



CIO Office

Global Markets Weekly Kickstart

Just Invest in Japan Stocks !

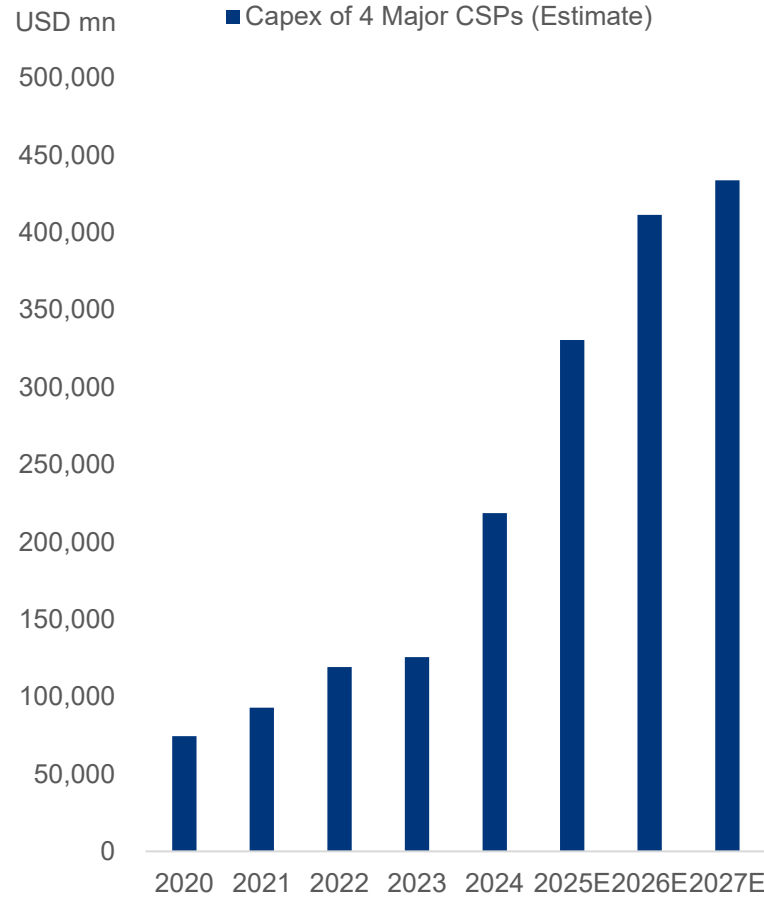
15 December 2025



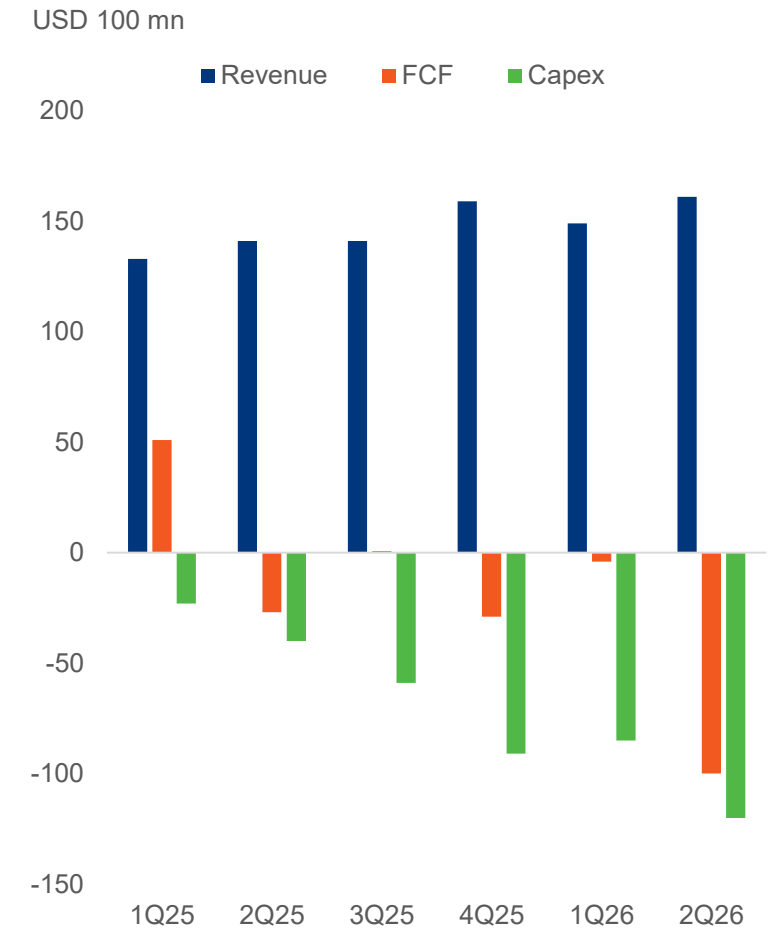
# Market Grows More Sensitive to AI Tech Revenue, Profit Momentum, and Cash-Flow Pressure

- ▶ Bloomberg estimates indicate that the four major cloud providers (Amazon, Microsoft, Google, Meta) continue to raise future capex. Although growth is slowing, absolute spending remains high. In this environment, investor focus for AI-led tech stocks is shifting from capex scale toward the ability of such investment to generate revenue and earnings, and increasingly toward free cash flow as a measure of monetization strength.
- ▶ Oracle's 2Q26 results (through Nov 30, 2025) became a major market focus. Although RPO surged 438% YoY to USD 523bn, revenue reached only USD 16.06bn, missing the USD 16.19bn consensus. The earnings beat was mainly driven by one-off investment gains. With capex continuing to rise, free-cash-flow pressure has intensified, raising concerns about Oracle's debt-funded data-center expansion.
- ▶ AI cloud demand remains solid, but near-term pressure from elevated capex and cash outflows is growing. Revenue, profit, and free-cash-flow trends for AI tech leaders are expected to become key drivers of market performance.

**4 Major Cloud Service Providers' Capex Continues to Rise**



**Oracle Revenue Misses Expectations; Free Cash Flow Weakens**



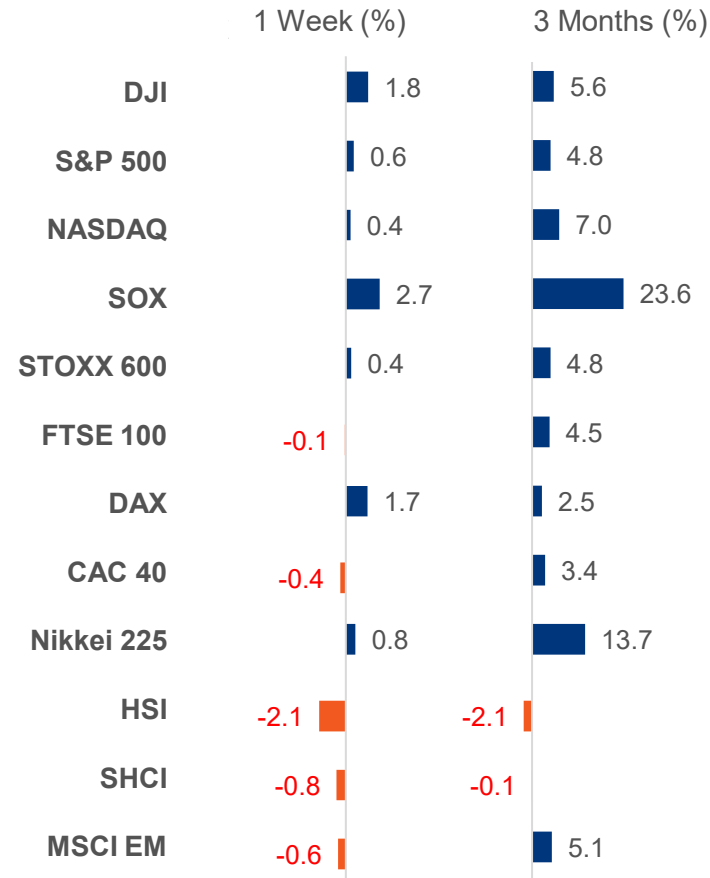
Source: Bloomberg, KGI. Note: The 4 major CSPs are Amazon, Microsoft, Google, and Meta.

