

Japanese equity outlook: We lower forecasts to factor in tariffs

Global Markets Research
4 April 2025

EQUITY: JAPAN STRATEGY

We expect tariffs to depress EPS by 14%, return to normal from FY26

Key words are time frame diversification, resilience, and transformability

Index outlook: We lower end-2025 forecasts for TOPIX to 2,700 and for Nikkei 225 to 36,000

We lower our forecasts for the TOPIX and Nikkei 225 to 2,500 and 34,000 for end-June 2025, 2,700 and 36,000 for end-2025, and 2,900 and 39,000 for end-2026 to reflect US tariffs and other factors (Figure 1 shows an overview, Figure 2 shows quarterly projections). These downward revisions primarily reflect cuts to our EPS forecasts. Although recessions in Japan and the US do not constitute our main scenario at present, market participants could well envision one, on which basis the bottom end of our expected ranges constitutes a downside scenario. While we expect short positions in Nikkei 225 futures to have an impact in the near term, we think share buybacks will tighten equity supply-demand conditions over the longer term.

We now expect the TOPIX to reach 3,000 and the Nikkei 225 to reach 40,000 in mid-2027, and while this is some 18 months later than our previous estimate, we still expect share prices to rise via growth in EPS over the longer term, backed by corporate governance reforms and Japan's move out of inflation.

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Fig. 1: Overview of our TOPIX forecasts

		Jun 2025	Dec 2025	Jun 2026	Dec 2026	Jun 2027
Main scenario: Decline in profits but US/Japan recession avoided in FY25, EPS growth from FY26	TOPIX	2,500	2,700	2,800	2,900	3,000
	Nikkei 225	34,000	36,000	37,500	39,000	40,000
Upside scenario: Close to our previous forecasts via broader tariff exemptions	TOPIX	2,800	2,950	3,050	3,150	3,250
	Nikkei 225	38,000	39,000	40,500	42,000	43,000
Downside scenario: US goes into recession, policy response fails to keep up	TOPIX	2,200	2,200	2,300	2,300	2,400
	Nikkei 225	30,000	30,000	31,500	31,500	33,000
Previous main scenario (Japanese equities investment strategy (March 2025))	TOPIX	2,800	3,000	3,050	3,150	
	Nikkei 225	38,500	42,000	43,000	44,000	

Source: Nomura

We revise our TOPIX EPS forecasts to reflect tariffs: 14% downside for FY25 EPS

While we think the US economy will inevitably turn downward, we think it will avoid a recession. We expect economic momentum to recover from 2026 onwards, supported by the tariff shock running its course and shifts in monetary and fiscal policy. We estimate that tariffs will dent FY25 TOPIX EPS directly by 7% and via global economic downturn by 7%.

Based on the *Basic Survey on Overseas Business Activities*, we estimate that tariff costs at US subsidiaries of Japanese companies resulting from imports from Japan and purchases from third countries will depress profits by ¥6.1trn (7.4% of FY22 profits). Adding together the negative macroeconomic effects of tariffs of depressing the US economy (3.5%), depressing the Japanese economy (2.5%), and reducing USD/JPY from 143 to 140 (0.7%) gives a hit to profits of 6.7%. We forecast top-down EPS growth of +10.1% for FY24, -6.8% for FY25, +5.1% for FY26, and +6.4% for FY27 (versus our forecasts as of 14 March of +10.3% for FY24, +7.2% for FY25, +5.5% for FY26, and +5.2% for FY27).

This has resulted in downward revisions to EPS across the board (Figure 4). However, looking at TOPIX valuations as of 4 April shows a 12-month forward P/E of 13.2x, a P/B of 1.22x, and a dividend yield of 2.8%, and we think this level of undervaluation will provide a degree of support (Figure 5). We think P/E will be in the range seen during periods of economic slowdown (13–14x) in the near term and gradually return to the levels seen during normal periods of economic expansion (14–16x) from fall 2025 onwards.

