This is marketing documentation

NOT FOR RETAIL CLIENTS

Japan | Economic and Financial Market Outlook

Page

7

JUL. 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

United States	• Interest rate cuts are expected to come to an end, with rates projected to remain steady at 3.50–3.75% in 2026. • The outlook for 2027 points toward interest rate hikes.
Japan	• Interest rates are expected to rise by 0.25 percentage points roughly every six months, with the cycle ending at 1.5%. • Reduction in government bond purchases: In principle, purchases will be reduced by approximately 200 billion Yen per quarter through March 2027. From April of that year onward, monthly purchases of approximately 2 trillion Yen will be conducted.
Eurozone	• Unless energy prices surge again, the policy interest rate will remain unchanged for the time being. • Matured bonds in the portfolio will not be reinvested. Bonds in the portfolio will not be sold.

Real GDP（YoY, %）

	Actual figures		Estimates	
	2024	2025	2026	2027
US	2.8	2.1	2.1	2.0← (1.9)
Japan	▲ 0.2	1.1	0.5	0.8
Euro	1.0	1.4	0.6 ← (0.9)	1.4

Policy Interest Rate (%) / 10-Year Government Bond Yield (%)

	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 2026/6/22	End of 2026	End of 2027	End of 2024	End of 2025	As of 2026/6/22	End of 2026	End of 2027
US *1	4.50	3.75	**3.75**	3.75 ← (3.50)	4.00 ← (3.50)	4.57	4.17	**4.51**	4.3	4.5
Japan	0.25	0.75	**1.00**	1.25	1.50	1.10	2.07	**2.68**	2.6	2.0
Euro *2	3.00	2.00	**2.25**	2.25	2.00	2.37	2.86	**2.95**	2.8	2.6

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 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 2026/6/22	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%	**7,473**	+9%	7,900	+15%	8,600	+9%
	DJIA	42,544	+13%	48,063	+13%	**51,713**	+8%	54,000	+12%	58,000	+7%
Japan	**TOPIX**	2,785	+18%	3,409	+22%	**4,095**	+20%	4,400← (4,200)	+29%	4,800← (4,600)	+9%
	Nikkei 225 Index	39,895	+19%	50,339	+26%	**72,354**	+44%	79,000← (67,000)	+57%	86,000← (73,000)	+9%
Euro	**STOXX600**	508	+6%	592	+17%	**639**	+8%	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 2026/6/22	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%	**29,728**	+16%	30,600	+20%	34,000	+11%
Japan	**TSE REIT Index**	1,653	-9%	2,014	+22%	**1,766**	-12%	2,000	-1%	2,150	+8%

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 2026/6/22	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%	**161.57**	+3%	153← (149)	-2%	145← (142)	-5%
EUR	162.78	+5%	184.01	+13%	**184.65**	+0%	174	-5%	165	-5%

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

Economy

Shock Resilience Supported by AI-Related Demand

In light of the situation in the Middle East, the immediate focus is on the extent to which positive trends—such as corporate wage raises and expanded investment—will be curbed. In industrial production, the energy and materials sectors are showing weaker performance due to rising costs and difficulties in procuring raw materials. On the other hand, demand in the digital sector—centered on AI and semiconductors—remains robust, and production of semiconductor manufacturing equipment and electronic components continues to grow at a high rate. In the past, surging energy prices often led directly to an economic slowdown through reduced demand and contracting production. However, at present, structural and global demand driven by AI-related investment is enhancing resilience to exogenous shocks.

Private Consumption Holds Steady Despite Deteriorating Consumer Sentiment

Since tensions in the Middle East escalated, sentiment indicators related to economic trends have been sluggish. However, actual private consumption remains resilient. The significant growth in durable goods in April was driven primarily by automobiles, and is believed to be mainly due to the materialization of demand following the abolition of the environmental performance surcharge on automobile taxes. On the other hand, signs of a recovery are emerging in non-durable goods against the backdrop of stabilizing food prices, such as for rice. Furthermore, despite a lull in inbound tourism demand due to factors like the deterioration of Japan-China relations, consumption of services remains robust. Overall, there are no signs that growing caution in consumer sentiment is leading to a decline in consumption; rather, it appears to be underpinned by high wage raises and the government's measures to alleviate energy costs.

