Japan Equity Market Outlook

Sumitomo Mitsui DS Asset Management

-November 2026-

Summary

Japan Equity Outlook

In October, TOPIX fell 3.5%, its second consecutive decline, while the Nikkei lost 5.2%, its first decline in three months. Big-tech overinvestment and financing concerns drove AI-related selling, hitting the Nikkei harder.

AI concerns may sustain volatility, but AI-related exports, investment, resilient employment and fiscal support underpin global growth. Market caution need not immediately weaken AI demand, given its longer-term growth prospects. Resilient fundamentals support earnings and gradual Japanese equity gains, although persistent caution could slow gains and weaken wealth effects and the US economy's positive feedback loop.

Economic and Monetary Policy

Domestic and global recovery remains our base case, supported by AI demand, employment and fiscal support in some regions. With the BOJ acknowledging attainment of its 2% inflation target, we expect hikes in December, March and June 2027 following September's move, taking rates to 2.0%. We expect Fed hikes in December and March 2027 following September's increase, lifting the target-range ceiling to 4.50%. High US rates and structural yen-selling flows from Japan should sustain gradual dollar strength.

Key Drivers for Japan's Stock Market

The end of deflation, governance-led capital efficiency and stronger shareholder returns support Japanese equities. Takaichi's growth investment and economic-security policies offer potential tailwinds. Resulting earnings improvements suggest equities are not expensive on P/E multiples.

Risks and Events

Downside risks include surging US real yields, weaker AI earnings and cash flows, oil-driven terms-of-trade losses, valuation pressure from unexpectedly sharp Japanese yield rises, and a yen surge. Upside drivers include faster AI monetization, Takaichi-led investment, greater recognition of governance reforms, and stronger foreign buying.

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

Outlook for the Japanese Economy

SMDAM Forecasts: Japanese Economy

Forecasts as of 19 Oct 2026		FY22 (A)	FY23 (A)	FY24 (A)	FY25 (A)	FY26 (E)	FY27 (E)
Real GDP	(yoy, %)	1.5	0.1	0.7	0.9	0.8	0.8
Private Consumption	(yoy, %)	2.5	▲ 1.0	0.1	1.3	0.5	1.3
Private Resid. Investment	(yoy, %)	0.7	2.0	▲ 0.4	▲ 2.6	0.3	▲ 0.5
Private Capex	(yoy, %)	4.2	0.8	1.8	2.2	▲ 0.4	1.3
Public Investment	(yoy, %)	▲ 4.5	▲ 0.1	0.1	▲ 0.3	0.1	0.4
Net Exports (contribution)	(%point)	▲ 0.6	1.2	▲ 0.3	▲ 0.1	0.4	▲ 0.1
Exports	(yoy, %)	4.7	3.1	2.7	2.0	2.2	2.0
Imports	(yoy, %)	7.3	▲ 2.2	4.0	2.5	0.0	3.0
Nominal GDP growth	(yoy, %)	2.7	4.9	4.0	4.3	3.5	2.8
GDP deflator	(yoy, %)	1.2	4.8	3.2	3.3	2.6	2.0
Industrial production	(yoy, %)	▲ 0.3	▲ 1.9	▲ 1.5	▲ 0.1	2.5	1.5
CPI (less fresh food & institutional factors)	(yoy, %)	4.0	2.8	2.7	2.7	3.2	2.2
Unemployment Rate	(%)	2.6	2.6	2.5	2.6	2.5	2.4
Policy Rate	(End of Period, %)	▲ 0.1	0-0.1	0.50	0.75	1.75	2.00

Note: Forecasts by SMDAM.
Source: SMDAM

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Economic and Asset Price Outlook for Key Regions

SMDAM Forecasts: Major Economies, Rates and FX

Forecasts as of 21 Oct 2026		2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2024 (yoy,%)	2025 (yoy,%)	2026 (yoy,%)	2027 (yoy,%)
GDP Growth Rate													
United States	(saar, %)	2.5	2.2	3.1	1.9	1.9	2.1	2.1	2.2	3.0	2.3	2.3	2.1
Japan	(saar, %)	1.9	1.4	▲ 0.0	0.7	0.5	1.5	0.6	0.6	0.7	1.2	0.8	0.8
Euro Area	(saar, %)	▲ 0.0	2.6	1.3	0.9	1.1	1.2	1.4	1.6	1.1	1.3	1.0	1.3
China	(yoy,%)	5.0	4.3	4.5	4.6	4.5	4.6	4.5	4.5	5.0	5.0	4.6	4.5
Inflation													
United States	(core PCED, yoy, %)	3.0	3.1	3.0	3.2	2.9	2.7	2.7	2.6	3.0	2.8	3.1	2.7
Japan	(core CPI, yoy, %)	1.7	1.5	1.9	2.7	3.4	1.7	1.6	0.9	2.7	3.1	1.9	1.9
Euro Area	(yoy, %)	2.0	3.0	3.3	3.9	3.7	3.2	2.8	2.3	2.4	2.1	3.1	3.0
China	(yoy, %)	0.9	1.2	0.7	1.1	0.8	0.5	0.4	0.2	0.2	0.0	0.9	0.5
Policy Rates													
United States	(End of Period, %)	3.5-3.75	3.5-3.75	3.75-4.0	4.0-4.25	4.25-4.5	4.25-4.5	4.25-4.5	4.25-4.5				
Japan	(End of Period, %)	0.75	1.00	1.25	1.50	1.75	2.00	2.00	2.00				
Euro Area	(End of Period, %)	2.00	2.25	2.50	2.75	3.00	3.00	3.00	3.00				
China	(End of Period, %)	1.40	1.40	1.40	1.40	1.40	1.30	1.30	1.30				
Long-term Rates													
US 10Y	(End of Period, %)	4.32	4.47	5.28	5.10	5.20	5.10	5.00	5.00				
Japan 10Y	(End of Period, %)	2.35	2.67	3.07	3.10	3.20	3.30	3.30	3.30				
Germany 10Y	(End of Period, %)	3.00	2.86	3.59	3.50	3.50	3.40	3.30	3.30				
FX													
USD/JPY	(End of Period)	158.7	162.5	157.4	160.0	160.0	161.0	161.0	162.0				
EUR/JPY	(End of Period)	183.4	185.8	178.4	179.2	177.6	178.7	178.7	179.8				
Stock Prices													
TOPIX	(End of Period)	3,498	3,995	4,109	4,250	4,300	4,350	4,350	4,350				
Nikkei 225	(End of Period)	51,064	70,062	66,754	68,900	69,700	70,500	70,500	70,500				

Note: Japan is FY-based.

Note: Forecasts by SMDAM.

Source: SMDAM

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

・**October Cabinet support remained broadly stable** despite the farm minister's effective dismissal. Support in Yomiuri's poll fell two points to 57%; Nikkei's held at 62%. The government retains capacity to advance year-end budget, tax and defense policies.

・**Officials describe a shift from Abenomics' demand-led reflation** to "Sanaenomics," emphasizing supply expansion through proactive fiscal policy rather than simply expanding spending. This messaging reflects sensitivity to market concerns. **However, Takaichi's preference for growth spending and accommodative financial conditions to encourage investment appears unchanged**.

・**Food consumption-tax cuts remain under Diet discussion**, with funding and design unresolved. Delayed decisions could compress businesses' preparation time for the intended April 2027 rollout, complicating implementation.
・**On October 29, Takaichi announced phased gasoline subsidy reductions from December**, allowing the subsidized national average price of around ¥170/liter to rise by ¥5 monthly toward spring. **Electricity and gas relief from December through February** should save a typical household about ¥7,000. This maintains winter support while containing fuel-subsidy costs amid prolonged high oil prices.
・Utility relief should lower inflation, help sustain positive real wage growth and support consumption ahead of the intended food-tax cut.

・**Retail JGB tax incentives are a year-end tax issue**. Some expect NISA eligibility, but former Prime Minister Kishida reportedly urged caution. Product and distribution reforms may instead broaden ownership and support JGB demand. Transfers from deposits could, however, affect banks' funding bases.

・**The year-end defense strategy review will focus on the next five-year plan's scale and funding**. Reuters reported on November 2 that the government and ruling parties were weighing ¥70–80tn in five-year defense spending, 1.6–1.8 times the FY2023–2027 plan's ¥43tn. This remains a proposal, not an approved spending total, and may change following procurement reviews and funding talks.

・The BOJ held its policy rate at around 1.25% in October. **Ueda acknowledged underlying inflation reaching 2%** and signaled further hikes to stabilize it there. Takata's 1.5% proposal was defeated. **Nikkei reported that a BOJ official regards 1.5% as a checkpoint for assessing cumulative tightening**. It is not necessarily the endpoint. Alongside upside inflation risks, tightening's effects, including on small-business financing, should increasingly inform decisions.
・**Unexpectedly, annual ETF sales will rise** from ¥330bn to ¥860bn at book value from January 2027. The BOJ's market-value equivalent is ¥2.46tn, around 0.1% of market turnover, suggesting limited direct impact.
・**Larger realized gains could increase BOJ profits and Treasury remittances**. However, not all sale proceeds become fiscal revenue; remittances depend on overall earnings, including interest on reserves. **Faster ETF sales remain possible**, provided market disruption is contained.

・Watch food-tax design and funding, the FY2027 budget, tax reforms and defense plans. Multiyear funding must mobilize private investment while managing spending and issuance growth to preserve bond-market confidence. November's APEC in China warrants attention for progress in Japan–China dialogue and prospects for easing critical-mineral supply constraints.

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This Month's Topic (2): Market Themes for 2027 #1

We outline next year's market themes: the economic cycle, AI investment and political and central-bank leadership changes.

Global Economy

・**We see expansion entering its later stages, with a slowdown possible in early 2027**. Excess investment and debt can expose credit weaknesses as earnings weaken and refinancing becomes harder.

・The adjustment's speed and depth matter. Strong momentum raises reversal risks, but AI innovation and longer-term demand favor a shallow adjustment, potentially limiting credit contagion.

・Prolonged high oil prices squeeze real incomes and profits and favor hawkish policy, hastening slowdown. AI investment may prolong expansion, but overinvestment risks a deeper subsequent adjustment.

Japan: Economy and Politics

・**Rengo, Japan's trade-union federation, raised its 2027 wage target**, including seniority increases, to "around 6%, at least 5%." Labor shortages support the wage–price cycle; smaller firms' increases and real wage growth remain key.

・**Spring local elections and autumn's Liberal Democratic Party leadership contest matter**. Strong local results and Cabinet approval would favor Takaichi's reelection.

・**Hawkish BOJ members Takata and Tamura finish their terms in July**. Their replacements will signal government monetary-policy preferences.

・**Takaichi may shift toward constitutional reform** and other conservative priorities. Consensus-building requires political effort; Article 9 revision could intensify Chinese opposition and impede rapprochement.

Overseas

・**ECB departures include Schnabel in January, Lagarde in February and Chief Economist Lane in May**. Analysis and communications may change, but collective decisions limit expectations of a personnel-driven policy reversal.

・**France votes on April 18 and May 2**. Far-right National Rally's Marine Le Pen is a leading contender. Her fiscal plans' details and feasibility remain unclear, leaving concerns unresolved. She is Eurosceptic but does not advocate euro exit.

・**Italy's parliamentary term ends in 2027**. Meloni's continuation is our leading scenario, favoring EU cooperation and fiscal efforts.

・**Democrats regained control of both chambers of the U.S. Congress**. Divided government from January should reinforce Trump's reliance on executive powers over tariffs and foreign policy. Spending disputes raise the risk of a government shutdown.

・**Warsh's five Fed task forces** may reshape communications and balance-sheet operations, not the employment–price stability mandate.

・**China's second-half Party Congress brings Xi's fourth-term bid** as general secretary and succession clues. **Taiwan's January 2028 elections** could heighten tensions depending on campaign positions and Beijing's response.

・US–China stability may mask technological, tariff and mineral competition. Japan–China tensions could persist, compounded by constitutional debates.

Geopolitics

・The U.S. may scale back its role in the Iran war after the midterms, but fighting has spread to Yemen and Saudi Arabia. A reduced U.S. role would not end the conflict and could destabilize the region.

・Continued Russia–Ukraine war would enter year six, keeping European defense burdens and energy supply in focus.

・Speculation persists over possible U.S. military action against Cuba.

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This Month's Topic (2): Market Themes for 2027 #2

	Date	Japan	Date	U.S.	Date	Other Regions
Nov–Dec 2026	**Dec (approx.)** **By year-end (expected)**	**Cabinet approval of FY27 budget draft; tax reform outline finalized** **Revision of three key national security documents**	**Dec (approx.)**	**Final reports from five Fed task forces (some may slip into 2027)**	**Nov 18–** Nov 28 Nov 29 **Dec 14–** Dec (approx.)	**APEC Summit: potential U.S.–China / Japan–China talks** Taiwan local elections Spain general election **G20 Summit** China Central Economic Work Conference
Jan–Mar 2027	Jan (approx.) **Mid-Mar**	Ordinary Diet session opens **Main response day for spring wage negotiations**	Jan	New Congress convenes	Jan 3 Jan (approx.) **Feb 7** **Mar (approx.)**	ECB Board member Schnabel steps down IMF World Economic Outlook **ECB President Lagarde steps down** **China National People's Congress**
Apr–Jun	**Apr (planned)** **Apr** **Apr–Jun (tentative)** Jun (approx.) Late Jun (approx.)	**Consumption tax cut on food** **Unified local elections** **Nominations to succeed BOJ's Takata and Tamura (terms end Jul 23)** Cabinet approval of Basic Policy on Economic and Fiscal Management Closing of the Ordinary Diet Session	Jun (approx.)	U.S. Treasury semiannual FX report	Apr 12–18 Apr (approx.) **Apr 18** **May 2** May 31 TBD	IMF–World Bank Spring Meetings IMF World Economic Outlook **French presidential election: first round** **French presidential election: runoff** ECB Board member and Chief Economist Lane's term ends G7 Summit
Jul–Sep	**Jul 23** **Sep (expected)**	**BOJ Board members Takata and Tamura's terms end** **LDP presidential election**	Aug (approx.) **Sep 30**	Jackson Hole Economic Symposium **Deadline to enact FY2028 appropriations or stopgap funding**	Jul (approx.) Aug 1	IMF World Economic Outlook China PLA centenary
Oct–Dec	**Dec (approx.)**	**Cabinet approval of FY28 budget draft; tax reform outline finalized**	Oct (approx.)	U.S. Treasury semiannual FX report	Oct 4–9 Oct (approx.) Nov 27–28 Dec (approx.) Nov (planned; dates TBD)	IMF–World Bank Annual Meetings IMF World Economic Outlook G20 Summit China Central Economic Work Conference APEC Summit
During 2027					**H2; dates TBD** **TBD**	**21st Chinese Communist Party Congress: top leadership appointments** **Italy general election (by year-end at the latest)**

Source: Compiled by SMDAM

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This Month's Topic (3): Major Economies' Outlook Under Prolonged High Oil Prices

- The Middle East conflict has spread to Saudi Arabia, complicating the outlook. Persistent instability could sustain oil's geopolitical risk premium and limit price declines.
- If Brent stays at $120/bbl, we expect the Fed, ECB and BOJ each to deliver two more rate hikes than in our base case to contain inflation expectations and spillovers into underlying inflation.
- U.S. energy exports and corporate pricing power should sustain the profit-led expansion despite weaker household purchasing power. Japan faces a heavier import burden, cushioned by cost pass-through, a food consumption tax cut and government-backed growth investment. Both economies should slow but avoid a sharp downturn.
- Resilient growth amid persistent inflation and rate hikes could keep long-term yields elevated, weighing on U.S. and Japanese equities. However, solid earnings should limit declines to temporary corrections, with equities remaining near their highs.
- Relative U.S. advantages in yields and growth should support the dollar. Further Fed tightening and dollar strength could weigh on emerging markets. Among advanced economies, Europe is more vulnerable: higher energy import costs, compounded by rising rates in some highly indebted countries, could strain public finances, tighten financial conditions and weaken growth.

SMDAM Forecasts: Major Economies and Policy Rates

Forecasts as of 21 Oct 2026		2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2024 (yoy,%)	2025 (yoy,%)	2026 (yoy,%)	2027 (yoy,%)
GDP Growth Rate													
United States	(saar, %)	2.5	2.2	3.1	1.7	1.5	1.6	1.5	1.5	3.0	2.3	2.3	1.8
Japan	(saar, %)	1.9	1.4	▲ 0.0	0.5	0.1	1.1	0.1	0.1	0.7	1.2	0.8	0.5
Euro Area	(saar, %)	▲ 0.0	2.6	1.3	0.5	0.5	0.5	0.5	0.4	1.1	1.3	1.0	0.7
China	(yoy,%)	5.0	4.3	4.5	4.6	4.5	4.6	4.5	4.5	5.0	5.0	4.6	4.5
Inflation													
United States	(core PCED, yoy, %)	3.0	3.1	3.0	3.2	3.0	2.9	3.0	2.9	2.9	2.8	3.1	2.9
Japan	(core CPI, yoy, %)	1.7	1.5	1.9	2.8	3.5	1.9	2.0	1.4	2.7	3.1	2.0	2.2
Euro Area	(yoy, %)	2.0	3.0	3.3	4.1	4.2	3.9	3.7	3.3	2.4	2.1	3.1	3.8
China	(yoy, %)	0.9	1.2	0.7	1.3	1.4	1.2	0.8	0.6	0.2	0.0	0.9	1.0
Policy Rates													
United States	(End of Period, %)	3.5-3.75	3.5-3.75	3.75-4.0	4.0-4.25	4.25-4.5	4.5-4.75	4.75-5.0	4.75-5.0				
Japan	(End of Period, %)	0.75	1.00	1.25	1.50	1.75	2.00	2.25	2.50				
Euro Area	(End of Period, %)	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50				
China	(End of Period, %)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40				

Note: Japan is FY-based.

Note: Forecasts by SMDAM.

Source: SMDAM

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This Month's Topic (4): U.S. Midterm Implications—AI Risks and the Business Cycle

Democrats secured majorities in both chambers of the U.S. Congress and won governorships. Senate filibuster rules and presidential vetoes constrain Democratic legislation, though compromise could allow modest fiscal expansion. Spending disputes raise shutdown risks, but a brief closure would have temporary, limited economic effects. Debt-ceiling negotiations could intensify when action becomes necessary.

Divided government should keep Trump focused on tariffs and diplomacy. The prolonged Iran stalemate may discourage new military interventions. U.S. involvement could decline; a ceasefire or eased shipping restrictions could restore oil flows. Yet fighting has spread to Saudi Arabia, and U.S. disengagement could destabilize the region. Diplomatic prospects slightly reduce the risk of oil staying near $120/bbl, but assuming continued de-escalation would be optimistic.

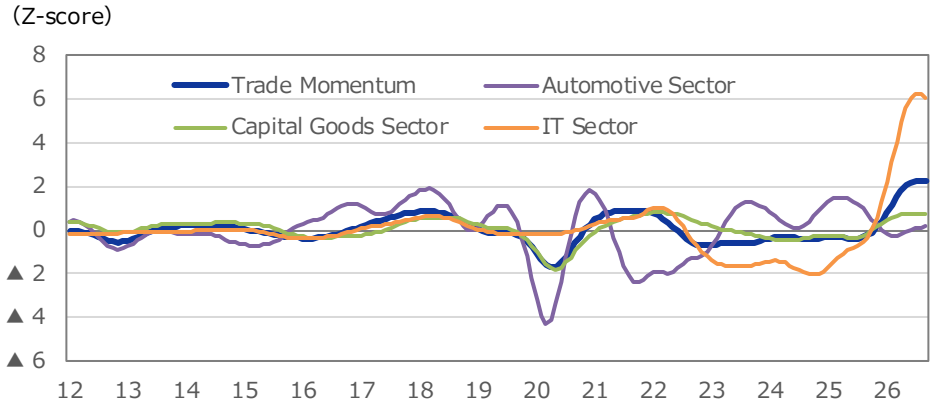
Democratic governors-elect in Texas, Ohio and Georgia advocated data-center construction pauses. Regulatory scope remains unclear, but delay concerns appeared to drive selling in U.S. equities, led by semiconductor and AI-related stocks, on November 5. Slower AI investment could weaken capital spending and consumption through reduced equity wealth effects. It could also weaken support for Asian production and exports from U.S. technology imports, reversing related earnings and equity expectations.

Market fears must be distinguished from actual investment and order slowdowns. Construction delays do not negate AI's transformative potential or medium- to long-term demand. Nevertheless, delayed monetization could impair individual firms' profitability and cash flow. Debt and financing concerns are pressuring emerging U.S. AI cloud companies' credit spreads.

