Zimmermann, Lemanik: Japanese market is the most attractive among the developed ones

China’s real estate crisis remains a drag on its growth, while exports may be exposed to geopolitical deterioration in Europe

Press release dated March 9, 2022 – “In the current environment, we consider Japanese market valuations in the medium to long term to be very attractive both because of the potential for regional growth and the possibility of a revaluation of the Japanese stock market closer to the levels of other developed markets.” This is the analysis of Marcel Zimmermann, manager of the Lemanik Asian Opportunity fund.

The invasion of Ukraine by Russian forces and the immediate and massive sanctions on the aggressor by the EU, US and other countries have put the financial world on an unpredictable path. We don’t yet know what effect the sanctions will have on global supply chains, consumer sentiment, and inflation. However, the Asian Development Bank forecasts regional growth of 5.3% in 2022: **this is higher than Europe and the United States**.

In 2021, the most important global free trade pact, the Rcep, was signed, covering 30% of global GDP and nearly a third of the world’s population. **This pact will boost a diversification of supply chains** that is currently highly concentrated in China to South East Asian countries and opens a great investment opportunity for Japan, South Korea and Asean countries as well.

The **Japanese stock market has the most attractive valuations** among developed markets, both in terms of intrinsic value and corporate debt. Low debt gives companies more room to handle times of financial and/or geopolitical stress. It should also

be considered that with high geopolitical and economic uncertainty, visibility and forecasts on earnings and sales become poor. In this uncertain environment, low enterprise value and modest debt are key criteria for evaluating a company.

Another point in Japan's favor concerns the expectation of rising inflation, although this is a double-edged sword. On the one hand, inflation reduces purchasing power which is clearly a negative factor, but corporate valuations below intrinsic value are also a type of inflationary protection. This is also why the market is currently moving more towards the value segment.

"Against this backdrop, **we have continued to reduce our exposure to China**. The real estate crisis in the country remains a drag on its growth, while exports could be exposed to the geopolitical deterioration in Europe," Zimmermann concludes. "The weighting in technology has been further reduced in favor of the Japanese value segment. Low fundamental valuations in Asia, particularly in Japan and China, should help to partially mitigate the higher global risk profile. Finally, we are watching the movement of the euro closely: a further geopolitical deterioration in Europe would be negative and signal a **partial unwinding of the currency hedge against the yen, Hong Kong dollar and US dollar**."

Hutong in Shanghai. Author: Steve Long

Marcel Zimmermann

Marcel has over 30 years of experience in the financial industry in the analysis of financial markets, financial instruments and currencies with a specialisation in Asian equity markets.
Marcel has in-depth knowledge of the Asian equity market, both its emerging and developed components, including Japan.

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