

Japan Outlook

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

Agenda

Japan Outlook

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

Japan Market Outlook

Stock Market: Next year's corporate earnings for Japanese and U.S. companies are expected to be solid, but valuations may decline.

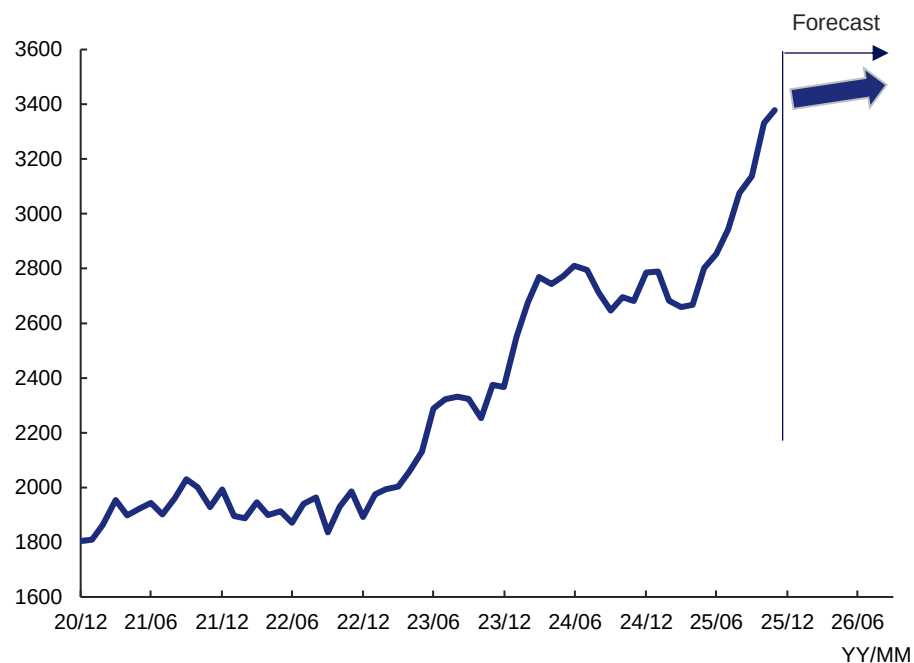
- Stock markets remain sensitive to the Fed's rate cut trajectory, while AI-related stocks may be shifting toward a selective phase.
- Next year, while earnings are expected to remain solid, valuations are projected to moderate somewhat from current elevated levels. Attention will focus on whether traditional cyclical stocks will rebound.

Foreign Exchange Market: In the short term, the risk of yen depreciation remains due to speculation about an early dissolution of the Lower House and a general election.

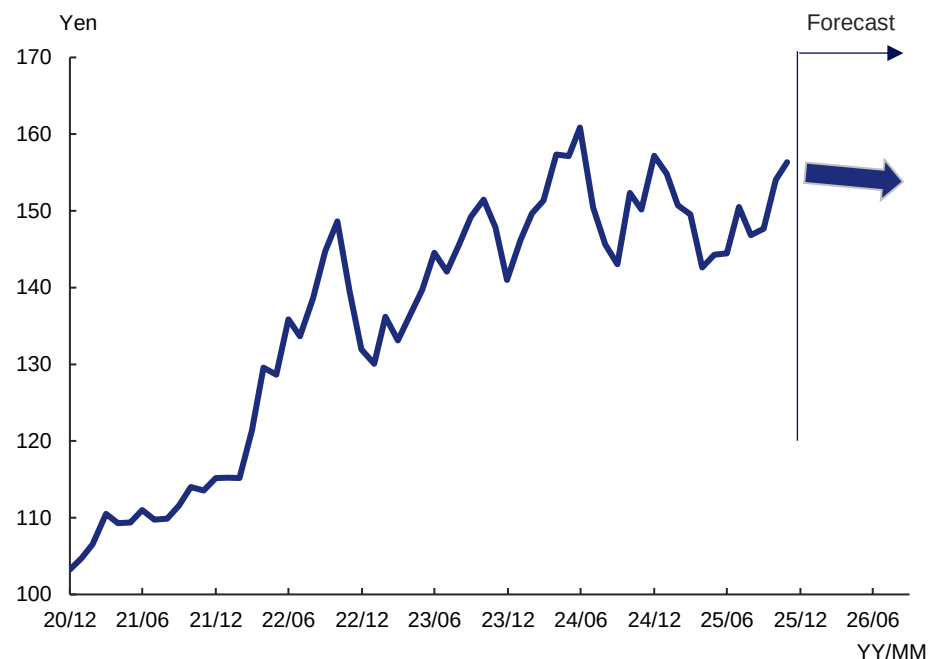
- With the resumption of U.S. economic indicator releases, we expect market movements to shift toward reflecting the outlook for Japanese and U.S. monetary policy rather than Japanese fiscal concerns.
- Caution is warranted regarding the risk of yen selling intensifying amid fiscal expansion following the dissolution of the Lower House and the general election.

