This is marketing documentation

NOT FOR RETAIL CLIENTS

Japan | Economic and Financial Market Outlook

Page

Daiwa Asset Management

11
NOV. 2025

Forecast for Economy, Interest Rates, Equity Markets, REITs, and Foreign Exchange

How to read the table

… Forecast revised upward（previous estimates）

… Forecast revised downward (previous estimates)

Real GDP（YoY, %）	Actual figures	Estimates		
	2024	2025	2026	2027
US	2.8	1.5	1.6	1.8
Japan	0.2	0.6	0.8	0.8
Euro	0.9	1.2	1.2	1.2

Monetary Policy Outlook

US	• Two additional 25bp rate cuts are expected in October and December, with the easing cycle likely ending in 2026 at a terminal rate of 3.00–3.25%. • Balance sheet reduction continues: $5B/month in Treasuries and $35B/month in MBS runoff.
Japan	• Starting December 2025, rate hikes of 0.25% are projected semiannually (delayed from prior forecast) • JGB purchases will be tapered quarterly from ¥400 billion to ¥200 billion beginning April 2026
Euro zone	• With the policy rate at a neutral 2% and stable macro conditions, the rate-cutting phase is complete • Redeemed bonds will not be reinvested, and no active sales are planned

	Policy Interest Rate (%)					10-Year Government Bond Yield (%)				
	Actual figures	Latest figures	Estimates			Actual figures	Latest figures	Estimates		
	End of 2024	As of 2025/10/20	End of 2025	End of 2026	End of 2027	End of 2024	As of 2025/10/20	End of 2025	End of 2026	End of 2027
US*1	4.50	**4.25**	3.75	3.25	3.25	4.6	**4.0**	3.9	4.1	4.3
Japan	0.25	**0.50**	0.75	1.25	1.50	1.1	**1.7**	1.6	1.7	1.7
Euro*2	3.00	**2.00**	2.00	2.00	2.00	2.4	**2.6**	2.4	2.4	2.2

1. US policy rate is the upper limit of the FF rate guidance target
2. The policy rate for the Euro area is the Central Bank deposit rate, and the 10-year government bond yield is the German government bond yield.

Source: Actual values from government and statistical bureaus of each country and Bloomberg; forecast values from Daiwa Asset Management

		Actual figures		Latest figures		Estimates					
Equity Index		End of 2024	Annual Rate of Change	As of 2025/10/20	YTD Rate of Change	End of 2025	Annual Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change
US	**S&P500**	5,882	+23%	**6,735**	+15%	6,800	+16%	7,400	+9%	8,000	+8%
	DJIA	42,544	+13%	**46,707**	+10%	47,000	+10%	50,000	+6%	54,000	+8%
Japan	**TOPIX**	2,785	+18%	**3,248**	+17%	3,400 ← (3,250)	+22%	3,600 ← (3,450)	+6%	3,800	+6%
	Nikkei 225 Index	39,895	+19%	**49,186**	+23%	50,000 ← (46,000)	+25%	52,000 ← (48,000)	+4%	55,000	+6%
Euro	**STOXX600**	508	+6%	**572**	+13%	570	+12%	600	+5%	640	+7%
REIT		End of 2024	Annual Rate of Change	As of 2025/10/20	YTD Rate of Change	End of 2025	Annual Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change
US	**NAREIT Index**	24,843	+9%	**26,254**	+6%	27,000	+9%	30,000 ← (29,700)	+11%	33,000	+10%
Japan	**TSE REIT Index**	1,653	-9%	**1,948**	+18%	1,900 ← (1,850)	+15%	2,000 ← (1,950)	+5%	2,100	+5%
Exchange Rate (vs. JPY)		End of 2024	Annual Rate of Change	As of 2025/10/20	YTD Rate of Change	End of 2025	Annual Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change
USD		157	+11%	**151**	-4%	147 ← (141)	-6%	142 ← (136)	-3%	140	-1%
EUR		163	+5%	**175**	+8%	169 ← (162)	+4%	163 ← (156)	-4%	160	-2%

