

Japan - Market Outlook

Investment environment under high uncertainty
over “Trump 2.0”

MUFG Asset Management
February 2025

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Summary

2025 Outlook: “Trump 2.0” Could be a Swing Factor for Japanese Market (p3)

- ✓ Japanese stocks rise on favorable corporate earnings, but expected to be weighed down by rising interest rates and tariff hikes.

Focus: Impact of Trump’s Policies on Japan (p4-p12) and BOJ/Forex (p13-p23)

- ✓ U.S. tariffs on China could be an upside to the Japanese economy by leading to higher Japanese exports. Japan has the largest amount of investment in the U.S, so the U.S. is not expected to impose massive additional tariffs on Japan. Japan will not be in a bad position relatively.
- ✓ Movement to raise wages spreads not only to large companies but also to small and medium-sized enterprises. BOJ is expected to raise policy rate gradually to 1% every six months at a cautious pace of 0.25%. There is room for a slight increase in interest rates and yen.

Neglected Stocks: Small-caps (p24-p28)

- ✓ Small-cap stocks tend to outperform large-cap stocks when the yen appreciates against dollar, so small-cap stocks are worth investing to hedge yen appreciation risk.
- ✓ Japanese small-cap stocks are attractively valued globally partly due to limited analyst coverage, even though they have strong earnings prospects and sound balance sheets.

Market Outlook: “Trump 2.0” Could be a Swing Factor for Japanese Market

- Japan and the U.S. economy are expected to continue a moderate recovery led by consumption.
- U.S. stocks are expected to rise on expectations of a recovery in corporate earnings on the back of the Trump administration's economic policies and deregulation.
- Japanese stocks rise on favorable corporate earnings, but expected to be weighed down by rising interest rates and tariff hikes.
- Japanese interest rates will rise slightly as the Bank of Japan continues to raise interest rates moderately about twice a year.
- USD/JPY is expected to pause in its upward trend in the near term due to the narrowing of the U.S.-Japan interest rate differential. The dollar/yen is expected to remain in a wide range.
- (1) Impact of Trump policies on Japan and (2) Normalization of BOJ's monetary policy will be top focuses.

Market Forecast of MUFG Asset Management

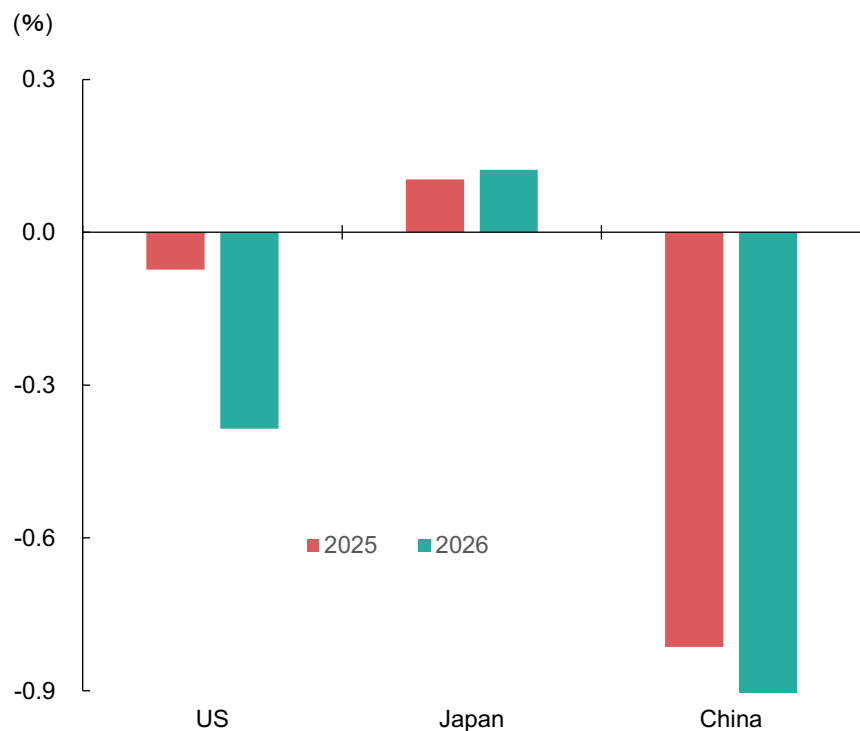
	Mar-2024 Actual	Dec-2024 Actual	Mar-2025 Predict Range		Dec-2025 Predict	Mar-2026 Predict Range	
Equity							
Nikkei	40,369	39,894	40,000	37,000~43,000	41,700	42,500	39,500~45,500
TOPIX	2,768	2,784	2,800	2,600~3,000	2,910	2,950	2,750~3,150
NY Dow	39,807	42,544	45,000	43,000~47,000	48,000	48,500	46,500~50,500
S&P 500	5,254	5,881	6,000	5,700~6,300	6,390	6,500	6,200~6,800
Interest Rates							
10Y JGB	0.73%	1.09%	1.3%	0.9~1.7%	1.5%	1.5%	1.1~1.9%
U.S. 10Y Bonds	4.20%	4.57%	4.3%	3.8~4.8%	4.5%	4.5%	4.0~5.0%
Currency							
USDJPY	151.35	157.16	150	140~160	150	150	140~160
EURJPY	163.45	162.74	158	148~168	153	153	143~163

(Source) MUFG: Trust Bank, from Bloomberg

Trump: Economic Impact of Trump Tariffs

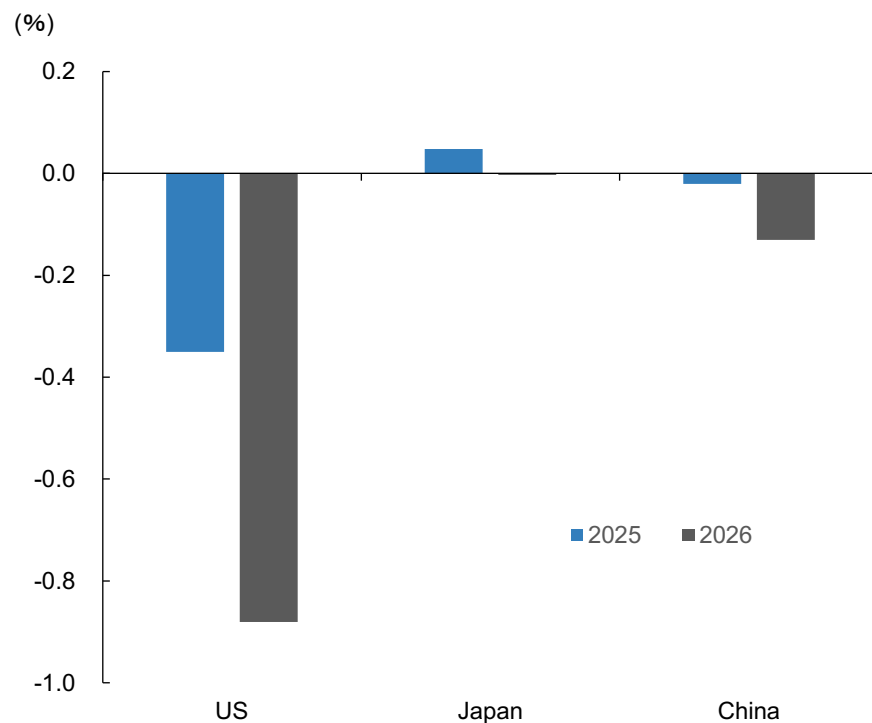
- U.S. tariffs on China could be an upside to the Japanese economy by leading to higher Japanese exports.
- Tariff hikes on countries other than China will have a significant negative impact on the U.S. economy. Therefore, we expect that they will be for “deal” purposes to extract favorable diplomatic terms.
- The U.S. is not expected to impose massive additional tariffs on Japan.

Impact of tariff on GDP (60% tariff on China)



(Source) MUFG: Trust Bank, from Peterson Institute for International Economics
 (Note) Additional tariffs will be implemented in 2025 and the impact on real GDP in 2025 and 2026

Impact of tariff on GDP (10% tariff on all trading partners)

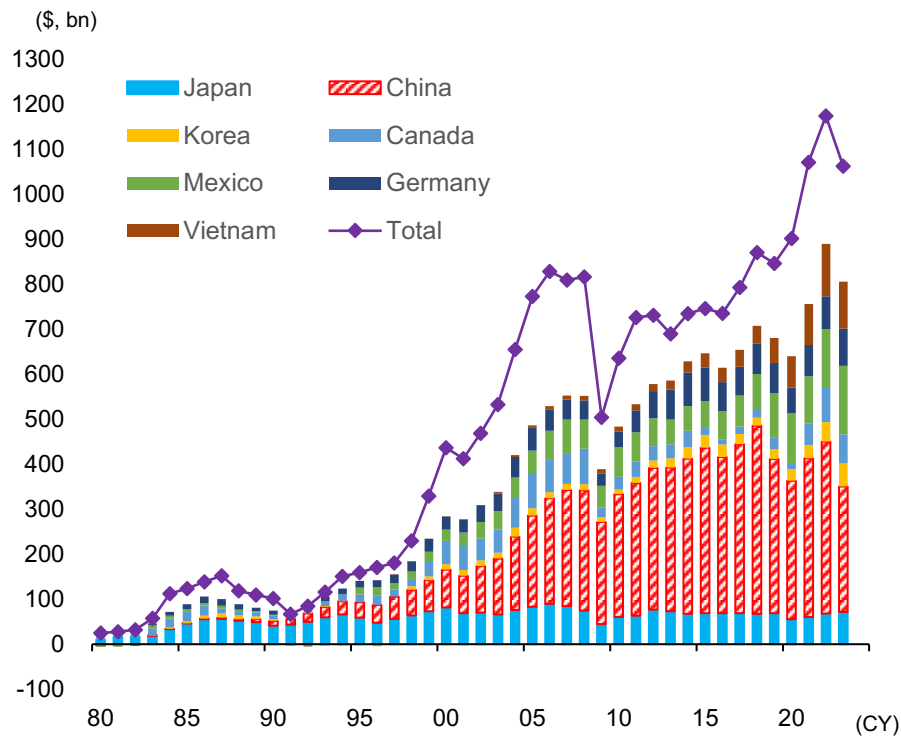


(Source) MUFG: Trust Bank, from TSE, : Nomura Securities, BOJ, S&P data
 (Note) Additional tariffs will be implemented in 2025 and the impact on real GDP in 2025 and 2026

Trump: Background of U.S. Friendly Relations with Japan

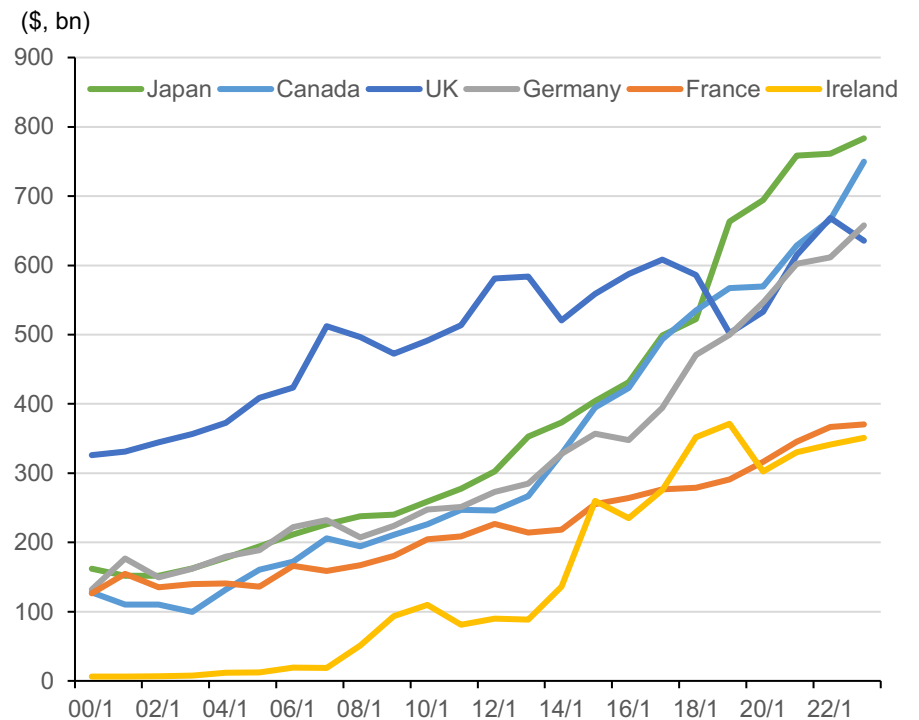
- U.S. trade deficit is large with China and Mexico, while relatively small with Japan.
- Japan has announced that it will increase its imports of liquefied natural gas (LNG) from the United States.
- Japan has the largest amount of investment in the U.S.
- Japan has announced that it will raise its investment in the U.S. to \$1 trillion.

US Trade Deficit



(Source) MUFG: Trust Bank, from U.S. Dept. of Commerce

Foreign Direct Investment in the US

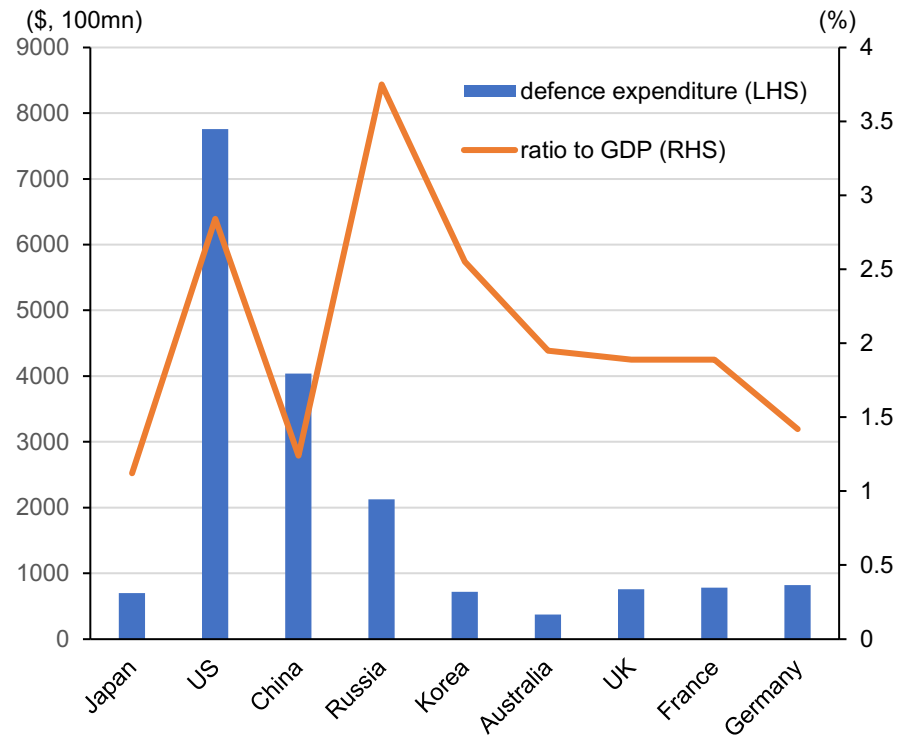


(Source) MUFG: Trust Bank, from BEA

Trump: Japan Spends Less on Defense

- President Trump is expected to ask allies to increase defense spending.
- Japan's defense spending is relatively small by international comparison, and is expected to rise to 2% of GDP by FY2027 with the growing security threat from China.
- Japan is expected to become increasingly important to the U.S. as a military partner in Asia.

Defense Expenditure in Major Powers



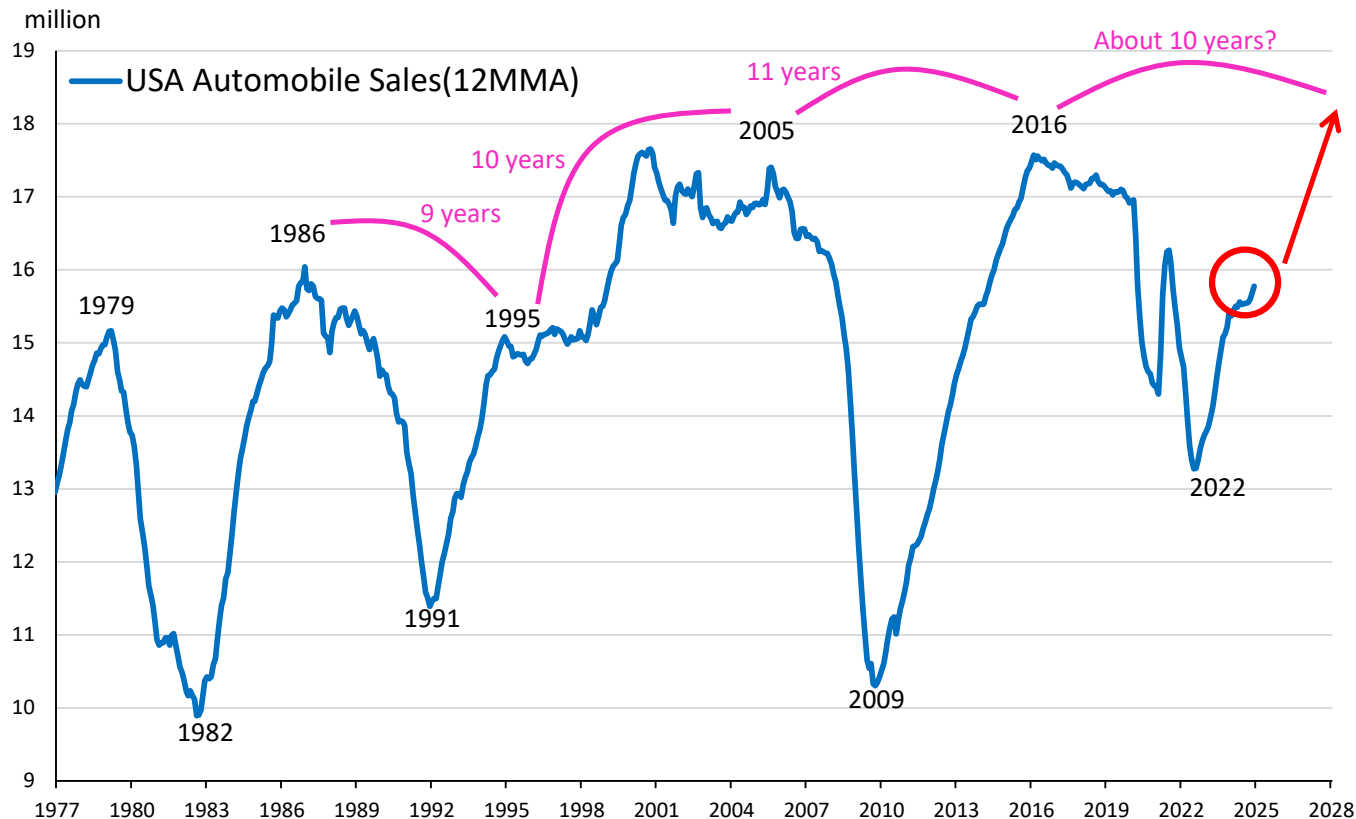
(Source) MUFG: Trust Bank, from Ministry of Defense

(Note) As of FY2023

Trump: Opportunity Arrives for Japan's Auto Industry

- Trump administration eliminates measures to promote EVs. Opportunity arrives for Japan as a leading hybrid vehicle manufacturer.
- In 2024, Japanese auto production was temporarily halted due to the fraudulent certification issue, but is now normalizing.
- U.S. auto sales show a replacement cycle of about 10 years, with 2026 likely to be the peak year for auto sales.

Automobile Sales in the US



(Source) MUFG: Trust Bank, from Bloomberg

Trump: AI Value Chain

- Japanese companies play an important role, particularly in the back-end process of the Value Chain.
- Advancement of AI technology require sophisticated technologies in the Packaging process. Japanese companies are specialized in providing high quality materials and back-end process technologies.
- Major global semiconductor companies establish new chip development facilities in Japan to build close relationships with Japanese leading material, parts, and equipment companies.

