Japan Equity Market Outlook

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Summary

Japan Equity Outlook

In June, Japanese equities reached record highs, gaining for a third month as the tech-heavy Nikkei 225 (+5.6%, +39.2% YTD) outperformed TOPIX (+0.9%, +17.2% YTD). While AI optimism remained the primary driver, rapid gains triggered intermittent volatility. Looking ahead, key drivers are AI sectors and US monetary policy. Steady AI adoption supports robust demand, though regulatory and power constraints could spark volatility. Regarding US policy, resilient growth raises demand-driven inflation risks; however, a gradual Fed rate hike later this year should sustain corporate earnings, supporting both US and Japanese equities.

Economic and Monetary Policy

Our base case assumes continued global and domestic recovery, supported by lower oil prices and fiscal support. Global central banks remain highly vigilant against inflation. We project the BOJ to steadily advance interest rate normalization following its rate hike in June, raising the policy rate to 2.00% by spring 2028. Meanwhile, we expect the Fed to pivot to a gradual rate-hiking cycle as discussed. Consequently, as US interest rates are projected to remain elevated, the US dollar should maintain its firm footing against the yen in the foreign exchange market.

Key Drivers for Japan's Stock Market

We believe 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 high expectations for the Takaichi administration's growth strategy and foreign inflows driven by corporate governance reforms. Downside risks include surging JGB yields, Japan-China tensions, Middle East conflicts, and US IPO supply pressure. AI remains a two-sided factor: accelerated social deployment and monetization would fuel the market boom, while delays could heavily weigh on equities.

Outlook for the Japanese Economy

SMDAM Forecasts: Japanese Economy

Forecasts as of 18 Jun 2026		FY22 (A)	FY23 (A)	FY24 (A)	FY25 (A)	FY26 (E)	FY27 (E)
Real GDP	(yoy, %)	1.4	0.0	0.5	0.8	0.7	1.1
Private Consumption	(yoy, %)	2.5	▲ 1.0	0.1	1.2	0.7	1.3
Private Resid. Investment	(yoy, %)	0.6	1.8	▲ 0.7	▲ 3.4	0.4	▲ 0.2
Private Capex	(yoy, %)	3.9	▲ 0.1	0.8	2.3	0.7	2.2
Public Investment	(yoy, %)	▲ 4.5	▲ 0.1	0.1	▲ 0.6	1.2	0.5
Net Exports (contribution)	(%point)	▲ 0.6	1.2	▲ 0.3	▲ 0.1	0.2	▲ 0.2
Exports	(yoy, %)	4.7	3.1	2.7	1.9	0.6	2.6
Imports	(yoy, %)	7.3	▲ 2.2	4.0	2.6	▲ 0.5	3.9
Nominal GDP growth	(yoy, %)	2.6	4.7	3.7	4.2	2.7	3.0
GDP deflator	(yoy, %)	1.2	4.8	3.2	3.4	2.0	1.9
Industrial production	(yoy, %)	▲ 0.3	▲ 1.9	▲ 1.5	▲ 0.2	1.0	1.0
CPI (less fresh food & institutional factors)	(yoy, %)	4.0	3.2	2.2	2.7	3.2	2.1
Unemployment Rate	(%)	2.6	2.6	2.5	2.6	2.6	2.5
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 22 Jun 2026		2025 Q4	2026 Q1	Q2	Q3	Q4	2027 Q1	Q2	Q3
GDP Growth Rate									
United States	(saar, %)	0.5	1.6	2.9	2.2	1.9	1.9	1.8	1.8
Japan	(saar, %)	0.7	1.8	0.5	0.6	0.7	0.7	1.9	0.8
Euro Area	(saar, %)	0.7	▲ 0.9	0.9	1.0	1.2	1.5	1.5	1.6
China	(yoy,%)	4.5	5.0	4.5	4.5	4.6	4.5	4.6	4.5
Inflation									
United States	(core PCED, yoy, %)	2.8	3.1	3.4	3.4	3.4	3.0	2.7	2.5
Japan	(core CPI, yoy, %)	2.8	1.8	1.5	1.8	2.7	3.3	1.5	1.4
Euro Area	(yoy, %)	2.1	2.0	3.2	3.1	3.2	2.9	2.2	2.2
China	(yoy, %)	0.6	0.9	1.2	1.2	1.0	0.3	0.2	0.2
Policy Rates									
United States	(End of Period, %)	3.5-3.75	3.5-3.75	3.5-3.75	3.75-4.0	4.0-4.25	4.0-4.25	4.0-4.25	4.0-4.25
Japan	(End of Period, %)	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75
Euro Area	(End of Period, %)	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.50
China	(End of Period, %)	1.40	1.40	1.40	1.40	1.40	1.40	1.30	1.30
Long-term Rates									
US 10Y	(End of Period, %)	4.17	4.32	4.47	4.70	4.80	4.80	4.80	4.80
Japan 10Y	(End of Period, %)	2.06	2.35	2.68	2.85	3.00	3.10	3.10	3.20
Germany 10Y	(End of Period, %)	2.86	3.00	2.86	3.20	3.30	3.30	3.30	3.30
FX									
USD/JPY	(End of Period)	156.7	158.7	162.6	165.0	165.0	165.0	165.0	165.0
EUR/JPY	(End of Period)	184.1	183.4	185.7	188.1	186.5	186.5	186.5	186.5
Stock Prices									
TOPIX	(End of Period)	3,409	3,498	3,995	4,100	4,150	4,200	4,200	4,200
Nikkei 225	(End of Period)	50,339	51,064	70,062	72,200	73,000	73,900	73,900	73,900

	2024 (yoy,%)	2025 (yoy,%)	2026 (yoy,%)	2027 (yoy,%)
GDP Growth Rate				
United States	2.8	2.1	2.2	2.0
Japan	0.5	0.8	0.7	1.1
Euro Area	0.9	1.5	0.4	1.4
China	5.0	5.0	4.6	4.5
Inflation				
United States	2.9	2.8	3.3	2.6
Japan	2.7	2.7	2.3	1.1
Euro Area	2.4	2.1	2.9	2.3
China	0.2	0.0	1.0	0.2

Note: Japan is FY-based.

Note: Forecasts by SMDAM.
Source: SMDAM

This Month's Topic (1): Japan's Policy Dynamics#1

Strategic Public-Private Investment in 17 Key Areas
In late June, the Council on Economic and Fiscal Policy unveiled key drafts ahead of the July cabinet approval of its growth strategy and the "Basic Policy on Economic and Fiscal Management and Reform" (the Basic Policy). Crucially, the government proposed a massive public-private investment target exceeding 370 trillion yen by FY2040 across 17 strategic sectors, averaging nearly 25 trillion yen annually over the next 15 years.

Given that Japan's current SNA-based private capital expenditure stands at approximately 127 trillion yen annually, this is a highly ambitious target, underscoring the government's commitment to inducing substantial private investment through robust policy support. Among the 17 sectors, all targets exceeding 10 trillion yen are listed below:

- Semiconductors: 68.0 trillion yen (by FY2040)
- Cloud, Data Centers & Batteries: 32.7 trillion yen (by FY2035)
- Gaming: 24.5 trillion yen (by FY2033)
- First/Best-in-Class Pharmaceuticals: 23.4 trillion yen (by FY2040)
- Vertical AI: 23.1 trillion yen (by FY2040)
- Biopharmaceuticals & Regenerative Medicine: 20.8 trillion yen (by FY2040)
- Next-Generation Wireless: 20.5 trillion yen (by FY2040)
- Biomanufacturing: 12.8 trillion yen (by FY2040)
- Advanced Medicine via AI/Robotics: 11.6 trillion yen (by FY2040)
- Physical AI: 10.5 trillion yen (by FY2040)
- Quantum Computing: 10.3 trillion yen (by FY2040)

Macroeconomic Projections and Productivity Gains
According to Cabinet Office estimates, successful implementation of this growth strategy is projected to boost Total Factor Productivity (TFP) growth by 0.6 percentage points by FY2031 and 0.9 points by FY2036. Consequently, nominal GDP growth should accelerate to the mid-3% range by FY2040, expanding nominal GDP from 670 trillion yen today to nearly 1,100 trillion yen.

The "Strong and Wealthy Japan" Investment Framework
To finance these initiatives, the draft Basic Policy introduces the "Strong and Wealthy Japan" investment framework, separate from general expenditures. Key economic security sectors will be funded via "bridge bonds" (tsunagi-kokusai) under special accounts. Since these bonds are excluded from official debt-to-GDP calculations, they prevent fiscal indicators from deteriorating on paper. This structure balances the Takaichi administration's "responsible yet proactive" fiscal stance, though gross JGB issuance will still rise.

Notably, key draft points are: (1) omitting "fiscal consolidation," (2) expecting BOJ coordination, signaling accommodative conditions, (3) prioritizing a stable decline in the debt-to-GDP ratio, and (4) no mention of consumption tax cuts due to drafting delays.

JGB Supply-Demand Pressures and Monetary Policy
Although the BOJ raised its policy rate to 1.0% in June, it decided to halt JGB purchase tapering from April 2027, maintaining monthly purchases at around 2 trillion yen. However, net quarterly JGB supply to the market will remain around 11 to 12 trillion yen through FY2027, acting as a persistent drag on bond supply-demand dynamics. Coupled with the government's expansionary fiscal policy, the JGB market outlook remains challenging (for details, see Macro View: Japan's Long-Term Yield Surge — What's Driving It and What It Means Ahead).

This Month's Topic (1): Japan's Policy Dynamics#2

Public-Private Investment in Key Products & Technologies Across 17 Strategic Sectors

Sector	Key Products & Technologies	Deadline (FY)	Investment (tn JPY)
AI & Semiconductors	1. Physical AI (esp. AI Robots)	2040	10.5
	2. Semiconductors for Physical Intelligent Systems	2040	68.0
	3. Vertical AI (Domain-Specific AI)	2040	23.1
Digital & Cybersecurity	1. Data Platforms	2035	0.9
	2. AX/DX Infrastructure for Gov & Municipalities	2035	7.4
	3. Advanced Security Products & Services for AI Era	2035	1.0
	4. Cloud, Data Centers & Batteries	2035	32.7
	5. Cloud-Native Medical DX Infrastructure	2040	5.2
	6. Autonomous Driving Technology	2040	8.2
Information & Communications	1. All-Photonics Network (APN)	2040	5.9
	2. Submarine Cables	2040	2.4
	3. Next-Gen Wireless (NTN, 5G/6G, etc.)	2040	20.5
Quantum	1. Quantum Computing	2040	10.3
	2. Quantum Communications & Networks	2040	1.5
	3. Quantum Sensing	2040	1.4
Defense Industry	1. Small UAVs (Unmanned Aerial Vehicles)	2040	0.4
	2. Naval Vessels	2026	0.34
	3. Dual-Use Technologies	2040	4.3
Aviation & Space	1. Commercial Aircraft (Next-Gen/Single-Aisle)	2040	3.5
	2. Unmanned Aerial Vehicles (UAVs)	2040	0.3
	3. Flying Cars (eVTOL)	2040	0.4
	4. Rockets & Launch Sites	2040	2.3
	5. Satellites & Services	2040	6.4
	6. Lunar Exploration & LEO Technologies	2040	5.6
Ocean	1. Unmanned Surface/Underwater Vehicles (USVs/UUVs)	2040	1.2
	2. Maritime Domain Awareness (MDA)	2040	1.2
	3. Innovative Deep-Sea Development Tech	2040	0.9
Shipbuilding	1. Next-Gen Vessels	2034	1.0
	2. Ship Repair & Maintenance	2035	0.1
	3. LNG Carriers	Under Review	Under Review
Materials (Critical Minerals & Components)	1. Permanent Magnets	2040	0.2
	2. Green Steel (Same as Resources/Energy ③)	2040	4.2
	3. Innovative Metallic Materials	2040	0.3
	4. Low-Carbon Metallic Materials	2040	0.7
	5. Smelting, Refining & Recycling Tech for Circular Resources	2040	6.3
	6. AI-Driven Advanced Composite Materials	2040	5.2

Sector	Key Products & Technologies	Deadline (FY)	Investment (tn JPY)
Synthetic Biology & Biotech	1. Biomanufacturing	2040	12.8
	2. Biopharmaceuticals & Regenerative Medicine (Same as Drug Discovery ③)	2040	20.8
Drug Discovery & Advanced Medicine	1. First-in-Class & Best-in-Class Products (Pharma/Regen Med)	2040	23.4
	2. Infectious Disease Response Products	2040	7.2
	3. Biopharmaceuticals & Regenerative Medicine (Same as Biotech ②)	2040	20.8
	4. Advanced Medicine via AI/Robotics Devices	2040	11.6
	5. Healthcare Services via Lifelog Data	2040	1.1
Resources, Energy Security & GX	1. Next-Gen Solar Cells (Perovskite, etc.)	2040	4.1
	2. Hydrogen & Related Technologies	2040	6.2
	3. Green Steel (Same as Materials ②)	2040	4.2
	4. Next-Gen Geothermal Power	2040	1.0
	5. Offshore Wind Power	2040	5.1
	6. Next-Gen Innovative Reactors	2040	5.0
	7. GX Chemicals	2040	3.2
Fusion Energy	1. Fusion Energy	2040	3.1
Disaster Prevention & National Resilience	1. Disaster Prevention Technologies	2030	2.6
Port Logistics	1. Port Cargo Handling Equipment	2040	0.4
	2. Cyber Port (Port Logistics DX)	2040	0.2
	3. Next-Gen Warehouses	2040	0.6
Foodtech	1. Plant Factories	2040	4.6
	2. Land-Based Aquaculture	2040	2.9
	3. Food Machinery	2040	1.2
	4. Novel Foods (Alternative Proteins, etc.)	2040	1.0
Content	1. Gaming	2033	24.5
	2. Anime	2033	3.3
	3. Manga	2033	1.6
	4. Music	2033	3.0
	5. Live-Action (Film/TV)	2033	1.3

Source: SMDAM and Cabinet Office data

This Month's Topic (1): Japan's Policy Dynamics#3
~ Keyword Comparison in the Basic Policy (2026 vs. 2025)

2026 Draft (Basic Policy)				2025 Draft (Basic Policy)			
Parent Keyword	Count	Related & Compound Words	Count	Parent Keyword	Count	Related & Compound Words	Count
Investment	109	Growth Investment	24	Economy	112	Economic & Fiscal	22
		Crisis Management Investment	23			Growth-Oriented Economy	13
		Public-Private Investment	20			Economic Growth	11
		Private Investment	13			Japanese Economy	10
		Domestic Investment	12			Economic Security	10
		Investment Window	11			Local Economy	9
		Public-Private Investment Roadmap	8			Economy & Society	9
Economy	94	Strong Economy	18	Growth	83	Growth-Oriented Economy	13
		Economic & Fiscal	12			Economic Growth	11
		Economic Growth	10			Growth Strategy	6
		Regional Economy	10			Growth Potential	6
		Economic Security	9			Growth Industrialization	5
Growth	87	Growth Investment	24	Local	78	Regional Revitalization 2.0	18
		Growth Strategy	19			Local Governments	16
		Growth Potential	18			Local Economy	9
		Economic Growth	10			Local Finance	6
		Potential Growth Rate	10			Local Administration & Finance	5
Region	72	Regional Economy	10	Region	74	Regional Economy	9
Fiscal	65	Fiscal Management	18	Fiscal	67	Economic & Fiscal	22
		Responsible & Proactive Fiscal Policy	16			Economic & Fiscal Revitalization Plan	12
		Fiscal Sustainability	13			Fiscal Consolidation	10
		Economic & Fiscal	12			Fiscal Management	7
		Debt-to-GDP Ratio	12			Local Finance	6
Human Resources	58	Human Resource Development	15	Human Resources	58	Human Resource Development	12
Budget	55	Budget Formulation	15	Technology	54	Science & Technology	13
		Supplementary Budget	9			Advanced Technology	8
		FY2027 Budget	8			Technology Development	8
		Budgetary Measures	8			New Technology	6
		Initial Budget	6			Digital Technology	5
Security	43	Economic Security	9	Wage Hikes	52	Wage Hike Support	6
		Energy Security	5			Wage Hike Policy	3
		National Security	5			Sustainable Wage Hikes	3
		Diplomacy & Security	4			Minimum Wage Hike	3
Social Security	40	All-Generation Social Security	9	Investment	49	Investment-Oriented Nation	5
Technology	38	Science & Technology	9	Budget	43	Budget Formulation	8
		Advanced Technology	8	Security	41	Economic Security	10
		Technological Innovation	6			National Security	5
		R&D	6	Social Security	38	Social Security System	8
		AI	5			All-Generation Social Security	7

Note: Calculated based only on the main text of the drafts, excluding footnotes. Parent keywords represent simple frequencies of occurrence. Breakdown items are limited to compound words containing the parent keyword string; co-occurring words that do not include the parent word are excluded. Since identical expressions may overlap across multiple categories, the sum of breakdown items does not match the parent keyword count. Word extraction was performed using AI.

Source: SMDAM and Cabinet Office

This Month's Topic (2): U.S. Monetary Policy under New Fed Chair Kevin Warsh#1

At his first FOMC meeting in June, newly appointed Fed Chair Kevin Warsh quickly demonstrated his distinct policy style. He simplified the FOMC statement, removed forward guidance, and established five key task forces: (1) Communication, (2) Balance Sheet, (3) Data Collection & Analysis, (4) Productivity & Employment, and (5) Inflation Framework.

Markets are highly focused on the communication and balance sheet reviews. These initiatives signal a clear return to "conventional monetary policy" centered on interest rate channels. Unconventional policies like forward guidance and quantitative easing—designed as emergency tools during low-inflation crises—have faced challenges, including time-inconsistency and delayed balance sheet normalization. With the financial system stable and upside inflation risks persisting, Warsh likely intends to address economic conditions on a meeting-by-meeting basis using conventional tools.

Currently, the US labor market remains strong with a 4.2% unemployment rate, indicating full employment. However, core inflation has accelerated to 3.4%, remaining above the 2% target for over five years. While the market expects the Fed to hold rates steady given stable inflation expectations and moderate trimmed-mean inflation, we believe rate hikes will be necessary later this year.

The critical question is whether the US economy and equities can withstand rate hikes. We do not foresee aggressive tightening. Driven by structural AI investments, economic momentum is highly resilient. Consequently, a gradual rate-hiking cycle is unlikely to derail growth, suggesting that the current EPS-driven strength in US equities possesses sufficient resilience.

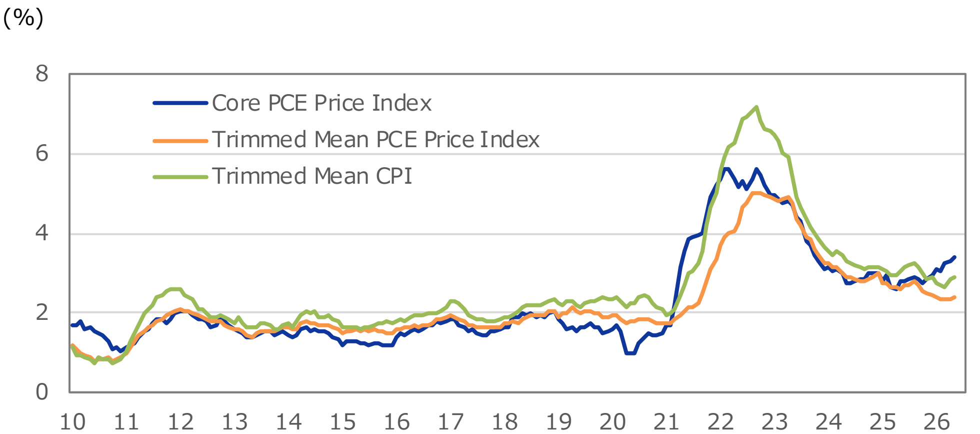
Chair Warsh's New Operating Framework for the Fed

Reform Theme		Key Focus Areas
Statement		Simplified; forward guidance removed.
Economic Outlook		Deemed unhelpful for policy execution; Chair Warsh will not submit his own economic projections.
Five Task Forces		Most or all task forces scheduled to submit final reports and conclusions by year-end.
	Communication	Reviewing external communications, including press conferences, forward guidance, dot plots, and minutes.
	Balance Sheet	・Discussing benefits and risks of ample reserves and asset composition. ・Potential targeting of Fed bond portfolio reduction after thorough discussion and preparation.
	Data Collection & Analysis	・Moving away from excessive reliance on lagging official statistics to improve decision-making accuracy.
	Productivity & Employment	・Investigating the economic impact of AI and other new technologies (on inflation, labor markets, and the neutral rate).
	Inflation Framework	・Discussing ways to achieve price stability under a changing economic environment. ・Review of the 2% target itself is excluded from the scope. ・Potential shift from core PCE to a focus on trimmed-mean or median inflation.

