Outlook for Japan Equity Market

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Summary

Japan Stock Market Outlook

We remain positive on Japanese equities. In December 2025, both the Nikkei 225 and TOPIX rose, with TOPIX reaching a new all-time high. The market was supported by renewed buying in AI-related names and gains in financials as long-term yields moved higher. Looking ahead, our base case is that a recovery in domestic and global growth—supported by easy financial conditions and an expansionary fiscal stance—will lift corporate earnings and provide a supportive backdrop for Japanese equities. Expectations for the Takaichi administration's growth agenda, continued progress in corporate governance, and sustained share buybacks should also underpin the market.

Economic and Monetary Policy

We expect growth to recover in 2026 both in Japan and abroad as financial conditions remain accommodative and fiscal policy stays supportive. The BoJ delivered a 25bp hike in December 2025 (policy-rate target to 0.75%) and we expect gradual further hikes—roughly semiannually—toward 1.50% by mid-2027. We expect the Fed to stay largely on hold in 2026; a gradual narrowing in U.S.–Japan rate differentials should limit the risk of abrupt yen appreciation.

Key Drivers for Japan's Stock Market

Japan's progress toward a durable exit from deflation, alongside ongoing governance reforms, remains supportive for equities, and we see policy continuity under the Takaichi administration as reinforcing these tailwinds.

Risks and Events

Upside risks include stronger policy execution and quicker governance reform drawing foreign inflows. Downside risks include a rise in JGB yields, U.S. credit stress, Japan–China tensions (including boycotts or rare-earth restrictions), and geopolitical shocks. Faster-than-expected Fed cuts could lift U.S. equities, but a rapid yen surge would be a headwind for Japanese equities; AI remains a two-sided risk depending on the pace of deployment and monetization.

Outlook for the Japanese Economy

SMDAM Forecasts: Japanese Economy

Forecasts as of 19 Dec 2025		FY22 (A)	FY23 (A)	FY24 (A)	FY25 (E)	FY26 (E)	FY27 (E)
Real GDP	(yoy, %)	1.4	0.0	0.5	0.8	0.9	0.8
Private Consumption	(yoy, %)	2.5	▲ 1.0	0.2	1.3	1.3	0.9
Private Resid. Investment	(yoy, %)	0.6	1.8	▲ 0.7	▲ 3.6	0.7	▲ 0.7
Private Capex	(yoy, %)	3.9	▲ 0.1	0.9	1.7	2.1	1.9
Public Investment	(yoy, %)	▲ 4.5	▲ 0.1	0.1	▲ 0.7	0.7	0.6
Net Exports (contribution)	(%point)	▲ 0.6	1.2	▲ 0.4	▲ 0.2	▲ 0.3	0.1
Exports	(yoy, %)	4.7	2.8	1.7	1.7	0.6	2.8
Imports	(yoy, %)	7.4	▲ 2.4	3.3	2.9	2.3	2.4
Nominal GDP growth	(yoy, %)	2.6	4.7	3.7	3.9	2.9	2.9
GDP deflators	(yoy, %)	1.2	4.7	3.2	3.1	2.0	2.1
Industrial production	(yoy, %)	▲ 0.3	▲ 1.9	▲ 1.4	0.5	1.3	1.1
Core CPI	(yoy, %)	3.0	2.8	2.7	2.7	1.5	2.0
Unemployment Rate	(%)	2.6	2.6	2.5	2.5	2.4	2.4
Policy Rate	(End of Period, %)	▲ 0.1	0-0.1	0.50	0.75	1.25	1.50

Note: Forecasts by SMDAM.
Source: SMDAM

Economic and Asset Price Outlook for Key Regions

SMDAM Forecasts: Major Economies, Rates and FX

Forecasts as of 19 Dec 2025		2025 Q2	Q3	Q4	2026 Q1	Q2	Q3	Q4	2027 Q1
GDP Growth Rate									
Unites States	(saar, %)	3.8	3.3	0.7	2.1	2.2	2.3	2.0	1.9
Japan	(saar, %)	2.1	▲ 2.3	0.4	0.6	1.2	1.2	1.0	0.8
Euro Area	(saar, %)	0.6	1.1	1.2	1.3	1.3	1.5	1.5	1.5
China	(yoy,%)	5.2	4.8	4.3	4.5	4.6	4.6	4.7	4.5
Inflation									
Unites States	(core PCED, yoy, %)	2.7	2.9	2.9	2.8	2.8	2.7	2.5	2.4
Japan	(core CPI, yoy, %)	3.5	2.9	2.8	1.6	1.3	1.5	1.4	2.0
Euro Area	(yoy, %)	2.0	2.1	2.1	1.8	2.1	1.9	1.8	1.9
China	(yoy, %)	▲ 0.1	▲ 0.2	0.6	0.3	0.2	0.1	▲ 0.4	0.1
Policy Rates									
Unites States	(End of Period, %)	4.25-4.5	4.0-4.25	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.25-3.5
Japan	(End of Period, %)	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25
Euro Area	(End of Period, %)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
China	(End of Period, %)	1.40	1.40	1.40	1.40	1.30	1.30	1.30	1.30
Long-term Rates									
US 10Y	(End of Period, %)	4.23	4.15	4.10	4.30	4.30	4.30	4.20	4.10
Japan 10Y	(End of Period, %)	1.42	1.65	2.00	2.05	2.15	2.20	2.20	2.20
Germany 10Y	(End of Period, %)	2.61	2.71	2.70	2.70	2.70	2.70	2.70	2.70
FX									
USD/JPY	(End of Period)	144.4	147.7	155.0	152.5	150.0	150.0	150.0	150.0
EUR/JPY	(End of Period)	169.6	173.5	180.0	180.0	180.0	180.0	180.0	180.0
Stock Prices									
TOPIX	(End of Period)	2,853	3,138	3,420	3,470	3,510	3,610	3,630	3,670
Nikkei 225	(End of Period)	40,487	44,933	51,300	52,100	52,700	54,200	54,500	55,100

		2024 (yoy,%)	2025 (yoy,%)	2026 (yoy,%)	2027 (yoy,%)
GDP Growth Rate					
Unites States	(saar, %)	2.8	2.0	2.1	1.9
Japan	(saar, %)	0.5	0.8	0.9	0.8
Euro Area	(saar, %)	0.8	1.5	1.2	1.5
China	(yoy,%)	5.0	4.9	4.6	4.5
Inflation					
Unites States	(core PCED, yoy, %)	2.9	2.8	2.7	2.3
Japan	(core CPI, yoy, %)	2.7	2.7	1.5	2.0
Euro Area	(yoy, %)	2.4	2.2	1.9	2.2
China	(yoy, %)	0.2	0.1	0.1	0.1

Note: Japan is FY-based.

Note: Forecasts by SMDAM.

Source: SMDAM

This Month's Topic (1): Key Points to Watch in 2026 #1

(1) Japan Macro

Real wages turn positive

In recent years, nominal pay rose but inflation stayed high, capping real wages and consumption. In 2026, continued solid spring wage negotiations (Shunto), government energy measures, and easing food inflation should slow inflation, turning real wages positive and lifting consumption.

Export competitiveness: sustainability

As noted in our Dec 2025 issue, Japan’s international competitiveness has held up, but technology moves fast. Chinese firms’ export push in autos to Southeast Asia and gains in humanoid robots are notable. It is increasingly important to monitor Japan’s trade to assess whether export competitiveness is eroding.

(2) Japan Politics/Policy

Budget and fiscal stance

Following the FY2025 supplementary budget, initial FY2026 outlays are set to expand. With help from some opposition (e.g., DPP), both the budget and the special law authorizing deficit-financing bonds should pass smoothly. Under PM Takaichi’s “responsible proactive fiscal policy,” expansion is likely to continue; if the FY2026 supplementary (expected in autumn) also boosts spending, that’s a tailwind for equities. Conversely, JGB/FX markets may grow wary, risking higher JGB yields and a weaker yen.

Growth strategy and Basic Policy

The mid-year growth strategy and the “Basic Policy” (Honebuto) will focus on concrete measures to drive capex/R&D across the 17 strategic areas set by the Takaichi administration. Debates/reports are expected at the Japan Growth Strategy Council from Feb–May.

Politics: snap election and coalition expansion

Possible dissolution windows: Mar–Apr after budget passage, or June at session end. But the ruling camp already holds a lower-house majority, so a 2026 dissolution may be low priority. Bringing the DPP into a coalition could be higher priority; if it joins, the Takaichi administration would regain an upper-house majority and stabilize. Trade-off: less policy flexibility and a stronger fiscal-expansion bias.

(3) Foreign/National Security

Japan–US, Japan–China, US–China

Key events include PM Takaichi’s U.S. visit in March (being arranged) and President Trump’s China visit in April. Watch whether U.S.–China move toward détente and how any shift affects already tense Japan–China ties. In Japan–U.S., watch execution of investment in the U.S. under the tariff accord. In Japan–China, will economic pressure intensify after the PM’s Taiwan-contingency remarks? China is tightening curbs on tourism to Japan, but impacts remain limited so far.

National Security

On revising the three security documents this year, recommendations may be compiled as early as April; focus is whether a new defense/GDP target is set.

(4) BOJ Policy

Next hike timing and terminal rate

In Dec 2025, BOJ raised the policy-rate target to 0.75%. Yet the yen kept weakening; markets now see the next hike as early as April, and price the terminal above 1.5%, lifting expectations for further tightening.

This Month's Topic (1): Key Points to Watch in 2026 #2

QT

From April, the pace of JGB purchase reductions will slow. At the June meeting, BOJ will review its mid-term JGB purchase-reduction plan and consider policy for purchases from Apr 2027. Even with slower QT, BOJ-related factors are still set to deteriorate the JGB supply–demand balance by ~¥40tn a year for now.
ETF sales likely start around January; the amount is ~0.05% of market turnover, implying limited price impact.

Personnel

Policy Board member Noguchi's term ends Mar 31; Nakagawa's on Jun 29. The Abe administration used "reflationist" appointees to exert easing pressure via personnel; watch whether Takaichi follows suit. Also note Deputy Gov. Uchida's health; if he steps down, Takaichi could strengthen control over the executive team.

(5) Corporate Governance Reform

Corporate Governance Code revision

A revision around June will focus on "optimal allocation of management resources." The panel has proposed stronger steps, including board scrutiny of investment decisions and enhanced disclosure, to promote more efficient capital use. Views on requiring explanations of cash holdings remain cautious, so the Code may not go that far.

Share buybacks

Buybacks stayed high in 2025 but slowed from the 2024 record amid softer earnings. In 2026, with double-digit earnings growth expected, buybacks may regain momentum.

(6) Domestic Equities

Anomalies

2026 is the Year of the Horse; the proverb warns of late-year weakness. Since 1950, TOPIX: up 47/down 29 (62%), avg +10.4%. Horse years: up 3/down 3 (50%), avg −4.6%. 1990 (bubble burst) and 2002 (U.S. accounting scandals) saw sharp declines; 2014 rose on BOJ easing, governance reforms, and yen-driven earnings. 2026 shows both AI-bubble caution (1990/2002-like) and policy/governance tailwinds (2014-like), so risks aren't one-sided.

Nikkei 60,000: feasibility

Reaching 60,000 requires about +10% earnings, PER ~16x, and the Nikkei/TOPIX (NT) ratio back to 15.7x (vs ~14.8x now). That NT rebound needs strong tailwinds; 60,000 within 2026 is a high bar.

Flows

Watch households and foreign investors. Household cash share in financial assets has slipped below 50%, signaling a shift from savings to investment. Foreigners supported flows in 2025; whether it continues hinges partly on the Code revision and its effectiveness.

(7) Global

Geopolitics and AI

Geopolitics remain critical, including prospects for Ukraine peace. President Trump launched attacks on Venezuela early in the year.
For AI, watch whether AI firms deliver revenues/profits commensurate with investment; equally key is adopters embedding AI in business models—vital for real-world deployment.

US economy

The U.S. remains pivotal for the global outlook. With easy financial conditions and tax cuts, consensus sees a 2026 recovery. Key events: Jan Supreme Court ruling on Trump tariffs; selection of the next Fed Chair; Apr U.S.–China summit; Nov midterms—all could sway the economy and markets.

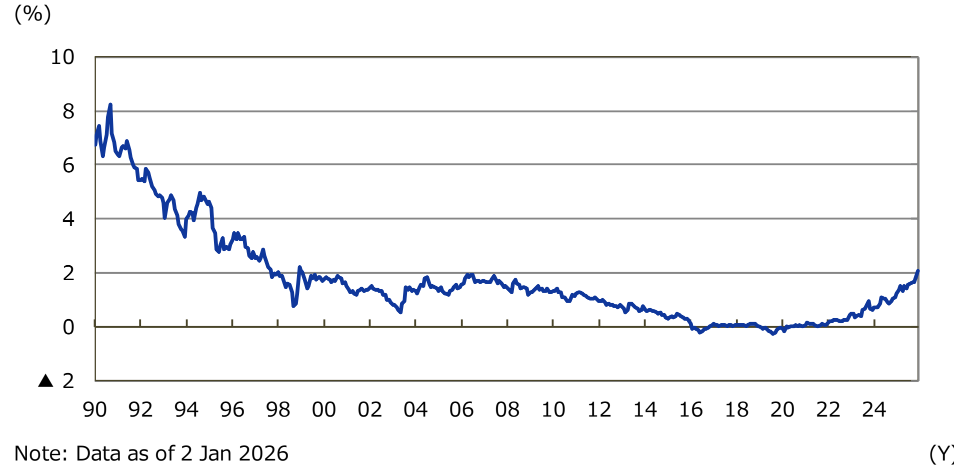
This Month's Topic (2): Japan's Long-Term Yields: Drivers of the Recent Rise #1

Japan's 10-year JGB yield continues to climb. We have long argued that fundamentals—Japan's exit from deflation and BOJ policy normalization—bias yields higher. The pace has far outstripped expectations, with the 10-year now above 2%. It briefly exceeded 2% in 1998 and touched it in 2006; if 2% becomes entrenched, it would be the first since 1997. As yields fell below 2% when the economy slipped into deflation, their recovery toward 2% is consistent with Japan's effort to exit deflation and anchor 3% nominal growth. In this note, we summarize our baseline and the key drivers for the 10-year.

Breaking recent moves into inflation expectations and real rates, both have risen; real rates have turned marginally positive. The Takaichi administration favors expansionary fiscal policy and accommodative monetary settings. While it was initially perceived as cautious, its expansionary tilt became clearer ahead of the FY2025 supplementary budget. Yen depreciation has reinforced the rise in market inflation expectations, and a higher expected terminal policy rate has pushed up real rates. OIS pricing suggests the market-implied BOJ terminal rose from about 1.3% pre-inauguration to above 1.5% currently; this repricing has supported the increase in real rates.

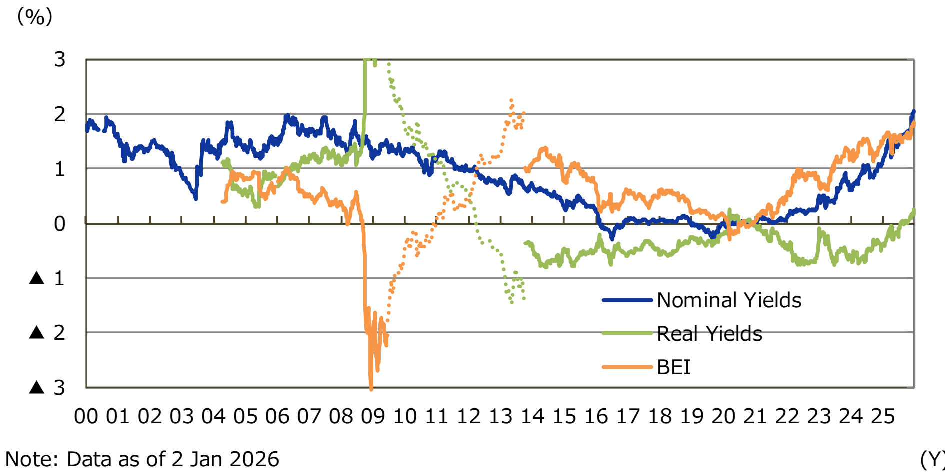
Decomposing the 10-year into a risk-neutral rate and a term premium (based on Daiwa estimates informed by a New York Fed model), the term premium has driven the recent increase, while the risk-neutral rate has been relatively stable. Precise drivers are hard to pin down, but fiscal expansion and firmer inflation expectations are plausible contributors. Supply–demand dynamics also matter: Flow of Funds data point to net JGB supply just under ¥10 trillion per quarter. With BOJ purchases scaled back and its holdings declining, increased foreign buying has filled much of the gap. Foreign investors typically demand a higher term premium;

Japan's 10-year JGB yield (month-end)



Note: Data as of 2 Jan 2026
Source: SMDAM and Bloomberg

Japan's 10-year nominal and real yields and BEI



Note: Data as of 2 Jan 2026
Source: SMDAM and Bloomberg

This Month's Topic (2):
Japan's Long-Term Yields: Drivers of the Recent Rise #2

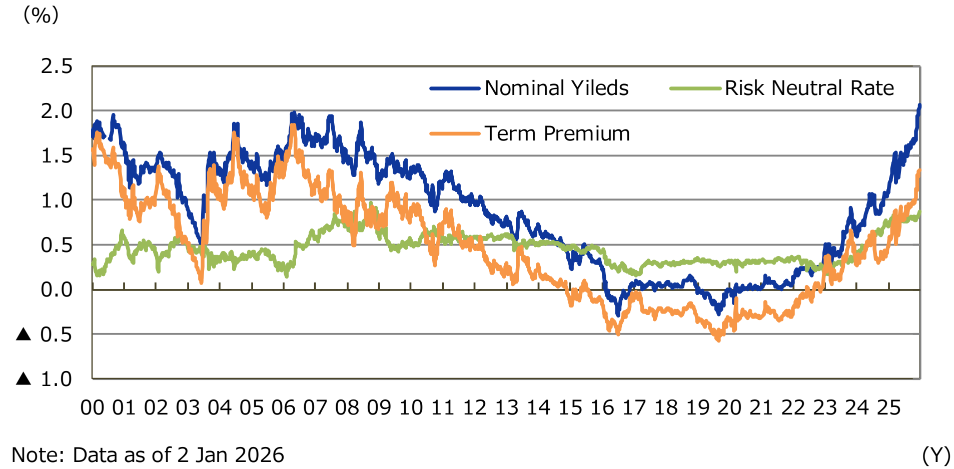
greater reliance on them can therefore keep the premium elevated. If "responsible, proactive fiscal policy" sustains net supply at this pace, the term premium may prove sticky.

With the 10-year now above 2%, we re-estimate fair value for Japan's long rate. Previously we modeled the 10-year using expected policy rates and the U.S. 10-year, estimating separately for pre- and post-QQE periods; as fit deteriorated, we now use the full sample since 1990. Assuming structural stability is a strong assumption, but pooling inflation and deflation regimes is reasonable if Japan is re-entering an inflation regime. On current inputs—the U.S. 10-year in the low-4% range and the BOJ terminal around 1.5%—we estimate fair value close to 2%, broadly consistent with current yields. Allowing for model error and the term premium, upside risk remains.

If the long rate rises above 2%, fiscal concerns naturally arise. We have previously flagged 2% as a caution threshold. Debt sustainability hinges on the balance between the interest rate and nominal growth. Plugging the latest IMF outlook into the debt-dynamics framework suggests the effective-rate (interest payments/debt stock) threshold to stabilize the public-debt-to-GDP ratio is about 2.2%; if the primary balance were to worsen by ~1ppt under the Takaichi administration but nominal growth reached 3%, the threshold would still be around 1.9%. The current effective rate is below 1%, so even if the 10-year stays above 2%, it would rise only gradually, leaving 2% some way off. That said, if expansionary fiscal policy persists and materially lifts the term premium, fiscal stress would gradually intensify.

Note (debt dynamics): $\Delta b \approx [(r - g)/(1 + g)]\cdot b - pb$, where b is debt/GDP, r the nominal effective interest rate, g nominal growth, and pb the primary balance/GDP.

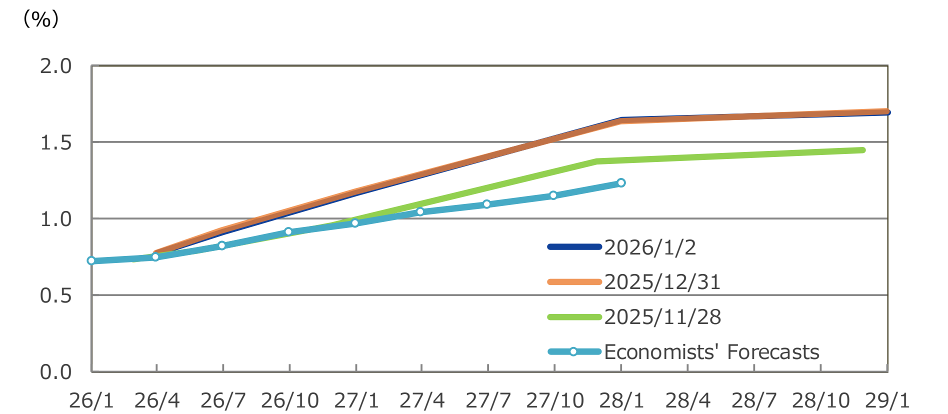
Japan's 10-year risk-neutral rate and term premium



Note: Data as of 2 Jan 2026

Source: SMDAM, Daiwa and Bloomberg

BOJ policy rate expectations (market-implied)



Note: OIS-implied rates and weighted economists' forecasts.

Source: SMDAM and Bloomberg

This Month's Topic (2):
Japan's Long-Term Yields: Drivers of the Recent Rise #3

10Y JGB fair value

(%)	Japan OIS (2Y forward) 0.500	0.750	1.000	1.250	1.500	1.750
U.S. 10Y yield 4.00	1.15	1.36	1.56	1.77	1.97	2.18
4.25	1.20	1.41	1.61	1.81	2.02	2.22
4.50	1.25	1.45	1.66	1.86	2.07	2.27
4.75	1.29	1.50	1.70	1.91	2.11	2.32
5.00	1.34	1.55	1.75	1.95	2.16	2.36

Note: The long-term yield's fair value is calculated from regression coefficients on Japan's 2Y-forward 3Y rate and the U.S. 10Y yield; estimated over 1990–2025.
Source: SMDAM and Bloomberg

Effective interest rate to stabilize the public debt-to-GDP ratio

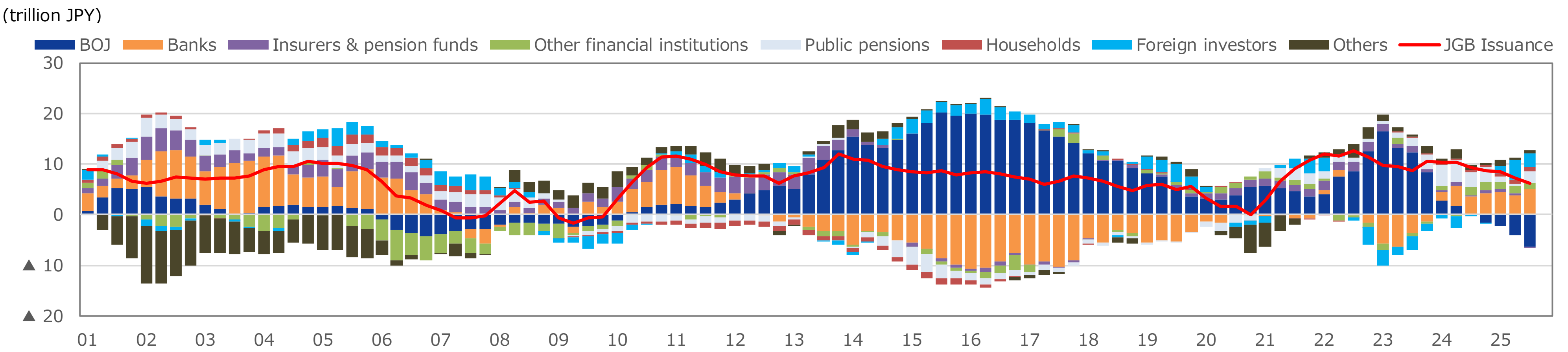
PB/GDP \ Growth	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
2.0%	1.9%	2.4%	2.9%	3.4%	3.9%	4.4%
1.0%	1.4%	1.9%	2.4%	2.9%	3.4%	3.9%
0.0%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
▲ 1.0%	0.6%	1.1%	1.6%	2.1%	2.6%	3.1%
▲ 2.0%	0.1%	0.6%	1.1%	1.6%	**2.1%**	2.6%
▲ 3.0%	▲ 0.3%	0.2%	0.7%	1.2%	**1.7%**	2.2%
▲ 4.0%	▲ 0.7%	▲ 0.2%	0.3%	0.8%	1.3%	1.7%

Note: Based on IMF projections.
Source: SMDAM and IMF

Near IMF assumptions

Near Takaichi fiscal stance

JGB purchases by sector (4-period moving average, flow basis)



Note: Data as of 2 Jan 2026
Source: SMDAM and BoJ

This Month's Topic (3): Probing the Drivers of Yen Weakness #1

Inquiries on yen weakness have risen. FX is a key variable for Japanese equities: a weaker JPY is a clear positive for export-oriented names, but it reduces the appeal of Japan equities for unhedged foreign investors. We examine the backdrop to the recent yen weakness.

