The Rising Sun: Japan’s Structural Transformation and the Sanaenomics Supercycle

BOJ Normalization, Governance Revolution, the Takaichi Mandate, and the Most Asymmetric Macro Trade in Asia

Darmine Capital · Macro Research Division · Singapore

December 2025

For research and educational purposes only. Not financial advice (NFA). Not investment advice.

Abstract

Japan is undergoing the most consequential structural transformation in its post-bubble history. The Nikkei 225 breached 58,000 for the first time on February 12, 2026 — up approximately 45% year-over-year — while the broader TOPIX set consecutive record highs above 3,800. Prime Minister Sanae Takaichi’s landslide Lower House victory on February 8 (316 seats, the LDP’s largest win since its founding in 1955) has handed her a supermajority and the strongest policy mandate of any Japanese leader in decades. Her ¥21.3 trillion stimulus package, a pledge to suspend the 8% food consumption tax for two years, and a record general budget for FY2026 have turbocharged the “Takaichi trade” — stronger equities, weaker yen, steeper JGB curve. Meanwhile, the Bank of Japan holds its policy rate at 0.75% (the highest since 1995), with board members openly signaling further hikes are needed to complete monetary normalization. Corporate Japan is simultaneously executing the deepest governance revolution in its history: share buybacks exceeded ¥9 trillion in FY2024, cross-shareholdings have halved from 60% to roughly 25% of TSE market capitalization, and private equity take-private deal volume nearly tripled to $27.6 billion by August 2025. Foreign investors have poured approximately ¥13.5 trillion into Japanese equities since Q2 2025, yet global allocators remain structurally underweight. The spring wage negotiations (shunto) delivered 5.32% total wage growth in 2025 — the strongest in over three decades — and 2026 is expected to sustain base pay increases in the low 3% range. This paper maps the convergence of monetary normalization, corporate transformation, political stability, and the reflation trade, and identifies the positioning we believe best captures this multi-year structural shift.

1. The Takaichi Mandate: Sanaenomics Takes Shape

On February 8, 2026, Sanae Takaichi — Japan's first female prime minister — led the Liberal Democratic Party to a **supermajority of 316 seats** in the 500-member Lower House, the party's largest victory since its founding in 1955. Combined with coalition partner Japan Innovation Party's 36 seats, the ruling bloc controls 352 seats, comfortably surpassing the 310-seat threshold required to override Upper House vetoes. This gives Takaichi the power to push legislation through Japan's Diet without meaningful opposition resistance — a degree of political authority not seen in decades.

The policy platform that earned this mandate — dubbed "Sanaenomics" by market participants — centers on three interconnected priorities:

Priority	Key Measures	Estimated Scale
Cost-of-Living Relief	2-year suspension of 8% food consumption tax; energy subsidies (¥7,000/household); income tax threshold increase	~¥5T/yr tax revenue impact; ¥1.2T income tax cuts
Strategic Investment	17 strategic sectors (AI, semiconductors, quantum); defense buildup to 2% GDP; $550B US investment commitment	¥9T defense budget FY2026; multi-year capex framework
Fiscal Expansion	¥21.3T stimulus package (Nov 2025); record general budget FY2026; "responsible and proactive public finances"	Largest stimulus since COVID-19 pandemic

The political calculus is critical for investors. Takaichi called the snap election just three months into her tenure, dissolving the Lower House on January 23 with only 16 days of campaigning — the shortest in the post-war era. Her gambit worked because she converted personal approval ratings of roughly 67–70% into an actual vote share that dwarfed expectations. Brookings noted the result gives her "an unusually strong, multi-year mandate to execute policy." The supermajority also enables constitutional amendments — a goal the LDP has pursued since 1955.

***Our view:** The Takaichi mandate is the strongest political catalyst for Japanese equities since Abenomics. The comparison is instructive but the differences matter: while Abe raised the consumption tax twice, Takaichi is cutting it. While Abe relied on BOJ accommodation, Takaichi faces a tightening cycle. The tension between aggressive fiscal expansion and monetary normalization — with the world's highest debt-to-GDP ratio as backdrop — is the defining macro risk of 2026.*

2. BOJ Normalization: The End of the Zero-Rate Era

The Bank of Japan held its policy rate at **0.75%** at its January 2026 meeting — the highest level since September 1995 — by an 8–1 vote, with board member Hajime Takata dissenting in favor of a hike to 1.00%. The BOJ raised its FY2025 GDP growth forecast to 0.9% (from 0.7%) and FY2026 to 1.0% (from 0.7%), citing support from the US-Japan trade deal that set tariffs at 15% on most Japanese exports and from Takaichi's stimulus package.

