



Outlook for Japanese Stock Market & Economy

Sumitomo Mitsui DS Asset Management

Hisashi Shiraki, CMA
Chief Global Strategist

Miwa Asahi
Xinyan Zhao

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Sumitomo Mitsui DS Asset Management



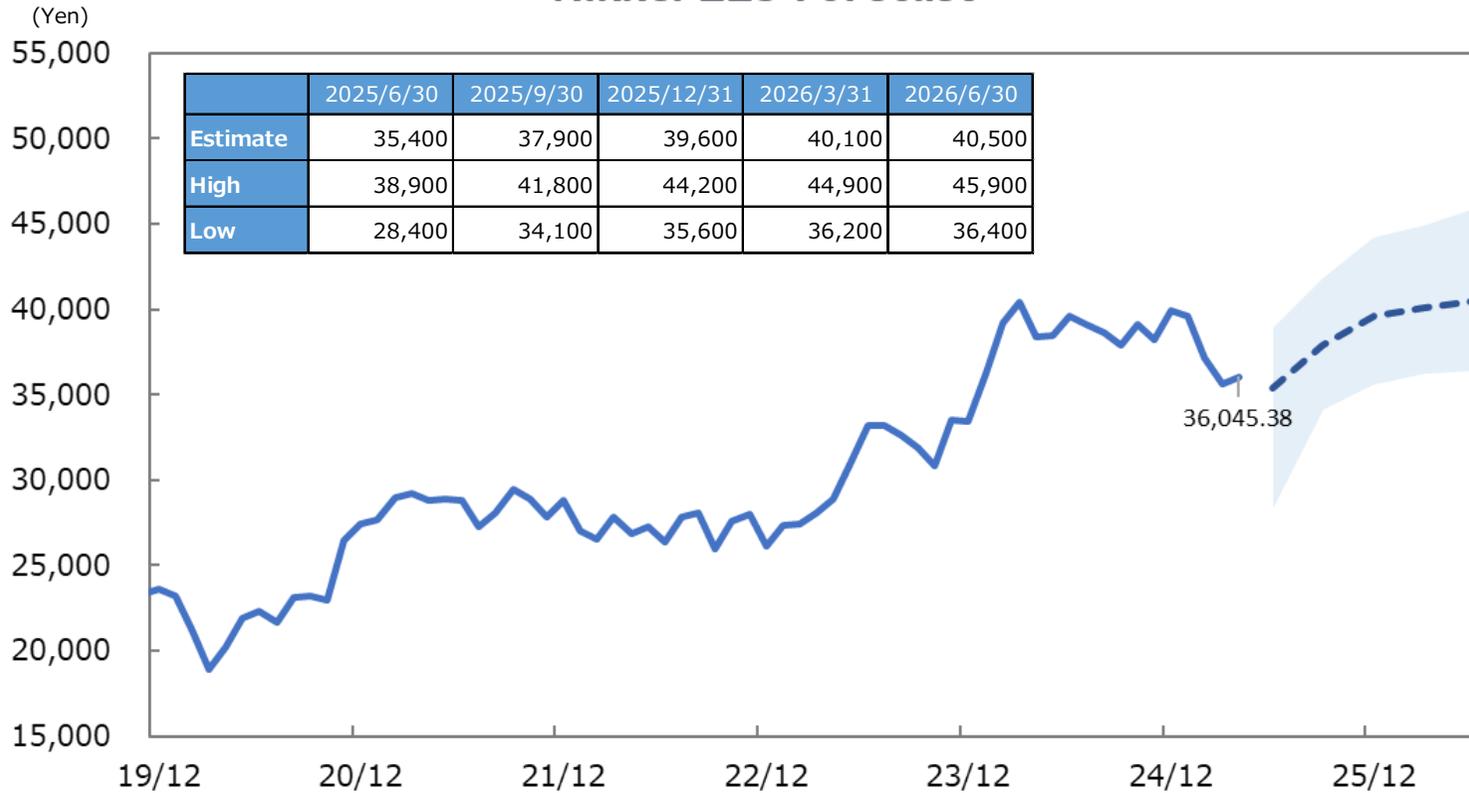
Outlook for Japanese Stock Market

Market Outlook

- Based on our share price valuation analysis, it is likely that the recent market correction has already priced in a large part of the possibility for downward revisions in the economy and corporate earnings in the near future.
- Trump administration’s “flexibility” regarding tariffs and economic policies could ease investors’ concerns over the global economy and Japanese stocks are expected to resume their long-term upward trend in the mid-to-long term.
- We have lowered our target price for the Nikkei 225 from 42,600 to 39,600 as of December 2025, and from 43,500 to 40,100 as of March 2026, following the market turmoil in April.
- Regarding demand and supply in the stock market, foreign investors’ selling has been absorbed by share buybacks, fueled by improving corporate governance.

Japanese equity to resume bullish trend in mid-to-long term

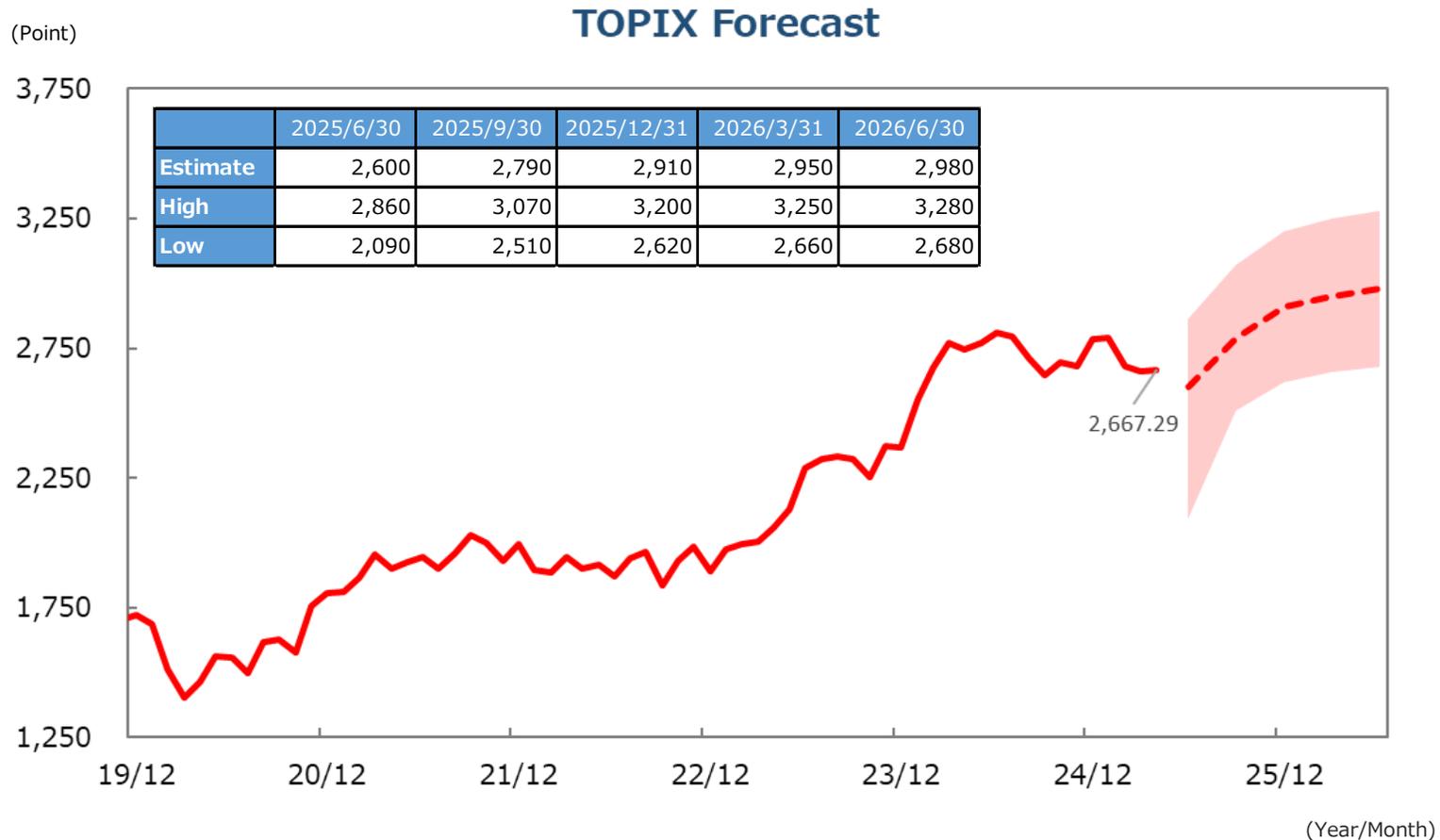
Nikkei 225 Forecast



Data is from December 2019 to June 2026. Data after April 2025 is our forecast.
 Note: The forecasts are as of April 21st, 2025.
 (Source) Bloomberg, SMDAM

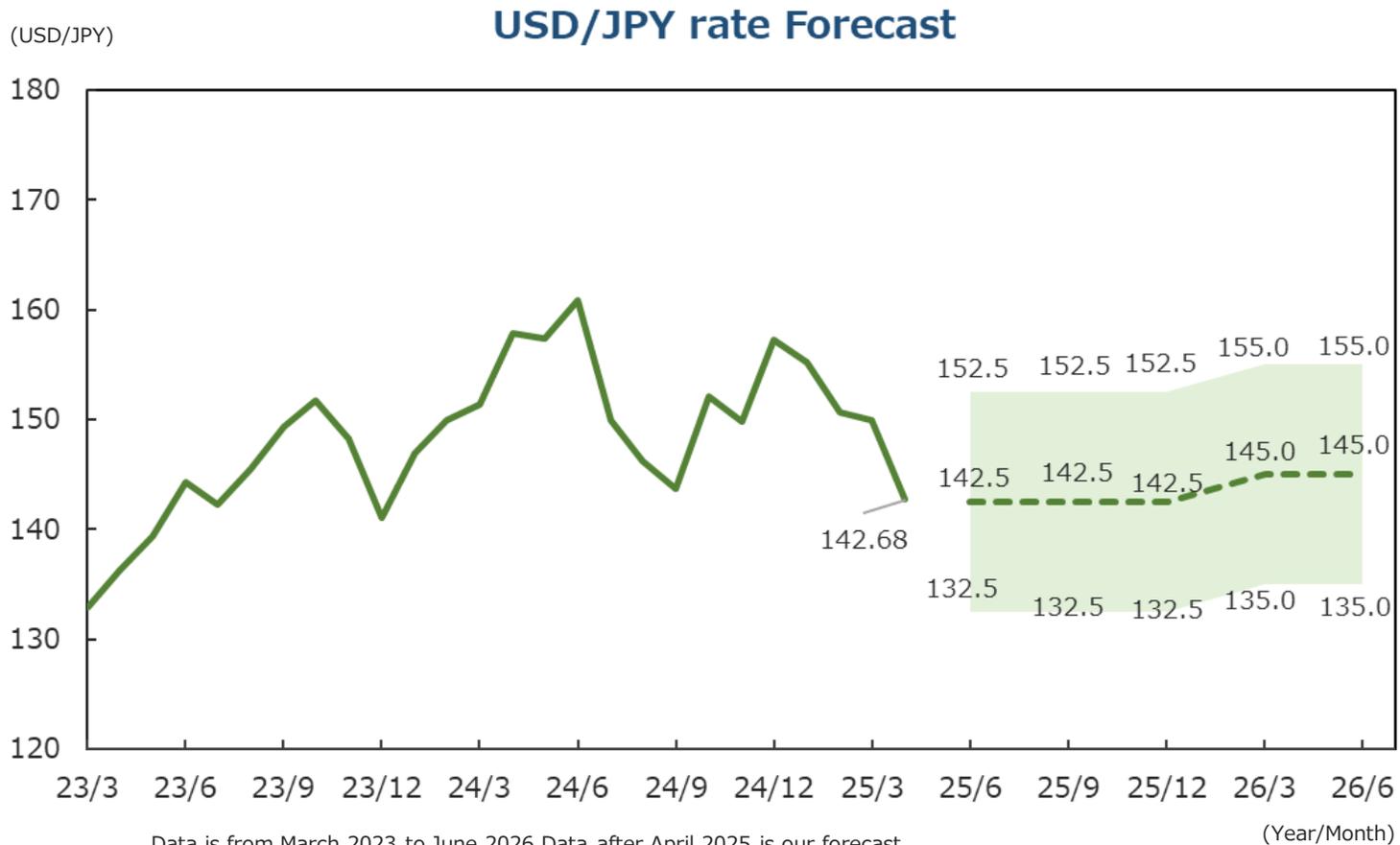
(Year/Month)

Japanese equity to resume bullish trend in mid-to-long term



Data is from December 2019 to June 2026. Data after April 2025 is our forecast.
 Note: The forecasts are as of April 21st, 2025.
 (Source) Bloomberg, SMDAM

USD/JPY rate will be supported by the recovery in confidence



Data is from March 2023 to June 2026. Data after April 2025 is our forecast.
 Note: The forecasts are as of April 21st, 2025.
 (Source) Bloomberg, SMDAM

