



Outlook for Japanese Stock Market & Economy

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-April 2025-

*The forecasts in this document are as of April 4th, 2025.



Sumitomo Mitsui DS Asset Management



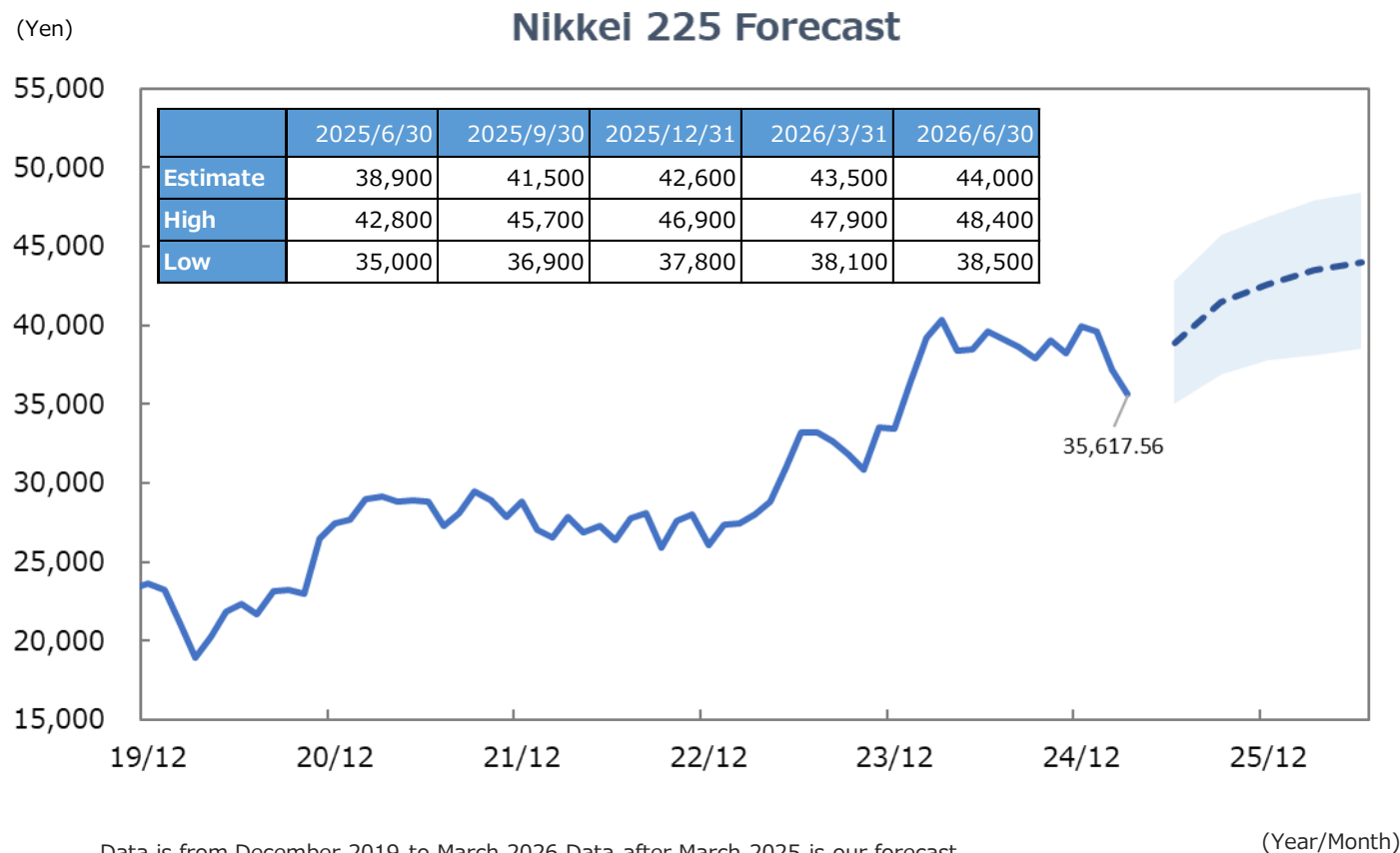
Outlook for Japanese Stock Market

Market Outlook

- We expect that uncertainty over the “Trump tariffs” and the BOJ’s monetary tightening measures could weigh on investors’ appetite for the Japanese stock market in the short term.
- We are bullish on Japanese stocks in the mid-to-long-term due to the steady progress of the normalization of the Japanese economy, such as with the virtuous cycle of wage increases and mild inflation, especially after uncertainty over the Trump administration’s economic policy recedes.
- We have lowered our target price of the Nikkei 225 from 44,300 to 42,600 as of December 2025, and from 44,600 to 43,500 as of March 2026, due to changes in valuation estimates.
- Regarding demand and supply in the stock market, foreign investors’ selling has been absorbed by share buybacks, fueled by improving corporate governance.

Note: The forecasts are as of April 4th, 2025.

We have a bullish perspective on Japanese equity

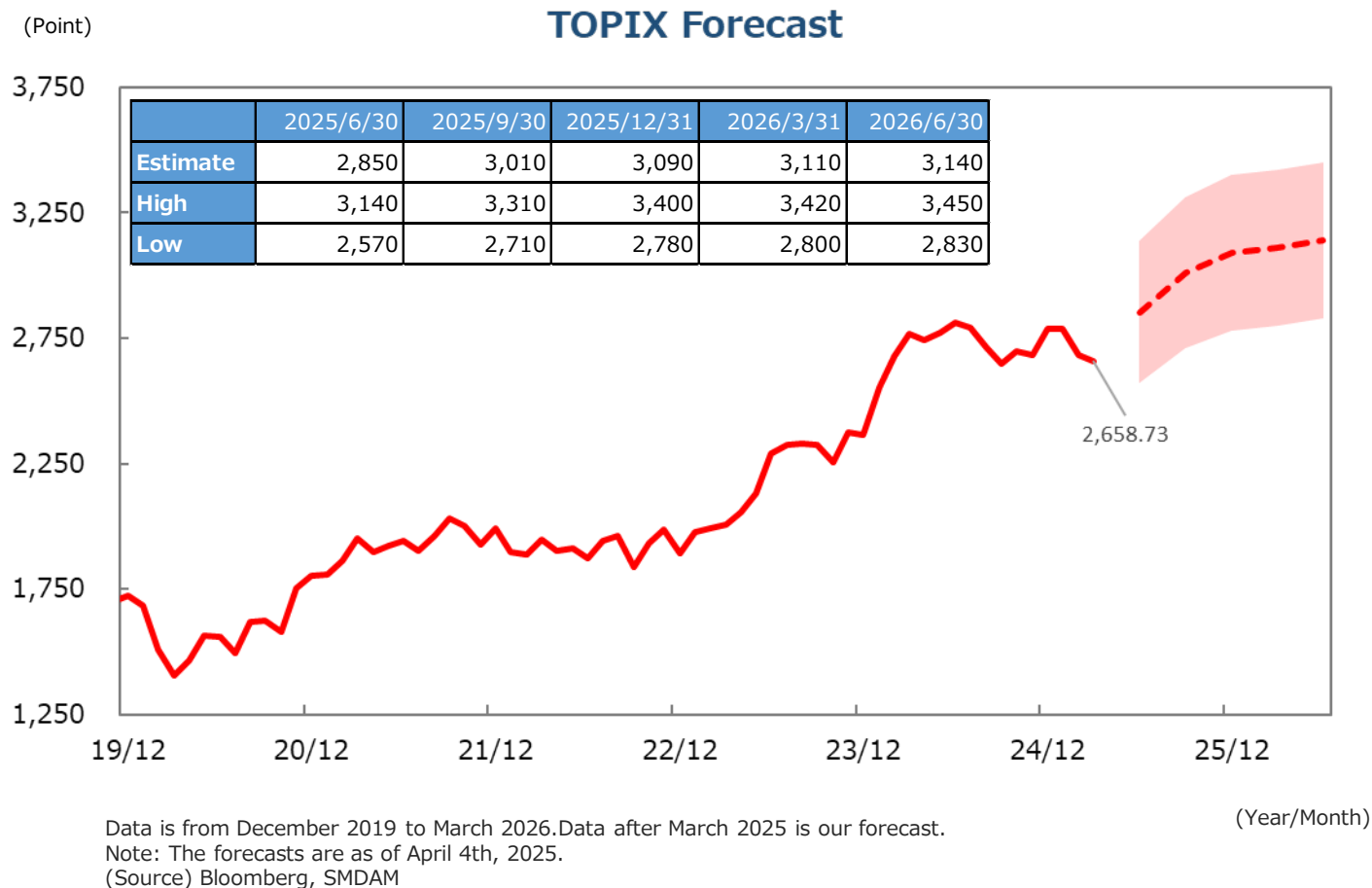


Data is from December 2019 to March 2026. Data after March 2025 is our forecast.

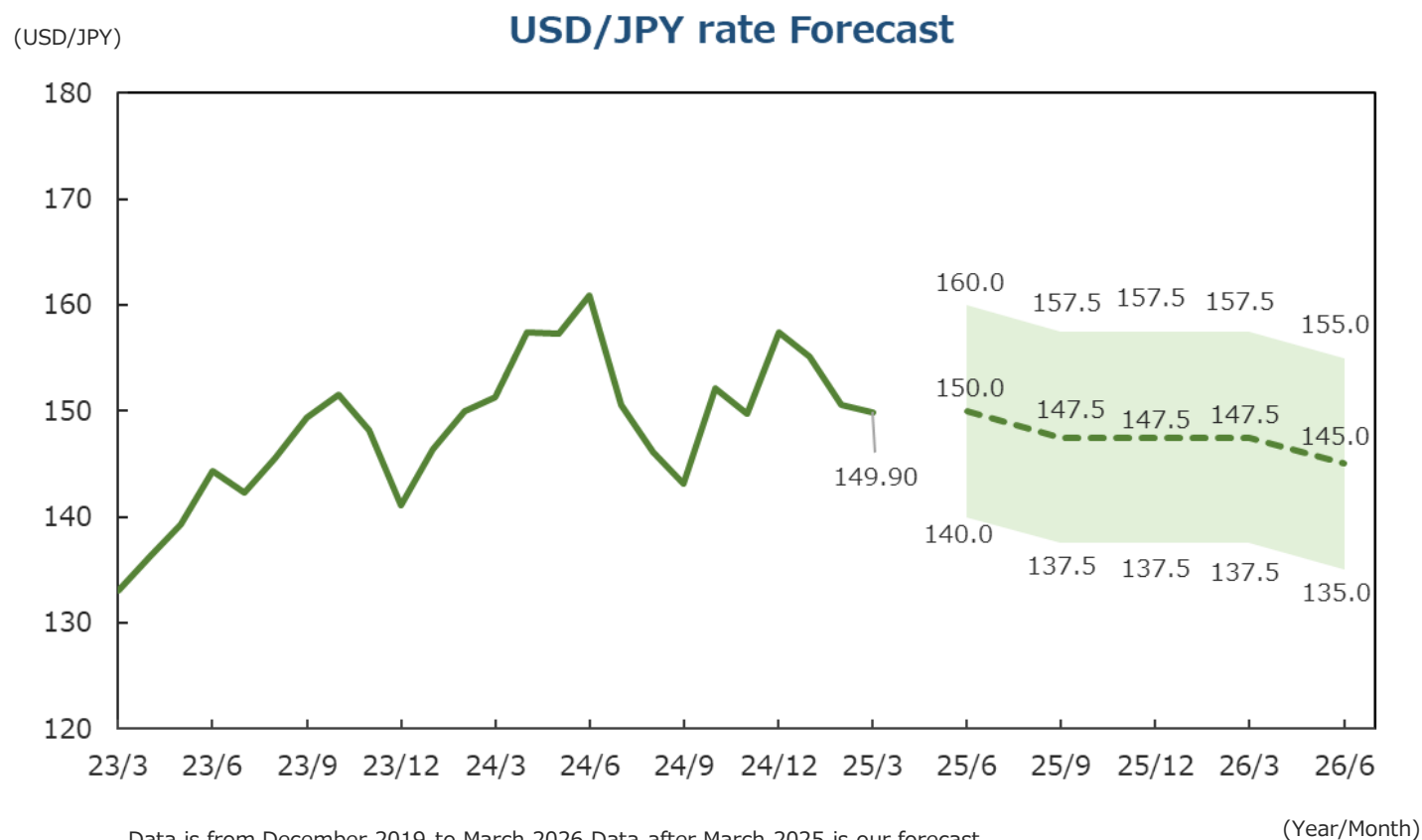
Note: The forecasts are as of April 4th, 2025.

(Source) Bloomberg, SMDAM

We have a bullish perspective on Japanese equity



Narrowing interest rate gap gradually weighing on USD/JPY rate



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

Note: The forecasts are as of April 4th, 2025.

(Source) Bloomberg, SMDAM

Upside / Downside risk scenarios

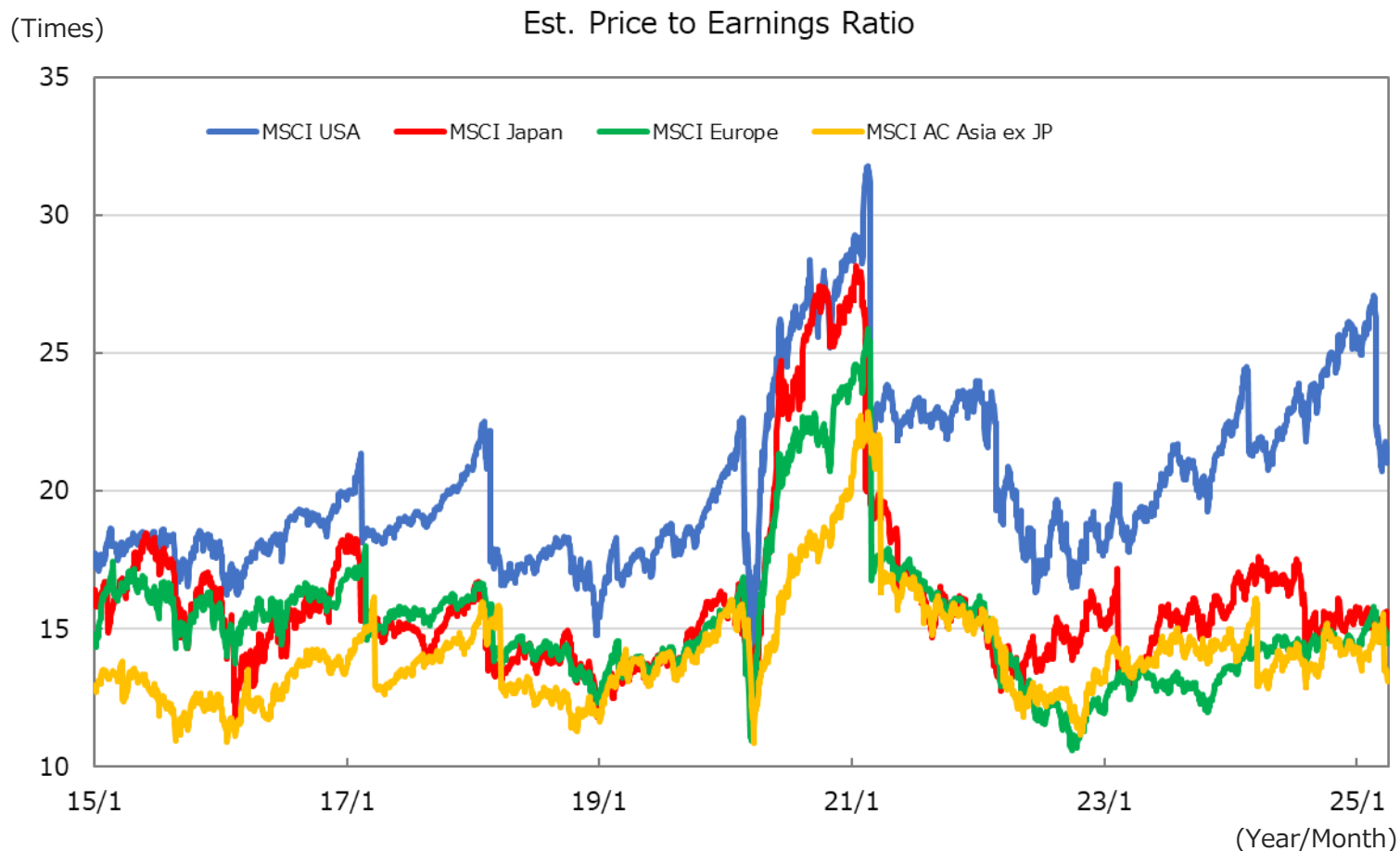
■ Upside Risks

- De facto suspension of Trump tariffs
- Increase in hostile TOBs and further improvements in corporate governance

