Market Letter September 14, 2026

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Macroeconomic Headwinds and Support from Corporate Earnings

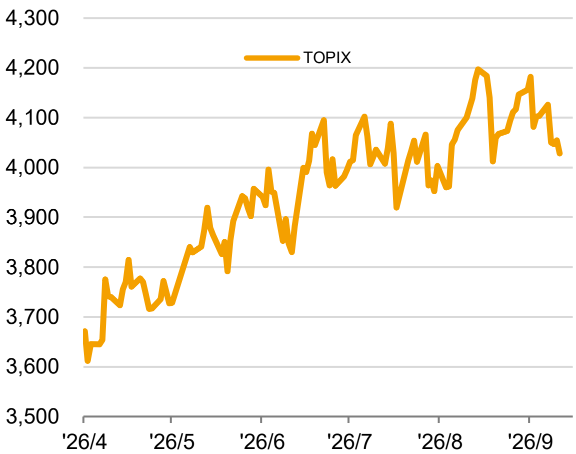
Near-Term Headwinds, but Further Market Gains Expected Toward Year-End

Macroeconomic Headwinds Intensify

The Japanese stock market has continued to show some volatility since the start of this month. Following a 1.7% decline on Tuesday, September 8, the Nikkei 225 fell another 1.9% on Friday, September 11, hitting its lowest level since August 4. The TOPIX, which had been performing strongly, has also been on a downward trend since late August, when a nine-day winning streak brought it within 0.4% of its all-time high; on the 11th, it closed near the 75-day moving average, which is widely regarded as a key medium-term support level.

Currently, macroeconomic headwinds are intensifying. In Japan, long-term interest rates have reached 3% for the first time in 30 years, while in the US and Europe, long-term interest rates—as well as ultra-long-term rates (with maturities exceeding 10 years)—continue to rise. What makes this situation particularly challenging is that it is not driven by a single cause, but rather by a confluence of factors creating upward pressure on interest rates worldwide. With inflation remaining stubbornly high due to the prolonged turmoil in the Middle East, major central banks have been moving to raise rates or accelerate the pace of rate hikes, causing market expectations to shift toward a more hawkish stance. It is widely expected that the BOJ will raise rates at its Monetary Policy Meeting scheduled for the 17th and 18th of this week. Since the last rate hike occurred at the June meeting, the pace of rate hikes—which had been roughly once every six months—will accelerate to about once every three months. The ECB (European Central Bank) decided to raise rates last week for the first time in two meetings, and the probability of a rate hike at this week's FOMC (Federal Open Market Committee) meeting on the 15th and 16th stands at about 90% (FedWatch). Markets are anticipating the possibility of further rate hikes by both central banks. Furthermore, pressure for fiscal expansion is mounting in Japan, the US, and Europe, fueling growing concerns about deteriorating fiscal conditions. In addition, US hyperscalers and others are issuing massive amounts of corporate bonds to fund AI-related investments; as competition with government bonds for capital intensifies, the supply-demand balance for government bonds is deteriorating.

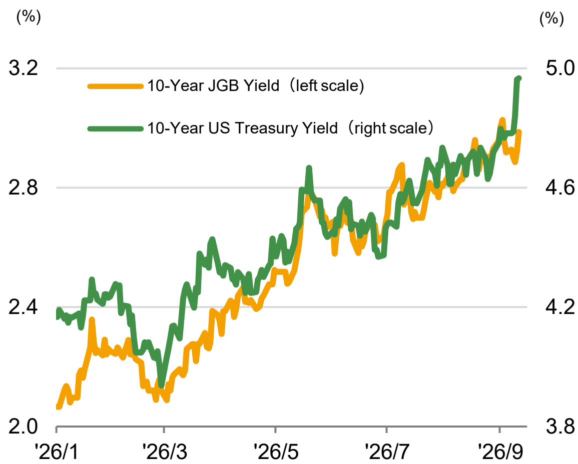
Japanese Equities Remain Somewhat Volatile



※Most recent figure as of September 11, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Rising Global Interest Rates



※Most recent figure as of September 11, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

The situation in the Middle East is also a cause for concern. As the exchange of attacks between the US and Iran intensifies, crude oil prices are experiencing a price hike, with WTI crude oil futures prices once again reaching the $100 per barrel range. The price hike in crude oil exerts downward pressure on corporate earnings through higher costs, but its impact on interest rates is also significant. Amid already strong upward pressure on interest rates, high crude oil prices—which lead to inflation pressure and rising interest rates—are particularly prone to being viewed negatively.

Furthermore, market participants are mindful of the well-known seasonal trend that US stocks tend to decline in September (especially in the second half of the month), and this is compounded by uncertainty surrounding the US midterm elections in early November. As a result, investors are currently reluctant to take on significant risk.

Earnings Momentum Remains Strong

On the other hand, strong corporate earnings are underpinning the Japanese stock market. The April–June financial results for companies with fiscal years ending in March—announced from late July through mid-August—were exceptionally strong. Net income significantly exceeded analysts′ prior expectations of approximately a 20% year-on-year increase, posting a substantial 61% year-on-year rise. While the strength of AI-related sectors remained pronounced, the positive trend also spread to other industries. In response to the strong financial results, analysts have continued to make upward revisions to their full-year forecasts, and the projected EPS growth rate for the TOPIX for fiscal year 2026 has risen to over 20% year-on-year.