The January meeting summary revealed growing urgency among board members. One stated the BOJ "should not take too much time examining the impact" of the December rate hike and "should proceed with the next step, a rate hike, without missing the appropriate timing." Board member Kazuyuki Masu, in his first public speech on February 6, declared he was "convinced that continuing with further policy interest rate hikes will be needed to complete the normalization of monetary policy in Japan." He noted the policy divergence with other major economies remains a key driver of yen weakness.

Metric	Current Level	Context
Policy Rate	0.75%	Highest since Sep 1995; 8-1 hold (Jan 2026)
Real Policy Rate	Deeply negative	Lowest globally; policy still accommodative
10-Year JGB Yield	~2.19–2.27%	Highest since late 1990s; surged to 2.38%
40-Year JGB Yield	>4.0%	Record high since maturity introduced
20-Year JGB Yield	~3.15–3.47%	Briefly surpassed US equivalent
Rate Path (Consensus)	Next hike H1 2026	Terminal rate estimates: 1.25–1.50%

The JGB market is the critical pressure point. Takaichi's consumption tax pledge and fiscal expansion sent 40-year JGB yields to record highs above 4.2% in late January, with the 10-year reaching 2.38% — the highest since 1999. US Treasury Secretary Scott Bessent characterized the JGB selloff as a **"six-standard-deviation move."** Finance Minister Satsuki Katayama pledged the government would not issue new bonds to fund the food tax suspension, relying instead on spending reallocation and non-tax revenues. Since the election, yields have retreated as markets accepted Takaichi's fiscal assurances, with the 10-year settling around 2.19%.

The rate path divergence is significant. Goldman Sachs expects the BOJ to raise rates gradually to 1.5% by H2 2027. Nomura forecasts a more cautious path: no hike until January 2027, then a final hike to 1.25% in July 2027. State Street's base case is one hike in 2026 and another in 2027 for a terminal rate of 1.25%, though a breach of 160 yen per dollar could accelerate that to two hikes in 2026 with a terminal rate of 1.50%.

***Our view:** The BOJ is behind the curve but will be forced to hike. Core inflation has remained above 2% for 45 consecutive months. The fiscal-monetary divergence — expansionary fiscal policy colliding with gradual tightening — means the yield curve stays steep and the yen stays under pressure until markets see credible fiscal consolidation. This is structurally positive for Japanese financials (MUFG, SMFG, Mizuho) which directly benefit from wider net interest margins.*

3. The Governance Revolution: Japan Inc. Reinvents Itself

The Tokyo Stock Exchange's March 2023 directive urging listed companies to implement "management conscious of cost of capital and stock price" has triggered the deepest corporate transformation in Japan's post-war history. The results, three years on, are quantifiable and accelerating:

Governance Metric	Before Reform	Current (2025–26)	Trend
Cross-Shareholdings (% TSE mkt cap)	~60% (1990)	~25%	Halved; accelerating unwind
Prime Market Disclosure Rate	0% (Mar 2023)	>90% (Mar 2025)	Near-universal compliance
Share Buybacks (Annual)	~¥3T (pre-2023)	>¥9T (FY2024)	Tripled; record levels
Dividends (Annual)	¥2T (decade ago)	¥16T (2025)	5th consecutive record year
Average ROE	8.4% (Jul 2022)	9.0% (2025)	Steady improvement
Average P/B Ratio	1.1x (Jul 2022)	1.4x (2025)	Significant re-rating
Outside Directors (>30% of board)	Low	>90% of companies	Structural shift complete

The insurance sector catalyzed the latest phase. After the Financial Services Agency broke up a pricing cartel in the property and casualty industry, Japan's three largest insurers — MS&AD;, Sompo Japan, and Tokio Marine — committed to selling **all cross-held shares within six years**, channeling proceeds into buybacks. Major conglomerates including Hitachi, Mitsubishi Electric, and Fujitsu followed with their own cross-shareholding unwinds.