■ Downside Risks

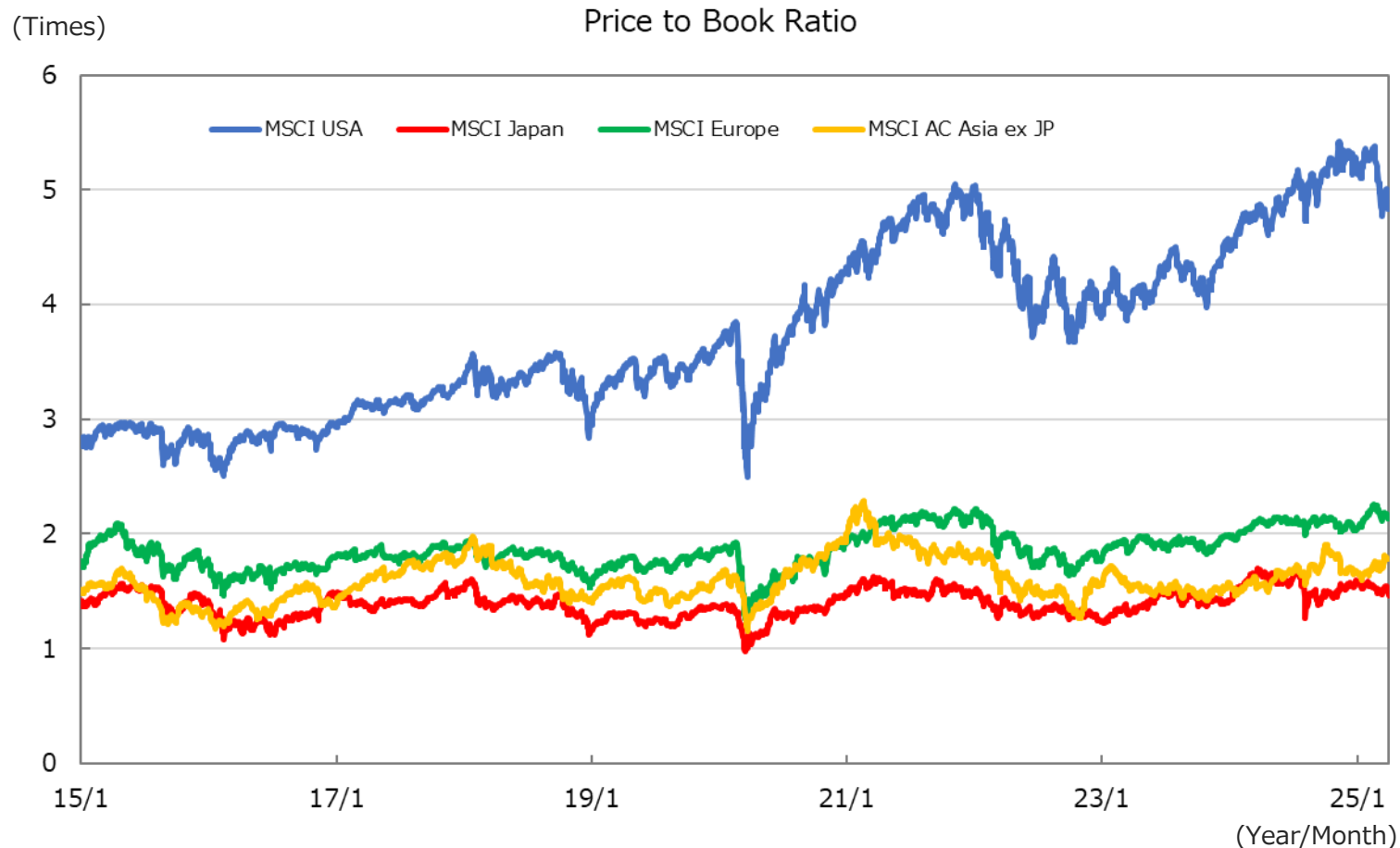
- Negative impact from the implementation of Trump tariffs, such as a slow down of global manufacturers' activities
- Excessive JPY appreciation caused by aggressive rate cut by the FED
- Further increase in JGB rate amid concerns about fiscal deterioration
- Severe correction of the valuation of AI & big tech stocks
- Political uncertainty triggered by the defeat of the ruling party in the House of Councillors election during the summer

Recent market correction pushes down P/E ratio



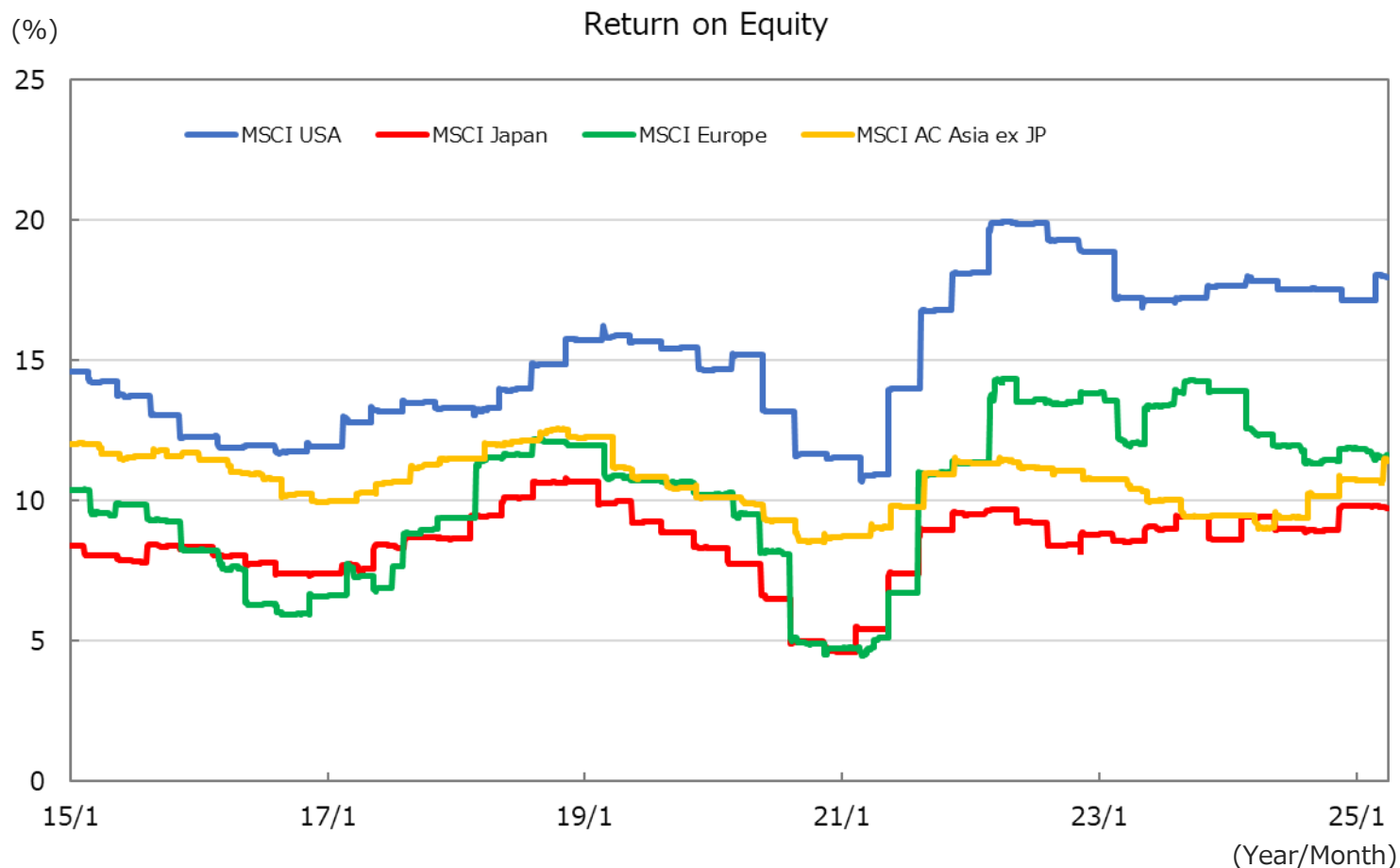
Data is from January 2015 to March 2025.
(Source) SMDAM, Bloomberg

Japan's Price to Book ratio lags behind global peers



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

Earnings growth boosts Japan's ROE closer to double digits

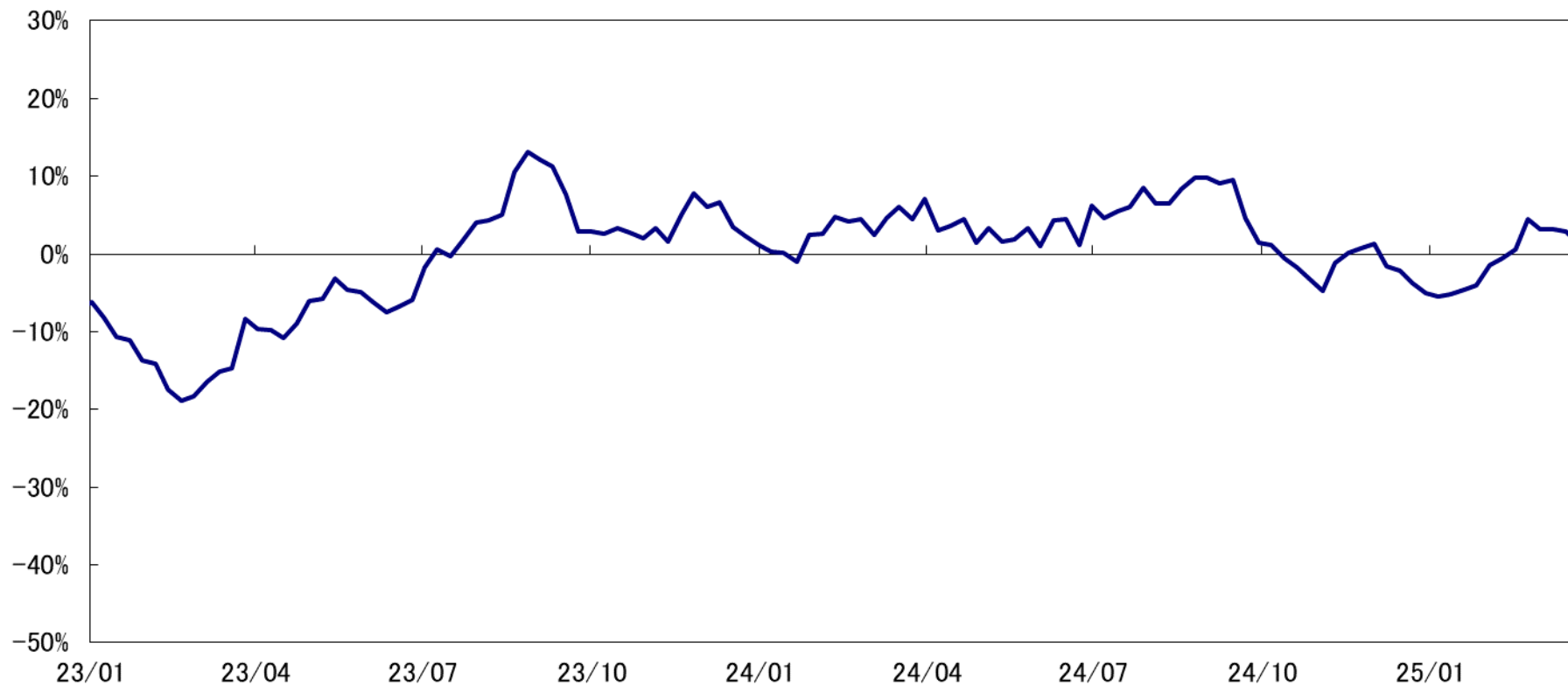


Data is from January 2015 to March 2025.
(Source) SMDAM, Bloomberg



EPS revisions stay positive despite uncertainty of global economy

TOPIX EPS Revision Index



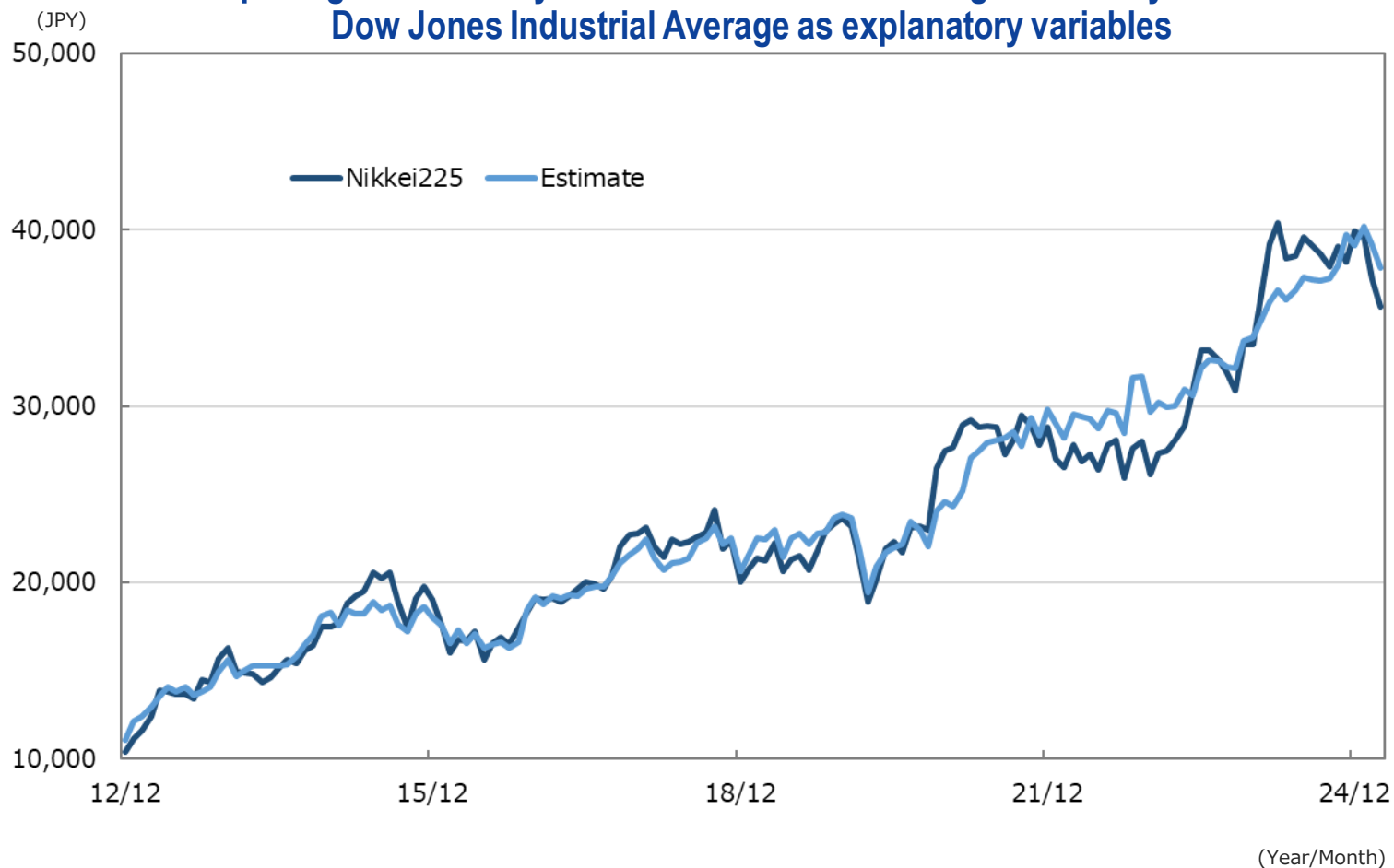
Data is from January 5th 2023 to March 27th 2025
(Source) Datastream, IBES

