Japan Equity Market Outlook

Sumitomo Mitsui DS Asset Management

-May 2026-

Summary

Japan Equity Outlook

Japanese equities rebounded in April. TOPIX rose 6.6%, while the tech-heavy Nikkei jumped 16.1% to a record high, as tech strength outweighed Middle East concerns.

The outlook still depends on the Middle East and tech. Strong capex plans by major U.S. tech firms should sustain tech momentum for now. By contrast, the Strait of Hormuz remains closed. Oil stockpile releases and fiscal support have limited the damage so far, but a prolonged closure could lead to physical shortages and disrupt tech supply chains. For now, markets hinge on U.S.-Iran brinkmanship.

Economic and Monetary Policy

If the Middle East crisis does not drag on, our base case is continued recovery in Japan and abroad, supported by fiscal policy. We expect the BOJ to hike again in June and gradually raise rates to 2.00% by spring 2028, while the Fed stays on hold through 2026. The U.S.-Japan rate gap should narrow only slowly, limiting sharp yen appreciation, though authorities are unlikely to tolerate excessive yen weakness.

Key Drivers for Japan's Stock Market

Japan's medium-term backdrop remains supportive. Deflation is fading, corporate governance reform is advancing, and policies under the Takaichi administration should help reinforce both trends.

Risks and Events

Upside risks include stronger expectations for growth policy, foreign inflows linked to governance reform, and easing Middle East tensions. Downside risks include a sharp rise in Japanese long-term yields, U.S. credit stress, prolonged Japan-China tensions, and supply disruption from the Middle East. AI remains a two-sided factor: faster deployment and monetization would support equities, while delays could weigh on the market.

Japanese Economy Outlook

SMDAM Forecasts: Japanese Economy

Forecasts as of 16 Apr 2026		FY22 (A)	FY23 (A)	FY24 (A)	FY25 (E)	FY26 (E)	FY27 (E)
Real GDP	(yoy, %)	1.4	▲ 0.1	0.5	0.9	0.7	1.0
Private Consumption	(yoy, %)	2.5	▲ 1.0	0.2	1.5	0.6	1.2
Private Resid. Investment	(yoy, %)	0.6	1.8	▲ 0.7	▲ 3.0	0.9	▲ 0.1
Private Capex	(yoy, %)	3.9	▲ 0.1	0.8	2.3	1.6	2.0
Public Investment	(yoy, %)	▲ 4.5	▲ 0.1	0.1	▲ 1.1	▲ 0.6	0.6
Net Exports (contribution)	(%point)	▲ 0.6	1.1	▲ 0.4	▲ 0.1	0.1	▲ 0.3
Exports	(yoy, %)	4.7	2.9	1.6	2.4	0.7	2.2
Imports	(yoy, %)	7.3	▲ 2.3	3.2	3.2	0.4	3.8
Nominal GDP growth	(yoy, %)	2.6	4.7	3.7	4.1	2.0	2.7
GDP deflator	(yoy, %)	1.2	4.8	3.2	3.1	1.3	1.8
Industrial production	(yoy, %)	▲ 0.3	▲ 1.9	▲ 1.5	▲ 0.0	0.4	1.2
CPI (less fresh food & institutional factors)	(yoy, %)	4.0	3.2	2.2	2.7	3.4	1.9
Unemployment Rate	(%)	2.6	2.6	2.5	2.6	2.5	2.4
Policy Rate	(End of Period, %)	▲ 0.1	0-0.1	0.50	0.75	1.50	2.00

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 Apr 2026		2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2
GDP Growth Rate									
United States	(saar, %)	4.4	0.5	0.9	1.7	2.2	1.8	1.8	1.8
Japan	(saar, %)	▲ 2.6	1.3	1.4	0.2	0.3	0.7	2.3	0.8
Euro Area	(saar, %)	1.2	0.8	1.0	0.9	1.2	1.2	1.4	1.5
China	(yoy,%)	4.8	4.5	5.0	4.5	4.5	4.6	4.5	4.6
Inflation									
United States	(core PCED, yoy, %)	2.9	2.8	3.0	3.0	2.9	2.8	2.4	2.3
Japan	(core CPI, yoy, %)	2.9	2.8	1.7	2.0	2.8	3.1	1.8	1.2
Euro Area	(yoy, %)	2.1	2.1	2.0	3.0	2.9	2.9	2.7	2.3
China	(yoy, %)	▲ 0.2	0.6	0.9	0.9	0.7	0.4	▲ 0.2	0.0
Policy Rates									
Unites States	(End of Period, %)	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	3.0-3.25
Japan	(End of Period, %)	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50
Euro Area	(End of Period, %)	2.00	2.00	2.00	2.25	2.50	2.50	2.50	2.50
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, %)	4.15	4.17	4.32	4.30	4.30	4.20	4.10	4.00
Japan 10Y	(End of Period, %)	1.65	2.06	2.35	2.50	2.55	2.65	2.75	2.75
Germany 10Y	(End of Period, %)	2.71	2.86	3.00	3.10	3.10	3.00	3.00	3.00
FX									
USD/JPY	(End of Period)	147.7	156.7	158.7	160.0	159.0	159.0	158.5	158.0
EUR/JPY	(End of Period)	173.5	184.1	183.4	185.6	186.0	186.0	185.4	186.4
Stock Prices									
TOPIX	(End of Period)	3,138	3,409	3,498	3,850	3,950	4,000	4,000	4,000
Nikkei 225	(End of Period)	44,933	50,339	51,064	59,300	60,800	61,600	61,600	61,600

Note: Forecasts by SMDAM.
Source: SMDAM

		2024 (yoy,%)	2025 (yoy,%)	2026 (yoy,%)	2027 (yoy,%)
GDP Growth Rate					
United States	(saar, %)	2.8	2.1	1.8	1.8
Japan	(saar, %)	0.5	0.9	0.7	1.0
Euro Area	(saar, %)	0.9	1.5	1.0	1.4
China	(yoy,%)	5.0	5.0	4.6	4.5
Inflation					
United States	(core PCED, yoy, %)	2.9	2.8	3.3	2.4
Japan	(core CPI, yoy, %)	2.7	2.7	2.4	1.0
Euro Area	(yoy, %)	2.4	2.1	2.7	2.4
China	(yoy, %)	0.2	0.0	0.7	0.0

Note: Japan is FY-based.

This Month's Topic (1): Economic Impact of the Growth Strategy #1

- The Japan Growth Strategy Council has presented a draft public-private investment roadmap for 27 products and technologies, including physical AI and semiconductors, selected from the government's 17 strategic sectors for early consideration. Based on the draft's target sales figures, aligned to 2035, input-output analysis suggests that full achievement would generate JPY 71.7 trillion in additional value added, raise nominal GDP by 8.4 percentage points, and lift average annual growth by 0.83 percentage points. These estimates, however, rest on strong assumptions, including unchanged economic structures and full attainment of the targets, and should therefore be discounted. Even if only half of the projected impact materializes, trend growth would still be boosted by 0.42 percentage points per year, which remains significant relative to Japan's potential growth rate of around 0.6%.

Economic impact of the Government's growth strategy (Increase in economic output after 10 years, assuming full implementation) **(Trillion JPY)**

Priority Products/Tech / TOPIX 17 Sectors	1 Physical AI (AI robots)	2 Agent-core semis	3 Data platform	5 All-photonic NW	8 Civil aircraft	9.Drones	10 Flying cars	11 Rockets/spaceport	12 Marine drones	13 Next-gen ships	15 Bio manufacturing	16 Biopharma/regen med	17 First/Best-in-class meds	23 Plant factories	24 Land aquaculture	25 Disaster tech	27 Games	Total spillover
Electronics & Precision	0.2	14.2	0.0	3.9	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.9	0.9	**20.3**
IT & Services	0.6	1.4	5.0	0.4	0.1	0.0	0.0	0.0	0.1	0.4	0.3	1.2	2.4	1.0	0.6	0.1	5.6	**19.2**
Banks	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.2	0.1	0.0	0.3	**1.6**
Trading Companies & Wholesale	0.2	0.5	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.3	0.7	0.6	0.3	0.0	0.3	**3.5**
Machinery	6.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.1	**7.1**
Autos & Transportation Equipment	0.0	0.0	0.0	0.0	1.0	0.3	0.1	0.2	0.7	4.8	0.0	0.0	0.0	0.1	0.0	0.0	0.0	**7.4**
Financials (ex Banks)	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.2	**0.8**
Materials & Chemicals	0.3	1.2	0.1	0.3	0.1	0.0	0.0	0.0	0.0	0.3	4.4	3.7	7.6	1.2	0.7	0.1	0.4	**20.4**
Retail	0.1	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.4	0.3	0.2	0.0	4.3	**6.1**
Pharmaceuticals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	10.3	0.0	0.0	0.0	0.0	**15.3**
Construction & Materials	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	**0.6**
Steel & Nonferrous	1.2	1.2	0.0	0.4	0.3	0.1	0.0	0.0	0.2	1.2	0.1	0.2	0.5	0.1	0.1	0.1	0.2	**5.8**
Transport & Logistics	0.2	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.6	0.5	0.3	0.0	0.3	**3.0**
Food	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	11.8	6.7	0.0	0.6	**19.5**
Real Estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	**0.3**
Utilities (Electric & Gas)	0.2	0.7	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.7	0.3	0.2	0.0	0.4	**3.6**
Energy Resources	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.6	0.2	0.5	0.3	0.2	0.0	0.1	**2.3**
Total spillover	**9.2**	**20.8**	**5.9**	**5.6**	**1.7**	**0.5**	**0.2**	**0.3**	**1.2**	**7.8**	**6.2**	**12.1**	**24.7**	**16.7**	**9.4**	**1.3**	**13.9**	**137.6**
Value-added equivalent	**6.4**	**9.3**	**3.7**	**8.1**	**1.0**	**0.3**	**0.1**	**0.2**	**0.7**	**4.6**	**1.8**	**4.2**	**8.6**	**6.7**	**3.8**	**1.9**	**10.5**	**71.7**

Note 1: Calculated ripple effects using input-output tables assuming new demand based on long-term sales targets from the Japan Growth Strategy Council, and reclassified into TOPIX 17 sectors. For 2030/2040 targets, estimated 2035 sales using growth rates. Impacts for 16 & 17 are allocated between Mat/Chem and Pharma based on domestic production ratios. For 27 (Games), new demand is split 1:1 between personal and info services before calculating effects.

Note 2: If 100% successful, 2035 GDP trend is boosted by 0.83%. 50% success: 0.42%, 30% success: 0.24%.

Source: SMDAM, Japan Growth Strategy Council and METI.

This Month's Topic (1): Economic Impact of the Growth Strategy #2

Preliminary Draft: Public–Private Investment Roadmap for Key Products and Technologies (Priority Items for Early Review) As of 31 Mar 2026

	Strategy Field		Priority Products and Technologies	Target (Goal)
1	AI & Semiconductors	1	Physical AI (especially AI robots)	Aim to secure 30%+ global share as a "third pole" alongside the US and China; target JPY 20 trillion market by 2040
		2	Semiconductors enabling physical intelligent systems	Target sales of semiconductors manufactured in Japan: JPY 15 trillion by 2030; JPY 40 trillion by 2040
2	Digital & Cybersecurity	3	Data platforms	Target domestic data-platform-related market size: JPY 5 trillion by 2035
		4	Secure DX infrastructure for central/local government	Contribute to achieving the "JPY 5 trillion domestic data-platform-related market" target
3	Information & Communications	5	All-photonic network	Expand share particularly in North America; target 10% global share by 2030
4	Quantum	6	Quantum computing	Achieve 10,000+ physical qubits around 2030
5	Defense Industry	7	Small unmanned aerial vehicles (UAVs)	In civilian use, secure supply of 80,000 units/critical components by 2030; leverage the base for defense as well
6	Aerospace	8	Civil aircraft (next single-aisle / next-generation aircraft)	Create complete aircraft business via international collaboration; aim to secure an annual market of approximately JPY 6 trillion or more
		9	Unmanned aerial vehicles (UAVs)	Target securing supply of 80,000 units/critical components by 2030
		10	Flying cars (eVTOL)	Aim to capture ~JPY 150 billion market domestically and internationally around 2040
		11	Rockets & launch sites	Aim to secure annual demand for launch services of JPY 150–300 billion domestically and internationally by 2040
7	Ocean	12	Unmanned marine vehicles (marine drones)	Aim for 30% global market share; capture market scale of ~$4–5 billion in 10 years
8	Shipbuilding	13	Next-generation vessels	Build 18 million gross tons by 2035 (market size approx. JPY 5 trillion)
9	Materials (critical minerals & components)	14	Permanent magnets	Secure production capacity to meet domestic demand in 2030
10	Synthetic Biology & Bio	15	Bio-manufacturing	Target total sales of Japanese companies: JPY 11.9 trillion by 2040
		16	Biopharmaceuticals / regenerative medicine products, etc.	Target total sales of Japanese companies: JPY 23.0 trillion by 2040
11	Drug Discovery & Advanced Medicine	17	First-in-class / best-in-class products (pharmaceuticals, regenerative medicine products, etc.)	Match global market growth (CAGR ~9.6%) in the patented-drug market for Japanese pharma companies
		18	Infectious-disease response products	International rollout (to 25+ countries) of antimicrobials, etc.
12	Resource & Energy Security / GX (Green Transformation)	19	Next-generation solar cells (e.g., perovskite)	Establish technology at ≤JPY 14/kWh by FY2030; deploy ~20 GW domestically by 2040
		20	Hydrogen, etc.	Introduce up to ~3 million t/year by 2030; ~12 million t/year by 2040; ~20 million t/year by 2050
		21	Green steel	In early 2030s, capture high-quality green steel market of ≥~3 million t/year domestically and internationally
13	Fusion Energy	22	Fusion energy	Select the fusion power-generation system for rapid realization; achieve power-generation demonstration in the 2030s
14	Food Tech	23	Plant factories	Aim for 30% share of domestic and international markets by 2040
		24	Land-based aquaculture	Aim for 30% share of domestic and international markets by 2040
15	Disaster Prevention & National Resilience	25	Disaster-prevention technologies	Target overseas sales by Japanese companies in disaster-prevention fields: ~JPY 2 trillion by 2030
16	Port Logistics	26	Port cargo-handling machinery	Maintain domestic market; aim to capture ~30% share of the US market around 2040
17	Content	27	Games	Target overseas sales in gaming: JPY 12 trillion by 2033

Source: SMDAM and the Japan Growth Strategy Council

This Month’s Topic (2): How Far Can the BOJ Raise Rates?

- In last month’s topic, we identified 2.00% as a possible terminal rate in the BOJ’s current tightening cycle. Our base case is that the BOJ will raise the policy rate to 2.00% by spring 2028.
- Still, the path to 2.00% is likely to be difficult. The main hurdles are political pressure and the burden on SMEs. If the Takaichi administration remains in place and reflationists are appointed to replace two BOJ board members in 2027, pressure against further hikes could increase. At the same time, cumulative rate hikes could weigh on SME earnings and wage growth.
- On the other hand, yen weakness could prompt earlier or larger rate hikes. The BOJ sees a weaker yen as adding persistent upward pressure on prices, which could justify further tightening. But rising import and borrowing costs would hit SMEs hard, leaving the BOJ with a difficult trade-off.

Terms of BOJ Policy Board Members

Member	Start		End	Appointing Cabinet
Kazuo Ueda	2023/4/9	～	**2028/4/8**	Kishida
Shinichi Uchida	2023/3/20	～	**2028/3/19**	Kishida
Ryozo Himino	2023/3/20	～	**2028/3/19**	Kishida
Hajime Takata	2022/7/24	～	**2027/7/23**	Kishida
Naoki Tamura	2022/7/24	～	**2027/7/23**	Kishida
Junko Koeda	2025/3/26	～	2030/3/25	Ishiba
Kazuyuki Masu	2025/7/1	～	2030/6/30	Ishiba
Toichiro Asada	2026/4/1	～	2031/3/31	**Takaichi**
Junko Nakagawa ↓ Ayano Sato	2021/6/30 2026/6/30	～ ～	2026/6/29 2031/6/29	Suga **Takaichi**

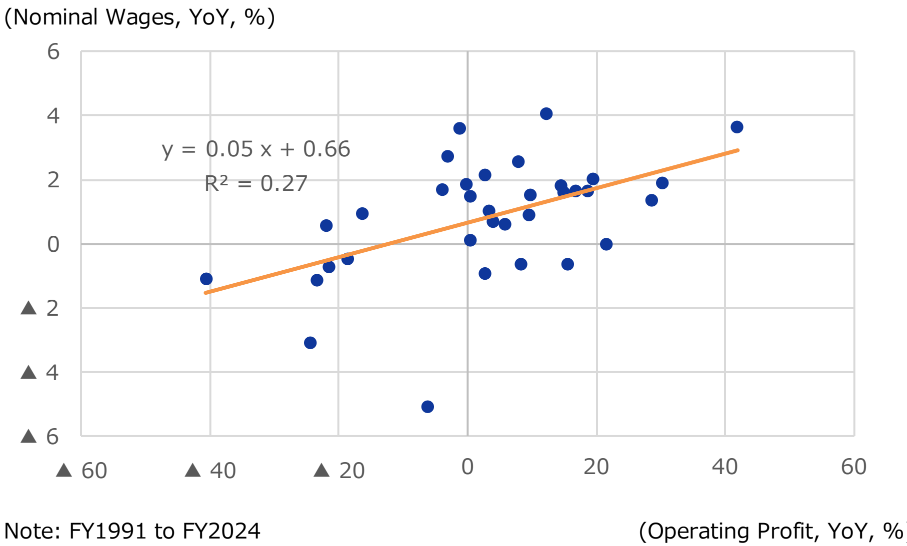
Source: SMDAM and BOJ

Impact of Higher Net Interest Burden on Corporate Profits (If Interest Rates Paid Rise by 1 Percentage Point) (%)

		All Sizes	Capital of JPY 1bn or More	Capital of JPY 100mn to Less Than JPY 1bn	Capital of JPY 10mn to Less Than JPY 100mn	Capital of Less Than JPY 10mn
Impact on Operating Profit	All Industries	▲ 5.39	▲ 6.33	▲ 1.95	▲ 3.47	▲ 22.88
	Manufacturing	▲ 2.54	▲ 2.50	▲ 2.03	▲ 2.73	▲ 12.72
	Non-Manufacturing	▲ 6.60	▲ 8.53	▲ 1.92	▲ 3.65	▲ 21.66
Impact on Recurring Profit	All Industries	▲ 3.98	▲ 4.47	▲ 1.74	▲ 2.61	▲ 12.37
	Manufacturing	▲ 1.59	▲ 1.43	▲ 1.76	▲ 2.12	▲ 11.15
	Non-Manufacturing	▲ 5.29	▲ 6.96	▲ 1.74	▲ 2.73	▲ 12.42

Note: Estimates are based on FY2024 data
Source: SMDAM and MOF

Relationship Between Operating Profit and Nominal Wage Growth

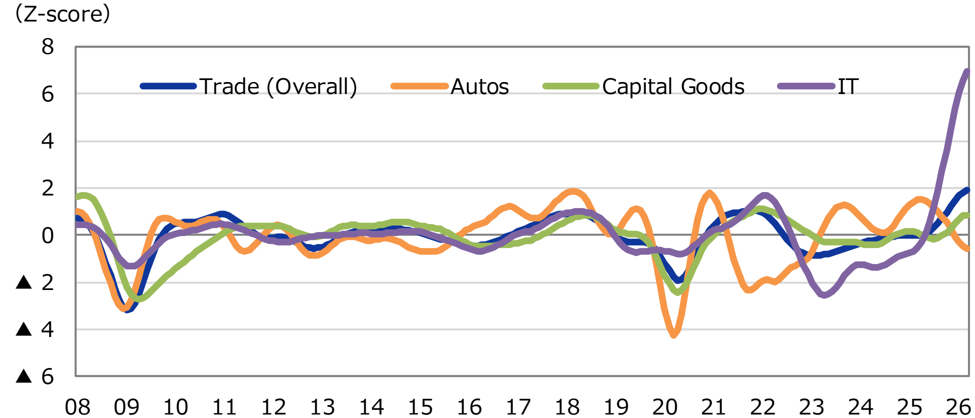


Note: FY1991 to FY2024
Source: SMDAM, MOF and MHLW

This Month’s Topic (3): Drivers of Strong Performance in Tech Stocks

- Some caution that equities are rebounding despite a prolonged closure of the Strait of Hormuz and high oil prices. Still, solid fundamentals are also supporting the rally. In our March topic, we noted that, if Middle East risks eased quickly, fundamentals would support risk assets, backed by the strength of our proprietary “trade momentum” model. Even as the regional stalemate continues, trade momentum strengthened further in March. By sector, the capital goods sector also improved, but high-tech has been especially strong. This helps explain why the Nikkei 225 has rebounded faster than the TOPIX, the NASDAQ more strongly than the S&P 500, and Korea’s KOSPI and Taiwan’s Taiex have also recovered quickly.
- Korea’s electronics exports, a high-tech component of our trade momentum model, gained further strength in April. For now, there are no signs that high-tech momentum is fading.

