

IBKRCampus

IBKRWebinars

April 30, 2024

WisdomTree Europe

The Changing Landscape of the Japanese Economy Leaves Plenty of Firepower for Japanese Equities

Aneeka Gupta, CFA

Director, Macroeconomic Research
WisdomTree Europe

www.ibkrcampus.com/webinars

www.ibkrcampus.eu/webinars

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. IBKR is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you. IBKR does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.

Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled Characteristics and Risks of Standardized Options by visiting ibkr.com/occ. Multiple leg strategies, including spreads, will incur multiple transaction costs.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit your local Interactive Brokers Website.

Security futures involve a high degree of risk and are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading security futures, please read the [Security Futures Risk Disclosure Statement](#). For a visit copy your local Interactive Brokers Website.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.

Interactive Brokers LLC is a member of NYSE FINRA SIPC

Interactive Brokers Canada Inc - Is a member of the Canadian Investment Regulatory Organization (CIRO) and Member - Canadian Investor Protection Fund

Interactive Brokers (U.K.) Limited is authorised and regulated by the Financial Conduct Authority. FCA Register Entry Number 208159

Interactive Brokers Ireland Limited is regulated by the Central Bank of Ireland. CBI, reference number C423427

Interactive Brokers Australia Pty. Ltd. - ABN 98 166 929 568 is licensed and regulated by the Australian Securities and Investments Commission AFSL: 453554

Interactive Brokers Singapore Pte. Ltd. - Is licensed and regulated by the Monetary Authority of Singapore. MAS, Licence No. CMS100917

Interactive Brokers Hong Kong Limited is regulated by the Hong Kong Securities and Futures Commission, and is a member of the SEHK and the HKFE

Interactive Brokers India Pvt. Ltd. member: NSE, BSE, SEBI. Regn. No. SEBI Registration No. INZ000217730; NSDL: IN-DP-NSDL-301-2008

Interactive Brokers Central Europe Zrt. is licensed and regulated by the Central Bank of Hungary (Magyar Nemzeti Bank) under no. H-EN-III-623/2020

As with all investments, your capital is at risk

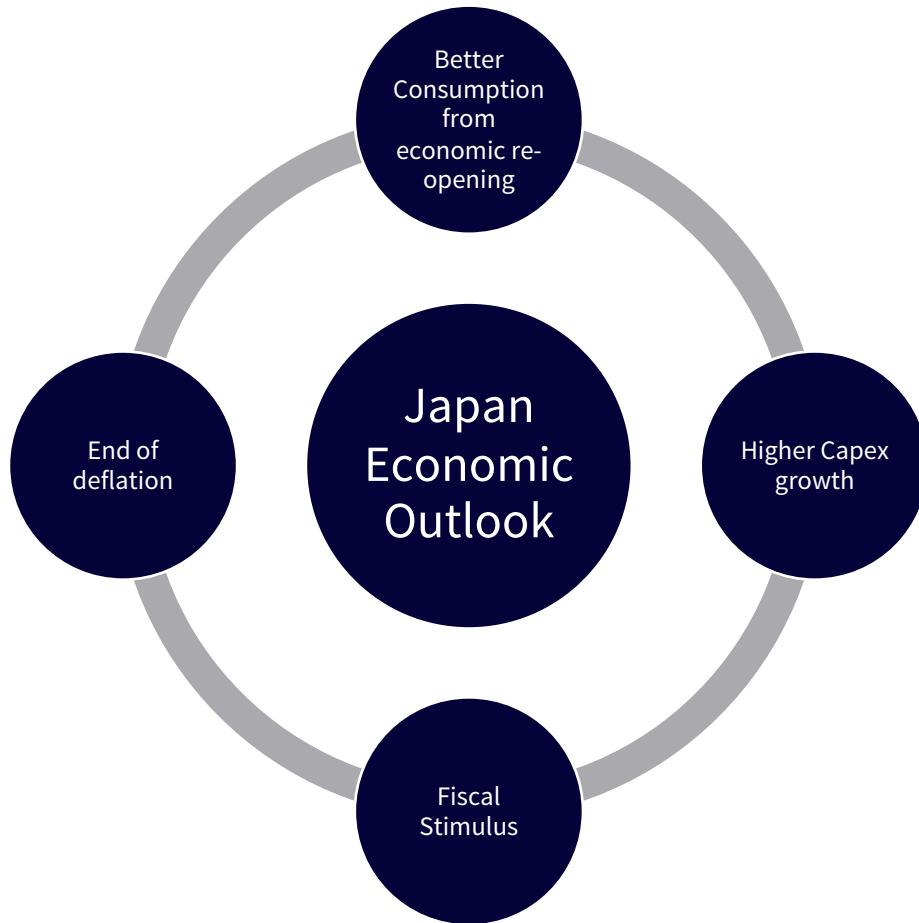


Q2 2024

Japan Equity Outlook



Japan's changing economic landscape



Source: WisdomTree as of Q2 2024

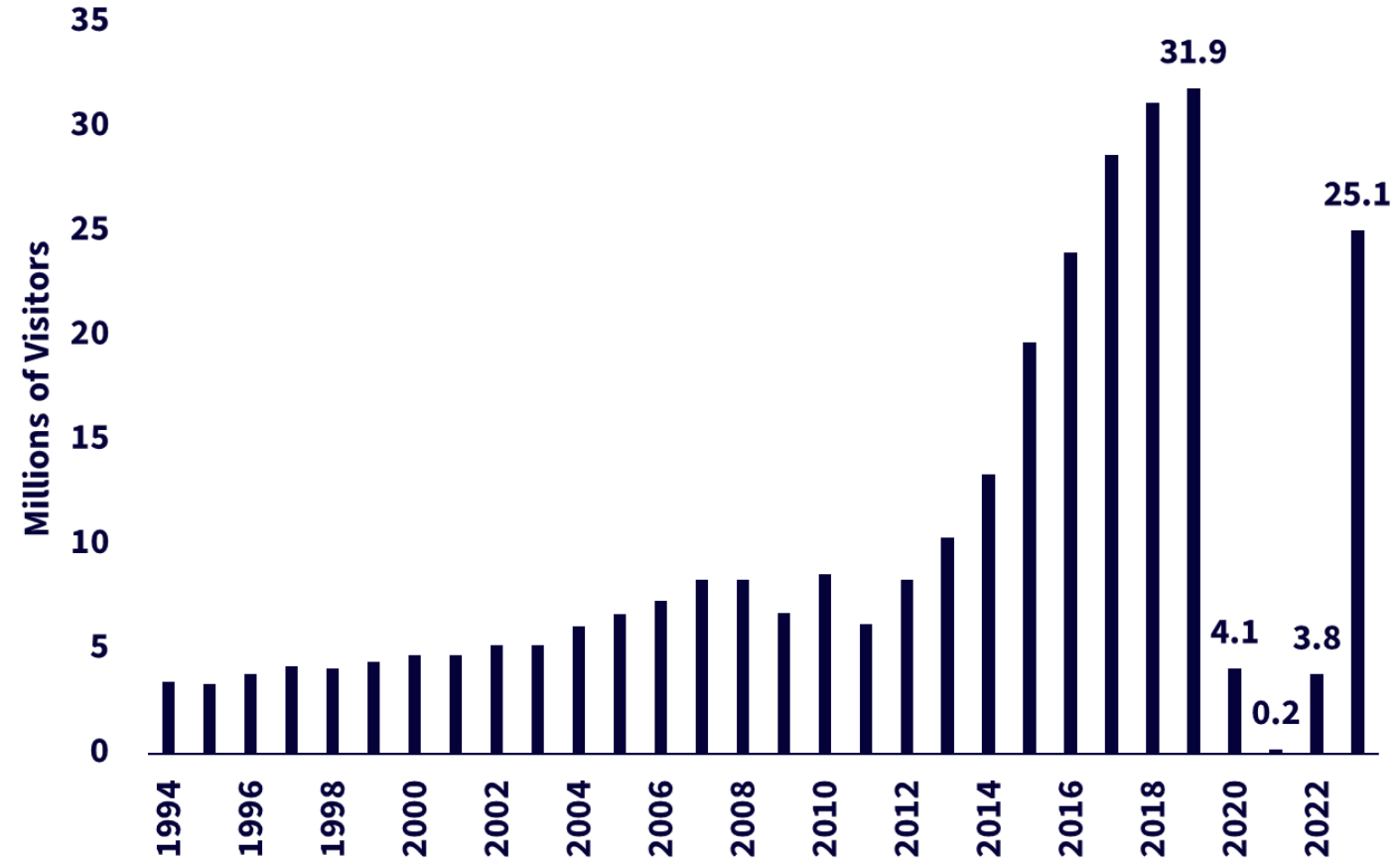
- 1 Higher consumption following on from the economic re-opening**
- 2 Higher capex growth being led by supply chain diversification, aging demographics and improving productivity**
- 3 Fiscal Stimulus**
- 4 The end of deflation is a catalyst unique to Japan**

Foreign Tourism to Japan



Japan Tourism

- Japan witnessed a sharp jump in visitors since it reopened its border in October 2022.
- Foreign tourism statistics help contextualize the rebound in economic growth in Japan coinciding with foreign interest in the country



Source: Japan National Tourism Organisation

Historical performance is not an indication of future performance and any investments may go down in value.

Capex Trends: Takeaway From BOJ's Tankan

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.



Japan's headline Tankan index improves

- The Bank of Japan's Tankan survey of business sentiment shows brisk improvement in service sectors in the Q1 2024, reflecting a pickup in consumer spending on services and solid demand for construction and real estate.
- Capital investment plans of large firms across all industries suggests corporate spending likely buoyed GDP in the year ended March 2024. They said they will raise spending 11.5% on average from the prior fiscal year.
- Investment plans for the new fiscal year from April signal corporates will continue to ramp up capital spending. Large firms say they will increase capex by 4% from the previous year. This is very solid for an initial projection and was stronger than the 3.2% rise projected in the prior fiscal year.
- Inflation-related gauges suggest companies expect sticky prices. This is likely to please the Bank of Japan, which has indicated it wasn't fully convinced its 2% inflation target was secure even after it hiked its policy rate for the first time in 17 years.

Source: Bank of Japan, Tankan Survey 1 April 2024

Historical performance is not an indication of future performance and any investments may go down in value.

