Japan Outlook

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

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Agenda

Japan Outlook

Japan Market Outlook

Stock Market: Driven by very strong earnings growth momentum, the stock market is set to continue its steady upward trend.

- Earnings revision indices have improved significantly worldwide following the release of financial results for the April–June quarter.
- While the concentration of investment in AI and semiconductor-related stocks has eased somewhat, it remains unclear whether investor interest will broaden further.

Bond Market: Both the Japanese and U.S. governments have signaled measures to address rising long-term interest rates.

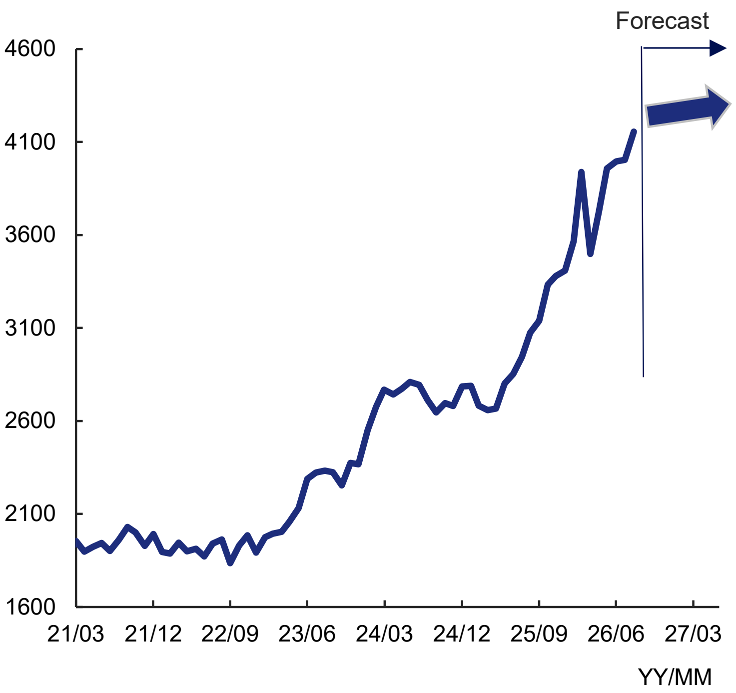
- The yield on the 10-year U.S. Treasury note rose, driven primarily by long-term real interest rates. This was due to a combination of a strong U.S. economy, supply-and-demand concerns, fiscal risks, and weak demand for bonds relative to stocks.
- While the yield on 10-year Japanese government bonds is seen as having limited room to rise relative to fundamentals, concerns about bond supply and demand remain persistent.

Foreign Exchange Market: Although expectations of a weaker dollar have emerged, the movement in the dollar-yen exchange rate remains limited.

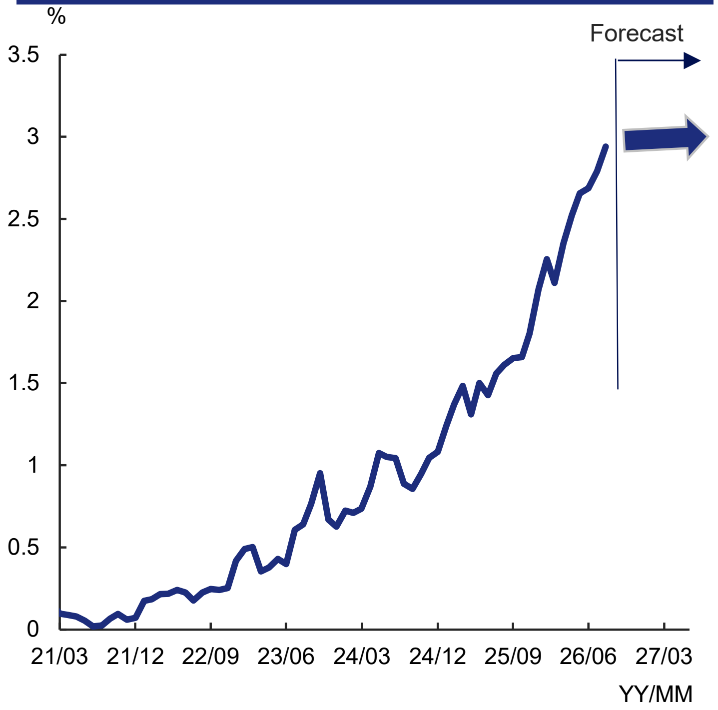
- Even following coordinated intervention by Japan and the U.S., the yen did not appreciate significantly.
- If the Bank of Japan (BOJ) accelerates its interest rate hikes, it could put a stop to the yen's depreciation well beyond the 160-yen mark.

