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# CSOP Asset Management

## Is There Another Historical High or Correction for the Japanese Market?

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**Yi Wang**

Managing Director,  
Head of Quantitative Investment  
CSOP Asset Management



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# Quiet Thunder: A Startling Market Awakening

July 2024





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01



## Three Arrows: Stirring Up the Japanese Bull Market

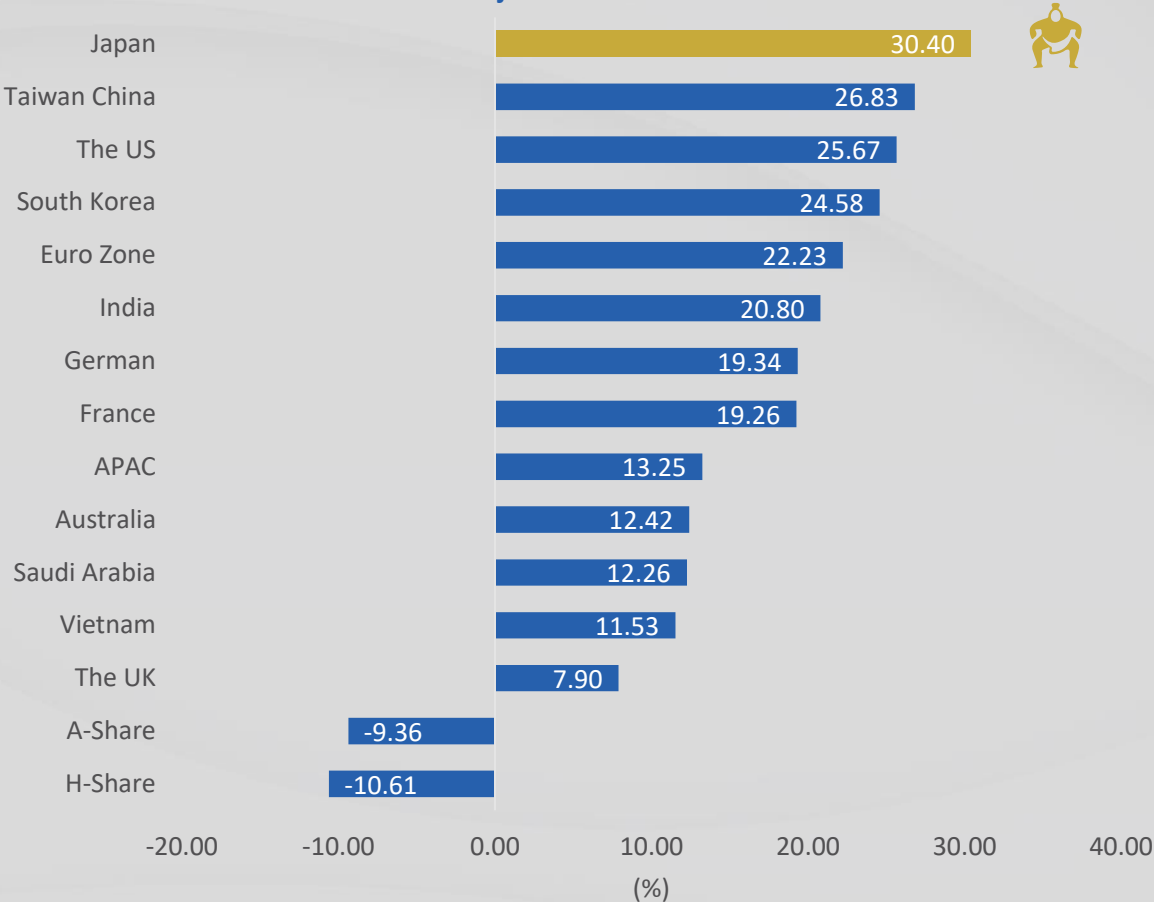


# Global Triumph: Japanese Stocks Soar to a 34-Year High

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The Nikkei 225 Index rose 30% in 2023, leading all major global markets. At the beginning of 2024, it climbed to a new peak, breaking through 34,000 points, setting a new high since March 1990 (when the asset bubble burst).

Performance of Major Global Stock Indices in 2023#



The Nikkei 225 Index Reaches a 34-Year High\*



Source: #Bloomberg, 12/30/2022 - 12/29/2023. Except for the Taiwan Stock Exchange Weighted Index (Bloomberg code: TWSE Index), all are net total return indices. H-Share-Hang Seng Index, A-Share-CSI300 Index, UK-FTSE 100 Index, Vietnam-FTSE Vietnam 30 Index, Saudi Arabia-FTSE Saudi Arabia Index, Australia-S&P/ASX 200 Index, APAC-FTSE Asia Pacific Low Carbon Select Index, France-CAC 40 Index, German-DAX Index, India-Nifty50 Index, Euro Zone-Euro STOXX Index, South Korea-KOSPI Index, US-S&P 500 Index, Taiwan China-TWSE Index, Japan-Nikkei 225 Index. \*Bloomberg. As of 12/29/2023. The Nikkei 225 Index - Price Return starts from the index base date of 12/28/1979, and the Nikkei 225 Index - Net Total Return starts from the earliest available data of 1/4/2002 on Bloomberg, standardized according to the index price level of 100 on 1/4/2002. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# Three Arrows Unleashed: A Surge in Attraction for the Japanese Stock Market

1

In April 2023, Warren Buffett visited Japan for the first time in 12 years. Subsequently, he repeatedly increased his holdings, making **Japanese stocks his largest overseas investment**. The world's attention is once again focused on this former Asian leader.



Buffett Increases Holdings in Japanese Stocks

2

The virtuous cycle of wages and inflation is expected to pull Japan out of years of deflation, achieving **mild and sustainable growth in inflation and the economy**.



Expected to break the decades-long deflation curse

3

In March 2023, the Tokyo Stock Exchange urged listed companies to reform, especially demanding improvements from companies with a PBR (Price to Book Ratio) falling below 1, which are considered "below liquidation value".



"PBR" Reform Boosts Valuation

Source: Nikkei Asia, Tokyo Stock Exchange. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# First Arrow: Buffett's Increased Stake Ignites Japanese Stocks

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After the trip to Japan, the "Buffett Effect" is significant, attracting the attention of overseas investors to the Japanese stock market, with many institutions buying Japanese stocks in large quantities.

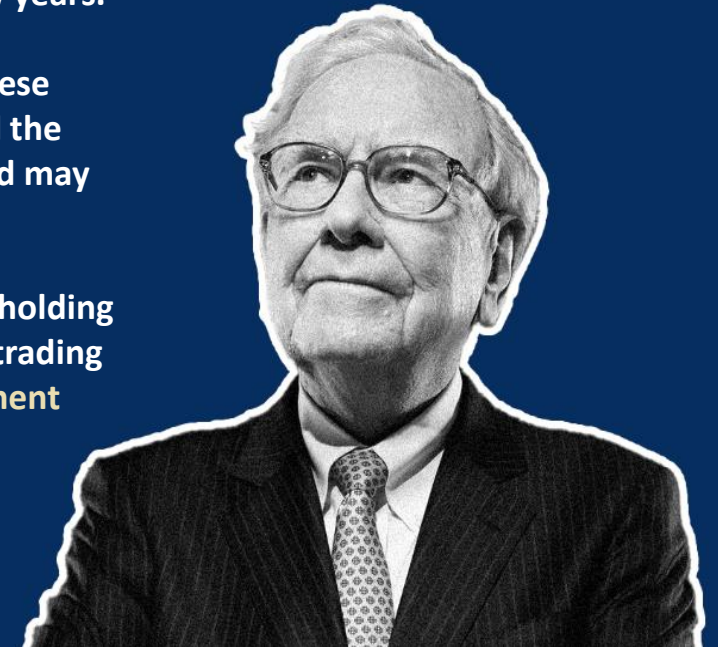
- **2020**
  - Warren Buffett's investment group, Berkshire Hathaway, announced the purchase of **more than 5%** of shares in each of Japan's five leading trading groups - Mitsubishi Corp, Mitsui & Co., Itochu, Marubeni and Sumitomo Corp.
- **2022**
  - Berkshire Hathaway announced that it would increase its stake in each of the five trading houses to **around 6%**.
- **April 2023**
  - **Buffett visited Japan for the first time in 12 years.**
  - Berkshire Hathaway has escalated its stake in Japan's five major trading houses to **7.4%**, marking it as the company's **most substantial investment outside the United States**. The firm plans to maintain its collaboration with these companies in the future.
- **November 2023**
  - Berkshire Hathaway **raised funds equivalent to \$827 million USD by issuing Yen-denominated bonds**, sparking expectations that he might invest more in Japan.
  - Around the time of its last Yen bond issuance in April, Berkshire Hathaway increased its stake in the five Japanese trading houses.
- Buffett's 5 trading groups holdings (Mitsubishi Corp, Mitsui & Co., Itochu, Marubeni and Sumitomo Corp) increased by **175%, 218%, 158%, 233%, 133%** in 2020-2023.\*

“

**"Very proud"** of my investment in Japan's five leading trading groups over the past few years.

The investment in Japanese houses is **long-term**, and the proportion of shares held may rise to 9.9%.

Although currently only holding stocks of the five major trading houses, **the next investment target** is always in mind, depending on the price.



Source: Compiled from media reports such as Nikkei Asia. \*Bloomberg, 2019/12/30-2023/12/29, they are 8058 JP Equity, 8031 JP Equity, 8001 JP Equity, 8002 JP Equity, 8053 JP Equity. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# Second Arrow: Breaking the Decades-Long Deflation Curse

## 2023: A Record-Breaking Year for Core CPI, Highest in 41 Years

For decades, Japan's inflation has been below the target inflation rate (2%), accompanied by slight and continuous deflation.

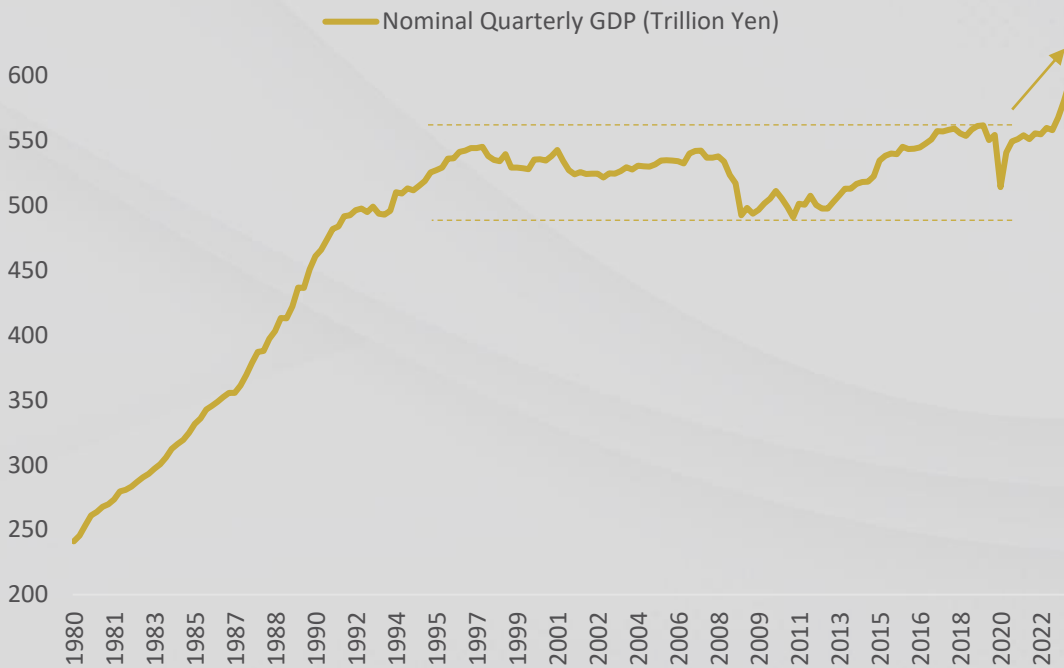
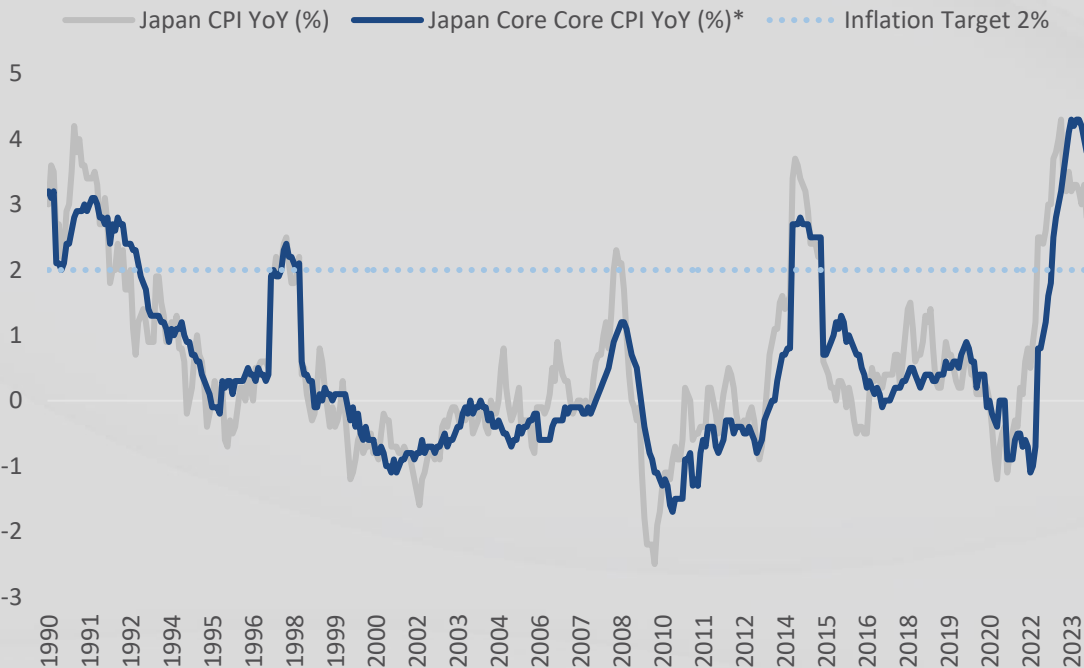
**The core CPI\* for the whole year of 2023 increased by 3.1% year-on-year, the highest in 41 years.** Since August 2022, core inflation has continued to be above the target inflation, mainly supported by **endogenous sustainable factors** such as medium and long-term inflation expectations and wage growth.



