Sayonara Stagnation

Japan's economic story has long been defined by inertia. But after decades of deflationary pressure, subdued wage growth, and chronically low bond yields, the country is now exhibiting unmistakable signs of reflationary momentum. The narrative is shifting. Financial markets are starting to take notice, not only of Japan's improving growth dynamics, but also of the global implications if one of the world's largest creditor nations begins to reprice capital at home.

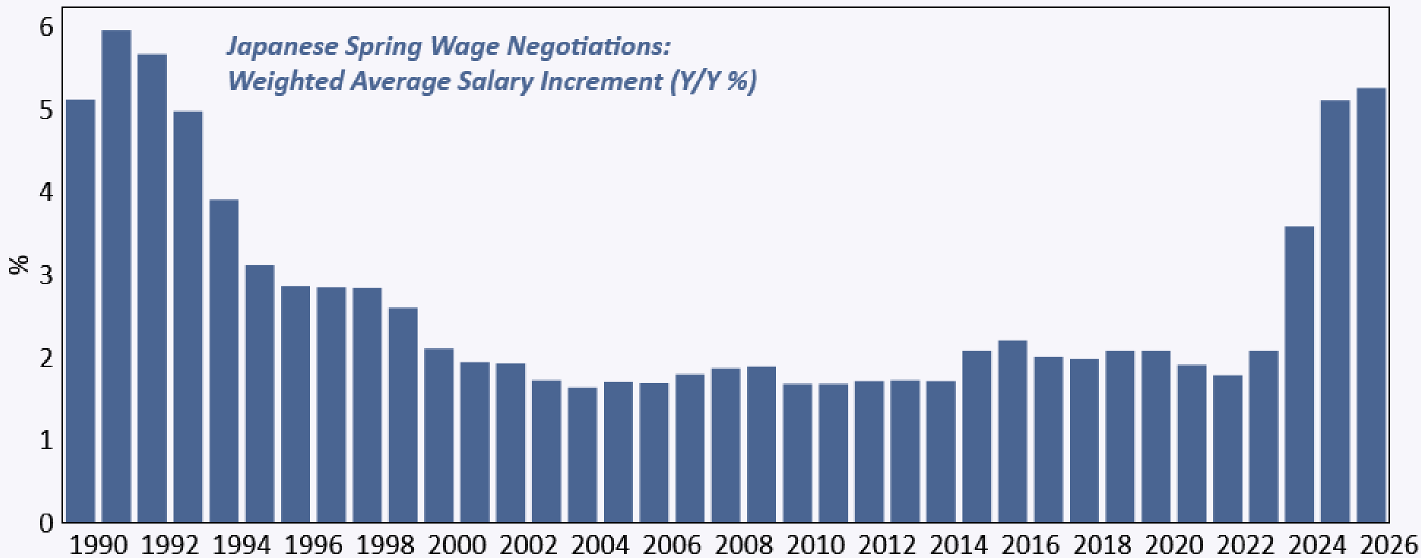
Signs of reflation are evident across the Japanese economy. Per the chart below, wage growth, the missing link in Japan's previous inflation cycles, is gaining traction as annual wage negotiations have delivered meaningful pay increases. Labour market conditions are tight by historical standards, corporate profitability remains solid and consumer spending is responding gradually to higher incomes and rising confidence that prices and wages are moving in tandem. Inflation, once persistently elusive, has become more embedded across goods and services. Meanwhile, exports continue to benefit from resilient global demand in high-value manufacturing segments, even as US tariffs shake up supply chain dynamics.

Political developments are likely to accelerate this trend, following the commanding victory of Sanae Takaichi in the early-February general election. Takaichi's proposed spending plans, focused on industrial policy, energy security, and domestic demand support, represent one of the most expansionary fiscal stances Japan has contemplated in years. Deploying expansionary fiscal policy in an already reflationary environment is akin to pouring fuel on the fire.

Risks to the reflationary momentum must also be considered. Long-term headwinds have not disappeared. Japan's demographic profile continues to deteriorate, limiting long-term labour supply and domestic demand growth. Competition from China across advanced manufacturing and technology sectors is intensifying, potentially constraining export performance and industrial policy ambitions. In the nearer-term, external trade frictions could weigh on export demand, although Japanese exports have been very resilient since the start of Donald Trump's second term. Monetary policy normalization and currency volatility are additional risks, particularly if the Bank of Japan (BoJ) were to tighten policy more aggressively (thus far the BoJ has moved extremely cautiously).

