

Japan Outlook

Asset Management One Co., Ltd. Global Business Development Department
June 2026

Agenda

Japan Outlook

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

Japan Market Outlook

Stock Market: AI and semiconductor-related stocks are driving the overall stock market, fueled by growing AI capital expenditures.

- AI and semiconductor stocks continue to rise, while overseas markets are driven by upward revisions to earnings per share (EPS) forecasts. The higher-than-expected profit growth in Q1 2026 is largely attributable to soaring memory chip prices.
- The TOPIX is expected to post earnings growth of around 10% year-over-year for FY 2026, with the forward P/E ratio approaching 17 times.

Bond Market: The rise in Japan's long-term interest rates may temporarily subside due to a pause in the rise of crude oil prices and the Bank of Japan's rate hike.

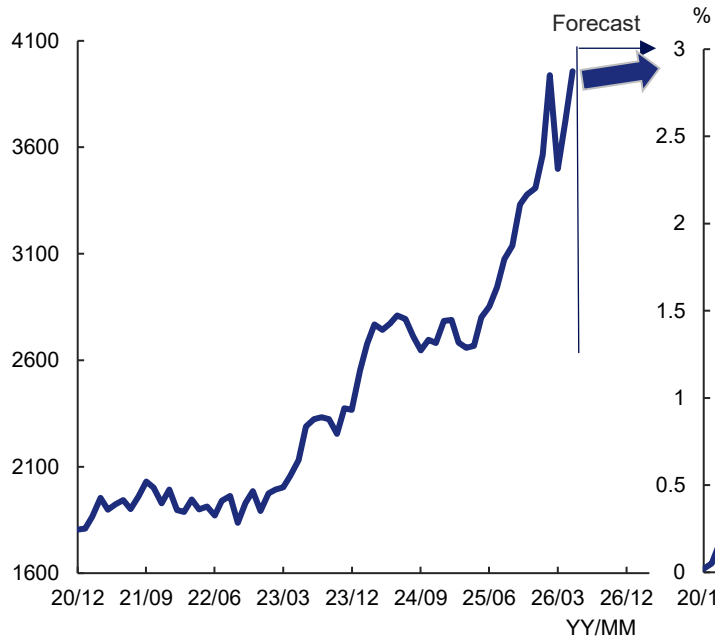
- In Japan, rising expected inflation is a factor driving up long-term interest rates.
- In the U.S., there are signs that real long-term interest rates are rising, driven by factors such as robust capital investment.

Foreign Exchange Market: Intervention has had little effect so far; foreign investors may be hedging by selling the yen while buying Japanese stocks.

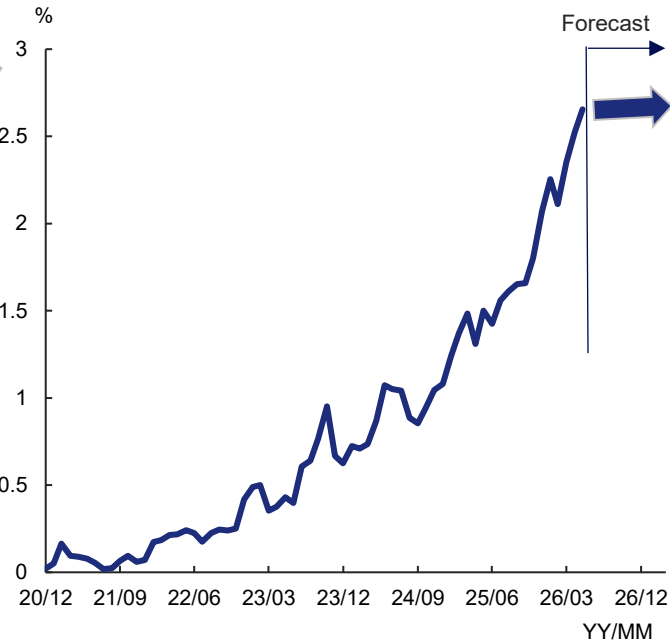
- For the yen to start appreciating, changes in the macroeconomic outlook (economy, inflation, and central bank policy rates) will likely be necessary.