## Nominal GDP Outpaces Historical Trend, Shakes Off Deflation

In 2023Q3, Japan's quarterly nominal GDP scale **reached a new high in over 40 years**, with the average real GDP growth rate **at a relatively high level in nearly 10 years**.

The Japanese government predicts that the real GDP will **increase by 1.3% in 2024**, and **the GDP value will reach a new high**, mainly driven by domestic demand. Considering the median inflation forecast of 2.8% for 2024 by the Bank of Japan, it is expected that **the nominal GDP growth will exceed 4% in 2024**.



Source: Bloomberg. \*Core CPI is the consumer price index excluding fresh food, and core core CPI is the core CPI further excluding energy. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



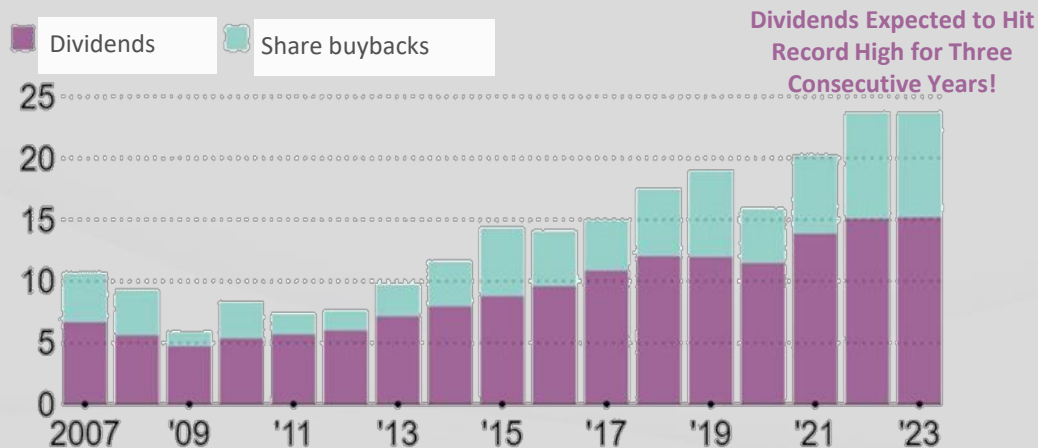
# Third Arrow: 'PBR Reform' Boosts Corporate Valuations

The valuation of the Japanese stock market has been low for a long time.

In March 2023, the Tokyo Stock Exchange introduced a new regulation to address the situation where the Price to Book Ratio (PBR), which can undermine shareholder value, falls below 1. The new rule mandates that, "**For listed companies with a PBR consistently below 1, it is required to disclose their policies and specific initiatives for improvement**". The specific initiatives include:



Record Highs in Japanese Dividends and Stock Buybacks\*



## Announcement of PBR Improvement Policies Boosts Nikkei 225 Stocks in 2023^

	PBR Improvement Policy	Total Return on Stock Price in 2023
CITIZEN WATCH	Planning to <b>repurchase</b> up to a quarter of issued shares	<b>+48%</b>
TOPPAN	Total Dividend Ratio Set to Reach <b>80%</b> in Fiscal Year 2023	<b>+105%</b>
RECRUIT	Planning to implement a stock <b>buyback</b> of up to 200 billion Yen	<b>+44%</b>
HONDA MOTOR	Planning to <b>buy back</b> stocks and <b>increase dividends</b> with a limit of 200 billion Yen	<b>+50%</b>
IDEMITSU KOSAN	Raising the <b>ROE target</b> from 8% to over 10%	<b>+30%</b>

Source: \*Nikkei Analysis. The stock buyback for the 2023 fiscal year is estimated data. ^Bloomberg, Nikkei. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# Foreign Funds Flood In: A Decade-High Inflow into Japan

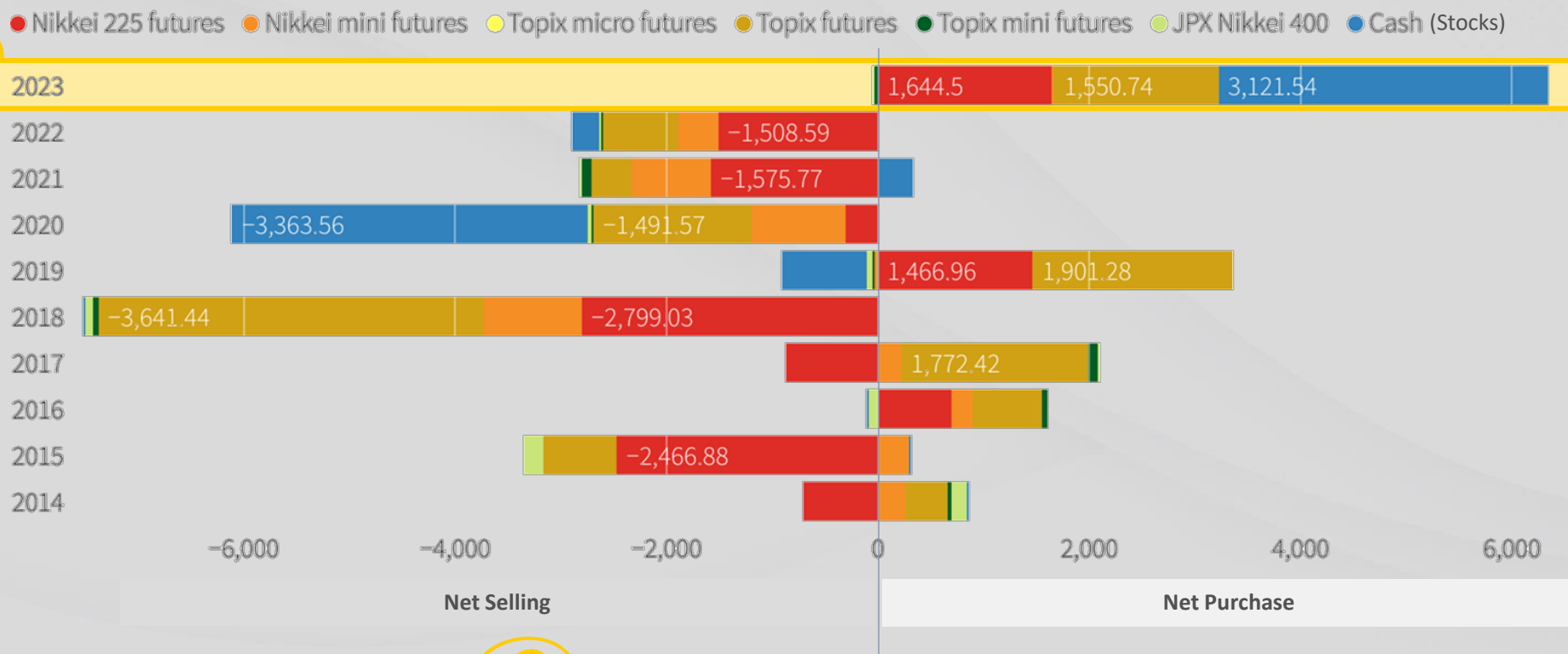
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In 2023, overseas investors made a net purchase of Japanese stocks and futures amounting to 6.3 trillion Yen (approximately 43.39 billion USD). The net inflow of stock alone reached a scale of 3.12 trillion Yen, breaking a three-year record of net selling and setting a new high since the implementation of Abenomics in 2013.^

Decade-High Net Inflows!



Historic Net Purchases of Japanese Stocks and Futures by Overseas Investors (Billion Yen)^



Is it a structural bull market? Or just the effect of hot money?

Source: ^Japan Exchange Group, Reuters. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



02

## An Impressive Market Ignored in a Decade





# Japan Reclaims Lost Three Decades

A decade of bull unknown to all, until Buffet made a global call.

In the 1990s, the asset price bubble of stocks and real estate burst, and Japan entered a period of economic stagnation, commonly known as the "Lost Three Decades."

**In fact, Japanese stocks have been rising quietly for 10 years\*.** Thanks to the two-way efforts of the government and enterprises, the Japanese stock market is booming——

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Source: \*Bloomberg · Nikkei 225 Index from 2012 end when the index hit the bottom to 2021 end. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



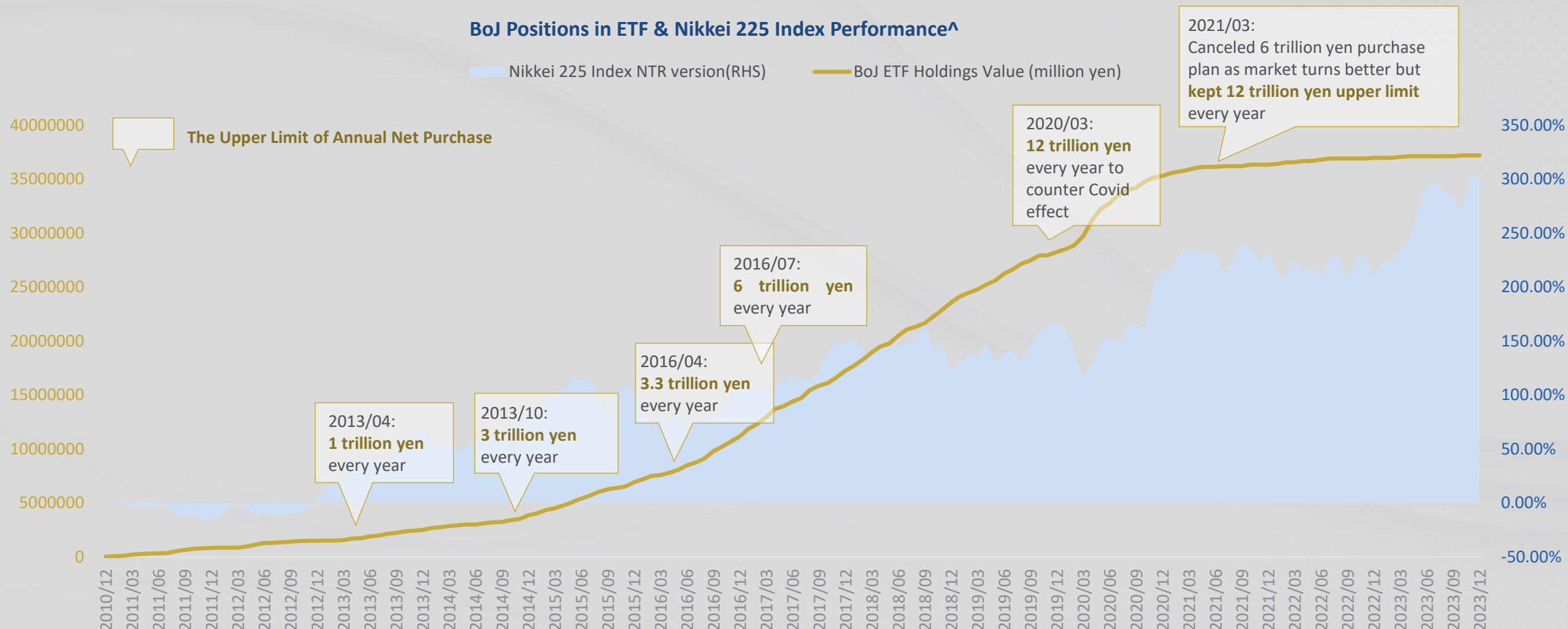
# Policy Support: BoJ Shores up Stock Market

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During the period of economic depression, the Bank of Japan (BoJ), the central bank of the country began to purchase broad-based equity ETFs in December 2010, and has expanded the scale of purchases\* several times to support market confidence.

**The move brought a remarkable effect in rebuilding confidence.** The Nikkei 225 Index has risen by **300%** since BoJ entered the market. After the stock market improved, BoJ gradually reduced its ETF purchases in the past two years. In 2023, BoJ became a net seller of Japanese stocks for the first time\*\*.

