Regarding the Sharp Drop in Japanese Stocks on July 28

AI and Semiconductor-Related Stocks Continue to Fall Sharply, but Other Sectors Remain Resilient

July 28, 2026

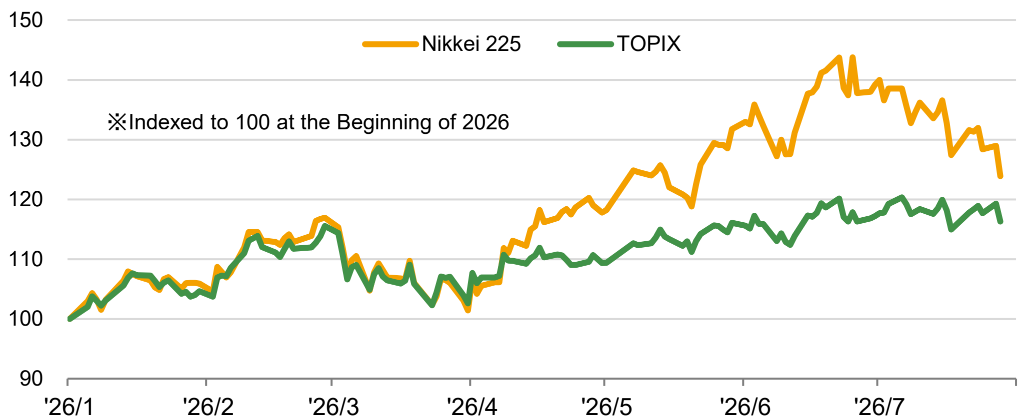
Looking at the Fundamentals of the Japanese Stock Market, Both the Economy and Corporate Earnings Remain Solid

On July 28, the Nikkei 225 closed 2,566 Yen lower (down 4.0%) from the previous day, falling to a level 14% below its June 25 high (based on closing prices). Market sentiment was dampened by reports that a Chinese company had begun manufacturing immersion deep ultraviolet (DUV) lithography systems—a sector previously dominated by Dutch firms—signaling intensifying competition in semiconductor manufacturing equipment. The previous day's decline in NVIDIA shares and the sharp drop in South Korean stocks on the 28th (down over 10% from the previous day) also dampened investor sentiment.

While selling of AI and semiconductor-related stocks continues globally, we believe this is largely a reaction to the sharp price increases seen in the highly concentrated market since April. While it is true that a cautious view toward the AI theme is emerging in some quarters due to concerns about the monetization and sustainability of AI infrastructure spending, there have been no developments that would prompt a change in the assessment of fundamentals. Given the high growth potential of AI-related sectors, we do not believe there is a need for excessive pessimism, and we expect the market to return to an upward trend once the selling—which appears to be profit-taking—subsides.

On the other hand, shares outside the AI and semiconductor sectors have shown resilience, and the TOPIX—which reflects broader trends in the Japanese stock market—fell by 2.5% today, with the decline from the high reached on July 6 remaining at around 3%. Looking at the fundamentals of Japanese stocks, both the economy and corporate earnings remain solid. 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 volatile price movements may continue in the near term, our bullish stance on Japanese stocks remains unchanged.

TOPIX Remains Resilient Despite the Sharp Decline in the Nikkei 225



※ Latest figure as of July 28, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

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