

Japan | Economic and Financial Market Outlook

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OCT. 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	0.9← (0.5)	0.7← (0.8)
Euro	1.2	1.2	1.0← (0.9)	1.4

Monetary Policy Outlook

United States	- An additional 0.25 percentage point rate hike is expected in December. - Although the policy rate is expected to remain unchanged in 2027, further rate hikes are possible depending on economic conditions.
Japan	- Given the strength of the economy and demand for funds, the terminal rate is projected to reach 1.75%. The pace of rate hikes is expected to be roughly once per quarter for the time being. - 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, purchases of approximately 2 trillion Yen per month will be conducted.
Eurozone	- Additional rate hikes are likely, depending on energy prices. - 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 2026/9/17	End of 2026	End of 2027	End of 2024	End of 2025	As of 2026/9/17	End of 2026	End of 2027
US *1	4.50	3.75	4.00	4.25← (3.75)	4.25← (4.00)	4.57	4.17	4.93	5.1← (4.5)	5.1← (4.5)
Japan	0.25	0.75	1.00	1.50← (1.25)	1.75← (1.50)	1.10	2.07	3.00	3.0← (2.6)	2.0
Euro *2	3.00	2.00	2.50	2.50	2.50	2.37	2.86	3.48	3.2← (2.8)	3.2← (2.8)

- 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				
	End of 2024	Annual Rate of Change	End of 2025	Annual Rate of Change	As of 2026/9/17	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change	Estimates
US	S&P500	5,882	+23%	6,846	+16%	7,638	+12%	7,900	+15%	8,600	+9%
	DJIA	42,544	+13%	48,063	+13%	51,778	+8%	54,000	+12%	58,000	+7%
Japan	TOPIX	2,785	+18%	3,409	+22%	4,094	+20%	4,400	+29%	4,800	+9%
	Nikkei 225 Index	39,895	+19%	50,339	+26%	64,136	+27%	79,000	+57%	86,000	+9%
Euro	STOXX600	508	+6%	592	+17%	643	+9%	650	+10%	690	+6%
	REIT										
	Actual figures						Latest figures				
	End of 2024	Annual Rate of Change	End of 2025	Annual Rate of Change	As of 2026/9/17	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change	Estimates
US	NAREIT Index	24,843	+9%	25,558	+3%	29,079	+14%	30,600	+20%	34,000	+11%
Japan	TSE REIT Index	1,653	-9%	2,014	+22%	1,752	-13%	2,000	-1%	2,150	+8%
	Exchange Rate (vs. JPY)										
	Actual figures						Latest figures				
	End of 2024	Annual Rate of Change	End of 2025	Annual Rate of Change	As of 2026/9/17	YTD Rate of Change	End of 2026	Annual Rate of Change	End of 2027	Annual Rate of Change	Estimates
USD	157.20	+11%	156.71	-0%	155.97	-0%	155	-1%	147	-5%	
EUR	162.78	+5%	184.01	+13%	179.01	-3%	174	-5%	165	-5%	

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



Economy

Recurring Profit Hits Record High on the Back of AI-Related Demand

According to the Corporate Statistics Survey for the April–June quarter, recurring profit for all sizes and all industries (excluding finance and insurance) increased for the fourth consecutive quarter. The chemical industry saw higher profits driven by increased demand for semiconductor materials, while demand for semiconductors related to AI and data centers also contributed to higher profits in the information and communications equipment industry. The impact of high crude oil prices has remained limited due to progress in passing on price increases, and robust corporate earnings are expected to underpin private consumption through high-level wage raises. As capital spending also remains at a high level, we are raising the 2026 real GDP growth estimate from the previous 0.5% to 0.9%.