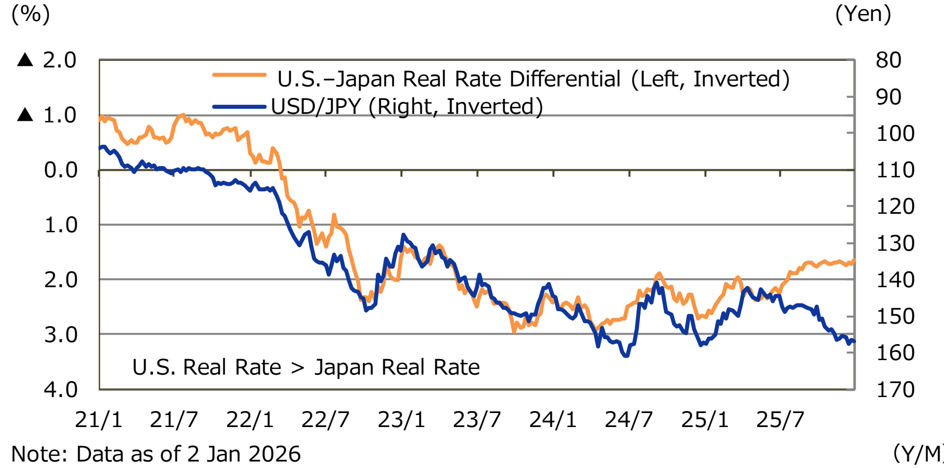
The surge in inquiries reflects a widening gap between USD/JPY and the real rate differential. Since future exchange rates represent an intertemporal exchange of value, FX should in theory be driven largely by real rate differentials, but they are not the sole determinant and the relationship is not always stable.

The focus is what underpins the current divergence, and whether (i) it is temporary and reconverges to the prior rate-based relationship, (ii) USD/JPY resets to a new level with the linkage to rate differentials restored under that regime, or (iii) yen weakness extends irrespective of rate differentials.

First, on policy signals, the U.S. is skewed toward cuts and Japan toward hikes, so the real rate differential points to JPY strength. Yet USD/JPY has trended weaker since early summer, with the move accelerating from late October, widening the gap. In our analysis, the US–Japan term premium differential has been central: into the summer, President Trump's tariff agreements with various countries helped revive flows into U.S. assets, compressing the U.S. term premium and supporting the USD. From late October, the emergence of the Takaichi administration lifted Japan's term premium, pressuring JPY. In addition, sizable long-JPY positions accumulated by May were unwound, reinforcing yen weakness.

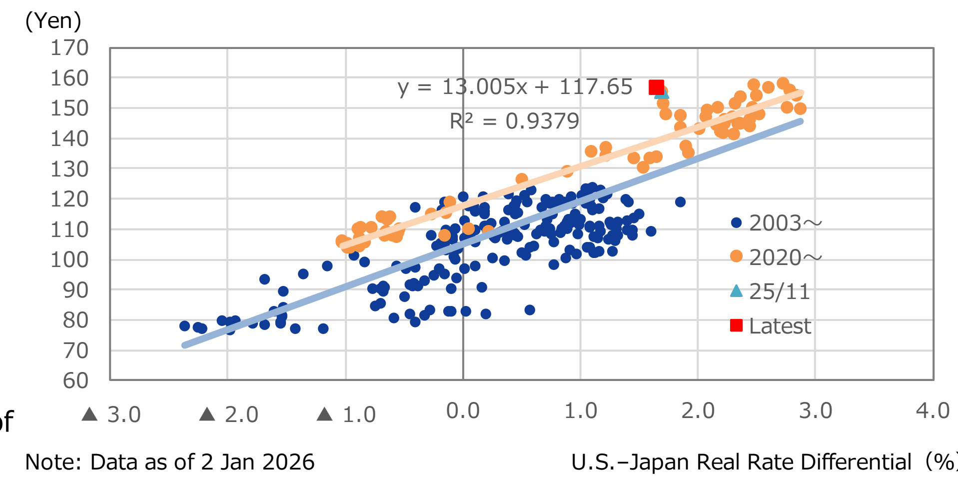
On flows, Japanese corporates' outbound M&A and NISA-driven purchases of overseas equity funds have been expanding, likely contributing to JPY weakness. The overlap of term-premium dynamics and flow effects has

USD/JPY and U.S.–Japan 10Y Real Rate Differential



Note: Data as of 2 Jan 2026
Source: SMDAM and Bloomberg

USD/JPY and U.S.–Japan 10Y Real Rate Differential



Note: Data as of 2 Jan 2026
Source: SMDAM and Bloomberg

This Month's Topic (3): Probing the Drivers of Yen Weakness #2

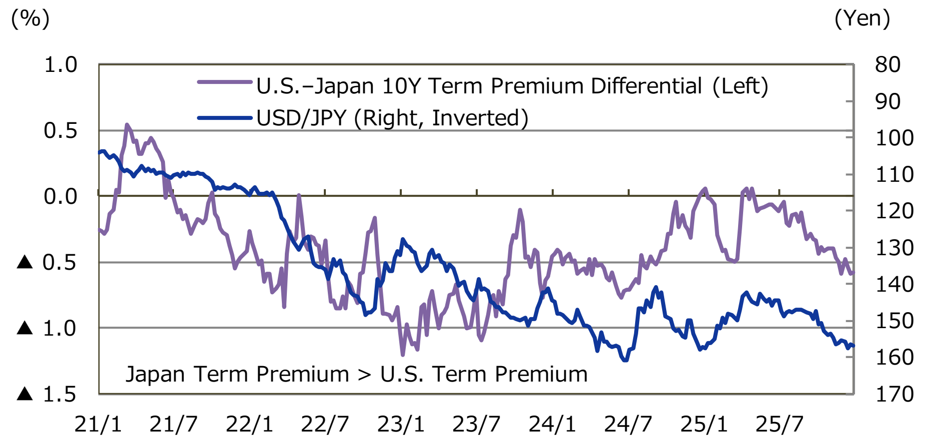
thus amplified the USD/JPY–real rate divergence.

Looking ahead, NISA-related buying of overseas equity funds should remain firm. Corporate outbound M&A is also likely to stay elevated as governance reforms push more effective use of cash balances. Even in past episodes of active flows, however, the USD/JPY–rate differential linkage did not vanish. Absent abrupt changes in these flows, a regime of yen weakness detached from rate differentials seems unlikely.

Regarding term premiums, the U.S. faces successive events—the potential emergence of a dovish Fed Chair, and fiscal expansion into the midterms—implying volatility. Even so, a sustained USD rally driven by a large, persistent drop in the premium appears unlikely. In Japan, outcomes may swing with the Takaichi administration's fiscal stance. As noted, current market caution toward expansive Takaichi fiscal policy has lifted the premium and weighed on JPY; should the administration deliver fiscal expansion beyond expectations, yen weakness decoupled from rate differentials could intensify. Speculative positioning could flip to short JPY, further pressuring the currency.

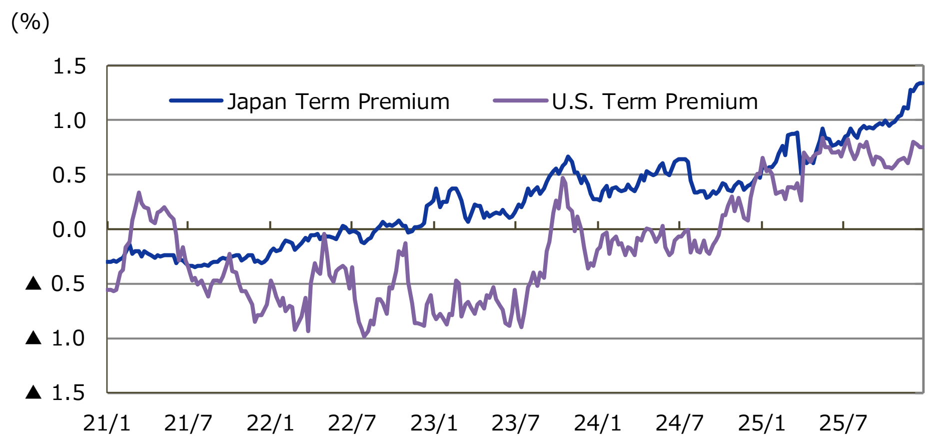
If USD/JPY were to deviate sharply and rapidly from the rate-differential anchor, authorities would likely strengthen their intervention stance. Should speculators have turned short JPY and built sizeable shorts, official action could trigger position unwinds, rapidly correcting yen weakness. On this view, the term-premium-related deviation from rate differentials appears corrigible. Still, as highlighted in our recent analysis of long yields, Japan's funding flows are changing—overseas investors' role in financing JGBs is growing. For the Takaichi administration, balancing "responsibility" and "proactivity" in fiscal management in a market-credible way is increasingly important.

USD/JPY and U.S.–Japan 10Y Term Premium Differential



Note: Data as of 2 Jan 2026; Japan's term premium is estimated by Daiwa.
Source: SMDAM, Daiwa and Bloomberg

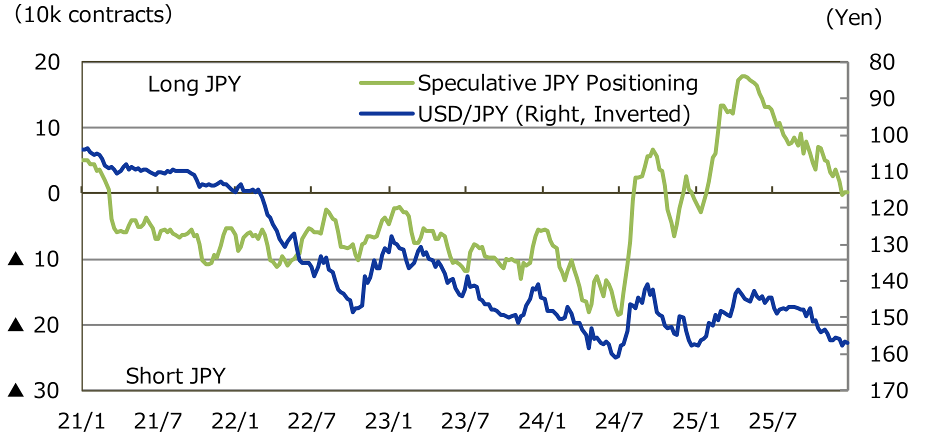
Japan and U.S. 10Y Term Premiums Over Time



Note: Data as of 2 Jan 2026; Japan's term premium is estimated by Daiwa.
Source: SMDAM, Daiwa and Bloomberg

This Month's Topic (3): Probing the Drivers of Yen Weakness #3

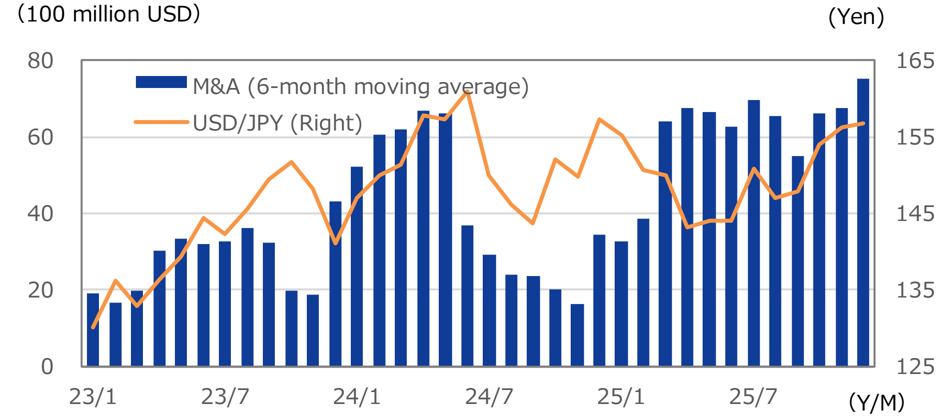
USD/JPY and Speculative JPY Positioning



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

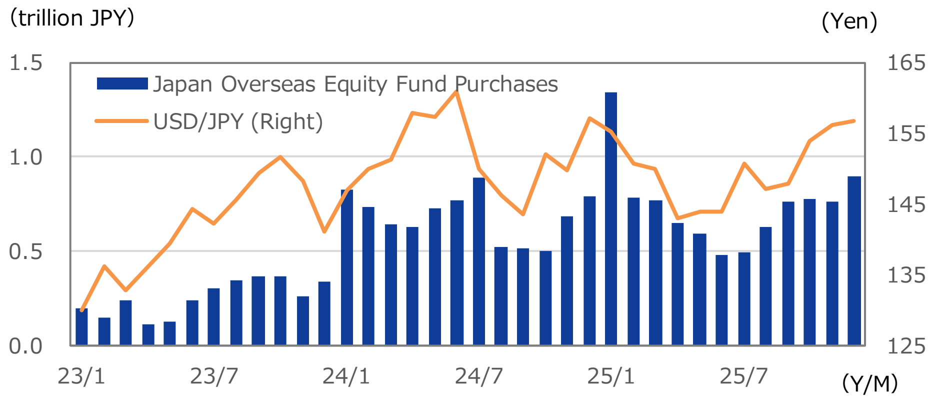
Japanese Corporates' Outbound M&A Flows and USD/JPY



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

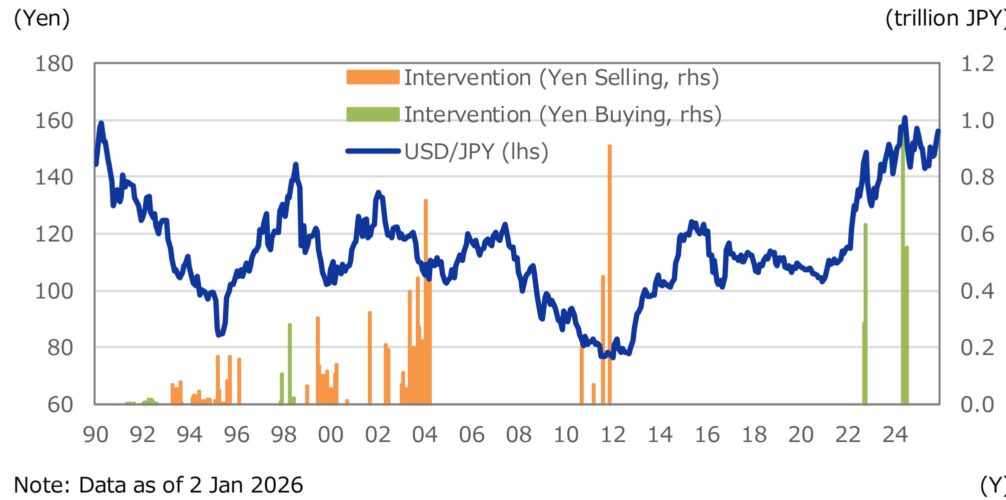
Japan's Overseas Equity Fund Purchase Flows and USD/JPY



Note: Data as of 2 Jan 2026; Overseas equity fund purchase flows are the sum of the top 20 funds plus the funds with the highest recent flows.

Source: SMDAM and Bloomberg

USD/JPY and Intervention



Note: Data as of 2 Jan 2026

Source: SMDAM, MoF and Bloomberg

Trends in Major Asset Prices

TOPIX (Daily)

(Points)

Note: Data as of 2 Jan 2026 (Y/M)

Source: SMDAM and Bloomberg

S&P500 (Daily)

(Points)

Note: Data as of 2 Jan 2026 (Y/M)

Source: SMDAM and Bloomberg

Japan 10-Year Government Bond Yield (Daily)

(%)

Note: Data as of 2 Jan 2026 (Y/M)

Source: SMDAM and Bloomberg

USD/JPY (Daily)

(Yen)

Note: Data as of 2 Jan 2026 (Y/M)

Source: SMDAM and Bloomberg

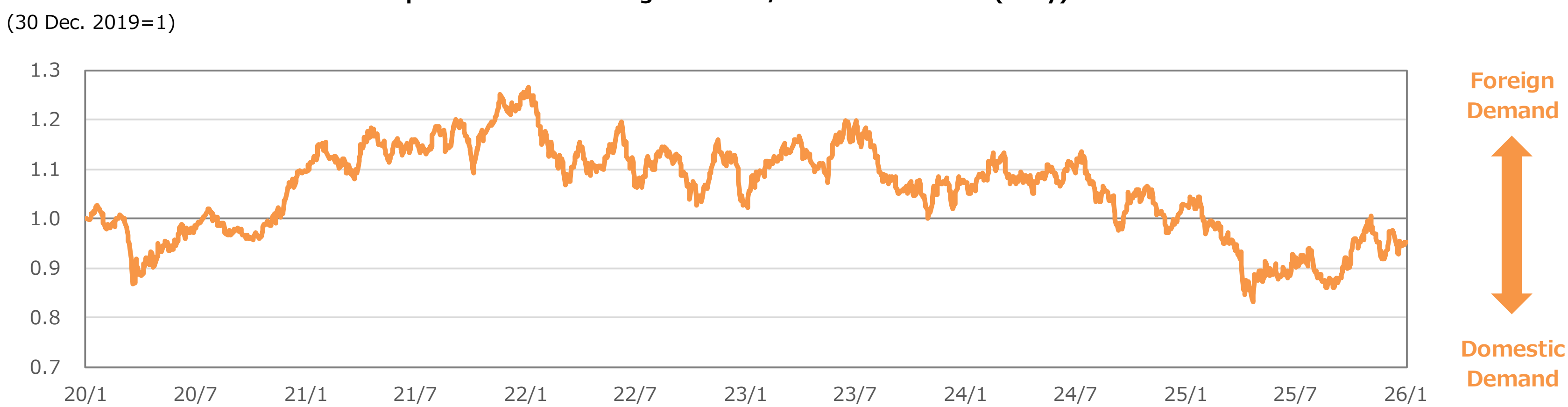
Trends in Value/Growth and Foreign/Domestic Demand for Japanese Stocks

Japanese Stocks: Value/Growth (Daily)

Note: Data as of 2 Jan 2026. Value/Growth represents Russell Nomura Total Market Value Index vs Growth with Dividend.

Source: SMDAM and Bloomberg

Japanese Stocks: Foreign Demand/Domestic Demand (Daily)



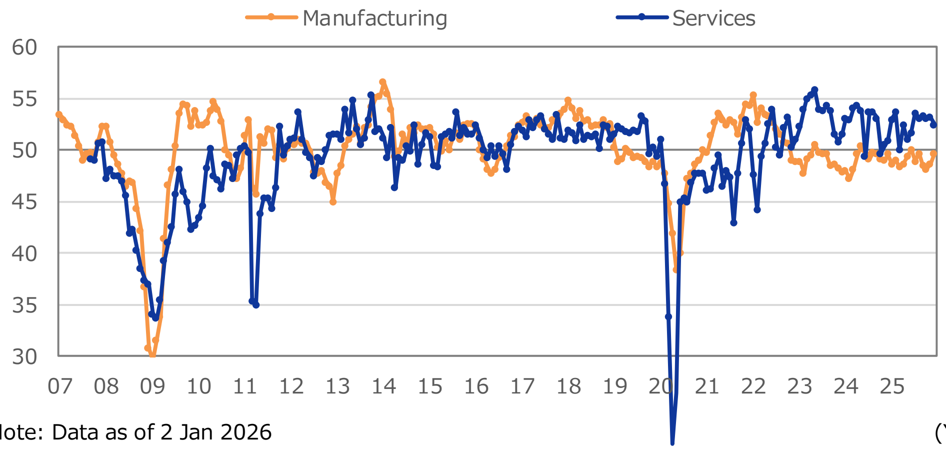
Note: Data as of 2 Jan 2026. Foreign/Domestic Demand represents Nikkei Global Exposure 50 vs Domestic.

Source: SMDAM and Bloomberg

Japanese Economic Indicators (1)

PMI

(sa, >50=improvement since previous month)

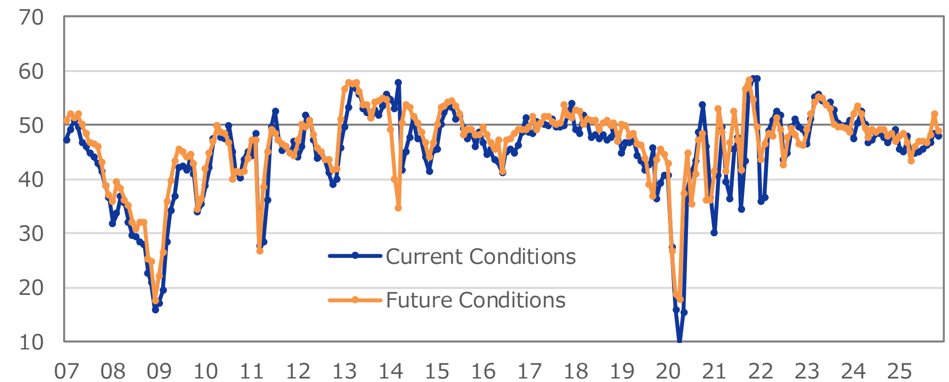


Note: Data as of 2 Jan 2026

Source: SMDAM and S&P Global

Economy Watchers Survey

(sa, DI)

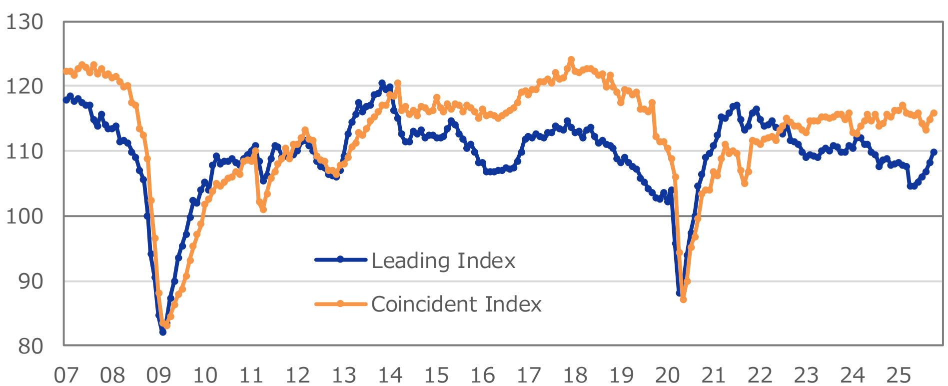


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Index of Business Conditions

(sa, 2020=100)

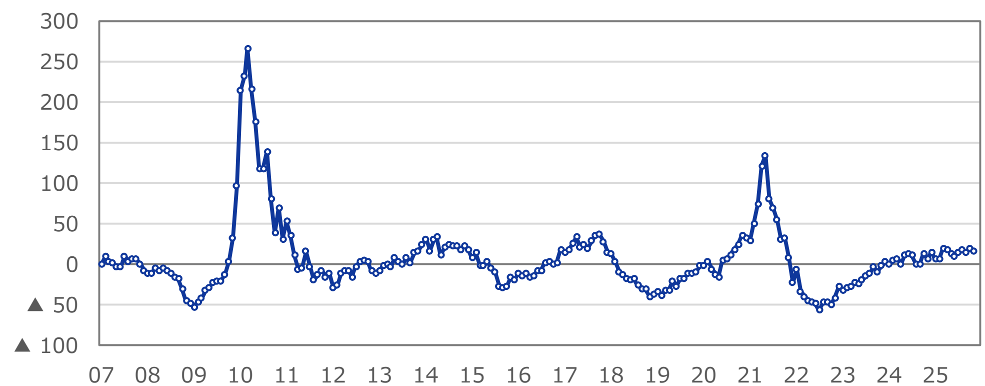


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Machine Tools (Orders YoY - Order Backlogs YoY)

(%)



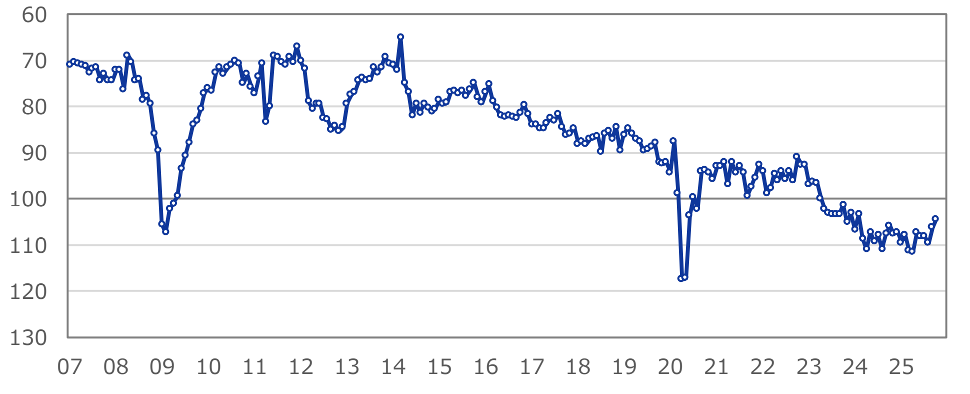
Note: Data as of 2 Jan 2026

Source: SMDAM and Japan Machine Tool Builders' Association

Japanese Economic Indicators (2)