BoJ Positions in ETF & Nikkei 225 Index Performance^



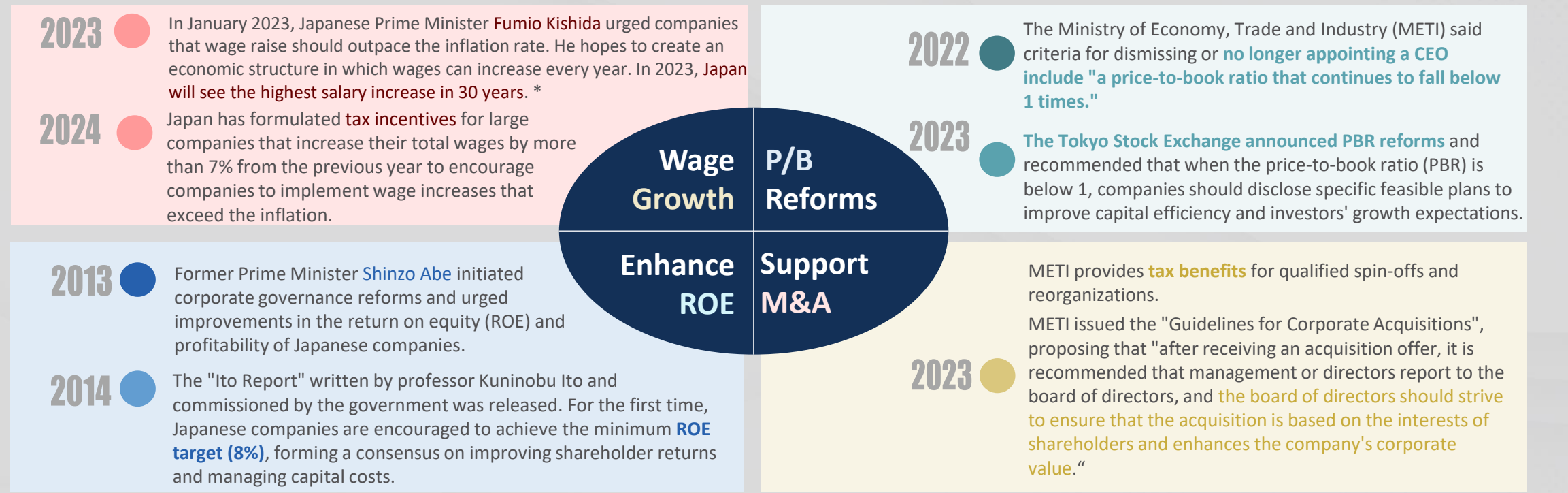
Source: \*BoJ website. \*\*Nikkei Asia. ^BoJ, Bloomberg. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# Policy Support: Urge Corporate Reforms and Increase Shareholder Returns

From urging companies to raise wages to boost inflation to calling for corporate governance reforms, Japanese policymakers are working to boost corporate valuations and profitability. Investors are happy to hear about corporate reforms. **In 2023, Japanese market achieved a historic bull without relying on the central bank's purchase.**

## Japan has encouraged companies to increase valuations and shareholder returns



Source: \*Nikkei news reports. [Japan's Shareholder Revolution](#), SSGA, 2015. Tokyo Stock Exchange, METI. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# Corporate Self-rescue: Internationalization for More Opportunities

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Internationalization strategy became common for large Japanese companies as domestic economy stagnated after asset bubble burst



Japan's overseas strategy^

## From manufacturing exports to branding internalization

1992-1999

Electrical Equipment

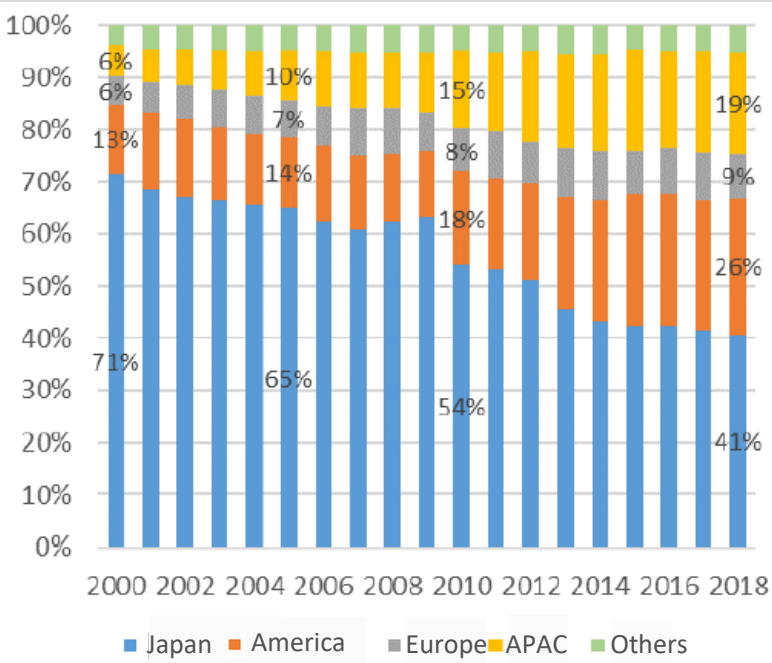
2001-2008

Automobiles, machinery, steel, nonferrous metals

2009~

Chemicals, medicine, food

Sales Breakdown of Japan Listed Companies by Regions#



Japan owns the most Nobel Prize Winners in Asia\*

Japan's "Nobel Prize boom" since 2000: 20 Japanese have won the Nobel Prize in natural sciences (Physics, Chemistry, Physiology or Medicine), ranking second in the world and first in Asia.



With its technological advantages, continuous innovation, and craftsmanship, Japan has irreplaceable technological barriers in high-end manufacturing, such as machinery, electrical equipment, automobiles, semiconductors, and medical equipment.

Internationalization

High-end Manufacturing

Consumption



Japan's flexible and efficient business strategies are world-famous, allowing Japanese retail, food, service and other consumer brands to adapt to the times and expand globally.

Japan's successful export of management skill

- Haidilao is based on the Amoeba business model.
- Alibaba founder Jack Ma, Huawei founder Ren Zhengfei, and Haier founder Zhang Ruimin are all fans of Inamori's business philosophy.



- Li Ning's CEO comes from UNIQLO and has applied UNIQLO's business strategy to Li Ning's reforms

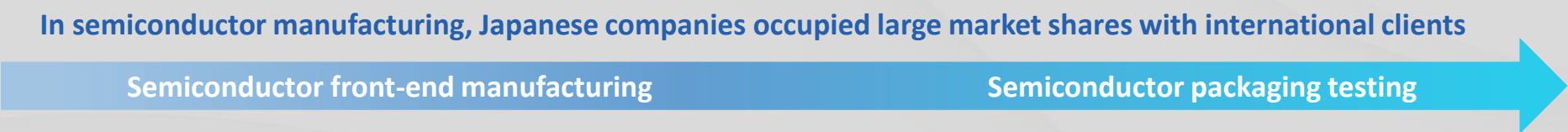
Amoeba Management: Attaining "Management by All"



Source: #Ministry of Finance of Japan, JETRO, CICC. ^Wind, JETRO, Huachuang Securities. \*Nikkei Asia, WeXpats




# High-end Manufacturing Case-Japan Companies Lead in Semiconductor Industry



Semiconductor front-end equipment

**TOKYO ELECTRON**  
The world's largest supplier of semiconductor coating machines, dry etching machines, and diffusion furnaces;  
The world's second largest supplier of cleaning equipment, plasma etching machines, and metal deposition equipment



Semiconductor packaging and testing equipment

**ADVANTEST:** The world's second largest semiconductor back-end testing equipment supplier  
**LASERTEC:** The only company in the world that can supply EUV mask inspection system



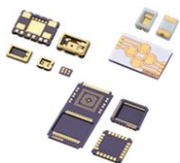
Semiconductor front-end materials

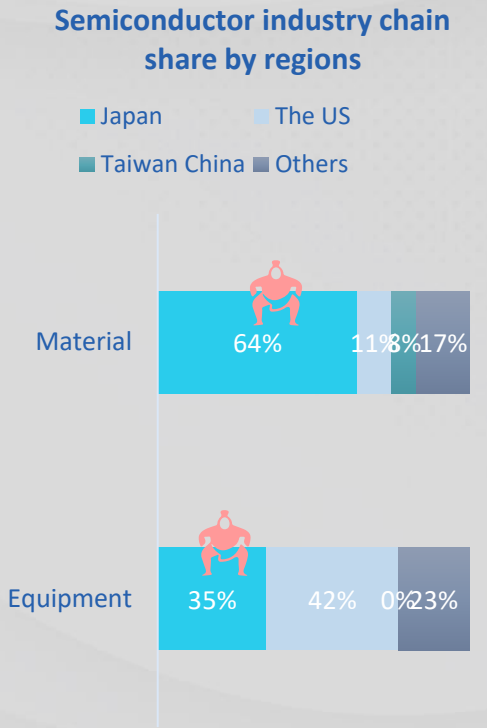
**Shin-Etsu**  
**SHIN-ETSU CHEMICAL**  
The world's largest supplier of semiconductor silicon wafers;  
The world's second largest ArF/KrF photoresist supplier



Semiconductor packaging and testing materials

**KYOCERA**  
**KYOCERA**  
The world's largest ceramic substrate supplier and the world's fourth largest crystal oscillator supplier





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Source: Rocket PCB, Zhongtai Securities, Shanghai Securities, Toubao's "2023 Semiconductor Test Equipment Industry Overview", company data, compiled by CSOP. Pictures come from public online resources. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction. Investment involves risk.



# Consumption Case-UNIQLO Sweeps the World

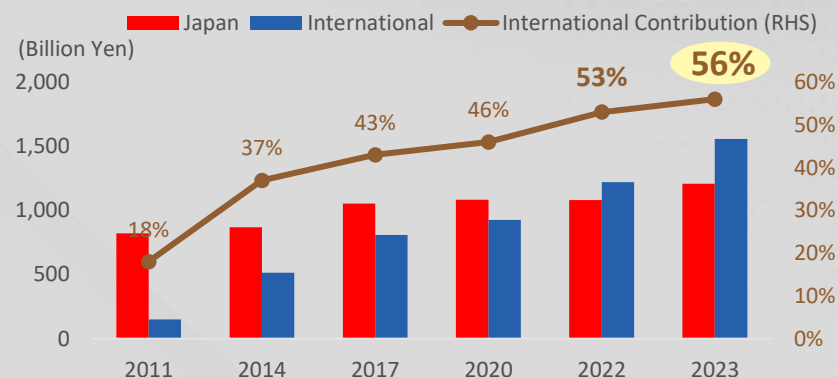
Fast Retailing Group - an outstanding example of Japanese consumer brands with advanced business models going global. Its brands such as UNIQLO, GU, and Theory are popular around the world.



## UNIQLO Success Strategy

- ❑ **Product position-Basic and cost-effective.** It conforms to the trend of consumption downgrade and Japanese appreciation for simplicity after the bubble burst, to realize growth in consumption downturn.
- ❑ **“Focus on each store independence and stay proactive” business model:** Focusing on refined store operations, continuous introduction of new product designs, upgrading and transformation of store appearance, etc., to achieve high operation efficiency.
- ❑ **Conduct internationalization strategy from 2004, it not only bring its excellent business models overseas, but also innovatively integrates with local culture.**
  - **The US:** Based on **contemporary art**, cooperate with local artists and exhibition halls for cross-border sales.
  - **The UK:** Choose **utopia** as a promotional theme
  - **China:** Cater to the consumption habits of **online shopping** and launch in-depth cooperation with leading e-commerce companies and achieved outstanding results during the “11.11” shopping festivals.
  - **France:** Grasp the charm of the **fashion** capital and cooperate with Hermès and French supermodels

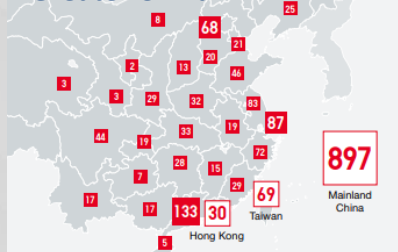
## Fast Retailing's overseas revenue has surpassed the domestic revenue\*



## Number of UNIQLO Stores^

Japan Stores **809** <  
International Stores  
**1,540**

## Greater China



## Europe



## North America



Source: \*Wind, both for the fiscal year ending on August 31. ^2022 Annual Report. The above information is for reference only, and does not constitute an investment advice or, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction. Investment involves risk.





# Corporate Self-rescue: Glorious Three Decades of Winners

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Before the bubble burst, many Japanese companies were already leading the world. At the beginning of 1990, the market value of Nippon Telegraph and Telephone Company exceeded the combined market value of IBM and AT&T. Toyota's market value was more than 2.5 times that of Ford. \*

Companies with successful internationalization strategy witnessed three glorious decades. Overseas revenues support stock performance, and there are many bull stocks with 10 times growth in high-end manufacturing and consumer sectors.

