> ***The Japanese equity market is well placed to benefit as economies reopen from pandemic related restrictions.***

19 April 2021

First a green jacket, now a green light for Japan?

by Michael Clough

Two weekends ago Hideki Matsuyama became Japan's first male winner of one of golf's four major championships by claiming the Masters at the prestigious Augusta National Golf Club. Only three of the world's top 100 ranked male golfers are from Japan. The country is underrepresented in the upper echelons of the golfing world and it is often underrepresented in investors' portfolios too.

Today, Japan accounts for 7.5% of the developed world global equity market, much smaller than the 44% it once accounted for in the late 1980s[1]. Indeed, the equity market is still 24% lower than the peak reached over 30 years ago[2]. Back then the four largest companies in the world were Japanese (all banks). Now you're looking around the 50th largest before you find a Japanese name (Toyota) and past the 150 mark to find the first Japanese bank (MUFG Bank). The 'Lost Decades' is a phrase that refers to the period of low economic growth and low inflation (otherwise known as stagnation) that has crippled Japan's economy ever since that equity market bubble of the late 80s burst. Combine the scars from these events with a notoriously ageing society and less favourable corporate governance than many developed market peers and it is perhaps unsurprising that Japan hasn't been number one on investors' lists of late. But there are reasons to be more optimistic going forwards.

Former Prime Minister Shinzo Abe introduced his three arrows approach, which became known as 'Abenomics', in 2012 to help drive the economy out of its sluggish state, identifying loose monetary policy, expansive fiscal policy and structural reform as prerequisites. Whilst these were never going to be quick fixes, Japan's current Prime Minister Yoshihide Suga has made clear his intentions to ensure the policies of his predecessor endure. His pro-deregulation stance should also be supportive.

Monetary policy in Japan has been ultra-loose for years, involving negative interest rates, massive bond purchases, yield curve control and equity purchases. Whilst the central bank recently amended its approach towards equity ETF purchases to only intervene during market falls rather than steadily increasing its holdings, they still committed up to ¥12trn ($110bn) of equity investments each year[3]. Whilst these approaches have failed to ignite inflation to date, they remain hugely accommodative.

The impact of fiscal policy has been mixed over the years and a rise in consumption tax in 2014 and 2019 did little to spur on growth and inflation but government intervention through the coronavirus pandemic has been massive. Across three different stimulus packages throughout 2020 the government injected the equivalent of almost $3 trillion into the economy, accounting for over 50% of GDP, the highest of any G20 country (the US is at 26% of a $20trn economy)[4].

On structural reform, one key component has been improving corporate governance, something that has long been criticised in Japan. Hefty cash piles may be indicative of a misallocation of capital, one facet of corporate governance that policy is designed to address. There is greater focus now on shareholder returns through higher dividend distributions and share buybacks. Historically the dividend yield of Japanese equities has lagged that of the global equity market. Now it offers a small yield premium, despite a lower payout ratio compared to peers, suggesting there is room for this premium to grow.

The Japanese equity market is also well placed to benefit as economies reopen from pandemic related restrictions. Whilst energy exposure is very limited, the index has significant allocations to other cyclical sectors including industrials, automotives and financials which should do well as economic recovery takes hold. Current valuations at the index level might not get the deepest value investors too enthusiastic but a forward price earnings ratio of 17x is cheaper than both Europe and the US.

Risks do remain of course. Whilst Japan has kept coronavirus fatalities well below that of other developed economies, there has been a surge in cases in recent weeks and the country's vaccination rate is one of the lowest globally. The issues around ageing demographics must also still be addressed. However, there are certainly reasons to be cheerful. Hideki Matsuyama took home the green jacket at Augusta National. Perhaps now is the time for investors to give Japan the green light.

[1] https://www.investmentoffice.com/Asset_Management/Observations/Indices/Japanese_Stock_Market_Bubble_in_the_late_1980s.html

[2] Bloomberg

[3] https://www.boj.or.jp/en/announcements/release_2021/k210319a.pdf

[4] https://www.statista.com/statistics/1107572/covid-19-value-g20-stimulus-packages-share-gdp/

Market Focus

- Global equities rose +1.5% last week hitting new all-time highs in some regions
- Over 5 million cases of Covid-19 were reported last week - the highest figure since the onset of the pandemic
- Brent crude rose +6.1% last week to $66.8 a barrel
- Gold rose +1.9% to $1776.5 per ounce

US

- US equities rose +1.4% last week, and the major benchmark advanced to its seventh all-time high so far this month
- Weekly initial jobless claims for the week ending April 10th fell to a post-pandemic low of 576k (vs. 700k expected)
- The US import price index in March rose by +1.2% month-on-month (vs. +0.9% expected), while the export price index rose by a stronger-than-expected +2.1% (vs. +1.0% expected)
- The New York Fed's Empire State manufacturing survey saw the General Business Conditions Index rise to 26.3 (vs. 20.0 expected) - the best reading in four years. The Philadelphia Fed's Manufacturing Business Outlook Survey rose to 50.3, the highest level since April 1973
- March Industrial production missed expectations, rising by +1.4% (vs. +2.5% expected)
- Retail sales rose by a stronger-than-expected +9.8% in March (vs. +5.8% expected) marking their fastest monthly growth since last May
- Headline consumer prices rose +0.6% in March, while core prices (excluding food and energy) rose +0.3%, both slightly beating expectations

UK

- UK equities rose +0.7% last week
- The UK economy grew by +0.4% in February, aided by an uptick in factory output and retail and wholesale sales. The -2.9% contraction that the economy suffered in January was revised upwards to -2.2%
- The Greensill lobbying storm continued with several inquiries now launched into links between government minsters and the collapsed services firm
- U.K. house prices hit a new record-high this month buoyed by a tax break on purchases and low interest rates. The average price of a home rose +2.1% to £327,797

