Japanese equities embrace Takaichi victory

Published February 16, 2026

Aneeka Gupta

Director, Macroeconomic Research

Baoqi Zhu

Associate Director, Quantitative Research & Multi Asset Solutions

Key Takeaways

- Takaichi's supermajority boosts policy speed, reinforcing a pro nominal growth agenda.
- Higher yields reflect fiscal and supply concerns, while the yen remains sensitive to credibility and BoJ caution.

Japan's February snap election delivered something markets rarely get in Tokyo - a decisive political authority and a clearer line of accountability. Prime Minister Sanae Takaichi dissolved parliament with little warning and voters responded by handing the Liberal Democratic Party a commanding result, clearing both an absolute stable majority threshold and a two thirds majority in the Lower House. That shift matters because it reduces legislative friction and speeds up policymaking, but it also concentrates market focus on one question – how ambitious fiscal policy becomes.

Politics is back in the driver's seat for macro pricing

The election was preceded by a policy proposal that caught investors off guard. A pledge to suspend the consumption tax on food for two years. Even if the final design ends up more limited, the signal was enough to refocus attention on issuance, term premia and the yen. That explains why the post-election move was a familiar trio. Equities rallied on expectations of stronger nominal growth. Bond yields rose as investors priced the possibility of higher net supply and a higher fiscal premium.

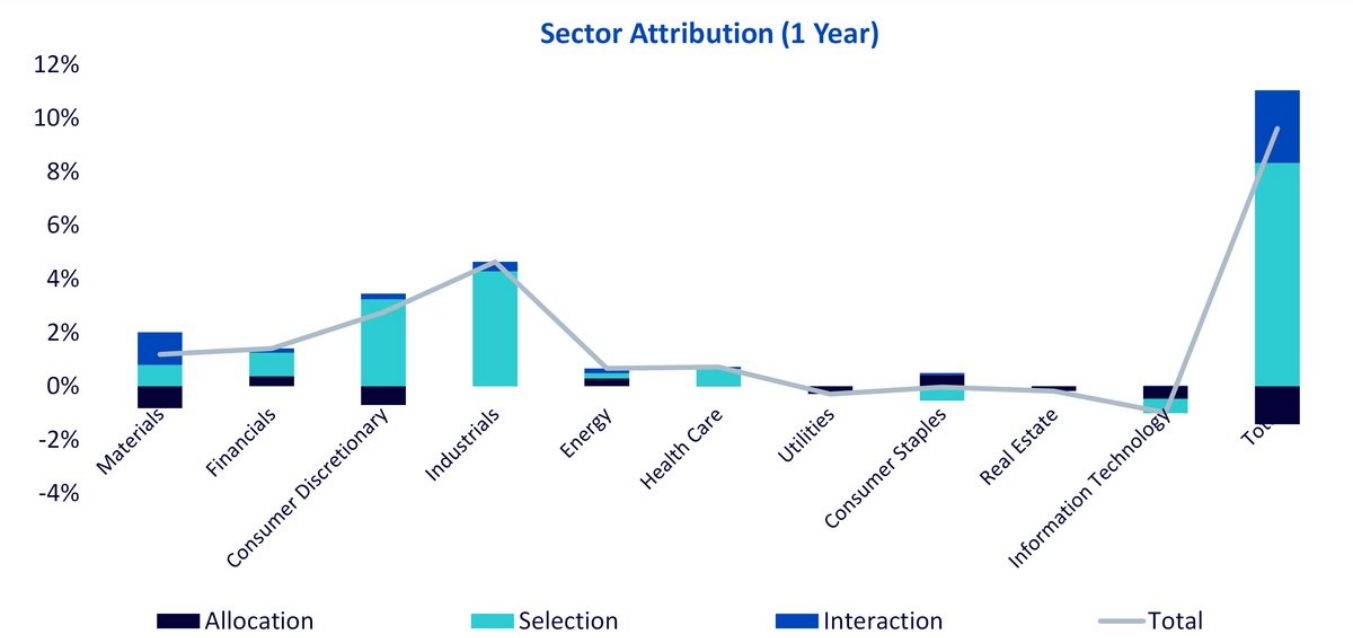
Capturing the opportunity with WisdomTree

For investors seeking to capitalise on Sanae Takaichi's victory and sector specific opportunities, the WisdomTree Japan Equity UCITS ETF (Ticker: DXJ) offers a valuable solution. DXJ tracks the WisdomTree Japan Hedged Equity UCITS Index (Ticker: WTIDJHUT)—a fundamentally weighted index that selects Japanese companies deriving at least 20% of revenue from overseas markets, with a strong emphasis on dividend paying exporters and industrial cyclicals.