Lending Remains Robust Even After Rate Hikes

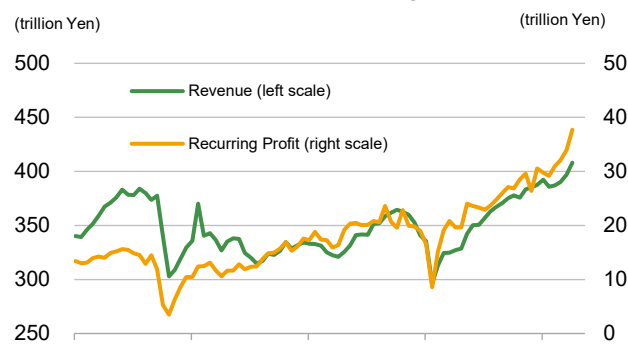
According to August trends in loans and deposits, the average outstanding balance of loans for banks and credit unions combined rose 5.4% year-on-year, continuing strong growth. Even as funding costs rose following the June hike in the policy interest rate to 1.0%, demand for funds remained generally robust, and financial conditions are still viewed as supportive of monetary easing. On the other hand, a July survey of major banks' lending trends showed that the DI for corporate funding demand fell 5 points from the previous April survey to -1, entering negative territory for the first time since October 2021, indicating a weakening in corporate demand. Future trends in funding demand will be closely watched as the Bank of Japan assesses the pace and ultimate destination of its interest rate hikes.

Corporate Goods Prices Remain High; Inflation Concerns Mount

The Corporate Goods Price Index for August rose 7.6% year-on-year, maintaining strong growth driven by high crude oil prices and AI-related demand. Breaking it down, non-ferrous metals, chemical products, and petroleum and coal products made significant contributions. The impact of high crude oil prices is spreading to packaging materials such as films and containers through the prices of raw materials like naphtha and synthetic resins, suggesting that price pass-through to downstream products is becoming more widespread. In the Middle East, the standoff between the US and Iran over the Strait of Hormuz continues, and uncertainty remains regarding navigation on alternative routes, suggesting it may still take time for crude oil supplies to normalize. While the weak Yen is tempering the growth of corporate prices, as companies adopt more aggressive pricing strategies, the ongoing high resource prices are spreading rapidly downstream. Consequently, it is necessary to further heighten vigilance against the risk of inflation exceeding expectations.

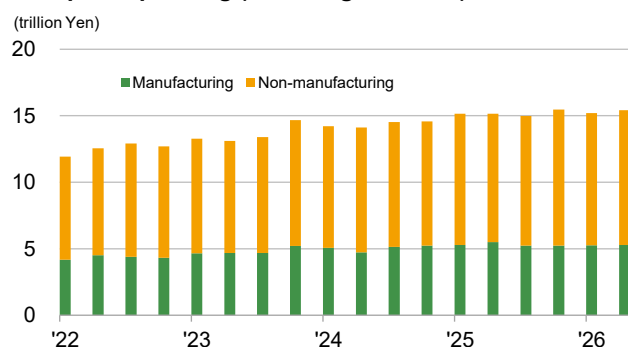
(Written by: Satsuki Yuba, Research Department)

Trends in Revenue and Recurring Profit



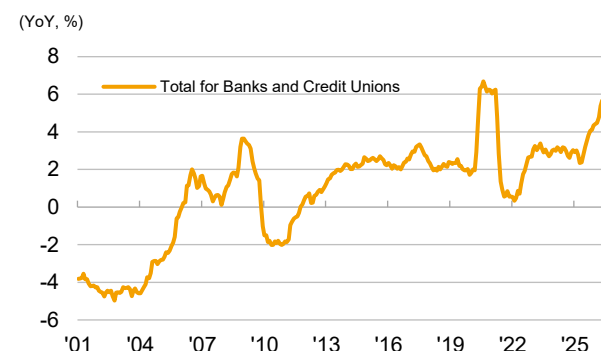
※Corporate Statistics Survey, all sizes and all industries (excluding finance and insurance), seasonally adjusted
 ※Most recent figure: April–June 2026
 Source: Ministry of Finance; Compiled by Daiwa Asset Management

Capital Spending (including software)



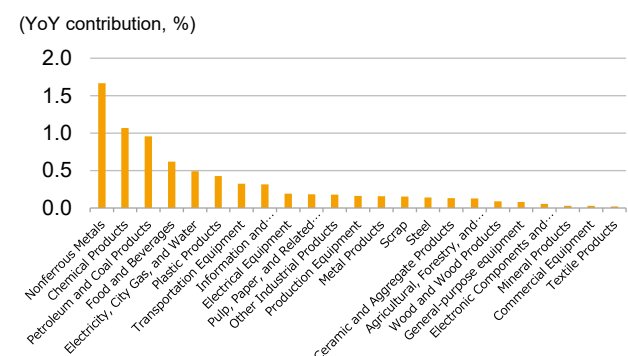
※Corporate Statistics Survey, all sizes and all industries (excluding finance and insurance), seasonally adjusted
 ※Most recent figure: April–June 2026
 Source: Ministry of Finance; Compiled by Daiwa Asset Management

