
WHY THE TIMING LOOKS RIGHT FOR JAPAN

Jeremy Schwartz — Global Chief Investment Officer
09/22/2020

On last week's Behind the Markets podcast, we had the pleasure of speaking to Jesper Koll, Senior Advisor to WisdomTree, about the current state of Japanese markets and politics. Japan has a new prime minister, and a noted [value](#) investor Warren Buffett just made a \$6 billion investment in five Japanese stocks, highlighting some opportunities.

Japan's PM Steps Down

While Prime Minister Abe resigned due to health reasons, there is consistency and stability in Japanese politics given that the new prime minister, Yoshihide Suga, was a leader in Abe's administration and orchestrated many of his policies. [Fiscal](#) and [monetary](#) stimuli look firmly in place, with the head of the Bank of Japan (Governor Kuroda) remaining in his job until 2023, and the head of the finance ministry remaining the same as under Abe.

Japan pushed the envelope for fiscal expansion supported by central bank easing, but raising the consumption tax created challenges. Suga made it clear that the consumption tax will not increase for the next 10 years. There also has to be a general election by late 2021, so keeping fiscal spigots open will be part of the strategy to rally support.

Warren Buffett Invests in Japanese Companies

We spoke to Koll about why Buffett bought positions in five Japanese trading companies. We've recently covered this topic in some detail, outlining the other [reasons beyond cheap valuations](#).

No Yen Exposure: An underappreciated point is that Buffett made these Japan investments while also neutralizing his yen exchange rate risk. Most investors leave currency [unhedged](#), and I think Buffett shows that focusing on buying inexpensive overseas assets—focusing solely on the equity opportunity while taking currency exposure off the table—is the most sensible way to allocate over the long run.

Japan for Global Cyclical Trade: Some investors are positioning for a market rotation from defensive sectors and technology outperforming to more cyclical ones leading the charge over the near term. Japan is one of the most cyclical growth stories around the world, as 60% of listed company profits comes from overseas. A decade ago, America was 50% of Japanese corporate profits, but now it is down to less than one-quarter. China is up from 8% to more than 20% of profits and is experiencing a V-shaped economic recovery after the initial rout caused by the pandemic. Koll expects earnings surprises from the growth in China. He also anticipates that Japan will benefit from rising U.S. tensions with China as companies need to find new places to do business.

Japan's [Small Caps](#) as Strategic Allocation for Next 3–5 years: Koll sees a [merger and acquisition](#) boom on the horizon with [mid-size](#) companies consolidating. This should be very good news for small-cap companies as a structural play for Japanese markets.

Tesla Killer? Japan is known for its car companies, and Koll sees developments at Toyota (through sheer volume of production) and Nissan innovating in the electric vehicle space as a "Tesla killer." That will be interesting to watch, given the importance of car companies to [large-cap](#) Japan.

You can listen to the full conversation with Jesper Koll below.

Behind the Markets on Wharton Business Radio - Behind The Markets Podcast: Jesper Koll

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)

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 and Brian Manby 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

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 time.

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Unhedged : Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.