



MCP

Japan's Normalization: 25 Years Wasn't a Cycle, It Was a Mindset

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Three Things Today: *Mindset, Rice and Money*



Mindset – 25 years of deflation wasn't a cycle, it was a mindset



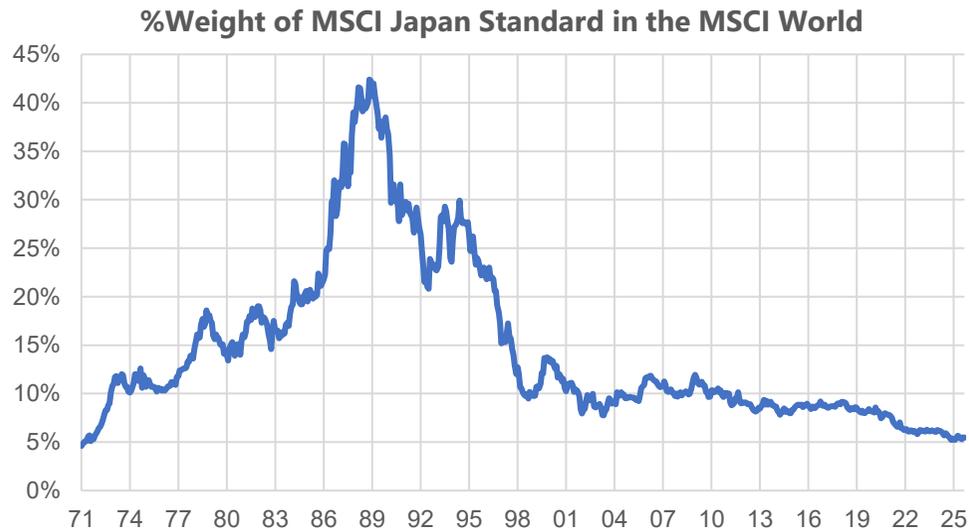
Rice - a cultural mirror that confirmed the mindset shift



Money - how we ride the *shift* (*hint: hand over fist*)

The Lost Decades: Economic Introverts

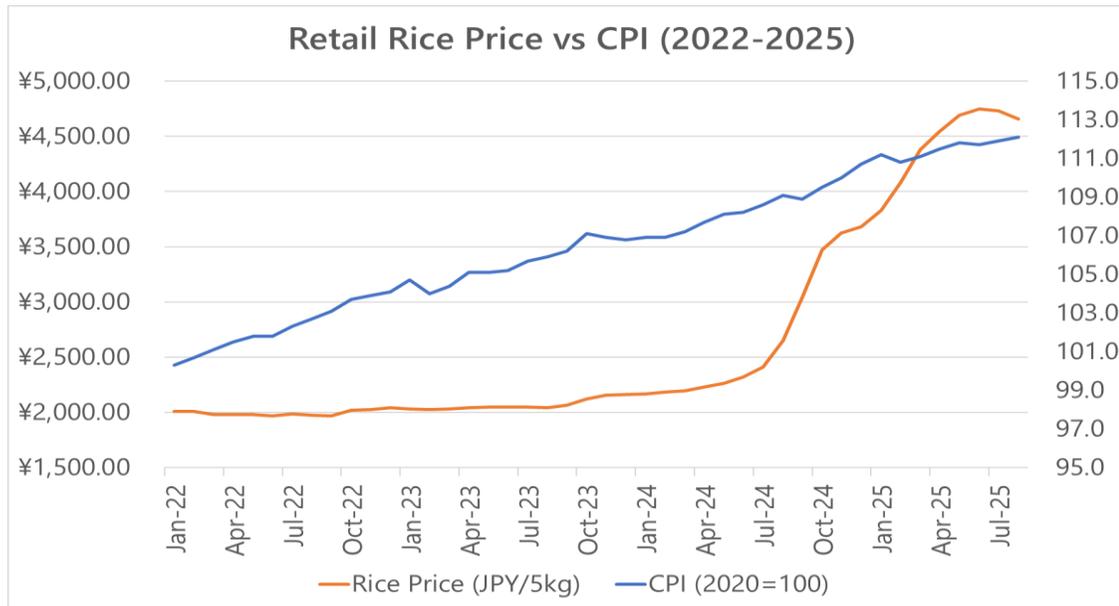
- Zero or negative rates
- Dismal, and briefly negative nominal GDP growth since 1997
- Negative real wages “forever”
- Meanwhile US had the dot-com boom; China had its supercycle



