

Portfolio Building and Japan: Are Trump and Abe a Match Made in Heaven?

Published February 14, 2017

Jeremy Schwartz, CFA

Global Chief Investment Officer

On last week's podcast, we had a fantastic discussion with Jessamyn Norton, Chief Investment Officer of Spinnaker Trust, and Jesper Koll, Head of WisdomTree in Japan. The conversation took place on the same day President Trump had a summit in Washington with Japan's prime minister Shinzo Abe, and we were lucky to have Jesper on the line during this important Japan–U.S. alliance weekend ahead of Trump and Abe's trip to Florida.

On the Trump–Abe Summit

Jesper believes [Trump and Abe are a perfect match](#) and that Japan can supply concrete, helpful support for Trump's pledge to "Make America great again," particularly on infrastructure support. Jesper believes Japan's basic infrastructure is the highest quality in the world and the country's companies can provide competitive offers on infrastructure projects.

This might come in two forms: first, the U.S. would need to fund these infrastructure projects, and Japanese banks have perhaps the lowest cost of capital in the world, thanks to the Bank of Japan's (BOJ) negative interest rate policy and relatively healthy bank balance sheets. Japanese banks also have an appetite for more foreign business to fund growth. Jesper sees Japanese banks providing funding for infrastructure projects, but Japan can also help with the basic infrastructure build-out.

Take railways, for instance. As a regular rider up the Northeast Corridor, I can attest to the quality of the U.S. rail system, and when I compare that with riding the Shinkansen in Japan—let's say, there is no comparison. I'm selfishly hoping this is one partnership area outlined by Jesper that Trump and Abe will make progress on.

We also talked about Jesper's take on the yen, and why he believes it is a structurally weak currency going forward. We talked about the complicated relationship with Japan, China and the U.S., and why Jesper remains bullish on Japan's economic growth (mostly through positive wage dynamics fueling more consumption) and on Japanese financials. If Jesper is right that Japan's economy is inflecting more positively, there is a compelling case to be made for not just Japan's global multinationals on the back of a structurally weak yen but also for Japanese small-cap companies that are more tied to the local economy.

On Spinnaker Trust's Portfolio Approach

Jessamyn Norton has an interesting background for an exchange-traded fund (ETF) asset allocator. She has a buy-side background, being trained at Wellington Management, the Boston company where she

covered Japan, and then Fidelity, where she learned bottom-up research in fundamentals and evaluating various companies. Now Jessamyn uses that fundamentals-based training to construct global portfolios for her clients.

Spinnaker Trust has been skeptical of the opportunities presented in the bond market and has been increasing allocations to the “alternative” asset class in hopes of providing some value-added returns ahead of traditional fixed income exposures. This has been a challenge for her team, especially in looking for alternatives in the ETF structure, which is their preference, and we talked about various considerations she is making in this area.

We also talked with Jessamyn about the active/passive investment approach debate, and it is something her firm has a notable vested interest in. Spinnaker runs two individual stock portfolios as well as its ETF portfolios. With Jessamyn’s background on the fundamental research side, it was interesting to hear that her ETF portfolios—which use a sector rotation element in the U.S.—are currently beating the individual stock portfolios.

The active/passive debate will continue to rage, but what we see consistently across various firms we are talking to is that the active decisions are increasingly being focused on how to allocate assets and less on trying to add value through individual stock selection.

We also discussed currency in terms of how Spinnaker allocates its international portfolios. Jessamyn has been thinking a lot about currency risk in Spinnaker’s portfolios. We talked about some of her considerations in moving to and from currency-hedged positions and whether the approach should be to try to actively time currency hedges or think about this more from a strategic, long-run perspective, something I advocate for quite often.

[Listen to the entire “Behind the Markets” podcast series here.](#)

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.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but it can hurt when the foreign currency appreciates against the U.S. dollar.