Total return and stock price chart over the past 30 years\*

Consumption		
9983.JP: FAST RETAILING	2801.JP: KIKKOMAN	7974.JP: NINTENDO
+12,634%	+1,358%	+1,652%



High-end Manufacturing		
4063.JP: SHIN-ETSU CHEMICAL	8035.JP: TOKYO ELECTRON	6920.JP: LASERTEC
+2,613%	+4,603%	+37,584%



Source: \*Bloomberg, 1993/12/30-2023/12/29, for company listed less than 30 years, calculation starts from listing date. The table shows the total return for the period including dividend returns, and the line chart only displays the price change. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction. Investment involves risk. Past performance is not indicative of future performance.



03

## Market Outlook





# Is Another Historical High or Correction on the Way?

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Market participants are holding mixed views about the outlook of Nikkei 225 Index.

## Positive Views



“We raised our target price again - **Nikkei 225 Average 44,000 vs current ~39,000**, considering slow pace of normalization of the BoJ, favorable macro indicators, yen depreciation.”  
——JP Morgan#

“We remain risk-on and **overweight Japan equities.**”  
——HSBC##

“In broader Asia, **Japan remained the top market of choice for fund managers.** Even as Japanese markets hit record highs in the first quarter, **a bulk of fund managers did not yet see a top for local stocks.**”  
——BofA Survey\*

“Attractive valuations and resilient earnings revisions support a relative preference for Japan: In Japan, we expect a strong earnings and ROE backdrop to support performance – **we see 17% potential upside.**”  
——Morgan Stanley\*\*

## Negative Views



Japan lost crown as world’s third-largest economy and **Q1 GDP disappointed.**

“**FY25 guidance calls for profit decline**, and there is a risk that a further decline in revisions could weigh on share prices.”  
——Citi^

“**Weak Yen** deters foreigners from Japanese stocks.”  
——BlackRock^^

“Many people, including Buffett, were not interested in Japan. Now they need an excuse to return to the Japanese market **because Japanese stocks and real estate are so cheap, so they made up many stories and claimed that Japan, Japanese companies are doing very well and the structural reforms are actually working.** But for those of us living in Japan, nothing has changed. Everything is the same as before.”

——Richard C. Koo from Nomura^^^

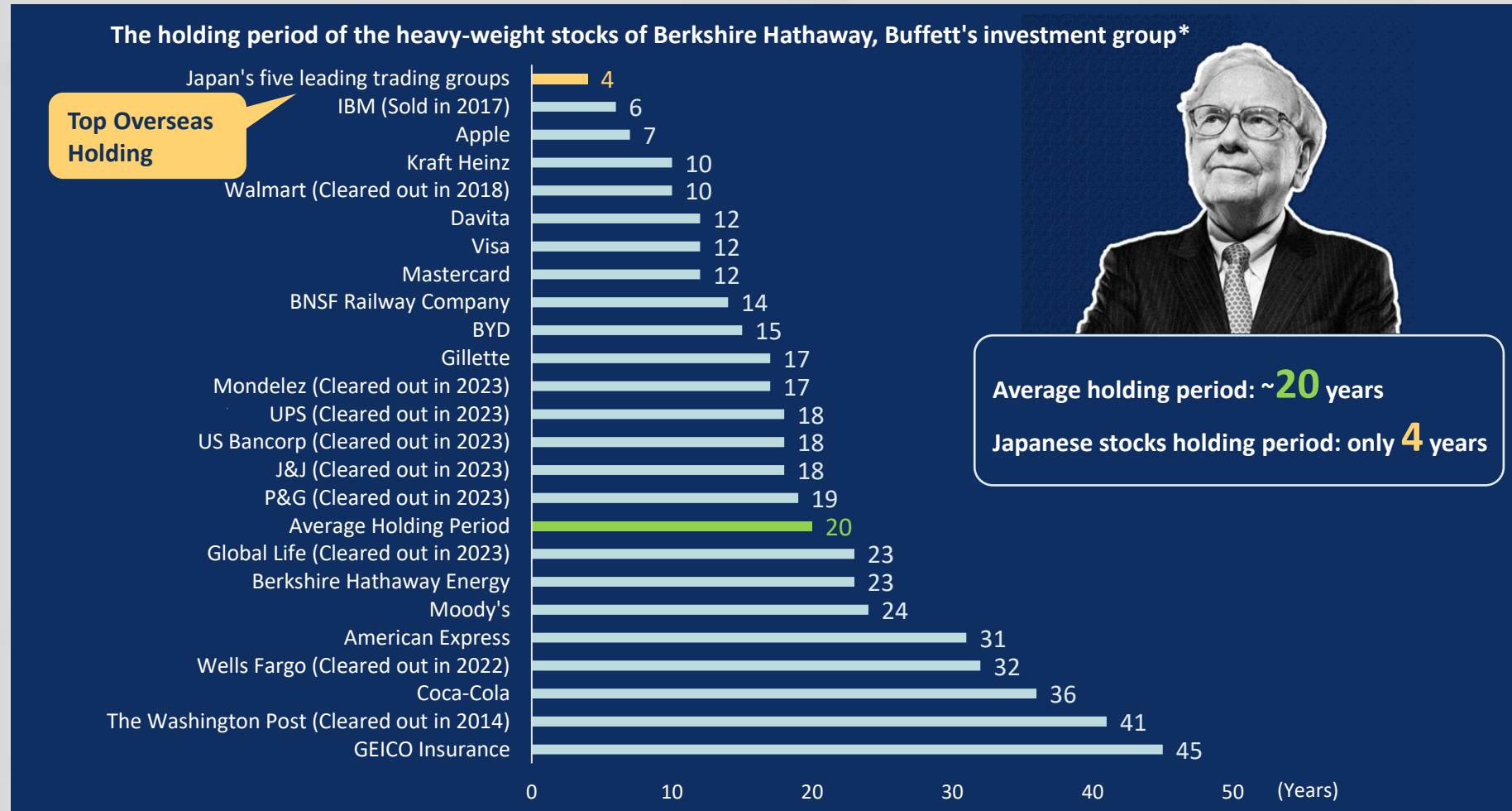
Source: #JP Morgan “Revival of ‘High for Long’ and Japan equity strategy”, 7 May 2024. ##HSBC “Turbo-charged”, 20 May 2024. \*BofA survey conducted in early May. \*\*Morgan Stanley “Sunny with a Chance of Rain”, 19 May 2024. ^Citi “Still expecting range-bound market for now”, 07 May 2024. ^^BlackRock, 12 May 2024. ^^^Sina Finance, 8 May 2024. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction.



# Embrace a 20-Year Value Investment Journey with the “Oracle of Omaha”

Allocating to Japan is a value investment

The most renowned practitioner of value investing, the "Oracle of Omaha" Warren Buffett, has just entered the Japanese stock market



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Source: \*Berkshire Hathaway, CSOP research, as of 2023/12/31. Only includes Japan's five leading trading groups (2019) and the top ten heavy-weight stocks purchased prior. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# A 34-Year High: Bubble or Not?

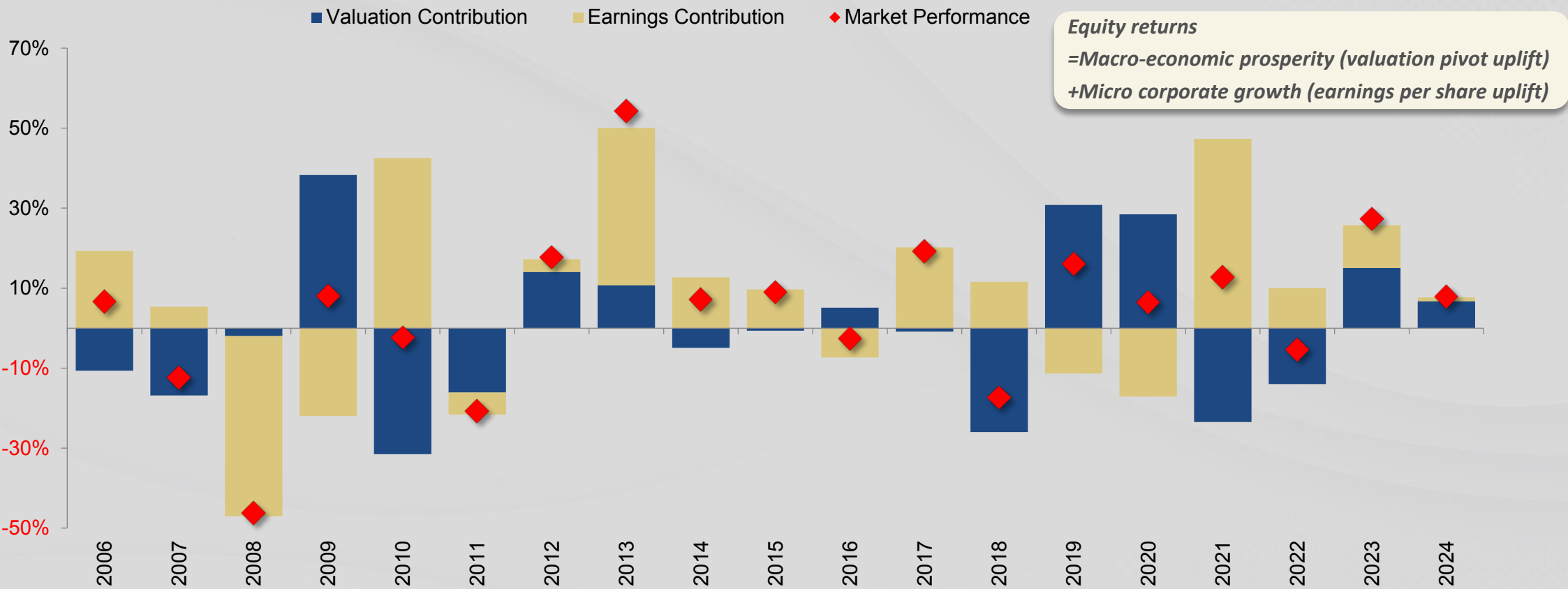
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Q1

The Nikkei 225 Index's 34-year high is not a valuation bubble, but a result of **valuation uplift from growth expectation and corporate earnings per share growth**.

The growth of the Nikkei 225 Index is not a valuation bubble, with **earnings making a significant contribution**

The annual performance contribution breakdown of the Nikkei 225 self-built index#



Source: #Bloomberg, CICC. ^CICC. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.

