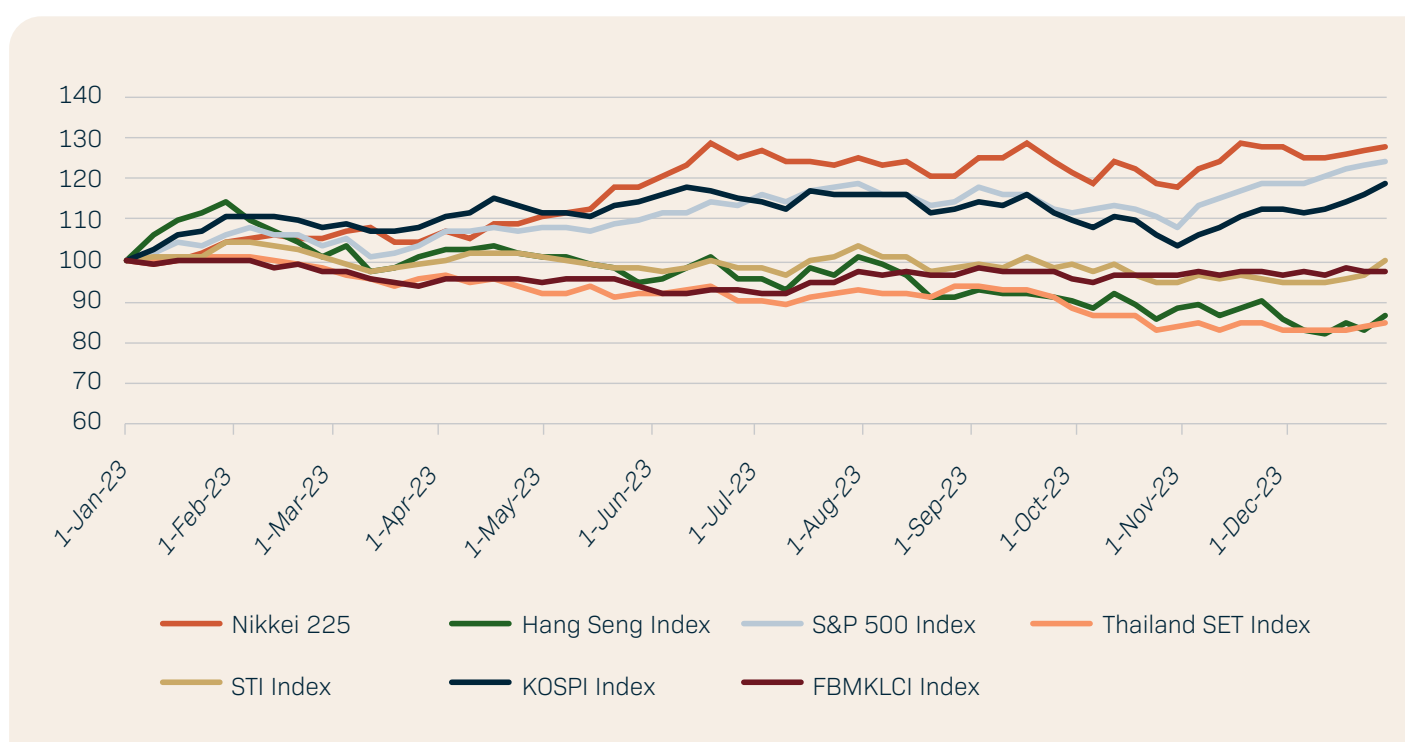


JAPAN'S 2023 STOCK MARKET SURGE AND 2024 OUTLOOK

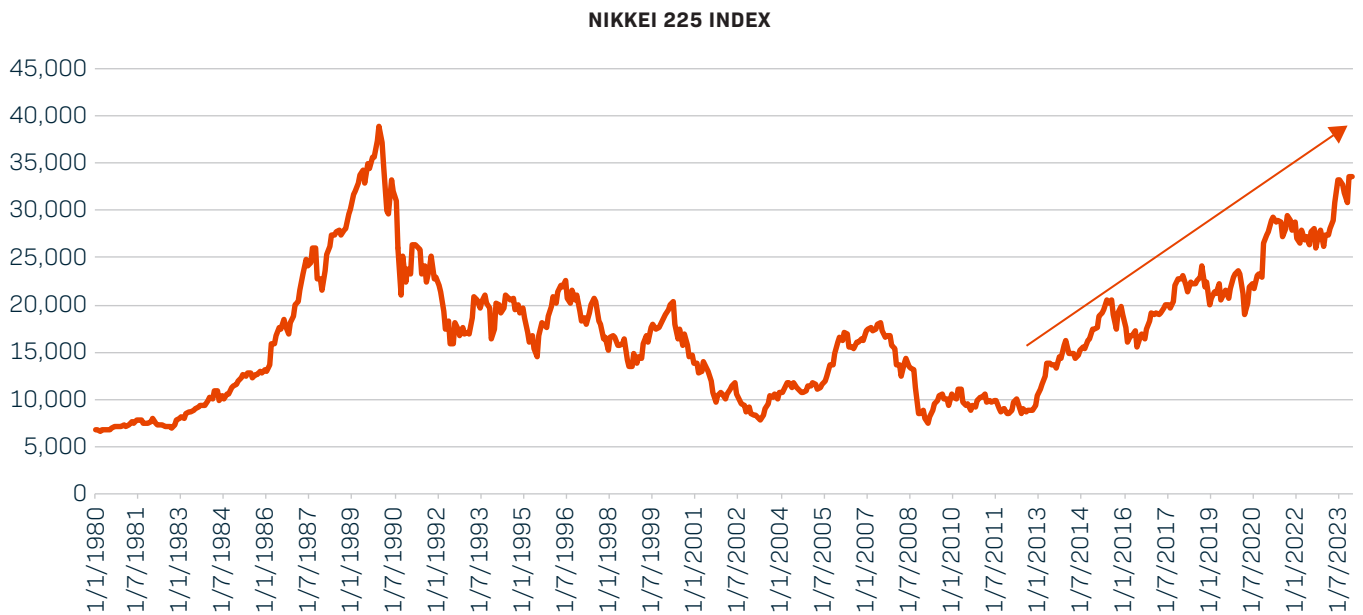
In 2023, Japan's stock market experienced a remarkable surge, outshining other major global indices including the S&P 500 and key Asian markets. This volume delves into the factors that contributed to its exceptional performance, exploring Japan's economic resilience, strategic policy implementations, currency dynamics, and their broader implications on the market's success.

2023 AND 2024 YTD ASSET PRICE PERFORMANCE (%) (REBASED)



As of February 2, 2024, the Nikkei 225 Index has performed impressively with a strong return of 28% in 2023 and has continued its upward trend with an 8% return in 2024 year-to-date. This remarkable performance can be attributed to Japan's economic resilience and effective recovery post-pandemic, bolstered by strategic monetary and fiscal policies. A weak yen has contributed to the market's strength and has been particularly beneficial for Japanese exporters, boosting their competitiveness in international markets. Attractive valuations of Japanese equities also played a vital role. Proceeds from initial public offerings and additional share sales in Japan have significantly increased compared to 2022, indicating robust corporate activity and investor confidence in the market. These factors drove the exceptional outperformance of the country's stock market in 2023.

HISTORY OF JAPAN'S STOCK MARKET



The Japanese stock market has historically been sensitive to domestic and global economic events, with significant incidents impacting its performance. Let us now delve into notable historical events and examine their impact on the country's equity market.

- **1991 - Bursting of the Bubble Economy:** This event marked the end of Japan's rapid asset inflation in real estate and stocks. The Nikkei Index, which peaked in 1989, saw a significant decline, leading to a period of prolonged economic stagnation known as the "Lost Decade".
