

# 2026 Japan Market Outlook

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# Structural Reform, Stable Political Backdrop and New Growth Drivers Support Long-Term Opportunity for Japan Equities

The Japanese market has delivered wonderful returns for investors in the past three years, with the TOPIX (Tokyo Stock Price Index) Net Total Return Index delivering a 111%<sup>1</sup> return in the past 3 years and 4 months to end-April 2026.

*Structural governance reforms and rising shareholder focus have materially improved capital efficiency and investor appeal, driving a sustained re-rating of Japanese equities.*

Starting from the Tokyo Stock Exchange's request in early 2023 to listed companies to improve their capital efficiency and corporate value, the quest for greater corporate governance and shareholder returns has taken a life of its own, embraced by both corporate management and investors at large. At the same time, global inflation finally caught up with Japan and inflation expectations and interest rates have risen, prompting renewed appetite for capital investments and providing a tailwind for the financial sector. The market received a further boost in early 2026 when the Liberal Democratic Party, led by Prime Minister Sanae Takaichi, won a landslide victory in the snap general election, providing a stable platform to carry out policies to accelerate economic growth in the coming few years. All these positives have fueled greater interest and fund flows into the Japanese stock market, driving the market to new record levels in 2024, 2025 and again in 2026.

Despite the relatively good backdrop for the Japanese stock market, it is not immune from forces driving the global economy. The world is facing new challenges, with an increasingly difficult geopolitical situation where historical multilateral relationships are destabilised and conflicts are rising, including major wars in two different regions. The latest Iran war has created a global energy crisis caused by disrupted shipping and rising oil and gas prices. If unresolved, it is likely to have a dampening effect on global growth. While Japan is relatively unaffected in the short-term due to its large oil reserves, it is still exposed to the global economy and will eventually suffer from its high dependence on oil imports when its reserves are run down.

## Japan is a Hidden Beneficiary of the Global AI Build-Out

Beyond the energy crisis, the push for artificial intelligence (AI) is currently the greatest force driving the global economy, with major companies as well as governments investing unprecedented amounts of money into AI. While Japan is not at the forefront of generative AI platforms, many of its companies are in the critical part of the supply chain in the rollout of AI datacenters, such as optical fiber and components, key equipment and materials for semiconductor production, and power storage and supply components and systems. Japanese companies' traditional excellence in technology hardware and materials is coming to the fore with the current AI boom as well as when the world progresses further into next-generation AI such as physical AI.

## Plenty of Tailwinds for Future Growth

In summary, the Japanese market has been radically transformed from a highly cyclical and investor-unfriendly market to one that is attracting investors of all types, including activist investors, buyout funds and Warren Buffett's Berkshire Hathaway. Despite the strong performance in the past few years, there is still plenty of potential that can be realised as hidden assets are unwound and growth investments create new value. The strong mandate given by the people to Prime Minister Takaichi has provided a platform for the government to push for greater spending on growth industries to accelerate economic growth in the medium to long term. In the current world when the unstable geopolitical environment is creating difficulties for governments and companies to operate with a medium to long-term view, Japan stands out among the major countries to have a stable government, clear and supportive fiscal and monetary policies, and shareholder-friendly companies that are world-class in their own right.

Our LionGlobal Japan Growth Fund and LionGlobal Japan Fund both seek to participate in the ongoing corporate reforms and improving shareholder returns at Japanese corporates. In particular, we focus on companies that have the ability to combine sustainable growth with enhanced shareholder returns.

<sup>1</sup> Source: Bloomberg, as of 30 April 2026

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