SOMPO ASSET MANAGEMENT

A Theme Park for Security, Health & Wellbeing

Economy & Financial Market Outlook

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a member of the Japan Investment Advisors Association, and the Investment Trusts Association, Japan

Economy & Financial Market Outlook: Japan

Economy

Expecting Slow Economic Recovery

We expect the Japanese economy will be supported by domestic demand factors like growth in personal consumption spurred on by real wage rises and increased capital investments to tackle labour shortages. However, we believe the economic recovery will only be gentle given continued uncertainty over US trade policy and concerns over economic downturns overseas.

Japan's core CPI (excluding perishables) was up 3.0% YoY in February (January: 3.2%). We believe core CPI growth will remain around 2.5-3.0% because while high school tuitions being made free will create downward pressure on inflation, the increase in import prices caused by JPY depreciation and increase in service costs caused by increasing personnel costs will create upward pressure.

We expect the BoJ to continue to scale back easy monetary policy. However, further rate hikes will likely come in slow given that central banks in the US and Europe have already shifted to easing cycles and that the BoJ will be cautiously keeping watch of the impact ending easy monetary policy will have on the Japanese economy.

Bond Market

Expecting Slight Rate Growth

◆ Review

10-year JGB yields rose (prices fell) in March. Yields rose as fiscal concerns grew in Japan on the back of the increase in German yields, which were caused by concerns over a significant expansion in bond issues to pay for increased military spending. Demand for bonds being limited on the back of the BoJ maintaining that it will raise rates also put upward pressure on yields.

◆ Outlook

We believe interest rates will increase slightly. We think Japanese interest rates will be subject to upward pressure as the BoJ will move away from easy monetary policy. However, growth will likely be moderate because rate hikes may be slow given BoJ officials will be looking to determine the impact of US trade policy.

Stock Market

Upside Resistance to Continue

◆ Review

The Japanese equity market fell in March. The fall was the result of concerns over Trump tariffs and stagflation in the US.

◆ Outlook

We expect the market will continue to face upside resistance.

Japanese corporate earnings may start to slow if the impact from Trump tariffs are greater than expected. However, we still see positives in the recovery to domestic real wages and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE).

Valuations, such as forward PER, will likely become unstable as the impact of Trump tariffs are still unclear and this will cause market volatility to temporarily jump.

Tariff-induced drops in earnings have already been factored into share prices to a large extent but we expect strong demand for Japanese equity on the back of high levels of share buybacks and accommodative monetary policy in comparison to the US and Europe to support the market. However, until the impacts of Trump tariffs become clearer, investors will unlikely see improved expectations.

Economy & Financial Market Outlook: US

Economy

Expecting Instability

We expect instability in the US economy. While recent data is strong, there are concerns over how Trump tariffs and asset price fluctuations will impact inflation and consumption.

Core PCE inflation (excluding perishables and energy), was up 2.8% YoY in February (up 2.7% in January). The unemployment rate was 4.2% in March (February: 4.1%).

As well as a flat 10% tariff on all goods coming into the US, Donald Trump also announced he will be implementing different additional tariffs on a country basis depending on the tariffs those countries have in place as well as non-tariff trade barriers. We expect the impact of this to now begin to manifest. We will be watching for what who are burdened with the tariffs and how they will impact consumption and prices.

Bond Market

Rates Unstable in Near Term, Then Down

◆ Review

10-year US yields were largely unchanged in March. It was unclear where things would move in the beginning of the month as investors didn't know what to make of Trump tariffs. Interest rates saw downward pressure in the second half of the month as the Fed decided to slow the pace it is cutting treasury holdings. However, rates then rose to end the month level MoM given increased concerns of US stagflation following the tariff announcements.

◆ Outlook

We expect rates will be unstable over the short term and then turn downwards. We are seeing a wariness amongst investors concerning the economic slowdown and accelerated inflation Trump tariffs could bring. The Fed is likely to be cautious in deciding when to restart rate cuts as it will be also carefully watching the impact tariffs will have on the economy and prices. As such, we believe poor visibility will likely continue to surround the speed of rate cuts and rates will be unstable over the short term. Following this we believe rates will fall and have factored in rate cuts as we expect previous tightening to lead to a slow deceleration in the labour market and CPI to fall below 3.0%.

Stock Market

Instability Given Trump Policy Uncertainty

◆ Review

The US equity market fell in March given uncertainty over US tariff policy and the shift to a risk-off mood on the back of concerns over the US economy.

◆ Outlook

We expect the US equity market movements to be unstable.

We believe economic uncertainty will be up in the near term on the back of Trump tariffs and the possibility of retaliation from other countries. However, given that the risk of economic decline has likely already been factored into prices because of the sudden shift to risk-avoidance tactics and that there will likely be a rebound on expectations for negotiations and monetary policy, the market should remain unstable.

