Japan's Turning Point: From Value Trap to Leadership Opportunity

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Christopher Gannatti, CFA
Global Head of Research

Key Takeaways

- Japan trades at a steep discount to U.S. equities yet shows strengthening profits supported by pro-growth fiscal and industrial reforms.
- Record share buybacks, rising dividends and pressure from the Tokyo Stock Exchange are transforming corporate discipline and boosting return on equity.
- We believe Japanese companies now lead developed markets in earnings and dividend growth, signaling a structural shift from stagnation to sustainable shareholder returns.

U.S. investors still can't ignore valuations—and Japan remains one of the most compelling global stories. After decades of caution, Japan's equity market combines reasonable valuations, reform-driven earnings and growing performance momentum. As U.S. equities remain richly priced, Japan stands out for its improving fundamentals, policy clarity and renewed corporate discipline.

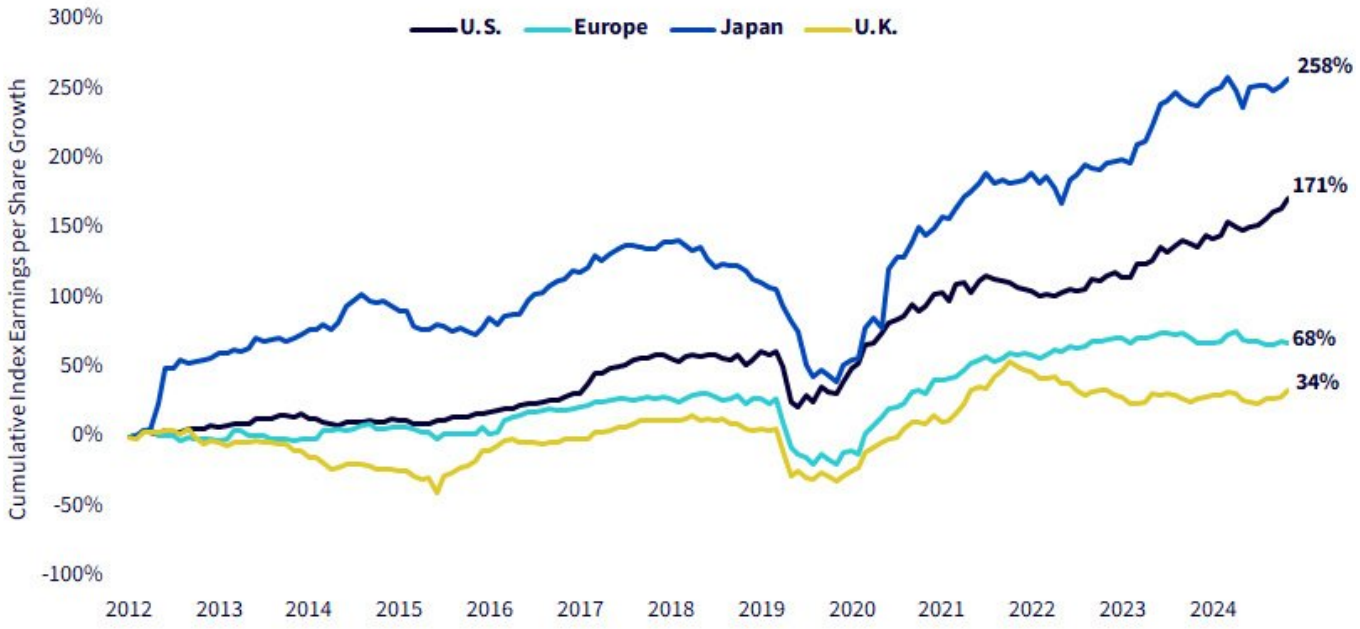
- **Valuation and policy momentum:** Japan trades at a steep discount to U.S. equities—significantly discounted on a forward price-to-earnings multiple basis—yet its profit outlook is strengthening.[1] With a new prime minister ushering in pro-growth and reformist policy, fiscal investment and industrial revitalization are regaining traction.[2] This shift is less cyclical than structural, creating durable foundations for capital formation and productivity gains.
- **Corporate governance revolution:** Corporate behavior is transforming from within. Share buybacks and dividend growth have reached record highs, driven by pressure from the Tokyo Stock Exchange and shareholder engagement. Japan's balance sheets remain robust, and firms are finally deploying cash to enhance returns. The result: higher return on equity (ROE), greater efficiency and growing appeal to global investors long under-weight in Japan.[3]
- **Performance momentum and market leadership:** After years of underperformance, Japan's equity market has reclaimed global attention—outpacing many developed peers. Corporate reform, steady earnings and improving capital returns are translating into market performance. Japan's leadership is no longer hypothetical—it's visible in trend strength and supported by policy and valuation tailwinds.[4]

Few investors realize that Japan has been leading the developed world in corporate earnings growth. As we see in figure 1, over the past decade, Japanese companies have delivered **250% cumulative**

earnings-per-share (EPS) **growth**—outpacing the U.S., Europe and the U.K. This surge isn't driven by valuation multiples but by real profitability gains tied to governance reform, cost discipline and balance sheet efficiency.

Japan's corporate sector has quietly undergone a structural transformation—rewarding shareholders through buybacks, dividends and improved capital allocation. For investors still anchored to outdated views of Japan as stagnant, this chart tells a very different story: Japan Inc. has become a global earnings leader.