Ratio of Current Profit to Sales %, % points

		FY 2023		FY 2024	
		(Forecast)	Changes	(Forecast)	Changes
Large Enterprises	Manufacturing	11.32	0.52	10.78	-
	Nonmanufacturing	8.17	0.17	7.81	-
	All industries	9.51	0.31	9.08	-
Medium-sized Enterprises	Manufacturing	5.01	0.18	4.65	-
	Nonmanufacturing	4.19	0.20	4.02	-
	All industries	4.42	0.20	4.19	-
Small Enterprises	Manufacturing	4.29	0.10	4.26	-
	Nonmanufacturing	3.86	0.12	3.86	-
	All industries	3.95	0.11	3.95	-
All Enterprises	Manufacturing	8.83	0.37	8.41	-
	Nonmanufacturing	5.78	0.16	5.58	-
	All industries	6.80	0.22	6.53	-

Software, R&D, and Fixed Investment excluding Land Purchasing Expenses year-to-year % change

		FY 2023		FY 2024	
		(Forecast)	Revision rate	(Forecast)	Revision rate
Large Enterprises	Manufacturing	9.5	-1.2	4.4	-
	Nonmanufacturing	9.5	-3.3	3.8	-
	All industries	9.5	-2.1	4.1	-
Medium-sized Enterprises	Manufacturing	9.9	-3.3	9.8	-
	Nonmanufacturing	10.4	0.3	7.4	-
	All industries	10.2	-1.5	8.5	-
Small Enterprises	Manufacturing	0.0	-5.0	3.0	-
	Nonmanufacturing	23.2	1.4	0.8	-
	All industries	13.7	-1.0	1.6	-
All Enterprises	Manufacturing	8.6	-1.9	5.1	-
	Nonmanufacturing	11.9	-1.8	3.9	-
	All industries	10.2	-1.9	4.5	-
(Memo)	All industries including Financial institutions and Holding companies, etc.	10.4	-1.9	4.9	-
		9.9	-2.1	4.9	-

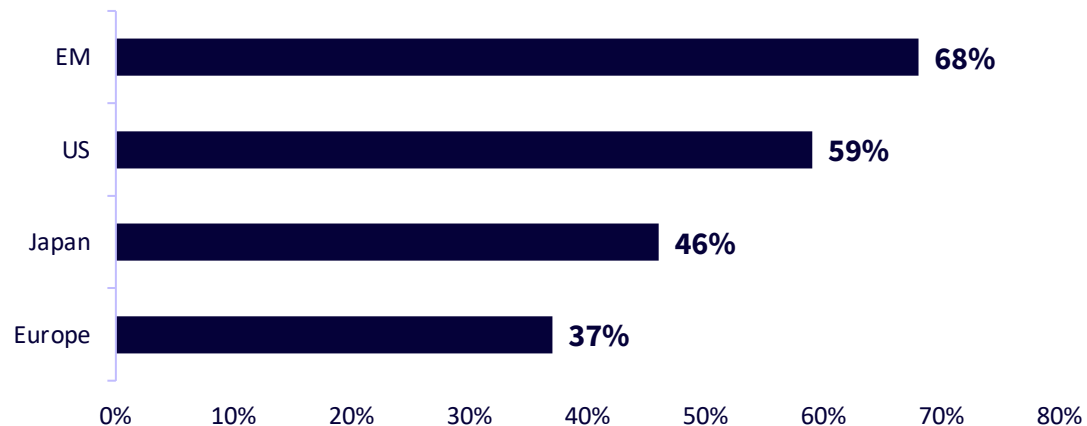
Japan's export-based economy



Domestic Revenue Exposure

Japan and Europe have less revenue from their domestic markets than other major countries like EM and the US, and thus are more reliant on global growth.

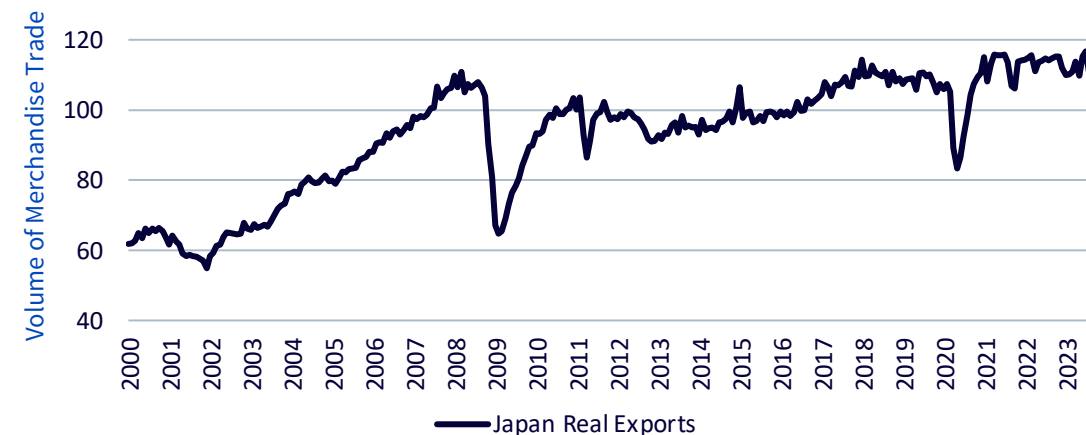
Percentage of Revenue from Home Country



Japanese exports bounce back, thanks to stronger demand in key markets

- Exports climbed 9.8% y/y in December, the highest figure in 12 months, after slipping 0.2% in November.
- Shipments to major markets broadly improved, with export growth to the US jumping 20.4% y/y in December, from 5.3% in November.
- Export growth to the EU accelerated to 10.3%, from 0% previously, while shipments to China climbed 9.6%, the first increase in 13 months and the highest figure in 15 months, after dropping 2.2% in November.

Japanese real exports have been resilient



Source: Bloomberg, WisdomTree as of 29 February 2024

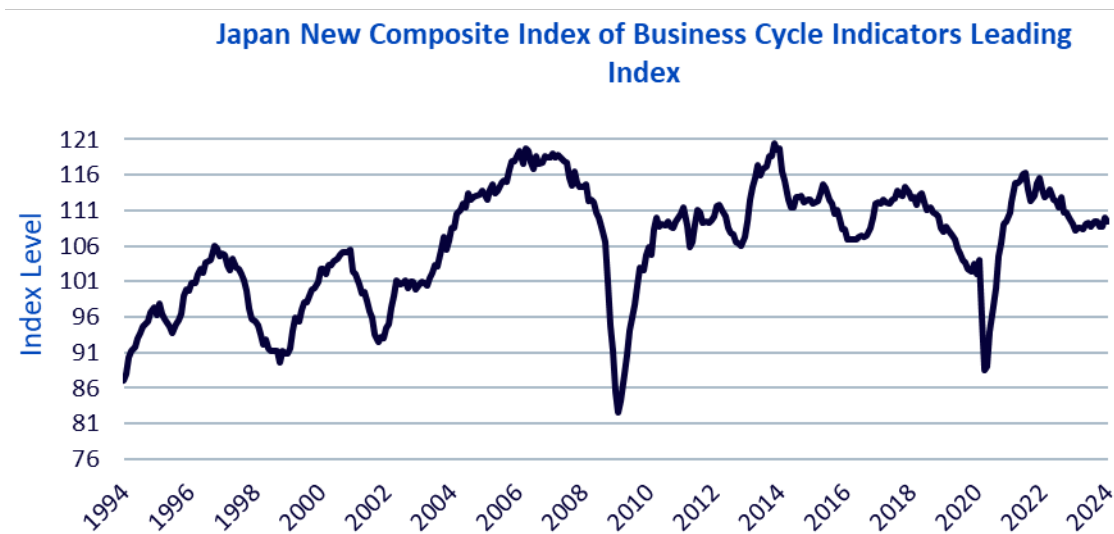
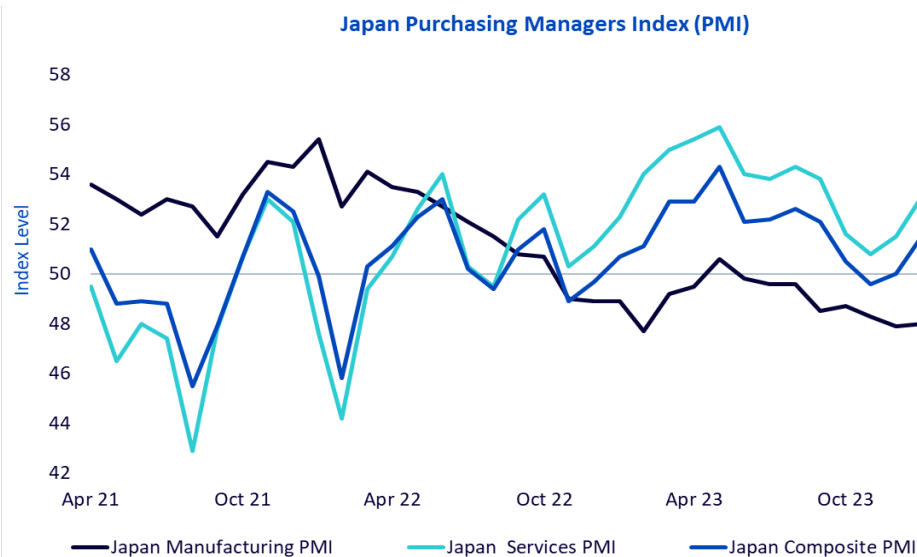
Historical performance is not an indication of future performance and any investments may go down in value.

Economic indicators send mixed signals

Japan's services Purchasing Managers Indices (PMI) reports higher domestic demand



- Rising services activity is still very much confined to the buoyant tourism sector, while output prices in the service PMI hasn't yet translated into broader consumer services inflation.
- There are emerging signs that domestic demand is picking up.
- Incoming new business sub-index was only revised down by 0.1 point to 51.9, suggesting a healthy expansion in demand.



Source: Bloomberg, WisdomTree as of 31 March 2024

Historical performance is not an indication of future performance and any investments may go down in value.

