Japan's Equities Are Seeing a Performance Acceleration

Published December 2, 2025

Christopher Gannatti, CFA
Global Head of Research

Key Takeaways

- As of early December 2025, the WisdomTree Japan Hedged Equity Fund (DXJ) has overtaken its unhedged peer, EWJ, driven by yen weakness and accelerating momentum in Japanese equity fundamentals.
- Despite ongoing macro skepticism, Japan's corporate reforms, rising buybacks and a favorable currency environment are fueling a performance breakout that matches or exceeds the S&P 500 across multiple time frames.
- For investors looking to diversify away from U.S. AI-driven narratives and valuation risks, DXJ presents a compelling opportunity supported by overlooked strength and improving governance in Japan's equity market.

Japanese equities have quietly staged one of the most interesting leadership shifts of 2025—and we find that most U.S. investors aren't even looking in that direction. For years, the conversation around Japan has been dominated by macro worries, currency noise and a sense that the market "just can't break out." Yet the numbers now tell a completely different story.

Throughout 2025, we have written numerous times about Warren Buffett's favorable views on five particular Japanese equity holdings in Berkshire Hathaway's portfolio.1 In early November 2025, he filed for another yen bond issuance, indicating a desire to increase his currency hedge or put more capital to work buying more Japanese stocks.2

We noticed recently that the WisdomTree Japan Hedged Equity Fund (DXJ)3 is beginning to separate itself from the iShares MSCI Japan ETF (EWJ).4 With the yen weakening and fundamentals finally showing momentum, the question isn't "Why own Japan?" anymore. It's "Why *not* own the version of Japan that's showing the performance acceleration?"

Looking at figures 1a and 1b:

- **As of December 1, 2025, DXJ has overtakenEWJ—flipping the dynamic that had been in place for most of 2025.** With the yen weakening, particularly on the one- and three-month time horizons, as shown through the negative performance of the Invesco CurrencyShares Japanese Yen Trust (FXY),5 and global investors favoring U.S. dollar strength, as seen in the slightly negative to positive returns of the Invesco DB US Dollar Bullish Fund (UUP),6 the hedged structure is now neutralizing any weakness in the yen, unlocking equity momentum.
- **Short-term performance momentum is decisively in DXJ's favor.** In a global market where investors are starved for clean, directional stories, the combination of Japanese corporate reform, buybacks and a currency tailwind is giving DXJ a sharper edge in real time.
- **The SPY comparison highlights what's hiding in plain sight.** Whether looking at year-to-date, one-year, three-year or five-year returns, DXJ has exceeded the S&P 500's performance—a powerful narrative when advisors have recently tended to assume U.S. large caps are the only game in town. If you love the S&P 500 Index trend in U.S. equities, we think you *should* love what DXJ is doing, because it's capturing similar factors with an overlooked valuation and policy backdrop. We recognize that in the latter part of 2025, concerns about the "AI trade" have dominated U.S. equity sentiment. Japanese equities offer an opportunity to steer around that.

Figure 1a: DXJ's Performance Has Been Accelerating

Fund/Index Name	Fund Ticker Symbol	1-Month	3-Month	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree Japan Hedged Equity Fund	DXJ	2.50%	10.90%	26.83%	31.64%	30.98%	25.04%	13.11%
iShares MSCI Japan ETF	EWJ	-1.68%	5.79%	24.37%	19.95%	15.67%	6.69%	6.94%
Invesco CurrencyShares Japanese Yen Trust	FXY	-0.65%	-5.44%	0.95%	-3.73%	-4.77%	-8.09%	-2.81%
Invesco DB US Dollar Index Bullish Fund	UUP	-0.07%	3.03%	-4.15%	-1.90%	3.81%	5.13%	2.31%
S&P 500 Index		-0.45%	5.78%	17.19%	14.11%	20.37%	14.89%	14.44%

Figure 1b: Standardized Returns as of September 30, 2025

Fund/Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Fund SEC 30-Day Yield	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%	1.10%	17.79%	27.26%	32.43%	25.39%	13.92%	8.09%
WisdomTree Japan Hedged Equity Fund (MP)	DXJ	6/16/06	0.48%	1.10%	17.48%	25.55%	31.81%	24.94%	13.69%	8.04%
iShares MSCI Japan ETF (NAV)	EWJ	3/12/96	0.50%	1.41%	21.69%	15.18%	20.59%	8.52%	7.81%	6.80%
iShares MSCI Japan ETF (MP)	EWJ	3/12/96	0.50%	1.41%	20.50%	14.80%	20.13%	8.21%	7.63%	7.05%
Invesco CurrencyShares Japanese Yen Trust (NAV)	FXY	2/13/07	0.40%	-0.39%	6.09%	-3.53%	-1.16%	-7.01%	-2.59%	-1.47%
Invesco CurrencyShares Japanese Yen Trust (MP)	FXY	2/13/07	0.40%	-0.39%	6.12%	-3.25%	-1.25%	-7.04%	-2.58%	-1.48%
Invesco DB US Dollar Index Bullish Fund (NAV)	UUP	2/15/07	0.75%	N/A	-6.53%	1.98%	0.77%	3.99%	2.39%	1.38%
Invesco DB US Dollar Index Bullish Fund (MP)	UUP	2/15/07	0.75%	N/A	-6.49%	2.01%	0.77%	4.01%	2.41%	1.37%
S&P 500 Index					14.83%	17.60%	24.94%	16.47%	15.30%	N/A