Source: SMDAM and FRB

This Month's Topic (2):
U.S. Monetary Policy under New Fed Chair Kevin Warsh#2

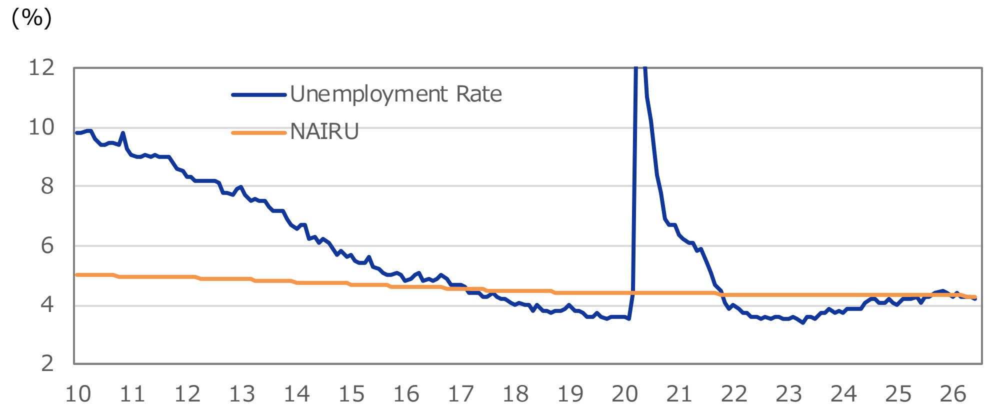
US Inflation Indicators (YoY)



Note: Latest data are for May 2026

Source: SMDAM, BEA, Dallas Fed, and Cleveland Fed

US Unemployment Rate and NAIRU

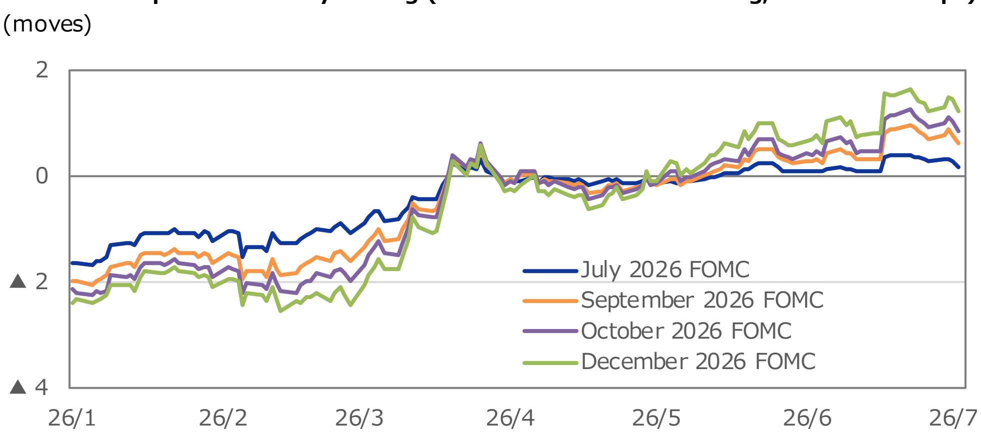


Note 1: Latest data are for June 2026

Note 2: NAIRU stands for Non-Accelerating Inflation Rate of Unemployment.

Source: SMDAM, BLS and CBO

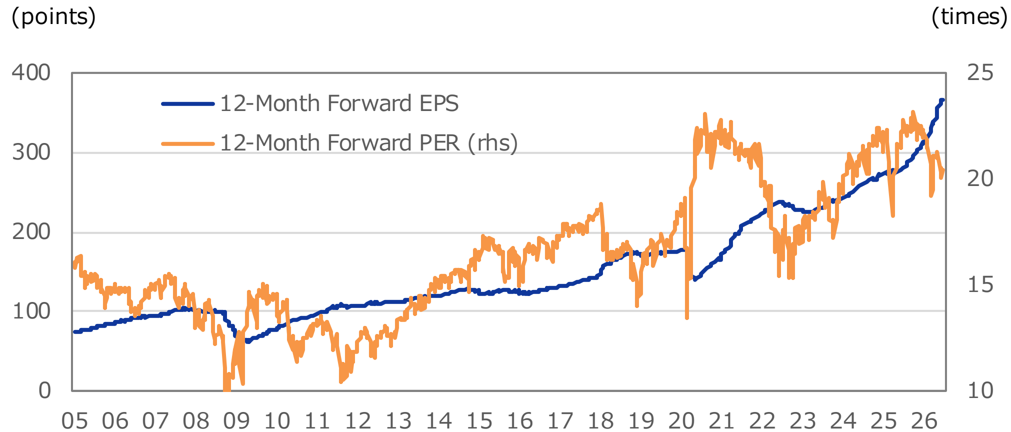
Market-Implied Fed Policy Pricing (Cumulative to each meeting, 1 move = 25bps)



Note: Latest data are for July 2, 2026

Source: SMDAM and Bloomberg

S&P 500 12-Month Forward EPS and PER



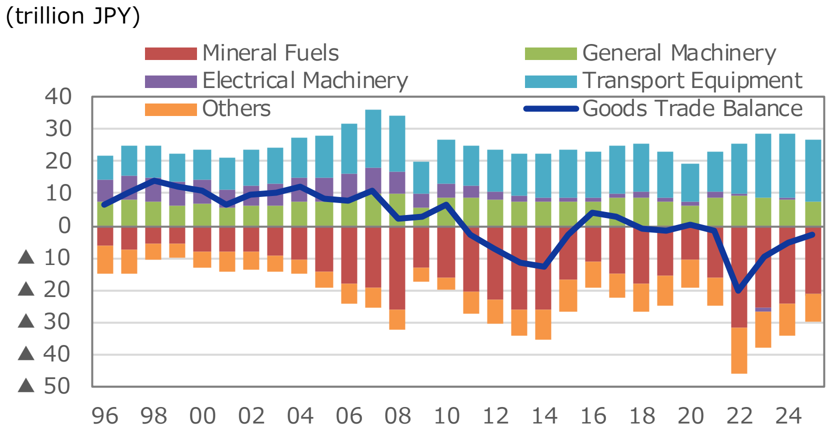
Note: Latest data are for July 3, 2026

Source: SMDAM and LSEG

This Month's Topic (3): USD/JPY Analysis#1 ~Automotive Transformation and Structural Yen Weakness Risks

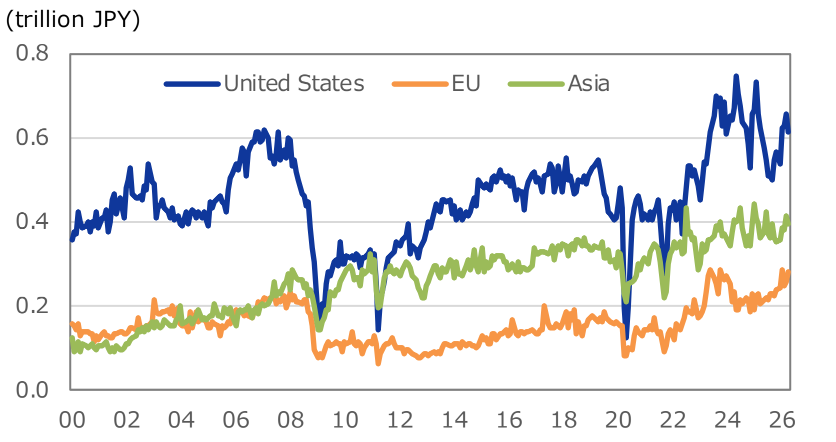
- Even yen-buying intervention by the government and the Bank of Japan has failed to reverse the trend of yen depreciation. Behind this lies not only capital outflows driven by corporate overseas investment and household investment in foreign equities, but also structural changes that make yen selling more likely in underlying commercial flows, including the risk of a worsening trade balance as higher energy prices lift import costs.
- The automobile industry has been a core pillar supporting Japan's trade surplus. It is now, however, facing multiple headwinds: intensifying global competition in electric vehicles, production constraints associated with domestic labor shortages, and trade-policy pressure from the US and Europe to shift production to local markets. These developments raise concerns about a contraction in domestic production and a decline in exports.
- Profits earned by companies' overseas subsidiaries are often reinvested locally and therefore are less likely to be converted into yen in the FX market. By contrast, export proceeds generated through domestic production are more likely to create yen-buying demand, since they are used to pay domestic wages, fund capital expenditure, and cover other domestic costs. Accordingly, a decline in auto exports and a narrowing of the trade surplus would reduce direct, real-economy demand for yen in the foreign-exchange market.
- A contraction of the highly productive auto industry within Japan would imply a deterioration in the economy's overall earning power. Through the Balassa-Samuelson effect, this could create structural depreciation pressure on Japan's real exchange rate over the medium to long term.
- For details, see Macro View: "A New Risk of Yen Depreciation? "

Japan's Goods Trade Balance



Note: Annual data from 1996 to 2025.
Source: SMDAM and MoF

Japan's Transport Equipment Exports by Region (Nominal, Our Seasonally Adjusted Data)

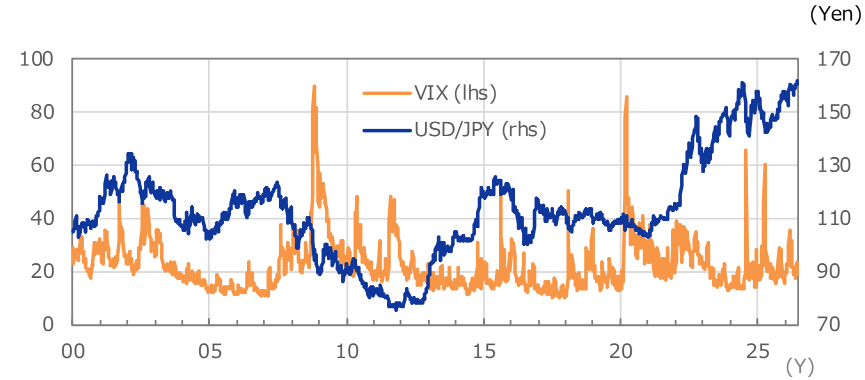


Note: Monthly data from January 2000 to April 2026.
Source: SMDAM and MoF

This Month's Topic (3): USD/JPY Analysis#2 ~Remaining Yen-Appreciation Scenarios

- Looking at the VIX and the yen's return versus the U.S. dollar since 2000, the probability of yen appreciation when the VIX exceeds 25 has been close to 50%. In other words, "risk-off yen appreciation" has not always been clearly observed.
- By decade, the yen-appreciation bias was most evident in the 2010s, both in terms of frequency and magnitude. In the 2020s, however, this relationship has weakened significantly.
- One reason is that the source of risk has shifted from financial and credit concerns to geopolitical risks, commodity-price shocks, and trade-related risks. These types of risks tend to worsen Japan's terms of trade and trade balance, making yen-appreciation expectations less likely to take hold.
- That said, yen-appreciation scenarios could come back into focus if a full-scale correction in U.S. equities, aggressive rate cuts by the FRB, and a slowdown in outward portfolio investment flows— or some repatriation of funds—were to occur at the same time.
- For details, see Macro View: "Is Risk-Off Yen Appreciation a Thing of the Past?"

VIX and USD/JPY



Note: Weekly data from January 7, 2000 to June 26, 2026. VIX is based on weekly highs.
Source: SMDAM and Bloomberg

Probability of Yen Appreciation and Average Change on Yen-Up/Yen-Down Days When VIX Exceeds 25 or 30

When VIX > 25

	Days	Probability of yen appreciation	Average rise on yen-up days	Average decline on yen-down days
Since 2000	1579	49.9%	+0.577%	-0.519%
2000s	851	49.9%	+0.622%	-0.597%
2010s	279	**58.8%**	+0.532%	-0.431%
2020s	449	**44.3%**	+0.519%	-0.425%

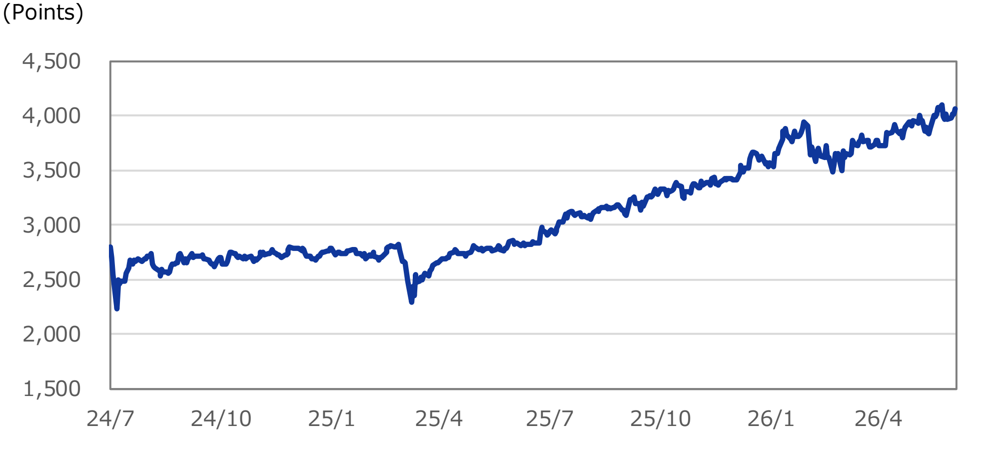
When VIX > 30

	Days	Probability of yen appreciation	Average rise on yen-up days	Average decline on yen-down days
Since 2000	787	**53.4%**	+0.604%	-0.569%
2000s	434	**55.1%**	+0.677%	-0.678%
2010s	137	**60.6%**	+0.487%	-0.430%
2020s	216	45.4%	+0.526%	-0.452%

Note: Daily data from January 3, 2000 to June 26, 2026. Figures show the probability and rate of yen appreciation against the U.S. dollar. Yen changes are shown as positive for yen appreciation and negative for yen depreciation. Values shown in blue indicate cases where yen appreciation is statistically significant at the 5% level in a one-sided binomial test against the null hypothesis that the probability of appreciation is 50%; values shown in red indicate statistically significant yen depreciation.
Source: SMDAM and Bloomberg

Trends in Major Asset Prices

TOPIX (Daily)



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

S&P500 (Daily)

Note: Latest data are for 3 Jul 2026

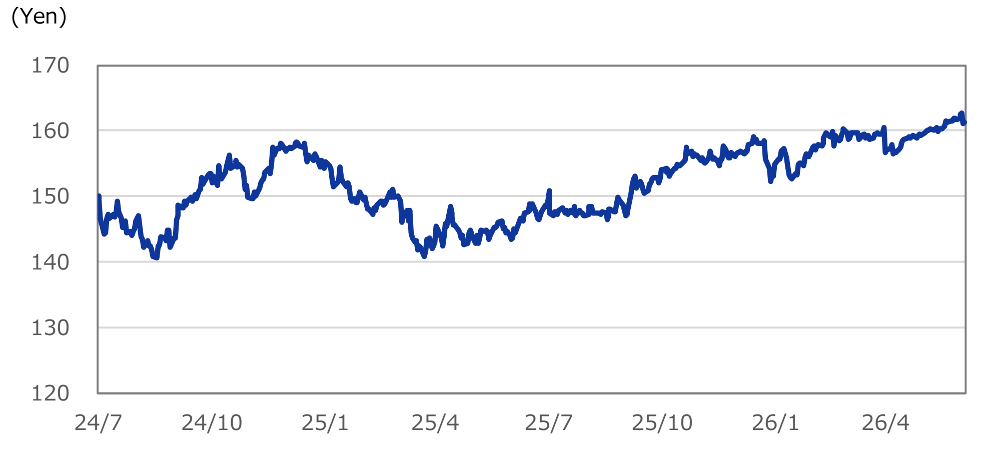
Source: SMDAM and Bloomberg

Japan 10-Year Government Bond Yield (Daily)

Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

USD/JPY (Daily)



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

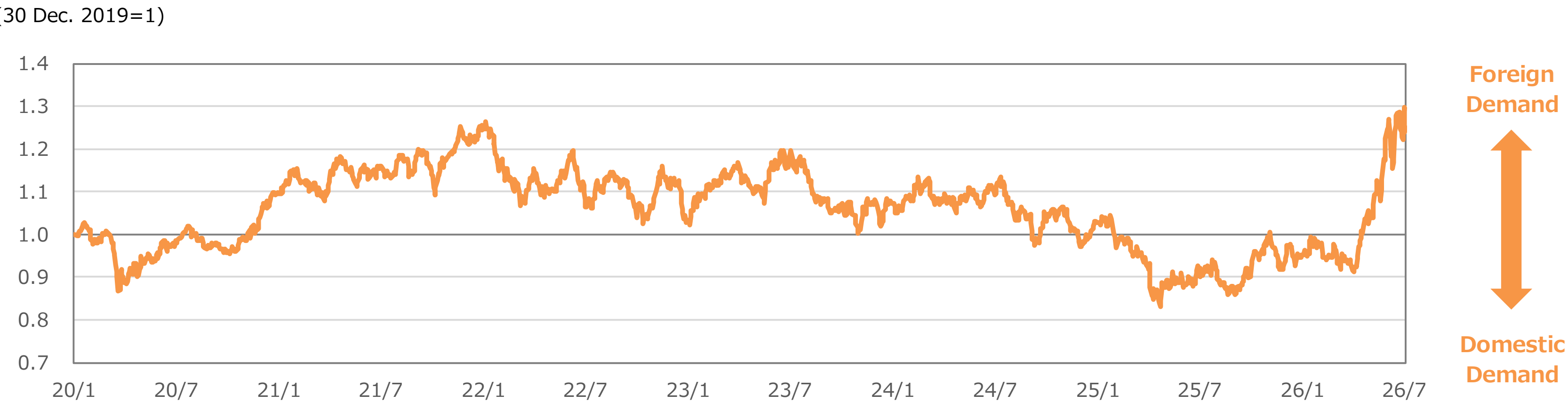
Trends in Value/Growth and Foreign/Domestic Demand for Japanese Stocks

Japanese Stocks: Value/Growth (Daily)

Note: Latest data are for 3 Jul 2026. Value/Growth represents Russell Nomura Total Market Value Index vs Growth with Dividend.

Source: SMDAM and Bloomberg

Japanese Stocks: Foreign Demand/Domestic Demand (Daily)



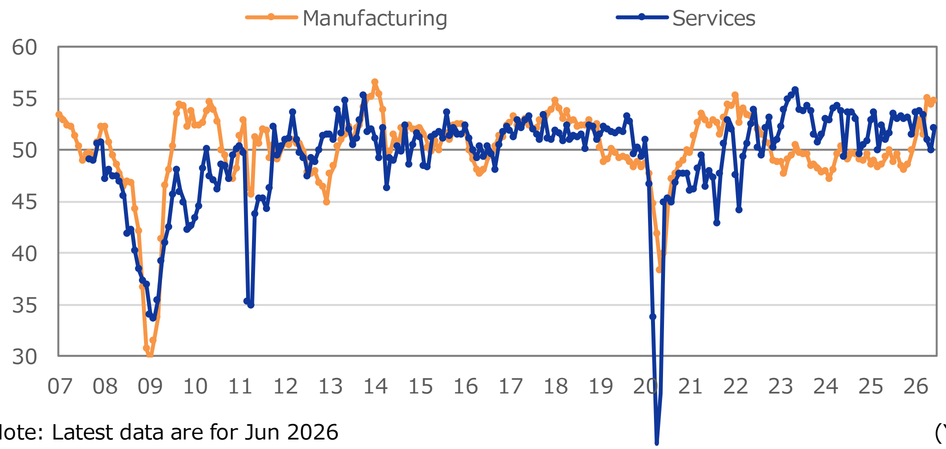
Note: Latest data are for 3 Jul 2026. Foreign/Domestic Demand represents Nikkei Global Exposure 50 vs Domestic.

