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Redmayne Bentley

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The Rises and Falls of the First Half



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THE RISES AND FALLS OF THE FIRST HALF

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With the halfway point of 2023 fast approaching, we can look back on an interesting six months for financial markets. The year began with an optimistic tone as it appeared major economies were on track to avoid recession; central banks were reaching the peak of interest rate increases and inflation data was moderating. Equity and bond markets produced strong returns early doors, carrying some of the momentum gained at the back end of 2022. March brought the first wobble, with two regional US banks collapsing and Credit Suisse being taken over by Swiss rival UBS. Having calmed in the aftermath, concerns crept back as UK inflation data came in higher than consensus forecast and labour market data, comprising both employment and wage growth, was strong. Bond markets reacted negatively, grappling with the notion of stickier inflation and potential further interest rate hikes throughout the year in both the UK and US.

Despite wobbles, some developed equity markets have produced strong returns through the year so far. The flagship US equity index, the S&P 500, shrugged off concerns around the banking sector, rallying through the second quarter on the back of strong share price performance from a handful of larger index constituents. Clustered within the technology sector, the re-emergence of the artificial intelligence (AI) theme is driving returns. Alphabet, Apple, Amazon, and Microsoft are all up nearly 40% year-to-date as investor confidence around AI ramps up. Perhaps the more interesting data point is Microsoft being the only name with a positive increase year-to-date in expected earnings. In short, expansion of the earnings multiples placed on these companies has been the key contributor to performance so far in 2023. The AI theme is clearly striking some enthusiasm in market participants.

With attention focused domestically, Japanese equities quietly posted strong returns through the first half with the Nikkei 225 up circa 30% at the time of writing. Corporate reforms have long been a theme in Japan, with a push to improve capital efficiency and release excess balance sheet cash to shareholders. Having been talked about ad nauseum during meetings with Japanese equity fund managers, corporate reforms have been in the pipeline for a while, seemingly always on the brink of coming to fruition. Has it finally happened? Or is something else driving the Japanese market higher?

During a research team review of the UK Smaller Companies Investment Trust sector, one name consistently features in portfolios, the luxury watch retailer Watches of Switzerland Group. With headlines revolving around cost-of-living increases and higher mortgage rates squeezing discretionary spending, face-value questioning of the position feels rational. Diving deeper may reveal an attractive future growth profile, however.

Sticking with the cost of living and mortgage rates squeeze, June saw further action in the mortgage market with banks pulling new mortgage offerings on expectations of further interest rate rises. Stickier inflation figures and higher than expected wage growth data were the culprits for sending short-dated gilt yields higher along with five-year interest rate swaps, the latter a key factor in the mortgage pricing process. With the Bank of England signalling further tightening of monetary policy should there be evidence of persistent inflation, confidence in the near-term economic outlook is likely to be shaky.

STOCK FOCUS



WATCHES OF SWITZERLAND GROUP

OSCAR SHEEHAN | INVESTMENT EXECUTIVE



This month, we thought we might mix things up a little and turn away from the titans of industry that tend to dominate our Stock Focus pieces and instead take a look at the small and mid-cap space. Watches of Switzerland group (WOSG) is one company in this sector that has achieved a great deal of success since its IPO in June 2019. The company has built excellent relationships with luxury watch brands, particularly Rolex, and it has played a key role in shifting the industry towards a retail model where shops stock products from only one manufacturer. The company has its eyes set on expansion, with both Europe and the US firmly in its sights. However, it has not all been plain sailing. The removal of the VAT Retail Export Scheme and the tax-free shopping concession has hit it hard. Tourists in the UK were responsible for almost one third of its domestic revenue in 2019 compared to just 4% now. Given this backdrop, its expansion plans are particularly important. Other luxury goods companies have experienced stellar years so far, but WOSG's share price has dropped by over 25%. While analysts

seem broadly positive about the company's long-term prospects, the short to mid-term horizon has produced some real challenges that bear consideration.

