How DXJ Sustained Its #1 Ranking over the Last 10 Years

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Key Takeaways

- As of September 30, 2026, the WisdomTree Japan Hedged Equity Fund (DXJ) ranked first in Morningstar's Japan Stock Category over 10 years.
- The fund's index favors Japanese exporters and weights companies by cash dividends paid, creating different exposures from market capitalization-weighted strategies.
- Currency hedging seeks to neutralize yen/dollar exchange rate exposure, while higher U.S. interest rates have historically contributed additional carry.

Japan's equity market has spent the past decade dismantling assumptions that took a generation to form. Deflationary expectations had become the default lens, and with them, the presumption that Japanese equities had little to offer.

Japan was, for most, a tactical consideration at best, an interesting country allocation, but rarely a conviction position.

The contrast with that earlier era is now difficult to ignore. Policy is pulling in the same direction as corporate behavior, and Japan's recovery is being led by exactly the industries—technology, defense and global export champions—that give it structural rather than merely cyclical credibility.

In such a dynamic market, it has been amazing to look at the track record of the WisdomTree Japan Hedged Equity Fund (DXJ).

The Results

In Figure 1b, we see the numbers that DXJ has put up relative to the Morningstar Japan Stock Category:

- 1-Year: #2 out of 43
- 3-Year: #2 out of 36
- 5-Year: #1 out of 35
- 10-Year: #1 out of 25
- Since Fund Inception: #1 out of 12

Oftentimes, creating an investment strategy that achieves top quartile, quintile or decile is viewed as strong. Here we are talking about literal #1 and #2 performance.

Figure 1a: Standardized Performance

Fund/Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree Japan Hedged Equity Fund (NAV)	DXJ	6/16/06	0.48%	26.94%	41.41%	30.25%	26.83%	18.66%	9.53%
WisdomTree Japan Hedged Equity Fund (MP)	DXJ	6/16/06	0.48%	26.05%	42.23%	30.10%	26.86%	18.51%	9.51%
MSCI Japan Index				22.67%	26.64%	21.44%	9.78%	9.57%	N/A

Figure 1b: DXJ's Rankings in the Morningstar Japan Stock Category (9/30/2026)

	1-Year			3-Year			5-Year			10-Year			Since Fund Inception		
	Return	Peer Group Rank	% of Peer Group Beaten	Return	Peer Group Rank	% of Peer Group Beaten	Return	Peer Group Rank	% of Peer Group Beaten	Return	Peer Group Rank	% of Peer Group Beaten	Return	Peer Group Rank	% of Peer Group Beaten
DXJ	41.41%	2	98	30.25%	2	97	26.83%	1	100	18.66%	1	100	9.33%	1	100
Number of Managers		43			36			35			25			12	

Sources: For Figure 1a: Morningstar, FactSet and WisdomTree, specifically, data is from the PATH Fund Comparison Tool, accessed as of October 23, 2026, but showing returns for the period ended September 30, 2026. NAV denotes total return performance at net asset value. MP denotes market price performance. Figure 1b: Morningstar Direct, with all results shown for the Morningstar Japan Stock Category. **Past performance is not indicative of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance, click here.**

How Did DXJ Do It?

DXJ is designed to track the total return performance of, before fees and expenses, the WisdomTree Japan Hedged Equity Index. For any index, it's important to think through two main considerations:

1. **Stock Selection:** The most selective criterion is a requirement that less than 80% of revenue comes from inside Japan, the mechanism that tilts the portfolio toward exporters. A secondary screen requires dividend payment, though in practice this eliminates few major holdings, given how broadly Japanese companies tend to distribute dividends.
2. **Weighting:** The index weights each constituent by the cash dividends it paid over the prior year, expressed as a share of total dividends paid across all constituents. The practical implication: a company with strong price performance but a flat dividend would likely see its weight reduced, while one with a growing dividend but flat equity performance would see its weight rise. Relative to float-adjusted market cap or price-weighted alternatives, this methodology can produce meaningful exposure differences, and carries the added benefit of potentially moderating valuation risk.

And Currency Exposure?

In 2026, currency exposure is increasingly a choice rather than a given for U.S. investors allocating internationally. DXJ has been neutralizing yen/dollar exchange rate exposure since 2010. Notably, a depreciating yen tends to enhance the competitiveness and earnings of Japan's globally oriented companies, leading currency performance to be a substantive part of the investment thesis rather than simply a risk control.

A common misconception is worth addressing directly. Neutralizing currency exposure means exactly that: removing the exchange rate's impact on total return. The strategy neither loses when the yen appreciates nor gains when it depreciates. The investor's return is driven primarily by the underlying equities. There is an additional dimension worth noting.

Since U.S. interest rates have generally run above Japanese rates, DXJ investors have historically been paid to hedge through the carry embedded in currency forward contracts.

Conclusion

Japan's equity story has rarely been this coherently constructed. What makes the current moment distinctive is not any single catalyst but the alignment of several reinforcing forces:

- Corporate Japan is delivering record profitability in most sectors: in the April to June 2026 quarter, aggregate net income at the 500 largest companies topped ¥21 trillion, against a prior record of about ¥18 trillion a year earlier, and Topix companies were projected to post record margins of 9.3%, with profit declines largely confined to airlines and utilities1
- A government committed to transformational capital deployment in the industries defining the next decade2
- A sovereign wealth fund being directed, publicly and deliberately, toward domestic markets of a scale that commands attention3

The Bank of Japan's gradual normalization adds a layer of discipline rather than disruption. A central bank that moves carefully, tethering each step to wage and demand evidence, is signaling confidence in the underlying economy rather than urgency to restrain it. That is a constructive backdrop, not a headwind.

For investors, the opportunity is to access all of this at a valuation that still reflects skepticism the fundamentals no longer warrant. Japanese equities continue to trade at a meaningful discount to the broader market, with a dividend yield that more than compensates for that gap. When earnings momentum, policy conviction and institutional capital flows converge at a discount to fair value, the case for allocation tends to make itself.

Japan, in this case, is not asking investors to be patient. The evidence has already been arriving.

1 Source: Sano, H. (2026, August 18). Japan's earnings surprise analysts to fuel bets for broad rally. *Bloomberg*.

2 Source: The Japan Times. (2026, June 24). *Japan unveils $2.3 trillion investment plan for next 14 years*.

3 Source: Reuters. (2026, July 13). *Japan has no plans to overhaul pension funds' asset allocation, sources say*. Yahoo Finance.

Important Risks Related to this Article

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