

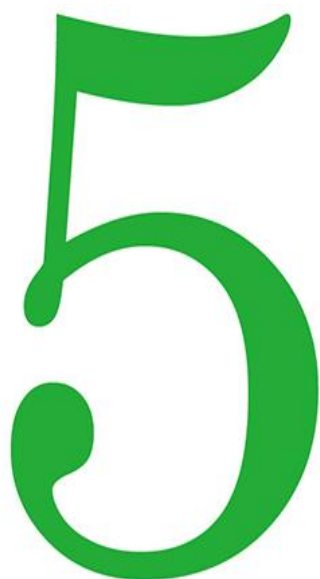
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# Japan | Economic and Financial Market Outlook

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MAY. 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)

### Monetary Policy Outlook

	Real GDP (YoY, %)			
	Actual figures		Estimates	
	2024	2025	2026	2027
US	2.8	2.1	2.1 ← (2.4)	1.9 ← (1.8)
Japan	▲ 0.2	1.2	0.8	0.8
Euro	0.9	1.4	0.9	1.4

<b>US</b>	<ul style="list-style-type: none"> <li>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%.</li> </ul>
<b>Japan</b>	<ul style="list-style-type: none"> <li>Anticipates rate hikes of 0.25 % points roughly every six months. Expected to cap at 1.5%.</li> <li>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.</li> </ul>
<b>Euro zone</b>	<ul style="list-style-type: none"> <li>The ECB's deposit rate is expected to remain unchanged at the current 2%, which is widely regarded as neutral.</li> <li>Redeemed bonds will not be reinvested, and no active sales are planned</li> </ul>

	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 2026/4/20	End of 2026	End of 2027	End of 2024	End of 2025	As of 2026/4/20	End of 2026	End of 2027
US *1	4.50	3.75	<b>3.75</b>	3.25	3.25	4.57	4.17	<b>4.25</b>	4.1	4.3
Japan	0.25	0.75	<b>0.75</b>	1.25	1.50	1.10	2.07	<b>2.39</b>	2.2	2.0
Euro *2	3.00	2.00	<b>2.00</b>	2.00	2.00	2.37	2.86	<b>2.98</b>	2.4	2.2

- 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 2026/4/20	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%	<b>7,109</b>	+4%	7,400	+8%	8,000	+8%
	DJIA	42,544	+13%	48,063	+13%	<b>49,443</b>	+3%	54,000	+12%	58,000	+7%
Japan	TOPIX	2,785	+18%	3,409	+22%	<b>3,777</b>	+11%	4,200	+23%	4,600	+10%
	Nikkei 225 Index	39,895	+19%	50,339	+26%	<b>58,825</b>	+17%	63,000	+25%	69,000	+10%
Euro	STOXX600	508	+6%	592	+17%	<b>621</b>	+5%	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 2026/4/20	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%	<b>29,298</b>	+15%	30,600	+20%	34,000	+11%
Japan	TSE REIT Index	1,653	-9%	2,014	+22%	<b>1,926</b>	-4%	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 2026/4/20	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change
USD		157.20	+11%	156.71	-0%	<b>158.81</b>	+1%	149	-5%	142	-5%
EUR		162.78	+5%	184.01	+13%	<b>187.22</b>	+2%	174 (171)	-5%	165	-5%

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



### Economy

#### Middle East Tensions Trigger Sharp Deterioration in Business Sentiment

Amid persistently high crude oil prices, a noticeable deterioration in business sentiment has emerged recently. In the Consumer Confidence Survey, which gauges consumer sentiment regarding the future, the Consumer Confidence Index for March fell sharply to 33.3 (down 6.4 points from the previous month). Similarly, in the Economy Watchers Survey, which asks firms about the direction of the economy, the DI for future prospects in March dropped significantly to 38.7 (down 11.3 points from the previous month). The deterioration in consumer sentiment is likely to strengthen households' inclination to save, potentially weighing on actual consumption. However, the outlook for consumption is expected to remain firm, supported by a solid wage raise from the spring labor negotiations and the government's measures to alleviate energy costs.

