

Sujet traité : Il est temps de capitaliser sur le potentiel du marché boursier japonais / Time to capitalize on Japan's equity market potential

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Fidelity Japan Fund Time to capitalize on Japan's equity market potential!

Summary

Japan's stock market has long been underappreciated, but underneath the surface lies compelling opportunities for global investors. Supported by robust earnings growth, attractive valuations, and improving corporate governance, Japanese equities provide an opportunity to invest in high-quality companies with solid fundamentals. The untapped potential of Japan's equity market makes it an attractive addition to a diversified global portfolio.

Market Highlights and outlook

Japan's Nikkei stock index surpasses record set in 1989 and broad-based TOPIX hits 33-year highs

A normalising economy and corporate reforms that favour shareholders have supported the strong performance of Japanese equities since last year. Signs that Japanese businesses would utilise excess cash to increase investments and boost shareholder returns through buy backs have also contributed to gains.



Bank of Japan ends the world's only negative rates regime in a historic move

At long last, the Bank of Japan in its March meeting decided to end its policy of negative interest rates and yield curve control, moving the lower bound of the interest rate range up from -0.1% to zero. The measure had been adopted to encourage bank lending, spur demand and nurture inflation.

What tipped the balance in the end was the increasingly robust relationship between wages and prices, following some solid pay rises from the recent Shunto wage negotiation. The Japan Trade Union Confederation announced it won a 5.28% wage hike for members, the highest since 1991, and well above market expectations. The investors and market analysts hope that big pay rises will boost household spending and

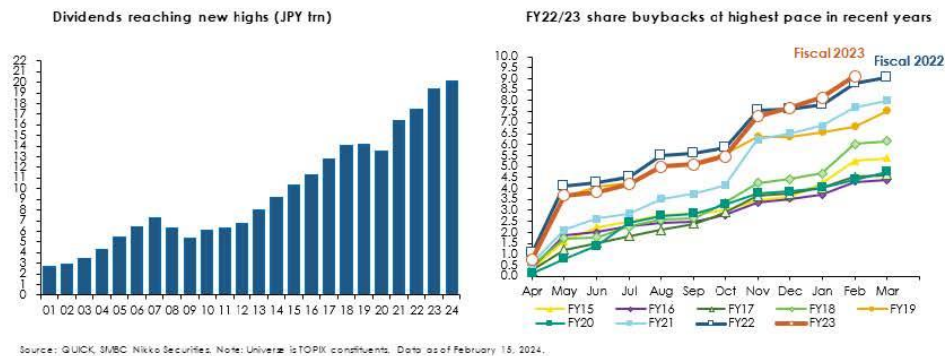
produce more durable growth in the broader economy, which narrowly avoided slipping into a recession late last year.

Shift to moderate inflation and progress in reforms supports Japan's longer-term outlook

Japan stands out as an economy being lifted by inflation rather than weighed down by it. While many countries are grappling with inflationary pressures, inflation in Japan has more often been associated with growth-limiting deflation. So far, Japanese consumers have shown tolerance for mild price hikes, which has made it easier for Japanese companies to cope with cost inflation. The overall economic shift to moderate inflation supports wage growth and consumer spending, as well as investment.

Meanwhile, Japan has witnessed significant changes in corporate governance, with increased interest in shareholder returns. The government and the Tokyo Stock Exchange have actively encouraged companies to improve their returns, leading to a surge in buybacks and dividends. What's important is that these shareholder returns are not being financed through increased leverage, but from retained earnings. This key distinction reflects the strong corporate fundamentals and cash rich balance sheet of corporate Japan. While governance is still a work in progress, the rapid improvement in shareholder returns adds another layer of attractiveness to Japan's equity market.

Consequently, a sustained improvement in returns on equity would support a higher price-to-book multiple, and an economy with moderate inflation would lead to higher earnings-based valuations.



Domestic investor allocation and a change in investment preference

Japanese households are relatively underweight equities and hold more than half of their financial assets in cash deposits compared to their counterparts in the U.S. or Europe. With all measures of core inflation now running above 2%, investors are motivated to hedge against the risks of inflation and a weaker yen than by short-term upswings in stock prices. This along with the expansion of the Nippon Individual Savings Account (NISA), which is a tax-exempt investment scheme, will lead the households to shift from cash deposits to inflationary assets such as stocks. These significant structural underweights in investor portfolios suggest there is ample room for inflows into Japan's markets.

Business confidence in Japanese economy is improving



Fidelity Japan Fund

As at March 29, 2024 (%)	3-month	6-month	1 year	3 years ann.	5 years ann.
Fidelity Japan Fund	10.8	19.1	20.8	7.8	12.4
Tokyo Stock Exchange Index	12.9	19.0	24.3	6.2	7.8
Excess Return	(2.1)	0.1	(3.5)	1.5	4.7

Source: Fidelity Investments Canada ULC. Performance figures for periods greater than one year have been annualized. Returns are for Series F, net of fees, in Canadian dollars. Past performance is not a reliable indicator of future results.

Perspectives:

Portfolio manager, Eileen Dibb, is positive on Japan's equities as the economy transitions into a mildly inflationary state, following decades of stagnant growth and falling prices. The portfolio manager expects that the wage increases will have a knock-on effect of boosting consumption and supporting further price gains; Japan's households are starting to show a shifting mentality from saving to spending and this may have broad and lasting effects. At the same time, the portfolio manager believes that corporate governance reforms in Japan continue to unlock equity market value, and companies may focus more on dividends and buybacks. As a result, shareholder return profile of Japanese companies may improve faster than most other developed markets, in the portfolio manager view. Against this backdrop, the portfolio manager continues to seek structurally competitive companies she believes are consistently growing, with potentially improving returns to shareholders, or companies that she believes appear inexpensively valued and are expected to recover.