

Navigating Japan Equities

Monthly Insights from Tokyo (December 2021)

8 December 2021

We assess Japan PM Kishida's record stimulus package and its potential implications for the pandemic-hit economy; we also gauge what the new political administration could mean for the Japanese capital markets currently undergoing significant changes.

By Naoki Kamiyama, Chief Strategist

Assessing PM Kishida's record stimulus package

Japanese Prime Minister Fumio Kishida began his tenure by outlining a larger-than-expected stimulus package in a bid to support the pandemic-hit economy and provide relief for households facing hardships due to the outbreak. The package, with a record JPY 55.7 trillion (roughly USD 490 billion) in fiscal spending, also includes Kishida's signature policies, such as narrowing the wealth gap.

While the size of the package has drawn criticism from some, a significant part of the spending could be considered necessary as it will fund measures aimed at stimulating demand that had been weakened by the pandemic. Measures include the "GoTo" Travel campaign, through which the government subsidises travel and lodging fees for tourists. The large size of the stimulus could create demand sufficient to shore up the economy—succeeding where the preceding Suga and Abe administrations were left wanting. Public health is another area in which his predecessors were seen to have fallen short and which Kishida seems intent on improving. A significant part of the stimulus will be allocated to vaccine development and ensuring that the country's medical facilities and personnel will not be stretched to the limit if Japan faces another coronavirus wave.

The portions of the stimulus unrelated to COVID-19 relief are aimed at narrowing the wealth gap and encouraging economic growth by supporting research and development (R&D) in advanced technologies. It must be noted that policies aimed at the wealth gap could lead to higher tax rates in the long run. Meanwhile, directly supporting R&D in advanced technologies is an entirely new approach by the government, which until now had provided support only through deregulation and loans. Taking a financial stake in R&D exposes the government to the risk of losing its investments should the research fail to bear fruit. These concerns might take some of the shine off the record stimulus, but there are still a number of aspects—notably policies aimed at generating demand and reinforcing COVID-19 measures—that allow us to view the package positively.

Gauging capital market trends under a new political administration

A noticeable trend in the Japanese capital markets is the steady increase in hostile takeover bids (TOBs) and corporate divestitures. We believe the trend reflects the increase in the number of investors, such as activist funds and strategic buyers, taking an active market role. These investors have publicly presented corporations with the option to reform themselves strategically, and their actions have made it easier for institutional investors to present their agenda as shareholders. The trend has been unimpeded by the pandemic, and we view it as a positive development for Japan that institutional investors are more easily able to present their agendas to corporations when they feel reform is necessary. This is positive both from a shareholder and corporate management perspective.

nikko am
Nikko Asset Management

The immediate question for capital market participants is how corporate governance reform, under which Japan has been aiming to stimulate capital market activity, and the restructuring of the Tokyo Stock Exchange (TSE) will fare under Prime Minister Kishida. Kishida is seen to be less enthusiastic towards pro-market reforms than his predecessors Suga and Abe. At any rate, the answer is that the corporate governance reform and TSE's restructuring will continue. However, matters could be slightly complicated as Kishida wants to drop quarterly disclosure requirements for companies, in line with the view held by some in the ruling party that such disclosures prompt companies to focus excessively on immediate profits.

However, empirical evidence from academic research suggests that the introduction of mandatory quarterly disclosures has not, on the whole, driven Japanese companies to short-termism. Moreover, a significant number of UK companies continue to disclose results every quarter even after the mandatory reporting requirement was removed in 2014. Japanese companies may do the same, in our view, with companies focusing on the positive aspects that a regular disclosure of information provides.