Source: SMBC Nikko
from Bloomberg, MSCI

Rice as a Cultural Mirror

- Rice = staple, anchor of consumer psychology
- Prices surged 2024-2025 (shortage, weak yen, input costs)
- Not a catalyst -> a *confirmation* deflation is gone



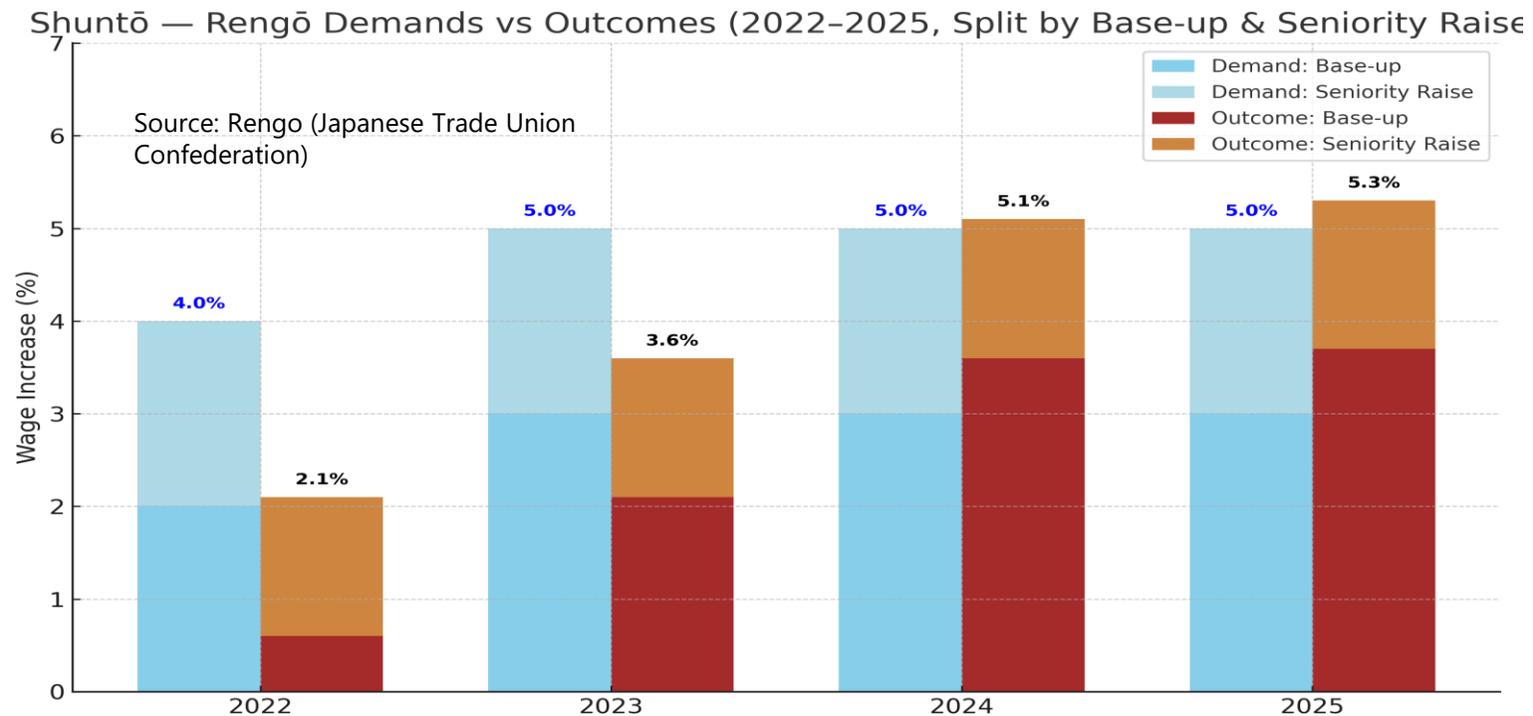
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Source: Statistics Bureau of Japan (SBJ), Ministry of Internal Affairs and Communications (MIC)