Sources: Morningstar, FactSet and WisdomTree; specifically, data is from the PATH Fund Comparison Tool, accessed as of 12/2/25, but showing returns for the period ended 12/1/25 for figure 1a and 9/30/25 for figure 1b. NAV denotes total return performance at net asset value. MP denotes market price performance. **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 performances, click the relevant ticker: DXJ, EWJ, FXY, UUP.**

Conclusion: It Could Be a Great Time to Look at Japan

Japanese equities remain a psychological anomaly in global investing. The same advisors who eagerly buy every dip in U.S. large caps suddenly turn cautious, contemplative, even philosophical when Japan enters the conversation. In our experience, investors approach Japan as though it requires a dissertation to justify. The irony is that the case for Japan today is simpler than ever: corporate governance improving, currency weakness acting as a tailwind—not a risk—and performance numbers that stand shoulder-to-shoulder with America's market darlings. In a market where it seems like every other headline about U.S. equities discusses some form of AI or valuation risk, Japanese equities are showing performance and offering a way to navigate around these issues.

Figure 2: Additional Information

Fundamentals	WisdomTree Japan Hedged Equity Fund	iShares MSCI Japan ETF	Invesco CurrencyShares Japanese Yen Trust	Invesco DB US Dollar Index Bullish Fund
Objective	WisdomTree Japan Hedged Equity Fund seeks to provide exposure to the Japanese equity market while hedging exposure to fluctuations between the U.S. dollar and the yen. The Index is designed to have higher returns than an equivalent non-currency hedged investment when the yen is weakening relative to the U.S. dollar. Conversely, the Index is designed to have lower returns than an equivalent unhedged investment when the yen is rising relative to the U.S. dollar. The Index consists of dividend-paying companies incorporated in Japan and traded on the Tokyo Stock Exchange that derive less than 80% of their revenue from sources in Japan. By excluding companies that derive 80% or more of their revenue from Japan, the Index is tilted towards companies with a more significant global revenue base.	The iShares MSCI Japan ETF seeks to track the investment results of an index composed of Japanese equities, the MSCI Japan Index. This index is weighted by the free float-adjusted market capitalization of the qualifying constituents, which represent large and mid cap stocks of Japan's equity market.	The Invesco CurrencyShares® Japanese Yen Trust (the "trust") is designed to track the price of the Japanese yen, and trades under the ticker symbol FXY. The Japanese yen is the national currency of Japan and the currency of the accounts of the Bank of Japan, the Japanese central bank.	The Invesco DB US Dollar Index Bullish (Fund) seeks to track changes, whether positive or negative, in the level of the Deutsche Bank Long USD Currency Portfolio Index - Excess ReturnTM (DB Long USD Currency Portfolio Index ER or Index) plus the interest income from the Fund's holdings of primarily US Treasury securities and money market income less the Fund's expenses. The Fund is designed for investors who want a cost effective and convenient way to track the value of the U.S. dollar relative to a basket of the six major world currencies - the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc (collectively, the "Basket Currencies"). The Index is a rules-based index composed solely of long U.S. Dollar Index futures contracts that trade on the ICE futures exchange (USDX® futures contracts). The USDX® futures contract is designed to replicate the performance of being long the U.S. dollar against the Basket Currencies.
Total Expense Ratio	0.48%	0.50%	0.40%	0.75%
Total Assets Under Management (millions, $)	4,760	16,011	474	259

Sources: WisdomTree, iShares, Invesco, as of 11/17/25.

1 Source: W. E. Buffett, "Letter to shareholders" [annual letter], Berkshire Hathaway Inc., 2/22/25.

2 Source: "Berkshire Hathaway plans yen bond amid global debt binge," Bloomberg News, 11/6/25.

3 DXJ is designed to track the total return performance, before fees and expenses, of the WisdomTree Japan Hedged Equity Index. This Index neutralizes any performance of the yen vs. U.S. dollar exchange rate, and it focuses the equity exposure on dividend-paying, export-oriented stocks of Japan. Constituents are weighted on the basis of cash dividends paid.

4 EWJ is designed to track the total return performance, before fees and expenses, of the MSCI Japan Index. This is one of the most widely followed equity performance benchmarks for Japanese equities, with constituents representing large- and mid-cap stocks of Japan, weighted by free float-adjusted market capitalization.

5 FXY represents an ETF, the most widely followed investment vehicle in the U.S., which seeks to track the performance of the Japanese yen versus the U.S. dollar.

6 UUP represents an ETF, the most widely followed investment vehicle in the U.S., which seeks to track the performance of the U.S. dollar against a basket of other currencies.

Important Risks Related to this Article

All funds are managed differently and do not react the same to economic or market events. The investment objectives, strategies, policies or restrictions of other funds may differ and more information can be found in their respective prospectuses. Therefore, we generally do not believe it is possible to make direct fund to fund comparisons in an effort to highlight the benefits of a fund versus another similarly managed fund.

DXJ: There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

EWJ: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

FXY: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

UUP: There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.