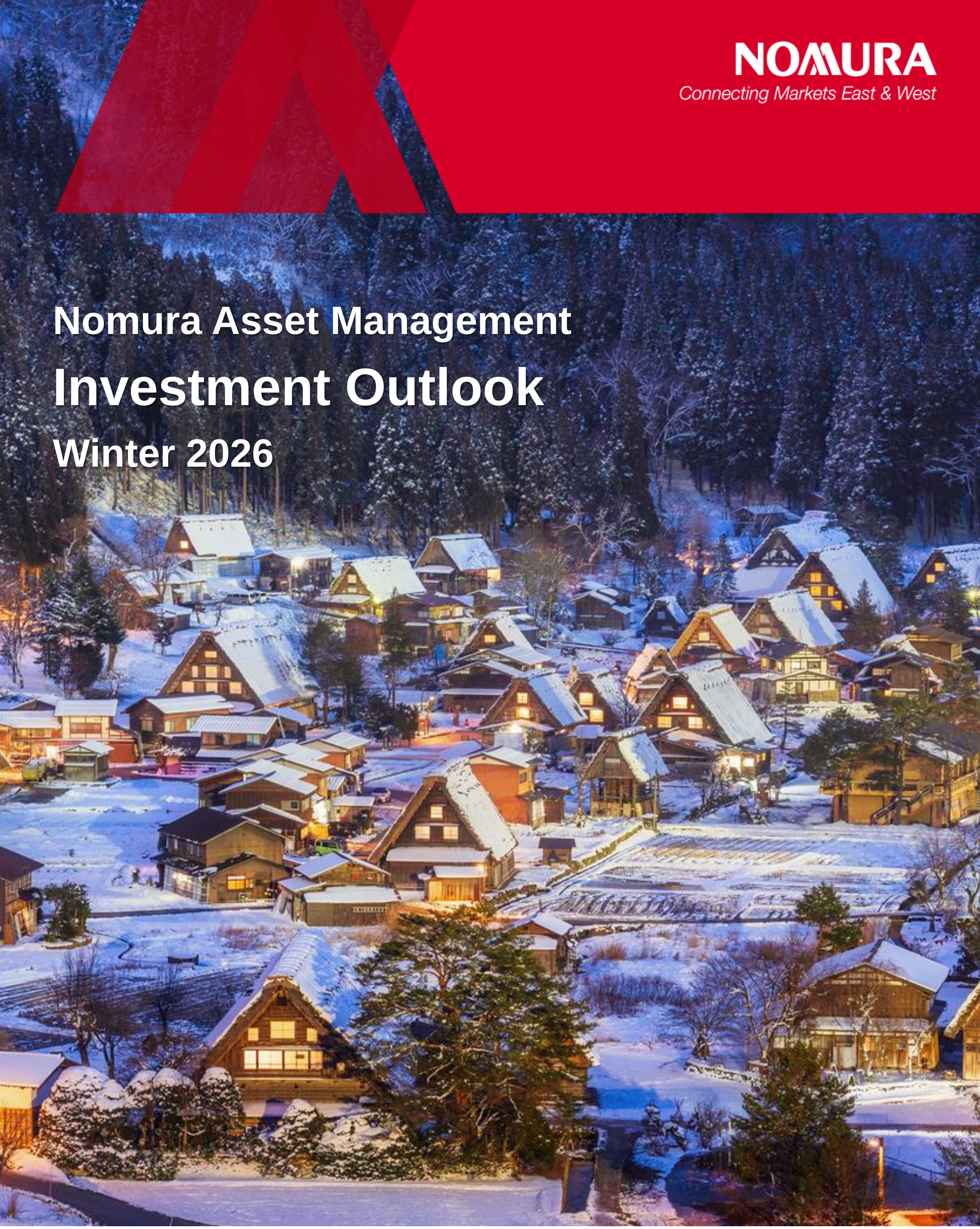


NOMURA

Connecting Markets East & West

Nomura Asset Management
Investment Outlook
Winter 2026

NOMURA ASSET MANAGEMENT

Winter 2026

Contents

Investment Outlook

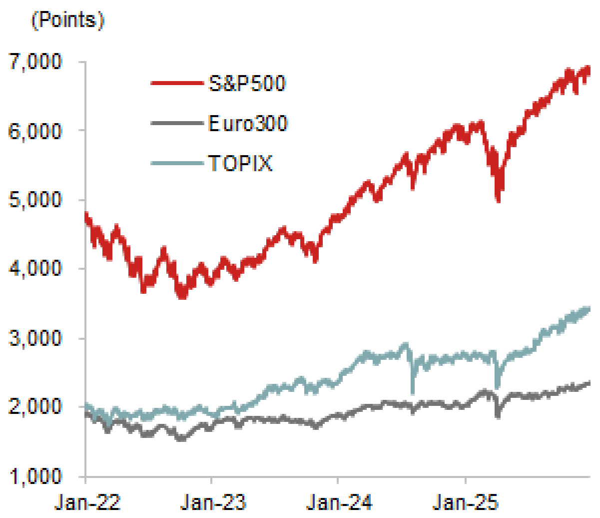
(Note) In Nomura Asset Management Investment Outlook Winter 2026, Nomura Asset Management’s senior investment professionals offer their views of the investment strategy and market prospects as of middle to late December 2025. The commentaries are based on personal views and do not entirely match Nomura Asset Management’s house view, except for Investment Environment Outlook and Global Financial Market Forecast that are based on Nomura Asset Management’s house view.

Quarterly Financial Market Recap

For October to December 2025 quarter, financial markets were shaped by the U.S. entering a government shutdown, which temporarily halted the release of economic indicators. Market participants focused on central bank policy stances and corporate earnings. Following September, the U.S. Federal Reserve cut rates again in October and December. However, with Fed Chair Powell expressing caution about future rate cuts, long-term U.S. interest rates and the euro against the dollar remained largely flat. Equity markets rose, and the S&P 500 reached new highs as corporate results beat market expectations. In Japan, expectations that the Takaichi administration would pursue an expansionary fiscal stance led to yen depreciation, higher long-term interest rates, and rising stock prices.

Major Equity Markets

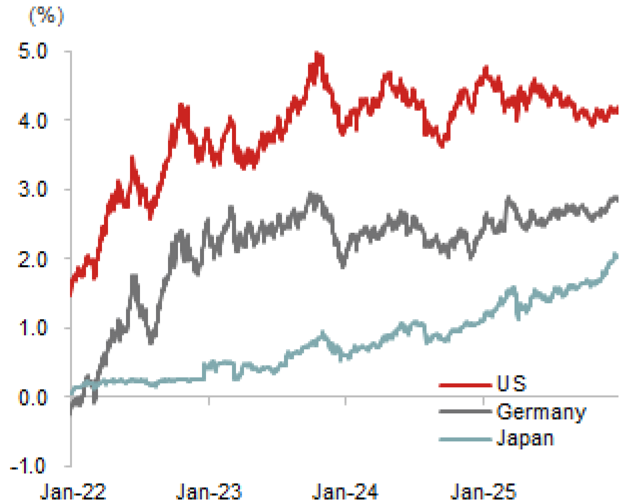
(January 3, 2022 - December 31, 2025, daily)



(Source) Nomura Asset Management based on Bloomberg data

10 Year Bond Yields in Major Countries

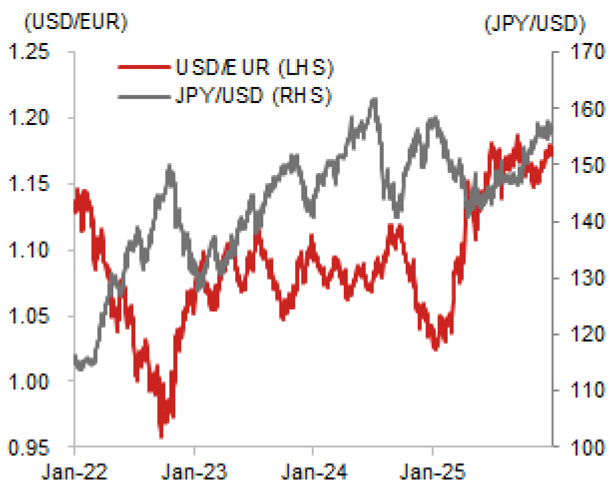
(January 3, 2022 - December 31, 2025, daily)



(Source) Nomura Asset Management based on Bloomberg data

Yen and Euro against the U.S. dollar

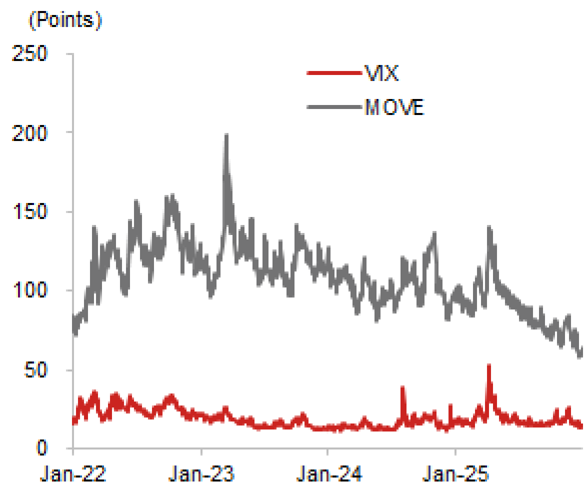
(January 3, 2022 - December 31, 2025, daily)



(Source) Nomura Asset Management based on Bloomberg data

Trends in VIX and MOVE

(January 3, 2022 - December 31, 2025, daily)



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

Investment Environment Outlook

Eyes are on central bank appointments in the first half of 2026, and the economy is expected to return to modest growth in the second half of the year.



