

Japan Insights | Market Strategy by Nozomi Moriya

Japanese Equities - A Global View from New York

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New York had returned to a calmer atmosphere following two major diplomatic events: the United Nations General Assembly and the U.S.–China summit. During the trip, I had the opportunity to exchange views with a wide range of investors across the Americas. I came away with the sense that interest in Japanese equities is gradually broadening. Global investors are shifting their focus from simply searching for undervalued markets to understanding the changes taking place in each market and the investment stories emerging from them. In Japan’s case, I sensed a desire to understand the answer to a simple question: Why Japanese equities now?

When I mentioned that I am a Tokyo-based strategist, investors responded more positively than I had expected. With policy, interest rates, foreign exchange and corporate behavior all undergoing significant change, many wanted to hear an on-the-ground perspective from Tokyo on what is happening in Japan’s market.

After years of concentrated exposure to U.S. equities and dollar-denominated assets, investors in the Americas are also beginning to recognize the need to diversify their portfolios. Japanese equities appear to be gradually attracting attention in this context.

Foreign Investors Have Driven the Market

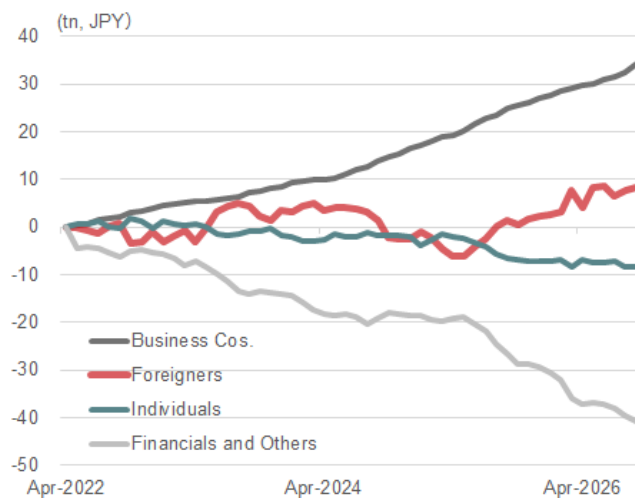
Foreign capital has flowed into the Japanese equity market since 2023. Behind this trend are major changes in Japan’s investment environment: the shift from deflation to inflation, the normalization of monetary policy, and expectations for corporate governance reforms and improvements in capital efficiency.

In response to these changes, foreign investors have become a major force behind the rise in Japanese equities over the past three years. As foreign buying has accumulated, global investors’ underweight positions in Japan have narrowed. Even so, there is still room for global investors to increase their exposure, and Japanese equities remain relatively inexpensive compared with global equity markets.

At the same time, Japanese equities have risen significantly over the past three years. Light positioning and relative valuation appeal remain relevant, but they are no longer particularly new elements of the investment story.

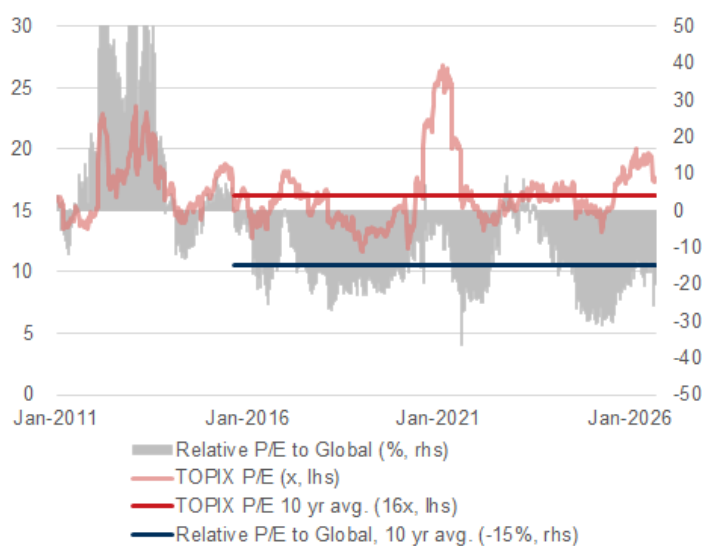
My recent discussions left me with the impression that there is still considerable scope to attract additional capital to Japanese equities—provided we can update and present a compelling answer to the question of why Japan now, among the many markets around the world.

