SOMPO

Economy & Financial Market Outlook

April 2026

Director of Kanto Local Finance Bureau (Financial instruments firm) No. 351
a member of the Japan Investment Advisors Association, and the Investment Trusts Association, Japan

as of April 14, 2026

Economy & Financial Market Outlook: Japan

Economy

Expecting Moderate Economic Recovery

We expect the Japanese economy will be supported by domestic demand factors like increased capital investments to tackle labour shortages. However, we believe the pace of economic growth will be slow as there are concerns that persistent inflation will put downward pressure on consumption.

Japan's core CPI (excluding perishables) was up 1.6% YoY in February (January: 2.0%). We believe core CPI growth will remain around 2.0% because while government support measures will cause fluctuations in prices in the short term, there will be a greater impact from JPY depreciation and resource prices.

We expect the BoJ will continue to scale back easy monetary policy. However, further rate hikes will likely proceed slowly because investor views of the global economy could easily grow more conservative, and the BoJ will take a cautious approach to monetary policy changes while it looks to review the impact of rate hikes on the economy.

Bond Market

Expecting Flat Yields

◆ Review

10-year JGB yields rose (prices fell) in March. Yields rose due to increased concerns over inflation, stemming from surging energy prices amid the conflict in the Middle East and the outlook for higher BOJ policy rates, driven by the weak JPY.

◆ Outlook

We believe interest rates will stay flat. Japanese interest rates will be subject to upward pressure as the BoJ will move away from easy monetary policy. However we expect rates to lack a clear sense of direction because rate hikes will likely be slow as there are concerns that credit deterioration and geopolitical instability will put downward pressure on the economy.

Stock Market

Seesaw Back and Forth

◆ Review

The Japanese equity market fell in March. Fears over global economic slowdown and increased uncertainty on the back of the heightened tensions in the Middle East weighed on the market.

◆ Outlook

We expect the market will seesaw back and forth. The situation in Iran is constantly evolving and it is difficult to foresee when the situation will calm down. We believe the market will be volatile as investors will be swayed by developments in the Middle East. We expect the market will gradually regain a sense of calm as long as it doesn't lead to further escalation of the conflict and a prolonged surge in energy prices.

Japanese companies may announce lackluster earnings guidance for FY2026 due to concerns over the situation in the Middle East. However, we believe corporate earnings will continue to rise as long as the conflict doesn't persist, given smaller negative impacts from Trump tariffs. We believe historically high valuations (forward P/E, etc) will be warranted, driven by strong corporate earnings, expectations for the Takaichi administration following the LDP's landslide victory in the lower house election and further improvement in corporate governance if the situation in the Middle East eases quickly. The market will be supported as there is strong equity demand from a high level of share buybacks and the BoJ has relatively accommodative monetary policy compared to the US and Europe.

Economy & Financial Market Outlook: US

Economy

Expecting Short-term Strength

While the US economy looks to have leveled out given the US is relatively less affected by the tensions in the Middle East, we believe it will continue to show strength as larger-than-usual tax refunds will support consumption.

Core PCE inflation (excluding perishables and energy), was up 3.0% YoY in February (up 3.1% in January). The unemployment rate was 4.3% in March (February: 4.4%).

There are concerns that inflation, which had been sticky, could accelerate again due to intensified tensions in the Middle East and the impact of trade tariffs. While the Fed looks to maintain easy monetary policy, it will continue to face a challenge to achieve two missions of maximum employment and price stability. We will be watching the pace of slowdown in the job market and stickiness of inflation.

Bond Market

Rates Expected to Hold Firm

◆ Review

10-year US yields rose (prices fell) in March. Yields rose on rising expected inflation caused by soaring energy prices and receded expectations for rate cuts by the Fed following the US-Israeli strikes on Iran. Fears over the prolonged conflict in the Middle East fueled strong bond selling and yields continued an upward trend.

◆ Outlook

We expect rates are unlikely to fall further .

The Fed will likely cautiously assess the risk of reignited inflation and the impact on the real economy to decide on the need for policy change while fears over the prolonged conflict in the Middle East put an upward pressure on energy prices. We believe rates will be unlikely to fall further as persistent uncertainty in the Middle East, coupled with elevated energy prices and supply constraints, will keep inflation concerns and dampen expectations for interest rate cuts.

Stock Market

Middle East Dictates Market

◆ Review

The US equity market declined significantly in March. The sell-off was driven by fears over private credit and stagflation stemming from soaring energy prices amid a deteriorating situation in the Middle East, and receded expectations for rate cuts by the Fed.

