# What’s Hot: positioning for a stronger yen

Published 5 December 2025

**Dovile Silenskyte**
Director, Digital Assets Research

## Key Takeaways

- As the Bank of Japan prepares to raise interest rates, the yen carry trade is entering a critical phase that could trigger widespread cross-asset volatility.
- An abrupt unwind of yen-funded positions could force rapid deleveraging across equities, foreign exchange, credit, and crypto, but a gradual shift would allow investors time to reposition.
- Investors can navigate the volatility through currency-hedged Japanese equity strategies and targeted JPY exchange traded products for hedging or directional positioning.

At the start of December 2025, Bank of Japan (BoJ) Governor Kazuo Ueda delivered his clearest signal yet that a rate hike may be imminent. Markets reacted instantly and the Japanese yen (JPY) jumped roughly 0.6% against the US dollar (USD) as investors recalibrated expectations for Japan’s policy path.

For a currency long used as the world’s cheapest source of funding, even subtle shifts matter. With Japan now deep into its first tightening cycle in decades, those signals point toward one dominant theme: the unwinding of the yen carry trade.

## The trade: simple mechanics, high stakes

The yen carry trade is built on a simple idea: borrow in Japan at very low rates and deploy the capital into higher-yielding assets abroad. But that simplicity masks growing vulnerabilities as Japan exits its era of ultra-easy money.

Bank for International Settlements (BIS) data shows yen-denominated credit to non-residents grew 6% year-on-year in Q1 2025, reaching JPY 65.6 trillion[1]. Growth remains positive, but it has slowed steadily since Q3 2024, right after Japan began tightening and carry exposures began to unwind. This marked a clear downshift from the double-digit annual expansions seen in the years prior.

## Figure 1: 10-year Japanese Government Bond (JGB) yield




Source: Interest Rate : Ministry of Finance. 02 December 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

As Figure 1 illustrates, the 10-year Japanese Government Bond (JGB) yield climbed from 0.65% at the end of 2023 to 1.86% by early December 2025[2]. The ascent reflects a decisive departure from ultra-accommodative policy. First through adjustments to Yield Curve Control, then its removal, and finally the BoJ's early rate hikes and reduced bond purchases.

The 10-year JGB has become a clean visual proxy for a regime shift as markets are now pricing in sustainably positive inflation and wage growth, after decades where deflation was the norm.

## The timing: gradual vs abrupt unwind

With monetary tightening underway and funding costs rising, the debate is no longer if the carry trade unwinds, but how. Markets will price the difference aggressively.

If the unwind remains gradual:

- Funding costs rise in manageable steps, giving leveraged investors time to pare back risk.
- Yen appreciation unfolds over weeks rather than erupting in a single spike.
- Liquidity tightens but avoids sudden gaps.
- Cross-asset volatility firms but remains tradeable.

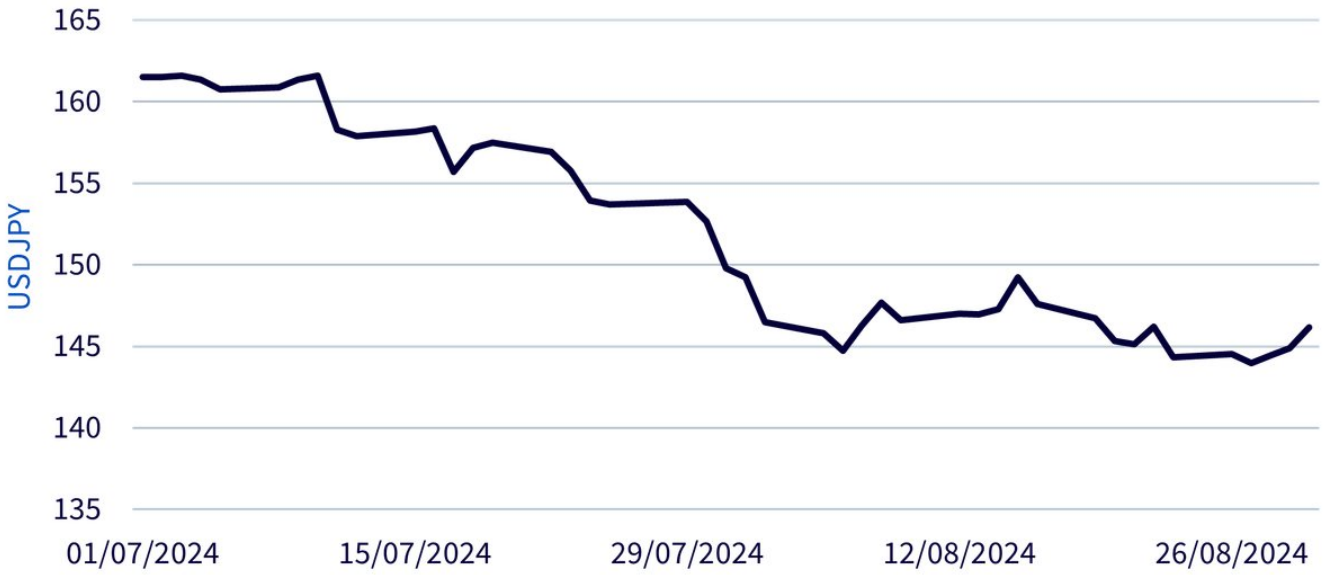
Under this path, capital still rotates back toward Japan, but repositioning can occur over months, not hours.

