NOMURA
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Nomura Asset Management

Investment Outlook

Winter 2025

NOMURA ASSET MANAGEMENT

Winter 2025

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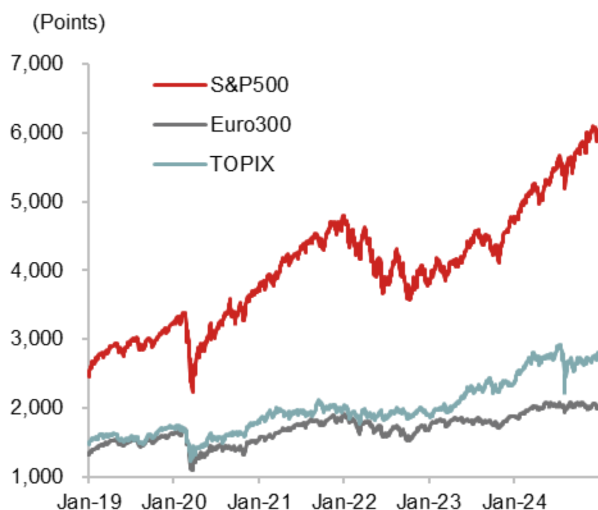
Note: In Nomura Asset Management (NAM) Investment Outlook Winter 2025, NAM's senior investment professionals offer their views of the investment strategy and market prospects – commentaries are as of middle to late December 2024, and reflect each professional's personal views, and do not entirely match NAM's house view, except for Investment Environment Outlook and Global Financial Market Forecast that are based on NAM's house view.

Quarterly Financial Market Recap

The financial market for the period of October to December 2024 was shaped by the policies of the new Trump administration following the US presidential and congressional elections on November 5, as well as by the pace of interest rate cuts by the Federal Reserve (the Fed). Given a Republican “red sweep” securing the presidency and majorities in both the House and Senate, long-term interest rates rose due to expectations for increased tariffs and fiscal expansion, and the US dollar appreciated in the currency market. The Federal Open Market Committee (FOMC) decided on three consecutive interest rate cuts, while also indicating a cautious stance regarding the pace of rate cuts in 2025, that led to further increases in long-term interest rates and a stronger US dollar leading up to the end of the quarter. Although there were moments of heightened volatility in the US equity market, share prices rose amid expectations of fiscal expansion and regulatory easing.

Major Equity Markets

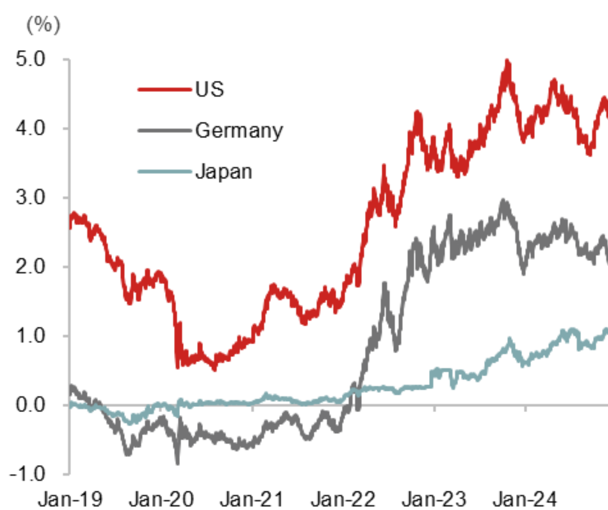
(January 2, 2019 - December 31, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

10 Year Bond Yields in Major Countries

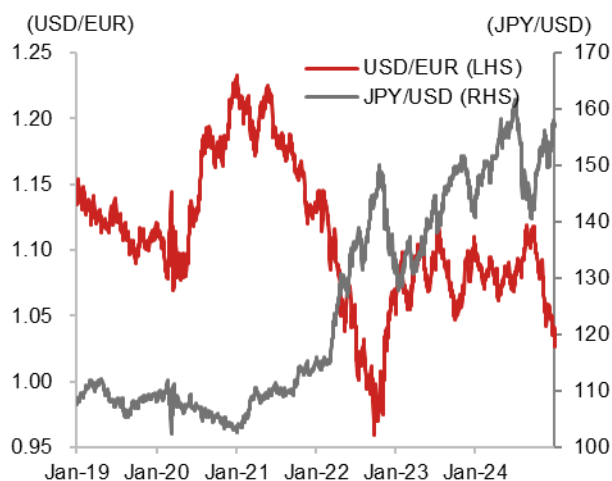
(January 2, 2019 - December 31, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

Yen and Euro against the US dollar

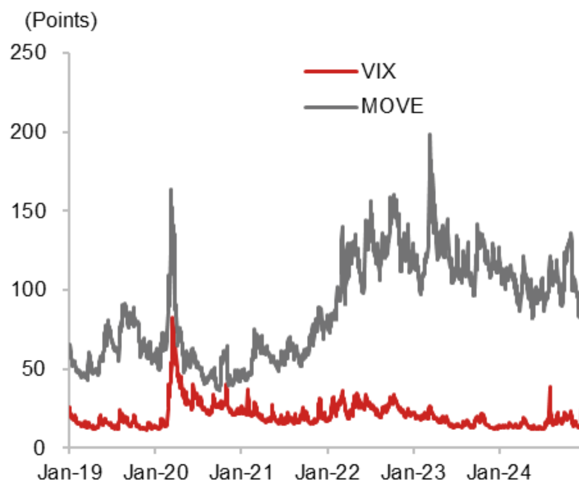
(January 2, 2019 - December 31, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

Trends in VIX and MOVE

(January 2, 2019 - December 31, 2024, daily)



Note: The VIX and the MOVE are indexes that show the risk of future volatilities of US stocks and US bonds, respectively.
Source: Nomura Asset Management based on Bloomberg data

Investment Environment Outlook

The new Trump Administration's policies may create volatility in the economy, prices, and financial markets

Rumi Kurumizawa
Chief Economist

Yuichi Murao
Chief Investment Officer,
Senior Corporate
Management Director

Investment Environment in 2025: Depended on the policies of the new Trump Administration

A Republican “red sweep” in the US presidential and congressional elections on November 5, 2024, left the party holding the presidency and majorities in both the House and Senate. The incoming Trump administration is therefore expected to have a significant influence on the investment environment in 2025. Despite considerable uncertainty as to when and to what extent President-elect Trump's policies will be implemented, in updating our outlook for economic and financial markets, we have used the following assumptions: (1) the US will increase tariffs on imports from China, the European Union (EU), Japan, and other Asian countries starting in the second half of 2025, and will complete the imposition of an additional 10% tariff over approximately 1 year; (2) the US will decide on tax reforms, including the extension of tax cuts implemented under the Tax Cuts and Jobs Act (TCJA) by the end of 2025, and they will take effect in early 2026; and (3) the new administration will further strengthen controls on the inflow of undocumented migrants.

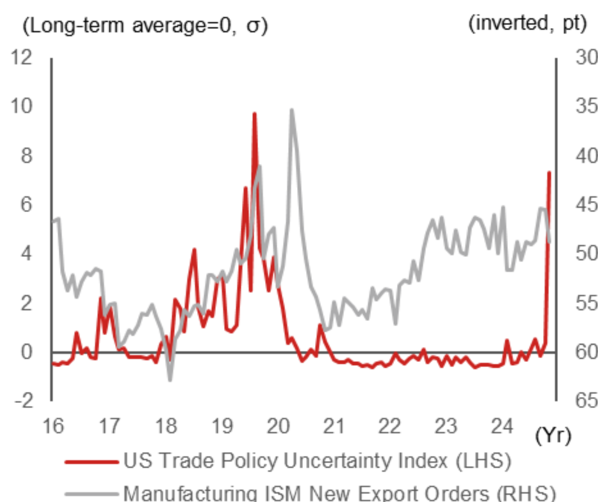
Based on these assumptions, the global economy in 2025 is likely to be influenced by considerable uncertainty around US trade policy.

Macroeconomic Outlook: Growth expected to decelerate after mid- 2025

Based on these assumptions, we believe there is some possibility of a temporary surge in "last-minute trade" activity in the first half of the year, due to incentives to build inventories ahead of tariff hikes in the US. However, from mid-year, we expect this to give way to a contraction in global trade volumes when higher tariffs are actually implemented. In the context of uncertainty surrounding trade policies, we can also expect companies to be cautious with their capital investments. In the US, the restrictions on immigration could impact both the supply and demand sides of the economy.

Meanwhile, China and other countries may be able to mitigate the impact of an economic downturn by implementing fiscal policies, but Europe faces a relatively difficult situation under the EU’s fiscal rules.