Source: Bloomberg for actual values, Daiwa Asset Management for forecast values

Economy

Auto Sector Concerns Recede as Manufacturing Recovery Continues

In the Bank of Japan's September Tankan survey, the business conditions diffusion index (DI) for large manufacturers rose to 14 (previously 13), marking a second consecutive quarter of improvement. The automobile sector, which is particularly sensitive to US tariff policies, also improved, and concerns over deteriorating profitability have receded. On the other hand, in non-manufacturing, accommodation and food services worsened significantly, suggesting that inbound consumption has peaked following the conclusion of the Expo. Nevertheless, despite downward pressure on personal consumption from high prices, overall conditions remain firm with no signs of a sharp slowdown. Capital investment is expected to continue increasing at a high level, following last fiscal year. Many companies are maintaining a proactive stance, continuing investments to address labor shortages and in digital-related areas.

Consumer Prices Supported by Wage Hikes and Price Pass-Through

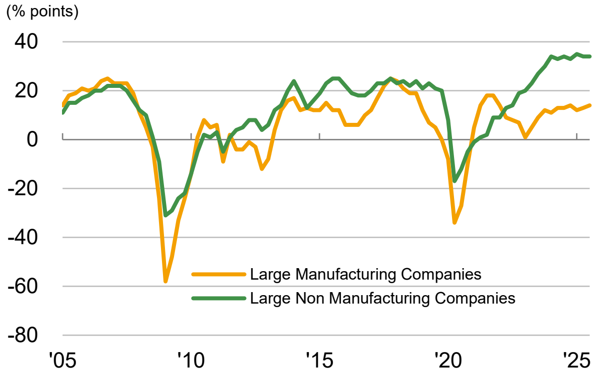
In September, the Tokyo metropolitan area CPI (excluding fresh food) rose 2.5% YoY, the same pace as in August. Price pass-through driven by wage increases continued, while higher prices for food items such as rice also contributed. Looking ahead, US tariff policies and a slowdown in overseas economies are expected to exert downward pressure on growth. However, proactive wage and price-setting behavior by companies should provide support. Against a backdrop of structural labor shortages and rising procurement costs, firms have become more aggressive in their management stance, suggesting a shift away from the deflationary environment where wages and prices were slow to rise. According to the Bank of Japan, reports from branch managers indicate that many companies plan to continue implementing wage hikes.

Takaichi Becomes New Prime Minister, Forms Coalition with JIP

At the extraordinary Diet session convened on October 21, Sanae Takaichi, president of the Liberal Democratic Party (LDP), was elected as Japan's new prime minister in the prime ministerial selection vote. The LDP and the Japan Innovation Party (JIP) agreed to form a new coalition government, with JIP participating through external cooperation to reinforce the administration's foundation. The new cabinet was launched with majority support in the House of Representatives during the selection vote, and although it remains a minority coalition, the stability of the administration is expected to improve somewhat. JIP has made "reducing the number of parliamentary seats" a centerpiece of its political reform agenda, and the coalition agreement includes a plan to cut the number of seats in the House of Representatives by 10%. The parties aim to submit a bill during the extraordinary session through legislation initiated by lawmakers, focusing mainly on reducing proportional representation seats. This is likely to spark debate over the impact on smaller parties and how well public opinion is reflected in the system.

