

Japan Is Leading Dividend Growth in International Markets

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Once a year, WisdomTree conducts a rebalance of its dividend-weighted stock Indexes that adjusts positions based on changes in relative valuations. We measure these relative valuations by examining stock price movements versus fundamentals in international markets. The primary variable we are utilizing in our broad-based index strategies is a company's *Dividend Stream*®.

At this year's May rebalance, one trend we noticed is how Japan is leading the international markets in terms of underlying dividend growth. Looking across regional indexes, whether looking at the trailing three-year or trailing five-year changes in dividends, Japan1 stands out from broad international indexes like MSCI EAFE or MSCI Europe. The five-year numbers come in at almost double digits—very close to the U.S. markets, while for the latest three years, Japan actually came out with a dividend growth figure higher than the U.S. On a longer-term perspective, over the last 10 years—and that is a period that includes the financial crisis that caused dividend levels to sink across the globe—eurozone regional indexes still show lower overall dividends in 2017 than they did in 2007, but the three-year dividend growth shows a meaningful pickup recently.

Regional Dividend Growth

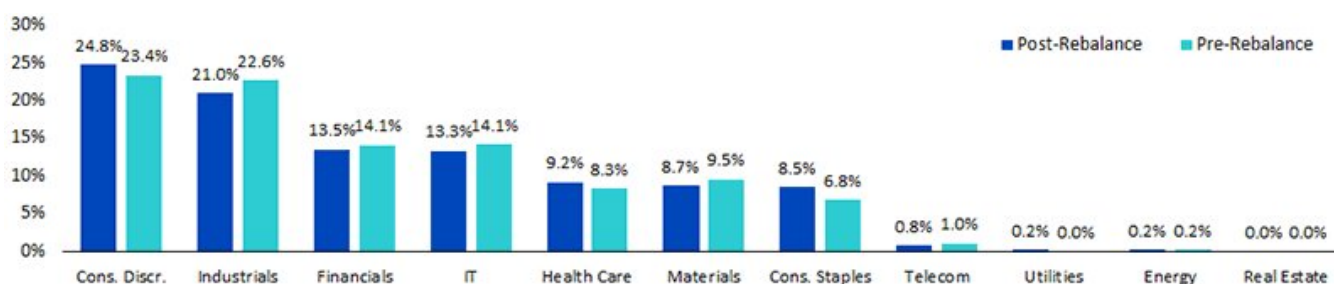
Index	3-Year	5-Year	10-Year
S&P 500 Index	7.94%	10.71%	6.08%
MSCI Japan Index	8.62%	9.59%	4.36%
MSCI Emerging Markets Index	0.53%	-1.45%	2.03%
MSCI ACWI ex-USA Index	3.35%	2.95%	1.03%
MSCI EAFE Index	4.62%	4.24%	0.76%
MSCI Europe Index	5.26%	3.28%	0.63%
MSCI EMU Index	5.78%	0.64%	-1.75%

Source: WisdomTree, MSCI, as of 6/30/17. Dividend growth is calculated in local terms. Past performance is not indicative of future results. You cannot invest directly in an index.

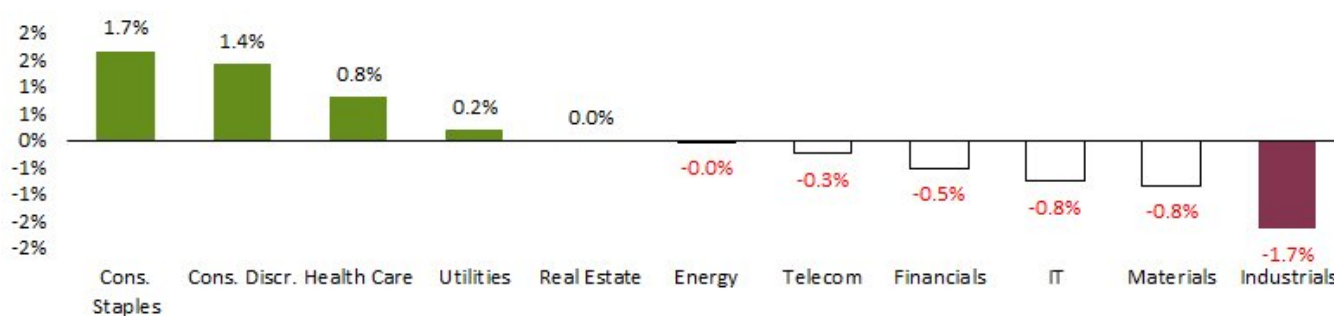
WisdomTree's Japan Hedged Equity Index

This year's rebalance in the Japan index family did not result in large portfolio allocation shifts—if anything, the shifts were rather modest. From a sector perspective, Consumer Staples and Consumer Discretionary were two sectors that saw increases in weight, and Industrials and Materials saw the biggest two reductions in weight. In a way, this makes the Index modestly more defensive in nature due to historically lower betas of Consumer Staples companies, but this was only a modest change.

Sector Comparison



Relative Sector Weights vs. Pre-Rebalance



Source: WisdomTree. Pre-rebalance data as of 6/16/17. Post-rebalance data as of 6/19/17. Past performance is not indicative of future results.

From a valuation perspective, the WisdomTree Japan Hedged Equity Index was already among the lowest priced indexes that WisdomTree calculates for developed world exposure—and the index rebalance did not change those statistics noticeably. The price-to-earnings (P/E) ratio before and after was right around 13x earnings, and the dividend yield was 2.5%. Interestingly, that is approximately 25% higher than the 2% dividend yield on the [S&P 500](#), and we saw dividend growth levels for Japan rivaling the increases in dividends we see in the U.S.

Given lower returns on equity (ROE) in Japan—but a renewed focus on improving these ROE metrics—and high cash on the balance sheets among corporate Japan, it is our expectation that Japanese equities still have room to increase dividends and buybacks at a pace that rivals or can beat the U.S.

Valuations Multiples



Source: WisdomTree. Pre-rebalance data as of 6/16/17. Post-rebalance data as of 6/19/17.

The combination of attractive valuations—the lowest P/E ratios in the developed world regions and Indexes that WisdomTree covers—along with dividend growth among the highest levels makes for a very positive dynamic and continues to suggest to me to over-weight allocations to Japan.

Unless otherwise noted, data source is Bloomberg, as of June 30, 2017.

1Referencing the dividends of the MSCI Japan Index.

Important Risks Related to this Article

Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance.

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