The business cycle is critical to credit contagion: accumulated overinvestment and debt become vulnerable to weaker earnings and refinancing difficulties as momentum fades. The expansion is mature but retains momentum. Our base case is continued expansion through at least spring 2027, then a shallow adjustment with limited economy-wide credit spillovers.

Persistent oil-driven inflation, resulting rate hikes and slower AI investment could accelerate the slowdown. An early, gradual adjustment could curb excess investment and debt, reducing subsequent sharp-adjustment risks. Near-term market pressure need not be negative over the medium term. However, sharply curtailed capital spending would warrant revisiting our shallow-adjustment base case.

Trends in Trade Momentum and Sector Momentum



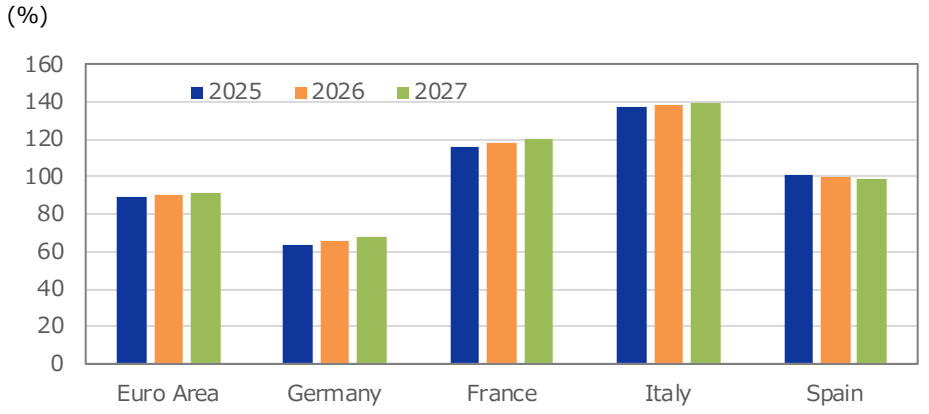
Note: Data are from January 2012 to September 2026. Trade momentum is calculated by extracting cyclical components from 16 key economic indicators and averaging their Z-scores. Sector momentum is calculated similarly using indicators relevant to each sector.

Source: SMDAM

This Month's Topic (5): European Debt Issues—An Overview

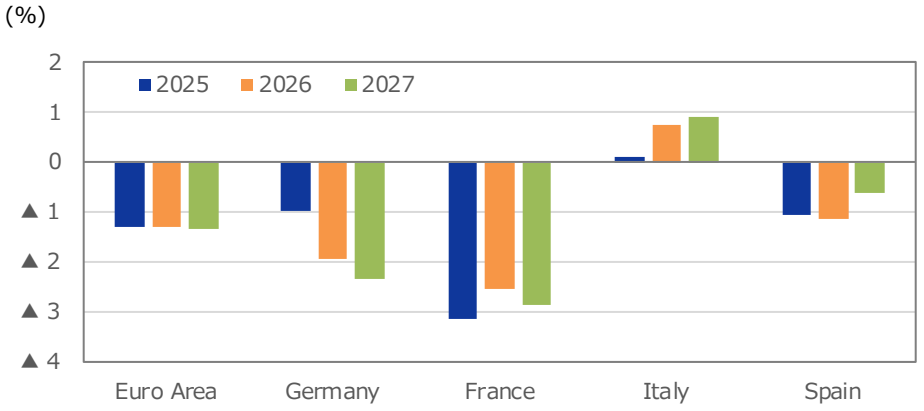
- French fiscal and political concerns are putting upward pressure on French, Italian and Spanish sovereign spreads over German Bunds.
- France has a high debt-to-GDP ratio and a large primary deficit. Weak nominal growth relative to long-term yields adds to medium-term fiscal pressures. High public spending, parliamentary fragmentation and resistance to spending cuts and tax hikes hinder consolidation.
- Italy has high debt and weak growth but maintains a primary surplus. The Meloni government remains committed to consolidation, though stabilizing the debt ratio remains challenging.
- Concerns are largely France-specific. Despite potential short-term market spillovers, cascading credit stress like the 2011–2012 euro-area debt crisis is not our base case. Prolonged high oil prices could weaken growth in energy-import-dependent economies such as Italy, worsening fiscal pressures through weaker tax revenues and expanded relief measures. Oil poses risks to both European growth and public finances.

Debt-to-GDP Ratios in the Euro Area and Major Countries



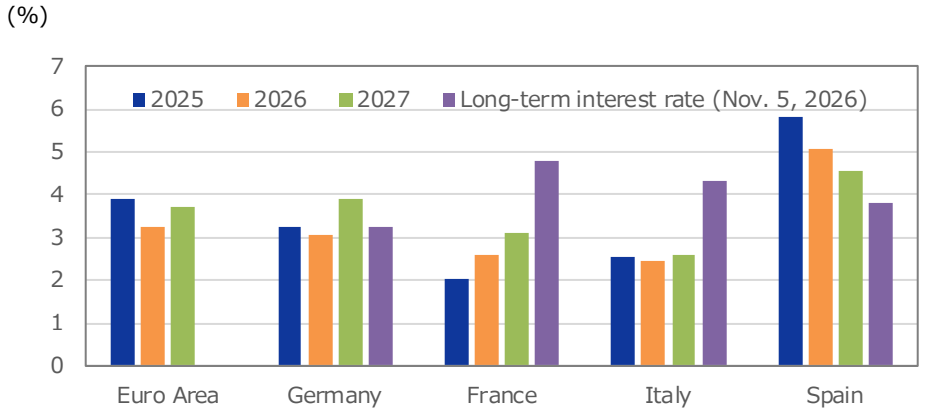
Note: Some data include forecasts by the European Commission. (Y)
Source: SMDAM and the European Commission.

Cyclically Adjusted Primary Fiscal Balance in the Euro Area and Major Countries (% of GDP)



Note: Some data include forecasts by the European Commission. (Y)
Source: SMDAM and the European Commission.

Nominal Growth Rates and Long-Term Interest Rates in the Euro Area and Major Countries

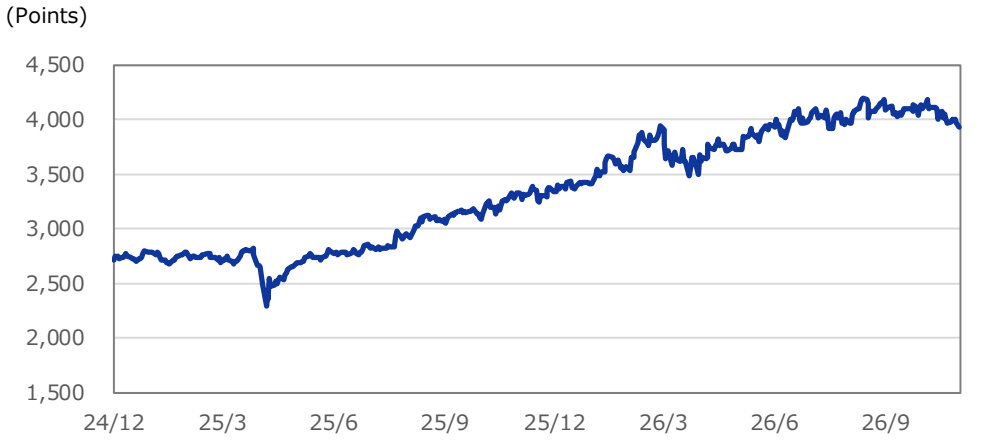


Note: Some data include forecasts by the European Commission. (Y)
Source: SMDAM, Bloomberg and the European Commission.

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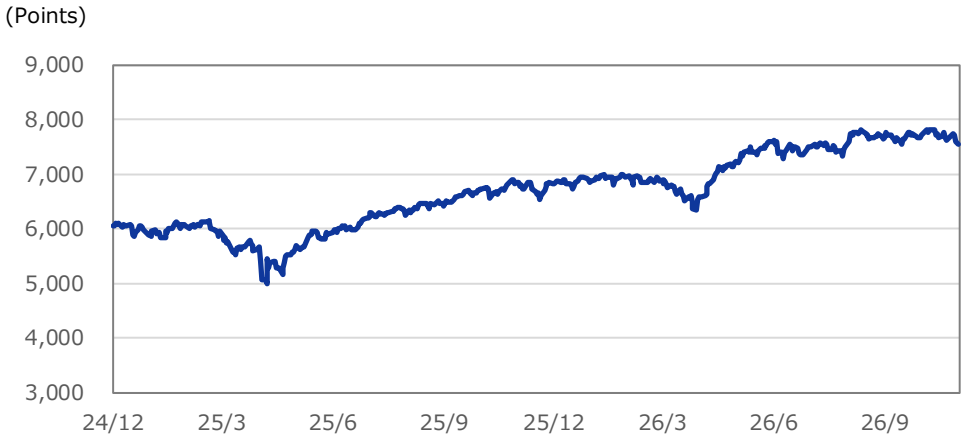
Trends in Major Asset Prices

TOPIX (Daily)



Note: Latest data are for 2 Nov 2026 (Y/M)
Source: SMDAM and Bloomberg

S&P500 (Daily)



Note: Latest data are for 2 Nov 2026 (Y/M)
Source: SMDAM and Bloomberg

Japan 10-Year Government Bond Yield (Daily)



Note: Latest data are for 2 Nov 2026 (Y/M)
Source: SMDAM and Bloomberg

USD/JPY (Daily)



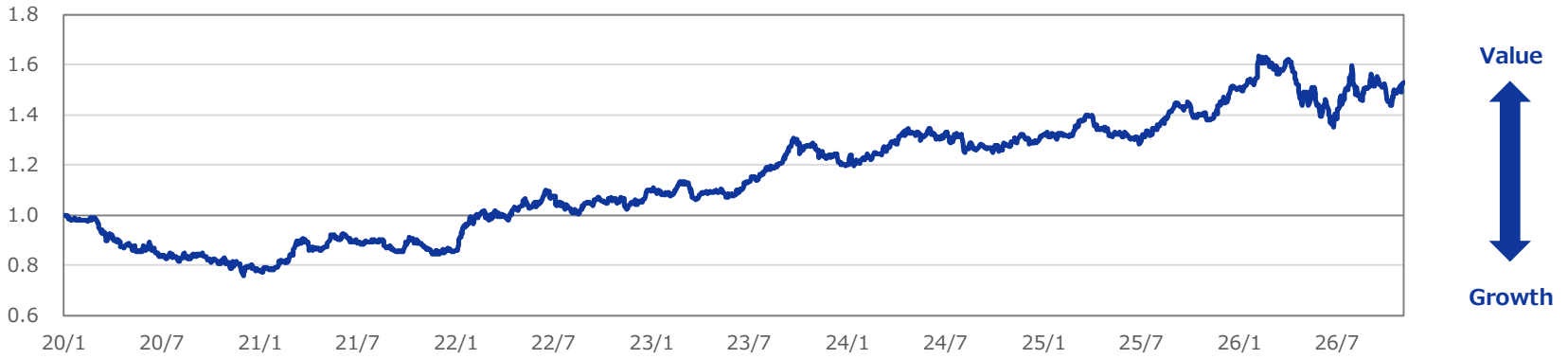
Note: Latest data are for 2 Nov 2026 (Y/M)
Source: SMDAM and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

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

Japanese Stocks: Value/Growth (Daily)

(30 Dec. 2019=1)

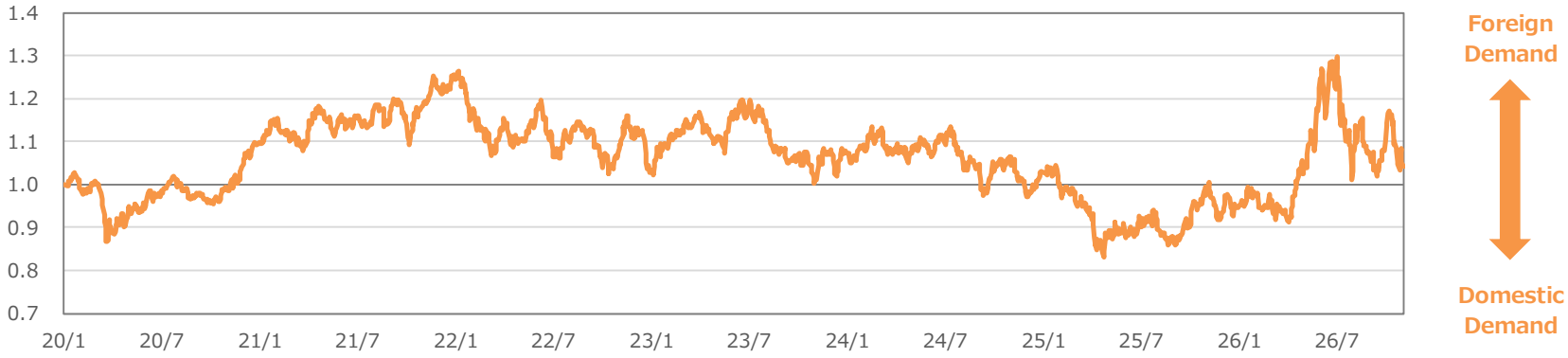


Note: Latest data are for 2 Nov 2026. Value/Growth represents Russell Nomura Total Market Value Index vs Growth with Dividend. (Y/M)

Source: SMDAM and Bloomberg

Japanese Stocks: Foreign Demand/Domestic Demand (Daily)

(30 Dec. 2019=1)



Note: Latest data are for 2 Nov 2026. Foreign/Domestic Demand represents Nikkei Global Exposure 50 vs Domestic. (Y/M)

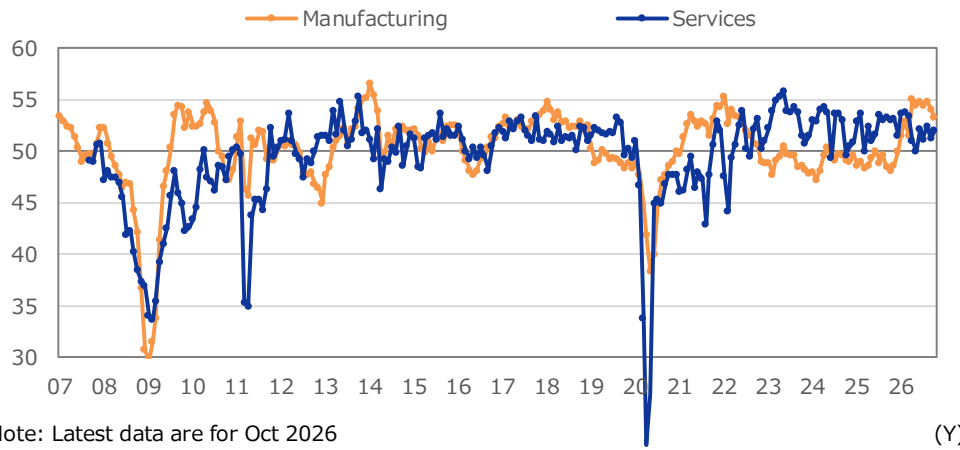
Source: SMDAM and Bloomberg

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Japanese Economic Indicators (1)

PMI

(sa, >50=improvement since previous month)

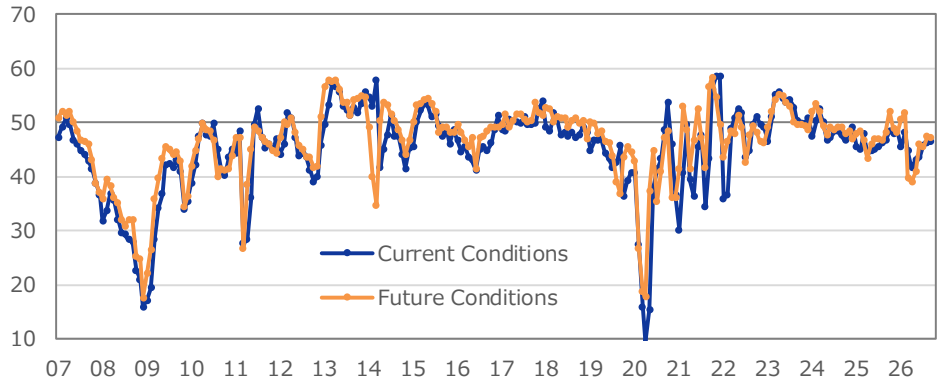


Note: Latest data are for Oct 2026 (Y)

Source: SMDAM and S&P Global

Economy Watchers Survey

(sa, DI)

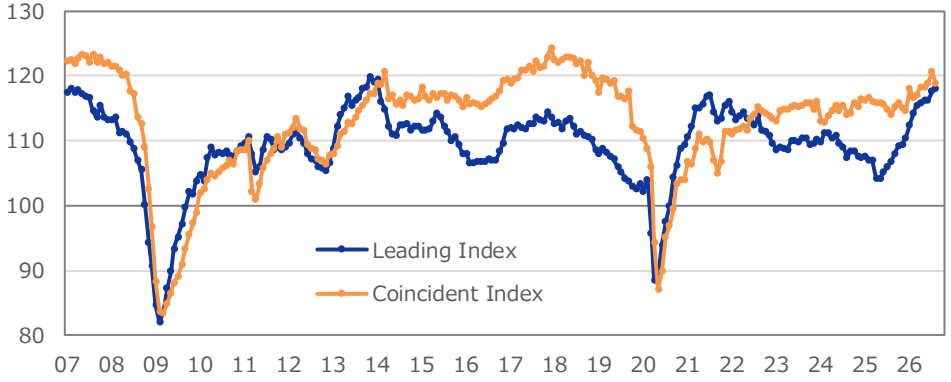


Note: Latest data are for Sep 2026 (Y)

Source: SMDAM and Cabinet Office

Index of Business Conditions

(sa, 2020=100)

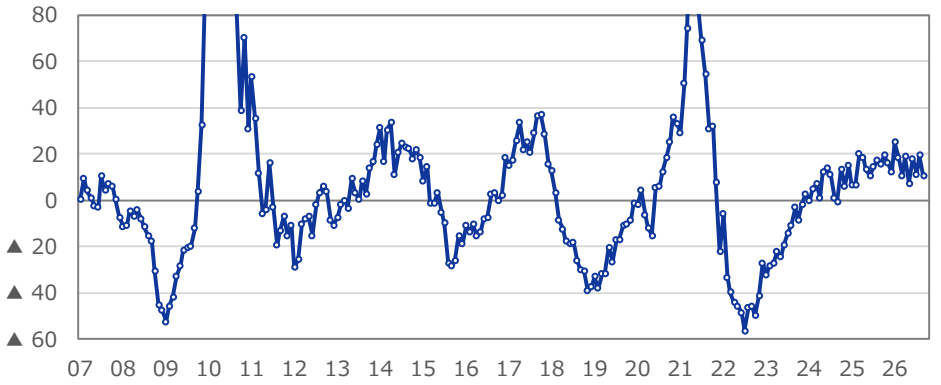


Note: Latest data are for Aug 2026 (Y)

Source: SMDAM and Cabinet Office

Machine Tools (Orders YoY - Order Backlogs YoY)

(%)



Note: Latest data are for Sep 2026 (Y)

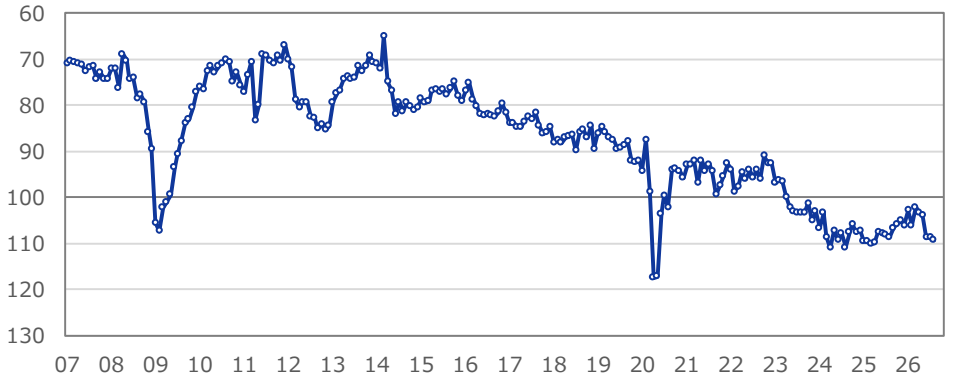
Source: SMDAM and Japan Machine Tool Builders' Association

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Japanese Economic Indicators (2)

Index of Producer's Inventory Ratio of Final Demand Goods

(sa, 2020=100, Inverted)

