

SARASIN

# Six minute strategy Is now the time to buy Japan?

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25 August 2023

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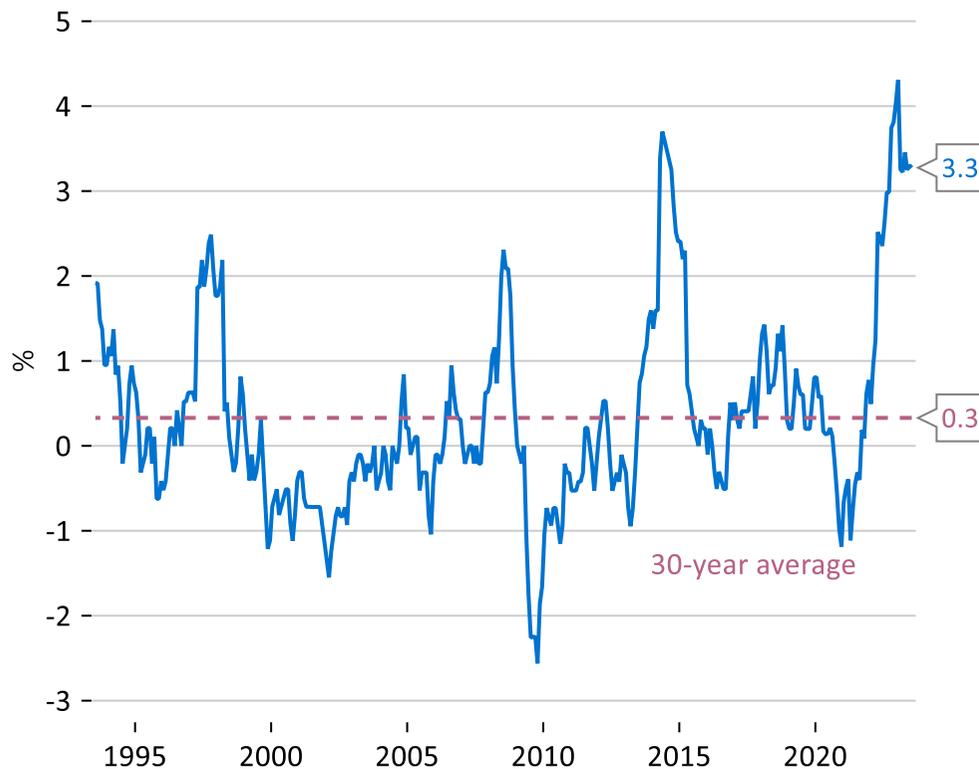
# Japan - Thirty year struggle to escape deflation

Might debt, deflation and demographics now be a *Chinese* problem?



Is the break out in Japanese inflation for real?