Figure 1. Foreign Investors Have Led Buying in Japanese Equities – Excluding share buybacks; cumulative trading by investor type



Note: Cumulative figures are indexed to zero at the end of March 2022. Monthly data from April 2022 through September 2026. Source: Nomura Asset Management, based on data from the Tokyo Stock Exchange.

Figure 2. Japan Still Trades at a Discount to Global Equities – Japan's PER has risen, but its discount to global equities remains



Note: Relative global PER compares the MSCI Japan Index with the MSCI ACWI Index.
Source: Nomura Asset Management, based on Bloomberg data. Weekly data from January 2011 through the end of August 2026.

AI - and Beyond

AI, of course, is impossible to ignore. My trip once again confirmed that AI remains a central theme in global equity markets. At the same time, investors do not have a settled view on whether the AI trade will continue to advance in a straight line.

Expectations remain strong that AI will raise productivity over the long term and create new sources of growth. However, investors are also conscious of the risks: the pace of recent AI development, infrastructure and policy constraints surrounding data-center investment, and the sustainability of hyperscalers' enormous capital expenditures as interest-rate conditions change.

For global investors, it is therefore becoming more important than ever not only to determine how to capture AI-driven growth, but also to identify growth opportunities outside the established AI trade. From this perspective, the characteristics of the Japanese market become clear.

For investors seeking relatively pure exposure to AI, Taiwan and South Korea are straightforward choices. In the first half of this year, both markets rose sharply as capital concentrated in AI- and semiconductor-related stocks. Technology and semiconductor companies account for a large share of both markets, making it easier to capture the benefits of AI investment at the market level.

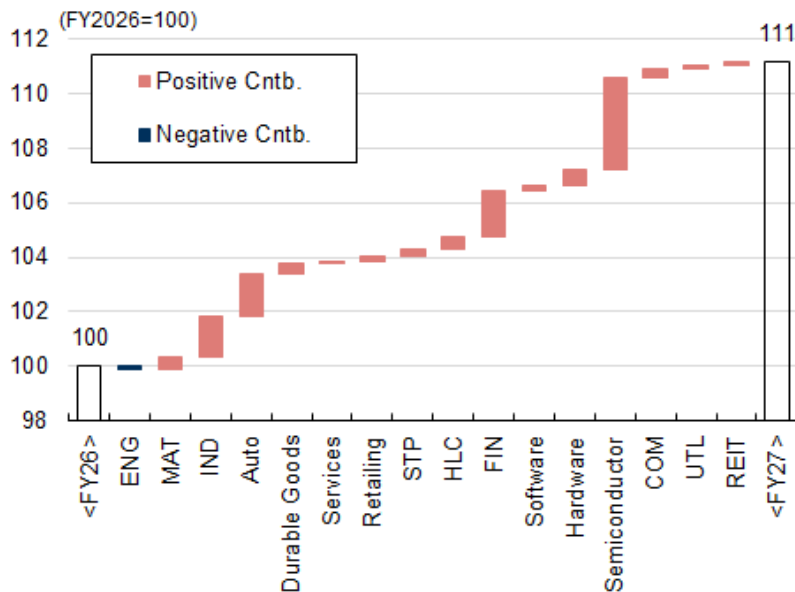
That also means, however, that both markets are highly concentrated in the AI trade. U.S. equities likewise have significant exposure to large technology companies and AI-related stocks. Investing in Taiwan or South Korea cannot necessarily be regarded as diversification away from U.S. equities.

Japan, by contrast, is one of the world's largest equity markets, with considerable industrial breadth and depth. Investors can diversify geographically away from the United States while gaining exposure to a wide range of industries—not only technology and semiconductors, but also capital goods, materials, consumer companies, financials and services.

