



# Outlook for Japanese Stock Market & Economy

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Sumitomo Mitsui DS Asset Management



# Outlook for Japanese Stock Market

# Market Outlook

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- **Projected Economic Recovery in Japan Potentially Supported by US and EU Fiscal Expansion**

The economic downturn is expected to bottom out in the third quarter of 2025. Thereafter, we anticipate that fiscal expansion measures by the US and the EU will bolster the Japanese economy and its corporate earnings.

- **Rising Interest Rate Weighs on Share Price Valuation**

Once investors' expectations for the Bank of Japan's next rate hike accelerate, rising interest rates could weigh on share price valuations.

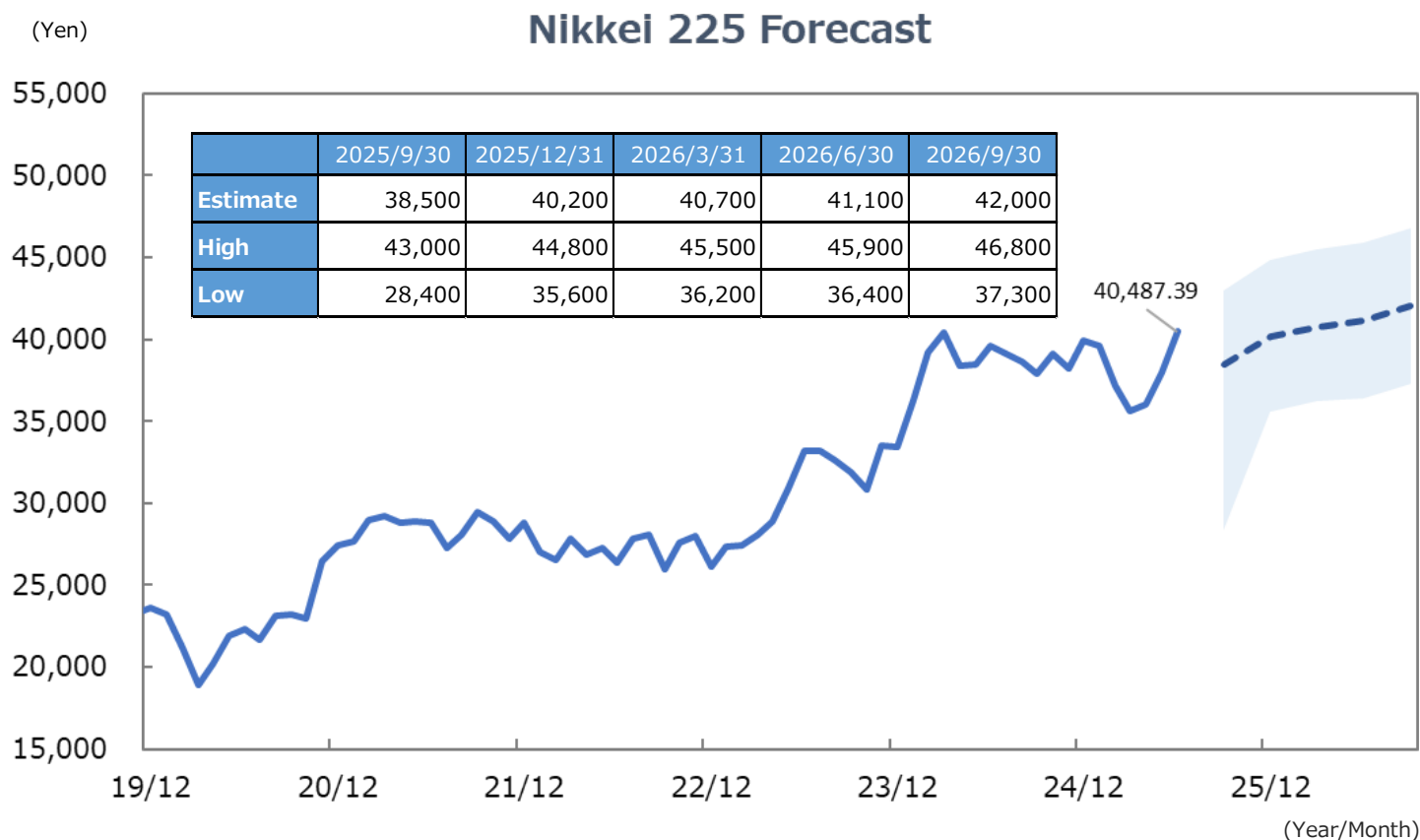
- **Nikkei 225 Target Prices Unchanged**

We have maintained our target price for the Nikkei 225 at 40,200 for December 2025, and 40,700 for March 2026, based on the estimated EPS and fair price valuations.

- **Impact of Share Buybacks and Corporate Governance on Stock Market Dynamics**

Regarding demand and supply in the stock market, foreign investors' selling has been absorbed by share buybacks, driven by improving corporate governance.

# Japanese Equity to Resume Bullish Trend in Mid-to-Long Term

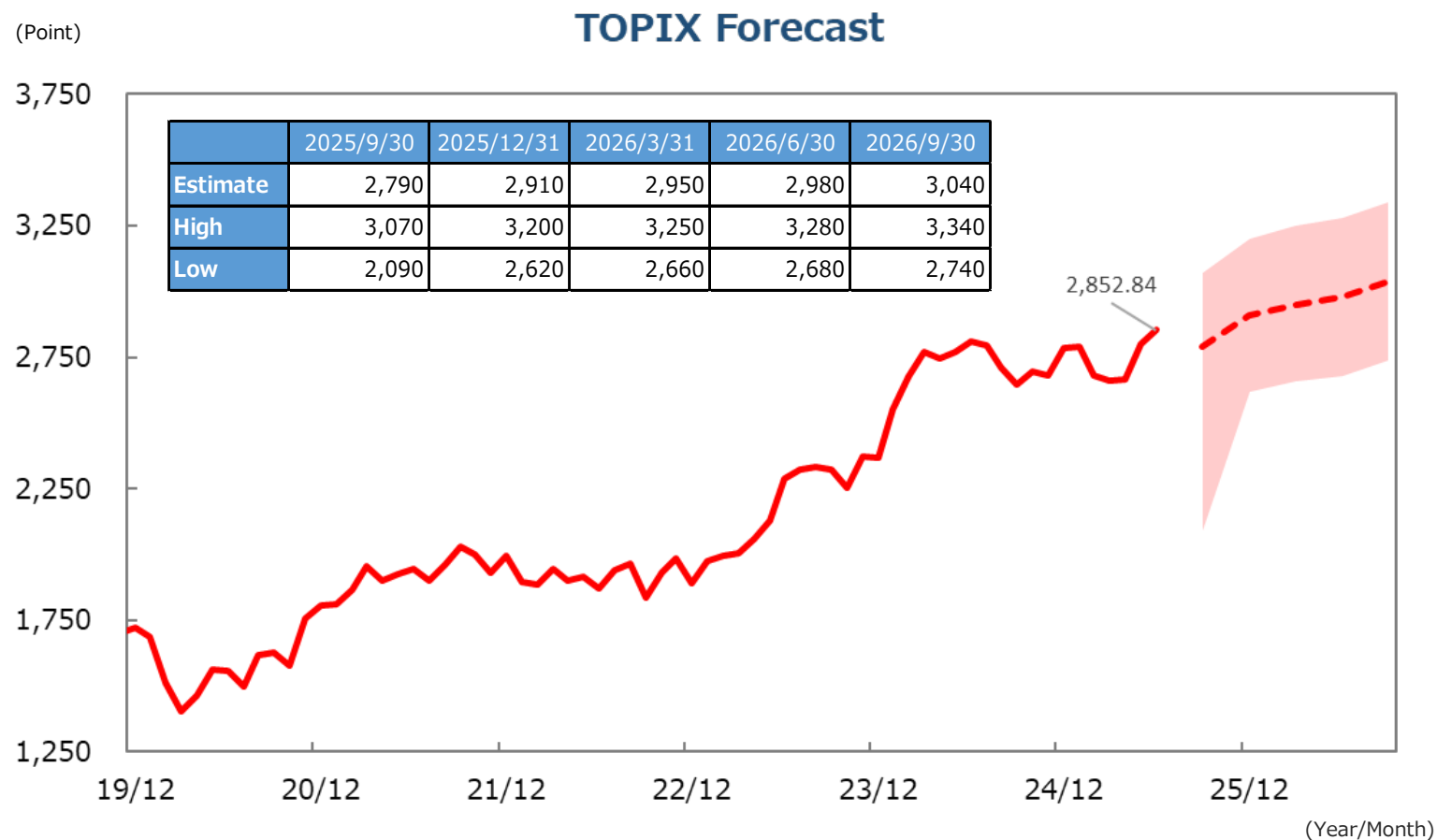


Data is from December 2019 to September 2026. Data after June 2025 is our forecast.

Note: The forecasts are as of June 19th, 2025.

(Source) Bloomberg, SMDAM

# Japanese Equity to Resume Bullish Trend in Mid-to-Long Term

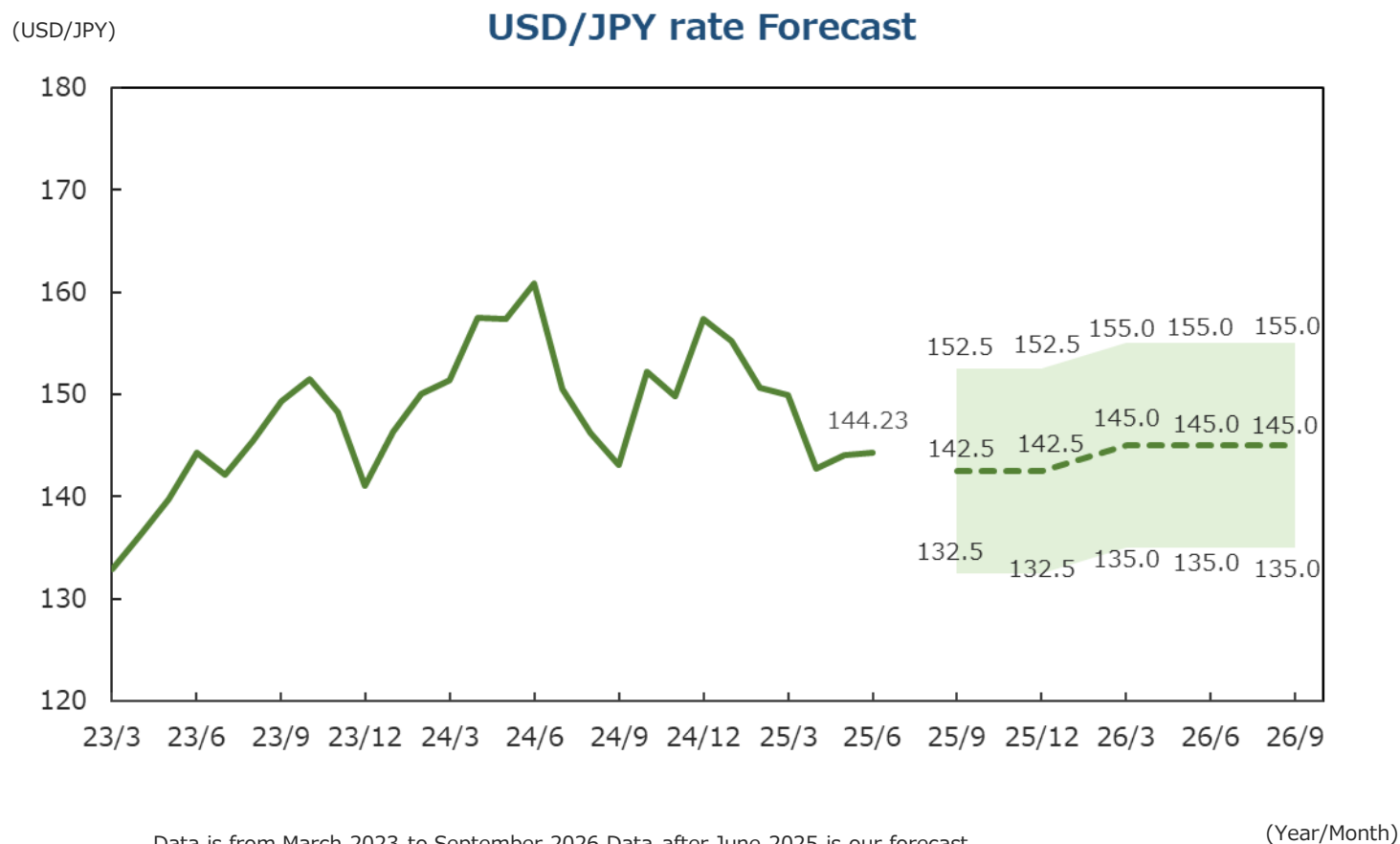


Data is from December 2019 to September 2026. Data after June 2025 is our forecast.

Note: The forecasts are as of June 19th, 2025.

(Source) Bloomberg, SMDAM

# USD/JPY Rate Will be Supported by Recovery in Confidence



Data is from March 2023 to September 2026. Data after June 2025 is our forecast.  
Note: The forecasts are as of June 19th, 2025.  
(Source) Bloomberg, SMDAM

# Upside / Downside Risk Scenarios

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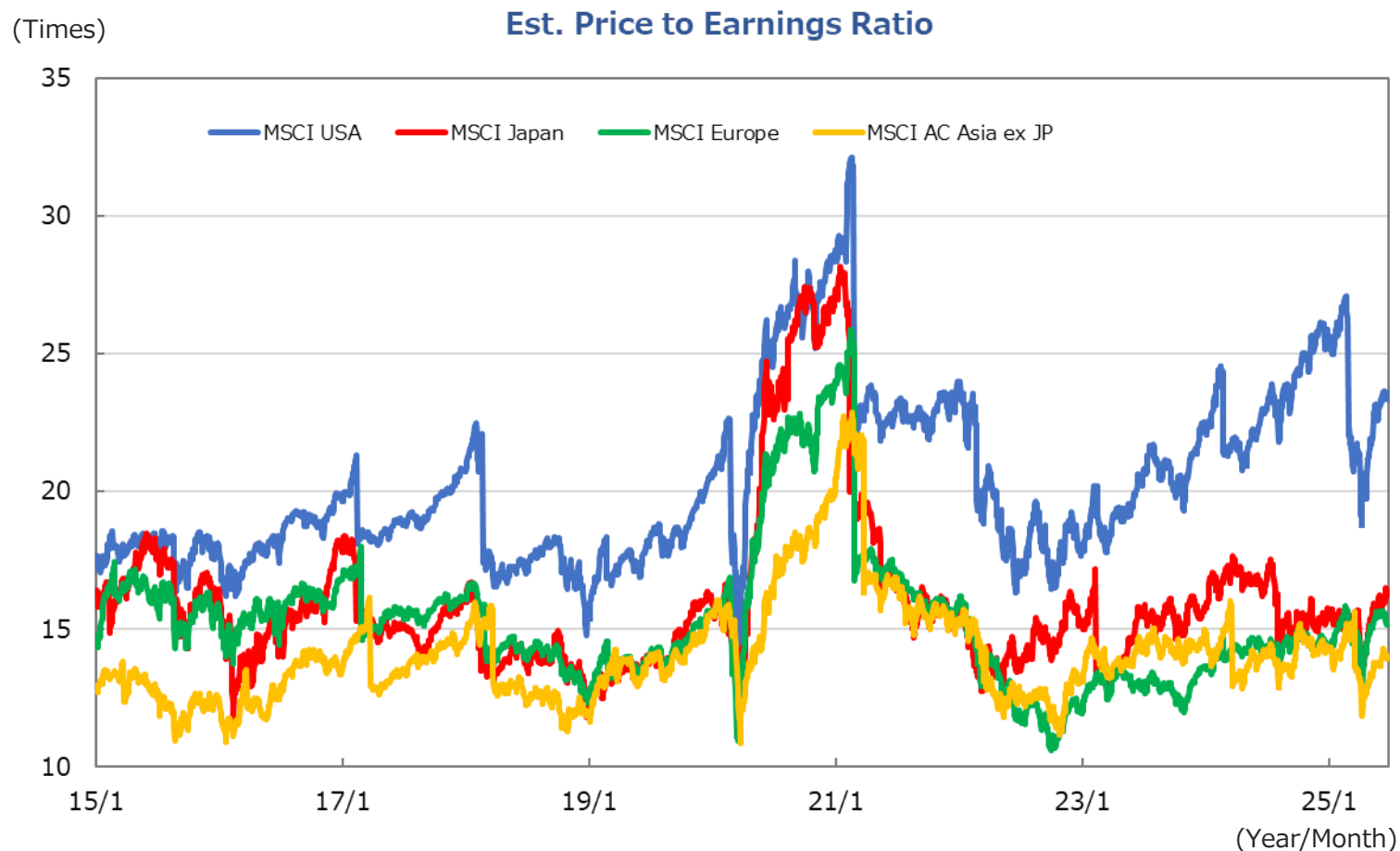
## ■ Upside Risks

