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Feedback from Asia Investor Meetings

Takeshi Yamaguchi
Chief Japan Economist
Takeshi.Yamaguchi@morganstanleymufg.com +81 3 6836-5404

Masayuki Inui
Economist
Masayuki.Inui@morganstanleymufg.com +81 3 6836-5407

Among the Asian equity investors we met, many expect the BoJ policy rate to reach around 1.75% by 2027, while some now see rates exceeding 2%. While sentiment toward Japanese equities remains broadly constructive, concerns about higher rates and AI investment sustainability are also emerging.

Key Takeaways

- Visit to Asian institutional investors
- Monetary policy issues
- Other topics

Visit to Asian institutional investors: We visited institutional investors in Singapore and Hong Kong from August 24 to 28 (Yamaguchi only). While we also met a small number of bond and macro-focused investors, the majority of meetings were with equity investors this time.

Against the backdrop of rising Japanese long-term interest rates and renewed yen weakness, investors showed strong interest in reassessing Japan's macroeconomic outlook and potential catalysts. While many continue to maintain a constructive view on Japanese equities, opinions were not uniformly positive. Some investors expressed concerns about the negative effects of BoJ tightening and higher long-term yields, while others were more cautious about the sustainability of the global AI investment cycle.

Monetary policy issues: Investor attention appears to be shifting away from the timing of the next rate hike and toward the subsequent pace of tightening and the eventual terminal rate. A September rate hike is now viewed as close to a consensus expectation. Some investors argued that, given the extent to which it has already been priced in, a decision by the BoJ not to hike in September could trigger significant yen depreciation. At the same time, some were concerned that a hawkish move in September could be interpreted as a signal that the BoJ is prioritizing exchange-rate stability, potentially in coordination with the US authorities. There were also concerns that continuing to raise rates at a rapid pace thereafter could ultimately weigh on the equity market.

Among equity investors, the most common expectation was that the policy rate would reach around 1.75% by end-2027, implying three additional 25bp hikes. By contrast, many overseas bond and macro investors expect the BoJ to continue hiking at a quarterly pace, taking the policy rate to 2% or above during 2027. Compared to these investors, equity investors generally appear somewhat more conservative in their terminal rate expectations.That said, even among the equity investors we met,

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some have begun to argue that the policy rate could exceed 2% as early as next year.

Our own forecast remains below market consensus, with the policy rate reaching 1.50% by end-2027. As a result, discussions focused on the rationale behind our view, including our inflation outlook, the trajectory of private-sector services inflation, and the potential impact of higher interest rates on economic activity.

Investors were also interested in the reasons behind Board Member Tamura's participation in the Jackson Hole Symposium, interpretations of Deputy Governor Himino's recent speech, and the outlook for a potential meeting between Governor Ueda and Treasury Secretary Bessent on the sidelines of the G20 meetings.

Other topics: Discussions covered a wide range of topics, including fiscal policy events through year-end such as the late-August initial budget requests, the impact of a reduction in the food consumption tax on household spending, the outlook for USD/JPY and long-term interest rates, the implications of higher interest rates for the real estate sector, deposit trends at regional banks and shinkin banks, capital expenditure and government-led strategic investment, defense spending, the prospects for a cabinet reshuffle and its market implications, and risks stemming from developments in the Middle East.

There was also considerable interest in the US economic outlook and the trajectory of US long-term interest rates. At the time of our visit, based on the views of our US economics team, we had indicated that Chair Warsh's Jackson Hole speech was unlikely to deliver any major surprises. In the event, however, markets interpreted the speech as relatively hawkish. Nevertheless, our US economics team continues to expect no further rate hikes this year, although it acknowledges that the decision has become increasingly close.

