

How the Yen and Japanese equities benefit from the changes in US Treasury yields

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We believe the Yen, which rallied approximately 18% through the first three quarters of 2016, did so in part because expectations for Fed rate hikes were lowered in the first six weeks of 2016. That's changed dramatically since Trump's election, as prospects for future inflation and future GDP growth have improved. The Yen has weakened while US rates and the Dollar rose. This is providing a tailwind for Japanese stocks and for the earnings expectations for Japanese multinationals and Japanese banks this year. If one were neutralising the currency, Japanese stocks have been one of the best performing asset classes since Trump's victory – up more than 17%^[1]. Given the current differential in interest rates, we believe investors wishing to gain exposure to the Japanese, and even European, equity markets should consider doing so in a currency-hedged fashion.

As shown in the chart below, the Japanese Yen has been highly sensitive to the direction of 10-Year US Treasury yields. As yields have headed higher (green line), the Yen (magenta line) has weakened, depreciating from 100 to 117 compared to the Dollar. And as rates have risen and the Yen has weakened, the WisdomTree Japan Hedged Equity Index has moved in lock step with rising US interest rates – it's up 35%^[2] since interest rates bottomed July 8.

Source: Bloomberg, as of 31/12/2016. Past performance is not indicative of future performance. You cannot invest directly in an index.

Long-term strategic investment implications

With the investment landscape looking very different from a year ago, it may be time for investors to update their portfolios and rebalance accordingly. We believe key differentiators for this decision-making process are rising interest rates, GDP growth expectations and domestic tax cut expectations, meaning, in our view, potentially tilting toward Japanese hedged equities. For Japanese hedged equities, we offer the WisdomTree Japan Equity UCITS ETF USD Hedged (DXJ).

[1] As at 19 January 2017, as measured by the Nikkei 225 index.

[2] To 30 December 2016. Past performance is not indicative of future performance. You cannot invest directly in an index.

Short-term tactical trading opportunities

+ [Boost US Treasuries 10Y 3x Leverage Daily ETP \(3TYL\)](#)

- + [Boost US Treasuries 10Y 3x Short Daily ETP \(3TYS\)](#)
- + [Boost US Treasuries 10Y 5x Short Daily ETP \(5TYS\)](#)
- + [Boost TOPIX 2x Leverage Daily ETP \(2JAL\)](#)
- + [Boost TOPIX 1x Short Daily ETP \(1JAS\)](#)

Important Risks Related to this Article

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