

Japan Investment Commentary and Market Outlook

Yen's Reversal Pressures Stocks

December 2023



Serge Kasai
Senior Product Specialist
Asset Management One Co., Ltd.

The Japanese stock market experienced a slight decline in December due to various factors, including discussions about potential policy adjustments and interest rate cuts. The market was also affected by the replacement of ministers in the Kishida administration following a secret funds scandal. However, towards the end of the month, the market stabilized as the Bank of Japan's monetary policy remained unchanged. In terms of style, there was a rotation from value to growth stocks following the dovish Federal Open Market Committee (FOMC) meeting.

Looking ahead, there are positive indicators for the Japanese stock market, such as resilient corporate earnings, reasonable stock valuations, and efforts to attract semiconductor investment. However, potential challenges include elevated interest rates, possible monetary policy changes, inflationary pressures, and geopolitical tensions. Currency dynamics may see the Japanese yen appreciate against the US dollar. Additionally, the upcoming launch of the NISA (Nippon Individual Savings Account) could encourage a shift towards investment products.

Market Movement	As at 31/12/2023
TOPIX Index	2,366.39 points - 8.54 points (-0.36%)
Nikkei 255 Stock Average	33,464.17 yen -22.72 yen (-0.07%)
Exchange rate	1 USD = 141.04 JPY

Market Review

The Japanese stock market declined slightly in December. In the first half of the month, the market was negatively influenced by Bank of Japan Governor Kazuo Ueda's remarks, which hinted at an early policy adjustment, as well as discussions about a potential interest rate cut at the FOMC, which were perceived as dovish. Bank of Japan Governor Kazuo Ueda said at the parliamentary hearing on 7th December that the central bank anticipates an "even more challenging" situation in the year-end and the beginning of next year. This has spurred speculations of imminent change to the monetary policy as early as at the next meeting scheduled on 19th December. On 13th December, the Federal Open Market Committee (FOMC) decided to hold rates steady but Summary of Economic Projections indicated that the members were expecting three rate cuts by the end of 2024. Consequently, the market declined driven by a decrease in U.S. interest rates and the resulting appreciation of the yen in the foreign exchange market. The Japanese yen surged from 147 yen to 141 yen per U.S. dollar. Weakness in U.S. chips stocks also weighed on Japanese stocks. The market's instability was further exacerbated by the replacement of multiple ministers in the Kishida administration following a secret funds scandal. However, towards the end of the month, the Bank of Japan's monetary policy decision did not include any significant changes, providing a sense of relief and acting as a restraining force against further yen appreciation. Additionally, the US market continued to anticipate an early interest rate cut, which supported the stability of US stocks and resulted in a turnaround for Japanese stocks, although they still experienced a slight decline for the month. At the end of December, the TOPIX index closed at 2,366.39 points, down 8.54 points or 0.36%, and the Nikkei 225 Stock Average index closed at 33,464.17, down 22.72 yen or 0.07% compared to the previous month.

The Japanese yen closed at 141.04 yen per U.S. dollar, appreciating 4.9% from the previous month.

Among the TSE 33 industrial sectors 14 sectors advanced led by Marine Transportation, Services, Chemicals, Other Products, and Land Transportation while 19 sectors declined led by Mining, Transportation Equipment, Rubber Products, Banks, and Oil & Coal Products.

The TOPIX 12-month forward Price-to-Earnings (PER) fell to mid-13x, as the 12-month forward Earnings Per Share (EPS) continued to rise.

In terms of style, there were rotations from value to growth following dovish FOMC. Large-cap growth stocks outperformed against the backdrop of falling long-term interest rates in the U.S. and Japan.

Notable Corporate Actions

Nippon Steel announced its plan to acquire US Steel for 2 trillion yen. Outsourcing Inc. announced a Management Buyout (MBO). Dai-ichi Life proposed a counter acquisition to Benefit One, which is currently under Tender Offer by M3. Shiseido announced the acquisition of US DDG Skincare Holdings for 64 billion yen. Toshiba has delisted its shares after 74 years of being a listed company, following its acquisition by a group led by private equity firm Japan Industrial Partners.

