What’s hot: Central Banks - East raising and West cutting... China dithering

Pubblicato il 22 marzo 2024

Aneeka Gupta
Director, Macroeconomic Research, WisdomTree Europe

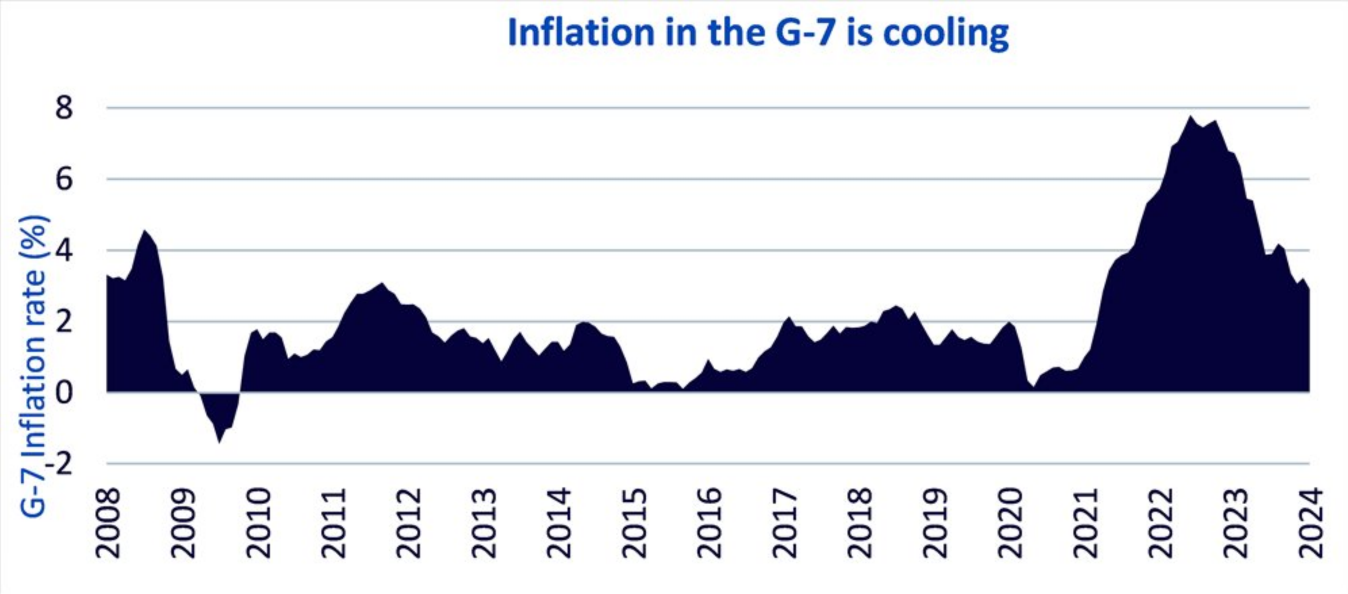
Punti chiave

- That last mile of inflation is causing more divergence across central banks globally.
- The BOJ embarked on a significant yet incremental step, exiting negative interest policy for the first time in 17 years.
- Japanese equities are likely to benefit from structural opportunities that may emerge from its exit from deflation.

- Related Products WisdomTree Japan Equity UCITS ETF - USD Hedged, WisdomTree Japan Equity UCITS ETF - GBP Hedged, WisdomTree Japan Equity UCITS ETF - USD Acc, WisdomTree Japan Equity UCITS ETF - EUR Hedged Acc, WisdomTree Japan Equity UCITS ETF - USD Hedged Acc, WisdomTree Short JPY Long USD 3x Daily, WisdomTree Short JPY Long EUR 3x Daily Find out more

This was a mammoth week for central bank policy decisions. On the one hand the Bank of Japan (BOJ) finally put an end to the world’s last negative rate regime, Taiwan’s central bank surprised markets by raising its policy rate by 12.5Bps while the Swiss National Bank (SNB) surprised markets with a 25Bps rate cut.

That last mile of inflation is causing more divergence across central banks globally with central banks in the east raising rates, the west embarking on rate cuts while China remains on the sidelines owing to concerns of a weaker Renminbi. There was no policy change from the Federal Reserve (Fed) with the target rate left at 5.25%-5.5%. The Fed updated their forecasts for showing significant upward revisions to growth but almost no change to unemployment and inflation, keeping the disinflationary trend in place. The Reserve Bank of Australia and the Bank of England kept rates on hold as broadly expected.

