Going, Sebastien, Fisher & LeBouef, LLP
Darren J. Cart, CPA/PFS
Partner
2811 S Union St, Opelousas, LA
1700 Kaliste Saloom Rd., #5
Lafayette, LA
337-942-3041
337-981-5555
darren@going.cpa
www.goingcpa.com

International Investing: The Diverging Fortunes of China and Japan

It may help to consider the risks, economic forces, and government policies that might continue to impact stock prices in these two news-making Asian markets and elsewhere in the world.

The MSCI EAFE Index, which tracks developed markets outside of the United States, advanced 15% in 2023, while U.S. stocks in the S&P 500 Index returned 24%.[1] One of the world's hottest developed stock markets was in Japan, where the Nikkei 225 rose 28% in 2023, delivering the best performance in Asia.[2] On the other hand, in China — which is still considered an emerging market — the benchmark CSI 300 Index lost more than 11% over the same period.[3]

Investing internationally provides growth opportunities that may be different than those in the United States, which could help boost returns and/or enhance diversification in your portfolio. It may help to consider the risks, economic forces, and government policies that might continue to impact stock prices in these two news-making Asian markets and elsewhere in the world.

A tale of two economies

Ranked by gross domestic product (GDP), a broad measure of a nation's business activity, China is the world's second-largest economy after the United States.[4] Japan fell from third place to fourth, behind Germany, at the end of 2023.[5]

In February 2024, the Nikkei surpassed a peak last seen in 1989.[6] Conversely, Chinese stocks fell more than 40% from their peak in June 2021, before turning up slightly in February and March.[7]

GDP growth in Japan has been lackluster; in fact, the nation barely averted a recession at the end of 2023.[8] What has been driving the market's outperformance? After battling deflation (or falling prices) for more than two decades, the emergence of inflation in Japan has been good for businesses. Japanese companies have been putting their capital to work, growing profits, and returning them to shareholders, which has attracted foreign investors. A weaker yen helped by making Japanese products cheaper overseas.[9] The Bank of Japan ended the era of negative interest rates when it raised short-term rates on March 19, 2024.[10]

China's GDP growth slowed to about 5.2% in 2023, as weaker consumption and investment cut into business activity. China is still growing faster than most advanced nations, but it's contending with a years-long real estate crisis.[11] Deflation has set in, while underemployment and youth unemployment have risen to high levels, damaging consumer confidence.[12] Moreover, a visible government crackdown on the private sector has rattled investors and scared away many foreign firms.[13] In early 2024, the Chinese government took steps to help stabilize the stock market that included boosting liquidity, supporting property developers, and encouraging more bank lending and homebuying.[14]

Global economic outlook

The International Monetary Fund sees a path to a soft landing for the global economy, projecting steady growth of 3.1% for 2024, about the same rate as 2023. Inflation, which has fallen rapidly in most regions, is expected to continue its descent.[15]

The downside risks to this hopeful outlook include fiscal challenges, high debt levels, and lingering economic strain from high interest rates. Price spikes caused by geopolitical conflict, supply disruptions, or more persistent underlying inflation could prevent central banks from loosening monetary policies. The possibility of further deterioration in China's property sector is another cause for concern.[16]

A world of opportunity

It can be more complicated to perform due diligence and identify sound investments in unfamiliar and less transparent foreign markets, and there are potential risks that may be unique to a specific country. Mutual funds or exchange-traded funds (ETFs) provide a relatively simple way to invest in a variety of international stocks. International funds range from broad global funds that attempt to capture worldwide economic activity, to regional funds and others that focus on a single country. The term "ex U.S." or "ex US" typically means that the fund does not include domestic stocks, whereas "global" or "world" funds may include a mix of U.S. and international stocks.

Some funds are limited to developed nations, whereas others concentrate on nations with emerging (or developing) economies. The stocks of companies located in emerging nations might offer greater growth potential, but they are riskier and less liquid than those in more advanced economies. For any international stock fund, it's important to understand the mix of countries represented by the underlying securities.

It may be tempting to increase your exposure to a booming foreign market. However, chasing performance might cause you to buy shares at high prices and suffer more severe losses when conditions shift. And if your long-term investment strategy includes international stocks, be prepared to hold tight — or take advantage of lower prices — during bouts of market volatility.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. The return and principal value of all stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares. Foreign securities carry additional risks that may result in greater share price volatility, including differences in financial reporting and currency exchange risk; these risks should be carefully managed with your goals and risk tolerance in mind. Projections are based on current conditions, are subject to change, and may not come to pass.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) London Stock Exchange Group, 2024

2) CNBC.com, December 28, 2023

3, 7) Yahoo! Finance, 2024 (data for the period 6/01/2021 through 3/20/2024)

4, 13) *The Wall Street Journal,* March 18, 2024

5) CNBC.com, February 14, 2024

6, 9) *The Wall Street Journal,* February 22, 2024

8, 10) CNBC.com, March 19, 2024

11, 15–16) International Monetary Fund, January 2024

12) *The Wall Street Journal,* January 27, 2024

14) Bloomberg, February 7, 2024
