

This is marketing documentation

NOT FOR RETAIL CLIENTS

Japan | Economic and Financial Market Outlook

Page

01	Forecasts
02	Economy
03	Equity
04	Interest Rates and J-REIT
05	US Dollar
06	Euro

A large, bold, green number '4' is positioned on the left side of the page, partially overlapping the table of contents.

APR. 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)
- ... Forecast revised downward (previous estimates)

	Real GDP (YoY, %)			
	Actual figures		Estimates	
	2024	*1 2025	2026	2027
US	2.8	2.1	2.4	1.8
Japan	▲ 0.2	1.2	0.8	0.8
Euro	0.9	1.4	0.9 ← (1.4)	1.4

Monetary Policy Outlook

US	<ul style="list-style-type: none"> We expect cumulative rate cuts of 50 bps within the year under the next Fed Chair, with the policy rate bottoming out at 3.00–3.25%.
Japan	<ul style="list-style-type: none"> Anticipates rate hikes of 0.25 % points roughly every six months. Expected to cap at 1.5%. 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	<ul style="list-style-type: none"> The ECB's deposit rate is expected to remain unchanged at the current 2%, which is widely regarded as neutral. 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	End of 2025	As of 2026/3/23	End of 2026	End of 2027	End of 2024	End of 2025	As of 2026/3/23	End of 2026	End of 2027
US *2	4.50	3.75	3.75	3.25	3.25	4.6	4.2	4.3	4.1	4.3
Japan	0.25	0.75	0.75	1.25	1.50	1.1	2.1	2.3	2.2	2.0
Euro *3	3.00	2.00	2.00	2.00	2.00	2.4	2.9	3.0	2.4	2.2

- Real GDP growth for 2025 is expected to be based on realized performance, excluding Japan and the euro area.
- US policy rate is the upper limit of the FF rate guidance target
- 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 figures from government and statistical bureaus of each country and Bloomberg; forecast figures from Daiwa Asset Management

	Equity Index										
	Actual figures			Latest figures				Estimates			
	End of 2024	Annual Rate of Change	End of 2025	Annual Rate of Change	As of 2026/3/23	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change	
US	S&P500	5,882	+23%	6,846	+16%	6,581	-4%	7,400	+8%	8,000	+8%
	DJIA	42,544	+13%	48,063	+13%	46,208	+4%	54,000	+12%	58,000	+7%
Japan	TOPIX	2,785	+18%	3,409	+22%	3,486	+2%	4,200	+23%	4,600	+10%
	Nikkei 225 Index	39,895	+19%	50,339	+26%	51,515	+2%	63,000	+25%	69,000	+10%
Euro	STOXX600	508	+6%	592	+17%	577	+2%	650	+10%	690	+6%

	REIT										
	Actual figures			Latest figures				Estimates			
	End of 2024	Annual Rate of Change	End of 2025	Annual Rate of Change	As of 2026/3/23	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change	
US	NAREIT Index	24,843	+9%	25,558	+3%	26,625	+4%	30,600 ← (32,000)	+20%	34,000 ← (35,300)	+11%
Japan	TSE REIT Index	1,653	-9%	2,014	+22%	1,914	-5%	2,100	+4%	2,150	+2%

	Exchange Rate (vs. JPY)										
	Actual figures			Latest figures				Estimates			
	End of 2024	Annual Rate of Change	End of 2025	Annual Rate of Change	As of 2026/3/23	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change	
USD	157	+11%	157	-0%	158	+1%	149 ← (146)	-5%	142	-5%	
EUR	163	+5%	184	+13%	184	-0%	171	-7%	165	-4%	

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



Economy

The Risk of High Crude Oil Prices Stemming from Heavy Dependence on the Middle East

Against the backdrop of supply concerns stemming from disruptions in maritime transport—such as the de facto blockade of the Strait of Hormuz following the military conflict between the US, Israel, and Iran—Brent crude oil futures prices have remained high at around \$100 per barrel. Japan’s primary energy self-sufficiency rate remains at around 15% (2024), meaning the country relies heavily on imports for its energy supply. In particular, crude oil accounts for approximately 35% of Japan’s primary energy supply (same year), and since over 90% of that is imported from the Middle East, concerns about inflation are rising due to rising energy costs driven by high crude oil prices.

