

Japan is leading dividend growth in international markets

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WisdomTree

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Once a year, WisdomTree conducts a rebalance of its dividend-weighted stock indices which adjusts positions based on changes in relative valuations. We measure these relative valuations by examining stock price movements versus fundamentals in international markets. The primary variable we are utilising in our broad-based index strategies is a company's *Dividend Stream*®.

At this year's May rebalance, we noticed how Japan is leading the international markets in terms of underlying dividend growth. Looking across regional indices, whether looking at the trailing three-year or trailing five-year changes in dividends, Japan1 stands out from broad international indexes like MSCI EAFE or MSCI Europe. The five-year numbers come in at almost double digits—very close to the US markets, while for the latest three years, Japan actually came out with a dividend growth figure higher than the US. On a longer-term perspective, over the last 10 years—and that is a period that includes the financial crisis that caused dividend levels to sink across the globe—Eurozone regional indices still show lower overall dividends in 2017 than they did in 2007, but the three-year dividend growth shows a meaningful pickup recently.

Regional dividend growth

S&P 500 Index

MSCI Japan Index

MSCI Emerging Markets Index

MSCI ACWI ex-USA Index

MSCI EAFE Index

MSCI Europe Index

MSCI EMU Index

Source: WisdomTree, MSCI, as of 6/30/17. Dividend growth is calculated in local terms. Past performance is not indicative of future results. You cannot invest directly in an index.

WisdomTree's Japan Hedged Equity Index

This year's rebalance in the Japan index family did not result in large portfolio allocation shifts. From a sector perspective, Consumer Staples and Consumer Discretionary were two sectors that saw increases in weight, and Industrials and Materials saw the biggest two reductions in weight. In a way, this makes the Index modestly more defensive in nature due to historically lower betas of Consumer Staples companies, but this was only a modest change.

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Source: WisdomTree. Pre-rebalance data as of 16/06/17. Post-rebalance data as of 19/06/17. Past performance is not indicative of future results.

From a valuation perspective, the WisdomTree Japan Hedged Equity Index was already among the lowest priced indices that WisdomTree calculates for developed world exposure—and the index rebalance did not change those statistics noticeably. The price-to-earnings (P/E) ratio before and after was right around 13x earnings, and the dividend yield was 2.5%. Interestingly, that is approximately 25% higher than the ~2% dividend yield on the S&P 500, and we saw dividend growth levels for Japan rivaling the increases in dividends we see in the US.

Given lower returns on equity (ROE) in Japan—but a renewed focus on improving these ROE metrics—and high cash on the balance sheets among corporate Japan, it is our expectation that Japanese equities still have room to increase dividends and buybacks at a pace that rivals or can beat the US.

Valuations Multiples

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Source: WisdomTree. Pre-rebalance data as of 16/06/17. Post-rebalance data as of 19/06/17.

The combination of attractive valuations—the lowest P/E ratios in the developed world regions and Indices that WisdomTree covers—along with dividend growth among the highest levels makes for a very positive dynamic and continues to suggest over-weight allocations to Japan.

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1 Referencing the dividends of the MSCI Japan Index.

2 Y Charts: https://ycharts.com/companies/SPY/dividend_yield

Unless otherwise noted, data source is Bloomberg, as of 30 June 2017.

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