- **1994 - Credit Crunch:** Japan faced a severe credit squeeze following the collapse of speculative asset prices. The banking sector was heavily burdened with non-performing loans, leading to tighter credit conditions and financial instability.
- **1995 - Hanshin Earthquake:** A devastating earthquake that had an immediate impact on the stock market due to the extensive infrastructure damage and disruption of businesses.
- **1997 - Asian Financial Crisis:** This crisis originated in Asia and rapidly spread to Japan, leading to a decrease in investor confidence and a regional economic downturn.
- **Early 2000s - Global Economic Events:** The bursting of the IT bubble in the early 2000s led to a worldwide economic slowdown that included Japan.
- **2008 - Global Financial Crisis:** The 2008 global financial crisis was marked by the downfall of Lehman Brothers and downturn in the US housing market. The crisis led to economic recession and uncertainty in global financial markets, particularly in Japan where its stock market faced significant challenges.
- **2008 - China's Fiscal Stimulus:** In response to the global financial downturn, China implemented a substantial fiscal stimulus package in 2008-2009, injecting Rmb 4 trillion (approximately USD586 billion) into its economy. This decisive action aimed to mitigate the domestic impacts of the global crisis and stimulate economic growth. The effects of China's stimulus extended beyond its borders and had a ripple effect, aiding in stabilizing Japan's stock market.
- **2011 - Tohoku Earthquake and Fukushima Crisis:** This natural disaster and the ensuing nuclear crisis caused significant disruptions and uncertainties that had a profound effect on Japan's economy and stock market.