AI Value Chain

Design



Foundries



Packaging



Chip



Data Centre



Smart City



IoT



Self Driving

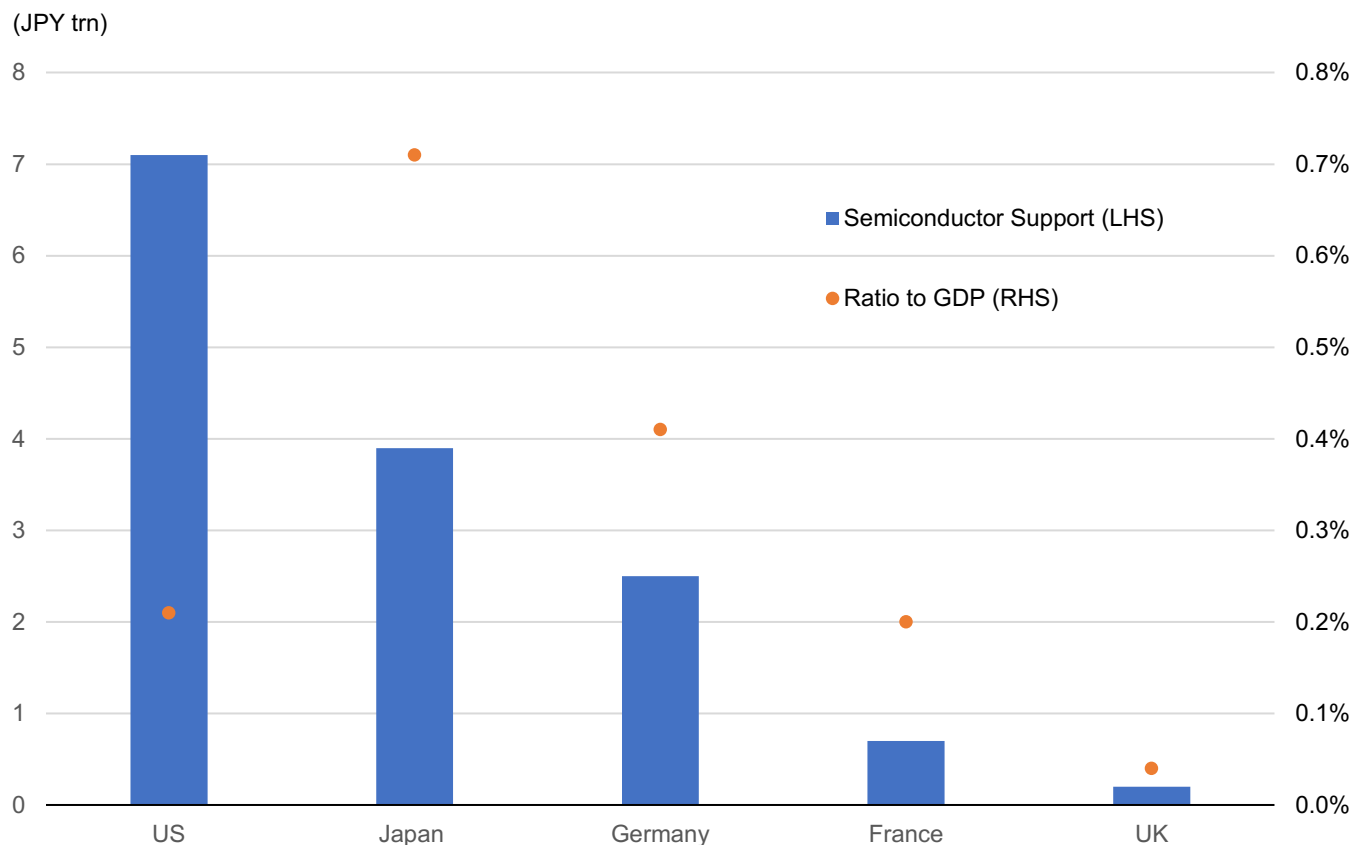


Source: company websites, MUFG: Trust Bank

Trump: Japan Aims to Revive Semiconductor Industry

- The U.S. is trying to remove China from the semiconductor supply chain. Taiwan is at risk of Chinese invasion.
- Prime Minister Ishiba has decided to provide more than 10 trillion yen in public support to the semiconductor and AI sectors by FY2030.
- As a new semiconductor supply chain is established, Japan is likely to become a hub for semiconductors.

Support for the Semiconductor Industry

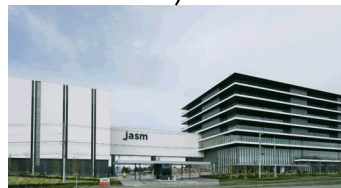
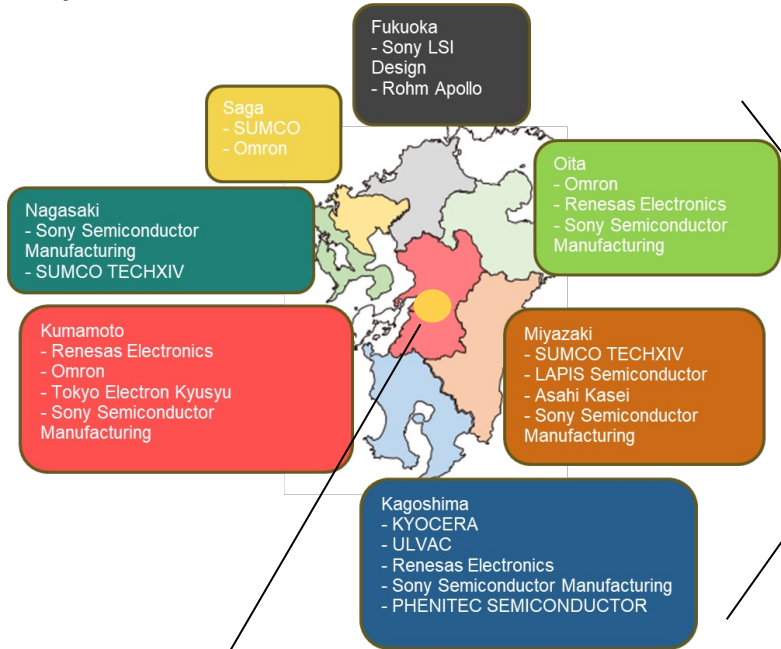


(Source) MUFG: Trust Bank, from MOF's document as of April 2024

Trump: Kyushu Silicon Island/ Rapidus

- Kyushu is a semiconductor industry hub as a Japan's Silicon Island. There are more than 1,000 semiconductor-related offices, factories, R&Ds, and facilities are located in Kyushu.
- JASM, a joint venture between TSMC, Sony Semiconductor Solutions, Toyota Motors, and Denso started mass production of logic semiconductors in December 2024.
- Japanese government plans to invest JPY 100 billion in Rapidus and accelerate mass production of next-generation semiconductors in 2027.

Kyushu Semiconductor Islands



JASM (Japan Advanced Semiconductor Manufacturing)

Source: METI, JASM website, MUFG: Trust Bank



Rapidus IIM (Innovative Integration for Manufacturing)

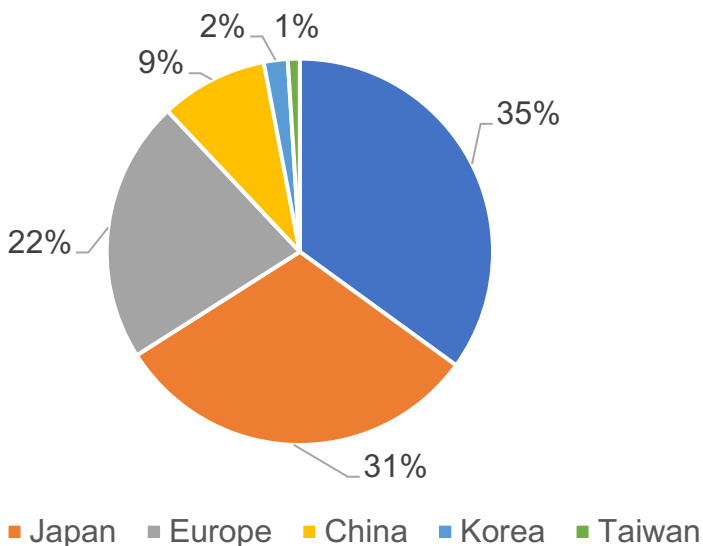


Source: Rapidus website

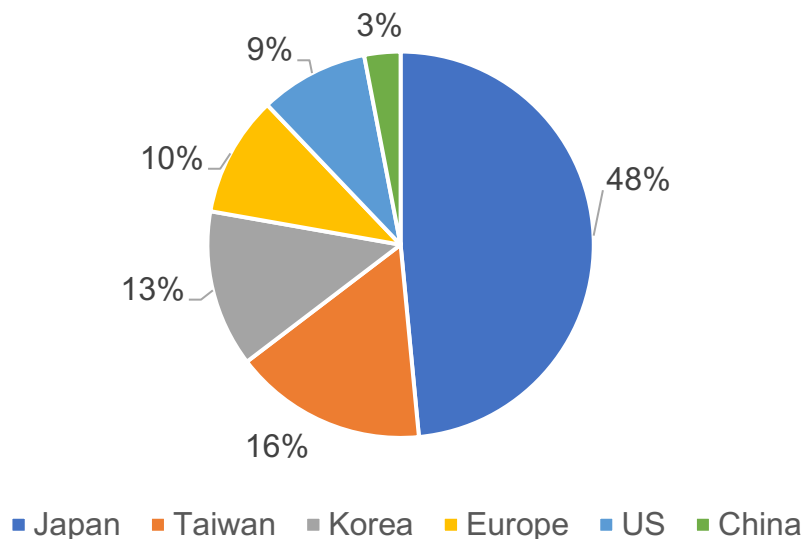
Trump: Japan has the groundwork to become a semiconductor powerhouse

- Japan already has strengths in semiconductor manufacturing equipment and semiconductor materials.
- TSMC has started its business in Kumamoto; Rapidus (a new company funded by government and private companies aiming to produce cutting-edge semiconductors) is building plants in Hokkaido.
- Foundries are also expected to become active in Japan for mass production of cutting-edge semiconductors

Semiconductor Manufacturing Equipment Share



Semiconductor Materials Share

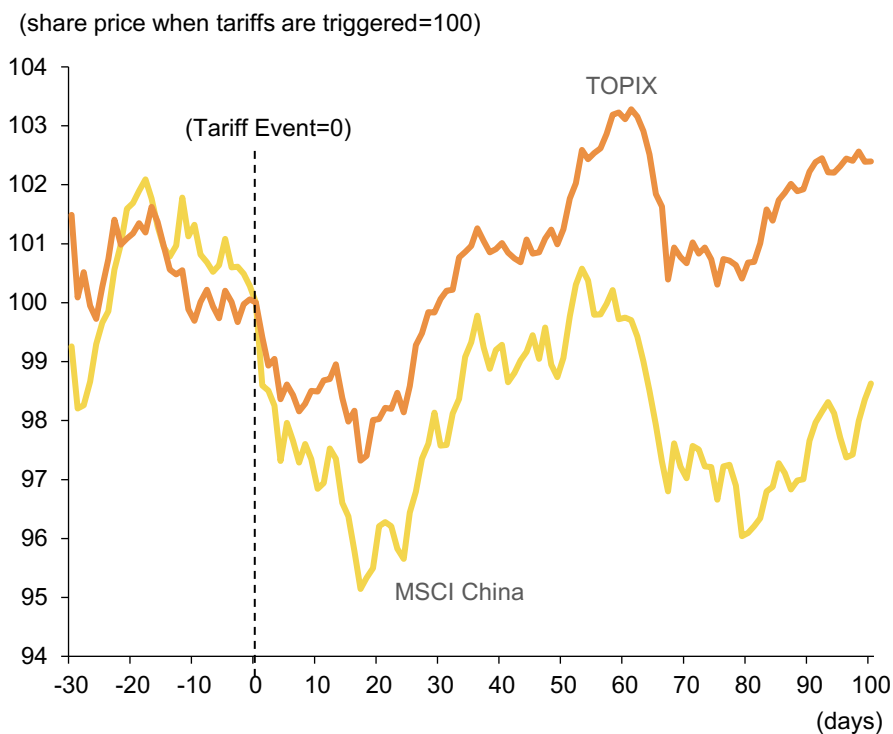


(Source) MUFG: Trust Bank, from Knometa Research, Global Wafer Capacity 2022, Daiwa Securities (Source) MUFG: Trust Bank, from Knometa Research, Global Wafer Capacity 2022, Daiwa Securities

Trump: Will Trump Tariffs Have Big Impact on Japanese Market?

- In the past, Japanese stocks recovered quickly even when the Trump tariffs went into effect and caused stock market declines. On the other hand, the slump in Chinese stocks tended to be prolonged.
- Japanese stocks are expected to be volatile on Trump tariff headlines. But share buybacks by business corporations are expected to support lower prices.

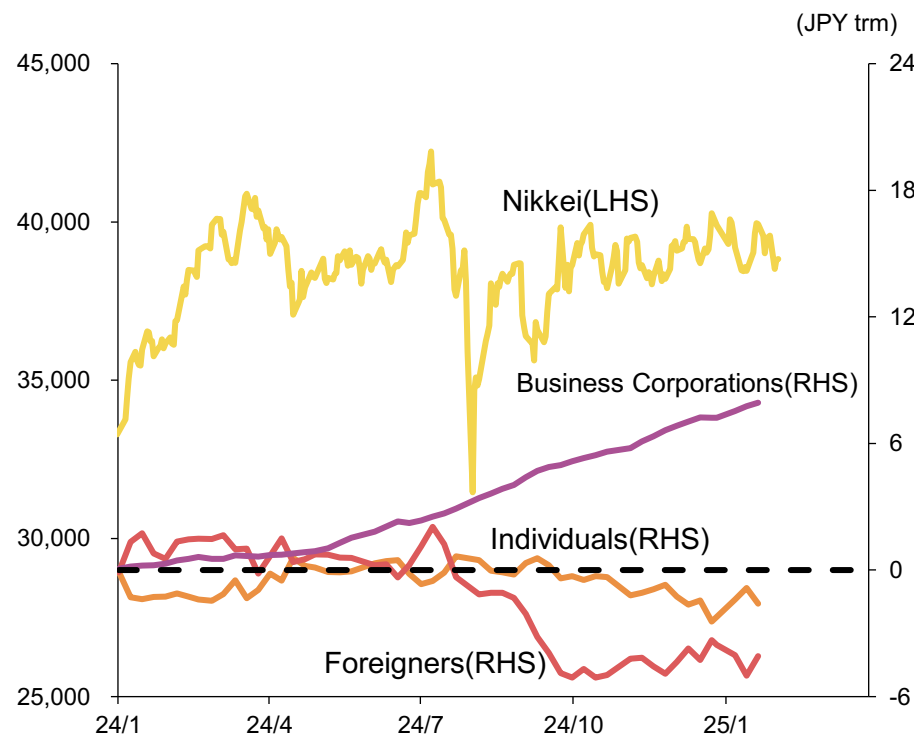
Stock Performance Before and After Trump Tariff Event



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Calculate average stock price before and after tariff events based on 2017-2019 tariff events

Japanese Stocks and Trading Trends by Investor Type



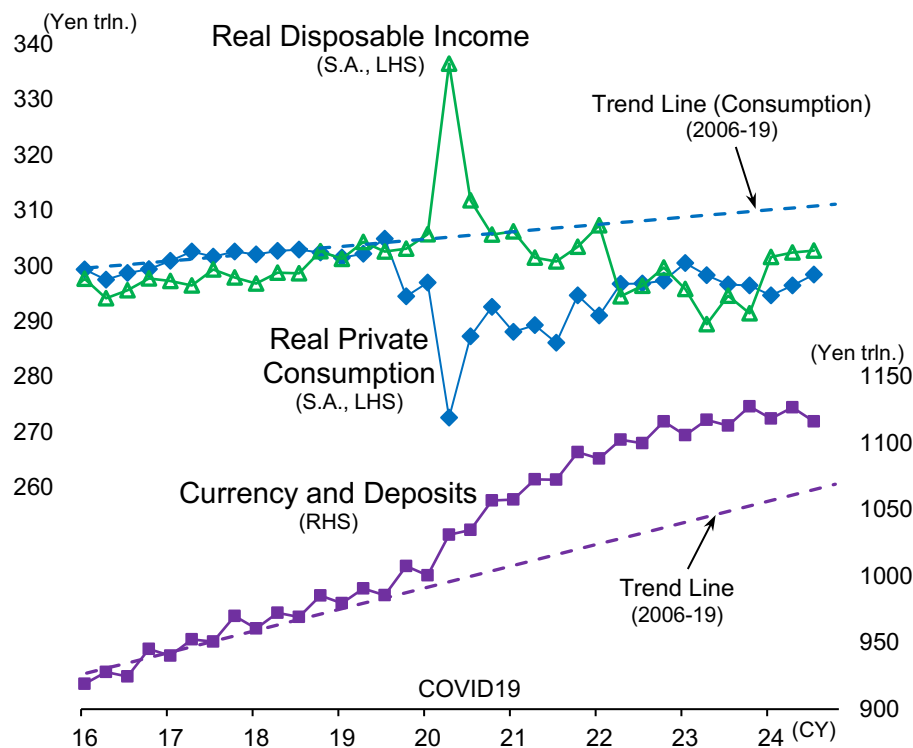
(Source) MUFG: Trust Bank, from TSE and Bloomberg

(Note) Cumulative investment since January 2024

Japanese Economy: Slow Recovery in Personal Consumption

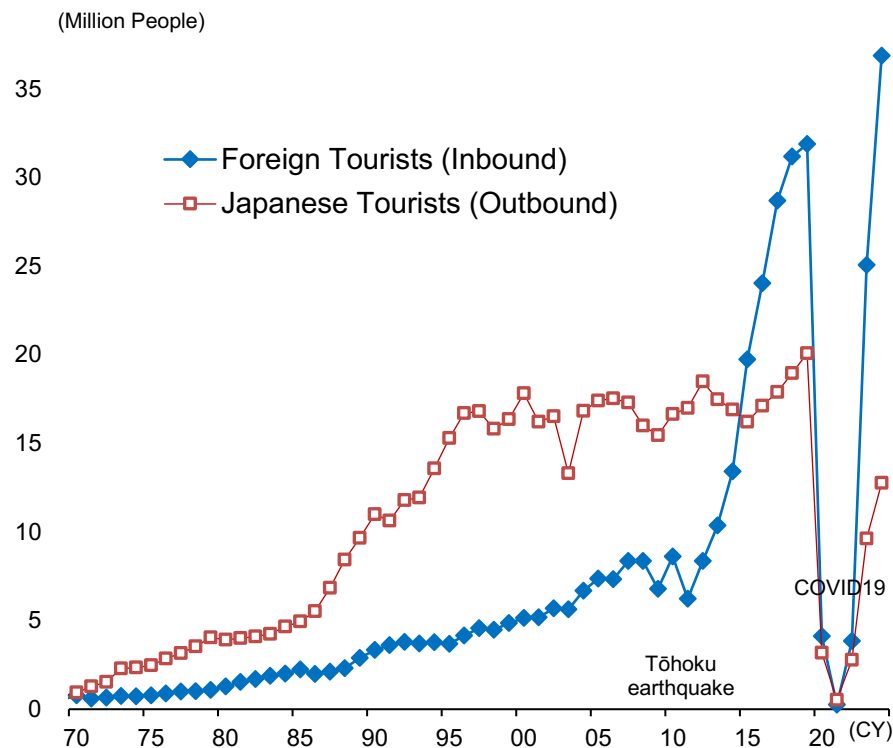
- The Japanese economy lacks strength, but it is seen as resilient in 2024. Revenge spending was anticipated after the COVID-19 pandemic, but the recovery in personal consumption has been weak.
- Foreign visitors to Japan and their spending have surpassed the peak before the spread of COVID-19 and are at an all-time high.

Consumption, Disposable Income and Deposits



(Source) MUFG: Trust Bank, from Cabinet Office and Bank of Japan
 (Notes) Trend lines are based on 2006-19 data; data as of September 2024.

Inbound and Outbound Tourists

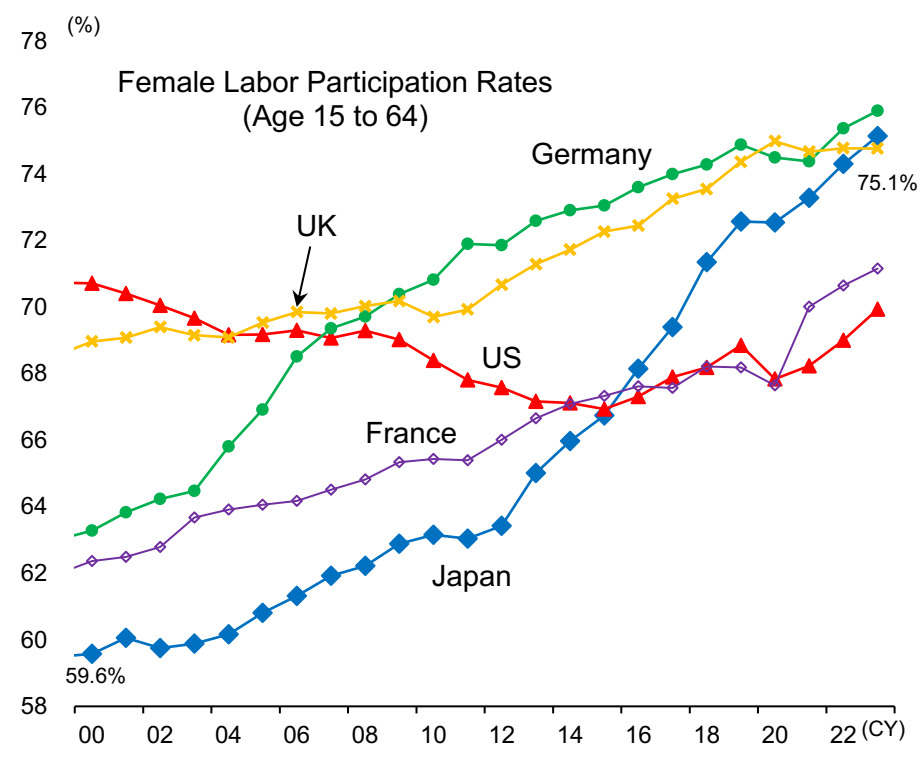


(Source) MUFG: Trust Bank, from MOJ
 (Notes) Data as of 2024.

