Outlook for Japan Equity Market

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Summary

Japan Stock Market Outlook

We remain positive on Japanese equities. In January, both the Nikkei 225 and TOPIX rose, with TOPIX reaching a new record high, supported by strength in U.S. semiconductors and election-related policy expectations. Looking ahead, a growth recovery under accommodative financial conditions and fiscal support should underpin earnings and equities. If the ruling LDP wins in the coming election, greater political stability would be supportive, though an emphasis on redistribution measures (e.g., consumption tax cuts) could raise JPY rates/FX volatility.

Economic and Monetary Policy

We expect growth to recover in 2026 both in Japan and abroad. We forecast the BoJ to continue gradual hikes—roughly semiannually—toward 1.50% by mid-2027, while the Fed stays largely on hold in 2026 amid firmer growth and sticky inflation. Rate differentials should limit abrupt yen appreciation; authorities are unlikely to tolerate excessive yen weakness.

Key Drivers for Japan’s Stock Market

Japan’s progress toward a sustainable 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 growth-policy execution and governance reform drawing foreign inflows. Downside risks include a spike in JGB yields, U.S. credit stress, Japan–China tensions (boycotts/rare-earth export restrictions), and geopolitical shocks. Excessive fiscal expansion could revive fiscal concerns and raise JPY rate volatility; AI remains a two-sided risk depending on deployment and monetization.

Outlook for the Japanese Economy

SMDAM Forecasts: Japanese Economy

Forecasts as of 16 Jan 2026		FY22 (A)	FY23 (A)	FY24 (A)	FY25 (E)	FY26 (E)	FY27 (E)
Real GDP	(yoy, %)	1.4	0.0	0.5	0.9	0.9	0.8
Private Consumption	(yoy, %)	2.5	▲ 1.0	0.2	1.2	1.2	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	1.9	2.3	1.8
Public Investment	(yoy, %)	▲ 4.5	▲ 0.1	0.1	▲ 0.9	0.5	0.6
Net Exports (contribution)	(%point)	▲ 0.6	1.2	▲ 0.4	▲ 0.0	▲ 0.2	▲ 0.0
Exports	(yoy, %)	4.7	2.8	1.7	2.5	1.3	2.3
Imports	(yoy, %)	7.4	▲ 2.4	3.3	2.8	2.4	2.5
Nominal GDP growth	(yoy, %)	2.6	4.7	3.7	4.0	3.1	2.9
GDP deflators	(yoy, %)	1.2	4.7	3.2	3.1	2.1	2.1
Industrial production	(yoy, %)	▲ 0.3	▲ 1.9	▲ 1.4	0.8	1.5	1.1
Core CPI	(yoy, %)	3.0	2.8	2.7	2.7	1.7	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 20 Jan 2026		2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1
GDP Growth Rate									
Unites States	(saar, %)	3.8	4.3	3.2	0.6	2.0	2.3	2.0	1.9
Japan	(saar, %)	2.1	▲ 2.3	1.4	0.6	1.2	1.1	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	2.8	2.8	2.7	2.6	2.5	2.3
Japan	(core CPI, yoy, %)	3.5	2.9	2.8	1.6	1.5	1.7	1.6	2.2
Euro Area	(yoy, %)	2.0	2.1	2.1	1.7	1.9	1.8	1.8	2.0
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	4.17	4.30	4.30	4.30	4.20	4.10
Japan 10Y	(End of Period, %)	1.42	1.65	2.06	2.30	2.35	2.40	2.45	2.50
Germany 10Y	(End of Period, %)	2.61	2.71	2.86	2.90	2.90	2.90	3.00	3.00
FX									
USD/JPY	(End of Period)	144.4	147.7	156.7	157.5	157.5	155.0	155.0	152.5
EUR/JPY	(End of Period)	169.6	173.5	184.1	185.0	185.0	186.0	186.0	183.0
Stock Prices									
TOPIX	(End of Period)	2,853	3,138	3,409	3,800	3,840	3,850	3,910	3,950
Nikkei 225	(End of Period)	40,487	44,933	50,339	57,000	57,600	57,800	58,700	59,300

		2024 (yoy,%)	2025 (yoy,%)	2026 (yoy,%)	2027 (yoy,%)
GDP Growth Rate					
Unites States	(saar, %)	2.8	2.3	2.3	1.9
Japan	(saar, %)	0.5	0.9	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	2.2
Japan	(core CPI, yoy, %)	2.7	2.7	1.5	2.0
Euro Area	(yoy, %)	2.4	2.1	1.8	2.2
China	(yoy, %)	0.2	0.0	0.1	0.1

Note: Japan is FY-based.

Note: Forecasts by SMDAM.
Source: SMDAM

This Month's Topic: Political Scenarios #1

Yomiuri Shimbun reported late on January 9 that Prime Minister Sanae Takaichi was considering dissolving the House of Representatives at the opening of the ordinary Diet session convening on January 23. Speculation persisted, and she dissolved the lower house on January 23 and called a general election. It is a short campaign: the election was officially announced on January 27, with voting and counting on February 8. As many had expected a dissolution no earlier than March–April (after passage of the FY2026 budget), the timing surprised the market.

The early dissolution appears intended to go to the polls before the opposition was fully prepared, use the administration's high approval ratings to secure a fresh mandate, and strengthen the government's footing to advance her agenda of "responsible proactive fiscal policy" and "crisis-management investment."

The opposition responded by forming a new party, the "Centrist Reform Alliance," through a merger of the Constitutional Democratic Party of Japan (CDP) and Komeito. By combining their organizational vote bases, the alliance sought to reinforce electoral strength. Some media noted that a mechanical application of the 2024 election results could even imply a scenario in which the alliance becomes the largest party.

The alliance's formation reshaped the campaign. Heightened concern spread not only within the ruling coalition of the Liberal Democratic Party (LDP) and Nippon Ishin no Kai (Ishin), but also among other opposition parties, bringing redistribution policies—especially a consumption tax cut—into the center of the contest. All parties except "Team Mirai" pledged some form of consumption tax relief. The LDP added a pledge to "accelerate consideration of a two-year zero consumption tax rate on food," and Prime Minister Takaichi went further, calling a tax cut "my long-cherished wish." She indicated that, after reaching a conclusion through a cross-party "National Council," the government would submit related legislation at an extraordinary Diet session expected this autumn, aiming for implementation within FY2026.

As of February 2, less than a week remains. Media polling has broadly suggested the LDP could secure a single-party majority, while the Centrist Reform Alliance may lose seats. Some analyses even point to the LDP rising from 198 seats before dissolution to the 300s. Still, outcomes can shift late in a short campaign, and the opposition is likely to intensify mobilization efforts. Severe weather is also forecast along the Sea of Japan coast; if turnout is lower, the tailwind for the Takaichi administration could weaken.

Post-election scenarios are as follows. If the LDP wins a landslide well above a single-party majority, political capital and policy execution capacity would strengthen. The key question would be whether that capacity is used to accelerate growth-oriented and crisis-management investment, or whether it is directed primarily toward redistribution measures such as the consumption tax cut. We see the former as a clear positive for Japanese equities, potentially containing market concern over fiscal expansion and helping stabilize politically sensitive long-term yields.

An important point to monitor is whether policy resources are directed heavily toward delivering the tax cut. While such a cut could support consumption amid food-led inflation, funding issues remain significant—most notably how to secure close to JPY 5 trillion and whether a tax

This Month's Topic: Political Scenarios #2

increase can realistically be reinstated two years later. If fiscal concerns persist and long-term yields remain elevated, the support for Japanese equities could be more limited.

Even if the LDP falls short of a single-party majority, the Takaichi administration can remain in power if the ruling bloc (LDP plus Ishin) retains a majority. In that case, however, the government's base would be fragile and policymaking more dependent on opposition cooperation, raising the risk of either a tilt toward redistribution or broader policy drift—neither of which we view as particularly constructive for Japanese equities.

While current polling suggests a low probability, if the ruling bloc fails to secure a majority, Prime Minister Takaichi's resignation would likely be unavoidable. Two broad paths would follow: a minority, LDP-centered government under a new LDP president, or a government led by the Centrist Reform Alliance. The former would still face limited execution capacity unless coalition support is expanded. The latter would bring the current opposition to power, but with limited unity beyond redistribution; if growth-strategy expectations fade and fiscal concerns intensify, Japanese equities would likely face headwinds.

Finally, since 2000, in cases where the LDP won following a lower-house dissolution, Japanese equities have tended to rise—albeit with volatility—from dissolution through roughly the next six months. Politics is not the sole driver, but campaign-driven policy expectations, confirmation of political stability in the result, and subsequent policy follow-through may have provided support for share prices.

Snap Lower House Elections Since 2000

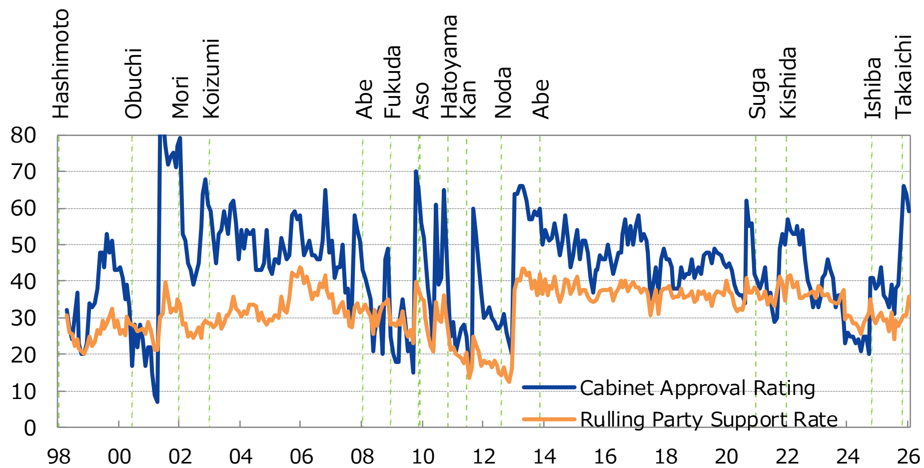
As of 30 Jan 2026

Lower House Dissolution Date	Cabinet	Total Seats in Lower House	LDP Seats			TOPIX Performance (Dissolution Date = T)					
			Pre-campaign	Election Result	Outcome Assessment	T vs T-30	T+30 vs T	T+60 vs T+30	T+90 vs T+60	T+180 vs T+90	T+360 vs T+180
2000/6/2	Mori (1st)	480	271	233	×	-8.6%	3.0%	-7.7%	2.1%	-10.7%	0.1%
2003/10/10	Koizumi (1st)	480	233	237	△	2.9%	-3.8%	-3.5%	6.0%	14.0%	-5.4%
2005/8/8	Koizumi (2nd)	480	212	296	○	1.2%	7.9%	6.8%	9.2%	14.2%	-8.3%
2009/7/21	Aso	480	300	119	×	-1.9%	6.3%	-2.0%	-3.6%	5.7%	-12.2%
2012/11/16	Noda	480	118	294	○	1.6%	7.5%	12.2%	5.4%	31.2%	-5.4%
2014/11/21	Abe (2nd)	475	294	290	○	13.2%	0.9%	-1.1%	7.0%	9.9%	-4.4%
2017/9/28	Abe (3rd)	465	290	281	○	4.9%	5.6%	0.3%	3.0%	-6.2%	6.1%
2021/10/14	Kishida (1st)	465	276	261	○	-6.2%	3.1%	-3.4%	2.1%	-7.7%	0.4%
2024/10/9	Ishiba (1st)	465	247	191	×	4.9%	1.3%	-0.3%	1.9%	-17.9%	41.0%
				Average		1.3%	3.5%	0.1%	3.7%	3.6%	1.3%
				Median		1.6%	3.1%	-1.1%	3.0%	5.7%	-4.4%
				Average (○ cases)		2.9%	5.0%	3.0%	5.3%	8.3%	-2.3%
				Median (○ cases)		1.6%	5.6%	0.3%	5.4%	9.9%	-4.4%

Notes: The number in parentheses next to the cabinet name indicates the nth cabinet.
Notes: The outcome assessment is for the LDP and is based on various media evaluations.
Source: SMDAM, Bloomberg and media reports

Japanese Politics: Tilt Toward Redistribution a Headwind for Japanese Stocks

Cabinet Approval Rating and Rulling Party Support Rate (%)



Source: SMDAM and NHK

Note: Data as of 30 Jan 2026

Seats in Lower and Upper Houses Note: As of 30 Jan 2026

	Lower House seats	Upper House seats
Liberal Democratic Party	198	100
Nippon Ishin / Japan Innovation Party	34	19
Ruling parties	**232**	**119**
Centrist Reform Alliance / Constitutional Democratic Party	172	40
Centrist Reform Alliance / Komeito		21
Democratic Party For the People	27	25
Reiwa Shinsengumi	8	5
Japanese Communist Party	8	7
Sanseito	2	15
Others	16	14
Vacancies	0	2
Majority	**233**	**125**
Total	**465**	**248**

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

Lower House Election Manifestos Note: As of 30 Jan 2026

Party	VAT / Redistribution	Key other pledges
LDP	Consider 0% VAT on food for 2 years (funding via national council) Design refundable tax credit	New budget frame for crisis-management investment Create National Intelligence Agency
Ishin	0% VAT on food for 2 years Cut social insurance premiums	Build "sub-capital" to curb Tokyo concentration
Centrist	Permanent 0% VAT on food Design refundable tax credit	Rent support for youth & students Increase in education & tech budgets
DPFP	Cut VAT to 5% until real wages rise Issue "education bonds"	Raise the earnings threshold, regardless of income
Sanseito	Phase out VAT	Curb number of foreign entrants
Reiwa	Abolish VAT Universal cash payment ¥100k	Free education up to grad school

Source: SMDAM and Various Media Reports

Political Scenarios Note: As of 30 Jan 2026

Scenarios		Prob.	JGBs	Weak JPY	JP Stocks
Takaichi-led LDP wins solo majority	**Pivots to growth agenda**	○	△	△	○
	Pivots to redistribution	○	×	○	△
Ruling bloc keeps majority	**Weak mandate; pivots to redistribution**	△	△	△	×
	Weak mandate; policy gridlock	△	×	○	×
Ruling bloc loses majority	**New LDP leader becomes PM**	×	△	△	△
	Centrist reform coalition takes power	×	×	○	×

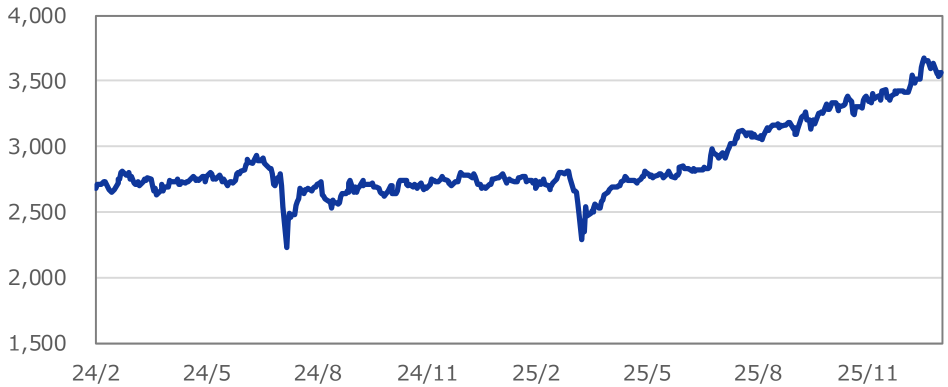
Note: SMDAM evaluations. Prob.: ○ High; △ Mid; × Low. JGBs: × Price −; △ Neutral. Weak JPY: ○ Weaker; △ Neutral. JP Stocks: ○ Up; △ Slightly up; × Down.

Source: SMDAM and Various Media Reports

Trends in Major Asset Prices

TOPIX (Daily)

(Points)



(Y/M)

Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

S&P500 (Daily)

(Points)

(Y/M)

Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

Japan 10-Year Government Bond Yield (Daily)

(%)

(Y/M)

Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

USD/JPY (Daily)

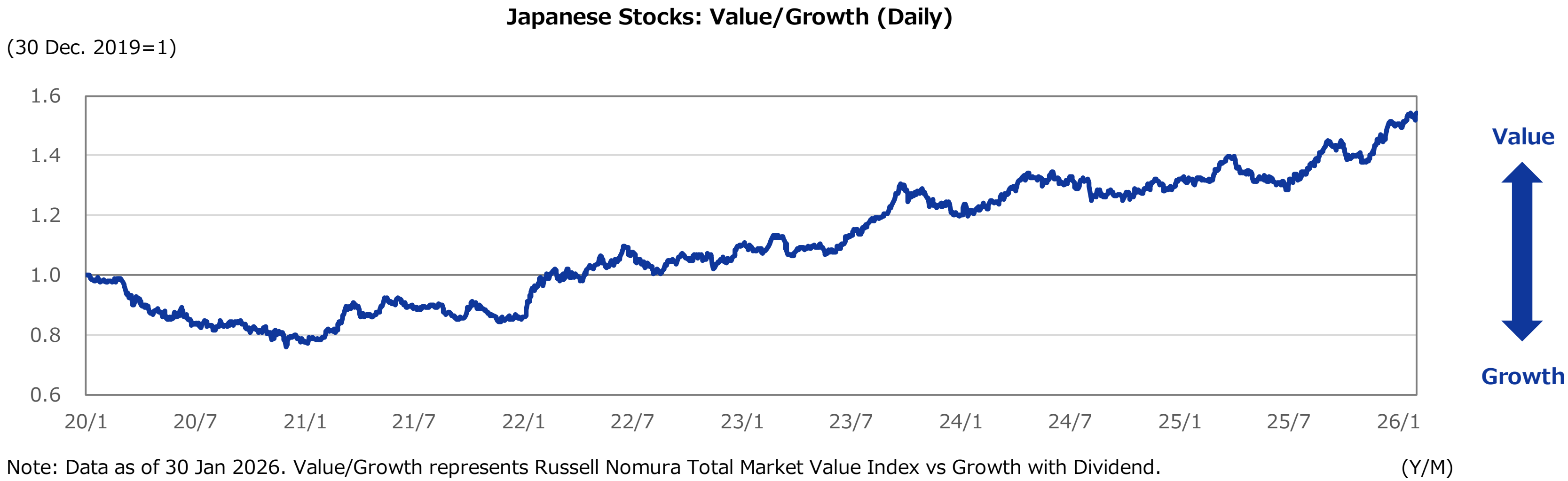
(Yen)

(Y/M)

Note: Data as of 30 Jan 2026

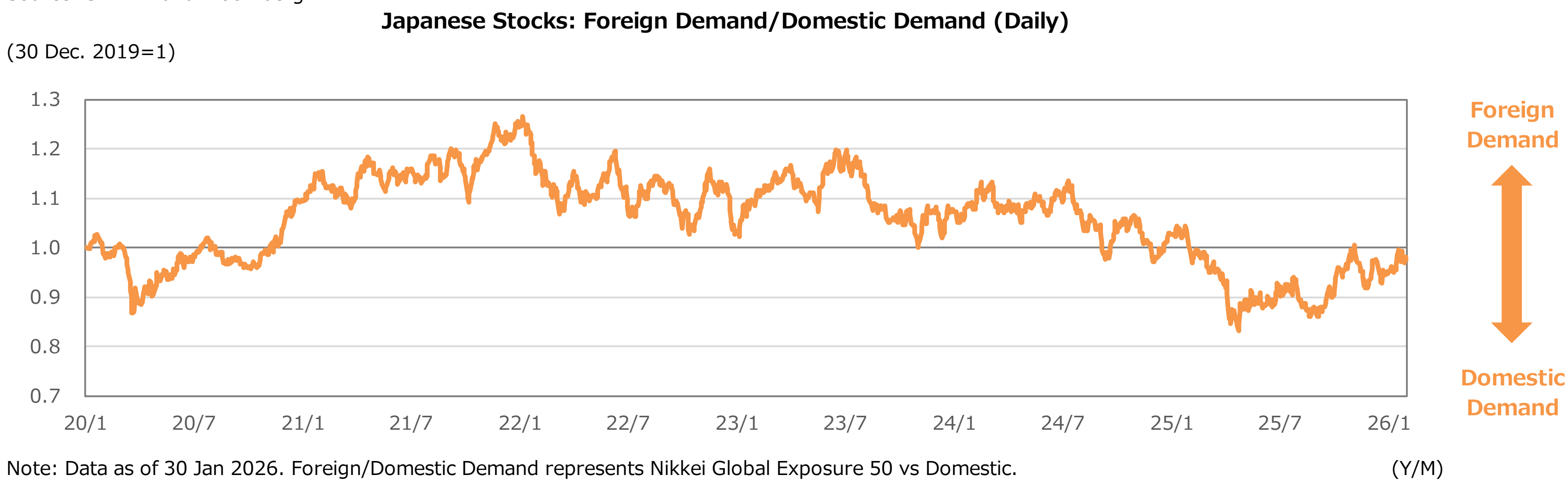
Source: SMDAM and Bloomberg

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



Note: Data as of 30 Jan 2026. Value/Growth represents Russell Nomura Total Market Value Index vs Growth with Dividend.

