



To infinity and beyond? Life at or above 70,000 for the Nikkei

Japan Market Insights - June 2026

Japan Equity Research Team SMDAM

We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.

With the Nikkei having now reached and exceeded its previous all-time high, investors are asking what is next for the Japanese market. What does the near- and long-term look like for Japanese equities, and can they sustain life at this elevated altitude?

Highlights:

- SMDAM now set our updated year-end forecast for the Nikkei in a range around 72,000, with the upper end of the forecast range exceeding 74,900 yen.
- While careful assessment of the Middle East situation remains necessary and multiple outcomes remain on the table, a peaceful end to the conflict is definitely a viable option at this point.
- Our view is that markets are effectively pricing in this outcome given signs that both the U.S. and Iran may be tiring of the conflict.
- The market's ability in general to 'look through' the conflict to a hypothetical resumption of normal trade has been a characteristic of the market reaction so far, and this trend seems set to continue even in the face of resumed hostilities in the past few days.
- Corporate forecasts for fiscal 2026 are fairly solid overall, and fears of overheating across the Japanese equity market has not become especially pronounced.

Is it too soon to bet on peace?

On May 25, the Nikkei closed at 65,158.19 yen, up 2.9% from the previous weekend, surpassing the key 65,000-yen level and reaching a new all-time closing high. In the weeks since, the market has continued to rally and now resides above 70,000.

Positive sentiment was partly supported by a weekend Axios report citing a senior U.S. official who said the United States and Iran were close to an agreement that included a 60-day ceasefire extension. Buying, led by richly valued semiconductor stocks, pushed the Nikkei higher that day.

In considering the outlook for the market going forward, careful assessment of the still-unpredictable Middle East situation remains necessary. We have [previously commented on the profound uncertainty this conflict has unleashed](#), and cautioned against investors jumping to conclusions too hastily which might prove false as new information appears.

Importantly, despite limited hostilities on May 26–27, the market appears to view these as exceptions rather than a return to full conflict. With U.S. midterm elections in November and Iran’s domestic economy under strain, ending the conflict may be a realistic option for both countries. This view seems to be spreading in the stock market, and unless U.S.–Iran fighting resumes or escalates, we believe the market has moved past the stage where delays in reaching an agreement would trigger sharp declines.

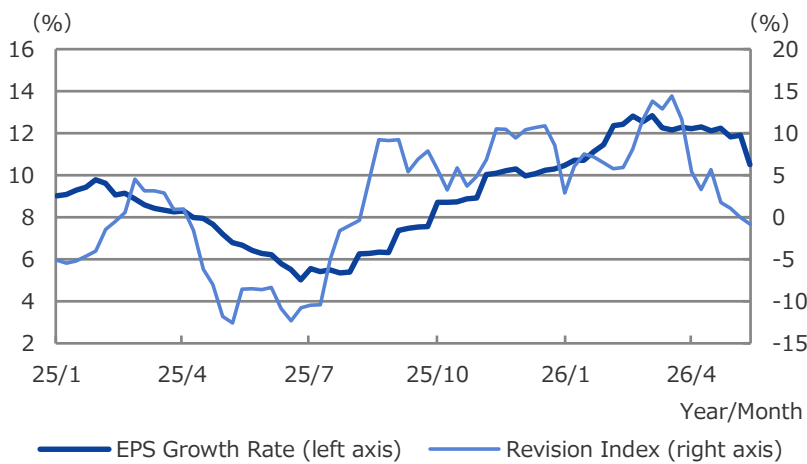
Corporate Japan still has fuel in the tank

The good news is that Japanese fundamentals remain supportive of this rally. Turning to corporate earnings, company forecasts for fiscal 2026 are judged to be fairly solid overall, although non-manufacturers showed a more cautious view regarding the impact of the Middle East situation.

In the market, what had been somewhat optimistic forecasts prior to earnings announcements appear to have now been revised down appropriately as shown in the chart below.



Figure 1: EPS and Revision Index



Note: The data covers the period from January 8, 2025 to May 20, 2026. The universe consists of TOPIX constituent companies. Forecast EPS refers to the 12-month forward analyst forecast. The revision index increases (decreases) when the proportion of stocks for which analysts revise earnings forecasts upward (downward) rises.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on data from Datastream.

Going forward, if the U.S. and Iran reach a deal to end the fighting, upward revisions in market forecasts are highly likely. As soon as expectations grow for improved company guidance, we expect to see the rally strengthen.

This expectation that the rally will in all likelihood have further to run has led some analysts to caution that signs of overheating may appear. However, across the broader Japanese market valuations remain moderate and we see this as a stabilising factor moderating the rally. For instance, the 12-month forward price-to-earnings ratio for the TOPIX stands at just 16.5, compared with 21.1 for the S&P 500 and 26.2 for the Nasdaq Composite. Whilst Japan has tended to trade at a discount relative to the US, this gap does mean investors in Japan have less to fear as Japanese stocks are not 'priced for perfection' as they are in the US.

As we have discussed before, [Japan is relatively well endowed with industrially competitive companies in various market niches](#), and these firms are now strong candidates to go ahead and grow their earnings well when a full settlement of the Middle east crisis is reached.

What comes after 70,000 for the Nikkei?

From here, we see the Nikkei staying range-bound near its current level or dipping to around 68,100 by year-end in our core scenario, with the upper end of the forecast range for each quarter reaching up to 74,900 yen. In addition, the upper end of each quarterly forecast range is set above 70,000 yen.

Table 1: Nikkei Average Outlook

	2026			2027
	Apr-Jun	Jul-Sep	Oct-Dec	Jun-Mar
Record High	71300	74000	74900	74900
Record Low	49800	51700	52400	52400
Quarter End	64800	67200	68100	68100

Note: Outlook by Sumitomo Mitsui DS Asset Management as of May 19, 2026. Figures are in yen.

Source: Prepared by Sumitomo Mitsui DS Asset Management.

In addition, the upper end of each quarterly forecast range is set above 70,000 yen. If the Nikkei firmly establishes itself in the 65,000-yen range and Middle East tensions ease, a move toward 70,000 yen within the year may become more clearly defined.

In Japan, amid expected underlying inflation, the average wage increase in the 2026 spring labour negotiations exceeded 5% for a third straight year, and efforts to improve corporate capital efficiency continue.

Furthermore, if revisions to the Corporate Governance Code this year encourage companies to use cash and deposits more actively for growth investment, improvements in ROE can also be expected. If the Basic Policy on Economic and Fiscal Management and Reform, due in June, further boosts expectations for growth investment, the environment for stock prices is likely to become even more favourable.



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