

---

# WHICH COMPANIES PLANNED FOR A STRONG YEN IN 2017?

Christopher Gannatti — Head of Research, Europe

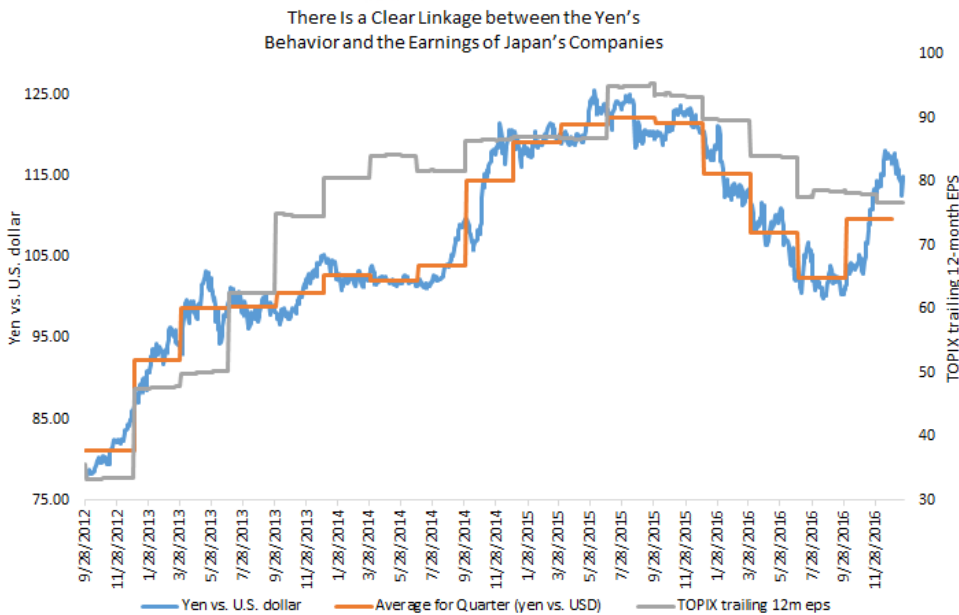
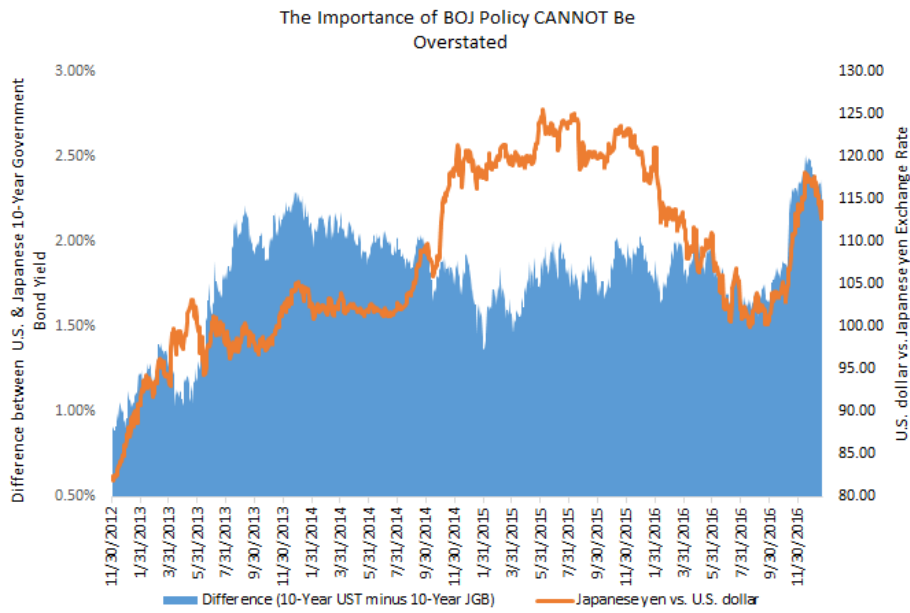
02/21/2017

