

It Has Never Been Cheaper to Invest in Japanese Equities

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A supportive macro environment, coupled with relatively attractive valuations and a recent TER cut, means investors may now want to consider gaining exposure to Japanese equities through a SPDR ETF.

The Macro: Another Fiscal Boost

Japan's 2019 GDP growth is expected to print at 1.1%, with government spending helping in Q3 and likely again in Q4. However, we can expect GDP to decelerate slightly to 0.9% in 2020 (according to estimates from State Street Global Advisors). Meanwhile, inflation is expected to rise from 0.6% in 2019 to 0.8% in 2020. In light of this macroeconomic backdrop, there are a few key points to keep in mind when considering the investment case for Japan:

- The brighter picture is helped by the “cease-fire” of a phase one deal between the US and China and the partial removal of uncertainty with regards to a no-deal Brexit. These circumstances provide an overall positive backdrop for risk assets and could potentially help trade to rebound.
- Consistent with his pledge in July, Prime Minister Abe announced a larger-than-expected stimulus package in early December, of which ¥13.2 trillion (\$121 billion) will be fresh spending. The government estimates that the impact will likely be around 1.4% of GDP. Although State Street Global Advisors Economics prefers to err on the side of caution in estimating an all-in impact, this should nonetheless represent a substantial fiscal boost, which has led us to sharply upgrade Japan's 2020 growth forecast from 0.3% to 0.9%.
- Growth could be further supported by building and tourism as the Summer Olympics take place in Tokyo this year.
- Regularly contracted cash earnings (excluding bonuses and overtime pay), as well as regular wages, have looked encouraging lately. These data recorded the sharpest rise in almost a year in December. Methodological changes that have buffeted the series this past year will mostly wear off in January, so we may see further improvement in wage inflation. The uplift from a consumption tax hike is also expected to be limited, while the intense rivalry amongst mobile network providers will also help dampen headline inflation. Although the Bank of Japan's measure of the output gap still points towards inflation of above 1%, we expect inflation to come in only at 0.6% in 2019; although, we have revised our expectation for 2020 a tenth higher to 0.8% to reflect better growth prospects.

Key to the outlook is a currently overvalued safe-haven yen weakening as global uncertainty recedes somewhat, which should also help lift equities in the short term. Therefore, for a euro investor, it may be worth considering the option to currency hedge the exposure.

Valuations: A Case for a Value Play?

Valuations look relatively attractive. While currently the absolute level of P/E is slightly above its long-term average, when we compare this level to the rest of the world, we see that Japan is actually at a relative long-term low based on P/E. Japan is also one of the only countries not currently close to 10-year highs for both P/E and P/B.

Japan has significantly lagged both its developed and emerging market peers over most trailing time periods, as the country has seen a combination of disappointing growth figures and declining inflation. In addition, Japan has suffered from the effects of the recent trade disputes, as well as a strengthening yen. However, as sentiment improves in these areas, and if the Bank of Japan continues to step in with further accommodative measures (as they have suggested), then we could potentially see Japan catch up to its peers.

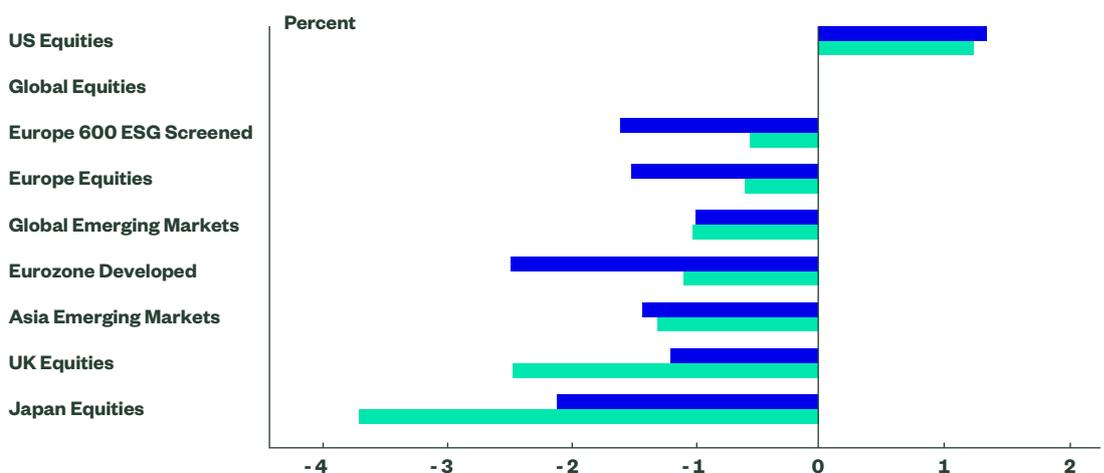
Figure 1
Performance & Overview

Region	Performance				Fundamentals		
	1m (%)	3m (%)	YTD (%)	12m (%)	P/E	Div. yield (%)	P/B
US Equities	4.43	11.88	3.12	28.09	18.8x	2.0	3.4x
Global Equities	3.62	10.65	2.52	23.75	16.7x	2.5	2.3x
Asia Emerging Markets	4.22	13.61	3.60	19.72	13.7x	2.5	1.6x
Europe Equities	2.51	8.46	2.18	24.18	14.9x	3.6	1.8x
UK Equities	1.86	8.29	1.52	18.24	13.5x	4.1	0.9x
Global Emerging Markets	3.66	12.40	2.91	16.62	13.1x	2.9	1.6x
Eurozone Developed	2.17	6.91	2.12	24.02	14.6x	3.3	1.6x
Japan Equities	0.30	7.20	1.20	15.82	14.1x	2.4	1.2x

