



Suga quitting will be sweet for Japanese markets, say fund managers

By Jeremy Gordon / 03 Sep, 2021



The shock resignation of Japan's prime minister Yoshihide Suga after just a year in office sparked a rally that pushed Japanese stocks to a 30-year high and fund managers are bracing for further gains in expectation of a 'market-friendly' replacement.

Suga, who replaced longstanding premier Shinzo Abe last September, announced he would not run for re-election in this month's leadership race for the ruling Liberal Democratic Party (LDP) ahead of the country's general election which must be held by December.

A jubilant Nikkei 225 index jumped 2%, while the broader-based Topix benchmark rose as much as 1.7% to 2,017, reaching a level last seen in April 1991.

Nick Wood, head of fund research at wealth manager Quilter, said Suga's exit had 'surprised' the country even though his popularity had 'fallen significantly' in recent months. That was due to a sluggish Covid vaccination rollout, ploughing on with an unpopular

Olympics and the impact of the coronavirus response which has left many cities in Japan still in a state of emergency, the equivalent of lockdown.

Wood put the short-term market response down to hopes that a new leader might usher in more stimulus to bolster the economic recovery as well the LDP's improved electoral prospects.

'The question for investors is whether we move back to a period of more unsettled politics and the rotating premiership we saw in the years before Shinzo Abe took power in 2012 for an extended period,' he added.

[Archibald Ciganer](#), Citywire AA-rated manager of the [T. Rowe Price Japanese Equity](#) fund, said the exit was 'sudden' but unlikely to upend the dynamics driving the Japanese market.

'There is likely to be uncertainty, but importantly, the LDP – the party of Abe and Suga – remains very much in control, with the opposition in disarray. Public support for the reforms we want to see – such as the reforms formerly known as 'Abenomics' – remains strong,' he said.

Ciganer added that the market remains 'cheap', setting it up for a period of catch-up as the vaccination campaign progresses. He added it remains 'closely aligned to the global economy', effectively acting as a proxy for the broader world recovery.

Reforms begun under Abe include an overhaul of corporate governance, encouraging companies to put dormant cash on their balance sheets to work and improve shareholder returns through higher dividends.

Asset Value Investors' Joe Bauernfreund, part of a group of foreign activists who are trying to drive forward that trend, agreed that change was a good thing for markets after a disappointing response to Covid. His £1bn **AVI Global** ([AGT](#)) investment trust has invested increasingly heavily in the country and he launched another trust, **AVI Japan Opportunity** ([AJOT](#)), in 2018 as a dedicated vehicle to back Japanese smaller companies.

'To the extent that political change will lead to renewed efforts to get the economy back to normal and to provide more economic stimulus, we think this will be a positive for markets, and may well be the catalyst needed to encourage foreign capital flows to take advantage of remarkably attractive valuations in the country,' he said.

'At the same time, in order to sustain the momentum of positive sentiment, the next leader needs to come up with a strong signal to the market, especially for the foreign investors, that corporate Japan is going to change.'

Bauernfreund said Suga's replacement needs to improve the dynamics of the labour market, productivity and rejuvenate legacy IT systems, which had been an early priority of Suga's.

[Jupiter Japan Income](#) fund manager [Dan Carter](#) downplayed the significance of politics to the Japanese market, but said both leading candidates in the race to be next prime minister – Fumio Kishida and Taro Kono – were both likely to be well-received by markets. In particular, the fluent English-speaking, US-educated Kono would 'likely be a market darling'.

'An unpopular leader of a struggling party does nobody any good. Far better that Japan is rolling the dice again,' said Citywire AA-rated Carter.

'A new leader will, for a time at least, be able to wield some significant political power. That it seems likely that they might do so in a market-friendly manner is a bonus.'