

Investment Institute

Reform and reflation: Unlocking Japanese equity upside

MARCH 2026

Amundi
Investment Solutions

GOVERNANCE REFORMS PILLARS



Board strength & governance oversight



Prioritising efficient capital allocation & shareholder value



Better capital allocation & use of cash



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Stronger disclosure, ESG alignment & minority investor protections

Companies are shedding low-margin units while increasing capex and shareholder payouts. This helps to improve fundamentals and attract investors.

from **53%** to **69%**

Japan's share of companies with Price to Book Ratios above 1
Dec 2023 vs Dec 2025

Source: Amundi Investment Institute, Factset, data as of 23 February 2026.

Reflation during the Takaichi era

Japan Inflation (CPI, yoy %)



Source: Amundi Investment Institute, Factset, data as of 23 February 2026.

~11%

Average EPS growth forecast for 2026-28

14%

Average EBITDA Margin forecast for 2026-28



With households increasingly and persistently convinced that prices will rise, Japanese corporates are delivering not only higher revenues but also margin expansion and meaningful earnings growth despite tariff shocks.

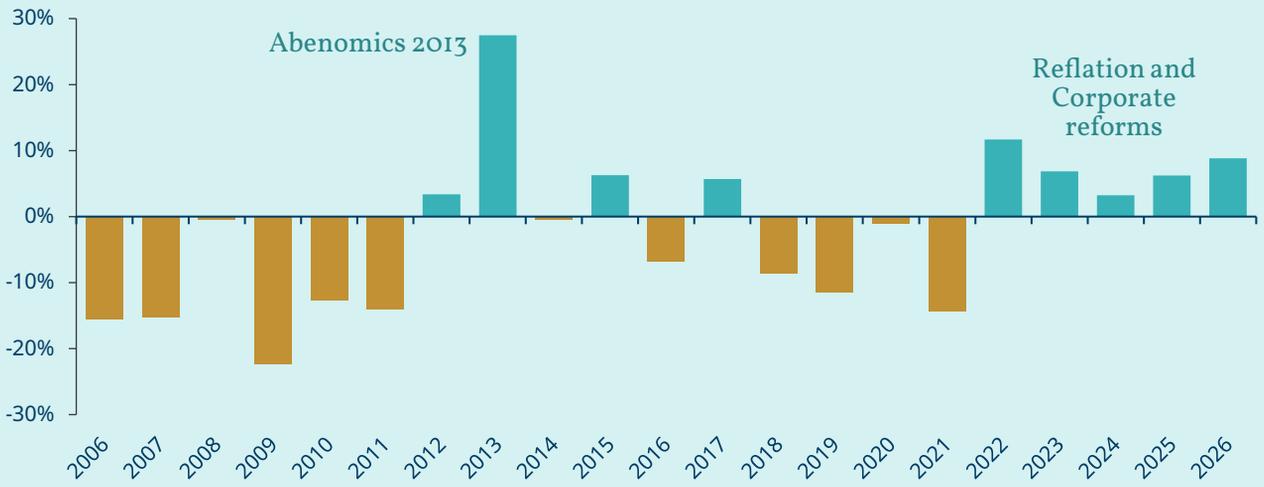
“Deflation has ended. Persistent inflation expectations and Prime Minister Sanae Takaichi’s pro-growth agenda are strengthening the outlook for Japanese equities.”



Claire Huang
Senior EM Macro Strategist, Amundi Investment Institute

Japan's equity has started to outperform

TOPIX over/under performance vs the average of the S&P 500 and STOXX Europe 600



Source: Bloomberg, Amundi Investment Institute, as of 20/02/2026.



“There are two secular forces at play driving the improvement in Japanese earnings: reflation and enhanced capital productivity. These tailwinds are unique, and investors should benefit as the valuation discount progressively unwinds relative to other markets.”

Barry Glavin, Head of Equity, Amundi

As Japan's ROE improves, there is potential for further PBR expansion

The share of companies with ROE > 8% has increased over the past 2 years

ROE gains are driving a rerating, with room to close some of the gap with other markets



Source: Amundi Investment Institute and FactSet, December 2023 and 2025

Source: Amundi Investment Institute, Bloomberg, data as of 23 February 2026.

An investor view on Japan equity opportunities



Small and Mid-Caps

A value-oriented approach targeting small- and mid cap (SMID) companies trading below book value and holding substantial unused cash can benefit investors.

Clear catalysts to unlock value include the sale of non-core assets, higher dividends or buybacks, and improved communication and governance.

Assessing management's commitment to value creation is critical.



Banks

Banks stand to benefit from deflation, governance reforms, and further BoJ rate hikes, which support domestic net interest margins, ROE, and shareholder returns.

Many banks have strong capital buffers, providing room to increase dividends and buybacks. While a few have acted, most still need to follow suit.

If banks tighten capital discipline, cut costs, and improve governance, the sector—especially regional banks—could be well-positioned for a sustained rerating.



Industrials

Construction looks set to be a clear winner. Order book margins are improving and should appear in earnings over the next few years

Contractors have regained pricing power and are being more selective in project choice. This momentum is reinforced by reform-driven pressure to enhance capital efficiency and divest non-core assets

Many companies also have scope to boost shareholder returns and pursue M&A.



“The end of deflation and faster governance reform make balance-sheet repair essential. Companies must only back investments with clear returns and pricing power, and markets are likely to reward such actions.”

Hiromi ISHIHARA, Head of Equity Japan, Amundi

Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute.

This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

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