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Feature Articles

This month's focus: **Economy and Financial Markets during the COVID-19 Crisis**

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The COVID-19 Crisis and Public Financial Challenges: with a Focus on the Government Bond Market and Medium- to Long-Term Fiscal Projections	<i>Kazumasa Oguro</i>	6
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The spread of COVID-19 is beginning to exacerbate Japan's public finance problems. Even under these circumstances, the market is able to absorb Japan Government Bond (JGB) issuances because the target to increase the holding balance by about 80 trillion yen per year was eliminated by the Bank of Japan in the formulation of the first supplementary fiscal budget in 2020. However, this response to the crisis will not be sustainable forever. Although at this juncture we do not know how long it will last, the pandemic can be expected to end in a few years. As the population and birthrate decline, and the population ages, Japan will then be faced with the same problems it confronted pre-COVID-19. The super-aging society is just around the corner, and it will be necessary to deepen discussion on the direction of fundamental fiscal and social security reform.

De Facto Fiscal Finance Situation and Distortion of Financial Markets due to Aggressive Monetary Easing	<i>Takahide Kiuchi</i>	20
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In response to COVID-19, coordinated aggressive monetary easing and fiscal expansion measures were promoted in each country. In the process, a de facto fiscal finance situation has been created and potential risks to financial market stability have increased. Monetary easing has been most prominent in the US, and, since the beginning of 2021, overheating of the US market has become more pronounced. Anti-COVID-19 monetary easing measures may have gone too far. Not only the tightening of financial regulations, but also the early normalization of monetary policy in coordination with government fiscal consolidation is effective as a means of avoiding the emergence of large financial risks.

Relationship between Policy Support, Economy, and Stock Prices in the COVID-19 Crisis: An Examination of the Mechanism of Stock Price Rises Prior to Economic Recovery and Prospects for the Stock Market	30
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In this paper, we examine the mechanism of stock price rises after the COVID-19 shock. Empirical analysis of quantitative easing in the US shows that it has had a significantly positive effect on stock prices. This suggests that strong monetary easing was one of the reasons why stock prices rose before the economy recovered amid the spread of COVID-19 since early spring last year. As the stock market seems to be entering a new stage where policy support will be reduced, I would like to conclude with some points that should be noted when forecasting the stock market outlook.

Is the Sharp Rise in Stock Prices during COVID-19 Rational? Comparison with Dividend Futures Prices	41
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This paper examines the rationality of the sharp rise in Nikkei 225 prices during COVID-19 by comparing with dividend futures prices. We show that index prices were overvalued relative to the short-term expectation of dividends implied by dividend futures prices. In addition, we cannot find any evidence that there was an increase in the long-term expected growth rate of dividends nor a decrease in the long-term risk-free rate during COVID-19. These findings indicate that recent stock prices contain some element of a bubble.

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Rethinking ESG Investment: from Social and Environmental Factors other than Governance (1)

Starting from this issue, under the unified theme of “Rethinking ESG Investment: from Social and Environmental Factors other than Governance,” finance researchers and those in related fields from Japan and abroad will write a series of six articles on ESG (especially E and S) including empirical analysis. The first appears below; the rest will follow in subsequent months.

Motivation for ESG Activities and Long-term Investors: from Theory and Evidence	56
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This article provides an overview of ESG issues. Also, the relationship between ESG and corporate value, shareholders/stakeholders, and long-term investment perspectives is discussed. Recent interesting studies are introduced. The article also touches on impact investing, supply chains, carbon risk, ESG momentum effect, etc. Finally, an empirical analysis of the relationship between ESG and long-term investment in Japan is explained.

Special Posting

Outline of the Revision of Japan’s Corporate Governance Code and Guidelines for Investor and Company Engagement	<i>Akimi Nishihara</i>	70
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An Empirical Study on the Relationship between Disclosure of Earnings Briefing Q&A Sessions and Information Asymmetry.....	<i>Zhang Xiaoyue / Yiqun Jin</i>	86
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In Japan, Fair Disclosure Rules were enacted to be implemented by listed companies from April 2018. Since listed companies have different perceptions of ‘important information’, there exist differences in the degree of information disclosure regarding earnings briefings. This study empirically analyzes the effect of disclosing the content of earnings briefing Q&A sessions on reducing information asymmetry. The results show that firms which disclose Q&A session content experience lower information asymmetry among investors than firms which do not.

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