CIO Perspectives

Japan Equity – View on Recent Market Turmoil and Outlook

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Following the sharp decline in U.S. equities on November 5, Japanese stocks also plunged on November 6, with the Nikkei 225 closing down about 6% at 57,434.77. It entered the 50,000 range for the first time in about six months, having fallen approximately 20% from its June 25 high of 72,366.34.

On November 4, following the release of the U.S. midterm election results, Japanese equities initially fell sharply but recovered somewhat toward the close. Today's decline, however, has been more pronounced. In particular, the Nikkei 225 has fallen below 60,000, a level that had been viewed as potential support, and short-term market uncertainty appears to be increasing.

The U.S. midterm election results were already widely known by November 5, so the results themselves—such as the number of Democratic candidates elected—do not appear to have been a new catalyst for the decline. Rather, the sharp sell-off in related stocks appears to reflect growing pessimism about the outlook for the AI semiconductor business. This pessimism may have exceeded market expectations, amid Democrats' stronger-than-expected performance, including in gubernatorial races, and comments about AI companies and data center construction that were more critical than expected.

We do not believe that Democratic-led policymaking would necessarily lead to cuts in AI investment. Nevertheless, we believe it is important to reassess the strength of the headwinds facing the sector. The planned U.S. listing of Anthropic later this month, including uncertainty over its timing, is another source of uncertainty for the market. In addition, the recent sharp decline in AI semiconductor stocks—which had been bid up six months ago—could create further technical pressure toward year-end. Accordingly, the market may remain under pressure in the near term.

At the same time, the decline in share prices has arguably made Japanese equities more attractive to investors. The Nikkei-TOPIX ratio (NT Ratio), which rose to 17.5 in June 2026, has since fallen to 15.5 at the November 6 close, bringing it close to its level at the start of the year. From a valuation perspective, the TOPIX's price-to-earnings ratio (PER), based on the average of Nomura Securities' forecasts for fiscal 2026 and 2027, has fallen to 14.9, which we consider an attractive level. Interim results also indicate that corporate earnings have remained very strong. If market conditions return to a state in which share prices more objectively reflect fundamentals, the prospects for a recovery may improve.

We will continue to monitor changes in market conditions closely and focus on fundamental, research-based stock selection and portfolio management, seeking to generate added value even in the challenging near-term environment.

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  [Calculation formula] Assets amount under contract x fee rate (%) x length of the contract (days) / 365

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Investment Risks Associated with Financial Products

The financial instrument transactions conducted on behalf of the client shall include investments made in shares, bonds with new share warrants, bonds issued by public corporations, and other instruments (including cases where investments are made via investment trusts and through Limited Partnerships). Consequently, the prices of shares and other investments may decline as a result of the effects of domestic and overseas economic variables and political circumstances, fluctuations in interest rates, and changes in the performance and financial standing of the issuing entities, resulting in investment losses.

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Fees and Expenses Associated with Investment Trusts November, 2026

Sales Charge at Purchase **Up to 3.85% (including tax)**	The fee is borne by investors when they apply to purchase an investment trust. The distributor receives this fee as compensation for expenses related to the sale of the investment trust. Please confirm the applicable fee rate and other details with the distributor of the investment trust. Depending on the investment trust, a "redemption fee" or other fee may also be charged when the investment is redeemed (including upon maturity).
Management Fee (Trust Fee) **Up to 2.222% (including tax)**	This fee is charged for the period during which an investor holds the investment trust. The investment trust management company receives its portion as compensation for managing the fund; the trustee receives its portion for the safekeeping and administration of the trust's assets: and the distributor receives its portion for administrative services related to the payment of distributions and redemption proceeds, as well as for mailing investment reports. • For some funds, an additional performance-based fee may be charged depending on investment performance. • In the case of a fund of funds, except for certain funds, trust fees and other expenses for the investment trust securities in which the fund invests are charged separately.
Trust Asset Retention Amount (retention charge) **Up to 0.5%**	Investors bear this charge when redeeming their holdings in an investment trust or in similar circumstances. It is intended to ensure that investors themselves bear the costs incurred within the trust assets as a result of their redemptions or similar transactions.
Other Fees and Expenses	In addition to the fees and expenses described above, investors may be required to bear other costs depending on the holding period and other factors, including brokerage commissions incurred in trading portfolio securities and other assets, taxes imposed on the fund, audit fees, and various expenses associated with the safekeeping and administration of assets overseas. As these fees and expenses may vary depending on the fund's investment performance and other factors, their rates, maximum amounts, and other details cannot be specified in advance.

The total amount of the fees and expenses described above varies depending on the period during which investors hold the fund and other factors; therefore, it cannot be stated in advance.

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