

Six minute strategy Is now the time to buy Japan?

Guy Monson
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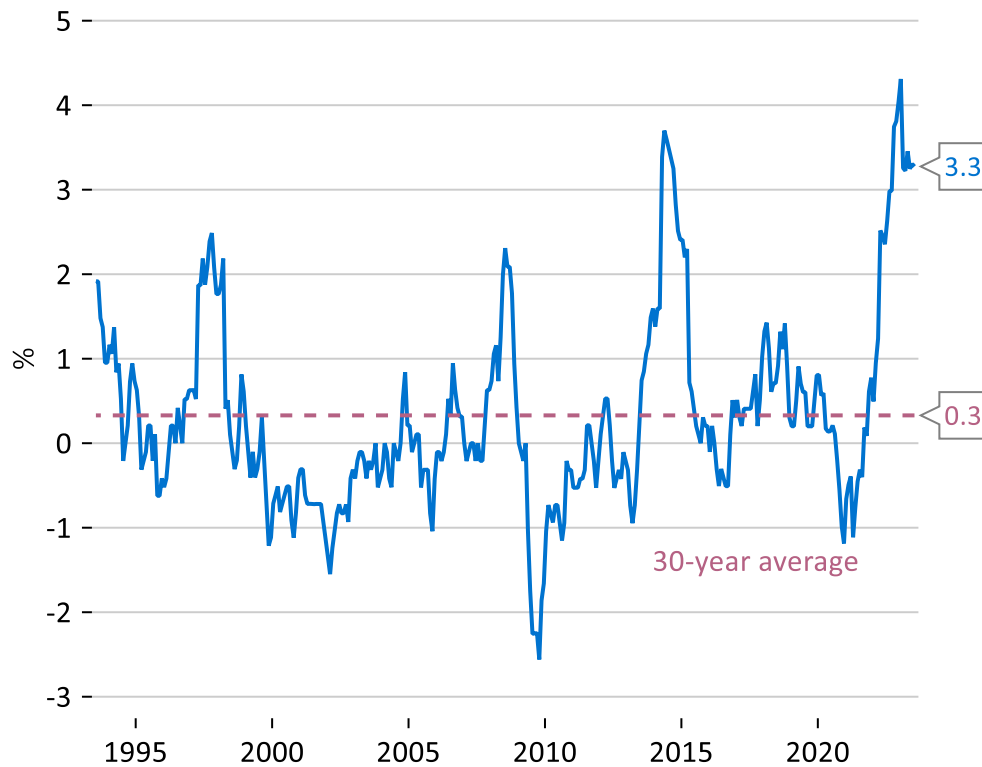
Japan - Thirty year struggle to escape deflation

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



Is the break out in Japanese inflation for real?

