

Japan Outlook

Asset Management One Co., Ltd. Global Business Development Department
September 2025

Agenda

Japan Outlook

1. **Japan Market Outlook**
2. Japan Economic Outlook

Japan Market Outlook

Stock Market: Shares rise on anticipation of Fed rate cuts, but valuation expansion may pause

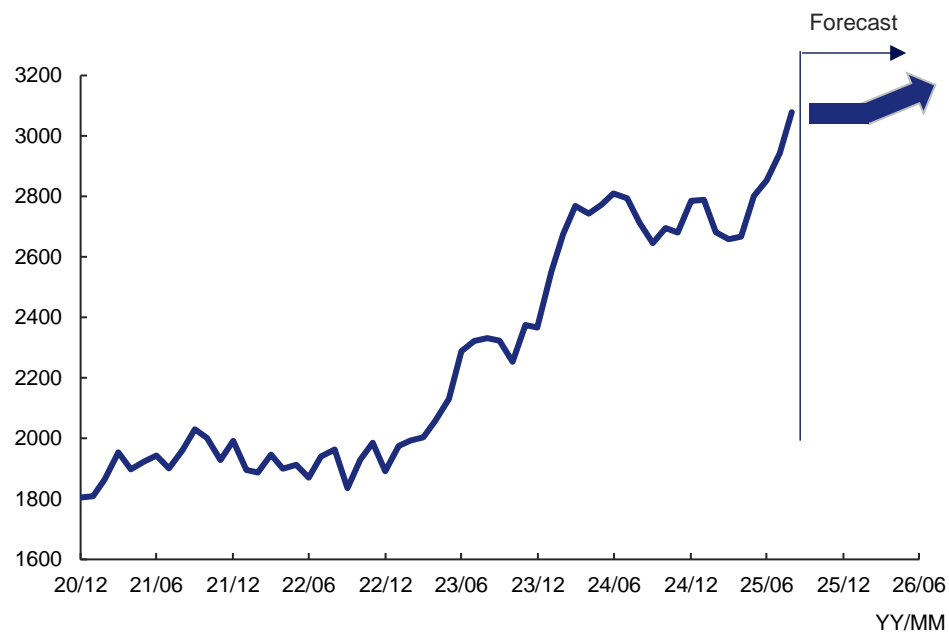
- Earnings revisions improve significantly, led by US tech stocks. Valuation expansion in Japanese and US stocks may pause.
- Caution needed regarding potential deterioration in US hard data from autumn onward.

Foreign Exchange Market: While the dollar is currently holding firm, monetary policy divergence is expected to be the primary driver of future volatility.

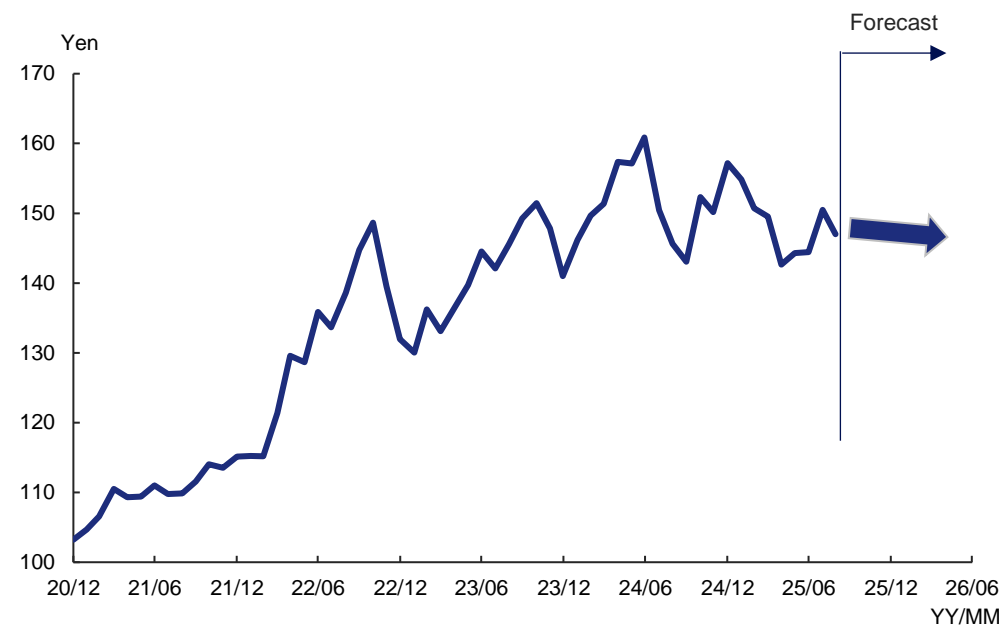
- The correlation between the Japan-US short-term interest rate differential and the USD/JPY rate has recently weakened.
- Currency volatility has also declined significantly, similar to stocks and bonds, but could rise again starting in September.

