NOMURA ASSET MANAGEMENT

CIO Perspectives

Views on the Increased Volatility in Global and Japanese Equity Markets in July

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In July 2026, global equity markets experienced substantial day-to-day fluctuations, resulting in a month of particularly high volatility, exceeding what might be inferred from the indices' overall returns. Below are our CIOs' perspectives on the factors behind the heightened volatility and the outlook going forward.

Views on the Global Equity Market

Yuji Maeda, CFA, CIO – Active Global Investments, Senior Managing Director

In July, the global equity market, as measured by the MSCI All Country World Index (total return, local currency terms), declined by 0.3%. Looking at the performance of the indices by sector and country, there was significant dispersion in performance during the month.

By sector, the energy sector rose on the back of higher crude oil prices, while the information technology sector, led by semiconductor stocks, declined. Among country indices, the KOSPI (Korea Composite Stock Price Index), which has a high weighting in semiconductor stocks, fell sharply by more than 20%. Other countries, however, generally remained resilient. Overall, semiconductor stocks experienced particularly large price movements during the month, with the SOX Index, a representative semiconductor index, falling 21% over the month.

Since the beginning of the year, global equity markets have been driven higher by the AI boom. Major U.S. technology companies have increased capital expenditures on AI-related facilities, including data centers, and AI-related stocks, particularly semiconductor stocks, have led the market's gains.

In July, a major South Korean semiconductor manufacturer listed on the Nasdaq through American depositary receipts (ADRs), while a major Chinese semiconductor manufacturer also listed on the mainland Chinese market. These successive fundraising activities heightened concerns about intensifying competition in the semiconductor industry. In addition, during the corporate earnings season in late July, concerns spread among investors about the profitability of massive investments in AI. This caused market volatility to rise and appears to have contributed to declines in AI-related stocks, which had become increasingly overvalued.

However, a closer examination of the earnings results of semiconductor-related companies and major U.S. technology companies shows that their performance exceeded market expectations. There have been no signs of a slowdown in AI demand, and our view remains unchanged that AI represents a structural, multiyear growth theme for equity markets.

Outside the AI-related segment, the stock prices of companies that are likely to benefit from economic expansion and that have reported strong earnings have risen, providing support for equity indices as a whole. In addition, oil prices have risen amid continuing uncertainty over the prospect of a military conflict between the U.S. and Iran, raising concerns about accelerating inflation. Nevertheless, the global economy, led by the U.S., has remained resilient.

While volatility in the stock market - particularly among semiconductor shares - may remain elevated for some time, valuations also warrant attention. As of the end of July, 2026 earnings per share for the MSCI All Country World Index were expected to grow by approximately 29%, while the forward price-to-earnings ratio was around 18 times. If investors shift their focus toward fundamentals, such as economic conditions and corporate earnings, we expect stock prices to remain firm.

Views on the Japanese Equity Market

Shintaro Harada, CMA, CIO – Active Japanese Equity

July saw a significant divergence between the performances of the TOPIX and the Nikkei 225. The Nikkei 225 stood at ¥64,362.02 on July 31 and fell approximately 8.1% during the month, mainly due to a correction in AI semiconductor stocks. By contrast, the TOPIX rose approximately 0.2%, making the Nikkei's decline particularly pronounced. The NT ratio stood at 16.1 as of July 31, down from its peak of 18.0 and returning to approximately its end-April level.

From a style perspective, the Russell/Nomura Value Index underperformed the Growth Index by approximately 19% from April through June, but outperformed it by approximately 10% in July. Taken together, these developments suggest that some of the gains generated by the highly concentrated rally in AI semiconductor stocks during the April–June period were subsequently unwound. By sector, AI semiconductor-related sectors such as Electric Appliances and Nonferrous Metals, which had risen sharply from April through June, underwent significant corrections in July. Meanwhile, value-oriented sectors such as Transportation Equipment, Marine Transportation, and Iron and Steel began to rebound. Financials continued to advance in July, following their gains during the April–June period. The Services sector, which had declined earlier in the year amid concerns about AI disruption*, also followed a similar trajectory.

The correction in AI semiconductor stocks has recently been broadly in line with the decline in the KOSPI, in which major semiconductor companies have a high weighting. The decline in SK hynix's share price appears to have been partly attributable to its second-quarter results falling short of consensus expectations. However, cases in which even companies that reported strong earnings declined in sympathy with the broader correction in AI semiconductor stocks have been observed around the world. The decline in AI semiconductor stocks is thought to reflect concerns about excessive capital expenditure by hyperscalers and the growing presence of Chinese semiconductor companies. These factors have raised broader questions about the sustainability of the AI semiconductor business model. Such uncertainties tend to put downward pressure on valuations, and the market may therefore remain relatively unresponsive to positive news in the short term.

At the same time, the correction in AI semiconductor-related stocks has progressed considerably over the past month. Kioxia Holdings provides a representative example. Its share price fell by approximately 66%, from an intraday high of ¥112,700 on June 22 to a recent closing low of ¥38,380 on July 29, bringing its PER down to approximately 4–5 times. This would translate into a PER of around 10 times even if earnings were to be halved. The key question is whether the company's earnings - which are expected to grow substantially through the next fiscal year - would subsequently be halved; views remain divided on this point.

Toward the end of the month, Advantest, a semiconductor manufacturing equipment company, rebounded sharply after announcing a significant upward revision to its earnings outlook. Hitachi, whose share price had lagged amid concerns that AI could erode the value added by its businesses, also began to rise following strong first-quarter results. In the U.S. market on July 30, the SOX rose approximately 8%, suggesting that AI semiconductor-related stocks globally may be beginning to bottom out.

Although signs of a shift in market momentum emerged toward the end of the month, we expect sharp fluctuations to continue as first-quarter earnings announcements gather pace. We will continue to manage portfolios based on sound, objective analysis rather than being swayed solely by headline news or share price momentum. With an emphasis on well-balanced portfolio management during periods of high volatility, we will focus on stock selection to generate long-term added value.

* Concerns about AI disruption: Concerns that advances in AI could significantly disrupt or rapidly transform existing industries, companies, employment, and business models.

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