The next catalyst is the **Corporate Governance Code revision scheduled for mid-2026** — the first in five years. Expected revisions include stronger requirements on strategic capital allocation (companies must demonstrate how they deploy cash and retained earnings), enhanced transparency on cross-shareholdings and beneficial ownership, and continued pressure on the roughly 40% of top-2,000 Japanese companies that still trade below book value. Janus Henderson notes that the largest Japanese companies held a total of **¥115 trillion (over $750 billion) in cash and deposits** as of March 2025.

Our view: *The governance revolution is the single most important structural driver of Japanese equity returns. Unlike BOJ policy or fiscal stimulus — which can reverse — governance reform creates a one-way ratchet. Once cross-shareholdings are unwound, boards are diversified, and capital efficiency targets are disclosed, companies cannot easily revert. The mid-2026 Code revision will intensify pressure on the remaining laggards. Warren Buffett's continued yen bond issuance (November 2025) to increase stakes in*

Japan's five major trading houses is the highest-profile endorsement of this thesis.

4. The M&A; and Private Equity Boom

Japan's M&A; market has exploded. Take-private transactions totaled **$27.6 billion by August 2025** — nearly triple the $9.5 billion over the same period in 2024 — and were on pace to surpass the previous record of $40.3 billion set in 2023. Japan is now the most active PE market in Asia.

PE / M&A; Metric	Value	Context
PE Take-Private Deals (Jan–Aug 2025)	$27.6B	Nearly 3x same period 2024 ($9.5B)
PE Deal Value (FY2024)	¥3.1T	4th consecutive year above ¥3T
Q1 2025 PE Deal Value	$21.4B / 55 deals	2nd highest quarter in Japan PE history
Public-to-Private Deals (2024)	~30 closed	Approximately 2x the prior year
Japan's Share of APAC PE	15.6% (2024)	Up from 10.6% (2023)
Activist Investor AUM	¥890B	Record levels; activist engagement rising

The structural driver is demographic as well as regulatory. Over 90% of Japan's small and medium enterprises are family-owned, and succession-related transactions account for more than 65% of buyout deals. An estimated **1.27 million SME owners aged 70 or older have no identified successor**, representing roughly one-third of all Japanese companies. Where private equity was once stigmatized as "hagetaka" (vulture), nearly half of ongoing PE dialogues are now initiated by company management, according to industry sources.

Notable recent transactions include Blackstone's $3.5 billion bid for TechnoPro, EQT's $2.7 billion acquisition of Fujitec, and KKR's buyouts of Fuji Soft and Topcon. Capital commitments earmarked specifically for Japan are at "all-time highs" among global sponsors.

Our view: *The PE and M&A; wave is self-reinforcing. Governance reform pressures companies to improve returns or face activist campaigns; activists create deal flow; PE firms acquire, restructure, and re-list. The mid-2026 Governance Code revision and the TSE's plan to disqualify approximately 1,000 companies from the TOPIX Index by July 2028 will intensify this cycle.*

5. The Wage-Price Virtuous Cycle

After three decades of deflation, Japan is experiencing sustained wage growth that is fundamentally altering the macroeconomic regime. The 2025 shunto (spring wage negotiations) delivered total wage hikes of **5.32%** including seniority-based increases, with base pay growth of **3.75%** — the strongest outcome in over three decades. Rengo, Japan's largest trade union confederation, secured an average pay raise of 5.25% for its members.

Wage / Inflation Metric	2024	2025	2026 Forecast
Shunto Total Wage Hike	5.17%	5.32%	~5.0% (Nomura)
Shunto Base Pay Rise	3.56%	3.75%	~3.0–3.4% (consensus)
Core CPI (ex-fresh food)	2.7%	2.4% (Dec)	Below 2% by mid-2026
Macro Wage Growth (nominal)	—	2.6%	2.6% (Goldman Sachs)
Unemployment Rate	~2.5%	2.4–2.6%	Near OECD lows
Real Wages (YoY)	Negative	-2.8% (Nov)	Positive by mid-2026

The paradox is real wages. Despite the strongest nominal wage growth in decades, real wages remained negative through November 2025 (down 2.8% year-over-year) because inflation — particularly in food prices — has been running hotter than wage gains. Rice prices surged as much as 71% on an annualized basis in early 2025. Goldman Sachs and Nomura both expect real wages to turn positive by mid-2026 as food price pressures ease and Takaichi's energy subsidies and consumption tax suspension take effect.