#### Upstream Price Pressures Intensify Amid Supply Constraints

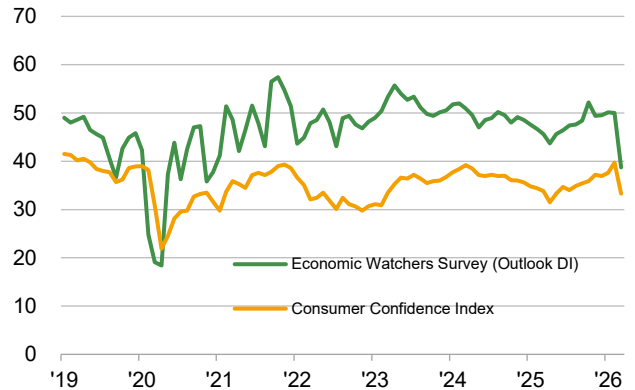
It is important to note that the impact of the de facto blockade of the Strait of Hormuz extends beyond merely a price hike in crude oil; it also heightens the risk of spillover effects on prices through supply constraints on petroleum-related raw materials and products—such as naphtha—that transit the strait. The Bank of Japan's Tankan survey for March suggested that companies anticipate a rise in purchase prices and expect to pass these increases on to selling prices. The Import Price Index posted a sharp 7.9% year-on-year increase in March, partly reflecting the ongoing depreciation of the Yen. With firms exhibiting stronger pricing behavior than before, pass-through to the Corporate Goods Price Index is anticipated. On the other hand, companies' medium- to long-term price outlooks remain in line with previous trends, with no notable upward revisions.

#### Underlying Inflation Maintains a Gradual Upward Trend

The Bank of Japan has begun publishing consumer price indices adjusted for policy factors such as the introduction of free education and measures to ease the energy burden. This suggests a commitment to making policy decisions based on underlying price trends. Recently, as the impact of price increases for food items such as rice has largely run its course, the pace of inflation has moderated. However, looking ahead, while continued vigilance regarding the impact of the situation in the Middle East is necessary, the mechanism whereby wages and prices interact and rise gradually is expected to persist as labor market tightness becomes increasingly evident. Consequently, core inflation is projected to follow a gradual upward trend toward the 2% price stability target.

(Written by Satsuki Yuba, Research Department)

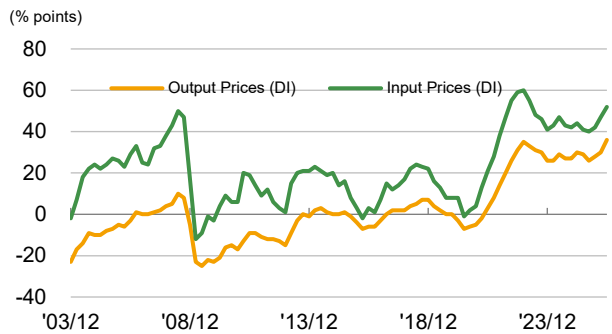
#### Consumer Sentiment Indicators for Personal Consumption



※Latest figure as of March 2026

Source: Cabinet Office; Compiled by Daiwa Asset Management

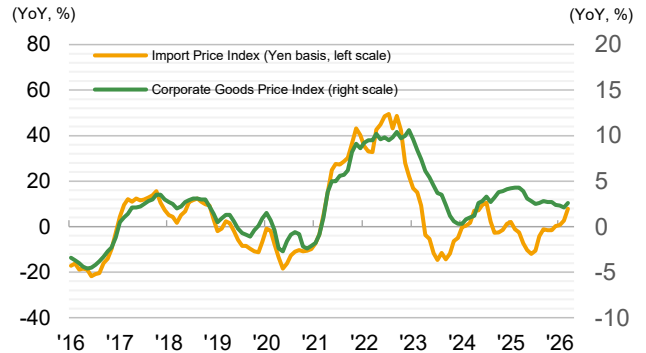
#### Bank of Japan Tankan Survey (Price Outlook)



※ Large enterprises, all industries; latest figure is the "outlook" from the March 2026 survey