Politics

In December, the approval ratings for the Cabinet reached new lows since Prime Minister Fumio Kishida assumed office two years ago. According to a poll conducted by Mainichi Newspaper on 16th and 17th December, the approval rating dropped to 16%, down from 21% in the previous month, falling below 20% for the first time since the end of the Kan administration in 2011. This outcome has greatly shaken Nagatacho, the country's political hub.

The ruling Liberal Democratic Party has been hit by scandals involving fundraising events. Multiple ministers in the Kishida administration were replaced and one member of the parliament was arrested following the secret funds scandal.

BOJ and Monetary policy

Bank of Japan Governor Kazuo Ueda said at the parliamentary hearing that the central bank anticipates an "even more challenging" situation in the year-end and the beginning of next year. This has spurred speculations of imminent change to the monetary policy as early as at the next meeting scheduled on 19th December. As a result, the Japanese yen surged from 147 yen, briefly touching 141 yen per U.S. dollar before retracing back to 145 yen.

Inbound tourism

In November, the number of visitor arrivals in Japan reached pre-COVID levels, indicating a promising recovery. The increase was largely driven by a rise in visitors from South Korea and Taiwan. Visitor arrivals from China continue to remain at a low level, at around 35% compared to November 2019. This decline is widely attributed to heightened political tensions between Beijing and Tokyo stemming from various factors, including Japan's ban on chips exports, the release of treated water from the Fukushima Nuclear Reactor, and China's ban on seafood import from Japan.

Market Outlook

Our positive stance on the stock market is rooted in several key factors. Firstly, corporate earnings display remarkable resilience and show potential for further expansion. This is complemented by stock valuations that remain reasonable, positioning the market for growth. The reopening of the economy has invigorated domestic consumption, while heightened domestic capital expenditure underlines companies' efforts to bolster productivity and secure supply chains.

Furthermore, the Japanese government's collaboration with the United States and Europe to attract semiconductor investment within the country's borders is gaining momentum, which could establish an independent supply chain.

Corporate indicators are notably strong, with earnings, dividend payouts, and share buybacks reaching unprecedented heights, providing a favorable tailwind for the market. Furthermore, the global macroeconomic landscape appears more optimistic, with resilience in the U.S. and European economies, though the Chinese economy remains subdued due to a heavily indebted property sector.

Efforts by the Tokyo Stock Exchange to enhance capital efficiency in companies with below-par price-to-book ratios are prompting strategic reviews that could augment shareholder returns in the near future and long-term profitability. This prospect is attracting interest from global investors. Beginning from early 2024, the exchange will begin regular disclosure on companies responding to its request.

The launch of the new NISA in January 2024 is gaining traction among a wider generation. This initiative has the potential to enhance the investment mindset, especially among younger individuals, and encourage a shift in household financial assets. As of the end of September 2023, the total amount of household financial assets in Japan, according to statistics from the Bank of Japan, stands at 2,121 trillion yen. This shift may result in a move from deposits to investment products, such as stocks.

Nonetheless, certain potential challenges loom. Interest rates at elevated levels across the U.S. and Europe, and the possibility of impending changes in monetary policy in Japan, along with inflationary pressures linked to the rebuilding of supply chains, labour shortages, elevated resource prices, and tensions with China have the potential to cause market fluctuations. The ongoing Russia-Ukraine conflict and growing China-West tensions also carry inherent risks, with the potential to impact the global economy and corporate earnings negatively. Additionally, conflicts in the Middle East destabilise geopolitical power balance in this region and put upward pressure on crude oil prices, potentially hindering global growth.

With regards to currency dynamics, considering a rising likelihood of U.S. interest rate cuts this year, coupled with a rising likelihood of the Bank of Japan's lifting of a negative interest rate regime, we anticipate a reversal in the trajectory of the Japanese yen. As such, we expect the yen to appreciate against the U.S. dollar, marking a shift from its previous decline.

Japan Outlook and Global Outlook 2024

Asset Management One has published outlooks on Japan, the global economy and markets.