Japan Market Outlook

TOPIX Index Chart



USD/JPY Chart



Source: LSEG Data & Analytics, Asset Management One Co., Ltd.

Note: Monthly data from December 2020 to August 2025

Valuations

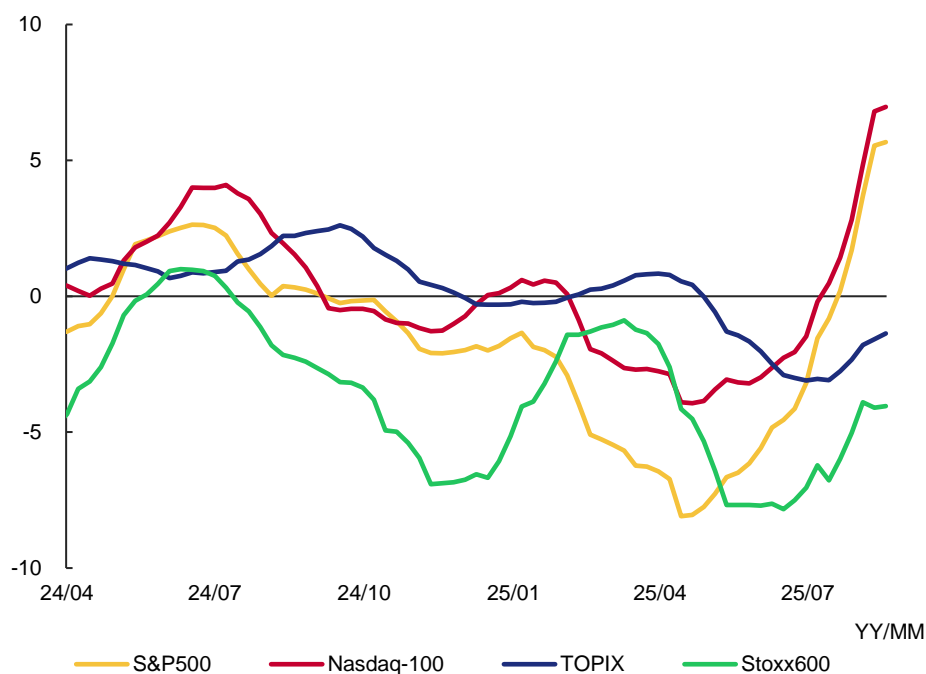


Source: LSEG Data & Analytics, Asset Management One Co., Ltd.

Note: Weekly data from 1 January 2016 to 28 August 2025

Earnings growth

The Earnings Revision Index



Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
 Note: 12-week moving average data from 5 April 2024 to 22 August 2025