Loan Trends



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

Contribution to the Domestic Corporate Price Index



※As of August 2026
 Source: Bank of Japan; Compiled by Daiwa Asset Management



Equity

Headwinds for Japanese Stocks Are Intensifying

In Japan, long-term interest rates have reached 3% for the first time in 30 years, and long-term interest rates continue to rise globally as well. The deteriorating situation in the Middle East is also a cause for concern. The price hike in crude oil is particularly viewed negatively, as it not only exerts downward pressure on corporate earnings through higher costs but also contributes to inflation pressure and rising interest rates. Furthermore, these factors are compounded by weak seasonal trends in the latter half of September and uncertainty surrounding the US midterm elections in early November.

Supported by Strong Earnings Momentum

While investors are currently reluctant to take on risk, even amid these intensifying headwinds, the TOPIX remains only 2.5% below its all-time high and has not yet entered a trend of breaking through support levels. Strong corporate earnings are underpinning Japanese stocks. Following solid financial results for the April–June quarter, analysts' full-year forecasts continue to undergo upward revisions, and the projected EPS growth rate for the TOPIX for fiscal year 2026 has risen to over 20% year-on-year.

Rotation, Not Capital Outflows

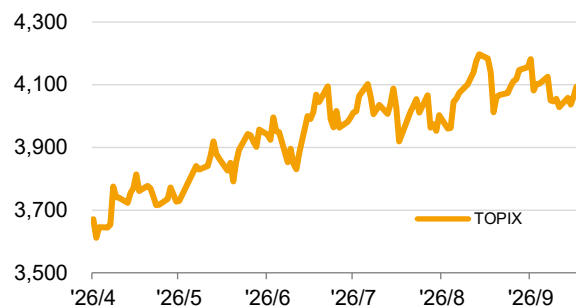
Investors do not appear to have lost their positive outlook on Japanese stocks. Rather than selling off Japanese stocks across the board in response to headwinds such as high interest rates and rising crude oil prices, they are responding by rotating their portfolios in line with changes in the macroeconomic environment. While growth stocks, such as those in the AI and semiconductor sectors, are underperforming, value stocks are showing resilience. In the near term, a tug-of-war between macroeconomic headwinds and corporate earnings is expected to continue, leading to a market characterized by high volatility.

Overcoming Headwinds to Reach the Year-End Rally

On the other hand, heading into year-end, we anticipate that Japanese stocks will regain their upward trend and continue to hit new highs. While September typically brings seasonal headwinds, Japanese stocks tend to rise as the year draws to a close. Following the US midterm elections, investors are likely to become more willing to take on risk, which should help the stock market rise. Additionally, interim financial results will be released from late October through mid-November. With expectations for strong financial results, the solid performance of Japanese companies is expected to once again draw investors' attention and serve as a factor driving stock prices higher.

(Written by Kazunori Tatebe, Research Department)

TOPIX Shows Slightly Volatile Movement

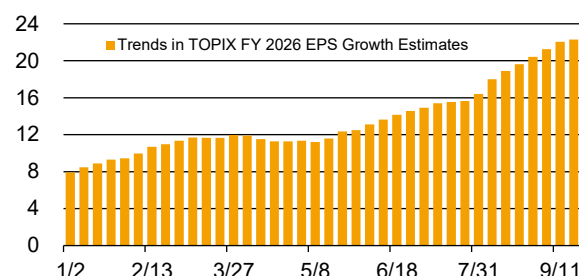


※Most recent figure as of September 17, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Continued Upward Revisions to FY2026 Earnings Estimates

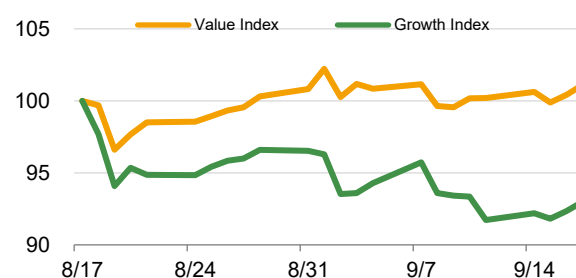
(YoY, %)