Figure 1. US Trade Policy Uncertainty Index and Manufacturing ISM
(Jan. 2016 to Nov. 2024, monthly)



Source: Prepared by Nomura Asset Management based on "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com and CEIC data.

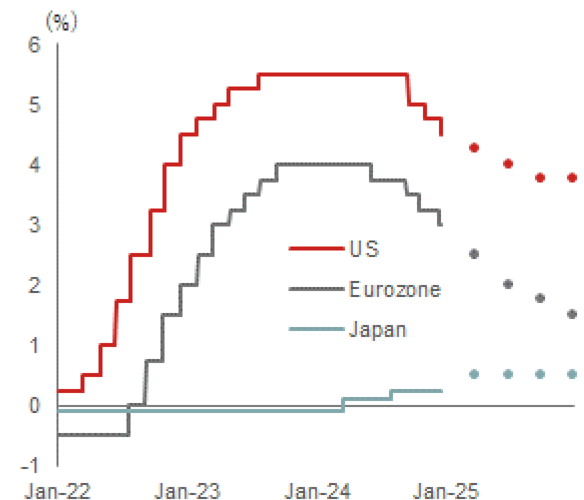
Monetary Policy Outlook: Japan likely to raise interest rates, while rate cuts continue in the US and Europe

With interest rates trends showing a continued adjustment towards neutral levels, we expect to see further rate cuts in the US accompanied by monetary tightening in Japan. Meanwhile, the Eurozone is likely to lower interest rates to the extent where monetary policy becomes accommodative against the backdrop of stagnation in real economic growth.

The US Federal Reserve Board (Fed) is likely to closely monitor the impact of tariff hikes on inflation and inflation expectations as concerns about a deteriorating labor market recede somewhat. In 2025, the pace of interest rate cuts is likely to slow, with quarterly cuts to the federal funds rate to 3.75% by September, followed by a pause.

The European Central Bank (ECB) is expected to cut interest rates at every meeting in 2025 for the time being, while the Bank of Japan (BOJ) is expected to raise interest rates again in January 2025.

Figure 2. Policy Interest Rates in Japan, the US, and Eurozone, and NAM Forecasts
(Actual values from Jan 3, 2022, to Dec 18, 2024, daily)



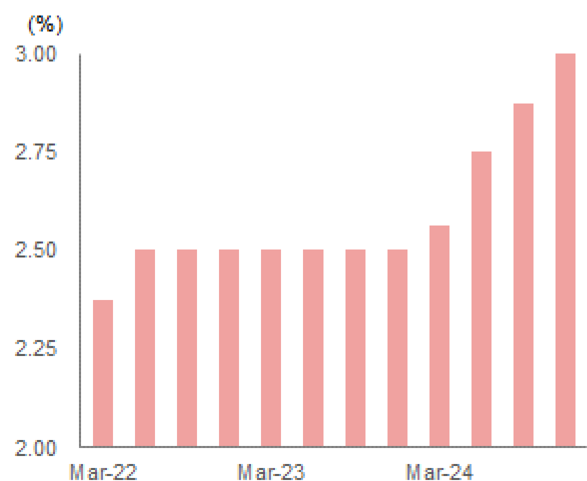
Note: Dots after Mar 2025 represent our forecasts as of the end of each quarter.
Source: Nomura Asset Management based on the Bloomberg data.

Interest Rate Outlook: We expect limited decline in US and Europe long-term interest rates

In Europe and the US, where central banks are lowering policy interest rates, long-term interest rates are likely to decline. However, the extent of the fall in government bond yields is likely to be limited if the Trump administration's policy is viewed as inflationary. There is currently a strong view that the US neutral rate is moving higher. Although the pace of interest rate cuts in the US and Europe is likely to diverge, the extent of the decline is unlikely to be large because German government bond yields also tend to follow US government bond yields.

Although an additional interest policy rate hike and a reduction in the BOJ's outstanding government bond holdings should cause Japan's long-term interest rates to rise, developments in global interest rates are also likely to exert downward pressure, and as a result, JGB yields are projected to remain around the 1% level.

Figure 3. Long-run Fed Funds Rate Outlook by FOMC Participants (Median)
(Mar. 2022 to Dec. 2024, quarterly)



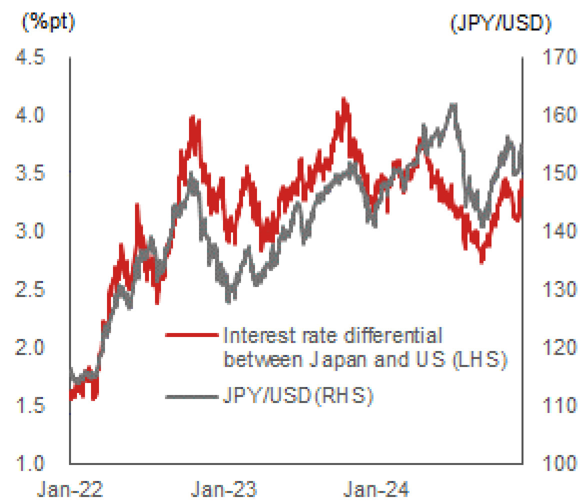
Source: Nomura Asset Management based on the Fed's data.

Currency Outlook: Euro expected to depreciate against US dollar toward the end of 2025

The Fed is expected to cut interest rates once a quarter until September 2025, and the appreciation of the US dollar against the euro is expected to moderate. However, as US tariff hikes come into view, pressure on the US dollar is likely to rise, and the euro is expected to depreciate against the US dollar toward the end of the year under our forecast that the ECB will cut interest rates to an accommodative level in the second half of 2025.

The yen is expected to strengthen slightly in line with the narrowing of the Japan-US interest rate differential. However, taking into account structural developments in fund flows and other factors, the yen is unlikely to appreciate significantly.

Figure 4. Japan-US interest rate differentials and yen/US dollar exchange rate
(Jan 3, 2022 to Dec 18, 2024, daily)



Note: The Japan-US interest rate differentials are calculated by subtracting the yield on Japanese 10 year bonds from the yield on US 10 year bonds.
Source: Nomura Asset Management based on the data from Bloomberg.

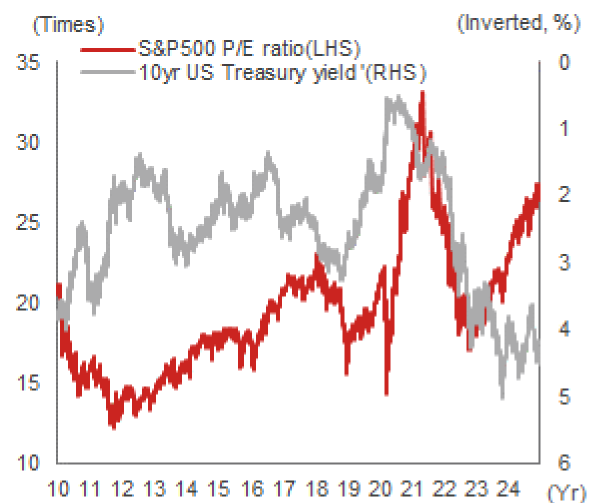
Equity Market Outlook: Expect smaller gains than in 2024

Economic growth in the US is expected to slow down in 2025, while any further gains in US stocks are expected to be somewhat smaller. In the first half of the year, the continuation of interest rate cuts by the Fed may help to support stock prices.

Financial markets are not yet pricing in any specific policies of the new Trump administration, and there is a risk that share prices could fluctuate in both directions as they seek greater clarity on the policy outcomes. Expectations for fiscal expansion could offset the negative impact on risk sentiment from the tariff hikes after mid- 2025.

The Japanese stock market is also expected to rise at a moderate pace towards the end 2025, although corporate profits might be negatively affected by moderate appreciation of the yen.

Figure 5. PER and Long Term Interest Rates in the US
(Jan. 1, 2010 to Dec. 18. 2024, daily)



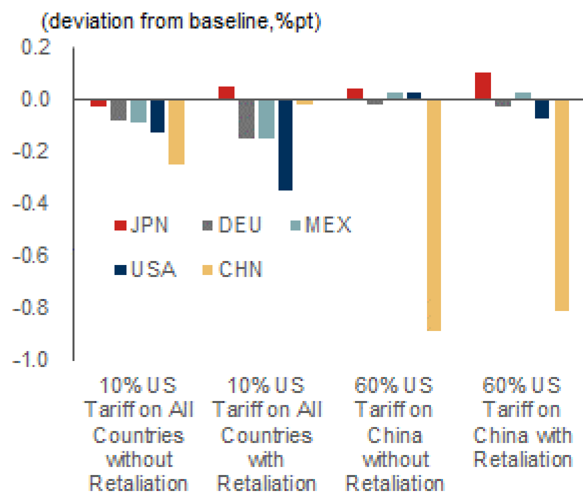
Source: Nomura Asset Management based on the data from Bloomberg.

