
For Marketing Communication Purpose Only

Japan – Market Outlook

Shift from the U.S. to Japan under "Trump 2.0"

August 2025

Opinions in this document are the personal views of the author and not the official views of the organization to which the author belongs.

A member of MUFG, a global financial group

Summary

Outlook: Shift from the U.S. to Japan under “Trump 2.0” (p3-p6)

- ✓ Japanese stocks are expected to rise on the back of increasing dividends and robust share buybacks along with corporate governance reforms and a resilient domestic economy. We expect some funds to return to Japanese equities as foreign investors leave the U.S.

Focus: Impact of Trump’s Policies, BOJ/Forex, Corporate Governance (p7-p21)

- ✓ Japan made a deal with the U.S. U.S. compromised to apply a 15% reciprocal tariff rate and automobile rate to Japan. The positive profit momentum is expected to be maintained in Japan.
- ✓ BOJ will refrain from making any policy changes for the time being in order to assess the Trump administration's tariff policy impact on economies. However, 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.
- ✓ Trend of increasing dividends and share buybacks is expected to continue along with corporate governance reform.

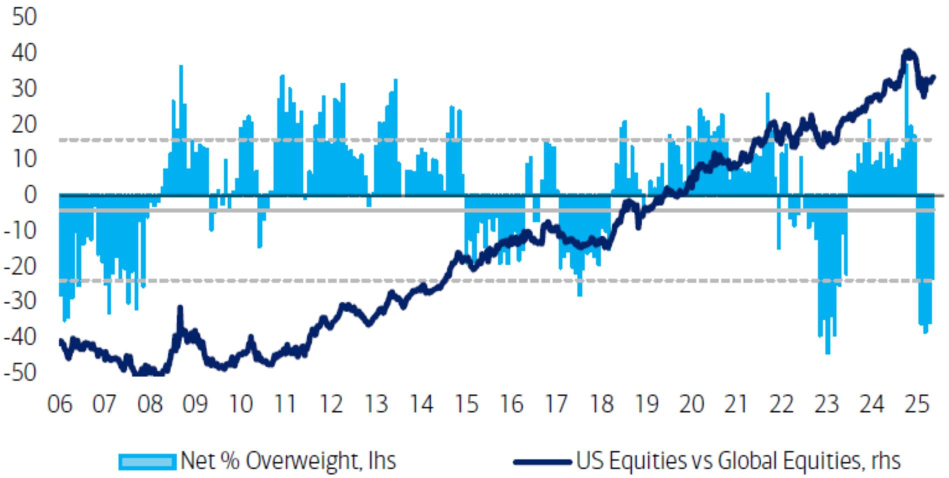
Neglected Stocks: Small Caps (p22-p25)

- ✓ Japanese small caps are attractive in terms of diversification, cheap valuations, solid earnings.

Trump 2.0: Outflow from the U.S. Stocks to Accelerate

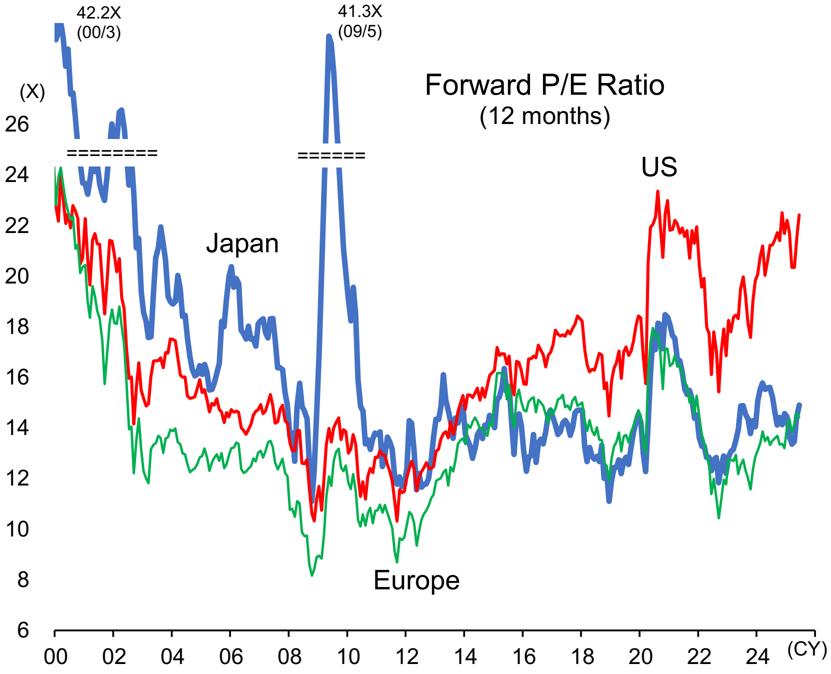
- Percentage of net respondents who "underweight" U.S. stocks is high after Trump became the U.S. president.
- Japanese P/E ratios are currently well below those of the US.
- Can Japan benefit from this opportunity?

Allocation in U.S. equities



(Source) MUFG: Trust Bank, from BofA

P/E Ratio in the US, Europe and Japan



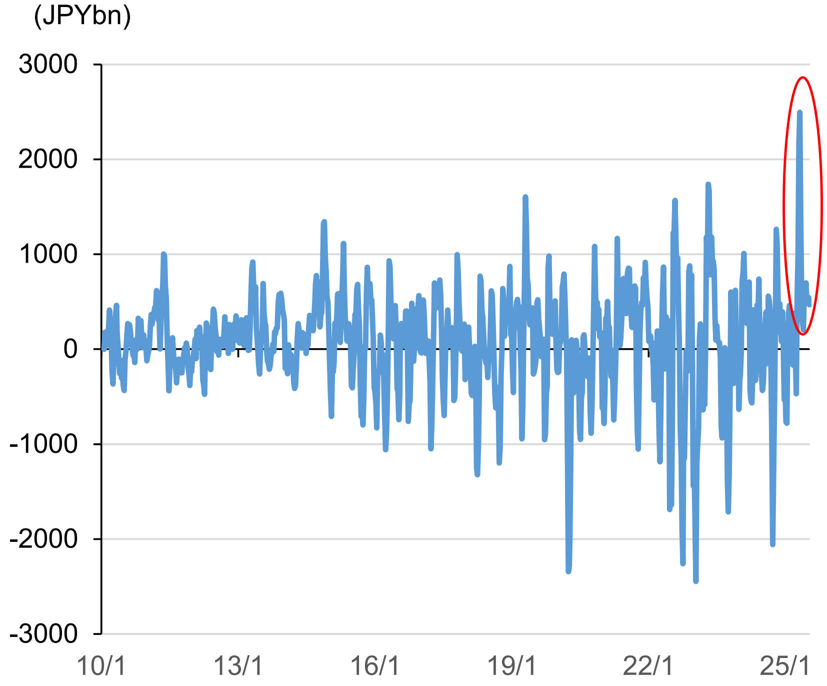
Source) FactSet, MUFG: Trust Bank

(Notes) Universe is companies included in MSCI USA, MSCI Europe and MSCI Japan Index; data as of June 2025.

Trump 2.0: Large inflows of foreigners' funds into Japan after Trump Tariff Shock

- After Trump tariff shock, we see the largest inflows of foreigners' funds into Japanese securities (stocks & bonds).
- Japan is re-evaluated because of its outstanding policy stability compared to the U.S. and China.
- Global investors still "underweight" Japan equities as of July 2025.

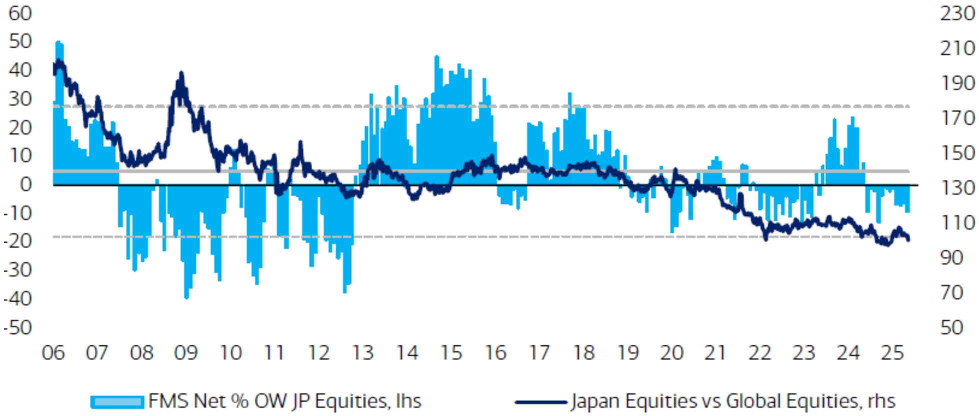
Foreigners' funds into Japanese securities (stocks+bonds)



(Source) MUFG: Trust Bank, from MoF

(Note) 4 weeks average

Allocation in Japan equities



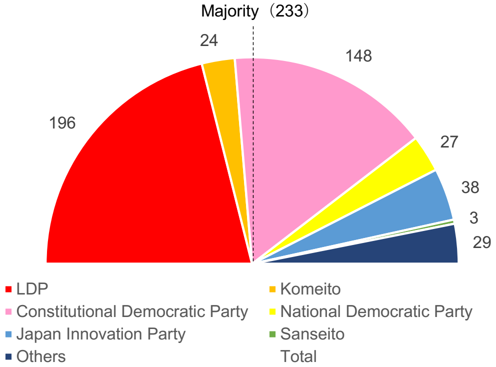
(Source) MUFG: Trust Bank, from BofA

Politics in Japan: Prime Minister Ishiba is expected to Step Down after the Electoral Loss

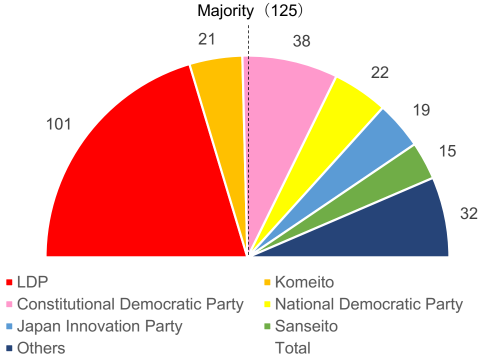
- After the electoral loss, the LDP (plus Komeito) is now the ruling minority party with less than a majority in both the Lower House and the Upper House. LDP will cooperate with leading opposition parties to realize its policies.
- Prime Minister Ishiba is expected to step down in the near future. New prime minister will be elected in the LDP presidential election. Regardless of who becomes prime minister, the influential opposition parties are generally advocating tax cuts, and expansionary fiscal policy is inevitable in the complex political situation.

Lower House and Upper House Seats

Lower House

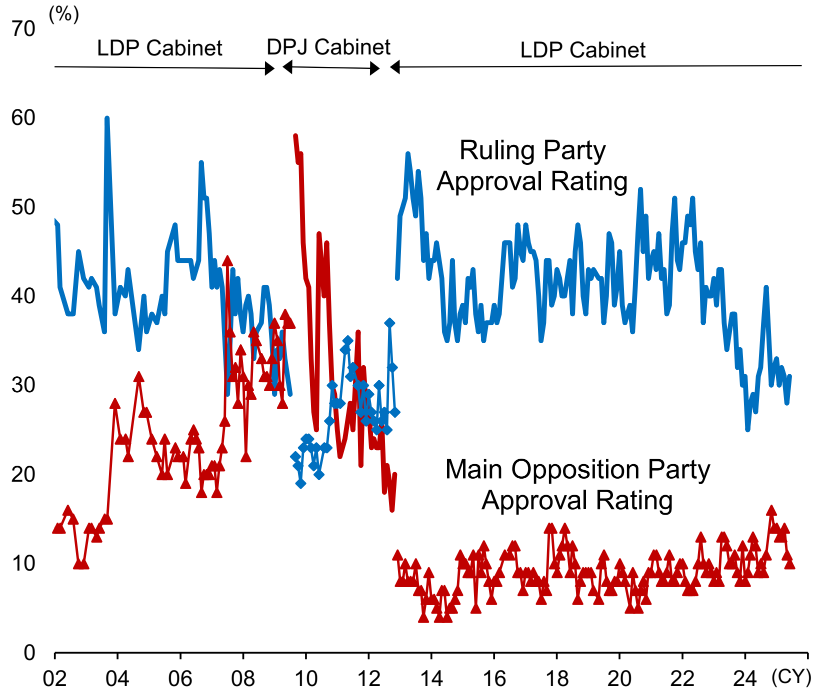


Upper House



(Source) MUFG: Trust Bank, from Nikkei

Approval Ratings of Ruling and Main Opposition Parties



(Source) MUFG: Trust Bank, from TV Tokyo and Nikkei

(Notes) Data as of June 2025.

Market Outlook: Shift from the U.S. to Japan under “Trump 2.0”

- Japan and the U.S. economy are expected to continue a moderate recovery.
- U.S. stocks are expected to remain volatile due to uncertainties over Trump, but to rise overall on the back of the Trump economic policies including tax cut and deregulation.
- Japanese stocks are expected to rise on the back of increasing dividends and robust share buybacks along with corporate governance reforms and a resilient domestic economy led by rising real wages.
- We expect some funds to return to Japanese equities as foreign investors leave the U.S.
- Japanese interest rates will remain in a range for the time being. In the beginning of next year, they will rise slightly because the Bank of Japan resumes to raise policy rates moderately about twice a year.
- (1) Impact of Trump policies on Japan, (2) BOJ's monetary policy, (3) Corporate Governance, are top focuses.

Market Forecast of MUFG Asset Management

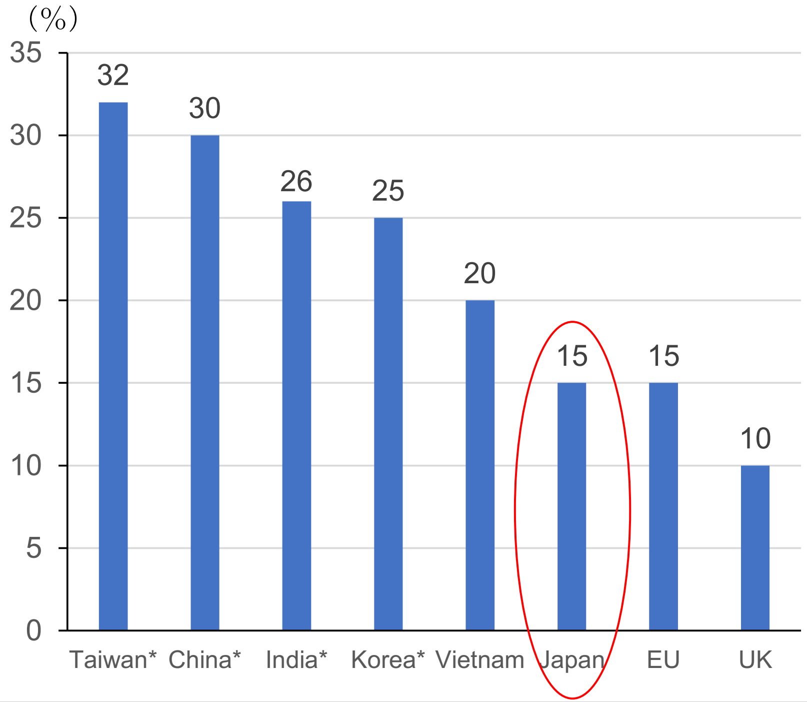
	Mar-2025	Jun-2025	Sep-2025	Mar-2026	
	Actual	Actual	Predict	Predict	Range
Equity					
Nikkei	35,618	40,487	39,500	40,500	37,500～43,500
TOPIX	2,659	2,853	2,800	2,850	2,650～3,050
NY Dow	42,002	44,095	44,000	44,500	42,500～46,500
S&P 500	5,612	6,205	6,200	6,250	5,950～6,550
Interest Rates					
10Y JGB	1.49%	1.4%	1.5%	1.7%	1.3～2.1%
U.S. 10Y Bonds	4.21%	4.2%	4.2%	4.5%	4.0～5.0%
Currency					
USDJPY	149.54	144.45	143	145	135～155
EURJPY	161.53	169.56	170	168	158～178

(Source) MUFG: Trust Bank, from Bloomberg

Trump 2.0: Japan Made a Deal With U.S. to Lower Tariff

- U.S. compromised to apply a 15% reciprocal tariff rate and automobile rate to Japan.
- Japan promised to increase its imports of rice from the United States and purchase 100 Boeing aircraft.
- The government-affiliated financial institutions will provide up to $550 billion in investments, loans, and loan guarantees to encourage Japanese companies to invest in the U.S. Japan will invest in semiconductors, pharmaceuticals, steel, shipbuilding, critical minerals, aviation, energy, automobiles, artificial intelligence (AI), quantum and other economic security sectors.