Japan Outlook 2024

[AMO Japan Outlook](#)

Global Outlook 2024

[AMO Global Outlook](#)

Upcoming Major Events

- TSE releases a list of companies conscious of cost of capital on 15 January
- BOJ MPM on 22-23 January
- The ordinary Diet session convenes on 26 January

Contact Information

Asset Management One International Ltd.

30 Old Bailey
London
EC4M 7AU
UK

Telephone

+44 (0)207 329 3777

Email

business.development@am-one-int.co.uk

Website

www.am-one-int.co.uk

LinkedIn

www.linkedin.com/company/asset-management-one-international-ltd.

Market comment has been provided by

Mr Serge Kasai, Senior Product Specialist

Asset Management One Co., Ltd.

Tekko Building, 8-2
Marunouchi 1-chome
Chiyoda-ku
Tokyo 100-0005
Japan

Net Zero Asset Managers Initiative

Asset Management One is one of the 30 founding members of the Net Zero Asset Managers Initiative.

<https://www.netzeroassetmanagers.org/#>

Signatory of:



Disclaimers

Asset Management One International Ltd. ("AMOI") is authorised and regulated by the Financial Conduct Authority ("FCA") in the UK. AMOI is the UK subsidiary of Asset Management One Co., Ltd. in Japan ("AMO Tokyo").

AMO Tokyo is regulated by the Financial Services Agency in Japan and conducts its discretionary investment advisory business as a registered and licensed investment advisor under the Financial Instruments and Exchange Act of Japan.

This material was prepared by AMO Tokyo for informational purposes only, and is neither an offer to buy or sell, nor a solicitation of an offer to buy or sell any security, instrument, or investment, nor a solicitation or an offer of any service (the "Transaction") and does not guarantee any realisation of the Transaction.

This material is only for and is directed only at persons who are qualified as Professional Clients or Eligible Counterparties under the rules of the FCA or equivalent client categories in certain jurisdictions, including institutional investors and financial intermediaries. Any persons falling into other client categories, including Retail Clients and persons who are restricted in accordance with US, Japanese or other applicable securities laws, should not rely or act upon it. If you have any doubt about any of the information in this material, please consult your financial advisor.

The information and opinions expressed in this material are based on views of the investment team at AMO Tokyo, publicly available information, and information that AMOI has legally obtained and believes to be reliable, accurate, and complete. However, AMOI does not guarantee the reliability, accuracy or completeness of the information and opinions expressed in this material.

Furthermore, the information and opinions contained in this material is only current as of the date this material was prepared and are subject to change without notice, and they may be affected by changes in the initial premises due to factors including, but not limited to, shifts in the market environment, and/or amendments in accounting, taxation and other applicable laws, rules and regulations. Any hypothetical illustrations, forecasts and estimates contained in this material are forward-looking statements and are based upon various assumptions. Changes to assumptions may have a material impact on forward-looking statements. The assumptions presented herein are strictly hypothetical, and this material does not suggest or specify all possible risks relating to the Transaction.

AMOI assumes no duty to update any statement in this material.

The value of an investment portfolio and the income from it may fall as well as rise, and investors may not get back the amount originally invested. Past performance is not necessarily a guide to the future performance.

The decision to use the information and opinions expressed in this material and/or whether to enter into the Transaction should be made based on the sole judgment of each individual receiver of this material. It is recommended that each individual receiver of this material should consult with their legal, investment, accounting, tax and other professional advisers in order to make an independent determination of the suitability, risks and consequences of the Transaction before such decision is made. Nothing in this material shall constitute an obligation on either the recipient of the material or AMOI to enter into the Transaction.

The intellectual property and all other rights pertaining to the data published in this documentation including benchmark indices shall remain the property of the publisher and licensor.

Regardless of the purpose, any reproduction or circulation, in part or in whole, and/or use of this report in any shape or form without the prior written consent of AMOI is strictly prohibited. All liability under any applicable laws howsoever arising in connection with the use of this material by the recipient is hereby excluded to the fullest extent permissible by law.