Japan Consumer Price Index

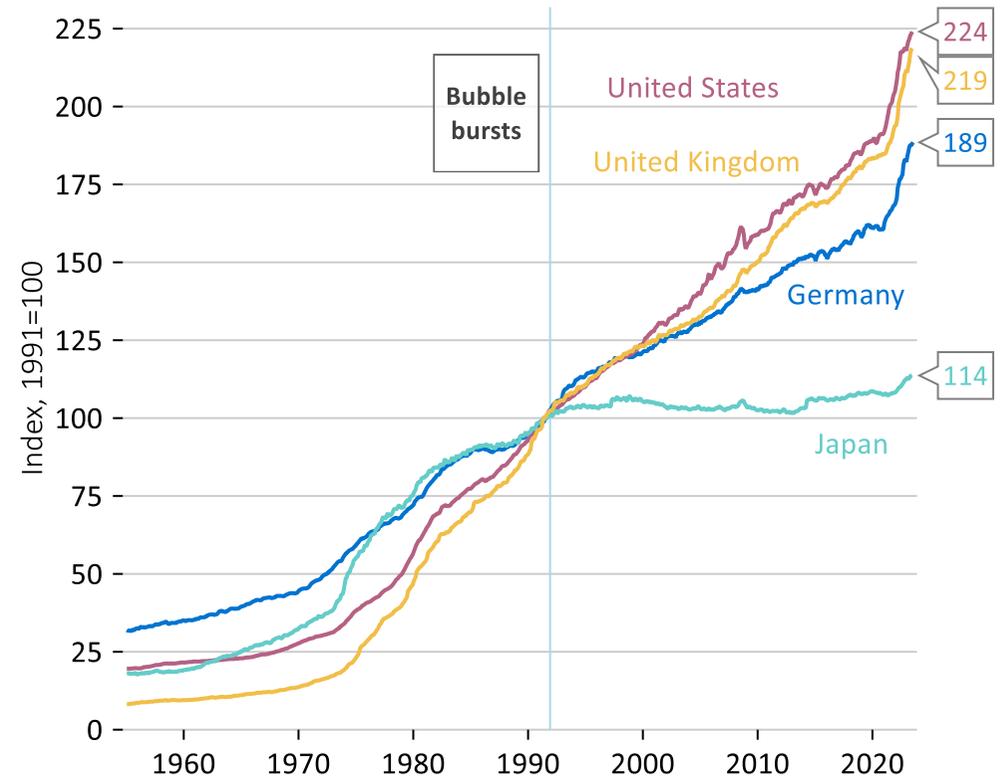


Source: Macrobond, 24.08.23



Persistent deflation after the asset bubble burst in 1991

Japan's consumer price index over time vs other countries



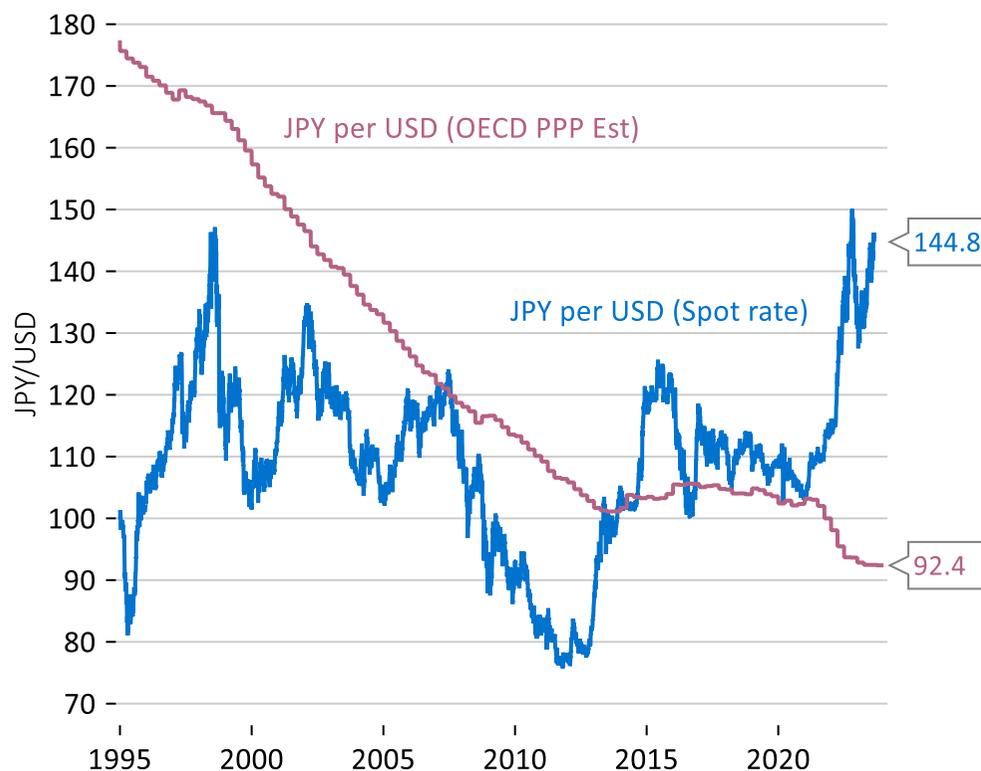
Source: Macrobond, 24.08.23

