



**CIO Insights**

**Cusson Leung, Chief Investment Officer**

# **Japan's 20% Rally Amidst Global Shock**

*Demystifying Our Positive View On Japan*

30 April 2026



# The Nikkei 225 Was up 20% YTD

This Was Significant as Compared to the Single-Digit Performance of the US Stock Market

NKY Index

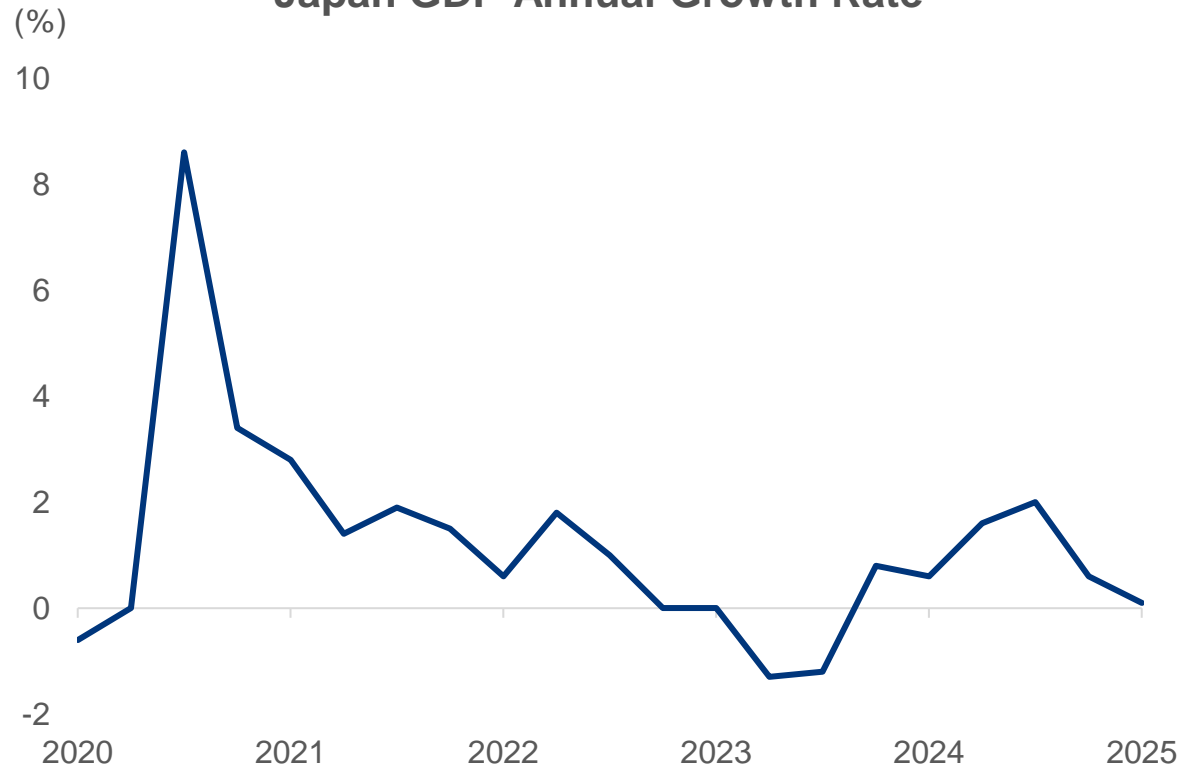


Source: Bloomberg, KGI

# Japan Economy: Looking Forward vs. Looking Back

## Leading Economic Index Hits a Multi-Year High of 112.4 Even as GDP Growth Cools to 0.1%

### Japan GDP Annual Growth Rate



Source: Bloomberg, KGI

### Leading Economic Index

Rose to **112.4** in February 2026 – highest since August 2022 – signalling underlying optimism in the months ahead.

### GDP Growth

Q4 2025 GDP expanded just **0.1% YoY**, easing from 0.6% in Q3 2025, as manufacturing faced temporary disruptions.

### Consumer Confidence

Climbed to its highest level since April 2019 following Tokyo's large-scale stimulus rollout in late 2025.