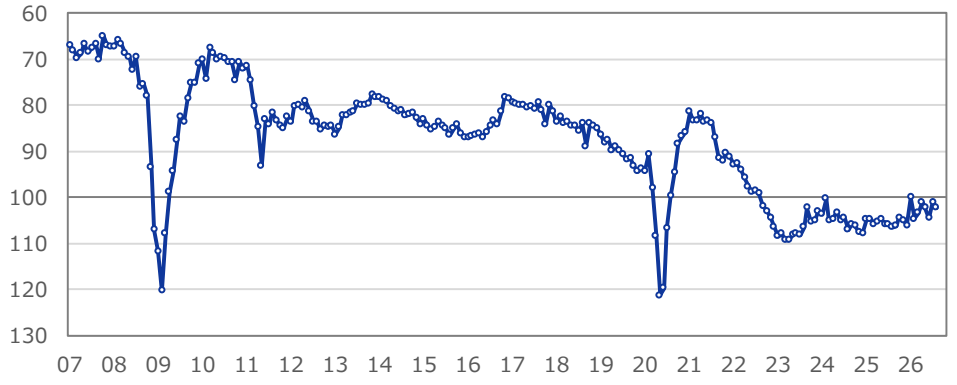


Note: Latest data are for Aug 2026

Source: SMDAM and Cabinet Office

Index of Producer's Inventory Ratio of Producer Goods

(sa, 2020=100, Inverted)

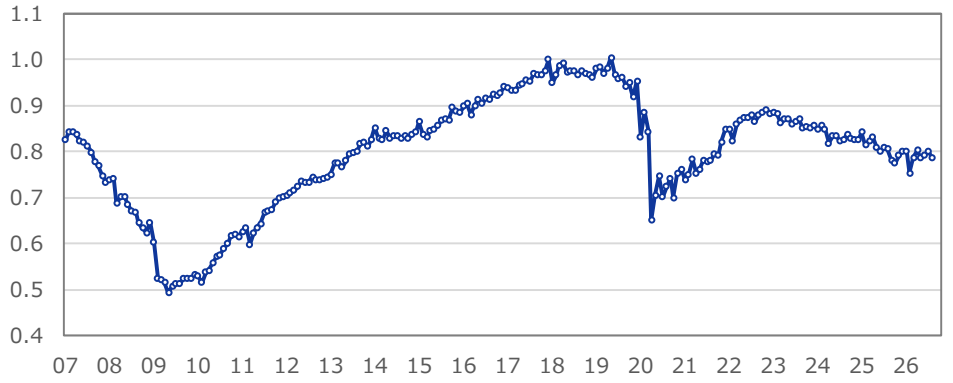


Note: Latest data are for Aug 2026

Source: SMDAM and Cabinet Office

New Job Offers (Excluding New School Graduates)

(sa, million persons)

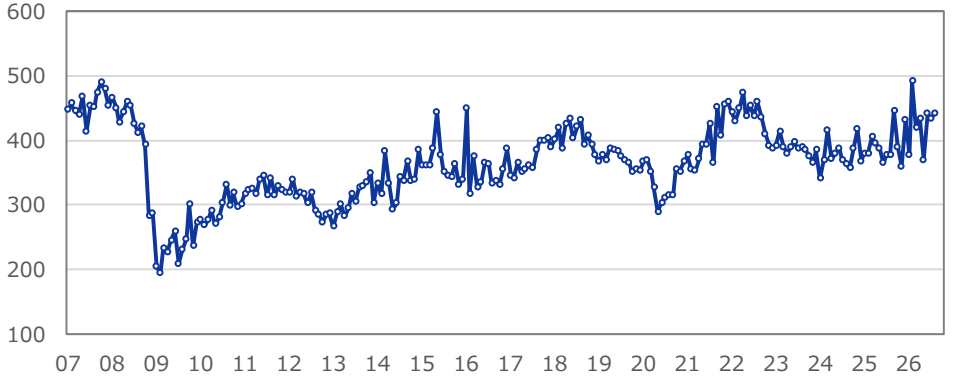


Note: Latest data are for Aug 2026

Source: SMDAM and Cabinet Office

Machinery Orders at Constant Prices (Manufacturing)

(sa, billion JPY)



Note: Latest data are for Aug 2026

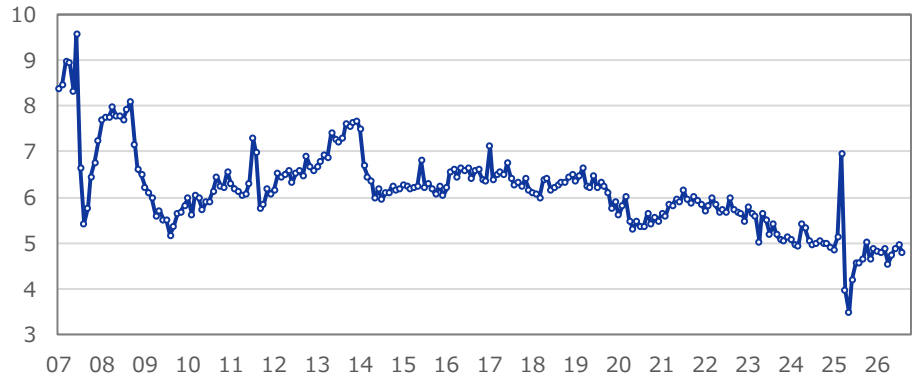
Source: SMDAM and Cabinet Office

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Japanese Economic Indicators (3)

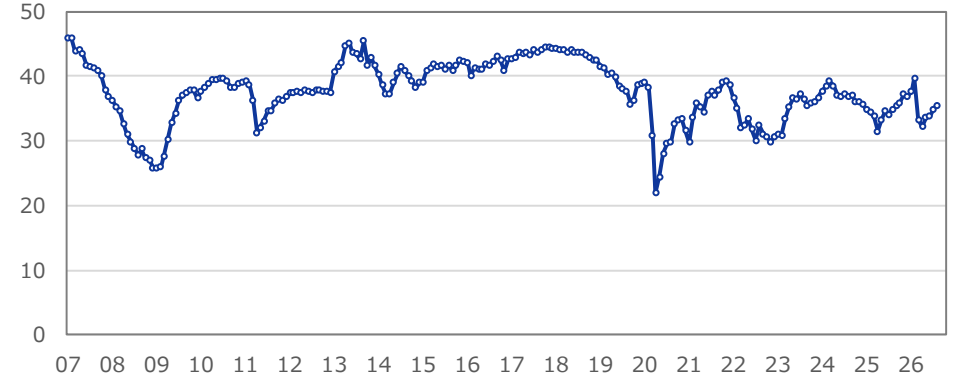
Total Floor Area of New Housing Construction Started

(million ㎡)



Note: Latest data are for Aug 2026
Source: SMDAM and Cabinet Office

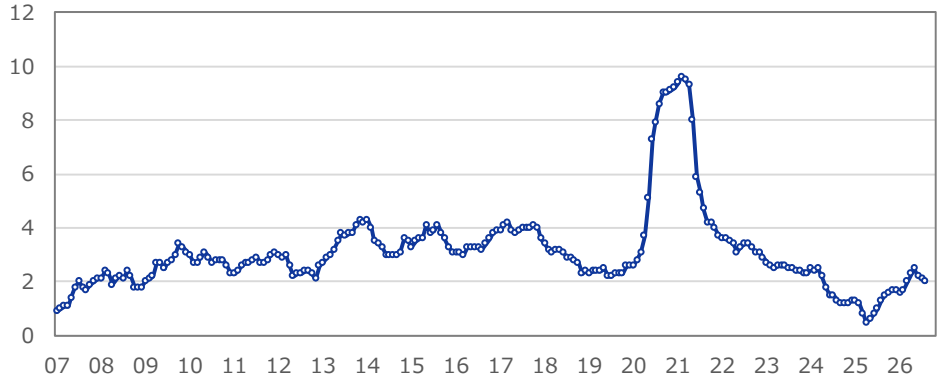
Consumer Confidence Index



Note: Latest data are for Aug 2026
Source: SMDAM and Cabinet Office

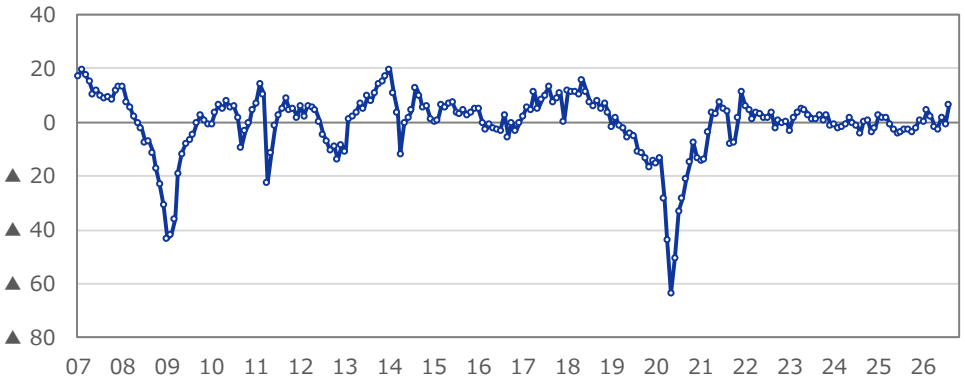
M2(YoY)

(%)



Note: Latest data are for Aug 2026
Source: SMDAM and Cabinet Office

Sales Forecast DI of Small Businesses



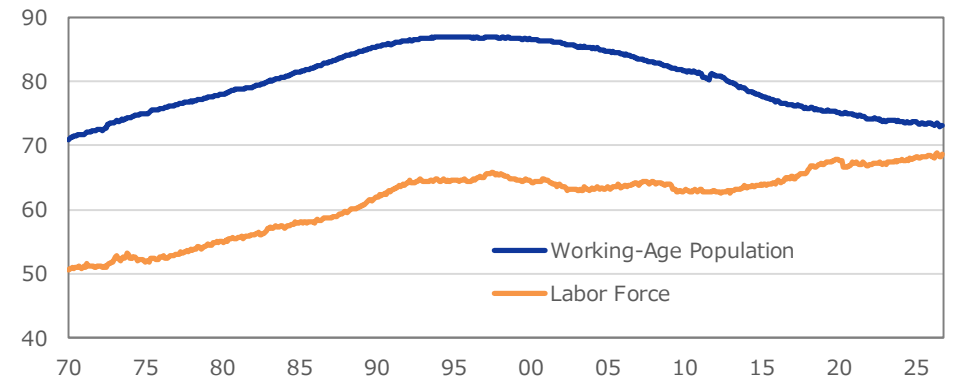
Note: Latest data are for Aug 2026
Source: SMDAM and Cabinet Office

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Japanese Economic Indicators (4)

Working-Age Population and Labor Force

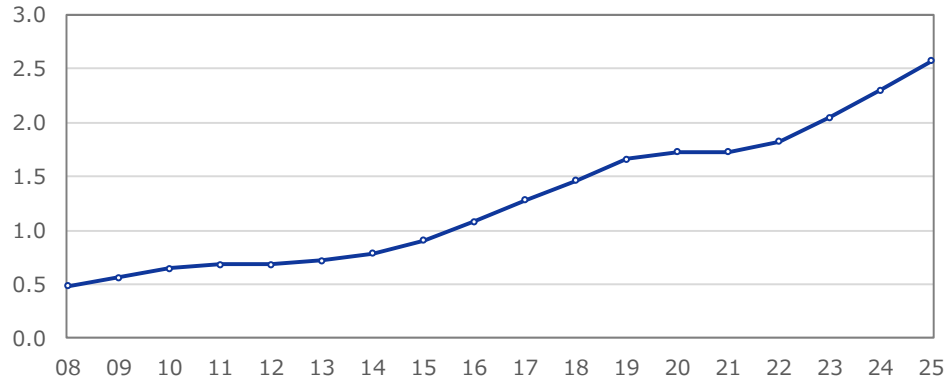
(sa, million persons)



Note: Latest data are for Sep 2026 (Y)
Source: SMDAM and MIC

Number of Foreign Workers

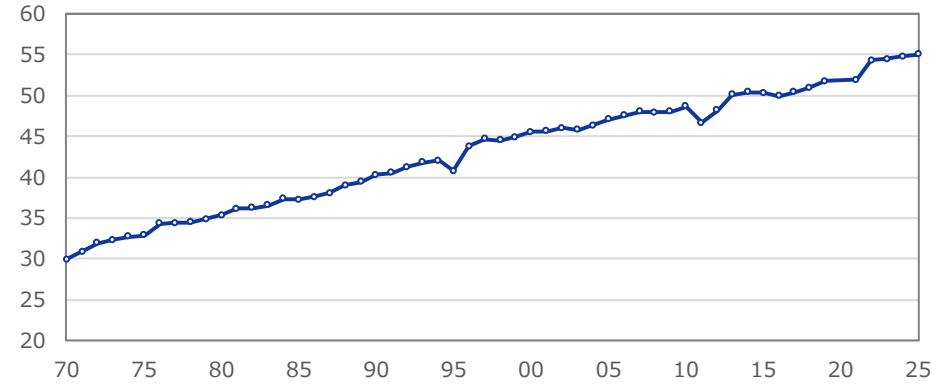
(million persons)



Note: Latest data are for 2025 (Y)
Source: SMDAM and MHLW

Number of Households

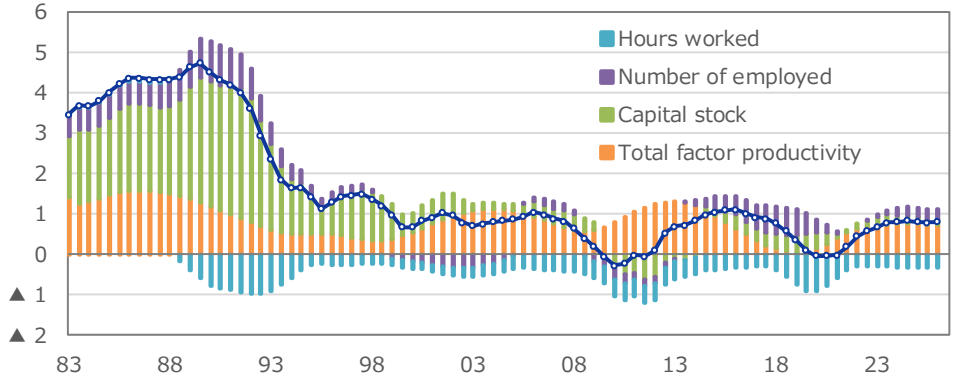
(million)



Note: Latest data are for 2025 (Y)
Source: SMDAM and Cabinet Office

Potential Growth Rate

(%)

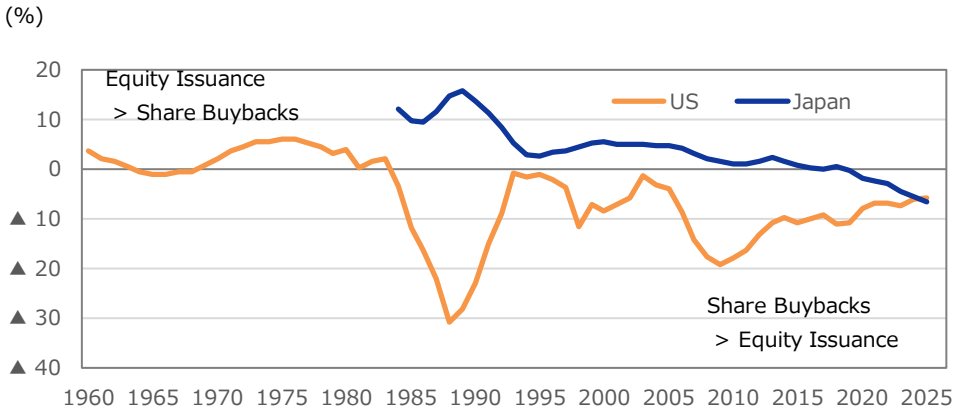


Note: Latest data are for 2Q 2026 (Y)
Source: SMDAM and BoJ

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

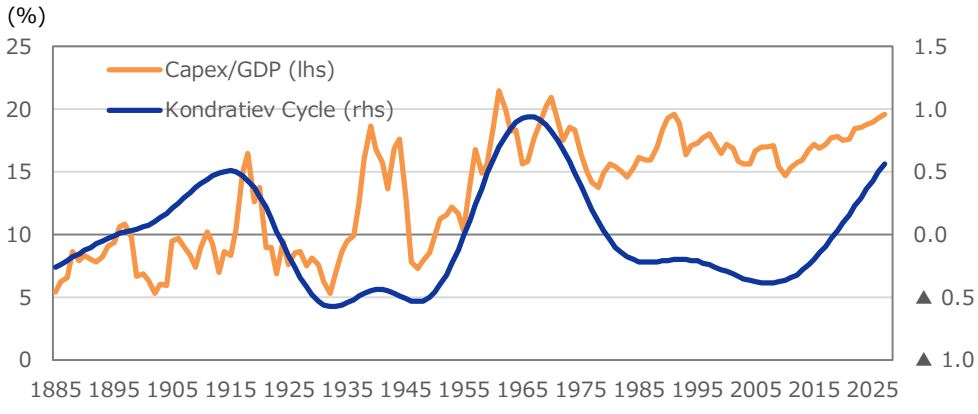
Japanese Economic Indicators (5)

Net Equity Issuance in Japan and the US



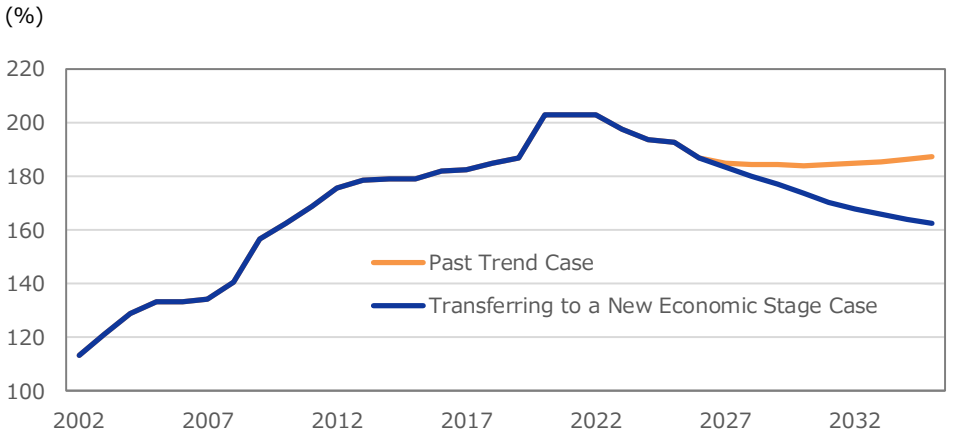
Note: Latest data are for 2025. (Y/FY)
Note: Net Equity Issuance / Market Cap (5Y MA)
Source: SMDAM, BoJ and FRB

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

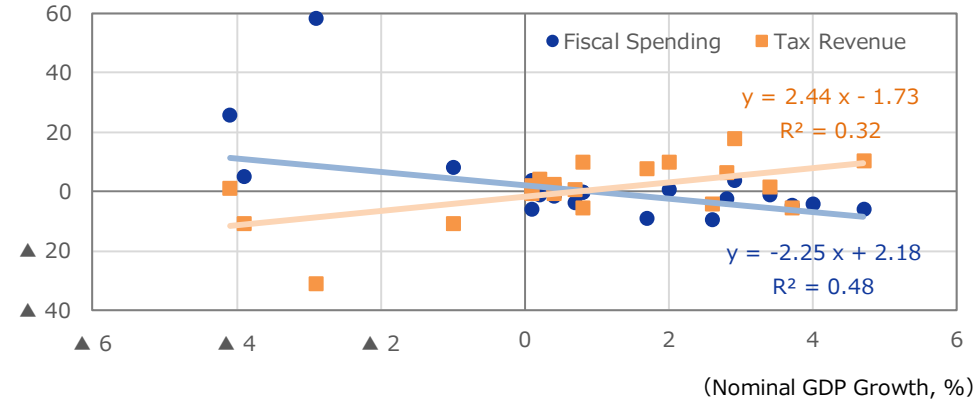
Debt-to-GDP Projection (Medium to Long Term) by Cabinet Office



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, %)

