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Japan | Economic and Financial Market Outlook

Page

9

SEP. 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	2025	2026	2027
US	2.8	2.1	2.1	2.0
Japan	0.1	1.2	0.5	0.8
Euro	1.0	1.2	0.9← (0.6)	1.4

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	• The ultimate target for interest rate hikes is expected to be 1.5%. The focus is on whether the pace of rate hikes will accelerate. • 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 made.
Eurozone	• An additional rate hike is expected in September. After that, a wait-and-see approach will be maintained for an extended period. • Matured bonds in the portfolio will not be reinvested. Bonds in the portfolio will not be sold.

	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 2026/8/17	End of 2026	End of 2027	End of 2024	End of 2025	As of 2026/8/17	End of 2026	End of 2027
US *1	4.50	3.75	**3.75**	3.75	4.00	4.57	4.17	**4.72**	4.5← (4.3)	4.5
Japan	0.25	0.75	**1.00**	1.25	1.50	1.10	2.07	**2.92**	2.6	2.0
Euro *2	3.00	2.00	**2.25**	2.50← (2.25)	2.50← (2.00)	2.37	2.86	**3.22**	2.8	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 2026/8/17	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%	**7,745**	+13%	7,900	+15%	8,600	+9%
	DJIA	42,544	+13%	48,063	+13%	**53,460**	+11%	54,000	+12%	58,000	+7%
Japan	TOPIX	2,785	+18%	3,409	+22%	**4,184**	+23%	4,400	+29%	4,800	+9%
	Nikkei 225 Index	39,895	+19%	50,339	+26%	**69,220**	+38%	79,000	+57%	86,000	+9%
Euro	STOXX600	508	+6%	592	+17%	**656**	+11%	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 2026/8/17	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%	**30,422**	+19%	30,600	+20%	34,000	+11%
Japan	TSE REIT Index	1,653	-9%	2,014	+22%	**1,811**	-10%	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 2026/8/17	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%	**159.46**	+2%	155	-1%	147	-5%
EUR	162.78	+5%	184.01	+13%	**184.67**	+0%	174	-5%	165	-5%

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

Economy

Real GDP Expands for a Third Consecutive Quarter

Real GDP growth for the April–June 2026 quarter was +1.1% on an annualized quarter-on-quarter basis (compared to +1.9% in the January–March quarter), marking the third consecutive quarter of positive growth. External demand drove growth, driven by a decline in crude oil imports amid escalating tensions in the Middle East. On the other hand, while private consumption and corporate capital spending showed some weakness, these results do not warrant excessive pessimism regarding the outlook for domestic demand. Against the backdrop of substantial wage raises during this year's spring labor negotiations, real employee income is trending upward, and household income conditions continue to improve. Furthermore, the expansion of global demand for AI-related products is expected to underpin capital spending and exports over the medium to long term.

Progress in Price Pass-Through Signals Inflationary Pressure

Growth in the GDP deflator slowed to +2.6% year-on-year in the April–June 2026 quarter (compared to +3.2% in the January–March quarter). While this is believed to be primarily due to a deterioration in the terms of trade against the backdrop of high crude oil prices, the slowdown is largely thought to reflect temporary downward pressure, as there is a lag before companies can pass on rising costs to prices. On the other hand, the growth rate of the private consumption deflator has accelerated from the previous quarter, a trend consistent with the Bank of Japan's observation of more aggressive corporate pricing behavior and a faster pace of price pass-through. Furthermore, the export deflator has maintained strong growth driven by AI-related demand, and the upward pressure on domestic value-added prices is expected to remain firm.

