What's Hot: The geopolitical turning point for Europe and Japan

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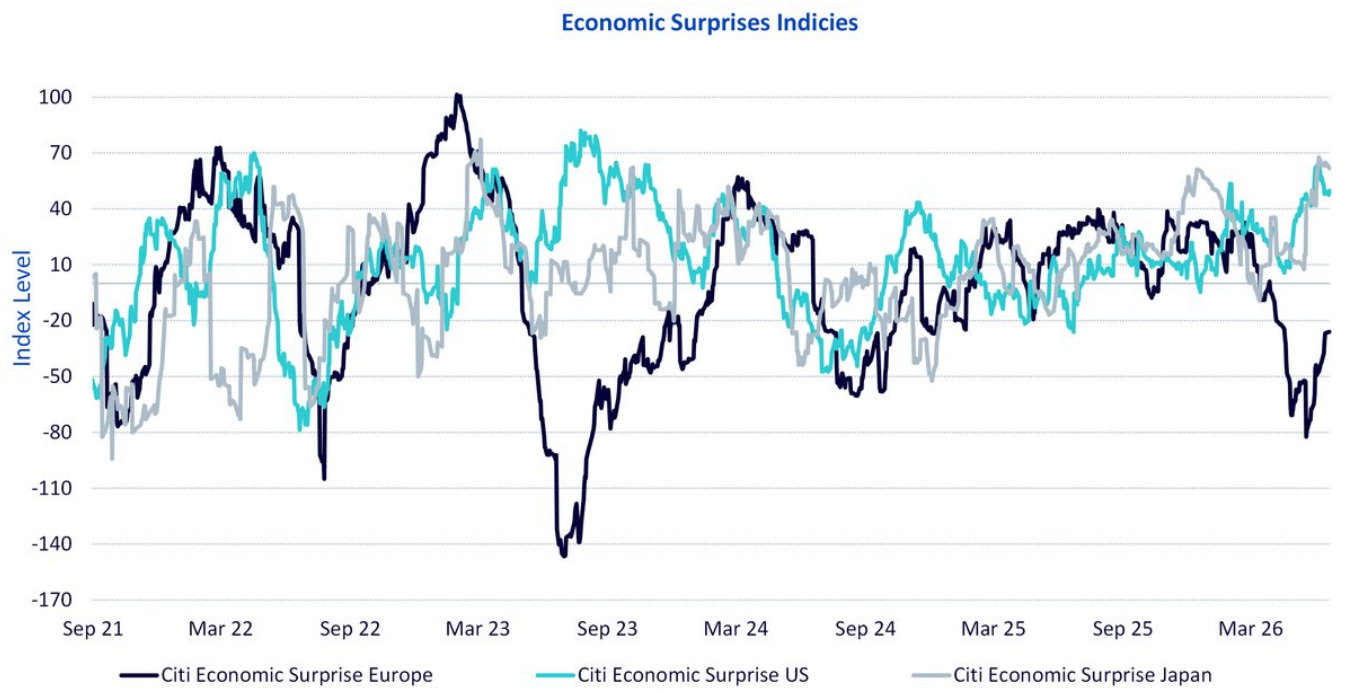
Key Takeaways

- Geopolitical de-escalation is the catalyst. The Iran-US MOU removes a four-month war premium that had suppressed energy importers such as European and Japanese equity valuations, creating the conditions for a meaningful re-rating.
- The macro data is turning. The Ifo Business Climate Index, ZEW sentiment indicator and Eurozone PMIs are all inflecting higher, providing signs of further improvement ahead.
- Europe and Japan offer differentiated structural tailwinds. Germany's multi-year defence and infrastructure spending programme is a long-duration growth driver for European industrials; Japan's diversified exposure to the AI supply chain — across semiconductors, robotics and automation — offers upside without the concentration risk of US or Korean tech indices.