Rest of the World/Asia

- The benchmark Global Emerging Markets index returned +1.4% last week
- Japanese equities finished the week flat returning +0.1%
- China's Q1 GDP was largely in line with expectations at +18.3% year-on-year (vs. +18.5% expected). Industrial production for March printed at +14.1% y.o.y (versus +18.0% expected). Retail sales came in at +34.2% y.o.y (vs. +28.0% expected).
- The US imposed new sanctions on Russia. From June 14th, restrictions will come into force on the Russian primary debt market preventing US institutions from participating in new debt issuance by the central bank, finance ministry and Russia's sovereign wealth fund
- India reported over 1.4 million cases of Covid-19 over the last week and is now the global epicentre of the virus

Europe

- Equities rose +1.2% last week with the major continental European index hitting an all-time high
- European government bond yields fell with 10yr bunds down -3.2bps, OATs down -3.4bps and BTPs down -6.3bps
- The final Euro-area CPI reading for February was +0.9% month-on-month and +1.3% year-on year, in line with expectations
- ECB President Lagarde described the European economy as still standing on the "two crutches" of monetary and fiscal policy and that neither should be removed until there is a full recovery
- Denmark became the first EU country to permanently stop the use of the AstraZeneca vaccine

globalmatters

Market Summary

momentum investments

Asset Class / Region	Currency	Cumulative returns			
		Week ending 16 April	Month to date	YTD 2021	12 months
Developed Markets Equities					
United States	USD	1.4%	5.4%	11.8%	51.3%
United Kingdom	GBP	1.5%	4.6%	10.0%	27.3%
Continental Europe	EUR	1.2%	3.2%	11.1%	40.6%
Japan	JPY	0.1%	0.4%	9.6%	40.7%
Asia Pacific (ex Japan)	USD	1.2%	2.7%	5.5%	54.9%
Australia	AUD	1.0%	4.0%	8.5%	34.0%
Global	USD	1.5%	5.1%	10.3%	52.6%
Emerging Markets Equities					
Emerging Europe	USD	4.3%	2.1%	2.8%	35.7%
Emerging Asia	USD	1.0%	2.2%	4.4%	56.8%
Emerging Latin America	USD	3.2%	4.8%	-0.8%	52.4%
BRICs	USD	1.1%	1.1%	1.0%	43.7%
China	USD	1.0%	1.4%	1.0%	39.4%
MENA countries	USD	0.3%	1.3%	12.6%	42.7%
South Africa	USD	4.4%	5.5%	18.3%	79.9%
India	USD	-1.2%	-2.4%	2.7%	69.1%
Global emerging markets	USD	1.4%	2.5%	4.9%	55.6%
Bonds					
US Treasuries	USD	0.5%	1.0%	-3.7%	-4.9%
US Treasuries (inflation protected)	USD	1.0%	1.0%	-0.8%	6.0%
US Corporate (investment grade)	USD	0.4%	1.2%	-3.5%	4.6%
US High Yield	USD	0.2%	0.9%	1.8%	18.5%
UK Gilts	GBP	0.2%	1.0%	-6.4%	-6.5%
UK Corporate (investment grade)	GBP	0.3%	1.1%	-3.7%	5.7%
Euro Government Bonds	EUR	-0.2%	-0.4%	-2.8%	2.3%
Euro Corporate (investment grade)	EUR	-0.1%	0.2%	-0.5%	6.6%
Euro High Yield	EUR	0.1%	0.6%	2.3%	16.2%
Japanese Government	JPY	0.2%	0.2%	-0.3%	-0.7%
Australian Government	AUD	0.0%	0.6%	-3.5%	-3.1%
Global Government Bonds	USD	0.6%	1.3%	-4.4%	1.6%
Global Bonds	USD	0.6%	1.3%	-3.4%	4.5%
Global Convertible Bonds	USD	0.6%	2.4%	1.6%	36.3%
Emerging Market Bonds	USD	1.3%	2.2%	-5.2%	10.4%

Source: Bloomberg. Past performance is not indicative of future returns.

globalmatters

Market Summary

momentum investments

Asset Class / Region	Currency	Cumulative returns			
		Week ending 16 April	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	2.3%	4.7%	13.5%	38.0%
Australian Property Securities	AUD	1.2%	4.1%	2.9%	31.5%
Asia Property Securities	USD	1.6%	1.7%	9.7%	22.0%
Global Property Securities	USD	2.1%	4.2%	9.8%	36.9%
Currencies					
Euro	USD	0.7%	2.0%	-2.0%	10.6%
UK Pound Sterling	USD	0.7%	0.2%	1.3%	11.2%
Japanese Yen	USD	0.8%	1.7%	-5.0%	-1.0%
Australian Dollar	USD	1.5%	1.6%	0.5%	23.1%
South African Rand	USD	2.0%	3.2%	2.5%	31.9%
Swiss Franc	USD	0.6%	2.4%	-3.8%	5.5%
Chinese Yuan	USD	0.5%	0.5%	0.1%	8.6%
Commodities & Alternatives					
Commodities	USD	3.8%	4.7%	16.4%	54.7%
Agricultural Commodities	USD	2.5%	3.9%	11.7%	53.8%
Oil	USD	6.1%	5.1%	28.9%	140.0%
Gold	USD	1.9%	3.8%	-6.2%	3.7%
Hedge funds	USD	0.1%	1.1%	2.6%	15.0%

Source: Bloomberg. Past performance is not indicative of future returns.

For more information, please contact:

Anastasiya Volodina
Distribution Services

E: distributionservices@momentum.co.uk
T: +44 (0)207 618 1806

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.