◆ Outlook

We expect market developments will be dictated by the situation in the Middle East for the time being. Given the US is a net energy exporter, we believe the adverse impact of disruptions to the crude oil supply chain will be limited. Corporate earnings will likely be solid as the real economy remains resilient, and we expect favorable policy effects ahead of the midterm elections. Meanwhile, if prolonged geopolitical uncertainty in the Middle East creates expectations for rate hikes, this could result in further valuation corrections. Therefore, we expect the market to remain influenced by developments in the Middle East.

Currency Market

Gentle USD Depreciation vs. JPY

◆ Review

USD appreciated versus JPY in March. Following the US-Israeli strikes on Iran, USD was bought as a safe-haven asset amid receded expectations for rate cuts by the Fed. Meanwhile, JPY was sold on rising crude oil prices as Japan is a resource-importing country. However, as the Japanese authorities continuously hinted at potential currency interventions, there was a limited fall in JPY, resulting in a moderate JPY depreciation against USD.

◆ Outlook

We expect USD to depreciate versus JPY at a gentle pace. We foresee USD depreciation versus JPY as the Fed will pause rate cuts and the BoJ is expected to retract its easy monetary policy. However, USD depreciation versus JPY 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 inflation stemming from the conflict in the Middle East and its impact on the real economy, and investors are conscious of the possibility of fiscal expansion under the Takaichi administration in Japan.

Economy & Financial Market Outlook: Europe

Economy

Expecting Weakness

We expect a slowdown in economic growth due to soaring energy prices while there is some support from expansionary fiscal policy.

The region's core CPI (excluding volatile perishables and energy) continued to slow to 2.3% (YoY) in March (February: 2.4%). Inflation remains sticky especially in service prices, still exceeding the ECB's target level. The ECB expressed strong concerns over a surge in energy prices and the resulting inflation at its March Governing Council meeting. The inflation data will continue to be the focal point for the ECB's policy decisions.

Bond Market

Rates to Remain High

◆ Review

German 10-year yields rose (prices fell) in March due to surging oil prices and rising expected inflation, and increased expectations for rate hikes by the ECB following the US-Israeli attacks on Iran. Fears over the prolonged conflict in the Middle East fueled bond selling and yields remained on an upward trend.

◆ Outlook

We expect interest rates will likely remain high as the ECB looks to decide on the need for policy change and rate hikes while observing the risks of reignited inflation and its resulting impact on the real economy. This is amidst a backdrop of upward pressure on energy prices triggered by fears over the prolonged tensions in the Middle East. Amid continued uncertainty in the Middle East, interest rates will likely remain high as fears over rising inflation and expectations for rate hikes will persist on the back of higher energy prices and energy supply constraints.

Stock Market

Seek Bottom amid Middle East Tension

◆ Review

The European equity market rose in March. However, investors became more risk averse amid fears over stagflation stemming from the rapidly deteriorating situation in the Middle East.

◆ Outlook

We expect the market will seek a bottom due to the worsening situation in the Middle East. The market expects that instability in the region will persist and rising energy prices are more likely to weigh on corporate earnings. Meanwhile, the ECB and BOE are concerned over risks of inflationary pressure stemming from surging oil prices, which increases expectations for policy rate hikes. Under such circumstances, we expect the market to seek a bottom due to fears over deteriorating earnings and rising interest rates.

Currency Market

EUR to Remain Level vs JPY

◆ Review

EUR depreciated slightly versus JPY in March. EUR and JPY were sold on the back of safe-haven buying of USD following the US-Israeli strikes against Iran. While heightened expectations for rate hikes by the ECB supported EUR, fears over currency intervention helped prevent a fall in JPY, resulting in no clear direction between EUR and JPY.

◆ 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 support for EUR due to mounting expectations for ECB rate hikes amid fears over inflation stemming from the conflict in the Middle East. As such, we believe there will be little change between EUR and JPY.

Economy & Financial Market Outlook: Emerging Market

Economy

China: Energy Resilience
EM: Watch Geopolitical Risks & US Tariffs

China appears to possess a relatively high degree of energy resilience compared to other Asian countries. Crude oil constitutes less than 20% of its primary energy consumption, which is roughly 60% of the global average (over 30%). In addition, a significantly lower proportion (around 40%) of its crude oil imports transits the Strait of Hormuz among Asian countries. However, we see mixed economic data such as manufacturing PMI and retail sales. Supply chain disruptions, stemming from closures of the Strait of Hormuz, are negatively impacting some sectors like petrochemicals. This suggests that concerns over an economic slowdown will likely persist for the time being.

