Japan Insights | Market Strategy by Nozomi Moriya

Quiet Strength in Japanese Equities Amid a “Reverse Trump Trade”

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The U.S. midterm elections have introduced a new layer of uncertainty to the policy outlook, following substantial Democratic gains that may constrain the Trump administration’s room for manoeuvre. Financial markets have begun to price in what could be termed a “reverse Trump trade,” as investors revisit assumptions that had underpinned the post-election rally.

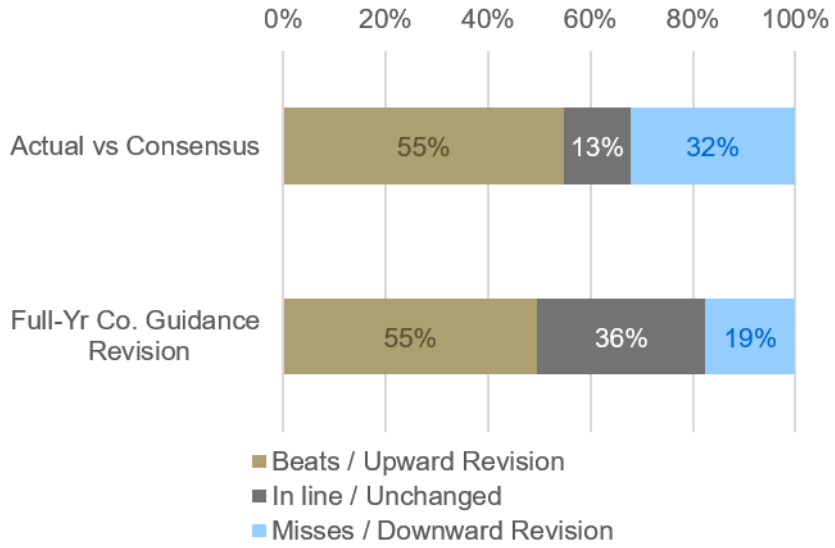
Japan’s corporate earnings, however, are telling a different story. Results released since late October have, on balance, come in ahead of consensus, with a meaningful number of companies also raising full-year guidance. Even as market sentiment becomes less certain, the underlying health of Japanese corporate earnings appears intact. We review the latest second-quarter results from Japanese companies with March year-ends, focusing on the extent to which earnings momentum and capital-allocation discipline have been sustained.

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Earnings Hold Firm—and Guidance Moves Higher

Based on results announced through November 13, aggregate operating profit for TOPIX 500 companies with March year-ends rose 31% year on year in the September quarter, excluding banks and SoftBank Group. Aggregate profit was also 7% above the Bloomberg consensus forecast ahead of the reporting season.

Figure 1. Q2 Operating Profit Results and Revisions to Full-Year Company Guidance



Source: Nomura Asset Management, based on Bloomberg data. Operating profit is aggregated for TOPIX 500 companies with March year-ends that had reported results as of November 13, excluding banks. Companies whose results exceeded Bloomberg consensus estimates by more than 3% are classified as “Beats”; those falling short by more than 3% as “Misses”; and those within ±3% as “In line.”

Fifty-five percent of companies delivered earnings beats, compared with 32% that reported misses. While performance differed at the individual-company level, the overall balance was clearly positive: more companies outperformed expectations than fell short, pointing to continued resilience in corporate profitability.

The pattern was similarly constructive for full-year company guidance. Fifty-five percent of companies revised their forecasts upward, while 19% revised them downward. The continued upward revision of company plans as the reporting season progressed offers further support for the view that corporate earnings remain on a firm footing.

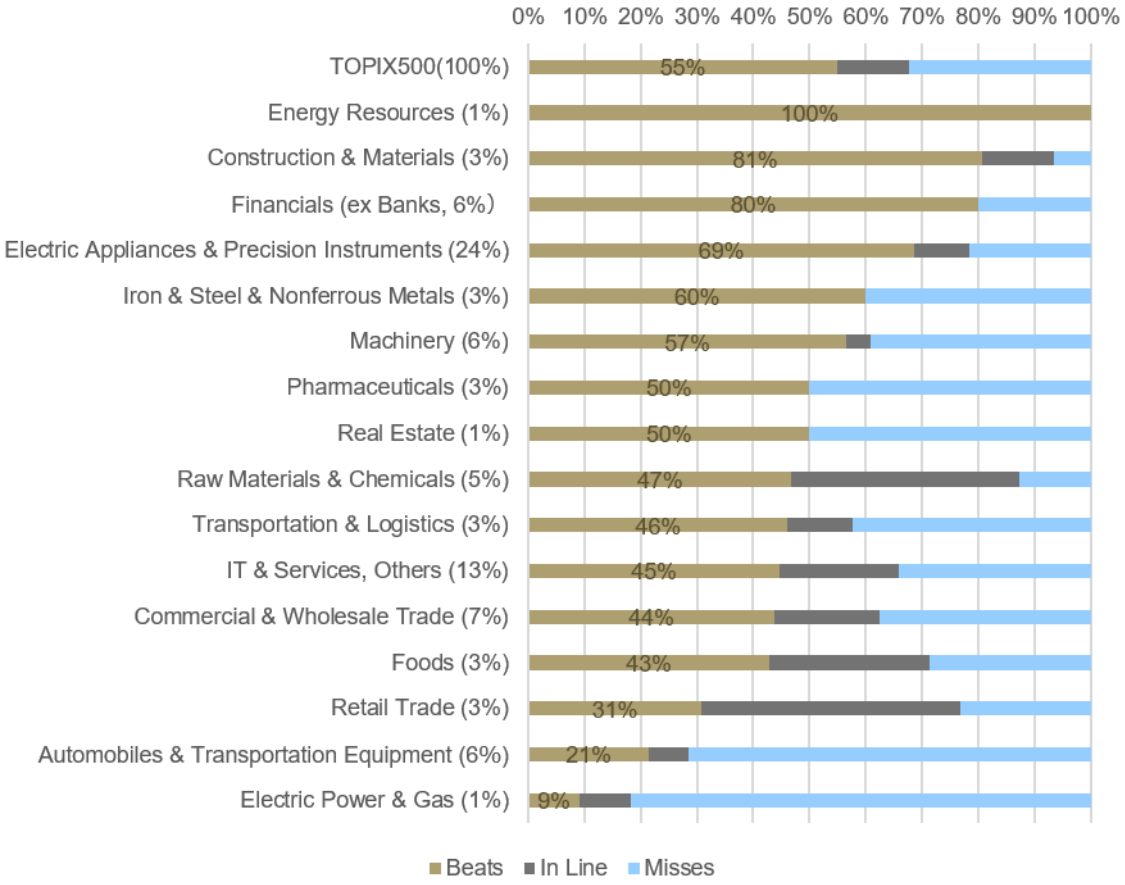
This was not an earnings season defined by dramatic positive surprises. Rather, it was one in which better-than-expected results and upward revisions to full-year guidance accumulated steadily—reinforcing the resilience of Japanese corporate earnings.

