

## Japanese Equities Fall Amid Deteriorating Middle East Situation

### Risks on Both Sides; Monitoring Developments Closely

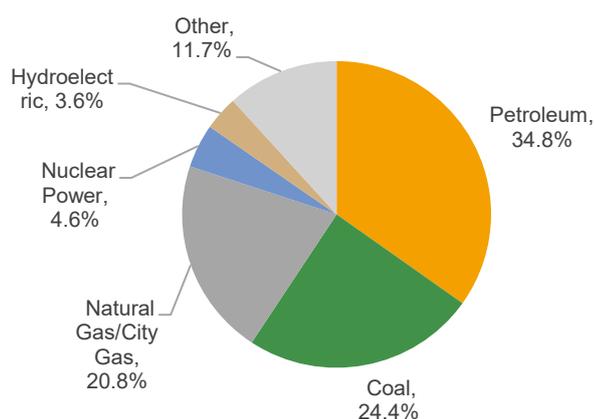
March 3, 2026

## Higher Oil Prices a Headwind for Japanese Stocks; Limited Impact if Short-Lived

The uncertainty surrounding the Middle East situation has heightened as the attacks on Iran by the US and Israel, which began on February 28, and Iran's retaliation continue. Japanese stocks have fallen sharply every day since the start of the week, with the Nikkei 225 closing down 4.4% on Tuesday, March 3, compared to last Friday.

From a stock market perspective, the key factors to consider regarding the Middle East situation are crude oil prices and the escalation of the conflict. Japan has an energy self-sufficiency rate of 13% (FY2022), relying heavily on imports for its supply. A price hike in energy prices acts as a downward pressure on the economy. In the stock market, sectors benefiting from the price hike represent a small proportion of the market in terms of both market capitalization and profits. Therefore, a price hike in energy prices generally acts as a headwind for corporate earnings. When Russia's invasion of Ukraine occurred in 2022, the Yen weakened in tandem with a price hike in crude oil prices in the foreign exchange market, providing support for Japanese stocks. However, the situation is different now, with the Yen at historically weak levels. Concerns about potential currency intervention are heightened, and the negative economic impact of a weak Yen is likely to be more keenly felt. Should crude oil prices experience a further price hike, headwinds for Japanese stocks will intensify. On the other hand, the government states that crude oil reserves (including private stocks) cover 254 days of consumption, indicating no immediate concerns about crude oil supply. The crude oil market is considered to have significant global spare production capacity. Therefore, unless the conflict prolongs, the impact on the stock market is expected to be limited, and Japanese stocks are anticipated to resume their upward trend.

### Japan's Primary Energy Supply Mix



※FY 2024 Preliminary Figures

Source: Ministry of Economy, Trade and Industry; Compiled by Daiwa Asset Management

### Nikkei 225 Year-to-Date



※ Latest value as of March 3, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

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