- Receding concern over Trump tariffs
- Expansion of tax reductions
- Robust foreign inflows into Japanese equities fueled by further improvements in corporate governance
- Resurgence of Big Tech stocks boosted by the social implementation and monetization of artificial intelligence (AI)

## ■ Downside Risks

- Escalation of the trade war between the US and China
- Sharp increase of Japanese government bond (JGB) yields owing to an expansion in defense spending
- Foreign investors' sell-off due to concerns over domestic politics
- Inventory adjustment pressures as a result of excessive accumulation before the start of Trump tariffs

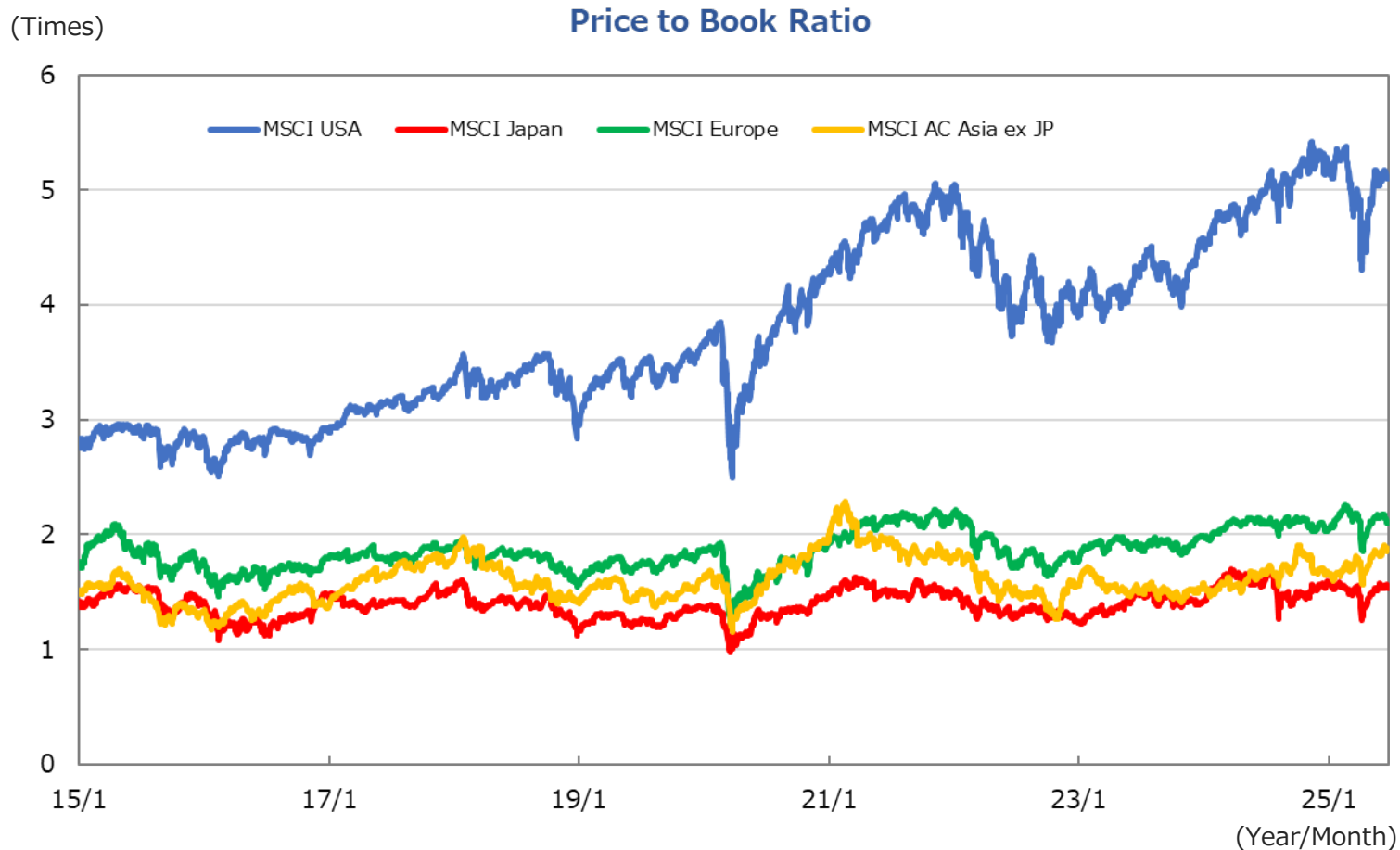
# P/E Ratio Back to Normal After a Sharp Correction in April



Data is from January 2015 to June 2025.  
(Source) SMDAM, Bloomberg

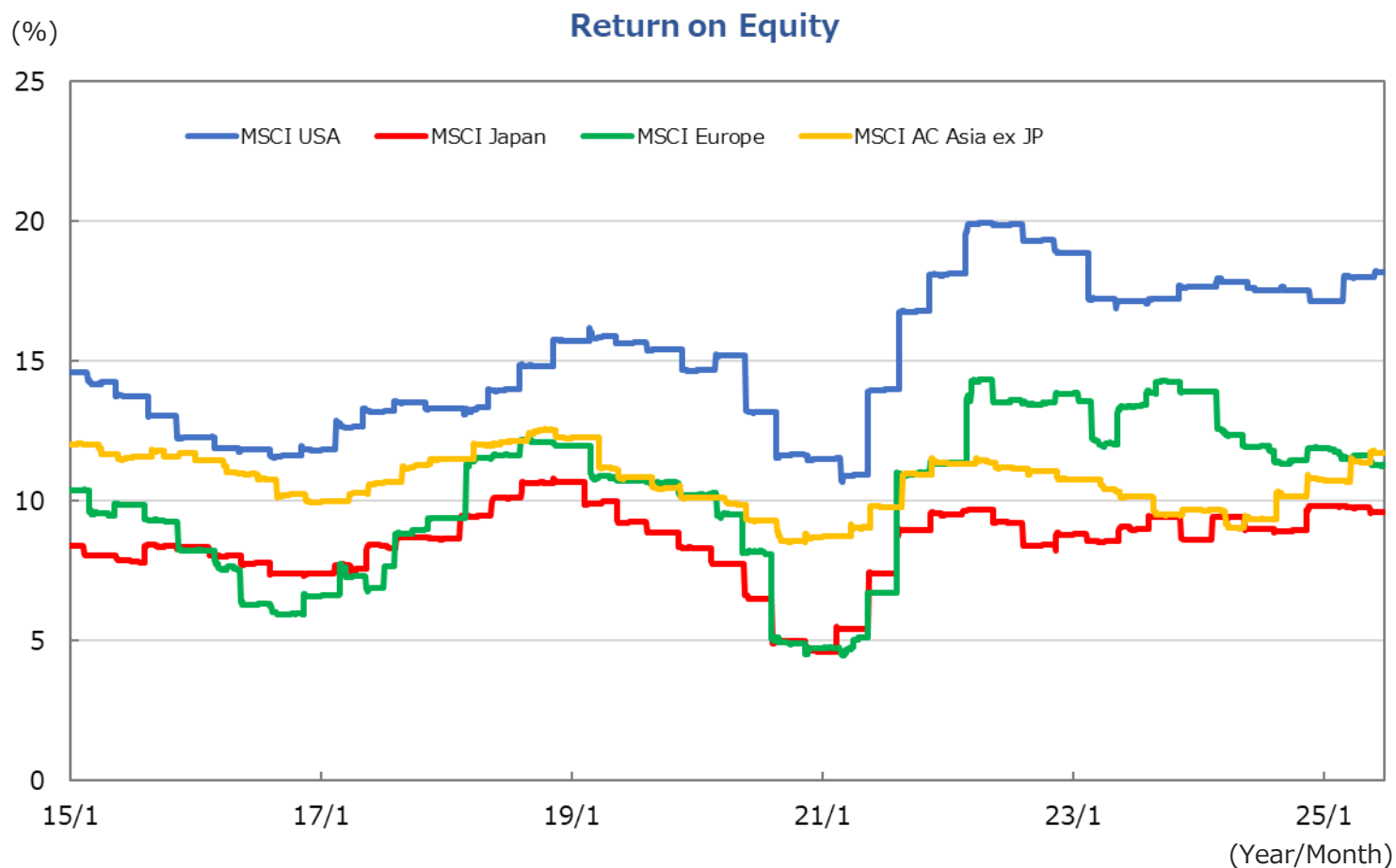


# P/B Ratio is Recovering Towards the Levels of Last February



Data is from January 2015 to June 2025.  
(Source) SMDAM, Bloomberg

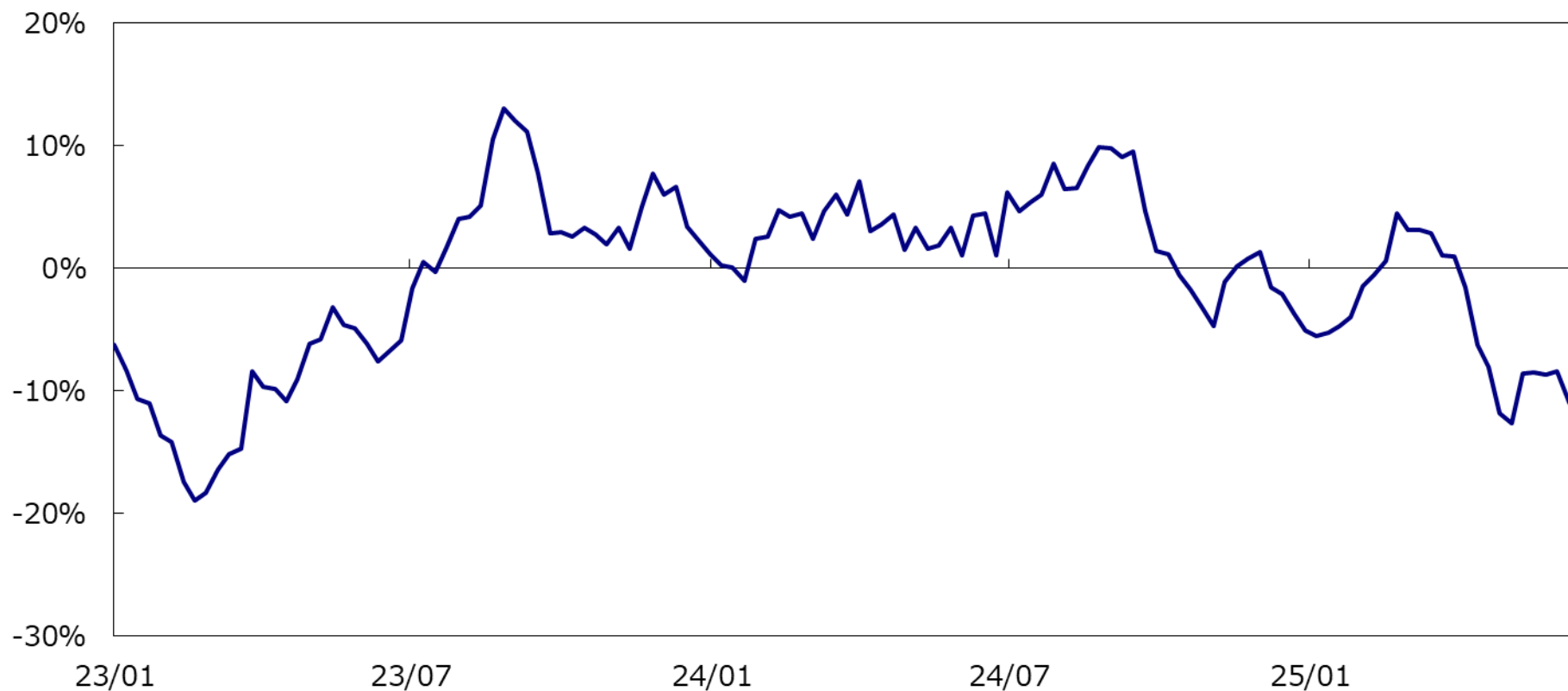
# Japan's ROE is Hovering at Around 10%



Data is from January 2015 to June 2025.  
(Source) SMDAM, Bloomberg

# Concerns Over Trump Tariffs Weigh on Analysts' Earnings Estimates

TOPIX EPS Revision Index

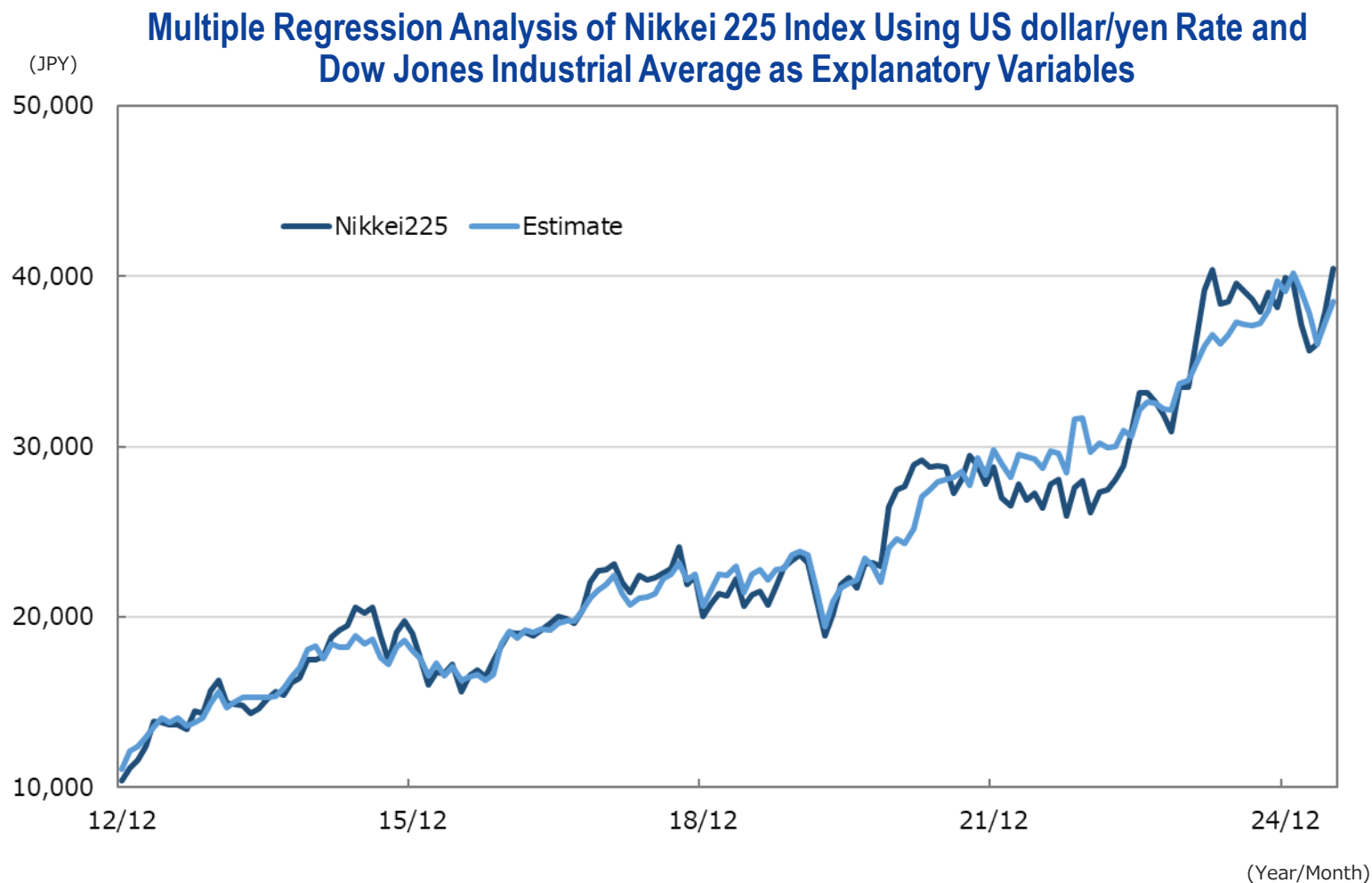


Data is from January 5th 2023 to June 19th 2025  
(Source) Datastream, IBES

(YY/MM)