At the same time, Japan offers opportunities to participate in growth related to AI and semiconductors. In other words, Japan is a market with sufficient scale and industrial breadth that also allows investors to participate in AI-driven growth.

The depth of the Japanese market also expands the range of investment strategies available. For now, Japanese equities offer opportunities on both sides of a barbell: technology and semiconductor-related growth, as well as financials that may benefit from a return to a world of positive interest rates.

Figure 3. Earnings Growth Is Broad-Based – Multiple sectors, not just technology, are contributing



Note: EPS growth for the MSCI Japan Index. Automobiles, consumer durables, services and retail are included in “Consumer Discretionary.” Software, hardware and semiconductors are included in “Information Technology.”

Source: Nomura Asset Management, based on LSEG Datastream data. As of the end of September 2026.

Japan’s “Hidden AI Stocks”

What is particularly interesting is that many Japanese companies that appear, at first glance, to have little to do with AI have businesses that stand to benefit from growing AI demand when examined more closely.

In discussions between our overseas colleagues and investors, we found that investors responded positively when we explained these specific business opportunities, citing companies such as TOTO and Ajinomoto as examples of companies with businesses connected to AI and semiconductor demand.

The value chain supporting AI investment is broad, encompassing semiconductors, data centers, optical communications and advanced materials. Even when a company as a whole is not viewed as an AI company, one of its businesses may become a new growth driver as AI demand expands.

There are cases in which companies that are not at the center of the AI trade nevertheless have businesses benefiting from AI demand, while the value of those businesses has yet to be fully reflected in the valuation of the company as a whole. The ability to identify such opportunities through bottom-up research is one of the attractions of the Japanese market.

This discussion is not limited to AI. Japanese companies have traditionally included many conglomerates with multiple businesses. During the long period of deflation, when raising prices was difficult, it was not easy to achieve growth through existing businesses alone. Expanding into new areas and broadening the top line therefore had a degree of strategic rationale.

As a result, some Japanese companies that may not stand out when viewed as a whole contain businesses with significant growth potential when their individual operations are examined separately. AI- and semiconductor-related businesses are one example.

The business environment underlying this structure has, however, already begun to change. As Japan moves from deflation to inflation and returns to a world of positive interest rates, companies are being called upon to reassess their business portfolios.

This does not necessarily mean a simple process of “selecting and concentrating.” The issue is not the fact that a company has multiple businesses. Rather, what matters is whether it can identify the priorities of each business in response to changing conditions and growth opportunities and dynamically allocate capital and human resources in a strategic manner.

If this process advances, the value of growth businesses that have remained embedded within companies may become more clearly visible. How to identify the seeds of growth that already exist within Japanese companies—and how to translate them into corporate value—may be another source of investment opportunity in Japanese equities.

My trip to New York once again highlighted the importance of updating the investment story to explain why investors should consider Japanese equities now, as interest in Japanese equities gradually increases among global investors.

Japan offers participation in the global growth theme of AI while also providing diversification away from U.S. equities through the scale and depth of its market. It also offers the opportunity to identify growth businesses embedded within Japanese companies and capture their potential to become more fully reflected in corporate value.

If these distinctive features of Japanese equities become more firmly established as an investment story, together with tangible changes in corporate behavior, there is considerable scope to attract additional capital from investors around the world.

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Nozomi Moriya is Chief Strategist for Institutional Clients in Japan and overseas at Nomura AM. She joined the firm in September 2026 after more than two decades at UBS, where she worked as an equity analyst covering the Japanese consumer sector before becoming Japan Equity Strategist in 2023.

Drawing on her extensive experience analyzing Japanese companies and industries, she specializes in analyzing Japan’s corporate reforms and connecting bottom-up corporate developments with broader macroeconomic and capital-market trends. She also actively shares her views on Japanese equities with audiences in Japan and abroad, highlighting their global appeal.

She graduated with a B.A. in Economics from the University of Tokyo in 2003.

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