Japan Consumer Price Index

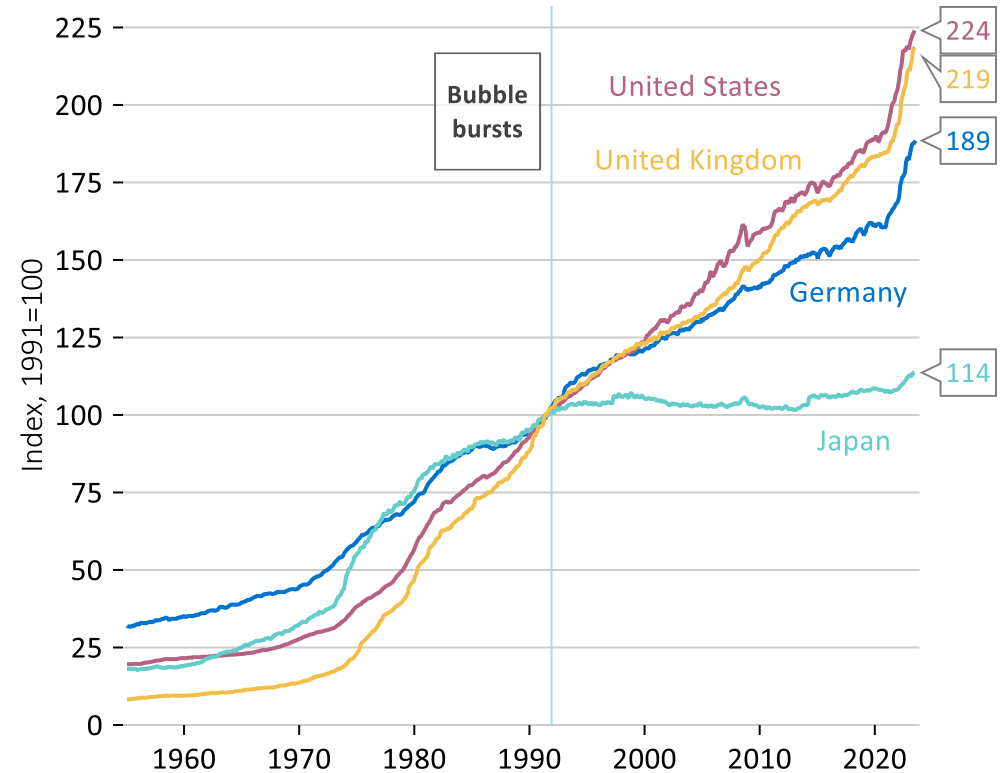


Source: Macrobond, 24.08.23



Persistent deflation after the asset bubble burst in 1991

Japan's consumer price index over time vs other countries



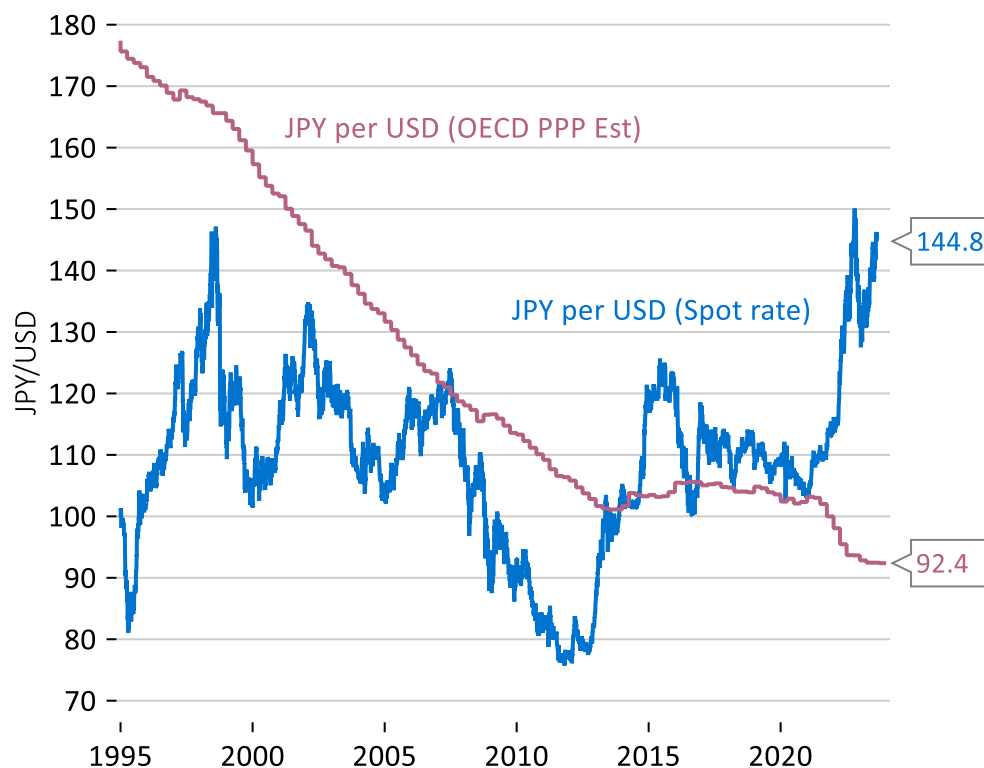
Source: Macrobond, 24.08.23