Deteriorating Terms of Trade Weigh on the Japanese Economy

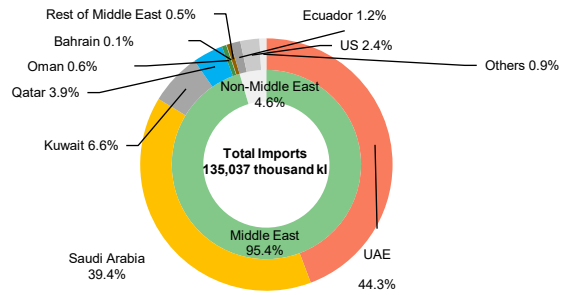
High crude oil prices could worsen Japan’s terms of trade by driving up import prices, and could also lead to squeezed corporate profits, declining real wages, and a slowdown in private consumption, thereby exerting downward pressure on the Japanese economy as a whole. Under these circumstances, the government has decided to release strategic oil reserves. Additionally, as a measure to mitigate the impact of soaring crude oil prices, it has resumed subsidies to keep the national average retail price of gasoline at around 170 Yen per liter. However, these are all emergency measures intended to curb social disruption caused by sudden fluctuations in energy prices. Attention continues to focus on the future “exit strategy” outlined by the Trump administration as a fundamental solution.

Wage Raises Are on Track, but Challenges Remain for Sustaining Real Wages

In the 2026 spring wage negotiations (first round of responses), the average wage raise rate stood at 5.26%, marking the third consecutive year of wage raises exceeding 5%. As the impact of price hikes—such as for rice—gradually subsides, combined with the effects of the government’s measures to combat high prices, inflation is expected to slow going forward, and there is some optimism regarding the growth of real wages. However, looking ahead, while the tight labor market surrounding wages continues, there is a risk that upward pressure on prices due to high prices for crude oil—driven by tensions in the Middle East—and production constraints resulting from supply chain disruptions could weigh on corporate earnings. Therefore, caution is needed regarding the possibility that the improvement in real wages may be only temporary.

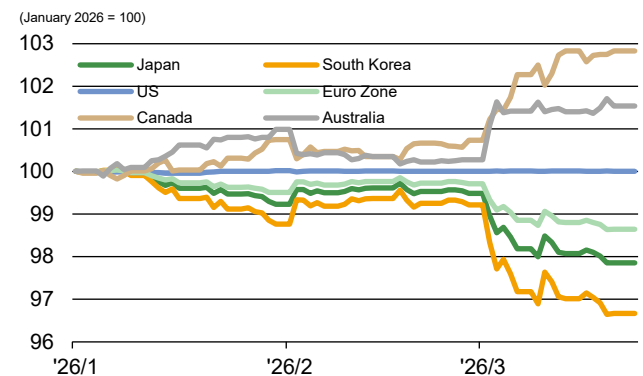
(Written by Satsuki Yuba, Research Department)

Crude Oil Import Sources (2024)



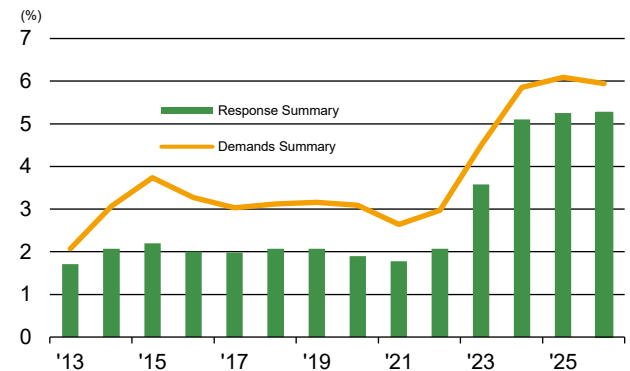
Source: Ministry of Economy, Trade and Industry; Compiled by Daiwa Asset Management