## Market Recap

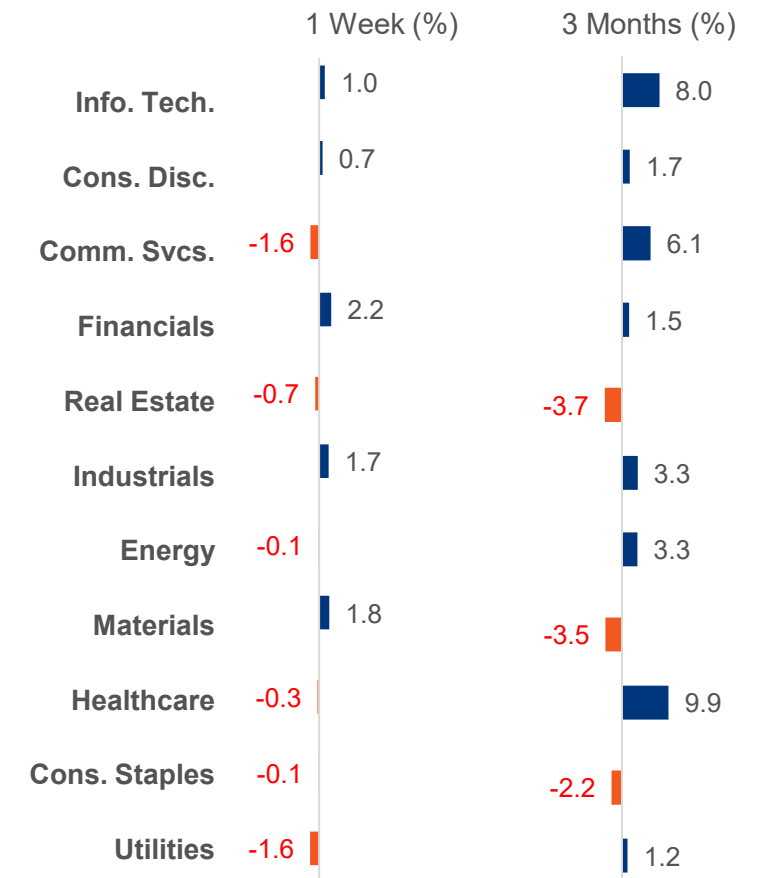
## Fed Rate Cut Supports Markets, but Oracle Results Narrow Tech Gains

- ▶ Ahead of the Fed decision, markets traded cautiously. Still, U.S. equities outperformed on strong AI-related flows and the Fed's unexpected early liquidity injection. However, gains narrowed after Oracle reported weaker-than-expected revenue and cash flow. European markets were mixed: Germany outperformed on stronger industrial production, while the U.K. and France softened on muted news flow. Japan rebounded on semiconductor and defense strength. China and Hong Kong initially rose on better-than-expected export data but retreated as sentiment turned cautious ahead of the Central Economic Work Conference.
- ▶ Sector-wise, rate-cut expectations drove rebounds across most growth industries, with tech leading. Yet Oracle's results pulled tech gains back in after-hours trading. Defensive sectors lagged, including healthcare, staples, and utilities, while other sectors were mixed on limited catalysts.

## Regional Index Performance (%)

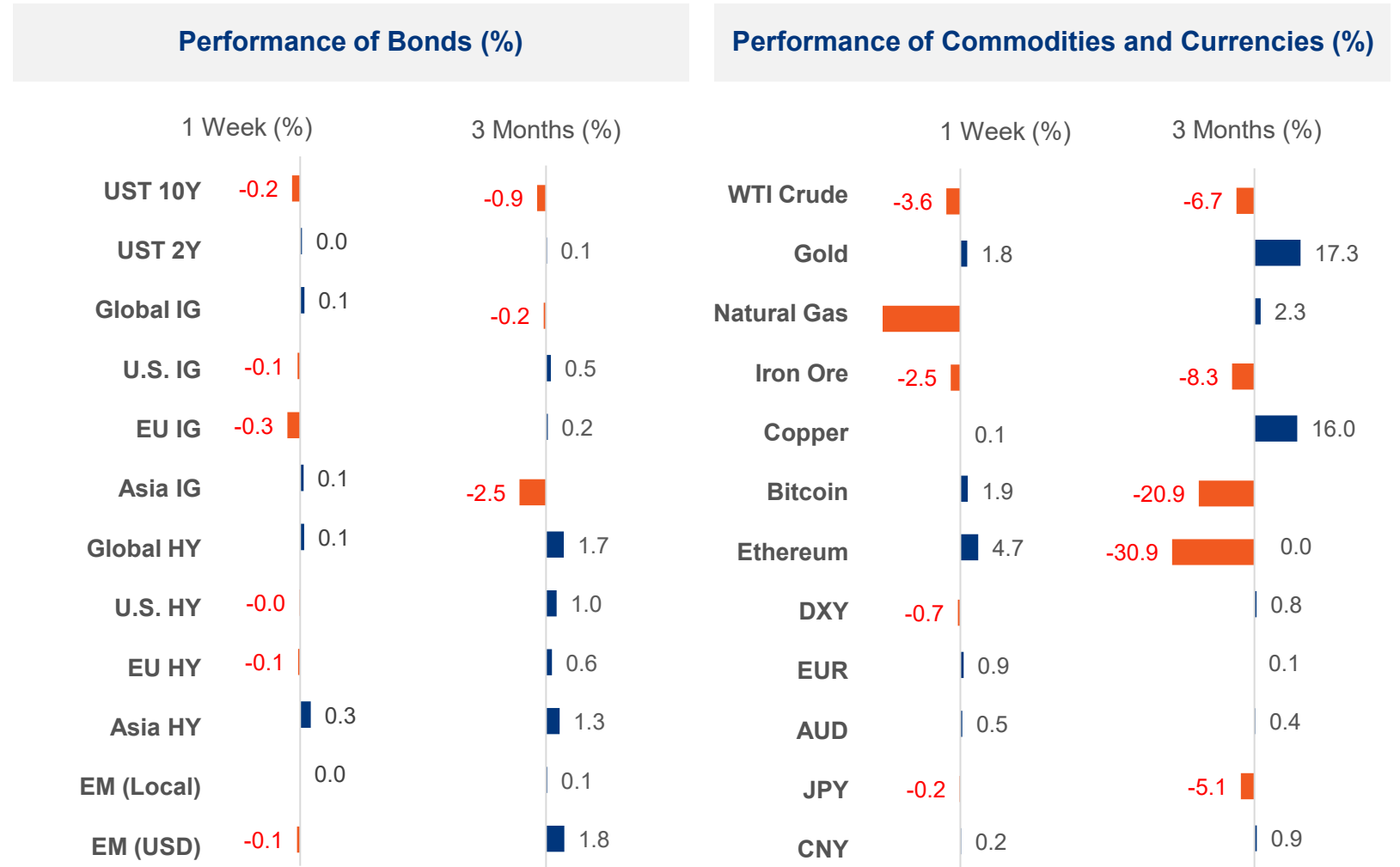


## U.S. Sector Index Performance (%)



# Fed Liquidity Injection Pulls Yields Back After Initial Rebound; USD Weakens, Gold Supported

- ▶ At the final meeting of the year, the Fed cut rates by 25 bps as expected. The surprise came from announcing USD 40bn in monthly Treasury purchases under the Reserve Management Purchase (RMP) program starting in December—earlier and larger than the market's expected USD 15–20bn from January. This eased short-end rate pressures and reversed the prior rebound in U.S. Treasury yields, while other bond markets were mixed.
- ▶ In commodities, Iraq restored production at an oilfield accounting for ~0.5% of global supply, reviving oversupply concerns and driving crude prices lower. Gold remained supported under the Fed's rate-cut backdrop.
- ▶ In FX, the USD Index weakened following the Fed decision, while the EUR and AUD outperformed. Despite rising expectations of a BOJ rate hike next week, the JPY weakened as markets weighed the cabinet's expanded fiscal stimulus, which may boost issuance needs and increase concern over Japan's debt burden, keeping the yen under pressure.