(YY/MM)



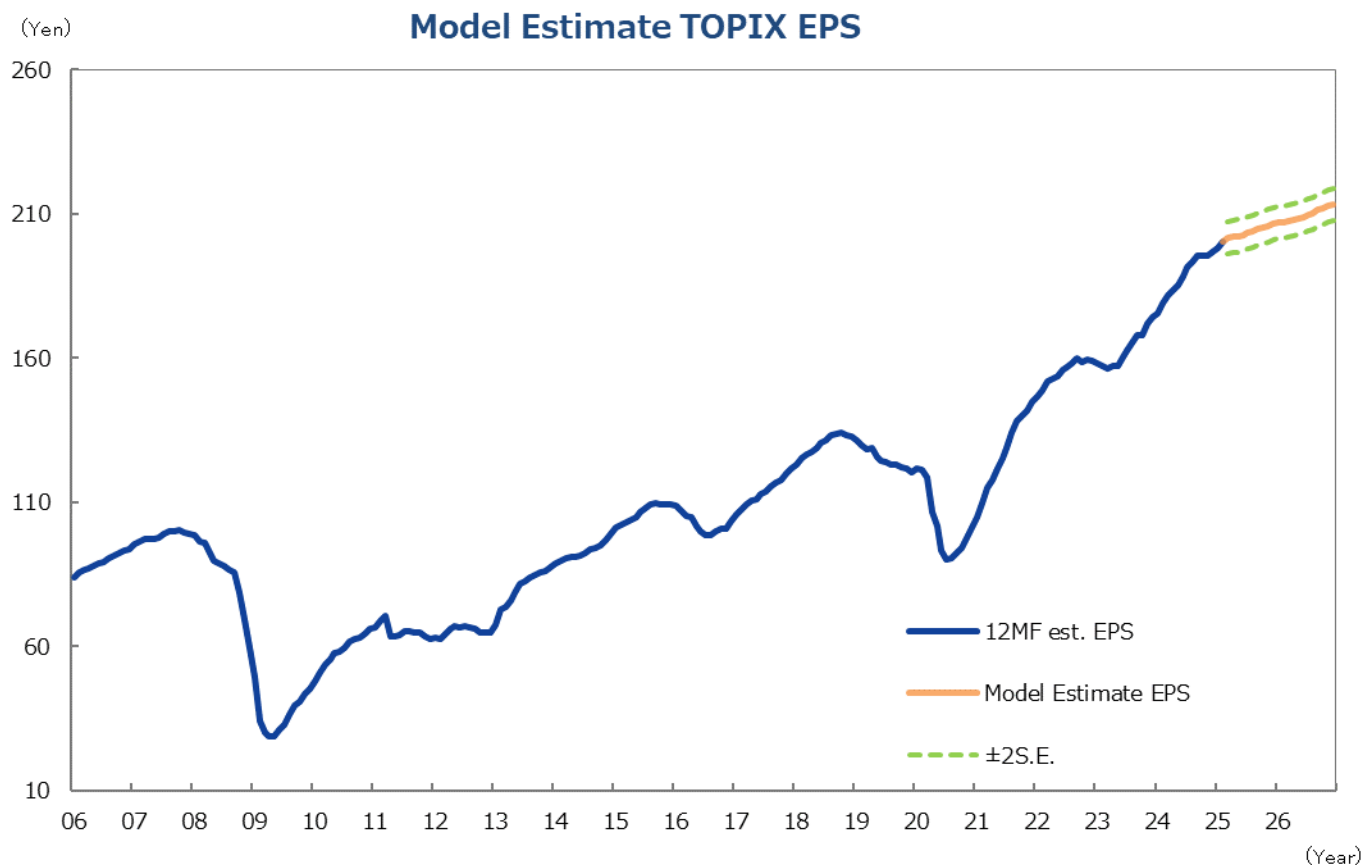
Nikkei 225: 6% below fair value, one Standard deviation away

Multiple regression analysis of Nikkei 225 Index using US dollar/yen rate and Dow Jones Industrial Average as explanatory variables



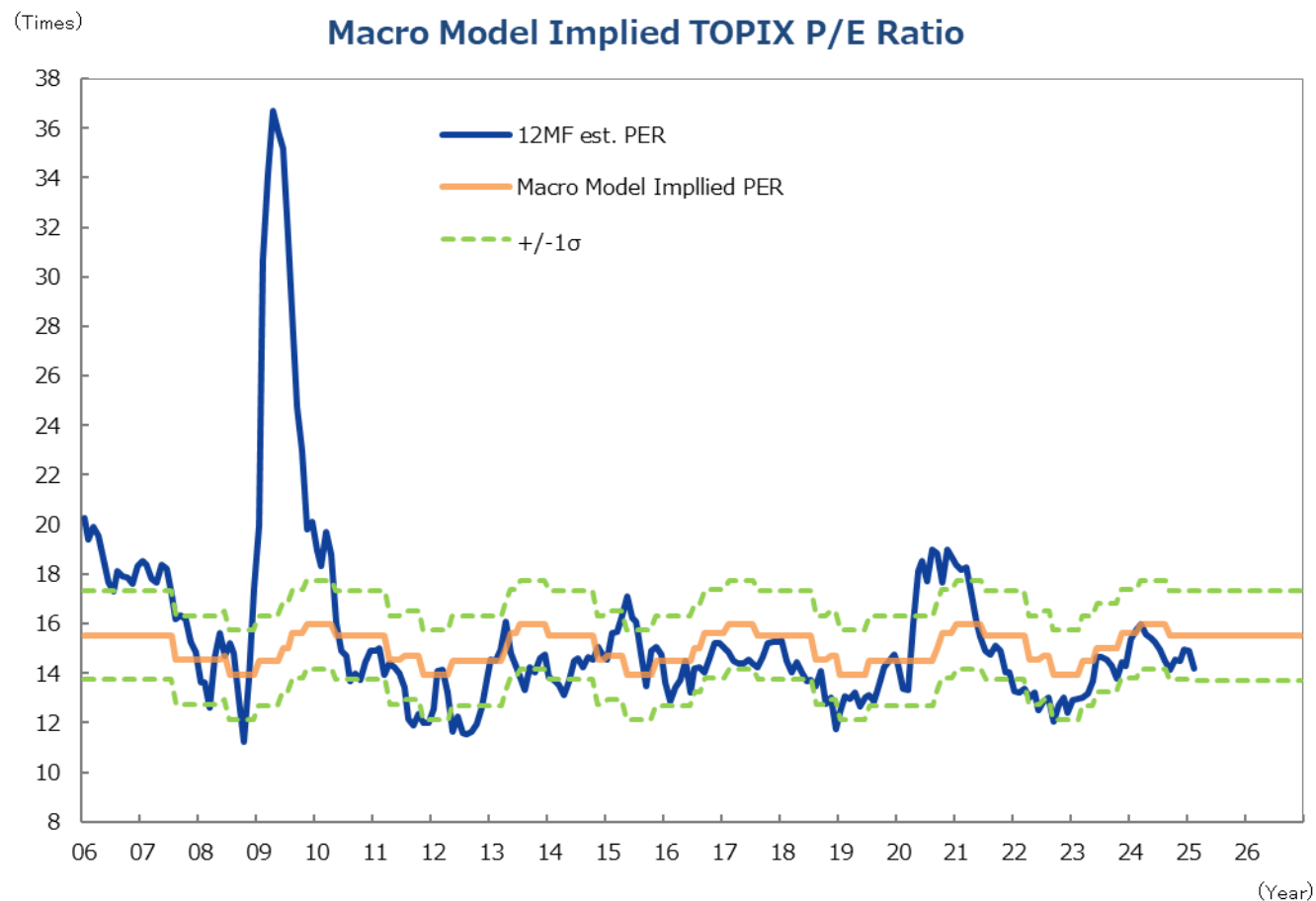
Data is from December 2012 to March 2025.
(Source) SMDAM, Bloomberg

Quant model suggests EPS will maintain upward trend



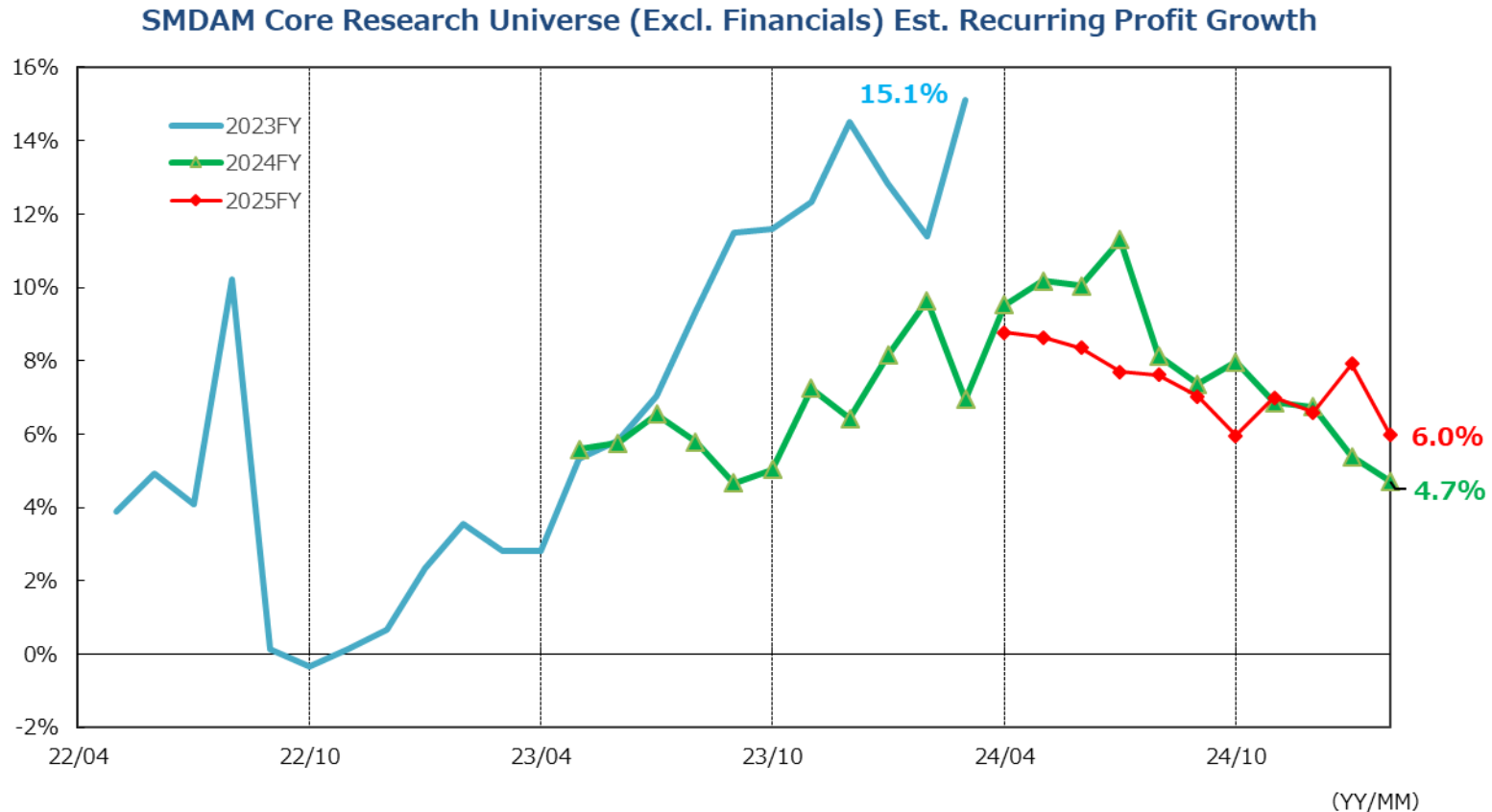
Note: Consensus data is from January 2006 to February 2025. Model estimate Data is from March 2025 to December 2026.
Source: SMDAM

Recent market correction brought P/E ratio to an attractive level



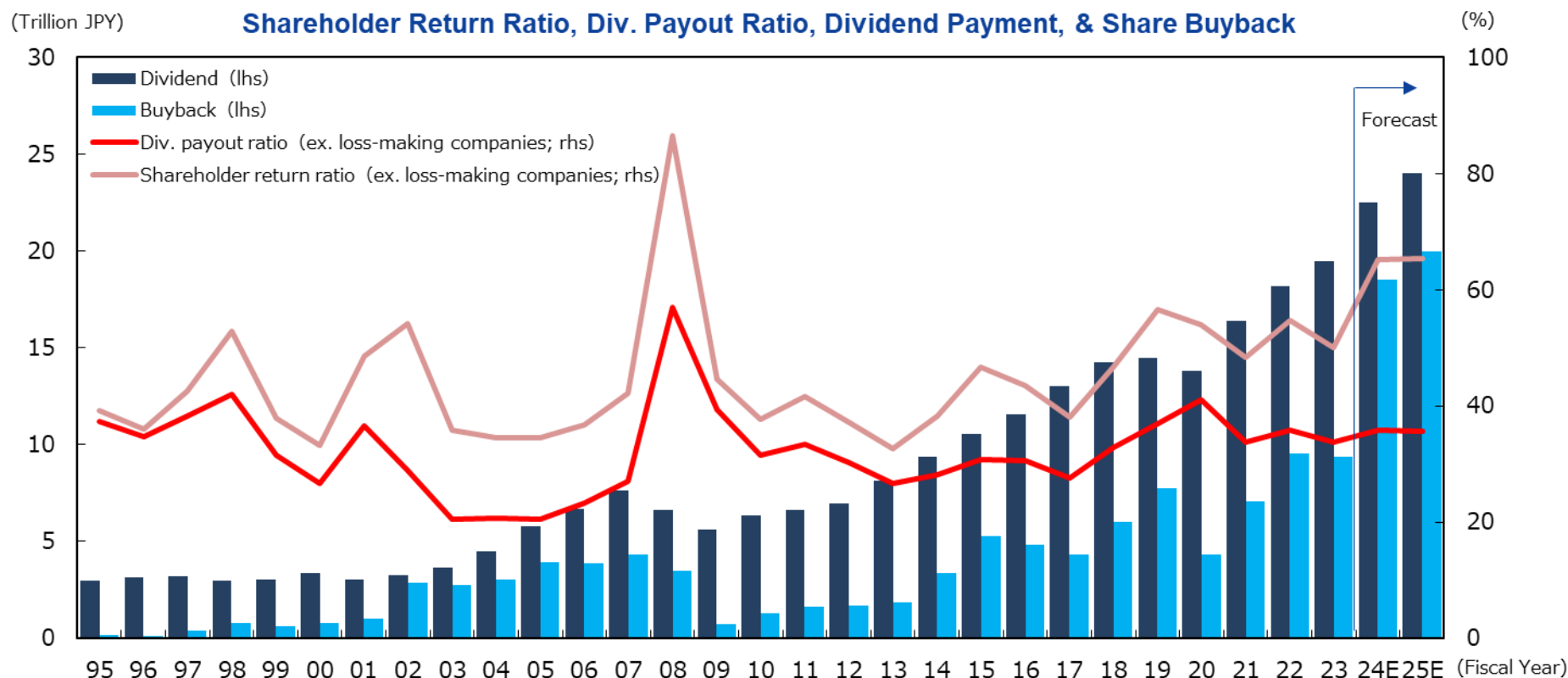
Note: Consensus data is from January 2006 to February 2025. Model estimate Data is from March 2025 to December 2026.
Source: SMDAM

