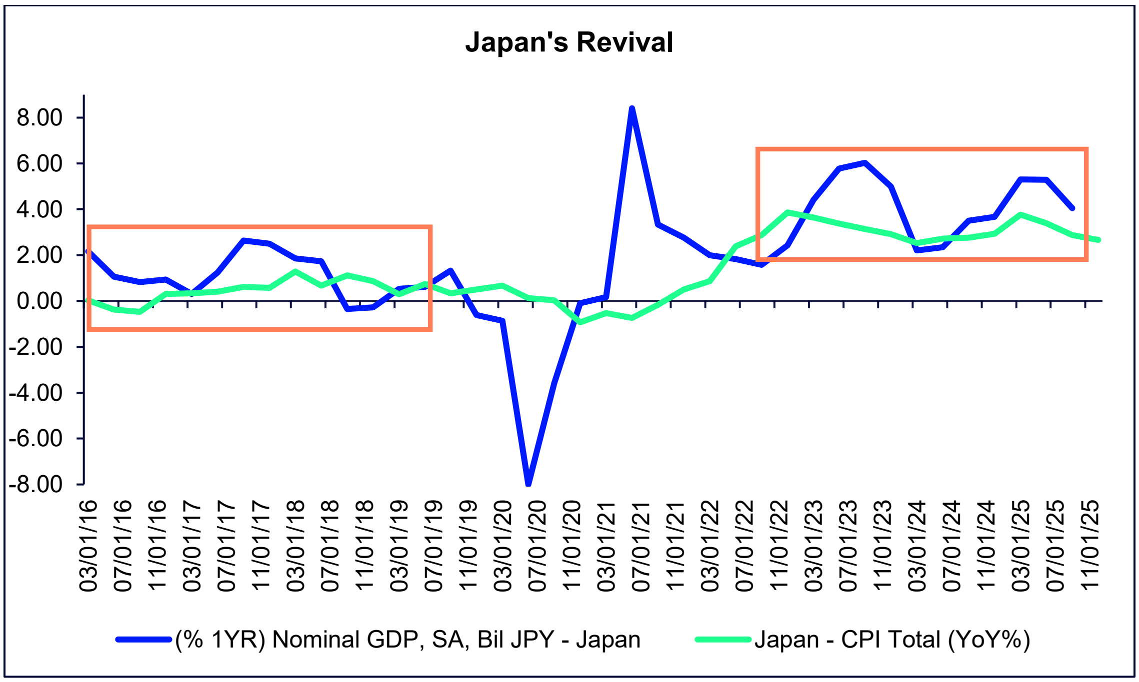
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
February 5, 2026

Mind on the Market

Chart of the Week



Source: FactSet, as of December 31, 2025.

With Japan's snap general election slated for February 8 and recent volatility rippling through JGBs and the yen, investors may be questioning how to view Japanese equities in the current environment. Surges in yields and currency markets have drawn headlines and raised concerns from investors, doing so against the backdrop of increased inflation after years of subdued price pressures. Let's place recent developments in proper context and highlight the key considerations equity investors should weigh as they assess Japan's market landscape.

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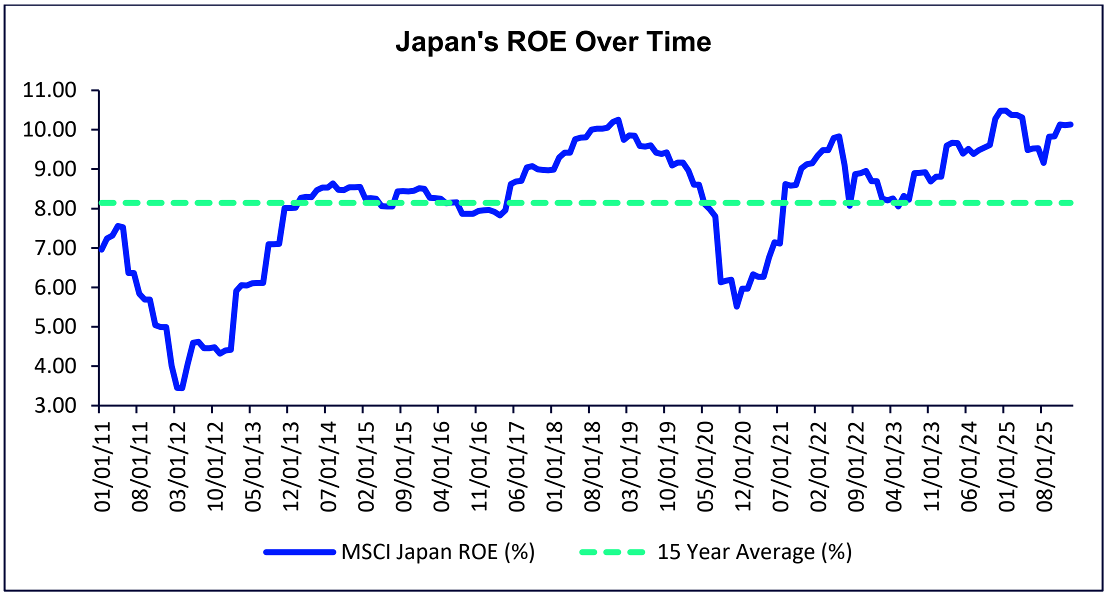
Weekly Highlights

