This is marketing documentation

NOT FOR RETAIL CLIENTS

# Japan | Economic and Financial Market Outlook

Page



3

MAR. 2026

Daiwa Asset Management

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

**How to read the table**

... Forecast revised upward（previous estimates）(orange shading)

... Forecast revised downward (previous estimates) (grey shading)

## Monetary Policy Outlook

| | |
|---|---|
| **US** | •We expect cumulative rate cuts of 50 bps in 2026 under the next Fed Chair, with the policy rate bottoming out at 3.00–3.25%. |
| **Japan** | • Anticipates rate hikes of 0.25 % points roughly every six months. Expected to cap at 1.5%.<br>• Government bond purchases reduction: From April 2026, the quarterly reduction amount will be compressed from the current level of approximately ¥400 billion to ¥200 billion as a general rule. |
| **Euro zone** | •The stability of economic activity and price dynamics has continued to strengthen, the ECB's deposit rate is expected to remain at the neutral level of 2% for an extended period,<br>• Redeemed bonds will not be reinvested, and no active sales are planned |

**Real GDP（YoY, %）**

| | Actual figures 2024 | *1 2025 | Estimates 2026 | 2027 |
|---|---|---|---|---|
| **US** | 2.8 | 1.5 | 2.4 ← ( 2.0 ) | 1.8 |
| **Japan** | ▲ 0.2 | 1.1 | 0.8 | 0.8 |
| **Euro** | 0.9 | 1.5 | 1.4 | 1.4 |

| | Policy Interest Rate (%) | | | | | 10-Year Government Bond Yield (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actual figures | | Latest figures | Estimates | | Actual figures | | Latest figures | Estimates | |
| | End of 2024 | End of 2025 | As of 2026/2/16 | End of 2026 | End of 2027 | End of 2024 | End of 2025 | As of 2026/2/16 | End of 2026 | End of 2027 |
| **US** *2 | 4.50 | 3.75 | **3.75** | 3.25 | 3.25 | 4.6 | 4.2 | **4.0** | 4.1 | 4.3 |
| **Japan** | 0.25 | 0.75 | **0.75** | 1.25 | 1.50 | 1.1 | 2.1 | **2.2** | 2.2 ← ( 2.0 ) | 2.0 |
| **Euro** *3 | 3.00 | 2.00 | **2.00** | 2.00 | 2.00 | 2.4 | 2.9 | **2.8** | 2.4 | 2.2 |

1. Real GDP growth for 2025 is expected to be based on realized performance, excluding Japan and the euro area.
2. US policy rate is the upper limit of the FF rate guidance target
3. 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 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | End of 2024 | Annual Rate of Change | End of 2025 | Annual Rate of Change | As of 2026/2/16 | YTD Rate of Change | End of 2026 | Annual Rate of Change | End of 2027 | Annual Rate of Change |
| **Equity Index** | | | | | | | | | | | |
| **US** | **S&P500** | 5,882 | +23% | 6,846 | +16% | **6,836** | -0% | 7,400 | +8% | 8,000 | +8% |
| | **DJIA** | 42,544 | +13% | 48,063 | +13% | **49,501** | +3% | 54,000 ← ( 50,000 ) | +12% | 58,000 ← ( 54,000 ) | +7% |
| **Japan** | **TOPIX** | 2,785 | +18% | 3,409 | +22% | **3,787** | +11% | 4,200 ← ( 3,750 ) | +23% | 4,600 ← ( 4,000 ) | +10% |
| | **Nikkei 225 Index** | 39,895 | +19% | 50,339 | +26% | **56,806** | +13% | 63,000 ← ( 56,000 ) | +25% | 69,000 ← ( 60,000 ) | +10% |
| **Euro** | **STOXX600** | 508 | +6% | 592 | +17% | **619** | +4% | 650 ← ( 600 ) | +10% | 690 ← ( 640 ) | +6% |
| **REIT** | | | | | | | | | | | |
| **US** | **NAREIT Index** | 24,843 | +9% | 25,558 | +3% | **28,048** | +10% | 32,000 | +25% | 35,300 | +10% |
| **Japan** | **TSE REIT Index** | 1,653 | -9% | 2,014 | +22% | **2,005** | -0% | 2,100 | +4% | 2,150 | +2% |
| **Exchange Rate (vs. JPY)** | | | | | | | | | | | |
| **USD** | | 157 | +11% | 157 | -0% | **153** | -2% | 146 | -7% | 142 | -3% |
| **EUR** | | 163 | +5% | 184 | +13% | **182** | -1% | 171 ← ( 168 ) | -7% | 165 ← ( 162 ) | -4% |