Inflation: Significant Changes in the Labor Market

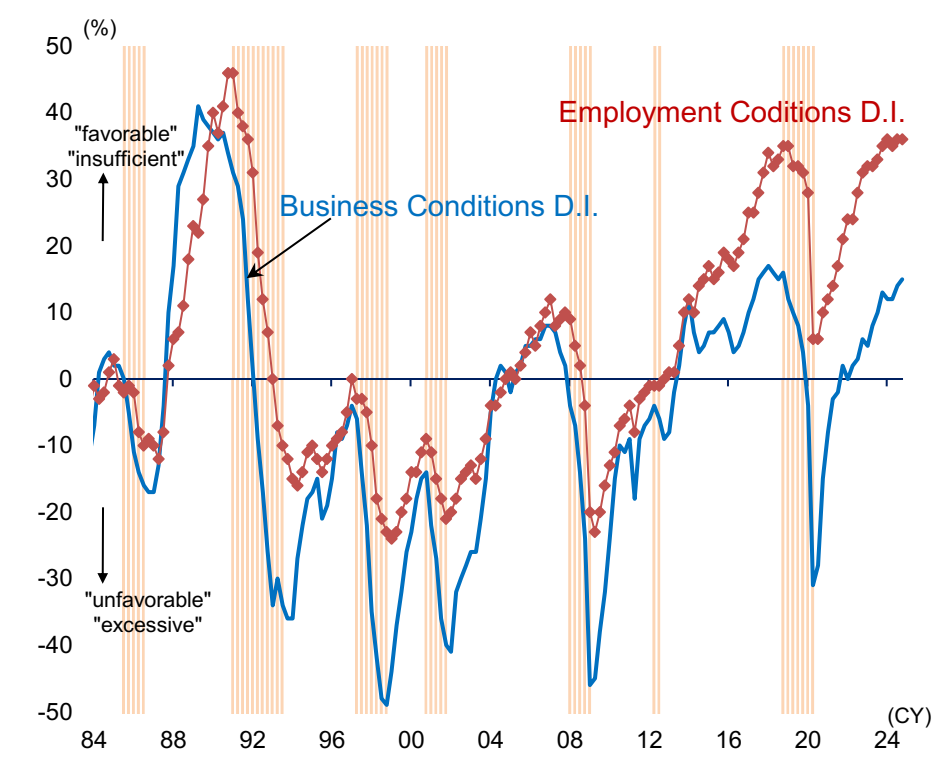
- In Japan, the labor participation rate for women in working-age (ages between 15 to 64) rose from 59.6% in 2000 to 75.2% in 2023. Improved compensation packages appear to be a necessary precondition for a further increase in the participation.
- Japanese companies have been facing chronic labor shortages over the past several years.

Female Labor Participation Rates in Major Countries



(Source) MUFG: Trust Bank, from OECD data
 (Note) Data as of 2023.

Business and Employment Conditions in "Tankan" Survey



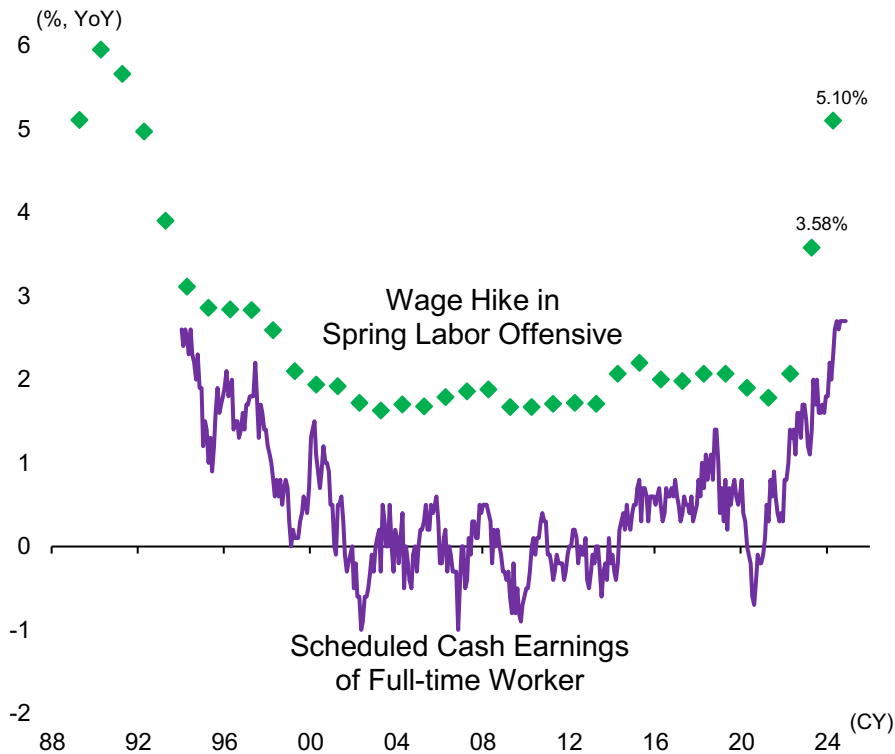
(Source) MUFG: Trust Bank, from BOJ data
 (Note) Universe is all industries, all enterprises; shaded areas indicate economic recessions; data as of December 2024.



Inflation: Wage Growth in a Tight Labor Market

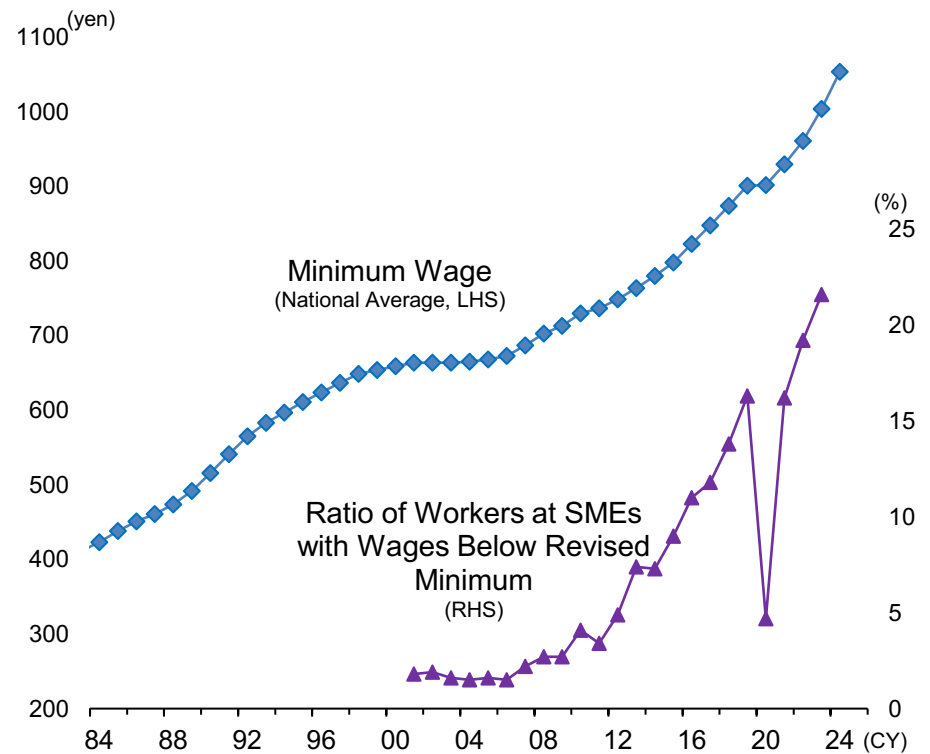
- The wage hike for 2024 in spring labor offensive is 5.10%, its highest level since 1991, and the scheduled salaries for full-time workers have been increasing, mainly because of tight labor market conditions.
- The national minimum wage was increased by 5.0% to 1,054 yen in 2024. Over the last decade, cash wage growth for full-time workers has been higher at SMEs than at large companies.

Wage Growth of Full-time Worker



(Source) MUFG: Trust Bank, from JTUC-RENGO, MIC data
 (Note) Wage growth includes regular salary increases.

Minimum Wage and Its Impact



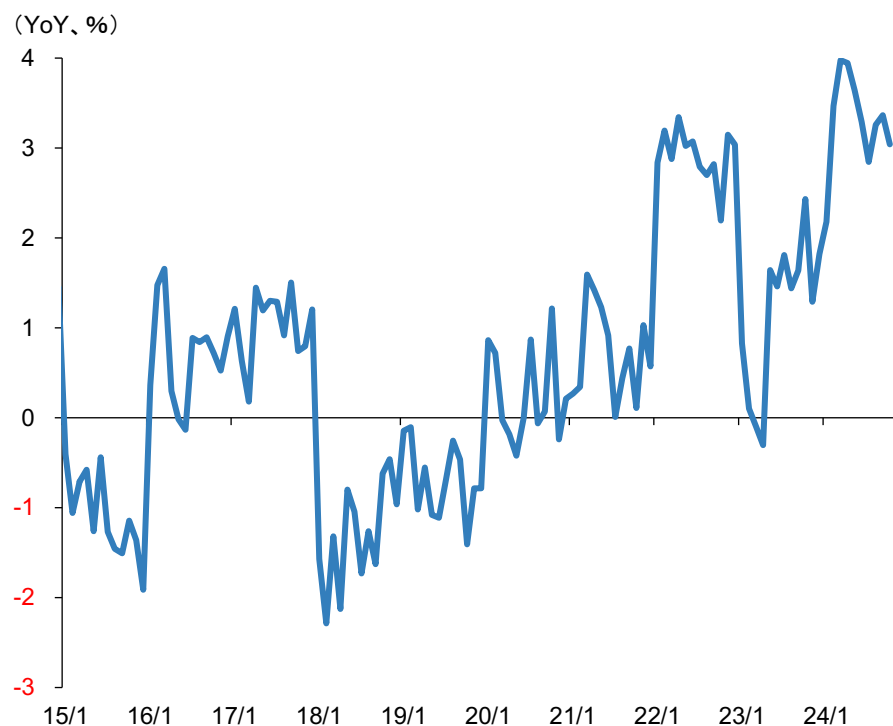
(Source) MUFG: Trust Bank, from MHLW data
 (Note) Ratio impacted is the percentage of workers with wages below the minimum wage after its revision; SMEs are companies with 30 or fewer employees; data as of 2024.



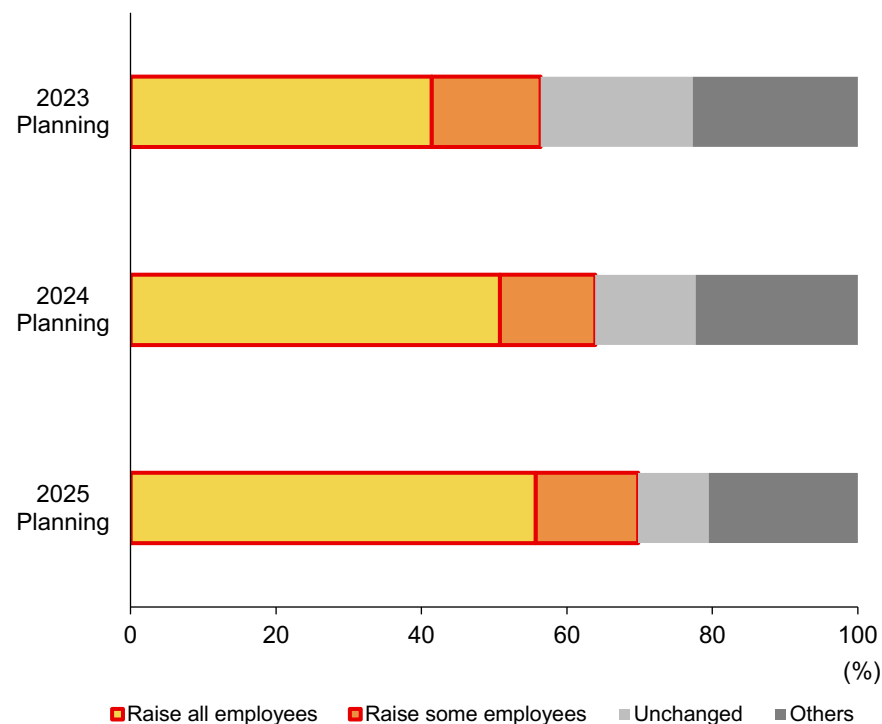
Inflation: Wage Increases in Small and Medium Enterprises

- There have been moves among small and medium-sized enterprises (SMEs) to raise regular wages.
- According to a survey by the Shoko Chukin Bank, the percentage of SMEs planning to raise wages in 2025 has been steadily increasing.
- Movement to raise wages spreads not only to large companies but also to small and medium-sized enterprises.

Wage in Small and Medium Enterprises (Regular Salary)



Regular Salary Planning in Small and Medium Enterprises



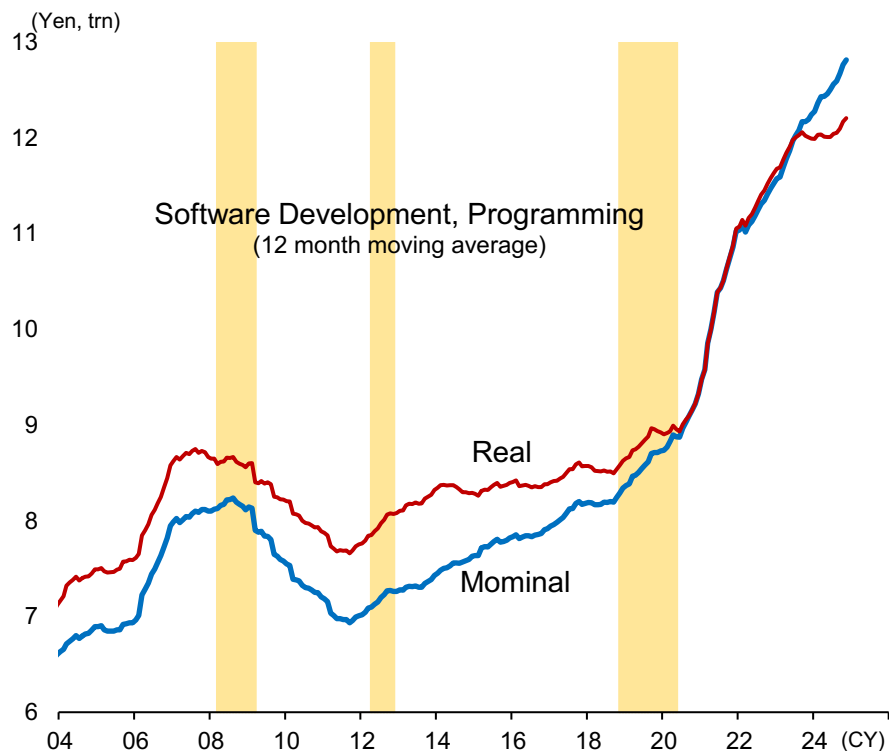
(Source) MUFG: Trust Bank, from Ministry of Health, Labor and Welfare
 (Note) Small and medium enterprises have less than 100 employees.

(Source) MUFG: Trust Bank, from Shoko Chukin Bank

Productivity: Key to Creating a Virtuous Cycle between Wages and Prices

- Sales of software development and programming have started to increase significantly from 2021.
- Over the past few years, software investment has grown faster at medium-sized companies than at large companies, partly because of investment aimed at rationalization and labor-saving. Improved productivity should support a “virtuous circle between wages and prices”.

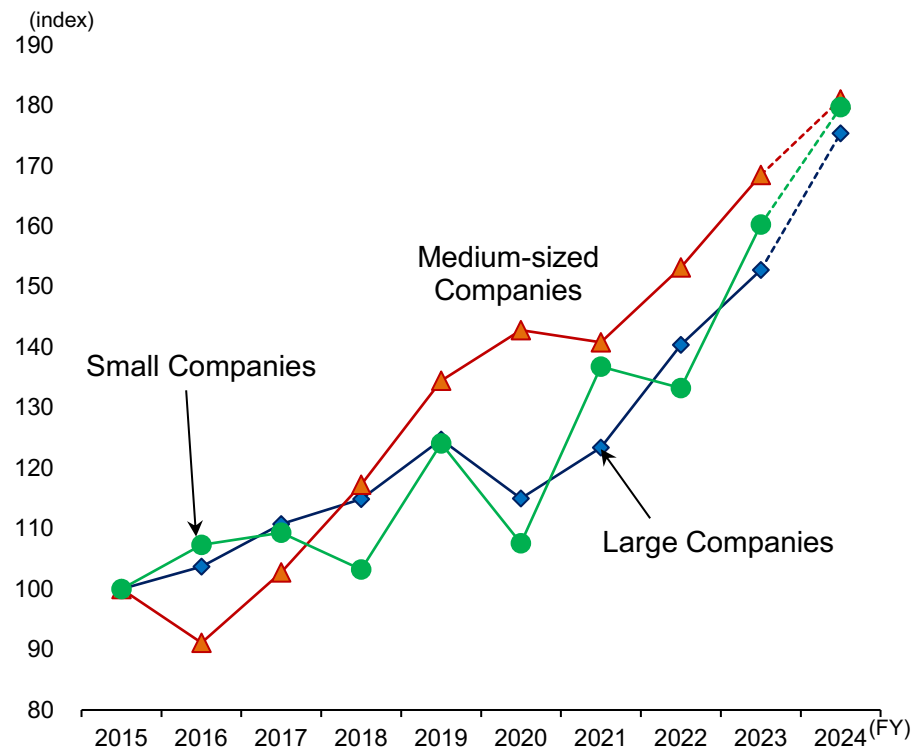
Sales of Software Development



(Source) MUFG: Trust Bank, from METI, BOJ

(Note) Real value is based on prices for contracted software in the Corporate Services Price Index; shaded areas indicate recessions

Software Investment by Size of Companies



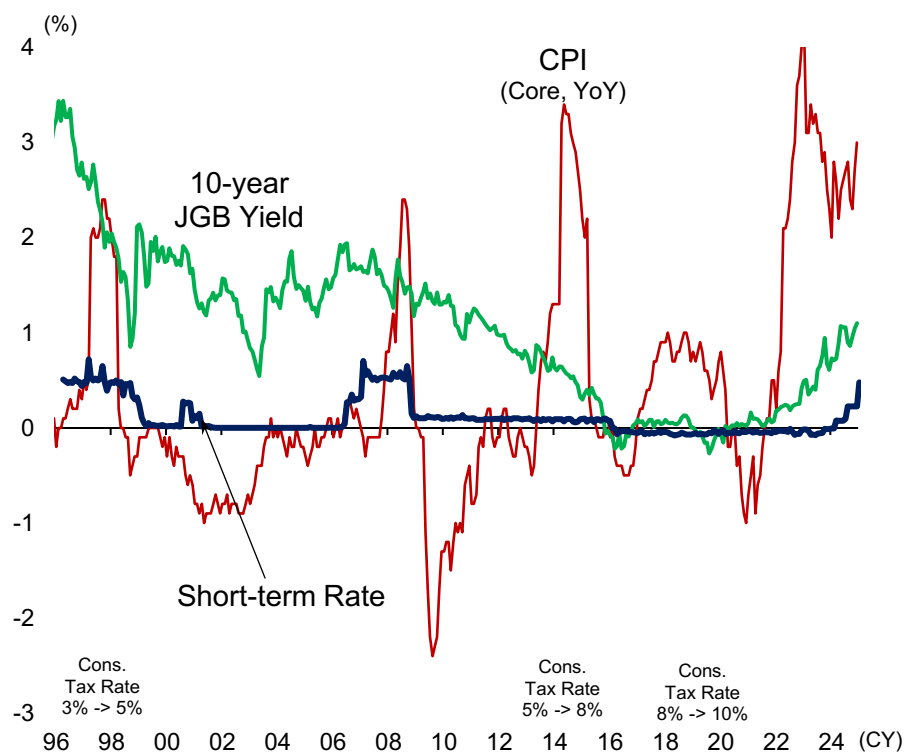
(Source) MUFG: Trust Bank, from BOJ

(Note) Universe is all industries; figures are indexed at value of FY2015 = 100; figures for FY2024 are based on companies' forecast in December survey.

BOJ : Cautious Revision of Ultra-Loose Monetary Policy

- The BOJ raised the policy rates from around 0.25% to around 0.5% at its January Monetary Policy Meeting, as the economy and prices have performed well in line with the outlook.
- BOJ raised its outlook for CPI in January. Against the backdrop of a virtuous cycle between wages and prices, BOJ is likely to continue to raise the policy rates, albeit cautiously, toward neutral rates.

Interest Rates and CPI Inflation



(Source) MUFG: Trust Bank, from BOJ, Ministry of Internal Affairs and Communications

BOJ Outlook for Economic Activity and Prices

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
FY24	0.5 < 0.4 ~ 0.6 >	2.7 < 2.6 ~ 2.8 >	2.2 < 2.1 ~ 2.3 >
October	0.6 < 0.5 ~ 0.7 >	2.5 < 2.4 ~ 2.5 >	2.0 < 1.9 ~ 2.1 >
FY25	1.1 < 0.9 ~ 1.1 >	2.4 < 2.2 ~ 2.6 >	2.1 < 2.0 ~ 2.3 >
October	1.1 < 1.0 ~ 1.2 >	1.9 < 1.7 ~ 2.1 >	1.9 < 1.8 ~ 2.0 >
FY26	1.0 < 0.8 ~ 1.0 >	2.0 < 1.8 ~ 2.1 >	2.1 < 1.9 ~ 2.2 >
October	1.0 < 0.8 ~ 1.1 >	1.9 < 1.8 ~ 2.0 >	2.1 < 1.9 ~ 2.2 >

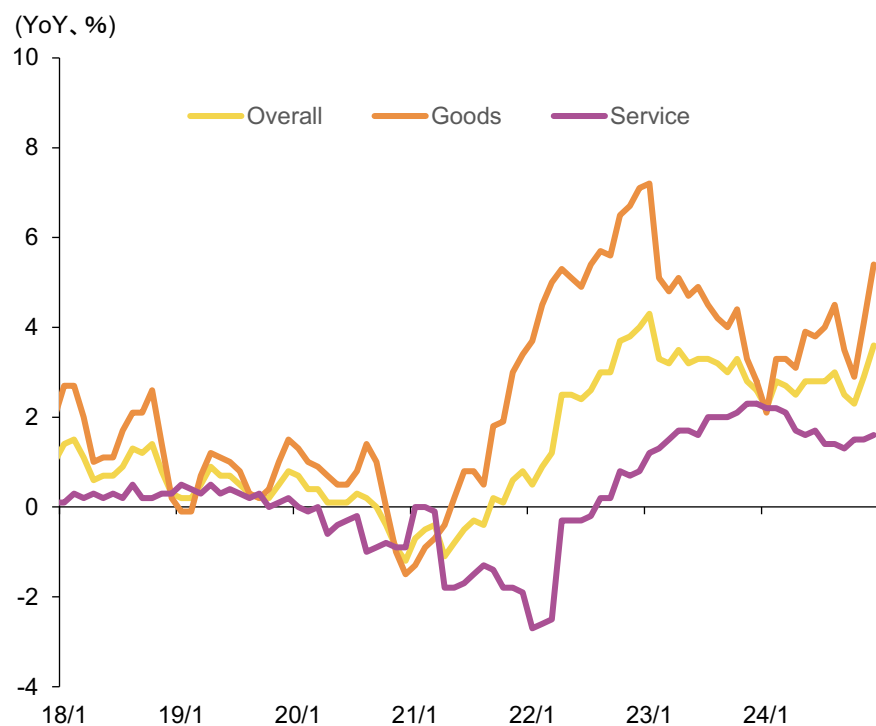
(Source) MUFG: Trust Bank, from Bank of Japan

(Note) Figures indicate median of the Policy Board members' forecasts; the forecast ranges of the majority members are in parentheses; data as of January 2025.