Source: SMDAM and Bloomberg



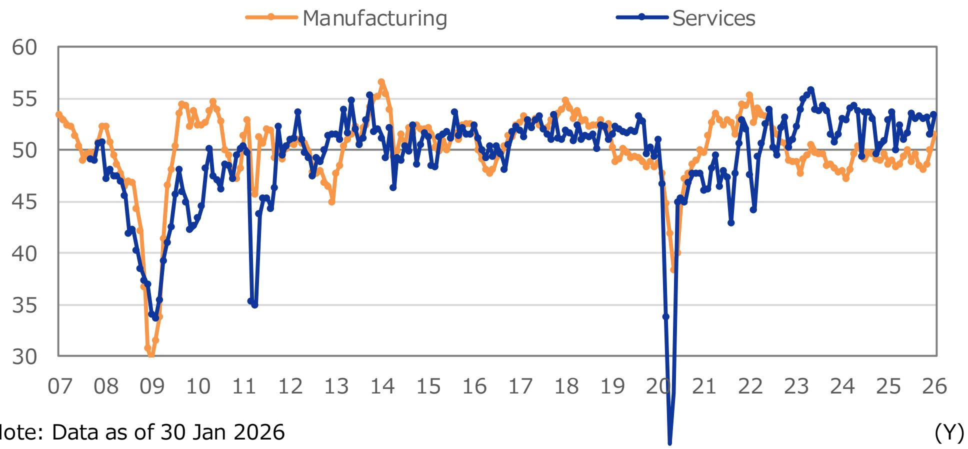
Note: Data as of 30 Jan 2026. Foreign/Domestic Demand represents Nikkei Global Exposure 50 vs Domestic.

Source: SMDAM and Bloomberg

Japanese Economic Indicators (1)

PMI

(sa, >50=improvement since previous month)

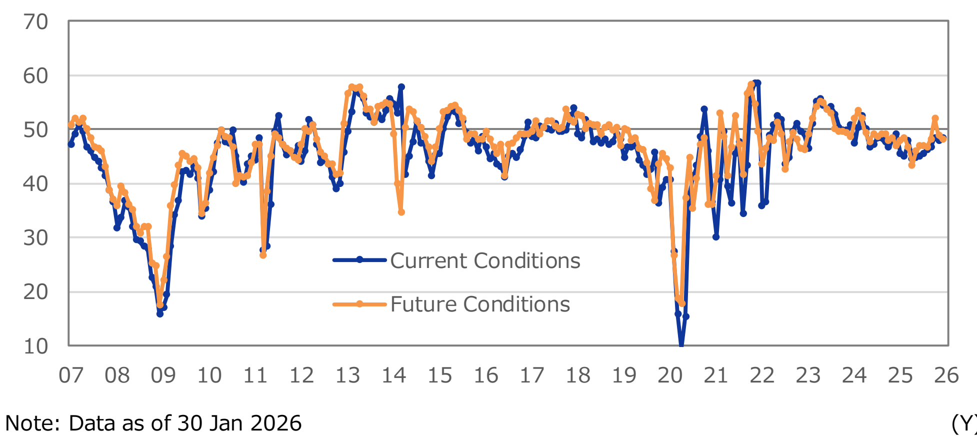


Note: Data as of 30 Jan 2026

Source: SMDAM and S&P Global

Economy Watchers Survey

(sa, DI)

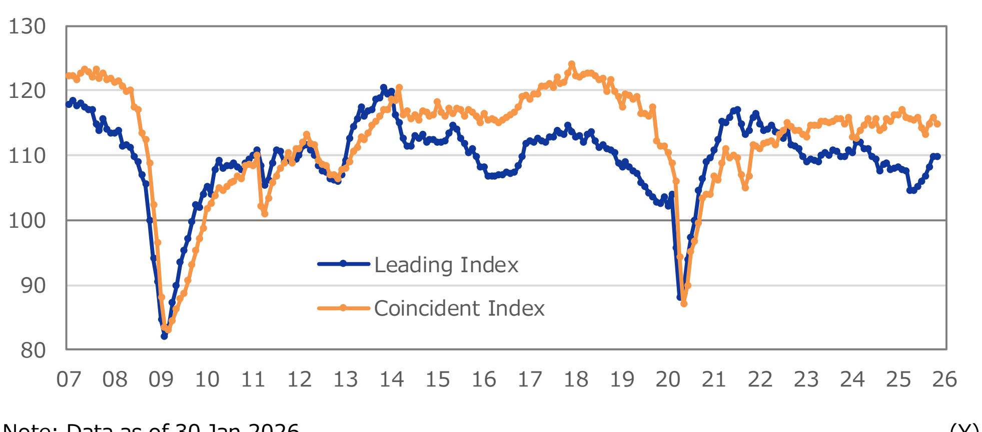


Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Index of Business Conditions

(sa, 2020=100)



Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Machine Tools (Orders YoY - Order Backlogs YoY)

(%)

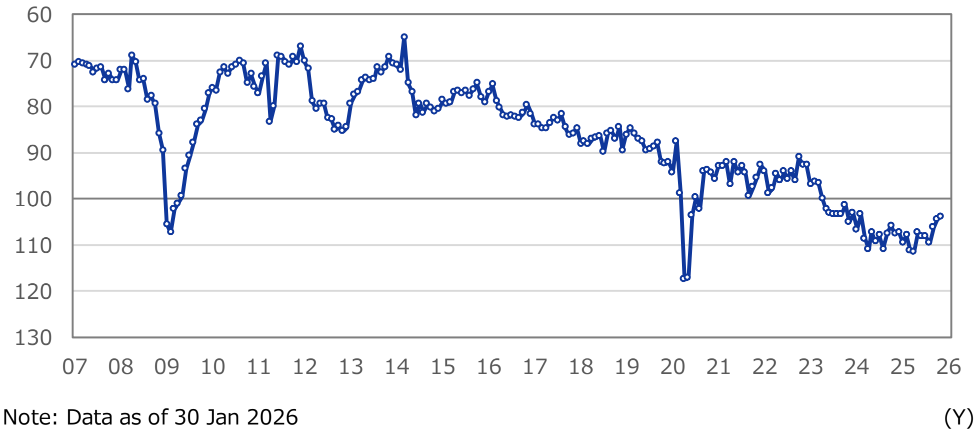
Note: Data as of 30 Jan 2026

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)

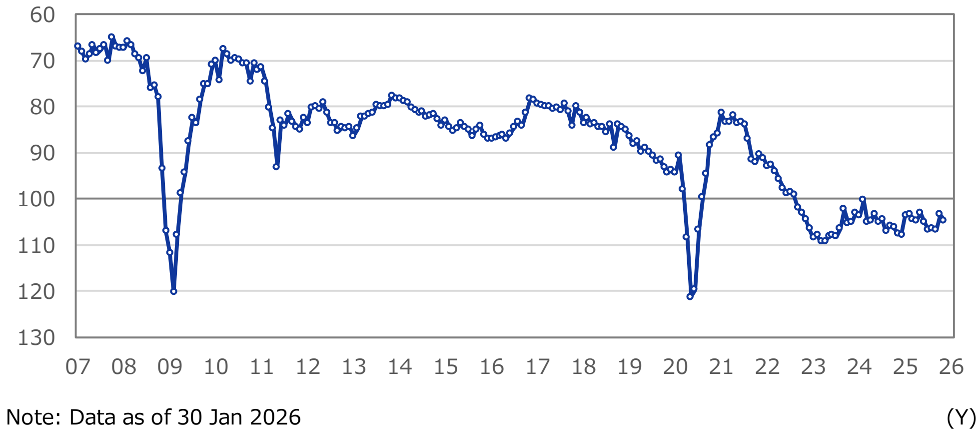


Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Index of Producer's Inventory Ratio of Producer Goods

(sa, 2020=100, Inverted)

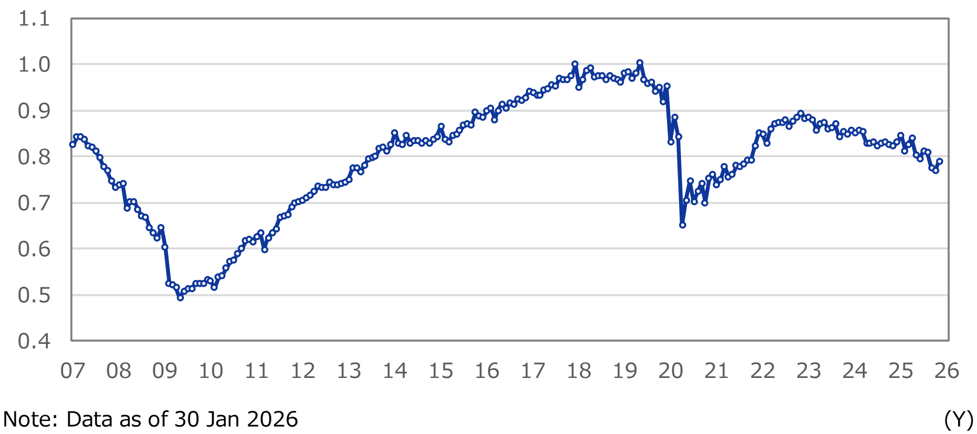


Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

New Job Offers (Excluding New School Graduates)

(sa, million persons)

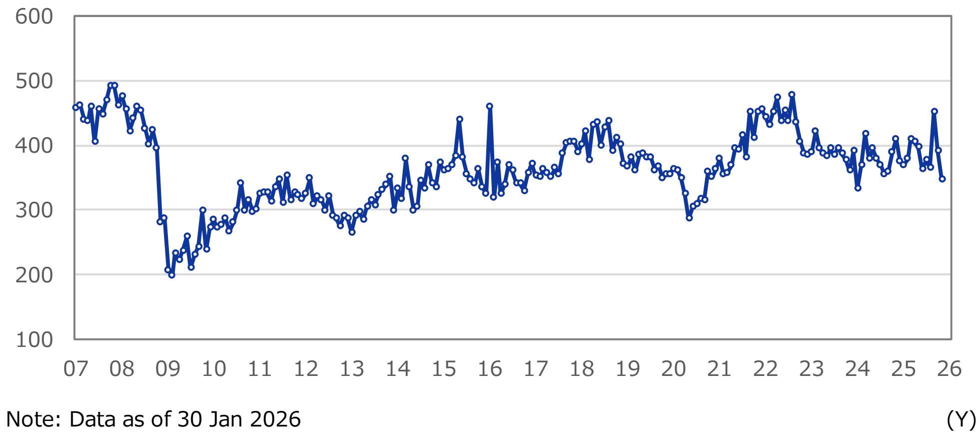


Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Machinery Orders at Constant Prices (Manufacturing)

(sa, billion JPY)

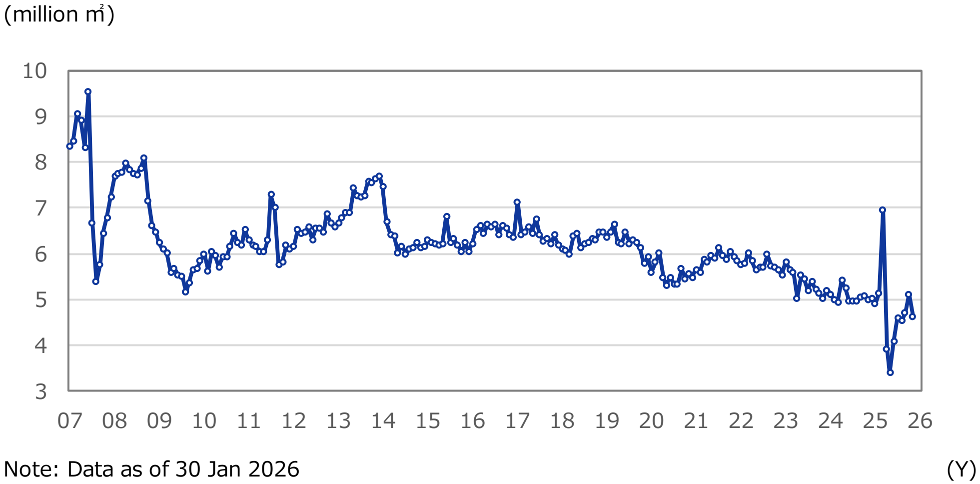


Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (3)

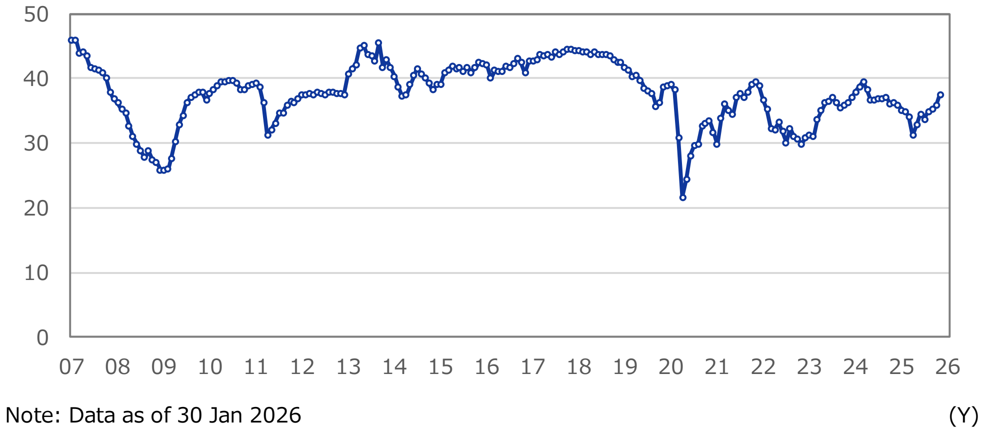
Total Floor Area of New Housing Construction Started



Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

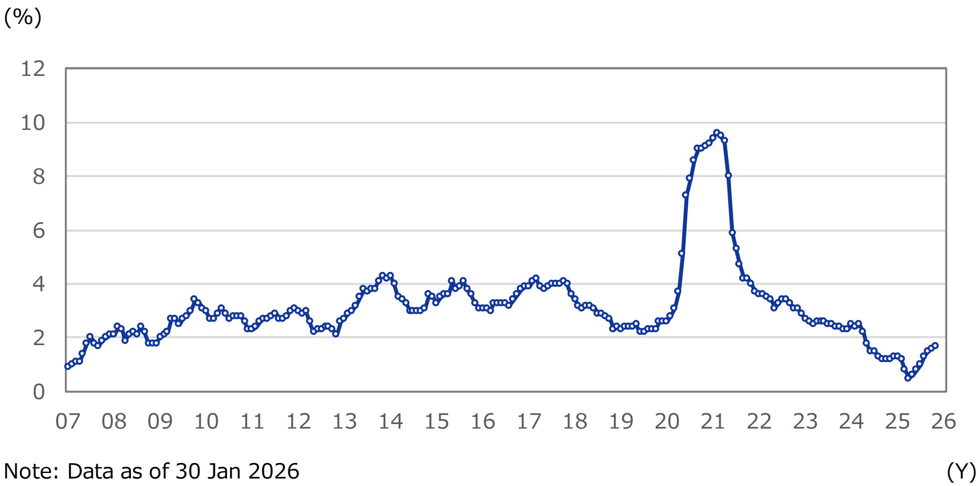
Consumer Confidence Index



Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

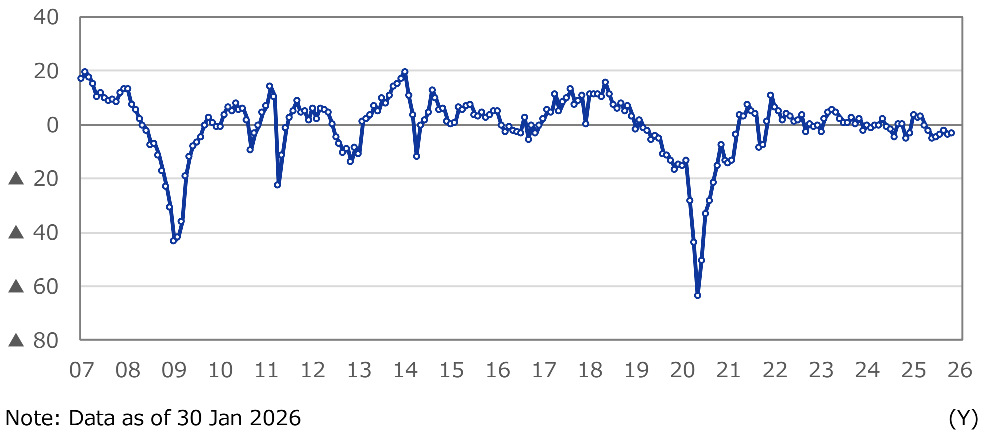
M2(YoY)



Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Sales Forecast DI of Small Businesses

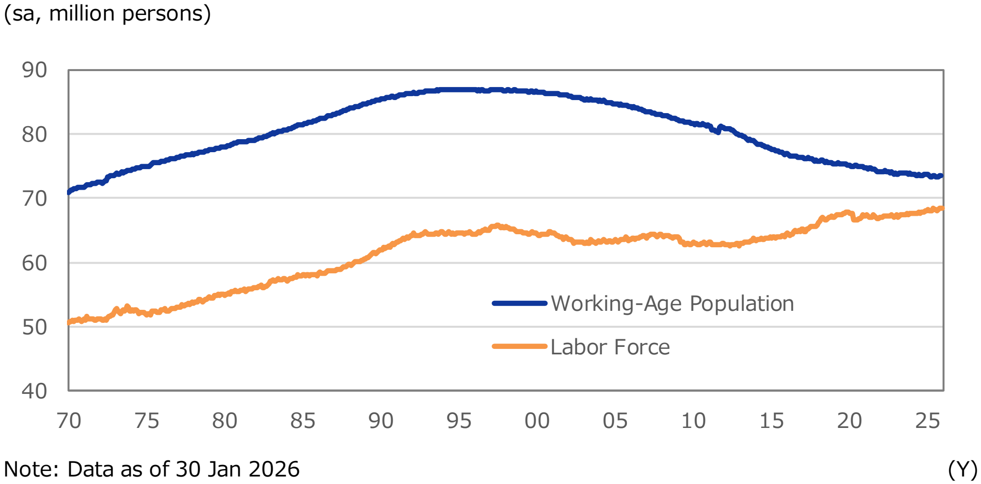


Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (4)