- **2011 - 2012 – Japanese Yen's Record High and Political Changes:** The yen reached a record high against the USD, affecting Japan's export competitiveness. The return of the Liberal Democratic Party to power led to significant policy changes, most notably the introduction of Abenomics in 2013.
- **2014 - Bank of Japan's QQE2:** To combat deflation and stimulate the economy, the Bank of Japan initiated an aggressive quantitative easing program.
- **2021 - Tokyo Olympics:** Held amid the COVID-19 pandemic, the event was a significant logistical and economic challenge with implications for the stock market.
- **2022 and 2023 - Significant Devaluation of the Yen:** The yen saw a substantial devaluation, impacting export businesses and the overall economy in a positive way.

These events illustrate the Japanese stock market's sensitivity to both internal dynamics and global economic trends.

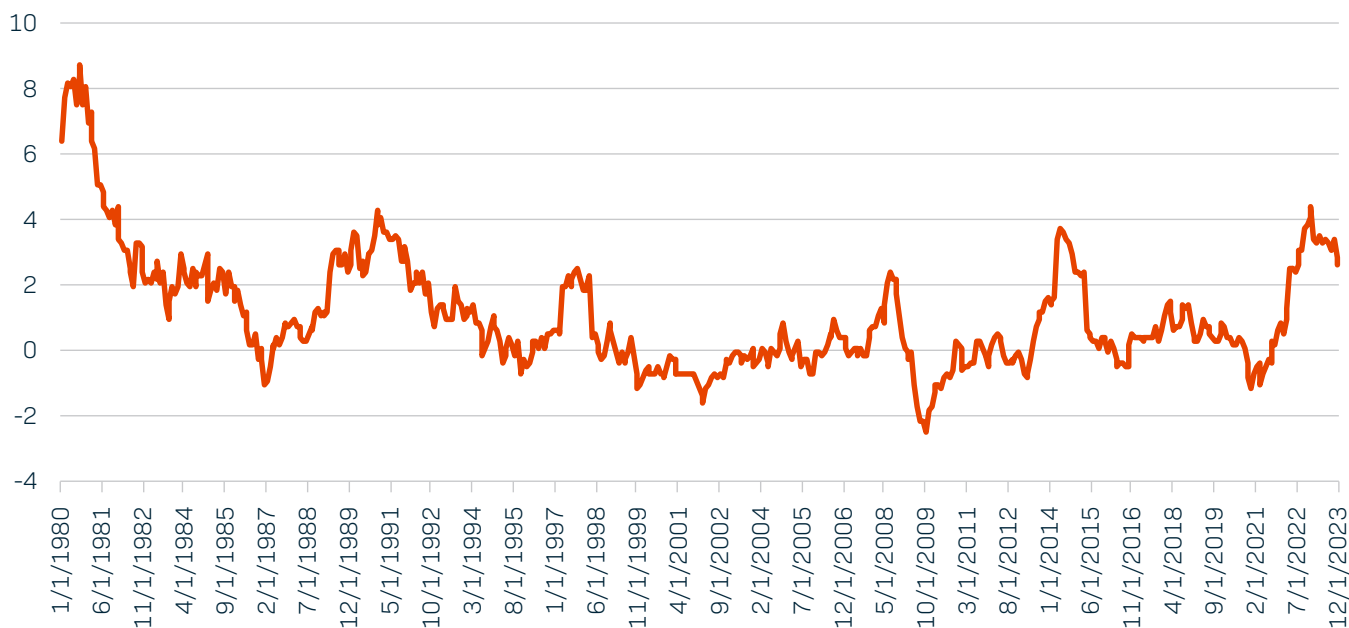
USD/JPY EXCHANGE RATE



The Japanese yen has experienced significant fluctuations since 1980. In September 1985, the Plaza Accord was signed as a significant agreement between five major nations at the time (Japan, France, Germany, the United States and the United Kingdom) at the Plaza Hotel in New York City. The primary purpose was to address the large US trade deficit, mainly with Japan, and to help reduce the US's current account deficit. Following the Plaza Accord, the Japanese yen appreciated sharply against the US dollar. The rapid appreciation of the yen also had significant domestic economic impacts, leading to increased asset prices within Japan and contributing to the asset price bubble of the late 1980s.

