Market Development

The Japanese market declined in October, following a sharp appreciation the previous month, due to the sudden announcement from former PM Suga that he would not run in the next LDP presidential election, and will not participate in the next general election.

In September, Japan’s imports and exports rose 39% and 13% YoY respectively, mainly due to rising oil and coal prices. In October, Mining, Nonferrous Metal and Wholesale sectors performed well, whilst the Air Transportation, Electric Power & Gas and Pharmaceutical sectors underperformed. The Electric Appliance and Machinery sectors, which are Japan’s future economic drivers, showed moderate positive returns over the month. In this context, Japan still has growth potential, even though it faces rising input costs and an uncertainty of demand. The Auto industry, which slowed its production due to a shortage of IC chips, showed positive returns for the month.

Market Outlook

Japan’s General Election, held on 31st October 2021, resulted in victory for the LDP and Komei parties, which guaranteed the current coalition government to remain in power for the next four years.

In early November, Toyota announced that they would increase their monthly car production. The same will be the case for global auto manufacturers, as the tightening of the IC supply becomes less of a problem. The Auto industry, which is one of the largest industries in Japan, has slowed its production due to the shortage of IC chips in recent months, meaning the news from Toyota has been welcomed by many investors.

In addition, the spread of COVID has slowed down dramatically in the last few months, particularly in urban areas of Japan, allowing people to eat and drink out.

PM Kishida and his cabinet will create a supplemental budget soon, to support people impacted by COVID. In this context, Japan’s economy should gradually recover toward the end of current fiscal year, which will end in March 2022. The market is now focusing on the possibility of higher oil prices and US interest rates, which were a trigger of the flash crash in February 2021. We believe the market will see an uplift in the Japanese economy which should continue to appreciate for the time being. We are watching the domestic economy carefully will and maintain the current portfolio.

Portfolio Development

JTOWER Inc. (4485), engages in the design and construction of information communication infrastructure and performed well in October, leading the portfolio’s return. JTOWER’s services include mobile infrastructure sharing services, equipment development and operation and maintenance. JTOWER also announced a capital tie-up with Rakuten Mobile that is ranked fourth in the domestic mobile communication market. JTOWER currently has a low ESG rating, but we have been communicating with them and the company has a positive attitude with regards to improving this situation. We believe it is very likely that JTOWER will become the market leader in the mobile communication service industry within Japan. In addition to this, the company’s attitude to improve their ESG rating will soon mark them as a widely investable stock.
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