SMDAM analysts consider uncertainty over the global economy



Note: Data is as of 10th March 2025,, SMDAM Core Universe (Excl. Financials) consists of 398 Japanese companies covered by SMDAM in-house analysts.
Source: SMDAM

Record-breaking dividends and share buybacks



Value is king in Japanese stock market

Performance Comparison of Russell/Nomura Style Indices

Index	Returns(%)						
	3 Month	6 Month	YTD	1 Year	2 year	3 Year	5 Year
RN Japan Equity	-4.63	0.31	-4.63	-3.65	32.98	36.79	90.89
Total Value	-2.43	5.02	-2.43	-0.87	49.36	58.69	127.31
Top Cap Value	-4.81	6.78	-4.81	-2.85	58.30	66.24	157.44
Large Cap Value	-2.80	4.98	-2.80	-1.78	51.12	58.88	134.38
Mid Cap Value	-0.45	3.45	-0.45	-0.49	43.19	50.77	108.73
Small Cap Value	-0.90	4.81	-0.90	3.18	41.26	57.03	97.17
Micro Cap Value	-0.34	5.14	-0.34	3.37	37.89	54.15	88.14
Total Growth	-6.95	-4.19	-6.95	-6.48	18.45	18.00	58.84
Top Cap Growth	-9.26	-4.51	-9.26	-8.59	20.87	18.67	65.06
Large Cap Growth	-7.17	-4.31	-7.17	-6.64	19.77	19.17	61.35
Mid Cap Growth	-2.23	-3.20	-2.23	-2.06	18.74	21.04	56.27
Small Cap Growth	-5.11	-3.43	-5.11	-5.16	7.77	8.66	38.35
Micro Cap Growth	-4.95	-6.25	-4.95	-12.06	0.23	1.83	33.78
Top Cap Total	-7.39	-0.07	-7.39	-6.22	35.79	37.43	100.35
Large Cap Total	-5.04	0.00	-5.04	-4.29	33.81	36.68	93.63
Mid Cap Total	-1.17	0.50	-1.17	-1.13	31.38	36.14	85.23
Small Cap Total	-2.37	1.79	-2.37	0.11	27.73	36.78	73.78
Micro Cap Total	-1.79	1.40	-1.79	-1.88	24.51	34.89	70.28

Note : As of 31st March 2025
(Source) Bloomberg





Outlook for Japanese Economy



Current status & Outlook of Japanese economy

[Current Status]

- **The economy is in a soft patch.** Growing uncertainty over US economic policies have had a limited impact on business sentiments in Japan so far. CAPEX remains steady and wage increases have reached its highest level since 1991, according to the Rengo Union's survey. On the other hand, statistics related to consumer spending and sentiment indicators, such as the Economy Watchers Survey, are sluggish. Temporary factors such as transport disruptions and bad weather may have a negative impact, but it is necessary to be cautious of the risk that rising inflation could make consumers more conservative and reluctant to spend.
- **Nationwide core CPI exceeds the Bank of Japan's "price stability target" of 2% YOY.** Nationwide core CPI rose by +3.2% YOY in January, up from +3.0% in December. The rise in Nationwide core CPI was mainly driven by cost-push pressure from the import prices and rising rice prices. Currently, food prices have gained momentum.

[Outlook]

- ① **While we have lowered our real GDP growth forecast for FY 2024 from +0.8% to +0.7% and for FY 2025 from +1.3% to +1.0%, we have maintained our estimate for FY 2026 at +0.9%.** The downward revision is mainly due to changes in the assumption about **consumer** spending, particularly for the first half of FY 2025, and the reflection of actual GDP data for the fourth quarter of 2024. Looking ahead, we maintain our expectation that the Japanese economy will continue its moderate growth trajectory, supported by wage increases, a steady appetite for CAPEX (such as labor-saving, digitalization, greening, urban development, and construction of semiconductor factories), economic measures, and the resilience of overseas economies.
- ② **While we have maintained core CPI forecast for FY 2024 at +2.7%, we have lowered our estimate for FY 2025 from +2.6% to +2.3% and that for FY2026 from +2.0% to +1.6%.** The downward revision is mainly due to the expansion of tuition support programs, changes in the assumptions regarding the FOREX market and crude oil prices, and the lower-than-expected Tokyo Metropolitan Area core CPI. Looking ahead, we expect the nationwide core CPI to remain static until around the first half of 2025, driven by food price increases. Thereafter, we expect core CPI to start slowing down due to gradual currency appreciation, easing cost-push pressures from import prices, the stabilization of rice prices, and subsidies for tuition fees. We forecast core CPI to maintain a momentum of around +2.0% YOY, excluding the impact of the tuition support programs, due to rising service prices driven by wage hikes.
- ③ **We expect the government to adopt accommodative fiscal policies.** Prime Minister Ishiba focuses on completely combating the long-lasting deflation of the past few decades. In November 2024, the Cabinet approved a comprehensive economic measure aimed at "ensuring people's safety and security and sustainable growth." If the risk of an economic downturn surges due to a rise in tariffs by the US government, the deterioration of the overseas economy, and stagnation in consumer spending, it is highly possible that calls for fiscal stimulus will intensify.
- ④ **We expect the Bank of Japan to raise its policy rate from 0.50% to 0.75% in July 2025, 1.00% in January 2026, and 1.25% in January 2027.** We anticipate that the BOJ will raise interest rates gradually towards the lower bound of a neutral interest rate (between 1% to 2.5%) at a pace of once every six months until the rate reaches 1% and then once a year thereafter. The BOJ will decide on further rate hikes by focusing on the underlying trend of inflation. While there is a risk of an accelerated pace of rate hikes in the event of further currency depreciation, and considerations related to the upcoming House of Councillors election, there is also a risk of a delay in rate hike if the Japanese economy is negatively impacted by factors such as US tariffs, a slowdown in the US economy, stagnation in consumer spending, delays in wage increases among mid-to-small businesses, and political turmoil related to the House of Councillors election.

Note: The forecasts are as of April 4th, 2025.

Forecast for the Japanese economy

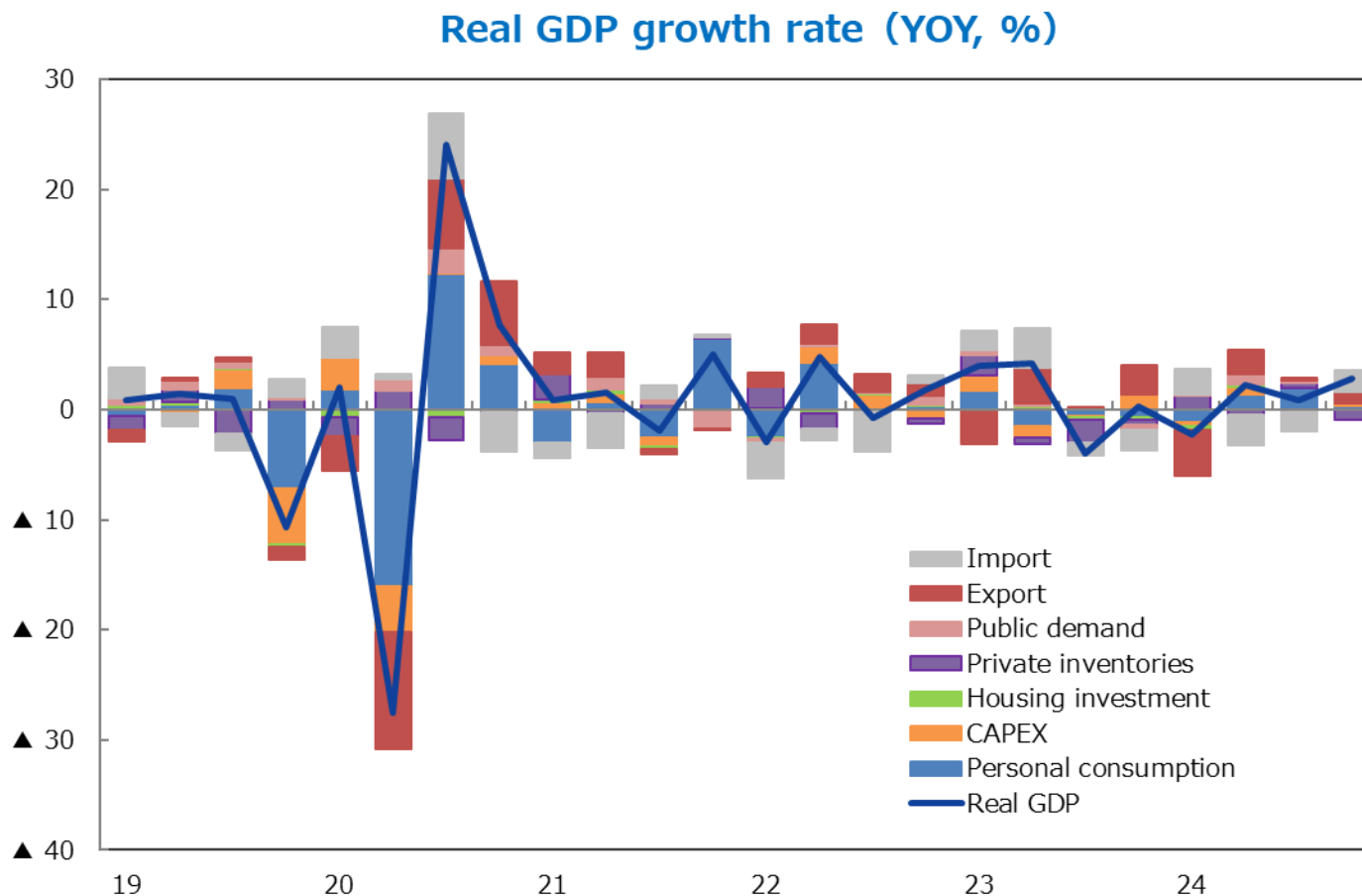
Forecast of annual Real GDP growth and its breakdown						
Fiscal Year	FY21	FY22	FY23	FY24 Est	FY25 Est	FY26 Est
Real GDP	3.0%	1.4%	0.7%	0.7%	1.0%	0.9%
Private final consumption expenditure	1.8%	2.6%	-0.4%	0.7%	0.4%	0.9%
Private housing investment	0.3%	-2.6%	0.8%	-1.4%	-0.8%	-1.1%
Private-sector capital investment	3.2%	3.6%	-0.1%	2.0%	1.3%	1.6%
Private inventory investment	0.5%	0.0%	-0.3%	0.0%	0.0%	0.0%
Public fixed capital formation	-6.4%	-5.5%	-0.3%	1.4%	0.1%	0.7%
Net export contribution	0.8%	-0.5%	1.4%	-0.3%	0.3%	0.2%
Exports of goods and services	12.5%	4.9%	2.9%	1.9%	3.9%	3.5%
Imports of goods and services	7.3%	7.3%	-3.3%	3.4%	2.6%	2.9%
Nominal GDP	2.9%	2.3%	4.9%	3.5%	3.1%	2.7%
GDP deflator	-0.1%	0.9%	4.2%	2.8%	2.2%	1.7%
Industrial Production Index	5.6%	-0.3%	-1.9%	-0.8%	1.2%	1.5%
Consumer Price Index (Core)	0.1%	3.0%	2.8%	2.7%	2.3%	1.6%
Consumer Price Index (BOJ Core)	0.1%	3.0%	2.8%	2.7%	2.5%	1.9%
Domestic corporate goods price index	7.1%	9.6%	2.4%	3.1%	2.0%	1.4%
Employee compensation	2.1%	2.5%	1.9%	4.5%	3.7%	3.6%
Unemployment rate	2.8%	2.6%	2.6%	2.5%	2.5%	2.3%
Monetary Policy interest rate (Short term)	-0.10%	-0.10%	0-0.1%	0.50%	1.00%	1.25%

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

Note: The forecasts are as of April 4th, 2025.

