The effect of yutai on stress tested equity performance in Japan

Summary

On 16 April, 2025, the JSDA published the results of its Yutai (Shareholder Perk) Research Board, which had convened starting in October, 2024. I was privileged to be a member of this board, along with several academic experts on Japan's shareholder perks market. The report can be found online at https://www.jsda.or.jp/about/kaigi/chousa/yutai_ken/index.html. To the best of my knowledge this is the first research on yutai published by a government-related agency in Japan – despite the fact that roughly 1/3 of Japanese listed companies employ some kind of yutai benefit.

The JSDA's report covered several important areas of interest in Japan's yutai market, including but not limited to 1) changes in yutai prevalence over time, 2) cost/benefit analysis, and 3) issues regarding fairness and investor equality.

However, one area not analyzed by the committee is the effect that yutai has on equity performance in times of extreme market stress. The goal of this paper is to examine the effect of yutai on equity performance in the two extreme stress events of the last 12 months: the "Ueda Shock" of August 1-5, 2024 (3 trading days), and the "Tariff Shock" of March 31-April7, 2025 (6 trading days). Although by their very nature stress events are infrequent, these two stress events were similar in scale, and duration – and were only separated by 8 months. They are also the biggest stress events since the BoJ stopped distorting equity volatility with their ETF purchases (March 2024).

Based on the data, we can make the following observations:

1) Both dividend and yutai provide substantial protection from "left tail risk" in times of market stress. Interestingly, share buybacks do not.

   Stress protection for both dividends and yutai comes from the same source. Both dividends and yutai are tangible benefits which provide a REASON to buy a stock when it is falling (or, conversely, a reason not to sell). Issuers who do not provide these reasons to buy are more likely to fall further than issuers who do.

2) Dividend-sourced protection and yutai-sourced protection seem to be almost entirely complementary and additive - rather than overlapping. Observed overlap between the two functions was 7.8% in the Ueda Shock and 10.1% in the Tariff Shock. I believe this minimal overlap arises from the fact that the constituencies served by dividend (all shareholders) and yutai (individuals) are not the same. A different way to put it is that yutai is an "add-on" benefit for a specific subset of shareholders, and so provides add-on protection to the share price.

3) Since we have relatively high precision for the total cost of Japan's dividend program (roughly Y23.9 trillion for the 3/25 fiscal year), and moderate precision for yutai cost (roughly Y400bn for the same period), we can estimate the "cost of protection" for both dividends and yutai. Given the different causes of the risk off events covered here, the relative cost of protection between dividend and yutai is more stable than we might have imagined. In the 2024 shock, Y1 of yutai spend provided 44.0x the performance protection provided by Y1 of dividend. That number was 40.7x in the 2025 shock. Both the scale of the gap and its similarlty across different events make it worthy of consideration as companies analyze their capital market options.

5) A final finding is that the SCALE of yutai does not seem to create predictable differences in the level of protection. Rather, the PRESENCE of yutai, on its own, is what creates differences in stress test performance. The market seems to have "priced" the distribution of yutai yields going into each stress event, and roughly maintains that distribution thru the event. In the case of dividends we see some scale linearity in both events.

The JSDA report does examine the effect of yutai on equity volatility (for which these stress tests are a kind of left tail analysis) and show yutai to have a depressive effect of volatility, thereby lowering cost of capital. Although it is difficult to entirely disentangle stress-tested volatility from "running" volatility, as an equity fund manager for 25 years I believe that most investors do not quickly repurchase what they have recently sold - even if the sale was done purely for "risk management" reasons in times of extreme stress. Therefore, protecting investors from the need to sell your stock in times of stress is an important part of shareholder management which may be as effective as IR activities in general.

The 2025 Tariff Shock – how differences in shareholder return policies affected performance

The following table divides Japan's listed companies into different groups based on the varieties of shareholder returns they use. For buybacks, we use announced buyback (or not) in the last 12 months. None of this data is scale sensitive – it is simply based on HAVE or HAVE NOT.