Upside / Downside risk scenarios

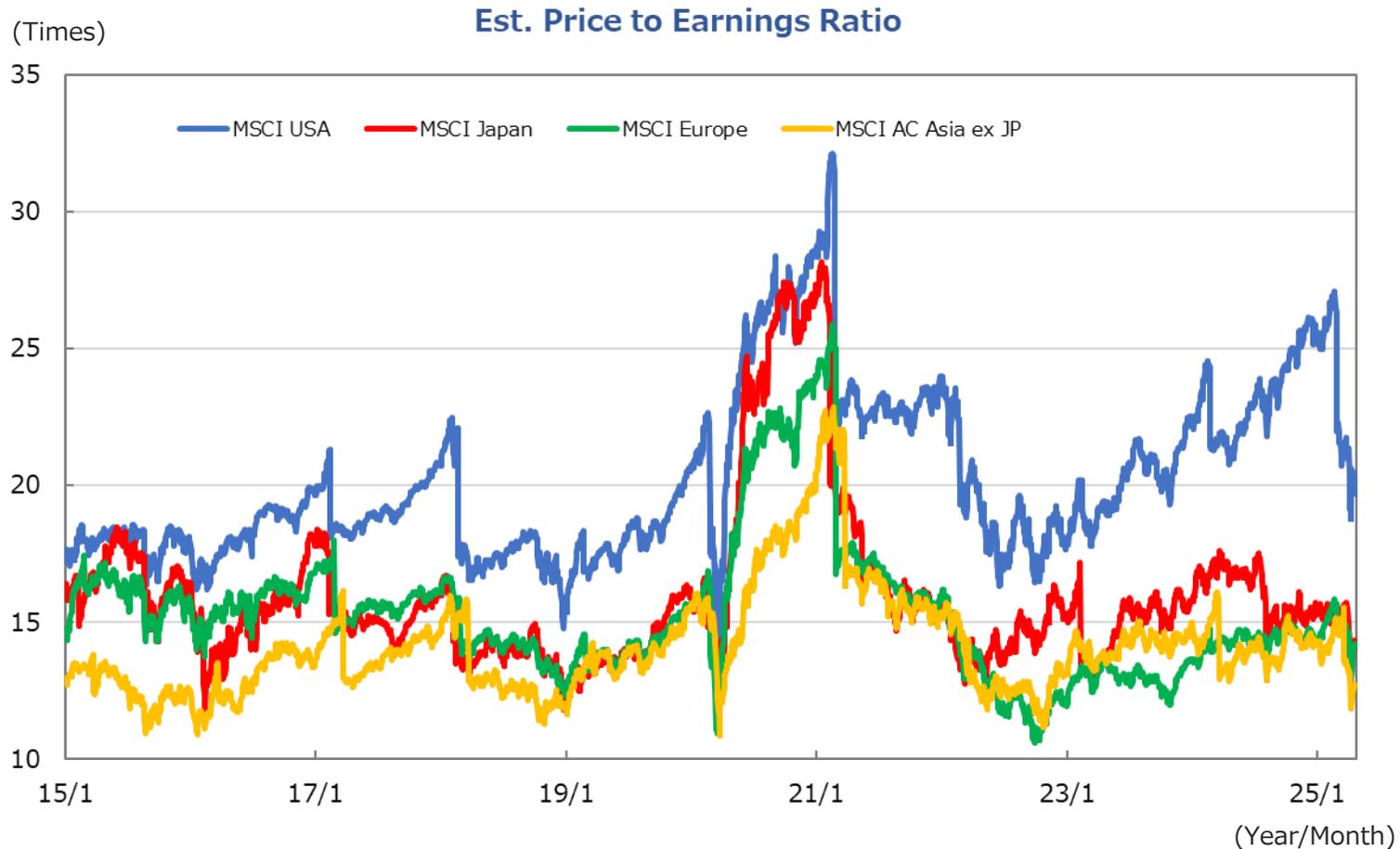
■ Upside Risks

- Receding concern over Trump tariffs
- Further improvement in corporate governance due to the number of hostile TOB

■ Downside Risks

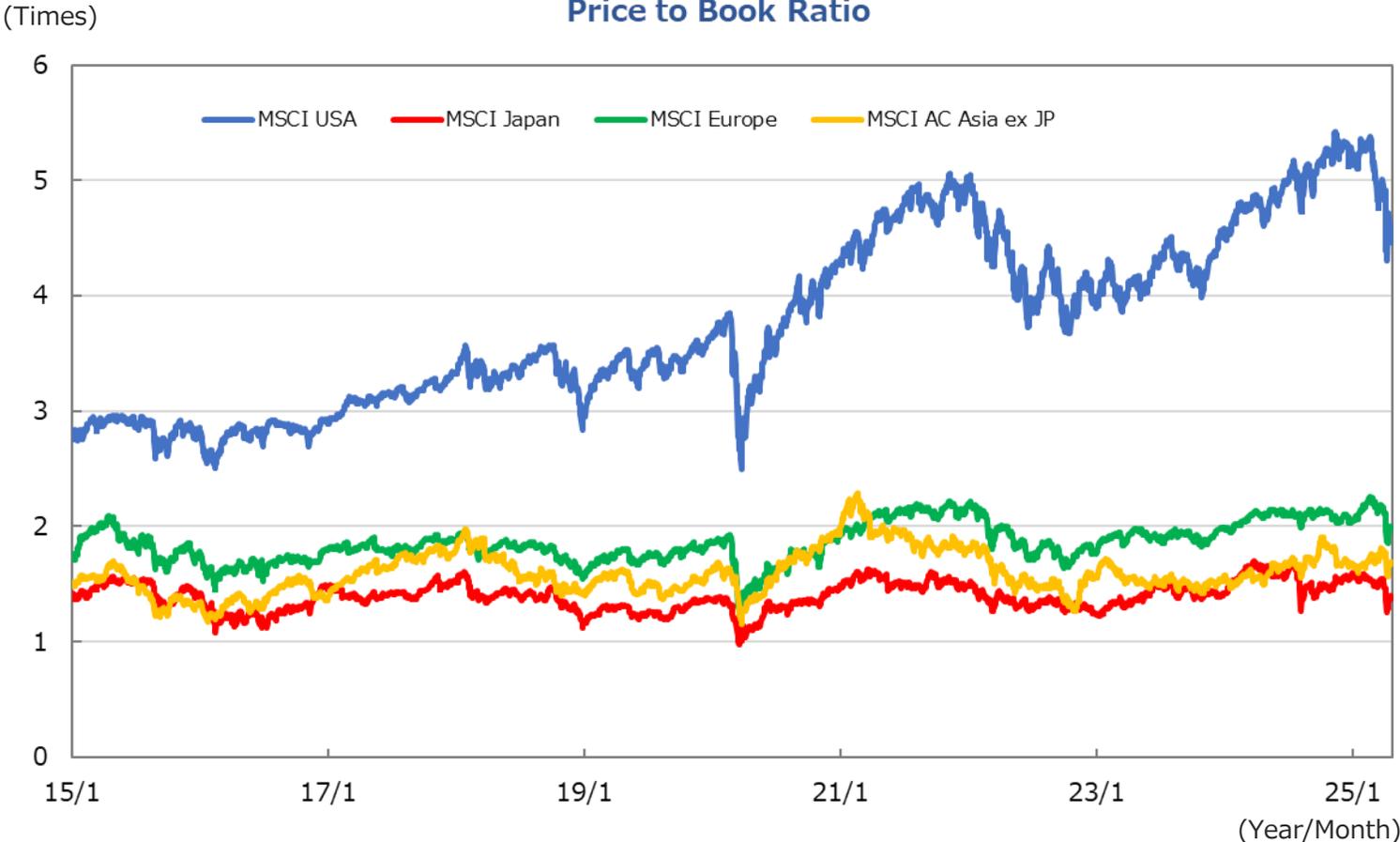
- Escalation of retaliatory tariffs between the US and China
- Slow down of the US economy due to tariffs and drastic fiscal reforms
- Falling approval ratings of the ruling party and uncertainty over the politics in Japan
- Sharp contraction of AI and big tech stocks' valuation
- Yen appreciation triggered by the rising long-term interest rate of Japan

Market turmoil causes P/E ratio to drop sharply



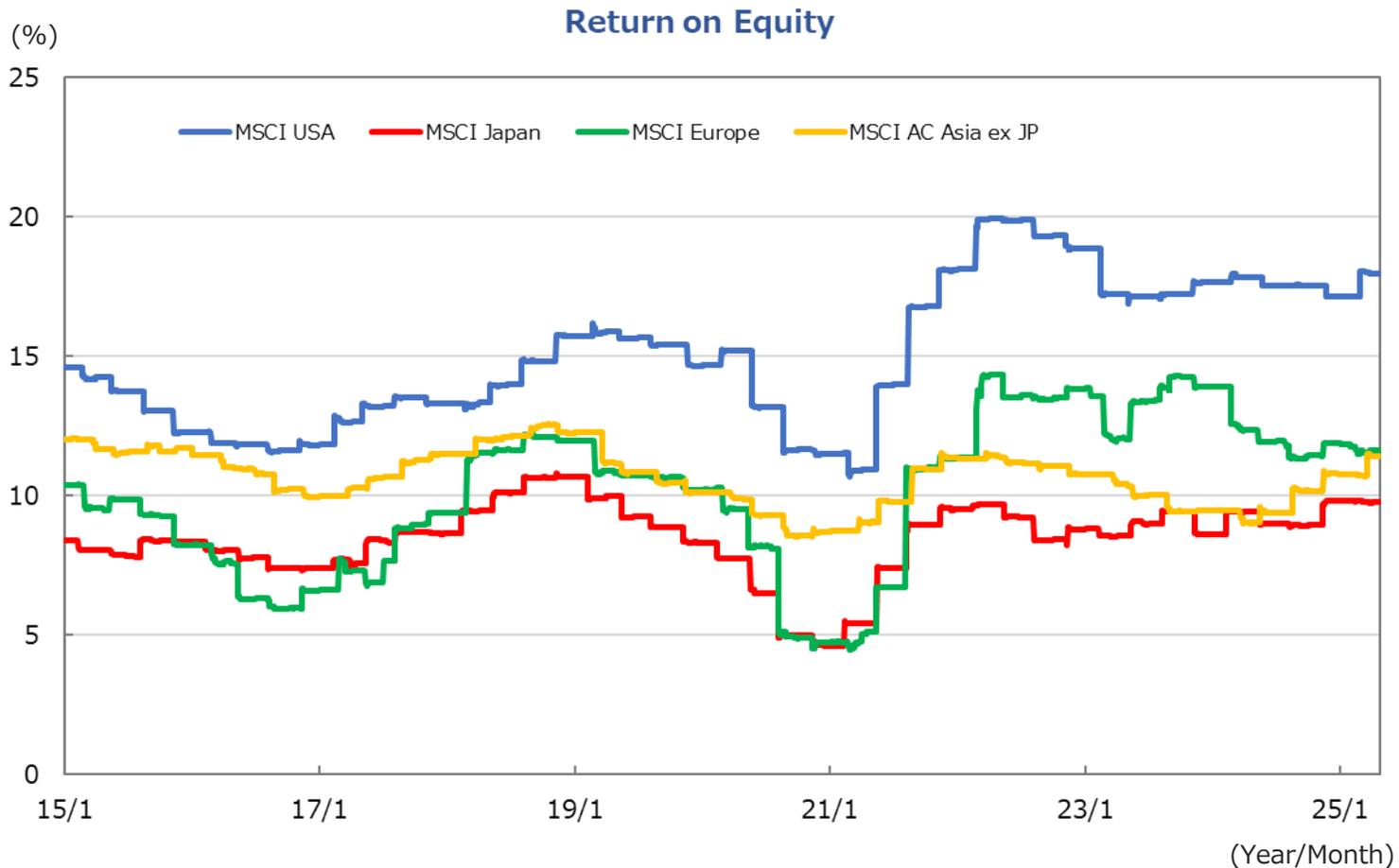
Data is from January 2015 to April 2025.
(Source) SMDAM, Bloomberg

Price to Book ratio dropped to its lowest since last August



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

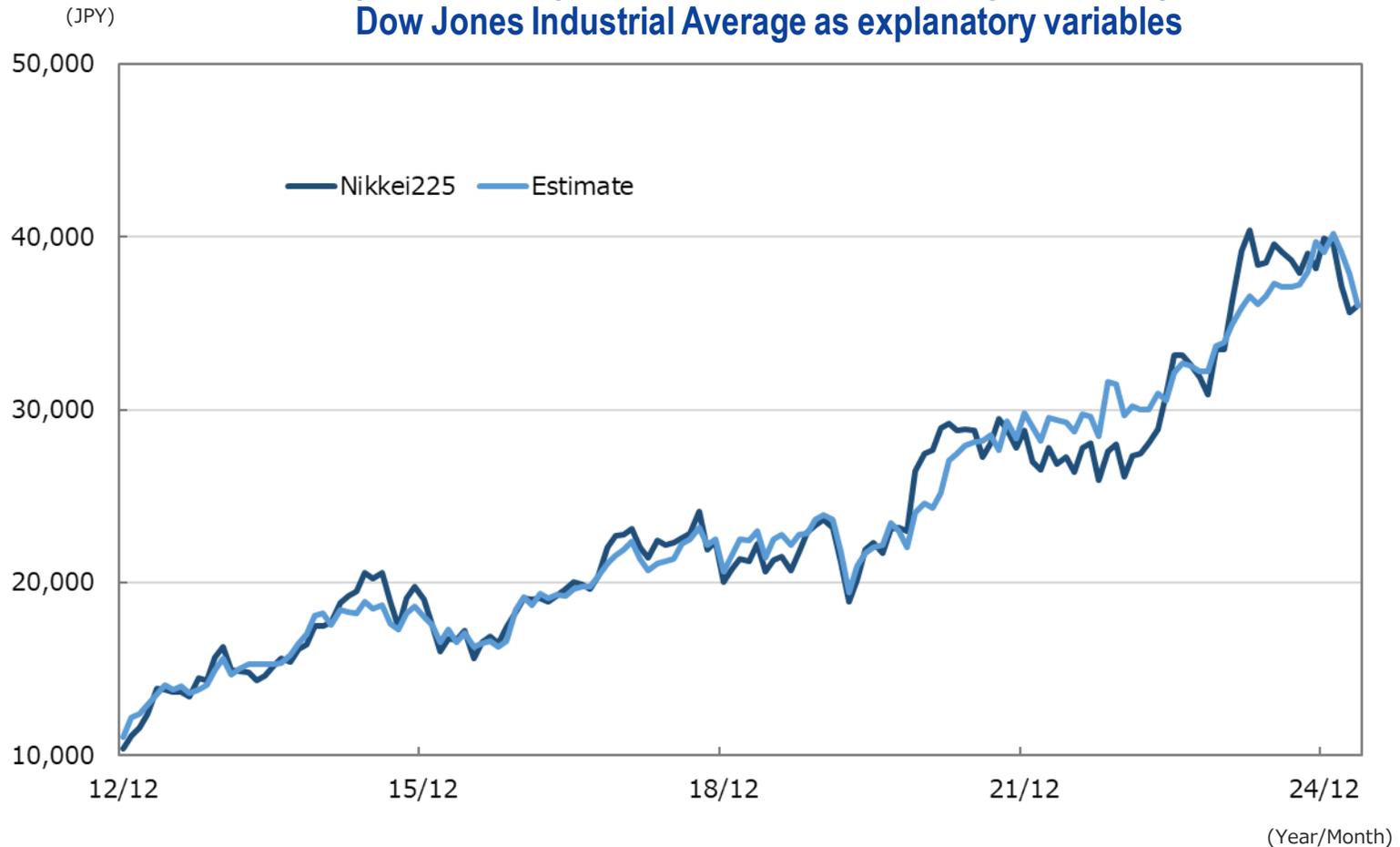
Earnings growth boosts Japan's ROE closer to double digits