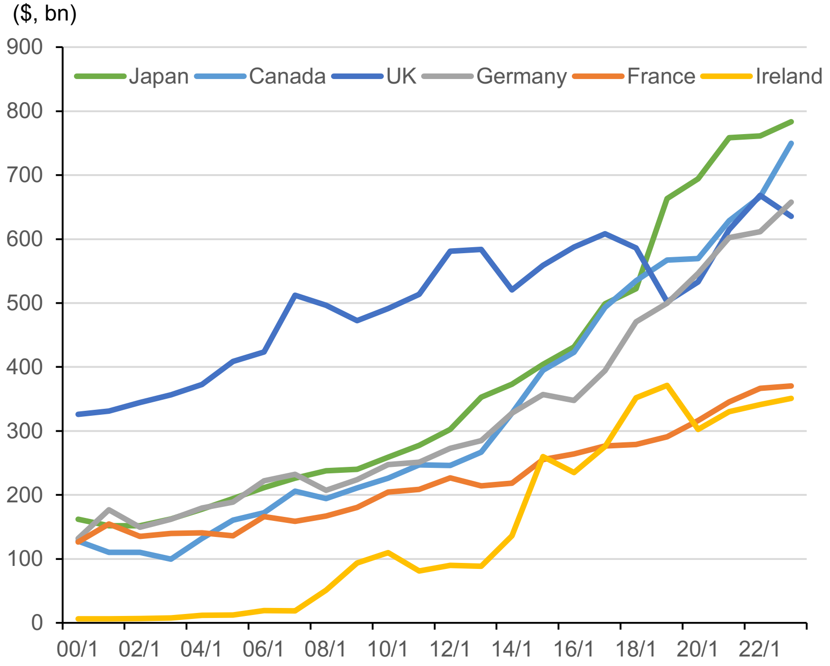
Reciprocal Tariff Rates (Major Countries)



(Source) MUFG: Trust Bank, from U.S. Government Documents

(Note) As of 28 July 2025. * countries are negotiating with the U.S.

Foreign Direct Investment in the US

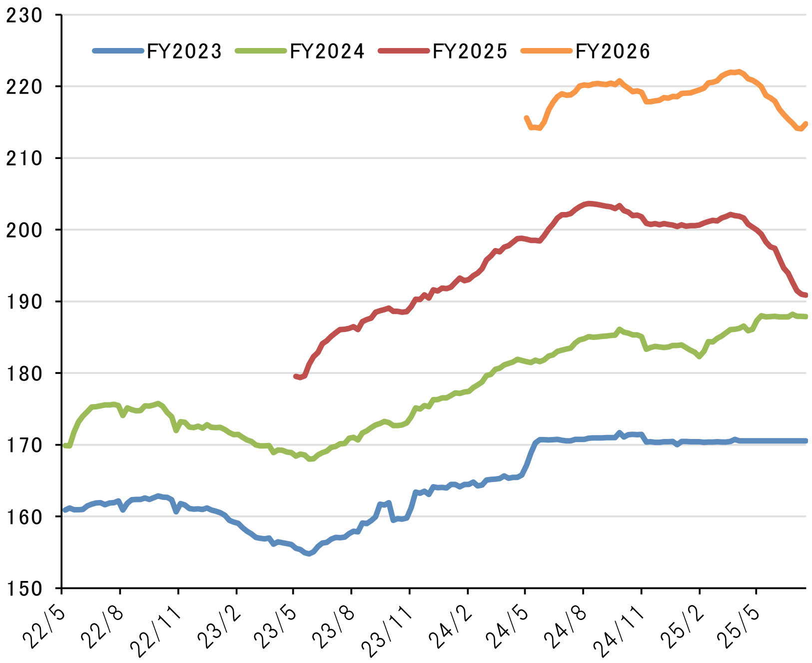


(Source) MUFG: Trust Bank, from BEA

Trump 2.0: Earnings Impact of Trump Tariffs

- In the absence of the Trump tariffs, Japanese companies are expected to achieve the earnings by about +8% y/y in FY2025.
- 15% reciprocal tariff on Japan would push down the earnings of Japanese companies by about 6% in FY2025. TOPIX EPS for FY2025 will increase by +1-2% YoY.
- The positive profit momentum is expected to be maintained in FY25. After a temporary dip in FY25 due to the Trump tariffs, profits are expected to return to double-digit growth in FY26.

Market's Consensus for TOPIX EPS level



(Source) MUFG: Trust Bank, from LSEG

Market's Consensus for TOPIX EPS

	As of 18 July 2025	
	EPS	YoY(%)
FY23	170.5	17.8%
FY24E	187.9	10.2%
FY25E	190.9	1.6%
FY26E	214.8	12.5%
12-month forward forecast	199.5	

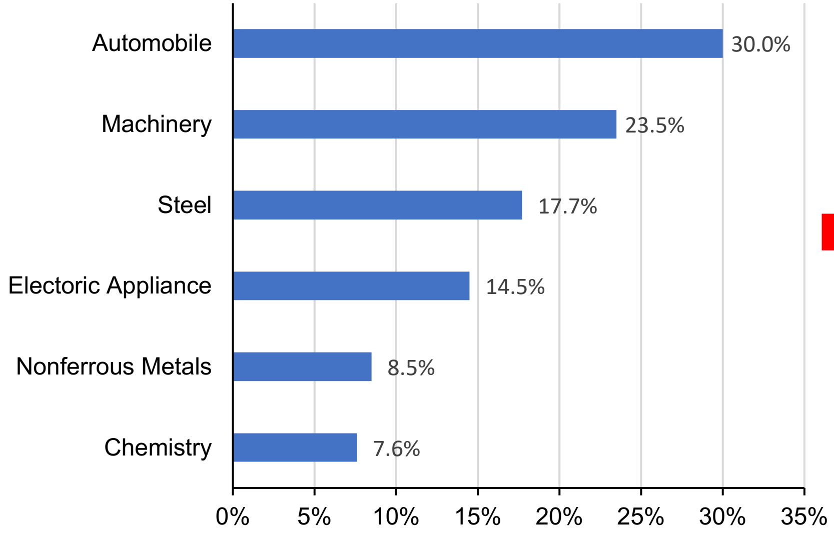
(Source) MUFG: Trust Bank, from LSEG

Trump 2.0: Earnings Impact of Trump Tariffs by Industry

- The auto industry will be the most negatively affected in terms of profitability due to Trump high tariffs, and supply chain disruptions.
- We estimate that overseas-demand sectors are negatively affected in general.
- However, following the tariff agreement, the earnings impact is significantly smaller than expected.

Impact on corporate earnings (Before Deal)

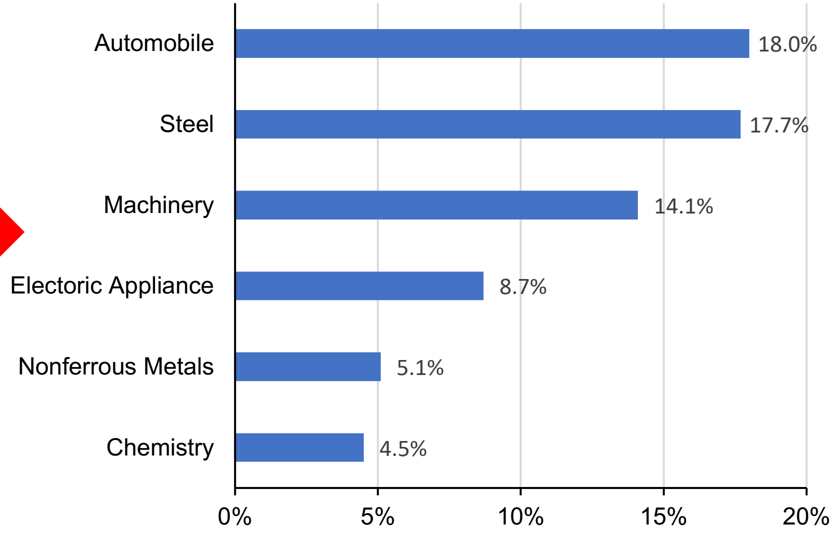
Tariff: Steel/Aluminum 50%, Others 25%



(Source) MUFG: Trust Bank, from BoJ, MoF

Impact on corporate earnings (After Deal)

Tariff: Steel/Aluminum 50%, Others 15%

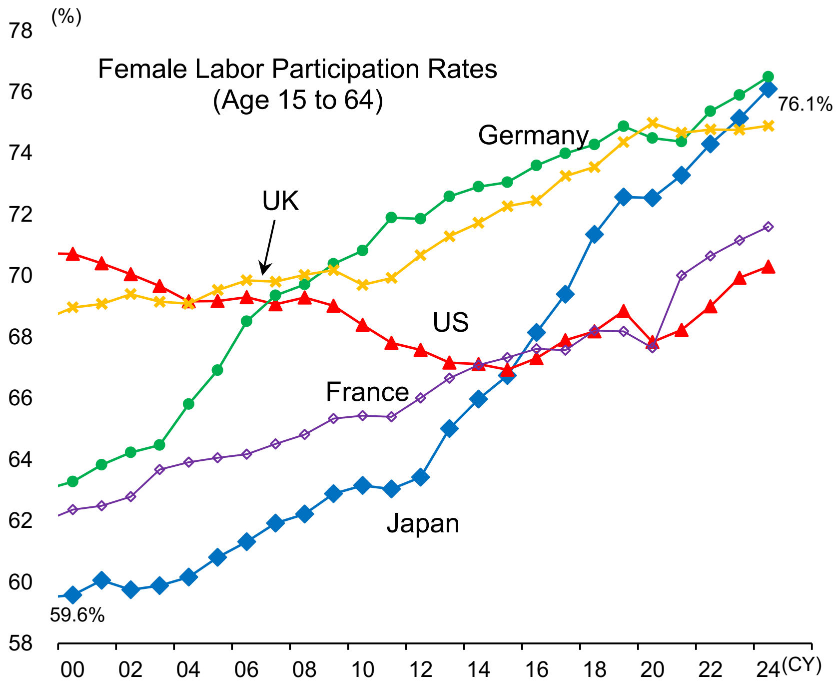


(Source) MUFG: Trust Bank, from BoJ, MoF

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 76.1% in 2024. 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.

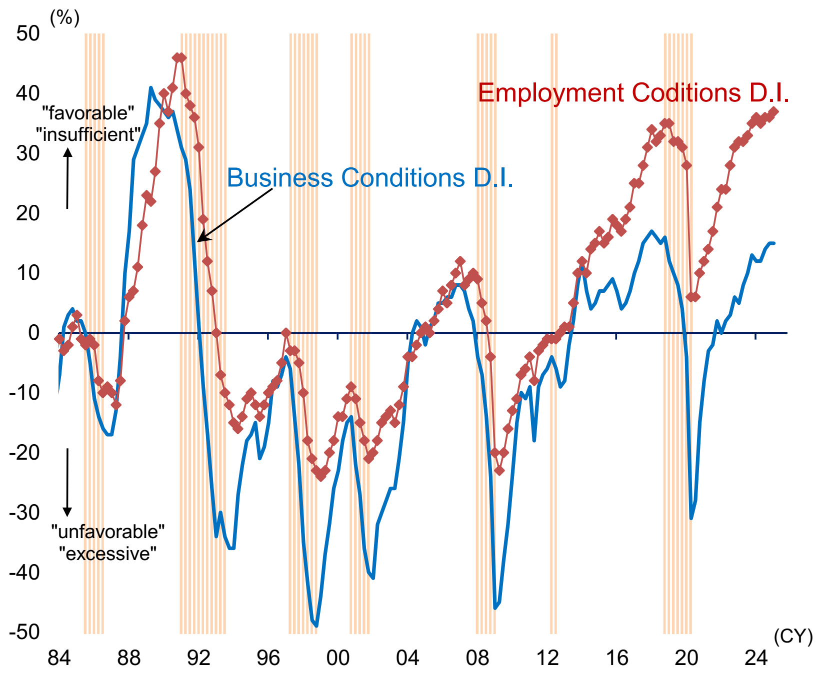
Female Labor Participation Rates in Major Countries



(Source) MUFG: Trust Bank, from OECD data

(Note) Data as of 2024.

Business and Employment Conditions in “Tankan” Survey



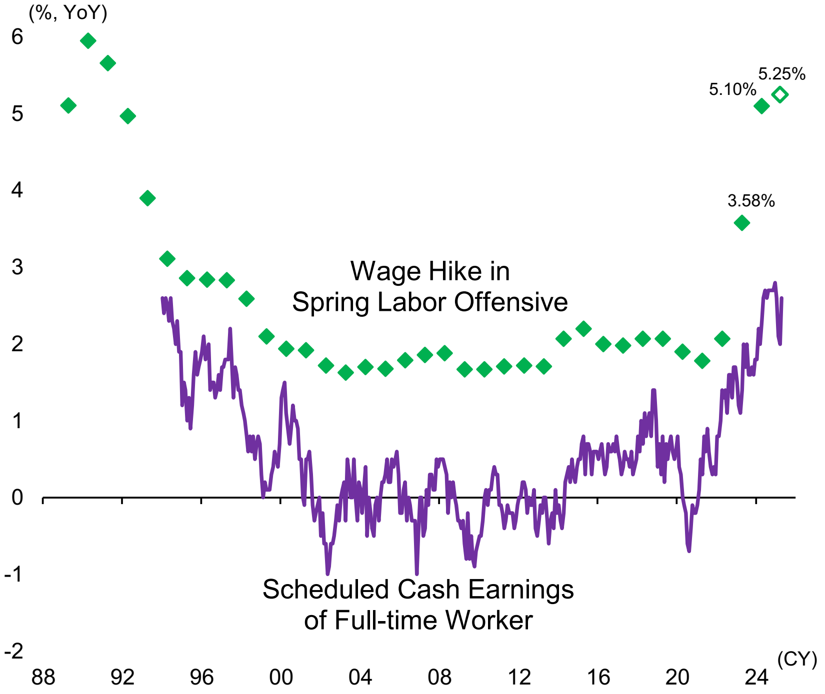
(Source) MUFG: Trust Bank, from BOJ data

(Note) Universe is all industries, all enterprises; shaded areas indicate economic recessions; data as of March 2025.

Inflation: Wage Growth has been Accelerating in a Tight Labor Market

- The wage hike for 2025 in spring wage negotiations is 5.25%, its highest level since 1991, and the scheduled salaries for full-time workers have been increasing, mainly because of tight labor market conditions.
- Movement to raise wages spreads not only to large companies but also to small and medium-sized companies.