Risk Scenario: The new Trump administration's tariff policy

President-elect Trump has referred to universal baseline tariffs of 10% to 20%, with additional tariffs on China of about 60%. There is still much uncertainty as to when and on what scale tariffs will be raised, and whether trade partners and regions will take retaliatory measures.

According to estimates by international organizations and think tanks, if additional tariffs are imposed broadly and thinly, then economic growth could be marginally depressed across a wide range of countries and regions. On the other hand, some estimates suggest that if the introduction of universal baseline tariffs is postponed despite a decision to substantially raise tariffs on China, then some countries and regions could substitute for trade between the US and China, which might even have a somewhat positive effect on economic growth.

Figure 6. Impact of US Tariff Increases on Real GDP (Estimate for 2025)



Source: Nomura Asset Management based on Policy Uncertainty.com data.

Risk Scenario: The new Trump administration's fiscal policy

President-elect Trump has advocated tax cuts, including the extension of the Tax Reform Act of 2017 (TCJA). According to the Committee on the Responsible Federal Budget (CRFB), the total fiscal expansion in 10 years is estimated to reach a cumulative figure of US $7.8 trillion.

On the other hand, the Department of Government Efficiency (DOGE), led by Elon Musk and others, is expected to pursue regulatory reform and spending cuts.

Our base case scenario assumes that about half of the estimated tax cuts will be realized, but both upside and downside risks are possible.

Figure 7. President-elect Trump's Tax and Fiscal Policies Cumulative Total from 2026 to 2035

Item	
Tax cuts and spending increases	10.40
Extend and modify the TCJA	5.35
Exempt overtime income from taxes	2.00
End taxation of social security benefits	1.30
Exempt tip income from taxes	0.30
Lower corporate tax rate for domestic manufactures	0.20
Others	1.25
Revenue increases and spending reductior	3.70
Establish a universal baseline tariff and additional tariffs	2.70
Reverse current energy/environment policies and expand production	0.70
Others	0.30
Net deficit impact	7.75

(Trillion USD)

Note: CRFB estimates (central scenario). The widening of the fiscal deficit is not the sum of tax cuts and spending increases and tax increases and spending reductions.
Source: Nomura Asset Management based on CRFB data

Japan Equity Market Outlook

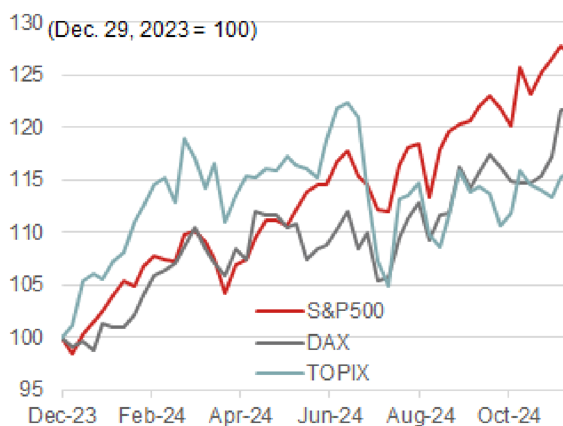
Expectations of continued challenging demands for corporate improvement could help to enliven Japan's equity market

Shintaro Harada
Chief Investment Officer
Active Japanese Equity

A look back at the 2024 stock market.

The Japanese equity market in 2024 turned out to be generally favorable. At the beginning of the year, Japanese equities took the lead, as foreign buyers focused on improving corporate behavior, but from the middle of the year, the market was in a range, and high volatility was conspicuous, with the Nikkei Stock Average falling by 4,451 yen on August 5. On the other hand, the U.S. market steadily rose to a new high, driven by Magnificent7, and was favorable, partly by expectations for Trump's fiscal policy. European stocks continued to be relatively inferior due to stagnant macro trends, but the recent slump in Japanese stocks has reversed the ranking of Japanese and European stocks.

Figure 1. Trends in US, German, and Japanese Equity Markets
(Dec. 29, 2023 to Dec. 13, 2024, weekly)



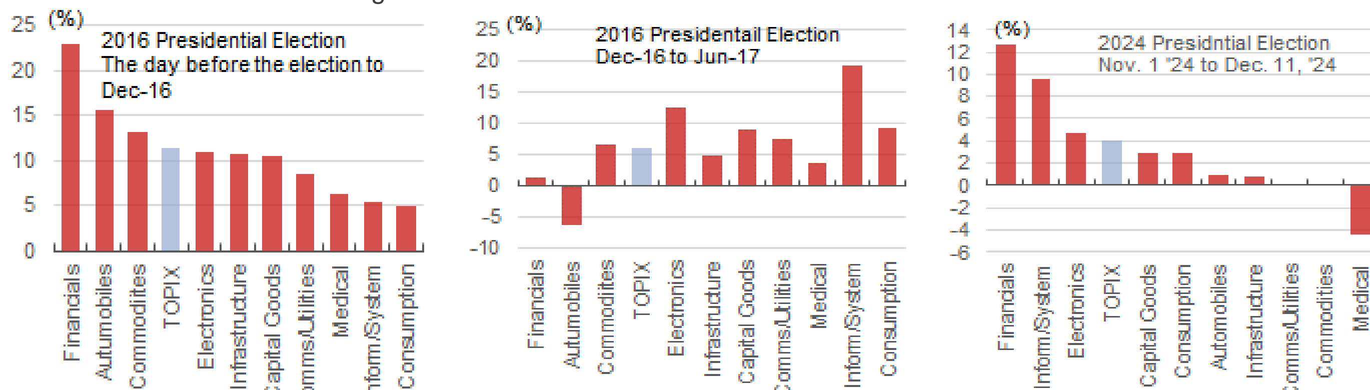
Source: Nomura Asset Management based on Bloomberg data

Trump rally once again.

The unexpected Republican Party "Red Sweep" the US elections has led to a resurgence of the Trump rally in Japanese stocks as well. As seen in the graph below, the financial sector has been the driving force, similar to the situation during the 2016 election when automotive, commodities, and other value sector stocks also performed well. However, this time, alongside expectations of interest rate hikes by the Bank of Japan, the financial sector has enjoyed a significant rally, while sectors below second place have show more variable performance for both domestic and external demand oriented sectors, leaving a lack of clear trends.

During the 2016 election, stock prices became quite imbalanced in a short period, and the backlash from that started to be felt after the new year. There is some risk that we may experience a similar phenomenon this time as well. However, the main difference from 2016/2017 is that we are currently in an inflationary trend. If Japan continues on its path towards stabilizing inflation and normalizing interest rates, there is a possibility that the aforementioned outlook could prove incorrect.

Figure 2. Sector Returns after the US Presidential Elections

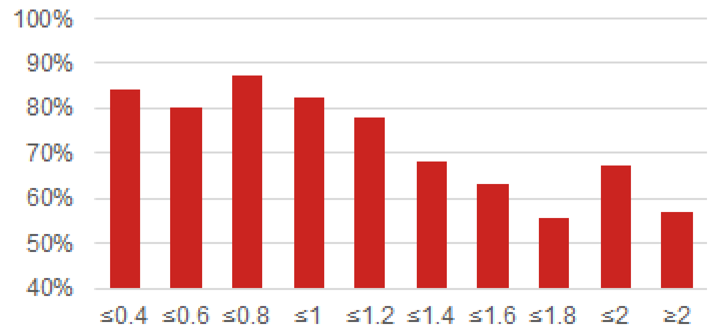


Source: Nomura Asset Management based on Nomura Securities data.

TSE Improvement Request 1.

As of the end of November, the percentage of companies disclosing responses to Tokyo Stock Exchange (TSE) improvement requests had risen to 89% (in the Prime Market), indicating a significant increase in corporate awareness regarding management and corporate governance improvements. This fiscal year, share buyback volume has nearly doubled compared to the year before, while corporate action has been more proactive than in the past. On the other hand, as the figure on the right shows, while companies with low PBRs (Price-to-Book Ratios) are exhibiting a higher level of awareness regarding governance and management issues and are making progress in their responses, it appears that high PBR companies are lagging behind in their responsiveness.