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

Higher Yen and falling US stocks push down Japanese equities

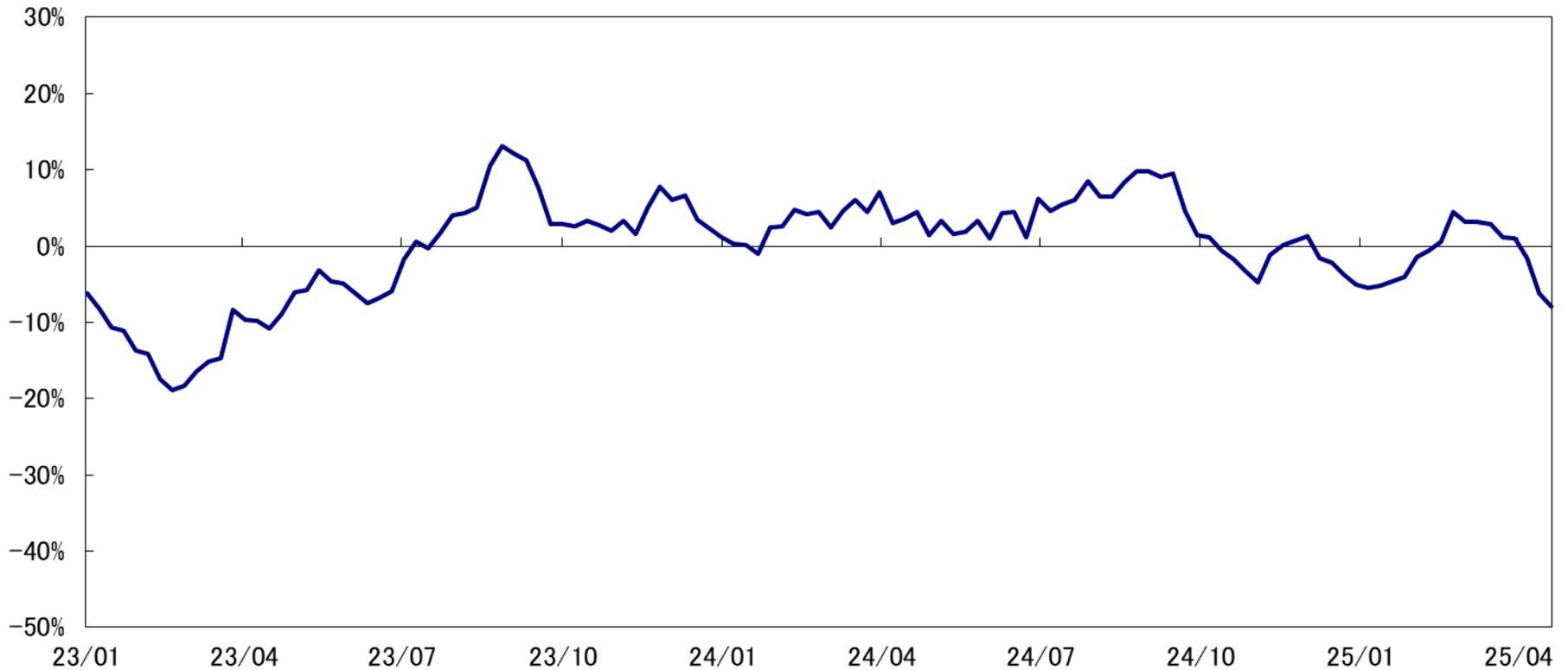
Multiple regression analysis of Nikkei 225 Index using US dollar/yen rate and Dow Jones Industrial Average as explanatory variables



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

Concern over Trump tariffs hurt analysts' earnings forecasts

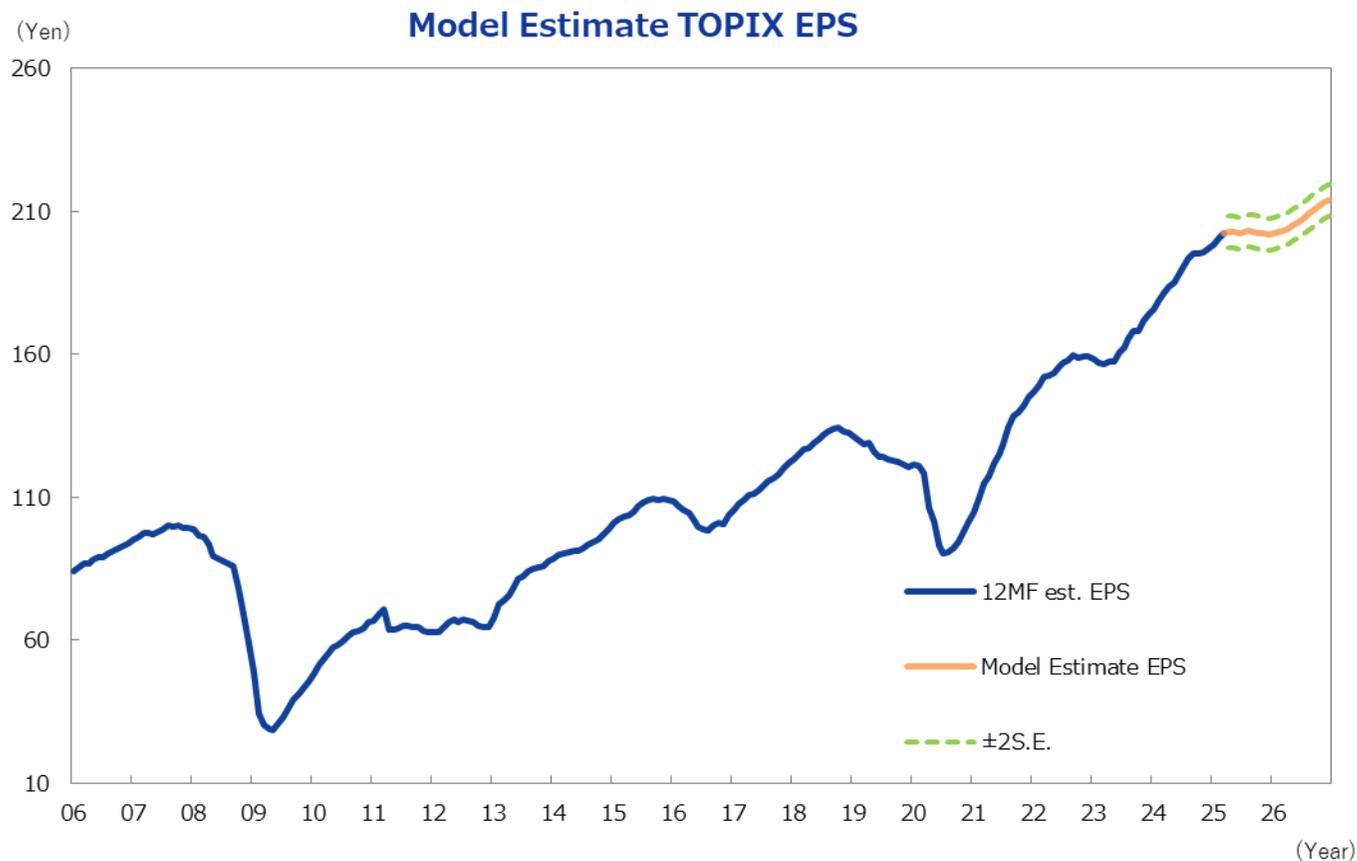
TOPIX EPS Revision Index



Data is from January 5th 2023 to April 24th 2025
(Source) Datastream, IBES

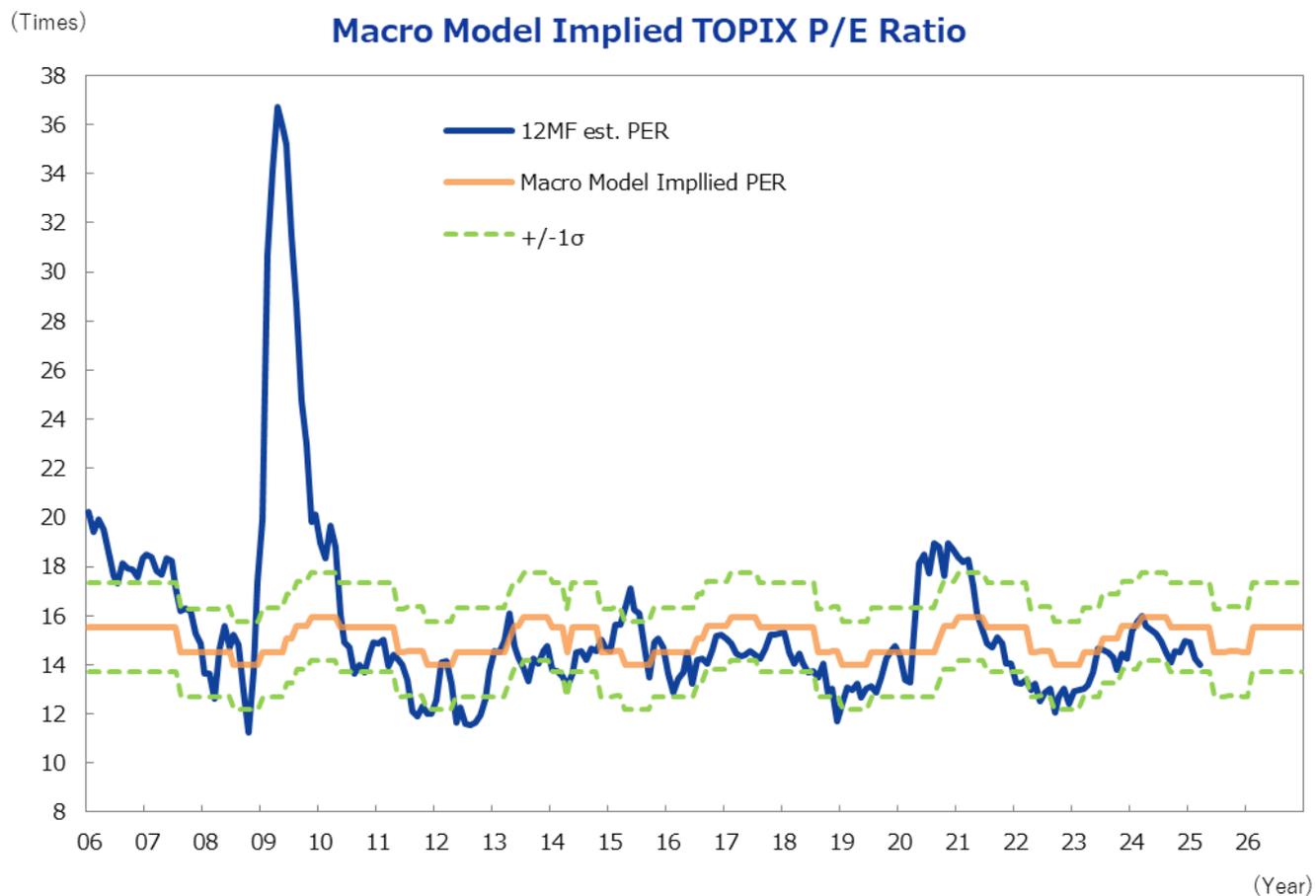
(YY/MM)