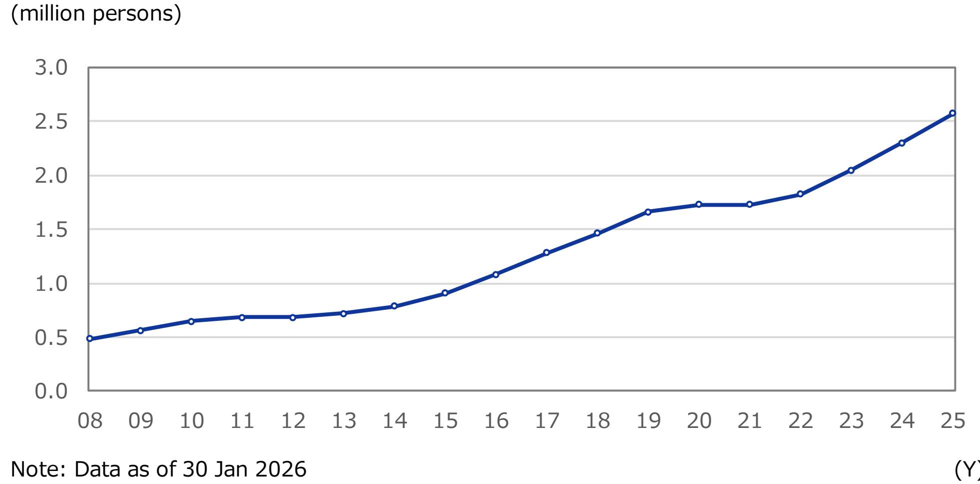
Working-Age Population and Labor Force



Note: Data as of 30 Jan 2026

Source: SMDAM and MIC

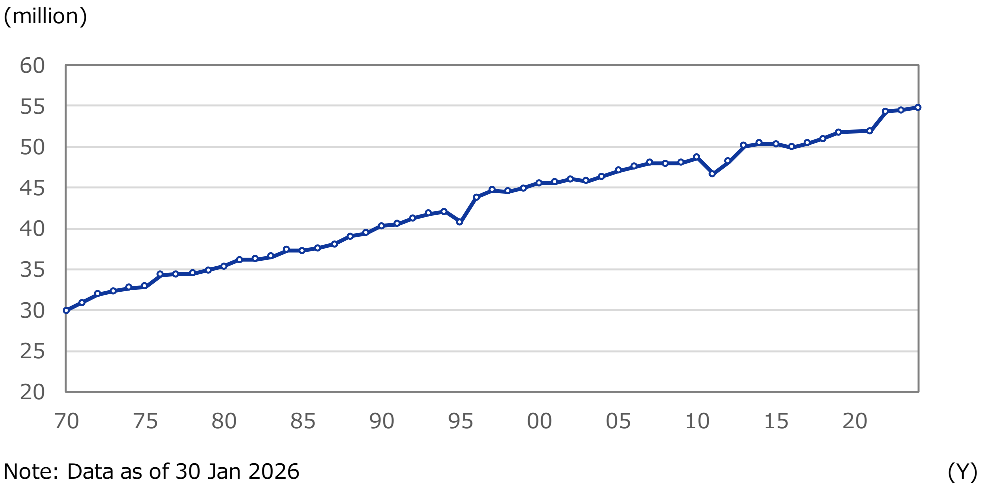
Number of Foreign Workers



Note: Data as of 30 Jan 2026

Source: SMDAM and MHLW

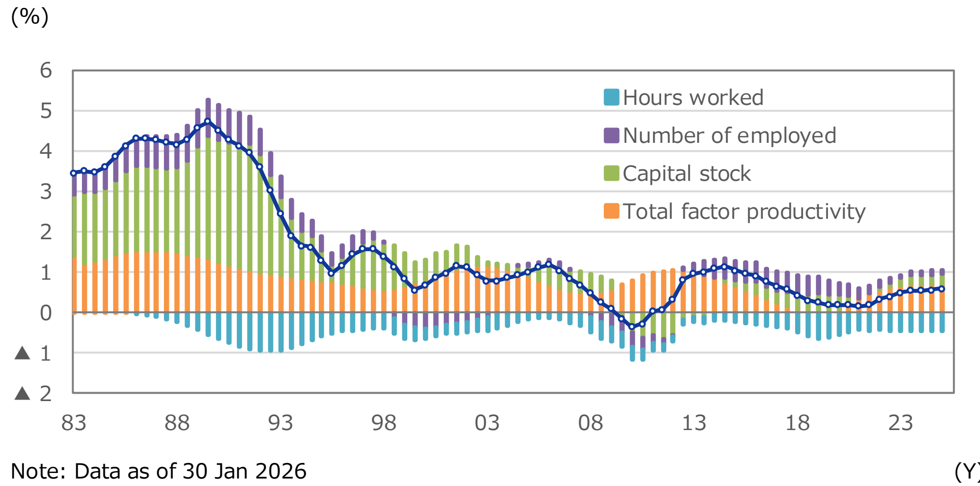
Number of Households



Note: Data as of 30 Jan 2026

Source: SMDAM and Cabinet Office

Potential Growth Rate

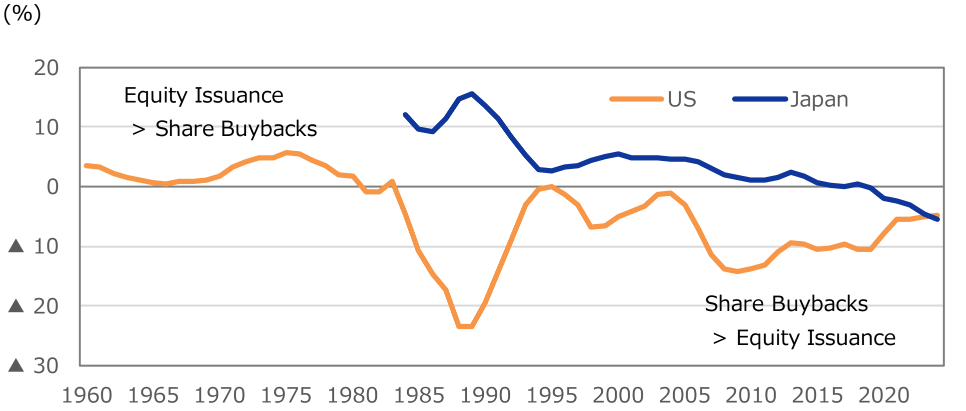


Note: Data as of 30 Jan 2026

Source: SMDAM and BoJ

Japanese Economic Indicators (5)

Net Equity Issuance in Japan and the US

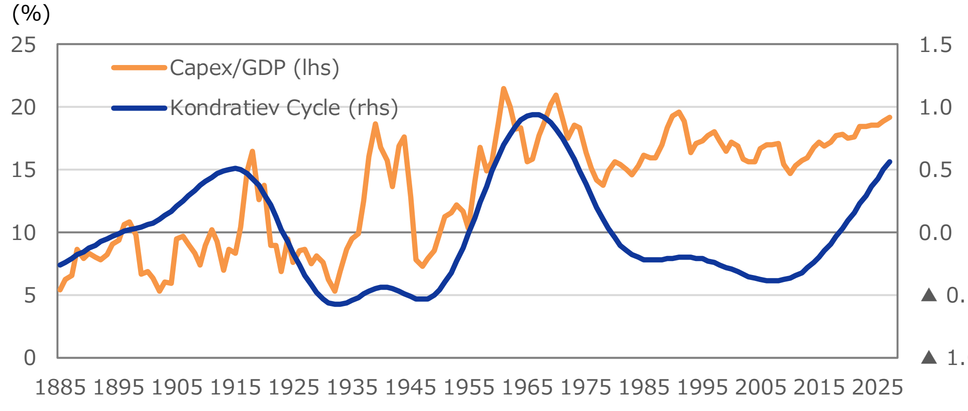


Note: Data as of 30 Jan 2026

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

Source: SMDAM, BoJ and FRB

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

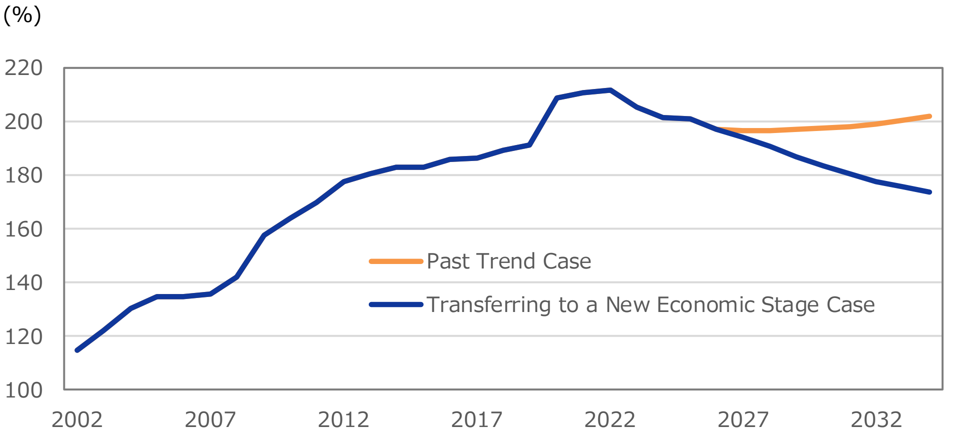


Note: Data as of 30 Jan 2026

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

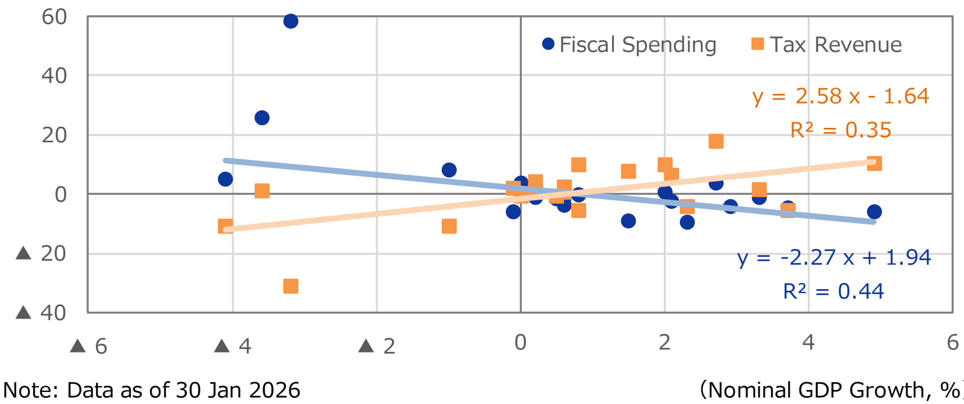


Note: Data as of 30 Jan 2026. New Economic Stage assumes 3% nominal growth.

Source: SMDAM and Cabinet Office

Fiscal Spending, Tax Revenue, and Nominal GDP Growth

(Fiscal Spending (Primary Expenditure) and Tax Revenue Growth, %)



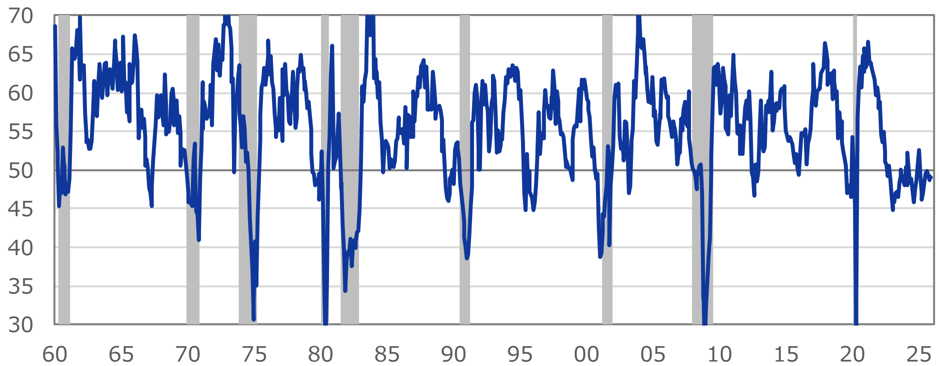
Note: Data as of 30 Jan 2026

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)

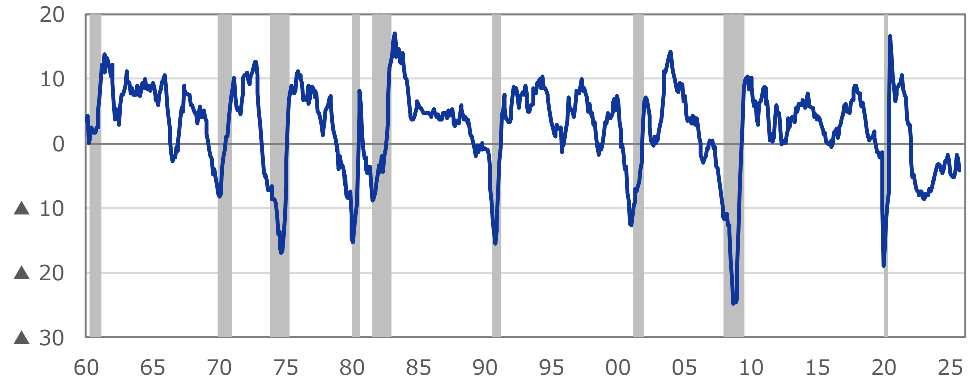


Note: Data as of 30 Jan 2026. The shaded areas represent periods of recession. (Y)

Source: SMDAM and ISM

Conference Board Leading Economic Index

(6-Month Annual Change)

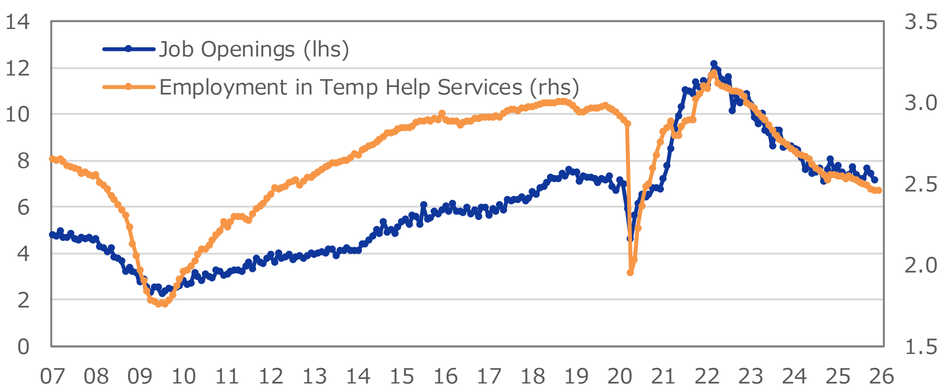


Note: Data as of 30 Jan 2026. The shaded areas represent periods of recession. (Y)

Source: SMDAM and Conference Board

Job Openings and Employment in Temporary Help Services

(sa, million persons) (sa, million persons)

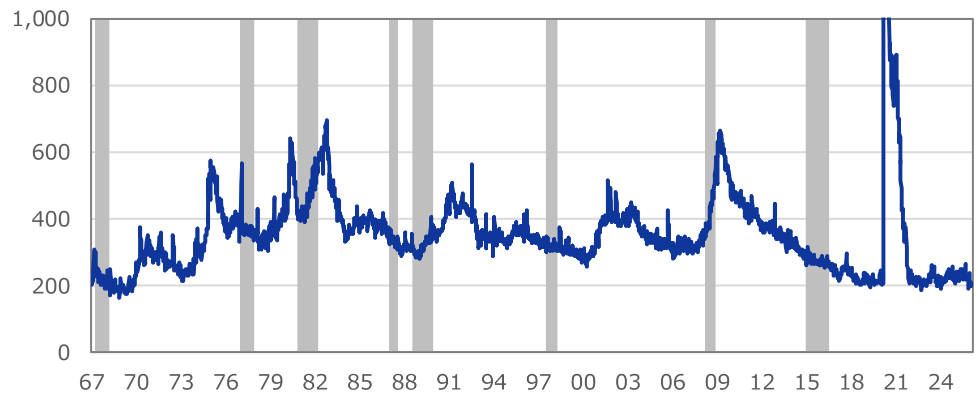


Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and Bureau of Labor Statistics

Initial Jobless Claims

(sa, thousand persons)



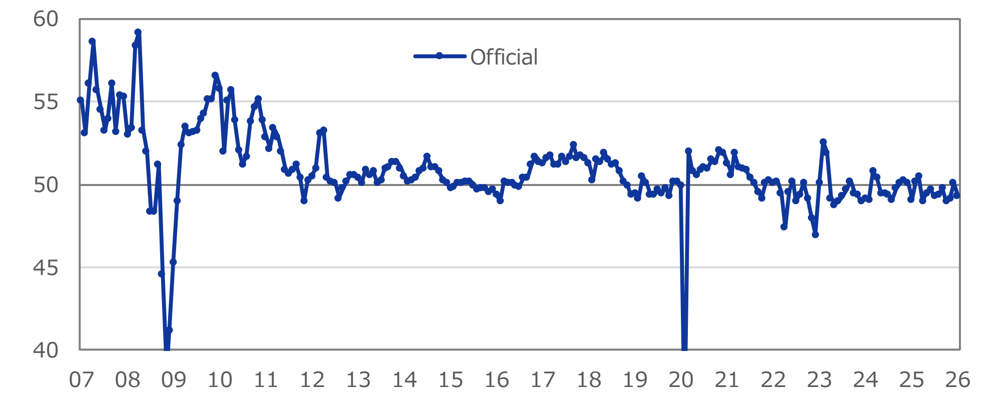
Note: Data as of 30 Jan 2026. The shaded areas represent periods of recession. (Y)

Source: SMDAM and Department of Labor

Overseas Economic Indicators

China Manufacturing PMI

(sa, >50=improvement since previous month)

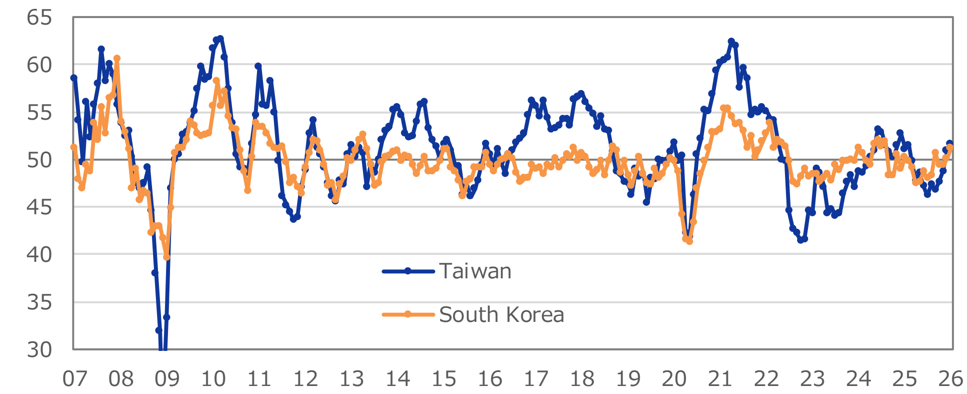


Note: Data as of 30 Jan 2026

Source: SMDAM and China Federation of Logistics & Purchasing

Manufacturing PMI (Taiwan, South Korea)

(sa, >50=improvement since previous month)