Index of Producer's Inventory Ratio of Final Demand Goods

(sa, 2020=100, Inverted)

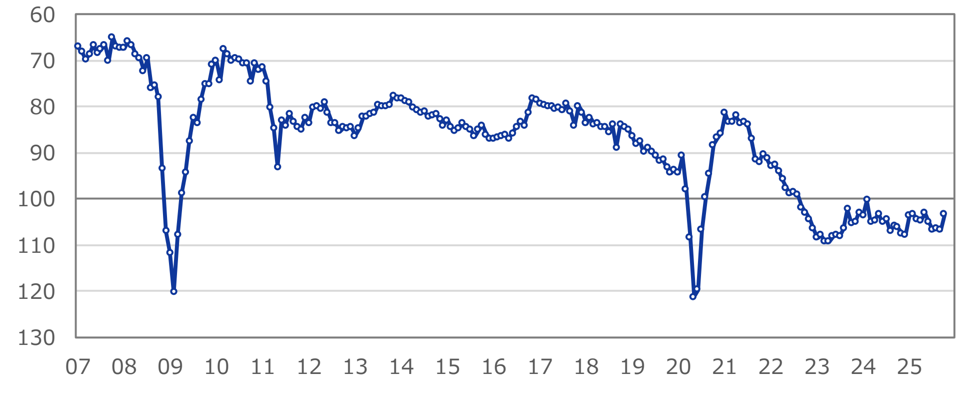


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Index of Producer's Inventory Ratio of Producer Goods

(sa, 2020=100, Inverted)

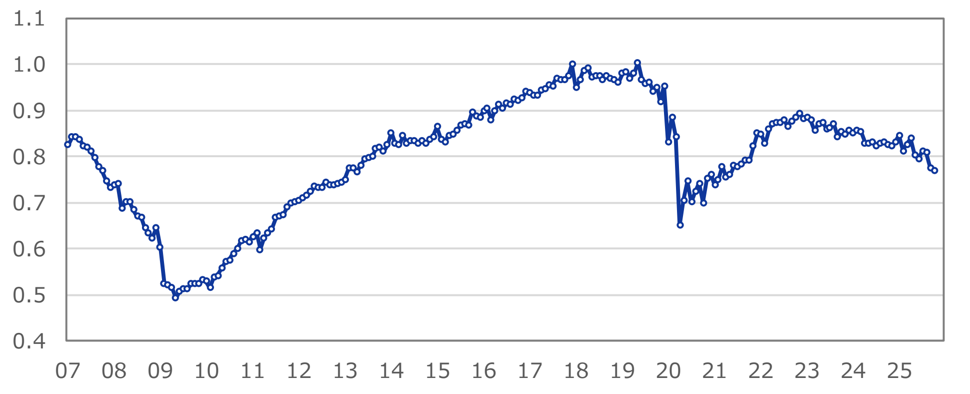


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

New Job Offers (Excluding New School Graduates)

(sa, million persons)

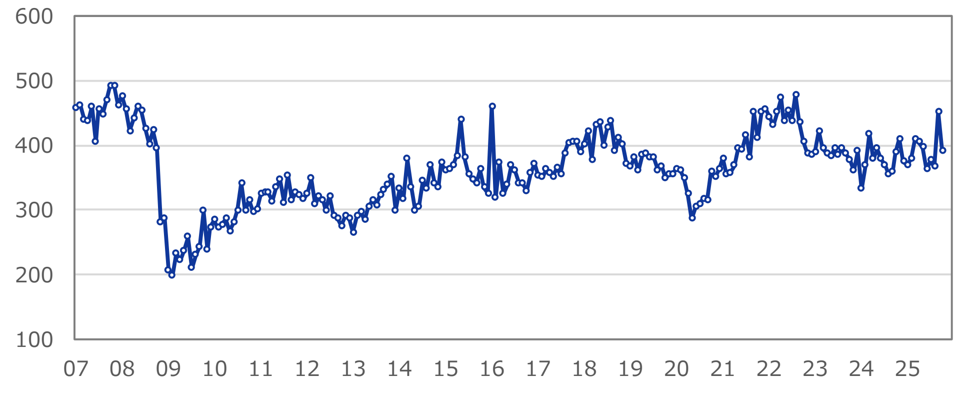


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Machinery Orders at Constant Prices (Manufacturing)

(sa, billion JPY)

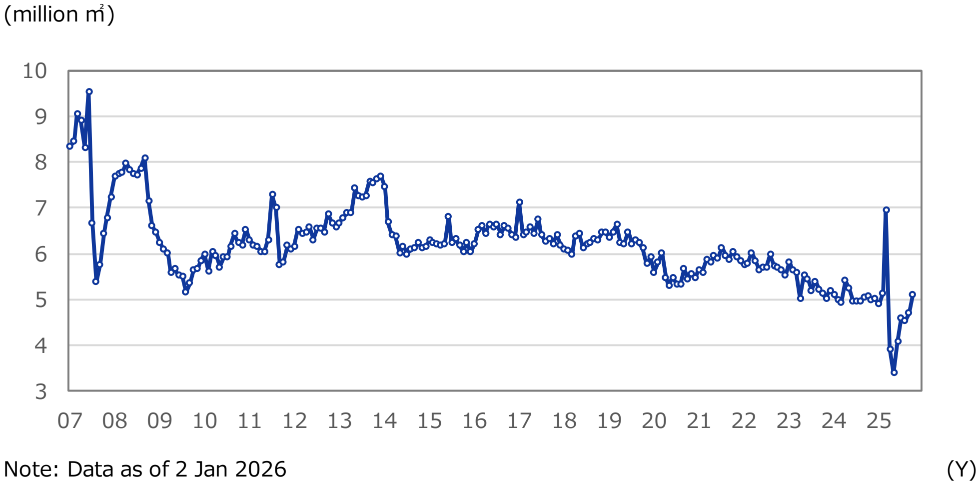


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (3)

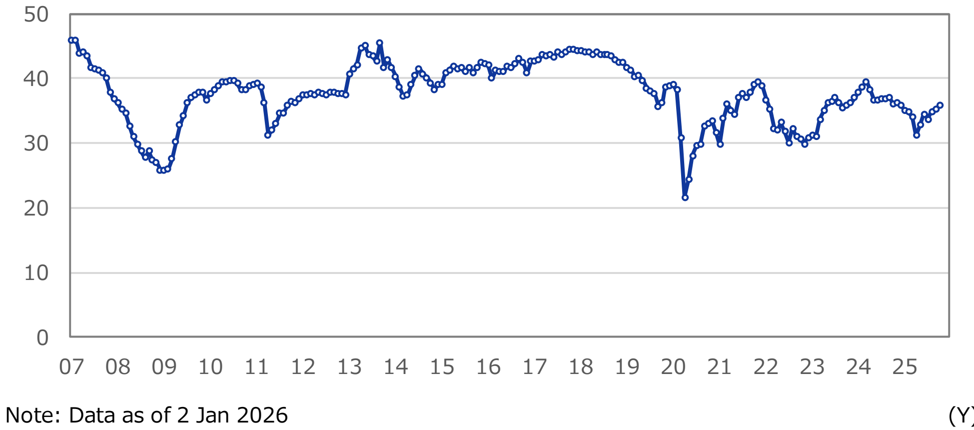
Total Floor Area of New Housing Construction Started



Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

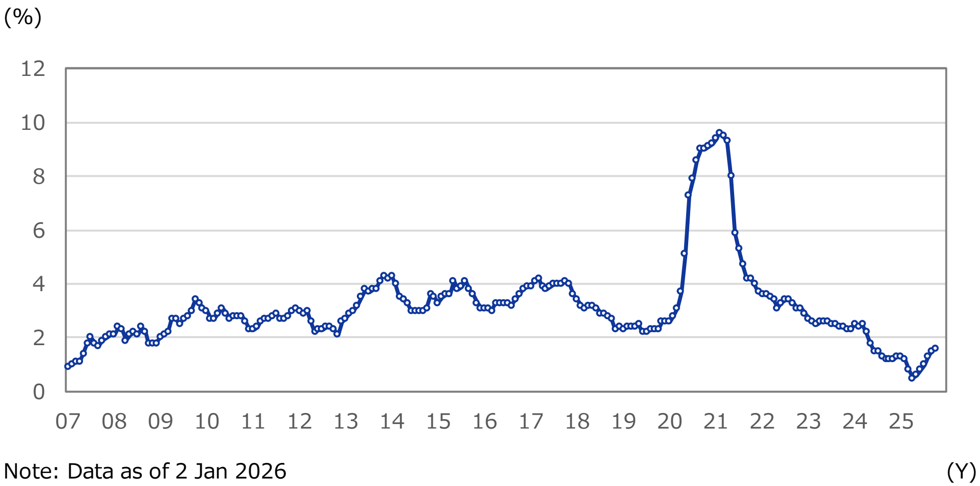
Consumer Confidence Index



Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

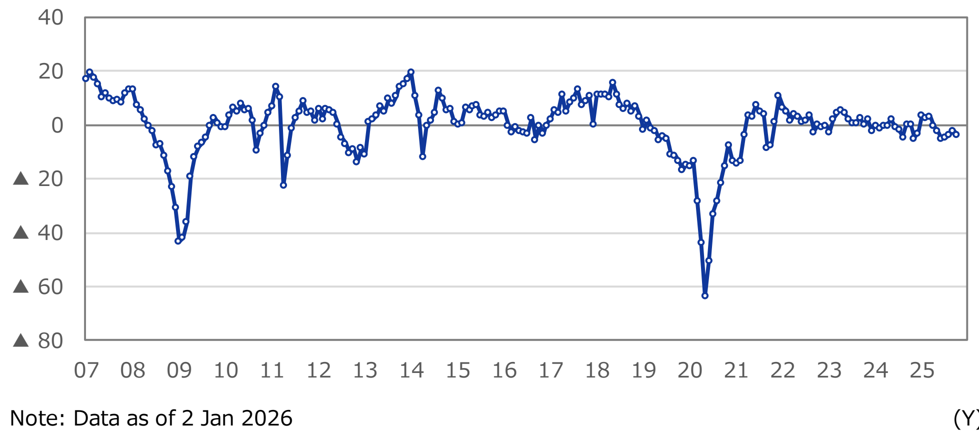
M2(YoY)



Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Sales Forecast DI of Small Businesses

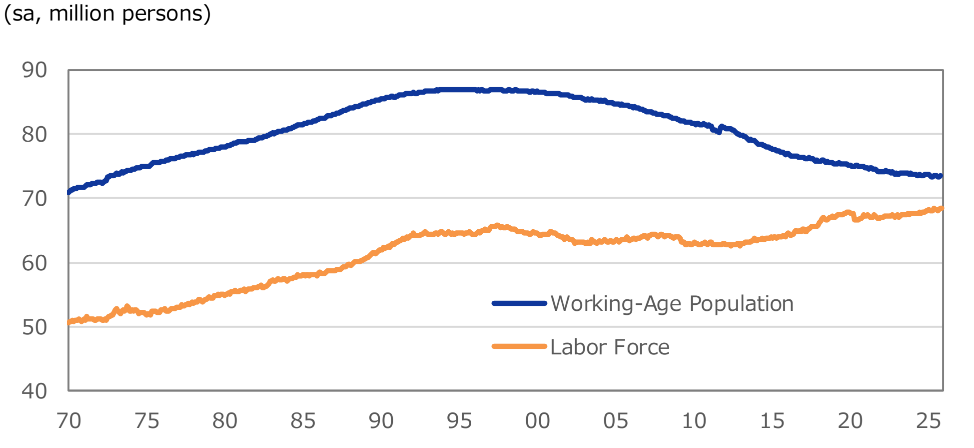


Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (4)

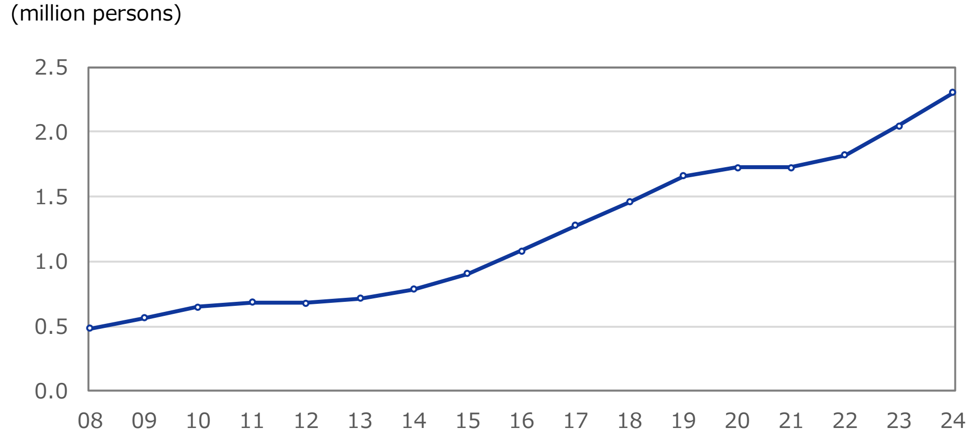
Working-Age Population and Labor Force



Note: Data as of 2 Jan 2026

Source: SMDAM and MIC

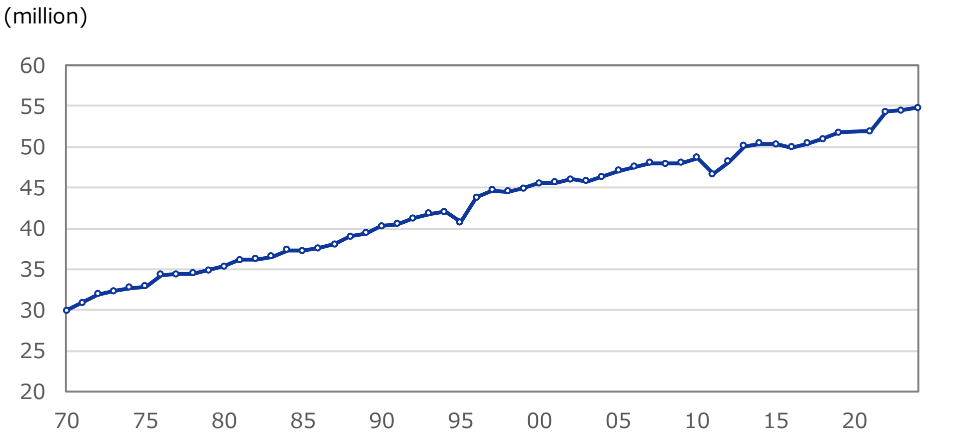
Number of Foreign Workers



Note: Data as of 2 Jan 2026

Source: SMDAM and MHLW

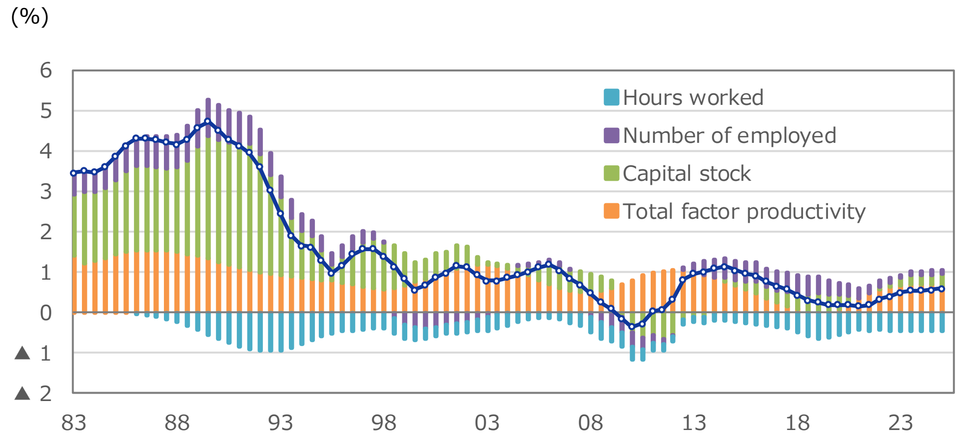
Number of Households



Note: Data as of 2 Jan 2026

Source: SMDAM and Cabinet Office

Potential Growth Rate

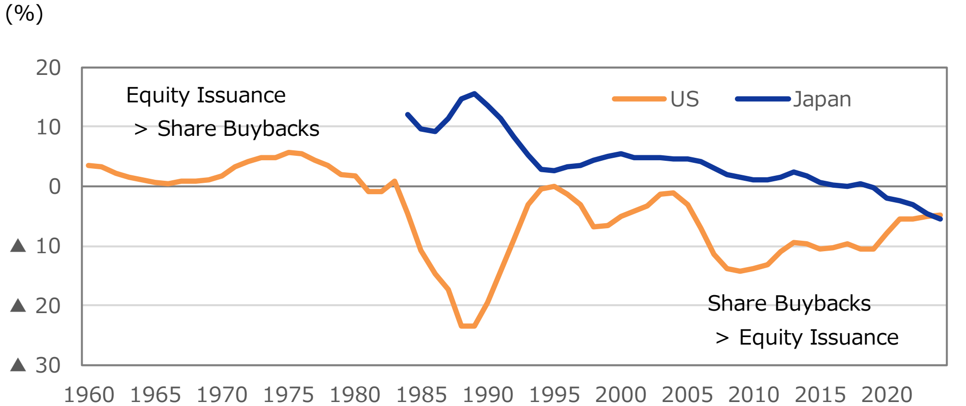


Note: Data as of 2 Jan 2026

Source: SMDAM and BoJ

Japanese Economic Indicators (5)

Net Equity Issuance in Japan and the US

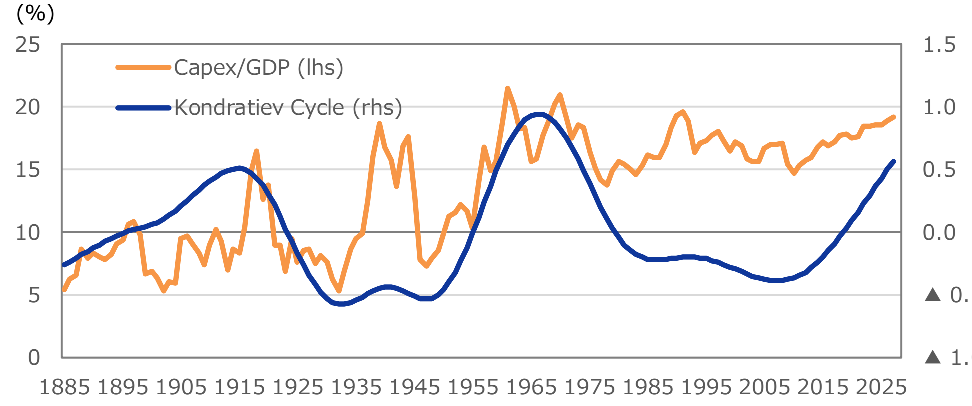


Note: Data as of 2 Jan 2026

Note: Net Equity Issuance / Market Cap (5Y MA)

Source: SMDAM, BoJ and FRB

Japan Capex/GDP Ratio (Long-Term Trend) and Kondratiev Cycle

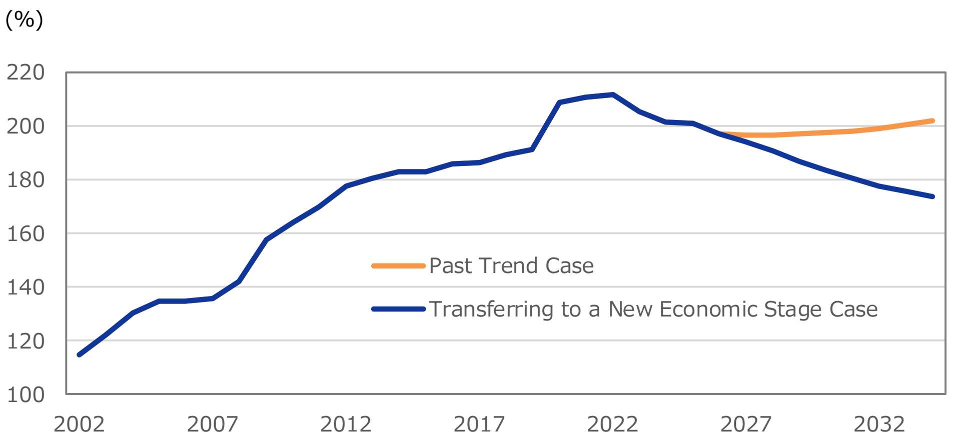


Note: Data as of 2 Jan 2026

Note: Kondratiev Cycle is statistically derived as a 40 to 70 year cycle from the Capex/GDP ratio.

Source: SMDAM and Cabinet Office

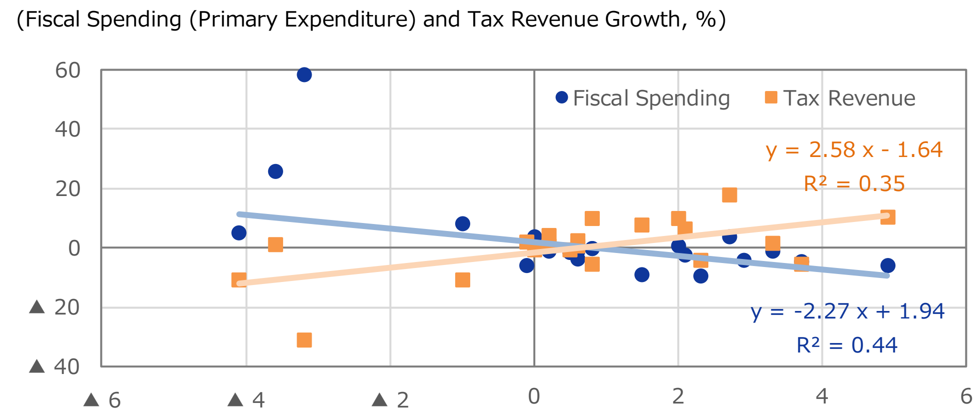
Debt-to-GDP Projection (Medium to Long Term) by Cabinet Office



Note: Data as of 2 Jan 2026. New Economic Stage assumes 3% nominal growth.

Source: SMDAM and Cabinet Office

Fiscal Spending, Tax Revenue, and Nominal GDP Growth



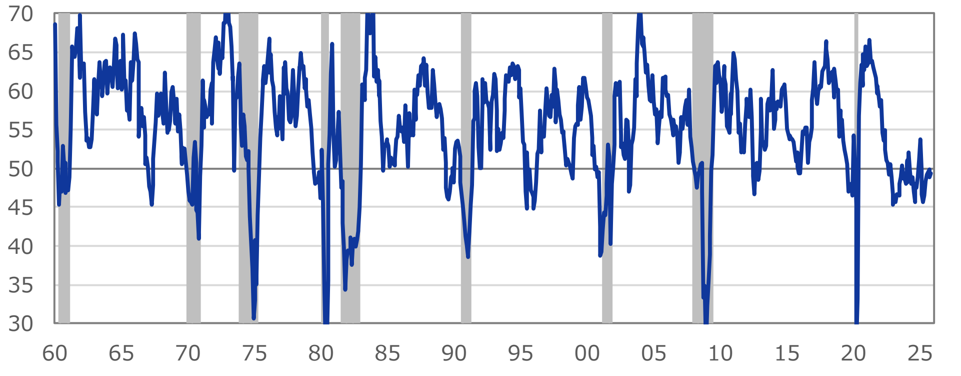
Note: Data as of 2 Jan 2026

Note: The Data covers FY2003 to 24, and the regression line is calculated excluding outliers.