Source: State Street Global Advisors, MSCI, Bloomberg Finance L.P., as of 17 January 2020. The reference indices for the above table are: S&P 500, MSCI ACWI, MSCI EM Asia, MSCI Europe, FTSE All Share, MSCI Emerging Markets, MSCI EMU and MSCI Japan. Past performance is not a reliable indicator of future performance.

Figure 2
P/E Rerating (Relative to Global Equities)
Core Equities

■ 3M Relative Rerating
■ 1M Relative Rerating

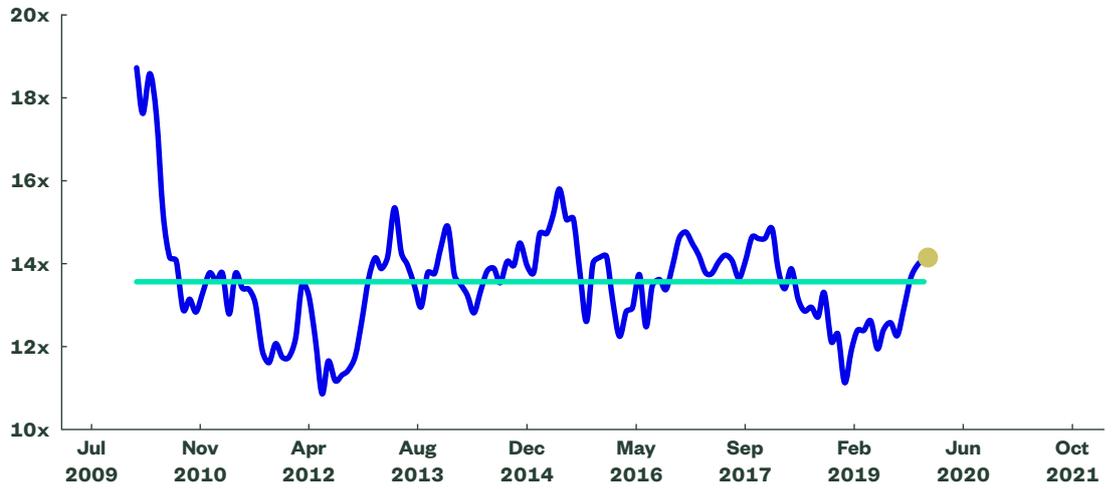


Source: State Street Global Advisors, MSCI, Bloomberg Finance L.P., as of 17 January 2020. Past performance is not a reliable indicator of future performance.

The above forecasts are based on certain assumptions and analysis made by State Street Global Advisors. There is no guarantee that the estimates will be achieved.

Figure 3a
Historical P/E
(Absolute and Relative)
 Japan Equities

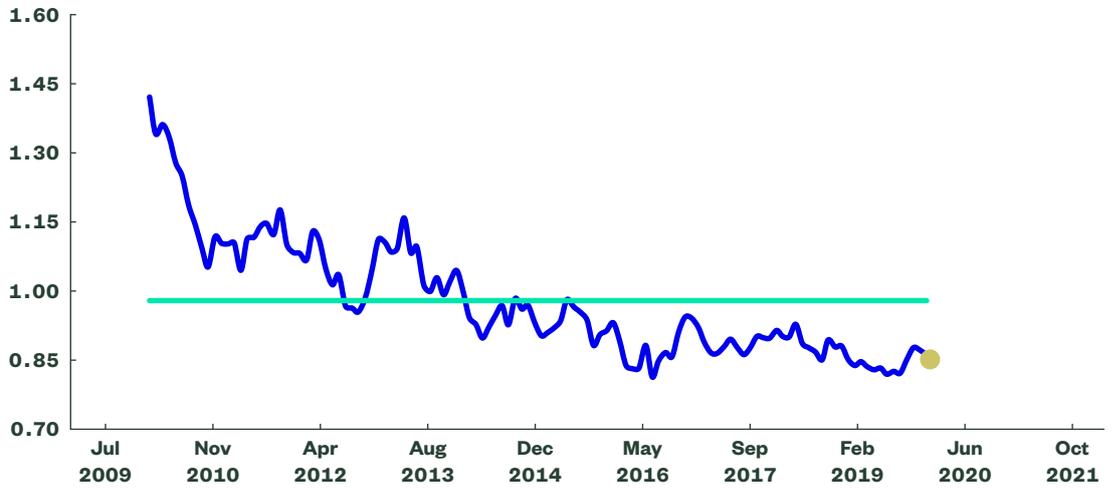
■ P/E
 ■ Average P/E
 ■ Current P/E



Source: State Street Global Advisors, MSCI, Bloomberg Finance L.P., as of 17 January 2020.