Quant model suggests EPS growth will slow down temporarily



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

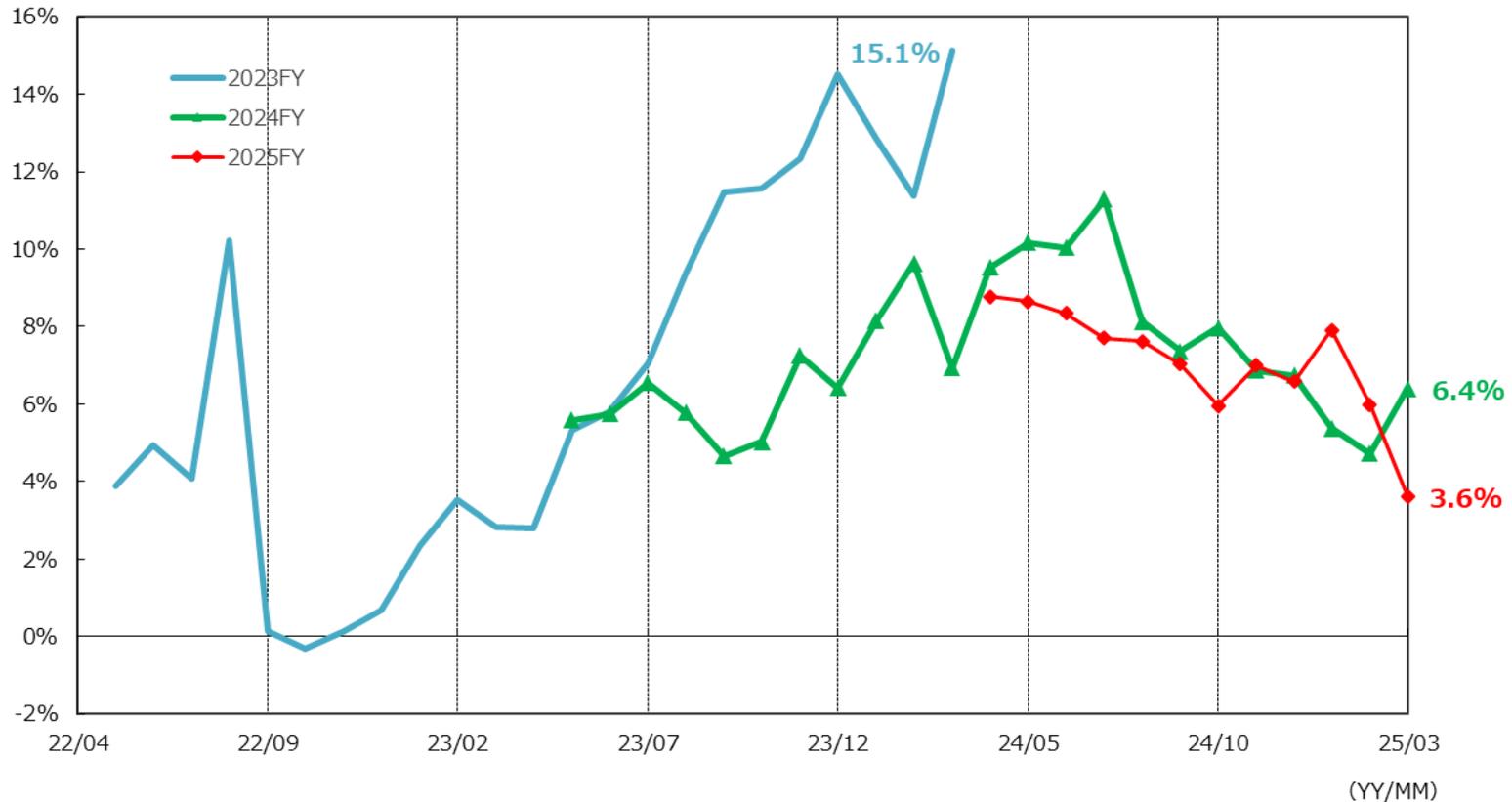
Market turmoil brought P/E ratio to the lower end of the range



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

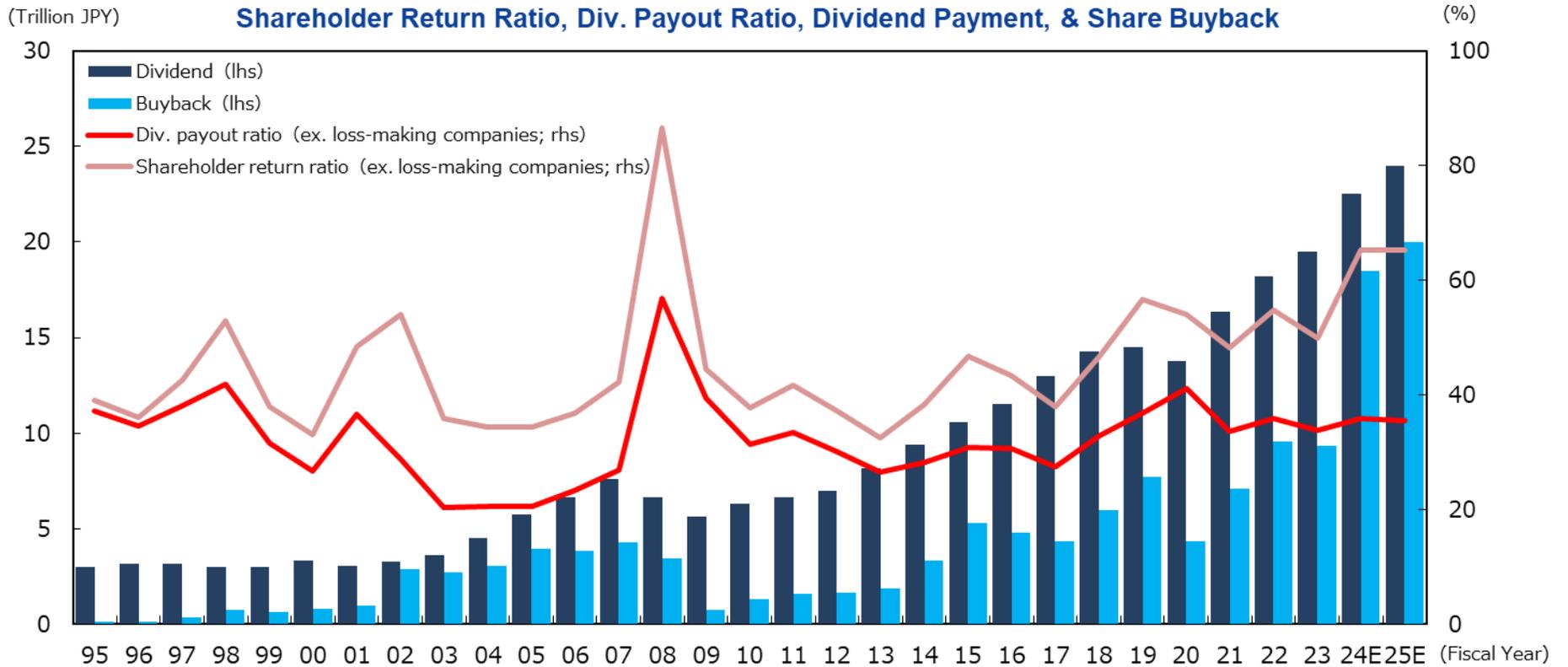
SMDAM analysts feel uncomfortable with global economy outlook

SMDAM Core Research Universe (Excl. Financials) Est. Recurring Profit Growth



Note: Data is as of 14th April 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 continue



Note: Data is from FY1995 to FY2025. FY2024 and FY2025 are forecasts by Daiwa Securities.
 Source: Toyo Keizai, Quick, INDB, Daiwa Securities, SMDAM

Recent market turmoil hit large caps badly

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	-7.88	-4.79	-9.29	-4.61	24.52	33.08	80.80
Total Value	-6.88	-2.59	-8.71	-5.15	36.79	49.60	116.88
Top Cap Value	-11.75	-5.24	-13.33	-8.66	40.77	51.72	136.53
Large Cap Value	-8.12	-3.89	-9.95	-6.76	36.96	48.02	121.01
Mid Cap Value	-3.88	-2.18	-6.02	-4.48	32.53	43.78	103.57
Small Cap Value	-1.74	2.62	-3.55	1.74	34.86	55.25	97.25
Micro Cap Value	-0.50	3.61	-2.62	3.95	33.09	53.84	89.21
Total Growth	-8.93	-6.87	-9.90	-4.15	13.53	18.75	50.04
Top Cap Growth	-13.13	-9.62	-13.59	-7.15	14.40	17.49	53.55
Large Cap Growth	-9.76	-7.52	-10.55	-4.80	14.16	19.41	51.73
Mid Cap Growth	-1.66	-2.37	-3.35	0.92	15.08	24.45	50.51
Small Cap Growth	-1.97	-1.50	-4.47	1.10	7.92	13.22	35.39
Micro Cap Growth	-0.88	-3.53	-4.31	-4.35	1.72	8.00	29.17
Top Cap Total	-12.55	-7.91	-13.48	-7.75	25.15	31.26	85.55
Large Cap Total	-8.97	-5.86	-10.26	-5.71	24.45	32.13	81.92
Mid Cap Total	-2.99	-2.38	-4.95	-2.26	23.88	34.05	77.92
Small Cap Total	-1.83	1.09	-3.88	1.53	24.02	37.68	72.03
Micro Cap Total	-0.61	1.29	-3.14	1.23	22.11	37.10	68.61

Note : As of 30th April 2025
(Source) Bloomberg

...Excess RN Japan Equity's performance



Outlook for Japanese Economy

Current status & Outlook of Japanese economy

[Current Status]

- **The economy is in a soft patch.** Regarding domestic demand, consumer spending is stagnant owing to price increases, while CAPEX remains steady due to a strong demand for digitalization and labor shortages. As for foreign demand, companies are becoming more cautious about the future outlook. Taking the Reuters Tankan survey as an example, there are increasing concerns about US tariffs, despite solid export levels before the announcement of reciprocal tariffs and 25% tariffs on automotive imports.
- **Nationwide core CPI is exceeding the Bank of Japan's "price stability target" of 2% YOY.** Nationwide core CPI rose by +3.0% YOY in February, down from +3.2% in January. Nationwide core CPI remains elevated, driven by cost-push pressures from import prices and rising rice prices. Currently, food prices have continued their upward momentum.

[Outlook]

- ① **While we have maintained our real GDP growth forecast for FY 2024 at +0.7%, we have lowered our estimate for FY 2025 from +1.0% to +0.6% and for FY 2026 from +0.9% to +0.8%.** The downward revision is mainly due to the US tariff measures. Looking ahead, we assume that the Japanese economy will avoid a severe downturn despite the possibility of a low growth rate in the first half of FY2025. Afterward, we maintain our expectation that the Japanese economy will continue its moderate growth trajectory, supported by wage increases, a steady appetite for CAPEX, 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 +2.3% to +2.2%, and we have raised our forecast for FY2026 from +1.6% to +1.7%.** Looking ahead, we expect the nationwide core CPI to remain at a higher level until the end of 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, and the stabilization of rice prices as a result of the release of the stockpiled rice by the government. Furthermore, we assume that subsidies for tuition fees will also contribute to a downward trend in core CPI. On the other hand, we expect that rises in service prices, driven by wage hikes, will support an upward trend in core CPI. We forecast core CPI to maintain a momentum of around +2.0% YOY, excluding the impact of the tuition support programs.
- ③ **We expect the government to adopt accommodative fiscal policies.** The government has decided to withdraw the supplemental budget draft during the most recent Diet session. Government officials say that they might take into account criticism about pork-barrel spending ahead of the upcoming House of Councillor election this summer. Other officials say that they might take time to devise strategies to account for how much the US tariff measures are expected to negatively impact the domestic economy.
- ④ **We have changed our estimates regarding the schedule for further monetary tightening by the Bank of Japan (BOJ). We expect the BOJ to raise its policy rate from 0.50% to 0.75% in January 2026, and from 0.75% to 1.00% in October 2026.** At the Bank of Japan's Monetary Policy Meeting in April, the policy interest rate was kept unchanged as expected. However, in the simultaneously published Outlook Report, the Bank of Japan revised down its forecasts for prices and economic growth and postponed the predicted timing for the achievement of the "price stability target" from the second half of FY 2026 to FY 2027. Additionally, Governor Ueda's comments after the meeting reflected notable caution regarding the outlook for the economy and prices, with statements such as "support the economy with current accommodative monetary policy," conveying a dovish tone overall. In response to this shift in the Bank of Japan's monetary policy stance, we have revised our outlook to indicate that the timing of additional rate hikes by the Bank of Japan will likely be postponed.

Note: The forecasts are as of April 17th, 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%	0.6%	0.8%
Private final consumption expenditure	1.8%	2.6%	-0.4%	0.8%	0.5%	0.8%
Private housing investment	0.3%	-2.6%	0.8%	-1.3%	-0.9%	-1.2%
Private-sector capital investment	3.2%	3.6%	-0.1%	2.0%	0.3%	1.0%
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%	-0.1%	0.0%
Exports of goods and services	12.5%	4.9%	2.9%	2.1%	1.7%	2.0%
Imports of goods and services	7.3%	7.3%	-3.3%	3.5%	2.3%	2.0%
Nominal GDP	2.9%	2.3%	4.9%	3.5%	2.8%	2.5%
GDP deflator	-0.1%	0.9%	4.2%	2.8%	2.3%	1.7%
Industrial Production Index	5.6%	-0.3%	-1.9%	-1.4%	-0.5%	1.2%
Consumer Price Index (Core)	0.1%	3.0%	2.8%	2.7%	2.2%	1.7%
Consumer Price Index (BOJ Core)	0.1%	3.0%	2.8%	2.7%	2.4%	2.0%
Domestic corporate goods price index	7.1%	9.6%	2.4%	3.2%	1.8%	1.4%
Employee compensation	2.1%	2.5%	1.9%	4.5%	3.5%	3.3%
Unemployment rate	2.8%	2.6%	2.6%	2.5%	2.5%	2.4%
Monetary Policy interest rate (Short term)	-0.10%	-0.10%	0-0.1%	0.50%	0.75%	1.00%