Shunto (Spring Wage Offensive): From Stagnation to Surprise

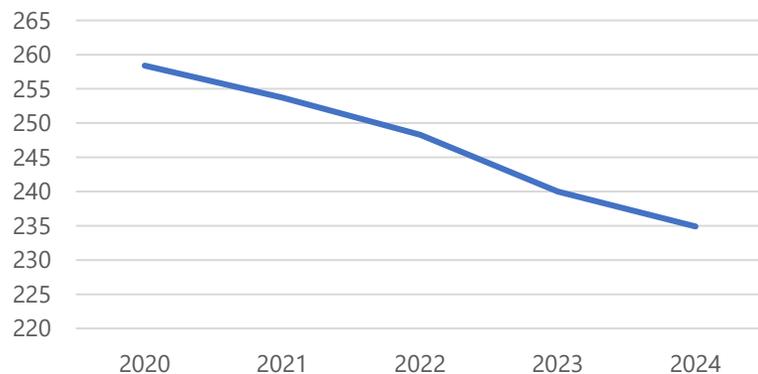
- Unions weak for decades, corporates dominant
- Turning point: **outcomes > demands** (2024-2025)



Less Ugly Than You Think

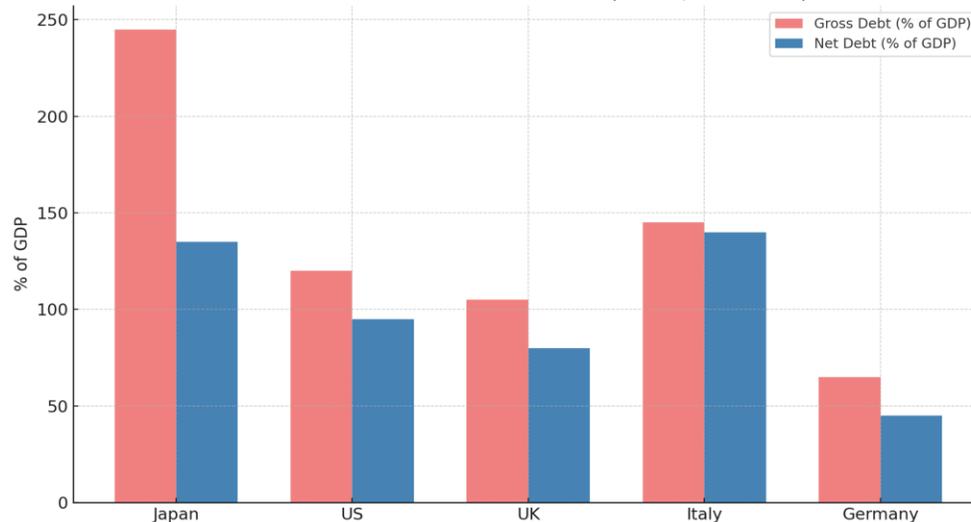
- Gross debt down from 258.4% (2020) -> 234.9% (2024)
- Net debt around 134.2% (OECD) vs G7 average of 91%
- Primary balance briefly positive (Q2 2025, MS report)