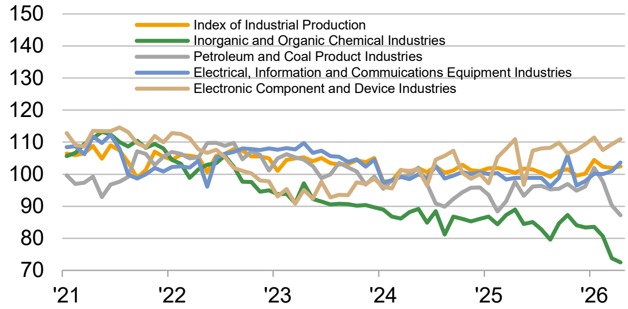
Corporate Price Pass-Through Accelerates Amid High Crude Oil Prices

The domestic corporate goods price index accelerated significantly in May, rising 6.3% year-on-year (compared to 2.8% in March and 5.3% in April). Looking at trends by product category, while price hikes in upstream sectors—such as petroleum and coal products and chemical products—are particularly noticeable, the impact has already spread to midstream sectors, such as plastic products. A notable feature is the rapid pace at which price hikes are being passed on. Given that companies are launching a more aggressive pricing strategy than in the past, the upward pressure on prices triggered by high crude oil prices is highly likely to spread to goods and services other than energy at the consumer level. Attention is focused on how these developments, combined with medium- to long-term inflation expectations, will affect the underlying rate of inflation.

(Written by Satsuki Yuba, Research Department)

Industrial Production

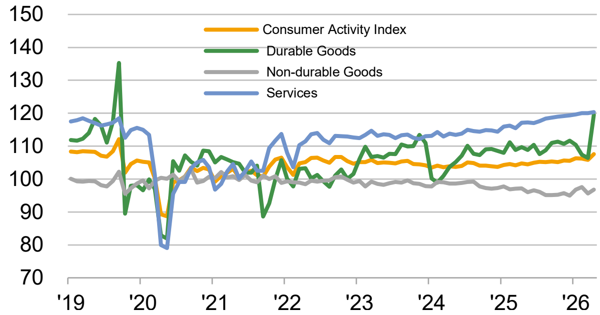
(Seasonally Adjusted, 2020=100)



※ Latest figure as of April 2026
Source: Ministry of Economy, Trade and Industry; Compiled by Daiwa Asset Management

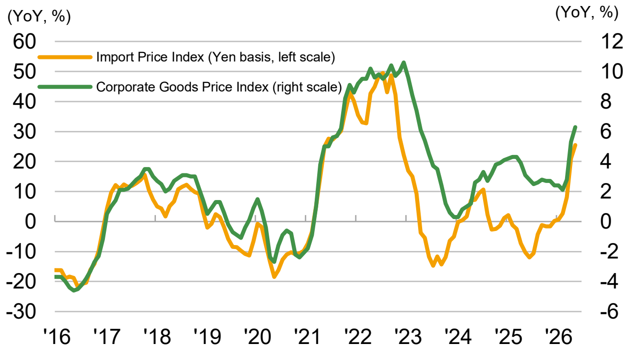
Real Private Consumption

(Seasonally Adjusted, 2020=100)



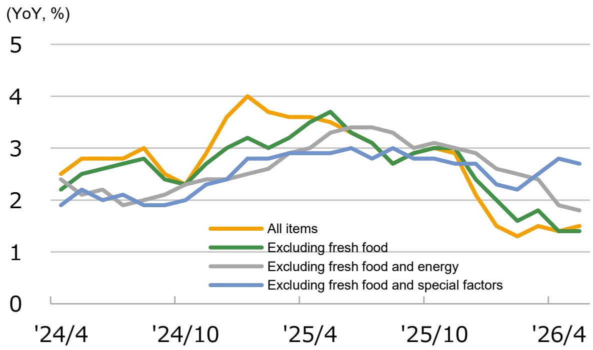
※ The Consumption Activity Index is adjusted for travel balance; latest figure as of April 2026
Source: Bank of Japan; Compiled by Daiwa Asset Management