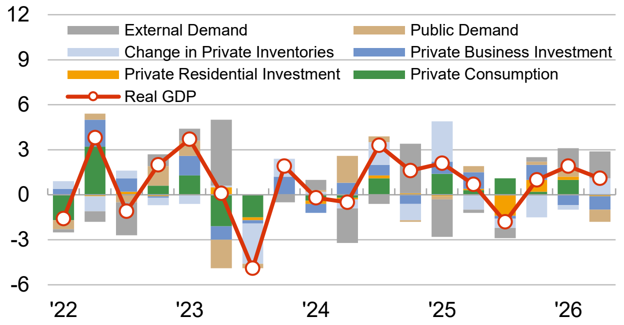
Corporate Prices Remain Elevated Amid AI-Related Demand

The Corporate Goods Price Index for July rose 7.2% year-on-year (up from 7.3% in June), marking the second consecutive month of high growth in the 7% range. Price hikes driven by AI-related demand remain prominent. In particular, in addition to rising non-ferrous metal prices driven by expanding demand for data centers, price pass-through is progressing in electronic components and electrical and information and communications equipment due to soaring memory prices. Furthermore, the overall Consumer Price Index (CPI) for Tokyo's 23 wards rose 2.0% year-on-year (up from 1.7% in June), showing signs of a recovery. The primary driver was the price of goods, which accelerated to a 2.9% year-on-year increase in July (up from 2.3% in June). This suggests that price pass-through, which has been occurring at the business-to-business level, is now spilling over into consumer prices, albeit with a lag.

(Written by: Satsuki Yuba, Research Department)

Real GDP and Contributions by Demand Component

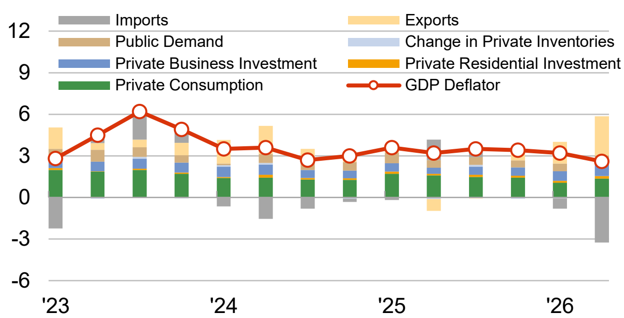
(Quarter-on-Quarter Annualized Rate, % points)



※The latest figures are for the April–June period of 2026.
Source: Cabinet Office; Compiled by Daiwa Asset Management

Contribution Analysis of the GDP Deflator

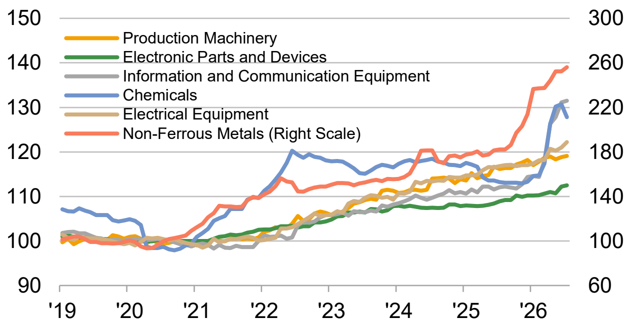
(Year-on-Year, % points)



※The latest figures are for the April–June period of 2026.
Source: Cabinet Office; Compiled by Daiwa Asset Management

Domestic Corporate Price Index (Major Items)

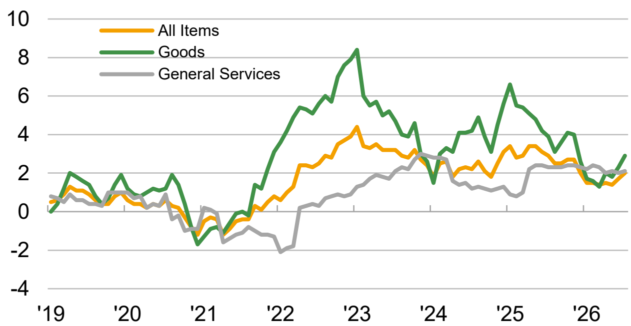
(2020=100)



※In Yen terms, excluding consumption tax; latest figures as of July 2026
Source: Bank of Japan; Compiled by Daiwa Asset Management

CPI for Tokyo's 23 Wards

(Year-on-Year, %)



※Latest figures as of July 2026
Source: Ministry of Internal Affairs and Communications; Compiled by Daiwa Asset Management

Equity

TOPIX Hits New Highs

While the Nikkei 225 fell 15% from late June to late July following a sharp decline in AI and semiconductor-related stocks, the TOPIX remained resilient, with a decline of only 1% during the same period; it has maintained its strength since August and continues to hit new highs. AI and semiconductor-related stocks are seeing buybacks against the backdrop of the passage of a period of deteriorating supply and demand, the completion of the unwinding of positions of speculation, and the easing of concerns over excessive investment following the financial results and settlement of accounts for US hyperscalers; the Nikkei 225 has also rebounded.

