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Japanese stock exchanges rally after Prime Minister wins elections

Harald Egger



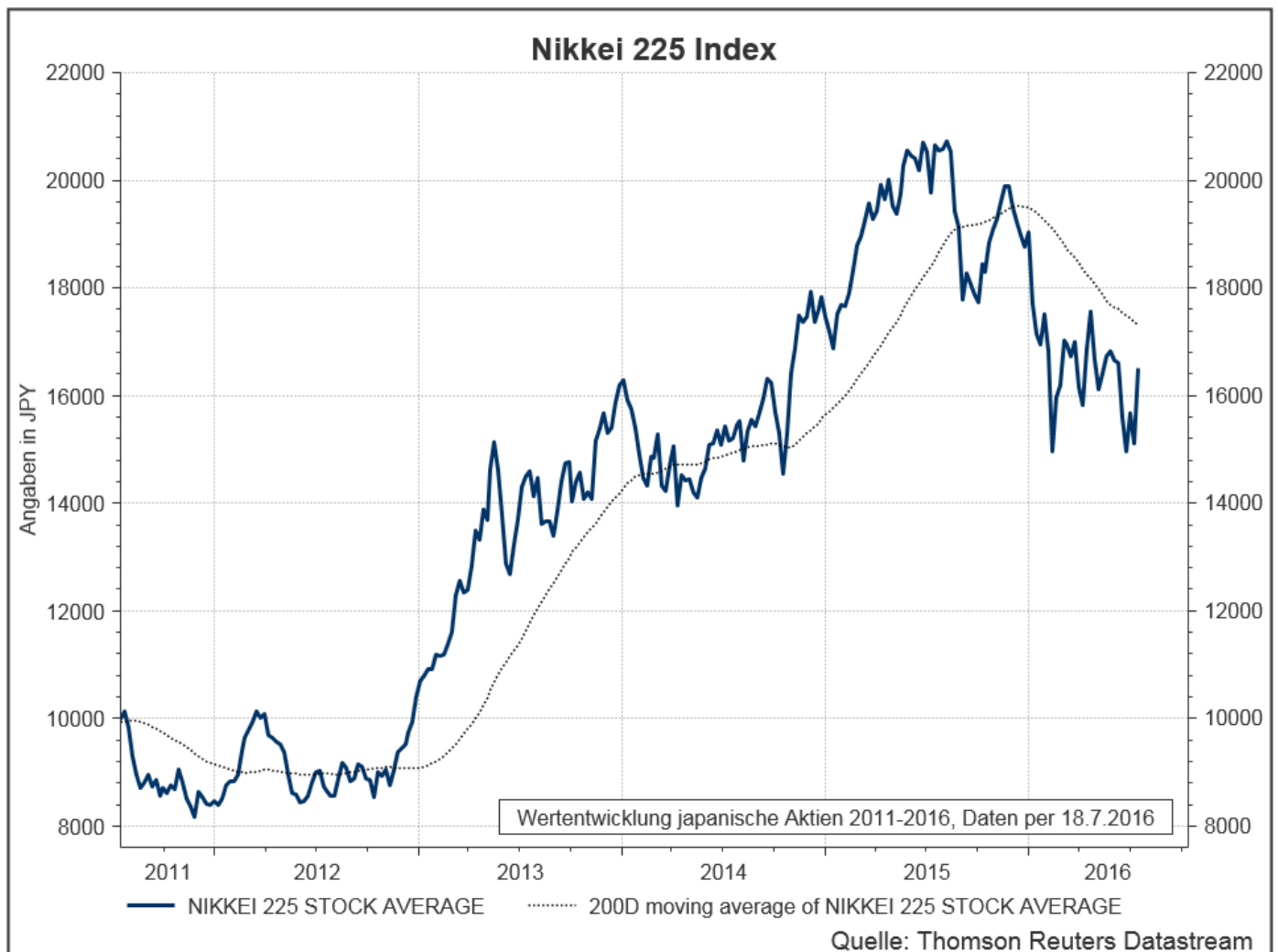
The Japanese equity market has been among the weakest ones in the year to date. At -15% (as of 12 July 2016; source: Bloomberg), the Nikkei index is one of the worst performers. For euro investors, the bottom line is not as abysmal: adjusting the loss for the development of the Japanese yen vis-à-vis the euro, the performance improves to -4% (Bloomberg). In spite of the negative sign, the net result still outperforms European equities.

Strong yen detrimental to Japanese exports

The strong yen is one of the reasons for the weak performance of equities: the stronger the currency, the more difficult the situation for export-oriented companies. In addition, the banks are suffering on account of the negative interest rates that were introduced at the beginning of the year. Since then, bank shares have shed an average of 40% of their value. – Too much, as some analysts have now claimed, putting a sell recommendation on most banks.

Victorious Prime Minister Abe announced economic stimulus programme

At the moment the market is about to find a trough; on top of that, it also commands a good fundamental valuation. In the wake of the election win of the governing party LDP last weekend, Prime Minister Abe immediately announced another economic stimulus package: for example, he wants to promote the construction of magnetic levitation (maglev) trains, and he wants to further expand the network of bullet trains. The strengthening of tourism is also on the government's agenda. These announcements should put a halt to the rise of the yen for now. Any stimulus of the Japanese stock exchanges would need the currency to stop appreciating further.



Stock exchanges driven by Abe's election victory and "Pokemon Go"

In an initial, very positive reaction to Abe's announcements, the Japanese stock exchanges gained 4% in only two days – supported not the least by the shares of Nintendo, which thanks to "Pokemon Go" gained 50% in the course of only four days! Our assessment of the Japanese equity market is currently positive. While we are still neutrally weighted in our asset allocation for the moment, chances are that we might increase the allocation in our next decision round.

Investment opportunity: [ESPA STOCK JAPAN](#)

The fund can invest in the shares of large and medium-sized Japanese companies.

Risk notes according to 2011 Austrian Investment Fund Act:

ESPA STOCK JAPAN may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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