Source: SMDAM and Cabinet Office

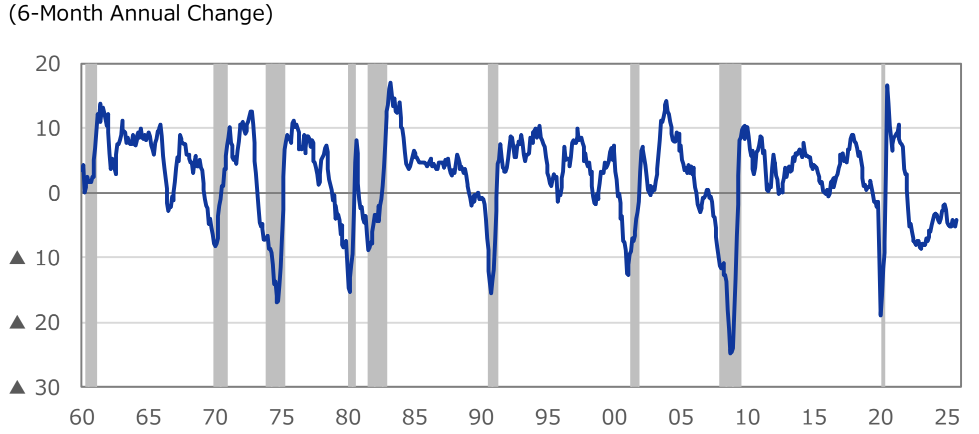
US Economic Indicators

ISM Manufacturing PMI (Average of Production and New Orders)



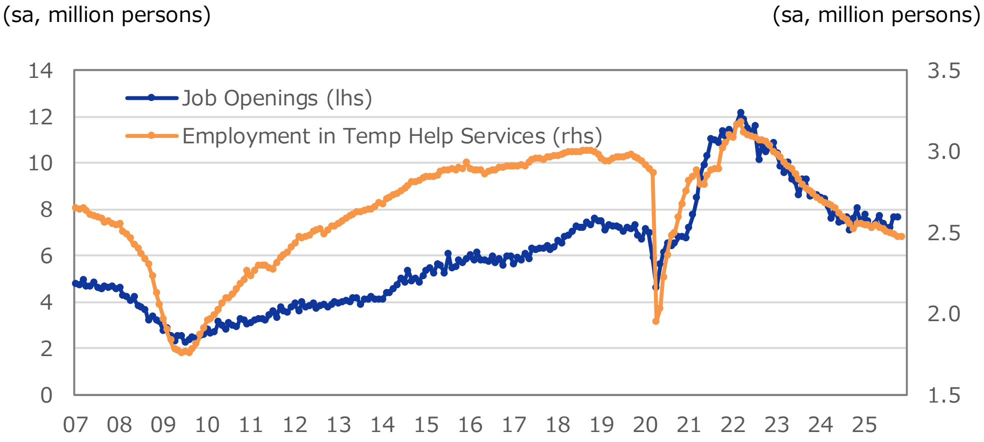
Note: Data as of 2 Jan 2026. The shaded areas represent periods of recession.
Source: SMDAM and ISM

Conference Board Leading Economic Index



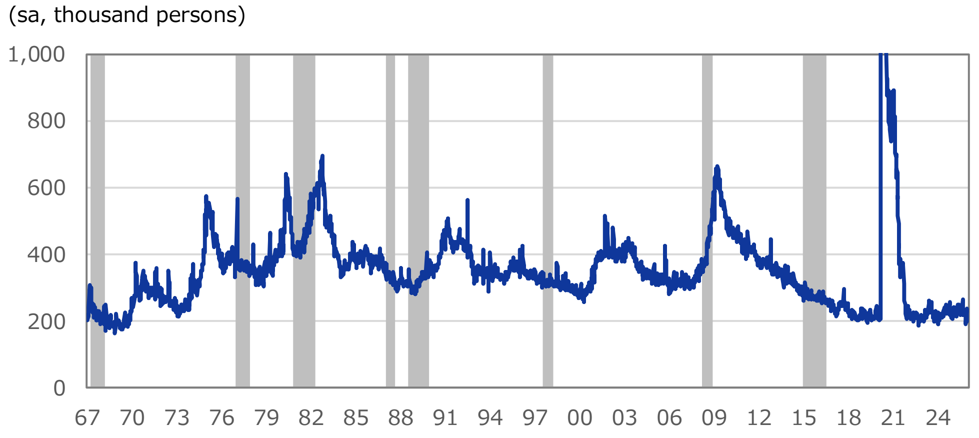
Note: Data as of 2 Jan 2026. The shaded areas represent periods of recession.
Source: SMDAM and Conference Board

Job Openings and Employment in Temporary Help Services



Note: Data as of 2 Jan 2026
Source: SMDAM and Bureau of Labor Statistics

Initial Jobless Claims

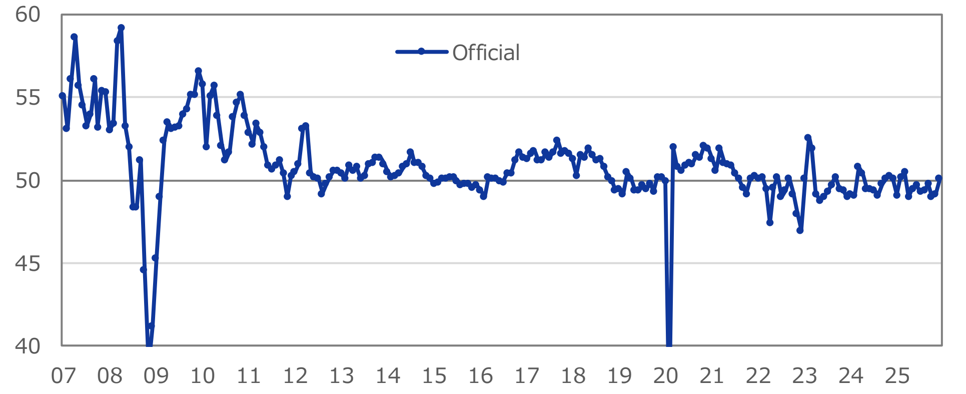


Note: Data as of 2 Jan 2026. The shaded areas represent periods of recession.
Source: SMDAM and Department of Labor

Overseas Economic Indicators

China Manufacturing PMI

(sa, >50=improvement since previous month)

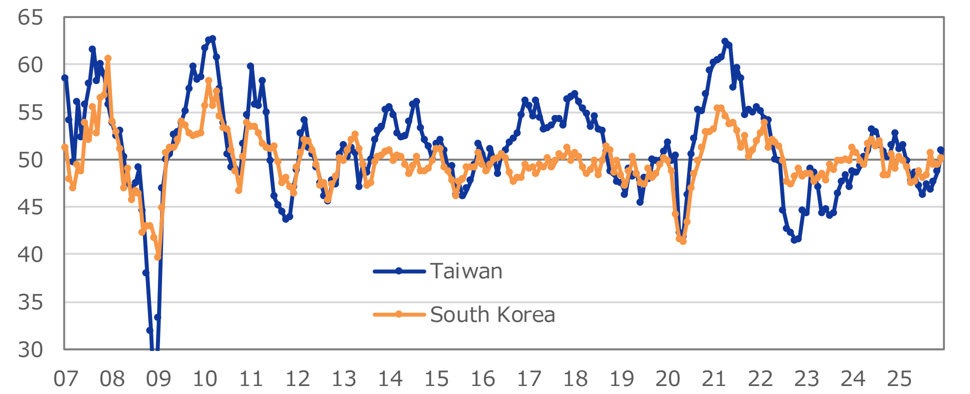


Note: Data as of 2 Jan 2026

Source: SMDAM and China Federation of Logistics & Purchasing

Manufacturing PMI (Taiwan, South Korea)

(sa, >50=improvement since previous month)

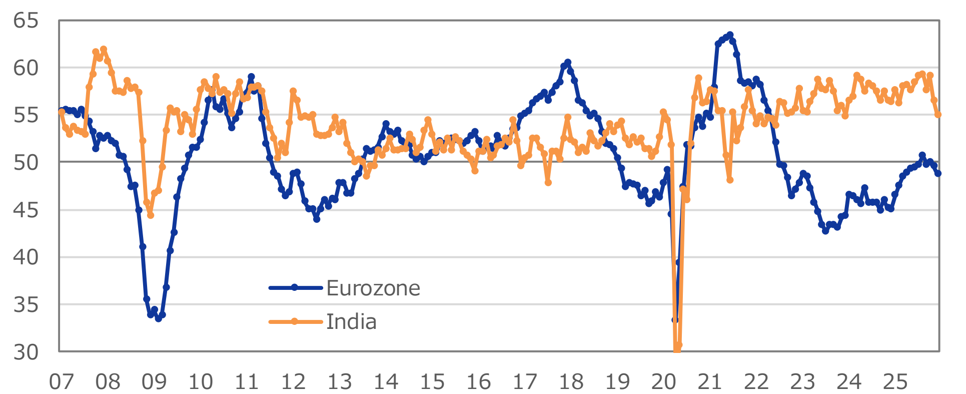


Note: Data as of 2 Jan 2026

Source: SMDAM and S&P Global

Manufacturing PMI (Eurozone, India)

(sa, >50=improvement since previous month)

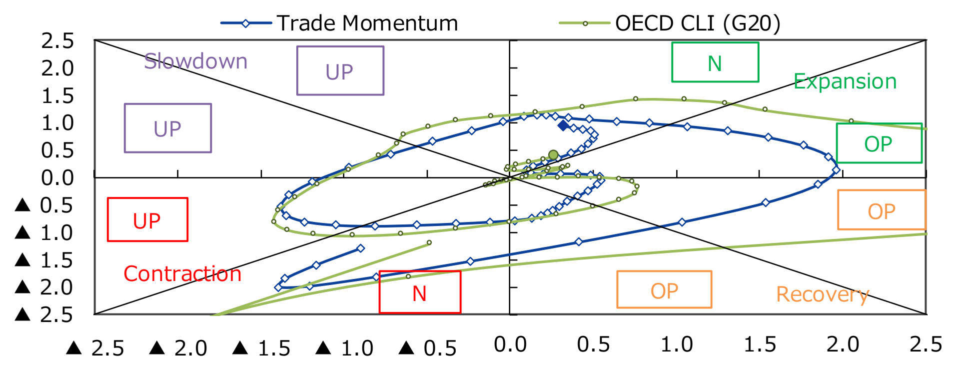


Note: Data as of 2 Jan 2026

Source: SMDAM and S&P Global

Trade Momentum & OECD Composite Leading Indicator (CLI) Phases

Trade Momentum (Z-score) / OECD CLI Level (Index - 100)



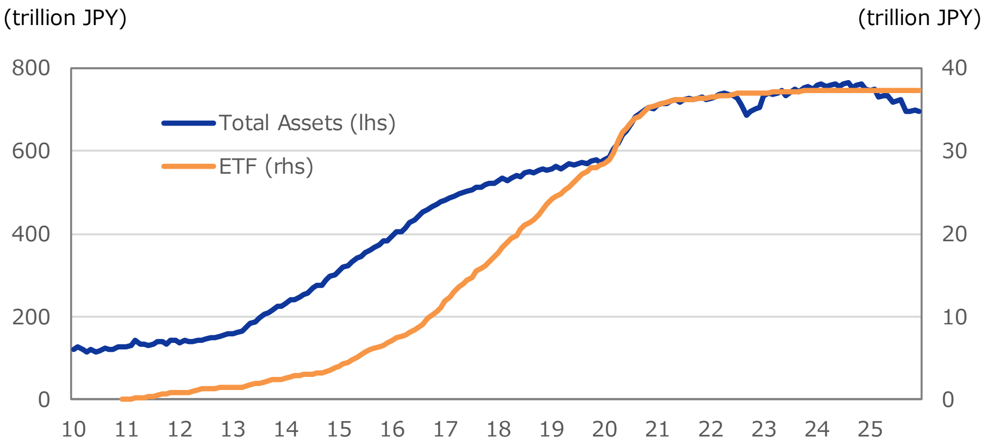
Note: Data as of 2 Jan 2026

Note: Trade momentum shows cycles from indicators; OP/N/UP = past Japan stock performance

Source: SMDAM, OECD, S&P Global, LSEG and Bloomberg

BOJ Monetary Policy (1)

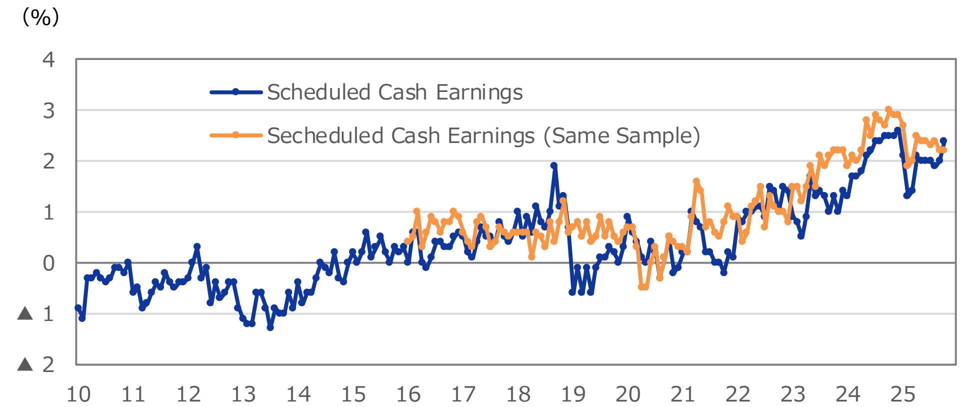
The Bank of Japan's Balance Sheet



Note: Data as of 2 Jan 2026 (Y)

Source: SMDAM and BoJ

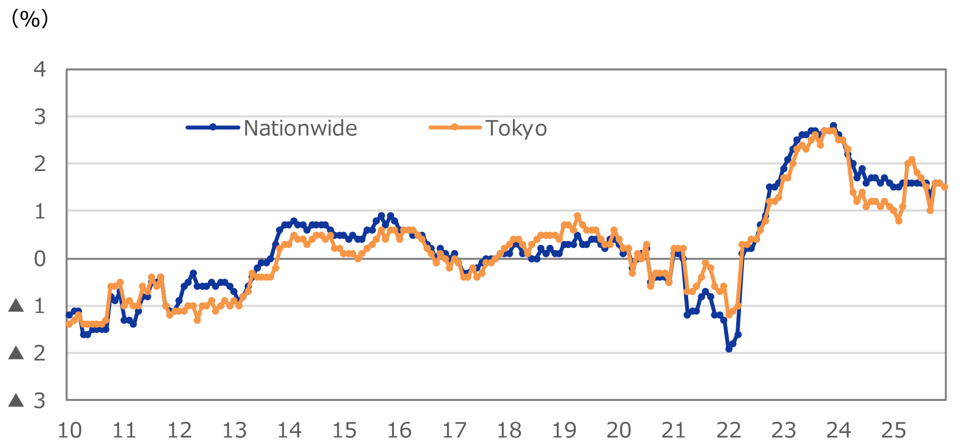
Nominal Wages (Scheduled Cash Earnings, YoY)



Note: Wage surveys change samples yearly. "Same Sample" uses only the same samples as the previous year to avoid gaps caused by such changes.

Note: Data as of 2 Jan 2026 Source: SMDAM and MHLW

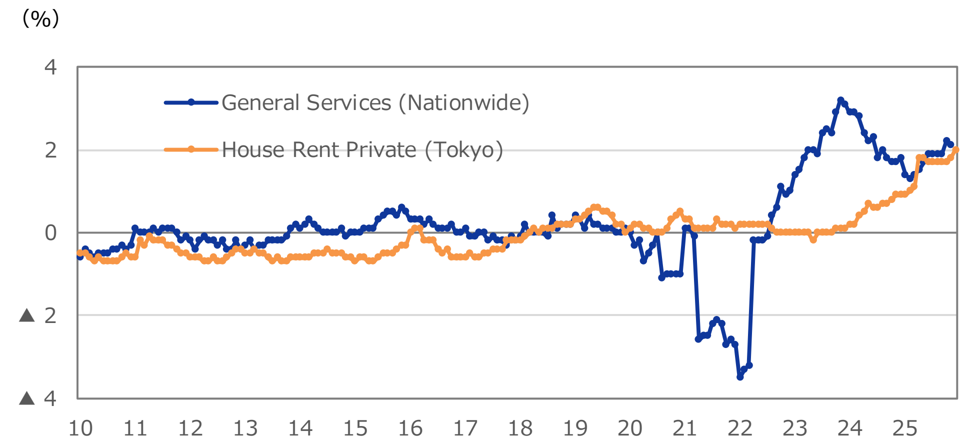
CPI (Excluding Food and Energy, YoY)



Note: Data as of 2 Jan 2026. Adjusted for the consumption tax hike. (Y)

Source: SMDAM and MIC

CPI (General Services, House Rent Private, YoY)



Note: Data as of 2 Jan 2026. Adjusted for the consumption tax hike. (Y)

Source: SMDAM and MIC

Note: "Scheduled Cash Earnings“ are based on different data samples for each survey conducted by MHLW. "Scheduled Cash Earnings (Same Sample)" refers to data based on the same surveyed companies. This data is published to provide a more accurate understanding of wage trends and started to be published by MHLW from 2016.

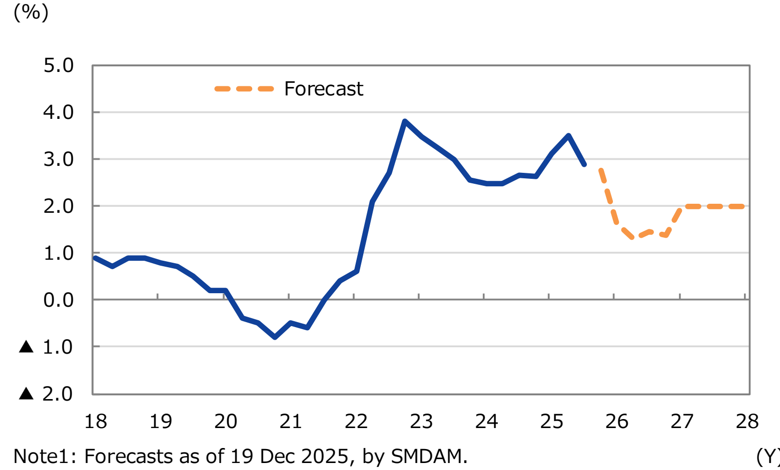
BOJ Monetary Policy (2)

BOJ Monetary Policy Developments (Quarter-End and Latest)

	Jun 2025	Sep 2025	Dec 2025
O/N call rate	around 0.5%	around 0.5%	around 0.75%
Rate on Deposit Facility	0.50%	0.50%	0.75%
Objection to the monetary policy guideline	None	Committee members Tamura and Takada opposed the policy of maintaining the current level and proposed an increase to around 0.75%.	None
JGB purchases	Reduce monthly outright purchases of long-term JGBs by about JPY400 billion per quarter through Jan-Mar 2026. From Apr–Jun 2026, reduce monthly long-term JGB purchases by about JPY 200 billion per quarter, targeting around JPY 2 trillion in Jan–Mar 2027. Conduct an interim review in June 2026 and adjust the plan if needed. Also, review and announce the policy for purchases after April 2027. Amend the reduction plan at MPMs if necessary.	No Change	No Change
ETF Purchases	Governor: 'Take time to carefully consider ways to dispose of ETFs.'	Based on the basic policy of avoiding market disruption, the BoJ decided to sell its holdings of ETFs and J-REITs.	No Change

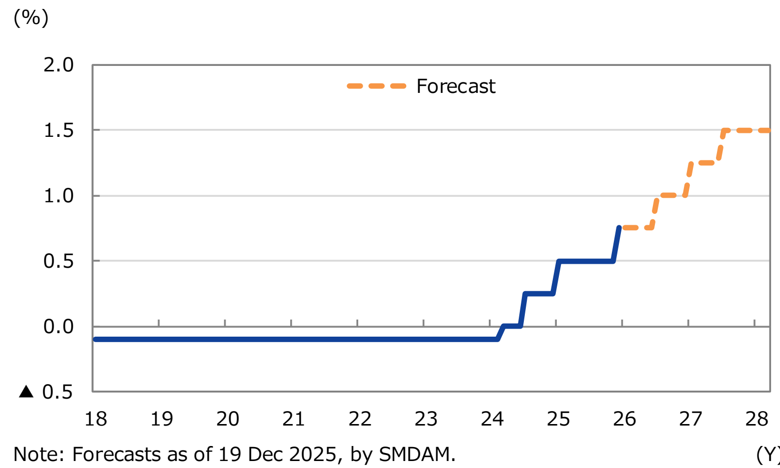
Note: Data as of 2 Jan 2026
Source: SMDAM and BOJ

CPI (ex fresh food, YoY)



Note1: Forecasts as of 19 Dec 2025, by SMDAM.
Note2: Excludes effects of consumption tax and free charge of education.
Source: SMDAM and MIC

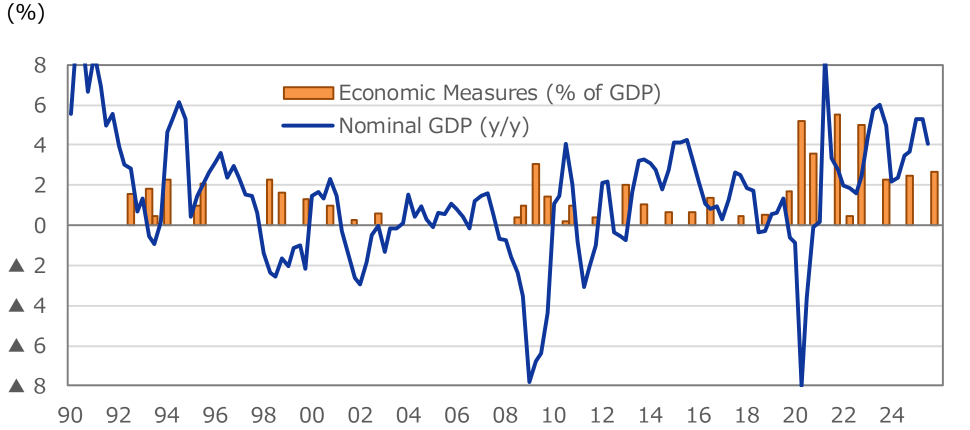
Policy interest rate



Note: Forecasts as of 19 Dec 2025, by SMDAM.
Source: SMDAM and BOJ

Japan's fiscal policy

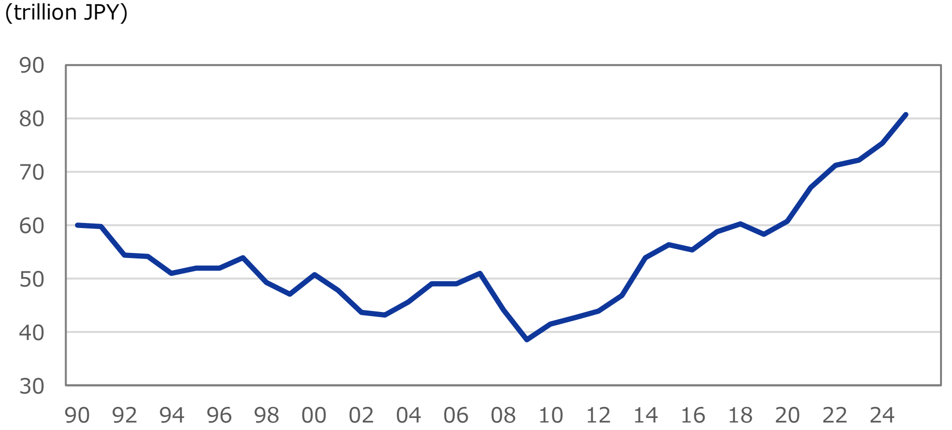
Government Economic Measures and Nominal GDP Growth Rate



Note: Data as of 2 Jan 2026. Economic measures are budget-backed amounts.