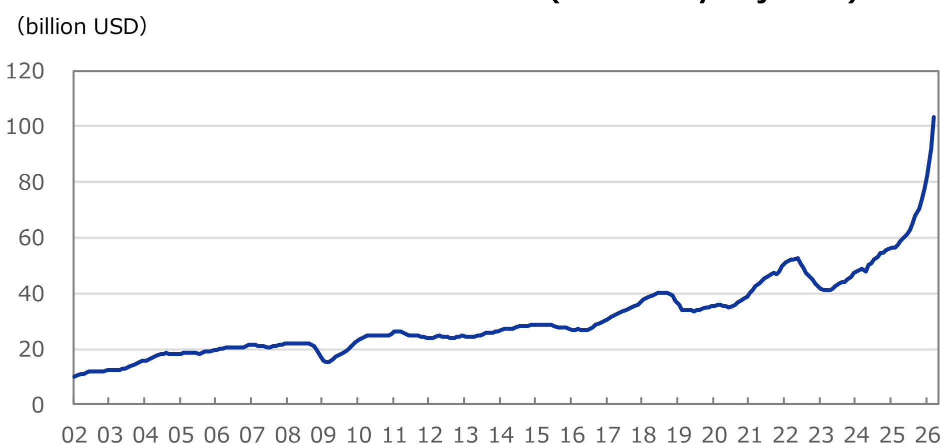
Momentum by Sector



Note: Latest data are for Mar 2026.

Source: SMDAM

Global Semiconductor Sales (Seasonally Adjusted)



Note: Latest data are for Mar 2026.

Source: SMDAM and the Semiconductor Industry Association

South Korea's Electronics Exports (Seasonally Adjusted)

Note: Latest data are for Apr 2026.

Source: SMDAM and Korea's Ministry of Trade, Industry and Energy

This Month's Topic (4): Middle East Risk
Reproduced from last month's report

Scenarios by Crude Oil Price Level

As of 31 Mar 2026

Scenario	Assumed crude oil price	Assumed Middle East situation	Global economy / monetary policy scenario	Japan's economy / monetary policy scenario	Japanese equities scenario
Optimistic	**Declines to $75 within 3 months**	A ceasefire agreement is reached within 3 months through a compromise by the U.S. and/or Iran; tensions ease. Safe navigation through the Strait of Hormuz is restored, calming crude oil prices.	Downward pressure on the global economy is limited to about 0.1–0.2 percentage points per year. Market expectations that the Fed will shift back to rate hikes do not increase.	Downward pressure on Japan's economy is limited to about 0.1–0.2 percentage points per year. The BoJ may push back the timing of the next rate hike, but does not abandon its tightening stance.	Volatility remains high in the near term, but as oil prices calm and policy expectations for a Takaichi administration are added, the market rises rapidly into the summer.
Risk	**Stays above $100 for an extended period**	Neither the U.S. nor Iran compromises; the war becomes prolonged. A de facto closure of the Strait of Hormuz also becomes prolonged. Workarounds (e.g., passage of Chinese vessels, easing of bans on Russian crude, etc.) prevent an extreme spike.	Downward pressure on the global economy expands to about 0.7 percentage points per year, implying a significant slowdown. With inflation expectations rising, markets increase expectations for rate hikes by the U.S./Europe.	Downward pressure on Japan's economy widens to about 0.5 percentage points per year; risk of zero growth in 2026. The BoJ shifts to a wait-and-see stance out of concern for the economy.	Rising expectations of Fed hikes trigger a correction in U.S. stocks; together with concerns about a domestic slowdown,Japanese equities see a second dip.
Tail	**Surges to $150–$200**	The de facto closure of the Strait of Hormuz becomes prolonged. Crude shortages become evident, causing spot prices to spike.	Downward pressure from both supply and demand sides leaves the global economy facing a recession risk comparable to the GFC or COVID. Governments and central banks deploy all available policy measures.	Downward pressure from both supply and demand sides pushes Japan into significantly negative growth. The government and the BoJ deploy all available policy measures.	After a sharp sell-off, equities rebound on the back of full-scale policy support, but with supply constraints capping the economy's upside, prices remain below prior levels for an extended period.

Source: SMDAM

Impact on Japan's economy and TOPIX EPS if higher oil prices persist for one year

As of 31 Mar 2026

Oil Prices (USD)	60	70	80	90	100	110	120	130	140	150	200
	Baseline	Optimistic				Risk				Tail	
Real GDP (%)	0.00	-0.13	-0.25	-0.38	-0.51	-0.63	-0.76	-0.89	-1.01	-1.14	-1.77
Nominal GDP (%)	0.00	-0.38	-0.76	-1.14	-1.51	-1.89	-2.27	-2.65	-3.03	-3.41	-5.30
Inflation (%)	0.00	0.18	0.37	0.55	0.73	0.92	1.10	1.28	1.47	1.65	2.57
USD/JPY (96)	0.00	0.04	0.08	0.13	0.17	0.21	0.25	0.29	0.33	0.38	0.58
TOPIX EPS (%)	0.00	-1.24	-2.48	-3.71	-4.95	-6.19	-7.43	-8.66	-9.90	-11.14	-17.33

Notes: Effects on Real GDP, Nominal GDP, Inflation, and USD/JPY are calculated using coefficients from the Cabinet Office's "Japanese Macroeconometric Model (2022 edition)."
Effects on TOPIX EPS are estimated using our model based on the impacts on Nominal GDP and USD/JPY from the Cabinet Office model.
Source: SMDAM, the Cabinet Office, and LSEG.

Trends in Major Asset Prices

TOPIX (Daily)

(Points)

Note: Latest data are for 1 May 2026 (Y/M)

Source: SMDAM and Bloomberg

S&P500 (Daily)

(Points)

Note: Latest data are for 1 May 2026 (Y/M)

Source: SMDAM and Bloomberg

Japan 10-Year Government Bond Yield (Daily)

(%)

Note: Latest data are for 1 May 2026 (Y/M)

Source: SMDAM and Bloomberg

USD/JPY (Daily)

(Yen)

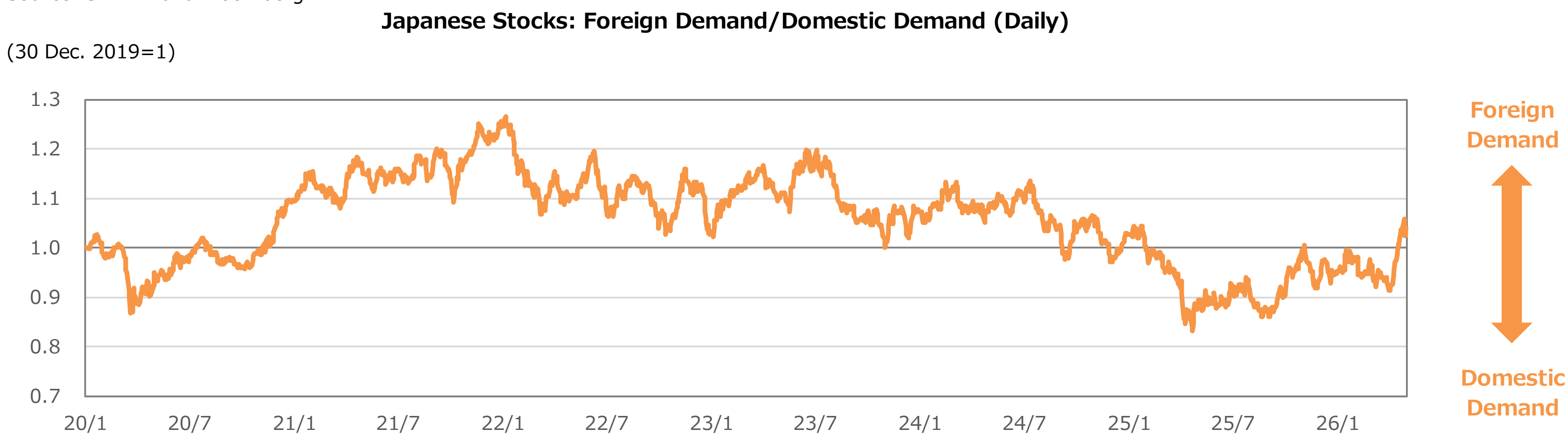
Note: Latest data are for 1 May 2026 (Y/M)

Source: SMDAM and Bloomberg

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

Note: Latest data are for 1 May 2026. Value/Growth represents Russell Nomura Total Market Value Index vs Growth with Dividend.

Source: SMDAM and Bloomberg



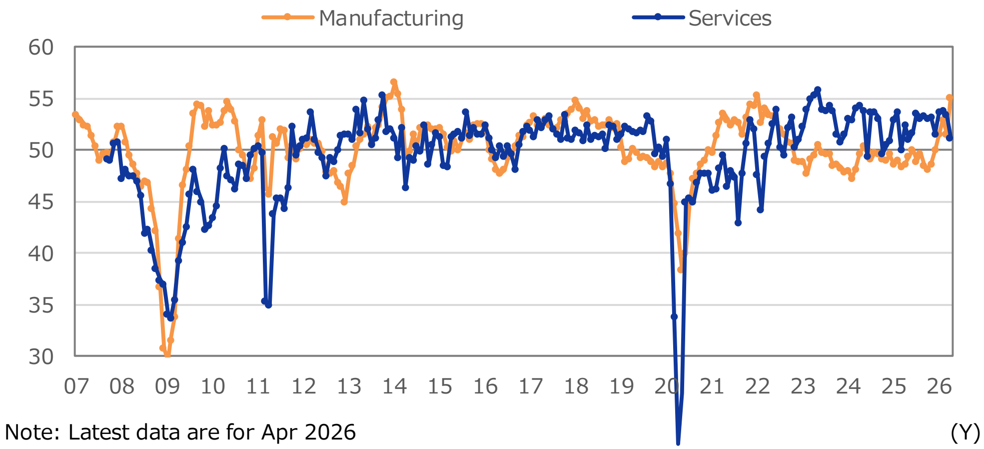
Note: Latest data are for 1 May 2026. Foreign/Domestic Demand represents Nikkei Global Exposure 50 vs Domestic.

Source: SMDAM and Bloomberg

Japanese Economic Indicators (1)

PMI

(sa, >50=improvement since previous month)

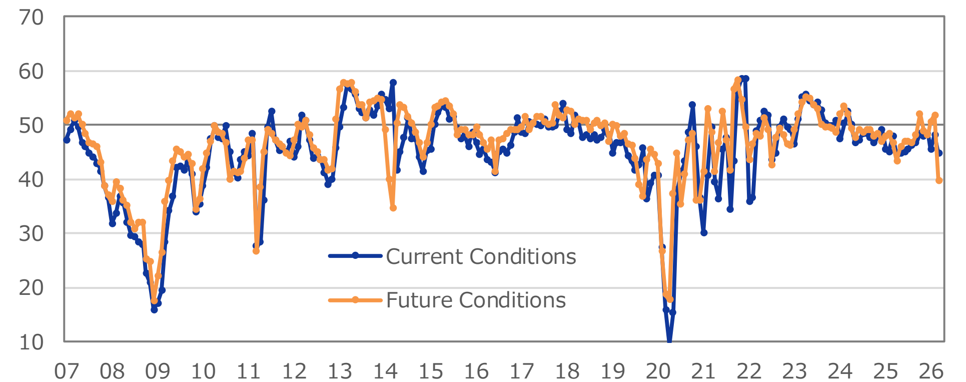


Note: Latest data are for Apr 2026 (Y)

Source: SMDAM and S&P Global

Economy Watchers Survey

(sa, DI)

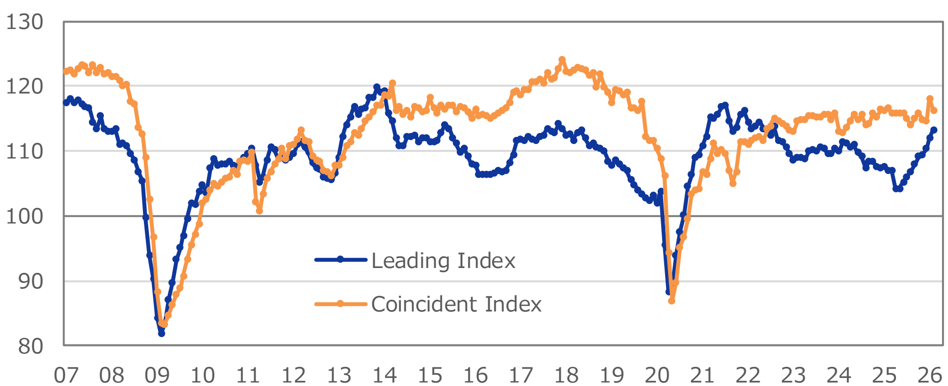


Note: Latest data are for Mar 2026 (Y)

Source: SMDAM and Cabinet Office

Index of Business Conditions

(sa, 2020=100)

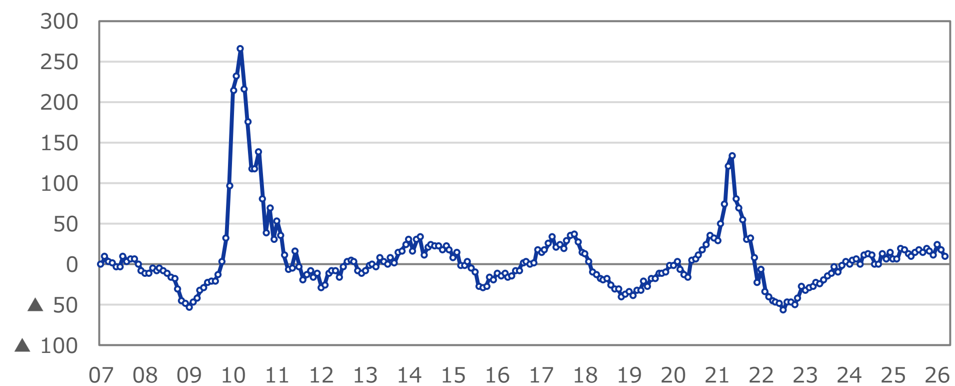


Note: Latest data are for Feb 2026 (Y)

Source: SMDAM and Cabinet Office

Machine Tools (Orders YoY - Order Backlogs YoY)

(%)



Note: Latest data are for Mar 2026 (Y)

Source: SMDAM and Japan Machine Tool Builders' Association

Japanese Economic Indicators (2)

Index of Producer's Inventory Ratio of Final Demand Goods

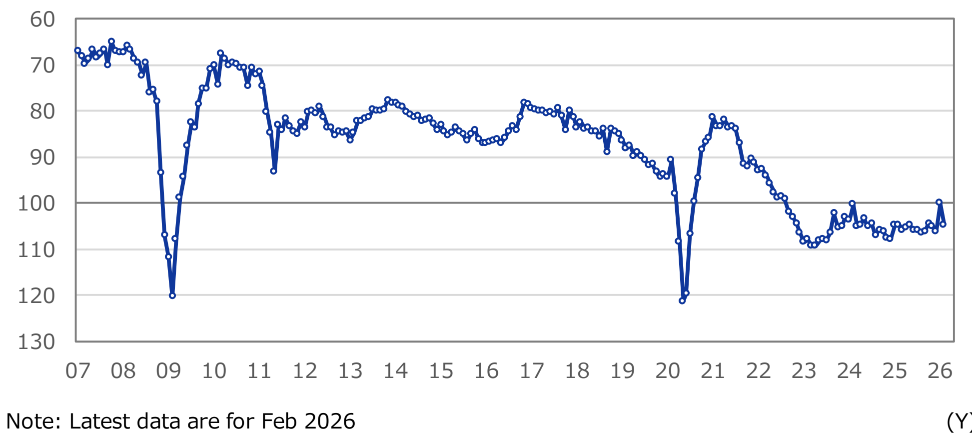
(sa, 2020=100, Inverted)

Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

Index of Producer's Inventory Ratio of Producer Goods

(sa, 2020=100, Inverted)

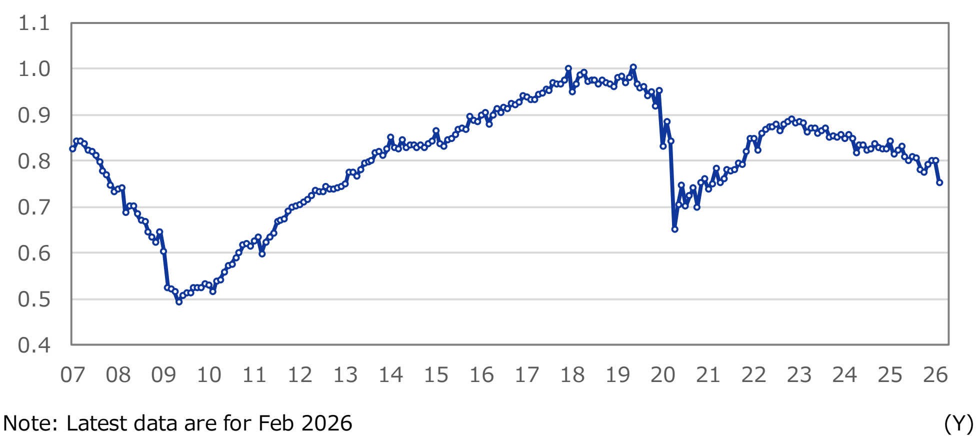


Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

New Job Offers (Excluding New School Graduates)

(sa, million persons)

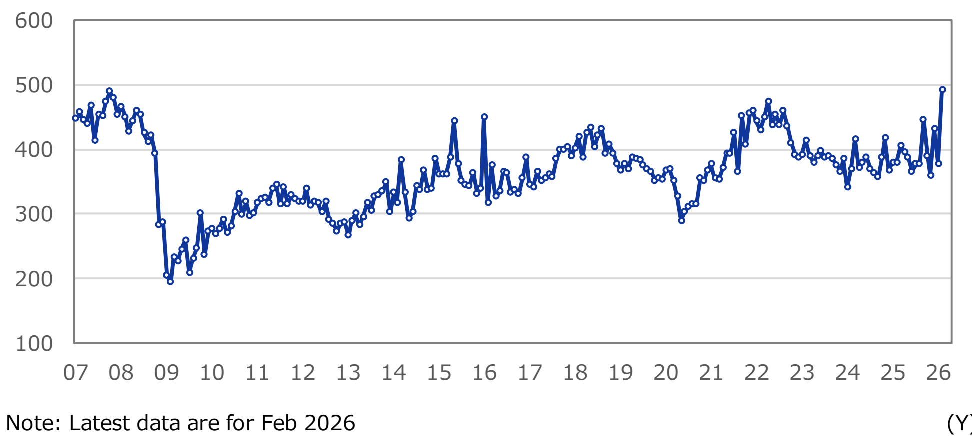


Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

Machinery Orders at Constant Prices (Manufacturing)

(sa, billion JPY)



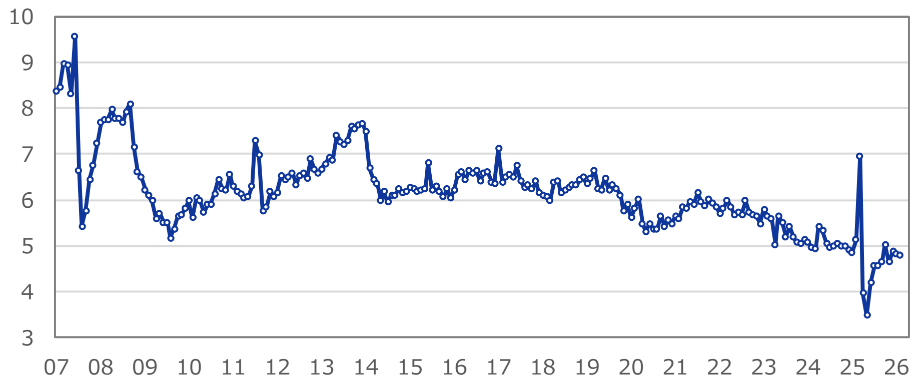
Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (3)

Total Floor Area of New Housing Construction Started

(million ㎡)

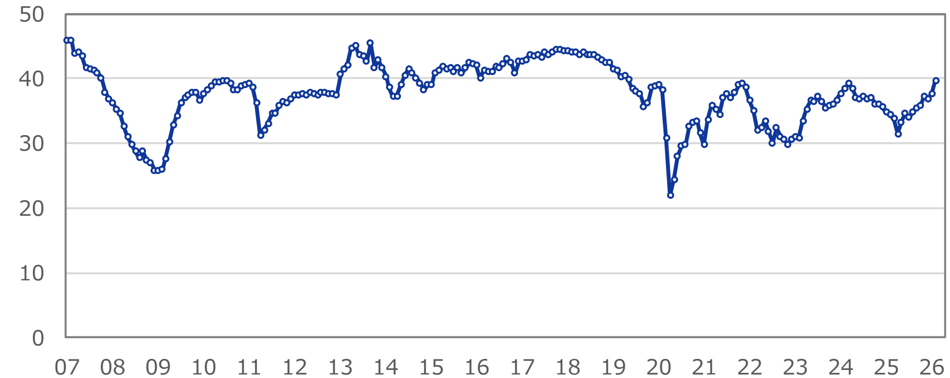


(Y)

Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

Consumer Confidence Index



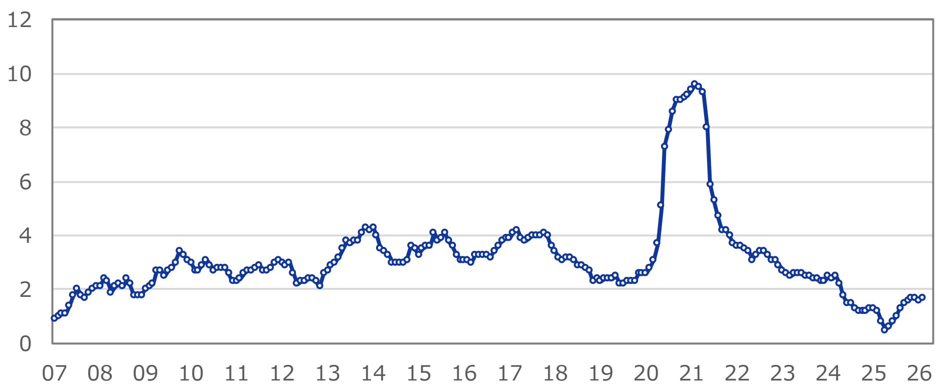
(Y)

Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

M2(YoY)

(%)

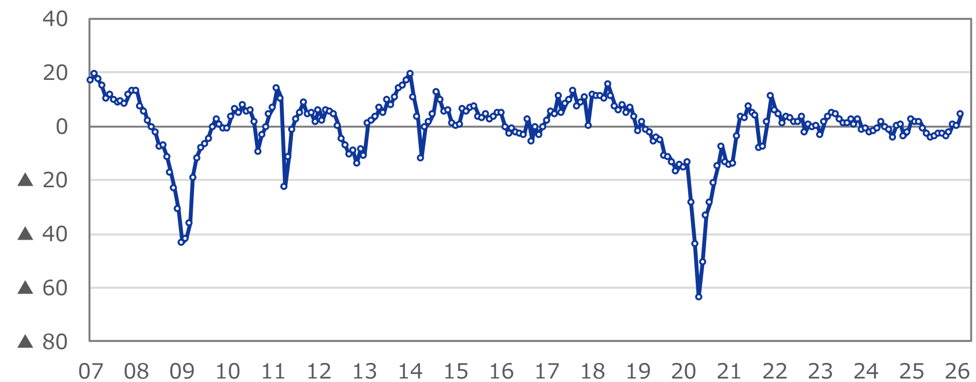


(Y)

Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

Sales Forecast DI of Small Businesses



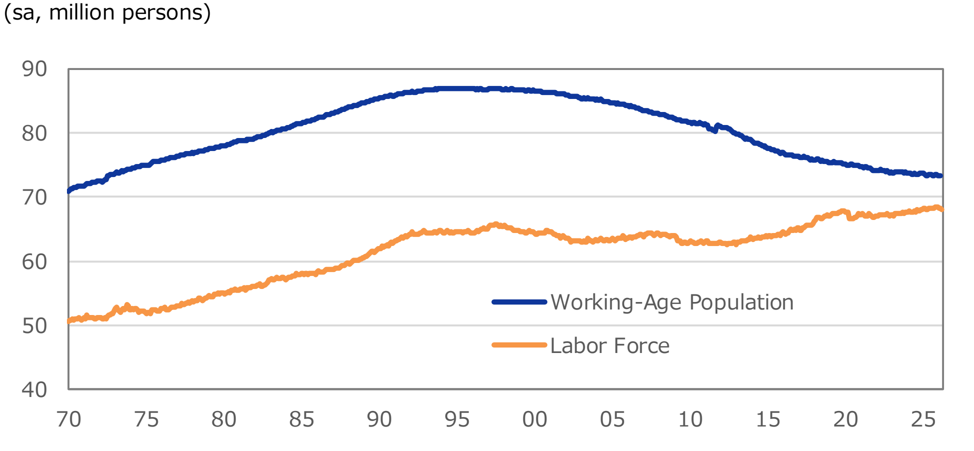
(Y)

Note: Latest data are for Feb 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (4)

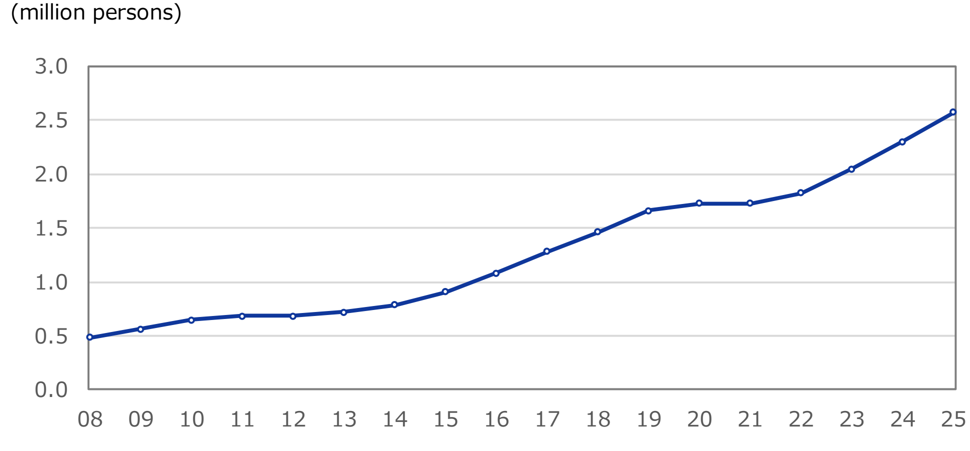
Working-Age Population and Labor Force



Note: Latest data are for Feb 2026

Source: SMDAM and MIC

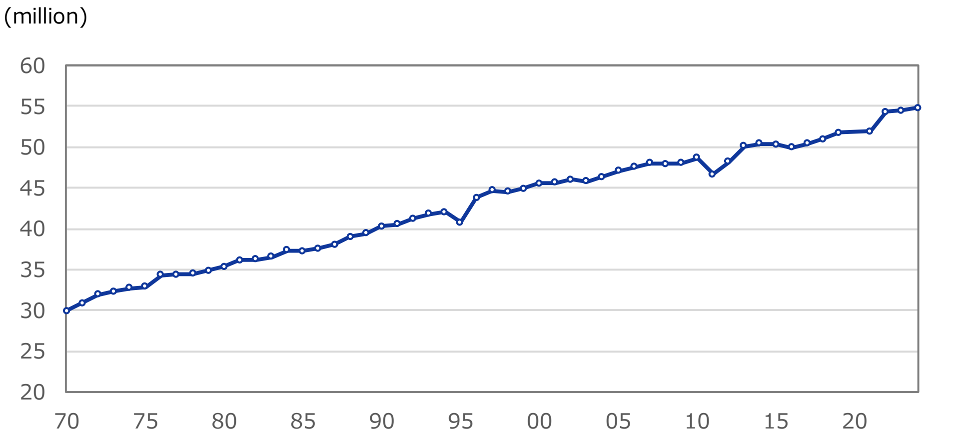
Number of Foreign Workers



Note: Latest data are for 2025

Source: SMDAM and MHLW

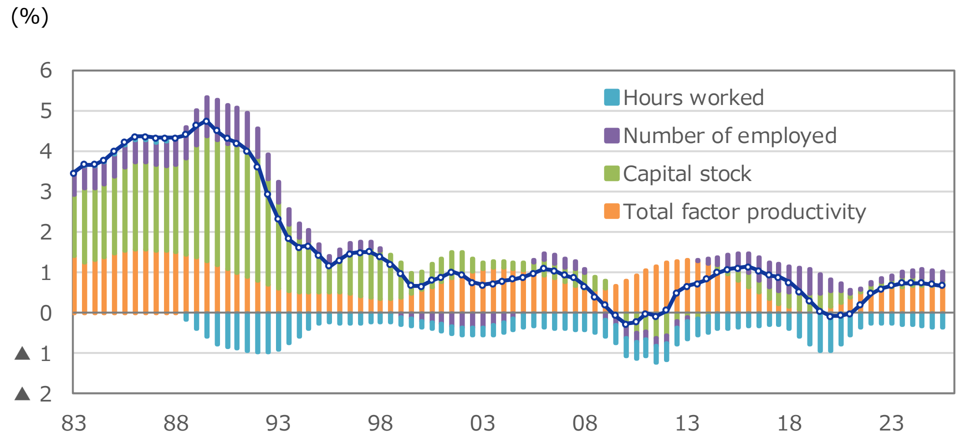
Number of Households



Note: Latest data are for 2024

Source: SMDAM and Cabinet Office

Potential Growth Rate

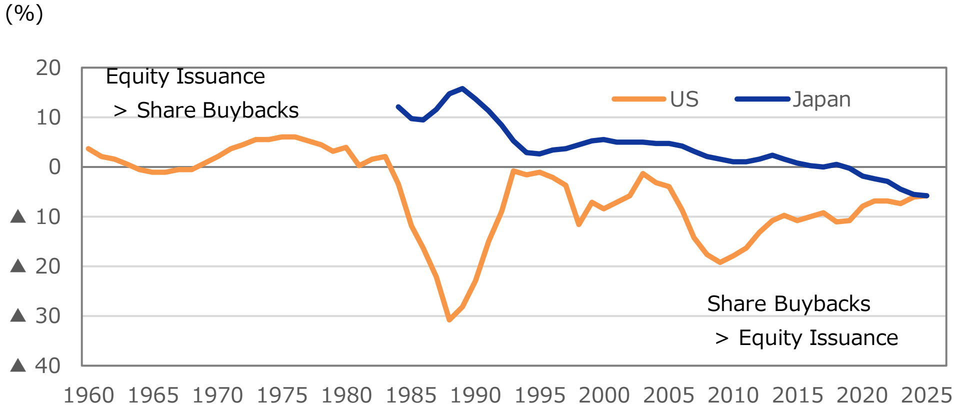


Note: Latest data are for 4Q 2025

Source: SMDAM and BoJ

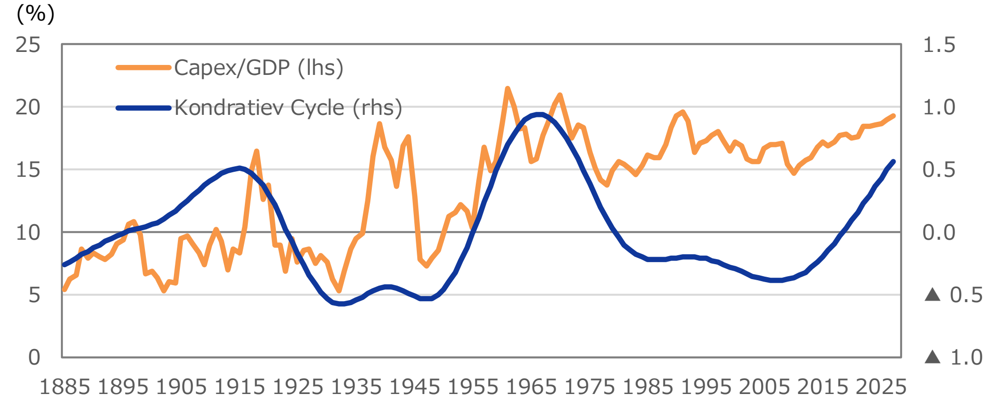
Japanese Economic Indicators (5)

Net Equity Issuance in Japan and the US



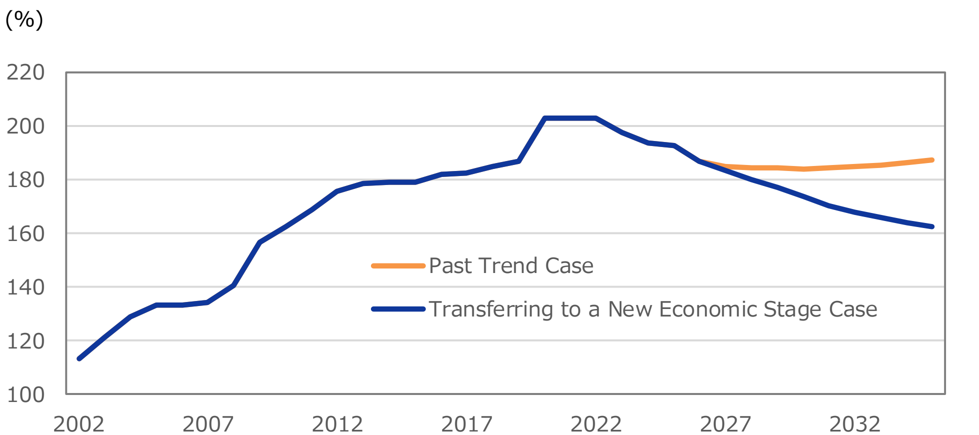
Note: Latest data are for 2025. Japan's 2025 value is for the calendar year.
Note: Net Equity Issuance / Market Cap (5Y MA)
Source: SMDAM, BoJ and FRB

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



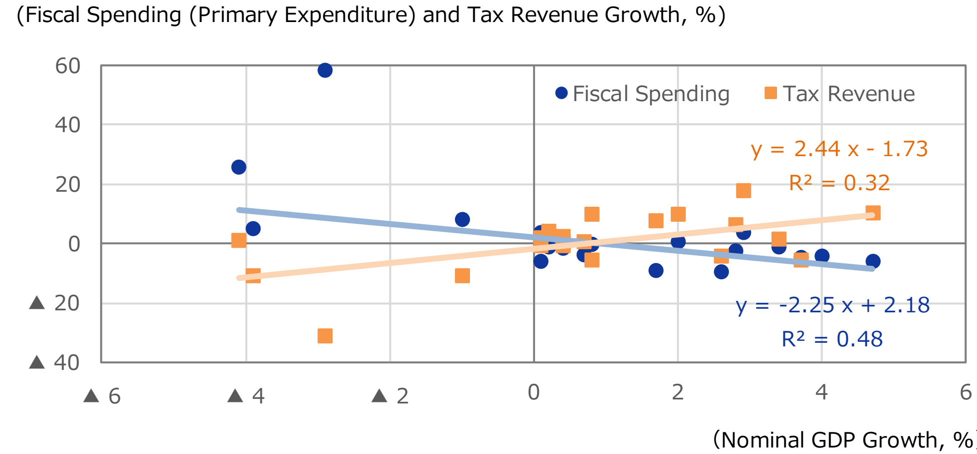
Note: Latest data are for 2027 (including some forecasts)
Note: Kondratiev Cycle is statistically derived as a 40 to 70 year cycle from the Capex/GDP ratio.
Source: SMDAM and Cabinet Office

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



Note: Latest data are for 2035 (including some forecasts)
Note: New Economic Stage assumes 3% nominal growth.
Source: SMDAM and Cabinet Office

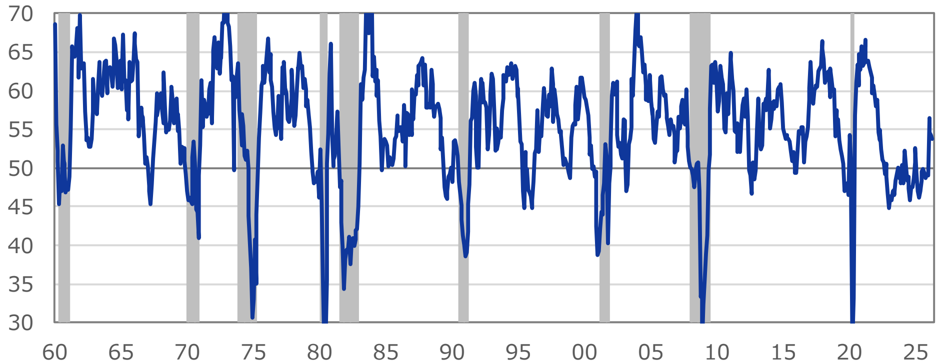
Fiscal Spending, Tax Revenue, and Nominal GDP Growth



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)

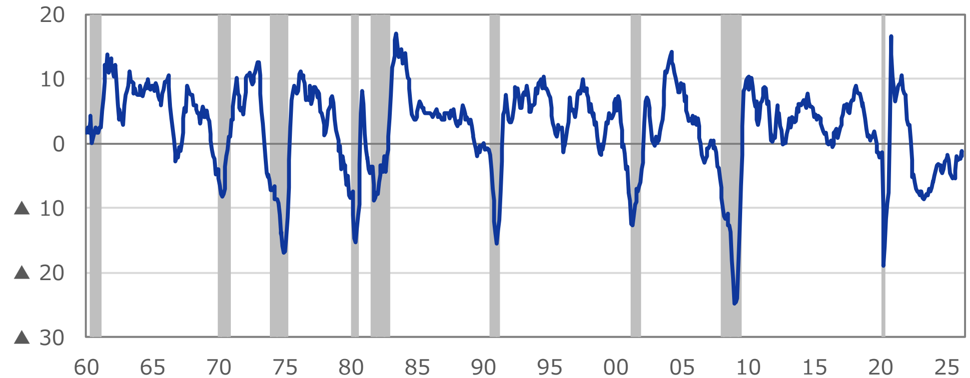


Note: Latest data are for Apr 2026. The shaded areas represent periods of recession. (Y)

Source: SMDAM and ISM

Conference Board Leading Economic Index

(6-Month Annual Change)

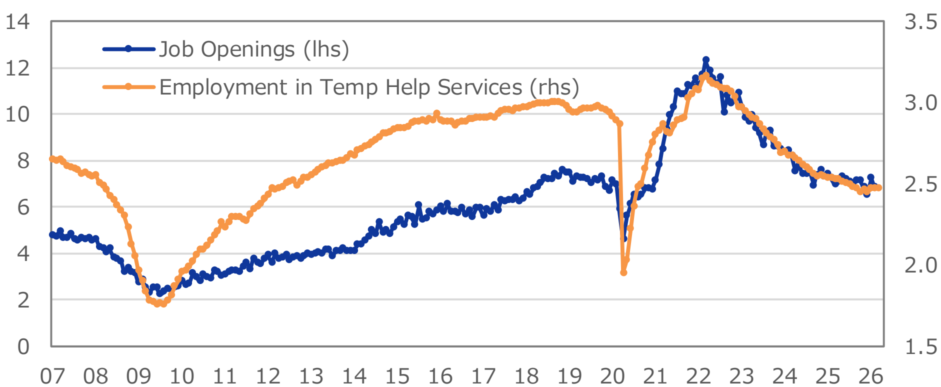


Note: Latest data are for Mar 2026. The shaded areas represent periods of recession. (Y)

Source: SMDAM and Conference Board

Job Openings and Employment in Temporary Help Services

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

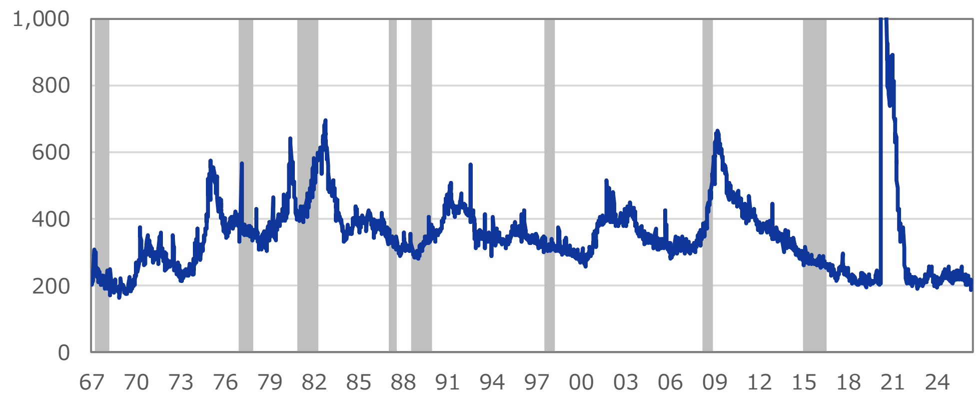


Note: Latest data are for Mar 2026 (Y)

Source: SMDAM and Bureau of Labor Statistics

Initial Jobless Claims

(sa, thousand persons)



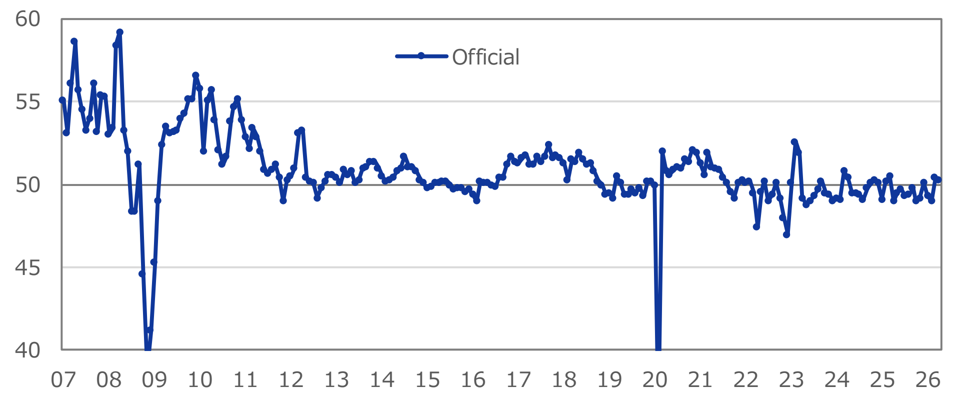
Note: Latest data are for 24 Apr 2026. The shaded areas represent periods of recession. (Y)