Source: SMDAM and Bloomberg

Japanese Economic Indicators (1)

PMI

(sa, >50=improvement since previous month)

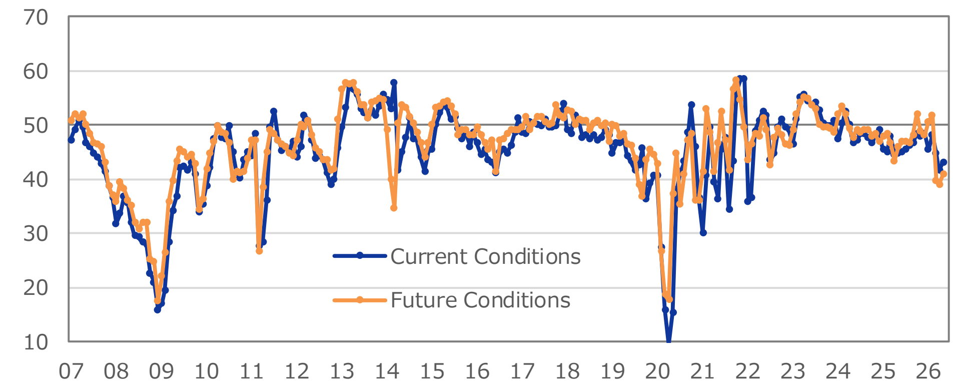


Note: Latest data are for Jun 2026 (Y)

Source: SMDAM and S&P Global

Economy Watchers Survey

(sa, DI)

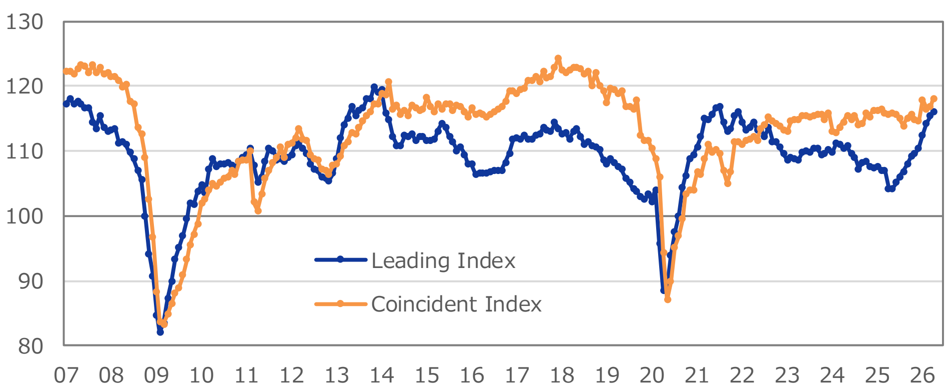


Note: Latest data are for May 2026 (Y)

Source: SMDAM and Cabinet Office

Index of Business Conditions

(sa, 2020=100)

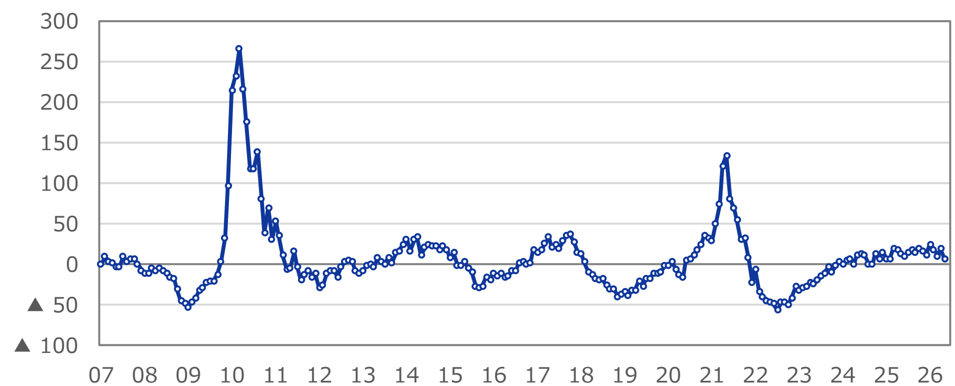


Note: Latest data are for Apr 2026 (Y)

Source: SMDAM and Cabinet Office

Machine Tools (Orders YoY - Order Backlogs YoY)

(%)



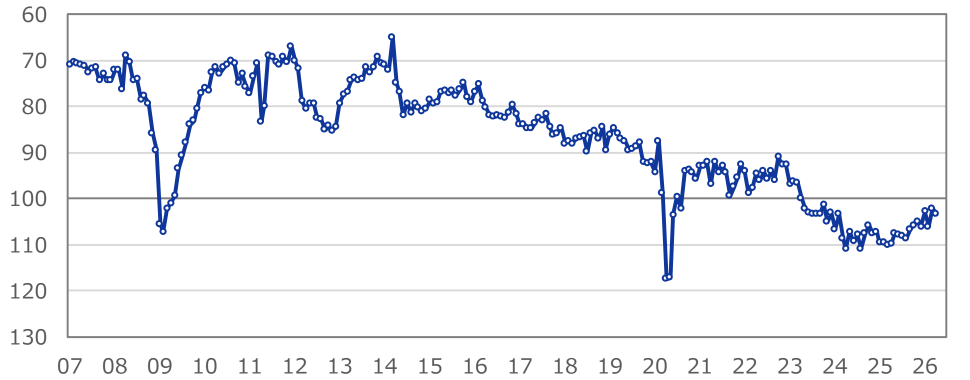
Note: Latest data are for May 2026 (Y)

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)

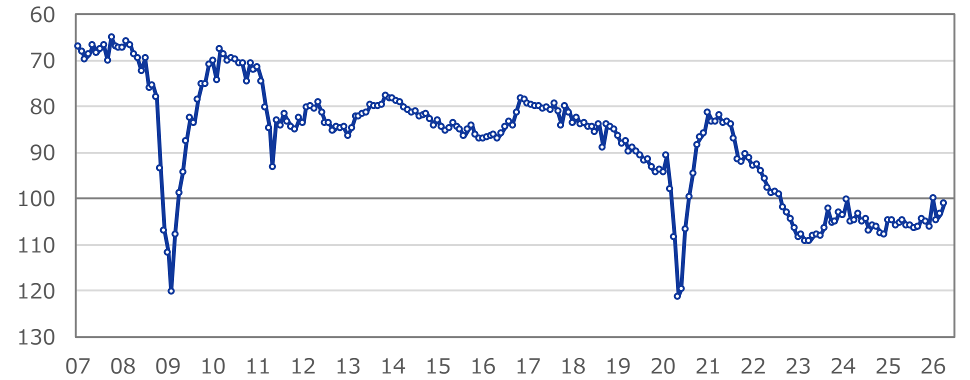


Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

Index of Producer's Inventory Ratio of Producer Goods

(sa, 2020=100, Inverted)

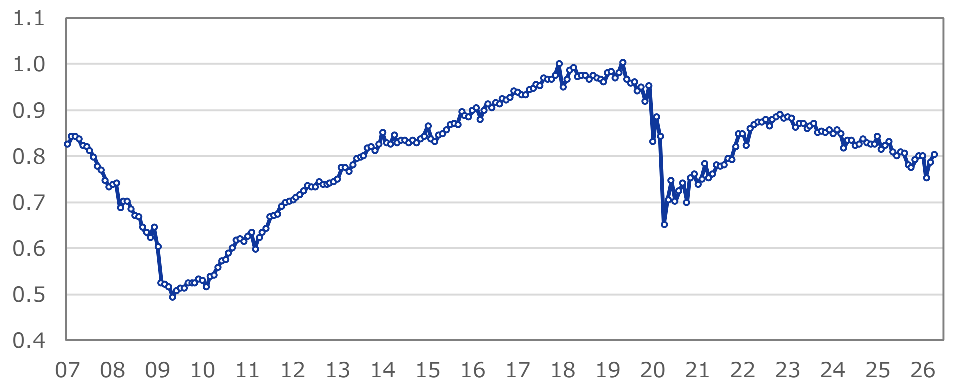


Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

New Job Offers (Excluding New School Graduates)

(sa, million persons)

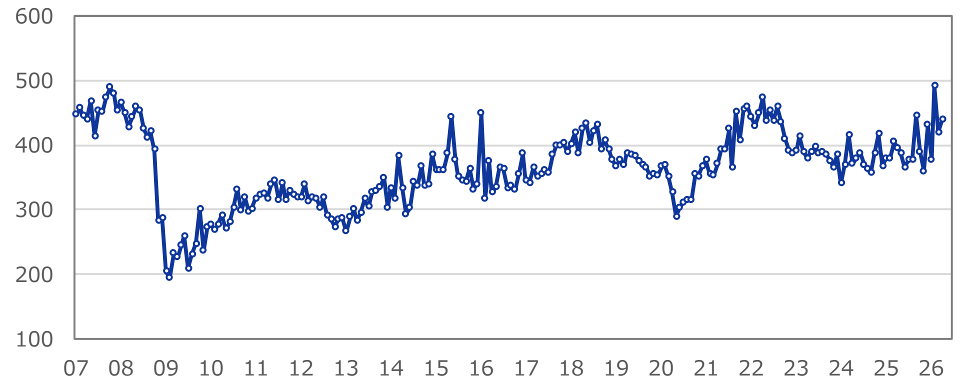


Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

Machinery Orders at Constant Prices (Manufacturing)

(sa, billion JPY)

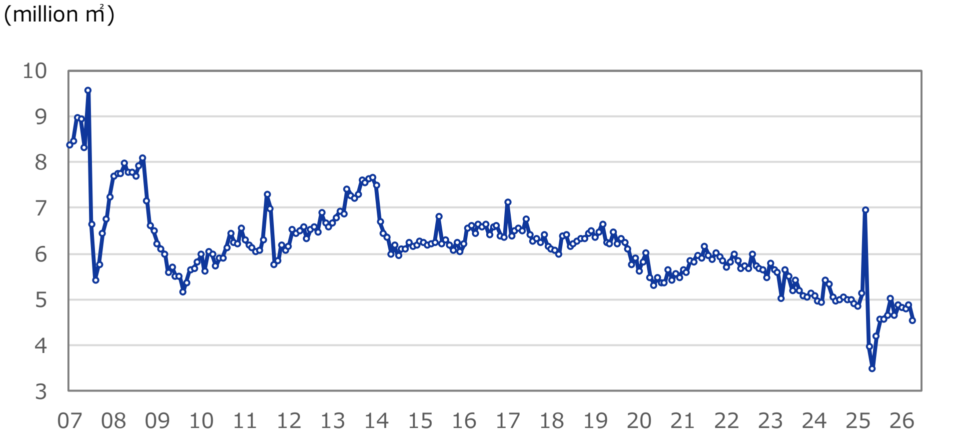


Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (3)

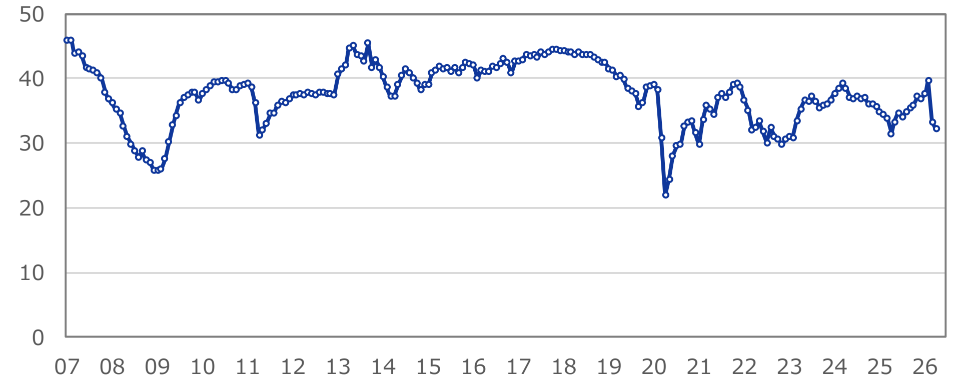
Total Floor Area of New Housing Construction Started



Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

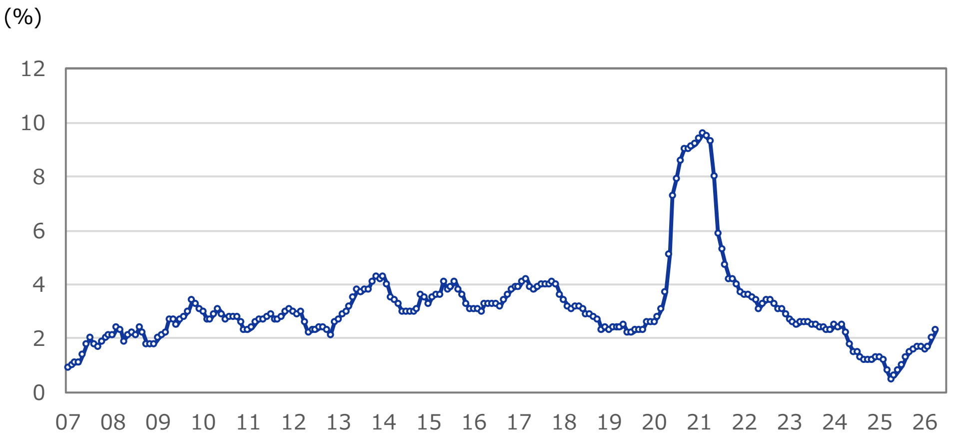
Consumer Confidence Index



Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

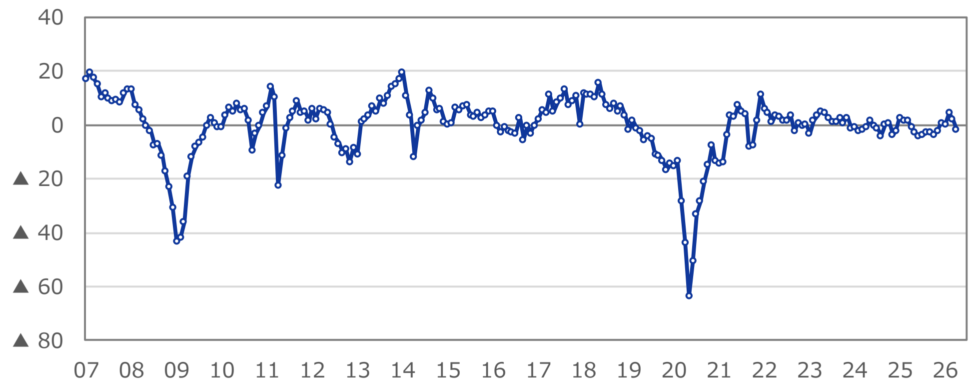
M2(YoY)



Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

Sales Forecast DI of Small Businesses



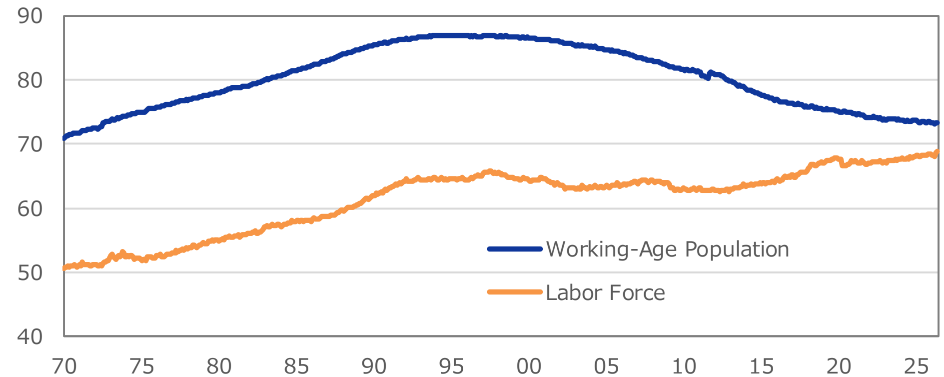
Note: Latest data are for Apr 2026

Source: SMDAM and Cabinet Office

Japanese Economic Indicators (4)

Working-Age Population and Labor Force

(sa, million persons)

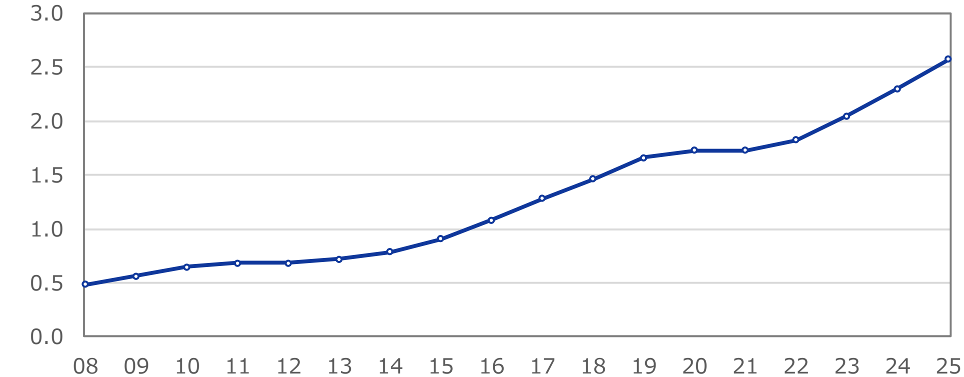


Note: Latest data are for May 2026 (Y)

Source: SMDAM and MIC

Number of Foreign Workers

(million persons)

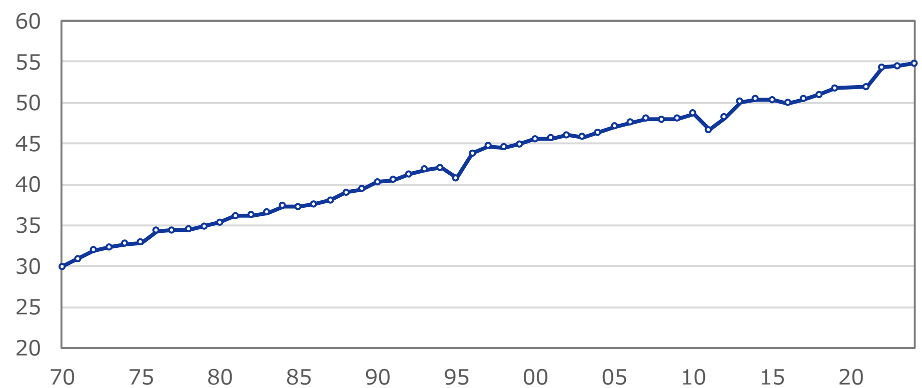


Note: Latest data are for 2025 (Y)

Source: SMDAM and MHLW

Number of Households

(million)

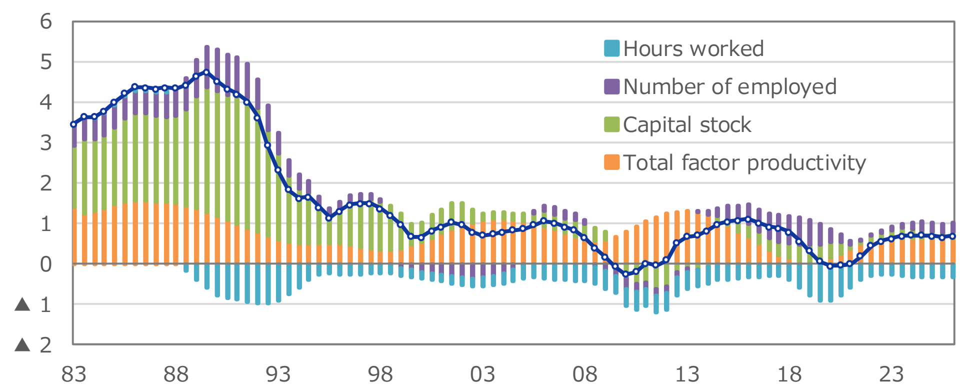


Note: Latest data are for 2024 (Y)

Source: SMDAM and Cabinet Office

Potential Growth Rate

(%)



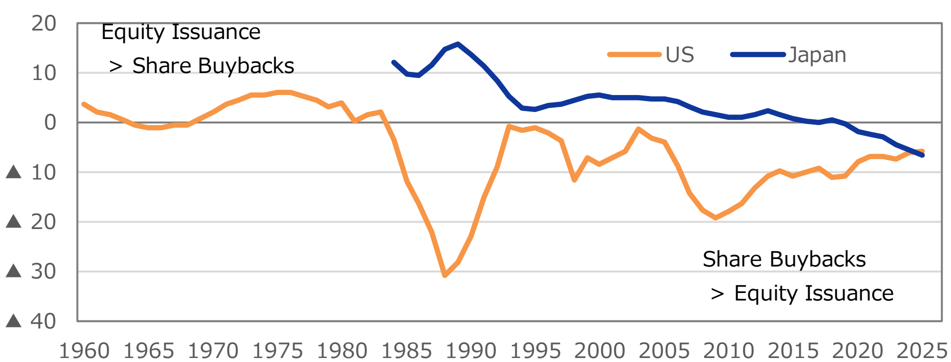
Note: Latest data are for 1Q 2026 (Y)

Source: SMDAM and BoJ

Japanese Economic Indicators (5)

Net Equity Issuance in Japan and the US

(%)



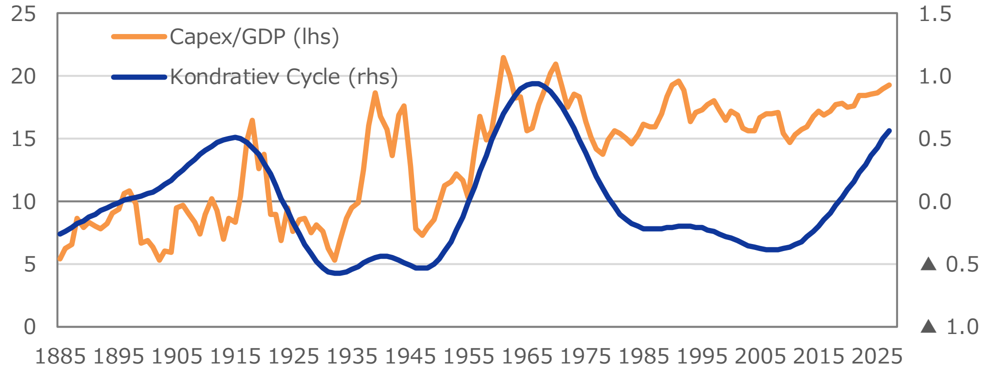
Note: Latest data are for 2025. (Y/FY)

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

Source: SMDAM, BoJ and FRB

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

(%)



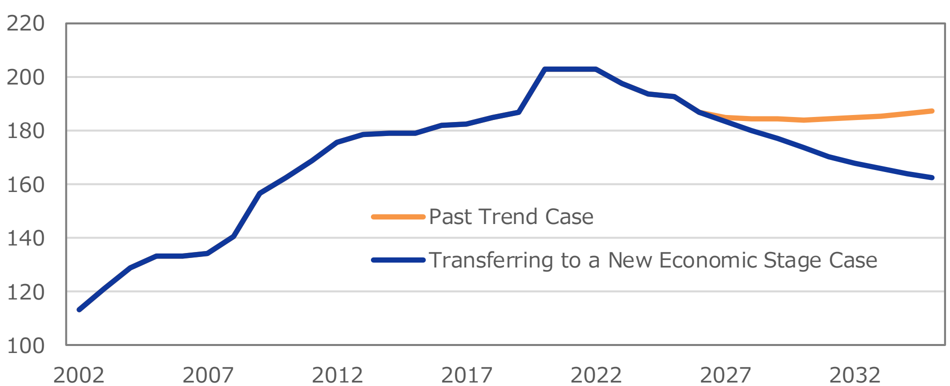
Note: Latest data are for 2027 (including some forecasts) (Y)

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

(%)

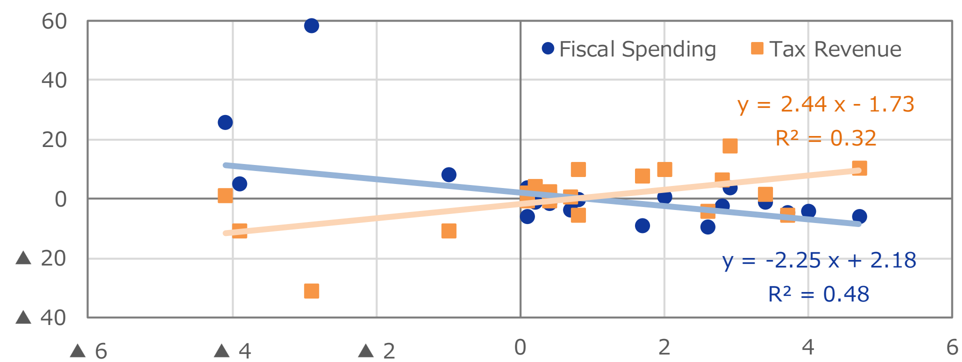


Note: Latest data are for 2035 (including some forecasts) (FY)

Note: 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, %)



(Nominal GDP Growth, %)

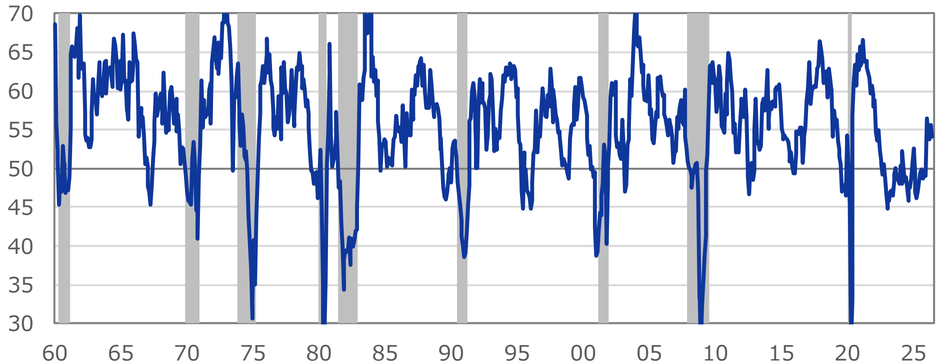
Note: The Data covers FY2003 to 24, and the regression line is calculated excluding outliers.