If the unwind accelerates:

- The yen can reprice sharply as crowded carry positions unwind simultaneously.
- Deleveraging spills into equities, foreign exchange, credit, and crypto.
- Cross-border flows reverse abruptly, particularly where yen funding is vital.
- Offshore funding spreads widen as liquidity thins.

Markets already saw a preview. In August 2024, the yen strengthened roughly 6% within days[3], slicing through carry exposures across asset classes. That is a reminder of how quickly positioning can unravel when funding conditions turn.

## Figure 2: When yen carry trade unwinds fast




Source: Optuma, WisdomTree. 02 December 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

What comes next reflects structural policy realignment, not a transient data point.

## Positioning: navigating a more volatile currency landscape

As currency volatility rises and carry trades unwind, the case for currency-hedged exposure to Japan becomes stronger.

WisdomTree Japan Equity UCITS ETF (DXJ) provides targeted access to dividend-paying, export-driven Japanese corporates that tend to benefit from a weaker yen but can see margins compressed when the currency strengthens.

Its currency-hedged share classes help investors stay exposed to corporate fundamentals while reducing the impact of yen volatility on portfolio returns.

For investors seeking directional exposure to the yen, whether defensive or opportunistic, WisdomTree's JPY exchange traded product suite provides tools for:

- Hedging international portfolios against yen strength.
- Trading foreign exchange momentum or mean reversion.
- Positioning around the timing of BoJ rate moves.

These instruments allow investors to navigate currency volatility proactively rather than simply absorb it.

## Final thought

For years, the yen carry trade has quietly underpinned global liquidity. As the BoJ prepares to tighten further, that support is fading, and the pace of the fade will set the tone for global markets.

- A gradual unwind means adjustment.
- An abrupt unwind means turbulence.

Either way, investors who recognise the timing dynamics and position early will be better placed to separate signal from noise as global markets transition into a more volatile, opportunity-rich phase.

[1] Statistical release: BIS international banking statistics and global liquidity indicators at end-March 2025
[2] Interest Rate : Ministry of Finance. 02 December 2025.
[3] BIS Bulleting No 90. The market turbulence and carry trade unwind of August 2024.

## Important Risks Related to this Article

# Important Information

**Marketing communications issued in the European Economic Area ("EEA"):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.**

An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained on this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for

distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information on this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

**WisdomTree Issuer ICAV**

The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer (“WT Prospectus”). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to

redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

**Notice to Investors in Switzerland – Qualified Investors**

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

**For Investors in France:**

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

**For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the

Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.

**For Investors in Israel:**

Offering materials for the offering of the Shares and securities have not been filed with or approved or disapproved by the United States Securities and Exchange Commission or any other state or federal regulatory authority, nor has any such regulatory authority passed upon or endorsed the merits of this offering or passed upon the accuracy or completeness of any offering materials. Any representation to the contrary is unlawful. The products mentioned herein have not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute "an offer to the public" under sections 15 and 15a of the Israel Securities Law, 5728-1968 ("the Securities Law") or section 25 of the Joint Investment Trusts Law, 5754-1994 ("the Joint Investment Trusts Law "), as applicable. The products are being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in the First Addendum ("the Addendum") to the Securities Law, "Sophisticated Investors") who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This prospectus or this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a product is purchasing such product for its own benefit and account and not with the aim or intention of distributing or offering such product to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing a product for another party which is a Sophisticated Investor).

Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995. Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. A recipient of this document may be required to provide confirmation that it is a Sophisticated Investor purchasing a product for its own account or, where applicable, for other Sophisticated Investors.