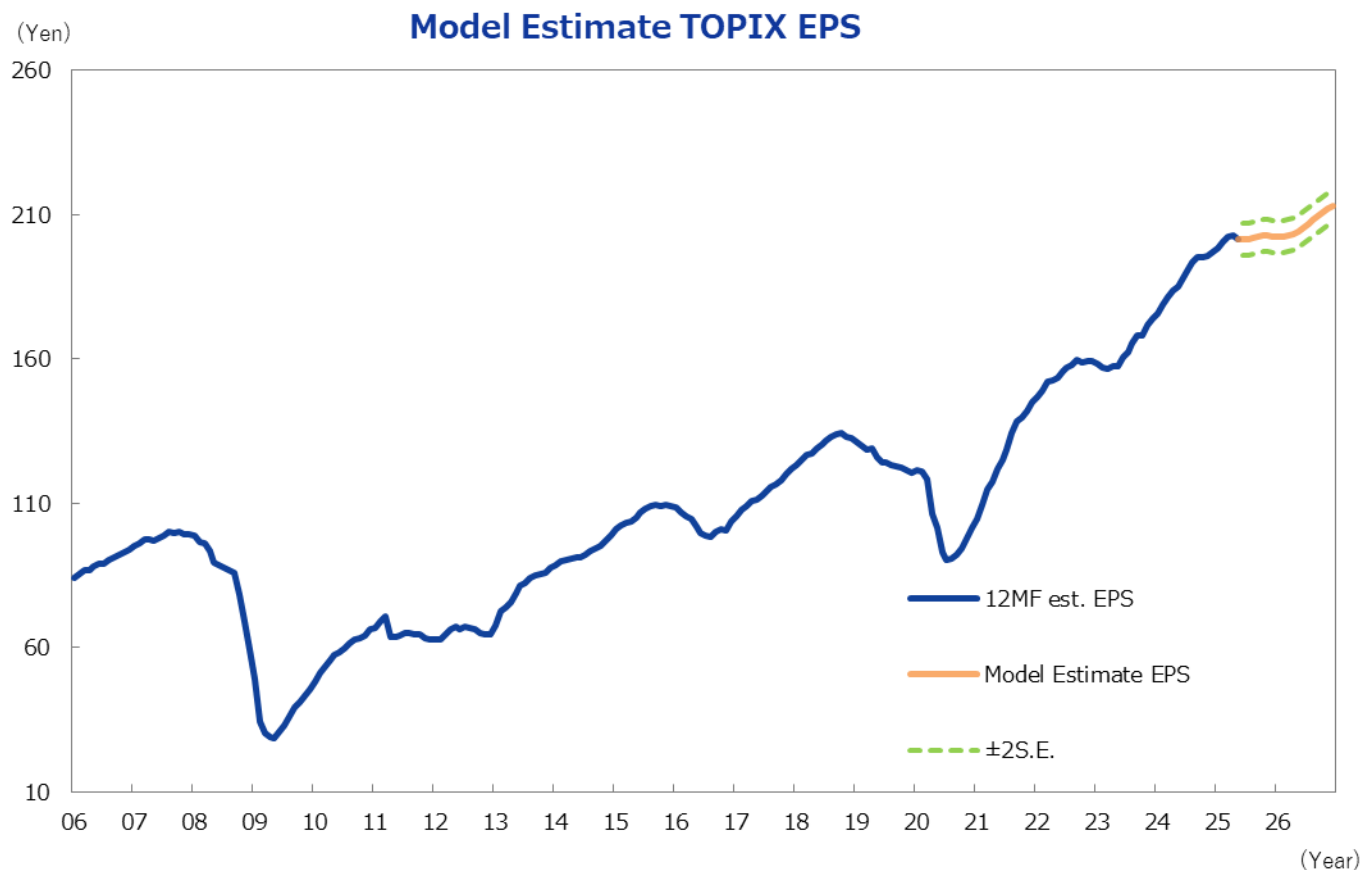


# US Stocks and Dollar/Yen Rate Drive Japanese Stock Market



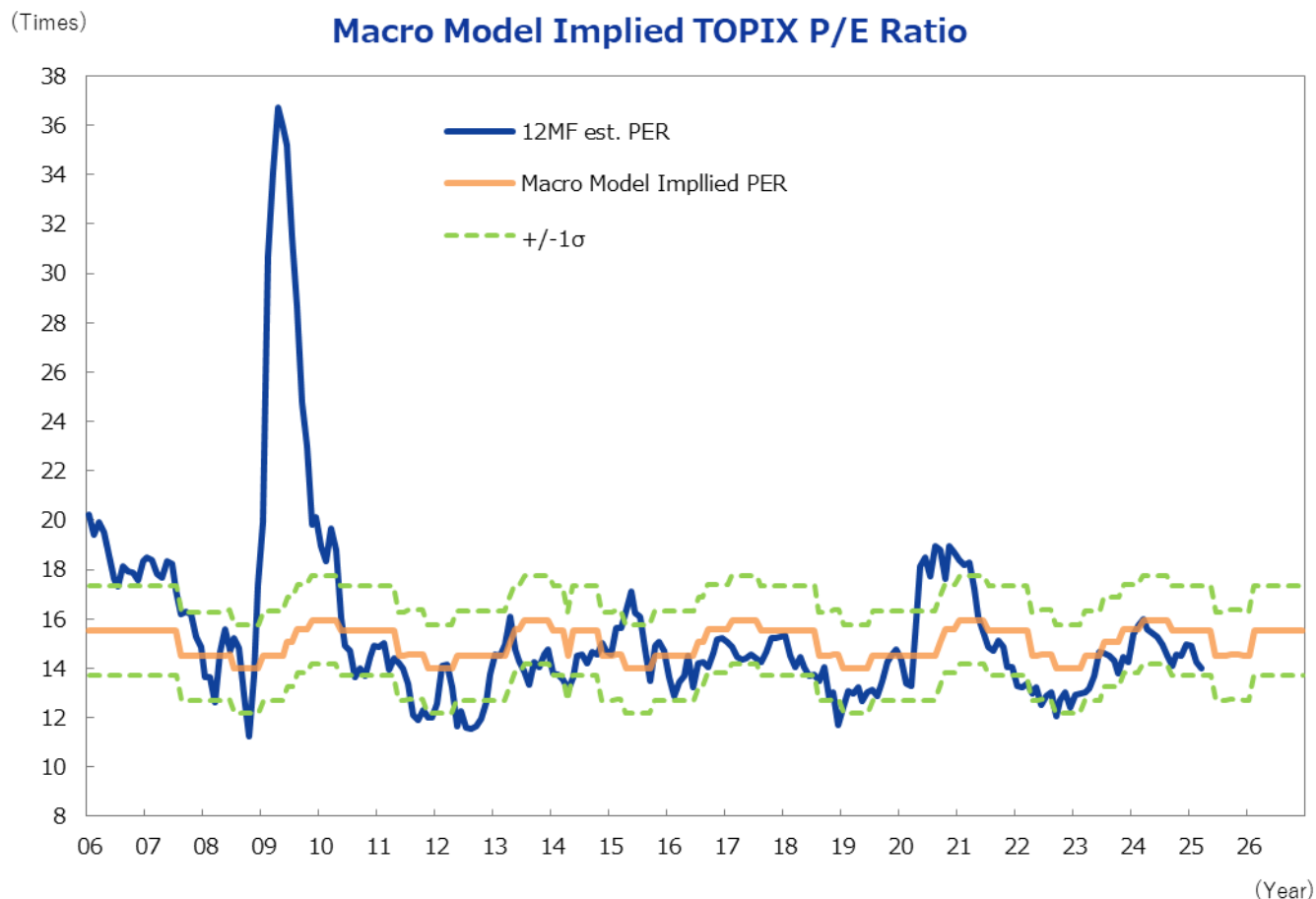
Data is from December 2012 to June 2025.  
(Source) SMDAM, Bloomberg

# Macro Quant Model Suggests EPS Growth to Slow Down Temporarily



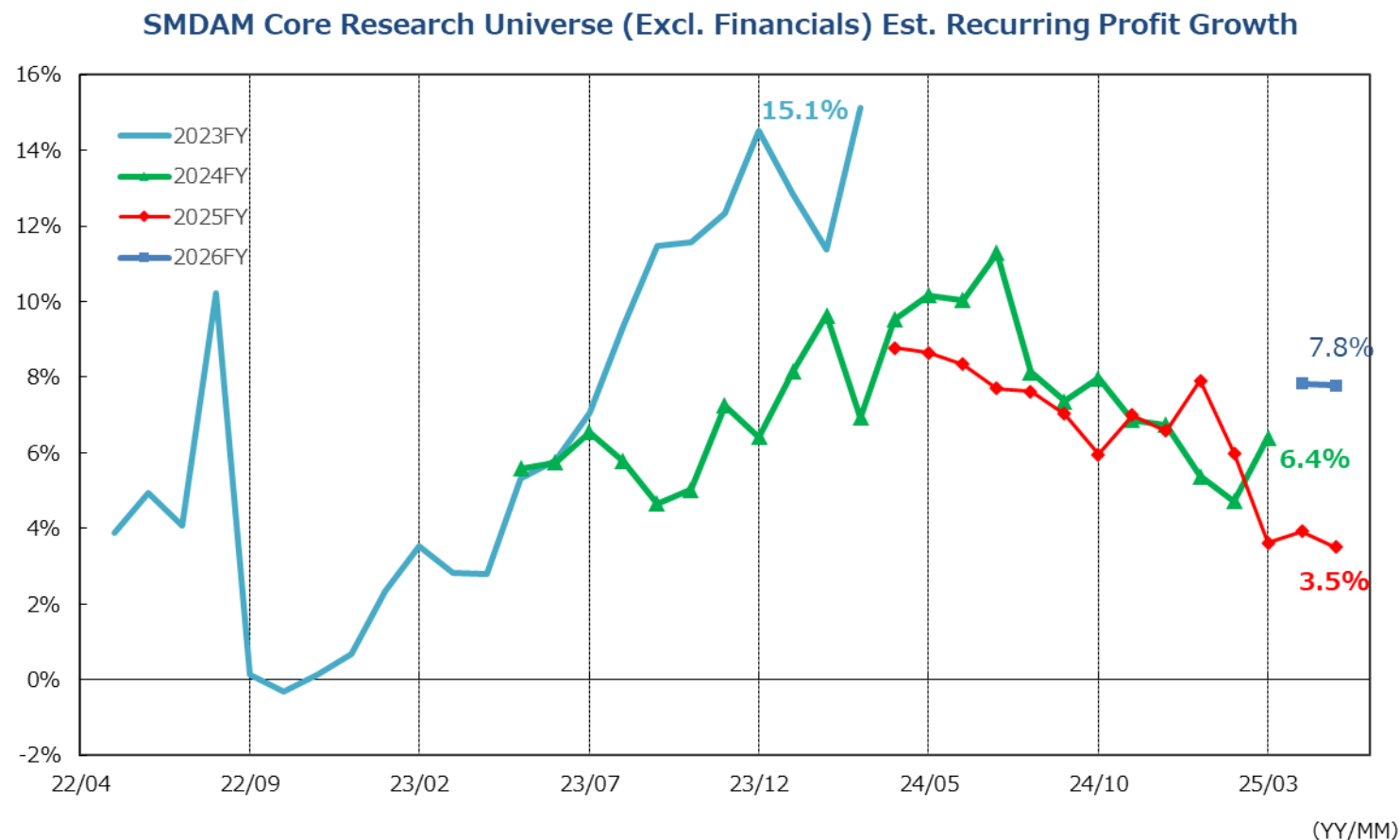
Note: Consensus data is from January 2006 to May 2025. Model estimate Data is from June 2025 to December 2026.  
Source: SMDAM

# Recent Market Correction Made P/E Ratio Highly Attractive



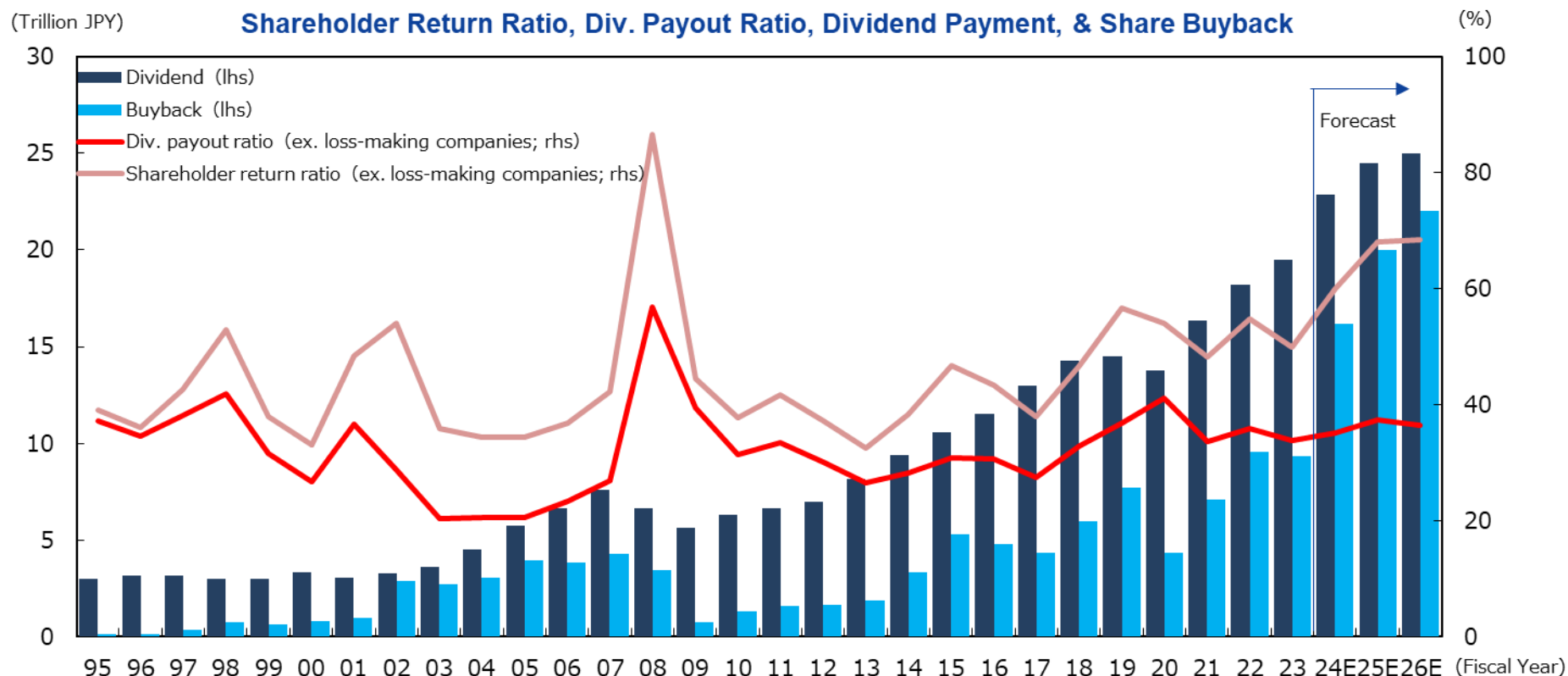
Note: Consensus data is from January 2006 to March 2025. Model estimate Data is from April 2025 to December 2026.  
Source: SMDAM

# In-House Analysts Feel Uneasy with Global Economic Outlook



Note: Data is as of 12th June 2025, SMDAM Core Universe (Excl. Financials) consists of 391 Japanese companies covered by SMDAM in-house analysts.  
Source: SMDAM