Fig. 2: Japan equity index forecasts

We see TOPIX at 2,200–2,950 and Nikkei 225 at 30,000–39,000 through end-December 2025, TOPIX at 2,200–3,150 and Nikkei 225 at 30,000–42,000 through end-December 2026

		Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027	Jun 2027
TOPIX	Term-end	2,500	2,600	2,700	2,750	2,800	2,850	2,900	2,950	3,000
	Term range	2,200 – 2,800	2,200 – 2,900	2,200 – 2,950	2,300 – 3,000	2,300 – 3,050	2,300 – 3,100	2,300 – 3,150	2,400 – 3,200	2,400 – 3,250
Nikkei 225 (¥)	Term-end	34,000	35,000	36,000	37,000	37,500	38,250	39,000	39,500	40,000
	Term range	30,000 – 38,000	30,000 – 38,500	30,000 – 39,000	31,500 – 40,000	31,500 – 40,500	31,500 – 41,250	31,500 – 42,000	33,000 – 43,000	33,000 – 43,000

(Reference) Top-down TOPIX EPS forecasts

23/3	139.7 (Change in profits, %)
24/3	162.8 +16.6
25/3E	179.2 +10.1
26/3E	167.1 -6.8
27/3E	175.6 +5.1
28/3E	186.8 +6.4

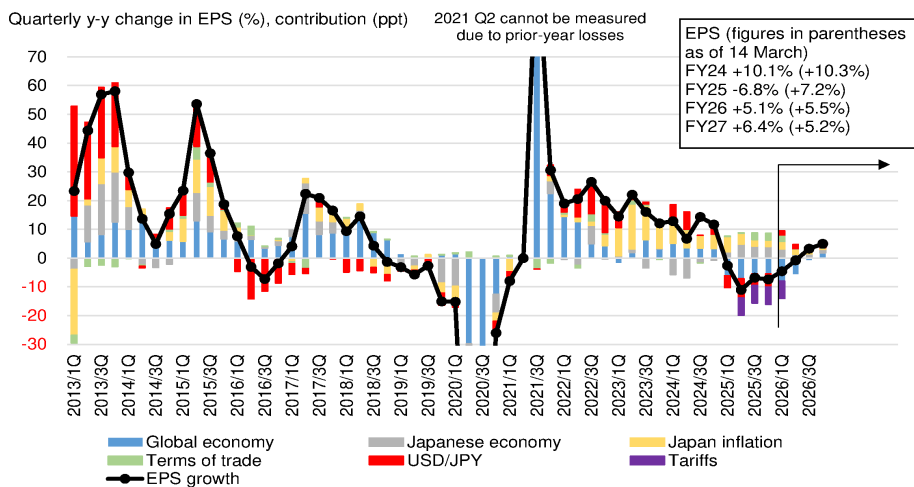
Forecasts as of 14 March 2025 Japanese equities investment strategy (March 2025)

		Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027
TOPIX	Term-end	2,800	2,900	3,000	3,050	3,050	3,100	3,150	3,200
	Term range	2,500 – 3,100	2,650 – 3,150	2,800 – 3,200	2,850 – 3,250	2,850 – 3,250	2,900 – 3,300	2,950 – 3,350	3,000 – 3,400
Nikkei 225 (¥)	Term-end	38,500	40,500	42,000	43,000	43,000	43,500	44,000	45,000
	Term range	35,000 – 39,000	37,000 – 43,000	39,000 – 45,000	40,000 – 46,000	40,000 – 46,000	40,500 – 46,500	41,000 – 47,000	42,000 – 48,000

Source: Nomura

Fig. 3: Quarterly factor analysis of TOPIX EPS and future outlook

We expect fall in profits from tariffs and overseas economy factors in FY25 but profit growth from FY26 as negatives run their course, think benefits from price hikes will have long legs