Japan Market Outlook

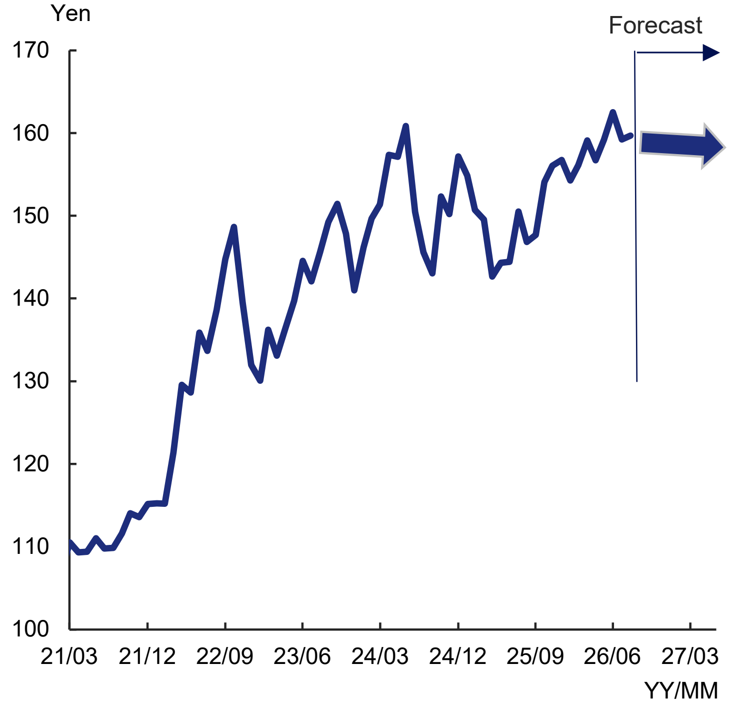
TOPIX Index



JGB 10 Year Yield



USD/JPY

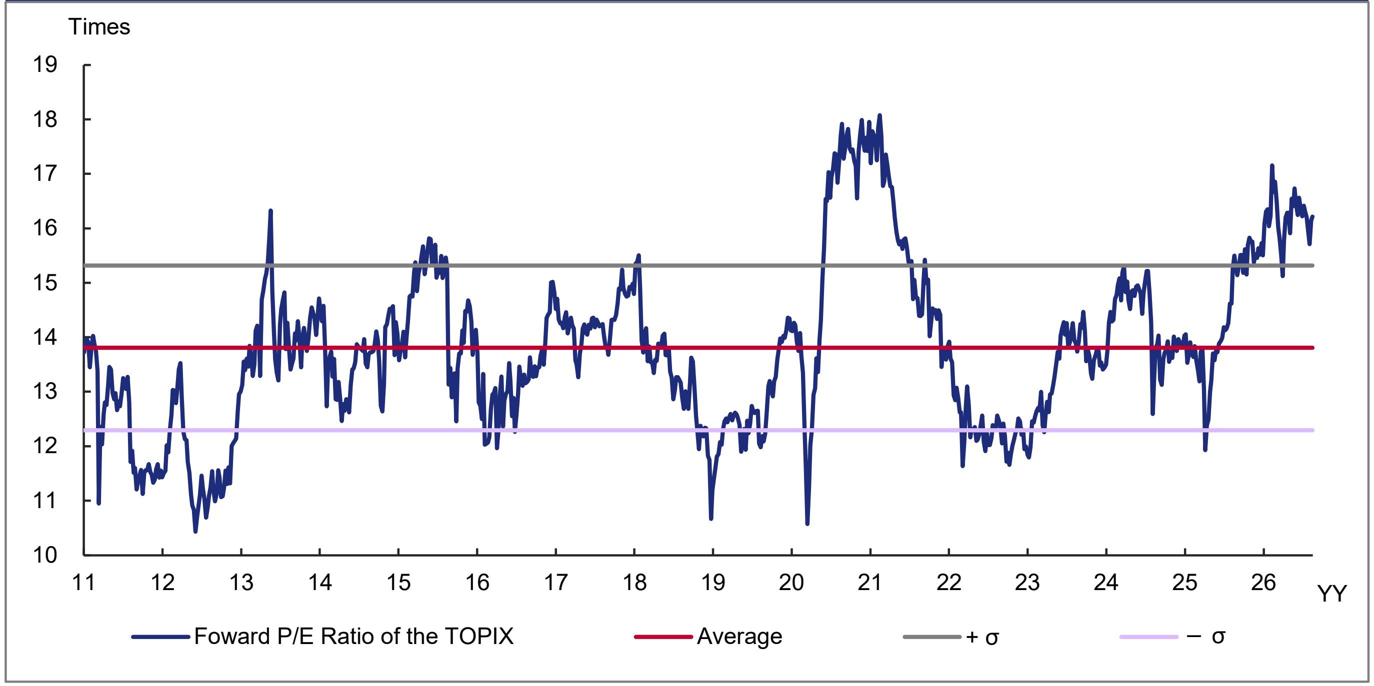


Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: Monthly data from March 2021 to August 2026

Valuations

- The TOPIX’s forward P/E ratio stand at 16 times, which, while above the long-term average of 14 times, has stabilized since its recent high.
- Furthermore, 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.