Figure 3. PBR-Based/TSE Disclosure Request Ratio
(As of Jul. 2024)



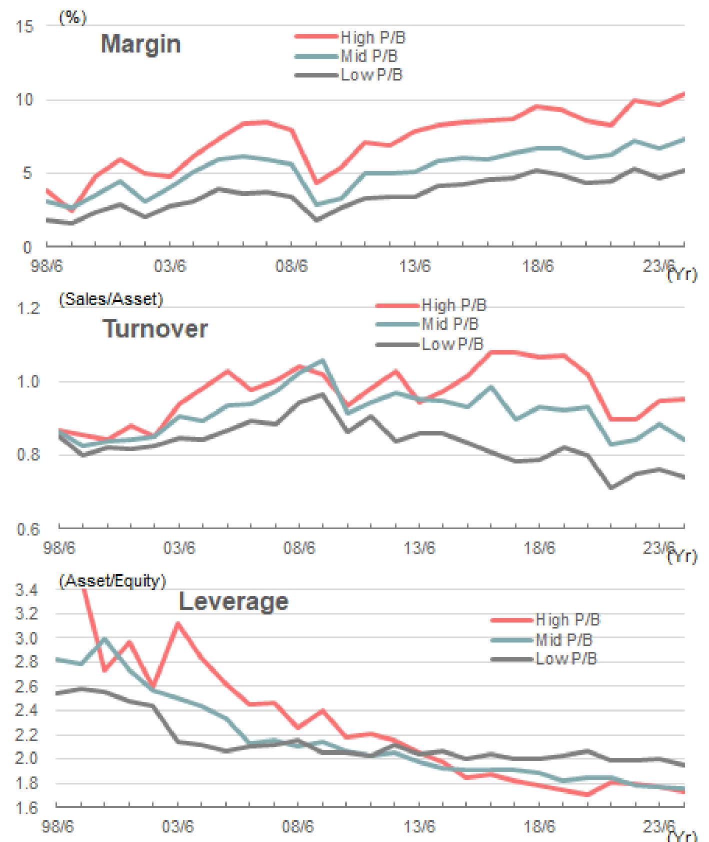
Source: Nomura Asset Management based Tokyo Stock Exchange data.

TSE Improvement Request 2.

The figure on the right shows the results of a DuPont analysis that breaks down ROE (Return on Equity) into profit margin, total asset turnover, and financial leverage for three groups based on PBR (Price-to-Book Ratio). Profit margins are at an all-time high, influenced by external factors such as a strong global economy and the effects of a weaker yen, but the efforts of individual companies to improve profitability may also be contributing to this success. On the other hand, total asset turnover appears to have plateaued, as the pace of asset expansion has accelerated faster than revenue growth. Regarding financial leverage, it can be said to reflect improved cash flow generation capabilities. However, the pace of equity capital accumulation has been rapid and shows a downward trend. While enhancing shareholder returns is certainly important, an appropriate balance sheet strategy is required.

Upon further examination of financial leverage, the group with low PBR has a relatively high leverage ratio, whereas the group with high PBR has the lowest. To improve the overall market's ROE, it is also essential for high PBR companies to establish appropriate financial strategies and to take concrete action.

Figure 4. TSE Listed Companies DuPont Analysis
(FY1997 to FY2023, annually)



Source: Nomura Asset Management based on the Factset data.

Japanese equity market outlook for 2025.

Since the Global Financial Crisis, the average PER (Price Earnings Ratio) of the TOPIX index has been approximately 14 times, rising to 16 times when optimism has been priced in, and dropping to 12 times when reflecting pessimism. During the significant decline in early August 2024, the PER temporarily fell from 16 times to 12 times, but it is currently around 14 times, which can be considered a reasonable valuation.

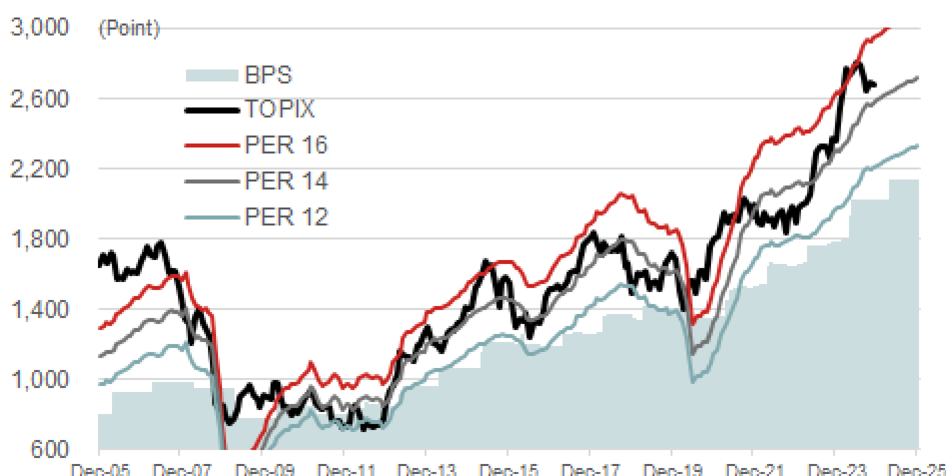
Having passed through the electoral events in Japan and the US and completed the mid-term earnings announcements, there are no longer any obvious catalysts that would significantly move the overall market valuation based on fundamentals. Of course, if US economic indicators significantly exceed expectations, leading to diminishing rate cut expectations or even fears of a sharp rise in long-term interest rates, there is a chance that yen depreciation could cultivate expanded earnings expectations primarily for export-related companies.

However, if this bullish scenario goes too far, it could lead to the US itself being constrained by inflation. Also, considering the risk of increased tariffs and the macroeconomic vulnerabilities in Europe and China, we inevitably have to be conscious of the bearish scenario, making it difficult for the stock market to establish a clear direction. Therefore, in 2025, the market is unlikely to see a significant increase in valuations, and we expect market growth to be in line with corporate earnings growth.

Regarding the previously mentioned TSE reforms, we are unlikely to see any major surprises next fiscal year that might materially affect shareholder returns. Instead, two more challenging themes are likely to gain prominence. The first is the market's expectations for companies that can implement business structural reforms and deliver results. The second is large-scale share buybacks by high ROE and cash-rich companies. Although neither of these may be realized immediately, further improvements over the long run would indicate that the market is not lacking news that might attract investors.

If we can bring about further transformation on the corporate side through initiatives such as rigorous engagement activities before the expected value diminishes, we believe the market’s relative attractiveness can also be restored.

Figure 5. TOPIX PER bands and BPS trends
(Dec. 2005 to Dec. 2025. Stock prices up to Nov. 2024, monthly)



Note: PER and BPS forecasts are based on our company's estimates. To make the graph easier to read, we have hidden part of the chart.
Source: Nomura Asset Management based on data from Bloomberg and Nomura Securities.

Global Equity Market Outlook

Takahiro Nakayama,
Senior Managing Director,
Chief Investment Officer,
Active Global Investments

Daisuke Urayama
Chief Portfolio Manager

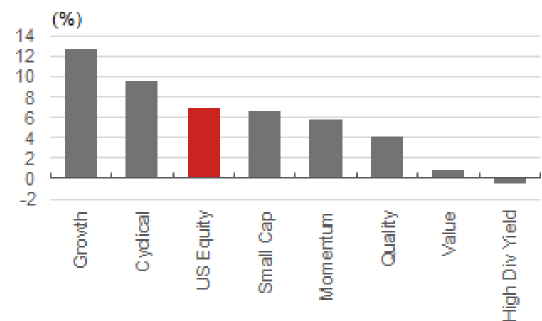
After the US presidential election, advanced equity markets reacted positively to Donald Trump's victory. The expansion of capital investment in the US will be the focus in the medium term.

The US presidential election ended with a resounding victory for Mr. Trump.

Donald Trump's resounding victory in the 2024 US presidential election clearly contradicted earlier expectations of a tight electoral race. With the Republican Party also securing majorities in both the Senate and the House of Representatives (commonly referred to the "red sweep"), we can expect an environment conducive to the realization of President-elect Trump's proposed policies. Specifically, there are expectations for corporate tax cuts, an extension of income tax reductions, deregulation, an increase in import tariffs, enforced deportation of undocumented migrants, and an expansion of energy production. These measures are projected to lead to increased capital investment and job creation within the US, as well as a rise in household purchasing power through lower energy costs and rising wages, suggesting a steady economic outlook for the US in 2025.

In this environment, the US stock market has shown a preference for growth stocks and cyclical stocks that are believed to benefit from these developments. This marks a somewhat different trend compared to the preference for small-cap and value stocks seen during the first Trump administration. However, while this shift in preferences could continue until the actual inauguration, some degree of reversal is also forecast thereafter. Since many of the Trump administration's policies may heighten inflationary concerns in the medium term, it will be important to monitor whether the disinflationary trends that currently underpin the robust stock market can be sustained going forward.

