CIO Office **Global Markets Weekly Kickstart**

Semiconductors and Banks Drive Japan Equities

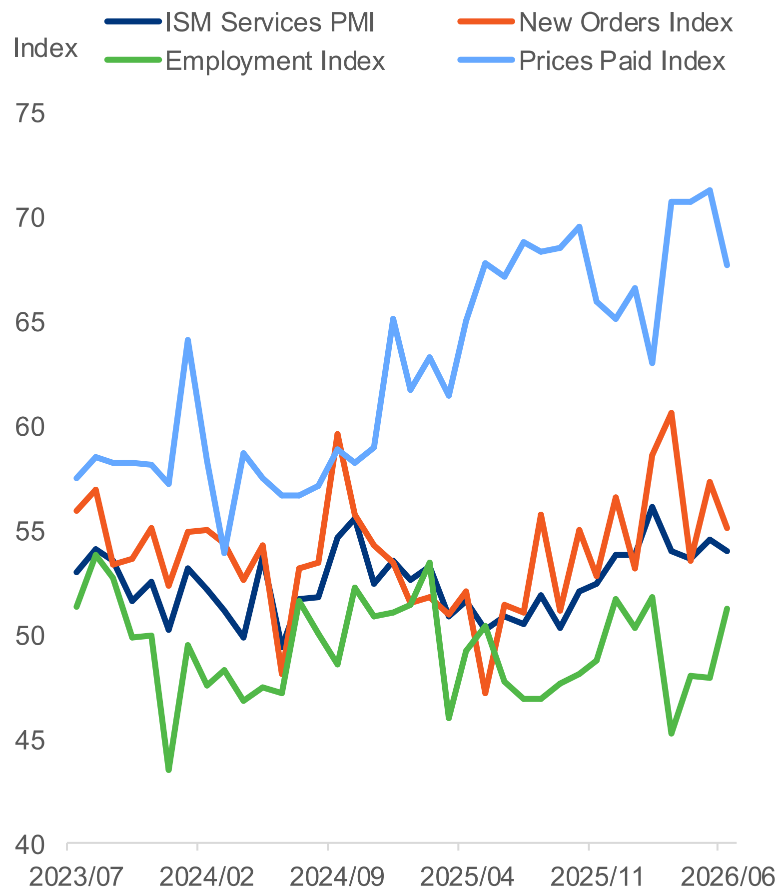
13 July 2026

Chart of the Week

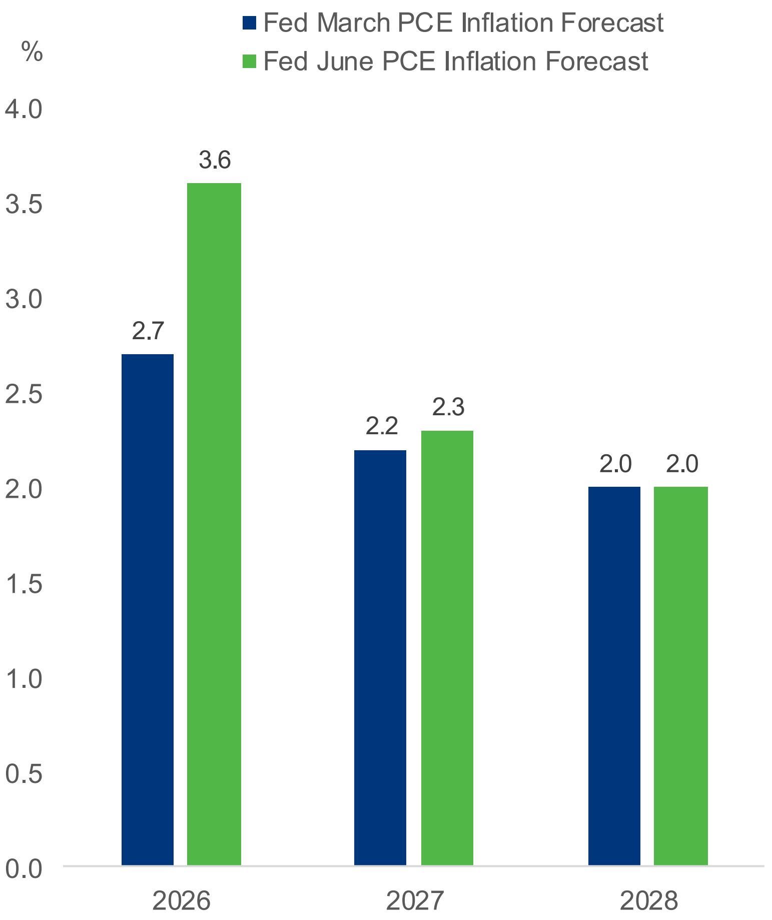
ISM Services PMI Meets Expectations; Demand Remains Resilient

- The U.S. June ISM Services PMI edged down to 54.0 from 54.5 but remained above the 50 expansion threshold, indicating continued growth in the services sector. New orders eased from 57.3 to 55.1 as front-loaded demand faded, while the backlog of orders increased, suggesting underlying demand remains resilient. The employment index rebounded to 51.2 from 47.9, pointing to improved hiring activity. Meanwhile, the prices paid index declined to 67.7 from 71.3, indicating easing cost pressures, though inflation remains elevated. Overall, the data suggest the U.S. services sector remains resilient, while disinflation is likely to be gradual.
- Minutes from the Fed's June meeting showed growing concern over inflation risks, with officials significantly raising their 2026 inflation forecasts. The Fed is therefore likely to keep inflation as its policy priority in the near term, leaving markets vulnerable to policy-driven volatility. However, with the economy still expanding and the long-term AI growth story intact, market pullbacks could present opportunities to accumulate growth and cyclical stocks.

