KENSHO INVESTMENT GROUP

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CEO Insight: Japan differs clearly and positively from Europe and the U.S.

Investors should pay more attention to the specifics of the world's third-largest economy when analyzing their investment prospects.

When you understand that others are different from you, then you start to become wise. Investors can also benefit from this Japanese tenet when evaluating their investment prospects in Japan. In Europe and the U.S., inflation rates are currently reaching double digits, central banks are raising interest rates in leaps and bounds, and governments are absorbing high energy prices with huge subsidies. But Japan is ticking quite differently right now. Investors should be aware of the peculiarities and differences.

Inflation is low. In August, Japan's price rate climbed to just 3%. Even though this figure represents a 30-year high, inflation seems to be under control. According to the Tankan business survey from early October, companies expect inflation to average 3.1% next year, the same level as today. As a result, Japan's central bank is ignoring Western interest rate jumps and maintaining its loose monetary policy. Money remains extremely cheap. Sure, Japan is paying for this special path with a strong devaluation of the yen. But the weak currency is also boosting Japanese exports and, since the Corona-related entry restrictions were lifted this month, is again attracting millions of high-spending foreign tourists to the country.

Companies are solidly financed. As a lesson of the "bubble economy" of the 1980s, companies went from being massive borrowers to net lenders. Debt repayments, cash accumulation, and asset purchases since 1995 added 600 trillion yen (4.2 trillion euros) to the bottom line. Their balance sheet strength has helped many companies weather the drought period of pandemic-related restraints. Many companies can also cope relatively well with rising prices for raw materials, energy, and food; they do not need to pass on their higher costs in full. Also, the combination of yen depreciation and interest rate hikes abroad boosted net interest income threefold in the second quarter from a year earlier, reports U.S. analyst Matt Klein.

Japan Inc. is expanding production in the high-growth United States. Japanese direct investment in the U.S. totaled a cumulative $721 billion last year. For the past three years, Japan has been the largest foreign direct investor in the U.S. Japanese subsidiaries and group companies exported $75.3 billion in goods from the U.S. in 2020, far ahead of German companies' exports from the U.S. of $47.5 billion. Thus, Japan is responding faster than Europe to the risks to their businesses from the U.S.-China rivalry. Investing in China is less worthwhile when the U.S. restricts imports of materials and parts from China.

Japan is politically stable and fully capable of acting. Prime Minister Fumio Kishida is not exactly shining in the polls at the moment, but his government has a two-thirds majority in both houses of parliament and is pursuing a business-oriented and investor-friendly economic policy. The next election is not due before 2025. Meanwhile, U.S. President Joe Biden faces the loss of his majority in Congress in the November midterm elections. In the UK, Prime Minister Liz Truss is not exactly cutting a good figure and the German "traffic light" (Ampel) coalition is governing rather poorly than well.

Good prospects for Japanese youth. The acute shortage of labor caused by an aging society is improving the prospects of young Japanese. Japan specialist Jesper Koll speaks of a demographic sweet spot: competing for the best talent, companies are offering this young generation better-paid jobs and permanent employment. Already since 2014, the number of permanent employees in Japan has been growing again after falling for two decades. These developments make it easier for young people to start a family, finance an apartment or home, and achieve stable private consumption. The middle class in Japan is growing again.

Conclusion: Japan is highly attractive to investors. It used to be said that investors should avoid Japan because of its high national debt and low birth rate. Now, when the U.S. and Europe are struggling with high debt, but also strong inflation and rising interest rates, the Japanese economy looks healthy. As I said, when you understand that others are different from you, then you start to become wise.

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