



Causeway

Notes from the Road

March 2025

Springtime in Japan—when cherry blossoms bloom and Causeway analysts descend on Tokyo for conferences and meetings. This March, members of our team crossed the Pacific for intensive industry discussions from automotives to utilities. In this *sakura* edition of Notes from the Road, we assess how Japanese companies are adapting to shifting global trade dynamics, AI innovations, and more.

Cautious Sentiment and Emerging Opportunities in Japanese Technology

Naveen Bobba, Fundamental Senior Research Analyst, Information Technology and Communications Services

The mood at the investor conference I attended in Japan was noticeably more subdued than last year's near-euphoria. However, select areas of technology investment remain bright spots, and more reasonable valuations could present attractive opportunities for Causeway client portfolios.



Technology Demand Trends

- Despite weaker IT services spending in the US and Europe, domestic technology modernization continues to drive demand and margin expansion for Japanese IT services companies.
- Spending on Generative AI infrastructure build-out remains robust.
- Companies outside of Generative AI reported stabilization or modest improvement in orders, even for components—such as semiconductors—that have been going through a long, deep inventory correction.
- China's stimulus program for consumer electronics and automobiles is supporting demand for semiconductors, including memory chips.
- Orders for technology parts for the automotive industry have improved slightly from low levels, though potential tariff impacts cloud the outlook.

Tariff Wildcards and Supply Chain Shifts

- Tariff uncertainty persists, but technology companies largely expect higher prices for end customers, which may prompt demand declines in goods such as consumer electronics, appliances, or automobiles.
- Firms report some additional supply chain shifts away from China —such as for game consoles— but hesitate to relocate significantly due to tariff risks in alternative regions.



- Some data center-related manufacturing is being relocated from Mexico to the US for products that can absorb higher costs. For high-volume goods like smartphones, this shift remains impractical.

New Investment Ideas

- Select Japanese stocks across specialized technology industries, from high-tech storage suppliers to photonics innovators to precision equipment manufacturers for advanced memory production are trading at reasonable valuations despite downward earnings adjustments.

Progress at Samsung Electronics

I also traveled to Seoul, South Korea to meet with executives of Samsung Electronics, a meaningful holding in Causeway Global and International Value portfolios*. Following the meeting, we are cautiously optimistic on the company's progress in several key areas.

- In the first positive industry update since last year's inventory concerns, Samsung reported signs of improving supply-demand conditions and potential pricing gains for memory semiconductors, which are used in a wide range of applications, from consumer electronics to data center storage.
- South Korean capital equipment suppliers noted progress in Samsung's leading-edge memory manufacturing technology and highlighted its advancements in qualifying High Bandwidth Memory products for use by Nvidia.

**portfolios with guidelines permitting South Korea-listed stocks.*



AI Evolution: The Shift from Infrastructure to Enterprise Integration



Jonny Shea, Fundamental Senior Research Analyst,
Technology and Communications Services

While my colleagues were in Japan, I attended a technology, media, and communications conference in San Francisco, meeting with thirty-five companies. While investor enthusiasm for AI has tempered from recent highs, pockets of growth remain in AI-driven enterprise software, supply chain restructuring, and mission-critical technology infrastructure.

- The Generative AI cycle is progressing from foundational models to enterprise AI agents that interact with each other to complete tasks. This "Agent Orchestration" layer is emerging as a critical battleground in enterprise software, determining which companies control AI-driven workflows.
- Companies housing mission-critical data and offering highly integrated enterprise software are well-positioned, while those primarily serving as user interfaces (e.g., productivity software) may struggle.
- AI is reshaping cost structures and service automation, with companies leveraging Generative AI for efficiency gains in software development and customer service.

Japan's Autos at a Crossroads

Reid Ross, Fundamental Associate Portfolio Manager, Industrials and Autos

I had the opportunity to meet with twenty-five Japanese companies and observe firsthand the challenges facing the auto industry in a shifting global trade environment.

Japan's economy remains heavily export-driven, with major auto manufacturers having benefitted from a weak yen in recent years. However, should the yen appreciate further and tariffs reshape global trade, the ability of Japanese auto and industrial companies to maintain margins without aggressive price hikes is a mounting concern.



- China's lead in EV technology and manufacturing continues to expand, increasing competitive pressure on Japanese automakers. This growing threat, particularly in emerging markets, underscores the auto industry's strategic importance to China's national economic strategy.
- Automakers worldwide are under margin pressure from rising manufacturing costs and increasing consumer demand for lower-priced vehicles. As global tariffs loom, automaker margins could face even greater strain.
- Going forward, US and European original equipment manufacturers appear more willing to pass on tariff-driven price increases to consumers, while Japanese automakers seem unlikely to raise prices aggressively enough to compensate for the impact of tariffs.
- Strategic adaptability will be crucial for Japanese firms navigating an increasingly protectionist global trade environment. If the yen continues to appreciate and global tariffs are implemented, the companies suitable for Causeway client portfolios should have business models and management teams that we believe will allow for price increases.
- One Japanese company demonstrating this flexibility is SMC Corporation, currently held in Causeway's International Value strategy. The company, which makes components for industrial automation processes, currently plans to implement price increases in Japan and Europe and has committed to annual price hikes going forward, regardless of tariff policies.



Japanese Utilities: From Stagnation to Growth

Steve Nguyen, Fundamental Portfolio Manager, Utilities and Renewables, Healthcare, and Business Services

Japanese utilities are undergoing a pivotal shift, moving from stagnant electricity demand to moderate growth, driven by data centers and electrification. This change demands increased investment in generation capacity and grid modernization, while companies navigate financial constraints, decarbonization goals, and a competitive retail market. Liquefied natural gas (LNG) remains central to decarbonization pathways, while renewables play a growing role.



As we conclude our time in Japan, key themes emerge across industries: the evolving competitive landscape in autos, shifting supply chains in technology, the growing demand for AI-driven enterprise solutions, and the transformation of Japan’s utilities sector. While challenges persist—from trade policy uncertainties to rapid industry shifts—opportunities remain for companies with the agility to adapt and drive innovation.

At Causeway, we continue to assess how these dynamics impact client portfolios and unveil new investment opportunities. Whether in Tokyo, Seoul, or San Francisco, our global research approach remains focused on seeking to identify value in an ever-changing investment landscape.

This market commentary expresses Causeway’s views as of March 2025 and should not be relied on as research or investment advice regarding any stock. These views and any portfolio holdings and characteristics are subject to change. There is no guarantee that any forecasts made will come to pass. Forecasts are subject to numerous assumptions, risks, and uncertainties, which change over time, and Causeway undertakes no duty to update any such forecasts. Information and data presented has been developed internally and/or obtained from sources believed to be reliable; however, Causeway does not guarantee the accuracy, adequacy, or completeness of such information.

The views herein represent an assessment of companies at a specific time and are subject to change. There is no guarantee that any forecast made will come to pass. This information should not be relied on as investment advice and is not a recommendation to buy or sell any security. The securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. Our investment portfolios may or may not hold the securities mentioned. The reader should not assume that an investment in the securities identified was or will be profitable. For full performance information regarding Causeway’s strategies, please see www.causewaycap.com.