



# Outlook for Japanese Stock Market & Economy

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-December 2025-



Sumitomo Mitsui DS Asset Management



# Outlook for Japanese Stock Market

# Market Outlook

- **Japanese Stock Market Is Now Seeking a New Equilibrium After a Strong Rally**

The Japanese stock market has settled and is searching for a new equilibrium after being boosted by “Takaichi-trade,” triggered by expectations of an aggressive fiscal policy to stimulate the economy. Looking forward, we anticipate that the stock market will continue its bullish trend due to monetary easing by the Federal Reserve Board (FRB), the recovery of the global economy driven by fiscal policies from major countries and growing optimism for the Japanese economy, thanks to PM Takaichi’s accommodative fiscal policy.

- **We Have Raised Our Price Targets for the Nikkei 225**

We have raised our target price for the Nikkei 225 from 50,300 to 51,500 for December 2025 and from 50,400 to 51,700 for March 2026, reflecting our renewed earnings estimates and valuation forecasts based on the strong nominal GDP growth, mild inflation, and the economic measures implemented by PM Takaichi and her administration.

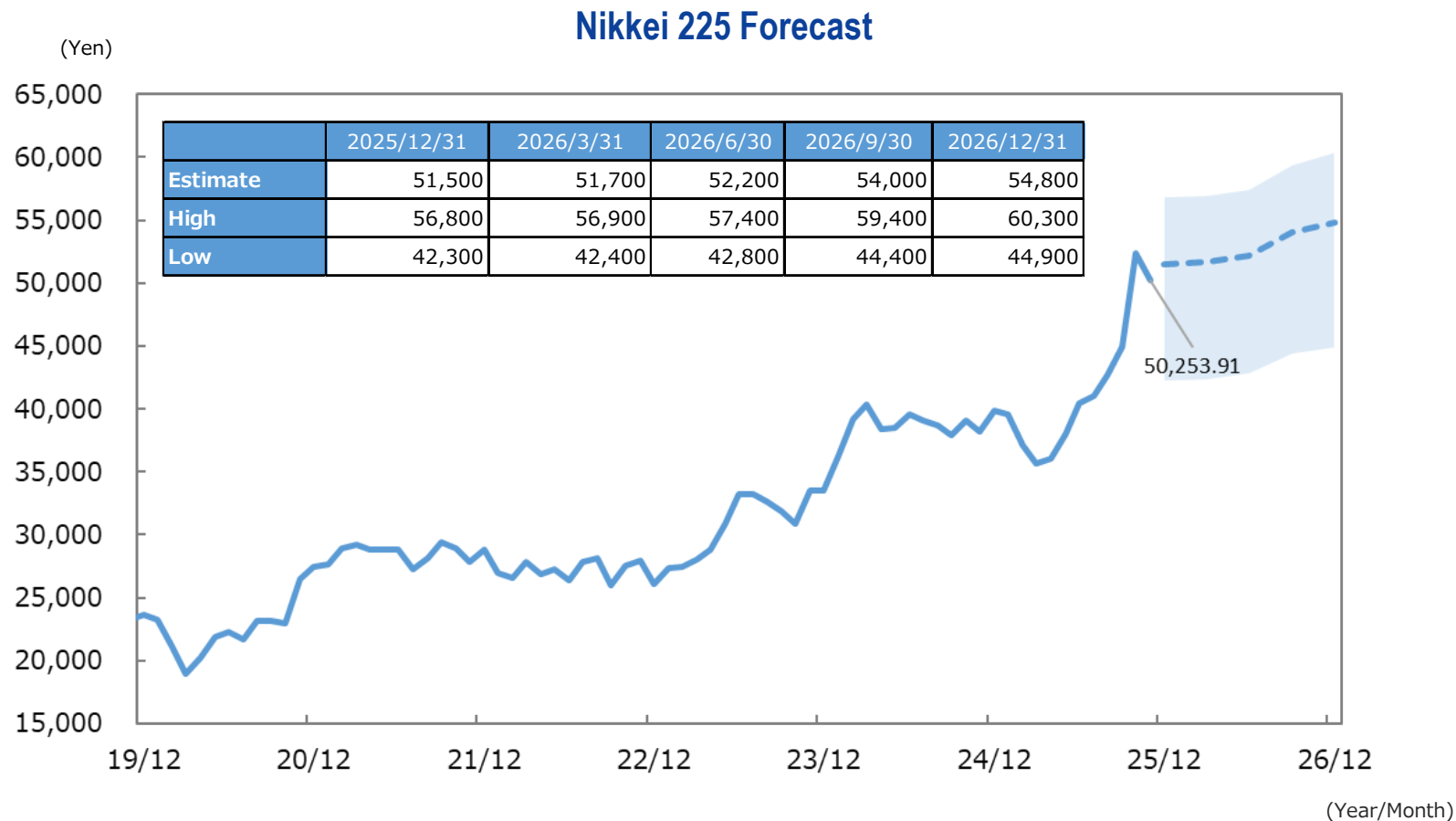
- **Rising Interest Rates May Weigh on Share Price Valuations**

The Bank of Japan’s (BOJ) monetary tightening could weigh on share price valuations going forward.

- **Improving Corporate Governance Stimulates Stock Market Dynamics**

The corporate sector has become a major buyer in the Tokyo stock market as they have raised the volume of share buybacks due to improving corporate governance.

# We Expect a Bullish Market Perspective Going Forward



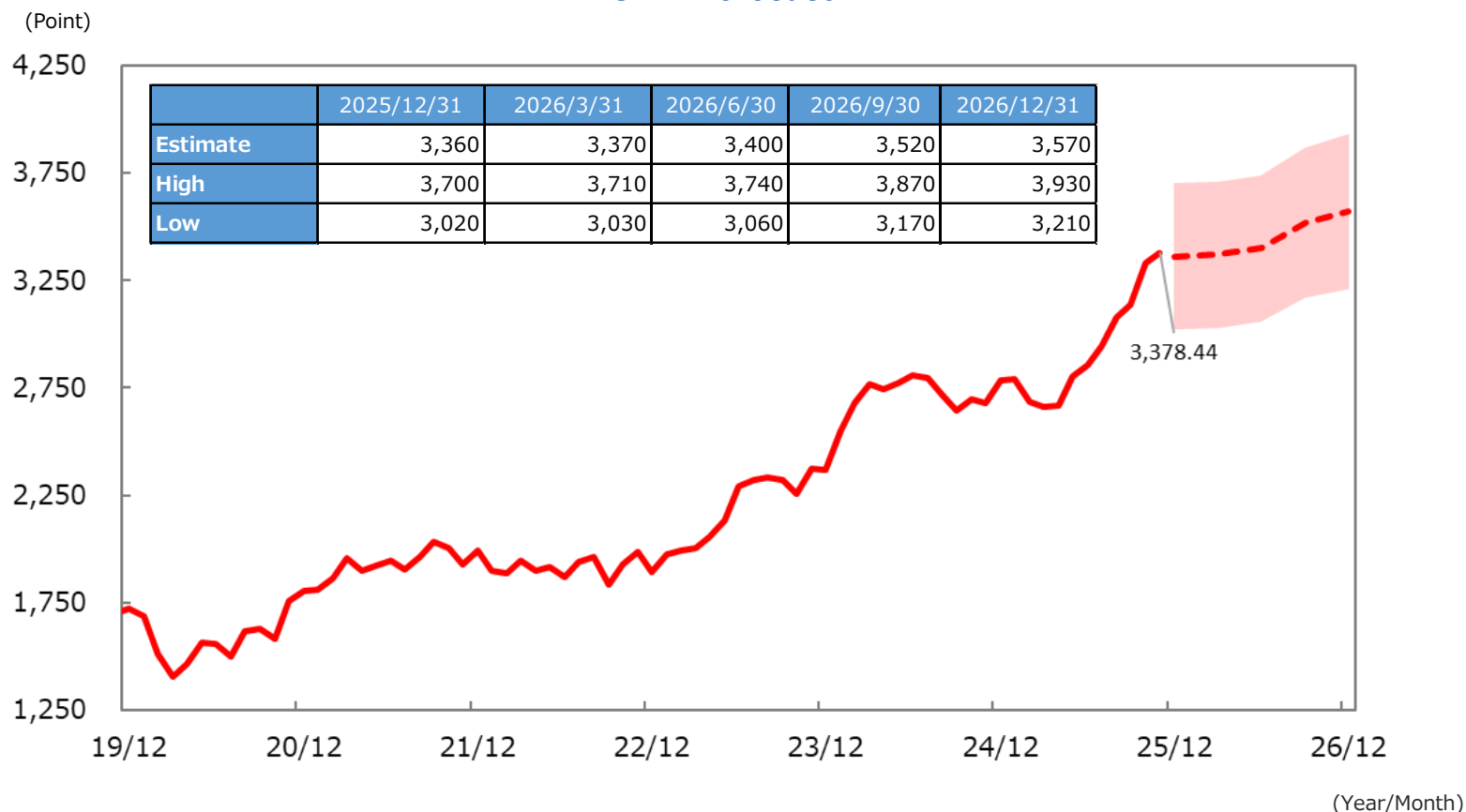
Data is from December 2019 to December 2026. Data after November 2025 is our forecast.

Note: The forecasts are as of November 19th 2025.

(Source) Bloomberg, SMDAM

# We Expect a Bullish Market Perspective Going Forward

## TOPIX Forecast

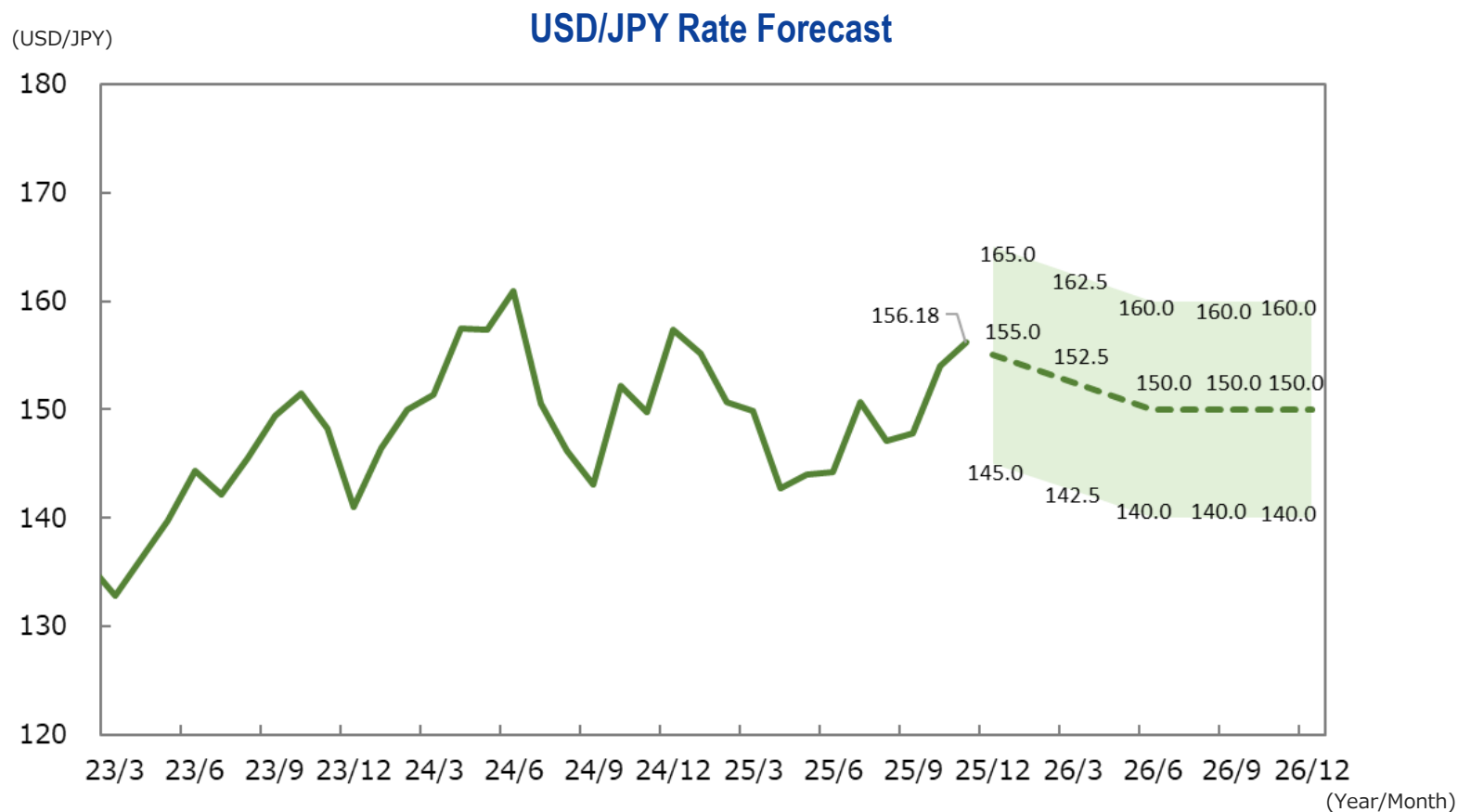


Data is from December 2019 to December 2026. Data after November 2025 is our forecast.

Note: The forecasts are as of November 19th 2025.

(Source) Bloomberg, SMDAM

# We Expect Monetary Policy to Impact the US Dollar-Yen Rate



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

Note: The forecasts are as of November 19th 2025.

(Source) Bloomberg, SMDAM

# Upside / Downside Risk Scenarios

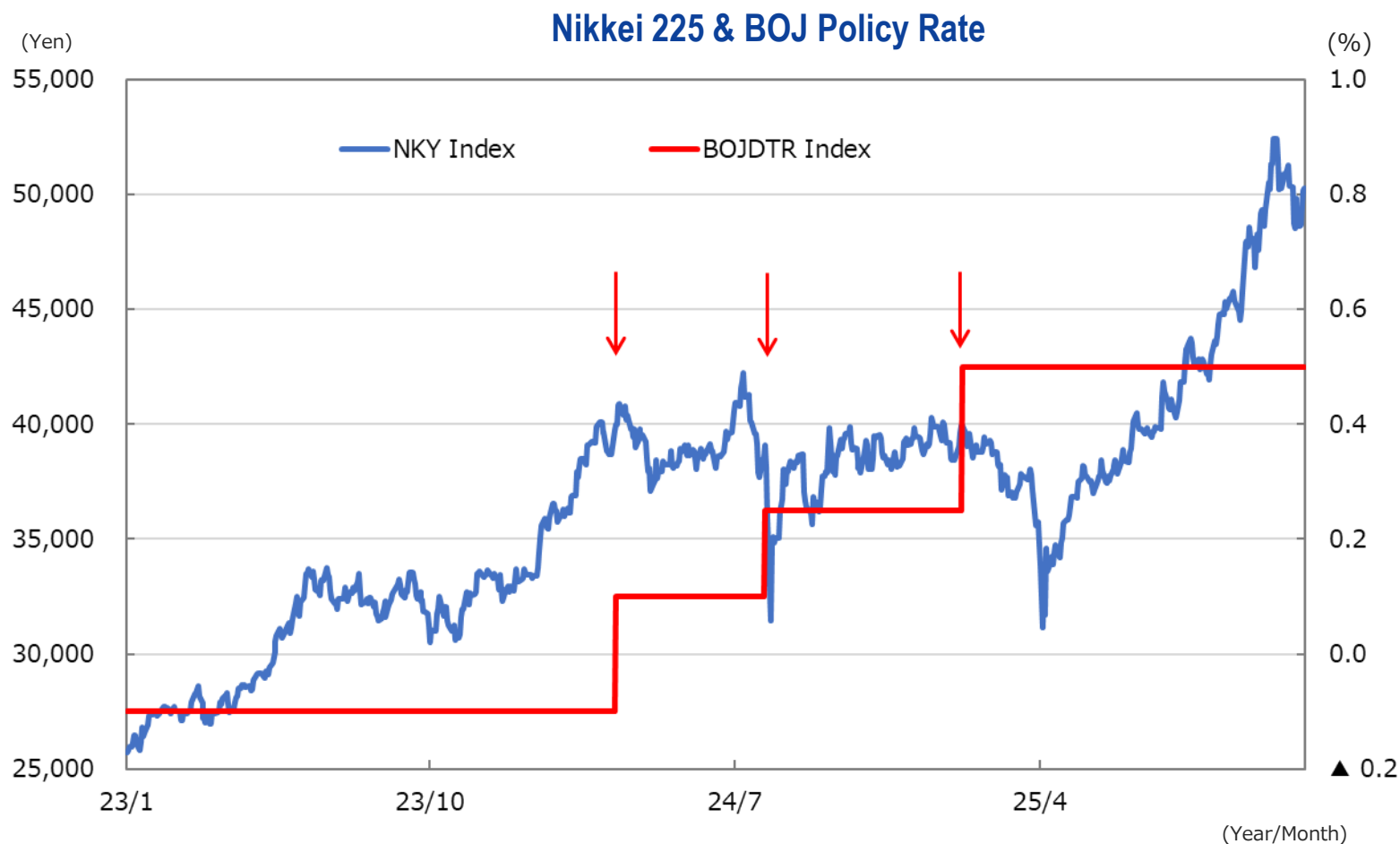
## ■ Upside Risks

- **Robust foreign inflows** into the Japanese stock market due to further improvements in corporate governance
- **Acceleration of the rally in Big Tech stocks** boosted by the social implementation and monetization of artificial intelligence (AI)
- **Growing optimism** about the new Prime Minister and her economic policy
- **Expectations** for the ruling Liberal Democratic Party (LDP) **to regain a majority** in both the House of Representatives and the House of Councilors in an early election following dissolution, driven by PM Takaichi's high approval rating

