

August 2024

CEO Insight:

I am Ryuichi Shinohara, President and CEO of KENSHO Capital Management Corporation, effective August 1, 2024. I would like to take this opportunity to thank you for your continued support.

Immediately upon my appointment, Japanese stocks began to adjust, and at the same time, U.S. employment statistics and other economic indicators fell short of market expectations, and as a result, global stock markets fell sharply as fears of a U.S. economic slowdown spread.

However, the U.S. ISM Non-manufacturing index released on July 5 came in above market expectations at 51.4, and in addition, the employment index came in at 51.1, up from 46.1 in the previous month, leading to a view that the weak non-farm payrolls in July did not indicate the beginning of a labor market deterioration. Consequently, the U.S. stock market stabilized, and global stock markets quickly recovered.

Market participants have been focusing on interest rate differentials, but with the European Central Bank (ECB) cutting interest rates in June, the U.S. Federal Reserve (FRB) expected to cut rates in September, and the Bank of Japan (BOJ) raising interest rates in July, market attention is likely to shift more toward fundamentals in the months ahead.

It is noteworthy that the U.S. economy may not be as weak as the market fears. The labor market remains healthy, with unemployment at 4.3% and average hourly earnings rising at an annual rate of 3.6%, suggesting that excessive expectations for rate cuts may be unwarranted. Inflation is slowing, but it will take some time before it falls to the FRB's target of 2%.

Under these circumstances, highly liquid financial instruments such as currencies, government bonds, and equities are likely to remain volatile for the time being.



**Ryuichi Shinohara,
President and CEO,
KENSHO Capital Management**

>>>

On the other hand, real assets have been in a state of adjustment due to the sharp rise in U.S. and European interest rates. Although there is a sense of uncertainty about the future of illiquid products, the next move by U.S. and European central banks is to cut interest rates, and we believe that a major turning point for real assets that have been held back by high interest rates is likely to be approaching. Already in the U.S., mortgage rates have already started to decline, leading to an increase in both home loan applications and refinancing applications.

For investors, the key point going forward is how to diversify their portfolios. Given the current situation, it may be necessary for Japanese investors, who have significant exposure to North America, Southeast Asia, Australia, and the UK, to increase their allocation to the European continent.

With the ECB expected to cut interest rates further in September, European investors with large exposures to the European continent are still slowing down, which may be an opportunity for Japanese investors. In addition to investing in European real estate, I believe it is worth considering investing in renewable energy, a sector that is leading the world.

In Europe, renewable energy investments are attracting a lot of attention in response to the energy crisis, and the question of how to utilize renewable energy will be a major challenge for all industries. For example, for the aviation industry, investing in renewable energy, especially green hydrogen, may be one solution to efficiently procure Sustainable Aviation Fuel (SAF). Recently, an interesting seminar on SAF was held by our German partner KGAL. If you are interested, please contact us so we can share the video link.

It will take a while now for the global markets to settle down, but we will continue to update you regularly on the real asset markets.

Ryuichi Shinohara

President & CEO,
KENSHO Capital Management