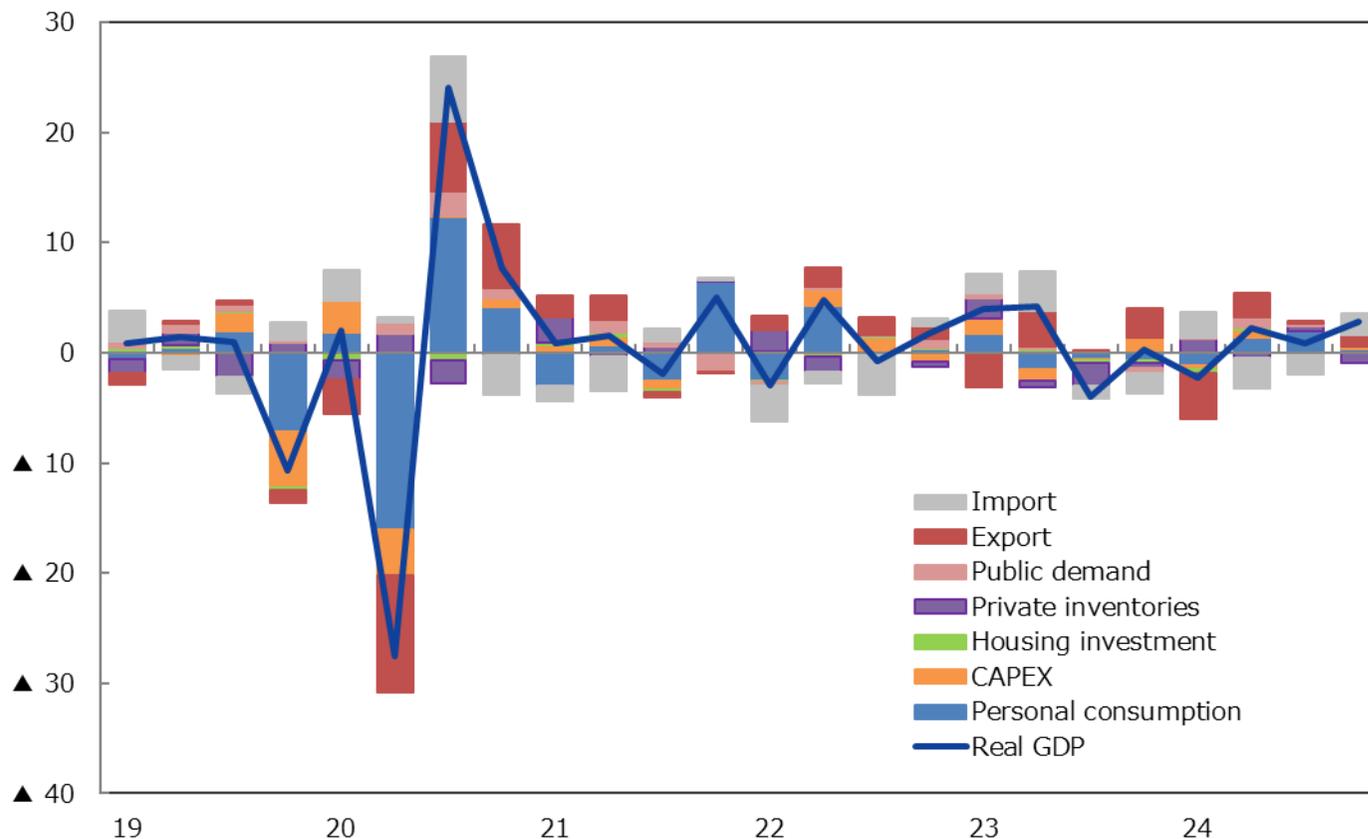
Note: Rate of increase over the previous year. Net exports are based on the degree of contribution, and the consumer price index (Core) excludes the effects of the consumption tax and free education.

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

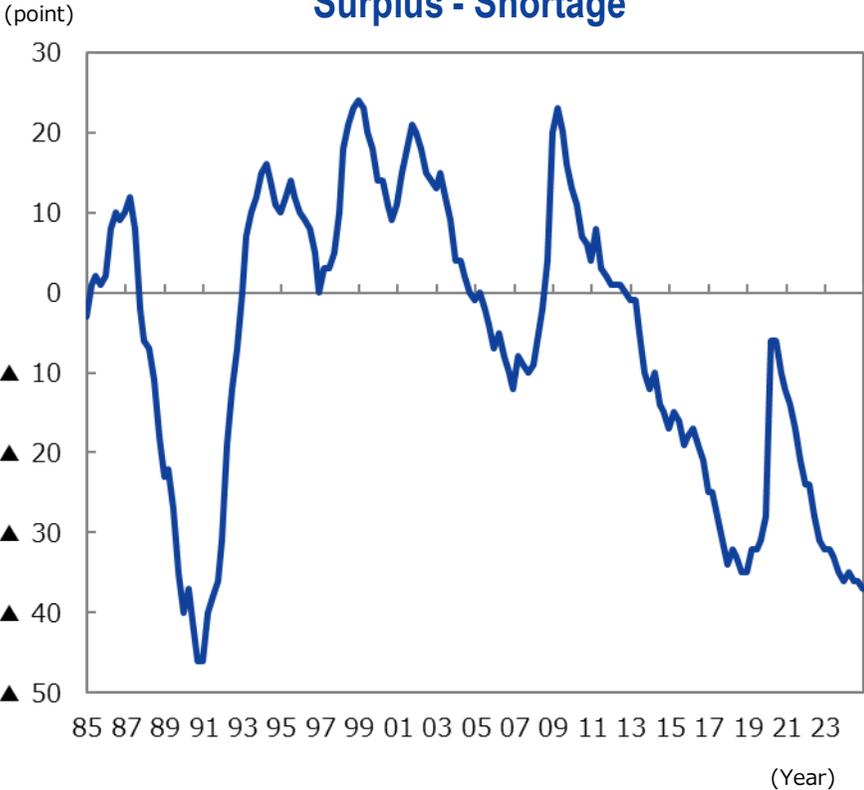
Real GDP growth rate (YOY, %)



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

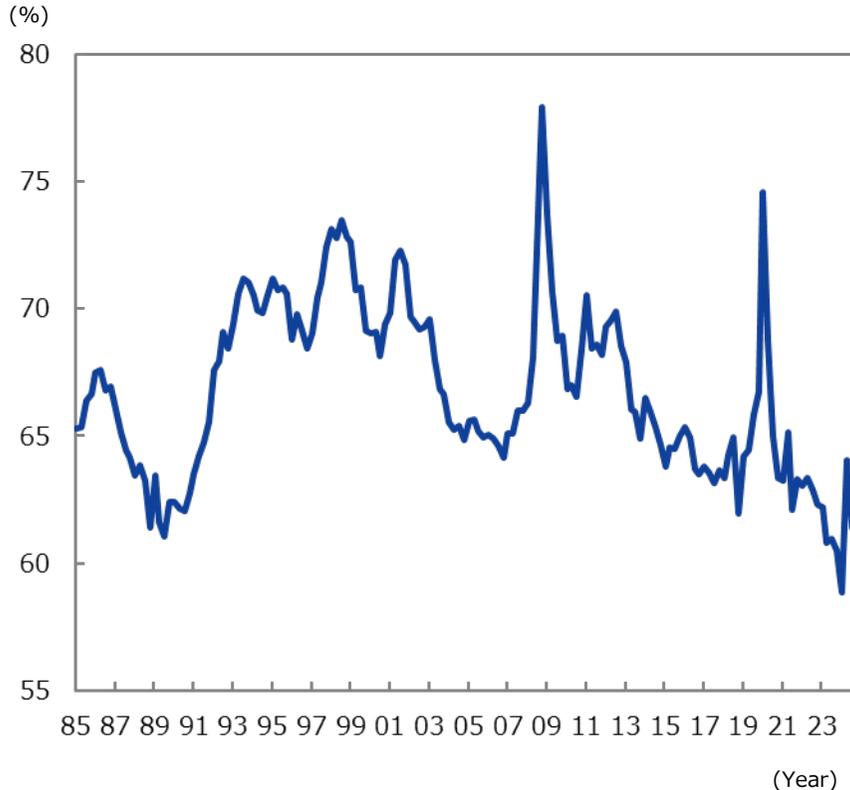
Conundrum of the Japanese labor market

Employment Sufficiency Index "Surplus - Shortage"



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

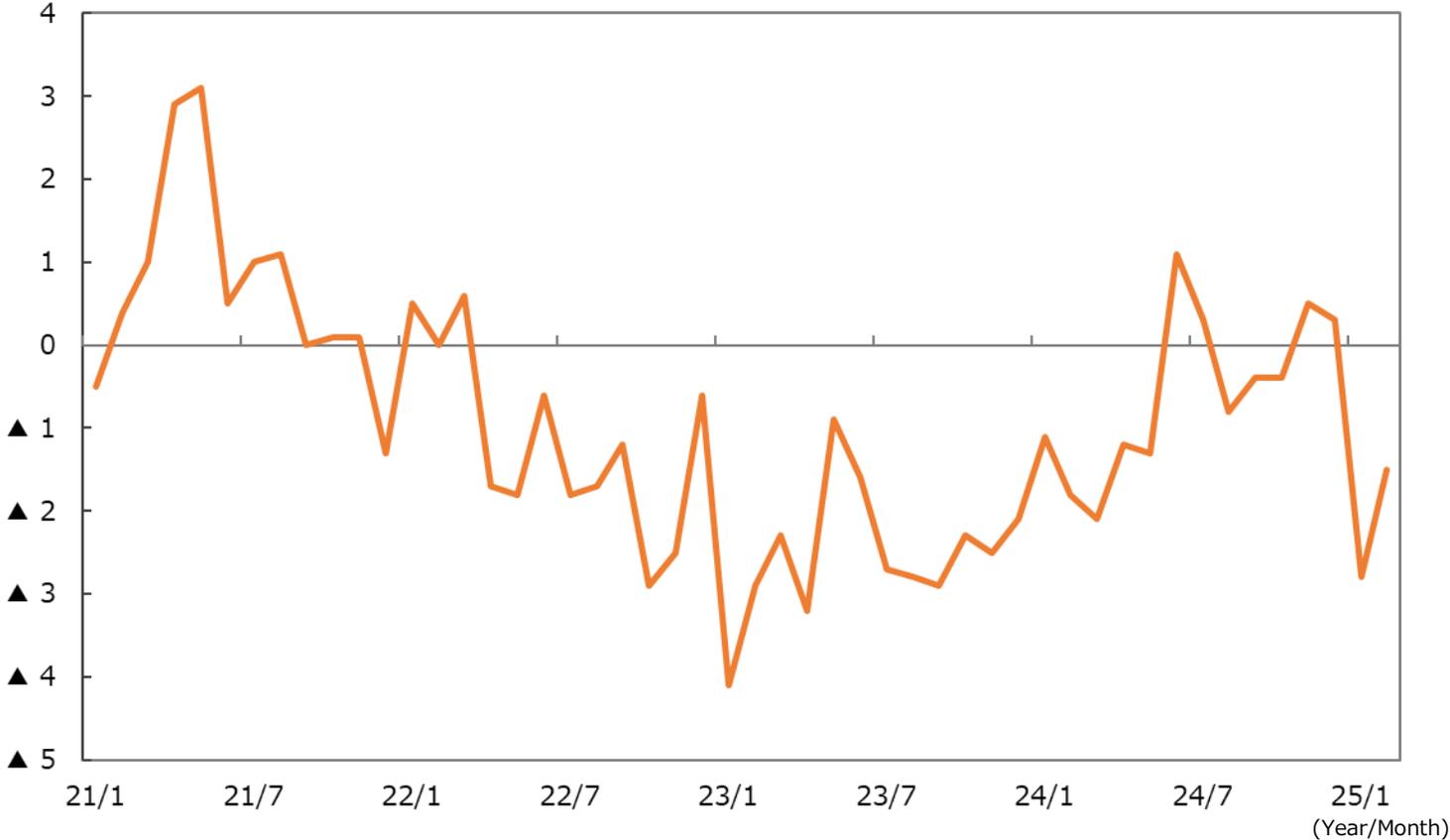
Labor Share of Added Value



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

Inflation eroding purchasing power of consumers

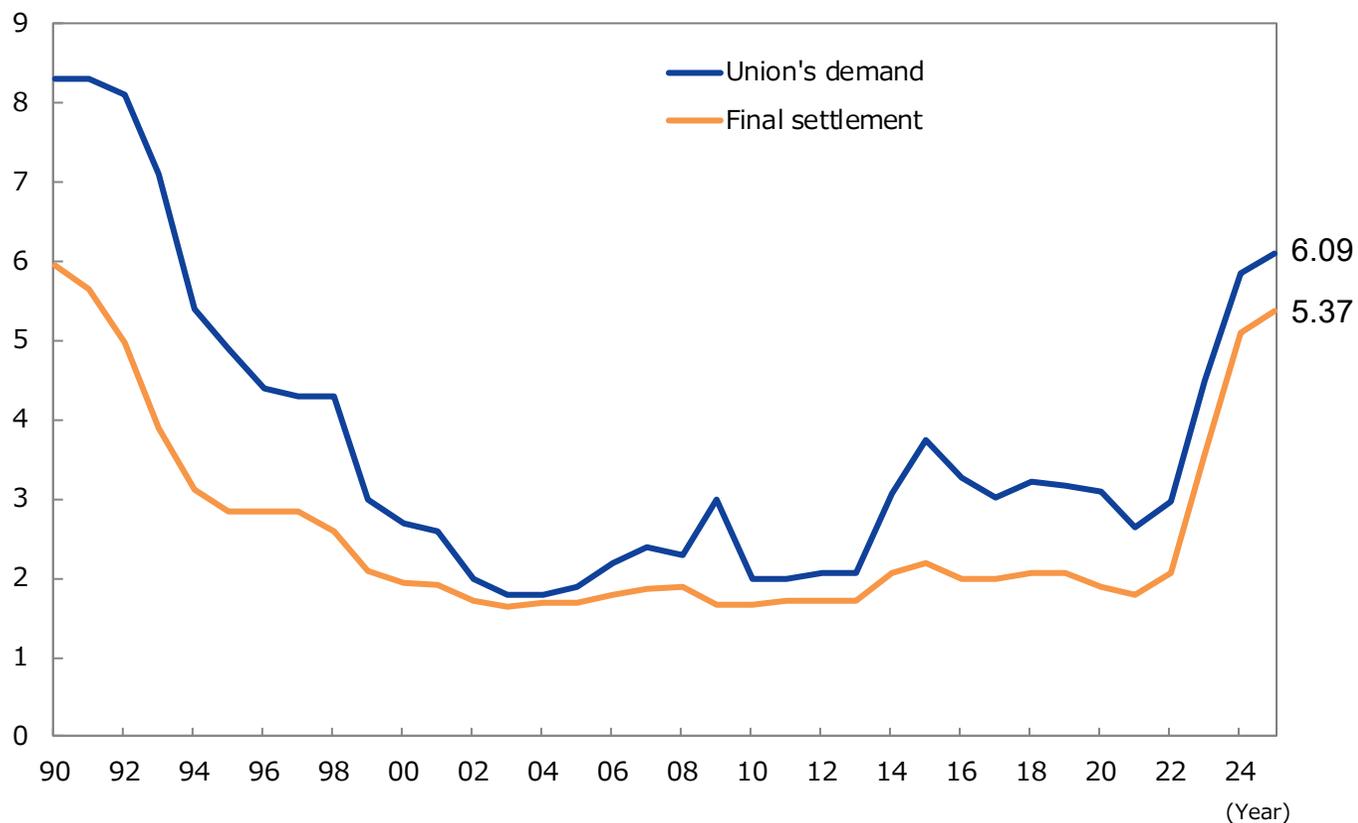
Real Cash Earnings (YOY, %)