Source: SMDAM and Cabinet Office

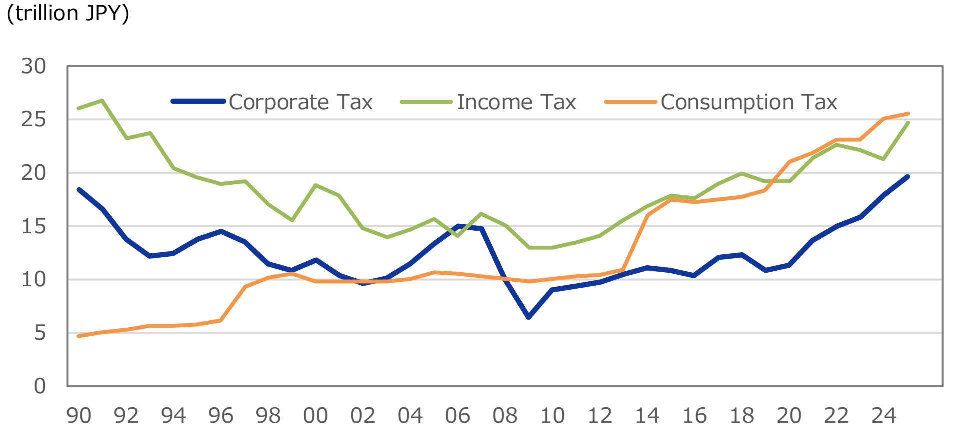
Japan's Tax Revenue



Note: Data as of 2 Jan 2026

Source: SMDAM and MoF

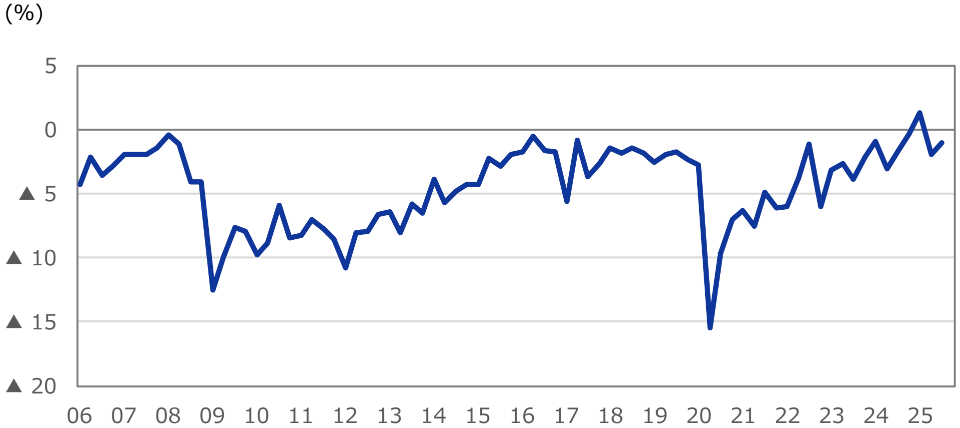
Breakdown of Tax Revenue



Note: Data as of 2 Jan 2026

Source: SMDAM and MoF

Japan's Fiscal Balance (as a Percentage of GDP)

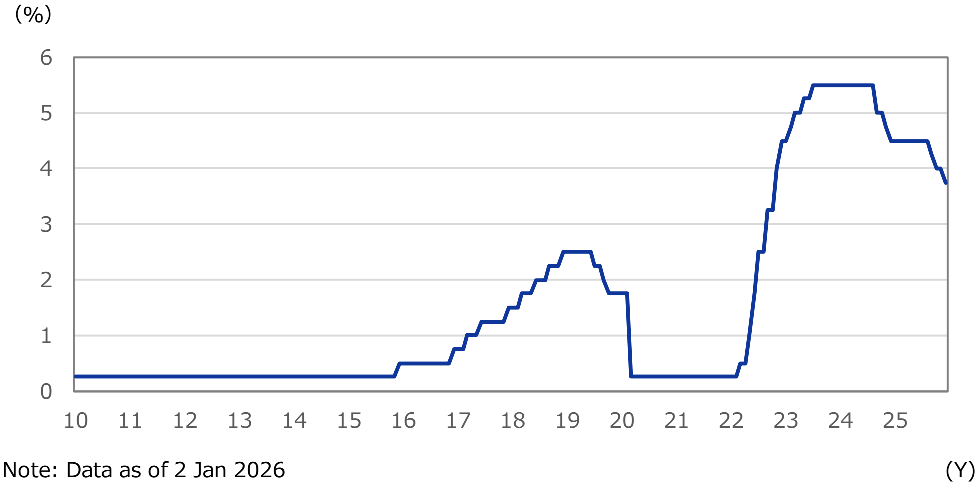


Note: Data as of 2 Jan 2026

Source: SMDAM and BoJ

Overseas Monetary Policy

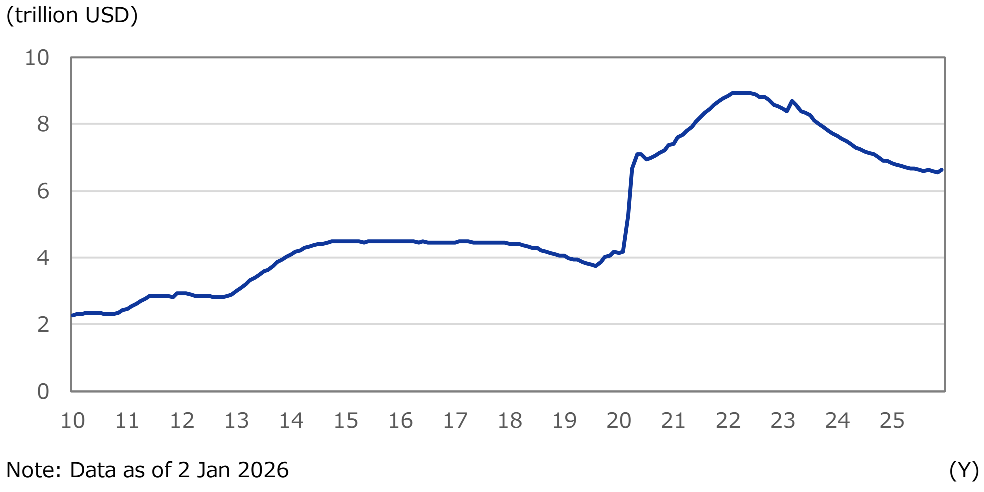
Federal Funds Target Rate (Upper Bound)



Note: Data as of 2 Jan 2026

Source: SMDAM and FRB

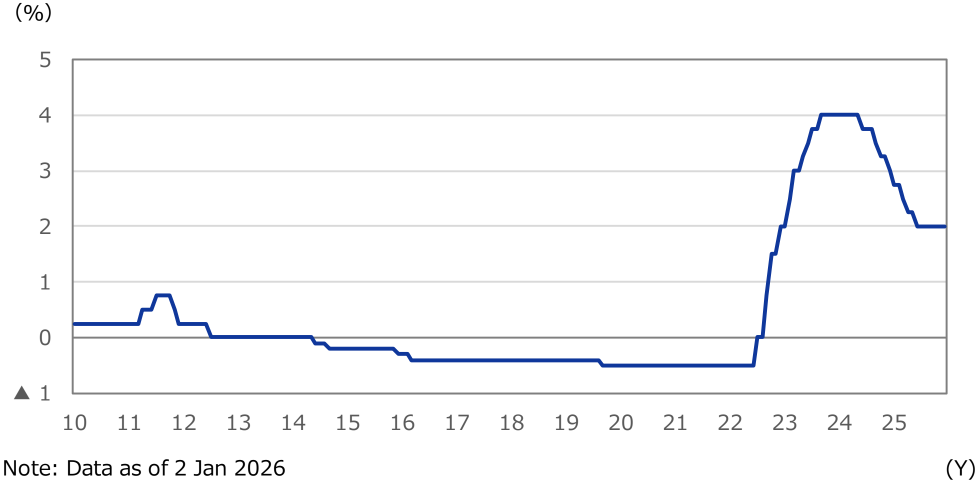
Federal Reserve Total Assets



Note: Data as of 2 Jan 2026

Source: SMDAM and FRB

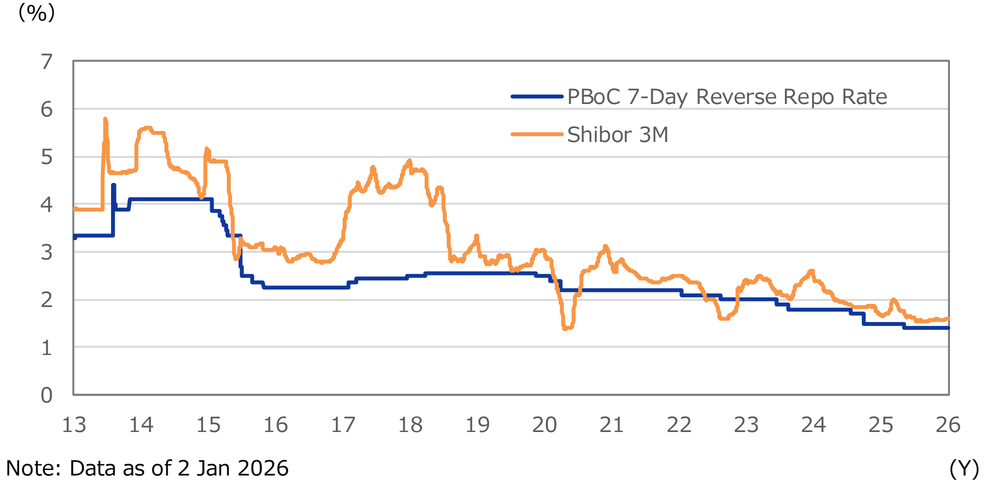
ECB Deposit Facility Announcement Rate



Note: Data as of 2 Jan 2026

Source: SMDAM and ECB

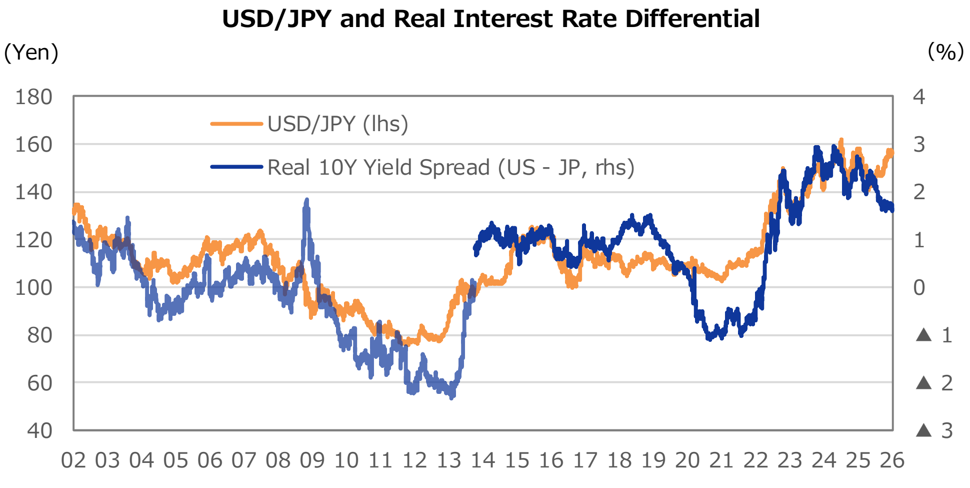
China's Short-Term Interest Rates



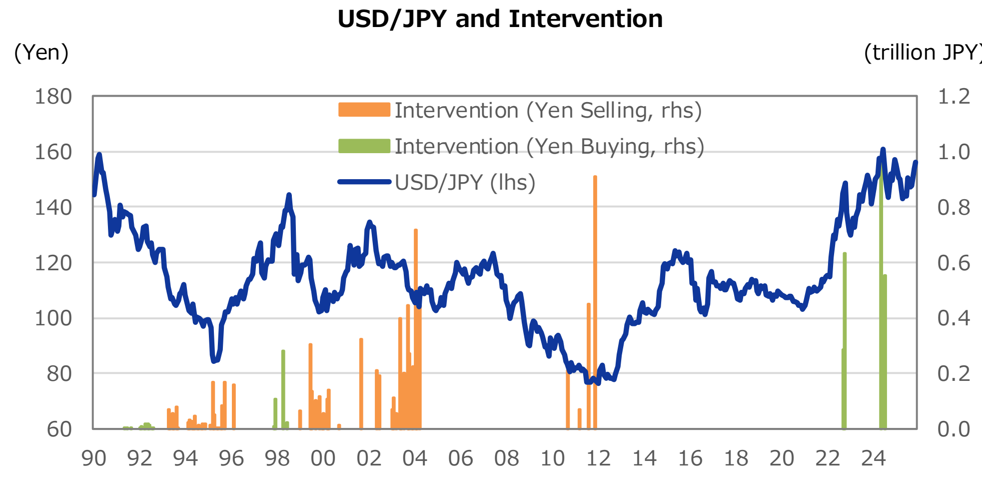
Note: Data as of 2 Jan 2026

Source: SMDAM, PBoC and Bloomberg

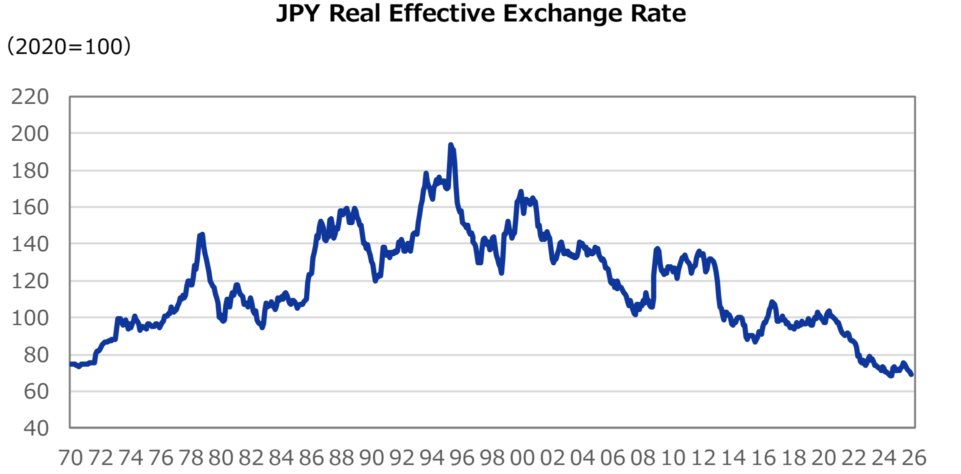
USD/JPY



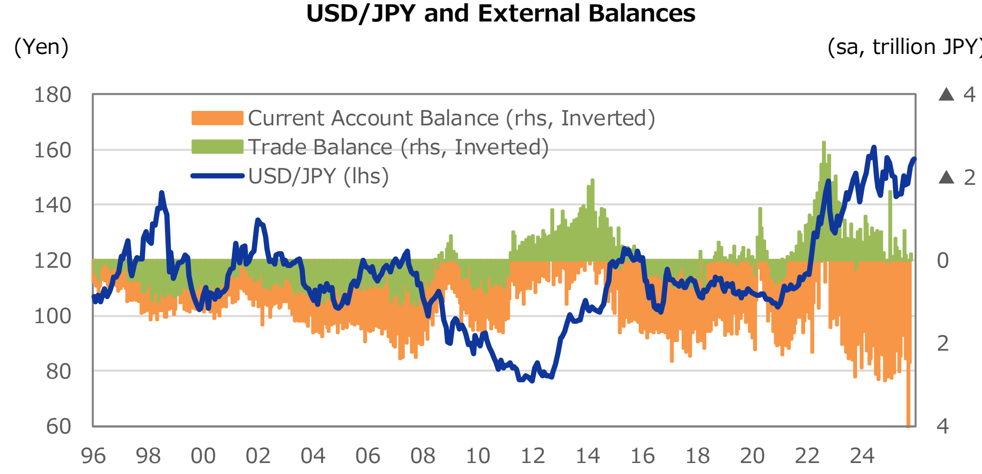
Note: Data as of 2 Jan 2026. Japan's real rate pre-Oct. 8, 2013, based on core CPI.
Source: SMDAM and Bloomberg



Note: Data as of 2 Jan 2026
Source: SMDAM, MoF and Bloomberg



Note: Data as of 2 Jan 2026
Source: SMDAM and BoJ



Note: Data as of 2 Jan 2026
Source: SMDAM, MoF and Bloomberg

Earnings Forecast:FY2026 Operating Profit Expected to Grow Double Digits

Bottom-Up Corporate Earnings Forecast for Japan

Forecasts as of 17 Dec 2025	FY23 billion JPY (A)	FY24 billion JPY (A)	FY25 billion JPY (E)	FY26 billion JPY (E)	FY24 YoY, % (A)	FY25 YoY, % (E)	FY26 YoY, % (E)
Revenue							
Total (Ex-Financials)	656,205	685,448	692,749	718,961	+4.5	+1.1	+3.8
Manufacturing	386,145	400,992	402,311	418,788	+3.8	+0.3	+4.1
Non-Manufacturing	270,060	284,457	290,437	300,173	+5.3	+2.1	+3.4
Total (Ex-Financials, Ex-SoftBank G)	649,449	678,205	685,079	710,768	+4.4	+1.0	+3.7
Operating Profit							
Total (Ex-Financials)	52,657	59,064	59,626	64,277	+12.2	+1.0	+7.8
Manufacturing	31,941	32,792	33,742	40,484	+2.7	+2.9	+20.0
Non-Manufacturing	20,716	26,272	25,883	23,792	+26.8	▲ 1.5	▲ 8.1
Total (Ex-Financials, Ex-SoftBank G)	52,656	54,633	56,091	64,263	**+3.8**	**+2.7**	**+14.6**
Ordinary Profit							
Total (Ex-Financials)	58,881	61,477	64,392	68,919	+4.4	+4.7	+7.0
Manufacturing	35,311	35,160	36,136	43,079	▲ 0.4	+2.8	+19.2
Non-Manufacturing	23,570	26,317	28,256	25,840	+11.7	+7.4	▲ 8.6
Total (Ex-Financials, Ex-SoftBank G)	58,823	59,772	60,858	68,905	**+1.6**	**+1.8**	**+13.2**
Profit After Taxes							
Total (Incl. Financials)	47,652	51,262	53,827	57,081	+7.6	+5.0	+6.0
Total (Ex-Financials)	40,620	41,981	43,578	46,567	+3.4	+3.8	+6.9
Manufacturing	24,706	23,556	24,219	29,086	▲ 4.7	+2.8	+20.1
Non-Manufacturing	15,914	18,425	19,359	17,481	+15.8	+5.1	▲ 9.7
Total (Ex-Financials, Ex-SoftBank G)	40,848	40,828	41,072	47,233	▲ 0.0	+0.6	+15.0

Note1: Forecasts by SMDAM.

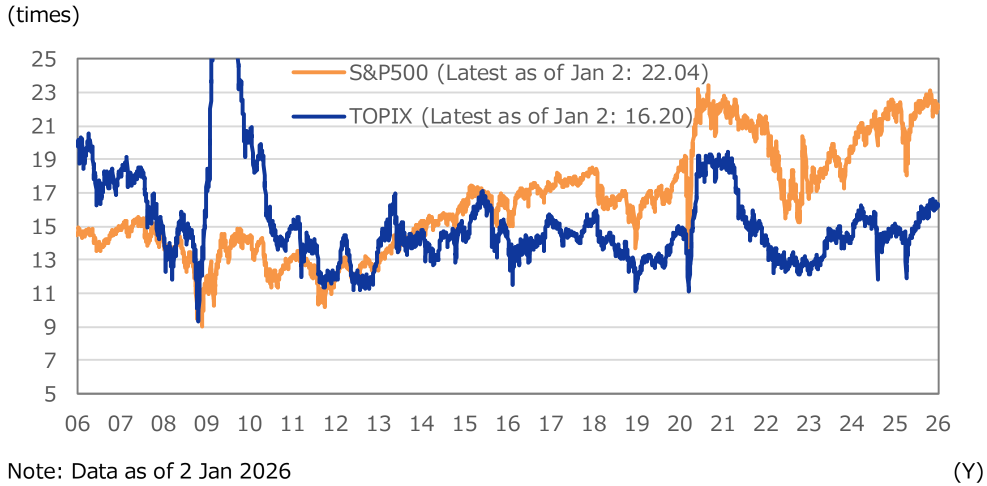
Note2: FX assumptions are USD/JPY at 151 and EUR/JPY at 175. A 1 JPY depreciation vs. USD increases ordinary profit by approximately 0.5%.

Note3: Coverage includes 402 Total (Incl. Financials), 373 Total (Ex-Financials), 215 Manufacturing, and 158 Non-Manufacturing stocks.

Note4: Aggregated earnings figures are based on in-house corporate forecasts and provided for reference only. Accuracy is not fully guaranteed.

Valuation (1)

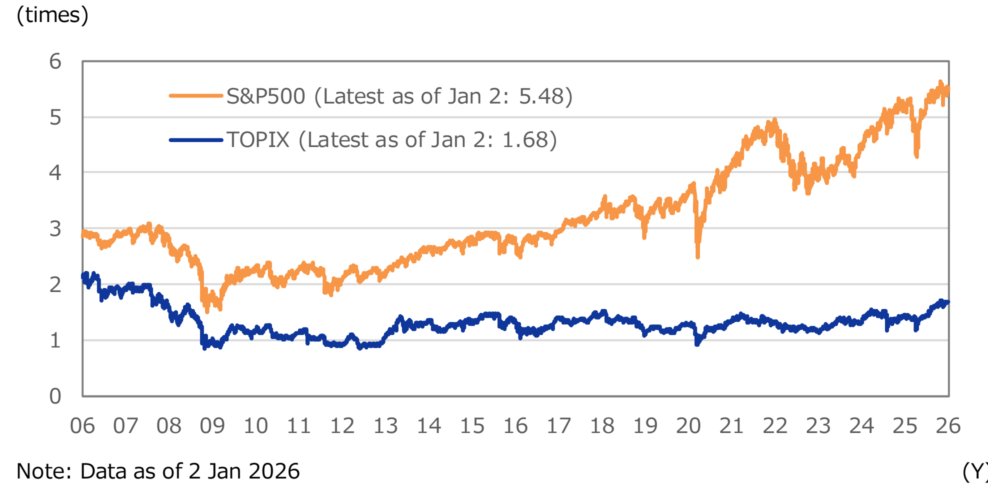
S&P 500 and TOPIX 12-Month Forward P/E Ratio



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

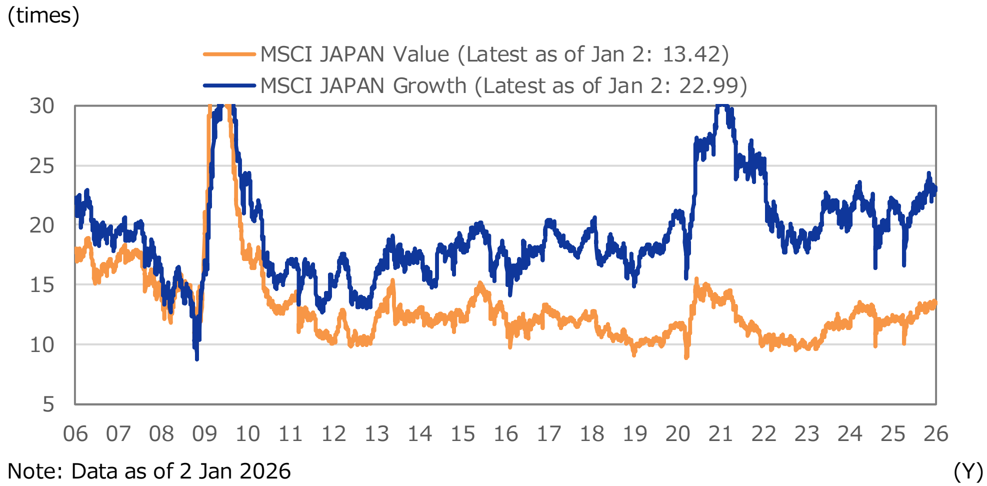
S&P 500 and TOPIX Historical P/B Ratio



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

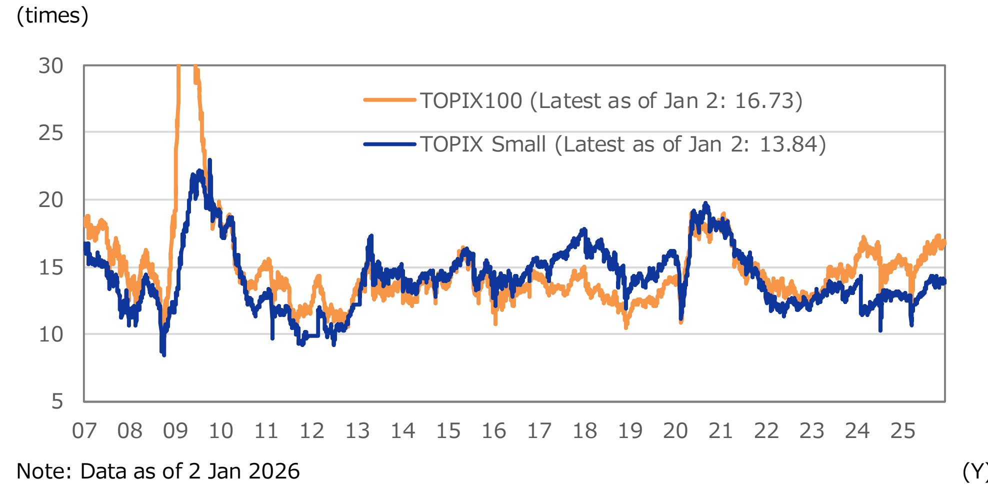
MSCI Japan 12-Month Forward P/E Ratio



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

TOPIX 100 and TOPIX Small 12M Forward P/E Ratio

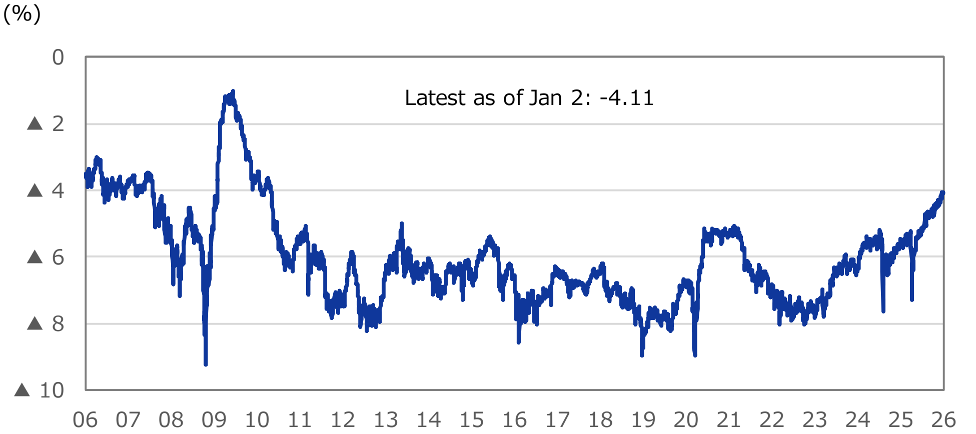


Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

Valuation (2)

