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'Value' Label Haunting Japanese Shares Again: Taking Stock (1)  
2021-06-22 00:38:44.360 GMT

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(Bloomberg) -- For Japan's stock bulls it all seemed to be going so well -- vaccinations had finally picked up, the Olympics look set to go ahead and the yen was weakening. And then came the Federal Reserve's hawkish pivot.

Three straight sessions of losses through Monday wiped out all the gains the Topix Index had made earlier in June, before stocks rebounded Tuesday. The gauge is down about 0.5% this quarter, and its underperformance against regional peers is more than 2 percentage points.

As a key "value" market, Japan's shares have gotten rolled up in the reversal of the reflation trade sparked by the Fed's hawkish turn last week. The market capitalization of traditional value sectors financials, industrials, energy and materials is about 36% of the MSCI Japan Index, versus around 24% for the U.S. equivalent, according to data compiled by Bloomberg.

With stocks trading higher Tuesday, after a value share rally in the U.S. overnight, it would seem the path for Japanese shares -- at least in the short-term -- is linked to the fate of global reflation bets.

Back at home, the slow vaccination rollout is still a risk especially with the Olympics looming. Only about 6% of Japan's population have been fully vaccinated, a sharp contrast to other Asian markets like Singapore and Hong Kong, where 35% and 17% of the population have received two doses, according to data compiled by Bloomberg.

"The vaccine rollout is picking up, but risks of a resurgence will increase as Japan lifts the state of emergency and welcomes thousands of Olympic athletes and officials," wrote Barclays Plc's Tetsufumi Yamakawa and Kazuma Maeda in a note Friday.

The government ended a state of emergency for Tokyo, Osaka and other areas on June 20 as planned, about a month before the Games begin.

Still, bulls will point to positive earnings trends, with analysts boosting forward earnings estimates for the Topix by 2.4% in June, according to data compiled by Bloomberg. The equivalent for the broader Asian benchmark was little changed. And economists expect growth to pick up in the second half

of the year.

“New infections have stabilized, and the third state-of-emergency will be lifted from June 21, UBS Group AG economists including Masamichi Adachi wrote in a note. “We are optimistic on the growth outlook in 2H.”

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