Tomohiro Eguchi
Senior Economist

Rumi Kurumizawa
Chief Economist

Yuichi Murao
Chief Investment Officer,
Senior Corporate
Management Director

Investment Environment in 2026: Attention on major central banks' monetary policy and personnel moves

Throughout 2025, uncertainties about the U.S. Trump administration's tariff policies and their effects had a significant impact on the outlook for economic activity and prices as well as fluctuations in financial markets. While the effects of the tariff policies are expected to wane gradually in 2026, some major economies are likely to move toward fiscal expansion. . The Federal Reserve Board (FRB) and the European Central Bank (ECB) were in a phase of interest rate cuts in 2025, but the phase of interest rate cuts is likely to come to an end.

In addition to these fundamentals, personnel changes at the FRB and the Bank of Japan (BoJ) will attract financial markets' attention.

The term of Federal Reserve Chair Jerome Powell expires in May 2026. Whether Powell will remain as a member of the Board, whether Governor Lisa Cook will be dismissed, and the stance of any new Chair will have significant implications for monetary policy decisions made by majority vote.

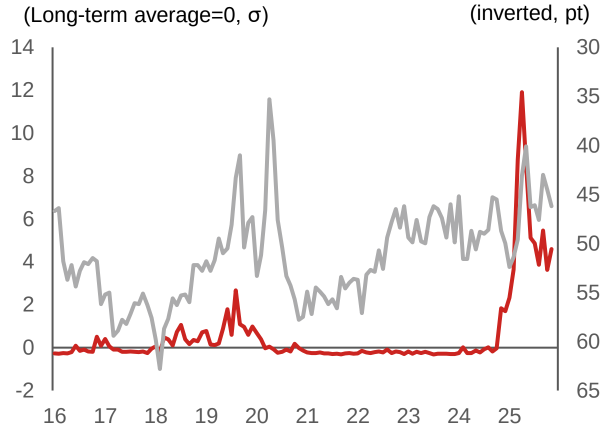
At the BoJ, the terms of the Policy Board members Asahi Noguchi and Junko Nakagawa will expire in March and June 2026, respectively. The new Policy Board members appointed by the Takaichi administration will serve as a touchstone for whether they are aligned with policymakers who favor current reflationary policies, and for gauging the administration’s views on monetary policy and financial markets.

Macroeconomic Outlook: Return to moderate growth in the second half of 2026

So far, the impact on the U.S. economy from tariff increases enacted by the Trump administration has been limited. In the near term, the pass-through of higher tariffs into prices is expected to proceed gradually, and the resulting deterioration in real incomes should weigh on consumption. However, the U.S. economy is likely to return to modest growth given the following factors: (1) uncertainty about trade policy appears to have passed its peak, (2) a significant stimulus effect from the One Big Beautiful Bill Act (OBBBA), and (3) the effects of Fed rate cuts materializing.

For the Eurozone and Japan, tariff-related headwinds are expected to persist for a while, but as those effects fade, they should revert to a recovery path. Fiscal expansion in Germany and Japan’s measures to address high prices are also expected to support their economies.

Figure 1. U.S. Trade Policy Uncertainty Index and Manufacturing Business Sentiment
(January 2016 - November 2025, monthly)



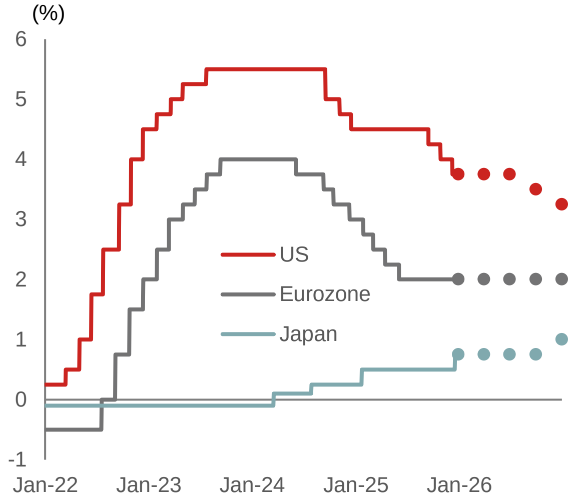
(Note) ISM: Institute for Supply Management
(Source) Prepared by Nomura Asset Management based on data from “Measuring Economic Policy Uncertainty” by Scott Baker, Nicholas Bloom, and Steven J. Davis at www.PolicyUncertainty.com, and CEIC.

Monetary Policy Outlook: U.S. expected to start rate cuts from mid-year onwards

After the Federal Open Market Committee (FOMC) meeting in December 2025, following three consecutive meetings that produced rate cuts, Powell said that the policy rate "is within a range of plausible estimates of neutral and leaves us well positioned to determine the extent and timing of additional adjustments to our policy rate" signaling a slowdown in the pace of cuts. With expectations of early cuts under the incoming leadership, if deterioration in the labor market stabilizes there would be no need for the current Fed to rush into further rate cuts. We expect the new leadership to confirm disinflation and then implement two rate cuts from mid-2026 onward.

We view the ECB as entering a period of watching for the effects of fiscal expansion. The BoJ, which implemented an additional rate rise in December 2025, is expected to raise rates again in the second half of 2026, bringing its policy rate to about 1.0% by the end of 2026.

Figure 2. Policy Interest Rates in Japan, the U.S., and Eurozone, and Nomura Asset Management Forecasts (Actual figures, January 3, 2022 - December 19, 2025, daily)



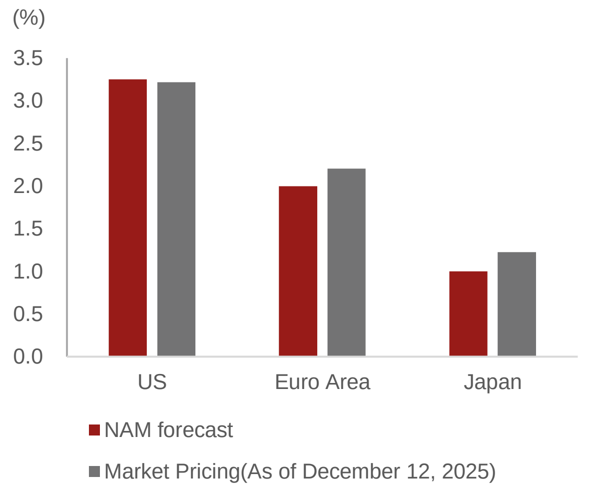
(Note) The dots from June 2025 onward represent our forecasts as of the end of each quarter.
(Source) Prepared by Nomura Asset Management based on Bloomberg data.

Interest Rate Outlook: Long-term interest rates will decline in the first half of the year and turn to an increase in the second half.

The monetary policy stance will differ across the U.S., Eurozone and Japan, but policy rates in all three are expected to move closer to neutral by the end of 2026. This view is broadly in line with market pricing. If the outlook plays out as expected, long-term yields should not change dramatically overall, but in the short-term business sentiment and supply–demand dynamics will drive interest rate movements.

In the U.S., with concerns about worsening employment, long-term yields are likely to fall from the start of the year through mid-year. However, once the economic trough is confirmed and the end of Fed rate cuts comes into focus, long-term yields are expected to turn higher toward year-end. We expect Eurozone to follow a similar pattern linked to U.S. moves. In Japan, in line with BoJ rate hikes and balance-sheet reduction, long-term yields are expected to gradually rise.

Figure 3. Policy Interest Rate Level at the End of 2026



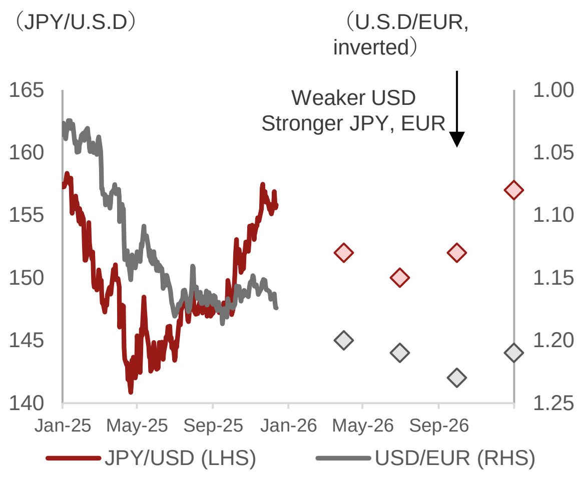
(Note) Market pricing is based on one-year ahead one-month interest rates in the overnight index swap (OIS) market. U.S. policy rates are indicated by converting them to the upper limit of the target for the federal funds rate.
(Source) Prepared by Nomura Asset Management based on Bloomberg data.

Currency Outlook: Yen is unlikely to appreciate despite the weakening U.S. dollar.

The euro is expected to appreciate against the U.S. dollar. This will mainly reflect a narrowing of the U.S.–Eurozone interest rate differential and expectations of a recovery in the global economy. Toward the end of 2026, the U.S. dollar may strengthen slightly as markets recognize the end of the Federal Reserve's easing cycle.

The yen's appreciation is likely to be limited. Narrowing of the U.S.–Japan interest rate differential should exert upward pressure on the yen, but supply-demand factors such as foreign portfolio investment and foreign direct investment are likely to weigh on the currency. As a result, the yen is expected to appreciate against the U.S. dollar in the first half of the year, then depreciate and finish roughly flat for the full year.