Trends in the TOPIX's Forward P/E Ratio

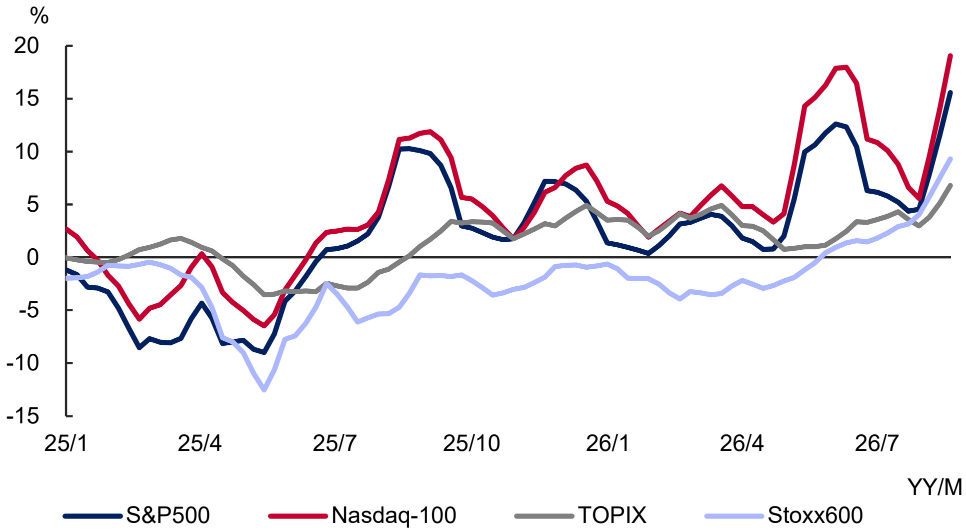


Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: 1. Weekly data from 7 January 2011 to 21 August 2026
2. P/E ratios based on 12-month forward EPS
3. σ is the standard deviation during the observation period

Earnings growth

- Earnings growth momentum is strong, as evidenced by significant improvements in the earnings revision index worldwide.