Cumulative Total Return of MSCI Japan YTD	Cumulative Total Return of MSCI Japan relative to MSCI ACWI ex Japan YTD	Estimated EPS Growth of MSCI Japan for CY 2025
8.11%	5.27%	8.89%
Source: FactSet, as of 2/3/26 in USD.	Source: FactSet, as of 2/3/26 in USD.	Source: FactSet, as of 2/4/26 in USD.

Recently, Japanese investors have experienced a sharp rise in yields and notable yen appreciation, which has understandably unsettled sentiment. However, the structural backdrop of the Japan market suggests a more stable narrative than these developments imply, as detailed in Masahiko Loo's Japan's "Truss Shock": A market scare, but not a systemic crisis. Against this backdrop and with the occurrence of a national election, it is worth examining the story that equity markets are telling us. While we remain constructive on Japanese equities this year, the outlook is more nuanced—underpinned by strengthening fundamentals, yet moderated by valuations that appear stretched relative to growth.

Taking Stock of Stocks

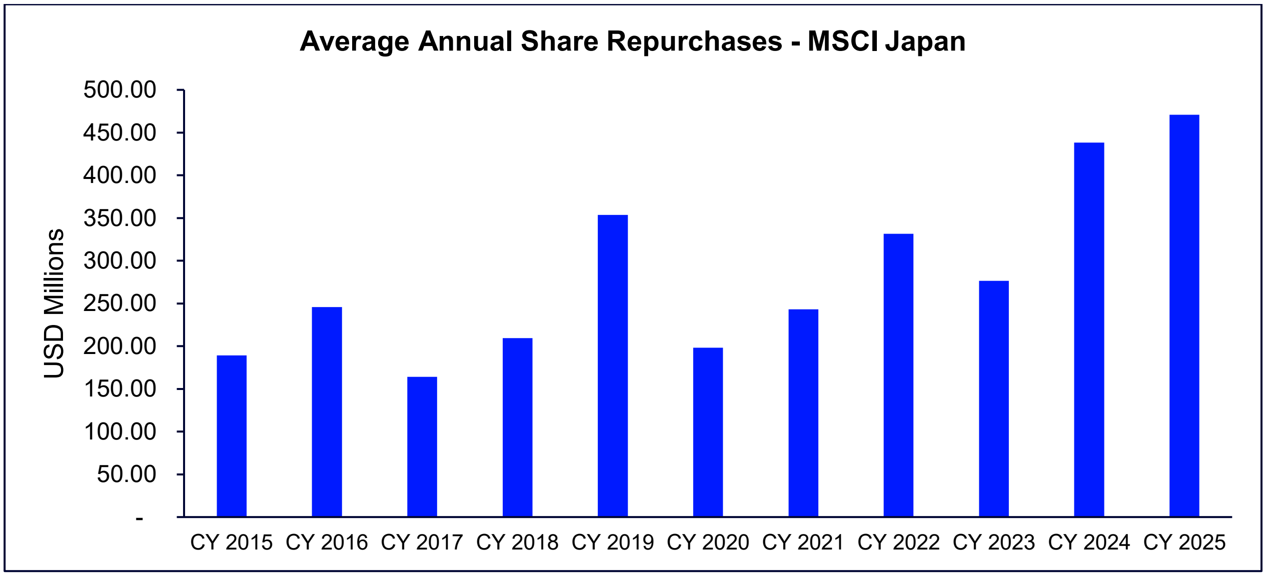
Japanese equities are off to a strong start. The MSCI Japan index has returned a healthy 8.1% YTD, outpacing regional counterparts who dominated headlines in 2025. However, valuations warrant careful interpretation. At first glance, Japan appears reasonably valued: Japan is trading at 16.8x forward earnings, which sits well below that of the MSCI ACWI at 19x earnings, though modestly above the MSCI EAFE ex Japan Index at 15.7x earnings (FactSet, as of 1/30/2026). However, this picture becomes more nuanced when viewed through a growth-adjusted lens. MSCI Japan's forward-looking PEG ratio stood at 2.02 – much higher than both the MSCI ACWI (1.50) and MSCI EAFE ex Japan (1.70) – suggesting expensiveness relative to expected growth. That said, these signals should be weighed along signs of improving fundamentals. Return on equity for MSCI Japan has continued to trend higher and now stands at 10.14%, exceeding its 15-year historical average of 8.14% (FactSet, using monthly data, as of January 30, 2026), indicating that corporate profitability and capital efficiency are moving in a more constructive direction.



