

What can investors expect from Japan's new Prime Minister Yoshihide Suga?

Given that he is a close ally of his predecessor Shinzo Abe, Ellie Duncan asks whether we expect more of the same under Suga or will there be change?



Joe Bauernfreund

fund manager of the AVI Japan Opportunity Trust and AVI Global Trust

PRODUCTIVITY AND DIGITISATION

During former prime minister Shinzo Abe's eight years in office, the stockmarket in Japan has almost doubled, eliminating deflationary pressures that faced the Japanese economy. Abenomics has shifted the mind-set of corporate Japan in favour of the interests of shareholders.

Suga was Abe's right-hand man, involved and in support of many of his policies and if anything we expect him to be more market friendly. It is our belief Prime Minister Suga will only build on the progress that Abe has already successfully achieved but with an interest towards boosting productivity and digitisation.

The Japanese market has largely been ignored by foreign investors for some time as evidenced by the net outflows that have been negative for several years. The improvement in corporate governance and shareholder engagement has gone a long way to encourage greater focus on shareholder returns. Despite being slow, it is moving in the right direction and although Suga-San will continue on the same path, he may also introduce some of his own measures to speed this process along.



Russ Mould

investment director at AJ Bell

FOCUS ON COVID-19

Having been a firm supporter of Shinzo Abe, it seems likely that Yoshihide Suga will look to follow the path of social and economic reform, although his immediate priority is likely to be the global pandemic, where local dissatisfaction with the Abe administration's policy response seems clear. That may limit his room for manoeuvre, as may September 2021's Liberal Democratic Party leadership election.

Japan is cheap on a price-to-book basis, it is home to some world-class exporters and manufacturers and would benefit hugely from any global return to growth and inflation. As such, it remains the 'value' play that it has been for some time. At the moment, investors still seem more interested in 'growth' and 'momentum' styles, but Japan could really thrive if value and cyclical come back into fashion.

That said, not everyone will feel comfortable investing in a country where the Bank of Japan is so heavily involved in both the equity and bond markets, government debt makes aggregate deficits in the West look puny and long-term demographic trends are profoundly unhelpful. Japan still has its risks.



Yuko Takano

manager of the BNY Mellon Sustainable Global Equity fund

MAINTAIN STATUS QUO

We do not expect any drastic changes as a result of Yoshihide Suga becoming Prime Minister. He has been Shinzo Abe's right-hand man for the past eight years and has done an excellent job in the execution of many of Abe's policies. We believe he is best suited for the role in order to maintain status quo, which is what the country currently needs given the economic impact of Covid-19.

As is well known, Abenomics has changed many aspects of corporate Japan, which includes more focus on corporate governance, a willingness to boost shareholder return by focusing on return on equity, dividend hikes and share buybacks, as well as more diversity on boards. We believe Suga will continue ahead on the same path, which is positive for Japanese equities.

Suga is also focused on improving the rate of digitisation. This will be positive for Japan in terms of IT investment and modernisation of the digital infrastructure, which is quite outdated in both the public and private sectors. With Covid-19 requiring that more people work from home, it was a catalyst in accelerating this change.



John Vail

chief global strategist at Nikko Asset Management

MORE REFORMS

Yoshihide Suga is likely the most pro-Third Arrow reform Prime Minister in Japan's history. Indeed, [former PM] Junichiro Koizumi was highly committed to reforms in 2001-2006, but lacked the muscle and expertise to get much accomplished, whereas Suga is an expert in fighting bureaucratic resistance, and even that has declined since he and Shinzo Abe put so many allies in high-ranking positions during the past eight years.

More than anything else, his long-held commitment to reform, and the ability to implement such, is what Suga is famous for, even beyond his work ethic and policy expertise. Thus, his odds of success are very high if given enough time by the Liberal Democratic Party, which I expect to be the case.

In order to solidify his position, he must quickly deliver on some popular economic reforms and has likely already created a battle plan for a few.

Lowering mobile phone costs are first on the list, and as such will be the most popular with voters. Emphasis on the digitalisation of the economy and antiquated government services is also likely to be popular and, thus, next on the list.



Makiko Hakozaki

senior portfolio manager of the Japan Equity fund at Russell Investment

ABENOMICS 2.0

Yoshihide Suga has already announced his preference to continue to implement ultra-easy monetary policies. On the topic of proposed structural reforms, he made two notable comments which impacted the stockmarket. First, he cited the need for consolidation among regional banks, which boosted some banks' stock prices. In contrast, he re-emphasised a desire for more competition among mobile providers, which hit telecom carriers' stocks hard.

