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Guidance Risk During the Full-Year Results Season

Risk That Weak Initial Guidance May Act as a Drag on Equity Markets

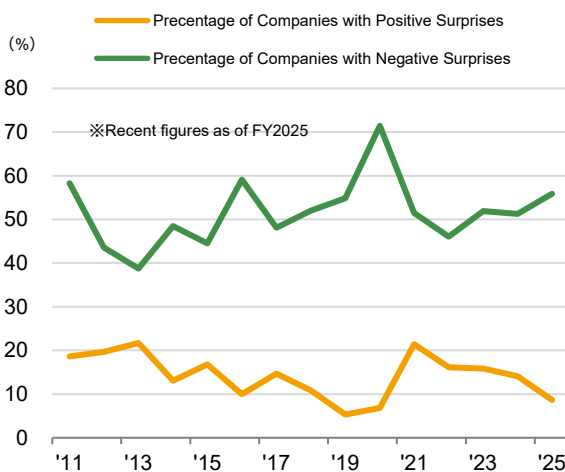
Initial Guidance Tends to Fall Short of Consensus

The season for fiscal year 2025 full-year financial results announcements from companies with a March fiscal year-end is approaching. A recurring topic ahead of these financial results announcements, which typically take place from late April to mid-May, is “guidance risk”—the phenomenon where stock prices are dragged down when companies’ new fiscal year plans (initial guidance), released alongside their prior year’s results, fall short of market expectations.

Japanese companies tend to view their business plans as targets that must be met. Consequently, their initial guidance often appears significantly more conservative than market expectations, as they typically build in cautious assumptions regarding macroeconomic conditions, exchange rates, and demand trends, or include buffers to prepare for unforeseen circumstances. Looking at data from fiscal years 2011 to 2025, the proportion of companies whose initial guidance for recurring profit exceeded the market consensus by 5% or more (positive surprises) was only about 15%, while roughly half of the companies delivered negative surprises, falling 5% or more below the consensus (calculated based on companies with a March fiscal year-end that make up the TOPIX 500). Even when looking at the total amount, although there is significant year-to-year variation, on average, results fall short of the consensus by about 8%.

However, in reality, there is little evidence that weak initial guidance tends to weigh on the stock market. The chart below on the right shows the seasonality of the TOPIX; the index’s performance during the full-year financial results announcement season is not poor. The cautious initial guidance of Japanese companies is well known, including among foreign investors, and it is believed that the market has already factored this in. On the other hand, regarding this year, due to the high level of uncertainty stemming from the situation in the Middle East, initial guidance may be more cautious than usual, and caution is needed regarding the risk that this could weigh on the stock market.

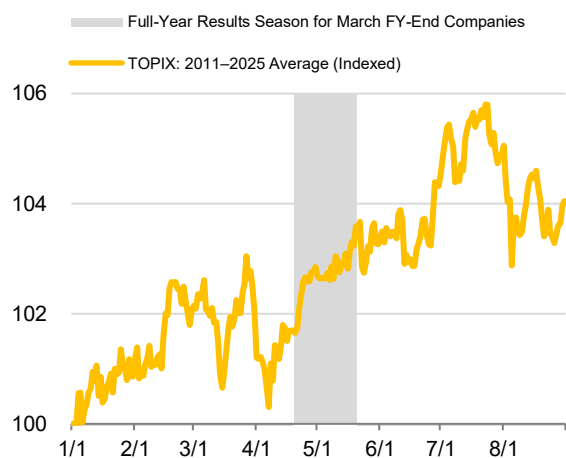
Initial Guidance Tends to Undershoot Consensus



※ Among TOPIX 500 constituents with a March fiscal year-end, surprises are defined as instances where company guidance for recurring profit differs from consensus by at least 5%

Source: FactSet; Compiled by Daiwa Asset Management

Typically, Limited Market Reaction to Weak Initial Guidance—But Caution Is Warranted This Year



※ Indexed with January 1 as 100

Source: Bloomberg; Compiled by Daiwa Asset Management

Consensus Earnings Revisions Reflecting the Middle East Situation Are Yet to Come