# Aggressive reflationary policies are starting to gain traction



BoJ policy has pushed the yen to extreme undervaluation

## Japanese Yen Valuation: Spot Rate vs OECD PPP Rate



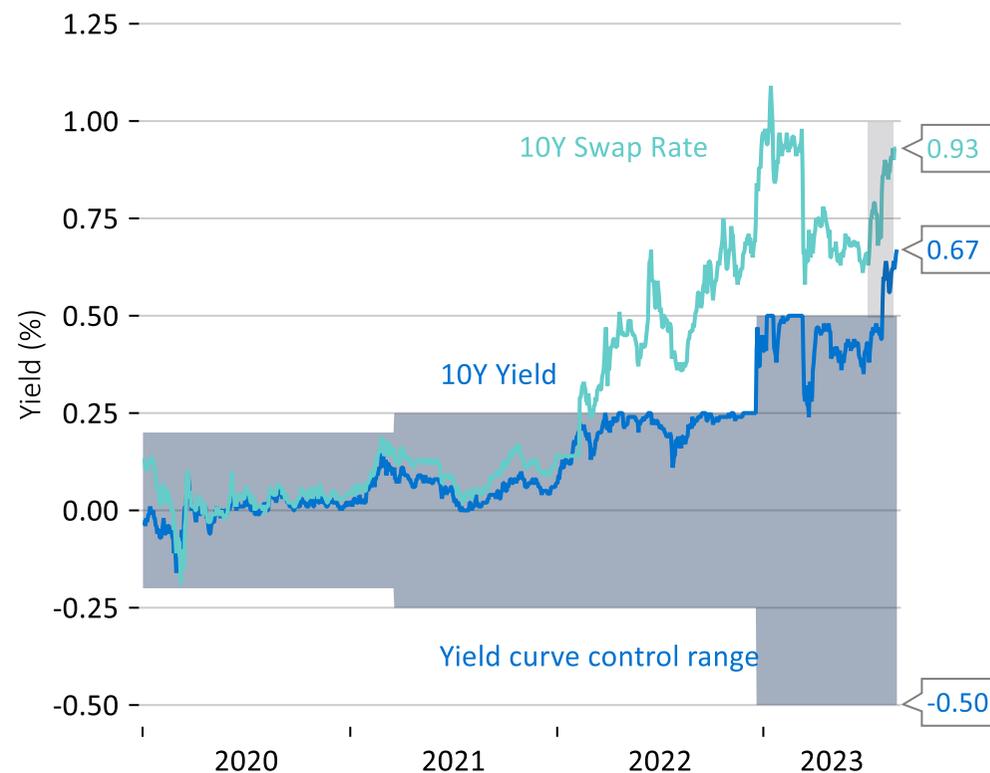
Source: Macrobond, 24.08.23

The Economist Big Mac Index suggests the yen is 43% under valued vs the dollar  
(Economist Aug 2023)



