

Daiwa Memorandum

FICC Research Dept.

Life insurers' investment plans for FY26

- Stance regarding investment in Japanese bonds has become slightly more aggressive
- Life insurers remain cautious about accumulating foreign bonds



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Japan's major life insurers have announced their FY26 investment plans (Chart 1). Their stance regarding investment in Japanese bonds is divided. Of the ten major firms, four intend to increase their JGB holdings, while three plan to reduce their JGB holdings. Given risks such as the situation in the Middle East and the Japanese government's measures to combat rising prices, life insurers are maintaining their cautious stances. Also, it has become clear that many life insurers plan to continue shifting their holdings from low-yield JGBs to high-yield JGBs.

Chart 1: Life Insurers' Investment Plans for FY26

	Japanese bonds	Foreign bonds		FY26 market outlook*				
		Hedged	Unhedged	10yr JGB yield (%)	Superlong JGB yields (%)		10yr US yield (%)	USD/JPY rate (¥)
Nippon Life Insurance	Decrease	Increase	Flat	2.00~3.00 (2.40)		30yr Flat at around 3.58%	3.60~5.00 (4.20)	145~170 (157)
Dai-ichi Life Insurance	Flat	Flat	Decrease	2.40~3.00 (2.85)		30yr 3.40~4.20 (3.90)	4.00~4.75 (4.50)	140~165 (162)
Meiji Yasuda Life Insurance	Increase	Flat	Flat	2.15~2.80 (2.40)	20yr Upper limit of range 3.50	30yr Upper limit of range 4.00	3.10~4.60 (3.80)	137~160 (150)
Sumitomo Life Insurance	Decrease	Increase	Decrease	2.20~2.80 (2.50)		30yr 3.40~4.20 (3.80)	3.50~4.50 (4.10)	140~170 (155)
Japan Post Insurance	Flat	Decrease	Decrease	2.00~3.00 (2.40)		30yr 3.20~4.20 (3.70)	3.80~4.80 (4.20)	145~165 (155)
Taiyo Life Insurance	Increase	Flat		2.00~3.00 (2.60)	20yr (3.40)	30yr (3.70)	3.00~5.00 (4.20)	140~165 (150)
Taiju Life Insurance	Flat	Flat	Decrease	2.20~2.80 (2.50)		40yr 3.55~4.35 (3.95)	3.40~4.50 (3.90)	141~161 (151)
Fukoku Mutual Life Insurance	Increase	Flat (no holdings)	Decrease	1.80~2.80 (2.30)		30yr 2.90~4.00 (3.50)	3.60~4.60 (4.20)	140~170 (155)
Daido Life Insurance	Increase	Decrease	Decrease	2.10~2.90 (2.55)		20yr 3.00~3.70 (3.30)	3.30~4.60 (4.00)	140~165 (153)
Asahi Mutual Life Insurance	Decrease	Depend on market trends	Depend on market trends	2.00~3.00 (2.40)		30yr 3.00~4.50 (3.70)	3.50~5.00 (3.80)	140~165 (150)

Source: Various media reports; compiled by Daiwa

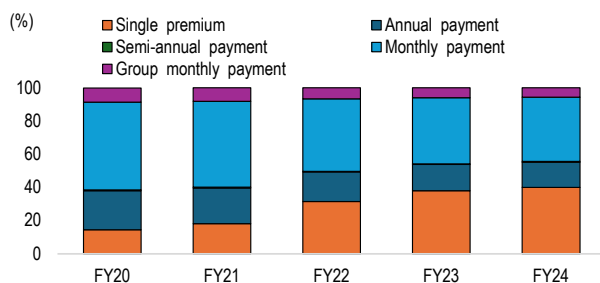
* Figures in parentheses are end-FY figures, except for Taiju Life Insurance, for which they are median forecasts.

When confirming Japan interest rate outlooks among life insurers, their views are generally consistent with market expectations, which anticipate roughly two interest rate hikes by the BOJ within this fiscal year. Meanwhile, as for the terminal rate, many expect it to land at around 1.5%, which is slightly lower than the 2% implied by the 2-year forward 1-year OIS rate. While many (but not all) life insurers expect the 10-year JGB yield and super-long yields to remain largely flat at current levels for the remainder of this fiscal year, a few believe that the recent rising trend for JGB yields will continue.

That said, due to concerns about persistent inflation caused by such factors as the prolonged turmoil in the Middle East, Japan's expansionary fiscal policies, and a shift toward bond selling among foreign investors, many life insurers are also expressing caution regarding the possibility of temporary higher-than-expected yield levels. Against this backdrop, while investment strategies regarding Japanese bonds vary by life insurer, the apparent approach regarding super-long JGBs (primary investment target) is to maintain a certain level of investment (or portfolio rebalancing) while remaining vigilant about higher-than-expected yields. Given the investment strategies of these life insurers, while it is difficult to anticipate a significant decline for super-long JGB yields due to their buying activity, we expect that this will contribute to a certain degree of stability for super-long JGB yields.

