What's Hot: US-Japan trade accord: Opportunities as the dust settles

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Wichtige Erkenntnisse

- The US–Japan trade deal improves market sentiment by reducing tariff uncertainty, though growth expectations remain modest.
- Industrials, machinery, and financial sectors are best positioned to benefit from Japan's investment pivot and policy backdrop.
- Investor focus is shifting toward high dividend yielding stocks with resilient earnings profiles amidst a steeper yield curve.

The recently signed US–Japan trade agreement has injected fresh momentum into Japanese markets. While the deal stops short of a transformational shift in the bilateral relationship, it represents a significant step in reducing policy uncertainty for Japanese exporters and sets the stage for more stable investment conditions. The implications are nuanced but clear – the path ahead favours selective exposure to sectors poised to benefit from more predictable trade dynamics and Japan's strategic realignment of outbound investment.

A trade agreement that calms but does not catalyse

At the centre of the agreement is the decision by the US to raise its baseline tariff on Japanese goods from 10% to 15%[1]. This comes alongside a notable concession: the lowering of auto tariffs from 25% to 15%. The avoidance of steeper duties is a modest relief, particularly for Japan's auto sector, which plays a pivotal role in the economy and supports a wide network of domestic suppliers.

Although the effective US tariff rate on Japanese exports is expected to settle near 17%, up from previous levels, the risk of a more punitive regime has been averted. As a result, Japanese equities responded with an initial rally, led by auto and industrial names. However, beneath the surface, a more important shift is underway. Investors are beginning to distinguish between sectors that simply avoided downside and those that stand to create value in the new trade and investment landscape.

Auto sector rebound as tariff risk recedes

The auto sector was the immediate beneficiary of the trade deal, with Japanese original equipment manufacturers rebounding sharply—Toyota rose 14.34%, Honda gained 11.15%, and Subaru climbed

16.61%[2]. In our view, this move largely reflects a reversal of April's overly pessimistic pricing, which had over-discounted the impact of higher tariffs. With tariff rates now clarified at 15%—lower than the previously feared 25%—and given the significant US-based production footprint of Japanese automakers, the sector appears de-risked. While competitive pressure from Chinese and European EV makers remains, we believe this is already reflected in current valuations, which remain relatively low by historical standards.

Industrial and machinery firms in the spotlight

In contrast, we believe the machinery and shipbuilding sectors offer more compelling medium-term upside. These industries are expected to benefit from Japan's pledge to invest approximately US$ 550bn into the United States. Although details remain limited, indications point to allocations targeting semiconductors, defence manufacturing, and critical infrastructure. Japanese companies such as Kawasaki Heavy Industries and THK Co Ltd, which have strong exposure to these areas, are likely to see sustained investor interest. We see this as a more durable tailwind for capital goods exporters.

Banks and financials regain momentum

Beyond industrials, banks and financial institutions represent a second area of opportunity. The reduction in trade uncertainty lowers one of the key risk premia embedded in the Japanese macro-outlook. If business sentiment and capital spending begin to recover, domestic lenders are well positioned to benefit from an improved credit cycle. Additionally, the gradual rise in long-term bond yields and a shift toward policy normalisation by the Bank of Japan create a more constructive backdrop for bank profitability. Large-cap names such as Sumitomo Mitsui Financial Group and Mitsubishi UFJ Financial Group continue to offer attractive relative value.

Fiscal policy tailwinds

We also see opportunities in construction and building materials. These sectors are positioned to benefit not only from overseas infrastructure collaboration tied to Japanese investment in the US but also from an expected pick-up in domestic fiscal stimulus. If government spending accelerates under a new administration, firms involved in public infrastructure, logistics and energy-related projects could be key beneficiaries. In parallel, sentiment has been shifting toward high-dividend, domestically focused stocks. As the market digests the macro impact of the trade deal, we believe there is growing appetite for names that combine earnings resilience with shareholder returns.