Source: BOJ; Compiled by Daiwa Asset Management

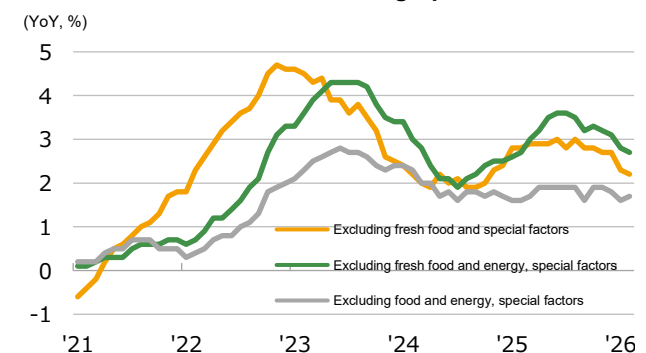
#### Corporate Goods Price Index and Import Price Index



※Latest figure as of March 2026

Source: BOJ; Compiled by Daiwa Asset Management

#### Consumer Price Index Excluding Special Factors



※Latest figure as of February 2026

Source: BOJ; Compiled by Daiwa Asset Management



### Equity

#### Japanese Stocks Rebound Sharply on Hopes for Improved Middle East Situation

As the situation in the Middle East deteriorated, the Nikkei 225 fell to a level where a drop below 50,000 Yen was within sight; however, it has since rebounded sharply on the back of improving conditions and expectations for a permanent ceasefire agreement between the US and Iran. On April 16, it recovered to the 59,000-Yen range, surpassing the all-time high set at the end of February 2026, and futures subsequently briefly rose above the 60,000-Yen mark. Investor interest has been concentrated on select stocks, such as those related to AI and semiconductors, and only 23% of the index's constituent stocks have recovered to their levels from the end of February.

#### High Crude Oil Prices Expected to Reduce FY2026 Profits by 6%

According to our analysis, a 10% price hike in Brent crude oil reduces the net profits of TOPIX constituent companies by approximately 1-2%. Prior to the conflict, market forecasts projected a 14% growth rate for the TOPIX's fiscal 2026 EPS. However, based on the average price for fiscal 2026 (\$85/bbl.) derived from the current forward curve of the Brent crude oil futures market and our own estimate (\$84/bbl.), growth is projected at 8%, meaning that high crude oil prices are pushing down the expected growth rate by about 6 percentage points.

#### Earnings Momentum Set to Deteriorate in the April–June Quarter

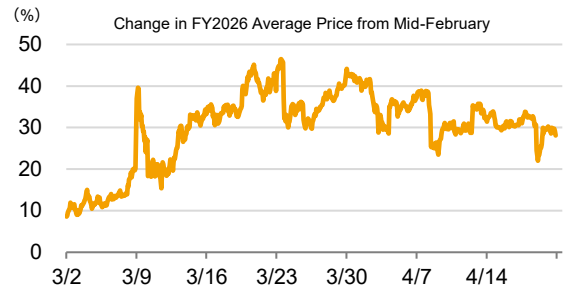
The earnings season for FY2025 results among March fiscal year-end companies is approaching. Attention should be paid to the initial forecasts for FY 2026 that companies will announce alongside their full-year financial results. While weak initial forecasts are typical, this year's forecasts may be more cautious than usual due to the significant uncertainty stemming from the situation in the Middle East. Analyst earnings forecasts, which have shown little change since the conflict began, are also likely to see a full-scale downward revision following the financial results announcements.

#### Japan's Medium- to Long-Term Equity Upside Story Remains Unchanged

On the other hand, if expectations for an improvement in the Middle East situation persist, the stock market is likely to begin pricing in post-normalization earnings; therefore, a deterioration in earnings momentum is unlikely to exert significant downward pressure on the market. The risk that structural changes—such as the shift in inflation trends, governance reforms, and supply-demand dynamics—will be set back by the situation in the Middle East has diminished. While uncertainty regarding short-term stock price movements remains high, we expect the medium- to long-term bull market for Japanese stocks to continue, supported by these structural changes and the government's growth strategy

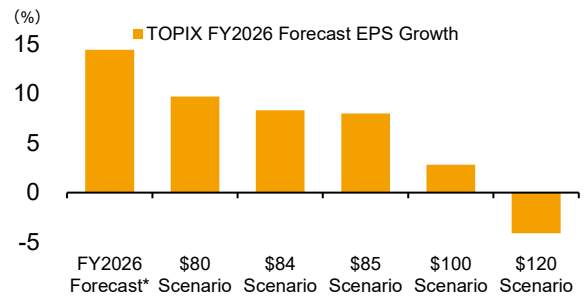
(Written by Kazunori Tatebe, Research Department)