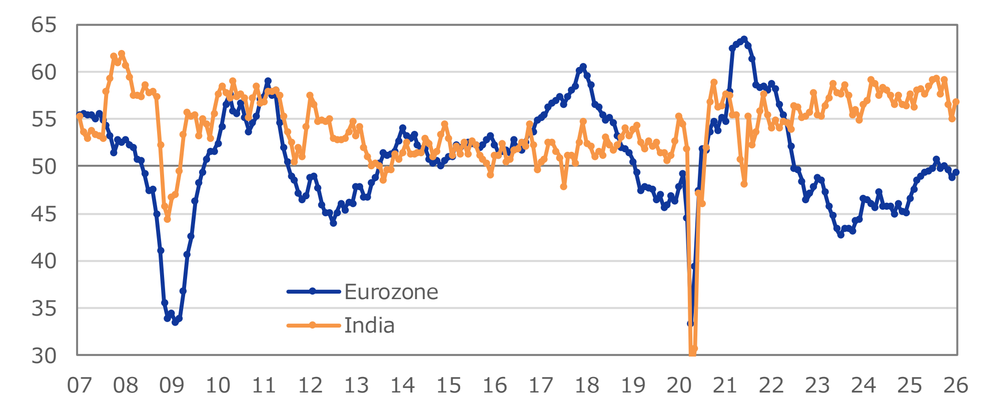


Note: Data as of 30 Jan 2026

Source: SMDAM and S&P Global

Manufacturing PMI (Eurozone, India)

(sa, >50=improvement since previous month)

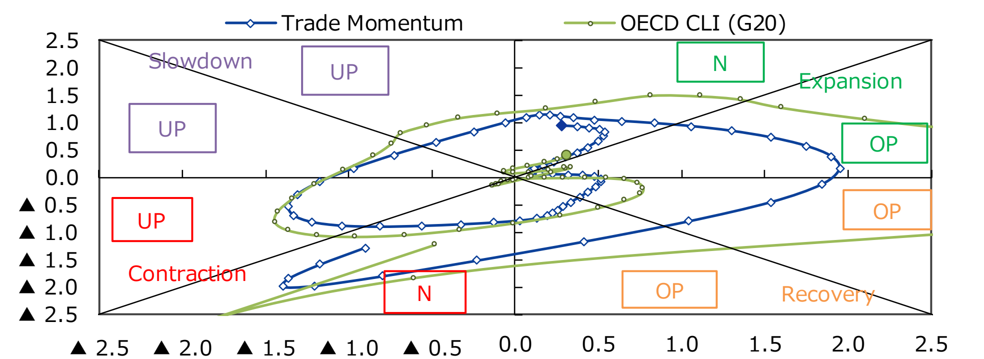


Note: Data as of 30 Jan 2026

Source: SMDAM and S&P Global

Trade Momentum & OECD Composite Leading Indicator (CLI) Phases

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



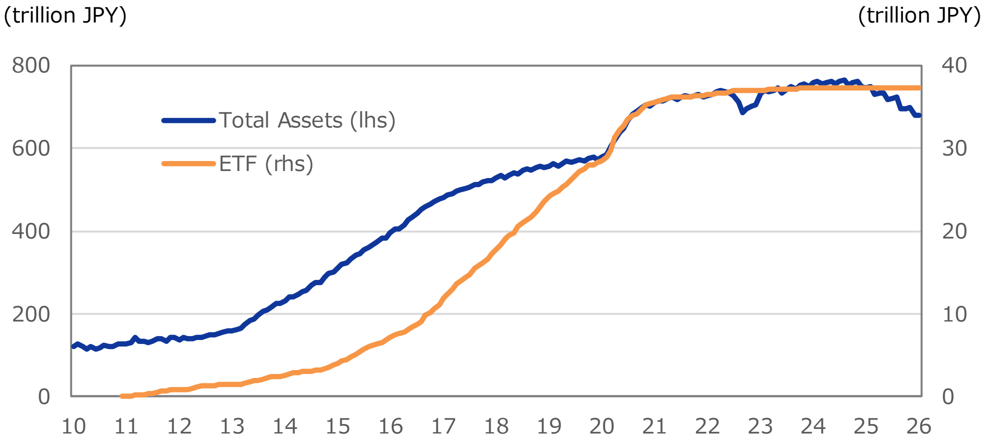
Note: Data as of 30 Jan 2026 6M Diff. Trade Momentum & OECD CLI

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)

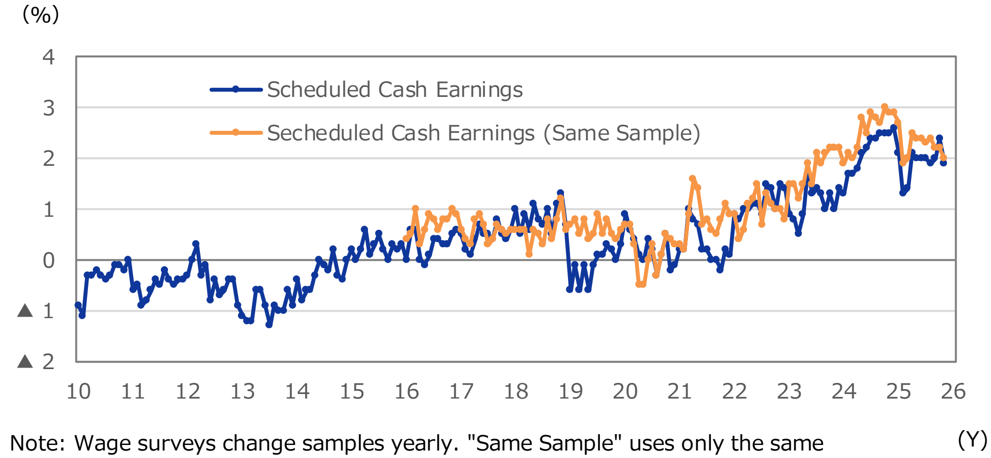
The Bank of Japan's Balance Sheet



Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and BoJ

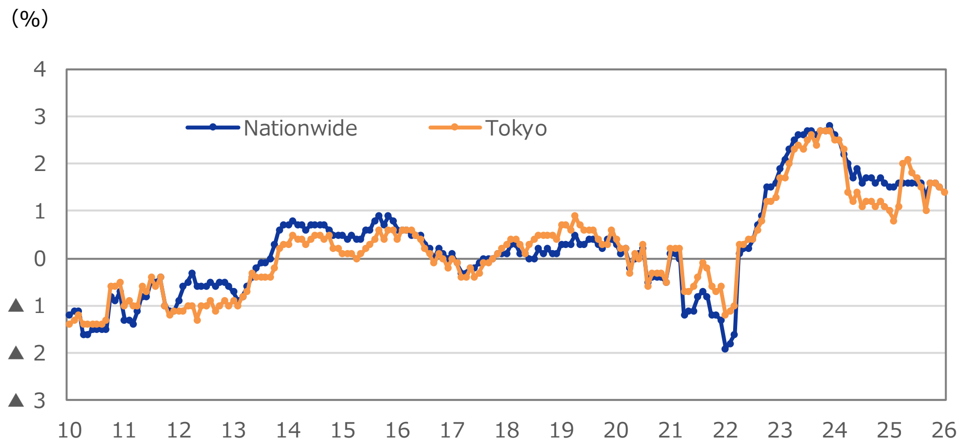
Nominal Wages (Scheduled Cash Earnings, YoY)



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 30 Jan 2026 Source: SMDAM and MHLW

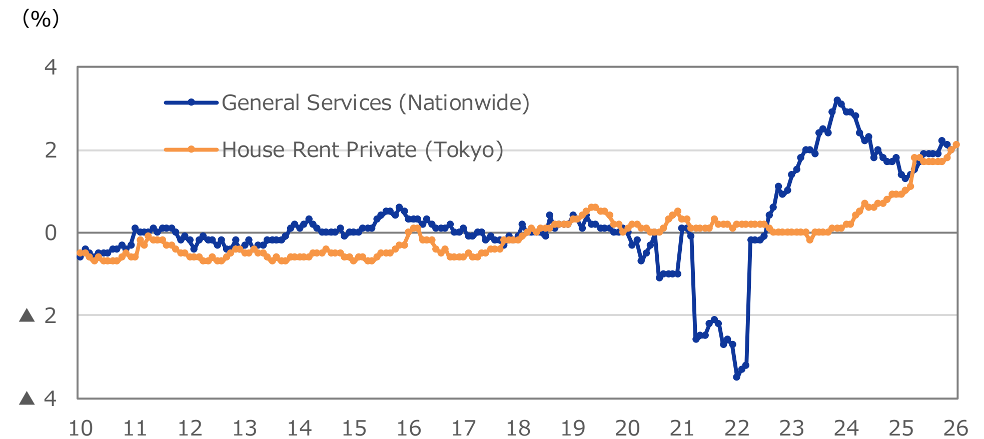
CPI (Excluding Food and Energy, YoY)



Note: Data as of 30 Jan 2026. Adjusted for the consumption tax hike. (Y)

Source: SMDAM and MIC

CPI (General Services, House Rent Private, YoY)



Note: Data as of 30 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)

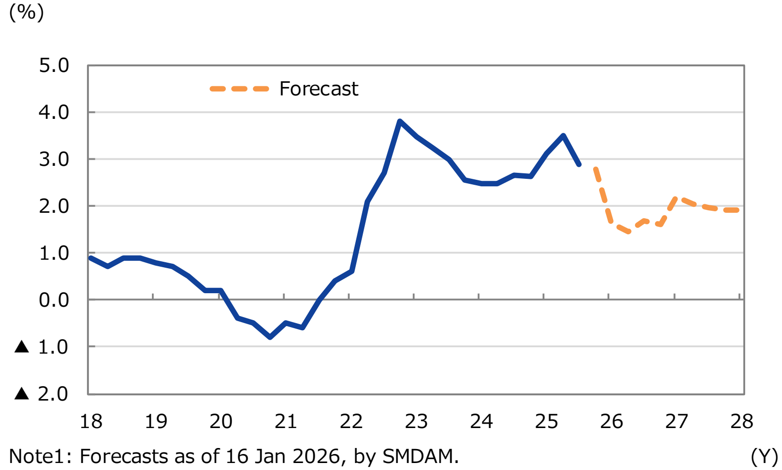
BOJ Monetary Policy Developments (Quarter-End and Latest)

	Sep 2025	Dec 2025	Jan 2026
O/N call rate	around 0.5%	around 0.75%	around 0.75%
Rate on Deposit Facility	0.50%	0.75%	0.75%
Objection to the monetary policy guideline	Committee members Tamura and Takada opposed the policy of maintaining the current level and proposed an increase to around 0.75%.	None	Committee member Takada opposed the policy of maintaining the current level and proposed an increase to around 1.00%.
Conduct of Monetary Policy	Given that real interest rates are at significantly low levels, if the outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.	Given that real interest rates are at significantly low levels, if the outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.	Given that real interest rates are at significantly low levels, if the outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.
JGB purchases	No Change	No Change	No Change
ETF Purchases	Based on the basic policy of avoiding market disruption, the BoJ decided to sell its holdings of ETFs and J-REITs.	No Change	The BoJ began selling its holdings of ETFs and J-REITs on Jan 19.

Note: Data as of 30 Jan 2026

Source: SMDAM and BOJ

CPI (ex fresh food, YoY)

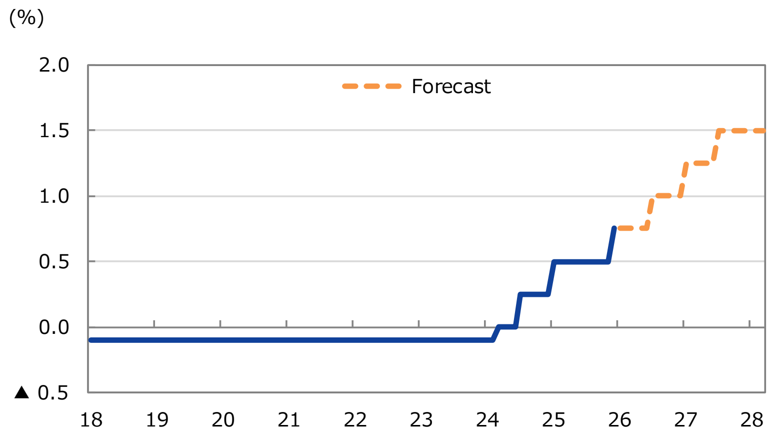


Note1: Forecasts as of 16 Jan 2026, by SMDAM.

Note2: Excludes effects of consumption tax and free charge of education.

Source: SMDAM and MIC

Policy interest rate



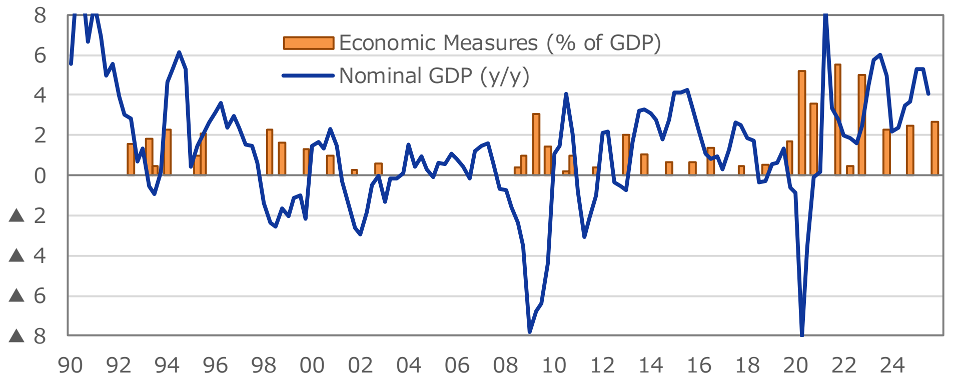
Note: Forecasts as of 16 Jan 2026, by SMDAM.

Source: SMDAM and BOJ

Japan's fiscal policy

Government Economic Measures and Nominal GDP Growth Rate

(%)

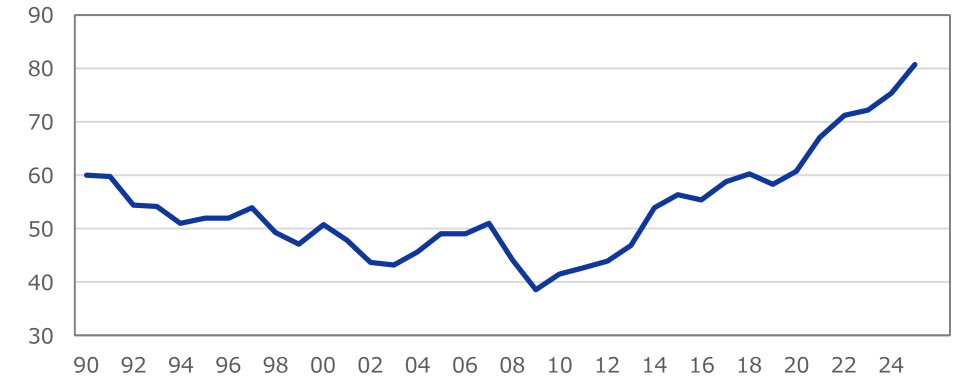


Note: Data as of 30 Jan 2026. Economic measures are budget-backed amounts. (Y)

Source: SMDAM and Cabinet Office

Japan's Tax Revenue

(trillion JPY)

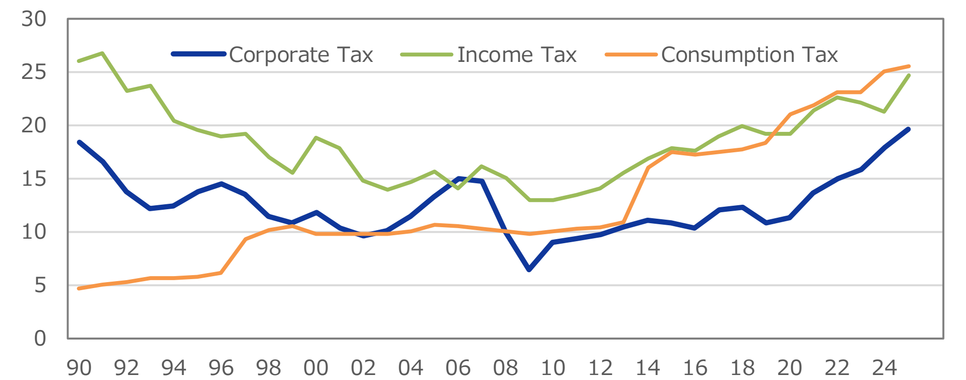


Note: Data as of 30 Jan 2026 (FY)

Source: SMDAM and MoF

Breakdown of Tax Revenue

(trillion JPY)

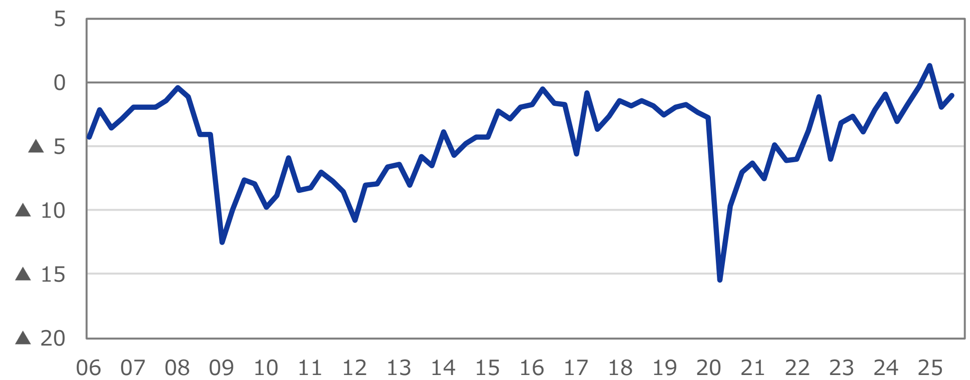


Note: Data as of 30 Jan 2026 (FY)

Source: SMDAM and MoF

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

(%)

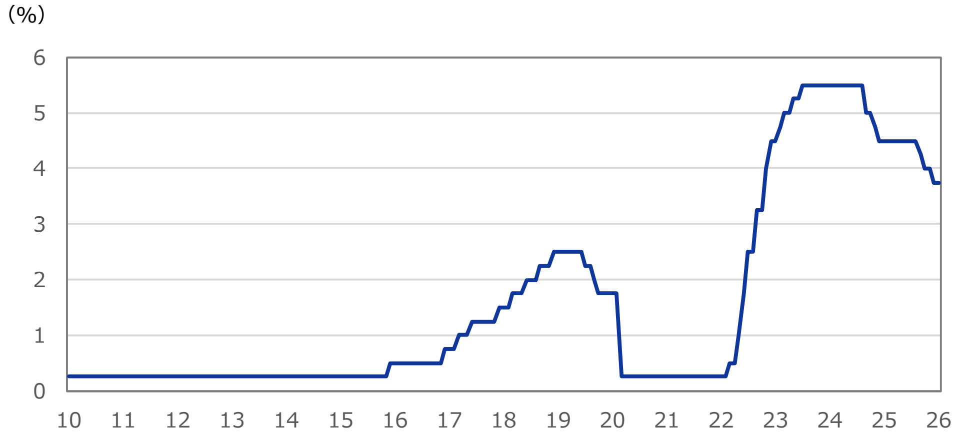


Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and BoJ

Overseas Monetary Policy

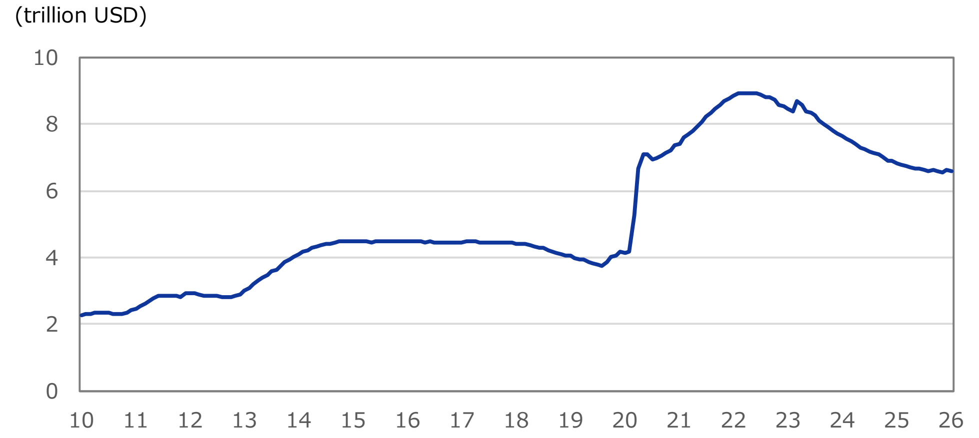
Federal Funds Target Rate (Upper Bound)