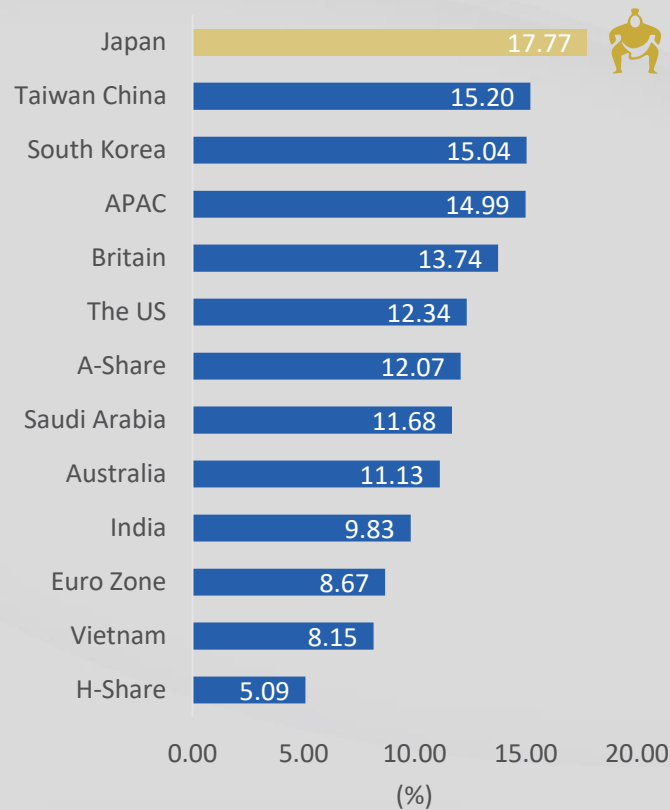


# Volatility Climbs with Nikkei 225 Soaring

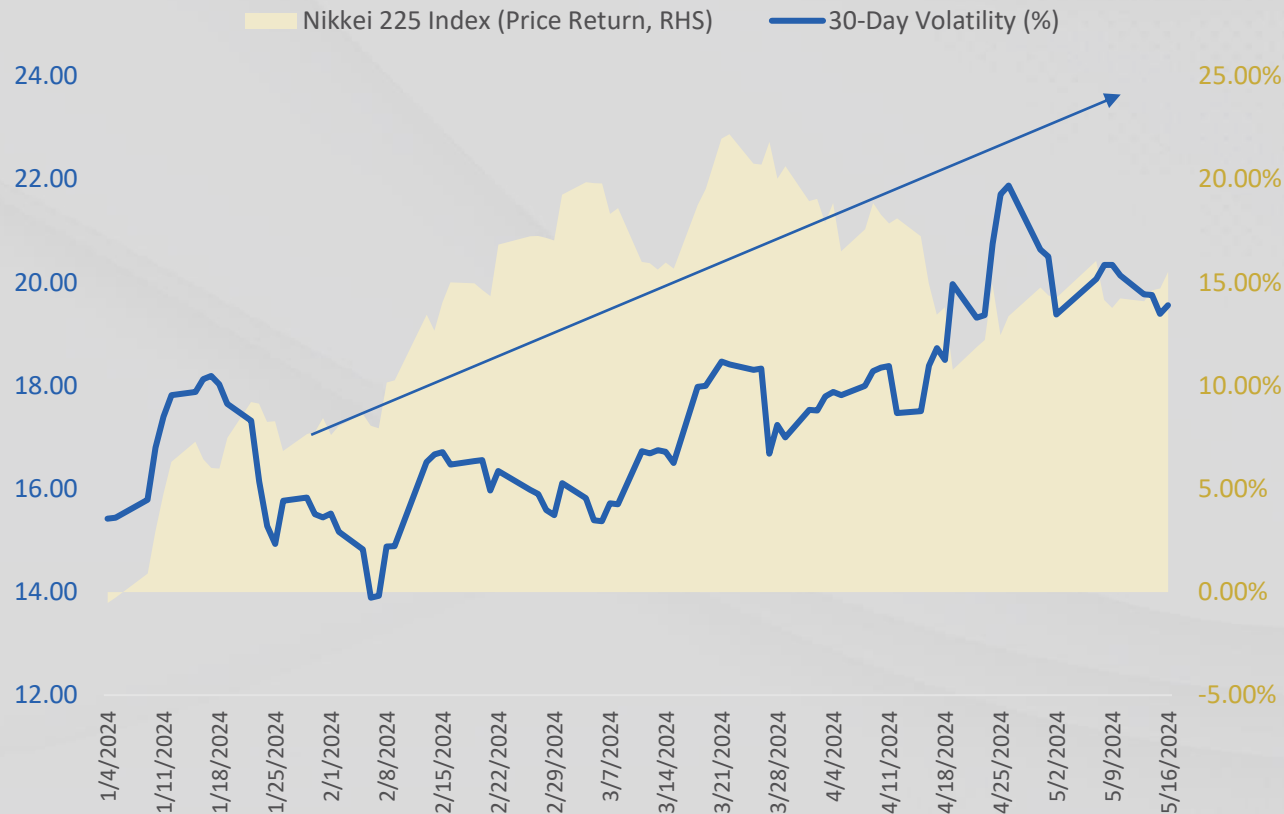
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The Nikkei 225 Index has finally exceeded the bubble-era high seen in December 1989 and maintains as the top performer in 2024, while the volatility tends to rise.

Performance of Major Global Stock Market YTD 2024#



Volatility Climbs Up as Index Grows\*



Source: #Bloomberg, 2024/1/4-2024/5/10. All are net total return indices. H-Share-Hang Seng Index, A-Share-CSI300 Index, UK-FTSE 100 Index, Vietnam-FTSE Vietnam 30 Index, Saudi Arabia-FTSE Saudi Arabia Index, Australia-S&P/ASX 200 Index, India-Nifty50 Index, Euro Zone-Euro STOXX Index, Asiapac-South Korea-KOSPI Index, US-S&P 500 Index, Taiwan China-TWSE Index, Japan-Nikkei 225 Index, APAC-FTSE Asia Pacific Low Carbon Select Index. \*Bloomberg. 2024/1/4-2024/5/10. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.

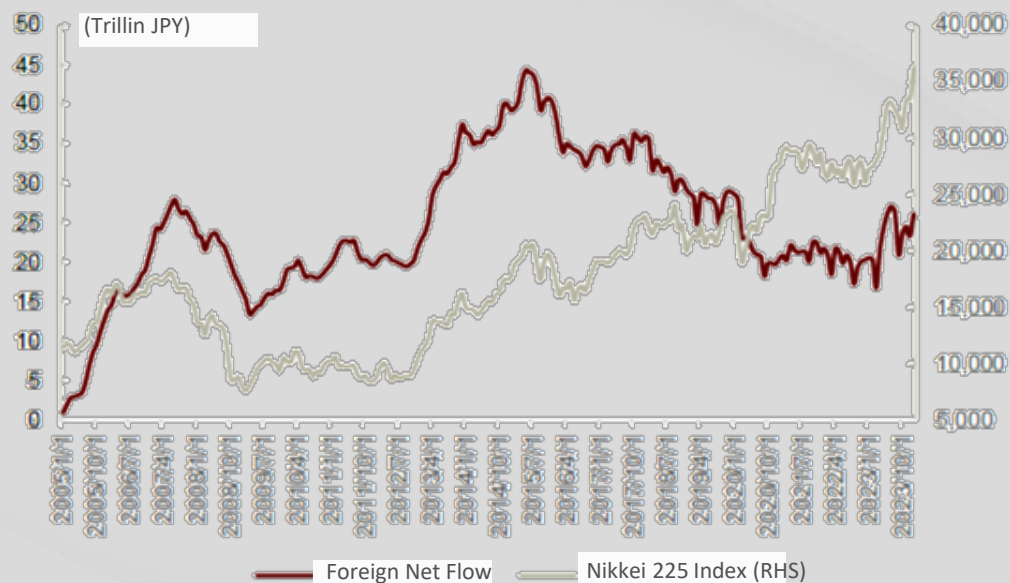


# Foreign Fund Flows Tend to Fluctuate

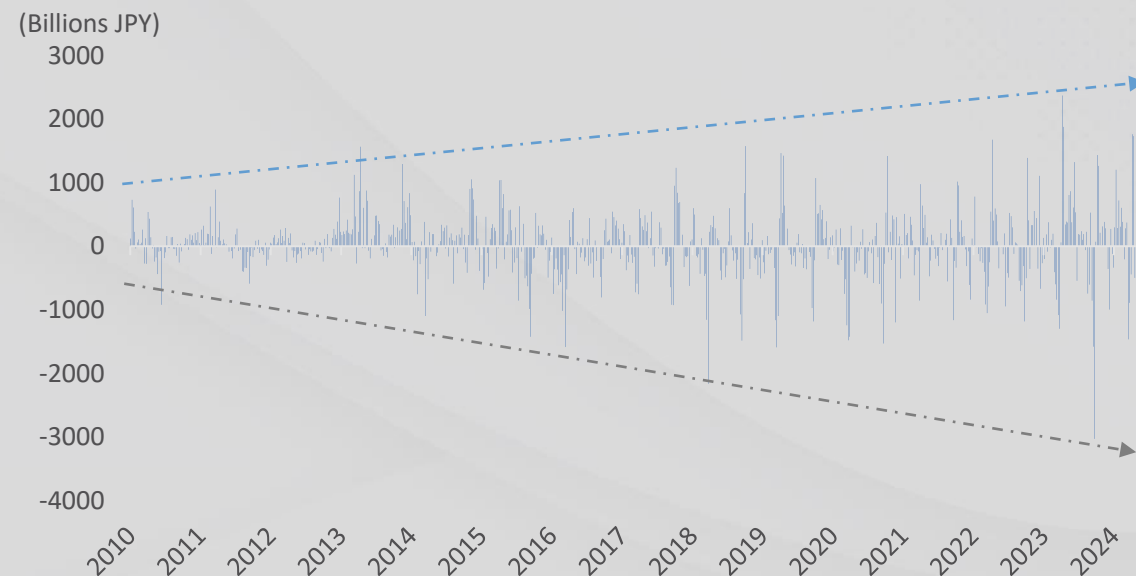
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The 2024 YTD foreign net fund inflow to Japanese stocks has surpassed the total inflow in 2023 (3008.8 billion JPY), reached new high of 5543.7 billion JPY since 2014. However, the foreign fund flows have become more volatile, **which may indicate a game between long and short.\***

Historical Experience Implies that the Nikkei 225 Index was Highly Correlated with Foreign Fund Flows, except 2016-2020#



While Foreign Fund Flows Tend to Fluctuate  
Non-residents' weekly net investment in Japan stocks\*



Source: #Ministry of Finance Japan, CICC. \*Bloomberg. 2010/1/1-2024/5/10. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.

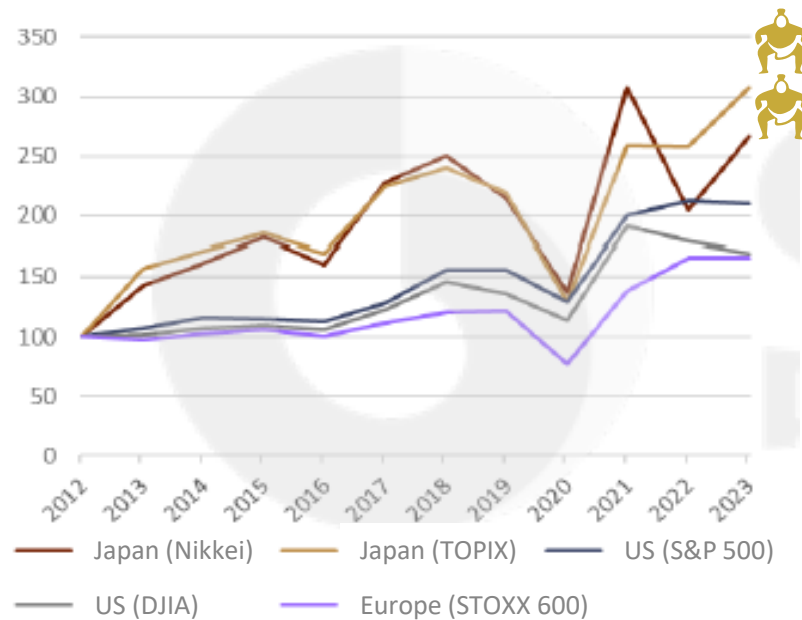


# "Leap in the Year of the Rabbit, Peak in the Dragon and Snake Years"

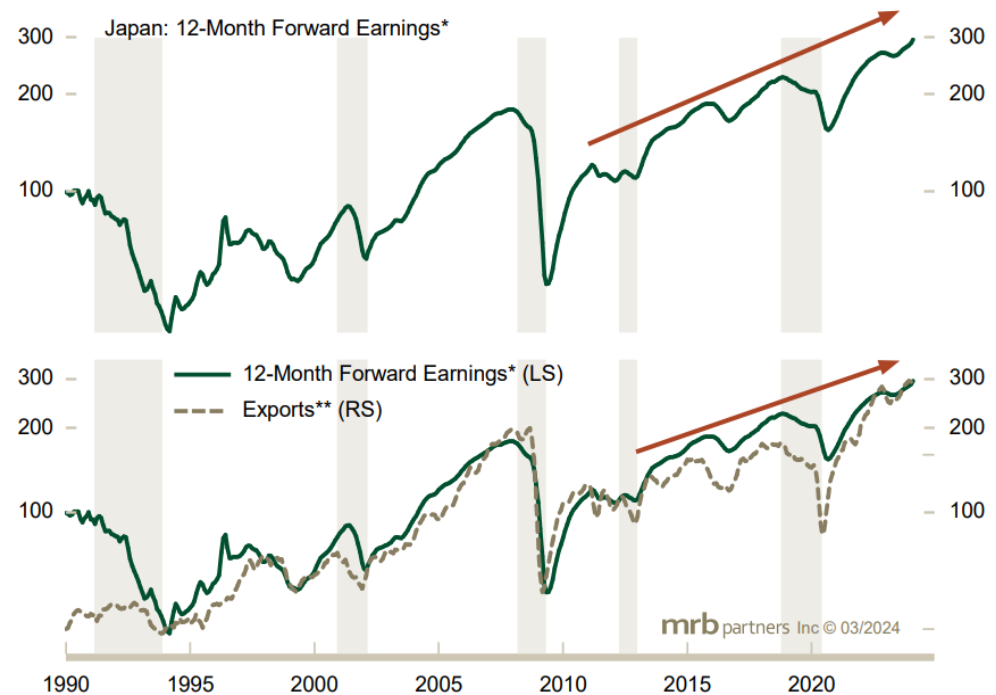
- There's a saying in the Japanese stock market: "Leap in the Year of the Rabbit, peak in the Dragon and Snake Years". This implies that after a surge in the Year of the Rabbit, new highs will be reached in the Dragon and Snake years.
- With robust earnings growth as a backbone, the rise of Japanese stocks may not have reached its end yet.