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

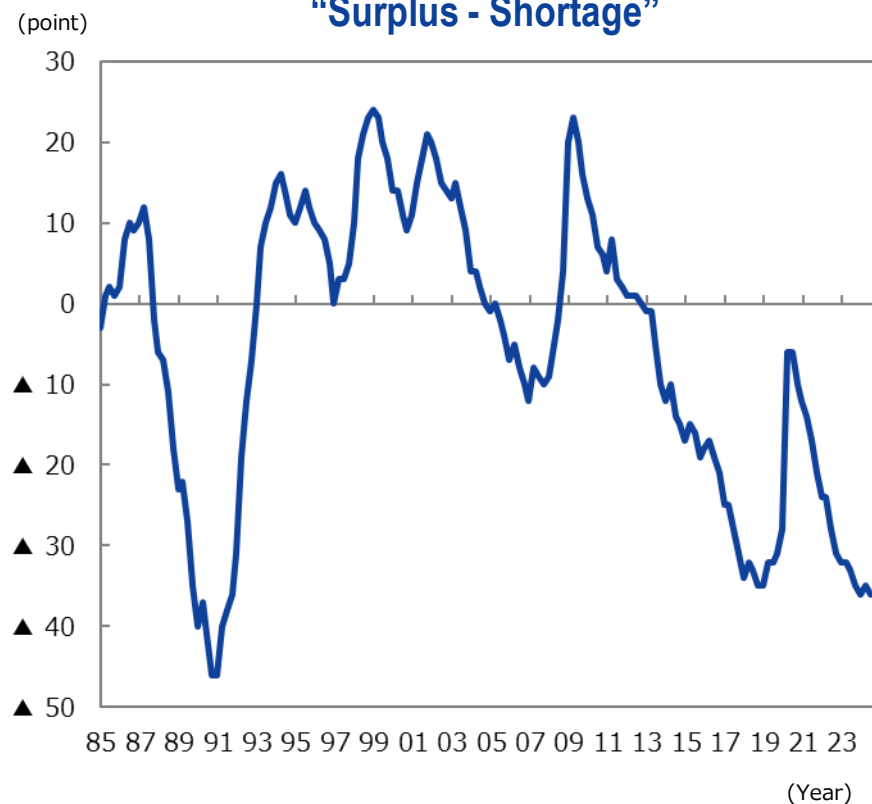
The Japanese economy resumes its growth trend



Note: Data is from Q1 2019 to Q4 2024.
Source: Cabinet office, SMDAM

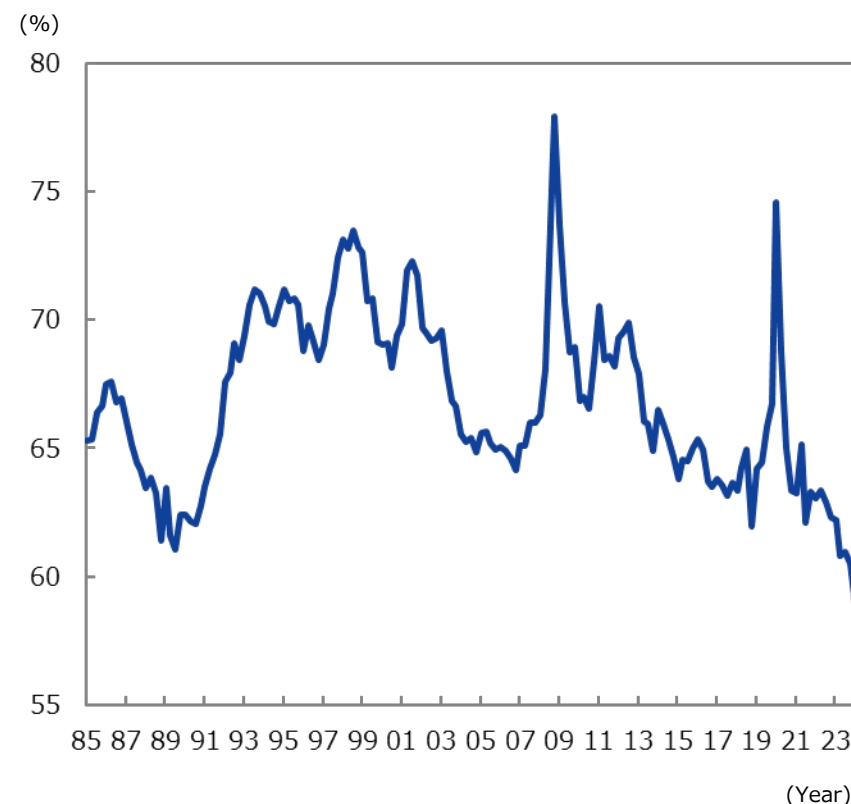
Conundrum of the Japanese labor market

Employment Sufficiency Index “Surplus - Shortage”



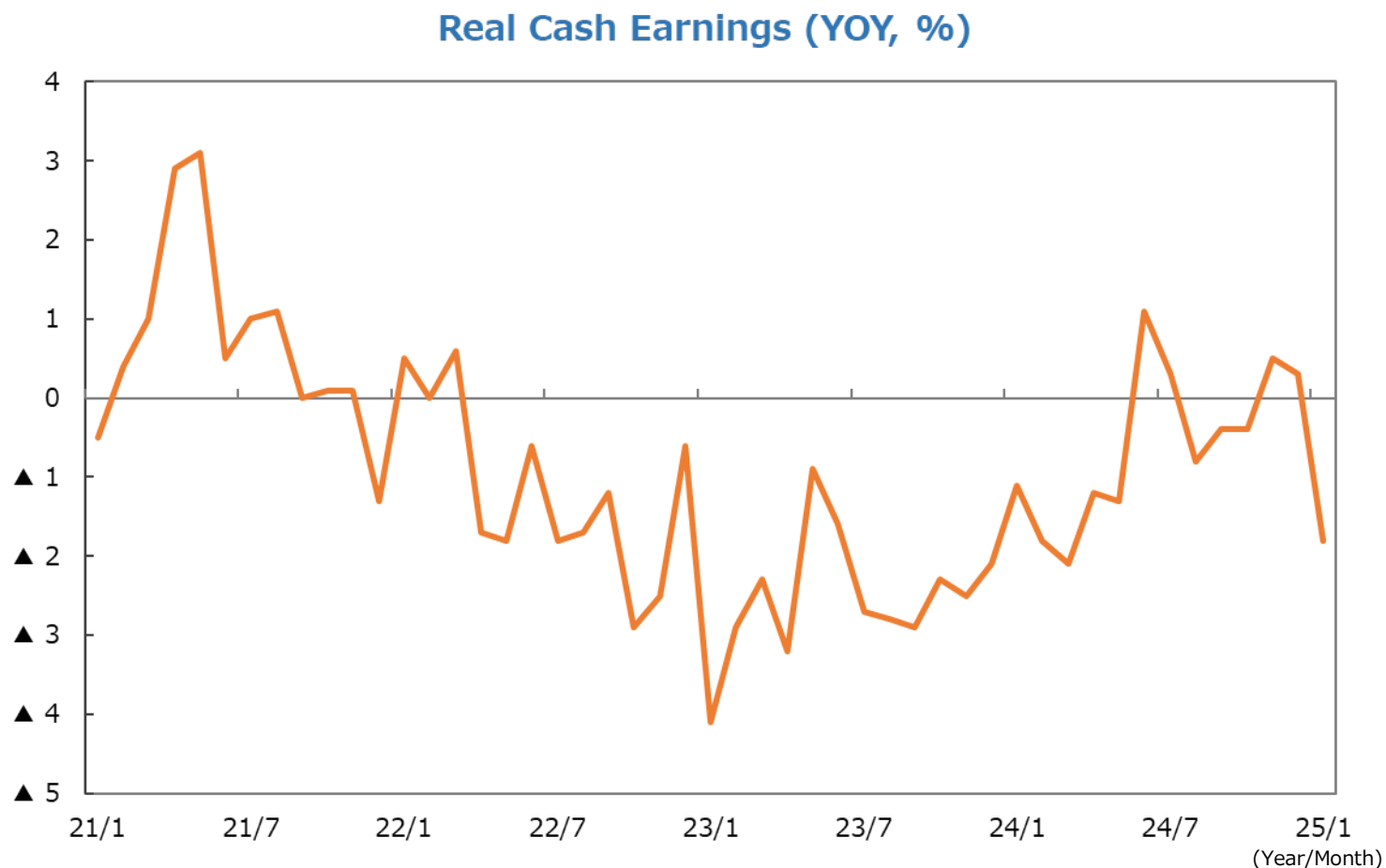
Note: Data is from April 1985 to March 2025.
Source: The bank of Japan, SMDAM

Labor Share of Added Value



Note: Data is from April 1985 to October 2024.
Source: Ministry of finance, SMDAM

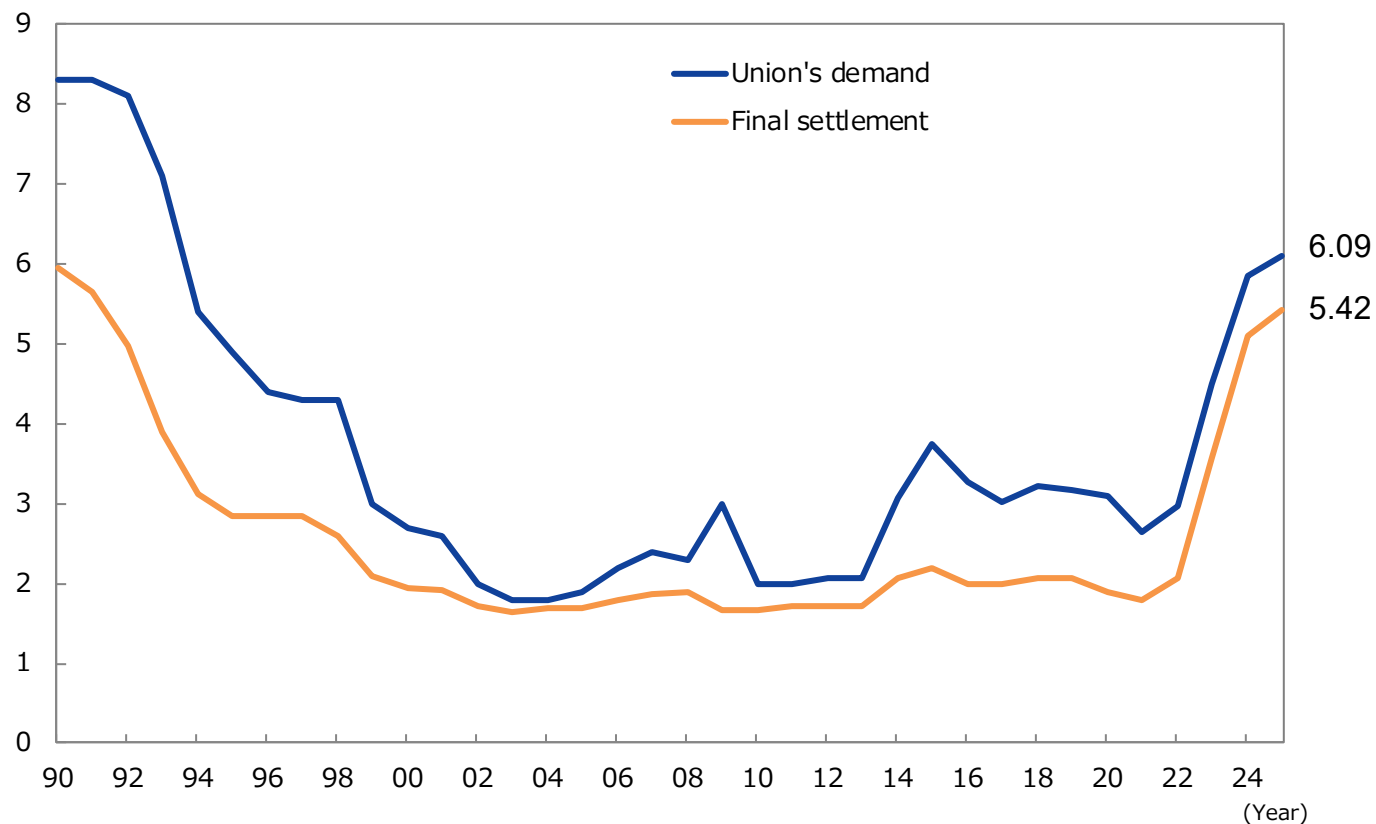
Inflation eroding purchasing power of consumers



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

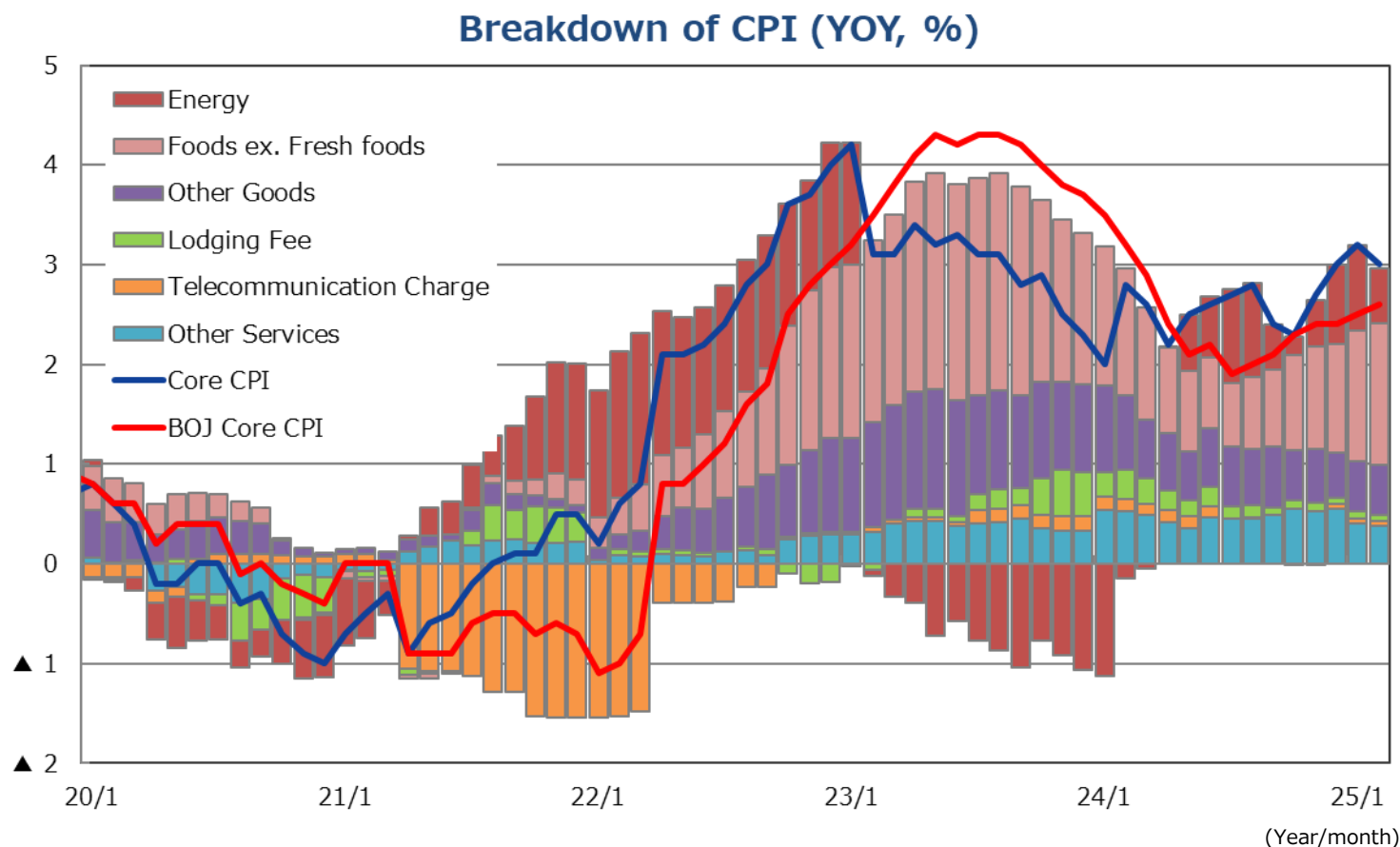
Highest wage increase in 33 years

Wage increase (YOY, %)