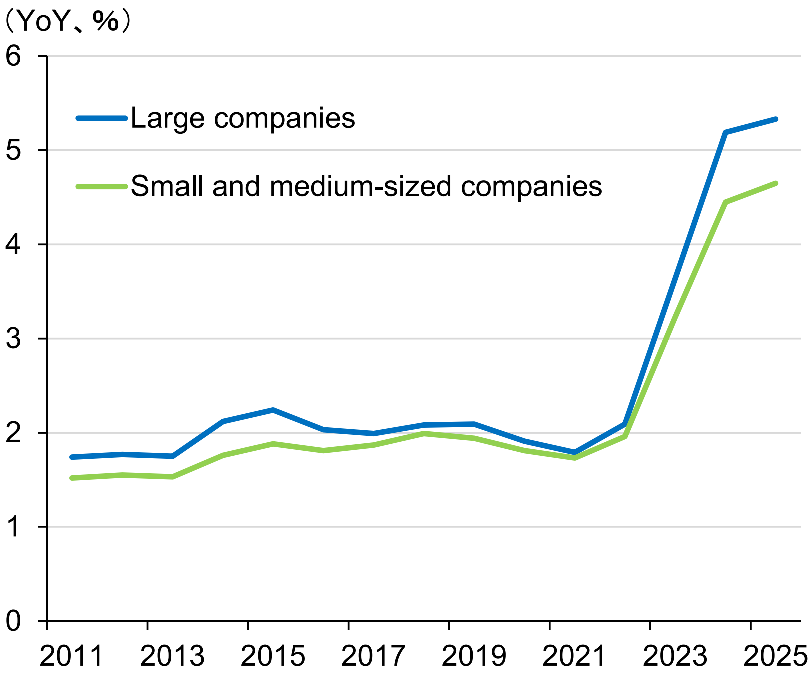
Wage Growth of Full-time Worker



(Source) MUFG: Trust Bank, from JTUC-RENGO, MIC data

(Note) Wage growth includes regular salary increases.

Wage Hike in Spring Wage Negotiations by Company Size



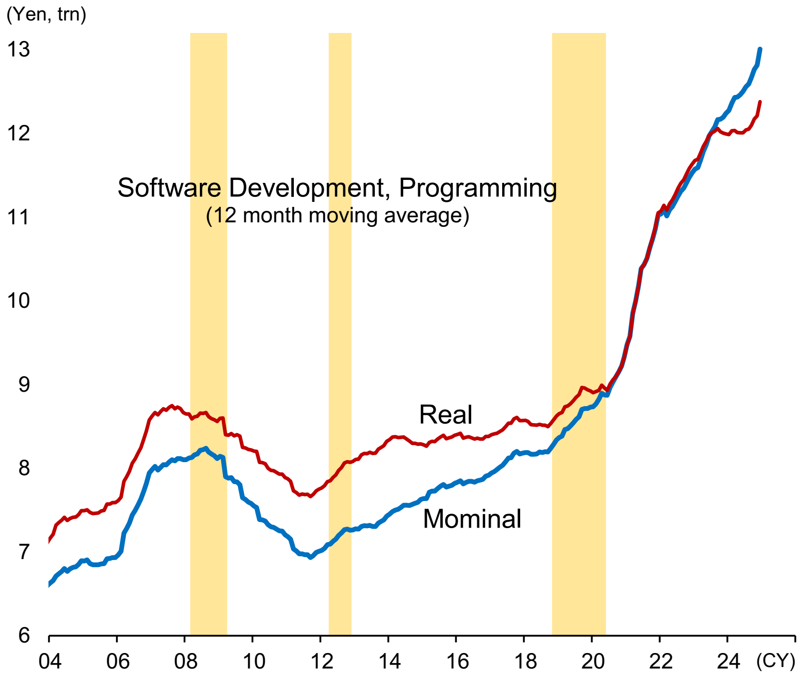
(Source) MUFG: Trust Bank, from JTUC-RENGO

(Note) Large companies have more than 300 union members; small and medium-sized companies have less than 300 union members.

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”.

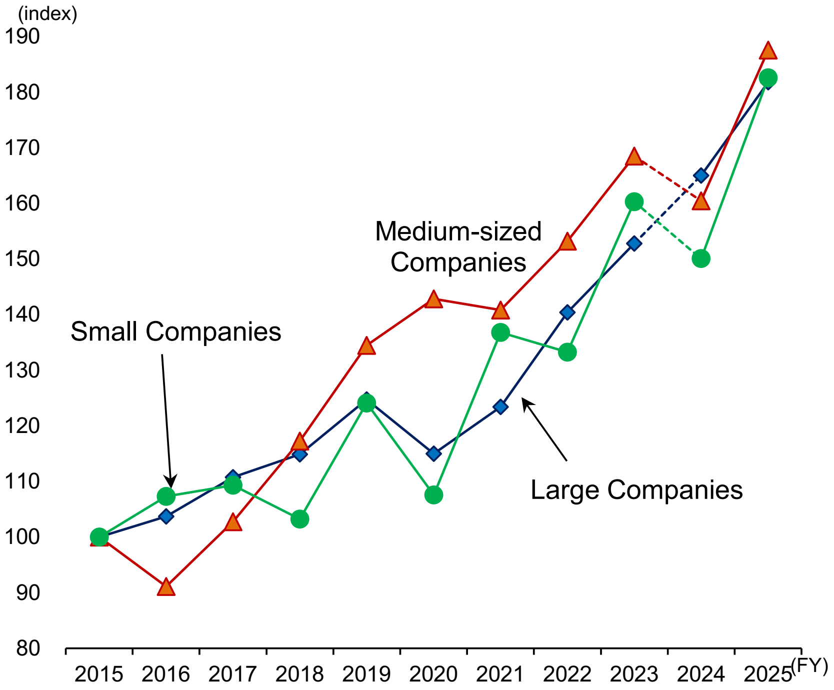
Sales of Software Development



(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



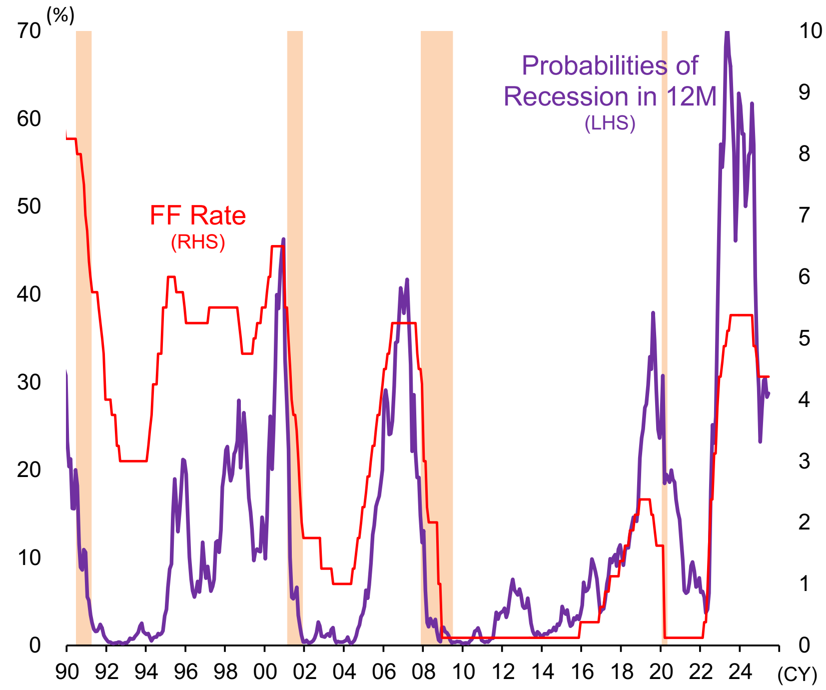
(Source) MUFG: Trust Bank, from BOJ

(Note) Universe is all industries; figures are indexed at value of FY2015 = 100; figures for FY2025 are based on companies’ forecast in June survey.

Overseas: Threat of Tariffs is likely to Increase Uncertainty

- Tariff hikes on many countries will have a significant negative impact on the U.S. economy. Probability of recession in the U.S. have been picking up again.
- The threat of tariffs is likely to increase uncertainty, which could have a negative impact on investment, consumption, and financial markets.

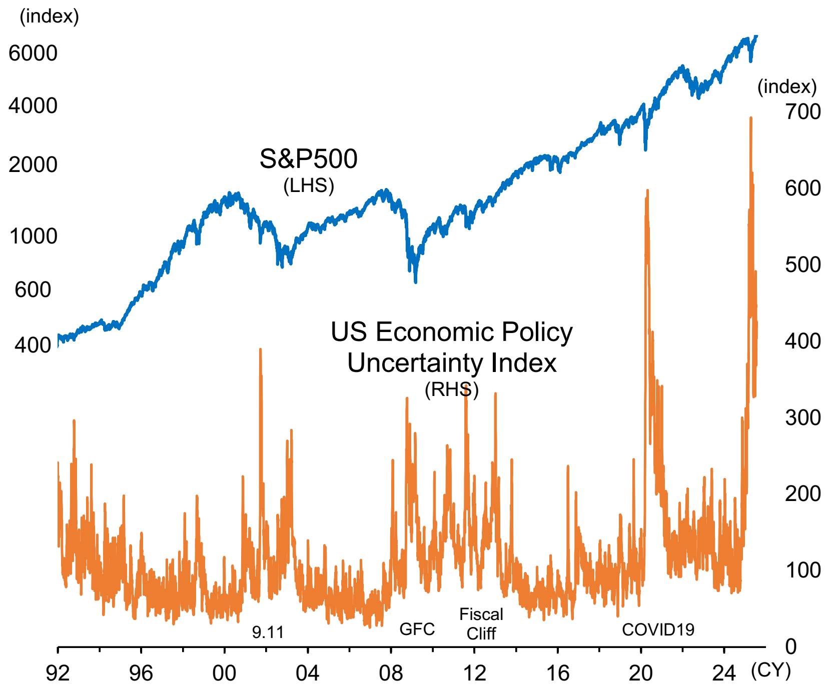
U.S. Recession Probability



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Shaded areas indicate recessions

S&P500 and Policy Uncertainty Index in the U.S.

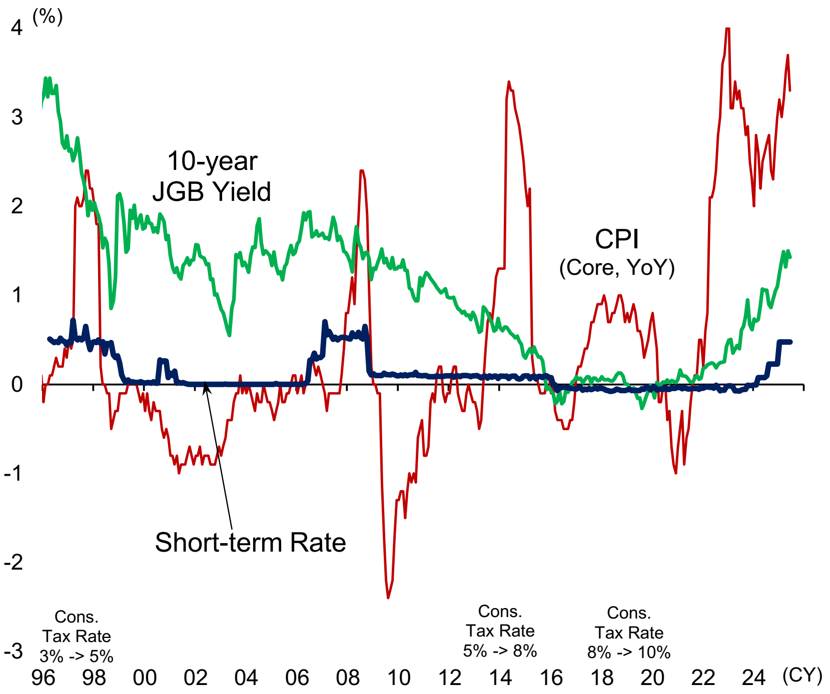


(Source) MUFG: Trust Bank, from Economic Policy Index website, S&P

BOJ : Cautious Revision of Ultra-Loose Monetary Policy

- We believe that the BOJ will refrain from making any policy changes for now in order to assess the Trump administration's tariff policy impact on economies. That said, with the Trump administration strongly demanding Japan correct the yen's weakness, the BOJ will be required to resume raising policy rates at the beginning of next year.
- 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 (1.0-1.5%).

Interest Rates and CPI Inflation



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

BOJ Outlook for Economic Activity and Prices

(y/y, % chg.)

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
FY24	0.7 < 0.7 ～ 0.7 >	2.7	2.2
Jan.	0.5 < 0.4 ～ 0.6 >	2.7 < 2.6 ～ 2.8 >	2.2 < 2.1 ～ 2.3 >
FY25	0.5 < 0.4 ～ 0.6 >	2.2 < 2.0 ～ 2.3 >	2.3 < 2.2 ～ 2.4 >
Jan.	1.1 < 0.9 ～ 1.1 >	2.4 < 2.2 ～ 2.6 >	2.1 < 2.0 ～ 2.3 >
FY26	0.7 < 0.6 ～ 0.8 >	1.7 < 1.6 ～ 1.8 >	1.8 < 1.7 ～ 2.0 >
Jan.	1.0 < 0.8 ～ 1.0 >	2.0 < 1.8 ～ 2.1 >	2.1 < 1.9 ～ 2.2 >
FY27	1.0 < 0.8 ～ 1.0 >	1.9 < 1.8 ～ 2.0 >	2.0 < 1.9 ～ 2.1 >

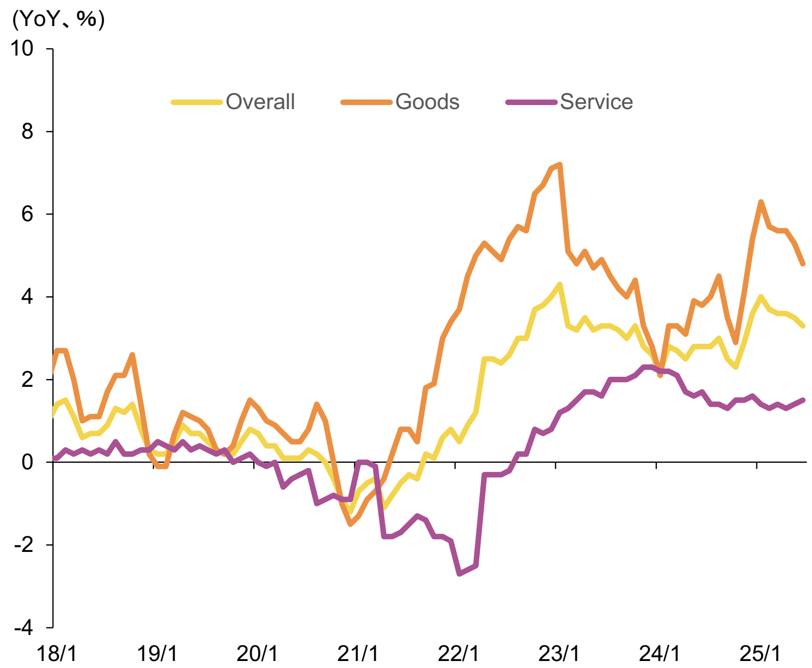
(Source) MUFG: Trust Bank, from Bank of Japan