Landmark shift by BoJ to loosen yield curve limits

## Japan - yield curve control range



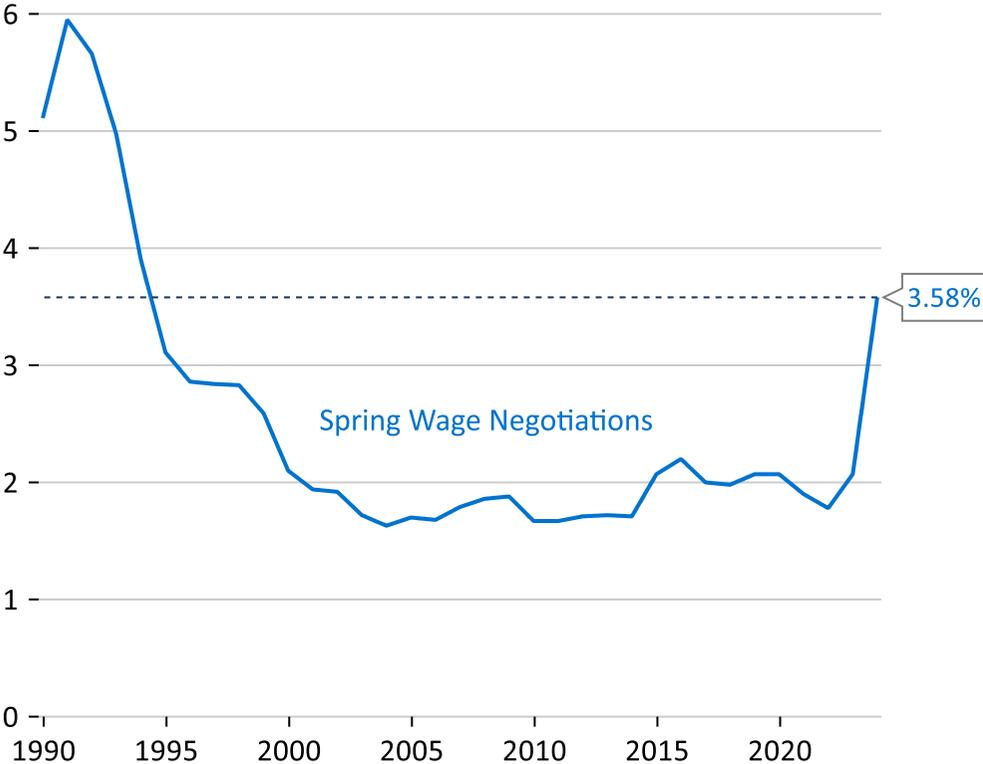
Source: Macrobond, 24.08.23

# Wage growth and corporate pricing finally climbing

Japan's reflationary polices are finally gaining traction in the real economy

## Sharp acceleration in Japanese wages

Japan: negotiations lead to steepest wage increases in 30 years

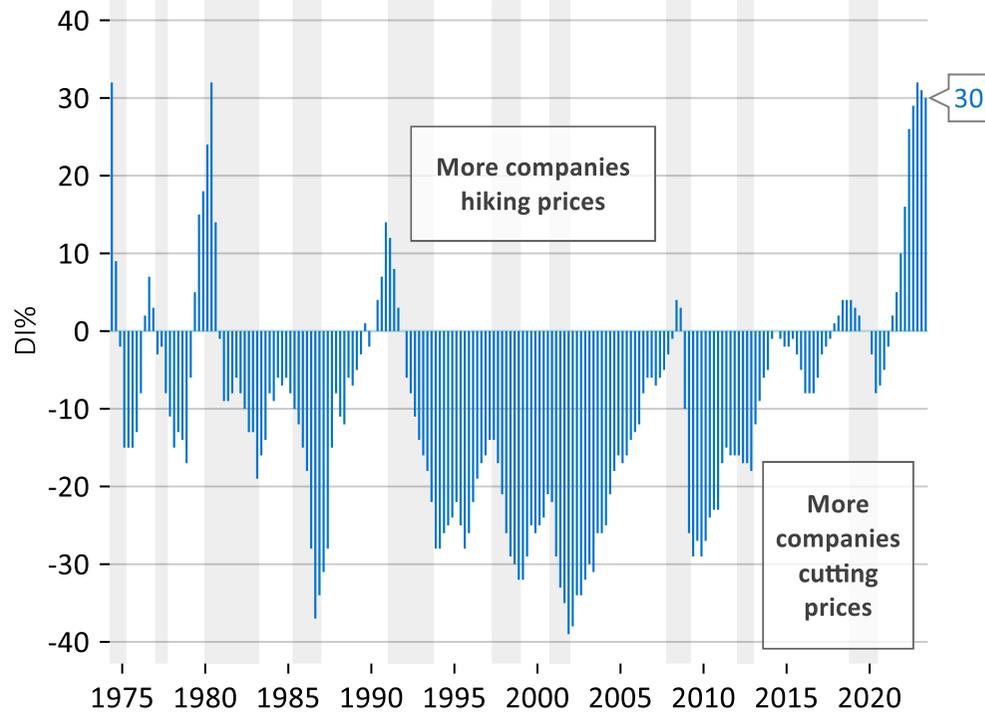


Source: Macrobond, 24.08.23 and Japan Trade Union Conference

## Pricing power is finally returning to corporate Japan

Japan Tankan survey on sales prices (output prices)