Financial markets are already adjusting. Japanese government bond (JGB) yields have been trending higher, reflecting both improved growth expectations and the gradual normalization of monetary policy. Rising JGB yields have important implications for Japanese institutional investors (among the world's largest holders of foreign bonds), who have spent decades allocating capital abroad in search of return. If domestic yields become structurally more attractive, even modest repatriation flows could have an outsized impact on global fixed income markets. Currency dynamics may shift as well. A sustained narrowing of interest rate differentials would support the yen over time, particularly if capital flows begin to reverse. Japanese equities, meanwhile, stand to benefit from reflation through improved pricing power, stronger nominal earnings growth, and ongoing corporate governance reforms that are encouraging more efficient capital allocation. However, if the yen structurally appreciates, Japanese exporters will have to contend with weakening price competitiveness.

For global markets, this shift carries consequences far beyond Japan's borders and demands a reassessment of assumptions that have held for a generation.



Sources: Macrobond, Japanese Trade Union Confederation, Forstrong Global Asset Management

Global Strategy Overview

Cash

With a reflationary environment likely to exert upwards pressure on long-term bond yields, other sources of diversification and ballast are necessary to offset equity risk. Cash, cash equivalents (including short-term bonds) and gold bullion are thus critical portfolio "shock absorbers" tasked to help smooth out volatility. Cash levels remain neutral this quarter, while balanced and growth-oriented strategies continue to hold gold bullion exposure.

Bonds

Local currency EM sovereign bonds have numerous tailwinds, including much higher real interest rates than comparable developed market bonds, benign inflationary pressure in most nations and the return of foreign investor flows after a multi-year exodus. Additionally, US Federal Reserve rate cuts and US dollar weakness provide a greater degree of monetary policy flexibility for EM central banks. EM debt exposure remains overweight and has been modestly increased this quarter.

Equities

Fiscal stimulus from numerous major economies is the key variable to watch in 2026, as a reflationary environment should support corporate earnings. However, the strong performance of global equity markets this year has outpaced fundamentals, causing a deterioration in valuation multiples and elevated downside risk. We remain moderately overweight equity exposure in client portfolios.

Opportunities

Copper prices should be supported by a multitude of factors including a weakening US dollar, electrical grid enhancements, data center demand, electric vehicle proliferation and a reflationary environment underpinned by fiscal expansion in major nations worldwide. Accordingly, copper mining companies should be the beneficiaries of continued M&A activity, rising earnings and increasing flexibility in deploying free cash flow (capex, buybacks, dividends, etc.) We have initiated a position in global copper miner equities in balanced and growth-oriented strategies this quarter.

Forstrong Strategies	Inception Date	1 Month	YTD	1 Year	3 Year	5 Year	10 Years	Since Inception
Balanced								
Global Income	30/06/08	1.03%	1.03%	8.31%	8.20%	5.06%	5.16%	7.37%
Global Balanced	30/06/03	2.13%	2.13%	12.86%	10.35%	6.87%	7.20%	7.41%
Global Growth	30/06/03	2.65%	2.65%	16.87%	13.33%	9.57%	9.48%	8.81%
Canadian Income	30/06/08	0.86%	0.86%	9.40%	8.13%	5.31%	5.23%	6.48%
Canadian Balanced	30/06/03	2.19%	2.19%	15.12%	10.75%	7.91%	7.61%	7.55%
Canadian Growth	30/06/03	2.50%	2.50%	20.78%	13.79%	10.80%	9.77%	8.80%
Global Equity								
Emerging Markets Equity	31/01/19	4.09%	4.09%	23.77%	9.77%	5.19%	NA	6.03%
Global Ex-North America Equity	31/12/19	4.87%	4.87%	27.39%	14.55%	9.09%	NA	9.20%
Alternative Income								
High Income Opportunities	30/06/22	2.08%	2.08%	17.13%	10.83%	NA	NA	13.56%

* Performance as of January 31st, 2026

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