In reviewing the most recent company presentations from some of Japan's largest exporters, we noticed the following:<sup>1</sup>

- Toyota lost ¥565 billion in the first half of fiscal year 2017, due to a stronger yen.<sup>2</sup>
- Nissan lost ¥179.8 billion over the same period for the same reason.<sup>3</sup>
- Honda lost ¥943.9 billion in the first half of fiscal 2017, due to currency impacts.<sup>4</sup>
- Bridgestone's operating income was down ¥49.2 billion over the first nine months of 2016 compared to the first nine months of 2015, and currency was a ¥48 billion negative headwind.<sup>5</sup>
- Denso, a manufacturer of electronic parts for automobiles, saw a negative ¥59 billion impact compared to the second quarter of Japan's 2016 fiscal year, which ended September 30, 2015.<sup>6</sup>

Clearly, the yen matters—something that we've been saying for some time. A weaker yen creates the potential to unlock the [valuations](#) of Japan's equity markets.

**For Japan's Equities Today, There Are Two Driving Dynamics**



Sources: WisdomTree, Bloomberg, with data shown for the period 12/30/12–1/20/17. You cannot invest directly in an index. Past performance is not indicative of future results.

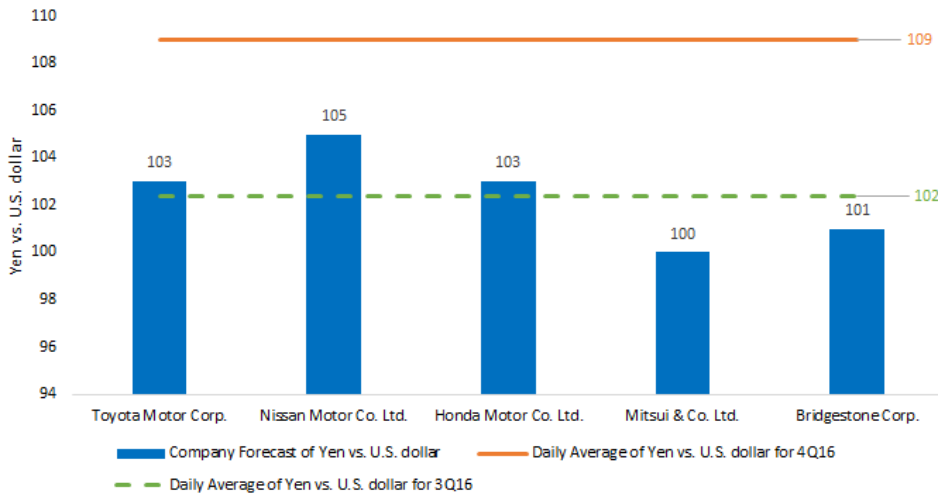
- On September 21, 2016, the yen had a closing value of ¥100.32 against the U.S. dollar<sup>7</sup> as the Bank of Japan (BOJ) announced a policy that would target the yield of the 10-year Japanese government bond (JGB) at close to 0%. In its statement, the BOJ also mentioned a commitment to overshooting the 2% inflation target, showing a tendency to move slower rather than faster when it is time to remove monetary stimulus.<sup>8</sup> In hindsight, this was the perfect setup for the surprise presidential election victory of Donald Trump and the reflation trade that followed. As the differential between the U.S. 10-Year Treasury yield and the Japanese government bond yield increased, the yen weakened almost in lockstep.

- A clear relationship exists between the level of the yen—particularly its average over a given quarter—and the subsequent earnings of Japan’s equity market. The two largest depreciations in the yen’s quarterly average against the U.S. dollar occurred during the initial publicity around [Abenomics](#) and Prime Minister Shinzo Abe’s election and then BOJ Governor Haruhiko Kuroda’s surprise October 31, 2014, move to expand the [QQE program](#).<sup>9</sup>
- The highest [earnings per share](#) that we’ve seen in recent history on the [Tokyo Stock Price Index \(TOPIX\)](#) occurred during 2015—the same year in which we saw the yen touch ¥ 125–126 levels against the U.S. dollar—the weakest that we have seen during Abenomics.
- We haven’t yet seen any response within the earnings of TOPIX to the post-2016 U.S. presidential election yen weakness, but it is also notable that it is too early for many of the firms to have reported fourth-quarter results. A change in trend could be powerful here, if it is seen.