Figure 1. Style return after the US Presidential Election (Total Return)
(Nov. 4, '24 to Dec. 16, '24)

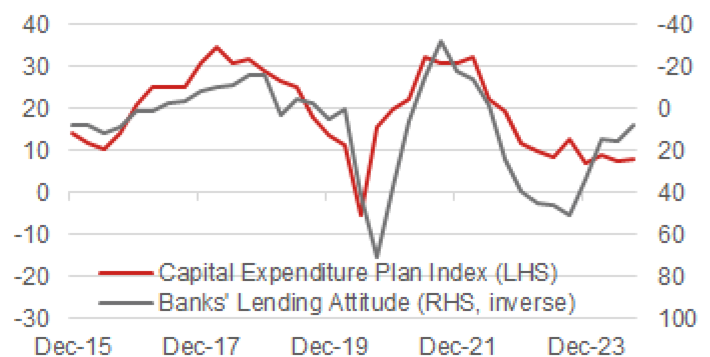


US Equity: MSCI USA Index, Others: MSCI USA Index by Style
Source: Nomura Asset Management based on Bloomberg data.

In 2025, capital investment in the US will become a focus.

President-elect Trump aims to promote de-globalization and strengthen national competitiveness through corporate tax cuts and increased import tariffs. In the medium term, these policies are intended to drive a resurgence in domestic manufacturing, which will accelerate infrastructure investment, leading to an increase in capital investment in the US. Trump has also indicated plans to relax regulations on artificial intelligence (AI), which could further advance the AI revolution and accelerate investment in supporting infrastructure, such as data centers and power facilities. Currently, the lending attitudes of US banks are becoming more accommodative, setting the stage for significant growth in capital investment.

Figure 2. Trends in Capital Expenditure Plan Index and Bank Lending Attitudes
(Oct.-Dec. 2015 to Jul.-Sep. 2024, quarterly)



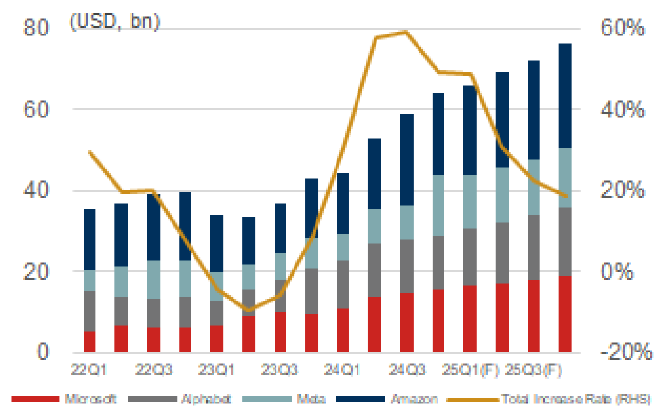
The Capital Expenditure Plan Index is calculated by Morgan Stanley, while bank lending attitudes refer to the loan lending attitudes toward large and medium-sized enterprises as reported in the bank lending officers' survey.
Source: Nomura Asset Management based on Bloomberg data.

Investment in AI is set to expand further

In 2024, capital investment in data centers by cloud service providers such as Microsoft and Amazon has significantly expanded, and this trend is expected to continue into 2025. Looking at the capital expenditure plans of major cloud service providers, it is evident that investment had been increasing each quarter with no signs of a slowdown.

Moreover, the scope of this investment is not limited to GPUs (graphics processing units) alone. There is also growing demand for infrastructure to efficiently cool these GPUs, semiconductors that are more power-efficient and specialized for AI applications, networking semiconductors to connect the constructed servers, as well as ancillary semiconductors that enable more efficient use of GPUs. Investment activity is likely to widen into power generation facilities and transmission infrastructure to support the enormous power demands of data centers. This presents significant opportunities for related companies to grow, suggesting an expanding field for stock selection.

Figure 3. Cloud Service Providers' Capital Expenditure Trends*
(1Q22 to 4Q25 (Forecast))



Source: Nomura Asset Management based on Bloomberg data.

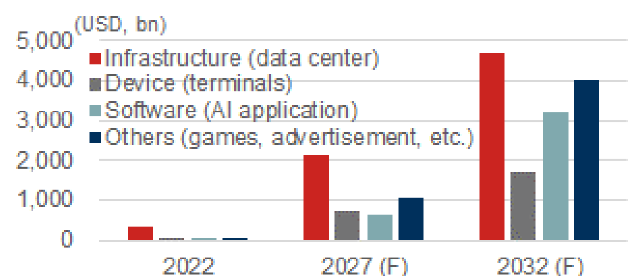
Market growth shifts from infrastructure to hardware and software

Looking further ahead, the development of AI models is progressing, with an expanding number of real-world examples of AI applications. Until now, there have been concerns about the massive scale of the investments in AI infrastructure and whether they can yield sufficient returns. However, recent examples show that using AI for targeted online advertising has enabled companies to deliver ads to consumers who are more likely to respond, thereby enhancing the effectiveness of advertising and improving advertisers' evaluations. This, in turn, has led to growth in advertising expenditure.

In addition, in the realm of sales support software, developers are offering AI-powered features for additional fees, and initial interest has been highly promising, with 200 companies choosing to adopt these systems within a week of the feature's launch. This is expected to contribute positively to corporate performance in this sector.

Regarding hardware, the latest iPhones have been gradually incorporating software that utilizes AI. This might help to stimulate replacement cycles and promote the adoption of AI, significantly expanding the overall potential market size of the AI ecosystem.

Figure 4. Generative AI Market Size Forecast
(2022, 2027 (Forecast), 2032 (Forecast))



Source: Nomura Asset Management based on Bloomberg data.

*References to individual stocks do not imply recommendations for buying or selling specific stocks, nor does imply any view on their price movements.

Emerging Equities: Short-term uncertainty, but long-term expectations

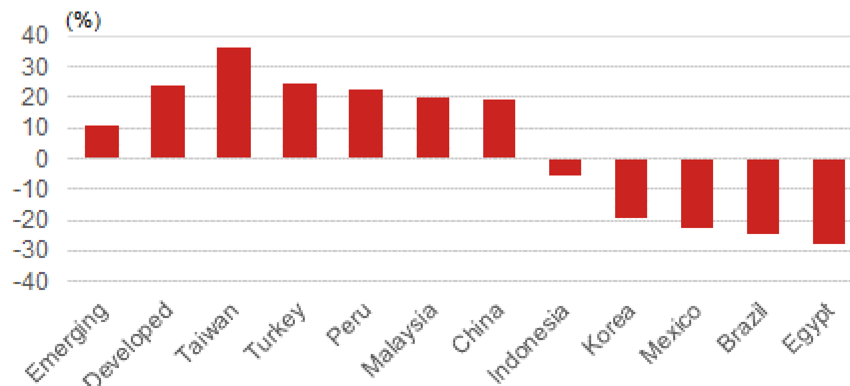
The MSCI Emerging Markets Index (in US dollars) has remained in positive territory year-to-date, but there are significant disparities in returns among different countries. Taiwan has benefited from robust growth in IT related demand in the US, while the Chinese authorities are likely to implement further economic stimulus measures, leading to market gains. Conversely, the Mexican market has languished due to concerns over deteriorating relations with the US, while South Korea faces worsening external demand conditions and political instability.

Looking ahead to 2025, emerging market equities could continue to lag behind the developed markets in the short term. The specific policies of the new US administration will play a critical role; should economic policies like increased tariffs be enacted, they could undermine growth in the emerging economies in the short run. Moreover, if concerns about US inflation resurface, setting back expectations for US monetary easing, then a stronger US dollar could have a generally negative effect on emerging market equities. However, emerging market stocks are currently trading at a relatively undervalued level compared to developed market stocks in terms of price-to-earnings ratio and other valuation metrics, suggesting that stock prices find some support in the medium to long term. If tensions between the US and China do escalate, there is a possibility that the Chinese government could implement further supportive economic stimulus measures.

On the downside, risks include the potential decline in China's valuations due to heightened US-China tensions, increasing global inflationary pressures, a potential global recession, and political risks in some emerging markets.

In this context, we are focusing on themes; (1) countries where a decline in policy interest rates is expected in the short term as inflation peaks, and (2) countries with attractive demographics in the medium term. Specifically, in the first case, we are paying attention to India, which is driven by domestic demand and is less vulnerable to external factors, and South Africa, where investors anticipate economic reforms from the coalition government. As for demographics, we are focusing on India and Indonesia. These countries are expected to continue benefiting from the demographic dividend, with young populations entering the workforce, which is expected to drive overall economic growth.

Figure 5. Year-to-Date Performance of the Equity Market (in US Dollars: Total Return Index)
(Dec. 29, 2023 to Dec. 6, 2024)



Emerging Market Stocks: MSCI EM (Emerging Market) Index, Developed Market Stocks: MSCI World Index,
By Country: MSCI Country Index
Source: Nomura Asset Management based on FactSet data.

Bond and Currency Market Outlook

Bond yields are expected to fall as major central banks continue to cut interest rates.

