

AFTER COVID: JAPAN'S CATCH-UP

Jeff Weniger — Head of Equity Strategy
08/30/2021

Better late than never. After a disappointing start to its vaccine rollout, Japan got on its feet in August, vaccinating as many as 1.58% of the population per day at the peak of the campaign. For context, the highest level of daily doses administered in the U.S. was 1.01% in April¹.

Though Japan's vaccination pace has tapered as the ranks of the inoculated builds, it's now in that zone where anyone who wants the vaccine can easily get it. Critically, more than four out of every five seniors have been fully vaccinated, with that cohort's proportion surpassing that of the U.S. in mid-August². Nevertheless, the younger age groups' vaccination rate still lags that of Western Europe and North America, though it appears a full catch-up with other G7 members should be on the docket for next month.

With Japan no longer behind on COVID-19 vaccinations, its relative investment merit falls back on traditional metrics such as valuations and the matter of whether the country's shareholder friendliness is on the mend.

The latter is a particular sticking point.

Shareholder rights—or lack thereof—has long been an issue with Japan, particularly the far-too-ubiquitous scenario where corporations have piles of cash but pay peanuts in dividends. Year after year, the cash stockpile crushes profitability metrics such as [return on equity \(ROE\)](#) because the earned interest rate is in the basement.

Nevertheless, sometimes the story does not completely line up with the actual situation on the ground. MSCI Japan's component companies increased dividends at a 7% annual clip from 2012–2019. Perhaps more importantly, payouts were cut just 3% in reaction to COVID-19 lockdowns. That is a notably different experience than in most of the rest of the developed world (figure 1).

Figure 1: Dividend Growth, Developed Markets

Year	U.S.	Japan	Switzerland	Canada	Germany	France	U.K.
Annualized 2012–2019	6.9%	7.2%	4.3%	3.1%	4.2%	3.9%	2.3%
COVID-19 Year (2020)	2.7%	-2.9%	-2.8%	0.9%	-17.1%	-44.3%	-38.6%
Annualized 2012–2020	6.4%	5.9%	3.4%	2.7%	1.2%	-3.9%	-4.0%

Source: WisdomTree, MSCI. Dividend payments aggregated from MSCI ACWI constituents.

Suddenly the market finds itself in a scenario where the MSCI Japan index—long notorious for paltry dividends—exceeds the yield of the S&P 500 by 71 [basis points](#) (2.03% vs. 1.32%). Our own [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#) yields 2.82%, about double what can be found in the U.S. broad market.

Additionally, DXJ's forward earnings multiple is 12.3, so its [earnings yield](#) is the reciprocal of that figure, 8.1%. In contrast, the [S&P 500's forward price-to-earnings \(P/E\)](#) multiple is 22.2; its earnings yield is just 4.5%.

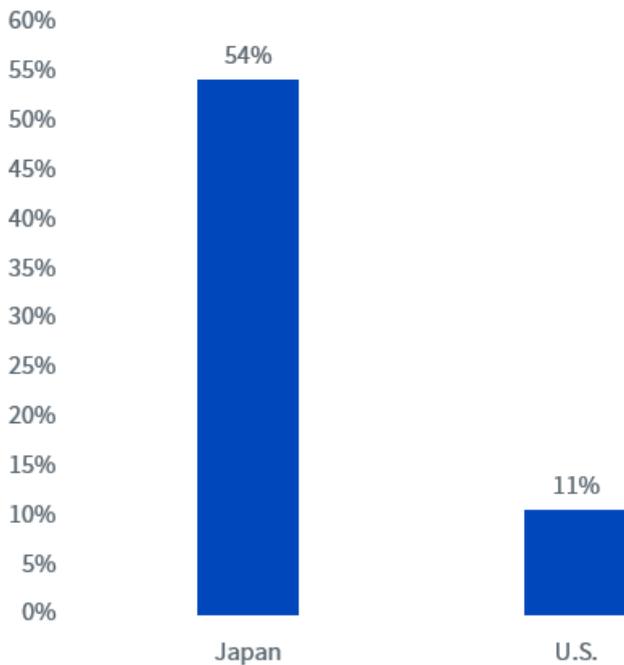
There are some promising developments for investors who itch for [dividend](#) boosts. With COVID-19 dominating global headlines, it was easy to miss the update to Japan's corporate governance code, which happened in June.

Notable developments include a new requirement that the number of independent board directors must increase from two individuals to one-third of the mix. Additionally, on board diversity, there is a push to put non-Japanese in senior management, potentially mitigating cronyism. Another initiative that may help Japan's stock market is a new requirement to publish disclosure materials in English.

Something else to note: a common instinct to self-insure at the household level, which may help Japan's economy hold

up better than others in the event of some systemic shock. To wit, over half of household assets are held in bank accounts or cash, about five times the U.S. proportion (figure 2).

Figure 2: Household Cash & Deposits as Percentage of Total Assets



Sources: Bank of Japan, Federal Reserve, as of Q1/21.

Things are clicking for Corporate Japan; with about 10 points of forward P/E “savings” in DXJ relative to the S&P 500, it could be a [contrarian](#) value play for investors willing to engage the world’s third-largest economy.

Beyond DXJ, two other mandates to investigate are the [WisdomTree Japan SmallCap Dividend Fund \(DFJ\)](#) and the [WisdomTree Japan Hedged SmallCap Equity Fund \(DXJS\)](#).

Unless otherwise stated, all data, as of 7/31/21, from WisdomTree Digital Portfolio Developer.

¹ Source: Our World in Data.

² Japan Reaches 100m COVID-19 Doses, Surpasses U.S. in Proportion of Older Folk Fully Vaccinated, Straits Times, 8/11/21.

Important Risks Related to this Article

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Standardized performance and 30-day SEC yield for DXJ is available [here](#).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

This material must be preceded or accompanied by a prospectus. Please read the prospectus carefully before investing

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Funds focus their 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, interest rate fluctuations, derivative investments which can be volatile and may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As DXJ and DXJS can have a high concentration in some issuers, the Funds can be adversely impacted by changes affecting those issuers. Funds focusing their investments on certain sectors and/or smaller

companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Due to the investment strategy of DXJ and DXJS, these Funds may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding the Funds' risk profiles.

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

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.

Related Blogs

- + [A Surprisingly Low-Vol Asset Class](#)
- + [Take Notice: Reviewing Buffett's Japan Buys](#)

Related Funds

- + [WisdomTree Japan SmallCap Dividend Fund](#)
- + [WisdomTree Japan Hedged SmallCap Equity Fund](#)
- + [WisdomTree Japan Hedged Equity Fund](#)

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, 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

G7 : The Group of 7 is a group consisting of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Earnings yield : The earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Forward P/E ratio : Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

Dividend : A portion of corporate profits paid out to shareholders.

Contrarian : Practice of seeing what the majority of market participants are focused on and attempting to look in the complete opposite direction.