Note: Data as of 30 Jan 2026

Source: SMDAM and FRB

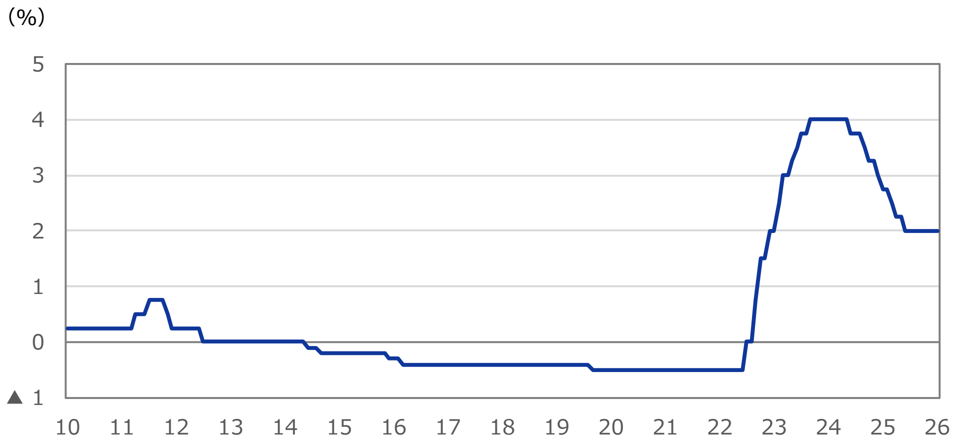
Federal Reserve Total Assets



Note: Data as of 30 Jan 2026

Source: SMDAM and FRB

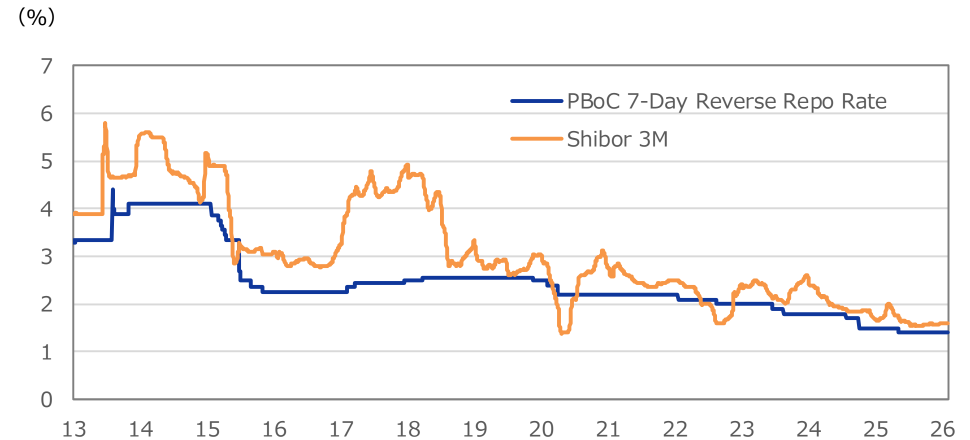
ECB Deposit Facility Announcement Rate



Note: Data as of 30 Jan 2026

Source: SMDAM and ECB

China's Short-Term Interest Rates

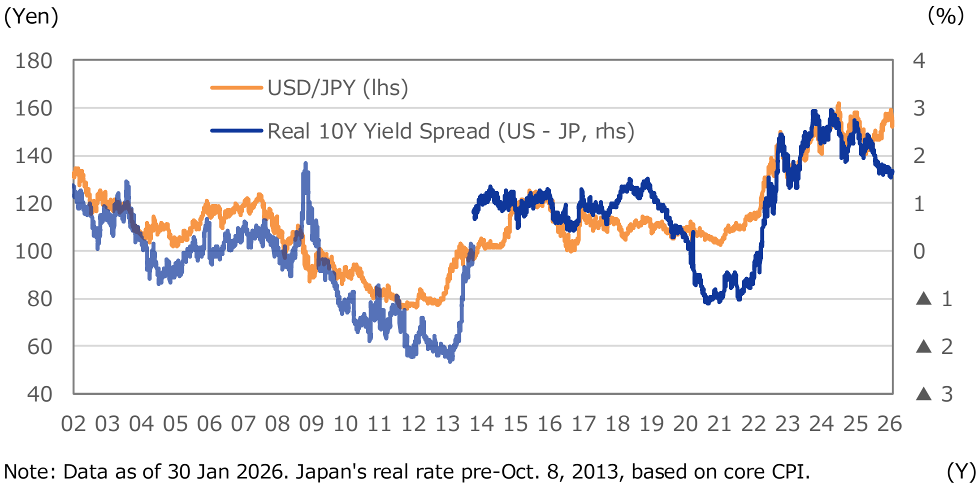


Note: Data as of 30 Jan 2026

Source: SMDAM, PBoC and Bloomberg

USD/JPY

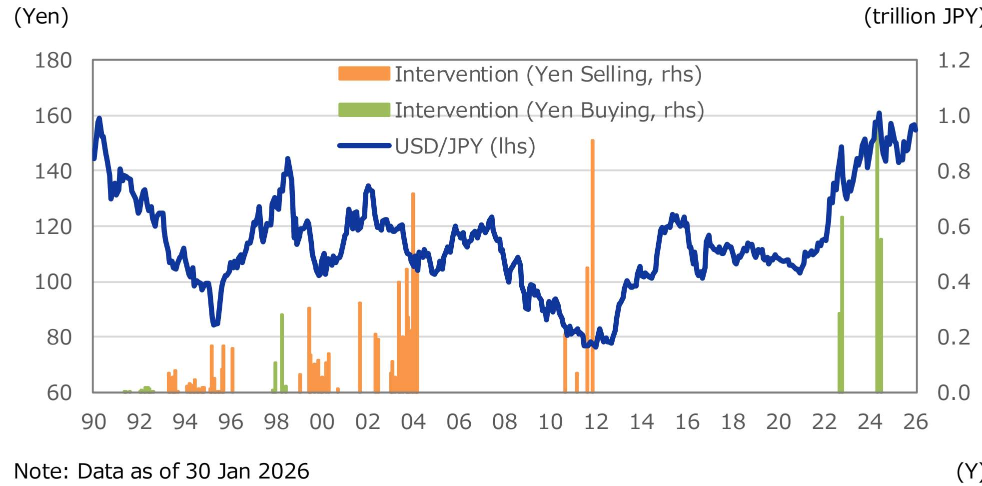
USD/JPY and Real Interest Rate Differential



Note: Data as of 30 Jan 2026. Japan's real rate pre-Oct. 8, 2013, based on core CPI.

Source: SMDAM and Bloomberg

USD/JPY and Intervention



Note: Data as of 30 Jan 2026

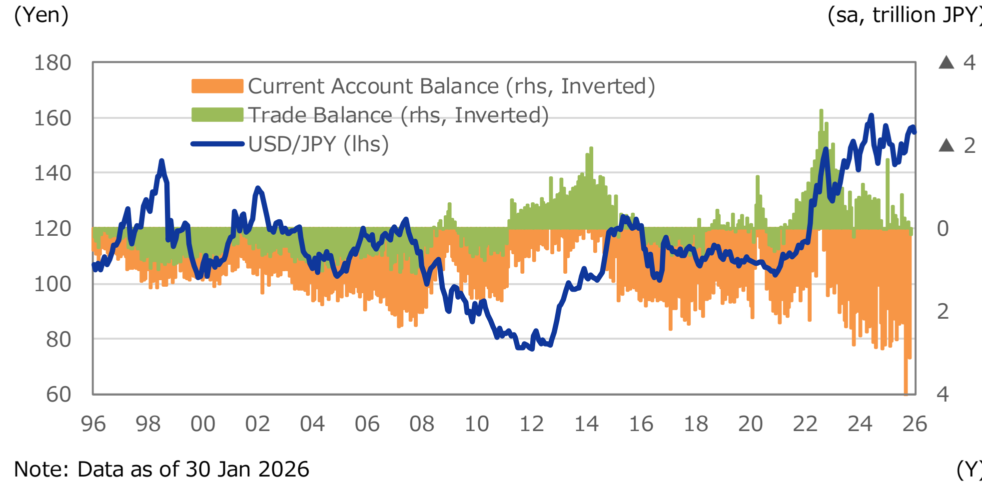
Source: SMDAM, MoF and Bloomberg

JPY Real Effective Exchange Rate

Note: Data as of 30 Jan 2026

Source: SMDAM and BoJ

USD/JPY and External Balances



Note: Data as of 30 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.

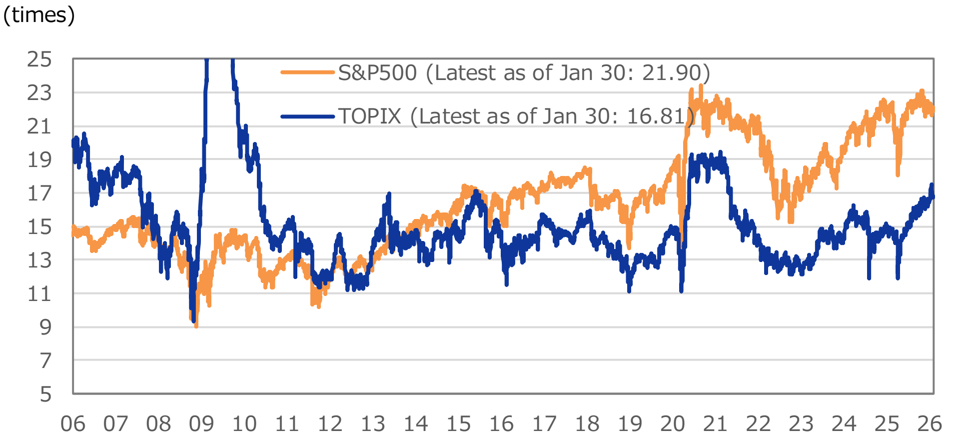
Note2: FX assumptions are USD/JPY at 151 and EUR/JPY at 175. A 1 JPY depreciation vs. USD increases ordinary profit by approximately 0.5%.

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)

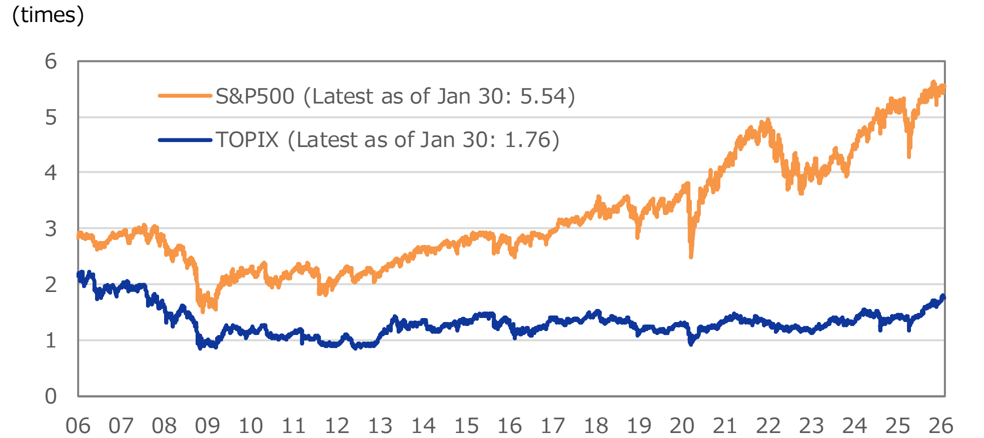
S&P 500 and TOPIX 12-Month Forward P/E Ratio



Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

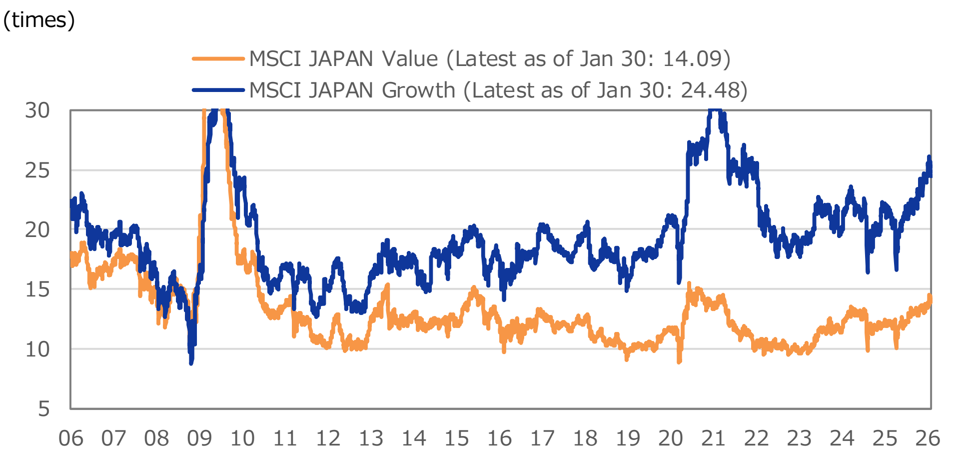
S&P 500 and TOPIX Historical P/B Ratio



Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

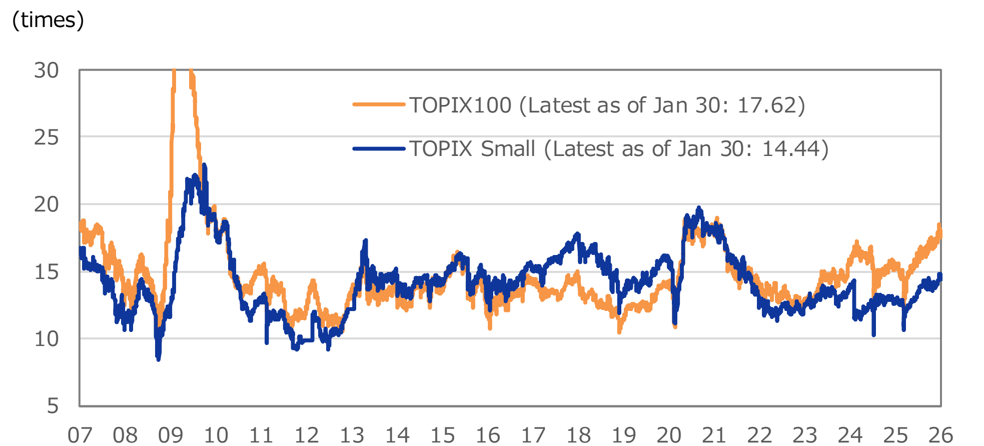
MSCI Japan 12-Month Forward P/E Ratio



Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

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



Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

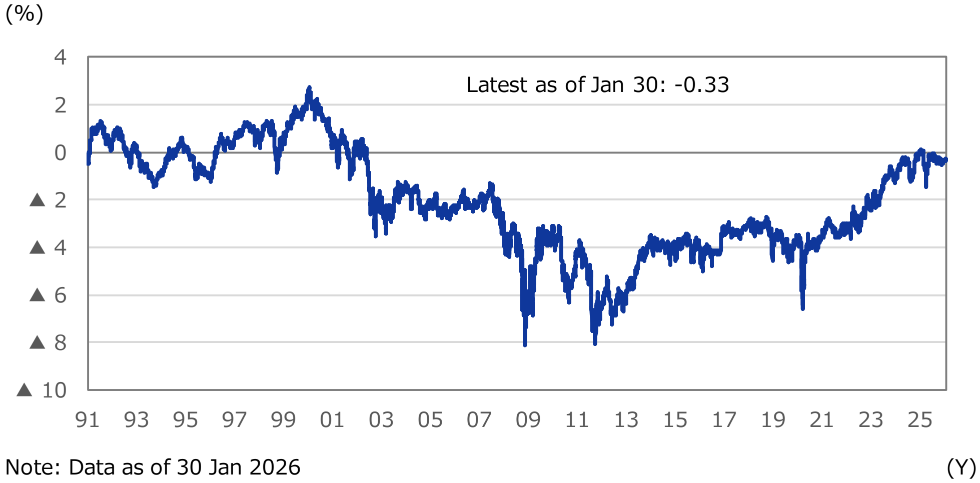
Valuation (2)

TOPIX Yield Spread (10Y JGB - Earnings Yield)

Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

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



Note: Data as of 30 Jan 2026

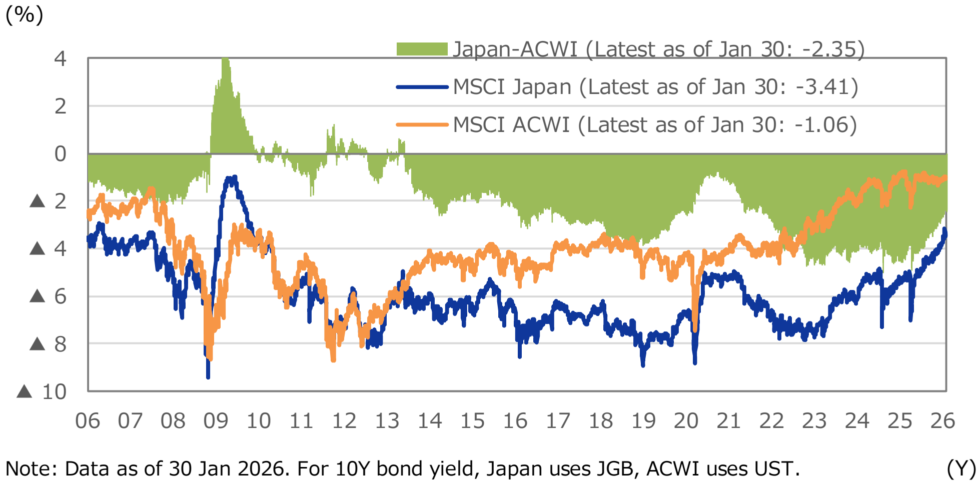
Source: SMDAM and Bloomberg

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

Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

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



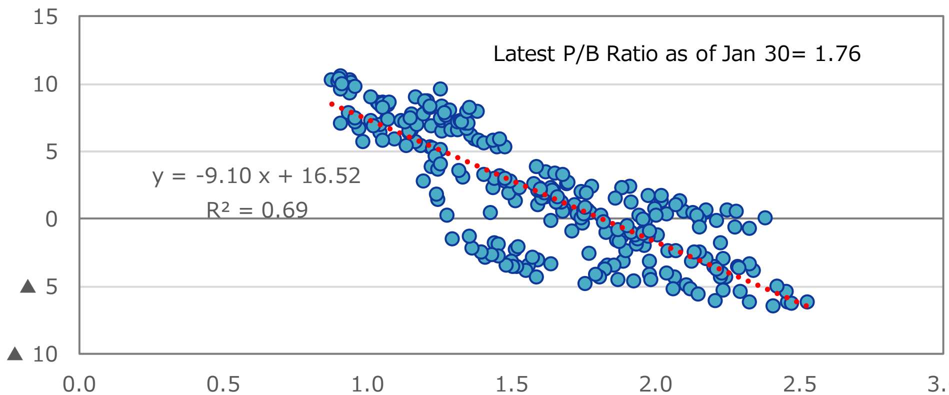
Note: Data as of 30 Jan 2026. For 10Y bond yield, Japan uses JGB, ACWI uses UST.