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

BOJ: We Expect a Gradual Pace of Policy Rate Hikes to 1.25%

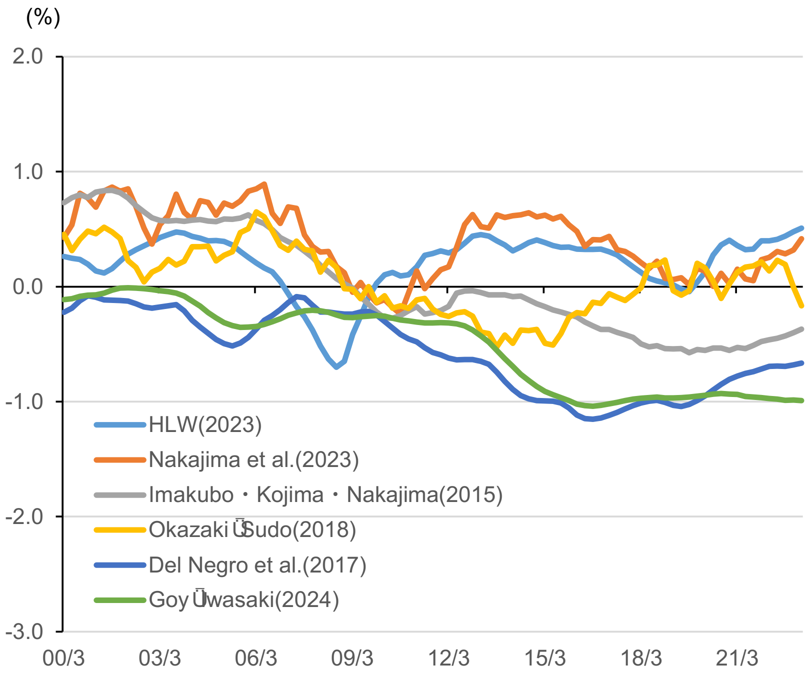
- In 2022, consumer prices rose led by import prices, but now we are seeing an increase in service prices on the back of rising wages.
- Although estimates of the natural rate range from ▲1% to +0.5%, the neutral rate is calculated to be at least +1% at an inflation rate of 2%.
- BOJ is expected to raise policy rate gradually to 1.0-1.5% 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)

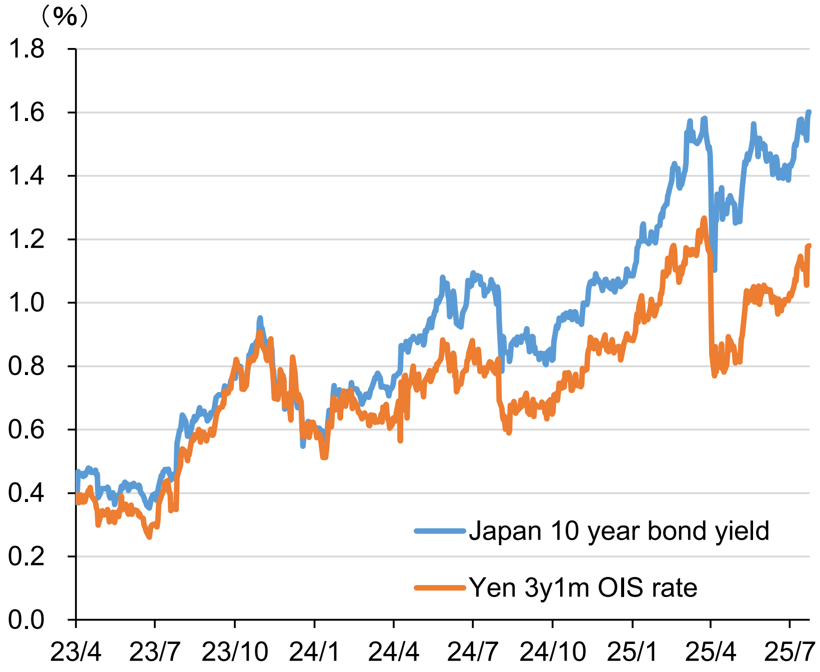


(Source) MUFG: Trust Bank, from BOJ

Japan Rates：We Expect Moderate Rise

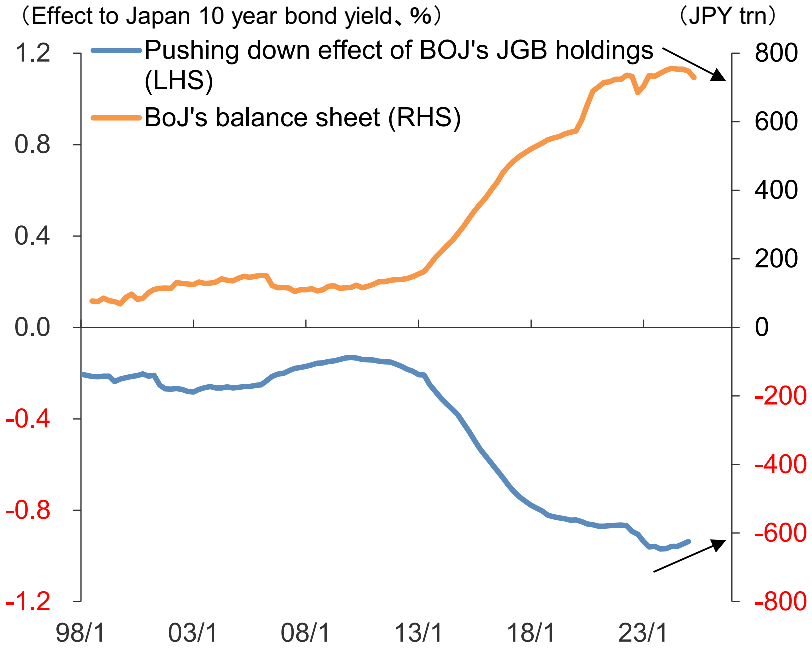
- We expect long-term interest rates to rise moderately against the backdrop of continued rate hikes by the Bank of Japan as Trump tariffs ease and the Japanese economy continues to recover.
- In July 2024, BOJ decided to reduce its JGB purchases and embarked on QT. BOJ's estimates suggest that BOJ's JGB holdings have pushed down 10-year bond yield by about ▲1.0%. 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

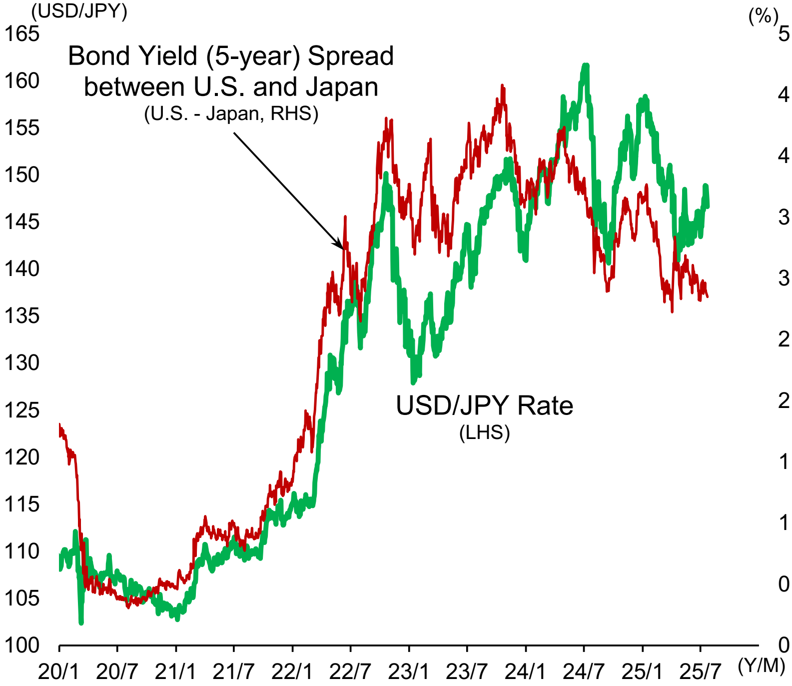


(Source) MUFG: Trust Bank, from BOJ

FOREX: Wary of Risk of Decline in USD/JPY

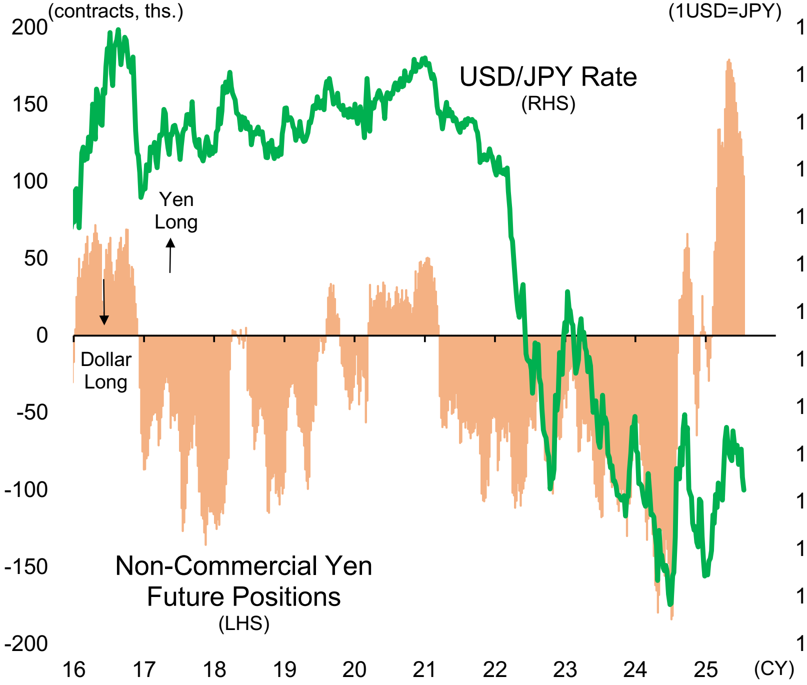
- There is a risk that the dollar-yen will decline. Amid the U.S. credibility decline due to the Trump tariffs, we expect the Fed will cut policy rates in response to the economic slowdown, while the BOJ will continue to raise policy rates moderately.
- Non-commercial yen-buying positions in the Chicago futures market hit record highs and still skewed to long. In terms of supply and demand, there is likely to be pressure for yen depreciation. Unless the U.S. economy falls into a serious recession, a rapid decline in the dollar-yen exchange rate is likely to be avoided.

USDJPY and Bond Yield Spread



(Source) MUFG: Trust Bank, from Bloomberg

USD/JPY and Speculative Future Positions

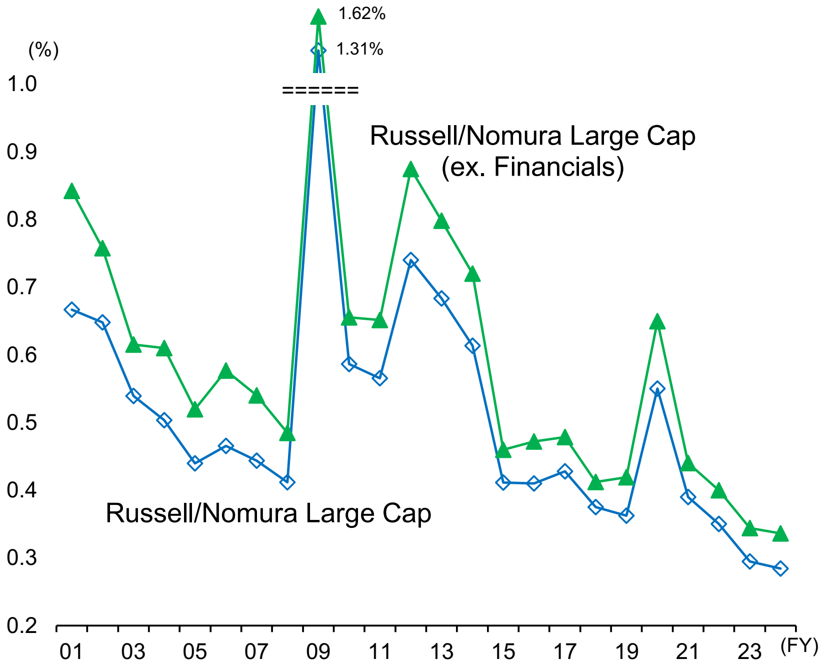


(Source) MUFG: Trust Bank, from CME, Bloomberg

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 FY2025 is 145.72 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.

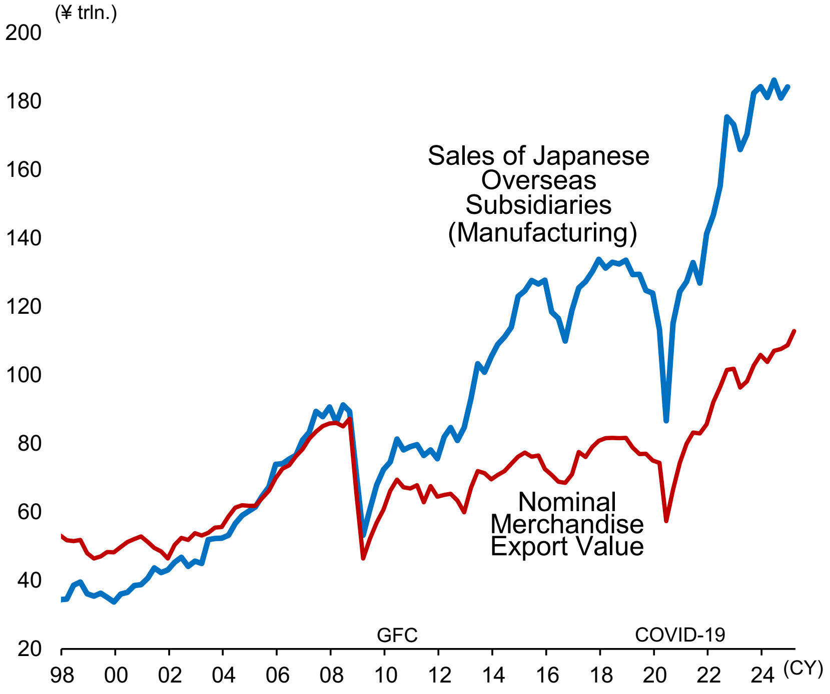
Dollar/Yen Rate Sensitivity of Recurring Profits



(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

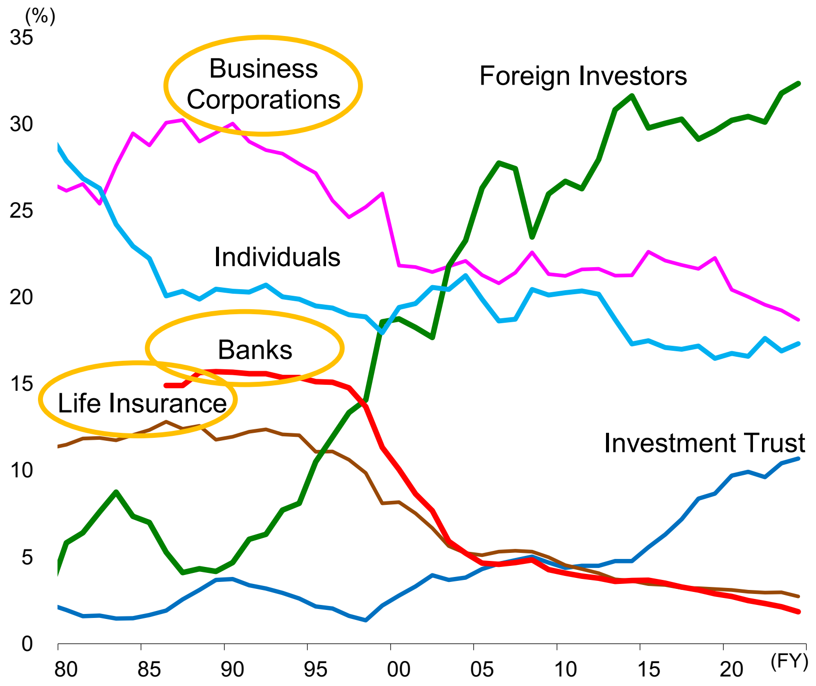


(Source) MUFG: Trust Bank, from METI, MOF data

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.