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

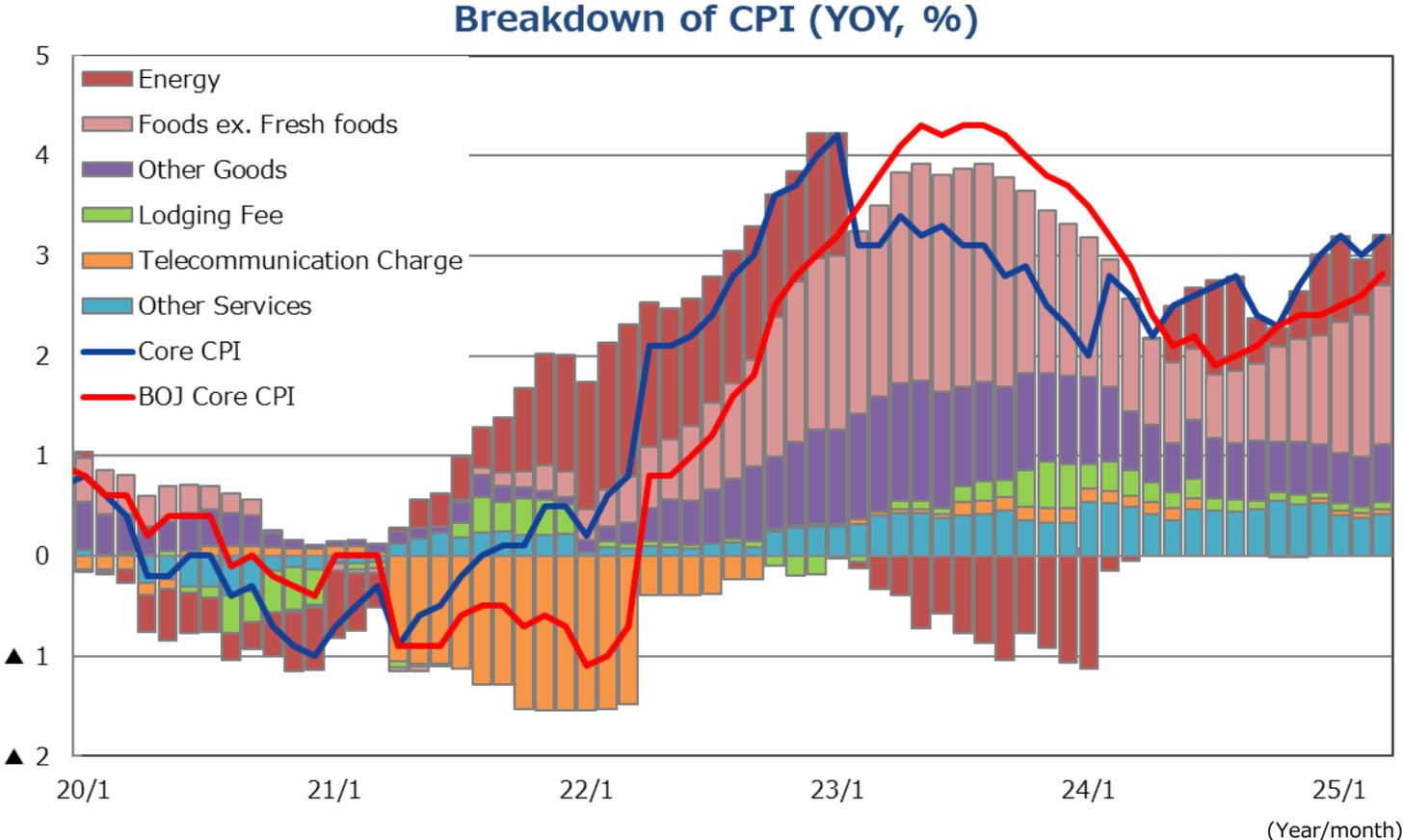
Highest wage increase in 33 years

Wage increase (YOY, %)



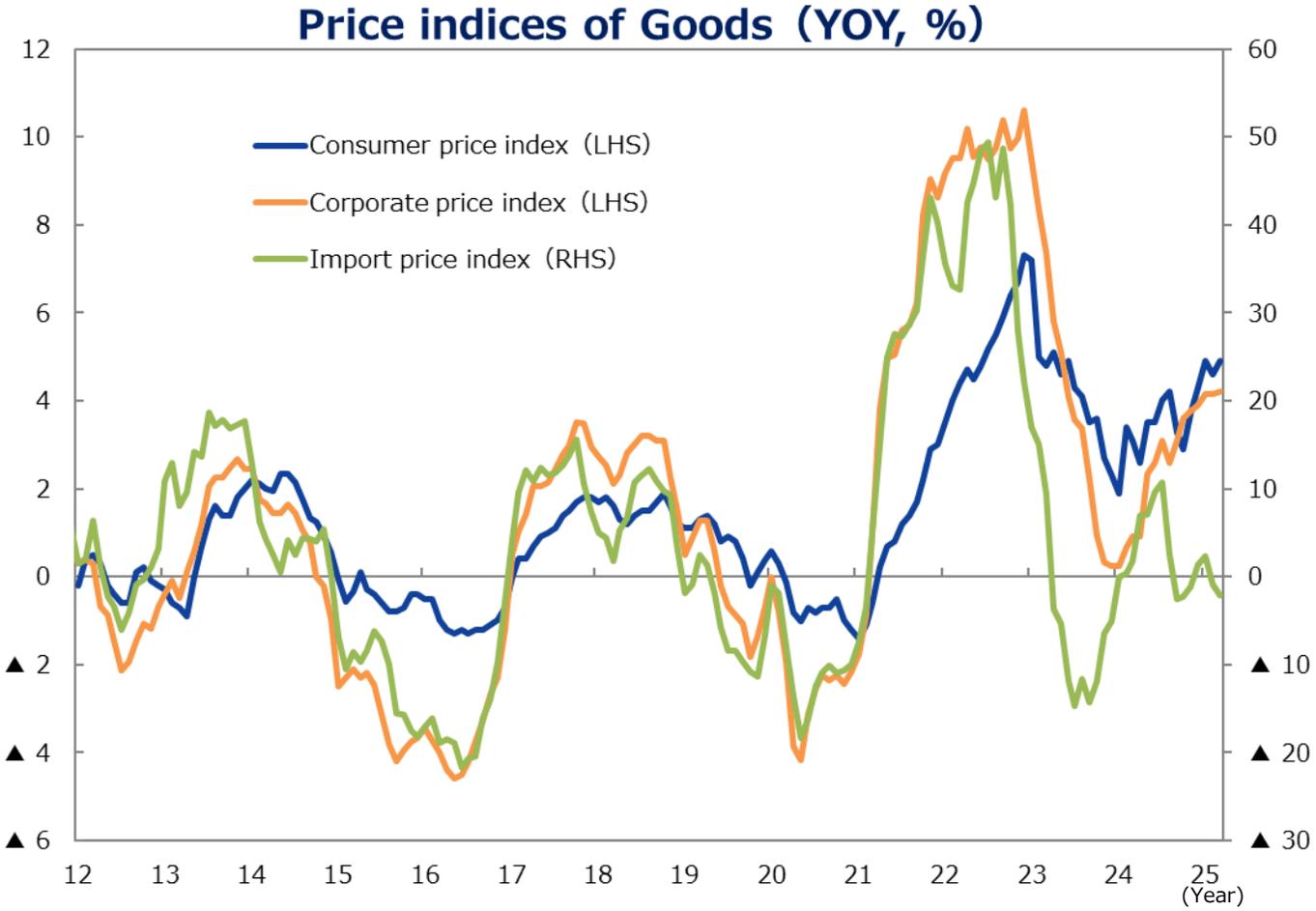
Note: Data is from FY 1990 to FY 2025.
Source: Japanese Trade Union Confederation, SMDAM

Rising food prices push CPI above BOJ's target



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

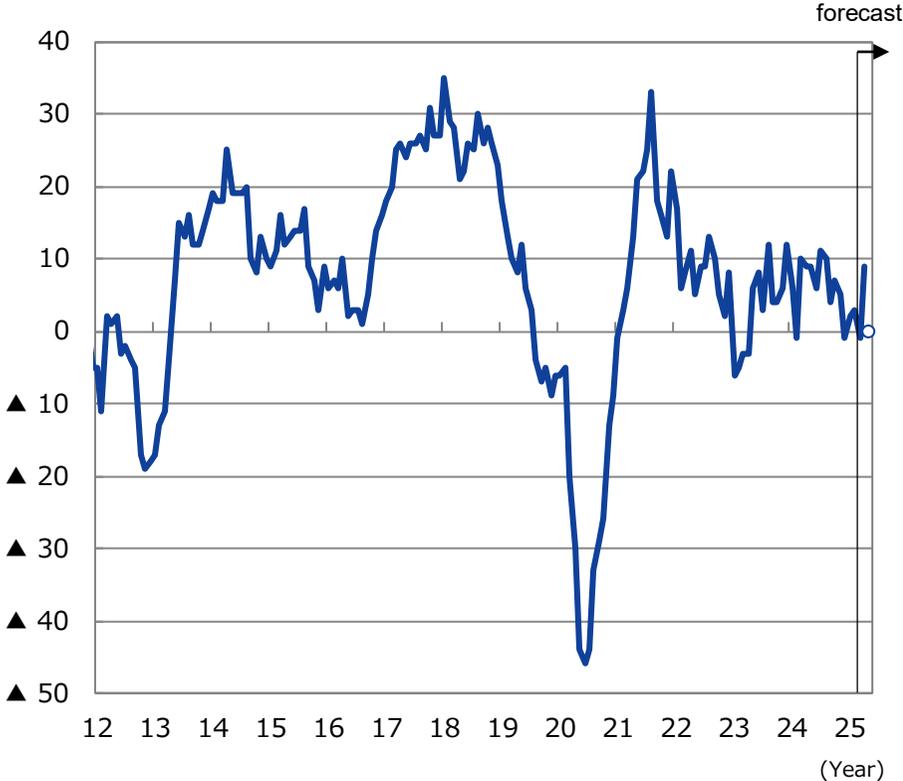
CPI & PPI rising despite weakening import prices



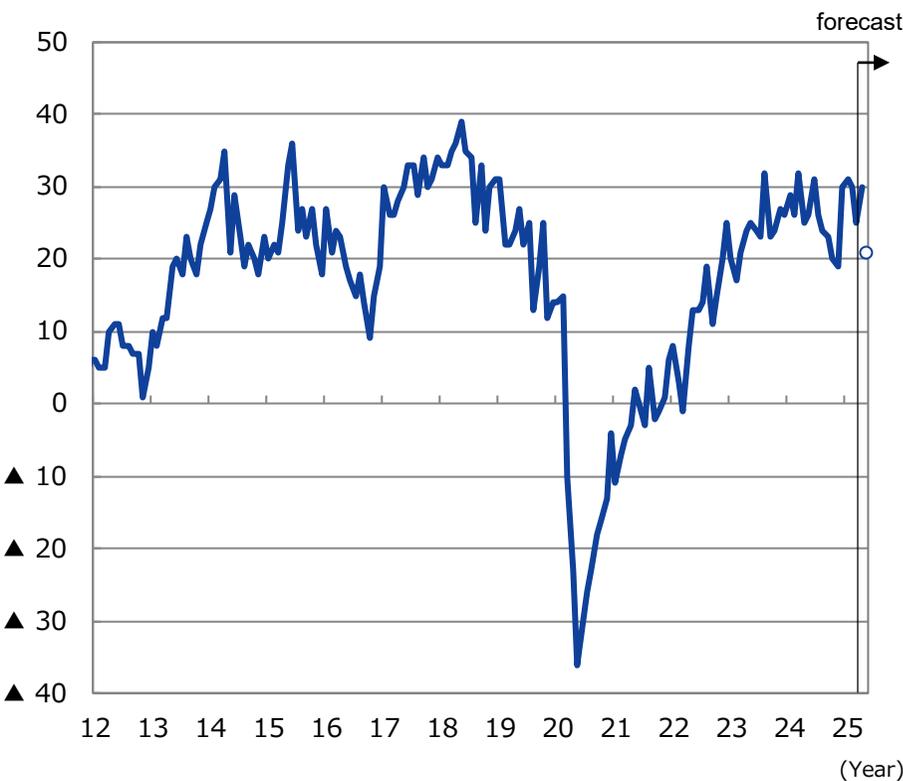
Note: Data is from January 2012 to March 2025.
Source: MIAC, Bloomberg, SMDAM

Improvement in business sentiments have stalled

DI for the manufacturing sector (%pt)