June 2026 will be remembered as the moment when one of the most consequential geopolitical risks finally began to unwind. The Iran-US Memorandum Of Understanding (MOU), signed just over a week ago, represents far more than diplomatic theatre. For equity markets in Europe and Japan, it marks the potential end of a multi-year headwind that has distorted capital allocation decisions and suppressed valuations in precisely the regions where the fundamentals have strengthened.

Figure 1: Comparison of Economic Surprise Indices across US, Europe and Japan



Source: Bloomberg Finance L.P., WisdomTree as of 22 June 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Over the past four months, coinciding with the escalation of Middle East tensions and the Iran war, the narrative for European equities has been one of geopolitical anxiety and economic stagnation. The outlook for Europe during this period was grim ranging from policy uncertainty, stalled growth and the European Central Bank (ECB) forced to navigate the crossfire of inflation and risk-off sentiment. Post the signing of the MOU, sentiment has shifted and recent economic data point towards improving conditions.

The data is already turning

The Ifo Business Climate Index – a bellwether for German sentiment improved from 85 to 85.6[1]. While modest on the surface, the improvement is significant because it shows that the current business situation has improved more than expected. Critically firms reported that the impact of the war on ongoing operations has been more limited than feared. The assessment of the current situation in the services sector improved after deteriorating steadily since early 2025, suggesting that the worst of the energy driven demand destruction may have passed.

Building on this, the ZEW Indicator of Economic Sentiment for the eurozone turned decisively higher in June marking the first positive reading since the start of the Middle East conflict[2]. This is a leading indicator of investor sentiment and has historically tended to precede equity and economic outperformance by several months.

The manufacturing and composite Purchasing Managers Index (PMI) data reinforce the turnaround narrative. The Eurozone Manufacturing PMI held steady at 51.3 in June, remaining in expansion territory, a critical distinction during a period when input costs finally began to ease. The slowdown in manufacturing

was offset by stabilization in new orders and a notable easing in input price growth, the first meaningful relief from energy and supply-chain cost pressures since the start of the conflict.

Critically, the surveys note that most responses to the June PMI were collected before the Iran-US MOU was signed on June 17. This means the available data only partially captures the sentiment shift from geopolitical de-escalation.

What's more, the improvement is coinciding with a dramatic shift in monetary policy expectations. The ECB delivered its rate hike cycle and has begun signalling that further tightening is unlikely, a sharp pivot from just months ago. The contrast with the US Federal Reserve, which remains hawkish, is stark. For equity investors, falling European rates combined with rising economic surprise data has historically been associated with multiple expansion.