### Labor Market

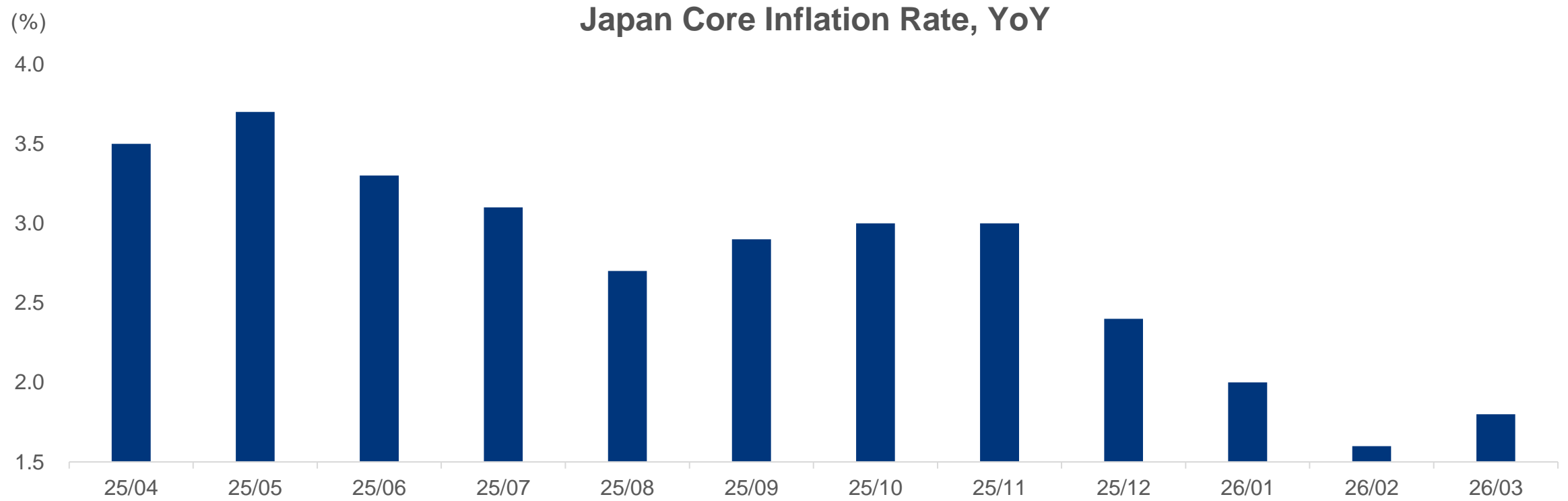
Unemployment declined to **2.6%** in February 2026; employment rose by 10,000 to 68.27 million – structural tightness persists.

# Japan Inflation – Not Imminent but Could Be a Risk

## Looking Through an Oil Price Shock

■ The impact of the War in the Middle East: The transport cost jumped **2.1% YoY** in March, the fastest increase in four months, directly reflecting the Strait of Hormuz disruption.

■ The Risk is that rising costs are "cost-push" (energy/imports), not "demand-pull" (consumption). This threatens to squeeze household budgets and dampen private consumption.