The Earnings Revision Index



Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: 6-week moving average data from 3 January 2025 to 21 August 2026

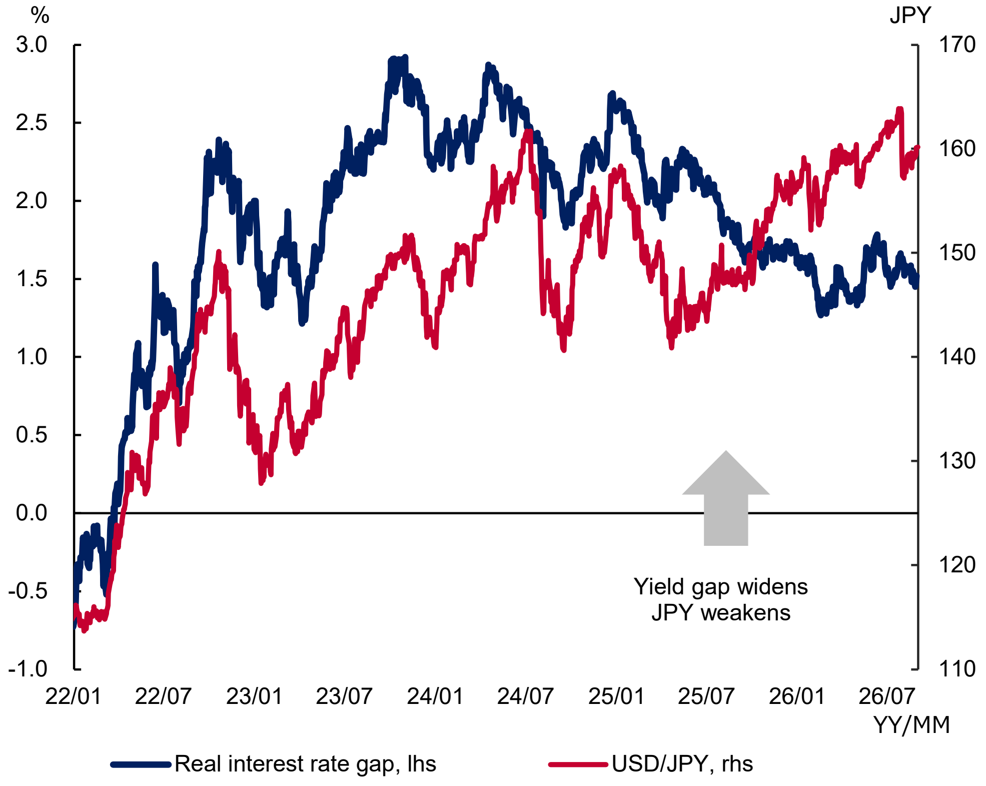
Matrix between EPS growth rates and P/E

FY25 EPS 208.4		P/E Ratios			
		14	15	16	17
FY26-27 EPS Growth Rate (p.a.)	+10	3,530 (56,500)	3,780 (60,500)	4,030 (64,500)	4,290 (68,600)
	+12	3,660 (58,600)	3,920 (62,700)	4,180 (66,900)	4,440 (71,000)
	+14	3,790 (60,600)	4,060 (65,000)	4,330 (69,300)	4,600 (73,600)
	+16	3,930 (62,900)	4,210 (67,400)	4,490 (71,800)	4,770 (76,300)