ISM Services PMI Eases Slightly but Remains in Expansion



Fed Remains Focused on Inflation in the Near Term

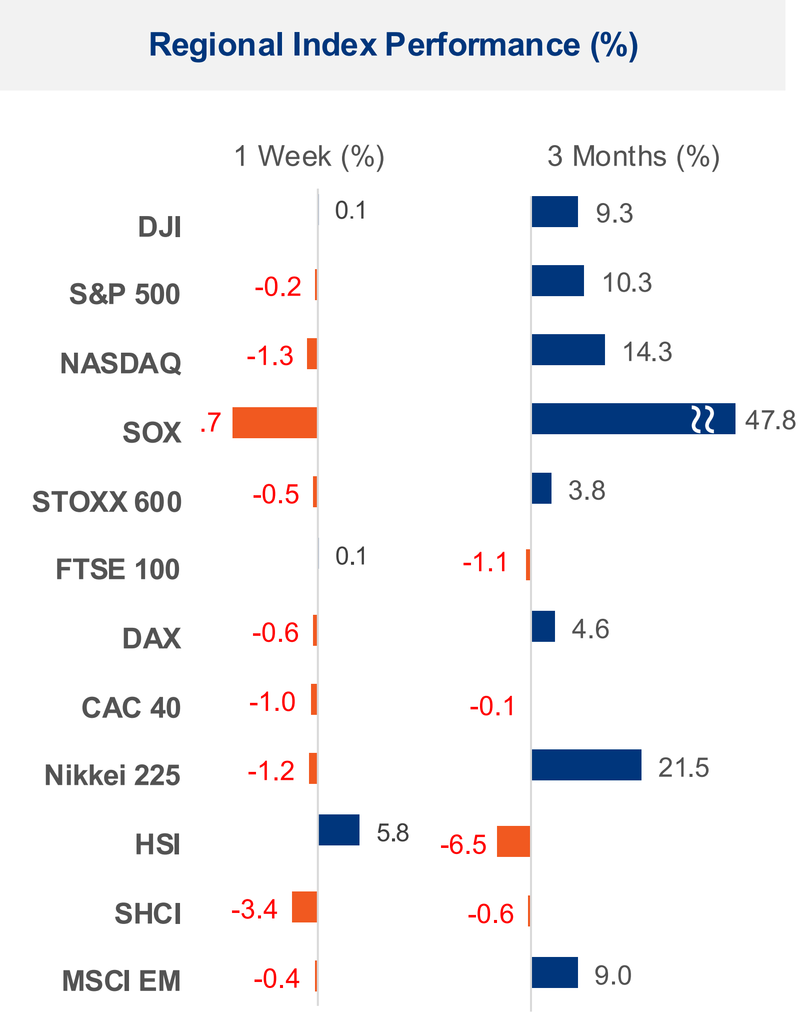


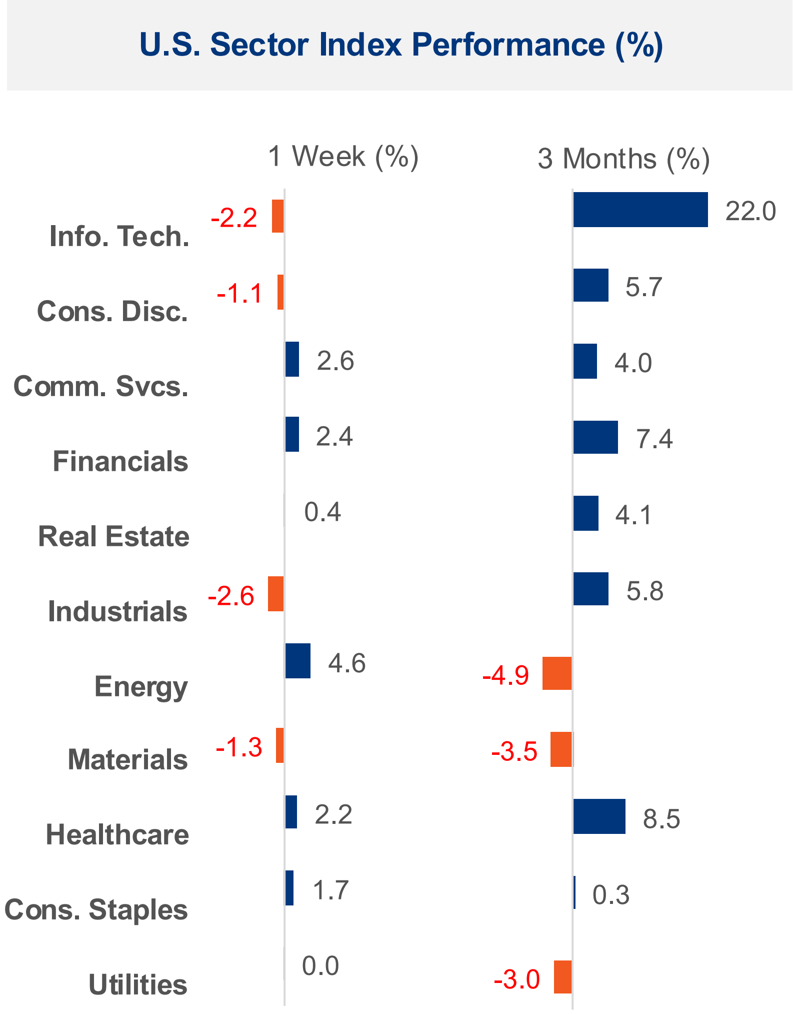
Source: Bloomberg

Market Recap

Semiconductor Stocks Turn Volatile as Investors Rotate into Defensive Sectors

- The Philadelphia Semiconductor Index and Nasdaq underperformed as elevated expectations for technology and semiconductor stocks made investors more sensitive to fundamental news. Rising interest rates also pressured valuations, weighing on growth stocks and increasing volatility. The S&P 500 declined more modestly, while the Dow was relatively resilient, supported by stable cash flow and lower-valuation constituents, highlighting continued sector rotation.
- Renewed military exchanges between the U.S. and Iran revived geopolitical concerns and lifted oil prices, weighing on the more energy import-dependent European and Japanese markets. Hong Kong equities, meanwhile, were supported by a rebound in internet stocks, suggesting capital is rotating toward lower-valuation markets.
- By sector, technology, industrials, materials, and consumer discretionary underperformed, while defensive sectors such as healthcare and consumer staples outperformed. Energy stocks also rebounded on higher oil prices, with near-term performance likely to remain driven by developments in the U.S.-Iran conflict.



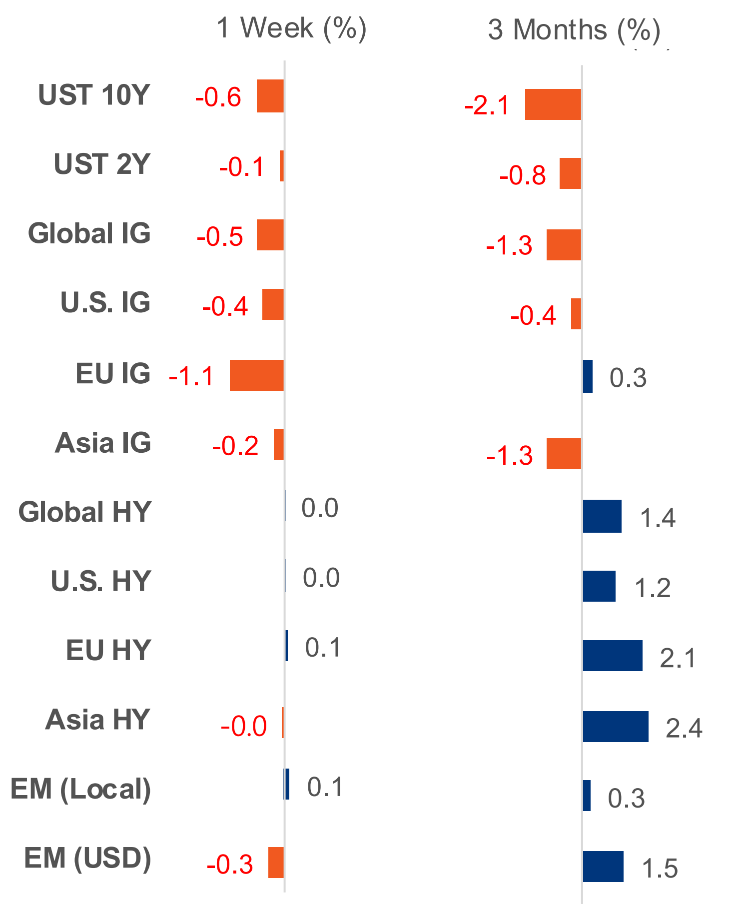


Source: Bloomberg

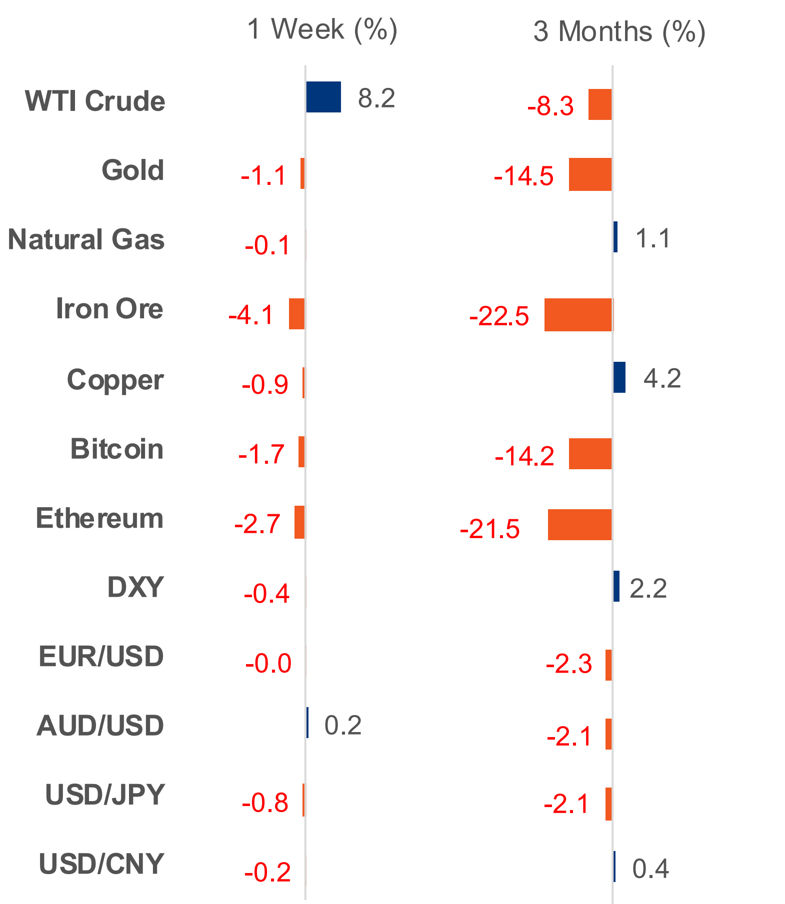
U.S.-Iran Ceasefire Eases Concerns Over Oil Supply Disruptions

- U.S. nonfarm payrolls increased by 57,000 in June, below market expectations of 113,000 but still above the 12-month average. The labor market showed no meaningful deterioration and remained broadly stable. The softer-than-expected employment data modestly eased concerns that the Fed could begin raising rates earlier than expected. Interest rate futures now point to October, rather than September, as the likely timing for the first rate hike. On a weekly basis, bond prices were relatively weak.
- Following the U.S.-Iran ceasefire agreement and the reopening of the Strait of Hormuz, concerns over disruptions to global oil supplies eased significantly. Oil prices fell about 4.5% during the week and have declined markedly over the past three months. As Middle East oil shipments normalize, market attention is expected to shift back to global macro demand and OPEC+ production policy.
- Gold prices rebounded during the week, but recent weakness reflects a relatively hawkish macro policy backdrop. A stronger U.S. dollar and higher interest rates continue to limit gold's upside momentum.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