Source: SMDAM and Cabinet Office

The above figures represent past performance and future forecasts, and do not guarantee the future market environment, etc.

US Economic Indicators

ISM Manufacturing PMI (Average of Production and New Orders)

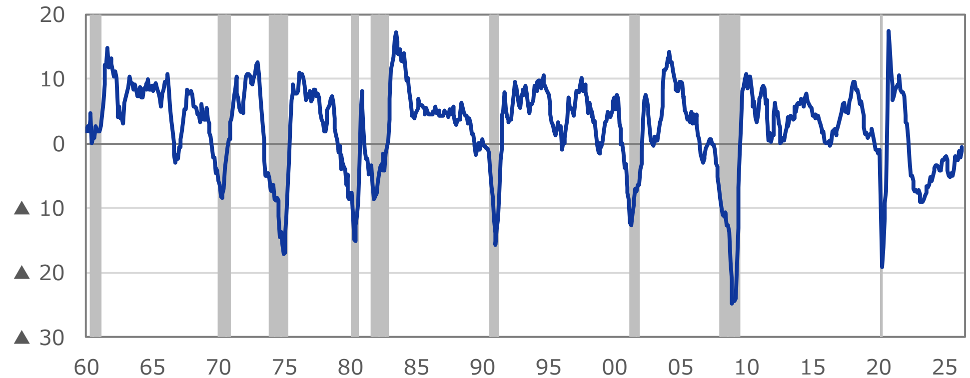


Note: Latest data are for Jun 2026. The shaded areas represent periods of recession.

Source: SMDAM and ISM

Conference Board Leading Economic Index

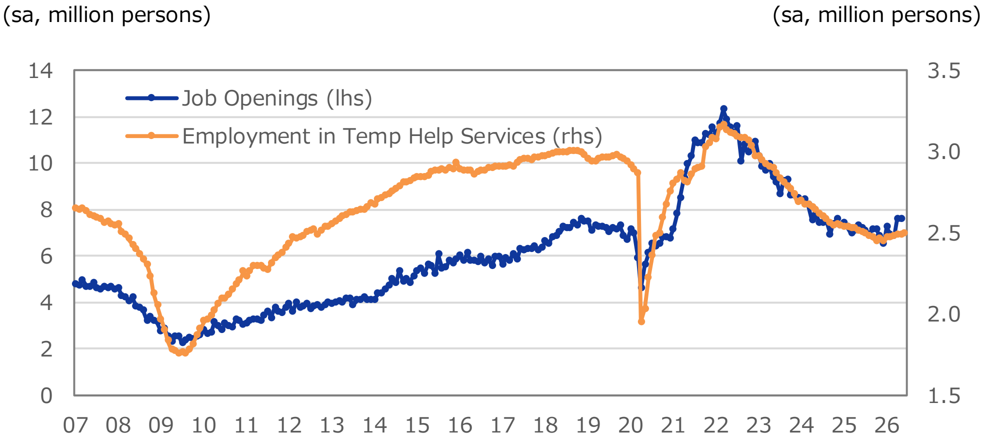
(6-Month Annual Change)



Note: Latest data are for May 2026. The shaded areas represent periods of recession.

Source: SMDAM and Conference Board

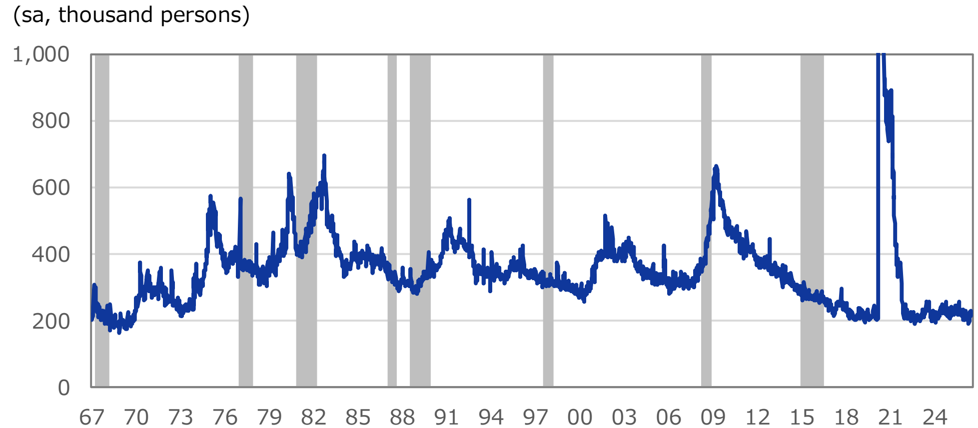
Job Openings and Employment in Temporary Help Services



Note: Latest data are for Jun 2026

Source: SMDAM and Bureau of Labor Statistics

Initial Jobless Claims



Note: Latest data are for 26 Jun 2026. The shaded areas represent periods of recession.

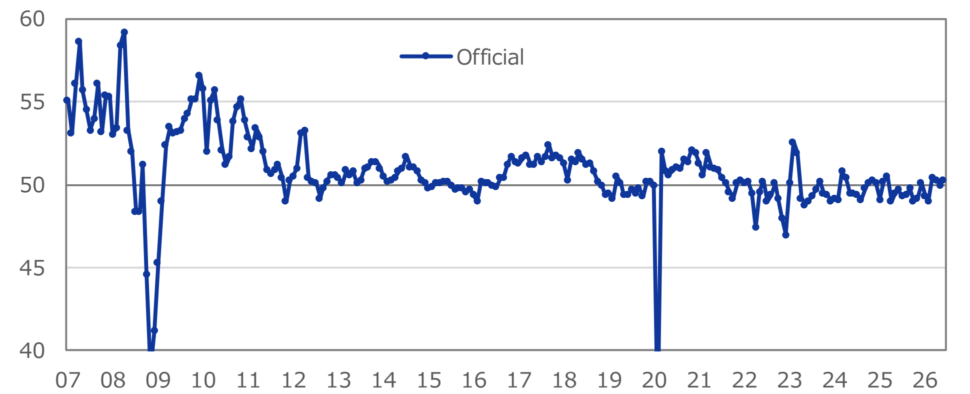
Source: SMDAM and Department of Labor

The above figures represent past performance and future forecasts, and do not guarantee the future market environment, etc.

Overseas Economic Indicators

China Manufacturing PMI

(sa, >50=improvement since previous month)

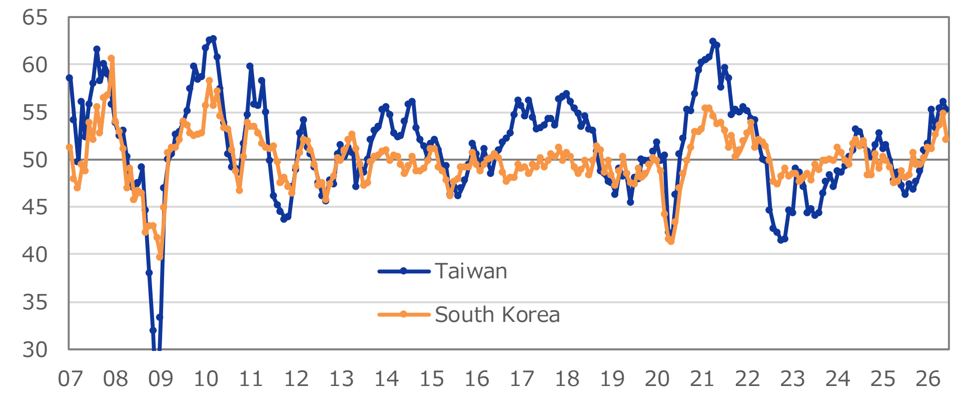


Note: Latest data are for Jun 2026

Source: SMDAM and China Federation of Logistics & Purchasing

Manufacturing PMI (Taiwan, South Korea)

(sa, >50=improvement since previous month)

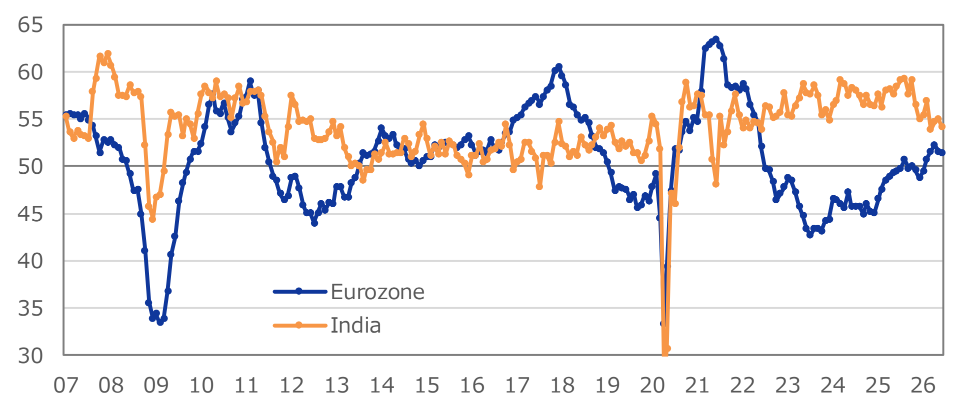


Note: Latest data are for Jun 2026

Source: SMDAM and S&P Global

Manufacturing PMI (Eurozone, India)

(sa, >50=improvement since previous month)

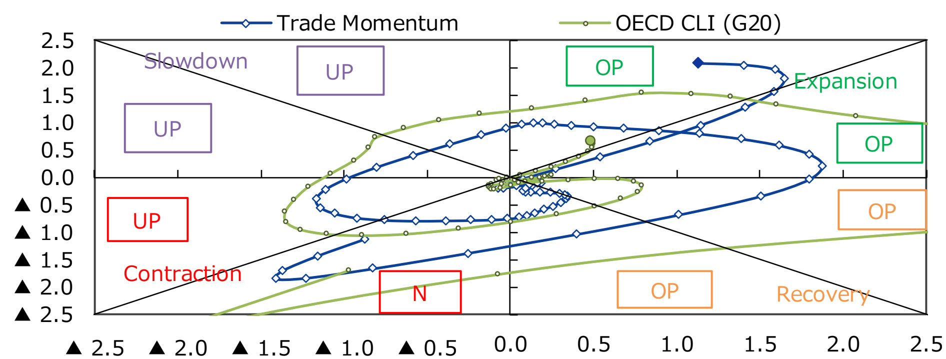


Note: Latest data are for Jun 2026

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 May 2026 — 6M Diff. Trade Momentum & OECD CLI

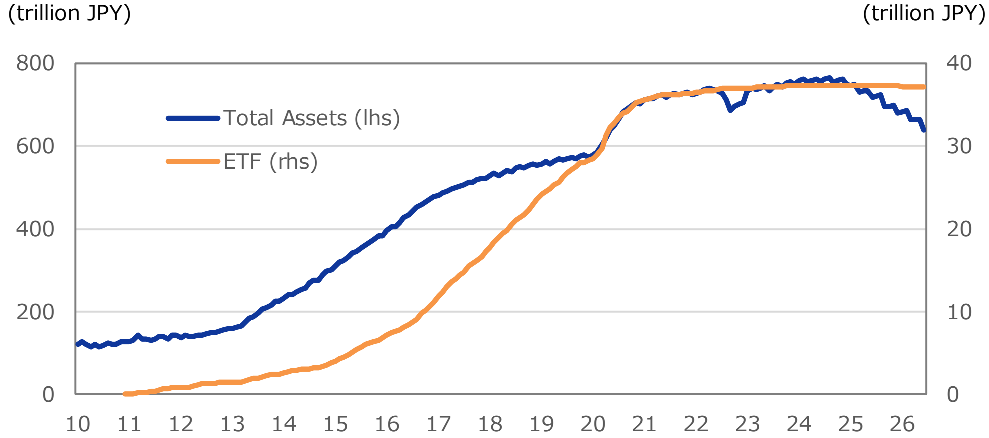
Note: Trade momentum shows cycles from indicators; OP/N/UP = past Japan stock performance

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

The above figures represent past performance and future forecasts, and do not guarantee the future market environment, etc.

BOJ Monetary Policy (1)

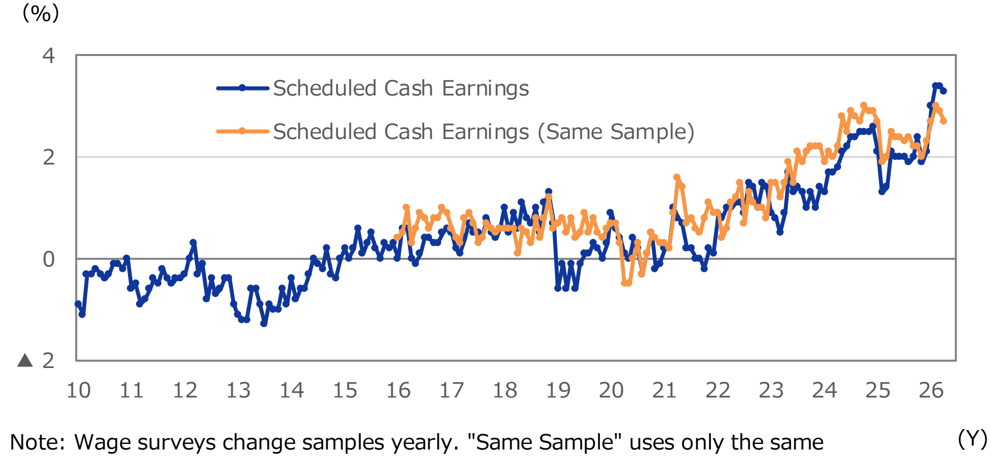
The Bank of Japan's Balance Sheet



Note: Latest data are for Jun 2026

Source: SMDAM and BoJ

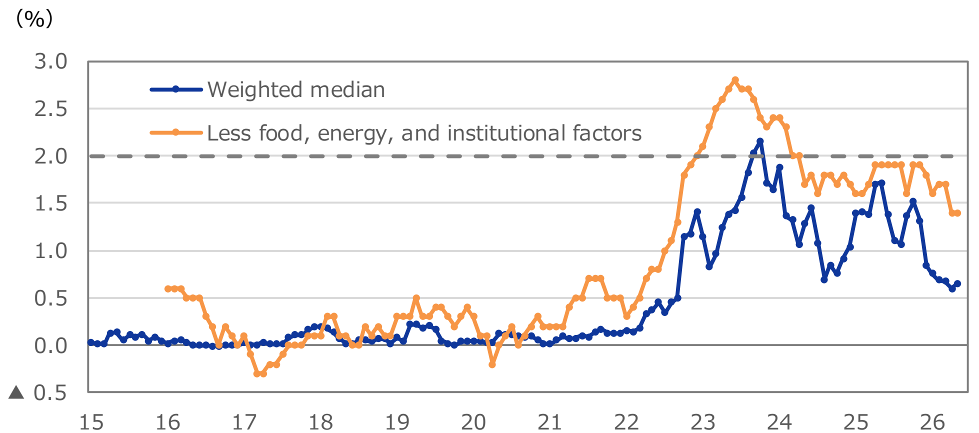
Nominal Wages (Scheduled Cash Earnings, YoY)



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 Apr 2026 Source: SMDAM and MHLW

Indicators for Core CPI (YoY)



Note: Latest data are for May 2026

Source: SMDAM and BoJ

10-year Breakeven Inflation Rate

Note: Latest data are for 3 Jul 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.

The above figures represent past performance and future forecasts, and do not guarantee the future market environment, etc.

BOJ Monetary Policy (2)

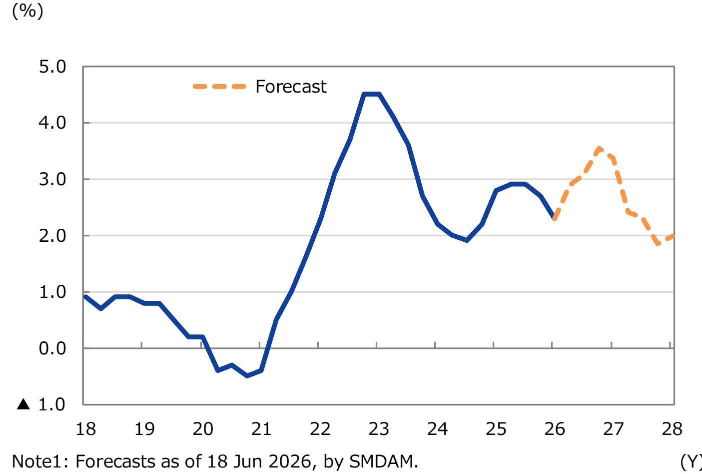
BOJ Monetary Policy Developments (Quarter-End and Latest)

	Dec 2025	Mar 2026	Jun 2026
O/N call rate	Around 0.75% (rate hike)	around 0.75%	Around 1.0% (rate hike)
Rate on Deposit Facility	0.75%	0.75%	1.0%
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 member Asada dissented, arguing that the Bank should maintain the guideline for money market operations.
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 financial conditions have been accommodative, 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	The Bank will reduce the planned amount of its monthly purchases of JGBs by, in principle, about 200 billion yen each calendar quarter until January-March 2027. From April 2027, the amount of its monthly purchases of JGBs will be about 2 trillion yen.
ETF Purchases	No Change	No Change	No Change

Note: Data as of 3 Jul 2026

Source: SMDAM and BOJ

CPI (less fresh food & institutional factors, YoY)

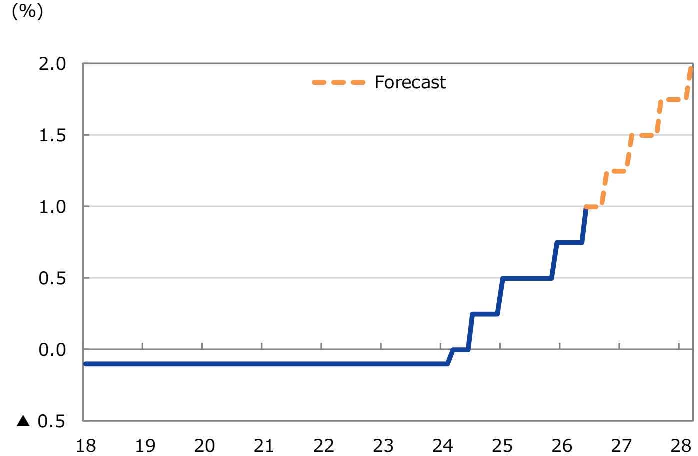


Note1: Forecasts as of 18 Jun 2026, by SMDAM.

Note2: Consumption tax-adjusted.

Source: SMDAM and BOJ

Policy interest rate

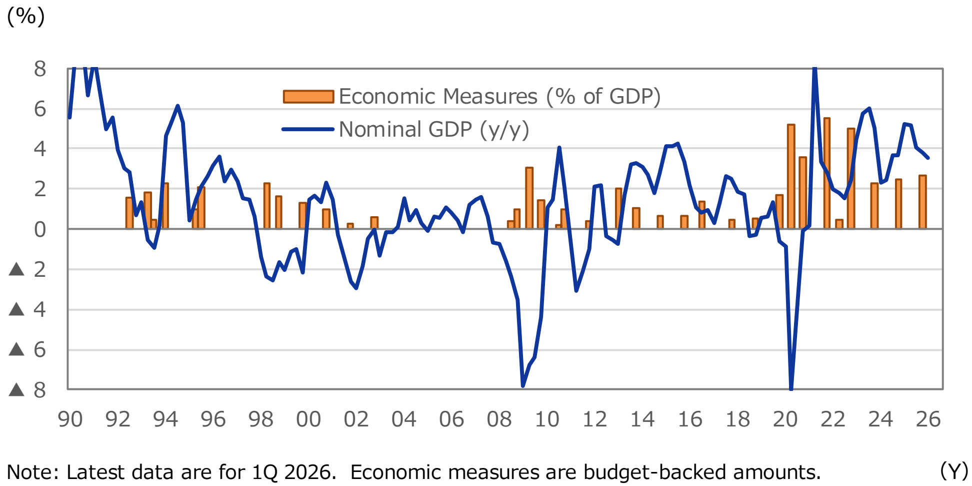


Note: Forecasts as of 18 Jun 2026, by SMDAM.