Figure 4. Yen and Euro against U.S. dollar
(Actual figures, January 1, 2025
- December 12, 2025, daily)



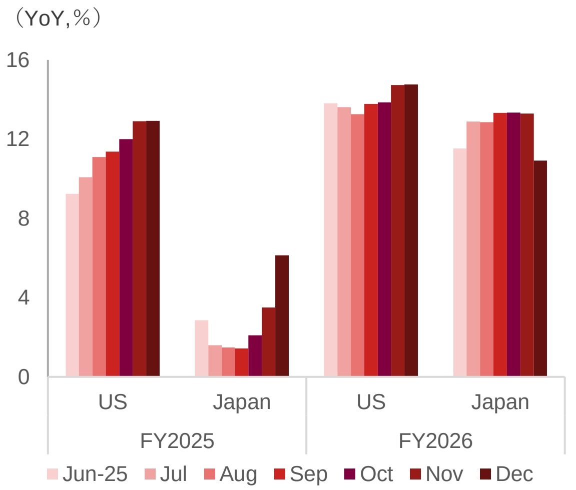
(Note) Markers in the figure indicate our company forecasts.
(Source) Prepared by Nomura Asset Management based on Bloomberg data.

Equity Market Outlook: High profit growth will drive share prices

U.S. corporate profits are expected to grow strongly by roughly 15% in 2026. Although price-to-earnings ratios (PER) will remain elevated by historical standards, the risk of overheating should be somewhat alleviated if such strong profit growth materializes. Markets remain concerned over whether massive corporate investments in artificial intelligence (AI) will generate sufficient returns in the future. While those concerns will persist, we believe widespread disappointment in AI related firms' earnings is unlikely to materialize during 2026.

Earnings forecasts for Japanese companies have also been revised upward, mainly for fiscal 2025. With growth in fiscal 2026 still expected to exceed 10%, Japanese equities are likely to continue rising in tandem with U.S. equities. If our view that the yen is unlikely to strengthen holds, the exchange rate should also provide support to equity prices.

Figure 5. Profit Growth Forecast in Japan and U.S.



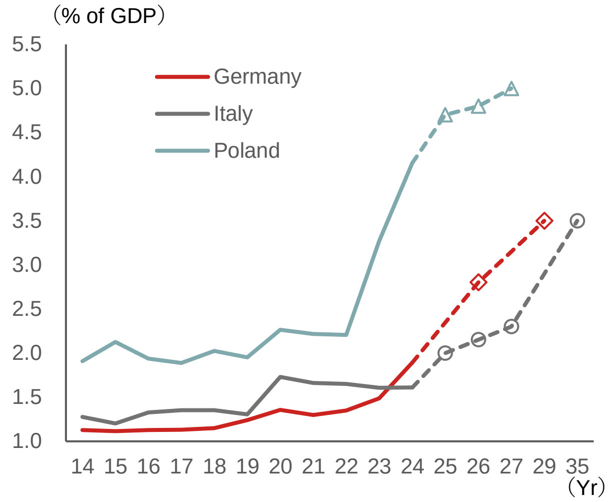
(Figure) Shows forecasted after-tax earnings as of the legend date. U.S. figures are calendar-year, Japan figures are fiscal-year. Data for December 2025 are as of December 17, 2025. U.S. is S&P500, and Japan is TOPIX.
(Source) Prepared by Nomura Asset Management based on LSEG Datastream data.

Upside Scenario: Fiscal stimulus to lift growth

In the U.S., there is a possibility that the One Big Beautiful Bill Act (OBBBA) will boost the economy and that additional economic support measures may be adopted in anticipation of the midterm elections in autumn 2026. On the other hand, in Europe, defense spending is likely to increase. The North Atlantic Treaty Organization (NATO) has newly set a target of raising defense-related spending to 5% of GDP (3.5% defense spending and 1.5% related spending) by 2035. Some countries have indicated plans to increase defense spending. Japan also achieved its defense spending target of 2% of GDP ahead of schedule, and there is a possibility of further increases.

There is an upside risk that these simultaneous developments will boost the economy more than expected.

Figure 6. Outlook for European Defense Spending
(2014- 2024, actual, annual)



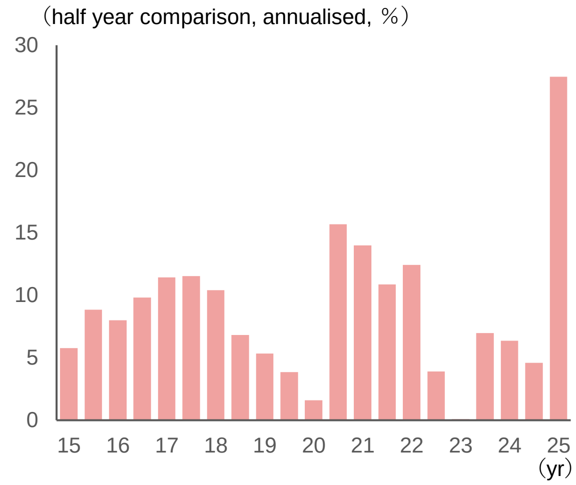
(Note) From 2025 onward, estimated figures and individual countries' planned amounts are shown. (Source) Prepared by Nomura Asset Management based on data from the Organisation for Economic Co-operation and Development (OECD)

Downside Scenario: Negative wealth effects from corrections in risk asset prices

With rising global expectations for AI-driven growth, investment in information-processing equipment and software in the U.S. contributed to economic growth in the first half of 2025. AI-related stocks led equity gains, which likely boosted household consumption through wealth effects.

Views differ on whether AI is a bubble. If skepticism grows about the profitability of these investments, there is a risk of investment cutbacks and stock-price adjustments. Through negative wealth effects, such a correction could weigh on consumption, representing a downside scenario.

Figure 7. U.S. Investment in Information Processing Equipment and Software
(1H 2015 - 1H 2025, semiannual)



(Note) Real figures.
(Source) Prepared by Nomura Asset Management based on CEIC data.

Japan Equity Market Outlook

Shintaro Harada
Chief Investment Officer
Active Japanese Equity

Market outlook for 2026: Is the Nikkei 225's 50,000 level sustainable?

Recap of Japanese equity market in 2025

Equity markets were fundamentally sound both at the macro level and at the company level throughout 2025, yet the Trump administration's trade-policy risks weighed on sentiment, leaving the Nikkei 225 trading in the high ¥30,000s at the start of the year. When the tariff policy was announced in April, the index briefly plunged to the low ¥31,000s. Thereafter, with tariff policy easing and corporate earnings recovering after an initial dip, and with positive market reactions to shifts in Japan's political landscape, the Nikkei 225 surged past ¥50,000. Figure 1 shows annual stock-price gains since 2000 and the intra-year increases from lows to highs. Years in which both measures were distinctly positive are shaded orange. A notable feature of 2025 is not only the large full-year gain but also the heightened volatility.

Figure 1. Trends in the Japanese Equity Market
(Nikkei 225, (2000 - 2025)

Year	Open	High	Low	Close	1 Yr Return	High/Low
2025	39,307	52,411	31,137	50,168	25.8%	68.3%
2024	33,288	42,224	31,458	39,895	19.2%	34.2%
2023	25,717	33,753	25,717	33,464	28.2%	31.2%
2022	29,302	29,332	24,718	26,095	-9.4%	18.7%
2021	27,258	30,670	27,013	28,792	4.9%	13.5%
2020	23,205	27,568	16,553	27,444	16.0%	66.5%
2019	19,562	24,066	19,562	23,657	18.2%	23.0%
2018	23,506	24,271	19,156	20,015	-12.1%	26.7%
2017	19,594	22,939	18,336	22,765	19.1%	25.1%
2016	18,451	19,495	14,952	19,114	0.4%	30.4%
2015	17,409	20,868	16,796	19,034	9.1%	24.2%
2014	15,909	17,936	13,910	17,451	7.1%	28.9%
2013	10,688	16,291	10,487	16,291	56.7%	55.3%
2012	8,560	10,395	8,296	10,395	22.9%	25.3%
2011	10,398	10,858	8,160	8,455	-17.3%	33.1%
2010	10,655	11,339	8,824	10,229	-3.0%	28.5%
2009	9,043	10,640	7,055	10,546	19.0%	50.8%
2008	14,691	14,691	7,163	8,860	-42.1%	105.1%
2007	17,354	18,262	14,838	15,308	-11.1%	23.1%
2006	16,362	17,563	14,219	17,226	6.9%	23.5%
2005	11,518	16,344	10,825	16,111	40.2%	51.0%
2004	10,825	12,164	10,365	11,489	7.6%	17.4%
2003	8,713	11,162	7,608	10,677	24.5%	46.7%
2002	10,871	11,980	8,303	8,579	-18.6%	44.3%
2001	13,691	14,529	9,504	10,543	-23.5%	52.9%
2000	19,003	20,833	13,423	13,786	-27.2%	55.2%

(Note) As of December 15, 2025, highs and lows are based on daily closing prices.
(Source) Prepared by Nomura Asset Management based on the data from QUICK.

