Investment Insight

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折り紙: A corporate origami is steadily taking place in Japan. After many years of waiting, investors are starting to be rewarded thanks to Shinzo Abe's "Abenomics", the regulatory and structural reform aspect of which is showing signs of progressing.

*Several tailwinds are now helping Japanese industry, not least of which are a weaker currency and lower oil prices. Many investors feel that prospects for the future are encouraging, and in this week's **Inside Track** we share the views of one such, Nicholas Weindling of JPMorgan.*

***QU:** "Quantitative Uneasing" in the US is now upon us. Markets have digested their "tapering" diet, and are now contemplating rising US interest rates. The unease this is causing, which is reflected in increased market volatility, comes as no surprise. With the stabilisers of QE removed, investors are uncertain as to how markets will weather the year ahead, and the US market has certainly paused for breath recently. However, despite the caution, the S&P has edged forward enough to register new highs. Indeed, technical analysis suggests that following a relatively brief period of consolidation it may be poised to resume its medium term growth trajectory. In **Pic of the Week** we take a look.*

The Inside Track

Nicholas Weindling, Japanese Equity Portfolio Manager with JPMorgan, recently penned a piece titled "Corporate Japan's ongoing transformation supports investor optimism" – the following are some of the key points he made in support of the Japanese story.

Corporate Japan is becoming more focused on balancing the interests of the many stakeholders in a company—in addition to the pursuit of profitability, a growing number of management teams are allocating a proportion of profit increases to shareholders in the form of share-buy backs and dividend payouts.

In aggregate, Japanese companies paid record-high dividends in the first half of the 2014 fiscal year. With share buy-backs also increasing, total shareholder returns are expected to reach their highest-ever level in 2015.

The Japanese stock market is, on average, seeing positive earnings revisions and double-digit earnings growth. The recent weakening in the Japanese yen, coupled with the falling global oil price, should be supportive of this trend. The rapid declines in oil and other commodity prices are a tailwind for many Japanese companies, due to their heavy reliance on natural resource imports.

Japanese companies, on the whole, are leaner and more efficient than they were before the 2008-09 global financial crisis, having cut costs aggressively to survive and thrive over the longer term. In the absence of a sharp appreciation in the value of the yen, the ability of Japanese companies to continue to grow their earnings should remain intact, even in a lacklustre domestic economic growth environment. A strong US economy and the Bank of Japan's commitment to accommodative monetary policy are both favourable for corporate Japan.

There have already been concrete signs of progress on the reform front after the December election. The ruling coalition has reached agreement on reducing corporate tax rates, to 32.1% for the 2015 fiscal year, a reduction of 2.5%. It has also set a target to reduce the corporate tax rate to below 30% in the next few years. Abe has also continued to pursue a policy initiative designed to increase tourism in Japan—which is low relative to the global average—and this appears to be bearing fruit.

More than 2 million Chinese tourists visited Japan in the year to the end of November 2014, an increase of 80% on the previous year.

Our outlook for Japanese equities is positive, and is supported by the concrete improvements in corporate governance standards, levels of earnings growth that place Japanese companies firmly among the healthiest in the world, and an environment of stable political leadership. We also believe there is a strong case for investing in unique Japanese retailers and leisure companies that are benefiting from increased foreign tourism as a result of Shinzo Abe's ongoing policy initiatives.

Pic of the Week

An "uptrend" occurs when markets reach consecutively higher "highs" and "lows" and they hold intermediate term support levels during market corrections. This week's chart of the S&P500 since 2011 shows just such a trend. The corrections of February 2014 and October 2014 were aggressive tests of intermediate-term support, but the trend held up. The chart shows uptrends followed by consolidations, many of which lasted about 50-60 days until the uptrend resumed. Following the recent period of consolidation, if the longer term trend is to continue then it's about time for a rally.

Market View

	Last 7 days	YTD	5Y Ann.
Global equities	-1.1%	+3.8%	+8.5%
US equities	-1.7%	+0.3%	+12.4%
European equities	+0.3%	+15.2%	+8.4%
Emerging market equities	-2.3%	-0.8%	-0.9%
Irish equities	+2.6%	+18.1%	+15.1%
Commodities	-1.7%	-5.1%	-5.6%
Hedge funds	-0.3%	+1.5%	+1.1%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.7%	-0.5%	+4.1%
Germany	+0.2%	+0.1%	+1.4%
USA	+2.1%	-0.1%	+2.4%
China	+3.5%	+1.4%	+7.3%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.06	-12.5%
EUR:GBP	0.71	-8.3%
EUR:CNY	6.62	-12.2%
GBP:USD	1.49	-4.6%
Bitcoin	290.63	-8.4%

Commodities	*Current*	*YTD Δ*
Gold	1,158.52	-2.2%
Copper	5,867.00	-7.9%
Oil	57.08	-3.6%
Wheat	507.50	-14.6%

Week ahead: Key events

16/03 UK House Prices
16/03 US Empire Manufacturing & Industrial Production
17/03 EU Employment & CPI
17/03 US Housing Starts & Japan Trade Balance
18/03 UK Employment
18/03 EU Construction Output & Trade Balance
18/03 US Rate Decision
19/03 Japan All-Industry Activity Index
19/03 Ireland Bond Auction
19/03 US Current Account Balance & Initial Jobless Claims & Leading Index
20/03 EU Current Account

Central Bank rates	*Current*
Eurozone	0.05%
USA	0.25%
UK	0.50%

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