



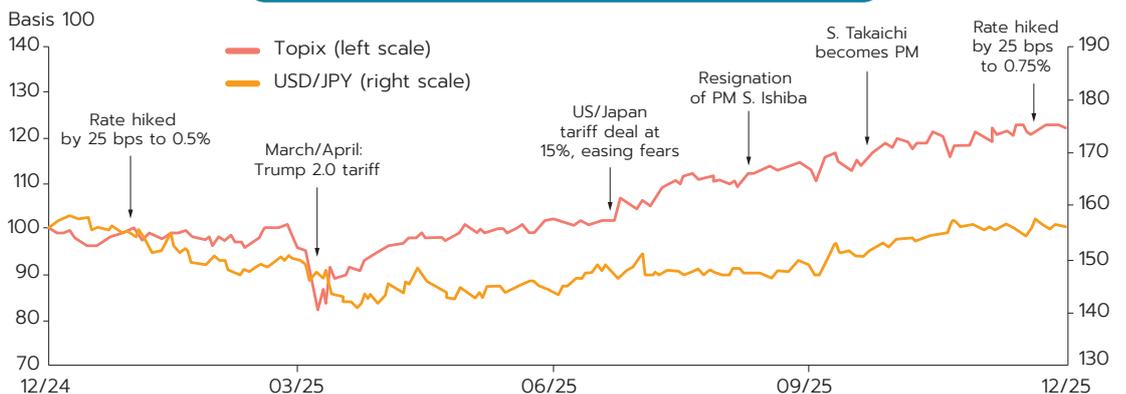
JAPANESE EQUITY MARKET

Japan: Market comeback still on track

Driven by monetary normalisation, new governance and a transforming economic environment, Japan continues its resurgence on the global market scene. Moreover, the Japanese market has proven its remarkable resilience to a tumultuous international context. The gradual levelling off of inflation, an upturn in cyclical and tech sectors, and the arrival of the new prime minister, Sanae Takaichi, have helped restore visibility, confidence and consistency to the entire Japanese economic landscape.

On the heels of an especially robust year in 2024, the Japanese equity market roared ahead in 2025. The Topix gained +22.4%⁽¹⁾ and the Nikkei, +26%⁽¹⁾ in local currency, thereby wrapping up a third consecutive year of gains. Despite an unstable political and economic environment, the markets showed throughout the year how well they can adapt.

JAPANESE EQUITIES VERSUS USD/JPY IN 2025



Source: Ofi Invest Asset Management as of 31/12/2025.

Past performance is not indicative of future results.

⁽¹⁾ Source: Bloomberg as of 31/12/2025.

NETARY POLICY: THE BANK OF JAPAN MOVES TO A GRADUAL NORMALISATION

The Bank of Japan has opened a new chapter with two interest-rate hikes, after a decades-long extremely accommodative policy. The main key rate was raised to 0.5%⁽¹⁾ in January 2025, followed by a new 25 basis-point hike in December, to 0.75%⁽¹⁾.

These moves had already been priced in and reflect the Bank of Japan's view that, at about 2%⁽²⁾, inflation is now more stable, thanks to a moderate increase in wages and economic activity that is well on track.

TRADE RELATIONS: A US SHOCK QUICKLY ABSORBED

The main geopolitical event came from the United States. In April, Donald Trump announced an increase in tariffs on Japanese imports to an overall rate of 24%⁽³⁾. This triggered a market drop, exacerbated by the close trading ties between the two countries.

Things nonetheless calmed down as international negotiations proceeded. After three months of talks, an agreement was reached that capped tariffs at 15% (read [here](#)), protected most exports and promptly reduced volatility⁽⁴⁾ on the Japanese equity markets.

POLITICS: A TURNING POINT WITH SANAЕ TAKAICHI'S ARRIVAL

Domestically, 2025 was marked by a major political shift. After the coalition's defeat in the upper house elections, Prime Minister Ishiba resigned and Sanae Takaichi became the first woman to head Japan.

