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Strategist View:

How Should We View the Increasing Upward Pressure on Japan’s Long-Term Interest Rates?

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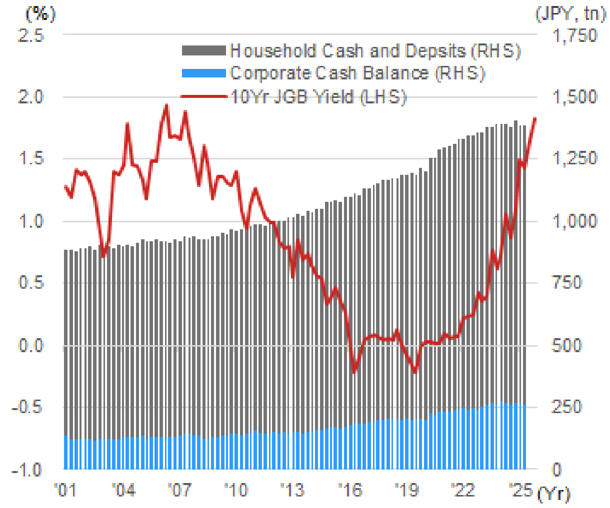
Long-term interest rates rise to levels not seen since 2008

On November 20, the yield on Japan’s 10-year government bonds climbed into the 1.8% range, reaching levels not seen since 2008, and expectations for higher long-term interest rates are strengthening. In addition to the impact of rising US interest rates due to diminished expectations for US rate cuts, some view that the Takaichi administration’s supplementary budget for fiscal 2025 will be large-scale, exceeding 17 trillion yen. The question is whether the rise in long-term interest rates will become a drag on the economy and corporate performance.

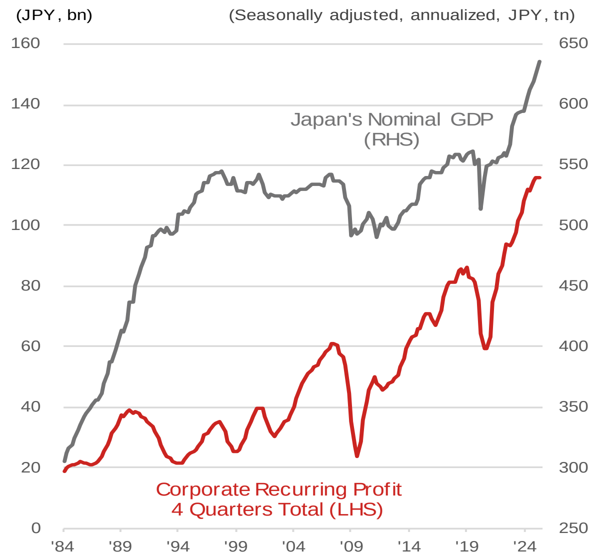
Recently, the combined cash and deposit balances of households and corporations increased by about 460 trillion yen compared to 2008, when long-term interest rates were at similar levels, reaching approximately 1,400 trillion yen (top right chart). Nominal GDP continues to hit record highs, and corporate profits have more than doubled compared with 2008 (bottom right chart). Given these circumstances, it can be considered that Japan’s economy and corporate earnings are becoming more resilient to rising long-term interest rates.

Fig. 1. Household Cash and Deposits, Corporate Deposit Balance, and the 10-Year JGB Yield



Period: (10-year government bond yield) End of March 2001 – November 20, 2025, quarterly. (Other data) End of March 2001 – End of June 2025, quarterly. Source: Prepared by Nomura Asset Management based on Bloomberg data.

Fig. 2. Corporate Earnings (recurring profits, 4-quarter total) and Nominal GDP



Period: 1Q 1984 – 2Q 2025, quarterly • Recurring profits of Japanese companies are based on data from the Corporate Enterprise Statistics, Source: Prepared by Nomura Asset Management based on Bloomberg data.

Rise in long-term interest rates - a sign of economic revival and return to a growth trajectory?

There has long been a view that “rising interest rates cool the economy,” but such concerns have so far proven unfounded. Even as long-term interest rates have risen significantly in recent years, Japan’s economy and corporate earnings have maintained an expansionary trend. It is highly likely that Japan now has the foundation to adapt to rising long-term interest rates.

Attention should also be paid to the relationship with the stock market. During the period from 2006 to 2007, when long-term interest rates rose to around 2%, the 12-month forward PER (price-earnings ratio) of TOPIX (Tokyo Stock Price Index) hovered around 20 times. Rising interest rates do not necessarily suppress stock valuations; in some cases they reflect expectations for the economy and corporate performance, leading to higher valuations. The rise in long-term interest rates is not merely a risk but can also be seen as an important sign that the Japanese economy is moving toward economic revival and a return to a growth trajectory.

The commentary is based on personal views and does not necessarily reflect the house view.