The first and most prominent of these hurdles has been the removal of the VAT Retail Export Scheme and the tax-free shopping concessions previously mentioned. This legislation has allowed tourists to avoid paying VAT on goods purchased in the UK. Given how important the domestic market is to the groups' bottom line, the loss in revenue from this group has been detrimental to both the company's balance sheet and its share price. The government in the UK is under pressure to reverse this change, however, given the scale of the UK's budget deficit, and the current chancellors previous opposition to such a move, it would be unwise to assume that a reversal in this sector was a sure thing. This makes the UK one of the countries in Europe not to offer duty free shopping and makes it near impossible for the UK to compete with the likes of Italy and France as international shopping destinations. Given that WOSG is only just starting to penetrate the European market

and over 60% of its revenue is generated from within the UK, this loss of international business is no small matter.

That said, the company does have plans to expand outward into both the European and US markets. These new frontiers offer promising growth prospects, but also some serious challenges. While Watches of Switzerland has an excellent relationship with Rolex in the UK, where it operates almost 50% of its locations, on the continent it has several competitors who have long-standing relationships with a variety of brands. The opportunity for WOSG comes from its existing size. In Europe, retailers tend to be small and operate on a regional basis. One of its main competitors in Europe is Bucherer, a luxury watch retailer that operates 38 showrooms across the continent. For perspective, WOSG operates more Rolex stores than this in the UK alone. The economies of scale that come with its size means that WOSG could offer a more attractive package to top luxury brands when compared to its regional rivals. This theory has been tested in Berlin where Tag Heuer recently chose to open one shop with the group and shut several other local vendors in the vicinity in order to accommodate this new relationship. The trust that WOSG has built with luxury watchmakers in the UK should serve it well as it looks to expand into the European market.

In the US, the story is a little different. The country is the largest market for luxury watches worldwide and there are many established retailers in operation. WOSG has predicted that by 2027 US sales will account for more than 50% of its revenue. Watchmakers are seeking to consolidate the number of retailers they do business with in the states and, given WOSG's affinity with Rolex, it appears it is likely to benefit from this in the short term as many smaller players are forced out of the market.

That said, the primary driver of growth for luxury goods in 2023 has been the reopening of China's economy and the increased demand for luxury items in the region. WOSG has no exposure to China or the wider Asia Pacific region and as such is set to miss out on a large portion of the total revenue generated by luxury watches globally. While WOSG is targeting the largest markets globally for its own development, it is very possible that these will not be the fastest growing regions, and as such will not provide the best opportunities for new players hoping to disrupt the market.

On top of this, while inflation in the US is starting to come down, in the UK it has remained exceptionally high. The Bank of England has signalled it is likely to raise interest rates further in an attempt to get this back under control. Further rises are likely to worsen the cost-of-living crisis that we are all feeling and put more pressure on household budgets which could in turn lead to decreasing demand for luxury items, such as watches. The UK labour market has remained tight to date and as such consumers have been willing to take out debt to finance spending on the assumption that they will have the future income required to pay it off. If this continues, then perhaps WOSG will see some recovery in its domestic market, but should unemployment start to tick up, it could well experience a further decline in revenue.

An additional area of concern is the possibility for watchmakers to abandon retailers all together and move their distribution networks in-house, as Audemars Piguet (AP) are doing. Should this model prove profitable and sustainable for AP, it is likely that the additional level of control and long-term cost saving opportunities would appear enticing to other manufacturers. While the shift away from the current model would take a long time and would likely be staggered, WOSG would be exceptionally vulnerable to such a shift. Luckily for WOSG, Rolex has expressed no interest in pursuing this model and, due to the charitable requirements of the foundation that owns Rolex, it is unlikely that it will be willing to provide the capital expenditure required for such a shift.

However, if we take a look at WOSG at a more granular level, things get interesting. Following its recent crash in share price down to £6.24 (in 2022 it had been as high as £14.70), its expected revenue growth rate of 10% starts to look more appropriate. A price to earnings ratio of 12.5 seems remarkably low for a company with such strong growth prospects. On top of this, around half of all its revenue is generated from waiting lists, such is the demand in the luxury watch market at the moment, and this provides the company with a good deal of downside protection should the economy take a turn for the worse. It generates a free cash flow of a little under £126m a year and as such has a strong financial cushion to absorb any unexpected shortfalls. This type of story is becoming typical across the small and midcap space. On a mere valuations basis there appear to be a number of exciting opportunities that are presenting themselves to those who know where to look.