Earnings trends for first half of fiscal 2025

Figure 2 summarizes Nomura Securities' first half fiscal 2025 results. For the first quarter, recurring profit across all industries (excluding Financials, Utilities, and SoftBank Group) fell by 16% - as indicated by the orange shading - primarily due to tariff effects and the prior year's exchange rate levels. In the second quarter alone, those factors had run their course, and recurring profit rose 22%, leaving first-half results roughly flat year on year. Compared with expectations, results remained robust in the second quarter as well as in the first, and upward revisions to company and consensus recurring profit forecasts for the first half have far outnumbered downward revisions. By sector, upward revisions were particularly notable in domestic-oriented industries such as Construction, Banking, and Non-Ferrous Metals, as well as in AI-related sectors.

Figure 2. Earnings Forecast by Sector

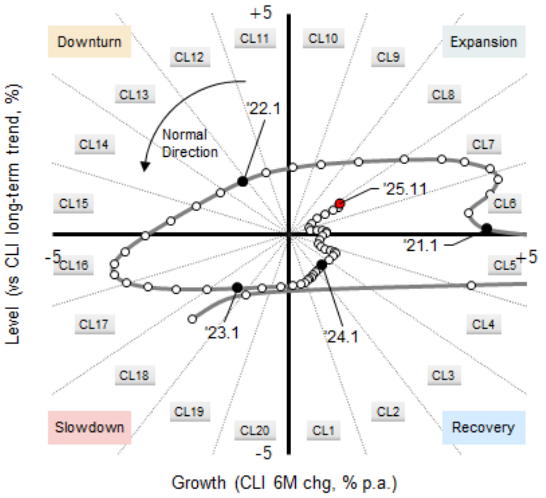
	1Q FY25			2Q FY25			1H FY25			1H Recurring Profit vs Consensus		Company Earnings Forecast FY25			Company Recoring Profit Forecast Revision		1H FY25 vs. FY25 Company Forcast Achievement Ratio
	Sales	Recurring Profit	Net Profit	Sales	Recurring Profit	Net Profit	Sales	Recurring Profit	Net Profit	Upside - No. of Companies	Downside - No. of Companies	Sales	Recurring Profit	Net Profit	Upward Revision - No. of Companies	Downward Revision - No. of Companies	Recurrign Profit
	YoY, %	YoY, %	YoY, %	YoY, %	YoY, %	YoY, %	YoY, %	YoY, %	YoY, %			YoY, %	YoY, %	YoY, %			%
All Industry	0.4	-9.8	-13.9	2.5	52.0	58.4	1.5	16.9	17.3	804	427	0.6	-0.4	-0.8	352	151	57.4
All Industry (ex Fin, Public U., SBG)	0.5	-16.1	-16.8	2.7	21.7	25.7	1.6	0.5	1.3	695	406	0.3	-5.7	-6.0	295	148	51.6
Manufacturing	-0.6	-22.9	-24.6	2.2	33.4	38.8	0.8	0.2	0.4	414	216	-0.3	-8.2	-7.2	196	103	50.8
Non-Manufacturing	1.9	2.7	-3.2	2.8	67.0	73.3	2.3	31.7	32.3	390	211	1.8	6.8	5.0	156	48	62.8
Non-Manuf. (ex Fin, Public U., SBG)	2.1	-2.0	0.4	3.5	56.2	66.4	2.8	22.2	26.9	281	190	2.4	-1.8	-4.2	99	45	55.2

(Source) Prepared by Nomura Asset Management based on Nomura Securities data.

Economic trends and sector rotation

Figure 3 shows the business-cycle position of the G7 based on the OECD Leading Economic Indicator; the current position, in the upper-right quadrant, corresponds to expansion. However, the analysis indicates a material probability that the economy will move into a slowdown phase within six months.

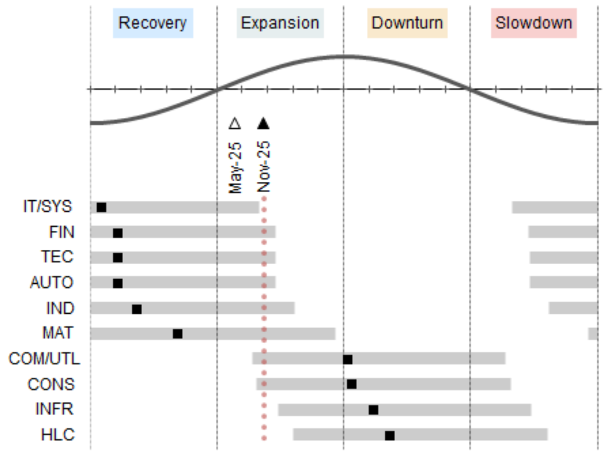
Figure 3. Global Economic Cycle
(G7 Leading Indicator, November 2025)



(Note) Four phases (aligned with the OECD) and 20 phases (set by our firm by dividing the circle into 20 equal angular segments).
(Source) Prepared by Nomura Asset Management based on OECD (Organisation for Economic Co-operation and Development) and LSEG Datastream.

As shown in Figure 4, going forward defensives such as Communications & Utilities, Consumer, Infrastructure, and Healthcare are likely to be favored.

Figure 4. CL Cycle and Nomura AM 10 Sectors Relative Attractiveness
(Next 6M, ■: particularly attractive)

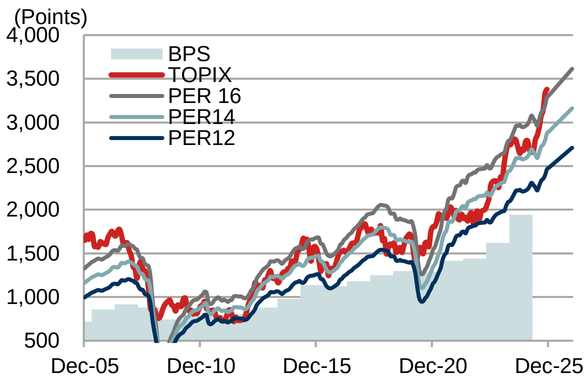


(Note) For each sector, periods that tend to outperform the market average return are shaded. Trends over the past 15 years. ■ denotes particularly favorable periods. (Source) Prepared by Nomura Asset Management based on LSEG Datastream and internal databases.

Japanese equity market current valuations

As shown in Figure 5, since the Global Financial Crisis in 2008 the TOPIX price-earnings ratio (PER) has traded in a 12–16 range, but recent price gains have pushed it above 16. The price-to-book ratio (PBR) has risen to about 1.6, and both PER and PBR can no longer be considered cheap compared with historical levels. Given the rapid rise this fiscal year, the Japanese equity market appears to have reached a temporary plateau. That said, global equity markets have broadly advanced, and Japan still appears relatively inexpensive compared with major world indices, which helps explain why many foreign investors remain focused on Japanese equities.

Figure 5. TOPIX and PER band, and BPS (book value per share) trends
(BPS: fiscal years 2005 - 2024, annual;
others: month-end December 2005 - December 2026;
TOPIX: through November 2025)



The forecast portion of the PER after the end of December 2025 is calculated using 12-month forward EPS estimates (Bloomberg forecasts as of December 1, 2025).
(Note) Parts of the chart have been hidden to improve readability.
(Source) Prepared by Nomura Asset Management based on data from Bloomberg and Nomura Securities.

Market outlook and revision of Corporate Governance Code

Figure 6 shows the Nikkei/TOPIX (NT) ratio trend. Historically the ratio has ranged between about 11 and 16, with an average near 13. The recent move to roughly 16 is largely driven by concentrated buying of AI-related stocks and, combined with the points noted above, suggests the market has seen strong short-term buying and may be transitioning to the next stage.

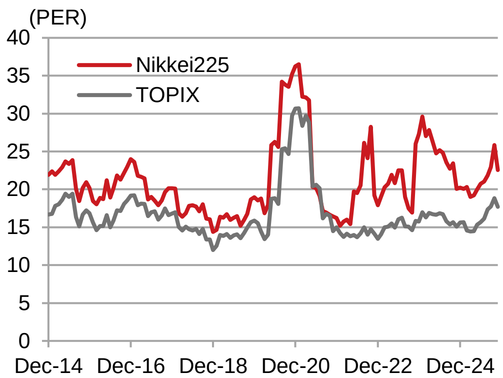
That said, a near-term decline in valuation is unlikely as stock-picking trends have broadened since the AI-driven concentration through October, and next fiscal year's earnings are likely to return to high single-digit profit growth given current exchange-rate trends. As shown in Figure 7, Japanese equities' PER is not unduly expensive, and rotation into defensive sectors may take some time. Consequently, we expect the market to struggle to establish clear directional leadership between defensive and cyclical stocks, and between momentum and quality. Regardless of investment style, the market is viewed to be entering a phase where stocks with high short-term earnings certainty and convincing medium-term directional prospects will be favored, and share price gains in 2026 are expected to be roughly in line with earnings growth.

Figure 8 shows price performance for low-PBR stocks and cash-rich companies. In recent corporate governance discussions there has been talk of requesting explanations for companies' cash and deposit holdings. Initially, low-PBR names (red line) were bought following Tokyo Stock Exchange reform, but that momentum has gradually faded. Cash-rich stocks (gray line) have long been out of favor, but the likelihood that they will take some action in the near future has grown, which could create investment opportunities in this group of stocks.

Figure 6. NT Ratio Trends
(December 2009 - November 2025, monthly)

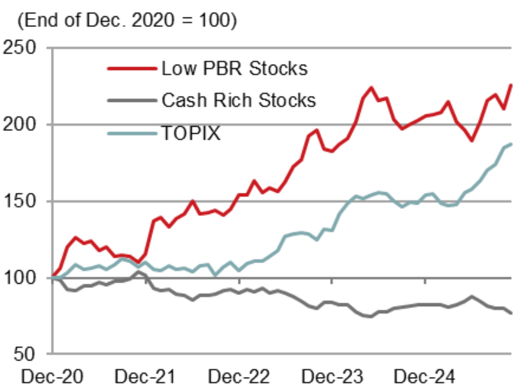
(Source) Prepared by Nomura Asset Management based on Bloomberg data.