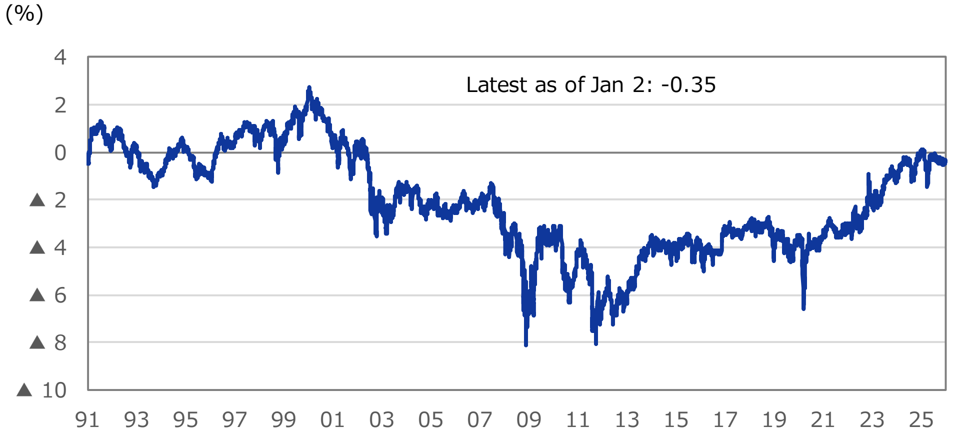
TOPIX Yield Spread (10Y JGB - Earnings Yield)



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

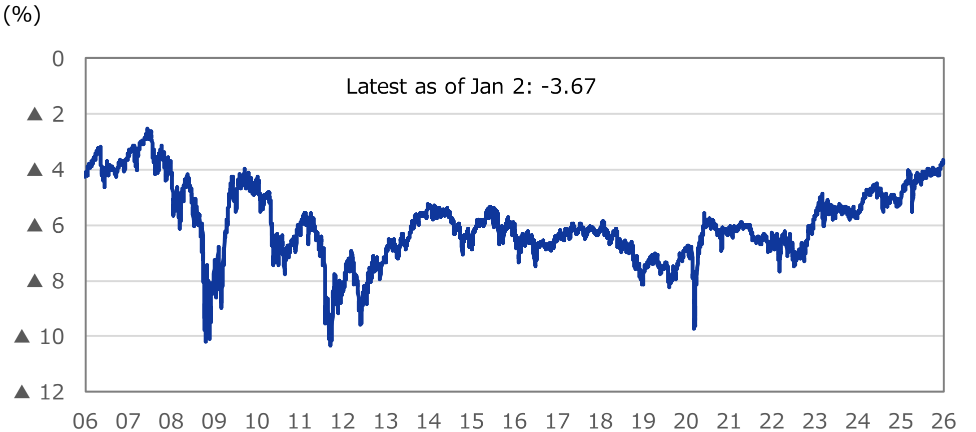
S&P 500 Yield Spread (10Y UST - Earnings Yield)



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

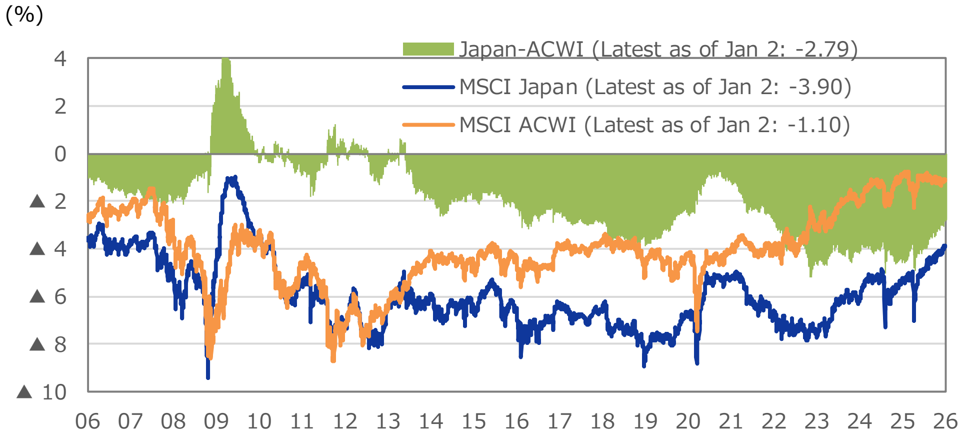
STOXX Europe 600 Yield Spread (10Y Bund - Earnings Yield)



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

MSCI Japan and ACWI Yield Spread (10Y Bond Yield - Earnings Yield)

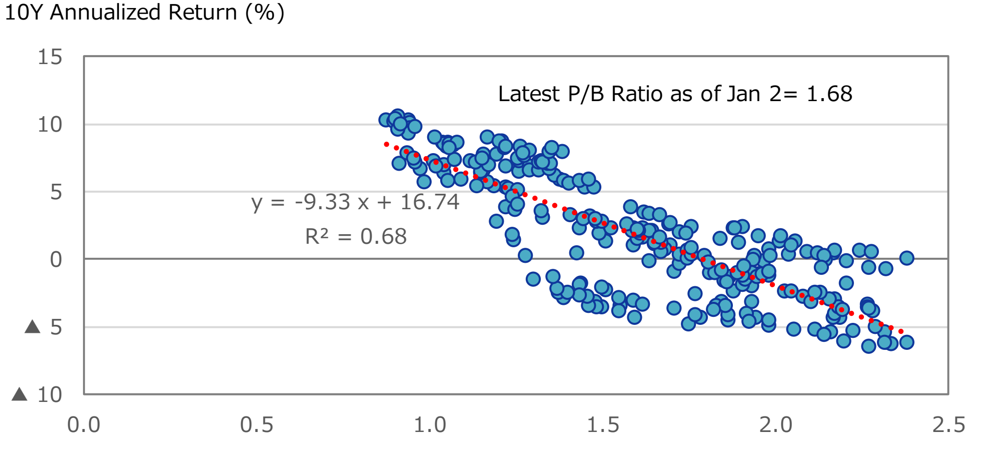


Note: Data as of 2 Jan 2026. For 10Y bond yield, Japan uses JGB, ACWI uses UST.

Source: SMDAM and Bloomberg

Valuation and Return

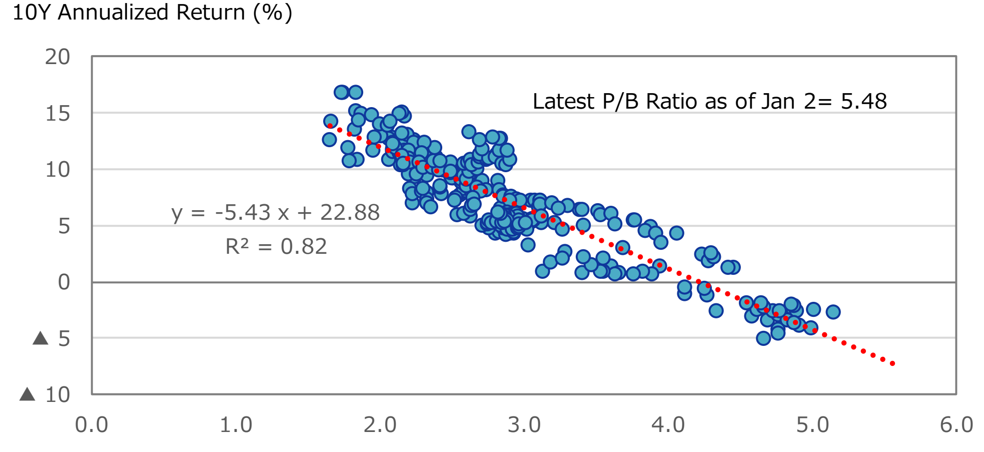
TOPIX Historical P/B Ratio and 10Y Annualized Return (From Oct. 1993)



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

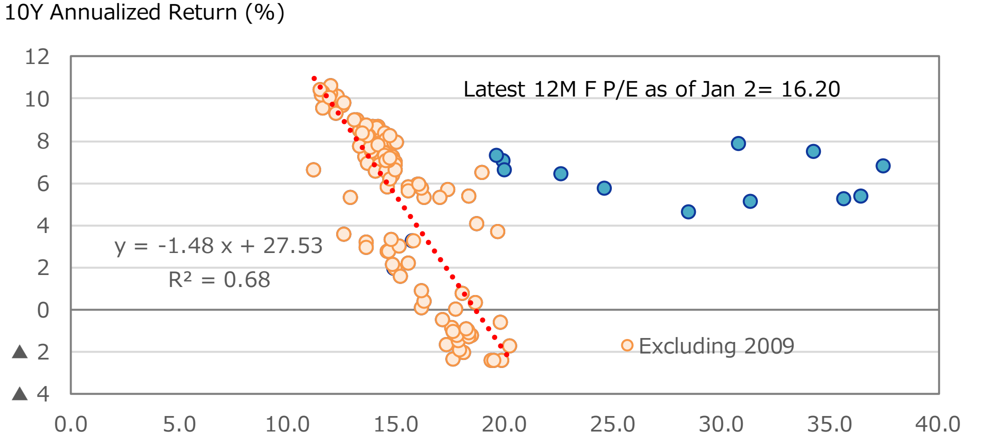
S&P500 Historical P/B Ratio and 10Y Annualized Return (From May 1990)



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

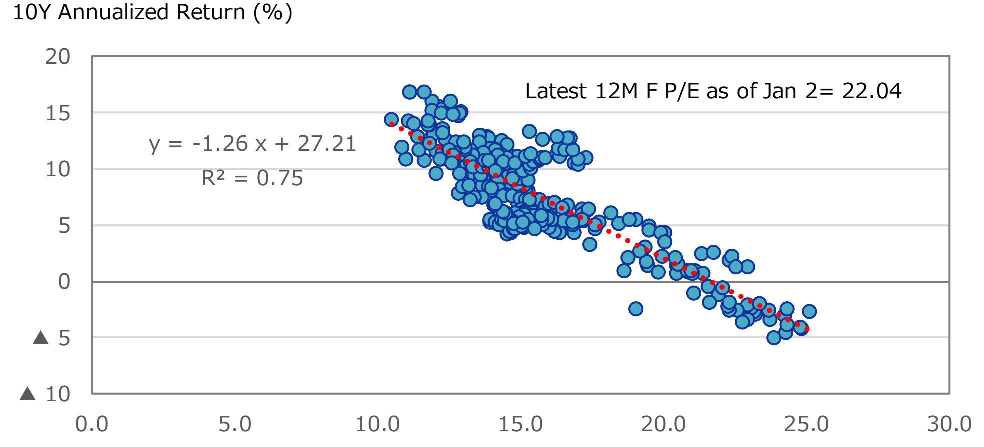
TOPIX 12M Forward P/E and 10Y Annualized Return (From Jul. 2005)



Note: Data as of 2 Jan 2026. The blue dots show 2009 data.

Source: SMDAM and Bloomberg

S&P500 12M Forward P/E and 10Y Annualized Return (From Jan. 1990)

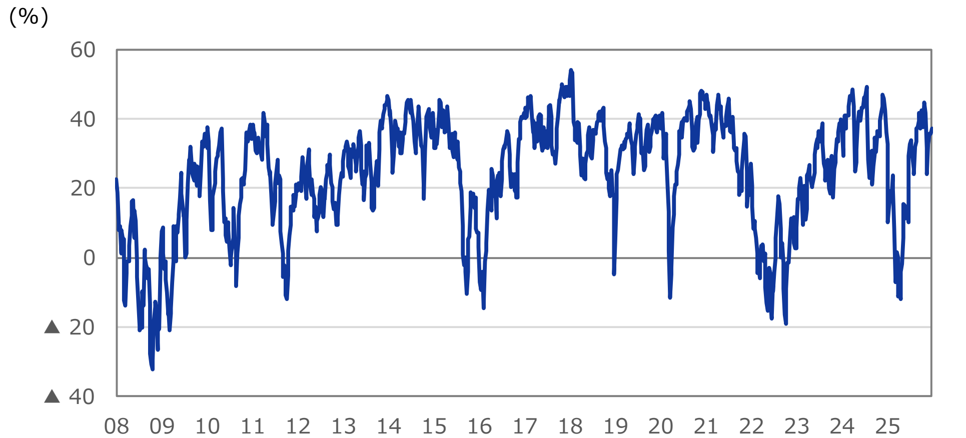


Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

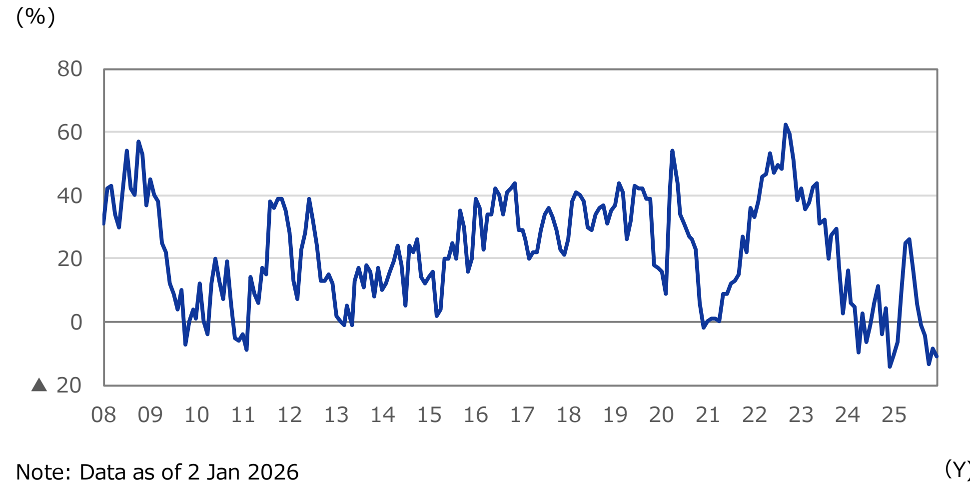
Stock Market Sentiment and Supply-Demand

Investors Intelligence Bull-Bear Spread



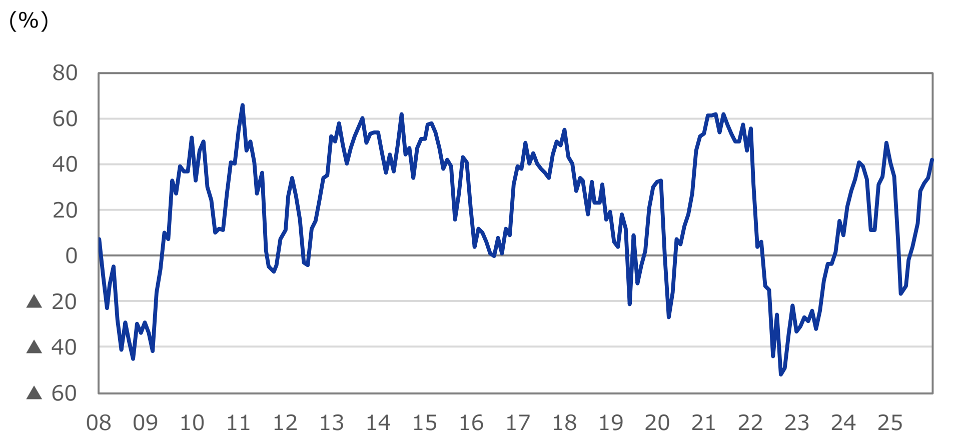
Note: Data as of 2 Jan 2026
Source: SMDAM and LSEG

FM Survey: Cash Net Balance



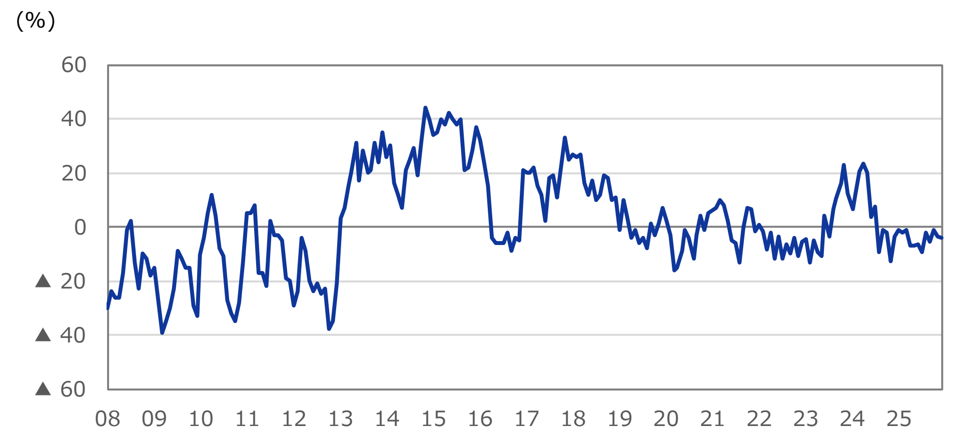
Note: Data as of 2 Jan 2026
Source: SMDAM and BofA

FM Survey: Equities Net Balance



Note: Data as of 2 Jan 2026
Source: SMDAM and BofA

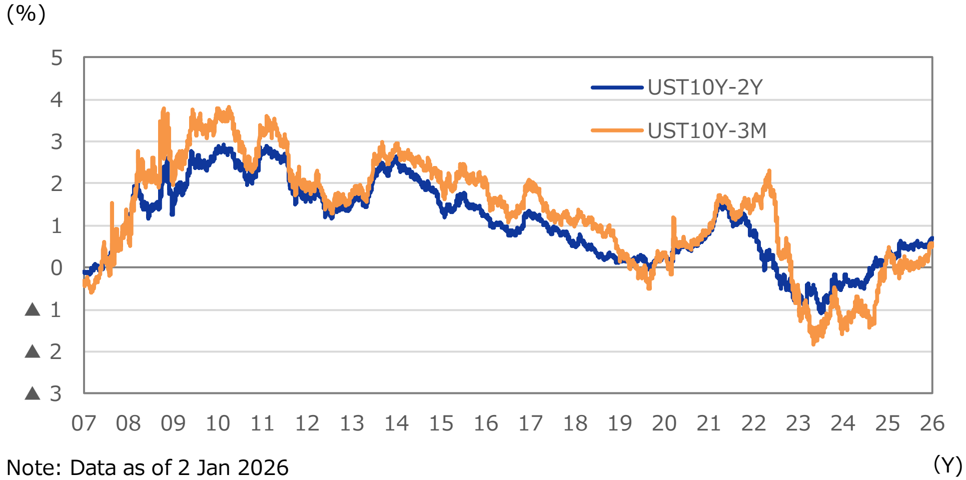
FM Survey: Japanese Equities Net Balance



Note: Data as of 2 Jan 2026
Source: SMDAM and BofA

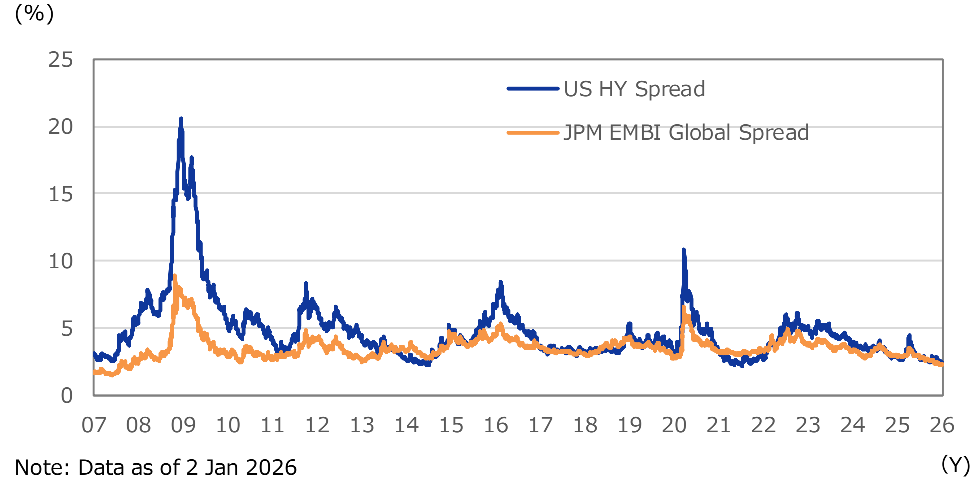
Risk Indicators

US Yield Curve Spread



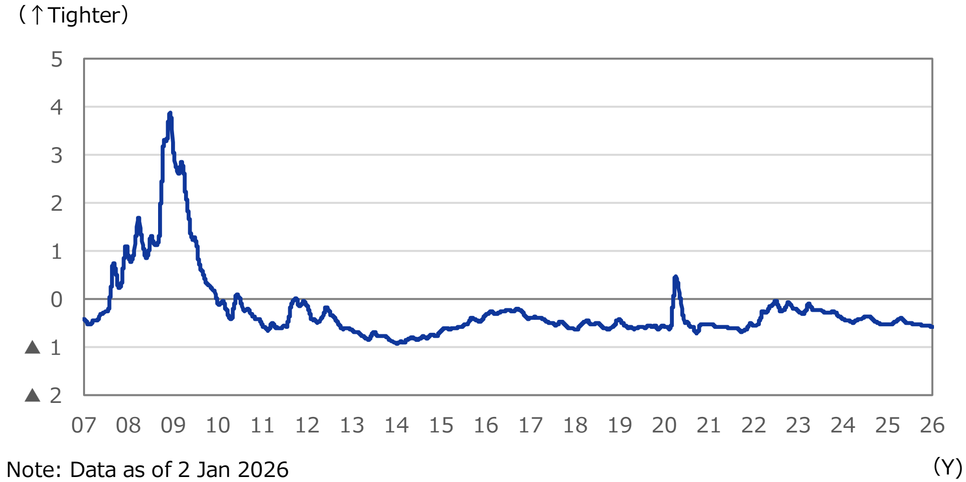
Note: Data as of 2 Jan 2026
Source: SMDAM and Bloomberg

US HY Spread and EM Spread



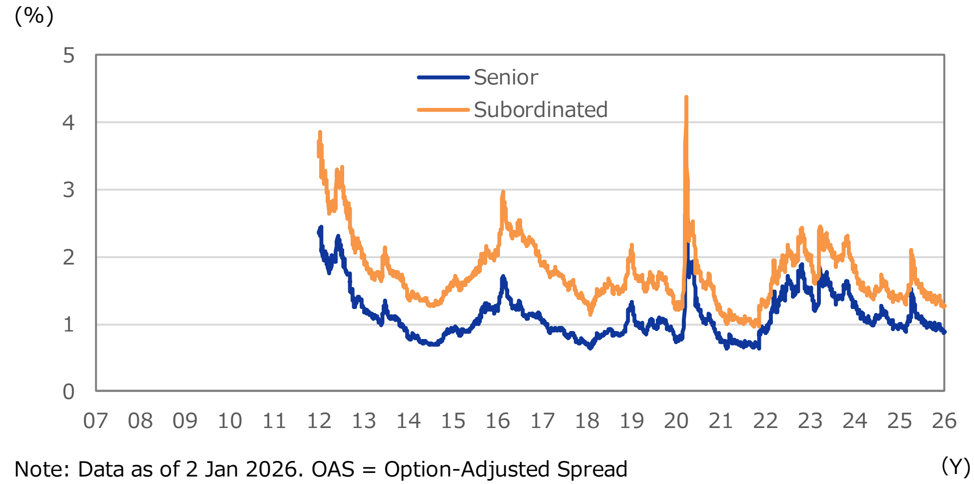
Note: Data as of 2 Jan 2026
Source: SMDAM and Bloomberg

Chicago Fed Adjusted National Financial Conditions Index (ANFCI)



Note: Data as of 2 Jan 2026
Source: SMDAM, Chicago Fed and Bloomberg

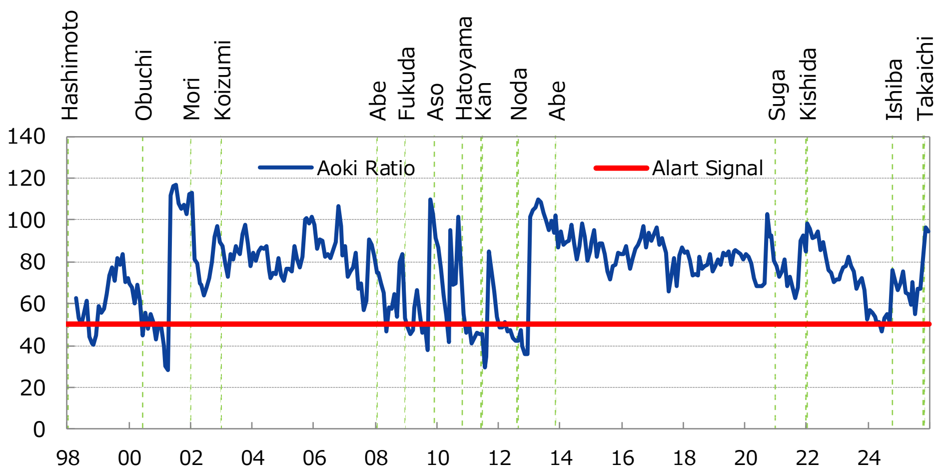
USD IG Financials OAS



Note: Data as of 2 Jan 2026. OAS = Option-Adjusted Spread
Source: SMDAM and Bloomberg

Japanese Politics: Sanaenomics acts as a catalyst for bond price declines, yen depreciation, and stock gains.

