



Japan's reform measures pave the way for an exceptional 2024

By Junichi Takayama, Japan Equity Investment Director
1 February 2024

Japanese equity market off to a convincing start in 2024

It's been an exciting start to the year for Japanese equities, reinforcing what was an impressive 2023 in performance terms. At the time of writing, the TOPIX Index is up 7.4% for the year-to-date (23 January), having touched three-decade highs and reigniting last year's rally. The magnitude 7.6 earthquake that struck the Noto Peninsula in Ishikawa Prefecture in Japan on New Year's Day led investors to believe that monetary policy would stay supportive for the time being. In addition, less dovish comments by the US Federal Reserve (Fed) early in the month was also a driving force behind a weaker yen, moving Japanese stocks higher.

Last year, global investors turned their attention firmly towards Japan as a way of increasing their Asia exposure while avoiding perceived geopolitical and regulatory risks linked to China, and amid the high inflation environment dominating western economies. But this year, Japan's success is more based on its own merits.

One of the reasons that retail investors are likely to contribute to the rise in the Japanese market is that for the first time in decades, Japan is expected to benefit from sustained inflation. Following the first meeting of 2024 for the Bank of Japan (BOJ), Governor Kazuo Ueda spoke of feeling "confident" about the BOJ achieving its 2% inflation target, with the likelihood having "risen gradually". This means that real interest rates will be negative. Sustained inflation has huge potential for nudging investors towards the Japanese equity market—particularly if those investors are also convinced about the ongoing improvement in corporate practices of Japanese companies.

And so far this year, developments have taken place that are likely to help maintain that positive momentum on two key fronts. These are the strong push from the Tokyo Stock Exchange (TSE) to "name and shame" companies into improving their financial strategies to enhance shareholders' value, and the introduction of the revamped NISA (Nippon Individual Savings Account) scheme.

TSE's "Name and Shame" list

In March 2023, the TSE warned listed companies that it expected them to make progress on delivering corporate value for shareholders. It took this further by requesting that all listed companies on the Prime and Standard Markets disclose "action to implement management that is conscious of cost of capital and stock price". Later in the year, Hiromi Yamaji, the Chief Executive of the Japan Exchange Group, said that in 2024 the TSE would begin publishing lists of companies that were taking action to meet those goals, saying that in Japan: "peer pressure or a nudge is a

very important method to push people to go forward.”¹ The implication being that those companies that had not made disclosures—and were therefore not on the list—would come under greater pressure to act.

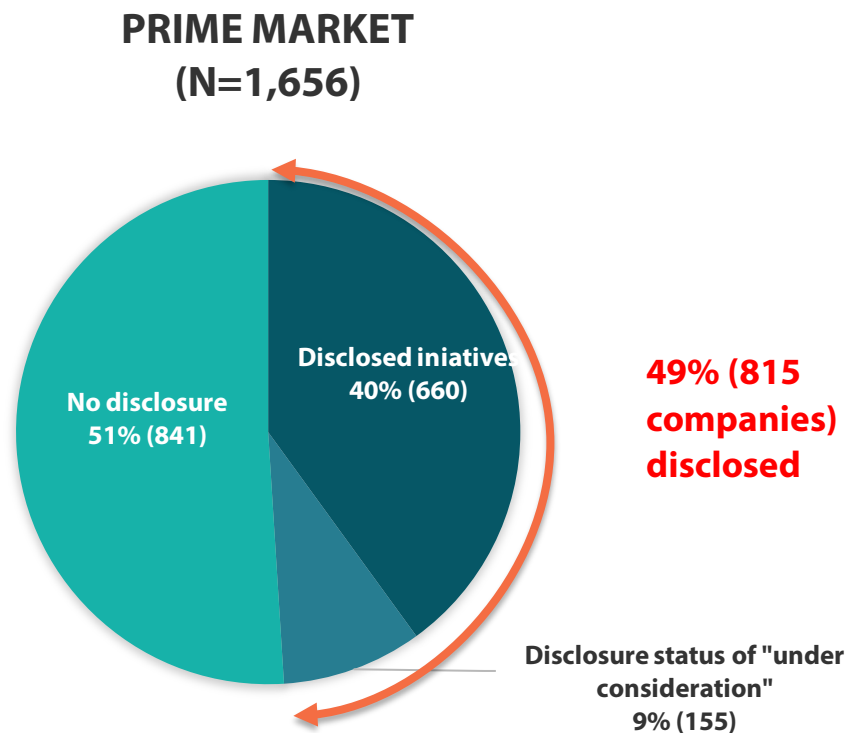
The TSE will also compile best practices and share these with all companies listed on Prime and Standard Markets to help improve financial strategies overall.

On 15 January, the TSE duly published its first monthly list of companies that have responded to the new guidance. The list made clear that at the end of December 2023, only 49% of Prime Market companies had responded to TSE’s request. Of those responders, 40% had disclosed actual measures while 9% commented it was “under consideration”. The list is to be updated on a monthly basis and the TSE is expected to continue to create peer pressure on the remaining half of companies where no disclosures had been noted.

Encouragingly, this number was considerably lower (31%) as of mid-July 2023, so 18% more companies made disclosures in the latter half of 2023. It appears that many of the laggard companies are adopting a “wait and see” approach, assessing what disclosures have been made by competitors before coming up with an improved strategy themselves.