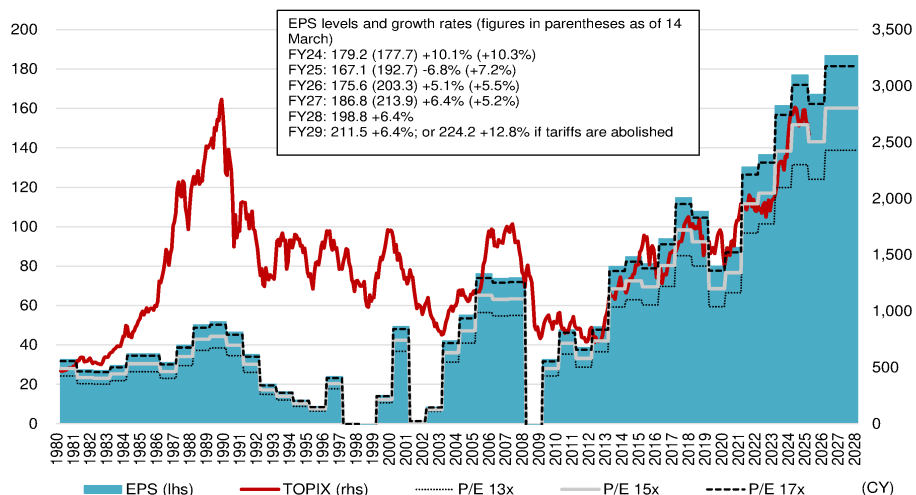


Note: We calculated contributions corresponding to changes in EPS based on sales growth and margin changes, by regressing quarterly sales growth and margin changes (y-y change in net profit margin) against y-y changes in global real economic growth, Japan's real economic growth, the GDP deflator, Japan's terms of trade (export price ÷ import price), and USD/JPY. Forecasts are simulated on the basis of our global macroeconomic forecasts. Forecasts assume a constant USD/JPY of 140. We assume real economic growth in Japan of +0.1% in 2024, +1.2% in 2025, and +0.7% in 2026, industrial production of -2.3% in 2024, +1.3% in 2025, and +1.7% in 2026, and a GDP deflator of +2.9% in 2024, +3.3% in 2025, and +1.4% in 2026, based on a 0.2% dent to 2025 economic growth from tariffs (see our 11 March 2025 report Japan: FY24-26 economic outlook revisions - We forecast gradual economic recovery in line with potential growth rate). [\[\[http://go.nomuranow.com/research/japi/publication/1232713\]\]](http://go.nomuranow.com/research/japi/publication/1232713) We assume US real economic growth of +2.8% in 2024, +2.0% in 2025, and +1.8% in 2026, and global real economic growth of +3.2% in 2024, +2.8% in 2025, and +3.0% in 2026, based on a 1% dent to 2025 economic growth from tariffs (see our 11 March 2025 report *Global Economic Outlook Monthly - US economic exceptionalism put to the test*).

Source: Nomura, based on QUICK, Bloomberg, Cabinet Office, MOF, Ministry of Internal Affairs and Communications, and IMF data

Fig. 4: TOPIX EPS forecasts and TOPIX projections assuming different P/Es

We expect TOPIX EPS to fall from 179 in FY24 to 167 in FY25 but return to a growth trajectory from FY26 and break above 200 in FY28–29

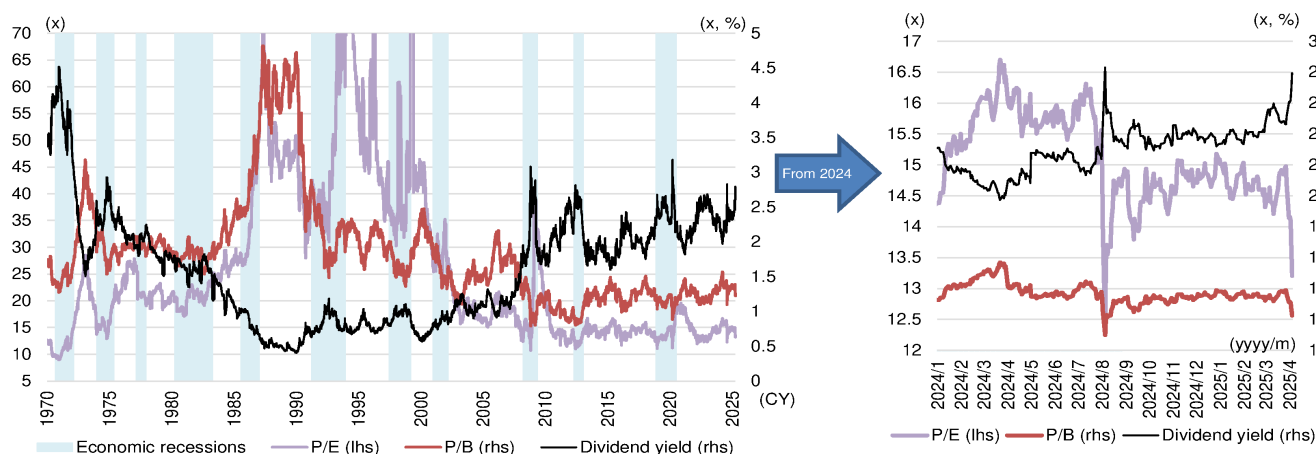


Note: TOPIX EPS forecasts for FY24–29 are Nomura top-down forecasts.

