The Japanese market fell sharply today as US stocks tumbled overnight amid declining oil prices and continued anxiety over the Chinese economy. As equities sold off, the yen strengthened to \117 against the US dollar. The broad-based TOPIX closed the day down by 2.5% in yen terms, cutting short yesterday's rebound. Oil exploration and commodity-related trading companies led the decline. With negative sentiment dominating markets, the index has fallen by 9.1% since the start of the year.

Kok Wei Yee – Portfolio Manager

I think we are seeing a rerun of market sentiment fears similar to what occurred back in August 2015. Personally, I am constructive on Japanese equities and using the opportunity to pick up oversold stocks. The domestic economy remains in relatively good shape and the labour market is very strong. Valuations remain relatively attractive and there are many good quality companies trading around 10x to 12x earnings. The BoJ is still in easing mode and it is very likely we will have additional policy support from both the central bank and the government if underlying real demand becomes a problem. Globally, policymakers like the Fed and the ECB will adapt and adjust their policies if needed, as we have seen several times in the past. Asset markets that are not overpriced, as is the case in Japan, will bounce back higher with time.

Hiroyuki Ito – Portfolio Manager

The outlook for global fundamentals, particularly in emerging markets and oil producing nations, remains fragile. However, conditions in developed countries such as the US and Japan are relatively firm, and I am not particularly concerned about the outlook for the Japanese equity market. The weighting of commodity-related stocks is low and the decline in energy prices is actually a huge boost for the Japanese economy. The Shinzo Abe government will be keen to support the market ahead of Upper House elections in the summer and the Bank of Japan is more likely to implement additional easing measures now that the yen has strengthened. Furthermore, the valuations of Japanese stocks look attractive relative to those in other developed markets. In the current environment, good stock selection is essential in finding reasonably valued firms that can deliver growth. I am finding attractive opportunities in domestic sectors such as media, retail, agriculture and communications. I am also selectively adding on weakness in exporters trading on low valuations that can generate growth over the mid-term once cyclical headwinds ease.

Nicholas Price – Portfolio Manager

The external economic environment, centred on China and other emerging markets, is generating a high level of uncertainty. However, the market correction in Japan is likely too severe relative to the change in external fundamentals. I expect domestic consumption to recover, supported by gradual wage hikes and demand from inbound tourists. Corporate Japan is well positioned to deliver another year of positive earnings growth in 2016 and ongoing improvements in corporate governance will help to increase capital efficiency and boost shareholder returns. As a result, the recent correction offers a good opportunity to buy sustainable growth companies and those delivering higher returns on equity at compelling valuations.

Paul Tsai – Director of Research

Analysts have been actively monitoring stock prices and alerting portfolio managers to buying opportunities. Sensitivity to changing macroeconomic indicators such as oil prices and forex has been communicated to portfolio managers so that they can quickly respond depending on their view of long-term trends. The recent decline in oil and commodity prices, and uncertainty in emerging markets have been well flagged by various analysts over the past year. Therefore we are not seeing many upgrades/downgrades of stock ratings. Analysts are actively highlighting good opportunities to accumulate buy ideas at more attractive prices.