It is also worth noting that of those companies that have disclosed measures to improve management practices with a focus on cost of capital and share prices, only 47% have disclosed their measures in English. This means that currently only about one in five companies on the Prime Market has disclosure measures available in both Japanese and English. We expect more inflows into the Japanese market from overseas investors as more companies are pressured into a) disclosing measures and b) disclosure measures additionally in English.

Chart 1: Compliance status to TSE’s request



Source: Nikko AM based on data from Japan Exchange Group

The improved NISA scheme set for a big 2024

Japanese retail investors have long been known to be risk-averse, which is one of the key reasons why they have not been as exposed to equity markets as their western counterparts. But this year, the Japanese domestic tax-free savings scheme – NISA – celebrates its tenth anniversary, and we expect it to be an important year for the scheme. We published an insight piece about the new-look NISA last year, that can be read [here](#).

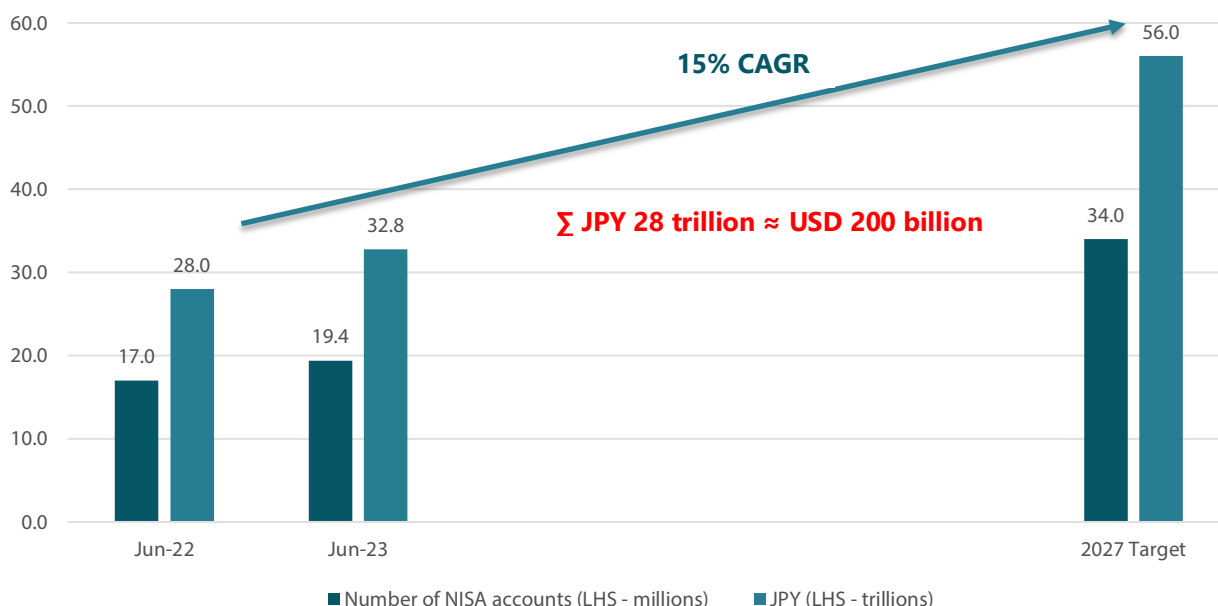
¹ Japan stock exchange adopts name and shame regime to boost corporate valuations (ft.com)

The NISA has undergone a meaningful revamp, and from January 2024, the General NISA and Tsumitate NISA will be consolidated into a new Tsumitate framework for investing in funds, while the General NISA will be replaced by a “Growth Investment” NISA that investors can have alongside the Tsumitate NISA. Other key changes include:

- Doubling the annual investment limit from Japanese yen (JPY) 1.2 million to JPY 2.4 million (approx. EUR 15,200) for the Growth Investment NISA and tripling the annual limit from JPY 0.4 million to JPY 1.2 million for the Tsumitate NISA.
- Raising the tax-exempt lifetime investment limit to JPY 18 million.
- Abolishing the tax-exemption period, meaning NISAs are now exempt from tax for the lifetime of the investor.

The move is expended to help ignite an investment boom among household savers. In fact, the Japanese government has set an ambitious target of doubling the assets under management in NISA accounts by 2027. While some retail investors are likely to choose to invest outside of Japan, the strength of Japanese equities mean a significant amount of additional inflows are expected in the Japanese equity market. Therefore, how Japanese companies respond to the TSE’s guidance will also play an important role in terms of inflows.

Number of NISA accounts (millions) and AUM (JPY trillions)



Source: Nikko AM based on data from Financial Services Agency and Cabinet Secretariat of Japan

Moreover, this all comes at a time when Japanese companies are under an increasing level of scrutiny by activist investors. Those companies now have a strong incentive to grow a more stable investor base, and to encourage a burgeoning number of retail investors with accommodative actions such as hiking dividends and carrying out stock splits to make their shares not only more attractive, but also affordable.

All of these reform initiatives – both at the TSE and within Japanese companies themselves—are converging in 2024 to create a more attractive and hospitable environment for domestic and overseas investors. Nearly half of the companies in the TOPIX index are still trading below book value and we expect the market to unlock value from these companies—not only as they look to comply with the TSE’s nudging strategy to reveal their improved measures, but also as they recognise the inherent benefits of being more appealing to retail investors everywhere, particularly those in Japan.

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: 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.

Luxembourg and Germany: This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

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 nether 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 Decree80/98, 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.