Regarding the Sharp Drop in Japanese Stocks on August 18–19

Japanese Stock Market Fundamentals Remain Strong

August 20, 2026

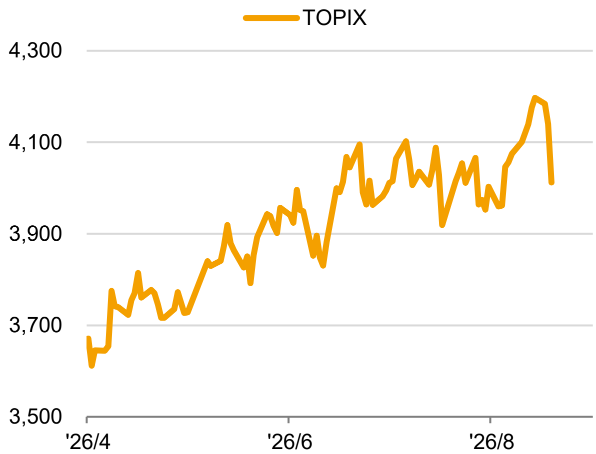
Concerns Over the Deteriorating Situation in the Middle East and Rising Global Interest Rates

Over the two days of Tuesday, August 18, and Wednesday, August 19, the Nikkei 225 plunged 5.6% and the TOPIX fell 4.1%. Investor risk sentiment deteriorated amid concerns over the worsening situation in the Middle East and rising global interest rates.

The situation in the Middle East remains highly uncertain. Even after the 60-day period stipulated in the memorandum of understanding has passed, neither the US nor Iran has softened its hardline stance, and no compromise is in sight. As hopes for an improvement in the situation fade, a price hike in crude oil prices is underway, raising concerns in the market about the impact on economic growth, inflation, and corporate earnings.

In addition to concerns that inflation will persist due to persistently high energy prices, long-term interest rates continue to rise amid fears of deteriorating fiscal conditions. In the US, concerns include rising war costs due to the prolonged conflict; in Europe, a far-right candidate—perceived as favoring expansionary fiscal policies—is leading in the French presidential election; and in Japan, there are concerns that the Takaichi administration will continue its expansionary fiscal policies. Furthermore, US hyperscalers and others are issuing massive amounts of corporate bonds to fund AI-related investments, creating competition with government bonds for capital. As a result, the supply-demand balance for government bonds has deteriorated, making it easier for interest rates to rise. In Japan, speculation that the Bank of Japan will accelerate the pace of interest rate hikes is also contributing to rising interest rates. The stock price declines over the past two days appear to be driven not only by rising interest rates weighing on stock valuations—particularly for growth stocks—but also by growing concerns about the negative impact on the economy.

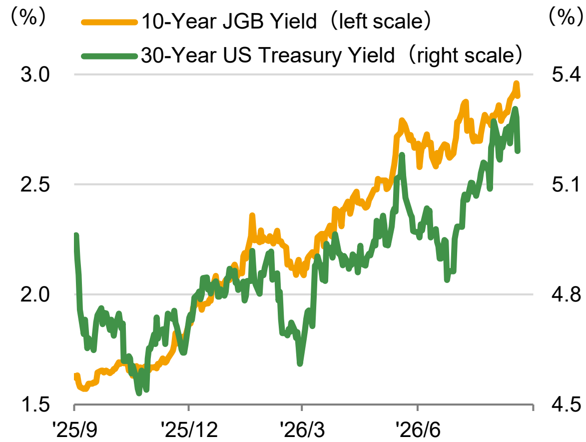
TOPIX Plunges 4.1% Over Two Days



※ Most recent figure as of August 19, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Interest rates continue to rise globally, including Japan



※ Most recent figure as of August 19, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

In the near term, the Japanese stock market may continue to experience high volatility due to the prolonged Middle East market turmoil and headwinds from high interest rates. On the other hand, as confirmed by the financial results for the April–June quarter released from late July through mid-August, corporate earnings are exceptionally strong and are expected to underpin the stock market. Concerns over excessive investment in AI have also subsided following strong financial results from US tech stocks.