Source: MSCI, FactSet. Data shown monthly as of January 30, 2026.

The earnings backdrop is mixed, but the direction of change is notable. Consensus EPS growth estimates for CY 2025 have jumped from 0.42% in September 2025 to 8.89% today (FactSet, as of 2/4/26). Early read-throughs from Q4 earnings remain preliminary at this point. With approximately 43% of companies reported as of February 4th, reported EPS growth has come in at roughly 13.5% although dispersion remains high across sectors, with Communication Services contributing 4.93%, with 40% of that sector's companies reported. Consumer Discretionary, by contrast, is off to a rough start with a -14.6% contribution, but with only 27% reported in the sector. So, what is driving earnings revisions higher?

One interesting trend is the upward trajectory of dividends offered. Over the past five years, dividend payout expectations for MSCI Japan constituents have increased by roughly 38% (as measured by dividend per share forecast NTM in monthly data, FactSet as of 1/30/26 in USD), showing that capital reforms are allowing Japanese companies to return more cash to shareholders, perhaps a signal of expected durable future cash flows. Additionally, Japanese companies are increasing their share buyback programs. In fact, FactSet data shows that average annual share repurchases per MSCI Japan Index constituent were materially higher in 2024-2025 compared to the mid-2010s (FactSet, using latest available calendarized data as reported by MSCI Japan constituents, 2015-2025). Share buybacks can increase earnings projections by mechanically boosting EPS - removing shares outstanding from the market, which emphasizes the numerator of the equation. Albeit less straightforward, share buybacks also can signal that management views the stock as undervalued, and improves free cash flow per share, while fortifying fundamentals.



Source: FactSet, as of December 31, 2025. Data represents FactSet-calculated averages across constituents in the MSCI Japan Index per year of calendarized annual reported share repurchases, based on currently available company-reported data. Share repurchases in this context are defined by FactSet as funds used to reduce common and preferred stock outstanding. Figures are presented in USD millions and may exclude companies with incomplete or unavailable historical data.

Broader macro-economic factors have also helped the move higher. A sustained weaker yen has enhanced the competitiveness of Japan's exports, benefitting firms with global demand exposure. Additionally, meaningful wage increases stemming from Shunto labor negotiations have helped lift household income, supporting more discretionary spending and domestic demand. Inflation has played a role, as companies with pricing power can raise prices and grow nominal revenues. Taken altogether, for an environment of resilient demand, solid fundamentals, and improved pricing power, moderate inflation can be supportive of earnings growth - albeit unevenly across sectors. While Japan's earnings outlook still trails that of global equities - the EPS growth for MSCI ACWI in CY 2025 is[1] estimated at 10.7% - revisions will be worth watching.

An Expansionary Agenda

The policy backdrop adds another layer to the investment debate. Prime Minister Sanae Takaichi, elected in the fall and now calling a snap election, continues to advocate for an expansionary fiscal stance. Previous analysis on Takaichi's policies, as detailed in an earlier Mind on the Market piece,

[1] FactSet, as of 2/3/26.

Takaichi's policies fuel Japan's market rally | State Street, highlighted the market's positive response to this approach. Further supporting this narrative are reports from late 2025 indicating plans by the administration to increase funding for AI-related chip development, and considerations to eliminate a food consumption tax, with estimates of households spending roughly 30% of their income on food. Fiscal measures, like these, help to support near term equity performance despite concerns of overall debt levels.

These dynamics paint a more nuanced picture than recent Yen and JGB volatility might imply, with the equity outlook contingent upon developing earnings momentum, and a pro-growth fiscal backdrop looking to sustain performance. As markets react to the outcome of this month's snap general election, investors may benefit from reassessing Japan, not through the lens of short-term developments, but through a more holistic view of its evolving equity story.

Source: FactSet, State Street Investment Management. Past performance is not a reliable indicator of future performance.

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* This figure is presented as of December 31, 2025 and includes ETF AUM of $1,950.80 billion USD of which approximately $173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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Exp. Date: 2/28/2027.