## ■ Downside Risks

- **Renewed deterioration** in US-China trade relations
- **Excessive monetary easing** by the US Federal Reserve and yen's appreciation
- Rising fears about the **US private credit market** triggering turmoil in financial markets
- **Spike in Japanese Government Bond (JGB) yields** due to the concerns over the expansion of defense spending and a widening fiscal deficit
- **Escalation of Japan-China diplomatic tensions** due to PM Takaichi's parliamentary response regarding the Taiwan issue, resulting in a decline in trade and inbound consumption
- **Negative impact** of excessive inventory accumulation before the start of Trump tariffs

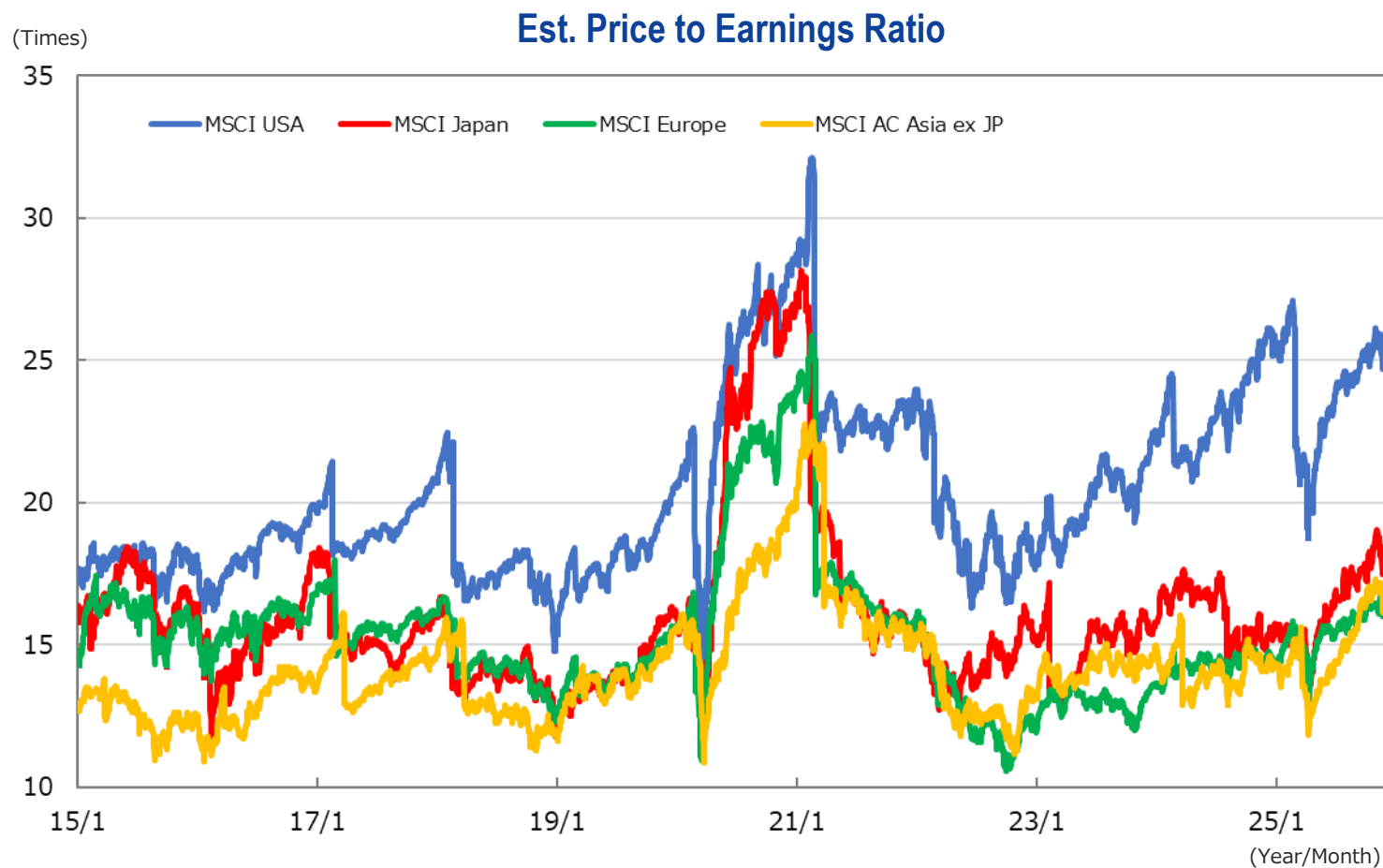
# Recent Three Rate Hikes Drag Down Share Price Valuation Sharply



Data is from 4th January 2023 to 28th November 2025.  
(Source) SMDAM, Bloomberg

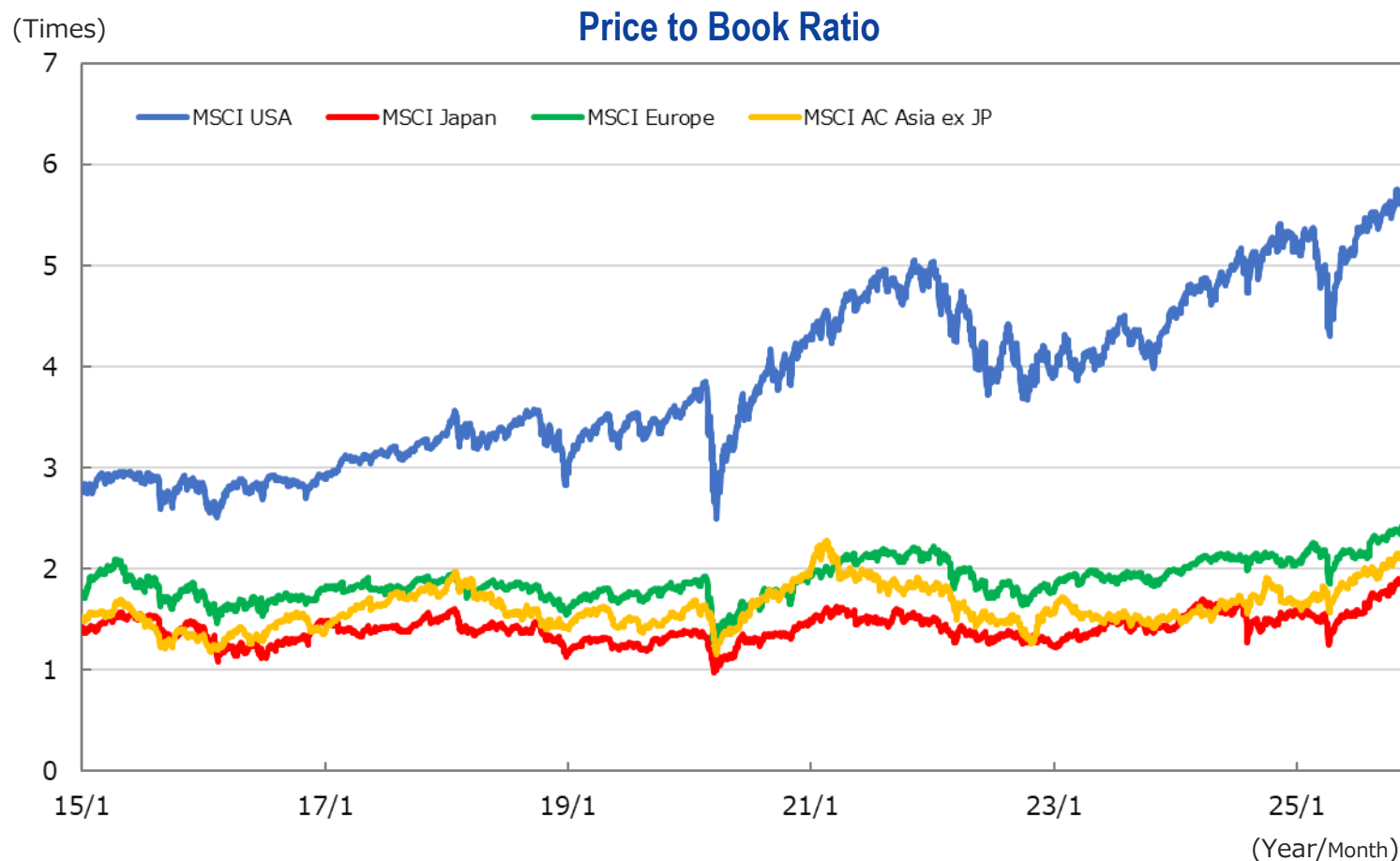


# P/E Ratio Elevated Compared to Long-Term Average



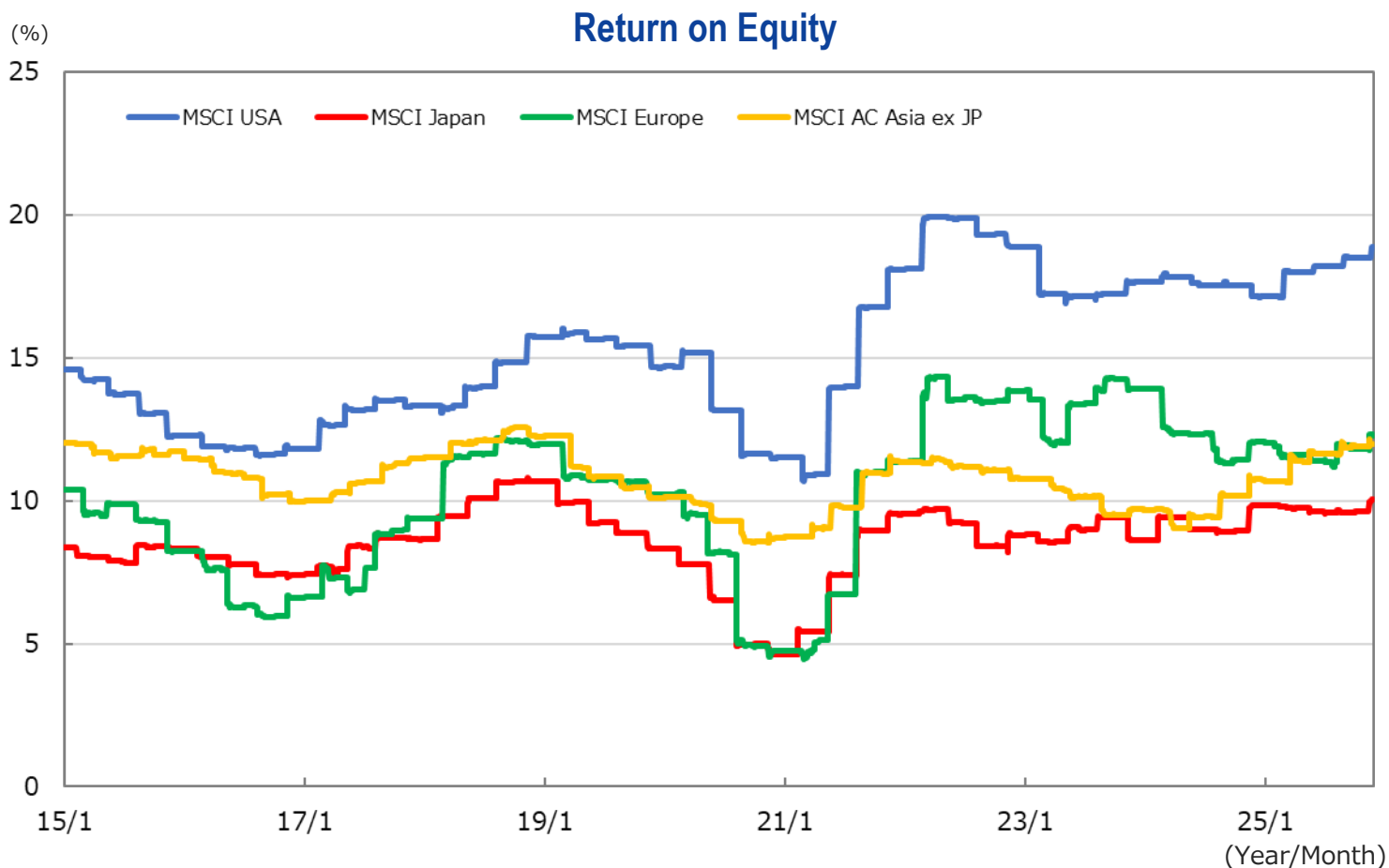
Data is from January 2015 to November 2025.  
(Source) SMDAM, Bloomberg