BOJ : We Expect a Gradual Pace of Policy Rate Hikes to 1%

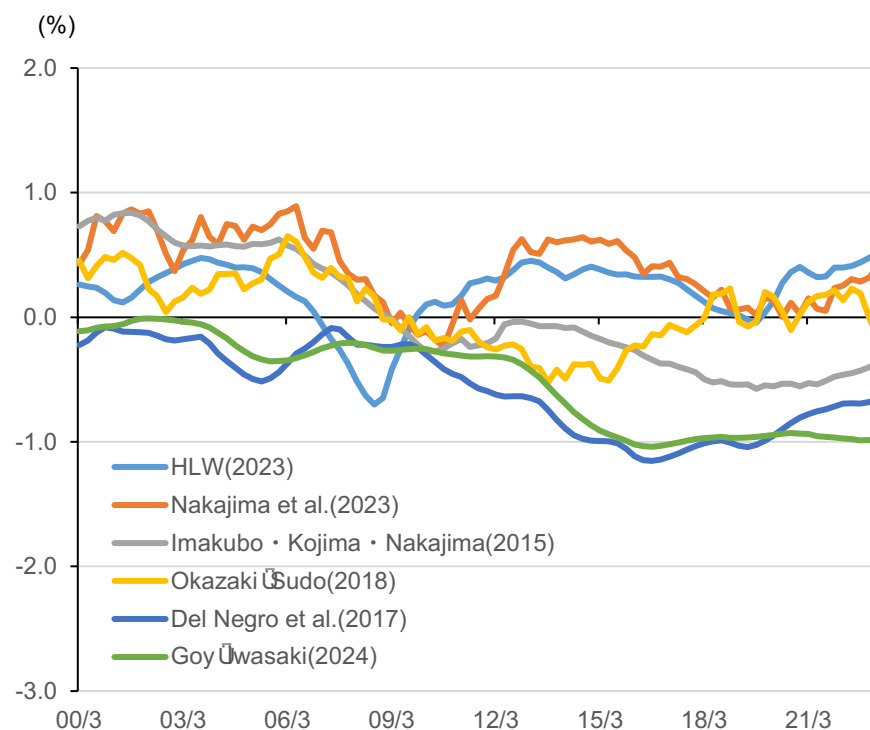
- In 2022, consumer prices rose led by import prices, but now we are seeing an increase in service prices on the back of rising wages.
- Although estimates of the natural rate range from ▲1% to +0.5%, the neutral rate is calculated to be at least +1% at an inflation rate of 2%.
- BOJ is expected to raise policy rate gradually to 1% every six months at a cautious pace of 0.25%.

CPI in Japan



(Source) MUFG: Trust Bank, from MIC

Japan's real neutral rate (natural rate)

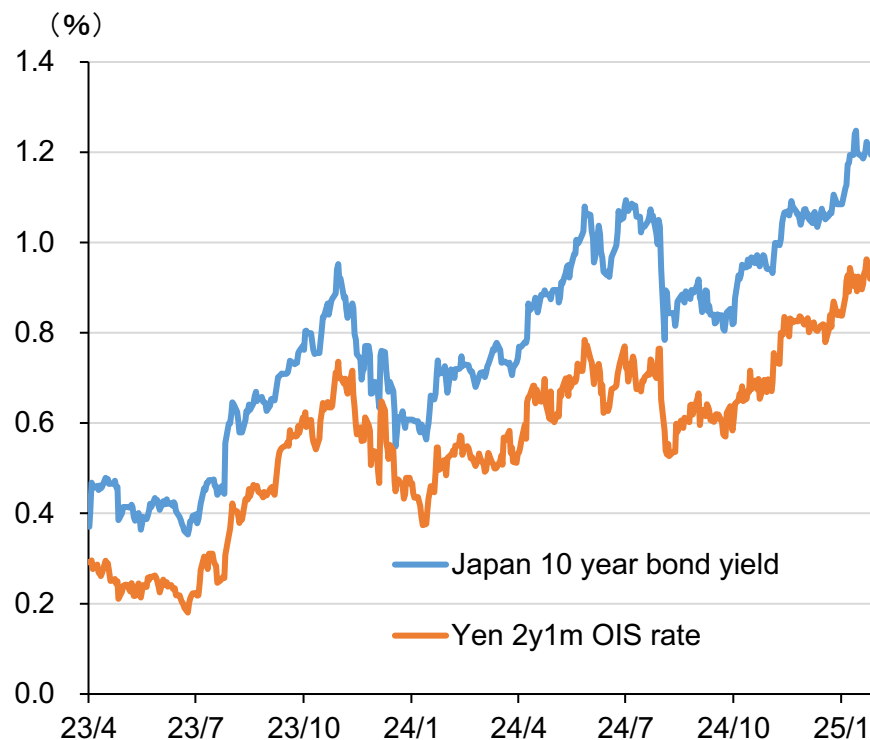


(Source) MUFG: Trust Bank, from BOJ

Japan Rates : We Expect Moderate Rise

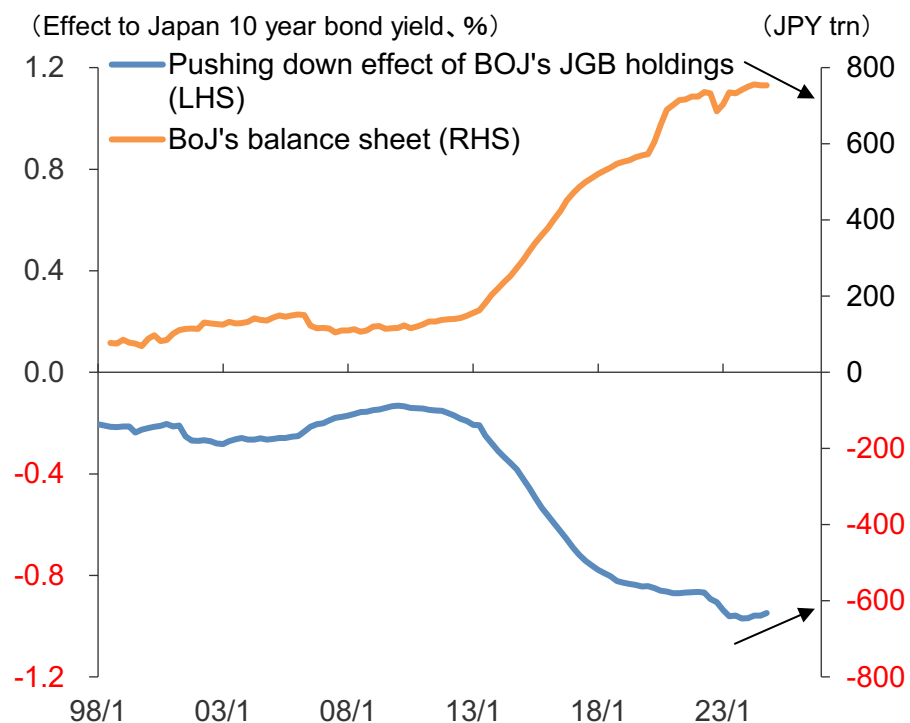
- We expect long-term interest rates to rise moderately against the backdrop of continued rate hikes by the Bank of Japan as the economy continues to recover and the economy moves toward “2% inflation target”.
- In July 2024, BOJ decided to reduce its JGB purchases and embarked on QT. BOJ’s estimates suggest that BOJ’s JGB holdings have pushed down 10year bond yield by about ▲0.9%. In addition to rate hikes, QT is likely to exert upward pressure on interest rates in the future.

Rates in Japan



(Source) MUFG: Trust Bank, from Bloomberg

Effect of BOJ’s JGB holdings

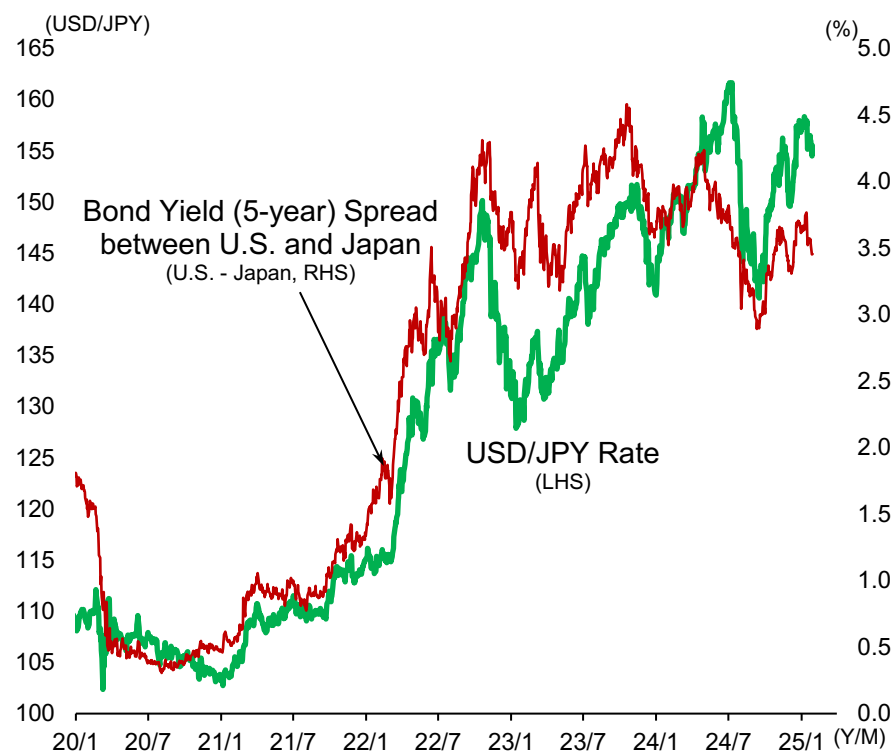


(Source) MUFG: Trust Bank, from BOJ

FOREX: Which Way Will the Yen Go?

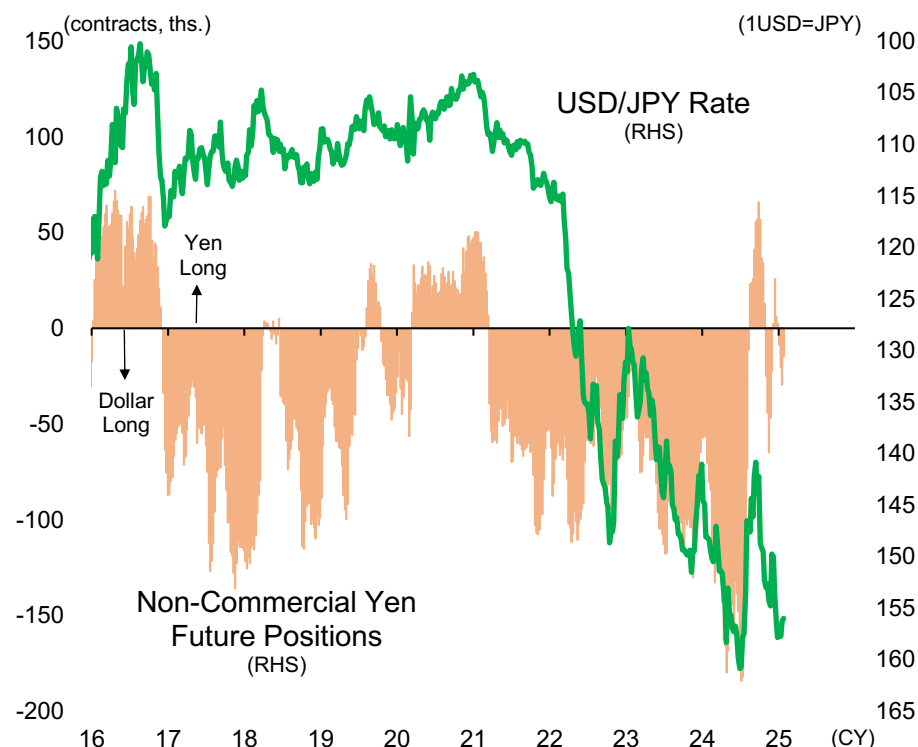
- Since 2021, the main reason for sharp yen's depreciation has been the interest rate spread between Japan and the U.S. and the deterioration of Japan's trade balance. Currently, the BOJ is expected to raise interest rates cautiously and the Fed to cut rates, while Japan's trade deficit will remain at a modest level. USD/JPY is expected to pause in its upward trend in the near term due to the narrowing of the U.S.-Japan interest rate differential.
- Non-commercial Yen positions in the Chicago futures market are almost neutral. No distortion by speculators.

Dollar / Yen Rate and Bond Yield Spread



(Source) MUFG: Trust Bank, from FED, BOJ data

USD/JPY Rate and Speculative Future Positions

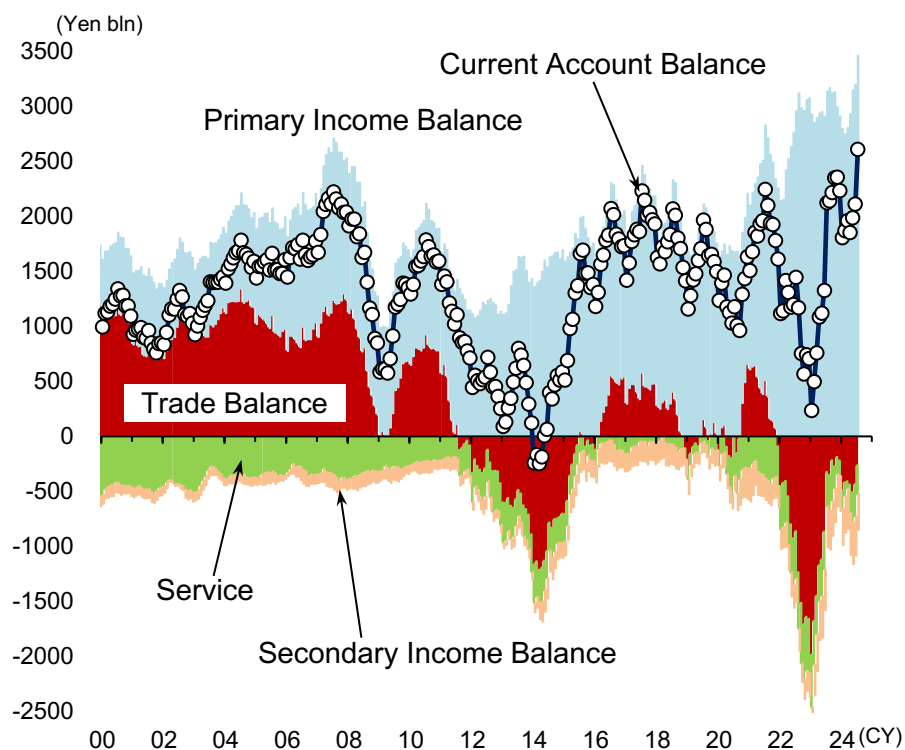


(Source) MUFG: Trust Bank, from CME, BOJ data

FOREX: The Structural Backgrounds of the Yen Weakness Remain

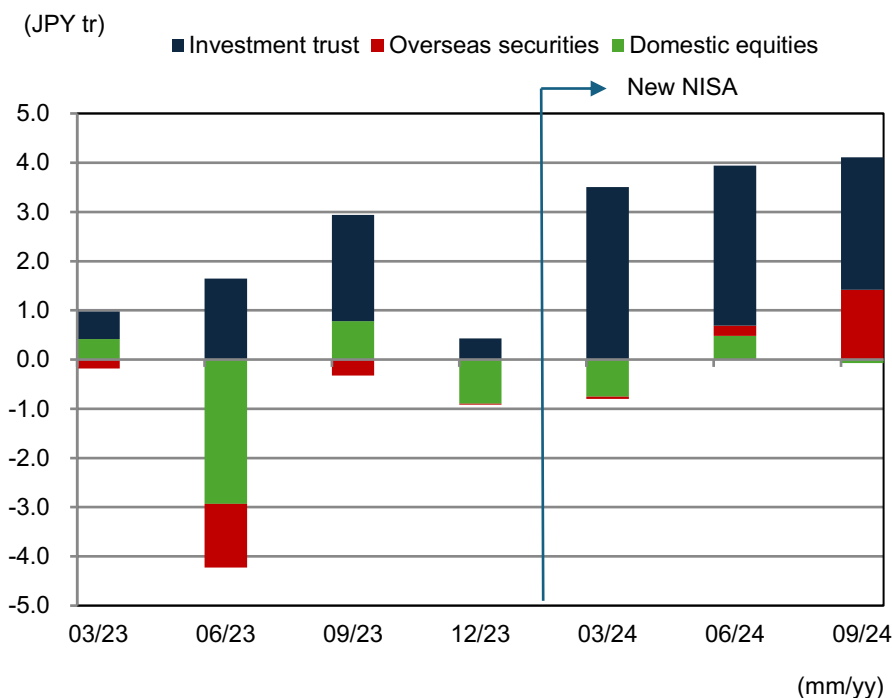
- Japan's current account balance is in the black on the back of the primary income balance. The primary income balance is the earnings from overseas investments, which are mostly reinvested and do not contribute much to the yen's appreciation. On the other hand, the trade balance is in the red. Against the backdrop of a digital deficit, the services balance also continues to be in the red.
- After new NISA policy was implemented, households have been actively investing in foreign securities.
- The yen has become harder to buy in terms of structural changes.

Japan's Current Account Balance



(Source) MUFG: Trust Bank, from MoF

Household Investment in Securities

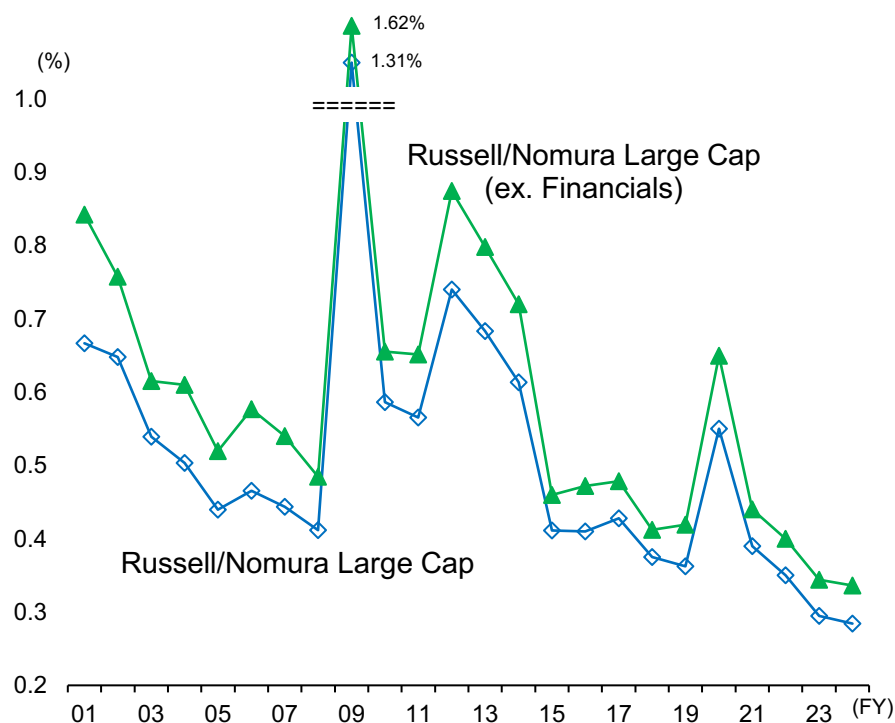


(Source) MUFG: Trust Bank, from BOJ

FOREX: Strong Yen is still a Drag on Profits, but ...

- As many Japanese companies have expanded their overseas operations, the strong yen continues to be a drag on their profits, although its impact is decreasing. The assumed dollar-yen rates for FY2024 is 145.15 yen.
- Japanese manufactures have increased the ratio of overseas production consistently since 1990 in order to reduce the impact of exchange rate fluctuation on their earnings.