Excess return vs ALL Japan* - TARIFF STRESS TEST (3/31 - 4/7 : 6 days)	excess return	average performance
With Yutai, Dividend and Buyback	1.33%	-14.28%
With Yutai and Dividend	2.58%	-13.04%
With Yutai and Buyback	1.14%	-14.47%
With Dividend and Buyback	0.27%	-15.34%
With Dividend	0.87%	-14.74%
With Yutai	2.01%	-13.60%
With Buyback	0.04%	-15.57%
All Japan	0.00%	-15.61%
No Buyback	-0.01%	-15.62%
No Yutai	-1.34%	-16.96%
No Dividend	-4.04%	-19.66%
No Dividend and Buyback	-4.14%	-19.75%
No Yutai and Buyback	-1.60%	-17.22%
No Yutai and Dividend	-4.85%	-20.47%
No Yutai, Dividend and Buyback	-5.05%	-20.66%

**All Japan : 3,922 companies as of March 31, 2025*

In the case of dividends, for instance, those companies which pay a dividend outperformed the average of all Japanese stocks (which includes both dividend-paying and non-dividend paying companies) by 0.87% over this 6 days of this drawdown. On the other hand, however, companies which DO NOT pay a dividend underperformed by 4.04%. The sum of the outperformance and underperformance (which we call "swing") is 4.91%. That's large source of variance for just 6 days – even when the average stock fell by 15.61% over that period. The swing values for shareholder return groups in the Tariff Shock are as follows:

Tariff Stress Test (3/31 - 4/7: 6 days)	"with" outperformance	"without" underperformance	Total swing value
Dividend	0.87%	-4.04%	4.91%
Yutai	2.01%	-1.34%	3.35%
Buyback	0.04%	-0.01%	0.05%
Dividend + Yutai	**2.58%**	**-4.85%**	**7.43%**
Dividend + Buyback	0.27%	-4.14%	4.41%
Yutai + Buyback	1.14%	-1.60%	2.75%
Dividend + Yutai + Buyback	1.33%	-5.05%	6.38%

Among all the shareholder return combinations one could choose, the most effective was dividend + yutai which produced a total of 7.43% of swing. Adding buybacks to that mix was the second best recipe, but – purely from the perspective of left tail protection – buybacks were a hindrance and not a help. The same applies when we mixed buybacks and yutai, and buybacks and dividends. I suspect this buyback data will come as a surprise to most readers.

Comparing the 2025 Tariff Shock with the 2024 Ueda Shock

The table below compares the swing values for the Ueda Shock and the Tariff Shock.

	Dividend only (A)	Yutai only (B)	Dividend + yutai (X)	Total market fall	Overlap (%)*
Ueda Shock	5.61%	4.13%	8.98%	-19.18%	-7.82%
Tariff Shock	4.91%	3.35%	7.43%	-15.61%	-10.10%

**Overlap =(X-(A+B))/(A+B)*

It's a very similar picture, and the higher dividend and yutai swing values in August 2024 directly reflect greater market stress. In the midst of great market chaos - in fact as a result of great market chaos - the relationships between different forms of shareholder returns proved quite stable.

We define overlap between dividend and yutai as the difference between the realized protection for companies which have both, versus what you would expect if you simply added the protection for dividend only to the protection for yutai only. So, in the Tariff Shock, dividend of 491bp + yutai of 335bp = 826bp. But realized protection for companies that have both is 743bp – 10% less than you would have seen if there were no overlap.

There is SOME overlap, because in both cases performace of the dividend+yutai combo is slighly worse than the simple sum of the two components. But the overlap is minimal, and, as you can see, fairly consistent. This indicates that yutai and dividends are mostly operating independently from each other.

Calculating the cost of protection for dividends and yutai

In FY24 (3/25) listed Japan paid Y23.9 trillion in dividends. If we divide this number by the size of the performance swing enjoyed by dividend paying companies during the Tariff Shock, we get a cost per basis point of protection of Y48.6bn. If we assume roughly Y400bn in yutai cost during the same period (see JSDA report for more details), we get a cost per basis point of protection for yutai on Y1.2bn.