Source: SMDAM and BOJ

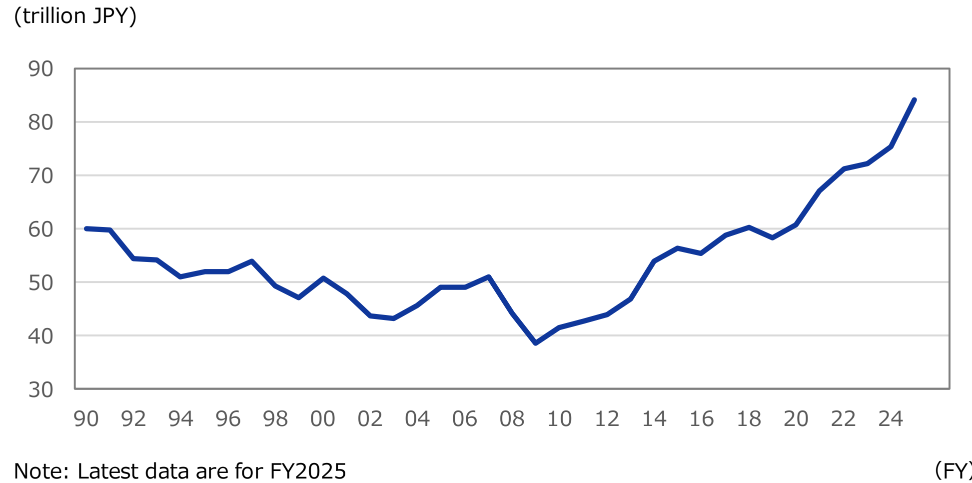
Japan's fiscal policy

Government Economic Measures and Nominal GDP Growth Rate



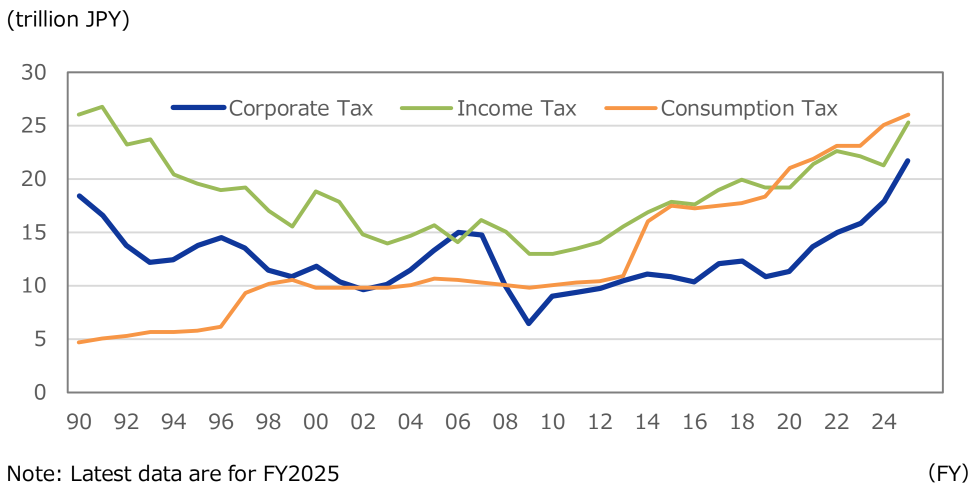
Note: Latest data are for 1Q 2026. Economic measures are budget-backed amounts.
Source: SMDAM and Cabinet Office

Japan's Tax Revenue



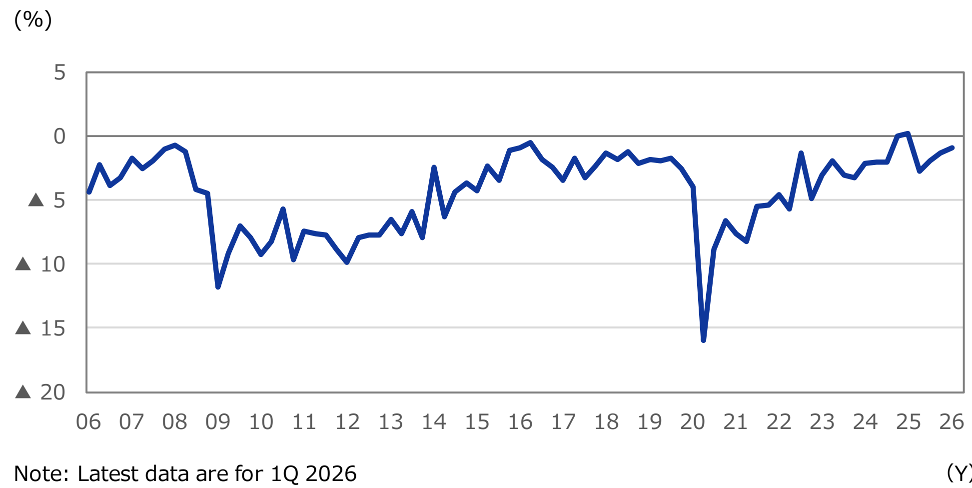
Note: Latest data are for FY2025
Source: SMDAM and MoF

Breakdown of Tax Revenue



Note: Latest data are for FY2025
Source: SMDAM and MoF

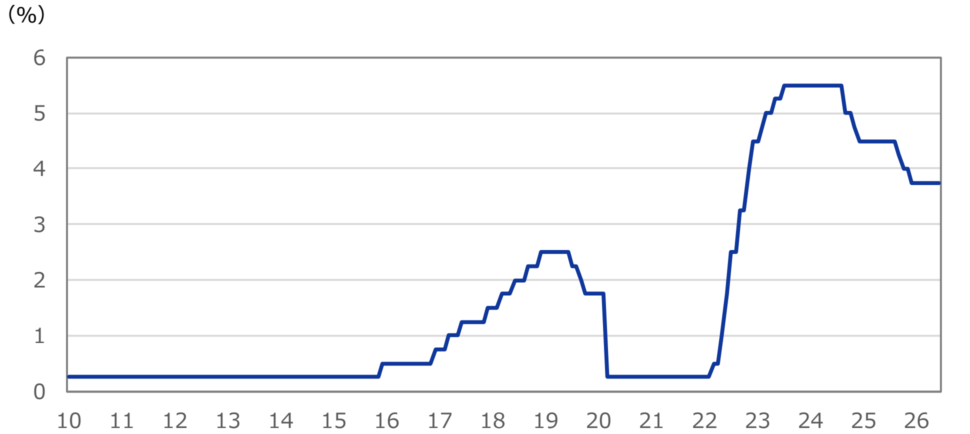
Japan's Fiscal Balance (as a Percentage of GDP)



Note: Latest data are for 1Q 2026
Source: SMDAM and BoJ

Overseas Monetary Policy

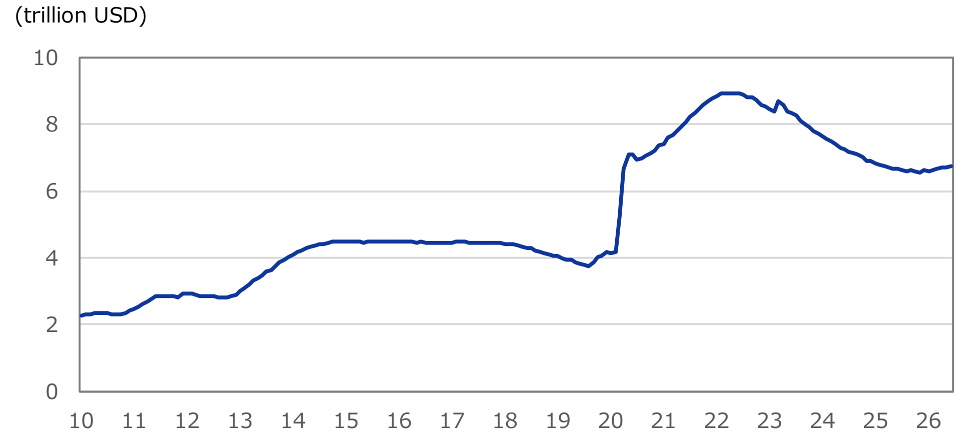
Federal Funds Target Rate (Upper Bound)



Note: Latest data are for Jun 2026 (Y)

Source: SMDAM and FRB

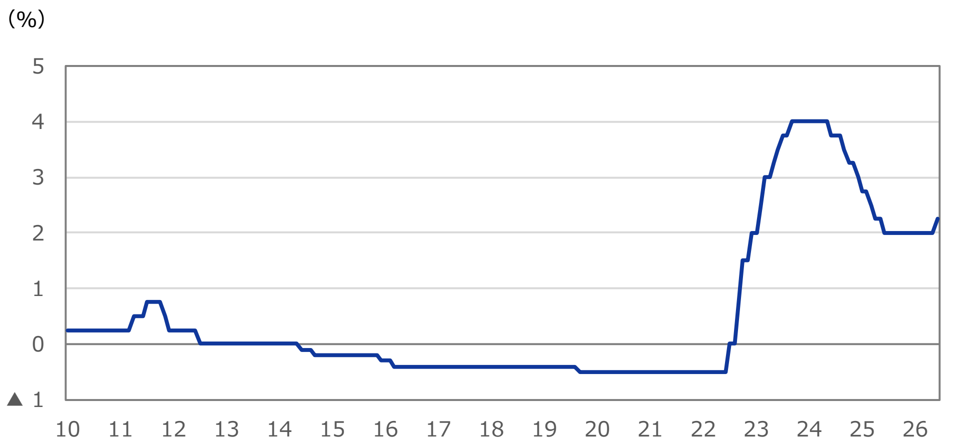
Federal Reserve Total Assets



Note: Latest data are for Jun 2026 (Y)

Source: SMDAM and FRB

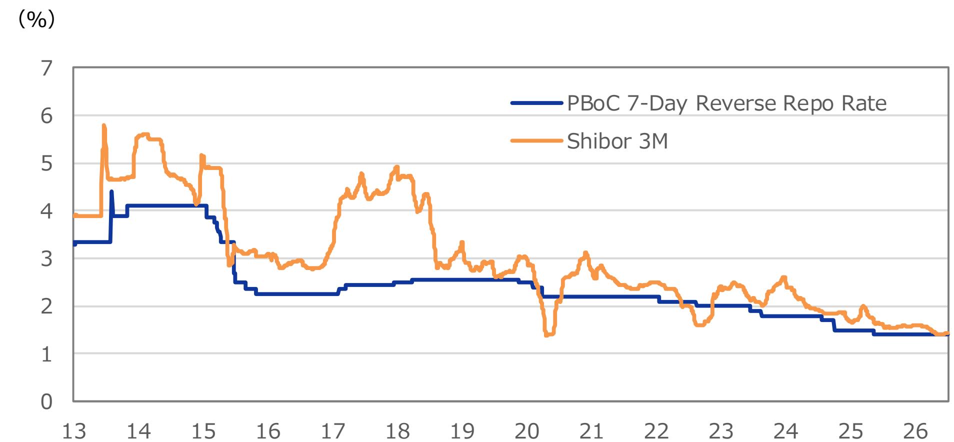
ECB Deposit Facility Announcement Rate



Note: Latest data are for Jun 2026 (Y)

Source: SMDAM and ECB

China's Short-Term Interest Rates

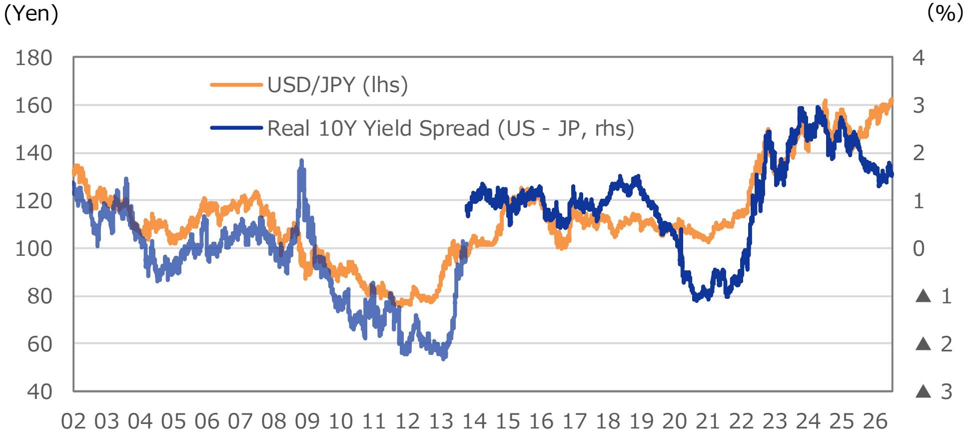


Note: Latest data are for 3 Jul 2026 (Y)

Source: SMDAM, PBoC and Bloomberg

USD/JPY

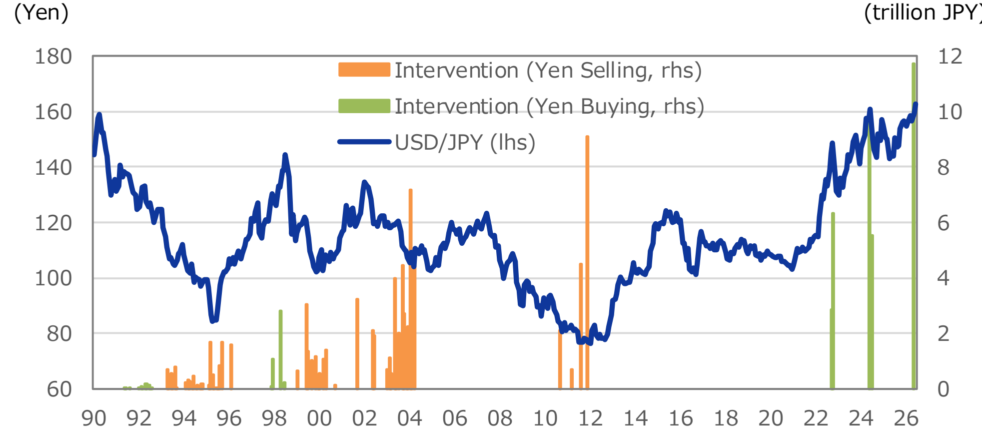
USD/JPY and Real Interest Rate Differential



Note: Latest data are for 3 Jul 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 Jun 2026 (Y)

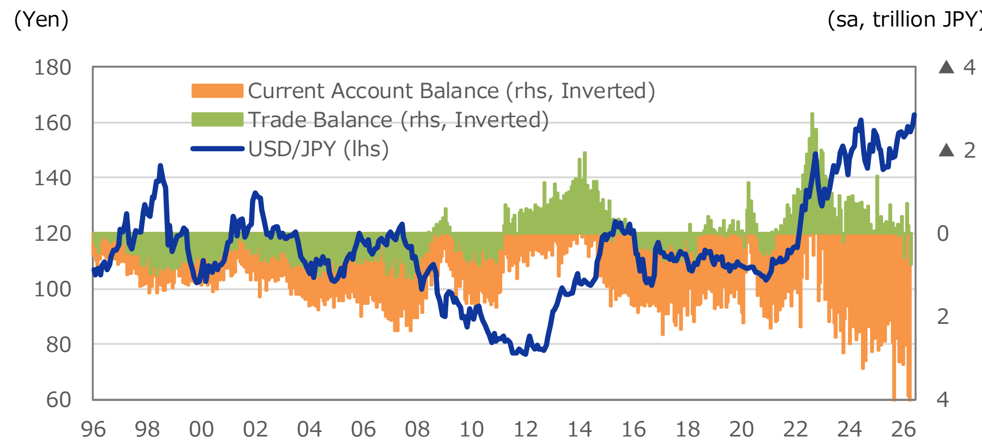
Source: SMDAM, MoF and Bloomberg

JPY Real Effective Exchange Rate

Note: Latest data are for May 2026 (Y)

Source: SMDAM and BoJ

USD/JPY and External Balances



Note: Latest data are for Jun 2026 (Y)

Source: SMDAM, MoF and Bloomberg

Earnings Forecast:

Bottom-Up Corporate Earnings Forecast for Japan

Forecasts as of 15 Jun 2026	FY24 billion JPY (A)	FY25 billion JPY (A)	FY26 billion JPY (E)	FY27 billion JPY (E)	FY25 YoY, % (A)	FY26 YoY, % (E)	FY27 YoY, % (E)
Revenue							
Total (Ex-Financials)	688,760	707,743	764,815	796,418	+2.8	+8.1	+4.1
Manufacturing	405,212	414,512	452,488	471,783	+2.3	+9.2	+4.3
Non-Manufacturing	283,549	293,231	312,327	324,635	+3.4	+6.5	+3.9
Total (Ex-Financials, Ex-SoftBank G)	681,517	699,944	756,280	787,333	+2.7	+8.0	+4.1
Operating Profit							
Total (Ex-Financials)	60,181	63,364	77,383	83,354	+5.3	+22.1	+7.7
Manufacturing	33,638	33,323	47,838	54,938	▲ 0.9	+43.6	+14.8
Non-Manufacturing	26,543	30,041	29,545	28,416	+13.2	▲ 1.6	▲ 3.8
Total (Ex-Financials, Ex-SoftBank G)	55,750	56,083	73,148	82,590	**+0.6**	**+30.4**	**+12.9**
Ordinary Profit							
Total (Ex-Financials)	62,528	66,984	81,070	86,528	+7.1	+21.0	+6.7
Manufacturing	35,920	35,650	49,534	56,459	▲ 0.8	+38.9	+14.0
Non-Manufacturing	26,608	31,334	31,536	30,069	+17.8	+0.6	▲ 4.6
Total (Ex-Financials, Ex-SoftBank G)	60,823	60,850	76,835	85,764	**+0.0**	**+26.3**	**+11.6**
Profit After Taxes							
Total (Incl. Financials)	52,161	56,259	68,135	71,826	+7.9	+21.1	+5.4
Total (Ex-Financials)	42,718	44,485	57,212	59,631	+4.1	+28.6	+4.2
Manufacturing	24,106	22,488	34,758	39,550	▲ 6.7	+54.6	+13.8
Non-Manufacturing	18,612	21,997	22,455	20,081	+18.2	+2.1	▲ 10.6
Total (Ex-Financials, Ex-SoftBank G)	41,565	39,482	53,962	59,920	▲ 5.0	+36.7	+11.0

Note1: Forecasts by SMDAM.

Note2: FX assumptions are USD/JPY at 159 and EUR/JPY at 186. A 1 JPY depreciation vs. USD increases ordinary profit by approximately 0.5%.

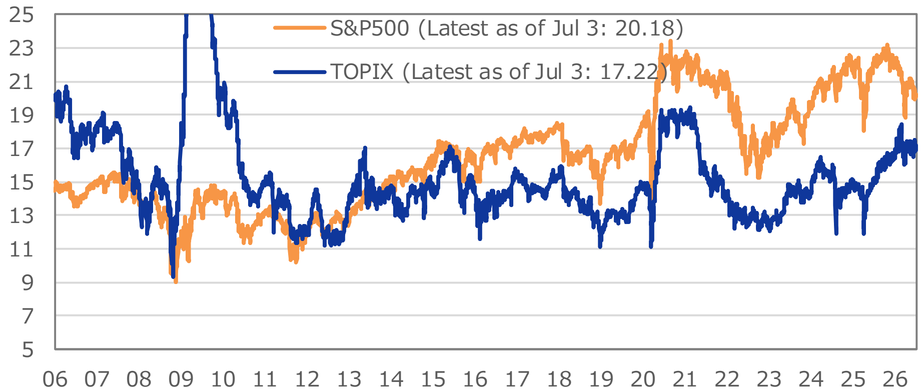
Note3: Coverage includes 402 Total (Incl. Financials), 376 Total (Ex-Financials), 226 Manufacturing, and 150 Non-Manufacturing stocks.