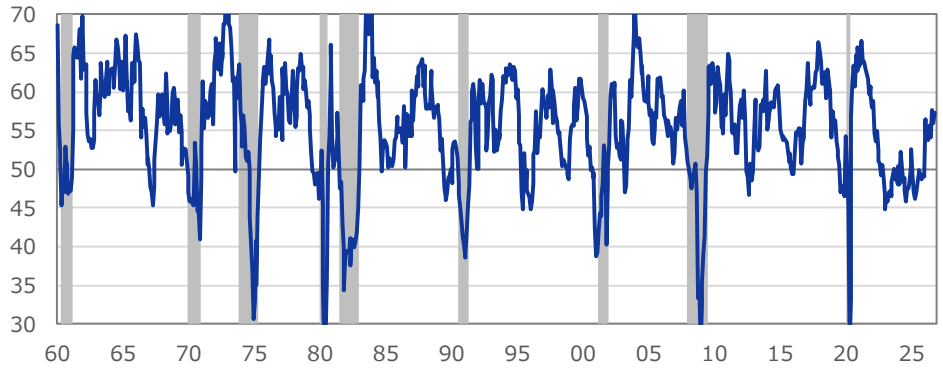


Note: The Data covers FY2003 to 24, and the regression line is calculated excluding outliers.
Source: SMDAM and Cabinet Office

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

US Economic Indicators

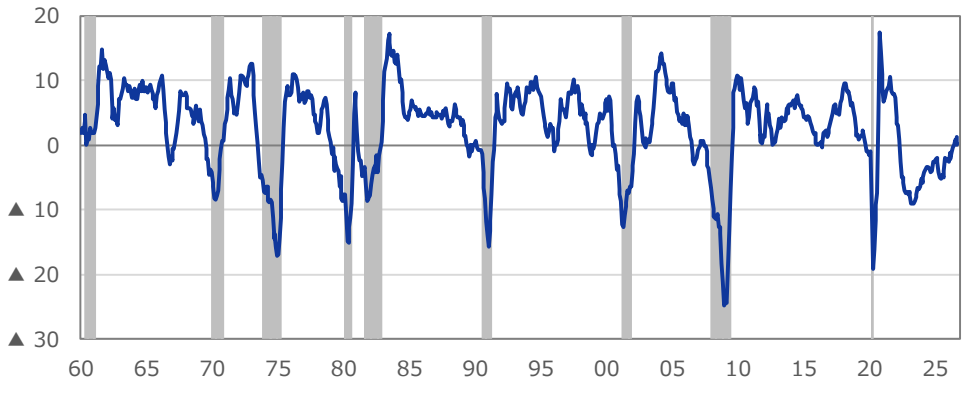
ISM Manufacturing PMI (Average of Production and New Orders)



Note: Latest data are for Oct 2026. The shaded areas represent periods of recession. (Y)
Source: SMDAM and ISM

Conference Board Leading Economic Index

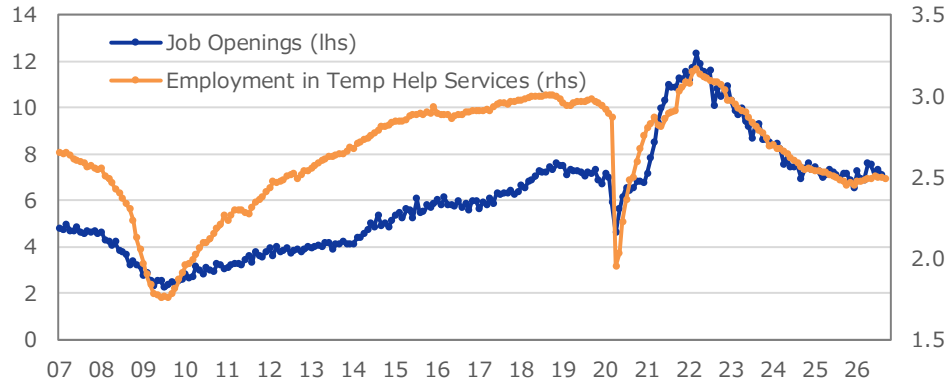
(6-Month Annual Change)



Note: Latest data are for Sep 2026. The shaded areas represent periods of recession. (Y)
Source: SMDAM and Conference Board

Job Openings and Employment in Temporary Help Services

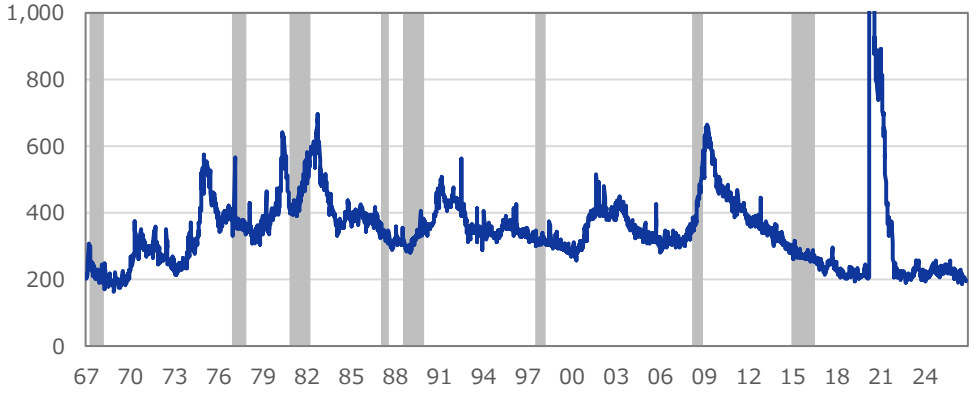
(sa, million persons) (sa, million persons)



Note: Latest data are for Sep 2026 (Y)
Source: SMDAM and Bureau of Labor Statistics

Initial Jobless Claims

(sa, thousand persons)



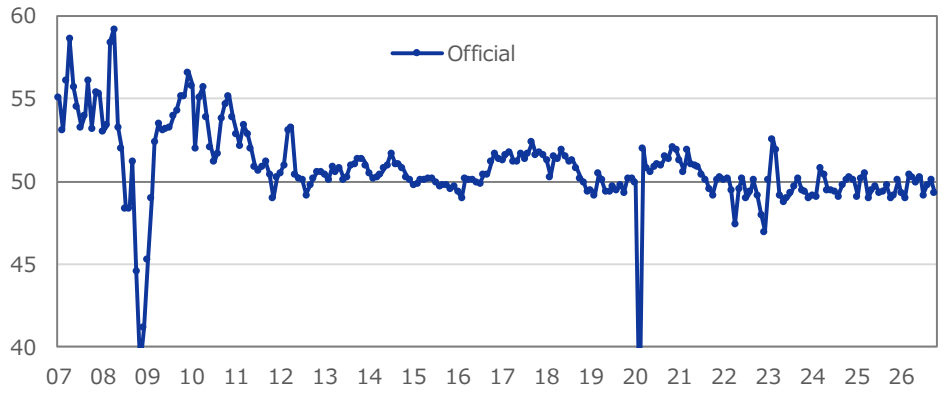
Note: Latest data are for 23 Oct 2026. The shaded areas represent periods of recession. (Y)
Source: SMDAM and Department of Labor

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Overseas Economic Indicators

China Manufacturing PMI

(sa, >50=improvement since previous month)

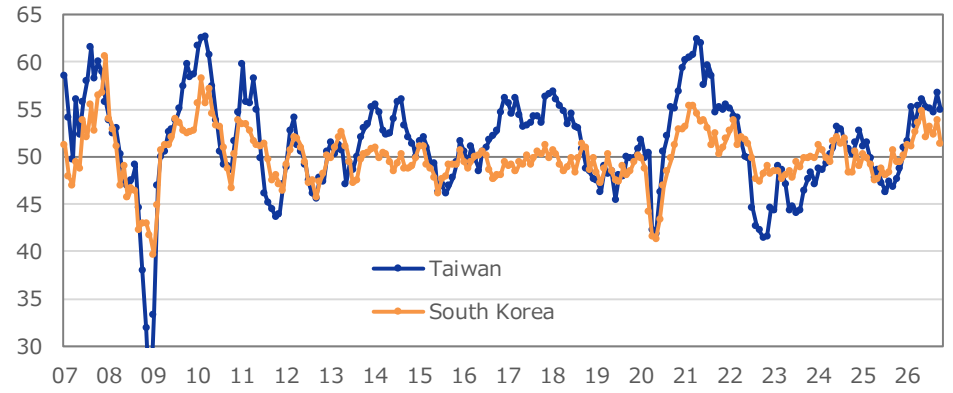


Note: Latest data are for Oct 2026 (Y)

Source: SMDAM and China Federation of Logistics & Purchasing

Manufacturing PMI (Taiwan, South Korea)

(sa, >50=improvement since previous month)

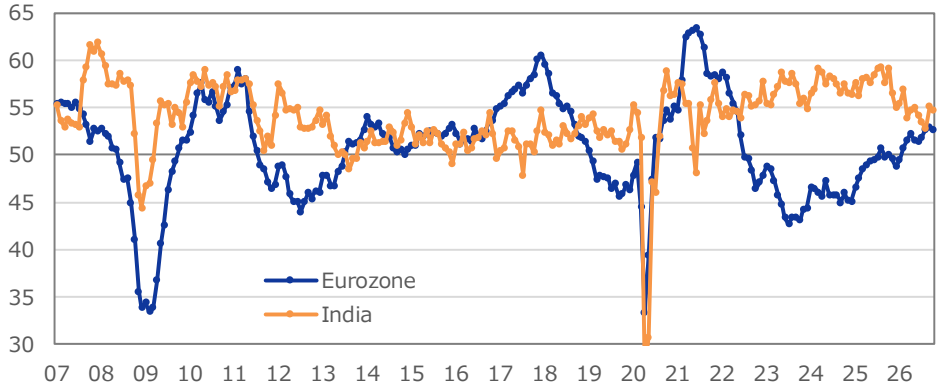


Note: Latest data are for Oct 2026 (Y)

Source: SMDAM and S&P Global

Manufacturing PMI (Eurozone, India)

(sa, >50=improvement since previous month)

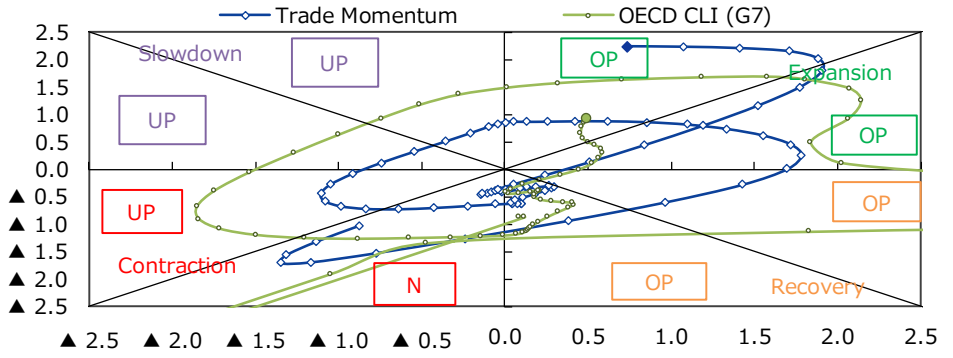


Note: Latest data are for Oct 2026 (Y)

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 Sep 2026 6M Diff. Trade Momentum & OECD CLI

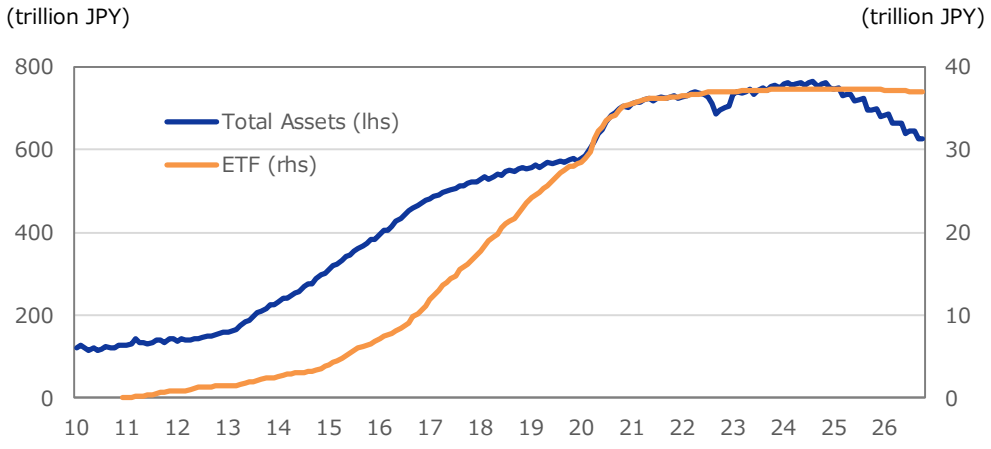
Note: Trade momentum shows cycles from indicators; OP/N/UP = past Japan stock performance

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

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BOJ Monetary Policy (1)

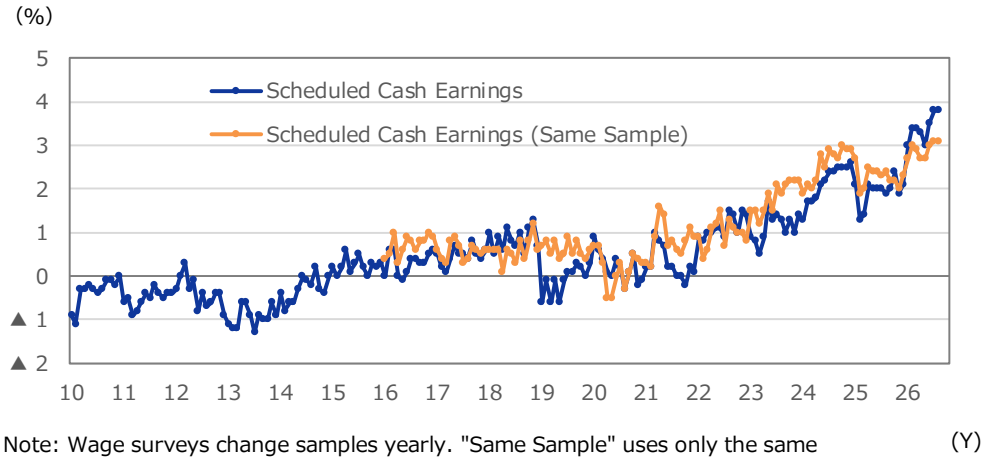
The Bank of Japan's Balance Sheet



Note: Latest data are for Oct 2026

Source: SMDAM and BoJ

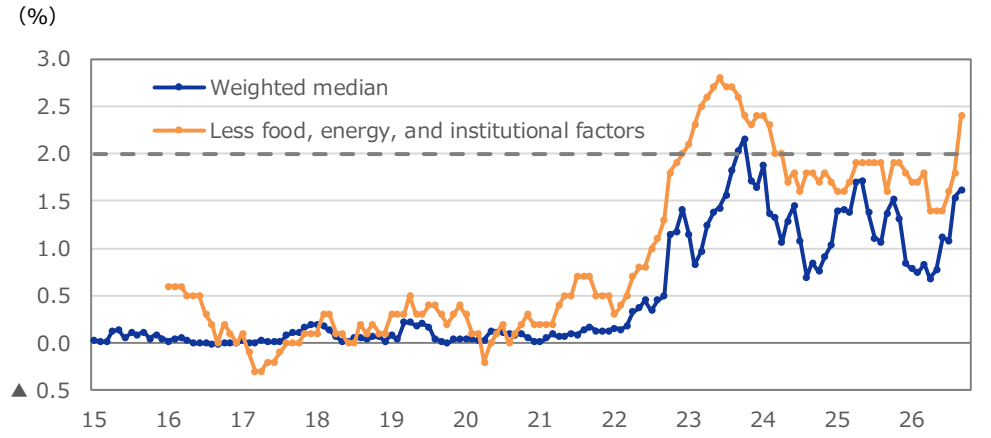
Nominal Wages (Scheduled Cash Earnings, YoY)



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 Aug 2026 Source: SMDAM and MHLW

Indicators for Core CPI (YoY)



Note: Latest data are for Sep 2026

Source: SMDAM and BoJ

10-year Breakeven Inflation Rate



Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

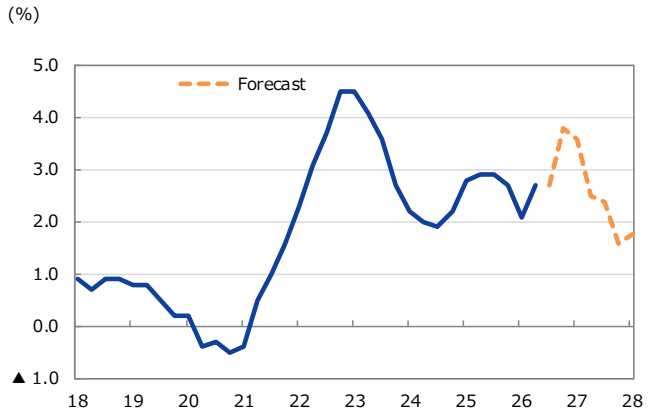
BOJ Monetary Policy (2)

BOJ Monetary Policy Developments (Quarter-End and Latest)

	Jun 2026	Sep 2026	Oct 2026
O/N call rate	Around 1.0% (rate hike)	Around 1.25% (rate hike)	Around 1.25% (unchanged)
Rate on Deposit Facility	1.00%	1.25%	1.25%
Objection to the monetary policy guideline	Committee member Asada dissented, arguing that the Bank should maintain the guideline for money market operations.	Committee members Asada and Sato voted against the proposal, arguing that it was not appropriate to raise the policy interest rate at this time.	Committee member Takata proposed setting the policy rate at around 1.5%.
Conduct of Monetary Policy	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.	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 examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook, including the impact of the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates.	Given that underlying CPI inflation is at a level that is generally consistent with the price stability target of 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 examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook, including the impact of factors such as the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates.
JGB purchases	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.	No Change	No Change
ETF Purchases	No Change	No Change	Decided to accelerate sales from Jan 2027.

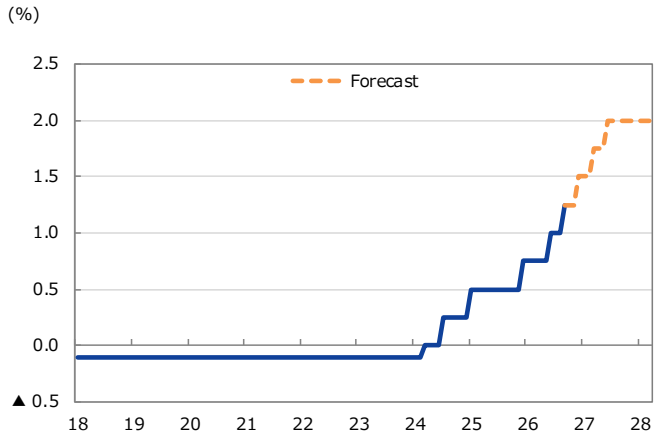
Note: Data as of 5 Nov 2026 Source: SMDAM and BOJ

CPI (less fresh food & institutional factors, YoY)



Note1: Forecasts as of 19 Oct 2026, by SMDAM.
Note2: Consumption tax-adjusted.
Source: SMDAM and BOJ

Policy interest rate



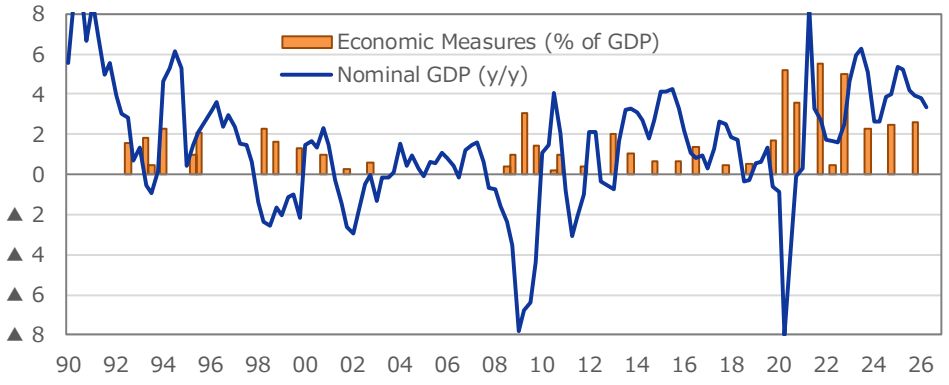
Note: Forecasts as of 19 Oct 2026, by SMDAM.
Source: SMDAM and BOJ

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Japan’s Fiscal policy

Government Economic Measures and Nominal GDP Growth Rate

(%)



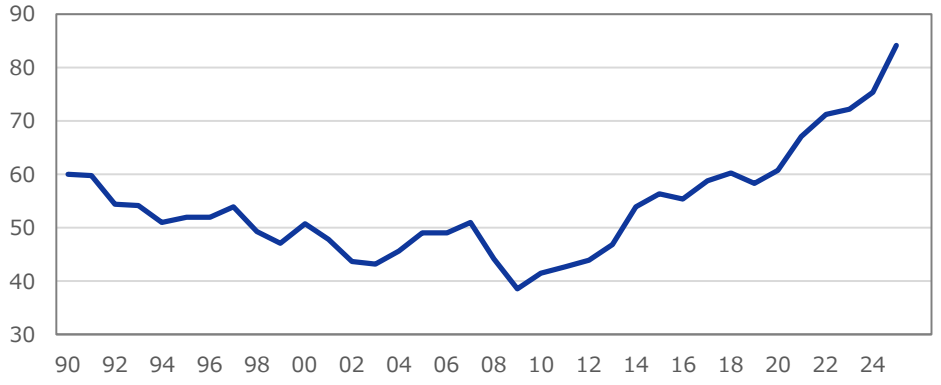
(Y)

Note: Latest data are for 2Q 2026. Economic measures are budget-backed amounts.

