

EXPECT MORE EASING FROM BOJ: HOW TO POSITION

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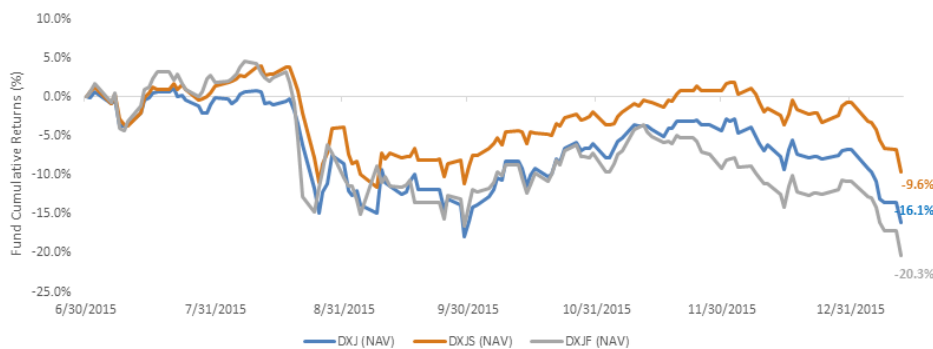
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Recently, WisdomTree Japan CEO Jesper Koll wrote that [he expects Japan to add to its monetary easing stimulus package](#) at the upcoming January 28 Bank of Japan (BOJ) meeting. Further supporting the case for additional [easing](#), BOJ governor Haruhiko Kuroda had this to say at a recent central bank conference in Paris (Jan 12, 2016): “...the Bank’s efforts to achieve the price stability target of 2 percent under [Qualitative and Quantitative Easing \(QQE\)](#) are only halfway there. Given that Japan’s economy has been mired in [deflation](#) for 15 years, eradicating the deflationary mindset that was entrenched among the public is no easy task. However, somebody has to act decisively. As price stability is at stake, it is the central bank that has to play this role.” Based on Kuroda’s comments that Japan is still only halfway there, combined with the deflationary forces, market [volatility](#) and political repercussions if prime minister Shinzo Abe’s economic platform fails to work, we see further pressure for additional easing—with strong potential for January 28, but if not then, at the subsequent two meetings in March or April. Moreover, the yen, on a trade-weighted basis, has been increasing steadily since June 2015 and at this point has erased all the weakness that followed the BOJ’s easing program announced on October 31, 2014. This provides more economic rationale for Kuroda to take further action, as a strong yen could also compound other deflationary forces.

Market Not Expecting Further BOJ Stimulus We do not believe the market is well positioned for a move by the BOJ in January; we have seen a number of investment strategists suggest that there will be no additional stimulus. As a result, many portfolio managers have removed those positions that were over-weight in Japanese equities and taken off yen [currency hedges](#), because they believe the yen’s weakness may be played out. But we believe the opposite and see further yen weakening in the near future. Furthermore, we’d suggest that the weakness in the equity markets since the middle of last June—a period in which Japan’s equity markets corrected significantly—created a solid tactical buying opportunity. The currency-hedged exchange-traded funds (ETFs) below may be well positioned to benefit investors by any additional action taken by the BOJ. Please click for standardized performance of the [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#), the [WisdomTree Japan Hedged SmallCap Equity Fund \(DXJS\)](#) and the [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#).

Cumulative Returns of WT Japan Related-Funds

	(6/30/2015-	1/12/2016)



Source: Bloomberg as of 1/12/2016. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns 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. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

DXJ: Our flagship currency-hedged Japan ETF provides exposure focused on dividend-paying exporters. Given the recent yen strength, combined with global growth concerns (especially surrounding China and the emerging markets), many capital goods companies have come under pressure. A renewed bout of yen weakness should provide support for these companies, especially given what we see as attractive [valuations](#) on a [price-to-earnings \(P/E\) ratio](#) basis (14.5x expected earnings as of 1/12/2016). **DXJF:** Provides currency-hedged exposure to Japanese financials. Financials have taken the brunt of the weakness in the equity markets over the last seven months and have sold off even more than the exporters. For those willing to make a sector allocation, Financials could be a higher [beta](#) way to increase exposure to Japan in anticipation of central bank action. **DXJS:** Provides currency-hedged exposure to Japanese small caps focused on [dividend](#)-paying companies with a revenue profile tilted toward the local Japanese economy. Small caps have outperformed exporters during this period of recent Japan equity weakness (6/30/2015–1/12/2016), largely as a result of the more local focus of these companies. Jesper Koll also believes there is a strong case to be made for small caps over the medium to long run, as he sees the labor market tightness putting upward pressures on wages and local consumption over the longer run. In closing, we believe the time is ripe to reconsider Japan, from a tactical and strategic basis. As Jesper said in his January 14 blog post, we believe Japan is in a multi-year [bull](#) market for risk assets, and we regard this pullback as a good buying opportunity. The BOJ is likely to add firepower to its program, and the Japan trade, we think, is about to become a focal point again.

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For more investing insights, check out our [Economic & Market Outlook](#)

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DEFINITIONS

Monetary easing policies : Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

Quantitative and qualitative monetary easing (QQE) : A central bank monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Deflation : The opposite of inflation, characterized by falling price levels.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Dividend : A portion of corporate profits paid out to shareholders.

Bullish : a position that benefits when asset prices rise.