Source: SMDAM and Department of Labor

Overseas Economic Indicators

China Manufacturing PMI

(sa, >50=improvement since previous month)

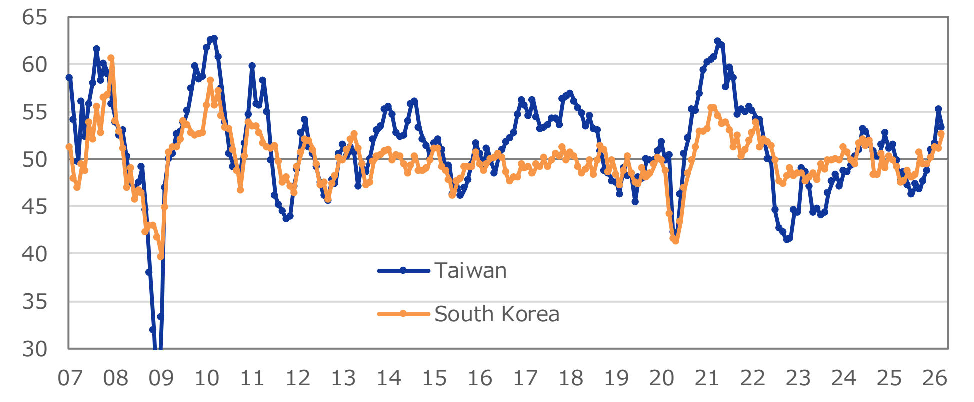


Note: Latest data are for Apr 2026

Source: SMDAM and China Federation of Logistics & Purchasing

Manufacturing PMI (Taiwan, South Korea)

(sa, >50=improvement since previous month)

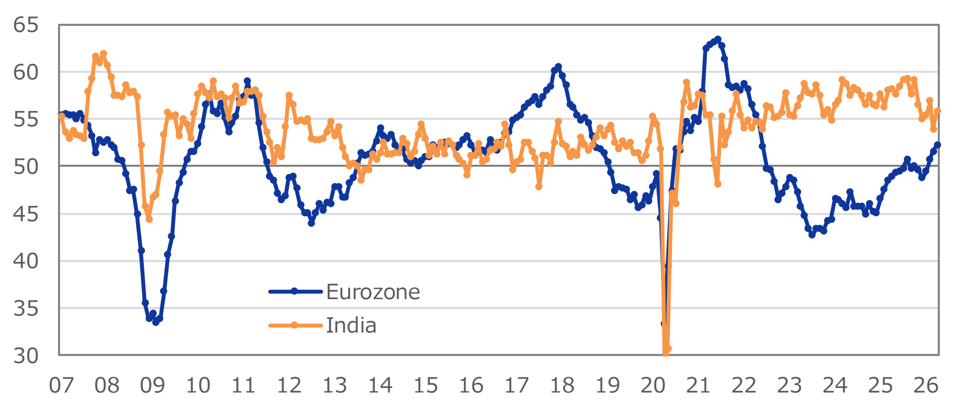


Note: Latest data are for Mar 2026

Source: SMDAM and S&P Global

Manufacturing PMI (Eurozone, India)

(sa, >50=improvement since previous month)

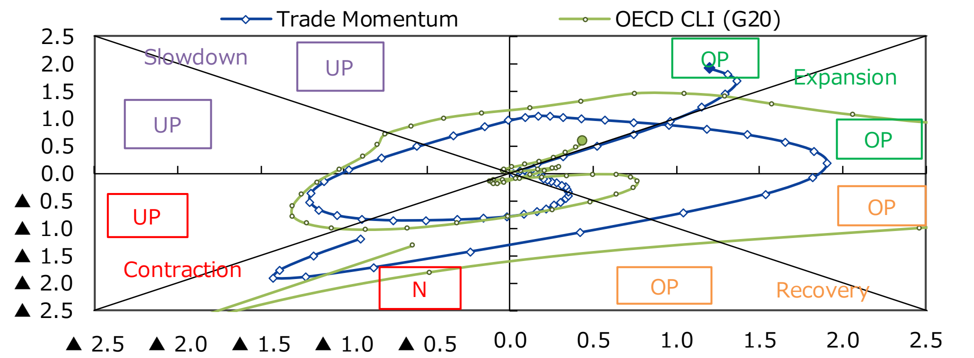


Note: Latest data are for Apr 2026

Source: SMDAM and S&P Global

Trade Momentum & OECD Composite Leading Indicator (CLI) Phases

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



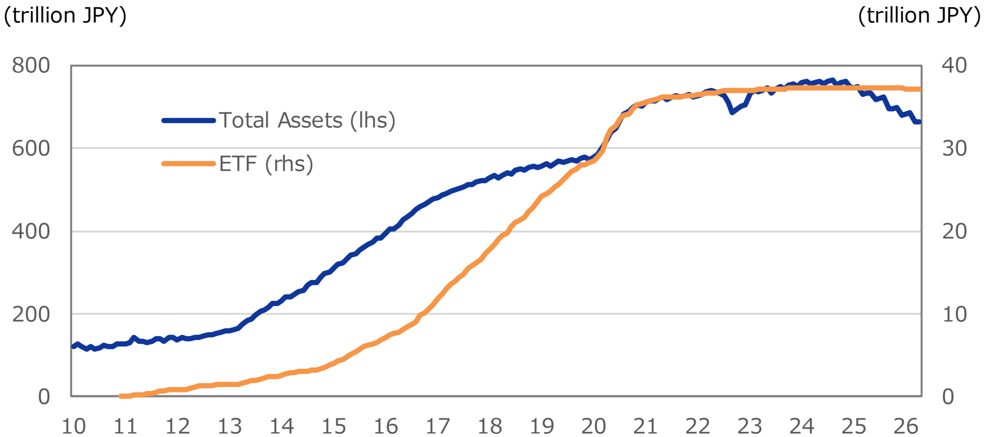
Note: Latest data are for Mar 2026 6M Diff. Trade Momentum & OECD CLI

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)

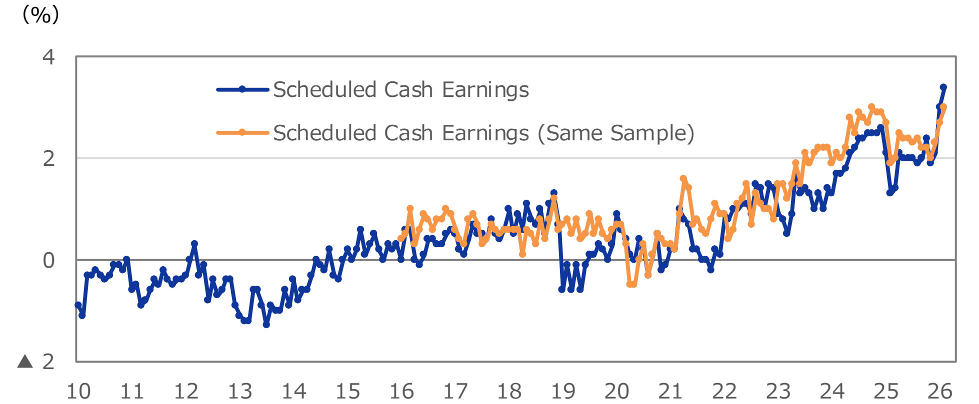
The Bank of Japan's Balance Sheet



Note: Latest data are for Apr 2026

Source: SMDAM and BoJ

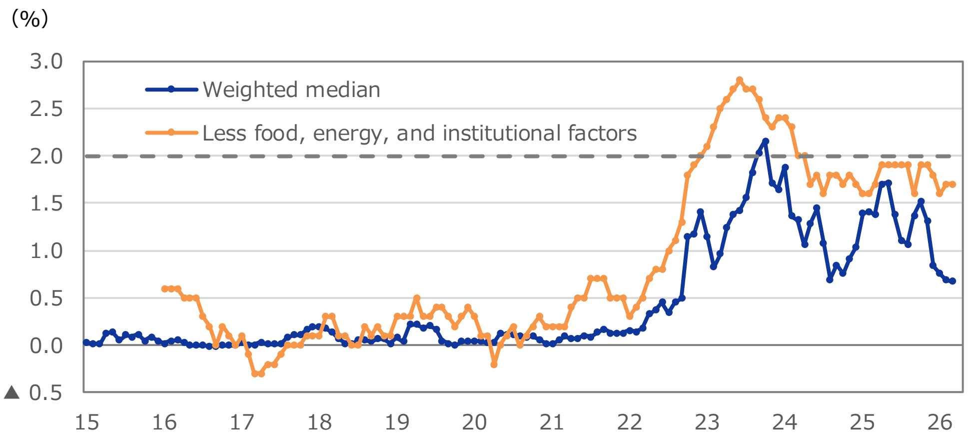
Nominal Wages (Scheduled Cash Earnings, YoY)



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: Latest data are for Feb 2026 Source: SMDAM and MHLW

Indicators for Core CPI (YoY)



Note: Latest data are for Mar 2026

Source: SMDAM and BoJ

10-year Breakeven Inflation Rate

Note: Latest data are for 1 May 2026

Source: SMDAM and Bloomberg

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.

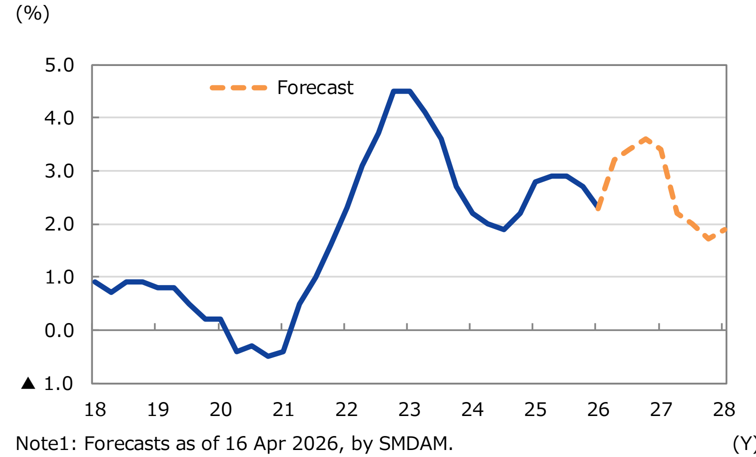
BOJ Monetary Policy (2)

BOJ Monetary Policy Developments (Quarter-End and Latest)

	Dec 2025	Mar 2026	Apr 2026
O/N call rate	Around 0.75% (rate hike)	around 0.75%	around 0.75%
Rate on Deposit Facility	0.75%	0.75%	0.75%
Objection to the monetary policy guideline	None	Committee member Takata opposed the policy of maintaining the current level and proposed an increase to around 1.00%.	Committee members Nakagawa, Takata, and Tamura opposed maintaining the current level and proposed raising the rate 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 underlying CPI inflation has been approaching 2 percent and real interest rates are at significantly low levels, the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions. In this regard, it will consider the timing and pace of adjustment, while closely monitoring the impact of the future course of the situation in the Middle East on Japan's economic activity and prices and examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook.
JGB purchases	No Change	No Change	No Change
ETF Purchases	No Change	No Change	No Change

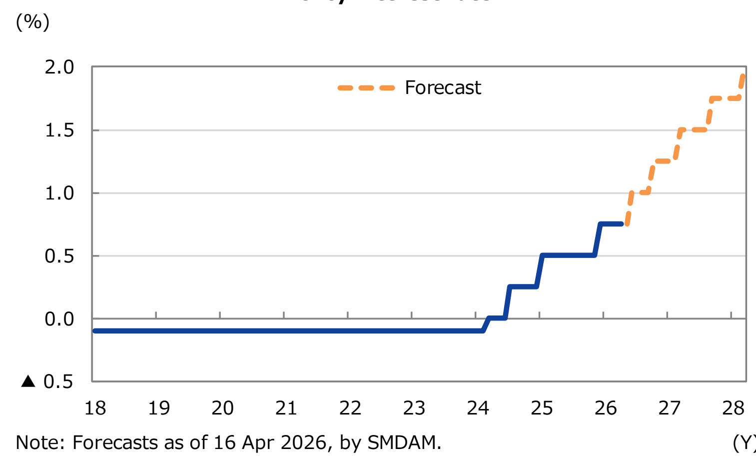
Note: Data as of 5 May 2026

CPI (less fresh food & institutional factors, YoY)



Note1: Forecasts as of 16 Apr 2026, by SMDAM.
Note2: Consumption tax-adjusted.
Source: SMDAM and BOJ

Policy interest rate

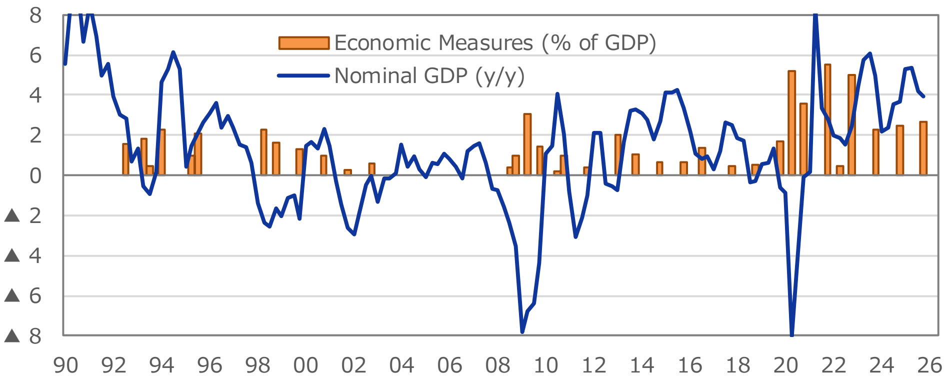


Note: Forecasts as of 16 Apr 2026, by SMDAM.

Japan's fiscal Policy

Government Economic Measures and Nominal GDP Growth Rate

(%)

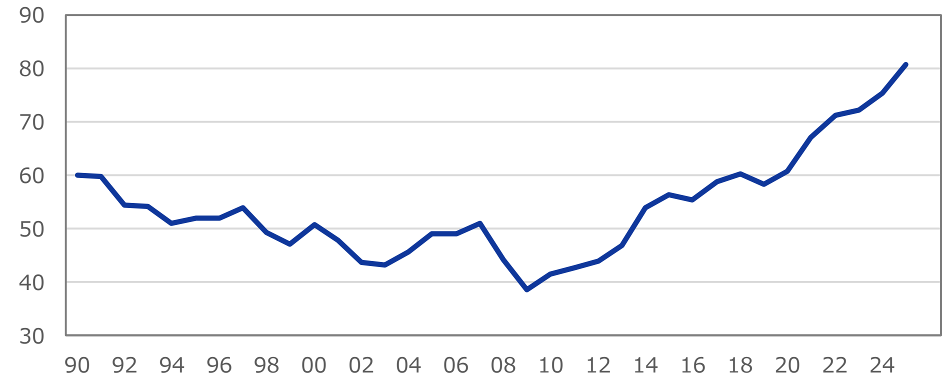


Note: Latest data are for 4Q 2025. Economic measures are budget-backed amounts. (Y)

Source: SMDAM and Cabinet Office

Japan's Tax Revenue

(trillion JPY)

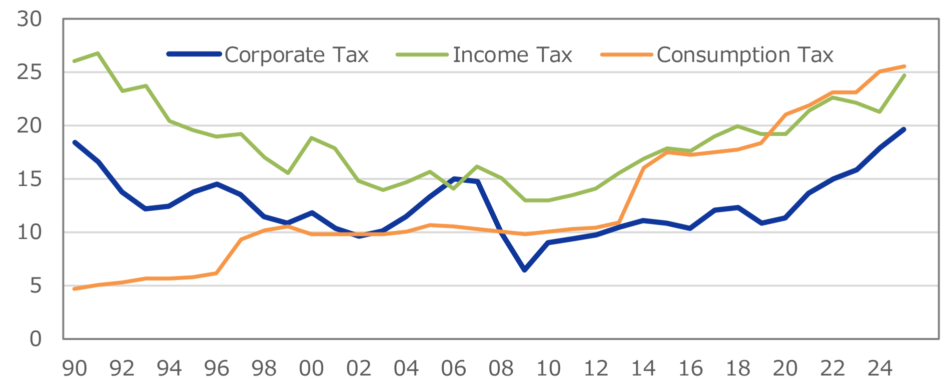


Note: Latest data are for FY2025 (FY)

Source: SMDAM and MoF

Breakdown of Tax Revenue

(trillion JPY)

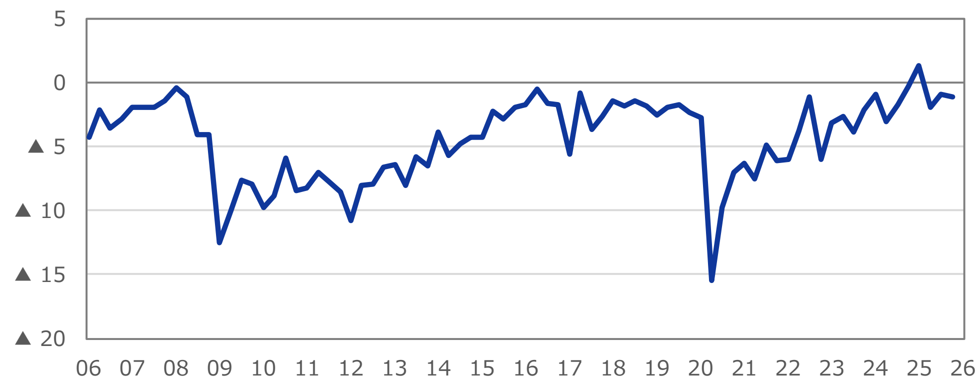


Note: Latest data are for FY2025 (FY)

Source: SMDAM and MoF

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

(%)

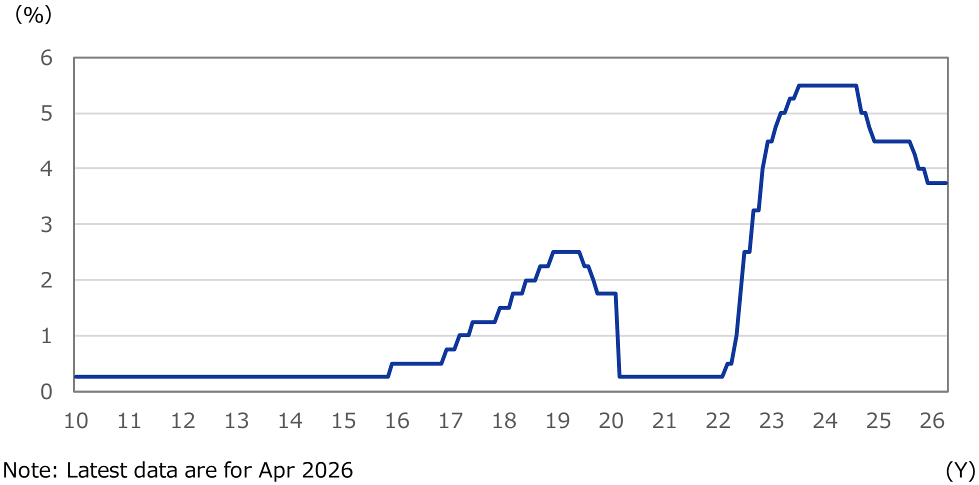


Note: Latest data are for 4Q 2025 (Y)

Source: SMDAM and BoJ

Overseas Monetary Policy

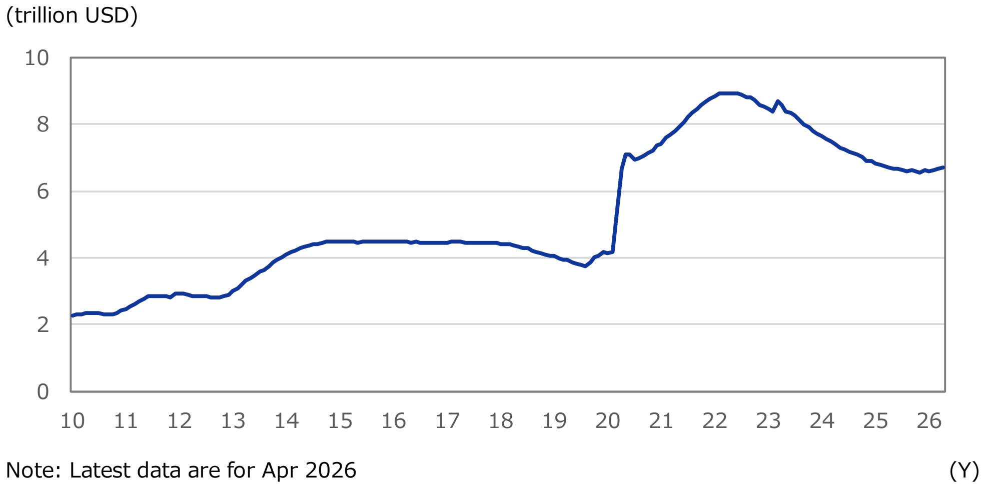
Federal Funds Target Rate (Upper Bound)