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

(times)



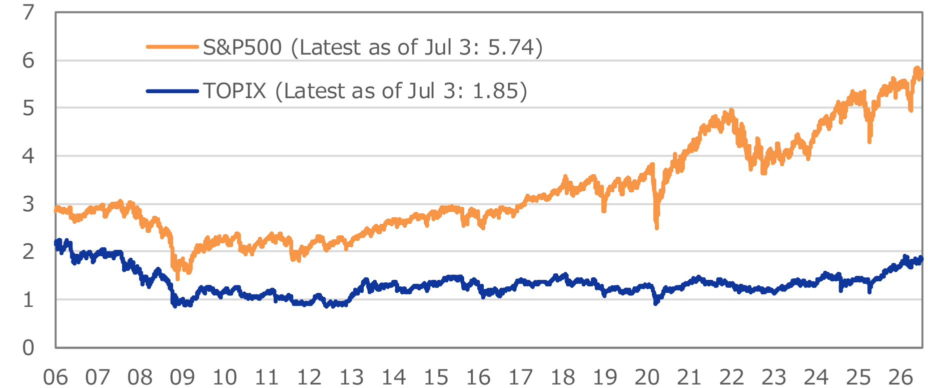
(Y)

Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

S&P 500 and TOPIX Historical P/B Ratio

(times)



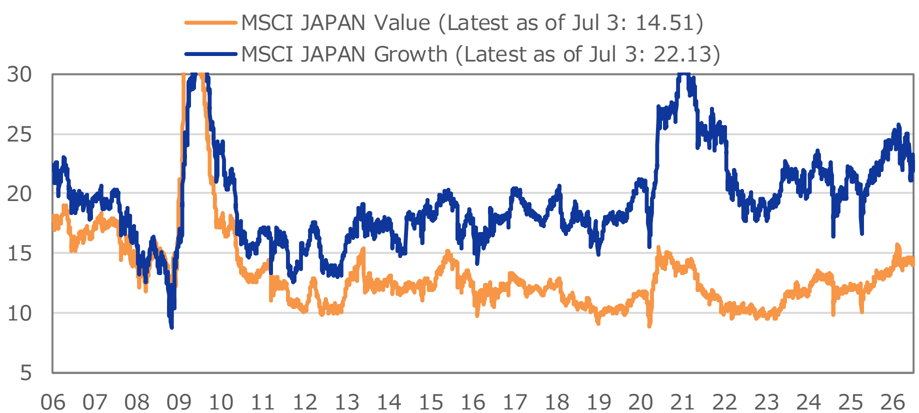
(Y)

Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

MSCI Japan 12-Month Forward P/E Ratio

(times)



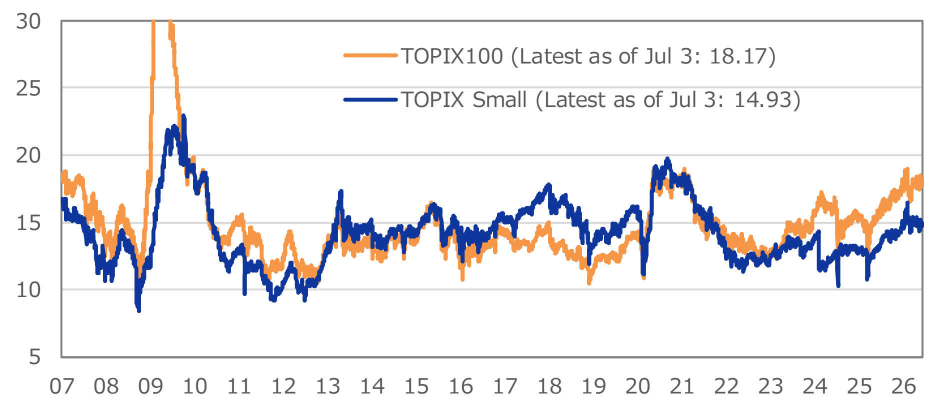
(Y)

Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

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

(times)



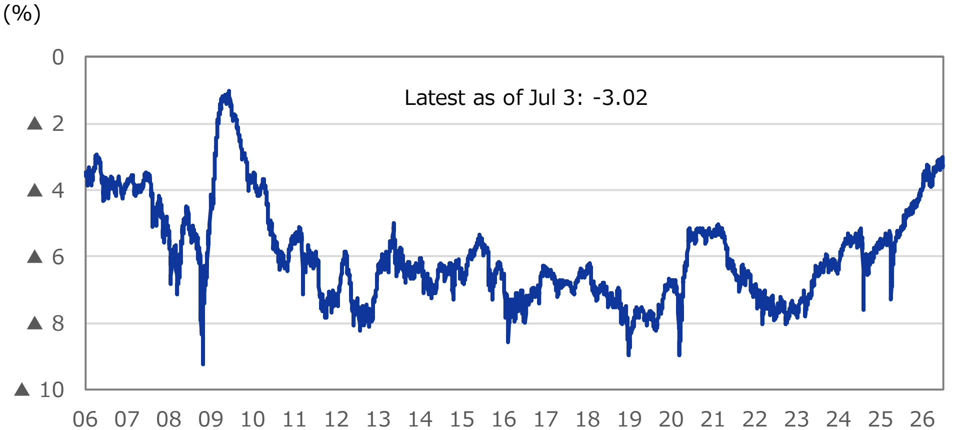
(Y)

Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

Valuation (2)

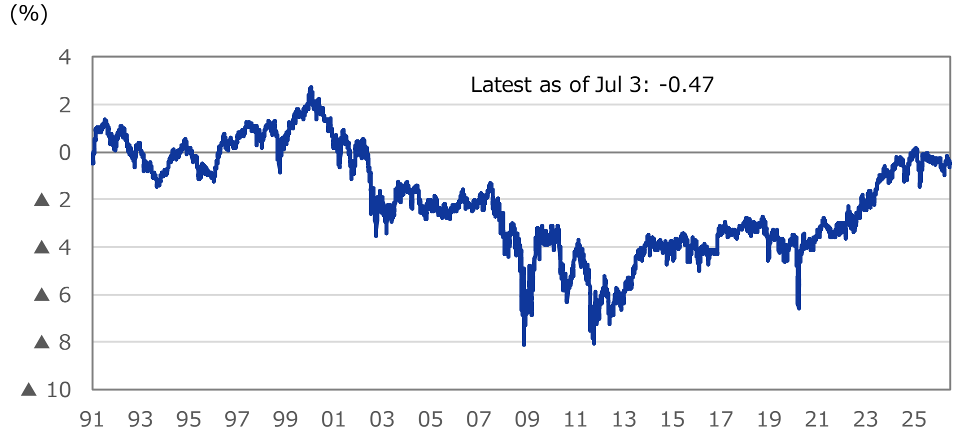
TOPIX Yield Spread (10Y JGB - Earnings Yield)



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

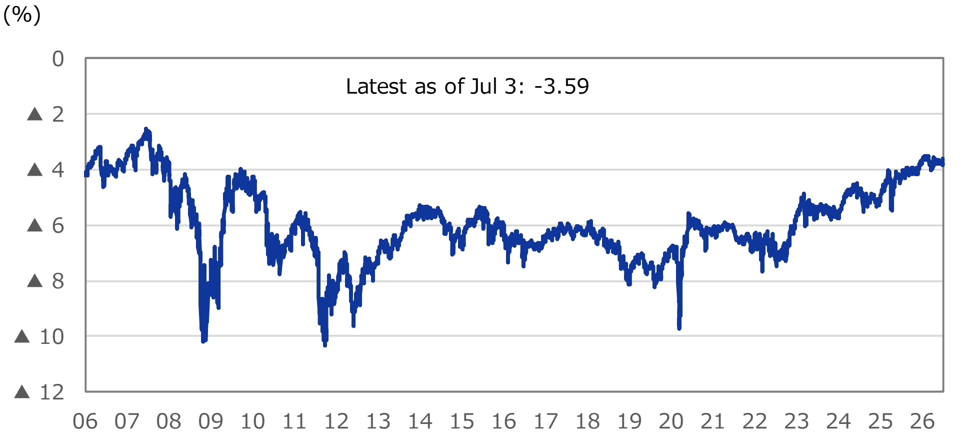
S&P 500 Yield Spread (10Y UST - Earnings Yield)



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

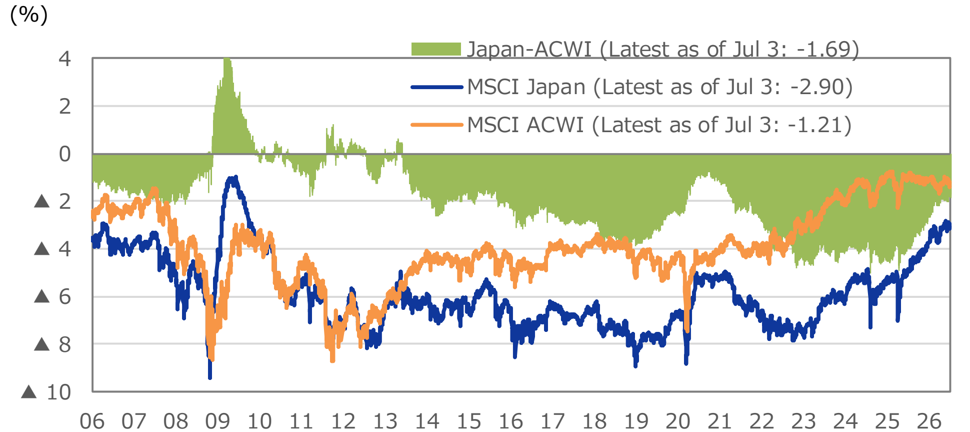
STOXX Europe 600 Yield Spread (10Y Bund - Earnings Yield)



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

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



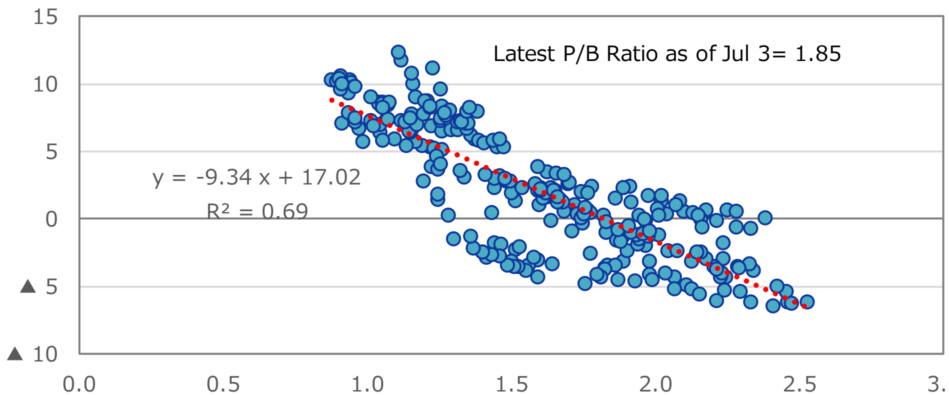
Note: Latest data are for 3 Jul 2026. For 10Y bond yield, Japan uses JGB, ACWI uses UST.

Source: SMDAM and Bloomberg

Valuation and Return

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

10Y Annualized Return (%)

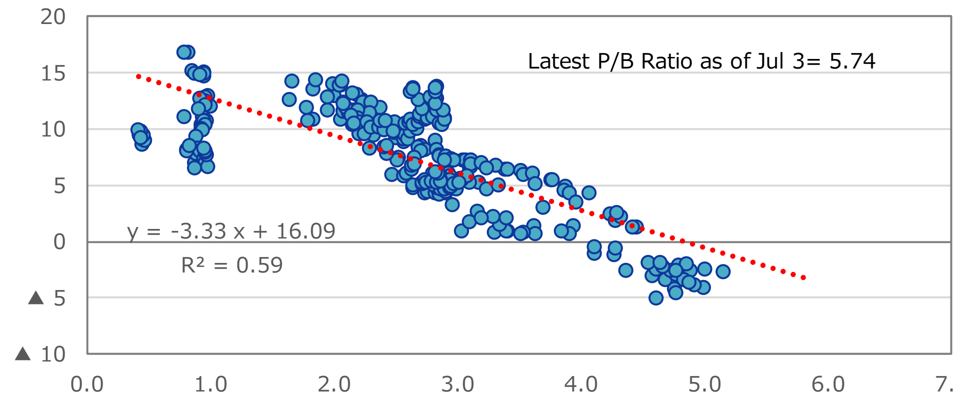


Note: Latest data are for Jun 2026 TOPIX Historical P/B Ratio (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

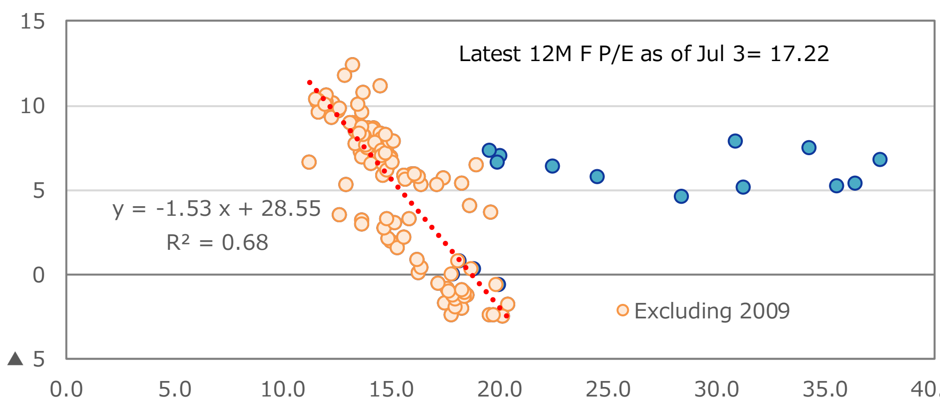


Note: Latest data are for Jun 2026 S&P500 Historical P/B Ratio (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

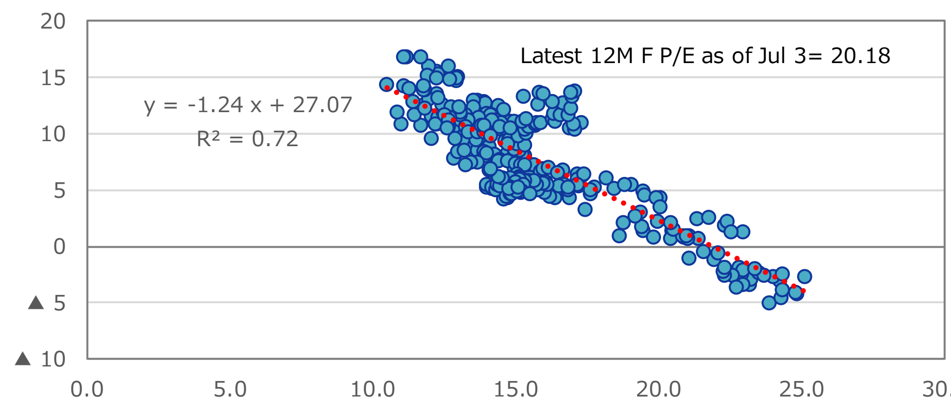


Note: Latest data are for Jun 2026. The blue dots show 2009 data. TOPIX 12M Forward P/E (times)

Source: SMDAM and Bloomberg

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

10Y Annualized Return (%)

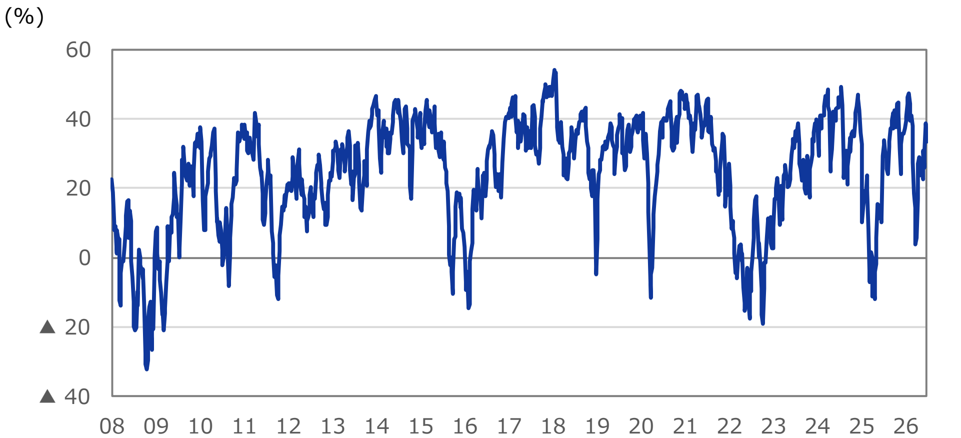


Note: Latest data are for Jun 2026 S&P500 12M Forward P/E (times)