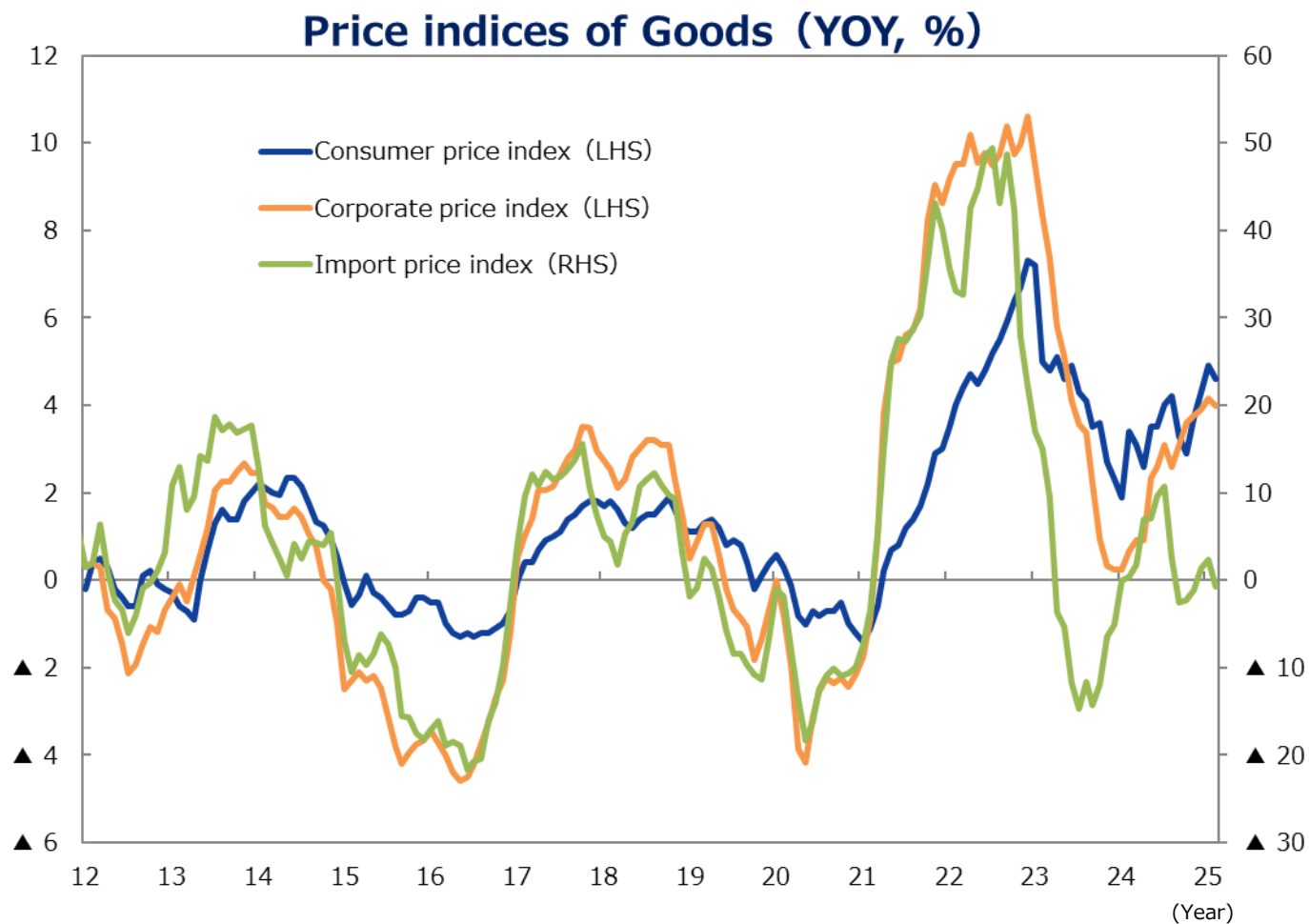
Note: Data is from FY 1990 to FY 2025.
Source: Japanese Trade Union Confederation, SMDAM

Rising food prices push CPI above BOJ's target



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

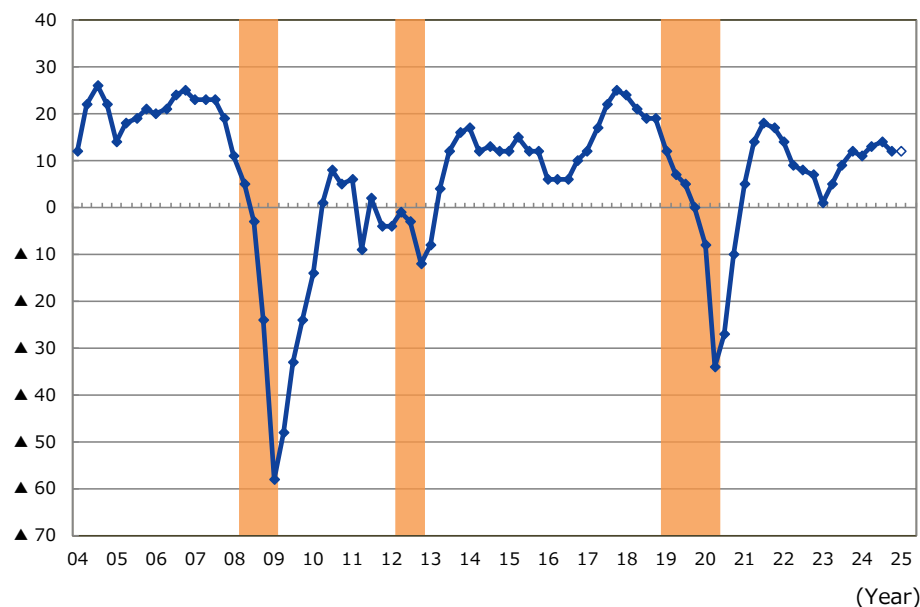
CPI & PPI rising despite weakening import prices



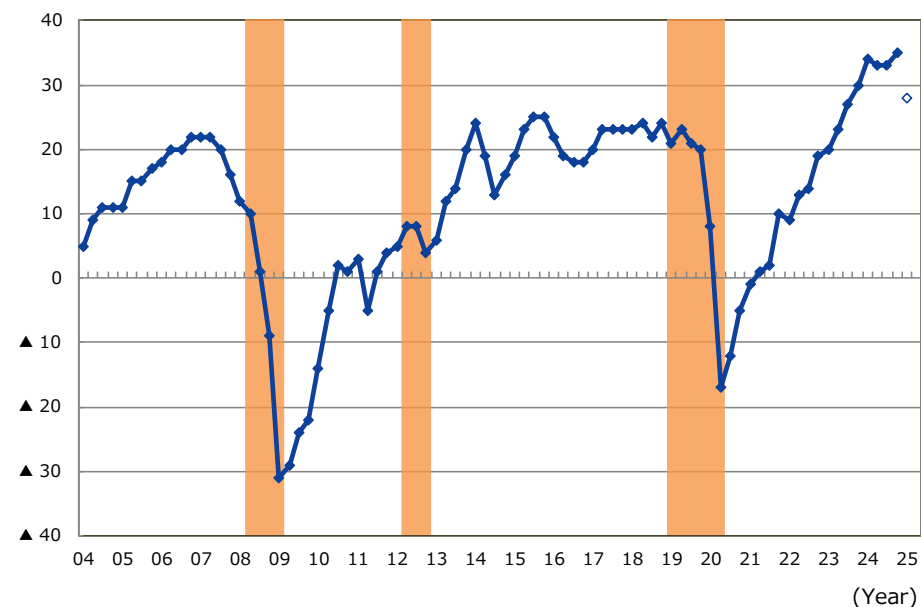
Note: Data is from January 2012 to February 2025.
Source: MIAC, Bloomberg, SMDAM

Improvement in business sentiments have stalled

BOJ business condition DI Large manufacturers (%)



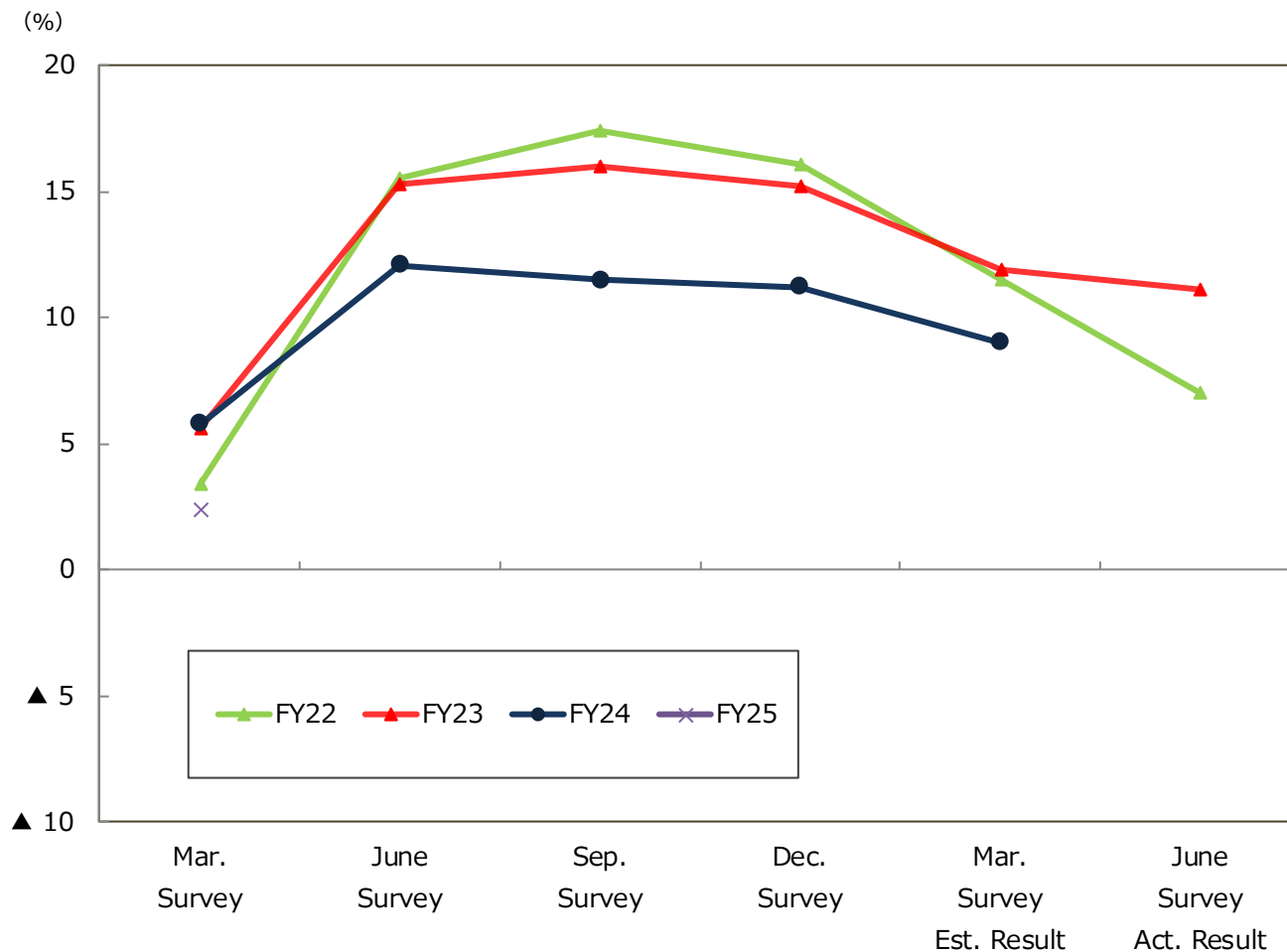
BOJ business condition DI Large non-manufacturers (%)



Note: Data is from Q1 2004 to Q1 2025. The orange shadow represents periods of economic recession.
Source: The Bank of Japan, SMDAM

Uncertainty over the global economy weighs on CAPEX appetite

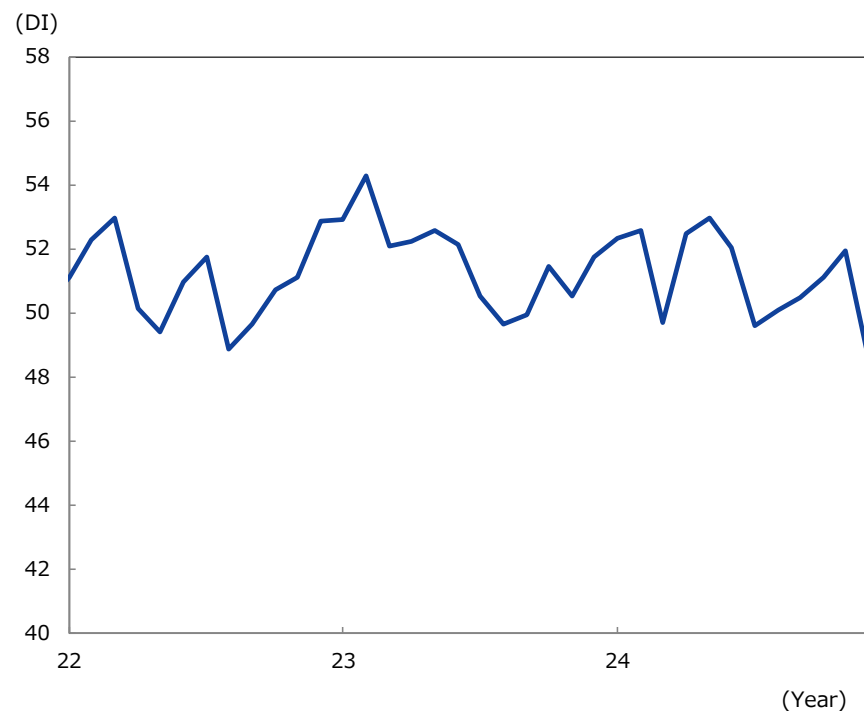
Plan of CAPEX (Inc. Software, Ex. Land and R&D, YOY)



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

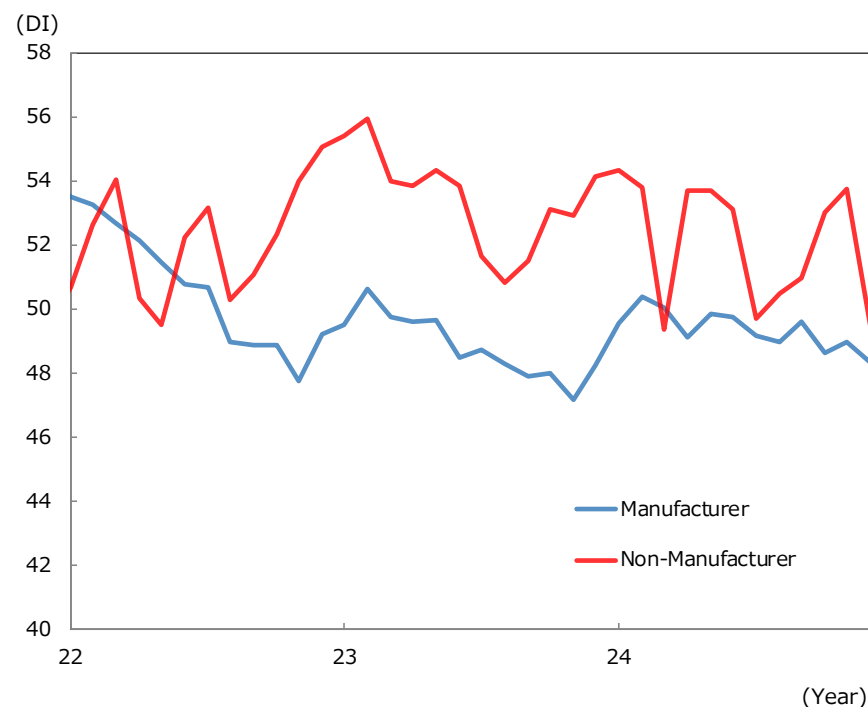
Sharp correction in Service PMI brought composite PMI lower