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

# Economy

## Rebound in Housing Investment Boosted Growth

Real GDP for the October–December 2025 quarter grew at an annualized rate of +0.2% QoQ (compared to -2.6% in July–September), marking a return to positive growth after two consecutive quarters of contraction.The primary driver was the rebound (normalization) in housing investment during October–December, following a sharp decline due to the reactionary surge in construction starts ahead of the April 2025 revision to the Building Standards Act. While cost-saving tendencies remain strong due to high prices, consumption of durable goods and services has generally been steady. Furthermore, the pattern of labor-saving investments driven by labor shortages and AI-related investments supporting capital spending continues. On a calendar year basis, real GDP for 2025 reached approximately ¥591 trillion, marking the first increase in two years.

## Wages to Maintain Growth Trend

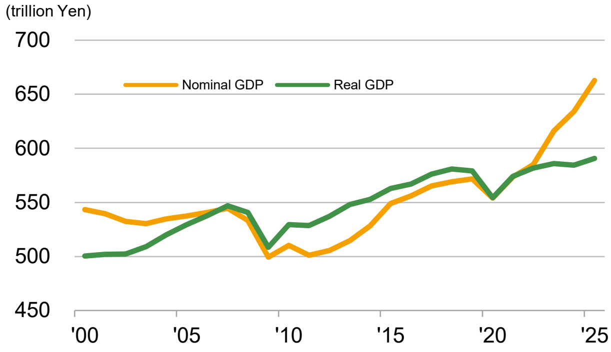
Nominal employee compensation in 2025 grew by +3.7% YoY, marking the second consecutive year of growth exceeding 3%. On a real basis, it also recorded positive growth of +0.4% for the second consecutive year, though the pace remains modest and has not yet surpassed pre-pandemic highs. Against the backdrop of population decline and an aging society with fewer children, labor shortages for companies have become even more severe, and the labor supply-demand situation surrounding wages remains tight. Looking ahead, companies are expected to continue their proactive wage-launching actions, making it highly likely that nominal employee compensation will maintain its upward trend. As real employee compensation improves amid expectations of slowing inflation, attention will focus on how strongly actual consumption trends will develop.

## Two-Thirds Majority Secured in the Lower House, Funding for Tax Cuts in Focus

In the House of Representatives election held on February 8, the Liberal Democratic Party secured more than two-thirds of the 465 seats, significantly strengthening Prime Minister Takaichi‘s governing foundation. Although the ruling coalition holds a minority in the House of Councillors, securing a two-thirds majority in the House of Representatives enables the government to re-pass bills vetoed by the upper house. This creates an environment conducive to advancing policies under government leadership. Prime Minister Takaichi has expressed a positive stance toward reducing the consumption tax, while stating that the funding sources will be left to discussion in the National Conference. Assuming no issuance of government bonds, the focus will be on the direction of discussions surrounding funding sources, including the government's Special Account for Foreign Exchange Funds (Foreign Exchange Fund Special Account), —highlighted by the Prime Minister’s recent “Hoku-hoku remark”.

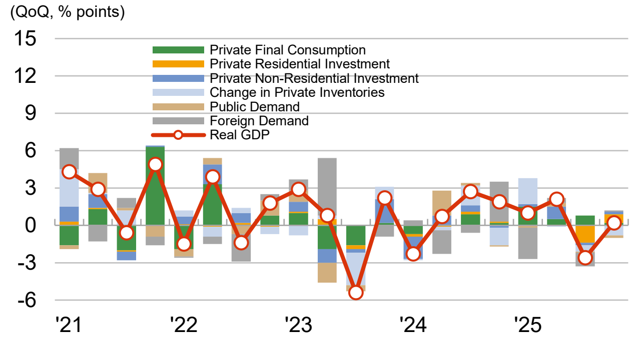
(Written by Satsuki Yumiba, Research Department)