Share of companies hiking less those cutting, shaded areas = Recessions



Source: Macrobond, 24.08.23

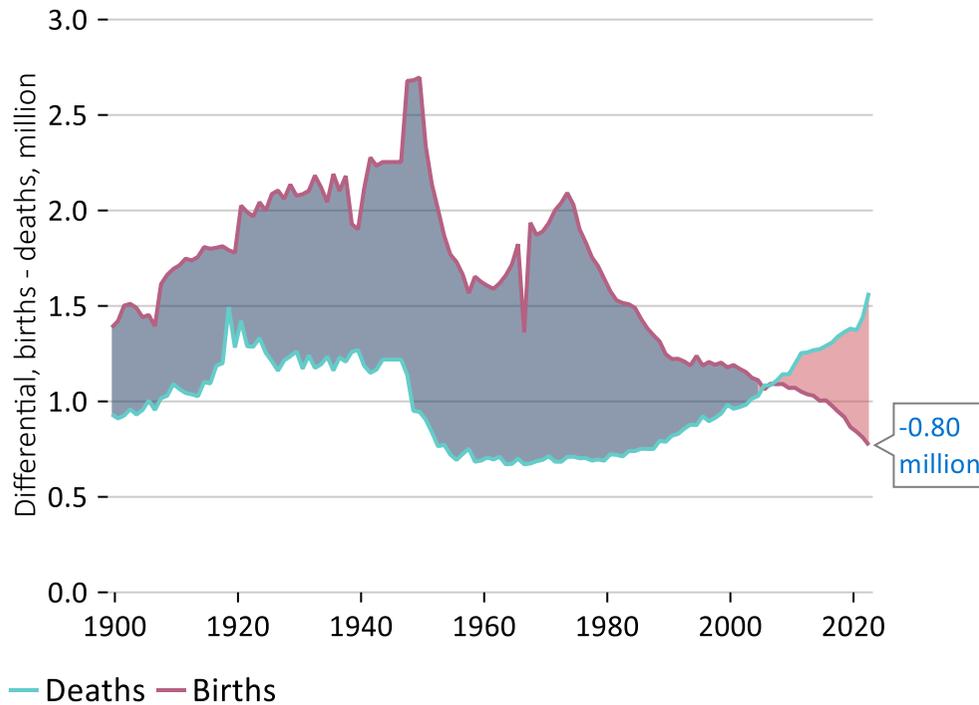
# Japanese demographics are still challenging though...



The population continues to shrink

## Japan's population problem is getting worse

Source: Japanese Ministry of Health, Labour & Welfare



24.08.23

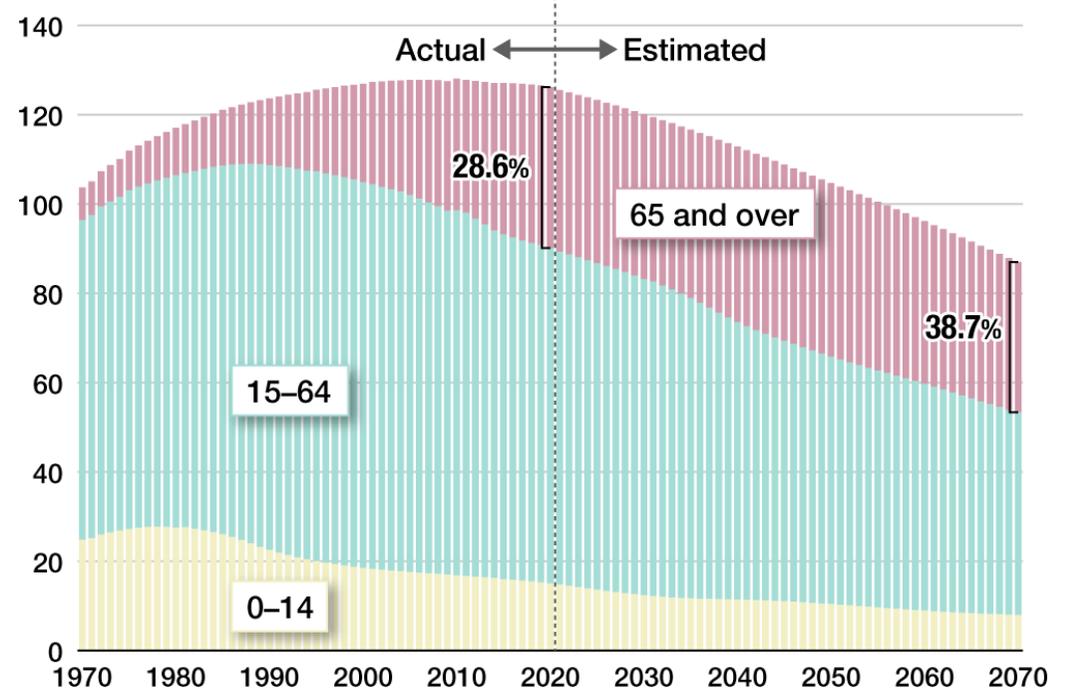
MACROBOND



Over 65s projected to rise to almost 40% by 2070

## Population Change in Japan

(million people)



Created by *Nippon.com* based on data from the National Institute of Population and Social Security Research.