Figure 7. PER Trends
(December 2014 - November 2025, monthly)



(Note) Derived by Bloomberg based on the most recent 12-month earnings of the constituent securities of each index. (Source) Prepared by Nomura Asset Management based on Bloomberg data.

Figure 8. Share Price of Low-PBR and Cash-rich Stocks
(December 2020 – November 2025, monthly)



(Source) Prepared by Nomura Asset Management, based on FactSet and LSEG Datastream data.

Among the TOPIX 500 constituents, each month companies were sorted into quintiles by PBR (price-to-book ratio) and by cash-to-total-assets ratio. The "low-PBR stocks" refers to the difference in average share price appreciation between the cheapest quintile and the most expensive quintile. The "cash-rich stocks" refers to the difference in average share price appreciation between the quintile with the highest cash and deposits ratio and the quintile with the lowest cash and deposits ratio; figures are shown as ratios.

Global Equity Market Outlook

The global economy is expected to remain resilient as the adverse impacts of policies under Trump subside, Market attention will center on whether AI-related investments, a major market theme, can sustain their profitability.

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Chief Investment Officer,
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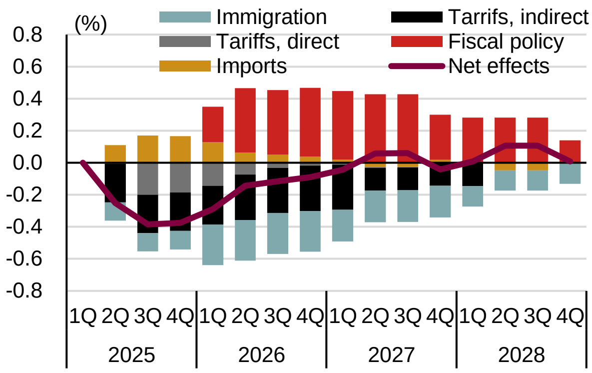
Daisuke Urayama
Chief Portfolio Manager

Will the economy and corporate performance accelerate in 2026?

In 2025, the Trump administration's immigration and tariff policies weighed on the economy. We expect that in 2026 the effects of the administration's tax cuts will begin to materialize, easing that downward pressure and allowing growth to pick up gradually.

Since last summer, assessments have differed on the causes of the concerning slowdown in the labor market: immigration policy, weakening firms' hiring sentiment, or efficiency gains from AI. The Fed has been pursuing preemptive rate cuts, and progress in trade talks has eased uncertainty over tariff policy. With improving corporate hiring sentiment, the labor market is expected to recover in 2026. President Trump's proposed $2,000 "tariff dividend" remains of uncertain feasibility. If implemented, however, it could provide a meaningful boost to household consumption and serve as an additional upside to economic growth.

Figure 1. Impact of Trump's policies on GDP growth
(Deviation from the no policy change scenario)
(quarter-on-quarter annualized, 1Q 2025 - 4Q 2028)



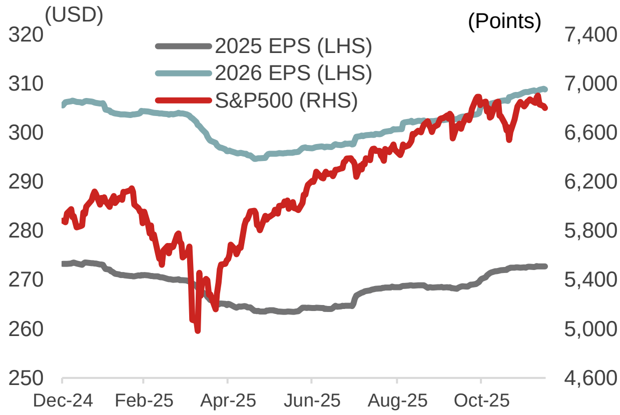
(Source) Nomura Asset Management forecast.

Corporate earnings are expected to recover from the recent slowdown and move toward renewed growth.

Since the announcement of reciprocal tariffs, corporate earnings estimates for 2025 were repeatedly revised down. However, the eventual delay in tariff implementation, progress in trade agreements, and firms' responses - such as inventory adjustments and optimization of distribution networks - meant the ultimate impact was smaller than initially feared. After tariff uncertainty receded over the summer, earnings outlooks began to recover, and S&P 500 aggregate earnings now look on track to grow by around 10% in 2025.

By 2026, those adverse factors should be largely dispelled, and although growth will be driven mainly by large-cap growth stocks, aggregate earnings are projected to rise by about 13%. Looking at current equity valuations on the basis of 2026 earnings, the S&P 500's price-to-earnings ratio (PER) sits within its historical range, indicating no obvious sign of overheating. We therefore expect equity prices to rise in line with expanding corporate earnings.

Figure 2. Earnings per share (EPS) Forecasts and share price trends for the S&P500 Index
(December 31, 2024 - December 16, 2025, daily)

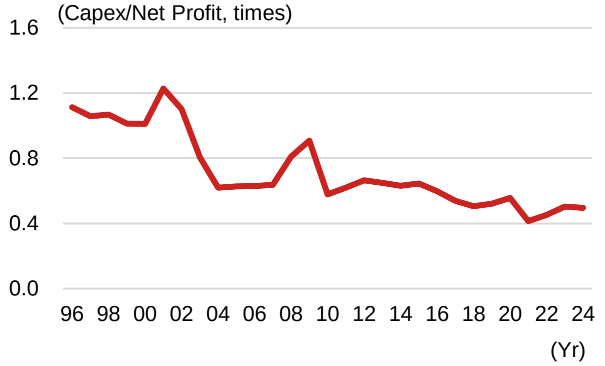


(Source) Prepared by Nomura Asset Management based on Bloomberg data.

Sustainability of the AI Investment Boom

Large-scale investment in AI continues, and its persistence remains a key market concern. Unlike during the IT bubble, current AI investment is concentrated among large firms, primarily hyperscalers, rather than reflecting broad-based adoption, so we do not see top-down signs of overheating. The hyperscalers leading this push are increasing capex alongside revenue growth and have ample cash on hand, which suggests the investment pace remains sustainable for now.

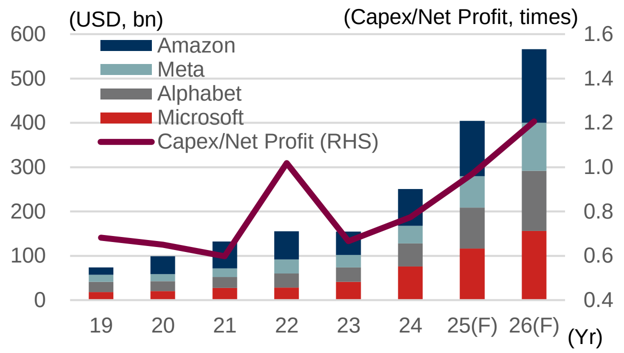
Figure 3. Capital Investment/Net Income Ratio of the S&P500 Companies (1996 – 2024, annual)



(Source) Nomura Asset Management based on Bloomberg data.

Nevertheless, concerns about an erosion of profitability are valid. Because customers are highly concentrated and pricing is often negotiated bilaterally, margins could be weaker than in the earlier cloud business. Even so, investment is more likely to evolve than stop abruptly; with AI-specific chips and other measures to improve capital efficiency gaining traction, large-scale investment is likely to continue as firms seek ways to raise returns.

Figure 4. Capital Investment/Net Income Ratio of Hyperscaler (2019 – 2026, annual)



(Source) Nomura Asset Management based on Bloomberg data.

The leading players might change

At present, the market's attention has focused on Gemini 3, the large-scale language model developed by Alphabet, and the AI-specific custom chips used in its development. Gemini 3 has received strong performance reviews and is attracting more users, and Alphabet has indicated that competitors may adopt its AI chips. This marks a shift from the previous focus on OpenAI and Nvidia.

Reports that OpenAI has taken emergency measures internally to accelerate improvements to its language models underscore the intensity of competition and the rapid pace of evolution in the AI industry. If market participants come to believe that the winners of the AI development race may change, we could see significant shifts across the sector — from demand for particular semiconductors and related equipment to the structure of partnerships and long-term supply contracts. Such developments may also shift investor attention in equity markets and broaden the range of favored stocks. We will continue to monitor industry developments closely.