Source: Nomura, based on JPX Market Innovation & Research data

Fig. 5: TOPIX valuations

Some support from undervaluation, with 12-month forward P/E of 13.2x, P/B of 1.22x, and forward dividend yield of 2.8%



Note: P/E based on 12-month forward forecasts (Nomura analysts' forecasts, supplemented by Toyo Keizai forecasts). Dividend yields based on Nikkei forecasts for the current year. P/B is based on current-FY forecasts (calculated using clean surplus accounting). Latest data is as of 4 April 2025.

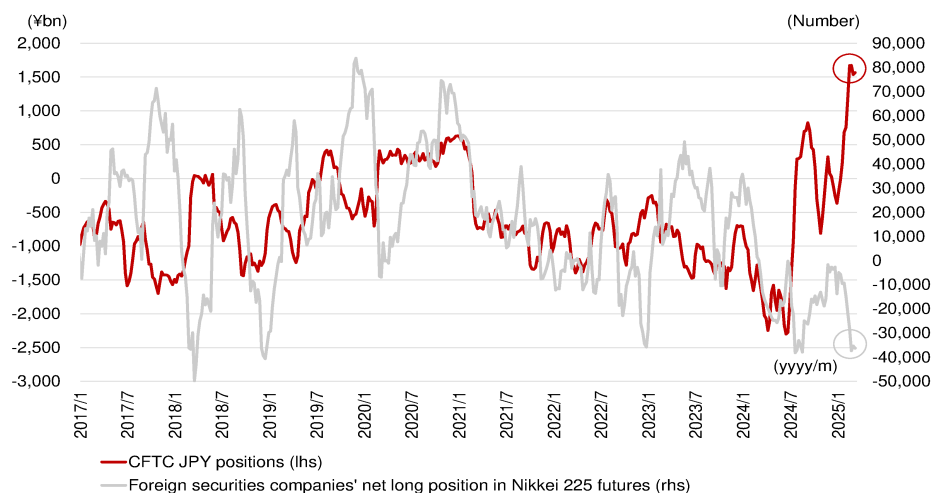
Source: Nomura, based on JPX Market Innovation & Research, Toyo Keizai, and Nikkei data

Points to watch in supply–demand

We think short positions in Nikkei 225 futures will have an impact in the near term but expect a futures-led rise in equity indices should those short positions be unwound (Figure 6). We also envision considerable rebalancing purchases, based on our 4 April estimate of a GPIF Japanese equity weighting of 23.9% (Figure 7). Over the longer term, we think high levels of share buybacks will cause supply–demand conditions to tighten. We think share buyback announcements will increase through May in particular, and note that as of 3 April, around ¥1trn in share buybacks had already been announced (Figure 8). We also look to inflows from individual investors into high-profile stocks, stable stocks, and high dividend yield stocks via the NISA framework.

Fig. 6: CFTC yen positions, foreign securities companies' Nikkei 225 futures positions

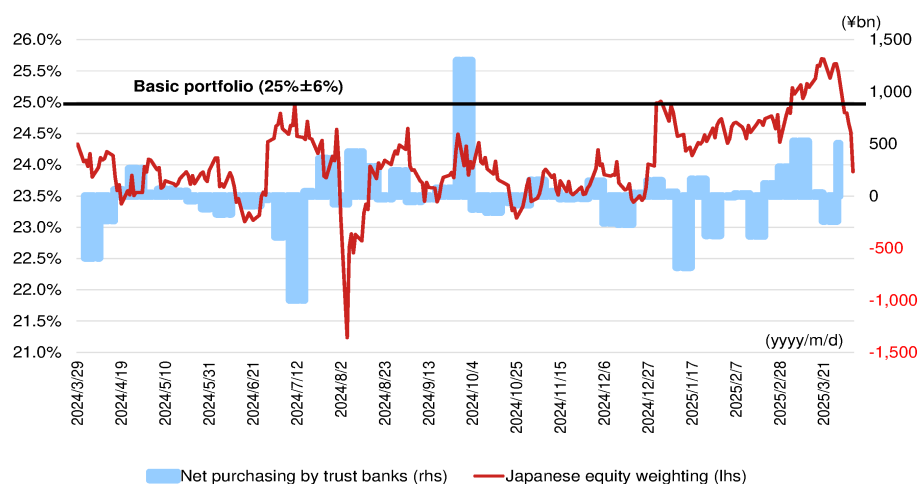
Ongoing high level of long yen positions, short Nikkei 225 futures