Market: Japanese stocks slip in November as Omicron variant dents sentiment

The Japanese equity market ended November lower with the TOPIX (w/dividends) down 3.61% on-month and the Nikkei 225 (w/dividends) down 3.68%. Share prices were bolstered by expectations for continuity in government policy following the victory of Japan's ruling party in the lower house election, where it achieved an absolute stable majority, in addition to expectations arising from the detailed economic policies announced by the new administration. However, such positive factors were not enough to offset the downward pressure from pandemic-related developments. In particular the market was weighed down by global economic uncertainty amid a rebound in COVID-19 cases in Europe and concerns that the normalisation of economic activity would be delayed due to the discovery of the new Omicron variant and the resulting border control measures aimed at preventing its spread, including the reinstitution of a total ban on the entry of non-resident foreigners in Japan. Of the 33 Tokyo Stock Exchange sectors, only the Electric Appliances and Precision Instrument sectors rose, while the remaining 31 sectors declined, with Air Transportation; Iron & Steel; and Fishery, Agriculture & Forestry among the most significant.

Exhibit 1: Major indices

| Index | 1-mth | 3-mth | 6-mth | 1-yr | 5-yr |
|-----------------|-------|-------|-------|-------|-------|
| Nikkei 225 | -3.7% | -1.0% | -3.6% | 5.3% | 46% |
| JGB Yield (%pt) | -0.04 | +0.03 | -0.03 | +0.06 | +0.01 |
| JPY/USD | -1.0% | 2.6% | 2.9% | 8.5% | -4% |
| JPY/EUR | -2.7% | -1.4% | -4.1% | 2.8% | 4% |
| MSCI World | -2.3% | -1.3% | 4.2% | 20.1% | 77% |
| TOPIX | -3.6% | -1.6% | 0.3% | 9.9% | 27% |
| TPX-100 (Large) | -2.6% | 0.1% | 1.7% | 13.2% | 31% |
| TPX-400 (Mid) | -5.3% | -4.2% | -2.8% | 4.1% | 20% |
| TPX-Small | -5.9% | -4.8% | 0.7% | 7.3% | 22% |

Source: Bloomberg, as at 30 November 2021

Exhibit 2: Valuation and indicators

| Valuation /Indicator | Mth-end | 3-mth | 6-mth | 1-yr | 5-yr |
|----------------------|---------|-------|-------|------|------|
| TOPIX | | | | | |
| Div. Yield (e) | 2.2% | 2.1% | 2.1% | 2.0% | 2.0% |
| Price/Earn (e) | 14.1 | 14.7 | 15.8 | 23.4 | 15.8 |
| Price/Book | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Daily Turnover | 59 | 63 | 56 | 55 | 50 |
| Market Cap. | 714 | 752 | 722 | 673 | 571 |
| MSCI World | | | | | |
| Div. Yield (e) | 1.8% | 1.8% | 1.9% | 1.9% | 2.5% |
| Price/Earn (e) | 19.5 | 20.1 | 20.4 | 25.4 | 18.1 |
| Price/Book | 3.1 | 3.2 | 3.0 | 2.8 | 2.2 |

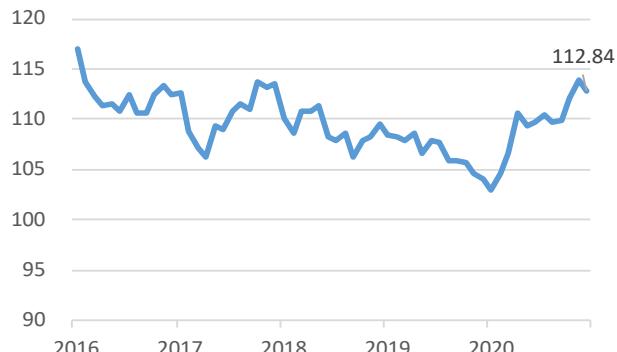
(e) stands for consensus estimates by Bloomberg. Turnover and market cap in JPY trillion. Source: Bloomberg, as at 30 November 2021

Exhibit 3: Major market indices

TOPIX



USD/JPY



Source: Bloomberg, as at 30 November 2021

Important information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment. This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

United Kingdom and rest of Europe: This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to

Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.