For the 2026 shunto, Rengo is demanding 5% total wage increases (matching 2025), and consensus forecasts a base pay rise in the low 3% range. The key structural support is Japan's **2.4% unemployment rate — the lowest among OECD countries** — and an intensifying labor shortage. The working-age population (15–64) has fallen from a peak of 87 million in 1995 to 73.7 million in 2024, and by 2040 Japan is projected to face a labor shortfall of 11 million workers. This structural scarcity gives workers pricing power for the first time in a generation.

Our view: *The wage-price cycle is sustainable but fragile. Three percent base pay growth is broadly consistent with underlying inflation just below 2%, per BOJ research. The risk is that SMEs, which account for the bulk of employment, report "wage hike fatigue" — difficulty sustaining increases amid uncertain earnings. If small-firm wages decelerate materially, the virtuous cycle could stall. Monitor Tankan business conditions for SME manufacturers as the leading indicator.*

6. Equity Market: Record Highs, Record Flows

Japanese equities are in the middle of a multi-year breakout. The Nikkei 225 has risen approximately **45% over the past twelve months**, breaching 58,000 for the first time on February 12, 2026, before closing the week around 56,950. The broader TOPIX — which better represents the full market — has set consecutive record highs above 3,800. The MSCI Japan Investable Market Index returned nearly 26% in 2025, outperforming both the S&P; 500 and the Stoxx Europe 600. Goldman Sachs values Japan's stock market at **$7.9 trillion** as of early 2026.

Index / Flow Metric	Level / Value	Context
Nikkei 225 (Feb 13)	~56,942	All-time high: 58,015 (Feb 12)
TOPIX (Feb 13)	~3,819	Record highs; multiple new peaks in Feb
Nikkei 225 YoY Change	+45.5%	52-week range: 30,793–58,015
MSCI Japan 2025 Return	+26% (USD)	Outperformed S&P; 500 and Stoxx 600
Foreign Net Inflows (since Q2 2025)	~¥13.5T	Drove TOPIX past 3,000, Nikkei past 50,000
Foreign Ownership of Equities	32%	Structural underweight persists
Consensus EPS Growth (FY2026)	Double-digit	Recovering exports + domestic demand

The flow picture is bifurcated in a revealing way. Foreign institutional investors have been net buyers on a massive scale — approximately ¥13.5 trillion since Q2 2025. Yet Japanese retail investors have been net sellers of domestic stocks: individuals unloaded a **net ¥3.8 trillion** of Japanese stocks and related investment trusts through November 2025, the most in over a decade, according to Bloomberg data. Through the expanded NISA tax-exempt accounts, retail investors are overwhelmingly buying US and global equity funds instead, purchasing roughly ¥10.4 trillion of overseas stocks in 2024 alone.

This creates a structural yen headwind: NISA-driven outflows into foreign equities exert persistent downward pressure on the currency. JPMorgan and BNP Paribas project the yen could weaken to 160 per dollar or beyond by year-end 2026. However, it also means the domestic re-allocation trade remains in early innings. More than half of Japanese household financial assets (¥2,230 trillion total as of December 2024) remain in cash and deposits. Morgan Stanley projects household financial assets could rise to ¥2,500 trillion by 2030 as inflation incentivizes the savings-to-investment shift.

Our view: *The "Takaichi trade" has been equities up, yen down, JGB yields up. The landslide win reinforces all three legs. Global investors remain underweight Japan despite record allocations, and the TOPIX trades in the low-to-mid teens on a P/E basis — cheap relative to fundamentals that include double-digit EPS growth, record shareholder returns, and the strongest political mandate in decades. The domestic retail allocation shift from cash to equities via NISA is a multi-year tailwind that has barely begun.*

7. Demographics: Crisis as Catalyst

Japan's demographic decline is no longer a distant projection — it is the defining structural reality of the economy. The numbers are stark:

Demographic Indicator	Value	Trend
Total Population (Apr 2025)	~123.4M	Down from 128.5M peak (2010); -550K in 2024
Fertility Rate (2024)	1.15	Record low; replacement rate is 2.1
Births (2025 est.)	<670,000	Lowest since records began in 1899
Natural Population Decline (2024)	~900,000+	Deaths exceed births for 18th year
Working-Age Pop. (15–64)	73.7M (2024)	Down 15% from 87M peak (1995)
Projected Labor Shortfall (2040)	11 million	Recruit Works Institute estimate
Median Age	49.9 years	2nd highest globally (after Monaco)
Foreign Residents (% of pop.)	3.2%	Rising partly due to total population decline