Source: SMDAM and Bloomberg

Valuation and Return

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

10Y Annualized Return (%)

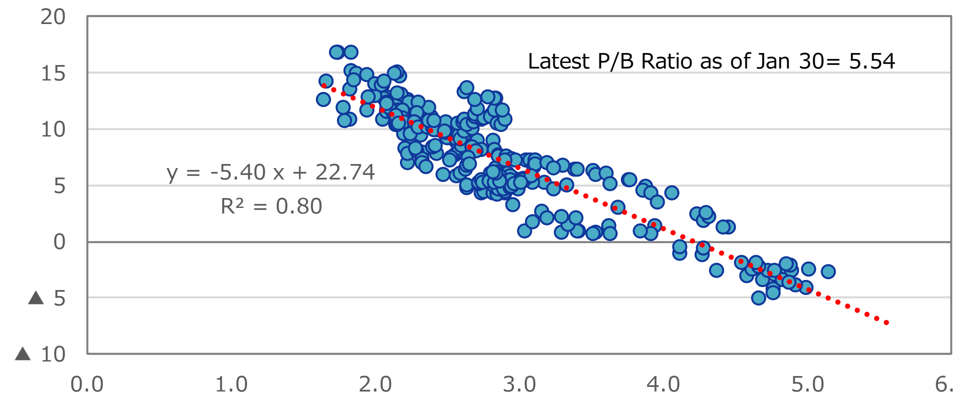


Note: Data as of 30 Jan 2026 TOPIX Historical P/B Ratio (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

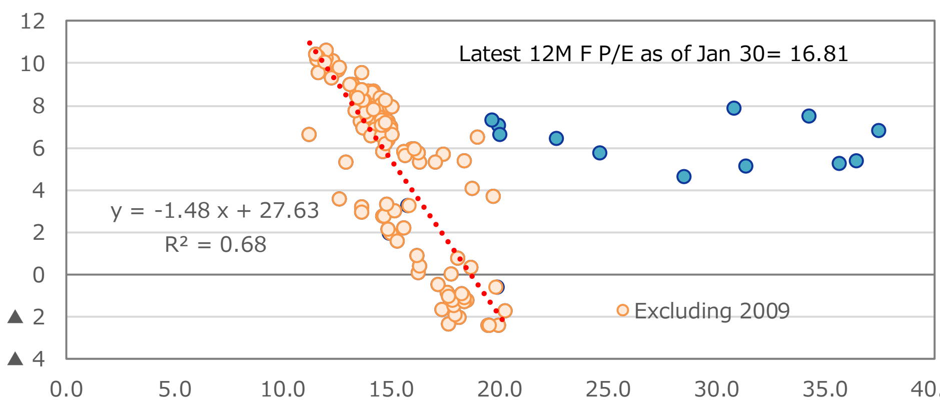


Note: Data as of 30 Jan 2026 S&P500 Historical P/B Ratio (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

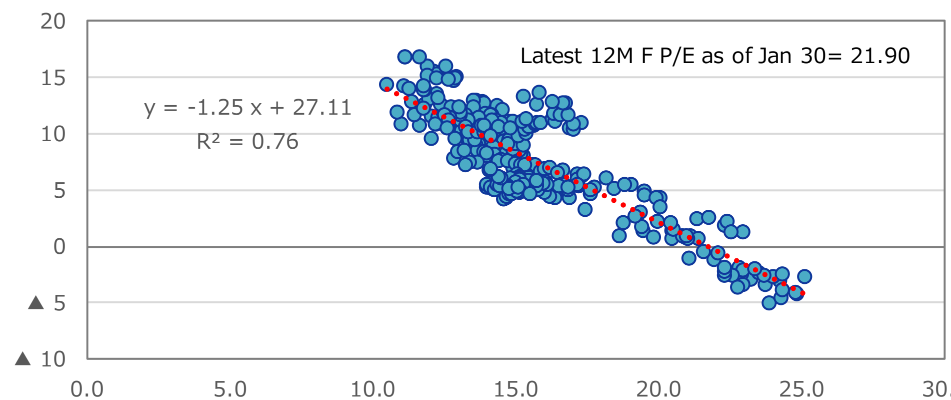


Note: Data as of 30 Jan 2026. The blue dots show 2009 data. TOPIX 12M Forward P/E (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

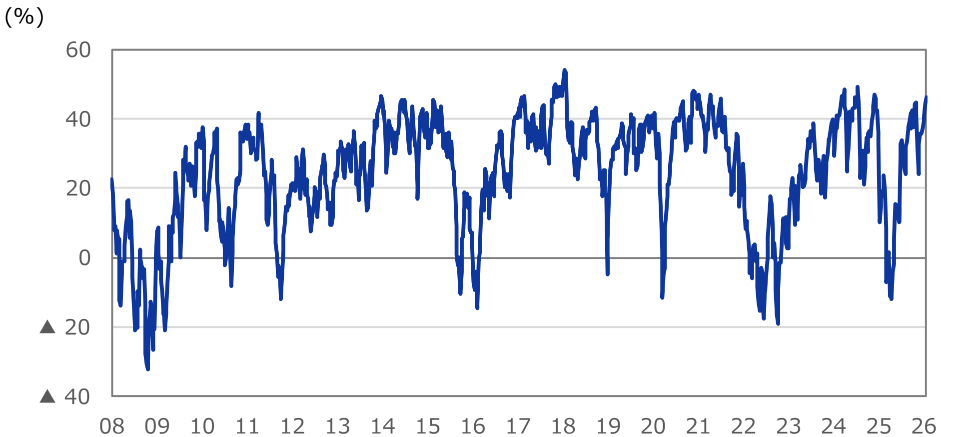


Note: Data as of 30 Jan 2026 S&P500 12M Forward P/E (times)

Source: SMDAM and Bloomberg

Stock Market Sentiment and Supply-Demand

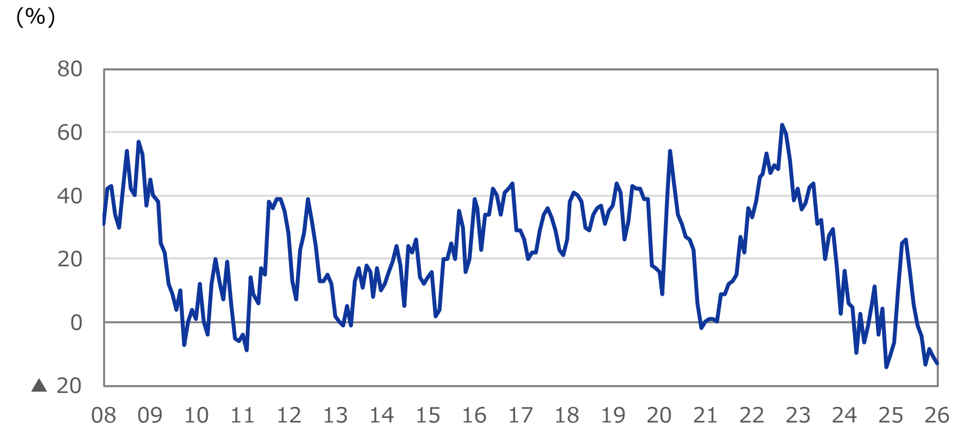
Investors Intelligence Bull-Bear Spread



Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and LSEG

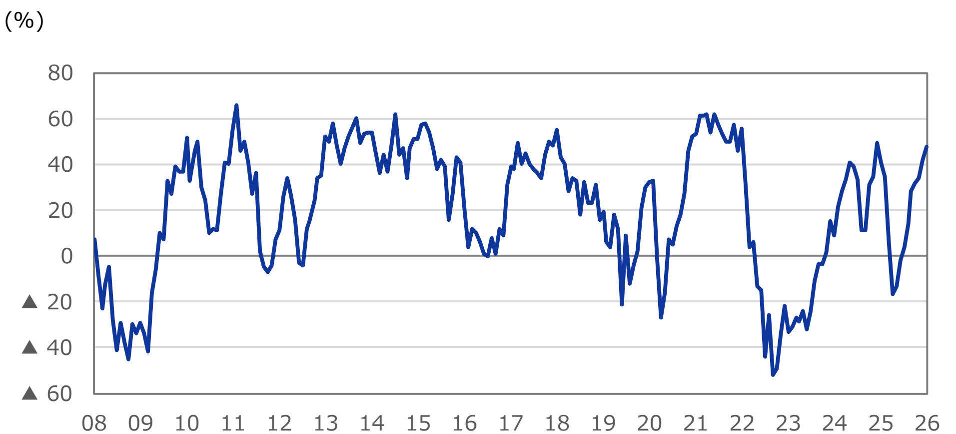
FM Survey: Cash Net Balance



Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and BofA

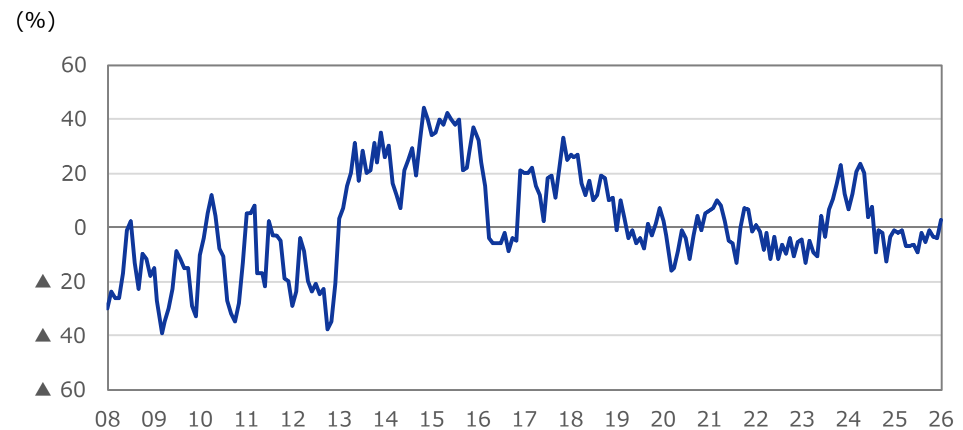
FM Survey: Equities Net Balance



Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and BofA

FM Survey: Japanese Equities Net Balance

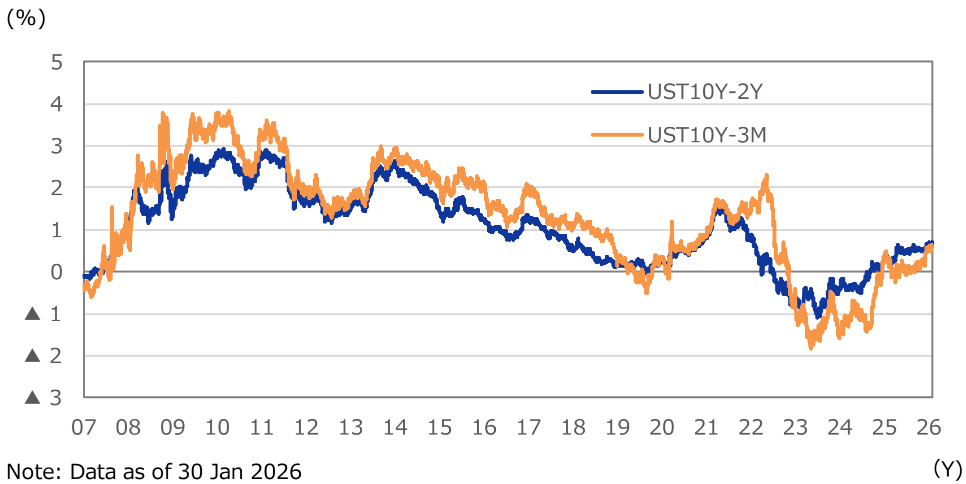


Note: Data as of 30 Jan 2026 (Y)

Source: SMDAM and BofA

Risk Indicators

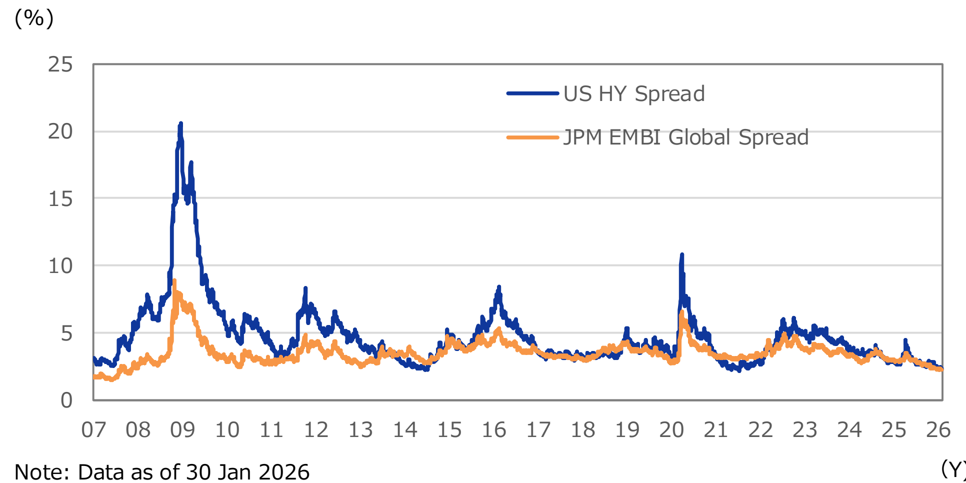
US Yield Curve Spread



Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

US HY Spread and EM Spread



Note: Data as of 30 Jan 2026

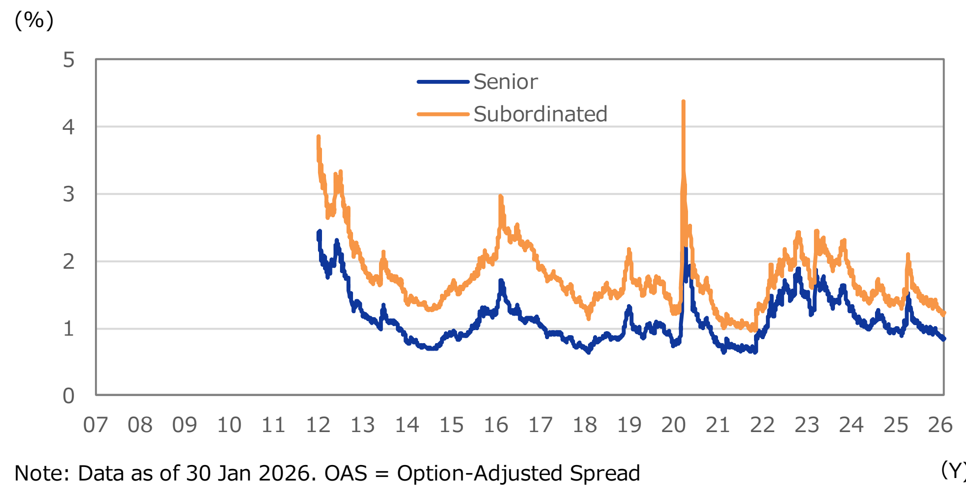
Source: SMDAM and Bloomberg

Chicago Fed Adjusted National Financial Conditions Index (ANFCI)

Note: Data as of 30 Jan 2026

Source: SMDAM, Chicago Fed and Bloomberg

USD IG Financials OAS



Note: Data as of 30 Jan 2026. OAS = Option-Adjusted Spread

Source: SMDAM and Bloomberg

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

Corporate Governance Code Revision – Discussion

Note: Data as of 30 Jan 2026

Governance reform theme	Issues / considerations	Likely direction / outlook
1) Streamline the Code; make it more principles-based	After two revisions, the Code is among the longest globally, raising the compliance burden; risk of box-ticking; procedural detail mixed into a "code."	Streamline and refocus the Code on principles; reinforce "comply or explain".
2) Disclose the Securities Report ("Yuho") before the AGM	Strong request (especially from overseas investors); concerns about workload and disruption—tight, uniform deadlines would be burdensome.	Continued push for pre-AGM disclosure; some advocate a uniform 2–3 weeks prior, but many view this as impractical—if a deadline is set, "a few days to ~1 week" is seen as more realistic; companies may respond by moving the AGM later and/or integrating the business report with the securities report.
3) Strengthen board effectiveness and related functions	Need to enhance capabilities of independent outside directors and the board office/secretariat; concerns about the quality/effectiveness of independent directors; as independents increase, ensuring equitable and effective information flow becomes critical.	Proposals exist (e.g., an independent chair; a majority-independent board) but the outlook is uncertain; likely clearer Code guidance on expected board office/secretariat functions.
4) Clarify expectations to assess the appropriateness of capital allocation	Need accountability for reviewing/explaining allocation including cash; concern that shareholder returns may be excessive vs. other stakeholders; concern over "bandwagon" investments while needed allocation/investment is deferred.	Board to assess the "appropriateness" of capital allocation and cash flow allocation and explain to investors; greater emphasis on a long-term perspective (e.g., capex as a source of value for future shareholders); stronger expectations on explaining cash deployment—likely framed in mid-to-long-term growth and value creation, without rejecting cash holdings outright (given corporate pushback).
5) Disclosure of cross-shareholdings	Disclosures lack specificity; possible pressure that discourages divestment.	Unlikely to mandate a "zero" target; more robust explanations of the business rationale for holdings may be required.

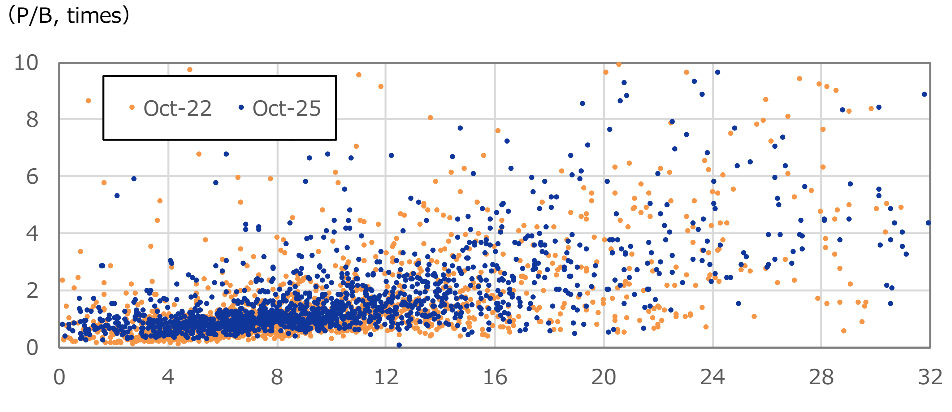
Securities Report ("Yuho") – Revision Discussions

Key revision item	Issues / considerations	Likely direction / outlook
Expanded sustainability disclosures	"Human capital" is a headline item; current disclosure is limited (e.g., average pay disclosed, but pay growth is not); equity-based compensation is largely executive-focused.	Qualitative disclosure of the talent development strategy and how pay/compensation is determined; disclose pay growth (wage increase rate); describe equity-based compensation schemes covering employees.