Japan: General Govt. Gross Debt (% GDP), IMF WEO



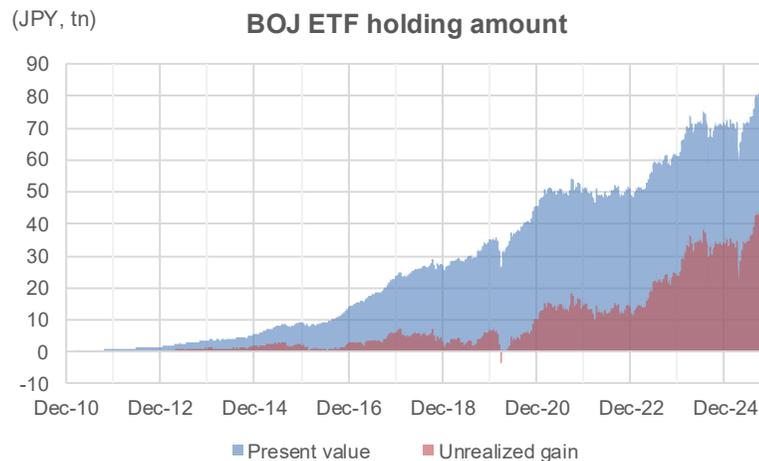
Source: IMF WEO (Apr-2025); 2020-2023 via FRED GGDJAJPA188N; 2024 IMF Data Mapper

Government Debt: Gross vs Net (OECD, 2024 est.)

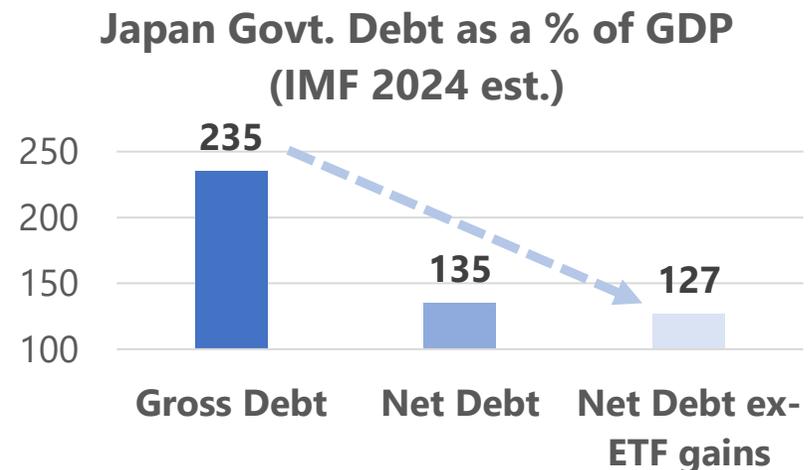


The (Off) Balance Sheet Bonus

- BOJ ETF holdings: ~¥95.4 trillion (Oct 6 cls)
- Unrealized gains alone: ~¥48.2 trillion (Oct 6 cls)
- *Marketable equity assets* not captured in fiscal metrics
- Adjusted net debt picture is even lighter (and lighter!!!)

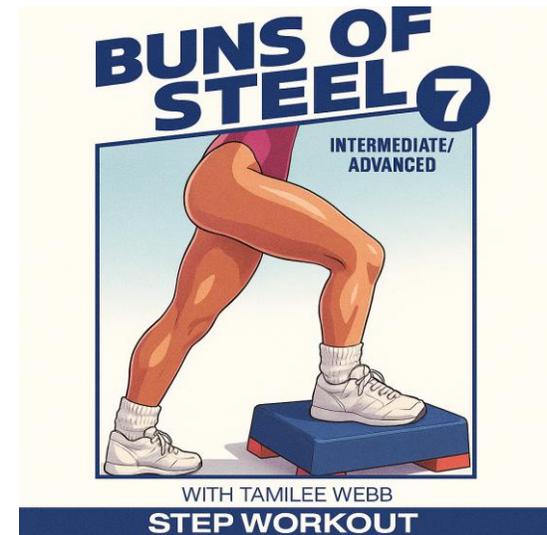
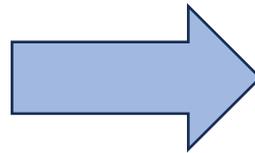