Source: SMDAM and Cabinet Office

Japan's Tax Revenue

(trillion JPY)



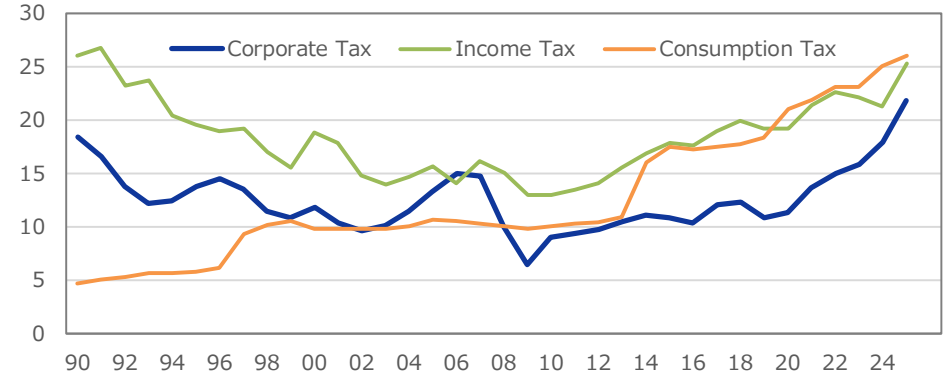
(FY)

Note: Latest data are for FY2025

Source: SMDAM and MoF

Breakdown of Tax Revenue

(trillion JPY)



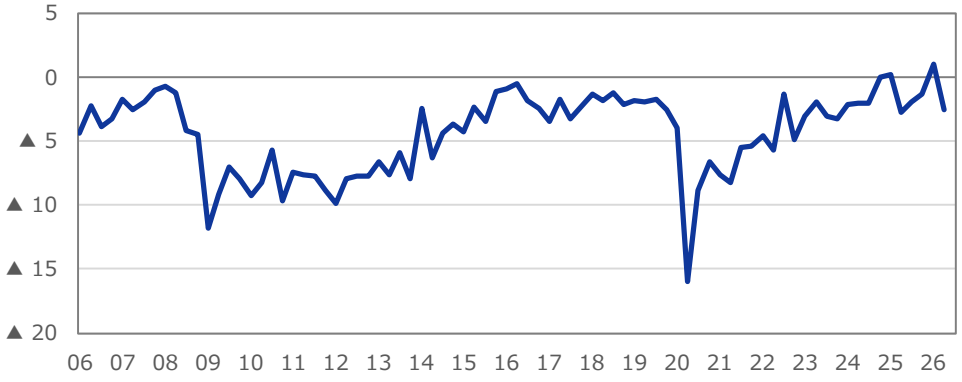
(FY)

Note: Latest data are for FY2025

Source: SMDAM and MoF

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

(%)



(Y)

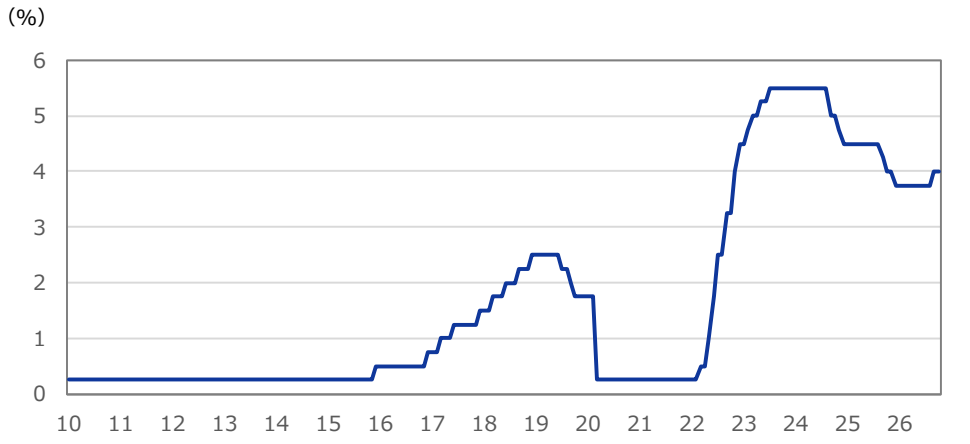
Note: Latest data are for 2Q 2026

Source: SMDAM and BoJ

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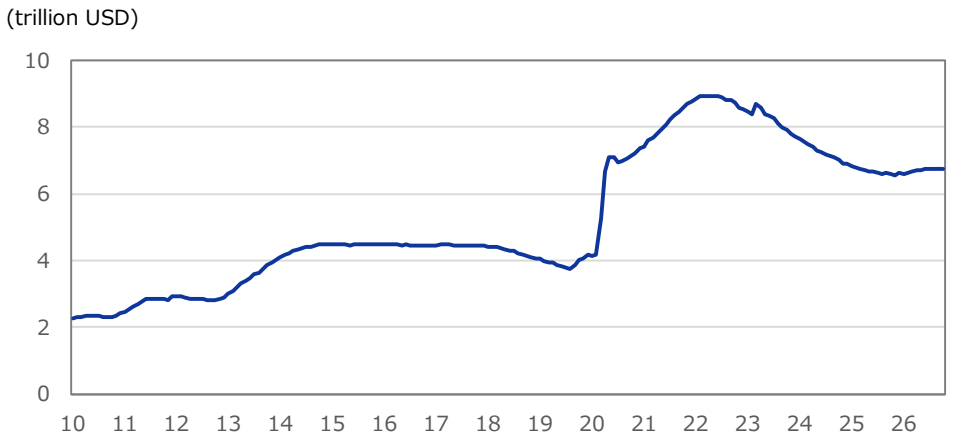
Overseas Monetary Policy

Federal Funds Target Rate (Upper Bound)



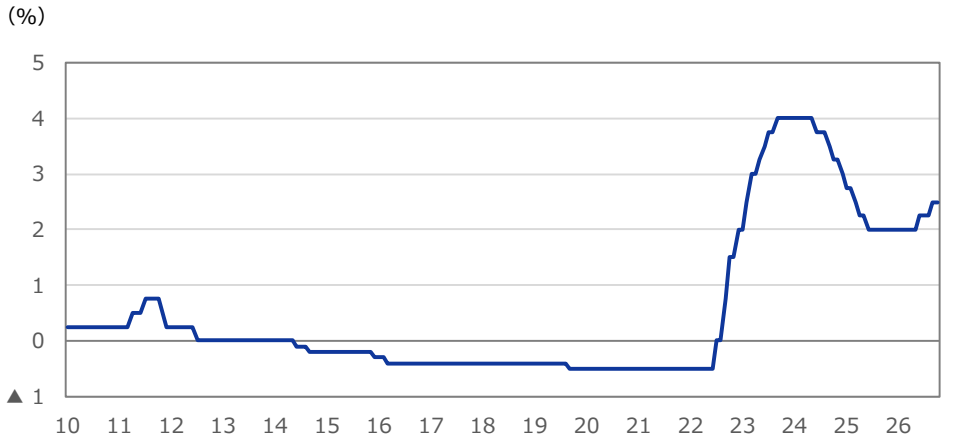
Note: Latest data are for Oct 2026
Source: SMDAM and FRB

Federal Reserve Total Assets



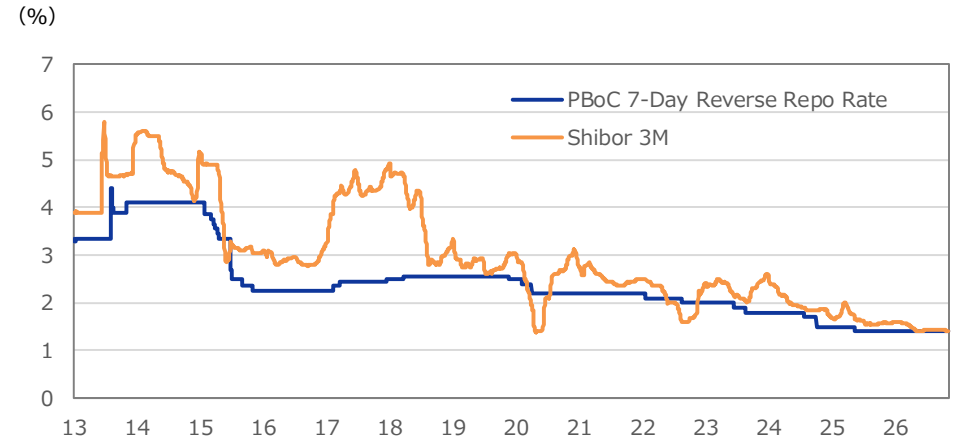
Note: Latest data are for Oct 2026
Source: SMDAM and FRB

ECB Deposit Facility Announcement Rate



Note: Latest data are for Oct 2026
Source: SMDAM and ECB

China's Short-Term Interest Rates

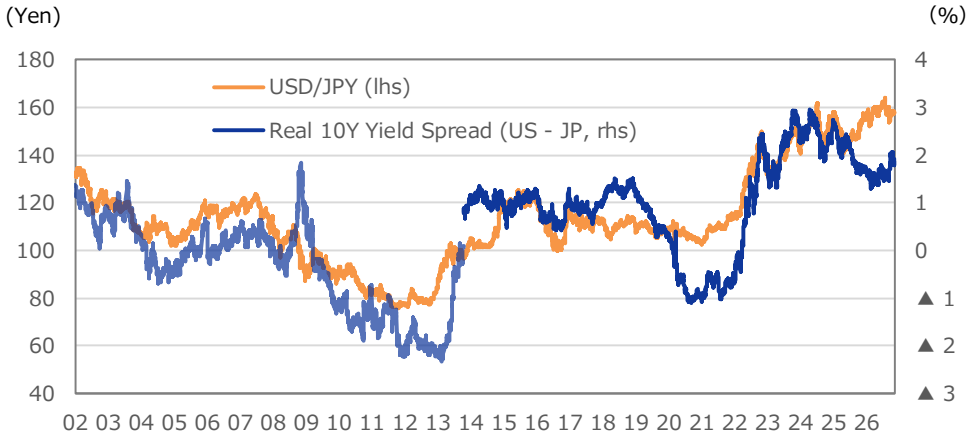


Note: Latest data are for 2 Nov 2026
Source: SMDAM, PBoC and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

USD/JPY

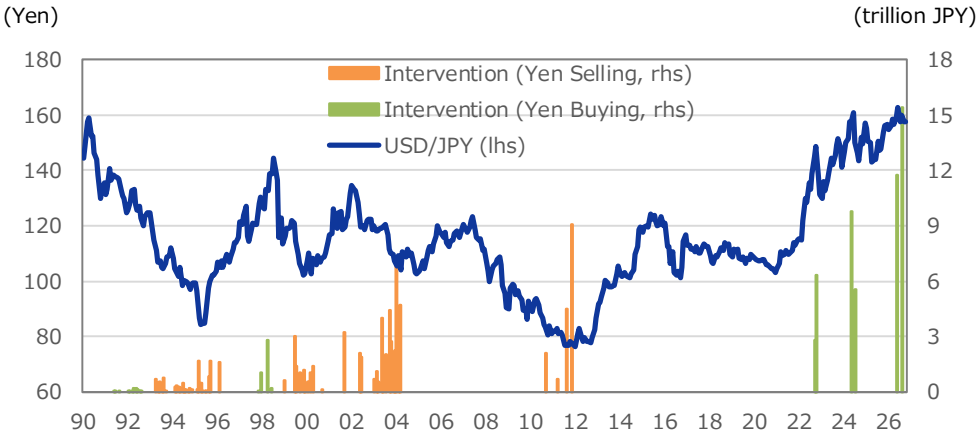
USD/JPY and Real Interest Rate Differential



Note: Latest data are for 2 Nov 2026. Japan's real rate pre-Oct. 8, 2013, based on core CPI.

Source: SMDAM and Bloomberg

USD/JPY and Intervention



Note: Latest data are for Oct 2026

Source: SMDAM, MoF and Bloomberg

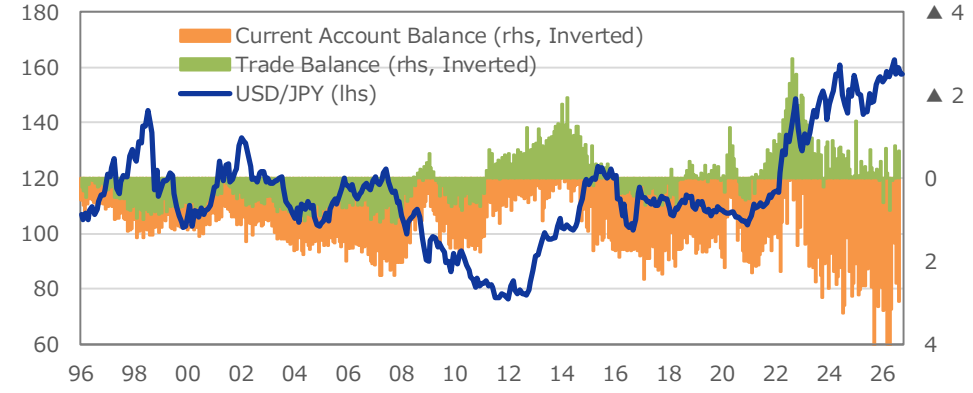
JPY Real Effective Exchange Rate



Note: Latest data are for Sep 2026

Source: SMDAM and BoJ

USD/JPY and External Balances



Note: Latest data are for Oct 2026

Source: SMDAM, MoF and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Earnings Forecast:

Bottom-Up Corporate Earnings Forecast for Japan

Forecasts as of 8 Sep 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)	688,855	705,008	782,413	819,302	+2.3	+11.0	+4.7
Manufacturing	405,307	411,814	463,869	486,834	+1.6	+12.6	+5.0
Non-Manufacturing	283,549	293,194	318,544	332,468	+3.4	+8.6	+4.4
Total (Ex-Financials, Ex-SoftBank G)	681,611	697,209	773,722	809,860	+2.3	+11.0	+4.7
Operating Profit							
Total (Ex-Financials)	60,181	62,919	82,424	91,433	+4.6	+31.0	+10.9
Manufacturing	33,638	32,879	52,004	62,025	▲ 2.3	+58.2	+19.3
Non-Manufacturing	26,543	30,041	30,420	29,408	+13.2	+1.3	▲ 3.3
Total (Ex-Financials, Ex-SoftBank G)	55,750	55,638	78,144	90,693	**▲ 0.2**	**+40.5**	**+16.1**
Ordinary Profit							
Total (Ex-Financials)	62,528	66,543	87,469	94,644	+6.4	+31.4	+8.2
Manufacturing	35,920	35,209	54,566	63,468	▲ 2.0	+55.0	+16.3
Non-Manufacturing	26,608	31,334	32,904	31,176	+17.8	+5.0	▲ 5.3
Total (Ex-Financials, Ex-SoftBank G)	60,823	60,408	83,189	93,904	**▲ 0.7**	**+37.7**	**+12.9**
Profit After Taxes							
Total (Incl. Financials)	52,174	55,165	73,164	79,373	+5.7	+32.6	+8.5
Total (Ex-Financials)	42,731	44,116	62,135	65,435	+3.2	+40.8	+5.3
Manufacturing	24,119	22,120	38,628	44,620	▲ 8.3	+74.6	+15.5
Non-Manufacturing	18,612	21,997	23,507	20,815	+18.2	+6.9	▲ 11.5
Total (Ex-Financials, Ex-SoftBank G)	41,578	39,114	58,921	65,810	▲ 5.9	+50.6	+11.7

Note1: Forecasts by SMDAM.

Note2: FX assumptions are USD/JPY at 162 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.

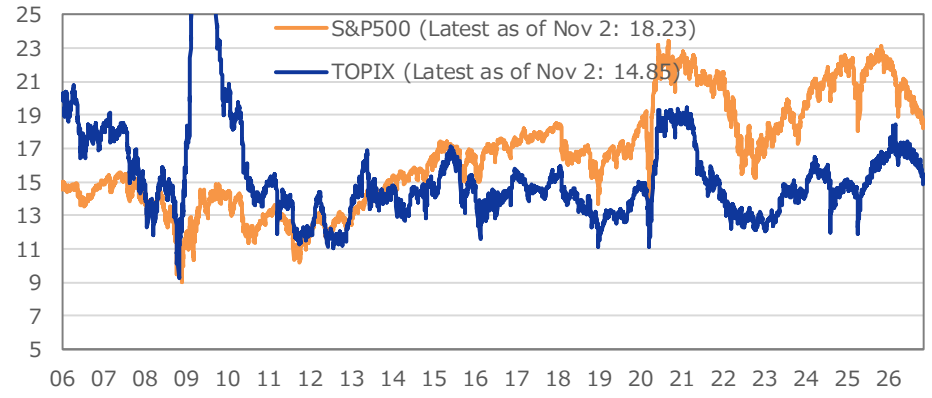
Note4: Aggregated earnings figures are based on in-house corporate forecasts and provided for reference only. Accuracy is not fully guaranteed.

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

Valuation (1)

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

(times)

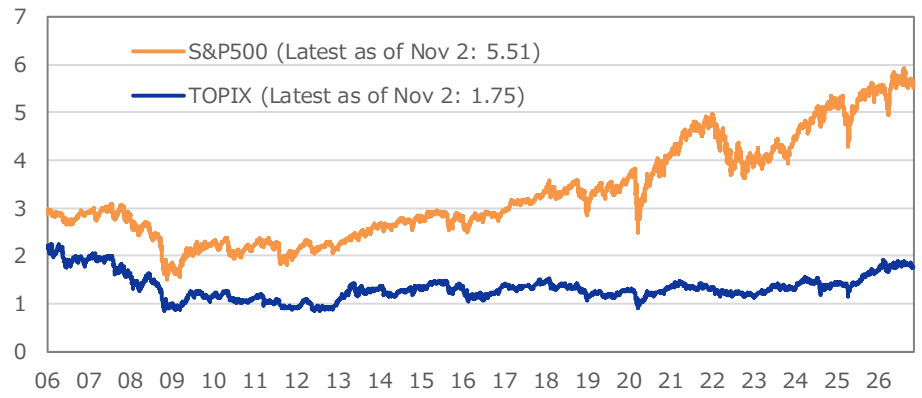


Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

S&P 500 and TOPIX Historical P/B Ratio

(times)

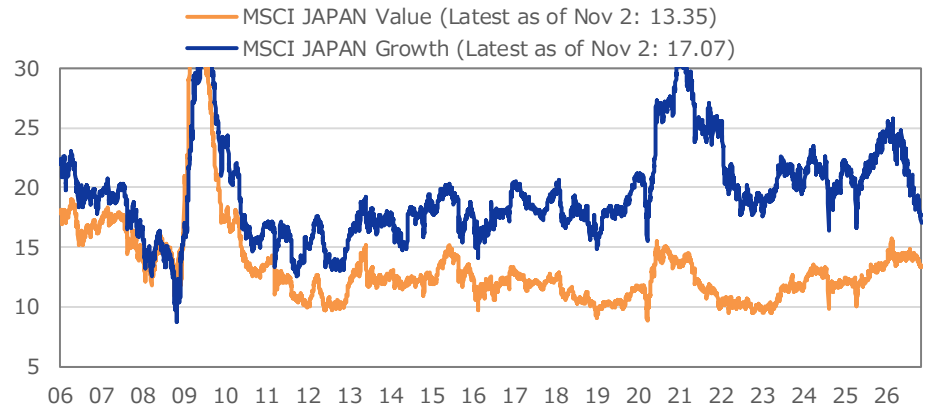


Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

MSCI Japan 12-Month Forward P/E Ratio

(times)