# Record-Breaking Dividends and Share Buybacks Continue





# Growth Stocks Lead Recent Market Rebound

## Performance Comparison of Russell/Nomura Style Indices

Index	Returns(%)						
	3 Month	6 Month	YTD	1 Year	2 year	3 Year	5 Year
<b>RN Japan Equity</b>	<b>3.87</b>	<b>2.75</b>	<b>2.75</b>	<b>2.01</b>	<b>25.24</b>	<b>53.61</b>	<b>84.09</b>
Total Value	-0.04	1.00	1.00	0.07	31.89	64.99	119.65
Top Cap Value	0.23	-0.77	-0.77	-2.43	34.16	76.32	151.20
Large Cap Value	-0.57	0.32	0.32	-1.26	31.35	65.39	125.99
Mid Cap Value	-1.47	1.59	1.59	0.03	29.12	53.43	98.36
Small Cap Value	2.13	3.85	3.85	6.04	33.74	62.25	92.11
Micro Cap Value	3.81	6.21	6.21	6.24	35.54	65.06	87.55
Total Growth	8.18	4.60	4.60	4.04	19.15	43.93	54.19
Top Cap Growth	7.77	2.16	2.16	-0.13	20.46	47.30	62.71
Large Cap Growth	8.08	4.42	4.42	3.55	19.75	46.04	57.35
Mid Cap Growth	8.78	9.78	9.78	12.03	19.39	44.86	49.82
Small Cap Growth	8.90	6.14	6.14	8.45	13.87	27.45	29.18
Micro Cap Growth	6.05	3.57	3.57	-0.53	4.58	16.96	18.35
Top Cap Total	4.52	0.93	0.93	-1.10	26.19	59.07	96.98
Large Cap Total	3.77	2.42	2.42	1.21	25.08	54.56	87.07
Mid Cap Total	2.60	4.88	4.88	4.88	24.00	48.49	74.08
Small Cap Total	4.40	4.62	4.62	6.87	25.81	47.59	65.84
Micro Cap Total	4.49	5.38	5.38	4.06	24.75	47.44	62.44

Note : As of 30th June 2025  
(Source) Bloomberg

...Excess RN Japan Equity's performance



## Outlook for Japanese Economy



# Current Status & Outlook of the Japanese Economy

## ■ Current Status

- **The economy is in a soft patch.** CAPEX remains steady due to a strong demand for digitalization and persistent labor shortages. While there are few signs of significant declines both in corporate and consumer sentiments or in exports, the implementation of Trump tariffs has introduced instability across these areas. Consumer spending continues to be stagnant due to price increases, mainly elevated by food prices.
- **Nationwide core CPI continues to exceed the Bank of Japan's (BOJ) "price stability target" of 2% year-on-year (YOY).** Nationwide core CPI rose by +3.5% YOY in April, up from +3.2% in March. Nationwide core CPI remains elevated due to cost-push pressures stemming from import prices and rising rice prices. A surge in food prices was particularly noticeable.

## ■ Outlook

- ① **We have maintained our real GDP growth estimate at +0.4% for FY 2025 and +0.7% for FY 2026.** We assume the economy will avoid a severe downturn, although the growth rate in FY 2025 is expected to remain subdued due to the impact of Trump tariffs. From FY 2026 onwards, we maintain an optimistic outlook for the Japanese economy thanks to the wage increases, a steady CAPEX, and the resilience of overseas economies.
- ② **While we have raised core CPI forecasts for FY 2025 from +2.3% to +2.5%, we have lowered our forecast for FY 2026 from +1.7% to +1.6%.** The upward revision for FY2025 was mainly due to a change in WTI crude oil price outlooks (raised from \$60 per barrel to \$65 per barrel) and a recent stronger-than-expected core CPI in the Tokyo metropolitan area. Looking ahead, we expect core CPI to remain elevated until the first half of 2025, driven by rising food prices. Afterwards, we estimate core CPI to start slowing down, reflecting the easing of cost-push pressures from import prices and the stabilization of rice prices. On the other hand, we expect that rises in service prices, driven by wage hikes, will support an upward trend in core CPI. We forecast core CPI to maintain a momentum of around +2.0% YOY, excluding the impact of the tuition support programs.
- ③ **We expect the government to adopt accommodative fiscal policies.** The ruling party plans to announce economic measures in the autumn to cope with Trump tariffs and rising prices. However, the opposition parties continue to insist on more aggressive fiscal policies, including a cut in the consumption tax rate. If the ruling party loses the House of Councilors' election, the influence of opposition parties could grow, increasing the likelihood of these measures being implemented. Specifically, the Democratic Party for the People advocates for significant tax cuts, including a flat 5% reduction in consumption tax rate, raising the minimum taxable income, and abolishing the provisional gasoline tax.
- ④ **We have maintained our expectation for the BOJ to raise its policy rate from 0.50% to 0.75% in April 2026, and from 0.75% to 1.00% in October 2026.** Regarding the next rate hike, we assume the BOJ will maintain its cautious stance by closely monitoring the impact of Trump tariffs on the economy and prices. Thereafter, we expect the BOJ to raise its policy rate from 0.50% to 0.75% in April 2026, following an evaluation of spring wage negotiations and the resilience of the U.S. economy. We also anticipate the terminal rate of monetary policy will be 1.25% by October 2027, although this is beyond our current estimation scope. We expect that Trump tariffs and domestic politics could potentially impact the course of monetary tightening by the BOJ going forward. Specifically, we are interested in the emerging influence of Ms. Takaichi of the ruling LDP and the Democratic Party for the People. Both of them are opposed to further rate hikes following the House of Councillors election. Additionally, we are closely monitoring the growing influence of the Constitutional Democratic Party of Japan, which has pledged to review the joint statement between the government and the BOJ, arguing that the depreciation of JPY causes price increases.

Note: The forecasts are as of June 17th, 2025.

# Forecast for the Japanese Economy

Forecast of annual Real GDP growth and its breakdown						
Fiscal Year	FY21	FY22	FY23	FY24 Est	FY25 Est	FY26 Est
Real GDP	3.0%	1.3%	0.6%	0.8%	0.4%	0.7%
Private final consumption expenditure	1.8%	2.6%	-0.4%	0.8%	0.8%	0.8%
Private housing investment	0.3%	-2.6%	0.8%	-1.0%	-0.5%	-1.4%
Private-sector capital investment	3.2%	3.6%	-0.1%	2.4%	0.8%	0.9%
Private inventory investment	0.5%	0.0%	-0.3%	0.1%	0.2%	0.0%
Public fixed capital formation	-6.4%	-5.5%	-0.3%	1.3%	-0.6%	0.7%
Net export contribution	0.8%	-0.6%	1.4%	-0.4%	-0.6%	-0.1%
Exports of goods and services	12.5%	5.0%	3.1%	1.7%	0.2%	1.4%
Imports of goods and services	7.3%	7.4%	-2.7%	3.5%	3.0%	1.9%
Nominal GDP	2.9%	2.3%	4.9%	3.7%	3.0%	2.5%
GDP deflator	-0.1%	0.9%	4.2%	2.9%	2.6%	1.8%
Industrial Production Index	5.6%	-0.3%	-1.9%	-1.4%	-0.2%	0.8%
Consumer Price Index (Core)	0.1%	3.0%	2.8%	2.7%	2.5%	1.6%
Consumer Price Index (BOJ Core)	0.1%	3.0%	2.8%	2.7%	2.7%	1.9%
Domestic corporate goods price index	7.1%	9.6%	2.4%	3.2%	2.2%	1.4%
Employee compensation	2.1%	2.5%	1.9%	4.6%	3.5%	3.3%
Unemployment rate	2.8%	2.6%	2.6%	2.5%	2.6%	2.5%
Monetary Policy interest rate (Short term)	-0.10%	-0.10%	0-0.1%	0.50%	0.50%	1.00%

Note: Rate of increase over the previous year. Net exports are based on the degree of contribution, and the consumer price index (Core) excludes the effects of the consumption tax and free education.

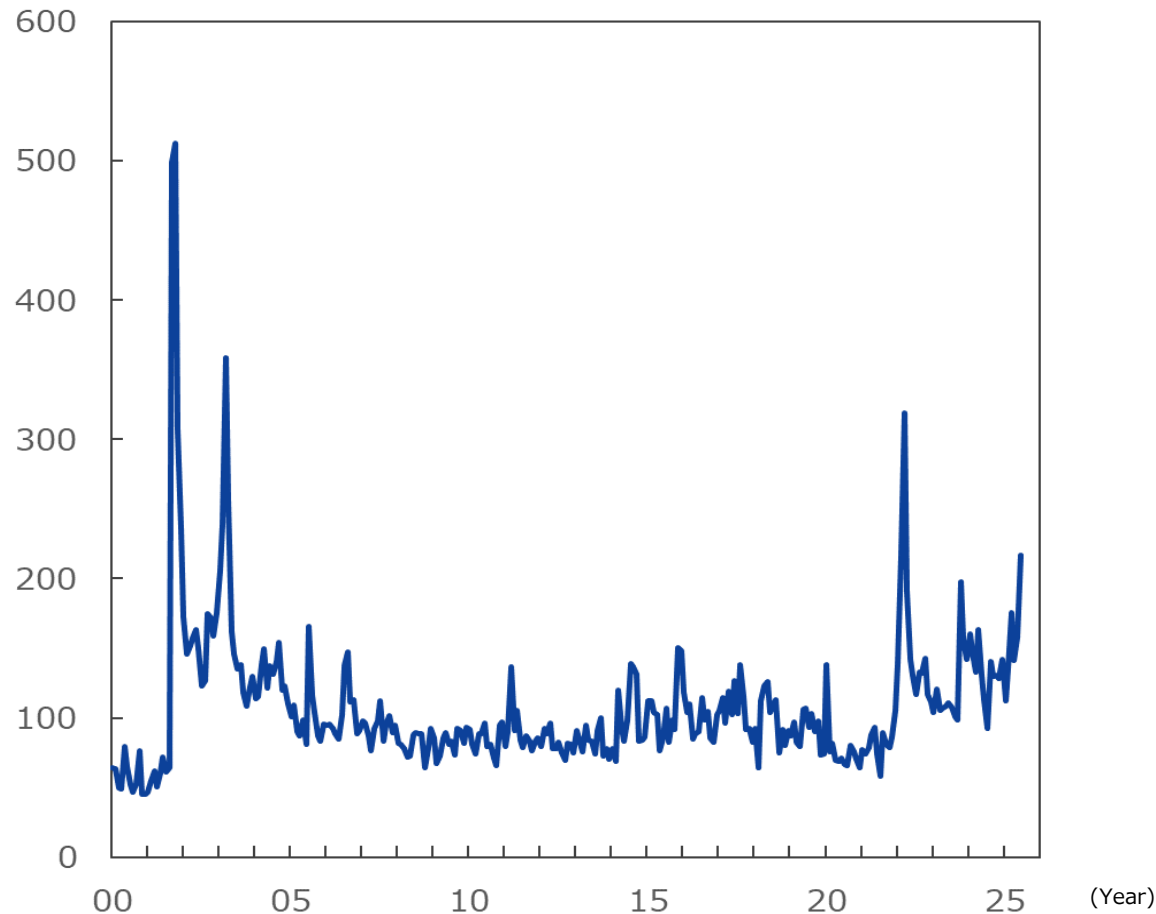
Note: The forecasts are as of June 17th, 2025.

Source: Sumitomo Mitsui DS Asset Management based on data from the Cabinet Office, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry

# Rising Geopolitical Risks Bring Uncertainty to the Japanese Economy

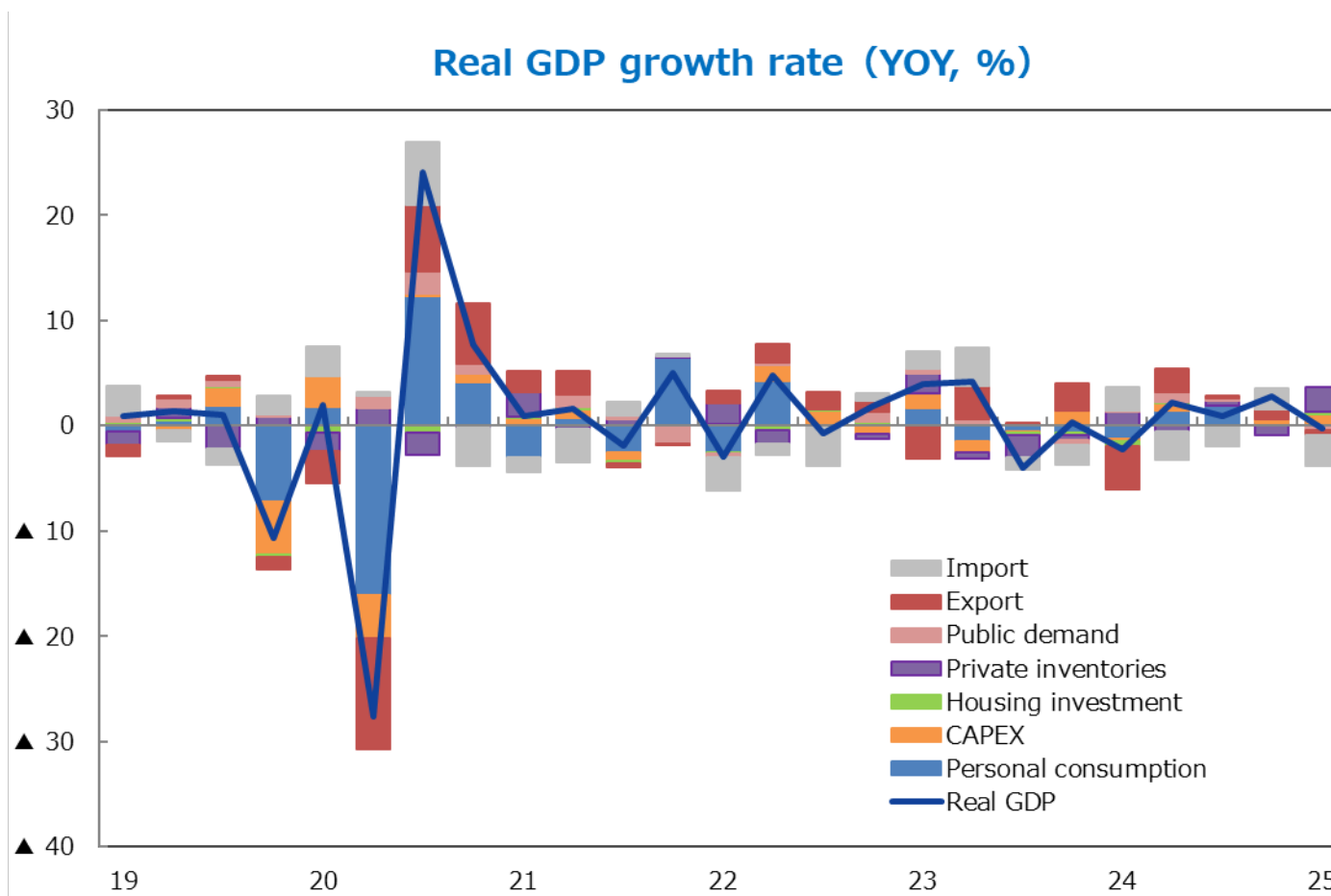
(Average from 1985 to 2019 = 100)

## Geopolitical risk (GPR) index



Note: Data is from January 2000 to June 2025. The Data for June 2025 is an average of daily data from June 1st to June 23rd, 2025.  
Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225.  
<https://www.matteoiacoviello.com/gpr.htm>