All in all, WOSG has left us torn. The share price seems to be heavily discounted given its strong fundamentals, and the length of the waiting list for almost all Rolex watches provides it with real downside protection in the short-term. It has strong relationships with luxury watch manufacturers that it can leverage to grow into promising new markets, and it is the partner of choice for arguably the most prominent watch maker in the world, Rolex. That said, it has no exposure to the Asia-Pacific market, it remains to be seen if watchmakers will continue to use retailers in the future, and a deep recession could impact people's desires to spend exuberant amounts of money on watches. The move towards more exclusive mono-brand showrooms seems to indicate a desire for brand recognition and exclusivity that could perhaps be better managed by manufacturers in-house. While WOSG has done an excellent job at promoting this very business model, AP's expansion into the retail sector could be seen as something of a canary in the coal mine for retailers in the luxury watch market - if it succeeds, other manufacturers may follow. ■

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INSIGHT



THE UK MORTGAGE MARKET

STEPHEN DONE | INVESTMENT RESEARCH



At the turn of the year, there was consensus that the Bank of England would pause rate hikes in the second quarter, with inflation rolling over and cuts potentially coming later in the year. However, key economic data points in the second quarter caused market participants to reflect and amend expectations. April's inflation data proved significant, with the headline rate falling from 10.1% to 8.7%, a welcome decline but high enough above the Bank of England (BOE) forecast of 8.4%. In addition, stronger than expected jobs data, from both an employment and wage perspective, caused UK markets to react negatively and expectations of more persistent inflation. As a result, the Monetary Policy Committee voted to raise interest rates for the 13th consecutive time to a 15-year high of 5% in a shock move that piled further pressure on mortgage payers and once again put the mortgage market under the spotlight.

The average two-year fixed mortgage rate has risen to 6.23%, up from 3.25% this time last year and the average 5-year fixed rate is now 5.86%, up from 3.37%, marking the highest rates since November 2022, when the Truss government's attempt to push through unfunded tax cuts spooked the markets and pushed up mortgage costs. Before these events, however, the two-year rate had not reached the 6% mark since November 2008.

Recent analysis by the Labour party suggests that, even before the latest hike, Britons were paying thousands of pounds more than Europeans for new mortgages. For a £200,000 loan paid back over 25 years, annual UK mortgage payments are around £2,000 higher than in France, £1,100 higher than in Belgium and Ireland, and about £800 more than in Germany and the Netherlands, the party has said. This will result in further cause for concern for a nation which places significant weight

on homeownership, with owning your own home being deeply ingrained in the British culture and often seen as a symbol of stability, security, and personal achievement.

Many homeowners have been cushioned against rising interest rates by agreeing fixed-rate mortgage deals at near record lows. The BOE estimates only about a third of its rate hikes have passed through to customers so far. However, it is estimated that 1.4m households are set to roll off their fixed rate mortgages over the course of 2023, most of which were taken out at much lower rates than offered today, leaving borrowers facing the pressure of meeting soaring repayments while inflation continues to rise, exerting a further squeeze on household budgets. This reduced household spending power will remain a significant headwind for house prices, with recent news headlines predicting that UK house prices could fall 10%.

“The housing market and the sentiment of homeowners are significant for the UK economy. A strong market generally encourages further consumer spending and leads to further economic growth...”

To better understand the possibility of this, we initially need to delve into Britain’s broken housing market. England has among the lowest numbers of homes per 1,000 people in western Europe, with houses on average amongst the smallest and most expensive. In fact, the average price of a UK home has nearly trebled since the turn of the century and has increased by more than 60% in the last ten years. On the surface, the main long-term driver of this has been the shortage in supply of housing stock being outstripped by the continuing high demand for properties.

Ultimately, it will be expected that the increase in mortgage rates will drastically reduce the demand for houses. However, over the previous decades, the proportion of households with mortgages has fallen to about 30%, implying that the pain to households will be contained and will have a lower effect on the overall demand for housing in the UK. The rising rates have also prompted lenders to clamp down on borrowers with small deposits, with the number of products on offer dropping more than 40% in the last year, once again hurting the demand for lower value properties. On the other hand, demand for housing in times of high inflation increases among investors, with physical assets becoming a preferred investment vehicle. Housing demand may also be boosted if stronger than expected net migration figures continue to materialise.

