

PM's Monthly Perspectives

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The MSCI Japan index advanced as investors reacted positively to **Nvidia's** conference, and somewhat dovish policies of major central banks, and a weaker yen. Specifically, Nvidia shares rose as investors were excited about the GTC 2024, a major conference hosted by Nvidia, including a detailed explanation of its new chip by its CEO, pushing global stock markets higher. Additionally, the index was also boosted by several factors related to dovish policies of major central banks: 1) the ECB lowered its inflation and GDP forecasts in its macroeconomic projections; 2) the median projection of US FOMC members for the federal funds rate, as shown in the latest dot plot, continued to imply three rate cuts in 2024; 3) the Bank of Japan (BoJ) stated in its forward guidance that 'accommodative financial conditions will be maintained for the time being' and decided to continue its long-term JGB (Japanese Government Bond) purchases with broadly the same amount as before. Although the BoJ decided to end its negative interest rate policy and purchases of ETFs due to accelerated wage growth during the spring labour offensive compared to the previous year, this did not have a negative impact on Japanese stocks. Instead, it pushed up the Japanese stock market due to the weaker yen against the US dollar after the BoJ's monetary policy meeting (MPM). Other factors contributing to the positive sentiment in Japanese equities include: 1) various media reports on accelerating wage growth in Japan this year; 2) the announcement of new targets for ROE and major shareholder returns by Obayashi Corp. and Koito Manufacturing, and; 3) reports that the Nikkei 225 index topped 40,000 yen for the first time in history.

Monetary Policy: BoJ ended its negative rate policy; neutral for Japanese stocks

On 19 March 2024, the BoJ announced changes to its monetary policy framework. The BoJ decided to end its unorthodox monetary easing as it judged that the price stability target would be achieved in a sustainable and stable manner. The specific policy changes, which are shown below, are generally in line with the reports published in advance. There were no surprises in the changes and the policy outlook, and we believe that the effects of the changes will be neutral for Japanese equities.

Major changes in BoJ's monetary policy framework

Nº	Item	Previous Policy	Newest Changes
1	Uncollateralized overnight call rate	-	Encourage it to remain at around 0 to 0.1%
2	Current account deposits at BoJ	-0.1% for the policy-rate balance	0.1%, excluding required reserve balances
3	Long-term interest rate	- 10 year bond yields around 0% - Upper bound of 1% as a reference	-

Major changes in BoJ's monetary policy framework (continued)

N ^o .	Item	Previous Policy	Newest Changes
4	JGB purchases	<p>The BoJ will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases.</p> <p>Conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.</p>	<p>Continue to buy long-term JGBs with broadly the same amount as before. (Around JPY6 trillion plus or minus roughly JPY1.5 trillion)</p> <p>Conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.</p>
5	ETFs purchases	<ul style="list-style-type: none"> Annual pace: No target Upper limit: JPY12 trillion 	End new purchases
6	J-REITs purchases	<ul style="list-style-type: none"> Annual pace: No target Upper limit: JPY180 billion 	End new purchases
7	Forward guidance	<p>The BoJ will not hesitate to take additional easing measures if necessary.</p> <p>As long as it is necessary for maintaining the 2% inflation target in a stable manner, the BoJ will continue with quantitative and qualitative monetary easing and yield curve control.</p>	<p>It will conduct monetary policy as appropriate in response to developments in economic activity and prices as well as financial conditions.</p> <p>The BoJ anticipates that accommodative financial conditions will be maintained for the time being.</p>

Source: Bank of Japan, compiled by SMDAM on 1 April 2024

The above changes in monetary policy are broadly in-line with market expectations and the speculative reports published in advance. We had thought that the end of new purchases of ETFs could temporarily push down the Japanese stock market, but it did not happen. Incidentally, the BoJ intends to continue holding the ETFs that it currently holds, as it has denied the possibility of selling them.