(Written by Satsuki Yuba, Research Department)

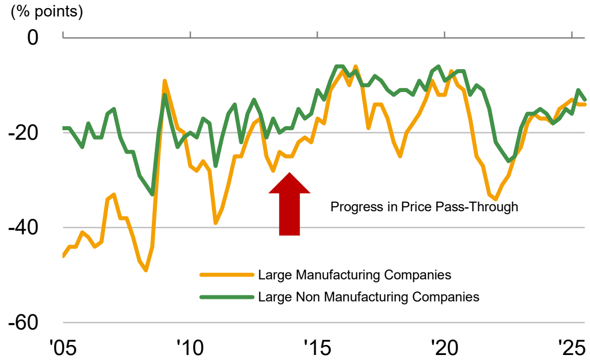
BoJ Tankan (Business Conditions DI)



※The latest value is the 'Outlook' from the September 2025 survey

Source: Bank of Japan; Complied by Daiwa Asset Management

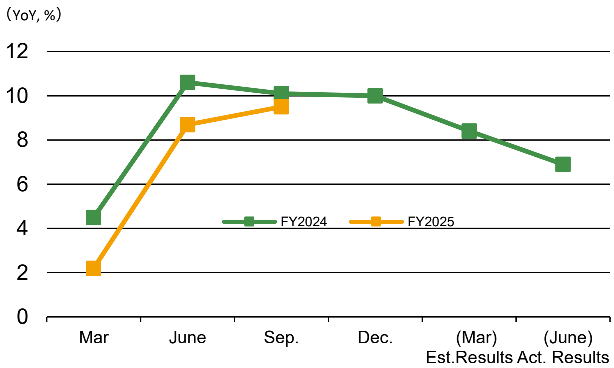
BoJ Tankan: (Selling Price Judgement DI – Purchase Price Judgement DI)



※The latest value is September 2025 survey

Source: Bank of Japan; Complied by Daiwa Asset Management

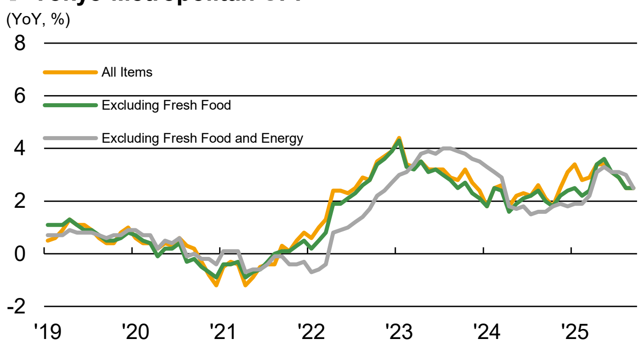
Capital Investment Trends (Incl. Software & R&D, Excl. Land)



※ The horizontal scale represents six survey rounds, from the initial survey (March) to the June survey of the following year when actual results are confirmed. The graph shows the revision pattern of YoY changes in annual capital investment plans at each survey round. ※ All sizes, all industries.

Source: Bank of Japan; Complied by Daiwa Asset Management

Tokyo Metropolitan CPI



※ The latest value is from September 2025

Source: Ministry of Internal Affairs and Communications; Complied by Daiwa Asset Management

Equity

Positive Market Reaction to Formation of Takaichi-LDP–JIP Coalition Government

The Liberal Democratic Party (LDP) and the Japan Innovation Party (JIP) have agreed to form a coalition government, and Sanae Takaichi has become Japan's first female prime minister. Expectations for the new Takaichi administration, which aims to achieve a strong economy through proactive fiscal policy, drove major stock indices to record highs. Although valuations are elevated compared to historical levels and expectations may already be priced in, skepticism remains regarding the administration's ability to implement its policies. If policy execution progresses, further market gains could be anticipated.

Expectations for Domestic Demand Expansion Driven by Proactive Fiscal Policy

Prime Minister Takaichi has expressed a preference for demand-pull inflation rather than cost-push inflation. In cabinet appointments, many members belong to the parliamentary group promoting "responsible proactive fiscal policy," suggesting that the new administration aims to achieve robust economic growth through fiscal expansion. The first likely measure will be the abolition of the provisional gasoline tax rate, which faces little opposition. Attention will focus on whether a significant drop in gasoline prices can revitalize domestic demand, which has long been sluggish.