The birth rate is collapsing faster than even the most pessimistic official projections. The National Institute of Population and Social Security Research, in its 2023 forecasts, did not expect births to fall below 670,000 until 2041. Japan will likely reach that threshold **sixteen years early**. Takaichi established the Population Strategy Headquarters in November 2025, calling the crisis the country's "biggest problem," and committed roughly $23 billion over three years to boost the birth rate through expanded child allowances, subsidized fertility treatments, and workplace reforms.

Yet for investors, the demographic headwind is paradoxically creating investable tailwinds. Labor scarcity is forcing capital deepening: firms in labor-intensive sectors are leading investment in automation and software, per the Bank of Japan. Female labor force participation among women aged 15–64 reached 78% by mid-2025, comparable to Northern European levels. Over 50% of people aged 65–69 remain employed — the second-highest rate among OECD countries. And the shift from low-productivity to high-productivity firms is accelerating as SMEs unable to match wage growth close or merge, releasing workers into the broader market.

Our view: *Demographics are a headwind for GDP but a tailwind for equity returns per share. Fewer workers means tighter labor markets, which forces automation investment, consolidation, and productivity improvement — all of which increase returns on equity. The companies that benefit are automation and robotics plays (Fanuc, Keyence), labor-platform companies, and the financial institutions channeling the household savings shift.*

8. The JGB Question: Fiscal Sustainability Under Stress

Japan's debt-to-GDP ratio — the highest among advanced economies at approximately **226%** — is the elephant in every room where Sanaenomics is discussed. The Takaichi trade has worked for equities, but the JGB market has flashed warning signals:

JGB Metric	Level	Significance
10-Year Yield	~2.19–2.27%	Highest since late 1990s
40-Year Yield	>4.0% (record)	Highest since maturity introduced
20-Year Yield	~3.15–3.47%	Briefly surpassed US equivalent
FY2026 Budget	Record	Largest general account budget in history
Food Tax Suspension Cost	~¥5T/yr	Nearly equals entire education budget
Debt-to-GDP	~226%	Highest among developed economies

The market turmoil in late January — which Bessent called a six-sigma event — was a clear warning. The selloff was driven by concerns that the food consumption tax suspension, layered on top of the already massive ¥21.3 trillion stimulus, would create an unmanageable fiscal hole. However, several structural features make Japan's fiscal position more sustainable than headline numbers suggest: the vast majority of JGBs are held by domestic institutions (primarily the BOJ, banks, and insurance companies) and denominated in yen, reducing the risk of a foreign-investor-driven panic. Interest rates, while rising, remain far below levels in other major economies.

Our view: *JGB volatility is a feature, not a bug, of Japan's normalization. The yield curve will remain steep through H1 2026 before stabilizing. We do not expect a sovereign debt crisis — domestic absorption capacity is too large — but the repricing of term premium is real and creates opportunities. The curve steepening benefits banks and insurance companies that are natural buyers of duration.*

9. Valuations and the Crowding Problem

Valuation Metric	Current	Risk
TOPIX Forward P/E	Low-to-mid teens	Cheap vs US (S&P; 500 ~21x)
% of Companies Below 1x P/B	~40% (top 2,000)	vs ~10% in US; re-rating potential
ROE	9.0%	Rising but still below US/EU peers
Corporate Cash Holdings	¥115T ($750B+)	Highest cash-to-mkt-cap among DMs
Nikkei 225 vs 1989 Peak	Above (58,015 vs 38,957)	First clean break above bubble peak

Yen spike risk: A disorderly yen strengthening — triggered by a BOJ surprise hike or global risk-off event — would compress export earnings and trigger foreign investor unwind. The August 2024 yen carry unwind crash (Nikkei fell 12.4% in a single day) demonstrated this vulnerability. Intervention risks rise if the yen approaches 160 against the dollar.

Fiscal credibility erosion: If JGB yields break sustainably above 2.50% on the 10-year, it would signal that bond vigilantes are no longer accepting the government's fiscal assurances. The food tax suspension costs approximately ¥5 trillion annually — nearly the entire education budget.