Source: Bloomberg

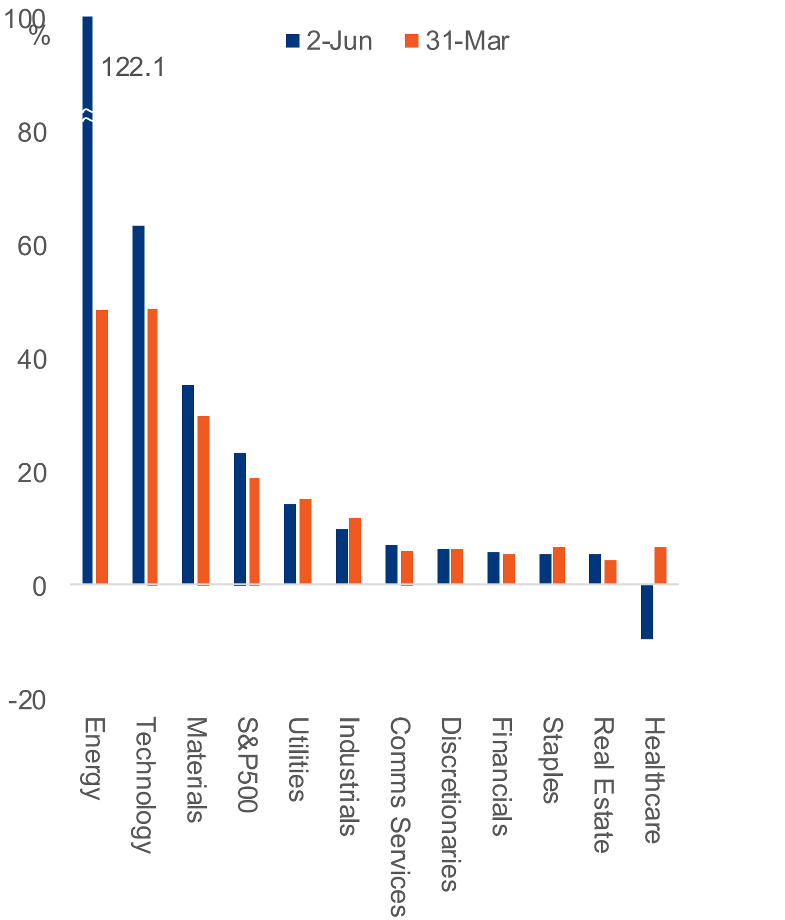
What's Trending

2Q Earnings Approach as Profit Forecasts Rise; AI Monetization Faces Key Test

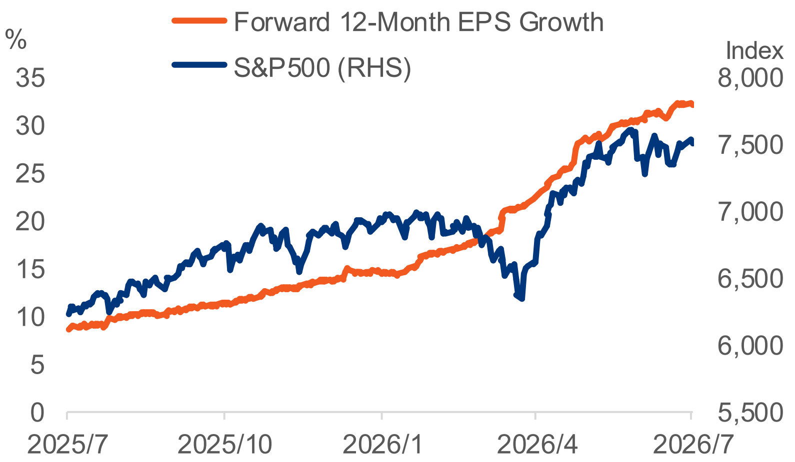
- The 2Q earnings season begins in mid-July. Although elevated energy prices and inflation may weigh on results, analysts have continued to raise earnings forecasts. Since the end of 1Q, estimated S&P 500 earnings growth for 2Q has been revised up to 23.3% YoY from 18.8%, marking the largest mid-quarter upward revision since 2021. Energy has seen the biggest upgrade, with expected earnings growth rising from 48.3% to 122.1%, while information technology has been revised up from 48.6% to 63.3%.Valuations, meanwhile, have remained close to historical averages, suggesting the past year's market gains have been driven primarily by earnings growth rather than multiple expansion.
- The market's focus remains on whether AI investment can translate into meaningful revenue. AI-related companies are expected to contribute 57% of S&P 500 EPS growth this quarter. Investors will closely watch hyperscalers' returns on AI investment, a key indicator of whether AI spending can expand from infrastructure to broader end-user applications.
- If earnings broadly meet expectations, technology should remain the market's key sector in 2H26. Over the medium to long term, AI investment is expected to stay strong, though investors should monitor hyperscalers' free cash flow and financing conditions for signs of pressure that could lead to slower capital spending.

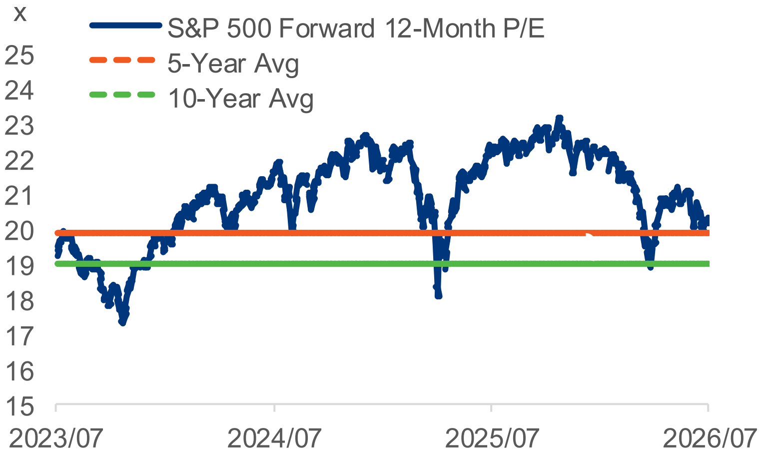
Upward Earnings Revisions Reflect Strong Confidence in Corporate Profit Growth

S&P 500 2Q Earnings Growth (YoY)



Earnings Growth Continues to Drive Equities, While Valuations Remain Stable





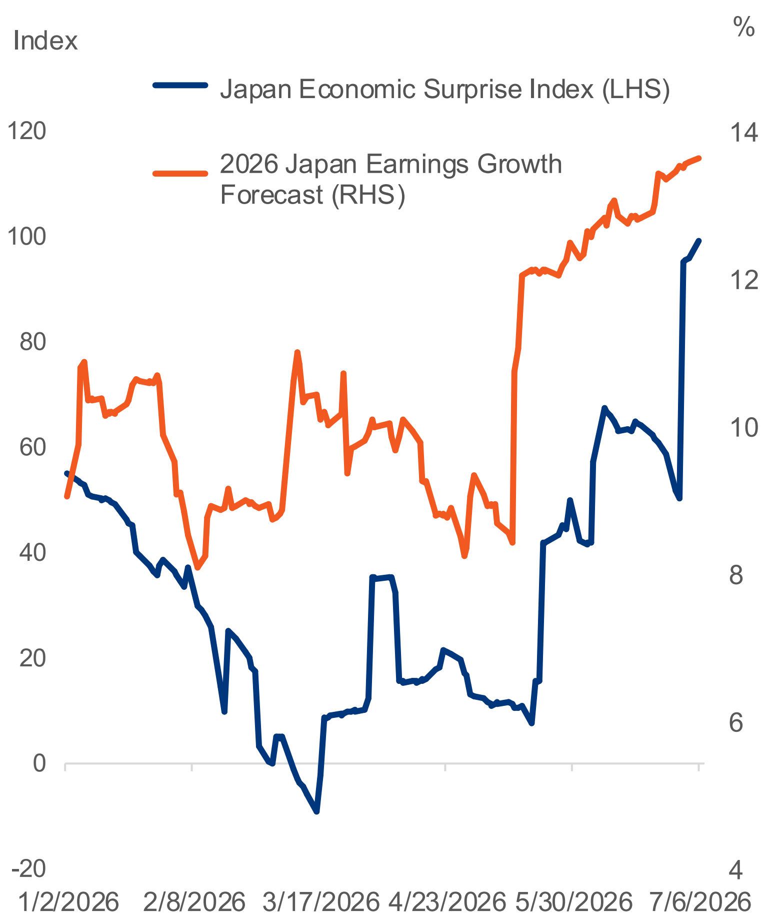
Source: Bloomberg

In Focus

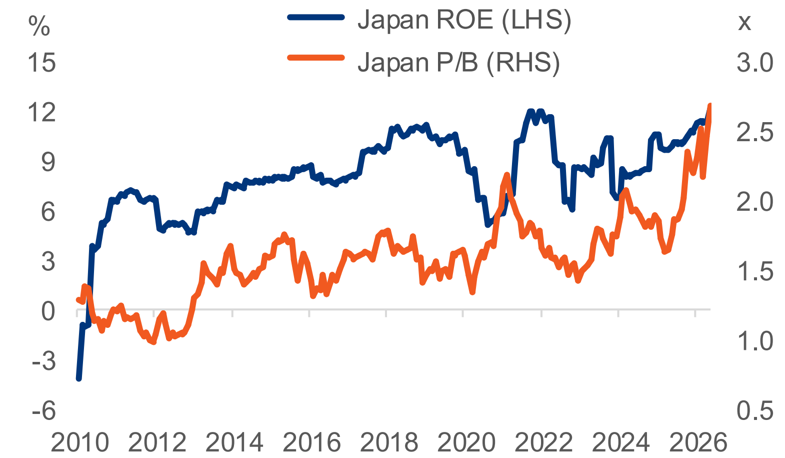
Improving Growth Outlook Supports Japanese Equities, Though Near-Term Volatility Warrants Attention