Aoki Ratio (Cabinet Approval Rating + Rulling Party Support Rate, %)



Source: SMDAM and NHK

Note: Data as of 2 Jan 2026

Seats in Lower and Upper Houses

Note: As of 2 Jan 2026

・The new LDP-Ishin coalition still falls just short of a majority in both houses.

	Lower House seats	Upper House seats
Liberal Democratic Party	199	101
Nippon Ishin / Japan Innovation Party	34	19
Ruling parties	**233**	**120**
Constitutional Democratic Party of Japan	148	42
Democratic Party For the People	27	25
Komeito	24	21
Reiwa Shinsengumi	9	6
Japanese Communist Party	8	7
Sanseito	3	15
Others	13	12
Majority	**233**	**125**
Total	**465**	**248**

Source: SMDAM, the House of Representatives and the House of Councillors

Sanaenomics: Key Points

Fiscal Policy	Responsible Expansion	Flexible PB Surplus Target
	FY25 Supplementary Budget	¥17.7tn (2.8% of GDP); 3 pillars: inflation relief, growth, defense/diplomacy
	FY26 Initial Budget	Expenditures ¥122tn (+¥7tn vs FY25 initial Budget); +¥0.7tn free education; +¥1.0tn GX/semiconductors.
	Mid/Long-Term Discussion	Discussion: Refundable tax credits, sub-capital, cut social insurance premiums
Monetary Policy		Government responsible for setting direction
Growth Strategy, Economic Security	Strong Economy & Supply Capacity; 17 Strategic Areas	AI/semis, shipbuilding, quantum, biotech, aviation/space, digital/cyber, content, food tech, resources, resilience, drug discovery, fusion, minerals, ports, defense, ICT, oceans
National Security	Revision of Three Security Documents	Defense: higher GDP target; export expansion; Three Non-Nuclear review

Source: SMDAM and Various Media Reports

Note: As of 2 Jan 2026

Political Scenarios

Note: As of 2 Jan 2026

Scenarios	Prob.	JGBs	Weak JPY	JP Stocks
Skips snap election; minority govt continues	○	×	○	○
Skips snap election; coalition expands, ends minority govt	○	×	○	○
Wins snap election; coalition expands, ends minority	○	×	○	○
Loses snap election; minority govt continues	○	×	○	○
Loses snap election; PM resigns	△	△	△	×
Ishin leaves coalition; no-confidence motion passes	△	×	○	×

Note: SMDAM evaluations. Prob.: ○ High; △ Moderate. JGBs: × Price –; △ Neutral. Weak JPY: ○ Weaker; △ Neutral. JP Stocks: ○ Higher; × Lower.

Source: SMDAM and Various Media Reports

Governance (1): Cash Hoarding - Key Issue in 2026 CG Code Revision

Corporate Governance Reforms Since 2013

Note: Data as of 2 Jan 2026

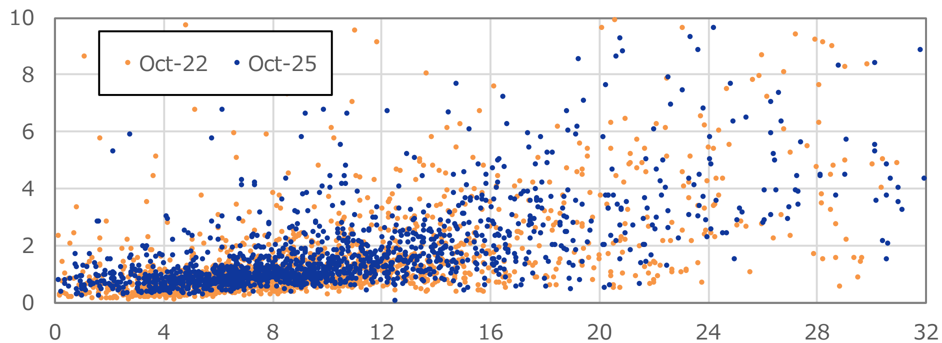
Period	Event	Points
2013/6	Cabinet decision on development of Japan’s Stewardship Code under the Japan Revitalization Strategy	
2014/2	**Japan's Stewardship Code formulated**	Principles of conduct requiring institutional investors to engage in dialogue with companies and promote sustainable growth of investee companies over the med to long term perspective. Includes proper management of conflicts of interest, understanding investee companies' governance and corporate strategies, and disclosure of voting policies and results, etc
2014/6	Cabinet decision on development of the Corporate Governance Code under "Japan Revitalization Strategy 2014"	
2015/5	**Corporate Governance Code formulated**	Principles of conduct for listed companies to collaborate with diverse stakeholders and improve medium- to long-term profitability under effective management strategies. Includes clarification of cross-shareholding policies, utilization of independent outside directors, and constructive dialogue with shareholders, etc
2017/5	**Stewardship Code revised**	Expansion of application to passive management, emphasis on ESG factors, enhanced transparency in voting, strengthened conflict of interest management
2018/6	**Corporate Governance Code revised**	Appointment of sufficient outside directors, ensure independence of nomination and compensation, strengthened supervision of CEO selection/dismissal and succession planning, reduction of cross-shareholdings, improved capital efficiency, clarification of ESG responses
2020/3	**Stewardship Code second revision**	Principles of conduct to promote long-term corporate value enhancement and sustainable growth through deep understanding of companies' business environments and constructive dialogue based on sustainability considerations according to investment strategies. Includes code application to other assets, disclosure of reasons for voting decisions, disclose outcomes of stewardship activities
2021/6	**Corporate Governance Code second revision**	Appointment of independent outside directors comprising at least one-third, establishment of independent nomination and compensation committees, disclosure of sustainability initiatives
2022/4	TSE market segment reorganized	TSE First/Second Sections and Mothers/JASDAQ reorganized into Prime, Standard, and Growth markets
2023/3	**TSE requests Prime and Standard listed companies to implement "management conscious of cost of capital and stock price"**	
2023/4	**FSA publishes "Corporate Governance Action Program"**	Balance between profitability/growth-conscious management including business portfolio review and sustainability-conscious management, enhanced function of independent outside directors, substantiation of stewardship activities, enrichment of information disclosure, etc
2023/8	METI publishes "Guidelines for Corporate Acquisitions"	Presents principles and best practices for fair rule formation in M&A, including corporate value enhancement and shareholder interest protection, respect for shareholder will and transparency assurance, etc
2024/1	TSE publishes list of companies disclosing responses on “management conscious of cost of capital and share price”	
2024/2	TSE publishes best practice examples for follow-up on "management conscious of cost of capital and stock price"	
2024/6	**FSA publishes "Corporate Governance Action Program 2024"**	Promotes measures toward "practice" of corporate governance reforms based on autonomous mindset change among companies and investors through verification and sharing of specific initiatives
2025/3	Transitional measures end for TSE companies not meeting continued listing criteria	Companies not meeting standards within a specified period may be designated as surveillance issues or arrangement issues, potentially leading to delisting
2025/6	**FSA publishes "Corporate Governance Action Program 2025"**	Promotes dialogue based on constructive trust relationships with appropriate tension that truly contributes to sustainable corporate growth and medium- to long-term corporate value enhancement, while encouraging substantiation of corporate governance reforms including improved earning power
2025/10	**First FY2025 meeting of the Expert Panel on Revision of the Corporate Governance Code**	Key topics include code streamlining and principle-based approach, clarification of verification and accountability for effective utilization of cash and deposits for investment

Source: SMDAM, FSA, METI and Japan Exchange Group

Governance (2): Corporate Response to TSE's Cost of Capital Conscious Management Request

Shifts in P/B and ROE Distribution of TSE Prime Companies Before and After the Call for Capital Cost and Stock Price-Conscious Management

(P/B, times)

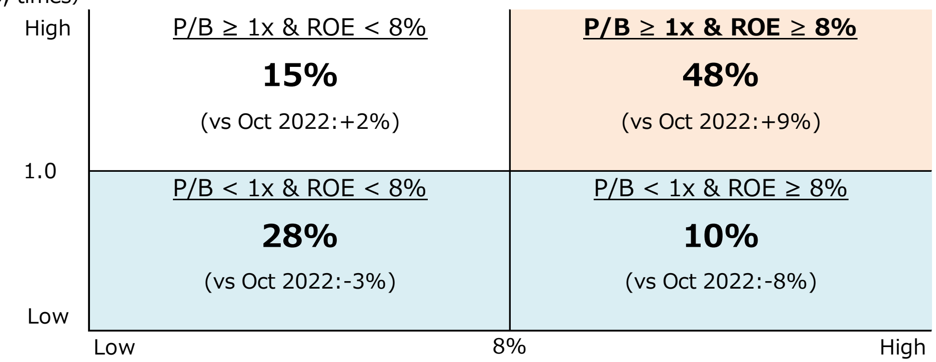


Note: As of 2 Jan 2026 (ROE、%)

Source: SMDAM and Bloomberg

P/B & ROE Distribution in TSE Prime Companies Pre-/Post-Call for Capital Cost and Stock Price-Conscious Management (Oct 2025, Share of Total)

(P/B, times)



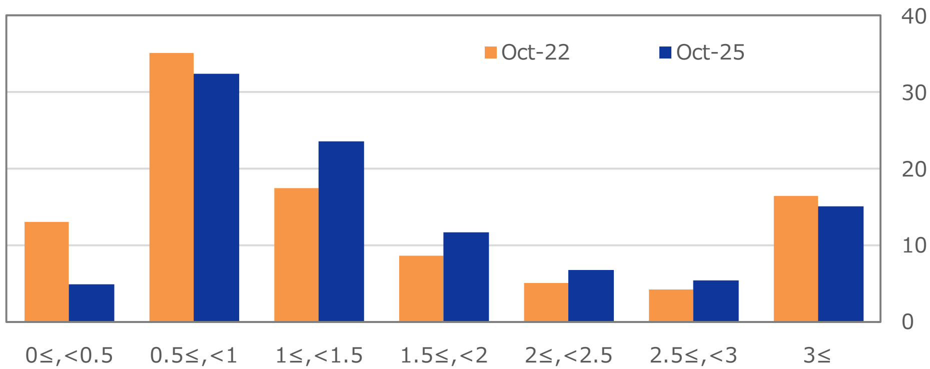
(ROE、%)

Note: As of 2 Jan 2026

Source: SMDAM and Tokai Tokyo Securities

Shifts in P/B Distribution of TSE Prime Companies Before and After the Call for Capital Cost and Stock Price-Conscious Management

(Share of Total, %)

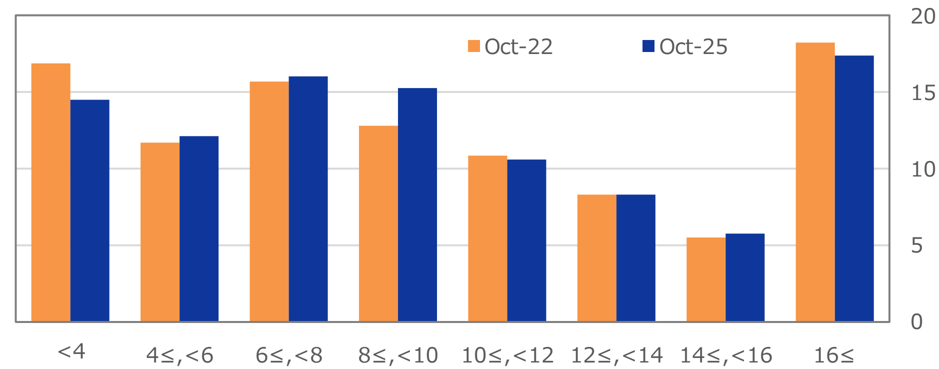


Note: Data as of 2 Jan 2026 (P/B, times)

Source: SMDAM and Bloomberg

Shifts in ROE Distribution of TSE Prime Companies Before and After the Call for Capital Cost and Stock Price-Conscious Management

(Share of Total, %)

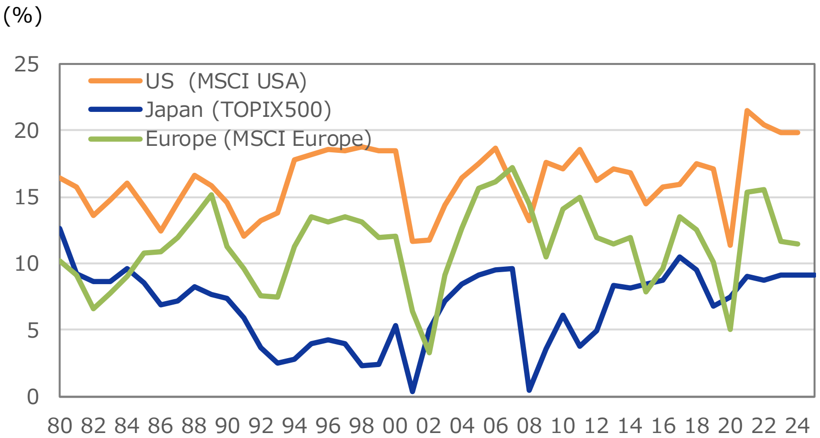


Note: As of 2 Jan 2026 (ROE、%)

Source: SMDAM and Bloomberg

Governance (3): ROE

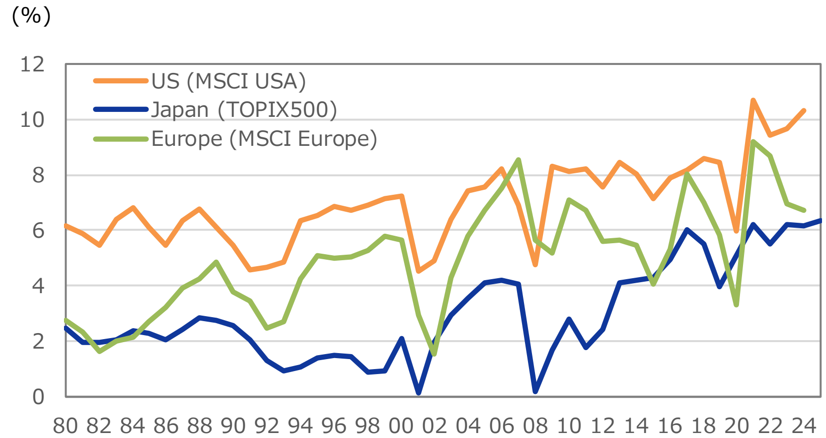
Long-term Trends of ROE in Japan, the US, and Europe



Note: Data as of 2 Jan 2026. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

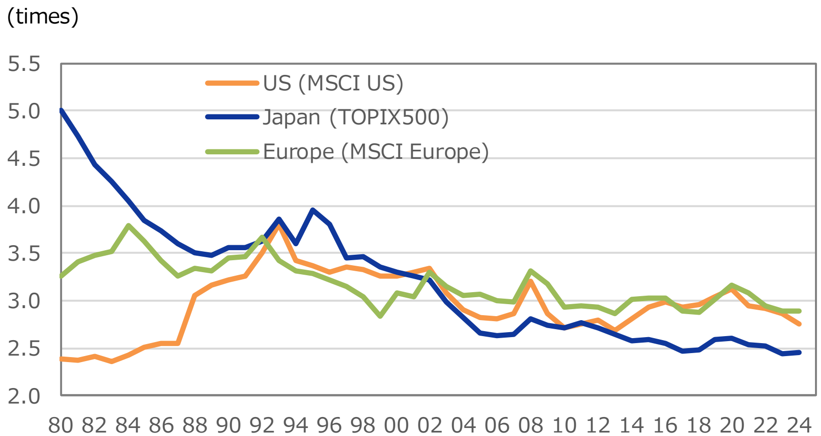
Long-term Trends of Net Profit Margins in Japan, US, and Europe



Note: Data as of 2 Jan 2026. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

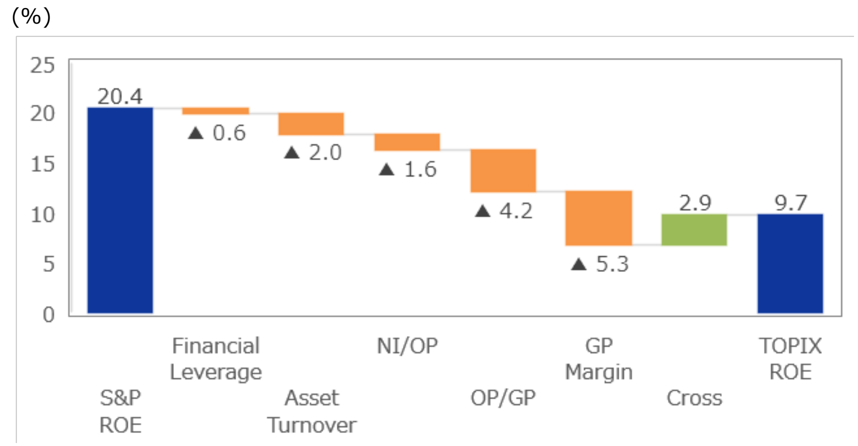
Long-term Trends of Financial Leverage in Japan, US, and Europe



Note: Data as of 2 Jan 2026. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

ROE Comparison: Japan vs US (TOPIX 500 vs S&P 500, Ex-Financials)

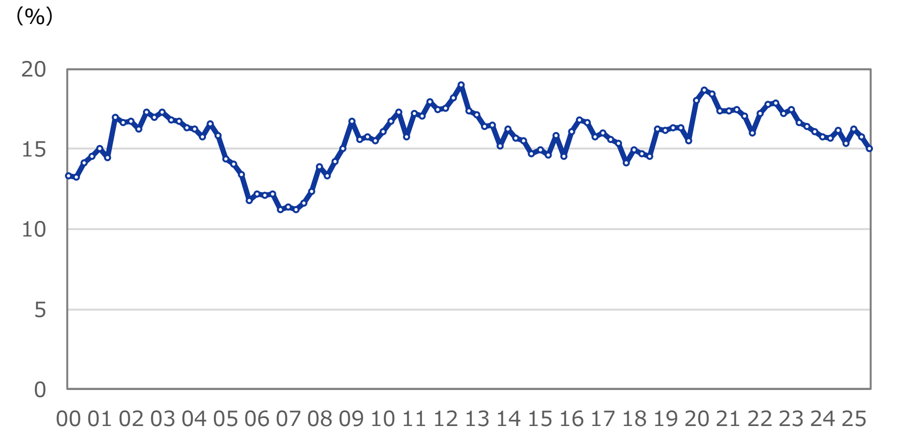


Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

Governance (4): Effective Cash Utilization

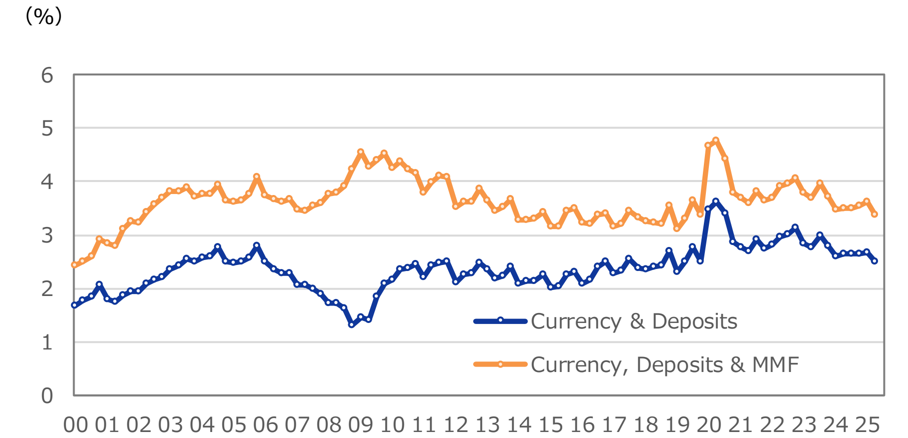
Cash Ratio in B/S of Japanese Non-Financial Corporations



Note: Data as of 2 Jan 2026

Source: SMDAM and BoJ

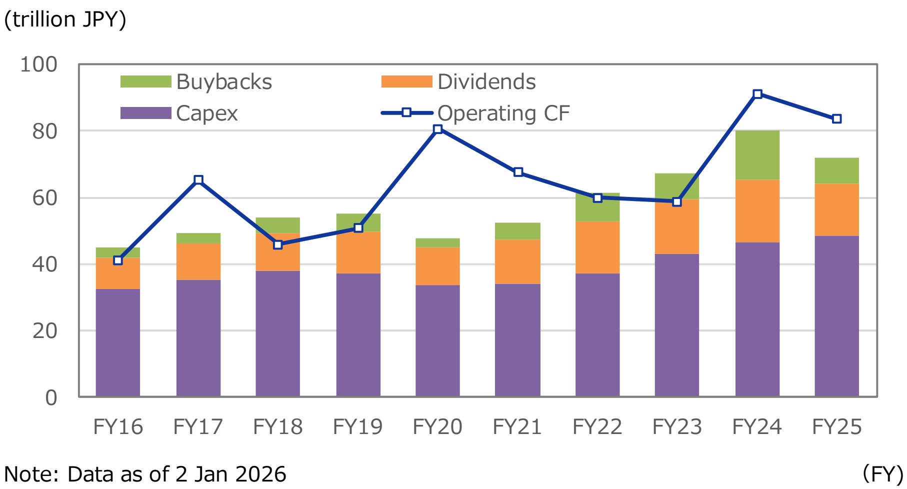
Cash Ratio in B/S of US Non-Financial Corporations



Note: Data as of 2 Jan 2026

Source: SMDAM and FRB

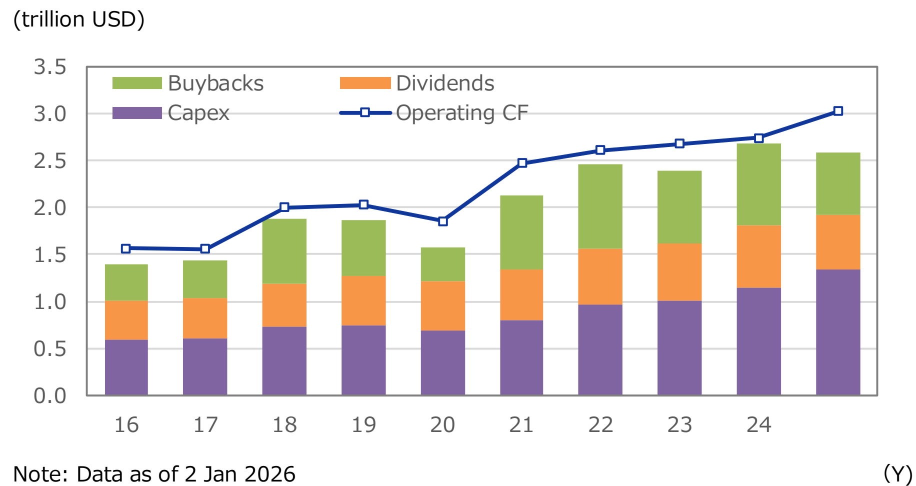
OCF, Investment, and Shareholder Returns for TOPIX 500 Companies



Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

OCF, Investment, and Shareholder Returns for S&P 500 Companies

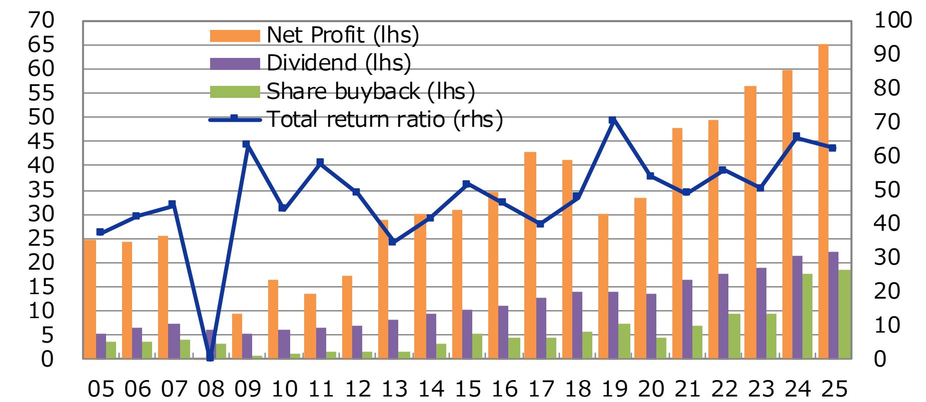


Note: Data as of 2 Jan 2026

Source: SMDAM and Bloomberg

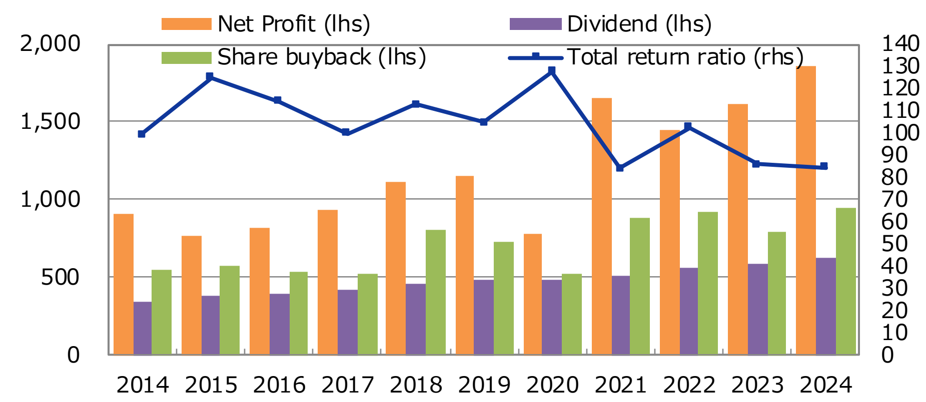
Governance (5): Shareholder Returns

Total Shareholder Return Ratio (TOPIX)



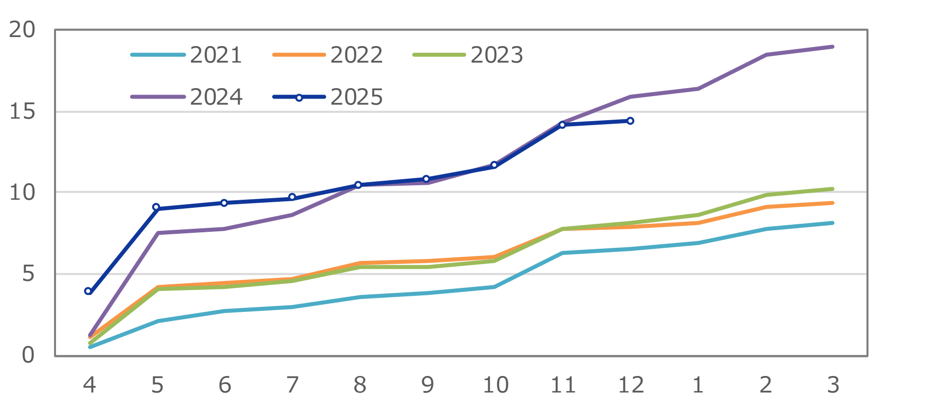
Note: Data as of 2 Jan 2026
Source: SMDAM and Tokai-Tokyo Sec.