Domestic Corporate Goods Price Index and Import Price Index



※ Latest figure as of May 2026
Source: Bank of Japan; Compiled by Daiwa Asset Management

Consumer Price Index



※ Latest figure as of May 2026
Source: Ministry of Internal Affairs and Communications, Bank of Japan; Compiled by Daiwa Asset Management

Equity

The Japanese Stock Market Continues to Hit New Highs

Stock prices continue to rise against the backdrop of growth expectations for AI and an improvement in the situation in the Middle East. AI and semiconductor-related stocks continue to attract investor capital and are driving the stock market. Meanwhile, since Japan relies heavily on the Middle East for its energy supply, the normalization of shipping through the Strait of Hormuz has significantly alleviated uncertainty regarding the outlook for Japanese stocks. Following the US-Iran agreement, the TOPIX—which had been lagging behind—has recovered to its February high and is now hitting new highs.

Volatility May Increase in the Near Term

Driven by substantial financial inflows into AI and semiconductor-related sectors, the Nikkei 225—which has a high weighting of these stocks—continues to rise at a rapid pace. Since April, the index has risen by 42%, outperforming the TOPIX by 25 percentage points. Furthermore, the deviation from its 200-day moving average exceeds 30%, a historically rare level. Given the strong sense of overheating from a technical perspective, investors should be cautious of the possibility of increased volatility in the short term.

Improving USD-Denominated Returns and Foreign Investors

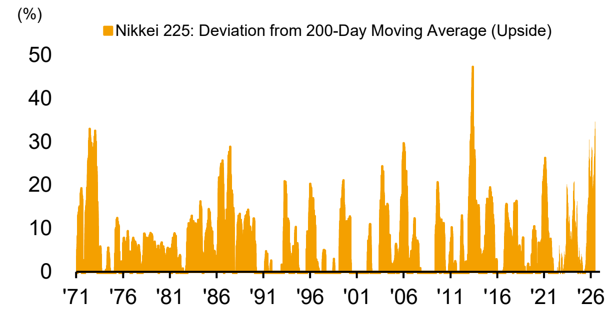
Financial inflows from foreign investors into the Japanese stock market are accelerating. Cumulative net purchases (cash equities) since the end of March 2026 have reached 7 trillion Yen, and since April 2025, they have totaled 17 trillion Yen. This trend is believed to be driven by structural changes in Japan's macro- and micro-economies, as well as expectations for the Takashi administration; however, the improvement in Dollar-denominated returns on Japanese stocks is likely another contributing factor. The financial inflow of foreign capital into Japanese stocks—which are showing better performance than the S&P 500 in Dollar terms—is expected to continue.

Japanese Stocks Set for Further Gains

We maintain a bullish outlook on Japanese stocks. Based on the upward revision to the TOPIX forecast EPS—driven by the easing of downside risks to corporate earnings due to improved conditions in the Middle East and upward revisions to earnings estimates for AI and semiconductor-related sectors—we are raising our TOPIX forecasts for the end of 2026 and 2027 to 4,400 and 4,800, respectively. In addition to raising the TOPIX forecast, we have increased our NT multiple assumption to reflect our positive outlook on AI and semiconductor-related sectors, and have raised our forecasts for the Nikkei 225 to 79,000 and 86,000 Yen at the end of 2026 and 2027, respectively.

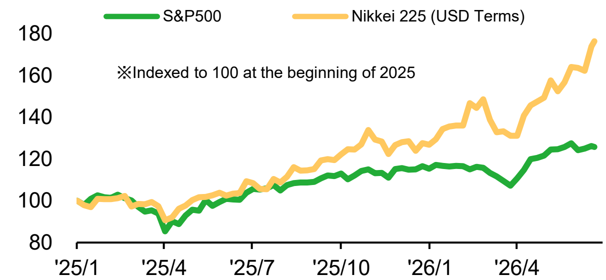
(Written by Kazunori Tatebe, Research Department)

Nikkei 225 Appears Technically Overbought, with Risks of Higher Near-Term Volatility