**Companies Planned for a Stronger Yen Than Was Seen**

As part of their corporate planning process, Japanese companies—especially the larger exporters—tend to predict where they think that the yen will be over the upcoming quarter. Most recently, this process occurred as companies closed the books on the third quarter of 2016.

**The “Trump Election” Move Led to Significant Depreciation of the Yen in the Fourth Quarter of 2016**



Sources: Bloomberg, company presentations depicting financial results for the period ended 9/30/16. You cannot invest directly in an index. Holdings subject to change.

Above, we looked at the actual estimates provided in the most recent company presentations for the five largest companies within the Consumer Discretionary and Industrials sectors from within the [WisdomTree Japan Hedged Equity Index](#). What we saw is that their estimates were very much in line with the average for the third quarter of 2016—and it makes sense that companies were prepared for the environment that they had just experienced. ¥109—the daily average level of the yen for the fourth quarter against the U.S. dollar—is a big move up. As of this writing, the yen was at approximately ¥113, indicating still further depreciation compared to the average for the fourth quarter of 2016.

**Bottom Line: Can Earnings [Momentum](#) Increase?**

The current expectations are for 10% earnings growth in 2017, based on assumptions of ¥105 to the U.S. dollar.<sup>10</sup> If this level is ¥115, an incremental 8% to 10% could be added to these growth estimates, in our view.<sup>11</sup> While we recognize that the market has moved upward, finding such strong earnings potential in global markets today is far from easy.

<sup>1</sup>For current holdings of WisdomTree Indexes and Funds, visit [wisdomtree.com](http://wisdomtree.com).

<sup>2</sup>Source: "FY2017 Second Quarter Financial Results," Toyota Motor Corporation, 11/8/16.

<sup>3</sup>Source: "FY2016 First Half Financial Results," Nissan Motor Co., Ltd., 11/7/16.

<sup>4</sup>Source: "FY17 2nd Quarter Financial Results," Honda Motor Co., Ltd., 10/31/16.

<sup>5</sup>Source: "Financial Results for 3rd Quarter of Fiscal 2016," Bridgestone Corporation, 11/9/16.

<sup>6</sup>Source: "FY 2017 2nd Quarter Financial Results ended Sep 30, 2016," Denso Corporation, 10/28/16.

<sup>7</sup>Source: Bloomberg.

<sup>8</sup>Source: "New Framework for Strengthening Monetary Easing: 'Quantitative & Qualitative Monetary Easing with Yield Curve Control,'" Bank of Japan, 9/21/16.

<sup>9</sup>Source: "Expansion of the Quantitative & Qualitative Monetary Easing," Bank of Japan, 10/31/14.

<sup>10</sup>Source: Bloomberg.

<sup>11</sup>Source: WisdomTree Japan.

#### **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 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 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

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**Japanese Government Bond (JGB)** : A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

**Inflation** : Characterized by rising price levels.

**Reflation** : The term is used to describe the first phase of economic recovery after a period of contraction. This period is typically characterized by the act of stimulating the economy through accommodative central bank policies and reducing taxes, to bring growth and inflation back up to the long-term trend.

**10-year government bond yield** : Yields on the 10 year government debt security.

**Abenomics** : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

**Quantitative and qualitative monetary easing (QQE)** : A central bank monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

**Earnings per share** : Total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual Index screening date compared to the prior 12 months. Higher values indicate greater growth orientation.

**Tokyo Stock Price Index (TOPIX)** : A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

**Momentum Factor** : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.