2025/03/12
Japanese stocks are underperforming.
Japanese stocks have a high positive correlation with U.S. stocks, but are relatively weak.

Japanese stocks are heavily influenced by U.S. stocks, but they have underperformed U.S. stocks, making this a good time to buy.

First, the U.S. economy is beginning to show signs of collapse.
Tariffs are already having a negative impact on consumers.
The delinquency rate for U.S. consumers is at an all-time high.
The University of Michigan Consumer Confidence Index also shows a polarization of consumers, with lower income consumers suffering.
The February employment report appears solid at first glance, but there are a number of causes for concern.
The labor participation rate declined, the U6 unemployment rate, which is linked to the normal unemployment rate (U3), rose, and average hourly earnings fell in real terms.

The Nikkei 225, which is heavily weighted by AI-related stocks, is down sharply due to this breakdown in the U.S. economy and the M7's more than 10% decline since the beginning of the year.
(The TOPIX as a whole is limited lower.)
The Bank of Japan's interest rate hike has caused long-term interest rates to rise, weighing on Japanese equities.
Furthermore, fears of a U.S. recession and a narrowing interest rate differential due to higher interest rates have caused the yen to strengthen, which has also weighed on Japanese equities, which are heavily weighted toward export-related stocks.
Speculators at the IMM, a division of the CME, have the largest overbought yen position since October 1992.
In addition, the real estate slump in China is driving exports, and Japanese companies are losing out on competitiveness.
This situation has led foreign investors to sell Japanese stocks.

However, valuations for Japanese stocks are attractive.
The PER is 13x, which is below the level of the past 10 years and much lower than the 21x of U.S. stocks.
We do not see any factors that would cause U.S. stocks to plunge in the short term, and this may be a good time to buy Japanese stocks at a push.

However, the medium- to long-term economic situation in the U.S. under the Trump administration, which continues to pursue tariffs and isolationism, is too uncertain.
Since there is a strong positive correlation between U.S., Japanese, and European equities, investors should prepare for a good combination of safe assets such as other U.S. Treasuries, a strong Swiss franc, and gold, as well as defensive stocks and the Hong Kong market.

As for future market concerns, the arrest of former Philippine President Durte by the ICC and his extradition to The Hague is likely to put a damper on peace in Ukraine, and the prospect of a prolonged period of Netanyahu's intransigence in the Middle East is likely to weigh on the market.