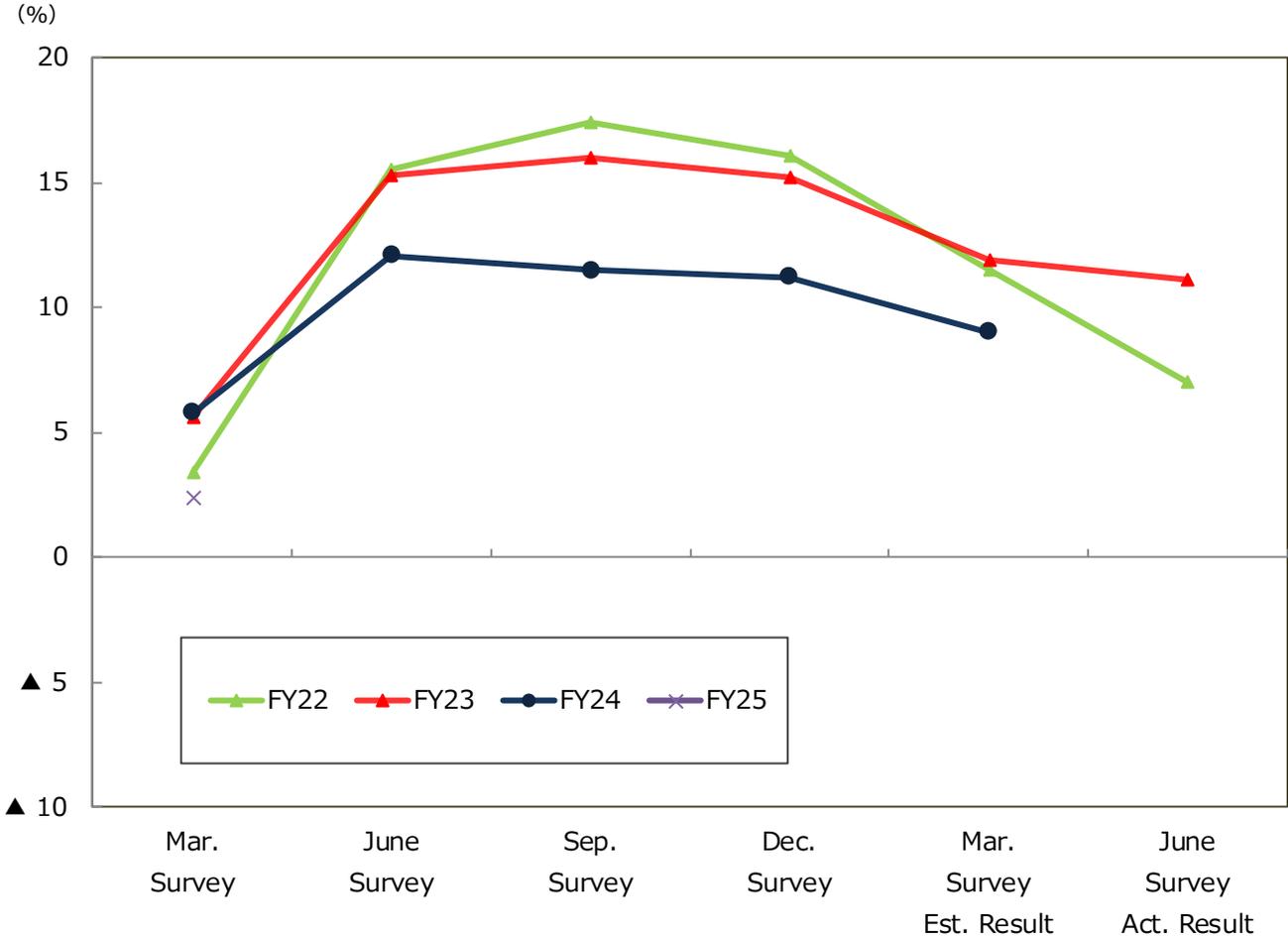
DI for the non-manufacturing sector (%pt)



Note: Data is from January 2012 to May 2025. Data after April 2025 is forecasts.
Source: Datastream

Uncertainty over the global economy weighs on CAPEX appetite

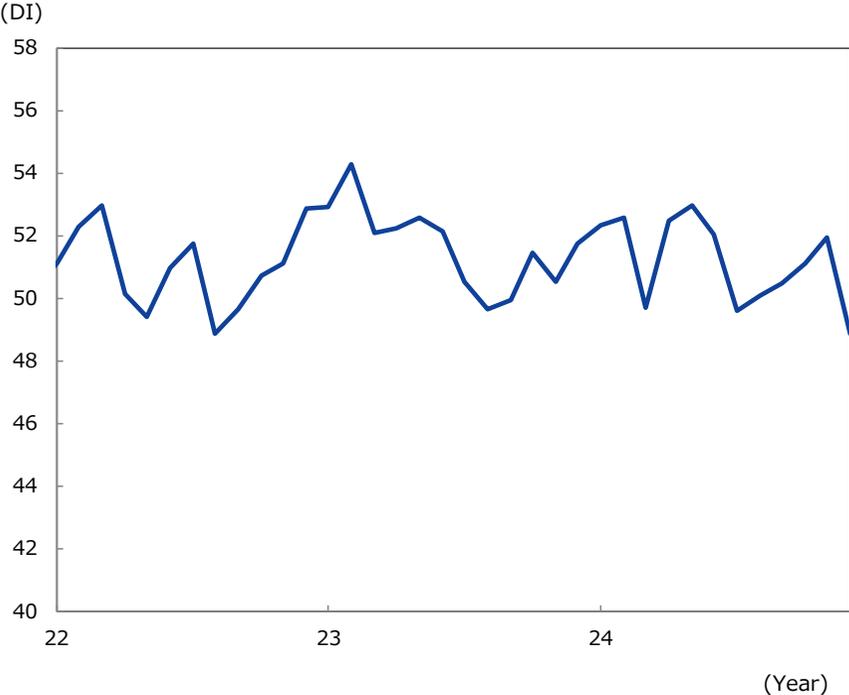
Plan of CAPEX (Inc. Software, Ex. Land and R&D, YOY)



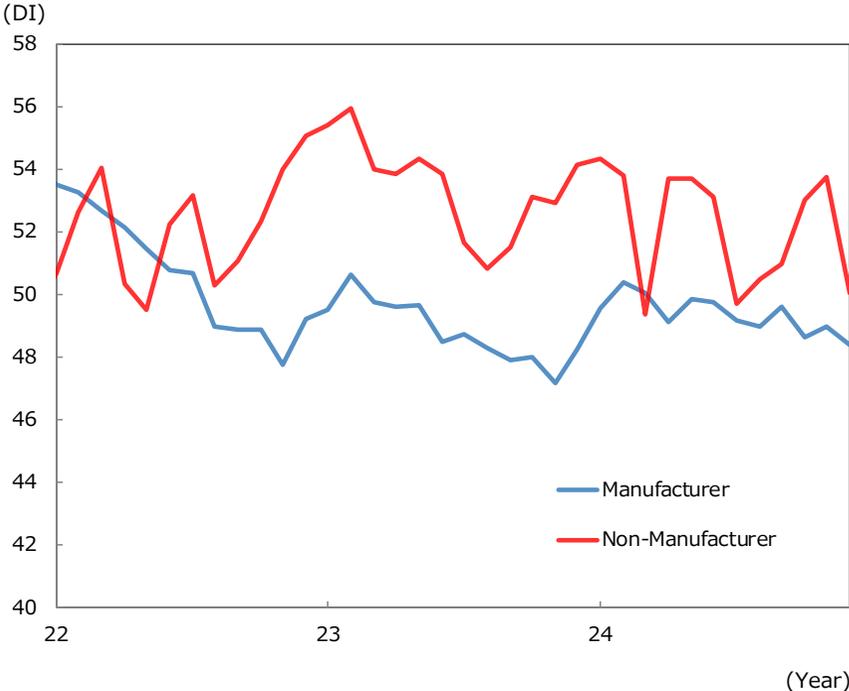
Note: Data is from Q1 FY2021 to Q1 FY2025.
Source: The Bank of Japan, SMDAM

Sharp correction in Service PMI brought composite PMI lower

Composite PMI



PMI, Manufacturer & Non-Manufacturer



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

Recovery in Auto production lifts Industrial production

Industrial Production (Dec. 2019=100)



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

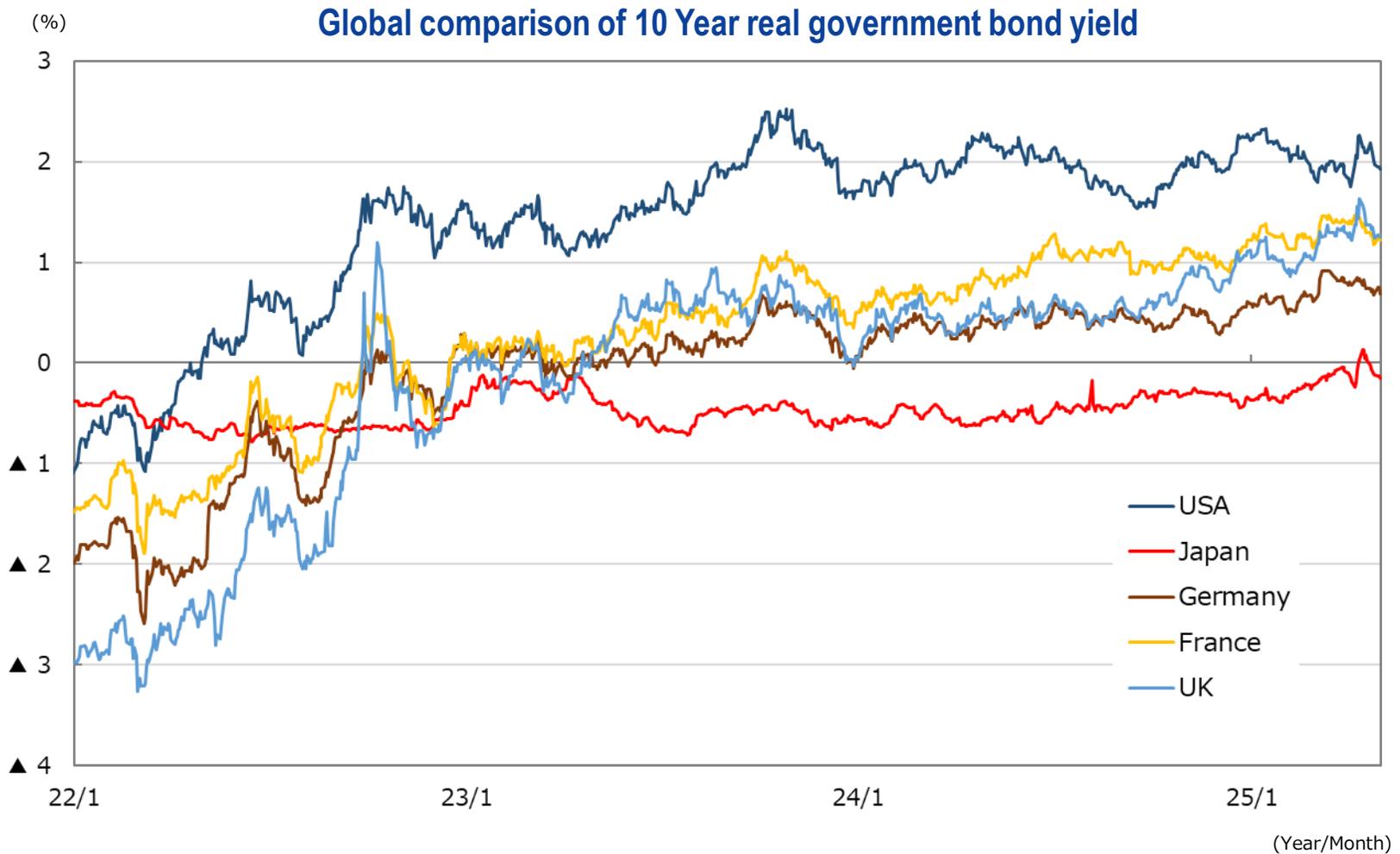
JGB yield tumbled sharply owing to global market turmoil

10 Year Japanese government bond yield



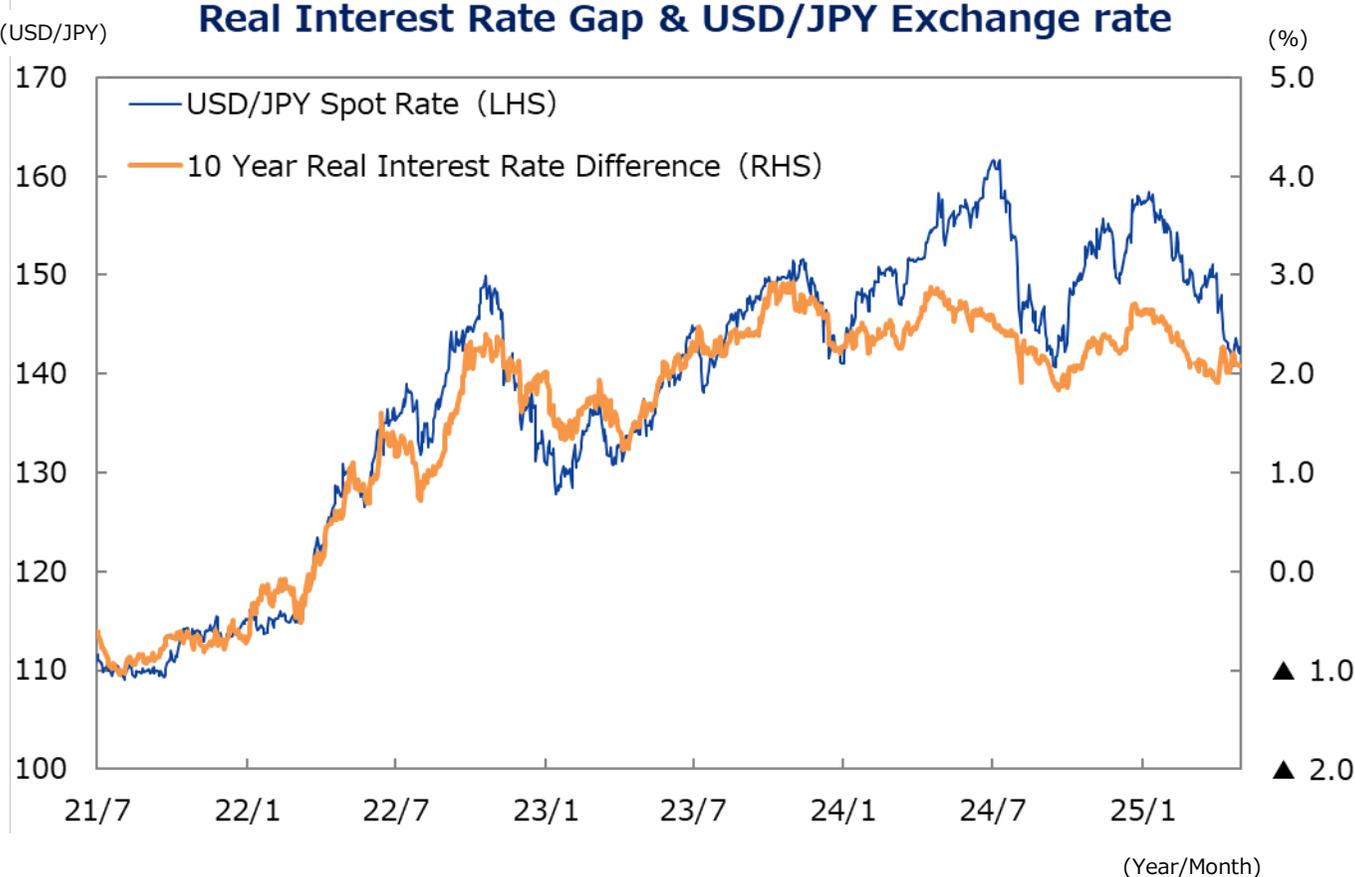
Note: Data is from 31st December 2011 to 30th April 2025.
Source: Bloomberg