Total Shareholder Return Ratio (S&P500)



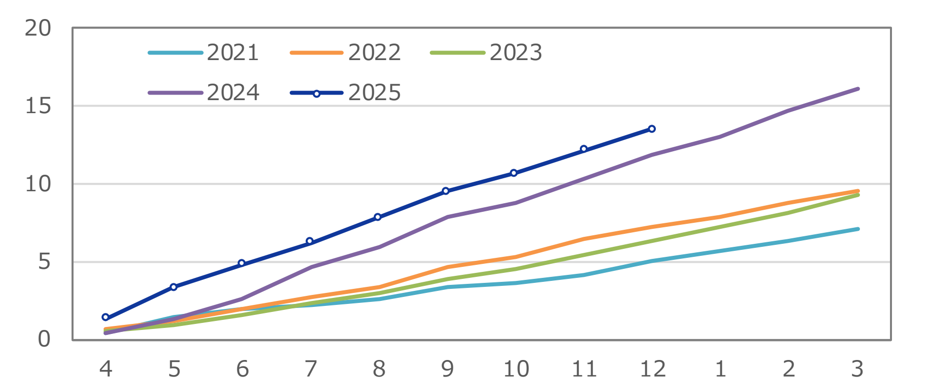
Note: Data as of 2 Jan 2026
Source: SMDAM and Tokai-Tokyo Sec.

Share Buyback Programs by Japanese Companies (FY Cumulative)



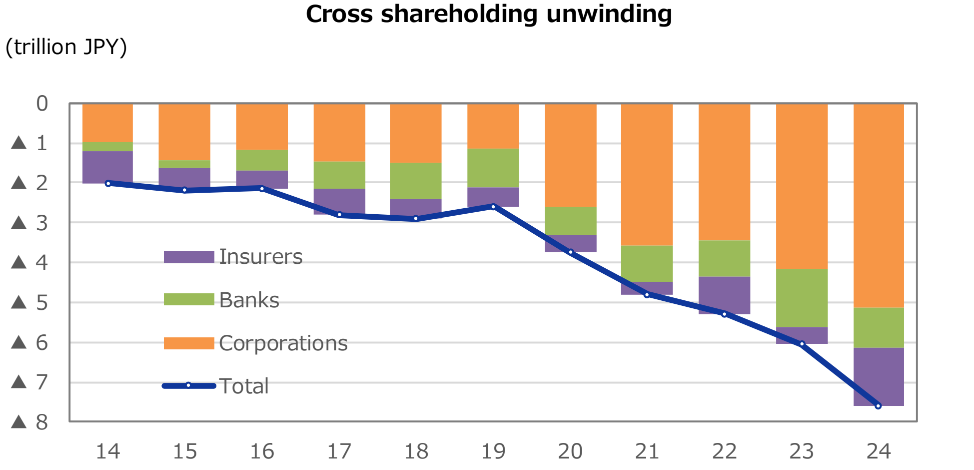
Note: Data as of 2 Jan 2026
Source: SMDAM and INDB

Share Buyback Activity by Japanese Companies (FY Cumulative)



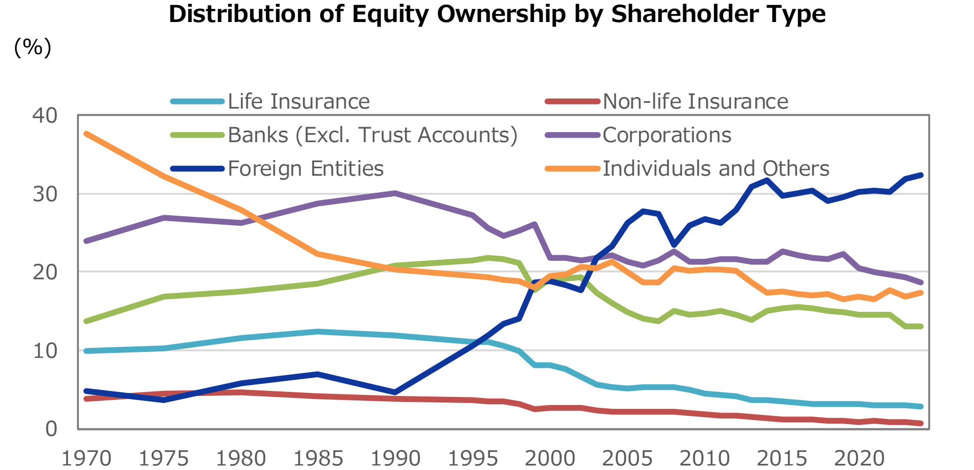
Note: Data as of 2 Jan 2026
Source: SMDAM and INDB

Governance (6): Ownership Structure & Shareholder Meetings



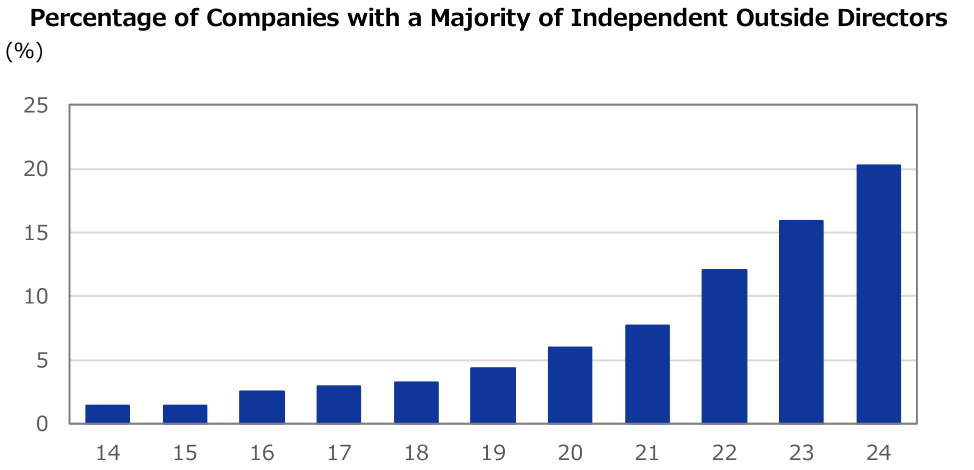
Note: Data as of 2 Jan 2026

Source: SMDAM and Tokai Tokyo Securities



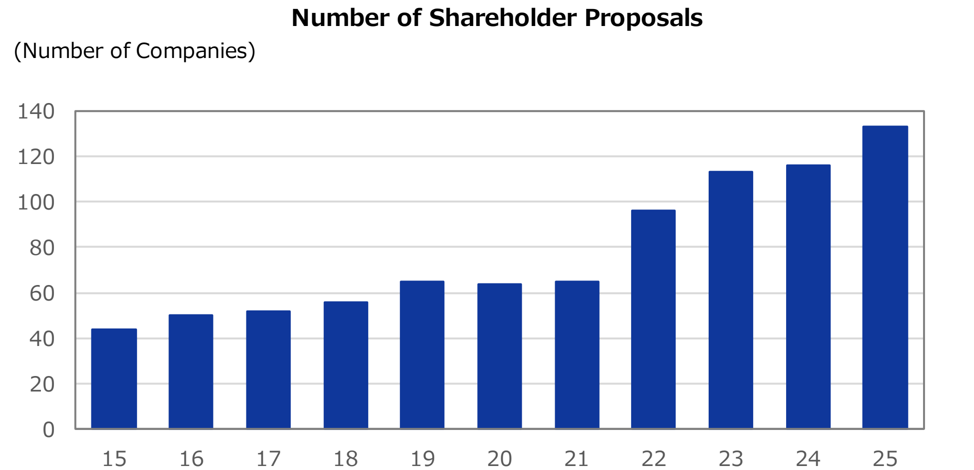
Note: Data as of 2 Jan 2026

Source: SMDAM and JPX



Note: Data as of 2 Jan 2026

Source: SMDAM and JPX

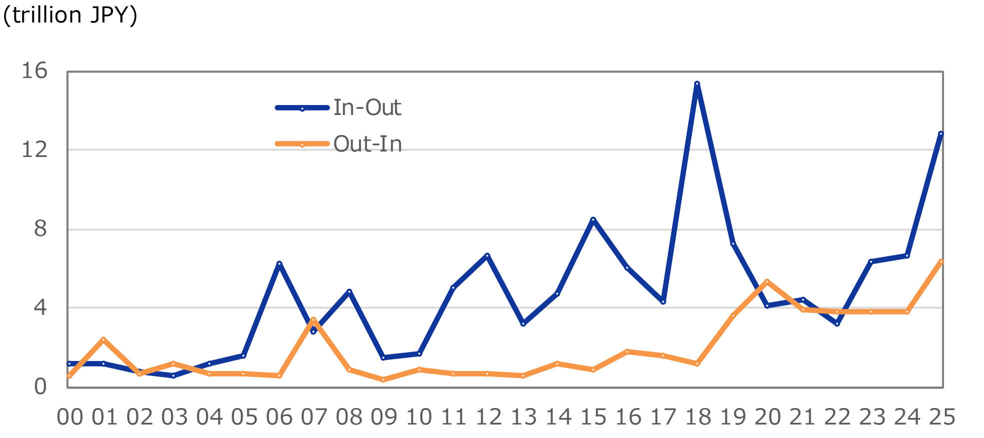


Note: Data as of 2 Jan 2026

Source: SMDAM and Japan Institute of Business Law

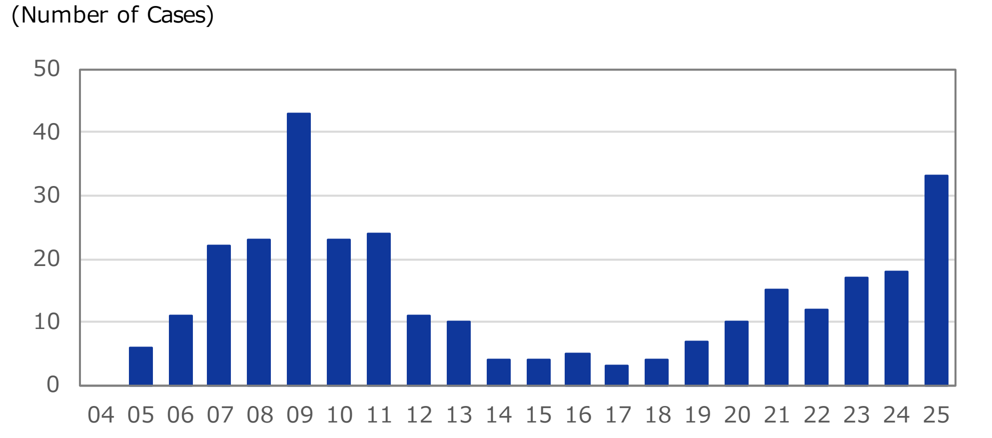
Governance (7): Rising Takeover Risk

Trends in M&A Deal Value Involving Japanese Companies



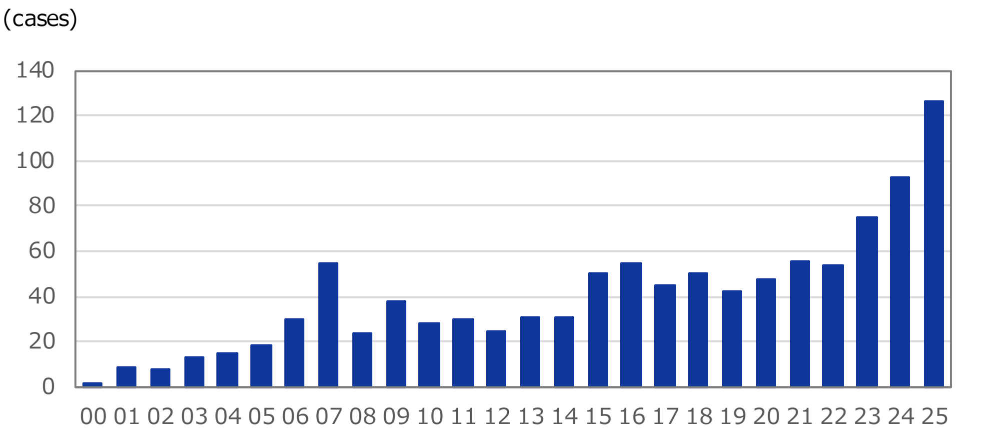
Note: As of 2 Jan 2026
Source: SMDAM and Bloomberg

Trends in MBO Transactions



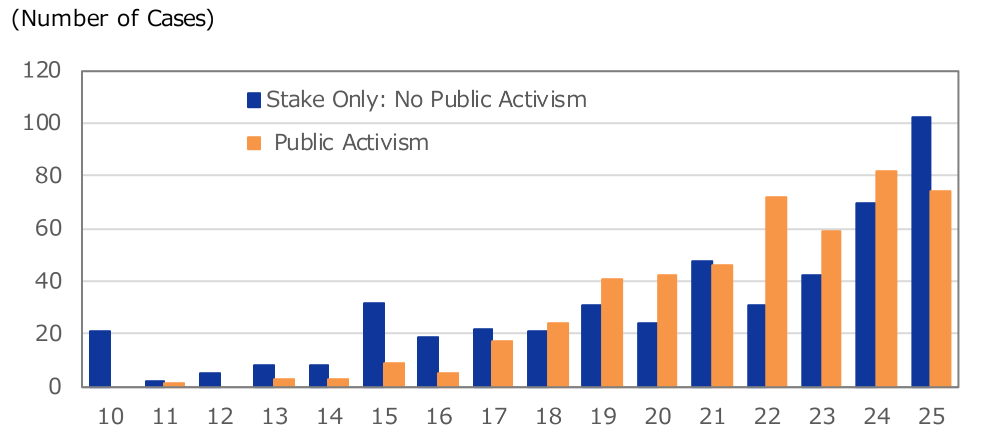
Note: As of 2 Jan 2026
Source: SMDAM and Bloomberg

Trends in Number of TOBs (TSE Listed Companies)



Note: As of 2 Jan 2026
Source: SMDAM and Bloomberg

Activist investor activity



Note: As of 2 Jan 2026
Source: SMDAM and Bloomberg

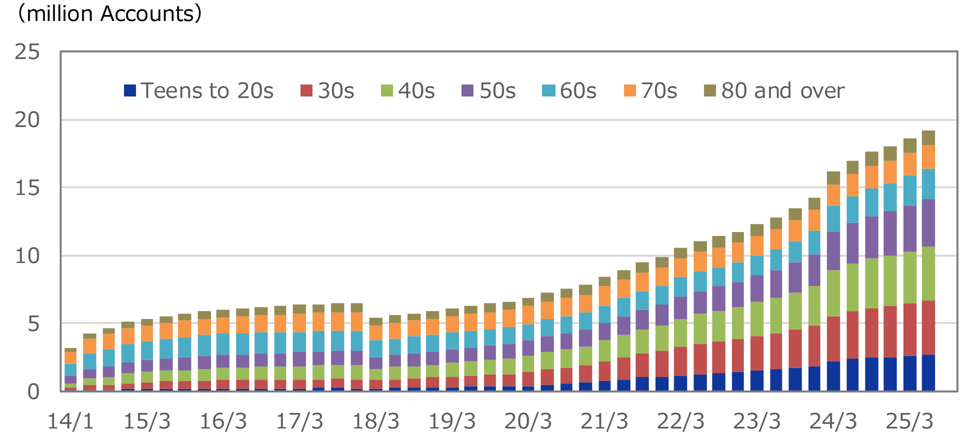
NISA

Comparison of old and new NISA (Tax free investing program like UK ISA)

	Old NISA		NEW NISA	
	Tsumitate NISA	General NISA	Tsumitate Quota	Growth Quota
Lifetime Limit	JPY 8 mn	JPY 6 mn	JPY 18 mn (JPY 12 mn for Growth Quota)	
Annual Limit	JPY 0.4 mn	JPY 1.2 mn	JPY 1.2 mn	JPY 2.4 mn
Tax Exemption Period	20 years	5 years	No Limit	
Availability for Combined Use	No		Yes	
Investment Option	FSA selected Investment trusts and ETFs	Listed stocks, ETFs, REITs and Investment trusts	FSA selected Investment trusts and ETFs	Listed stocks, ETFs, REITs and Investment trusts
Target Age	18 and older		18 and older	

Source: SMDAM and FSA   Note: As of 2 Jan 2026

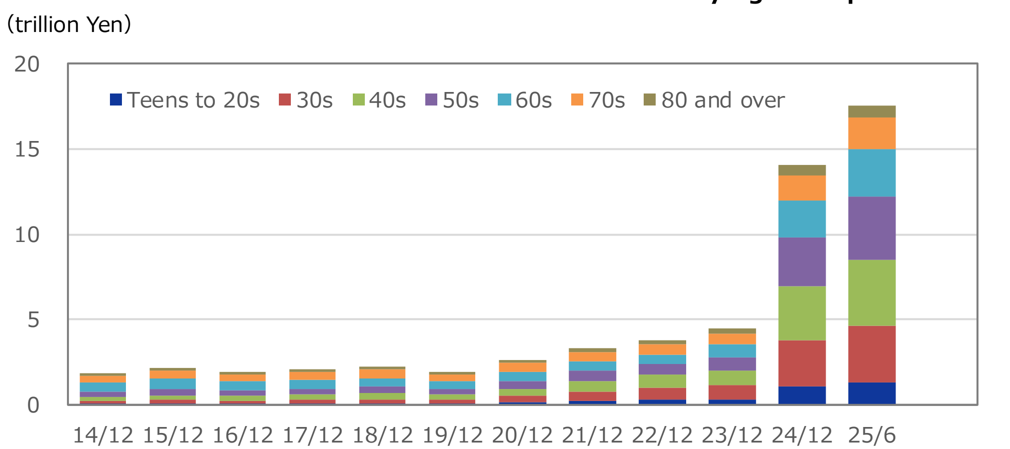
Number of NISA Accounts by Age Group



Note: Data as of 2 Jan 2026   (Y/M)

Source: SMDAM and Japan Securities Dealers Association

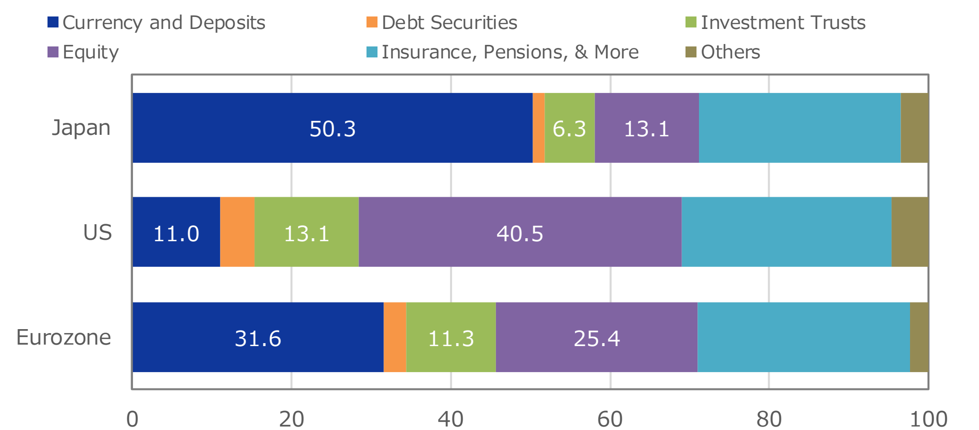
Annual Purchase Amount in NISA Accounts by Age Group



Note: Data as of 2 Jan 2026. End-June 2025 figure is annualized.   (Y/M)

Source: SMDAM and Japan Securities Dealers Association

Financial Assets held by Households (As of June 2025)



Note: Data as of 2 Jan 2026   (%)

Source: SMDAM, BoJ, FRB and ECB

Event Schedule: Focus— BOJ Noguchi's successor appointment, Trump Tariff Decision, Fed Appointments

	Date	Japan	Date	U.S.	Date	Other Regions
January to March 2026	Jan Jan Mid-Mar Mar 31	Opening of the Ordinary Diet Session BOJ starts selling ETF holdings Key Response Day for Spring Wage Negotiations Expiration of the Term of BoJ Policy Board Member Noguchi	Jan **Jan** **Jan** **Jan 30** **Jan 31** Q1 Feb Feb	The Opening of the U.S. Senate and House of Representatives **Announcement of the successor to FRB Chairman Powell?** **Supreme Court Decision on Trump Tariffs (If unconstitutional: lower tariff rates, reduced tariff revenue)** **US Government Funding Deadline (Risk of another shutdown without extension)** **Milan's Fed Board term** The Three Major Presidential Messages Congressional Testimony of the Federal Reserve Chair Primary Elections Ramp Up Ahead of U.S. Midterm Elections	Jan Feb 6- Feb Mar 5	IMF World Economic Outlook Opening of the Winter Olympics (Milan) G20 Finance Ministers and Central Bank Governors Meeting National People's Congress of China
April to June	Jun 29 Jun Jun? Jun?	Expiration of the Term of BoJ Policy Board Member Nakagawa Closing of the Ordinary Diet Session Cabinet's approval of the growth strategy Corporate Governance Code revision	Apr? **May 15**	US Treasury Semi-annual Currency Report **Expiration of the Term of Federal Reserve Chair Powell**	Apr Apr May 31 Jun 15	IMF and World Bank Spring Meetings IMF World Economic Outlook Expiration of the Term of Office for ECB Vice President De Guindos G7 Summit
July to September	Sep 30	Executive Appointments in the Liberal Democratic Party	Jul Aug	Congressional Testimony of the Federal Reserve Chair Jackson Hole Economic Symposium	Jul	IMF World Economic Outlook
October to December	Dec	Cabinet Approval of the 27 FY Budget Proposal and Tax Reform Outline	Oct? **Nov 3**	US Treasury Semi-annual Currency Report **U.S. midterm elections**		
January to March 2027	Jan Mid-Mar	Opening of the Ordinary Diet Session Key Response Day for Spring Wage Negotiations	Jan	The Opening of the U.S. Senate and House of Representatives	Jan Mar	IMF World Economic Outlook National People's Congress of China

Source: Compiled by SMDAM

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