# Japan's P/B Ratio Reached its Highest Level Since 2007



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

# ROE Remains Unchanged due to Excess Capital Build-Up

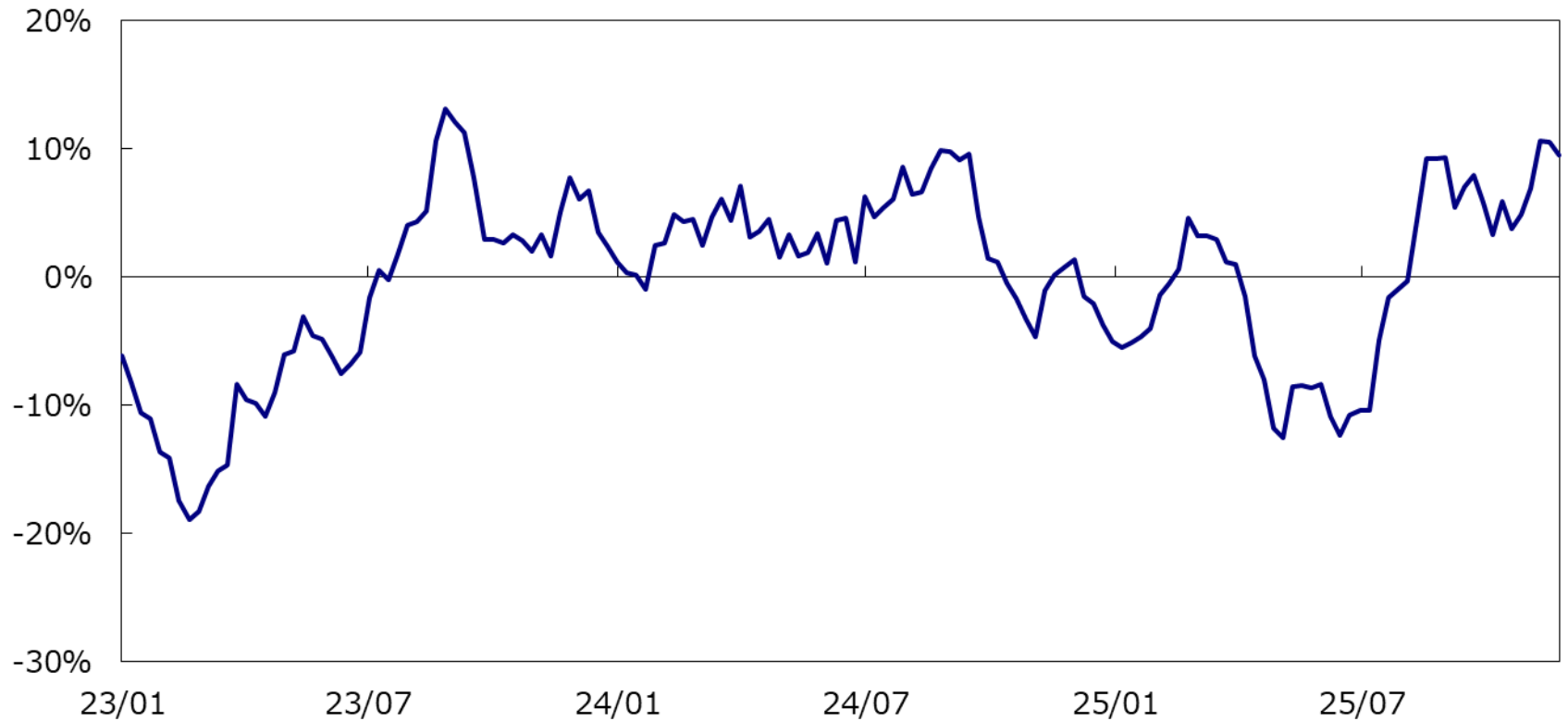


Data is from January 2015 to November 2025.  
(Source) SMDAM, Bloomberg



# Analysts' Revision Keeps Positive Momentum

TOPIX EPS Revision Index

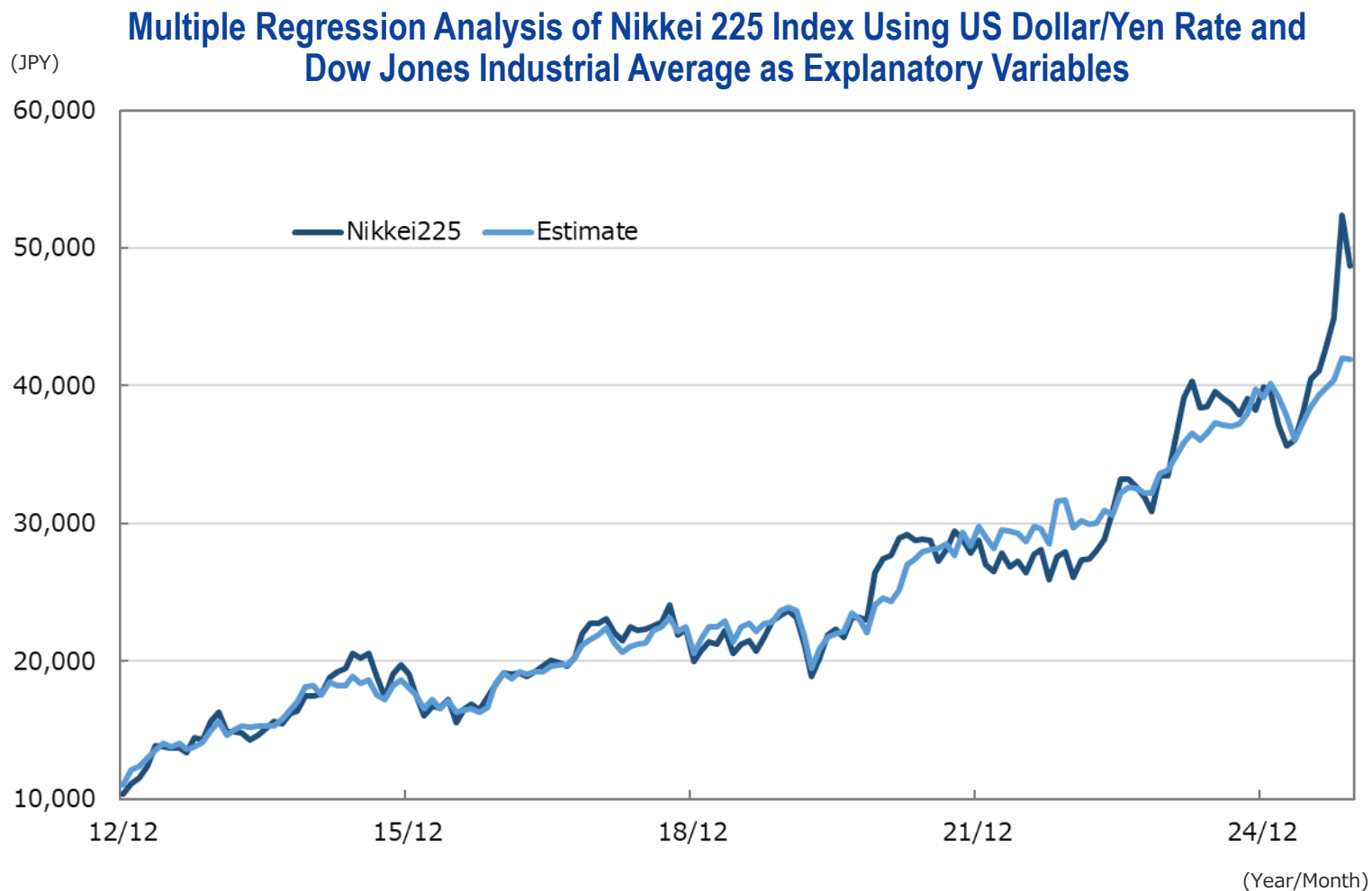


Data is from January 5th 2023 to 27th November 2025  
(Source) Datastream, IBES

(YY/MM)

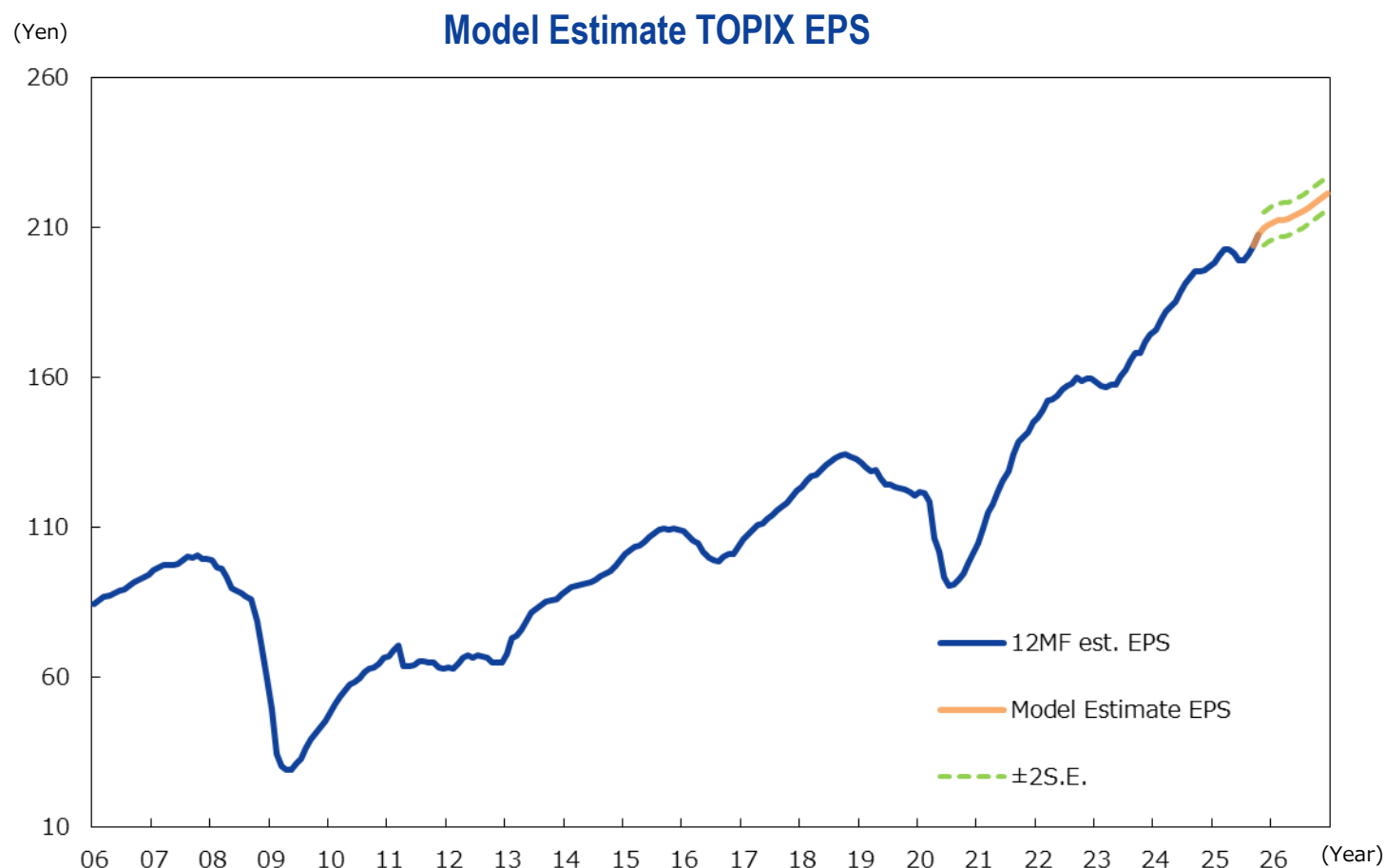


# Regression Analysis Indicates Overdone in Recent Rally



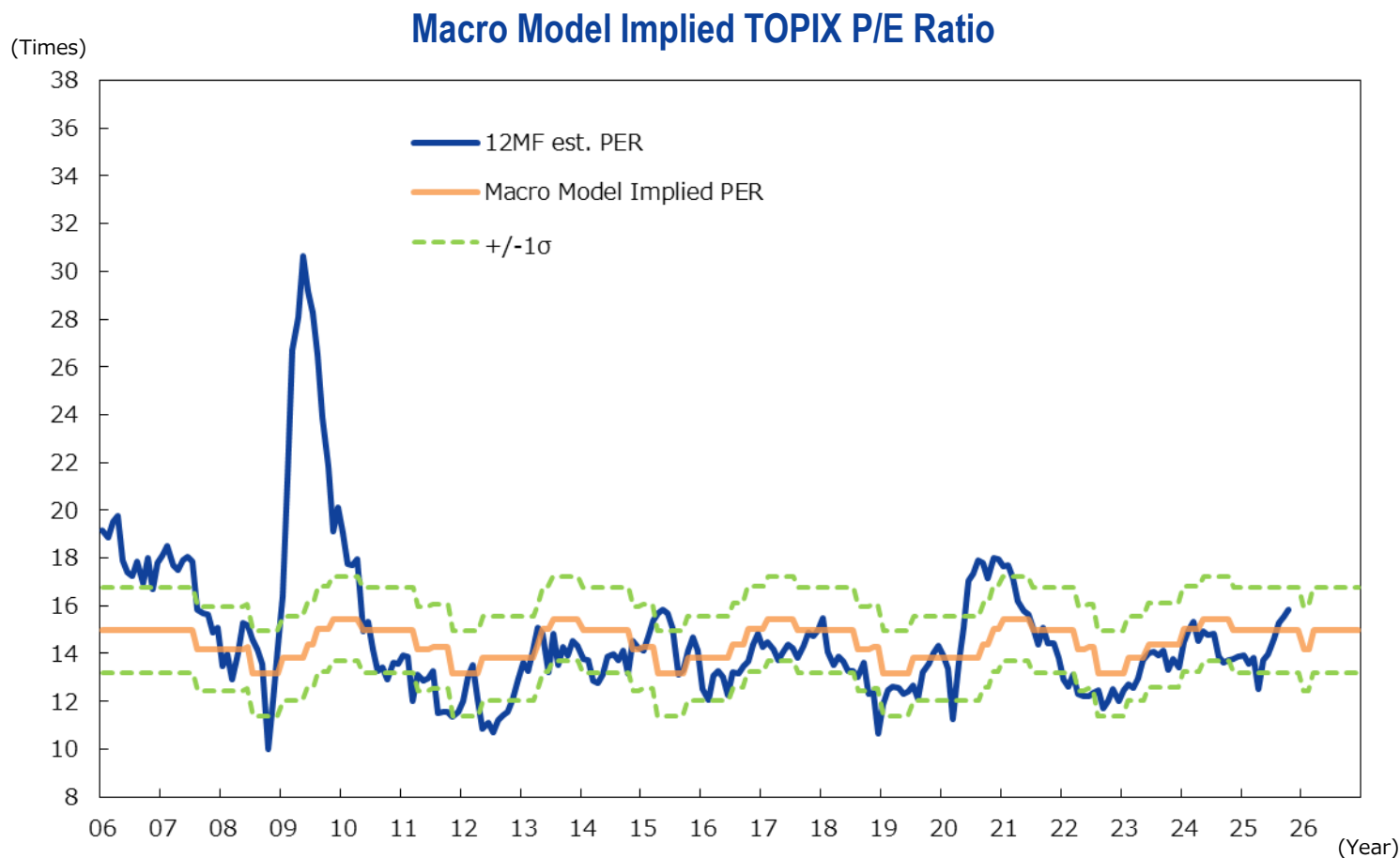
Data is from December 2012 to November 2025.  
(Source) SMDAM, Bloomberg

# Quant Model Suggests EPS to Re-Accelerate Going Forward



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

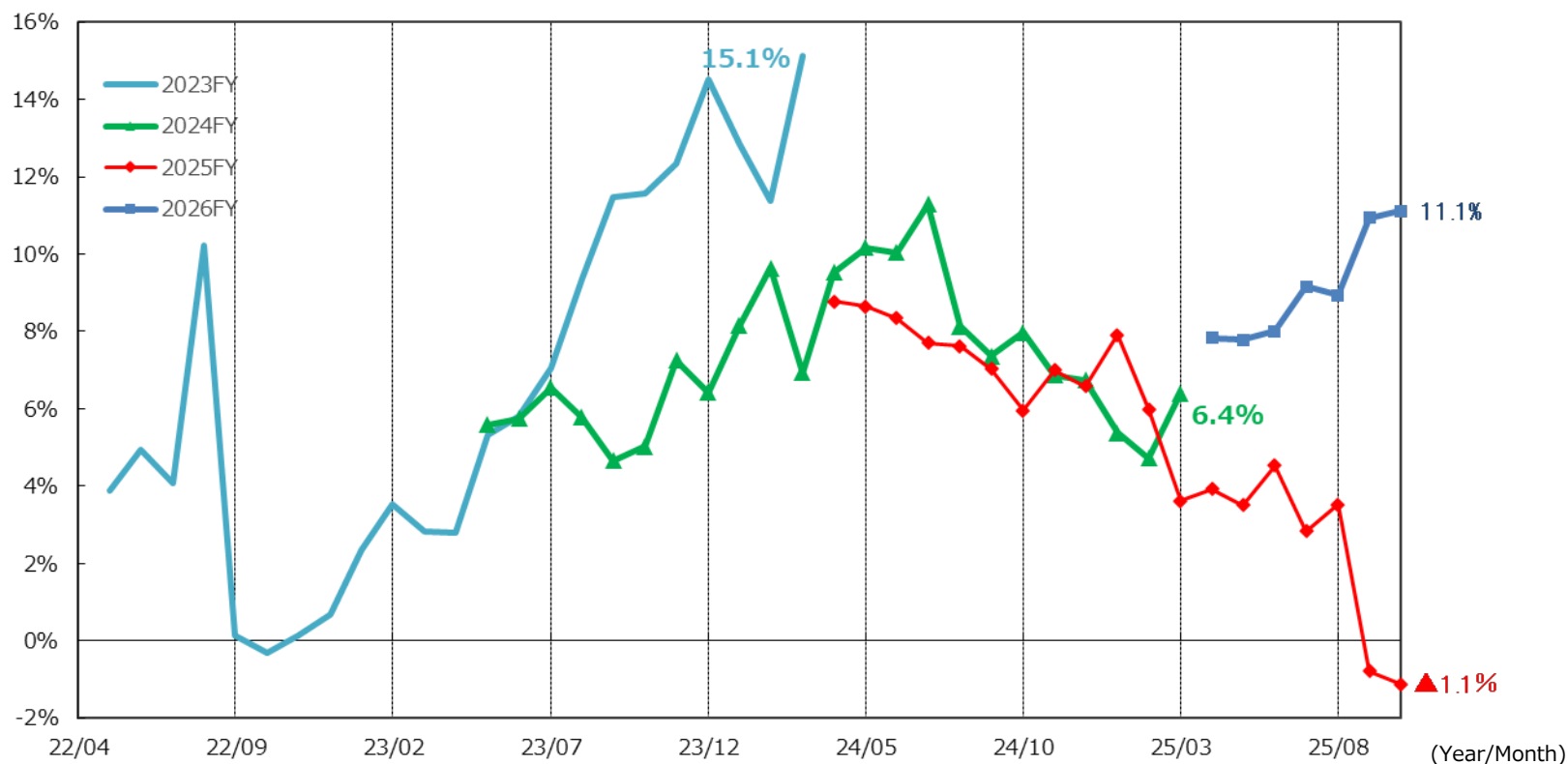
# Recent Rally Brought P/E Ratio to Slight Over-Valuation