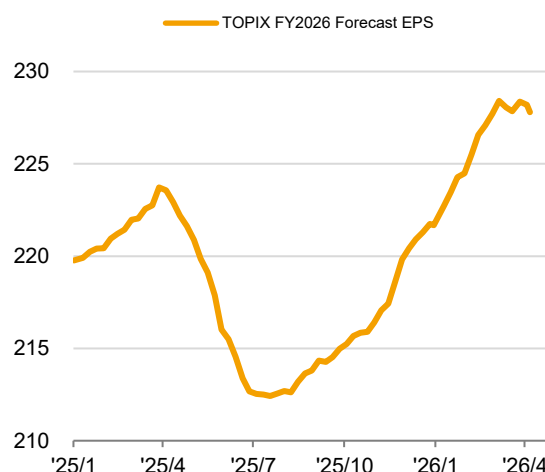
The consensus forecast for the 2026 fiscal year TOPIX EPS continued to experience upward revisions through mid-March, remained flat thereafter, and has not been revised downward despite the deterioration of the situation in the Middle East. However, this does not mean that Japanese companies are highly resilient to the situation in the Middle East or high levels of crude oil prices, or that the impact on earnings is small. The upward revisions up until mid-March were a continued reflection of the positive surprises seen in the third-quarter financial results for fiscal 2025. Regarding the situation in the Middle East, uncertainty is extremely high, and it is difficult to establish assumptions for formulating earnings forecasts; therefore, it is believed that many analysts are simply adopting a wait-and-see stance and have not yet made earnings revisions.

This becomes even clearer when examining earnings revision trends by sector. Energy companies and trading firms have relatively clear visibility into the impact of crude oil prices on their earnings, and since companies often disclose their sensitivity to these prices, earnings forecasts have been promptly subject to upward revisions in response to a price hike in crude oil. Furthermore, in certain industries where the impact on earnings is easily discernible—such as airlines and railways, which are affected by rising fuel costs, and tire manufacturers and chemical companies, which are affected by rising raw material costs—we are beginning to see downward revisions to earnings forecasts, though these remain limited.

On the other hand, many companies where the impact of high crude oil prices is not so direct have not yet revised their earnings forecasts. Petroleum-derived products, including packaging materials and containers, are used by companies across a wide range of industries. Rising utility and logistics costs also affect many companies. Headwinds to consumption caused by high inflation and the impact of reduced production due to supply constraints are also expected to be reflected in earnings forecasts going forward. It is anticipated that downward revisions to analyst estimates will begin in earnest following the announcement of full-year financial results, settlement of accounts.

(For more on the potential impact of the situation in the Middle East on the earnings of Japanese companies, please also refer to the Market Letter dated March 31, 2026, titled “Update on the Middle East Situation and the Japanese Stock Market.”)

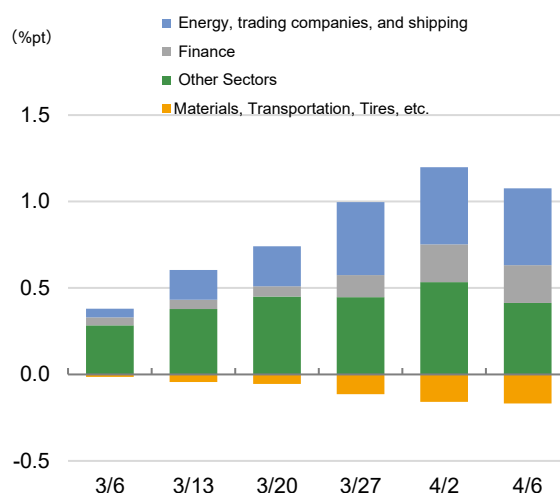
Many Analysts Appear to Be Taking a Wait-and-See Approach on the Middle East Situation



※ Latest figures as of April 6, 2026

Source:FactSet; Compiled by Daiwa Asset Management

Contributions to TOPIX FY2026 Net Profit Forecast Revisions



※ Contributions by sector group are measured from February 27, 2026, excluding Kioxia and Honda due to their outsized company-specific impact on the TOPIX 500.