### GDP Trends



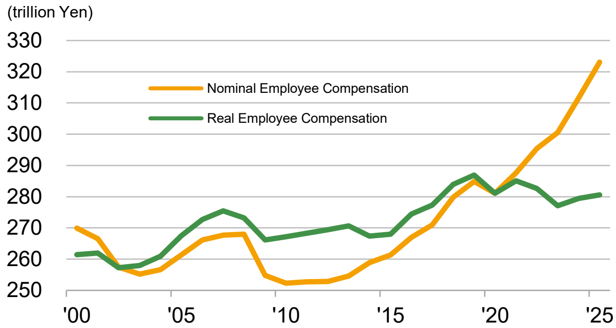

※ Real GDP in 2020 prices; latest value: 2025
Source: The Cabinet Office; Compiled by Daiwa Asset Management

### Real GDP and Contribution by Demand Item



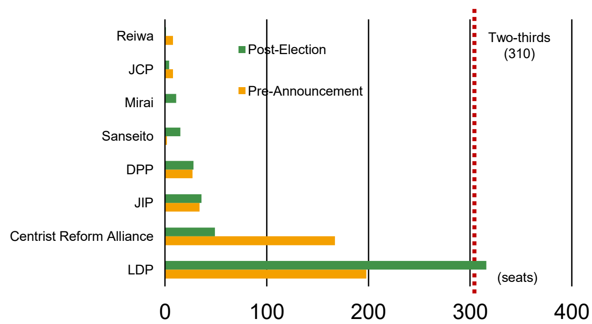

※ The latest figures are for the October-December period of 2025.
Source: The Cabinet Office; Compiled by Daiwa Asset Management

### Compensation of Employees




※ Real Employee Compensation in 2020 prices; latest value: 2025
Source: The Cabinet Office; Compiled by Daiwa Asset Management

### House of Representatives Election (Seats Won by Major Parties)



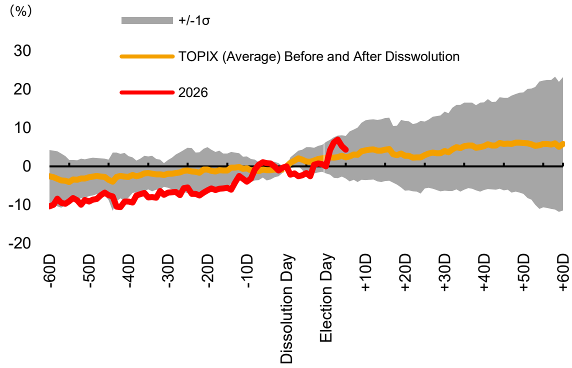

※ Pre-election seat counts reflect the number of seats held before the election (the total may be below the statutory number due to vacancies). Two CDP members and three Komeito members who did not run are excluded
Source: The Asahi Shimbun; Compiled by Daiwa Asset Management

# Equity

## Stronger Political Base, Enhanced Policy Execution Capability

While we had considered a snap election for dissolution one upside risk for 2026, the LDP's landslide victory exceeded even that expectation. The administration can now smoothly advance its key policies, and expectations for a long-term government are rising. The stock market is pinning its hopes on the growth strategy: crisis management investment and growth investment. While there had been some aspect of expectations running ahead until now, it will be necessary for the Takaichi administration to steadily realize this growth strategy going forward.

### TOPIX Around House of Representatives Dissolution



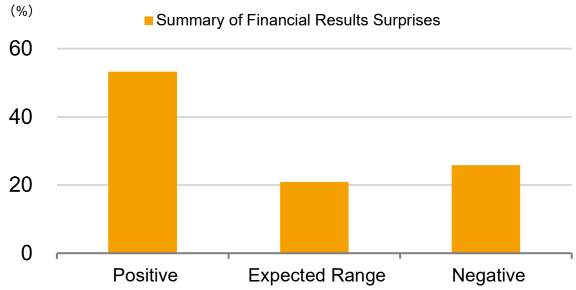

※ TOPIX performance around the 10 elections since 1993; dissolution date = 0; σ = standard deviation; latest data as of Feb.16, 2026

Source: House of Representatives and Bloomberg, Compiled by Daiwa Asset Management

## Solid Earnings Momentum Continues

The financial results for the October-December 2025 quarter among companies with March fiscal years were robust. Fifty-four percent of companies exceeded analyst forecasts by over 5%, significantly outpacing the 24% that fell short. This resulted in a +2% profit increase, compared to the -5% decline forecast YoY (TOPIX 500 constituents, based on recurring profit).Analysts continue to make upward revisions to earnings forecasts, with the TOPIX's projected 2026 fiscal year EPS recovering to levels seen before US President Trump's "Day of Liberation."

