This is marketing documentation

NOT FOR RETAIL CLIENTS

Japan | Economic and Financial Market Outlook

9

SEP. 2025

Daiwa Asset Management

Economy

Positive Growth for Five Consecutive Quarters

Japan's real GDP growth rate for the April–June quarter (flash estimate) registered an annualized +1.0% QoQ, temporarily exceeding the estimated potential growth rate (mid-0% range according to the Bank of Japan). Additionally, the January–March quarter was revised upward from -0.2% to +0.6%, marking five consecutive quarters of positive economic expansion. This outcome alleviated market concerns over a potential technical recession—defined as two consecutive quarters of negative growth—amid apprehensions surrounding the impact of US tariff measures. External demand and capital expenditures were key contributors to the positive growth, and despite the implementation of US tariffs, the overall impact on exports has remained limited. Nevertheless, the adverse effects of US trade restrictions on Japan's domestic economy and price levels are expected to materialize in the latter half of the year, warranting continued vigilance.

Will the Wage Growth Momentum Persist?

According to the June Monthly Labour Survey, Total Cash Earnings rose by 2.5% YoY (compared to +1.4% in May), indicating an acceleration in wage growth. Looking ahead, Scheduled Cash Earnings are expected to maintain a robust growth trajectory in the near term, reflecting the outcome of this year's spring wage negotiations, which delivered a higher-than-previous-year rate of base pay increases. However, downside risks remain. The impact of US tariff measures may exert negative pressure on corporate earnings, potentially dampening winter bonuses and next year's spring wage negotiations. As a result, Non-Scheduled Earnings and Special Cash Earnings are likely to weaken, particularly in the manufacturing sector. Should the structurally driven wage growth momentum—fueled by chronic labor shortages—begin to falter, it could adversely affect Real Wages, which are anticipated to improve in tandem with a slowdown in inflation.

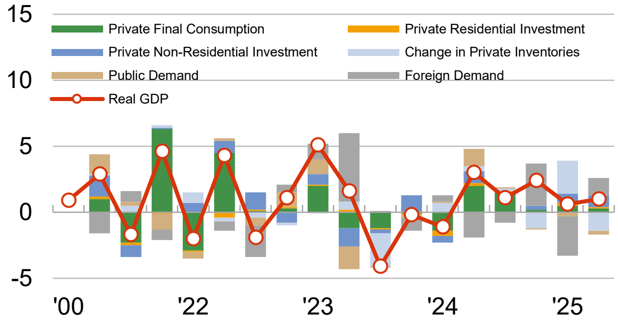
Corporate Pricing Behavior Gains Momentum

The July Consumer Price Index (CPI) for Tokyo's 23 wards, excluding fresh food, rose by 2.9% YoY (down from 3.1% in June), indicating a deceleration in inflation. Looking ahead, while the growth slowdown induced by US tariff measures may exert downward pressure on prices, structurally tight labor market conditions are prompting firms to adopt more assertive wage and pricing strategies, which are expected to provide underlying support to inflation. Although the July Corporate Goods Price Index also showed a deceleration—rising 2.6% year-on-year compared to 2.9% in June—the data suggests that companies continue to pass through rising input costs, such as labor and logistics expenses, into final prices, even amid declining import prices.

(Written by Satsuki Yuba, Research Department)

Real GDP and Contribution by Demand Item

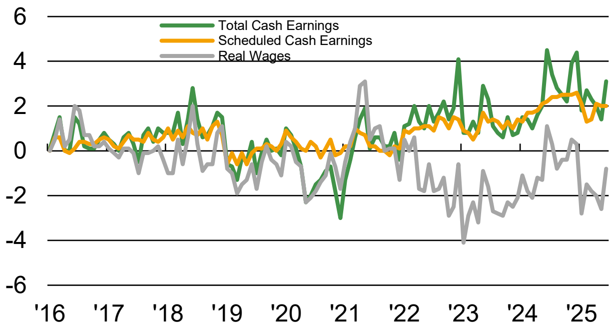
(Quarter-on-Quarter, % points)



※ The latest figures are for the April-June period of 2025.
Source: The Cabinet Office; Compiled by Daiwa Asset Management