This aligns well with the expected beneficiaries of Sanae Takaichi's victory and sector specific mix. In addition, DXJ has meaningful allocations to materials, financials and industrials, sectors that are expected to benefit from increased fiscal stimulus and a steeper Japanese yield curve. Over the past year, the

WisdomTree Japan Hedged Equity UCITS Index outperformed the MSCI Japan Index by 9.62% benefitting from its selection of stocks within industrials, consumer discretionary and financials.

Figure 1: Sector Attribution: WisdomTree Japan Hedged Equity UCITS Index over 1 Year



Source: FactSet, WisdomTree from 31 January 2025 to 30 January 2026. Historical performance is not an indication of future performance and any investments may go down in value.

The equity case: a pro nominal growth agenda meets governance momentum

The more constructive interpretation of the election is that it increases the odds Japan can execute a coherent growth regime. Takaichi's policy platform is framed around responsible and proactive fiscal measures aimed at lifting nominal growth. The government has highlighted a set of strategic investment fields that include semiconductors, energy security, defence and digital infrastructure, which are designed to raise supply capacity over time rather than simply boost near term demand.

This interacts with a structural force already in motion: corporate governance reform. The Tokyo Stock Exchange's push for management that is conscious of cost of capital and valuation has accelerated corporate actions. Disclosure compliance is high, the share of stocks trading below book has fallen meaningfully, and buybacks have been trending higher over recent years. The market implication is straightforward. Better capital discipline can lift return on equity and improve the quality and durability of earnings, even when top line growth is not spectacular.

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-generat-

ing, 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).

