

Expect More Easing from BOJ: How to Position

Published January 25, 2016

Jeremy Schwartz, CFA

Global Chief Investment Officer

Recently, WisdomTree Japan CEO Jesper Koll wrote that [he expects Japan to add to its monetary easing stimulus package](#) at the upcoming January 28 Bank of Japan (BOJ) meeting. Further supporting the case for additional easing, BOJ governor Haruhiko Kuroda had this to say at a recent central bank conference in Paris (Jan 12, 2016): “...the Bank’s efforts to achieve the price stability target of 2 percent under Qualitative and Quantitative Easing (QQE) are only halfway there. Given that Japan’s economy has been mired in deflation for 15 years, eradicating the deflationary mindset that was entrenched among the public is no easy task. However, somebody has to act decisively. As price stability is at stake, it is the central bank that has to play this role.” Based on Kuroda’s comments that Japan is still only halfway there, combined with the deflationary forces, market volatility and political repercussions if prime minister Shinzo Abe’s economic platform fails to work, we see further pressure for additional easing—with strong potential for January 28, but if not then, at the subsequent two meetings in March or April. Moreover, the yen, on a trade-weighted basis, has been increasing steadily since June 2015 and at this point has erased all the weakness that followed the BOJ’s easing program announced on October 31, 2014. This provides more economic rationale for Kuroda to take further action, as a strong yen could also compound other deflationary forces. **Market Not Expecting Further BOJ Stimulus** We do not believe the market is well positioned for a move by the BOJ in January; we have seen a number of investment strategists suggest that there will be no additional stimulus. As a result, many portfolio managers have removed those positions that were over-weight in Japanese equities and taken off yen currency hedges, because they believe the yen’s weakness may be played out. But we believe the opposite and see further yen weakening in the near future. Furthermore, we’d suggest that the weakness in the equity markets since the middle of last June—a period in which Japan’s equity markets corrected significantly—created a solid tactical buying opportunity. The currency-hedged exchange-traded funds (ETFs) below may be well positioned to benefit investors by any additional action taken by the BOJ. Please click for standardized performance of the [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#), the [WisdomTree Japan Hedged SmallCap Equity Fund \(DXJS\)](#) and the [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#). **Cumulative Returns of WT Japan Related-Funds (6/30/2015- 1/12/2016)**



Source: Bloomberg as of 1/12/2016. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

DXJ: Our flagship currency-hedged Japan ETF provides exposure focused on dividend-paying exporters. Given the recent yen strength, combined with global growth concerns (especially surrounding China and the emerging markets), many capital goods companies have come under pressure. A renewed bout of yen weakness should provide support for these companies, especially given what we see as attractive valuations on a [price-to-earnings \(P/E\) ratio](#) basis (14.5x expected earnings as of 1/12/2016).

DXJF: Provides currency-hedged exposure to Japanese financials. Financials have taken the brunt of the weakness in the equity markets over the last seven months and have sold off even more than the exporters. For those willing to make a sector allocation, Financials could be a higher beta way to increase exposure to Japan in anticipation of central bank action. **DXJS:** Provides currency-hedged exposure to Japanese small caps focused on dividend-paying companies with a revenue profile tilted toward the local Japanese economy. Small caps have outperformed exporters during this period of recent Japan equity weakness (6/30/2015–1/12/2016), largely as a result of the more local focus of these companies. Jesper Koll also believes there is a strong case to be made for small caps over the medium to long run, as he sees the labor market tightness putting upward pressures on wages and local consumption over the longer run. In closing, we believe the time is ripe to reconsider Japan, from a tactical and strategic basis. As Jesper said in his January 14 blog post, we believe Japan is in a multi-year bull market for risk assets, and we regard this pullback as a good buying opportunity. The BOJ is likely to add firepower to its program, and the Japan trade, we think, is about to become a focal point again.

Important Risks Related to this Article

There are risks involved with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. The Funds focus their investments in Japan, thereby increasing the impact of events and developments in Japan, which can adversely affect performance. The Funds use various strategies to attempt to minimize the impact of changes in the Japanese yen against the U.S. dollar, which may not be successful. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. As these Funds can have a high concentration in some issuers, the Funds can be adversely impacted by changes affecting those issuers. Due to the investment strategy of these Funds, they may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but can hurt when the foreign currency appreciates against the U.S. dollar.

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.