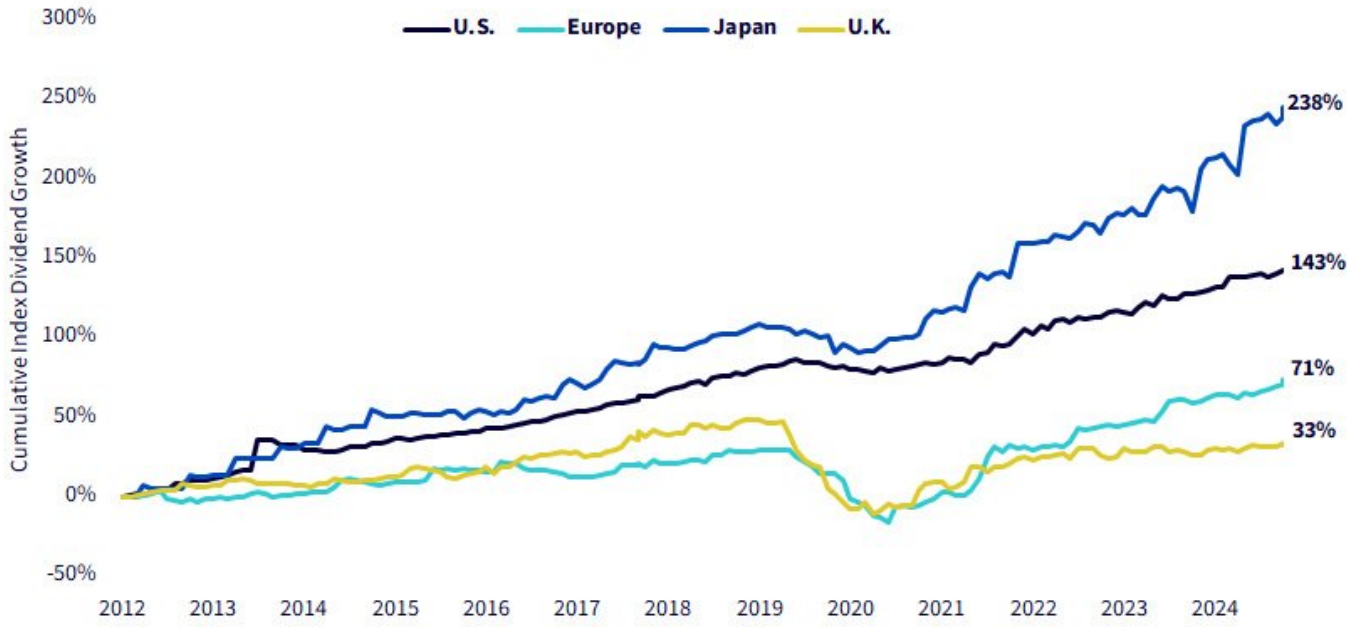
Figure 1: Surprise—Japan's Strong Earnings-per-Share Growth



Sources: WisdomTree, MSCI, 12/31/12–10/31/25. U.S., eurozone, Japan and U.K. measured by their respective country-specific MSCI indexes. Earnings per share growth measured in local currency terms. **You cannot invest directly in an index.**

Japan's reputation as a low-dividend-yield, income-light market is becoming outdated. Over the past decade, Japanese companies have **grown dividends by more than 200%**, outpacing even the U.S. and far exceeding Europe and the U.K. This surge reflects corporate reforms—firms returning excess cash through buybacks and dividends as governance standards rise. What was once a market hoarding cash has become one actively rewarding shareholders. This represents disciplined capital deployment tied to profitability and efficiency. For investors seeking sustainable income growth, Japan has quietly transformed from dividend laggard to one of the most dynamic payout stories in the developed world.

Figure 2: Japan's Transformation for Dividend Growth Laggard to Leader



Sources: WisdomTree, MSCI, 12/31/2012–9/30/2025. U.S., eurozone, Japan and U.K. measured by their respective country-specific MSCI indexes. Earnings per share growth measured in local currency terms. **You cannot invest directly in an index.**

Conclusion: Japan's Reform Era Is Becoming an Investment Renaissance

Japan is no longer the global laggard it once was. With attractive valuations, a reform-minded government and shareholder-friendly corporations, it offers both growth and resilience in a changing global cycle. For investors seeking disciplined exposure to this evolution, we believe Japan deserves a more strategic position at the heart of global equity portfolios.

For those looking to implement a Japan-focused equity strategy:

- WisdomTree Japan Hedged Equity Fund (DXJ)
- WisdomTree Japan Opportunities Fund (OPPJ)

[1] Source: Bloomberg. U.S. equities reference the S&P 500 Index, while Japanese equities reference the MSCI Japan Index. Data is as of 11/5/25.

[2] Source: P. Chai, "Takaichi's Ambitious Economic and Security Agenda for Japan," The Diplomat, 10/29/25.

[3] Source: T. Quinn, "Corporate Governance Reforms and Shareholder Value in Japan's Conglomerates: A New Era of Accountability," AInvest, 9/2/25.

[4] Source: Markets Insider, "Japan's Stock Market Powers to a Fresh Record on a New Leader, but the Hype Could Fizzle Fast," Business Insider, 10/7/25.

Important Risks Related to this Article

DXJ/OPPJ: There are risks associated 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. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations and derivative investments, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

Please read each Fund's prospectus for specific details regarding the Fund's risk profile.