GS Trade Conditions Index



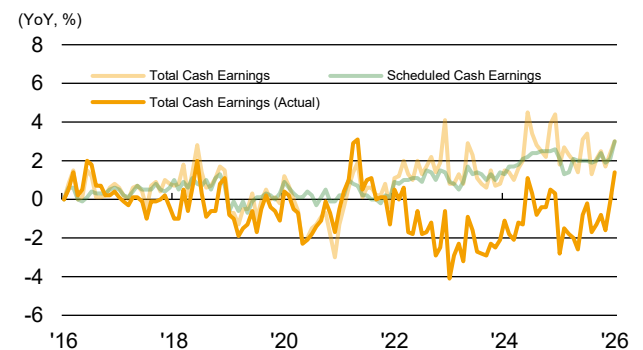
※ Latest figures as of March 23, 2026
Source: Bloomberg; ; Compiled by Daiwa Asset Management

Trends in Average Wage Increase Rates from Spring Labor Negotiations (Total)



※ Response Summary is based on Rengo’s final tally, 2026 figures are from the first survey round
Source: Japanese Trade Union Confederation (RENGO); Compiled by Daiwa Asset Management

Monthly Labor Survey



※ Companies with at least 5 employees, the latest figures are from January 2026
Source: Ministry of Health, Labour and Welfare; Compiled by Daiwa Asset Management



Equity

Japanese Stocks Plunge Amid Worsening Middle East Tensions

The Nikkei 225, which had reached a record high at the end of February 2026, began a sharp decline following the US and Israeli attacks on Iran. After the month-to-date decline reached 10% on March 9, the Nikkei 225 rebounded and recovered to the 55,000-Yen level by the 18th, but subsequently fell again, setting new lows. During the sharp sell-off, cyclical stocks, financial stocks, and stocks that had risen notably in recent months were hit particularly hard.

Japanese Stocks in a High Crude Oil Price Environment

Japanese stocks tend to underperform during periods of high crude oil prices. In addition to Japan's high dependence on overseas energy supplies, the sectors benefiting from the price hike in crude oil account for a small share of the overall market in terms of both market cap and profits; consequently, the price hike generally acts as a headwind for corporate earnings. A 10% price hike in Brent crude oil is expected to reduce the net profits of Japanese companies by about 1–2%.

Short-Term Risks Remain Two-Sided

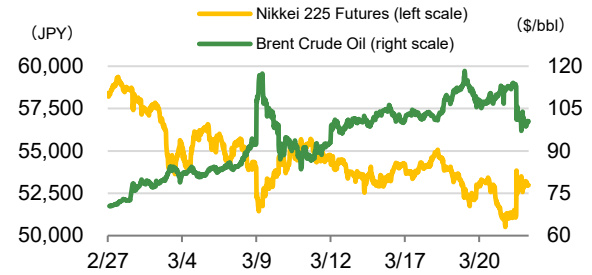
Although Japanese stocks have been showing signs of a correction since the start of this month, valuation levels remain high relative to historical ranges, and there is still room for further declines if the situation worsens. On the other hand, there are reports that the US administration may have begun behind-the-scenes efforts toward a ceasefire. Short-term risks remain on both the upside and downside, and we expect volatile price movements driven by developments in the Middle East to continue.

Medium-Term Uptrend Expected to Continue

Following this month's stock price decline, we believe the medium- to long-term risk-reward balance has improved. While it is difficult to predict the course of the conflict, unless we assume that prolonged high crude oil prices will trigger a global recession, we expect the medium- to long-term bull market for Japanese stocks to continue, supported by positive factors such as structural changes and the government's growth strategy, even if the current stagnation persists.