Source: SMBC



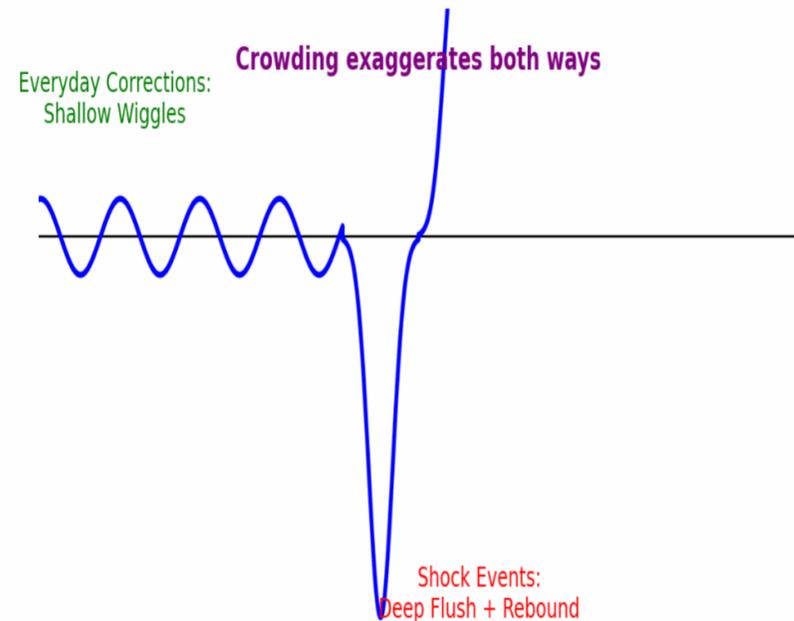
New Era of Trades ~ From Grenades to Buns of Steel

- 20 years: every uptick was a short
- Now: endurance pays – slow burn, durable gains
- Flushouts = opportunity
- And with Takaichi – Japan's Woman of Steel – Policy backdrop is set to harden



Today's Market Landscape: *Tricky, But Full of Opportunity*

- **Shallow dips** on most days
 - real-time data & machine-driven flows
- **Deeper shocks** on surprises – Ueda hike (Jul '24), Trump tariffs (Apr '25)
- **Pods dominate & crowd trades** – tight stops = amplified flushouts
- **Our edge: not constrained**
 - we ride themes, we **“trade”** the flush



Pods and the Crowding Effect

- Pods dominate (Millenium, P72, Balyasny, etc) in Japan
- Market-neutral, tight stops -> crowded exit everywhere
- Fake demand in index events often ~5x real passive flow
- Flushes amplified both ways – highly tradeable



Normalization Unlocks the Next Leg

- Since 2012 (Abenomics), Nikkei compounded ~9% annually in a **steady log-channel**
- Quietly matched U.S. returns while investors called Japan a “value trap”
- With normalization (inflation, policy, rewired capitalism), the next leg is set up