- Recent Japanese economic data have generally exceeded expectations. May retail sales improved, June consumer confidence strengthened, and the 2Q Tankan survey showed large manufacturers' business conditions and outlook well above forecasts. Companies also significantly raised capital expenditure plans, lifting the Citi Economic Surprise Index and pointing to resilient economic and earnings growth.
- As Japan emerges from deflation, continued corporate governance reforms and improving ROE should help sustain relatively elevated equity valuations. Beyond valuation expansion, the durability of earnings growth will remain a key focus for investors.
- Japanese companies continue to support the market through share buybacks, providing downside support. However, foreign investors have been the main marginal buyers this year, and their faster-moving capital flows could increase market volatility. Overall, Japan's resilient economy and improving earnings outlook remain supportive of equities, although near-term volatility may rise.

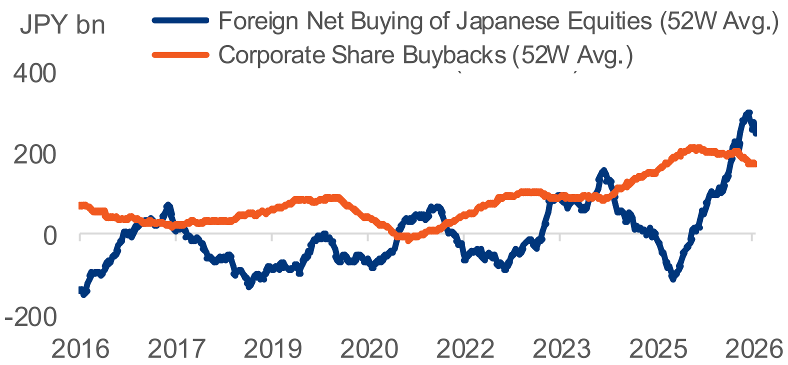
Japan's Economic Data Beat Expectations, Supporting Earnings Growth



Corporate Reforms Continue to Lift Japan's ROE and P/B



Foreign Inflows and Share Buybacks Support Japanese Equities



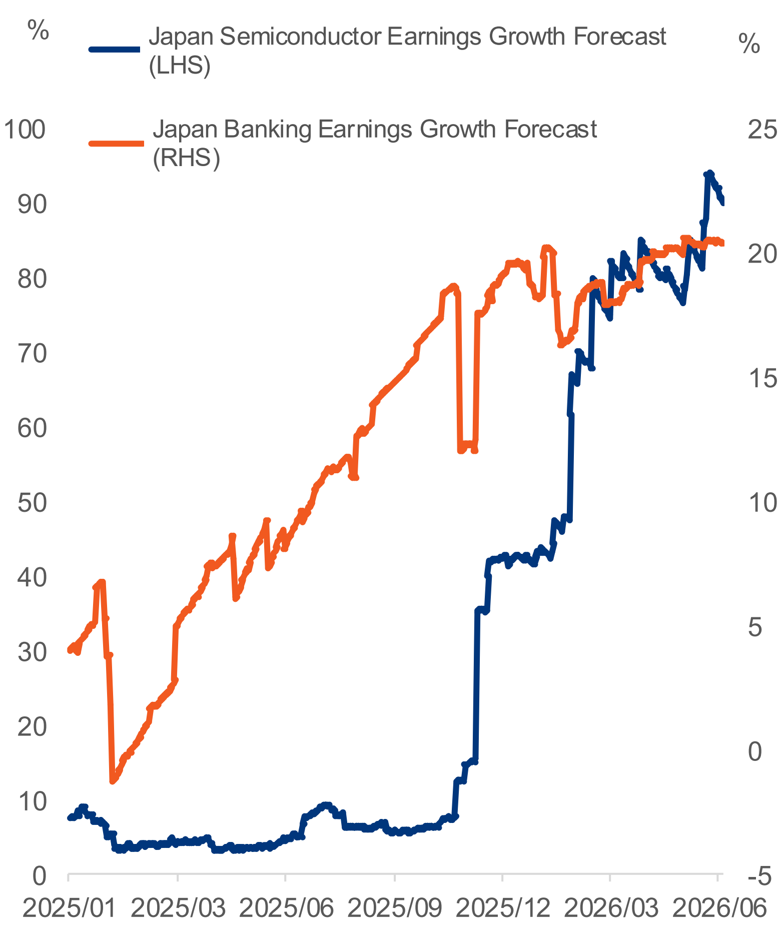
Source: Bloomberg

KGI

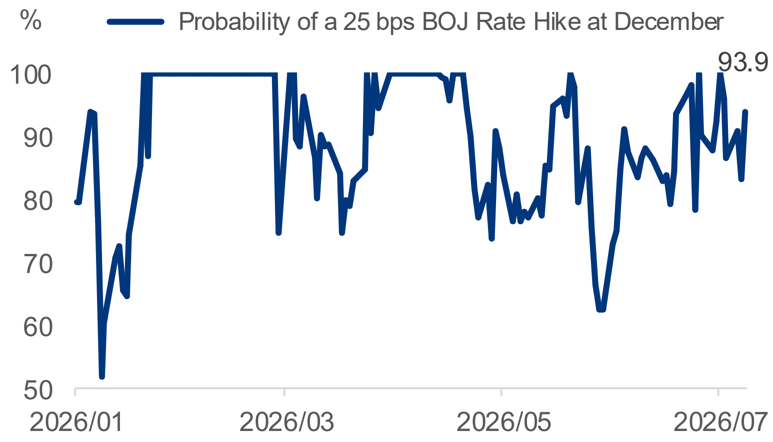
AI Demand Continues to Lift Japan Semis, While Rate Normalization Supports Banks

- Sustained AI and data center investment, together with only a modest rebound in oil prices, continues to support earnings growth for Japanese equities. Semiconductor earnings have seen the strongest upward revisions, driven by the global AI capex cycle and robust demand for Japan's semiconductor equipment and materials.
- Market expectations now point to another 25 bps BOJ rate hike in December, following June's increase, reinforcing the gradual normalization path. Higher rates should continue to support bank earnings through improved net interest margins, providing a structural tailwind for the sector.
- Year to date, Japanese semiconductor stocks have returned around 80% despite recent volatility, while bank stocks have gained more than 40%, both significantly outperforming the broader market's roughly 20% gain. Backed by AI demand and policy normalization, both sectors are well positioned to remain market leaders.

