

Chief Strategist
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FY2025 Third-Quarter Earnings Preview

Despite an Earnings Decline in Actual Results, There Is No Cause for Concern

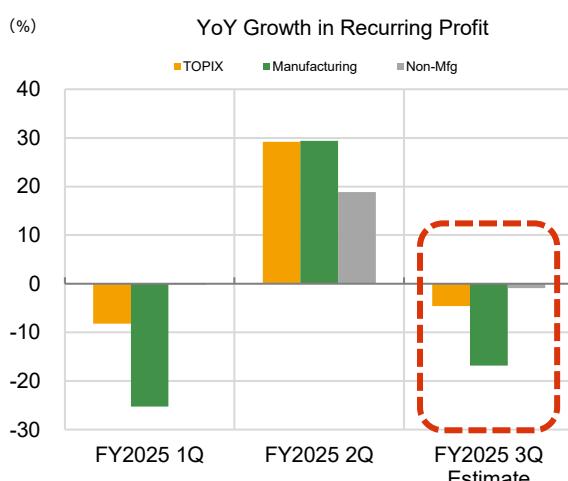
Earnings Momentum Remains Solid, with a Positive Surprise Expected in 3Q Results

The earnings release season for companies with March fiscal year-ends covering FY2025 Third Quarter (October–December, hereafter “3Q”) is now getting fully underway. According to consensus estimates, recurring profit for TOPIX constituent companies (March fiscal year-end companies) in 3Q is expected to decline by 4.6% YoY. Excluding SoftBank Group, which exhibits significant volatility, the decline is forecast to be 8.7% YoY. While this represents a sharp slowdown from the 29% YoY increase recorded in the Second Quarter (July–September), there is no need to view this development negatively.

The primary drag on 3Q recurring profit is Transportation Equipment, which has been heavily affected by tariffs. Marine Transportation and Iron & Steel are also making negative contributions to TOPIX 3Q recurring profit. Although these three sectors are expected to remain major negative contributors for FY2025 as a whole, the outlook improves markedly when looking ahead to the next fiscal year. Backed by a recovery in business performance, Transportation Equipment and Iron & Steel are projected to make sizable positive contributions to FY2026 recurring profit, while negative contributions from Marine Transportation are expected to narrow significantly. Since the latter half of last year, the market has increasingly priced in next fiscal year’s earnings rather than current-year results, which are more heavily impacted by tariffs. As a result, it is unlikely that the market will react strongly to a YoY decline in 3Q earnings. Moreover, considering the ongoing Yen depreciation, the resilience of global and domestic economic activity, earnings tailwinds from AI-related businesses, and solid growth in nominal GDP supported by inflation, there is a high probability that actual 3Q results will exceed analysts’ prior expectations.

Consensus forecasts for full-year earnings continue to be revised upward, and the TOPIX FY2025 EPS Revision Index has remained in positive territory since the summer. Since the interim earnings season, the sectors making the largest positive contributions to revisions in FY2025 TOPIX recurring profit include Banks and Insurance, which benefit from higher interest rates; Electric Appliances and Nonferrous Metals, which enjoy significant AI-related tailwinds; Construction, which benefits from inflation; and Transportation Equipment, where the impact of tariffs has been less severe than initially expected and where earnings are supported by a weaker Yen.

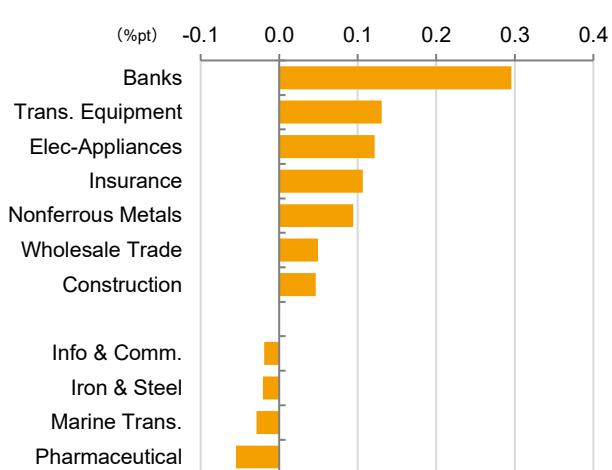
3Q Earnings Expected to Decline, but No Cause for Concern