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

# In-House Analysts See Bright Prospects After a Tough Year

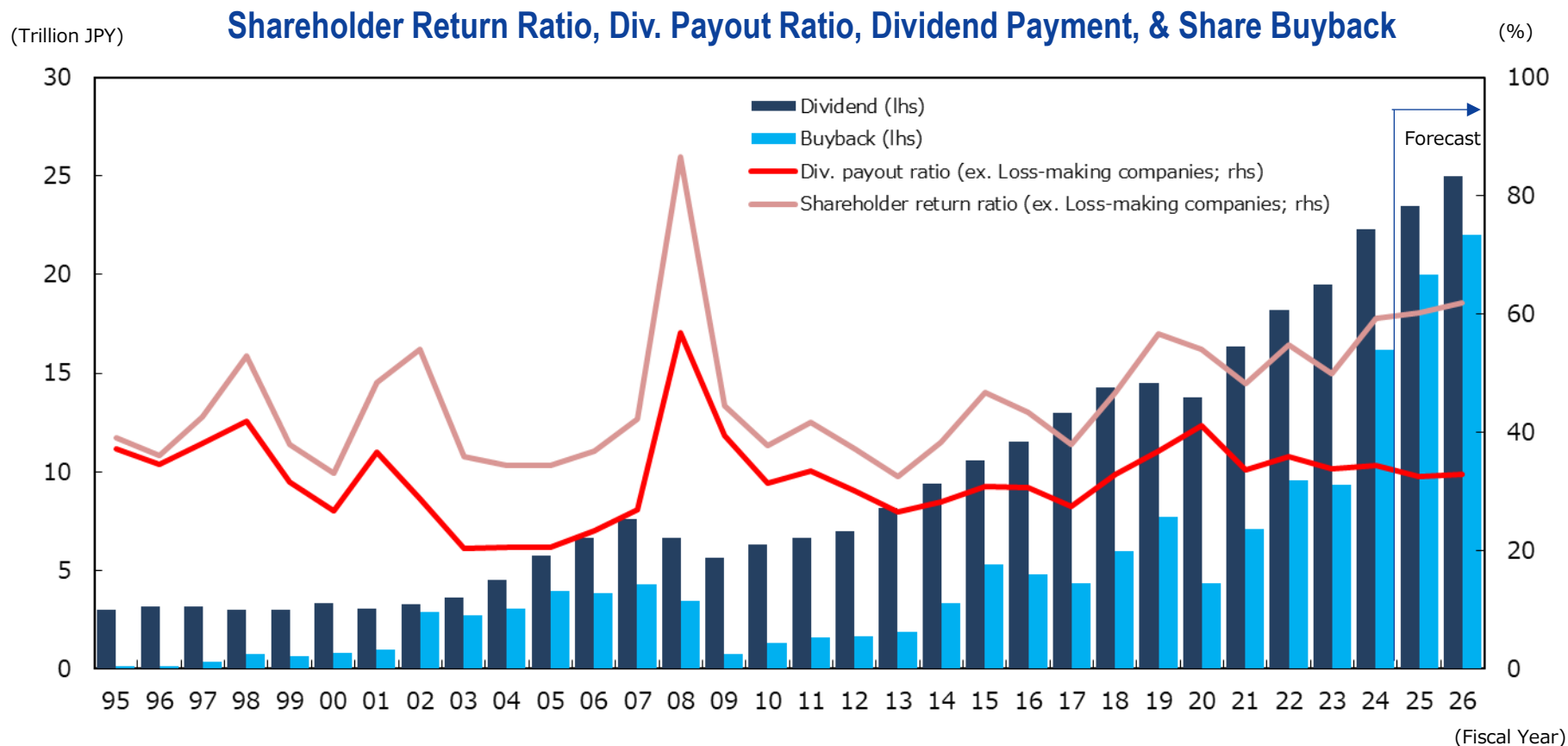
## SMDAM Core Research Universe (ex. Financials) Est. Recurring Profit Growth



Note: Data is as of 14th November 2025, SMDAM Core Universe (Excl. Financials) consists of 373 Japanese companies covered by SMDAM in-house analysts.  
Source: SMDAM



# Record-Breaking Dividends and Share Buybacks



Note: Data is from FY1995 to FY2026. FY2025, FY2026 are forecasts by Daiwa Securities.  
Source: Toyo Keizai, Quick, INDB, Daiwa Securities, SMDAM

# Value Continues to Dominate the Tokyo Stock Market

## Performance Comparison of Russell/Nomura Style Indices

Index	Returns(%)						
	3 Month	6 Month	YTD	1 Year	2 year	3 Year	5 Year
<b>RN Japan Equity</b>	<b>9.60</b>	<b>22.47</b>	<b>21.86</b>	<b>26.15</b>	<b>43.38</b>	<b>69.84</b>	<b>90.33</b>
Total Value	10.36	27.90	26.53	31.98	52.85	95.65	150.31
Top Cap Value	10.11	29.73	26.01	33.23	59.53	110.22	188.09
Large Cap Value	10.46	27.95	25.94	31.48	52.79	97.20	157.50
Mid Cap Value	10.63	25.65	25.58	29.22	45.95	82.89	124.85
Small Cap Value	9.96	27.71	28.95	33.98	52.50	88.06	119.30
Micro Cap Value	9.82	27.97	30.98	36.46	52.56	86.34	114.92
Total Growth	8.86	16.94	17.07	20.24	34.45	47.51	44.85
Top Cap Growth	11.22	18.02	15.73	19.13	37.84	53.71	53.37
Large Cap Growth	9.79	17.52	17.57	20.89	35.91	50.68	47.91
Mid Cap Growth	6.64	16.35	21.87	24.99	33.09	45.99	39.63
Small Cap Growth	1.47	12.13	12.96	14.97	22.35	23.47	21.14
Micro Cap Growth	2.33	11.90	12.06	13.43	14.90	13.59	11.60
Top Cap Total	10.55	22.73	19.87	24.78	46.23	75.71	101.85
Large Cap Total	10.06	22.49	21.58	25.94	43.68	71.27	92.47
Mid Cap Total	9.09	21.91	24.20	27.63	40.32	65.03	79.88
Small Cap Total	7.13	22.33	23.40	27.29	41.13	61.21	76.83
Micro Cap Total	7.58	22.95	25.01	29.04	39.60	59.25	74.91

Note : As of 28th November 2025  
(Source) Bloomberg

...Excess RN Japan Equity's performance





## Outlook for Japanese Economy

# Current Status & Outlook of the Japanese Economy

## ■ Current Status

- **The economy is in a soft patch.** Real GDP for Q3 2025 showed negative growth. Exports, particularly to the US, are declining, and companies are somewhat cautious to increase their production. However, CAPEX and consumer spending remain robust, and the negative impact from additional US tariffs to the economy is marginal.
- **Core CPI continues to exceed the BOJ's "price stability target" of +2% YOY.** Cost-push pressures stemming from rising import prices and surging rice prices pushed inflation higher. Core CPI accelerated to +2.9% YOY in September, up from +2.7% in August, marking the first increase in four months. This was primarily due to a rebound effect from last year's subsidies for utilities such as electricity and gas.

## ■ Outlook

- ① **While we have maintained our real GDP growth estimate for FY 2025 at +0.9%, we have lowered our estimate for FY 2026 from +0.9% to +0.8%. We expect the Japanese economy to grow by +0.8% in FY 2027.** Our estimate up to FY 2026 remains largely unchanged. Looking ahead, we expect the economy to avoid a severe downturn despite downward pressure from the tariffs. Steady CAPEX, driven by labor shortages and a recovery in consumer spending amid declining inflation, is expected to support the economy. From next year onward, improvements in overseas economies and fiscal stimulus will likely boost economic activities. We have slightly revised down the scale of economic measures to 20 trillion yen (previous: 22.5 trillion yen), although the impact on real GDP is limited.
- ② **While we have maintained our core CPI forecast at +2.7% for FY 2025, we have raised our forecast from +1.3% to +1.4% for FY 2026. We expect core CPI to rebound to 2.0% in FY 2027.** Our forecast up to FY 2026 is largely maintained. Looking ahead, we anticipate cost-push pressures from import prices to ease, rice prices to stabilize and the provisional gasoline tax to be abolished. Amid these factors, it is highly probable that core CPI will temporarily fall below 2%. However, rising service prices, supported by wage increases, is expected to help sustain inflation. Excluding special factors such as free education and the abolition of the provisional gasoline tax, we forecast core CPI to maintain a momentum of around +2.0% YOY.
- ③ **We expect the government to implement expansionary fiscal policies.** Prime Minister Takaichi has advocated for a "responsible proactive fiscal policy" and aims to build a strong economy through fiscal spending for "crisis management" and "economic growth". Takaichi's administration selected "seventeen priority investment areas," including AI, semiconductors, shipbuilding, quantum technology, synthetic biology, bioengineering, and aerospace. Prime Minister Takaichi has also sought to secure market confidence by gradually reducing the debt-to-GDP ratio, implying that the risk of fiscal deterioration is marginal.
- ④ **We expect the BOJ to raise its policy rate from 0.50% to 0.75% in December 2025, from 0.75% to 1.00% in July 2026, and from 1.00% to 1.25% in July 2027.** We have revised our monetary policy outlook, bringing forward the anticipated timing of the next rate hike from January 2026 to December 2025. This adjustment in policy rate expectations reflects BOJ Governor Ueda's recent remarks regarding the upcoming December Monetary Policy Meeting. Ueda stated, "we intend to carefully examine and discuss wage developments, alongside domestic and global economy and price conditions and financial market trends, drawing on a wide range of data and information in order to make an appropriate decision on whether to raise policy interest rate." This statement represents a notable shift in tone and suggests the increased likelihood of a rate hike at the forthcoming meeting. It is worth noting that a similar comment was made by Deputy Governor Himino prior to the January rate hike earlier this year. Accordingly, Governor Ueda's remarks appear to serve as groundwork for a potential December policy adjustment.

# Forecast for the Japanese Economy

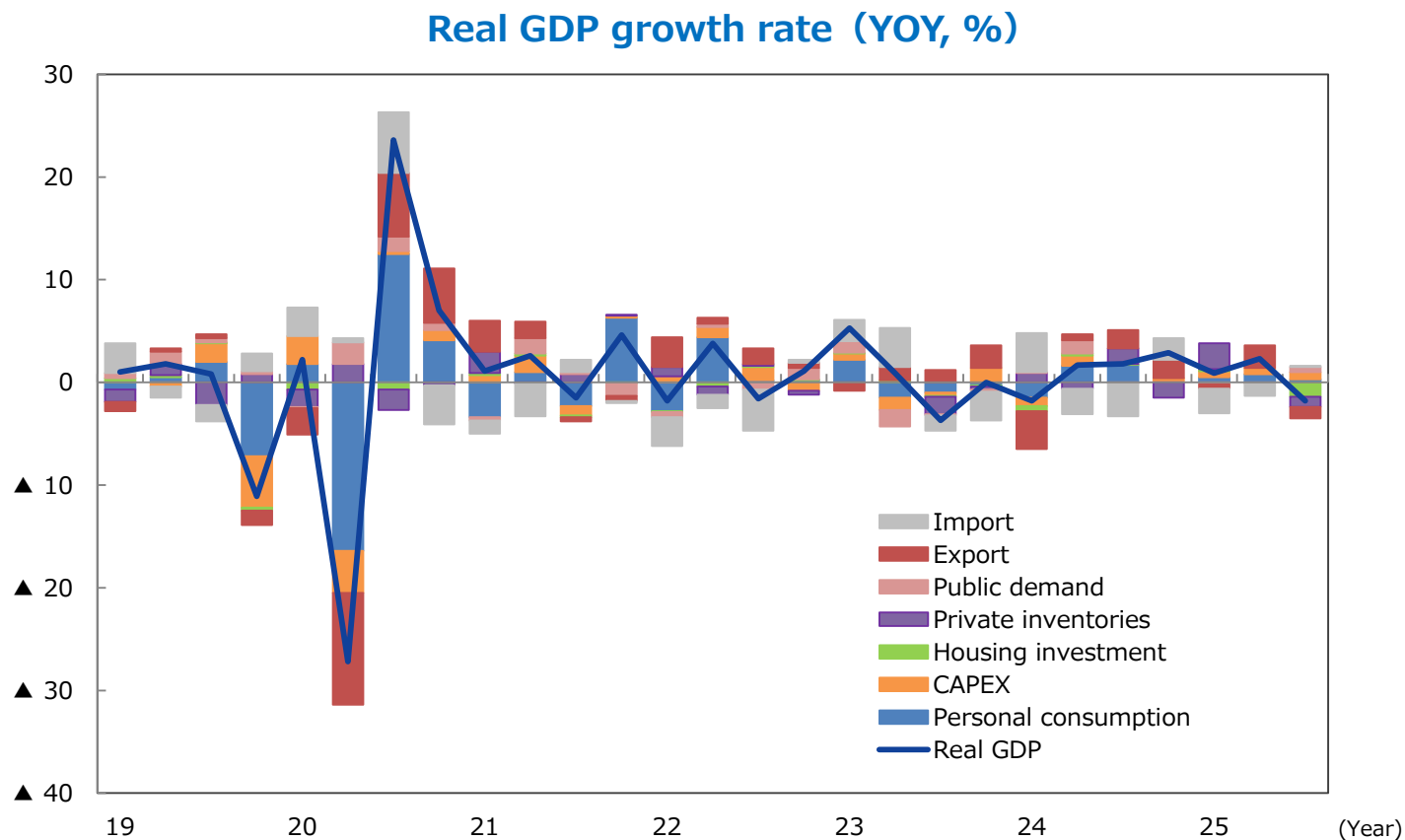
Forecast of annual Real GDP growth and its breakdown					
Fiscal Year	FY23	FY24	FY25 Est	FY26 Est	FY27 Est
Real GDP	0.4%	0.6%	0.9%	0.8%	0.8%
Private final consumption expenditure	-0.4%	0.7%	1.1%	1.1%	0.9%
Private housing investment	0.7%	-0.6%	-3.7%	0.8%	-0.5%
Private-sector capital investment	-0.9%	1.9%	2.7%	2.1%	1.9%
Private inventory investment	-0.3%	0.1%	0.2%	0.0%	0.0%
Public fixed capital formation	-0.4%	0.6%	0.1%	1.0%	0.6%
Net export contribution	1.3%	-0.5%	-0.1%	-0.2%	0.0%
Exports of goods and services	3.0%	1.5%	2.5%	1.1%	2.5%
Imports of goods and services	-2.8%	3.5%	3.3%	2.2%	2.3%
Nominal GDP	4.7%	3.7%	3.5%	2.7%	2.8%
GDP deflator	4.3%	3.1%	2.6%	1.9%	2.0%
Industrial Production Index	-1.9%	-1.4%	0.6%	1.3%	1.1%
Consumer Price Index (Core)	2.8%	2.7%	2.7%	1.4%	2.0%
Consumer Price Index (BOJ Core)	2.8%	2.7%	3.0%	1.9%	2.0%
Domestic corporate goods price index	2.4%	3.4%	2.3%	1.2%	1.9%
Employee compensation	1.9%	4.6%	3.5%	3.2%	3.3%
Unemployment rate	2.6%	2.5%	2.5%	2.4%	2.4%
Monetary Policy interest rate (Short term)	0-0.1%	0.50%	0.75%	1.00%	1.25%

Note: Rate of increase over the previous year. Private inventory investment and net exports are based on the degree of contribution. The consumer price index (Core) excludes the effects of free education and abolishing the provisional gasoline tax.

Note: The forecasts are as of November 17th, 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

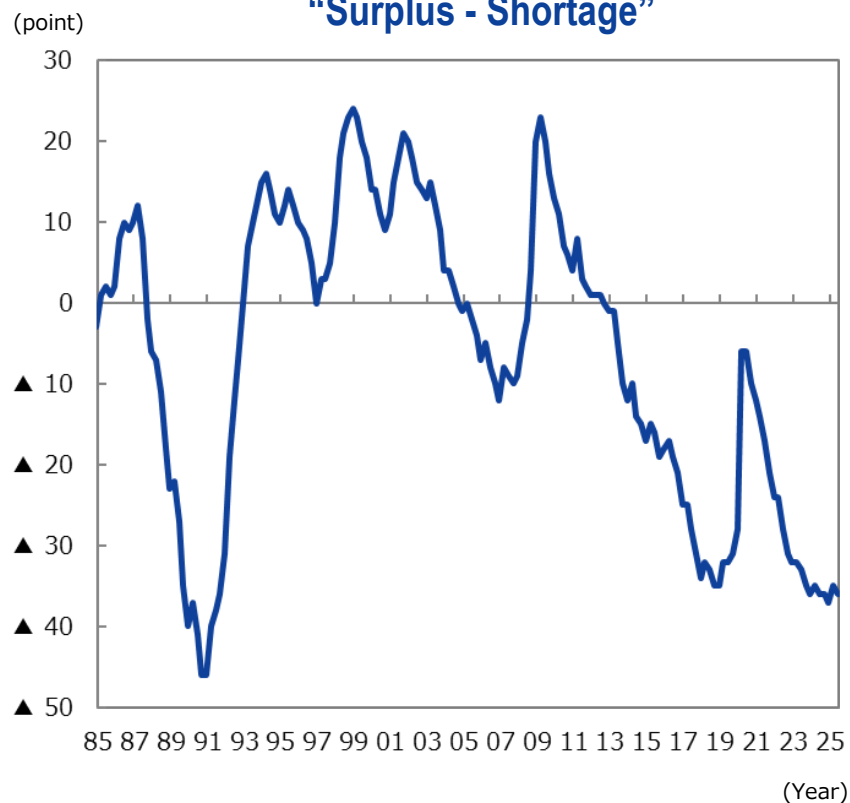
# Japan's GDP Temporarily Turned Negative due to Trump Tariffs