Japan Market Outlook

TOPIX Index Chart



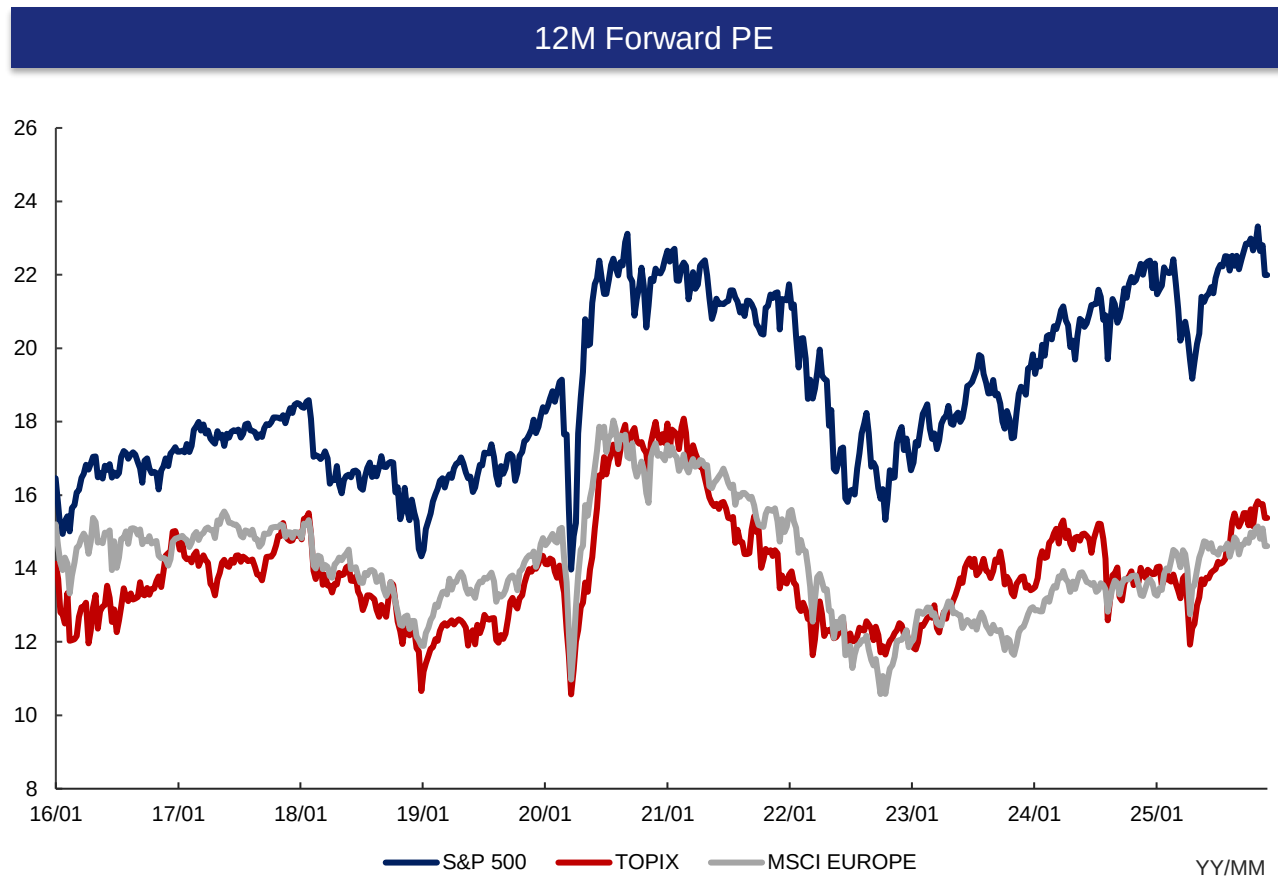
USD/JPY Chart



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

Note: Monthly data from December 2020 to November 2025

Valuations

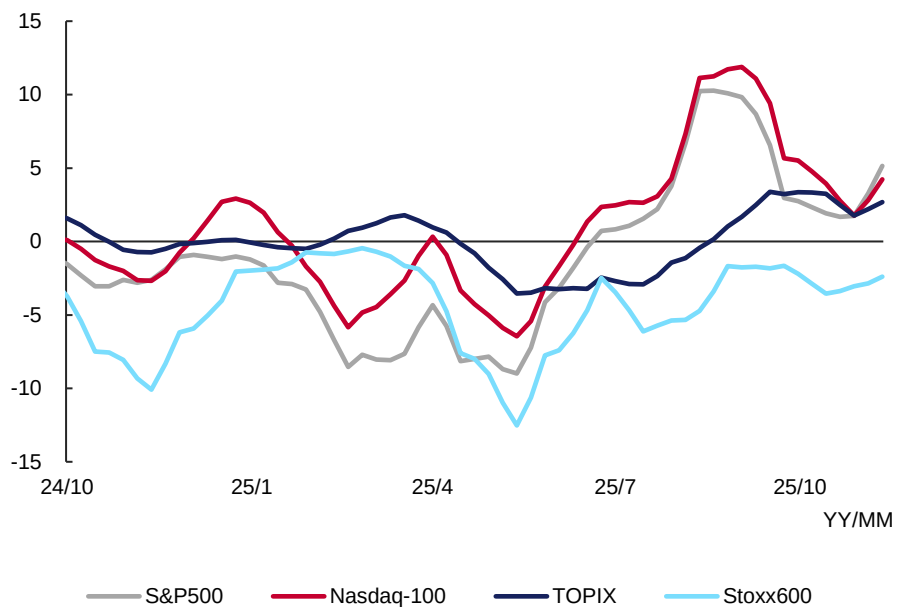


Source: LSEG Data & Analytics, Asset Management One Co., Ltd.

Note: Weekly data from 1 January 2016 to 27 November 2025

Earnings growth

The Earnings Revision Index



Matrix between EPS growth rates and P/E

FY24 EPS 188.1		P/E			
		14	15	16	17
FY25-26 EPS Growth Rate (p.a.)	+3	2,800 (42,000)	2,990 (44,900)	3,190 (47,900)	3,390 (50,900)
	+6	2,960 (44,400)	3,170 (47,600)	3,380 (50,700)	3,590 (53,900)
	+9	3,130 (47,000)	3,350 (50,300)	3,580 (53,700)	3,800 (57,000)
	+12	3,300 (49,500)	3,540 (53,100)	3,780 (56,700)	4,010 (60,200)

