

## The Next Samurai

Equity markets enjoyed a strong finish to 2023. Can this rally continue?

We outline some factors below where **pressure is building on the sidelines** which we expect will be supportive for equity markets including a major policy change in Japan.



Japanese savers hold ~US\$7.7 trillion of deposits earning virtually zero interest. As part of efforts to boost household wealth, the Japanese government recently tripled the amounts that individuals can contribute to their Nippon Investment Savings Accounts (NISA) and implemented lifetime tax exemptions on equity purchases. NISA aims to turn some of the trillions of yen currently held in cash into stock market investments. Well known global multi-national companies with strong track records of success (Apple, Amazon, Microsoft... etc) are likely to be top of their shopping lists.

Assets held in short term money market funds in the USA have hit an all-time high of ~US\$6.0 trillion. The bulk of this money has transitioned out of traditional bank deposits over the past 18 months chasing higher yields. This works both ways, and if interest rates (and yields) do decline during 2024, it is highly likely that part of these funds will transition away from money markets and into equity markets.

As per recent media articles, the large Australian industry super funds remain defensively positioned<sup>1</sup>. Collectively, they are underweight equities led by AU\$300bn pound gorilla Australian Super. This tactical call has proven costly over the past 12 months. If they decide to re-assess their current positioning, the flow of money into equity markets may be substantial.

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<sup>1</sup> Super fund CIOs go defensive amid fears rates stay high, Australian Financial Review, 8 Jan 2024.



Moving into 2024 we believe equities have a supportive backdrop with falling inflation and interest rates, low unemployment, impending tax cuts and a strong corporate earnings outlook. When combined with the potential for sizeable incremental allocations from multiple different types of investors, it highlights to us why equities are the asset class of choice.