He also highlighted the issue of the government ministries' "vertically-divided administration", which is already well-known for causing various inefficiencies.

When assessing the current environment, the impact of Shinzo Abe's resignation will likely only result in a shift from Abenomics version 1.0 to 2.0, in my view.

However, the possibility of the new cabinet bringing in new policies such as a temporary VAT cut, or announcing new structural reforms, cannot be ruled out. I am comfortable maintaining our current portfolio positioning for now but, if the new policies prove supportive, I intend to add exposures to recent unrewarded areas of the market such as value and anti-momentum.

"Suga has already announced his preference to continue to implement ultra-easy monetary policies"



John Stopford

co-manager of the Ninety One Diversified Income fund

BUSINESS AS USUAL

While Shinzo Abe has stood down, Abenomics will clearly continue under Japan's new Prime Minister. This strategy is based on the 'Three Arrows' of bold monetary policy, flexible fiscal policy and a growth strategy which sought to improve productivity and research and development.

Although Yoshihide Suga's immediate challenge is dealing with Covid-19, the policy response is very much aligned with the first two arrows; the Bank of Japan has increased her balance sheet massively and the Ministry of Finance has implemented an enormous fiscal loosening.

Investors, however, will be hopeful the third arrow, which implies widespread structural reform of Japan, will be moved up the legislative agenda. If so, Japanese equities, which trade on relatively low valuations and decent yields, will be supported in the months ahead.

Prime Minister Suga's new cabinet suggest business as usual, with many of the previous incumbents being re-appointed. However, his campaign pledges were strongly pro-reform, with promises to establish a new digital agency, the restructuring of regional banks and small and medium enterprises, lowering mobile phone prices and taking steps to address Japan's low birth rate. If he manages to deliver on this, it suggests a step up in reform activity that will be seen positively by markets.

"Investors will be hopeful the third arrow, which implies widespread structural reform of Japan, will be moved up the legislative agenda"



Paul Hsiao

economist at PineBridge Investments

'KORUDANOMICS'

Yoshihide Suga has positioned himself very much as a continuation of Shinzo Abe, which is generally seen as a positive for Japanese risk assets.

More importantly, we are likely to see the continued presence of 'Korudanomics'. We expect the Bank of Japan to maintain its existing policies over the next six to 12 months and to act more in line with the economic cycle than the political cycle.

Under Governor Kuroda, whose term expires in 2023, the Bank of Japan has been a pioneer in aggressive monetary policy, buying an unprecedented amount of financial assets, embarking on yield curve control, and implementing a negative interest rate policy, which drew the roadmap for its central bank peers.

Given the Covid-19 overhang and mild Japanese yen appreciation this year, we do not expect the central bank to alter its extremely dovish policy settings in the intermediate-term of six to 12 months.

On the political front, we expect Suga's foreign policy to be very much in line with Abe's, aligning itself with the US. Suga has sought more stable relations with China, though he also was interested in diversifying Japanese production centres away from China as the risks mount from geopolitical tensions, as well as coronavirus-related.

"We do not expect the central bank to alter its extremely dovish policy settings in the intermediate-term of six to 12 months"



Reiko Mito

investment director, Japanese equities at GAM Investments

INCREASED DEREGULATION

In my view, we can expect a great deal from Prime Minister Yoshihide Suga. The advantage is he is pro-deregulation. He is keen to accelerate the digitalisation of the public sector, to implement deregulation in medicine and education, and to promote industry consolidation in order to boost the productivity of small- and medium-sized companies. In addition to legislating online medicine, he plans for fertility treatment to be covered via the existing universal insurance programme in Japan.

So far, Suga is known for having pressured mobile carriers into lowering telecom rates, relaxing the labour visa for foreign workers, and relaxing the tourism visa, which has boosted inbound tourism four-fold in seven years. Unlike Shinzo Abe, who has occasionally been criticised for taking nepotistic decisions, Suga is fair and neutral. He does not belong to any so-called "habatsu" which is a political inner circle within the party (the ruling Liberal Democrat Party is said to have eight habatsu at present), which bodes well for making drastic decisions against the lobbying activities of vested interests.

One of the areas Suga could make a bold decision is employment. Currently, the legal requirements for redundancy are extremely strict in Japan, which makes the labour market rigid and leads to younger generations being penalised by the seniority system.

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