Emerging Equities: While risks remain, upside expected over the medium term

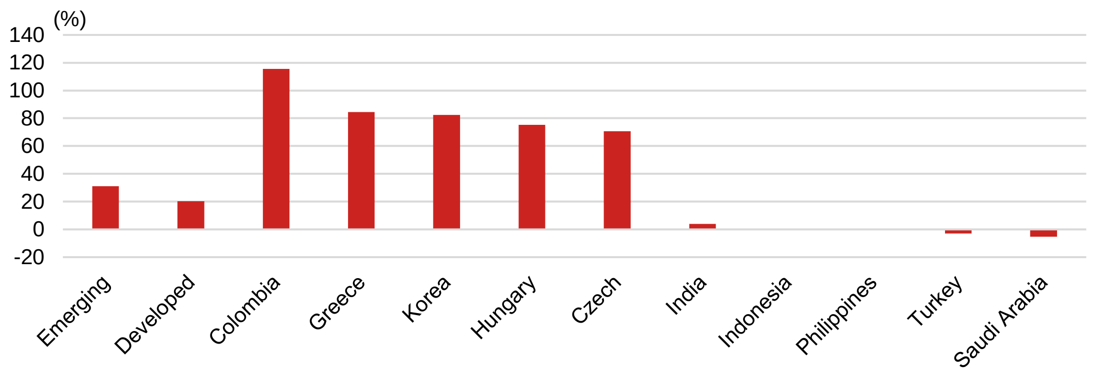
The MSCI Emerging Markets Index (USD-denominated) traded in positive territory year-to-date, though returns varied widely across countries. Korea and several Eastern European nations outperformed, benefiting respectively from strong U.S. IT investment and from an anticipated virtuous cycle into household consumption driven by robust real wage growth. Greece also rallied as credit risk receded. By contrast, Saudi Arabia lagged amid falls in oil prices, and the Philippines underperformed on political-instability concerns linked to corruption allegations.

For 2026, on a valuation basis emerging markets look less cheap compared with their own history, but they still retain a relative valuation discount versus developed-market equities. If U.S. monetary easing continues and U.S. interest rates fall further, emerging-market currencies and equities could receive support.

Key downside risks include renewed U.S.-China tensions that could materially reprice Chinese valuations, a global resurgence in inflationary pressures, and heightened political risk within individual emerging economies.

We are currently focused on Korea, India and Indonesia. In Korea, continued benefits from U.S. IT investment and ongoing government discussions about additional shareholder-value measures could lift valuations. India and Indonesia are attractive for different reasons: near-term scope for additional monetary easing or fiscal stimulus due to low inflation, and medium-term scope for growth supported by a demographic dividend as young people enter the workforce. In China, macro indicators remain weak, but state policy aims to promote AI development, which should benefit certain IT names. Since 2024 the Chinese authorities have also begun measures to encourage greater shareholder returns, making high-dividend stocks another area of interest.

Figure 5. Year to Date Equity Market Return
(in U.S. Dollars: Total Return Index)
(December 31, 2024 - December 2, 2025)



Emerging Market Equities: MSCI EM (Emerging Markets) Index, Developed: MSCI World Index, Individual Countries: MSCI Country Indexes. (Source) Prepared by Nomura Asset Management based on Factset data.

Bond and Currency Market Outlook

Bond yields are likely to fall as markets anticipate further interest rate cuts by the Federal Reserve.

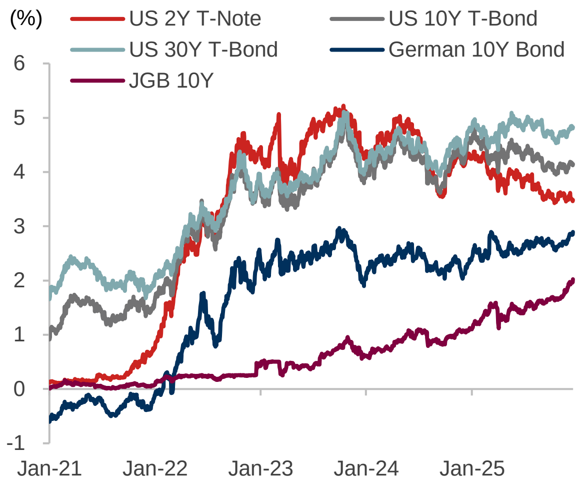
Wataru Kato
Senior Portfolio Manager

Yuji Maeda
Head of Investment
Global Fixed Income

Bond yields are moving differently across countries and regions.

In the second half of 2025, government bond yields in major economies moved differently across regions and maturities. The U.S. 10-year Treasury yield edged down (prices rose) against the backdrop of Federal Reserve (Fed) rate cuts, while in Germany yields trended higher (prices fell) amid growing expectations of an European Central Bank (ECB) pivot toward future rate hikes. In Japan, yields rose notably - driven by Bank of Japan (BoJ) rate hikes and expanded fiscal spending - with the 10-year yield reaching levels not seen in 26 years. By maturity, the global yield curve steepened (the gap between long- and short-term yields widened), as deteriorating fiscal positions in major countries put upward pressure on longer-term bond yields.

Figure 1. Government Bond Yields
(January 4, 2021 – December 19, 2025, daily)



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

Federal Reserve is set to continue interest rate cuts.

The Federal Reserve (Fed) implemented a third consecutive rate cut in December. At the post-FOMC (Federal Open Market Committee) press conference in December, Fed Chair Jerome Powell said the inflationary impact of tariffs appears to be temporary, noted downside risks to the labor market, and indicated that the next move is unlikely to be a rate hike. The median of the FOMC's policy rate projections still implies further cuts ahead.

By contrast, some central banks have been cautious about further cuts. The ECB has held its policy rate steady for four meetings in a row, and some hawkish officials have suggested that the next policy move could be a hike. At the Reserve Bank of Australia, markets are pricing in a rate increase during 2026 after Governor Michele Bullock said at the post-meeting press conference that conditions were discussed that could make a hike necessary. Markets also expect rate-hike cycles to begin in 2026 for the central banks of Canada, Sweden and New Zealand.

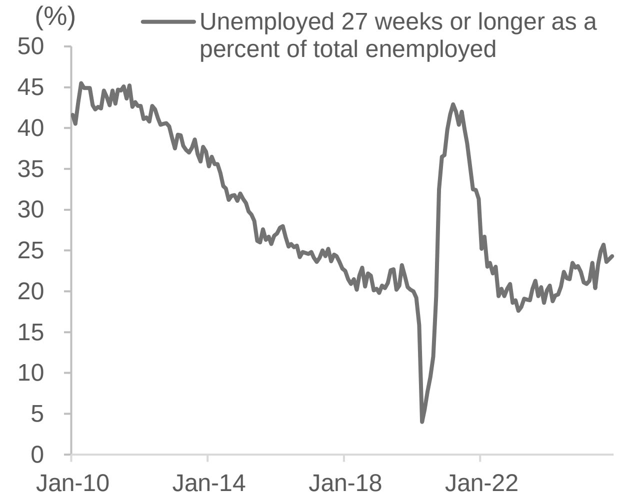
Our view is that, while the hurdle for further rate cuts is high at certain central banks, the Fed and the Bank of England remain likely to continue easing. We assess that the Fed's current policy rate still sits near the upper end of the neutral range, so with subdued employment growth it is likely to use cuts to support the labor market. More generally, given lingering uncertainty about the adverse effects of tariffs, only a limited number of central banks are likely to feel able to move to early rate hikes.

U.S. economy headed for a slowdown

The U.S. economy remains resilient at present, with consumption continuing to be a key support. In line with what is described as a K-shaped recovery, we believe that rising asset prices and the resulting wealth effect have bolstered consumption among wealthy households, which in turn has helped underpin overall consumer spending. At the same time, several indicators point to a mild cooling in the labor market. For example, the share of long-term unemployed or those jobless for 27 weeks or more has been rising, suggesting that re-entry into employment may be becoming more difficult.

Going forward, this gradual cooling of the labor market could increasingly weigh on consumption among low- and middle-income households and, in turn, act as a drag on overall economic activity.

Figure 2. U.S. Employment Indices
(January 2010 – November 2025, monthly)



(Source) Nomura Asset Management based on Bloomberg data.

U.S. Treasury yields are expected to decline in anticipation of the Fed continuing interest rate cuts.

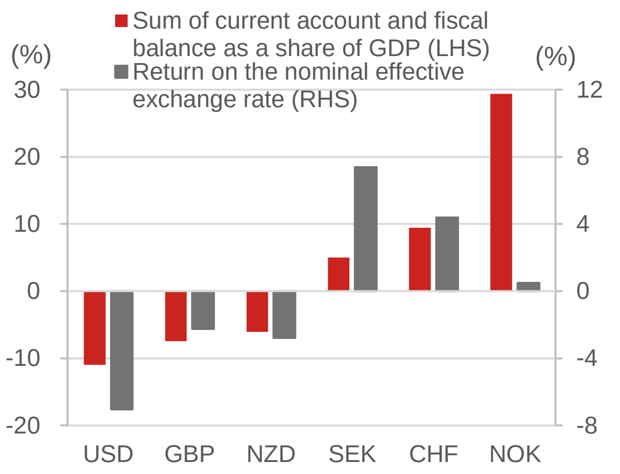
The Fed's continued rate cuts, supported by a slowing labor market, are likely to keep U.S. bond yields under downward pressure in the near term. With the upward pressure on prices from tariffs remaining limited, a negative employment surprise - such as a monthly decline in payrolls - could trigger a significant drop in bond yields.

That said, Fed easing could gradually stimulate the economy, which would increase upward pressure on bond yields in the second half of the year. We should also watch the risk that prior rounds of global monetary easing and fiscal expansion could reaccelerate inflation by strengthening economic activity. If global inflation remains relatively elevated, major governments, including the U.S., have signaled a willingness to increase fiscal spending to support low- and middle-income households. Historically, inflation has tended to accelerate after episodes of monetary and fiscal easing. While we view the inflationary impact of tariffs as temporary, the risk of sustained higher inflation driven by fiscal expansion cannot be ignored over the longer term.

The current and fiscal account balances may have been factored into the foreign exchange market.

