

## CIO View:

# The Japanese Equity Market Amid Tensions in Iran

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The Japan-U.S. summit held on March 19 was widely viewed as successful. In the security sphere, Japan signaled its alignment with President Trump while avoiding any specific commitment regarding the dispatch of the Self-Defense Forces to the Middle East. At the same time, the two countries deepened discussions on further strengthening economic cooperation.

However, there has been no meaningful progress on the situation in Iran. Although both the United States and Iran have continued to assert their respective positions, the two sides still appear to be at odds. The United States has referred to the possibility of a gradual winding down of military operations against Iran, while also indicating that it would not agree to a ceasefire. Meanwhile, Iran has indicated that as long as U.S. attacks continue, it will continue its attacks on infrastructure and efforts to block the Strait of Hormuz. As a result, the situation remains far from resolution.

Against this backdrop, concerns over rising crude oil prices have not abated. Markets are once again pricing in the risk of persistent global inflation and the risk that such inflation could weigh on economic activity. As a result, on March 23, the Nikkei Stock Average temporarily fell below its intraday low of 51,407.66 yen recorded on March 9 and, at one point, dropped below the 51,000-yen level.

The likelihood of a short-term improvement in this situation remains limited for the time being, and the market's adjustment phase may continue. That said, for the Trump administration, any unnecessary prolongation of the conflict and the resulting increase in inflation risk would be a negative factor ahead of the U.S. midterm elections, and therefore some form of policy action may be taken. As noted previously, Japan's unique investment appeal remains unchanged, and if the situation in Iran shows signs of stabilizing, market indices may also rebound. While remaining mindful of near-term downside risks in the market, we intend to manage the portfolio flexibly while also monitoring fundamentals such as earnings forecasts for fiscal 2026 and developments in the spring wage negotiations.

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

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