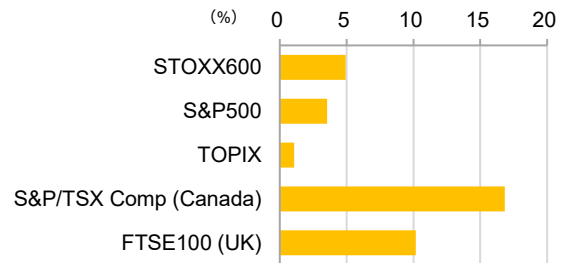
(Written by Kazunori Tatebe, Research Department)

Crude Oil Prices Surge as Japanese Stocks Plunge Amid Worsening Middle East Tensions



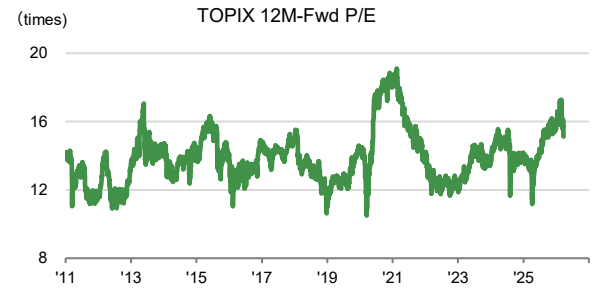
※ Latest figures as of March 24, 2026, 6:00 a.m.
Source: Bloomberg; ; Compiled by Daiwa Asset Management

Share of the Energy Sector in Stock Market Indices



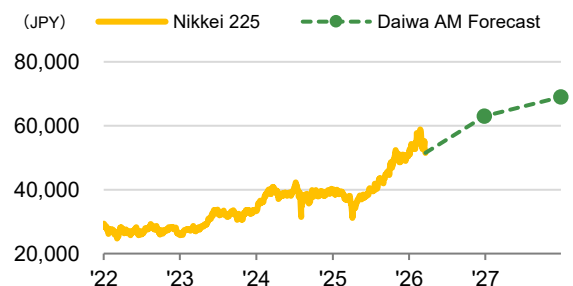
※ As of March 4, 2026
Source: Bloomberg; ; Compiled by Daiwa Asset Management

TOPIX Valuations Still High



※ Last updated on March 23, 2026
Source: FactSet; Compiled by Daiwa Asset Management

Outlook Remains Uncertain, but We Maintain Our Nikkei 225 Forecast



※ Most recent actual data as of March 23, 2026
Source: Bloomberg; ; Compiled by Daiwa Asset Management



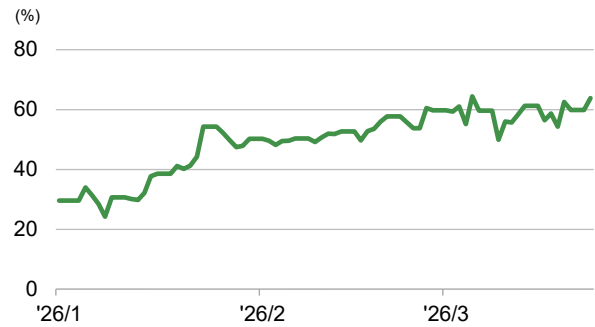
Interest Rates

Not ruling out a rate hike in April

At the Bank of Japan’s Monetary Policy Meeting in March, the policy interest rate was kept unchanged, as expected by the market. At the press conference, Governor Ueda noted that core inflation had been rising toward the 2% target prior to the escalation of tensions in the Middle East. He indicated that while uncertainty in the domestic and global economies is currently high, the Bank remains committed to its existing path of interest rate hikes. He also noted that many board members pointed to the possibility of core inflation rising due to inflation expectations, driven by companies becoming more aggressive in their pricing behavior. While he avoided making a clear statement on the timing of the next rate hike, saying the decision would be based on data from branch office hearings and other sources, his remarks suggest he has not ruled out the possibility of an additional rate hike at the April meeting. We assume that, barring a significant upward deviation in inflation expectations, rate hikes will generally occur at a pace of once every six months, and we expect the next hike to be in June or July. Meanwhile, the market has priced in an April rate hike to the extent of about 60%.