Strong Q1 (April–June) Financial Results

The TOPIX's resilience is underpinned by strong earnings momentum. Among TOPIX-component companies reporting financial results for the fiscal year end in March, 65% of firms exceeded the consensus forecast by 5% or more in their Q1 FY2026 (April–June) financial results, significantly outpacing the 18% of firms that fell short by 5% or more. The net income figure rose sharply by 61% year-over-year, significantly exceeding the prior forecast of a 19% increase. Following the Q1 financial results, there was an upward revision to analysts' full-year forecasts.

Share Buybacks Set to Increase Further

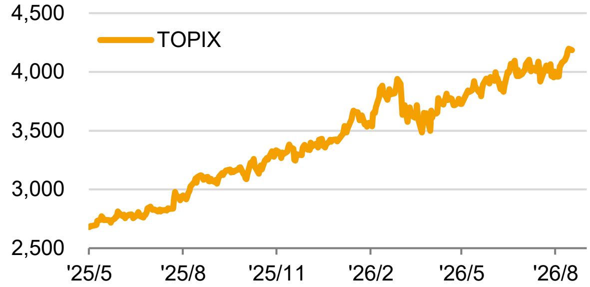
Driven by progress in corporate governance reforms, the launch of share buyback programs is accelerating further. The share buyback programs for 2024 and 2025 were nearly double the record high set in 2023, and the pace for launching these programs in 2026 is even higher. The revisions to the Corporate Governance Code announced in July included provisions to promote the utilization of cash and deposits. We will continue to monitor trends in how companies utilize their cash.

Currency Intervention and Japanese Stocks

Due to coordinated intervention by Japan and the US, the USD/JPY exchange rate plummeted from the 163-Yen range to as low as the 155-Yen range at one point. However, despite the sharp appreciation of the Yen, Japanese stocks remained within a narrow trading range. Historically, Japanese stocks have been highly correlated with exchange rates. This is because a weak Yen leads to improved profitability for exporters; however, at current level of weak Yen, concerns about the negative impact on the Japanese economy and other factors are growing, causing this correlation to break down. Even as Yen depreciation pauses, we expect the stock market to remain firm, supported by strong earnings and favorable supply-demand conditions.

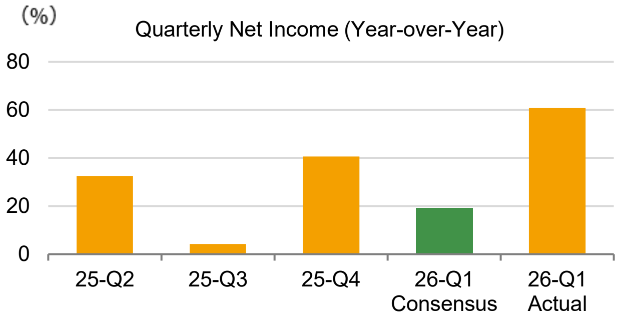
(Written by Kazunori Tatebe, Research Department)

The TOPIX Continues to Show Solid Stock Price Performance



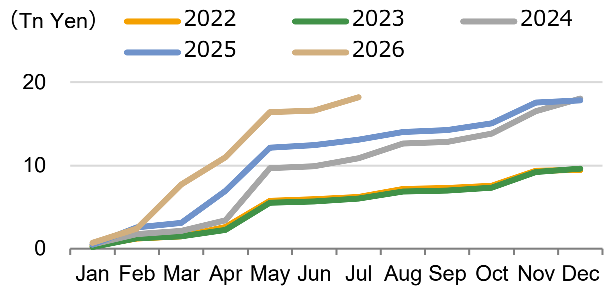
※Latest figure as of August 17, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

