

## CIO View:

# Views on the Recent Decline in the Japanese Equity Market and Medium- to Long-Term Outlook

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## Shintaro Harada, Chief Investment Officer – Active Japanese Equity

The Tokyo stock market has fallen as investors priced in a deterioration and a prolonged escalation of Middle East tensions that began with U.S. and Israeli military operations against Iran. The Nikkei 225 rose from 50,339.48 at the end of December 2025 to 58,850.27 at the end of February 2026—about a 17% gain—but stood at 54,245.54 (as of 15:30 on March 4 JST), 7.8% below the end-February level. This decline appears to reflect investors trimming long-held positions in Japanese stocks following the recent military actions against Iran.

Although U.S. President Donald Trump has maintained a consistently hawkish tone, the conflict shows signs of continuing longer than expected and potentially spreading across the region. The anticipated effects of a blockade of the Strait of Hormuz on oil and natural gas prices remain significant, and the economic implications warrant close monitoring.

Without a clear exit strategy for the current military actions, it is difficult to gauge their ultimate impact on the economy and corporate earnings, thereby increasing market uncertainty. In addition, reports of the collapse of a British mortgage lender have elevated credit concerns, prompting further risk-off positioning.

In the short term, this rise in uncertainty could lead to a prolonged, directionless market even after the immediate sell-off subsides, requiring continued monitoring and caution in managing our investment portfolios. Over the medium to long term, Japan-specific positive factors — including corporate earnings expected to remain solid in fiscal 2026, continued progress in corporate governance, and a sustained trend toward stronger shareholder returns — persist, and we believe investment opportunities in the Japanese equity market remain intact.

The commentary is based on personal views and does not necessarily reflect the house view.

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