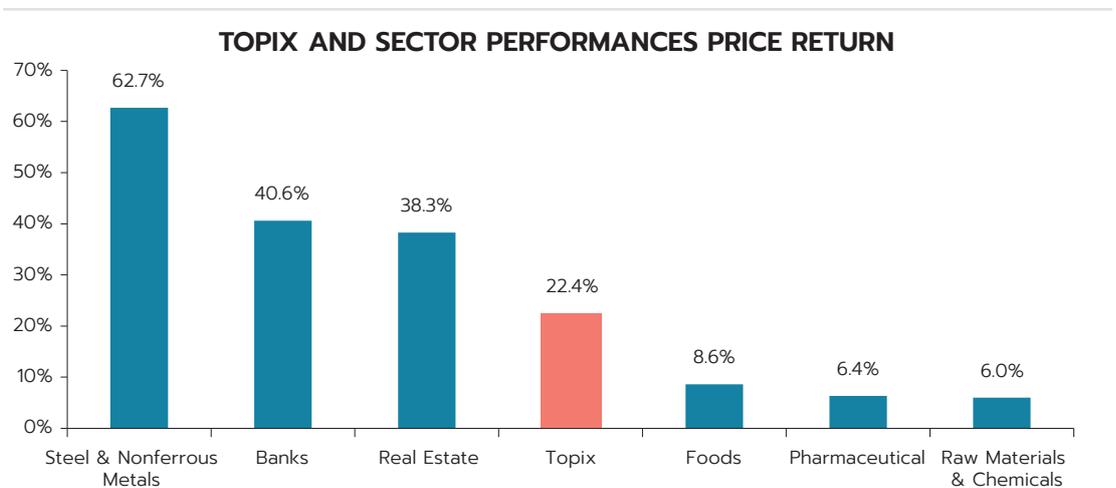
She immediately set out a clear path, with fiscal discipline, keeping inflation under control and maintaining existing reforms. Without devolving into a series of technical measures, her stimulus plan is consistent in boosting purchasing power, enhancing fiscal efficiency, and strengthening strategic sectors such as energy, food and defence.

Most importantly, this change of governance has made Japanese economic policy more transparent. In combining stability, pragmatism and a drive towards modernisation, Sanae Takaichi has helped restore investor confidence and strengthen the environment in which Japanese companies operate.

Thanks to a gradual adjustment in monetary policy, skilful management of trade tensions, and an orderly political transition, the Japanese equities market emerged from 2025 on a more stable foundation.

Without putting a drag on economic activity, this normalisation strengthens Japan's economic credibility and allows it to continue drawing in international investments.

SECTOR ANALYSIS: A MARKET DRIVEN BY THE BUSINESS CYCLE



2025 Performance in JPY (topix-17 classification). Sources: Bloomberg and Ofi Invest Asset Management as of 31/12/2025.

Past performance is not indicative of future results.

⁽¹⁾ Source: Bloomberg as of 31/12/2025.

⁽²⁾ Source: [Bank of Japan](#).

⁽³⁾ Source: White House, April 2025

⁽⁴⁾ Volatility is a measure of the amplitude of a share price's gains and losses.

The market's 2025 performance was driven by those sectors most sensitive to the investment cycle. Construction, non-ferrous metals and banks fared well, helped along by proactive infrastructure projects, a favourable environment for materials, and the positive impact of higher bond yields on banks' margins. Real estate also fared well, thanks to the inflationary environment.

In contrast, defensive sectors lagged behind on a market driven by risk-appetite. Agri-food industry was hit by higher input costs, pharmaceuticals by a less favourable trade climate, and several industrial sectors, including commodities and chemicals, which faced lacklustre demand.

Meanwhile, tech stocks continued to drive the market forward. Heavy interest in artificial intelligence supported semiconductor stocks, which were among the year's biggest gainers, as were some Japanese tech large-caps.