※Consensus forecast; most recent figures as of September 17, 2026

Source: FactSet; Compiled by Daiwa Asset Management

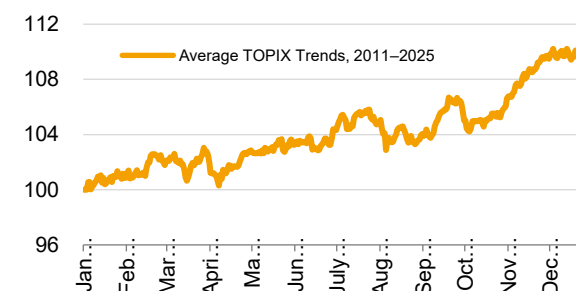
Rotation Toward Value Stocks



※MSCI Japan Value and Growth Indices, indexed with August 17, 2026 set to 100; most recent figure as of September 17

Source: QUICK; Compiled by Daiwa Asset Management

Seasonal Factors Providing Tailwinds for Japanese Stocks Heading into Year-End



※Indexed with the beginning of the year set to 100

Source: FactSet; Compiled by Daiwa Asset Management



Interest Rates

Upward Revision of Long-Term Interest Rate Forecast for the End of 2026

At its September monetary policy meeting, the Bank of Japan raised the policy interest rate to 1.25%, in line with market expectations. The decision to implement an additional rate hike approximately three months after the previous one in June was driven by concerns over the risk of inflation exceeding expectations. Corporate goods prices, driven by high crude oil prices and AI-related demand, have exceeded 7% year-on-year for three consecutive months. As companies adopt more aggressive pricing strategies and medium- to long-term inflation expectations rise, the Bank of Japan is closely monitoring the risk that underlying inflation could exceed the 2% price stability target. Assuming a pace of roughly one hike per quarter, December would be a likely target for the next rate hike, though the actual timing will depend on trends in crude oil prices and exchange rates. As the policy rate enters the estimated range for the neutral rate (1.1–2.5%, according to the Bank of Japan's estimates), attention is focused on the Bank of Japan's communications regarding the pace of rate hikes and the ultimate target rate. Based on the robustness of the economy and demand for funds, we have raised our forecast for the ultimate policy rate from 1.5% to 1.75% and, accordingly, have made an upward revision to our forecast for the long-term interest rate at the end of 2026 to 3.0%.

(Written by: Satsuki Yuba, Research Department)

J-REIT

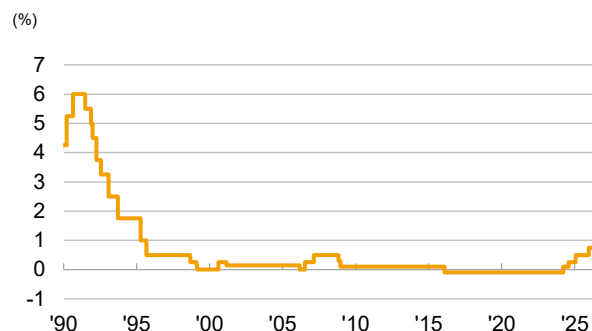
Set for a Gradual Rise Amid Undervaluation

The J-REIT market has continued its downward trend since peaking at the end of July, with the Tokyo Stock Exchange REIT Index falling to around 1,750 at the close on September 18. The J-REIT market has been sluggish amid concerns over speculation that the Bank of Japan may bring forward interest rate hikes and that the pace of future rate hikes may accelerate.

The J-REIT market's dividend yield stands at around 5.3%, and the NAV multiple is in the 0.80x range (based on our preliminary calculations). We continue to view this as a phase of unwinding undervaluation and maintain our "slightly bullish" investment rating. Rent increases are accelerating, particularly for office and rental housing properties, and capital gains are also expected due to real estate prices remaining high. Although borrowing costs are rising due to higher interest rates, the positive earnings outlook remains unchanged. In the short term, market movements are likely to continue being influenced by the outlook for domestic monetary policy and trends in long-term interest rates; however, given the current index levels, share buybacks are also expected, and we believe the downside is limited. Reflecting the undervaluation and strong fundamentals, we anticipate a gradual rise in the J-REIT market.