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

Note: 6-week moving average data from 4 October 2024 to 14 November 2025

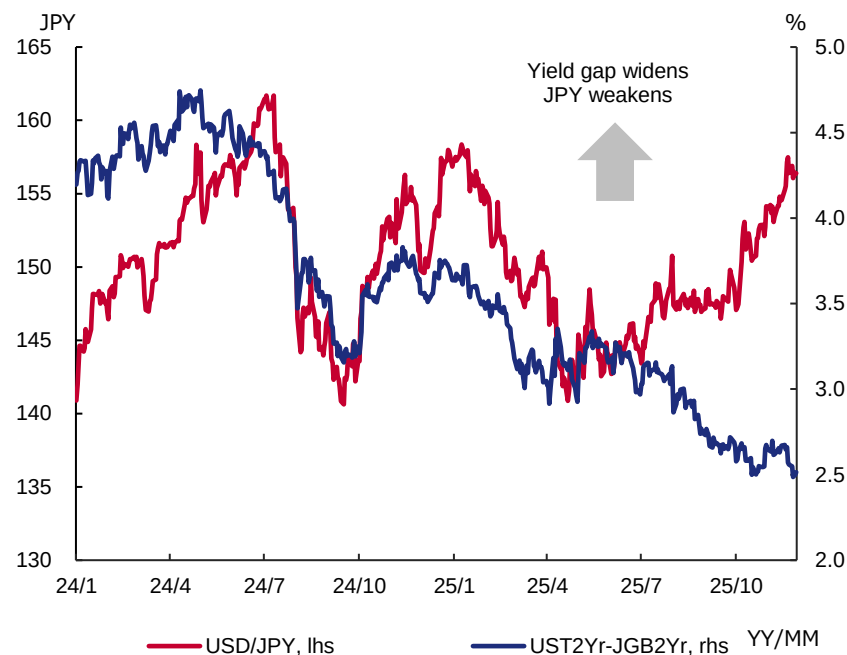
Source: LSEG Data & Analytics, Asset Management One Co., Ltd.

Note: 1.Vertical axis represents earnings growth rate (annualized) for FY2025 - FY2026

2: Upper row – TOPIX, Lower row – Nikkei 225

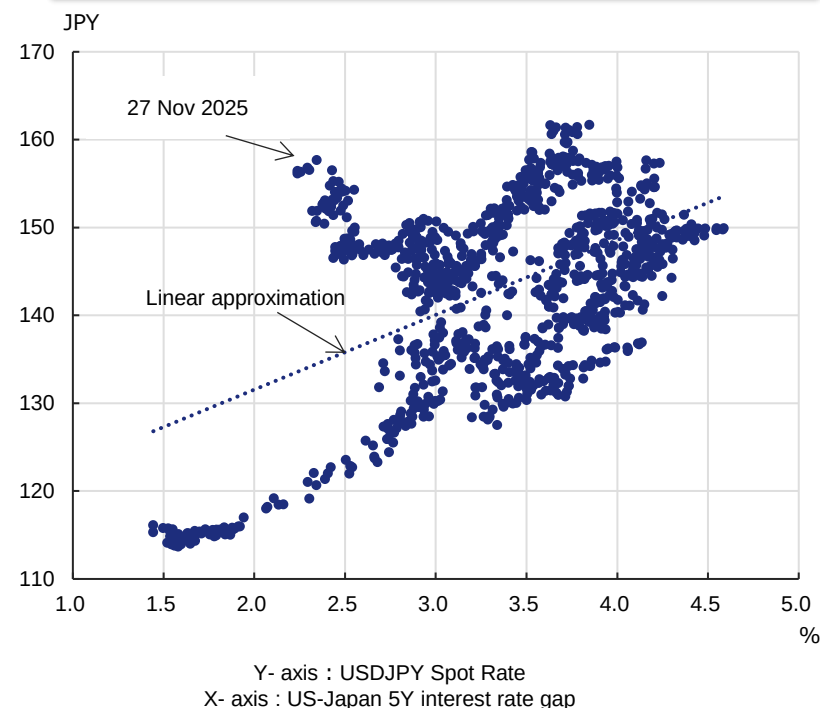
USD/JPY rate

2Y interest rate gap and USD/JPY



Source: Bloomberg, Asset Management One Co., Ltd.
Note: Daily data from 3 January 2024 to 28 November 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 27 November 2025

