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The Land of the Rising Sun . . . and Recently Equity Markets



- Last week, Japanese equities (as measured by the Nikkei 225) reached an all-time high, surpassing the previous high of 34 years ago (December 1989).
- During the same period, the S&P 500 has risen roughly 14 times.
- Interestingly, the all-time high on the Nikkei has been reached as the Japanese economy may be in a recession. While on the surface this may appear surprising, it is due in part to the fact that Japanese companies make a large share of their profits internationally, which isn't counted in the domestic GDP.
- The recent optimism around Japanese equities is due to a confluence of factors, including:
 - Improving corporate governance and focusing on capital efficiency (i.e. improving profitability and returning money to shareholders),
 - Corporate earnings growth,
 - Growing confidence that the Japanese economy has finally shaken off deflation,
 - A weak currency (Yen), which has helped boost the value of corporate earnings made abroad.
- While the Bank of Japan (BoJ) is likely to tighten policy, it is expected that the pace will be gradual to ensure it does not threaten the recovery or the 'escape' from deflation.
- This is a good environment for active management, where investors can take advantage of bouts of volatility around single data points that swing the pendulum too far in one direction.

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