

JAPAN IS LEADING DIVIDEND GROWTH IN INTERNATIONAL MARKETS

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Once a year, WisdomTree conducts a [rebalance](#) of its [dividend](#)-weighted stock Indexes that adjusts positions based on changes in relative [valuations](#). We measure these relative valuations by examining stock price movements versus [fundamentals](#) in international markets. The primary variable we are utilizing in our broad-based index strategies is a company's [Dividend Stream®](#).

At this year's May rebalance, one trend we noticed is how Japan is leading the international markets in terms of underlying [dividend growth](#). Looking across regional indexes, whether looking at the [trailing three-year](#) or [trailing five-year](#) changes in dividends, Japan¹ stands out from broad international indexes like [MSCI EAFE](#) or [MSCI Europe](#). The five-year numbers come in at almost double digits—very close to the U.S. markets, while for the latest three years, Japan actually came out with a dividend growth figure higher than the U.S. On a longer-term perspective, over the last 10 years—and that is a period that includes the financial crisis that caused dividend levels to sink across the globe—[eurozone](#) regional indexes still show lower overall dividends in 2017 than they did in 2007, but the three-year dividend growth shows a meaningful pickup recently.

Regional Dividend Growth

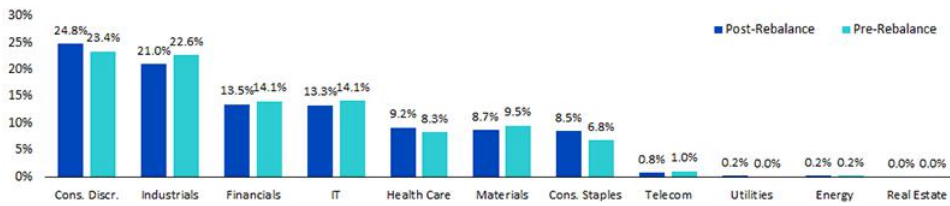
Index	3-Year	5-Year	10-Year
S&P 500 Index	7.94%	10.71%	6.08%
MSCI Japan Index	8.62%	9.59%	4.36%
MSCI Emerging Markets Index	0.53%	-1.45%	2.03%
MSCI ACWI ex-USA Index	3.35%	2.95%	1.03%
MSCI EAFE Index	4.62%	4.24%	0.76%
MSCI Europe Index	5.26%	3.28%	0.63%
MSCI EMU Index	5.78%	0.64%	-1.75%

Source: WisdomTree, MSCI, as of 6/30/17. Dividend growth is calculated in local terms. Past performance is not indicative of future results. You cannot invest directly in an index.

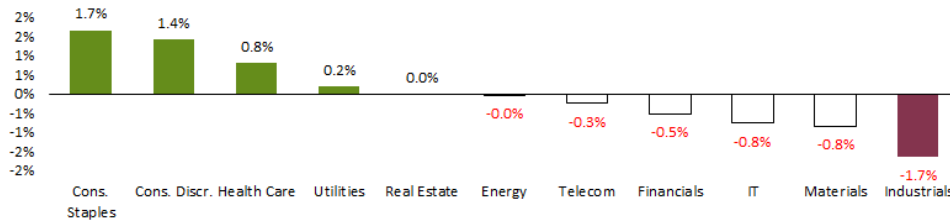
[WisdomTree's Japan Hedged Equity Index](#)

This year's rebalance in the Japan index family did not result in large portfolio allocation shifts—if anything, the shifts were rather modest. From a sector perspective, Consumer Staples and Consumer Discretionary were two sectors that saw increases in weight, and Industrials and Materials saw the biggest two reductions in weight. In a way, this makes the Index modestly more defensive in nature due to historically lower [betas](#) of Consumer Staples companies, but this was only a modest change.

Sector Comparison



Relative Sector Weights vs. Pre-Rebalance

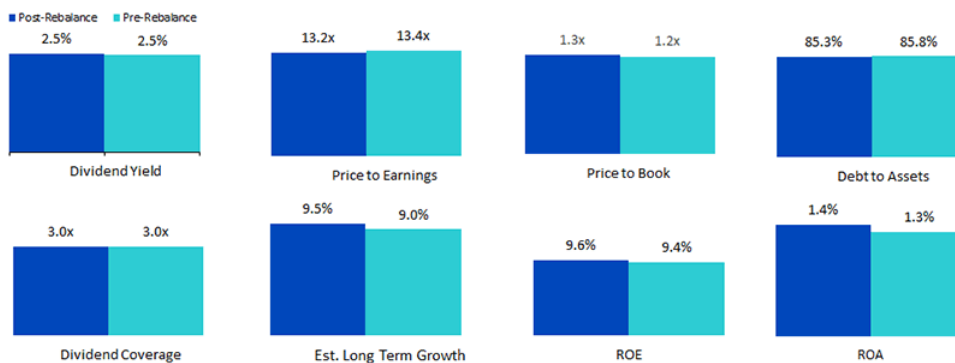


Source: WisdomTree. Pre-rebalance data as of 6/16/17. Post-rebalance data as of 6/19/17. Past performance is not indicative of future results.

From a valuation perspective, the WisdomTree Japan Hedged Equity Index was already among the lowest priced indexes that WisdomTree calculates for developed world exposure—and the index rebalance did not change those statistics noticeably. The [price-to-earnings \(P/E\) ratio](#) before and after was right around 13x earnings, and the dividend yield was 2.5%. Interestingly, that is approximately 25% higher than the 2% dividend yield on the [S&P 500](#), and we saw dividend growth levels for Japan rivaling the increases in dividends we see in the U.S.

Given lower [returns on equity \(ROE\)](#) in Japan—but a renewed focus on improving these ROE metrics—and high cash on the balance sheets among corporate Japan, it is our expectation that Japanese equities still have room to increase dividends and [buybacks](#) at a pace that rivals or can beat the U.S.

Valuations Multiples



Source: WisdomTree. Pre-rebalance data as of 6/16/17. Post-rebalance data as of 6/19/17.

The combination of attractive valuations—the lowest P/E ratios in the developed world regions and Indexes that WisdomTree covers—along with dividend growth among the highest levels makes for a very positive dynamic and continues to suggest to me to over-weight allocations to Japan.

Unless otherwise noted, data source is Bloomberg, as of June 30, 2017.

¹Referencing the dividends of the [MSCI Japan Index](#).

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.

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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

View the online version of this article [here](#).

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DEFINITIONS

Rebalance: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

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

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.

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Dividend Stream: Refers to the regular dividends per share multiplied by the number of shares outstanding.

Dividend growth: The growth in trailing 12-month dividends for the specified universe.

Trailing three-year: The most recent 3-year historical period from the current analysis date.

Trailing five-year: The most recent 5-year historical period from the current analysis date.

MSCI EAFE Index: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

MSCI Europe Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of developed equity markets in Europe.

Eurozone (EZ): Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

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.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Buyback: When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

MSCI Japan Index : A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.