Monthly Labor Survey

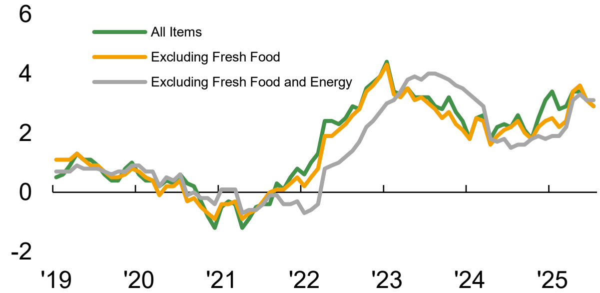
(YoY, %)



※ Companies with at least 5 employees
Source: Ministry of Health, Labour and Welfare; Complied by Daiwa Asset Management

Tokyo Metropolitan CPI

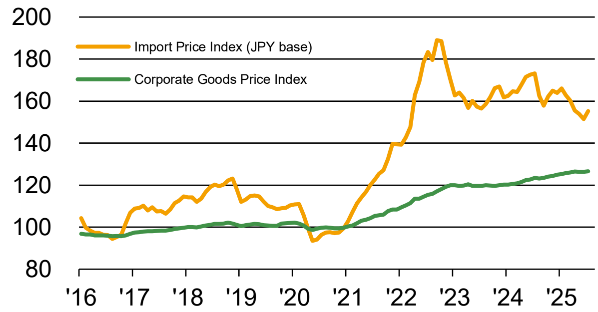
(YoY, %)



※ The latest value is from July 2025
Source: Ministry of Internal Affairs and Communications; Complied by Daiwa Asset Management

Corporate Goods Price Index and Import Price Index

(Y2020=100)



※ The latest value is from July 2025
Source: Bank of Japan, Complied by Daiwa Asset Management

Equity

Record Highs Amid Heightened Uncertainty

Despite elevated uncertainty stemming from the escalation of US tariffs and domestic political developments, favorable supply-demand dynamics—driven by share buybacks and capital inflows from foreign investors—have propelled equity markets to record highs, with both the TOPIX and Nikkei Stock Average reaching all-time peaks. Corporate earnings have generally remained subdued due to the diminishing impact of Yen depreciation and rising cost pressures, particularly labor expenses. Nevertheless, the expansion of PER Estimate has been the primary driver of the market rally. Excluding the period of the COVID-19 pandemic, current PER Estimate levels are approaching the upper bounds of historical ranges.

Mixed Corporate Earnings, but Overall Weak Performance

Corporate earnings for the April–June quarter were generally subdued, largely due to the diminishing impact of Yen depreciation and rising cost pressures, particularly labor expenses. In sectors such as automobiles and steel, the adverse effects of increased US tariffs have already become evident. Looking ahead, concerns persist over a potential post-rush demand downturn and deteriorating competitive conditions, contributing to heightened uncertainty surrounding external demand. On the other hand, several companies in domestic demand-driven sectors—such as AI, defense, financials, real estate, and utilities—reported substantial profit growth, resulting in a mixed earnings landscape.

Exceptionally Favorable Supply-Demand Dynamics

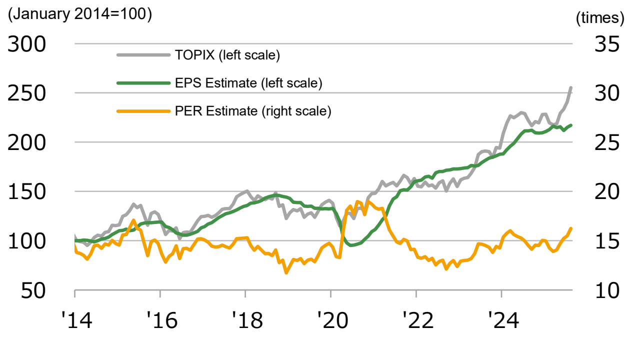
While there is little support from the earnings side, the favorable supply-demand environment is pushing the market higher. Foreign investors, who had sold a cumulative total of about 10 trillion Yen since last summer, have turned to buying about 7 trillion Yen since the April announcement of the US reciprocal tariffs. It is possible that undervalued Yen assets are coming into the limelight due to the Osaka-Kansai Expo in Japan and other factors. Combined with the record annual pace of share buybacks of about 20 trillion Yen, the favorable supply-demand environment is likely to continue to support the market.