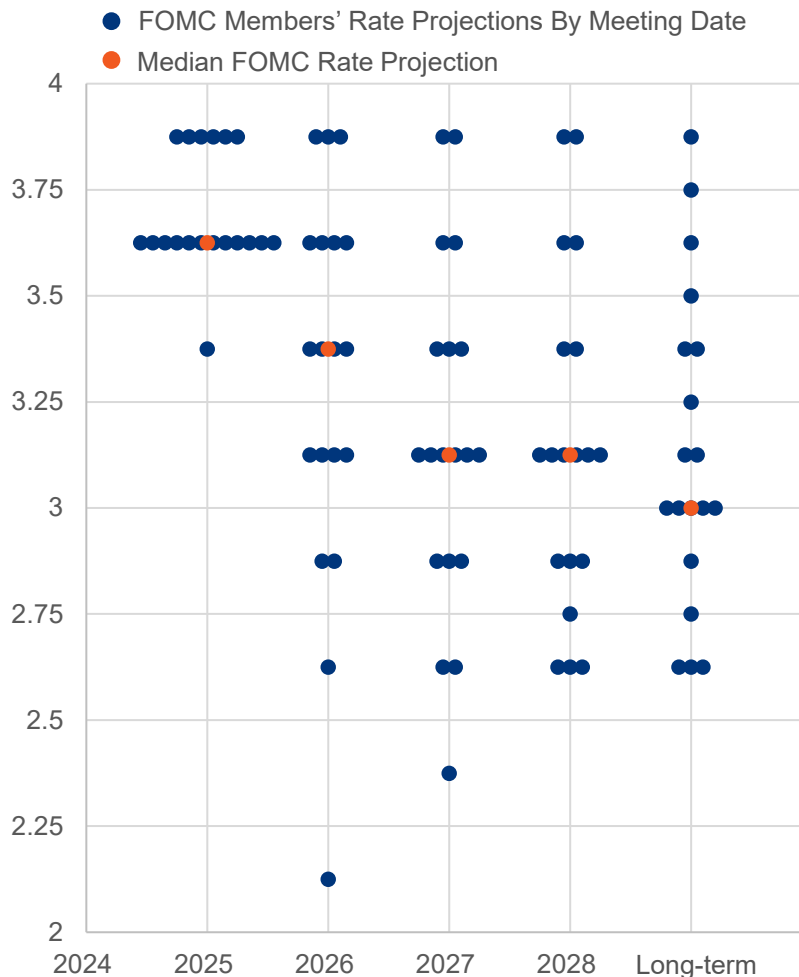
Source: Bloomberg, 12 Dec 2025



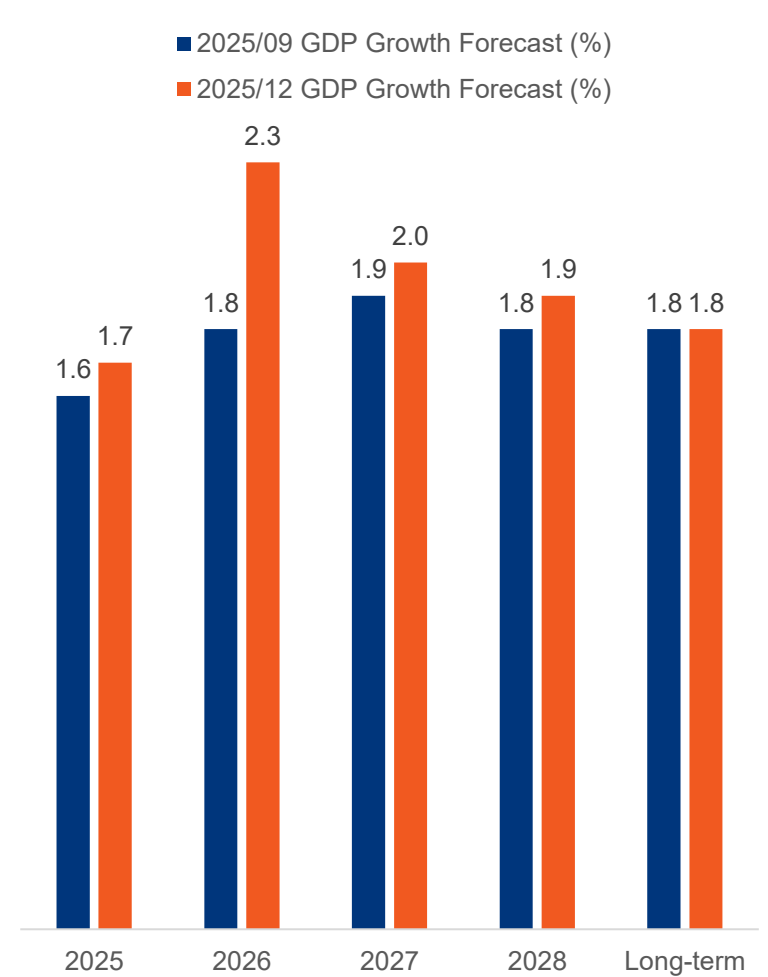
# Fed Cuts Rates as Expected; Labor-Market Conditions Now in Focus

- ▶ On Dec 10 (U.S. time), the Fed cut rates by 25 bps to 3.5%–3.75% as expected, marking the third cut this year. However, three dissenting votes—the most in six years—highlighted internal division and uncertainty over the economic outlook. After the decision, Powell voiced deeper concerns about the labor market, noting “clear downside risk,” which strengthened expectations for further easing and pushed U.S. equities toward record highs by the close.
- ▶ The statement noted that economic activity continues to expand at a moderate pace, though uncertainty around the outlook remains high. Unemployment has inched up, and Powell indicated the cut aims to support labor conditions. Updated economic projections showed a sizable upgrade to growth expectations, slightly lower inflation forecasts, and an unchanged unemployment rate.
- ▶ Next week, the Labor Department will release October and November employment data along with November CPI. Investors will be watching jobless claims, layoff signals, and any pickup in unemployment or inflation—factors that may shape the Fed’s stance on a potential rate cut in January.

## Median Rate Projection (3.375%) Unchanged Through End-2026



## Fed's Latest Forecast: Positive Economic Growth In 2026

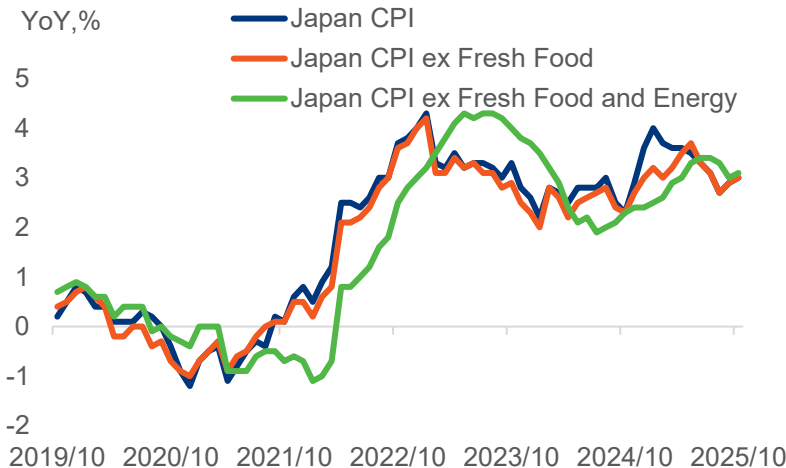
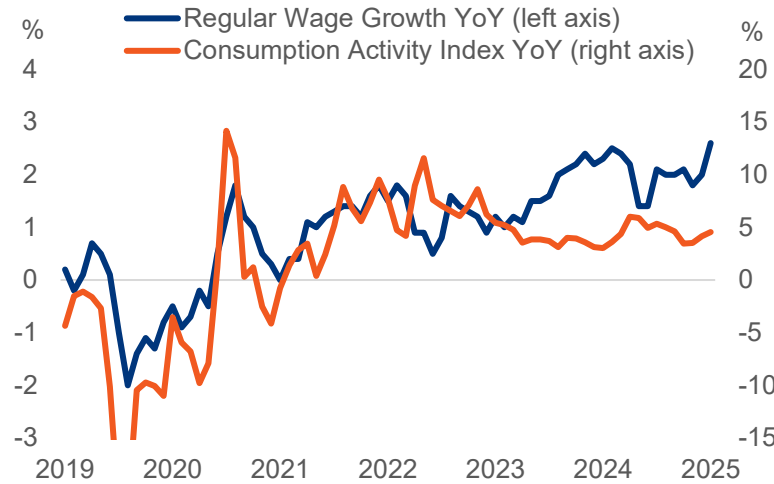


Source: Bloomberg, CEIC

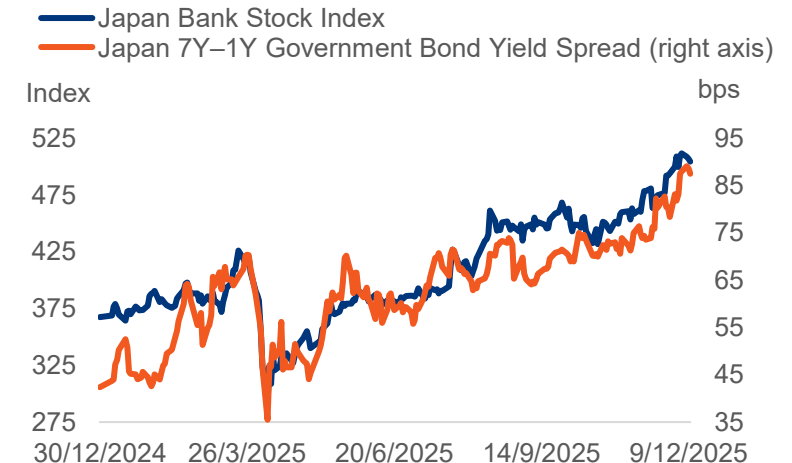
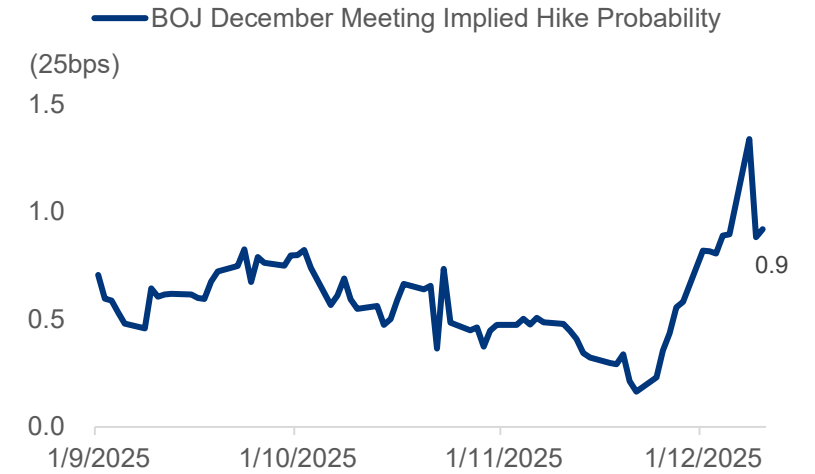
# BOJ Likely to Hike Again, Supporting Further Upside in Japanese Bank Stocks

- ▶ Japan's latest wage data show annual growth accelerating to 2.6%, a near one-year high, suggesting wages may provide stronger support for consumption. However, despite signs of improvement, consumption has not fully kept pace with wage gains, largely because inflation remains elevated and continues to dilute purchasing power.
- ▶ Japan's October CPI rose to 3.0% YoY from 2.9%, staying above the BOJ's 2% target. Core-core CPI (ex fresh food and energy) climbed to 3.1%, indicating that price pressures have shifted structurally from imported costs to domestic services and labor—strengthening the case for another BOJ rate hike.
- ▶ Markets widely expect the BOJ to raise rates by 25 bps at the December meeting, reflecting the Governor's recent hawkish signals and the Bank's assessment that a hike will not hinder economic momentum. A rate increase would steepen the yield curve, improving earnings prospects for Japanese banks and supporting their share-price performance.