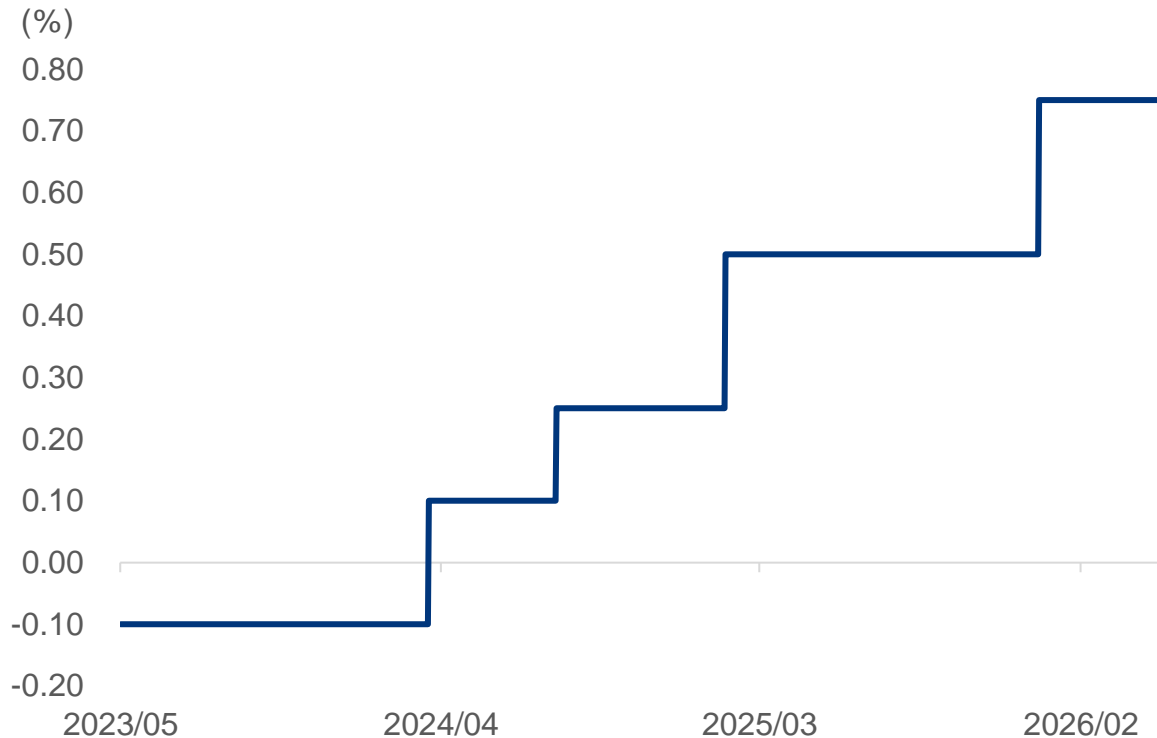


Source: Bloomberg, KGI

# Long Bond Yield Is Rising on Unsustainable Fiscal Health

**Fiscal Measures: 1) Consumption Tax Cut; 2) Defense and Tech Spending Expansion. This Follows the US Fiscal Formula - Positive for Equity and Negative for Bonds**