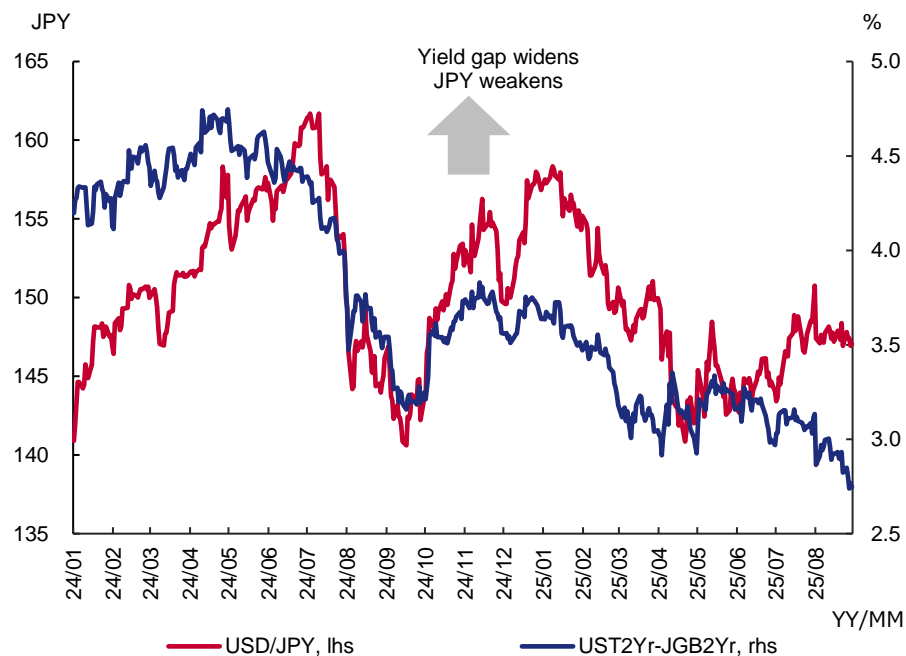
Matrix between EPS growth rates and P/E

FY24 EPS 188.1		P/E			
		13	14	15	16
FY25-26 EPS Growth Rate (p.a. %)	-3	2,370 (33,200)	2,480 (34,700)	2,650 (37,100)	2,830 (39,600)
	+0	2,450 (34,300)	2,630 (36,800)	2,820 (39,500)	3,010 (42,100)
	+3	2,520 (35,300)	2,790 (39,100)	2,990 (41,900)	3,190 (44,700)
	+6	2,590 (36,300)	2,960 (41,400)	3,170 (44,400)	3,380 (47,300)
	+9	2,670 (37,400)	3,130 (43,800)	3,350 (46,900)	3,580 (50,100)

Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
 Note: 1.Vertical axis represents earnings growth rate (annualized) for FY2025 - FY2026
 2: Upper row – TOPIX, Lower row – Nikkei 225

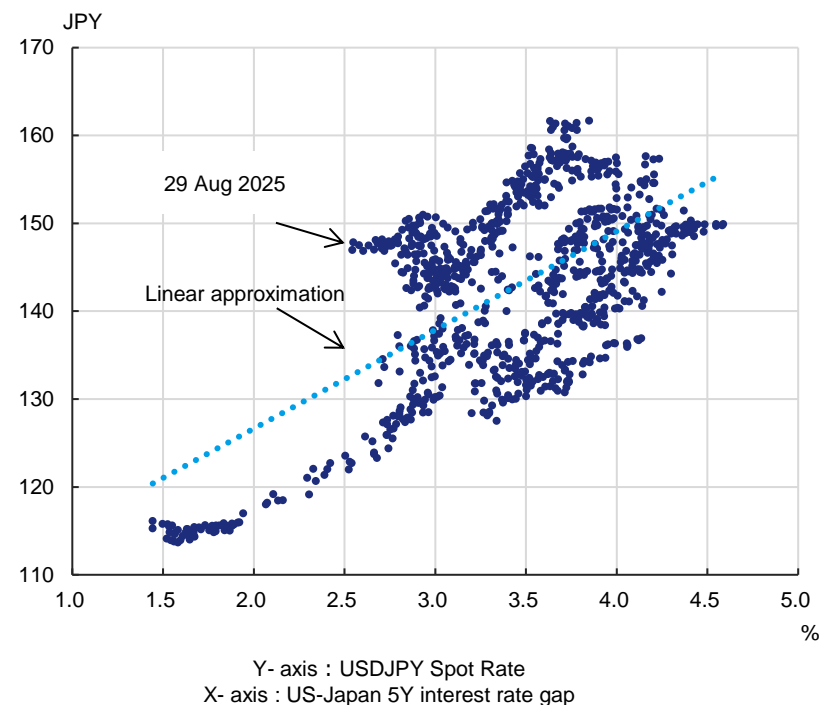
USD/JPY rate

2Y interest rate gap and USD/JPY



Source: Bloomberg, Asset Management One Co., Ltd.
Note: Daily data from 3 January 2024 to 29 August 2025

USD/JPY and 5Y interest rate gap



Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: Daily data from 3 January 2022 to 29 August 2025

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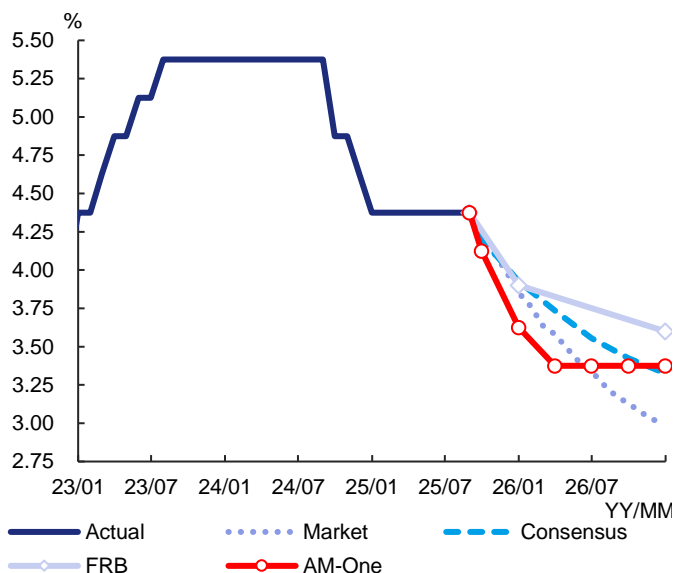
Japan Economic Outlook