Source: Nomura, based on TSE, CFTC and Bloomberg data

Fig. 7: Estimated GPIF Japanese equity weighting

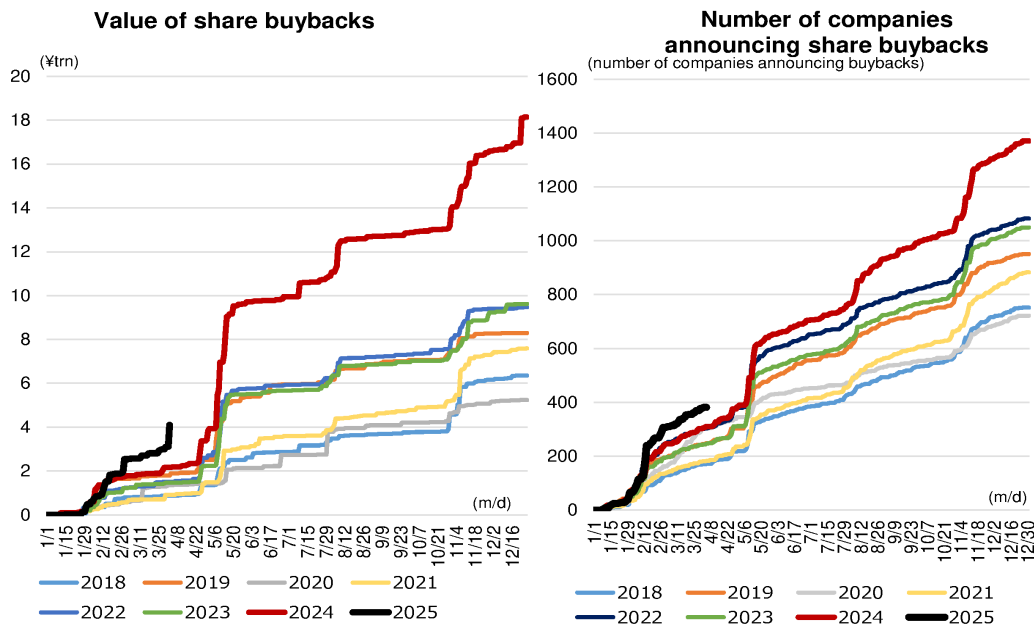
Equity weighting currently at around 23.9%, gives scope for nearly ¥2.7trn in net purchases



Note: Most recent daily estimates as of 4 April 2025. Most recent net purchases by trust banks as of week ending 28 March.
Source: Nomura, based on GPIF, MSCI, FTSE, JPX Market Innovation & Research, and NFRC data

Fig. 8: Share buyback value and number of companies

Ongoing y-y increases in both value and number of buybacks, still high overall



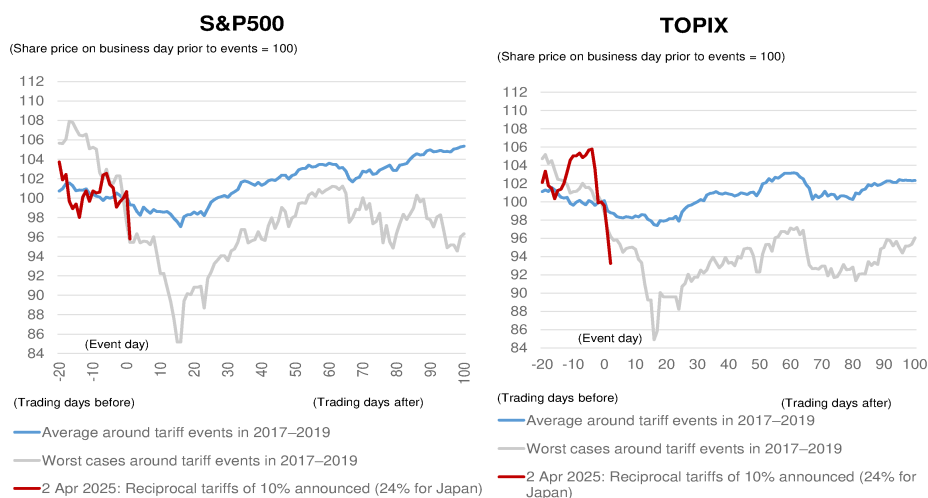
Note: Universe is all listed Japanese companies. Number of companies announcing buybacks includes duplicates (many companies announce two or more buybacks a year). Data through 3 April 2025.
Source: Nomura, based on company data and QUICK

Events to watch

Potential points to watch include negotiations over tariffs, progress with fiscal matters in the US, including tax cuts, a dovish shift at the Fed (the so-called Powell Put), and a move away from a hawkish stance on monetary and fiscal policy in Japan. Tariff events during the first Trump administration caused Japanese equity indices to soften for two or three weeks, but they then recovered over the next several weeks (Figure 9). We see no need for excessive pessimism and think the key is to diversify investments in terms of both assets and time frames.