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



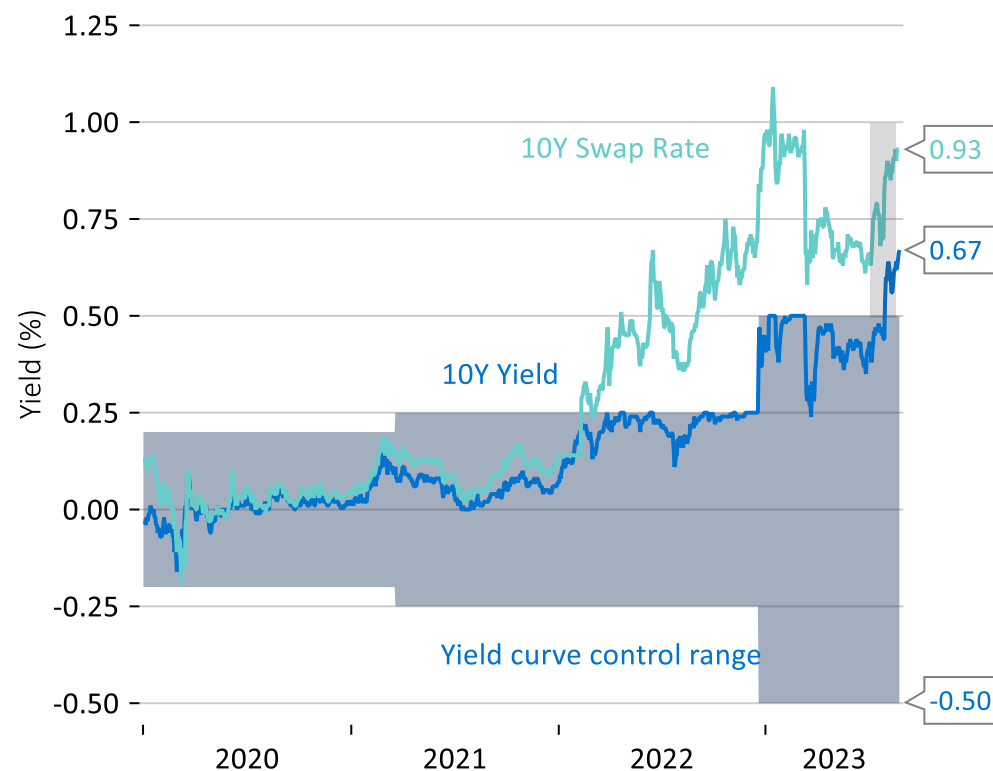
Source: Macrobond, 24.08.23

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



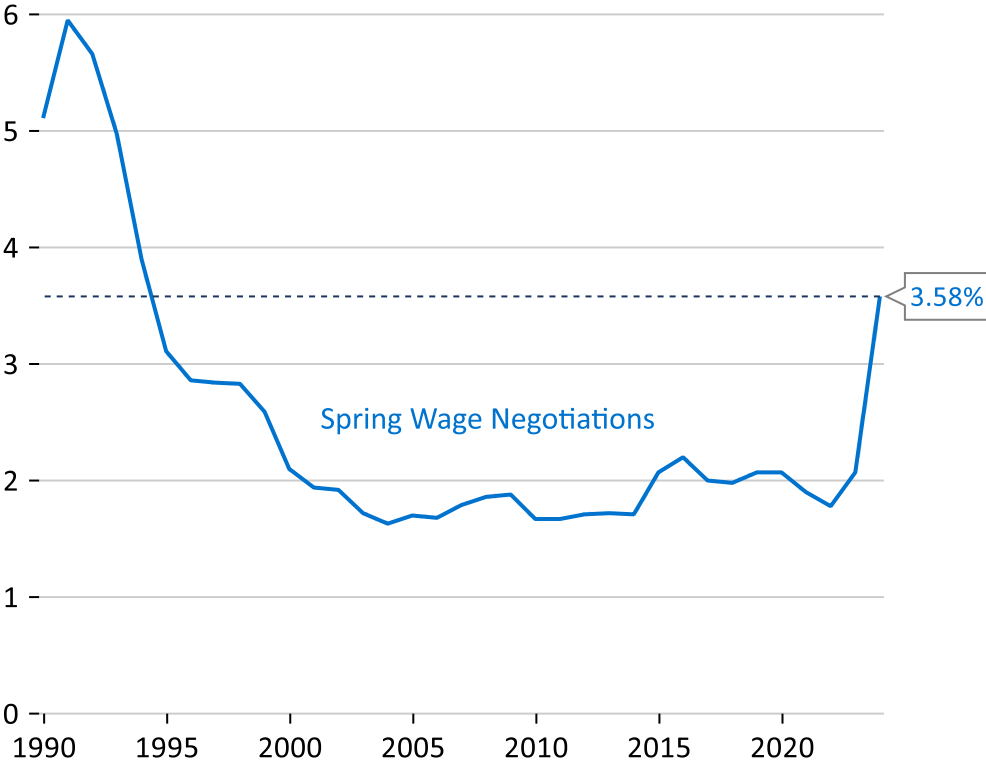
Source: Macrobond, 24.08.23