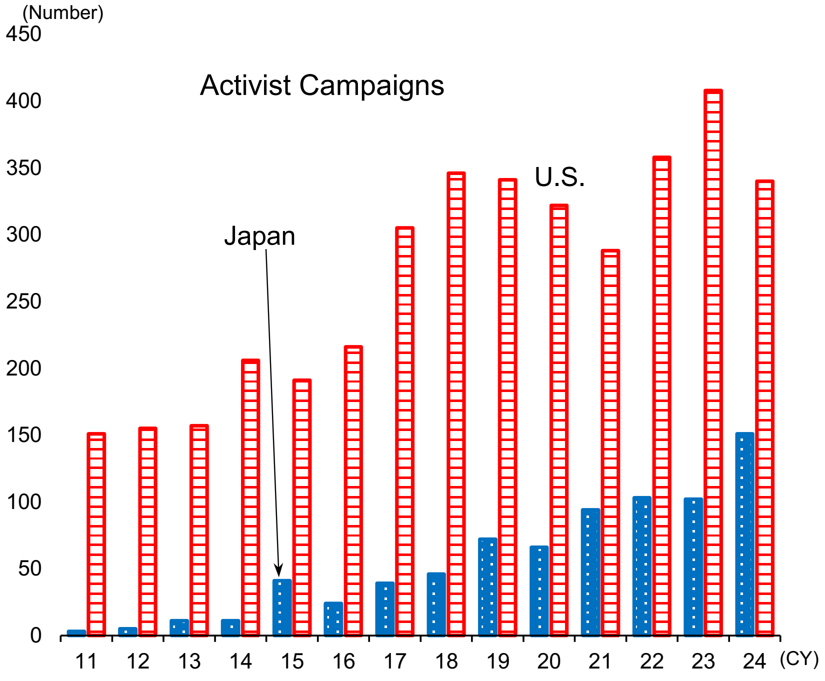
Cross-shareholding Stockholder and Pure Stockholder



(Source) MUFG: Trust Bank, from TSE data

(Note) Data as of FY2024.

Activist Campaigns in the U.S. and Japan



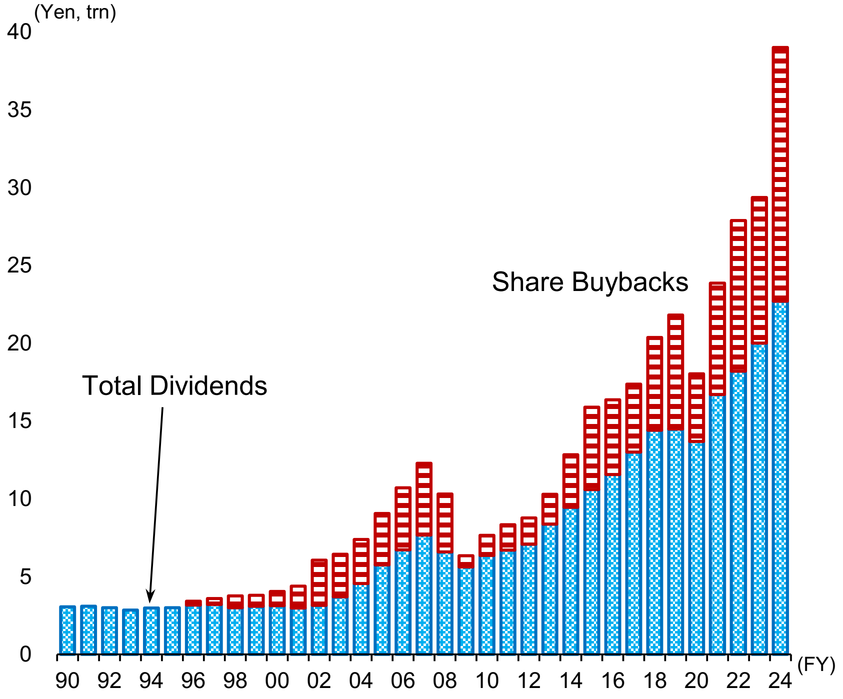
(Source) MUFG: Trust Bank, from Bloomberg

(Note) Data as of 2024.

Corporate Governance: Trend of Increasing Shareholder Return will Continue

- Japanese companies have increased share buybacks and dividends to record levels. Trend of increasing dividends and share buybacks is expected to continue along with corporate governance reform.
- The percentage of companies announcing numerical dividend targets has risen continuously since FY2014, reaching 71% of all companies in FY2024. The percentage of companies reporting a payout ratio of 30% or more is increasing. We see a change in the mindset of listed companies in Japan.

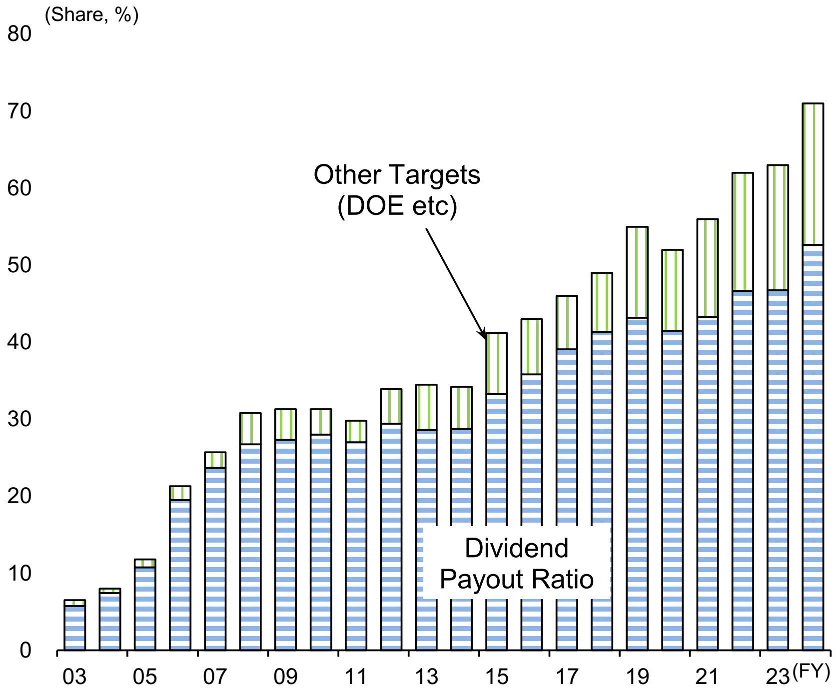
Total Dividends and Share Buybacks at Listed Companies



(Source) MUFG: Trust Bank, from Nomura Securities

(Note) Universe is all listed companies; based on common shares; data as of FY2024.

Disclosure of Dividend-related Targets at Listed Companies



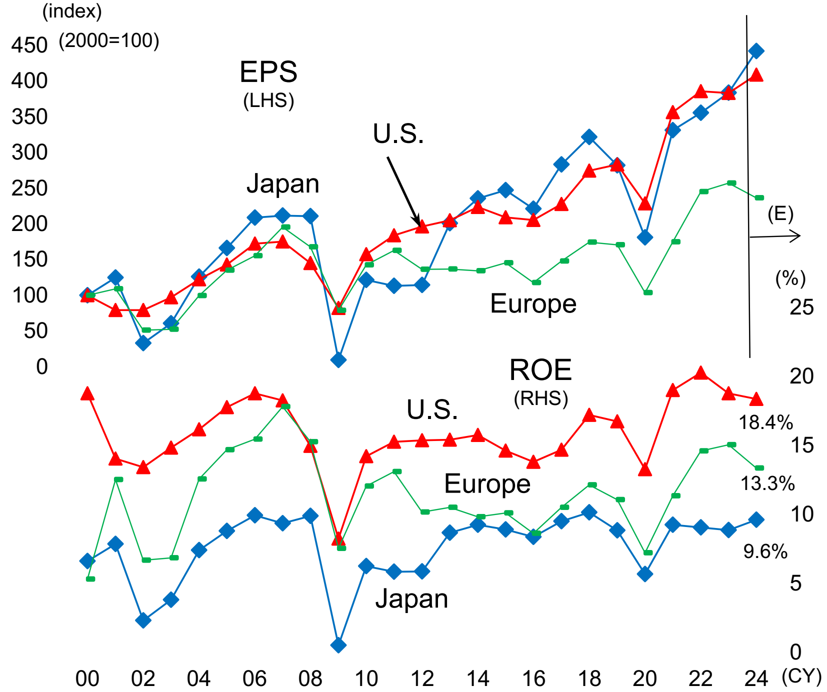
(Source) MUFG: Trust Bank, from Life Insurance Association

(Note) Universe is 1,200 listed companies with largest market caps; data as of FY2024.

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.

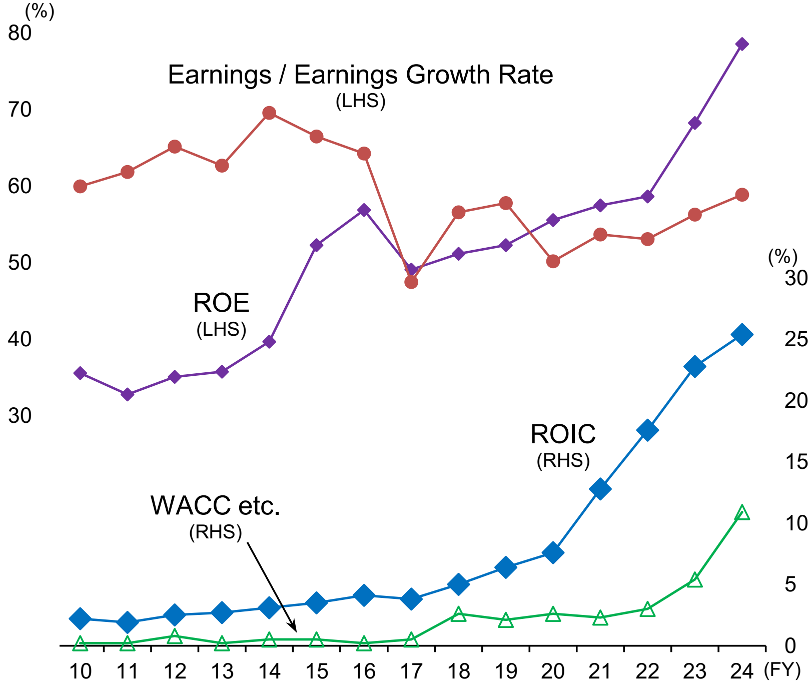
EPS and ROE of Large Companies in Major Region



(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



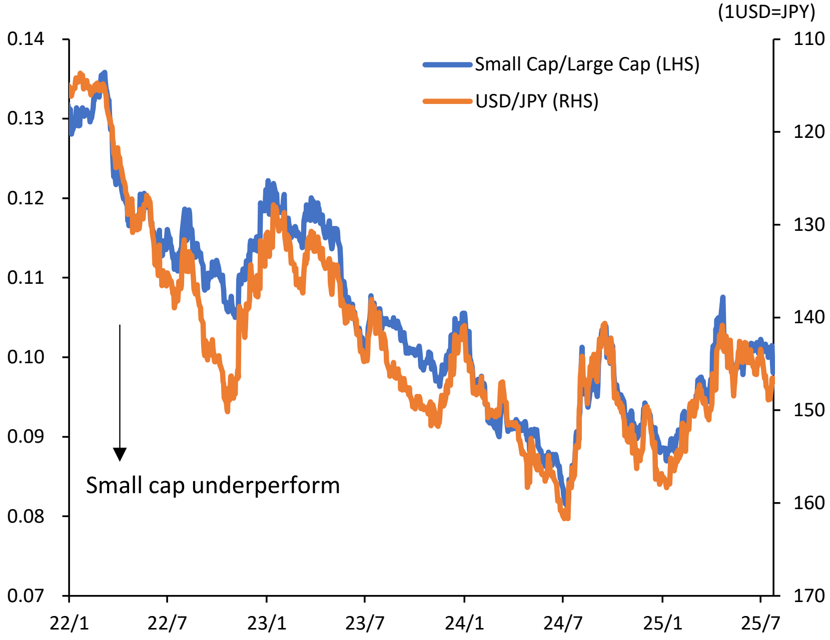
(Source) MUFG: Trust Bank, from Life Insurance Association

(Note) Universe is 1,200 listed companies with largest market caps; data as of FY2024.

Small Caps: Benefits of Diversification in Case of Overseas Slowdown

- 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

	Dec. 1995		Dec. 2010		Jun. 2025	
Industry	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	5.4
Foods	4.5	4.2	3.4	3.3	3.7	3.1
Textiles & apparels	4.8	3.5	2.8	1.8	1.4	1.4
Chemicals	8.4	7.5	6.7	7.2	6.9	6.1
Iron & Steel	3.4	3.9	1.9	1.8	1.4	1.3
Machinery	9.6	9.2	7.5	6.8	7.2	7.4
Electric appliances	9.7	10.0	8.6	9.7	6.8	7.8
Information & comm.	0.0	0.0	6.2	6.3	11.7	10.7
Wholesale trade	6.7	5.2	10.2	7.7	8.9	7.9
Retail trade	4.7	4.8	10.1	10.9	9.5	10.4
Banks	5.6	9.8	3.4	5.0	3.7	5.1
Real estate	1.8	1.8	2.9	3.4	3.1	2.9
Services	2.6	3.0	7.1	6.1	11.7	9.0

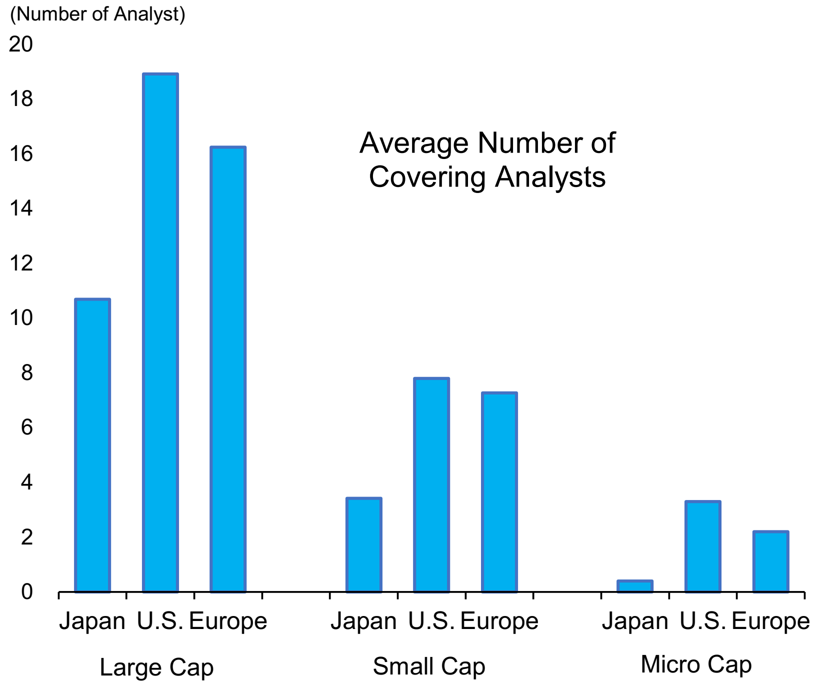
(Source) MUFG: Trust Bank, from Astra Manager

(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: Plenty of Unique α Opportunities

- High information gathering costs due to limited sell-side analyst coverage hide away lots of attractively valued Japanese small caps. A lot of Japanese small caps don't disclose financial information in English.
- Many Japanese small caps are in domestic-demand industries and most of their revenues (72.4%) depend on Japan. Japanese investors are well positioned to capture many opportunities in this local market.

Number of Covering Analysts by Size in Major Region



(Source) MUFG: Trust Bank, from FactSet

(Note) Universes are companies in MSCI USA Index, MSCI Europe Index and MSCI Japan Index; the number of brokerage firms that provide EPS estimates to FactSet; data as of June 2024.