Note: Latest data are for Apr 2026

Source: SMDAM and FRB

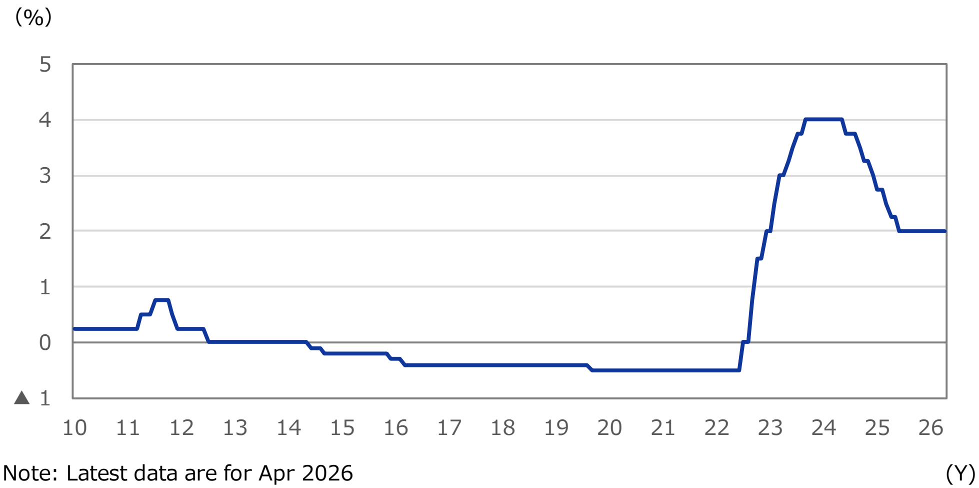
Federal Reserve Total Assets



Note: Latest data are for Apr 2026

Source: SMDAM and FRB

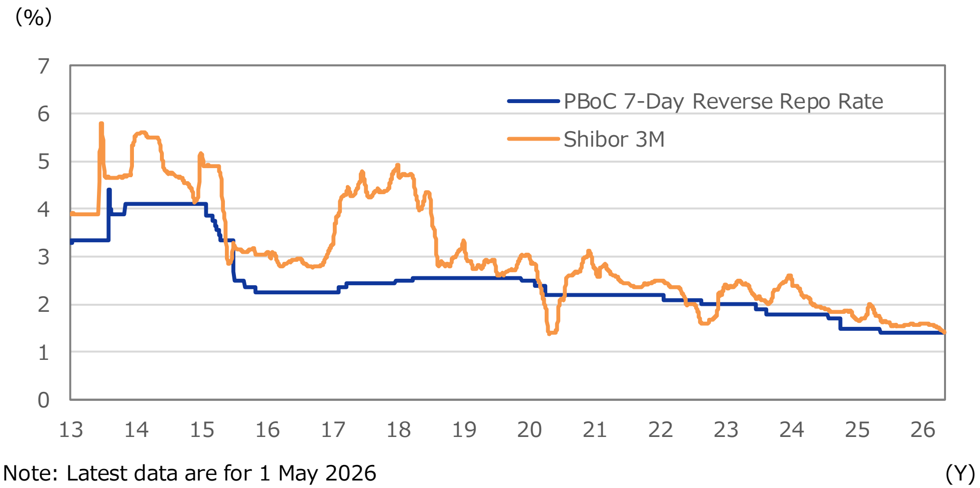
ECB Deposit Facility Announcement Rate



Note: Latest data are for Apr 2026

Source: SMDAM and ECB

China's Short-Term Interest Rates

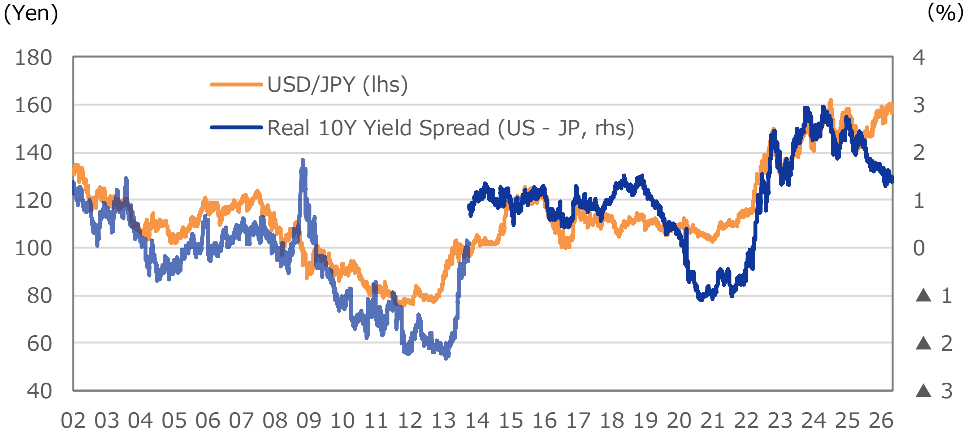


Note: Latest data are for 1 May 2026

Source: SMDAM, PBoC and Bloomberg

USD/JPY

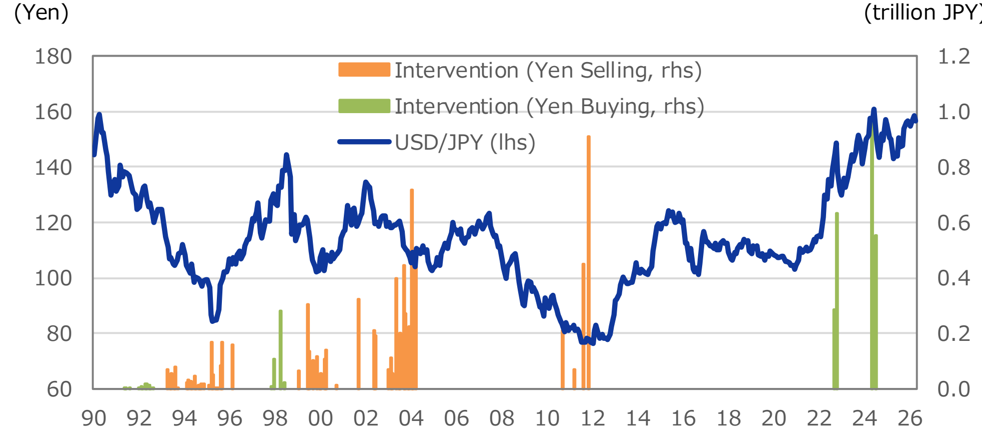
USD/JPY and Real Interest Rate Differential



Note: Latest data are for 1 May 2026. Japan's real rate pre-Oct. 8, 2013, based on core CPI. (Y)

Source: SMDAM and Bloomberg

USD/JPY and Intervention



Note: Latest data are for Apr 2026 (Y)

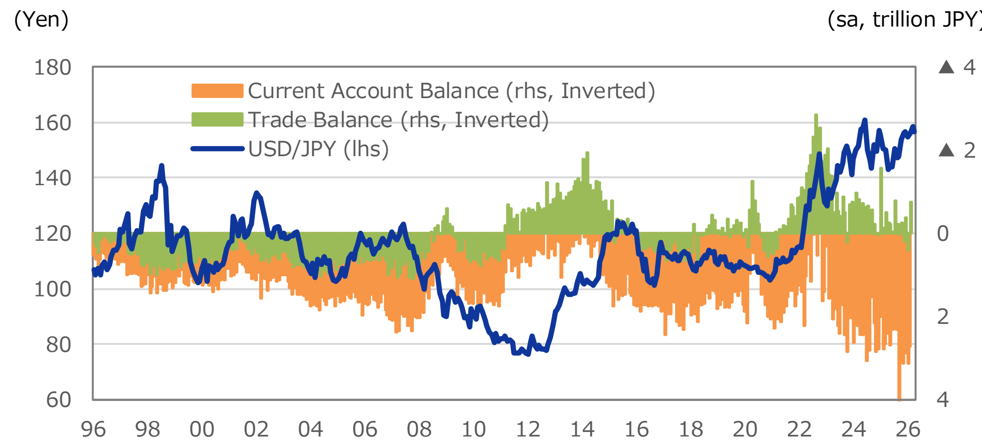
Source: SMDAM, MoF and Bloomberg

JPY Real Effective Exchange Rate

Note: Latest data are for Mar 2026 (Y)

Source: SMDAM and BoJ

USD/JPY and External Balances



Note: Latest data are for Apr 2026 (Y)

Source: SMDAM, MoF and Bloomberg

Earnings Forecast

Bottom-Up Corporate Earnings Forecast for Japan

Forecasts as of 9 Mar 2026	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	685,267	699,602	738,346	+4.4	+2.1	+5.5
Manufacturing	386,145	400,992	406,723	432,424	+3.8	+1.4	+6.3
Non-Manufacturing	270,060	284,275	292,879	305,922	+5.3	+3.0	+4.5
Total (Ex-Financials, Ex-SoftBank G)	649,449	678,023	691,782	729,862	+4.4	+2.0	+5.5
Operating Profit							
Total (Ex-Financials)	52,657	59,064	63,871	66,956	+12.2	+8.1	+4.8
Manufacturing	31,941	32,792	33,483	41,711	+2.7	+2.1	+24.6
Non-Manufacturing	20,716	26,272	30,388	25,245	+26.8	+15.7	▲ 16.9
Total (Ex-Financials, Ex-SoftBank G)	52,656	54,633	55,710	66,207	**+3.8**	**+2.0**	**+18.8**
Ordinary Profit							
Total (Ex-Financials)	58,881	61,465	68,963	71,671	+4.4	+12.2	+3.9
Manufacturing	35,311	35,160	36,515	44,219	▲ 0.4	+3.9	+21.1
Non-Manufacturing	23,570	26,306	32,448	27,452	+11.6	+23.4	▲ 15.4
Total (Ex-Financials, Ex-SoftBank G)	58,823	59,761	60,802	70,922	**+1.6**	**+1.7**	**+16.6**
Profit After Taxes							
Total (Incl. Financials)	47,652	51,255	57,214	59,463	+7.6	+11.6	+3.9
Total (Ex-Financials)	40,620	41,974	46,930	48,516	+3.3	+11.8	+3.4
Manufacturing	24,706	23,556	23,887	29,806	▲ 4.7	+1.4	+24.8
Non-Manufacturing	15,914	18,418	23,043	18,710	+15.7	+25.1	▲ 18.8
Total (Ex-Financials, Ex-SoftBank G)	40,848	40,821	40,257	48,596	▲ 0.1	▲ 1.4	+20.7

Note1: Forecasts by SMDAM.

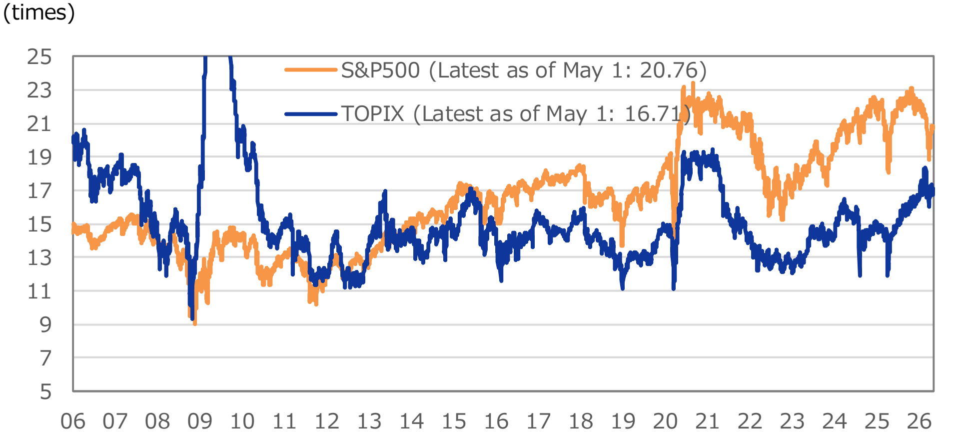
Note2: FX assumptions are USD/JPY at 158 and EUR/JPY at 184. A 1 JPY depreciation vs. USD increases ordinary profit by approximately 0.5%.

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)

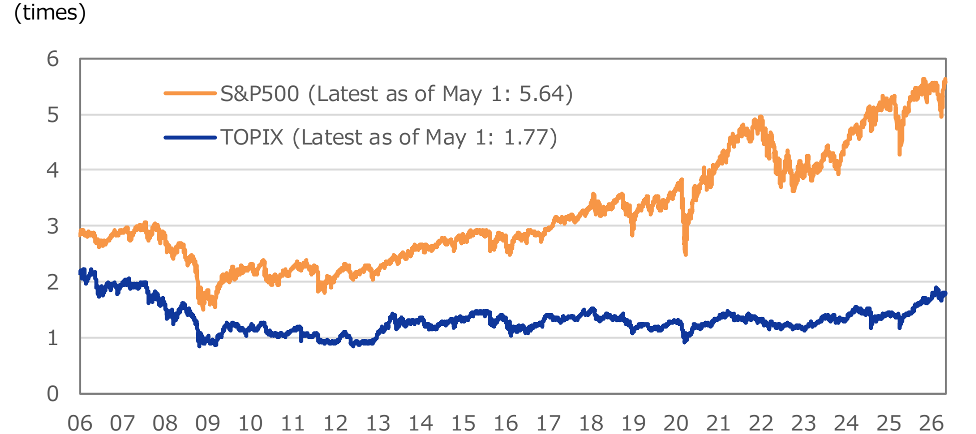
S&P 500 and TOPIX 12-Month Forward P/E Ratio



Note: Latest data are for 1 May 2026

Source: SMDAM and Bloomberg

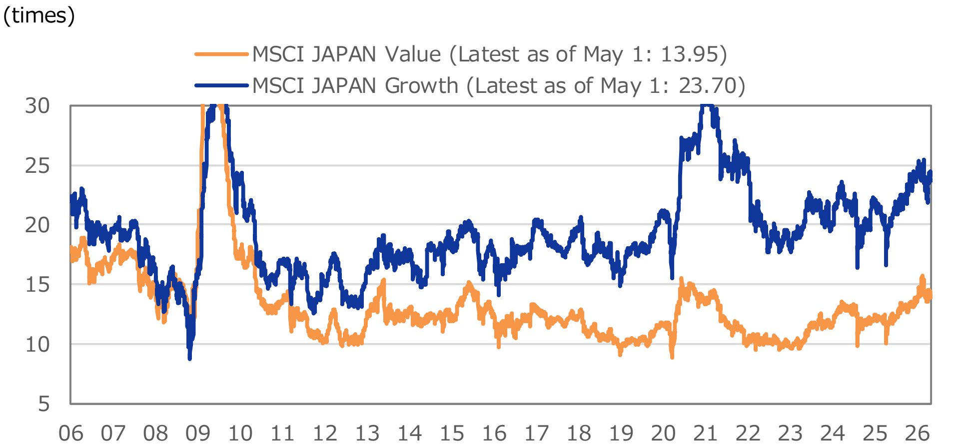
S&P 500 and TOPIX Historical P/B Ratio



Note: Latest data are for 1 May 2026

Source: SMDAM and Bloomberg

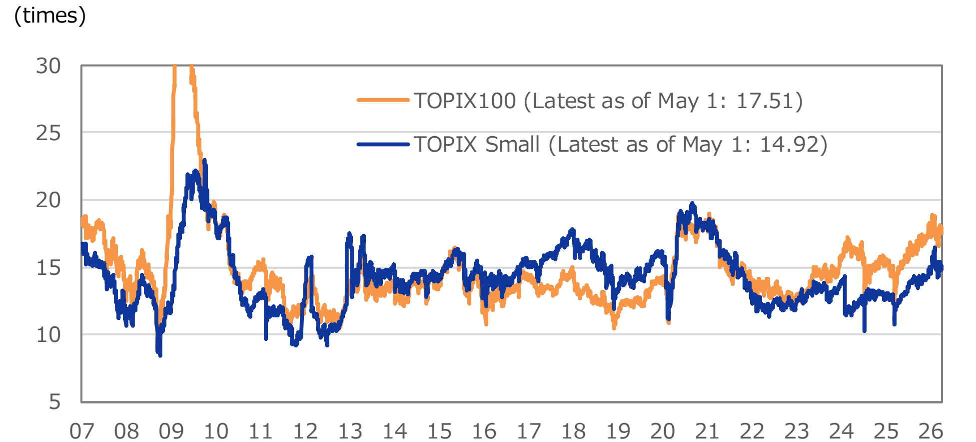
MSCI Japan 12-Month Forward P/E Ratio



Note: Latest data are for 1 May 2026

Source: SMDAM and Bloomberg

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

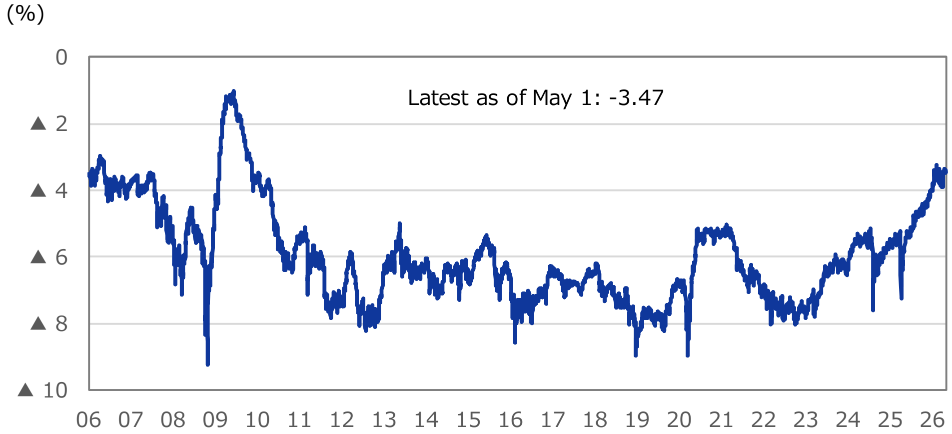


Note: Latest data are for 1 May 2026

Source: SMDAM and Bloomberg

Valuation (2)

TOPIX Yield Spread (10Y JGB - Earnings Yield)



Note: Latest data are for 1 May 2026 (Y)

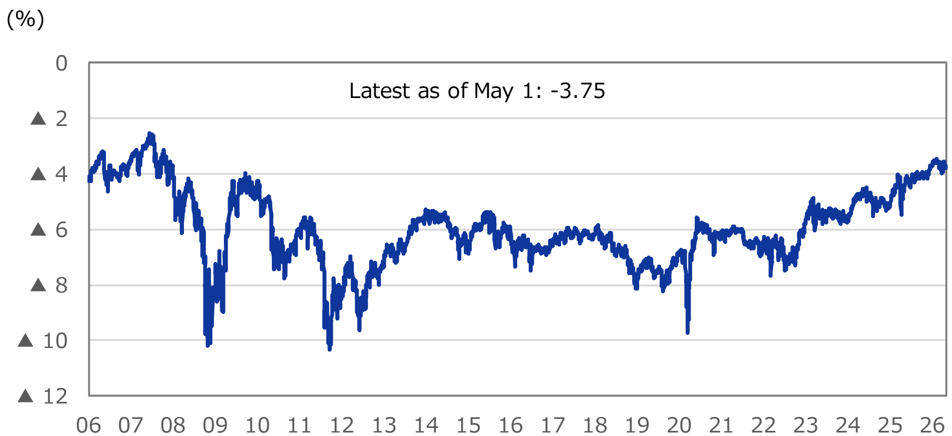
Source: SMDAM and Bloomberg

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

Note: Latest data are for 1 May 2026 (Y)

Source: SMDAM and Bloomberg

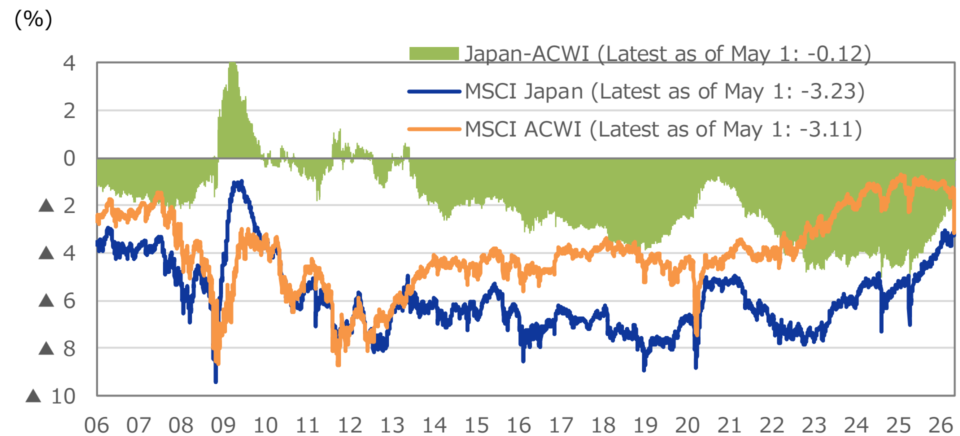
STOXX Europe 600 Yield Spread (10Y Bund - Earnings Yield)