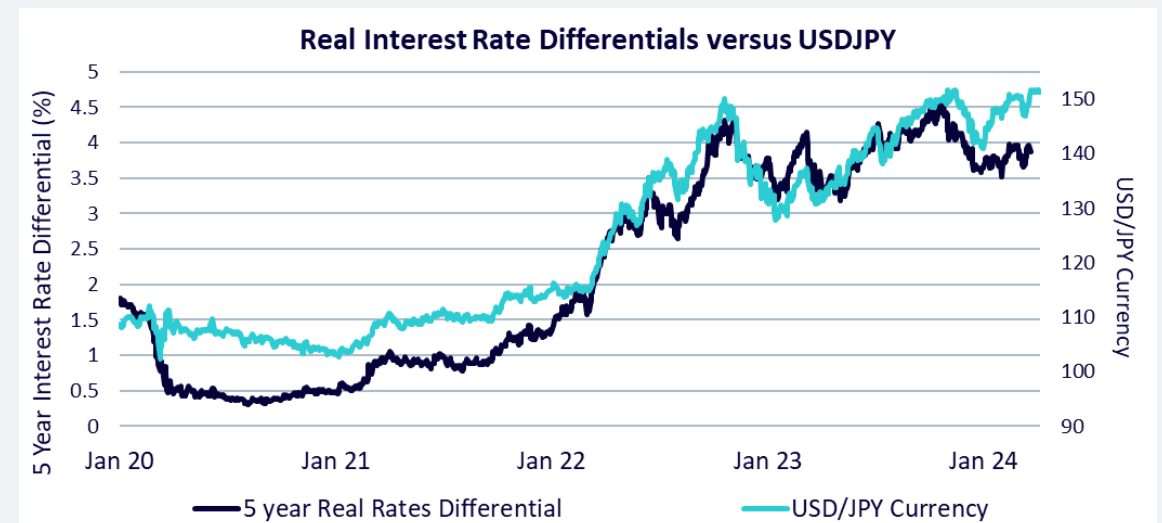
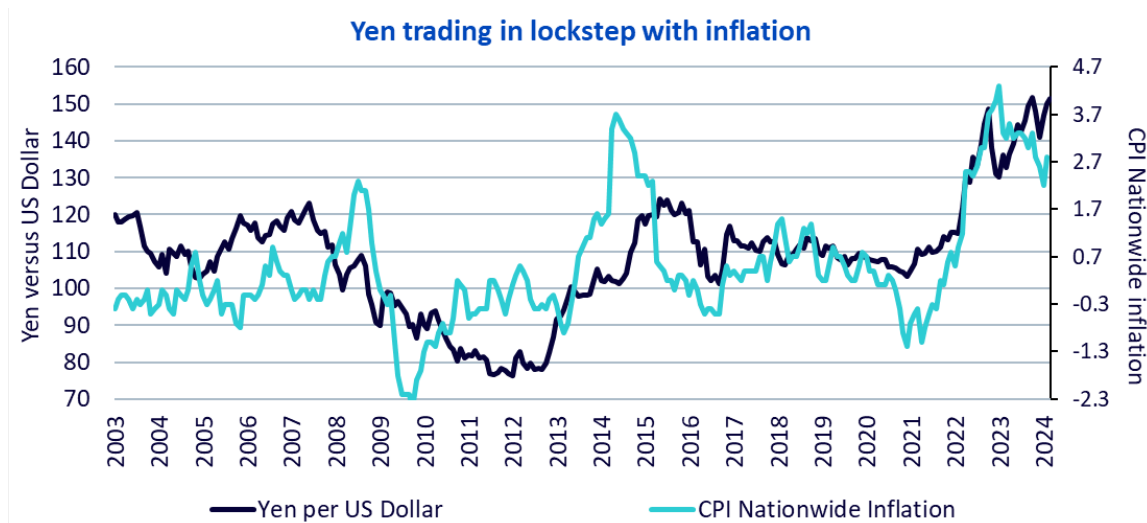
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Japanese inflation remains above 2%



- A leading indicator of nationwide consumer prices, Tokyo consumer prices rebounded to 2.6% year-on-year in March (vs a revised 2.5% in February, 2.5% market consensus).
- Core inflation excluding fresh food, a preferred measure for the BoJ, eased to 2.4% (vs 2.5% in February, 2.4% market consensus)
- We expect inflation to ease, but to remain above 2% for a considerable time.
- With stronger-than-expected wage negotiation results for FY24, the BoJ's sustainable inflation growth target is achievable this year.

Falling U.S. yields have eased pressure on the Yen and created a window of opportunity for BoJ to normalise policy.

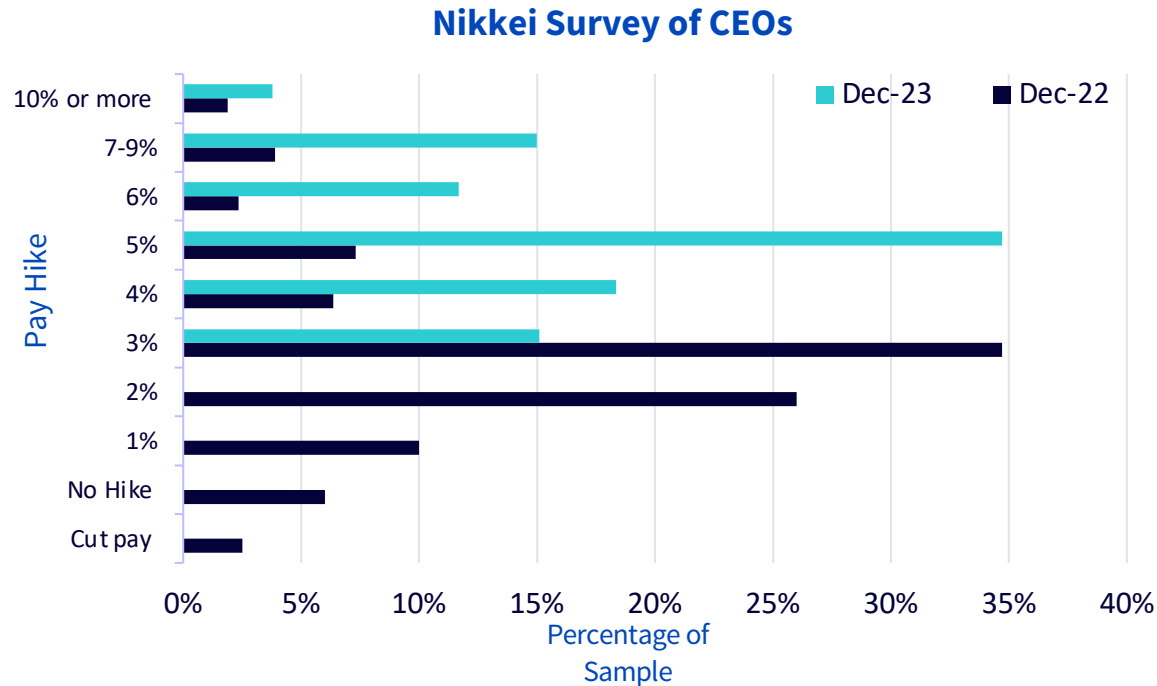


Source: Bloomberg, WisdomTree as of 3 April 2024

Historical performance is not an indication of future performance and any investments may go down in value.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Wages hikes are the key to the reflationary story



1

The BOJ wants to see tighter supply-demand conditions that buoy labour compensation before it exits negative rates. Early results of spring pay talks (shunto) in March will indicate prospects for wage-driven inflation taking hold.

2

The BOJ appears to expect unions and businesses to agree to brisk base pay growth, setting a virtuous wage-price cycle in motion.

3

The survey suggests markedly larger wage hikes in 2024. The previous survey was consistent with the result of a 3.6% hike in wage growth. This survey remains consistent with hikes of over 5%.

Source: Nikkei, CLSA, WisdomTree as of 31 January 2024

Historical performance is not an indication of future performance and any investments may go down in value.

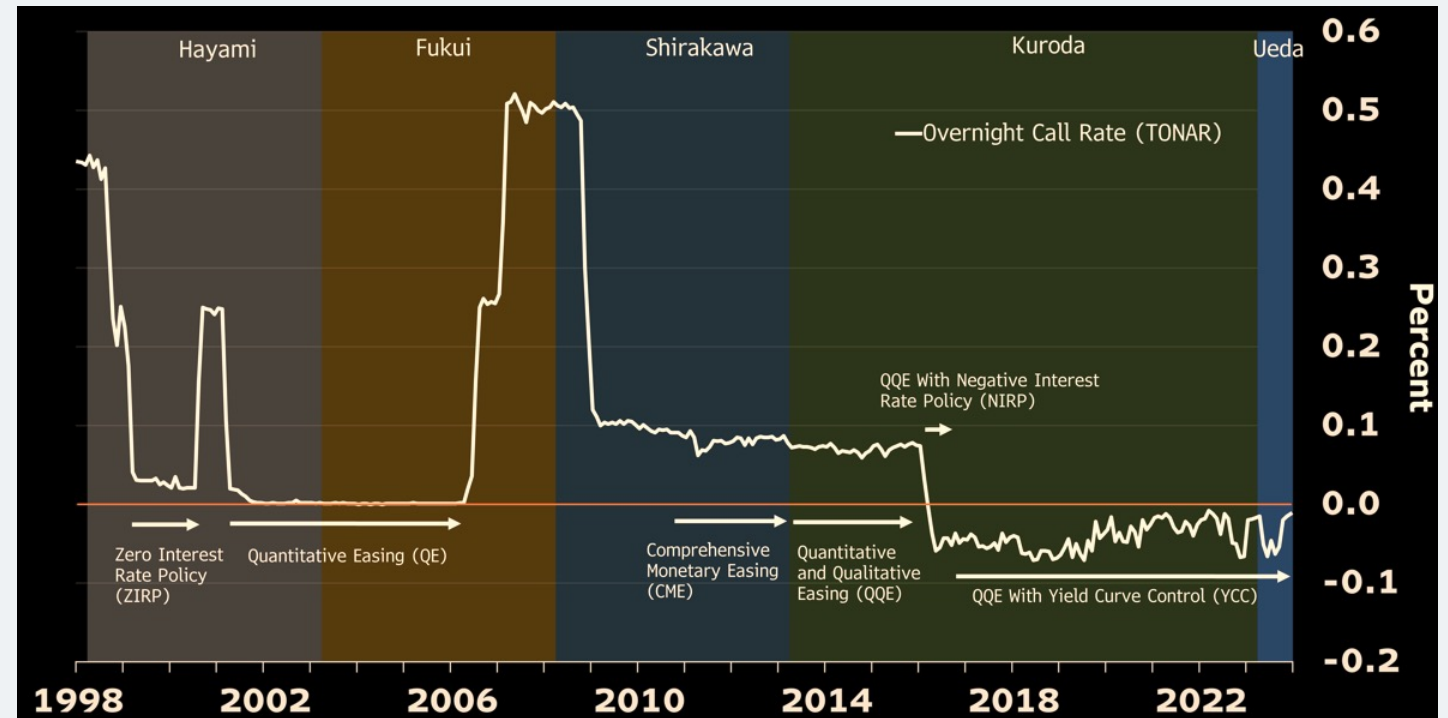
Monetary policy likely to stay on hold until H2 2024

Bank of Japan pivot proves underwhelming for markets

- The Bank of Japan (BOJ) embarked on a significant yet incremental step, exiting negative interest policy for the first time in 17 years.
- The communication from the BOJ leaned on the dovish side as signalled by Governor Ueda, “it is necessary to maintain accommodative financial conditions”. For now, the BOJ appears reluctant to signal further policy tightening and is likely to take a gradual approach to raising rates. This coupled with the Fed continuing to expect three cuts this year, should keep yen appreciation limited.
- BOJ’s policy normalisation came on the heels of the Shunto wage negotiations that agreed on a bumper wage hike by 5.28% for 2024 .
- The results of the spring wage negotiations suggest that real wage growth will turn positive, and if inflation stabilises around BOJ target of 2% it should support the 2025 Shunto salary increase.

Source: Bank of Japan, Bloomberg, WisdomTree as of 31 March 2024

Historical performance is not an indication of future performance and any investments may go down in value.



Fiscal stimulus to aid Japan

Fiscal stimulus to aid Japan's recovery

- Japan's cabinet approved an extra budget of 13.2Trn (US\$87Bn) for the financial year F324 (Financial year that ends on 31 March 2023) to fund a new economic package designed to mitigate the burden of rising prices on households and navigate the economy through the cost-of-living crisis.
- The supplementary budget brings total spending for fiscal 2023 to a massive 127.58 trillion yen. Roughly a third, or 44.5 trillion yen, will be funded by government bonds, with the restoration of fiscal health taking on greater urgency amid the prospect that rising bond yields will increase debt-servicing costs.
- The government will give low-income households who are exempt from paying tax 70,000 yen by the end of the year, which will cost around 1.06 trillion yen.
- Another key feature of the package, an income and resident tax cut of 40,000 yen per person, will require around 3.5 trillion yen but will be implemented in June, meaning that it will affect the budget for the next fiscal year.