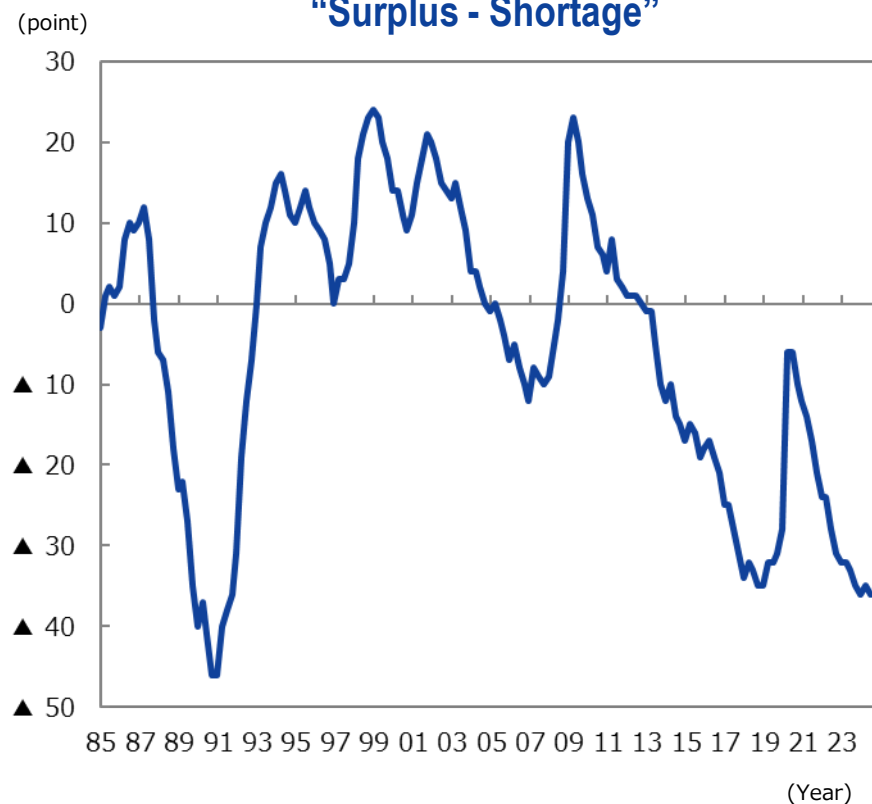
# Inflation and Global Economic Fears Weigh on the Japanese Economy



Note: Data is from Q1 2019 to Q1 2025.  
Source: Cabinet office, SMDAM

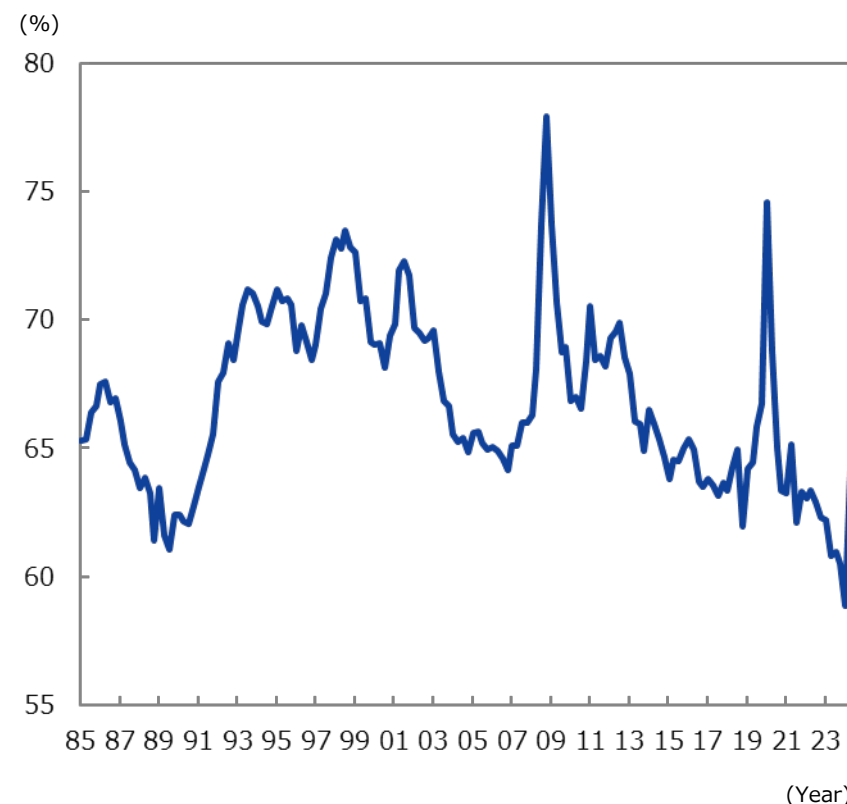
# Conundrum of the Japanese Labor Market

## Employment Sufficiency Index “Surplus - Shortage”



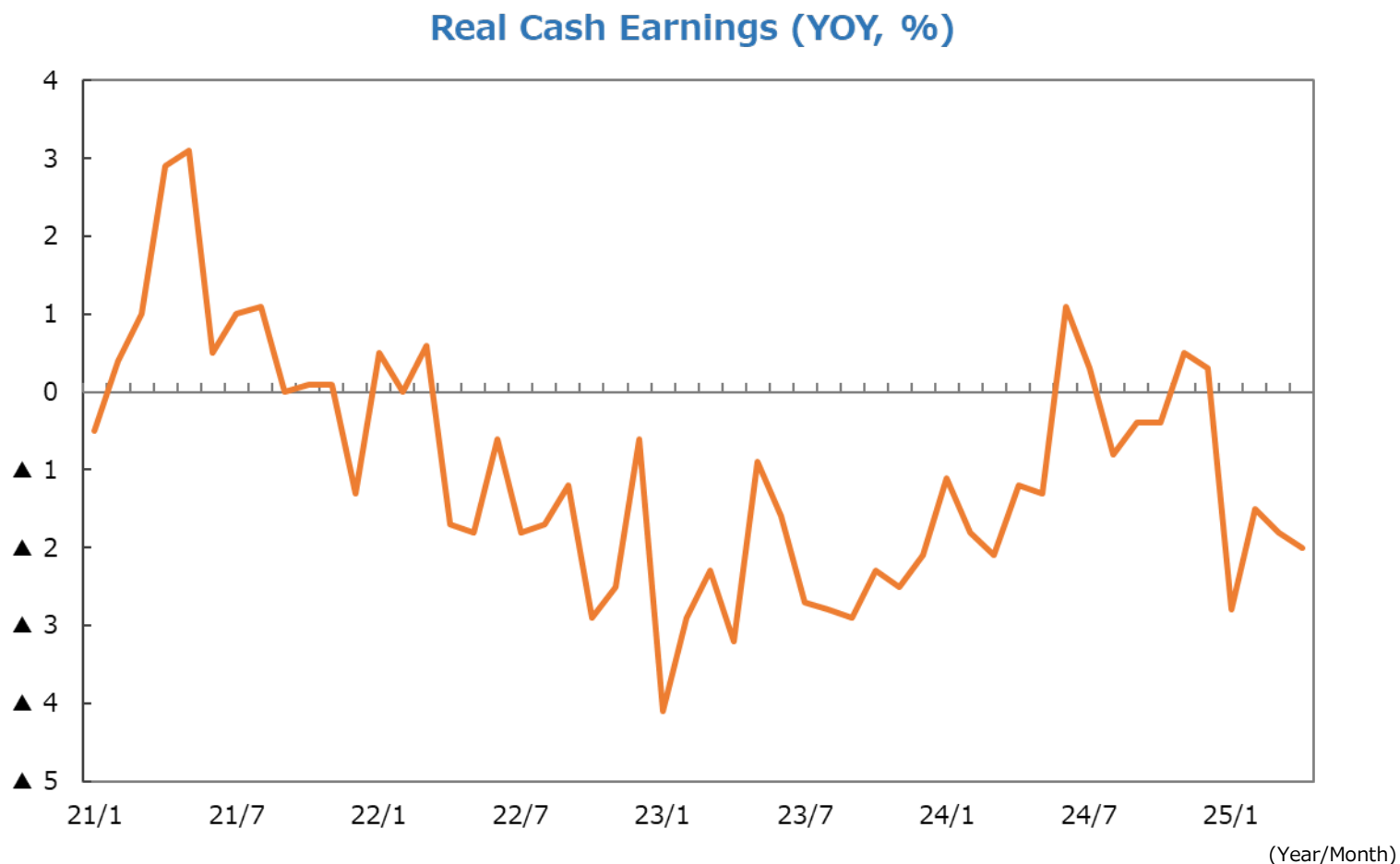
Note: Data is from April 1985 to March 2025.  
Source: The bank of Japan, SMDAM

## Labor Share of Added Value



Note: Data is from April 1985 to January 2025.  
Source: Ministry of finance, SMDAM

# Inflation Eroding Consumer Purchasing Power

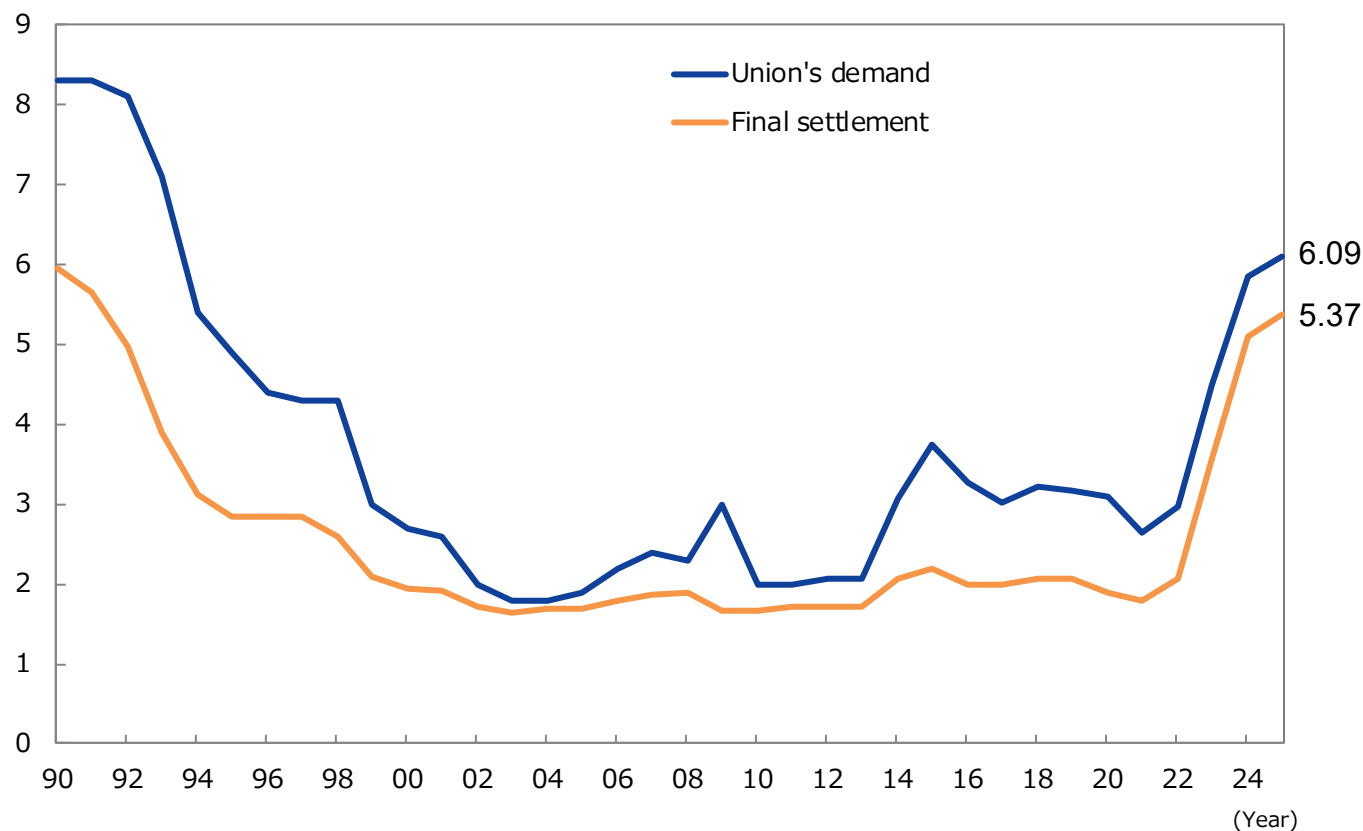


Note: Data is from January 2021 to April 2025.  
Source: Japanese Trade Union Confederation, SMDAM



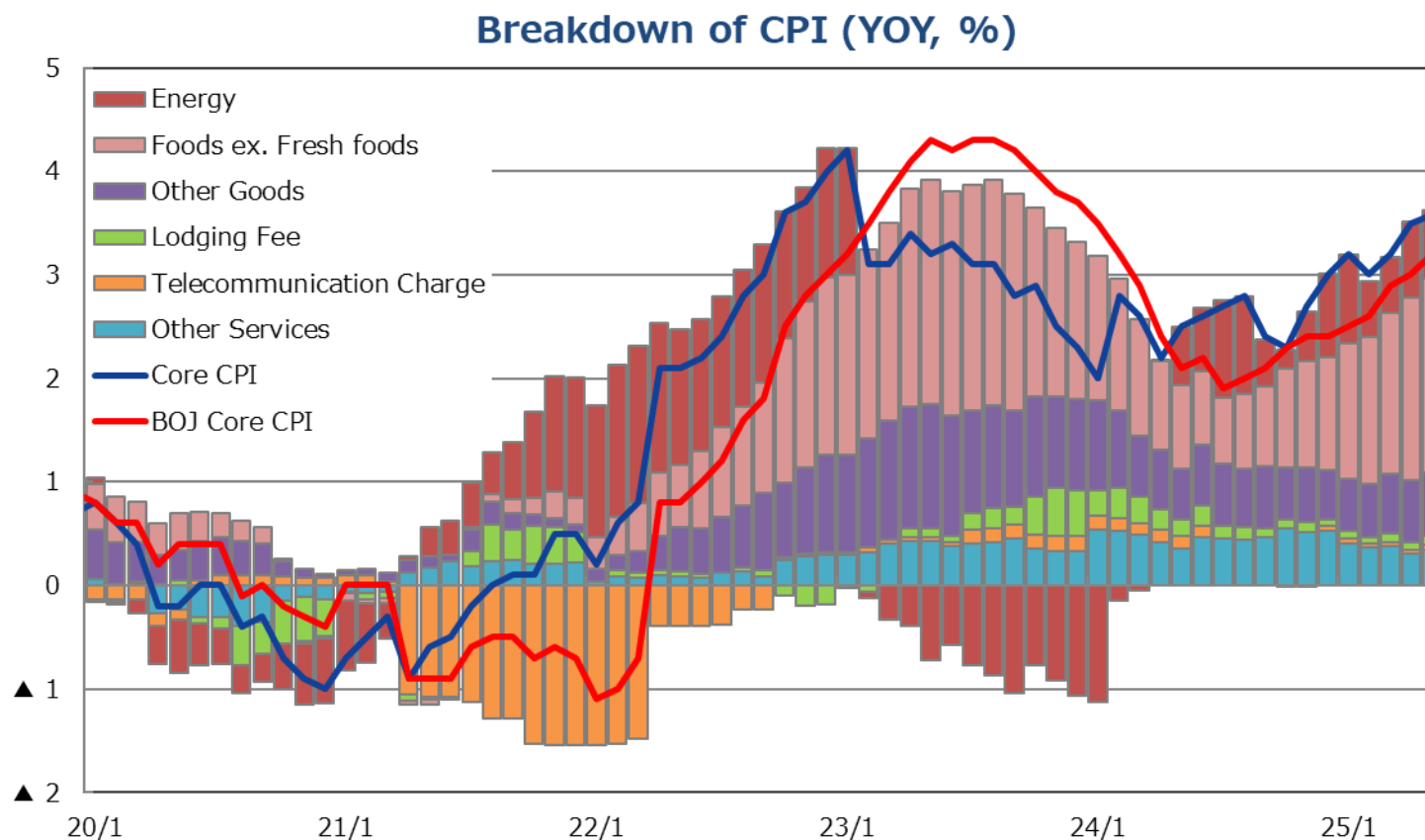
# Highest Wage Increase in 33 Years

Wage increase (YOY, %)