### Solid 3Q Results for March-Fiscal-Year Companies (Oct–Dec 2025)



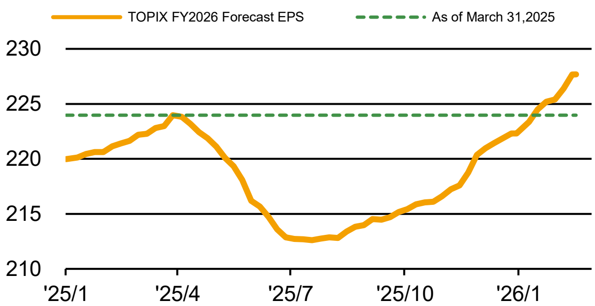

※ For TOPIX 500 March-fiscal-year companies, deviations of 5% or more from consensus are counted as surprises, based on recurring profit

Source: FactSet; Compiled by Daiwa Asset Management

## The Risk of Underexposure Emerges

Supply and demand conditions remain favorable. In addition to corporate share buybacks and NISA flows at the start of the year, further inflows from overseas investors can also be expected. Amid expectations for political and Corporate Governance reforms, and with stocks rising despite a slightly stronger Yen against the US Dollar, Japanese equities have delivered top-tier year-to-date returns among major stock indices in USD terms. This "risk of underexposure" could compel foreign investors to increase their Japanese equity weightings.

### TOPIX FY2026 Forecast EPS Returns to Pre-“Liberation Day” Levels Under President Trump




※ Liberation Day”: April 2, 2025, when President Trump announced the reciprocal tariffs; latest data as of February 16, 2026

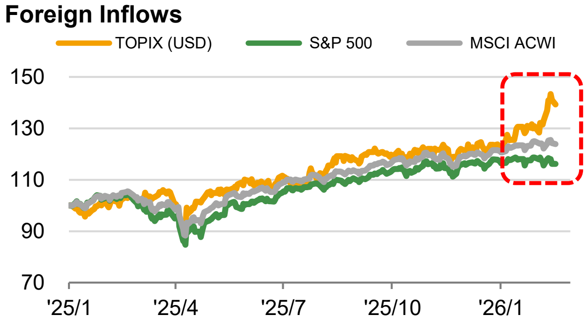
Source: FactSet; Compiled by Daiwa Asset Management

## A Brighter Outlook for Japanese Equities

The administration can now vigorously advance its growth strategy with public support as tailwind. Focused investment in strategic sectors is expected to bolster growth areas while fundamentally strengthening supply capacity and raising the potential growth rate. Given these positive developments and the view that higher valuations than previously justified are now warranted, we upgrade our investment outlook from "Slightly Bullish" to "Bullish," raising our year-end 2026/27 forecasts for the TOPIX to 4,200/4,600 and for the Nikkei 225 to 63,000/69,000 Yen.

(Written by Kazunori Tatebe, Research Department)

### Strong USD-Denominated Returns May Attract Foreign Inflows




※ Indexed with beginning of 2025 as 100; latest value as of February 16, 2026

Source: Bloomberg; ; Compiled by Daiwa Asset Management

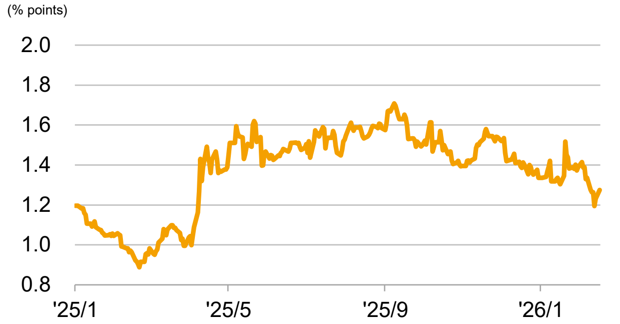
## Interest Rates

### Upward Revision to the Year-End 2026 Long-Term Interest Rate Outlook

Interest rates, which had been rising led by the ultra-long-term zone amid expectations of fiscal expansion surrounding the House of Representatives election, have paused near current levels. Concerns about excessive fiscal deterioration receded after Prime Minister Takaichi stated post-election that "we will achieve fiscal sustainability by steadily reducing the debt-to-GDP ratio" and reiterated the need to "secure market confidence." Meanwhile, no significant change is observed in the market's monetary policy outlook. With a strong Yen that brought the US Dollar to around 153 Yen, market inflation expectations eased somewhat, but the expected policy rate two years ahead remains high, hovering near 1.7%. The prevailing view is that the mechanism of wages and prices rising gradually while mutually referencing each other will persist, underpinned by structural labor shortages.In the near term, as the market's projected terminal rate for interest rate hikes is expected to exceed our forecast of 1.5%, we are making an upward revision to our year-end 2026 long-term interest rate forecast from 2.0% to 2.2%.