Composite PMI



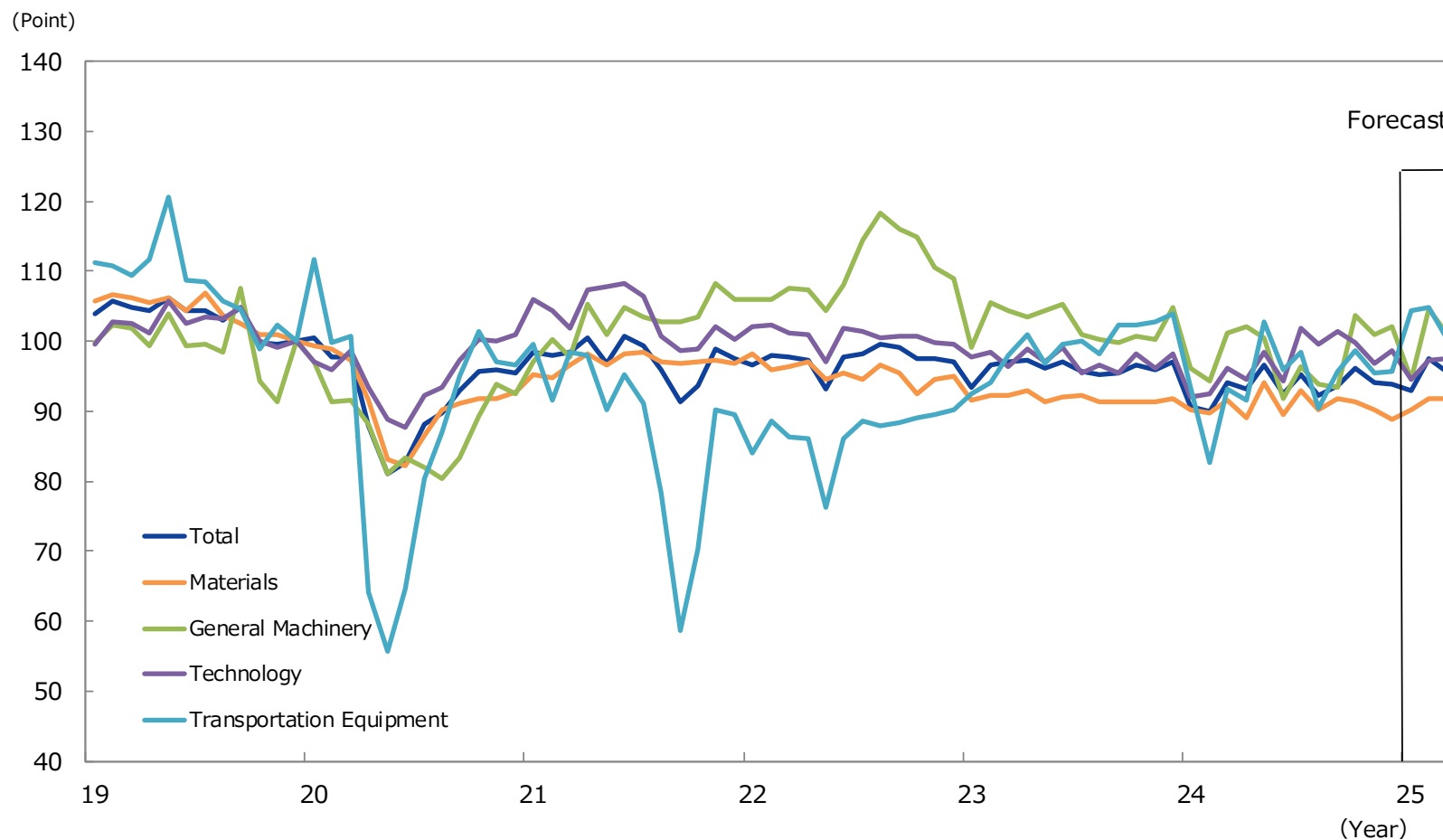
Note: Data is from April 2022 to March 2025.
Source: Bloomberg, SMDAM

PMI, Manufacturer & Non-Manufacturer



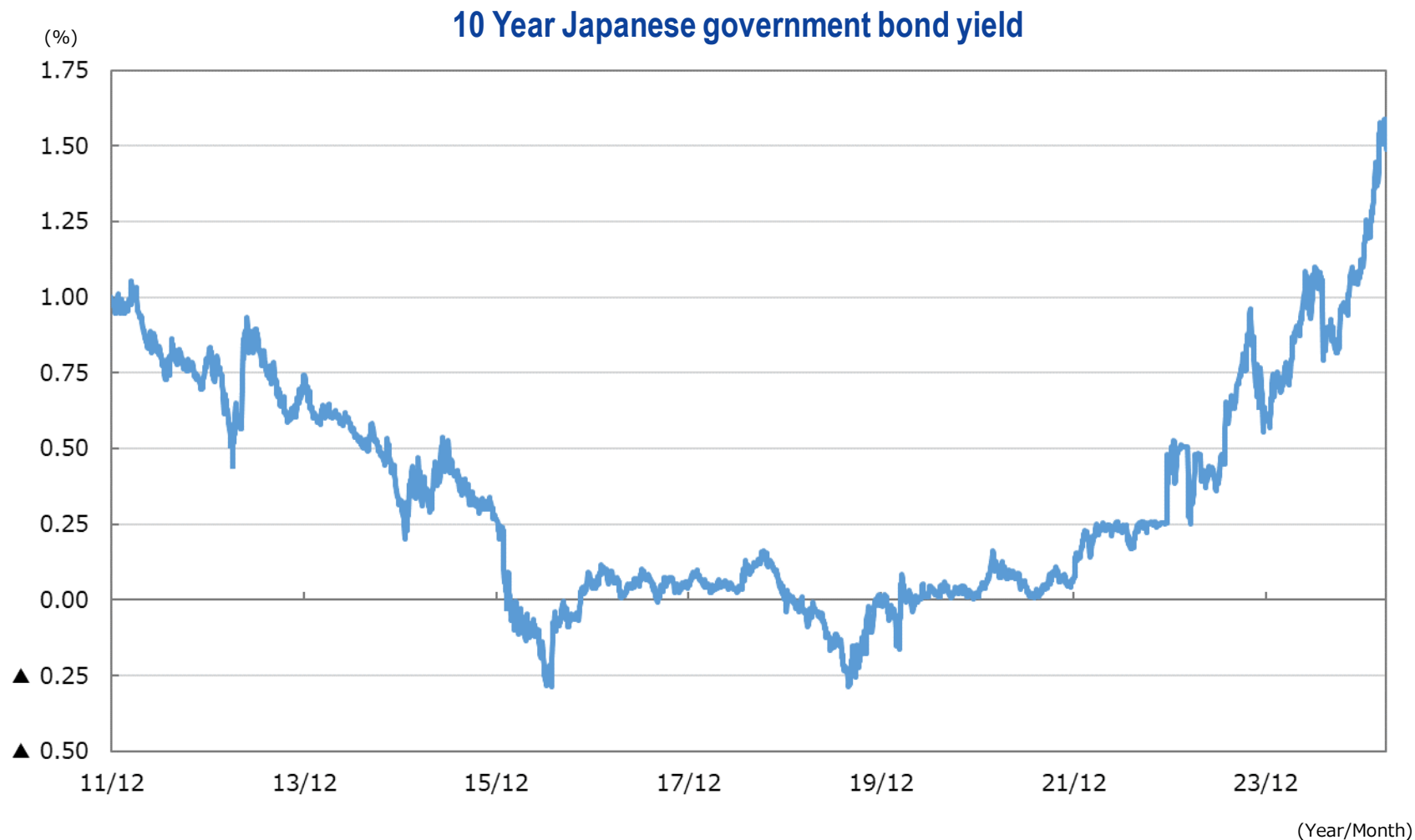
Recovery in auto production lifts Industrial production

Industrial Production (Dec. 2019=100)



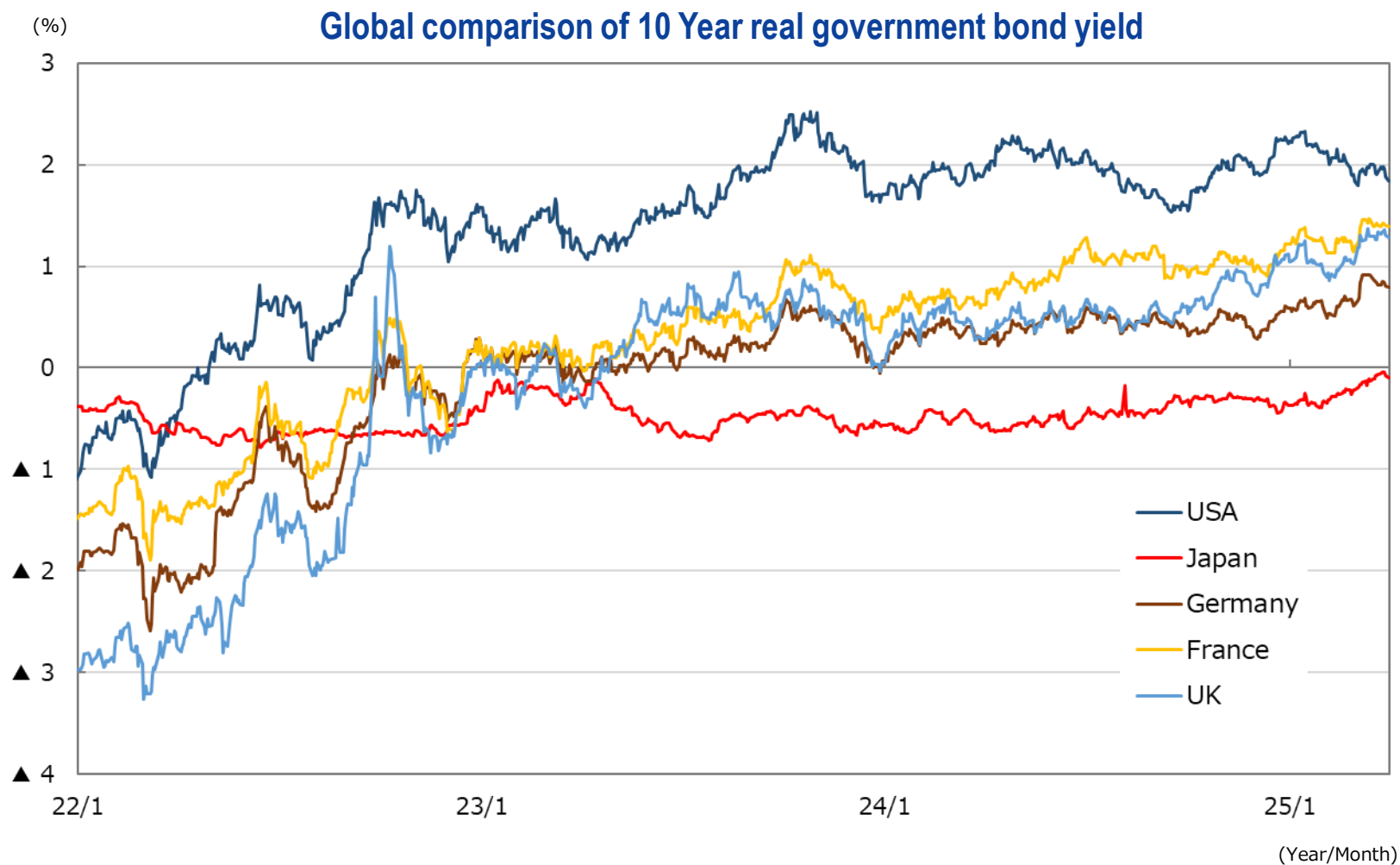
Note: Data is from January 2019 to March 2025. Data after January 2025 is forecasts.
Source: METI, SMDAM

Growing expectation for further monetary tightening



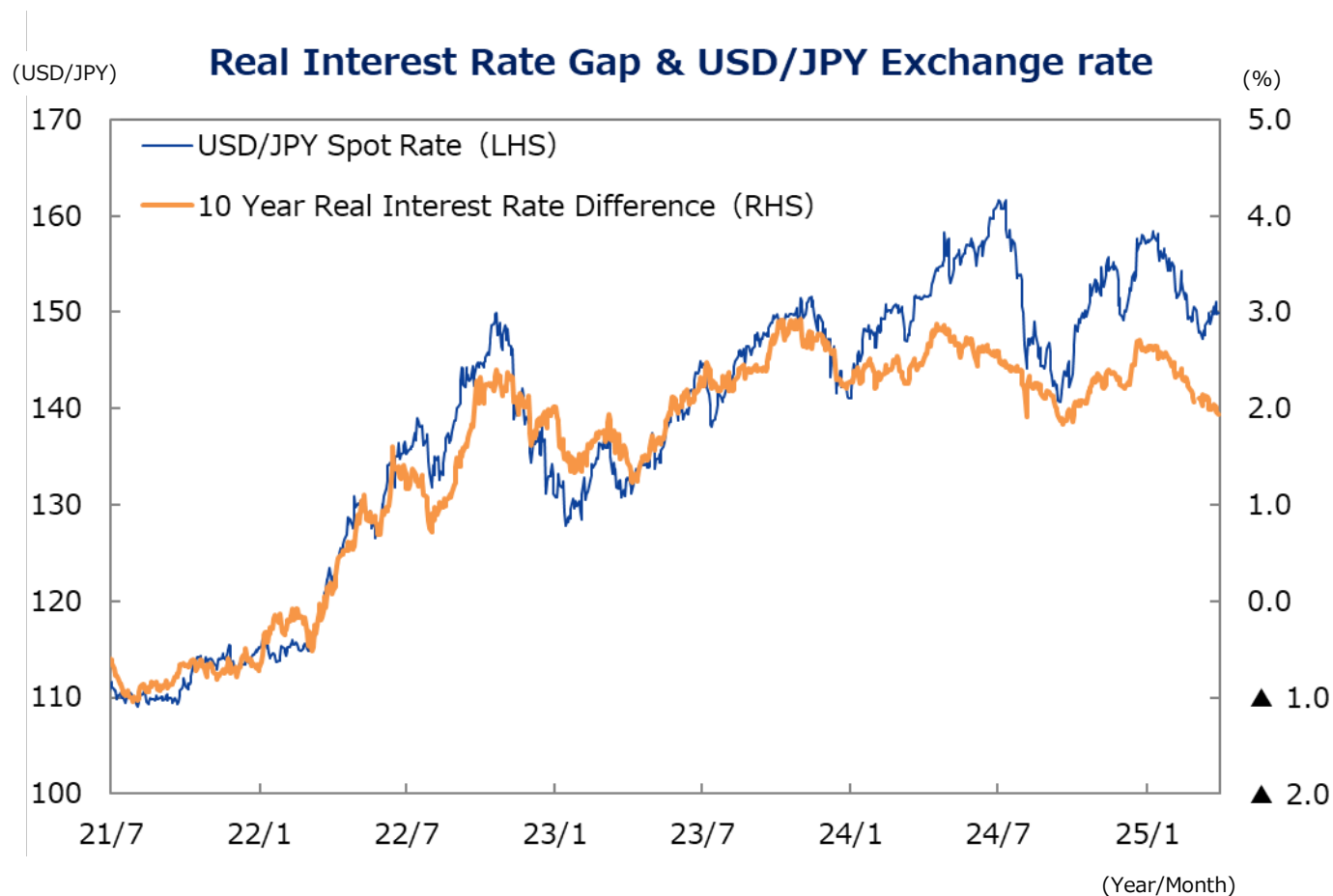
Note: Data is from 31st December 2011 to 31st March 2025.
Source: Bloomberg

