

Sharp Sell-Off Hits Japanese Equities on November 18

Position-Driven Adjustment, Japan's Medium-Term Outlook Remains Positive

November 18, 2025

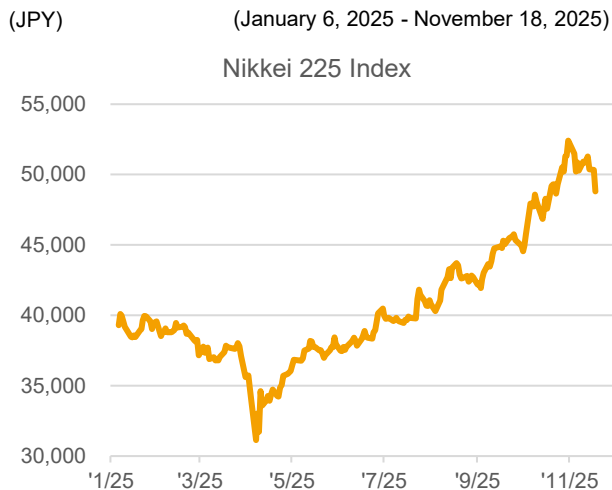
Nikkei 225 Index Retreats Under ¥50,000, Fundamentals Signal Continued Strength

On November 18, the Nikkei 225 closed down ¥1,620 (3.2%) from the previous day. Since surpassing ¥50,000 for the first time on October 27, this marks the first time the index has closed below that level. The decline was triggered by weakness in US equities, particularly AI and tech stocks, which spilled over into Japanese markets. Opening lower, the Nikkei extended its losses during the trading session.

In October, the Nikkei had surged by ¥7,478 (about 17%) for the month, marking its largest monthly gain on record. Amid growing skepticism toward the AI theme and cautious remarks from Federal Reserve officials regarding rate cuts, investors appeared to adjust positions ahead of key events such as NVIDIA's earnings on Wednesday, November 19, and US employment data on Thursday, November 20. Momentum stocks that had seen sharp gains were particularly hard hit. The breach of the 25-day moving average also seemed to weigh on sentiment.

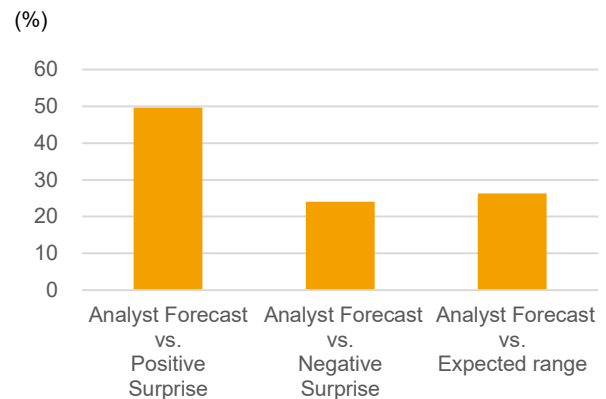
As noted in our November 5 market letter, the rapid pace of recent gains suggests short-term volatility could increase. That said, fundamentals remain strong. In the July–September earnings season, actual results generally exceeded analysts' forecasts, and upward revisions to full-year company guidance were widespread. Reflecting these strong results, consensus EPS estimates for TOPIX for FY 2026 have been revised higher. Supported by solid corporate earnings, governance reforms, and political expectations, we continue to view the medium-term outlook for Japanese equities as favorable.

Trend of Nikkei 225 Index



Source: Bloomberg; Compiled by Daiwa Asset Management

Positive Results for the July–September Financial Report



※Compiled as a surprise if the actual results deviate by more than 5% from analyst forecasts, targeting TOPIX 500 constituent companies with a fiscal year ending in March, as of November 17.

Source: FactSet; Compiled by Daiwa Asset Management

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