



# “Tap a stone bridge before crossing”: How to assess the 2025 forecasts coming out of corporate Japan

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## Japan Equity Research Team

SMDAM Tokyo

*We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.*

### Highlights:

- Published results for FY2024 have revealed single-digit growth in both revenue and profit.
- Current forecasts for FY2025 indicate an expected decline in both revenue and profit, with U.S. tariff policies expected to put downward pressure on corporate performance.
- However, given that the market was anticipating forecasts showing modest declines, SMDAM's view is that there is significant potential for stock price increases if there is progress on tariff negotiations.
- In this context of caution and pessimism, corporate performance could easily surprise to the upside if the worst-case tariff scenario does not actually occur.

## Contextualizing the caution

The title of this article refers to a well-known Japanese proverb. Whilst stone bridges are generally a highly reliable method of crossing a river, it's not impossible that it will collapse upon taking the extra weight of the latest traveler. Hence, the cautious character being gently mocked in the saying is exhibiting undue or excessive caution by tapping the bridge to check it doesn't fall down.

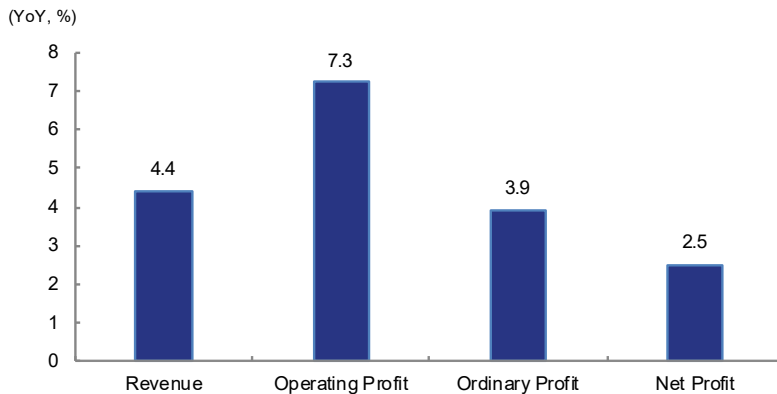
We believe Japanese corporates are guilty of metaphorically 'tapping the stone bridge', as it were, with their latest FY2025 forecasts. As we will outline in this article, the robust performance seen in 2024 mean that corporate Japan enters today's much more uncertain setting from a position of stability and strength. The caution generally displayed in these forecasts is, however, completely understandable when taking into account the market turmoil unleashed by President Trump's 'Liberation Day,' and the subsequent shifts in the U.S.'s policy. As such, we have attempted to categorize the various approaches forecasters have taken to this issue below.

## FY2024 summary

Many Japanese companies have fiscal years ending in March. As such, each year April provides a slew of FY results which taken in aggregate offer a clear overview of the Japanese corporate landscape. The headline so far according to SMDAM's Japan Equity research team is that Japanese corporate performance was healthy if short of spectacular in 2024. Importantly, this solid corporate performance registered for FY2024 suggests the economy entered the current period of uncertainty on a reasonably strong footing. This is part of why we see the cautious approach taken in many of these forecasts as slightly excessive.

As of May 16, over 99% of TOPIX ex-financial companies with fiscal years ending in March have completed their FY2024 earnings announcements. As can be seen in the graph below, the results showed single-digit year-on-year growth, with revenue increasing by 4.4%, operating profit by 7.3%, ordinary profit by 3.9%, and net profit by 2.5%.

Actual Corporate Performance for FY2024



\*Note: As of May 16, 2025. The data includes companies with March fiscal year-end that constitute the TOPIX, excluding financial firms and SoftBank Group. Revenue and operating profit figures do not include wholesale trade companies.

\*Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bloomberg and other sources.

2025 has seen global economic uncertainty intensify due to the trade policies implemented by the Trump administration. As a result, investors are placing high emphasis on companies' own forecasts for FY2025 to see what impacts they are anticipating. SMDAM's Japanese Equity research team has been focused on analyzing these forecasts and we summarize our key findings below.