Japan Market Outlook

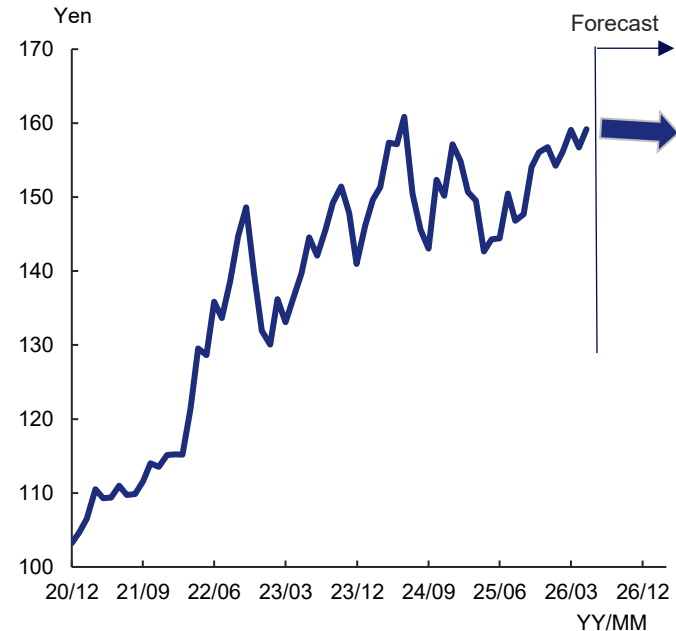
TOPIX Index



JGB 10 Year Yield



USD/JPY

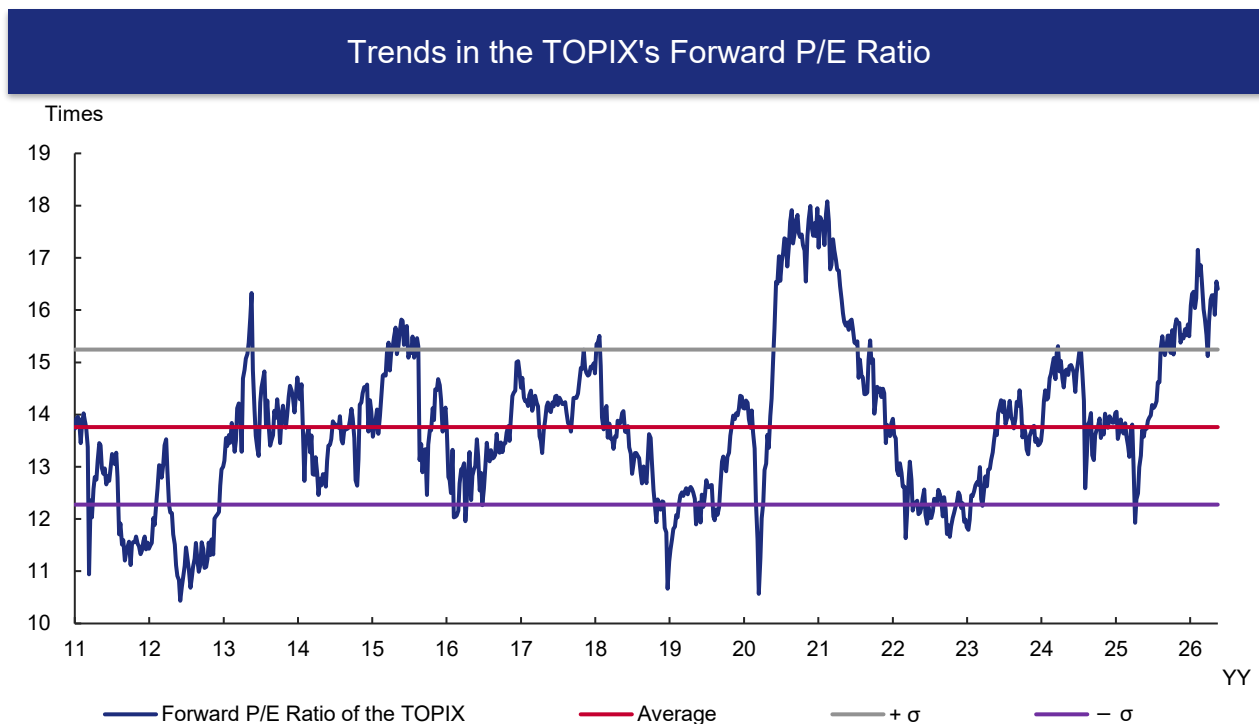


Source: LSEG Data & Analytics, Asset Management One Co., Ltd.