Supply-Demand Conditions Are Extremely Favorable

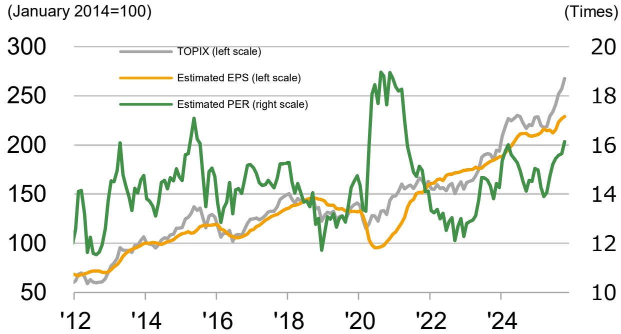
The favorable supply-demand environment continues. While inflows of overseas investor funds have recently moderated, expectations for stronger economic growth driven by proactive fiscal policy and the potential for improved relations following the visit of US President Trump—who had close ties with former Prime Minister Abe—could lead to renewed foreign capital inflows. Seasonal patterns suggest that stock prices often bottom out around late October, and robust share buybacks, currently running at a record pace, are expected to support a year-end rally.

Domestic Demand Expansion Could Drive Yen Appreciation and Stock Gains

For a long time, Japanese stocks were undervalued due to persistent selling from the unwinding of cross-shareholdings, poor supply-demand conditions, and low inflation. However, the situation has clearly changed. The unwinding of cross-shareholdings has reached its final stage, and prompted by requests from the Tokyo Stock Exchange, companies have become increasingly conscious of improving capital efficiency, leading to unprecedented levels of shareholder returns. If the Takaichi administration's demand-stimulating measures succeed and Japan enters a demand-driven inflation phase, there is potential for a major domestic-led bull market under Yen appreciation, similar to the late 1980s.

(Written by Kensuke Togashi, Research Department)

TOPIX Estimated EPS and PER



※ Month-end value, October 2025 is the value on the 20th
※ EPS and PER estimate is 12-months ahead forecast
Source: Bloomberg; Compiled by Daiwa Asset Management

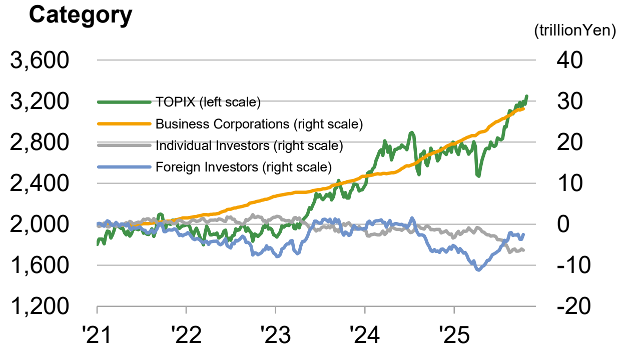
Key Economic Policies of Prime Minister Takaichi

Economic and Price Measures
- Abolition of the provisional tax rate for gasoline and diesel transactions, expansion of key grants for municipalities
- System reforms to "not hinder the willingness to work," such as raising the income threshold
- System design for tax credits with benefits
- Tax credit for household and childcare support service fees
- Increase in medical and nursing care fees
- Strengthening human resources and research and development capabilities, supporting startups

Economic Security
- Active investment in growth sectors related to economic security (AI, semiconductors, new batteries, quantum technology, nuclear fusion, bio and advanced medical care, aviation, space, shipbuilding, etc.)
- Establishment of food security
- Stable energy supply (nuclear power, nuclear fusion, photoelectric fusion technology, etc.)
- Development of domestic resources (jointly)
- Strengthening national resilience (backup of capital functions, measures for aging infrastructure)
- Cybersecurity measures