Fig. 9: US and Japanese equity indices before and after events related to tariffs and US-China tensions

S&P 500 and TOPIX tend to decline by 2.5% over 2–3 weeks then recoup their losses over several weeks



Note: Graph plots the average movements in the S&P 500 and the TOPIX before and after events related to tariffs and US China trade conflict on 14 August 2017, 22 March 2018, 3 April 2018, 10 July 2018, 1 December 2018, 3 May 2019, and 1 August 2019. Most recent data is as of 15:30 JST on 4 April 2025.

Source: Nomura, based on S&P, JPX Market Innovation & Research data

Upside risks

Broadening of exemptions to tariffs. Rapid dovish turn at the Fed, Trump administration moving forward on fiscal policy, including tax cuts. Dovish turn in Japanese monetary and fiscal policy. Increased M&A and share buyback activity in Japan. We intend to revise our outlook if and when the US broadens its tariff exemptions.

Downside risks

Additional tariffs if reciprocal tariffs fail to eliminate trade deficits, retaliatory tariffs. A greater-than-expected decline in the economic outlook because of deteriorating sentiment or negative wealth effects (start of recession). Neglect of financial risks or financial crisis under a US administration that will not bail out the economy or households even in a recession. We intend to revise our forecasts if and when the prospect of an economic downturn changes.

Sector view: We prefer electric appliances & precision instruments, banks, construction, electric power & gas, and land transportation

Figure 10 shows major indicators and factor returns for the TOPIX-17 Series sectors. Our near-term focus is on the likelihood of profit growth in FY25 and on valuations. Valuation distortions have been increasing, as evidenced by the substantial underperformance of value stocks over 3-4 April, and we thus expect a correction in mispricing. Among external demand sectors, we prefer electric appliances & precision instruments over a longer-term perspective, as they look undervalued given how crucial global supply chains are, but we shy away from automobiles owing to a lack of growth appeal over the longer term. Among domestic demand sectors, we prefer not only banks and construction on solid prospects for profit growth in FY25 but also electric power & gas and transportation & logistics (and land transportation in particular) owing to valuation appeal, but shy away from financials (ex banks) in view of strong profit-taking pressure, and from retail trade, which looks overvalued.