Note: Data is from Q1 2019 to Q3 2025.  
Source: Cabinet office, SMDAM

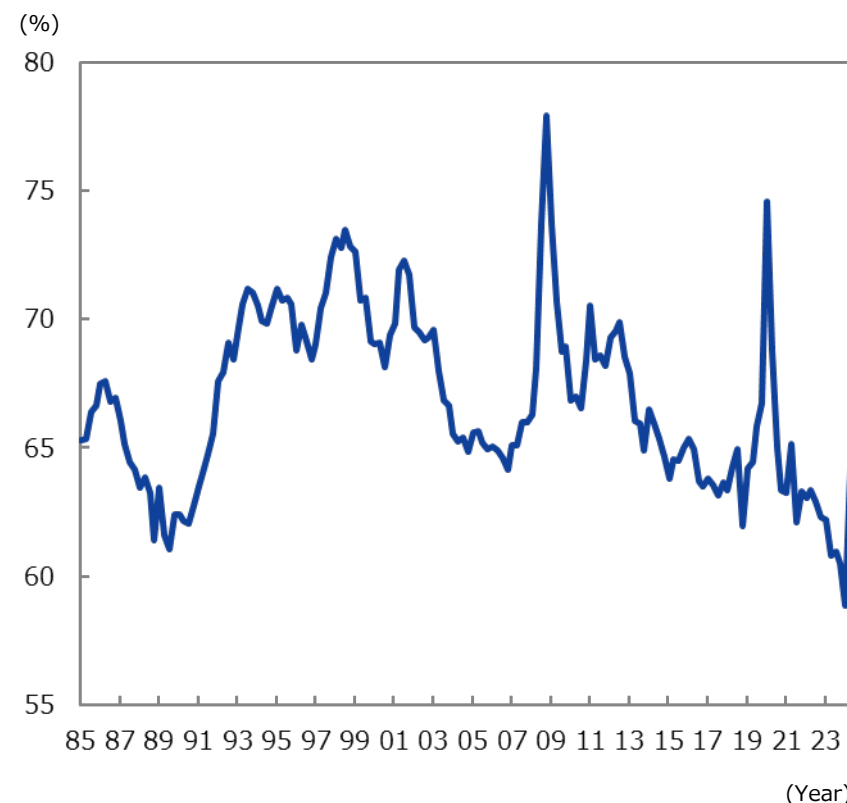
# Conundrum? “Severe Labor Shortage” with “Low Labor Share”

Employment Sufficiency Index  
“Surplus - Shortage”



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

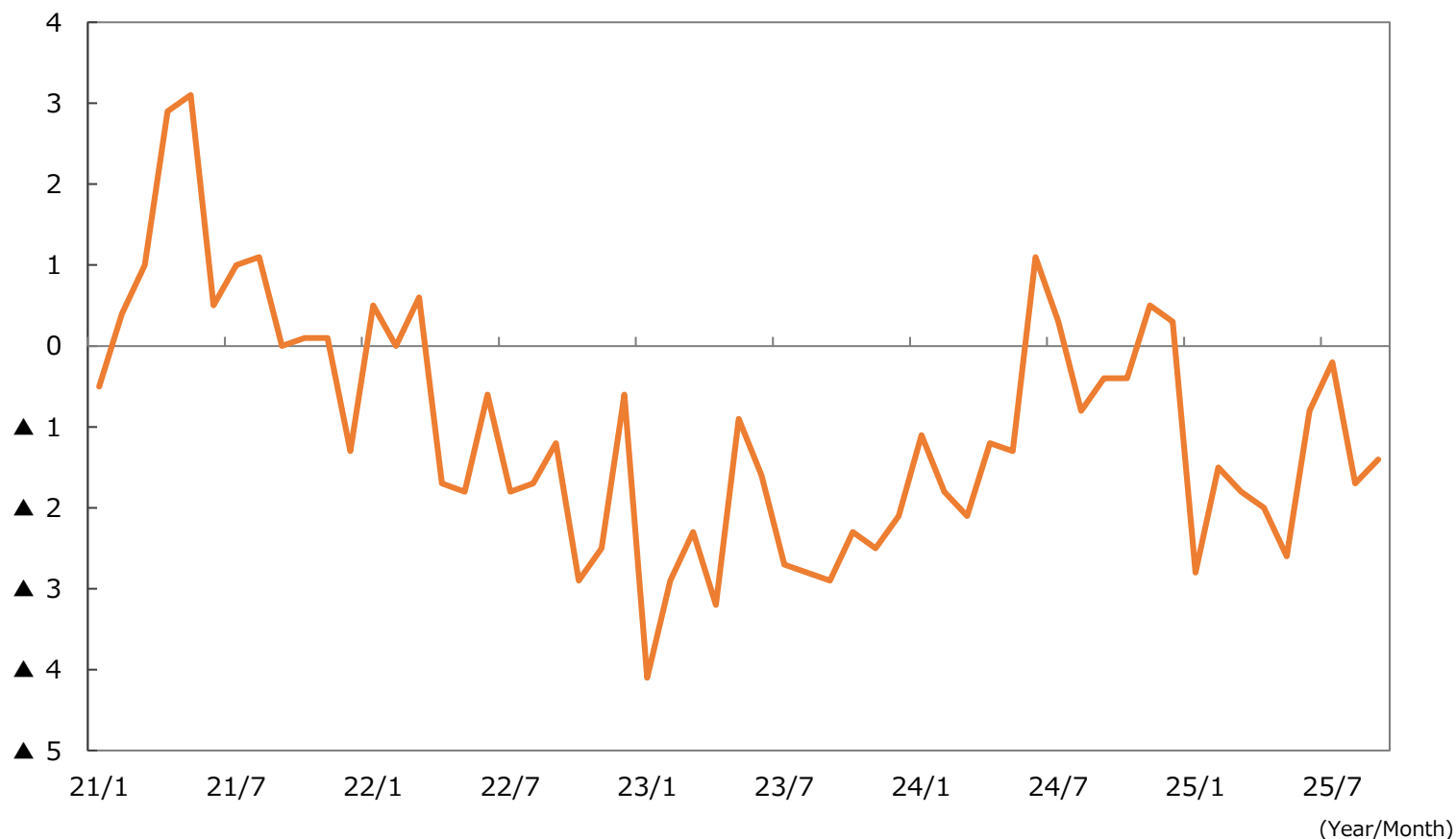
Labor Share of Added Value



Note: Data is from April 1985 to January 2025.  
Source: Ministry of finance, SMDAM

# Inflation Continues to Erode Consumers' Purchasing Power

Real Cash Earnings (YOY, %)

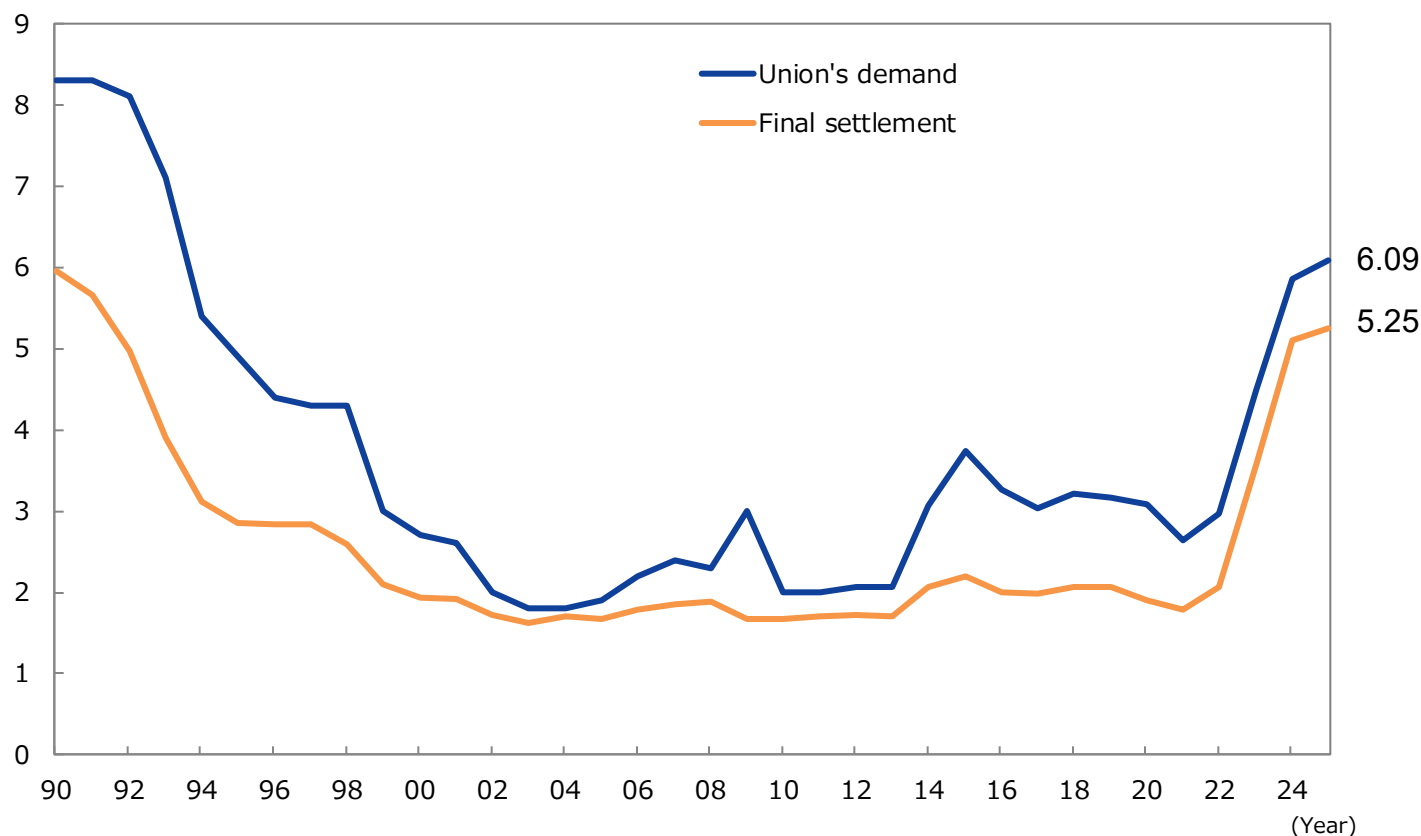


Note: Data is from January 2021 to September 2025.  
Source: Japanese Trade Union Confederation, SMDAM



# Highest Wage Increase in Japan Since the Early 90s

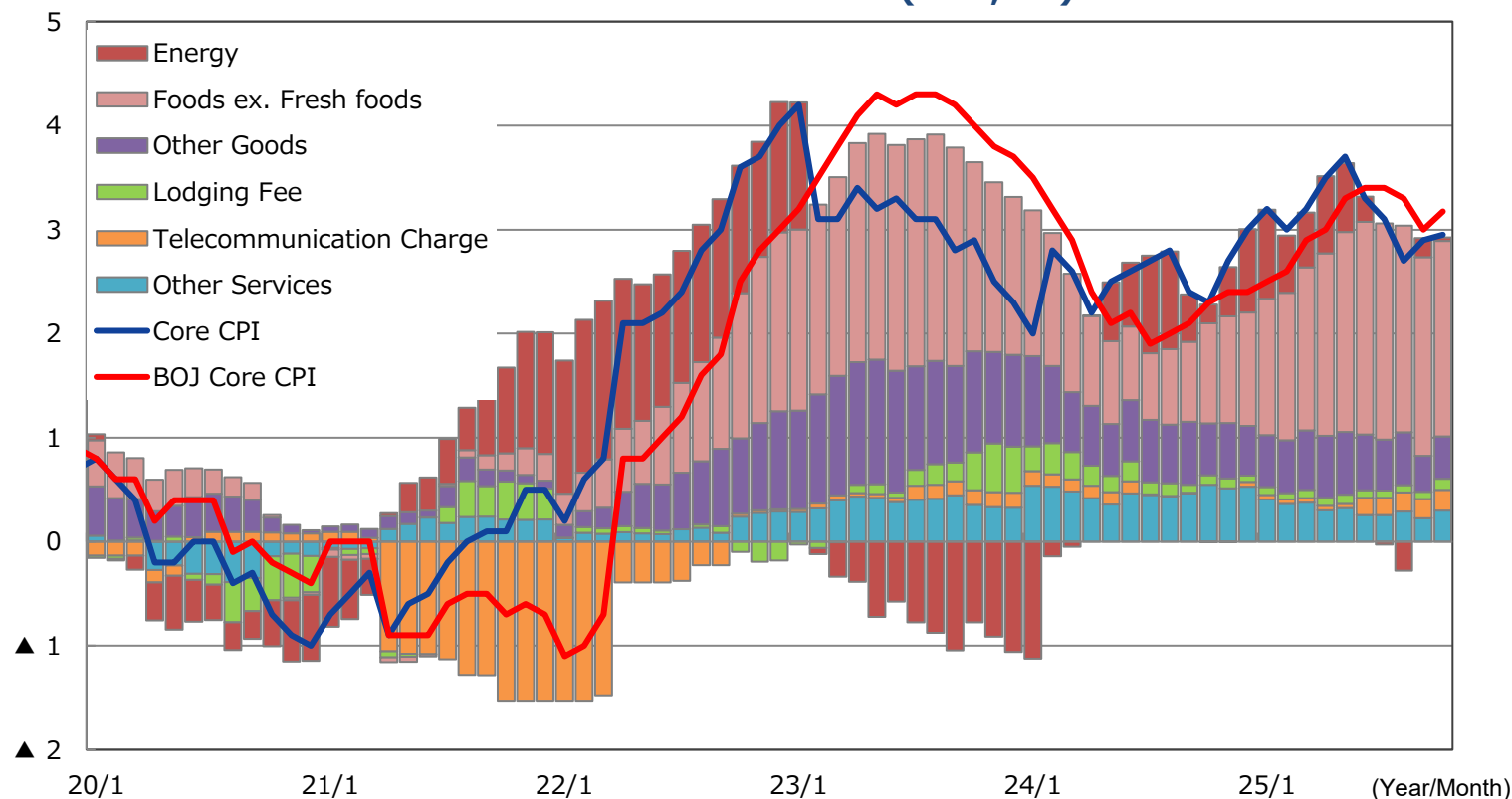
Wage increase (YOY, %)



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

# Food Prices Lift Inflation Higher

Breakdown of Core CPI (YOY, %)



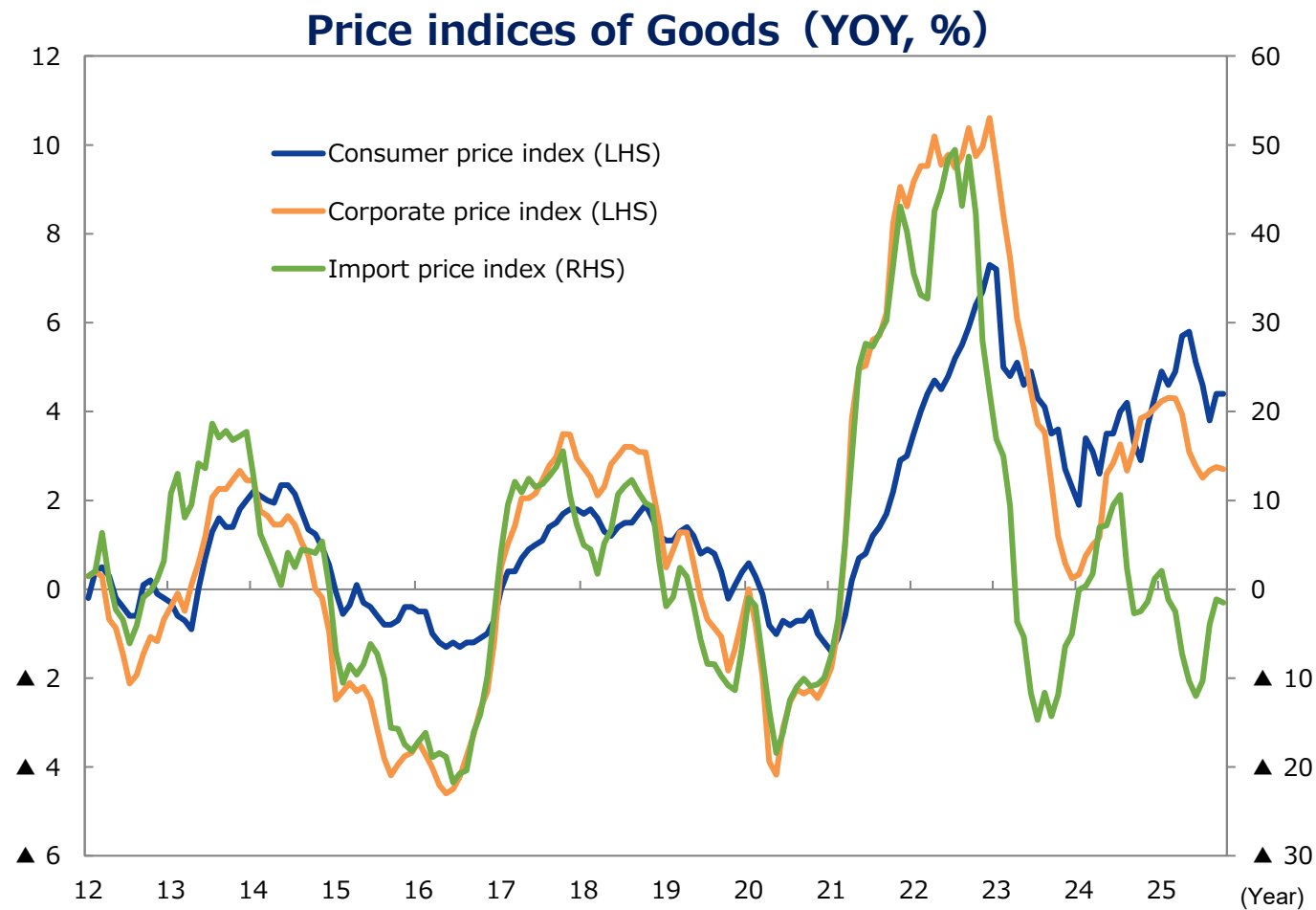
Note: Data is from January 2020 to October 2025.