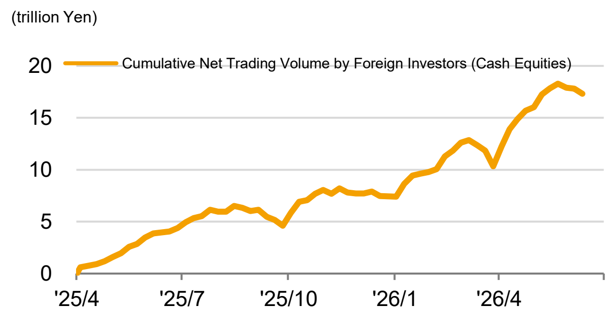
※ Latest figure as of June 22, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

Japanese Equities Outperform the S&P 500 in USD Terms



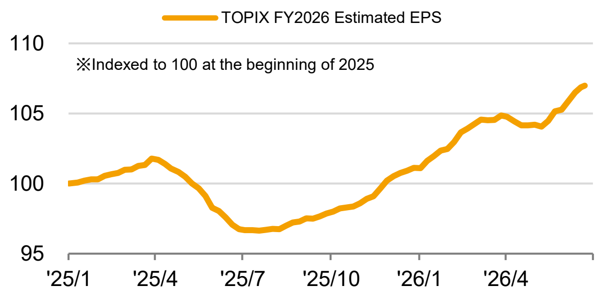
※ Latest figure as of June 22, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

Foreign Inflows into the Japanese Equity Market Accelerate



※ Cumulative weekly data starting in April 2025
Latest figures being the week containing June 12, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

TOPIX FY2026 EPS Forecast Remains Above Pre-Iran Conflict Levels



※ Latest figure as of June 22, 2026
Source: FactSet; Compiled by Daiwa Asset Management

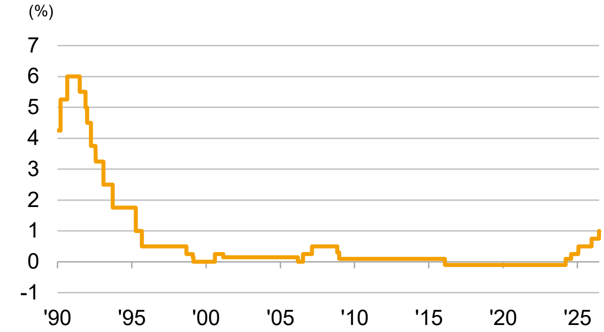
Interest Rates

Policy Rate Raised to 1.0%, Highest in 31 Years

At its June monetary policy meeting, the Bank of Japan decided, as expected by the market, to raise the unsecured overnight call rate—its policy interest rate—by 0.25 percentage points to 1.0%. At the same time, it announced its policy to halt the reduction in government bond purchases starting in April 2027 and to continue purchasing approximately 2 trillion Yen per month. In its statement, the Bank cited as the rationale for this decision the fact that price pass-through in business-to-business transactions is proceeding at a relatively rapid pace, driven by a price hike in crude oil, and pointed out the risk that the underlying inflation rate could exceed the 2% inflation target through broad-based spillover effects on consumer prices. Looking ahead, while the policy of continuing interest rate hikes was maintained, the timing and pace of future hikes will depend on the impact of the situation in the Middle East on the domestic economy and prices. Assuming a semi-annual pace, the next rate hike is generally expected to occur in December; however, given the weak Yen, which has led to Yen depreciation to the 161-Yen-per-US Dollar range, concerns about upward pressure on prices are likely to grow, raising the possibility of an earlier-than-expected rate hike.

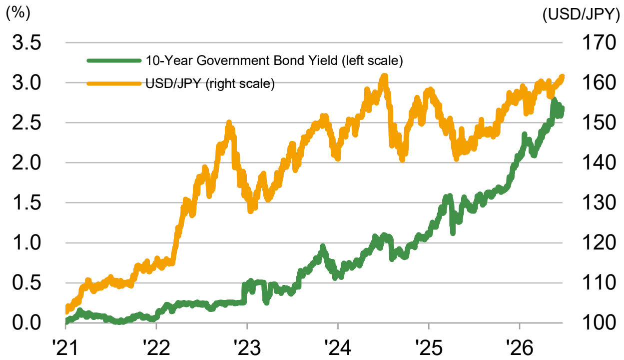
(Written by: Satsuki Yuba, Research Department)

