

Japan Event Flash

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Mitsubishi UFJ Trust and Banking
Corporation

A member of MUFG, a global financial group

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Corporate earnings for FY2025 were solid - corporate earnings for FY2026 are expected to ultimately post double-digit growth

As of May 15, 2026, 99.3% of the companies included in the TOPIX (1,202 companies with fiscal years ending in February or March) had announced their FY2025 results. In terms of recurring profit, the year-on-year growth rate for FY2025 was +11.5% overall, +0.9% in the manufacturing sector, and +18.6% in the non-manufacturing sector, with many companies exceeding their prior full-year forecasts. Although some sectors, such as the automotive industry, were negatively impacted by Trump tariffs, the results were generally solid overall. Furthermore, Japan's real GDP growth rate for the January–March 2026 quarter was +2.1% on an annualized basis compared to the previous quarter, exceeding market expectations (+1.7%) and marking the second consecutive quarter of positive growth—a robust result. Currently, Japan's fundamentals can be assessed as solid. On the other hand, full-year corporate earnings forecasts for FY2026 varied by industry.

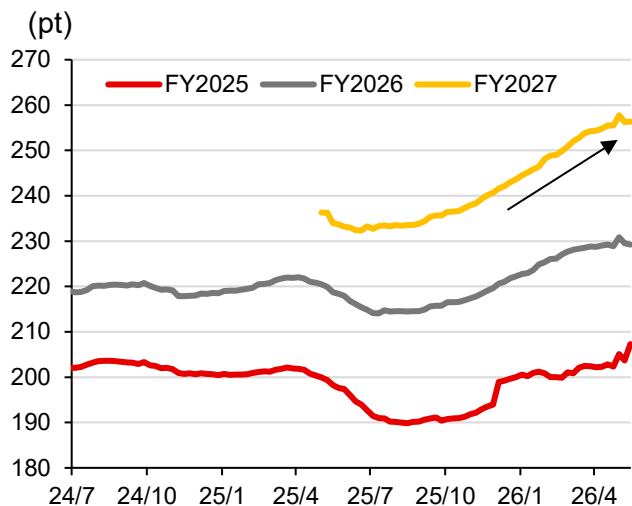
The number of companies whose full-year FY2026 corporate earnings forecasts (based on recurring profit) exceeded their consensus estimates was 385, while 669 companies fell short, and 114 companies did not announce their earnings forecasts (disclosure rate: 90%). Due to the ongoing instability in the Middle East, corporate guidance was generally conservative. The projected year-on-year profit growth rate for FY2026 was ▲0.4% overall, +6.6% for the manufacturing sector, and ▲10.3% for the non-manufacturing sector.

Regarding the impact of the Middle East situation, which had been a source of concern, the extent to which this was reflected in company forecasts varied by firm. While guidance from the electrical equipment and banking sectors was robust, sectors heavily impacted by rising crude oil prices due to the deteriorating situation in the Middle East—such as automotive, electricity and gas, and transportation and logistics—provided conservative guidance. If the situation in the Middle East stabilizes, we expect a series of upward revisions to future earnings forecasts. Furthermore, since companies' assumed average USD/JPY for FY2026 is 151.5 yen—which implies a stronger yen compared to the current level of around 159 yen—we believe future earnings forecasts are likely to be revised upward. Against the backdrop of entrenched domestic inflation making it easier for companies to raise prices, and driven by the medium- to long-term growth story of AI-related sectors, the TOPIX EPS (LSEG consensus forecast) is expected to see double-digit growth in both FY2026 and FY2027 (Exhibit 1).

Although Japanese stocks hit record highs in FY2026, the number of companies announcing share buybacks remained at a high level. The total value of share buybacks announced by TOPIX-listed companies in April 2026 was 3.2 trillion yen, a slight decrease from 3.9 trillion yen in April 2025, but still remained at a high level compared to previous Aprils (Exhibit 2). Although uncertainty surrounding the situation in the Middle East remains high,

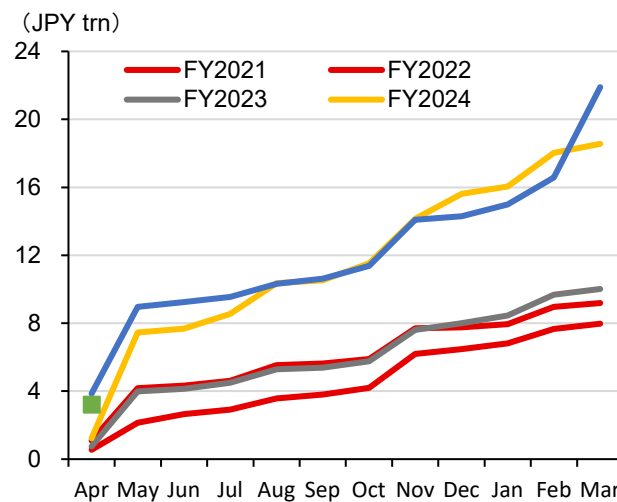
Japanese companies continue to strengthen shareholder returns and pursue efficient capital policies against the backdrop of corporate governance reforms. With the Financial Services Agency, the Tokyo Stock Exchange, and investors placing greater emphasis on the effective use of cash on hand, and with companies themselves recognizing the importance of improving capital efficiency through metrics such as ROE and ROIC, Japanese companies' commitment to shareholder returns is likely to strengthen further through FY2026.

Exhibit 1: TOPIX EPS Consensus Forecast



Source: LSEG, MUFG: Trust Bank

Exhibit 2: Quotas of Share Buybacks



Note: Quotas of share buybacks are based on companies listed on the first section of the Tokyo Stock Exchange.

Source: I-N Information Systems data, MUFG: Trust Bank

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