#### Trend in Brent Crude Oil's FY2026 Average Price



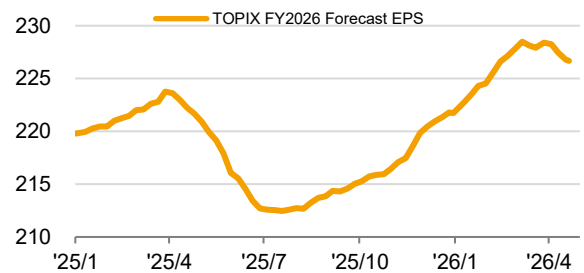
※ Latest figures as of April 21, 2026, 5:00 a.m.  
Source: Bloomberg; Compiled by Daiwa Asset Management

#### TOPIX Forecast EPS Growth by Brent Oil Price Level



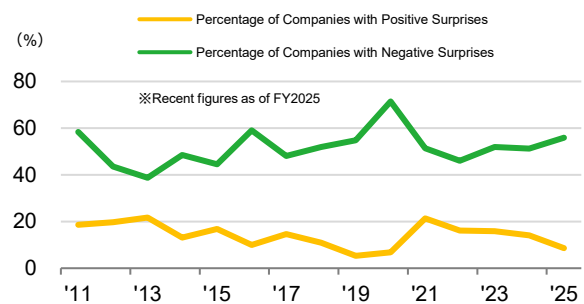
※ \*Market consensus prior to the conflict (Brent crude oil price: USD 66/bbl.)  
Source: FactSet; Compiled by Daiwa Asset Management

#### Earnings Forecast Revisions Yet to Come



※ Last figures as of April 20, 2026  
Source: FactSet; Compiled by Daiwa Asset Management

#### Initial Company Guidance Tends to Undershoot Market Expectations



※ Recent figures as of FY2025  
※ Among TOPIX 500 March year-end companies, initial guidance deviating by over 5% from market expectations is classified as a surprise  
Source: FactSet; Compiled by Daiwa Asset Management



### Interest Rates

#### Expectations for an April Rate Hike Have Receded Rapidly

In a speech in mid-April, Bank of Japan Governor Ueda pointed to instability in international financial markets against the backdrop of escalating tensions in the Middle East. He indicated that the bank would closely monitor the impact on the economy, prices, and financial conditions, suggesting that it has no intention of rushing to raise interest rates. Subsequently, reports suggesting that the Bank would hold off on raising rates at its April monetary policy meeting began to circulate, and the probability of a rate hike at the meeting—which the market had temporarily priced in at over 70%—has now fallen to nearly zero. On the other hand, expectations for a rate hike in June or July account for about 90% of the market consensus, which aligns with our own projections. In the medium to long term, attention will focus on the timing of achieving the price stability target outlined in the Outlook Report from the April meeting, as this will help determine the pace of rate hikes and the ultimate target rate. The Bank of Japan is maintaining its rate-hiking stance against the backdrop of extremely low real interest rates, and given the prevailing view that the neutral interest rate is rising, upward pressure on interest rates is likely to persist. While the outlook for the long-term interest rate was left unchanged at 2.2% for the end of 2026 and 2.0% for the end of 2027, an upward revision remains a possibility.

(Written by: Satsuki Yuba, Research Department)

### J-REIT

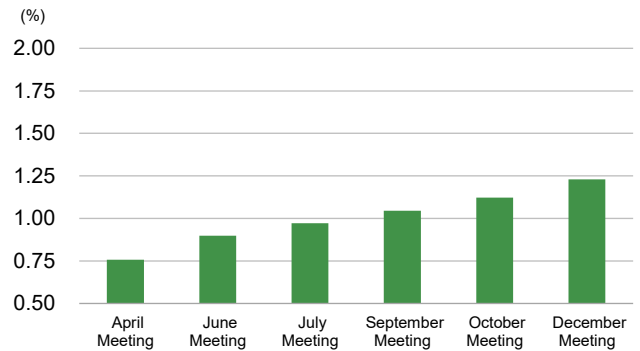
#### Developments Continue to Be Driven by Middle East Tensions

Toward the end of March, the J-REIT market declined due to concerns over a global economic slowdown caused by escalating tensions in the Middle East and high prices for crude oil. Since April, although peace talks between the US and Iran temporarily broke down, the market rebounded on expectations that the situation would calm down, including hopes for renewed negotiations.