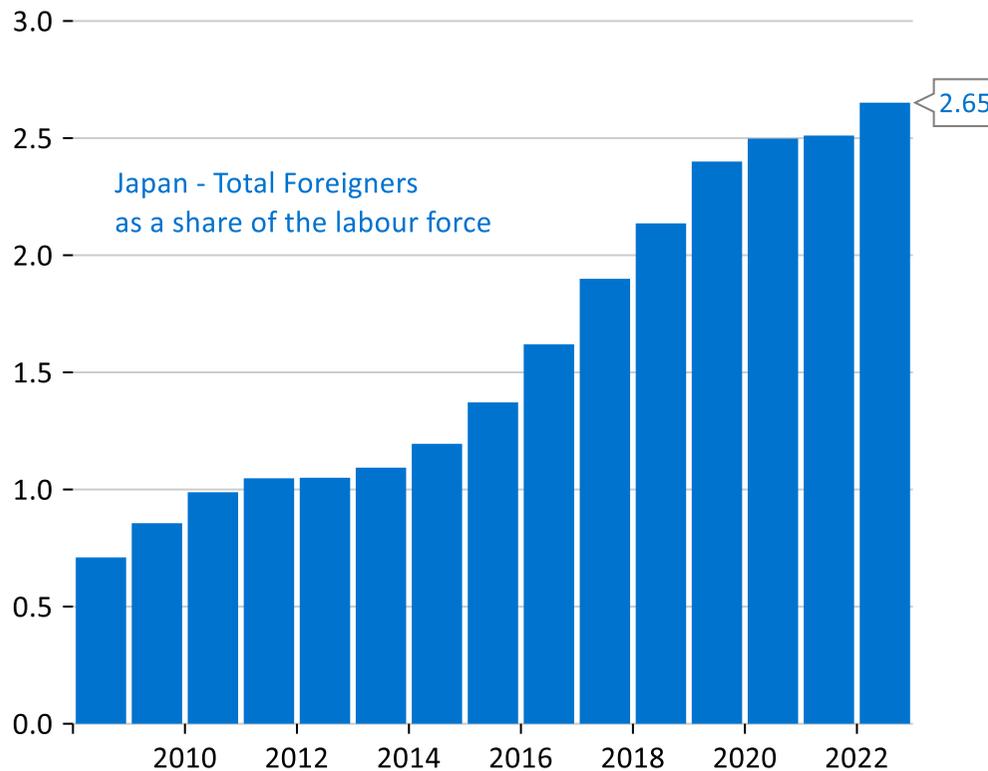
nippon.com

# But there is evidence of the country 'opening up'



## An elderly workforce needs more foreign workers

### Rising number of foreigners across the Japanese workforce

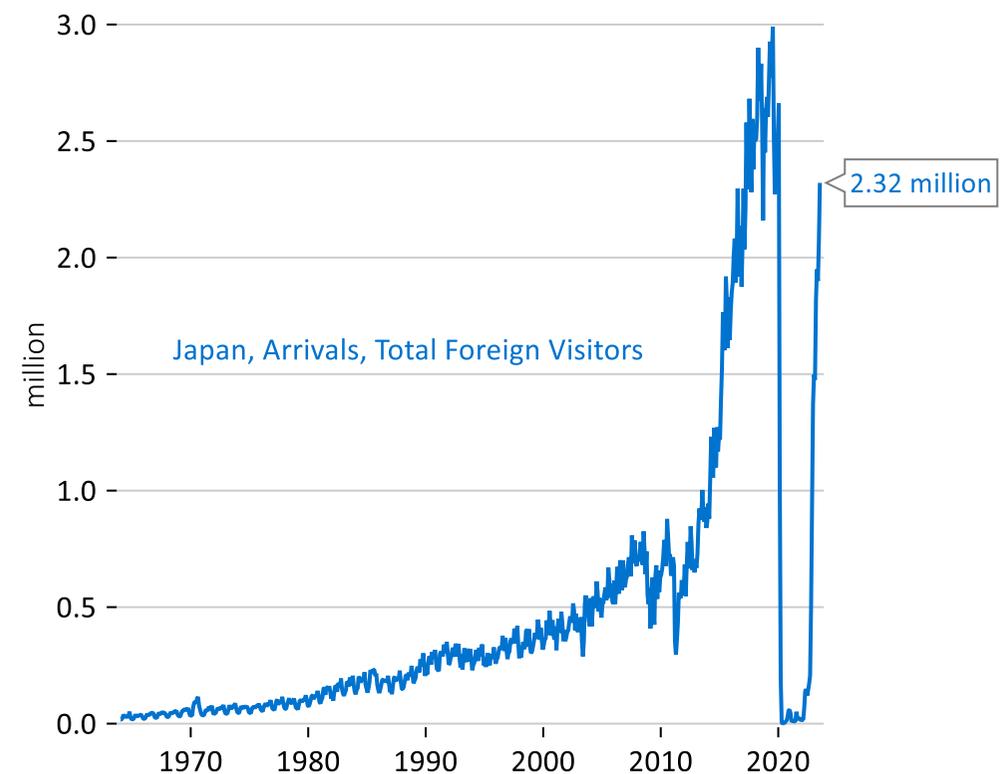


Source: Macrobond, 24.08.23



## Rapid recovery in foreign tourists post-COVID

### Japan, Arrivals, Total Foreign Visitors



Source: Macrobond, 24.08.23

# Japanese equities are attractively priced

After decades of underperformance Japanese equities trade on just 1.2 x book value