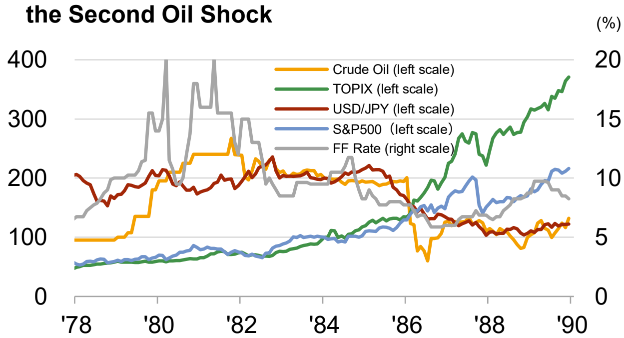
Source: Prime Minister Takaichi's official page and various other sources; Complied by Daiwa Asset Management

TOPIX and Total Trading Value by Investment Category



※Weekly data, the latest value for TOPIX is as of October 20th 2025
※Trading value (including Futures) by investment category through the week of October 10th
Source: Quick; Compiled by Daiwa Asset Management

Financial and Commodity Market Conditions After the Second Oil Shock



※ USD/JPY and Crude Oil (Arabian Light Crude) are indexed at 200 as of January 1984
※ TOPIX and S&P 500 are indexed at 100 as of January 1984. All values are end-of-month values, with the most recent value being December 1989
Source: Bloomberg; Compiled by Daiwa Asset Management

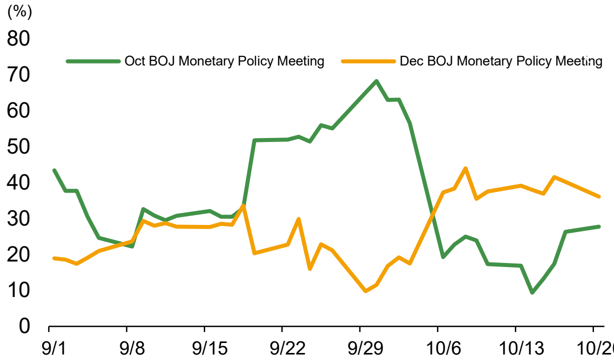
Interest Rates

Political Changes Push Back Next Rate Hike

At the Bank of Japan's Monetary Policy Meeting in September, Governor Ueda assessed the impact of US tariff policies, stating that "the domestic economy is holding up." While noting that "we want to see a little more data," he also remarked that "it's not that we need to wait until the very end to know," leaving room for an early rate hike. Against this backdrop, many believed that if strong momentum in wages and other factors was confirmed in the September Tankan survey, a rate hike could be decided at the October meeting. However, following the election of Ms. Takaichi as LDP president and KOMEITO's withdrawal from the coalition, political uncertainty increased, and expectations for a rate hike at the October meeting receded. On the other hand, as a new coalition government with the Japan Innovation Party (JIP) became increasingly likely and hopes for political stability grew, market expectations for a rate hike strengthened again. Our firm has postponed the expected timing of the next rate hike from the October meeting to the December meeting, but economic data continues to indicate resilience in the domestic economy, and our overall view that a rate hike will occur soon remains unchanged.

(Written by Satsuki Yuba, Research Dept.)

Market-Implied Probability of Rate Hikes at Each Meeting



※ The latest value as of October 20, 2025.
Source: Bloomberg; Compiled by Daiwa Asset Management

10-Year Government Bond Yield

※ The latest value as of October 20, 2025.
Source: Bloomberg; Compiled by Daiwa Asset Management

J-REIT

Real Estate Rental Market Remains Strong

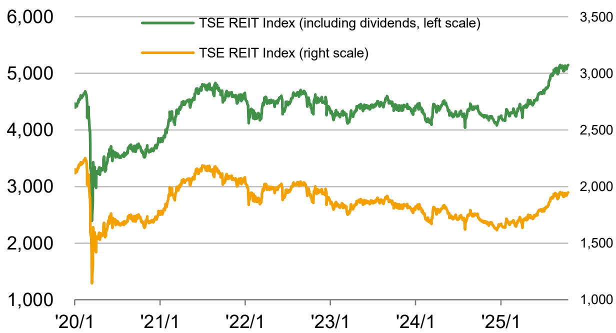
Since mid-August, the Tokyo Stock Exchange REIT Index has generally remained within the 1,900–1,950 range. Although there were periods of adjustment due to rising uncertainty surrounding domestic political developments, the index has continued to show resilience.