External demand shock: Approximately 40% of Japanese corporate revenue is generated overseas. A US recession, renewed tariff escalation beyond the current 15% rate, or a China hard landing would directly hit earnings.

BOJ policy error: Hiking too fast risks collapsing the reflation trade. Hiking too slowly risks letting inflation expectations de-anchor and the yen spiral. The BOJ's challenge is uniquely narrow.

10. Portfolio Positioning Summary

Our conviction trade ideas for Japan's structural transformation:

Highest conviction: Long Japanese financials (MUFG, SMFG, Mizuho) — The direct beneficiaries of BOJ normalization, yield curve steepening, and the household savings-to-investment shift. Net interest margins expand with every rate hike. Wealth management revenue grows as NISA drives retail into advisory products. These names are cheap relative to global bank peers and offer double-digit earnings growth with rising dividends.

Core position: Long broad TOPIX for the governance re-rating — The mid-2026 Corporate Governance Code revision, the TSE's TOPIX constituent overhaul (disqualifying ~1,000 companies by 2028), and record buyback/dividend programs create a structural bid under the index. The low-to-mid-teens P/E with double-digit EPS growth is the most attractive risk-reward among developed market equity indices. Foreign investors remain underweight despite record inflows.

Thematic play: Long automation and labor-saving technology (Fanuc, Keyence, SMC Corp) — Japan's demographic crisis is the world's most advanced. With the working-age population shrinking by roughly 200,000 per year and a projected 11 million worker shortfall by 2040, capital-for-labor substitution is not optional — it is existential. Software investment growth in labor-intensive sectors already outpaces broader capex. These companies are the picks and shovels of Japan's demographic adaptation.

Tactical: Long Takaichi policy beneficiaries (defense, infrastructure, semiconductors) — The FY2026 defense budget of approximately ¥9 trillion (targeting 2% of GDP) and the 17 strategic sectors identified for investment create direct revenue tailwinds for defense primes (Mitsubishi Heavy, Kawasaki Heavy, IHI) and semiconductor equipment makers benefiting from the US-Japan $550 billion technology investment commitment.

Relative value: Long Japan / Short Europe — Japan offers superior earnings growth, a genuine structural reform catalyst, and a political mandate that Europe conspicuously lacks. Both trade at similar forward multiples, but Japan's ROE trajectory is inflecting upward while European corporate margins face tariff, energy, and fiscal headwinds.

Hedge: Short JGB ultra-longs as fiscal tail-risk expression — The 30- and 40-year segments of the JGB curve carry the most concentrated risk from fiscal expansion and BOJ balance sheet reduction. If fiscal discipline weakens, these maturities re-price first.

Key catalysts to monitor: 2026 shunto first tally (March) for wage momentum confirmation. BOJ March 13–14 meeting for rate hike timing signals. Corporate Governance Code revision draft (mid-2026). TOPIX reconstitution announcements. Yen/dollar 160 level as potential BOJ intervention trigger. Quarterly corporate earnings for buyback announcements.

11. Conclusion

Japan's transformation is not a single trade — it is the convergence of five structural forces that individually would be significant but together create the most compelling macro opportunity in Asia. Monetary normalization is ending three decades of zero-rate policy and repricing every fixed-income instrument in the world's second-largest bond market. Corporate governance reform is unlocking over $750 billion in corporate cash, tripling buybacks, and halving cross-shareholdings. A political supermajority is providing the strongest policy mandate in decades. Sustained wage growth is breaking the deflationary psychology that paralyzed the economy for a generation. And demographics, paradoxically, are forcing the productivity improvements and capital deepening that make equity returns per share more attractive even as the population shrinks.

The risks are real. Japan's debt-to-GDP ratio leaves no margin for fiscal error. The BOJ must navigate a historically narrow path between inflation de-anchoring and reflation reversal. The yen remains vulnerable to carry unwind shocks. And the "Takaichi trade" has already delivered substantial gains, meaning the easy money has been made.

But the structural story is in its early innings. Forty percent of Japan's top companies still trade below book value. Corporate ROE, while improving, remains well below global peers. The household savings-to-investment shift has barely started — more than half of Japan's ¥2,230 trillion in household financial assets remains in cash. The Governance Code revision in mid-2026 will intensify reform pressure. And foreign investors, while buying at record pace, remain structurally underweight.