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

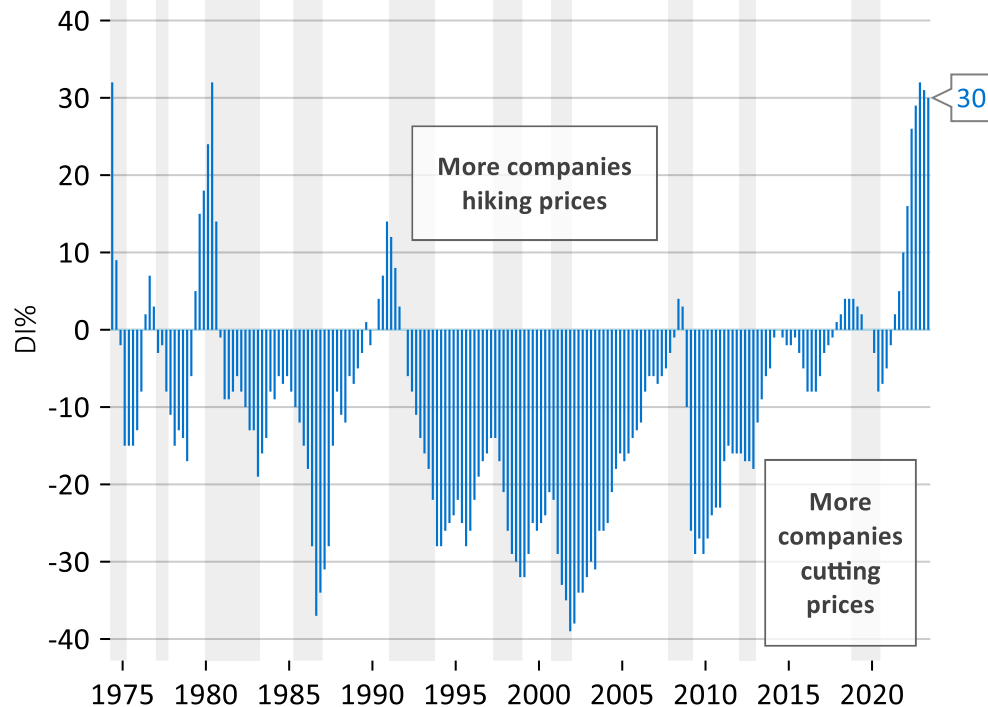


Source: Macrobond, 24.08.23 and Japan Trade Union Conference

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

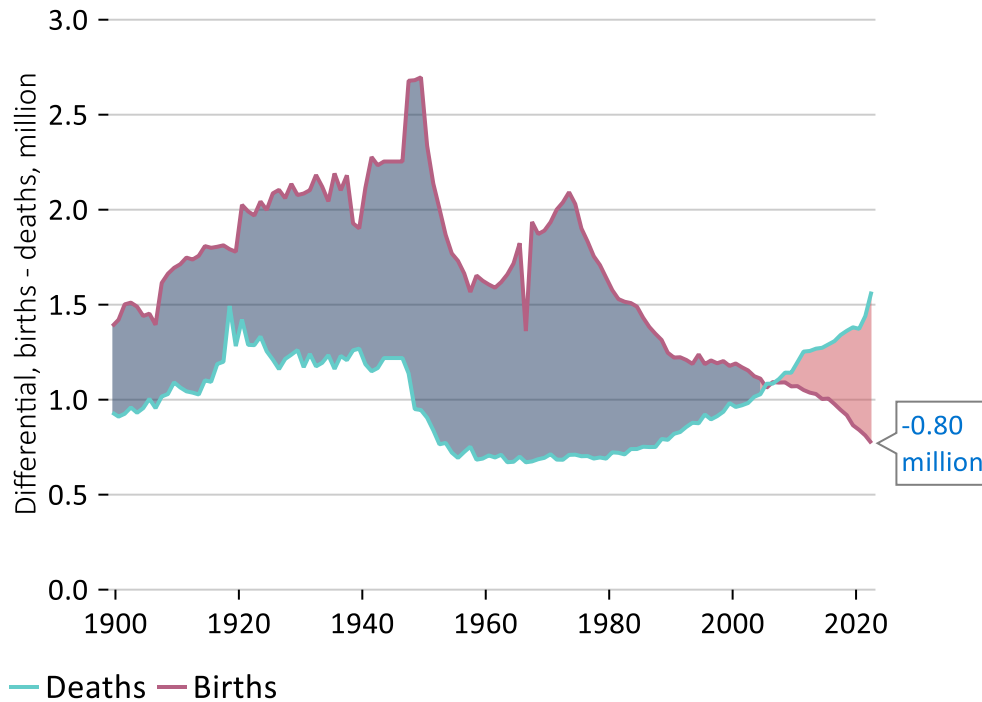
Japanese demographics are still challenging though...