Fig. 10: Major indicators and factors for the 17 major sectors

	Current-FY recurring profit growth	Next-FY recurring profit growth	P/E	P/B	ROE	Revision indices	Impact on recurring profits of 10bp rise in rate of interest paid	Sensitivity of share price index to 0.1% rise in long-term interest rates	USD/JPY	Impact of ¥5 appreciation on recurring profits	Sensitivity of share price to ¥5 appreciation against USD	Strategic shareholdings (vs market cap)	Share buybacks (since start of 2024)	Shareholder activist ownership
			Next FY	Actual	Next FY				Assumptions			Shares held in other companies	Own shares held by other companies	
All industries	11%	7%	13.4	1.30	9.3%	23%	-0.40%	0.06%	146.6	-1.24%	-1.43%	8.0%	7.0%	1.1%
Ex financials and utilities	10%	8%	14.4	1.41	9.4%	21%	-0.41%	-0.26%	146.6	-1.60%	-1.43%	4.6%	6.8%	-2.2%
Construction & materials	25%	13%	10.8	1.03	9.2%	56%	-0.39%	0.20%	147.3	-0.58%	-1.64%	14.4%	9.1%	5.3%
Energy resources	-14%	5%	7.5	0.58	7.5%	50%	-0.30%	0.47%	148.0	-2.63%	-2.83%	3.1%	4.3%	-1.2%
Commercial & wholesale trade	5%	-3%	10.5	1.18	10.8%	30%	-0.41%	0.22%	145.3	-1.44%	-1.20%	5.5%	8.5%	-3.0%
Steel & nonferrous metals	-15%	25%	8.2	0.67	7.9%	23%	-0.41%	1.02%	148.0	-1.74%	-1.68%	10.2%	10.0%	0.1%
Raw materials & chemicals	28%	18%	13.2	1.22	8.9%	18%	-0.32%	-0.35%	147.6	-1.99%	-1.36%	4.1%	6.9%	-2.9%
Pharmaceutical	14%	19%	20.4	1.91	9.0%	25%	-0.26%	-1.56%	146.5	-0.60%	-1.62%	1.0%	4.0%	-3.0%
Foods	29%	11%	15.9	1.56	9.5%	0%	-0.24%	-0.60%	147.4	-0.25%	-1.18%	3.3%	6.4%	-3.1%
Machinery	9%	11%	15.5	1.69	10.4%	-13%	-0.25%	0.06%	145.7	-3.14%	-2.07%	3.5%	6.4%	-2.9%
Automobiles & transportation equipment	-6%	2%	9.1	0.86	9.1%	13%	-0.51%	-0.08%	147.3	-4.05%	-4.02%	9.4%	12.1%	-2.7%
Electric appliances & precision instruments	18%	17%	18.0	2.11	11.2%	8%	-0.16%	-0.10%	146.2	-1.20%	-1.51%	3.2%	3.6%	-0.4%
Real estate	9%	7%	12.2	1.20	9.4%	83%	-1.08%	-0.65%	150.0	0.00%	-1.49%	11.2%	16.2%	-5.0%
Transportation & logistics	31%	-14%	10.9	1.00	8.9%	52%	-0.74%	-0.76%	146.6	-0.49%	-1.54%	5.7%	12.3%	-6.6%
IT & services, others	21%	8%	19.6	1.67	8.3%	29%	-0.47%	-0.40%	143.7	-0.32%	-0.23%	3.0%	5.8%	-2.8%
Retail trade	0%	11%	24.4	2.62	10.3%	3%	-0.44%	-0.15%	147.9	0.02%	0.27%	1.0%	3.9%	-2.9%
Banks	32%	11%	10.2	0.85	8.0%	38%		2.51%	144.0	0.00%	-1.09%	30.0%	7.6%	22.4%
Financials (ex banks)	42%	4%	9.5	1.09	10.9%	53%	-0.48%	1.44%	142.7	-0.42%	-1.90%	32.0%	8.4%	23.5%
Electric power & gas	-39%	-3%	6.6	0.57	8.3%	8%	-1.64%	0.63%	148.5	3.35%	-1.26%	6.9%	7.2%	-0.3%

Note: Universe is TOPIX 500 component stocks. Forex sensitivity calculated based on most recent results. Sensitivity of share price indices to a 0.1% rise in long-term interest rates is calculated using a multiple regression coefficient that includes TOPIX performance as an explanatory variable (since January 2010). Strategic shareholdings (active and passive) are versus total sector market cap. Activist ownership is total ownership by companies as seen in Bloomberg's activist-related functionality. Earnings forecasts are QUICK consensus forecasts (supplemented by Toyo Keizai forecasts). Revision index calculated as number of companies making upward revisions minus number of companies making downward revisions) ÷ total number of companies making revisions, based on current-FY and next-FY recurring profit forecasts as of end-January 2025 and 4 April 2025 (QUICK consensus forecasts, supplemented by Toyo Keizai forecasts). Data through 4 April 2025.

Source: Nomura, based on company disclosures, QUICK, Toyo Keizai, and Bloomberg data

Themes: 100-year companies, safety & security, and content

Our focus is on 100-year companies that have been able to transform themselves with resilience even amid uncertain economic conditions, and on Japanese companies that provide safety & security and content (*Figure 11*). In particular, many Japanese companies have been able to survive external uncertainties, including world wars, the Nixon shock, and the Plaza Accord. We reiterate our view that Japanese equities are an essential part of a diversified investment strategy for longer-term investors given current uncertainty about the global order (see our 27 February 2025 Anchor Report: *Japan's Transformation - Changes affect every corner of society, from the most ordinary of citizens to the oldest companies*).

Fig. 11: Recommended companies based on the themes of 100-year companies, safety & security, and content