Q1 (April–June) Earnings Significantly Exceeded Prior Forecasts



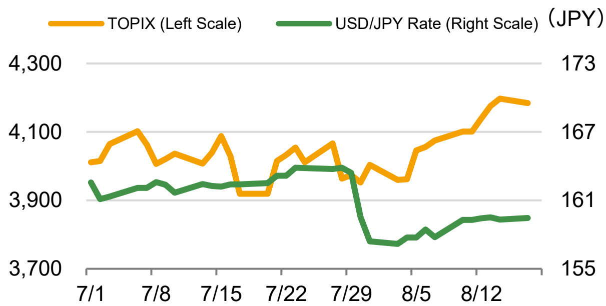
※Consensus estimates as of July 17. Based on TOPIX constituents with March fiscal year-end.
Source: FactSet; Compiled by Daiwa Asset Management

Share Buyback Authorizations Significantly Exceed Last Year's Pace



※Cumulative amount announced since the beginning of the year; latest figures is as of July 2026
Source: QUICK; Compiled by Daiwa Asset Management

Breakdown of the Traditional Relationship Between Japanese Equities and the Yen in the Week Yen Level



※Most recent figure as of August 17, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

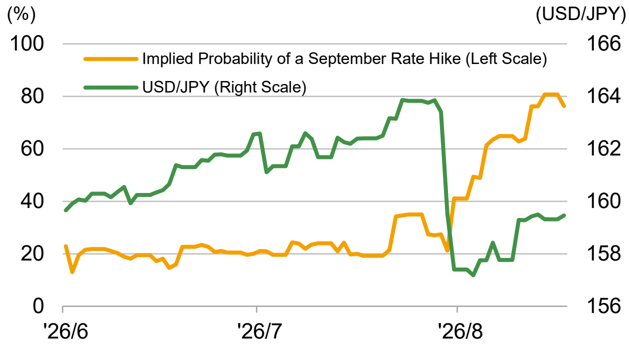
Interest Rates

Growing Expectations of an Early Rate Hike and Upward Pressure on Interest Rates

The economy remains resilient, and as indicated by the strong growth in the Corporate Goods Price Index, prices are currently in a phase where upward price risks are a major concern. On the other hand, there have been reports that the Takashi administration—which had previously been cautious about raising interest rates—is now accepting the possibility of an early rate hike against the backdrop of the weak Yen and Yen depreciation, and the market-implied probability of a rate hike in September has risen to about 80 percent. Given that core inflation is approaching the 2% price stability target and in light of the Bank of Japan's stance of prioritizing upside risks to inflation, we have brought forward our forecast for the next rate hike—previously expected in December—to October at the latest. Regarding long-term interest rates, given rising expectations of rate hikes, concerns over fiscal deterioration, and upward pressure from overseas factors such as US interest rates, our outlook for the end of 2026 may undergo an upward revision. At BOJ Governor Ueda's press conference following the September Monetary Policy Meeting, we will reevaluate the situation after confirming his assessment of upside risks to inflation and any changes in his view regarding the pace of rate hikes—which had been expected to occur roughly once every six months—and make a renewed judgment.

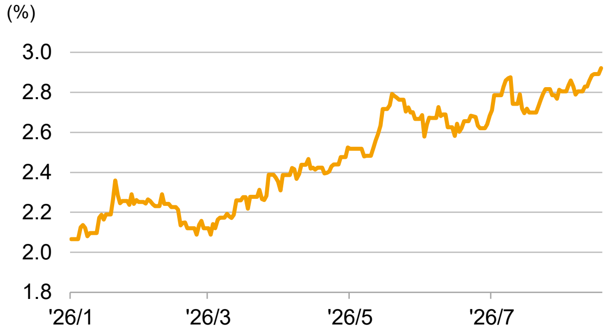
(Written by: Satsuki Yuba, Research Department)

September Rate Hike Probability Rises to 80%



※ Latest figures as of August 17, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

10-Year Government Bond Yield



※ Latest figure as of August 17, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

