Chief Strategist
Kazunori Tatebe

Regarding the Sharp Drop in Japanese Stocks on June 8

Volatility May Rise in the Near Term, but This Is Not the Beginning of the End

Strong Labor Market Report: “Good News Is Bad News” for the Stock Market

On June 8, the Japanese stock market saw a sharp decline, with the Nikkei 225 closing the morning session down 2,547 Yen (3.8%) from the previous day, briefly falling below the 64,000-Yen mark. The immediate trigger for the decline was the US labor market report released on the 5th, which significantly exceeded market expectations and showed robust results. While strong employment is not inherently bad for stocks, given the strong inflation pressure stemming from the situation in the Middle East, the fact that employment was stronger than anticipated led the market to increasingly price in a hawkish shift by the FRB (Federal Reserve Board), turning “good news into bad news” for the stock market. Market expectations that the Fed will raise interest rates within the year have risen from 67% as of the 4th to 100% currently (implying approximately 1.2 rate hikes this year).

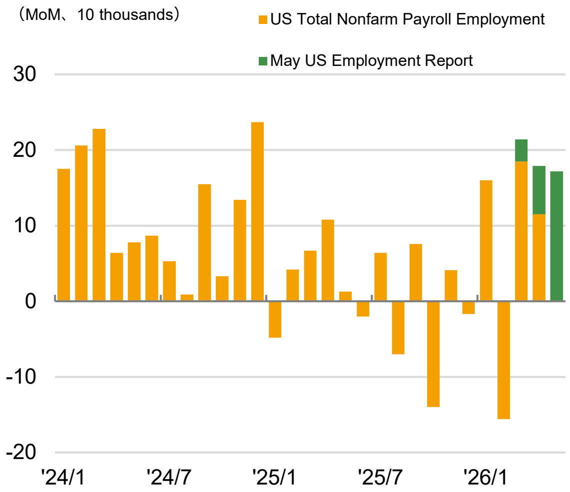
Additionally, investor sentiment was weighed down by concerns over deteriorating supply-demand conditions in the stock market ahead of SpaceX’s planned IPO on the 12th, which is expected to raise approximately $75 billion (about 12 trillion Yen); reports that Meta is considering a massive fundraising round following Alphabet’s $85 billion offering; and Broadcom’s financial results released on the 3rd, which failed to meet investors’ high expectations.

On the other hand, the sharp decline in the stock market has been significantly influenced by a sense of overheating. The Nikkei 225 rose by as much as 34% between March 31 and June 3, and its deviation from the 200-day moving average line reached 31%—a level not seen since 1990 except in May 2013 and October 2025. The Philadelphia Semiconductor Index (SOX), which fell 10% on the 5th, also had a deviation rate of 76%, reaching levels not seen since the dot-com bubble era. On the 8th, the Japanese stock market faced significant declines in AI and semiconductor-related stocks—sectors that had shown strong overheating due to their sharp price increases over the past two months—compounded by headwinds from the Fed’s hawkish monetary policy. In terms of market factors, high-beta, high-volatility, and momentum stocks—which had seen substantial price gains over the past six and twelve months—posted significant losses.

The Japanese stock market is expected to remain volatile this week. In addition to the risk of deteriorating supply and demand conditions, key inflation indicators—including the US May CPI and PPI, as well as Japan’s May Corporate Goods Price Index—are scheduled for release, with the FOMC (Federal Open Market Committee) and the Bank of Japan’s Monetary Policy Meeting looming next week. The US May CPI is expected to accelerate from April’s year-on-year increase of 3.8% to 4.2%, and the May PPI is also projected to rise from April’s 6.0% to 6.4%. If these inflation indicators come in higher than expected, it could fuel further interest rate hikes and intensify headwinds for the stock market.

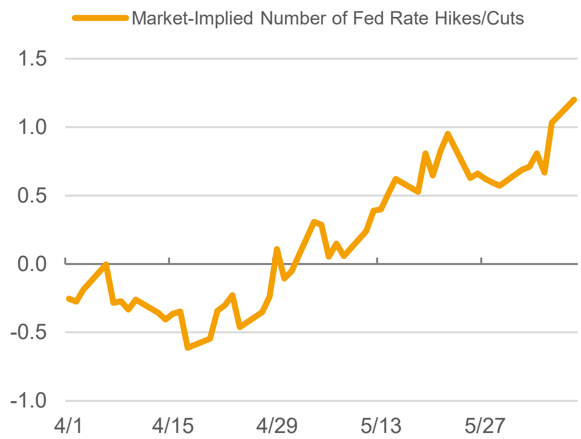
That said, we do not believe this marks “the beginning of the end.” The sharp rise in stock prices driven by skewed buying interest focused on only a handful of stocks is not sustainable, and many market participants had already pointed out the risk of a short-term correction. No new factors have emerged that would warrant a change in our view on the growth potential of AI-related stocks, and the hurdle for the Fed to raise interest rates is considered to be correspondingly high. While we need to continue monitoring inflation, we expect buying interest to strengthen on dips. While volatility may increase in the near term, we maintain a positive outlook on the Japanese stock market.

Stronger-than-Expected US Employment Report



Source: US Department of Labor, Bloomberg; Compiled by Daiwa Asset Management

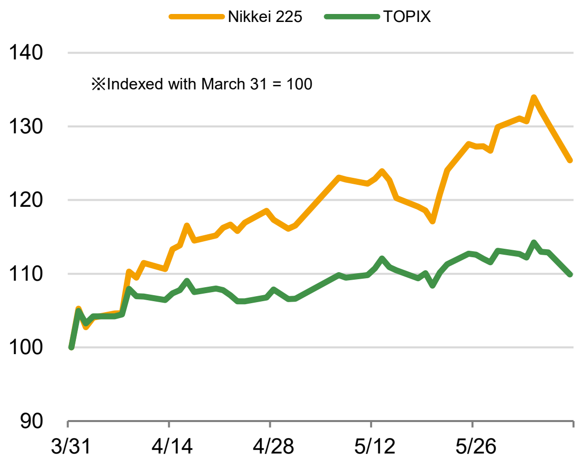
“Good News Is Bad News” as Markets Price in a More Hawkish Fed



※ Latest figures as of June 8, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

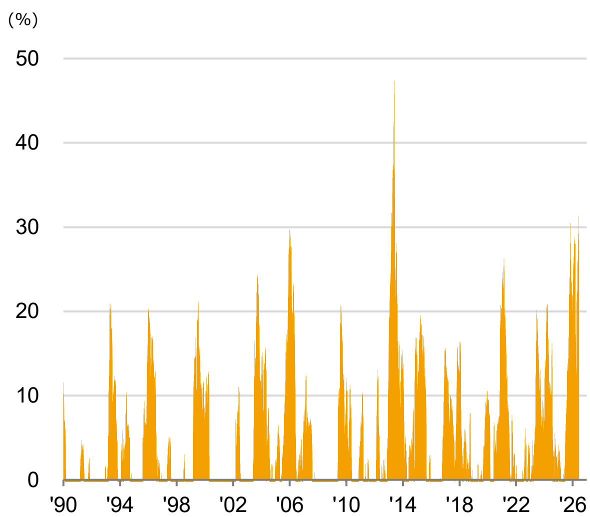
Nikkei 225 Falls Sharply After Leading Gains



※ Latest figures as of morning session closing price on June 8, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Nikkei 225: Deviation from the 200-Day Moving Average (Upside)



※ Latest figure as of June 5, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management b

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