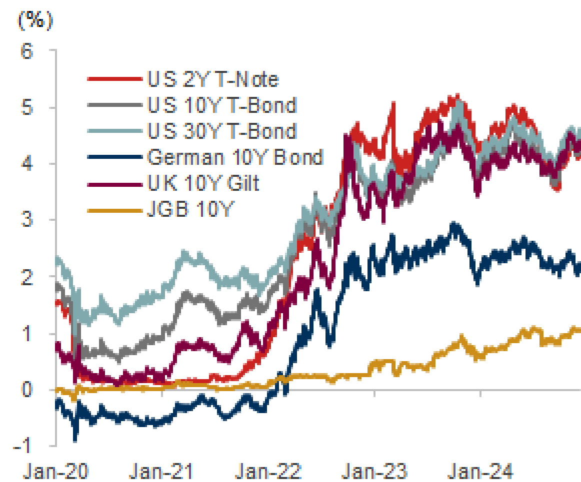
Wataru Kato
Senior Portfolio Manager

Yuji Maeda
Head of Investment
Global Fixed Income

Bond yields have fluctuated in a range this year

In the second half of 2024, bond yields across most major economies temporarily declined (bond prices rose), but yields then moved significantly higher. Over the summer, recession concerns deepened in the US, and market expectations turned to steep interest rate cuts by the Federal Reserve Board (Fed), which led to falling bond yields. However, yields increased significantly (bond prices fell) from October onwards, while expectations of a rate cut receded due to robust economic data released across the board in the US. Higher bond yields were also driven by heightened expectations that the economy would receive a boost from fiscal expansion due to the “red sweep” victory for President-elect Donald Trump in the US presidential election and the Republican majority in both the House and Senate elections.

Figure 1. Changes in Government Bond Yields
(Jan. 2, 2020 – Dec. 13 2024, daily)



Note: Yield is Bloomberg Generic
Source: Nomura Asset Management based on Bloomberg data

Fed expected to keep cutting interest rates with caution in 2025

At the US Federal Open Market Committee (FOMC) meeting in September, the Fed cut its policy interest rate by 0.50% points to begin the rate cutting phase of the cycle. As of December, the median forecast by the FOMC members suggested two rate cuts each in 2025 and 2026. Although the US economy has been resilient, inflation has been decelerating steadily, and the Fed is likely to continue to cut interest rates, albeit at a cautious pace, and to ease the degree of monetary policy tightening.

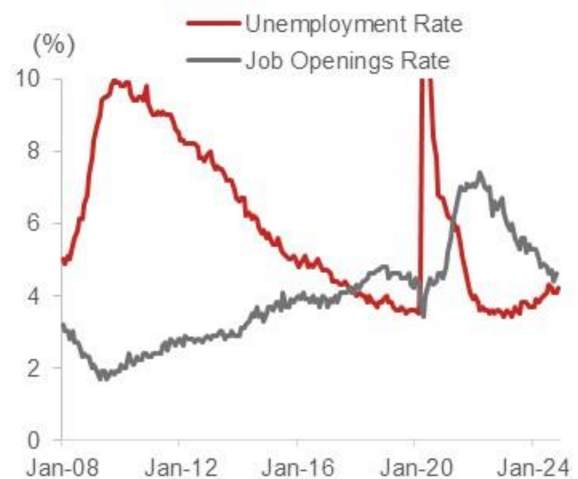
In contrast to the US, some other advanced economies are likely to cut interest rates at a faster pace as their economies remain weak. The European Central Bank (ECB) has cut interest rates at three consecutive meetings since September, although it began to cut interest rates in June and left them unchanged in July. Recognizing that downside risks to economic growth in the euro area are increasing, President Christine Lagarde has indicated that the ECB will continue to cut interest rates, without mentioning the specific pace of rate cuts. Eurozone economic growth is slower than in the US, and we believe that the ECB will continue to aggressively reduce interest rates to an accommodative range as inflation decelerates. Many other central banks in the advanced economies will continue to aggressively ease policy rates, particularly in New Zealand and Canada, where central banks have cut rates in consecutive 0.50% increments.

The Bank of Japan (BOJ) will continue to be one of the few central banks seeking to increase policy rates. The BOJ, which raised interest rates further at the Monetary Policy Meeting in July, is likely to implement additional interest rate hikes at a cautious pace in 2025.

US economy is expected to see a moderate slowdown

The current US economy is performing steadily. In the labor market, the unemployment rate rose to 4.3% in July 2024, which has temporarily heightened concerns about a potential recession. However, this increase has since stabilized, and the employment environment remains relatively resilient. Despite this stability, companies have become more cautious about hiring, resulting in a continued decline in job openings, which gradually reduces the overheating in the labor market. A further decline in the job openings rate could lead to a significant rise in the unemployment rate, necessitating attention to the risks of a sudden deterioration in employment conditions. Moreover, uncertainty surrounding trade policies under the incoming Trump administration could serve as a constraint on corporate activity. Therefore, we anticipate a gradual slowdown of the US economy in the first half of 2025.

Figure 2. US Unemployment Rate and Job Opening Rates in the US (Jan. 2008 – Nov. 2024, Job Openings Rate is until Oct. 2024. monthly)



Note: The unemployment rate for 2020 has been partially hidden to make the graph easier to read. Source: Nomura Asset Management based on Bloomberg data.

Bond yields are expected decline as the Fed continues to cut interest rates

Interest rate futures in the US are currently priced at a level that implies fewer than the four expected rate cuts in 2025 and 2026 announced at the December FOMC meeting. Bond yields are likely to decline as the Federal Reserve continues to cut interest rates.

In terms of economic activity and market trends, it remains extremely uncertain how policies announced by the incoming Trump administration will affect the economy and financial markets. Since October, when the chances of a Trump victory attracted market attention, share prices and bond yields in the US rose, implying that the policies of the incoming administration would be positive for economic growth. However, not all of Trump's policies will necessarily have positive effects on the economy. The large tariff levy on foreign countries that he advocates will have a negative impact on private consumption in the US through a rise in prices. The deportation of undocumented immigrants could also weigh on corporate profits through lower demand and higher wages due to labor shortages. Given these factors that exert downward pressure on the economy, bond yields are likely to start declining.

As was evident in the summer of 2024, bond yields tend to decline significantly in advance of the Fed's actions when markets become aware of a slowdown in the economy, such as when economic indicators decline. It is necessary to monitor the effects of the policies of the incoming Trump administration while being aware of the risk that financial market optimism about the US economy will shift.

US dollar is expected to turn downward.

Since October 2024, the US dollar has appreciated while bond yields have risen, led by US Treasuries. As the Fed continues to cut interest rates, the US dollar is likely to weaken again. In terms of the external balance of payments, which tends to be a factor underlying exchange rate fluctuations over a long-term perspective, it is likely to continue exerting downward pressure on the US dollar as the US current account deficit remains large. From a monetary policy perspective, the US dollar is likely to fall again as the Fed continues to cut interest rates against the background of a slowdown in the US economy. However, there is a risk that the US dollar will appreciate further if the Fed stops cutting interest rates due to a rise in inflation, or if other central banks make larger interest rate cuts than the Fed, thereby creating market awareness of divergences in monetary policy.

Tariff hikes suggested by President-elect Trump are likely to put downward pressure on trade partners through a decline in exports to the US, and higher inflation in the US. However, the rise in inflation caused by tariff hikes should be temporary, and the divergence in monetary policy between the US and other countries and regions is likely to be limited. Therefore the US dollar could eventually weaken amid continued interest rate cuts by the Fed and the current account deficit in the US.

Continued interest rate cuts overseas and the Bank of Japan's interest rate hike could exert continuous upward pressure on the yen.

While central banks in other developed countries and regions continue to lower interest rates, the Bank of Japan is expected to seek interest rate hikes in the future. In the summer of 2024, when overseas bond yields fell significantly, the yen appreciated and briefly strengthened to 140 yen to the US dollar. Recently, with expectations for rate cuts by the Fed diminishing, the yen has begun to weaken again. However, considering that interest rate differentials could shrink as the Bank of Japan raises rates, while other central banks are easing interest rates, then we could see a period of yen strengthening.

That said, it is important to note that the ongoing flow of yen-selling driven by the new NISA (Nippon Individual Savings Account) and the stagnation of Japan's productivity could prevent the yen from appreciating significantly, even if the interest rate differentials narrow.

Figure 3. JPY/USD and USD/EUR Trends
(Jan. 2, 2020 – Dec. 13, 2024, daily)

Source Nomura Asset Management based on Bloomberg data.