J-REIT

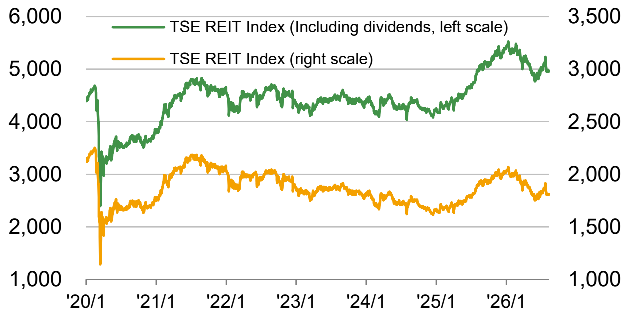
Gradual Upside Driven by Attractive Valuations

The J-REIT market continued its upward trend through late July, with the Tokyo Stock Exchange REIT Index rising to 1,912 at the close on July 29. However, after peaking there, it turned downward, closing at 1,811 on August 17. The market has generally moved in the opposite direction of AI and semiconductor-related stocks, suggesting that capital flows into and out of those sectors are also affecting the J-REIT market.

The dividend yield in the J-REIT market is around 5%, and the NAV multiple is in the 0.84x range (based on our preliminary calculations). We continue to view this as a phase in which the perception of undervaluation is being resolved and maintain our "slightly bullish" investment rating. Rent increases are accelerating, particularly for office and rental housing properties; while borrowing costs are rising due to higher interest rates, the positive earnings outlook remains unchanged. In the short term, the market is likely to remain influenced by trends in AI and semiconductor-related stocks as well as domestic long-term interest rates; however, should the index decline further, we anticipate share buybacks, and we believe the downside is limited. Reflecting the undervaluation and strong fundamentals, we expect a gradual rise in the J-REIT market.

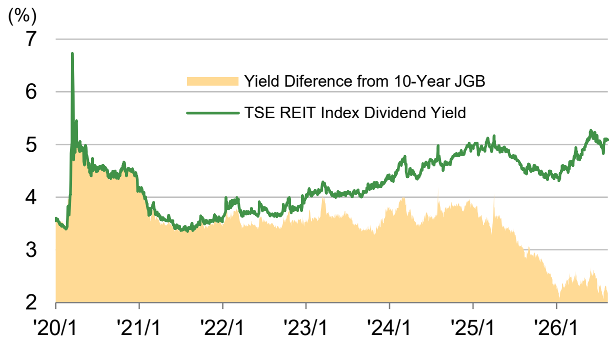
(Written by Kazuhiko Arai, Global Asset Management Department)

Trend of the Tokyo Stock Exchange REIT Index



※ Latest figure as of August 17, 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
※ Most recent figure as of August 17, 2026
Source: Bloomberg; Compiled by Daiwa Asset Management

US Dollar

Currency Intervention Has Led to a Strong Yen and a Weaker US Dollar

Over the past month, the US Dollar has weakened against other currencies while the Yen has strengthened, leading to a trend of strong Yen and US Dollar depreciation. Coordinated Yen-buying intervention by Japan and the US led to a strong Yen. Intervention by Japanese authorities—buying Yen and selling US Dollars—contributed to the weakening of the US Dollar, while risk-on sentiment driven by rising stock prices also contributed to the Dollar's weakness. Following the currency intervention, expectations of accelerated interest rate hikes by the Bank of Japan have been driving a strong Yen, while high crude oil prices and risk-on sentiment have been driving a weak Yen. Risk-on sentiment amid flat or rising US interest rates tends to drive a weak Yen more than it does US Dollar weakness.

Strong Yen, Weak Dollar, and the Narrowing of the Japan-US Real Interest Rate Spread

Through late July, inflation expectations in the US declined while real interest rates rose; in Japan, conversely, inflation expectations rose while real interest rates fell. It could be argued that the real interest rate differential between Japan and the US widened due to the weak Yen and US Dollar strength; when the Yen began to strengthen following the currency intervention, the real interest rate differential between the two countries also began to narrow. Expectations that the Bank of Japan would accelerate the pace of interest rate hikes also contributed to the narrowing of the Japan-US real interest rate differential and the trend toward a strong Yen and a weaker US Dollar. However, for the time being, the narrowing of the Japan-US real interest rate differential remains limited.