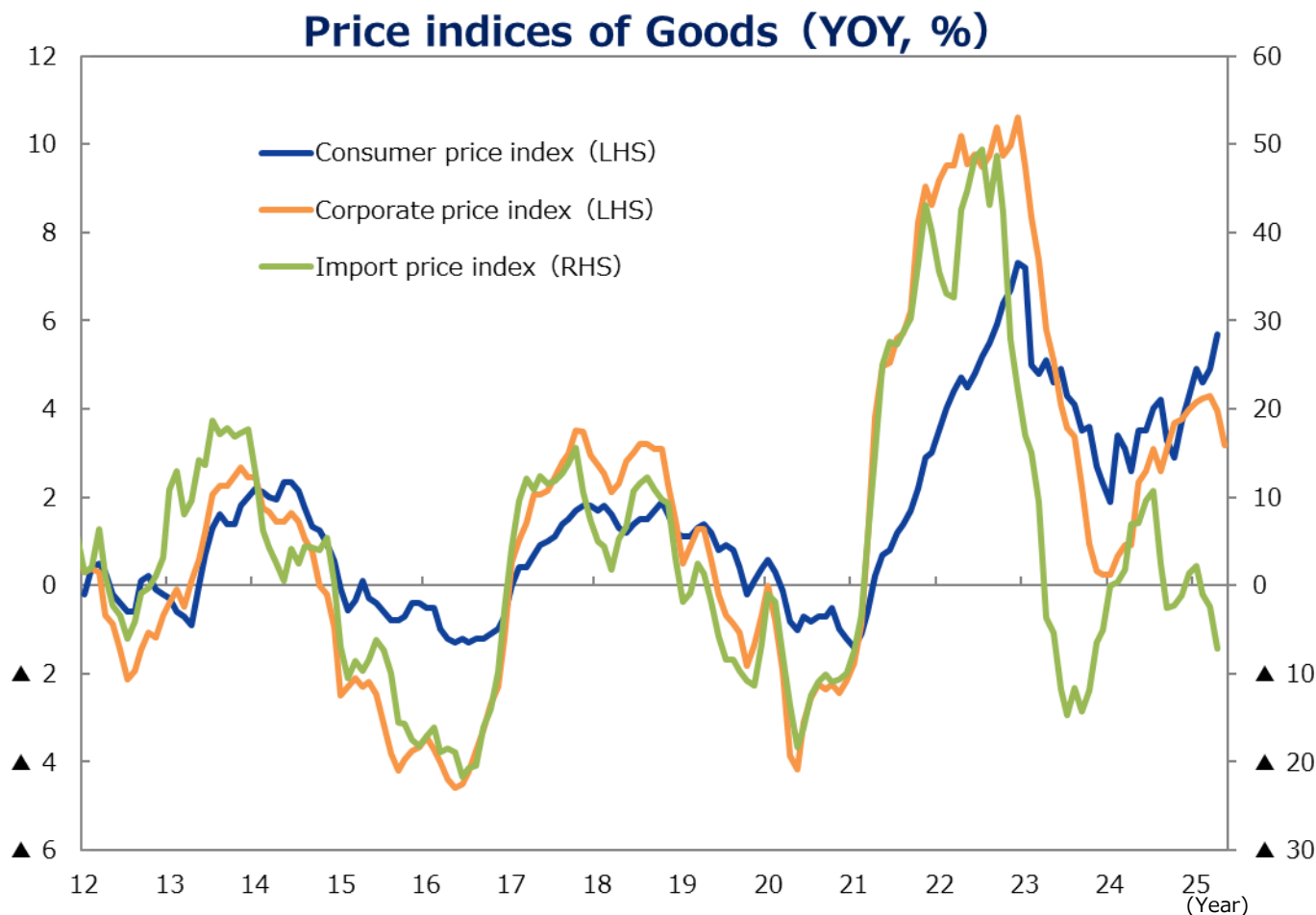
Note: Data is from FY 1990 to FY 2025.  
Source: Japanese Trade Union Confederation, SMDAM

# Rising Food Prices Push CPI Above BOJ's Target



Note: Data is from January 2020 to May 2025.  
Source: MIAC, SMDAM

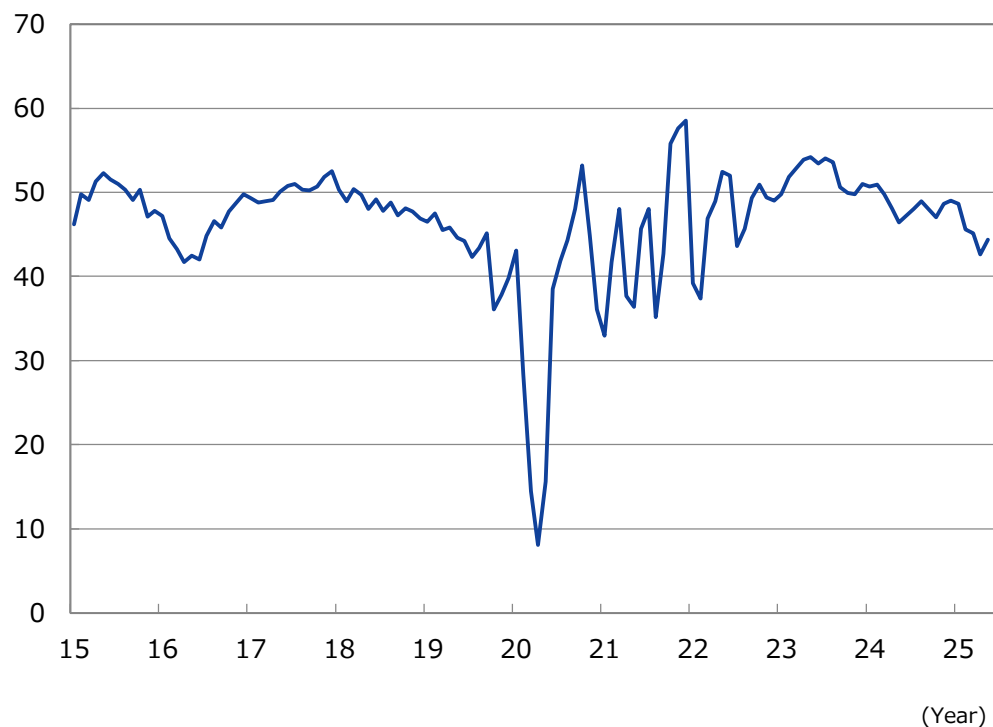
# Divergence Between CPI and Import Prices



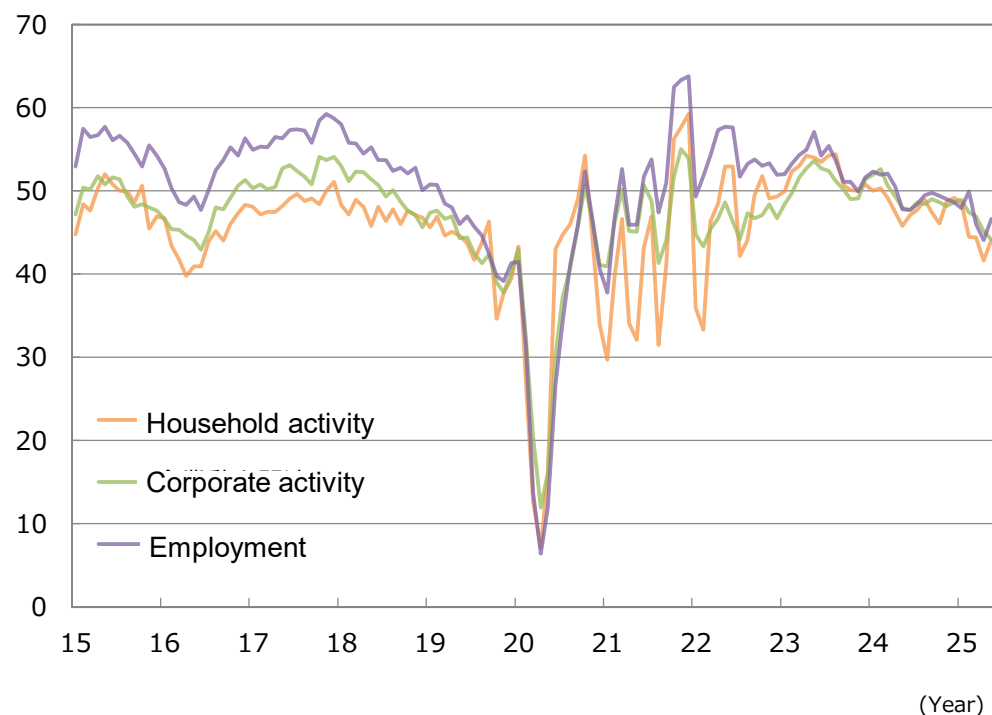
Note: Data is from January 2012 to May 2025. (Consumer Price Index and Import Price Index data available until April 2025.)  
Source: MIAC, Bloomberg, SMDAM

# Weakening Sentiment of Consumers and Businesses

## DI for Current Economic Conditions



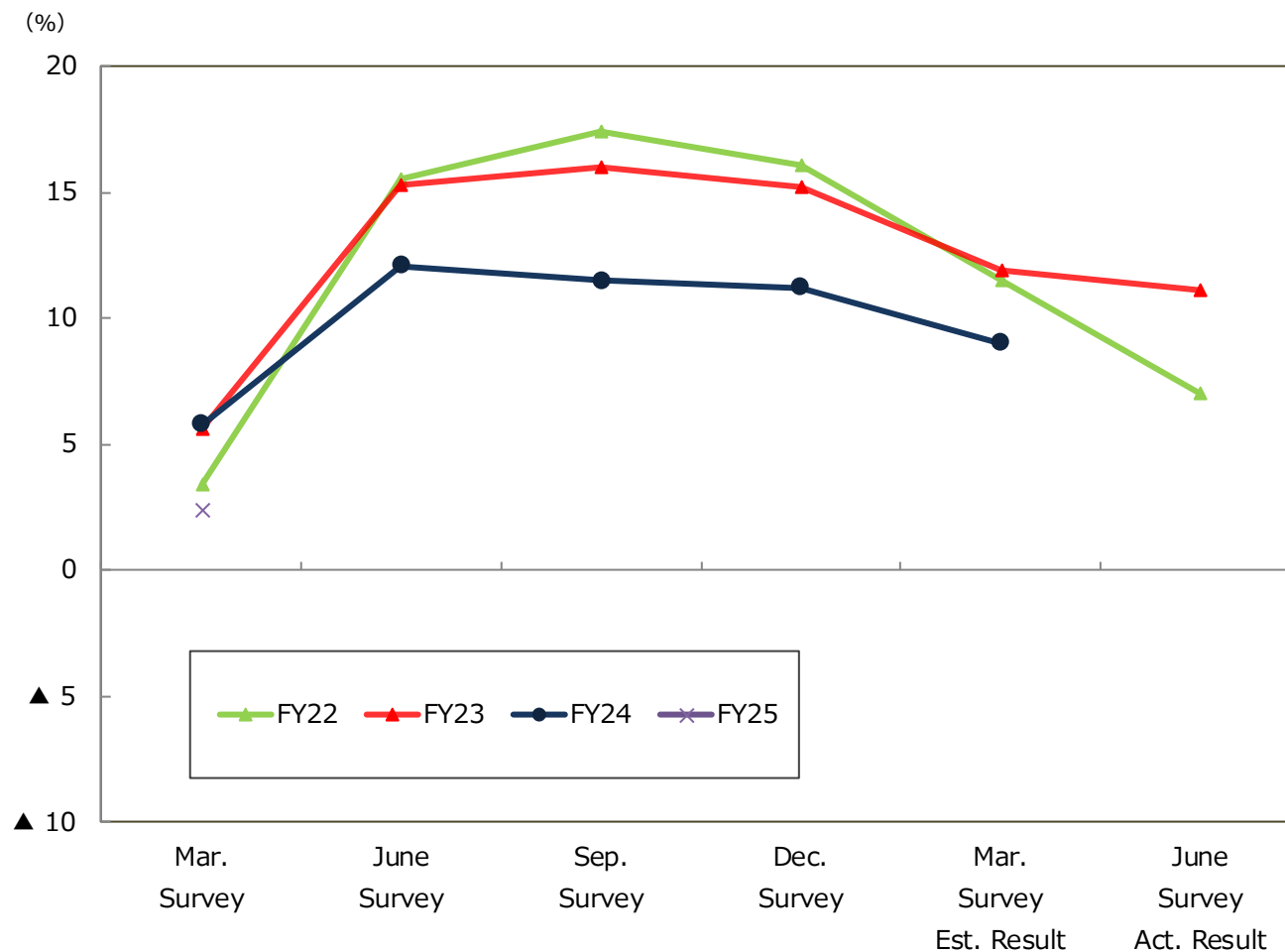
## Breakdown of DI for Current Economic Conditions



Note: Data is from January 2015 to May 2025.  
Source: Economy Watchers Survey, Cabinet Office

# Uncertainty Over the Global Economy Weighs on CAPEX Appetite

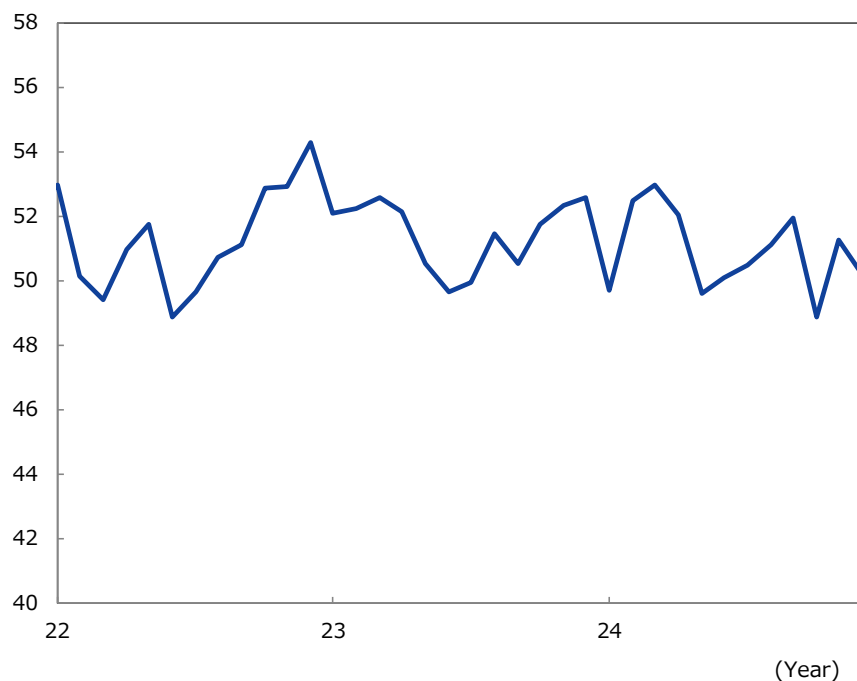
## Plan of CAPEX (Inc. Software, Ex. Land and R&D, YOY)



Note: Data is from Q1 FY2021 to Q1 FY2025.  
Source: The Bank of Japan, SMDAM

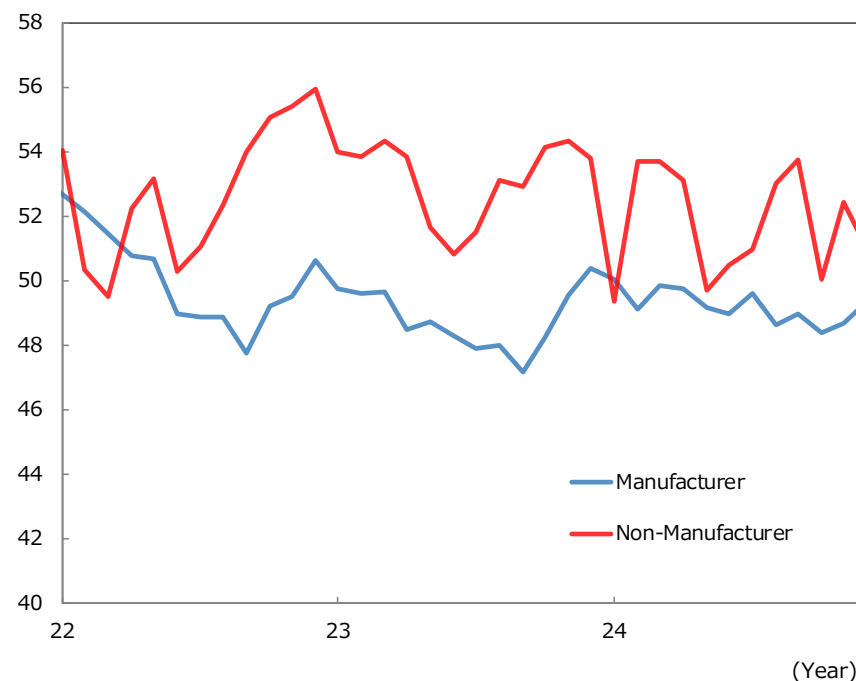
# Correction in Service PMI Weigh on Composite PMI