			Market cap	Current FY	Current-FY recurring profit growth	Next-FY recurring profit growth	Next-FY P/E	P/B	Past 1Y return	100-year firms	Safety & security	Content
			Ybn		%	%	x	x	%			
100-year firms	1911 Sumitomo Forestry	Construction	865.5	2025/12	2.7	14.4	6.1	0.93	-10.0	○		
	3099 Isetan Mitsukoshi Holdings	Retail trade	742.8	2025/03	34.3	3.2	12.5	1.19	-18.4	○		
	4062 Iiden	Electric appliances	558.1	2025/03	-9.6	15.8	16.1	1.09	-37.3	○		
	4183 Mitsui Chemicals	Chemicals	627.6	2025/03	17.6	31.5	8.4	0.67	-24.4	○		
	4540 Tsumura	Pharmaceutical	322.0	2025/03	88.5	0.8	10.0	1.09	14.7	○		
	5233 Taiheiyo Cement	Glass and ceramics products	459.1	2025/03	30.4	24.9	6.8	0.72	12.7	○	○	
	5334 Niterra	Glass and ceramics products	872.7	2025/03	14.3	5.4	8.7	1.29	-7.0	○		
	5401 Nippon Steel	Iron & steel	3,262.9	2025/03	-31.6	47.5	6.4	0.60	-11.8	○		
	5801 Furukawa Electric	Nonferrous metals	329.1	2025/03	354.5	10.0	10.1	1.00	54.4	○		
	6301 Komatsu	Machinery	3,988.3	2025/03	-2.1	5.8	9.8	1.24	-2.5	○		
	6501 Hitachi	Electric appliances	14,854.0	2025/03	14.2	22.6	18.5	2.54	21.1	○	○	
	6701 NEC	Electric appliances	4,225.1	2025/03	24.5	24.1	21.5	2.08	43.7	○	○	
	6752 Panasonic Holdings	Electric appliances	3,946.7	2025/03	3.2	11.1	10.9	0.76	19.9	○		
	7203 Toyota Motor	Transportation equipment	39,779.7	2025/03	-8.1	-5.7	9.4	0.92	-28.4	○		
	7701 Shimadzu	Precision instruments	1,066.4	2025/03	-3.7	9.4	17.4	2.12	-11.4	○		
	8001 Itochu	Wholesale trade	10,511.0	2025/03	8.1	1.8	11.7	1.62	0.7	○		
	8050 Seiko Group	Precision instruments	159.6	2025/03	31.5	5.7	10.9	0.96	-4.9	○		
	8411 Mizuho Financial Group	Banks	9,280.8	2025/03	33.2	12.6	9.4	0.88	30.5	○		
	8802 Mitsubishi Estate	Real estate	3,024.5	2025/03	5.8	7.3	15.9	1.26	-9.9	○		
	9101 Nippon Yusen	Marine transportation	2,137.7	2025/03	87.6	-39.6	8.5	0.69	22.2	○		
Safety & security	1802 Obayashi	Construction	1,413.1	2025/03	52.2	-3.8	12.2	1.23	14.9	○	○	
	1803 Shimizu	Construction	945.3	2025/03	Profit	16.1	13.5	1.05	54.2	○	○	
	1893 Penta-Ocean Construction	Construction	200.9	2025/03	-22.4	66.2	8.4	1.17	-4.9	○	○	
	3769 GMO Payment Gateway	Information and communication	602.2	2025/09	10.5	23.2	24.6	5.85	-10.6	○		
	4307 Nomura Research Institute	Information and communication	2,865.5	2025/03	13.6	9.5	28.5	6.67	21.8	○		
	7011 Mitsubishi Heavy Industries	Machinery	8,493.2	2025/03	25.1	15.7	27.2	3.62	86.9	○	○	
Content	7012 Kawasaki Heavy Industries	Transportation equipment	1,409.4	2025/03	245.6	22.8	14.9	2.11	80.9	○	○	
	4751 CyberAgent	Services	575.9	2025/09	7.3	10.9	21.2	3.68	9.9			○
	5032 Anycolor	Information and communication	198.7	2025/04	25.1	17.1	15.8	11.04	39.0			○
	7974 Nintendo	Other products	13,090.8	2025/03	-43.6	42.2	33.8	4.36	31.4	○		○
	9413 TV Tokyo Holdings	Information and communication	98.6	2025/03	-9.5	14.7	14.2	0.95	23.7			○
	9602 Toho	Information and communication	1,407.8	2025/02	4.5	6.9	29.6	2.83	57.0			○
	9766 Konami Group	Information and communication	2,529.9	2025/03	36.3	14.5	27.8	5.03	78.0			○

Note: We selected companies for which Nomura analysts have assigned Buy ratings that also meet the criteria of 100-year companies, safety & security, or content. 100-year companies include some companies that the database shows as having been established after 1926 owing to a shift to a holding company structure or organizational changes, but were actually established before 1925. Earnings forecasts are QUICK consensus forecasts (supplemented by Toyo Keizai forecasts). Data through 3 April 2025.

Source: Nomura, based on QUICK, Toyo Keizai data

Appendix A-1

Analyst Certification

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As at 31 March 2025.

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In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

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