We believe the strong USD, driven by increased geopolitical risks and Trump's tariffs will have a negative impact on emerging economies, despite their overall firm domestic demand.

Bond Market

Volatile amid Uncertainty in the Middle East

◆ Review

Emerging market yields rose in March. Yields rose in Turkiye, where a rise in energy prices and currency depreciation increased concerns over inflation.

◆ Outlook

We expect emerging country yields to be volatile for the time being. When investors become increasingly risk averse due to uncertainty in the Middle East, they may withdraw capital from emerging market bonds. Elevated energy prices and a stronger USD caused by the prolonged conflict will put upward pressure on yields, particularly in resource-importing countries.

Stock Market

Expecting Volatile Markets

◆ Review

Emerging market equities (local currency basis) fell in March. Early in the month, investors became very risk averse and particularly stocks in AI-related and semiconductor sectors tumbled following the US-Israeli air strikes on Iran and subsequent Iran's retaliatory attacks on Middle Eastern countries and move to block the Strait of Hormuz. In the middle of the month, there was a temporary rebound as the market reacted positively to news reports of South Korean semiconductor and automotive companies collaborating with a major U.S. tech giant. However, the market seesawed back and forth on the back of fears over the persistent conflict in the Middle East. Toward the end of the month, while the market continued to be swayed by the media reports of the situation in Iran, the emerging markets showed a weak performance on concerns over crude oil supply chain disruptions and ended the month in negative territory.

◆ Outlook

We expect the market to be volatile for the time being due to fears over prolonged conflict in the Middle East. However, once the Middle East situation gains a sense of calm, we expect the market to look to recover, led by semiconductor stocks as they show very strong earnings on the back of robust AI investment demand and soaring memory prices.

Currency Market

Upside Resistance, Mixed by Fundamentals

◆ Review

Emerging market currencies depreciated versus JPY in March as investors became more risk-averse because of the deteriorating situation in Iran and fears over the prolonged conflict. South African rand and Chilean peso declined sharply as the market reacted negatively to worsening terms of trade stemming from a rise in crude oil prices and a decline of gold and copper prices.

◆ Outlook

We expect emerging market currencies as a whole to face upside resistance given uncertainty in the Middle East and concerns over the impact of high US tariffs on their economies. Individual currency movements will be determined by fundamentals.
If resource prices continue to rise driven by the prolonged conflict, we expect resource-exporting currencies to strengthen, while resource-importing currencies face selling pressure.

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.

［Important Notice ］

This material is being made available to you by SOMPO ASSET MANAGEMENT CO., LTD, "Sompo AM". You are not permitted to copy this material or pass it to anyone else. This material does not constitute an offer to sell securities in any jurisdiction. This material is not, and must not be treated as, investment advice or investment recommendations. Before making any investment decision, you should seek independent investment, legal, tax, accounting or other professional advice as appropriate, none of which is offered to you by Sompo AM. No investment service will be provided in or into any jurisdiction except to the extent permitted by local law. Sompo AM makes no representation or warranty, express or implied, except as required by law or in the case of fraud, regarding the accuracy, completeness or adequacy of the information in this material. Past performance is not a guarantee of future results.

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

This document has been compiled by Sompo Asset Management Co., Ltd for the purpose of information provision.

This document has been created based on information that Sompo Asset Management Co., Ltd believes to be reliable, although the firm does not guarantee the accuracy or completeness of such information. The contents, opinions, and forecasts expressed in this report may at any time be changed or withdrawn without prior notice.

Performance data used in this report reflects past performance and is not a guarantee or indicator of future results.

This document does not constitute a legal disclosure document.

Disclaimer (GIPS)
“SOMPO ASSET MANAGEMENT CO., LTD. claims compliance with the Global Investment Performance Standards(GIPS®). SOMPO ASSET MANAGEMENT CO., LTD. has been independently verified for the periods 1 April 2012 through 31 March 2023. We have defined its investment advisory business and investment trust business as the "Firm" and claimed compliance with the GIPS®. A complete list of composite descriptions and policy of portfolio evaluation, performance calculation, and compliant presentation development are available upon request.”

Contact information: SOMPO ASSET MANAGEMENT CO., LTD
Investment Advisory Marketing Department
03-5290-3422

Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of an specific composite presentation.