One of the key indicators for housing pricing forecasters will be the unemployment data within the UK. Typically, higher

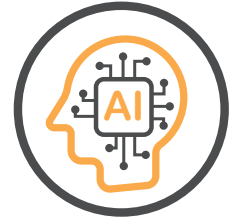
unemployment rates can affect buyer demand as purchasers are wary of taking on larger financial commitments in a more uncertain labour market. Rising levels of redundancies also raise the prospect of increasing numbers of forced sales, which can accelerate downward pricing. Despite this, employment levels in the UK have now exceeded pre-pandemic levels, and the unemployment rate remains relatively low by historic standards. As such, this is one of the factors partly mitigating the expected fall in the housing market. A tighter labour market also leads to greater wage growth, which helps homeowners with increased monthly mortgage repayments. However, wage growth is also feeding inflation – and that, in turn, is affecting mortgage rates.

One of the largest concerns with rising mortgage rates will be the pressure it puts on borrowers, with affordability starting to become the biggest concern for lenders, with the potential for rising repossession rates increasing the supply of houses on the market and, therefore, drastically reducing value. Experts, however, have estimated that the UK is likely to escape the scale of home repossessions suffered in previous recessions due to higher levels of housing equity and increased regulatory pressure on lenders. Research provided by estate agent Savills has found that there is now a cushioning effect of housing equity having built up over years of price growth. The total value of all UK homes reached a record £8,679bn at the end of 2022, with outstanding mortgage debt standing at £1,660bn, with Lloyds Banking group also estimating its mortgage book carried an average loan-to-value of 42%. The increased equity will allow for more flexibility with rearranging mortgage plans that are no longer suitable for the borrower and, therefore, reduce risk of repossession.

Regulatory reforms within the industry have also led to more responsible lending, with the Financial Conduct Authority setting out in March that it expects lenders to support struggling borrowing by exercising forbearance and coming to tailored arrangements. The UK chancellor, Jeremy Hunt, also announced last week an agreement between the government and Britain’s biggest lenders that struggling mortgage holders will be given a 12-month grace period before involuntary repossession proceedings begin. This support will reduce the need for forced quick fire sales that can start to have large implications on the overall market.

The housing market and the sentiment of homeowners are significant for the UK economy. A strong market generally encourages further consumer spending and leads to further economic growth, due to the wealth effect of consumers seeing personal wealth levels increasing. This importance was highlighted in the COVID-19 pandemic when the government introduced the stamp duty holiday – a healthy functioning housing market creates a positive ripple effect on all associated industries and sectors. If the pain of mortgage holders translates into a slowing market, central bankers will take note, with expectations of inflation falling over the next 12 months reducing the need for higher interest rates. However, experts have dispelled expectations that these rates will return to pre-pandemic ‘ultra-lows,’ with interest rates to more likely fall somewhere in the region of 2-3%, closer to historical norms. ■