Note: Monthly data from December 2020 to May 2026

Valuations

- The TOPIX's forward P/E ratio has risen to nearly 17 times, up from its long-term average of 14 times, raising concerns about overvaluation.
- On the other hand, some view it as not overvalued when compared to overseas markets while others expect the P/B ratio to rise as ROE increases in the future.



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

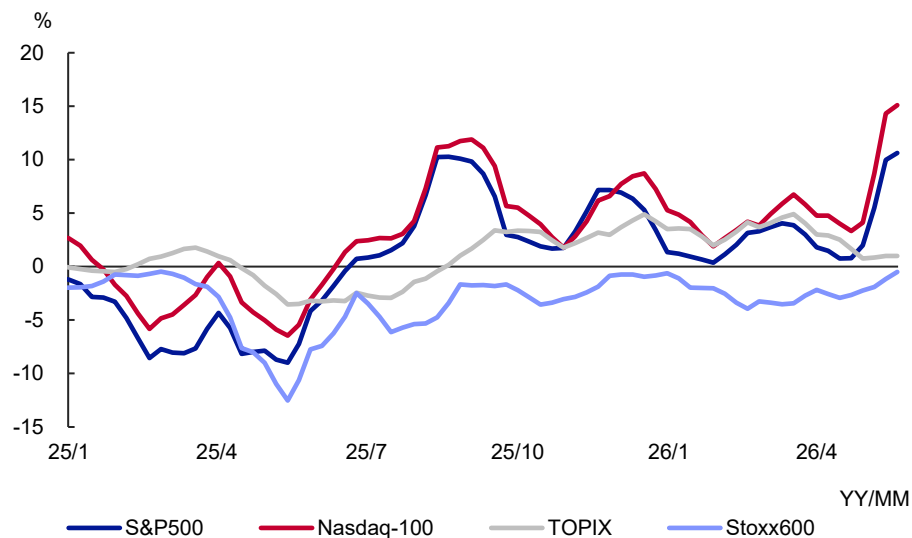
Note: 1. Weekly data from 7 January 2011 to 22 May 2026

2. P/E ratios based on 12-month forward EPS

3. σ is the standard deviation during the observation period

Earnings growth

The Earnings Revision Index



Matrix between EPS growth rates and P/E

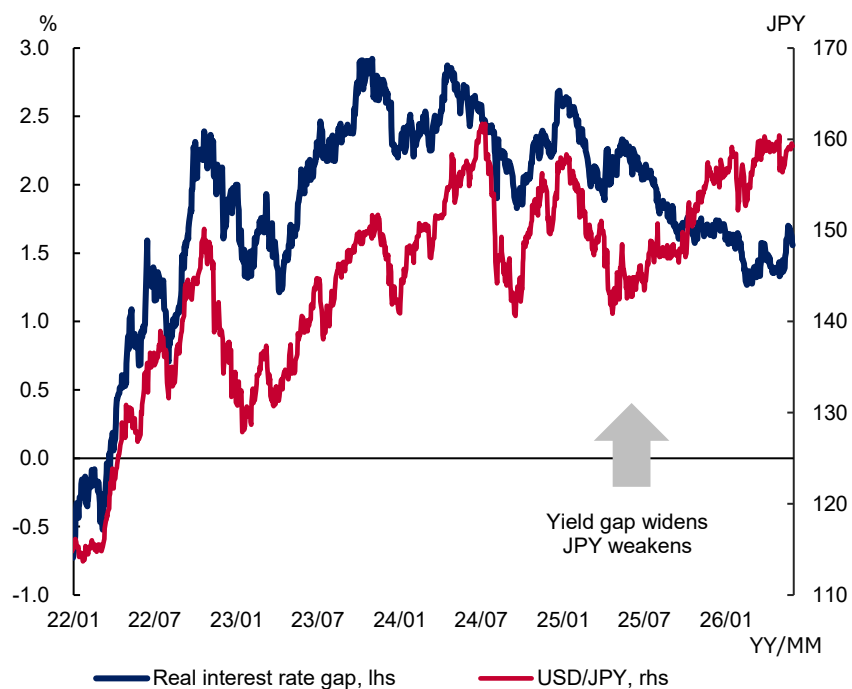
FY25 Estimated EPS 207.3		P/E Ratios			
		14	15	16	17
FY26-27 EPS Growth Rate (p.a.)	+8	3,380 (55,800)	3,630 (59,900)	3,870 (63,900)	4,110 (67,800)
	+10	3,510 (57,900)	3,760 (62,000)	4,010 (66,200)	4,260 (70,300)
	+12	3,640 (60,100)	3,900 (64,400)	4,160 (68,600)	4,420 (72,900)
	+14	3,770 (62,200)	4,040 (66,700)	4,310 (71,100)	4,580 (75,600)

Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: 6-week moving average data from 3 January 2025 to 22 May 2026

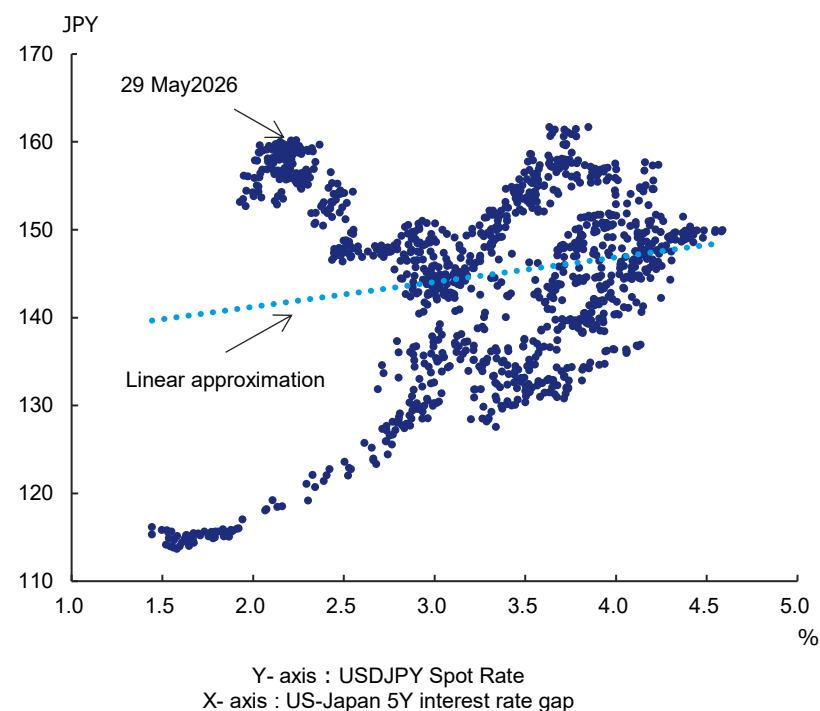
Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: 1. The vertical axis represents earnings growth rate (annualized) for FY2026 - FY2027
2. The upper row shows TOPIX, and the lower row shows the Nikkei 225

