WORLD'S DEEPEST VALUE PLAY WITH GROWING CAPITAL RETURNS

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Central banks have dominated the global investing narrative recently, from the European Central Bank (ECB) and its multi-pronged stimulus program to the U.S. Federal Reserve (Fed) cutting interest rates (though perhaps not as fast as the market would like).

The Bank of Japan (BOJ) chose not to take any further policy action at its September meeting, but opened the door to more stimulus measures in October. Many are worried about whether Japan can exit from its program involving equity ETF purchases, creating a cloud of uncertainty over the markets. We believe these ETFs will remain on the BOJ balance sheet for a long time and think those who worry might be missing a bigger picture.

We believe focusing on central banks, and the BOJ in particular, causes investors to gloss over one of the world's best value stories at a time when corporate Japan is experiencing better corporate governance and increased capital returns to shareholders.

We all worry about the "Japanification" of the global economy—the risk of a world where interest rates stay low for decades while economic growth sputters.

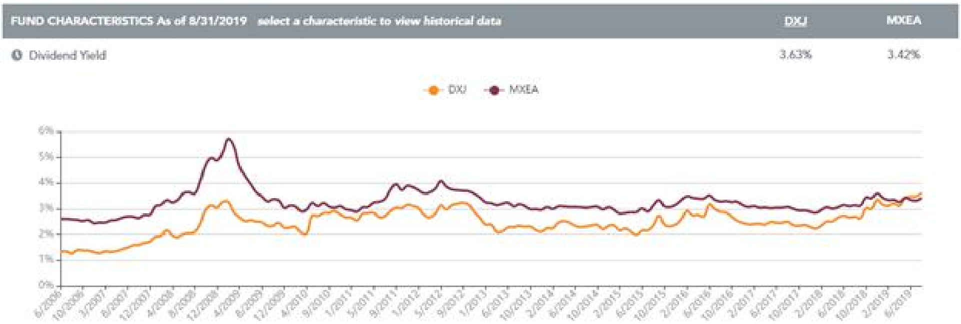
A more interesting story to me is the "Americanization" of Japan's economy, with corporate Japan increasing dividends and buybacks to levels higher than we see in U.S. indexes such as the S&P 500.

Japan was known for years as a low dividend-yielding country, but this dynamic is shifting.

If you look at the history of the WisdomTree Japan Hedged Equity Fund (DXJ) since it launched in 2006, it always had a lower dividend yield than the MSCI EAFE Index (MXEA), which is a proxy for developed equity markets.

That gap narrowed as valuations became less expensive, and now in 2019 for first time since inception, DXJ has a higher dividend yield than the MSCI EAFE.

This is a major change in the relative attractiveness of Japan stocks.



Source: WisdomTree, as of 8/31/19.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available on the fund's webpage.

For standardized performance of DXJ, click [here](#).

But companies are not just returning cash to shareholders via dividends. Buybacks have been on the rise, and Japan now has the highest [buyback yield](#) in the developed world outside the U.S.

Source: WisdomTree, as of 8/31/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Whereas investors worry U.S. companies will cease to repurchase their own shares in the market when prices go down, Japanese companies are doing the opposite, increasing their repurchases as stock prices fall.

This value gap is widening on a [price-to-earnings (P/E)](#) basis as well.

DXJ now is four [P/E multiple](#) points below the MSCI EAFE, whereas when it launched it 2006, it was offered at a [premiu m](#).

Source: WisdomTree, as of 8/31/19. Past performance is not indicative of future results. You cannot invest directly in an index.

A focus on capital returns and profitability levels is also enhancing quality metrics.

Bloated balance sheets often resulted in Japanese companies displaying return on equity (ROE) metrics much lower than the rest of the world, but this gap is closing quite fast.

Source: WisdomTree, as of 8/31/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Is There Even More Room to Run?

Many say Japan is a value trap.

One catalyst that could get Japan turning higher is positive stimulus from China, as DXJ certainly remains tied to the global business cycle and slowdowns in China. With trade wars and the global growth slowdown still a major headwind, Chinese stimulus could have a ripple effect in Japan.

But if you're looking for one of the world's most depressed valuations with stocks positioned for a better global growth environment, we believe there are currently few places with multiples this attractive.

The combined dividend and buyback yields of DXJ have been higher in 2019 than they were during the depths of the global financial crisis in 2009.

Few markets are priced at their 2009 market lows today, and we think this represents an opportunity for value-minded investors worried about extended valuations after a 10-year bull market in the U.S.

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You cannot invest directly in an index.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Dividend : A portion of corporate profits paid out to shareholders.

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Buyback yield : amount of a company's buybacks divided by its market capitalizatio.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Earnings multiple : another way of saying price-to-earnings multiple.

Premium : When the price of an ETF is higher than its NAV.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Bullish : a position that benefits when asset prices rise.