J-REIT Market Outlook

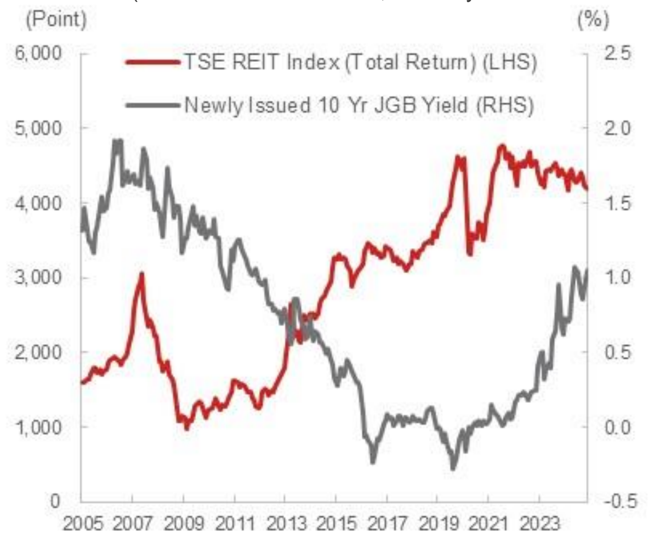
Rent increases across a broad range of sectors could help to offset rising costs, such as higher interest rates.

Tomoyuki Nobuhara
Senior Portfolio Manager

While interest rates are on an upward trend, rent increases are becoming apparent.

Following the Bank of Japan's monetary policy changes and the trend towards higher inflation, domestic long-term interest rates are on the rise. This increase in interest rates can lead to a decline in the relative appeal of REIT dividend yields compared to government bond yields, as well as imposing higher borrowing costs, raising concerns for this asset class in the short term. Consequently, the Tokyo Stock Exchange REIT Index has been relatively weak. On the other hand, with inflation becoming entrenched, clear rent increases have emerged across a broad range of sectors in the properties held by REITs, and in some cases they are outpacing the increase in costs. This helps to mitigate the medium-term concerns regarding rising interest rates.

Figure 1. TSE REIT Index and Newly Issued 10 Yr JGB Yield
(Jan. 2005 – Nov. 2024, monthly)

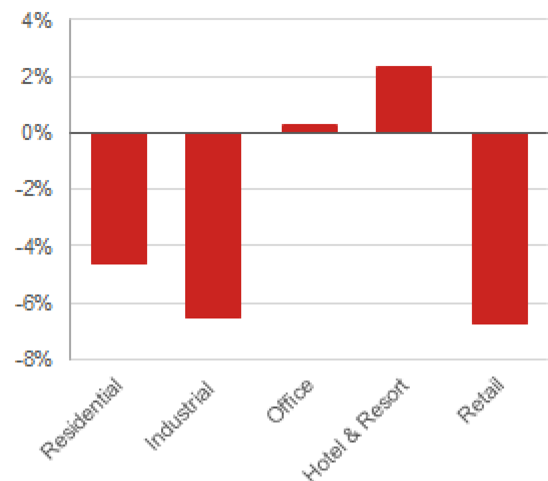


Source: Nomura Asset Management based on QUICK data

REITS need to pursue rent increases and consider management of capital costs.

According to sector-specific returns since the beginning of 2024, hotels and resorts, as well as offices, have stayed relatively resilient compared to other sectors. The hotel and resort sector continues to see rising occupancy rates and room rates driven by expanding inbound demand, while the office sector is clearly benefiting from a market recovery, with expectations for increased revenue from rent hikes. Currently, concerns over rising interest rates dominate sentiment, preventing a recovery across the entire J-REIT market. However, as the contribution of rising rents to earnings improves, these concerns are expected to ease. J-REIT operators are also increasingly starting to assess the feasibility of property acquisitions and share buyback based on capital costs, indicating a growing acceptance of management practices that can help to enhance shareholder value.

Figure 2. J-REIT Sector Return
(2024 YTD, Dec. 29, 2023 – Nov. 29, 2024)



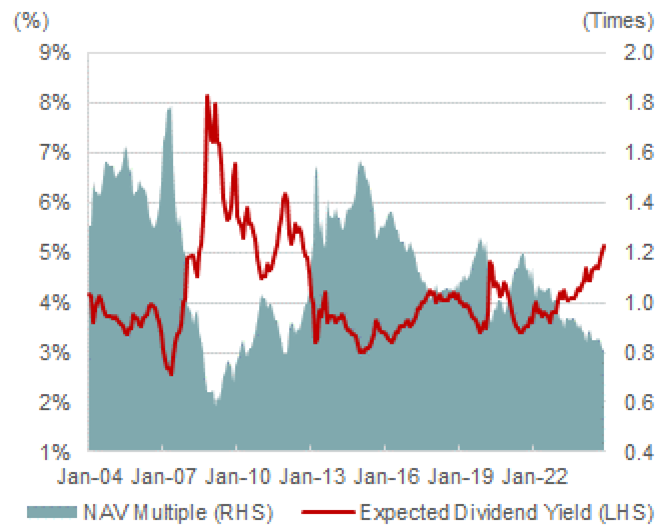
Note: Market capitalization weighted average, industry classification by GICS industry subsector classification.
Source: Nomura Asset Management based on Bloomberg data

Investment indicators suggest a strong sense of undervaluation.

As a result of the overall downtrend in the J-REIT market, the expected dividend yield for J-REITs has risen to the 5% range, and the NAV (Net Asset Value) multiple has dropped to the low 0.8 time range. Historically, periods when the NAV multiple remained consistently below 1 time have coincided with significant downward pressure on the real estate market, such as in the wake of the Global Financial Crisis and the Great East Japan Earthquake. However, the current real estate market is characterized by clear rent increases across a wide range of sectors, and property prices are stabilizing, indicating that the fundamentals are strong. Therefore, there is a growing sense of undervaluation from the perspective of investment indicators.

Note: NAV = Value calculated by adding unrealized gains and losses on holdings to net assets.

Figure 3. J-REIT Expected Dividend Yield and NAV Multiple
(Jan. 2004 to Nov. 2024, monthly)

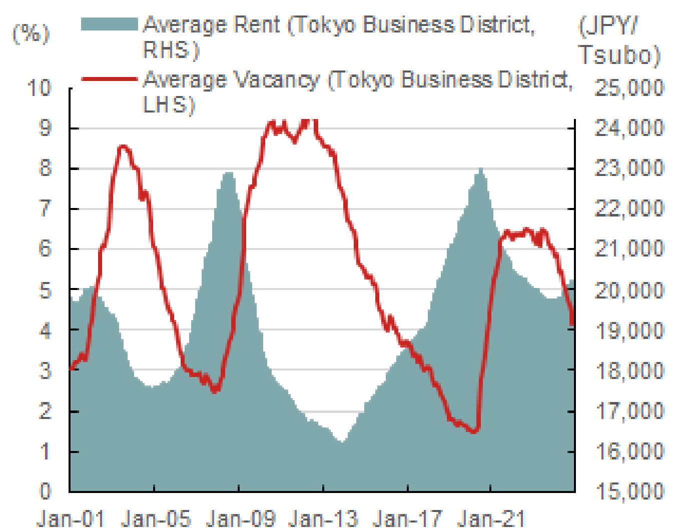


Note: The market capitalization-weighted average value of the NAV multiple for all J-REITs (investment unit price ÷ NAV per unit).
Source: Nomura Asset Management based on data from the Association for Real Estate Securitization https://www.ares.or.jp/en/

Observing a clear recovery in the office market.

In 2023, the office vacancy rate remained high, hovering in the mid-6% range. However, there has been an increase in companies leasing high-quality offices in prime locations due to the recovery in office attendance rates and talent acquisition concerns. As a result, the office vacancy rate decreased to the 4% range in 2024, with rents also trending upward. Some office buildings are also experiencing construction delays due to labor shortages, which could lead to an improvement in supply/demand dynamics as the supply contracts. Moreover, given the various rising costs, we can expect to see an increase in the number of office buildings seeking tenants at higher rents. Consequently, owners of office buildings, including REITs, are expected to adopt a more aggressive stance towards rent increases.

Figure 4. Tokyo Business District Office Market
(Jan. 2001 to Nov. 2024, monthly)



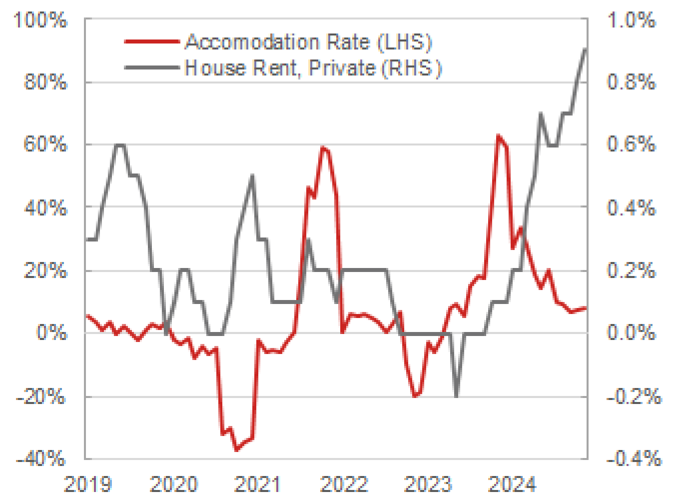
Source: Nomura Asset Management based on data from Miki Shoji

Hotel accommodation rates and rental prices for residential properties are also on the rise.