※ Consensus Estimates for TOPIX Constituents with March Fiscal Year-End
As of January 21, 2026

Source: FactSet; Complied by Daiwa Asset Management

Major Positive and Negative Contributors to TOPIX Revisions Since November



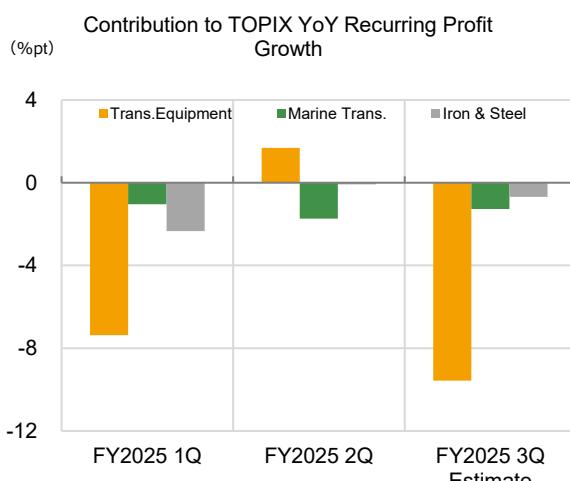
※ TOPIX FY2025 Recurring Profit Forecast, Consensus Comparison, End-Nov 2025 vs. Jan 21, 2026

Source: FactSet; Complied by Daiwa Asset Management

Market Letter

Although market attention has shifted toward next fiscal year, there are still many key points to watch in the 3Q earnings season. Companies related to AI have continued to deliver robust earnings growth, supported by expanding capital investment in AI-related equipment, and a key focus will be whether they can live up to the market's elevated expectations. With regard to memory shortages, both positive and negative impacts are expected depending on the company, and investors will be closely watching management commentary on the magnitude of these effects as well as the outlook. Against the backdrop of deteriorating Japan–China relations, China has been tightening regulations on Japan, drawing attention to references to Rare Earths, developments in China-related businesses, and the potential impact on inbound demand. While concerns over the impact of tariffs have generally eased, it remains essential to stay alert to the latest developments. Domestically, as price increases continue to outpace wage growth, a stronger tendency toward cost-conscious spending has emerged, making trends in price pass-through and price hikes an important point of focus. Meanwhile, interest rates have surged sharply in the Bond market. Amid growing concerns that unrealized losses at Financial Institutions are expanding, some have pointed out the possibility that these institutions may increase purchases of Japanese Government Bonds in light of prevailing interest rate levels. Close attention should therefore be paid to what kind of information and guidance will be communicated.

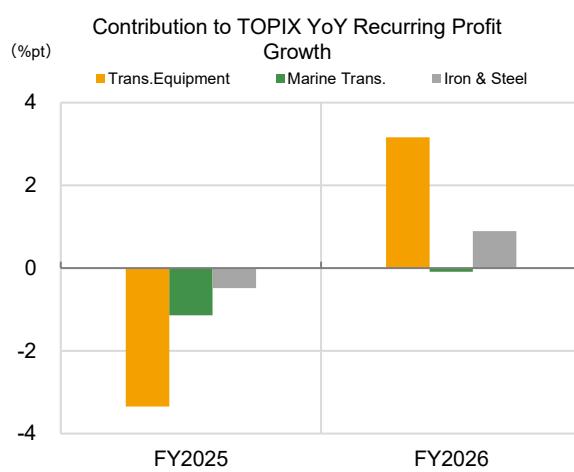
Transportation Equipment, Marine Transportation, and Iron & Steel Are Expected to Be the Main Drags on 3Q Earnings, but...