USD/JPY rate

USD/JPY and 10Y real interest rate gap



USD/JPY and 5Y interest rate gap



Source: Bloomberg, Asset Management One Co., Ltd

Note: 1. Daily data from 1 January 2022 to 29 May 2026

2. The real interest rate is the nominal interest rate minus the break-even inflation rate

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

Note: Daily data from 3 January 2022 to 29 May 2026

Agenda

Japan Outlook

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

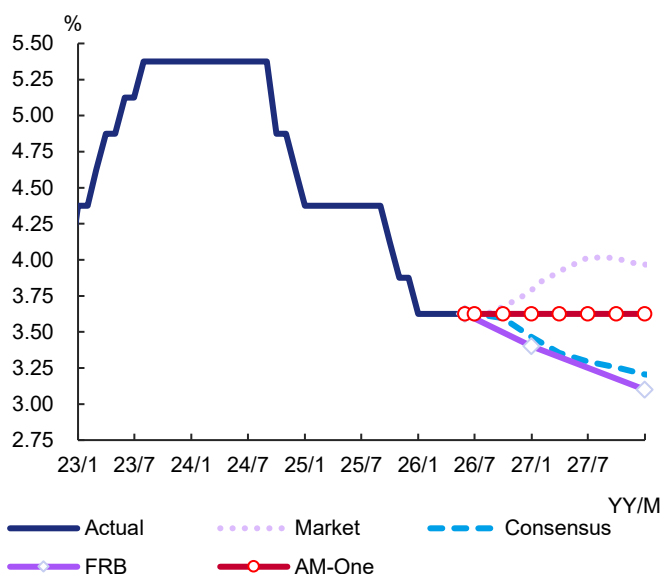
Japan Economic Outlook

- Unless the escalating tensions in the Middle East persist for an extended period and lead to significant supply chain disruptions, we maintain our outlook that the Japanese economy will remain robust, supported by: (1) rising real wages; (2) investments in labor-saving technologies driven by labor shortages; and (3) government measures to address rising prices and tax breaks for capital investment.
- Price increases are expected to moderate due to slowing growth rate of rice prices and government fuel subsidies in the first half of the year. As corporate pricing strategies are becoming more aggressive, inflation is likely to spread to the consumer level in the second half of the year, with the consumer price index expected to rise by more than 2% year-on-year.
- The next interest rate hike by the Bank of Japan is expected in June 2026. Thereafter, as the Takaichi administration's expansionary fiscal policy continues and the positive output gap widens, if the underlying inflation rate rises, we anticipate that rate hikes will continue on a semi-annual basis. In that case, the policy interest rate is likely to reach at least around 1.5%.

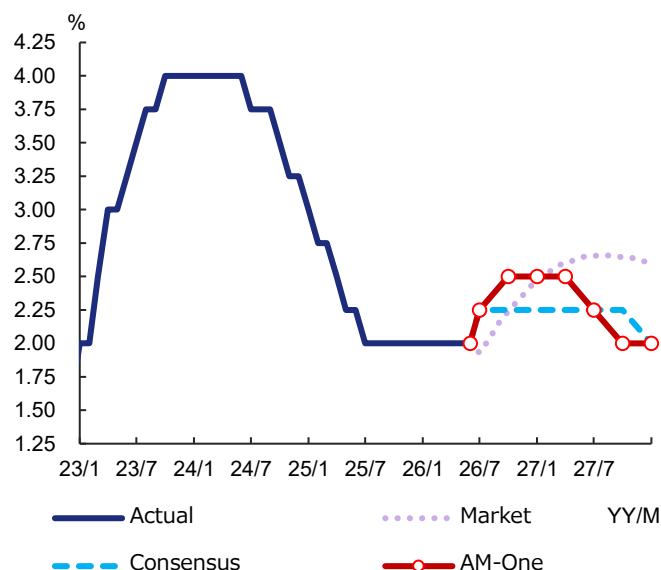
Monetary Policies

- The ECB and the Bank of Japan are set to raise interest rates in June.
- Even under new Chair Warsh, the U.S. Federal Reserve is unlikely to cut rates, and the policy rate is expected to remain unchanged.

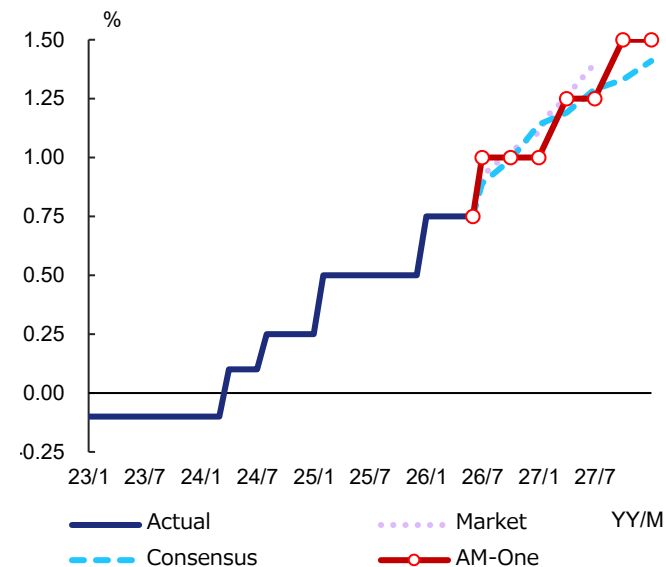
 Fed Policy Rate Pathways Forecasts



 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 2027

2. Values from May 2026 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).

Disclosures

Indices are used solely for comparison purposes. There are limitations in using indices for comparison purposes because, among other reasons, such indices may have different volatility, diversification, and other material characteristics (such as number or type of instrument or security). Indices are unmanaged and you cannot invest directly in an index.