We view short-term trends as dependent on the situation in the Middle East. While we hope the situation will resolve, whether a peace agreement is ultimately reached is crucial, and we are closely monitoring future developments. The current domestic real estate rental market is strong, with solid rent increases being realized, particularly in offices and residential properties, and this trend is expected to continue. Although rising interest rates have increased borrowing costs for J-REITs, an increasing number of issuers are setting dividend increase targets, supported by steady rent increases, the utilization of capital gains and retained earnings, and expanded shareholder returns. As the situation in the Middle East stabilizes, attention is expected to shift to these strong fundamentals, and we anticipate a gradual rise in the J-REIT market.

(Written by: Kazuhiko Arai, Global Investment Department)

#### Policy Interest Rate Level Implied by the Market



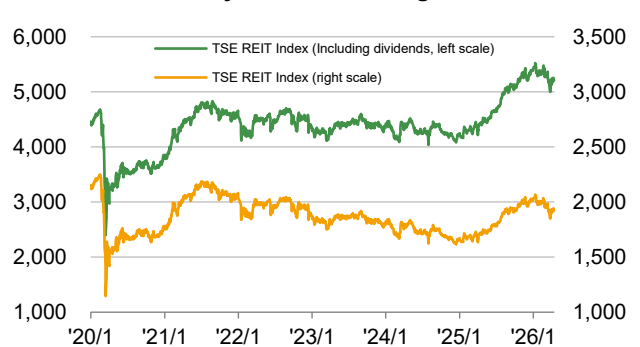
※ As of April 20, 2026  
Source: Bloomberg; Compiled by Daiwa Asset Management

#### 10-Year Government Bond Yield



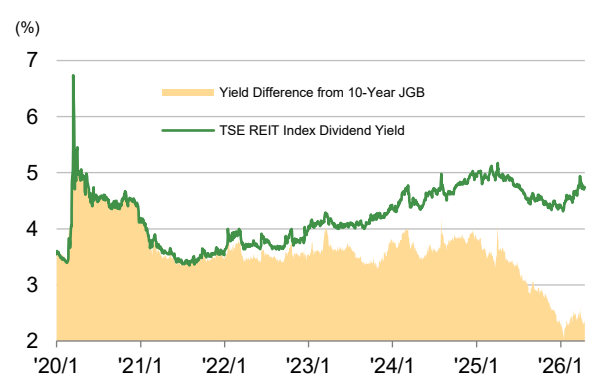
※ Last figures as of April 20, 2026  
Source: Bloomberg; Compiled by Daiwa Asset Management

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



※ Last figures as of April 20, 2026  
Source: Bloomberg; Compiled by Daiwa Asset Management

#### Trend of the Dividend Yield for the TSE REIT Index



※ Dividend yield is based on trailing 12-month actuals  
※ Last figures as of April 20, 2026  
Source: Bloomberg; Compiled by Daiwa Asset Management



# US Dollar

## USD/JPY Little Changed Amid Yen and Dollar Weakness

Over the past month, both the Yen and the US Dollar have declined against other currencies (25 currencies shown in the right chart), leaving USD/JPY largely flat amid offsetting moves. The agreement between the US and Iran on a temporary ceasefire contributed to risk-on sentiment, leading to a weaker Yen and a weaker US Dollar (and stronger other currencies). However, since the US and Iran have not reached a peace agreement and the blockade of the Strait of Hormuz remains in place, the decline in crude oil prices and the drop in global interest rates have been limited so far, and their impact on strong Yen appreciation has been minimal.

## Dollar Weakness Amid a Narrowing Japan-US Real Rate Gap

Over the past month, the 10-year real interest rate differential between Japan and the US narrowed, but the 5-year spread saw only a slight change, and USD/JPY also traded in a narrow range. In the US, expectations for interest rate hikes receded, causing real interest rates to decline. In Japan, inflation expectations rose as crude oil prices remained high, but expectations for interest rate hikes receded, causing real interest rates to fall. In the medium term, we expect that as crude oil prices fall, US real interest rates will decline relatively (while Japan's real interest rates rise relatively), leading to a weaker US Dollar and a strong Yen.

