

New Ways to Play Abenomics

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There has been a great deal of excitement surrounding the economic policies of “Abenomics” that aim to end deflation in Japan and restore more positive economic growth. Since the election of prime minister Shinzo Abe at the end of 2012, billions of dollars have flowed into Japanese equities. Most allocations to Japan have come in the form of broad-based exposure vehicles, and there have also been increasing allocations to individual stocks. And in 2013, many broad-based indexes¹ delivered compelling returns. However, as Abenomics continues to gain traction and Abe makes more progress on his growth strategy for Japan (the “third arrow” of Abenomics), we believe that there will be an ongoing effort to distinguish the stocks and sectors most primed to benefit from the new government initiatives. While broad-based approaches should continue to serve many investors well, we believe there is also a place for more finely honed precision tools to express specific views regarding how Abenomics will play out. WisdomTree has developed five new Japan sector Indexes designed to be primary beta benchmarks for three Japanese investment themes stemming from Abenomics, which we describe in detail below. **WisdomTree’s Five Japan Sector Indexes** The three themes WisdomTree identified—and that broadly characterize our new sector Indexes—are reflation, Abe’s growth strategy and yen sensitivity. **Reflation • WisdomTree Japan Hedged Financials Index • WisdomTree Japan Hedged Real Estate Index** A critical component of Abenomics involves the reflation of financial assets. The Bank of Japan (BOJ) itself has stated its goal to suppress equity risk premiums by expanding its balance sheet to purchase exchange-traded funds and making direct investments into real estate investment trusts. The Japanese financial sector stocks and real estate-related companies are therefore part of a theme many refer to as “Japanese reflation.” **Abe’s Growth Strategy • WisdomTree Japan Hedged Health Care Index • WisdomTree Japan Hedged Tech, Media and Telecom Index** Abe has stated that health care is an important sector to contribute to Japan’s economic growth and that he wants to use it as part of his growth strategy. As technology companies should also receive a boost from new government initiatives supporting additional capital spending, we believe tech, media and telecom stocks are also poised to be beneficiaries of Abenomics growth strategies. **Yen Sensitivity • WisdomTree Japan Hedged Capital Goods Index** The capital goods sector, which we broadly define to include automobile companies and related suppliers, typically includes the most export-oriented stocks. These stocks are often most sensitive to changing exchange rates—so if the yen continues its slide, these stocks could benefit. **Conclusion** I believe 2013 marked the start of a multi-year bull market in equities, and I think there is investor demand for more specific executions on the Japan trade. With these new sector Indexes, WisdomTree has expanded the Abenomics tool kit from broad-based exposures—such as the ones represented in the WisdomTree Japan Hedged Equity Index—to more specific Japanese investment themes: reflation, Abe’s growth strategy and yen sensitivity. ¹Includes the MSCI Japan Index, MSCI Japan Local Currency Index, WisdomTree Japan

Hedged Equity Index, MSCI Japan Small Cap Index and WisdomTree Japan SmallCap Dividend Index for period 12/31/2012 to 12/31/2013.

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