### Japan Interest Rate (BoJ Policy Rate)



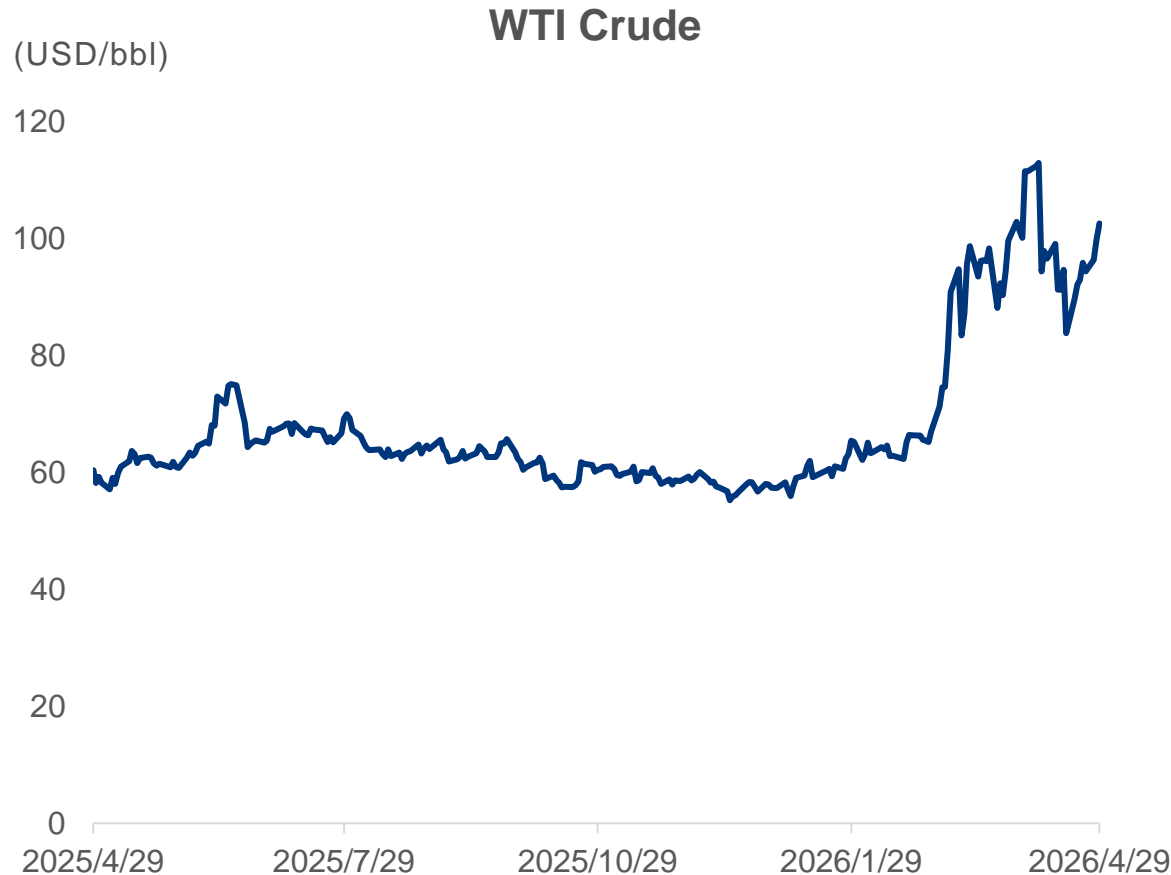
### Japan 10-Year Government Bond Yield



Source: Bloomberg, KGI

# Middle East Conflict Hits Japan's Achilles Heel

## Japan Is the World Most Energy-Import-Dependent Major Economy



Source: Bloomberg, KGI

### Japan's Dependence

Japan imports ~90% of its energy needs. Middle East sources account for the majority of oil and LNG imports.

### Transport Costs

Jumped **2.1% YoY** in March 2026 – the fastest increase in four months, reflecting higher fuel costs.

### Government Subsidies

Gasoline price caps (¥170/litre) are straining fiscal resources.

### Economic Drags

Rising fuel costs act as a "tax" on industry and consumers, compressing corporate margins and household real incomes.

# Opportunities in Energy Logistics, Nuclear, and Renewables

## ■ The Strategic Shift

Japan is actively diversifying away from Middle East oil and LNG routes, increasing coal imports from Australia and investing in non-Middle East LNG projects (Canada, Mozambique, Papua New Guinea).

## ■ Nuclear Restart Program

The Takaichi administration is accelerating nuclear restarts as a key pillar of energy security. Several idled reactors are in the approval pipeline.

## ■ Renewable Infrastructure

Government-backed investment in offshore wind and solar is scaling rapidly, with significant foreign direct investment (FDI) flowing in.

## ■ Investment Opportunities

Companies involved in energy logistics, LNG infrastructure, nuclear operations, and renewable energy are seeing increased government backing and strategic capital flows.