※Consensus Estimates for TOPIX Constituents with March Fiscal Year-End, Excluding SoftBank Group
As of January 21, 2026

Source: FactSet; Complied by Daiwa Asset Management

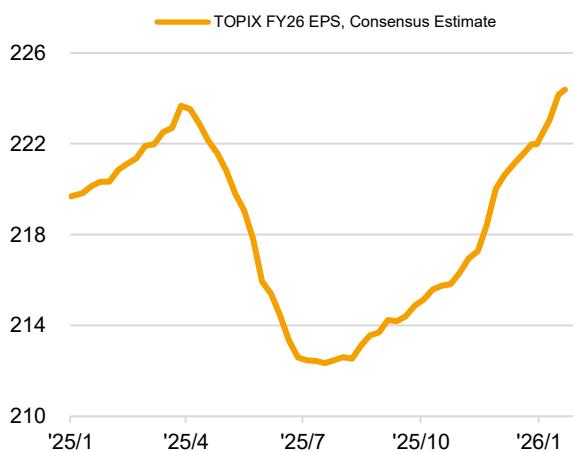
Transportation Equipment and Iron & Steel Seen as Major Positive Contributors Next Fiscal Year



※Consensus Estimates for TOPIX Constituents with March Fiscal Year-End, Excluding SoftBank Group
As of January 21, 2026

Source: FactSet; Complied by Daiwa Asset Management

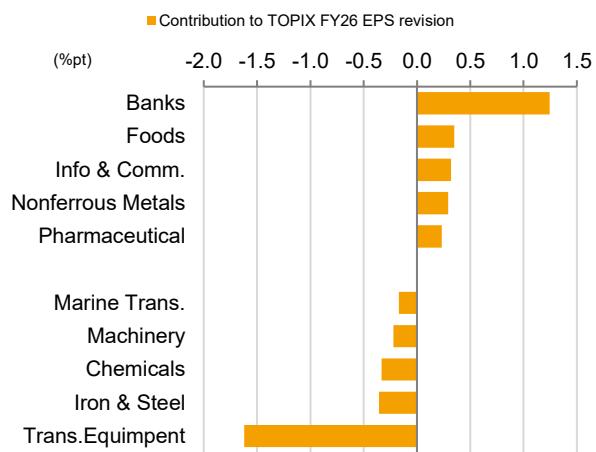
TOPIX FY2026 EPS Estimate Returns to Pre-Trump “Liberation Day” Levels



※ Latest values as of January 21, 2026

Source: FactSet; Complied by Daiwa Asset Management

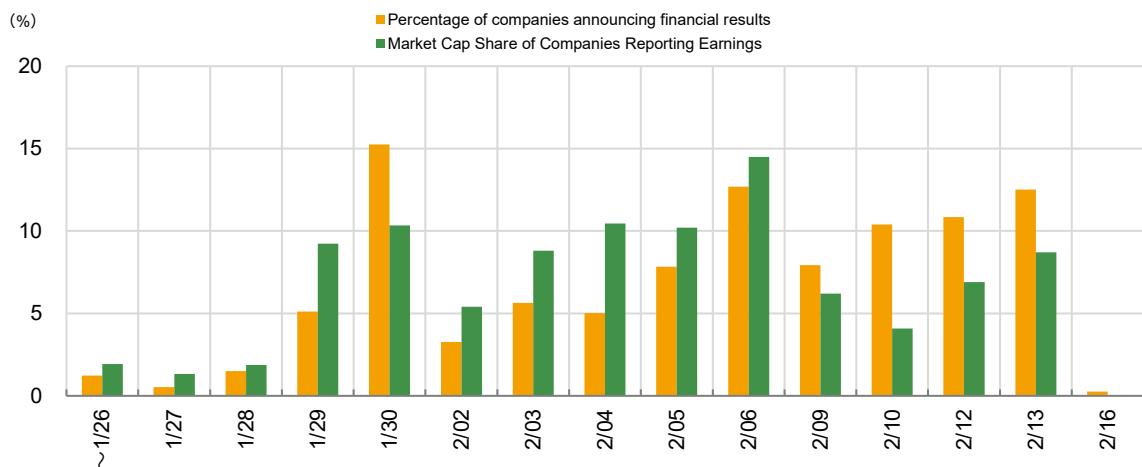
Major Positive and Negative Contributors to TOPIX Revisions Since “Liberation Day”



※ TOPIX FY2026 estimated EPS, Comparing consensus estimates as of March 31, 2025 and January 21, 2026

Source: FactSet; Complied by Daiwa Asset Management

FY2025 3Q Earnings Calendar



※ Consensus Estimates for TOPIX Constituents with March Fiscal Year-End
As of January 21, 2026

Source: Bloomberg; Complied by Daiwa Asset Management

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