SOMPO



Economy & Financial Market Outlook

October 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

Economy & Financial Market Outlook: Japan

Economy

Expecting Moderate Economic Recovery

We expect the Japanese economy will be supported by government economic measures and corporate capital expenditure. However, we believe the pace of economic growth will remain slow due to concerns that persistent inflation will put downward pressure on consumption.

Japan's core CPI (excluding perishables) rose 1.7% YoY in August (July:1.8%). We believe core CPI growth will hover in the high-2% range. While the effects of government support measures to combat inflation diminish, there will be a greater impact from JPY depreciation and rising resource prices.

We expect the BoJ will continue to hike its policy rate as it is becoming more vigilant about upside inflation risks driven by rising energy prices and JPY depreciation.

Bond Market

Upward Yield Trend on Expected Rate Hikes

◆ Review

10-year JGB yields rose (prices fell) in September due to growing expectations that the BoJ will accelerate the pace of policy rate hikes, alongside a significant increase in overseas interest rates.

◆ Outlook

We believe interest rates will trend upward. Real interest rates are likely to increase due to tightening market liquidity driven by growth in bank lending and the government's expansionary fiscal stance. Japanese interest rates will face upward pressure as the BoJ remains vigilant against upside inflation risks driven by JPY weakness and continues to hike its policy rate.

Stock Market

Expecting to Remain Firm

◆ Review

The Japanese equity market fell slightly in September. Rising long-term rates and tensions in the Middle East weighed on the market.

◆ Outlook

We expect the market to remain firm. Valuations (forward P/E) already reflect market expectations to a considerable extent and suggest limited upside potential. FY26 earnings forecasts will likely be less impacted by rising energy costs driven by tensions in the Middle East than initially expected. The market will be supported by solid earnings, with improvements expected across a broad range of sectors beyond AI and semiconductors. We believe there is significant room for a re-rating of non-AI related stocks, while AI-related stocks have already priced in considerably high expectations. We should remain vigilant about a potential market correction, given that the recent rise in long-term rates could put downward pressure on valuations. That said, we do not expect a large market correction as there is strong equity demand from a high level of share buybacks and the BoJ has a relatively accommodative monetary policy compared to the US and Europe.

■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 ■This document is not an invitation or solicitation to buy the products shown therein, nor does it guarantee an investor's ability to enter into a contract with Sompo Asset Management Co., Ltd.

Economy & Financial Market Outlook: US

Economy

Expecting Short-term Stable Growth

The US economy remains resilient given its relatively limited exposure to tensions in the Middle East. We believe it will continue to show moderate growth as capex demand, driven primarily by the communications sector, will support the economy, although the drag from high gasoline prices on real income and deteriorating consumer confidence could weigh on consumer spending.

While the pace of disinflation has plateaued, the labor market is showing an easing of supply-demand conditions. Core PCE inflation (excluding food and energy) was up 3.0% YoY in August (up 3.0% in July). The unemployment rate was 4.2% in September (August: 4.1%), indicating overheating in the labor market is steadily subsiding. The Fed decided to raise the policy rate at the September FOMC meeting and signaled that it would maintain the policy rate at a higher level. This increased market expectations for additional rate hikes. However, the absence of overheating in the labor market suggests the Fed will adopt a cautious approach to policy management while monitoring the pace of disinflation.

Bond Market

Expecting Interest Rates to Remain High

◆ Review

10-year US yields rose (prices fell) in September. In the first half of the month, yields rose due to inflation concerns driven by geopolitical escalation in the Middle East and higher crude oil prices. Interest rates faced upward pressure following the rate hike decision at the September FOMC meeting, coupled with Fed Chair Warsh's press conference and the dot plot, both of which were interpreted as hawkish.

◆ Outlook

We expect rates to remain high. Expectations for additional rate hikes will likely continue due to elevated energy prices amid ongoing uncertainty in the Middle East and inflation concerns. Furthermore, increased funding demand for AI investments will put upward pressure on real rates.