Source: SMDAM and Bloomberg

Stock Market Sentiment and Supply-Demand

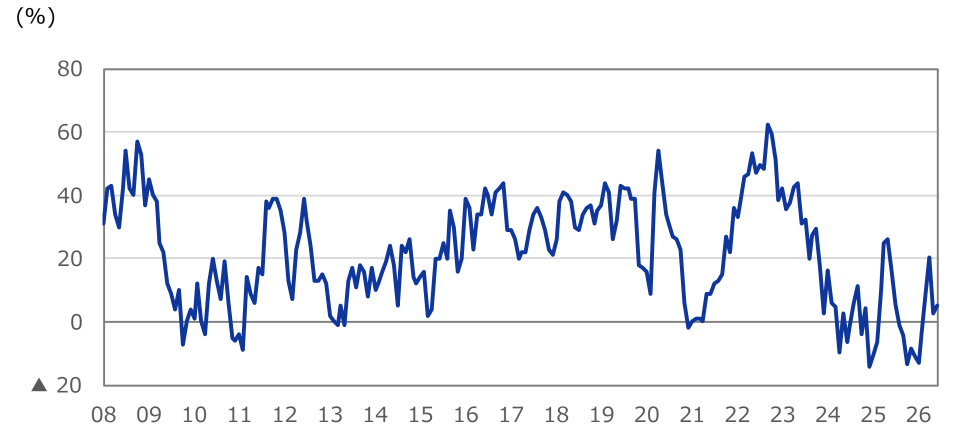
Investors Intelligence Bull-Bear Spread



Note: Latest data are for 26 Jun 2026

Source: SMDAM and LSEG

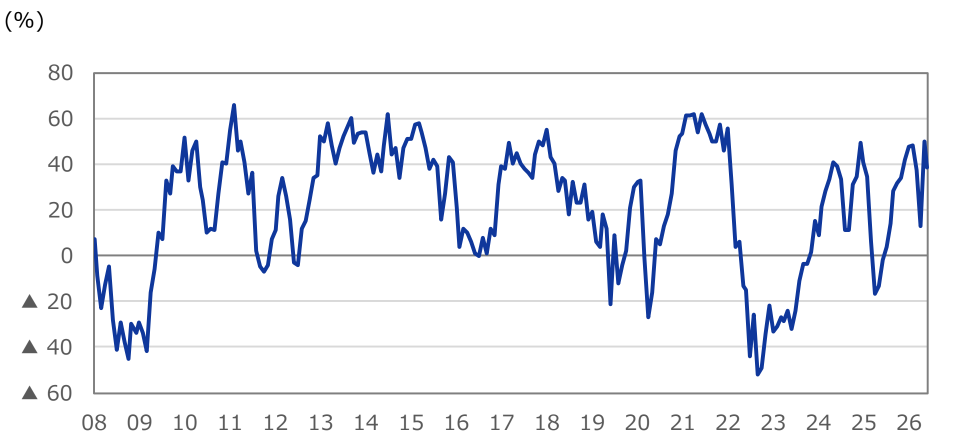
FM Survey: Cash Net Balance



Note: Latest data are for Jun 2026

Source: SMDAM and BofA

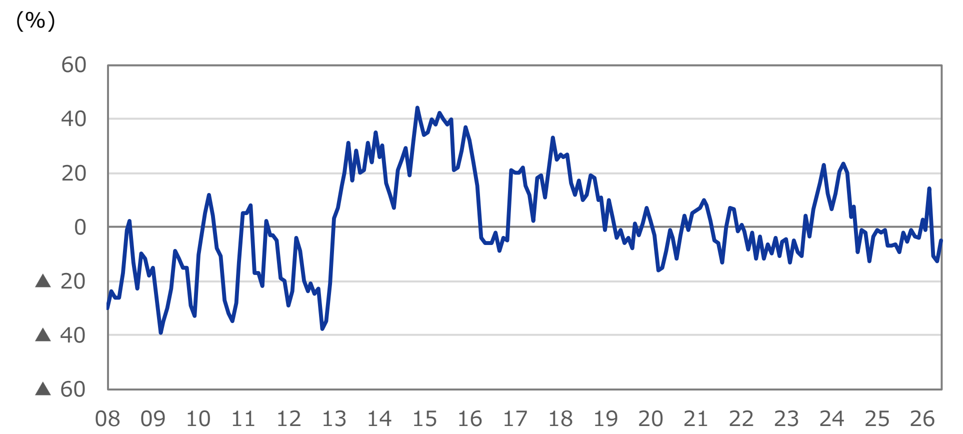
FM Survey: Equities Net Balance



Note: Latest data are for Jun 2026

Source: SMDAM and BofA

FM Survey: Japanese Equities Net Balance

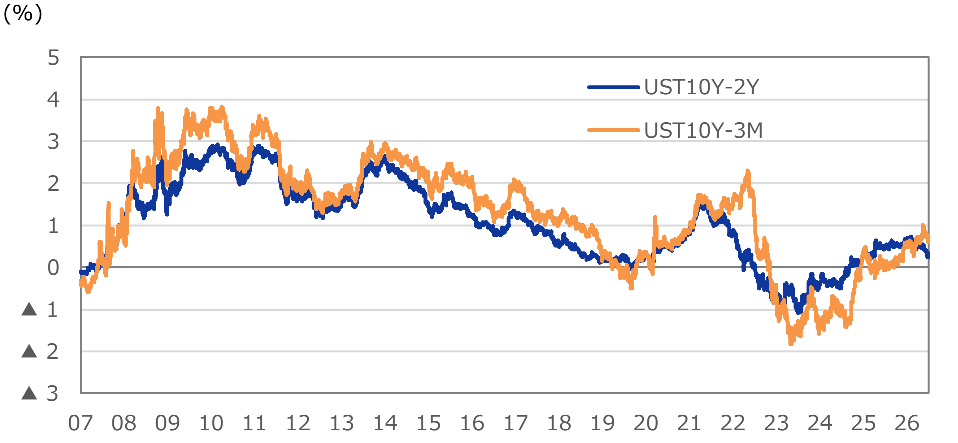


Note: Latest data are for Jun 2026

Source: SMDAM and BofA

Risk Indicators

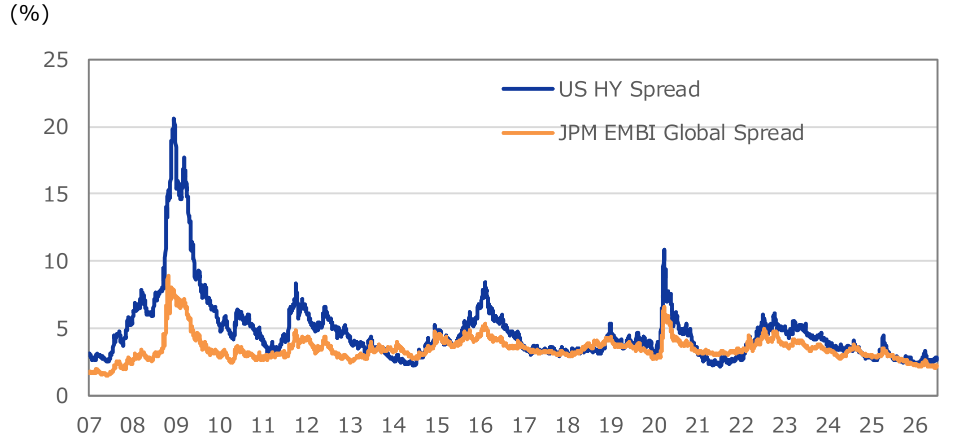
US Yield Curve Spread



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

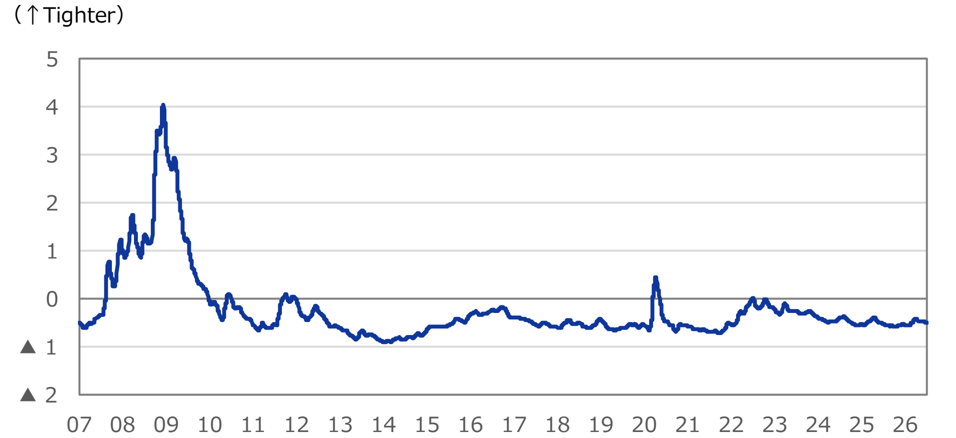
US HY Spread and EM Spread



Note: Latest data are for 3 Jul 2026

Source: SMDAM and Bloomberg

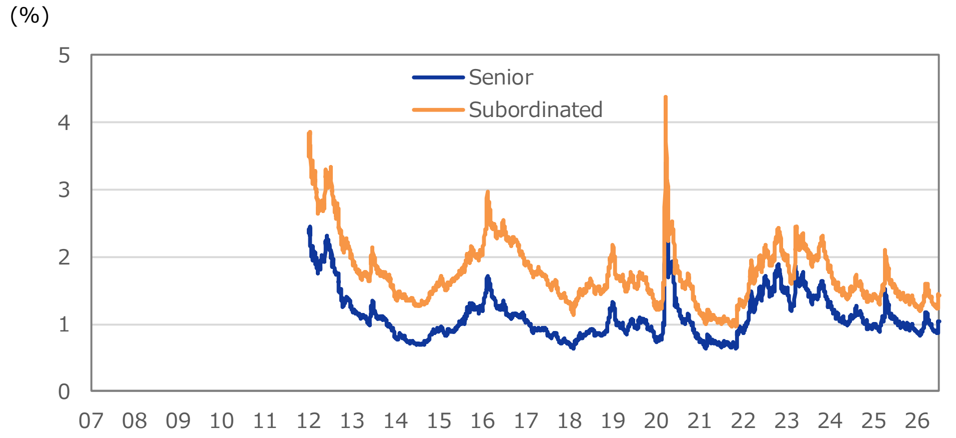
Chicago Fed Adjusted National Financial Conditions Index (ANFCI)



Note: Latest data are for 3 Jul 2026

Source: SMDAM, Chicago Fed and Bloomberg

USD IG Financials OAS

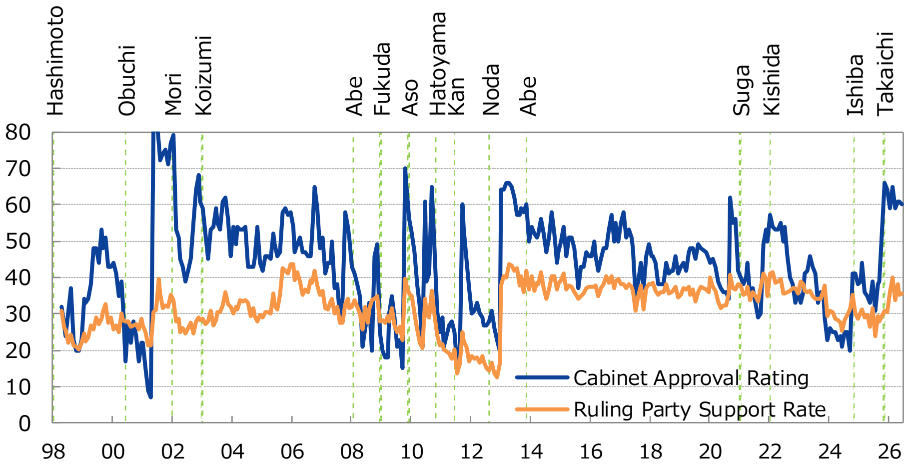


Note: Latest data are for 3 Jul 2026. OAS = Option-Adjusted Spread

Source: SMDAM and Bloomberg

Japanese Politics:

Cabinet Approval Rating and Ruling Party Support Rate (%)



Source: SMDAM and NHK

Note: Latest data are for Jun 2026

Seats in Lower and Upper Houses

Note: As of 3 Jul 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 5	**Supplementary budget (¥3tn+) passed**
Jun 16	**BOJ meeting: rate hiked to 1%**
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?	**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
Responsible proactive 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
Two-year cut in food VAT	**Zero tax: ¥5T cut. 1% likely. Starts Apr 2027 if implemented. Key: funding**	Interim report; autumn extraordinary Diet

Note: As of 3 Jul 2026

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

Overview of the Proposed Revisions to the Corporate Governance Code

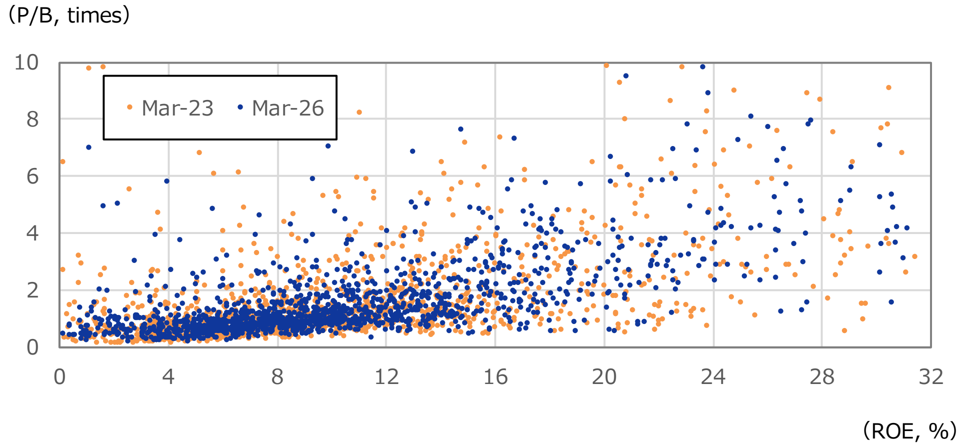
Note: Data as of 3 Apr 2026

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 (Mar 2026, Share of Total)

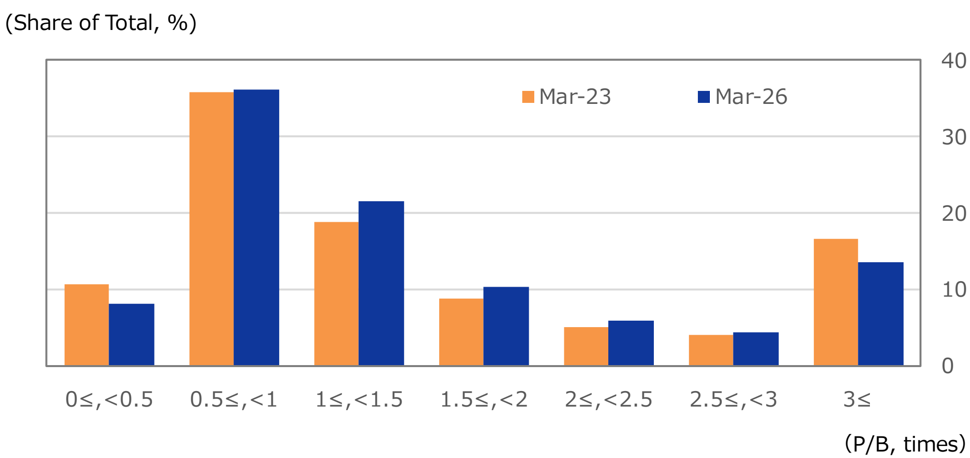
(P/B, times)

(P/B, times)	ROE Low – 8%	ROE 8% – High
High – 1.0	P/B ≥ 1x & ROE < 8% **12%** (vs Mar 2023:-2%)	**P/B ≥ 1x & ROE ≥ 8%** **44%** (vs Mar 2023:+4%)
1.0 – Low	P/B < 1x & ROE < 8% **30%** (vs Mar 2023:+0%)	P/B < 1x & ROE ≥ 8% **14%** (vs Mar 2023:-2%)

Low / 8% / High (ROE, %)

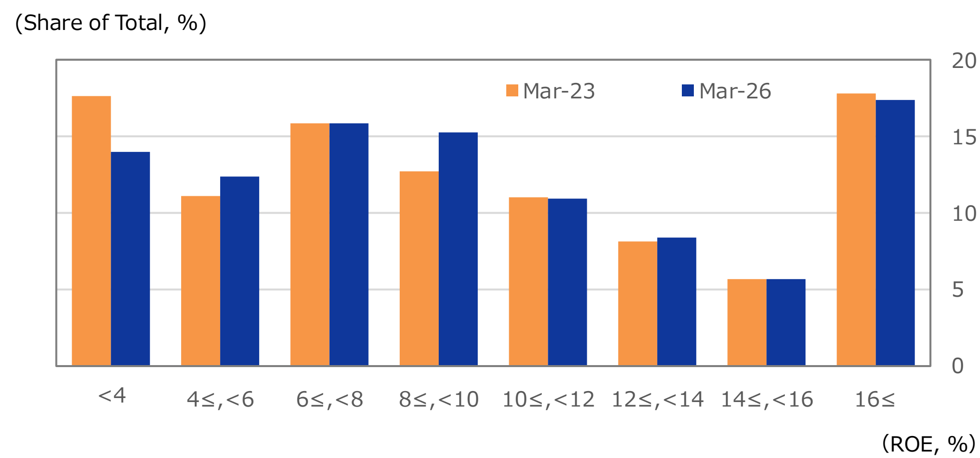
Source: SMDAM and Bloomberg

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



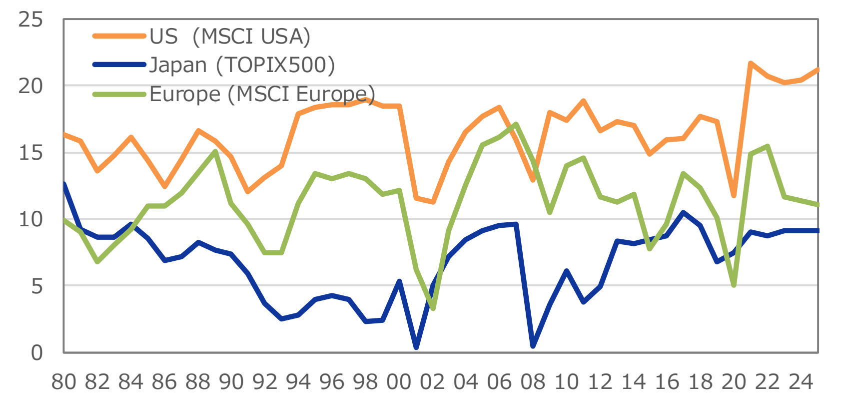
Source: SMDAM and Bloomberg

The above figures represent past performance and future forecasts, and do not guarantee the future market environment, etc.

Governance (3): ROE

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

(%)

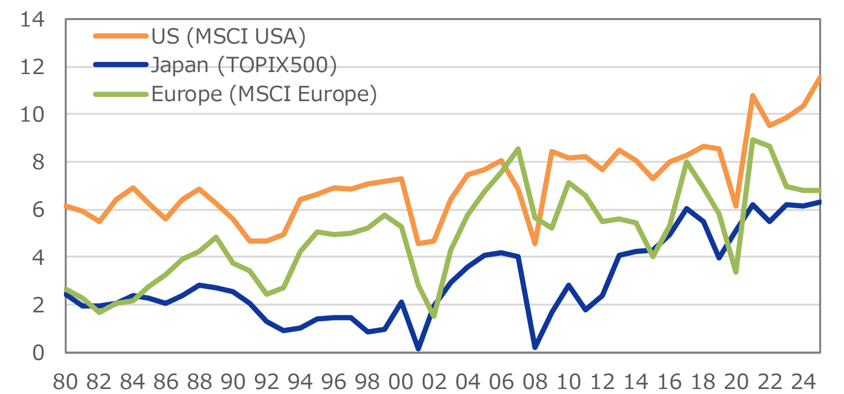


Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos) (Y)

Source: SMDAM and Daiwa Securities

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

(%)

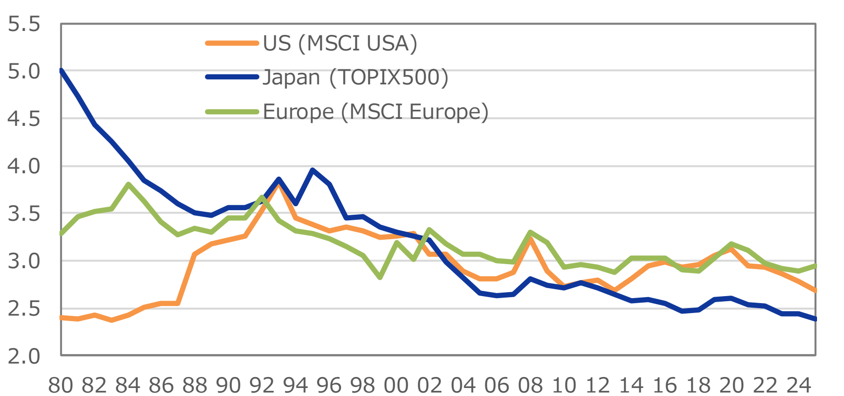


Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos) (Y)

Source: SMDAM and Daiwa Securities

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

(times)

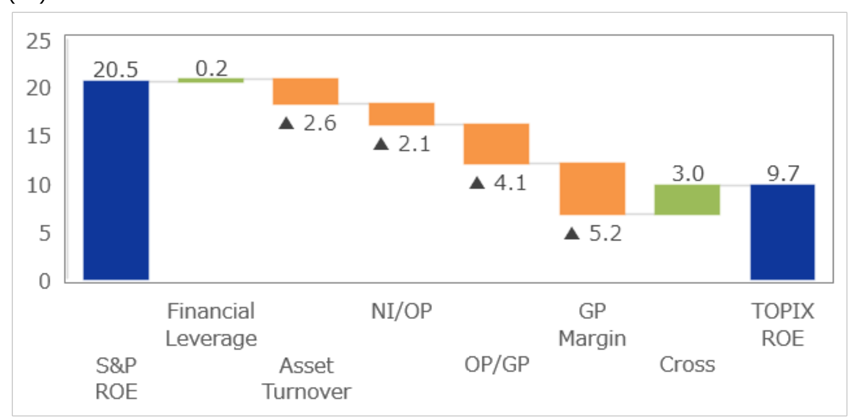


Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos) (Y)

Source: SMDAM and Daiwa Securities

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

(%)



Note: Latest Data as of 3 Jul 2026

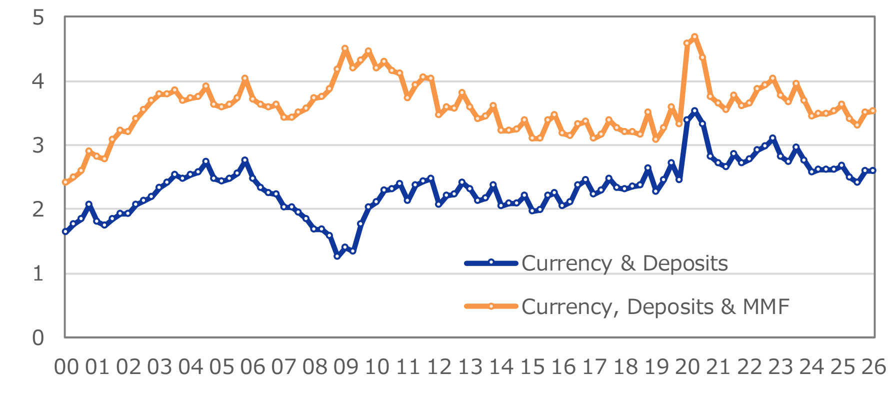
Source: SMDAM and Bloomberg

Governance (4): Effective Cash Utilization

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

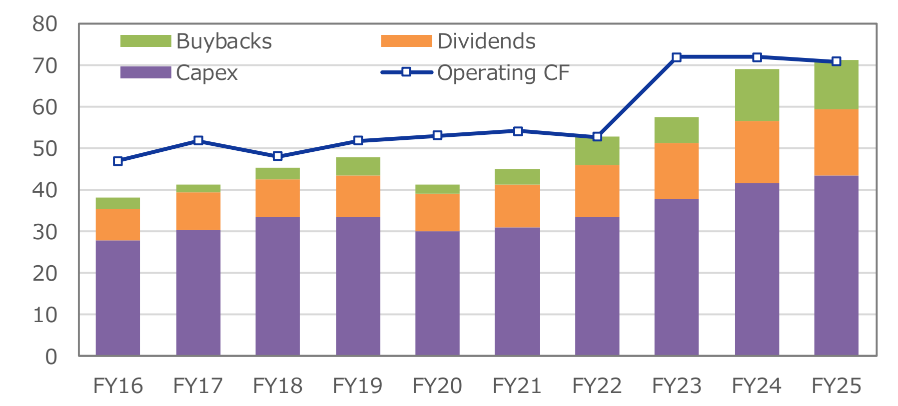
Note: Latest data are for 1Q 2026
Source: SMDAM and BoJ

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



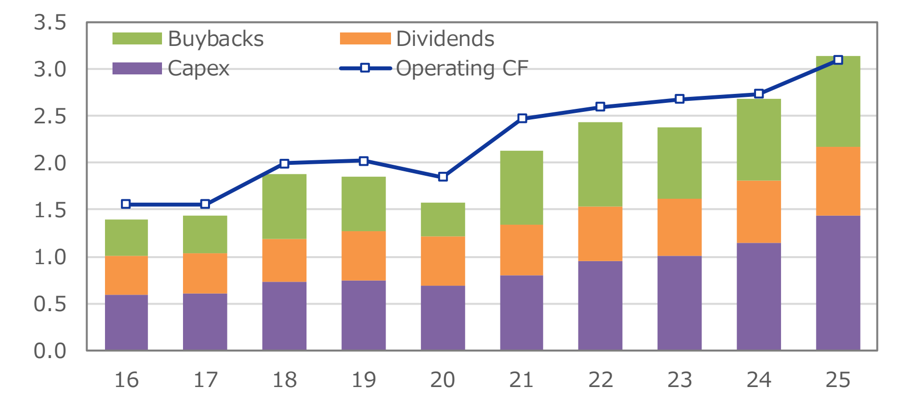
Note: Latest data are for 1Q 2026
Source: SMDAM and FRB

OCF, Investment, and Shareholder Returns for TOPIX 500 Companies



Note: Excludes Financials. Latest data are for FY2025.
Source: SMDAM and Bloomberg

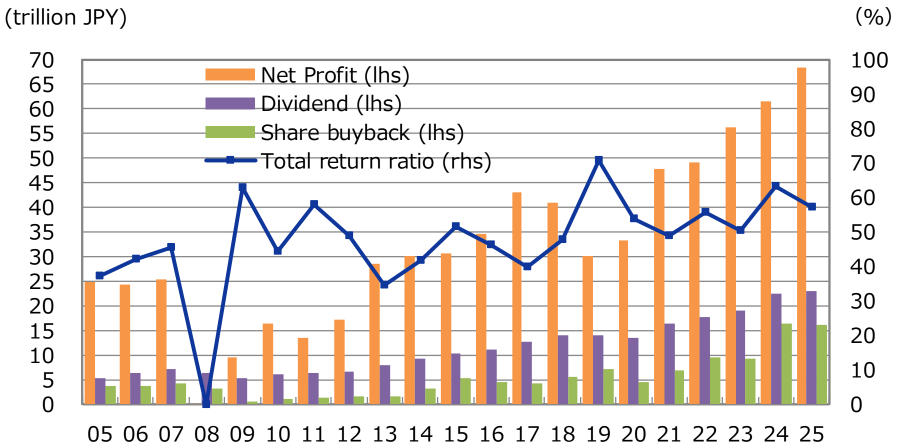
OCF, Investment, and Shareholder Returns for S&P 500 Companies