On 28 March 2024, the BoJ released a summary of opinions from the March MPM. We pay close attention to this document as it tells us what opinions were expressed, and we believe that it often heralds a change in monetary policy from the BoJ. We think the opinions were neutral. Under the hood, we think that the members' economic outlook was somewhat weak. On prices, we think that they had a strong view on wages and a weak view on the other aspects. In terms of JGB purchases, we think the amount will probably be around JPY6 trillion \pm JPY1.5 trillion for a while, but it will gradually decrease. As for short-term interest rates, we could not find a clue except that it depends on economic, price, and financial conditions.

Supply and Demand: New NISA scheme was off to a good start

The new NISA scheme started in January 2024. NISA is the Japanese version of the UK ISA, and the new NISA allows larger investment limits and extended tax benefits. We initially viewed the new NISA as a medium- to long-term positive factor for Japanese equities, but given the actual data, we can now confirm that the new NISA has had a good start.

According to the Japan Securities Dealers association's NISA account opening and usage status (a survey of 10 securities firms, as of the end of February 2024), the number of new NISA accounts opened in February 2024 was 530,000, and compared to the increase in NISA accounts from January to March 2023 of 180,000 (monthly average), this is an increase of approximately 2.9 times. In addition, the purchase amount from January to February 2024 (monthly average) was JPY1.5 trillion for the growth investment framework and JPY270 billion for the accumulation investment framework.



Thus, the increase is approximately 3.3 times for the growth investment framework and 3.0 times for the accumulation investment framework.

NISA Utilisation (January to February 2024)

	Monthly Average (Jan.- Mar. 2023)	Monthly Average (Jan.-Feb. 2024)	Rate of Increase
No. of NISA accounts opened	180,000	530,000	2.9 times
Purchase Amount (Growth)	JPY0.5trillion	JPY1.5trillion	3.3 times
Purchase Amount (Accumulation)	JPY90billion	JPY270billion	3.0 times

Source: Japan Securities Dealers Association (JSDA), as of 5 April 2024. Figures for “No. of NISA accounts opened” are for February 2024 only.

Looking at the breakdown of the yen amount invested through the new NISA scheme for the period from January to February 2024, 46% went to domestic stocks, 50% investment trusts. Although the details of the purchased investment trusts are not disclosed, we can conservatively assume that the proportion of domestic stocks in them is 10%, since a substantial portion of the money seems to have been invested in index-tracking products such as the MSCI All Country World Index (MSCI ACWI) or S&P500. Even under this assumption, approximately 50% of the total amount invested through the new NISA went to domestic stocks.

The amount of stocks purchased by individual investors on the Tokyo Stock Exchange (TSE) and the amount of publicly traded stock investment trusts (excluding ETF) offered have been on an increasing trend since the beginning of 2024 compared to the past. Under the circumstances, the purchase amount through the new NISA has also increased compared to the past. Of the amount that 10 securities firms purchased under the NISA program, individual stocks accounted for over 3% of the purchase amount on the TSE, and publicly traded investment trusts accounted for over 20% of the amount offered, which are higher than in the past.

Because of the tax benefits of income gains and capital gains, we may expect that the money invested through NISA shall be an investment that is held on a continuous basis. Considering that NISA is a continuous monthly investment, and that ‘Tsumitate NISA’ (accumulation framework) is a continuous monthly investment, and amount under the growth framework increases every year for at least five years, it is presumed that the inflow of funds into the new NISA will continue for at least a few more years. We believe the conditions where the Japanese government is promoting investments, such as the NISA scheme, are positive for Japanese stocks in the medium to long term.

Investment Strategy

We expect that the Japanese equity market will advance in the short term due to a change in the management policy of Japanese companies with a P/B ratio below 1x driven by TSE policy and earnings growth. Over the long term, policies that are more open to foreign capital, including an improvement in corporate governance, as well as policies to boost the immigration intake, are likely to support the market. We identify external factors, such as the outbreak of financial crisis and global recession, as major risks. Taking these into consideration, we will overweight low-P/B companies with large net-cash positions or a lot of unrealised gains on land.

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Note:

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