(Written by: Satsuki Yuba, Research Department)

Market-Priced Probability of an April Rate Hike



※ Latest figures as of March 23, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

10-Year Government Bond Yield



※ Latest figures as of March 23, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

J-REIT

Declines Driven by Escalating Middle East Tensions

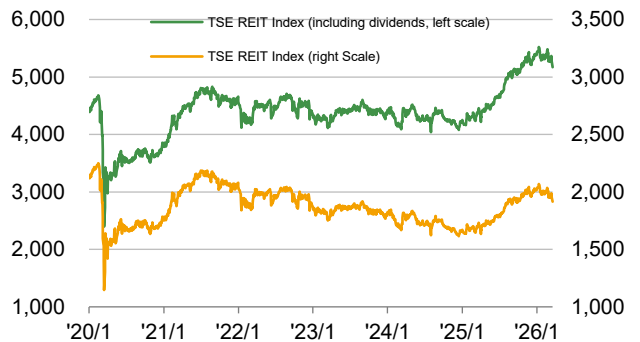
Since late February, the J-REIT market has fallen in tandem with domestic stocks following the US and Israeli attacks on Iran. Currently, the Tokyo Stock Exchange REIT Index is hovering in the low 1,900s.

In the short term, the market is expected to remain volatile, driven by developments in the Middle East. The domestic real estate rental market is currently strong, with solid rent increases being realized, particularly for offices and residential properties, and this trend is expected to continue. However, the strength of the rental market is underpinned by a healthy domestic economy and wage increases. It is necessary to closely monitor the risk that surging crude oil prices and energy shortages could lead to an economic slowdown.

Late March, marking the fiscal year-end, and early April, the start of the new fiscal year, are periods when domestic financial institutions tend to engage in balance-sheet-driven trading, which can heighten market volatility. If any decline is driven by supply-demand factors, it could present an attractive investment opportunity in the J-REIT market, warranting close attention.

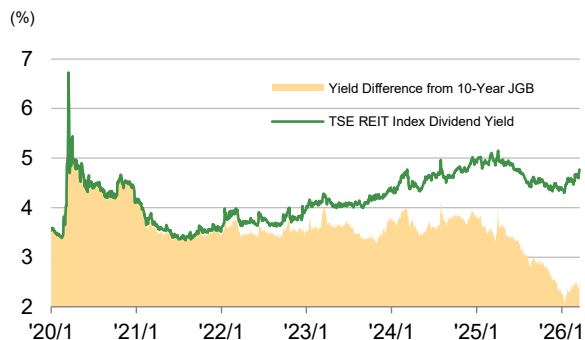
(Written by Kazuhiko Arai, Global Investment Department)

Trend of the Tokyo Stock Exchange REIT Index



※ Latest figure as of March 23, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

Trend of the Dividend Yield for the TSE REIT Index



※ Dividend yield is based on the actual performance of the past 12 months
※ The latest figure is as of March 23, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management



US Dollar

USD/JPY Rises on a Stronger US Dollar

Over the past month, the Yen has traded largely sideways against other currencies (25 currencies in the right-hand chart), while the US Dollar has appreciated. As a result of the stronger US Dollar, USD/JPY has risen. Rising crude oil prices due to the situation in the Middle East had a negative impact on Japan, which is highly dependent on imports, contributing to a weak Yen and a stronger US Dollar. Additionally, interest rates in the US rose more sharply than in Japan, further contributing to a weak Yen and a stronger US Dollar. While higher oil prices have tended to weaken the Yen against other currencies, risk-off sentiment has led to Yen appreciation (and US Dollar strength) and declines in other currencies, resulting in relatively limited movements in the Yen's exchange rates against other currencies overall.

USD/JPY Rises as the Japan-US Real Rate Gap Widens

Over the past month, the real interest rate differential between Japan and the US widened, causing the USD/JPY rate to rise. Although inflation expectations rose in both Japan and the US due to high crude oil prices, the increase in real interest rates was greater in the US than in Japan. In the US, rising inflation expectations dampened expectations for interest rate cuts, whereas in Japan, even with rising inflation expectations, concerns about a recession make it difficult for expectations of interest rate hikes to gain traction. Going forward, we expect the real interest rate differential between Japan and the US to narrow again as crude oil prices stabilize, leading to a decline in the USD/JPY exchange rate.