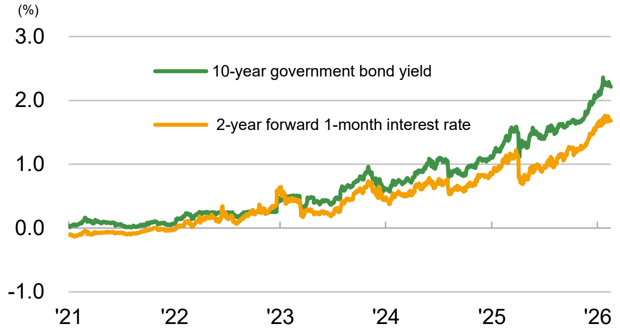
(Written by Satsuki Yuba, Research Department)

**Spread Between 10-Year and 30-Year Government Bond Yields**




※ 30-year government bond yield minus 10-year government bond yield; latest value as of February 16, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

**10-year Government Bond Yield and 2-Year Forward 1-Month Interest Rate**




※2-year forward 1-month interest rate corresponds to 2-year forward policy rate expectation
※ Latest value as of February 16, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

## J-REIT

### Focus on Supply and Demand Toward Fiscal Year-End

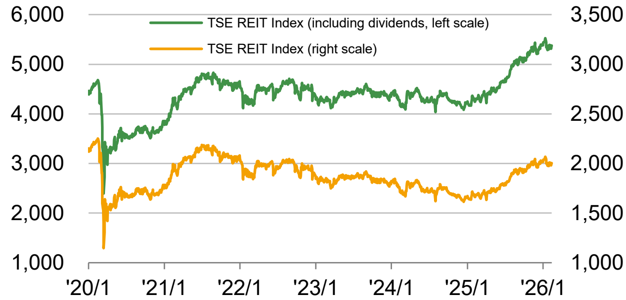
In late January, the J-REIT market declined alongside domestic stocks, which fell due to a strong Yen. However, it has since recovered, with the Tokyo Stock Exchange REIT Index hovering around 2,000.

Rent increases cross various property types continue, improving the business environment. Office rents, in particular, are accelerating further at present, suggesting potential upside for rental income. Expectations for medium-to-long-term profit growth are rising amid inflation, leading to expectations for a gradual rise in the J-REIT market. However, the ongoing rise in long-term interest rates raises concerns about increased borrowing costs in the short term.

The end of the fiscal year in late March and the start of the new fiscal year in early April are periods when domestic financial institutions engage in trading for the settlement of accounts, making market volatility more likely. If declines are driven by supply and demand factors, they could present good investment opportunities in the J-REIT market, warranting attention.

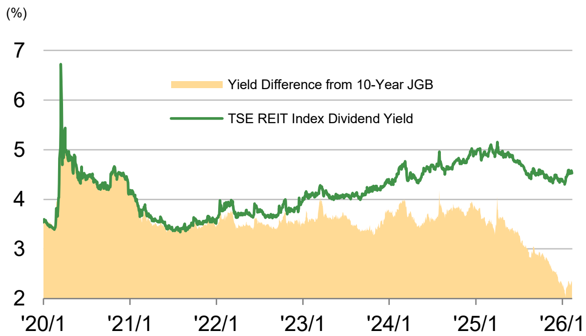
(Written by Kazuhiko Arai, Global Investment Department)

**Trend of the Tokyo Stock Exchange REIT Index**




※ Latest value as of February 16, 2026
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 February 16, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

# US Dollar

## USD/JPY Falls on Yen Strength and Dollar Weakness

Over the past month, the Yen became stronger against other currencies (right chart, 25 currencies) while the US Dollar weakened, causing the USD/JPY rate to decline. Although risk-on sentiment continues to exert downward pressure on the Yen, caution over potential Yen-buying intervention has supported the Yen. Concerns over fiscal deterioration eased following the LDP's landslide victory in the House of Representatives election, as it suggests fiscal expansion will be restrained, leading to a strong Yen. Meanwhile, the appointment of the next Federal Reserve Chair supported the US Dollar, but Dollar selling due to aversion to US policy, combined with risk-on sentiment and falling US interest rates, pushed the Dollar lower.

