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# PUTTING GLOBAL WINNERS IN PERSPECTIVE

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Over the last four years, a constant refrain from many investors going overseas has been, “Why are we globally diversifying when the [S&P 500 Index](#) has been THE place to invest?”

The S&P 500 had a cumulative return that was double that of the [MSCI All Country World Index](#), 70.8% vs. 34.7%, and had average annual returns of 14.3% per year vs. 7.73%.<sup>1</sup>

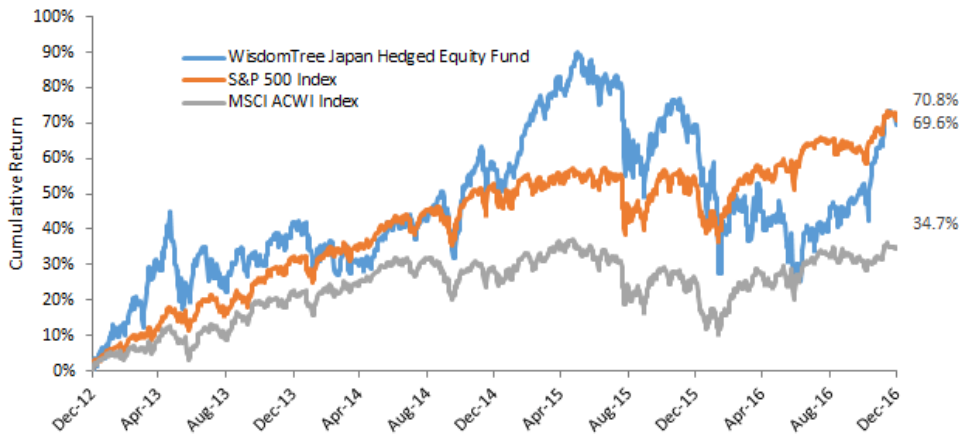
But it is after tough times for any market when prospects perhaps are more apt to turn around—because it takes a situation to turn from dreadful to “slightly less dreadful” for performance to improve quickly. Just look at Russia and Brazil last year.

And so it may be with the case for international investments—particularly the emerging markets, which have been the biggest laggards over the last four years.

## **Who Has Kept Pace With the U.S. and Why?**

Japan, on a [currency-hedged](#) basis, was one of the few global markets (particularly among the largest 20 markets) that kept pace with the S&P 500 over the last four years.

In fact, the four-year returns for DXJ, the [WisdomTree Japan Hedged Equity Fund](#), was nearly identical to the S&P 500 over the four years ending in 2016.



Sources: WisdomTree, Bloomberg, for the period 12/31/12–12/31/16. You cannot invest directly in an index. Double-digit returns were achieved primarily during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A fund's performance, especially for short time periods, should not be the sole factor in making your investment decision.

**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 at [www.wisdomtree.com](http://www.wisdomtree.com).**

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

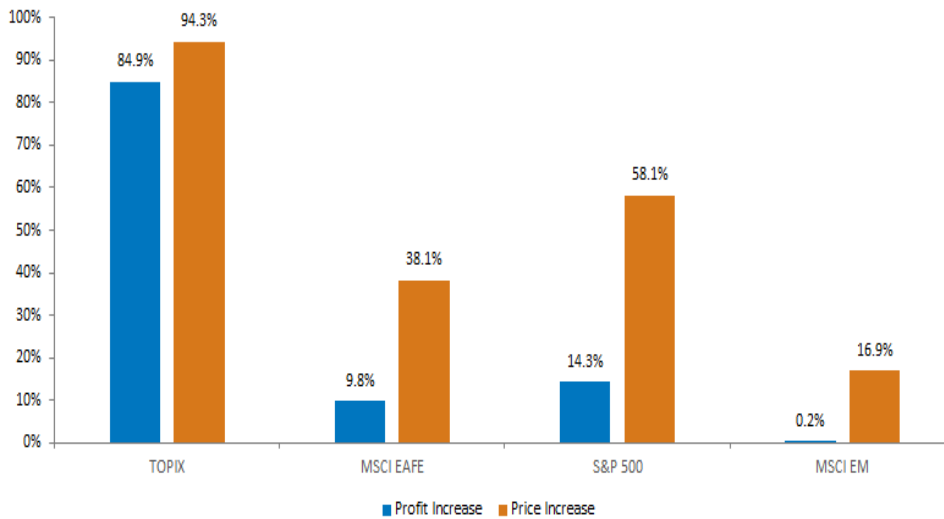
Japan, despite these strong gains over the full period, has been one of the tougher markets to hold over this period due to the higher [volatility](#) that comes with the country. Higher volatility theoretically creates opportunities for people to allocate more when prices fall, and remove weight when prices rise.