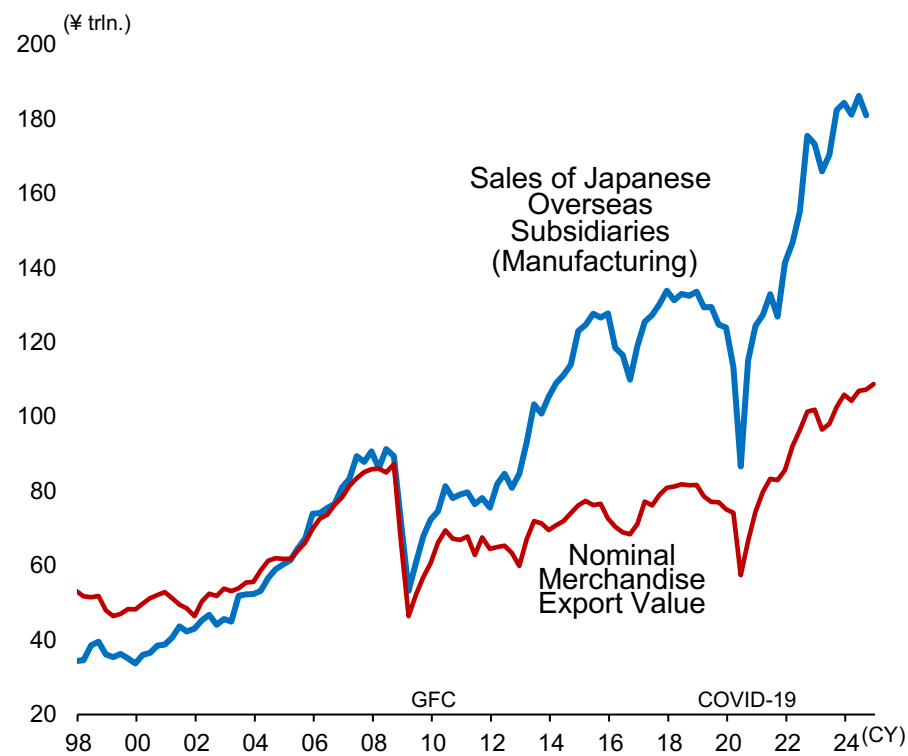
Dollar/Yen Rate Sensitivity of Recurring Profits



(Source) MUFG: Trust Bank, from Nomura Securities data

(Note) Changes in recurring profits of major companies when the dollar/yen rate fluctuates by 1 yen, based on interviews with analysts; data as of FY2024.

Exports and Sales of Overseas Subsidiaries



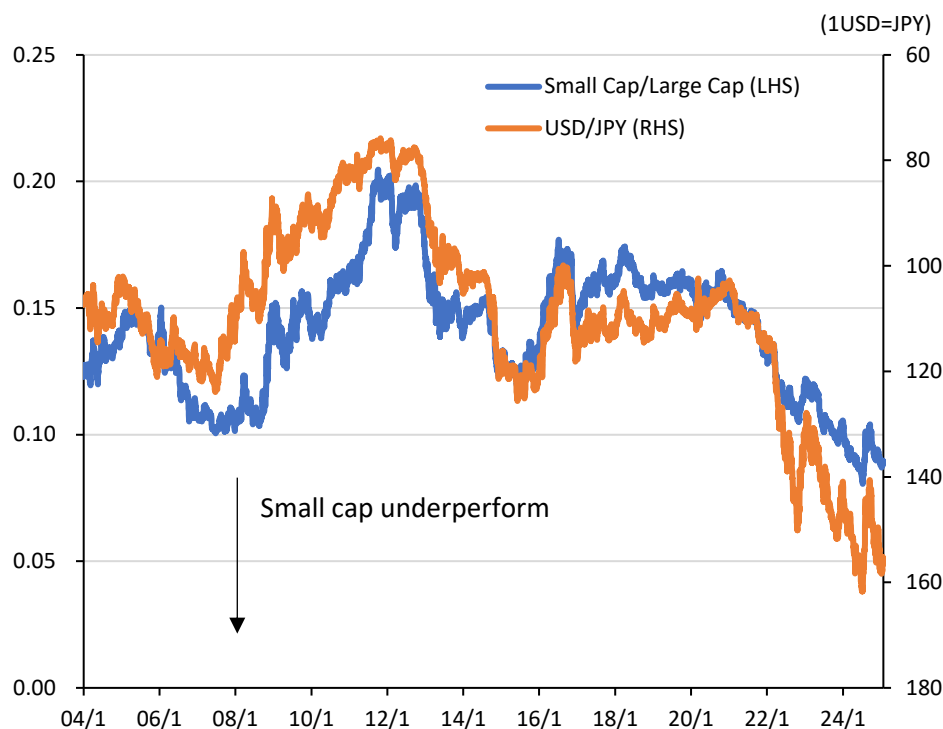
(Source) MUFG: Trust Bank, from METI, MOF data

(Note) Annualized quarterly data; data as of September 2024.

Small Caps: Benefits of Diversification in Case of Yen Appreciation

- Small-cap stocks are likely to outperform large-cap stocks when the yen appreciates against dollar.
- Many Japanese small caps are in domestic-demand industries, whose earnings are less affected by overseas economic conditions relative to large caps in Japan. They tend to have a lower correlation with US equities, partly because they are not included in major equity indices and not heavily held by foreign investors.

Small Cap/Large Cap vs USD/JPY



(Source) MUFG: Trust Bank, from Bloomberg

(Note) MSCI Japan Indexes are used in both small cap and large cap

Industry Composition of Japanese Small Caps

Industry	Dec. 1995		Dec. 2010		Jul. 2024	
	No. of Stocks (%)	Market Cap. (%)	No. of Stocks (%)	Market Cap. (%)	No. of Stocks (%)	Market Cap. (%)
Construction	10.1	10.5	6.8	5.9	4.6	5.5
Foods	4.5	4.2	3.4	3.3	3.5	3.2
Textiles & apparels	4.8	3.5	2.8	1.8	2.1	1.6
Chemicals	8.4	7.5	6.7	7.2	6.3	5.8
Iron & Steel	3.4	3.9	1.9	1.8	1.5	1.4
Machinery	9.6	9.2	7.5	6.8	6.6	7.2
Electric appliances	9.7	10.0	8.6	9.7	6.2	6.7
Information & comm.	0.0	0.0	6.2	6.3	11.9	11.2
Wholesale trade	6.7	5.2	10.2	7.7	9.0	8.2
Retail trade	4.7	4.8	10.1	10.9	9.7	10.2
Banks	5.6	9.8	3.4	5.0	3.4	5.4
Real estate	1.8	1.8	2.9	3.4	3.8	3.2
Services	2.6	3.0	7.1	6.1	11.9	8.6

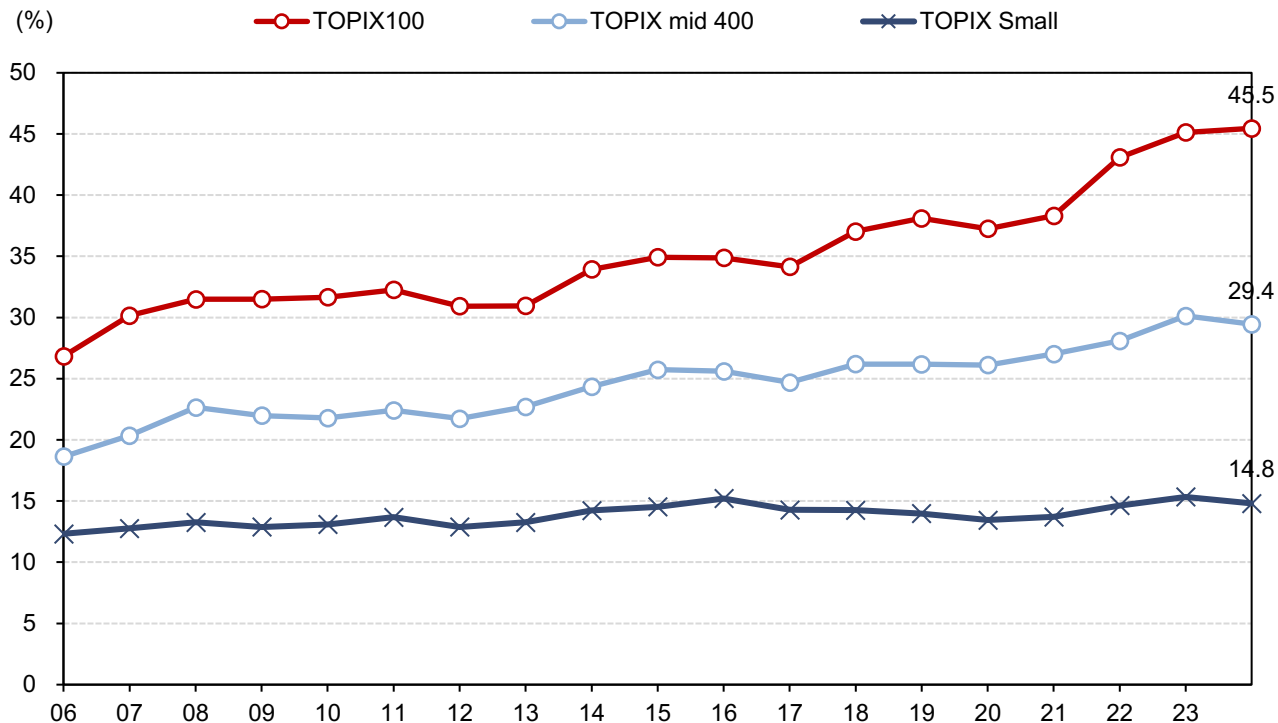
(Source) MUFG: Trust Bank, from Astra Manager

(Note) Universes are stocks in TOPIX Small Index; industry categorizations are TSE 33 sectors; figures are calculated based on the number of companies and market capitalization.

Small Caps: Oriented to Domestic Market

■ Companies belonging to Japanese large-cap stocks have nearly half of their sales overseas, while companies belonging to small-cap stocks have only a little more than 10% of their sales overseas.

Overseas Sales Ratio by Size

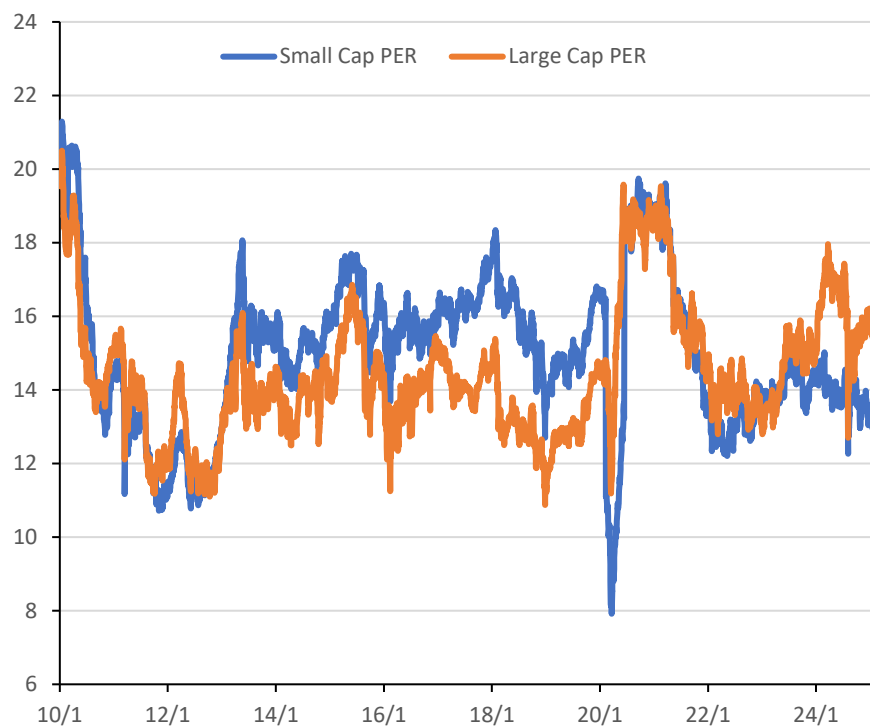


(Source) MUFG: Trust Bank, from Bloomberg

Small Caps: Valuations are Historically Cheap

- Valuations of Japan Small-cap stocks are at historical low levels.
- The factors behind the underperformance of small-cap stocks over the past few years included: (1) an inflow of funds into large-cap stocks as the TSE requested listed companies to manage their businesses with an awareness of capital costs and stock prices, (2) worsening domestic business confidence due to inflation, and (3) the yen's depreciation against the dollar. There are signs of a lull in (1)~(3).

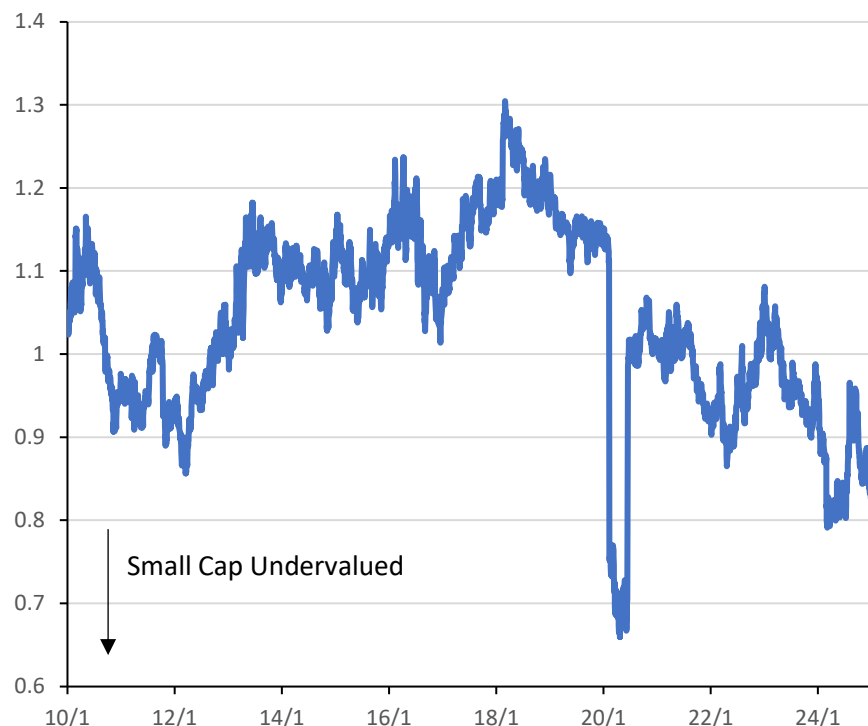
Small Cap and Large Cap PER



(Source) MUFG: Trust Bank, from Bloomberg

(Note) MSCI Japan Indexes are used in both small cap and large cap

Small Cap PER/Large Cap PER



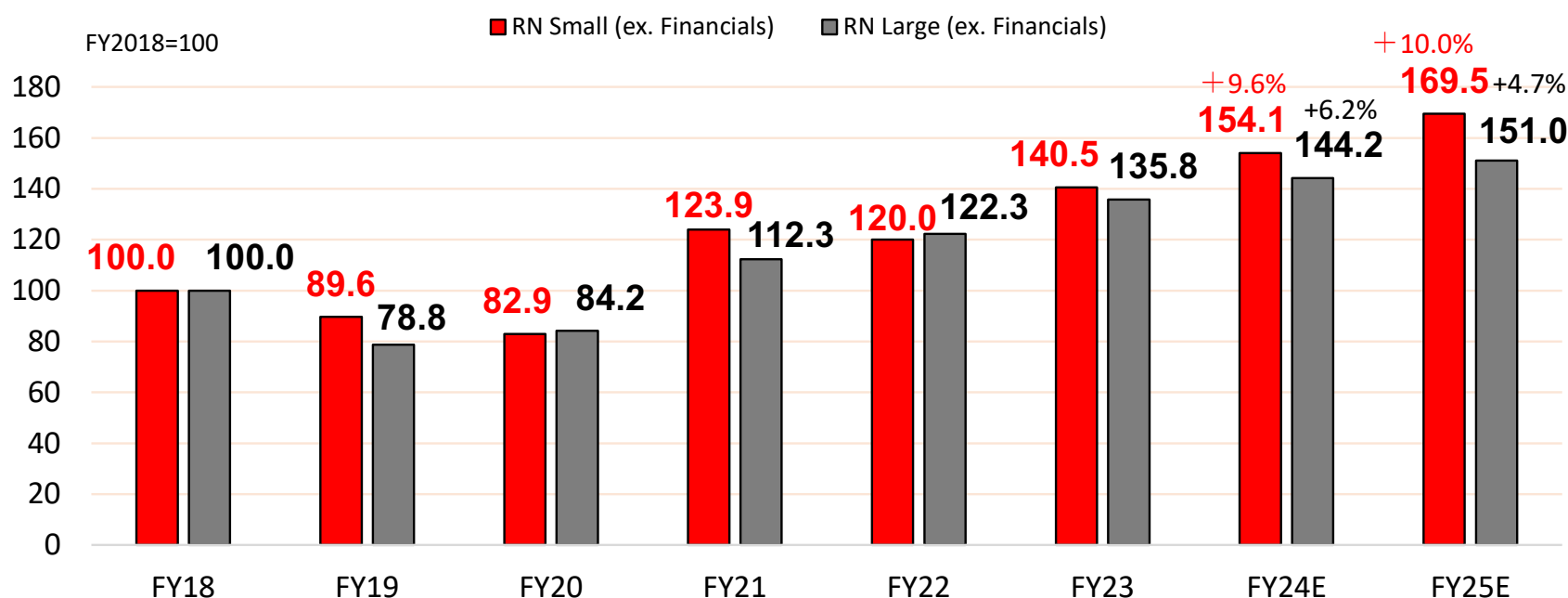
(Source) MUFG: Trust Bank, from Bloomberg

(Note) MSCI Japan Indexes are used in both small cap and large cap

Small Caps: Strong Earnings Growth Potential

- Profit levels in FY2023 and beyond are dominated by Small Caps.
- Small caps have provided stronger earnings growth than large caps in Japan, because of their unique business models, dominant positions in niche growing industries, and flexible decision making by visionary entrepreneur.
- Since 2000, IPOs of tech-related and service industry companies have increased, and more small-caps belong to industries where earnings are likely to grow, such as information & communication, retail trade and services.

Recurring Profit by Size



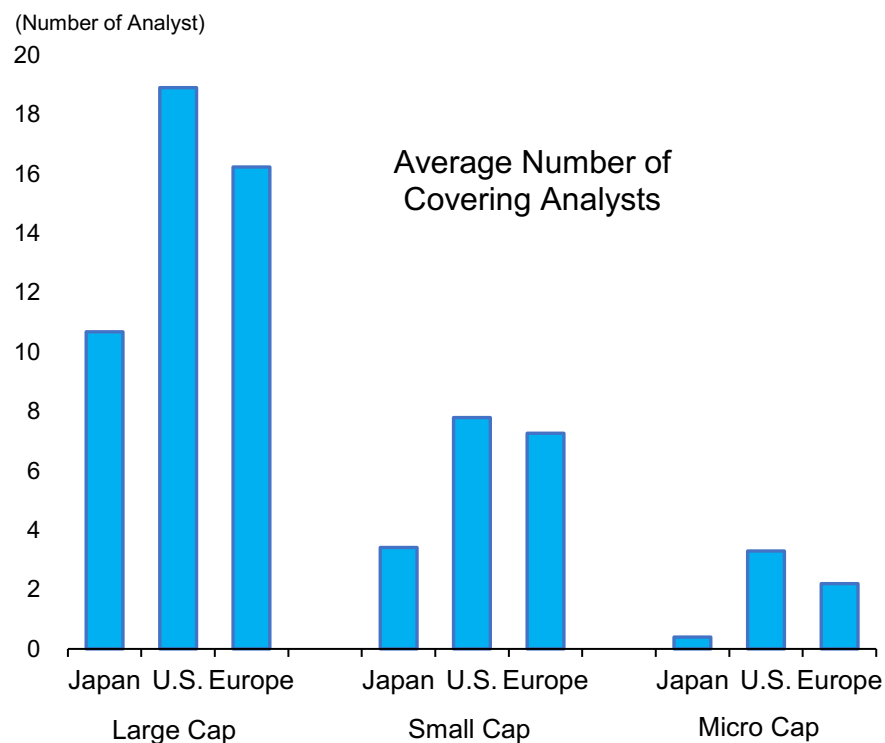
(Source) MUFG: Trust Bank, from Nomura Securities

(Note) Russell/Nomura Index is covered. Earnings forecasts are based on Nomura's forecasts, supplemented by Toyo Keizai's forecasts. As of December 30, 2024

Small Caps: High Information Gathering Costs

- The sell-side analyst coverage of Japanese small and micro caps is clearly limited relative to that of European or U.S. stocks, and investors have to rely on publicly available company information.
- High information gathering costs hide away lots of attractively valued Japanese small caps.

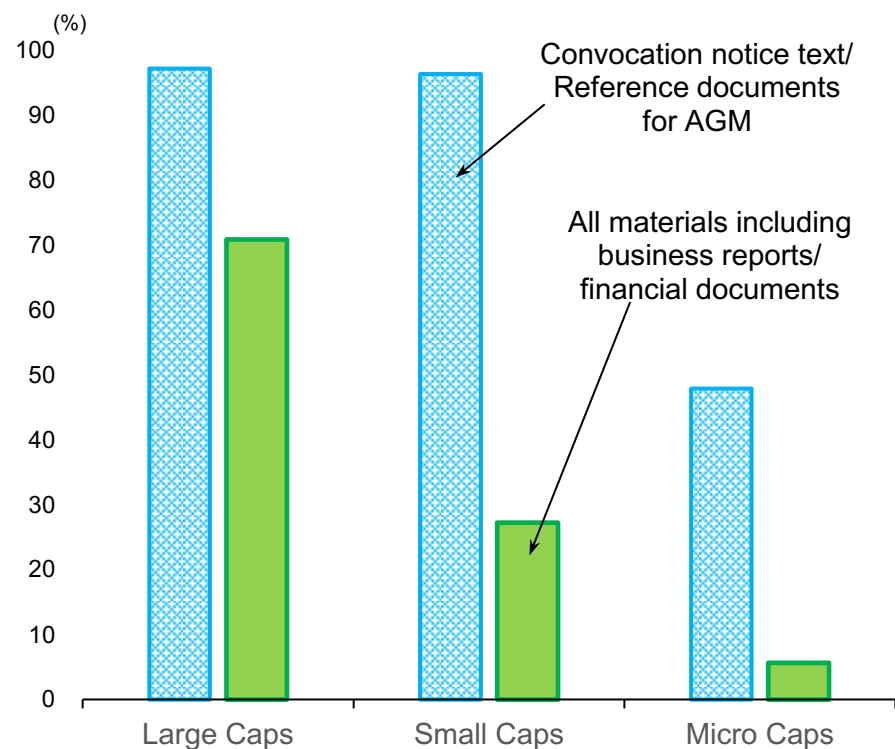
Number of Covering Analysts by Size in Major Region



(Source) MUFG: Trust Bank, from FactSet

(Notes) Universes are companies in MSCI USA, MSCI Europe and MSCI Japan Index; data as of June 2024.