The population continues to shrink

Japan's population problem is getting worse

Source: Japanese Ministry of Health, Labour & Welfare



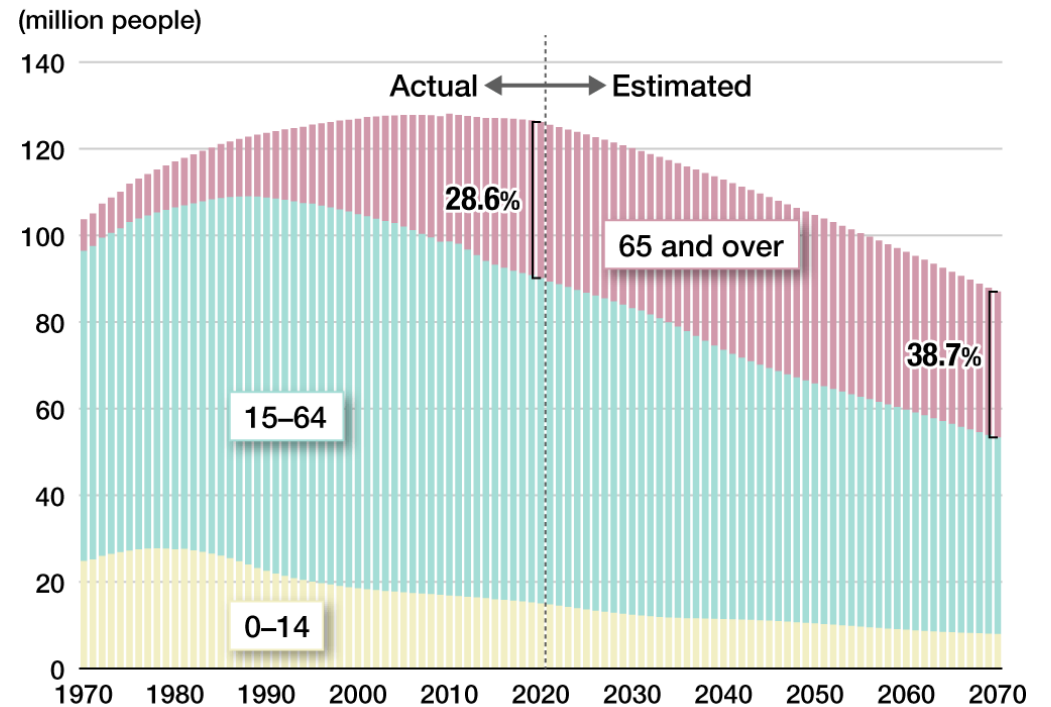
24.08.23

MACROBOND



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

Population Change in Japan



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

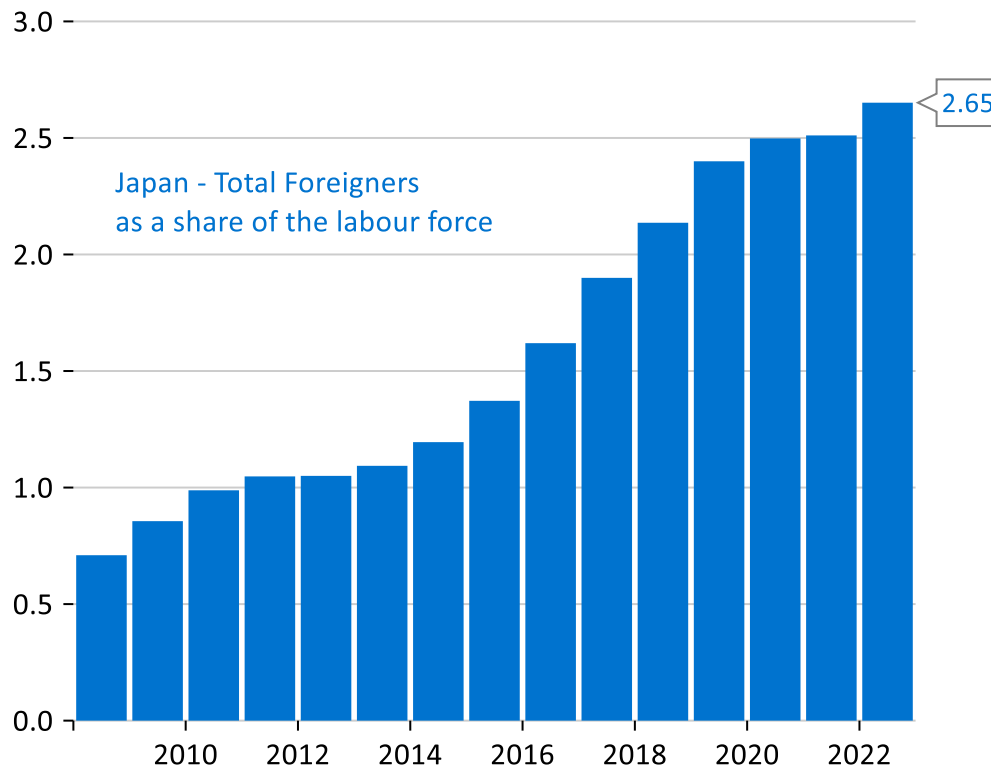
nippon.com

But there is evidence of the country 'opening up'