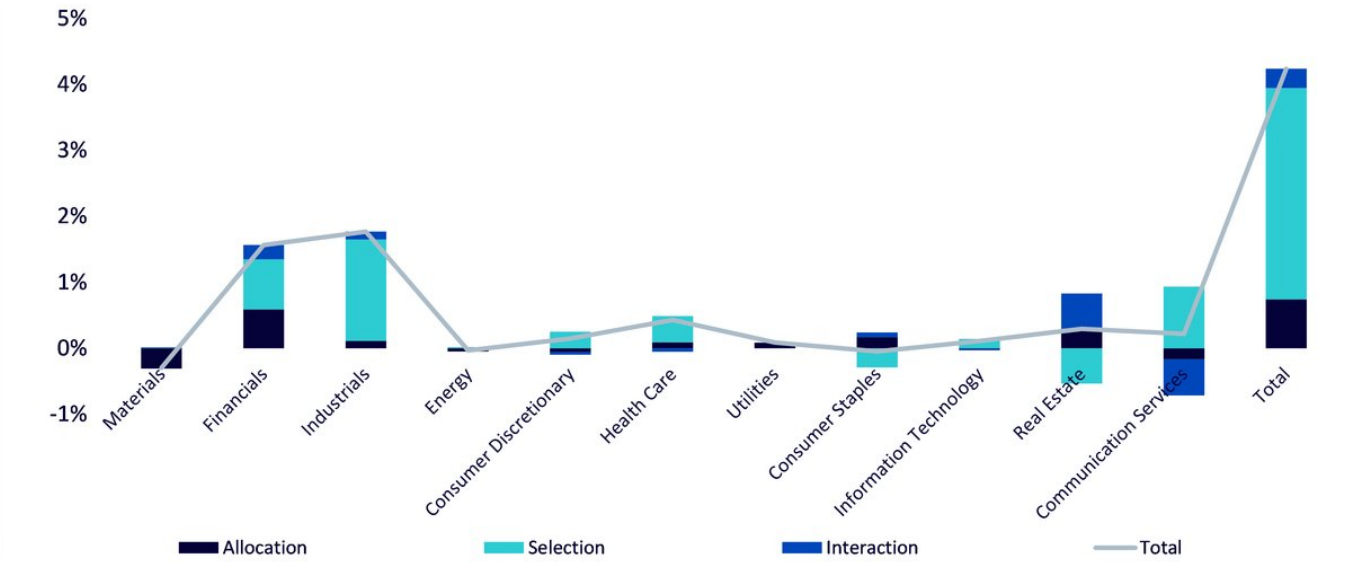
Political risks remain, particularly as Prime Minister Ishiba faces mounting calls to step down following recent electoral setbacks. Should a new administration embrace a more expansionary fiscal posture especially under leadership that favours stimulus and tax relief it would create a more supportive backdrop for financials, construction, and high-yielding equities.

Capturing the opportunity with WisdomTree

For European investors seeking to capitalise on Japan's evolving trade landscape and sector-specific opportunities, the WisdomTree Japan Equity UCITS ETF (DXJ) offers a valuable solution aligned with the macro and sector trends emerging from the US–Japan trade deal.

DXJ tracks a fundamentally weighted index that selects Japanese companies deriving at least 20% of revenue from overseas markets, with a strong emphasis on high dividend paying exporters and industrial cyclicals. This aligns well with the expected beneficiaries of Japan's outbound investment in the US, particularly in machinery, shipbuilding, capital goods, and precision manufacturing. In addition, DXJ has meaningful allocations to materials, financials and industrials, sectors that are expected to benefit from improved domestic credit conditions and a steeper Japanese yield curve. Over the past 3 years, the WisdomTree Japan Hedged Equity UCITS Index outperformed the MSCI Japan Index by 4.24% benefitting from its allocation to financials, industrials, real estate and communication services.

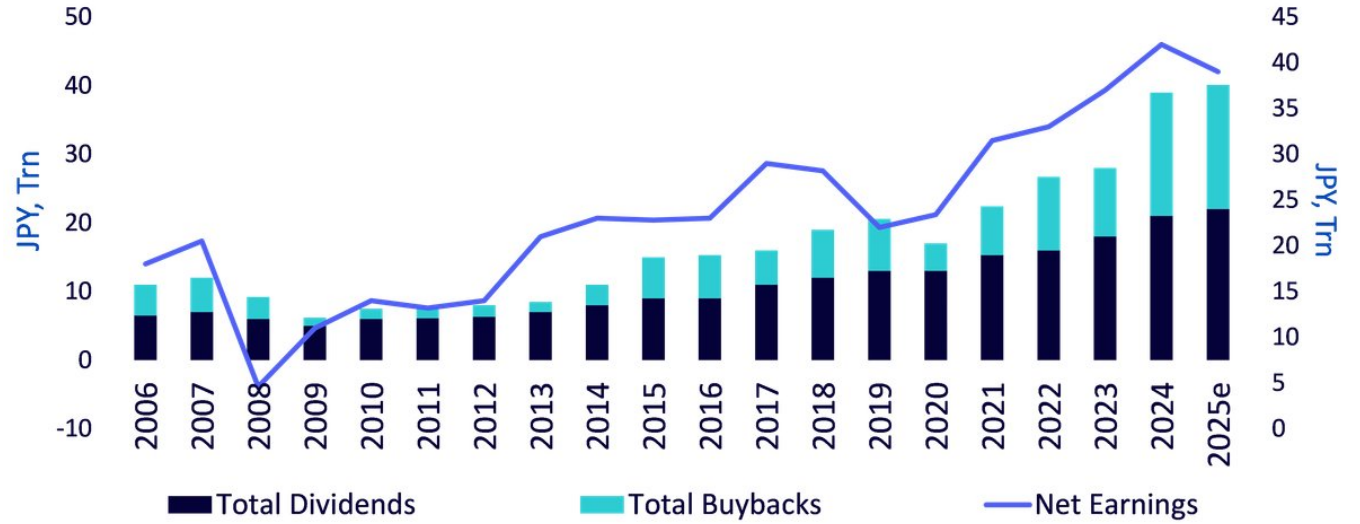
Figure 1: Sector Attribution – 3 Years



Source: FactSet, WisdomTree from 30 June 2022 of 30 June 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