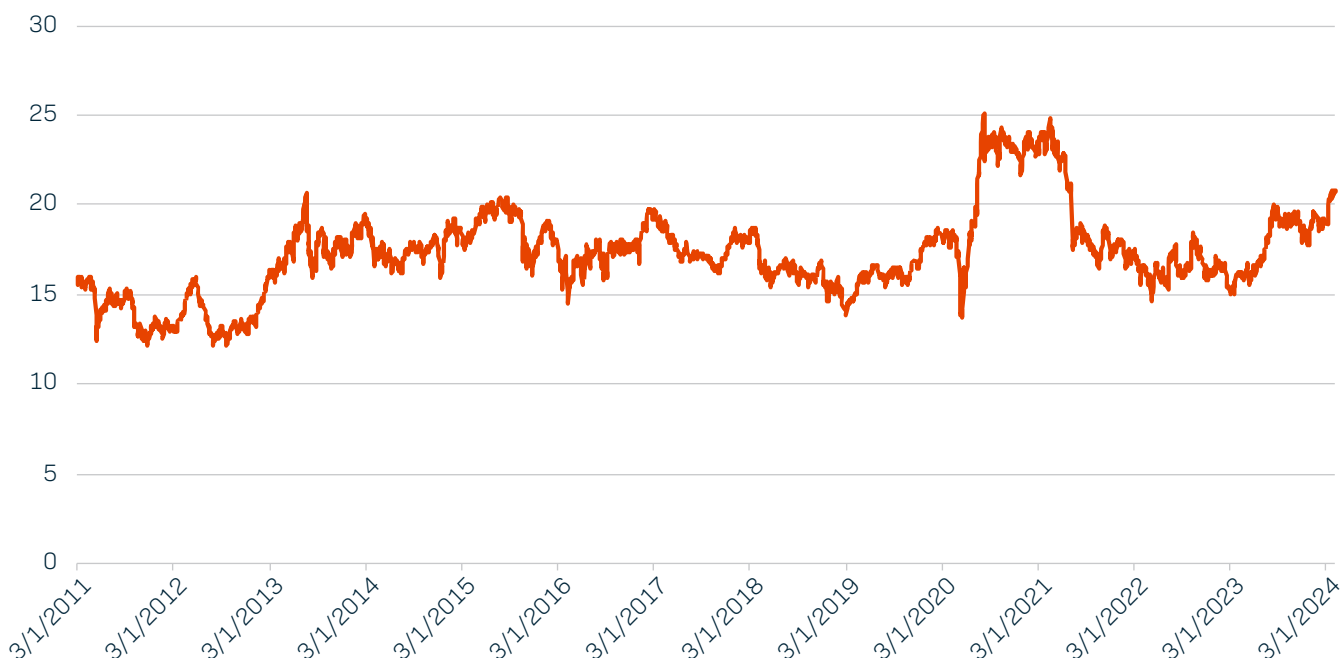
In 1990, the economic bubble burst and its aftermath had long-lasting effects on the Japanese economy after 1990, leading to the "Lost Decade". In 2011-2012, it soared to a record high against the US dollar, impacting Japan's export competitiveness. However, the introduction of Abenomics in 2013 led to a sharp depreciation of the yen. This depreciation, in turn, stimulated Japan's export industry and tourism, showcasing the dynamic nature of currency markets and their impact on the Japanese economy.

JAPAN INFLATION YoY (%)



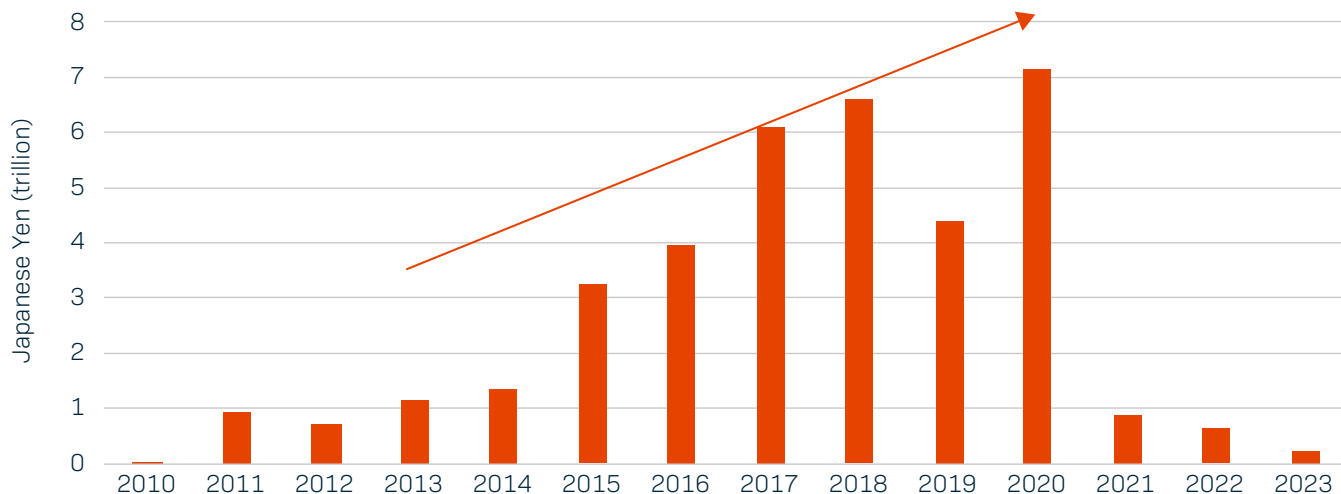
From 1995 to 2022, Japan maintained a remarkably low inflation rate compared to Western economies. However, a moderate increase in inflation emerged post-2022, potentially stimulating consumer and investment demand that reflected a shift in the economic environment.

