

The Return of Asia's Forgotten Man



“Money grows on the tree of persistence” *Japanese proverb*

Most Asian markets enjoyed a stellar 2009. Share prices across the region doubled from their March lows; the region's markets feature prominently on a list of the world's best performers in 2009. Over the year as whole, China rose by 45%, the Korean market moved 53% higher, Taiwan added 60% and the Indian market gained an impressive 81%.

One country, however, was conspicuous by its absence from that list: Japan. 2009 may have been the best year for the Japanese market since 2005, but it was nonetheless another disappointing year for the world's second-largest stockmarket. Not only did Japan lag far behind other developed markets last year, but returns looked particularly anaemic when held up next to the impressive gains notched up by its neighbours.

This prompts three questions. Firstly, what factors lay behind Japan's lacklustre 2009? Secondly, will that disappointing performance

persist this year? And, thirdly, after years of disappointment, should investors sever all ties with Japan?

Japan should have performed well last year. That it didn't was, in part, due to the strength of the yen, which hurt Japan's exporters. Political uncertainty following the election of a new government, equity issuance and monetary tightening also didn't help.

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So, will Japan recover? We believe it will. Those investors who have stayed with Japan should finally be rewarded in 2010. Japanese stocks are very cheap: on a price-to-book basis Japan now trades at a 40% discount to global markets. In contrast, while other Asian markets selectively offer some excellent long-term opportunities, valuations have moved above their historic averages and are 'borrowing' quite a bit from the future.

Furthermore, the headwinds that slowed Japan's progress in 2009 are starting to ease. The new government is settling into its role and monetary policy increasingly seems likely to be loosened rather than tightened this year. In short, we believe the stage is set for Asia's forgotten man to receive the attention it deserves in 2010 – and beyond.

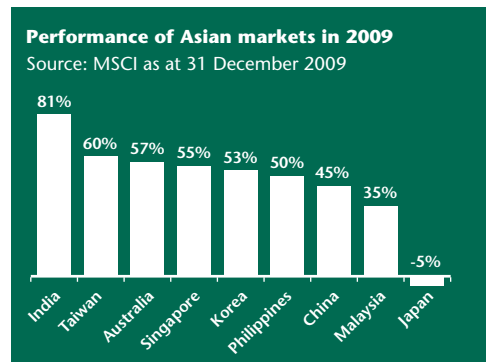


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