WEEKLY ANALYSIS

THE NIKKEI'S "BEAR MARKET" IS NOT OVER

Slight economic contraction in Q3. Anemic consumption. Capex rising. Temporary rebound in inflation. Rate hike expected in December. Stabilization of rate curves and the yen. Nikkei "bear market" not over yet.

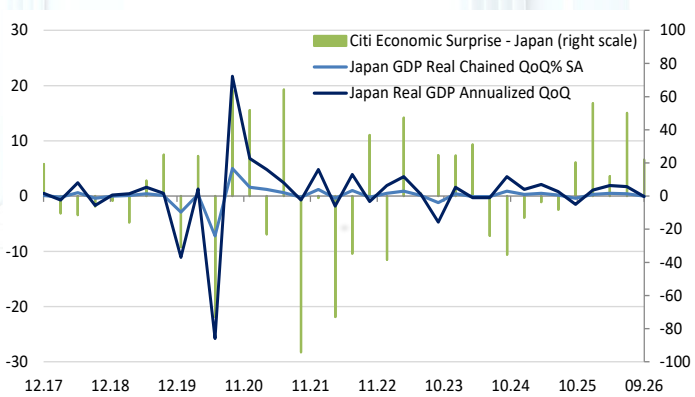
Key points

- Unexpected but limited contraction in GDP in Q3
- Domestic consumption weakened by prices
- Capex momentum and technology exports
- Fiscal trade-offs and debt pressures
- Temporary rebound in inflation in Q4
- Toward another tightening by the BoJ in December
- Stabilization of yield curves
- Gradual continuation of the yen's appreciation
- Japanese equities have not finished their "bear market"

Unexpected but limited contraction in GDP in Q3

Official statistics released in mid-November by the Cabinet Office show a slowdown in the Japanese economy in the third quarter of 2026, ending four consecutive quarters of growth. Real gross domestic product contracted slightly by -0.1% on an annualized basis (and declined very slightly by -0.02% on a quarterly basis), disappointing economists' expectations of modest growth ranging from +0.1% to +0.3%, and standing in sharp contrast to the momentum seen in the second quarter. This statistical setback reflects the fragility of an economy exposed to the dual impact of adverse factors. First, it is weakened by persistent inflationary pressures that are weighing on purchasing power and household spending decisions; second, it is threatened by a negative contribution from net foreign trade, which reduced growth by approximately 0.6 percentage points. Indeed, the restocking of energy reserves and the search for alternative sources of crude oil and natural gas in response to geopolitical disruptions in the Middle East have led to a sharp rebound in imports, more than offsetting the resilience of exports in certain months. From an analytical perspective, this divergence between technology exports, which remain on a solid footing, and a rising energy bill illustrates the structural vulnerability of an archipelago heavily dependent on maritime supplies and imported raw materials. We are also closely monitoring the fact that public spending has declined for the first time in six quarters, adding an additional cyclical constraint during a period of political and monetary transition. However, this episode should not be equated with a lasting structural slowdown in Japan's productive capacity. Business investment has shown encouraging resilience, and reforms aimed at improving governance and capital efficiency are continuing. As the year draws to a close and looking ahead to Q4 2026, economic activity is expected to stabilize around equilibrium, but the economy will remain dependent on trends in energy prices, external demand, and regional geopolitical tensions.

Performance of the Japanese Economy (GDP) in Yen



Sources: Bloomberg, BBGI Group SA

Domestic consumption weakened by prices

A central pillar of Japan's growth, accounting for approximately 55% of gross domestic product, private consumption fell by 0.3% in the third quarter of 2026, confirming households' difficulties in coping with the rising cost of living. This decline illustrates just how vulnerable the recovery in domestic spending remains as prices for essential goods and energy begin to rise again.Households have faced recurring price pressures on food, gas, and electricity, exacerbated by the phased-out summer support measures as well as adverse weather events (heavy rains and typhoons) that have dampened retail foot traffic and discretionary spending.