Unsecured Overnight Call Rate



※ Latest figure as of June 22, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

10-Year Government Bond Yield and USD/JPY



※ Latest figure as of June 22, 2026
Source:Bloomberg; Compiled by Daiwa Asset Management

J-REIT

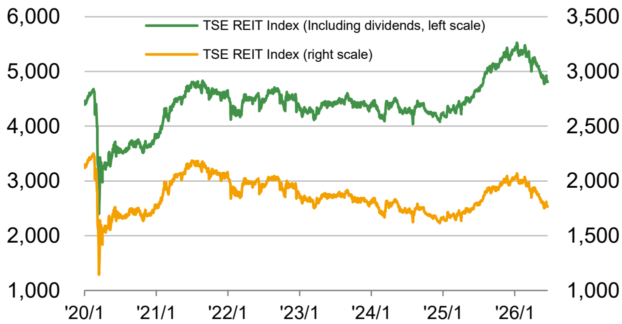
Steady Performance Expected Following Resumption of Buybacks

Since mid-April, the J-REIT market has continued to decline amid concerns over rising domestic long-term interest rates. The Tokyo Stock Exchange REIT Index closed at 1,752 on June 5, hitting its lowest level since June 2025. Recent financial results show that rent increases are accelerating, particularly for offices and rental housing. Although borrowing costs are rising due to higher interest rates, the positive earnings outlook remains unchanged. On the other hand, many investors are concerned about the uncertainty surrounding future interest rates, which is seen as the main cause of the J-REIT market's slump.

Dividend yields exceed 5%, and preliminary calculations indicate that the NAV multiple for the J-REIT market as a whole has fallen to the low 0.8x range. In June (as of the 22nd), two share buyback announcements were made. If the index continues to stagnate, further buyback announcements are expected from various companies; with improvements in capital efficiency and supply-demand dynamics, the index is expected to show resilience going forward. The outlook remains unchanged—offering over 5% income without foreign exchange risk, and the potential for a capital gain if the domestic long-term interest rate stabilizes—and the investment rating is maintained at "slightly bullish."

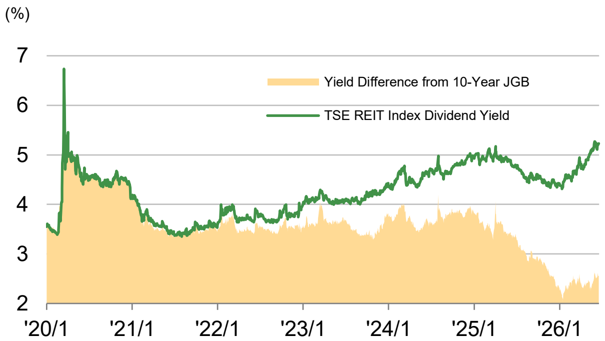
(Written by Kazuhiko Arai, Global Asset Management Department)

Trend of the Tokyo Stock Exchange REIT Index



※ Latest figure as of June 22, 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
※ Latest figure as of June 22, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

US Dollar

Dollar Strengthens, Yen Weakens

Over the past month, the US Dollar has risen against other currencies while the Yen has fallen, resulting in a strengthening of the US Dollar and a weak Yen. Amid inflation pressure caused by high crude oil prices, the US economy has remained robust, a leading to heightened expectations for US interest rate hikes and a stronger US Dollar. Furthermore, while upward pressure on the Yen from lower crude oil prices and falling overseas interest rates remained limited, expectations for a US-Iran peace agreement created "risk-on" sentiment that pushed the Yen lower. Recently, the USD/JPY exchange rate has shown a positive correlation with the long-term US interest rate.

Higher US Real Yields Bolster the Dollar

Over the past month, the real interest rate differential between Japan and the US has widened, contributing to a stronger US Dollar. Amid falling crude oil prices and a shift toward lower inflation expectations in both Japan and the US, the policy stance of Federal Reserve officials in the economically robust US has shifted toward a hawkish stance, and real interest rates have risen due to heightened expectations of interest rate hikes. In Japan, by contrast, real interest rates have fallen as expectations for rate hikes have not materialized. However, we believe that as crude oil prices continue to fall, US real interest rates will decline relatively, leading to a weaker US Dollar and a strong Yen.