NIKKEI 225 INDEX FORWARD 12-MONTH P/E (X)



Between 2012 and 2024, the Nikkei 225 Index experienced a significant re-rating, with its forward 12-month P/E ratio escalating from 12x to 20x. This shift could be attributed to several factors, including the launch of Abenomics in 2013, the Bank of Japan's QQE2 in 2014, a persistently weak Japanese yen and a sustained low inflation rate. These elements collectively contributed to a more favorable valuation of the Index.

ETF PURCHASE BY THE BANK OF JAPAN (PERIOD: 2010-2023)

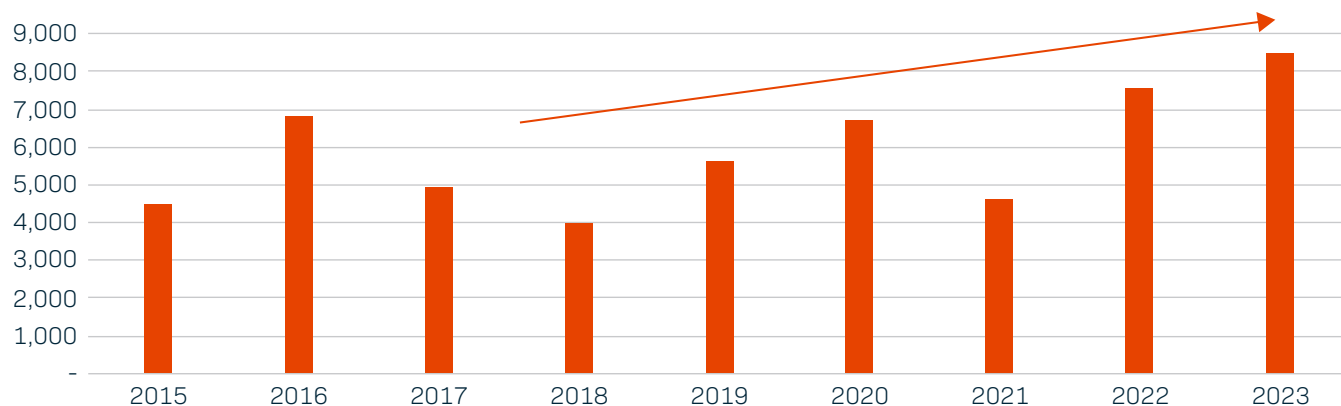


The Bank of Japan commenced purchasing exchange-traded funds (ETF) in 2010. Following its implementation of the QQE2 policy in 2014, the central bank significantly ramped up its Japanese ETF purchases from over JPY1 trillion in 2014 to JPY7 trillion by 2020. This strategic move played a key role in strengthening the stock market during that period and was a way to restore confidence and stability within the financial markets. Post-2020, in response to the fiscal expansion sparked by the COVID-19 pandemic, the Bank of Japan began tapering its ETF investments. This strategy signaled a cautious step towards scaling back ETF purchases with an intent to minimize market disruption.

This suggests that the Bank of Japan has become a significant shareholder in many listed Japanese companies. Without its consistent purchasing of ETFs, the performance of the Japanese stock market prior to 2021 could potentially have been lackluster.