## Risk-Off Yen Strength as US Data Softens

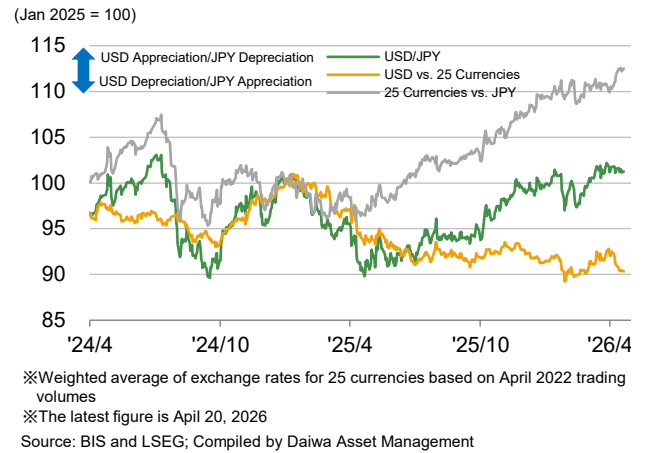
The Economic Surprise Index, which reflects the deviation of economic indicators from market forecasts, has recently declined in positive territory for both the US and Japan, while declining in negative territory for the Eurozone. For the time being, we believe the US Economic Surprise Index is likely to decline further due to the weakening of the Dollar depreciation effect and the wealth effect. As the G10 Economic Surprise Index falls into negative territory and concerns about an economic slowdown in developed countries grow, we expect risk-off pressure driving a strong Yen to emerge, causing both USD/JPY and other Yen crosses to trend lower.

## Commodity Prices Turn Lower, Leading to Strong Yen and Dollar Weakness

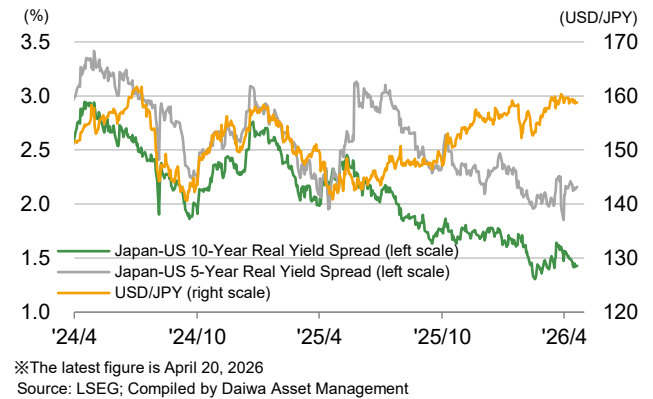
The pullback in crude oil prices has been limited, and commodity markets remain generally elevated. In the near term, higher commodity prices are likely to weigh on the Yen by worsening Japan's terms of trade and lowering real interest rates. However, we believe there is a high probability that the US and Iran will reach a peace agreement within a few months, leading to the lifting of the blockade of the Strait of Hormuz and a subsequent decline in crude oil prices. An improvement in Japan's terms of trade and a relative rise in real interest rates are likely to drive Yen appreciation and US Dollar weakness. We expect cross-Yen pairs, which are currently firm due to risk-on sentiment, to decline as crude oil prices fall and overseas interest rates drop.

(Written by Yuji Kameoka, Research Department)

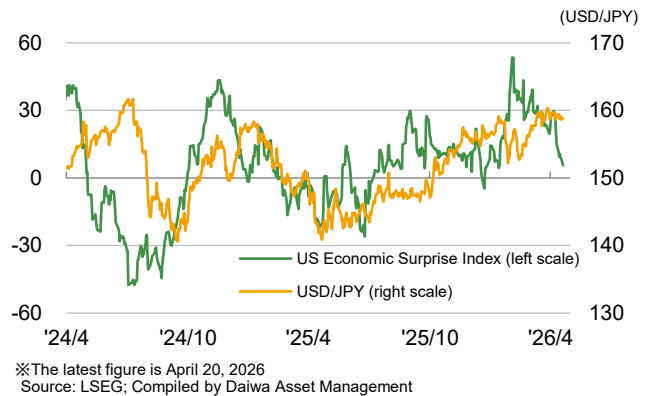
## Exchange Rates of USD/JPY and Other Currencies