LDP's "Extraordinary Presidential Election" and Political Developments Under Close Watch

The expansion of the PER Estimate has been a key driver of the recent market uptrend, though volatility in both directions is likely going forward. On the upside, in addition to favorable supply-demand conditions, expectations surrounding the Liberal Democratic Party's "**Extraordinary Presidential Election**", anticipation of a new party leader, potential tax cuts, and the resumption of rate cuts by the US Federal Reserve may serve as supportive factors. Conversely, downside risks include a correction in overvalued AI-related stocks and US equities, a potential rate hike by the Bank of Japan, delays in US monetary easing, and further appreciation of the Yen. Given these factors, upward momentum in equity prices driven by corporate earnings is expected to remain limited.

(Written by Kensuke Togashi, Research Department)

TOPIX Estimated EPS and PER



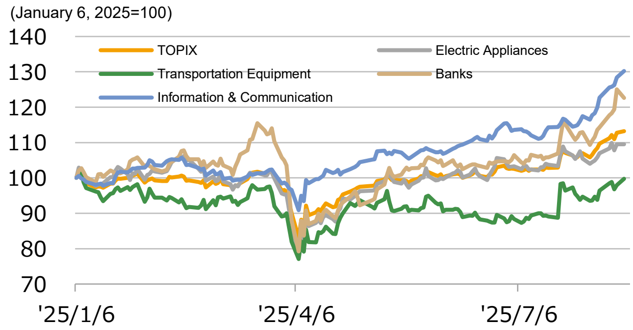
※ Month-end value, August 2025 is the value on the 18th
※ EPS and PER estimate is 12-months ahead forecast
Source: Bloomberg; Compiled by Daiwa Asset Management

YoY Difference in Ordinary Profit for the April-June Quarter

Name of Stock	Amount of Increase	Name of Stock	Amount of Decrease
Softbank G	4,642	Toyota Motor	-6,201
Tokio Marine H	3,003	Nippon Steel	-3,767
Advantest	894	Renesas Electronics	-2,703
ITOCHU Corp.	887	Honda Motor	-2,671
Otsuka H	709	Mitsubishi Corp.	-2,459
Sony G	697	Nissan Motor	-1,744
Nomura H	574	Idemitsu Kosan	-1,506
Mitsui Fudosan Co.	539	Mazda Motor	-1,145
Mitsubishi Electric	480	Mitsui & Co.	-1,135
Sumitomo Corp.	433	Dai-ichi Life Insurance H	-1,124
Astellas Pharma	399	Bridgestone Corp.	-872
SBIH	386	Coca-Cola BJ	-864
Electric Power Development Co.	380	ENEOS	-765

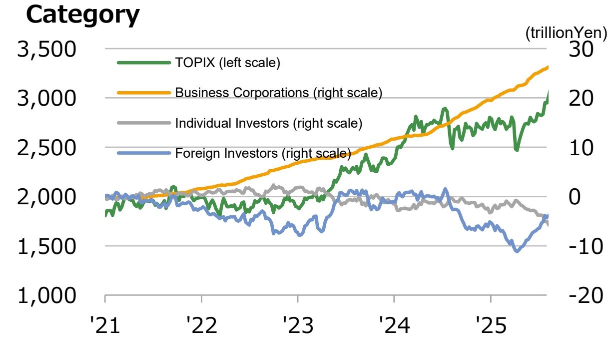
※ Aggregated Data for TOPIX Constituent Stocks Issued by August 12, Unit: 100 million Yen
Source: Daiwa Securities Co.; Complied by Daiwa Asset Management

TOPIX and TSE Sector Indices



※ The latest value for 2025 is August 18
Source: Bloomberg ; Compiled by Daiwa Asset Management

TOPIX and Total Trading Value by Investment Category



※Trading value (including Futures) by investment category through the week of August 8th
※Weekly data, the latest value for TOPIX is as of August 18, 2025
Source: Quick; Compiled by Daiwa Asset Management