JPX-calculated indices including TOPIX, TOPIX Total Return Index, TSE Mothers and their sub-indices:

The Index Value and the Index Marks of Tokyo Stock Price Index (TOPIX), TOPIX Total Return Index, Tokyo Stock Exchange Mothers Index (TSE Mothers Index) and other indices calculated by the JPX Market Innovation & Research, Inc. and/or its affiliates (hereinafter the "JPX") are subject to the proprietary rights owned by the JPX and the JPX owns all rights and know-how relating to the index such as calculation, publication and use of the Index Value and relating to the Index Marks. The JPX shall accept no liability or responsibility for any loss or damage arising from errors, delays, or termination of the calculation or publication of the Index Value. No Product is in any way sponsored, endorsed or promoted by the JPX and the JPX shall not be liable for any damages arising from the establishment, distribution and promotion of the Product.

The Nikkei Stock Average (Nikkei225) and its sub-indices:

The Nikkei Stock Average and its sub-indices are a copyrighted material calculated in a methodology independently developed and created by Nikkei Inc. ("Nikkei") and Nikkei is the sole exclusive owner of the copyright and other intellectual property rights in the Nikkei Stock Average itself and its sub-indices and the methodology to calculate the Nikkei Stock Average and its sub-indices. The product is solely established and managed by Asset Management One Co., Ltd. and Nikkei does not give any warranty, nor is it responsible for any and all financial instruments and the like, which are based on, or otherwise refer to, the Nikkei Stock Average and its sub-indices.

The Dow Jones Industrial Average, S&P 500 Index and their sub-indices:

The copyrights, intellectual property rights and any other rights of The Dow Jones Industrial Average, S&P 500 Index and their sub-indices belong to Standard&Poor's (S&P). S&P shall not guarantee the accuracy or completeness of the indices which are published by S&P and the data included in the indices. S&P shall not accept any responsibilities for the results related to the indices and the data.

Disclosures

Bloomberg:

“BLOOMBERG®” and the Bloomberg indices listed herein (the “Indices”) are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the Indices (collectively, “Bloomberg”) and have been licensed for use for certain purposes by the distributor hereof (the “Licensee”). Bloomberg is not affiliated with Asset Management One Co., Ltd., and Bloomberg does not approve, endorse, review, or recommend the financial products named herein (the “Products”). Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to the Products.

Euro Stoxx Index:

The Euro Stoxx Index(the “Index”) is the intellectual property (including registered trademarks) of STOXX Ltd., Qontigo Index GmbH, or their licensors, and is used under a license. This documentation is neither sponsored nor promoted, distributed or in any other manner supported by STOXX Ltd., Qontigo Index GmbH or their licensors, research partners or data providers and STOXX Ltd., Qontigo Index GmbH and their licensors, research partners or data providers do not give any warranty, and exclude any liability (whether in negligence or otherwise) with respect thereto generally or specifically in relation to any errors, omissions or interruptions in the Index or its data.

Nasdaq-100 Index:

The copyrights, intellectual property rights and any other rights of the Nasdaq-100 Index belong to Nasdaq Stock Market, Inc.

Disclaimer

General Disclaimers

Asset Management One Co., Ltd. conducts its discretionary investment advisory business as a registered and licensed investment advisor under the Financial Instruments and Exchange Act of Japan. Asset Management One Co., Ltd. is registered as investment adviser with the US Securities and Exchange Commission. The discretionary investment advisory business involves entering into contracts under which Asset Management One Co., Ltd. is entrusted fully or partially with investment decisions based on analyses of the value of marketable securities as well as the authority necessary to make investments on behalf of the clients based on such analyses.

For this presentation material

- This documentation was prepared by Asset Management One Co., Ltd.
- This documentation is required to be used only by the investor to whom it is distributed.
- This documentation is only for the purpose of providing information and is not intended to be used to solicit investments.
- This documentation was prepared using data that Asset Management One Co., Ltd. has judged to be reliable including data from third-party sources. However, Asset Management One Co., Ltd. does not guarantee its completeness or accuracy. Additionally, the published data are only indicative of past performance and do not provide a guarantee of future performance.
- The contents included in this documentation are only current as of the date this documentation was prepared (June 2, 2026) and are subject to change without notice.
- The intellectual property and all other rights pertaining to the data published in this documentation including benchmark indices shall remain the property of the publisher and licensor.