## The Nikkei 225 Index's Earnings Per Share (EPS) growth is robust, outperforming Europe and the US^

Comparison of the EPS (standardized) trends between the Japanese stock index and the European and American stock indices^



The 12-month forward earnings level of the Nikkei 225 Index^^



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Source: ^CICC. ^^MRB Partners Research. \*JPY, smoothed curve, MSCI; \*\*JPY, smoothed curve, Japan's Ministry of Finance; shaded areas represent Japan's recession. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



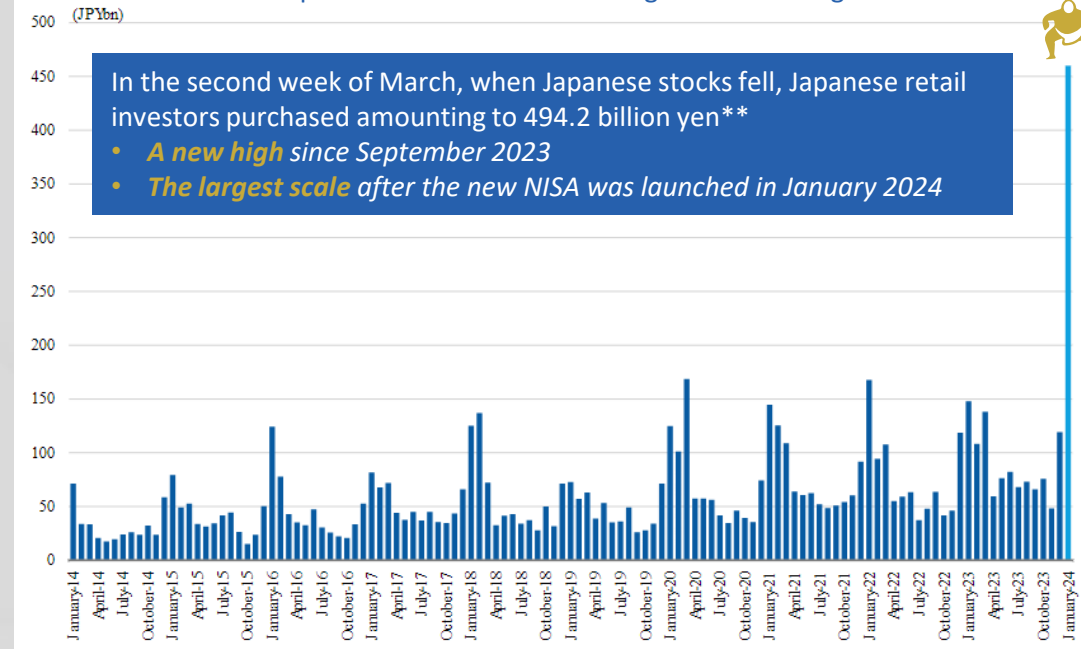
# Capital Inflows: Is There Still Momentum?

## Trillions of Japanese Household Savings Poised to Enter the Market

- **Massive scale of household asset savings:** The latest quarterly survey by the Bank of Japan shows that as of December 2023, Japanese households still hold **over 1,000 trillion yen (approximately US\$7 trillion)** in cash and savings, accounting for 52.6% of financial assets in Japan, far exceeding Eurozone's 35.5%. A report by SMBC Nikko Securities points out that if the scale of investment after NISA reform aligns with government's target, **2 trillion yen (about HK\$107.2 billion)** may flow into Japanese stock market annually through this scheme.
- **Japan introduces new NISA to encourage retail investors:** In addition to abolishing the capital gains tax required for Japanese individual savings accounts (NISA), the investment limit of NISA has also been increased to promote Japanese household investment in the stock market. Recently, **the stock assets of Japanese households have increased by 29.2% year-on-year**, while cash savings have only increased by 1%.
- **Japanese retail investors who "buy low and sell high":** Japanese retail investors, who have always favored "counter-trend operations", often buy during market downturns, potentially providing support for the falling market.

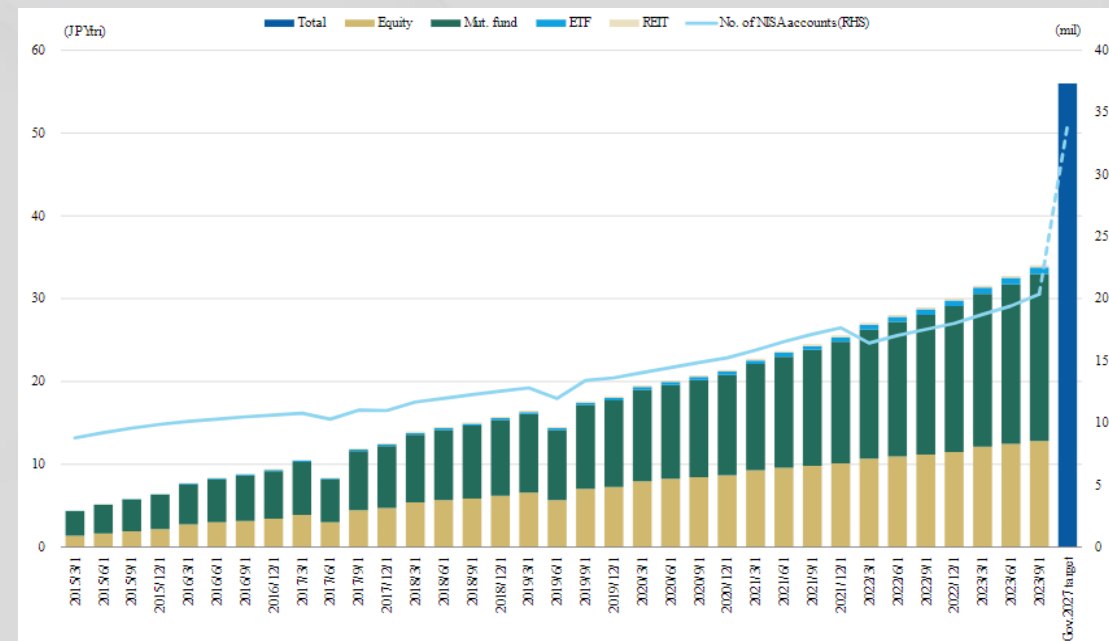
## Japanese retail investors' stock investment scale hit a new high in January 2024

Statistics from 5 Japanese online brokers holding 60% of existing NISA accounts\*



Source: \*QUICK Workstation, Nikkei, Morgan Stanley. Note: The 5 Internet brokers are SBI, Rakuten, Matsui, Monex, and au Kabucom; The figure includes ETFs, REITs, and foreign stocks; Purchased under the old NISA framework before 2023; The data for January 2024 is based on the Nikkei News on January 26, 2024, "In the two weeks up to the 19th, the total amount of purchases made through the 5 online securities companies exceeded 460 billion yen". \*\*Nikkei, according to data released by the Tokyo Stock Exchange on the 22nd. ^FSA, Morgan Stanley. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.

## The cumulative asset purchase volume through NISA is still about 70% away from the Japanese government's 2027 target^

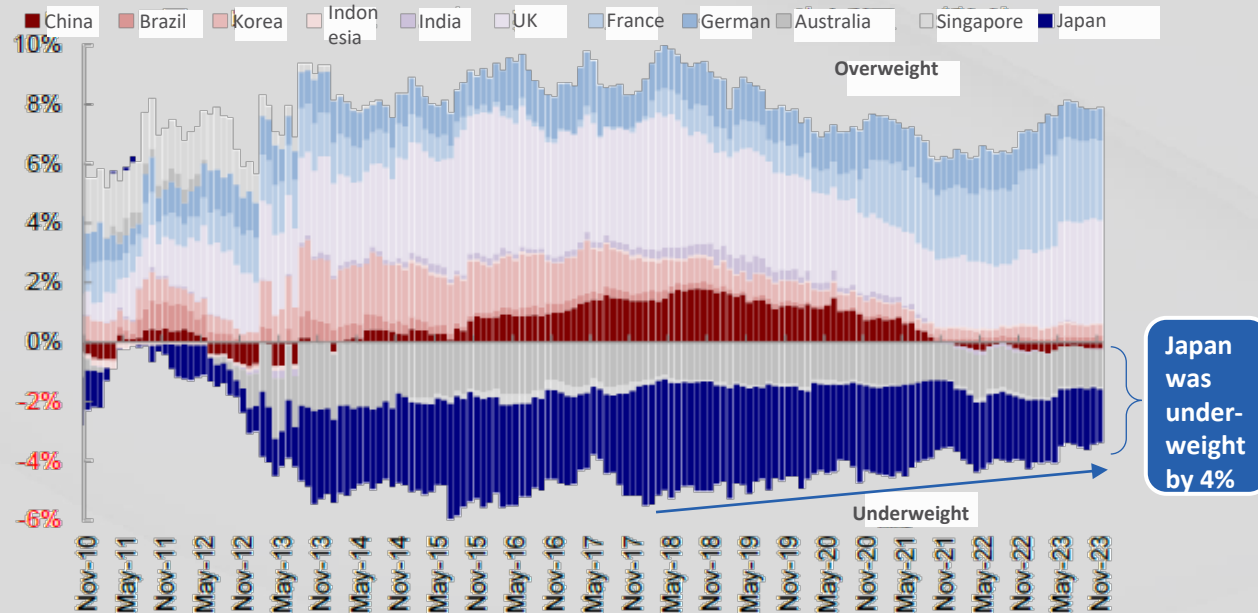




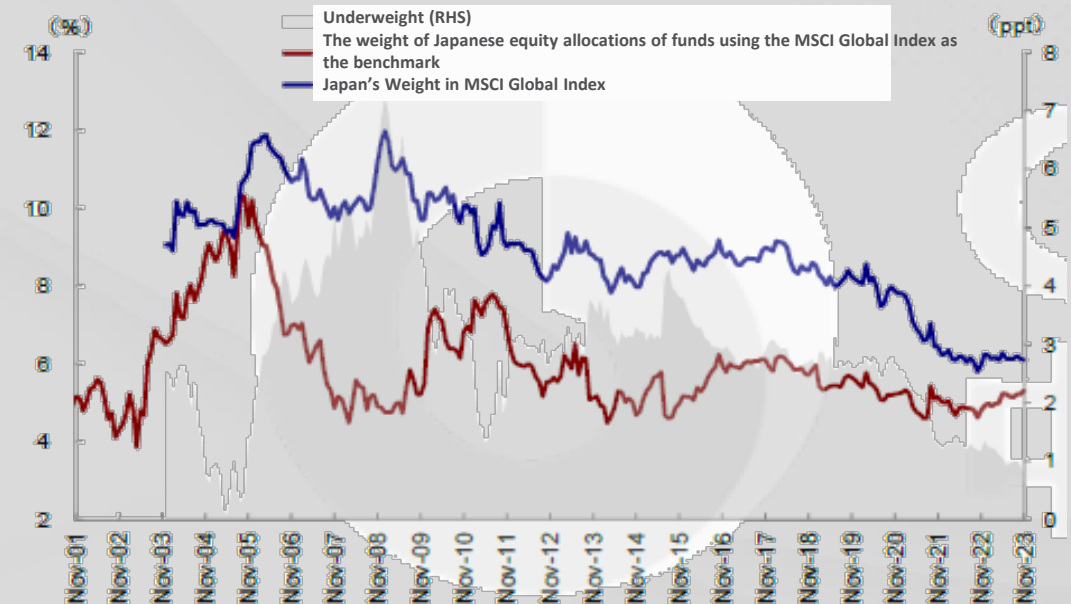
# Foreign Capital Remains Underweight: Inflows Expected

Although foreign inflows hit a record high, the cumulative net purchase is still well below the peak during Abe's time in 2015, and global capital still underweights Japan, implying room for adding positions

Global active funds remain **underweight** the Japanese market by **4%**, but to a narrower extent\*



Fund allocation weight to Japan remains lower than global index benchmarks by **around 1%**<sup>^</sup>



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Source: \*EPFR, CICC, as of 2023/11. ^FactSet, CICC, as of 2023/11. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



# Do Rate Hikes Always Bring down Equities?

Q3

- In developed economies, asset pricing revolves around fundamentals;
- **History experience has shown that rate hikes  $\neq$  decline in the stock market, rate hikes imply that the economy is overheated** and that corporate earnings expectations are more optimistic, which supports stock prices.