Companies Sending English Documents by Size



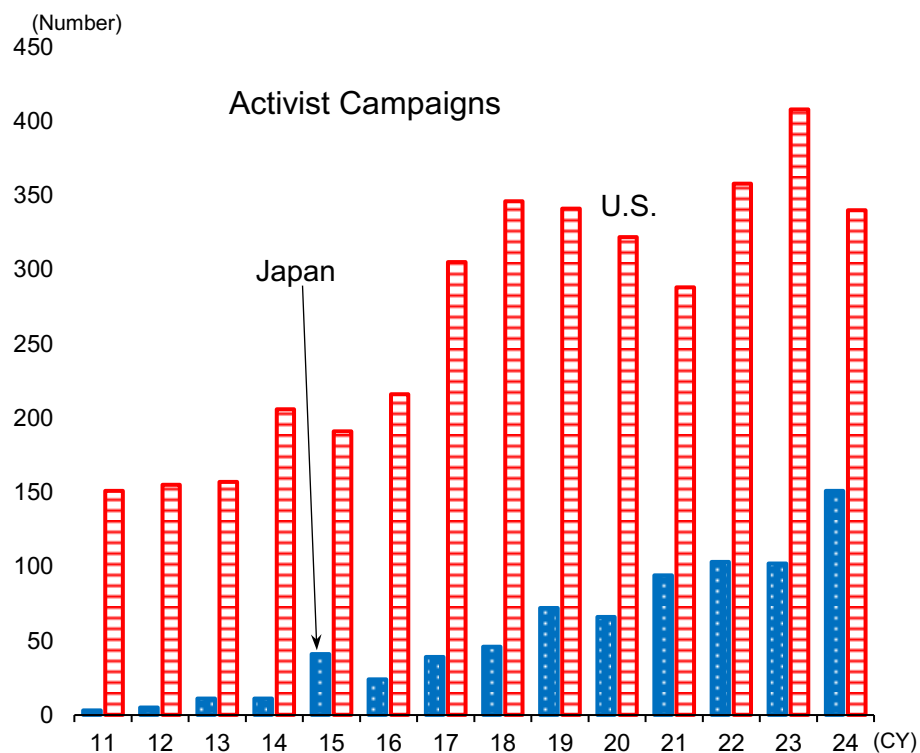
(Source) MUFG: Trust Bank, from FactSet

(Notes) Universe is all TSE listed companies with fiscal year ending in March; large caps, small caps and micro caps are based on MSCI indexes; data as of June 2024.

Corporate Governance: Japan Open to Activist Investors

- After a boom in the 2000s, the number of activist campaigns against listed companies began to increase again in the late 2010s and will exceed 150 campaigns per year in 2024.
- The interest of Japanese institutional investors in improving asset efficiency, such as reducing policy shareholdings, and diversifying the board of directors is similar to the demands of activists.

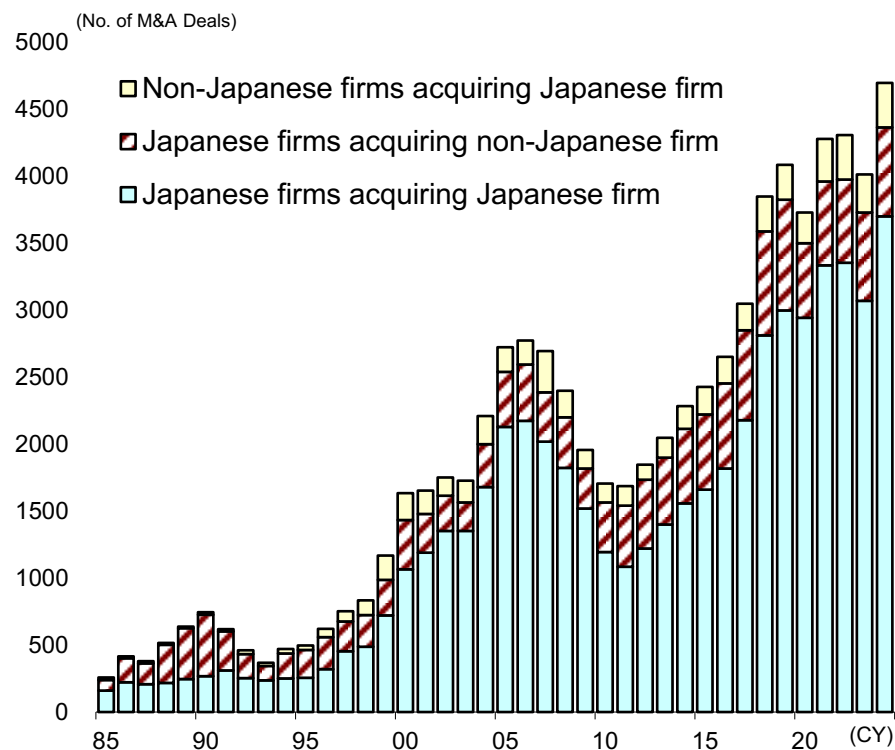
Activist Campaigns in the U.S. and Japan



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Data as of 2024.

M&A Deals Involving Japanese Companies



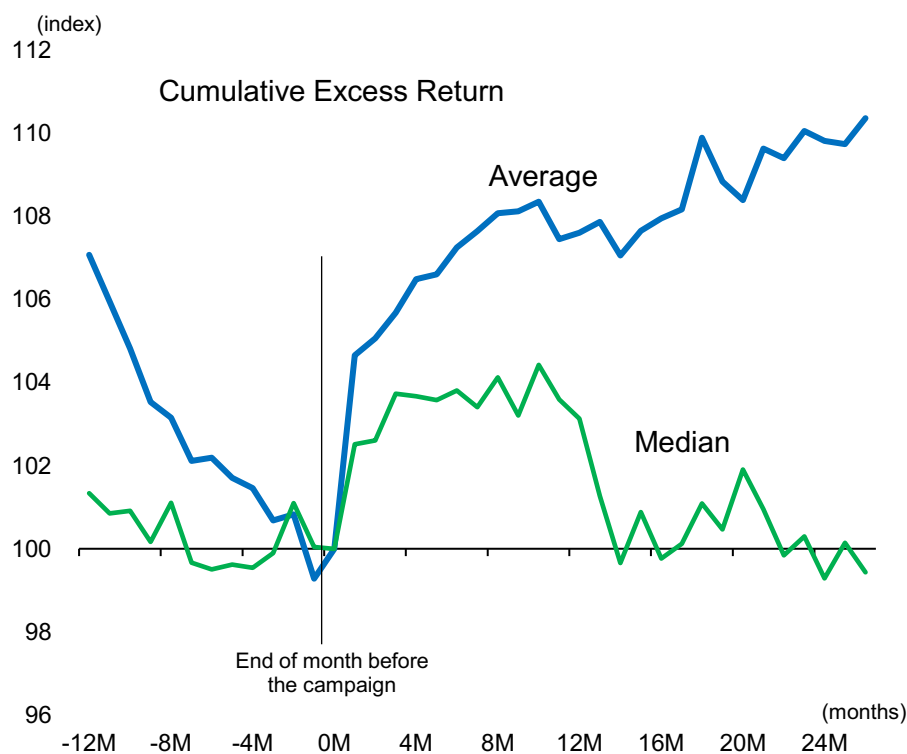
(Source) MUFG: Trust Bank, from RECOF data

(Note) Data as of 2024.

Corporate Governance: Successful Activist Campaigns bring on High Returns

- Activists tend to target the companies with decent profits and ample cash reserves, but scarce investment opportunities.
- Activists' encouragements and suggestions are important catalysts for the companies' managements, and "managements' willingness" are essential to the investment returns over time.

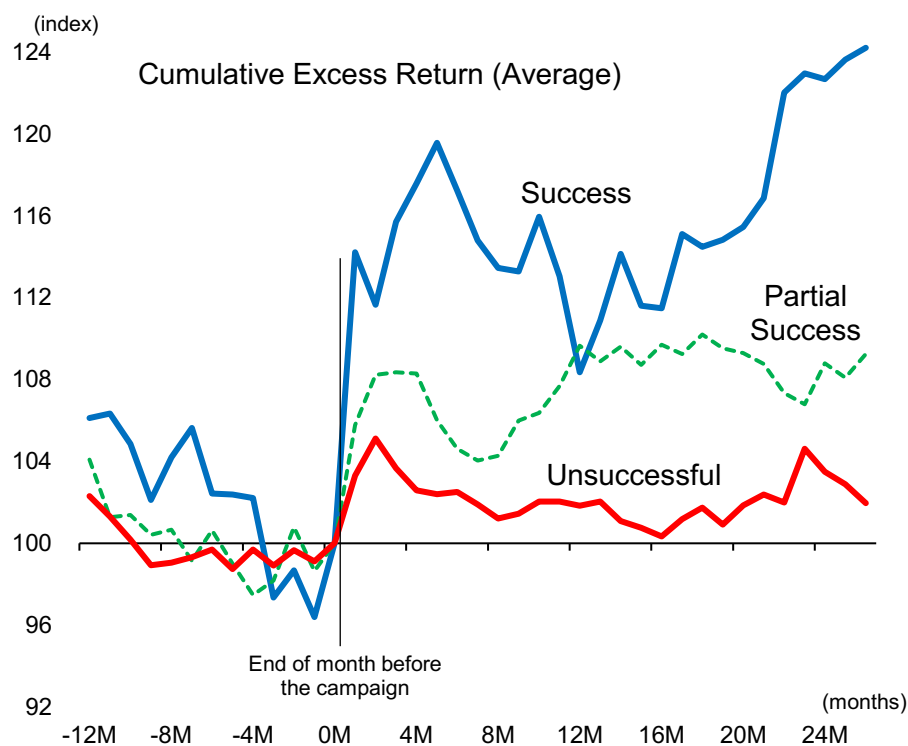
Returns of Companies Experiencing Activist Campaigns (1)



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; data as of May 2024.

Returns of Companies Experiencing Activist Campaigns (2)



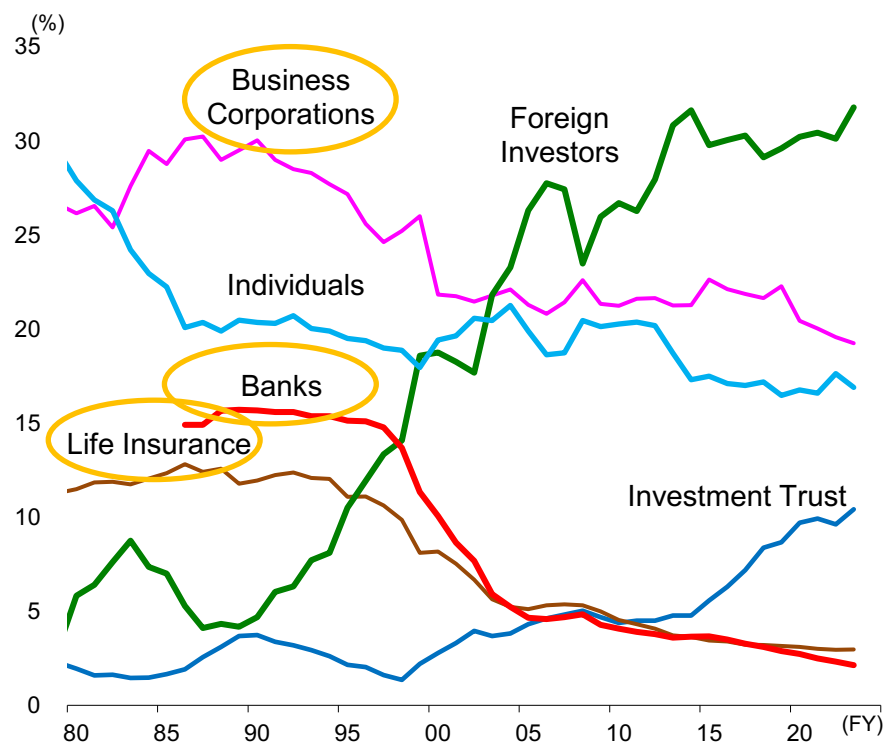
(Source) MUFG: Trust Bank, from Bloomberg

(Note) Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; success, partial success and unsuccessful criteria are from Bloomberg; data as of May 2024.

Corporate Governance: Sound Pressures from Pure Shareholders

- After the unwinding of cross shareholdings over the last two decades, sound pressures from pure shareholders force management at Japanese companies to pay more attention to the interests of minority shareholders.
- Activist shareholder proposals are no longer unusual occurrences for companies facing problems such as excessive levels of cash or securities.

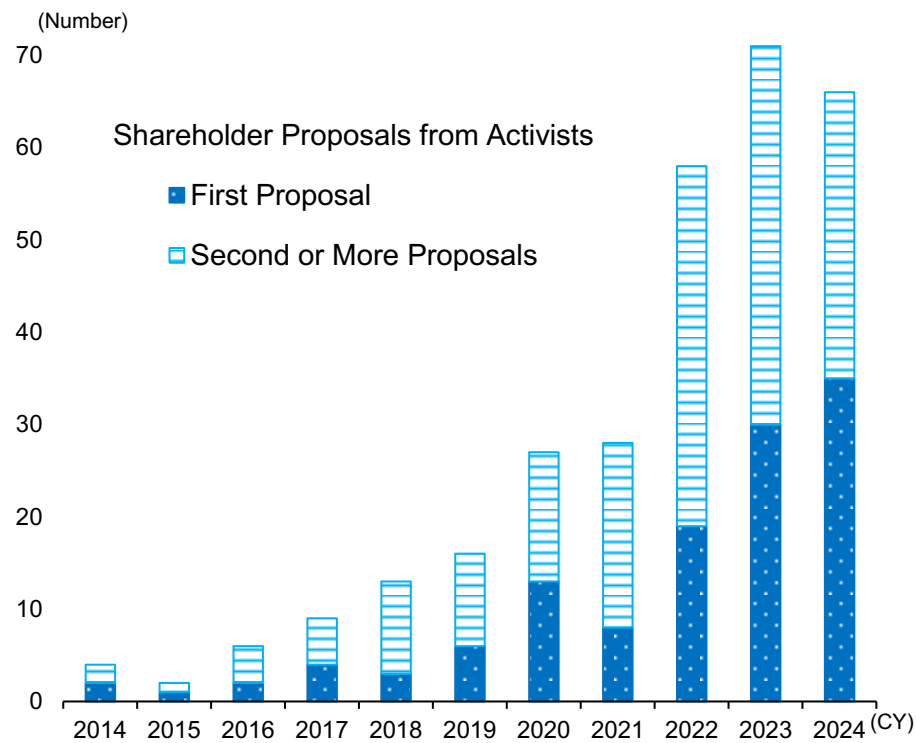
Cross-shareholding Stockholder and Pure Stockholder



(Source) MUFG: Trust Bank, from TSE data

(Note) Data as of FY2023.

Shareholder Proposals from Activists at AGM



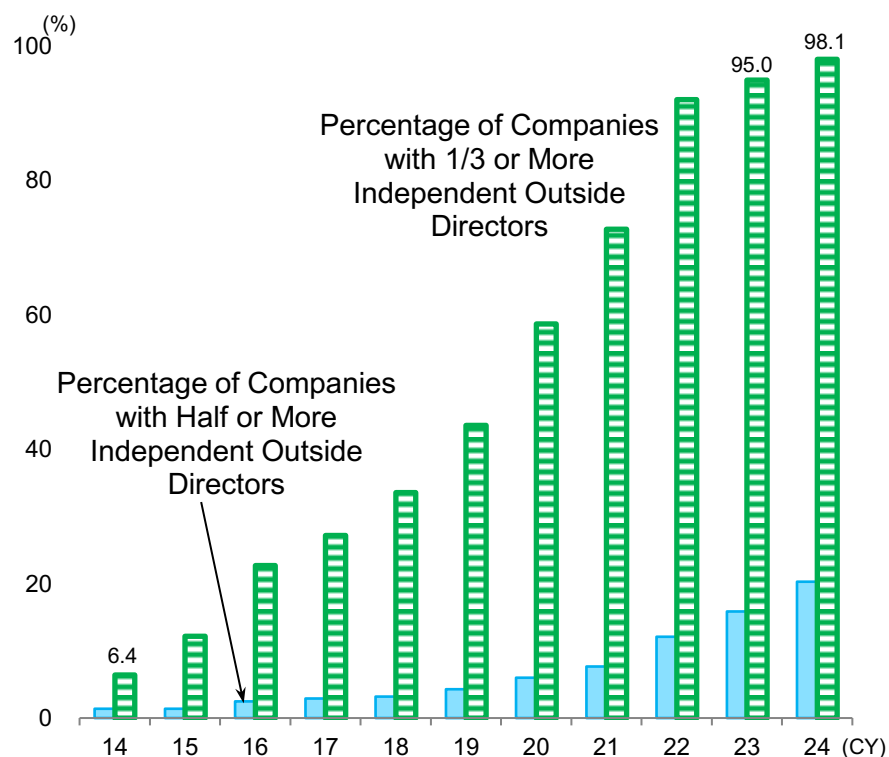
(Source) MUFG: MUFG: Trust Bank, from IR Japan HD data

(Note) Data as of October 2024.

Corporate Governance: Increase in Outside Directors and Share Buybacks

- Proportion of Japanese companies with one third or more independent outside directors have increased from 6.4% in 2014 to 98.1% in 2024.
- Japanese companies used to increase their share buybacks during periods of stock price correction, but they have increased share buybacks proactively to record levels despite the rising stock prices.

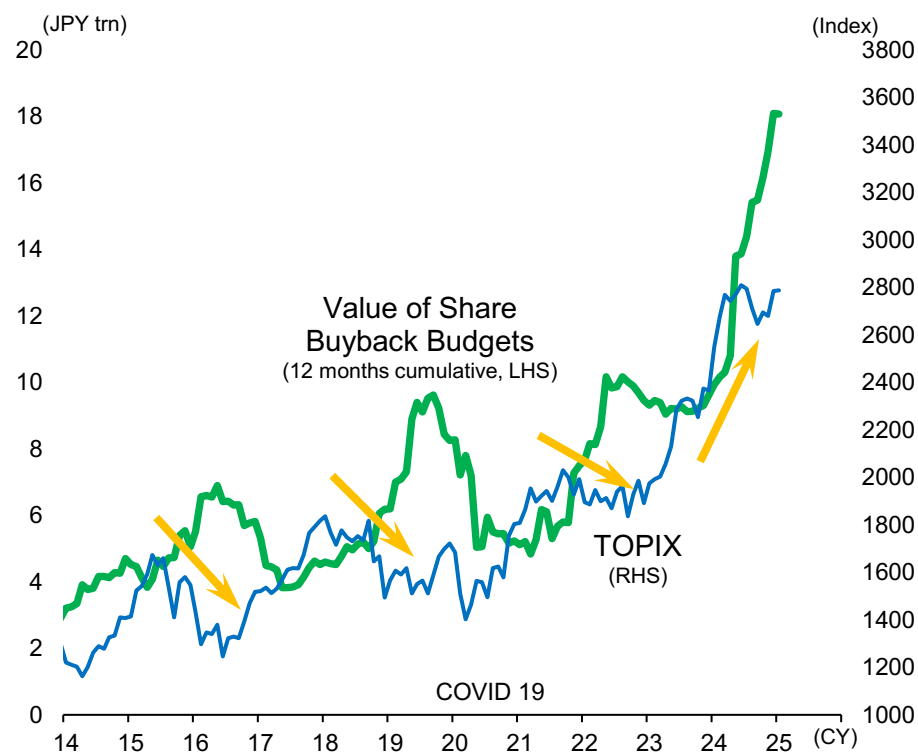
Percentage of Companies with Outside Directors



(Source) MUFG: Trust Bank, from TSE data

(Note) Universe based on TSE Prime and TSE1 listed firms; data as of July 2024.