- The Japan-US tariff negotiations have reached an agreement, with reciprocal tariffs and automobile tariffs reduced to 15%. Economic uncertainty has decreased, and domestic demand is expected to be supported by high wage increases and labor-saving investments, leading to stable Japan's economic growth.
- Prices are expected to decline due to a slowdown in the growth of prices for goods, particularly food.
- We believe that the Bank of Japan is likely to raise interest rates in early 2026 if the impact of tariff introduction is limited and wage increases continue.
- The cooperation of the opposition parties will be necessary to pass the supplementary budget in the extraordinary session of the Diet in the fall, putting pressure on the government to expand fiscal spending. Opposition to Prime Minister Ishiba's continuation in office is growing within the Liberal Democratic Party, and if a motion of no confidence in the cabinet is passed, there is a possibility of a snap election. For the time being, the political situation in Japan remains uncertain.

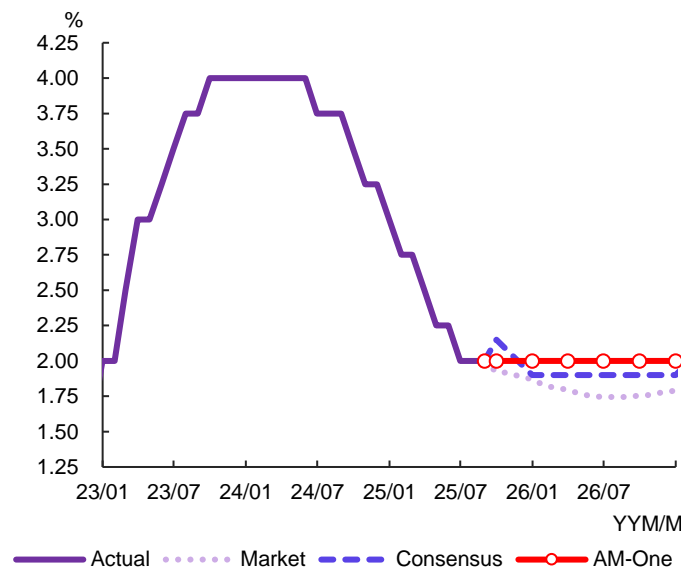
Monetary Policies

- The US is expected to cut rates three times within the year.
- Europe will keep rates unchanged.
- Japan will raise rates again in January next year.

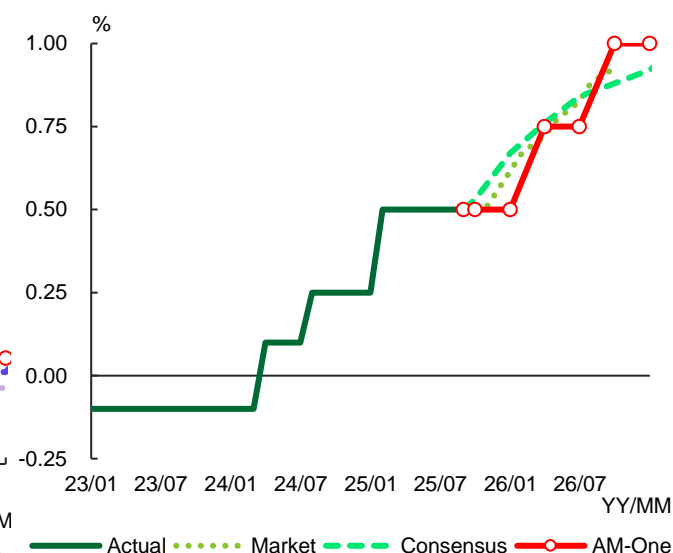
 Fed Policy Rate Pathways Forecasts



 ECB Policy Rate Pathways Forecasts



 BOJ Policy Rate Pathways Forecasts



Source: Bloomberg, Asset Management One Co., Ltd.

Note: 1. Monthly data from January 2023 to December 2026

2. Values from September 2025 onward are projections

3. "AM-One" denotes policy rate forecasts made by our economists. "Market" refers to policy rate levels priced in by the market through OIS or other instruments. "Consensus" uses Bloomberg's forecast values. "FRB" indicates the outlook of FOMC participants as shown in the latest SEP (Summary of Economic Projections).

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