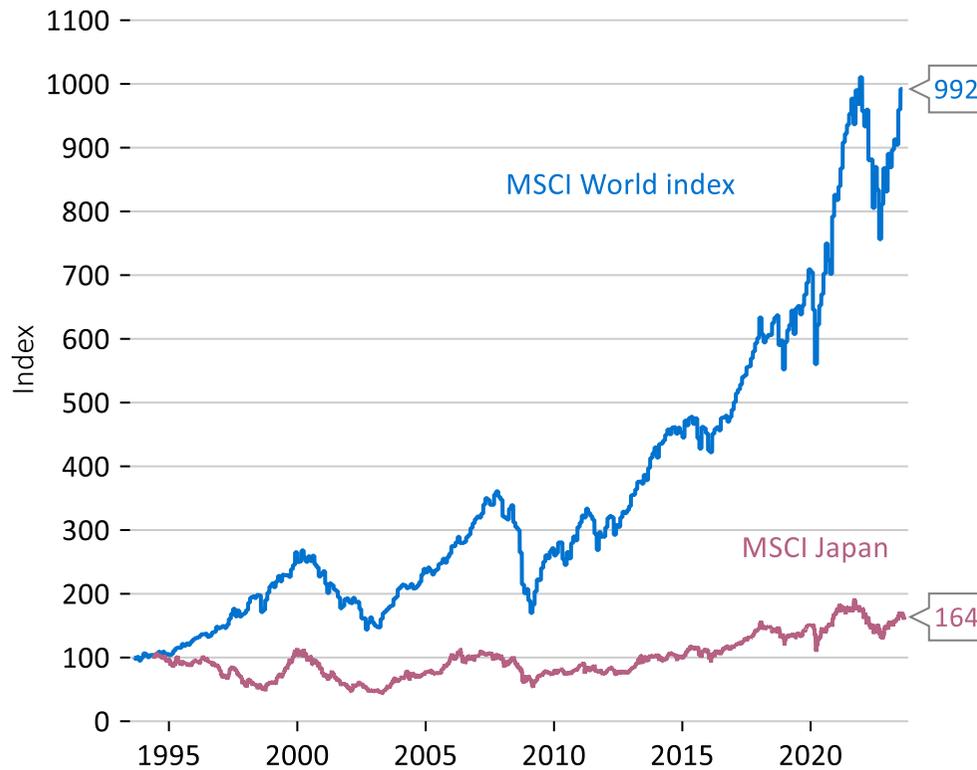


Long-term underperformance may now be ending



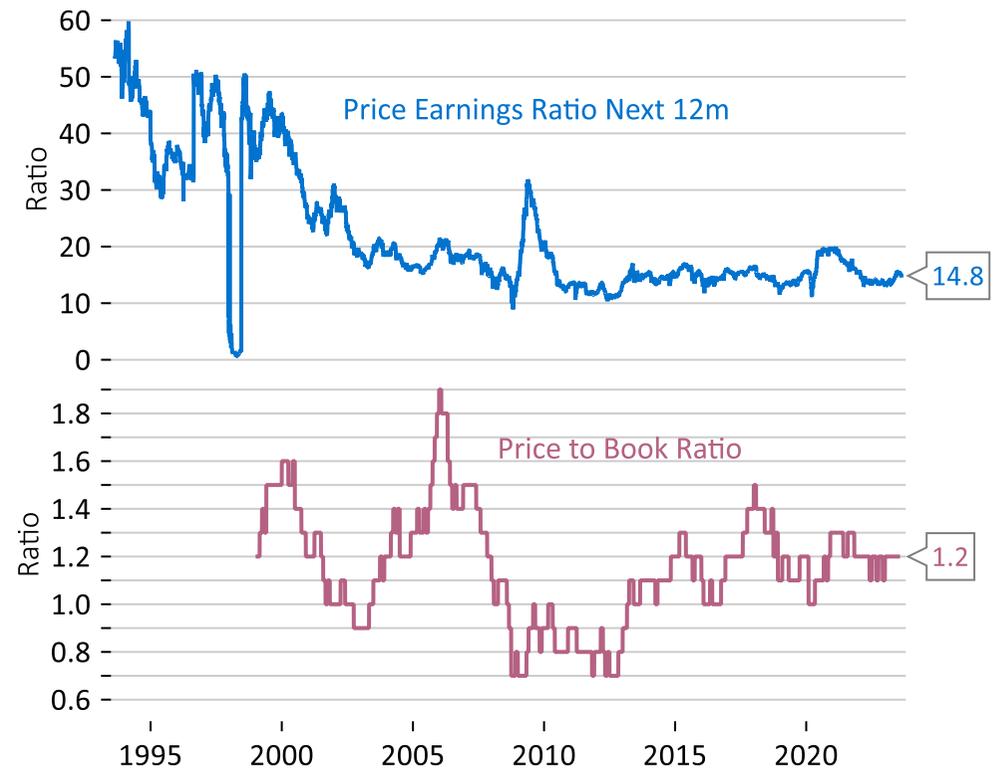
Japanese equities are now attractively priced

### Japan and World Equity Price Returns



Source: Macrobond, 24.08.23

### Japan Market Ratios (FactSet & TOPIX)



Source: Macrobond, 24.08.23

# Policy summary

Japanese assets are attractively valued & offer multiple thematic opportunities



Japan strategy - August 2023

<b>Bonds</b>	<ul style="list-style-type: none"><li>• BoJ expected to maintain liquidity support in the next few months to manage short-term JGB volatility</li><li>• Japanese financial institutions hold an estimated \$1tn of US Treasuries (Fed data). Upward pressure on international bond yields likely</li><li>• Most Japanese banks have been preparing for interest rate risks (reducing duration and Dollar risk) since the start of the year - low systemic risk.</li></ul>
<b>Equities</b>	<ul style="list-style-type: none"><li>• Attractive valuations with much of the TOPIX still trading below book value – domestic M&amp;A accelerating</li><li>• Powerful thematic trends: robotics, connectivity, managing ageing/demographics, diet and nutrition, smart buildings, autos/electrification.</li><li>• Foreign investor interest climbing as Tokyo Stock Exchange encourages balance sheet efficiency, profitability and shareholder communication particularly where price/book valuations are below 1.</li></ul>
<b>Cash (tactical)</b>	<ul style="list-style-type: none"><li>• Yen upside looks likely as yield curve controls are dialed back and Japanese financial institutions repatriate foreign investments</li><li>• Disorderly upward revaluation in Japanese currency still possible</li></ul>
<b>Risks</b>	<ol style="list-style-type: none"><li>1. <b>Reflationary policies fail</b> - Bank of Japan is still purchasing JGB's at record rates this year</li><li>2. Long-term risk from failing to <b>secure climate targets</b></li><li>3. <b>Military conflict over Taiwan</b> causes regional Asian Crisis – <b>North Korea</b> further escalates missile tests</li><li>4. <b>Demographics remain very challenging</b> - foreign workforce will need to continue expanding</li></ol>

Source: Sarasin & Partners, August 2023

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