An elderly workforce needs more foreign workers

Rising number of foreigners across the Japanese workforce

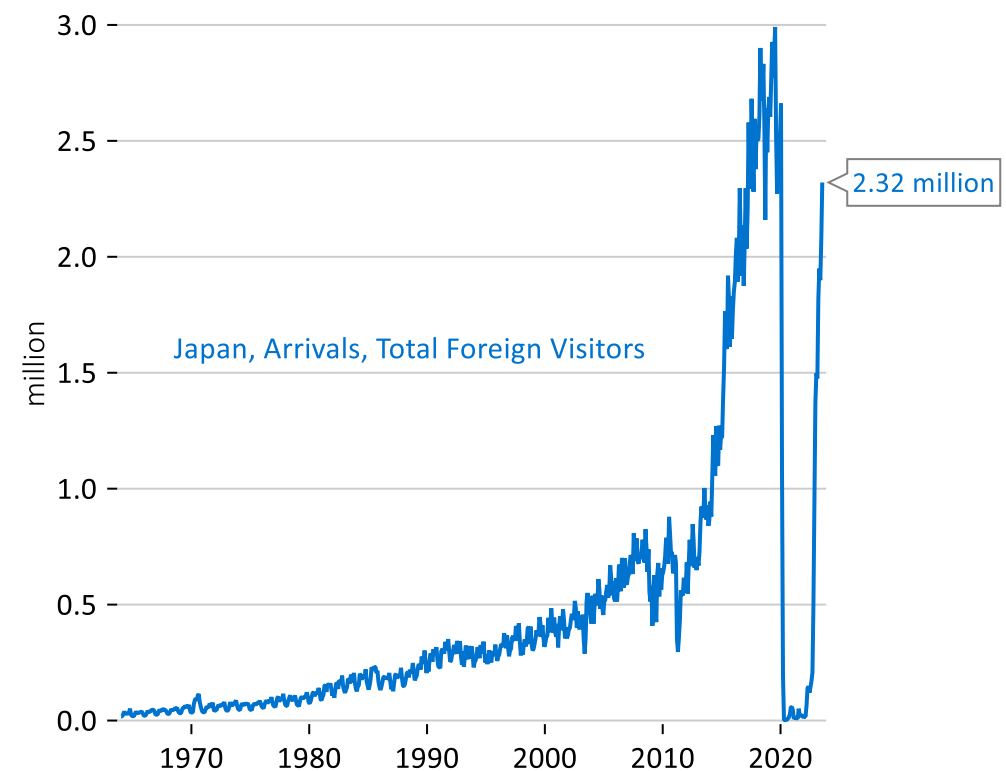


Source: Macrobond, 24.08.23



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

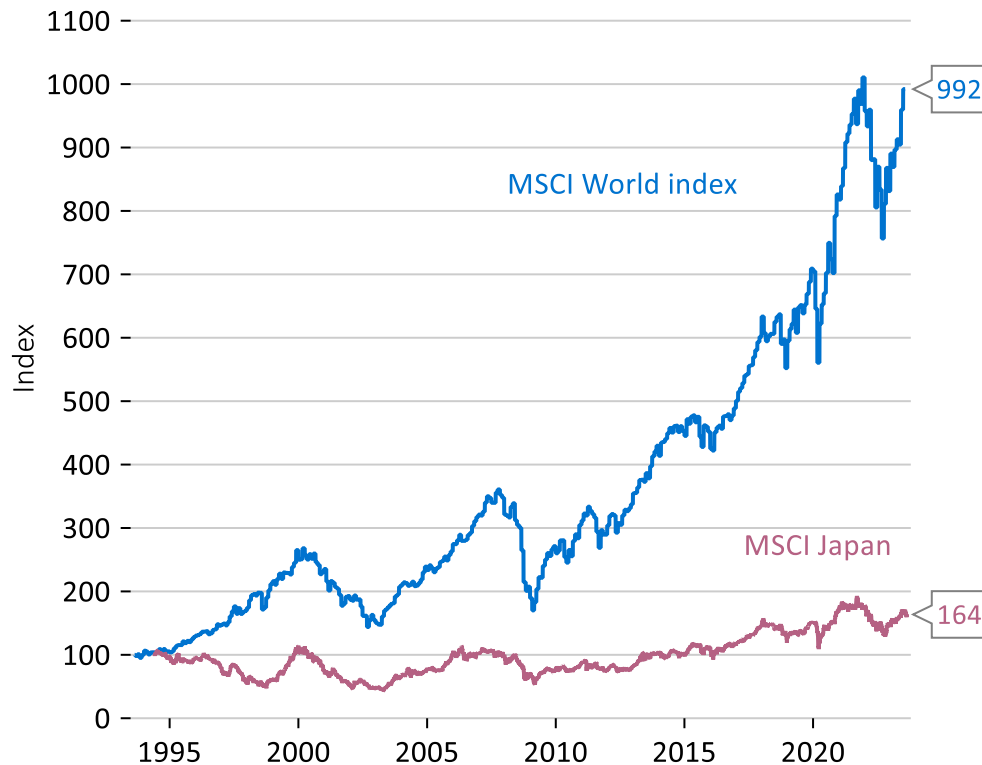


Long-term underperformance may now be ending



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

| | |
|------------------------|---|
| Bonds | <ul style="list-style-type: none">• BoJ expected to maintain liquidity support in the next few months to manage short-term JGB volatility• Japanese financial institutions hold an estimated \$1tn of US Treasuries (Fed data). Upward pressure on international bond yields likely• Most Japanese banks have been preparing for interest rate risks (reducing duration and Dollar risk) since the start of the year - low systemic risk. |
| Equities | <ul style="list-style-type: none">• Attractive valuations with much of the TOPIX still trading below book value – domestic M&A accelerating• Powerful thematic trends: robotics, connectivity, managing ageing/demographics, diet and nutrition, smart buildings, autos/electrification.• Foreign investor interest climbing as Tokyo Stock Exchange encourages balance sheet efficiency, profitability and shareholder communication particularly where price/book valuations are below 1. |
| Cash (tactical) | <ul style="list-style-type: none">• Yen upside looks likely as yield curve controls are dialed back and Japanese financial institutions repatriate foreign investments• Disorderly upward revaluation in Japanese currency still possible |
| Risks | <ol style="list-style-type: none">1. Reflationary policies fail - Bank of Japan is still purchasing JGB's at record rates this year2. Long-term risk from failing to secure climate targets3. Military conflict over Taiwan causes regional Asian Crisis – North Korea further escalates missile tests4. Demographics remain very challenging - foreign workforce will need to continue expanding |

Source: Sarasin & Partners, August 2023

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SARASIN & PARTNERS

Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

T: +44 (0) 20 7038 7000
www.sarasinandpartners.com