Softer US Data Could Weigh on the Dollar

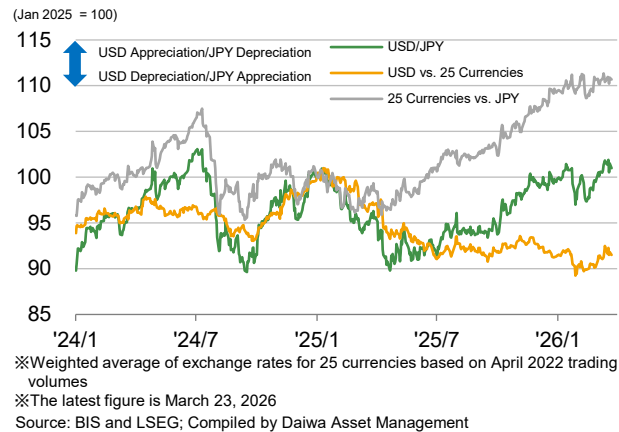
The US Economic Surprise Index, which reflects the deviation of US economic indicators from market forecasts, has remained firm, contributing to the strength of the US Dollar. The positive effects on the US economy from past Dollar weakness remain, and for the time being, the strength of US economic indicators is likely to be a factor supporting the strong Dollar. However, the rise in US interest rates and the strong Dollar accompanying recent high prices for crude oil, combined with the negative wealth effect (falling stock prices), are likely to weigh on the economy, making it easier for US economic indicators to fall short of expectations. We expect the US Economic Surprise Index to trend downward starting in May, leading to a decline in the USD/JPY exchange rate.

Commodity Price Rises Favor Yen Weakness and Dollar Strength

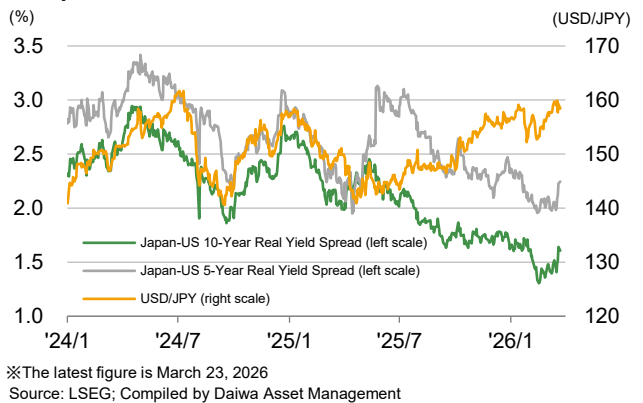
Energy prices, including crude oil, have surged due to the situation in the Middle East, causing commodity indices to rise significantly. While this price hike in commodity prices is driven by reduced supply rather than increased demand—which typically leads to risk-off sentiment and a strong Yen or Dollar—the Yen has weakened and the Dollar has strengthened due to Japan's deteriorating terms of trade and the relative rise in US interest rates. We expect that in the not-too-distant future, the US will withdraw from the conflict with Iran, leading to lower commodity prices. Consequently, Japan's terms of trade will improve and US interest rates will fall relative to Japan's, driving the Yen stronger and the Dollar weaker.

(Written by Yuji Kameoka, Research Department)

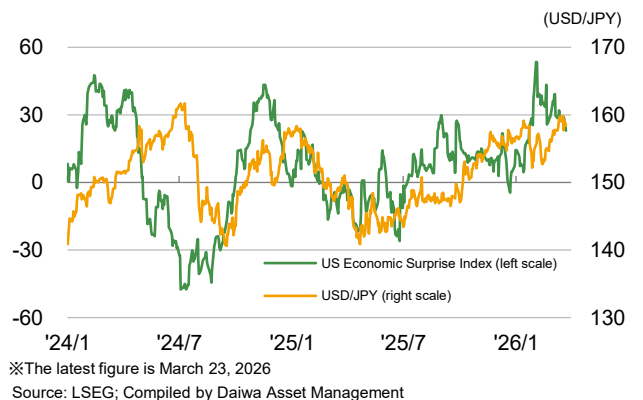
Exchange Rates of USD/JPY and Other Currencies