Source: NikkeiAsia, WisdomTree as of 31 January 2024



2.

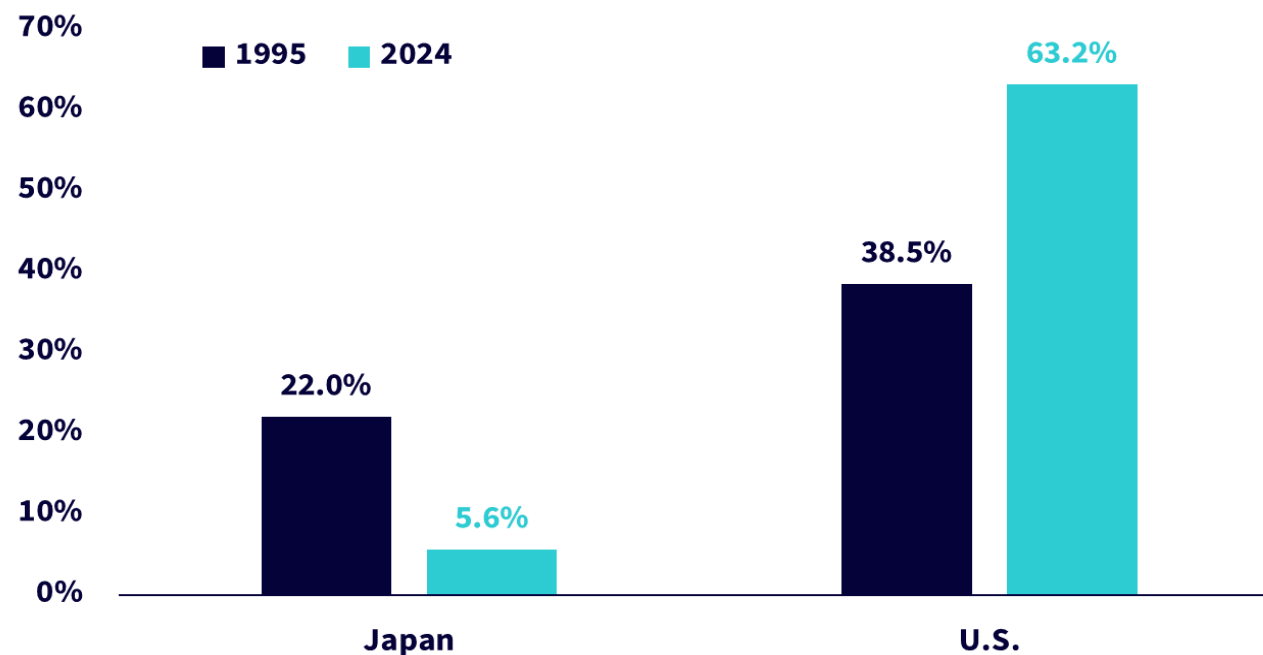
Upside momentum for Japanese equities

THE “RIGHT” WEIGHT TO JAPAN IN PORTFOLIOS



Country weights in the MSCI All Country World Index (ACWI)

- Investors are forgiven if they haven't focused on Japanese equity allocations in some time. In the mid-1990s, Japan made up more than one-fifth of the MSCI All Country World Index (ACWI). It now accounts for less than 6%.
- The U.S. influence on the benchmark grew from under 40% to 63%.
- Many portfolio exposures to U.S. equities are even higher, considering common behavioural biases like home country bias and recency bias—and a belief in American exceptionalism.
- Consistent U.S. outperformance over the last 15 years reinforced the notion global diversification is overrated.



Source: WisdomTree, MSCI, AS OF January 31, 2024. You cannot invest directly in an index.

Historical performance is not an indication of future performance and any investments may go down in value.

Japan's relative value discount



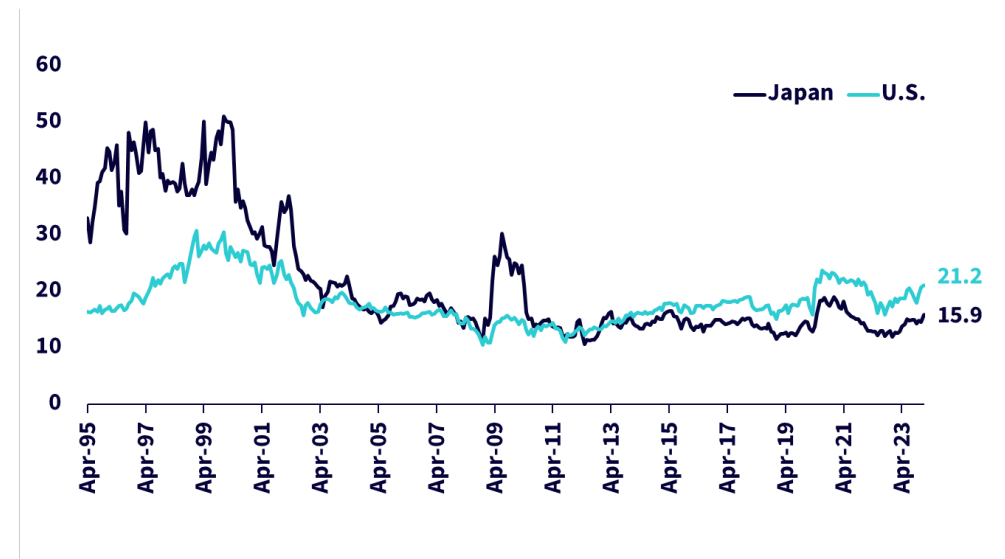
Japan Price-to-Dividend vs. US Price-to-Dividend

Despite sustained underperformance from Japanese equities, it has only been in the last six years that its valuations on the price-to-dividend ratio have been consistently below the U.S. (the dividend yield of Japan > U.S.)



Forward Price-to-Earnings

- Price-to-earnings ratios also confirm the relative valuation discount of Japan versus the U.S.
- As the U.S. equity market continues to become increasingly more concentrated in a handful of high-growth tech-enabled companies, its multiples have become more stretched compared to Japan.



Source: WisdomTree, MSCI, 31 March 1986 to 31 January 2024. US and Japan are measured by their respective MSCI indexes. You cannot invest directly in an index.

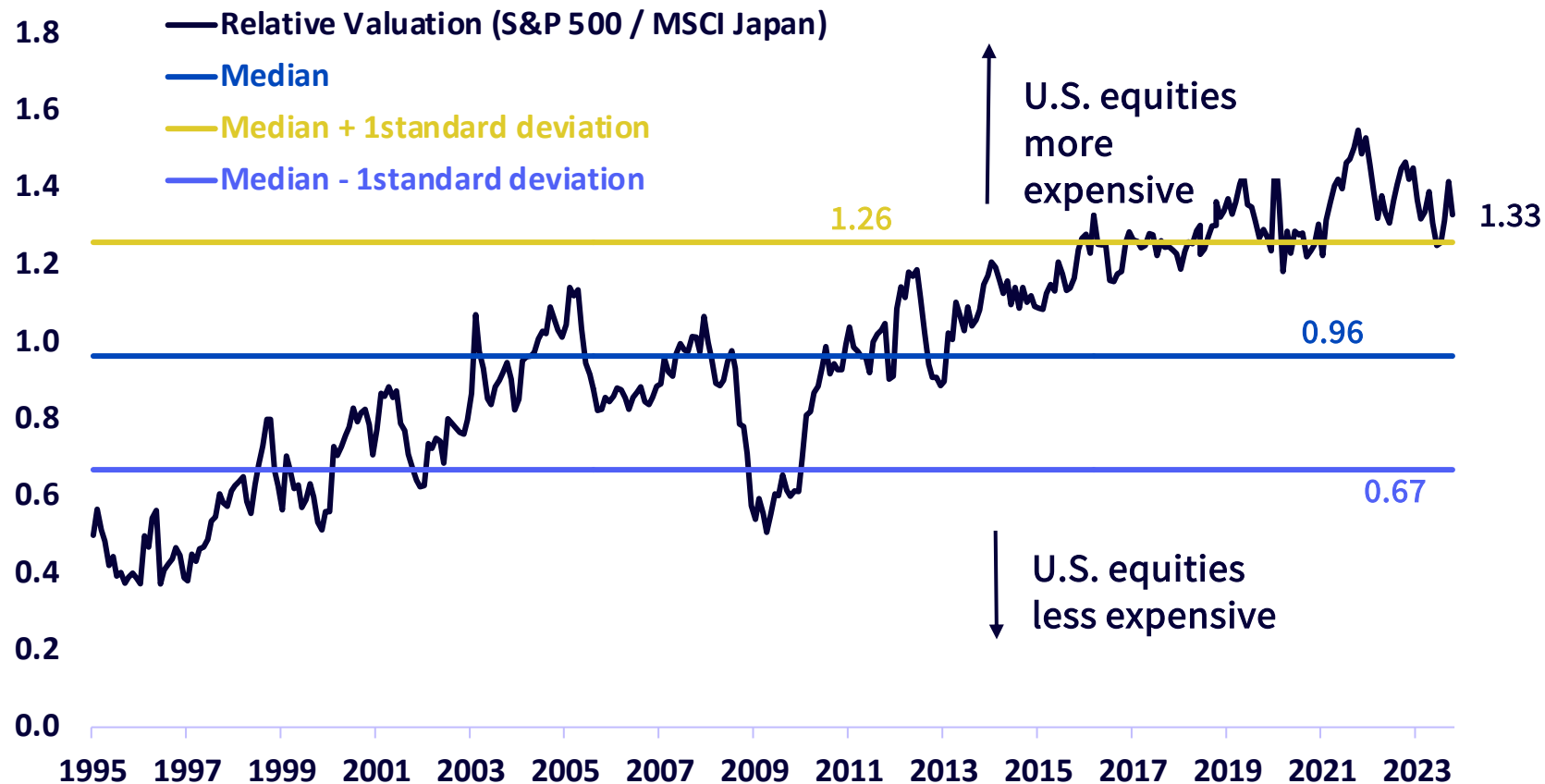
Historical performance is not an indication of future performance and any investments may go down in value.

Historical Price to Earnings (P/E) Ratio Relative Valuation



Relative Valuation

- Going back to 1995, the valuations on Japanese equities have tended to be slightly higher than the U.S. as the Japanese market readjusted from its frothy valuations in the late '80s.
- At present, the S&P 500 P/E is 33% above MSCI Japan, which is more than one standard deviation above the historical median relative valuation.



Source: WisdomTree, MSCI, 28 April 1995 to 31 January 2024. US and Japan are measured by their respective MSCI indexes. You cannot invest directly in an index.

Historical performance is not an indication of future performance and any investments may go down in value.