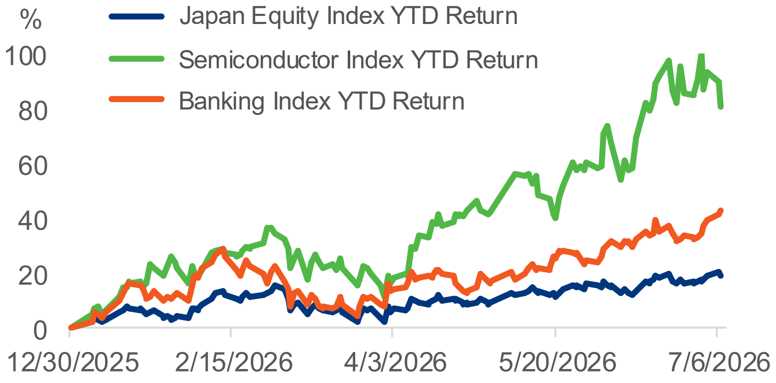
Semiconductor and Bank Earnings Growth Continue to Accelerate



Markets Expect Another 25 bps BOJ Rate Hike by Year-End



Semiconductor and Bank Stocks Continue to Outperform



Source: Bloomberg

Asset Strategy

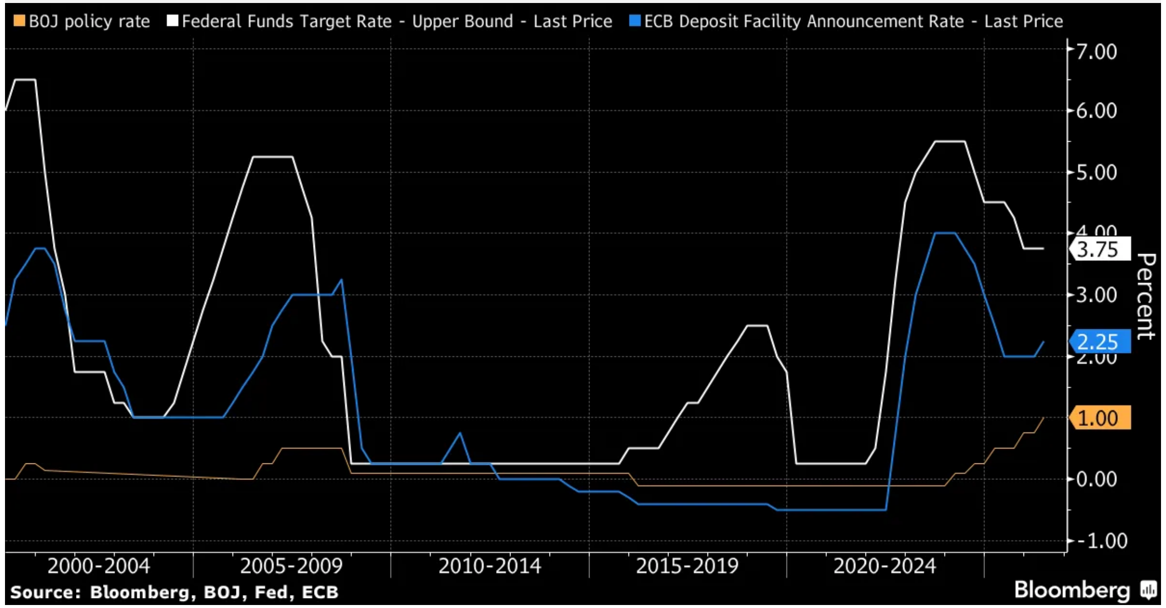
Asset Type	Market View	Preferred Assets
Equities	◆ Solid U.S. corporate earnings continue to provide fundamental support for equities, with room for market gains to broaden beyond AI. However, as investors focus more on AI capex returns, elevated valuations could trigger near-term profit-taking. Defensive sectors such as healthcare and utilities can help reduce risk, while technology and AI semiconductors remain favored over the medium to long term. Buy on pullbacks and diversify across regions and sectors. ◆ Japan and Europe remain preferred diversification markets. Japan offers stronger technology exposure, with semiconductor momentum intact, while rising JGB yields support bank stocks. Europe continues to benefit from defense spending, and U.K. equities provide defensive characteristics.	**Strategy:** Short term: defensive sectors. Medium to long term: AI themes including technology and semiconductors; Outside AI, Japanese banks are also attractive. **Regions**: Japanese banks, Japanese semiconductor stocks, UK equities, European defense
Bonds	◆ Oil prices have rebounded, while the U.S. 30-year Treasury yield remains relatively high. Avoid excessive duration risk and focus on short- to intermediate-duration bonds. High-quality corporate bonds remain resilient, particularly in financials, technology, communications, and utilities, where yields are attractive after recent adjustments. ◆ A stronger U.S. dollar supports diversification into non-USD investment-grade bonds, such as EUR- or AUD-denominated issues.	**Types:** Short- to intermediate-duration IG bonds, with a preference for financials, technology, telecoms, and utilities. **Satellite :** Non-USD IG bonds for diversification.
Forex	◆ The Fed's June meeting maintained a hawkish tone. Expectations for further rate hikes could steepen the yield curve, supporting the U.S. dollar in the near term. ◆ Although lower oil prices had eased inflation concerns earlier, the USD remains firm as markets continue to watch Fed policy. The JPY is likely to appreciate gradually on BOJ rate hikes and intervention, while the RMB is expected to strengthen modestly under policy support.	**USD:** Near-term strength remains supported. Gradual JPY appreciation; modest RMB appreciation.
Commodity	◆ Although the U.S.-Iran ceasefire memorandum initially pushed oil prices lower, renewed military exchanges have increased price volatility. ◆ Higher U.S. yields and a stronger dollar continue to pressure gold in the short term. However, geopolitical tensions, ongoing central bank purchases, and portfolio diversification demand should provide medium- to long-term support.	**Gold:** remains supported over the medium to long term.

US Equities

Rate Normalization Boosts Japanese Bank Profits

- The minutes of the June FOMC meeting leaned hawkish, with the Fed unanimously keeping rates unchanged but noting inflation risks remain tilted upward. Employment and growth show resilience, reducing urgency for near-term cuts. The minutes highlighted tariffs, energy costs, and AI infrastructure investment as potential drivers of price pressures, with some officials even open to further tightening if inflation stays elevated. Policy focus has shifted from the timing of rate cuts to whether prolonged high rates are needed, implying U.S. Treasury yields and the dollar may stay firm while high-valuation tech stocks continue to face rate pressure.
- The U.S. June ISM services PMI registered 54.0, slightly below expectations and the prior reading of 54.5.
- In Japan, the BOJ raised its policy rate from 0.75% to 1.00% in June, citing rising inflation expectations and still-loose financial conditions. Deputy Governor Shinichi Uchida stressed the need to guard against inflation staying above 2%, reaffirming the normalization path. Higher rates are set to improve banks' deposit-loan spreads, asset repricing gains, and corporate finance income, supported by resilient business confidence, capex plans, and funding demand. However, yen weakness and rising energy costs may squeeze real wages and consumption, while increasing credit costs for SMEs and bond valuation volatility. Overall, the outlook for Japanese banks remains positive, with large institutions that have strong low-cost deposit bases, ample capital, and diversified overseas and fee income best positioned to benefit from rate normalization while mitigating downside risks.

Interest Rate Trends: U.S., Japan, and Europe Compared



Yellow Line: BoJ Policy Rate; White Line: Federal Funds Rate; Blue Line: ECB Deposit Facility Announcement Rate

Source: Bloomberg

Mitsubishi UFJ Financial Group (8306 JP)

Closing Price	¥3,461	Target Price	¥3,800

Mitsubishi UFJ Financial Group (MUFG) was established through the merger of Mitsubishi Tokyo Financial Group and UFJ Holdings, forming Japan's largest financial holding company. As a diversified group, MUFG provides a wide range of financial and investment services, including commercial banking, trust banking, international finance, and asset management.

BOJ Tightening Supports Wider Spreads

MUFG is a core beneficiary of Japan's gradual rate normalization. The BOJ's June hike to 1.0% should allow loan and securities yields to rise faster than deposit costs. With inflation and wage growth backing further normalization, higher domestic rates are expected to expand net interest income and revive profitability in Japan's long-stagnant banking sector. The BOJ also signaled further tightening remains possible, depending on inflation and economic conditions.

Profit Growth and Capital Returns Lift ROE

MUFG projects FY2026 net income of about ¥2.7T (+11% YoY), with ROE near 12%, reflecting stronger domestic banking income and diversified overseas profits. Plans include a ¥96 dividend per share and up to ¥100B in share buybacks, underscoring improved capital discipline. Strategic initiatives such as its ASEAN alliance with JCB broaden its presence in wealth management, payments, and high-net-worth ecosystems.

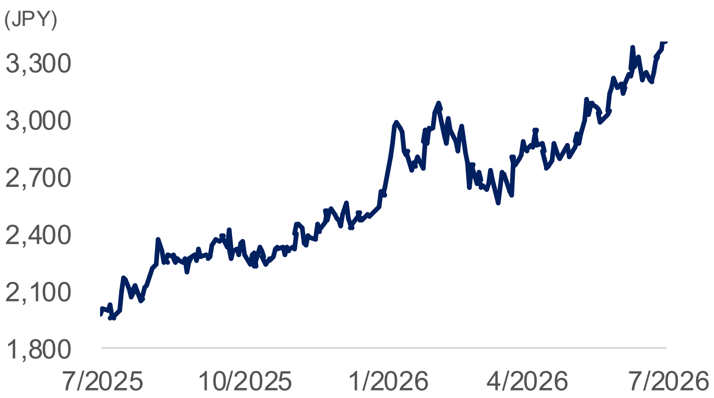
FY2025 Results Solid, FY2026 Outlook Positive

In FY2025 (ending March), MUFG delivered net operating profit of ¥2.3772T (+¥865.5B YoY) and net income of ¥2.4272T (+¥586.3B YoY), with a dividend of ¥86 per share. For FY2026, guidance calls for net operating profit of ¥2.9T and a dividend of ¥96 per share.