Value of Share Buybacks and TOPIX



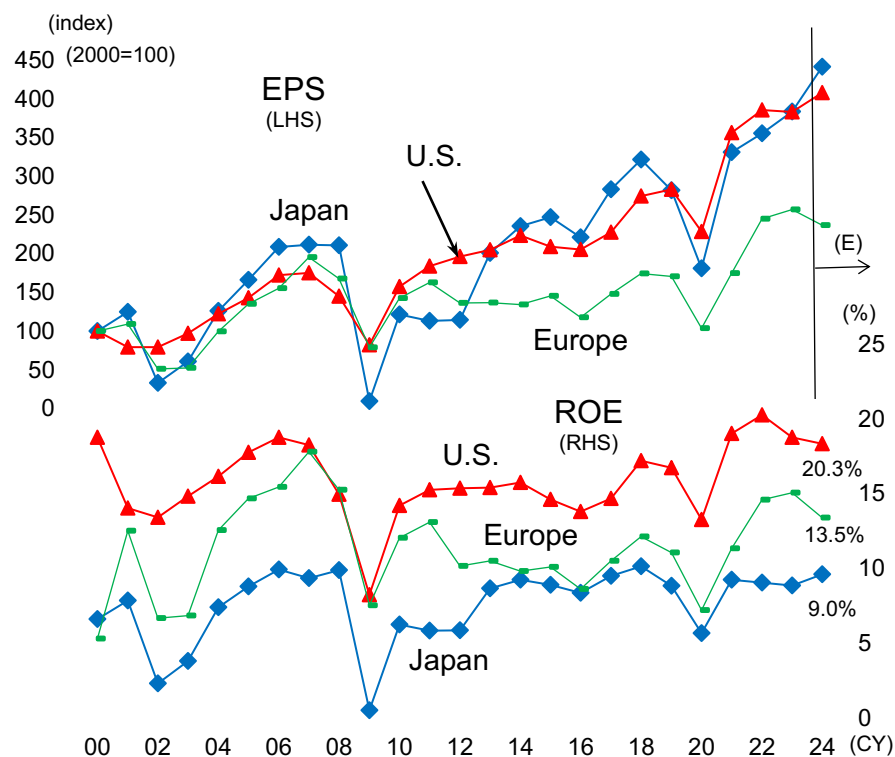
(Source) MUFG: Trust Bank, from TSE, I-N Information Systems data

(Note) Value of Share Buyback is last 12 months cumulative; based on common shares of all listed firms; data as of January 2025.

Corporate Governance: Reviews of Business Strategies

- Japanese major companies have lower ROE than American and European peers, even after their significant increase in corporate earnings. Especially, companies with diversified businesses have low profit margins.
- However, an increasing number of companies are paying attention to capital efficiency recently, leading to earnings improvements through the reviews of business strategies.

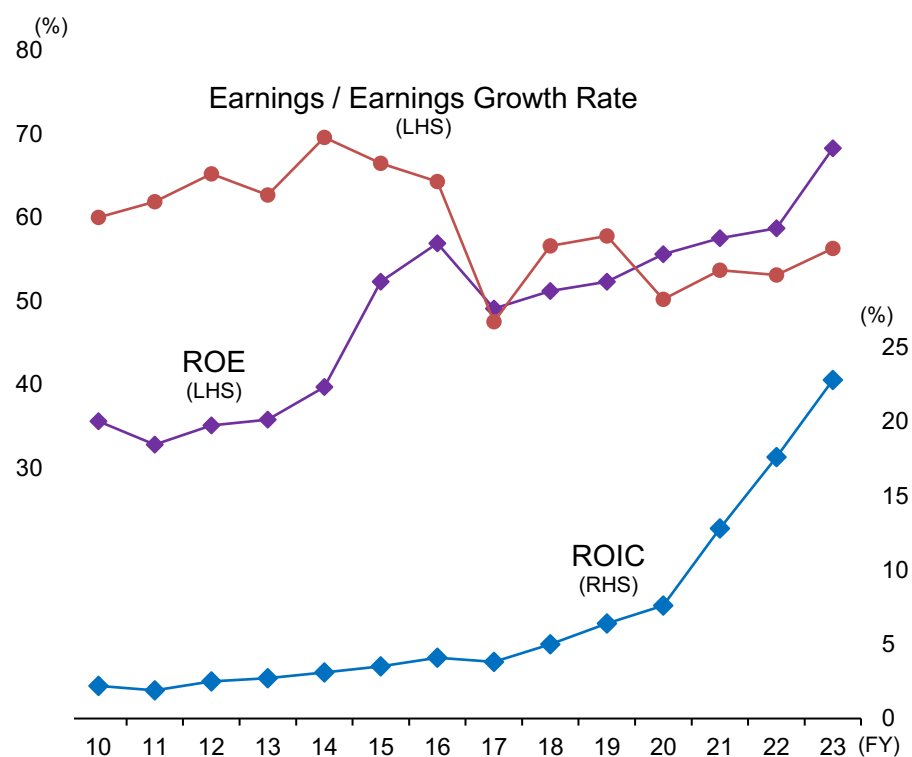
EPS and ROE of Large Companies in Major Region



(Source) MUFG: Trust Bank, from FactSet

(Note) : Universes are TOPIX500 for Japan, S&P500 for the U.S. and STOXX600 for Europe; EPS is indexed as the value at 2000 = 100; data as of 2024.

KPI Listed in the Medium-term Business Plan



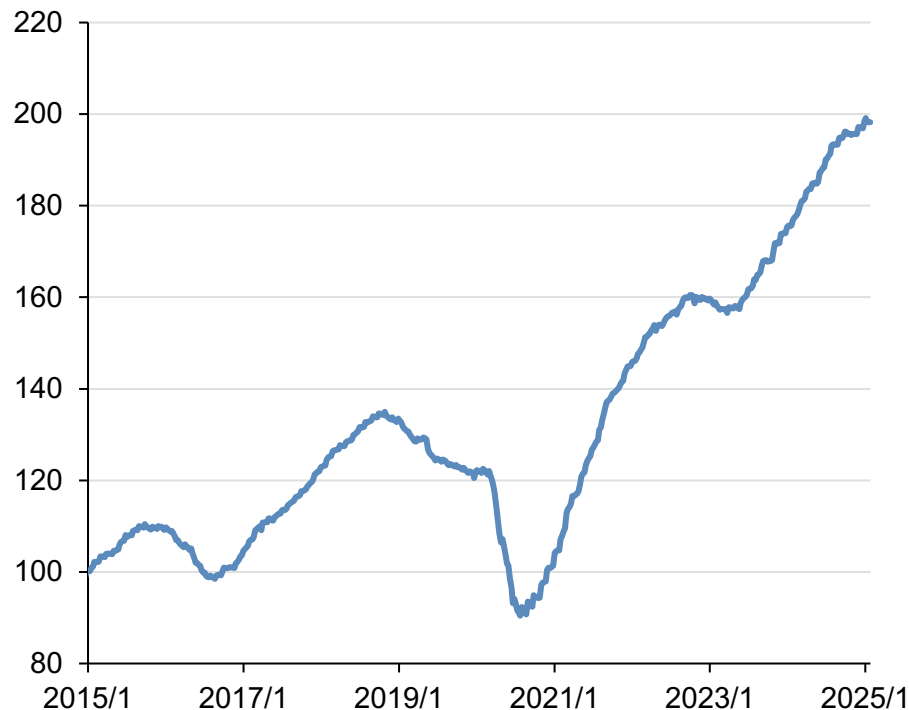
(Source) MUFG: Trust Bank, from Life Insurance Association

(Note) Universe is 1,200 listed companies with largest market caps; data as of FY2023.

Earnings: TOPIX EPS Hits Record High

- Japanese companies are growing earnings to record levels on the back of a resilient global economy and improved corporate governance.
- Looking ahead, steady earnings growth is expected as Japan becomes an inflationary economy.

TOPIX 12-Month Forward EPS



(Source) MUFG: Trust Bank, from LSEG

TOPIX EPS Consensus Forecast

	As of 31 Jan 2025	
	EPS	YoY(%)
FY23	170.4	17.7%
FY24E	182.9	7.3%
FY25E	200.6	9.7%
FY26E	219.3	9.3%
12-month forward forecast	198.2	

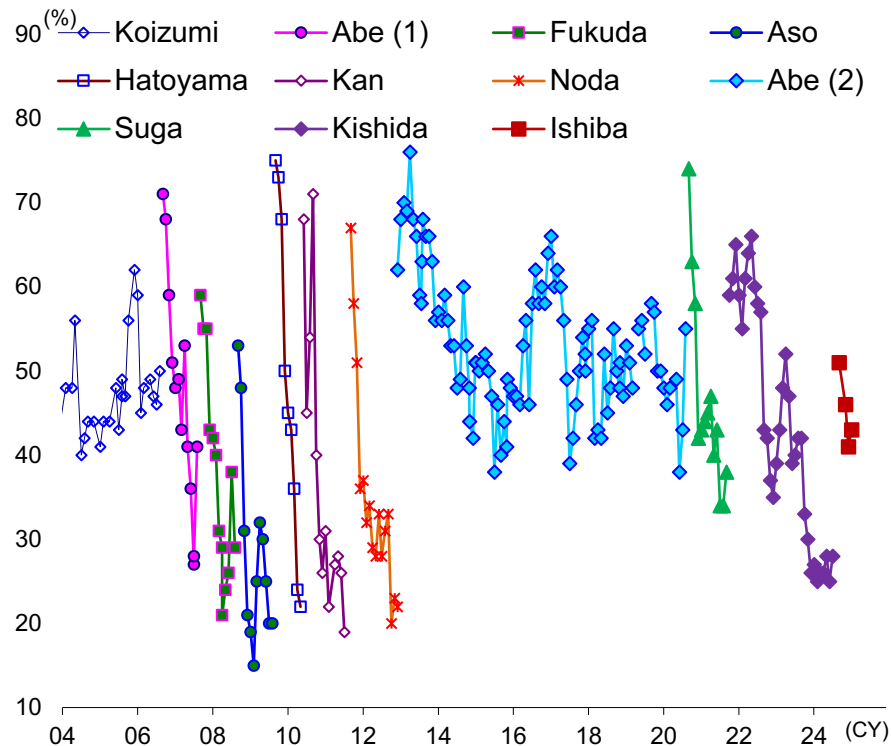
(Source) MUFG: Trust Bank, from LSEG

(Appendix)

Politics in Japan: Approval Ratings of Cabinet and LDP

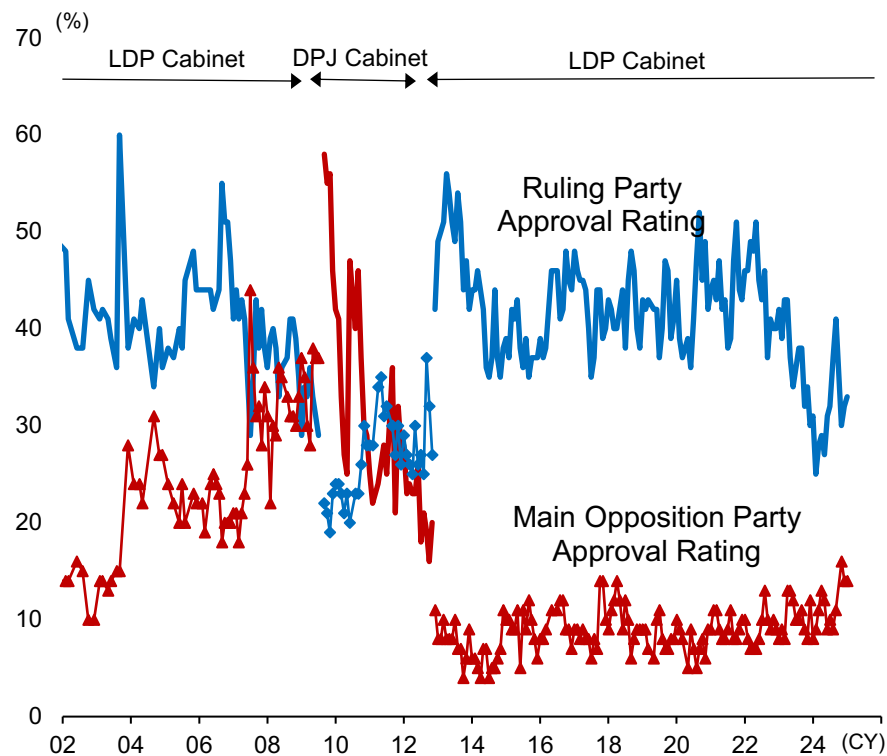
- The Ishiba Cabinet's approval rating was 43% at the end of January.
- The Liberal Democratic Party's approval rating had fallen sharply but has been recovering gradually since last spring.

Cabinet Approval Ratings



(Source) MUFG: Trust Bank, from TV Tokyo and Nikkei
 (Notes) Data as of January 2025.

Approval Ratings of Ruling and Main Opposition Parties

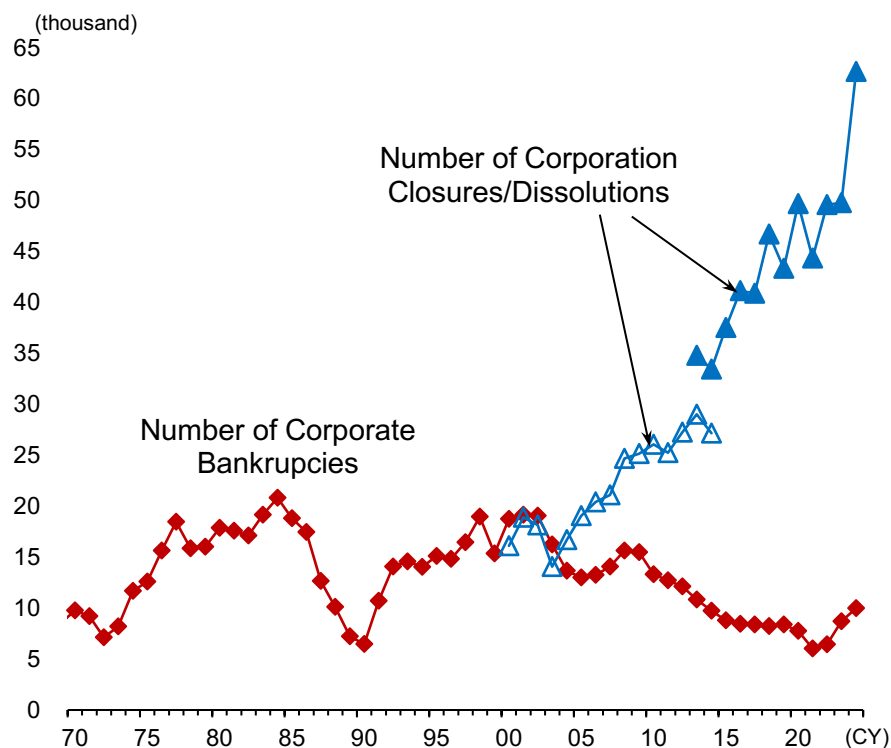


(Source) MUFG: Trust Bank, from TV Tokyo and Nikkei
 (Notes) Data as of January 2025.

Productivity: Business Closures and Metabolism

- Looking at unlisted SMEs, while the number of corporate bankruptcies has remained at a low level, the number of business closures and dissolutions has significantly increased over the last decade.
- The ratio of loss-making corporation hit its peak in 2010 and has gradually decreased. There is a possibility that metabolism is progressing and excessive competition in domestic industries is corrected.

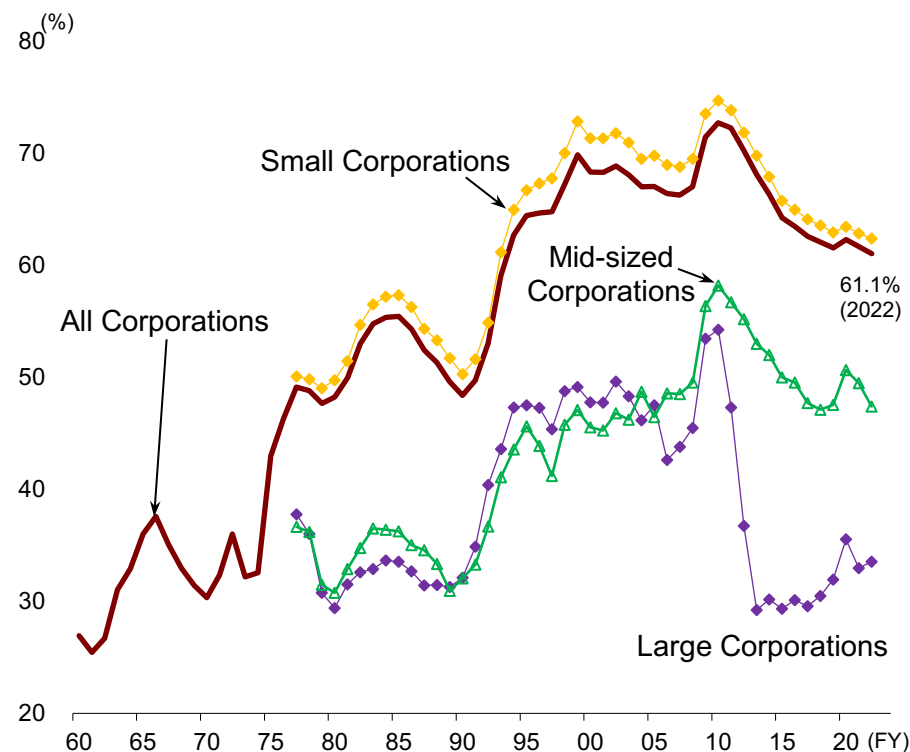
Corporate Bankruptcies and Closures



(Source) MUFG: Trust Bank, from Tokyo Shoko Research

(Note) Number of corporate suspension/dissolution is counted differently up to 2012; data as of 2024.

Ratio of Loss-Making Corporations



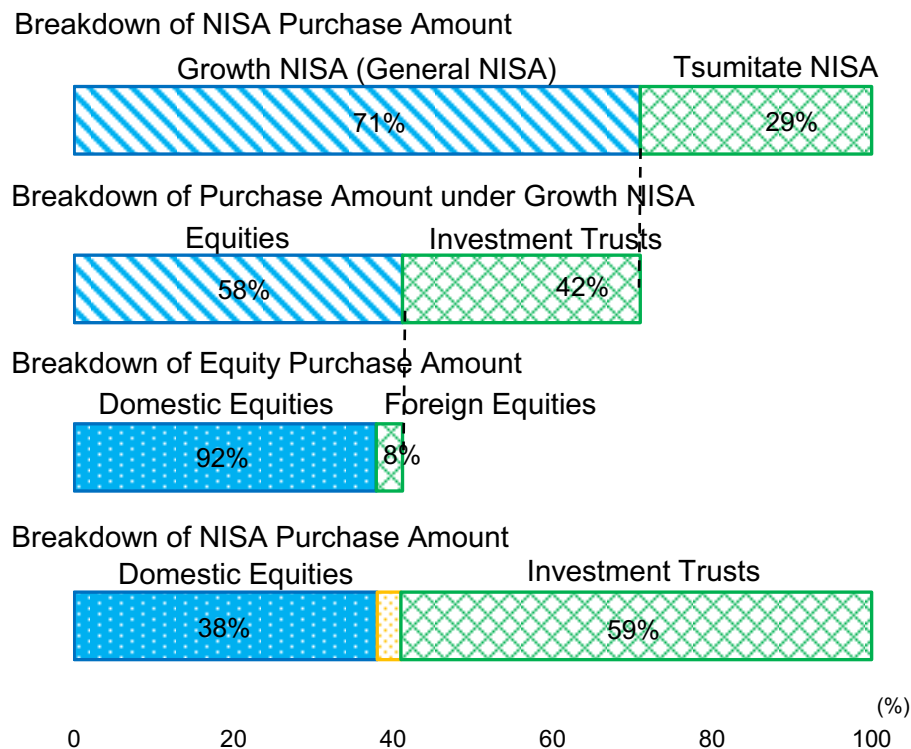
(Source) MUFG: Trust Bank, from the National Tax Administration Agency

(Note) Total number of corporations is 2.85 million in FY2022.

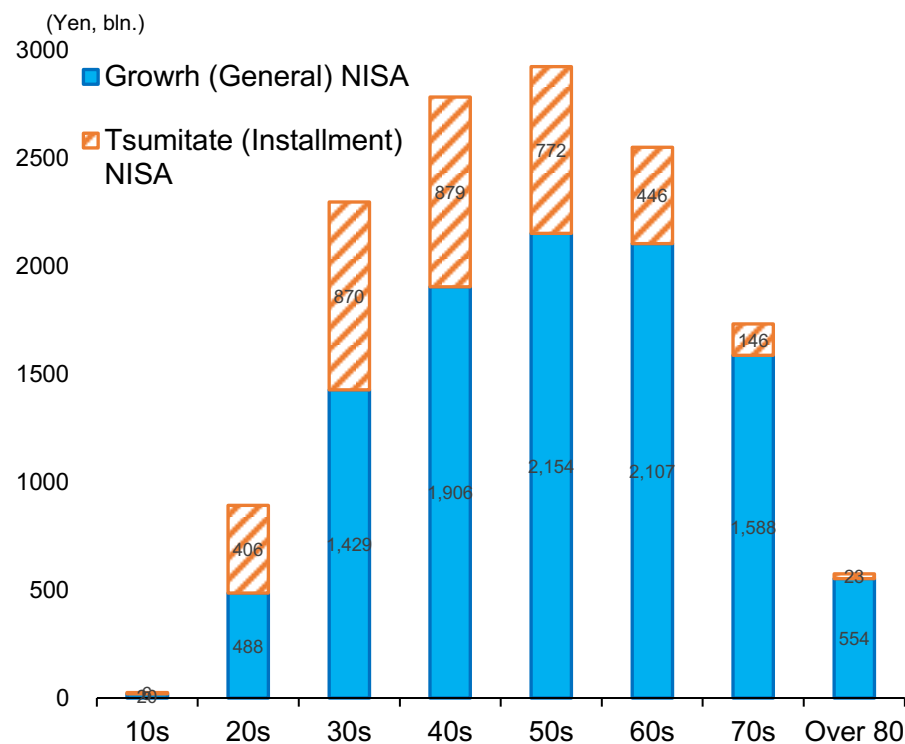
Supply/Demand: Significant Enhancement to NISA

- The purchase amount for 2024 has increased by four times compared to the amount from the previous year. Equities purchased under the Growth (General) NISA were mainly domestic equities.
- The amount of new NISA purchases under the Growth (General) NISA for Jan.- Sept. 2024 centered around those in their 50s and 60s, reaching 2.15 trillion yen and 2.11 trillion yen respectively.

