

Cumberland Advisors Market Commentary – Opportunities in Japan for Global Equity Investors

The Bank of Japan at its October 30–31 Monetary Policy Committee meeting kept its policy unchanged while indicating it was willing to lower interest rates further into negative territory from their current low levels if needed to maintain progress towards the 2% inflation objective.



he decision not to cut rates at this time was based on the Bank’s belief that the Japanese economy is strong enough to get through the current period of weak global demand. The economy has indeed encountered a “speed bump” that can be attributed to the rise in Japan’s sales tax from 8 to 10 percent on October 1, the major typhoon Hagibis, and the global slowdowns in trade and manufacturing. In addition, economic growth across the Asia region has been weakened by the US-China trade war.

According to the Jibun Bank Flash Japan Composite PMI (Purchasing Managers Index) reported by Markit, the Japanese

economy slipped into contraction in October. Manufacturing new orders declined at the steepest pace in almost seven years, while “the service economy exhibited a remarkable degree of resilience.” The consumer sector has been one source of support for the economy as wage growth has been supported by labor shortages. Retail sales surged by over 9% in September in anticipation of the sales tax increase but appear to have fallen off in October. The labor shortages together with capacity constraints have also encouraged business investment.

The OECD notes that, despite the current slowdown, the expansion of the Japanese economy that began in late 2012 is the longest in Japan’s postwar history and is projected to continue through 2020. The Bank of Japan’s forecast is similar, with a pick-up in growth expected in Japan’s fiscal year 2021. Continued supportive monetary policy with very low interest rates and large-scale government bond purchases, together with increased public investment and spending to offset the effects of the sales tax increase, are expected to maintain the expansion. The new US-Japan trade deal and the anticipated elimination of the threat of US automobile tariffs are positive developments. If the current optimism about progress in trade talks between the US and China proves to be justified, Japan’s economy would benefit significantly from the positive effects on the Asia region.

The sustained positive, though modest, expansion of the Japanese economy (the third largest economy in the world) is a stabilizing force for the global economy. The economic policies of Prime Minister Shinzo Abe and the monetary policies of the Bank of Japan under governor Haruhiko Kuroda deserve credit for this performance. Among the important reforms that have been undertaken since Mr. Abe’s accession to power in late 2012 are efforts to increase the participation of women in the workforce. As investors, we appreciate Japan’s ongoing corporate governance reforms. The Financial Times reports that “Among listed companies, the proportion of

independent board members has climbed, cash returns to shareholders have surged, and return on equity has almost doubled over the past five years.”

Investors have available a wide range of US-listed ETFs for Japanese stocks. According to ETF.com, there are currently some 28 Japanese equity market ETFs, including six that are leveraged. A number of the ETFs are relatively small, but there are nine with assets under management (AUM) of more than \$100 million. The largest by far, with AUM of \$13.22 billion, is the iShares MSCI Japan Total Market ETF, EWJ, which tracks a market-cap-weighted index of the investible universe of securities traded in Japan. It excludes the smallest 15% by market cap.

The Japanese stock market is performing well compared to the global market excluding the US. The 3-month and year-to-date November 5 total return gains for EWJ were 13.32% and 18.92%, respectively. The corresponding returns for the iShares MSCI All Countries ex US ETF, ACWX, were 9.97% and 17.18%.

Among the many other Japanese ETFs, we are watching the iShares JPX-Nikkei 400 ETF, JPXN, which since September 4, 2015, has tracked the JPX-Nikkei Index 400. This index selects Japanese companies based on measures of efficiency in the use of capital and profitability and other qualitative factors relating to governance and reporting standards. JPXN has AUM of \$104.68 million. ETF.com gives JPXN a tradability score of 4 in a range of 1 to 5. Its performance this year is very close to that of EWJ, with a year-to-date total return of 18.73%. It will be interesting to see if, going forward, the qualitative factors underlying this ETF lead to outperformance.

Bill Witherell, Ph.D.

Chief Global Economist & Portfolio Manager

[Email](#)

[Bio](#)

Sources: Financial Times, OECD.org, Jibun Bank, Markit, ETF.com

Cumberland Advisors is pleased to announce that registration is now open for our annual conference, “Financial Markets and the Economy – Fourth Annual Financial Literacy Day”, at the University of South Florida Sarasota-Manatee (USFSM). We plan a deep dive into the Bond Market where we’ll examine the categories of debt and the influences on them including budget deficits and larger issues like central bank QE and its impacts on interest rates for this debt. We’re also featuring a discussion about Real Time Payments (RTP) to include Bitcoin, Libra, Venmo and other versions of electronic money. Our conference wraps with a Keynote Speech from Loretta Mester, President of the Federal Reserve Bank of Cleveland.

If you’re interested in learning more about financial markets and the economy (and escaping the snow for our friends in northern climes), please join us on Friday, February 14, 2020 in Sarasota, Florida. Information and registration here: <https://www.interdependence.org/events/browse/fourth-annual-financial-literacy-day/>

Links to other websites or electronic media controlled or offered by Third-Parties (non-affiliates of Cumberland Advisors) are provided only as a reference and courtesy to our users. Cumberland Advisors has no control over such websites, does not recommend or endorse any opinions, ideas, products, information, or content of such sites, and makes no warranties as to the accuracy, completeness, reliability or suitability of their content. Cumberland Advisors hereby disclaims

liability for any information, materials, products or services posted or offered at any of the Third-Party websites. The Third-Party may have a privacy and/or security policy different from that of Cumberland Advisors. Therefore, please refer to the specific privacy and security policies of the Third-Party when accessing their websites.

Sign up for our [FREE Cumberland Market Commentaries](#)

Cumberland Advisors Market Commentaries offer insights and analysis on upcoming, important economic issues that potentially impact global financial markets. Our team shares their thinking on global economic developments, market news and other factors that often influence investment opportunities and strategies.