Currency Market

Gentle USD Depreciation vs. JPY

◆ Review

USD ended March relatively unchanged versus JPY. USD continued to weaken vs JPY in the first half of the month on the back of comments from Trump that Japan pursues a weak yen policy and expectations of wage increase in Japan following spring wage negotiations.

◆ Outlook

We expect USD to depreciate versus JPY at a gentle pace.

Depreciation will result from the Fed looking to cut rates again on the back of concerns over an economic slowdown in the US and the BoJ continuing to move away from accommodative monetary policy. However, USD depreciation will likely be gentle given that both the Fed and the BoJ will be cautious in their management of monetary policy while they observe the impacts of Trump's trade policy.

Economy & Financial Market Outlook: Europe

Economy

Expect Instability

The European economy will likely move in an unstable fashion as while we expect support from fiscal policy across multiple countries following recent stagnation, we are also concerned of the impact of trade frictions with the US.

The region's core CPI (excluding volatile perishables and energy) recorded positive growth of 2.4% (YoY) in March (February: 2.6%).

European Commission Chair Ursula von der Leyen has offered a zero-for-zero tariff deal on all industrial goods to the US, but also noted that she is considering counter measures in the event negotiations fail. We will be watching for what actions the EU takes as we get closer to Trump proposed tariffs taking effect.

Bond Market

Rates to Remain High

◆ Review

German 10-year yields rose (prices fell) in March as concerns mounted over an increase in debt issuance and expectations rose for economic support following the German government's decision to revise its debt-brake policy to expand fiscal spending.

◆ Outlook

We expect interest rates will likely remain high as concern will remain over Europe relaxing fiscal rules to expand defense spending, monetary policy is becoming less tight and the ECB has signaled the potential for a halt to rate cuts.

Stock Market

Sensitivity on Uncertainty Over Tariffs

◆ Review

The European equity market fell in March on concerns over an intensified trade war with the US following Trump's announcement of tariffs,

◆ Outlook

We expect the market to be volatile.

As while there are expectations for the market to benefit from increased fiscal spending from Germany, investors will be watching to see the impact Trump tariffs have on corporate earnings and the global economy.

Currency Market

EUR to Maintain Level vs JPY

◆ Review

EUR appreciated versus JPY in March as European interest rates rose significantly on an increase in debt issuance and expectations rose for economic support following the German government's decision to revise its debt-brake policy to expand fiscal spending.

◆ Outlook

We expect there to be upward pressure on JPY as the BoJ continues to move away from accommodative monetary policy. However, we also expect to see upward pressure on EUR as interest rates will likely stay high and there will be economic support on the back of an expansion in fiscal spending. As such, we believe there will be little change between EUR and JPY.

Economy & Financial Market Outlook: Emerging Market

Economy

Concern of China Foreign Demand Dip

We are seeing signs that some areas of the Chinese economy are beginning to bottom out despite continued low fixed asset (real estate) investment and total social financing spending and smartphone sales, etc. are growing at a strong pace on the back of monetary easing and subsidies. The Trump administration has put total tariffs of 54% on imports from China coming into the US. There are concerns this will lead to worsening of overseas demand and deterioration to the economy. However, we believe there is still the possibility these tariffs could be reduced if there is progress on the sale of video streaming app TikTok as the app looks to bargaining chip in talks.

While emerging economies are seeing inflationary pressure ease against a backdrop of overall firm domestic demand, Trump's tariffs will have a negative impact. We will be watching for the next movements of the US government.

Bond Market

Yields to Fall Gradually

◆ Review

Emerging market yields were roughly flat overall in March, with some countries seeing higher yields and some seeing lower. Yields rose in Turkey, where CPI figures overshot expectations, but fell in Mexico, where Trump delayed the implementation of tariffs.

◆ Outlook

We expect emerging country yields to slowly decrease. We think it will be very difficult for emerging economies to cut rates significantly given that they will try to protect their currencies against depreciation. All the while, expectations for rate cuts in the US are declining given its strong economy. However, we do expect emerging yields to fall slowly while the US makes gradual cuts as emerging nations are seeing reduced inflationary pressure.

Stock Market

Expecting Turbulence

◆ Review

Emerging market equities finished March largely unchanged MoM (local currency basis).

Emerging market share prices rose in the beginning of the month, led by Chinese stocks, as expectations grew for economic stimulus from the Chinese government following the release of real GDP target figures for 2025 being unchanged from 2024 figures. The market continued to rise in the middle of the month as stock-picking focused on consumer names in the Chinese market, following the central government instructing regional governments to implement plans to boost domestic demand, and the market was positive on India's February trade deficit coming in significantly lower than expected. However, the market then fell at the end of the month to finish March largely unchanged MoM as share prices declined on increased uncertainty over the global economy following tariff announcements from the US.