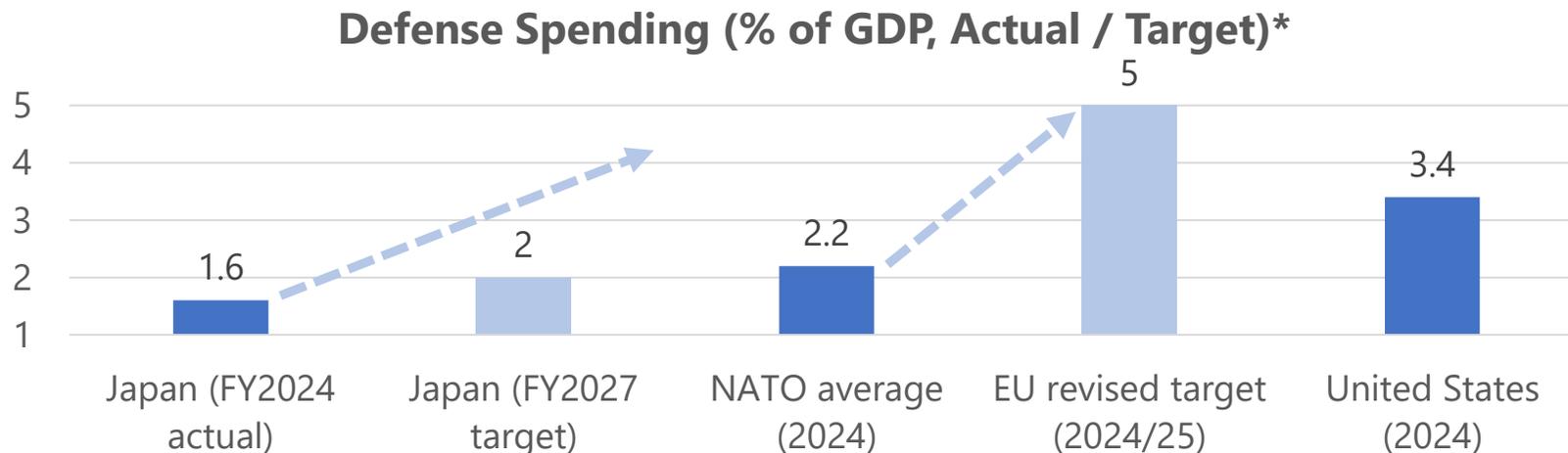


Source: SMBC Nikko

Theme 1 – Normalization

Japan's Military Catch-up

- Long capped at ~1% of GDP – now breaking taboos
- “2% by FY2027” is aspirational, but trajectory matters more... contractor margins lifted to up to 15%
- EU racing to 5% (2025) -> global rearmament catalyst
- Japan ramp = structural demand for primes & suppliers



* Constructed by MCP using information from RUSI (Royal United Services Institute), Visual Capitalist, and Nikkei Newspaper

Theme 2 – Creativity

Japan's Soft Power = Hard Profits

- Japan dominates global character IP: Pokemon #1, plus Hello Kitty, Mario, Dragon Ball
- Games, films, parks & licensing from Nintendo, Sanrio, Bandai Namco fuel monetization
- Manga & anime exports growing double digits; streaming expands durable global cash flow, resilient to demographics

Media Franchise	Total Estimated Revenue	Merchandise Revenue	Video Games Revenue	Trading Cards Revenue	Box Office Revenue	Manga/Comics Revenue
Pokémon	\$147.0B	\$102.9B	\$27.6B	\$12.1B	\$1.8B	\$1.5B
Hello Kitty	\$89.0B	\$88.5B	-	-	-	\$0.02B
Winnie the Pooh	\$76.0B	\$76.2B	-	-	\$0.5B	-
Mickey Mouse & Friends	\$74.0B	\$73.4B	-	-	\$0.5B	\$0.0005B
Star Wars	\$70.0B	\$42.2B	\$6.0B	-	\$10.3B	-
Anpanman	\$56.0B	\$56.4B	-	-	\$0.1B	-
Disney Princess	\$46.0B	\$46.3B	-	-	-	-
Jump Comics (Shōnen Jump)	\$40.0B	-	\$0.2B	-	-	\$39.8B
Mario	\$38.0B	\$4.3B	\$32.4B	-	\$0.0B	\$1.6B
Marvel Cinematic Universe (MCU)	\$35.0B	\$12.5B	-	-	\$22.6B	\$0.001B