Breakdown of NISA Purchase Amount (Jan. to Dec. 2024)



NISA New Purchase Amount by Age (Jan. to Sept. 2024)



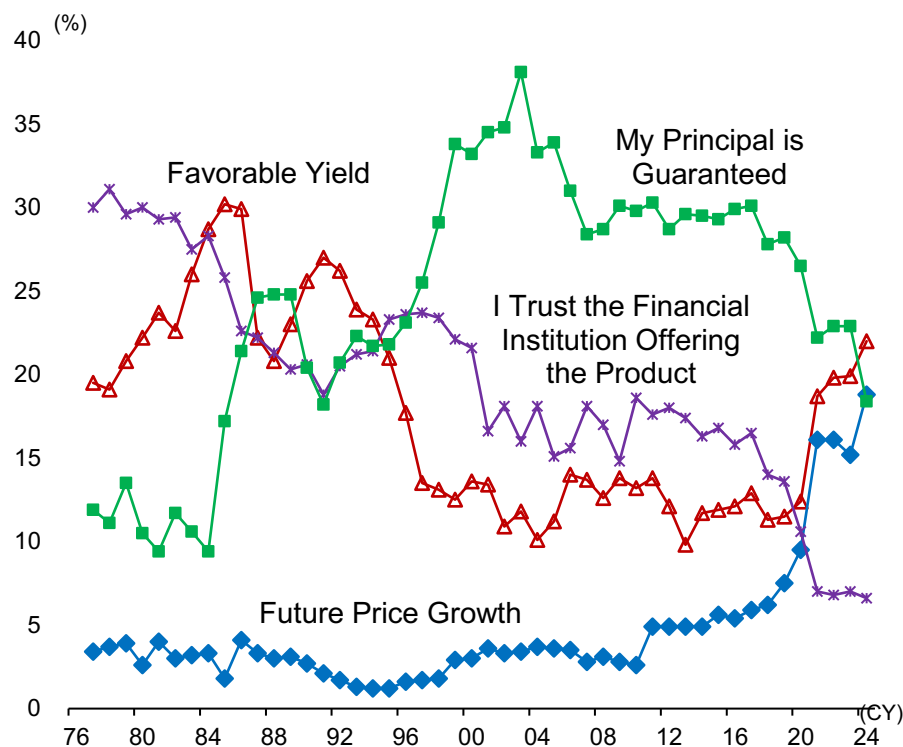
(Source) MUFG: Trust Bank, from Japan Security Dealers Association
 (Note) "Equities" and "Domestic Equities" include ETFs and REITs; data as of December 2024.

(Source) MUFG: Trust Bank, from FSA
 (Note) Data as of September 2024.

Supply/Demand: Greater Interest in Risk Asset Investment among Individuals

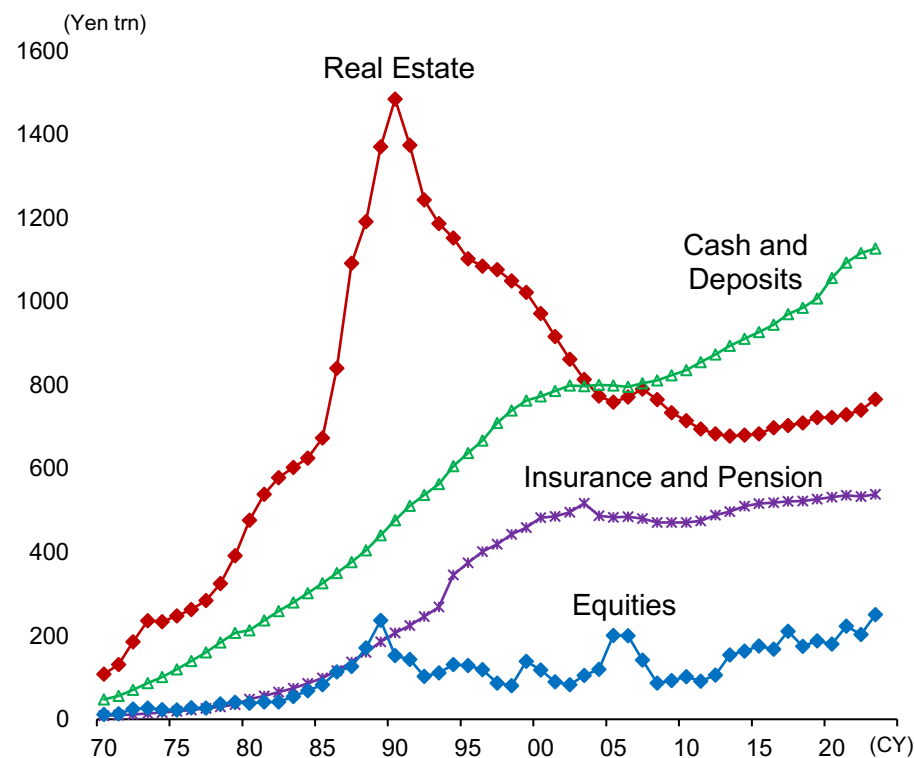
- Since 2019, there has been a clear increase in the number of respondents who would say their priority is on capital gains (“future price growth”) when selecting a financial product. As individuals become more aware of inflation, they have shown greater interest in securities investments for the purpose of asset formation.
- In Japan, individuals took risks and built assets through real estate up until the 1980s.

Financial Product Selection Criteria of Households



(Source) MUFG: Trust Bank, from Central Council for Financial Services Information data
 (Notes) In the survey, there are other choice such as “easy to cash in” and “I can deposit and withdraw small amounts if needed”; data as of 2024.

Major Asset Balance in Household Sector

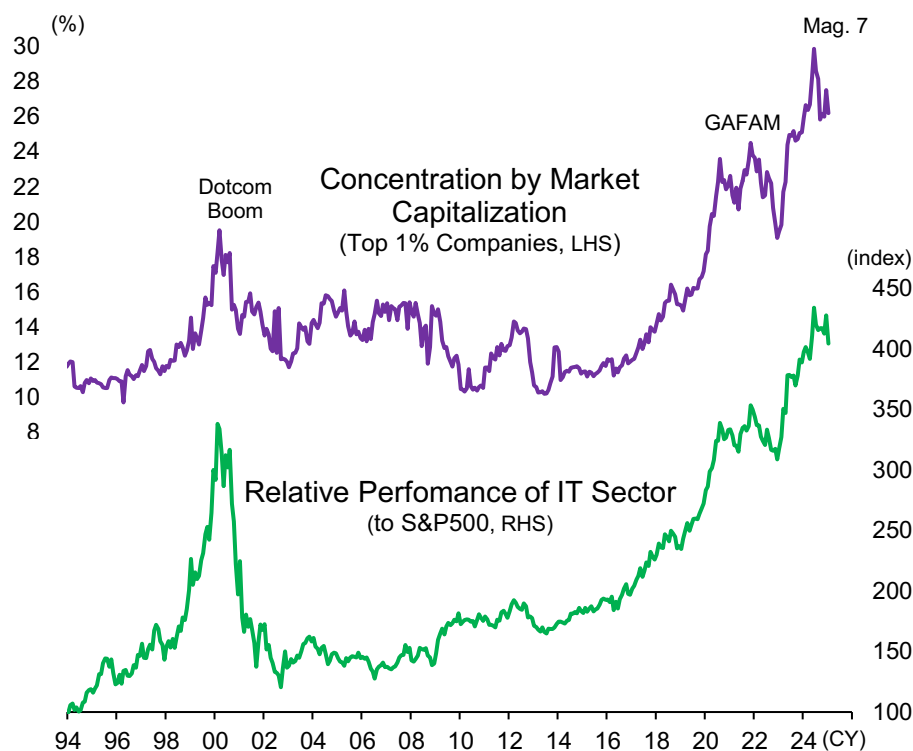


(Source) MUFG: Trust Bank, from Cabinet Office data
 (Note) Equities based on market values; data as of 2023.

U.S. Equities: Similarities to the Market during Dot.com Bubble Era

- The dot-com bubble of the late 1990s saw the market bidding up IT majors' share prices as tech companies garnered a reputation for future earnings growth amid economic uncertainty, leading to an increase in market capitalization concentration.
- The cash ratio of U.S. equity mutual funds has fallen to an all-time low.

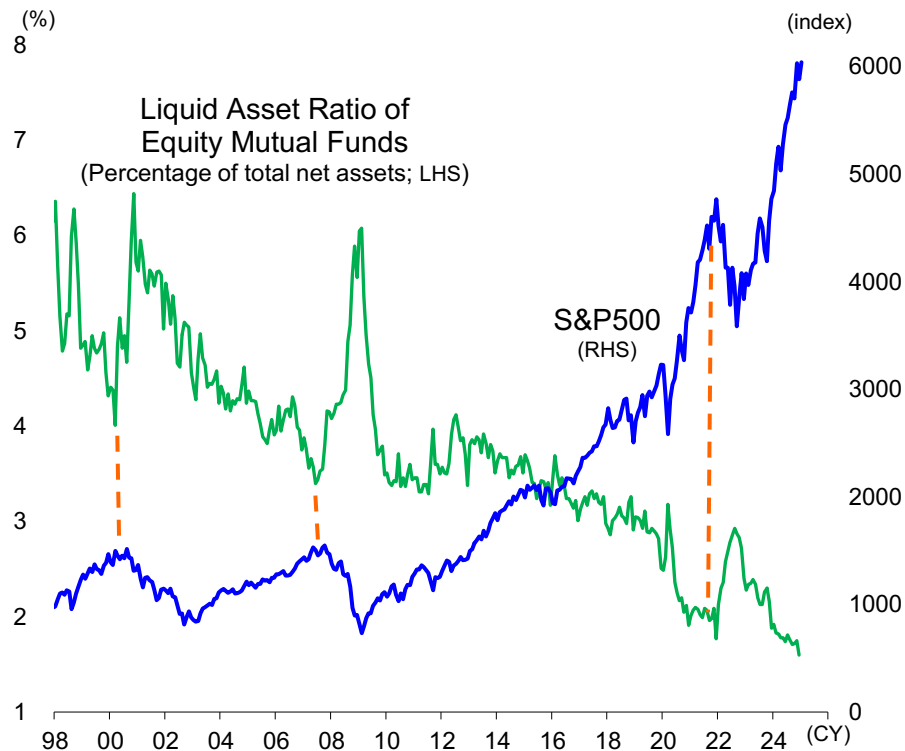
Concentration by Market Cap. in the U.S.



(Source) MUFG: Trust Bank, from FactSet

(Notes) Concentration shows the proportion of top 1% companies in the term of market capitalization, based on MSCI US Index companies; Relative performance is re-indexed to 100 at the end of 1989; data as of January 2025.

Liquid Asset Ratio of Equity Funds in the U.S.



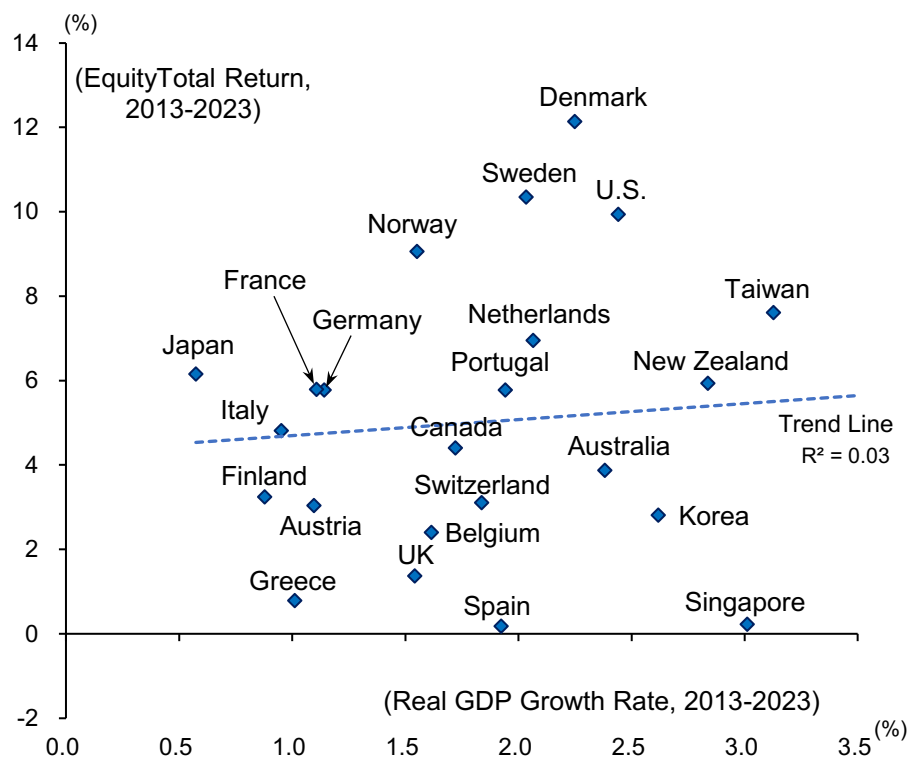
(Source) MUFG: Trust Bank, from ICI

(Notes) Data as of December 2024.

Equity Investment: Does Macro Economic Growth Matter?

- Many investors say that Japan's low economic growth rate makes stock investment unattractive. However, the correlation between major nations' real economic growth and equity returns has not always been high.
- Furthermore, ROE of Japanese companies declined in the 1980s when the economy was growing at over 4%.

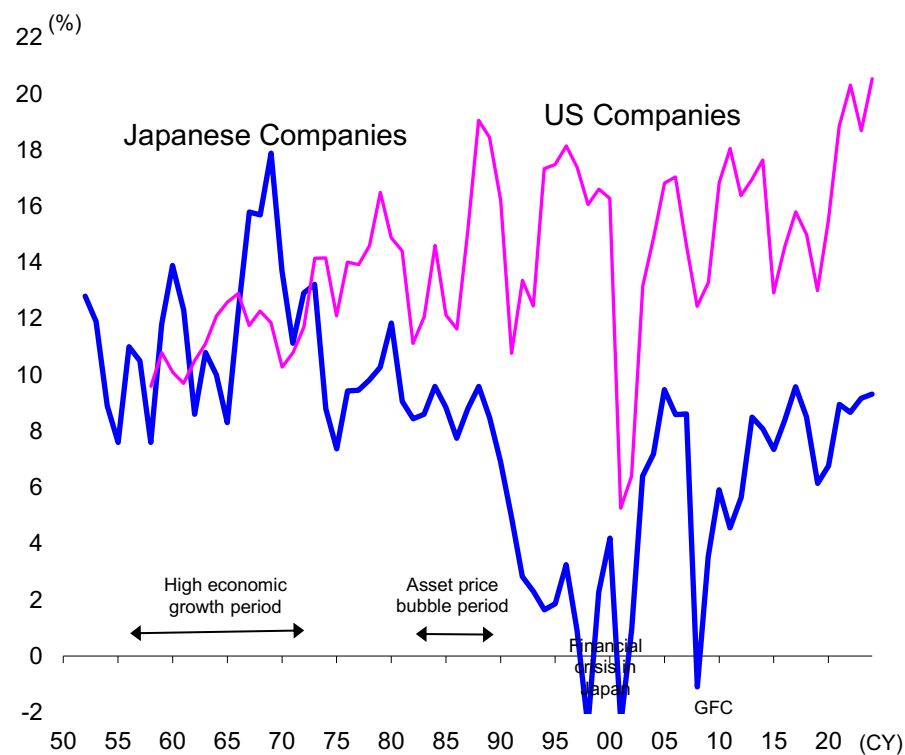
Economic Growth and Equity Returns in Major Countries



(Source) MUFG: Trust Bank, from IMF, Bloomberg

(Note) Equity total return and Real GDP growth rate are annualized;

ROE at Japanese and US Companies



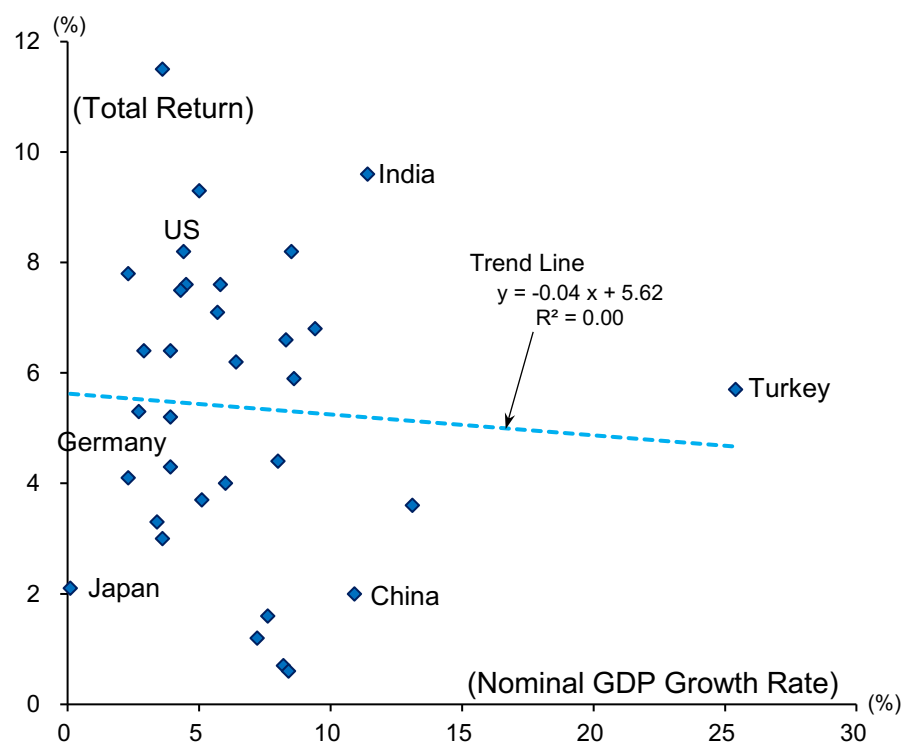
(Source) MUFG: Trust Bank, from TSE, : Nomura Securities, BOJ, S&P data

(Note) Data for Japan is based on manufacturing in the BoJ "Financial Statements of Principal Enterprises" through FY70, TSE1 companies (ex financials) for FY71 onward; data as of 2024.

Equity Investment: Does Macro Economic Growth Matter?

- According to BCA Research, share buybacks are the most important of seven factors for total stock returns among 33 major countries, and the impact of nominal GDP growth is limited (1997 to 2022).
- In China and Poland, nominal GDP growth was high, but returns were low because of the large scale of equity financing (i.e., net share buybacks were in significant negative territory).

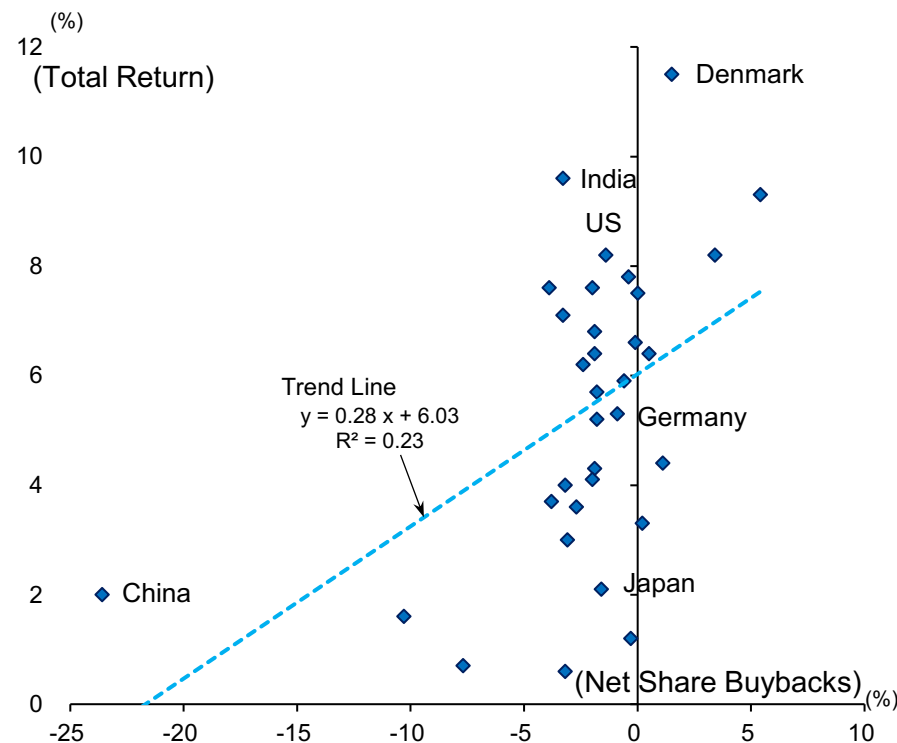
Economic Growth Rates are Not Relevant to Stock Returns



(Source) BCA Research

(Notes) Universe is MSCI Index of 33 countries, including the US, China, Japan, Germany, and the UK; based on data from 1997 to 2022; annualized total return including dividends; annualized nominal GDP growth rate.

Net Share Buybacks Influence Stock Returns



(Source) BCA Research

(Notes) Universe is MSCI Index of 33 countries, including the US, China, Japan, Germany, and the UK; based on data from 1997 to 2022; annualized total return including dividends; share buybacks less equity financing.

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