Note: Latest data are for 1 May 2026 (Y)

Source: SMDAM and Bloomberg

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



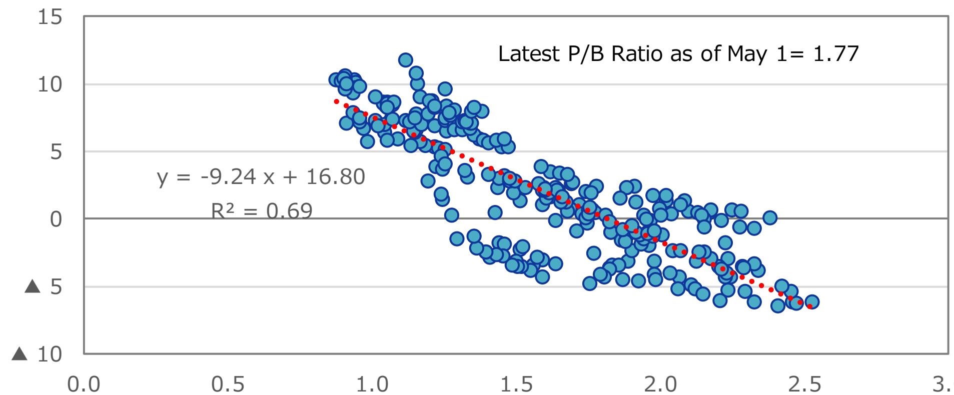
Note: Latest data are for 1 May 2026. For 10Y bond yield, Japan uses JGB, ACWI uses UST. (Y)

Source: SMDAM and Bloomberg

Valuation and Return

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

10Y Annualized Return (%)

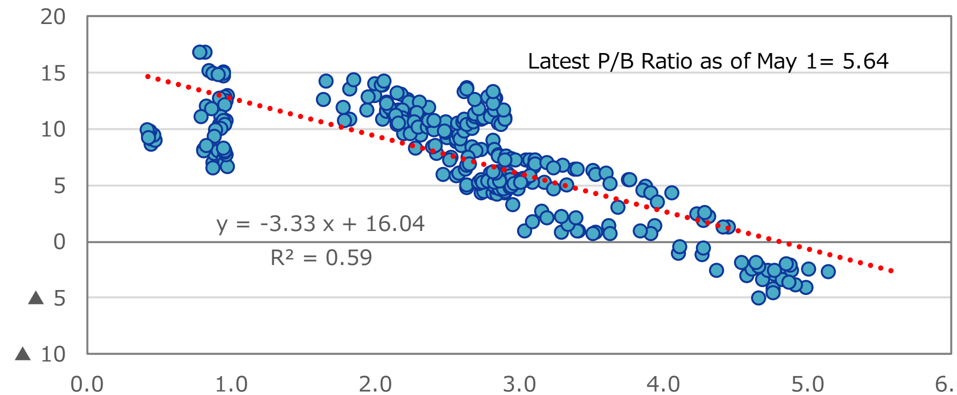


Note: Latest data are for Apr 2026 TOPIX Historical P/B Ratio (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

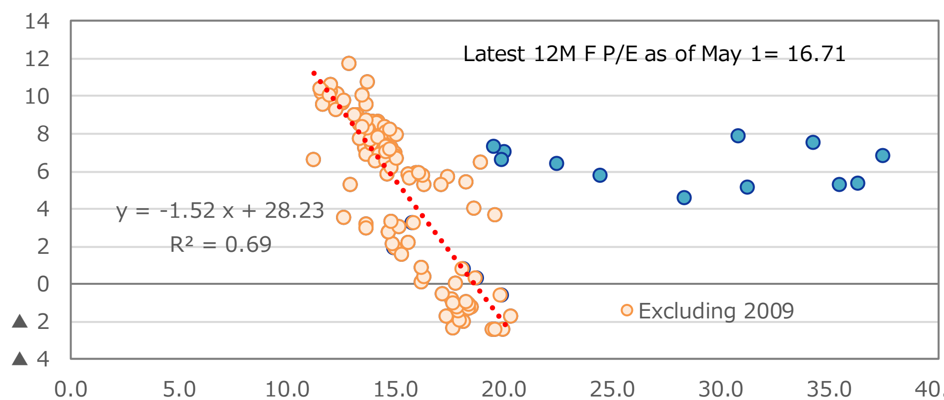


Note: Latest data are for Apr 2026 S&P500 Historical P/B Ratio (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

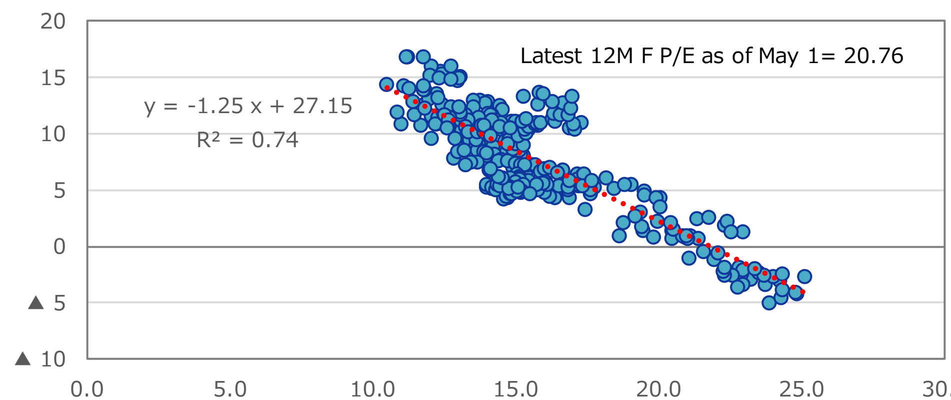


Note: Latest data are for Apr 2026. The blue dots show 2009 data. TOPIX 12M Forward P/E (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

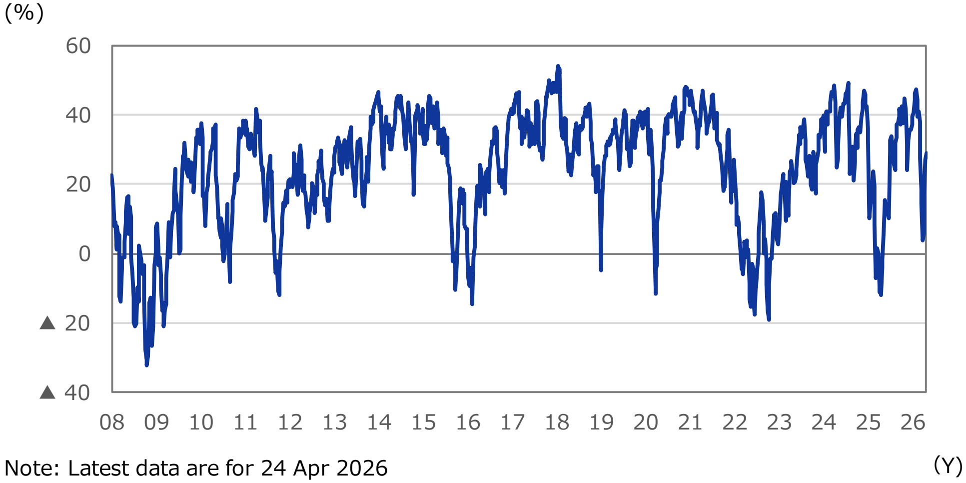


Note: Latest data are for Apr 2026 S&P500 12M Forward P/E (times)

Source: SMDAM and Bloomberg

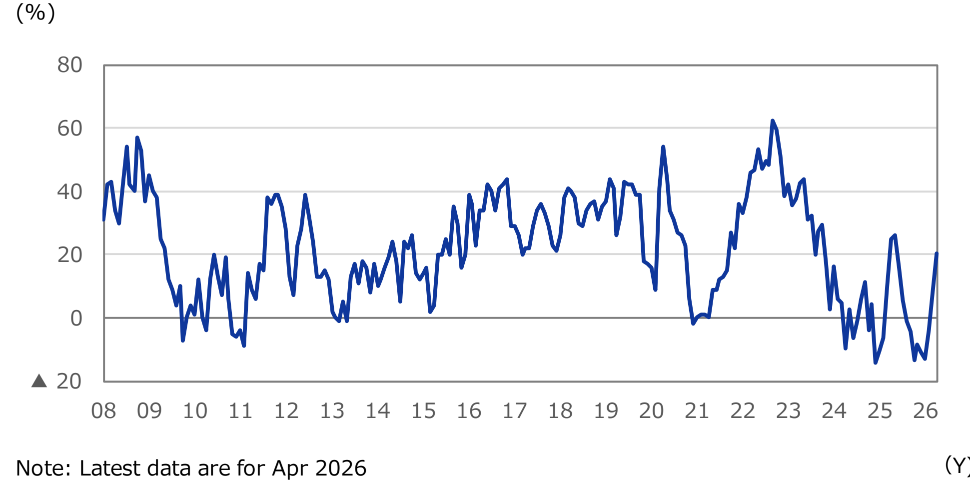
Stock Market Sentiment and Supply-Demand

Investors Intelligence Bull-Bear Spread



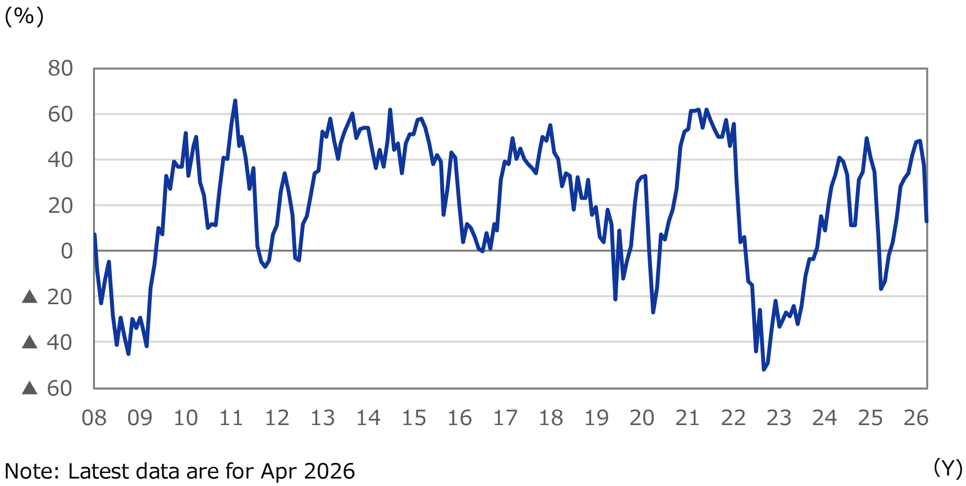
Note: Latest data are for 24 Apr 2026
Source: SMDAM and LSEG

FM Survey: Cash Net Balance



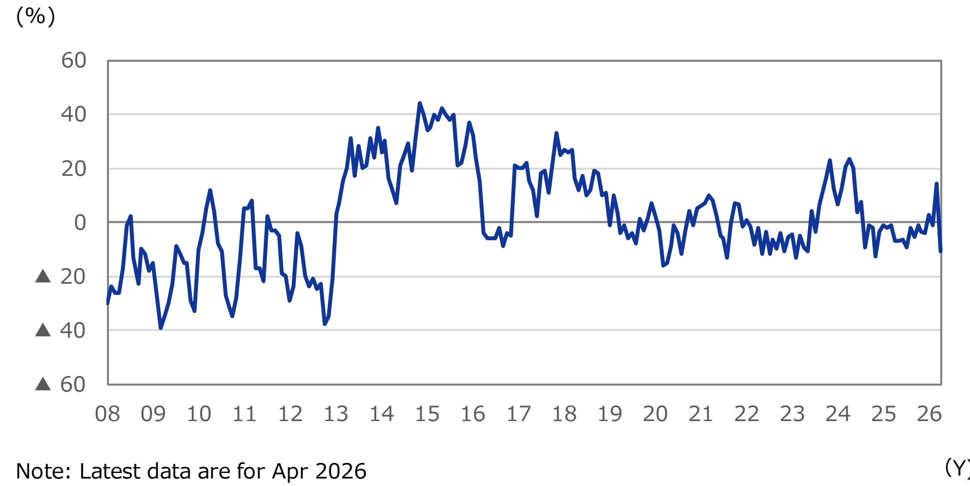
Note: Latest data are for Apr 2026
Source: SMDAM and BofA

FM Survey: Equities Net Balance



Note: Latest data are for Apr 2026
Source: SMDAM and BofA

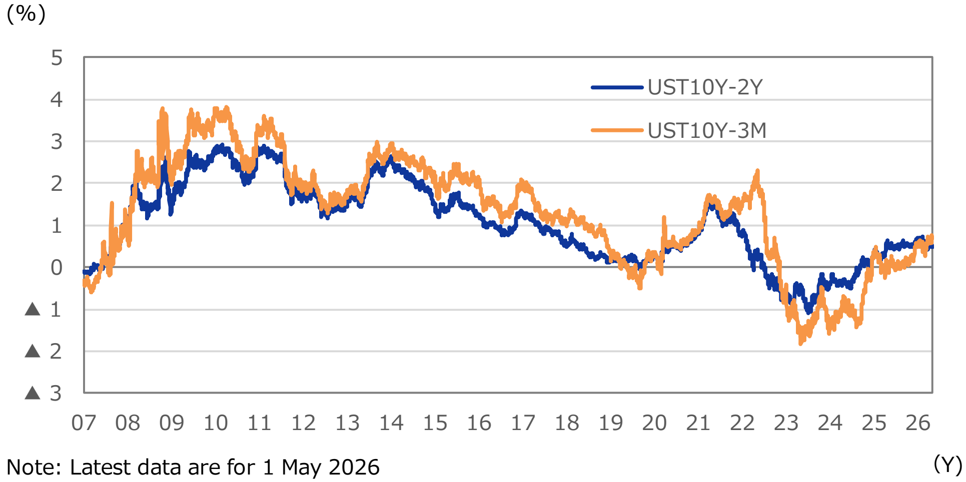
FM Survey: Japanese Equities Net Balance



Note: Latest data are for Apr 2026
Source: SMDAM and BofA

Risk Indicators

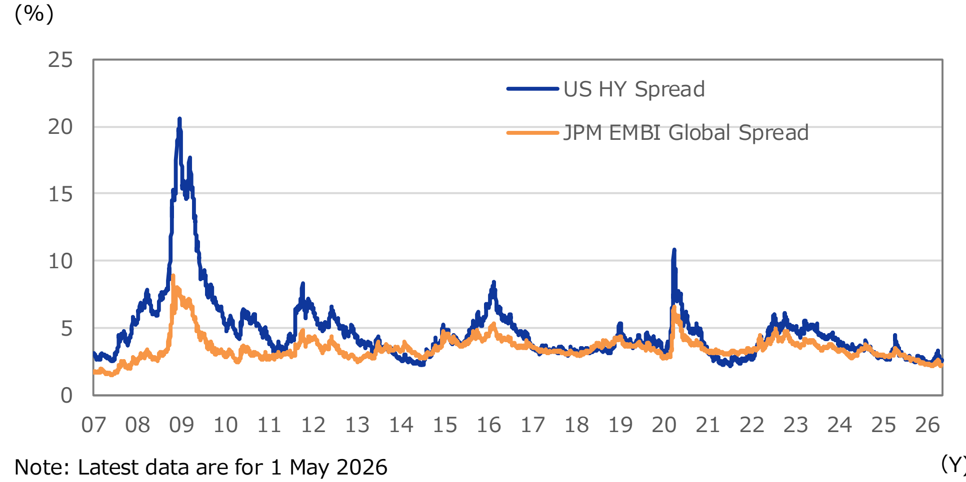
US Yield Curve Spread



Note: Latest data are for 1 May 2026

Source: SMDAM and Bloomberg

US HY Spread and EM Spread



Note: Latest data are for 1 May 2026

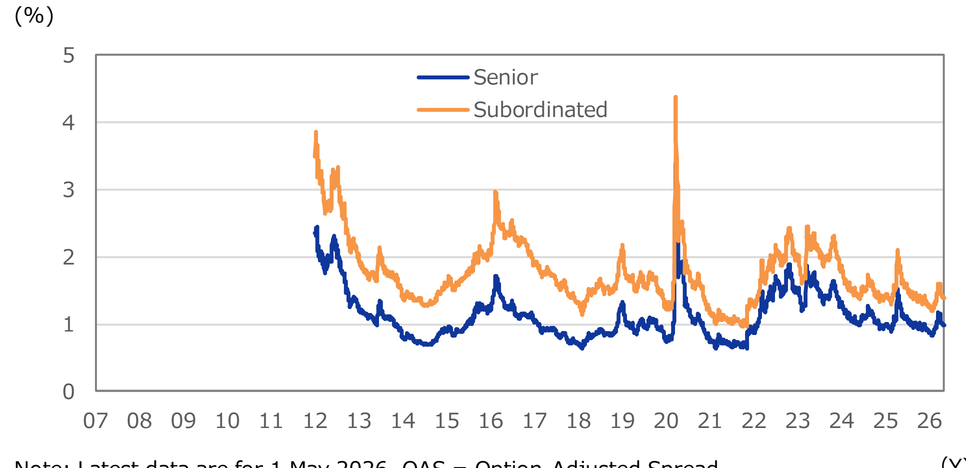
Source: SMDAM and Bloomberg

Chicago Fed Adjusted National Financial Conditions Index (ANFCI)

Note: Latest data are for 1 May 2026

Source: SMDAM, Chicago Fed and Bloomberg

USD IG Financials OAS

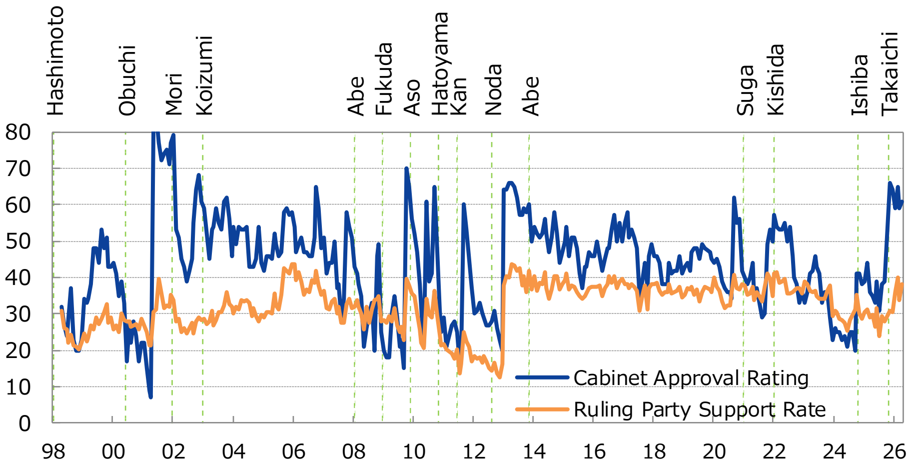


Note: Latest data are for 1 May 2026. OAS = Option-Adjusted Spread

Source: SMDAM and Bloomberg

Japanese Politics

Cabinet Approval Rating and Ruling Party Support Rate (%)



Source: SMDAM and NHK

Note: Latest data are for Apr 2026

Seats in Lower and Upper Houses Note: As of 1 May 2026

	Lower House seats	Upper House seats
Liberal Democratic Party	316	101
Nippon Ishin / Japan Innovation Party	36	19
Ruling parties	**352**	**120**
Centrist Reform Alliance / Constitutional Democratic Party	48	40
Centrist Reform Alliance / Komeito		21
Democratic Party For the People	28	25
Reiwa Shinsengumi	0	5
Japanese Communist Party	4	7
Sanseito	15	15
Team Mirai	11	2
Others + Vacancies	7	13
Majority	**233**	**125**
Total	**465**	**248**

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

Political Calendar and Key Events

Feb 18	2nd Takaichi Cabinet launched
Feb 25	**Potential successors to BOJ's Noguchi (late Mar) and Nakagawa (late Jun) are both reflationists.**
Mar 19	Japan–U.S. summit
March?	**Growth Strategy Council drafts investment roadmap**
Jun 16	BOJ meeting: possible rate hike
Mid-year	**Cabinet approves Basic Policy and Growth Strategy**
Mid-year	**Corporate Governance Code revised**
Mid-year	**Interim report on zero VAT for food**
Late Aug	FY2027 budget requests due
Autumn?	Cabinet reshuffle? Ishin to join/assist?
Autumn?	**Extraordinary Diet; FY2026 supplementary budget**
Oct 30	BOJ meeting: possible rate hike
Dec	**FY2027 budget draft and tax reform outline**
By year-end	**Three National Security Documents revised**

Source: SMDAM and various media reports

Outlook for the Takaichi Administration

Stronger political leverage	LDP holds 2/3 in Lower House; can override Upper House rejection
Political stability	No national elections until summer 2028 (Upper House)
Fiscal expansion risk	Pushing proactive fiscal policy will likely lead to a larger budget