The hotel sector is experiencing an upward trend in occupancy rates and accommodation rates, supported by the recovery of domestic demand and the favorable impact of a weaker yen, with inbound demand surpassing pre-COVID levels. Although the recovery in the number of tourists from China has been slow, the recent exemption of short-term visas for Japanese travelers by the Chinese government could lead to growth in exchanges between the two countries, raising expectations for a future recovery.

In the rental housing sector, rents are rising due to factors such as a recovery in population inflows into urban areas and soaring prices of condominiums, leading to an increase in tenants choosing rental properties. If inflation remains entrenched and the income environment, including wages, continues to improve, rents for rental housing are likely to keep rising.

Figure 5. Consumer Price Index
(Tokyo metropolitan area/ by item)
(Jan. 2019 – Nov. 2024, monthly yoy)

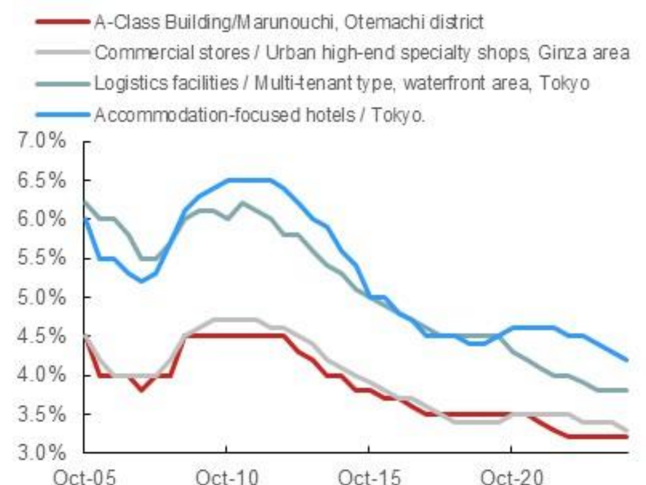


Source: Nomura Asset Management based on data from the Statistics Bureau of the Ministry of Internal Affairs and Communications (https://www.e-stat.go.jp/).

Robust urban real estate price trend continues.

While rising interest rates can lead to a fall in real estate prices by increasing the expected yields on real estate investments, these expected yields have remained stable recently. This stability is partly due to the fact that, even with a certain level of interest rate increases, investors can still anticipate high returns from income-generating properties relative to borrowing costs, suggesting that attractive real estate investment opportunities are likely to persist. Furthermore, the clear upward trend in rents mitigates the impact of any slight increases in expected yields on real estate prices. Strong real estate prices are expected to support the J-REIT market, which is already trading at undervalued levels compared to its existing asset holdings.

Figure 6. Real Estate Expected Return
(Oct. 2005 – Oct. 2024, semiannual)



Source: Nomura Asset Management based on data from Japan Real Estate Institute

* This material contains personal views and does not necessarily reflect Nomura Asset Management house view.

Global Financial Market Forecast

			2024				2025		2022	2023	2024	2025
			Q1	Q2	Q3	Q4	Q1	Q2				
						F	F	F			F	F
Real GDP	World	*1,*4	2.8	2.7	2.7	2.7	2.6	2.6	3.1	3.0	2.7	2.5
(qoq, ann, %)	Developed	*2	1.3	2.1	2.1	1.7	1.6	1.7	2.9	1.9	1.7	1.7
	Emerging	*1,*3	4.9	4.3	4.1	4.1	3.8	4.0	3.4	4.6	4.3	3.8
	United States		1.6	3.0	2.8	2.3	1.9	1.9	2.5	2.9	2.8	2.1
	Eurozone		1.2	0.7	1.7	0.9	1.0	1.2	3.6	0.5	0.8	1.1
	Japan		-2.2	2.2	1.2	1.1	1.1	0.7	0.9	1.5	-0.2	1.0
	China	*1	5.3	4.7	4.6	4.7	4.1	4.5	3.0	5.2	4.8	4.1
CPI	World	*4	3.4	3.5	3.0	3.1	2.9	2.8	7.0	4.4	3.2	2.8
(yoy, %)	Developed	*2	3.0	2.9	2.5	2.6	2.4	2.3	7.5	4.7	2.7	2.4
	Emerging	*3	4.0	4.3	4.0	3.9	3.7	3.6	6.2	3.9	4.1	3.6
	United States		3.2	3.2	2.6	2.9	2.7	2.5	8.0	4.1	3.0	2.6
	Eurozone		2.6	2.5	2.2	2.1	2.0	2.0	8.4	5.4	2.3	1.9
	Japan	*5	2.5	2.4	2.6	2.4	2.1	2.3	2.3	3.1	2.4	2.1
	China		0.0	0.3	0.5	0.9	0.7	1.2	2.0	0.2	0.4	1.1
Policy Interest Rate	United States	*6	5.50	5.50	5.00	4.50	4.25	4.00	4.50	5.50	4.50	3.75
(%)	Eurozone	*6	4.00	3.75	3.50	3.00	2.50	2.00	2.00	4.00	3.00	1.50
	Japan	*6	0.10	0.10	0.25	0.25	0.50	0.50	-0.10	-0.10	0.25	0.50
	China	*6	3.45	3.45	3.35	3.10	3.00	2.80	3.65	3.45	3.10	2.80
10-Year GB Yield	United States		4.20	4.40	3.78	4.57	4.20	4.10	3.87	3.88	4.57	4.00
(End of Period, %)	Germany		2.30	2.50	2.12	2.37	2.10	2.00	2.57	2.02	2.37	1.80
	Japan		0.73	1.06	0.86	1.10	1.20	1.20	0.42	0.61	1.10	1.20
Equity Index	S&P500		5,254	5,460	5,762	5,882	6,180	6,280	3,840	4,770	5,882	6,480
(End of Period, Point)	EURO300		2,031	2,032	2,069	2,016	2,050	2,070	1,678	1,889	2,016	2,110
	TOPIX		2,769	2,810	2,646	2,785	2,730	2,760	1,892	2,366	2,785	2,840
	MSCI EM ($)		1,043	1,086	1,171	1,075	1,120	1,130	956	1,024	1,075	1,150
Currency	USD/EUR		1.08	1.07	1.12	1.04	1.07	1.08	1.07	1.10	1.04	1.05
(End of Period)	JPY/USD		151.3	160.9	143.0	157.2	150.0	148.0	131.9	141.0	157.2	146.0
	JPY/EUR		163.5	172.4	159.6	162.7	161.0	160.0	140.8	155.7	162.7	153.0
	RMB/USD		7.23	7.27	7.02	7.30	7.30	7.30	6.95	7.09	7.30	7.40

		2022	2023	2024	2025
					F
Currency	INR	82.7	83.2	85.6	85.0
(Per USD,	IDR	15,568	15,397	16,095	16,200
End of Period)	BRL	5.3	4.9	6.2	6.0
	MXP	19.5	16.9	20.8	20.4
	ZAR	17.0	18.3	18.9	18.8
	TUR	18.7	29.5	35.4	44.0
Policy Interest Rate	India	6.25	6.50	6.50	5.75
(%)	Indonesia	5.50	6.00	6.00	5.00
	Brazil	13.75	11.75	12.25	14.50
	Mexico	10.50	11.25	10.00	8.50
	S. Africa	7.00	8.25	7.75	7.00
	Turkey *6	9.04	42.50	48.13	35.00

Note: Forecast as of December 16, 2024. 1) YoY, 2) GDP weighted average of US, Eurozone, Japan, UK, Canada, Australia, 3) GDP weighted average of China, India, Brazil, Korea, Taiwan, Indonesia, Thailand, Malaysia, the Philippines, Hungary, Poland, Russia, Turkey, Mexico, and South Africa, 4) GDP weighted average of 2) and 3), 5) core consumer price, 6) for Japan the policy interest rate imposed on the current account deposits held by financial institutions at the Bank of Japan, for the US the upper limit of the FF target range, for the Eurozone the central bank deposit interest rate, for China the 1-year loan prime rate, for Turkey, weighted average funding ratio of the central bank.
*As for forecast columns, actuals are prioritized if available.
Source: Oxford Economics, Bloomberg, and Nomura Asset Management

Index Hedge Clause

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