Revenue Exposure by Country/Region of Major Indexes

(%)

Index / Country	Small Cap			Large Cap		
	Japan	U.S.	Europe	Japan	U.S.	Europe
United States	6.8	75.9	11.7	18.3	58.8	23.8
Japan	72.4	1.0	--	45.5	2.2	2.4
China	6.1	3.0	3.1	9.1	7.0	5.7
U.K	0.7	1.8	19.0	1.7	2.2	8.8
Germany	0.9	1.3	7.9	1.9	2.1	6.8
France	--	--	4.4	--	--	5.3
Italy	--	--	5.6	--	--	4.4
Spain	--	--	--	--	--	3.3
Sweden	--	--	4.7	--	--	--
Switzerland	--	--	4.6	--	--	--
Canada	--	1.9	--	--	1.7	--
India	1.3	--	--	2.1	--	--
South Korea	1.3	--	--	1.9	--	--
Taiwan	1.0	--	--	1.6	1.8	--

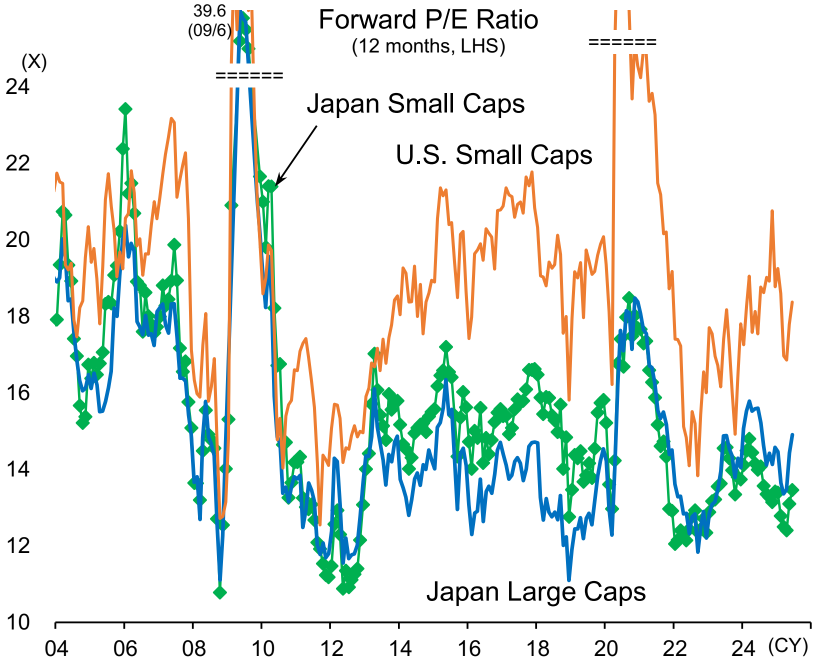
(Source) MUFG: Trust Bank, from FactSet

(Note) Universes are stocks in MSCI Large Cap Index and MSCI Mid Cap Index for Large Cap, MSCI Small Cap Index for Small Cap in Japan, the U.S. and Europe; revenue exposures are based on FactSet estimate; data as of June 2025.

Small Caps: Valuations are Historically Cheap

- Valuations of Japan Small-cap stocks are very cheap.
- 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).

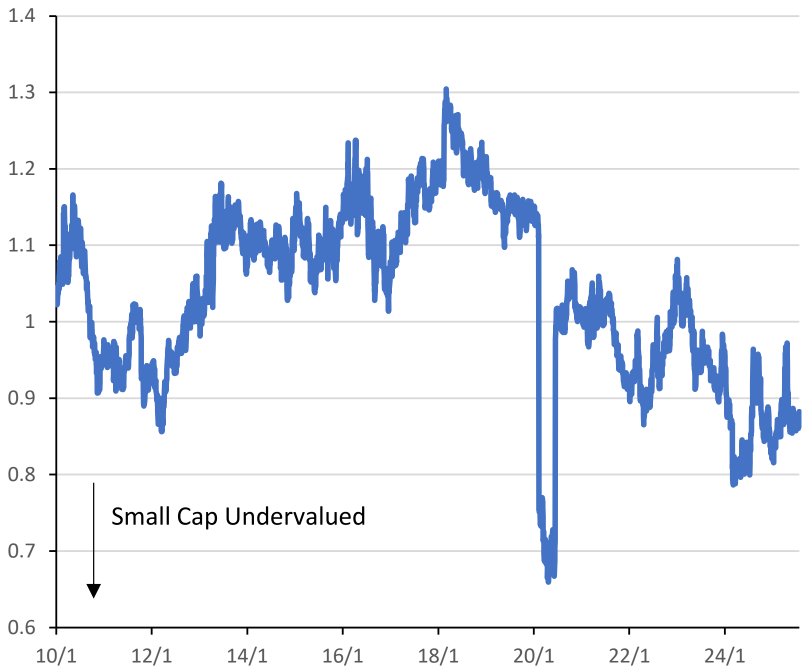
P/E Ratios at Japan Large/Small Caps and US Small Caps



(Source) MUFG: Trust Bank, from FactSet

(Note) MSCI Japan Index, Japan Small Cap Index and USA Index

Japan Small Cap PER/Japan Large Cap PER



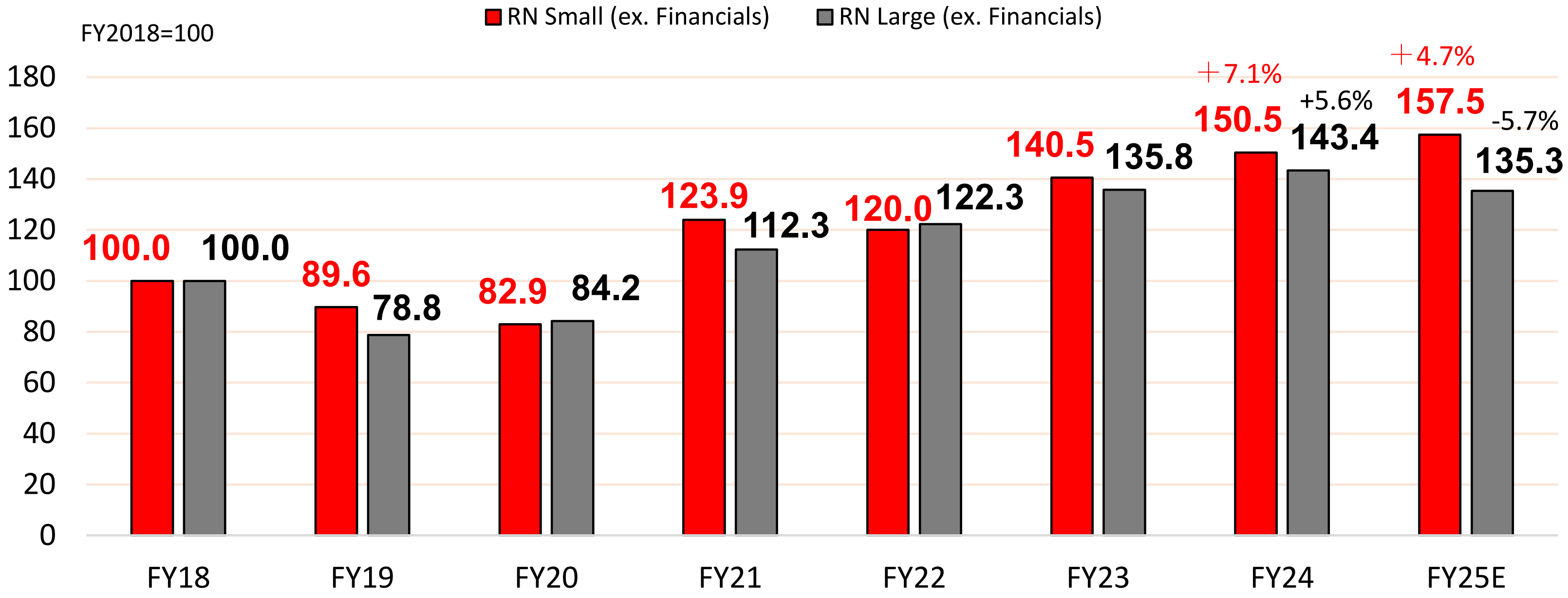
(Source) MUFG: Trust Bank, from Bloomberg

(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

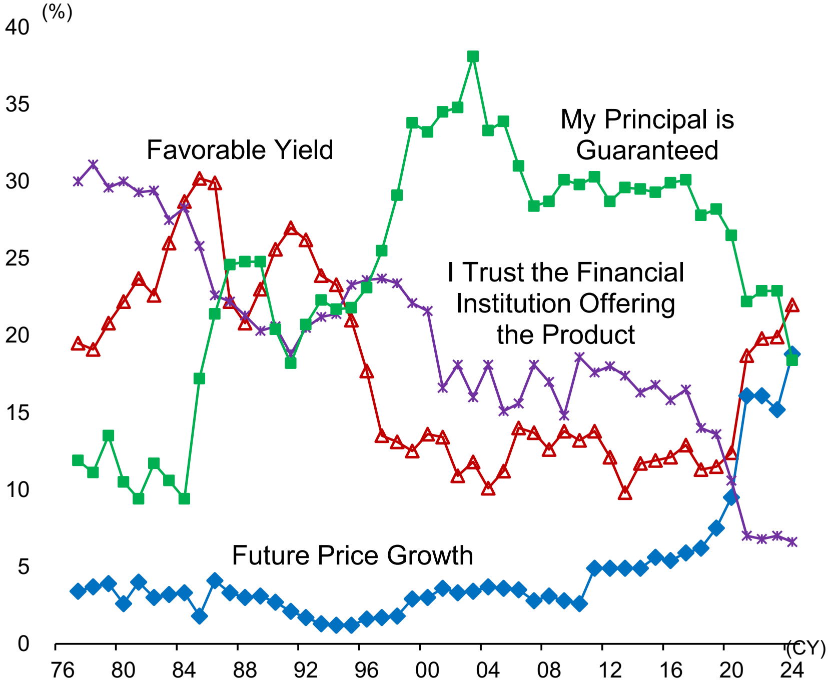
(Note) Russell/Nomura Index is covered. Earnings forecasts are based on Nomura's forecasts, supplemented by Toyo Keizai's forecasts. As of June 30, 2025

(Appendix)

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

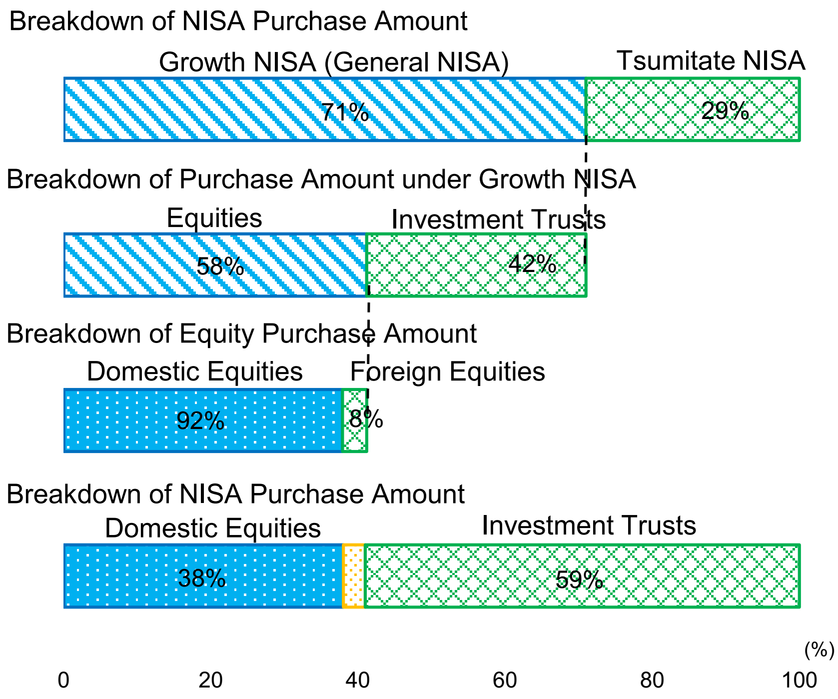
- Since 2019, there has been a clear increase in the number of respondents who would say their priority is on “capital gains (future price growth)” and “favorable yield”, when selecting a financial product.
- The total value of purchases in NISA accounts reached 17.4 trillion yen in 2024, which is 3.3 times higher than the previous year. Equities purchased under the Growth (General) NISA were mainly domestic equities.

Financial Product Selection Criteria of Households



(Source) MUFG: Trust Bank, from Central Council for Financial Services Information data
(Nots) 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.

Breakdown of NISA Purchase Amount (2024)

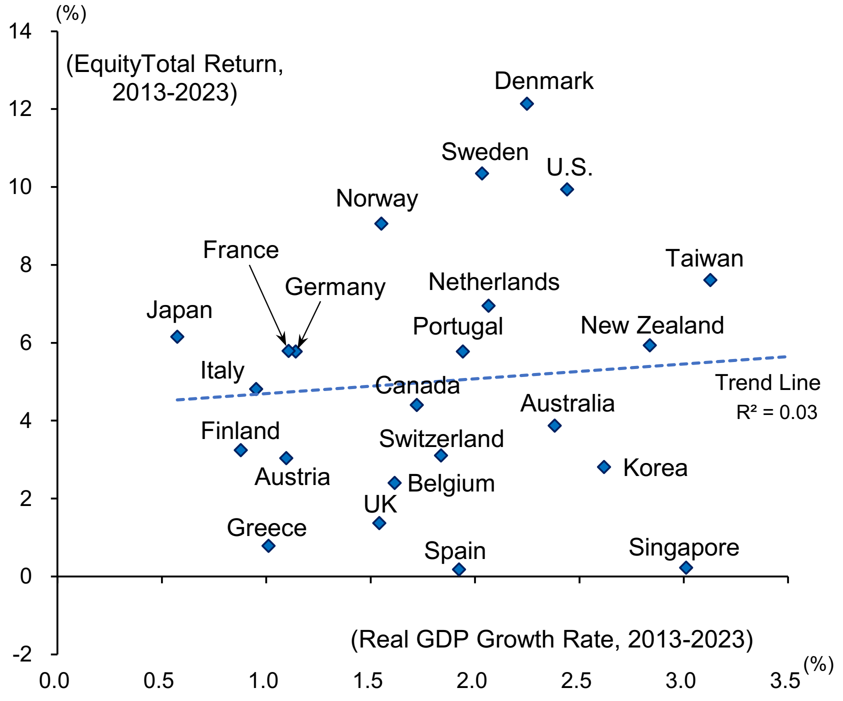


(Source) MUFG: Trust Bank, from Japan Security Dealers Association
(Note) “Equities” and “Domestic Equities” include ETFs and REITs; data as of December 2024.

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%.