COMPANY SHARE BUYBACK ACTIVITIES

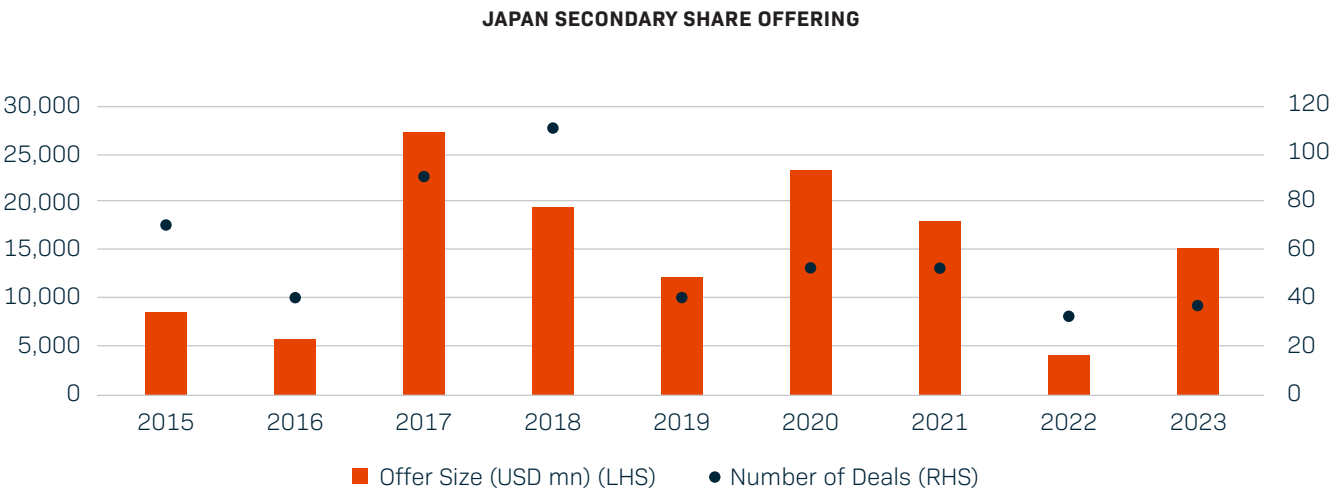
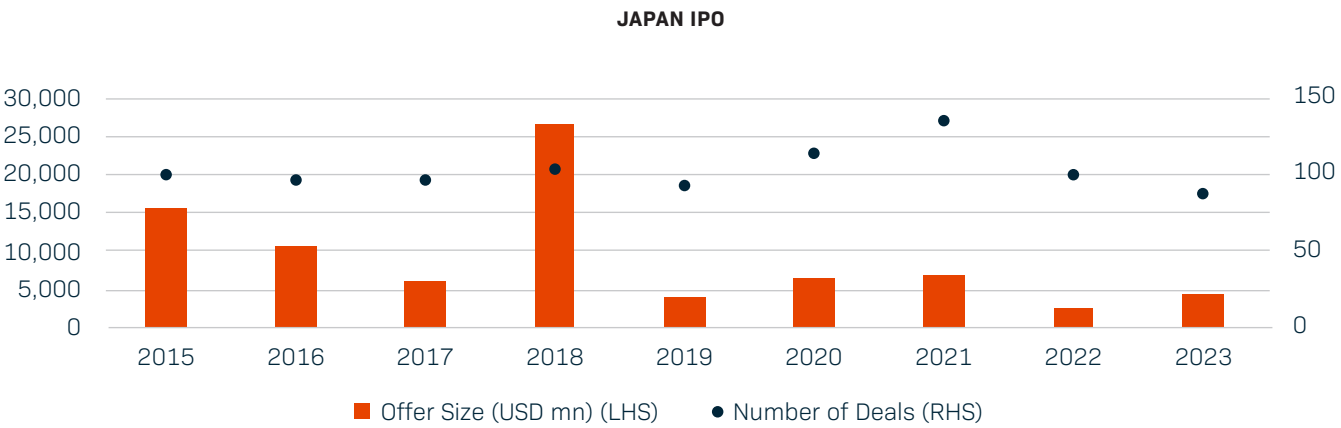
JAPAN COMPANY SHARE BUYBACK (JPY bn)



Company share buyback activities reached a new high level in 2023, which also became a major reason boosting the stock market's return in 2023. The Tokyo Stock Exchange (TSE) is currently advocating a 'soft' requirement for its listed companies to maintain a price-to-book ratio above one. This initiative is a key component of a wider strategy aimed at bolstering capital efficiency within Japan's stock market. Specifically, the TSE is guiding firms, especially those whose shares are trading below their book value, to conduct thorough evaluations of their capital costs and efficiency. This endeavor is in line with the TSE's ongoing commitment to enhancing corporate governance and fostering sustainable growth in the market.

Listed companies that consistently have a price-to-book ratio below one may be asked to disclose plans for improvement. This approach aligns with the market sentiment favouring share buyback. Notably, numerous companies, including those with a P/B ratio below 1x, are contemplating share repurchases in expectation of an increase in their stock prices.

CAPITAL MARKET ACTIVITIES



Influenced by the aforementioned factors, the capital market in Japan experienced notable growth in 2023. The total offer size of IPOs in Japan saw an impressive increase, exceeding 80% in growth compared to 2022. The size of the secondary share offering even rose by over 400% YoY.

This surge is indicative of a robust investment climate and investor confidence in the Japanese market, spurred potentially by strong corporate governance practices, as well as favorable monetary and government policies.