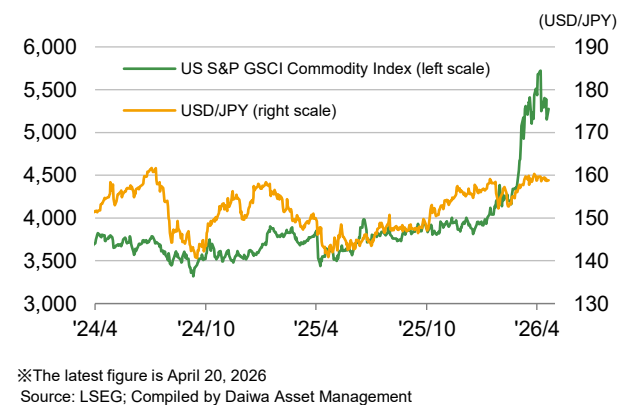
## Japan-US Real Interest Rate Differential and USD/JPY



## US Economic Surprise Index and USD/JPY



## Commodity Composite Index and USD/JPY





## Euro

### EUR/JPY Hits an All-Time High

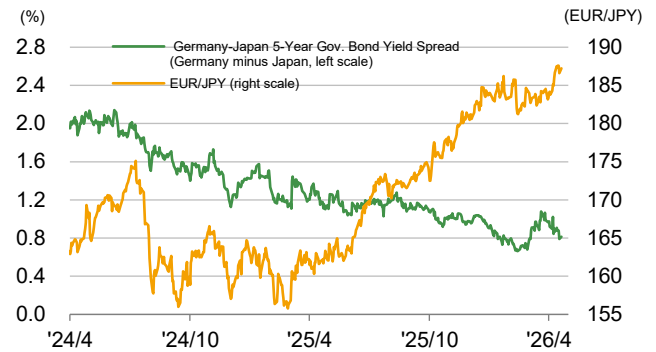
The Euro strengthened against the Yen to the ¥187 level, driving EUR/JPY to a fresh all-time high. This was driven by the weak Yen as markets shifted toward risk-on sentiment following the temporary ceasefire between the US and Iran. However, German interest rates have fallen relative to Japanese rates, and we expect this trend to intensify if crude oil prices continue to decline. Over the medium term, we expect the Euro to weaken and the Yen to strengthen, driven by a narrowing Germany–Japan interest rate differential and a fading risk-on environment.

### Pause in Euro Weakness and Dollar Strength

The trend of a weaker Euro and stronger US Dollar has paused. This is because the risk-on sentiment resulting from the US-Iran ceasefire has driven the Euro higher and the US Dollar lower. If crude oil prices continue to fall, improved terms of trade for the Eurozone and risk-on sentiment are likely to further drive the Euro higher and the US Dollar lower. However, risk-on sentiment will eventually weaken due to concerns over a recession, and as German interest rates fall relative to US rates due to receding expectations of rate hikes, the trend of a stronger Euro and weaker US Dollar is expected to lose momentum. We expect the EUR/USD exchange rate to stabilize near current levels.

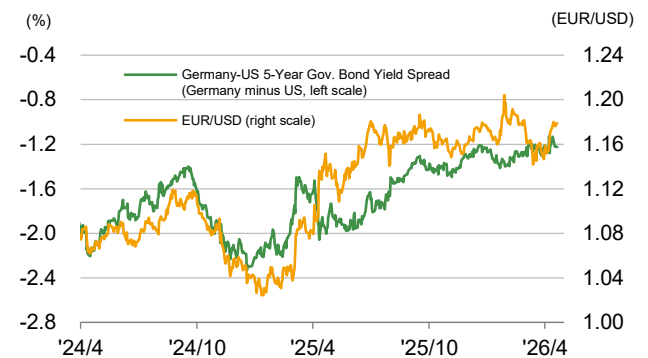
(Written by Yuji Kameoka, Research Department)

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



※The latest figure is April 20, 2026  
Source: LSEG; Compiled by Daiwa Asset Management

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



※The latest figure is April 20, 2026  
Source: LSEG; Compiled by Daiwa Asset Management

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