TOPIC OF THE MONTH

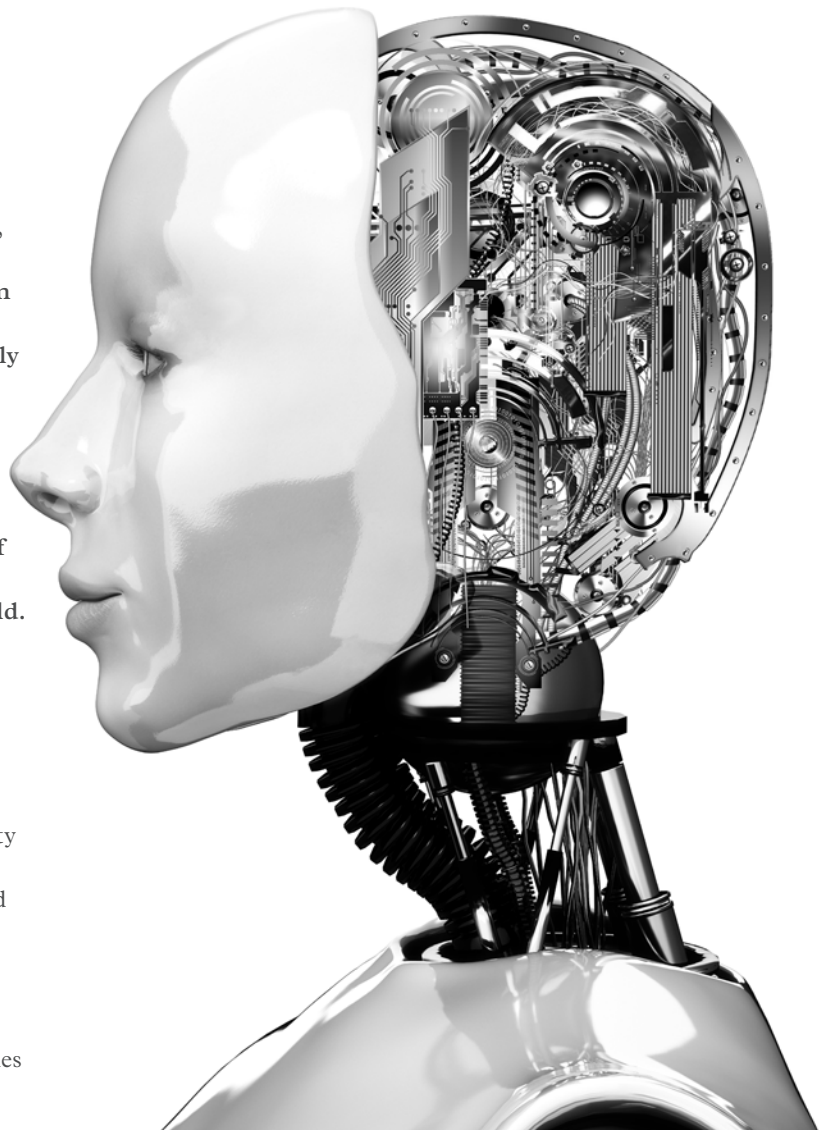


THE GROWTH OF ARTIFICIAL INTELLIGENCE

JAMES EADES | INVESTMENT RESEARCH

In the realm of technological advancements, few innovations have captured the recent attention as much as Artificial Intelligence (AI). While the subject of AI is extremely broad, it ultimately encapsulates a machine's ability to perform the cognitive functions we associate with human minds, such as perception, reasoning, learning, interacting with an environment, problem-solving, and even exercising creativity. In recent years we have seen a significant shift away from a predefined logic, where humans instruct computers on how to behave, to an era of computers autonomously learning how to act. While the term AI may be a new one to many, the transition has taken decades to arrive at where we are today and the germination of AI can be traced back to the early days of computing, when pioneers laid the groundwork for the concept of intelligent machines. Fast forward to the latter part of the 20th century and AI truly began to take shape in tandem with the rapid development of the digital world. We began to see breakthroughs in the way computer programs started to simulate human intelligence, especially with the capability of altering its behaviour in response to input data, and saw AI begin to exhibit remarkable capabilities.

Although AI can be used as an umbrella term for the variety of individual systems and machine learning mechanisms that sit within it, the extent to which AI has been integrated into the world is remarkable. From analysing vast amounts of data, recognising patterns, making predictions with uncanny accuracy and enabling the use of voice assistants through to the likes of Siri, Alexa and Cortana. But AI's impact extends far beyond consumer applications. Industries such as healthcare, finance and manufacturing have all witnessed a seismic shift towards using AI algorithms,



revolutionising processes, increasing efficiency and unlocking new possibilities. From diagnosing diseases to optimising supply chains, AI has become a catalyst for innovation and progress. Yet, the journey of AI is far from complete. As we stand on the cusp of a new era of technology, we are likely to see AI continue to evolve and push the boundaries of what was once thought possible.

While its growth has been quite evident across financial markets, we have seen three key driving forces behind these advancements within AI in recent years. The first is the mass of data available as a result of the growing interconnections within the digital world. This abundance of data serves as fuel for AI systems, enabling them to learn, recognise patterns, make informed decisions and improve accuracy within processes which could ultimately open new doors to more innovative functionality. Secondly, the increase in the speed, capacity and availability of powerful computers, graphic processing units (GPUs) and semiconductors have all made it possible to train and run AI algorithms on large datasets, which has improved performance and capabilities. The third driving force comes from private sector investment with many companies, including Google and Microsoft, investing billions in AI research and developing their own AI technologies and applications through the likes of ChatGPT. As all three of these drivers continue to increase over the next few years, we are likely to see continuous expansion within the technology.