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Japan Economic Outlook

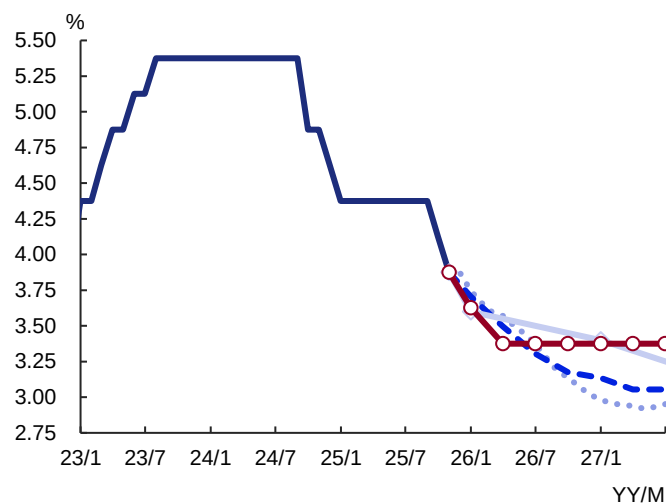
- Downward pressure on tariffs applied by the U.S. to imports from Japan remains. However, backed by increased income from high wage gains in this spring's labor negotiations and labor-saving investments driven by labor shortages, domestic demand—including personal consumption and capital investment—is expected to provide support, leading to a resilient Japanese economy.
- Prices are expected to decline due to slowing growth rate of rice prices and other factors.
- The next Bank of Japan rate hike is expected in December of this year or January of next year. After that, if the underlying inflation rate rises, we anticipate continuing rate hikes every six months.
- The autumn supplementary budget focuses on countering high prices. LDP President Takaichi proposes: 1) Abolishing the provisional gasoline tax rate and light oil excise tax, 2) Subsidies for electricity and gas, 3) Increasing local allocation tax grants.

Monetary Policies

- The US is expected to cut rates two times.
- Europe will keep rates unchanged.
- Japan will raise rates by January next year.



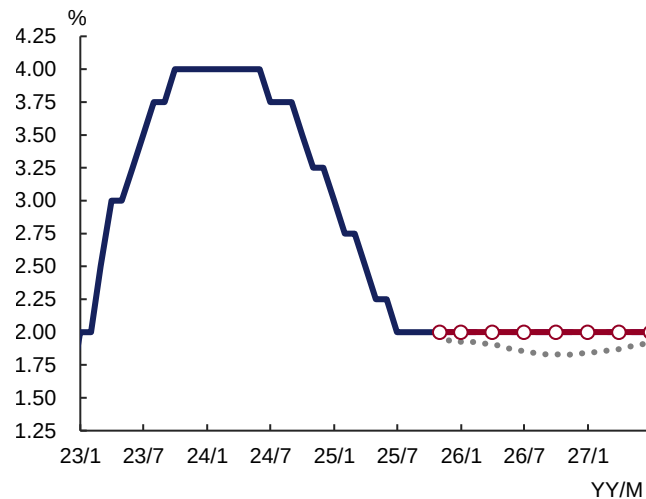
Fed Policy Rate Pathways
Forecasts



— Actual Market - - - Consensus
—○— FRB —○— AM-One



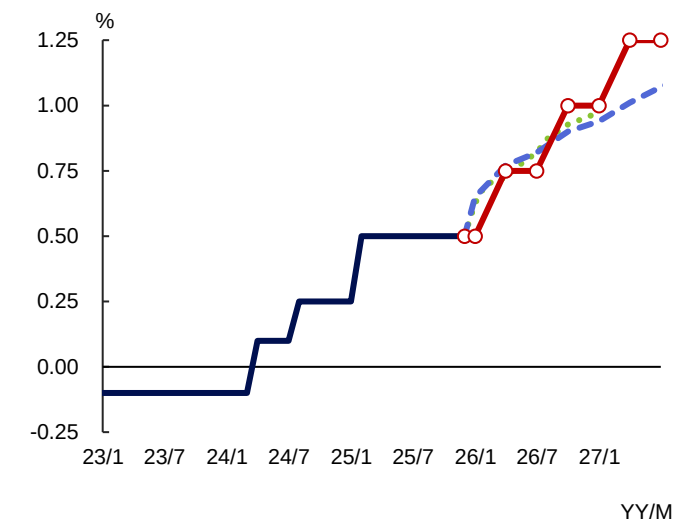
ECB Policy Rate Pathways
Forecasts



— Actual Market - - - Consensus —○— AM-One



BOJ Policy Rate Pathways
Forecasts



— Actual Market - - - Consensus —○— AM-One

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

Note: 1. Monthly data from January 2023 to June 2027

2. Values from December 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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