

What Has Gone Wrong With Japan's Stock Performance Over the Last Three Decades?

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Japan has a poor stock performance compared with the US in three decades (1989-2019). At the end of 1989, the Nikkei 225 Index reached its all-time high (38,916); by the end of 2019, the index was 23,657, a change of -39% over the entire period. Meanwhile, the S&P 500 Index increased from 353 to 3,231, a change of 815%. To comprehend this matter, we investigate the areas of economic conditions, corporate governance, corporate financial policies, corporate financial performance, and relative valuation. Our research method is a combination of qualitative and quantitative approaches. Our analyses reveal a variety of problems: slow GDP growth, weak legal protections and low governance ratings, insiders-dominated and cross-holding ownership structure, excess financial assets, low profitability, slow growth of earnings and revenues, and contraction of relative valuation. In the most recent decade (2009-2019), we note some improvements: expansionary monetary policy, productivity growth, better corporate governance, increased dividend payments and stock repurchases, earnings growth, and enhanced profitability. Therefore, Japan's transformation is substantial, though it is gradual and incomplete.

Keywords: Japanese stock performance, Japanese economy, Japanese financial management

INTRODUCTION

The Japanese stock market has a poor performance in the last three decades as a whole (1989–2019). In 1989, the Nikkei 225 Index reached its all-time high (nearly 39,000); in 2018, the index was still 40% below its all-time high, even though the Japanese economy was about 60% larger than that of 1989 (Glassman, 2018). Moreover, Japan's market capitalization was 45% of the global stock market in 1989; in 2017, it was only 8.4% (Richards, 2017). Therefore, equity investors in the world cannot help wondering what has gone wrong with Japan's long-term stock performance.

In the most recent decade (2009–2019), however, the Japanese stock market has achieved decent returns. As Bird (2019b) points out, the performance of Japanese stocks is ranked second globally during