The key driver behind this stability is the strong performance of the real estate rental market. In particular, rent increases in the office and residential sectors have accelerated, fueling expectations for higher rental income for J-REITs. In addition to rising rents, property sales gains are expected to help J-REITs offset higher interest costs and sustain dividend growth across the market.

Reflecting the favorable rental market conditions, we have raised our profit and dividend forecasts for the J-REIT market as a whole and revised our outlook for the TSE REIT Index to 1,900 at end-2025 (previously 1,850), 2,000 at end-2026 (previously 1,950), and 2,100 at end-2027. Attention now turns to whether the J-REIT market, traditionally seen as a stable dividend play, can transition into a "yield product with profit growth."

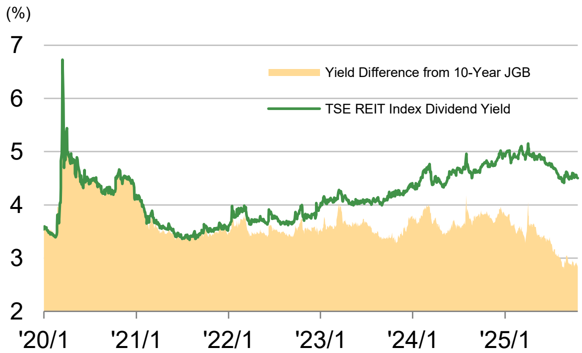
(Written by Kazuhiko Arai, Global Asset Management Department)

Trend of the Tokyo Stock Exchange REIT Index



※ The latest value is October 20, 2025
Source: Bloomberg; Complied by Daiwa Asset Management

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



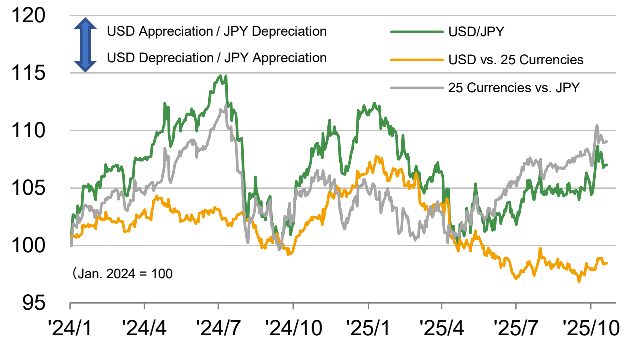
※ Dividend yield is based on the actual performance of the past 12 months
※ The latest value is as of October 20, 2025
Source: Bloomberg; Compiled by Daiwa Asset Management

US Dollar

Yen Weakens on Risk-On Sentiment as BOJ Rate Hike Expectations Fade

Over the past month, the Yen has weakened against other currencies (see right chart, 25 currencies) while the US Dollar has strengthened, pushing USD/JPY higher. The victory of Ms. Takaichi in the LDP leadership election played a major role, as fading expectations for a BOJ rate hike and risk-on sentiment both contributed to Yen depreciation. However, if the impact of additional reciprocal tariffs imposed by the US leads to signs of economic slowdown in the US and elsewhere, risk-on-driven Yen weakness is likely to recede. In that case, a decline in US interest rates and a weaker US dollar could cause USD/JPY to fall.