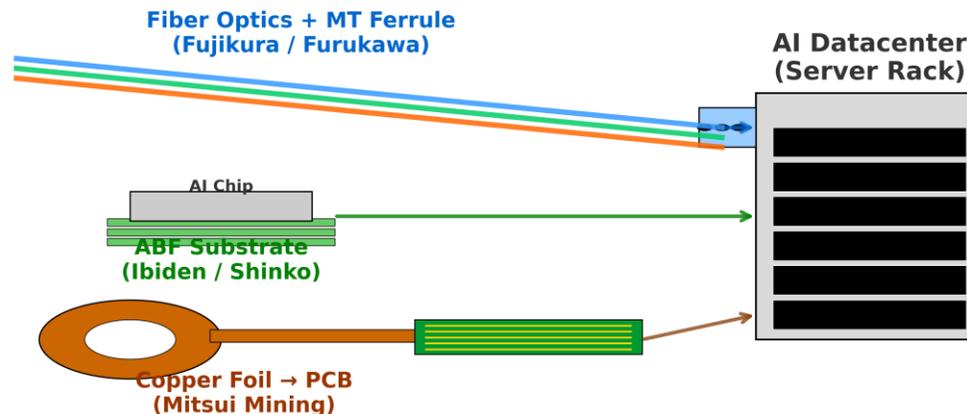


Source: Visual Capitalist "The World's Top Media Franchises by All-Time Revenue (Apr 2024)"

Theme 3 – Technology

Quiet Giants of AI & Semis

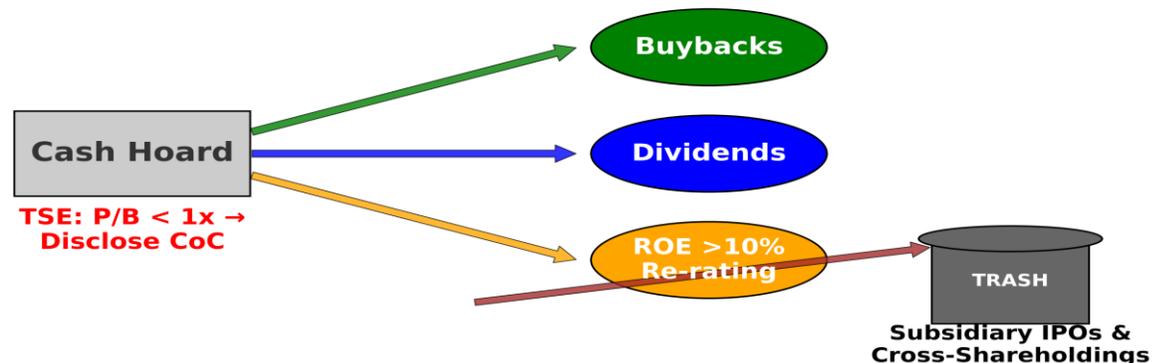
- Japan's chokepoints in AI supply chain – from Fujikura's monopoly MT ferrules to Ibiden/Shinko's ABF substrates – the “nuts and bolts” that no one else can replicate
- Cable, components, and advanced materials quietly powering the AI datacenter arms race (and dual-use defense infra) – high barriers, long lead time
- Structural leverage in Japan is the indispensable middle layer in the global semiconductor stack – critical, under-owned, and often mispriced



Theme 4 – Rewired Capitalism

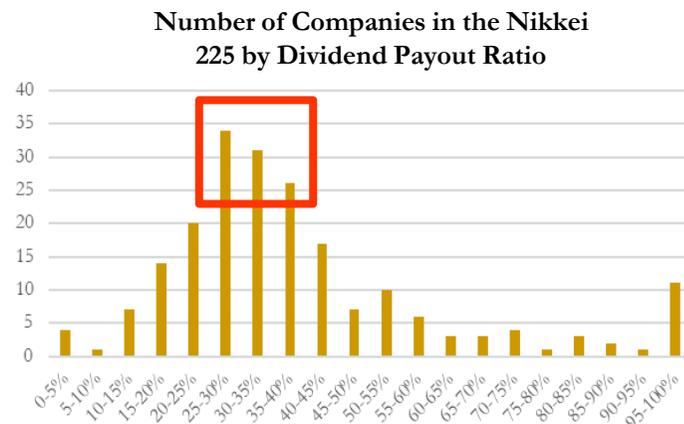
From Cash Hoarding to Capital Discipline