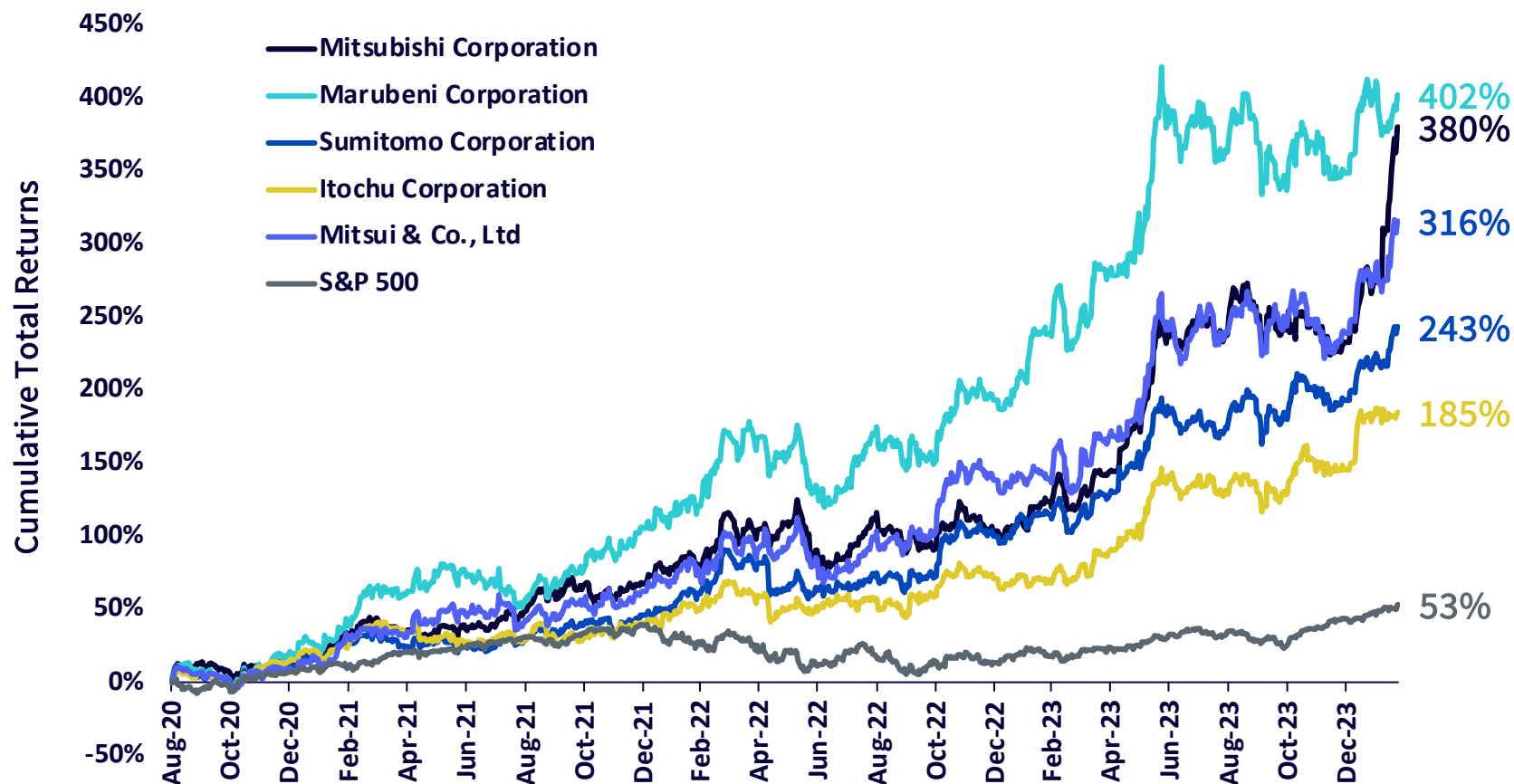
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

FOLLOWING BUFFETT INTO JAPAN



Warren Buffett investing in Japan

- Throughout 2019 and 2020, Buffett’s Berkshire Hathaway amassed 5% stakes—that he increased to just under 10%—in five Japanese general trading firms, known as “sogo shosha.”
- Since late August 2020, when Buffett’s investments in the five trading houses became public, his investments have far and away beaten the returns of the S&P 500.
- The S&P 500 returns of 53% pale in comparison to the returns for these companies, ranging from 185% to 402%
- At the time that Buffett’s investments became public, four of the five trading companies traded at price-to-book ratios well below 1—meaning the accounting value of their assets was more than the market value of the companies.



Source: WisdomTree, Factset, S&P 28 August 2020 to 23 February 2024. You cannot invest directly in an index. Past performance is not indicative of future returns.

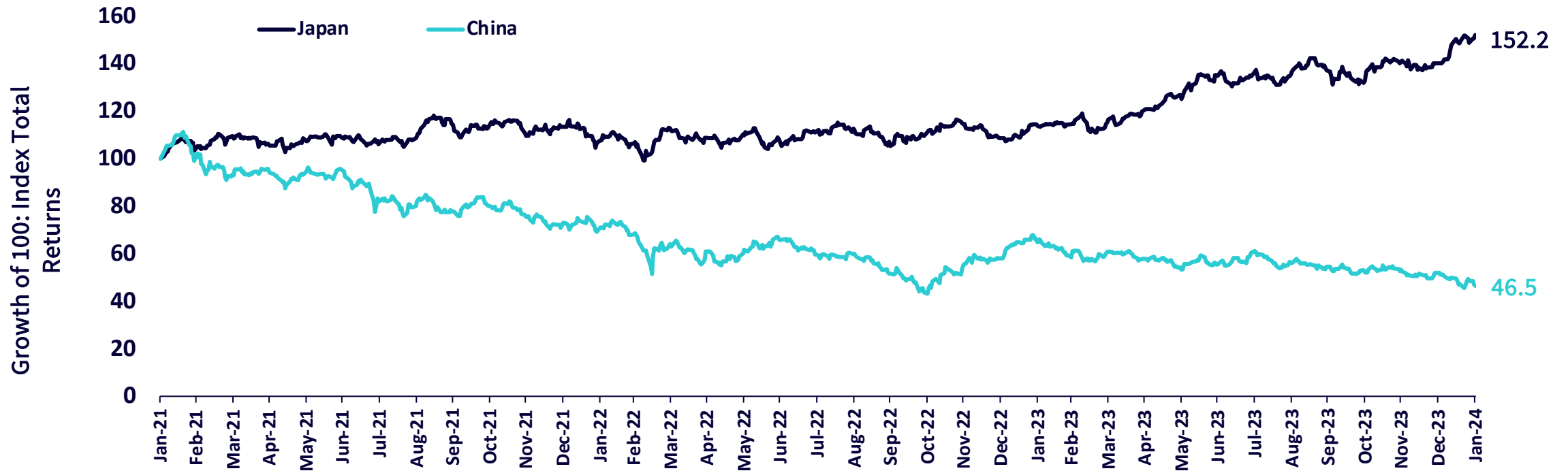
Historical performance is not an indication of future performance and any investments may go down in value.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Japan is a logical alternative to China

Growth of US\$100: Japan versus China

- Japan has benefited from global investor inflows who are diversifying their investments in Asia, with geopolitical tensions and sluggish growth causing a rotation from China to Japan.
- While many Japanese companies sell to China but don't have the political risks associated with directly investing in China.



Source: WisdomTree, MSCI, 31 January 2021 to 31 January 2024. China and Japan are measured by their respective MSCI indexes in gross total returns in local currency.. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

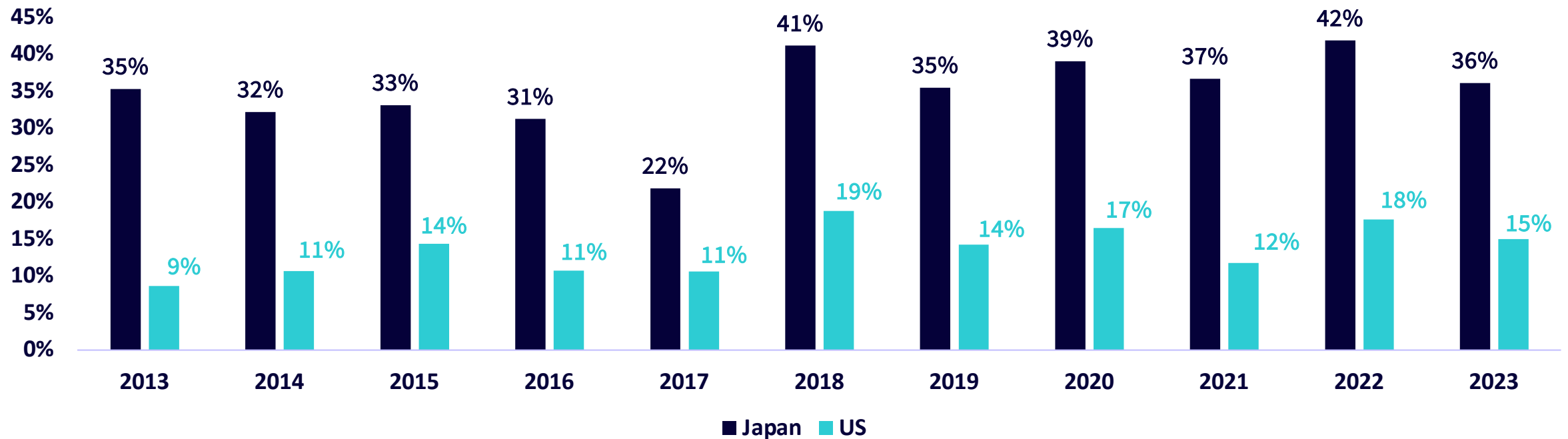
Corporate Governance reform



Percentage of Companies with Price-to-Book Less than 1

In 2022, the Tokyo Stock Exchange (TSE) instituted its biggest overhaul in 60 years to reinvigorate enthusiasm for Japanese equities.

The TSE announced that about half of its listed companies had a price-to-book ratio below 1x. It said that these companies needed to disclose their policies and specific initiatives for improving valuations.



Source: WisdomTree, MSCI, 31 December 2013 to 31 December 2023. US and Japan are measured by their respective MSCI indexes. You cannot invest directly in an index.
Historical performance is not an indication of future performance and any investments may go down in value.