Exchange Rates of USD/JPY and Other Currencies

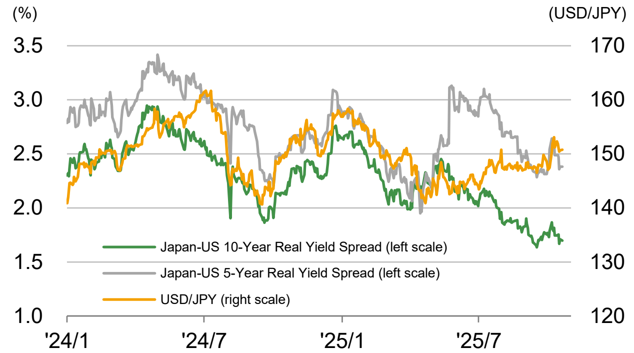


※Weighted average of exchange rates for 25 currencies based on April 2022 trading volumes
※The latest value is October 20, 2025
Source: BIS and LSEG; Complied by Daiwa Asset Management

Expansion of Japan–US Real Rate Differential and Dollar Strength Seen as Temporary

Over the past month, the Japan–US real interest rate differential has widened, pushing USD/JPY higher. However, Japan's expected inflation rate is rising, making it easier for real interest rates to increase, while the opposite is true for the US. Going forward, we expect the Japan–US real interest rate differential to narrow again, and USD/JPY to decline in tandem. Based on the recent Japan–US real rate differential, USD/JPY should be around ¥139–¥143, but the actual level is well above that. We anticipate that as risk-on-driven Yen weakness fades, this gap will narrow.

Japan-US Real Interest Rate Differential and USD/JPY

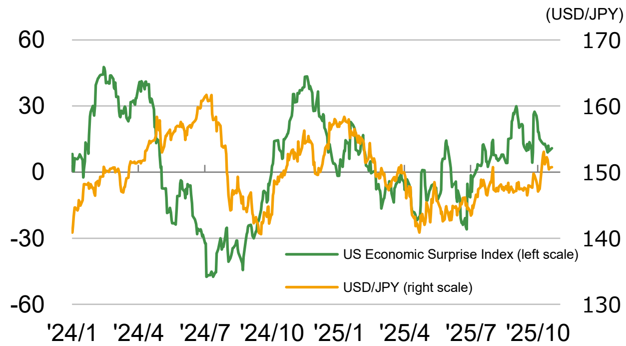


※ The latest value is October 20, 2025
Source;LSEG; Complied by Daiwa Asset Management

Risk-On Driven Yen Weakness Set to Recede on Economic Slowdown Concerns

The recent rise in US economic indicators above market expectations and the resulting increase in the US Economic Surprise Index have supported risk-on-driven Yen weakness. However, the index has recently started to decline. The Eurozone's Economic Surprise Index has already fallen into negative territory, and the G10 index is trending lower. Going forward, as the boost from US equity gains (wealth effect) and US Dollar strength fades, US economic indicators are likely to deteriorate. Concerns over economic slowdown should weaken risk-on-driven Yen depreciation, making a decline in USD/JPY more likely.

US Economic Surprise Index and USD/JPY



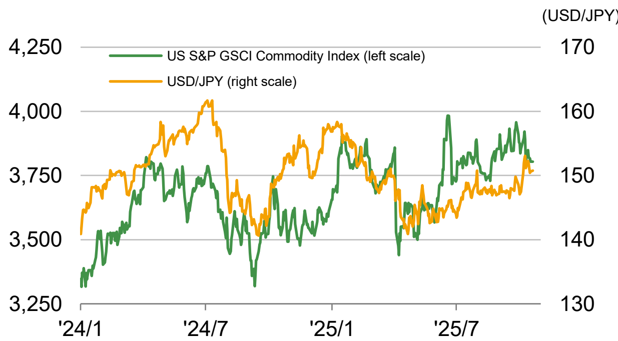
※ The latest value is October 20, 2025
Source;LSEG; Complied by Daiwa Asset Management

