

Japan Investor Survey: Abe to Stay

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Now that the new fiscal year has started in Japan, what do Japanese investors and asset allocators think about the major issues facing domestic and global markets? To get beyond the anecdotal, we conducted a survey among Japanese investors—i.e., a relatively broad range of local investors, including public and private pension managers, fund managers, asset allocators and some private wealth advisors.

With the recent plunge of Prime Minister Shinzo Abe's popularity, a most interesting result was that 70% of the Japanese investors surveyed still expect Abe to remain in office after the September 2018 Liberal Democratic Party (LDP) presidential election. Only 30% expect a new prime minister by the fall.

Who would be the best leader to succeed Abe?

There appears no clear-cut winner, although Fumio Kishida with 40% and young Shinjiro Koizumi with 30% are the most popular by a significant margin. LDP strongman Shigeru Ishiba received a mere 15% and current Foreign Minister Taro Kono got 10%. In my opinion, this balance may shift more in favor of Kishida if he succeeds Taro Aso as the next finance minister.

What about monetary and fiscal policy?

I was somewhat surprised how divided Japanese investors are on the next hike in the consumption tax: 42% do not think the hike will go through as planned (current legislation stipulates a hike from the current 8% to 10% in October 2019). I thought the tax hike is a done deal, but it looks like one result of the new political uncertainty in Japan is that some hopeful successor to Abe—or maybe even Abe himself—may propose another delay in the unpopular tax hike in order to boost popularity. Expect the debate to intensify as we move toward the LDP presidential race in September, and then the actual 2019 budget negotiations (which start in earnest in October).

The Timing of the Bank of Japan's First Hike

On monetary policy in general—and the timing of the BOJ's first hike in the 10-year Japanese government bond target in particular—investors appear very divided: while 30% expect no rate hike before the 2020 Tokyo Olympics, 27% look for a hike between December 2018 and March 2019. Twelve percent are more aggressive and expect a first move by October this year, but the “consensus clusters” are definitely around spring 2019 and “not before the Olympics.” As such, this result actually suggests a relatively successful communications strategy from the BOJ.

Politics

Geopolitical tensions are high on investors' agendas, with the upcoming Trump-Kim summit on North Korea an immediate focus. What will the summit do for markets? Fifty percent expect a positive impact for Japanese equities, while for global equities, only 42% expect the summit to be a positive catalyst. Still, only a small minority expects a negative outcome (8% for global markets, 10% for Japanese equities). In terms of currency impact, 42% expect yen weakness, 16% yen strength and 42% no impact on the currency from the upcoming summit.

U.S. Recession Risk

Finally, we asked about U.S. recession risks in 2019. While a strong one-third of respondents judge recession risks to be low (below 15%), 43% see a 30% recession risk and another 20% see a 50% chance of U.S. recession. Only 4% see a greater than 50% risk of recession. Clearly, only a small minority of Japanese investors are preparing for a base-case U.S. 2019 recession scenario, but the alertness to recession risk appears to have increased.

1) Do you think Shinzo Abe will still be prime minister in October 2018—i.e., after the LDP presidential election?

Yes: 70% No : 30%

2) Who, in your personal opinion, would be the best leader to succeed PM Abe (for positive impact on Japan finance and economy)

Kishida: 40% Koizumi: 30% Ishiba: 15% Kono: 10% Noda: 3% Other: 2%

3) Do you think the next hike in the consumption tax from 8% to 10% will go through as planned for October 2019?

Yes: 58% No: 42%

4) When do you think is the earliest that the BOJ will raise the zero-rate target for 10-year JGBs?

Before October 2018: 12% By December 2018: 7% By March 2019: 27%

By June 2019: 5% By December 2019: 19% Not before 2020 Tokyo Olympics: 30%

5) For the upcoming Trump-Kim meeting, what do you predict the result will be?

For Global Equities: Positive: 42% Negative: 8% Neutral: 50%

For JapanEquities: Positive: 50% Negative: 10% Neutral: 40%

For the Yen: Strength: 16% Weakness: 42% Neutral: 42%

6) For the U.S. economy, how high do you think the risk of a recession will be in 2019?

Less than 15%: 33% Around 30%: 43% Around 50%: 20% Greater than 50%: 4%

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