In many ways, the volatility levels of Japan rival that of other emerging market countries, as Japan tends to be more prone to global growth dynamics and global sentiment.

### Why We Still Like Japan

One of the critical reasons WisdomTree still remains [bullish](#) in our outlook for Japan is that over this four-year period, the country kept pace with the U.S., and the U.S. market was driven by equity markets expanding in valuations (based on metrics like [price to expected earnings](#), while Japan was driven by valuations contracting). Further, political stability is a hallmark of Japan today, while corporate governance has helped improve returns to shareholders through accelerated [dividends](#) and [buybacks](#).

### Price and Profit Growth



	TOPIX	MSCI EAFE	S&P 500	MSCI EM
Profit Increase	84.9%	9.8%	14.3%	0.2%
Price Increase	94.3%	38.1%	58.1%	16.9%
P/E Start (11/30/2012)	15.1x	13.0x	13.7x	11.6x
P/E End (12/31/2016)	15.9x	16.4x	18.9x	13.5x
Expansion in P/E	5.1%	25.8%	38.4%	16.6%

Sources: WisdomTree, Bloomberg, for the period 11/30/12–12/31/16. You cannot invest directly in an index. Past performance is not indicative of future results.

For definitions of terms and indexes in the chart, visit our [glossary](#).

The U.S. is expected to have an earnings rebound in 2017. Part of this is a rebound in Energy sector earnings, and part of it is typically bullish company analysts' expectations for corporate growth. Ultimately, some are starting to forecast an earnings stimulus plan with corporate tax cuts.

We recently discussed [our modeling of tax cuts](#) and found that earnings growth for the S&P 500 may be in the 7% to 15% range under a model we developed to estimate a tax impact. Of course, tax models are quite complex, and how the tax cuts are really implemented will greatly influence these outcomes.

Japan earnings estimates, in our opinion, are likely to also be revised higher in the coming months. Corporate Japan's forecasts and much of the analyst expectations for earnings were based on assumptions of ¥103 to the U.S. dollar. With the current rates of ¥115,<sup>2</sup> [we might see 8% to 10% earnings growth from Japan](#), based on some work from our Japan CEO, Jesper Koll.

### Volatile Markets

While we recognize Japan and the emerging markets are two areas that are tough to hold from a volatility perspective, that higher volatility may offer greater return potential to investors over time if they can look past the short-term ups and downs and look instead at long-term valuations and performance drivers.

Emerging markets have more risk levels, yes, so they typically sell at lower valuation multiples. But in our long-term research, market returns are driven by valuation multiples. The higher your valuation multiple, the lower the forward-looking prospect for returns. Lower valuation multiples can offer better potential for outperformance.

Recently, we discussed [the benefits of combining exposures to Japan with the emerging markets](#). Over the coming four years, I believe there will be value to having meaningful allocations to these regions in global portfolios.

<sup>1</sup>Sources: WisdomTree, Bloomberg, for the period 12/31/12 – 12/31/16.

<sup>2</sup>Sources: WisdomTree, Bloomberg, as of 1/20/16.

**Important Risks Related to this Article**

Diversification does not eliminate the risk of experiencing investment losses.

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty; this may be heightened in emerging markets. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations, derivative investments which can be volatile and may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

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You cannot invest directly in an index.

## DEFINITIONS

**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.

**MSCI All Country World Index** : a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed and emerging market countries.

**Currency hedging** : Strategies designed to mitigate the impact of currency performance on investment returns.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**Bullish** : a position that benefits when asset prices rise.

**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.

**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.