## ■ Key Beneficiaries

**JERA** – LNG infrastructure and procurement

**Tokyo Electric Power** – Nuclear operations

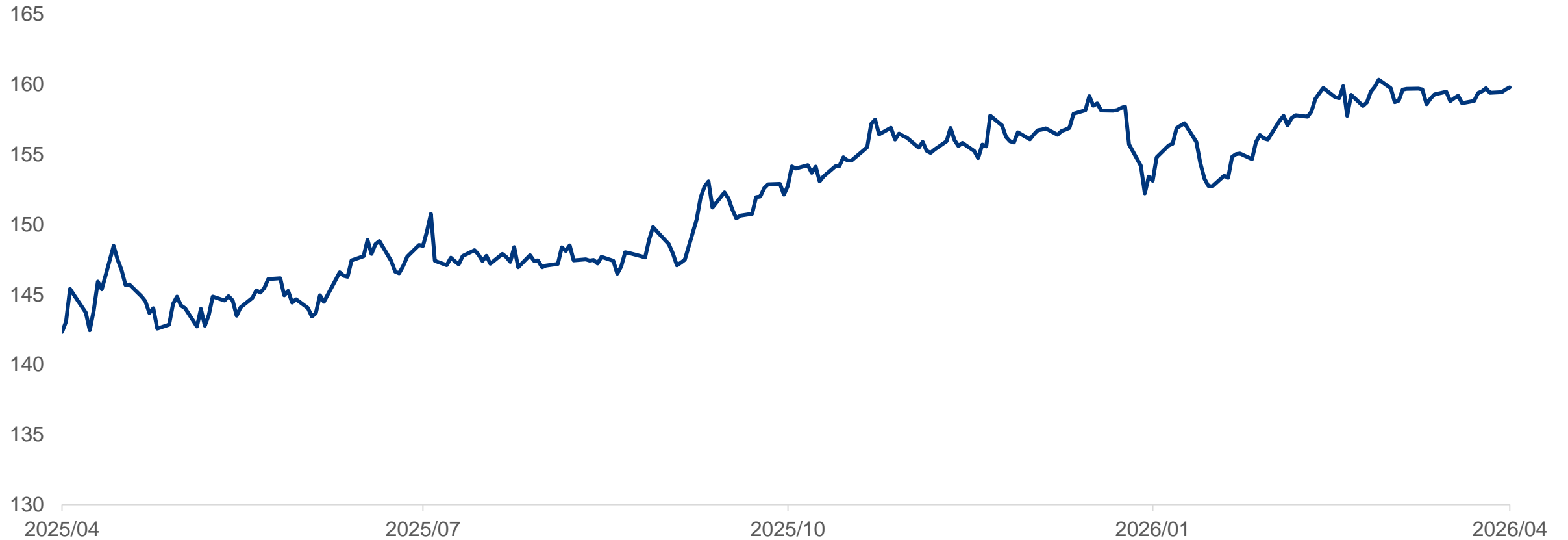
**Mitsubishi Heavy Industries** – Nuclear and energy systems

**Mitsui & Co.** – Global LNG projects

# Yen Is the Perfect Showcase of “The Art of Balance”

**It Is a Reflection of Inflation, Domestic Consumption, External Trade and Fiscal Concerns**

USD/JPY



Source: Bloomberg, KGI

# BoJ Is Likely to Be On Hold; Negative Real Rate Remains

## Verbal Intervention From Further Weakening in the Yen

### ■ **The Energy-Inflation Trap**

Rising oil prices are driving cost-push inflation, creating a dilemma where raising interest rates would fail to lower energy costs but would likely stifle Japan's fragile economic recovery.

### ■ **BoJ's Wait-and-See Approach**

Despite inflationary pressures, the Bank of Japan is expected to "look through" temporary energy price spikes and maintain stable interest rates for the immediate future.

### ■ **Steepening Yield Curve**

Fiscal concerns and rising term premiums are pushing up long-term bond yields, leading to a projected steepening of the Japanese yield curve.

