



# Small-cap value resilient amidst escalating tensions in the Middle East

Japan Market Insights - July 2025

## Japan Equity Research Team SMD-AM

*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.*

### Highlights:

- Crude oil prices spiked before falling back on the ceasefire announcement.
- Meanwhile, markets in Europe and the US declined, long-term interest rates rose, and the yen weakened against the dollar.
- The Nikkei index rose led by some semiconductor-related stocks that were heavily bought.
- Small- and mid-cap value and domestically focused stocks were also in favor.
- Our view is that this pattern could serve as a reference point in the event of any future deteriorations in the Middle East situation.

## Markets stabilise after US and Israeli strikes

On June 13, just hours after the International Atomic Energy Agency (IAEA) reported that Iran was no longer honoring its commitment to cooperate with the international nuclear inspectors, Israel's air force carried out targeted strikes on Iran's nuclear facilities. In retaliation, Iran launched multiple salvos of ballistic missiles at Israel leading to both sides reporting fatalities and major infrastructural damage. After several days of speculation over whether the Trump administration would intervene, the rapid escalation of military engagements eventually led to a U.S. military response.

On June 23, the U.S. military launched airstrikes on Iran's nuclear facilities deploying advanced 'bunker-busting' weaponry not available to the Israelis. This resulted in Iran retaliating on June 24 by attacking a U.S. military base in Qatar, although this time with very limited impact due to the Iranian regime telegraphing in advance the details of the attack and the relatively minimal armaments at Iran's disposal. The world was poised for further military developments, but relief was felt when later on the same day, U.S. President Trump posted on social media that Israel and Iran had 'agreed to a complete and comprehensive ceasefire.'



Both Israel and Iran indicated their willingness to accept the ceasefire, leading to the cessation of attacks and the international community began to digest the tumultuous events of the past few days. Summarizing movements in the markets during the period of hostilities from June 12 to 20, we can note that as seen in the table below:

- crude oil prices surged
- major stock indices in Europe and the U.S. declined
- the 10-year government bond yields rose as money flowed into so-called safe-haven asset classes.

In the foreign exchange market, the U.S. dollar appreciated significantly against major currencies showing that many investors still view the dollar as a safe bet in times of market stress. The Japanese yen depreciated, resulting in a stronger dollar and a weaker yen. This may have been welcome news to some Japanese-focused investors, as traditionally the weaker yen has been seen as beneficial for the export-oriented parts of corporate Japan.

Key asset classes and how they responded to the crisis

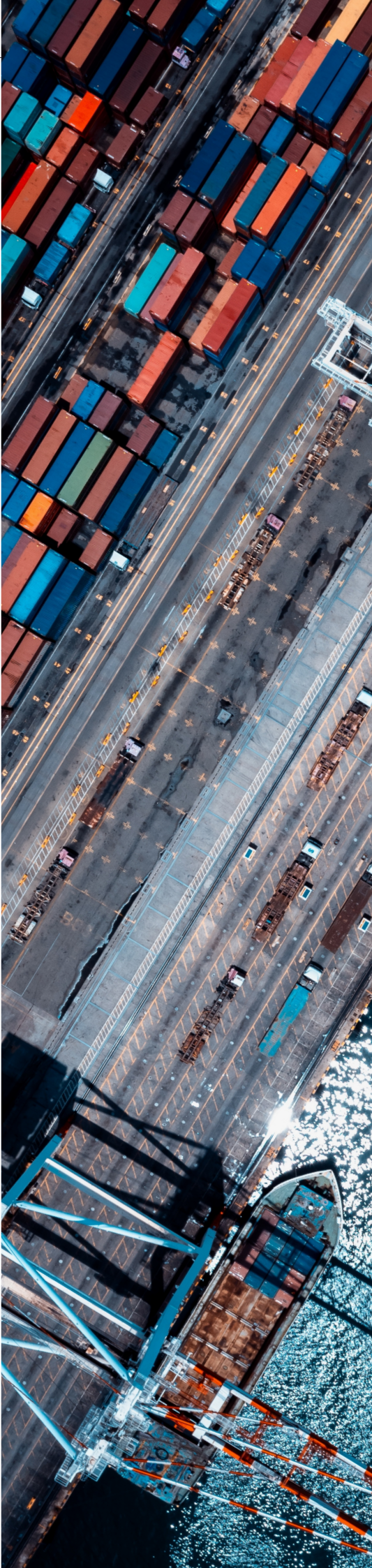
| Stock Price Index            | Rate of Change | Government Bond Yields and Others      | Rate/Range of Change |
|------------------------------|----------------|--|----------------------|
| Nikkei Stock Average         | 0.60%          | UK 10-year Government Bond Yield       | 0.06%                |
| TOPIX                        | -0.42%         | German 10-year Government Bond Yield   | 0.04%                |
| NASDAQ Composite Index       | -1.09%         | U.S. 10-year Government Bond Yield     | 0.02%                |
| UK FTSE 100 Index            | -1.24%         | Japanese 10-year Government Bond Yield | -0.05%               |
| S&P 500 Index                | -1.28%         | Brent Crude Futures                    | 11.03%               |
| DAX Index                    | -1.77%         | WTI Crude Futures                      | 10.13%               |
| Dow Jones Industrial Average | -1.77%         | USD/JPY                                | 2.61 yen / dollar    |