**Japan Wage Growth Strong, But High Inflation Limits Consumption Recovery**



**BOJ Expected to Hike to Curb Inflation, Supporting Bank Stocks**

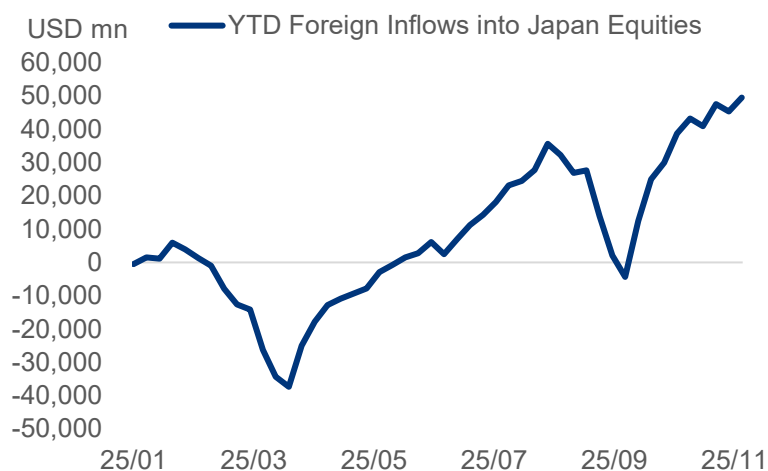
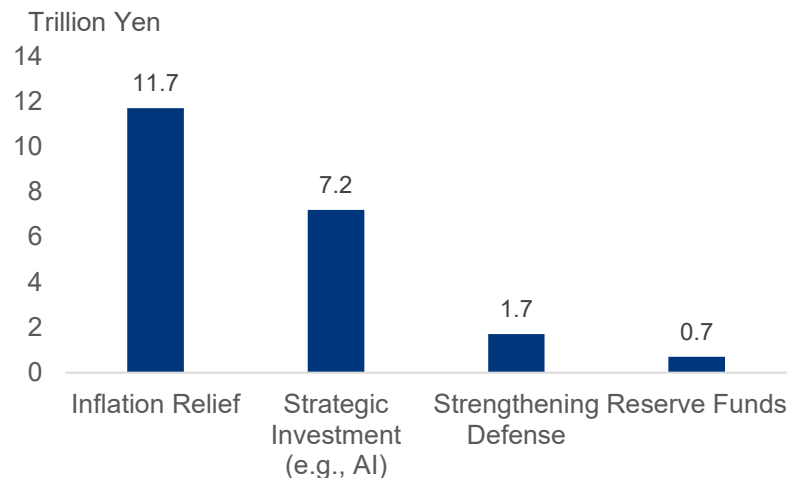


Source: Bloomberg

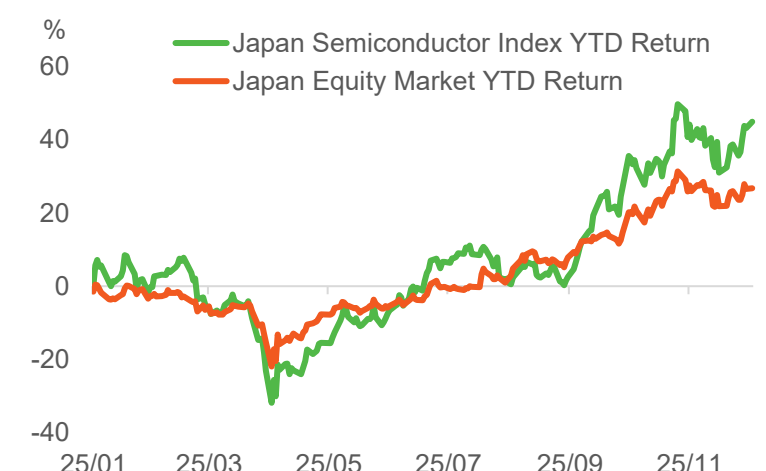
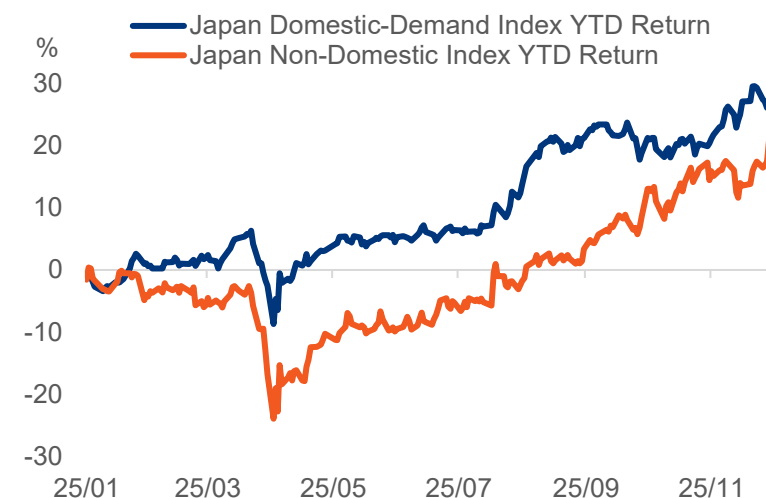
## Fiscal Stimulus to Support Japan's Domestic Demand and Semiconductor Strength

- ▶ Soon after taking office, the Kishida cabinet introduced a ¥21.3tn fiscal package focused on three pillars: inflation relief, strategic investment, and stronger national defense. Inflation measures include tax cuts, gas and electricity subsidies, child cash allowances, and rice-purchase vouchers. Strategic investment centers on boosting AI and semiconductor-related industries, while the defense component expands Japan's defense budget and supports domestic defense manufacturing amid a shifting security environment.
- ▶ Although fiscal expansion has raised concerns over Japan's growing debt burden and pushed long-end JGB yields to new highs, Goldman Sachs notes that Japan's public-debt sustainability should remain intact in the near term. Nominal GDP continues to rise under an inflationary backdrop, and low interest rates keep debt-servicing costs contained—together helping the debt-to-GDP ratio continue to decline.
- ▶ Following the policy announcement, foreign investors have continued to add to Japanese equities, signaling a broadly positive view of the package. As fiscal expansion effects gradually filter through the economy, the policy is expected to support the broader market, with ongoing attention warranted for stronger-performing sectors such as banks and semiconductors.

