amova Asset Management

Navigating Japan Equities: Monthly Insights from Tokyo (April 2026)

Energy-related geopolitical risk, BOJ policy and Japan's wage-led recovery

This month, we assess how energy-related geopolitical risk could influence the BOJ's path towards monetary policy normalisation and affect Japan's nascent wage-led recovery.

By Naoki Kamiyama, Chief Strategist

15 April 2026

BOJ policy normalisation: expected path and oil-related risks

The Bank of Japan (BOJ) is currently undertaking gradual monetary policy normalisation, with the policy rate remaining significantly below the prevailing inflation rate after the central bank started the process from an exceptionally accommodative position. In principle, a policy rate above 2% could be justified if inflation at that level were seen as durable. However, the BOJ is not expected to pursue a high terminal rate. Structural factors—most notably demographic decline—mean that Japan continues to face fundamental challenges in sustaining inflation over the medium to long term. As a result, consensus expectations remain anchored on a terminal policy rate below 2%. The BOJ's own confidence in inflation being sustained over the longer-term is likely limited, reinforcing expectations of a shallow hiking cycle.

Developments in oil markets in the wake of the conflict in the Middle East are expected to test the BOJ's normalisation process. We see three broad scenarios framing investor thinking.

In the base case, any disruption to oil supply is temporary. Even if tanker traffic through key routes is interrupted for several weeks, Japan's substantial oil reserves—estimated at roughly 250 days—would limit the impact on production. While oil prices may rise for a period, the resulting inflationary pressure would be limited and insufficient to materially damage the broader economy. Under this scenario, monetary policy would remain on its current path.

A second scenario involves a more prolonged period of elevated oil prices without a corresponding rise in wages or labour shortages strong enough to cushion the blow. In this case, higher energy costs would crowd out discretionary spending, leading to weaker consumption and lower trend growth. This outcome would be characterised less by inflation than by a consumer-led slowdown. This would not result in stagflation because households' reduced purchasing power would limit price increases elsewhere in the economy, and higher oil prices would not translate into higher incomes.

The third possibility—a sustained supply shock in which oil inflows effectively dry up for six months or more—would represent a genuine negative supply shock like the one witnessed during the pandemic period. While this could trigger a recession, it would not necessarily produce sustained inflation. Such a scenario would require a governmental response, such as adjustments to Japan's energy mix, rather than monetary policy alone.

Geopolitical considerations, including US strategic interests, currently limit the likelihood of a prolonged shutdown of oil supply routes. Consequently, the market's central scenario remains that any oil-related inflation proves temporary and gives way to softer growth rather than persistent price pressures. Under this baseline, the BOJ's expected policy path remains mostly unchanged, with one rate hike in 2026, followed by another in early 2027 (January–March). If higher energy costs weigh on household spending and consumption weakens substantially as a result, the BOJ may pause on further tightening and potentially reassess its stance.

Crucially, the risk of Japan experiencing entrenched stagflation is limited. Japan's dependence on oil has declined significantly since the 1970s. Even in the event of higher oil prices, the more probable outcome is slower growth rather than an inflationary spiral requiring aggressive monetary tightening.

Wages, oil prices, and the sustainability of domestic demand

Japan is currently experiencing the most meaningful change in wage dynamics for the first time in decades, one that is driven by stronger corporate sales rather than by cost-push inflation. The starting point of the wage cycle was robust demand. Exports have recovered after the pandemic, domestic sales volumes have risen and Japan Inc. is facing persistent labour shortages. Under these conditions, companies are able to raise wages and maintain profitability; they can also increase capital expenditure to substitute for limited labour. Wage growth, therefore, is emerging on the back of strong demand rather than due to policy intervention.

Over the past two years, inflation rose substantially while wage growth lagged, resulting in weak real income growth and subdued consumption. However, the tide now appears to be turning. Inflationary pressures are expected to moderate—the BOJ's CPI projections are around 1.9%, with market consensus pointing to a gradual deceleration—while labour shortages remain. Importantly, wage settlements in the current fiscal year point to further nominal wage gains. This creates the conditions for sustained real wage growth for the first time in recent memory, marking a potential beginning for consumption-led growth in Japan.