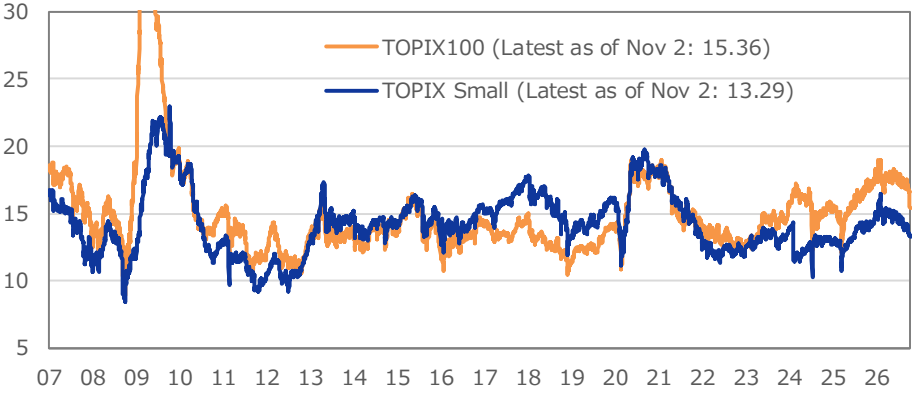


Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

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

(times)



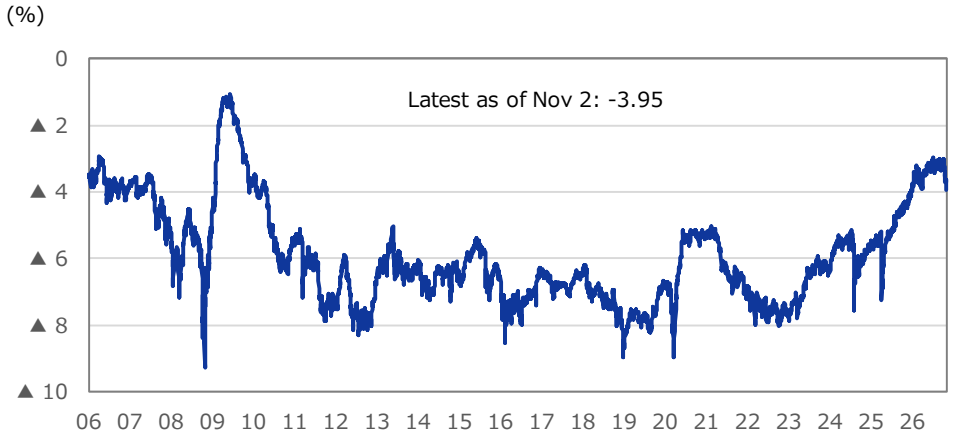
Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Valuation (2)

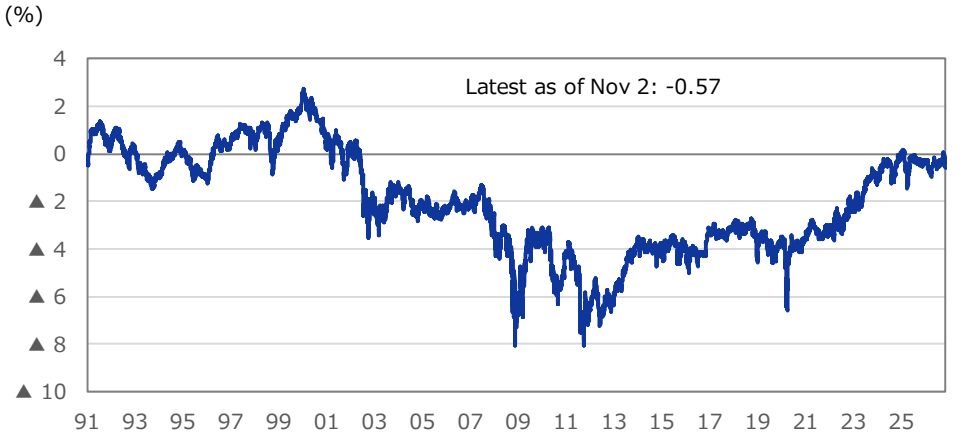
TOPIX Yield Spread (10Y JGB - Earnings Yield)



Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

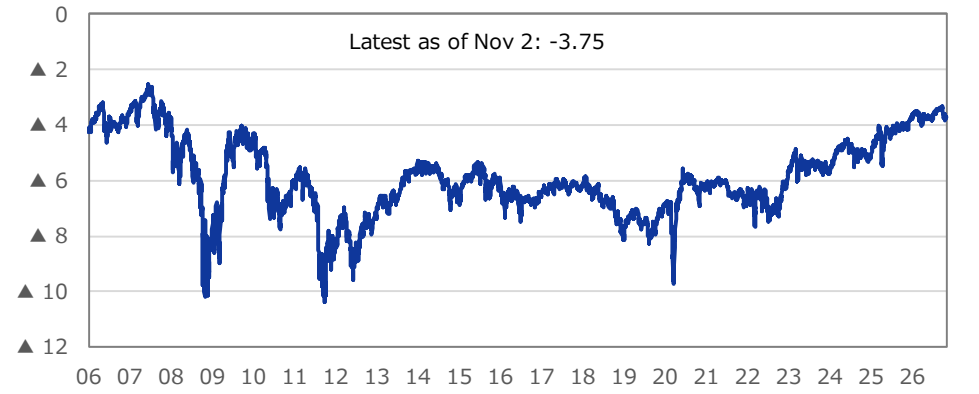
S&P 500 Yield Spread (10Y UST - Earnings Yield)



Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

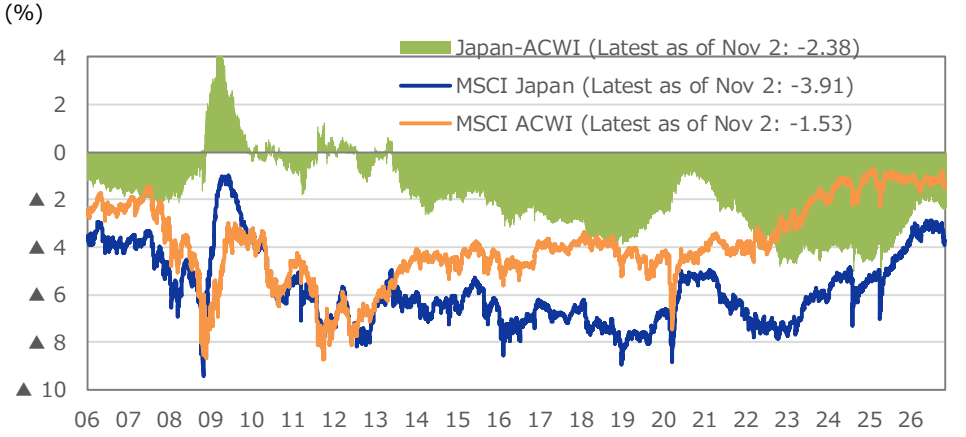
STOXX Europe 600 Yield Spread (10Y Bund - Earnings Yield)



Note: Latest data are for 2 Nov 2026

Source: SMDAM and Bloomberg

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



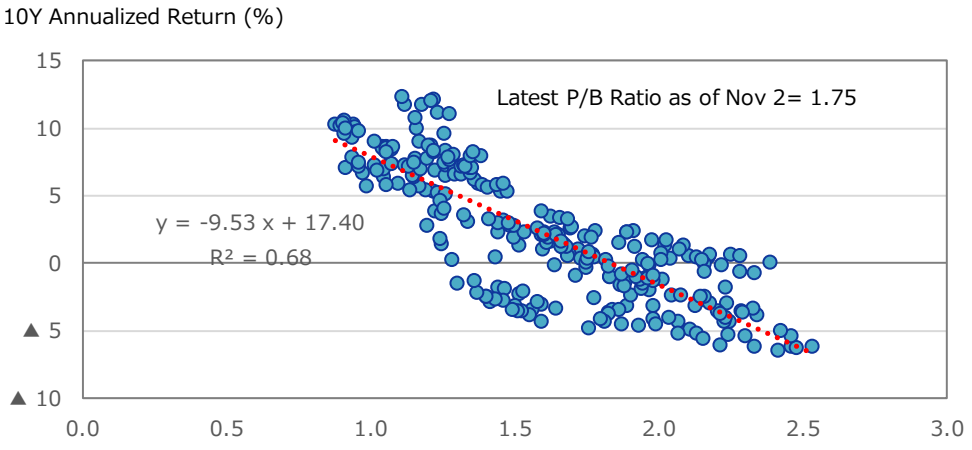
Note: Latest data are for 2 Nov 2026. For 10Y bond yield, Japan uses JGB, ACWI uses UST.

Source: SMDAM and Bloomberg

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

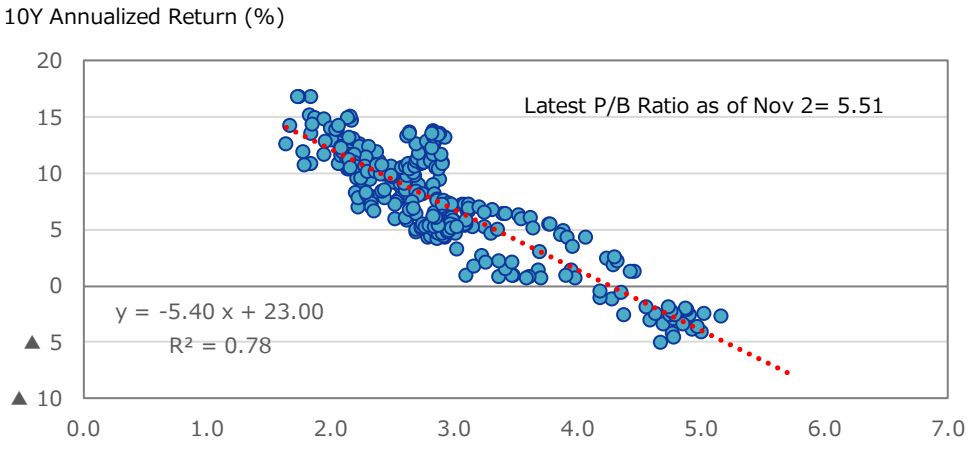
Valuation and Return

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



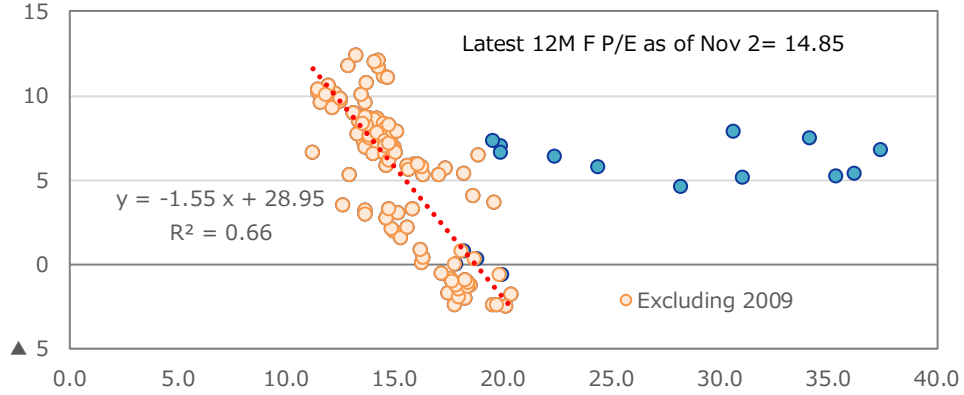
Note: Latest data are for Oct 2026
Source: SMDAM and Bloomberg

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



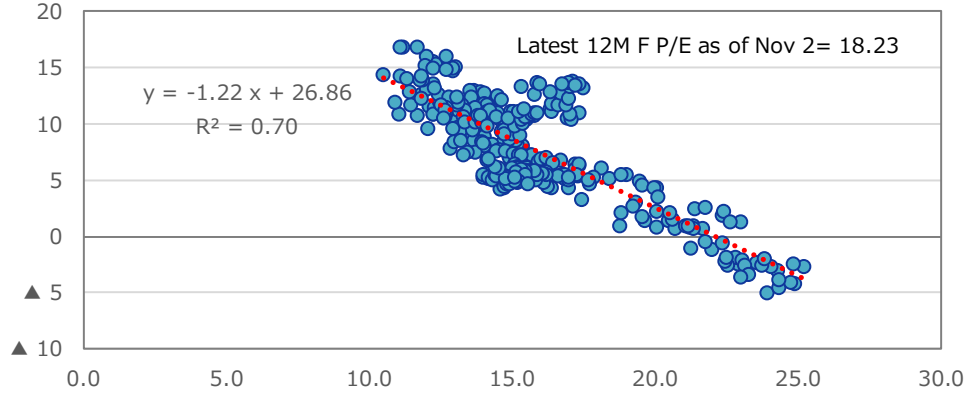
Note: Latest data are for Oct 2026
Source: SMDAM and Bloomberg

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



Note: Latest data are for Oct 2026. The blue dots show 2009 data.
Source: SMDAM and Bloomberg

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

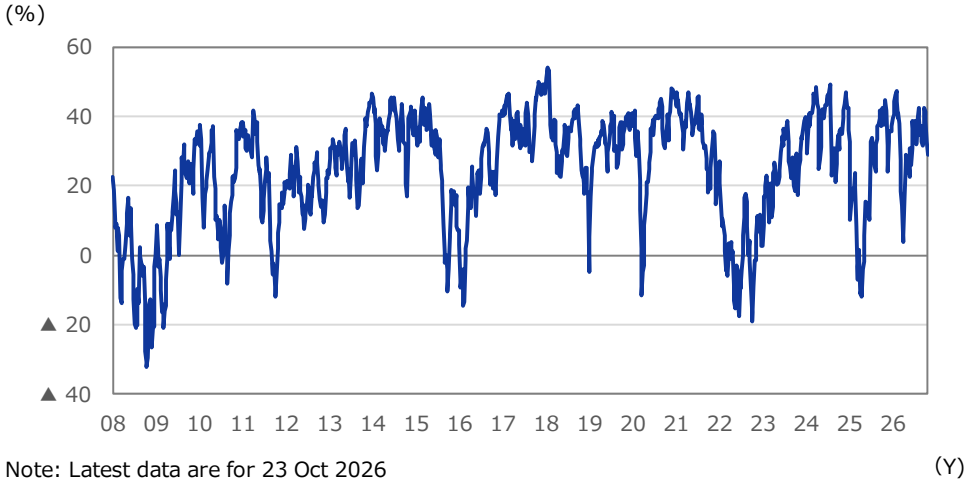


Note: Latest data are for Oct 2026
Source: SMDAM and Bloomberg

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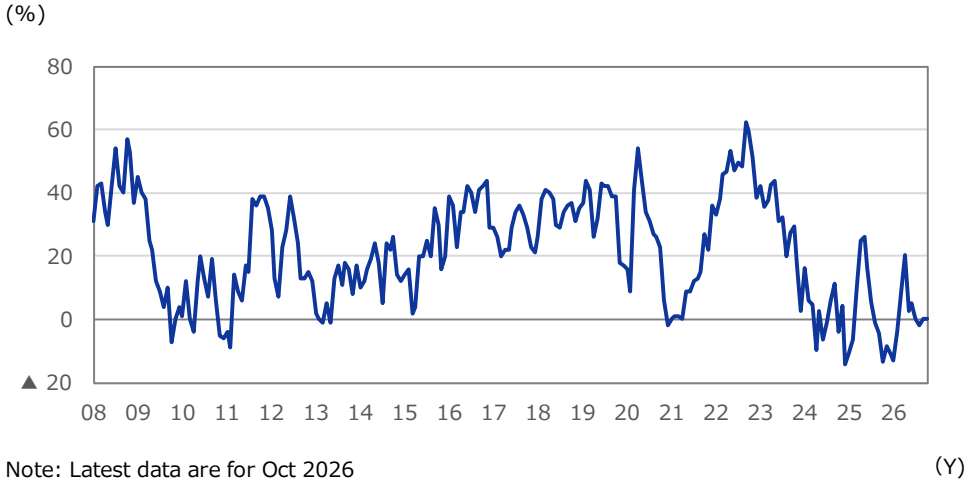
Stock Market Sentiment and Supply-Demand

Investors Intelligence Bull-Bear Spread



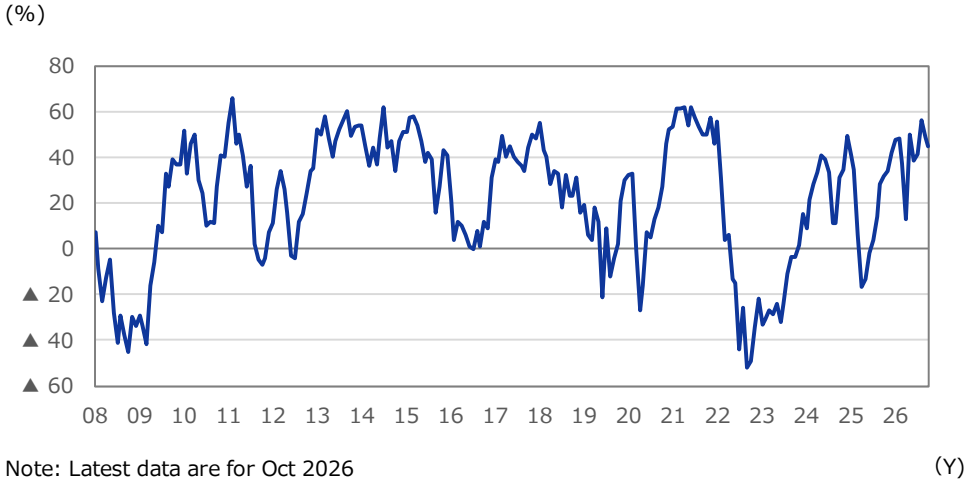
Note: Latest data are for 23 Oct 2026
Source: SMDAM and LSEG

FM Survey: Cash Net Balance



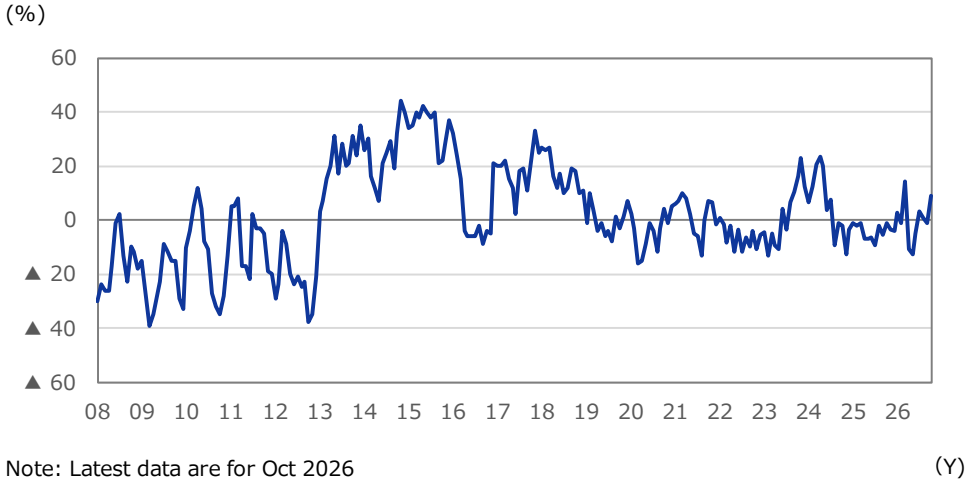
Note: Latest data are for Oct 2026
Source: SMDAM and BofA

FM Survey: Equities Net Balance



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

FM Survey: Japanese Equities Net Balance

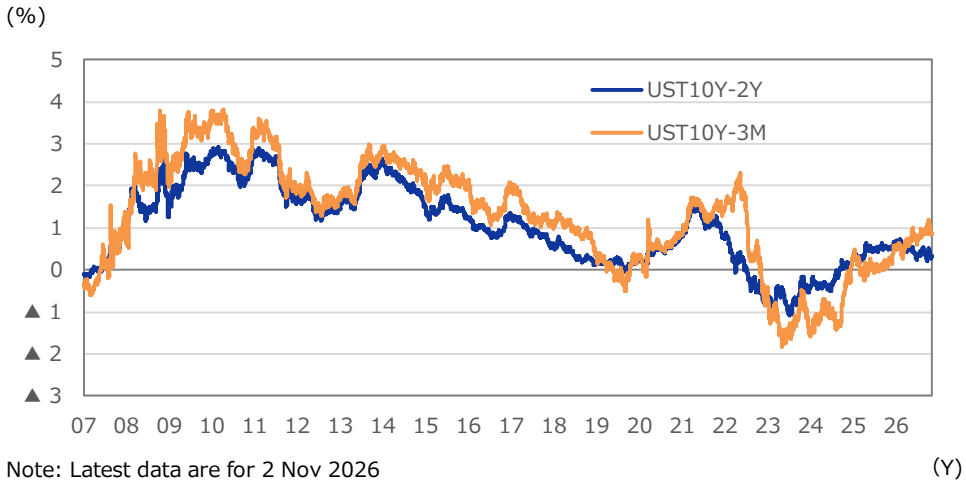


Note: Latest data are for Oct 2026
Source: SMDAM and BofA

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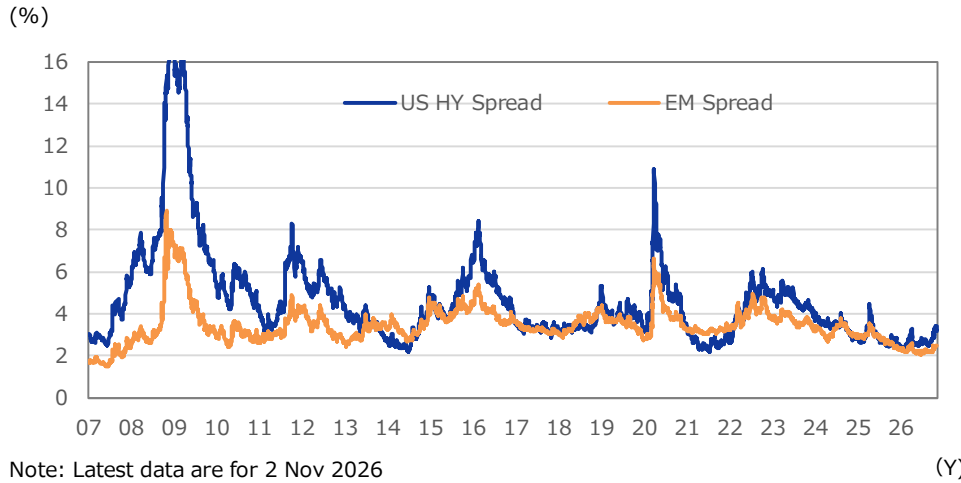
Risk Indicators