### Kishida Cabinet Launches Fiscal Stimulus; Foreign Inflows Support Japan Equities



### Japan Domestic Demand and Semiconductor Stocks Outperform



Source: Bloomberg

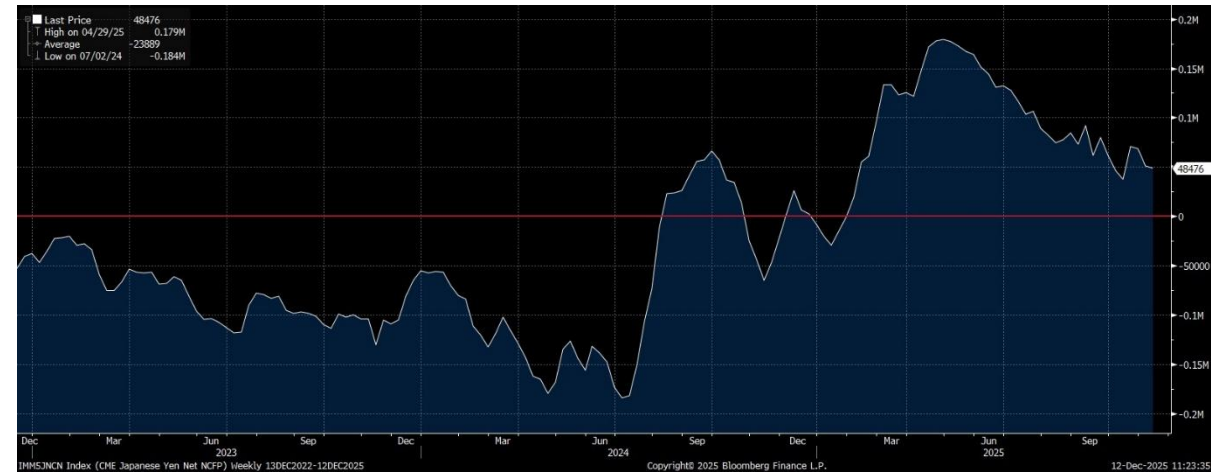
# Asset Strategy

Asset Type	Market View	Preferred Assets
<b>Equities</b>	<ul style="list-style-type: none"> <li>◆ With the Fed cutting 25 bps in December as expected, global equities were mixed. Into year-end, profit-taking pressure is rising, so maintaining liquidity flexibility and balanced sector allocation is recommended. Increase exposure to high-quality stocks; long-term investors can accumulate AI and tech names in tranches on pullbacks as valuations normalize.</li> <li>◆ Outside the U.S., German and European financials benefit from improving macro momentum. Korea and Taiwan continue to trend higher on tech strength. In Japan, expected BOJ rate hikes favor banks and domestic-demand stocks, while policy-supported semiconductor names also warrant attention.</li> </ul>	<p><b>Strategy:</b> Use high-quality stocks to navigate near-term volatility; accumulate AI and tech themes on pullbacks</p> <p><b>Regions:</b> German equities, Korean equities, Japanese bank stocks, Japanese semiconductor stocks</p>
<b>Bonds</b>	<ul style="list-style-type: none"> <li>◆ With growth slowing and labor markets cooling, yield curves are steepening. Favor U.S. Treasuries and IG corporates for income lock-in, with A-rated or higher leaders preferred. Financials, utilities, and industrials offer attractive risk-adjusted spreads.</li> <li>◆ Given longer-term USD depreciation risk, add non-USD IG bonds (EUR, SGD) for diversification.</li> </ul>	<p><b>Duration:</b> Short-to-medium Treasuries; high-grade bonds for yield lock-in</p> <p><b>Sector:</b> High-grade financials, industrials, utilities</p>
<b>Forex</b>	<ul style="list-style-type: none"> <li>◆ The Fed cut another 25 bps in December, and the incoming Fed chair is expected to be dovish, keeping the medium-term USD trend weak.</li> <li>◆ The BOJ is likely to hike in December, and improving fundamentals support a gradual JPY appreciation. The EUR remains structurally firm.</li> </ul>	<p><b>USD:</b> Mild depreciation trend</p> <p><b>JPY, EUR:</b> Gradual upside with volatility</p>
<b>Commodity</b>	<ul style="list-style-type: none"> <li>◆ U.S. inflation concerns and fiscal-deficit pressures support a constructive long-term outlook for gold. Long-term investors can include gold for diversification and volatility reduction.</li> </ul>	<p><b>Gold:</b> Medium-to-long-term positive</p>

## U.S. Rate Cuts Delivered; Japan Rate Hike Approaching

- ▶ The Fed lowered the federal funds rate target range by 25 bps to 3.50%–3.75% at the December meeting, marking a third consecutive cut driven by a softer labor market and easing inflation pressures. The decision was not unanimous, and the updated dot plot signals a more cautious easing path ahead, with the median projection showing only one additional 25 bps cut in 2026. Chair Powell noted that rates may now be near neutral, allowing the FOMC to adopt a wait-and-see stance as it balances high inflation against rising employment risks and moderate economic growth.
- ▶ BOJ Governor Ueda reiterated that inflation is approaching the sustainable 2% target and that a rate hike will follow if the economic outlook materializes as expected. Markets anticipate a move to 0.75% at the Dec 19 meeting, signaling continued normalization of Japan's monetary policy. While near-term volatility and yen appreciation pressures may arise, the shift reflects a positive structural trend—Japan gradually exiting decades of deflation. Over the medium term, corporate reform, solid earnings momentum, and strategic government investment remain key supports for Japanese equities. CFTC data show that non-commercial net JPY positions have recently turned positive after being negative through mid-2024, indicating a sharp reduction in yen-funded carry trades. As such, we do not expect a BOJ hike to trigger a correction similar to the U.S. equity pullback seen in August last year.

### JPY Non-commercial Net Positions (CFTC)



# Mitsubishi Heavy Industries, Ltd (7011 JP)

**Closing Price** JPY ¥4,157

**Target Price** JPY ¥4,500

MHI is a diversified heavy-machinery manufacturer producing defense and commercial equipment, turbines, engines, ships, power systems, aircraft, and nuclear-power technology.

## Japan's Top Defense Contractor to Benefit From Rising Military Spend

Japan plans to lift defense spending to USD 70bn (≈2% of GDP) by 2026. As the country's flagship defense contractor, MHI is positioned to capture multi-year orders across missile defense, naval platforms, and fighter programs—supporting strong revenue visibility and defensive earnings growth.

## U.S. – Japan Cooperation Revitalizes Nuclear Business

A new bilateral pact strengthens collaboration on next-gen reactors and rare-earth supply chains, reinforcing long-term demand for MHI's nuclear technology. With Japan refocusing on nuclear to secure energy stability, MHI is set to participate in advanced reactor development, fuel-cycle partnerships, and supply-chain diversification.

## Solid 1H FY25 Results; Full-Year Outlook Raised

In 1H FY25, orders rose 8.5% YoY to JPY 3,314.7bn; revenue grew 7.3% YoY to JPY 2,113.7bn. Business profit reached JPY 171.5bn (+2.1% YoY) with an 8.1% margin. Net income attributable to shareholders was JPY 114.9bn (+7.3%, margin 5.4%). EBITDA increased to JPY 229.6bn (+2.5%, margin 10.9%). MHI raised its full-year order target to JPY 6,100bn (from 5,250bn) and revenue forecast to JPY 4,800bn, and plans a JPY 24 dividend.

## Valuation Consensus

Bloomberg 12-month average target price: JPY 4,505.83 (high: 5,300; low: 3,150).

Source: Bloomberg, Ministry of Economy, Trade and Industry (METI) Japan

### 1-Year Price

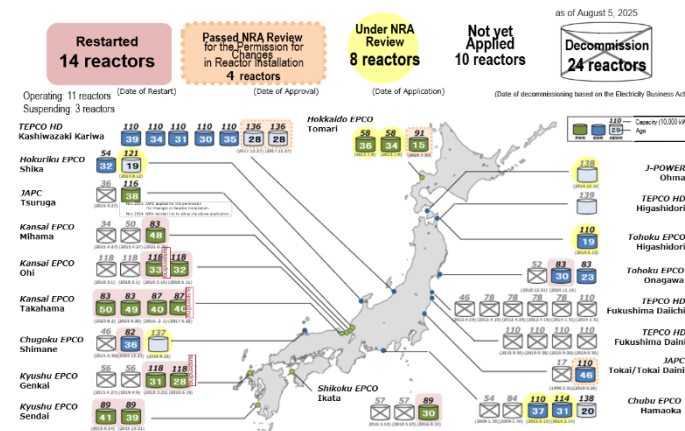


### Financials

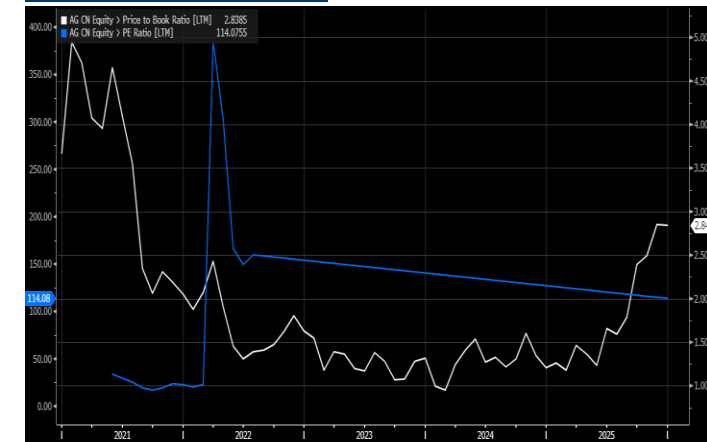
	2023	2024	2025	2026F	2027F
Revenue Growth(%)	8.9	10.8	7.9	1.7	9.3
EBITDA (%)	7.1	8.7	9.6	11.3	12.5
EPS(JPY)	36.57	61.79	61.70	82.24	108.31
Net Profit Margin(%)	2.9	4.5	4.1	5.4	6.5

Source: Bloomberg; 2026/27F are market estimates

### Status of Nuclear Power Plants In Japan



### P/E & P/B



# Mitsubishi UFJ Financial Group (8306 JP)

**Closing Price** JPY ¥2,499

**Target Price** JPY ¥2,600

MUFG is Japan's largest financial group, offering commercial banking, trust banking, international finance, and asset-management services.

## BOJ Hike Toward 0.75% Expands Net Interest Income

Economists now expect the BOJ to lift rates to 0.75% in December, marking a meaningful step after decades of ultra-low policy rates. A steeper yield curve directly supports banks' net interest margins, and MUFG stands to benefit the most from rate normalization. A firmer yen also improves the translated value of overseas earnings, while the recent 25 bps Fed cut helps strengthen MUFG's foreign-asset returns and balance-sheet positioning.