Note: Latest data are for 2025
Source: SMDAM and Bloomberg

Governance (5): Shareholder Returns

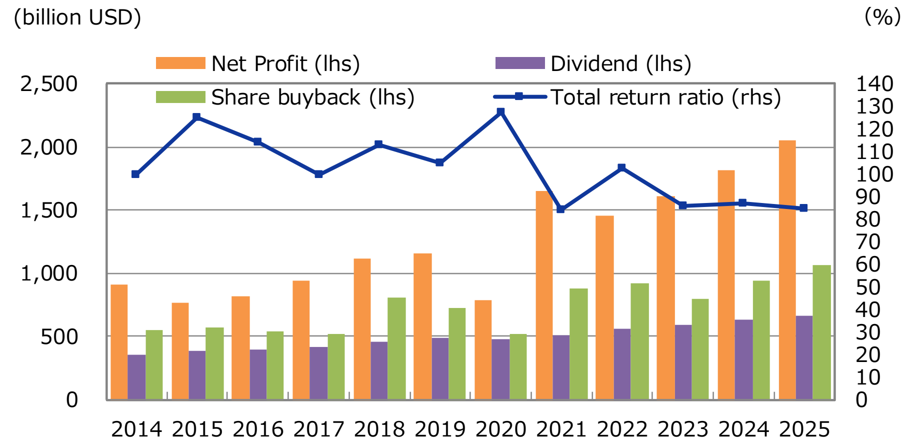
Total Shareholder Return Ratio (TOPIX)



Note: Latest data are for FY2025

Source: SMDAM, Tokai Tokyo Securities, and Bloomberg

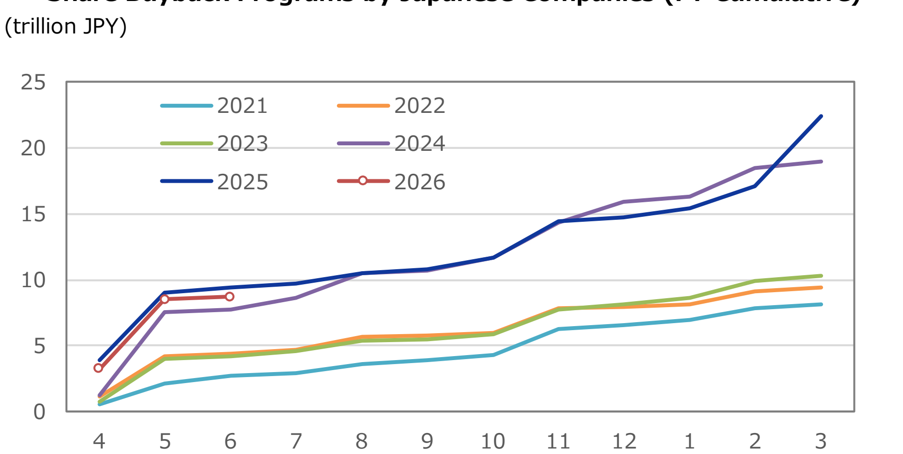
Total Shareholder Return Ratio (S&P500)



Note: Latest data are for 2025

Source: SMDAM, Tokai Tokyo Securities, and Bloomberg

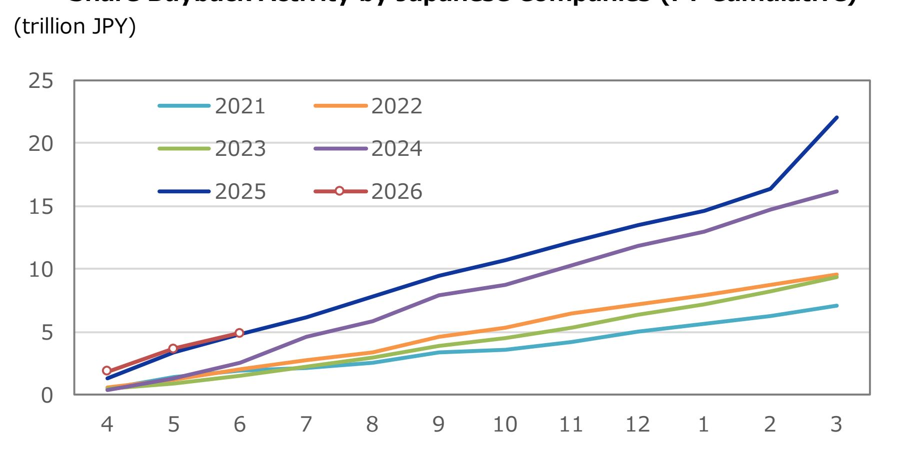
Share Buyback Programs by Japanese Companies (FY Cumulative)



Note: Latest data are for Jun 2026

Source: SMDAM and INDB

Share Buyback Activity by Japanese Companies (FY Cumulative)



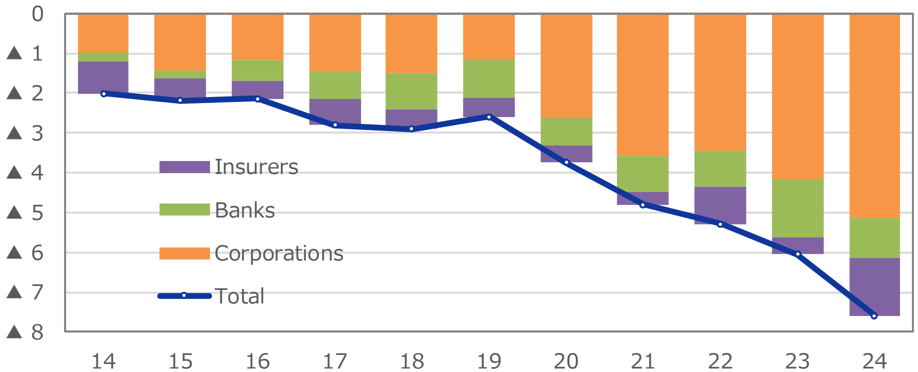
Note: Latest data are for Jun 2026

Source: SMDAM and INDB

Governance (6): Ownership Structure & Shareholder Meetings

Cross shareholding unwinding

(trillion JPY)

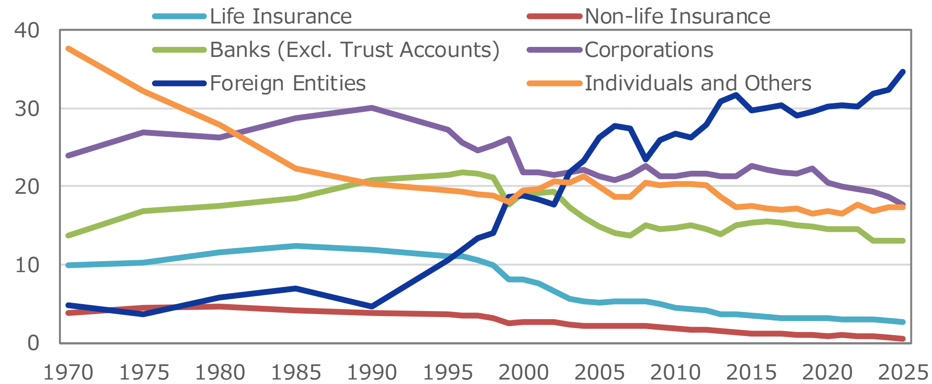


Note: Latest data are for FY2024 (FY)

Source: SMDAM and Tokai Tokyo Securities

Distribution of Equity Ownership by Shareholder Type

(%)

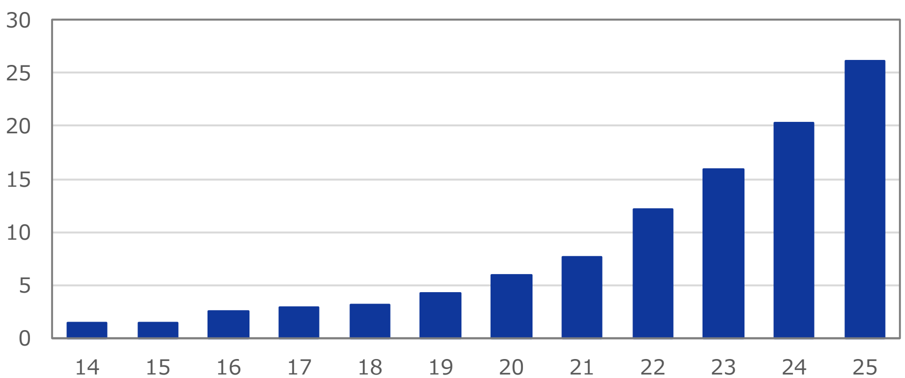


Note: Latest data are for FY2025 (FY)

Source: SMDAM and JPX

Percentage of Companies with a Majority of Independent Outside Directors

(%)

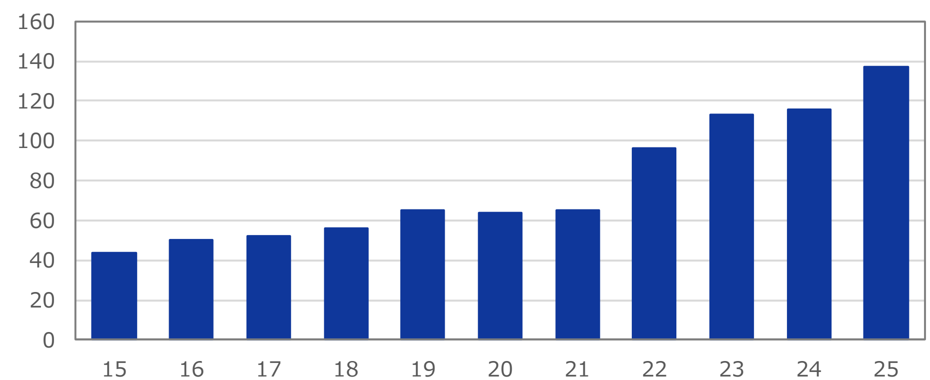


Note: Latest data are for FY2025 (FY)

Source: SMDAM and JPX

Number of Shareholder Proposals

(Number of Companies)



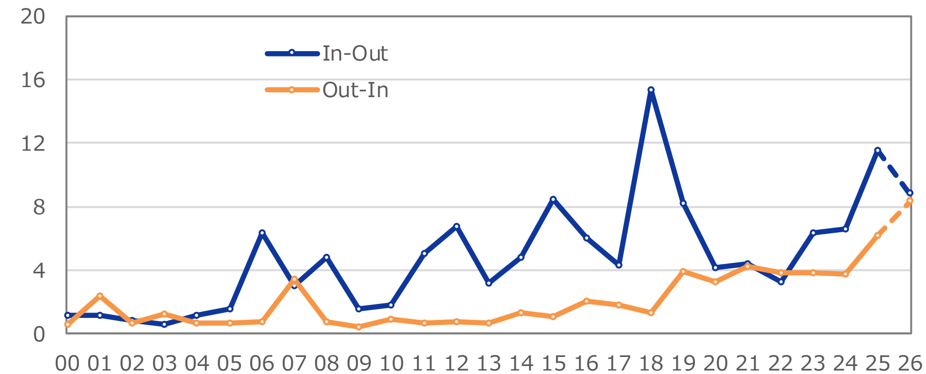
Note: Latest data are for FY2025 (FY)

Source: SMDAM and Japan Institute of Business Law

Governance (7): Rising Takeover Risk

Trends in M&A Deal Value Involving Japanese Companies

(trillion JPY)

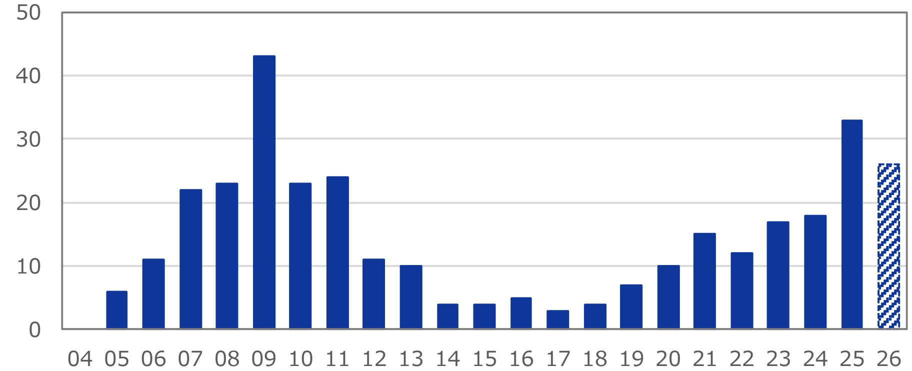


Note: Latest data are for 2026. 2026 is annualized through Jun (Y)

Source: SMDAM and Bloomberg

Trends in MBO Transactions

(Number of Cases)

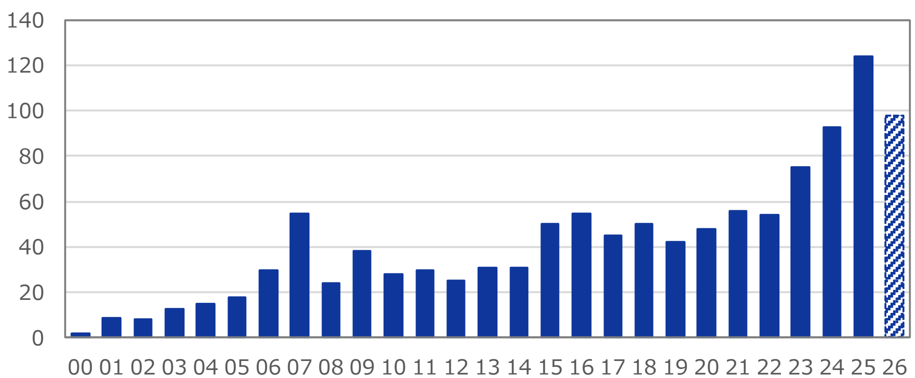


Note: Latest data are for 2026. 2026 is annualized through Jun (Y)

Source: SMDAM and Bloomberg

Trends in Number of TOBs (TSE Listed Companies)

(cases)

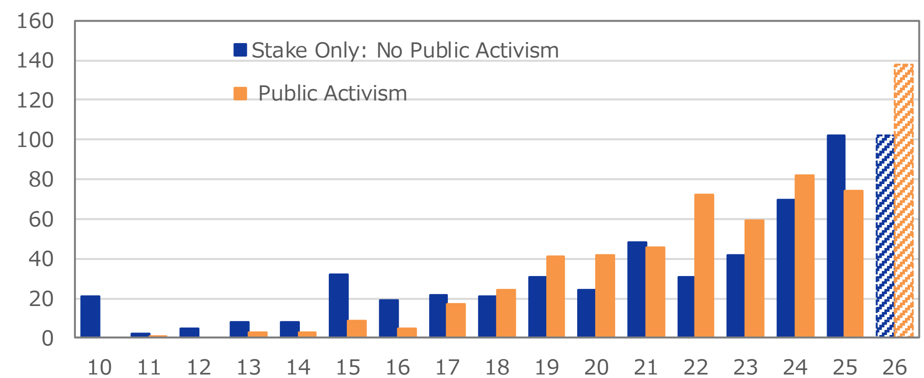


Note: Latest data are for 2026. 2026 is annualized through Jun (Y)

Source: SMDAM and Bloomberg

Activist investor activity

(Number of Cases)



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

Source: SMDAM and Bloomberg

NISA

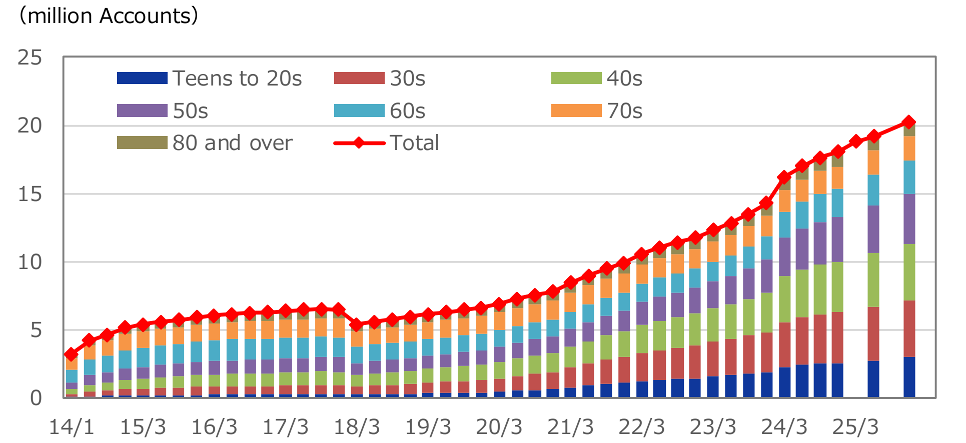
Comparison of old and new NISA (Tax free investing program like UK ISA)

	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 3 Jul 2026

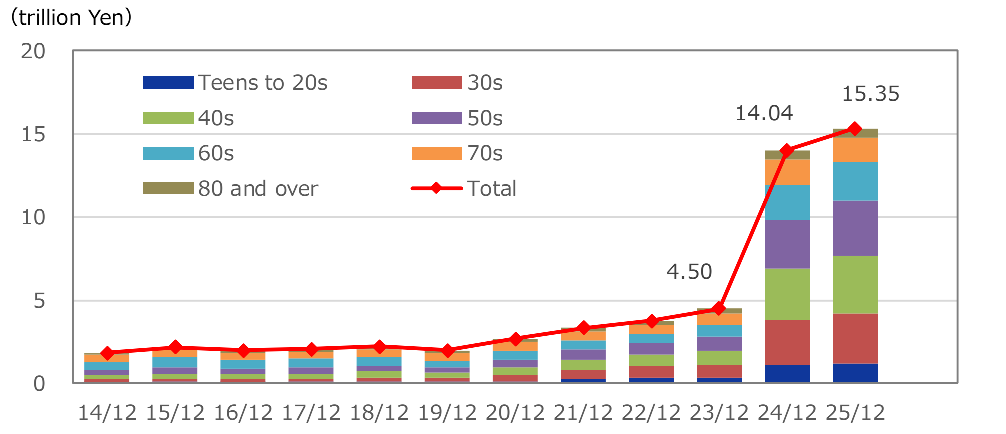
Number of NISA Accounts by Age Group



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

Source: SMDAM and Japan Securities Dealers Association

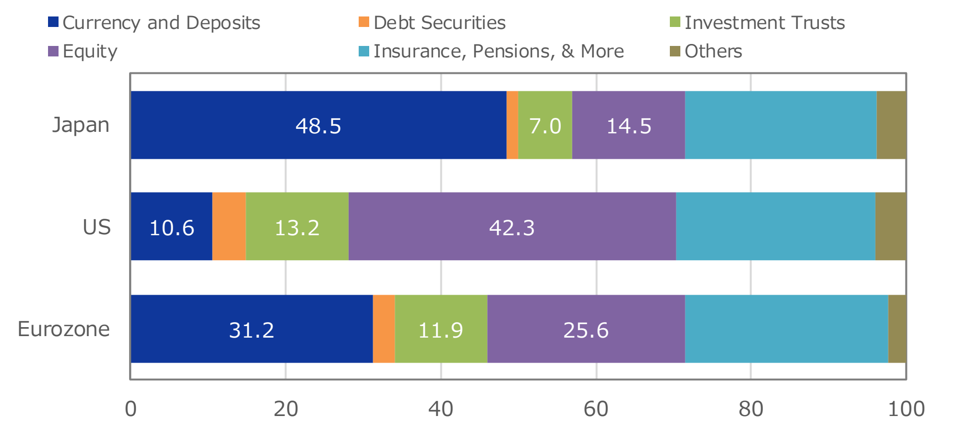
Annual Purchase Amount in NISA Accounts by Age Group



Note: Latest data are for end-Dec 2025.

Source: SMDAM and Japan Securities Dealers Association

Financial Assets held by Households (As of December 2025)



Source: SMDAM, BoJ, FRB and ECB

Event Schedule: Focus— Takaichi administration's growth strategy, Basic Policy, and the potential consumption tax cut

	Date	Japan	Date	U.S.	Date	Other Regions
July to September 2026	Jul 17 **Jul?** **Jul?** **Jul?** **Jul?** Q3? Q3?	Closing of the Ordinary Diet Session **Cabinet's approval of the Basic Policy** **Cabinet's approval of the growth strategy** **Corporate Governance Code revision** **Interim summary on consumption-tax relief** Decision on zero tax for food products? Cabinet reshuffle?	14-Jul Aug	US Fed Chair congressional testimony 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** **Dec?**	US Treasury Semi-annual Currency Report **U.S. midterm elections** **Final reports of five Fed task forces**		
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	Jun?	US Treasury Semi-annual Currency Report	Apr Apr Jun	IMF and World Bank Spring Meetings IMF World Economic Outlook G7 Summit
July to September	Jul 23 **Sep**	Terms of BOJ Board Members Takata & Tamura expire **LDP presidential election**	Aug	Jackson Hole Economic Symposium	Jul	IMF World Economic Outlook

Source: Compiled by SMDAM

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