A resilient European equity allocation

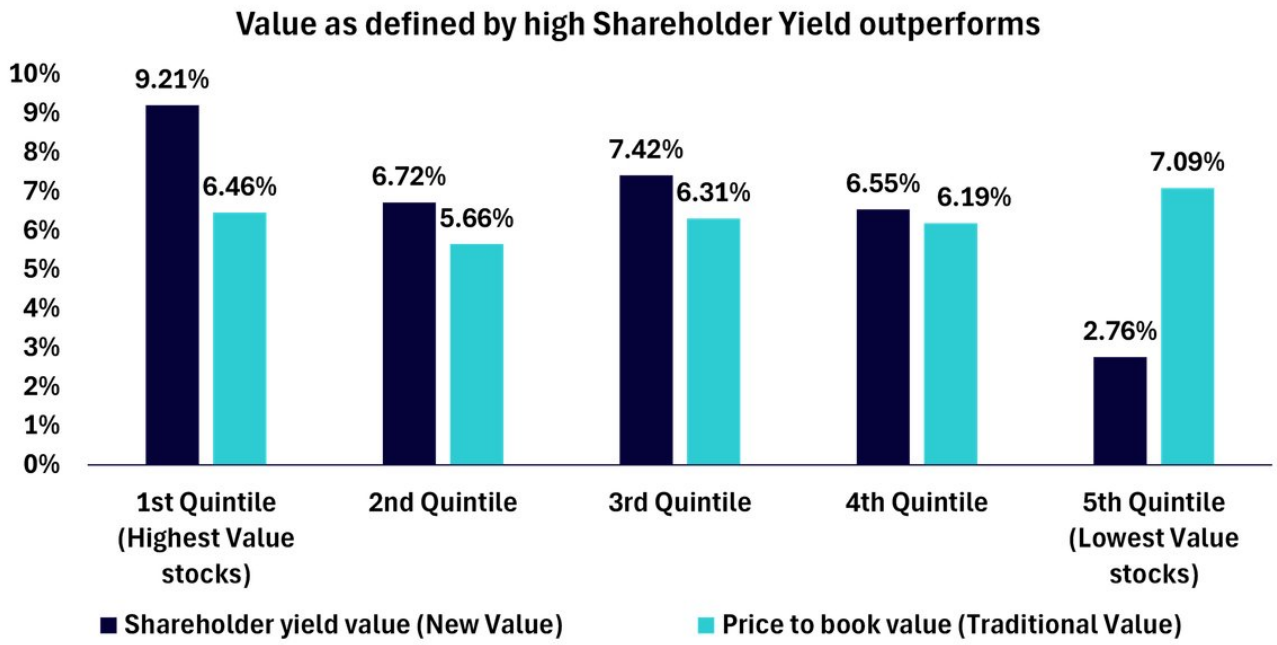
Against this improving backdrop, European equities may continue to present attractive opportunities for investors seeking strong valuations, dividend income and diversified sector exposure. Rather than relying on traditional price-based valuation metrics, the WisdomTree Europe Value UCITS ETF (that tracks the WisdomTree Europe Value UCITS Index) uses shareholder yield as a core signal for identifying attractive companies. Year to Date, the WisdomTree Europe Value UCITS ETF +13.7% is outperforming the MSCI Europe Value Index (+7.9%) by 5.8%[3].

Shareholder yield measures how much capital a company returns to shareholders through a combination of dividends and share buybacks. This approach focuses on companies actively generating and distributing cash to shareholders, which may provide an additional indicator of financial strength and capital discipline than simple accounting ratios.

The chart highlights that the highest shareholder yield quintile generated the strongest long-term returns, while the lowest shareholder yield cohort significantly underperformed. Return dispersion across shareholder yield quintiles was also more intuitive and consistent than traditional price-to-book approaches, where differentiation between quintiles was weaker.

Most strikingly, the highest shareholder yield quintile delivered meaningfully stronger annualised returns than the cheapest price-to-book cohort. The data suggests shareholder yield may provide an alternative lens for identifying companies with strong capital return characteristics. Rather than simply buying ‘cheap’ companies, the strategy seeks companies capable of consistently returning capital to shareholders.

Figure 2: Comparison of long-term annualised returns across quintiles formed using shareholder yield versus traditional price-to-book metrics



Source: FactSet, MSCI, WisdomTree from 31 December 2007 to 29 May 2026. Quintile portfolios are created using end of December data each year and constituents are equally weighted. Shareholder yield = 1st quintile (highest shareholder yield) within the MSCI Europe Index. Price-to-Book = 1st quintile (lowest P/B) within the MSCI Europe Index. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

