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# LOOSENING YCC WILL NOT STOP JAPANESE STOCKS' TINA APPEAL

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One of the main reasons the [MSCI Japan Index](#) has rallied by 14% in 2023 is the country's status as the last remaining "TINA" holdout. According to the TINA concept, stocks are to be purchased when There Is No Alternative, which is shorthand for something like "buy stocks because bond yields stink." But if government bonds are throwing off 3% or 4% yields, as is now the case in the U.S., Canada and most of Europe, suddenly stocks don't look as enticing as they did a few years back when many of those bonds were in negative yield territory.

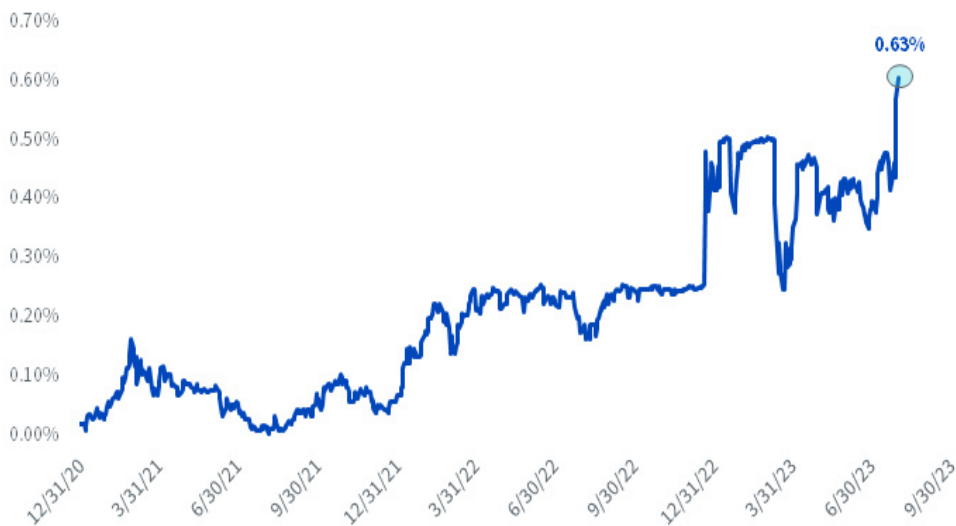
Until recently, the 10-year [Japanese government bond \(JGB\)](#) was bopping around at levels south of 0.50%, the upper boundary of the Bank of Japan's (BoJ's) +/-50 [basis points \(bps\)](#) window around a 0% target. While the vibe is that the benchmark JGB was itching to explode through 0.50%, with only the BoJ preventing it, I want to take great pains to point out that it wasn't like the 10-year was spending most of this year at 0.49% or 0.50%. To the contrary, for large chunks of this year you could pull a yield quote and it would be in the low-40s. That fact seems lost on many observers, who seem to have it in their mind that the selling impulse on JGBs was at some boiling point.

There was pressure, no doubt, but I'm not sure it was as bold as commonly believed. Granted, the 50-bps band was a bit new; for several years, the [yield curve](#) was considered to be in control so long as bond yields never hopped outside of -0.25% or +0.25%.

Nevertheless, with global bond markets all over the place in the last couple years—and by "all over the place," I mean being sold—the BoJ was put into a tough bind as rates jumped in the other six members of the G7. A few weeks ago, the BoJ got cornered and made the decision that was being whispered loudly for a while before it happened—to let 0.50% get pierced to the upside (figure 1). The new terminology: 0.50% is a "reference rate," a guidepost, not a line in the sand.

Up through 0.50% the JGB yield went. You can see the little pop at the end of figure 1.

**Figure 1: 10-year Japanese government bond yield (%)**

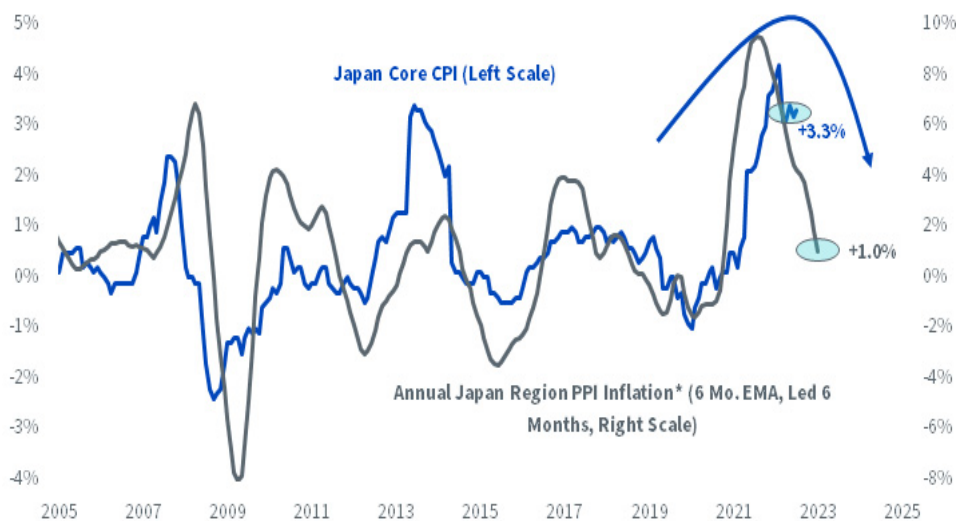


Source: Refinitiv, as of 8/7/23.