Valuation Consensus

Bloomberg's 12-month average target price is ¥3,693.33, with a high of ¥4,300 and a low of ¥2,330.

1-Year Price



Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	19.4	9.1	22.4	-19.3	24.0
EBITDA (%)	34.4	39.6	41.3	48.8	41.3
EPS(JPY)	128.6	166.5	217.5	243.6	267.8
Net Profit Margin(%)	24.9	28.9	30.1	41.1	36.0

Source: Bloomberg; 2027/28F are market estimates

FY2026 Guidance

	Consolidated (¥bn)	FY25 results	FY26 targets	YoY
1	Net operating profits	2,377.2	2,900.0	522.8
2	Total credit costs	(355.8)	(350.0)	5.8
3	Ordinary profits	3,410.1	3,950.0	539.9
4	Net profits	2,427.2	2,700.0	272.8
5	ROE[*1]	11.3%	Approx. 12%	-
6	ROE[*1] (excl. equity holdings impact)	Approx. 10.4%	-	-

P/E & P/B

Source: Bloomberg, Company

Sumitomo Mitsui Financial Group (8316 JP)

Closing Price	¥6,814	Target Price	¥7,500

Sumitomo Mitsui Financial Group (SMBC) manages its financial operations through subsidiaries. The company provides a broad range of services, including commercial banking and diversified financial services.

Japan Rate Hike Cycle Continues

SMBC has strong leverage to rising Japanese rates. Management estimates that each 25bp hike adds about ¥110B to net interest income in the first year, rising to ¥150B by year five. Additional upside may come from loan growth, wider deposit spreads, and reinvestment of its Japanese bond portfolio, making SMFG one of the clearest beneficiaries of ongoing policy normalization.

Domestic Growth and Capital Optimization Drive ROE

SMBC targets FY2027 net income of ¥1.7T, above FY2026's ¥1.58T, while maintaining a ~40% payout ratio and authorizing up to ¥180B in share buybacks. Growth initiatives in domestic wholesale banking, the Olive retail ecosystem, and global investment banking, combined with capital efficiency measures such as major risk transfers, free up regulatory capital for loans, investments, and shareholder returns.

FY2025 Strong Results, FY2026 Outlook Positive

In FY2025 (ending March), net business profit rose ¥611.6B YoY to ¥2.3309T, while net income attributable to owners increased ¥405B YoY to ¥1.5830T. Dividend per share was ¥157. For FY2026, SMBC guides for business profit of ¥2.4T and a dividend of ¥180 per share.

Valuation Consensus

Bloomberg's 12-month average target price is ¥7,140, with a high of ¥8,800 and a low of ¥4,500

1-Year Price

Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	21.1	14.9	15.3	-7.8	7.3
EBITDA (%)	33.4	34.1	39.6	49.0	49.9
EPS(JPY)	262.9	304.8	412.4	476.1	522.7
Net Profit Margin(%)	23.9	23.6	27.2	33.6	34.0

Source: Bloomberg; 2027/28F are market estimates

FY2026 Guidance

(JPY bn)	Results FY3/26	Target FY3/27	YoY
Net business profit	2,330.9	2,400	+69.1
Credit cost	388.4	340	(48.4)
Ordinary profit	2,303.4	2,390	+86.6
Net income	1,583.0	1,700	+117.0

P/E & P/B

Source: Bloomberg, Company

Appendix

Key Economic Data / Events

► JULY 2026

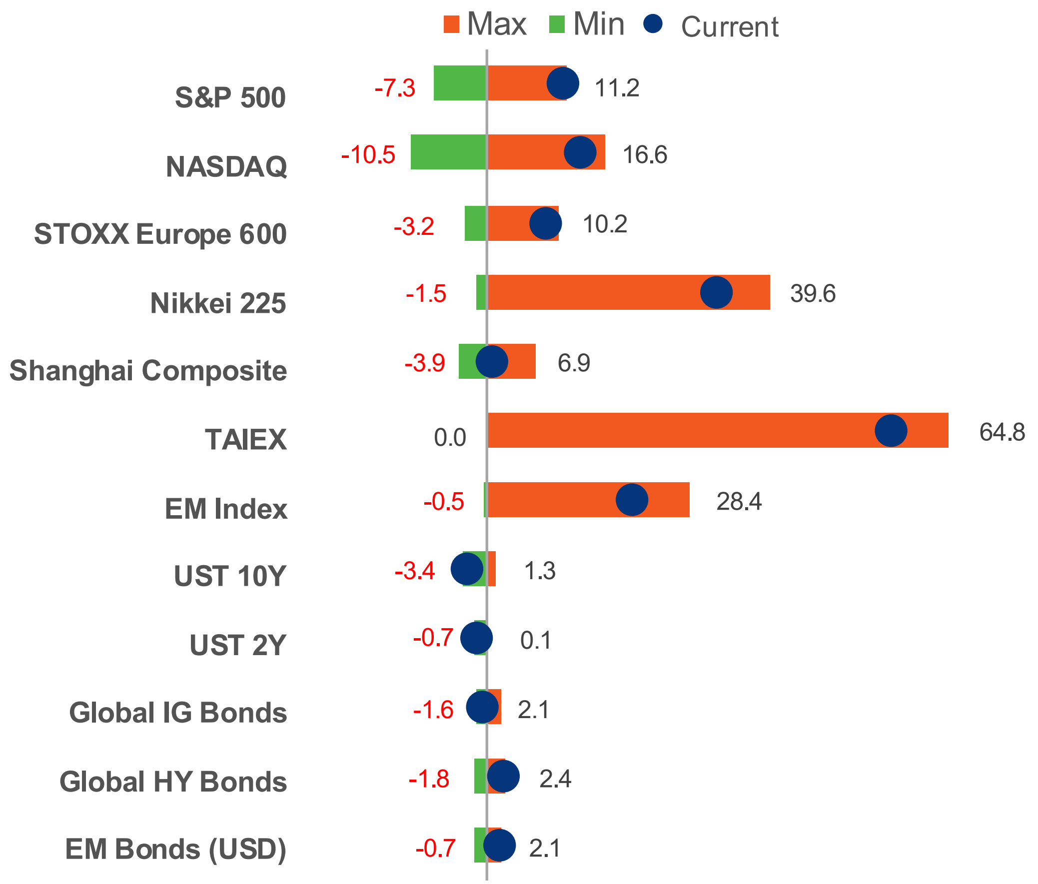
6 Monday	7 Tuesday	8 Wednesday	9 Thursday	10 Friday
• S&P Global U.S. Services PMI (Final, Jun) (Act:51.2 Est51.3 Prev:50.7) • U.S. ISM Services PMI (Jun) (Act:54.0 Est54.0 Prev:54.5) • Eurozone PPI YoY (May) • (Act:5.9% Est:5.8% Prev:5.0%)			• U.S. Initial Jobless Claims (Act:215k Est:217k Prev:217k) • FOMC Minutes (Jun) • U.S. Existing Home Sales (Jun) (Act:4.09m Est:4.20m Prev:4.17m) • China CPI YoY (Jun) • (Act:1.0% Est:1.1% Prev:1.2%) • China PPI YoY (Jun) (Act:4.1% Est:4.1% Prev:3.9%)	• Japan PPI YoY (Jun) (Act:7.1% Est:6.8% Prev:6.6%)

13 Monday	14 Tuesday	15 Wednesday	16 Thursday	17 Friday
	• U.S. CPI YoY (Jun) (Est:3.8% Prev:4.2%) • U.S. Core CPI YoY (Jun) (Est:2.9% Prev:2.9%) • Japan Industrial Prod. MoM (Final, May) (Prev:0.5%) • China Exports YoY (Jun) (Est:19.2% Prev:19.4%) • Earnings: GS, BAC, JPM, WFC, C		• U.S. Initial Jobless Claims (Prev:215k) • U.S. Retail Sales MoM (Jun) (Est:0.3% Prev:0.9%) • Earnings: UNH, GE, PLD, ABT	• U.S. Industrial Prod. MoM (Jun) (Est:0.2% Prev:0.1%) • U. of Michigan Consumer Sentiment (Prelim., Jul) (Est:51.0 Prev:49.5) • Eurozone CPI YoY (Final, Jun) (Est:2.8% Prev:3.2%) • Earnings: NFLX, ISRG