Note: The Core CPI excludes the fresh foods. Special factors, such as the effects of free education and abolishing the provisional gasoline tax, are considered.

Source: MIAC, SMDAM

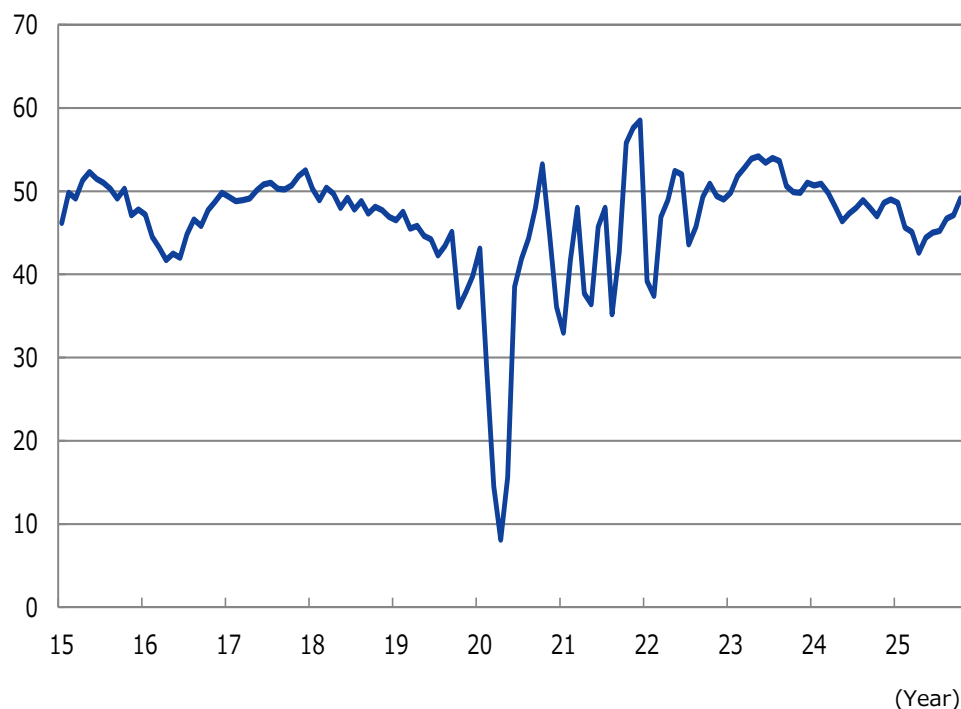


# Divergence of Rising CPI and Falling Import Prices

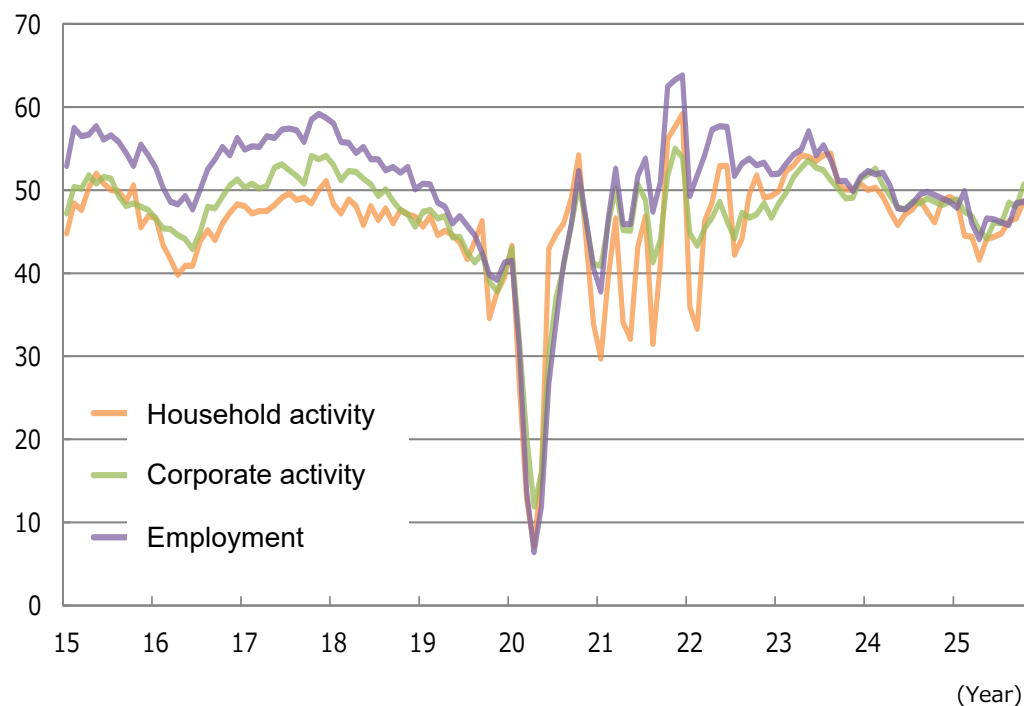


# Growing Unease with Slowing Economy and Higher Inflation

## DI for Current Economic Conditions

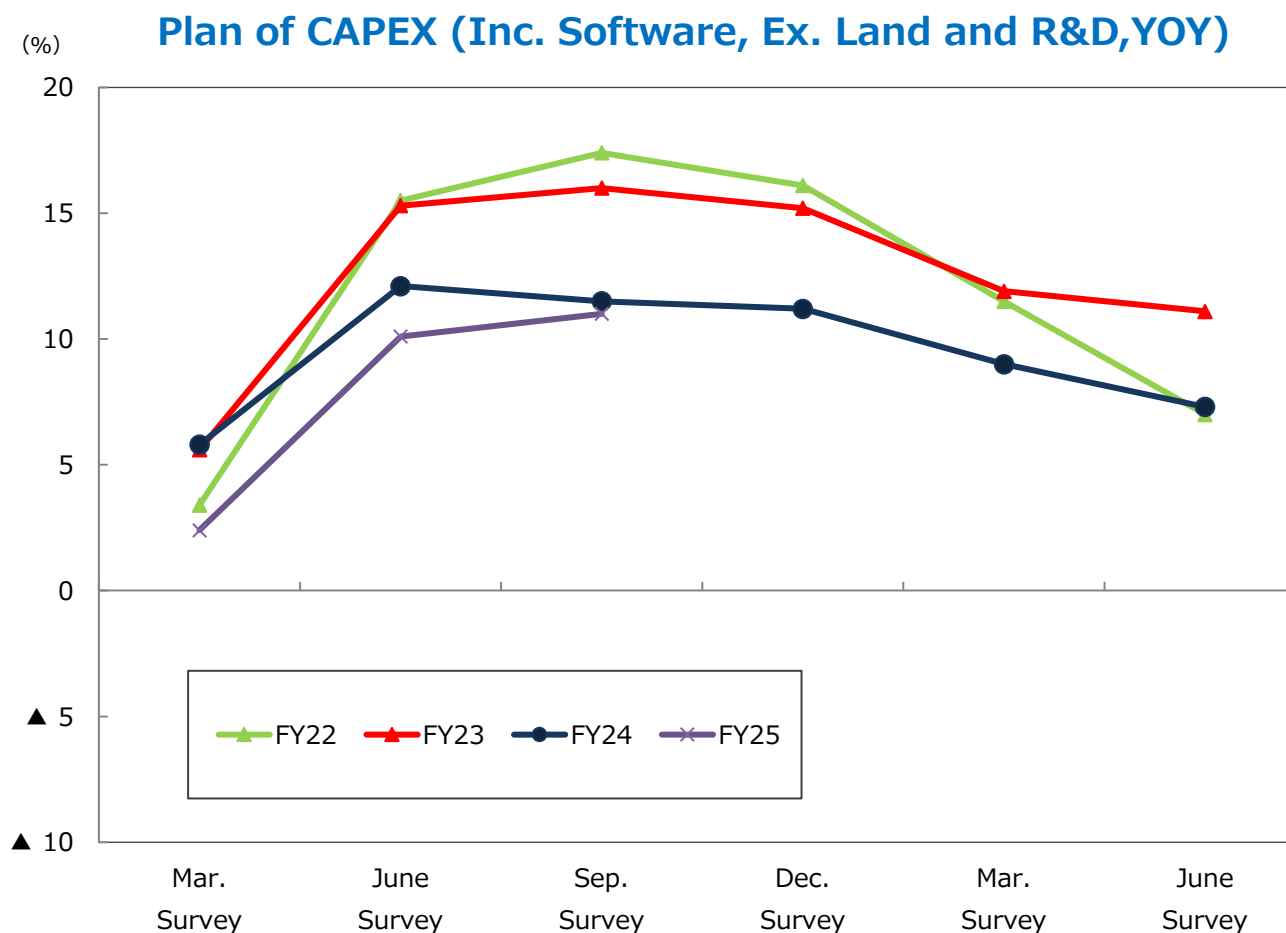


## Breakdown of DI for Current Economic Conditions



Note: Data is from January 2015 to October 2025.  
Source: Economy Watchers Survey, Cabinet Office

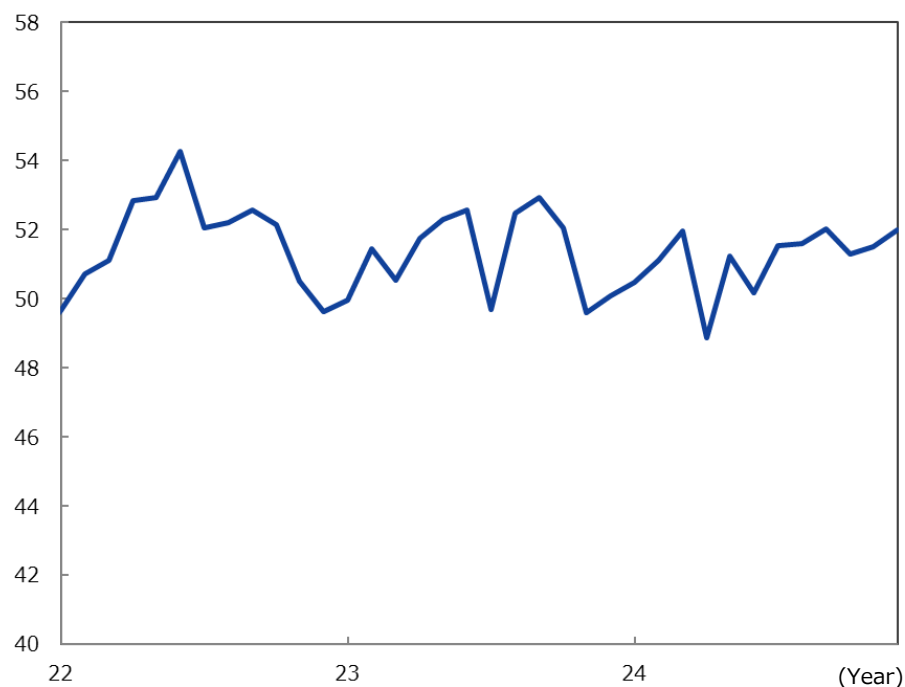
# Receding Uncertainty Over the Economy Lifts CAPEX Appetite



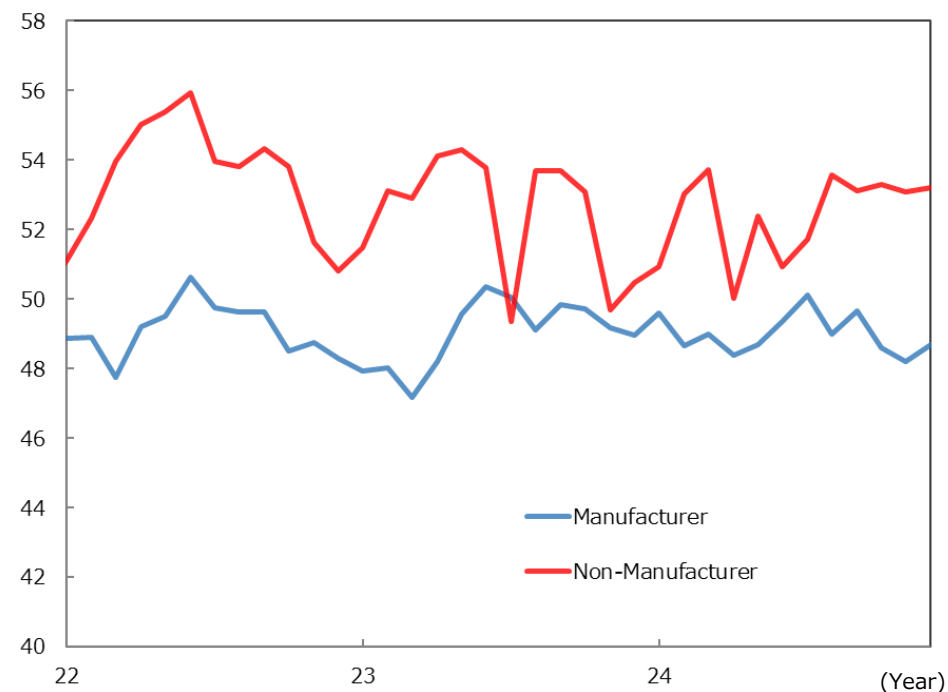
Note: Data is from Q4 FY2021 to Q2 FY2025.  
Source: The Bank of Japan, SMDAM

