A Revitalized Japan: A New Era of Opportunities

July 2, 2024

Japan’s investment management market is undergoing a significant transformation characterized by the renewed vigor of Japanese equities and a burgeoning interest in private markets. This dual trend is reshaping the Japanese investment landscape, offering exciting opportunities for local and international investors alike. This resurgence can be attributed to changes in monetary policy, governance reforms and the proactive search for higher yields and diversification.

The Resurgence of Japanese Equities

For decades, Japan's equity market languished due to the economic stagnation that followed the asset price bubble bursting in the early 1990s. However, several recent developments have rekindled interest in Japanese equities among global investors as the return on Japanese equities only slightly lagged U.S. equities in 2023. The trend for strong returns is continuing this year, with the S&P Japan 500 delivering returns over 19% up to June 2024.[1]

In an effort to improve corporate efficiency and shareholder value, Japan has introduced significant corporate governance reforms. Introduced in 2015, The Corporate Governance Code and its subsequent updates have enhanced transparency, accountability and capital efficiency. These reforms have driven Japanese companies to adopt more shareholder-friendly practices, such as higher dividend payouts and share buybacks. This shift has caught the attention of global investors looking for value and accountability in their investments.

The Bank of Japan’s (BoJ) prolonged accommodative monetary policy, characterized by negative interest rates and massive asset purchasing programs, played a crucial role in stabilizing the economy. But over the longer term, it has left Japan caught in a deflationary trend with an undervalued currency. But in March 2024, the BoJ made a major policy shift, raising interest rates for the first time in 17 years, with many economists forecasting further rate rises later this year.

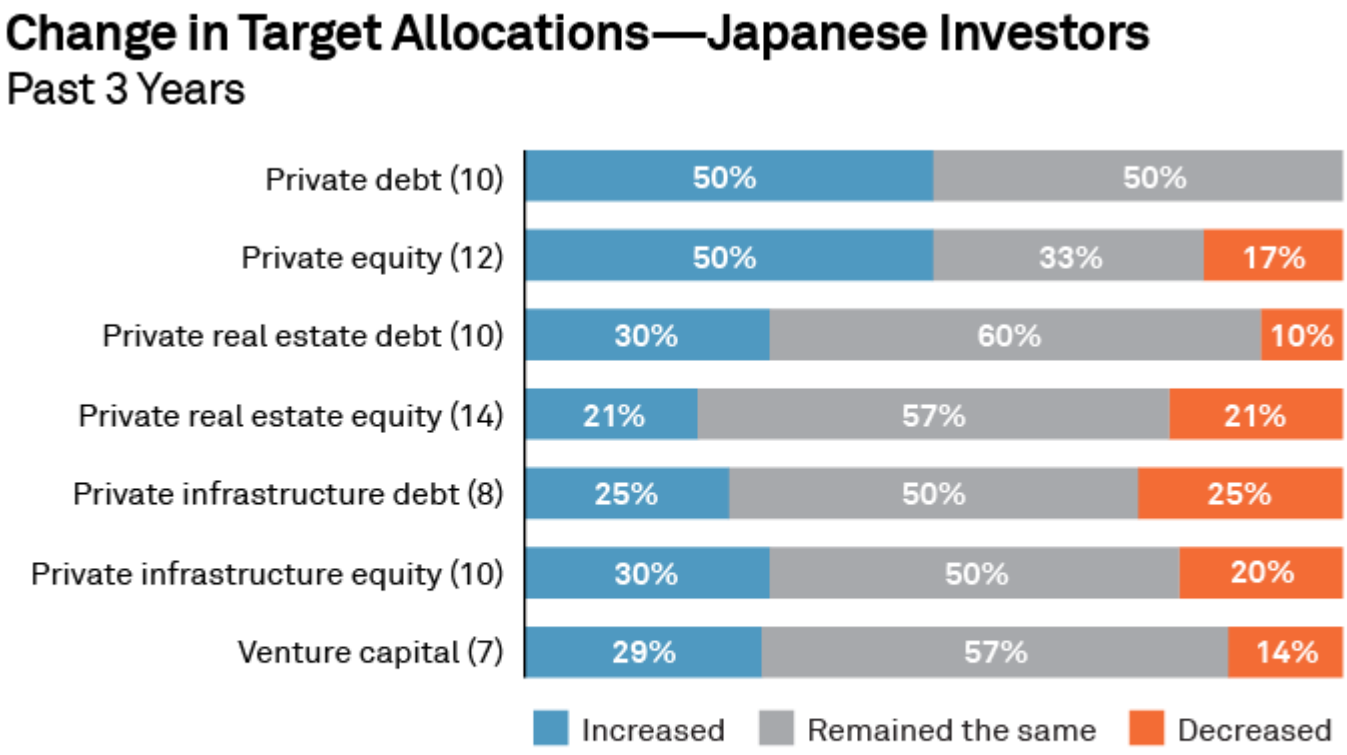
Despite gradual improvements in corporate profitability, Japanese stocks have historically traded at a discount compared to their global peers. This discrepancy has provided an appealing opportunity for value-oriented investors who recognize the underlying strength of Japanese companies, especially those benefiting from global economic trends and improved domestic performance.

An Appetite for Private Markets

Domestically, Japanese institutional investors—primarily large pension funds and insurance companies—are increasingly turning their attention to private markets to enhance returns and diversify their portfolios.

The persistent low-interest-rate environment has diminished the yield on traditional fixed-income

investments. In response, institutional investors are seeking alternative investments that offer higher returns. Private markets, including private equity, real estate and infrastructure, provide these higher yields, attracting significant interest from institutions looking to fulfil their long-term obligations.



Note: Numbers in parentheses represent number of respondents. Based on 16 total respondents. Totals may not equal 100 due to rounding.
Source: Coalition Greenwich 2023 Asia Private Market Study

With institutional portfolios having to cater to Japan's "super-aged" society—in fact, the oldest population in the world—the long-term nature of private market investments aligns well with the investment horizons of domestic pension funds and insurance companies aiming for stable and attractive returns over an extended period.

Implications for Global and Local Investors

The Japanese investment management market is witnessing a rejuvenation, driven by shifting central bank strategies, robust corporate governance developments and the strategic moves of investors toward more diversified asset classes. These trends are creating a vibrant investment environment brimming with opportunities for both global and local investors. As these dynamics continue to evolve, they are poised to redefine the contours of Japan's financial markets, fostering a more dynamic, robust and rewarding investment landscape.

Managers who can adeptly navigate this changing terrain stand to benefit from the wealth of opportunities that lie ahead, capitalizing on the renewed strength and potential of Japan's evolving market.

Sophie Emler is the author of this publication.

[1] https://www.spglobal.com/spdji/en/indices/equity/sp-japan-500/

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