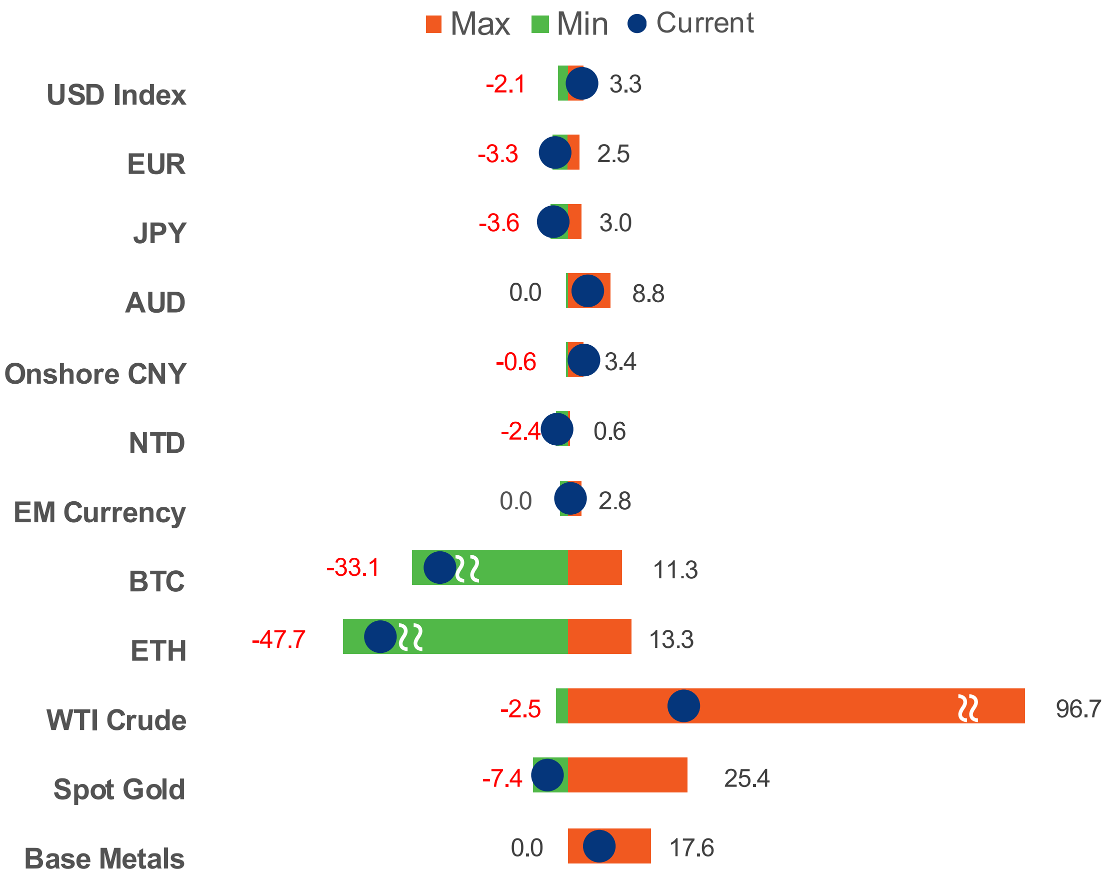
Source: Bloomberg

Major Market / Asset YTD Performance

Equities & Bond Markets YTD Performance (%)



Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg

Technical Analysis

60D MA

S&P 500 Index

- Current: 7,575
- 60D MA: 7,379

NASDAQ Index

- Current: 26,281
- 60D MA: 25,785

STOXX Europe 600 Index

- Current: 635
- 60D MA: 624

Nikkei 225 Index

- Current: 68,557
- 60D MA: 64,897

Shanghai Composite Index

- Current: 3,996
- 60D MA: 4,088

MSCI Emerging Markets Index

- Current: 1,690
- 60D MA: 1,697

Gold

- Current: 4,071
- 60D MA: 4,417

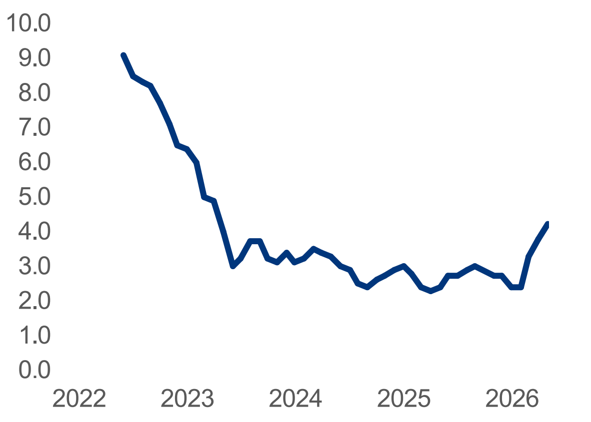
WTI Crude

- Current: 73.7
- 60D MA: 88.4

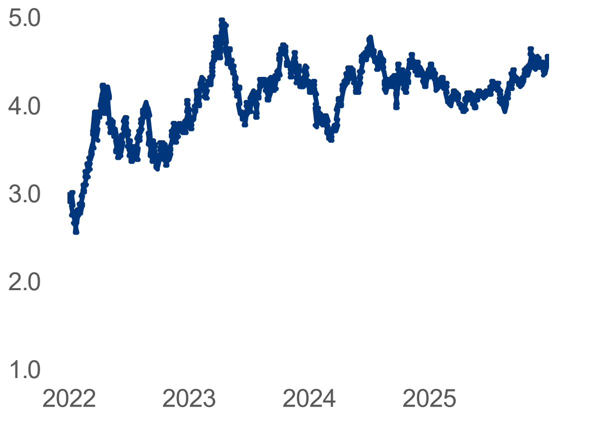
Source: Bloomberg

Market Monitor

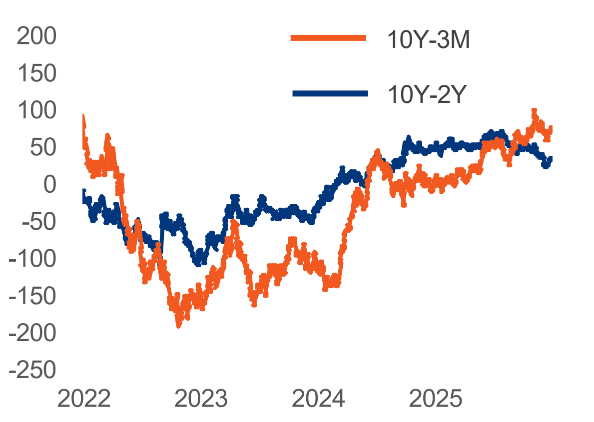
U.S. CPI YoY (%)



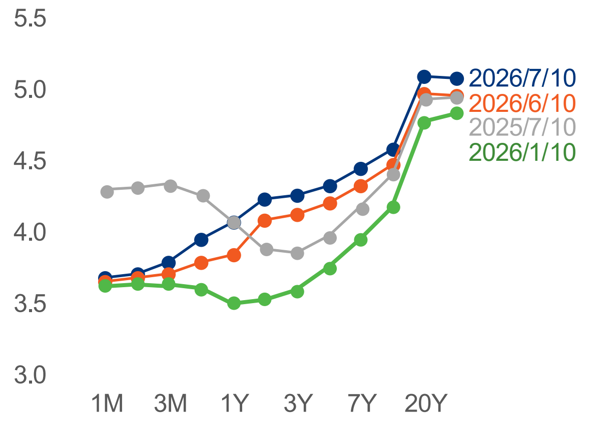
U.S. 10-Year Treasury Yield (%)



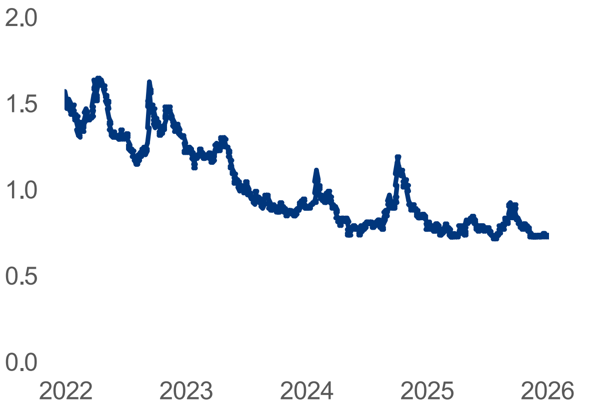
U.S. Treasury Yield Spread (bps)



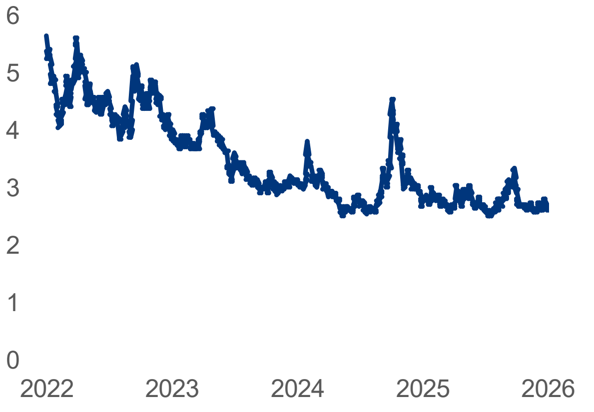
U.S. Treasury Yield Curve (%)