# “K-Shape” Divergence of Business Sentiment

## Composite PMI(%pt)

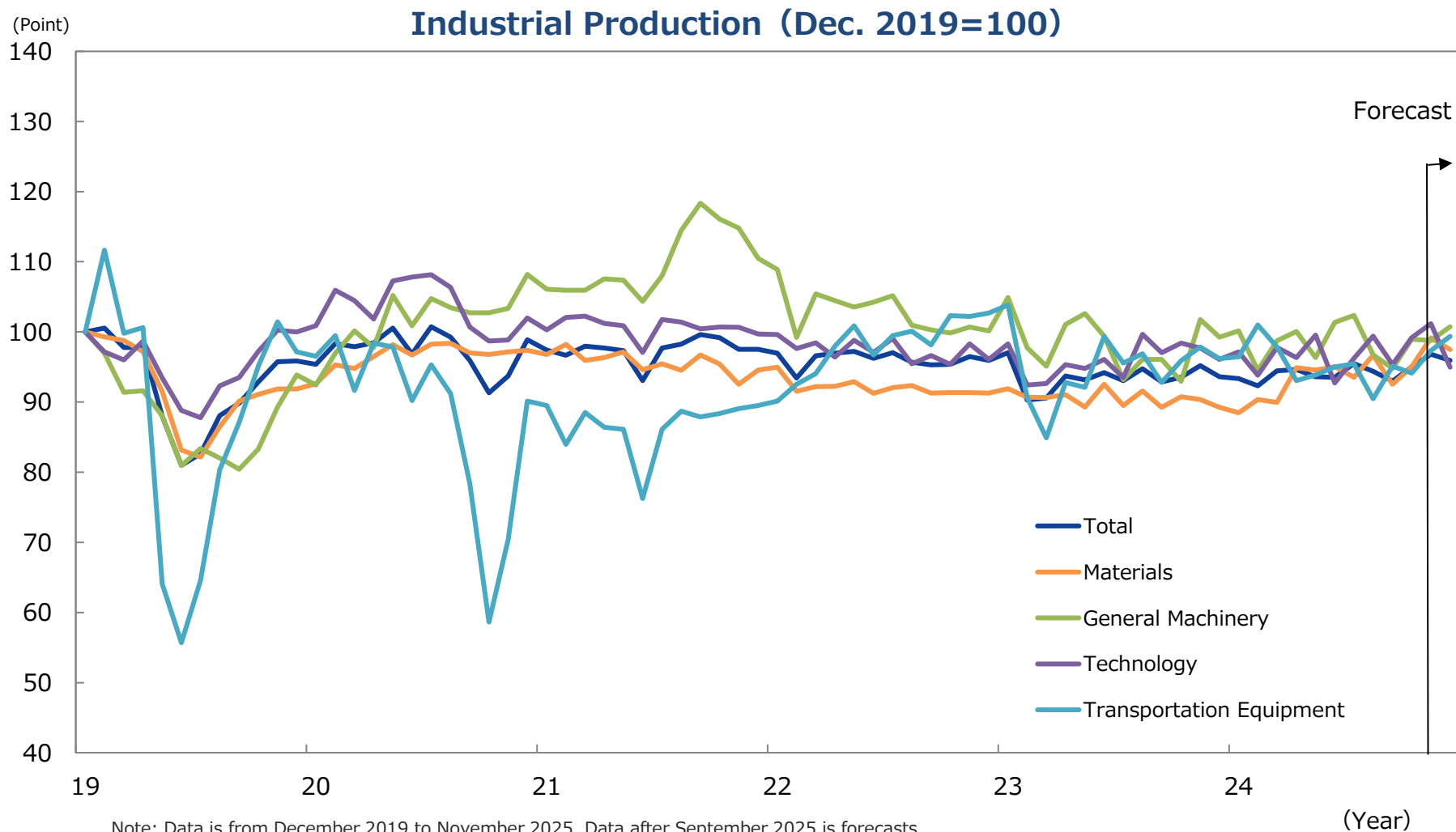


## PMI, Manufacturer & Non-Manufacturer(%pt)



Note: Data is from December 2022 to November 2025.  
Source: Bloomberg, SMDAM

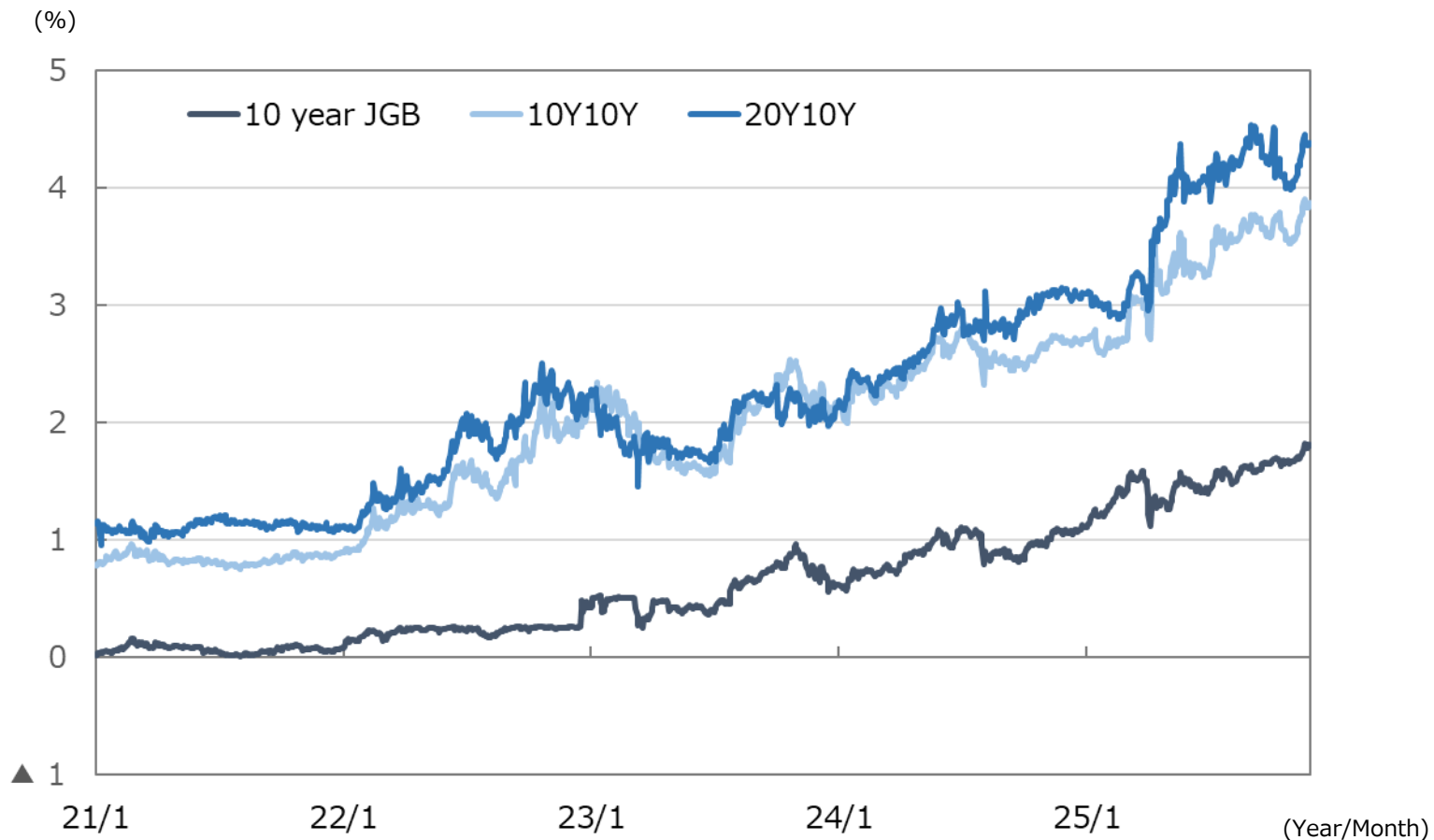
# Auto Production to Recover Going Forward



Note: Data is from December 2019 to November 2025. Data after September 2025 is forecasts.  
Source: METI, SMDAM

# Forward Rate Reached Extremely High Level

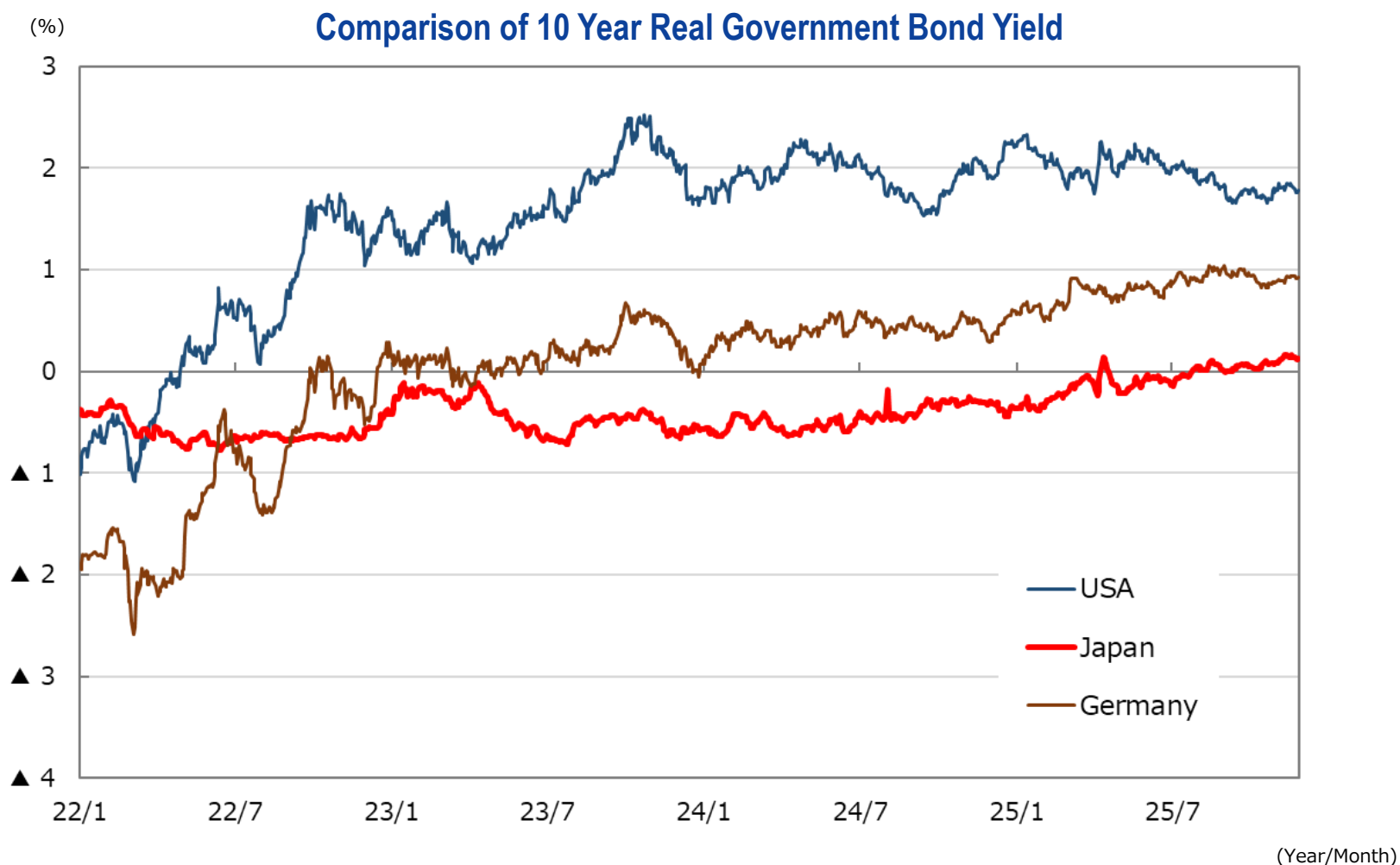
10 Year Japanese Bond Yield, 10Y10Y, and 20Y10Y



Note: Data is from 4th January 2021 to 28th November 2025.  
Source: Bloomberg

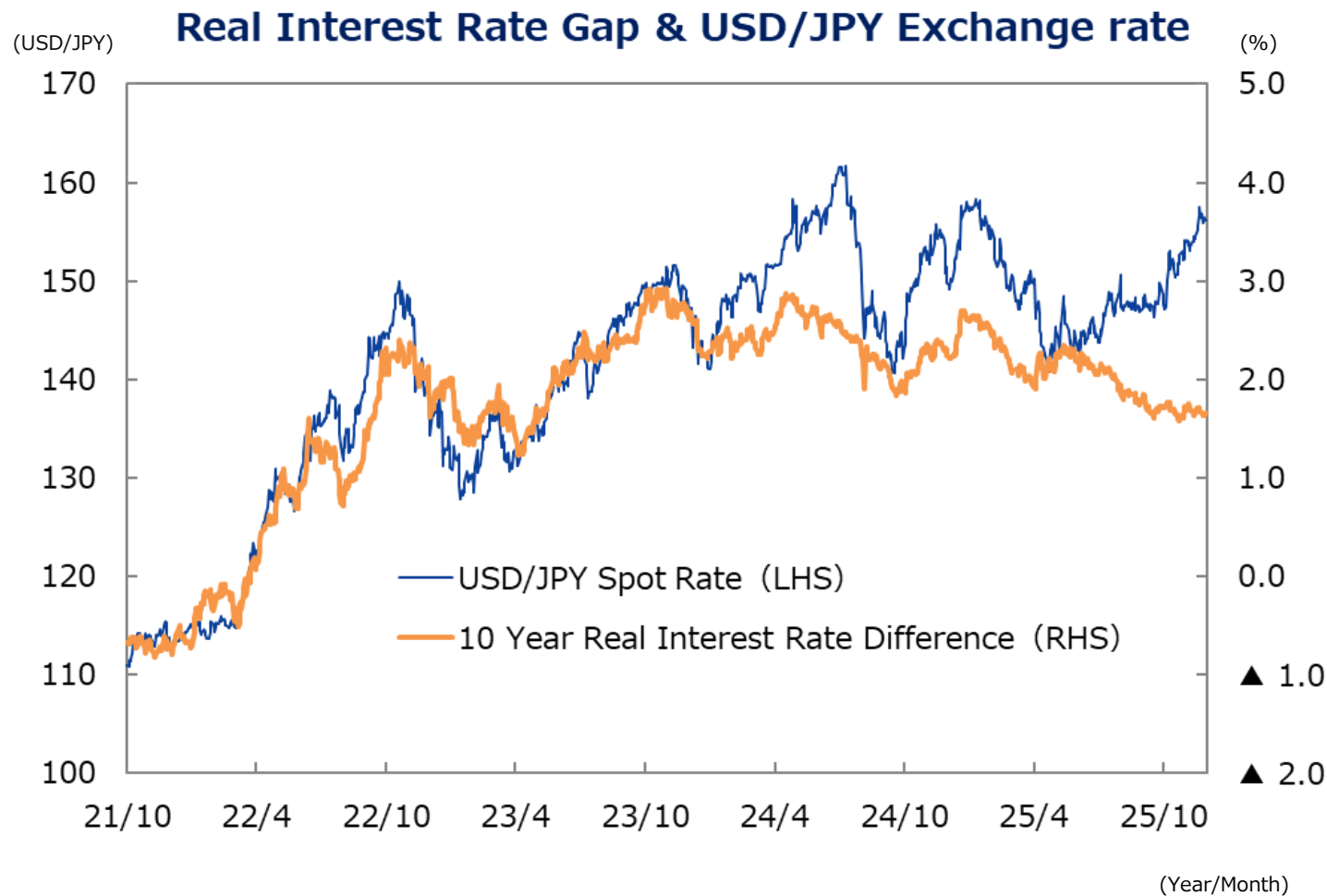


# 10-Year Real JGB Yield Becomes Slightly Positive



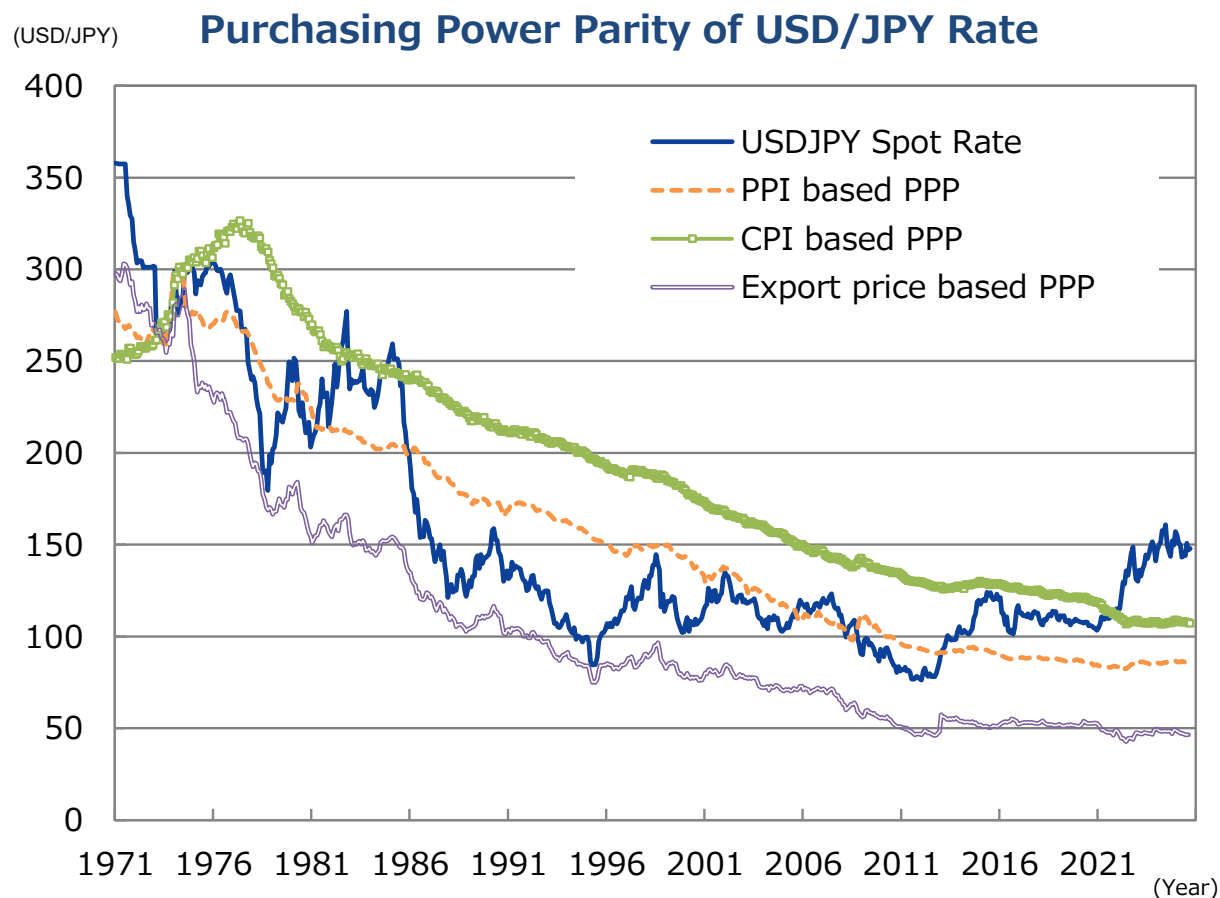
Note: Data is from 3rd January 2022 to 28th November 2025.  
Source: Bloomberg

