

CONTENTS

Feature Articles

This month's focus: "Asset Management under a Low Interest Rate Environment"

Overview *Yosuke Mitsusada, CMA* 2

Articles

The Bank of Japan's Negative Interest Rate Policy: Background and effects on the economy
..... *Kazuo Ueda* 5

This paper aims to evaluate the negative interest rate policy introduced by the Bank of Japan in early 2016. It starts with discussion of the failure so far of the qualitative/quantitative easing of the Bank of Japan to reach the inflation target of 2%. The paper goes on to analyze theoretically the limit of negative interest rates and then reviews the effects on the economy so far by comparing Japan's experience with that of Europe.

Effect of Negative Interest Rate Policy on European Economy
..... *Yuji Kawano, CMA* 17

Five European central banks have introduced a negative interest rate policy. Although the aim is to revive economic activity through a lower shift in the yield curve and currency depreciation, the new policies are not able to increase bank lending to firms and indeed lead to diminishing profitability on the part of banks. My estimation shows that the ECB could not prevent the euro depreciating against the US dollar by cutting the monetary policy rate. We must thus take into account that the role of interest rates has changed when in negative territory, and rebuild economic and financial models applying the new paradigm.

Impact of Quantitative/Qualitative Monetary Easing with Negative Interest Rates on Asset Liability Management of Life Insurers and Pension Funds
..... *Katsuyuki Tokushima, CMA* 26

In 2016, BOJ adopted a negative interest rate policy with quantitative/qualitative monetary easing. As a result, the yield curve of JGBs flattened over ultra-long durations. With BOJ's huge purchases of JGBs from the markets, the liquidity of secondary markets has been adversely affected. Moreover, institutional investors with long liabilities, such as life insurers and pension funds, face difficulties in terms of the asset liability management of their institutions.

Monetary Easing and the Pursuit of Yields	<i>Masao Muraki, CMA</i>	37
--	--------------------------	----

The prolonged global low interest-rate environment is strengthening the risk-taking attitudes of funds pursuing yields, and governments and corporates are increasing their debt burdens. This report explains the new risk-taking paths explored by funds in pursuit of yields amid tougher banking regulations and falling interest rates after the 2008 financial crisis. Funds pursuing yields flowed mainly into US and emerging-market corporate credit. Although global household leverage did not rise after the financial crisis, government and corporate debt has been expanding at a considerably faster pace than GDP. In a low-growth and low interest-rate environment, corporate financial leverage is rising. Financial institutions and retail investors in Japan are also accelerating their investment in foreign corporate credit, but we think investment will likely need to consider the credit cycle.

Prospects

High Frequency Trading and Information Production	<i>Wataru Ohta</i>	47
--	--------------------	----

Series of Purposeful Dialogs between Securities Analysts and Companies [1]

Constructive Communication between Corporate Management and Long-term Investors	<i>Kazushige Okuno, CMA</i>	54
--	-----------------------------	----

Point of View	<i>Hiroshi Naya</i>	64
----------------------	---------------------	----

Articles

Dissemination of Patent Information into Stock Prices	<i>Shingo Ide / Hitoshi Takehara</i>	68
--	--------------------------------------	----

This study investigates the dissemination of patent information into stock prices. As patent information is hard to interpret for investors, the increase in return on equity is delayed by about three years after a firm's acquisition of technological competitiveness. For this reason, a change in patent information is fully incorporated into stock prices only in the following three to five years. By conducting a classical DuPont analysis, we found that an increase in profit margin and decrease in asset turnover cancel each other out in the first two years.

Effect of Inflation Expectations on the Equity Investment Ratio of Individual Equity Investors Captured through Internet-based Surveys	<i>Toru Suehiro, CMA / Koichi Takeda, CMA / Takashi Kozu / Toshihiko Takemura</i>	78
---	---	----

We analyzed "the effect of inflation expectations on the equity investment ratio of individual equity investors" by using Internet-based surveys that we conducted in January 2015. As a result, we found that the ratio of the equity investment of investors who had high longer term inflation expectations, such as three- or five-years, tended to be high amongst total financial assets. This tendency was observed even if the investors did not have high real economic growth rate expectations. Therefore, even for high inflation expectations without economic growth, individual investors are likely to hold equity-related financial products to hedge the effect of inflation.

Book Reviews	<i>Junichi Harada / Satoshi Sakamaki, CMA / Tadashi Nunami</i>	88
SAAJ News		100