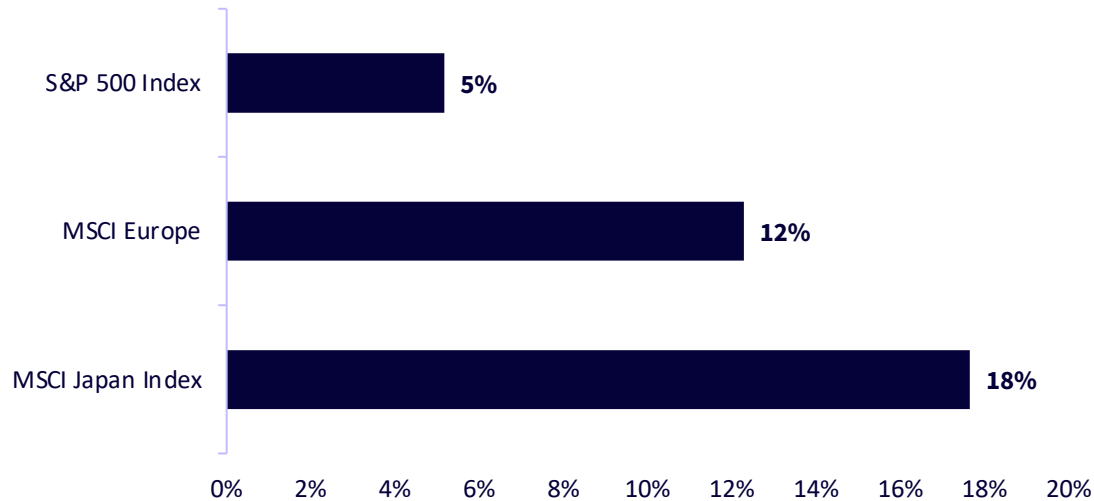
Corporate Japan's ongoing reform initiatives



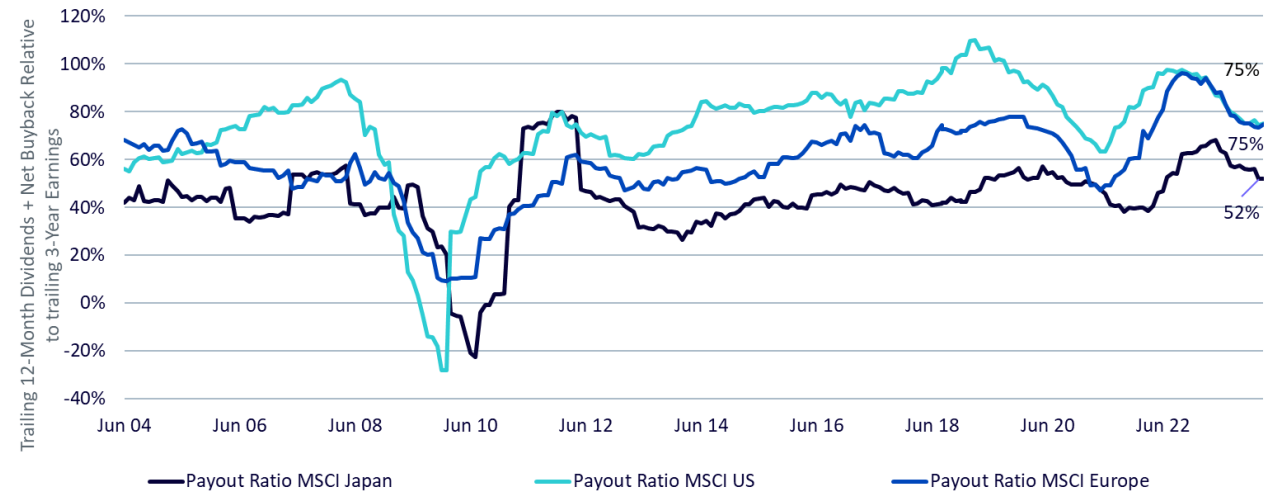
Payout ratios in Japan begin to catch up

- The policy which has captured the most attention in 2023 has been the Tokyo Stock Exchange's (TSE) new corporate governance reform agenda focused on improving listed company price/book ratios (PBR).
- Companies have stepped up their pace of share buybacks and reductions in crossholdings to improve PBRs.

Comparison of cash as a percentage of market cap



Payout ratios in Japan begin to catch up to US & Europe



Source: Factset, WisdomTree as of 31 March 2024

Historical performance is not an indication of future performance and any investments may go down in value.

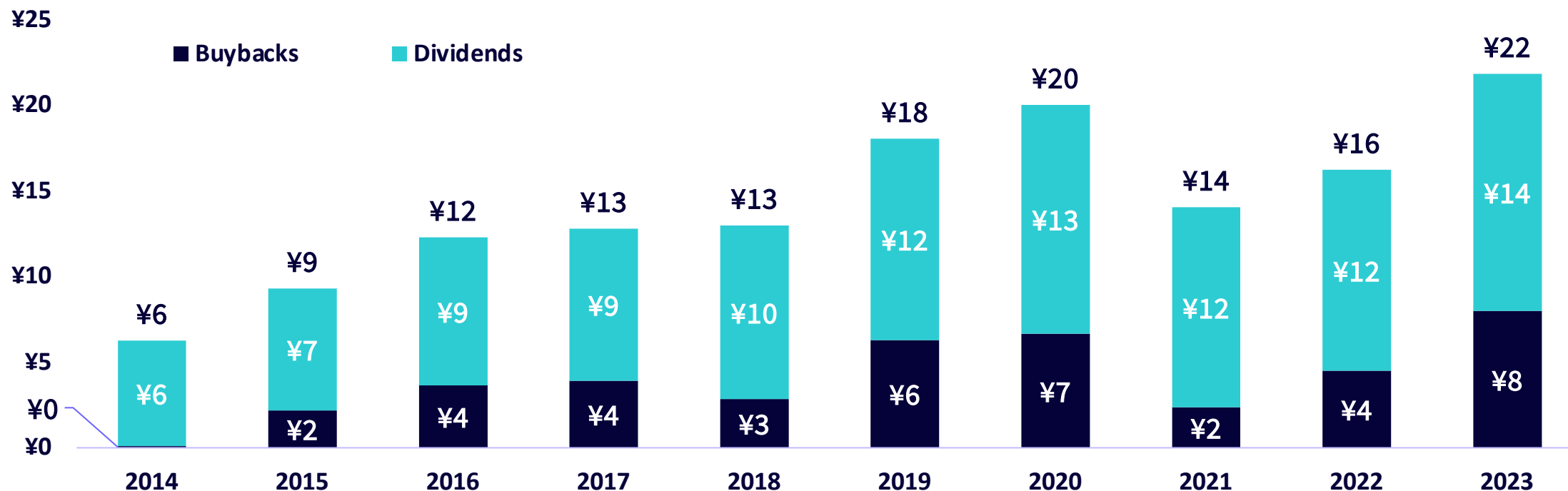
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Shareholder likely to benefit from rising payouts



Total Payouts Increasing (¥ Trillions)

- Buybacks went from virtually non-existent a decade ago to 8 trillion yen (\$53 billion) over the last 12 months. Dividends, which were only marginally cut from the COVID-19 pandemic—in part due to high cash balances and conservative payout ratios—grew from 6 trillion yen (\$40 billion) in 2014 to 14 trillion yen (\$93 billion) today.



Source: WisdomTree, MSCI. Payouts measured on a trailing 12-month basis each May month-end. Japan payouts based on MSCI Japan Index. Dividends are not guaranteed and may fluctuate. Past performance is not indicative of future results. You cannot invest directly in an index.

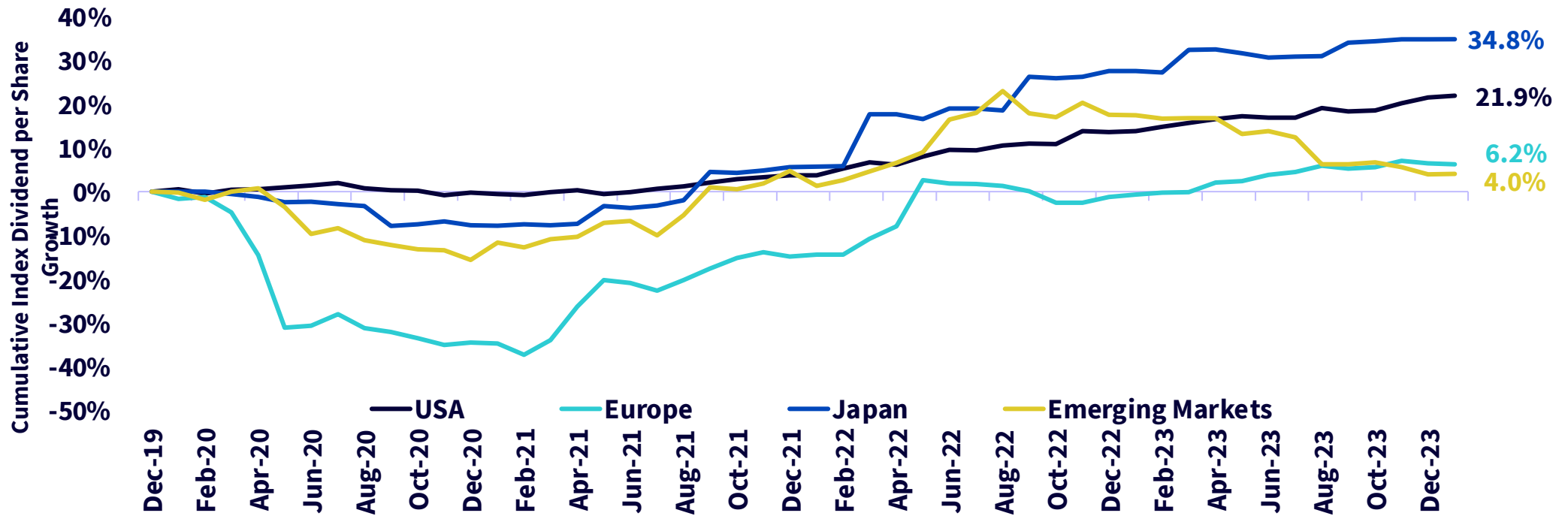
Historical performance is not an indication of future performance and any investments may go down in value.

Japan dividend growth highest globally



Global Leader in Dividend Growth since 2019

Comparing across global equity markets, this dividend growth has been remarkable. Japan has grown its dividend by almost 35% since 2019, well ahead of the 22% growth from the U.S.

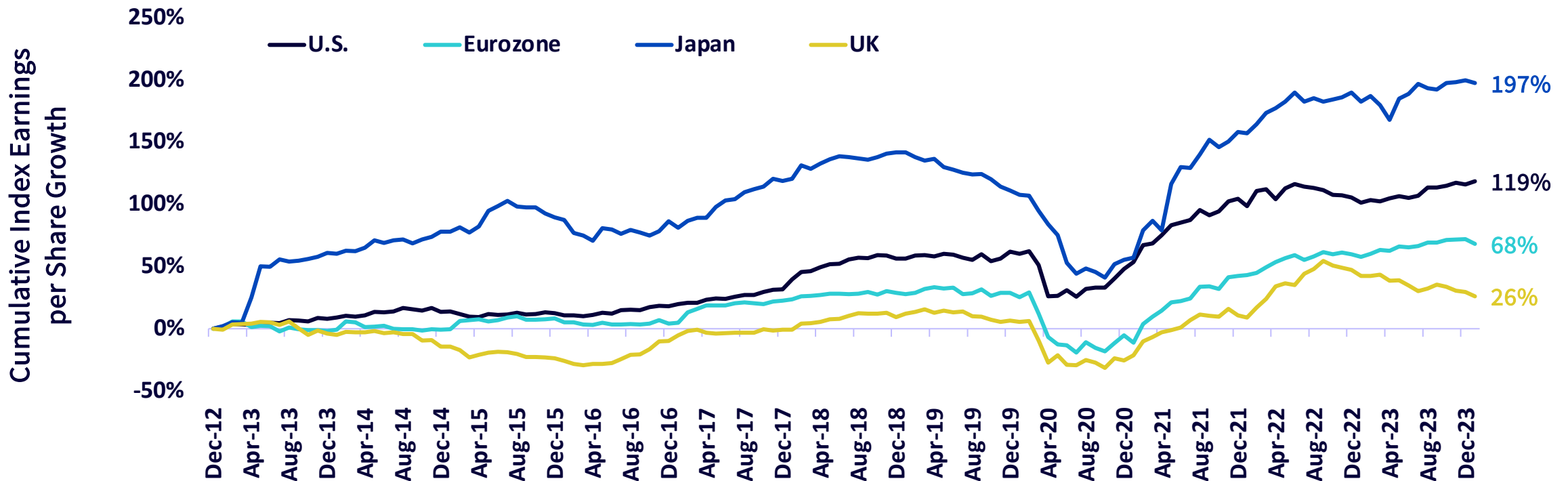


Source: WisdomTree, MSCI, 31 December 2019 to 31 January 2024. US, Europe, Japan and Emerging Markets measured by respective MSCI indexes in local currencies. Dividends are not guaranteed and may fluctuate. Historical performance is not an indication of future performance and any investments may go down in value.