Japan-US Coordination to Curb Yen Weakness and Dollar Strength

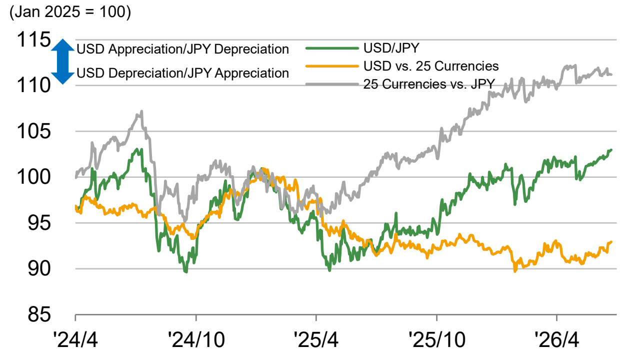
Japan's real effective exchange rate (narrow basis, covering 27 economies) fell to its weakest level since August 1965 in April 2026. On a broad basis, the May real effective exchange rate indicates that the Yen is around 35% weaker than its 20-year average, while the US Dollar is approximately 14% stronger, making Yen weakness and Dollar strength particularly pronounced among major currencies. To curb inflation and rising interest rates in Japan and the decline in US export competitiveness, Japanese and US authorities are coordinating efforts to curb weak Yen and strong Dollar conditions, and the possibility of intervention through Yen buying and Dollar selling remains.

Stronger Yen, Weaker Dollar on Falling Oil Prices

Although crude oil prices have fallen following a provisional agreement between the US and Iran to end hostilities and reopen the Strait of Hormuz, the decline in crude oil prices (and commodity prices in general) remains limited due to uncertainty over whether a final agreement will be reached. Consequently, the Yen has not strengthened and the US Dollar has not weakened as much as one might expect given Japan's improved terms of trade and the relative decline in overseas interest rates. However, we expect the Yen to strengthen and the US Dollar to weaken as a final agreement is reached, oil supplies from the Middle East recover, and crude oil prices continue to fall. Furthermore, we believe that the risk-on pressure driving weak Yen, fueled by expectations of a peace agreement, will not persist for long.

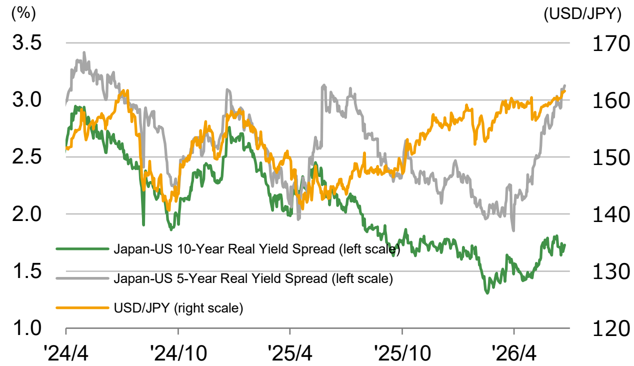
(Written by Yuji Kameoka, Research Department)

Exchange Rates of USD/JPY and Other Currencies



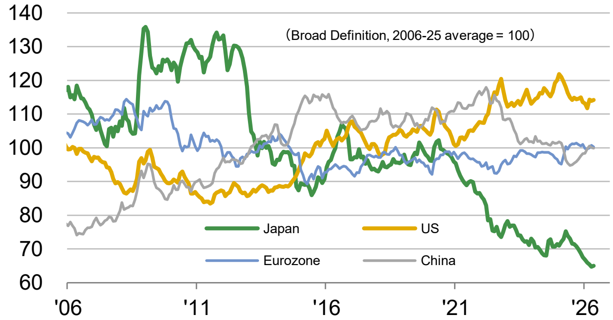
※Weighted average of exchange rates for 25 currencies based on April 2025 trading volumes
※The latest figure as of June 22, 2026
Source: BIS and LSEG; Compiled by Daiwa Asset Management