Stock Market

Range Bound at High Levels

◆ Review

The US equity market declined in September. The US 10-year yield temporarily surged to 5.3%, driven by concerns over US fiscal health and crude oil prices briefly breaking above $100 per barrel. As the overall market shifted into a risk-off mood, investors sought refuge in select large-cap AI stocks, which remained relatively unaffected by rising interest rates and high oil prices.

◆ Outlook

We expect the market to remain range-bound at high levels. While the US economy and corporate earnings remain resilient, expectations of additional rate hikes are keeping interest rates high, which will continue to pressure valuations. Fears over credit risks arising from prolonged high interest rates also persist. As a result, the recent trend of market breadth expanding to wider sectors will pause. Instead, capital is highly likely to flow back into large-cap AI stocks due to their strong resilience to high interest rates, leading to a range-bound market at elevated levels.

Currency Market

Expecting a Lack of Clear Direction

◆ Review

USD depreciated versus JPY in September. JPY strengthened early in the month following comments from US Treasury Secretary Bessent cautioning against Japan's reflationary policies, alongside growing expectations for rate hikes by the BoJ. Although JPY temporarily weakened after the market perceived September's FOMC meeting as hawkish, JPY strengthened versus USD across the month.

◆ Outlook

We expect USD/JPY to lack clear direction. While Japan's expanding trade deficit and the Takaichi administration's expansionary fiscal policy will exert downward pressure on JPY, upward pressure on USD should stall due to JPY-supportive factors, such as waning confidence in USD over growing US debt concerns and expectations of an accelerated pace of BoJ rate hikes. Furthermore, because rapid JPY depreciation is likely to raise vigilance over potential joint intervention by Japanese and US authorities, USD/JPY will show no clear trend.

■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 ■This document is not an invitation or solicitation to buy the products shown therein, nor does it guarantee an investor's ability to enter into a contract with Sompo Asset Management Co., Ltd.

Economy & Financial Market Outlook: Europe

Economy

Expecting Moderate Growth

The European real economy will still take some time to recover due to political uncertainty in France, despite some economic support from expansionary fiscal policies.

The region's core CPI (excluding volatile food and energy) grew 2.5% (YoY) in September (August: 2.4%), indicating rising energy prices and signs of re-acceleration in services prices. While second-round effects remain unclear, inflation continues to hover above the ECB's target. We need to pay close attention to developments in prices.

Against this backdrop, the ECB decided to raise interest rates at its September Governing Council meeting. Given that the ECB revised both economic growth and inflation forecasts upward, we expect it will maintain its policy stance with a focus on inflation upside risks, while aiming to support the underlying resilience of the economy.

Bond Market

Expecting Rates to Remain Elevated

◆ Review

German 10-year yields rose (prices fell) in September. In the first half of the month, yields moved higher driven by heightened inflation concerns, stemming from crude oil prices amid escalating tensions in the Middle East. Yields continued to rise toward the end of the month, supported by the ECB's decision to hike rates at its September meeting and a rise in US Treasury yields.

◆ Outlook

We expect interest rates to remain high. Amid rising energy prices such as natural gas, expectations for further ECB rate hikes are likely to persist due to inflation concerns. Anticipated fiscal expansion, driven by increased NATO-related defense spending, will likely put upward pressure on rates.

Stock Market

Remain Resilient Despite Volatility

◆ Review

The European equity market fell in September due to risk-off sentiment. Rising energy prices driven by escalating tensions in the Middle East reignited inflation concerns, pushing global bond yields up. Fiscal anxieties in France triggered a sharp widening of bond yield spread between Germany and France.

◆ Outlook

We foresee a firm market, although the market may experience volatility. Amid persistent uncertainty in the Middle East and France, as cost increases from high energy prices and a rise in interest rates begin to materialize, major European companies face downward revisions to their earnings growth forecasts. Meanwhile, the valuation of European equities looks undervalued relative to other global markets such as the US. Hence, we expect global capital inflows into European equities will support the market.

Currency Market

Expecting a Lack of Clear Direction

◆ Review

EUR depreciated versus JPY in September. Although the ECB decided to hike rates at its September Governing Council meeting, JPY was bought due to remarks early in the month by US Treasury Secretary Bessent, which warned against Japan's reflationary policies, as well as growing expectations for rate hikes by the BoJ.