In 2025, fiscal balances and current account positions emerged as key determinants of currency returns. As shown in the chart on the right, currencies with larger current account and fiscal deficits - such as the U.S. dollar and the British pound - tended to deliver weaker returns. The U.S. dollar, in particular, underperformed. This largely reflected governments' signals of substantial fiscal expansion, which raised concerns about fiscal positions. In addition, amid uncertainty over tariff policies and weakening confidence in U.S. policy, investors seeking alternatives to the dollar may have favored currencies with current account surpluses.

Figure 3. Sum of Fiscal and Current Account Balances within G10 Currencies: Top 3 Largest Deficit Currencies and Top 3 Largest Surplus Currencies, and the Performance of those Currencies
(Returns are from December 31, 2024 to December 19, 2025; Fiscal balance and current account-to-GDP ratios are as of December 2024)



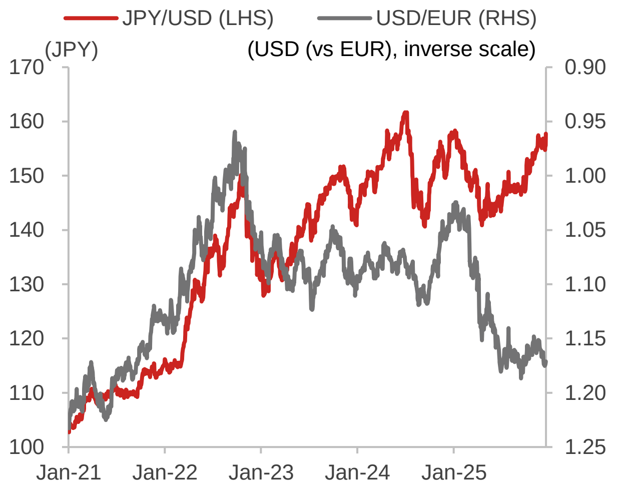
(Note) The nominal effective exchange rate uses the series published by the Bank for International Settlements (BIS).
(Source) Prepared by Nomura Asset Management based on Bloomberg data.

The U.S. dollar is likely to depreciate further

We expect the U.S. dollar to remain prone to declines in 2026. Many central banks are keeping policy rates on hold, while the Fed is expected to continue cutting rates; together with the U.S.'s large twin deficits, these factors are likely to exert persistent downward pressure on the dollar, as they did in 2025.

In addition, rising concerns about the Fed's independence are also likely to weigh on the dollar. The Trump administration has stepped up interventions in Fed policy and appointments. Since the introduction of reciprocal tariffs by the U.S. in April 2025, there have been episodes of heightened concern about confidence in the dollar. We assume that more overt interference in central-bank policymaking and personnel decisions would ultimately erode confidence in the U.S. dollar and contribute to its further weakness.

Figure 4. USD/JPY and EUR/USD movements
(January 4, 2021 - December 19, 2025, daily)



(Source) Prepared by Nomura Asset Management based on Bloomberg data.

J-REIT Market Outlook

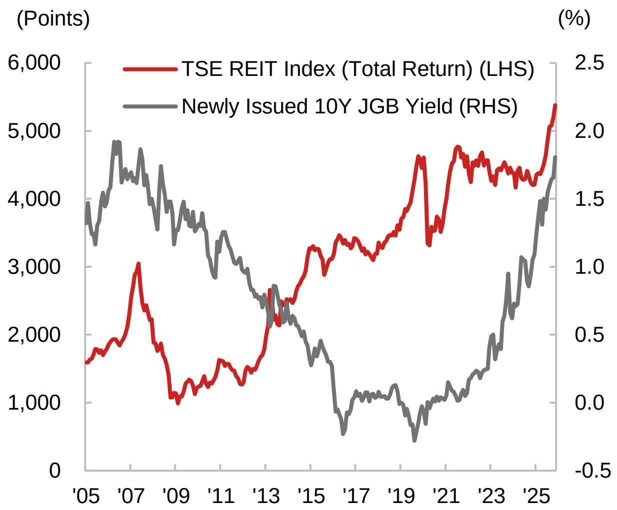
Rent increases are expected to accelerate as inflation takes hold.

Tomoyuki Nobuhara
Chief Portfolio Manager

Accelerating rent growth has supported steady performance in the J-REIT market

Domestic long-term interest rates have risen following the Bank of Japan's policy shift and inflation becoming more entrenched. Higher rates have increased borrowing costs for REITs; however, together with broad improvements in leasing conditions, especially for office space, real-estate owners such as J-REITs have been passing inflation-related cost increases, including higher financing costs, through to tenants via higher rents. Rising construction and labor costs have pushed up development costs for rental properties. As a result, newly planned office buildings will need to secure tenants at higher rents, adding further upward pressure. Consequently, rent growth has accelerated, and the J-REIT market has shown resilience.

Figure 1. TSE REIT Index and Newly Issued 10 Yr JGB Yield
(January 2005 – November 2025, monthly)

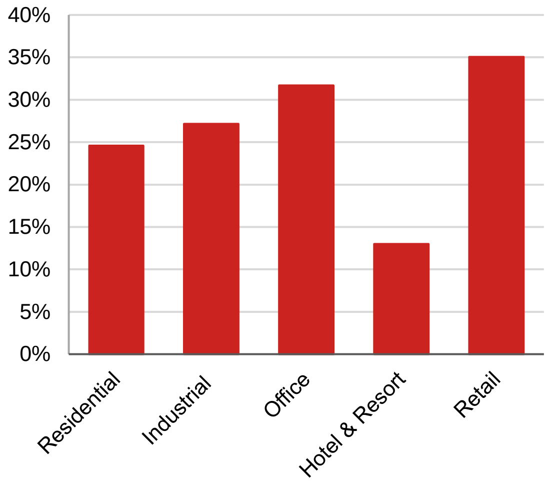


(Source) Nomura Asset Management based on QUICK data

Sectors experiencing strong rent growth have delivered particularly robust returns.

Year-to-date sector returns in 2025 have been positive across the board, with the office and retail sectors particularly strong. The office market has improved materially as demand for centrally located, high-quality space has risen, driven by the hiring of new graduates and efforts to retain talent amid a tightening labor supply. Retail conditions are favorable, supported by stronger leasing in central urban shopping centers and higher percentage rent income associated with inflation. Industrial (logistics) and rental residential returns have lagged somewhat. However, logistics may benefit as the supply of new facilities slows, and rental housing fundamentals remain solid given accelerating rent growth.

Figure 2. J-REIT Sector Return
(2025 YTD, December 30, 2024 – November 28, 2025)



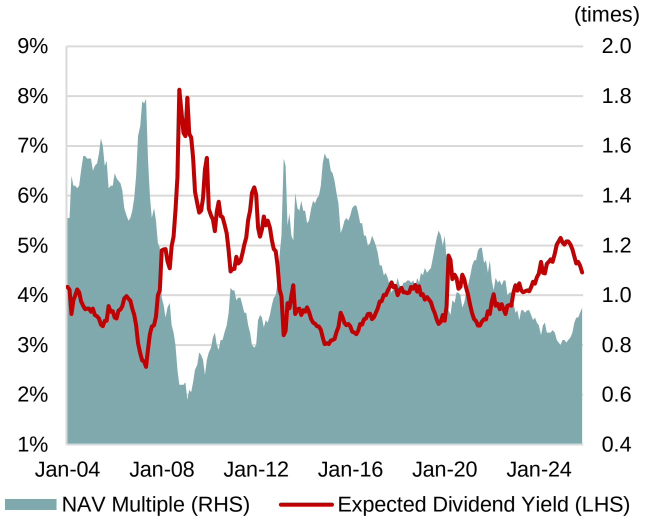
(Note) Market capitalization weighted average, industry classification by GICS industry subsector classification.
(Source) Nomura Asset Management based on Bloomberg data

NAV multiples turn up after bottoming out

The J-REIT market, which had been languishing, began to recover in 2025, and the NAV multiple has trended upward after hitting bottom. While in 2024 the negative effects of rising interest rates were in focus, rent increases have begun to outpace rising costs in 2025, and property prices have remained stable—factors supporting the rise in the NAV multiple. Although the NAV multiple has turned upward, it still remains below 1.0. As the economy enters a more pronounced inflation phase and real estate is expected to serve as an effective inflation hedge, there still appears to be room for further recovery.

(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
(January 2004 - November 2025, monthly)

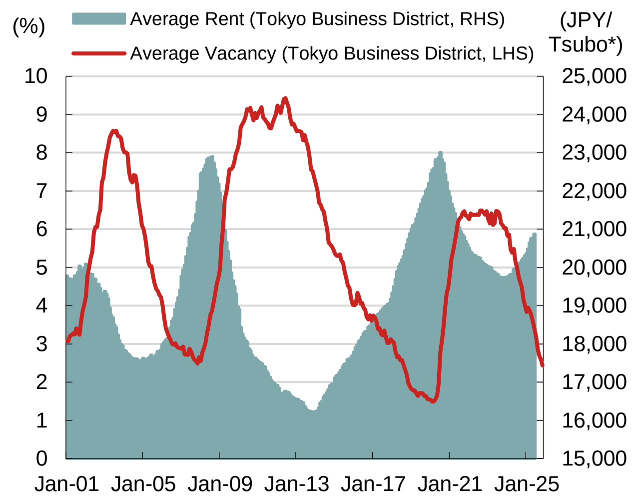


(Note) The market capitalization-weighted average value of the NAV multiple (investment unit price ÷ NAV per unit) for all J-REITs.
(Source) Nomura Asset Management based on data from the Association for Real Estate Securitization https://www.ares.or.jp/en/

The office market may be on track to recover to pre-COVID-19 levels.