◆ Outlook

We expect turbulence in emerging market equities going forward. Trump has levied tariffs of over 20% on many developing countries. We expect concerns of decreased foreign demand negatively impacting the economy to increase over the short term. However, the market will likely be influenced by day-to-day news flow given the possibility of the US lowering tariffs through negotiations.

Currency Market

Upside Resistance Over Short Term, Then Up

◆ Review

Emerging market currencies appreciated versus JPY in March. European currencies like the Hungarian forint rose following the announcement that Germany will be relaxing fiscal discipline rules. The Brazilian real appreciated as the country's central bank hiked rates by 100 basis points. However, the Turkish lira depreciated as the market was negative on increased political risk after the arrest of President Recep Tayyip Edrogan's political rival.

◆ Outlook

We expect emerging market currencies as a whole to face upside resistance given concerns over Trump's trade policy. Over the longer term we expect emerging market currencies to appreciate as the US slowly cuts rates. Individual currency movements will be determined by fundamentals.

Risks and Expenses relating to Discretionary Investment Contracts

● Risks relating to Discretionary Investment Contracts

Under discretionary investment contracts, marketable securities such as global/domestic equities and fixed incomes are mainly invested. Market values of these assets are subject to change due to fluctuations in market price of assets, foreign exchange rates, and so on. Such investment may incur losses in the initial fiduciary assets, or may damage beyond the initial invested principal amounts.
The contents and characteristics of risks vary according to asset type, investment restrictions, traded markets, investee countries, and so on. Thus, before entering into a contract, prospective clients are requested to first confirm all relevant items of the "Documents prior to conclusion of contract.“

● Fees relating to discretionary investment contracts

［Clients bear the following expenses.］

■Fees applicable directly and/or indirectly during the period of a discretionary investment contract

An investment management fee will be applicable. The fee tables to be applied vary depending on the assets, the amount of contract, the contract details, and so on. Thus, the fee schedule and/or maximum fee amounts cannot be provided in advance. Prospective clients are therefore requested to confirm the relevant items by reading carefully the "Documents prior to conclusion of contract" .

■Other costs and expenses

There may be variable additional costs incurred. As the amount and/or the maximum amount of those "other costs and expenses" vary depending on investment circumstances, those cannot be specified beforehand.

*The total costs relating to discretionary investment contracts cannot also be specified beforehand as they vary according to contract periods

<Notes> The above risks and costs pertain to discretionary investment contracts in general. As the risks and costs entailed by discretionary investment contracts may vary by each contract, prospective clients are requested to read carefully all relevant items of the "Documents prior to conclusion of contract" in advance.

Risks and Expenses regarding Investment Trusts (Mutual Funds)

● Risks relating to Investment Trusts (Mutual Funds)

Investment Trusts mainly invest in marketable securities such as domestic and global equities and fixed incomes and those are subject to price fluctuations of markets, Thus, the unit prices of such funds may also fluctuate depending on changes in market price of such assets, and changes in foreign exchange rates in case of assets denominated in foreign currencies.
Fund prices are therefore exposed to the risk of fluctuations in price of marketable securities and/or foreign exchange rates, and so on. Accordingly, principal amounts invested by clients are not guaranteed.
As each investment trusts fund has its own target asset class, investment restrictions, traded markets and investee countries, and so on, the degree and characteristics of the risks entailed by each mutual fund vary. Prospective clients are therefore requested to read carefully the prospectus and the "Documents prior to conclusion of contract" of the relevant mutual funds.

● Fees and expenses relating to Mutual Funds

[Clients bear the following expenses.]

■Fees and expenses to be paid directly at the time of subscription (subscription fee): Maximum 3.85% (3.5% excluding tax)

■Fees and expenses to be paid directly at the time of redemption or selling (redemption fee): Maximum 0.5%

■Expenses to be paid indirectly during the holding period (management fees) : Maximum 2.09% (1.9% excluding tax)

■Other expenses: Additionally, the expenses according to the holding period of Investment Trusts are paid by clients. As the "Other expenses" items fluctuate according to the investment circumstance, the schedule and/or upper limit relating those expenses cannot be provided in advance. Prospective clients are therefore requested to confirm the relevant items by reading carefully the prospectus and the "Documents prior to conclusion of contract" of the relevant mutual fund.

As the total costs vary according to the holding period of each investor, it cannot be specified beforehand.

<NOTES> The above risks and costs pertain to investment trusts in general. The fee rates listed above are the highest among all investment trusts managed by SOMPO ASSET MANAGEMENT CO., LTD. As the risks and costs entailed by an investment trust may vary by each investment trust, prospective clients are requested to read carefully all relevant items of prospectus and the "Documents prior to conclusion of contract" in advance.

Other Important Notices

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