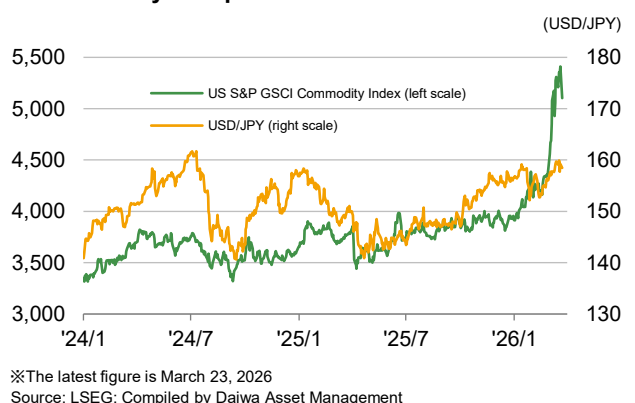
Japan-US Real Interest Rate Differential and USD/JPY



US Economic Surprise Index and USD/JPY



Commodity Composite Index and USD/JPY





Euro

Signs of a Reversal Toward Euro Strength and Yen Weakness

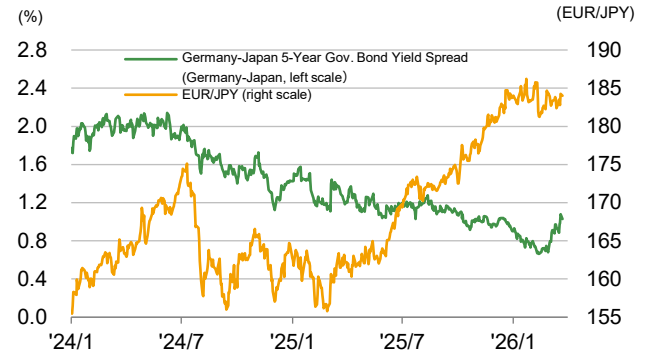
There are signs of a reversal toward a stronger Euro and weaker Yen. This is because the Yen's depreciation driven by risk-on sentiment and concerns over Japan's deteriorating fiscal health has stalled. While rising crude oil prices due to the situation in the Middle East support a stronger Euro and weaker Yen in terms of trade and interest rates, they also contribute to a weaker Euro and stronger Yen during risk-off periods, so their impact is limited. In the medium to long term, we expect the Euro to weaken and the Yen to strengthen against the backdrop of waning risk-on sentiment and a narrowing German-Japanese interest rate spread.

Euro Downside and Dollar Upside Pressures Seen Easing

The Euro weakened against the US Dollar. Rising energy prices caused by the war between the US, Israel, and Iran were negative for the EU (which is highly dependent on imports, at around 60%) but neutral for the US (which has a near-balanced trade), contributing to a weaker Euro and a stronger US Dollar. Additionally, risk-off sentiment also contributed to the Euro's weakness and the Dollar's strength. However, as high crude oil prices and risk-off sentiment subside, the pressure for a weaker Euro and stronger Dollar is expected to ease, and the EUR/USD pair is projected to form a range-bound market around current levels.

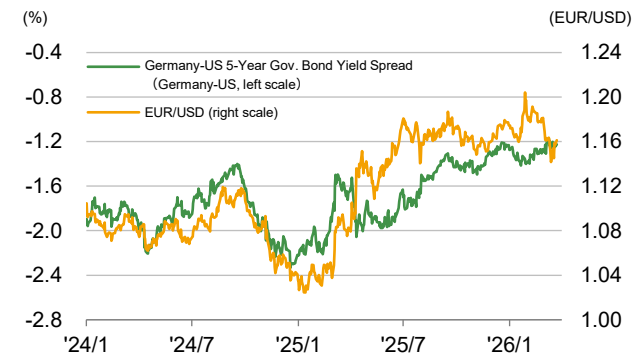
(Written by Yuji Kameoka, Research Department)

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



※The latest figure is March 23, 2026
Source: LSEG; Compiled by Daiwa Asset Management

German-US 5-Year Government Bond Yield Spread and Euro-US Dollar Market



※The latest figure is March 23, 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.