Source: SMDAM and FSA

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

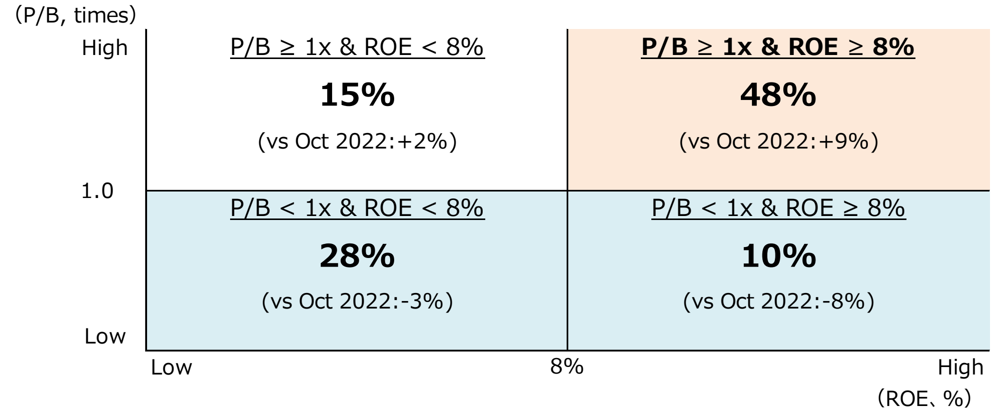
Shifts in P/B and ROE Distribution of TSE Prime Companies Before and After the Call for Capital Cost and Stock Price-Conscious Management



Note: As of 30 Jan 2026

Source: SMDAM and Bloomberg

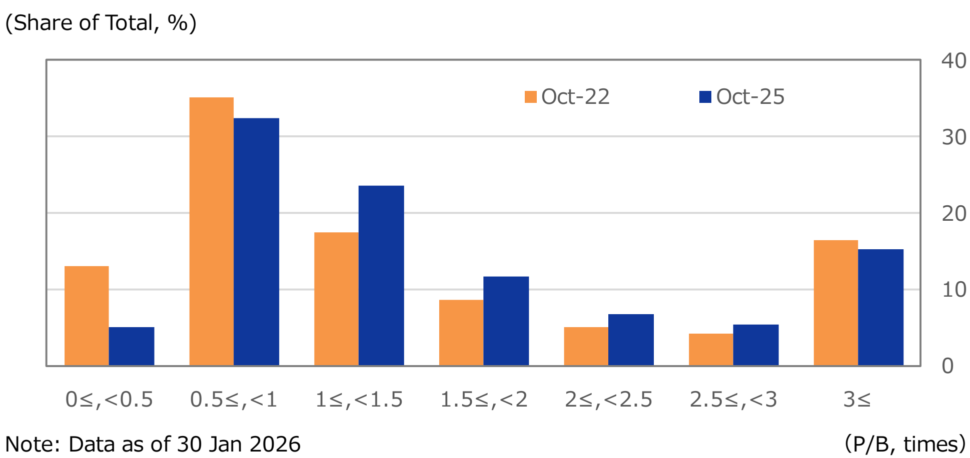
P/B & ROE Distribution in TSE Prime Companies Pre-/Post-Call for Capital Cost and Stock Price-Conscious Management (Oct 2025, Share of Total)



Note: As of 30 Jan 2026

Source: SMDAM and Tokai Tokyo Securities

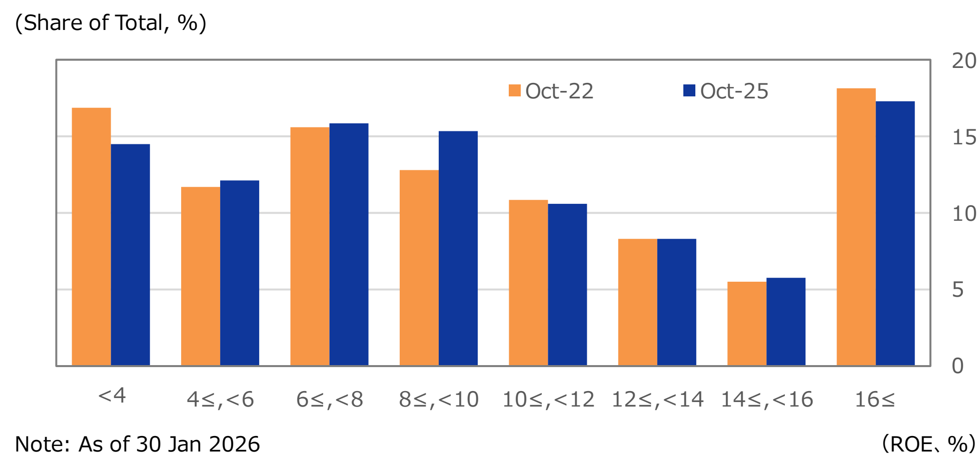
Shifts in P/B Distribution of TSE Prime Companies Before and After the Call for Capital Cost and Stock Price-Conscious Management



Note: Data as of 30 Jan 2026

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

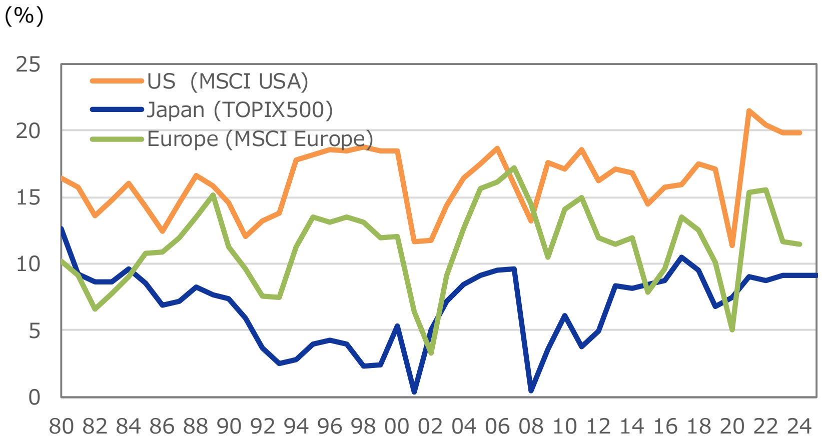


Note: As of 30 Jan 2026

Source: SMDAM and Bloomberg

Governance (3): ROE

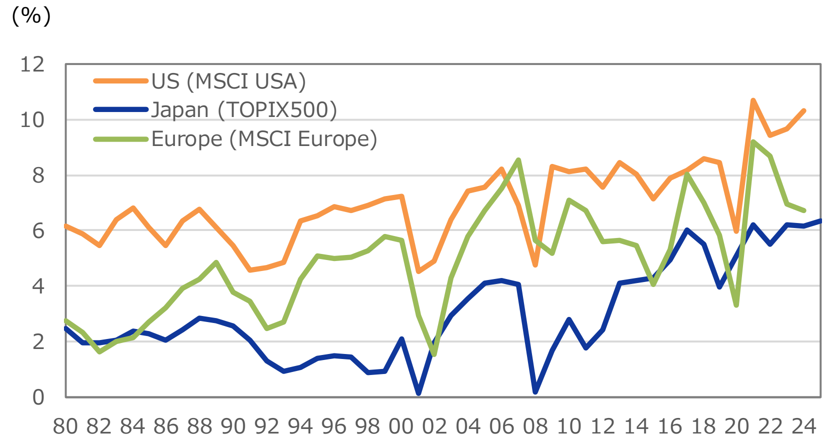
Long-term Trends of ROE in Japan, the US, and Europe



Note: Data as of 30 Jan 2026. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

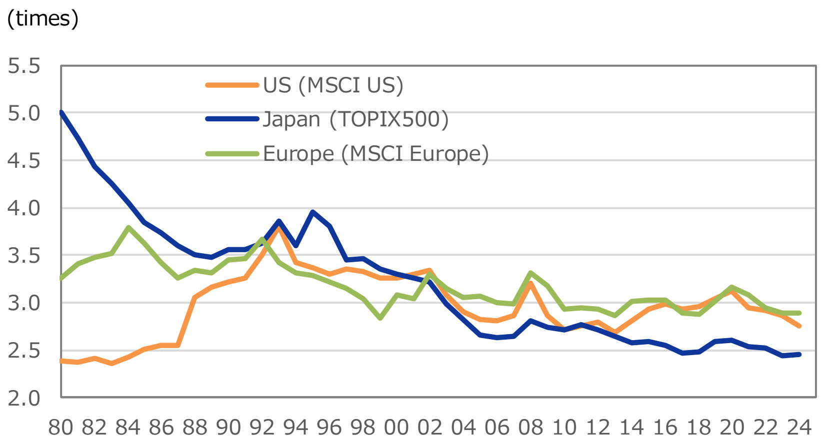
Long-term Trends of Net Profit Margins in Japan, US, and Europe



Note: Data as of 30 Jan 2026. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

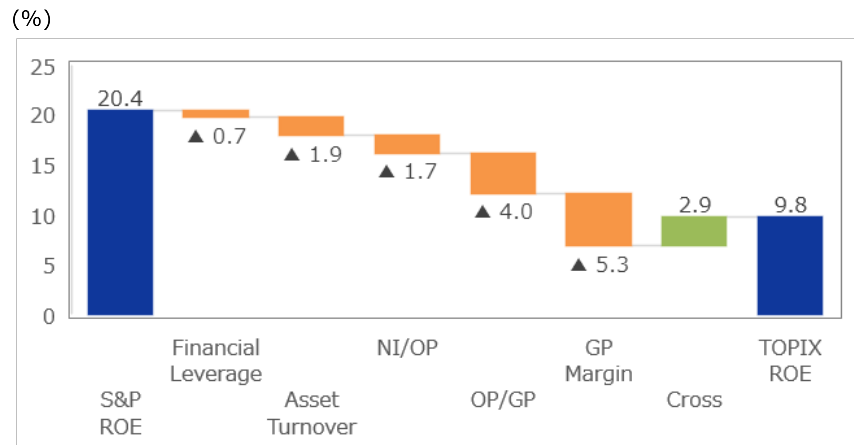
Long-term Trends of Financial Leverage in Japan, US, and Europe



Note: Data as of 30 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)

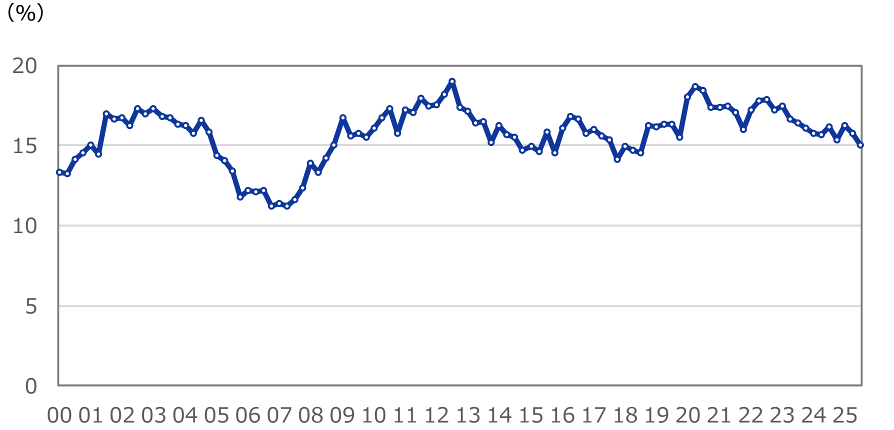


Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

Governance (4): Effective Cash Utilization

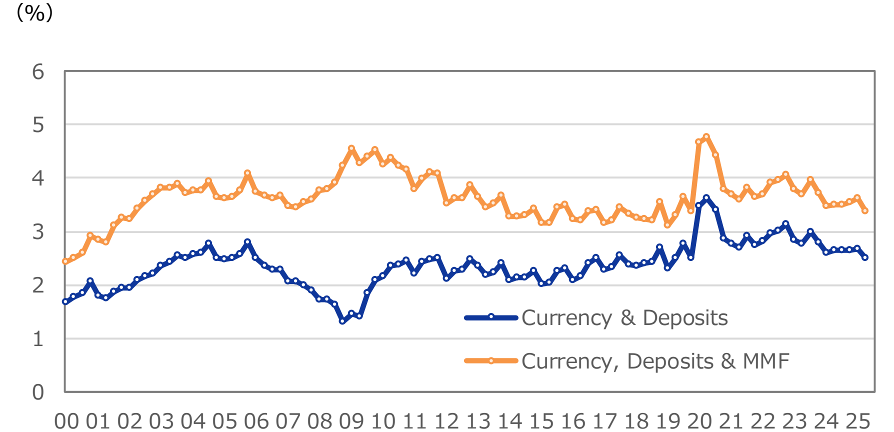
Cash Ratio in B/S of Japanese Non-Financial Corporations



Note: Data as of 30 Jan 2026

Source: SMDAM and BoJ

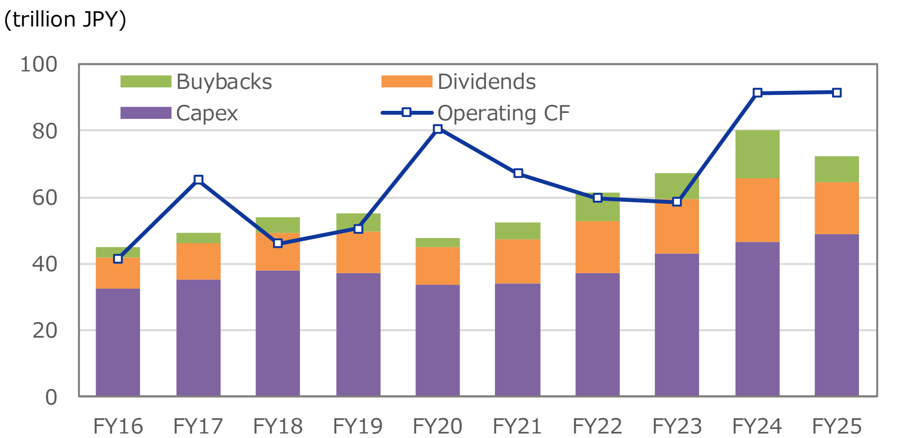
Cash Ratio in B/S of US Non-Financial Corporations



Note: Data as of 30 Jan 2026

Source: SMDAM and FRB

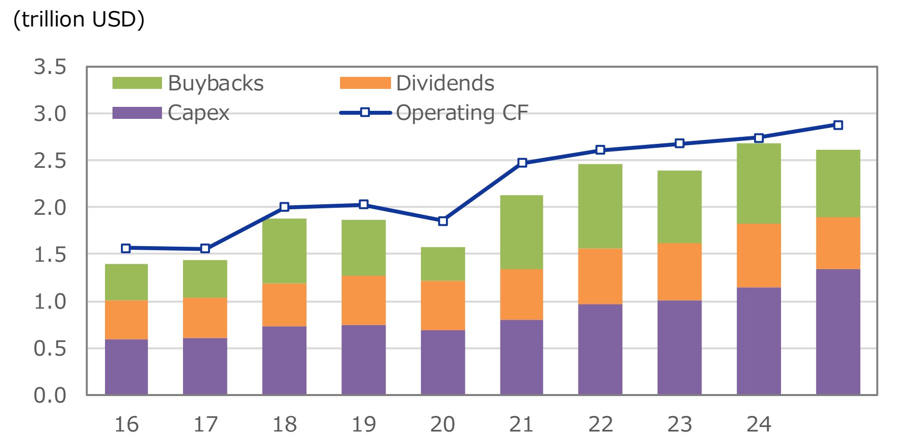
OCF, Investment, and Shareholder Returns for TOPIX 500 Companies



Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

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

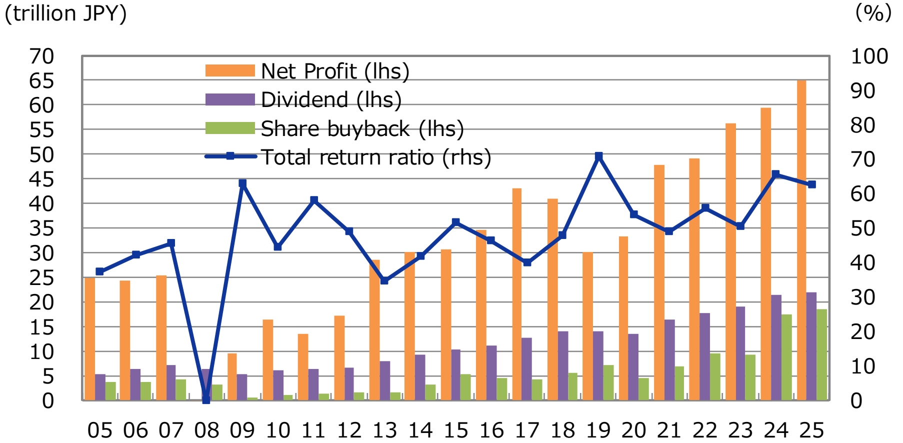


Note: Data as of 30 Jan 2026

Source: SMDAM and Bloomberg

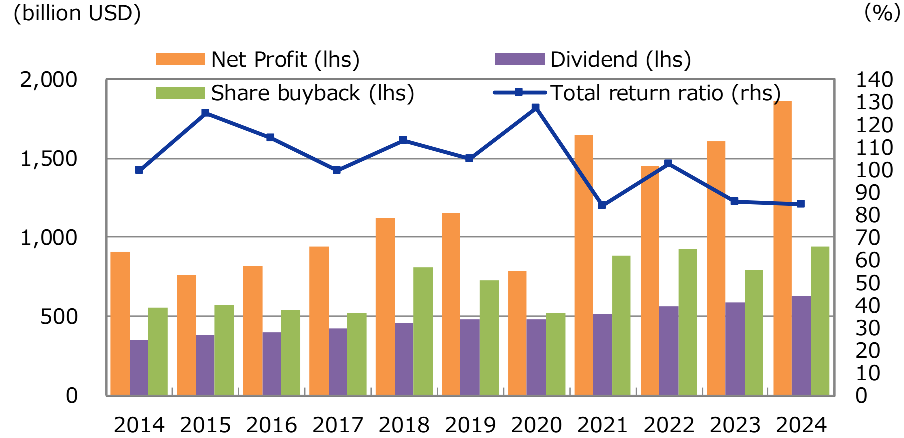
Governance (5): Shareholder Returns

Total Shareholder Return Ratio (TOPIX)



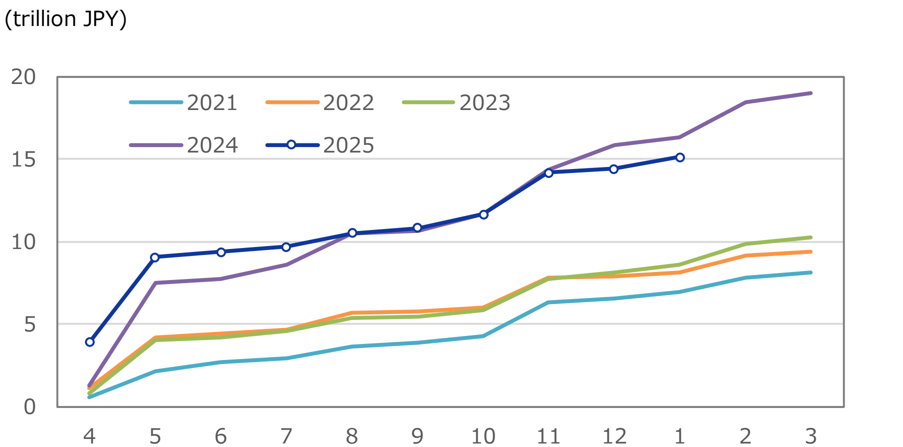
Note: Data as of 30 Jan 2026
Source: SMDAM and Tokai-Tokyo Sec.