With labor shortages remaining a key challenge for many companies, the view is gaining traction that rent for high-quality offices that are needed to secure talent should be treated as an investment rather than a cost. At the same time, workforce constraints and rising development costs have led to delays or cancellations of office completions, which should support an improvement in the supply-demand balance going forward. New office buildings due for completion appear to be securing tenants smoothly, so the office market is expected to remain healthy over the medium term. Against this backdrop, office rents have risen sharply, and if market improvement continues, a recovery to pre-COVID levels could come into view.

Figure 4. Tokyo Business District Office Market
(January 2001 to November 2025, monthly)

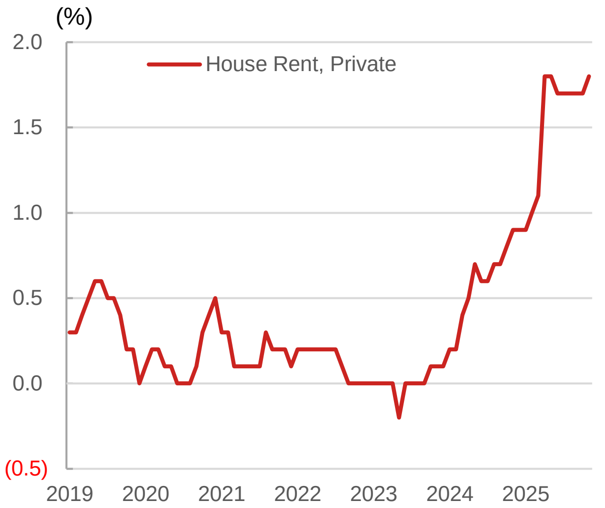


(Note) * 1Tsubo ≈ 3.3²m
(Source) Nomura Asset Management based on data from Miki Shoji

Rent growth for rental housing is also accelerating.

The rental-housing sector has seen rents trend upward, driven by factors such as population inflows to Tokyo central area and rising condominium prices which have pushed more households toward renting. Like office buildings, rental housing operators face upward pressure on management and operating costs as inflation becomes more entrenched, prompting landlords to be to take a more proactive approach in raising rents. At the same time, wage growth and improving income conditions have strengthened tenants' ability to pay, supporting the prospect of sustained rent increases going forward.

Figure 5. Consumer Price Index
(Tokyo metropolitan area/ by item)
(January 2019 – November 2025, monthly yoy)

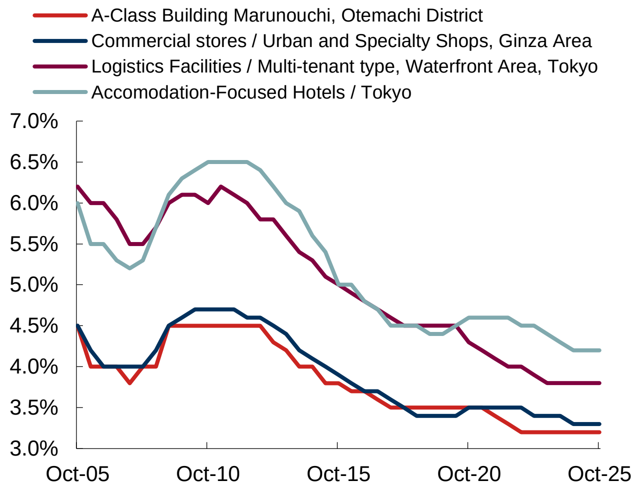


(Source) Nomura Asset Management based on data from the Statistics Bureau of the Ministry of Internal Affairs and Communications (https://www.e-stat.go.jp/).

Property prices are holding steady

In theory, rising interest rates lead to higher expected cap rates for real estate investments, which puts downward pressure on property prices. However, expected cap rates have remained stable recently. Even assuming a certain rise in interest rates, income property yields still look attractive relative to borrowing costs, and leasing conditions have stayed firm—both of which support the prospect of expanding cash flows going forward. Stable property prices help sustain property appraisal and NAV stability for REITs, and thus serve as a supporting factor for the J-REIT market.

Figure 6. Real Estate Expected Cap Rate
(October 2005 – October 2025, 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

Major Economic and Market Forecast

			2025				2026		2023	2024	2025	2026
			Q1	Q2	Q3	Q4	Q1	Q2				
					F	F	F	F			F	F
Real GDP	World	*1,*4	2.8	2.8	2.5	2.3	2.3	2.2	3.0	2.8	2.6	2.3
(qoq, ann, %)	Developed	*2	0.6	2.3	1.4	1.3	1.5	1.4	1.9	1.8	1.6	1.5
	Emerging	*1,*3	4.3	4.4	4.0	3.7	3.5	3.5	4.6	4.4	4.1	3.6
	United States		-0.6	3.8	2.5	1.2	1.9	1.7	2.9	2.8	1.9	1.9
	Eurozone		2.3	0.6	1.1	1.0	1.1	1.3	0.6	0.8	1.4	1.1
	Japan		1.5	2.1	-2.3	1.7	0.9	1.1	0.7	-0.2	1.2	0.8
	China	*1	5.4	5.2	4.8	4.5	3.9	4.3	5.4	5.0	4.9	4.2
CPI	World	*4	2.8	2.6	2.6	2.6	2.6	2.7	4.2	3.1	2.7	2.5
(yoy, %)	Developed	*2	2.7	2.4	2.7	2.7	2.5	2.7	4.6	2.7	2.6	2.5
	Emerging	*3	3.0	2.9	2.5	2.5	2.7	2.7	3.6	3.6	2.7	2.6
	United States		2.7	2.5	2.9	2.9	2.9	3.3	4.1	3.0	2.7	3.0
	Eurozone		2.3	2.0	2.1	2.1	1.9	1.7	5.4	2.4	2.1	1.8
	Japan	*5	3.1	3.5	2.9	2.5	1.7	1.8	3.1	2.5	3.0	1.8
	China		-0.1	0.0	-0.2	0.4	0.4	0.5	0.2	0.2	0.0	0.2
Policy Interest Rate	United States	*6	4.50	4.50	4.25	3.75	3.75	3.75	5.50	4.50	3.75	3.25
(%)	Eurozone	*6	2.50	2.00	2.00	2.00	2.00	2.00	4.00	3.00	2.00	2.00
	Japan	*6	0.50	0.50	0.50	0.75	0.75	0.75	-0.10	0.25	0.75	1.00
	China	*6	3.10	3.00	3.00	3.00	3.00	3.00	3.45	3.10	3.00	3.00
10-Year GB Yield	United States		4.21	4.23	4.15	4.17	4.00	3.80	3.88	4.57	4.17	4.00
(End of Period, %)	Germany		2.74	2.61	2.71	2.86	2.70	2.60	2.02	2.37	2.86	2.80
	Japan		1.49	1.43	1.65	2.07	1.90	1.90	0.61	1.10	2.07	2.20
Equity Index	S&P500		5,612	6,205	6,688	6,846	6,970	7,150	4,770	5,882	6,846	7,540
(End of Period, Point)	EURO300		2,126	2,142	2,219	2,360	2,360	2,400	1,889	2,016	2,360	2,480
	TOPIX		2,659	2,853	3,138	3,409	3,410	3,510	2,366	2,785	3,409	3,730
	MSCI EM ($)		1,101	1,223	1,346	1,404	1,390	1,410	1,024	1,075	1,404	1,460
Currency	USD/EUR		1.08	1.17	1.18	1.17	1.20	1.21	1.10	1.04	1.17	1.21
(End of Period)	JPY/USD		149.5	144.4	147.7	156.7	152.0	150.0	141.0	157.2	156.7	157.0
	JPY/EUR		161.5	169.6	173.5	184.1	182.0	182.0	155.7	162.7	184.1	190.0
	RMB/USD		7.25	7.17	7.12	6.99	7.00	7.00	7.09	7.30	6.99	6.90

Emerging FX and Policy Interest Rate Forecast

		2023	2024	2025	2026
					F
Currency	INR	83.2	85.6	89.9	90.0
(Per USD,	IDR	15,397	16,095	16,675	16,800
End of Period)	BRL	4.9	6.2	5.5	5.6
	MXP	16.9	20.8	18.0	18.5
	ZAR	18.3	18.9	16.6	17.0
	TUR	29.5	35.4	43.0	50.0
Policy Interest Rate	India	6.50	6.50	5.25	5.00
(%)	Indonesia	6.00	6.00	4.75	4.25
	Brazil	11.75	12.25	15.00	13.00
	Mexico	11.25	10.00	7.00	6.50
	S. Africa	8.25	7.75	6.75	6.50
	Turkey *6	42.50	48.13	38.00	25.00

(Note) Forecast as of December 15, 2025 (economic indicators are based on the latest available data as of the previous day).
1) Year-on-year comparison. 2) GDP-weighted average for the United States, Eurozone, Japan, the United Kingdom, Canada, and Australia.
3) GDP-weighted average for China, India, Brazil, South 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 index. 6) Interest rates: for Japan, the uncollateralized overnight call rate target (however, for the end of 2023, the policy-rate-bearing balance interest rate is used); for the United States, the upper limit of the Federal Funds target range; for the Eurozone, the central bank deposit facility rate; for China, the 1-year loan prime rate; and for Turkey, the weighted average funding rate from the central bank.*As for forecast columns, actuals are prioritized if available.
(Source) Oxford Economics, Bloomberg, and Nomura Asset Management

Index Hedge Clause

The index used as references in material is as follows: (Includes indicators partially used and/or not shown.)

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