



Japan Markets: 2025 - An exciting year ahead for Japanese equities

Japan Outlook - January 2025



Hisashi Shiraki

Chief Global Strategist

Outlook on the Japanese equity market

- We expect the Nikkei 225 will reach to 45,400 and TOPIX to 3,190 by the end of 2025.*
- Further out we are bullish on the Japanese stock market over the mid-to-long term due to steady growth of corporate earnings, the virtuous cycle of “wage increase and mild inflation” and improvements in corporate governance.
- Range bound trading should break upward post the Trump inauguration.
- We have seen large levels of share buybacks (as much as 17 trillion yen in FY 2024, equal to \$108 bn -) boosting investor returns.

Nikkei 225 Forecast



TOPIX Forecast



Source: Bloomberg, forecast by SMDAM.

The figures from 30 September 2019 to 31 December 2024 refer to the past and that past performance is not a reliable indicator of future results. Data after December 2024 is our forecast, such forecasts are not a reliable indicator of future performance

*Calculated by multiplying current and next fiscal year's estimated EPS by 12 month forward price to earnings ratio
These forecasts represent our house view based on bottom up and top down analysis, rather than a simulation of past performance of the equity market.

Potential upsides risks

- An increase in GDP growth now deflation has ended
- Further improvements of corporate governance, driven by the Tokyo Stock Exchange

Potential downside risks

- Tighter fiscal policy aimed at achieving a primary surplus
- Excessive and rapid appreciation of the yen, which could impact corporate earnings
- Stagnation in the manufacturing business cycle

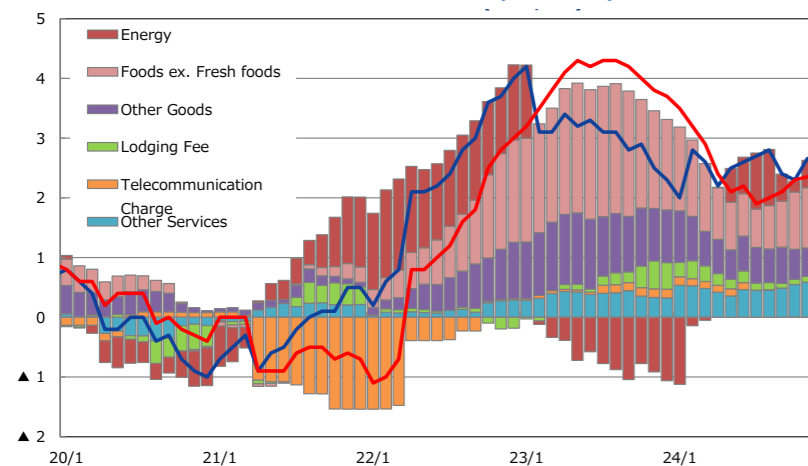
Inflation is an upward trend

Core CPI for the nation rose by +2.3% YOY in October, down from +2.4% in September, while the Tokyo Metropolitan Area core CPI rose by +2.2% YOY in November, up from +1.8% in October.

The rise in the Tokyo Metropolitan Area core CPI was mainly driven by energy prices, following the reduction of government emergency measures to cope with the extreme heat. Additionally, rising service prices and cost-push pressure from the depreciation of the JPY may have also contributed.



Breakdown of CPI (YOY, %)



Note: Data is from January 2020 to November 2024.

Source: MIAC, SMDAM

Core CPI projections adjusted only for 2026

While the core CPI forecast remains at +2.6% for FY 2024 and +2.1% for FY 2025, it has been lowered for FY 2026 from +1.9% to +1.5%. Cost-push pressure from import prices will decrease, but inflation will stabilise due to wage-driven service price increases.

The BOJ Core CPI is forecast at around +2.0% YOY, excluding subsidies for utilities and petrol tax changes.

Real GDP growth forecasts revised upwards

We have raised the real GDP growth forecast for FY 2024 from +0.3% to +0.5% and for FY 2026 from +0.8% to +0.9%, maintaining FY 2025 at +1.2%.