# Dollar/Yen Getting Higher Despite Narrowing Interest Rate Gap



Note: Data is from 1st October 2021 to 28th November 2025.  
Source: Bloomberg

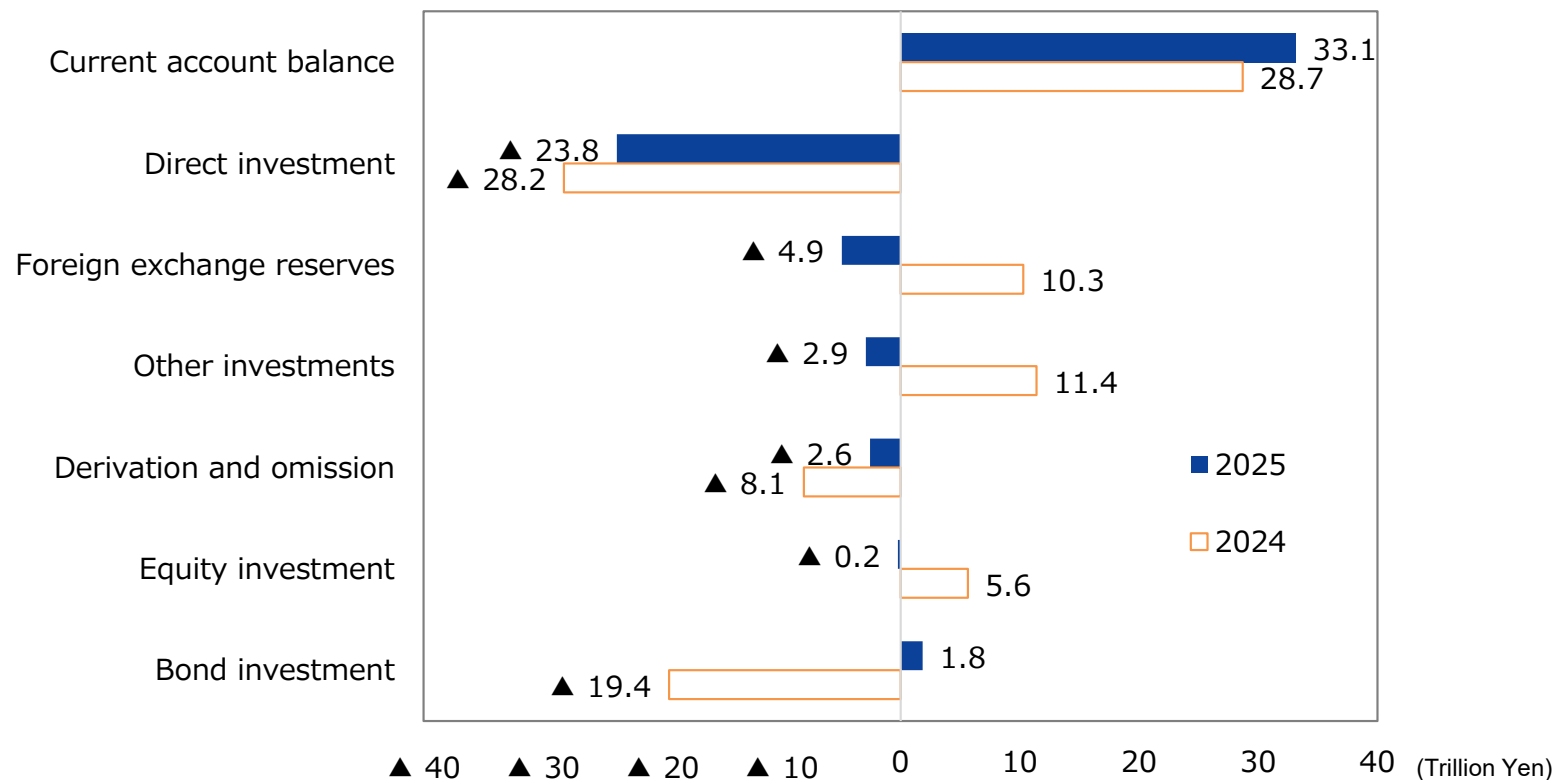
# Purchasing Power Parity Indicates Overvaluation of US Dollar



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

# Current Surplus Balanced by Outflows in Direct Investment from Japan

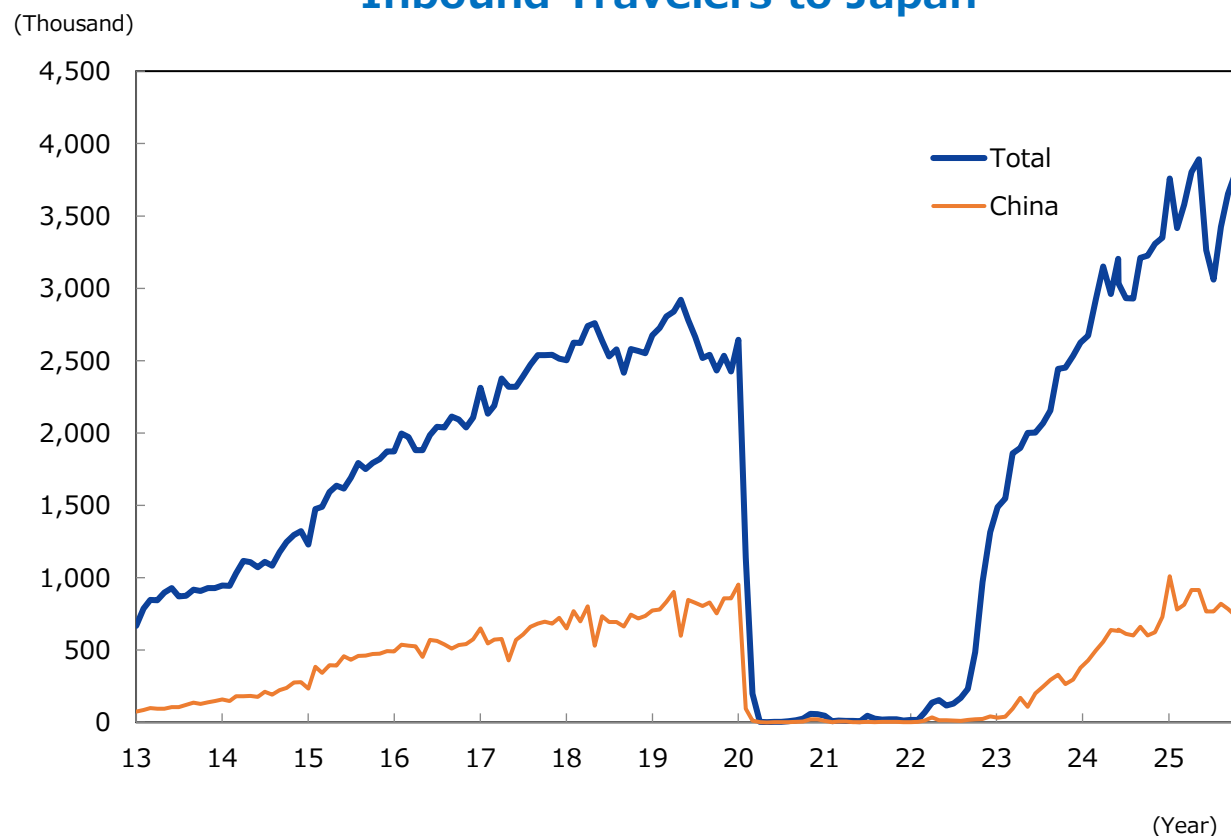
## Overview of Japan's International Balance of Payments



Note: Data for 2025 is annualized from January to August. A positive percentage indicates an inflow, while a negative percentage indicates an outflow.  
Source: Bank of Japan, Datastream, SMDAM

# Inbound Travel Resumed its Upward Momentum

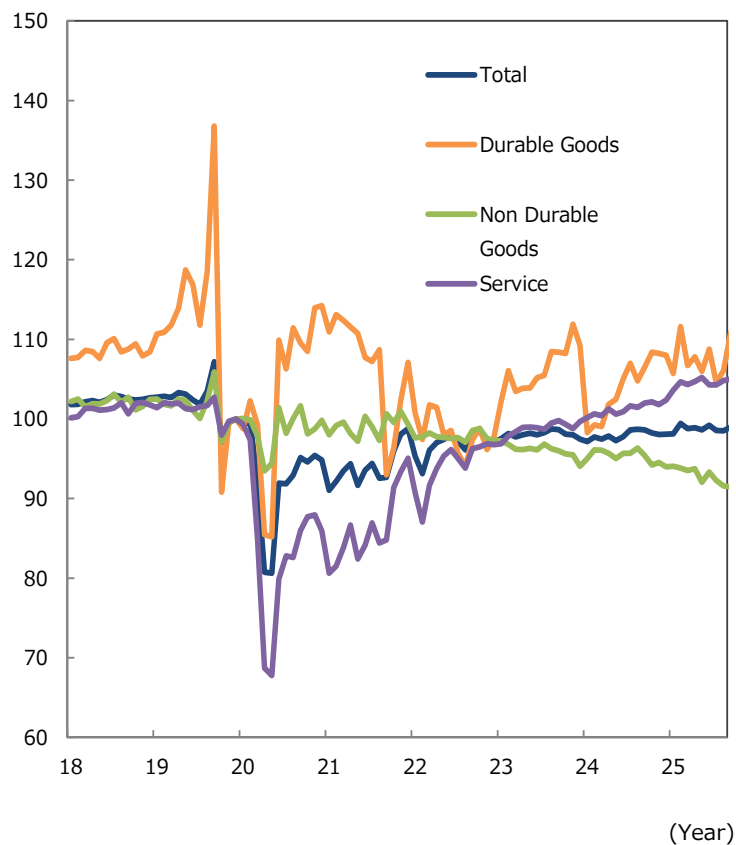
## Inbound Travelers to Japan



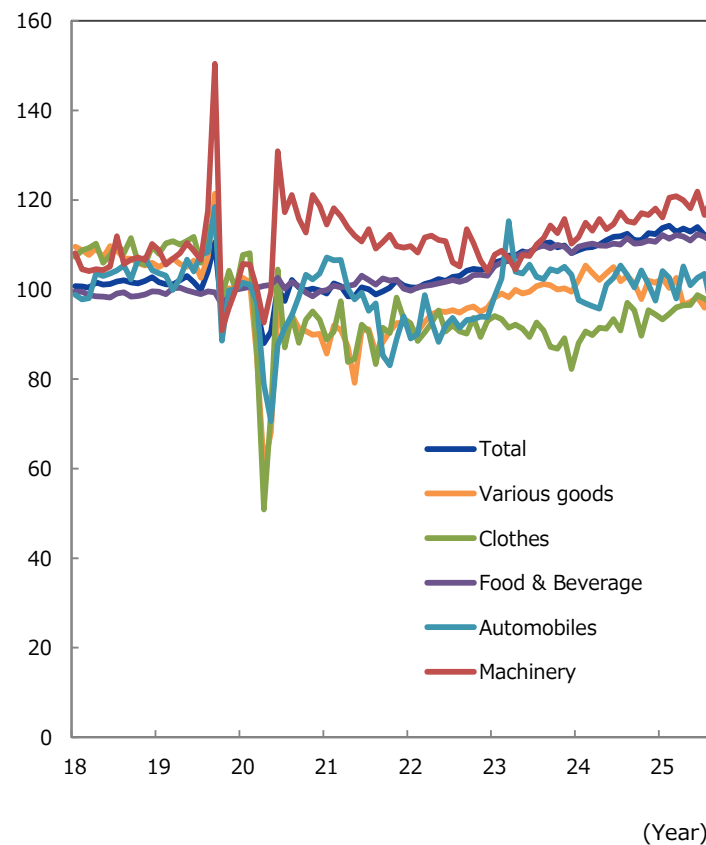
Note: Data is from January 2013 to October 2025. Data is seasonally adjusted by SMDAM.  
Source: Japan National Tourism Organization, SMDAM

# Consumer Activities are Mixed due to Weak Real Income

Consumer Activity Index (Dec. 2019 = 100)



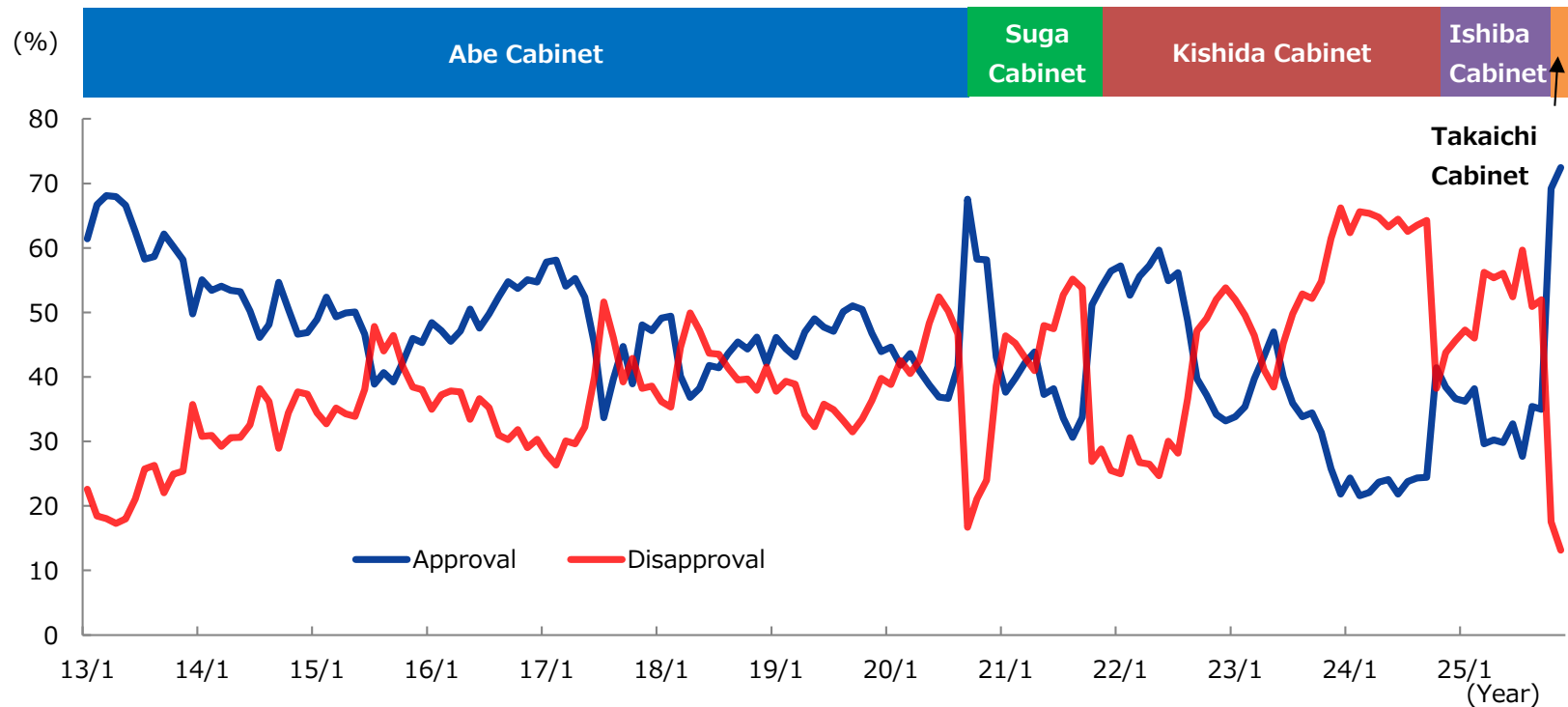
Retail Sales (Dec. 2019 = 100)



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

# PM Takaichi Secured Broad Public Approval

## Cabinet Approval Rating



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

# Schedule of Major Events

Year	Month	Date	Event
2025	November	17	Release of 2025 Q3 GDP
		21	Cabinet decision on economic measures
	December	8	Revision of 2025 Q3 GDP
		18-19	Monetary Policy Meeting Passage of the FY2025 Supplementary Budget Cabinet approval of the initial budget for FY 2026 and the outline for tax reform
2026	January	22-23	Ordinary Diet Session Monetary Policy Meeting
	February	16	Release of 2025 Q4 GDP
	March	10	Revision of 2025 Q4 GDP
		18-19	First Summary of Responses in Rengo's Spring Wage Negotiations Monetary Policy Meeting
		31	Passage of the FY2026 Budget Bill and Tax Reform-Related Legislation Expiration of the term of the Bank of Japan's Noguchi Policy Board member
	April	27-28	Monetary Policy Meeting
	May		Release of 2026 Q1 GDP
	June	14-16	G7 Summit
		15-16	Monetary Policy Meeting(Interim Assessment of the Government Bond Purchase Reduction Plan) Revision of 2026 Q1 GDP Cabinet's decisions on "Big-boned policy" Cabinet decision on the growth strategy
		29	Expiration of the term of the Bank of Japan's Nakamura Policy Board member
	July	30-31	Monetary Policy Meeting
	August		Release of 2026 Q2 GDP
	September	17-18	Monetary Policy Meeting Revision of 2026 Q2 GDP

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



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