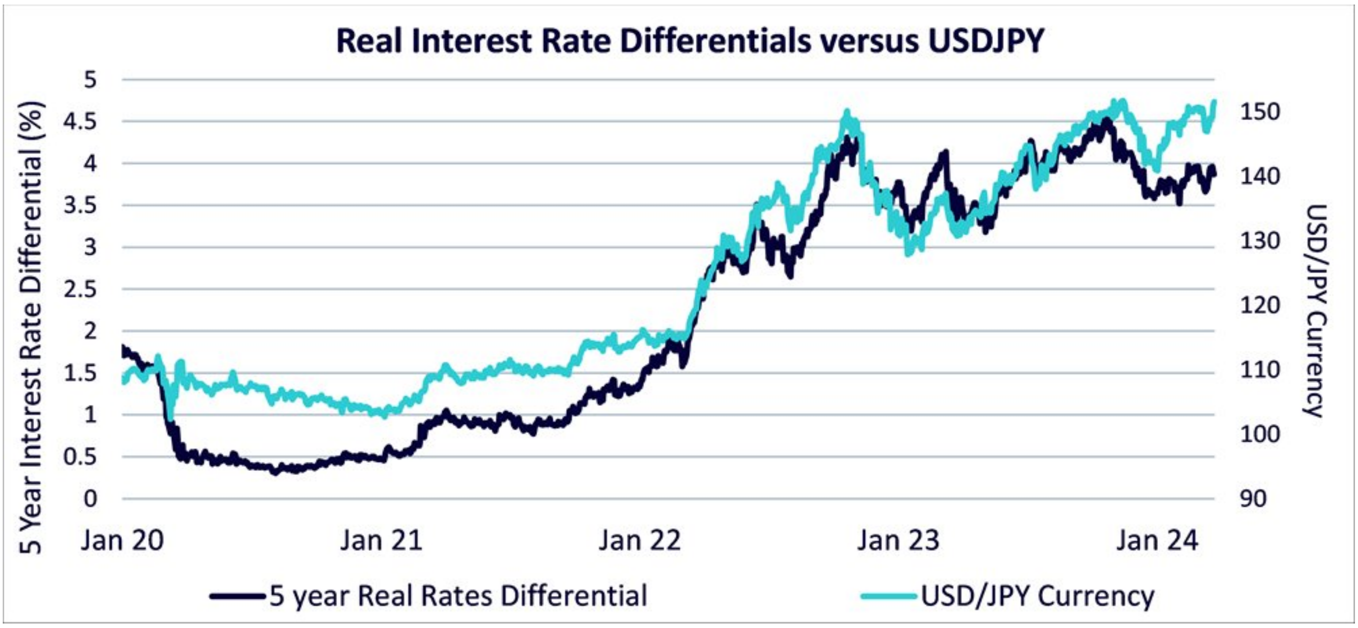


Source: Organisation for Economic Cooperation & Development, WisdomTree as of 21 March 2024. The G-7 includes – Canada, France, Germany, Italy, Japan, United Kingdom, and United States. **Historical performance is not an indication of future performance and any investments may go down in value.**

BOJ ends the world's last negative rate regime

The BOJ embarked on a significant yet incremental step, exiting negative interest policy for the first time in 17 years. Yet the market seemed to take this bold step in its stride. Neither the yen nor the Nikkei 225 Index displayed abrupt movements, and the Japanese government bonds (JGB) 10-year yields remained contained below 80Bps1. This is partly because the communication from the BOJ leaned on the dovish side as signalled by Governor Ueda, "it is necessary to maintain accommodative financial conditions". It's important to consider that shifting from negative to 0-10Bps overnight rates allows the BOJ to return to operating policy via short term rates instead of a set of unconventional policy tools and that these rates remain accommodative.

BOJ's policy normalisation came on the heels of the Shunto wage negotiations that agreed on a bumper wage hike by 5.28% for 20242. The results of the spring wage negotiations suggest that real wage growth will turn positive, and if inflation stabilises around BOJ target of 2% it should support the 2025 Shunto salary increase. The BOJ remains in wait-and-see mode, particularly given the economic uncertainty coming not only from Japan but also from the global economy. Japan's economic growth is projected to continue moderately however slowing economic growth overseas could remain a potential drag. For now, the BOJ appears reluctant to signal further policy tightening and is likely to take a gradual approach to raising rates. This coupled with the Fed continuing to expect three cuts this year, should keep yen appreciation limited.



Source: Bloomberg, WisdomTree as of 21 March 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Japanese equities outlook remains positive amidst a gradual rate tightening cycle

We continue to favour Japanese equities as structural opportunities emerge from its exit from deflation. The inflationary environment continues to support corporate reforms. In 2023, the Tokyo Stock Exchange's (TSE) corporate governance reform agenda focused on improving listed companies Price to Book (P/B) ratio, garnered a lot of attention. This was evident from the subsequent rise in payout ratio's by listed companies. Share buyback programs established in F3/24 (April 2023 through to March 2024) by companies listed on the TSE prime market totalled 9.4Trn3, setting an all-time high. Should payout ratios continue to rise it should encourage inflows of funds into the revamped Nippon Individual Savings Account (NISA) as discussed here. With the launch of the new NISA program in 2024, the market has seen a preference for high dividend Japanese stocks.

TINA is alive in Japan

There is no alternative (TINA) but equities, the famous acronym over the past decade of lower interest rates, still remains intact in Japan. Equity risk premiums in Japan remain comparatively high at 2.86% versus -0.15% for US equity markets. After attaining a 34-year high4, the prospect of Japanese equities remains promising owing to strong earnings growth. Japanese equities ended Q3 F3/24 with a 20% YoY increase in pre-tax profits5. Additionally, Japan has the highest 3-month earnings revision ratio globally.

Source: BofA, iQDatabase, WisdomTree, as of 21 March 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

We expect rising wage growth and higher inflation, to support a recovery in consumer demand. In addition, Japan's manufacturing and technology sectors stand to benefit from the growing structural demand for corporate spending on AI technologies and automation as they address demographic challenges.

Sources

1 Bloomberg as of 19 March 2024

2 Reuters as of 15 March 2024

3 Bloomberg, Factset as of 14 February 2024

4 Bloomberg as of 21 February 2024

5 Earnings results of MSCI Japan for the July – September quarter, Bloomberg as of 31 November 2023

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.

For professional clients only. 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 aected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and aer 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 oer for sale nor a solicitation of an oer to buy any product or make any investment.

An investment in exchange-traded products ("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 in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public oering 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 in 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 ailiate, nor any of their respective oicers, 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 dier 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. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

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 WisdomTree¼s 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 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 oering, 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 oer 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.