DXJ incorporates a dividend weighting methodology that tilts toward higher-quality companies with stable cash flows and strong shareholder return profiles. As investor preference rotates toward income-generating, capital-efficient businesses, DXJ is well placed to capture this shift. This dividend orientation also aligns with the ongoing transformation in Japanese corporate behaviour, where firms are increasingly deploying capital via share buybacks and higher dividends—trends that have accelerated since the implementation of governance reforms and Tokyo Stock Exchange (TSE) pressure for improved Return on Equity (ROE).

Figure 2: Total Shareholder Payout



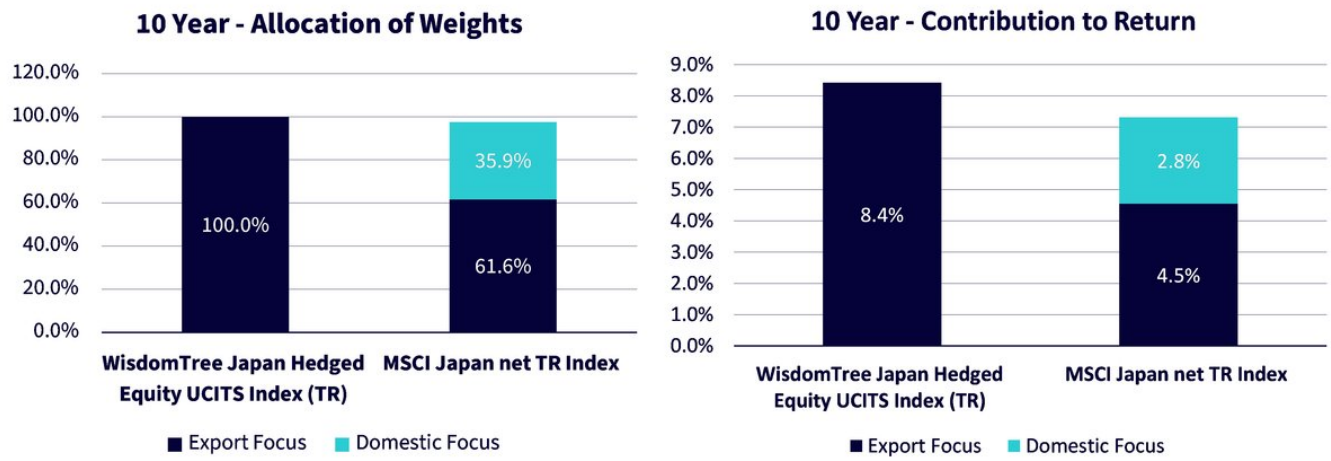
Source: Universe of Tokyo Stock Exchange and Prime Market firms; net profits in FY25 based on latest Toyo Keizai forecasts, Bloomberg, FactSet as of 30 May 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Currency-hedged structure enhances return stability

A core feature of DXJ is its built-in USD hedging, which significantly reduces the impact of yen depreciation on total returns. Given the Bank of Japan's still-cautious stance and potential political obstacles to further monetary tightening, the yen is likely to remain weak relative to the US dollar. For European investors, DXJ helps isolate equity alpha from FX noise, providing a cleaner and more stable source of return.

This is especially important at a time when global macro conditions—particularly diverging central bank policies—are driving substantial currency volatility. Over the past 10 Years, the WisdomTree Japan Hedged Equity UCITS Index outperformed the MSCI Japan Index by 1.5% benefitting from its higher allocation to Japanese exporters.

Figure 3: Attribution of Returns over past 10 years based on geographic revenue exposure



Source: FactSet, WisdomTree from 30 June 2015 of 30 June 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

The ETF's factor profile includes value, quality, and dividend yield, which are particularly attractive in the current macro backdrop characterised by modest growth, ongoing inflation pressures, and political uncertainty.

Conclusion

In conclusion, while the US–Japan trade agreement does not fundamentally alter Japan's growth trajectory, it does recalibrate the near-term risk landscape and opens the door for sector-specific opportunities. In our opinion, the sectors best placed to benefit include capital goods exporters tied to industrial investment, banks aligned with domestic credit growth, and high-dividend domestic stocks that offer defensiveness in an uncertain macro environment. The case for Japan is increasingly about quality, selectivity, and positioning within the winners of a shifting global trade architecture.

[1] Bloomberg as of 22 July 2025

[2] Bloomberg as of 23 July 2025, one day performance in JPY

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