USD/JPY Likely to Decline in Tandem with Commodity Index

Periods of rising commodity prices tend to coincide with higher US interest rates and risk-on sentiment, leading to a stronger US dollar and weaker Yen. Conversely, when commodity prices fall, lower US interest rates and risk-off sentiment typically drive a weaker US Dollar and stronger Yen. Recently, risk-on sentiment has strengthened on the back of solid economic indicators in Europe and the US, pushing commodity indices higher. However, signs of weakness have emerged, such as falling energy prices amid expectations of increased supply. Looking ahead, unexpected deterioration in economic indicators is likely to dampen risk-on sentiment and tilt markets toward lower commodity prices. We expect that falling commodity prices will be accompanied by US dollar weakness and Yen strength.

(Written by Yuji Kameoka, Research Department)

Commodity Composite Index and USD/JPY



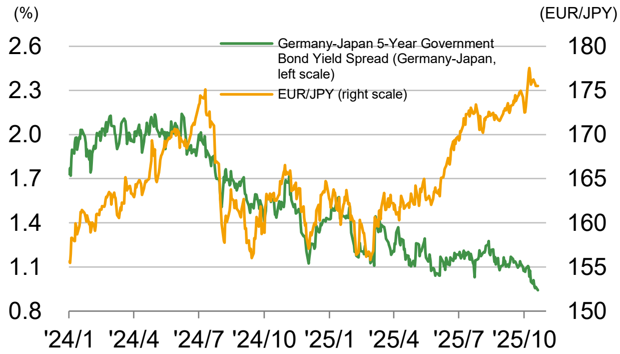
※ The latest value is October 20, 2025
Source;LSEG; Complied by Daiwa Asset Management

Euro

Expecting a Shift Toward Euro Weakness and Yen Strength

The Euro has strengthened while the Yen has weakened, driven by Ms. Takaichi's victory in the LDP leadership election, which led to fading expectations for a BOJ rate hike and risk-on Yen depreciation. However, the decline in rate hike expectations has already halted, and German yields have once again fallen relative to Japanese yields. Looking ahead, as the impact of US tariffs becomes more pronounced and global economic slowdown concerns intensify, risk-on pressure on the Yen is expected to ease, leading to a shift toward Euro weakness and Yen strength.

5-year German-Japanese Government Bond Rate Differential and EUR/JPY Exchange Rate



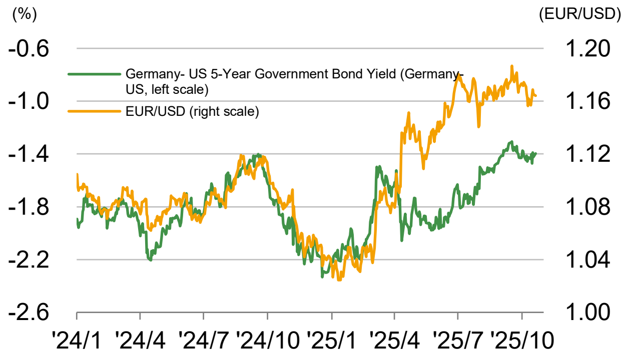
※ The latest value is October 20, 2025
Source;LSEG; Complied by Daiwa Asset Management

Euro Weakness and US Dollar Strength Likely to Persist for Now

Recently, the trend has tilted toward Euro weakness and US Dollar strength, driven by factors such as political turmoil in France, the relative decline of German yields versus US yields, and risk-off pressure stemming from US-China trade tensions. ECB President Lagarde has stated that the central bank will "never say rate cuts are complete." Going forward, interest rate developments are likely to continue favoring Euro weakness and Dollar strength. We believe that as the impact of US tariffs becomes more evident and global economic slowdown concerns intensify, risk-off pressure will further reinforce Euro weakness and Dollar strength.

(Written by Yuji Kameoka, Research Dept.)

5-year German-US Government Bond Rate Differential and EUR/USD Exchange Rate



※ The latest value is October 20, 2025
Source;LSEG; Complied by Daiwa Asset Management

Daiwa
Asset Management