Total Shareholder Return Ratio (S&P500)



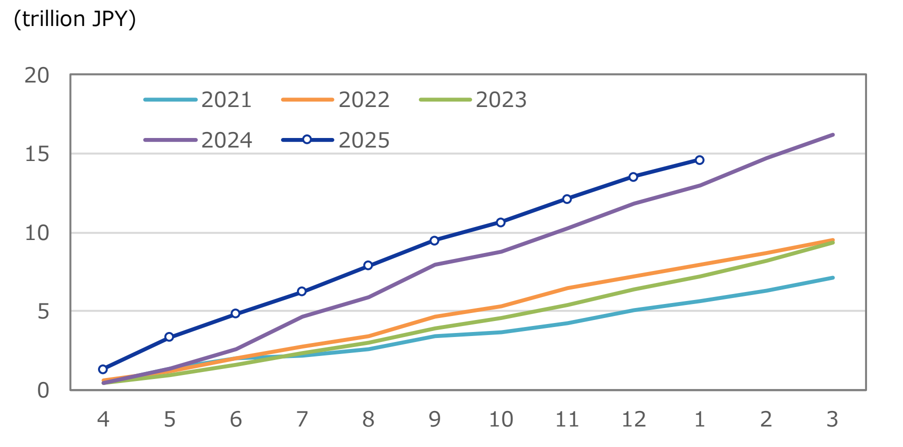
Note: Data as of 30 Jan 2026
Source: SMDAM and Tokai-Tokyo Sec.

Share Buyback Programs by Japanese Companies (FY Cumulative)



Note: Data as of 30 Jan 2026
Source: SMDAM and INDB

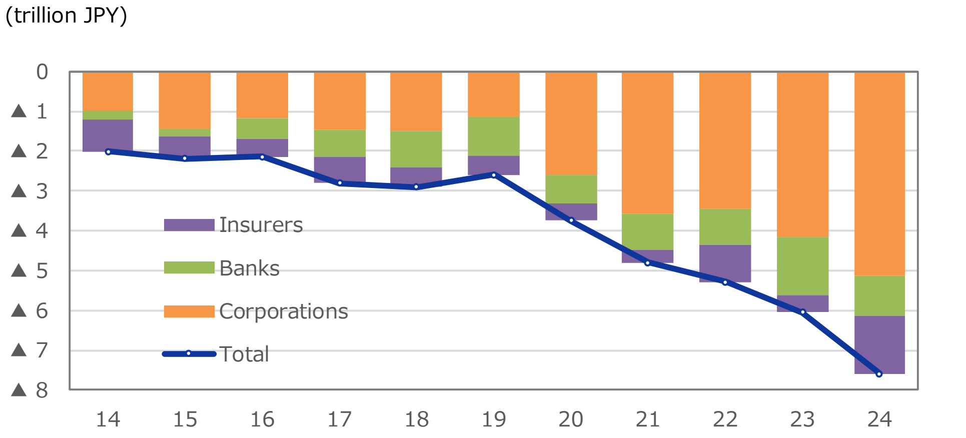
Share Buyback Activity by Japanese Companies (FY Cumulative)



Note: Data as of 30 Jan 2026
Source: SMDAM and INDB

Governance (6): Ownership Structure & Shareholder Meetings

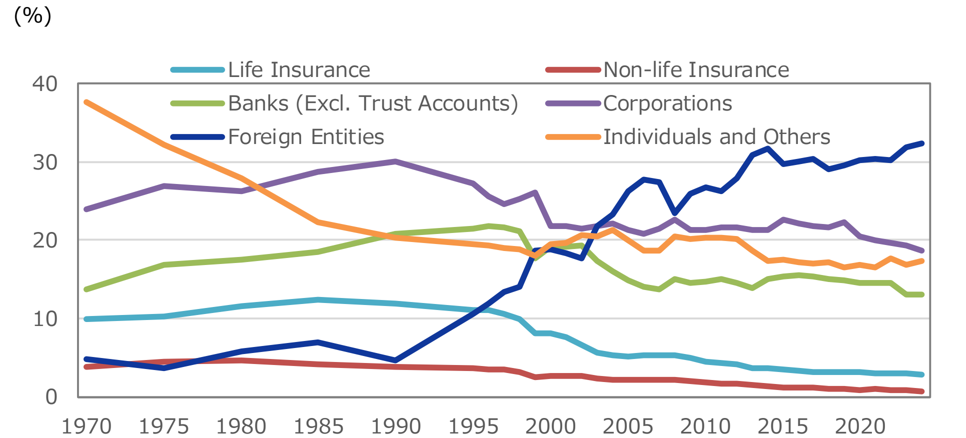
Cross shareholding unwinding



Note: Data as of 30 Jan 2026

Source: SMDAM and Tokai Tokyo Securities

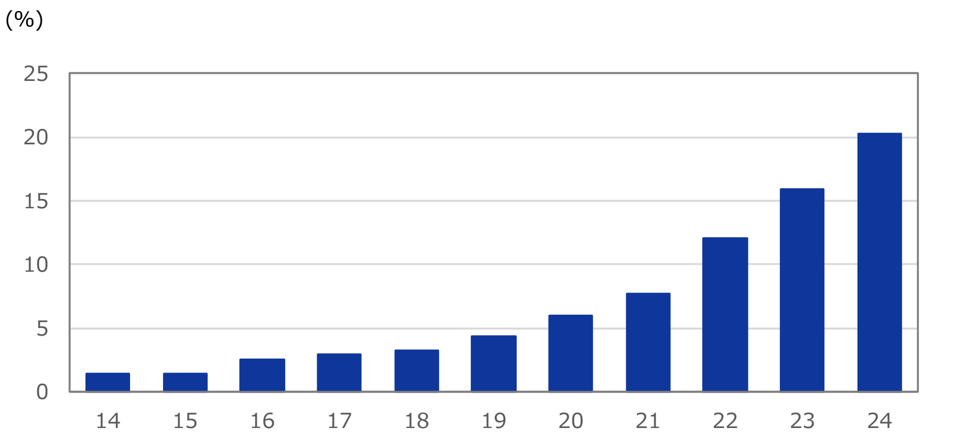
Distribution of Equity Ownership by Shareholder Type



Note: Data as of 30 Jan 2026

Source: SMDAM and JPX

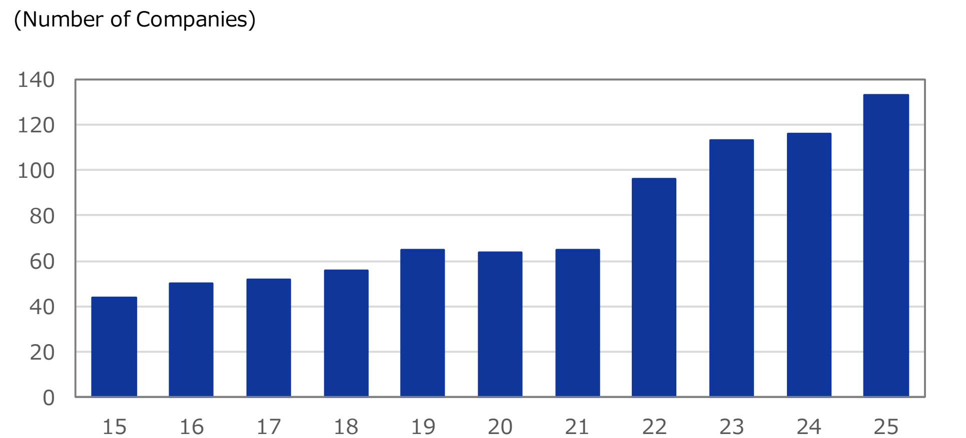
Percentage of Companies with a Majority of Independent Outside Directors



Note: Data as of 30 Jan 2026

Source: SMDAM and JPX

Number of Shareholder Proposals

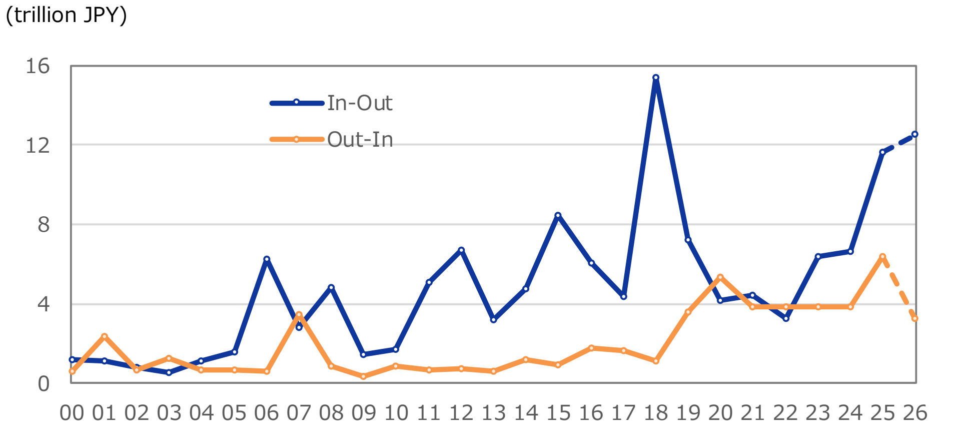


Note: Data as of 30 Jan 2026

Source: SMDAM and Japan Institute of Business Law

Governance (7): Rising Takeover Risk

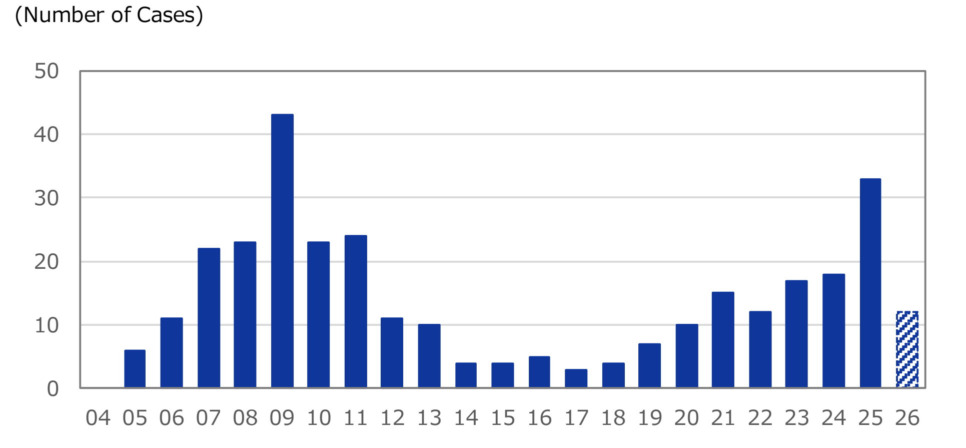
Trends in M&A Deal Value Involving Japanese Companies



Note: As of 30 Jan 2026. 2026: annualized from January count.

Source: SMDAM and Bloomberg

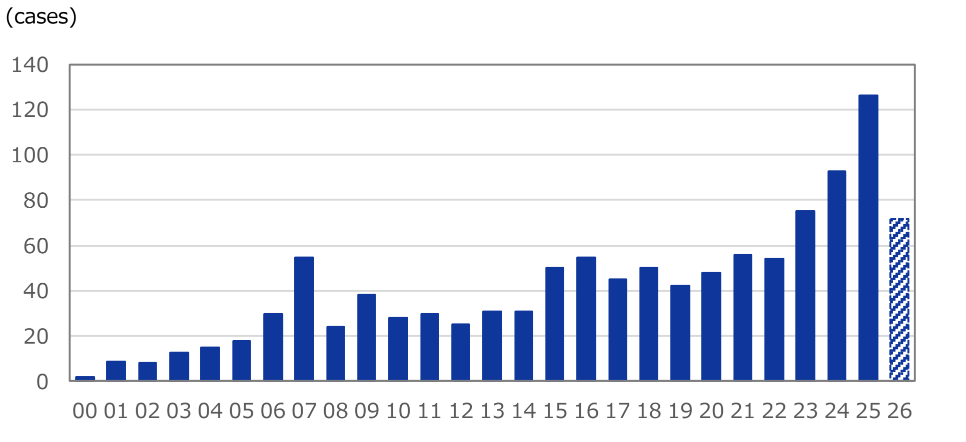
Trends in MBO Transactions



Note: As of 30 Jan 2026. 2026: annualized from January count.

Source: SMDAM and Bloomberg

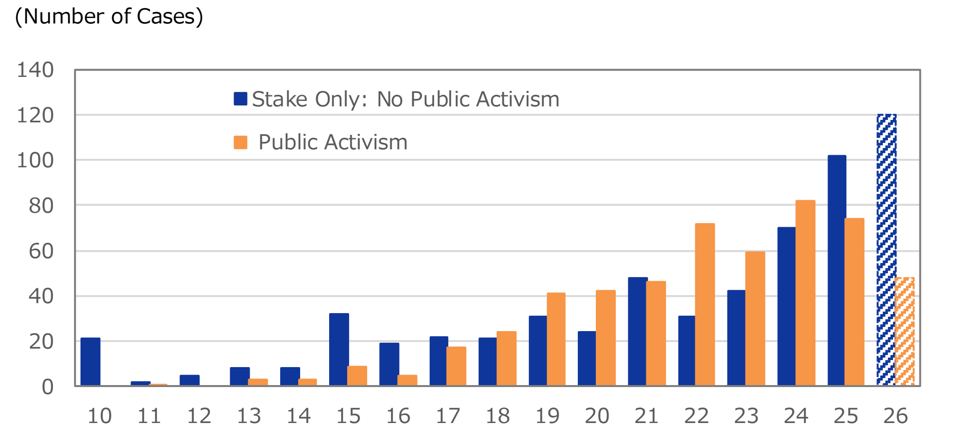
Trends in Number of TOBs (TSE Listed Companies)



Note: As of 30 Jan 2026. 2026: annualized from January count.

Source: SMDAM and Bloomberg

Activist investor activity



Note: As of 30 Jan 2026. 2026: annualized from January count.

Source: SMDAM and Bloomberg

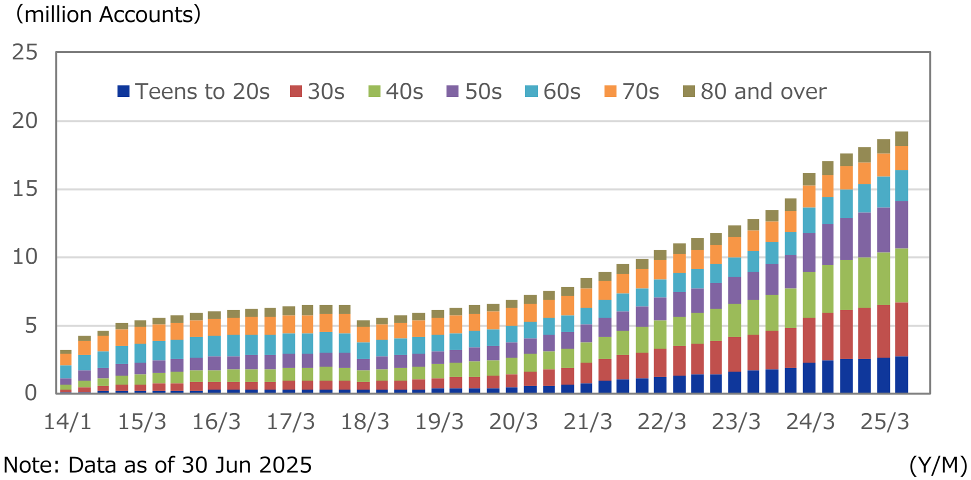
NISA

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	Kodomo NISA Planned 2027
Lifetime Limit	JPY 8 mn	JPY 6 mn	JPY 18 mn (JPY 12 mn for Growth Quota)		JPY 6 mn
Annual Limit	JPY 0.4 mn	JPY 1.2 mn	JPY 1.2 mn	JPY 2.4 mn	JPY 0.6 mn
Tax Exemption Period	20 years	5 years	No Limit		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	FSA selected Investment trusts and ETFs
Target Age	18 and older		18 and older		0?17 years old

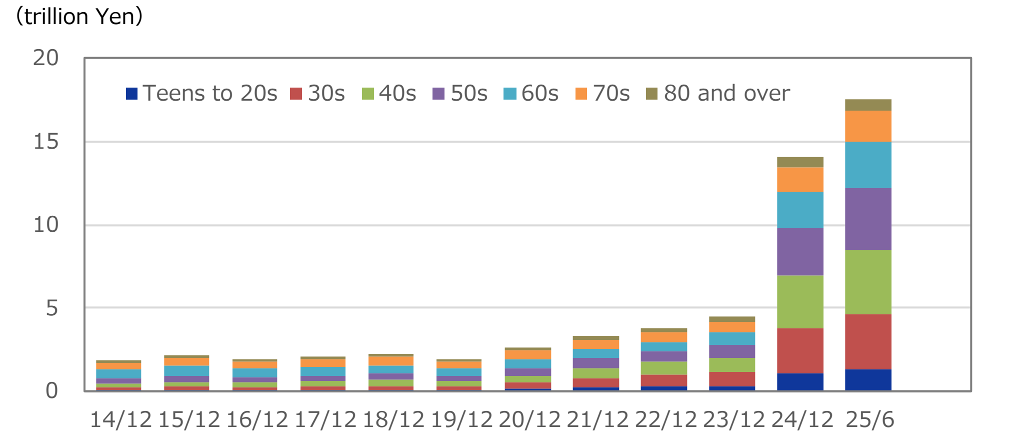
Source: SMDAM and FSA
Note: As of 30 Jan 2026

Number of NISA Accounts by Age Group



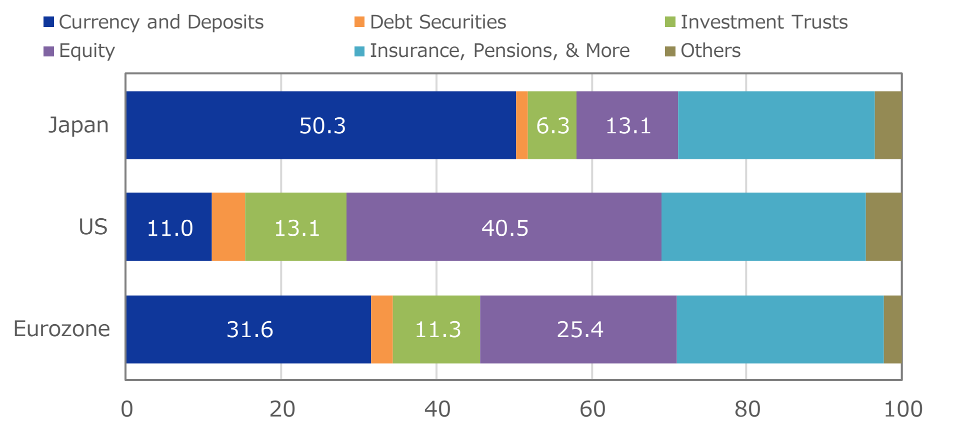
Note: Data as of 30 Jun 2025
Source: SMDAM and Japan Securities Dealers Association

Annual Purchase Amount in NISA Accounts by Age Group



Note: Data as of 30 Jun 2025. End-June 2025 figure is annualized.
Source: SMDAM and Japan Securities Dealers Association

Financial Assets held by Households (As of June 2025)



Note: Data as of 30 Jun 2025
Source: SMDAM, BoJ, FRB and ECB

Event Schedule: Focus— Lower House Election, BOJ Noguchi's successor appointment, Trump Tariff Decision

	Date	Japan	Date	U.S.	Date	Other Regions
February to March 2026	**Feb 8** Mid-Mar **Mar 31**	**Lower House election (voting and vote count)** Key Response Day for Spring Wage Negotiations **Expiration of the Term of BoJ Policy Board Member Noguchi**	**Feb?** Feb Feb Q1	**Supreme Court Decision on Trump Tariffs (If unconstitutional: lower tariff rates, reduced tariff revenue)** Congressional Testimony of the Federal Reserve Chair Primary Elections Ramp Up Ahead of U.S. Midterm Elections The Three Major Presidential Messages	Feb 6- Feb Mar 5	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	**May 15**	**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			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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