Sanaenomics: Key Policy Outlook

Policy	Expected direction	Watchpoints
Proactive responsible fiscal policy	Fiscal targets loosen; drop single-year PB surplus; focus on debt/GDP	Basic Policy; FY26 supplementary budget
	Shift to main budget; **FY27 initial budget to expand sharply**	Basic Policy; FY2027 budget draft
Growth & resilience investment	Support AI/ship/space/energy/defense; **up to ¥10tn** potentially allocated	Roadmap; Growth Strategy; FY26 supp; FY27 budget
Revise security documents	Broaden defense exports; **defense/GDP target could rise 2%→3% (+¥6tn)**	Security docs revision; FY2027 budget
2-year 0% VAT on food	**~¥5tn tax cut; as early as FY26**; key issues: funding	Interim report; autumn extraordinary Diet

Note: As of 1 May 2026

Governance (1): Revised CG Code highlights the importance of growth investments

Overview of the Proposed Revisions to the Corporate Governance Code

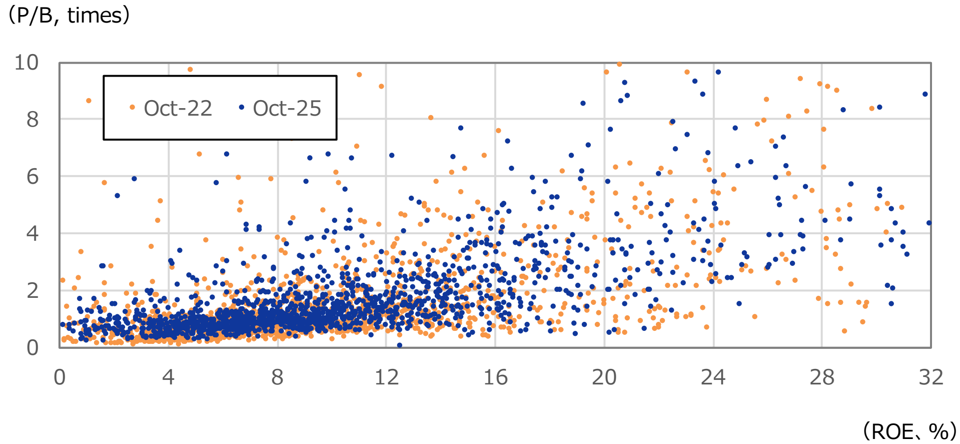
Note: Data as of 3 Apr 2026

Theme	Direction of the Proposed Revisions
Overall	To encourage companies to focus on essential initiatives for mid-to-long-term value creation (e.g., appropriate resource allocation for growth), the revisions limit "comply or explain" principles to abstract/conceptual ones. New "Interpretative Guidelines" were established with specific details and backgrounds to support effective implementation. **Aiming for the "substantiation of the Code" by returning to its original principle-based spirit**, listed companies are expected to implement practices aligned with each principle's intent based on their specific circumstances.
Promotion of Growth Investments	The revisions specify the importance of growth investment initiatives as the board's role/responsibility. Specific examples include: 1. Building a growth trajectory toward company goals. 2. **Explaining specific actions for resource allocation (e.g., capex, R&D, human/intellectual capital investments, and business portfolio reviews) to achieve growth.** 3. **Continuously verifying if resource allocation aligns with disclosed management strategies/plans for growth.** **The revisions cite verifying whether financial assets (like cash/deposits) and physical assets are effectively utilized for growth investments.** Holding such assets is not entirely denied; maintaining appropriate cash levels can be part of resource allocation if the company can explain its necessity and rationality.
Enhancement of Board Functions	Considering the increasing proportion of independent outside directors and the improving environment for their supervisory functions, the revisions emphasize the importance of their roles/responsibilities, securing quality/quantity, and ensuring independence to enhance their effectiveness. It also adds that the functions of the secretariat (e.g., corporate secretary), which plays a key role in supporting directors including the chair and outside directors, should be strengthened.
Pre-AGM Disclosure of Securities Report	The revised principles cite **submitting the Annual Securities Report before the general shareholder meeting (AGM) as a key example of securing an appropriate environment for exercising voting rights. The Interpretative Guidelines supplement that submitting the report at least 3 weeks before the AGM is most desirable, and pushing back the AGM date can be considered as an option.**
Application of the Revised Code	Listed companies will likely be required to submit Corporate Governance Reports reflecting the revised Code by July 2027 at the latest. The Tokyo Stock Exchange will consider specific submission timelines.

Source: SMDAM and FSA

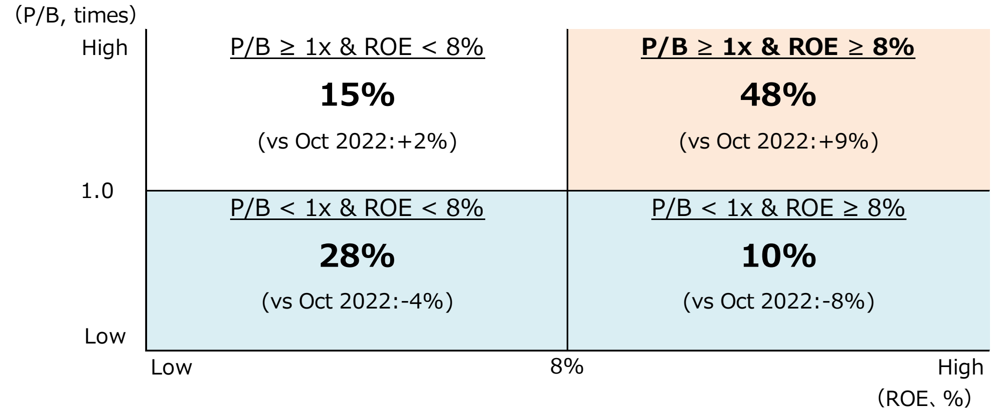
Governance (2): Corporate Response to TSE's Cost of Capital Conscious Management Request

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



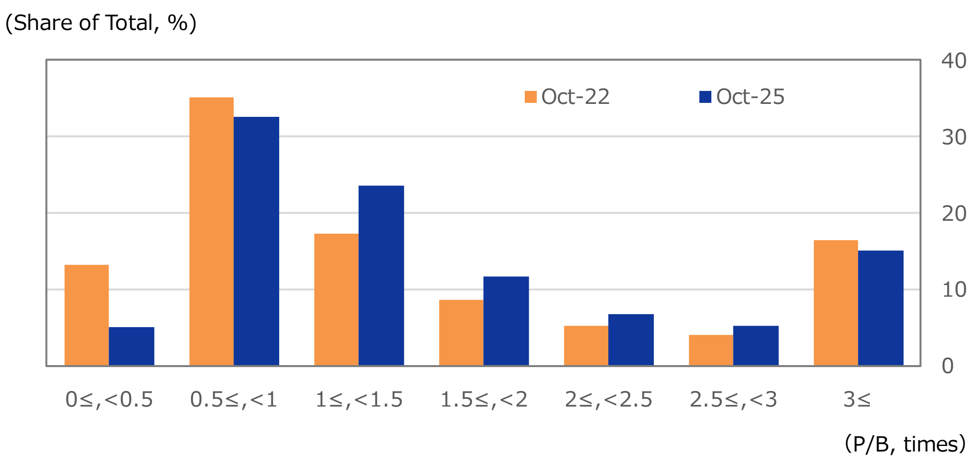
Source: SMDAM and Bloomberg

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



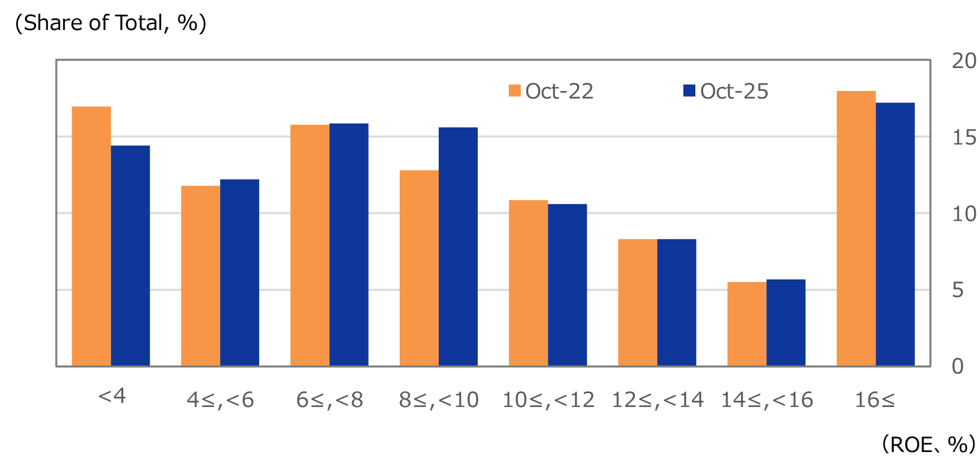
Source: SMDAM and Tokai Tokyo Securities

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



Source: SMDAM and Bloomberg

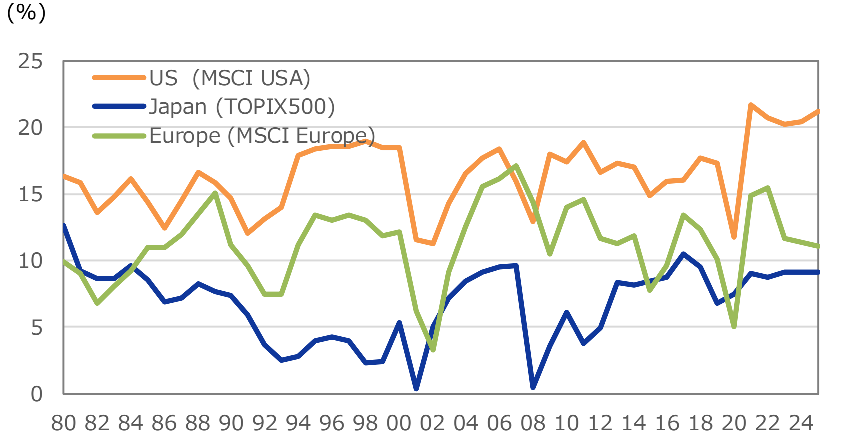
Shifts in ROE Distribution of TSE Prime Companies Before and After the Call for Capital Cost and Stock Price-Conscious Management



Source: SMDAM and Bloomberg

Governance (3): ROE

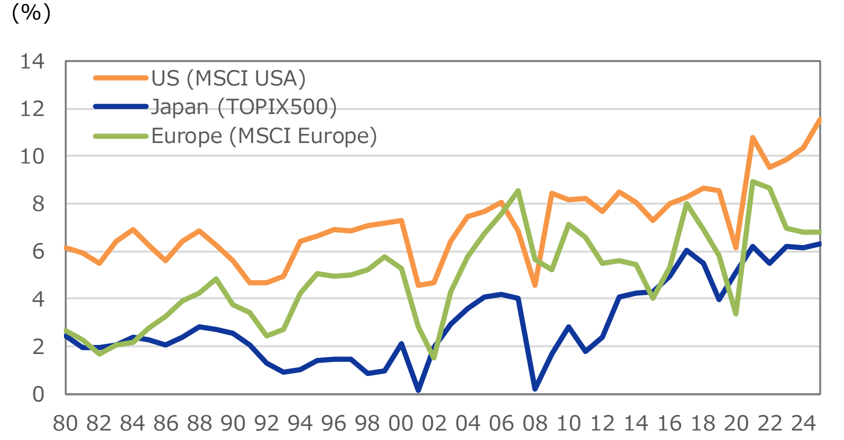
Long-term Trends of ROE in Japan, the US, and Europe



Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

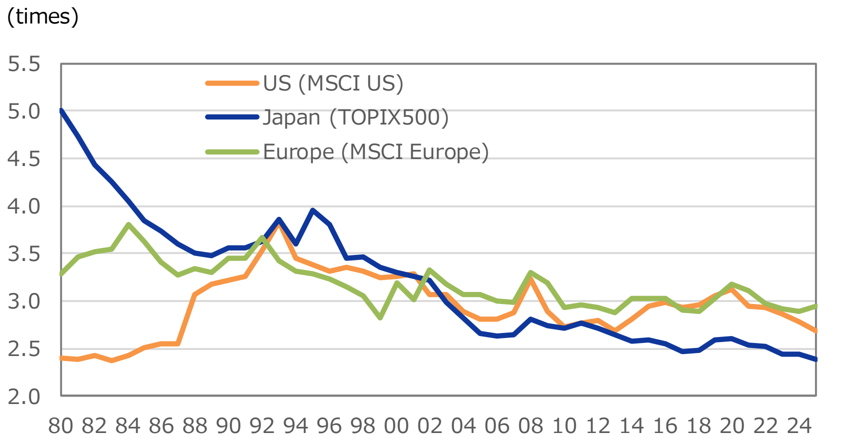
Long-term Trends of Net Profit Margins in Japan, US, and Europe



Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos)

Source: SMDAM and Daiwa Securities

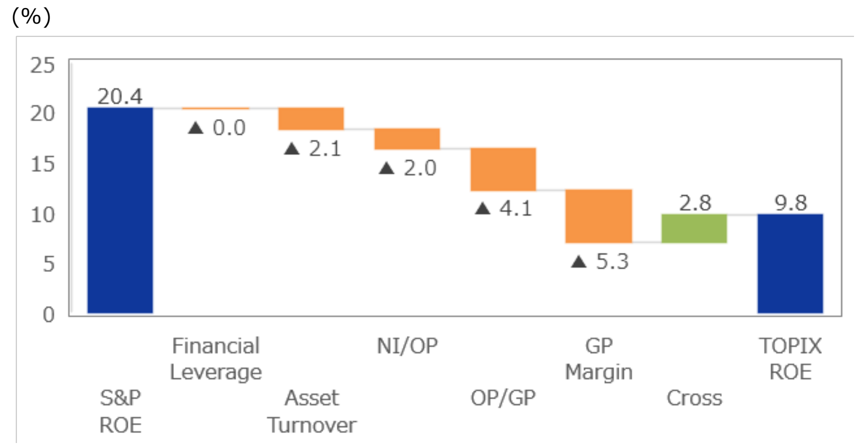
Long-term Trends of Financial Leverage in Japan, US, and Europe



Note: Latest data are 2025. 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: Latest Data as of 1 May 2026

Source: SMDAM and Bloomberg

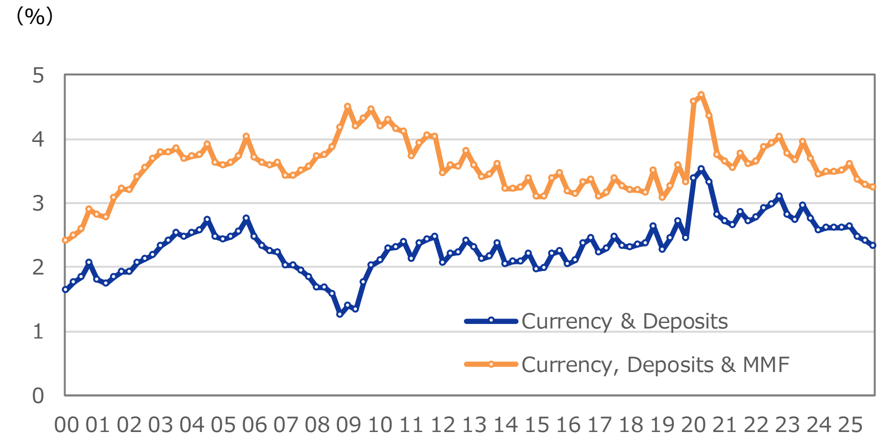
Governance (4): Effective Cash Utilization

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

Note: Latest data are for 4Q 2025

Source: SMDAM and BoJ

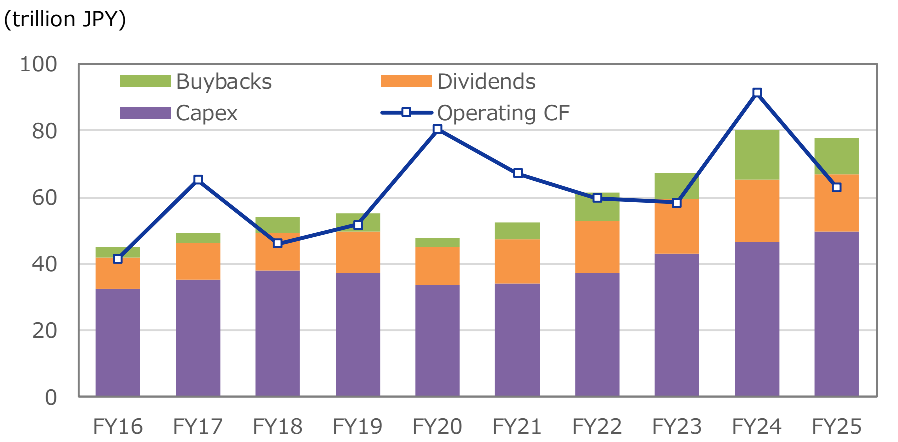
Cash Ratio in B/S of US Non-Financial Corporations



Note: Latest data are for 4Q 2025

Source: SMDAM and FRB

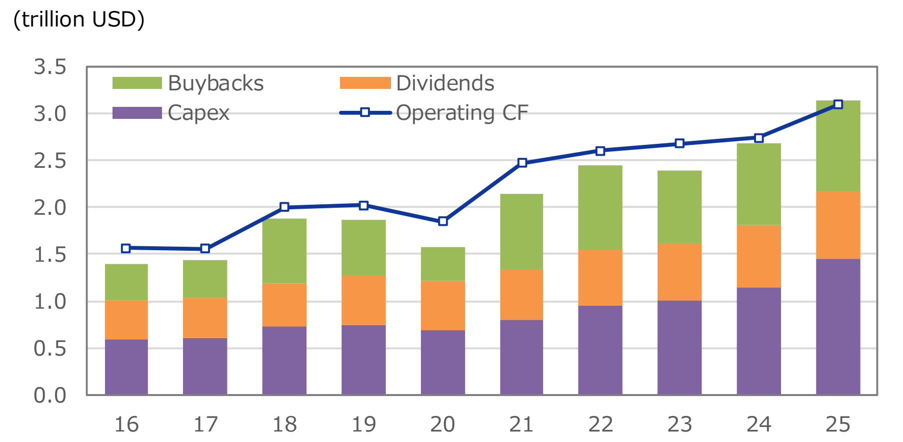
OCF, Investment, and Shareholder Returns for TOPIX 500 Companies



Note: Latest data are for FY2025

Source: SMDAM and Bloomberg

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

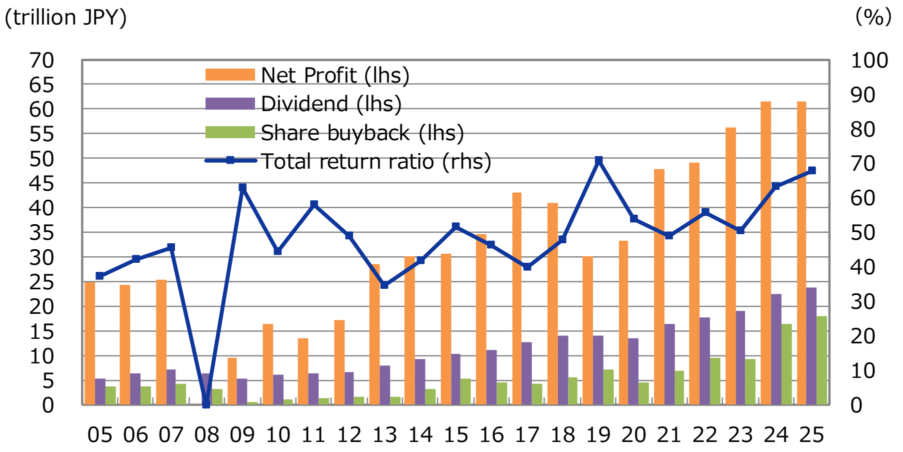


Note: Latest data are for 2025

Source: SMDAM and Bloomberg

Governance (5): Shareholder Returns

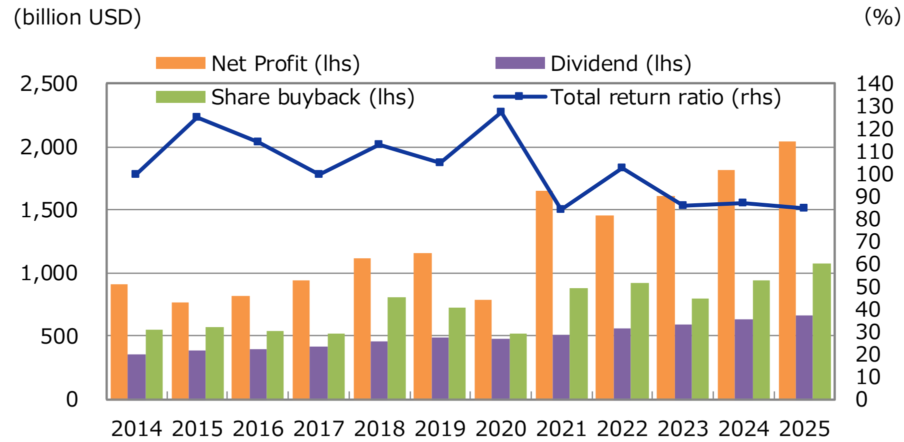
Total Shareholder Return Ratio (TOPIX)



Note: Latest data are for FY2025

Source: SMDAM and Tokai-Tokyo Sec.

