

# Allianz

# Japan Equity

## Monthly commentary

### Investment Objective

The Fund aims at long-term capital growth by investing in equity markets in Japan.

### What Happened in November

The Japanese equity market eased slightly over November as the threat of higher tariffs following Donald Trump's victory weighed on sentiment.

After the US presidential election, while expectations of economic stimulus from the new Trump administration's fiscal spending boosted the market, concerns about the adverse impact of tariffs weighed on sentiment. Japan's preliminary real gross domestic product (GDP) rose 0.9% year-on-year (YoY) on an annualised basis in Q3. Although it slowed from the 2.2% YoY annualised increase from the previous quarter, recovery of private consumption supported Q3 growth. Minutes of the Bank of Japan (BoJ) October Monetary Policy Meeting suggested the central bank expects to continue to raise rates gradually. Expectations are growing that the BoJ will likely raise rates again in December or at the latest, the start of 2025.

In terms of sectors, Financials outperformed significantly due to positive expectations for BoJ's rate hike in the near term. On the other hand, Health Care and Utility sectors underperformed instead.

### Portfolio Review

The Fund outperformed the benchmark TOPIX Index in November, mainly due to positive stock selection in Financials and Materials.

At the individual stock level, a soft drinks manufacturer outperformed due to robust earnings results and the announcement of unexpected large-scale share buyback. A digital bank also outperformed on the back of stronger-than-expected quarterly results and positive expectation for BoJ's rate hike. On the other hand, some stocks announced weaker-than-expected results such as a global integrated business enterprise and a manufacturer of pharmaceuticals and cosmetics products, which underperformed.

### Market Outlook

Notwithstanding the recent market volatility and the unpredictability of President-elect Trump's second administration, we have a constructive longer-term view on the Japan equity market outlook.

We believe that structural drivers remain in place for a more positive outlook. In particular, the combination of higher inflation as well as ongoing governance reforms should contribute to both improved earnings and a greater focus on shareholder value. Real wages have gradually narrowed their decline, and a wage increase of around 5% is anticipated in next year's spring wage negotiations, potentially supporting a recovery in individual consumption. On the other hand, from the perspective of companies, the continued rise in wages is increasing labour cost burdens. However, an environment is gradually being established where these costs can be passed on through higher prices, and we recognise that a virtuous cycle between wages and prices is progressing.

Over the last year, the Tokyo Stock Exchange (TSE) has initiated reforms to improve corporate governance by requiring companies to focus on capital management and returns on invested capital. This addresses a key criticism often made about corporate management in Japan, especially the high levels of cash held on company balance sheets during a period of very low interest rates. It is notable that the level of dividend payouts and share buybacks in Japan has increased in recent years. The unwinding of cross-shareholdings is also progressing and represents a positive trend.

Under these circumstances, we aim to maintain a balanced portfolio between defensive and cyclical stocks. We are maintaining a combination of growth stocks with high earnings visibility and value stocks with potential positive catalysts, such as turnaround prospects and an improvement in shareholder returns. The portfolio also has a relatively close-to-benchmark sector positioning, so we expect stock selection to be the main driver of returns.

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