### ■ **Export Benefits vs. Import Costs**

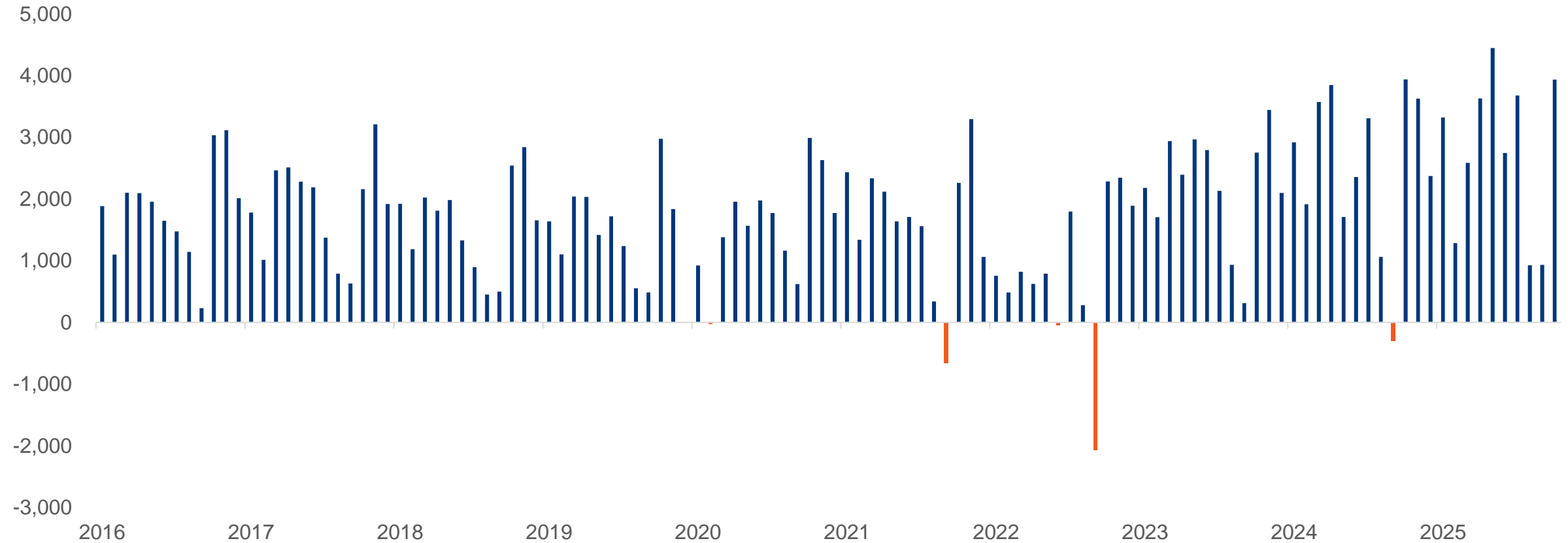
While a weak Yen bolsters the export sector, it simultaneously threatens to aggravate imported inflation, forcing the government to rely on verbal interventions to stabilize the currency.

# Long-time Current Account Surplus in Japan

The Active Buying of the US Treasuries Instead Reflects BoJ's Intention to Keep the Yen Weak

## Japan Current Account Balance

(JPY Billion)



Source: Bloomberg, KGI

# Favorable Liquidity With Ongoing Corporate Reform

## Japan Is the Largest Investable Market in Asia

- **TSE "Cost of Capital" Mandate:** The Tokyo Stock Exchange (TSE) is aggressively pressuring companies trading below a Price-to-Book Ratio of 1.0 to disclose and execute "revaluation plans." As of April 2026, over 71% of Prime Market companies have updated their disclosures, shifting management focus from simple sales growth to capital efficiency and Return on Equity (ROE).
- **Record Shareholder Returns:** The "cash hoarding" culture is breaking. Japanese companies set a near-record share buyback limit of ¥17.8 trillion for the current cycle. Combined with rising dividend payouts – up 38% over the last five years – Japan is transitioning from a "value trap" into a consistent source of total shareholder return.
- **Dissolution of Cross-Shareholdings:** Long seen as a barrier to hostile takeovers and efficiency, the "parent-child" listing structure and mutual shareholding webs are being dismantled. This is freeing up massive amounts of "trapped" capital and making Japanese boards more accountable to independent, global investors.
- **The M&A and Activism Surge:** Japan has become the most active market for shareholder activism in Asia. With new government guidelines favoring unsolicited bids, the market saw a record \$180B in M&A deal value recently. This "market for corporate control" ensures that underperforming management teams can no longer ignore the stock price without risking a takeover or a "take-private" private equity buyout.

# Investment Strategies

## ■ Re-rating to Continue

The Japanese market has been re-rated to about 22x forward PE as compared to its historical trading range of 12-14x during a deflationary economy. We believe the re-rating will continue driven by the ongoing corporate reform and the regaining of pricing power to the corporate sector.