Figure 3b
P/E Rerating (Relative to Global Equities)
 Japan Equities

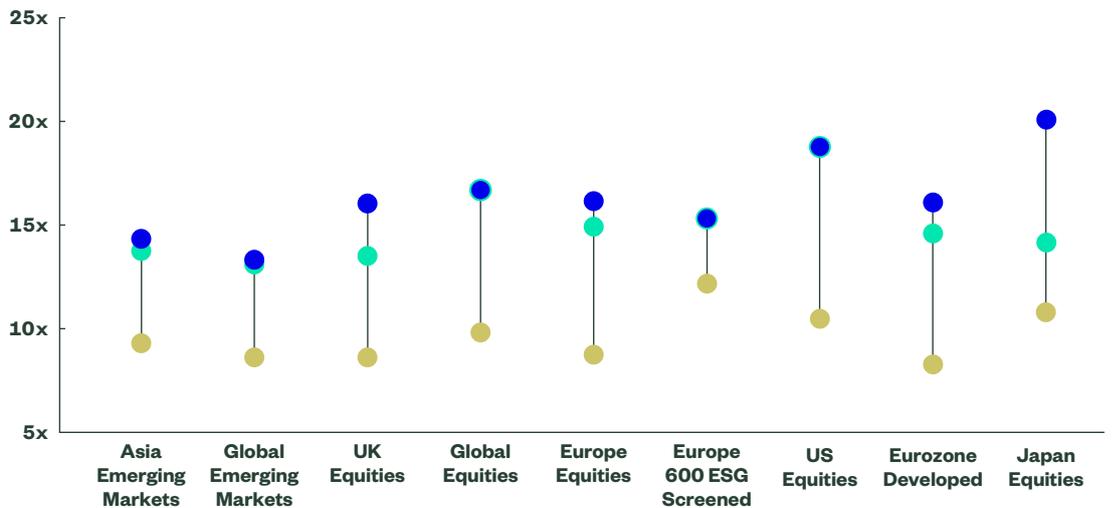
■ Relative P/E
 ■ Average Relative P/E
 ■ Current Relative P/E



Source: State Street Global Advisors, MSCI, Bloomberg Finance L.P., as of 17 January 2020.

Figure 4
10-Year Peak to Trough — P/E
 Core Equities

■ Max
 ■ Current
 ■ Min



Source: State Street Global Advisors, MSCI, Bloomberg Finance L.P., as of 17 January 2020.

TER Reduction

We are pleased to announce that, effective from 31 January 2020, the TER for the two SPDR Japan ETFs will be reduced (full details in the table below). These changes will allow investors to more cost-effectively* gain exposure to Japan, while enjoying the same liquidity and transparency as before.

Figure 5
Fund Details

Fund Name	SPDR® MSCI Japan UCITS ETF	SPDR MSCI Japan EUR Hdg UCITS ETF
ISIN	IE00BZ0G8B96	IE00BZ0G8C04
Primary Ticker	Xetra: ZPDJ (EUR) Inception Date 1 December 2015	Xetra: ZPDW (EUR) Inception Date 1 December 2015
TER (%)	0.12 (previously 0.30)	0.17 (previously 0.35)
Index Name	MSCI Japan Index	MSCI Japan 100% Hedged to EUR Index
Index Ticker	M7JP	MOJPHEUR
Portfolio Construction	Physical — Optimised	Physical — Optimised
Income Treatment	Accumulation	Accumulation

Source: State Street Global Advisors, as of 31 January 2020.

Figure 6
Standard Performance

	1 Month (%)	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)
Inception Date 30 Nov 2015							
SPDR MSCI Japan UCITS ETF	1.31	8.23	17.84	17.84	19.06	—	15.40
MSCI Japan Index	1.31	8.24	18.48	18.48	20.38	31.37	16.98
Difference	0.00	0.00	-0.64	-0.64	-1.32	—	-1.58
Inception Date 30 Nov 2015							
SPDR MSCI Japan EUR Hdg UCITS ETF	1.30	8.08	16.73	16.73	16.10	—	10.29
MSCI Japan 100% Hedged to EUR Index	1.33	8.13	17.72	17.72	17.55	—	12.25
Difference	-0.03	-0.05	-0.99	-0.99	-1.46	—	-1.96

Source: State Street Global Advisors, as at 31 December 2019. **Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. The contained performance data do not take account of the commissions and costs incurred on the issue and redemption, or purchases and sale, of units. Visit spdrs.com for most recent month-end performance. The performance figures contained herein are provided on a net of fees basis.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Performance returns for periods of less than one year are not annualised. **Some of the products are not available to investors in certain jurisdictions. Please contact your relationship manager in regards to availability.**

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

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** AUM reflects approximately \$43.72 billion USD (as of 31 December 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

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