The earnings announcement season also saw numerous announcements of share buybacks; as of the end of August, the total authorized share buyback limit launched since the beginning of the year exceeded 20 trillion Yen, marking a further acceleration from last year. This high level of share buybacks is expected to continue underpinning the Japanese stock market.

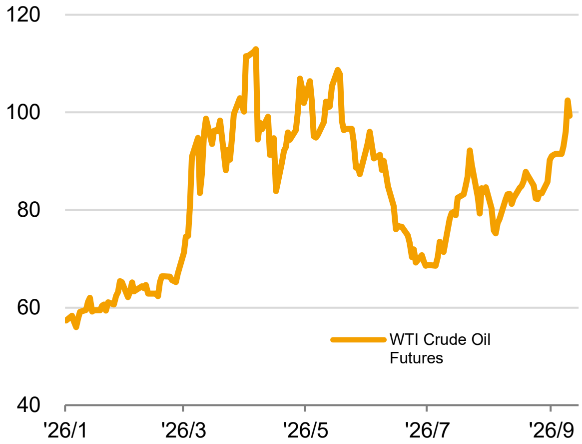
Overcoming Headwinds to Reach a Year-End Rally

While headwinds such as rising interest rates, high crude oil prices, seasonal factors, and uncertainty ahead of the midterm elections are weighing on Japanese stocks, we believe the downside is limited, supported by strong corporate earnings and share buybacks. Therefore, we expect the market to continue trading within a high-volatility range for the time being.

On the other hand, heading into year-end, we anticipate that Japanese stocks will regain their upward momentum and continue to hit new highs. Although September typically brings seasonal headwinds, Japanese stocks tend to rise strongly toward the end of the year, turning these headwinds into tailwinds. Furthermore, while it is difficult to predict the outcome of the midterm elections at this point, regardless of the result, once the event has passed, investors will be able to adjust their positions accordingly. This will make it easier for investors to take on risk, and the stock market will be more likely to rise. From late October through mid-November, companies will announce their interim financial results. With strong financial results expected, the solid performance of Japanese companies is likely to once again draw investors′ attention and serve as a factor driving stock prices higher. However, depending on the situation in the Middle East and interest rate trends, there is a risk that the timing of the stock price rally could be delayed, so we must continue to closely monitor these developments.

WTI Crude Oil Futures Prices Return to the $100 Range

(USD/barrel)

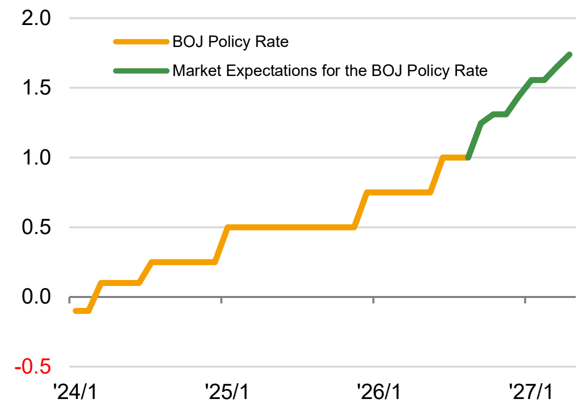


※Most recent figure as of September 11, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

BOJ Rate Hikes to Accelerate

(%)

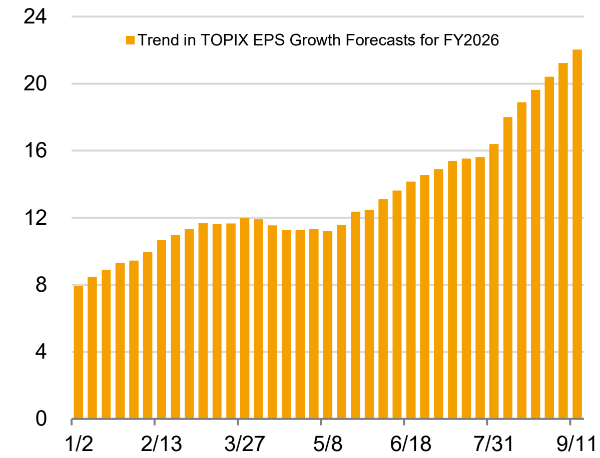


※As of September 11, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

FY2026 Earnings Forecasts Continue to Be Revised Upward

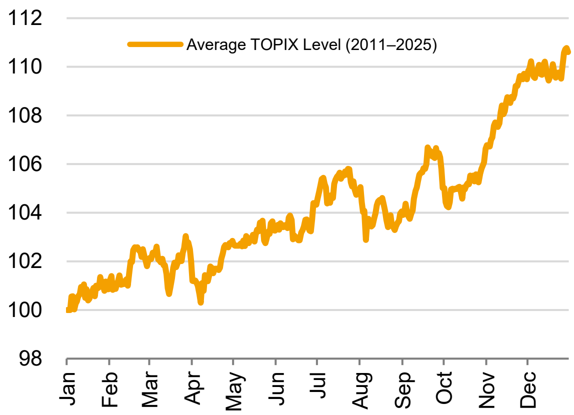
(Year-on-year, %)



※Consensus forecast; most recent figures as of September 11, 2026

Source: FactSet; Compiled by Daiwa Asset Management

Seasonal Tailwinds for Japanese Equities Into Year-End



※Indexed with the beginning of the year set at 100

Source: FactSet; Compiled by Daiwa Asset Management

Important Information

Daiwa
Asset Management