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Strength Extends Beyond Tech

At the sector level, electrical machinery and precision instruments stood out. Given their substantial representation among Japan's largest listed companies, the strength of this sector matters materially for the market as a whole.

Figure 2. Q2 Operating Profit Beats and Misses by Sector



Source: Nomura Asset Management, based on Bloomberg data. Operating profit is aggregated by TOPIX 17 sector for TOPIX 500 companies with March year-ends that had reported results as of November 13, excluding banks. Figures in parentheses after each sector indicate the sector's market-capitalisation weight in the TOPIX 500 as of end-September.

The strength, however, was not limited to electrical machinery and precision instruments. Energy resources, construction and materials, and non-bank financials also recorded relatively high proportions of companies whose results exceeded consensus expectations.

The picture was more mixed elsewhere. Automobiles and transportation equipment, as well as electric power and gas, saw relatively larger shares of companies reporting results below consensus, highlighting meaningful dispersion across sectors.

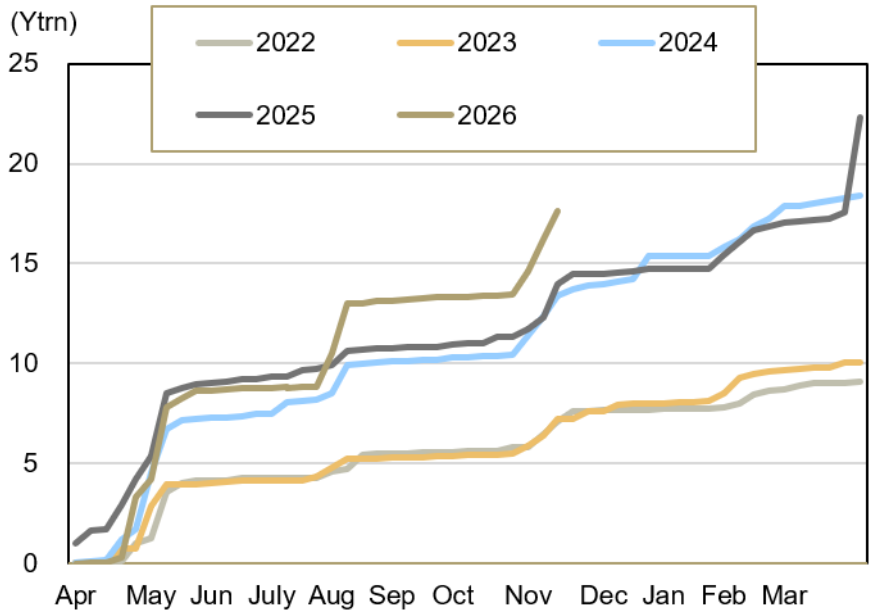
The defining feature of this earnings season was therefore not simply leadership from a key index-heavy sector. Earnings outperformance was evident across a wide range of industries, although its extent varied. This breadth underscores both the depth of Japan's corporate sector and the diversity of earnings drivers within the Japanese equity market.

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Share Buybacks Underscore a Lasting Shift in Capital Allocation

Shareholder returns remained another notable feature of the reporting season. Many companies announced share buybacks alongside their earnings releases, indicating that their commitment to shareholder returns remains firmly in place.

Figure 3. Announced Share Buybacks by TOPIX Companies



Source: Nomura Asset Management, based on QUICK data.

In recent years, Japanese companies have placed greater emphasis not only on earnings growth, but also on capital efficiency and the use of their balance sheets. Rather than retaining surplus capital indefinitely, more companies are reassessing capital allocation through a combination of growth investment, business restructuring and shareholder returns.

The continued pace of share buyback announcements suggests that this is not merely a short-term response to market conditions. It increasingly appears to be taking root as a more enduring feature of corporate decision-making.

Market conditions may nevertheless remain fluid. Through year-end and into fiscal year-end, shifts in investor positioning toward global AI-related stocks, together with uncertainty surrounding the direction of U.S. policy, could prolong the “reverse Trump trade.” Such developments could trigger further portfolio adjustments and affect supply-demand dynamics in Japanese equities.

Even so, the latest earnings season points to a corporate sector that remains fundamentally resilient. Earnings have held up, while progress in capital allocation and shareholder returns has remained tangible. The story may not be dramatic—but Japanese corporate strength continues to build quietly.

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

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