The Sharp Drop in Japanese Stocks on July 17

Our Bullish Stance on Japanese Stocks Remains Unchanged

July 17, 2026

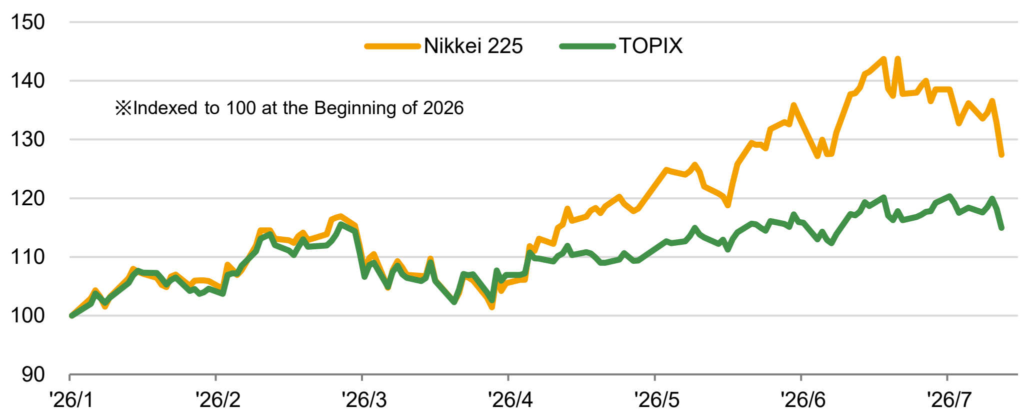
Sharp Losses Continue, Led by AI and Semiconductor-Related Stocks

On July 17, the Nikkei 225 closed 2,694 Yen lower (down 4.0%) than the previous day, marking another sharp decline following the previous day's 2.8% drop. The weekly decline reached 6.4% compared to the end of last week, bringing the index to a level 11.4% below its June 25 high (based on closing prices). Since late June, global selling pressure on AI and semiconductor-related stocks has persisted, and declines in these sectors were particularly noticeable in today's Japanese stock market.

AI and semiconductor-related stocks have risen sharply since April amid a highly concentrated market, creating technically overbought conditions and making them vulnerable to profit-taking. In addition, concerns regarding the profitability and sustainability of AI infrastructure spending have led to a growing cautious outlook on the AI theme. While some negative factors are evident, they do not warrant a change in our view of the fundamentals. Given the high growth potential of the AI-related sectors, we believe there is no need for excessive pessimism.

On the other hand, the TOPIX, which reflects broader trends in the Japanese stock market, has declined by only about 4% from the high it reached on July 6, showing resilience even as the Nikkei 225 has declined sharply. Looking at the fundamentals of Japanese stocks, both the economy and corporate earnings remain solid amid improving conditions in the Middle East. The structural changes in the Japanese stock market—which we view as a medium-term driver of stock price appreciation—are progressing steadily, and the government's growth strategy is also providing a tailwind. While stock prices may remain volatile in the near term, our bullish stance on Japanese stocks remains unchanged.

Sharp Decline in Japanese Equities on July 17



※ Latest figure as of July 17, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Important Information

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