NEW RECORDS TO START OFF 2026

The surge of 2025 has spilled over into 2026, with the Japanese equity market continuing to post outstanding gains. The year began with a series of all-time records, spurred on by a stabilised political environment and resolutely optimistic market sentiment. In February, the Nikkei 225 rose above 57,000 points for the first time after the major election victory of Sanae Takaichi, whose platform combines fiscal stimulus, strategic investments and accommodative monetary policy, all of which was cheered by investors.

Supported by expectations that monetary conditions will remain favorable in the short term, Japan's benchmark index Nikkei climbed to a new record above 59,000 points in February before seeing some profit-taking amid rising geopolitical tensions in the Middle East.

All in all, Japanese equities markets are being driven by robust optimism - featuring expansionary economic policies, abundant liquidity and the prospect of global technological competition that will benefit major Japanese groups - while remaining vulnerable to bouts of extreme volatility.

2026: A CONSTRUCTIVE OUTLOOK FOR JAPANESE EQUITIES

As 2026 begins, the Japanese market has at last closed the book on the "lost decades". The rally of recent years has not been a mere matter of catching up, but, rather, is now being driven by a solid earnings momentum and structural transformations that have made Japanese companies more attractive.

Deflation now appears to be a thing of the past, and that has reshuffled the cards. Companies possess more solid pricing power, are protecting their margins, and are reinvesting in their growth. Meanwhile, the rapid improvement in governance, encouraged by the government, continues to align the interests of companies and their shareholders, producing an improvement in return on equity and shareholder return. This dual trend is structural and sustainable in nature and is driving the current rerating of Japanese equities.

Market momentum looks solid. Reforms in governance are promoting better capital discipline, while share buybacks have hit record levels in recent years, thereby generating heavy buying inflows. This is reinforced by a global macroeconomic environment that, despite heightened volatility, remains broadly constructive, with moderate U.S. growth continuing to support Japan's external demand.

The market is priced slightly above its historical average but reasonably so, thanks to improving margins and profitability. A higher return on equity could ultimately justify more ambitious reratings.

Against this backdrop, Japanese companies' visibility is improving in the eyes of international investors, including enhanced profitability and steadily improving governance. 2026 is accordingly beginning with a Japanese market that is transforming, more solid, and more highly rated, thanks to fundamentals that continue to drive growth. That being said, some risks do remain, such as yen volatility, the rapid rise in long bond yields, and uncertainty in global geopolitics, any of which could cause wider swings in the Japanese equity markets.

Expert insight

IMPORTANT NOTICE

This marketing document has been produced by Ofi Invest Asset Management, a portfolio management company (APE code: 6630Z) governed by French law and certified by the French Financial Markets Authority (AMF) under n° GP92012, with EU VAT number FR51384940342. It is a société anonyme à conseil d'administration [joint-stock company with a board of directors] with share capital of 71,957,490 euros and its registered office at 127-129, quai du Président Roosevelt 92130 Issy-les-Moulineaux, France. It has been entered into the Nanterre, France Registry of Trade and Companies under number 384 940 342. This document is not to be construed as a form of prospecting, nor as any offer to buy or sell financial securities or instruments. It contains information and quantified data that Ofi Invest Asset Management regards as well-founded or accurate on the date they were produced. No guarantee is offered as to information or quantified data drawn from external sources. The analyses presented herein are based on the assumptions and expectations of Ofi Invest Asset Management as of the production date of this document. These may fail to be realized fully or partially on the markets. They do not constitute a commitment to returns and are subject to change. The value of an investment may fluctuate upward or downward and may vary with shifts in exchange rates. Because of the state of the economy and general market risks, no guarantee is given that the products or services presented can achieve their investment objectives. Past performances are not a reliable indicator of future performances. Ofi Invest Asset Management may not be held liable for any damages or losses resulting from the use of all or part of the information contained herein. Photos: Shutterstock.com/Ofi Invest. FA26/0759/M