(Written by: Kazuhiko Arai, Global Asset Management Department)

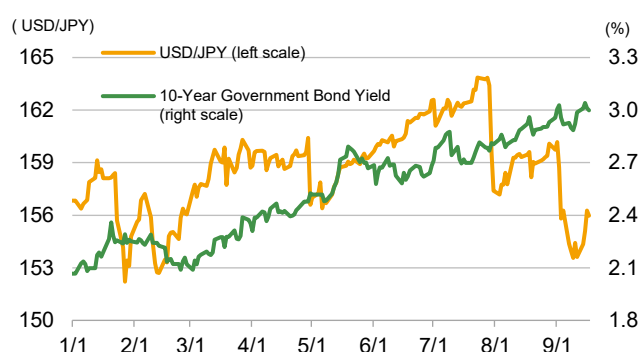
Uncollateralized Overnight Call Rate



*Latest figure as of September 18, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

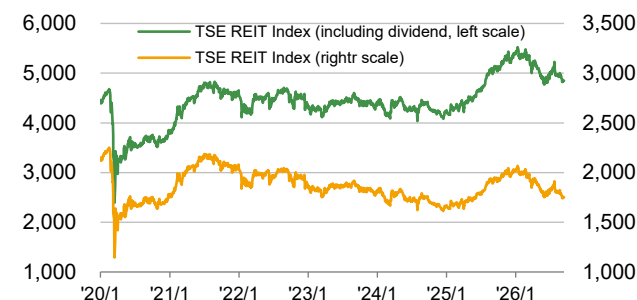
USD/JPY and 10-Year Government Bond Yield



*Most recent figure as of September 17, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

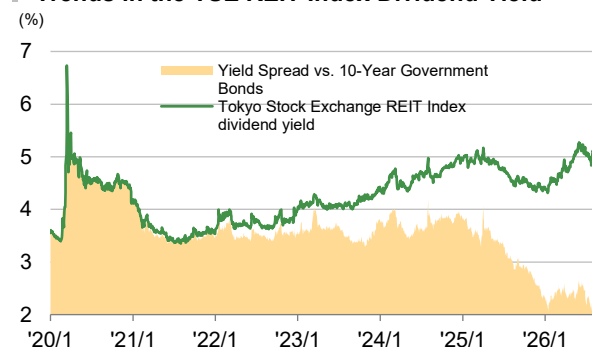
Trends in the Tokyo Stock Exchange REIT Index



*Most recent figure as of September 17, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Trends in the TSE REIT Index Dividend Yield



*Dividend yield is based on actual performance over the past 12 months

*Most recent figures as of September 17, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management



US Dollar

A Pause Following the Strong Yen and Dollar Depreciation

Over the past month, the Yen has outperformed other major currencies against the US Dollar, leading to continued Yen appreciation and Dollar weakness. While the coordinated Yen-buying intervention by Japanese and US authorities triggered the Yen's rally from late July, expectations of accelerated BOJ rate hikes and diminishing risk-on related depreciation pressures also contributed to the currency's strength. That said, elevated crude oil prices have provided support for the US Dollar against the Yen, effectively capping further Yen appreciation in the near term. We expect USD/JPY to trade around 155 by year-end.

Japan-US Real Interest Rate Spread Widens After Narrowing

Through early September, the Yen strengthened and the US Dollar weakened as the real interest rate differential between Japan and the US narrowed amid expectations that the Bank of Japan would accelerate interest rate hikes. Subsequently, expectations for US interest rate hikes rose against the backdrop of high crude oil prices and the Federal Reserve's hawkish stance, causing US real interest rates to rise. As long as crude oil prices remain high, the real interest rate differential between Japan and the US is likely to widen, which tends to drive the weak Yen and the US Dollar higher. However, since Japan's expected inflation rate is higher and its real interest rates are lower than those in the US, we believe that Japan's real interest rates are likely to rise relatively in the medium term.