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

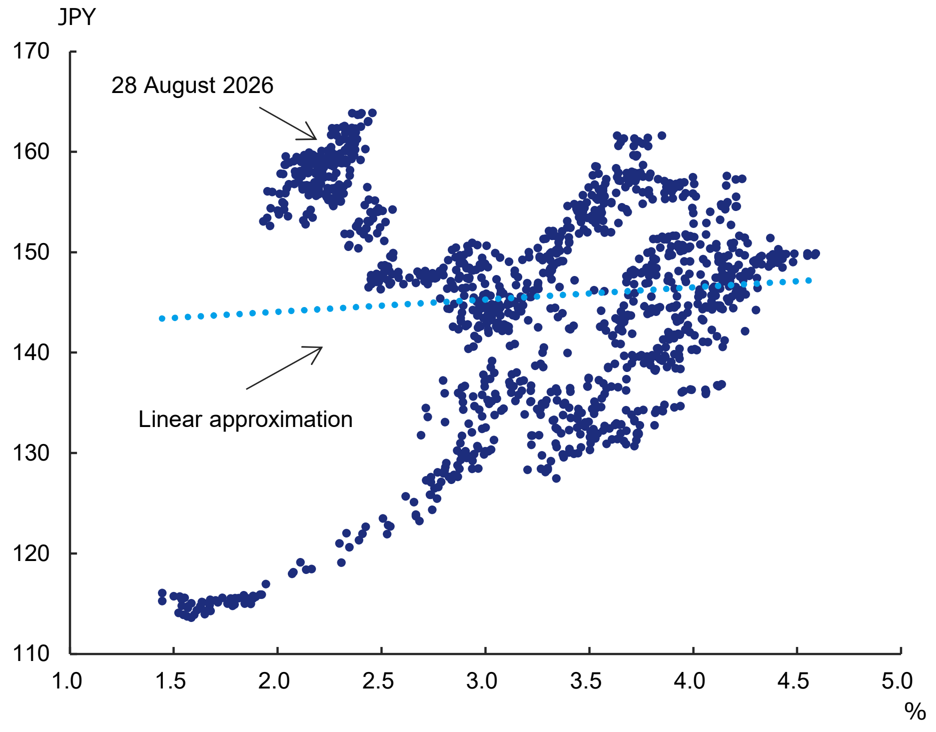
USD/JPY rate

USD/JPY and 10Y real interest rate gap



Source: Bloomberg, Asset Management One Co., Ltd
Note: 1. Daily data from 1 January 2022 to 28 August 2026
2. The real interest rate is the nominal interest rate minus the break-even inflation rate

USD/JPY and 5Y interest rate gap



Y- axis：USDJPY Spot Rate
X- axis：US-Japan 5Y interest rate gap

Source: LSEG Data & Analytics, Asset Management One Co., Ltd.
Note: Daily data from 3 January 2022 to 28 August 2026

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Japan Outlook

Japan Economic Outlook

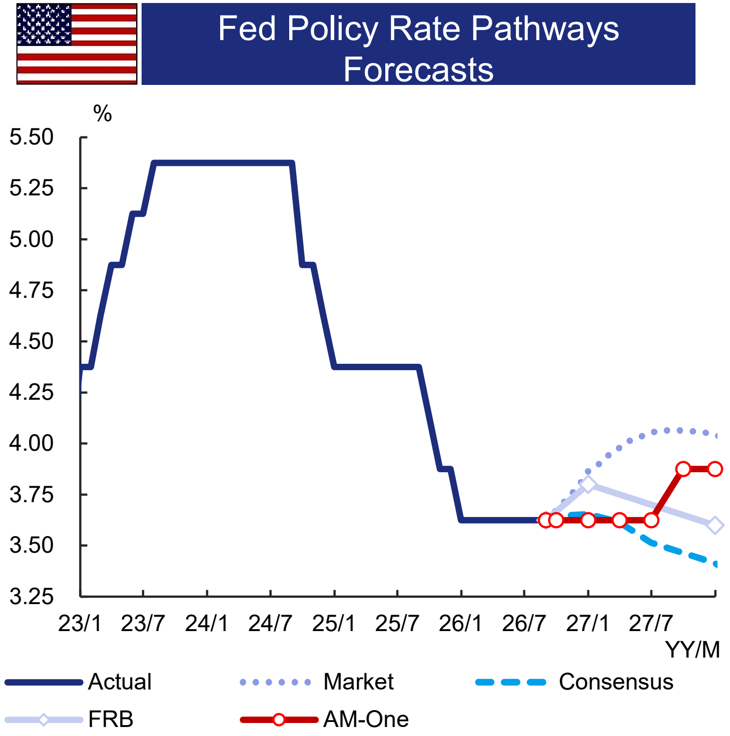
- Even if the escalation of tensions in the Middle East persists for an extended period, we maintain our outlook that the Japanese economy will remain robust, provided there are no additional supply chain disruptions, against the backdrop of: (1) a rise in real wages; (2) investments in labor-saving technologies driven by labor shortages; and (3) government measures to address high prices and tax breaks for capital expenditures.

