

Japan: on the fast track

May 2024

Cherry blossoms and bullet trains

Japan is blooming for investors: an extraordinary shift is underway as powerful forces combine to open new horizons and push decades of low growth and uninspired markets into the past. These forces bring with them opportunities that are causing investors to rethink Japan. The country's potential as a strong portfolio diversifier adds to our conviction for Japan to play a growing part in portfolios today and for the long term.

With Japanese stocks still inexpensive compared to their historical levels, we believe **the time to board the bullet train is now.**

2%

Small number,
big difference

Room to bloom

Investors have returned to Japan with conviction. Inflation is back (at 2%)¹, negative rates are over, and wages are increasing, **driving prospects for Japanese stocks and the economy.** More than US\$5.2B has flowed into Japanese exchange traded products so far this year.² With foreign investors only just turning more positive on Japan, we believe there is plenty more to come.

US\$180B

Shareholder
payouts at all-
time highs

From Tokyo with profit

Japanese companies have shaken off their reputation for neglecting shareholders. Broad reforms and strong earnings saw **a record US\$180B³ returned to shareholders** last year through buybacks and dividends. This shift, driven by a decade of pressure led by the Tokyo Stock Exchange, signifies a sustainable change, not a transient trend.

US\$7T

Huge household
savings ready to
invest

East meets invest

Japanese households, with US\$7T⁴ in savings, are poised to move into higher-return investments. Inflation, positive interest rates, and rising wages, coupled with a new tax-free investment scheme, could shift cash into stocks. This may spark a cycle of inflation, wage growth, asset income, and consumer spending, **benefiting stocks and the economy.**

8%

Expected
earnings growth

Time to board the bullet train

Japan's stock markets have recently reached record highs, but **Japanese equities remain inexpensive** compared to their historical levels and to other markets such as the US. With analysts expecting to see significant earnings growth of nearly 8% over the next 12 months⁵, **the time to find value is now.**

¹ Japan internal affairs ministry as of March 22, 2024. ² BlackRock, as of March 31, 2024. ³ BlackRock Investment Institute with data from Nikkei NEEDS, Bloomberg, AlphaSense, Morgan Stanley Research as of Feb. 29, 2024 S&P Global Japan PMI as of Feb. 21, 2024. ⁴ Bank of Japan as of Aug. 30, 2023. ⁵ LSEG Datastream, MSCI and BlackRock Investment Institute as of March 14, 2024. There is no guarantee that any forecasts made will come to pass.

Japan for the long term

We believe the forces that are driving the investment case for Japan are structural and durable. As the chart below shows, Japanese equities are also relatively uncorrelated to other markets, making them a powerful diversifier in portfolios and strengthening the case for an allocation to Japan - **not only for today but for the long term.**⁶

10-year forward-looking correlations between Japan and other major equity markets, April 2024

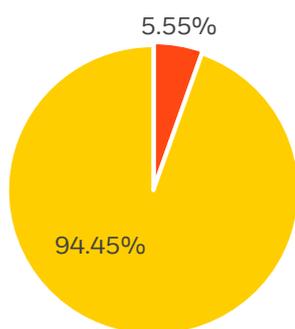
	US	Europe ex UK	Japan	China	Emerging Markets (EM)	Global
US	100%	76%	54%	49%	71%	98%
Europe ex UK	76%	100%	46%	46%	72%	84%
Japan	54%	46%	100%	36%	48%	59%
China	49%	46%	36%	100%	50%	57%
EM	71%	72%	48%	50%	100%	80%
Global	98%	84%	59%	57%	80%	100%

Source: BlackRock, April 2024. US = MSCI US Index; Europe ex UK = MSCI Europe ex UK Index; Japan = MSCI Japan Index;; China = MSCI China Index; EM = MSCI EM Index; Global = MSCI All Country World Index.

Investor origami: folding Japan into your portfolio

Investing in Japanese equities can benefit a diverse investment portfolio. Our research shows that a 10% allocation to Japan has the potential to slightly increase returns and reduce investment risks.⁷

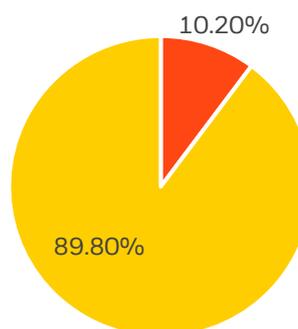
Current Japan Weighting in MSCI ACWI



■ MSCI Japan ■ Rest of World

Expected Return: 6.3% Risk: 16.3%⁷

Optimised Japan Weighting in MSCI ACWI⁸



■ MSCI Japan ■ Rest of World

Expected Return: 6.5% Risk: 15.8%⁷

This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. Forecasts are not a reliable indicator of future performance. Source: BlackRock; Feb 2024; time period: 10 years. Return assumptions are total nominal returns. Asset return expectations are net of assumed fees. Fees and alpha are estimates for illustrative purposes only and do not represent any actual fund performance. Indices are unmanaged and one cannot invest directly in an index. These portfolios represent a sample of the various possible solutions on the efficiency frontier. BlackRock has not considered the specific needs of the client and is not making any recommendation of any particular option. You should consider the most appropriate allocation for your needs. No representation is made that any particular strategy will achieve the expected risk and return shown above and actual risk and return could be higher or lower.

⁶ Diversification does not guarantee a profit or eliminate the risk for potential loss. ⁷ BlackRock Portfolio Analysis as of March 31, 2024. ⁸ Index returns are for illustrative purposes only. Investors cannot invest directly in an index.

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