or their currencies are depreciated rapidly.

Monetary Policy Trends in Major Emerging Countries
(December 2019 – September 2023, monthly)




Note: Monetary policy trends are measured in terms of three-month changes in policy rates.
Source: Nomura Asset Management based on CEIC data

# Globl Financial Market Forecast

## Major Economic and Market Forecast

| | | | 2023 | | | | 2024 | | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | | |
| | | | | | F | F | F | F | | | F | F |
| Real GDP | World | *1,*4 | 2.4 | 3.1 | 2.3 | 2.3 | 1.5 | 1.1 | 6.2 | 2.9 | 2.5 | 1.5 |
| (qoq, ann, %) | Developed | *2 | 1.5 | 1.7 | 1.0 | 0.4 | -0.6 | 0.0 | 5.5 | 2.6 | 1.4 | 0.3 |
| | Emerging | *1,*3 | 3.7 | 5.2 | 3.9 | 4.0 | 3.0 | 2.5 | 7.4 | 3.4 | 4.2 | 3.2 |
| | United States | | 2.0 | 2.1 | 1.8 | 0.9 | -0.9 | -0.3 | 5.9 | 2.1 | 2.0 | 0.4 |
| | Eurozone | | 0.3 | 0.5 | 0.6 | -0.5 | -0.9 | -0.1 | 5.3 | 3.4 | 0.5 | -0.2 |
| | Japan | | 3.2 | 4.8 | -0.7 | 1.4 | 1.0 | 0.9 | 2.2 | 1.0 | 1.9 | 1.1 |
| | China | *1 | 4.5 | 6.3 | 4.4 | 4.9 | 3.7 | 3.6 | 8.4 | 3.0 | 5.0 | 3.8 |
| CPI | World | *4 | 5.9 | 4.2 | 4.2 | 3.9 | 3.7 | 3.8 | 3.2 | 7.0 | 4.5 | 3.5 |
| (yoy, %) | Developed | *2 | 6.5 | 4.9 | 4.2 | 3.5 | 3.2 | 2.9 | 3.3 | 7.5 | 4.8 | 2.7 |
| | Emerging | *3 | 4.9 | 3.1 | 4.1 | 4.5 | 4.6 | 5.3 | 3.0 | 6.2 | 4.2 | 4.6 |
| | United States | | 5.8 | 4.1 | 3.6 | 3.3 | 3.3 | 2.9 | 4.7 | 8.0 | 4.2 | 2.8 |
| | Eurozone | | 8.0 | 6.2 | 5.1 | 3.8 | 2.7 | 2.6 | 2.6 | 8.4 | 5.7 | 2.3 |
| | Japan | *5 | 3.5 | 3.3 | 3.1 | 2.8 | 3.0 | 2.5 | -0.2 | 2.3 | 3.2 | 2.4 |
| | China | | 1.3 | 0.1 | 0.1 | 0.4 | 0.6 | 1.9 | 0.9 | 2.0 | 0.5 | 1.9 |
| Policy Interest Rate | United States | *6 | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.50 | 0.25 | 4.50 | 5.50 | 4.50 |
| (%) | Eurozone | *6 | 3.00 | 3.50 | 4.00 | 4.00 | 4.00 | 4.00 | -0.50 | 2.00 | 4.00 | 2.00 |
| | Japan | *6 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| | China | *6 | 3.65 | 3.55 | 3.45 | 3.45 | 3.45 | 3.45 | 3.80 | 3.65 | 3.45 | 3.45 |
| 10-Year GB Yield | United States | | 3.47 | 3.84 | 4.57 | 4.20 | 3.70 | 3.40 | 1.51 | 3.87 | 4.20 | 3.50 |
| (End of Period, %) | Germany | | 2.29 | 2.39 | 2.84 | 2.40 | 2.00 | 1.90 | -0.18 | 2.57 | 2.40 | 2.00 |
| | Japan | | 0.35 | 0.40 | 0.77 | 0.60 | 0.45 | 0.40 | 0.07 | 0.42 | 0.60 | 0.50 |
| Equity Index | S&P500 | | 4,109 | 4,450 | 4,288 | 4,200 | 4,100 | 4,250 | 4,766 | 3,840 | 4,200 | 4,600 |
| (End of Period, Point) | EURO300 | | 1,811 | 1,832 | 1,785 | 1,720 | 1,700 | 1,770 | 1,890 | 1,678 | 1,720 | 1,830 |
| | TOPIX | | 2,004 | 2,289 | 2,323 | 2,290 | 2,150 | 2,200 | 1,992 | 1,892 | 2,290 | 2,350 |
| | MSCI EM ($) | | 990 | 989 | 953 | 940 | 930 | 970 | 1,232 | 956 | 940 | 1,000 |
| Currency | USD/EUR | | 1.09 | 1.09 | 1.06 | 1.07 | 1.05 | 1.05 | 1.14 | 1.07 | 1.07 | 1.11 |
| (End of Period) | JPY/USD | | 133.1 | 144.5 | 149.2 | 145.0 | 140.0 | 135.0 | 115.2 | 131.9 | 145.0 | 132.0 |
| | JPY/EUR | | 144.6 | 157.7 | 158.0 | 155.0 | 147.0 | 142.0 | 131.0 | 140.8 | 155.0 | 147.0 |
| | RMB/USD | | 6.87 | 7.26 | 7.30 | 7.30 | 7.40 | 7.40 | 6.37 | 6.95 | 7.30 | 7.10 |

## Emerging FX and Policy Interest Rate Forecast

| | | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| | | | | F | F |
| Currency | INR | 74.3 | 82.7 | 83.0 | 80.0 |
| (Per USD, | IDR | 14,253 | 15,568 | 15,400 | 14,500 |
| End of Period) | BRL | 5.6 | 5.3 | 5.0 | 4.7 |
| | MXP | 20.5 | 19.5 | 17.3 | 16.5 |
| | ZAR | 16.0 | 17.0 | 19.0 | 18.0 |
| | TUR | 13.3 | 18.7 | 29.0 | 38.0 |
| Policy Interest Rate | India | 4.00 | 6.25 | 6.50 | 6.00 |
| (%) | Indonesia | 3.50 | 5.50 | 5.75 | 5.00 |
| | Brazil | 9.25 | 13.75 | 11.75 | 9.00 |
| | Mexico | 5.50 | 10.50 | 11.25 | 9.00 |
| | S. Africa | 3.75 | 7.00 | 8.25 | 7.50 |
| | Turkey *6 | 14.00 | 9.04 | 35.00 | 35.00 |

Note: Forecast as of September 25, 2023. 1) YoY, 2) GDP weighted average of U.S., Eurozone, Japan, UK, Canada, Australia, 3) GDP weighted average of China, India, Brazil, Korea, Taiwan, Indonesia, Thailand, Malaysia, the Philippines, Hungary, Poland, Russia, Turkey, Mexico, and South Africa, 4) GDP weighted average of 2) and 3), 5) core consumer price, 6) for Japan the policy interest rate imposed on the current account deposits held by financial institutions at the Bank of Japan, for the US the upper limit of the FF target range, for the Eurozone the central bank deposit interest rate, for China the 1-year loan prime rate, for Turkey, weighted average funding ratio of the central bank, *As for forecast columns, actuals are prioritized if available.
Source: Oxford Economics, Bloomberg, and Nomura Asset Management

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