As demand grows for this technology we could see businesses that leverage AI stand a better chance of developing competitive advantage. Whether through algorithmic advertising, analysing customer feedback to identify issues or providing products specifically designed for clients, those businesses which take advantage of the resources available will likely develop a more tailored experience for customers which could ultimately drive sales and provide better insights for future developments. Apple is just one example of a company that has been able to combine a strong market position with the integration of AI to provide an immersive product for customers through the use of the FaceID feature, or in products such as AirPods, Apple Watch, or HomePod smart speakers, where it enables the smart assistant Siri. Apple is also growing its service offering and is using AI to recommend songs on Apple Music. Another prime example is Netflix, which uses technology to create personalised engagement to rank search queries and recommend shows to watch. Interestingly, the company believes the use of this AI system has saved it more than US\$1bn a year from customer retention, with 80% of customer video choice coming from recommendations.

While those integrating AI into their business models have benefited from doing so, the companies at the forefront of the AI rally are arguably the semiconductor manufacturers and software developers. It isn't surprising that the poster child of the current AI boom is NVIDIA, the world's most valuable listed semiconductor company and a market leader in engineering the chips, systems and software components that make up the AI machines used by the likes of Google and Microsoft. Year-to-date, the share price has returned roughly

200% after a series of results coming in above expectations. It looks as if the company is currently at the forefront of the technological charge while maintaining a competitive advantage within the industry, which could be key for growth over the long term.

Unfortunately, not all companies have been able to harness the benefits of AI. Chegg, an educational product and service provider which offers homework help, digital and physical textbook rentals, textbooks, online tutoring, and other student services, has been hit hard by the recent AI boom. The company's share price has fallen 63% since January of this year with Chegg's CEO Dan Rosensweig raising potential concerns around the disruption that AI could have to the business, saying "Since March we saw a significant spike in student interest in ChatGPT. We now believe it's having an impact on our new customer growth rate." Despite the downbeat announcement, the company has released plans to build its AI Chat function in partnership with OpenAI as a way of gaining back its audience base - one thing that will be interesting to see is how Chegg now plans to navigate through a period of rapid innovations in the learning space, which could present a new layer of risk for the company. Therefore, while we don't have a crystal ball, it is likely that those who harness AI's potential to drive innovation, productivity and efficiency will likely gain a competitive edge, creating new business opportunities, and enhancing customer experiences. However, those who fail to embrace or adapt to AI may face disadvantages, lagging in a rapidly evolving field.

To summarise this article, I thought it would be fitting to let ChatGPT write an outlook for AI, enabling you to see the capabilities of a Chatbot on the internet. I simply asked ChatGPT to write a 100-word summary about the future of artificial intelligence, and this is what it came up with:

"The future of Artificial Intelligence (AI) holds immense promise and potential. AI is expected to continue its rapid evolution, enabling advanced automation, personalized experiences, and improved decision-making across industries. As AI algorithms become more sophisticated and capable of handling complex tasks, we can anticipate breakthroughs in healthcare, transportation, finance, and beyond. However, ethical considerations, transparency, and responsible AI deployment will be crucial in ensuring AI's positive impact. Collaborations between humans and AI, known as augmented intelligence, will empower individuals and organizations to leverage AI's strengths while maintaining human oversight. While challenges and uncertainties lie ahead, the future of AI is poised to bring transformative changes, revolutionizing our lives and shaping a new era of technological innovation." ■

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UNDER THE RADAR: JAPAN'S RECENT RALLY

GREG LODGE | PERFORMANCE & RISK ANALYST



The world in 1989 was a very different place. The World Wide Web was invented, The Soviet Union was crumbling, and the UK was emerging from a decade of strikes, high inflation, big hair, and bigger shoulder pads. Further away in the east, however, the Japanese economic bubble was reaching its apex. The boom years of the 1980s saw real estate valuations reach levels that could without exaggeration be described as astonishing. At its peak, Tokyo real estate could be bought for US\$139,000 per square foot – 350 times that of the equivalent space in Manhattan. It was speculated that the real estate value of land occupied by the Imperial Palace alone was

worth more than the entirety of the state of California. The benchmark Topix index reached an all-time high in December 1989. Flush with cash and confidence, Japanese companies began buying up prestigious assets; the Rockefeller Centre in New York was bought by Mitsubishi Group and Sony claimed Hollywood studio Columbia Pictures. Japan's rise seemed so unstoppable, surely it was only a matter of time before it overtook the US to become the world's dominant economy, as proposed by academics such as Ezra Vogel in his book 'Japan as Number One.'