◆ Outlook

We expect EUR's appreciation versus JPY to take a breather. While expectations of ECB rate hikes, Japan's widening trade deficit, and the Takaichi administration's expansionary fiscal stance continue to put upward pressure on EUR versus JPY, growing expectations that the BoJ may accelerate its pace of rate hikes, as well as heightened political risk and fiscal concerns in France will limit the upside for EUR. We foresee that the market will lack clear direction, given the likelihood of currency intervention by Japan and the US if JPY weakens rapidly.

■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 ■This document is not an invitation or solicitation to buy the products shown therein, nor does it guarantee an investor's ability to enter into a contract with Sompo Asset Management Co., Ltd.

Economy & Financial Market Outlook: Emerging Market

Economy

China: Economic Slowdown to Persist
EM: Watch US Monetary Policy & Tariffs

In China, the situation remains unchanged: the negative wealth effect stemming from the housing market downturn continues to drag on consumption and investment growth. A sharp decline in land auction revenues has severely strained local government finances, prompting the government to begin fully enforcing income tax collection on the offshore earnings of wealthy individuals to shore up fiscal revenues. It appears the Chinese government is effectively pursuing fiscal austerity, with policy priorities increasingly shifting toward tightened state control.

We believe that a strong USD, driven by heightened expectations for US rate hikes, and Trump's tariffs will negatively impact emerging economies, despite their overall firm domestic demand.

Bond Market

Volatility Ahead on Risk Aversion

◆ Review

Emerging market yields rose in September, driven by rising US interest rates. Amid growing uncertainty over the Middle East situation, yields rose in Turkey, a net energy importer, as inflation concerns intensified.

◆ Outlook

We expect emerging market yields to be volatile in the near term. We anticipate capital outflows from emerging market bonds during periods of heightened risk aversion, triggered by concerns over the prolonged situation in the Middle East and the sustainability of AI investments. A stronger USD, driven by expectations of US rate hikes, could push up inflation expectations in emerging economies through the depreciation of local currencies.

Stock Market

Mixed Trends by Countries & Sectors

◆ Review

Emerging market equities (on a local currency basis) posted modest declines in September, though performance varied across countries and regions. The 10-year US yield surged to an intraday high of 5.3%, lifting the U.S. Dollar Index (DXY) to a one-year peak, driven by crude oil prices briefly topping $100 per barrel and heightened concerns over the deteriorating US fiscal situation. China and Southeast Asian equities trended lower amid persistent caution over capital outflows. In South Korea and Taiwan, equities rose, supported by buying interest in large-cap AI stocks as safe-haven assets given their limited sensitivity to rising yields and energy prices.

◆ Outlook

We expect market performance to remain mixed across countries and sectors. While upward earnings revisions are expected to continue in AI-related names, stock performance in select AI names has outpaced underlying earnings. We foresee greater dispersion among individual stocks depending on how thoroughly earnings growth and current valuations have already been priced in. Lingering concerns over capital outflows triggered by dollar strength are likely to weigh on sentiment in non-AI stocks in countries and regions sensitive to US interest rate trends and cross-border fund flows, such as China (Hong Kong) and Indonesia.

Currency Market

Upside Resistance, Mixed by Fundamentals

◆ Review

Emerging market currencies depreciated versus JPY in September, weighed on by a stronger USD. JPY appreciated on the back of rising expectations for BoJ rate hikes, putting downward pressure on emerging currencies versus the JPY. Against a backdrop of mounting risk aversion, the unwinding of currency carry trades drove declines across high-yielding currencies such as the Mexican peso and the South African rand.

◆ Outlook

We expect emerging market currencies as a whole to face upside resistance given increased expectations of US rate hikes. Individual currency movements will be determined by fundamentals.

■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 ■This document is not an invitation or solicitation to buy the products shown therein, nor does it guarantee an investor's ability to enter into a contract with Sompo Asset Management Co., Ltd.

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 2025. 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.