EARNINGS GROWTH AND YEN SENSITIVITY

Japan's earnings nearly tripled since 2012

- Payouts are just part of the story of improving fundamentals. Dividend growth is being funded by significant rebounds in earnings. Japanese earnings have nearly tripled since 2012.
- In part, this earnings growth was fuelled by a more competitive currency. Japan is an export-heavy economy, relying on the physical export of goods as well as the “export” that comes from its rebounding tourism economy.



Source: WisdomTree, MSCI, 31 December 2019 to 31 January 2024. US, Europe, Japan and Emerging Markets measured by respective MSCI indexes in local currencies. Earnings are measured in local currency. You cannot invest directly in an index.

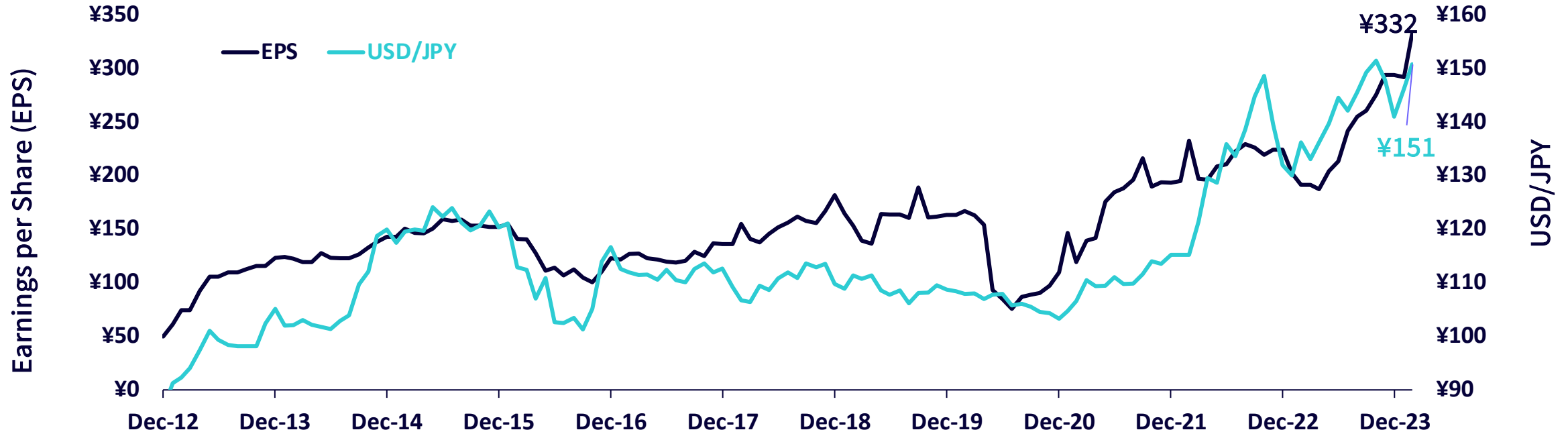
Historical performance is not an indication of future performance and any investments may go down in value.

Toyota Earnings and Yen Weakness

Toyota Earnings and Yen Weakness

Toyota Motors, for example, has stated every ¥1 depreciation against the dollar boosts earnings by ¥180 billion (\$1.2 billion).

Over the last 12 months, the yen has weakened by ¥15. This has the potential to boost earnings by approximately ¥2.6 trillion (\$17.3 billion), or roughly Toyota’s entire fiscal year 2023 earnings of ¥2.5 trillion.



Sources: WisdomTree, FactSet, 31 December 2012 to 26 February 2024. EPS is forward 12-month estimated earnings per share (EPS).

Historical performance is not an indication of future performance and any investments may go down in value.

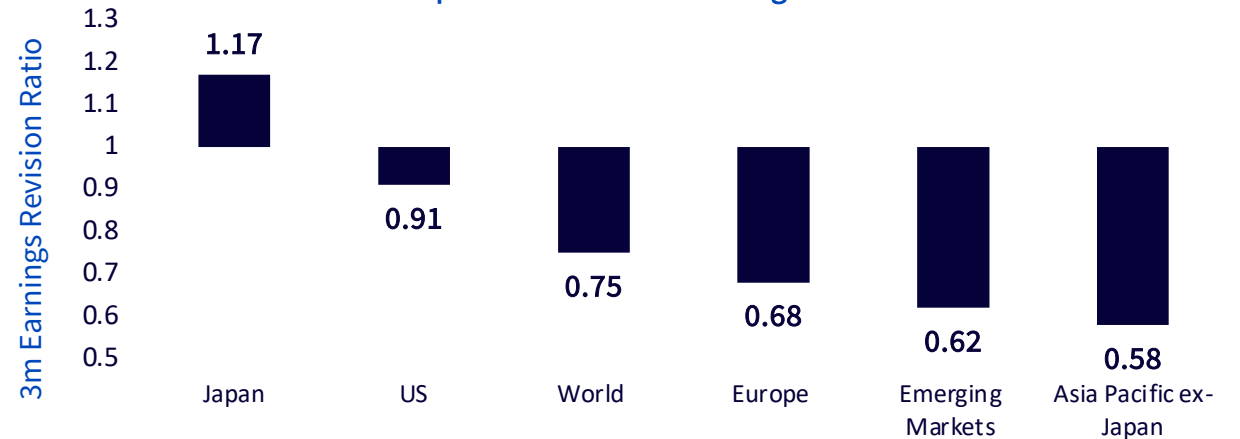
Japan continues to deliver strong earnings results

- Japanese equities are testing 34-year highs in 2024 bolstered by 2Q F3/24 earnings results.
- Net income for Japanese equities came in 6.2% ahead of consensus, with beats concentrated in domestic-oriented sectors including utilities & food/household products.
- Corporate reforms had a significant impact on chemicals and auto parts sectors.
- Japan's earnings revision breadth remains in positive territory in contrast to earnings trends in China and Europe.

Earnings potential for Japanese equities



Comparison of Global Earnings Revision Ratio



Source: BofA, IQDatabase, WisdomTree, as of 21 March 2024.

Historical performance is not an indication of future performance and any investments may go down in value.

Japan's savings to investment drive



NISA – New tax breaks to encourage retail equity purchases

- Japan is transforming into an asset management led nation under the leadership of Prime Minister Kishida.
- In an effort to unlock nearly US\$14Trn of household financial assets tied up in cash deposits, Japanese leaders are embarking upon reforms like the introduction of 401(k)s in the US back in the 1970s.
- This is being done with the introduction of a revised Nippon Individual Savings Account “NISA” program offering tax benefits and portability.
- Starting in 2024 maximum investment amounts allowed under NISA have been increased and investors can enjoy the systems tax benefits permanently.

New NISA system (from 2024)	Tsumitate	Long-term Investment
Tax exemption period	Unlimited (new)	
Annual Limit	¥1.2mn (tripled)	¥2.4mn (doubled)
Total Investment Limit	¥18mn (new)	
Eligible Investments	Mutual Funds suitable for long-term investments	Stocks and mutual funds
Eligibility	Individuals 18 or older (junior NISA abolished)	
Launch	Jan '24	

Current NISA system	Tsumitate	Long-term Investment
Tax exemption period	20yrs	5yrs
Annual Limit	¥0.4mn	¥1.2mn
Total Investment Limit	¥8mn	¥6mn
Eligible Investments	Mutual Funds suitable for long-term investments	Stocks and mutual funds
Eligibility	Adults +Junior NISA for under 20yrs	

Japan Financial Services Agency (FSA), WisdomTree as of 31 March 2024. The Tsumitate NISA is a tax-efficient investment account designed for monthly investments into Japanese-domiciled mutual funds.

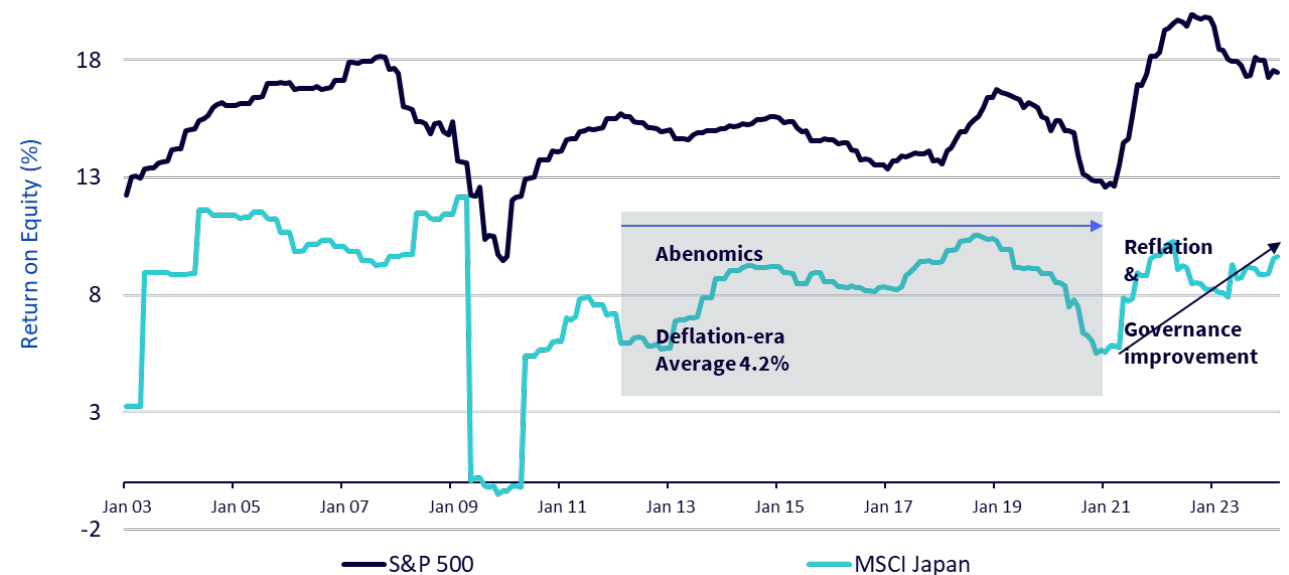
TINA is alive in Japan



Structural trend to higher Return on Equity (ROE)

- **TINA** – There is no alternative remains intact in Japan. This is evident from the relatively higher Equity risk premiums (excess return over the risk-free rate) . Equity risk premium in Japan at 2.86% are comparatively higher than in the US at -0.15%
- Positive earnings revisions alongside a structural trend to rising Return on Equity (ROE) is supporting Japan's equity outperformance versus the Rest of the World.