Note: The data is from June 12 to 20, 2025. The changes in government bond yields and the USD/JPY exchange rate are measured in terms of range, while the changes in Brent crude oil futures and WTI crude oil futures are measured in terms of rate of change.

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

Semiconductor-related stocks lead the rally

Symbolising the relatively muted nature of the market response, in Japan the TOPIX declined but the Nikkei rose. The Nikkei increased by 230.14 in yen terms, with major contributors including Advantest and SoftBank Group. Advantest's positive contribution amounted to an impressive 406.60 yen as can be seen in the table below.





On the other hand, stocks with significant negative contributions included Tokyo Electron and Fast Retailing, with Tokyo Electron's negative contribution registering as 101.28 yen.

### Movements in the Japanese Market

| Individual Stocks         | Contribution |
|---------------------------|--------------|
| Advantest Corporation     | 406.60 yen   |
| SoftBank Group Corp.      | 183.41 yen   |
| Konami Group Corp.        | 58.54 yen    |
| Tokyo Electron            | -101.28 yen  |
| Fast Retailing Co., Ltd.  | -91.80 yen   |
| Recruit Holdings Co.,Ltd. | -45.30 yen   |

| TSE 33 Sectors       | Rate of Change |
|----------------------|----------------|
| Other Products       | 4.83%          |
| Electric Power & Gas | 4.31%          |
| Mining Industry      | 2.67%          |
| Pharmaceutical       | -4.13%         |
| Iron & Steel         | -3.74%         |
| Air Transportation   | -2.44%         |

| Stock Price Index                             | Rate of Change |
|---|----------------|
| TOPIX MID 400 Index                           | 0.61%          |
| TOPIX SMALL Index                             | 0.11%          |
| TOPIX 100 Index                               | -0.88%         |
| TOPIX Value Index                             | -0.17%         |
| TOPIX Growth Index                            | -0.68%         |
| TOPIX SMALL Value Index                       | 0.19%          |
| TOPIX SMALL Growth Index                      | 0.03%          |
| TOPIX 500 Value Index                         | -0.20%         |
| TOPIX 500 Growth Index                        | -0.74%         |
| Nikkei Average Domestic Demand Stock 50 Index | 1.03%          |
| Nikkei Average External Demand Stock 50 Index | -0.24%         |

Note: The data is from June 12 to 20, 2025. For individual stocks, the top three stocks with the largest positive and negative contributions. For the 33 industries of the Tokyo Stock Exchange, the top three industries with the highest rates of increase and decrease.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bloomberg



Although not all semiconductor-related stocks rose, the Nikkei tends to be strongly influenced by movements in its cohort of high-priced stocks. Recently, the high-priced movers were semiconductor names.

Digging a little bit deeper and looking at the 33 sector indices of the Tokyo Stock Exchange, other top performers alongside semi-conductor-related stocks included 'Other Products.' This amorphous category includes companies like Nintendo and Bandai Namco Holdings, and sectors such as 'Electric Power and Gas' and 'Mining' also recording strong performance due to the prevalence of value names in these sectors. The sectors with the highest rates of decline were 'Pharmaceuticals,' 'Steel,' and 'Air Transportation.'