EVOLUTION AND IMPACT OF THE NEW NISA IN JAPAN'S INVESTMENT LANDSCAPE

The New Nippon Individual Savings Account (NISA) represents a significant advancement in Japan's investment scene. Designed to boost individual participation in the stock market, the New NISA introduces enhanced features and incentives for investors, marking a pivotal change in Japan’s approach to personal investments. This initiative reflects a strategic effort to deepen market engagement among individual investors. Here are the key aspects of the New NISA:

	CURRENT SCHEMES			NEW SCHEMES AFTER JANUARY 2024	
Type of NISA	General NISA	Tsumitate NISA		Growth Quota	Tsumitate Quota
Annual limits	JPY1,200,000	JPY400,000		JPY2,400,000 (doubled)	JPY1,200,000 (tripled)
Combination allowed?	NO. You need to choose either of them			Yes. You can use both simultaneously	
Period of tax benefits	5 years	20 years		No limits	No limits
Lifetime limits	JPY6,000,000 (=1.2 mil x 5 years)	JPY8,000,000 (=JPY0.4 mil x 20 years)		JPY18,000,000 Growth Quota limit: JPY12,000,000	
Recycle of limits	Not allowed			Allowed (if you sell, that amounts free up limits) *	
Investment options	Listed stocks, ETFs, REITs, and investment trusts	FSA selected investment trusts & ETFs		Listed stocks, ETFs, REITs, and investment trusts Restrictions will apply	FSA selected investment trusts & ETFs

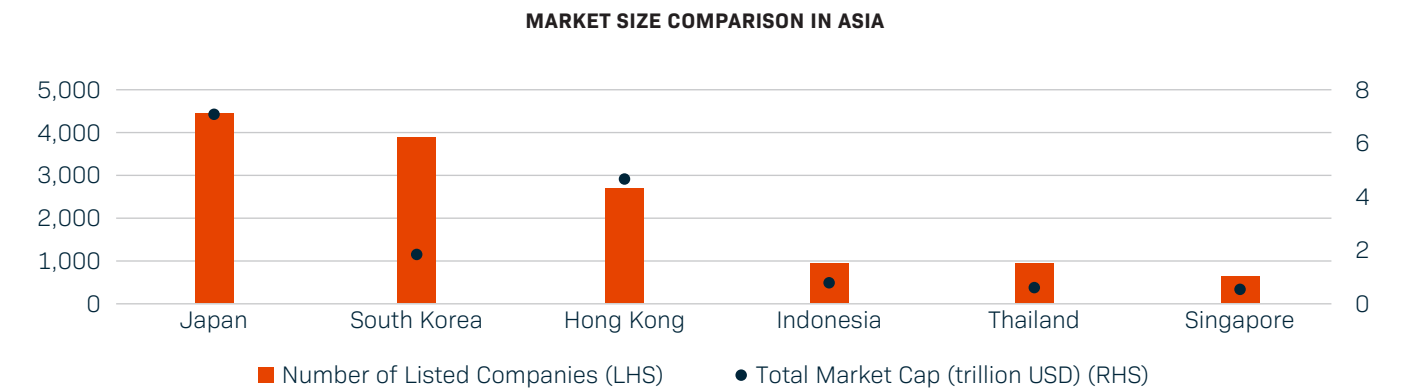
The New NISA program is strategically designed to boost household investments in the stock market. Addressing the challenges posed by Japan’s rapidly aging population and the need for enhanced domestic investment, this initiative aims to shift traditional bank savings into more effective investment channels. This redirection is expected to energize the investment landscape and offer new opportunities for personal financial growth.

The program has updated its annual investment limits to better accommodate different investor needs. The Tsumitate NISA, aimed at younger investors and those who prefer regular, smaller investments, now allows for a maximum of ¥1.2 million, up from the previous ¥400,000. For growth accounts, the cap has been increased to ¥2.4 million from ¥1.2 million, expanding the potential for larger investments. These changes are designed to make the program more accessible and appealing to a broader range of investors.

A standout feature of the New NISA program is the tax-exempt status offered on capital gains and dividends from investments within these accounts. This incentive is specifically structured to heighten the attractiveness of equity investment for retail investors, aligning with the program’s goal to widen participation in the stock market.

The introduction of the New NISA by the Japanese government marks a pivotal reform in its financial and investment framework. This initiative is aimed at enhancing domestic equity investments, broadening the scope of individual investment portfolios and contributing to the overall economic growth in Japan.