## Stronger Domestic Demand and Retail Banking Recovery Support Earnings

Improving private consumption in Japan and rising household loan demand continue to strengthen MUFG's core retail business. Corporate lending remains resilient, and upward earnings revisions reflect stable momentum. MUFG's solid 1H performance and ongoing share buybacks underscore consistent profitability and capital discipline.

## 1H FY25 Results Strong; Full-Year Outlook Raised

1H FY25 gross profits rose 23.9% YoY to JPY 2,935.7bn. Net income increased 4.6% YoY to JPY 1,292.9bn (from JPY 1,258.1bn). For the full year, MUFG raised guidance for net operating profit, net income, and dividends to JPY 2,250bn, JPY 2,100bn, and JPY 74 per share, respectively. The group also plans a JPY 500bn share buyback this fiscal year.

## Valuation Consensus

Bloomberg 12-month average target price: JPY 2,572.86 (high: 3,000; low: 1,830).

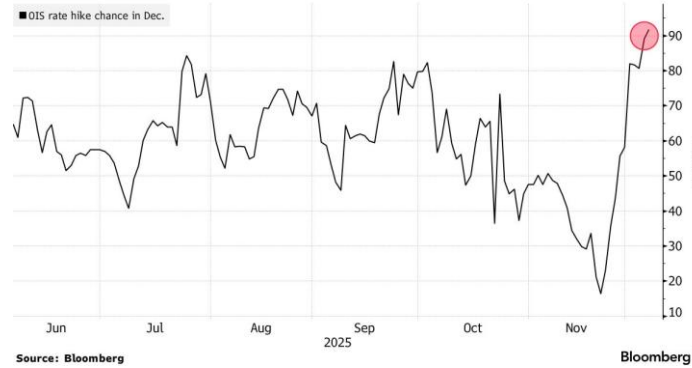
Source: Bloomberg

### 1-Year Price



### Rising BOJ Rate Hike Expectations

#### December Rate Hike Bets Grow

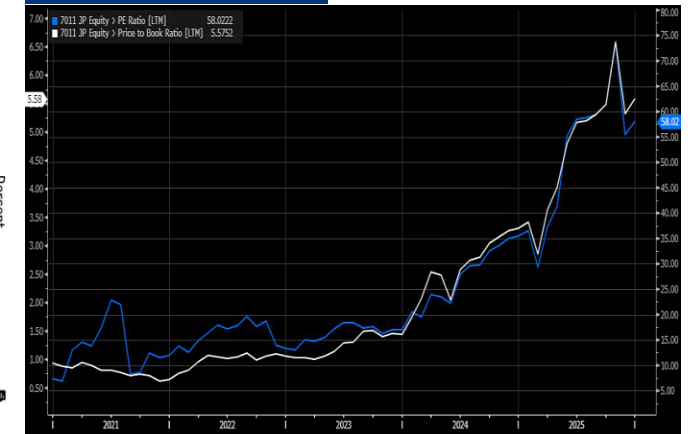


### Financials

	2023	2024	2025	2026F	2027F
Revenue Growth(%)	0.6	19.4	9.1	-16.6	7.3
Operating Margin (%)	19.5	34.4	39.6	46.6	43.2
EPS (JPY)	58.8	128.6	166.5	186.6	204.8
Net Profit Margin(%)	14.1	24.9	28.9	37.7	38.0

Source: Bloomberg; 2026/27F are market estimates

### P/E & P/B



## Appendix

## Key Economic Data / Events

## ► DEC 2025

8

Monday

- Eurozone Dec Sentix Investor Confidence (Act:-6.2 Est:-6.3 Prev:-7.4)
- Japan 3Q GDP YoY (Final) (Act:-2.3% Est:-2.0% Prev:2.1%)
- China Nov Exports YoY (Act:5.9% Est:4.0% Prev:-1.1%)

9

Tuesday

- U.S. Sep JOLTS Job Openings (Act:7,658k Est:7,198k Prev:7,227k)
- U.S. Oct JOLTS Job Openings (Act:7,670k Est:7,117k Prev:7,658k)
- Japan Nov Machine Tool Orders YoY (Prelim) (Act:14.2% Prev:17.1%)
- Taiwan Nov Exports YoY (Act:56.0% Est:42.1% Prev:49.7%)

10

Wednesday

- Japan Nov PPI YoY (Act:2.7% Est:2.7% Prev:2.7%)
- China Nov CPI YoY (Act:0.7% Est:0.7% Prev:0.2%)

11

Thursday

- U.S. Dec Fed Funds Rate (Act:3.75% Est:3.75% Prev:4.00%)
- U.S. Weekly Initial Jobless Claims (Act:236k Est:220k Prev:192k)

12

Friday

- Japan Oct Industrial Production MoM (Final) (Prev:2.6%)

15

Monday

- China Nov Retail Sales YoY (Est:2.9% Prev:2.9%)
- China Nov Industrial Production YoY (Est:5.0% Prev:4.9%)

16

Tuesday

- U.S. Nov Nonfarm Payrolls (Est:50k Prev:119k)
- U.S. Nov Unemployment Rate (Est:4.4% Prev:4.4%)
- U.S. Oct Retail Sales MoM (Est:0.2% Prev:0.2%)
- U.S. Dec S&P Global Manufacturing PMI (Prelim) (Prev:52.2)
- Eurozone Dec Manufacturing PMI (Prelim) (Prev:49.6)
- Eurozone Dec Services PMI (Prelim) (Prev:53.6)

17

Wednesday

- Eurozone Nov CPI YoY (Final) (Prev:2.1%)
- Japan Nov Exports YoY (Est:4.8% Prev:3.6%)
- Japan Oct Core Machinery Orders MoM (Est:-2.1% Prev:4.2%)
- Earnings: MU

18

Thursday

- U.S. Weekly Initial Jobless Claims (Prev:236k)
- U.S. Nov CPI YoY (Est:3.1% Prev:3.0%)
- U.S. Nov Core CPI YoY (Est:3.0% Prev:3.0%)
- Eurozone Dec ECB Main Refinancing Rate (Prev:2.15%)
- U.K. Dec BoE Bank Rate (Est:3.75% Prev:4.00%)
- Earnings: ACN

19

Friday

- U.S. Dec Michigan Consumer Sentiment (Final) (Prev:51.0)
- U.S. Nov Existing Home Sales (Est:4.15m Prev:4.10m)
- Eurozone Dec Consumer Confidence (Prelim) (Prev:-14.2)
- Japan Nov Nationwide CPI YoY (Est:2.9% Prev:3.0%)
- Japan Dec BOJ Overnight Call Rate (Est:0.75% Prev:0.50%)

Source: Bloomberg

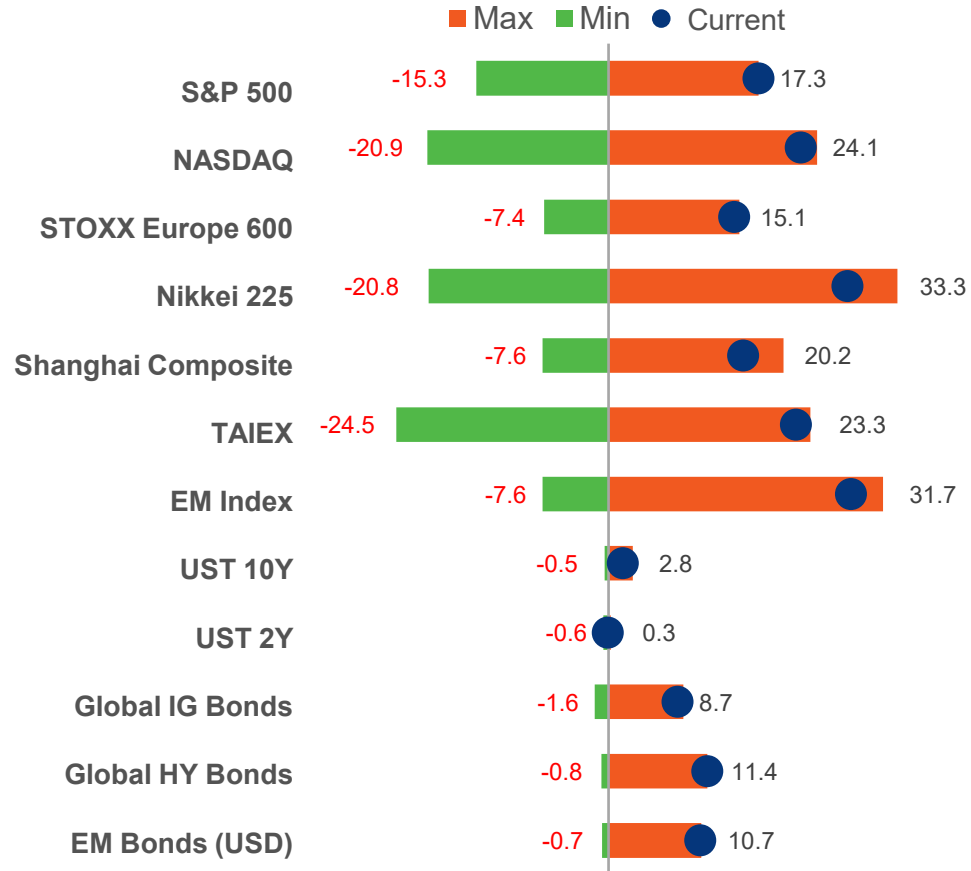
# Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2025/12/11	Adobe Inc (ADBE)	6.11B	6.19B	5.4	5.5	V	V
2025/12/11	Oracle Corp (ORCL)	16.19B	16.1B	1.64	2.26		V
2025/12/12	Costco Wholesale Corp (COST)	67.08B	67.31B	4.28	4.5	V	V
2025/12/12	Broadcom Inc. (AVGO)	17.45B	18.02B	1.87	1.95	V	V