Japanese and US Monetary Authorities Coordinated to Intervene by Buying Yen

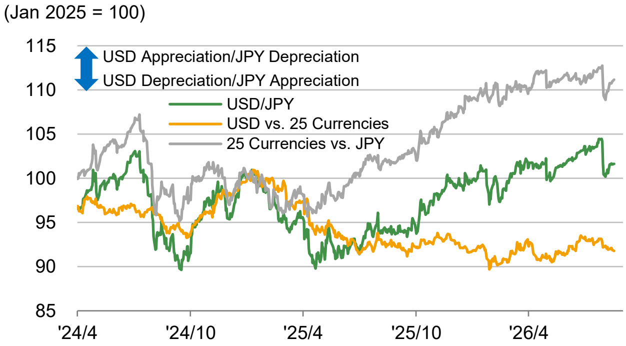
Japan's real effective exchange rate (narrow definition, 27 countries and regions) hit its weakest level against the Dollar since August 1965 in June 2026. As the Yen weakened further on July 30 and 31, Japanese authorities conducted currency intervention by buying Yen and selling US Dollars, while US authorities conducted currency intervention on July 31 by buying Yen and selling Euros. The US appeared concerned that the weak Yen would spread to other Asian currencies, thereby reducing US export competitiveness, or that it would push up US long-term interest rates through a rise in Japan's long-term interest rates. The Euro sales are seen as an effort to curb the weakening of the US Dollar, while signaling that this is not a policy aimed at weakening the Dollar.

Strong Commodity Prices Hinder Strong Yen and Dollar Weakness

After crude oil prices rebounded in July following the resumption of hostilities between the US and Iran, they fell slightly on expectations that the US and Iran would soon reach an agreement to reopen the Strait of Hormuz. However, commodity prices remain at levels significantly higher than those seen at the end of February when the war began, and conditions—marked by a deterioration in Japan's terms of trade and rising overseas interest rates—make it difficult for the Yen to strengthen and the US Dollar to depreciate. In the medium term, we expect the Yen to strengthen and the US Dollar to weaken as the US and Iran bring the fighting to an end and crude oil prices decline.

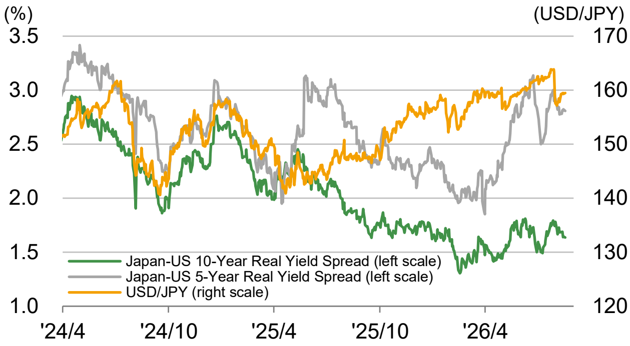
(Written by: Yuji Kameoka, Research Department)

Exchange Rates of USD/JPY and Other Currencies



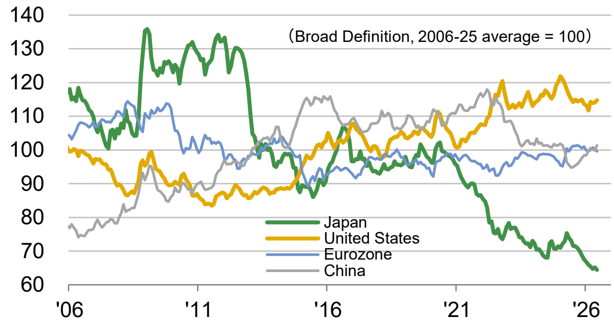
※ Weighted average of exchange rates for 25 currencies based on April 2025 trading volumes
※ The latest figure as of August 17, 2026
Source: BIS and LSEG; Compiled by Daiwa Asset Management