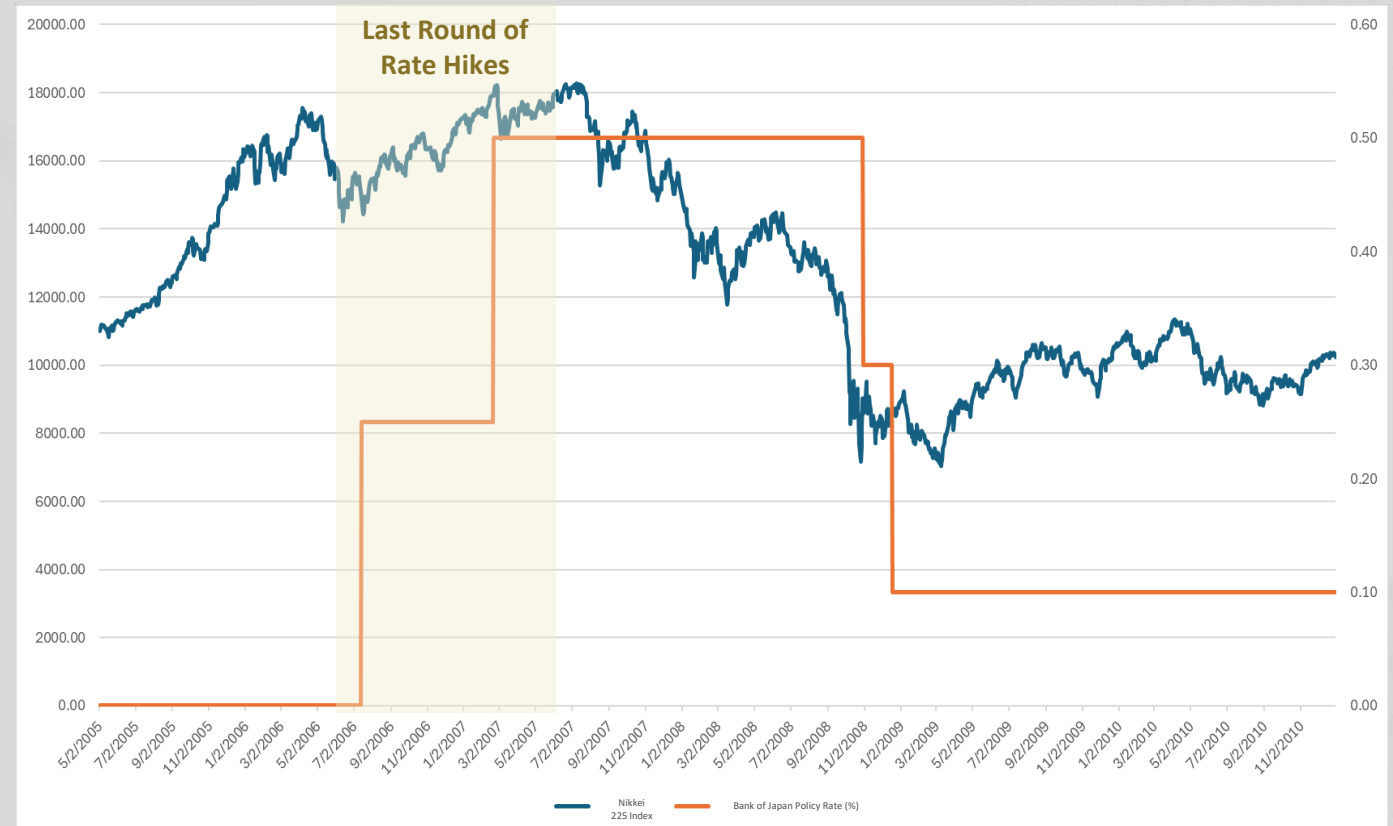
**BoJ's monetary policy adjustments have been made three times since the end of 2022, during which Nikkei 225 has not been hindered from making new highs^**

- The 10-year Japanese government bond yields upper bound was raised from 0.25% to 0.5% in the **2022 December** meeting;
- The 10-year Japanese government bond yields upper bound was further raised for from 0.5% to 1.0% in the **2023 July** meeting;
- At the **2023 October** meetinga, BOJ rephrased the 1% upper bound as a "reference" not a "rigid cap", essentially eliminating the Yield Curve Control (YCC); the Bank of Japan's bond purchases are now maintained at around 6 trillion Yen per month.
- At the **2024 March** meeting, it was officially announced that negative interest rates and YCC had been ended.



## Nikkei 225 Index Rose 19% in the Last Round of Rate Hikes (2006/7-2007/2)

Bank of Japan Policy Rate and Nikkei 225 Index Performance\*



Source: ^Bank of Japan. \*Wind. Referring to the net total return performance of the Nikkei 225 Index for the period 2006/7/14-2007/2/28. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



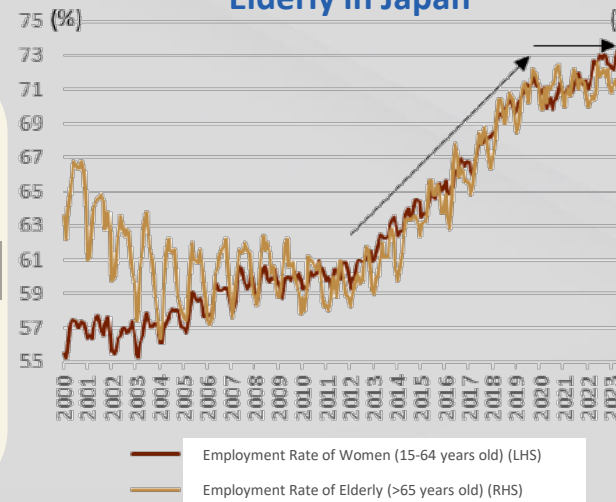
# Is There Still A Chance for Economic Growth?

Although Japan's negative real GDP growth over the past two quarters has triggered a “technical recession”, **it is hard to conclude that the Japanese economy is weakening** based on employment data and wage inflation. Under demand-pull inflation, **the wage-price spiral leads to healthy price growth, which in turn boosts nominal GDP growth.**

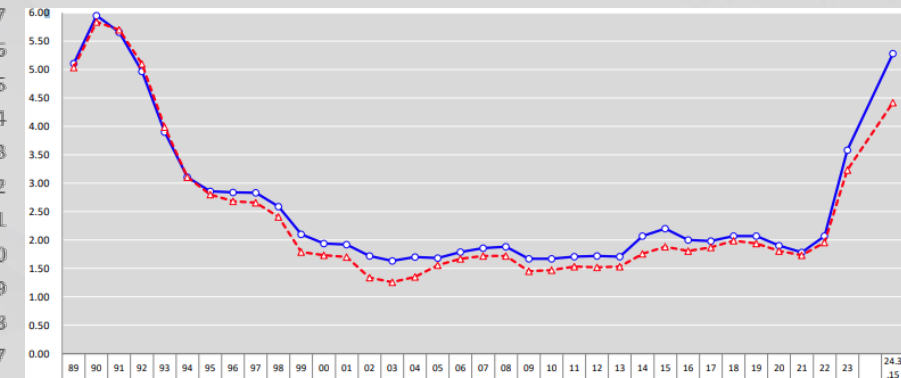
- Abenomics encourages **women and senior citizens to participate in the labour market.**
- Wage increase of **5.28%, first exceeding 5% for 33 years**: Labour unions are fighting for better treatment through collective bargaining, to demand that the management of each company implement wage increases and other measures. The Japan Federation of Trade Unions (Rengo) announced on March 15 the mid-term results of this year's spring wage negotiations (Shunto), that the companies that responded to their unions' demands for wage increases deliver an average of 16,469 Yen (797 RMB) per month in wage increases.

$$\text{Nominal GDP Growth} = \text{Real GDP Growth} + \text{Inflation}$$

Employment Rates of Women and Elderly in Japan



Average Wage Yearly Growth



## Wage-price Spiral :



Source: Cabinet Office, Japan Statistics Bureau, Ministry of Health, Labour and Welfare, CICC Research. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



04

## Flagship Index of Japanese Stocks: Nikkei 225 Index



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# Flagship Index of Japanese Stocks: Nikkei 225 Index

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The Nikkei Stock Average Index, also known as the Nikkei 225 Index, stands as the premier representative index for Japanese stocks on a global scale.

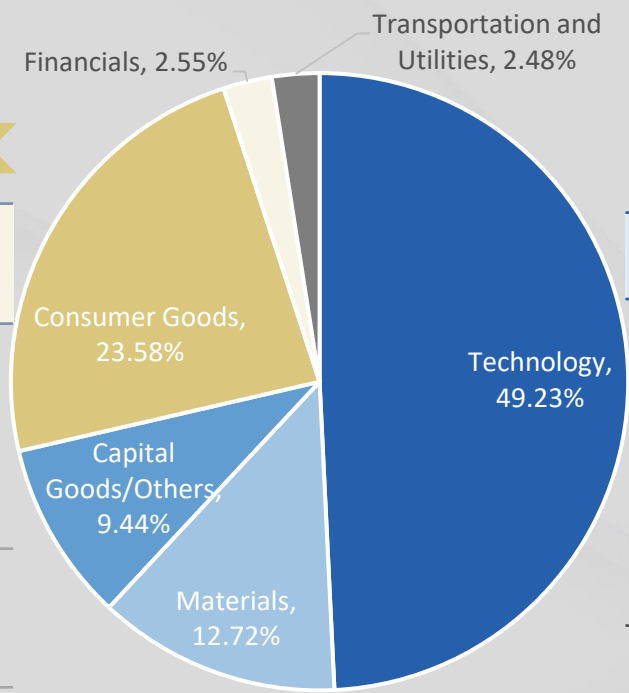
The Nikkei Stock Average Index (also known as the Nikkei 225 Index)*	
Selection of Constituents	 <b>Universe:</b> Companies listed on the Prime Market of the Tokyo Stock Exchange. To be listed on the Prime Market, companies need to have a market capitalisation of tradable shares of at least JPY10 billion, at least 800 shareholders, tradeable shares of at least 20,000 units, and a tradeable share ratio of at least 35%.
	 <b>Liquidity:</b> The top 450 (double the constituent count for the Nikkei 225 Index) of the most liquid stocks are ranked in descending order of liquidity
	 <b>Industry Balance:</b> Stocks are selected and categorised into six industrial sectors – Technology, Financials, Consumer Goods, Industrial Materials, Capital Goods/others and Transportation/Utilities. A rebalancing is conducted if any of the sectors are over-represented or under-represented
	After adjusting for liquidity and industry balance, the total number of index constituents is set at <b>225</b>
Type of Index	<ul style="list-style-type: none"><li>• An adjusted price-weighted equity index</li><li>• A net total return index</li></ul>
Launch Date	3 December 2012
Base Date and Value	28 December 1979: 6,569.47
Currency	Japanese Yen (JPY)
Index Provider	Nikkei Inc.
Market Cap	29 December 2023: JPY 604.28 trillion
Number of Constituents	<b>225</b>
Rebalancing Frequency	<b>Reviewed and rebalanced twice a year</b> with a base date at the end of January and July, and the rebalancing results become effective on the first trading day of April and October.
Bloomberg Code	NKYNTR

Source: \*Nikkei. ^Nikkei, as of 1/11/2024. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction. Investment involves risk.



# Cover Two “Three Glorious Decades” Themes with an Index ETF

Sector Breakdown^



Consumption

Sub-sector	Representatives	30-year total return*	10-year total return#
Retail	FAST RETAILING	+12610%	+430%
	7&I	+142%	+188%
	Nitori	+5063%	+550%
Service	NINTENDO	+1652%	+912%
	KONAMI	+1003%	+350%
Food	KIKKOMAN	+1358%	+678%
	MEIJI	+400%	+333%

High-end Manufacturing

Sub-sector	Representatives	30-year total return*	10-year total return#
Semiconductor equipment/materials/components	TOKYO ELECTRON	+4564%	2511%
	ADVANTEST	2364%	1610%
	SHIN-ETSU CHEMICAL	+2617%	591%
	LASERTEC	+37257%	+22701%
	TDK	+707%	+683%
Healthcare	KYOCERA	+326%	+167%
	TERUMO	+2892%	504%
	CHUGAI PHARMACEUTICAL	+2237%	+1058%
	DAIICHI SANKYO	+675%	+993%
Industrial Automation	FANUC	+743%	+66%
	KEYENCE	+5125%	+980%

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Source: ^Nikkei, as of 2024/1/11. \*Bloomberg, 1993/12-2023/12. #Bloomberg, 2013/12-2023/12. The above subdivided industries are only representative sub-sectors, not all. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction. Investment involves risk. Past performance is not indicative of future performance.



# The Top 20 Constituent Stocks

#	Code	Name	Sector	Weighting (%)
1	9983	FAST RETAILING CO., LTD.	Consumer Goods	10.44%
2	8035	TOKYO ELECTRON LTD.	Technology	7.43%
3	6857	ADVANTEST CORP.	Technology	3.84%
4	9984	SOFTBANK GROUP CORP.	Technology	3.67%
5	9433	KDDI CORP.	Technology	2.77%
6	4063	SHIN-ETSU CHEMICAL CO., LTD.	Materials	2.66%
7	6367	DAIKIN INDUSTRIES, LTD.	Capital Goods/Others	2.30%
8	6954	FANUC CORP.	Technology	2.05%
9	6762	TDK CORP.	Technology	1.95%
10	4543	TERUMO CORP.	Technology	1.89%
11	6098	RECRUIT HOLDINGS CO., LTD.	Consumer Goods	1.69%
12	4519	CHUGAI PHARMACEUTICAL CO., LTD.	Technology	1.66%
13	6971	KYOCERA CORP.	Technology	1.64%
14	6758	SONY GROUP CORP.	Technology	1.36%
15	7203	TOYOTA MOTOR CORP.	Technology	1.35%
16	6920	LASERTEC CORP.	Technology	1.32%
17	4568	DAIICHI SANKYO CO., LTD.	Technology	1.28%
18	6988	NITTO DENKO CORP.	Materials	1.05%
19	9735	SECOM CO., LTD.	Consumer Goods	1.03%
20	9613	NTT DATA GROUP CORP.	Technology	0.99%

Source: Nikkei, as of 1/11/2024. \*According to Bloomberg data, the top five global semiconductor equipment manufacturers in 2018 were Applied Materials (AMAT), ASML, Tokyo Electron (TEL), Lam Research, and KLA. These five major semiconductor manufacturers occupied more than 70% of the global semiconductor equipment manufacturing industry in 2018 with their leading technology and strong financial support. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction. Investment involves risk.