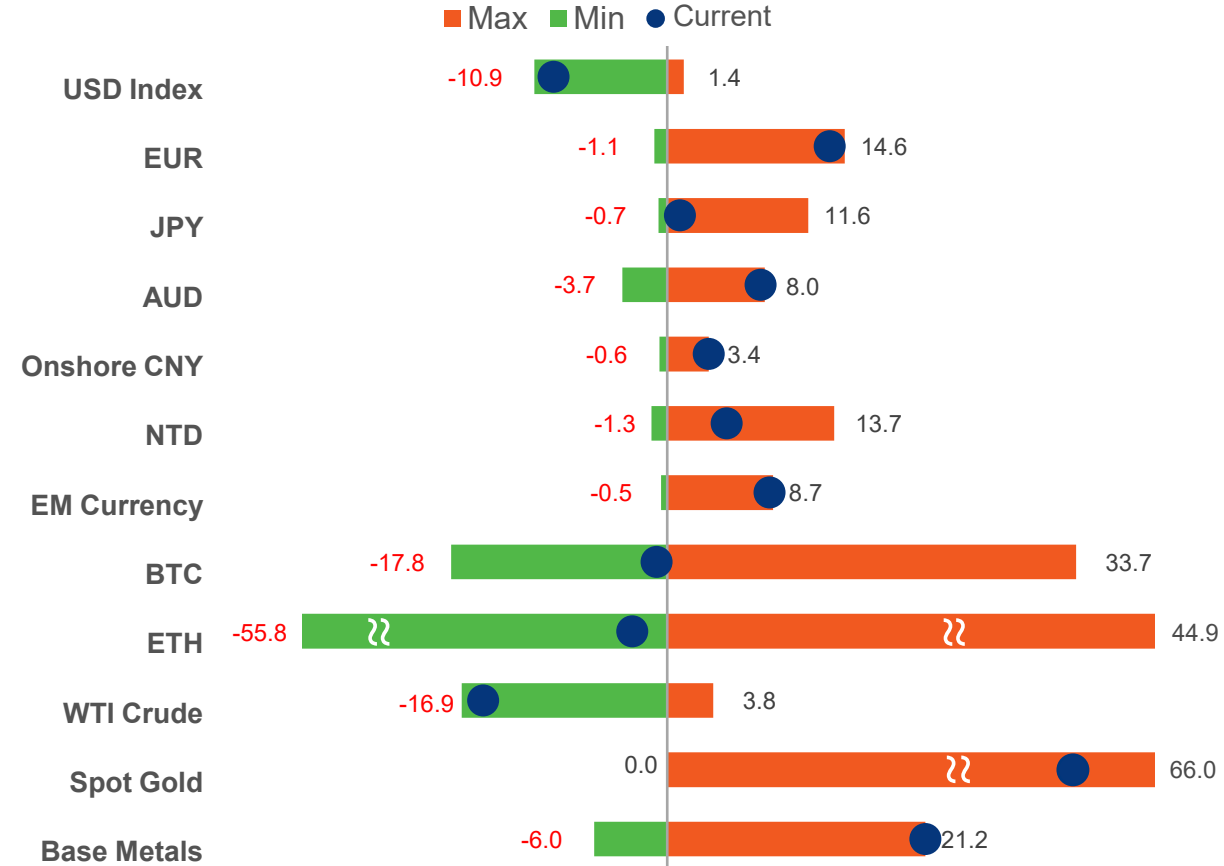
Source: Investing.com

# YTD Major Market / Asset Performance

## Equities & Bond Markets YTD Performance (%)

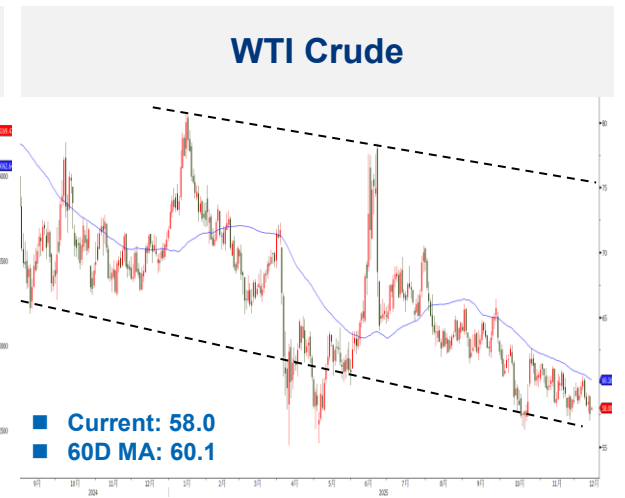
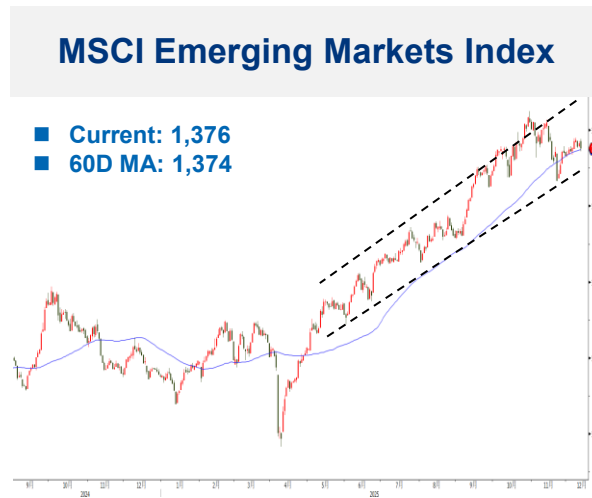
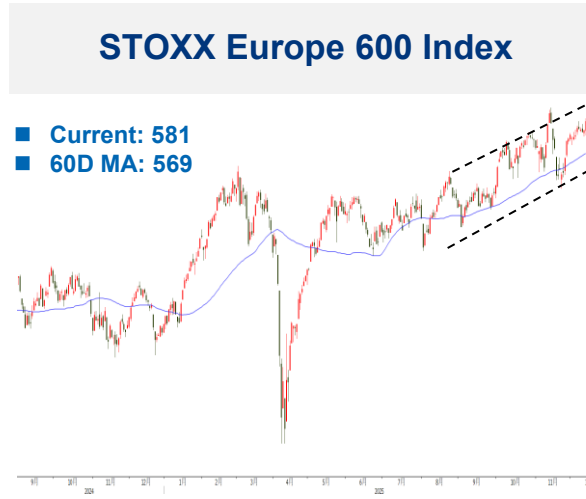


## Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg, 12 Dec 2025

# Technical Analysis



Source: Bloomberg, 12 Dec 2025

# Market Monitor

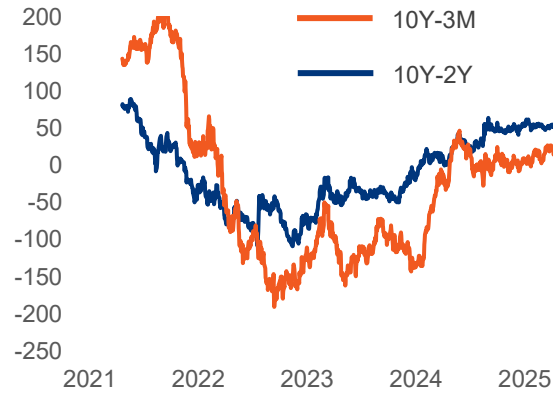
**U.S. CPI YoY (%)**



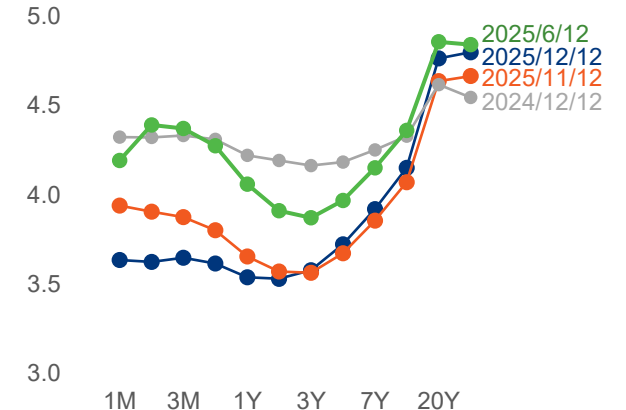
**U.S. 10-Year Treasury Yield (%)**



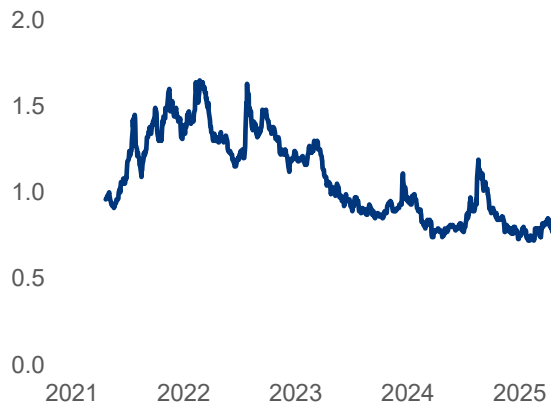
**U.S. Treasury Yield Spread (bps)**



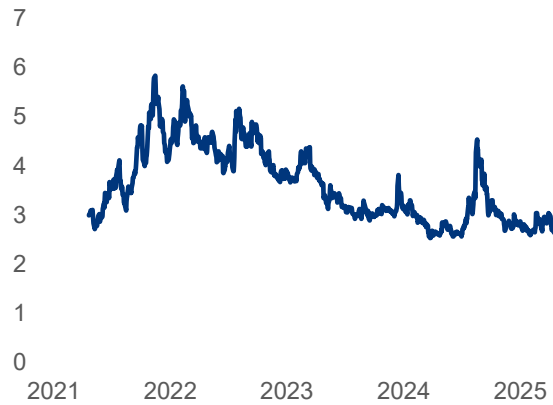
**U.S. Treasury Yield Curve (%)**



**USD IG Credit Spread (%)**



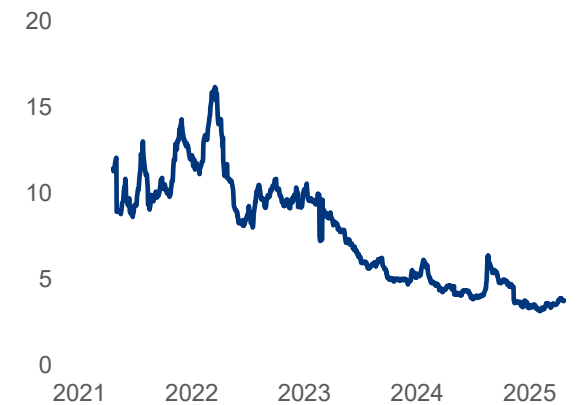
**USD HY Credit Spread (%)**



**USD EM Credit Spread (%)**



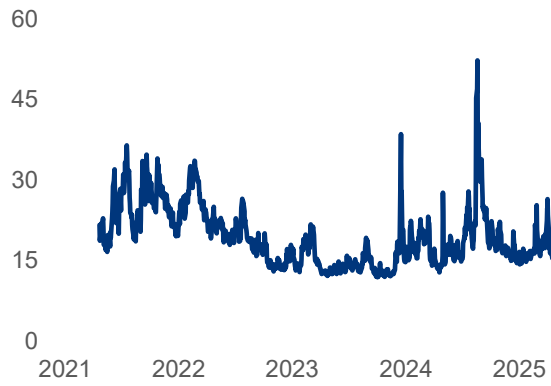
**USD Asia Credit Spread (%)**



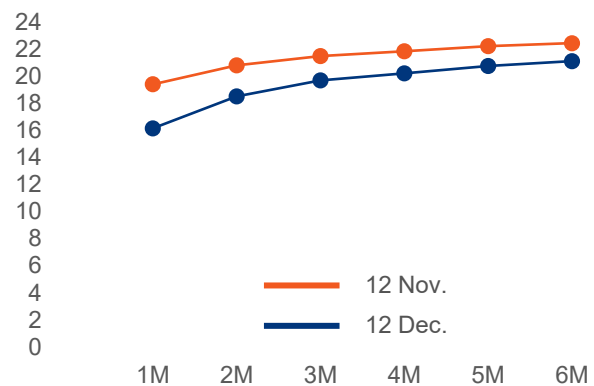
Source: Bloomberg, 12 Dec 2025

# Market Monitor

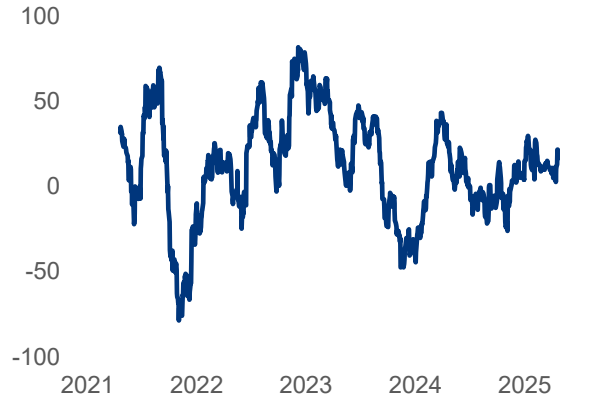
**VIX Index**



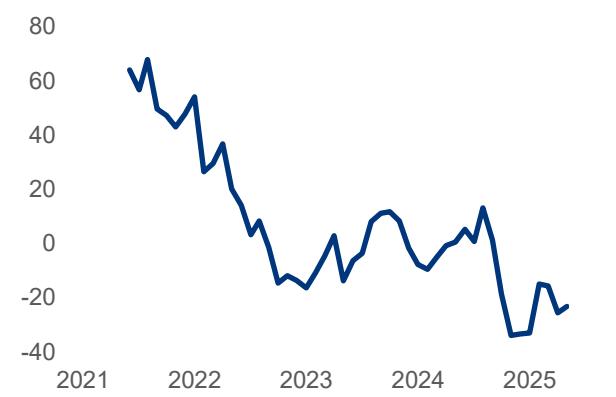
**VIX Term Structure**



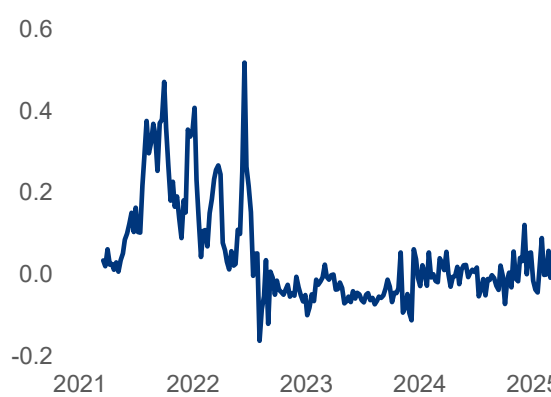
**U.S. Citi Economic Surprise Index\***



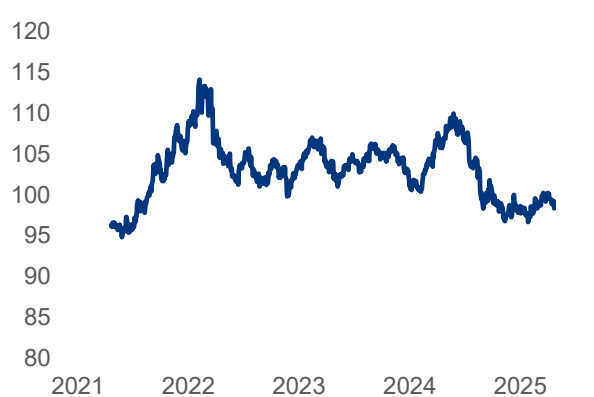
**U.S. Citi Inflation Surprise Index\***



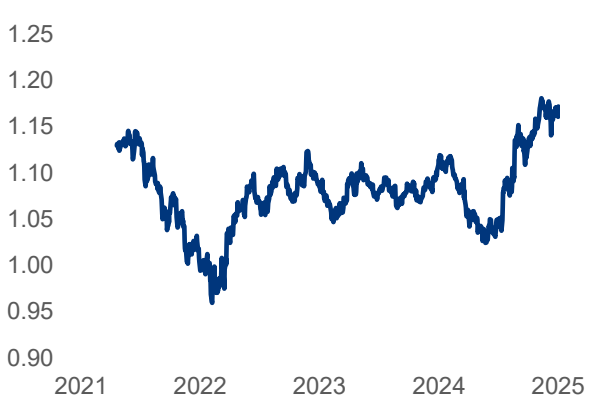
**TED Spread (bps)**



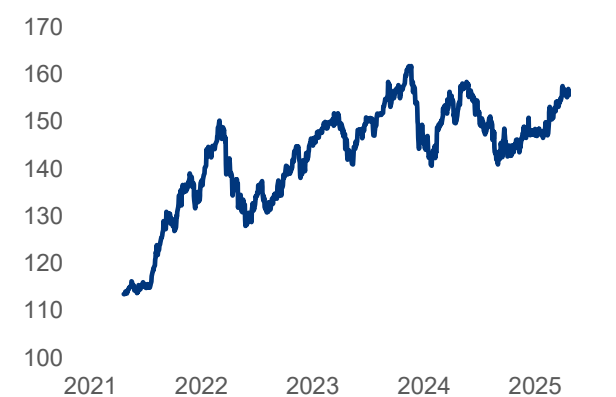
**U.S. Dollar Index**



**EUR to USD**



**USD to JPY**



Source: Bloomberg, 12 Dec 2025 \*The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.

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