

## Strategist View:

### Is the Market Impact of Expectations for December BOJ Rate Hike Limited?

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#### BOJ Governor Ueda's hint at a rate hike at the December meeting

In response to the Bank of Japan (BOJ) Governor Kazuo Ueda's speech on Dec 1, expectations of a year-end rate hike rose sharply. The probability the market was pricing in for a rate increase at the December 2025 meeting jumped to around 82%, and long-term yields surged past 1.87% as investors began to anticipate a hike. The rise in yields weighed on equities, leading to a sharp decline in the stock market (Fig. 1).

The background to this lies in memories of the rapid repricing led by comments from the Governor and Deputy Governor in January. The markets back then had not sufficiently priced in a rate hike as of early January. Against this backdrop, the remarks made by the officials somewhat forcefully drove this pricing, creating an impression of a hasty rate hike. Similar to the period following the July rate hike last year, this led to widespread selling of Japanese equities by overseas investors. This time as well, with Governor Ueda making decisive comments about rate hike decisions reminiscent of January, markets rapidly began pricing in a rate hike at the December meeting.

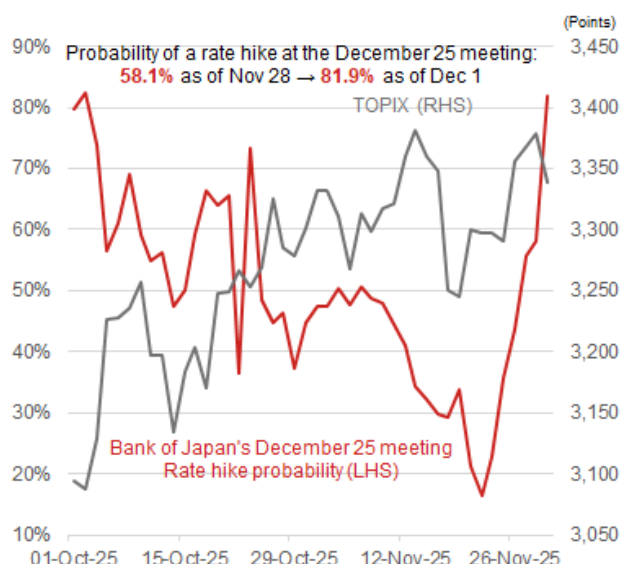
#### Limited impact of rate hikes on Japanese equities?

Nonetheless, we believe there is no need for alarm. Despite the BOJ's gradual rate increases to date, nominal GDP growth has continued, and TOPIX's 12-month forward EPS is expected to reach a record high, indicating that corporate earnings should remain robust (Fig. 2). In a phase of ongoing economic and earnings expansion, rate hikes can be interpreted as moving toward economic revival and a return to a growth trajectory, rather than a negative shock, and are therefore unlikely to undermine the trend in Japanese equities.

Accordingly, we view the impact of any additional rate increases on the Japanese stock market as limited. Even in a rising-rate environment, Japanese equities benefit from multiple tailwinds - economic expansion, progress in corporate reforms, and political changes. These structural positives should support the market, and we believe the upward trend in Japanese stocks is likely to continue over the medium to long term.

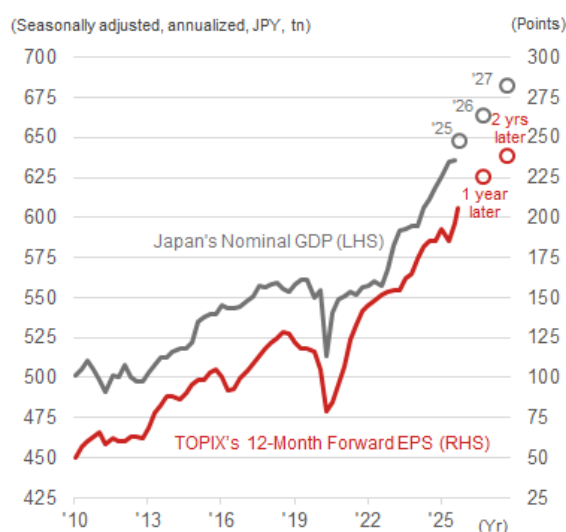
The commentary is based on personal views and does not necessarily reflect the house view.

Fig. 1. The Probability of a rate Hike at the Bank of Japan's December 2025 Meeting and TOPIX (Tokyo Stock Price Index)



Period: October 1, 2025 – December 1, 2025, daily. The probability of an additional 25-basis-point rate hike by the Bank of Japan is calculated based on OIS (overnight index swap) market rates, which reflect the exchange between floating and fixed interest rates. Source: Prepared by Nomura Asset Management based on Bloomberg data.

Fig. 2. Japan's Nominal GDP and TOPIX's 12-Month Forward EPS



Period: (Japan's nominal GDP) Q1 2010–Q3 2025, quarterly (TOPIX's 12-month forward EPS) end-March 2010–December 1, 2025, quarterly

Source: Prepared by Nomura Asset Management based on Bloomberg data.

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