It is worth noting that amid a spike in energy prices due to geopolitical tensions in the Middle East, a sustained rise in real wages would be largely independent of oil prices. The key question is not whether costs can always be passed through, but whether Japan can transition toward a more conventional growth model in which domestic demand plays a central role. For the first time since the Global Financial Crisis, consumption has a chance of contributing meaningfully to growth. Stronger sales enable firms to hire more and increase wages; continued labour shortages reinforce upward wage pressure; and higher income feeds back into consumption, forming a self-reinforcing cycle.

Geopolitical risks in the Middle East should be viewed primarily in terms of their effect on consumer psychology rather than as a potential driver of sustained inflation. Higher oil prices may raise the cost of essentials and weaken household sentiment instead of generating price pressures. In the near term, such shocks could produce a brief inflationary spike as households dip into savings. Once that adjustment passes, the more likely outcome is softer growth and disinflationary pressure.

From a policy perspective, oil-driven price increases thus pose a risk for the effect they may have on the virtuous wage–consumption cycle rather than as a possible catalyst for sustained inflation. If higher energy costs weaken consumption and household confidence, the result would be a deterioration in growth. This, in turn, would put interest rates under downward pressure instead of providing the BOJ with a justification for further rate hikes.

Japanese stocks fall in March on concerns of heightened inflationary pressure

The Japanese equity market ended March lower with the TOPIX (w/dividends) down 10.33% on-month and the Nikkei 225 (w/dividends) falling 12.64%. A number of factors weighed down the market, including heightened inflationary pressure stemming from higher crude oil prices amid concerns over a prolongation of the Iran conflict. At the same time, rate cut expectations waned after the outcome of the Federal Open Market Committee meeting, and as the BOJ implied that rising oil and a weaker yen could further drive inflation, bringing the possibility of early rate hikes into focus.

Of the 33 Tokyo Stock Exchange sectors, only two sectors rose: Mining and Marine Transportation. The remaining 31 sectors declined, with Air Transportation, Rubber Products, and Machinery seeing the steepest drops.

Exhibit 1: Major indices

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	51,063.72	-13.2%	1.4%	13.6%
JGB Yield	2.354	+0.234	+0.288	+0.706
JPY/USD	159.74	2.4%	2.0%	7.9%
JPY/EUR	183.04	-0.7%	-0.5%	5.3%
MSCI World	4,258.31	-6.6%	-3.9%	-1.1%
Valuation	**Mth-end**	**1-mth**	**3-mth**	**6-mth**
TOPIX	3,497.86	-11.2%	2.6%	11.5%
Div. Yield (e)	2.4%	2.2%	2.3%	2.7%
Price/Earn (e)	16.5	17.9	17.6	14.5
Price/Book	1.6	1.6	1.5	1.3

Source: Bloomberg, 31 March 2026

Exhibit 2: Valuation and indicators

Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	2.4%	2.2%	2.3%	2.7%	2.1%
Price/Earn (e)	16.5	17.9	17.6	14.5	18.0
Price/Book	1.6	1.6	1.5	1.3	1.3
Daily Turnover	166	148	135	117	80
Market Cap.	1,180	1,216	1,142	930	709
MSCI World					
Div. Yield (e)	1.8%	1.6%	1.7%	1.9%	1.9%
Price/Earn (e)	18.7	22.4	22.1	19.0	20.6
Price/Book	3.4	3.8	3.7	3.1	3.0

Source: Bloomberg, 31 March 2026

Important information: This document is prepared by Amova Asset Management Co., Ltd. and/or its affiliates（hereinafter referred to as" the Group"）and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect the Group's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. The Group makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

The Group accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of the Group under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by the Group is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: the Investment Management Association of Japan, Type II Financial Instruments Firms Association.

United Kingdom: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Amova Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors, accredited investors as defined in the Securities and Futures Act 2001, and intermediaries only. Amova Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Amova Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Amova Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

List of Additional Disclaimers for use in the following countries

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Amova Asset Management UK Limited is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Amova Asset Management UK Limited and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the group or Sumitomo Mitsui Trust group and not available

to Amova Asset Management UK Limited because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited. No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Amova Asset Management UK Limited.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Amova Asset Management UK Limited.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. The Company is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

Canada: The information provided herein does not constitute any form of financial opinion or investment advice on the part of the Company and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.