Historical Comparison of Return on Equity



Source: Factset, WisdomTree as of 31 March 2024

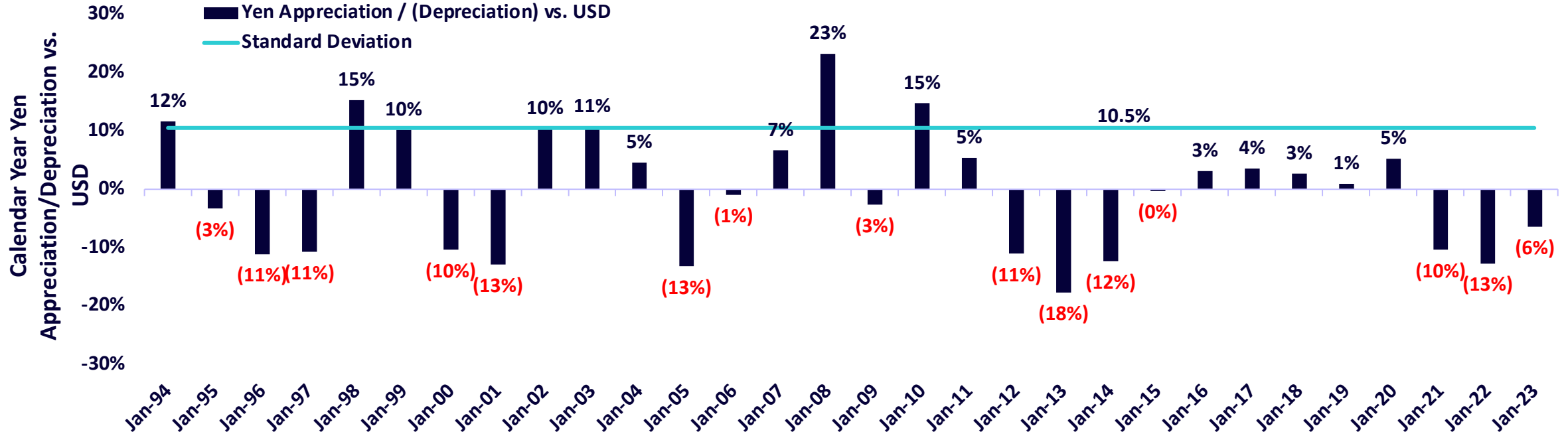
Historical performance is not an indication of future performance and any investments may go down in value.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Importance of currency Hedging

Over the last several calendar years, the yen weakened heavily versus the dollar. For a foreign investor, investing in Japanese equities without a currency hedge would mean being fully exposed to the weakening yen, wiping out strong gains in the returns of the companies themselves.

Currency Hedging



Source: WisdomTree, Factset from 31 December 1994 to 31 December 2023

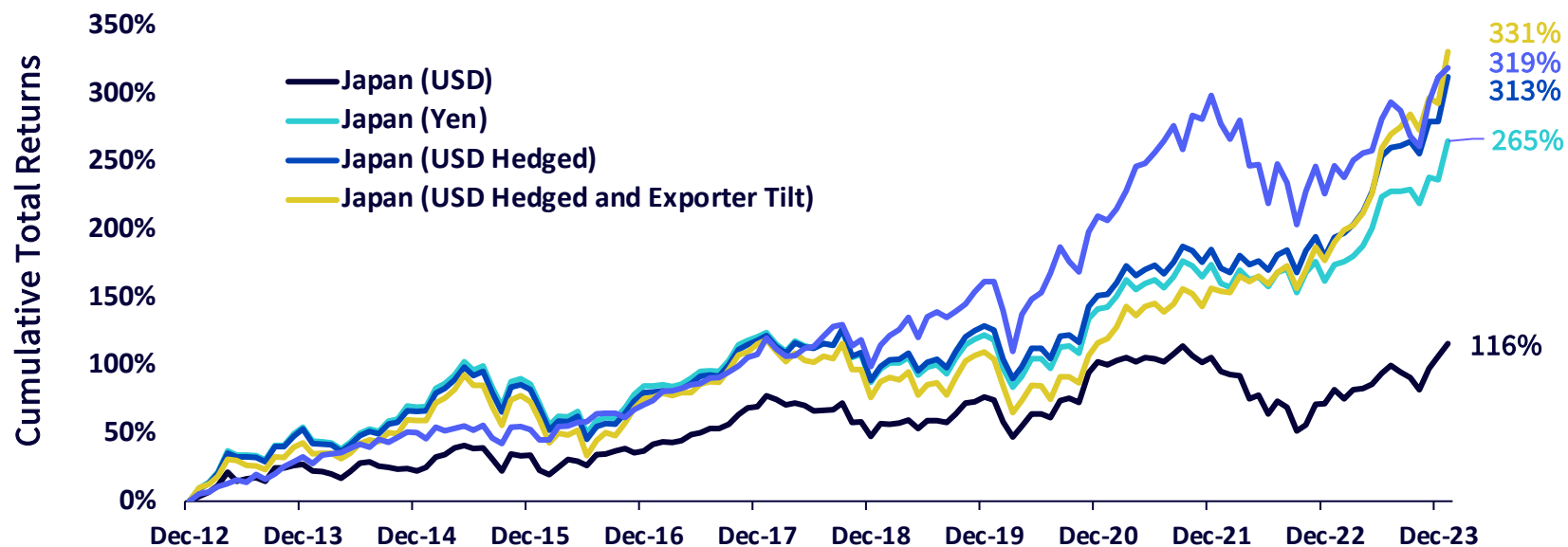
Historical performance is not an indication of future performance and any investments may go down in value.

Impact of currency weakness for foreign investors



The below line chart helps illustrate the impact of currency weakness for foreign investors.

- The MSCI Japan Index (USD) is the return of an unhedged foreign investor. Its return of 116% since 2012 was significantly reduced by a weakening yen over the period.
- The MSCI Japan Local Currency Index (Yen) is the returns of the Japanese stocks in local currency, without any impact from the currency.
- The MSCI Japan 100% Hedged to USD Index (USD Hedged) is the return from hedging out the foreign currency exposure using forward currency contracts.
- The WisdomTree Japan Hedged Equity Index (USD Hedged and Exporter Tilt) is the return of the WisdomTree Japan Hedged Equity Index that emphasizes its exposure to multinational Japanese companies—like Toyota Motors—that benefit from a weaker yen while also hedging fluctuation in the USD/JPY rate.



Sources: WisdomTree, MSCI, 31 Dec 2023 to 31 Jan 2024. Japan (USD) = MSCI Japan in USD. Japan (Yen) = MSCI Japan in yen. Japan (USD Hedged) = MSCI

Japan 100% Hedged to USD. Japan (USD Hedged and Exporter Tilt) = WisdomTree Japan Hedged Equity Index. You cannot invest directly in an index.

Historical performance is not an indication of future performance and any investments may go down in value.

A quote from Berkshire's 2023 annual shareholder letter summarizes his view and how it syncs with our own:

“Neither Greg nor I believe we can forecast the market prices of major currencies. We also don't believe we can hire anyone with that ability.”



Warren Buffet

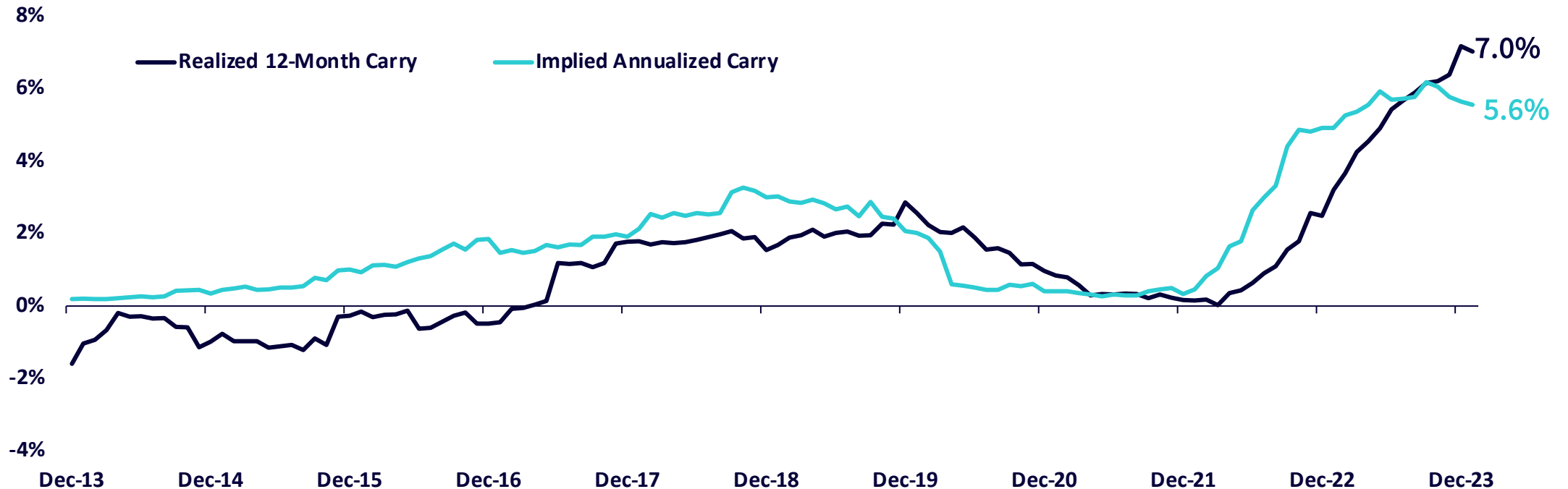
Chairperson, Berkshire Hathaway

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Getting “Paid” to Hedge Japanese Yen: Positive Carry

- One underappreciated aspect of currency hedging, particularly with the current market backdrop, is the carry of hedging yen exposure for USD-based investors.
- Because of higher interest rates in the U.S. than in Japan, investors who are hedging yen exposure are “paid” to hedge based on the interest rate differential—currently a 5.6% implied annualized carry.
- Over the last 12 months, the realized carry—the difference in the returns of the hedged index and local currency index—was 7%.

Currency Hedging



Sources: WisdomTree, MSCI, 31 December 2012 to 31 January 2024. Japan (USD) = MSCI Japan in USD. Japan (Yen) = MSCI Japan in yen. Japan (USD Hedged) = MSCI Japan 100% Hedged to USD. Japan (USD Hedged and Exporter Tilt) = WisdomTree Japan Hedged Equity Index. You cannot invest directly in an index.

Historical performance is not an indication of future performance and any investments may go down in value.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Disclaimer



Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus

and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.



WisdomTree.eu
+44 (0) 207 448 4330

Thank you.

Aneeka Gupta

Director Macroeconomic Research

agupta@wisdomtree.com

O: +44 20 7448 4333

M: +44 7711052126