## ■ Industrials – The Automation Play

Japan's working-age population is shrinking at an accelerating rate. Japanese companies are global leaders in robotics and factory automation. Domestic and global demand for labor-saving technology is a secular growth story unaffected by short-term macro cycles, e.g. Fanuc (6954.T), Keyence (6861.T), Yaskawa Electric (6506.T)

## ■ Defense – Record Order Books

Under the Takaichi administration's 2% GDP defense commitment, domestic defense contractors are seeing record order books. Japan's Self-Defense Force is modernizing rapidly, e.g. Mitsubishi Heavy Industries (7011.T), Kawasaki Heavy Industries (7012.T), IHI Corporation (7013.T)

## ■ Semiconductors – The Safe Harbor

Japan is repositioning as a trusted hub for advanced chip manufacturing, attracting massive FDI, e.g. Tokyo Electron (8035.T), Shin-Etsu Chemical (4063.T)

## Disclaimer and Important Notice

**Hong Kong:** The information contained in the document herein is confidential and is not intended for general public distribution or for use by any person or entity located or residing in any jurisdiction which restricts the distribution of such information by KGI Asia Limited ("KGI") or any affiliate of KGI. Re-distribution of the document herein and any part thereof by any means is strictly prohibited. Such information shall not be regarded as an offer, invitation, solicitation or recommendation to invest in or sell any securities or investment products to any person or entity in any jurisdiction. The above information (including but not limited to general financial and market information, news services, market analysis and product information) is for general information and reference purpose only and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd. Such information is not intended to provide investment advice and should not be relied upon in that regard. You are advised to exercise caution, and if you are in any doubt about such information, you should seek independent professional advice.

You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided herein. In all cases, anyone proposing to rely on or use the information contained herein should independently verify and check the accuracy, completeness, reliability and suitability of the information. Simulations, past and projected performance may not necessarily be indicative of future results. Information including the figures stated herein may not necessarily have been independently verified, and such information should not be relied upon in making investment decisions. None of KGI, its affiliates or their respective directors, officers, employees and representatives will be liable for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind) suffered or incurred by any person or entity due to any omission, error, inaccuracy, incompleteness or otherwise, or any reliance on such information. Furthermore, none of KGI, its affiliates or their respective directors, officers, employees and representatives shall be liable for the content of information provided by or quoted from third parties.

Complex Products refers to an investment product whose terms, features and risks are not reasonably likely to be understood by a retail investor because of its complex structure. Investors should exercise caution in relation to complex products. Investors may lose the entire amount or more than the invested amount. For complex products with offering documents or information not reviewed by the Hong Kong Securities and Futures Commission (SFC), investors should exercise caution regarding the offer. For complex products described as SFC-approved, such approval does not imply official endorsement, and SFC recognition does not equate to a recommendation or assurance of the product's commercial viability or performance. Past performance data, if provided, is not indicative of future performance. Some complex products are only available to professional investors. Before making any investment decisions, investors should review the offering documents and other relevant information to understand the key nature, features, and risks of the complex products. Independent professional advice should be sought, and investors should have sufficient net assets to bear the potential risks and losses associated with the product. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers, employees and representatives may from time to time have a position in any securities mentioned herein.

Bond investment is NOT equivalent to a time deposit. It is NOT protected under the Hong Kong Deposit Protection Scheme. Bondholders are exposed to a variety of risks, including but not limited to: (i) Credit risk - The issuer is responsible for payment of interest and repayment of principal of bonds. If the issuer defaults, the holder of bonds may not be able to receive interest and get back the principal. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer; (ii) Liquidity risk - some bonds may not have active secondary markets and it would be difficult or impossible for investors to sell the bond before its maturity; (iii) Interest rate risk – When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If you want to sell your bond before it matures, you may get less than your purchase price. Do not invest in bond unless you fully understand and are willing to assume the risks associated with it. Please seek independent advice if you are unsure.

All investments involve risks. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Prices of securities and fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein (in particular those associated with investments in emerging markets for funds investing in emerging markets)) in detail before making any investment decision. You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

**Singapore:** This document is provided for general information and circulation only, and is not an offer or a solicitation to deal in any securities or to enter into any legal relations, nor an advice or a recommendation with respect to any financial products mentioned herein. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should ensure that you understand the risk(s) involved and should independently evaluate particular investments and consult an independent financial adviser before making any investment decisions. All information and opinions contained herein is based on certain assumptions, information and conditions available as at the date of this document and may be subject to change at any time without notice.