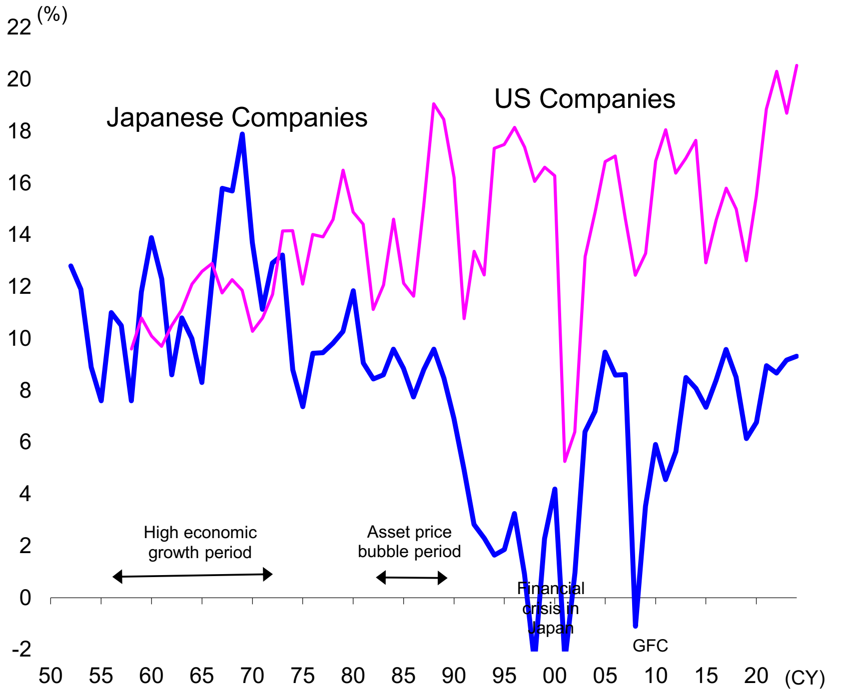
Economic Growth and Equity Returns in Major Countries



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

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

ROE at Japanese and US Companies



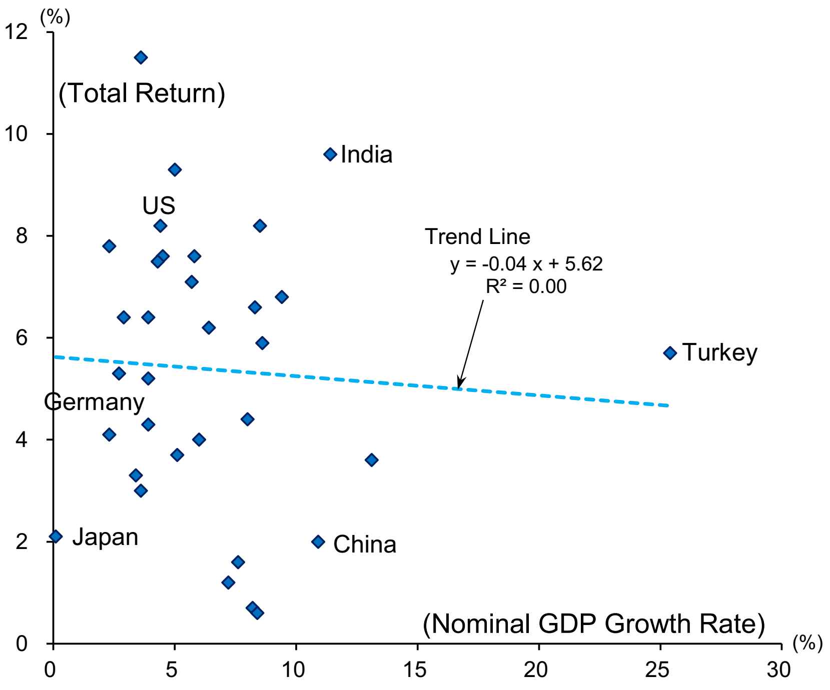
(Source) MUFG: Trust Bank, from TSE, : Nomura Securities, BOJ, S&P data

(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).

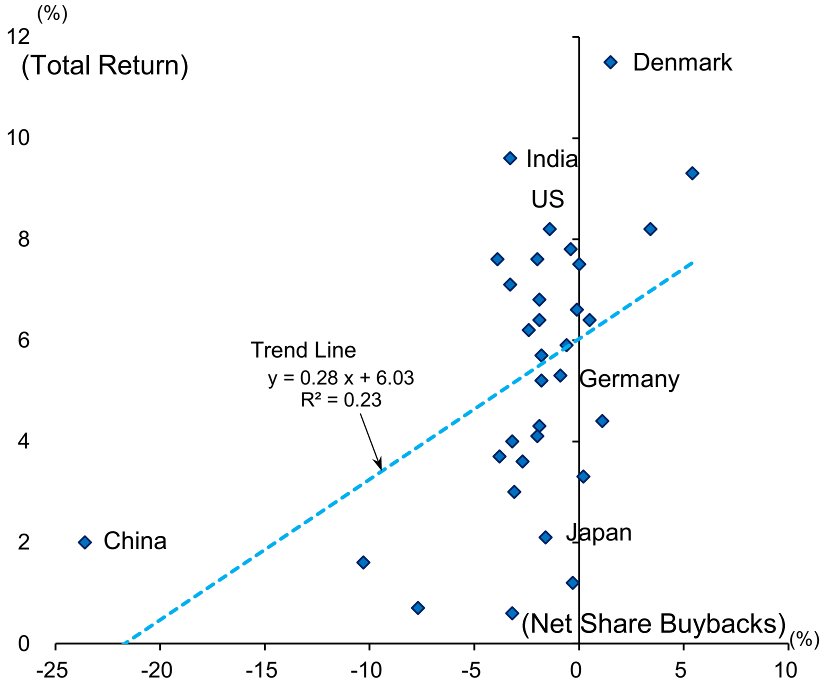
Economic Growth Rates are Not Relevant to Stock Returns



(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



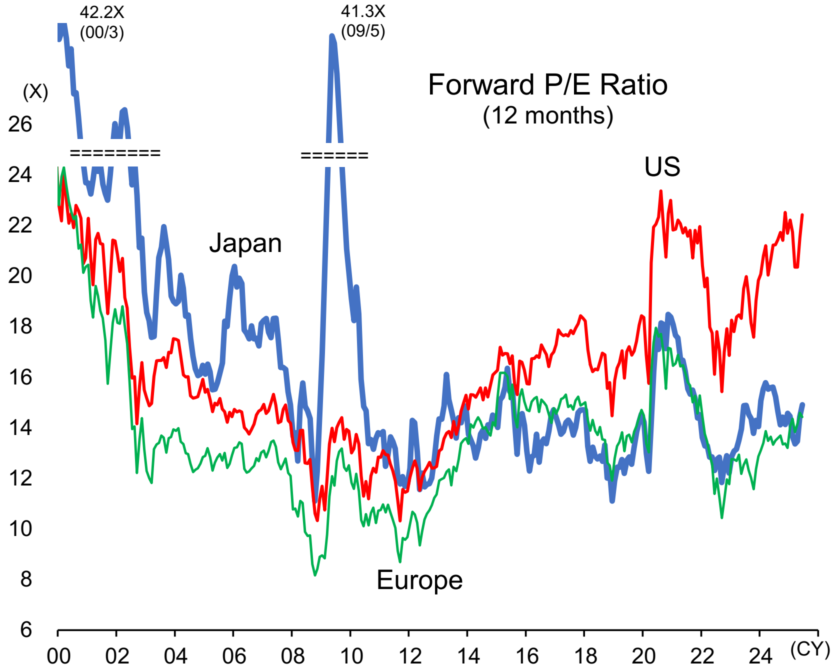
Source) BCA Research

(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.

Equity Investment: Valuations are Critical from a Long-term Perspective

- Japanese equities had higher P/E ratios than their US and European peers in the 2000s, but Japanese P/E ratios are currently well below those of the US and below those of Europe.
- Valuations are not very predictive of investment over the next year or so, but they are extremely important for investment over the next 10 years.

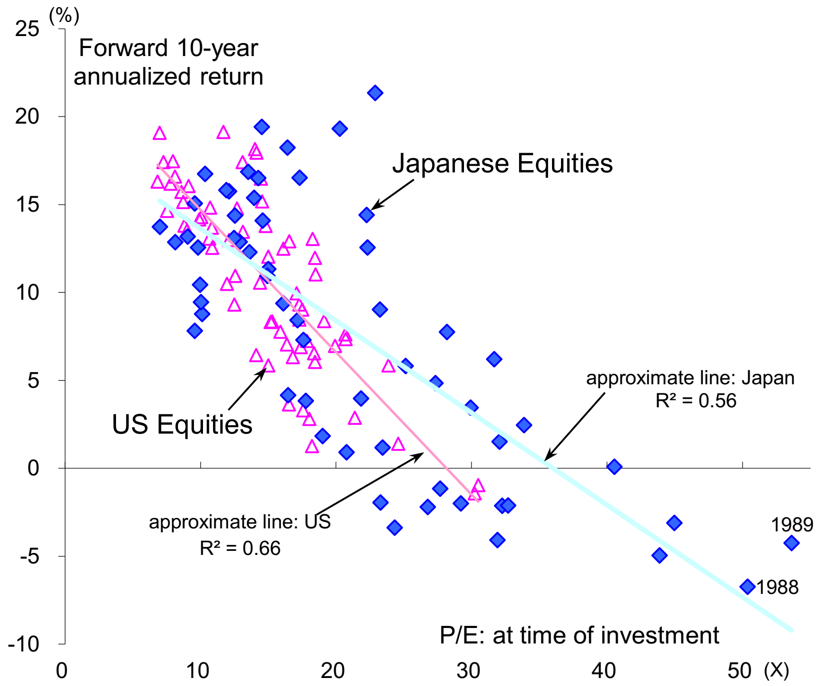
P/E Ratio in the US, Europe and Japan



Source) FactSet, MUFG: Trust Bank

(Notes) Universe is companies included in MSCI USA, MSCI Europe and MSCI Japan Index; data as of June 2025.

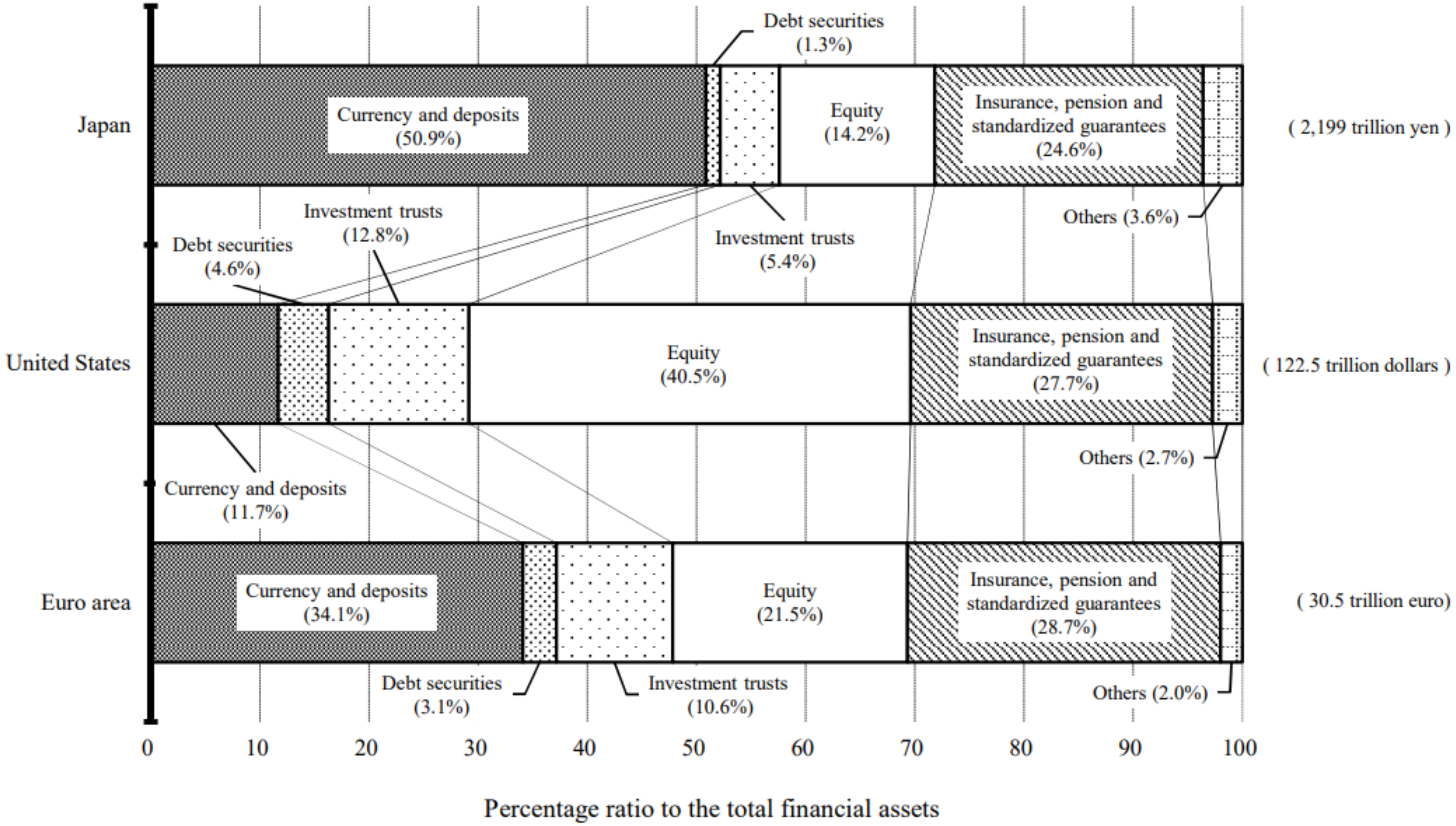
P/E Ratio and Long-term Return of Japan and US Equities



Source) TSE, S&P, MUFG: Trust Bank

(Notes) Data covers 1949-2024 for the US, 1956-2024 for Japan; returns are total (dividend inclusive) 10-year annualized returns for the S&P500 (US) and TOPIX (Japan); initial P/E (at time of investment) is based on 5-year historic EPS peak.

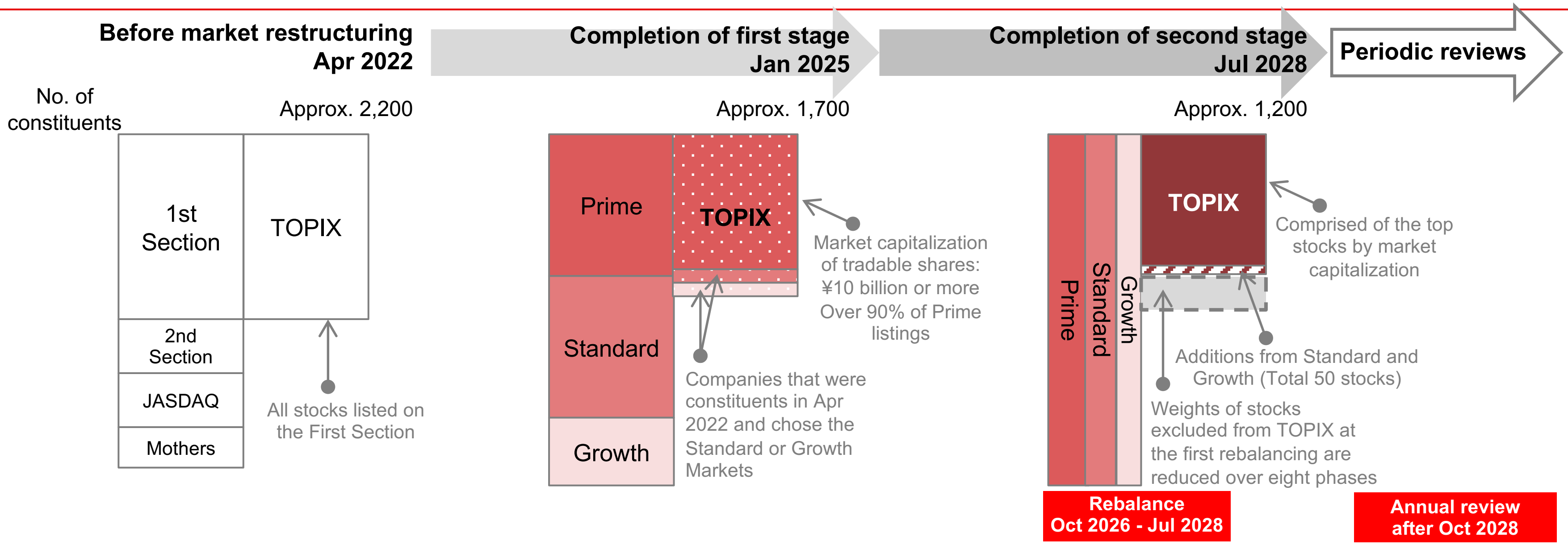
Financial Assets Held by Households in Major Countries