Reason why Japanese interest rates rises further



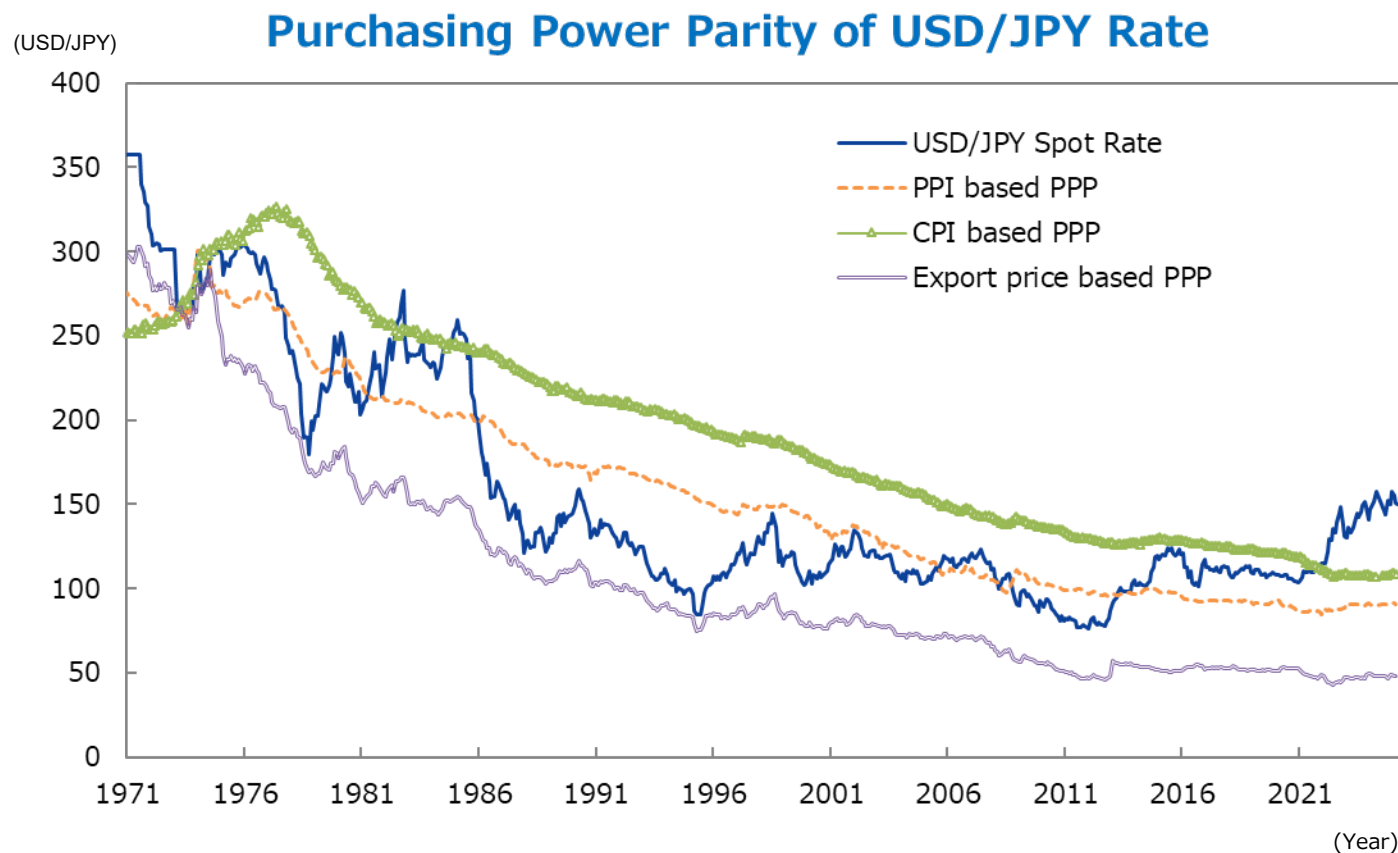
Note: Data is from 1st January 2011 to 31st March 2025.
Source: Bloomberg

Interest rate gap suggests further room for the yen's appreciation



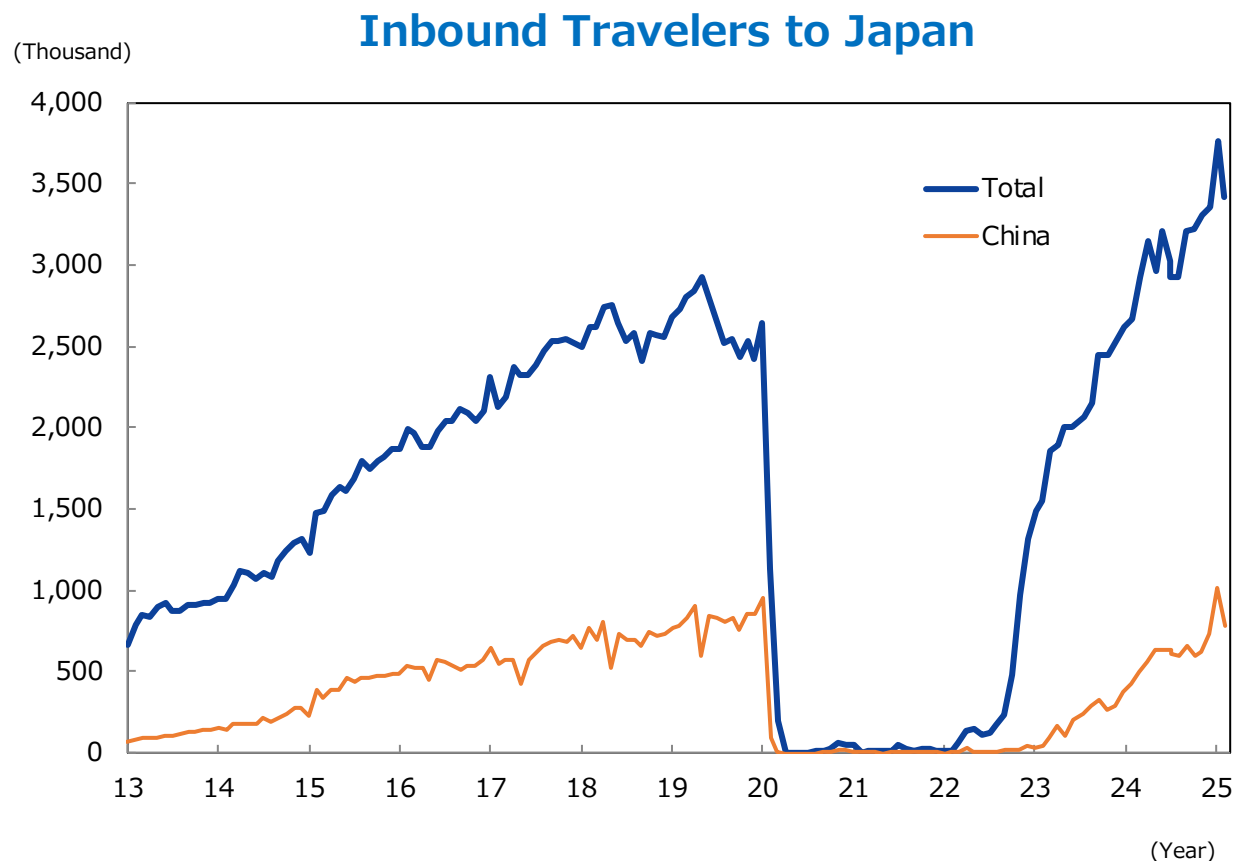
Note: Data is from 1st July 2021 to 31st March 2025.
Source: Bloomberg

PPP also suggests big room for the yen's appreciation



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

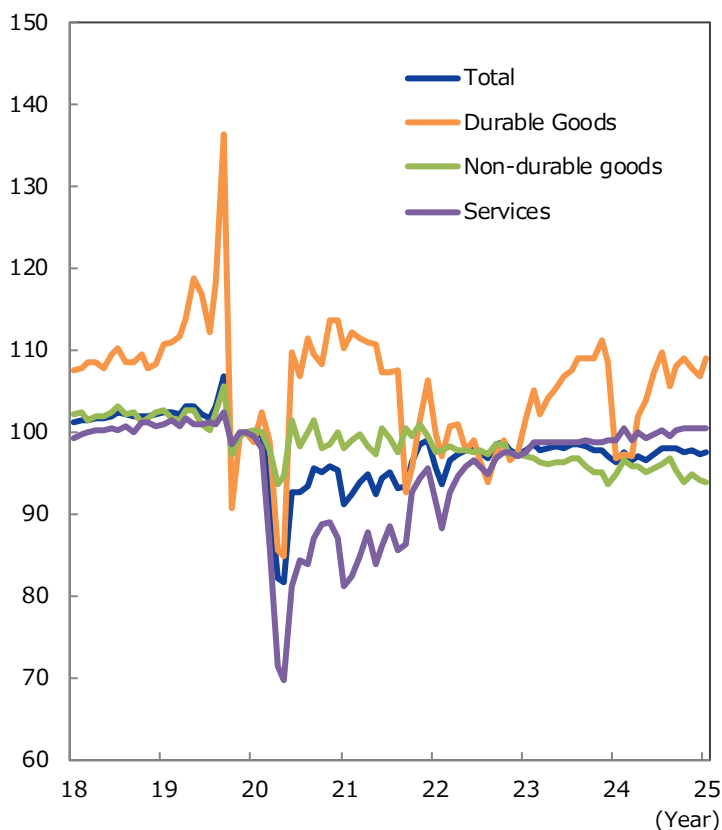
Inbound travelers exceeded 3 million for the first time in February



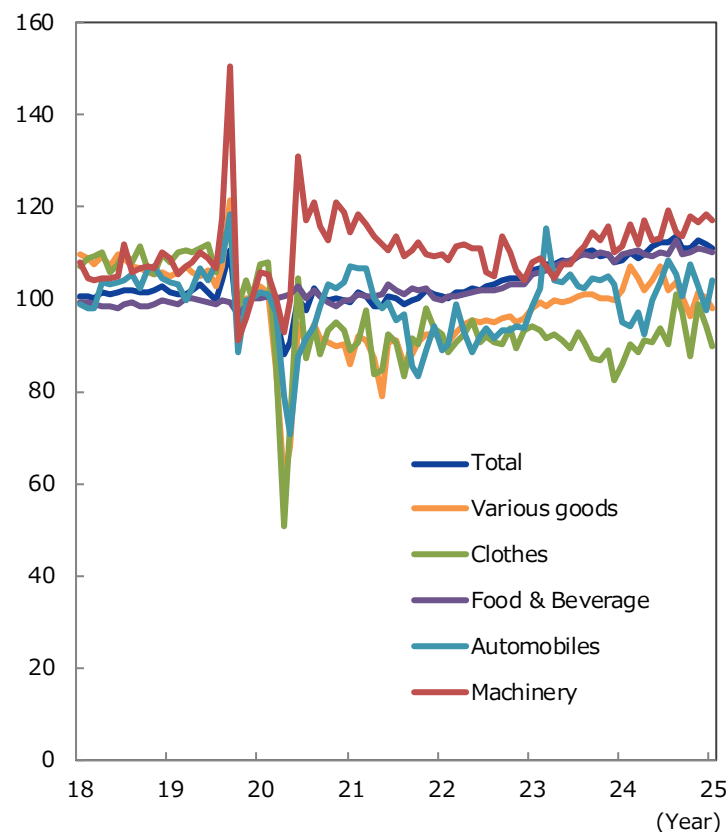
Note: Data is from January 2013 to February 2025. Data is non-seasonally adjusted.
Source: Japan National Tourism Organization, SMDAM

Demand for durable goods leads consumer activities

Consumer Activity Index (Dec. 2019 = 100)



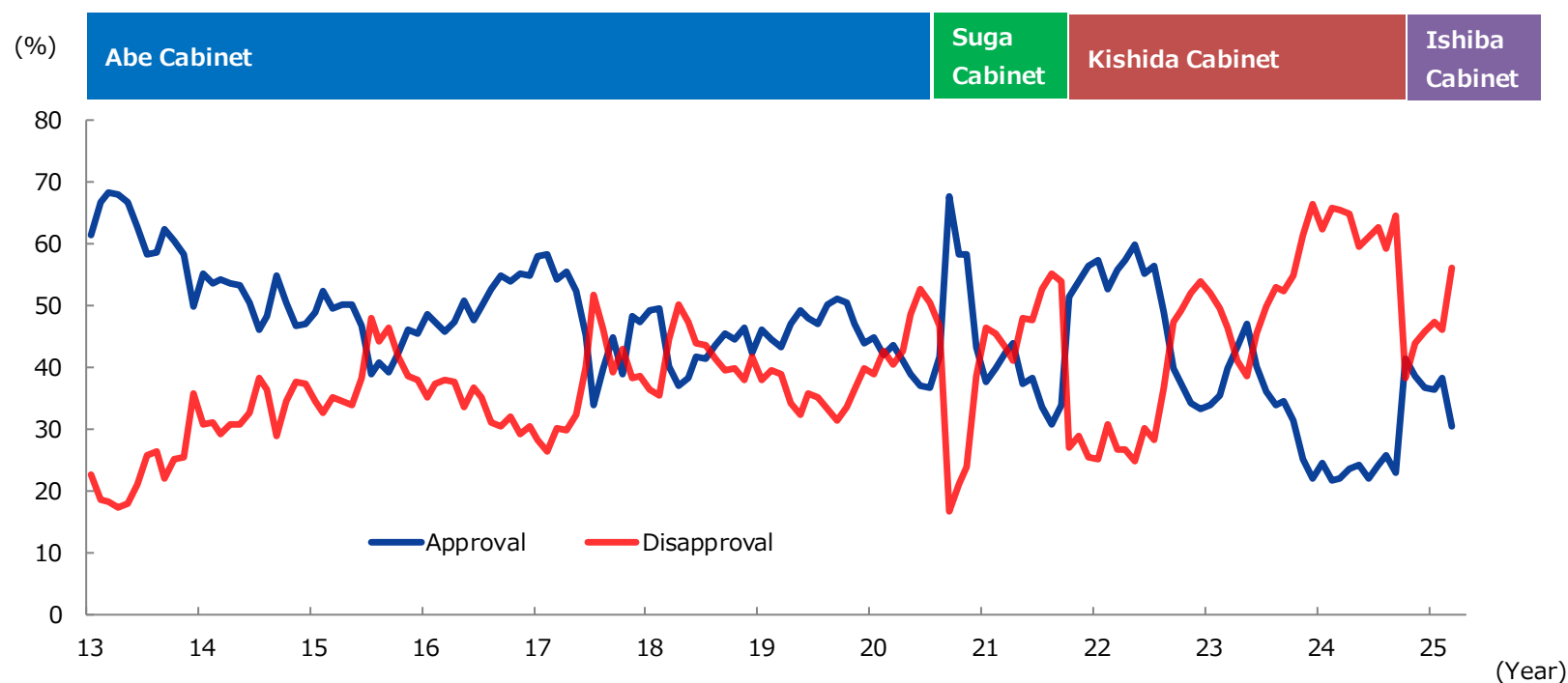
Retail Sales (Dec. 2019 = 100)



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

PM Ishiba and his administration are struggling with falling approval rate

Cabinet approval rate



Note: Data is from January 2013 to March 2025.

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

Schedule of major events

Year	Month	Date	Event
2025	April	13 30-5/1	Start of Osaka Expo Monetary Policy Meeting
	May	16	Release of 2025 Q1 GDP
	June	9 16-17 22 30	Revision of 2025 Q1 GDP Monetary Policy Meeting Election of the Tokyo Metropolitan Assembly Member Cabinet's decisions on "Big-boned policy" End of the ordinary Diet session Expiration of the term of the Bank of Japan's Nakamura Policy Board member
	July	28	Final results of spring negotiations of Trade Union Confederation Election of the House of Councillors
	August	15	Release of 2025 Q2 GDP
	Septemebr	8 18-19	Revision of 2025 Q2 GDP Monetary Policy Meeting
	October	29-30	Monetary Policy Meeting
	November	17	Release of 2025 Q3 GDP
	December	8 18-19	Revision of 2025 Q3 GDP Monetary Policy Meeting Cabinet approval of the initial budget for FY 2026 and the outline for tax reform

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

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