Source:FactSet; Compiled by Daiwa Asset Management

Equity Market Reactions Depend on Market Sentiment

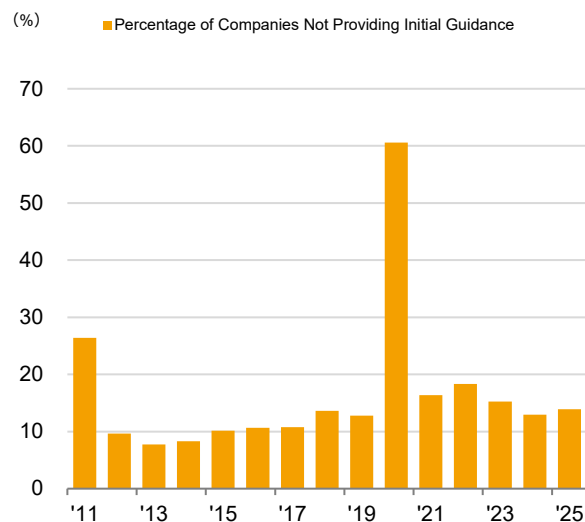
The fact that current analyst estimates do not fully reflect the impact of the Middle East situation on earnings suggests that guidance risk could rise further. Another point to watch is the possibility that more companies will refrain from issuing initial guidance. In fiscal 2011, following the Great East Japan Earthquake, and in fiscal 2020, immediately after the COVID-19 outbreak, the number of companies that did not disclose initial guidance increased due to high levels of uncertainty. In fiscal 2025, immediately after US President Trump announced tariffs on April 2, while the proportion of companies not disclosing initial guidance did not increase, a significant number of companies released initial guidance that did not include the impact of tariffs.

The absence of initial guidance means that investors are deprived of critical information for making investment decisions. At first glance, this might seem like a strong headwind for the stock market, but interestingly, looking back at the three cases mentioned above, the TOPIX's stock performance did not necessarily deteriorate.

While stock prices trended upward in 2020 and 2025, this was due to the stock market recovering after significant corrections caused by the shocks of COVID-19 and Trump's tariffs, driven by positive sentiment toward the "prospects" of an improving situation. The stock market is forward-looking in nature; even if current conditions are poor, as confidence in a recovery grows, the market anticipates and prices in future earnings following the recovery.

If the situation in the Middle East continues to improve this year and confidence in the resumption of shipping through the Strait of Hormuz grows, the market reaction to weak initial guidance may remain limited. On the other hand, if uncertainty regarding the Middle East persists, the market will likely view the weak earnings outlook and uncertainty negatively, weighing on the stock market.

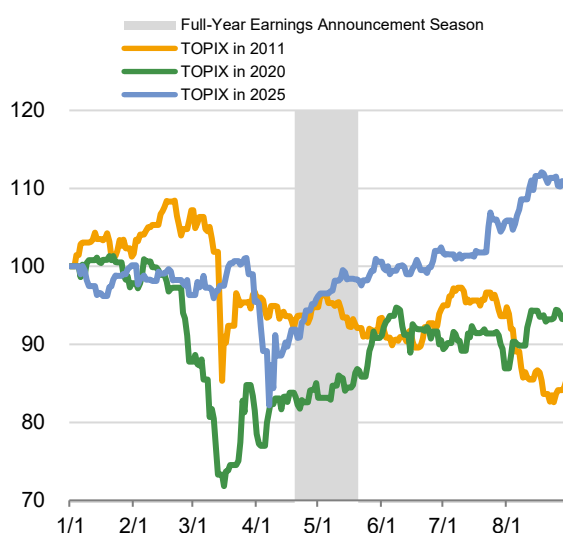
Growing Probability of Non-Disclosure of Initial Full-Year Guidance in the Current Earnings Announcement Cycle



※ TOPIX 500 March FY-end companies

Source:FactSet; Compiled by Daiwa Asset Management

Whether Markets Are Pressured by Fewer Companies Providing Initial Guidance Will Depend on Market Sentiment



※ Indexed with January 1 as 100

Source:Bloomberg; Compiled by Daiwa Asset Management

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