Japan-US Real Interest Rate Differential and USD/JPY



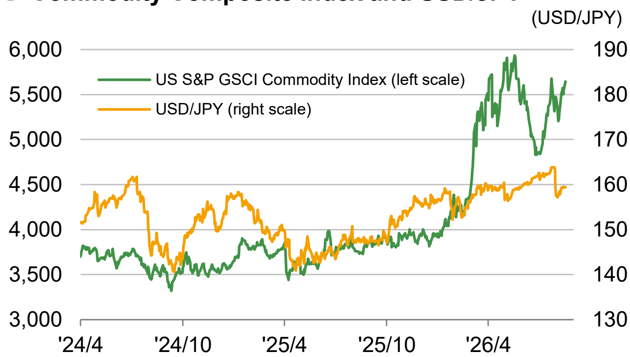
※ Real interest rate differential: US - Japan
※ The latest figure as of August 17, 2026
Source: LSEG; Compiled by Daiwa Asset Management

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



※ Broad definition includes64 countries and regions, including emerging markets
※ The latest figure is as of June 2026
Source: BIS; Compiled by Daiwa Asset Management

Commodity Composite Index and USD/JPY



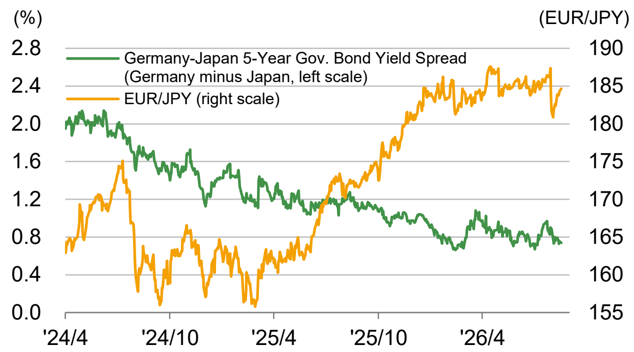
※ The latest figure as of August 17, 2026
Source: LSEG; Compiled by Daiwa Asset Management

Euro

Euro Weakness and Strong Yen Due to Coordinated US-Japan Intervention

Coordinated intervention by Japan and the US caused the Euro to weaken and the Yen to strengthen. Furthermore, since late July, US attacks on Iran have ceased, causing crude oil prices to fall, and expectations have risen that the Bank of Japan will accelerate the pace of interest rate hikes. Consequently, German interest rates have fallen relative to Japanese rates, contributing to a weaker Euro and a strong Yen. While the Yen is currently weakening amid a "risk-on" sentiment, we expect that, in the medium term, as crude oil prices continue to decline, the interest rate differential between Germany and Japan will narrow, leading to a weaker Euro and a strong Yen.

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



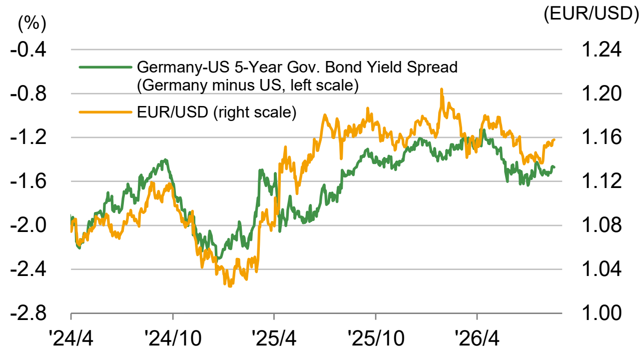
※The latest figure as of August 17, 2026

Source: LSEG; Compiled by Daiwa Asset Management

Is it Unlikely that the Euro Will Remain Strong Against the US Dollar?

The Euro appreciated against the US Dollar, driven by dovish comments from the Fed Chair and the Japanese authorities' Yen-buying, US Dollar-selling intervention. Although intervention by US authorities—buying the Yen and selling the Euro—weakened the Euro's strength and the US Dollar's weakness, risk-on sentiment has driven the Euro higher and the US Dollar lower. In the medium term, while improved terms of trade in the Eurozone due to falling crude oil prices will support a stronger Euro and a weaker US Dollar, the relative decline in German interest rates and rise in the US interest rates will push the Euro lower and the US Dollar higher; we expect the Euro/Dollar exchange rate to trade in a stable range.

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



※ The latest figures as of August 17, 2026

Source: LSEG; Compiled by Daiwa Asset Management

(Written by: Yuji Kameoka, Research Department)

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