In the end, of course, it never happened. The bubble burst, as they are prone to do. The consequences would be profound and overshadow the Japanese economy and society for decades. The Japanese yen, the stock market, wages, and inflation stagnated. A generation on, investors, both inside Japan and outside, had been burned. Historically, the average US bear market lasts around 14 months. Japan has waited more than 30 years for the Topix index to touch its previous record high in May of this year. Rallies in the interim have been limited, causing stocks to trade within narrow ranges.

Recently, however, a shift in trends both locally and globally has reignited interest in Japanese equities and investors are holding their nerve and starting to buy this long-neglected sector. But why Japanese equities and why now, after all this time? There are several interesting factors in the equation. One of them is now very familiar to us in the UK – inflation. Japan has long contended with deflation – prices stay flat or even fall, and if your living costs do not rise, why take any risk with your savings? As such, the nation's households have accumulated US\$7tn in low-yielding bank deposits. But inflation has finally returned, with Japan's core measure of consumer inflation rising more than 4% in April. A new governor at the Bank of Japan and rising prices have led to speculation that the days of ultra-loose monetary policy may be drawing to a close. If so, this would benefit equities. Praveen Kumar, manager of Baillie Gifford's Shin Nippon Trust, said in a video update "We are seeing record levels of wage growth above core inflation amidst a worsening labour shortage situation. This should provide a structural boost to domestic consumption."

“Recently... a shift in trends both locally and globally has reignited interest in Japanese equities and investors are holding their nerve and starting to buy this long-neglected sector. But why Japanese equities and why now, after all this time?”

Investors have also credited Hiromi Yamaji, the new head of Japan Exchange Group, which controls the Tokyo Stock Exchange, for his push to drive reforms at a corporate level: improving capital efficiency, raising corporate value, and rewarding shareholders. So serious about this is the Tokyo exchange that companies with price-to-book ratios consistently below one will be required to outline specific plans to address these issues. These are some years away from coming into

force but companies are starting to fall in line, which is catching attention from overseas investors. Lured by the prospect of more efficiently deployed capital, in May a group of over five hundred institutional investors with an estimated US\$20tn of assets under management met for the first forum since 2019, with the key focus of the event being Japan's post-pandemic recovery. Hedge fund Citadel is planning to re-open its Tokyo office after an almost 15-year absence. After building stakes in Japan's five biggest trading houses over three years, Berkshire Hathaway founder Warren Buffett made his first visit since 2011. In an interview with financial newspaper Nikkei, Buffett said that further investment was “always a matter of consideration.”

There are also geopolitical factors in play. As the rally in China's market fizzles out and the US and China continue to decouple, Japan senses an opportunity to reposition itself as an Asia-Pacific leader. Economic performance notwithstanding, Japan is nothing if not stable – a reliable ally and trading partner to the West. Following a meeting with the executives of chip manufacturers, Prime Minister Fumio Kishida said “since the inauguration of my administration, I have strived to achieve the revival of the Japanese semiconductor industry and expand investments in Japan. In this regard, I am very pleased about your positive attitude expressed today toward making investments in Japan.”



Japan Prime Minister Fumio Kishida

If you have a wary sense of déjà vu at this point, it is not without good reason. We have been down this road before – 2013-2015 saw overseas investors inject US\$250bn into Japanese markets on the promise of market reforms. In subsequent years, almost that exact same amount was withdrawn after the reforms never fully materialised. If the rally is to become something more tangible and long-term, the driving forces behind it will have to demonstrate that they represent real change. It will never be 1989 again, but there could be new glory days ahead for Japanese markets. Investors in the Land of the Rising Sun will have to hope this is not another false dawn. ■



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