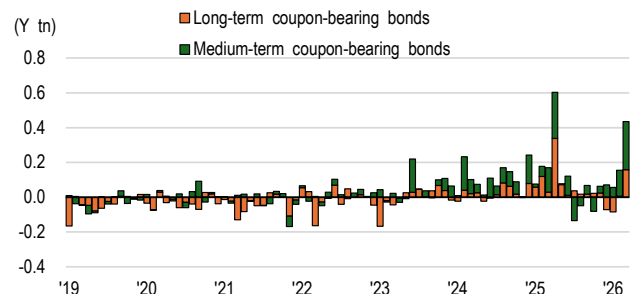
Also, even though not viewed as primary investment maturities for life insurers, some have indicated that Japanese bonds in the medium- to long-term zone could also serve as potential investment targets. Yields have been rising across the entire yield curve. As such, it is possible that the range of investment targets, taking into account the balance with the insurance assumed rate of return on the liability side, has expanded beyond the super-long zone. On the life insurer liability side [there has been an increase in single-premium insurance products, which are assumed to have relatively short durations](#) (Chart 2) and attention may turn to life insurers' future investment trends regarding medium- to long-term bonds (Chart 3).

Chart 2: Breakdown of Life Insurers' Premium Income by Payment Method (individual insurance)



Source: Life Insurance Association of Japan; compiled by Daiwa.

Chart 3: Net Purchases of Medium- and Long-term Bonds by Life and Non-life Insurers



Source: Japan Securities Dealers Association; compiled by Daiwa.

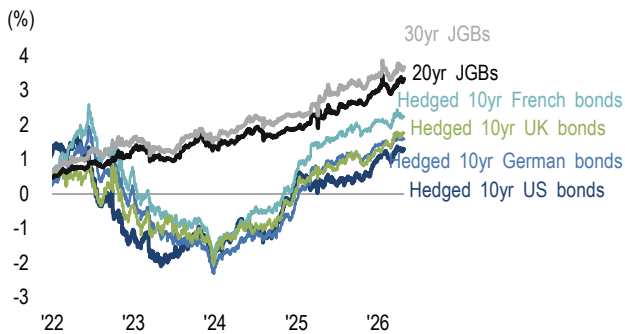
Life insurers remain cautious about increasing their holdings of foreign bonds. As hedging costs have improved significantly due to rate cuts by central banks in Europe and the US, as well as rate hikes by the BOJ, yields on hedged foreign bonds have continued to rise. Hedging costs are expected to continue to decline gradually and, while the environment for investing in hedged foreign bonds is becoming more favorable, their investment appeal wanes when compared to JGBs, whose yields have risen significantly (Chart 4). In fact, amid rising Japanese yields and persistently high hedging costs, some have suggested that, "Hedged foreign bonds, in particular, have become less attractive as an investment." Even though some life insurers have indicated a policy of increasing their holdings of hedged foreign bonds, they appear to be expanding their portfolios of floating-rate assets that are resilient in the face of hedging cost fluctuations.

Similarly, for currency-unhedged foreign bonds, many insurers plan to either hold steady or decrease their holdings, and none plan to increase them. Even life insurers that had previously been dependent on market trends have now begun to scale back these foreign bonds, suggesting an even more cautious stance than before. Their median forecast range for the USD/JPY rate is Y140-Y165, with a term-end assumption of Y154. This is a significant shift towards a weaker yen

compared to the previous forecasts (Y135-Y158, term-end Y145). However, since the yen is expected to strengthen vs the current level by the term-end, with many life insurers forecasting appreciation to the low USD/JPY140 range, aggressive buying that would drive USD/JPY significantly higher is likely to be limited.

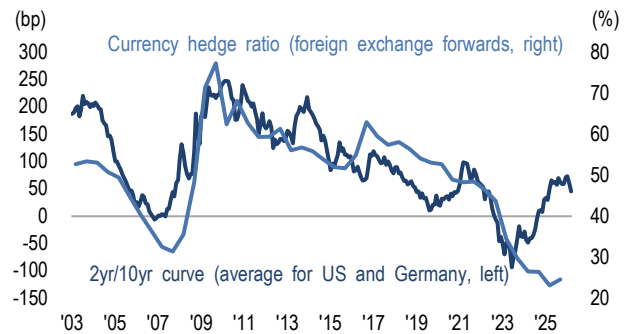
Foreign bond investing among life insurers is extremely important when forecasting medium- to long-term supply/demand conditions with the yen. While the steepening of the foreign bond yield curve suggests that life insurers are increasing their hedging ratios, over the short term, given the lack of expectations for the yen to appreciate, they appear to be working to lower their hedging ratios or using currency options (range forwards) to contain hedging costs. However, hedge ratios at major Japanese life insurers have fallen to historically low levels (Chart 5). If life insurers were to raise their hedge ratios, that would prompt a corresponding demand to purchase the yen, creating widening pressure on a short-term currency basis. As such, we will continue to closely monitor developments on that front.

Chart 4: JGB and Hedged Foreign Bond Yields



Source: Bloomberg; compiled by Daiwa.

Chart 5: Currency Hedge Ratios at Major Life Insurers



Source: Earnings results materials from major life insurers, Bloomberg; compiled by Daiwa.

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