(Source) MUFG: Trust Bank, from BOJ

(Note) Data are as of end-March 2024

TOPIX Revisions ①



Before market restructuring
Apr 2022

Completion of first stage
Jan 2025

Completion of second stage
Jul 2028

Periodic reviews

No. of constituents

Approx. 2,200

All stocks listed on the First Section

Approx. 1,700

Market capitalization of tradable shares: ¥10 billion or more
Over 90% of Prime listings

Companies that were constituents in Apr 2022 and chose the Standard or Growth Markets

Approx. 1,200

Comprised of the top stocks by market capitalization

Additions from Standard and Growth (Total 50 stocks)

Weights of stocks excluded from TOPIX at the first rebalancing are reduced over eight phases

Rebalance
Oct 2026 - Jul 2028

Annual review
after Oct 2028

<table>
<tr><th>Main Changes</th><th>Current TOPIX</th><th>Next-Gen TOPIX</th></tr>
<tr><td>Eligible Markets</td><td>Mainly Prime Market</td><td>Prime Market, Standard Market, and Growth Market</td></tr>
<tr><td>Periodic Review</td><td>None</td><td>Annually, on the last business day of Oct (based on the last business day of Aug)</td></tr>
<tr><td>Selection Criteria</td><td>None
(Phased weighting reductions of constituents with tradable share market cap of under JPY 10 mil)</td><td>Periodic review of constituents based on the following liquidity criteria
<table>
<tr><th>Indicator</th><th>Inclusion Criteria[1]</th><th>Continuation Criteria[2]</th></tr>
<tr><td>Annual Traded Value Ratio</td><td>0.2 or more</td><td>0.14 or more</td></tr>
<tr><td>% of Cumulative Free-Float Adjusted Market Cap</td><td>In the top 96%</td><td>In the top 97%</td></tr>
</table>
*1 Applied to issues that are not TOPIX constituents
*2 Applied to existing TOPIX constituents (The buffer rules will be adopted to ensure index stability and investment efficiency)</td></tr>
<tr><td>Non-periodic Inclusion</td><td>New listings on or segment transfers to the Prime Market</td><td>New listings on the Prime, Standard, and Growth Markets whose free-float adjusted market cap exceeds the minimum of that within top 95% of cumulative free-float adjusted market cap</td></tr>
</table>

Source: JPX, Mitsubishi UFJ Trust and Banking

TOPIX Revisions ②

■ According to TSE's estimates, the broad coverage and functionality as an investment target will improve while ensuring the continuity of the index.

	Current TOPIX	Next-Gen TOPIX	Comparison with Current TOPIX
Total Floating Market Capitalization	JPY 490trn	JPY 485trn	Mostly Maintained
Market Coverage (※)	About 97.7%	About 96.7%	Mostly Maintained
Floating Market Capitalization (Median)	About JPY 39.2bn	About JPY 82.0bn	Approximately Doubled
Daily Trading Value (Median)	About JPY 310mn	About JPY 750mn	Approximately Doubled
Number of Stocks	About 1,700	About 1,200	About 50 stocks adopted from standard market and growth market

(※) Market coverage is the ratio of the total floating market capitalization of TOPIX component stocks to the total floating market capitalization of all stocks in the Prime, Standard, and Growth markets

TOPIX Revisions ③

■ **TOPIX first revision (completion in January 2025)**

- ✓ The conventional TOPIX had the problem of including stocks with small market capitalization and low liquidity.
- ✓ To solve this problem, stocks with a market capitalization of less than 10 billion yen in circulation were excluded.
- ✓ Constituents in TOPIX first revision are companies that were constituents in Apr 2022 excluding the above stocks.
- ✓ TOPIX components decreased from about 2,200 to about 1,700.

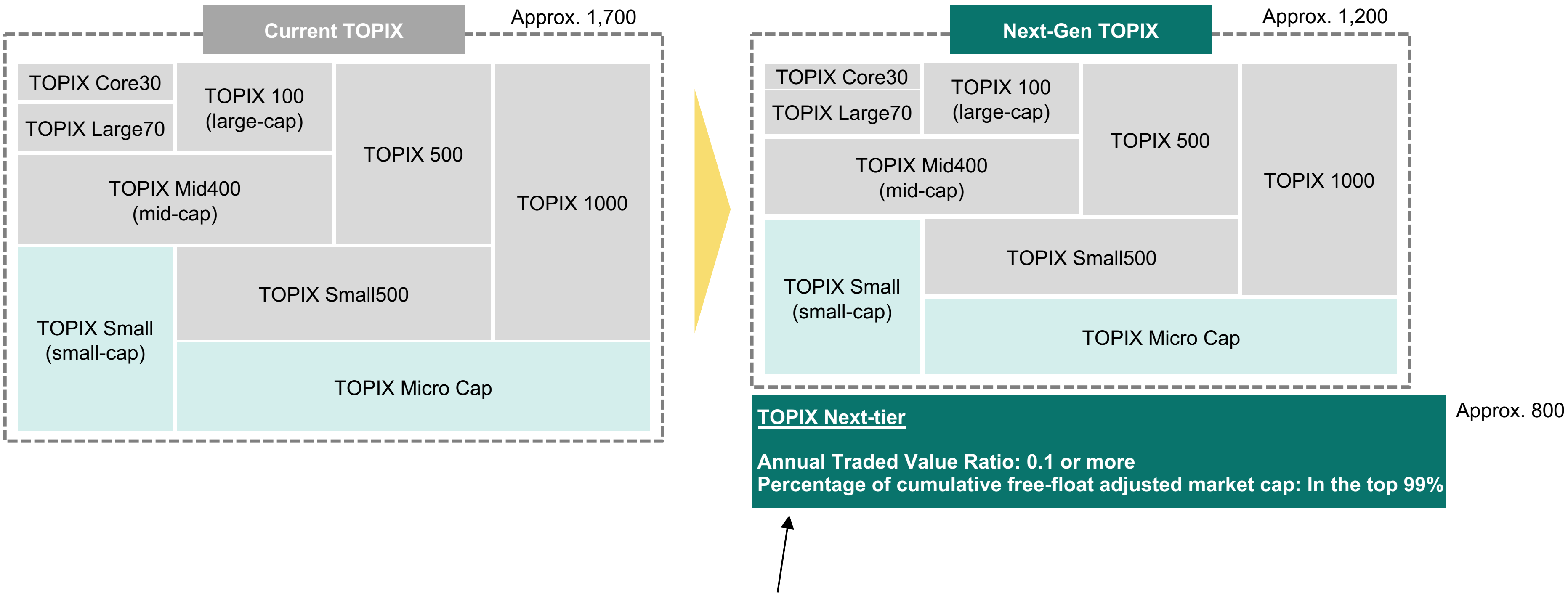
■ **TOPIX second revision (completion in July 2028)**

- ✓ The constituent stocks are expanded to all market segments of Prime, Standard, and Growth markets.
- ✓ TOPIX second revision aims to further enhance broad coverage and functionality as an investment target by placing greater emphasis on liquidity and periodically replacing stocks.
- ✓ Constituents in TOPIX second revision are comprised of the top stocks by market capitalization.
- ✓ The threshold for exclusion is expected to be around 25-30 billion yen in floating market capitalization, and the size of companies to be excluded is expected to be larger than in the first phase.
- ✓ After October 2028, stocks will be reviewed annually, and efforts to continuously improve corporate value will be required.
- ✓ TOPIX components will decrease from about 1,700 to about 1,200.

■ **Implication**

- ✓ While exclusion from the TOPIX may increase selling pressure on the stock prices of target companies, it may also provide an opportunity to give companies with growth and liquidity issues an incentive to increase their corporate value. In particular, more companies that are close to the borderline may take stock price measures. Options include performance improvement measures, implementation of growth strategies, enhancement of shareholder returns, reduction of cross shareholdings, including the dissolution of parent-subsidiary listings, raising the ratio of floating shareholdings, and mergers and acquisitions.

Other Revisions – Launch of “TOPIX Next-tier” in Oct 2026



TOPIX Next-tier

Annual Traded Value Ratio: 0.1 or more
Percentage of cumulative free-float adjusted market cap: In the top 99%

- We expect many stocks to enter Next-Gen TOPIX from TOPIX NEXT-tier at the time of annual review.

Source: JPX, Mitsubishi UFJ Trust and Banking

Overall Picture of Growth Market Reform

Before IPO

Promote IPOs with a view to high growth after listing

TSE and underwriting securities companies share information necessary for companies to achieve high growth prior to IPO

After IPO

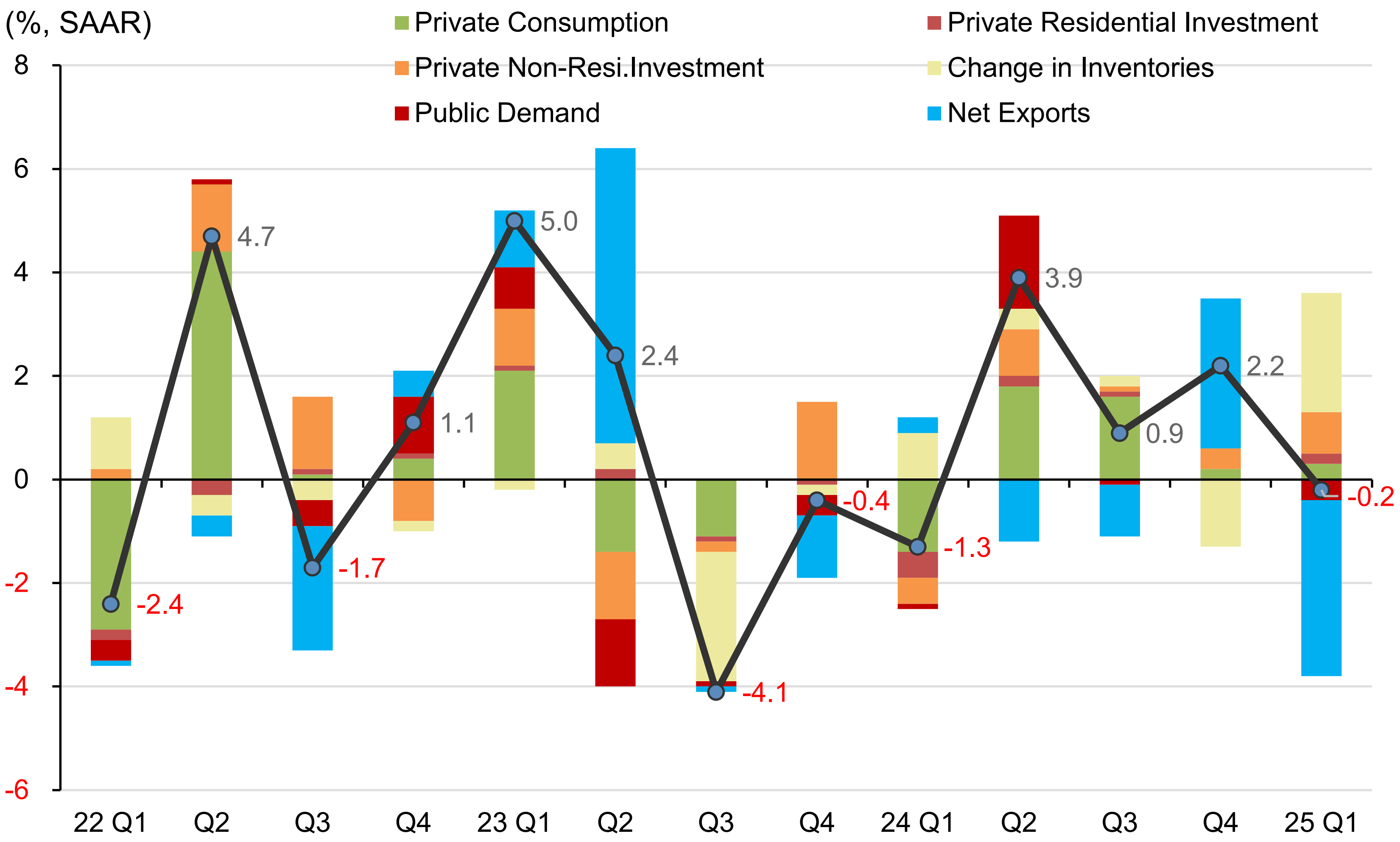
Encouraging management to achieve high growth

Analyze growth status and update growth targets, measures, etc.

Revision of listing maintenance criteria

Market capitalization of 4 billion yen or more after 10 years of listing
⇒Market capitalization of 10 billion yen or more after 5 years of listing
Measures that can be applied for changes to the Standard Market are also available

Overall Picture of Japanese GDP



Disclaimer

- The information contained herein is proprietary to Mitsubishi UFJ Trust and Banking Corporation and its subsidiaries, associates or affiliates (“MUFG: Trust Bank”). These materials have been prepared solely for informational purposes, based upon information generally believed to be reliable, and no representation or warranty is given with respect to its accuracy or completeness.
- These materials do not constitute an offer to buy or sell, or a solicitation of an offer to buy or sell any investment product, security, or instrument or participate in any particular trading strategy and no representation or warranty is given with respect to any future offer or sale.
- The information contained herein is not intended for the general public; it is intended for institutional or professional investors with adequate resources and advice to enable a thorough understanding of the services provided by MUFG: Trust Bank and how to interpret the data in these materials in the context of the relevant markets, and who would be able to assume the financial risks presented or that may arise in connection with the investments and strategies discussed in these materials.
- MUFG: Trust Bank accepts no responsibility or liability for executions or investment decisions resulting from your use of these materials.
- MUFG: Trust Bank will not update the information contained in these materials.
- Although we use reasonable efforts to obtain reliable, comprehensive information, we make no representation that it is accurate, complete or timely. The information and data contained herein has been obtained from a variety of sources, is based on certain assumptions, information and conditions available at the date of the materials, and may be subject to change at any time without notice or updates to you. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of you acting based on these materials.
- The value of securities and the income from them, if any, may fall as well as rise. Investments are subject to investment risks including the possible loss of the principal amount invested, and are not obligations of, deposits in, or guaranteed or insured by MUFG: Trust Bank. Past performance figures as well as any projection or forecast used in these materials, are not indicative of the future or likely performance of the company or security mentioned.
- MUFG: Trust Bank disclaims any and all liability for the information contained herein, including without limitation, any express or implied representations or warranties for information or errors contained in, or omissions from, these materials. MUFG: Trust Bank and its officers and employees shall not be liable for any loss or liability suffered by you resulting from the provision to you of these materials or your use or reliance in any way on the information herein.
- MUFG: Trust Bank does not comment on the fundamentals or financial standing of any of the companies mentioned herein.
- Unless indicated, all views expressed herein are the views of the author, may differ from or conflict with those of MUFG: Trust Bank or others and is subject to change at any time without prior notice.
- These materials are permitted to be used solely by the persons to whom they have been provided by MUFG: Trust Bank and is subject to change at any time without prior notice.
- MUFG: Trust Bank expressly prohibits the dissemination of these materials to persons for whom they are not intended and/or to persons who would be prohibited from receiving them under the laws of their jurisdiction. MUFG: Trust Bank makes no offer or solicitation to any person through the provision of these materials. These materials may not be – and are not intended to be - distributed in any jurisdiction where it is unlawful to do so.
- Clearbrook Investment Consulting, LLC (“CIC”) is an SEC-registered investment adviser. CIC primarily provides pensions consulting and family office advisory services for a wide variety of for-profit and nonprofit organizations. All strategy, assets under management and performance data described above refer to professional advisory services which CIC has engaged MUTB to act as a subadvisor for certain Japanese equity strategies. Fees charged are at the discretion of CIC; investment advisory fees are described in CIC’s Form ADV Part 2, which is available upon request. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client’s investment needs and objectives.