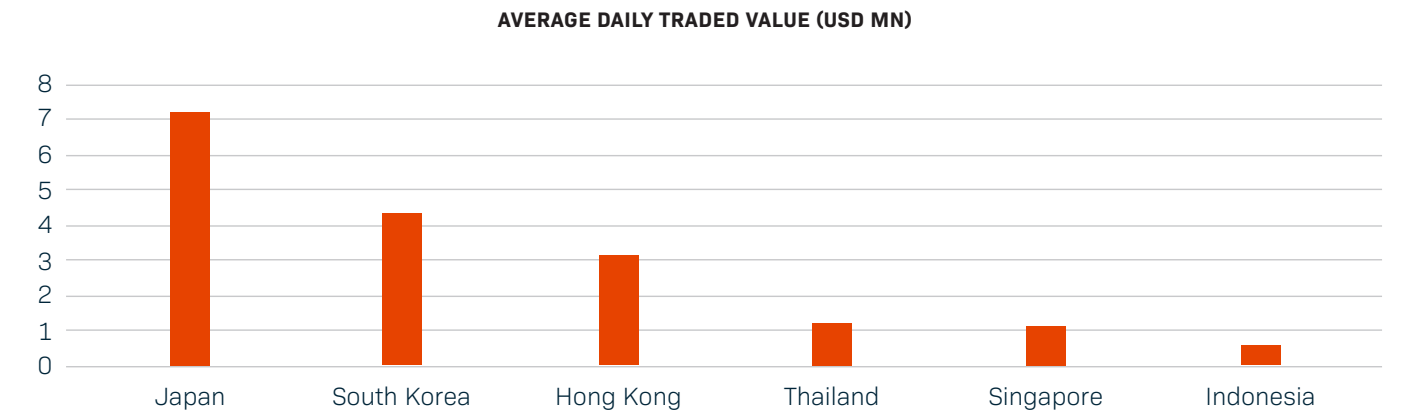
DOMINANCE IN ASIAN MARKETS



Japan’s stock market is one of Asia’s largest, featuring 4,415 listed companies, surpassing other Asian markets including Hong Kong (2,673 companies), South Korea (3,870), Singapore (639), Thailand (919) and Indonesia (950), as per data from Bloomberg as of 24 January 2024.

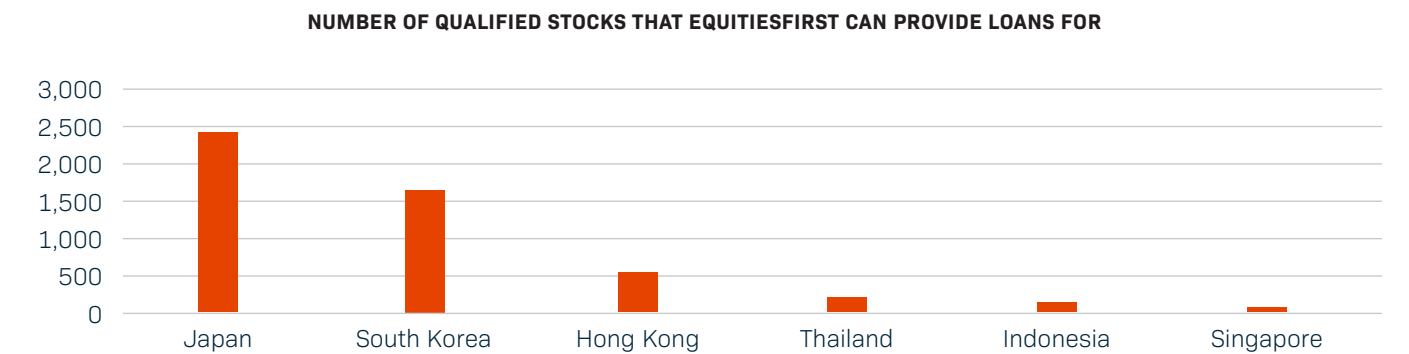
In terms of market capitalization, Japan’s market leads at USD7 trillion, significantly ahead of markets such as Hong Kong’s USD4.6 trillion, South Korea’s USD1.8 trillion, Singapore’s USD0.48 trillion, Thailand’s USD0.49 trillion and Indonesia’s USD0.73 trillion, as per data from Bloomberg as of 24 January 2024.

The sets of figures highlight Japan’s dominant position in the Asian stock market landscape.



Japan’s equity market is distinguished in Asia for its high average daily traded value of over USD7 million that reflects robust liquidity and shareholder value. Factors contributing to this include a substantial market cap and solid economic growth.

Additionally, Japan leads in share pledging potential, with over 2,400 stocks eligible for loans from EquitiesFirst, indicating its market size and activity. This compares significantly to Hong Kong, another prominent financial hub, which has over 550 qualified stocks.



ADVANTAGES OF EQUITIESFIRST'S LENDING APPROACH

Leveraging Japan's stock market's significant liquidity, EquitiesFirst offers loans to a substantial portion of over 2,400 qualified stocks in Japan. These loans are characterized by competitive interest rates and high loan-to-value ratios, averaging 60-70%, with a reasonable average margin call threshold. Unique features of EquitiesFirst's lending model include non-recourse loans, no requirement for personal guarantees, and flexibility for loan purpose. In cases of default, EquitiesFirst opts not to pursue repayment, which underscores the firm's commitment to providing adaptable financial solutions to its clients.

The convergence of economic growth, low inflation, a weak Japanese yen, strategic monetary policies, increased company share buyback and the new NISA program propelled Japan's stock market to a high level in 2023 and 2024 year-to-date. This performance also highlights the sensitivity of Japan's market to both domestic and international economic shifts, underscoring its dynamic nature in the global financial landscape.

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