

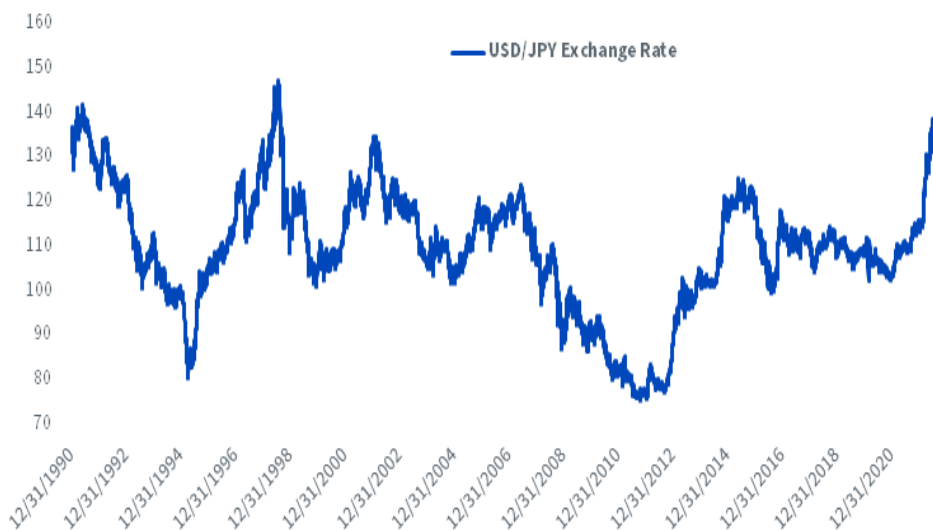
# THOUGHTS ON THE JAPANESE YEN AT 145

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On July 21, 2022, the European Central Bank [hiked rates](#) by 0.50% to 0.00%, effectively ending its experiment with a negative [interest rate](#) policy. This made the Bank of Japan one of only two [central banks](#) in the world with a negative [deposit rate](#). Since that time, the Japanese yen has come under pressure versus the U.S. dollar, with the exchange rate rising to 145, a level not seen since the late 1990s.

While a weaker yen helps Japanese exports, investors with exposure to unhedged Japanese equities have experienced losses of more than 20% year-to-date. By contrast, the [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#) is up 6%. With currency risk playing such an important role in international investing, we decided to take a closer look at the drivers of return in Japanese markets.



Source: Bloomberg, as of 8/31/22. Past performance is no guarantee of future results.

**Scenario 1: MSCI Japan Index Up, JPY Down**

Year	JPY/USD	MSCI Japan Index (Local)	MSCI Japan Index (USD)
2005	-12.83%	44.58%	25.52%
2006	-1.12%	7.26%	6.24%
2009	-2.43%	9.12%	6.25%
2012	-11.31%	21.57%	8.18%
2013	-17.63%	54.58%	27.16%
2014	-12.02%	9.48%	-4.02%
2015	-0.47%	9.93%	9.57%
2021	-10.25%	13.44%	1.71%
YTD	-20.14%	-1.04%	-20.00%

Over the last few decades, the yen has been negatively correlated to the equity market. Put another way, when the yen is falling, [stocks](#) are rising (and vice versa). This is the classic example of why we believe that [currency hedging](#) in Japan makes sense. In years like 2014, an investor could get the market call correct (equities higher) but still lose money on account of the losses from the exchange rate. In nine out of the last 24 years (the most common outcome in our study), yen weakness has ultimately led to higher returns in Japanese equities.

#### Scenario 2: MSCI Japan Index (Local) Down, JPY Up

Year	JPY/USD	MSCI Japan Index (Local)	MSCI Japan Index (USD)
2002	10.81%	-18.76%	-10.28%
2007	6.54%	-10.21%	-4.23%
2008	23.17%	-42.56%	-29.21%
2011	5.50%	-18.73%	-14.33%
2016	2.78%	-0.74%	2.38%
2018	2.81%	-15.15%	-12.88%

During periods of heightened risk aversion, Japanese equities can fall, and the yen appreciates versus the U.S. dollar. These years are often described as the unwinding of the yen's "carry trade." Since interest rates in Japan tend to be lower than in other markets around the world, the yen can be a preferred funding currency. Borrow yen and buy risky assets. When risky assets start to underperform, the yen tends to appreciate as the trade gets reversed.

#### Scenario 3: Positive Calendar Year Returns for MSCI Japan Index and the JPY



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There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as the risk of loss from currency fluctuation or political or economic uncertainty. 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 and interest rate fluctuations. Derivative investments can be volatile, and these investments 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. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For the top 10 holdings of DXJ please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dxj>

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**Related Funds**

+ [WisdomTree Japan Hedged Equity Fund](#)

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You cannot invest directly in an index.

## **DEFINITIONS**

**Rate Hike** : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

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

**Central bank** : Refers to the the monetary authority of any country.

**Deposit Rate** : The rate parties receive for deposits at the central bank.

**Stock** : A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

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