So – on this measure alone – dividends cost 40.7x more per basis point of protection than yutai did in the Tariff Shock. For the Ueda Shock dividends cost 44.0x more per basis point of protection than did yutai. Similar to the data comparing protection overlap, the consistency of the statistical output is striking.

Size matters for dividends, although not how one might imagine

Before testing for the impact of dividend scale on stress protection, my hypothesis was that higher divdend (measured by yield = dividend/current share price) would result in higher levels of protection. In fact, that is the opposite of what happens in practice:

Absolute performance by dividend yield	Ueda Shock	Tariff Shock
Quartile 1 (lowest dividend yield)	-17.9%	-14.1%
Quartile 2	-18.1%	-14.6%
Quartile 3	-18.6%	-14.9%
Quartile 4 (highest dividend yield)	-18.9%	-15.4%
Average performance for all dividend paying stocks	-18.1%	-14.7%

**Yields calculated as of March 31 2025 for Tariff Shock, June 30 2024 for Ueda Shock*

The focus of this paper is yutai, not dividends, but the linear pattern of the dividend yield results indicates something beyond randomness. And it is also different from what we find with yutai.

Size doesn't seem to matter for yutai – presence is what matters

The yutai data has no particular linearity which suggests that the important thing is the existence of the yutai in the first place.

Absolute performance by yutai yield	Ueda Shock	Tariff Shock
Quartile 1 (lowest yutai yield)	-16.2%	-13.8%
Quartile 2	-15.8%	-12.3%
Quartile 3	-14.9%	-12.3%
Quartile 4 (highest yutai yield)	-16.6%	-14.6%
Average performance for all yutai paying stocks	-16.6%	-13.6%

**This is only for yutai paying stocks for which the yield can be calculated (1008 of 1576 companies which provide some kind of yutai as of March 31, 2025 for Tariff Shock data, and 895 of 1473 companies as of June 30, 2024 for Ueda Shock data)*

Conclusion: yutai in an era of increasingly "risk managed" portfolios

Stress events as extreme as the Ueda Shock and the Tariff Shocks are unusual – and it's unusual to have two of this size in the space of 6 months. But the remarkable stability of the performance data from case to case points more to mechanism than it does to chance.

In my 2023 book Kabunushi Care I analyzed a much smaller stress event, the last Kuroda Shock (22 Dec 2022) and got very similar results.

The key takeaway here is that if companies want to minimize their investors' losses in similar events, the data indicates that having BOTH a dividend and a yutai program is the best way to do it. There is minimal protection overlap between the two, and the scale of protection from both sources is large.

That said, the *cost* of the yutai protection is a fraction of dividend protection. For companies that have both dividends and yutai, the dividend cost is Y7.6 trillion, and the yutai cost is roughly Y400bn (only a subset of dividend paying companies also have yutai). So far an incremental 5.2% of cost, the total protection provided rises by 51% in the Tariff Shock and 60% in the Ueda Shock. That's high ROI.

As a group, listed companies expend a great deal of effort on IR activities, with the explicit goal of broadening their shareholder base - particularly in the case of institutional shareholders. However, institutional investors are not immune to market stress. In fact they are more sensitive to it than are individual investors. Although different institutions have different "pain thresholds," in most cases when professional investors respond to market stress they do so by reducing or eliminating the positions that are causing them the most pain. As you can see from the above data, in Japan that is companies which pay neither a dvidend or yutai.

In my experience, fund managers are reluctant to buy back positions they have recently sold once the market stress moderates. Either because it makes them look "non-fundamental," or because they have acquired powerful negative associations with those stocks. This represents a real setback for IR teams, who now either have to work to re-acquire that investor, or to find a new one to replace them.

Given this set of circumstances, it seems to me that – whatever other positives may derive from a yutai program (many of which are covered in the JSDA's report) – yutai stress protection is worthy of careful consideration by listed company managements.

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