Supply relief and sentiment boost for Japan

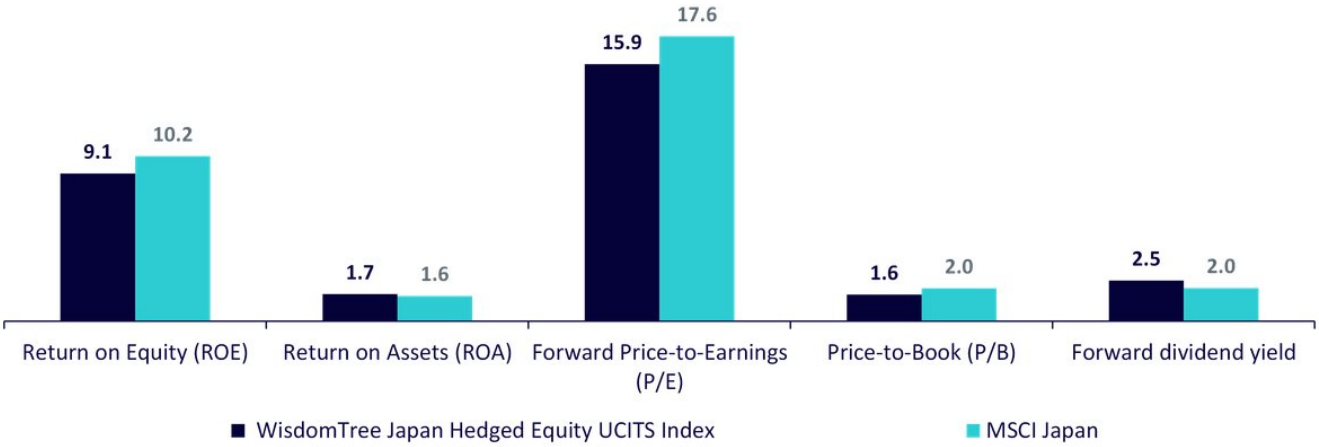
The Iran-US MOU may also come as a significant relief to Japan, given its reliance on imported energy and vulnerability to disruptions in Middle East shipping routes. Japan was partly insulated from the global oil price spike via subsidies and administrative controls yet supply disruptions still raised input costs across manufacturing supply chains. Industries faced higher freight charges, longer delivery times. The Iran-US MOU may support Japan's auto exports to the Middle rebound. The impact on inflation from the peace deal is likely to be limited given that inflation in Japan at 1.9% has been suppressed by policy measures. For the Bank of Japan (BOJ), its next move could come earlier in October rather than December if the yen weakness and firm underlying inflation persists. More broadly, the AI boom is expected to continue to support Japan as it benefits from strong chip exports, post war reconstruction, renewable energy investment and higher defence spending.

Tapping into the Japanese exporters with WisdomTree

For Japan exposure with currency conviction, the WisdomTree Japan Equity UCITS ETF (Ticker: DXJ) provides elegant simplicity. The fund offers broad-based exposure to dividend-paying Japanese exporters while hedging yen fluctuations, allowing investors to express a pure view on Japanese equity fundamentals without taking on currency risk. Year to Date, the WisdomTree Japan Equity UCITS ETF is up 20.27% outperforming the MSCI Japan Index (+18.31%) by 1.96%[4].

Despite the recent run up in prices, the WisdomTree Japan Hedged Equity UCITS Index is trading at a 10% discount to the MSCI Japan with a Price to Earnings ratio (P/E) OF 15.9x. It also offers a higher dividend yield of 2.5% versus 2% for the MSCI Japan.

Figure 3: Comparison of Fundamental Valuations



The outlook remains subject to uncertainty, and developments in geopolitics, inflation, monetary policy and global growth could evolve differently from current expectations, affecting both European and Japanese equity markets.

Conclusion

In investing, the biggest opportunities often come when macro turning points coincide with valuation dispersion and crowded trades. We're seeing all three right now in the divergence between US and international equities.

The Iran-US MOU is a geopolitical reset. But it's also a powerful reminder that risk-off doesn't last forever. And when it turns to risk-on, the assets that have been most punished at times deliver the strongest returns as market sentiment improves. Europe and Japan may be well positioned should current macroeconomic trends continue.

[1] IFO, WisdomTree as of 24 June 2026
[2] Bloomberg Finance L.P. as of 17 June 2026
[3] Bloomberg Finance L.P., from 31 December 2025 to 24 June 2026
[4] Bloomberg Finance L.P., from 31 December 2025 to 24 June 2026

Important Risks Related to this Article

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