Real JGB yield turned positive for the first time in five years



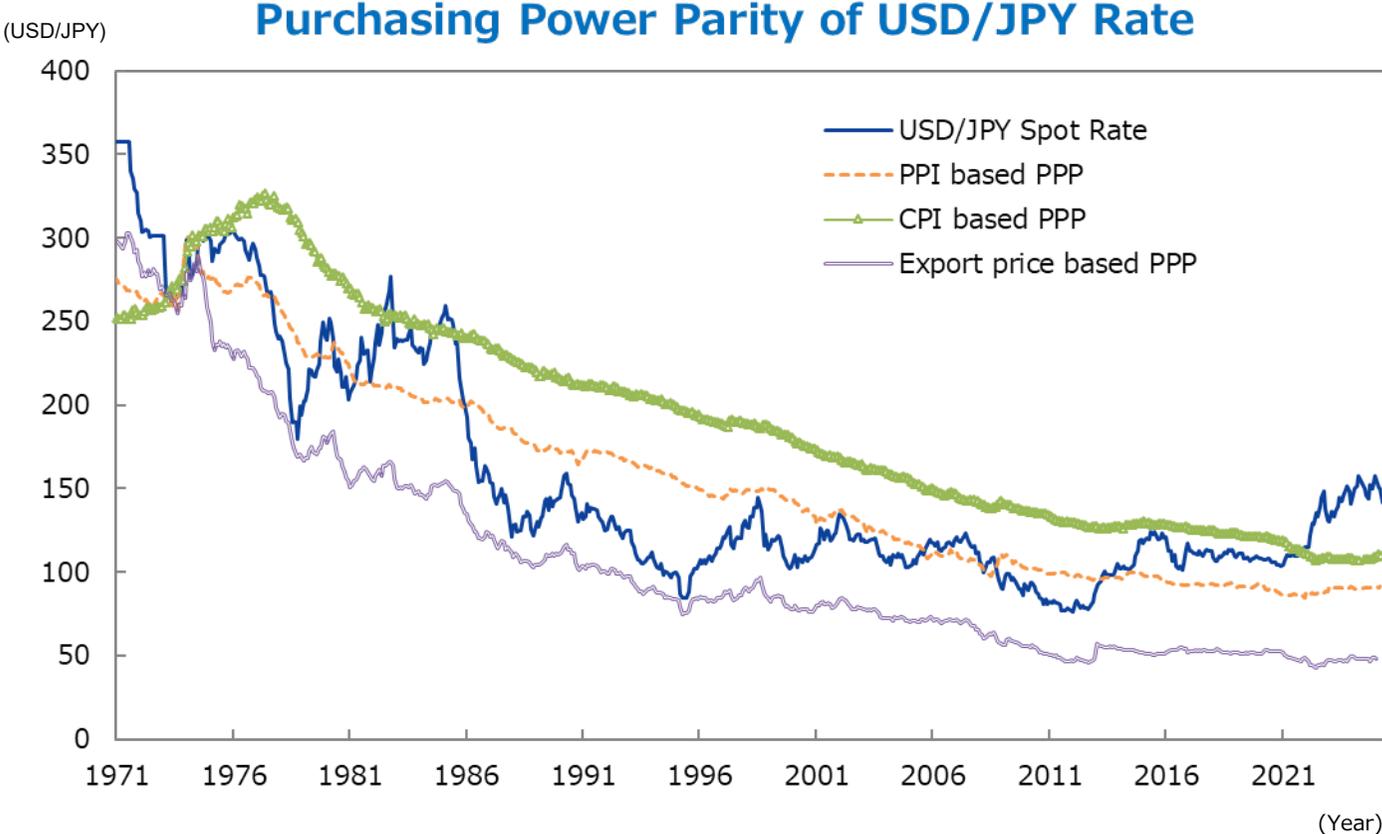
Note: Data is from 1st January 2011 to 30th April 2025.
Source: Bloomberg

Convergence between interest rate gap and dollar/yen rate



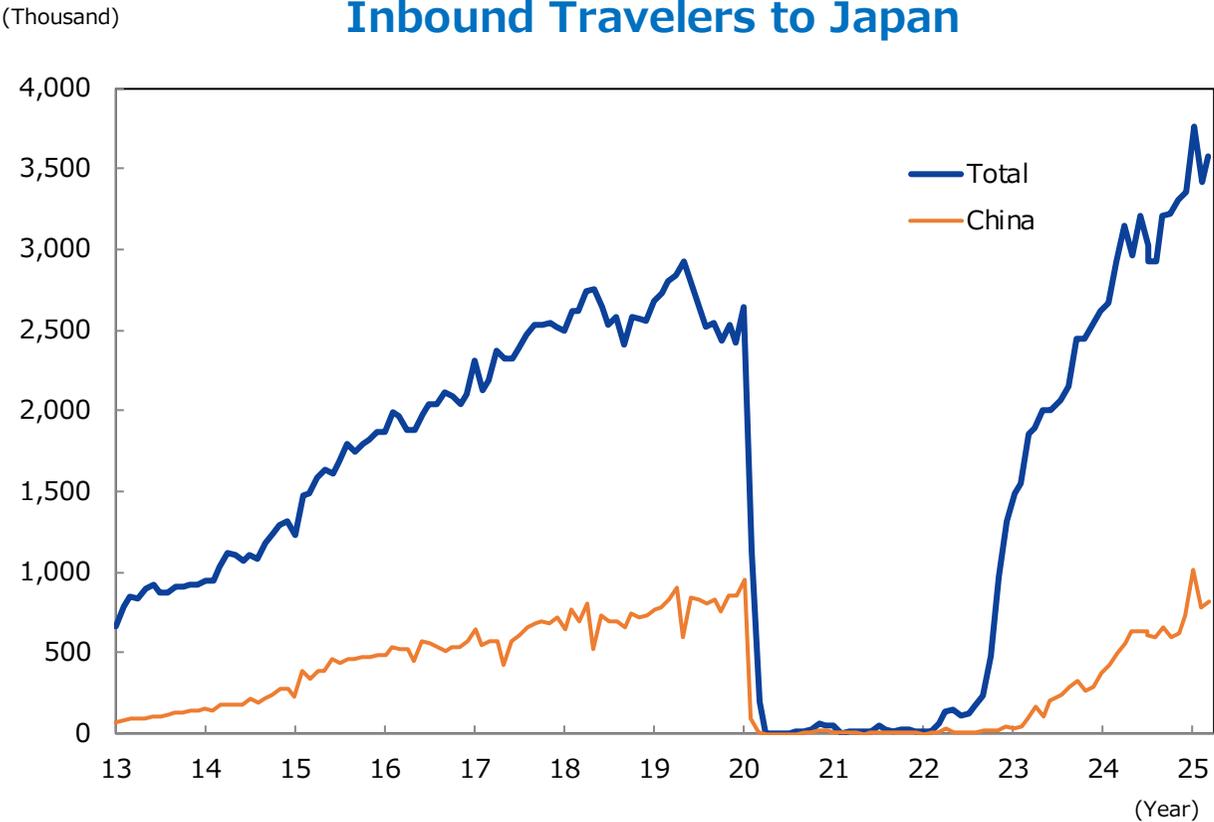
Note: Data is from 1st July 2021 to 30th April 2025.
Source: Bloomberg

PPP still suggests overvaluation of the US dollar



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

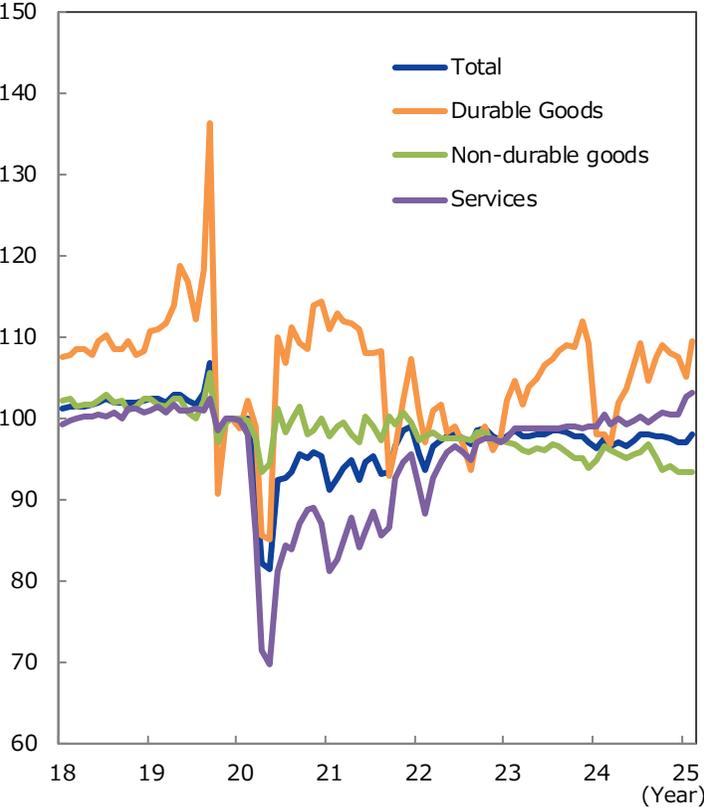
Inbound travel keeps its strong momentum



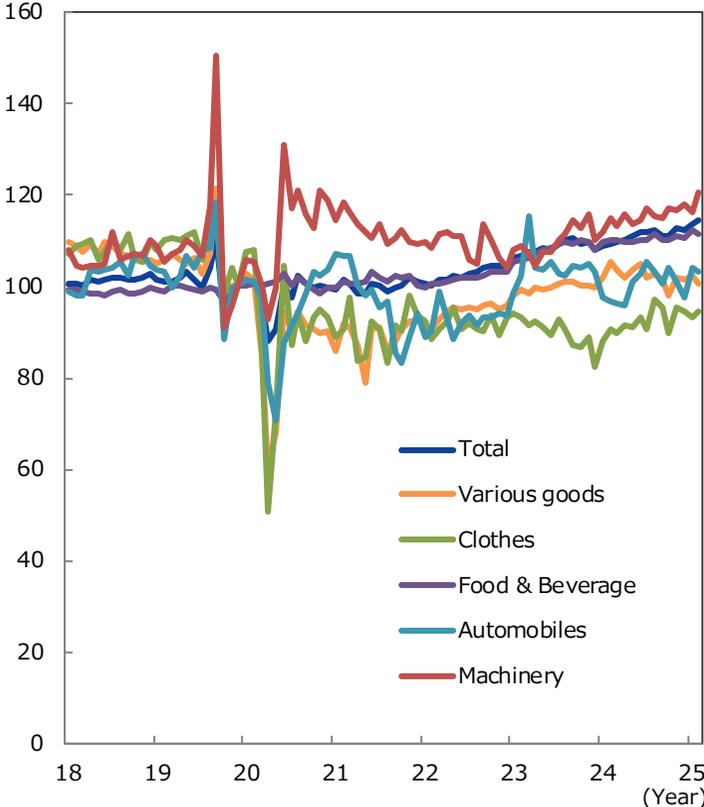
Note: Data is from January 2013 to March 2025. Data is non-seasonally adjusted.
Source: Japan National Tourism Organization, SMDAM

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 February 2025.
 Source; Bank of Japan, METI, and SMDAM

PM Ishiba and ruling LDP are struggling with falling approval rate

Cabinet approval rate



Note: Data is from January 2013 to April 2025.
Source: NHK, Asahi, Kyodo, Nikkei, Yomiuri, Sankei, Mainichi, Jiji, and SMDAM

Schedule of major events

Year	Month	Date	Event
2025	May	16	Release of 2025 Q1 GDP
	June	9	Revision of 2025 Q1 GDP
		16-17	Monetary Policy Meeting
		22	Election of the Tokyo Metropolitan Assembly Member Cabinet's decisions on "Big-boned policy"
		30	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
		15	Release of 2025 Q2 GDP
	Septemebr	8	Revision of 2025 Q2 GDP
		18-19	Monetary Policy Meeting
October	29-30	Monetary Policy Meeting	
November	17	Release of 2025 Q3 GDP	
December	8	Revision of 2025 Q3 GDP	
	18-19	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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