Investment Insight

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ARIA | CAPITAL

***Hot TOPIX:** Japanese equities have continued to progress on the back of the "Abenomics" plan introduced by Prime Minister Shinzo Abe. Two of Japan's main equity indices, the TOPIX and the broader Nikkei 225 recently closed at multi-year highs. In the Nikkei's case, it was the first time in 15 years that the index traded above a level of 20,000. As we have discussed on previous occasions, Abenomics is not just a "QE" plan, but a more all-embracing initiative which helps to make Japanese companies more broadly stakeholder focused and less introspective. Furthering Japan's efforts at economic revival, Prime Minister Abe was in Washington this week seeking to crystallise a US-Japan trade deal. If things go to plan, the resurgence of Japan's stock markets after two decades in the doldrums may well be justified. In **The Inside Track** we consider some of the less publicised aspects of Abenomics that investors may have overlooked at first pass.*

***Dot.What?** The NASDAQ Composite hit the headlines last week for finally breaking through the high last set at the peak of the Dot.Com bubble of 5,048.62. So does the recent performance signal another bubble in the making? In **Pic of the Week** we take a look.*

The Inside Track

Abenomics continues apace in Japan and, thus far, to good effect in terms of the Japanese stock market. However, Abenomics has several strands to it, and one that may not have received so much investor focus – corporate governance reform – could turn out to be one of the most important.

Fiscal stimulus, monetary easing and structural reforms are the three pillars of Abenomics. The first two should be fairly "Ronseal". However, structural reform could be the pillar that has the most enduring, if least immediate, effect.

Corporate governance reforms are prompting Japanese companies to implement long-term, stakeholder-friendly changes in how they operate their businesses. There have already been signs of positive evolution in capital management as companies utilise excess cash for dividends and share buybacks and increase returns on equity.

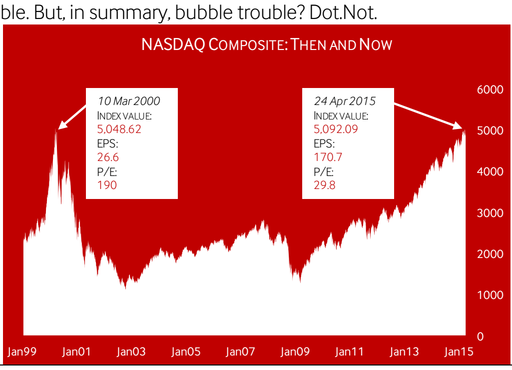
The BoJ and the GPIF will invest in Japanese equities through a newly created index, the JPX Nikkei Index 400, composed of companies meeting global investment standards in terms of return on equity (ROE) and corporate governance. The fact that these investments will be published regularly will encourage companies to improve their governance and put more emphasis on shareholder returns by maximising their ROE. Just as the JPX Nikkei 400 Index and Japan's new "Stewardship Code" have helped to drive return on equity towards record levels, the new Governance Code, which comes into force on 1 June next, should encourage further progress in shareholder value creation.

There are, as ever, risks to the Japanese equity story, particularly in the shorter term. Chief among the external risks are the possibility of a cyclical downturn in US activity, exacerbated by a very high dollar/yen exchange rate. The possibility of deflation in Europe and a greater than expected slowdown in Chinese activity could also threaten Japan's phoenix-like rise.

Overall, however, Japan's coordinated pro-growth policies, tangible change in corporate behaviour, a reasonably priced stock market trading beneath its ten-year average (notwithstanding recent multi-year highs) and low international institutional ownership levels all conspire to make Japan an interesting place for investors to consider.

Pic of the Week

The NASDAQ Composite has broken through its March 2000 high, exceeding its dot.com peak. However, there's a key difference this time round: valuation. In March 2000 when it reached its previous peak the index traded on an earnings multiple of 190. Today it's a more reasonable 30. There are other factors to consider too. If we take inflation into account the NASDAQ still has some catching up to do on its 2000 peak. The other major factor is Apple, without whose influence the performance would be substantially less remarkable. But, in summary, bubble trouble? Dot.Not.



Week ahead: Key events

04/05 Eurozone Manufacturing PMI & EU Investor Confidence
05/05 EU PPI
05/05 US ISM non-Manufacturing Composite & Trade Balance
06/05 EU Composite & Services PMI
06/05 EU Retail Sales & US Employment
07/05 Germany Factory Orders & EU Retail PMI
07/05 US Initial Jobless Claims
08/05 Germany & UK Trade Balance
08/05 US Non-Farm Payrolls

Market View

	Last 7 days	YTD	5Y Ann.
Global equities	-1.5%	+5.8%	+8.5%
US equities	-1.3%	+1.3%	+11.9%
European equities	-3.1%	+15.3%	+8.3%
Emerging market equities	-1.2%	+9.6%	+0.5%
Irish equities	-3.5%	+15.7%	+12.2%
Commodities	+2.0%	-0.7%	-5.1%
Hedge funds	-0.3%	+2.5%	+1.1%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.9%	-0.6%	+4.1%
Germany	+0.4%	+0.4%	+1.4%
USA	+2.1%	-0.1%	+3.0%
China	+3.3%	+1.4%	+7.0%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.12	-7.3%
EUR:GBP	0.73	-5.9%
EUR:CNY	6.95	-7.8%
GBP:USD	1.53	-1.5%
Bitcoin	235.52	-25.8%

Commodities	*Current*	*YTD Δ*
Gold	1,181.50	-0.3%
Copper	6,364.50	-0.1%
Oil	66.71	+9.0%
Wheat	473.75	-20.7%

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

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