## Composite PMI

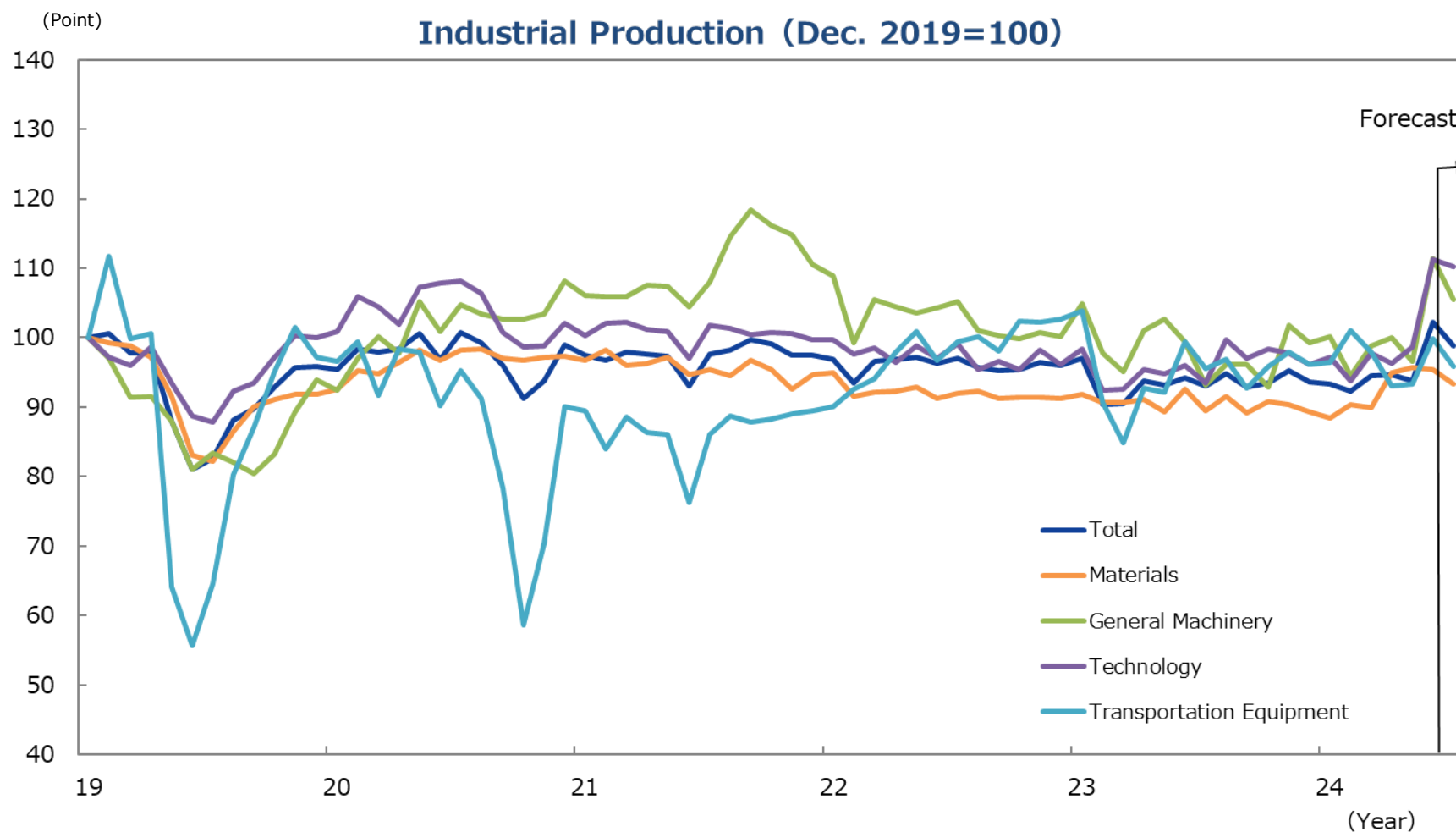


Note: Data is from June 2022 to May 2025.  
Source: Bloomberg, SMDAM

## PMI, Manufacturer & Non-Manufacturer



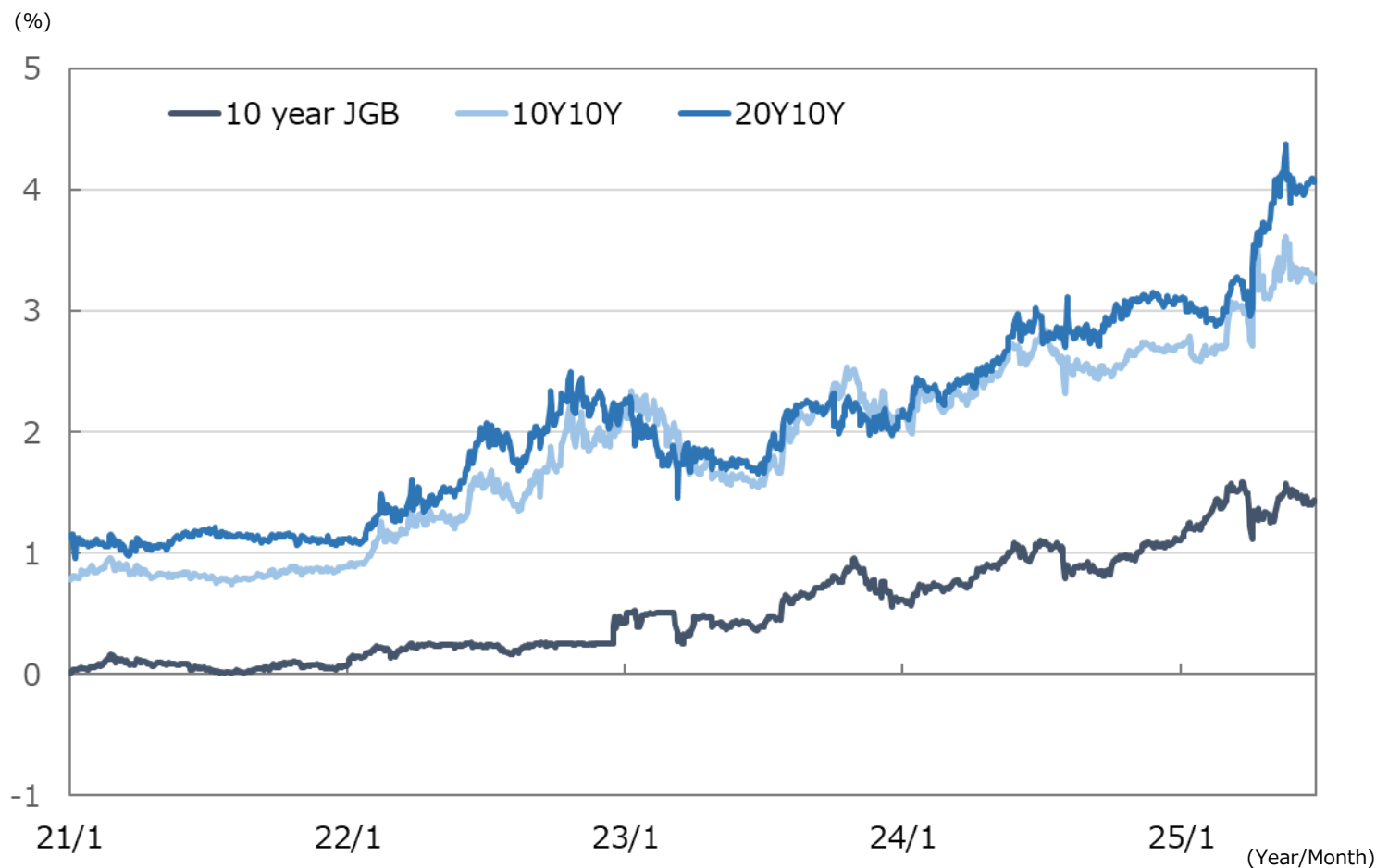
# Industrial Production Expected to Slow Down in the Near Future



Note: Data is from December 2019 to June 2025. Data after May 2025 is forecasts.  
Source: METI, SMDAM

# Ultra-Long FRA Rates Surged to Exceptionally High Levels

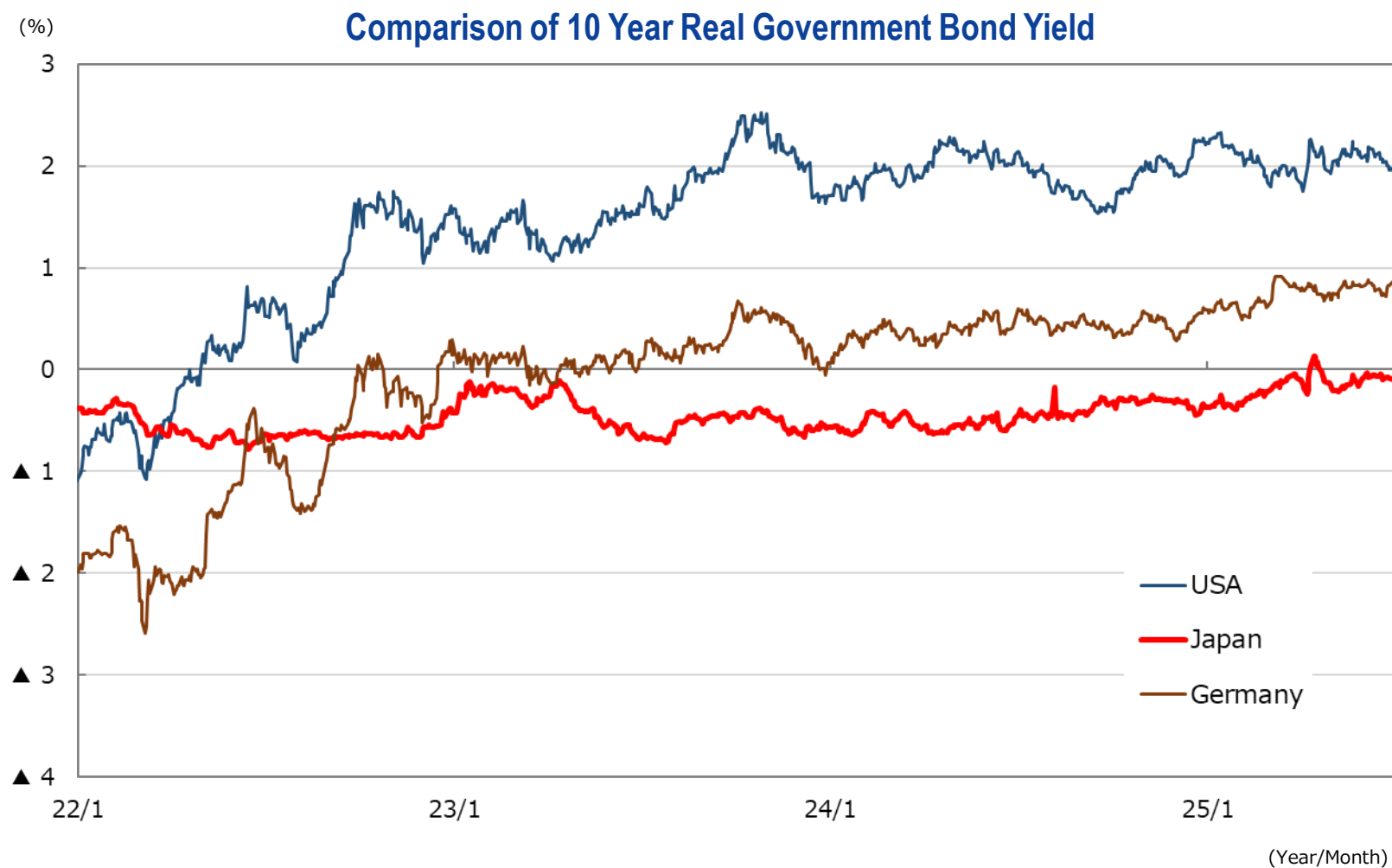
10 year 30 Year Japanese Bond Yield, 10Y10Y, and 20Y10Y



Note: Data is from January 4<sup>th</sup> 2021 to June 30<sup>th</sup> 2025.  
Source: Bloomberg

