

# Japan Investment Commentary and Market Outlook

Easing of Border Controls and Recovery of China on the Horizon

May 2022



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

•The Japanese stock market traded sideways and displayed relative resilience amid rising interest rates and correction of stock markets in the United States. TOPIX 12 month forward PER remains low at 12x.

•We remain cautiously optimistic, in principle, on Japanese shares against the backdrop of resilient earnings and attractive valuation levels. Easing of border controls in Japan and lockdowns in China are positive catalysts in the near-term.

Market Movement	As at 31/05/2022
<b>TOPIX Index</b>	1,912.67 yen +13.05 (+0.69%)
<b>Nikkei 255 Stock Average</b>	27,279.80 yen +431.90 (+1.61%)
<b>Exchange rate</b>	1 USD = 128.67 JPY

## Market Review

The Japanese stock market waxed and waned throughout May.

The Japanese stock market was relatively resilient compared to U.S. markets, which recorded an 8 week losing streak against the backdrop of the Fed's decision on 4<sup>th</sup> May to raise fed fund target rates by 50bps and to begin quantitative tightening from June and inflation fears as the April CPI stayed at 40-year highs.

The market rose towards the month end along with U.S. markets as fears of aggressive rate hikes from the Fed and economic downturn eased, long-term interest rates retreated and on hopes for the recovery of Chinese economy as the government announced its plan to ease lockdowns in Shanghai and economic stimulus plans to shore up the economy.

Among the TSE 33 industrial sectors, 18 sectors rose led by Marine Transportation, Mining, Oil & Coal Products, Warehouse & Harbour Transportation, and Precision Instruments while 15 sectors fell led by Pulp & Paper, Fishery, Agriculture & Forestry, Services, Banks, and Transportation Equipment.

TOPIX 12 month forward PER remained at 12x.

In terms of style, there were little disparity in terms of performance between value and growth during the month.

### Year-to-date performance

Year-to-date, the TOPIX index has fallen 4.00% and the Nikkei 225 Stock Average index has fallen 5.25%. The Japanese yen has fallen 11.8% against the U.S. dollar.

Among the TSE 33 industrial sectors, 17 sectors rose led by Mining, Marine Transportation, Oil & Coal Products, Insurance, and Electric Power & Gas while 16 sectors fell led by Services, Electric Appliances, Metal Products, Precision Instruments, and Pulp & Paper.

### Monetary Policy

The Bank of Japan (BOJ) remains committed to an accommodative monetary policy although April nationwide CPI rose above the central bank's target of 2%. AMO's economist team believes the CPI will stay above 2% for rest of the year but the central bank is likely to maintain its accommodative stance until the governor steps down early next year.

### Corporate Earnings

Majority of Japanese companies reported earnings for

the fiscal year that ended March 2021. Tokyo Stock Exchange Prime Market listed companies reported record earnings with 11% top-line growth and over 30% bottom-line growth for the year ended and guided for 8% top-line growth and 5% bottom-line growth in the new fiscal year. Total amount of share buybacks announced in April and May nearly doubled from a year earlier to around 4 trillion yen.

### Japanese Economy

AMO's economists believe that Japanese economy contracted in the January-March quarter due to the imposition of Covid-19 related social restrictions but is on the path to recovery for subsequent quarters as the measures were relaxed. Nevertheless, the impact of supply chain constraints on car production seems to be dragging on longer than expected, this along with rising energy and commodity prices detrimental to consumer spending will mean that the expected recovery is more likely to be modest. The team expects the economy to recover to pre-Covid levels only in January-March 2023.

### Politics

Prime Minister Fumio Kishida's cabinet approval rating rose 2 percent points to 66% from 64% in April according to a survey between 27<sup>th</sup> and 29<sup>th</sup> May jointly conducted by the Nikkei Newspaper and TV Tokyo. Relatively restrained level of new infections even after complete removal of social restrictions since late March and successful in-person Quad Leaders' meeting in Tokyo seem to have lent support for the administration. Quad is a strategic security dialogue between Australia, India, Japan and the United States.

### Covid Response

The Japanese government has further eased social restrictions and recommendations, is easing border controls by doubling daily arrival limits to 20,000 people and accepting group tourists beginning from 10<sup>th</sup> June.

### The Council of New Form of Capitalism Realisation

The council chaired by Prime Minister Kishida has drawn up a draft action plan that will be submitted for cabinet approval in early June. The plan includes skill development support for workers and calls for private-public sector cooperation to close the widening income disparity, and expansion of JPY 2 trillion green innovation fund in an effort to foster decarbonisation.

## Market Outlook

We remain cautiously optimistic, in principle, on the stock market due to resilient corporate earnings outlook and undemanding stock valuations, supported by the recovery of the global economy. Market turbulence due to accelerated tapering and rising interest rates in the U.S., inflationary pressure arising from supply-chain bottlenecks, rising resource prices, lack of labour, and spread of lockdowns and slowdown of the economy in China remain risks to our main scenario. Ongoing conflict between Russia and Ukraine poses a grave threat to world peace and risks to the global economy with prolonged implications such as high resource prices and high transportation costs. We note that these factors will be detrimental to the global economy and corporate earnings.

In addition, Covid continues to pose threats to the global growth as seen in the emergence and spread of the Omicron variant since the end of November which prompted governments to reintroduce travel restrictions and infection prevention measures. Emergence of new strains and further spread of the virus may result in reinstatement of strict lockdowns worldwide and dent global economic recovery. This would pose major risks to our main scenario.

In the near term, further easing of Covid-related social restrictions and reopening of borders to overseas tourist in Japan and easing of lockdowns in China are positive catalysts that will boost the economy and support stock markets.

## Upcoming Major Events

- FOMC meetings
- Japan opens border to group tourists from overseas beginning on 10th June
- The House of Councillors election in July
- National Congress of the Chinese Communist Party in Autumn
- US Midterm election on 8th November
- BOJ Governor Kuroda's term ends on 8th April 2023

## 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](mailto:business.development@am-one-int.co.uk)

#### Website

[www.am-one-int.co.uk](http://www.am-one-int.co.uk)

#### LinkedIn

[www.linkedin.com/company/asset-management-one-international-ltd](http://www.linkedin.com/company/asset-management-one-international-ltd)

### Report prepared by

Global Business Development Group

### Asset Management One Co., Ltd.

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

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