US Yield Curve Spread



Note: Latest data are for 2 Nov 2026
Source: SMDAM and Bloomberg

US HY Spread and EM Spread



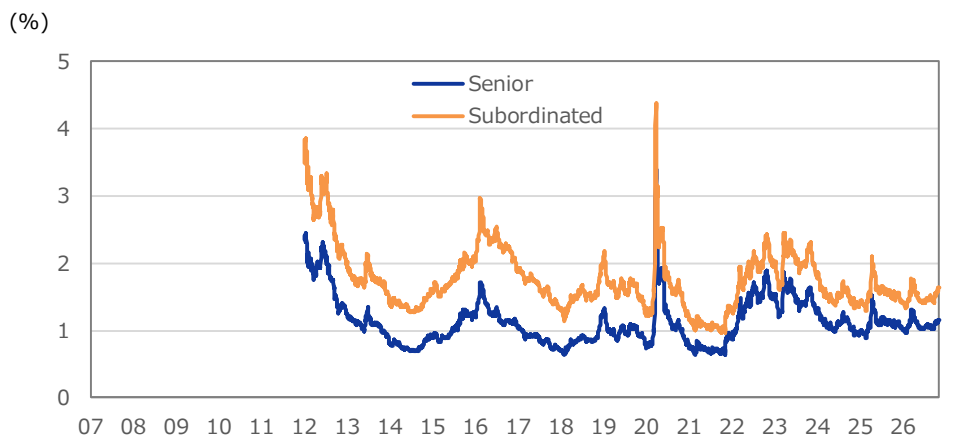
Note: Latest data are for 2 Nov 2026
Source: SMDAM and Bloomberg

Chicago Fed Adjusted National Financial Conditions Index (ANFCI)



Note: Latest data are for 2 Nov 2026
Source: SMDAM, Chicago Fed and Bloomberg

USD IG Financials OAS

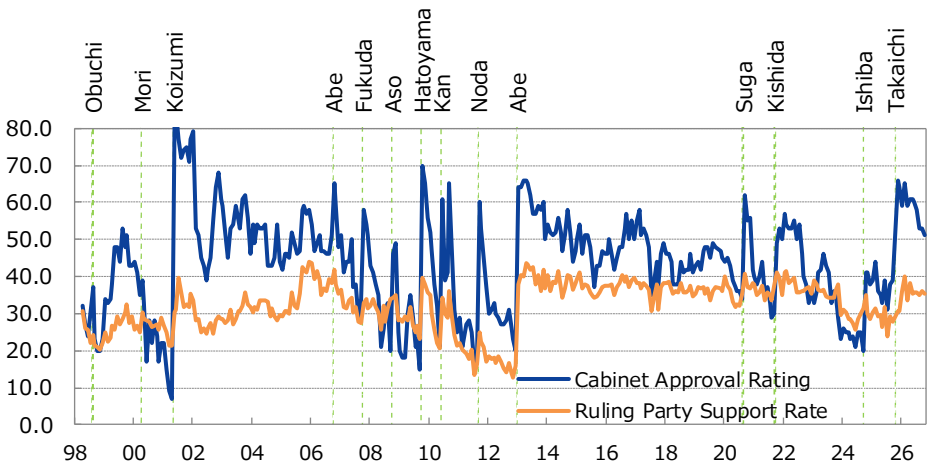


Note: Latest data are for 2 Nov 2026. OAS = Option-Adjusted Spread
Source: SMDAM and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Japanese Politics:

Cabinet Approval Rating and Ruling Party Support Rate (%)



Source: SMDAM and NHK

Note: Latest data are for Oct 2026

Seats in Lower and Upper Houses

Note: As of 2 Nov 2026

	Lower House seats	Upper House seats
Liberal Democratic Party	315	101
Nippon Ishin / Japan Innovation Party	36	19
Ruling parties	**351**	**120**
Centrist Reform Alliance / Constitutional Democratic Party Komeito	47	39 21
Democratic Party For the People	28	25
Party of Life	0	5
Japanese Communist Party	4	7
Sanseito	15	15
Team Mirai	11	2
Others + Vacancies	9	14
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%**
Jul 21	**Cabinet approved Basic Policy and Growth Strategy**
Jul 21	**Corporate Governance Code revised**
early Aug	**Cabinet decision on cutting the VAT on food**
Late Aug	FY2027 budget requests due
Sep 18	**BOJ meeting: rate hiked to 1.25%**
Oct 5	**Extraordinary Diet**
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	FY2027 budget draft
	Shift to main budget; **FY27 initial budget to expand sharply**	FY2027 budget draft
Growth & resilience investment	Support AI/ship/space/energy/defense; **up to ¥10tn** potentially allocated	FY2027 budget draft
Revise security documents	Broaden defense exports; **defense/GDP target could rise 2%→3% (+¥6tn)**	FY2027 budget draft
Two-year cut in food VAT	**Zero tax: ¥5T cut. 1% likely. Starts Apr 2027. Key: funding**	Autumn extraordinary Diet

Note: As of 2 Nov 2026

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

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

Overview of the Revisions to the Corporate Governance Code

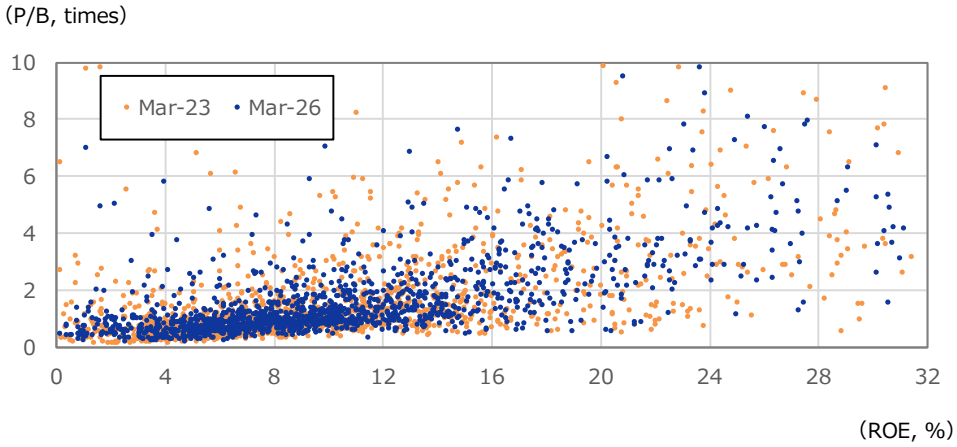
Note: Data as of 30 Sep 2026

Theme	Direction of the 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.**

Source: SMDAM and FSA

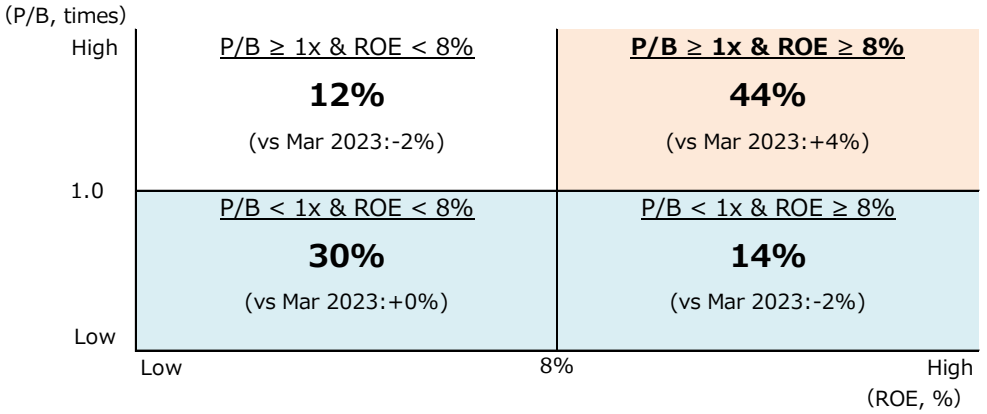
Governance (2): Corporate Response to TSE's Cost of Capital Conscious Management

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



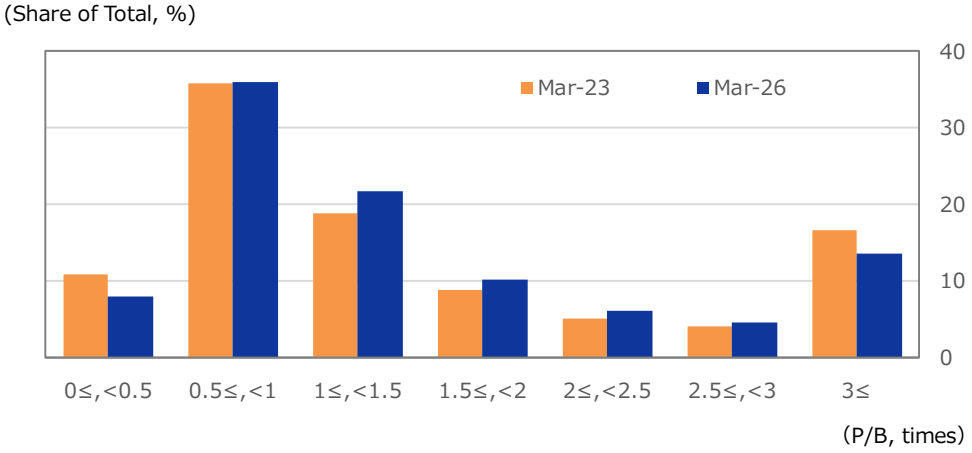
Source: SMDAM and Bloomberg

P/B & ROE Distribution in TSE Prime Companies Pre-/Post-Call for Capital Cost and Stock Price-Conscious Management (Mar 2026, Share of Total)



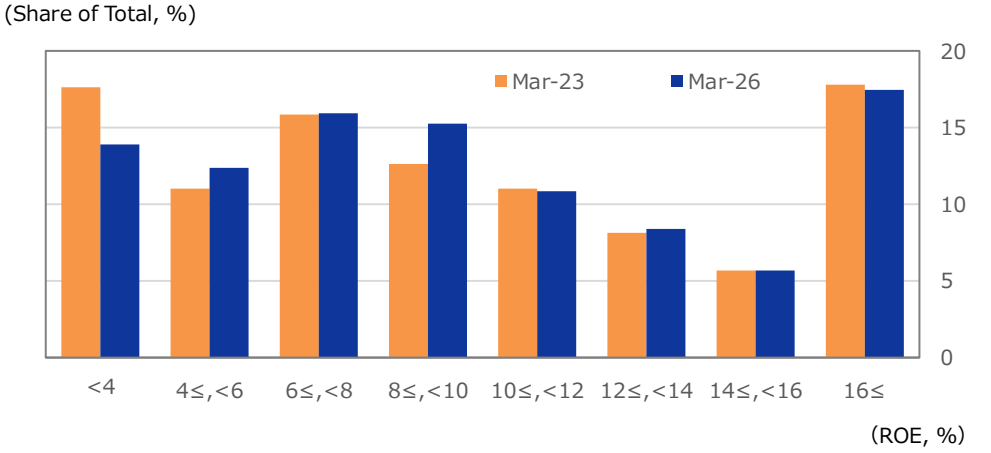
Source: SMDAM and Bloomberg

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



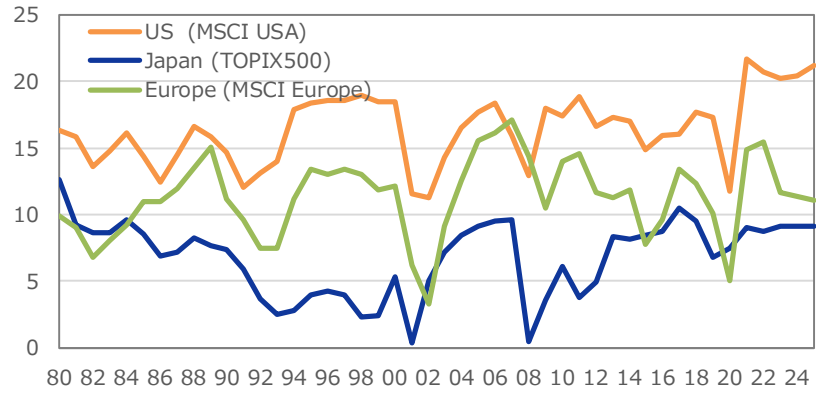
Source: SMDAM and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Governance (3): ROE

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

(%)

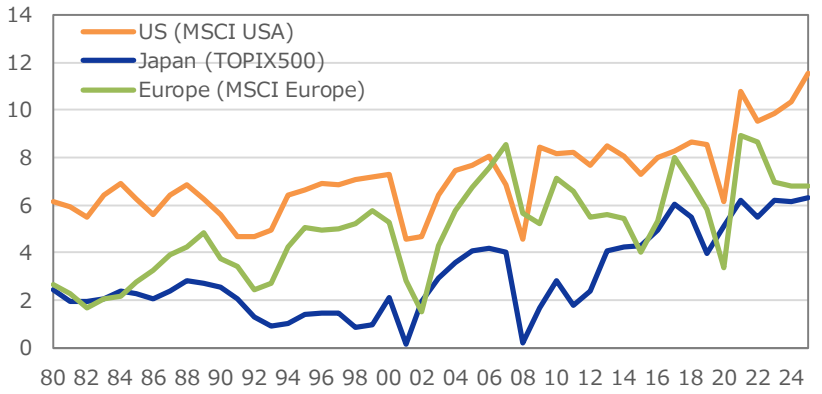


Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos) (Y)

Source: SMDAM and Daiwa Securities

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

(%)

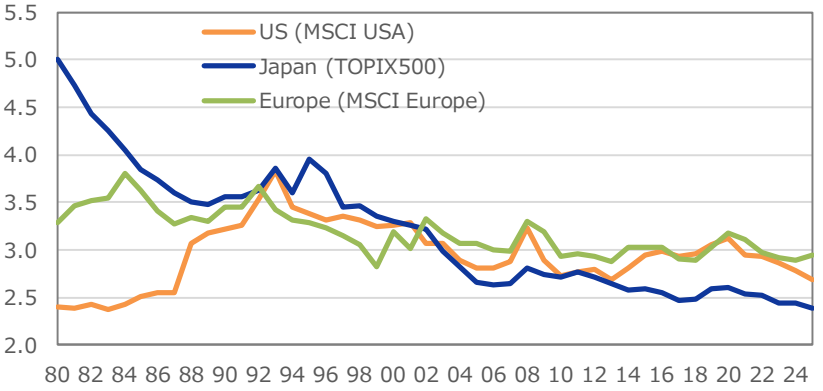


Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos) (Y)

Source: SMDAM and Daiwa Securities

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

(times)

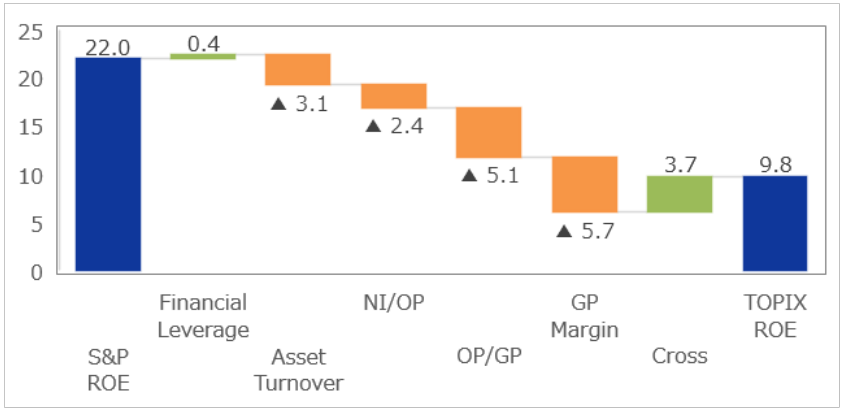


Note: Latest data are 2025. Excl. Financials (Japan: also Trading Cos) (Y)

Source: SMDAM and Daiwa Securities

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

(%)



Note: Latest Data as of 2 Nov 2026

Source: SMDAM and Bloomberg

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

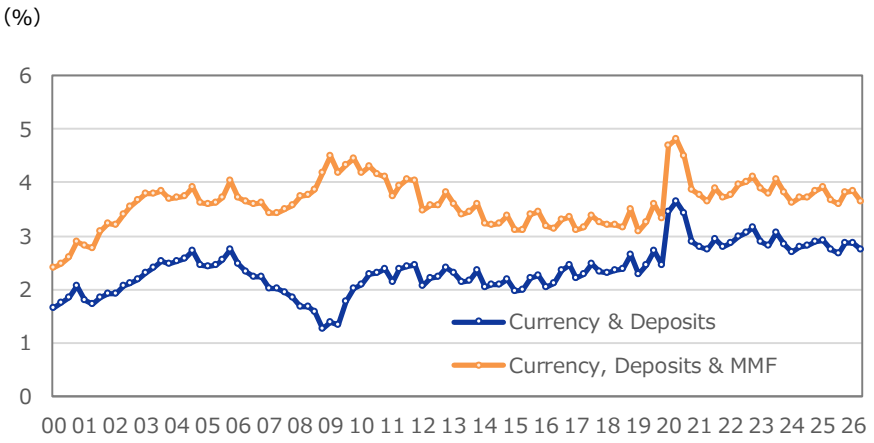
Governance (4): Effective Cash Utilization

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



Note: Latest data are for 2Q 2026 (Y)
Source: SMDAM and BoJ

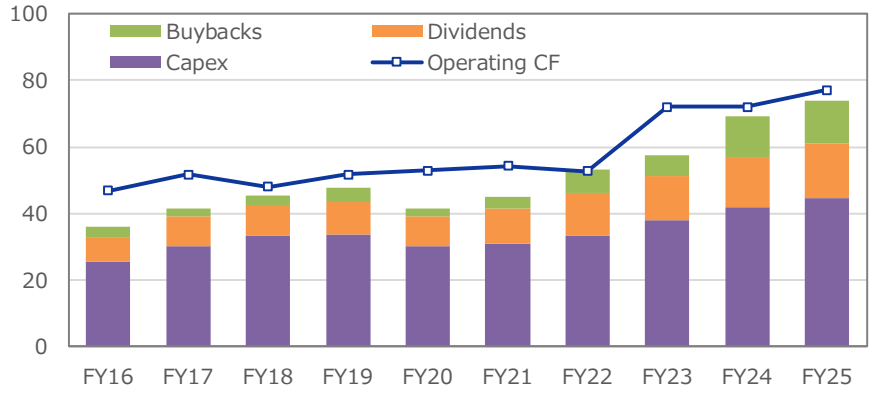
Cash Ratio in B/S of US Non-Financial Corporations



Note: Latest data are for 2Q 2026 (Y)
Source: SMDAM and FRB

OCF, Investment, and Shareholder Returns for TOPIX 500 Companies

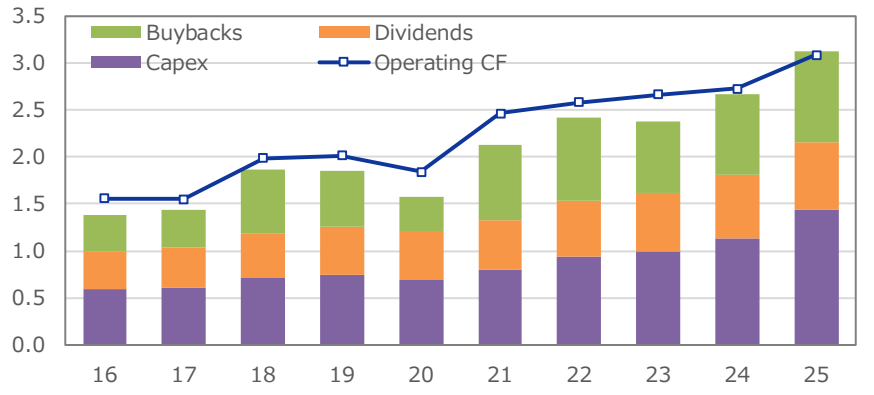
(trillion JPY)



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

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

(trillion USD)



Note: Latest data are for 2025 (Y)
Source: SMDAM and Bloomberg

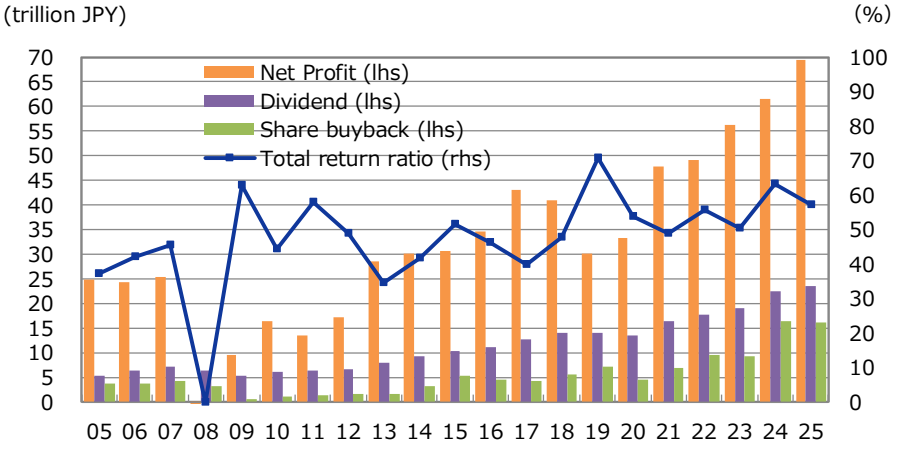
SUMITOMO MITSUI DS ASSET MANAGEMENT

Be Active.