The supercycle will not end in 2026. Record corporate cash, accelerating governance reform, a political mandate with no expiration, and a demographic imperative driving automation investment all point to a multi-year structural investment theme. The correction risk is real — crowded positioning, yen volatility, and fiscal concerns could trigger sharp pullbacks. But pullbacks in a structural bull market are buying opportunities, not exit signals. Position accordingly.

Sources and Further Reading

Bank of Japan: January 2026 Monetary Policy Meeting Statement and Summary of Opinions (January 23, 2026; February 2, 2026).

Bank of Japan: Board Member Kazuyuki Masu Speech (February 6, 2026). Monetary policy normalization outlook.

BOJ: December 2025 Meeting Minutes. Rate hike to 0.75% and economic assessment.

BOJ: "Japan’s Labor Market under Demographic Decline" (August 23, 2025). Working-age population analysis.

CNBC: "Japan’s Nikkei 225 closes at record high" (February 10, 2026). Post-election market rally.

CNBC: "Japan stocks extend post-election rally with Nikkei 225 breaching 58,000" (February 12, 2026).

CNBC: "Yen near 160, a record Nikkei 225, higher yields: What experts expect after Takaichi’s landslide" (Feb 9, 2026).

CNBC: "Bank of Japan raises economic growth forecasts, holds rates at 0.75%" (January 23, 2026).

CNBC: "Bond sell-off accelerates" (January 20, 2026). JGB 40-year yield record.

Al Jazeera: "Japan’s Takaichi vows to deliver on tax cuts after LDP’s historic win" (February 9, 2026).

Brookings Institution: "Japan’s thunderbolt election" (February 10, 2026). Supermajority analysis.

The Diplomat: "Japan’s Grim Demographic Reality" (December 10, 2025). Population decline analysis.

Goldman Sachs: "2026 Japan Economic Outlook" (January 6, 2026). Wage, inflation, and BOJ rate forecasts.

Goldman Sachs Asset Management: "Japanese Equities Offer Potential Opportunities" (2026). $7.9T market.

Nomura: "Japan in the World" Presentation (January 2026). Shunto wage forecasts, CPI analysis.

MUFG Research: Japan Economic & Financial Weekly (February 2026). JGB yield scenarios.

Janus Henderson: "Will strong earnings growth drive Japanese stocks higher in 2026?" (December 2025).

Invesco: "2026 Investment Outlook — Japan Equities" (2025). Foreign flows, governance timeline.

IFA Magazine: "Japan entering new phase in 2026 as net foreign flows surge" (December 2025). ¥13.5T inflow data.

Bloomberg: "Japan Retail Investors Ignore Domestic Bull Market to Opt for US" (January 4, 2026). NISA flows.

Reuters / Dealogic: Private equity take-private deal volume data ($27.6B by August 2025).

Bain & Company: Japan Private Equity Report (2025). ¥3.1T deal value, Q1 2025 records.

IG: "Japan’s Takaichi victory: debt sustainability challenge" (February 11, 2026). Fiscal analysis.

Nippon.com: "Births in Japan Hit New Record Low in First Half of 2025" (September 2025).

Newsweek: "Japan’s Births Predicted to Hit Lowest Level Since Records Began" (December 29, 2025).

Fortune Asia: "Japan’s population falls by half million" (April 2025). Demographic data.

Morgan Stanley: "Japan Economic Outlook 2025: Pivotal for Investors." NISA and household wealth analysis.

McKinsey: "Closing Japan’s valuation gap through governance and reform" (October 2025).

Harvard Law School Forum on Corporate Governance: TSE Initiative on Cost of Capital (October 2025).

WisdomTree: "Japan’s Second Act: Shareholder Returns and Global Relevance" (November 2025).

Trading Economics: Japan interest rate, inflation, and stock market data (accessed February 2026).

Disclaimer: Darmine Capital is a student-founded quantitative research group based in Singapore. This document is produced for research and educational purposes only. It does not constitute financial advice, investment advice, or a recommendation to buy, sell, or hold any security. The views expressed are those of the research team and do not represent the views of any affiliated institution. Past performance is not indicative of future results. All data cited is from publicly available sources and is believed to be accurate but is not guaranteed. Readers should conduct their own due diligence before making any investment decisions.