Interest Rates

The outlook depends on the impact of the US tariff policy

In its July Monetary Policy Meeting, the Bank of Japan released its Outlook Report, in which it revised its economic and price forecasts upward across the board. This reflects a waning of concerns over downward pressure on the economy following the Japan-US tariff agreement, which includes reciprocal tariff measures and a reduction in automobile tariffs to 15%. However, the report offered no concrete guidance regarding the future conduct of monetary policy. The current phase is one of assessing how the deterioration in export profitability and the slowdown in overseas economies—both stemming from US tariff policy—will affect the wage growth momentum that has been strengthening against the backdrop of structural labor shortages. While the timing of the next rate hike remains set for April 2026, the somewhat positive tone of the Japan-US tariff agreement suggests the possibility of an earlier move. The outlook for long-term interest rates remains unchanged. That said, with the ruling party now a minority and requiring opposition cooperation to pass budget bills, there is a strong possibility that expansionary fiscal policies will be introduced during the extraordinary Diet session in autumn. In such a case, renewed concerns over fiscal sustainability could spill over into long-term interest rates, warranting close attention.

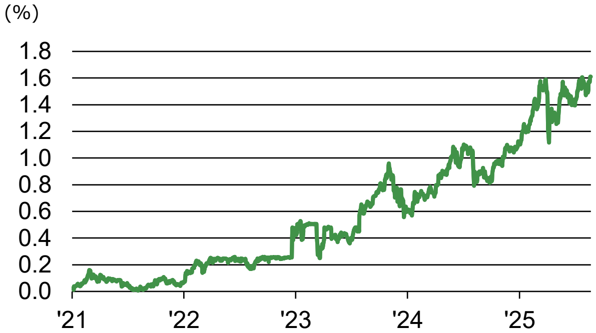
(Written by Satsuki Yuba, Research Department)

Economic and Price Outlook by Bank of Japan Policy Board Members (July 2025)

(YoY, %)	Real GDP	Consumer Price Index (less fresh food)	Consumer Price Index (less fresh food and energy)
FY2025	+0.5～0.7 <+0.6>	+2.7～2.8 <+2.7>	+2.8～3.0 <+2.8>
(as of April)	+0.4～0.6 <+0.5>	+2.0～2.3 <+2.2>	+2.2～2.4 <+2.3>
FY2026	+0.7～0.9 <+0.7>	+1.6～2.0 <+1.8>	+1.7～2.1 <+1.9>
(as of April)	+0.6～0.8 <+0.7>	+1.6～1.8 <+1.7>	+1.7～2.0 <+1.8>
FY2027	+0.9～1.0 <+1.0>	+1.8～2.0 <+2.0>	+2.0～2.1 <+2.0>
(as of April)	+0.8～1.0 <+1.0>	+1.8～2.0 <+1.9>	+1.9～2.1 <+2.0>

The < > in the lower row indicates the median. (Source) BOJ (Bank of Japan)

10-year JGB Yield



※ The latest value is August 18, 2025.
Source: Bloomberg; Compiled by Daiwa Asset Management

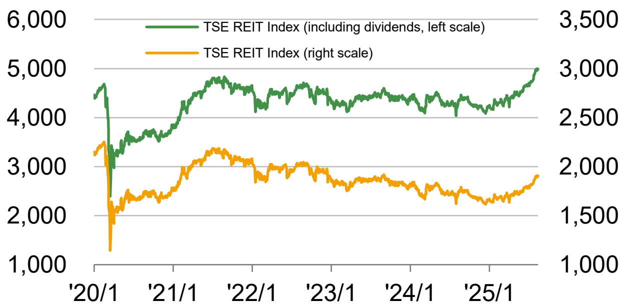
J-REIT

Investment Rating Downgraded to “Neutral”

