

WHAT DO JAPANESE INVESTORS THINK ABOUT BIG GLOBAL ISSUES?

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Japanese money has been flooding global markets: Japanese investors bought about \$110 billion in global securities in the four months ending April 30, 2016.¹ This was the biggest amount of net buying in any four-month period on record and comes on the heels of \$230 billion of net global buying during 2015. Of this year's \$110 billion, about \$90 billion went to global fixed income and about \$20 billion went to global equities. Clearly, [negative rates](#) at home are working to push Japanese money out into the world. While the economic rationale is understandable, relatively little is publicly known about what Japanese institutional investors are thinking about the big global questions of the day—the U.S. presidential elections; BREXIT; China's currency outlook; and Japanese tax hikes. Given the flow of Japanese money into global markets, you should want to know what Japanese investors are thinking about the major political and policy risks. To gain some insight, WisdomTree Japan conducted a survey at its latest Japan Investor Seminar held in Tokyo on May 16. The major results of this anonymous survey—with approximately 50 Japanese institutional investors—were as follows: **Which U.S. Presidential Candidate Would Be Better for U.S. Equities? More Confidence in Clinton Than in Trump** On the U.S. election, the big question on who will be the next president did not produce a winner. Exactly half the investors expect Trump to win and the other half expects Clinton to win. However, when asked who would be a better president for a strong U.S. stock market, 60% judge Clinton to be better than Trump for Wall Street performance. At the same time, the Japanese investors surveyed do expect a weaker U.S. dollar regardless of who becomes president, although Trump is seen as slightly more [bearish](#) for the U.S.: 70% expect a weaker dollar if Trump wins while 60% expect a weaker dollar if Clinton wins. Specifically on the dollar/yen exchange rate, the opinions appear divided: while 31% forecast the yen to strengthen past ¥100/\$ over the next twelve months, another 31% expect a fall in the yen to below ¥115/\$. Against this, a small majority of 38% expect the current ¥105–¥110 range to stay in place for the next twelve months. The result looks like a nicely balanced bell curve distribution, with a Trump victory possibly tilting the consensus balance toward a weaker dollar? We shall see. One investor went out of his/her way and commented that neither Clinton nor Trump will be good for U.S. markets: "Clinton lacks imagination and brings no policy creativity, which leaves the markets rudderless and 'without a dream,' while Trump is too creative and aggressive, which feeds first and foremost speculation and [volatility](#)" [my translation]. **China – More Devaluation Coming** On China's currency, the response was more clear-cut: 41% forecast a Chinese devaluation of around 5% over the next 12 months, with another 28% looking for a bigger devaluation of around 10%. In short: a Chinese devaluation is the consensus expectation. **No BREXIT...** The most clear-cut answer was on the question of BREXIT, with 86% expecting the UK to vote for staying in the EU. **...and No Tax Hike in Japan** On the home front, forecasts on the proposed 2017 hike in the consumption tax were also very close to unanimous: 90% of investors do not expect Prime Minister Abe to hike the tax in 2017; and only 10% expect the hike to be implemented. Interestingly, when asked whether the tax *should* go up, 31% said yes. Obviously, the sample size of our survey may not be sufficiently significant to extrapolate into a countrywide consensus picture. However, based on our formal and informal discussions, we think the insights offered are a relevant insight into currency investors' sentiment here in Tokyo. The key takeaway is that, viewed from Tokyo, U.S. dollar appreciation is now an anti-consensus call. Chinese currency stability would also be a positive surprise, while the reality of a BREXIT would come as a total shock. And on the home front, not delaying the tax hike would be a big blow to investor confidence. In my personal view, I am happy to be anti-consensus and call for dollar strength as well as Chinese stability. As for Japan, yes, I do expect Prime Minister Abe will forego a tax hike next year, although he might well delay his decision until October/November (and use it as a vote-getting tool for a snap election at year-end).

¹Source: Source: Bank of Japan, as of 4/30/16.

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