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Governance (5): Shareholder Returns

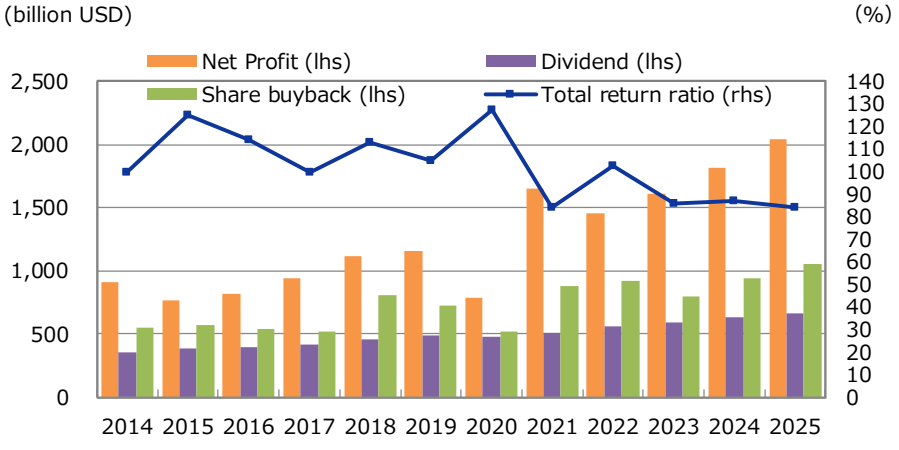
Total Shareholder Return Ratio (TOPIX)



Note: Latest data are for FY2025

Source: SMDAM, Tokai Tokyo Securities, and Bloomberg

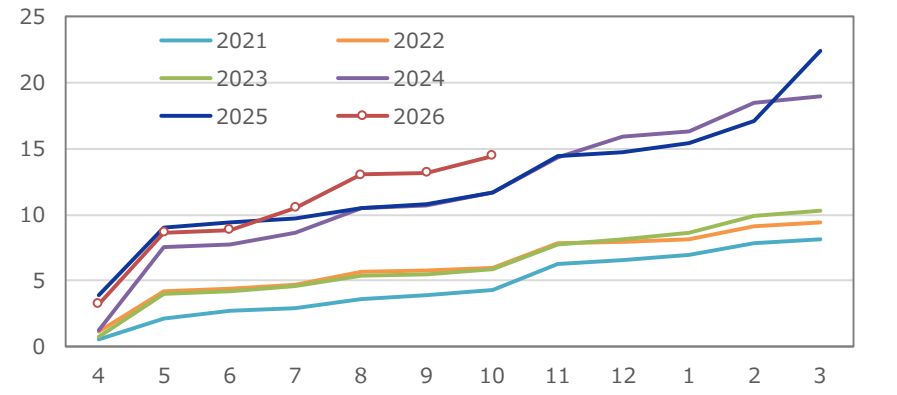
Total Shareholder Return Ratio (S&P500)



Note: Latest data are for 2025

Source: SMDAM, Tokai Tokyo Securities, and Bloomberg

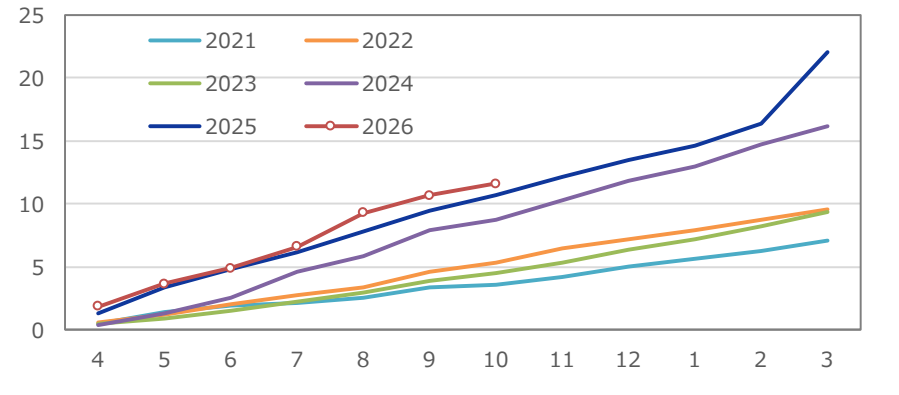
Share Buyback Programs by Japanese Companies (FY Cumulative)



Note: Latest data are for Oct 2026

Source: SMDAM and INDB

Share Buyback Activity by Japanese Companies (FY Cumulative)



Note: Latest data are for Oct 2026

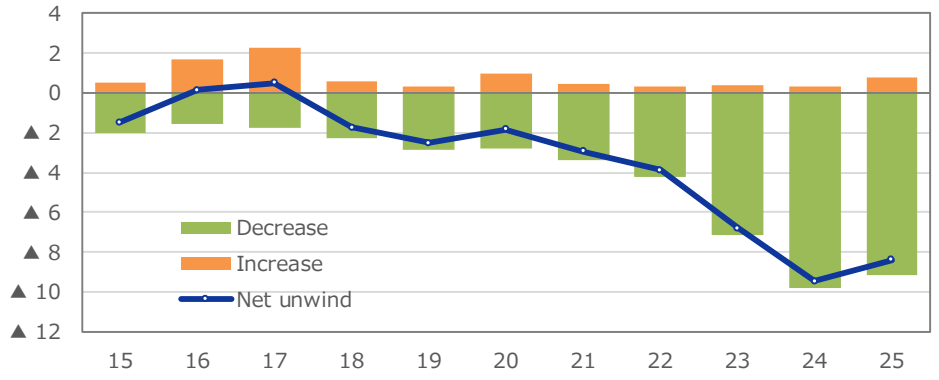
Source: SMDAM and INDB

The above figures represent past performance and do not suggest or guarantee future investment results or the future market environment, etc.

Governance (6): Ownership Structure & Shareholder Meetings

Cross shareholding unwinding

(trillion JPY)

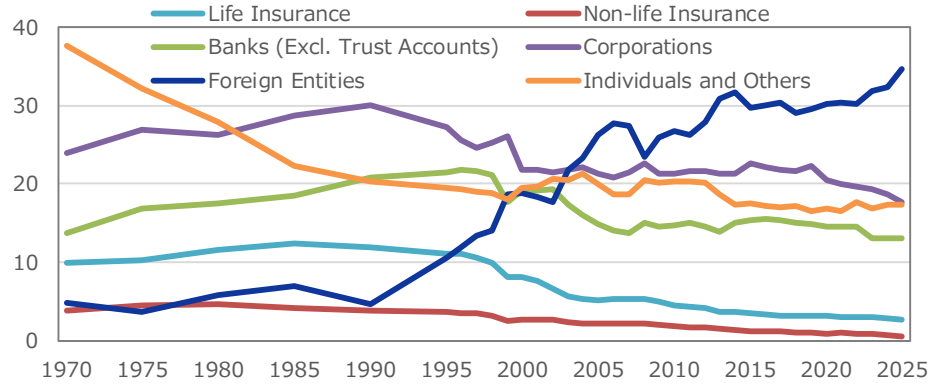


Note: Latest data are for FY2025 (FY)

Source: SMDAM and JP Morgan Securities

Distribution of Equity Ownership by Shareholder Type

(%)

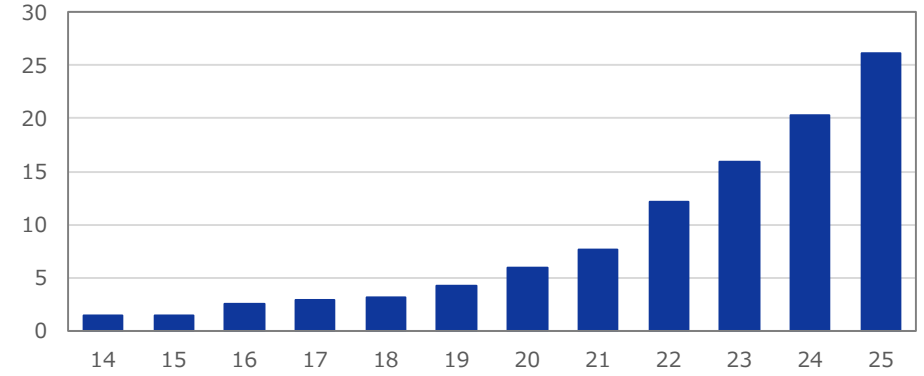


Note: Latest data are for FY2025 (FY)

Source: SMDAM and JPX

Percentage of Companies with a Majority of Independent Outside Directors

(%)

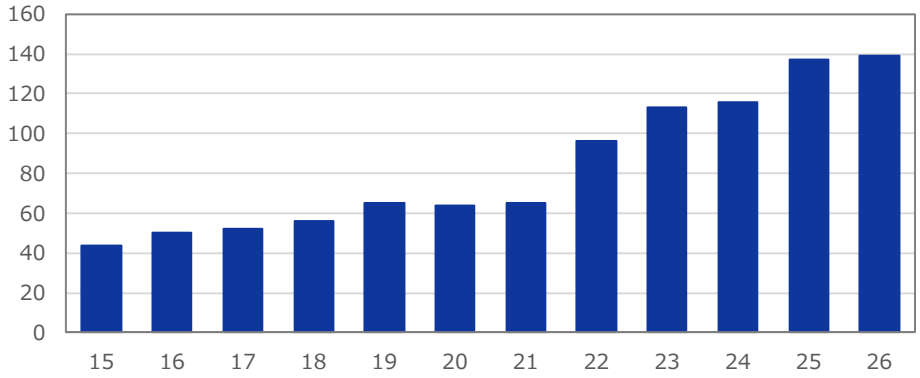


Note: Latest data are for FY2025 (FY)

Source: SMDAM and JPX

Number of Shareholder Proposals

(Number of Companies)



Note: Latest data are for FY2026 (FY)

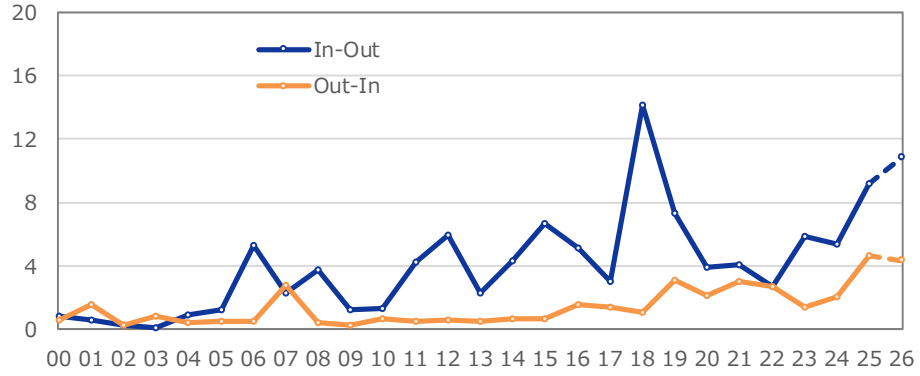
Source: SMDAM and Japan Institute of Business Law

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Governance (7): Rising Takeover Risk

Trends in M&A Deal Value Involving Japanese Companies

(trillion JPY)

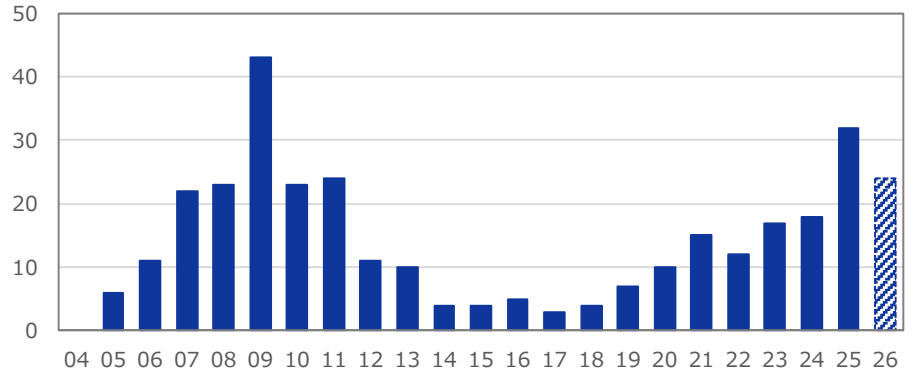


Note: Latest data are for 2026. 2026 is annualized through Oct (Y)

Source: SMDAM and Bloomberg

Trends in MBO Transactions

(Number of Cases)

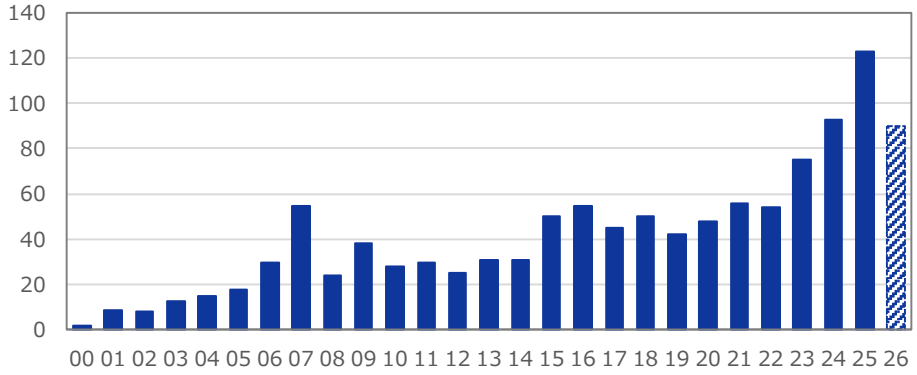


Note: Latest data are for 2026. 2026 is annualized through Oct (Y)

Source: SMDAM and Bloomberg

Trends in Number of TOBs (TSE Listed Companies)

(cases)

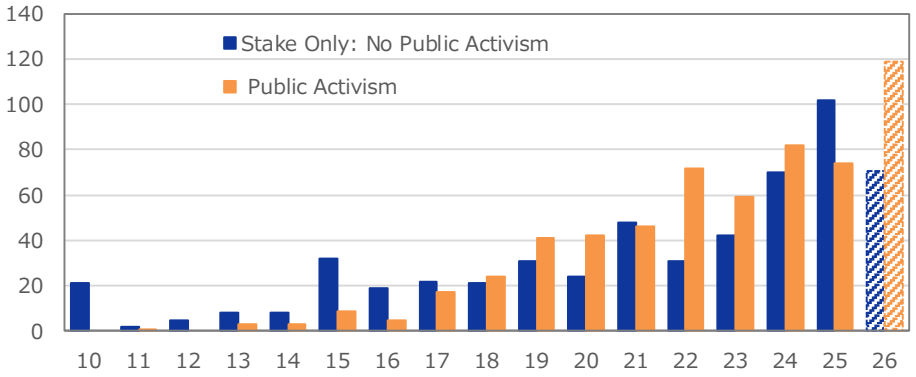


Note: Latest data are for 2026. 2026 is annualized through Oct (Y)

Source: SMDAM and Bloomberg

Activist investor activity

(Number of Cases)



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

Source: SMDAM and Bloomberg

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NISA

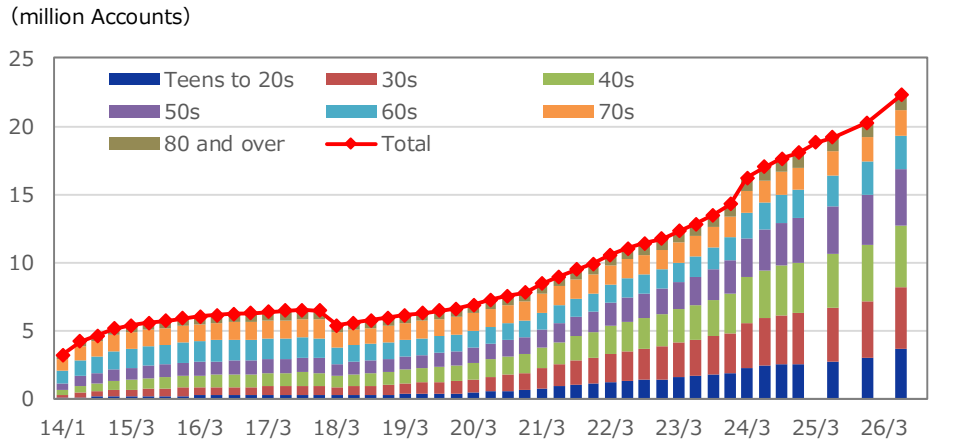
Comparison of old and new NISA (Tax free investing program like UK ISA)

	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 2 Nov 2026

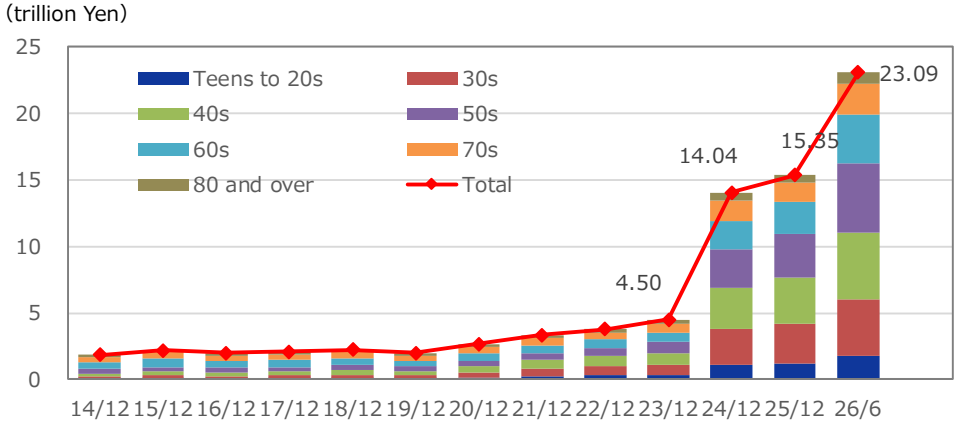
Number of NISA Accounts by Age Group



Note: Latest data are as of end-Jun 2026; some age breakdowns unpublished.

Source: SMDAM and Japan Securities Dealers Association

Annual Purchase Amount in NISA Accounts by Age Group



Note: Latest data are as of end-Jun 2026; first-half figures are annualized by doubling.

Source: SMDAM and Japan Securities Dealers Association

Financial Assets held by Households (As of June 2026)



Source: SMDAM, BoJ, FRB and ECB

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