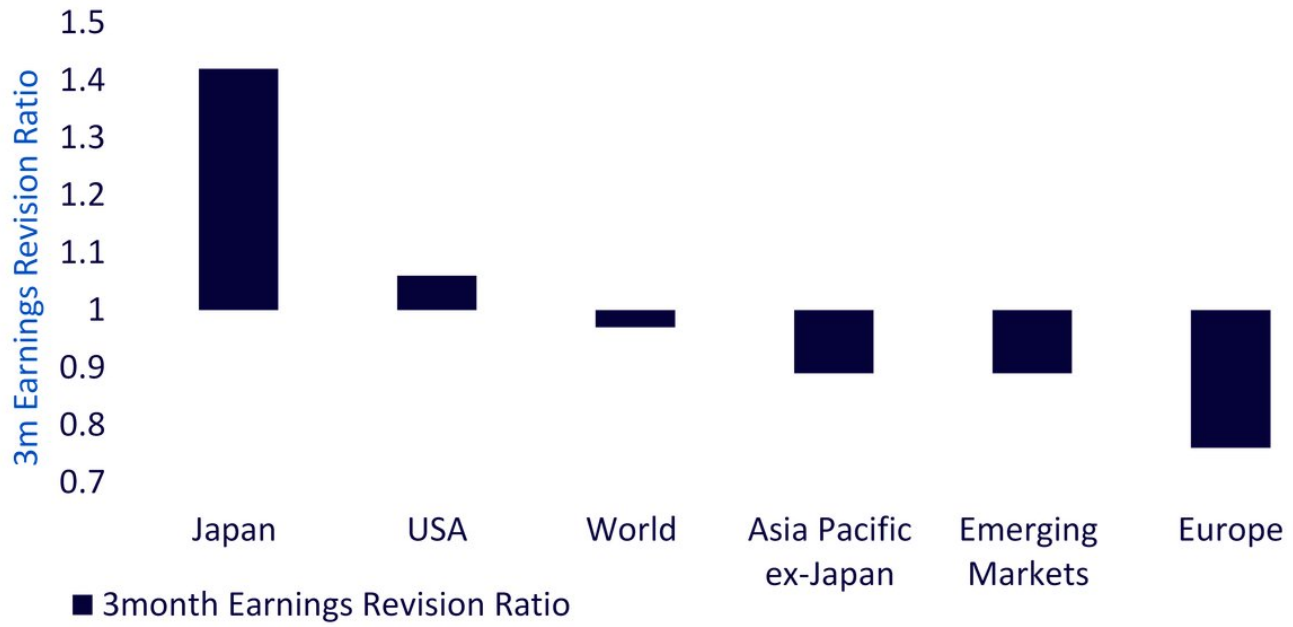
A stronger mandate for defence

The recent election result strengthens the domestic political base for the defence shift signalled in the 2022 National Security Strategy. Prime Minister Sanae Takaichi's decisive win has reduced resistance to her hawkish agenda and gives the LDP more room to press ahead with defence expansion. The main impact is less about direction, and more about pace and ambition. After decades of spending around 1% of GDP, Japan is targeting 2% by FY2027, and the stronger mandate raises the likelihood of faster execution and renewed debate about a higher ceiling over time, alongside constitutional revision discussions. This improves visibility for the Asia defence investment theme.

Earnings breadth is a differentiator versus the United States

A second pillar of the equity case is earnings breadth. The US has been strong, but much of its earnings narrative has been concentrated in a narrow set of mega cap technology and AI linked firms. Japan's earnings momentum, by contrast, has been broader across sectors, spanning traditional value areas and growth-oriented segments. That breadth helps explain why Japanese equity performance has remained resilient even as rates have normalised.

Figure 2: Japan has the highest 3-month Earnings Revision Ratio among regions

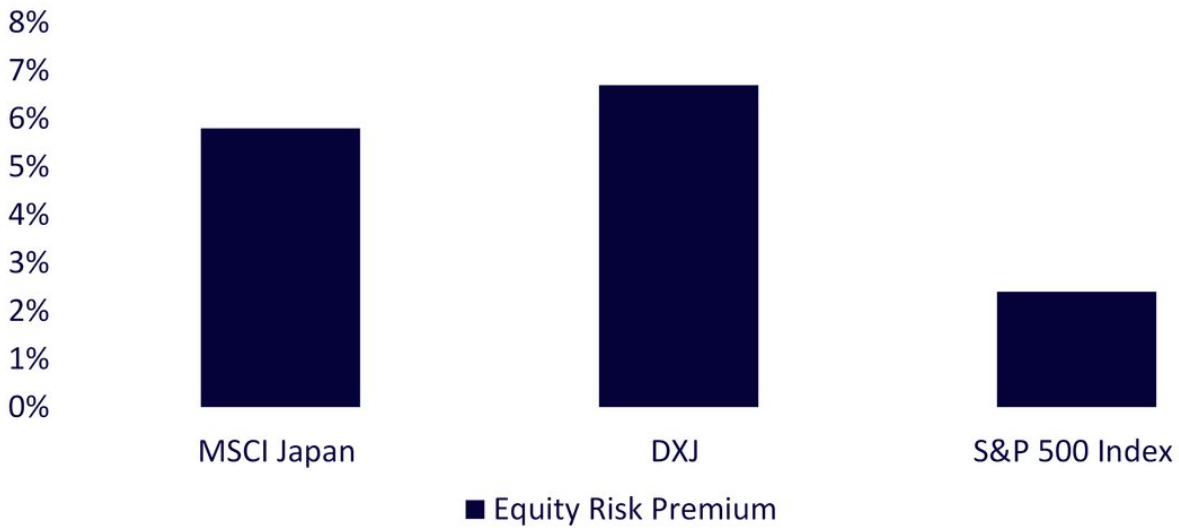


Source: MSCI, IBES, WisdomTree as of 31 January 2026. Historical performance is not an indication of future performance and any investments may go down in value.

Will higher yields cap equities: watch the equity risk premium

The key valuation bridge between rising yields and equities is the equity risk premium, which compares earnings yields to inflation adjusted bond yields. Even with higher JGB yields, Japan can still screen as offering a healthier buffer than the United States when you make that comparison. The reason is simple: Japanese equity valuations remain lower, and the earnings yield is higher, so the market can absorb some rate pressure without immediately losing its relative appeal, especially if nominal growth stays firm.

Figure 3: Comparison of Equity Risk Premiums



Source: FactSet, WisdomTree as of 31 January 2026. Historical performance is not an indication of future performance and any investments may go down in value.