Since mid-April, the J-REIT market has maintained an upward trajectory, with the Tokyo Stock Exchange REIT Index recovering to the 1,900 level for the first time in approximately two years. A key difference from two years ago is the level of domestic long-term interest rates, which have risen significantly from the 0.7% range to the 1.5% range, making this recovery noteworthy. We are revising our investment rating for J-REITs from “moderately bullish” to “neutral.” While the leasing market remains strong—with distribution growth driven by rent increases in hotels, offices, and residential properties—and supply-demand conditions have improved through initiatives such as share buybacks, we expect this favorable environment to continue. However, given that the REIT Index has risen 19% year-to-date on a total return basis, we believe the market has moved out of an excessively undervalued state, prompting the downgrade. Currently, the actual dividend yield stands at 4.5%, and we anticipate annual dividend growth of 2–3%, maintaining a high expected total return. We continue to view J-REITs as an attractive Yen-denominated investment vehicle.

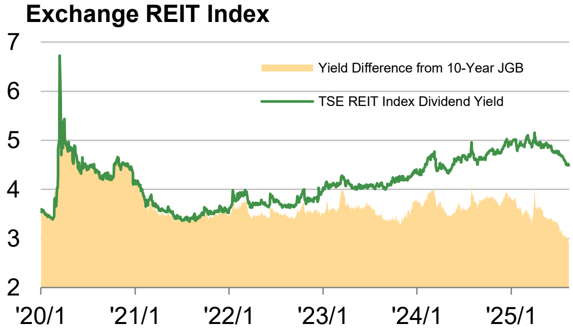
(Written by Kazuhiko Arai, Global Investment Department)

Trend of the Tokyo Stock Exchange REIT Index



※ The latest value is as of August 8, 2025
Source: Bloomberg; Compiled by Daiwa Asset Management

Trend of the Dividend Yield for the Tokyo Stock Exchange REIT Index



※ Dividend yield is based on the actual performance of the past 12 months
※ The latest value is as of August 8, 2025
Source: Bloomberg; Compiled by Daiwa Asset Management

This Presentation (“Presentation”) is furnished to its intended recipient (the “Recipient”) and is not for redistribution or public use. The data and information presented are for informational purposes only. The information contained herein should be treated in a confidential manner and may not be transmitted, reproduced or used in whole or in part for any other purpose, nor may it be disclosed without the prior written consent of Daiwa Asset Management. By accepting this material, the Recipient agrees not to distribute or provide this information to any other person.

This Presentation is intended for use by professional investors only. Investors should independently evaluate particular investments and strategies and seek their own investment advice. Daiwa Asset Management may not be held responsible for any consequences resulting from any investment in any strategy or products discussed in this Presentation. No investment strategy can guarantee performance results. Past performance is no guarantee of future results. All investments are subject to investment risk, including loss of principal invested. For more detailed information, in particular a description of the mentioned funds’ risks and rewards, please refer to the prospectus of the UCITS, the key investor information document (KIID) and the most recent published annual and semi-annual report.

This Presentation was made to provide information about the investment capability of Daiwa Asset Management. It should not be construed as an offer or a solicitation to purchase or subscribe to the funds mentioned in this material. This is a marketing communication. Potential investors should refer to and read the prospectus of the UCITS and KIID for more detailed information prior to their investment decision.

The information, statements, forecasts and projections contained in this Presentation, including any expressions of opinion, are based upon sources believed to be reliable, but their accuracy, correctness or completeness are not guaranteed. The performance of investments, if referred to herein, is based on past data and is neither necessarily an indication nor a guarantee of future performance of such investments. The performance data in this material does not consider any tax or fees if there were any, and will not provide a final return for potential investors. Daiwa Asset Management made all reasonable efforts to ensure that the information contained herein is current, but it is subject to change without notice. Daiwa Asset Management, or any of its respective affiliates, accepts no liability whatsoever for any direct or consequential loss arising from any use of this material or its content.

The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by JPX Market Innovation & Research, Inc. or affiliates of JPX Market Innovation & Research, Inc. (hereinafter collectively referred to as "JPX") and JPX owns all rights and know-how relating to TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. JPX shall not be liable for the miscalculation, incorrect publication, delayed or interrupted publication of the TOPIX Index Value. No Licensed Product is in any way sponsored, endorsed or promoted by JPX, and JPX shall not be responsible for any damage resulting from the issue and sale of the Licensed Product.

Daiwa
Asset Management