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Fast Retailing

One of the World's Largest and Most Popular Clothing Retail Brands



Tokyo Electron

One Of The Top Five Semiconductor Equipment Manufacturers In The World\*



Shin-Etsu Chemical

The Global Leader In Semiconductor Materials, With A Market Share Of Over 70%



FANUC

The World's Largest Industrial Automation Company



Toyota

The World's Largest Car Manufacturer By Sales



Sony

The World’s Largest Entertainment Technology Company



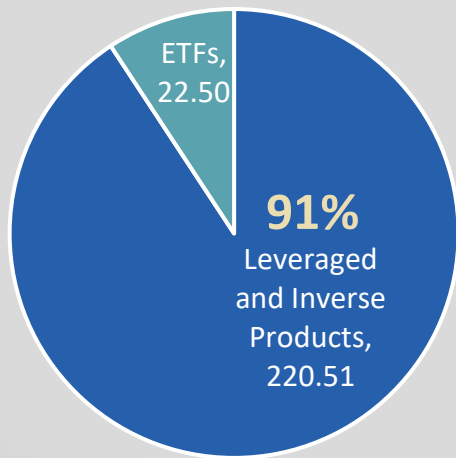
# Uncertainties Bring Active Trading of Leveraged and Inverse Products

Leveraged and inverse products of Nikkei 225 are the most actively traded ETPs in Japan.

- Among the Top 10 actively traded ETPs, **6** are leveraged and inverse products of Nikkei 225 Index.
- The average daily turnover (ADT) in the first 4 month of 2024 has become higher than the 2023 ADT.

## In Japan, the Average Daily Turnover of Nikkei 225 Leveraged and Inverse Products Is **10x** ADT of Nikkei 225 ETFs

The Average Daily Turnover of Japan listed Nikkei 225 ETPs (Billion JPY)\*

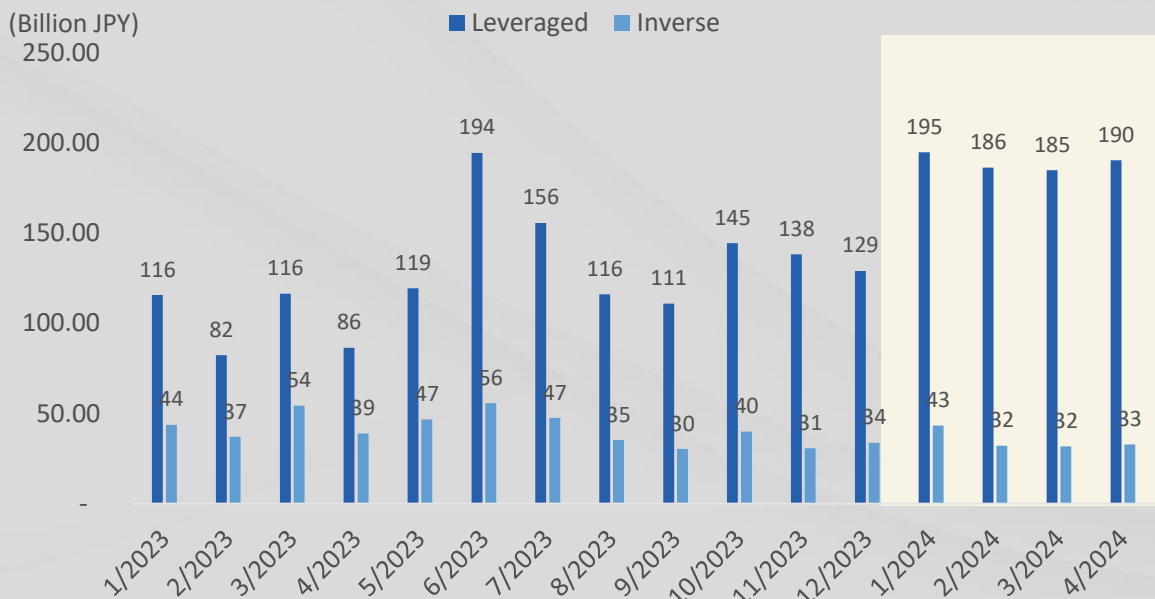


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## The Average Daily Turnover of Nikkei 225 L&Is in 2024YTD Higher than 2023

The Monthly Average Daily Turnover of Japan listed Nikkei 225 L&I Products^

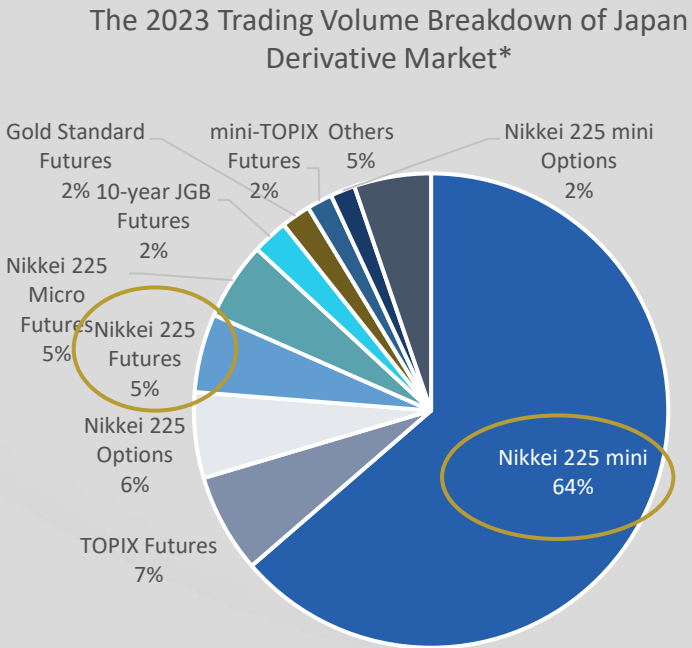




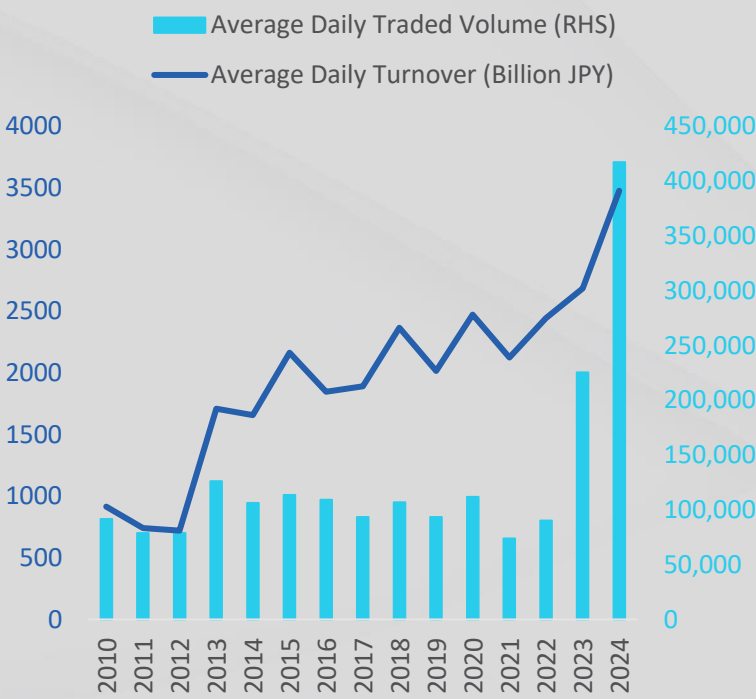
# Basics of Nikkei 225 Futures and Nikkei 225 mini

Nikkei 225 Futures and Nikkei 225 mini are Futures Contracts on the Nikkei Stock Average, traded on the Osaka Exchange (OSE).

Nikkei 225 Futures and Nikkei 225 mini are the most Popular Derivative in Japan, taking up ~70% in total

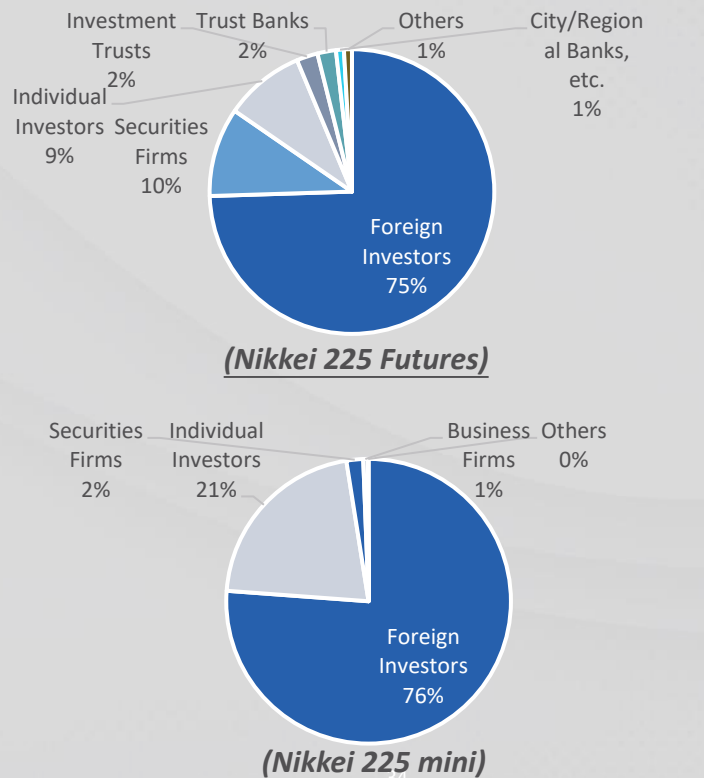


...And the Popularity has been increasing^



Foreign Investors are the Major Investors\*

The 2023 Trading Volume by Trade Type of Investors\*



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Source: \*JPX OSAKA Exchange, 2023. ^ JPX OSAKA Exchange, 2010/1/1-2024/5/10. The above information is for reference only, and does not constitute an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities or investment products in any country or jurisdiction.



# Comparison of Major Japan Indexes

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Nikkei 225 Index			TOPIX (Tokyo Stock Price Index)				MSCI Japan 100% Hedged to USD Index				
Provider		Nikkei Inc.		Tokyo Stock Exchange (TSE)				MSCI			
Screening		<b>Universe:</b> Companies listed on <b>the Prime Market of the Tokyo Stock Exchange</b> . To be listed on the Prime Market, companies need to have a market capitalisation of tradable shares of at least JPY10 billion, at least 800 shareholders, tradeable shares of at least 20,000 units, and a tradeable share ratio of at least 35%.  <b>After adjusting for liquidity and industry balance</b> , the total number of index constituents is set at 225		<b>All stocks listed on First Section</b> of Tokyo Stock Exchange				The MSCI Japan Index is constructed based on the MSCI Global Investable Market Index (GIMI) methodology and includes <b>large- and mid-cap capitalization stocks in the Japanese stock market</b> and covers approximately 85% of Japan's public float-adjusted market capitalization.  The index is <b>fully hedged against the U.S. dollar</b> and sells forward yen at the end of each month at market value at the one-month forward rate.			
Launch Date		1950/9/7/ (Price Index) 2012/12/3 (Net Total Return Version)		1969/7/1				1992/12/31			
Base date and value		1979/12/29: 6,569.47 (Net Total Return Version)		1968/1/4: 100				1987/12/31: 100			
Currency		JPY		JPY				USD			
Market Cap.		2023/12/29: 604.28 trillion yen		2023/3/31: 745,37 trillion yen				2023/8/9: 3.48 trillion USD			
Number of Constituents		<b>Fixed at 225</b>		2023/3/31: <b>2160</b>				2023/8/9: <b>237</b>			
Calculation		<b>An adjusted price-weighted equity index</b>		<b>A free float market cap weighted index</b>				<b>A free float market cap weighted index</b>			
Bloomberg Ticker		NKYNTR		TPX				M1CXBMJH			
Rebalancing		<b>Semi-annual</b> , January and July		<b>Gradually reduces weights of constituents with tradable share market cap &lt; 10bn JPY.</b>				<b>Semi-annual</b> , May and November			
Sector Breakdown		Technology	49.23%	(Using TSE industry classification, only show top 12 sectors)				Industry	22.14%	Consumer Staples	5.84%
		Materials	12.72%	Electric Appliances	17.30%	Machinery	5.22%	Consumer Discretionary	19.01%	Material	5.09%
		Capital Goods/Others	9.44%	Transportation Equipment	8.67%	Services	4.81%	Information Technology	15.03%	Real estate	3.24%
		Consumer Goods	23.58%	Information & Communication	7.68%	Pharmaceutical	4.76%	Finance	12.24%	Utilities	1.16%
		Financials	2.55%	Banks	7.18%	Retail Trade	4.28%	Healthcare	8.27%	Energy	0.82%
		Transportation and Utilities	2.48%	Wholesale Trade	7.02%	Foods	3.43%	Communicatio	7.16%		
				Chemicals	5.98%	Land Transportation	2.78%	n services			
		Source: Nikkei, JPX, MSCI. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.									

Source: Nikkei, JPX, MSCI. For illustration purpose only. Not to be constituted as a recommendation to buy/sell securities in the above-mentioned sectors or investment types.



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