

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 everywhere 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 history, we believe **the time to board the bullet train is now.**

2%
Inflation

Small number,
big difference

Room to bloom.

Investors have returned to Japan with conviction. Inflation is back (at 2%¹) and with it the end of negative rates and start of price and wage growth, **driving prospects for Japanese stocks and the economy.** More than US\$5.2B has flowed into US and EMEA-listed Japanese exchange traded products so far this year². With foreign investors only just turning more positive on Japan, we believe there is plenty more to come.

US\$165B

Shareholder
payouts at all-
time highs

From Tokyo with profit

Japanese companies are shaking off their reputation for neglecting shareholders. Broad reforms and strong earnings have **seen a record US\$180B returned to shareholders** this last year through buybacks and dividends³. 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\$7T in savings⁴, 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 funds into stocks. This may spark a beneficial 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 history⁵ and to other markets such as the US. With analysts expecting to see significant earnings growth of nearly 8% over the next 12 months⁶, **the time to find value is now.**

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.**

For more detail on our long-term investment case for Japan, see our previous paper [Spotlight on Japan: Back in business](#)

Chart 1: 10-year forward-looking correlations between Japan and other major equity markets, April 2024

	US	Europe ex UK	UK	Japan	APAC ex Japan	China	EM	Global
US	100%	76%	70%	54%	69%	49%	71%	98%
Europe ex UK	76%	100%	83%	46%	76%	46%	72%	84%
UK	70%	83%	100%	41%	75%	48%	65%	78%
Japan	54%	46%	41%	100%	44%	36%	48%	59%
APAC ex Japan	69%	76%	75%	44%	100%	57%	79%	79%
China	49%	46%	48%	36%	57%	100%	50%	57%
EM	71%	72%	65%	48%	79%	50%	100%	80%
Global	98%	84%	78%	59%	79%	57%	80%	100%

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

Investor origami: fold Japan into your portfolio today



iShares MSCI Japan ETF

IJP offers simple access to large and mid-cap Japanese equities through seeking to track the performance of the MSCI Japan Index, which comprises approximately 85% of the Japanese stock market⁷. IJP provides diversification benefits and can serve as a core portfolio building block for those seeking to track the broader Japanese market.

Investors should consider their time horizon when selecting investment instruments. References to specific investments are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such investments.

Want to know more?



BlackRock.com/au/ishares



iSharesAustralia@blackrock.com

Sources:

1. Japan internal affairs ministry as of March 22, 2024
2. BlackRock data as of March 31, 2024
3. BlackRock Investment Institute/Nikkei/Bloomberg data, March 2024
4. Bank of Japan as of August 30, 2023
5. LSEG Datastream, MSCI, BlackRock Investment Institute, as of 3 April 2024
6. BlackRock Investment Institute and Haver Analytics, March 2024
7. BlackRock/MSCI data as of May 2024

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