

# JAPAN IS READY FOR TRUMP

Jesper Koll — Senior Advisor

11/10/2016

The initial risk-off shock reaction in Japanese markets notwithstanding, I think Japan is actually well prepared for a Trump presidency. In my view, Team Abe will surprise us with a speedy and constructive counter policy—a sizable fiscal “war chest” has been put aside already, de facto monetized by the Bank of Japan’s (BOJ) commitment to cap borrowing costs at 0%.

Moreover, once the dust settles and the White House top-down economic policy leadership is re-established in Washington, corporate Japan could well benefit—approximately 14% of the profits that Japan Inc. makes comes from North America-based production, so Trump’s promise of a sizable cut in corporate taxes could well add at least a couple of percentage points to Japanese earnings next year.

## Be Prepared...

Team Abe has been in power for almost four years, is well-coordinated and has a two-thirds supermajority in parliament. Arguably, it is the most stable and coordinated policy regime in the world. And as an added bonus: unlike Europe, Abe’s financial regulators preside over a stable and well-capitalized banking system.

## ...and Act

The ability and willingness to act are based on Team Abe’s commitment to massive fiscal countermeasures—¥28 trillion, or 5.5% of [GDP](#), were ratified by Abe’s cabinet in early August. In short: the war chest has been put together ahead of time. No question that “Trump risk” was a key motivator. Now, should [deflation](#) risks rise due to Trump, an added fiscal boost can come quickly and is likely to be monetized by the BOJ.

## What about the Yen?

Yesterday’s risk-off reaction—yen strength, [Nikkei](#) crash—is a standard-procedure market reaction. Whether it turns into a genuine crash depends on Trump’s ability to demonstrate policy leadership. If, as I suspect, he presents a policy team with credible professionals over the next four to six weeks, risks of a sustained rot should recede. The sooner the deal maker and pragmatic capitalist replaces the divisive campaigner, the better.

For currencies, a key force should be U.S. trade policy. If America turns protectionist by imposing tariffs on imports, a structural downshift in the dollar is likely. Here, in my personal view, the hope is that President Trump turns out to be a pragmatist and deal maker. U.S. industry, which relies on the rest of the world for almost half its sales, is poised to work overtime to prevent a Washington-led global trade war.

Note here that not proceeding with the [Trans-Pacific Partnership \(TPP\)](#) is not the start of a trade war. It merely retains the status quo—no added benefits but also, on its own, no added damage. As discussed, tariffs or no tariffs are the litmus test.

Meanwhile, Trump’s election promise of ending tax inversions and incentivizing repatriation of overseas earnings should, at the margin, add to the demand for dollars.

## Domestic Agenda

In Japan, the TPP legislation is poised to pass parliament regardless. This is because the added support for farmers and regional economies is an integral part of Team Abe’s domestic policies, with or without the potential trade liberalization.

Meanwhile, Abe’s personal ambition of rewriting Japan’s constitution to allow greater self-dependency and independence may be turbo-charged by a Trump presidency. Ditto for chances of a successful Abe–Putin meeting later this year.

For next year, Team Abe will have to find a new way to engage with China more constructively. However, here Japan is likely to wait and see how President Trump will deal with China. In my personal view, the more hardline Trump is, the more likely a Japan–China rapprochement becomes.

Important Risks Related to this Article

Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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

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

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## DEFINITIONS

**Gross domestic product (GDP)** : The sum total of all goods and services produced across an economy.

**Deflation** : The opposite of inflation, characterized by falling price levels.

**Nikkei 225 Stock Average Index** : A price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

**Trans-Pacific Partnership (TPP)** : a trade agreement among twelve of the pacific rim countries (including China) which aims to 'promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in the signatories' countries; and promote transparency, good governance, and enhanced labor and environmental protections.