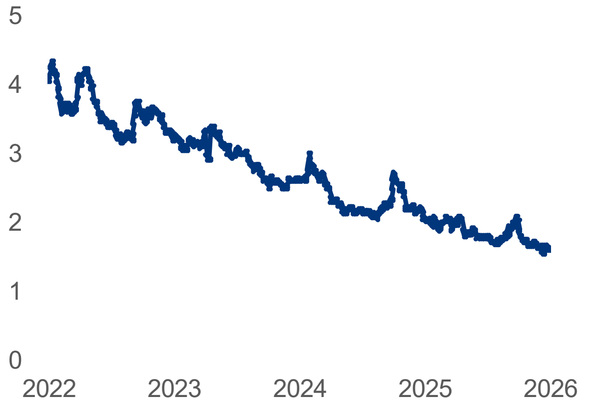
USD IG Credit Spread (%)



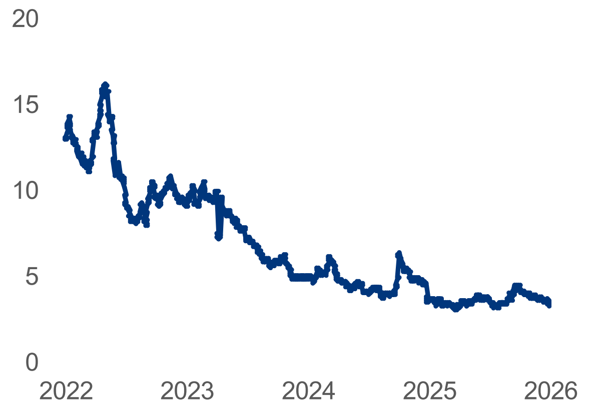
USD HY Credit Spread (%)



USD EM Credit Spread (%)



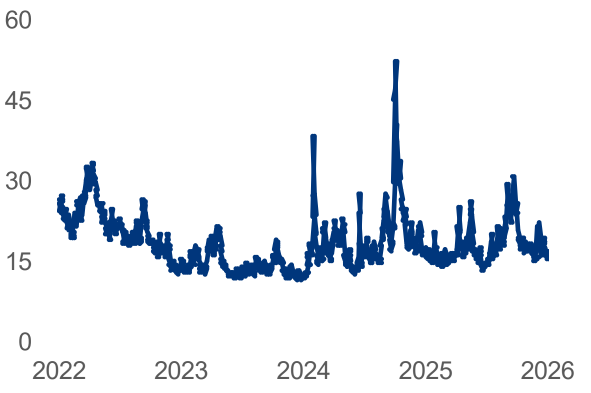
USD Asia Credit Spread (%)



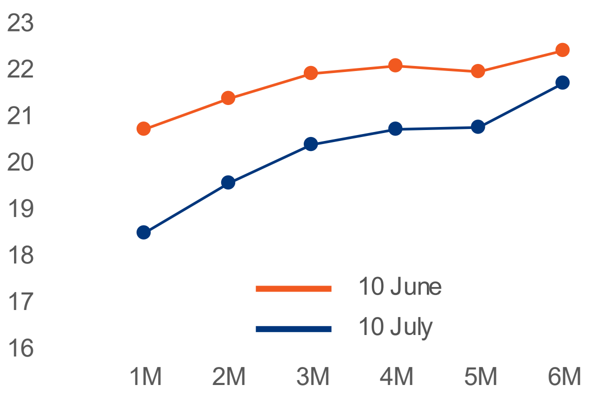
Source: Bloomberg

Market Monitor

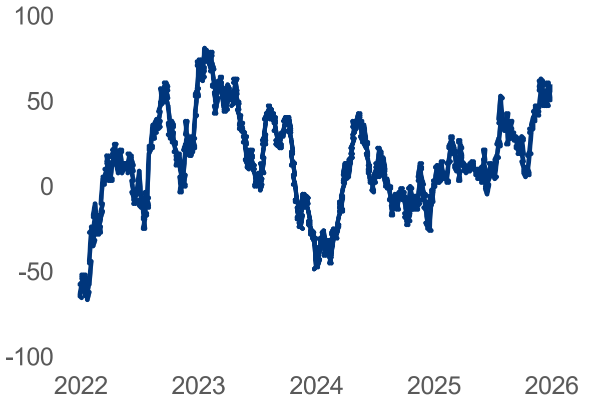
VIX Index



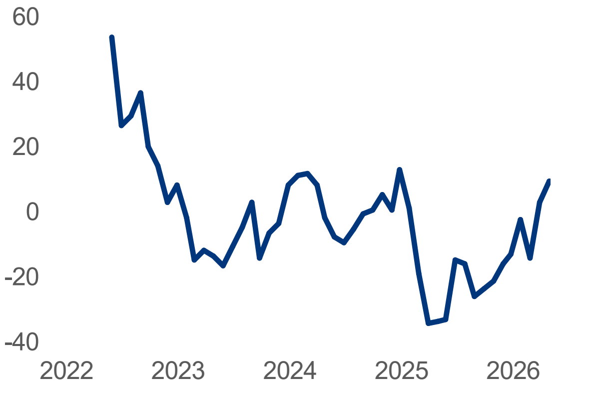
VIX Term Structure



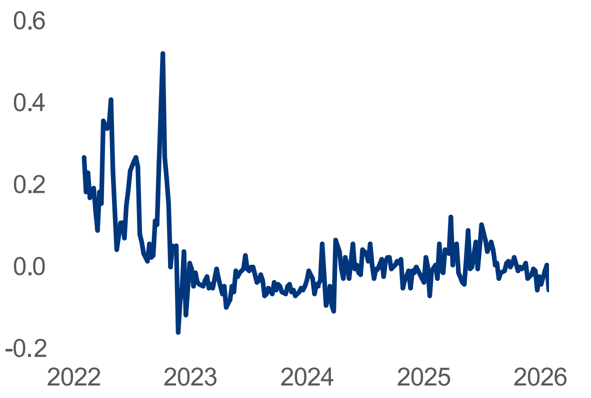
U.S. Citi Economic Surprise Index*



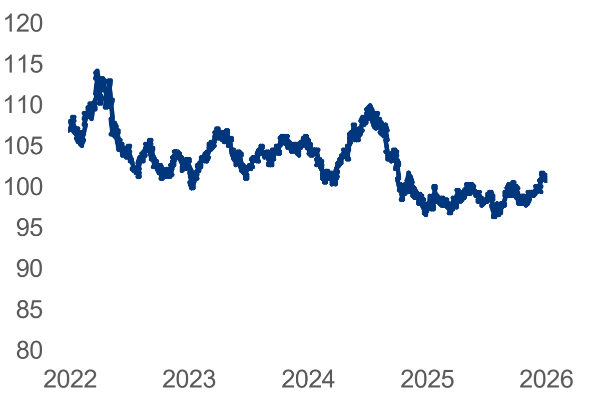
U.S. Citi Inflation Surprise Index*



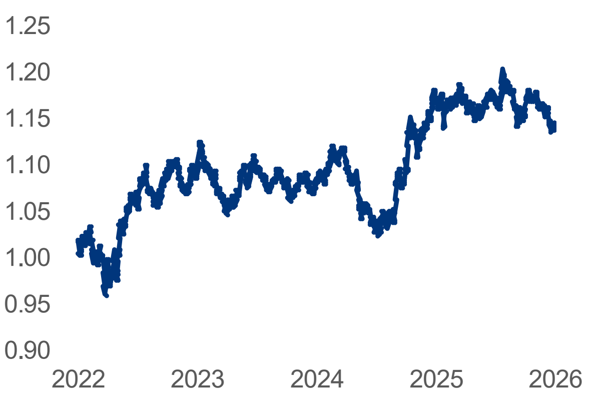
TED Spread (bps)



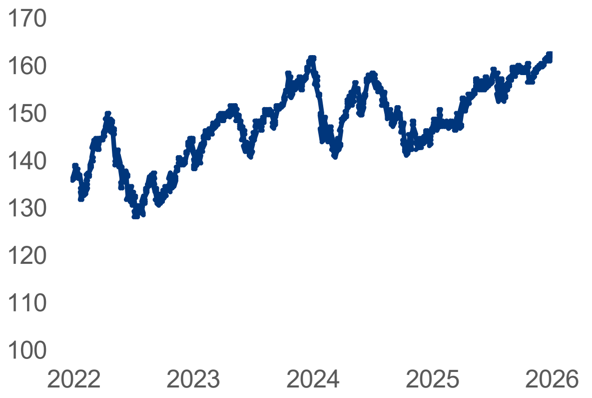
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg

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