Sumitomo Mitsui DS Asset Management

SMD-AM Funds
SMD-AM Japan Equity High Conviction Fund

For Professional Investors Only

Monthly Review

The Japanese stock market rose in February.

In early February, stocks gained on expectations that the Liberal Democratic Party (LDP) would hold an advantage ahead of the House of Representatives election and then climbed further following the LDP's historic landslide victory, as investors anticipated strong policy implementation under the Takaichi administration.

Subsequently, the market at times faced resistance on the upside amid concerns over rising geopolitical risks related to the situation in the Middle East. However, supported by expectations for the Takaichi administration's policies and a waning view that the Bank of Japan would deliver additional rate hikes, the market went on to hit new highs toward the end of the month.

By sector, nonferrous metals, real estate, and glass & ceramics products outperformed the market, while services, information & communication, and other products underperformed.

Our fund outperformed TOPIX Total Return Index in February 2026 due to positive stock selection effect.

Main contributors include the following stocks.

1. FURUKAWA ELECTRIC CO LTD

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The share price rose significantly as investors welcomed the latest quarterly results, in which higher revenue and profit were achieved thanks to strong performance in the infrastructure segment and growth in data center-related products, along with an upward revision to the full-year forecast.

2. FUJI ELECTRIC CO LTD

The share price rose sharply on expectations of growing sales of energy storage systems driven by the spread of renewable energy, as well as increased demand for UPS for data centers, given the need for a stable power supply amid the growing adoption of AI.

3. MITSUI FUDOSAN CO LTD

The share price rose as investors welcomed the strong performance in the latest quarterly results, where robust sales in the condominium development segment and favorable contract conditions for investor-oriented units drove earnings, resulting in a substantial increase in both revenue and profit and an upward revision to the full-year forecast.

Main detractors include the following stocks.

1. FUJITSU LIMITED

Software-related stocks fell broadly after U.S. emerging AI developer Anthropic announced an AI-based function to automate the inspection and analysis of existing programs, which was taken negatively by the market.

2. HITACHI LTD

There was no particular stock-specific news. Short-term profit-taking spread, including a target price cut by a major U.S. securities firm.

3. NTT INC

Although the latest quarterly results showed higher revenue and profit, the share price declined after the company revised its full-year net income outlook downward.

Top 3 Contributors

Share Name	MSCI Sector
FURUKAWA ELECTRIC CO LTD	Industrials
FUJI ELECTRIC CO LTD	Industrials
MITSUI FUDOSAN CO LTD	Real Estate

Top 3 Detractors

Share Name	MSCI Sector
FUJITSU LIMITED	Information Technology
HITACHI LTD	Industrials
NTT INC	Communication Services

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Top Buy

ASAHI KASEI CORP： We expect solid earnings growth mainly in the pharmaceutical and life science businesses, driven by business portfolio restructuring.

Top Sell

KAJIMA CORP： We took profit as the share price has risen sharply, driven by improving construction profit margins.

Looking Ahead

We expect Japanese stock market to face upside resistance for the time being. The global economy is on a recovery trend, supported by interest rate cuts in the U.S. and fiscal stimulus in major countries, but attention is required to the risk of surging energy prices and financial market turbulence stemming from heightened tensions in the Middle East.

Domestically, proactive economic measures are expected to support growth, and corporate earnings are projected to continue improving. Progress in corporate governance reform at Japanese companies is also anticipated to be a medium-term driver of higher share prices. However, with concerns mounting over overheated valuations, we believe that factors such as rising geopolitical risks, a rekindling of trade frictions between the U.S. and other major economies, and fears of a deterioration in Japan–China relations are likely to cap the market’s upside.

Source: SMDAM, as of 28/02/2026

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