## Strong Yen as Japan-US Real Interest Rate Differential Narrows

USD/JPY is trading significantly above the level implied by the real interest rate differential between Japan and the US (currently estimated around 136-144 Yen). Since last October, concerns over fiscal deterioration had contributed to Yen depreciation and rising interest rates. However, as the ruling party — which is more cautious than the opposition about cutting the consumption tax — won a landslide victory in the Lower House election, fiscal concerns have eased, leading to Yen appreciation and falling interest rates. With the Japan–US real interest rate differential continuing to narrow, we expect the USD/JPY rate to move toward the level implied by the real rate differential, meaning further Yen appreciation.

## US Economic Indicators Likely to Support the US Dollar for Now

US economic indicators have exceeded market expectations, pushing up the US economic surprise index. This is primarily due to the significant upside surprise in the January US ISM manufacturing index, but economic indicators globally, including in Europe and emerging markets, remain solid. For the time being, the weak Dollar effect should support robust US economic indicators, underpinning the Dollar. However, the possibility remains that US economic indicators could deteriorate more than expected due to reduced wealth effects and job losses. Looking ahead, we expect the USD/JPY to decline as the US Economic Surprise Index falls, leading to a retreat in risk-on driven Yen weakness.

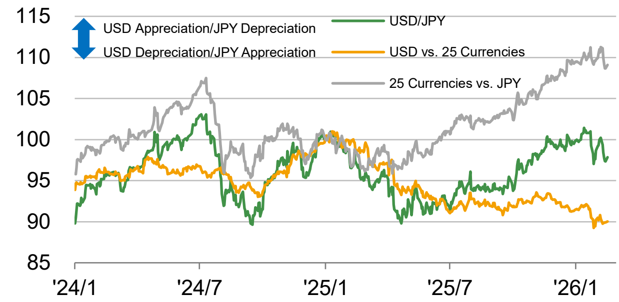
## Yen Tends to Weaken When Commodity Prices Are High

Recent commodity price increases have been influenced by higher crude oil prices due to supply concerns stemming from US-Iran tensions and higher precious metal prices driven by risk aversion (purchases as an alternative to the US Dollar). Despite high commodity prices, risk-on driven Yen weakness and US-Dollar strength remain muted. However, while commodities remain in an upward trend, risk-on sentiment and rising overseas interest rates could easily push the Yen weaker and the US Dollar higher. Looking ahead, we expect risk-on sentiment to weaken alongside a global economic slowdown, leading to falling commodity prices and a strong Yen and Dollar depreciation.

(Written Yuji Kameoka, Research Department)

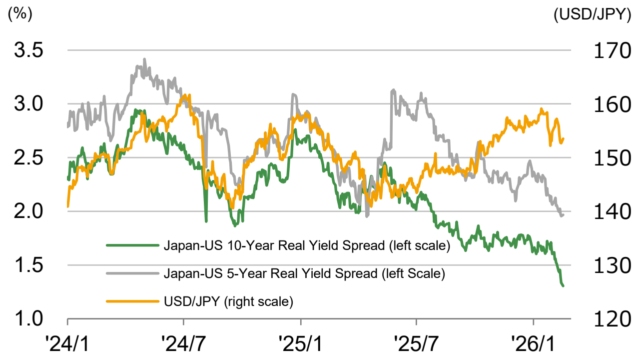
### Exchange Rates of USD/JPY and Other Currencies

(January 2025 = 100)



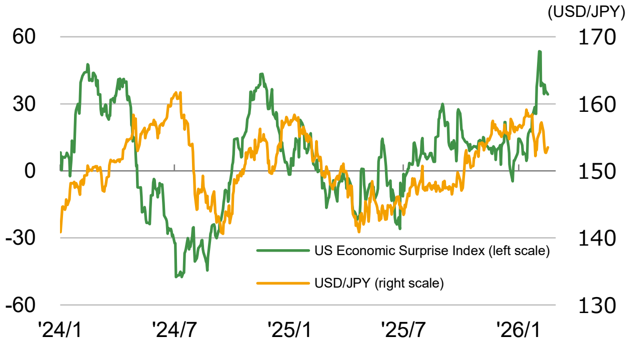

※Weighted average of exchange rates for 25 currencies based on April 2022 trading volumes
※The latest value is February 16, 2026
Source: BIS and LSEG; Compiled by Daiwa Asset Management