- TSE pushes P/B < 1x firms to disclose cost-of-capital plans
- Record buybacks + rising payout ratios -> capital finally returning to shareholders
- Subsidiary IPOs/dual listings no longer just “jobs for insiders” – now under scrutiny
- ROE across market heading towards 10%+ - real re-rating catalyst



Opportunity: Capital Policy is a MAJOR Work in Progress

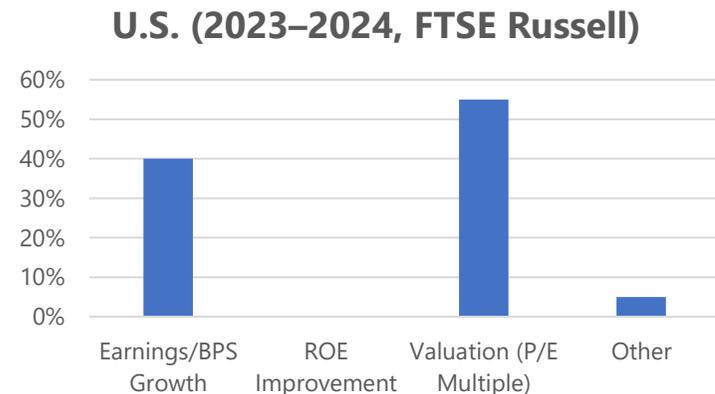
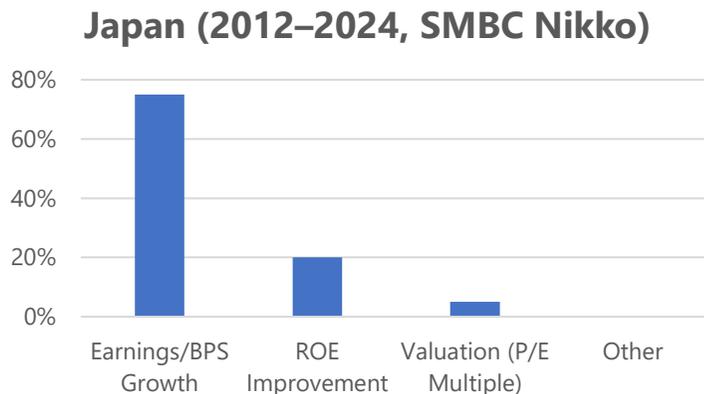
- Most corporates still default to ~30% dividend payout + ~20% buybacks (50% TSR “rule of thumb”)
- Reflects peer-following, not firm-specific optimization – legacy of defensive conformity-driven balance sheet
- U.S. shows the contrast: extremes of 0% (growth investors) to >100% (mature cash returners)



* Source: KK Strategic Advisors using data from QUICK

Opportunity: Japan's Return Drivers Still Rewiring

- **Japan (2012-2024):** ~75% of returns came from balance sheet growth (BPS), little from P/E re-rating (~5%)
- **ROE improvement** contributed (~20%), but upside mostly mechanical
- **U.S. (2023-2024):** returns were more balanced – **55% valuation**, and **40% earnings**
- **Takeaway:** Japan's past = balance sheet story; **normalization unlocks valuation & ROE upside**



Fund Identity – How We Differentiate

- We ride the themes, we trade the flushes
- Nimble, with contained net exposure and rigorous risk discipline, while being unconstrained by pod-style risk caps
- Built for Japan: decades of trading through deflation, reflation and policy shocks
- Not renter of trades – we will own and disown themes, with patience, vengeance and conviction

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