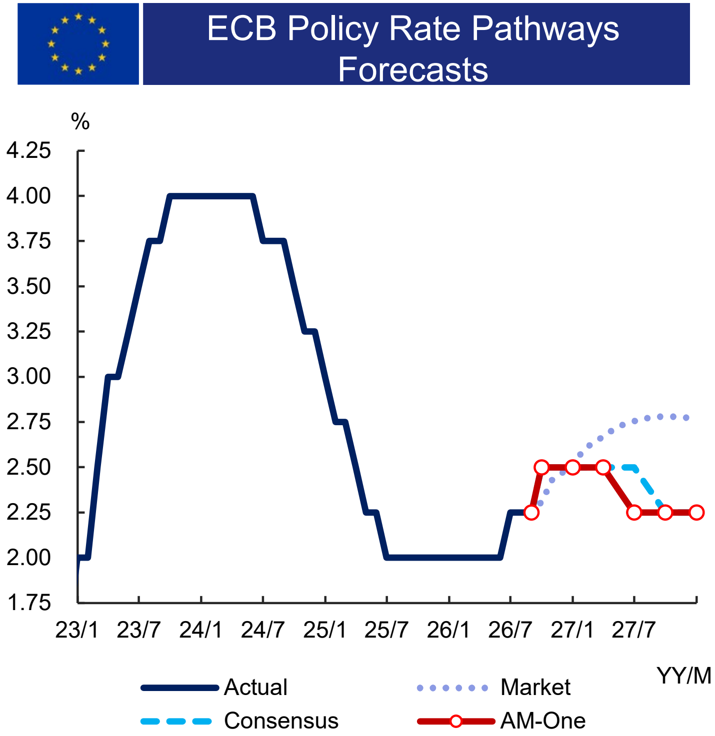
- Consumer prices (excluding fresh food) have remained below 2% year-over-year due to falling food prices—including rice—and the government's fuel price subsidies; however, the surge in crude oil prices has spread from the upstream sector to intermediate goods and is now expected to reach the consumer level. Prices are projected to exceed +2% in fiscal year 2026.

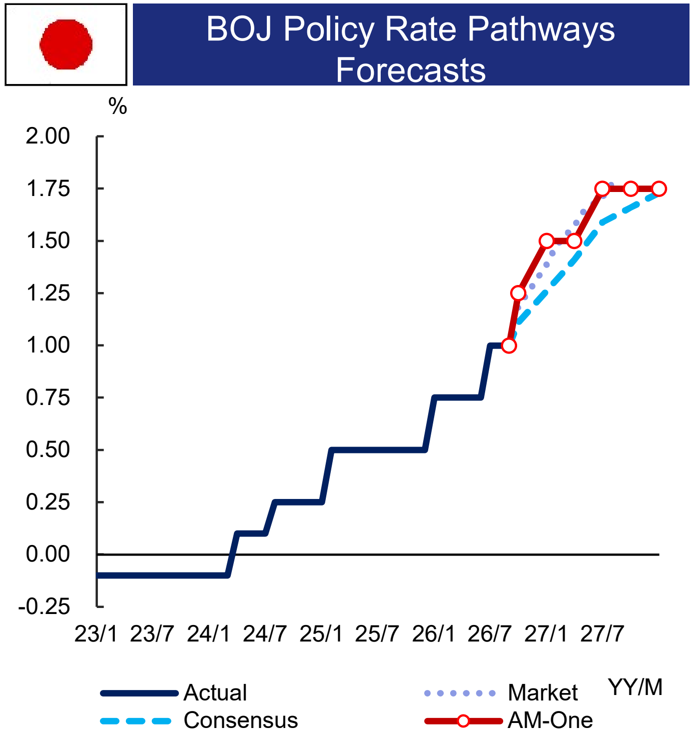
- The next rate hike is expected in September (or October) 2026. Whether the pace of rate hikes will continue to accelerate from late 2026 through the first half of 2027 or return to a pace of about once every six months, will depend on whether the BOJ remains vigilant about the risk of underlying inflation rising above target, given factors such as the ongoing weakening of the yen and rising inflation expectations.

Monetary Policies

- The U.S. Federal Reserve (Fed) is expected to keep its policy rate unchanged for the time being but is projected to begin raising rates in mid-2027 in response to a tightening labor market.
- The European Central Bank (ECB) is expected to raise interest rates in September and then hold them steady for a while.
- The BOJ's next rate hike is expected in September (or October) 2026. The pace of rate hikes may also accelerate.







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

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

2. Values from September 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).

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