## Small-cap value shines amidst the turmoil

Perhaps predictably given the risk-averse mood during the military exchanges, small- and mid-cap names with more exposure to domestic revenue sources than their large-cap counterparts held up relatively better. Within this market-cap range, value likewise performed better than growth, and investors might now view this pattern as a guide for navigating the financial impact of any future Middle East crises.

This pattern emerges most clearly when analyzing style indices. Mid/Small-cap stocks as captured by the TOPIX MID 400 and TOPIX SMALL Index outperformed the large-cap stocks of the TOPIX 100 Index, and the performance of the TOPIX Value Index likewise trumped the TOPIX Growth Index.

Furthermore, while the Nikkei Average Domestic Demand Stock 50 Index rose, the Nikkei Average External Demand Stock Index declined, indicating an investor preference for domestically focused stocks during the period of heightened geopolitical tensions.

## Where are we now?

Following the reported ceasefire agreement from June 20 to 24 crude oil prices fell back, European and U.S. stocks rebounded, and the U.S. dollar was predominantly sold against major currencies.

In the Japanese market, there was a tendency for some buying back of previously sold growth stocks, as well as a reversion to previous levels in the industry and style indices. If the Middle East situation deteriorates again, our view is that the developments described above could provide a clear reference point about what to expect next time.

Additionally, in an era of generally heightened global tensions, we cannot expect a long period of calm before the next crisis emerges. However, the specific causes and nature of any future crises would naturally also need to be factored in.





## 高 Trading Volume

|      |        |     |       |
|------|--------|-----|-------|
| イム   | 592.35 | 百万株 | 11:15 |
| ンダード | 176.33 | 百万株 | 11:15 |
| ース   | 71.39  | 百万株 | 11:15 |
|      |        | 百万口 |       |
| IT   | 90608  | 口   | 11:15 |

## 代金 Trading Value

|      |         |     |       |
|------|---------|-----|-------|
| イム   | 1583719 | 百万円 | 11:15 |
| ンダード | 65490   | 百万円 | 11:15 |
| ース   | 85400   | 百万円 | 11:15 |
|      |         | 百万円 |       |
| IT   | 15578   | 百万円 | 11:15 |

| 現在値    | 前日比   |        | 現在値    | 前日比  |
|--------|-------|--------|--------|------|
| 3906   | -24   | 住友電    | 1690.5 | +2.5 |
| 5155   | +58   | リクルーHD | 4806   | +73  |
| 5508   | -77   | 日本郵政   | 1019.0 | -5.0 |
| 386.0  | -6.8  | SMC    | 76290  | +440 |
| 8210   | +61   | コマツ    | 3752   | -24  |
| 6276   | -46   | クボタ    | 2040.0 | -1.0 |
| 487.6  | -4.0  | ダイキン   | 28505  | +5   |
| 5721   | -17   | 日立     | 8740   | -100 |
| 2979.0 | -18.5 | 東芝     | 4510   | +3   |
| 4751   | -44   | 三菱電    | 2041.0 | +6.5 |
| 現在値    | 前日比   |        | 現在値    | 前日比  |
| 6377   |       | JR東海   | 17170  | -10  |
| 2349.5 | +7.5  | 郵船     | 3364   | +21  |
| 5038   | +20   | ANA    | 3303   | +31  |
| 2720.0 | +3.5  | NTT    |        | -0.4 |
| 3127   | 0     | KD     |        | -4   |
| 2762.5 | -14.5 | ソフト    |        | -4.0 |
| 1677.5 | -3.5  | セコ     |        | -20  |
| 3540   | +1    | ニト     |        | -180 |
| 7671   | -44   | フー     |        | -360 |
| 5695   | -44   | フー     | 82     | -73  |

However, we see the resilience of small- and mid-cap value names as a key takeaway from this recent bout of turbulence, and we expect small-cap value to continue to show its virtues when headlines cause large-cap growth stocks to wobble.

Note: While individual stocks are mentioned, this does not constitute a recommendation for these stocks.

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