The Bank of Japan is watching the speed of the bond market move

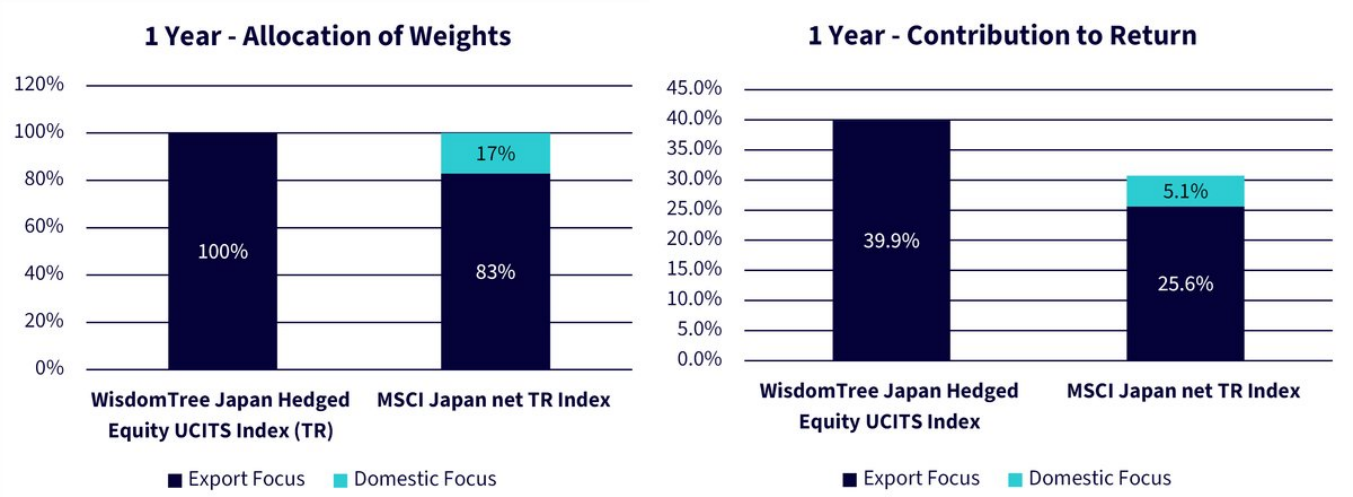
One nuance is important. The rise in yields has been large enough that the Bank of Japan (BOJ) has commented on the pace of the sell off and signalled it can step in if trading becomes disorderly, even as it continues to move away from ultra easy settings. That combination is consistent with a central bank that wants normalisation but aims to avoid an abrupt tightening of financial conditions.

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. 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 year, the WisdomTree Japan Hedged Equity UCITS Index outperformed the MSCI Japan Index by 9.62% supported by its exporter tilt and currency hedge.

Figure 4: Attribution of Returns over 1 Year based on geographic revenue exposure



Source: FactSet, WisdomTree from 31 January 2025 to 30 January 2026. Historical performance is not an indication of future performance and any investments may go down in value.

Put the fiscal anxiety in context: Japan balance sheet is improving

It is easy to look at Japan's headline debt stock and assume the market has no room for error. The more useful lens is the direction of travel. As Japan moves further past deflation and nominal growth improves, tax revenues rise and the fiscal balance improves. The budget balance as a percentage of GDP comparison is especially telling. Japan's deficit profile has improved markedly versus other major developed markets over the past cycle and the contrast with the post global financial crisis era is stark.

Conclusion

Japan's election has not removed risk, but it has changed how risk is priced. A stronger mandate raises the odds of faster fiscal execution and reinforces strategic investment in defence, energy and technology. At the same time, governance reform continues to push corporate Japan toward higher returns on capital and higher shareholder payouts. With the BOJ normalising cautiously and the yen likely to remain a swing factor, investors may prefer targeted exposure to export-led earnings with less currency noise. In that mix, a currency hedged, dividend-weighted approach offers a disciplined way to participate in Japan's next phase.

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. For Investors in Switzerland: This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus (in English only) and the key investor information documents (KID) (in German, French and Italian) are available from WisdomTree's website: https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

For WisdomTree UCITS products only: the representative and paying agent of the ETPs 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. 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 may only be available to Qualified Investors.

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. MSCI Disclaimer: Certain information contained herein (the “Information”) is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates (“MSCI”), or information providers (together the “MSCI Parties”) and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided “as is” and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees

the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.