

Japanese Investors' View on U.S. Elections: Steady as She Goes

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Japanese investors have been buying global securities at a record pace, with almost US\$200 billion of net outflows recorded since the start of this year.¹ About 80% of the net buying has been U.S. Treasuries.² Make no mistake—Bank of Japan (BOJ) policy has definitely re-established Japan as a key player in global financial markets in general, and U.S. financial markets in particular. **So What Do Japanese Investors Think about the Big Event Ahead in the U.S., the Presidential Election?** To find out, WisdomTree Japan conducted a survey of around 50 major investors and financial professionals at our latest WisdomTree Tokyo Investor Seminar. Interestingly, the views appear very concentrated in one direction (as opposed to the “non-committed or no strong view” bias normally associated with Japanese survey results). **Strong Expectations for Clinton Victory and This Being Better for Wall Street** On the big question—Who do you think will be the next U.S. president?—the answer was surprisingly clear-cut: 86% expect a Clinton victory, while only 14% think Trump can win. In our view, the strong skew toward Clinton is consistent with the major media coverage in Japan. More importantly, it raises the probability of a potentially sharp Japanese investor pull-back in case the final result is counter to the current strong consensus view. This backlash worry is further underscored by other parts of our survey results. To the question “Who do you think will be a better president for the U.S. stock market?” a strong majority of 72% expect Clinton to be better for U.S. equities. Only 28% think Trump will be good for Wall Street. **A Trump Victory Expected to Force a Weaker Dollar** On the exchange rate, Japanese investors' views again show relatively clear-cut concentration: a Trump victory would weaken the U.S. dollar, according to 80% of the surveyed investors. Here, Trump's protectionism and anti-free-trade stance was cited several times as the key dynamic forcing a weaker dollar. Against this, a Clinton victory is expected to be moderately dollar positive, with 64% expecting a stronger dollar if she moves into the White House. So while Japanese investors appear very confident that a Clinton victory would be good for U.S. equities – 72%; but are somewhat less convinced on her impact for a stronger dollar. To the question “Where do you forecast the yen/dollar to be in one year's time?” exactly 50% of investors expect ¥105/dollar; yen depreciation to ¥115/dollar or weaker is anticipated by 28%; while yen appreciation to ¥100/dollar or stronger is expected by 22%. On the U.S.-dollar outlook, this result appears broadly consistent with the market implication expected from a Clinton victory. **China Devaluation Widely Anticipated** On currencies, we also asked about expectations for the Chinese currency. The result suggests a strong expectation for further yuan devaluation: 42% expect a yuan devaluation of at least 5%, and a further 33% expect a drop of more than 10% over the coming 12 months. In contrast, only 25% expect the Chinese currency to be stable over the next year. Based on our surveys results, Japanese investors appear to have a relatively firm and clear-cut view on the U.S.

election and its likely impact on markets. Against such relatively strong consensus, a Clinton victory could well prove to be a non-event for Japanese positioning; but an unexpected contrary outcome could force significant adjustments to the long U.S. positions established so far this year, in our view. 1Source: Bank of Japan. 2Source: Bank of Japan.

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