Although the situation in the Middle East remains highly uncertain, it appears that neither the US nor Iran desires a prolonged state of conflict, and we believe market expectations that the situation will eventually improve will be maintained. Nearly half a year has passed since the conflict began, yet the Japanese economy and corporate earnings have remained robust, and no adverse effects from supply constraints related to the Strait of Hormuz have materialized; therefore, excessive pessimism is unwarranted.

Although Japan's long-term interest rates temporarily rose to nearly 3%, the Japanese economy's nominal growth rate has remained above the interest rate level against the backdrop of a shift toward an inflationary economy; therefore, the current rise in interest rates does not appear to be exerting significant downward pressure on the economy or corporate earnings. The stock market's reaction over the past two days appears to be a temporary bout of indigestion in response to rising interest rates. While the situation would change if the pace of rate hikes accelerated further, we do not anticipate the stock market entering a period of significant correction, as the government is expected to take measures—as it has done in the past—should bond market volatility intensify. On the 19th (US time), the US Treasury announced that it would step up buybacks of US government bonds to provide liquidity in the long-term segment, causing interest rates to plummet. While this does not address the root causes of rising interest rates, it is expected to bring stability to the market.

Short-term overheating also appears to have been a factor contributing to the sharp declines over the past two days. Although US S&P 500 futures have fallen, the correction has been limited to just under 2% from last week's high at its peak. By last week, the TOPIX had hit a new high after eight consecutive days of gains, and the Nikkei 225 had surged from 60,500 Yen to 69,600 Yen in one go.

We continue to maintain a medium-term bullish stance on Japanese stocks. Tailwinds for Japanese stocks—including the shift toward an inflationary economy, corporate governance reforms, buying by domestic investors, and the government's growth strategy—remain in place. Fundamentals also remain strong, with earnings forecasts subject to an upward revision amid expectations of robust profit growth.

Important Information

This Presentation ("Presentation") is provided to its intended recipient (the "Recipient") and is not intended for redistribution or public use. The data and information presented are for informational purposes only. The information contained herein should be treated as confidential and may not be transmitted, reproduced, or used in whole or in part for any other purpose, nor may it be disclosed without the prior written consent of Daiwa Asset Management. By accepting this material, the Recipient agrees not to distribute or provide this information to any other person.

This Presentation is intended for use by professional investors only. Investors should independently evaluate specific investments and strategies and seek their own investment advice. Daiwa Asset Management shall not be held liable for any consequences resulting from any investment in any strategy or product discussed in this Presentation. No investment strategy can guarantee performance results. Past performance is no guarantee of future results. All investments are subject to investment risk, including the loss of principal. For more detailed information, including a description of the risks and rewards associated with the funds mentioned, please refer to the UCITS prospectus, the Key Investor Information Document (KIID), and the most recently published annual and semi-annual reports.

This Presentation was prepared to provide information regarding the investment capabilities of Daiwa Asset Management. It should not be construed as an offer or a solicitation to purchase or subscribe to the funds mentioned in this material. This is a marketing communication. Potential investors should refer to and read the UCITS prospectus and KIID for more detailed information prior to making an investment decision.

The information, statements, forecasts, and projections contained in this Presentation, including any expressions of opinion, are based on sources believed to be reliable, but their accuracy, correctness, or completeness are not guaranteed. The performance of investments, if referred to herein, is based on past data and is neither necessarily an indication nor a guarantee of future performance of such investments. The performance data in this material does not account for any taxes or fees, if applicable, and does not represent the final return for potential investors. Daiwa Asset Management has made all reasonable efforts to ensure that the information contained herein is current, but it is subject to change without notice. Daiwa Asset Management, or any of its affiliates, accepts no liability whatsoever for any direct or consequential loss arising from any use of this material or its content.

The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by JPX Market Innovation & Research, Inc. or affiliates of JPX Market Innovation & Research, Inc. (hereinafter collectively referred to as "JPX"), and JPX owns all rights and know-how relating to TOPIX, such as the calculation, publication, and use of the TOPIX Index Value and the TOPIX Marks. JPX shall not be liable for any miscalculation, incorrect publication, or delayed or interrupted publication of the TOPIX Index Value. No Licensed Product is in any way sponsored, endorsed, or promoted by JPX, and JPX shall not be responsible for any damage resulting from the issuance and sale of the Licensed Product.

Daiwa
Asset Management