Japan-US Real Interest Rate Differential and USD/JPY



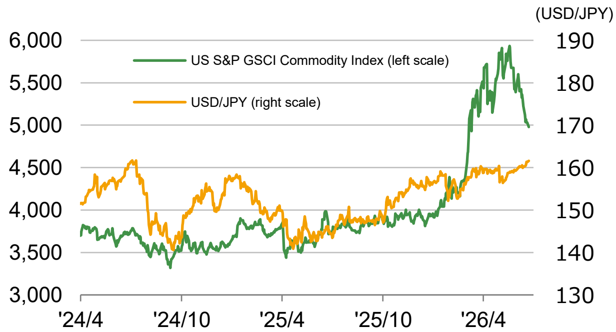
※The latest figure as of June 22, 2026
Source: LSEG; Compiled by Daiwa Asset Management

Real Effective Exchange Rates of Japan, US, Eurozone and China



※ Broad definition includes 64 countries and regions, including emerging markets
※ Latest figure as of May 2026
Source: BIS; Compiled by Daiwa Asset Management

Commodity Composite Index and USD/JPY



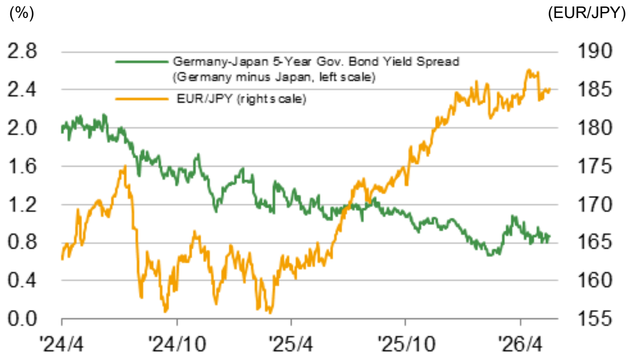
※The latest figure as of June 22, 2026
Source: LSEG; Compiled by Daiwa Asset Management

Euro

Weaker Euro, Stronger Yen on Falling Oil Prices

The EUR/JPY pair is holding up well due to risk-on sentiment—driven by expectations of a peace agreement between the US and Iran—which is putting downward pressure on the Yen. However, as expectations for ECB rate hikes plateau, German interest rates are falling relative to Japanese rates, and this trend is likely to intensify as crude oil prices continue to decline. In the medium term, we expect the Euro to weaken and the Yen to strengthen as the German-Japanese interest rate spread narrows and risk-on sentiment wanes.

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



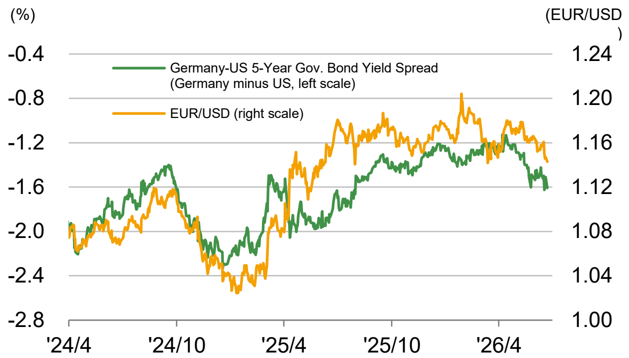
※The latest figure as of June 22, 2026
Source: LSEG; Compiled by Daiwa Asset Management

EUR/USD Expected to Remain Stable

While risk-on sentiment previously supported a stronger Euro and weaker US Dollar, the EUR/USD has recently declined as the relative decline in German interest rates compared to US rates has driven the Euro lower and the US Dollar higher. Going forward, as crude oil prices continue to fall, improved terms of trade in the eurozone are expected to support a stronger Euro and weaker US Dollar, while the relative decline in German interest rates—driven by fading expectations of an ECB rate hike—is likely to push the Euro lower and the US Dollar higher. We expect the EUR/USD to trade stably around current levels.

(Written by: Yuji Kameoka, Research Department)

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



※The latest figure as of June 22, 2026
Source: LSEG; Compiled by Daiwa Asset Management

Daiwa
Asset Management