Yen-selling and US Dollar-buying positions unwound

Since the coordinated Yen-buying intervention by Japan and the US at the end of July, the net position of non-commercial participants (those engaged in speculation) selling the Yen and buying the US Dollar in currency futures has narrowed. As Japanese interest rates rose and the volatility favoring a strong Yen increased—due to the Yen-buying intervention and the easing of “risk-on” pressure driving weak Yen—Yen carry trades involving Yen selling are also believed to have diminished. Since currency futures have already shifted to a net long position in the Yen, we expect Yen buying to slow in the short term. However, in the medium term, Yen-buying positions are likely to trend higher.

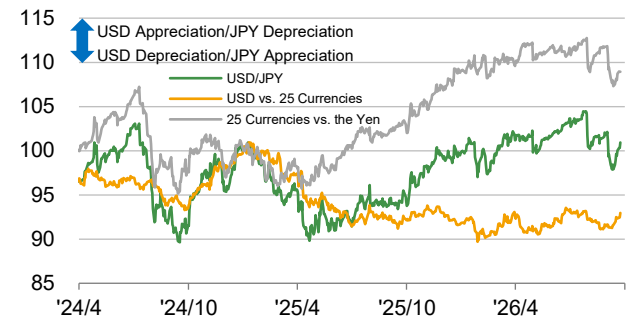
High Crude Oil Prices Drive Weak Yen and Dollar Strength

Amid tensions between the US and Iran, coupled with attacks on crude oil transport routes by pro-Iranian armed groups, crude oil prices have risen due to supply shortage concerns, and the composite commodity index has surpassed its peak from May of this year. This serves as a factor driving weak Yen and US Dollar strength through the deterioration of Japan's terms of trade and rising US interest rates. In the medium term, we expect the US-Iran conflict to end and crude oil prices to fall; however, for the time being, the US-Iran conflict is unlikely to be resolved, and the pressure for a weak Yen and a stronger US Dollar driven by high crude oil prices may continue.

(Written by: Yuji Kameoka, Research Department)

Exchange Rates of the USD/JPY and Other Currencies

(Jan 2025 = 100)

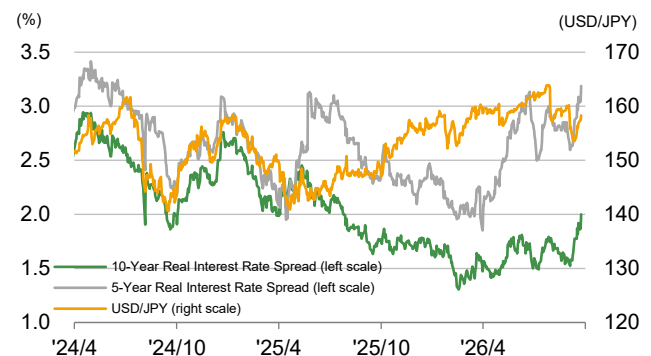


※Weighted average of exchange rates for 25 currencies based on trading volume in April 2025