## The road ahead – what do we expect for 2025?

As we have seen, Japanese corporate performance held up well in 2024. However, the macroeconomic and geopolitical uncertainty unleashed in Q1 2025 are expected to lead to modest declines in both revenue and profit for FY2025. However, given the lack of clarity around U.S. tariff policy today, things could rapidly improve if a less antagonistic trade relationship starts to crystallize.



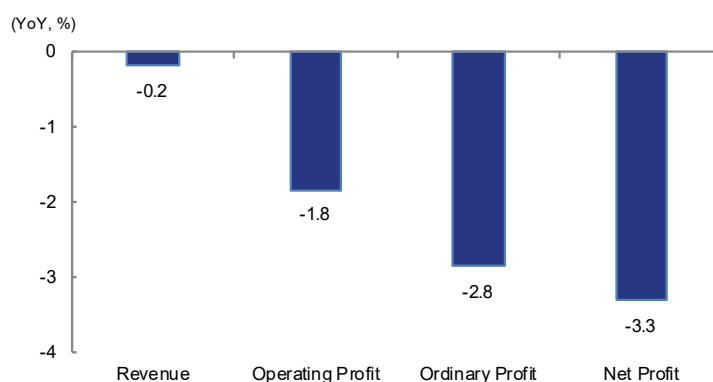


Our view at SMDAM is that there have been three main approaches to factoring the trade uncertainty into FY2025 forecasts. Companies analyzed by SMDAM have either:

- Assumed tariffs will be implemented at the elevated levels currently proposed and will therefore have a clearly negative impact on earnings;
- Assumed tariffs may happen, but that their extent and level will likely be limited by negotiations, and therefore the impact will be less severe than in the worst-case scenario above; or
- Acknowledged the high level of uncertainty around trade policy by refraining from publishing a forecast at this stage.

According to the results of our research, Japanese companies' own forecasts for FY2025 indicate an expected year-on-year decrease in revenue by -0.2%, operating profit by -1.8%, ordinary profit by -2.8%, and net profit by -3.3%.

#### Corporate Performance Forecast for FY2025



\*Note: As of May 16, 2025. The data includes companies with March fiscal year-end that constitute the TOPIX, excluding financial firms and SoftBank Group.

\*Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bloomberg and other sources.

Observers in Japan and around the world have seen how the Trump administration's tariff policies can change very suddenly. This makes it difficult to assess the probability that what is announced at one time will actually be implemented. As such, it is understandable that a range of different responses have been produced along the lines described above, and that many forecasts have tended on the cautious side.

#### Reasons to be cheerful

The market had already anticipated the subdued forecasts that emerged over April. Moreover, since the forecasts have generally favored mild pessimism, there is significant potential for stock price appreciation to take place if there is progress on tariff issues.

Another layer of complexity is added by movements in the exchange rate. The prospect for continued strengthening of the yen relative to other major global currencies needs to be taken into account. Shortly before earnings announcements began in late April, on April 1 the Bank of Japan published the March results of the nationwide Short-term Economic Survey of Enterprises (Tankan).

According to this widely watched survey, exporting companies and large manufacturers are assuming an average exchange rate of 147.35 yen per dollar and 158.05 yen per euro for their FY2025 business plans. Since fluctuations in the yen exchange rate can be a factor for revising performance forecasts, it is important to consider these levels as a reference moving forwards.

## Conclusions

Our view at SMDAM is that the market had anticipated the modest forecasts recently put forward by Japanese corporates. Therefore, we are unlikely to see increased selling activity driven by these. Additionally, since the initial forecasts have been conservative, if there were to be a clear trend towards a reduction global trade tension, there is significant potential for the market to rebound strongly. If upward revisions to the cautious FY2025 forecasts were to emerge, this would create a strong narrative of Japanese corporate resilience.

We understand why the forecasters have seen fit to ‘tap the stone bridge’ and display caution; we also remain optimistic that underneath the noise, the strong fundamental case for Japanese equities remains intact.







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