The BoJ is going to get lucky, I believe, and it's not from any genius policy moves or anything like that. It's a right place at the right time situation. So many global PPIs are tumbling, ostensibly as the global economy deteriorates.

I have reason to believe that we have seen the peak in Japan's Core CPI, at least as far as 2023 and early 2024 are concerned. Using an amalgamation of Japan's PPI, along with the PPIs of its major trade partners, there appears to be a gravitational pull in consumer price inflation in the next quarter or two. I will not be stunned in the slightest if the coveted 2% inflation target gets breached to the [downside](#) (figure 2).

Figure 2: Japan's Core CPI has downside risk



Sources: Refinitiv, U.S. BLS, Dept. of Labor, National Statistics Bureau China, Bank of Korea, Japan Statistics Bureau, Ministry of Internal Affairs & Communication, data as of June 2023. \*PPI Basket Weights = 50% Japan, 25% China, 12.5% each in U.S. and Korea.

As far as TINA is concerned, figure 3 shows why this yield backup only matters around the edges.

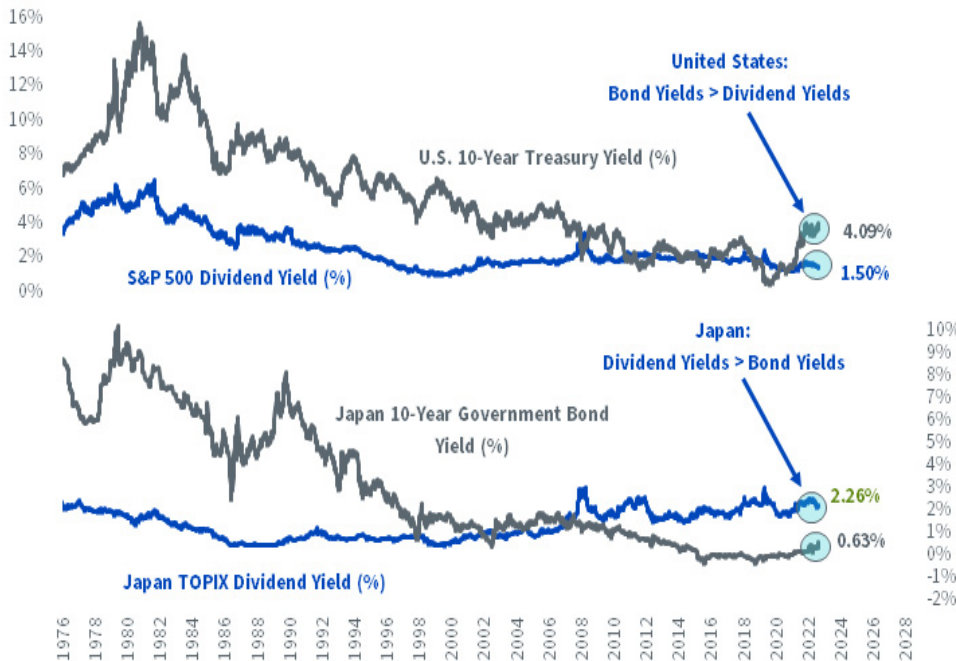
Consider, for one, the death of TINA in the U.S.

The last generation or so, which I'll date to the global financial crisis, has witnessed the [S&P 500's](#) dividend yield clocking in sometimes higher, sometimes lower than the 10-Year U.S. [T-note](#) yield. The bond market bear, which celebrated a second birthday the other day, changed that situation notably; the Treasury yield has popped to around 4%, while the ruthlessly rallying S&P's dividend yield has withered to 1.50%. It makes you

think a little when your head hits the pillow and you're in an 80/20 or a 70/30, with most of that equity in U.S. stocks.

In contrast, most of the last generation saw Japan's stock-versus-bond math flip the other way around from the situation in the U.S. while TINA died for the S&P 500, in Japan it's as strong as ever. If I have this right and the BoJ feels compelled to stop the bond market at something like 1% yields—or JGBs don't even get there, then an overweight allocation in TINA-based Japan looks like a solid argument.

Figure 3: TINA no vs. TINA yes



Source: Refinitiv, as of 8/7/23.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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**MSCI Japan Index**: A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.

**Japanese Government Bond (JGB)**: A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

**Basis point**: 1/100th of 1 percent.

**Curve**: Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts.

**Downside**: Currency depreciation.

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Treasury notes**: A debt obligation issued by the United States government that matures in less than 30 year.