NOMURA ASSET MANAGEMENT

CIO Perspectives

Rising Market Volatility and Corporate Fundamentals in Focus

Nomura Asset Management Co., Ltd. Published July 21, 2026

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On June 25, the Nikkei 225 reached a new high of 72,366.34, but has since turned downward, led mainly by AI-related semiconductor stocks. As of the close on July 17, it stood at 64,141.12, roughly 11% below its peak. By contrast, the TOPIX has declined by only about 4% from its high on July 6, underscoring the steeper correction in the Nikkei 225, which had risen significantly from April through June. Kioxia Holdings, a leading name among AI-related semiconductor stocks, has also fallen sharply, dropping from an intraday high of 112,700 on June 22 to a closing price of 52,110 on July 17 - roughly a 50% decline.

Going forward, market direction is likely to remain heavily dependent on the performance of AI-related semiconductor stocks, which have led the market to date. However, despite stronger-than-expected earnings and upward guidance revisions from ASML Holding, the Dutch semiconductor equipment leader, and TSMC, Taiwan's leading semiconductor foundry, semiconductor-related stocks have remained soft. This suggests that share prices had become disconnected from fundamentals to some extent, and that the earlier rally was driven largely by supply-demand dynamics characteristic of a momentum-driven market.

From a corporate fundamentals perspective, the earnings outlook for semiconductor-related companies remains favorable. The expansion of AI semiconductors market is expected to exceed the scale of traditional semiconductor cycle by a wide margin, supporting strong medium-to long-term investment appeal. That said, several risk factors remain, including concerns that investment in data centers may have become excessive. Moreover, even when near-term earnings are strong, there is a tendency for markets to begin pricing in a slowdown in earnings momentum over the medium term. Accordingly, we believe elevated volatility in share prices is likely to persist for the time being.

In this environment, continued sector rotation within AI-related semiconductor names, as well as the price formation in non-AI-related semiconductor stocks, will be key determinants of broader market performance. We are beginning to see signs of a bottoming process in information-related stocks that had declined on AI disruption concerns*, as well as in domestically oriented defensive stocks that had largely been left behind during the AI rally. However, in the short term, we expect the market to remain without a clear directional bias.

From July 17 to July 20, U.S. equity markets were generally weak, reflecting concerns over the intensifying AI development race between the U.S. and China, as well as lingering uncertainty regarding developments in Iran. The Tokyo market rose on July 21, helped in part by a rebound in the U.S. semiconductor stock index the previous day.

While the market environment remains highly volatile, we will continue to maintain a balanced portfolio, verify fundamentals based on April to June quarter earnings results, and focus on generating and accumulating excess returns through disciplined stock selection.

Note: *AI disruption concerns: concerns that the evolution of AI may significantly disrupt or rapidly transform existing industries, companies, jobs, and business models.

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