The upward revision for FY 2024 reflects data from July-September 2024, while FY 2026 reflects the assumed elimination of the provisional gasoline tax. The increase in the minimum taxable income is expected in 2025, with a moderate growth path supported by wage increases, CAPEX appetite, economic measures, and resilient overseas economies.

Government plans fiscal measures for growth

The government is expected to adopt accommodative fiscal policies to combat deflation over the next three years. Prime Minister Ishiba confirmed a focus on sustainable growth.

The Cabinet approved economic measures, including a tax cut agreement to raise the minimum taxable income to 1.78 million yen (\$11.3k circa) in 2025 and eliminate the gasoline tax.

Bank of Japan - monetary policy unchanged

The forecast for BOJ monetary policy remains unchanged. We expect rate hikes to 0.50% in January 2025, 0.75% in July 2025, 1.00% in January 2026, and 1.25% in January 2027.

BOJ will coordinate with the government before each rate hike, considering inflation and global conditions. Gradual hikes toward a neutral rate will proceed until 1%, with risks from Trump led US tariffs increasing.

If the Japanese economy is impacted, the BOJ may delay further rate hikes.

If you would like to access the full report please contact your business development representative.

Contact Details

Sumitomo Mitsui DS Asset Management (UK) Limited
 100 Liverpool St., London EC2M 2AT, United Kingdom
www.smd-am.co.uk - uksales@smd-am.co.jp



Richard HAXE
 Managing Director, Head
 of Business Development

+44 20 7507 6431
richard_haxe@smd-am.co.jp



Alex BARRY
 Executive Director, Head of
 Sales, UK and Ireland

+44 20 7507 6419
alex_barry@smd-am.co.jp



Chloé CHOQUIN
 Director, Business
 Development

+44 20 7507 6424
chloe_choquin@smd-am.co.jp



Thomas CARTWRIGHT
 Director, Business
 Development

+44 20 7507 6440
thomas_cartwright@smd-am.co.jp

General Disclaimer

The material is intended for professional and institutional investors only.

This material is intended for information purposes only without regard to any particular user's investment objectives or financial situation and should not be construed as an offer, solicitation, recommendation, or advice to buy or sell securities or pursue any investment strategy in any jurisdiction. Any examples used, charts, and graphs are generic, hypothetical, and for illustration purposes only. Any forecasts, figures, opinions, or investment techniques and strategies contained are for information purposes only, and are based on certain assumptions and current market conditions that are subject to change without prior notice. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. Nothing in this material constitutes accounting, legal, regulatory, tax or other advice.

No representation or warranty is made as to the accuracy, completeness, fairness or timeliness of the statements or any information contained herein. This material is not legally binding and no party shall have any right of action against Sumitomo Mitsui DS Asset Management (UK) Limited, including our affiliates, in relation to the accuracy or completeness of the information contained in it or any other written or oral information made available in connection with it. The views expressed are those of the author at the time of the writing. The material is correct to the best of our knowledge at the date of issue and subject to change without notice.

The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorised entities and individuals. All right, title, and interest in this material and any information contained herein are the exclusive property of Sumitomo Mitsui DS Asset Management (UK) Limited, except as otherwise stated.

This material is issued by Sumitomo Mitsui DS Asset Management (UK) Limited. Registered in England and Wales. Registered office: 100 Liverpool Street, London, EC2M 2AT, United Kingdom; registered number 01660184. Authorised and regulated by the Financial Conduct Authority.

This material and the information contained may not be copied, redistributed, or reproduced in whole or in part without the prior written approval of Sumitomo Mitsui DS Asset Management (UK) Limited.

Risk warning: Investment involves risk, including possible loss of the principal amount invested, and the value of your investment may rise or fall. Past performance is not a reliable indicator of future performance and may not be repeated. An investment's value and the income deriving from it may fall, as well as rise, due to market fluctuations. Investors may not get back the amount originally invested.