### Japan-US Real Interest Rate Differential and USD/JPY



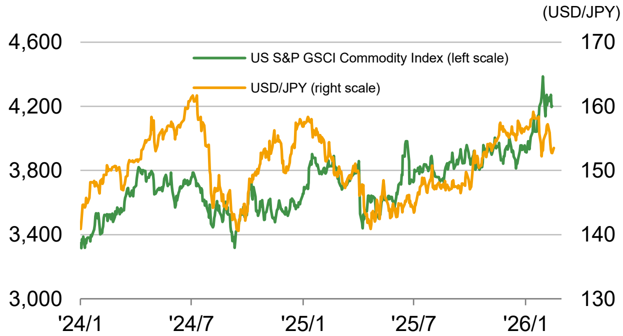

※The latest value is February 16, 2026
Source: LSEG; Compiled by Daiwa Asset Management

### US Economic Surprise Index and USD/JPY




※ The latest value February 16, 2026
Source: LSEG; Compiled by Daiwa Asset Management

### Commodity Composite Index and USD/JPY



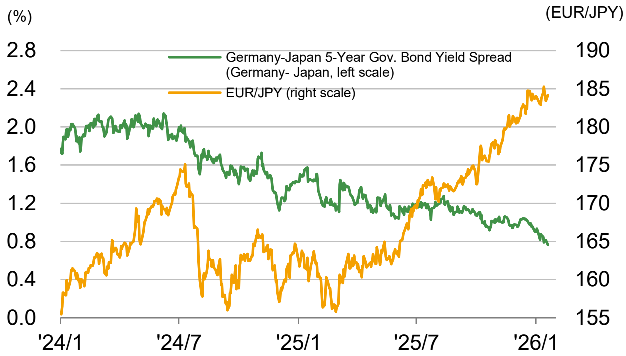

※ The latest value for GSCI Commodity Index is February 13, 2026, for USD/JPY is February 16, 2026
Source: LSEG; Compiled by Daiwa Asset Management

# Euro

## Signs of Slowing Euro Strength and Yen Weakness

The Euro strengthened against the Yen amid risk-on sentiment and concerns over Japan's fiscal deterioration, but signs of a reversal in the exchange rate are emerging. This shift occurred as German interest rates fell relative to Japanese rates, coupled with easing concerns over Japan's fiscal health, which pressured the Euro lower and led to a strong Yen. Looking ahead, risk-on Yen weakness driven by the global economic recovery is likely to diminish, and we anticipate the Euro will weaken further against the Yen.

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



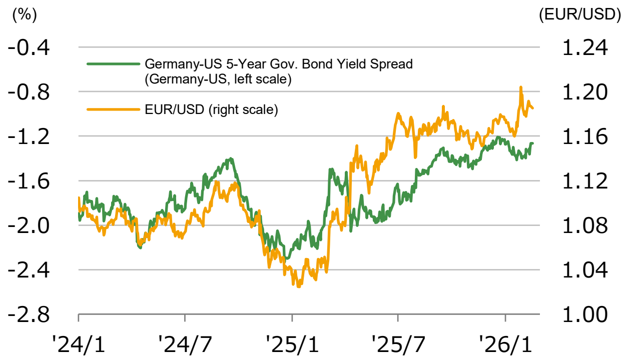

※ The latest value is February 16, 2026
Source;LSEG; Compiled by Daiwa Asset Management

## Euro–US Dollar Entering a Range-Bound Phase

Recently, even when German interest rates have fallen relative to US rates, the Euro has strengthened against the US Dollar.This was driven by caution over potential Yen-buying/Dollar-selling intervention, a flight from the Dollar due to aversion to US policy, and risk-on sentiment weighing on the Dollar. However, further Euro strength would likely heighten expectations for ECB interest rate cuts due to downside inflation risks. We anticipate risk-on sentiment will gradually weaken, and expect EUR/USD to form a range near current levels.

(Written Yuji Kameoka, Research Department)

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




※ The latest value is February 16, 2026
Source: LSEG; 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