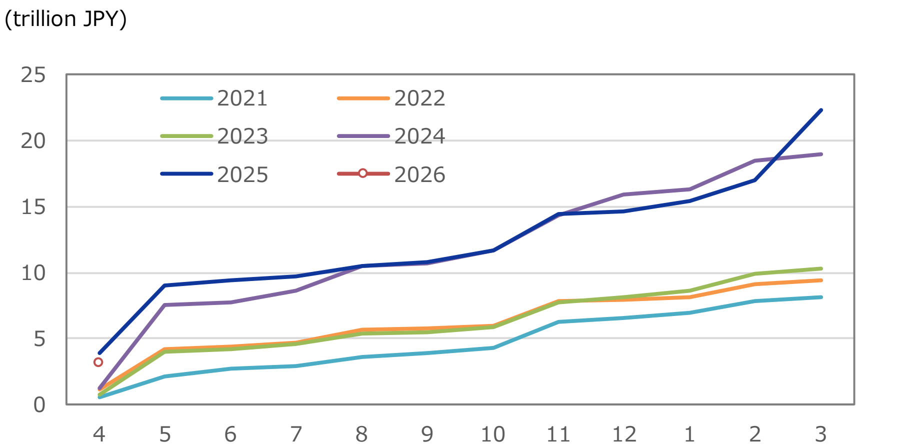
Total Shareholder Return Ratio (S&P500)



Note: Latest data are for 2025

Source: SMDAM and Tokai-Tokyo Sec.

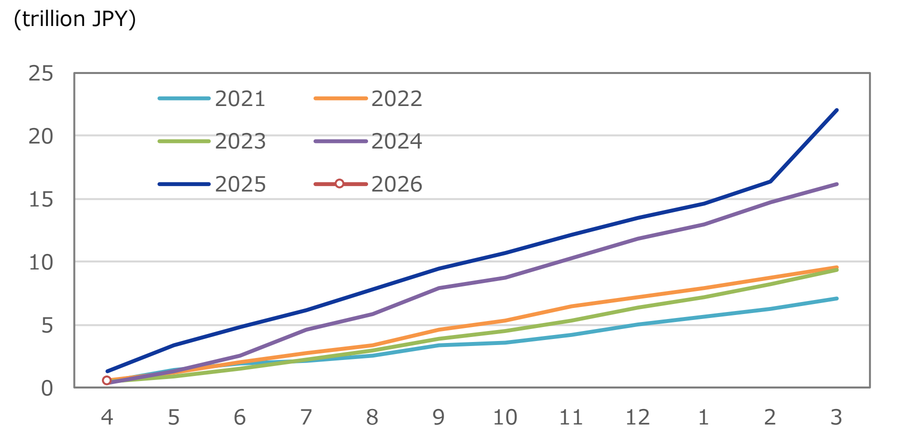
Share Buyback Programs by Japanese Companies (FY Cumulative)



Note: Latest data are for Apr 2026

Source: SMDAM and INDB

Share Buyback Activity by Japanese Companies (FY Cumulative)

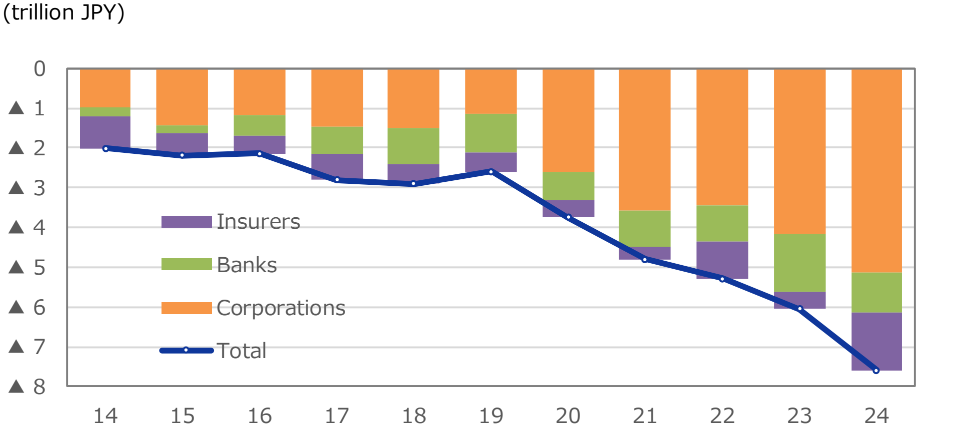


Note: Latest data are for Apr 2026

Source: SMDAM and INDB

Governance (6): Ownership Structure & Shareholder Meetings

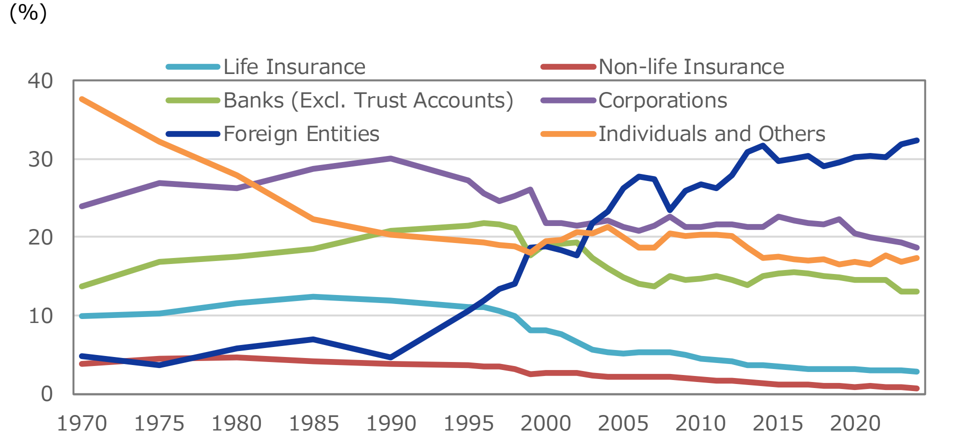
Cross shareholding unwinding



Note: Latest data are for FY2024

Source: SMDAM and Tokai Tokyo Securities

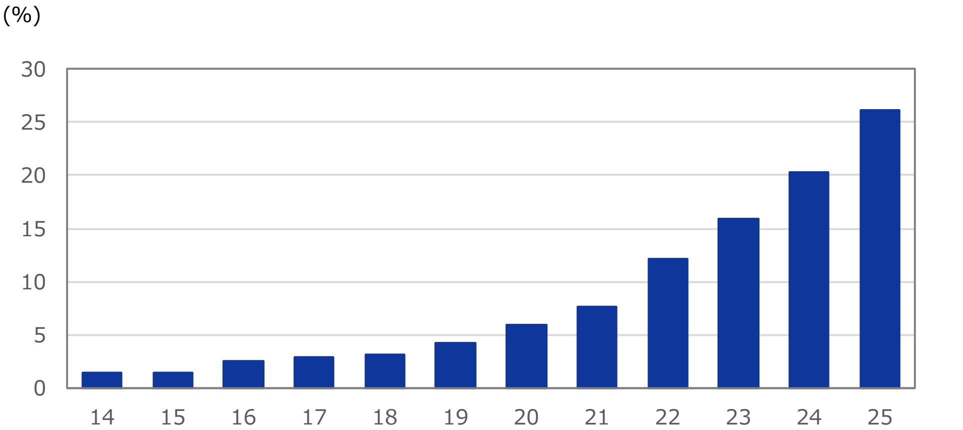
Distribution of Equity Ownership by Shareholder Type



Note: Latest data are for FY2024

Source: SMDAM and JPX

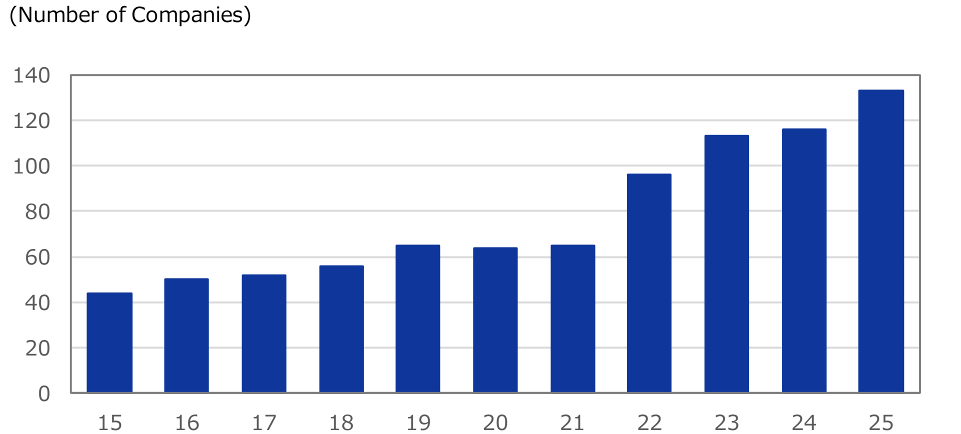
Percentage of Companies with a Majority of Independent Outside Directors



Note: Latest data are for FY2025

Source: SMDAM and JPX

Number of Shareholder Proposals



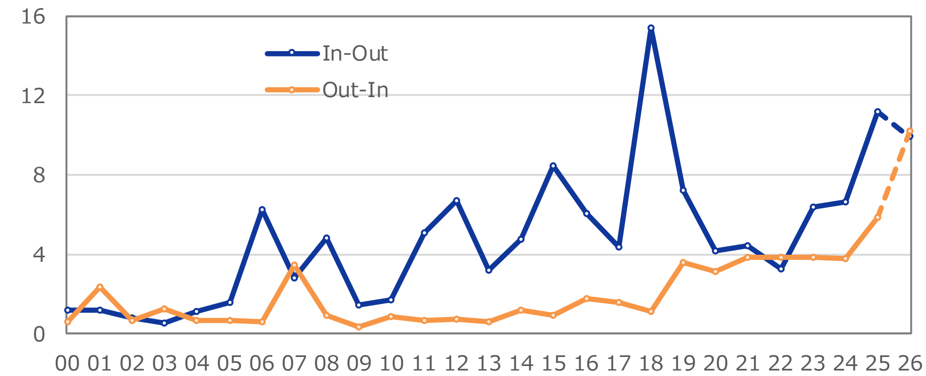
Note: Latest data are for FY2025

Source: SMDAM and Japan Institute of Business Law

Governance (7): Rising Takeover Risk

Trends in M&A Deal Value Involving Japanese Companies

(trillion JPY)

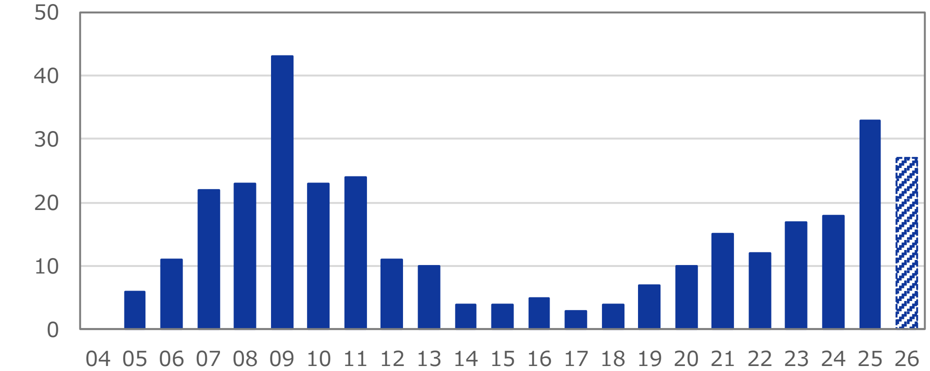


Note: Latest data are for 2026. 2026 is annualized through Apr (Y)

Source: SMDAM and Bloomberg

Trends in MBO Transactions

(Number of Cases)

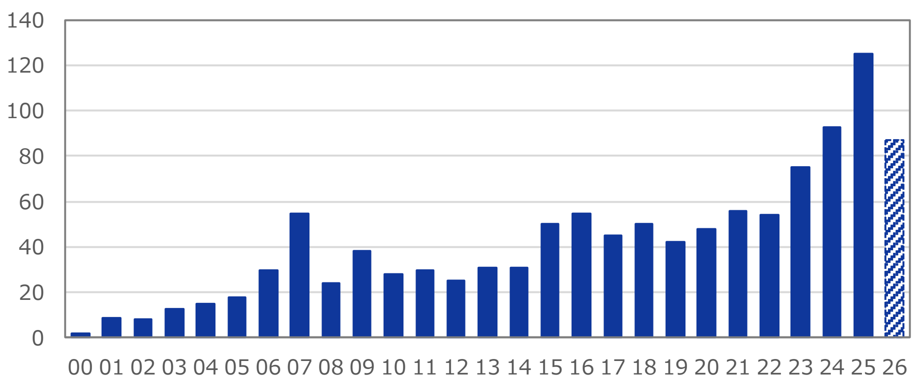


Note: Latest data are for 2026. 2026 is annualized through Apr (Y)

Source: SMDAM and Bloomberg

Trends in Number of TOBs (TSE Listed Companies)

(cases)

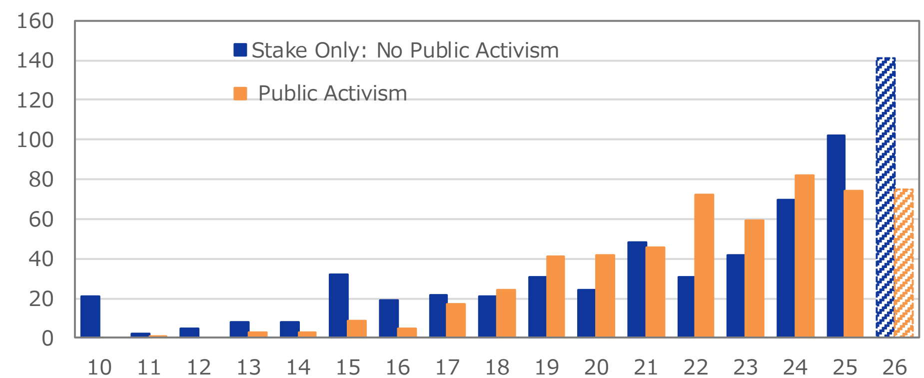


Note: Latest data are for 2026. 2026 is annualized through Apr (Y)

Source: SMDAM and Bloomberg

Activist investor activity

(Number of Cases)



Note: Latest data are for 2026. 2026 is annualized through Apr (Y)

Source: SMDAM and Bloomberg

NISA

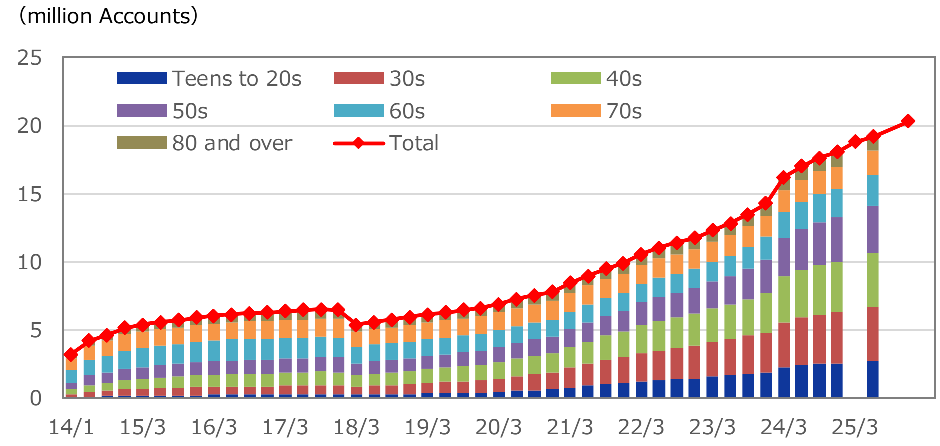
Comparison of old and new NISA (Tax free investing program like UK ISA)

	Old NISA		NEW NISA		
	Tsumitate NISA	General NISA	Tsumitate Quota	Growth Quota	Kodomo NISA
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 1 May 2026

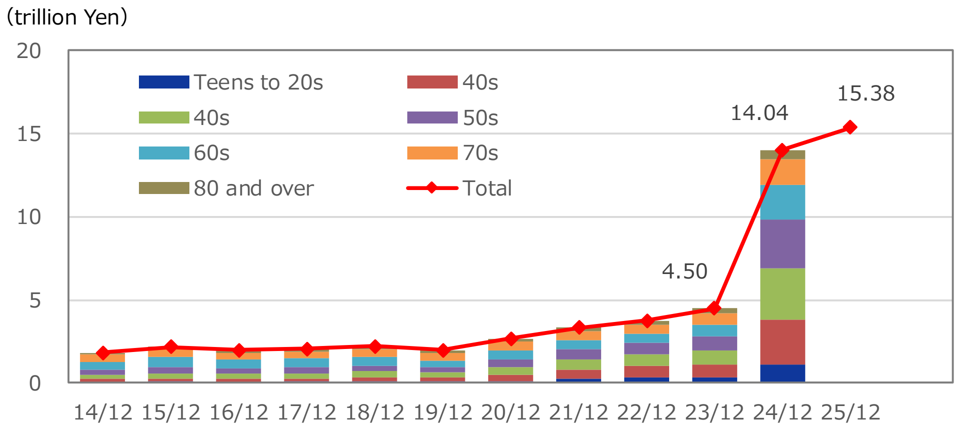
Number of NISA Accounts by Age Group



Note: Latest data are for end-Dec 2025; some age breakdowns unpublished.

Source: SMDAM and Japan Securities Dealers Association

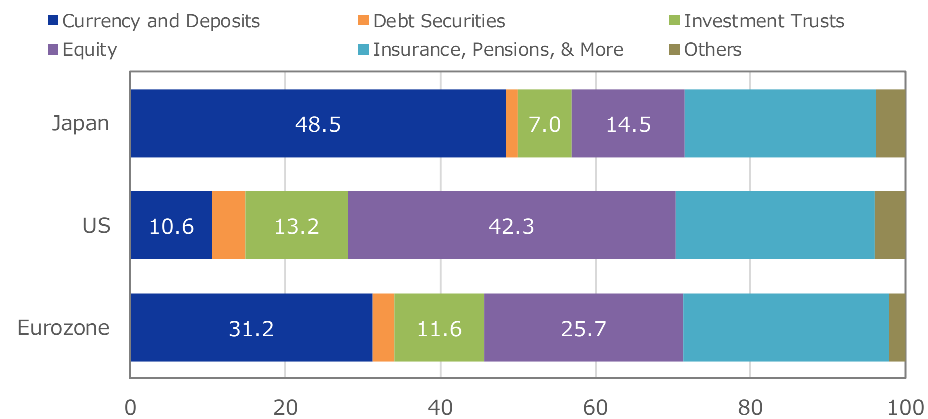
Annual Purchase Amount in NISA Accounts by Age Group



Note: Latest data are for end-Dec 2025; some age breakdowns unpublished.

Source: SMDAM and Japan Securities Dealers Association

Financial Assets held by Households (As of December 2025)



Note: For the eurozone, figures are as of September 2025.

Source: SMDAM, BoJ, FRB and ECB

Event Schedule: Focus— Takaichi administration's growth strategy/Basic Policy, U.S.–China summit

	Date	Japan	Date	U.S.	Date	Other Regions
April to June 2026	Jun 29 **Jun?** **Jun?** **Jun?**	Expiration of the Term of BoJ Policy Board Member Nakagawa **Cabinet's approval of the Basic Policy** **Cabinet's approval of the growth strategy** **Corporate Governance Code revision**	**May 15**	**Expiration of the Term of Federal Reserve Chair Powell**	**May 14-15** May 31 Jun 15	**U.S.–China summit meeting** Expiration of the Term of Office for ECB Vice President De Guindos G7 Summit
July to September	Jul 17 Q3? Q3?	Closing of the Ordinary Diet Session Decision on zero tax for food products? Cabinet reshuffle?	Jul Aug	Congressional Testimony of the Federal Reserve Chair Jackson Hole Economic Symposium	Jul	IMF World Economic Outlook
October to December	**Dec** **By year-end?**	**Cabinet Approval of the 27 FY Budget Proposal and Tax Reform Outline** **Revision of the three key national security documents**	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
April to June	Apr Q2? Jun? End-Jun	Unified local elections Successor nominations for BOJ Board Members Takata and Tamura (Terms expire Jul 23, 2027) Cabinet's approval of the Basic Policy Closing of the Ordinary Diet Session			Apr Apr Jun	IMF and World Bank Spring Meetings IMF World Economic Outlook G7 Summit

Source: Compiled by SMDAM

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- Please note that the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui DS Asset Management Company, Limited (hereinafter “SMDAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMDAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMDAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMDAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMDAM’s authorization, or from disclosing this material to a third party.

Registration Number: The Director of Kanto Local Finance Bureau (KINSHO) No.399
Member of Investment Management Association of Japan and Type Ⅱ Financial Instruments Firms Association