※Most recent figure as of September 23, 2026

Source: BIS and LSEG; Compiled by Daiwa Asset Management

Japan-US Real Interest Rate Differential and USD/JPY

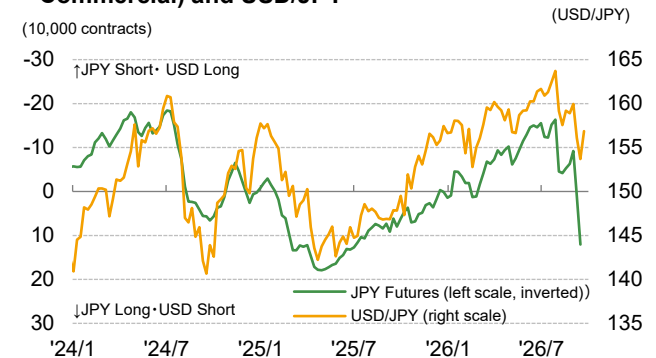


※ Real interest rate differential: US - Japan

※ The latest figure as of September 23, 2026

Source: LSEG; Compiled by Daiwa Asset Management

IMM Yen Futures Positions (vs. US Dollar, Non-Commercial) and USD/JPY

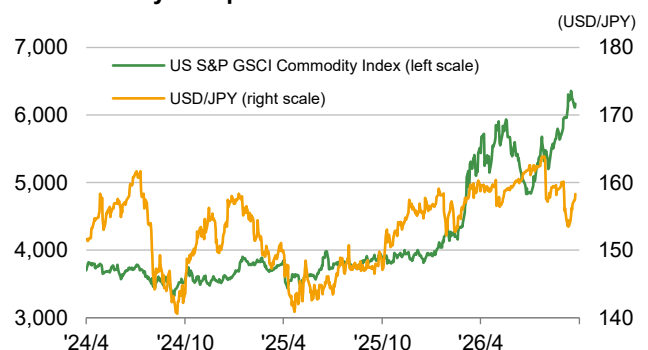


※For Yen futures, net positions (= Yen long - Yen short); 1 contract = 12.5 million Yen

※Weekly data; most recent figured are for Yen futures as of September 15, 2026, and USD/JPY as of September 18, 2026

Source: CFTC, LSEG; Compiled by Daiwa Asset Management

Commodity Composite Index and USD/JPY



※Most recent figure as of September 23, 2026

Source: LSEG; Compiled by Daiwa Asset Management



Euro

Euro Weakness and Strong Yen Amid a Retreat in Risk-On Sentiment

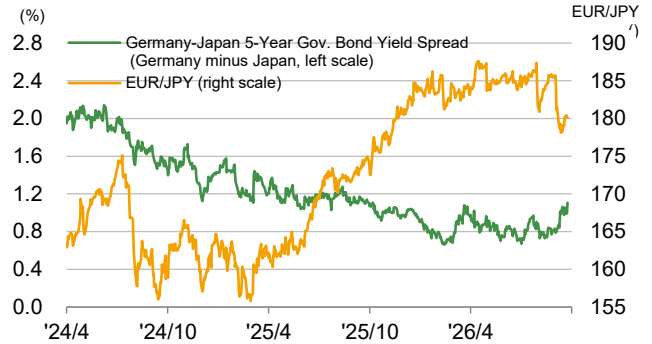
Following a shift toward a weaker Euro and a strong Yen due to coordinated Yen-buying intervention by Japan and the US, the Euro initially rebounded but has since resumed its decline. Japanese interest rates rose amid expectations that the Bank of Japan would accelerate rate hikes, and as “risk-on” pressure driving the Yen lower subsided, upward pressure on the Yen intensified. Against the backdrop of rising Japanese interest rates and declining risk tolerance, Yen-carry trades involving Yen selling are likely to contract, and we expect the Euro to weaken and the Yen to strengthen.

The EUR/USD is Expected to Trade Steadily

The EUR/USD is highly correlated with the German-US interest rate differential. In August of this year, rising expectations of an ECB rate hike led to higher German interest rates and a stronger Euro; in September, rising expectations of a Fed rate hike led to higher US interest rates and a stronger US Dollar. In the medium term, we expect the EUR/USD to trade stably. While lower crude oil prices and improved terms of trade in the Eurozone are likely to support a stronger Euro and a weaker US Dollar, a relative decline in German interest rates and a rise in US interest rates could push the Euro lower and the US Dollar higher.

(Written by: Yuji Kameoka, Research Department)

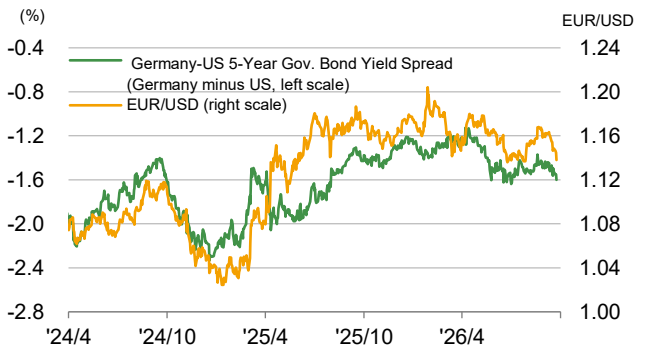
5-year German-Japanese Government Bond Rate Differential and EUR/JPY Exchange Rate



※The latest figure as of September 23, 2026

Source: LSEG; Compiled by Daiwa Asset Management

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



※The latest figure as of September 23, 2026

Source: LSEG; Compiled by Daiwa Asset Management

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