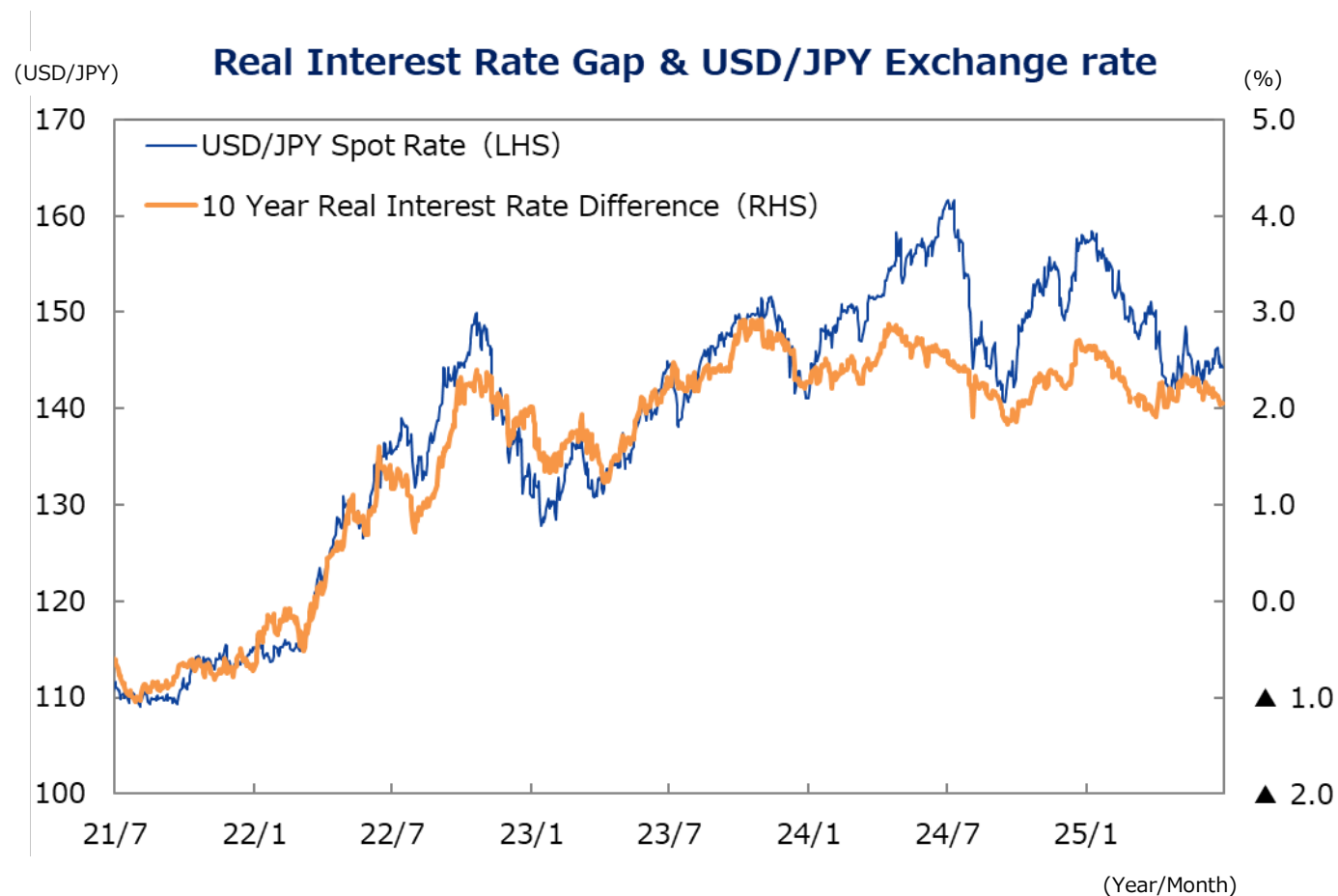


# Real 10 Year JGB Yield is Far Below Global Peers



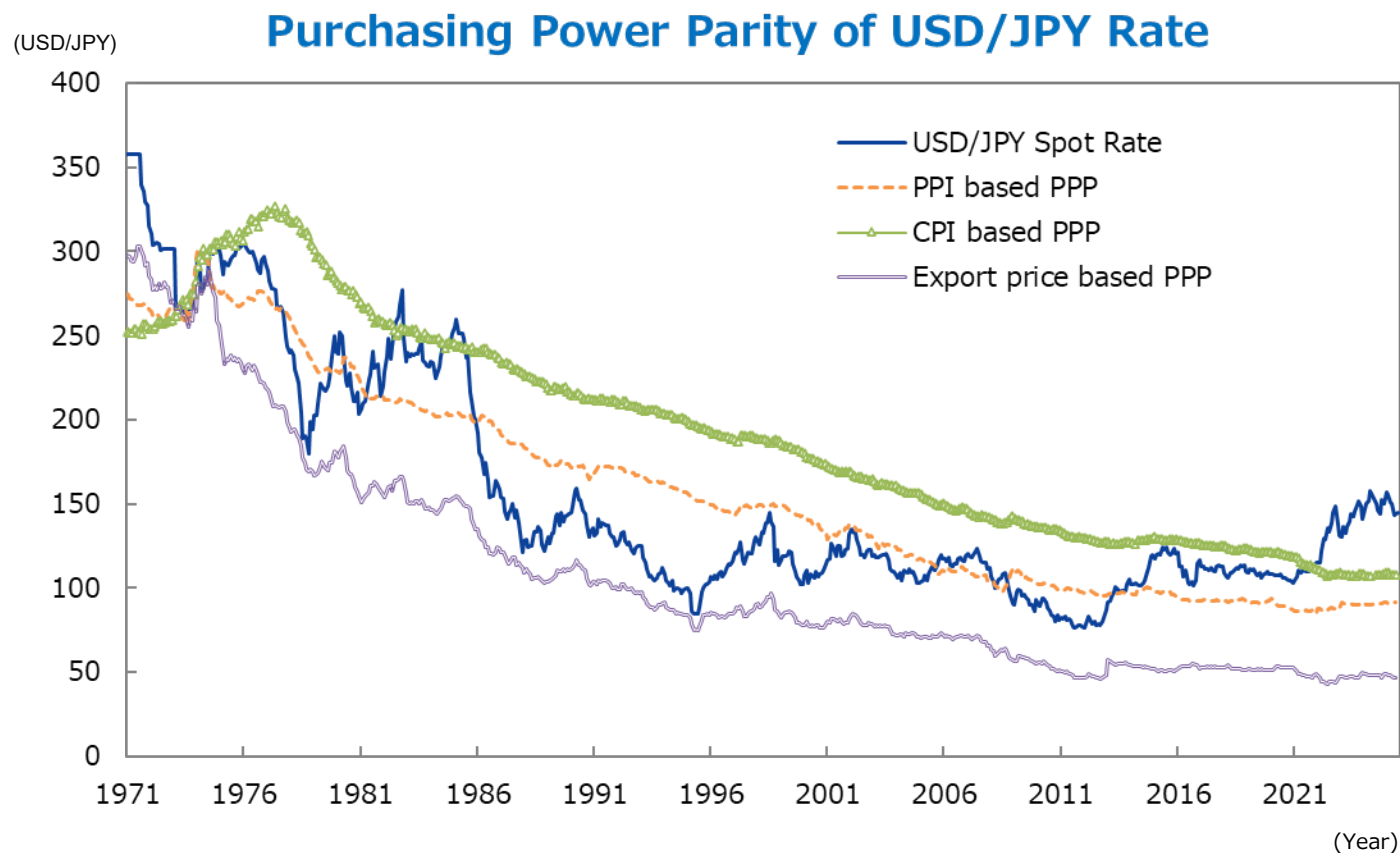
Note: Data is from 1st January 2011 to 30th June 2025.  
Source: Bloomberg

# Convergence Between Interest Rate Gap and Dollar/Yen Rate



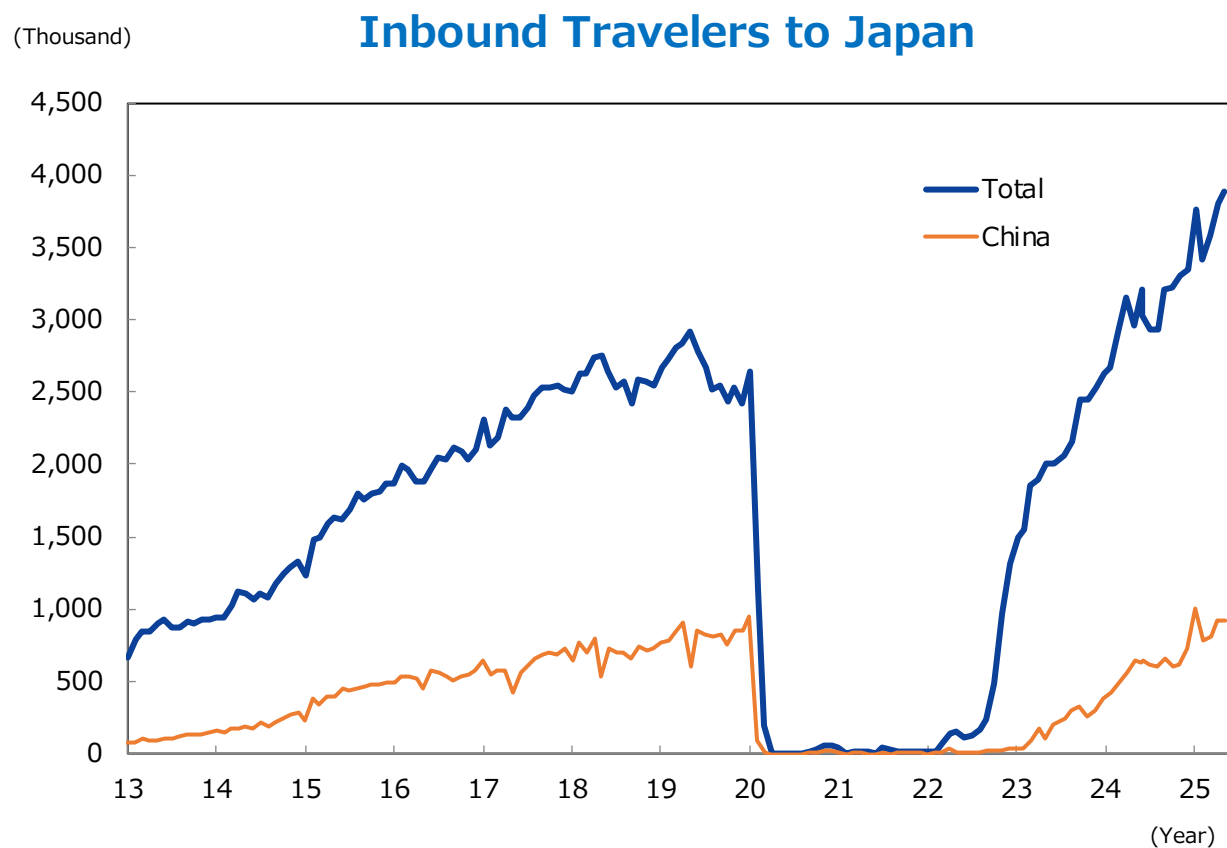
Note: Data is from 1st July 2021 to 30th June 2025.  
Source: Bloomberg

# PPP Still Suggests Overvaluation of Dollar/Yen Rate



Note: Data is from January 1971 to May 2025.  
Source: DOL, Bank of Japan, SMDAM

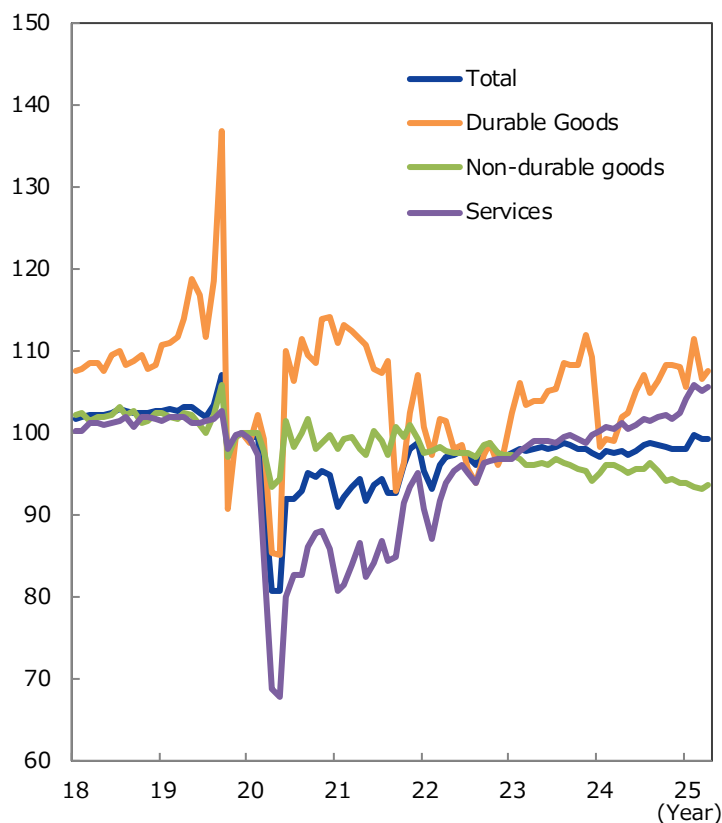
# Inbound Travel Keeps its Strong Momentum



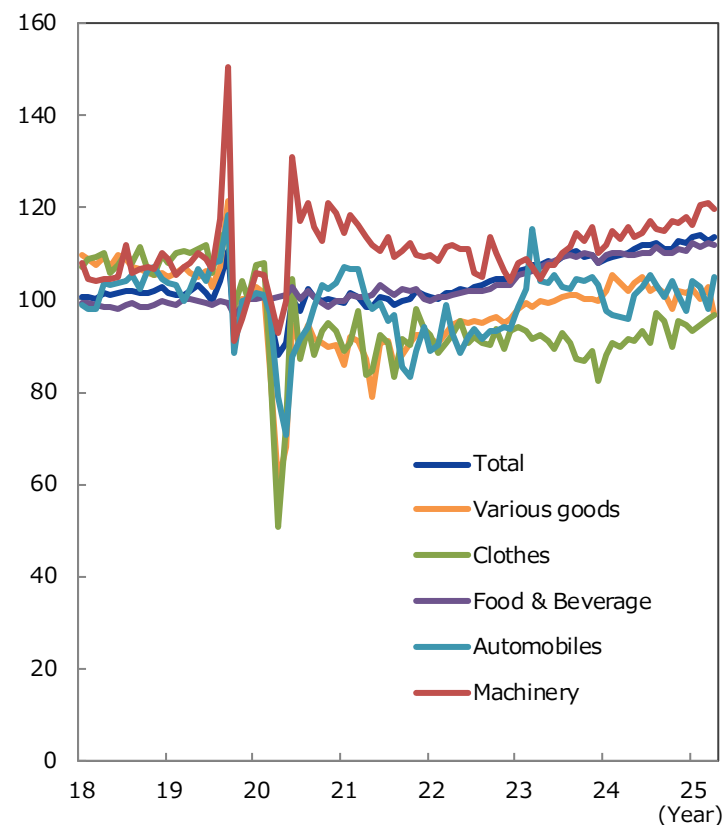
Note: Data is from January 2013 to May 2025. Data is non-seasonally adjusted.  
Source: Japan National Tourism Organization, SMDAM

# Consumer Activities are Mixed due to Weak Real Income

Consumer Activity Index (Dec. 2019 = 100)



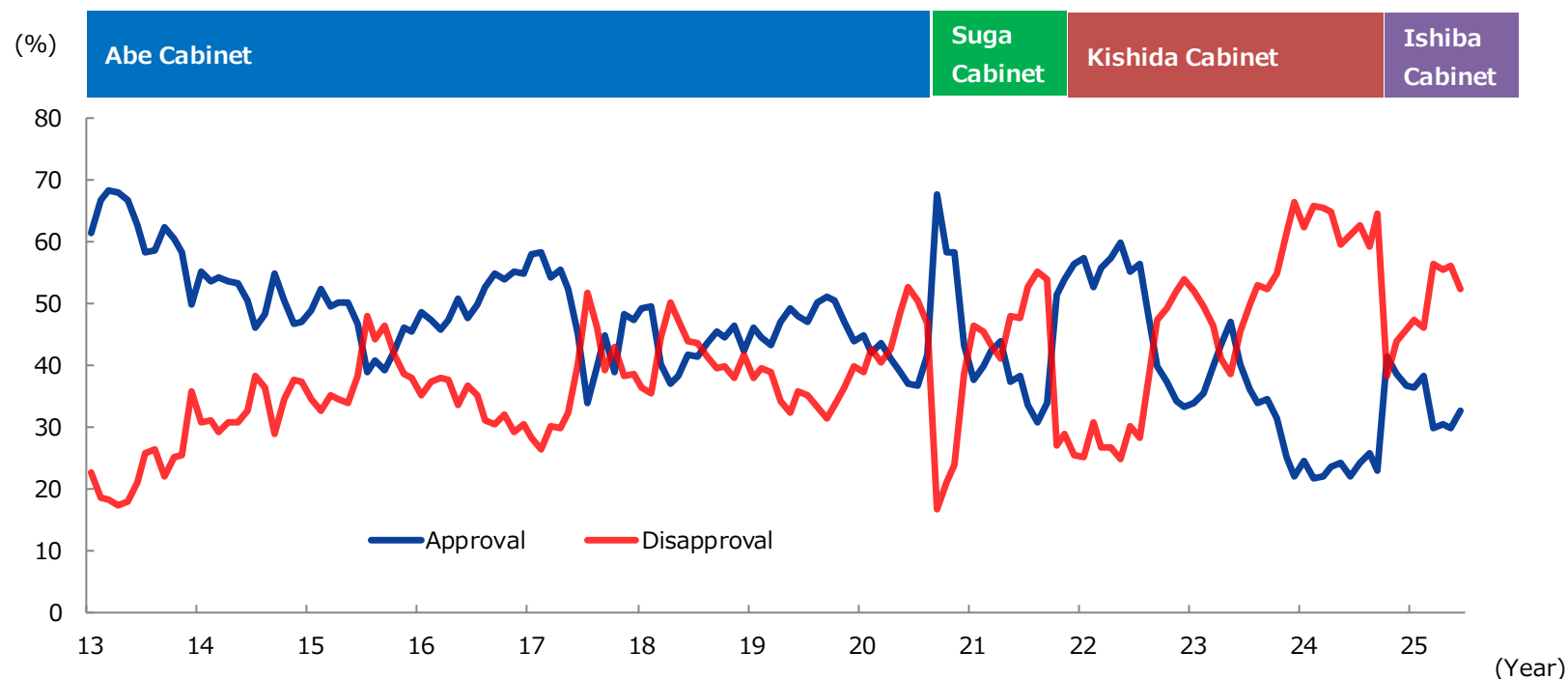
Retail Sales (Dec. 2019 = 100)



Note: Data is from January 2018 to April 2025.  
Source; Bank of Japan, METI, and SMDAM

# PM Ishiba and Ruling LDP Suffer Falling Approval Ratings

## Cabinet approval rate



Note: Data is from January 2013 to June 2025.

Source: NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

# Schedule of Major Events

Year	Month	Date	Event
2025	July	3	Final results of spring negotiations of Trade Union Confederation
		9	Deadline for the suspension of additional reciprocal U.S. tariffs
		20	Election of the House of Councillors
	August	15	Release of 2025 Q2 GDP
	Septemebr	8	Revision of 2025 Q2 GDP
		18-19	Monetary Policy Meeting
	October	29-30	Monetary Policy Meeting
	November	17	Release of 2025 Q3 GDP
			Cabinet approval of economic measures
	December	8	Revision of 2025 Q3 GDP
		18-19	Monetary Policy Meeting
			Cabinet approval of the initial budget for FY 2026 and the outline for tax reform

(Source) Compiled by Sumitomo Mitsui DS Asset Management Co., Ltd.

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